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**FDI INFLOWS AND OUTFLOWS: A COMPARISON OF THE  
NETHERLANDS AND SWITZERLAND**

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## **LIST OF ABBREVIATIONS**

**BMD4** - Benchmark Definition of Foreign Direct Investment – 4th Edition

**CHF** - Swiss Franc

**ECB** – European Central Bank

**EIB** - European Investment Bank

**FDIs** – Foreign Direct Investments

**GDP** – Gross Domestic Product

**GVCs** – Global Value Chains

**IMF** – International Monetary Fund

**MNC** – Multinational Corporation

**OECD** - Organisation for Economic Co-operation and Development

sl. - slovensko

**SPE** – Special Purpose Entities

**UNCTAD** - United Nations Conference on Trade and Development

**USD** – United States dollar



## INTRODUCTION

With the rapid increase of the foreign direct investments (From now on written as FDI) activity from the 1980s onwards, FDIs have become an increasingly important factor when determining the economic well-being of its target country (Hogenbirk & Narula, 2000). The inward oriented direct investment flows are mostly measured to give the government and policy makers an insight into correlation between the FDI and the country's economic growth. Nevertheless, in the past decade, researchers have failed to provide a solid evidence that would indicate a hard correlation between the two. Moreover, the evidence is even harder to acquire when we are looking at the developed western countries that represent the majority of the FDI inflow destinations (Economic and Social Council, 2008).

Looking at the last five years, the period from 2015 to 2020, we can observe a significant up and down movement in the overall FDI volume, especially in the inward oriented FDI flows. Based on the OECD report from 2015, the global FDI inflows hit a record high of 1.73 trillion USD which was the highest value recorded since 2007, just before the global recession in 2008 (OECD, 2016b). In comparison with the previous year of 2014, the initial rise of 25 percent in FDI can be mostly attributed to the increase in the FDI inflows in Ireland, United States, the Netherlands, and Switzerland. Moreover, global FDI inflows hit another record high of 2.2 trillion USD in 2016 just before a significant drop of 21 percent in 2017. On the side of FDI outflows, OECD recorded a consistent fall of the FDI volume from 1.7 trillion USD in 2015 and reaching 1 trillion USD in 2019 (OECD, 2021b). Furthermore, in the last 5 years Europe recorded higher volume of inward and outward oriented FDI flows in comparison with the U.S. Countries all over the world strive to achieve the status of the best target destination for the foreign investments and there is no surprise that the Netherlands and Switzerland consistently rank at the top of the leader boards not only for the FDI outflows, but for the FDI inflows as well (Damgaard & Elkjaer, 2017; OECD, 2021b).

Unsurprisingly both countries rank 4<sup>th</sup> and 5<sup>th</sup> respectively in the Global Competitiveness Index 4.0 2019 Rankings, which is often an excellent representor of the country's attractiveness for the investor's capital. The Netherlands ranked 4<sup>th</sup> globally in the Global Competitiveness Index and consequently overtook Germany as the most competitive country in Europe. The country excels in macroeconomic stability, health system and infrastructure quality. Moreover, the Netherlands can also be praised for its highly skilled workforce and investor's friendly regulation, including low tax rates that contributed turning the country into an investment tax haven and an excellent destination for foreign direct investments (Damgaard, Elkjaer, & Johannesen, IMF, 2019a; World Economic Forum, 2019).

On the other hand, Switzerland ranked 5<sup>th</sup> overall and second in Europe in the Global Competitiveness Index just behind the Netherlands. The country excels in many sectors and

is placed first for the most appearances in the top 10 of eight competitiveness ranking pillars<sup>1</sup>. In comparison with the Netherlands, Switzerland is significantly more focused on the financial markets, but also heavily investing into innovativeness and human capital. Consequently, the country's GDP per capita is ranked as one of the highest in the world. Nevertheless, Switzerland lack in terms of domestic market efficiency mostly due to the high trade barriers which can be a crucial determinant for the FDI. Additionally, Switzerland can boast with their tight regulation and numerous foreign trade agreements that represent a favourable climate for potential foreign investors (Büthe & Milner, 2008; Medvedev, 2012; World Economic Forum, 2019).

This thesis will not only thoroughly compare the observed countries as two of the best locations for the FDI, but also compare them as countries that produce a significant amount of FDI outflow themselves. On the level with the globally leading countries like U.S., China, and Germany, both of the observed countries consistently maintain the FDI outflow volume in order to gain the benefits of positive FDI outflow determinants. Despite both countries being historic investing partners, with each of the countries heavily investing into each other's market, they are also competing for the global FDI inflows. The comparison can be done on many different levels with various factors and FDI determinants such as macro-economic climate, investment regulation, corporate tax rate, quality of the domestic workforce, comparison of domestic currency, FDI outflow destinations, domestic sector segmentation, etc. On the quantitative level, the thesis will not only compare the segmentation of the FDI inflows and outflows, but also the FDI volume throughout the last decade (OECD, 2020a).

Lastly the thesis will explore the theoretical aspect of the FDI and its recent modern development. Despite the numerous researchers confirming that there is no direct correlation between growth and FDI, the foreign direct investments still represent an important source of capital that can greatly benefit the host country. Due to the nature of the observed countries, the thesis will put larger focus on the evaluation of the FDI's impact and potential positive determinants in the developed countries (Borrmann, 2003). Moreover, the thesis will build upon the FDI theory foundation and investigate the global FDI flows on top of which the comparison between the Netherlands and Switzerland can be done.

The main purpose of the master thesis is to compare the differences in the FDI inflows and outflows of the Netherlands and Switzerland as well as to determine which factors make both selected countries a prominent destination for the FDI inflows as well as countries that are important source of the FDI outflows. Moreover, the thesis will investigate the FDI

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<sup>1</sup> There are 12 competitiveness ranking pillars: institutions, appropriate infrastructure, stable macroeconomic framework, good health and primary education, higher education and training, efficient goods markets, efficient labor markets, developed financial markets, ability to harness existing technology, market size—both domestic and international, production of new and different goods using the most sophisticated production processes and innovation.



theory and the potential FDI inflows and FDI outflows determinants. Furthermore, the thesis will try to determine the volume and structural characteristics of the global FDI.

More specific objectives of the master thesis are the following ones:

- To compare the FDI inflows and outflows from the two countries under consideration by volume and structure
- To discuss factors that contribute to the success of the two countries with respect to their inward and outward FDI
- To analyse key factors that differentiate the two countries from the global FDI competition
- To determine if there is any correlation between the macro-economic factors of the two countries and their FDI inflows and outflows

Based on the stated purpose, and more specific objectives of the thesis, I have identified four research questions that the master thesis will try to answer.

Q1: What are the main factors that contribute to the Netherlands' and Switzerland's success with the FDI inflows and outflows and what are the main difference between the two countries in this respect?

Q2: Which macro-economic factors are being taken by the Netherlands and Switzerland as an advantage to secure a strategic position in terms of the FDI inflows and outflows?

Q3: How does the FDI success of the Netherlands and Switzerland compare to the global competition?

Q4: What is the impact and importance of the FDI on the developed countries?

