

Glossary

Behavioral incentives. Investment incentives intended to encourage certain investor behaviors, such as hiring local staff, investing in innovation, or using local suppliers to establish linkages.

Bilateral investment treaty. An agreement between two countries establishing the terms and conditions for private investment by an entity of one country in another country.

Competition effects. Competition between foreign firms and domestic firms that can lead to firms improving efficiency and upgrading production processes.

Demonstration effects. A type of spillover from FDI to the host economy in which domestic firms increase productivity by replicating foreign technologies or managerial practices either through observation or by hiring workers trained by foreign firms.

Developed countries. Developed countries refer to high-income countries as defined in this text.

Developing countries. Developing countries include low-, lower-middle-, and upper-middle-income countries as defined in the text. For the chapter on outward foreign direct investment (OFDI), these economies are classified according to the income category for 1995 and remain in the developing category even if they eventually surpass the high-income threshold in later years. They include Argentina, Chile, Croatia, Czech Republic, Estonia, Equatorial Guinea, Greece, Hungary, Latvia, Lithuania, Mauritius, Oman, Poland, the Russian Federation, Saudi Arabia, Slovak Republic, Slovenia, Trinidad and Tobago, Uruguay, and República Bolivariana de Venezuela.

Doing Business. This WBG project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. Launched in 2002, the project looks at domestic small and medium-sized companies and measures the regulations applicable to them throughout their life cycle.

East Asia and Pacific (EAP). The World Bank Group (WBG) region that includes the economies of American Samoa, Australia, Brunei Darussalam, Cambodia, China, Fiji, French

Polynesia, Guam, Hong Kong SAR China, Indonesia, Japan, Kiribati, the Democratic People's Republic of Korea, the Republic of Korea, Lao People's Democratic Republic, Macao SAR China, Malaysia, the Marshall Islands, the Federated States of Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, New Zealand, Northern Mariana Islands, Palau, the Philippines, Samoa, Singapore, the Solomon Islands, Taiwan China, Thailand, Timor-Leste, Papua New Guinea, Tonga, Tuvalu, Vanuatu, and Vietnam. For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Efficiency-seeking FDI. One of the four motivations for FDI, efficiency-seeking FDI is when investors seek to increase cost efficiency of production by taking advantage of location-specific factors. These investors are also known as "cost-competitive investors." In this report and the Global Investment Competitiveness (GIC) survey, they are respondents who identified "lower production costs" or "establish a new base for exports" as a motivation to invest.

Enterprise Survey. A firm-level survey conducted by the WBG of a representative sample of an economy's private sector. The survey covers a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. Since 2002, the WBG has collected this data via face-to-face interviews with top managers and business owners in more than 155,000 companies in 148 economies.

Europe and Central Asia (ECA). WBG region that includes the economies of Albania, Andorra, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Channel Islands, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Faroe Islands, Finland, France, Georgia, Germany, Gibraltar, Greece, Greenland, Hungary, Iceland, Ireland, Isle of Man, Italy, Kazakhstan, Kosovo, Kyrgyz Republic, Latvia, Liechtenstein, Lithuania, Luxembourg, the former Yugoslav Republic of Macedonia, Moldova, Monaco, Montenegro, the Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, San Marino, Serbia, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, the United Kingdom, and Uzbekistan. For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Export share by sector. Calculated as non-host country sales divided by total sales based on the U.S. Bureau of Economic Analysis (BEA).

FDI inflow. All liabilities and assets transferred between resident direct investment enterprises and their direct investors into the reporting economy for the reporting period, usually for one year.

FDI outflow. All liabilities and assets transferred outward between resident direct investors and their direct investment enterprises away from the reporting economy for the reporting period, usually for one year.

FDI spillover. The impact of foreign firms' presence on domestic firms' economic performance. Positive FDI spillovers indicate that domestic firms acquire foreign technology and frontier knowledge through direct and indirect interactions with MNCs.

FDI stock. According to the Organisation for Economic Co-operation and Development (OECD), FDI stock measures total direct investment at a given point in time, usually at the end of a quarter or of a year. It represents the value of the resident investors' equity in and net loans to enterprises resident in the reporting economy.

Foreign affiliates. Generic term to describe various types of entities that a foreign investment might take. Affiliates may be subsidiaries, branches, or any other enterprise resident in a host country that is controlled by a nonresident institutional unit.

