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Foreign Direct Investment,
Regional Change and Poverty:
Identifying Norwegian controlled FDI in developing countries

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Regional Change and Poverty"

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FOREWORD

The title of this report is identical to that of a project conceived at a conference arranged by the Faculty of Social Science at the University of Bergen, Norway in the fall of 2003. A group of scientists came together, agreed to cooperate and to draw in their respective academic network. The result was a project linked to the Department of Geography at the Faculty of Social Science at the University of Bergen, Institute for Research in Economics and Business Administration (SNF), Comparative Research Programme on Poverty (CROP) and a number of international cooperating institutions. The project has been headed by Arnt Fløysand.

One of the issues discussed by the group was the gigantic merger movement in world economy over the last decade. A characteristic of this merger wave is the high incidence of cross-border mergers and acquisitions. Indeed, such mergers and corporate take-overs are an important vehicle for Foreign Direct Investment (FDI) flows between industrial countries. Although quite small by the standards of economically advanced countries, cross-border merger activity has also increased in developing countries in the 1990s. The increase in this mode of entry for FDI raises questions in relation to its costs and benefits for developing countries and impact on poverty. When FDI takes the form of green field investment, it represents a net addition to the host country's capital stock. However, entry via an acquisition may represent no addition or an actual loss to the capital stock, output or employment. We also know little about the causality between an FDI and the poverty situation defined multi-dimensionally. In other words, in what instances does an increase on purely economic indicators lead to real poverty reduction? We decided to dive into this controversial subject of the development/poverty debate.

The result is a co-written report based on data from a company analysis and a survey conducted in 2004 among Norwegian firms controlling FDI in developing countries. The authors should be given credit for the report ranked in the following order: 1 Arnt Fløysand and Håvard Haarstad; 2 Stig-Erik Jakobsen; 3 Anders Tønnesen. Acknowledgements should be given to L. Meltzer Høyskolefond that has financed the study. Acknowledgements should also be given to John-Andrew McNeish at CROP/Department of Anthropology at the University of Bergen for constructive inputs on poverty issues.

The authors

CHAPTER 1
RESEARCH OBJECTIVES AND THE STRUCTURE OF THE REPORT

1.1 RESEARCH OBJECTIVE

There is an ongoing debate over the role of the involvement of multi-national companies in development and poverty reduction strategies. The international NGO Oxfam, in their report *Investing in Destruction* (2003) states that "foreign direct investment (FDI) can make a major contribution to poverty reduction and sustainable livelihoods in the developing world. But to do so, it depends on how that capital is used." In our view, it depends on the form of the capital and how this interacts with local conditions. We argue that FDI must be defined as a phenomenon consisting of interrelated "pools" of actors, economic capital and knowledge. We also argue that interaction between FDI and local conditions can be generalised to generate two main types of regional outcome (Giarratana et al. 2003). The first can be labelled *FDI as development*. This characterises a situation in which there are extensive regional effects of FDI, such as vertical linkages, knowledge spill-overs, spin-offs, innovation networks and technology transfer. The second outcome can be labelled *FDI as dependency*. This is a situation in which the regional economy is dominated by the FDI, but the effects of FDI are restricted to employment in subsidiaries, taxes and some vertical supply linkages. Generally, profits are returned to the investing country.

The FDI literature seems to link *development* as well as *dependency* outcomes to investment motives of the entity making the FDI, but says little about what local conditions and types of FDI that generate FDI as development or FDI as dependency. The FDI literature also says little about FDI as a tool for poverty reduction, but there has been serious academic progress in redefining the concept of poverty, from a purely econometric standard to a multi-dimensional approach allowing for cultural complexity in how it should be understood. In the 1990s grew an acceptance of the need for introducing social capital and participation as relevant concepts for analysis of poverty and new anti-poverty policies, and also the need for an operationalization of these new concepts. Given these arguments we present a model for the relations between different characteristics of FDI, different local conditions and poverty. We aim to investigate how the nature of the FDI relates to both regional economic development/dependency and real poverty reduction defined multi-dimensionally.

The following research objectives have been defined for our project:

1. Developing analytical principles that capture the relationship between different forms of Foreign Direct Investment (FDI), regional change and poverty.
2. Identifying Norwegian controlled FDI in developing countries that includes:
    - A investigation of existing data on Norwegian FDI in developing countries,
    - A company analysis
    - A survey of Norwegian FDI at firm level that maps the portion and magnitude of investments in developing countries; the motives behind the investments; how these investments takes place, or the process of FDI-investment; and preliminary regional effects of these investments.
3. Exploring outcomes on poverty reduction of FDI through case studies including Norwegian controlled FDI

In this report we concentrate on the research objective 1 and 2 and outline planned case studies for objective 3.

1.2 THE STRUCTURE OF THE REPORT

In chapter 2 the report reviews FDI literature discussing the relation between FDI, regional change and poverty. This is followed by a review of literature discussing the concept of poverty.

In chapter 3, 4 and 5 we present our first efforts to get informed about these relations in the case of Norwegian FDI in developing countries. We outline the methodological approach for identifying Norwegian controlled FDI in developing countries in chapter 3. Chapter 4 describes some of the available macro data on FDI. The output of the survey is presented in chapter 5.

In chapter 6 we present our planned case studies for research objective 3 and describe how we plan to use them to further explore outcomes on poverty reduction of FDI through case studies including Norwegian controlled FDI in Chile, Brazil, Bangladesh and Tanzania. The conclusions are drawn in chapter 7.

CHAPTER 2
ANALYTICAL PRINCIPLES

2.1 INTRODUCTION

This chapter focuses on developing analytical principles that capture the relationship between different forms of FDI, regional change and poverty. The first part of the chapter (2.2) emphasizes motives for FDI and the relation between FDI and regional development. As an introduction to this discussion we redefine FDI from a purely economic phenomenon to a "FDI-complex" including economic, social and cultural aspects. The following section discusses the outcome of FDI further by discussing the relation between FDI and poverty reduction (2.3). In this section we also try to reoperationalize the poverty concept. The next section (2.4) is focusing on policy implications, discussing to which extent FDI can be an important political tool for poverty reduction. We conclude our discussion by outlining a model for analysing the relations between different characteristics of FDI, different local conditions, outcomes on national/regional economies and poverty (2.5).

2.2 FDI AND REGIONAL DEVELOPMENT

2.2.1 The content of FDI

FDI is mainly related to subsidiaries of multinational companies (MNCs), and these subsidiaries perform different functions. Some subsidiaries duplicate the production of the parent company, some produce components included in other products produced by the company, and others are responsible for products that are totally unrelated to the company's products (Rumelt 1974). Foreign subsidiaries differ according to their position in the value chain within the group, and this affects the stability of regional investment. Traditionally, the FDI of MNCs was characterised by the dispersal of activities that had initially been conceived, tested and developed at the headquarters of the MNC.

Decentralisation of production among various locations was a way of reducing transaction costs and of utilising scale economies and the skill advantages of these locations. The dominant element of this FDI was economic capital in the form of infra structure and machinery.

Recent contributions have analysed large firms, including subsidiaries of MNCs created by FDI, as complex network and knowledge environments, not simply as processors of contract-based informational transactions (Amin and Cohendet 1999). The management of large firms can no longer rely solely on the accumulation of competence in a given location. Shorter product life-cycles, rapid technological change and increased competition require multinational firms to delegate a greater variety of functions and more responsibility to the plant level, allowing plants to respond rapidly to changes and to utilise and build up regional competence (Morris 1992, Nahapiet and Ghoshal 1998, O'Donnell 2000). FDI enables MNCs to take advantage of local knowledge, but the expertise of MNCs, both in terms of technology and modes of organisation, also represents a potential for local learning and innovation in processes that include local firms. The management of subsidiaries of MNCs is dependent on specific resources. The headquarters can offer some of these, but resources important to performance are to a large extent linked to the subsidiary's relationship to customers, suppliers and local partners.

In financial analysis FDI is defined as a cross-border investment where an investor intends to establish a lasting financial interest and exert an effective influence on the activities of the investment object (Norges Bank). In our view this definition fails to capture the complexity of FDI. According to Dunning (1993) FDI is: (1) investment made outside the home country of the investing company, but inside the investing company, and the control over the use of the resources transferred remains with the investor; (2) consisting of a "package" of assets and intermediate products such as capital, technology, management skills, access to markets and entrepreneurship. Pomfrets (1992) definition of FDI is much in line with what is mentioned here. He states that the argument in favour of allowing FDI is supplying capital together with associated package of technical, marketing and managerial knowledge. Campus and Kinoshita states: "To understand the determinants of FDI in transition economies it is crucial to specify an empirical model that allows for a combination of traditional (e.g., market size and labour costs), newer (e.g., institutions), and transition-specific determining factors (e.g., initial conditions)." (2003).

We argue that FDI should be defined as a complex cluster of interrelated "pools" of actors; economic capital; and knowledge (figure 2.1). The relation between the pool of actors and the economic capital refers to how an FDI is organised; the relation between the pool of economic capital and the pool of knowledge-based tasks refers to what the FDI produces; the relation between the pool of actors and the pool of knowledge based tasks refer to rationality behind an FDI.

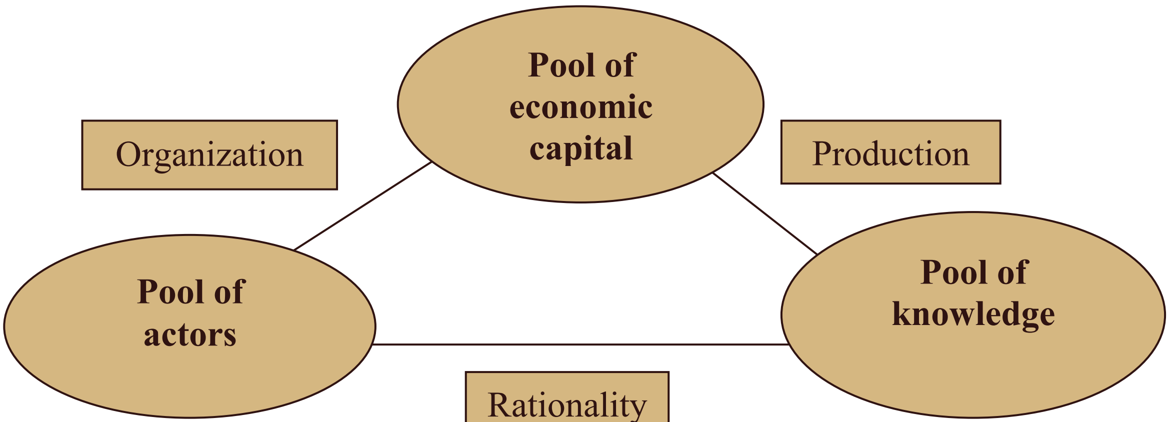

Figure 2.1: The FDI-complex

2.2.2 Motives behind FDI

The theory of foreign direct investment (FDI) indicates why firms invest abroad (Hill and Munday, 1995). Hymer (1976) viewed the internalisation of a firm's activities as a means of increasing its market power. But to succeed in a foreign country, a firm must have some advantages over domestic rivals allowing it to overcome the additional costs associated with production abroad. Several studies have focused on ownership advantages, such as technology, organisational competence and innovation skills (Lall, 1980). Inspired by transaction cost theory, other studies have explained FDI as a consequence of multinational firms preferring internalisation of transactions within the firm instead of trade or licensing (Hennart, 1982). In particular, intangible assets, such as competence and technology are difficult and costly to transfer internationally (Hill and Munday, 1995). Dunning (1981, 1988) introduced the "eclectic paradigm", where he combines the market power and the transaction cost approach when explaining international production. In Dunning's model three conditions must be met for FDI to occur. First, the foreign firm must have ownership advantages, which makes it able to compete with local firms, despite the disadvantages of being foreign. Second, FDI must be preferred over trade or licensing. The cost and uncertainty of transactions in the market can favour internalisation of transactions through foreign direct investment (Green and Meyer, 1997). Third, there must be location advantages of a particular foreign country, for instance specific resources or market demand, which make FDI in them preferable to FDI in other potential host countries, or to domestic investment in the home country.

These general conditions help us to explain why foreign investment occurs. But different firms will have different objectives when implementing investment projects. The theory of FDI has traditionally differed between three main objectives or motives; market seeking, resource seeking and efficiency seeking (Dunning, 1988, 1993, Campos and Kinoshita 2003). When firms are market seeking they establish plants in attractive markets to get "closer" to the customer or to avoid trade restrictions. Resource seeking means that the objective for investing in a foreign country is to get access to attractive resources, for instance raw materials, semi-manufactured products, trade marks, technology or a specific competence. Efficiency seeking involves the achievement of economies of scale and scope, and cost minimising by exploiting specific location advantages in different regions. Location advantages can for instance be the cost of labour or political authorities support action towards foreign investment.

Organisational theory introduces a fourth objective: strategically interaction (Veron, 1985, Hennart and Park, 1994). In a competitive international economy firms react to the strategy of their rivals. This can for instance make them locate in the same geographical areas as the market leader ("follow the leader"), to purchase competitors or to attempt to conquer rivals on the international market by establishing plants in their home country (Porter, 1990).

2.2.3 The effects of FDI

As discussed later, apart from FDI as a source of economic capital, an important way in which the economy of a developing country may benefit from such investment is through spill-over effects. This refers to the effect of FDI on raising productivity in local firms. The spill-over effects have been widely studied and there exists a large and controversial literature on the subject. The main conclusion from this writing is that a country is more likely to benefit from multinational investment if it is integrated into the country's development and technological plans (Milberg 1999). However, while there are examples of countries, such as China and Malaysia, that have been successful in regulating the impact of FDI, there are also results that show spill-over effects to be difficult to regulate even when attempted. A study by Agostin and Mayer (2000) investigates an important aspect of spill-over effects by asking the question as whether FDI in host countries "crowds in" further investment by local firms, or "crowds out" existing investments of these firms as a consequence of increased competition and hence lower profits. The results of the research suggest that between 1970 and 1996 there was strong "crowding in" in Asia, "crowding out" in Latin America and more or less neutral effects in Africa. The study concludes on the basis of this that "the positive impacts of FDI on domestic investment are not assured". Also, Te Velde (2003) asserts that "while FDI may have been good for development (e.g. we find positive correlations between FDI and GDP, or productivity, or wages) this masks the fact that different countries with different policies and economic factors tend to derive different benefits and costs of FDI." The link between an investment and actual welfare for the local population is a complex one. The assumption that underpins much policy towards FDI in developing countries - that FDI is always good for a country's development and poverty situation, and that a liberal policy towards multi-nationals is sufficient to ensure positive effects, fails to be upheld by the data.

By focusing on the national level, the available analysis of the interaction between FDI and local processes reveals that there can be real dangers, as well as clear advantages created by FDI. Due to increasing market powers and deregulation there are clear signs that the arena of FDI is tilted largely in favour of multi-nationals[1]. These studies indicate some of the requirements, such as greater government controls and planning, that are needed for this imbalance to be addressed. In this they provide important insights and guidelines for the governing of FDI. However, they do little to describe the existing success of FDI for regional development, or explain the structures and relationships that assist it to produce positive development and poverty reduction for local and national populations. Also, they very often apply a too narrow understanding of what poverty is, and thereby support their arguments with the assumption that

[1] Though a case study conducted under this project in Peru indicates that knowledge and information flows enabled by the globalization/deregulation atmosphere and advances in communication technology may in some cases distribute power in ways beneficial to the poor.

there is an automatic link between increase on economic indicators and the real poverty situation.