To answer my research questions, the thesis will use theoretical research methods with the addition of data analysis using data from various databases such as OECD, Eurostat, and IMF database. In the theoretical part, the thesis will rely on the scientific and professional literature. Furthermore, using the method of description and evaluation, the thesis will try to form a complete overlook of the FDI, its impact and the comparison between the two selected countries. Additionally, the analysis of the data will provide the quantitative support that will serve as a concrete foundation for answering the research question.

The thesis will be divided into three main chapters with additional subchapters to support them. In the first chapter the thesis will lay down the theoretical foundation of the FDI that will allow us to better understand the theoretical background and consequently focus on the question of the FDI's impact and potential FDI inflow and outflow determinants. Furthermore, the first chapter will be a good foundation on which the second chapter can build upon. In the second chapter we will focus on the comparison of the global FDI inflows and outflows volume and structural characteristics. Related to this topic, we will try to

determine the future trends of the global FDI. Lastly, in the third chapter the comparison of the FDI inflows and outflows between the Netherlands and Switzerland will be made. Moreover, the chapter will evaluate specific determinants for each country and the structure of the FDI flows. To support the comparison, a detailed table of the key findings will be presented. Results and additional discussion will be represented in the conclusion to support the main three chapters and answer on predetermined research questions.

The master thesis will not only provide an interesting insight into the topic of FDI, but it will also look at the matter from a different perspective, due to the main focus being put on the FDI in developed countries. Moreover, choosing the Netherlands and Switzerland as observed target countries gives a unique opportunity to touch upon the FDI activities from multinational enterprises and their designated special purpose entities. In addition, strong theoretical foundation, global FDI volume and structure comparison, rising importance of the FDI at the global scale, and detailed comparison of the two of the most competitive countries in the world should result in interesting outcomes that will provide needed insight into the topic and provide additional value for any potential individual investor, company, or academic researcher.

## **1 THEORETICAL BACKGROUND**

### **1.1 Concept of Foreign Direct Investment**

The Foreign Direct Investment, more known as an abbreviation FDI<sup>2</sup>, is an economical phenomenon that represents an investment made by an individual or a company that was made in another country that differs from the investor's origin. The main difference between the FDI and other varieties of investments like portfolio stock investment, is the activity of the investor. The purpose of the FDI investment is to actively control the investment in another foreign country. The investment is seen as a long-term investment with an effective voice in the management (Moosa, 2002).

Nevertheless, when we are talking about the FDI, we must mention the vast difference in various existing definitions of the FDI. Due to the global academic and professional recognition, I will defer to using IMF's and OECD's definitions as the basis for further research in this master thesis. Despite the two definitions being different, they describe a similar economic phenomenon.

IMF marks FDI as: "...Foreign direct investment enterprise is an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise

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<sup>2</sup> sl. NTI – Neposredna tuja investicija.

or has the equivalent ownership in an enterprise operating under another legal structure.” (IMF COMMITTEE, 2004).

On the other hand, OECD describes FDI as: “Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor.” (OECD, 2008a).

The main observation is the 10 percent benchmark that indicates that the investment is active enough to be considered under the FDI classification. Described activity is one of the main factors when trying to determine what investment is made passively and for a shorter or longer term in comparison with the FDI active investment that is in most cases made for a longer period. Furthermore, the most important factor of investment’s foreign origin is thoroughly represented in both given definitions. Nevertheless, there are plenty of other definitions of FDI that vary by the industry and by the individual country. Both stated definitions of the FDI are being regularly updated due to the everchanging nature of the FDI.

Despite many different definitions, the FDI components seem to be similar across the board. To maintain consistency across the whole research in the thesis, OECD Benchmark Definition of Foreign Direct Investment: Fourth Edition will be used as a base of the FDI components theory with addition of the UNCTAD World Investment Report FDI definition. There are three main components to the FDI. First component is equity capital, which consists of foreign direct investors purchase of shares, equity in branches, reserves, and capital contributions. Furthermore, the shares can be divided into common and preferred shares, without counting non-participating preference shares, which count under second component, debt, or so-called intra-company loans. The latter represents the second group which consists of marketable securities such as bonds, commercial paper, debentures, promissory notes, non-participating preference shares and other tradable non-equity securities as well as loans, deposits, trade credit and other accounts payable and receivable. This group is often named as intra-company loans or intra-company debt transactions and refers to short or long borrowing and lending between direct foreign investors and their affiliate enterprises located in the FDI host country. Lastly, the FDI consists of reinvested earnings that include earnings not paid out as dividend or earnings not sent to the direct investor. In cases where the equity asset holder has less than 10 percent of the voting power reinvested earnings are not being recorded as the FDI (OECD, 2008a; OECD, 2010; UNCTAD, 2007).

With the FDI components introduced, we can turn our attention to the FDI inflows and outflows, FDI income and lastly FDI positions. It is important to introduce these terms since they are going to be used throughout the whole thesis. FDI inflows and outflows represent the FDI volume based on the direction of the investment. FDI outflows represent capital provided by a foreign direct investor to an enterprise located in the host country and FDI inflows represent capital received by an enterprise in the target country from a foreign direct

investor. Moreover, outward FDI includes the assets of resident enterprises exerting control or influence on non-resident enterprises. On the other hand, inward FDI represents the liabilities of resident enterprises controlled or influenced by non-resident enterprises. FDI positions represent and capture the combined value of investments at a single point in time and FDI Income represents a return on the direct investment position (OECD, 2008a; UNCTAD, 2007; UNCTAD, 2017).

To define the phenomenon of FDI we must understand what kind of investments are classified as direct investments. Direct investments are all investments that partake in an active stake. Investors take a controlling role when undertaking such investment. On the other hand, portfolio or equity investments represent an investment where investor purchases various financial instruments without a controlling stake.

The second part of the definition that we must address is what makes an investment foreign. This discussion is still ongoing and there is not one clear definition of foreign direct investments which is globally agreed upon. Due to the lack of clear definition, I decided to follow the lead of OECD and IMF, who classify foreign investments as an investment that holds at least 10 percent of the equity. Consequently, with the stake of at least 10 percent, the investors should have a strong say in company's decision making.

Nevertheless, using the OECD and IMF definition, the FDI does not cover all the possible foreign investment activities such as using foreign debt to finance various investments. On the other hand, FDI does a good job capturing all foreign investments that do not necessary move across the border, such as reinvestments from multinational corporations (MNCs). Moreover, MNCs represent a major factor in the field of the FDI. Despite small numbers of actual MNCs, mostly due to their enormous size and success, they represent almost 90 percent of all FDI that is being made all over the world. In theory, MNCs operate in at least two different countries and derive at least quarter of their annual revenues from international countries that do not represent their country of origin. Despite many positives that MNCs contribute to the host countries, in likes of technology spill over and additional competition that increases domestic productivity, they are also viewed as factors that can increase the social and economic inequalities in the host country (Alfaro & Chauvin, 2020).

MNCs can increase their FDI by two different ways. MNCs can invest into new production facilities in the host country, or they can acquire or merge with the existing companies that have the facilities already set up and running in the target country. The MNCs' strategic decision depends upon the various determinants, such as macroeconomic climate, investment climate in the target country, country's legislation, and regulation. Moreover, MNCs open an interesting topic that needs to be explored for a better understanding of the FDI data (Alfaro & Chauvin, 2020; OECD, 2015b).

