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Foreign direct investments: The BRIC countries and Norway

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by

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Introduction

The present report is part of the EU-funded project COST ACTION IS0905, The Emergence of Southern multinationals and their Impact on Europe. Southern multinationals refer to multinationals from emerging economies.

Traditionally foreign direct investment (FDI) has flowed from advanced developed economies into developed and developing countries. More recently, a new trend has emerged in the pattern of FDI. Outward FDI from emerging economies has begun to increase significantly and has been growing at a faster pace than FDI from the advanced developed world in general. The Action seeks to develop and sustain an international research network to study the impact of this new phenomenon for Europe and its stakeholders.

The goal of the network is to implement a research agenda that will be of value to all stakeholders and policy makers in Europe as they grapple with this facet of globalization. Thus, the main objective of this Action is to develop an enhanced capacity for scholarly analysis of the emergence of Southern multinationals to establish and test empirically their impact on Europe and its stakeholders. Does the impact of Southern multinationals differ from that of multinationals in general, and, if so, why? This knowledge is needed in order to assess existing EU-wide and national policies in relation to this phenomenon and to make policy recommendations.

In this context, the main purpose of this paper is to shed some light on to what extent multinationals from some of the major emerging economies, the so called BRIC countries (Brazil, Russia, India and China), are directly involved with firms in the Norwegian economy. Specific data was commissioned from Statistics Norway in order to provide relevant information.

We do, however, want to place this information on inward FDI from the BRIC countries to Norway into a broader context. Thus, we start by providing some general information on FDI and the BRIC countries concerning the magnitude of outward and inward FDI in these countries, how FDI has developed over time, the relative magnitude of FDI involving the BRIC countries compared to the total level of FDI in the world, and the GDP share of inward and outward FDI for the BRIC countries.

The main focus is nevertheless on the operations of multinationals from the BRIC countries in Norway. This also includes considerations of FDI into these countries from multinationals registered in Norway. Our aim is to provide some basic information as to what extent Norway is directly affected by the operations of Southern multinationals originating in the BRIC countries.

General statistics on FDI in Norway does not provide information on the BRIC countries. The reason is obvious. Inward and outward FDI involving these countries are at a very low level in the case of Norway. Thus, in order to have some relevant data we asked Statistics Norway to provide some special analyses for this study. Before these are presented, we discuss some data on FDI concerning the BRIC countries and compare them to information on developed economies, the world total and Norway, since it is the bilateral relations between the BRIC countries and Norway that are discussed in the paper.

BRIC countries and FDI

FDI is increasing rapidly

Table 1 shows the stock of FDI in Brazil, Russia, India, and China (excluding Hong Kong) in 2000 and 2011. It is the stock of outward FDI that reflects the expansion of multinationals originating in these emerging economies.

The growth column, where the stock of FDI in 2011 is measured relative to the stock in 2000, shows that, in nominal values, the stock of outward FDI for the BRIC countries has increased ten times over just a decade. This is a much higher growth rate than for the stock of inward FDI to these countries in the same period.

It is in particular the stock of outward FDI from India that envisages huge growth rates, however from a very low level. In addition, it is the stock of outward FDI form Russia and China that has grown most substantially in absolute terms.

For India and China, the growth of outward FDI has been much faster than that of inward FDI. The same is true for Russia, but the difference here is not substantial. The growth rate, both with regard to outward and inward FDI, is much lower when it comes to Brazil where, in the same period inward FDI has grown faster than outward FDI. Thus, the notion of rapidly expanding Southern multinationals does not hold true for all the BRIC countries.

The table also shows that the stock of outward FDI is smaller than the stock of inward FDI in each of the BRIC countries. This indicates that despite the emergence of Southern multinationals, emerging economies are still mainly host countries for multinational corporations.

Table 1: The stock of inward and outward FDI in BRIC countries, 2000, and 2011. Million USD and growth from 2000 to 2011.