2.2.4 FDI and regional change

It has been claimed that the relationship between FDI and regional change can generate two different outcomes (Giarratana et al. 2003). One can be termed 'FDI as development'. This characterises a situation in which there are extensive regional effects of FDI, such as vertical linkages, knowledge spill-overs, spin-offs, innovation networks and technology transfer. The second outcome can be termed 'FDI as dependency'. This is a situation in which the regional economy is dominated by the FDI, but the effects of FDI are restricted to employment in subsidiaries, taxes and some vertical supply linkages. Generally, profits are returned to the investing country. Hence, a broader understanding of the regional dynamics of FDI as development or dependency has to be rooted in studies that reveal how different forms of FDI interact with different local contexts.

Regional effects of FDI have traditionally been measured as job creation and local purchases of goods and services (Dunning 1993). FDI often tends to generate vertical local linkages. These linkages facilitate the establishment of local suppliers heavily dependent on MNCs for sales revenue. However, Andersson and Forsgren (1996) argue for a shift in the understanding of MNC-related FDI. FDI should not only be understood as the source of a branch-plant economy that has mainly backward supply linkages to the regional economy (Watts 1981, Phelps 1992). It is also necessary to emphasise the flow of knowledge and competence caused by FDI in a region (Ivarsson 1999).

New research on competence and organisational learning focuses on the ability of firms at all levels to acquire new knowledge from the environment, assimilate that information and apply it commercially (Nahapiet and Ghoshal 1998). Very often, FDI provides MNCs with local linkages to the competence and technology of local firms (Dunning 1995), while the spill-over effects of

FDI may be the diffusion of competence and skill from the foreign firm to economic agents in the region (Ivarsson 1999). It is claimed that FDI benefits the regional economy since MNCs can fully exploit economies of scale and scope. This means that MNCs and their subsidiaries can adjust more quickly than domestic firms to changes in technology and demand (Dunning 1993, Young et al. 1994). They also possess a more advanced technology. The development/dependency theory discredits this presupposed direct link between FDI and regional benefit, and assumes instead that there can be both positive and negative regional effects of FDI.

Empirical studies indicate that spill-over effects vary between firms, sectors and regions. Young et al. (1994) distinguish between the diffusion of technology, the creation of new firms and demonstration effects on suppliers, customers and competitors. Bellandi (2001) argues that close ties between the subsidiaries of MNCs and local firms are most likely to develop when the local production culture is neither 'too weak' nor 'too strong'. Borensztein et al. (1998) note that FDI contributes to economic growth, but only when the regional economy is sufficiently able to absorb the advanced technologies.

The flow of goods and services from local firms are examples of potential regional economic effects. Subsidiaries of multinationals may represent models of business efficiency and their methods may be adopted by other firms in the community. Other regional effects concern possibilities for transferring technologies and competence from externally owned firms to local ones, through various types of business relationships, or simply as a result of employees bringing with them new ideas when changing jobs or starting their own businesses. Given these arguments we argue that the interaction between FDI and local conditions, and thus, the outcome of FDI on regional change, depends on interactions between the nature of the FDI and local conditions. Figure 2.2 presents a model in which we distinguish between FDI and local conditions as capital, MNC/local actors and knowledge. The figure expresses the explorative and multi-disciplinary approach of our project. The analytical principles that capture the relationship between local conditions, different forms of FDI and regional change are to be developed in relation to case studies. Some of these cases will focus on Norwegian controlled FDI in developing countries.

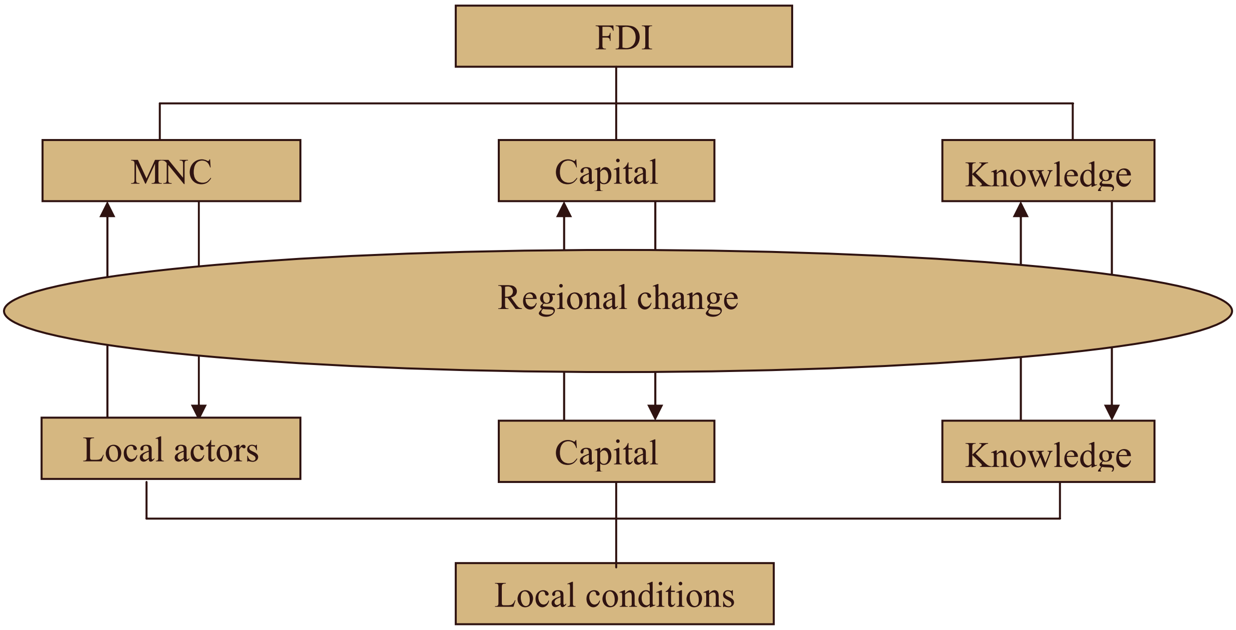

Figure 2.2: FDI and local conditions and regional change

2.3 FDI AND POVERTY REDUCTION

2.3.1 Introduction

In the second part of our theoretical discussion we will outline connections between FDI, local condition and poverty reduction. As already mentioned, the outcome of FDI is not only determined by the variables that are internal to the firm, but also by the properties of the place in which it operates. When it come to the effects of FDI, several case studies has addressed the issues of job creation or job losses, the transfer of competence, the establishing of linkages and the diffusion of technology, and demonstration effects for local firms (see for instance Young et al. 1994). However, attempts to address further implications of inward FDI on the national and regional economy are thin on the ground (Chapman 2003). This is especially the case when it comes to the connection between FDI and poverty reduction.

2.3.2 Poverty: beyond econometric measures

Academic progress also has been made in the study of poverty, moving the concept beyond simple economic indicators towards an acceptance of multi-dimensional perspectives on its conceptualisation, formation and reduction (Spicker 2003). Although a capital measure (the dollar-a-day poverty line introduced in the 1990 World Development Report) still serves as a basic yardstick to compare poverty levels across countries and over time, the recognition of qualitative as well as quantitative poverty indicators has made it possible to take account of, and integrate, a multiplicity of social interests and demands. The Millennium Development Goals (MDGs) focus on tangible dimensions including the absolute poverty line, together with human development based indicators such as literacy levels, levels of access to health services and access to basic services such as water and sanitation (Kanji 2003), the kinds of indicators popularised through the UNDP's *Human Development Index* beginning in the 1990s. The Millennium Goals call for a reduction in half of the number of people living in extreme poverty. Extreme poverty is measured with the $1 a day yardstick, arguing that per capita consumption of $1 a day represents a minimum standard of living. The proposed target by OECD is to reduce in half the number of people living in extreme poverty in 1990 by 2025. But Maxwell argues that what this target might mean is obscured by the "the bewildering ambiguity with which the term 'poverty' is used, and by the many different indicators proposed to monitor poverty" (Maxwell 1999).

The influential 2000 report by the World Commission on Dams, "Dams and Development: A New Framework for Decision-Making" states that "the world appears set to move beyond the growth-paradigm, which judged progress largely in narrow economic terms, putting a strong premium on activities that offered a clear economic return." Yet there are few indications on what types of FDI perform well under new poverty measures.

Considerable academic debate has taken place around the poverty concept resulting in the introduction of social capital and cultural knowledge as relevant concepts for new anti-poverty policies. In taking this step, development specialists are recognising the complexity and diversity of poverty. They are acknowledging that the particular conditions of impoverishment, and the needs and ambitions of poor people, can vary significantly. Social capital is generally understood to mean the networks necessary for sustaining collective action, the supposed normative contents of these structures, as well as the outcome of the collective action achieved through these structures (Fine 1999). Social capital acts as a buffer against vulnerability and as coping strategies to economic and natural changes.

By expressing the inter-relationship between local organisations and the state in quantifiable terms, social capital has had the effect of making social movements and the importance of social processes acceptable to the international donor community (Woolcock 1998). There has also been a recognition of the need to integrate the knowledge of the poor in reducing poverty: "In the contemporary world, with the vagaries of fluctuating world markets rendering national economies fragile and their institutional structures often in crisis, poverty reduction is not likely to take place in a sustained manner without the involvement of the poor" (Webster & Engeberg-Pederson 2002). In development practice there is a growing acceptance of the notion that poverty reduction requires opportunities for the poor and organisations working on their behalf to exert an influence on political and economic processes.

The widespread acceptance of such indicators by international organisations has opened up for integration of public participation into development practice. The best illustration is the huge recent increase in Participatory Poverty Assessments (PPAs) carried out in developing countries to improve the effectiveness of public policy aimed at poverty reduction. The largest global participatory poverty assessment was the World Bank funded "Voices of the Poor" study (Narayan et al. 2000). A stated objective of the exercise was to capture the wider dimensions of poverty so that poverty reduction policy and programmes would be based on the "experiences, reflections, aspirations and priorities of poor people themselves". In recent years, even more institutional support for participation has been established by the Bank through the creation of the Poverty Reduction Strategy Papers (PRSPs). In September 1999 the World Bank and the IMF approved and adopted the PRSPs as the new basis for their lending and debt relief programmes to countries recognised as Highly Indebted Poor Countries (HIPC). In order to qualify for debt relief, governments must produce a PRSP (a development planning document) that clearly states how they intend to target poverty in national development, and also indicate the way in which the paper itself, as well as the plans it puts forward, is a response to the needs and interests of the national population.

As we argued earlier, the assumption that an FDI always contributes to poverty reduction fails to be upheld by the data. For example, Te Velde (2003), in his work on FDI and Latin America, concludes that while FDI may have been good for development, the positive impact for the poor is not satisfactory. Trade liberalization and international economic reforms have not brought the benefits to the poor that were predicted. He argues for a change in government policies is needed to rectify this outcome. We argue that this outcome is also dependent on the nature of the FDI. To properly measure the tendencies of poverty in relation to the nature of FDI, an operationalization of the poverty concepts is needed. The discussed advances in the poverty discourse are helpful.

2.3.3 Re-operationalization of the poverty concept

The paper "What is Poverty and how to measure it" by Jitsuchon (2001) compares perceptions of poverty from three sources; the poor themselves, academics and the policy makers. The poor cite direct and everyday factors, such as not having enough to eat or being disabled as the indication that they are poor. The academics include other factors as well, that go beyond the factors described by the poor themselves. Academics add factors that involve attributes of social, political and economic structures, while policy makers have traditionally used poverty lines where a person or a group is poor if their income or expenditure is below a specific sum at the time of measure. The paper raises the importance of accounting for local differences in the degrees to which poverty lines apply, for example between the city and the countryside. In the countryside people tend to have stronger social networks and easier access to products directly from nature.

The household survey of income relative to the 1985 purchasing dollar is the standard measure, but other measures are also in operation such as potential poverty. This measures vulnerability to shocks and instability (Maxwell 1999). The limitation of measuring poverty at a set time has also been avoided by measuring poverty over a timeline, or movement in and out of poverty. Amartya Sen argued that "poverty measured as a shortfall in income essentially captures an input to an individual's capability and functioning rather than a direct measure of well-being" (in ibid). Maxwell points to the important trade-off between using aggregate indicators that are economic and efficient in measuring poverty over large areas with using deeper methods to find subjective understanding.

Narayan (2000), in the influential World Bank-funded study, writes that "to develop effective poverty reducing strategies, we must understand poverty from the perspective of the poor." Quantitative data used for most aggregate studies of poverty are only able to tell part of the story, and not the subjective

elements of poverty, gendered distribution or coping strategies. The report argues that "recognizing these issues, development practitioners and policy-makers are increasingly realizing that a more complete understanding of poverty requires the inclusion of social factors and perspectives of poor people."
The World Bank has developed the Participatory Poverty Assessments (PPA) in order to understand poverty from the perspective of the stakeholders and directly involve them in the process to improve their situations. The inclusion of PPAs in overall poverty assessments has increased to half of all Bank poverty assessments in 1998 (ibid.). Unstructured interviews, discussion groups and visual methods are used in field periods lasting from ten days to eight months. The Naranyan report, applying the PPA methodology, finds as expected that poverty is widely understood as a lack of what is necessary for material well-being. But also, poor people's definitions reveal the psychological dimension of poverty, such as vulnerability to rudeness, humiliation and inhumane treatment. The study also found that poor people tended to focus on assets rather than income and link poverty to their lack of physical, human, social and environmental assets to their vulnerability and exposure to risk.

Depending on approach and local conditions, the case studies of this project aim to draw on these operationalizations for the measure of poverty.

2.4 POLICY IMPLICATIONS

The majority of available analysis of the interaction between FDI and local processes addresses the conditions created for it by governments at the national level (Singh 2001). Here there is some expression of caution to analysts' support for FDI as a possible strategy for development and poverty reduction. When FDI takes the form of green field investment, it represents a net addition to the host country's capital stock. However, entry via an acquisition may represent no addition or an actual loss to the capital stock, output or employment. Based on the experience of the debt crisis of the 1980s and the subsequent Mexican, Asian and other crises of the 1990s, this research questions the widespread assumptions of economists that compared with debt and portfolio investment, FDI is the safest source of funding for developing countries (Lipsey 1999). Although this research agrees that FDI can be a stable source of long term finance for developing countries, it is argued that unless FDI is adequately regulated by national governments, particularly where these countries are subject to frequent internal and external economic shocks, it can lead to short and long-term financial fragility (Rodrik 2001, Krugmann 1998).

To avoid this fragility, there is a growing acceptance of the necessity for developing countries to put in place controls on the timing of the FDI, the total amount of FDI, as well as careful government evaluation of the large projects proposed by the multi-nationals. Indeed, the IMF has changed its stance on this issue and now appears willing to countenance use of capital controls of leading emerging countries, such as Malaysia and Chile, for the management of short-term capital flows (Singh 2001). It is argued that these measures are needed to ensure that there is no mismatch in the time profile of a country's foreign exchange inflows and outflows.

Other authors, such as Escobar (1995) and Alvarez (1998) argue that FDI, "social reform" and the "war on poverty" are parts of a strategy to legitimatize a specific economic model and its associated reforms to maintain and enforce the social order. The strategies of poverty reduction constitute pragmatic attempts to address poverty problems independent of, and disconnected from, the more general orientation toward economic change and global politics implied by the policies of adjustment (Escobár de Pabón & Guaygua 2003: 18). This poorly understood pragmatism conceives of people as mere receptors of benefits, rather than participants in development decision-making (McNeish 2001; Fernandez 1989). There are cases that show that contrary to text book neo-classical economics, FDI does not lead to resource transfer from the rich to the poor regions, but to increased concentration and allocation of resources to the rich regions.

As already mentioned, empirical studies and related theories say little about what kinds of interaction situations between FDI and local conditions lead to poverty reduction, when the latter is conceptualized multi-dimensionally. Much of the existing FDI literature focuses either on local processes or the motives of the entity making the FDI, failing to address how both the content of the FDI and the interaction between FDI and local conditions that affect poverty.

