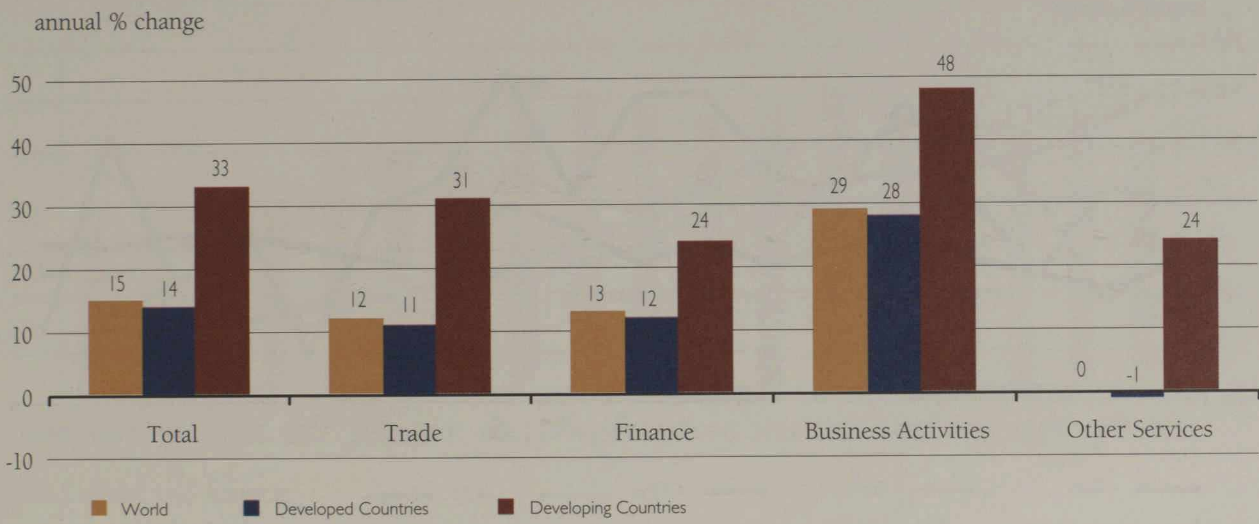
FIGURE 4
Growth rates of outward FDI stock in services by sub-sector



Source: UNCTAD WIR 2007

the fastest annual average growth in FDI stock over 1990-2005 (Figure 4). These three categories dominated FDI stocks in services, accounting for 72 percent of the total in 1990 and 80 percent in 2005. However, FDI stock in business activities has risen at the expenses of all other categories. For instance, it went from a share of 7 percent in 1990 to 34 percent in 2005 for developed countries, and from 11 percent to 55 percent for developing countries over the same period.

Greenfield investment versus mergers and acquisitions (M&As)

M&As have surpassed greenfield investment as the most common form of FDI. According to UNCTAD data, the value of cross-border M&As reached US$880.5 billion in 2006, which was equivalent to more than 72 percent of total outflows in that year. Speed and access to proprietary assets are the two most important factors in explaining why firms increasingly prefer to invest abroad via M&As rather than through the establishment of new operations. Establishing or buying a presence in a foreign market is often a quicker route to market entry than traditional exporting. This is particularly true of mergers and acquisitions, through which firms can quickly access new market opportunities and develop critical mass without adding additional capacity to an industry. Taking over an existing foreign company often provides immediate access to an existing network of suppliers, clients, and distribution channels. Shorter product life cycles make it necessary for firms to respond quickly to opportunities in their competitive environment. The second factor — the quest for strategic assets — refers to the need for companies to acquire proprietary R&D or technical know-how, patents, brand names, local permits and licences, and supplier or distribution networks. Ready-made access to proprietary assets through M&As can be important because, by definition, they are not available elsewhere in the market and they take time to develop.

Greenfield investment is usually the optimal choice for foreign market entry if there are no adequate take-over targets in the host country. Hence, greenfield investment has been the dominant form of market entry in developing or emerging economies. Also, firms may prefer greenfield investment even when there are takeover targets if the cost of