	FDI inward Stock			FDI outward stock		
	2000	**2011**	**2011/2000**	**2000**	**2011**	**2011/2000**
Brazil	122 250	669 670	5,5	51 946	202 586	3,9
Russia	32 204	457 474	14,2	20 141	362 101	18,0
India	16 339	201 724	12,3	1 733	111 257	64,2
China[1]	193 348	711 802	3,7	27 768	365 981	13,2
Sum BRIC countries	364 141	2 040 670	5,6	101 588	1 041 925	10,3

Source: Annex table I.2 FDI stock by region in *World investment Report 2012 – Towards a New Generation of Investment Policies,* UNCTAD 2012

Playing a minor role in world FDI

For multinationals from BRIC countries to gain a more important role in the world economy, the growth rate of outward FDI from emerging economies should be significantly higher than that for other countries. Table 2 shows the stock of inward and outward FDI and its growth over the period 2000-2011 for the world, for developed economies and for Norway.

Table 2: The stock of inward and outward FDI in Norway, developed economies and the World, 2000 and 2011. Million USD and growth from 2000 to 2011.

	FDI inward Stock			FDI outward stock		
	2000	**2011**	**2011/2000**	**2000**	**2011**	**2011/2000**
Norway	30 265	171 524	4,7	34 026	207 469	6,1
Developed economies	5 653 715	13 055 903	2,3	7 074 435	17 055 964	2,4
World	7 450 022	20 438 199	2,7	7 952 878	21 168 489	2,7

Source: Annex table I.2 FDI stock by region in *World investment Report 2012 – Towards a New Generation of Investment Policies,* UNCTAD 2012

Comparing the growth rates in Tables 1 and 2, it is evident that both outward and inward FDI has grown at a rate well above the world average for all the BRIC countries. However, this is also the case for Norway and several other small, open economies. As for outward FDI,

[1] There are separate figures for Hong Kong, China. These are for the stocks of inward FDI: 455 469 in 2000 and 1 138 365 in 2011. For the stock of outward FDI, they are: 388 380 in 2000 and 1 045 920 in 2011.

growth rates for Norway are at a significantly lower level, than for Russia, India, and China, but still above the growth rate for Brazil.

The growth rate of FDI for all the developed economies is much lower than the world average. This means that the share of outward FDI controlled by companies investing from a country belonging to the group of developed economies is in decline. In 2000, the share was 89 per cent; in 2011, it was 81 per cent. However, as more than 80 per cent of the stock value of the world's FDI is held by companies making FDI investments from a country belonging to the group of developed economies, multinational business is still mostly originating here.

It is a fact, however, that the stock value of FDI held by multinationals from BRIC countries has increased quite rapidly in the same period. Consequently, the share of the world's total FDI that is held by companies investing from one of the BRIC countries is on the rise. Nevertheless, it is still quite low – just below five per cent of FDI in the world in 2011. This is, however, up from just above one per cent in 2000.

FDI is still at relatively low levels

When considering the role of FDI in the economies of different countries, it is relevant to consider the relative magnitude of FDI to the domestic economy. One common measure is to calculate the stock of FDI in percent of GDP. In Table 3 this is done for the BRIC countries, as well as for Norway, for all countries that are regarded as developed economies, and for the world as a whole, for the sake of comparison.

The stock of a country's outward FDI generally reflects activities of multinationals operating from that country. It is quite evident that the share of FDI is much higher in developed economies, and that the share of outward FDI to GDP in all the BRIC countries is well below the world average. The share of outward FDI to GDP has increased considerably in all the BRIC countries except Brazil. However, it is still below ten percent in Brazil, India, and China. The relative growth of outward FDI has been particularly strong in Russia, reaching a share of outward FDI in percentage of GDP up to close to 20 percent. However, this is still only half of the average for all developed economies.

It is further a fact that the relative share of inward FDI measured as the stock value relative to GDP is larger than the stock value of outward FDI in all the four BRIC countries. In India and Russia the stock of inward FDI has also grown relatively fast compared to the growth of outward FDI, and faster than outward FDI for Brazil. Only in China, the relative share of foreign multinationals in the domestic economy is in decline, while the share of outward FDI has more than doubled. Thus, Southern multinationals may be on the rise, but so are the operations of multinationals in general with regard to the BRIC countries.

Table 3: FDI stock in percent of GDP for the BRIC countries, Norway, developed economies and the world, 2000 and 2011.