This makes it hard to conclude on what situation FDI can generate poverty reduction or result in its increase. For some analysts the new politics of poverty can be connected to the growing recognition that while economic growth caused by FDI may lead to a reduction in the number of people in economic poverty, it is not sufficient on its own to eradicate the social cause of poverty. Other authors are more positive. Klein, Aaron and Hadjimichael (2001) see FDI as an integral part of a "poverty reduction toolkit" in developing countries. They suggest that efficient transfer of best practice across borders is essential for economic development, and see FDI as particularly well suited to promote this.

2.5 CONCLUDING REMARKS

The goal of this theoretical discussion has been to integrate some of the concepts that have dominated the discussions and the literature on the way forward for developing countries. These concepts represent recent academic and practical progress in redefining investments, the effects of FDI, poverty and the measuring of poverty situations. The challenge is to combine the concepts in theory and practical research to discover the dynamics and links between them. We question the assumption that there is a direct and automatic link between development in economic indicators and real poverty reduction, and hypothesize that there may be cases where an FDI leads to increase on economic indicators while the actual poverty situation investigated through a variety of qualitative methods may worsen. We argue that it is important to emphasize that the interaction between FDI and local conditions, and thus the regional outcome of FDI on development/dependency and poverty situations, depends partly on the nature of the FDI. In some cases, FDI is limited to pure economic capital, but in many cases, FDI involves changes in social relations and the flow of skills and knowledge. Potential directly negative effects include social and employment dislocation, environmental disruption, corruption and "out-crowding".

Given these arguments we argue that the interaction between FDI and local conditions, and thus, the outcome of FDI on poverty, depends on interactions between the nature of the FDI and local conditions. We aim to discover some of the circumstances that determine whether an FDI leads to development or dependency, and under what conditions the development/dependency situation leads to poverty reduction. The undertaking is illustrated in Figure 2.3.

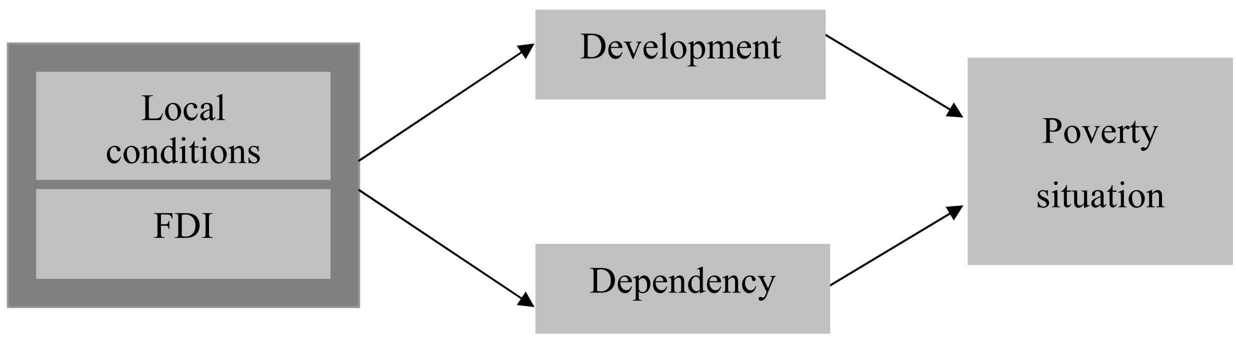

Figure 2.3: The dynamics between FDI, local conditions, regional change in forms of development/dependency and the poverty situation in the region

CHAPTER 3
MAPPING NORWEGIAN FDI IN DEVELOPING COUNTRIES

3.1 INTRODUCTION

This chapter outlines our methodological approach for identifying Norwegian controlled FDI in developing countries. We start by defining some basic concepts (3.2) and existing sources on Norwegian FDI in developing countries (3.3). Section 3.4 presents sources- and methodology for the company analysis. Then we present and discuss the methodology of our survey (3.5). This is followed by a discussion of the reliability (3.6), validity (3.7) and privacy policy of the study (3.8)

3.2 THE FDI AND THIRD WORLD CONCEPTS

The second objective of this research project is to map Norwegian FDI in developing countries. In identifying FDI we rely on the Norges Bank (Central Bank of Norway) definition of a foreign direct investment (FDI) as a: "cross-border investment made by an investor with a view to establish a lasting financial interest in an enterprise and exerting a degree of influence on that enterprise's operation and where the foreign investor holds an interest of at least 10 per cent in equity capital".

An FDI relation is quite different from an export/import relation in that it involves a long term involvement and an ability to have a degree of impact on local conditions. This distinction is the reason FDI is more interesting than exports or import relations for research on regional change or poverty reduction; FDI represents a far greater potential to involve exchanges of economic, social and cultural effects. Additionally, the explosion of the portion of FDI in global capital flows necessitates investigation of the dynamics between FDI and poverty.

In defining countries as developing or developed, with the intent to focus on Norwegian FDI made to developing countries, we relied on the Human Development Index of the United Nations Development Programme (UNDP) Human Development Report 2003. The report separates countries into those with High, Middle and Low Human Development. For the purposes of investigating effects of Norwegian FDI in developing countries, we included the countries defined as achieving middle and low human development, plus Argentina, Chile, Cuba and Mexico. The latter four countries were included because they are within regions where most of the surrounding countries rank in the medium and low columns. Hong Kong and Singapore could have been included for the same reasons, but we decided not to due to the geographical characteristics and historical specificity of these previously European enclaves.

3.3 EXISTING SOURCES ON NORWEGIAN FDI IN DEVELOPING COUNTRIES

Torunn Kvinge (FAFO 1996) calls for the establishment of a database of Norwegian direct investments abroad to improve knowledge of the motivation for these investments and the consequences for social welfare in Norway. Such a database has yet to be established. In turn, the initial task in creating an overview over Norwegian FDI in developing countries has been to survey existing fragments of information with sources that each possess part of the map, and combine these into a whole as complete as possible. The initial plan to base the research on data from Norges Bank fell through due registration limit on transactions on NOK 250 million, which eliminates much of the interesting material on developing countries. From 2004 this statistical task was handled by Statistisk Sentralbyrå (SSB) [Statistics Norway]. SSB does not operate with a minimum limit for registered amounts, thus improving the data available. However, only aggregate numerical data is published. Hence, we had to find other sources of information for the purposes of this study.

The data was collected from the sources listed below:

- Listed subsidiaries at Nortrade, a cooperative internet portal of Innovation Norway and Oslo Chamber of Commerce. According to the director Henrik Ulven, this database of subsidiaries is the only complete listing of subsidiaries of export companies. This research project found, however, that far from all subsidiaries are listed.
- NORADs (Norwegian Agency for Development Cooperation) economic transactions during the period 1999-2002. Receivers listed with “AS”, “ASA” as part of title or otherwise with information suggesting that the transaction regarded support for FDI to a developing country was examined using previously mentioned databases and searches on web sites to investigate whether they involved FDI to developing countries, and whether they revealed information relevant to our purposes.
- Companies listed as the 100 largest exporters in Norway in the database “Norges Største Bedrifter” examined through information available on the companies’ web sites, external articles from news papers and trade journals and added to standardized information from corporate registers.
- Innovation Norway and web sites of Norwegian embassies abroad. Little useful information was available here. According to the Chief Economist John Rogne at Innovation Norway, the organization does not produce statistics on individual companies, and obtain their statistics on general developments in trade from Norges Bank. Hence the problems inherent in Norges Bank statistics are implicated. Some of the Norwegian embassies in developing countries list Norwegian companies involved in their respective country, this was to some help.
- Norwatch, an organisation subsidiary to Fremtiden i Våre Hender focusing on Norwegian corporate behaviour in the global south. Their approach is more journalistic than systematic, but they did supply the membership list of the Thai-Norwegian Chamber of Commerce, which was to some help.

The result was a universe consisting of a list of 118 Norwegian companies with a history of FDI in one or more developing countries. During the later phases of the survey some of these were eliminated after closer investigation (see Appendix A).

3.4 COMPANY ANALYSIS

Information on the selected companies was assembled using the data bases "Norges Største Bedrifter" [Norway's Biggest Companies] and "Ravn Foretaksinformasjon" [Ravn Corporate Information], the company web sites, newspapers and economic/trade news agencies to get an overview of the involvement of the companies, which again formed the basis for the selection of the more qualitative parts of the survey. Relevant information was stored in a database.

The overview is structured in the form of a spreadsheet containing information on the individual company: company name, latest income in NOK million, latest turnover in NOK million, location, country invested in, sector, stored information (number of articles related to the companies' FDI in development countries stored in data base), and other. (Not all of these categories are included in Appendix A.)

The initial plan to include only companies with more than 200 employees and investments made after 1990 was revised, as it was difficult to determine from the material surveyed when investments had been made, and how many employees where involved with the part of the company making the investment. This was partly because companies most predominantly list the employees of the subsidiaries under the MNC, so subsidiaries are often listed with no employees.

3.5 SURVEY

3.5.1 The research questions of the survey

Based on results from our mapping of Norwegian FDI as described in sections 3.3 and 3.4, we carried out a survey of Norwegian companies in an attempt to establish a more complete description of the engagement abroad. Our approach in this survey has been semi-structured interviews. To structure our research in the survey we formulated five research topics:

- General information about a specific FDI project: Establishing basic knowledge of an example of the company's involvement in developing countries
- Motives and knowledge: Investigating what motives the company had for initiating the FDI
- Network: Obtaining information on the importance of economic and political networks in the investment process
- Local competence: Establishing the importance of local competence to the investment project
- Perceived local effects: Investigating the way local effects of the FDI is perceived by the company

This section begins with some reflections related to the universe this survey is based on. Thereafter follows a description of how the respondents were selected and lastly the concepts of reliability and validity are discussed.

3.5.2 Defining the universe

According to Hellevik (2002), the *theoretical universe* describes all units which constitute a part of the research and which the scientist wants to know something about. In our case this includes all Norwegian companies which are involved in FDI in developing countries. As mentioned in section 3.3, no existing databases have previously defined the universe. Our point of departure was therefore the list we established through Nortrade, NORAD, Norges Største

Bedrifter, etc. It is difficult to determine to what degree our list of companies investing in developing countries is exhaustive. We are under no assumption that it is. However, since no complete overview of Norwegian FDI in developing countries exists, our list of companies will be treated as the *universe*. Our universe reveals investments of different sizes and in different sectors. A discussion of the coverage of the universe follows in section 4.2.

Three problems related to our approach were identified. The first problem was that the world of business changes fast and thereby outdates list like the one we followed. Some of the companies on the list were no longer active in developing countries. In other cases the responsibility of the FDI in MNC had been moved to another division in another country. There were also a proportion of companies who was impossible to get through to on the telephone.

A second problem was related to the use of founding from NORAD as a way to enlist companies. By doing so we also included companies who never had been involved in FDI. NORAD fund not only established activities in the developing world, but also preliminary trips for companies who consider investing. Therefore NORAD funding does not necessarily involve FDI. The third and last problem was that our method of enlisting companies was not able to detect whether the activity in the developing country was a subsidiary company or merely a sales office to secure a position at the inside of trade barriers. We therefore eliminated some companies from the original list upon closer inspection. However, with these hindrances in mind it must not be forgotten that our method of enlisting companies have been well-suited for giving insight into a diffuse and complex universe. We consider it to have been a good point of departure for the survey.

3.5.3 Selection of respondents

The selection of respondents can be divided into three phases. First, the universe was divided into seven sub-sectors. These were: Petroleum and energy, Textiles and production of goods, Other industrial production, Fisheries and fish farming, Shipping and coastal traffic, Services and Other sectors. The sub-sector Shipping and coastal traffic was not included for the in-depth interviews, due to uncertainty of the impact such investments have on local conditions. We assume that these industries are less embedded locally; reducing the existence of the factors we wanted to know something about. This was confirmed in the interviews with companies working offshore, they perceived effects to be insignificant just because they were not grounded locally.

A random collection of respondents within each of the remaining six sub-sectors followed. This practice was followed until 12 interviews had been completed. Thereafter, we started selecting respondents using an *estimate selection procedure* (Hellevik 2002). The reason for not continuing with the random selection was that we were more interested in mapping the multiple variations of the phenomenon we were studying rather than to make a representative selection. We assumed that the experiences of Norwegian companies would differ according to regions, size and type of industry. For example a random selection would have resulted in far more focus on companies operating in Asia and almost no focus on companies in Africa.

Three factors in particular influenced the estimated selection in this study. Firstly, it was important to secure a more or less even distribution between the six sub-sectors. Secondly, we wanted to have both large and smaller companies represented. The third factor influencing the estimated selection was the geographical location of the company. Even though there are mostly respondents representing FDI in Asia in the survey, we wanted a proportion representing African and South-American FDI as well. In the sub-sector Fisheries and fish farming, a combination of factors made it impossible to get as many interviews as intended. There were simply too many of the enlisted companies that due to various reasons could not be interviewed. It would also have been preferably to have interviews not only from companies operating in Chile in this sub-sector.

Before the switch from random to estimate selection procedure, all of the interviews which had been carried out were preliminary studied. The reason was that we wanted to see whether our interview guide managed to cover all aspects relevant to the study. During this process we discovered that we needed to add some questions in order to elaborate on important issues in the last part of the survey. Important additions were questions related to cultural differences, involvement of locals in business management and transmission of modern principles for management (see Appendix B).

The survey contains 25 interviews. This includes both the respondents who were selected randomly and those selected using the estimated selection procedure. The interviews were carried out per telephone. Our use of the telephone is simply based on the effectiveness and low cost it represents to a survey such as this. Given that the companies we have interviewed are dispersed throughout Norway, use of telephone was the most beneficial solution.

3.6 RELIABILITY

Unintended use of leading questions is a factor that may significantly decrease the reliability of interview surveys. Even though leading questions cannot be ruled out, it is likely to that the influences of these were marginal to this study.

The interviews were not taped, but written down from notes immediately after the interview. As a consequence the transcribed interviews are based on notes and the memory of the researcher. This reinforces the possibility of a subjective element being present in the transcribed interviews. In this case reliability is suffering at the expense of a wish for a high degree of validity. The intention was to create a better communicative situation than what was believed could be obtained using a tape recorder. Even though it is important to strive for a high degree of reliability in interview research, it is also important to note that a too strong focus on reliability may hinder creative thinking and variation (Kvale 2001).

3.7 VALIDITY

One of the benefits with qualitative methodology is that it is well suited for obtaining a large degree of validity. Within the methodology lies an ability to explain the questions to the respondents, in case of misunderstandings. This was beneficial to our study and is believed to have influenced positively on validity. As described in 3.3.4, the interview guide was adjusted to include some new questions when 12 interviews had been carried out. This is a clear example of the flexibility of qualitative methodology. The ability to develop the interview guide half way, made it possible for us to evaluate the wording of our questions and incorporate gained knowledge in the guide for the last part of the survey. This is believed to have influenced the degree of validity positively.

However, there are also elements weakening the validity of this study. Kvale (2001) writes: "A usual critique of the research interviews is that the findings are not valid because the information of the respondents may be untrue" (ibid:169, own translation). Related to this study we consider it likely that the respondents avoid mention or tone down negative aspects of their activity and emphasize the positive. One must be aware of that the representatives of the companies most likely are well aware of that FDI in developing countries is a sensitive issue. As one respondent answered when asked about local effects of the investment: *"Is it a politician who has made these questions?"* By giving the respondents the possibility to choose which investment project they wish to talk about, it is also likely that they have chosen projects that gives a positive picture of the company.

According to Skog (1998) *concept validity* is a collective term for measure problems like downplaying negative aspects, unwillingness to participate etc. In this study it is the respondents who describe how their activity effects the local level. It is likely to believe that the respondents intentionally or unintentionally tend to describe these effects more positively than they are in reality. However, it is our opinion that this does not weaken the *concept validity* of the study. The answers in this section are only used to investigate the perceptions of the respondents and not the local effect itself. Nevertheless it cannot be ruled out that the *concept validity* may have been affected, as the respondents throughout the interview may wish to present their company in a positive way.