Over the time, the financing structure of MNCs changed to accommodate to the new factors such as global production networks, tax reduction and strict regulation. One frequently used

process to accommodate and stay flexible is using special purpose entities or SPEs to move investments around several countries before reaching the last destination and consequently avoiding paying a high corporate tax in the resident country. SPEs are entities with little or no physical presence or employment in the host country, but an entity that provides important services to the MNC in the form of financing or services of holding assets and liabilities. More importantly, using SPEs as a middleman between moving investments present a problem when we are trying to measure precise FDI inflows to compare different host countries. Not considering the FDI flows that come and go through SPEs distorts the data by quite significant amount. In some examples up to three or four-times fold. Furthermore, the data of the origin of the investor gets lost when the investment finally comes to its end destination to accomplish its task of securing various benefits (OECD, 2015b; Wellhausen, 2020).

An important statistical feature developed and implemented by OECD was a new way to record the FDI data all over the world. In 2008 OECD completed the OECD Benchmark Definition 4th edition, which started collecting FDI statistic since September 2014. The OECD Benchmark Definition 4<sup>th</sup> edition, or BMD4 for short, separately identifies FDI flows and positions of resident SPEs from the ordinary FDI flows. The gathering of FDI data separately for resident SPEs will provide a more meaningful and useful data of FDI entering and leaving a country by removing the FDI that includes flows only passing through the country via SPEs to arrive at other target host countries or other final destinations. Top countries that are taking benefits of the SPEs capital funnelling are Luxemburg, the Netherlands, Hungary, Switzerland, Austria, and Iceland. Moreover, countries using SPEs as FDI middleman are also countries where enterprises or MNCs locate affiliates to manage their finances, intellectual property and even reduce corporate tax and other regulatory burdens. Based on the theory and the data connected to the activity of the MNCs and consequently the activity of SPEs, the Netherlands and Switzerland both partake in such activities. Moreover, the thesis will look deeper into the topic when both observed countries will be looked at in details (Baker, Foley, & Wurgler, 2009; OECD, 2015b).

## **1.2 Determinants of the outward oriented FDI**

For the FDI to be attractive there must be some specific determinants that stimulate companies and countries to not only invest into the foreign direct markets, but also try to attract the investments from abroad. To understand the FDI determinants, the thesis will investigate outward and inward oriented FDI determinants separately. In addition to the specific examples and business cases from developed and developing countries, the thesis will also look at some of the theoretical approaches by the renowned economists.

In the field of FDI there is not one defined theoretical approach to the FDI on which all experts agree upon. Moreover, despite plenty of various developed theories like Production cycle theory by Vernon (1992), The theory of exchange rates on imperfect capital markets

(Froot & Stein, 1991), and The eclectic paradigm of Dunning (1988), the collective belief is that the FDI theory will still remain undecided and unagreed upon for the foreseeable future. Nevertheless, one notion is for certain, if the markets work effectively and efficiently, there must be some sort of distortion for the FDI to exist. Consequently, for a foreign firm to enter the market, one of the two statements must be correct. Either the foreign company must possess some sort of advantage that makes the investment viable and sensible or the host country's market and its corresponding benefits that the foreign firm is entering into must be imperfect (Denisia, 2010).

Looking more closely at the other mentioned inward FDI determinants theories, Vernon suggests that when a new product developed in a high-income country achieves the level of standardization where it is regularly produced, the companies tend to move their production facilities abroad into less developed countries in order to minimize the production costs, produce the product locally in other less developed markets and increase their profit margin. The theory would suggest that the companies engage into outward oriented FDI to take advantage of reducing cost and producing locally for new markets, escaping the additional reoccurring transportation costs when exporting the products abroad. Nevertheless, the pure scale of product standardization, establishment of subsidiaries and other expansion-oriented activities by the MNCs represent a much bigger picture that cannot be condensed in Vernon's product life cycle theory (Onder & Zeynep, 2013; Vernon, 1992).

In addition to Vernon's product life cycle theory, Knickerbocker (1973), Dunning (1988) and Hymer (1960) introduce additional aspects to the outward oriented FDI and corresponding determinants. Hymer emphasizes that the companies investing into foreign countries face various levels of barriers to entry. More specifically the factors of uncertainty, risk, and possibility of host country's nationalism represent additional determinants that might sway the company's FDI one way or another. The uncertainty is mostly correlated with not knowing the host country's legal and regulatory system, national language and even domestic politics or bureaucracy. The risk is represented by the possibility of exchange rate risk that the company can be exposed to when trying to pay out dividend or when the companies are exchanging the profits back to its own potential national currency. Lastly the possibility of the host country's nationalism can give domestic companies various advantages either in the field of consumer product demand or additional governmental monetary or policy subsidies (Hymer, 1960).

Due to the three main factors that contribute to the existence of barriers to entry, Hymer emphasizes two positive determinants why companies would invest into foreign countries despite the possibility of market entry obstruction. Both determinants provide the company with additional potential profits, which is the main driver for the companies trying to expand into foreign markets. Moreover, the first determinant would be acquiring advantage over competition and even reducing the competition in the target industry by merging with or acquiring companies that already exist in the target foreign country and consequently

securing an easier way to surpass the high barriers to entry and reap the possibility of increasing the profits (Hymer, 1960).

The second determinant is the possibility of gaining advantages of economies of scale, possible advantages of reducing production cost, gaining knowledge of potential additional differentiation of the product, or introducing a completely new product to the domestic or foreign market. This option does not only provide the company with the possibility to expand their own knowledge, product range and cost optimization, but it also allows for the companies to increase their competitiveness in their domestic markets. Both determinants are tightly correlated to the idea of market imperfections and the possibility to have complete control of the company's investments and their outcome in the foreign market (Hymer, 1960).

In addition to Vernon and Hymer, Dunning is regarded as the one FDI theorist that brought all the previous FDI theories together<sup>3</sup> and upgraded them with new considerations of different implications that vary due to the different host countries or industries that are the target of the foreign investments.

Dunning emphasized three conditions that must be met for a company to see the FDI as a valid action with positive determinants and undergo the FDI outflow:

- Ownership of a specific asset
- Internalization of the specific assets
- Advantage in setting up the production in the foreign country

The conditions of ownership of specific asset its internalization relate to the existence of a specific asset within the company that provides clear advantages to combat the market imperfections. Having a specific asset does not only bring advantages against domestic companies and competition in the FDI host country, but also fortifies the company's position in their own domestic market (Dunning, 1988). Knickerbocker criticizes Dunning and his Eclectic paradigm theory, stating that the paradigm is ignoring the response of the domestic companies to the outward FDI into the host country. The response of the new competition could be aggressive in form of a price war or even entering the foreign company's domestic market or a defensive response in form of merging with or acquiring an existing company in the domestic market to reinforce the existing market share. With this line of thinking, Knickerbocker moves closer to Hymer's theory and additional barriers to entry which can act as a negative FDI determinants (Knickerbocker, 1973).