	Inward FDI		**Outward FDI**	
	2000	2011	2000	2011
Brazil	19,0	27,7	8,1	8,4
Russia	12,4	24,8	7,8	19,7
India	3,5	10,4	0,4	5,7
China	16,2	10,1	2,3	5,2
Norway	18,0	35,9	20,2	43,5
Developed economies	22,2	30,1	28,0	39,4
World	22,7	28,7	24,5	30,0

Source: Web tables 8 and 9 Inward/Outward FDI stock in percent of GDP, www.unctad.org/WIR

FDI from the BRIC countries to Norway

Magnitude

Table 3 shows that foreign direct investments from the BRIC countries to Norway have increased manifold from 2004 to 2011, albeit from very low levels.

Table 3: The stock of FDI from BRIC countries to Norway, 2004-2011. Million NOK.

	BRIC total	Brazil	Russia	India	China
2004	1 249	342	-34	3	938
2005	780	471	-47	1	355
2006	504	420	16	13	55
2007	518	504	2	11	1
2008	2 928	1 158	2	78	1 690
2009	20 511	1 215	7	79	19 210
2010	22 282	621	6	119	21 536
2011	19 430	1 731	27	45	17 627

Source: Special analysis from Statistics Norway

It is also clear that FDI to Norway from Russia and India is almost non-existent. The same is more or less the case for Brazil. For Southern multinationals from these three countries (Russia, India, and Brazil), the trend is that FDI in Norway is nearly non-existent.

Investments from Chinese multinationals in Norway increased rapidly in 2009 and have stayed at the same level since then. This is mainly linked to two large investments. One is the take-over of the Norwegian company Elkem by China National Bluestar, and the other is the operations of Huawei Technologies Ltd in Norway.

As the stock of inward FDI from the BRIC countries is so low, it is evident that the direct impact of multinationals from BRIC countries on Norway's economy is of minor importance. Taken together, the stock of FDI held by multinationals from the BRIC countries makes up just above one percent of inward FDI in Norway.

The composition of inward FDI

FDI is partly registered as the value of equity invested by foreign investors, and partly as the value of debt from these investors. As Figure 1 clearly shows, the engagement of multinationals from all the BRIC countries is made up of considerably more debt than equity when it comes to their operations in Norway.

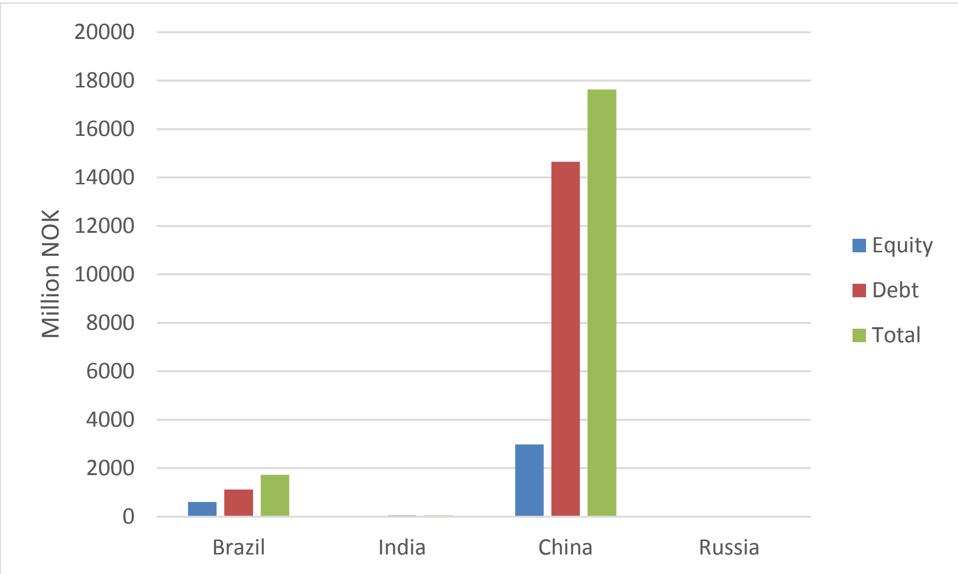

Figure 1: Inward FDI in Norway from Brazil, Russia, India, and China, 2011. Distribution on equity and debt. Million NOK.

On average the multinationals from the BRIC countries differ somewhat from other multinationals in this respect, as total inward FDI in Norway in 2011 was almost split equally between equity (593,553 million NOK) and debt (549,300 million NOK)[2]. This might indicate the use of transfer pricing from multinationals from the BRIC countries. Norway is a high tax country and as a result, multinationals from the BRIC countries may prefer to declare profits in low tax countries, rather than in Norway.