Even though there are factors that may affect the validity of the study negatively, it is important to keep in mind that without creating a good rapport with the respondent, there are small chances of high validity. The study covers sensitive information that the respondents were under no obligation to answer, and hence it was fundamental to create a good communicative situation. It is also important to keep in mind, as Kvale (2001) writes: "The problem by validating qualitative research is not necessarily related to weaknesses by the qualitative methods. On the contrary it can be related to the unique ability of the qualitative method to describe and pose questions about the social reality being investigated" (ibid:170, own translation).

3.8 PRIVACY

The first part of our survey exclusively deals with publicly accessible information. We have therefore not considered treating it sensitively for privacy purposes. In the interviews one respondent requested specific privacy conditions and we have naturally allowed for this. We did not promise anonymity to respondents except for one that requested it. Generally we protect the names of all interviewees, but for the publishing of this report we identify companies by country invested in and approximate categories regarding size. In Africa, reporting the country the company invests in would reveal the company. Here we just refer to the location as “Africa”. Due to the size and special position of Statoil in the economy of Azerbaijan, we decided to discuss its case directly.

CHAPTER 4
MACRO DATA AND COMPANY ANALYSIS

4.1 INTRODUCTION

Our empirical discussion is based on three data sets: i) macro data on FDI flows, ii) a company analysis of Norwegian FDI firm based on existing data, and iii) a survey among Norwegian FDI firms. By analysing these data sets we want to identify characteristics of Norwegian controlled FDI in developing countries. This chapter presents macro data and the company analyses, while the next chapter outlines findings from the survey.

4.2 MACRO DATA ON FDI FLOWS

4.2.1 World FDI flows

Aggregate data show enormous changes in the amounts and the pattern of capital flows from industrial countries to emerging economies in the 1980s and 1990s. World Bank figures indicate that the net resource flows to all developing countries raised from US$11 billion to more that US $75 billion in 1993, and to just over US$100 billion in 1994. Between 1995 and 2000 these amounts took a quantum leap to US$ 240 billion. However, despite the enormous growth in the importance of FDI to developing countries, the present spatial pattern of external resource flows makes us question the generalizability of its current role as a global poverty reducing strategy. The FDI literature demonstrates that the majority of FDI is still currently dispersed in a small number of relatively fast growing nations, particularly in East Asia that already have high savings and investment rates (Singh 2001), while the countries with the highest poverty rates are practically speaking not involved in the restructuring of the global economy.

Campos and Kinoshita (2003) listed the characteristics of host countries that attract FDI as market, resources/assets, efficiency in corporate networks and agglomeration economies. With these factors in mind it is easy to see how certain characteristics present in certain regions are attracting FDI to those regions, and that the result is a relatively unbalanced flow of investments.

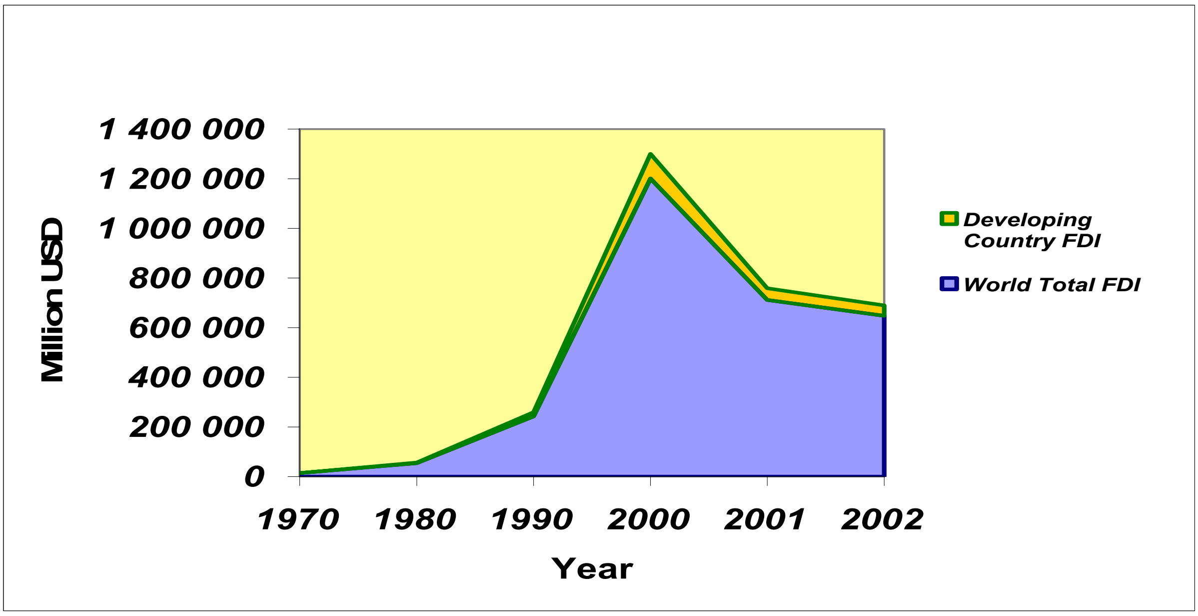

Figure 4.1: World FDI Flows 1970-2002. Source: UNCTAD

The global flows of FDI are represented in figure 4.1, where it is evident that developing countries receive only a fraction of total FDI flows. In 2000, developing countries received 8.2% of total FDI flows and had 80.5% of the world's population, according to UNCTAD.

Among developing countries there are also major imbalances of distribution. As illustrated in table 4.1, the entire continent of Africa received less than a half per cent of total FDI inflow to development countries in 2002, while Asia received 86%. Just South, East and South East Asia received almost 80%. We tend to focus on distribution imbalances between developed and developing countries and to forget these major imbalances even between the poor countries. Africa is almost completely bypassed by investors. With 13% of the world's population, the continent received less than 1% of FDI in 2002.

Table 4.1: Distribution of development country FDI to regions. Source: UNCTAD

Region	Million USD	Portion
Africa	173	0,4 %
South and Central America	5 770	13,4 %
Asia	37 121	86,1 %
Oceania	30	0,1 %
Developing Countries	**43 095**	**100,0 %**

4.2.2 Norwegian FDI flow to Developing Countries

Norwegian investments represent a small portion of global FDI flows. Investments from Norway represented 2% of total FDI flows to developing countries in 2000. According to population, however, the Norwegian share of developing country FDI is relatively high. South and Central America received an 11% of Norwegian FDI to developing countries. A large part of these investments are inflows to "tax-havens" and likely do not represent investments with potential to have consequences for regional change or poverty reduction. As evident from Figure 4.2, the largest share went to South and Central America. SSB figures 2001 show that more than one third, 35%, of Norwegian investments to developing countries go to countries defined by OECD as "tax havens". (For a discussion on the definition of "tax haven", see Appendix B-6.)

Investments to Africa represented less than 1% of total Norwegian FDI to developing countries and this corresponds to a very small amount of total global FDI received by the continent. Drawing on Campos and Kinoshita's work on the characteristics attracting FDI, it is likely that Africa fails to attract FDI for the lack of a market for produced goods, assets in term of competence and an agglomeration economy. In other words, the continent's low integration into the world economies makes it unattractive for investments integrating it into the world economy.

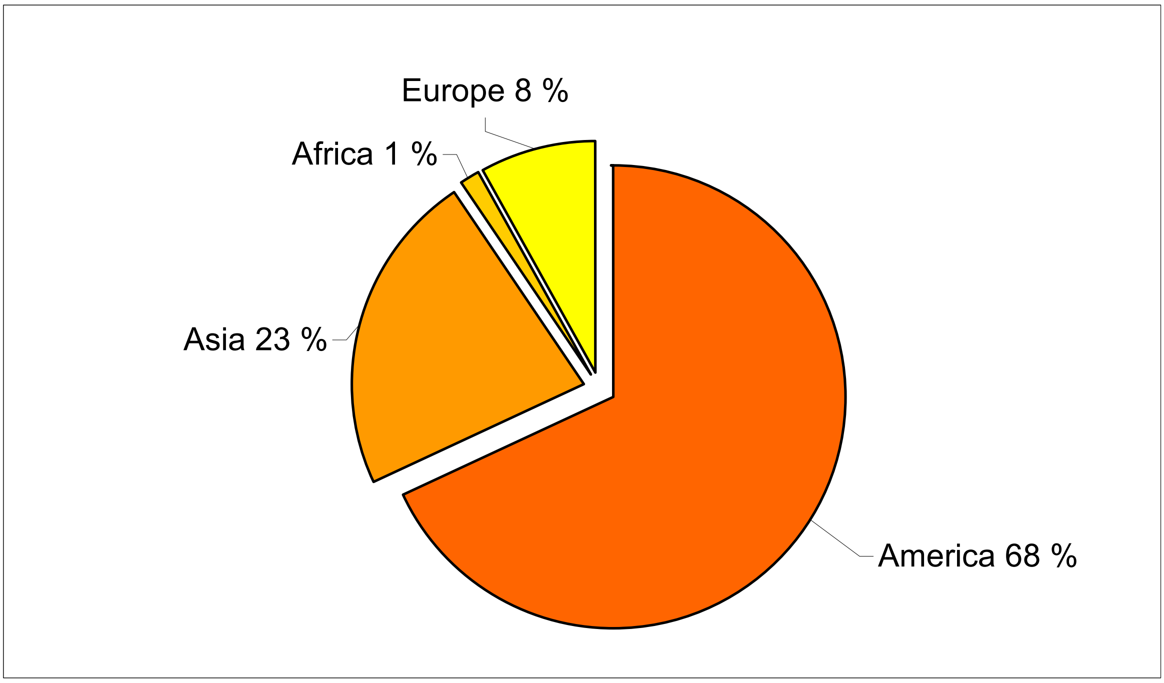

Figure 4.2: The receiving regions of Norwegian developing country FDI in 2002. Source: SSB data

It can be hypothesized that the lack of infrastructure and competence on the continent makes the dependency situations the likely outcome of FDI. As a consequence, allowing FDI to be a major strategy for poverty reduction on the continent will not be effective unless coupled with policy plans and aid improving infrastructure and competence levels. This should be substantiated through case studies.

4.3 RESULTS OF THE COMPANY ANALYSIS

Using sources outlined in chapter 3, we collected information on 118 Norwegian companies that our sources indicated invested in developing countries. After a screening we eliminated 27 companies from the list, since we discovered they had withdrawn or had simply decided after feasibility studies that the FDI would not be profitable. We are left with a list of *91 companies* that our data indicates are involved with FDI in a developing country (see Appendix A).

Our aim was partly to be able to find out what portion of Norwegian companies have invested in developing countries. This task was difficult due to the lack of a proper database listing investments, but through using a compound of sources we gathered a list that can be compared with statistical indicators in order to draw conclusions on portion of companies investing in developing countries.

Table 4.2: Distribution of respondents in sectors. Source: Survey

Sector	Respondents
Petroleum and energy	8
Other industrial production	37
Fish and fish farming	8
Service	11
Shipping	7
Textiles and goods, production	15
Other	5

When comparing the 91 companies on our list of companies with a developing country FDI to the 100 largest exporters list from Norges Største Bedrifter 2004 [Norway's Largest Companies 2004], we see that 19 of these are listed with developing country FDI[2]. In other words, around one fifth of Norway's largest export companies have investments in developing countries. When comparing to

[2] Companies from NSBs list of top 100 exporters 2004 with developing country FDI: Norsk Hydro ASA, Statoil ASA, Elkem ASA, ABB AS, Borregaard Industries Limited Norge, Frank Mohn AS, Jotun AS, Unitor ASA, Nordic Intertrade AS, Alpharma AS, Hydro Aluminium Profiler AS, Orkla ASA (through subsidiary Borregaard), Unger Fabrikker AS, Odfjell ASA, Nopco Paper Technology, Jordan AS, EFD Induction AS, Scana Steel Stavanger, Norconsult AS.

the top 100 companies ranked in total sales, 11 have made developing country FDI[3]. On other words, around one tenth of Norway largest companies have made developing country FDI.

To get an idea of the portion of total FDI covered by our survey we compared the list of countries invested in according to SSBs statistics (see table 2.3) with the list of investing companies we gathered from a range of more quantitative sources. The immediate methodological problem with this comparison is obviously that the most recent data published by SSB is from 2001, while we did our data collection in 2004. This shows a relatively high rate of coverage by our survey. Fifteen developing countries receiving Norwegian FDI in the period 1998-2001 were not covered by our survey[4]. Eight of these are well-known "tax-havens"[5]. For example, the by far largest receiver of Norwegian FDI among developing countries in the Americas is the Cayman Islands. Our quantitative data collection methods discriminated against these types of investments. Also, our survey covered 12 countries receiving Norwegian FDI not listed by SSB in

[3] Companies from NSBs list of top 100 companies in sales 2004 with developing country FDI: Statoil ASA, Hydro Aluminium ASA, ABB AS, Wallenius Wilhelmsen Lines AS, Elkem ASA, Star Shipping AS, Odfjell Seachem AS, Veidekke AS, NCC Construction AS, Norsk Hydro ASA, Det Norske Veritas.

[4] Developing countries receiving Norwegian FDI in the period 1998-2001 that were not covered by the survey: Bulgaria, Ukraine, Egypt, Liberia, Mauritius, Zimbabwe, Oman, Bahamas, Bermuda, The British Virgin Islands, The Dutch Antilles, Panama, Trinidad and Tobago, Colombia, Peru, Uruguay.

[5] OECD has defined different jurisdiction as "tax havens" at different points in time, relating to the cooperation between the jurisdiction and the OECD. See "The OECD's Project on Harmful Tax Practices: The 2001 Progress Report." For the purposes of investigating Norwegian FDI in tax havens we will define them as all jurisdictions defined as a "tax haven" by the OECD at any point in time. The tax havens with Norwegian FDI are: Barbados, British Virgin Islands, Cayman Islands, Gibraltar, The Dutch Antilles, Liberia and Panama. Web sites advertising financial services in "tax havens" also mention other developing countries with Norwegian FDI, such as Mauritius, Morocco, and Trinidad & Tobago. These are not included in the calculations in this report, however.

Table 4.3: Norwegian FDI in developing countries 1998-2001 in million NOK. Source: SSB. (Countries with zero investment have been removed)

	1998	1999	2000	2001
EUROPE				
Bulgaria	1	22	34	17
Gibraltar	20	9	13	28
Russia	61	82	205	1958
Turkey	47	55	85	40
Ukraine	82	134	208	401
TOTAL EUROPE	**211**	**302**	**545**	**2444**
AFRICA				
Egypt	11	10	11	12
Ghana	0	0	0	40
Liberia	117	335	192	51
Morocco	79	82	110	103
Mauritius	0	0	0	31
Nigeria	8	8	15	17
Zimbabwe	1	4	1	1
South-Africa	25	4	150	85
Tanzania	20	4	20	22
TOTAL AFRICA	**261**	**447**	**499**	**362**
ASIA				
Sri Lanka	5	6	9	15
UAE	23	23	1001	675
Philippines	74	63	60	136
India	22	86	41	93
Indonesia	57	59	51	1717
China	329	262	381	613
Malaysia	111	413	738	2266
Oman	0	4	6	6
Nepal	0	0	0	238
Thailand	640	736	1553	1022
Vietnam	37	38	54	60
TOTAL ASIA	**1298**	**1690**	**3894**	**6841**
AMERICA				
Bahamas	0	129	34	48
Bermuda	661	869	1116	1542
The British Virgin Islands	129	3	151	16
Cayman Islands	226	188	304	8215
Mexico	44	78	74	150
The Dutch Antilles	425	394	359	374
Panama	28	93	585	518
Trinidad and Tobago	0	0	0	808
Argentina	218	304	407	511
Brazil	638	825	4505	4912
Chile	327	194	4255	3247
Colombia	35	13	28	33
Ecuador	0	0	6	2
Peru	0	0	0	49
Uruguay	0	0	11	9
Venezuela	5	4	32	48
TOTAL AMERICA	**2736**	**3094**	**11867**	**20482**
TOTAL FDI	**4506**	**5533**	**16805**	**30129**

the period 1998-2001[6]. These investments either did not exist in the period or were covered under categories such as “rest of Africa” in the SSB data.