Proceeding from the theoretical aspect of outward oriented FDI determinants to the existing practical cases, the thesis will focus on Germany as an example of developed nation's outward oriented FDI determinants and the examples from different Asian countries in likes of India representing a developing nation's outward oriented FDI determinants. The example

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<sup>3</sup> Especially the theory of FDI's barriers to entry by Hymer.

of Germany is especially relevant since the country is not only geographically in the similar area to our observed two countries, but also contains similar culture which is starting to become one of the most observed factors when trying to configure the behaviour of domestic companies in terms of the FDI outflows (Scheib & Nayak, 2020).

Consequently, destination of 80 percent of the German FDI outflow ends in other European countries and 11 percent ends in the United States, which indicates the importance of similar culture as one of the FDI outflows determinants. Furthermore, the German government actively support and encourages domestic companies to differentiate their investments into foreign countries. The support is mostly in the form of numerous trade treaties with other countries that lower the initial investment and transaction costs. Governmental support can be recognised as a one of Dunning's conditions since it provides the companies with a specific reason to invest abroad (Camarero, Montolio, & Tamarit, 2021; Scheib & Nayak, 2020).

Moreover, Germany has the ownership of a specific asset in form of renowned German manufacturing excellence that provides an advantage to the German companies. "Made in Germany" does not only server as an excellent product quality benchmark, but also as a specific brand asset that is globally renowned. Skilled labour and additional know how compliment the condition and prolong the advantage over host country's companies. The third condition is satisfied due to the lower labour cost if the companies decide to set up their own production. This can be mostly seen in Germany outsourcing their production into Eastern Europe, more specifically Poland, Slovakia, and Czechia. The German FDI determinants satisfy all three of the Dunning's conditions and even take into the account the culture and different industries since the German companies that tend to invest deal with the service industry and primarily focus on investing into Europe (Camarero, Montolio, & Tamarit, 2021; Scheib & Nayak, 2020).

On the other hand, the example of the FDI outflow determinants from the developing countries differentiate quite a bit. Throughout the history of the FDI, developing countries were known to be the majority of the target locations of the global FDI, but not the main investor in the FDI field. Developing nations offered companies all over the world low barriers to entry with plenty of market imperfections and offerings of significant advantage over the domestic competition simply due to the host nations poor macroeconomic factors (Dunning, 1988; Hymer, 1960).

Nevertheless, trough out the last decade, the South-Eastern Asian countries started to intensify their investments into foreign countries. Top Asian FDI outflow countries consist of India, China, Korea, and Hong-Kong. Moreover, the majority of this FDI is moving between the mentioned developing countries, which is built upon the foundation of various multinational partnership agreements that multiply with each consecutive year. In addition to the governmental advantage of partnerships between the countries, companies from the developing nations can also use the advantage of cheaper labour and lower operational cost



due to the cheaper costs of raw material. Consequently, developing countries rely on their affordable costs to fight against the foreign competition (Niti & Vandana, 2013).

A concrete example of developing Asian country investing abroad is Indian FDI outflow to Poland. Despite this partnership not being renowned on the global level, India brings into the country approximately 1.4 billion USD FDI outflow annually. Moreover, the main FDI outflow determinants for this partnership are Poland's economy's stability growth, size of the market, relatively cheap cost of the skilled workforce and a great entry point for future expansion across Europe (Mainly into nearby countries like Germany, Czech Republic, and Slovakia). In addition to China, other developing Asian countries are becoming a significant player in the field of the FDI outflows and, the developed countries in Europe represent a great host destination (Dygas, 2020).

To recap the determinants of FDI outflows, the companies tend to search for a specific advantage over competition in the target country so that they can use to make the foreign investments profitable. Companies in specific countries can take advantages of the local culture and macroeconomic benefits to acquire specific assets. Looking at the Kearney's 2020 and 2019 FDI Confidence Index (Kearney, 2020; Kearney, 2019) the most important determinants are the tax rates and the ease of tax payments, followed by the technological and innovation capabilities and regulatory transparency. Based on the top three determinants, the companies seek a more stable and predictable economic environment that offers flexibility for their capabilities. Security seems to prevail in comparison with raw profitability which does indicate a positive outlook and a point of reference for the comparison between the Netherlands and Switzerland, especially in comparison with the global competition.

Moreover, the next few determinants in the likes of general security environment, domestic economic performance, government incentives for investors and domestic market size only push the benefits towards countries like Germany with strong economic presence, active government, and generally secure economic environment. On the other hand, determinants like cost of labour, availability of raw materials and availability of land and real estate are more towards the bottom of the lists and would generally represent developing countries (Kearney, 2020).

In 1990 the cross-border capital flows rose sharply all around the world. Furthermore, the capital flows were more in shape of FDI rather than portfolio or other equity flows. The countries started to actively work and pursue FDI since there are plenty of mentioned determinants that come along with it. Moreover, since the FDI is a two-way street there were and still are push and pull forces that encourage FDI flows. As explored on the push side of FDI determinants, the companies are attracted by the lower tax rates, security of the target market, imperfect markets for gaining quick advantage, lower transportation, operational and material costs in comparison with other countries, significant differences in factor prices, slow growth rate in domestic market and many others. On the pull side or inward oriented

FDI determinants, there are governments striving to bring in capital, new technology as a direct result of a spill over and additional know-how knowledge. Nevertheless, inward oriented FDI determinants must be explored into further details. (Alfaro & Chauvin, 2020).

### **1.3 Determinants of the inward oriented FDI**

Covering the determinants from the outward oriented FDI, we can focus our attention to the inward oriented FDI. All mentioned endeavours to attract and receive FDI flows, have a significant meaning since FDI should bring plenty of various benefits to the host countries. For easier theoretical interpretation and description of the inward oriented FDI determinants we will divide them into three major groups:

- Group 1: Capital inflow FDI determinants
- Group 2: Macroeconomic FDI determinants
- Group 3: Microeconomic FDI determinants

The first group of determinants are a consequence of an increased capital inflow that comes with the FDI. Not only does it increase availability of capital as a factor of production, but it can also act as a source of financing for local companies and provides a valid substitution to the local banks. Consequently, countries can benefit from the access to the global market of capital as well as gain access to foreign currencies. Moreover, due to the inflow of foreign capital, FDI can be used for faster development of the country's economy. Nevertheless, research indicate that this action has a greater effect in the developing countries in comparison with the developed ones (Alfaro & Charlton, 2007).

The second group of determinants are represented by macroeconomic benefits that impact the host countries on the larger scale. Here we can find determinants like stimulating higher growth of GDP, increasing and aggregating productivity, increasing and diversifying exports, generating new employment, improving and pushing technological frontiers, constructing and stimulating new economic sectors, and introducing new competition on the market that consequently pushes local companies to improve and learn (Alfaro & Chauvin, 2020; Denisia, 2010).

Lastly, the third group consists of microeconomic determinants that benefit the local economy in a more direct aspect. The FDI inflows are stimulating knowledge spill over (Blomström, 1991), technology transfer from foreign companies to local ones, improving managerial and employee skills, boosting further investing incentives, improving local competitiveness, and boosting company productivity. Moreover, there are plenty of other additional minor determinants that come as a result or a direct consequence of these three main groups of determinants. In 2008 OECD conducted a thorough research on FDI's social impact on the host country's local economy (OECD, 2008b).