FDI from Norway to the BRIC countries

Magnitude

The operations of multinationals from Norway investing in the BRIC countries started earlier than the operations from multinationals from BRIC countries in Norway. This is evident when comparing the information in Table 4 with that in Table 3. The stock of outward FDI is also slightly higher.

It is also evident that Norwegian multinationals primarily have a presence in Brazil, even though some presence is registered in the other three BRIC countries as well.

Outward FDI from Norway to Russia has been significantly reduced recently. This is, however, might be related with accounting registers rather than real physical investment. For example, Telenor's ownership in VimpelCom is still significant, but the ownership arrangement has been changed via a Tax Haven and is no longer linked directly to Russia. It is unclear whether similar rearrangements of ownership may explain the reduction in the stock of outward FDI to India as well.

Table 4: The stock of FDI from Norway to the BRIC countries, 2004-2011. Million NOK.

	BRIC total	Brazil	Russia	India	China
2004	9 681	4 543	4 038	234	866
2005	18 662	3 767	4 305	118	791
2006	15 081	8 510	4 805	170	1 596
2007	25 109	10 596	13 296	325	892
2008	30 902	9 174	14 049	6 162	1 517
2009	28 730	10 062	11 840	4 941	1 887
2010	20 768	15 547	2 592	497	2 132
2011	26 827	19 368	2 894	1 185	3 380

[2] Statistics Norway.

Source: Special analysis from Statistics Norway

However, outward FDI is in general higher than inward FDI in the case of Norway, with FDI from multinationals investing in the BRIC countries making up less than two percent of Norway's outward FDI. This means that the industrial relations between Norway and the BRIC countries are at a very low level.

The composition of outward FDI

When considering the composition of outward FDI from Norway to the BRIC countries, it is clear that equity is far more important than debt. Figure 2 clearly reveals that Norwegian multinationals operating in the BRIC countries prefer to use equity rather than debt to finance their local activities.

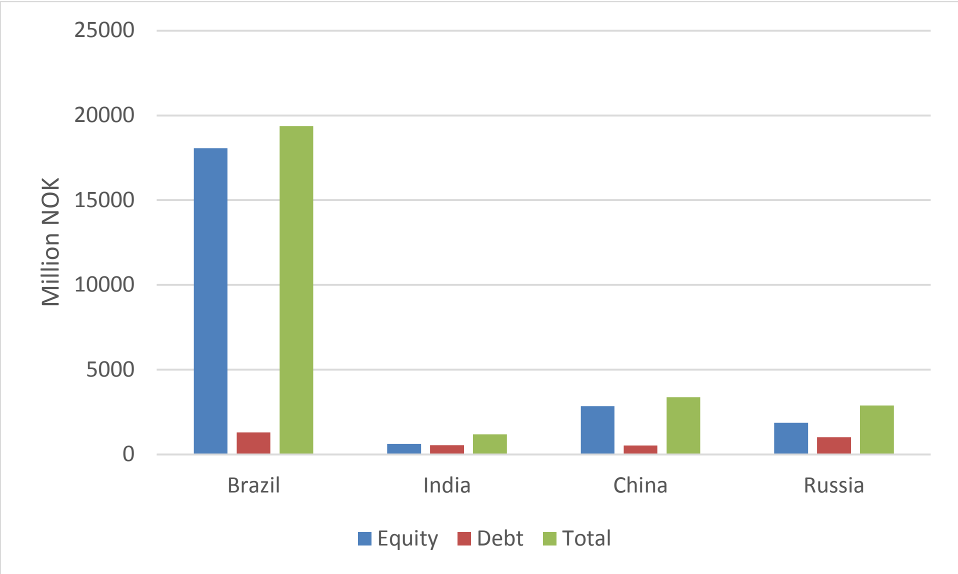

Figure 2: Outward FDI from Norway to Brazil, India, Russia, and China, 2011. Distribution on equity and debt. Million NOK.

This pattern is almost the opposite of the one observed for BRIC countries multinationals investing in Norway. The explanation may be the same in both cases, however, and mirrors different contexts for Norwegian and BRIC country multinationals. The BRIC countries have in general lower tax levels than Norway. Therefore, Norwegian multinationals operating in the BRIC countries may be expected to prefer to report profits in the BRIC countries rather than in Norway, which explains the use of equity. On the other hand, multinationals from the BRIC countries investing in Norway apply in essence exactly the same considerations, which explains the use of debt in their FDI in Norway.