By comparing the list of countries invested in yielded by our survey to that of SSB from the period 1998-2001, we find a high coverage rage. We will therefore presume that the survey covers a relatively high portion of Norwegian investments to developing countries. However, this is merely based on a comparison of countries, not amounts. So exact coverage rate, or to what degree our survey mapped the total universe, is difficult to establish. Judging by the relatively low incident of countries with investments not covered by our survey, however, we will claim that the survey covers a relatively high portion of the universe. We probably did not, however, cover a significant portion of total investments. Our focus was on the companies making the investments and the countries they invested in, rather than creating a complete list of all investments made. This latter task is insurmountable with the data set available today.

[6] Developing countries receiving FDI according to the survey but not listed with FDI by SSB data for 1998-2001: Angola, Bosnia-Herzegovina, Bangladesh, Dominican Republic, Eritrea, Jamaica, Laos, Mozambique, Pakistan, Uganda, Zambia, Qatar.

CHAPTER 5
THE SURVEY

5.1 INTRODUCTION

By using data from the firm survey this chapter intend to outline: i) the motives for Norwegian controlled FDI in developing countries, ii) how these investments takes place, or the process of FDI-investment, and iii) preliminary regional effects of these investments. However, we start the discussion by presenting some general characteristics for Norwegian FDI in developing countries (5.2.). The next section focuses on motives for investing in developing countries (5.3). Our theoretical discussion distinguished between three main objectives or motives for FDI; efficiency seeking, market seeking and resource seeking. In section 5.3 we will discuss the important of these motives for Norwegian FDI in developing countries. This is followed by an analysis of the investment process (5.4.). We start this by analyzing investment strategy, distinguishing between Greenfield investment and mergers/acquisitions. This is followed by a discussion of the actual location of the FDI. We also outline important factors for firms when making the investment, followed by a discussion of the use of local competence in this process. Section 5.4 ends by discussing different investment obstacles. In section 5.5 we present effects of Norwegian FDI in the form they are perceived by the companies.

5.2 MAGNITUDE AND GEOGRAPHICAL DISTRIBUTION

Our preliminary assumption regarding the distribution of Norwegian FDI was that they would be limited in space and magnitude. Despite a relatively high GNP, Norway is a small player in the global investment arena, and we expected this to be reflected in our survey. We expected investments to be generally limited to specific areas, either reflecting production climates similar to Norway, or high-growth countries attracting high rates of FDI in recent years.

Regarding magnitude, our assumptions were confirmed. Apart from a couple of exceptions, most Norwegian investments in developing countries are in the in the range USD 100,000 to USD 25 million. Of the 25 business leaders we interviewed, 16 stated their total investment for a specific project was in this range. Three investments exceeded this range. One respondent would not share this information. For the remaining 5 surveyed the information was not available, but based on other information about the investment project, it is highly likely that they are in the above-mentioned range. More significantly, 13 of the FDIs for which we have numbers are below USD 7 million. In other words, two-thirds of the FDIs we have numbers on are lower than one-fifth of the registration limit on transactions from Norges Bank. The large investment project that stands out (and invalidates statistical aggregates) is that of Statoil in Azerbaijan. But also, two investments projects in the Chilean fish industry stand out reflecting the heavy Norwegian involvement in a fish industry there.

Several of our interviewees discussed investments in countries other than those Norwegian investments are concentrated in (figure 5.1). We were given information on investments in 7 different African countries, as well as one in the Middle East. Indeed, high growth and similar-production-climate countries of India, China, Malaysia and Chile accounted for 11 investment projects. The low incident of Norwegian FDI in Latin America is striking when compared with the amount of FDI to the Latin America reported by SSB. The relative geographical distribution of the FDIs in our interviews is partly due to our selection method.

The survey reflected that Norwegian investments exist in a whole range of locations on the globe, but also that Norwegian FDI in the developing world are concentrated where one would expect them to be. The two main markets for Norwegian FDI in the number of FDI (not total capital) according to our survey are China and Chile. In China one finds Norwegian investments in mainly industrial production, motivated by labor costs and access to a growing market, and in Chile Norwegian companies have invested heavily in the fish industry.

As we will show in section 5.4, the responses to our survey indicate that this had various reasons.

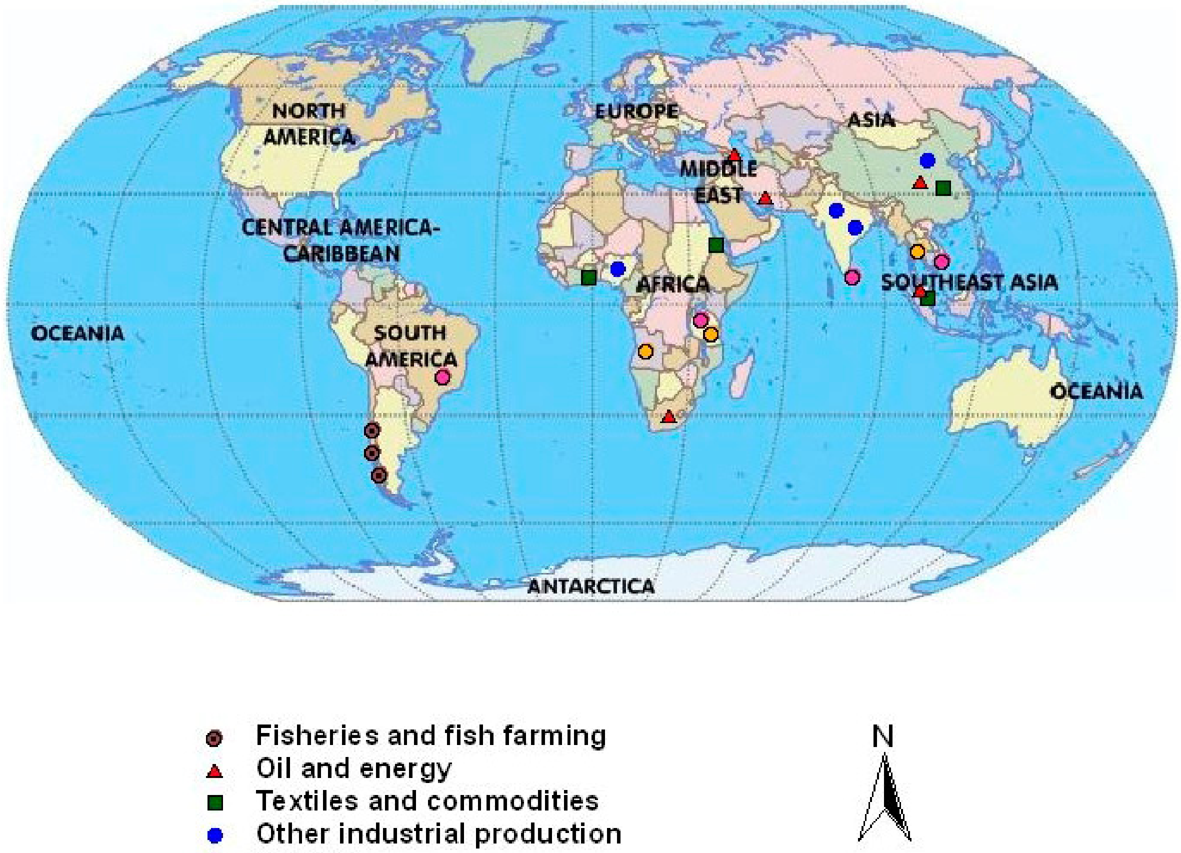

Figure 5.1: Map of Geographical Distribution of Respondents

All companies surveyed cited predominant employment of locals, with some projects employing as many as 1100 locally. Subsidiary leadership is mainly Norwegian or “ex-pat”, meaning other Westerners. As we will return to in the section on motivation, labor cost is the reason many companies locate production in the developing world, so heavy local employment was no surprise. The interviews reflected a reliance on Westerners in leadership positions.

5.3 MOTIVES FOR INVESTING IN DEVELOPING COUNTRIES

5.3.1 The market access motive

Access to important markets was the single most important reason for companies' decision to invest in the developing world. This was particularly so for the companies investing in Asia. It is apparent from the responses that companies pay close attention to growing markets and projected growth, and that this has a big influence over investment decisions. A representative from a large company investing in China responded:

> *"China is important in shipbuilding. Now they are number three in the world... in a few years they will be number one. To be big we had to get established there."*

Similar responses were common. The respondents perceived markets in Asia such as India and China to be growing, that this growth would continue, and that the company wanted to be part of this growth. *"We wanted to get in to the best market in the world. It's the second biggest country in the world,"* said a representative from a company investing in India. One company invested in Malaysia to get inside the tariff zone. Generally the terms *"getting in on"* and *"be a part of"* was frequently used to describe investments in high-growth economies.

This can be part of the explanation for why investments are concentrated in specific regions and markets, and contests the assumption that liberal policies towards FDI can be the main poverty reducing strategy for the poorest regions in the world. Following Campos and Kinoshita, agglomeration economies attract FDI, meaning that economies low in FDI lack an essential factor for attracting FDI in the future.

The market access motive is associated with other motives, such as the efficiency motive and the natural resources motive.

5.3.2 The efficiency motive

Efficiency seeking as a motive for investment presupposes the existence of cost advantages in the host country compared to other countries, for instance lower labour costs. Thus, efficiency seeking has traditionally been of importance when foreign firms invest in less developed countries by setting up low cost production facilities for exports to other markets.

The relocation of companies to countries with lower labor costs has been subject to public controversy in many Western countries. Some complain about the loss of jobs, others about the effect of developing countries competing among themselves to attract investment. The deregulation of global investment and technological advance in communication technologies has had a significant effect on FDI. However, few companies cited labor costs as their main motivation for investing in a development country. If asked specifically, most admitted that this was an important factor, but never the most important. There is a possibility, of course, that the importance of labor costs were avoided since it has been a controversial subject. A communication technology company investing in India responded:

> *"There were several [reasons]. First of all the market in India was attractive, and it was interesting for us to get access there. So we had decided to try to gain a position in Asia, and India was interesting for that reason. Then there was the access to production and engineering resources at a low costs that was interesting. But the market was the main reason."*

Labor costs are often grouped with other associated costs into the less political category *"production costs"*. Production costs are usually as associated reason for investing, but rarely the main reported reason. Only one company, a mid-sized one investing in China, reported low production costs to be the main reason for making an FDI.

5.3.3 The resource motive

Emphasizing the resource motive means that the objective for investing in a foreign country is to get access to attractive resources for instance natural resources or raw materials, or a technology or a specific competence.

Access to natural resources was an important reason for the decision of companies in our survey to invest in the developing world. This was particularly so for the companies investing in Asia and Chile. *"There is no oil in Germany. We go to where the oil is",* said a representative from a large company investing in Central Asia. This is also particularly important to the investments in Chile, exclusively related to the fish industry, where the natural conditions for that industry is very similar to those in Norway.

On the other side, access to competence and technology is not an important motive for Norwegian FDI in developing countries. Only one company responded that they located production in a developing country due to technical competence. This was a small company locating in Vietnam:

> *"The main reason [for locating] has three components: first of all we found competence, there was mathematical knowledge that can't be found here, including GIS and matrixes… The second was that we view Asia an area of focus, as a future market, and we wanted to establish a hub down there. And there was access to cheap resources. This was in order of priority."*

5.3.4 Other motives

One interviewee stated that the main motivation for the investment was *"doing something for the Third World".* The investment was made in production in an African country after a representative from the country made personal contact. *"This is an investment from the heart. This is one of my favourite things I have done."* The company employs more than 50, including two mentally challenged persons. The company has also invited neighbours to visit, which has resulted in good local relations. Though this is rare as the main motivation, it is interesting to see that this type of motivation can play a role.

5.4 THE INVESTMENT PROCESS

5.4.1 How to invest?

The theory of foreign direct investment distinguishes between two main investment strategies. The first is a "greenfield" strategy, which involves setting up a new plant. The second alternative is to purchase or merge with an existing firm. A third alternative is called "brownfield", which means reactivating a "sleeping" firm (Hayter, 1997).

The literature portrays green field investments as the most favorable to regional change, as they add to the country's capital stock. Of the investment projects surveyed, there were 11 mergers/acquisitions, 10 greenfields and 4 unspecified. Many investments originate as joint ventures, often with local companies, but several of the respondents cited problems with the venture partner or other reasons for increasing ownership or total take-over. All joint ventures described are majority owned by the Norwegian partner. No respondents cite long, successful venture partnerships. However, this was not a specific question in our survey, and may have occurred. Most of the investments discussed are of recent origin, all but four originated in the 1990's or later. As many as seven FDIs are not older than the year 2000. There may be many reasons for this. It could reflect that Norway is a relative late comer in the internationalization process; the general explosion of FDI in the later years; and the political and economic instability of the developing countries. Political and economic instability discourages long term investment relationships, and may be the reason few investments from decades before the 1990's survive. The few investments that originate in the 1970's and 80's report support from NORAD in the initial phase. Whether this has been an important factor for long term success could be a path for further research.

5.4.2 Where to invest?

A second important question, related to the investment process, is where these investments take place. It is apparent from the responses that companies pay close attention to agglomerations and projected market growth, and that this has a big influence in where to invest. A mid-sized fishery company said that:

> *"Chile has a significant position in the fish farming sector. We wanted to be a part of it. There are four fish farming regions in the world, Chile is becoming really big."*

Similarly, a large company investing in China responded:

> *"China is important in shipbuilding. Now they are number three in the world… in a few years they will be number one. To be big we had to get established there."*

WHERE TO INVEST?

- *There is no oil in Germany. We go to where the oil is.* Large company investing in Central Asia.

-*There are two places in the world with conditions favourable to fish farming. Norway and Chile.* Large company investing in Chile.

-*China is important in shipbuilding. Now they are number three in the world… in a few years they will be number one. To be big we had to get established there.* Large company investing in China.

-*Our main motivation for investing in Malaysia was to get inside the tariff zone*. Large company.

Attentions to agglomerations and projected market growth can be part of the explanation for why investments are concentrated in specific regions and markets, and contests the assumption that liberal policies towards FDI can be the main poverty reducing strategy for the poorest regions in the world. Following

Campos and Kinoshita, agglomeration economies attract FDI, meaning that economies low in FDI lack an essential factor for attracting FDI in the future.

Personal connections and personal knowledge of an area, often gained through other activities, are also important factors for the location decision. Several report being contacted directly by a representative of a country and invited to invest. EFD:

> *"They learned about us through work we had done elsewhere, and contacted us wondering if we wanted to come and do business. We started working through agents, and built competence that way, just doing business using agents." There are several examples of coincidental knowledge of an area from employees that previously worked for other companies in the area or friends that recommend a deal. A small company investing in Africa said that "a former employee was the driving force. He now works in the take-over of the factory."*

The respondent said that other countries in the region were potential, but that they decided on the one they did because one board member had lived there previously. Our research highlights the importance of these non-capital factors and coincidences in the making of an investment. Often companies invest in countries considered to be culturally similar to countries they already have experience in. A telecommunications company responded said:

> *"The establishing in India is done through a subsidiary in England. They have experience in India from as a colony, I suppose. We also found a good partner in India. We would not have entered on our own."*

A high-tech company investing in Brazil said their previous experience from Portugal was important. Language is a motivation for companies to invest in India and Sri Lanka, as English is widely spoken there.