The research indicated and confirmed that the MNCs significantly contribute to the working or labour environment. Furthermore, with providing high quality jobs, MNCs tend to offer better salaries and additional benefits with expectation of better-quality work and increased productivity. Higher salaries also tend to lower the turnover rate and decrease the skill spill over. The research concluded that in the developed countries the salaries tend to increase on average over the first three years after the takeover by 4 percent for existing workers and up to 14 percent for new hires with incentive to capture the most skilled local labour force (OECD, 2008b; Siegel, Licht, & Schwartz, 2012).

On the side of negative consequences of the FDI inflow, there are some concerns with foreign enterprises taking an advantage over local companies and thus aggressively taking their domestic market share. Furthermore, despite the FDI providing new capital for the local enterprises, it can also lead to crowding out for loans with domestic banks, due to the increase of foreign companies in search of local capital (Alfaro & Chauvin, 2020).

In theory, FDI should be highly desirable despite the possibility of attracting some negative consequences. Nevertheless, there is a correlation with previously mentioned and described problem of experts not agreeing upon one central FDI theory. Even though the determinants can be observed and despite the difficulty of denying the correlation between them and the FDI inflow, the determinants are highly dependent on the local financial market conditions. The more the country is financially developed, the easier and more efficiently can it take the advantage of the benefits. Furthermore, the countries should aim to improve policies, improve domestic investment conditions, expand economic treaties with other countries, and try to be as economically open as possible (Alfaro & Chauvin, 2020).

Looking again at the example of Germany from the perspective of the inward oriented FDI determinants, we can observe an interesting phenomenon. Due to the country being an open economy the FDI inflow is quite significant. There is no obstructing regulation or even laws that differentiate between domestic and foreign companies. Nevertheless, the country does withhold the right to act if it deems the situation as a treat or a negative impact on national security. Moreover, Germany highly values consumer rights that are enforced and looked over by the tight regulation. Services represent the big majority of the FDI inflow, especially in comparison with the manufacturing sector. This can be explained by a strong domestic manufacturing sector that represent a high barrier to entry. Moreover, due to the high cost of work force, service industry represents a better entry point for a foreign company than the manufacturing. Furthermore, there is additional determinants due to the fact that services compliment strong domestic manufacturing industry (Camarero, Montolio, & Tamarit, 2021; Scheib & Nayak, 2020).

As stated by the theoretical insight, investing companies search for advantages that they can act upon. In the case of Germany companies can use their advantages in the productivity and specific know how, which do get transferred to the domestic companies via the knowledge spill over. Moreover, foreign companies can also heavily rely on German highly developed

infrastructure that allows for the development of knowledge intensive services which contributes to the further development of the domestic market. The last German inward FDI determinant is the governmental subsidies that are provided to the companies that invest into disadvantaged regions. The foreign capital can develop the disadvantaged areas and provide the country with a reasonable initiative to attract FDI. The government provides operational help that offers support with payment of operating expenses and investment cost with an offer to reimburse additional investment cost that might occur (Camarero, Montolio, & Tamarit, 2021; Scheib & Nayak, 2020).

Inward oriented FDI determinants certainly differentiate themselves from the outward oriented FDI determinants. The later, represent a great opportunity for a foreign company while the first represent an attractive option that encourages countries to put in additional effort when trying to attract FDI into the domestic market. Based on the previously mentioned Kearney FDI confidence index, the companies seek a good macroeconomic environment, quality targets for the FDI and not strict regulatory environment. All mentioned determinants can be influenced by the government with subsidies or other forms of benefits to contribute towards attracting FDI and consequently reaping the benefits from all three provided groups of determinants (Kearney, 2020).

Lastly there is a significant difference between developed and developing economies. The latter are more prone to benefit from the microeconomic benefits and the first from the macroeconomic benefits. On one hand the developing countries in regions like the middle east represent an attractive high growth opportunity for the investors, on the other hand well-established developed countries represent a much safer destination that is more resistant to uncertainties or quick unexpected economic downturns. Furthermore, in recent years investors are moving away from investing into developing economies and moving towards investing in developed countries such as the Netherlands and Switzerland (Alfaro & Chauvin, 2020). In addition, research done by the European Investment Bank (EIB) in 2020 (European Investment Bank, 2020), suggests that the countries with better institutions such as better control of corruption, robust rule of law, better developed regulatory system and more efficient government, register a strong positive impact of the FDI on economic growth of the host country (Alfaro & Johnson, 2012).

Moreover, this result was statistically significant for developed countries which does indicate an interesting correlation to both of our observed developed countries. Nevertheless, for host countries to utilize FDI benefits at the maximum, maintaining excellent investment conditions is crucial. Countries should strive to achieve the perfect environment via open regulations and sensible policies. If all the requirements are taken care of, the FDI benefits can statistically have a significant impact on the host country irrelevant of country's development status (Alfaro, 2017).

Lastly, for capital to come into the countries, the positive FDI determinants must be present. Furthermore, various papers written on the topic of the FDI inflows and outflows

determinants, statistically confirm determinants like real GDP, money supply, tax relief, trade openness, exchange rate and even target sector's GDP as a reason for an enterprise to decide to invest into the target country. All mentioned and statistically positive determinants tend to be characteristics of the developed countries and not characteristics of the developing ones. Moreover, following the latest trends of investing into the markets of the developed countries rather than developing, even companies in the developing countries tend to invest into the developed countries in Europe and not into other developing markets (Boateng, Hua, Nisar, & Wu, 2015; Onder & Zeynep, 2013).

## **2 VOLUME AND STRUCTURAL CHARACTERISTICS OF GLOBAL FDI FLOWS**

In this chapter the thesis will explore the FDI sector on the global level. Comparison of FDI volume, structural features and future FDI trends will be made to lay down a strong foundation for the following detailed comparison of the Netherlands and Switzerland. Furthermore, the comparison of the global FDI will be divided by the direction of the FDI flows in order to keep consistency throughout the paper.