The impact of BRIC country multinationals on Norway

Inward FDI in Norway from the BRIC countries is a measure of the direct relationship between multinationals from BRIC countries and Norwegian interests. The larger these investments are, the more significant impact may be expected. Data clearly illustrates that FDI from the BRIC countries into the Norwegian economy is very small.

It is in fact just a couple of larger investments from Chinese multinationals that really count. One is an acquisition of a Norwegian firm; the other is a green-field investment. So far, there is no evidence that any of them operate differently from other multinationals in the Norwegian economy. Thus, despite the limited experience of Norway with regard to Southern multinationals, it may be worth noticing that there is no indication that the impact of Southern multinationals in the Norwegian economy differs from the impact that can be expected from foreign multinationals in general.

The other way firms operating in Norway may interact directly with Southern multinationals is through outward investments in the home countries of the multinationals. However, such investments by Norwegian firms in the BRIC countries are also quite small, and just a little larger than the magnitude of inward FDI from multinationals of these countries.

Data on FDI does not establish any direct relationship from which the operations of Southern multinationals may be expected to have significant impact on the Norwegian economy or society. However, FDI is not necessarily registered as capital flows between the countries in question. Investments may be channeled through units located in other countries (such as tax havens), and may hence not be taken into account when bilateral investment flows are considered. As already mentioned, this is the major explanation for the reduction of outward FDI from Norway to Russia.

Telenor, which is the major telecom company in Norway and a large international player in mobile telecommunication, used to have a direct ownership interest in the Russian company VimpelCom. In 2009, however, VimpelCom was reorganized. This meant that the company was incorporated in Bermuda, and that the headquarters was located to the Netherlands. Operations continued as before and covered Russia and several of the former Soviet Republics in addition to Italy. As Telenor owns close to 40% of VimpelCom, this is an FDI in a company, which in reality is Russian, but which, according to FDI statistics, is registered in a tax haven.

Through this minority interest, Telenor is exposed to business operations in countries with rather different and quite often inferior institutions regulating market-based activities. In particular, with regard to the operations in Uzbekistan, the media has focused on irregular business activities, such as corruption. So far, these accusations are not proven, but some transactions are suspicious. This indicates that Southern multinationals may have other business traditions and standards, or that conducting business in emerging economies may clearly challenge what are generally regarded as sound business practices and standards.

Conclusions

Southern multinationals are gaining increased attention. The ongoing COST-action is explicitly addressing the impacts of Southern multinationals, paying particular attention to multinationals from the BRIC countries.

As is shown in this working paper, multinationals from the BRIC countries have become more prominent in the world economy in the last decade. This is in particular the case for Chinese and Russian multinationals. However, these multinationals from China and Russia still represent a small share of the world's multinational investments.

In Norway, the trend with regard to BRIC multinationals is somewhat different to the trend in the rest of the world. Not only do investments of BRIC country multinationals in Norway represent a small share of total foreign investment in Norway, but also, with the exception of two large investments of Chinese multinationals, they have not gained importance in the last decade.

The difference between Norway and the rest of the developed world is, we believe, mainly due to the fact that Norway is not a member of the European Union. Thus, Southern multinationals that want to approach the European market, are more likely to choose a location within the EU rather than locate their European investments to an "outsider" country such as Norway.

Another explanation may be differences in macro-economic conditions between Norway and most other developed economies. Norway was one of the few developed countries that were not deeply affected by the world financial crisis. As a result, contrary to other countries, the price of firm acquisitions in Norway is still high. Banks and firms in Norway have so far not experienced problems with cash flows and financing of their activities, and therefore, have not needed to recur to selling off assets.

In terms of the mode of financing by multinationals from BRIC countries and Norway, we have observed two opposite patterns. Multinationals from the BRIC countries prefer the use of debt rather than equity to finance their activities in Norway, while Norwegian multinationals operating in the BRIC countries prefer the use of equity. Both patterns are consistent with the use of transfer pricing to manipulate profits obtained by subsidiaries in the host countries, since Norway is a high tax country.

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