5.4.3 Making the investment

All companies emphasize the importance of doing market and location research before initiating the investment relation. This is seen as vital to a successful FDI. In many cases, the central leadership of the company travels around searching for proper locations and meets with local administrators to negotiate terms. A respondent from a company investing in an African country said they had plenty of knowledge from the country's coastal areas from previous investments, but before they decided to establish a factory in the internal areas of the country where the climate is different, a group of personnel travelled to the area to do technical and cultural investigations:

> *"They [the investigations] have been invaluable. You can never learn everything, you can always stay on and find out new things, but there is no time for that. There will be surprises no matter what."*

A large company expanding investment in China interviewed employees involved or previously involved in the company's established presence as a way of doing research for the new expansion. The same company also commissioned a report from the Norwegian research institute SINTEF prior to the expansion.

The Norwegian government has agencies to aid investments in developing countries, and all that has received this assistance cite it as important in the decision to make the investment. It seems that this financial incentive and adjustment help has convinced many companies to start operating in a developing country. A large company said that the reason Norwegian construction industry established a presence in Africa is due to support from NORAD and their projects. *"NORAD has initiated projects, and the industry followed the money."* Invanor is also cited as a helpful ally to some companies that have received help received help in doing lobbying, finding information. One Norwegian company investing in a South-East Asian country said *"We received good help from the embassy, the Norwegian. We received information on local conditions, good advice and contacts."*

MAKING THE INVESTMENT

-The local knowledge we had was mostly through personal networks. It is critical to be aware of local conditions. We were well prepared. Small company investing in Africa.

- There are many different ways of thinking, and we don't have a monopoly on the correct ways. Small company investing in Brazil.

-Prior knowledge has been vital. We did market research in order to see what possibilities we had. Mid-size company investing in China.

-We pulled in a board member with good knowledge of [African country]. He had been living there for several years and was acquainted. This was very important, or we probably would not have dared to invest. Small company investing in Africa.

-Previous knowledge was very important, especially to be familiar with the business culture which was totally different. It helped us that we had someone that had lived in Brazil and was familiar with the conditions. Small company investing in Brazil.

-When entering a country like China, that is culturally totally different, it is critical to gain knowledge in advance. Large company.

-What is underestimated is the way they do business in China, how they lead organizations, how one relates to authorities and other businesses. Their leadership style is far more authoritarian. Large company.

5.4.4 The use of local competence

All companies report the use of local competence to some degree, both in the establishing of the FDI and in the operation of the investment. However, "competence" was in most interviews taken to mean simply *"workforce competence"*, as one company leader called it. Though in our survey, "competence" signified a technical or theoretical skill or local knowledge useful in the operation of a business, companies that did not use competence in the sense of skills understood the term to include *"workforce competence"*. A company operating in Chile said that the Norwegian management takes care of technical aspects, *"while due to high wage levels at home [in Norway] they [the Chileans] take care of the labour intensive tasks"*.

Very few companies reported using local competence understood as a technical or theoretical skill. A respondent of a company operating in India said the company used a lot of local competence, but when asked whether this competence was in the form of a specific skill, answered that *"they are skilled in their fields, but they don't have much that we don't have"*. Similar experiences were common.

Rather than a technical skill, local competence was often perceived as cultural knowledge or knowledge of local rules and regulations. A company in Brazil said they used *"lots of local competence",* mainly for their knowledge of local regulations. Only the company in Vietnam located there specifically for the technical competence that was available there. One respondent replied to a question on competence flows that they used a lot of local competence, *"we have a lot to learn from them about social commitments"*.

A representative from a large company elaborated and pointed to specific historical politico-economic reasons for the competence level being lower than in the developed world. With the access to the market blocked, there was no technical development and flows of technical skills for the country in question at a time technology was advancing rapidly in the developed world. A representative from a company investing in China said that the country lagged behind in technical skills partly due it its history of being a closed communist regime until recently.

More frequent than relocating to take advantage of local competence was the response that Norwegian companies located in developing countries because the competence that they possessed was lacking in the region. A company reported that they were hired by the American government to build their embassy in an African country due to their specific competence on security issues. They were hired for construction work in Africa by costumers that wanted *"European quality"*.

THE USE OF LOCAL COMPETENCE

-*We use people with competence, it doesn't matter where they come from.* Mid-size company investing in India.

-*Competence is a question of cost, if the competence is there we will use it. But we have done trainings.* Large company in Africa.

-*The management team is Chinese, from the province. There are both advantages and disadvantages with this. The advantage is that there is a greater chance for contingency of personnel. The disadvantage is that we need experience from other environments, from international companies.* Mid-size company investing in China.

-*Their competence is first and foremost the knowledge of their own culture, and that's a competence we take advantage of. Technically they don't have that much to contribute with.* Large company with operations in China.

-*We have had a Norwegian leader before, but locals are better. A Norwegian leader would have shared attention between Sri Lanka and Norway, unless one moved there. Then there would be cultural obstacles. The leader would be accepted, but would not be an insider like a Sri Lankan. I don't have much faith in that model.* Small company investing in Sri Lanka.

-*The people down there are clearly in a position to make better decision that us sitting up here, I'm convinced of that.* Mid-size company.

-*It would be completely wrong of us to employ Norwegians down there.* Mid-sized company.

5.4.5 Investment obstacles

Firms can experience different barriers and obstacles when carrying out an investment in a foreign country. A few of our respondents described vast differences in business and organizational culture. This was cited as a potential source of problems. One respondent described their start-up problems in India:

> *"As with most joint-ventures with Indians it failed. It is probably because of cultural differences. There are many different ways of thinking, and we don't have a monopoly on the correct ways. But when it comes to planning, analysis, budgeting and so forth, that is not their strong side".*

Another company investing in China described differences in decision-making, their experience was that the Chinese were used to a more hierarchical structure than what the Norwegian company preferred. The company aimed to introduce its own leadership styles to its Chinese workers, but modify it to the local context. A large company investing in Central-Asia used a ten-person team to research the political situation in the politically unstable country.

Companies report different experiences with the bureaucracies of the countries they invest in, also within the same countries. In some cases the regulation regime became an obstacle, but in other cases the regulation regime was designed for the investor. A large company investing in China said:

> *"they are very preoccupied with Fortune 500 companies down there, and we are still a Fortune 500 company, and that probably helps".*

Larger companies may receive special treatment. It could also relate to another aspect of China that one respondent described:

> *"China is both centralized and decentralized. Every region has their own set of rules and cities often have rules as well".*

The respondent emphasized that in this situation it is important to have a good relation to authorities and to understand the system.

A large company investing in a Central Asian country experienced that few regulations existed for foreign investors when they arrived, and the government created these regulations in cooperation with them. These regulations have later become standard for other investors in the same country. The same company has experienced high level of corruption in the country, but reports to deal with it by insisting on using official channels.

Others have experienced problems with slow moving bureaucracies and a dense jungle of regulations. One company investing in Brazil reported that they had

> *"…run into a lot of obstacles. There is no accommodation for investors. There are a lot of import regulations supposed to protect Brazilian industry, but I am not sure…" This situation was the opposite in Chile, which one company described as "very investor friendly… It has been very wise of us to invest in Chile. There is little corruption and low risk… There is actually more cultural difference between Norway and Scotland than between Norway and Chile".*

One country reported the problem of not being able to compete for European Union funds, since Norway is not a member. Two companies contracting for governments in Africa report problems because a lack of funds.

> *"We have a contract with the government. But instead of installing 1200 per month, we are installing 300. This is because of the funds in their national budget. We are five years behind schedule".*

As evident, there is a range of different experiences in dealing with authorities. This has something to do with the local conditions in country one deals in of course (there are far more reports of problems in China than in Chile). but also with the way each individual company manages relations to authorities. Companies emphasized that they attempted to use local employees in dealing with the local authorities, such as this mid-size company:

> *"The relation to local authorities goes through our Chilean management. It was an existing factory, so we have stressed that the contact should be through the locals."*

No companies reported problems with local conflicts, apart from two companies both operating in Africa and one in Chile. Both of the cases in Africa had encountered problems with clan chiefs and local leaders that did not receive what the government had promised them. In one instance, a local electrician was kidnapped under the demand that the government installed the electricity they had promised. The company installed the electric infrastructure at its own cost and the electrician was released. The other company said they arranged dinners with clan leaders regularly to avoid conflict. The company operating in Chile had minor problems with a conflict with fishers that felt fish farming impeded their own ability to fish.

The history of Statoil in Azerbaijan is particularly interesting in the context of networking with local authorities. A representative from the company told the story this way:

> *"There were dramatic changes in Azerbaijan at the time we went in, right after the fall of the Soviet Union. I don't have exact numbers, but we are the second largest investor in Azerbaijan. This came as a shock to Norwegian authorities, they are not used to us being that big in another country… Azerbaijan was the major oil producer in the Soviet Union, that is were all the oil came from… We have lots of experience in off-shore, I'd say we are the best in the world… When we were making deals they didn't have any framework of regulations for what types of deals could be done. So our deal structured the regulations for their petroleum sector. I actually did a speech in the national Congress when the deal was to be signed… They have established a petroleum fund after the Norwegian model. Norway with its social-democratic political system is a far more relevant model than the UK or the United States."*

5.5 PERCEIVED EFFECTS OF FOREIGN DIRECT INVESTMENT

5.5.1 Introduction

The spill-over effects from FDI have been widely studied and there exists a large literature on the subject. Regional effect of FDI can be related to job creation, diffusion of technology and competence and networking. Evidence from empirical studies indicates that these spill-over effects vary between regions and sectors. Different countries with different policies and economic factors tend to derive different benefits and costs of FDI. Much of the literature regards FDI as synonymous with regional growth, but FDI can also result in restructuring and destruction of local resources and production capacity, or lower profits for local firms as a consequence of increased competition.

In our discussion we will emphasise firm's perceived effects of their investment. Not surprisingly most of the companies perceived their effects on local development to be positive, and none perceived their effects to be mainly negative. We start the presentation by discussing perceived effect of job creations (5.4.2), followed by a discussion of flow of competence (5.4.3) and networking as effects of FDI (5.4.4). The final section discusses possible negative effects (5.4.5).

5.5.2 Job creation

Fifteen of the 25 companies surveyed immediately brought up employment issues when asked about local effects of their presence. All perceived their effect on the employment situation to have long term positive effect to different degrees. Some brought up indirect employment as well, jobs resulting from subcontracting or the purchase of services. One included here the locals cleaning their offices and maintaining the garden. A respondent representing a company with a presence in China said their 150 jobs were positive in an area with high unemployment, but that the overall effects were minor in a region of 50 million inhabitants. Similar attitudes were found in almost all companies in the survey.

This relates to the relative size of Norwegian business. *"There is Sony, with their 5000 employees, and there we are with our 10"*, one respondent said. *"There is a question of how much a small business can have an effect".*

In general, the literature indicates that greenfield investments are more positive for regional development than mergers/acquisitions (Chapman 2003). This also seems to be the case in our study. A company operating in Africa had reduced the labour stock to one-third since taking over operations, but still defended their operation since they had improved local labour conditions.

> *"Let me emphasize that the people who worked in the factory before had bad prospects in a factory very poorly managed. The people working there now have more secure jobs, the company is growing and they have been given confidence in a way they didn't before".*

Earlier in the interview the respondent mentioned plans to further reduce the labour stock. A company in China also reported to have reduced employment after taking over a factory, a move they considered to have immediate negative effects, but securing long term employment for the workers that remained.

Due to its size in the Azerbaijanian economy and in the development of the petroleum sector, Statoil is particularly interesting in relation to local effects. This is how the representative for the company perceived them:

> "*Azerbaijan just signed a transparency agreement, saying that everything regarding petroleum revenue and the use of it will be open and accessible. I was at the signing in London, so was George Soros. He thought it was very significant that a country like Azerbaijan was a part of this… We haven't had any direct influence on this… BP pushed for it strongly… Norway had more of an influence as a model-country… I think we have had a positive effect. They set up a petroleum fund, just like ours… We have improved the level of education there, in technological skills, we have added a lot there… Imagine how the environment was destroyed under the Soviet Union. We have our standards that we stick to, that are a lot better than what they are*

> *used to… But one should be careful when talking about the effects of Statoils presence, because we are a part of a big cluster of companies and it is difficult to separate the effects from one another.*"

5.5.3 The flow of competence

In general, our survey indicated a low degree of competence flow from the investor to the region. However, there are some examples on flow of competence and ideas. Two companies described experiences of technical competence flows from the developing country to the developed, or of technical skill flows from regional production located in developing countries to other parts of the company's units. These companies described a reversed flow of GIS and matrix skills. Some of their local employees had been trained in Norway, and the focus in those trainings had rather been to increase the competence of the local employees [referred to by some as "transfer of competence."] In other words, competence mostly flows from company to subsidiary in developing country. Most companies described a desire to gradually increase the use of local competence, but it is implied that this concerns competence gained from experience with the subsidiary, and not local competence in the sense of competence flows from the local conditions to the company.

One company operating in Sri Lanka had established scholarships to improve competence locally and to increase recruitment. The respondent said:

> *"There is a good rotation, Sri Lankans are in Norway and Norwegians are in Sri Lanka. Human relations are being built. It was tough in the beginning, but we now have 48 Sri Lankans proud to be part of a Norwegian company."*

Two companies mentioned receiving assistance from NORAD for local training and transfer of technical skills. This assistance has been an incentive to increase the flow of competence from the company to local employees.

In our survey there are also some examples on the transfer of Western business and corporate values to the developing region. This was mainly related to the Chinese investments, and always in positive terms. Norwegian business leaders almost exclusively considered the impact of a transition of Western values to be a benefit to the local business climate and labour conditions. One respondent said they tried to transfer their own values to their employees, but had to adjust them to the local culture. They had the experience that there is high respect for hierarchies, and the company had problems getting employees involved in discussions. *"There are many intelligent people that can improve the company, so we invite discussion".* The company retained their employees longer than normal for other companies, and thought this to be an effect of their new approach to company culture.

One respondent with an FDI in Africa claimed there is no such a thing as a *"Western"* business culture. However, all others discussing the subject associated Western business culture with openness, less hierarchical structure and increased standards in labour and environmental conditions, and perceived their presence to improve local conditions in these aspects.

5.5.4 Networking

Company involvement in local networking is mainly related to subcontracting. Every company that report using subcontractors uses local suppliers to some degree. The companies that appear to not rely on local businesses suppliers are also the largest in the survey, two operating in the petroleum sector and one in the construction sector. The degree to which Norwegian companies rely on formal business networks with the private sector vary, but some are heavily involved locally. One company said they used as many as 100 subcontractors, another used subcontractors only in particular situations, for replacing parts or for repairs. One company involved in Brazil relied on both business and authorities for networking:

"We cooperate both with private businesses and the government, both with small and large suppliers. With the authorities we communicate about standardizations, laws and regulations."

This network involvement was the major aspect in which respondents perceived their company affected the local social, economic and environmental climate.

However, the most general impression we gained from this part of the survey was that the respondents were, with some notable exceptions, not very reflected on their involvement in local networks. A reason for this can be that the respondents of this survey were mainly located in the Norwegian head quarters office of the companies.

NETWORKING

-There is a different environment of foreign companies down there, it is accepted to contact each other to exchange experiences. Large company investing in China.

-The government is an animal with multiple heads. Large company investing in Central Asia.

-Initially a platform is staffed with a Norwegian on top, then some American mid-level bosses, then some locals… It's a melting pot. But I think Malays have worked their way up the system. Large company.