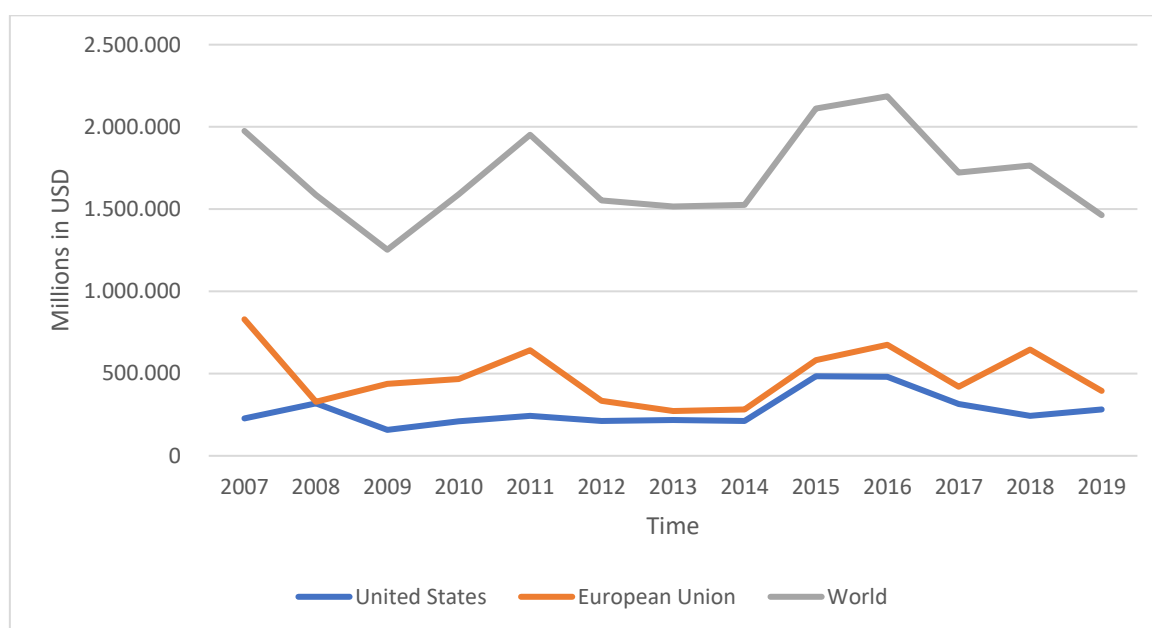
FDI flows are the predominantly used statistical data when we are trying to determine the amount of the foreign investments coming in and out of a specific country. Furthermore, the FDI inflows and FDI outflows will be one of the main comparison factors between the Netherlands and Switzerland that will provide us a solid detailed information about the possible differences and correlations.

### **2.1 FDI inflows at the global level**

Starting with the volume of the global FDI inflows in Figure 1 below, we can observe a significant drop from the year 2007. This can be correlated with the great recession in 2008 when FDI inflows fell as low as 1.25 trillion USD. Moreover, European Union represented 42 percent of all FDI inflows in the year 2007 with 830 billion USD respectively in comparison to the U.S. that clocked in only 227 billion USD or 11.5 percent.

Observing the figure, we can see a distinct pattern of spikes and falls throughout the decade. After the great recession, the FDI flows picked up, just to fall again in the period from 2012 to 2014, when a lot of European countries continued to struggle by the consequences of the 2008's recession. In comparison with the European Union, the United States maintained a steady stagnation of the FDI inflows until the year 2014 when global FDI inflows recovered and picked up again, hitting all time high of 2.18 trillion USD in 2016. A significant correlation between the determinants and the statistics can be drawn, especially with the countries' desire to invest into safe and stable markets. Due to the recession, this determinant was significantly lacking and consequently spikes and drops in the graph can be expected (OECD, 2021c).

Figure 1: Volume of the global FDI inflows (2007-2019)



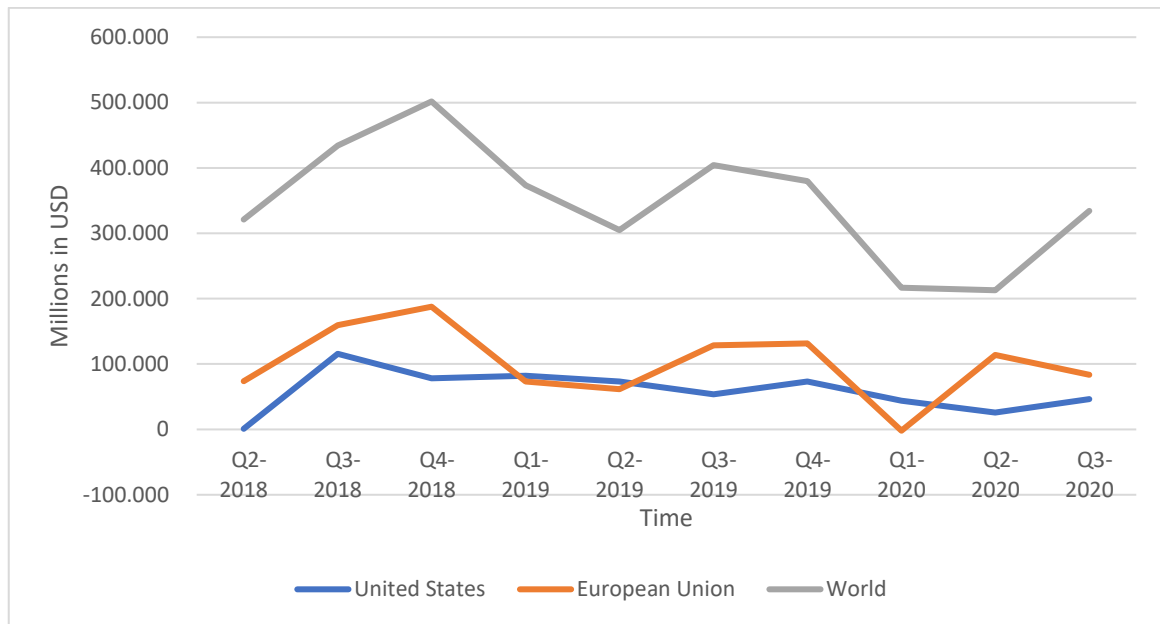
Source: OECD (2021).

The period after the all-time high 2016 FDI inflows record is even more interesting and can be furtherly correlated with the determinants and the investor's search for the right host country to invest into. Nevertheless, last three years represent an interesting story that we must look closer to better understand the motives and determinants behind the global FDI inflows. Looking at Figures 1 and 2 we can observe that in the Q1 of 2019, the United States overtook Europe in terms of the FDI inflow volumes which confirms the report and papers that put the U.S. as highly attractive due to the large domestic market, growing economic performance, newly assigned attractive corporate tax and protectionist rhetoric. All these determinants rank high in statistical and theoretical analysis of main FDI determinants that we investigated in the previous chapter (Kearney, 2018).

In addition to the U.S., Europe strived in the field of inward oriented FDI in 2018, making an excellent comeback with Denmark, Portugal and Norway entering the top 25 field of most FDI attractive countries. Moreover, the FDI flows to the developed countries represented all time high of 84 percent of all FDI positions due to the determinants like competitive advantage, strong technological advances, and even regulatory pressure to attract foreign investments. Furthermore, 80 percent of the investors in 2018 believed that FDI significantly contributes to corporate profitability and competitive advantage which does correlate with Dunning's theory. FDI can also contribute with mitigation of the effect of populism, protectionism and even the so called "islandization" of the global economy. 42 percent of the asked companies stated that they are maintaining the current levels of investments and 29 percent that they are increasing the FDI or pursuing new opportunities. The bullish market also saw switches at the top of the FDI inward locations with Switzerland and Italy entering and Asian developing countries leaving the top 10 destinations. This can also be correlated

with the prevalent determinants of regulatory transparency, tax rates, general security environment and domestic market size which all push investments toward safer nations of Europe and away from developing countries of Asia (Dunning, 1988; Kearney, 2018).