Foreign direct investment (FDI). According to the International Monetary Fund (IMF), FDI is a category of international investment made by a resident entity in one economy with the goal of establishing a lasting interest in an enterprise, resident in an economy other than the investor's. A lasting interest refers to the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Components of FDI include equity, intra-company debt, and reinvested earnings.

Fragile and conflict-affected situations (FCS). Group of economies that have either a harmonized average Country Policy and Institutional Assessment (CPIA) country rating of 3.2 or less; or the presence of a United Nations or regional peacekeeping or peace-building mission during the past three years. The group of countries includes IDA-eligible countries and nonmember or inactive territories or countries without CPIA data. For fiscal year 2017, FCS include the following states and territories: Afghanistan, Burundi, Central African Republic, Chad, Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Djibouti, Eritrea, The Gambia, Guinea-Bissau, Haiti, Iraq, Kiribati, Kosovo, Lebanon, Liberia, Libya, Madagascar, Mali, the Marshall Islands, the Federated States of Micronesia, Myanmar, Papua New Guinea, Sierra Leone, the Solomon Islands, Somalia, South Sudan, Sudan, the Syrian Arab Republic, Togo, Tuvalu, West Bank and Gaza, the Republic of Yemen, and Zimbabwe.

Government effectiveness. Part of the WBG's Worldwide Governance Indicators, government effectiveness is an aggregate indicator that reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Global value chains (GVCs). International fragmentation of production where a single finished product results from manufacturing and assembly in multiple countries, with each step in the process adding value to the end product.

Gravity model. Economic model used to estimate bilateral effects between two geographic points, based usually on economic sizes and distance between the two locations.

Greenfield. Investment in which the investor builds its business operations from the ground up. In this report, greenfield refers to a mode of entry for FDI, where a foreign investor builds its operations in a host economy.

Herfindahl–Hirschmann Index (HHI). A measure of market concentration. In this report, the HHI for geographic concentration is defined as the sum of the squares of all countries' shares in the total number of FDI projects for a given sector. It would hence take the value of 1 in a hypothetical case where all FDI projects in a given sector went to one country. As the scale approaches 0, FDI projects are more dispersed among countries and the sector less geographically concentrated.

High-income countries. For fiscal year 2017, high-income economies are defined as those with a GNI per capita of \$12,476 or more in 2015. For the chapter on OFDI, in 1995, these countries are defined as those with a gross national income (GNI) per capita of \$9,386 or more.

High-growth firms. Firms that have a disproportionately large role in job creation in the economy.

Home economy. Country of origin of the foreign investment.

Horizontal FDI. Investment abroad by a company in the same industry in which the company operates in in the home economy.

Host economy. Country that receives the foreign investment.

International investment agreement (IIA). A type of treaty between states that addresses issues on cross-border investments. IIAs exist in three levels: bilateral (such as bilateral investment treaties), regional or preferential (such as regional customs unions and free trade areas or preferential trade agreements), and multilateral (such as applicable rules in World Trade Organization agreements and other international investment conventions).

Investment incentives. Measurable economic advantages that governments offer to specific enterprises or groups of enterprises with the goal of steering investments into preferred sectors or locations. These benefits can be fiscal (for example, tax concessions) or nonfiscal (for example, loans or rebates).

Investment protection guarantees. Guarantee or insurance provided for by law, government, multilateral agency, or any party for an investment made.

Investment promotion agency (IPA). Government agency or nonprofit organization whose job is to attract investment to the host economy.

Knowledge effects. Acquisition of knowledge, through FDI, either directly by the investor or investee firm, or indirectly through spillovers to other firms. Knowledge can take the form of technology, production techniques, or management skills.

Knowledge-seeking FDI. Type of FDI that aims to augment firm-specific advantage owned by the investor to improve its competitiveness by acquiring new knowledge. All knowledge-seeking FDI is strategic asset-seeking but not all strategic asset-seeking is knowledge-seeking.

Latin America and the Caribbean (LAC). WBG region that includes the economies of Antigua and Barbuda, Argentina, Aruba, The Bahamas, Barbados, Belize, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Curaçao, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Sint Maarten (Dutch part), St. Kitts and Nevis, St. Lucia, St. Martin (French part), St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, Uruguay, República Bolivariana de Venezuela, and Virgin Islands (U.S.). For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Linkages. The transmission of foreign knowledge and practices that may improve the production capabilities of domestic suppliers, as a result of contractual arrangements between local suppliers and multinational corporations.

Locational incentives. Investment incentives that are intended to influence the location decision of the investors.