-We make sure to keep our promises. We don't operate with a hidden agenda, but with transparency. This gives us an image as a long-term actor. Large company investing in China.

-We are competing more and more against the Chinese, who we can't underbid. They arrive with the food and everything, and very cheap labour, and we can't compete with that… But we have far better quality. Large company investing in Africa.

5.5.5 Other effects

Four companies reported to have initiated or participated in aid projects separate from their business activities. One cooperated with NORAD on infrastructure, water facilities and health and HIV programs. “These are things people can see,” the respondent said. “That is important. Another supported a project to build orphanages.

In addition, several use routine health checks, educational opportunities and social security arrangements beyond what is required to improve local conditions and indirectly benefit the company.

5.5.6 Negative impacts

As already mentioned, we were not surprised to get the sunshine stories of the positive effects of Norwegian investments. When asked specifically about potential negative effects, most responded that they could not image that there were any, or that they had to “hypothesize” about what negative impacts that could theoretically occur. The most common of these “hypothesized” effects were out-crowding. One mentioned strain on infrastructure, another the similarity to “brain drain” in a situation where the educated locals were employed by a foreign company that primarily exported. As mentioned repeatedly, the purpose of this portion of the study was to survey *perceived* local effects. A number of such are quoted below.

PERCEIVED EFFECTS

-We have a different approach to working conditions, environment and security, and that is contagious. I wouldn't call it moral and ethics exactly, that sounds a bit pompous, but we do think differently around these things. Mid-size company investing in Malaysia.

-It is positive for China to have foreigners there to see how they do things, just like it is positive to have foreigners here. It's about seeing the plurality. Large company operating in China.

-In China there is a very hierarchical style. This yields passive and not innovative employees. This is a major challenge, the most important. Mid-size company.

-To claim that we have a big influence on the poverty situation would be exaggerating. Mid-size Norwegian company investing in Africa.

-We directly employ 50, but the consul says we in reality employ 500. Company investing in Africa.

-We arranged a Christmas Party for the employees in December. We had said we would not do that until we made a profit. We still didn't, but the prognosis were good so we decided to have one… They were incredibly happy about it. Company operating in Africa.

-Forty thousand people get electricity [as a result of our presence], light and TV. That means it is easier to do schoolwork. That makes it easier to communicate HIV/AIDS campaigns and colour TV has a documented effect on birth rates. They are dropping. Small company operating in Africa.

5.6 CONCLUSIONS

In this chapter we have discussed motives for Norwegian controlled FDI in developing countries, the process of FDI-investment, and preliminary regional effects of these investments. We investigated 25 investment projects through interviews with representatives from the respective companies. We found the market access motive to be cited as the most important motive for Norwegian companies to invest in the developing world. There was particularly a reported aim to be a part of high growth in China and India that sparked many investments. The market motive is linked to the efficiency motive, the second most important motive. Lower production costs and other cost advantages were important to investment decisions. Resources were another important motive, rated as the third most important.

The distribution between mergers & acquisitions and greenfield investments were almost evenly distributed. Many investment projects originate as joint ventures, but no respondents cite long successful venture partnerships. Personal connections and experience was important for the location decisions, in addition to the desire to enter attractive markets. The importance of market and location research was stressed by almost all respondents. Technical and skilled local competence was rarely used by investors.

Not surprisingly most or all companies perceived the effects of their investments to be positive for local development. As indicated in theory, our study generally found greenfield investments to be more positive for local development than mergers and acquisitions. There were generally reported low flows of competence from company to the region, but some examples of transmission of “Western corporate culture”, particularly to regions in China. Local subcontracting was usual among investors, and this was perceived to achieve positive effects for local suppliers and employees. Few negative effects were mentioned by the company representatives, but one potential negative effect that was brought up was “out-crowding”.

Based on the data gathered from interviews, and especially the discussion on perceived effects, we regard seven of the investments to be dependency situations, rather than development situations. All of these are merger/acquisitions. The investments are relatively well distributed in regions corresponding to total distribution of investment in region. Africa is slightly overrepresented and China somewhat underrepresented, though there is a weak statistical basis for concluding on a strong tendency. What they have in common is low degree of locals in leadership positions, low degree of competence transfer and no positive local effects beyond maintaining employment.

The remaining investments projects seem to generate development situations to varying degrees. Among these investments there is a majority of greenfield investments. Our findings support the assumption that green field investments are more beneficial for host country than mergers & acquisitions. However, deeper insight in the dynamics of Norwegian FDI in developing countries requires case studies. This challenge is dealt with in the next chapter.

CHAPTER 6
DEVELOPMENT OF CASE STUDIES

6.1 EXPLORING OUTCOMES ON POVERTY REDUCTION OF FDI THROUGH CASE STUDIES

Further advance of the research project will be through case studies of Norwegian FDI within different industries in developing countries. In-depth accounts of the way in which FDI can produce positive and negative economic exchanges that benefit regions and the poor are needed. Through case studies it is possible to unpack processes, relations and effects, and thus outline critical factors for poverty reducing FDI (Yin 1994, Ragin 1994). Intensive case studies stimulate a rich dialogue between ideas and evidence. They open up the opportunity for a flexible design, both regarding research questions and choice of cases, and do not restrict or constrain the examination of evidence. It is also important to stress that the method of intensive case studies forces the researcher to consider their cases as whole entities, and not as a collection of variables. The different conditions that make up a case are understood in relation to each other (Ragin 1987). The generation of analytical principles based on this pilot study and other secondary sources will be linked to case studies. In-depth accounts of the way in which FDI can produce positive economic exchanges that benefit regions and the poor are needed. Our objective is that each of the case studies concerning Norwegian FDI will have a doctoral position tied to them. In the following we point out some potential cases.

6.2 POTENTIAL CASES

6.2.1 Fish farming related FDI in Chile

The Chilean fish farming industry has experienced strong growth during the last decade. From 1990 until 2002, its share of the global production of salmon increase from 8% to 35%. The fish farming in Chile is taking place in the southern part of the country, and especially in the Los Lagos Region. This has traditionally been one of the less developed regions in Chile. Norwegian companies control about one fourth of the production. In addition, Norwegian FDI has been engaged in the supply sector, i.e. producers of equipment and feed for fish farming. In total about 15 Norwegian companies are operating in the industry. We will outline the motives for investing in Chile and the characteristics of the investment process. Further, we will analyse regional effects of these investment, and their influence on poverty.

6.2.2 Petroleum related FDI in Brazil

A large number of Norwegian companies within the petroleum sector are involved with FDI in Brazil. Despite the general agreement among theorists about resource based FDI leading to dependency, the researcher argues that the findings of his earlier research demonstrates that contingent upon local conditions and its content, FDI can lead to development. The study will further investigate these local contingencies in the Macaé region, where local conditions and poverty reduction will be analyzed. The case study will attempt to unravel the processes, relations and effects involved, which will be useful in outlining the critical factors for how to make FDI work as a tool for poverty reduction.

6.2.3 Telecom FDI in Bangladesh

Telenor ASA has over the last decade become an international telecom company operating in a number of countries in and Africa and Asia; as recently as May 2004 the company won a bid for the right to establish a new net in Pakistan. In Bangladesh the company is a majority shareholder in Grameen phone, the other major shareholder being Grameen Telecom which is a subsidiary of Grameen Bank, an internationally recognized microfinance bank. Telenor's engagement in Grameen Phone has been commercially successful. The company is the leading cellular service provider in Bangladesh operating a nationwide, GSM, digital network with over one million subscribers, which is equivalent to a 70% market share. The company indirectly provide jobs for 35.000 people and has become the biggest tax payer in the country. Grameen phone has also become international renowned for their successful Village Phone programme in which poor women are given loans for setting up small village phone services. As of October 2003, there were more than 39,000 Village Phones in operation, providing connectivity to an estimated 30 million people. However to provide connectivity to all, including the urban and rural poor is a formidable task, as Bangladesh has one of the lowest telephone density rates in the world: the estimated telephone penetration rate (fixed line and cellular) is currently only 1.5%. It seems that Telenor engagement in Bangladesh has been commercially sound while at the same time containing explicit poverty focused elements. The study will seek to identify the factors the behind Telenor's apparent commercial and social success in one of the poorest countries of Asia and assess to what extent the experiences from Bangladesh may be transferable to other settings.

6.2.4 FDI in the agricultural sector of Tanzania

Based on the research on the establishment and management of the Sao Hill Sawmill in Tanzania in the 1980's, (Gran 1991, 1993), the privatization of the sawmill and foreign investments in it from 1990 and forward will be investigated with a focus on the contribution to the forestry sector of the country and the effects on indigenous economic, technical/organizational and social development. The mill was purchased by a subsidiary Fjordgløtt in 1998, with the prospect of selling CO2 quotas to Norwegian industry depending on international climate agreements.

6.2.5 Aim of case studies

The aim of these case studies is to gain insights into the relations between FDI and poverty reduction by focusing on:

- Whether Norwegian FDI results in convergence or divergence in organisation, production and rationality (see figure 6.1)
- Whether Norwegian FDI results in Dependency or Development at regional level (se figure 2.2)
- The ways in which interaction between local conditions and different forms of FDI influence poverty (measured by multi-dimensional indicators of poverty), and "participation" of poor in the development process (see figure 2.3)

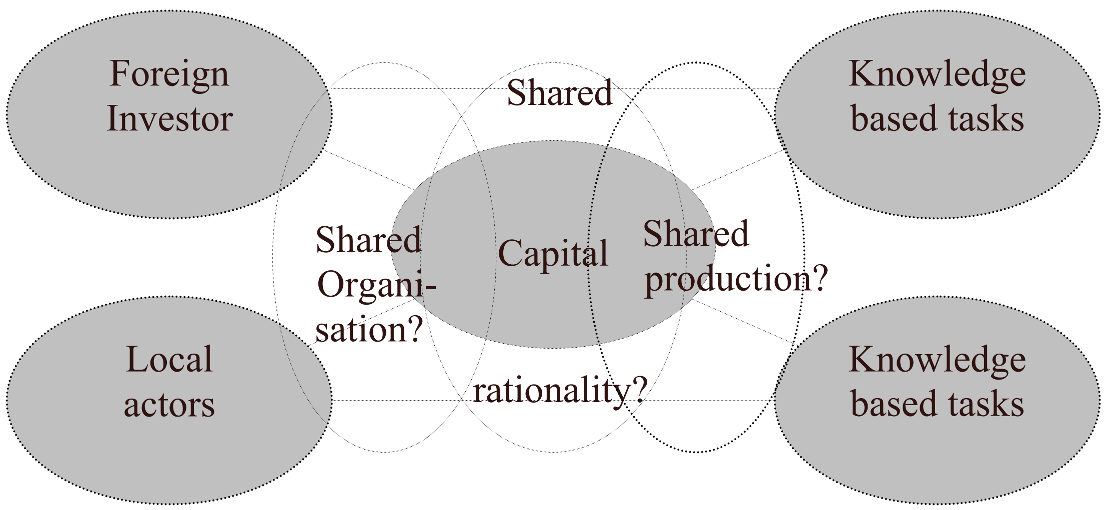

Figure 6.1: Interaction between FDI`s and local conditions. Convergence or divergence in organisation, production and rationality?

CHAPTER 7
CONCLUSION

The position of Foreign Direct Investments (FDI) in the global flow of capital has exploded in the last couple of decades. Although quite small by the standards of developed countries, FDI activity has also increased in developing countries over the last years. The increase in this mode of entry for capital has raised further troubling questions in relation to its costs and benefits for developing countries. At the same time, policy is increasingly centred on the notion that FDI is always beneficial for the receiving economy, and therefore the poverty situation in the country. The FDI literature demonstrates that interactions between FDI and local conditions can be generalised to generate two main types of outcome. The first can be labelled *FDI as development*. This characterises a situation in which there are extensive regional effects of FDI, such as horizontal linkages, increased employment and a transfer of competence. The second outcome can be labelled *FDI as dependency*. This is a situation in which the regional economy is dominated by the FDI, local entrepreneurs are "crowded-out" and there is little transfer of competence.

The FDI literature links *development* as well as *dependency* outcomes to investment motives of the entity making the FDI, but is less clear about what local conditions and type of FDI that generate *development* or *dependency*; and says little about FDI as a tool for poverty reduction. We draw on recent advances in the understandings of both the concept of FDI and poverty. The discussion has demonstrated that in addition to economic capital, FDI can also involve the creation of social networks, knowledge flows and local effects conceptualized as development or dependency. In addition, there has been significant academic progress in redefining the concept of poverty, from a purely econometric standard to a multi-dimensional approach allowing for cultural complexity in how it should be understood. We argue that FDI consists of different mixtures of economic capital, networks and knowledge that, when interacting with given local conditions, can generate both positive and negative changes to the conditions of poverty in a region. It can not be substantiated, however, that FDI will always have a positive effect on a receiving country's poverty situation, when this is measured using multi-dimensional approaches.

We know very little about these dynamics in the case of Norwegian FDI in developing countries. Hence, a first step towards an understanding of the interplay between Norwegian FDI, local conditions and poverty reduction should be based on an overview of Norwegian FDI in developing countries. We have started to map Norwegian FDI in developing countries since 1990. We would also like to study FDI of Norwegian origins in detail through a case-study approach, and have presented some potential cases of interest.

There are few data sources available on Norwegian FDI. We second Torunn Kvinges (FAFO 1996) call for the establishment of an official database of Norwegian FDI. Our mapping was a composite of several sources, which decreased coverage. By comparing our mapping effort country by country with the available data from SSB we found a satisfactory correspondence. While our coverage of total investments is probably low, our coverage of investing companies is probably high. We found that around one tenth of the largest companies in Norway have investments in developing countries, and this figure is doubled for the largest exporting companies.

When reviewing the available statistics on Norwegian FDI it is striking that more than a third of developing country investments go to countries or jurisdictions defined by the OECD as "tax-havens". In the discussion over the assertion that all FDI is good for the receiving economy it is important to note that such a large share of Norwegian FDI are most likely motivated by escaping the Norwegian tax system. The hypothesis that these investments are simply "tax-escapes" is strengthened by the fact that during our survey of Norwegian investments we did not uncover a single "real" investment in any of the countries defined by the OECD as "tax-havens". These investments only surface when reviewing the aggregated data from SSB. We take this as a strengthening of our claim that only FDI of certain characteristics is beneficial to the receiving country.

A review of existing statistics of FDI also reveals the continuously low portion of FDI received by the countries of Africa. This is so both with FDI originating in Norway and the rest of the world. A continent with 13% of the world's population received 0.03% of global FDI flows in 2002. It can be hypothesized that FDI will tend to predominantly yield *dependency* situations in Africa, since the infrastructure and competence level is low, while in South East Asia the infrastructure and competence level is higher and the *development* situation may be more likely. This questions the notion that FDI can be an effective poverty reduction strategy for this region, as it appears that it has been for South-East Asia.

Specific policies are needed to deal with the situation in Africa, either to attract more FDI and regulate its implementation or through strategies other than FDI, for example aid to improve infrastructure and competence level. FDI must be coupled with policy initiatives, such as NORADs initiatives, to avoid dependency outcomes of FDI. Through our interviews several examples of effects of NORAD initiatives and aid having positive effects on investment decisions and outcomes were surfaced. The interviews also revealed that Norwegian corporate leaders exclusively report to perceive the effects of their investments as positive. Local technical competence was not a significant factor in motivating companies to invest in developing countries, and there is little transfer of competence from receiving country to the company making the FDI.

Market access was the highest motivating factor behind Norwegian FDI. The potential effect for developing countries is to further reinforce the wide imbalance of distribution among developing countries. When market access is the determining factor behind investment decisions, there is little hope the countries receiving low levels of FDI today to improve this situation under the current capital flow structure of the global economy, as capital is largely attracted into agglomeration economies. This is another indication that FDI can not be the sole poverty reducing strategy for the African countries. We do not dispute the usefulness of FDI in a "poverty reduction toolkit" as imagined by Klein, Aaron and Hadjimichael (2001), but emphasize that there must be other tools in the kit as well.