*Figure 2: Volume of the global FDI inflow (2018-2020)*



*Source: OECD (2021).*

Moving to 2020, political and economic risks started to be the main topic of conversation around FDI. Not only did the economy started to cool down, but the global tensions between great powers also started to rise. Nevertheless, United States retained their strong position mostly due to the continued economic expansion and competitive tax rates. Moreover, tax rates rank first on the leader board of determinants, followed by innovation and technological development, security, corruption and lastly investors/property rights. This also corresponds with the leader board of the top FDI inflow destinations with 22 out of 25 being developed countries. Despite the 2018 having a prosperous outlook for the FDI, 2019 seemed a lot more bearish and careful with anticipating an economic downturn, but nobody knew that it would strike in February of 2020 in the form of a global pandemic (Kearney, 2019; OECD, 2021b).

The economic outlook for 2020 was harsh and rough, with the FDI sector in similar boat. FDI inward investment fell for approximately 42 percent in the United States and negative in the European Union indicating a significant impact by the pandemic. Entering the storm, companies rallied back to the fundamentals in search of a large, stable, regulatory tight and politically stable countries. Moreover, looking at the Figure 2, the volatility is much higher in the European Union in comparison with the United States confirming the results of the U.S. being still regarded as the safest and most stable market even in the pandemic. In addition to the global pandemic, the risk of climate change started to gain traction as a determinant for FDI locations. 77 percent of the companies tend to decide on the FDI

location based on the climate change and thus opening a new perspective on the stability and risk. Moreover, with this phenomenon we can see that risk and stability does not only represent one of the biggest determinants, but it is also divided into specific sub risks that can be attributed to the certain locations and consequently impact the final decision of the FDI flows location (Kearney, 2019; OECD, 2021b).

*Table 1: Global FDI inflow structure in 2019 (in millions)*

<b>Countries</b>	<b>Equity</b>	<b>Debt</b>	<b>Reinvestment of earnings</b>
Belgium	-38	40	1
France	28	1	5
Germany	4	13	19
Ireland	-15	25	70
United States	143	-8	147

*Source: OECD (2021).*

Lastly, we must investigate the structure of the global FDI outflows to get additional inside into the reasons for movement of the FDI flows. Looking at the Table 1, we can observe four European countries as representatives of the European Union and United States. Despite the numbers of the volume of different structures might not indicate anything in comparison between the countries it is quite significant to look at each individual category. Moreover, we can observe that United States and Ireland dominate in the field of reinvestment of earning in comparison with other countries that focus more on debt, equity, or a distributed volume over all three FDI components. Having a high volume in reinvestment indicates that the companies tend to reinvest capital into the already existing subsidiaries and thus trying to expand or capture a potential new competitive advantage in the host market. In the example of Ireland, we can presume that the tax relief and tax benefits play a major role in the volume of reinvestment. Moreover, similar results should be expected for the Netherlands<sup>4</sup> and even Switzerland with the tax rates dependant on the decisions of individual cantons (OECD, 2021c).

The case for France is especially interesting, indicating that the majority of the FDI inflows are intended to satisfy the third Dunning's condition of establishing new branches or new production sites. Furthermore, Germany represents a great structural balance of the FDI inflows, firmly putting the country in the top 3 of the FDI inflow destinations (OECD, 2021c).

**2.2 FDI outflows at the global level**

Proceeding with the volume and structural features of the FDI outflows, we must look at the same FDI picture from another angle. Despite the similarities between the two flows, the FDI outflows represent a significant story on their own. Looking at the Figure 3 below, we

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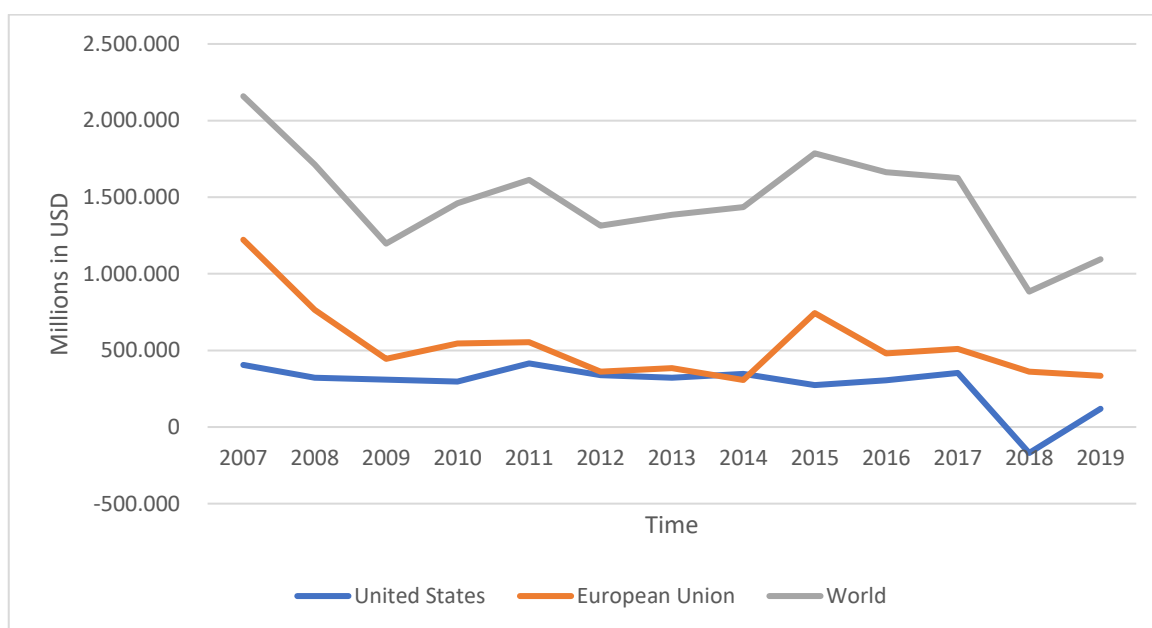
<sup>4</sup> Due to the tax avoidance technique called “The double Irish with a Dutch sandwich”.



can observe that the record high volume of 2.1 trillion USD was hit in 2007 just before the great recession in 2008 when the FDI outflows fell to 1.1 trillion USD or by 48 percent. Moreover, European Union represented 58 percent of all FDI outflows and United States additional 19 percent, making them together the majority or 77 percent of all FDI outflows. Similar to the global FDI inflows European Union consistently invested more than the United States through the last decade which does correlate with the consistency of FDI inflows (OECD, 2021b).

In comparison with the FDI inflows the volatility of the FDI outflows seem a lot more stable or less volatile, which does correlate with the stability, strong economic markets and trade openness of the European Union and United States. The FDI outflows never recovered after the economic downturn in 2008, but remain stagnant for the remainder of the decade, which does correlate with the general opinion that the developed countries were hit harder by the financial crisis (OECD, 2021b).