Low-income countries. For fiscal year 2017, low-income economies are defined as those with a GNI per capita of \$1,025 or less in 2015. For the chapter on OFDI, in 1995, these economies are defined as those with a GNI per capita of \$765 or less.

Lower-middle-income countries. For fiscal year 2017, lower-middle-income economies are defined as those with a GNI per capita between \$1,026 and \$4,035 in 2015. For the chapter on OFDI, in 1995, these economies are defined as those with a GNI per capita between \$766 and \$3,035.

Manufacturing. Economic sector that produces goods.

Market-seeking FDI. A motivation for FDI in which the investor seeks to access domestic markets by supplying goods and services to the host economy.

Mergers and acquisitions (M&A). Transactions that result in the consolidation of companies or assets. In this report, M&A are FDI by nature, where the purchasing entity is a foreign investor that acquires the assets of a local firm.

Middle East and North Africa (MENA). WBG region that includes the economies of Algeria, Bahrain, Djibouti, the Arab Republic of Egypt, Islamic Republic of Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Tunisia, the United Arab Emirates, West Bank and Gaza, and the Republic of Yemen. For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Multinational corporation (MNC). A corporation that has operations in more than one country and usually has a centralized head office which coordinates global management.

Natural resource-seeking FDI. A motivation for FDI in which investors seek to access natural resources—such as oil and gas, mining and minerals, water or solar power—in the host economy.

North America. WBG region that includes the economies of Bermuda, Canada, and the United States.

Outward FDI (OFDI). FDI from the perspective of the home economy. This is in contrast to FDI, which is from the perspective of the host economy. See entry for FDI.

Parent company. Institutional unit that owns enough interest in another firm to manage or operate the firm.

Postconflict countries. For this report, postconflict countries include the subgroup of FCS where conflict has occurred since 1990. In addition to the official list, 11 other countries include Algeria, Colombia, Ethiopia, Guatemala, Mozambique, Nicaragua, Peru, Rwanda, Sri Lanka, Uganda, and Ukraine.

Preferential margin. The difference between the standard corporate income tax rate and the preferential rate granted as an incentive.

Preferential trade agreement. A trading bloc that gives special treatment to participating entities.

Primary. Economic sector that uses natural resources including farming, mining, and fishing.

Reinvested earnings. Net earnings not paid out as dividends but retained by the firm for reinvestment in its business operations in the host country.

Scale effects. Average cost per unit decreases when production increases.

Services. Economic sector that produces nongoods, including financial services and retail services.

South Asia. WBG region that includes the economies of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Strategic asset-seeking FDI. A motivation for FDI in which investors seek to control firm or country-specific asset including brand, distribution network, or supply chain.

Sub-Saharan Africa (SSA). WBG region that includes the economies of Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, the Democratic Republic of Congo, the Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, the Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. For the purposes of this report, the countries surveyed for the region may be a smaller subset of the actual regional grouping.

Tax holiday. Temporary complete removal of a tax granted to a specific firm or group of firms by a government.

The World Economic Forum's (WEF) Executive Opinion Survey. Conducted by the WEF, this survey captures information on a broad range of socioeconomic topics from executives across the world. In 2016, more than 13,000 responses in more than 130 countries were collected.

Upper-middle-income countries. For fiscal year 2017, upper-middle-income economies are defined as those with a GNI per capita between \$4,036 and \$12,475 in 2015. For the chapter on OFDI, in 1995, these economies are defined as those with a GNI per capita between \$3,036 and \$9,385.

Vertical FDI. Investment in an industry that produces inputs for the firms' operations, and is often used to offshore immediate production steps to locations with lower costs.

World Bank Group (WBG). Institutions that constitute the WBG include International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Centre for Settlement of Investment Disputes (ICSID), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA).

ECO-AUDIT

Environmental Benefits Statement

The World Bank Group is committed to reducing its environmental footprint. In support of this commitment, we leverage electronic publishing options and print-on-demand technology, which is located in regional hubs worldwide. Together, these initiatives enable print runs to be lowered and shipping distances decreased, resulting in reduced paper consumption, chemical use, greenhouse gas emissions, and waste.

We follow the recommended standards for paper use set by the Green Press Initiative. The majority of our books are printed on Forest Stewardship Council (FSC)–certified paper, with nearly all containing 50–100 percent recycled content. The recycled fiber in our book paper is either unbleached or bleached using totally chlorine-free (TCF), processed chlorine-free (PCF), or enhanced elemental chlorine-free (EECF) processes.

More information about the Bank’s environmental philosophy can be found at <http://www.worldbank.org/corporateresponsibility>.