It is evident that to employ FDI as a poverty reducing strategy, it is important to be aware that different local conditions and FDI characteristics yield different development/dependency situations. The vast divergence of ability to attract FDI among developing countries show that FDI can not be the sole strategy for poverty reduction for all countries, but must be coupled with policy initiatives and aid. The claim that all FDI is good for all host counties must be abandoned for a more complex understanding of how characteristics of the host country and the FDI have potential effects on development/dependency and poverty situations. As a venue for further study, there is a need for knowledge on what these characteristics are and how policy initiatives can improve the outcome of FDI. This must be established through case studies.

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APPENDIX A: Table of Norwegian Companies with Developing Country FDI

Bedriftens navn	Siste inntekt/res		Poststed	Investering i land/datterselskap
ABB Holding AS	28	-68	Billingstad	Equatorial Guinea, Iran, Kazakhstan, Nigeria NB: Del av internasjonal gruppe.
Aker Kværner AS				Hevder å sysselsette 22000 i mer enn 30 land
Akvasmart	64	-38	Bryne	Etablert i Chile
Arena Chile	67	1	Kolbeinsvik	Etablert i Chile
AS Jiffy Products	8	-2	Kristiansand S	Produksjon av planteutstyr, Kenya
AS Noremco Construction	161	5	Oslo	Datterselskap i Zambia
Atlas Stord Norway AS	65	0	Sandsli	Etablert i Chile, Peru Kun kontoret i Danmark som har kontakt med Peru
Biomar	1267	103	Myre	Fabrikk i Chile
Cflow Fish Handling AS	30	1	Langevåg	Datterselskap/representant i Chile
Dynea ASA	1066	32	Lillestrøm	Datterselskap i Indonesia, Brasil, Kina, Malaysia.
Dyno Nobel AS	539	41	Oslo	Hevder å ha operativer i 35 land i alle verdensdeler
EFD ASA	143	12	Skien	Holding-selskap med datter i India og Kina
Elbil Norge AS	2	-1	Oslo	Fikk støtte fra NORAD til produksjon av el.bil i Kina
Eltek ASA	888	-64	Drammen	Datterselsk/deleid i India
Erling Haug AS	128	0	Trondheim	Datterselskap i Chile (Haug Aqua Chile)
Ewos	2241	96	Bergen	Etablert i Chile
Frank Mohn AS	1858	120	Bergen	Datterselskap i Brasil, Hong Kong, Singapore Kun et lite salgskontor
Glamox ASA Konsern	612	-35	Molde	Datterselskap i Indonesia, Singapore
Hydroenergi Kjell Joa AS	19	1	Gjøvik	Fått støtte fra NORAD til hydro energi power plant, Sri Lanka
Jotun AS	5579	462	Sandefjord	Datterselskap i bl. a Sør-Afrika, Malaysia, Tyrkia, mange andre
Kongsberg Maritime AS	933	2	Horten	Datterselskap i Korea (gjennom K.M Ship Systems), og i Chile (gjennom Simrad)
Koppernæs & Sønner	144	11	Ålesund	Eier Chile Invest AS
Kværneland ASA	90	-20	Kvernaland	Produksjon i 20 land, mottatt støtte til prosjekt i Turkmenistan
Kværner Eureka AS	404	9	Lier	Datterselskap i Brasil (Kvaerner Do Brasil Ltda
Malthus AS	NA	NA	Sandnes	Etablering av selskaper i Bosnia-Herzegovina for salg av forskalingsenheter
Nopco Paper Technology AS	221	40	Drammen	Avdeling i Indonesia
Norbar Minerals AS	100	17	Stavanger	Majoritet i Comabar i Marokko
Norcool	153	-9	Sarpsborg	Datterselskap/deleid i India (produksjon)
Nordic Intertrade AS	984	15	Lier	Datterselskap i Indonesia, Brasil, Tyrkia
Norske Skog	24068	1536	Lysaker	Har mills i Brasil og Chile, driver PanAsia Paper
PolarCirkel	24	-3	Båsmoen	Etablert i Chile
Scana Group	238	0	Jørpeland	Produksjon og salgskontor i Kina
Scancem International ANS	1183	0	Oslo	Datterselskap i Ghana, Bangladesh
Sterner Aquagroup AS	27	1	Ski	Datterselskap/salgskontor i Chile
Storvik AS	85	5	Sunndalsøra	Datterselskap i Chile
Unitor AS	1105	-78	Oslo	Datterselskap i Argentina, Brasil, Sør-Korea, Malaysia, Singapore

Bedriftens navn	Siste inntekt/res		Poststed	Investering i land/datterselskap
Vadheim Groplex AS	16	0	Bergen	Produksjon av keramikk, usikkert om det dreier seg om FDI
NCC International AS	97	-16	Oslo	"Har lenge vært aktiv i Costa Rice og Honduras. I ferd med å avvikle.
Noremco Construction AS	161	5	Oslo	Datterselskap i Zambia
Q-Free ASA	34	8	Trondheim	Datterselskap i Brasil, Kina, Malaysia
Veidekke ASA	11254	315	Oslo	Uganda (bygging av vannkraftverk)
Vianova	47	0	Sandvika	Datterselskap i Vietnam og Thailand
AguaGen	33	-9	Kyrksæterøra	Datterselskap i Chile
Austevoll Havfiske	83	-3	Storebø	Eier Pacific Fisheries, Chile
Cermaq ASA	25	-490	Oslo	Eier Mainstream Salomones SA, Chile
Fjord Seafood	20	-52	Oslo	Fabrikk og salg i Chile
GenoMar ASA	8	-8	Oslo	Oppdrettsvirksomhet i 6 u-land, Joint Venture oppdrett i Kina
Royal Supreme Seafood AS	7	-4	Oslo	Ferskvannsoppdrett, Kina
Stolt Sea Farm	533	-41	Oslo	Etablert i Chile
Triplex AS	91	NA	Averøy	Datterselskap i Chile
Borregaard Industries Lmt. Norge			Sarpsborg	Hevder å ha 20 plants i 13 land i Europa, America, Asia, Afrika
Elkem ASA	120	-2	Oslo	"Konsernet har produksjonsanlegg i Norge, Island, USA, Canada, Brasil og Kina.
Norsk Hydro ASA	2689	-1274	Oslo	NH Aluminium Jamaica AS, NH Angola AS osv
Odfjell Drilling AS	820	93	Bergen	Datterselskap i Brasil, Singapore
Petroleum Geo-Services ASA	386	-242	Lysaker	Datterselskap i Brasil
Smedvig	53	6	Stavanger	Produksjon i Sørøst-Asia
Solenergy AS	0	-3	Høvik	Mottat støtte til solcelle produksjon i Namibia
Statoil ASA	210952	40468	Stavanger	Datterselskap i Azerbaijan, Mexico, Venezuela, Nigeria, Estland, Latvia, Russland.
Aas-Jakobsen	124	10	Oslo	Involvert i Sentral-Amerika gjennom Eksportrådet.
ActivMed Invest AS	0	0	Bergen	Etablering av helsesenter på Sri Lanka
Akvaplan-Niva AS	31	-1	Tromsø	Datterselskap i Qatar, Hellas, Malaysia
Assuranceforeningen Skuld	1583	-85	Oslo	Datterselskap/representant i Hong Kong
Det Norske Veritas	5667	265	Høvik	300 kontorer i 100 land, 5700 ansatte (Nortrade), datterselskaper i Tyrkia, Malaysia.
Inspire AS	5	-8	Høvik	Etablerte Inspire Maroc i 2001
Interconsult International AS	31	-4	Oslo	Etabliert virksomhet i 9 u-land
Norconsult AS	589	25	Sandvika	Datterselskap/kontor i Zambia, Uganda, Thailand, Mozambique, Laos, Tanzania
Norplan	NA	NA	Oslo	"Statlige Norplan... investerer i utviklingsland"
Oceanor	0	0	Trondheim	Datterselskap i Thailand
Viator AS	0	0	Oslo	Mottatt støtte fra NORAD til farmasøytisk produksjon i Nepal
Fred.Olsen & Co.	52	2	Oslo	Etablert i Marokko gjennom joint venture Comarit
Gearbulk Chile	0	0	Bergen	Kontor i Chile, Argentina, Indonesia, Brasil, med mer
Lorentzen & Stemco AS	64	9	Oslo	Datterselskap i Kina

Bedriftens navn	Siste inntekt/res		Poststed	Investering i land/datterselskap
Star Shipping AS	4890	5	Bergen	Datterselskap i Brasil
Wallenius Wilhelmsen	8506	-121	Lysaker	Kontorer i alle verdensdeler
Wilh. Wilhelmsen ASA	94	-165	Lysaker	Datterselskap i Malaysia (gjennom Barber)
Odfjell ASA	6745	577	Bergen	Datterselskap i Brasil
Aalesund Oljekledefabrikk AS	22	4	Vatne	Etablering av produksjon, Thailand
Alpharma	904	38	Oslo	Tilstedeværelse i 27 land, etablert i Chile.NB: Salg i Chile, produksjon i Indonesia.
Grafo Trykkeri	10	0	Stavanger	Mottatt støtte fra U.D. til trykkeri i Eritrea
Hjellegjerdet ASA	20	5	Sykkylven	Produksjon i Thailand
Jordan AS	994	96	Oslo	Eier Jordan de Mexico
JOTO Investments AS	0	-43	Stavanger	Eier 39% av Daiyoo, elektronikkprodusent, Kina
Mustad AS	0,2	-1,9	Oslo	Datterselskaper i Brasil, Dom.Rep, Filipinene, Singapore med mer.
Nera ASA	17	-54	Bergen	Datterselskaper i alle verdensdeler NB: Kun salgskontor.
Norpalm AS	0	0	Kristiansand S	Datterselskap i Ecuador (Palnorec) og i Ghana (Norpalm Ghana Ltd.)
Odin Møbler AS	20	-3	Elverum	Produksjon av møbler, Bosnia-Herzegovina
Scansia			Notodden	Produksjon, Myanmar
Telenor Conax	134	18	Oslo	"Inne i" India, Pakistan, Brasil, Singapore, Kina
Tree Farms AS	1	-11	Asker	Driver treplantasje i Tanzania med formål å selge CO2 kvoter.
Unger Fabrikker AS	306	10	Fredrikstad	Agenter og distributører i alle verdensdeler
Weifa AS	303	17	Oslo	Datterselskap i Malaysia (Scanlab)

APPENDIX B

Intervju-guide

Denne undersøkelsen er en del av et større forskningsprosjekt hvor målet er å få økt kunnskap om norske bedrifter sine investeringer i utviklingsland. Samarbeidende institusjoner er blant andre Universitetet i Bergen, NTNU og SNF (Samfunns- og Næringslivsforskning). Grunntanken er at kunnskap om norske bedrifters erfaringer med investeringer i utviklingsland er viktig for at disse erfaringene skal komme både investor og utviklingsland til gode.

Vi er ute etter å få informasjon om et viktig investeringsprosjekt bedriften har foretatt de siste tre årene, eller det siste betydningsfulle investeringsprosjektet til bedriften.

- ***Informasjon*** **om en utvalgt investering**
  Hvor og når ble denne investeringen gjort?

  Hvor mange ansatte i bedriften var direkte involvert i forarbeidet og gjennomføringen av investeringen?

  Av totalt antall ansatte?

  I hvilken grad har investeringen involvert overføring av personell?

  Hvor mye kapital ble direkte investert?

- ***Motiver*** **og kunnskap om lokale forhold i investeringsfasen**
  Hva var noen av de viktigste årsakene til at bedriften valgte å investere i et utviklingsland?

  -tilgang på råvarer eller naturressurser?
  -tilgang på arbeidskraft eller kostnadsnivå for arbeidskraft?
  -avstand til markedet/ønske om fleksibel organisering av bedriften?
  -lovgivning i det aktuelle landet eller norske støtteordninger?
  -tilgang på kompetanse?
  -andre spesielle faktorer i landet det blir investert i?

  Hvilken kunnskap hadde bedriften om det aktuelle landet på forhånd, hvordan var denne tilegnet?

  Var denne kunnskapen knyttet til spesielle personer i bedriften?

Hadde bedriften tidligere erfaringer med forholdene i landet/regionen?

Hvilke forundersøkelser ble gjort?

Hvor viktig har kunnskap om lokale forhold vært i investeringsprosessen?

Hvorfor valgte bedriften [dette landet] fremfor andre alternativer?

- ***Nettverk* og relasjoner**
  Hvilke type koblinger har bedriften mot næringsaktører i landet/regionen (eks. underleverandører)?

  Hvordan ble disse brukt i investeringsprosessen?

  Hvilke relasjoner er etablert mot nasjonale myndigheter, hvilke rolle spilte myndighetene i investeringsfasen?

  Hvilke hindringer har bedriften møtt i investeringsprosessen?

  Hvilke type krav stiller myndighetene til virksomheten, er det kostnadskrevende å innfri disse kravene (skjema, dokumentasjon m.m. byråkratisering av driften)?

  Hvordan håndteres kulturforskjeller (i hvilken grad et problem, hvordan løses problemet)?

- **Lokal *kompetanse***
  I hvilken grad benyttes lokal kompetanse (kompetanse allerede til stede i landet det investeres i) i bedriftens virke?

  Hvilken type kompetanse dreier det seg om?

  --teknologi

  --arbeidskraftens kompetanse (håndverk),

  --bransjekunnskap,

  --kunnskap om underleverandører,

  -organisasjons/styringsprinsipper

Hvordan brukes denne kompetansen?

Overføres noe av den lokale kompetansen til andre deler av bedriften?

I hvilken grad smitter bedriftens kompetanse i sitt fagfelt over på landet det investeres i?

I hvilken grad benyttes lokale/nasjonale ressurser (personer) i ledelsen av den lokale avdelingen?

Hvor benyttes de eventuelt (leder for datterselskapet, medlem av ledergruppen, prosjektledere m m)?

På hvilken måte er dette fordelaktig for selskapet?

Hvordan kan forholdet mellom mor og datterselskap karakteriseres?

Hvor avhengig eller uavhengig er datterselskapet til å ta avgjørelser, bygge nettverk, ta i bruk lokal kompetanse?

- **Oppfatninger av lokale *effekter* av investeringer**
  Hvordan har investeringene påvirket lokalsamfunnet?

  Hvilken påvirkning har investeringene hatt på fattigdomssituasjonen i lokalsamfunnet?

  Hva er de viktigste positive effektene?
  [nye arbeidsplasser, muligheter for underleverandører, overføring av teknologi, bedring av arbeidsforhold?]

  I hvilken grad finner det sted en overføring av moderne prinsipper for forretningsdrift til den lokale avdelingen og eventuelt til underleverandører?

  Hvordan skjer dette?

  Finner det sted en "opplæring" av underleverandører/samarbeidspartnere (spesifikke kvalitetskrav m m)

  I hvilken grad finner det sted en overføring av norske eller vestlige prinsipper for forretningsdrift (til den lokale avdelingen eller til andre selskaper i området) (større åpenhet i organisasjonen, økt medbestemmelse for de ansatte, økte rettigheter for de ansatte, ansvarliggjøring av de ansatte/ledelsen)?

Har investeringen medført noen ulemper for lokalsamfunnet?
Eventuelt hvilke ulemper? [miljø, utkonkurrering av lokale produsenter?]

Har det oppstått noen konflikter med lokale interessegrupper?

Har bedriften gjort spesifikke tiltak/forhåndsregler for at effektene skal være positive

Hva er erfaringene bedriften gjort seg i forhold til disse tiltakene?