*Figure 3: Volume of the global FDI outflows (2007-2019)*

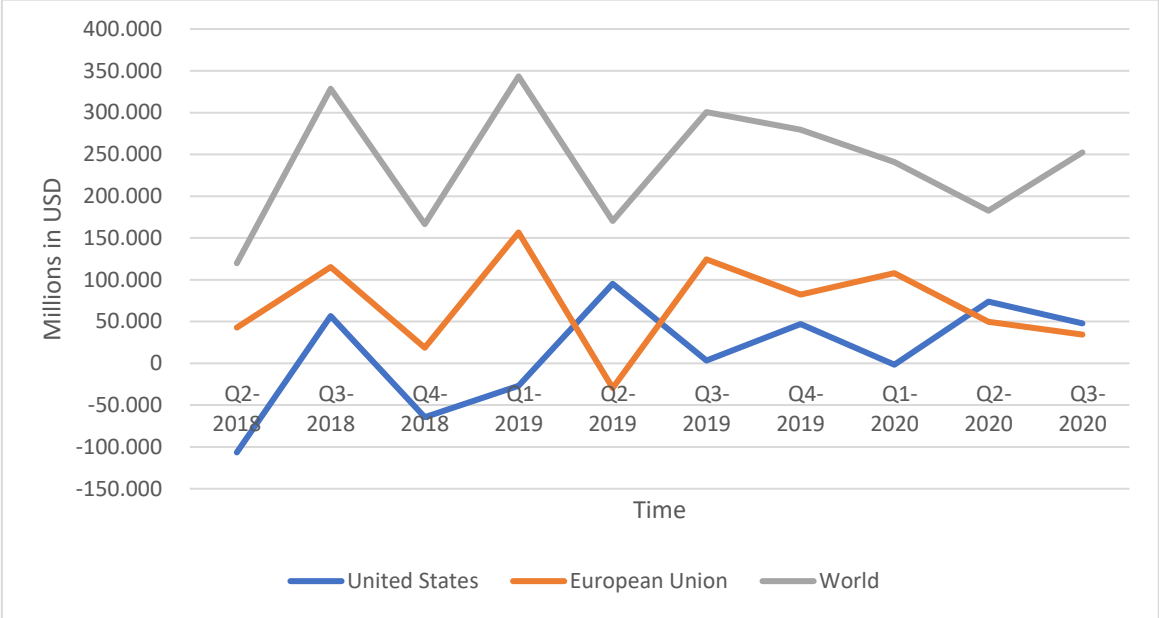


*Source: OECD (2021).*

Similar to the FDI inflows, FDI outflows gained some trends in 2015 and 2016 with Europe significantly increasing the foreign investments flows. Nevertheless, from 2017 the world's FDI outflow fell quite significantly. To be precise, the global FDI outflows fell for approximately 45 percent from the year before. Moreover, the drop and recovery correlate with the drop and recovery of the FDI outflows coming from the U.S. (Figure 3) and consequently, confirming the macroeconomic data indicating the U.S. being the largest FDI investor in the world. The high and uncorrelated volatility of the FDI outflows after 2015/2016 is mostly a consequence of high economic uncertainty about the future which

represent one of the main determinants for the companies to undertake or not to undertake foreign direct investments (OECD, 2021c).

Figure 4: Volume of the global FDI outflows (2018-2020)

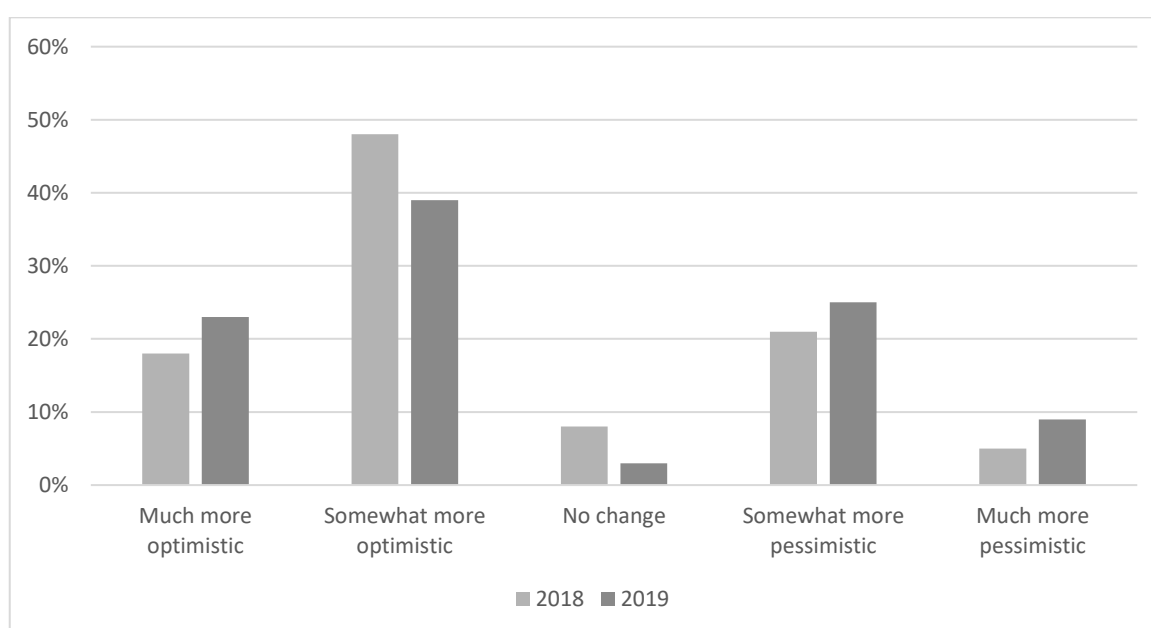


Source: OECD (2021).

Looking at the last few years from Figure 3 and Figure 4 above, we can observe interesting volatility that was not present throughout the last decade before 2018. This can be attributed to the previously mentioned uncertainty about the future which does correlate with the top determinant of acquiring a safe and stable economic environment when undertaking FDI. For further inside about the optimism in the future, Figure 5 clearly represent a stagnating trend from the year 2018 to 2019. Number of investors that were somewhat optimistic decreased by 9 percent and the number of somewhat more pessimistic and much more pessimistic investors increased by 4 percent for both categories. However, the number of much more optimistic investors increased by 5 percent despite being an outlier in the overall global FDI optimism trend (OECD, 2021c).

Proceeding to the quarter one and quarter two of the year 2020, the FDI outflows dropped by 13.6 percent in quarter one and additional 24 percent in quarter two. Nevertheless, the FDI picked up in the third quarter mostly due to the slow recovery of the economy with the help of governmental financial subsidies, especially in the United States. Moreover, the impact of the pandemic on the FDI will be explored in detail in the next subchapter (OECD, 2021c).

Figure 5: Global FDI optimism (2017-2019)



Source: OECD (2021).

Looking at the Table 2 below, we can see that the structure of the global FDI outflow differentiate from the structure of the global FDI inflows. Looking at Germany, France and Ireland, the structure is skewed towards Equity which does indicate the intention to expand or purchase existing shares of a company in a foreign country. On the other hand, the U.S. retains the majority of the FDI flows in the reinvestment field. Lastly Belgium records negative debt FDI flows which represents a significant difference in comparison with the high 40 million of the FDI debt in the FDI inflow structure. This can be correlated with Belgium being a stable country offering the domestic companies better financial tools to satisfy their debt related demands.

Table 2: Global FDI outflow structure in 2019 (in millions)

Countries	Equity	Debt	Reinvestment of earnings
Belgium	2	-6	6
France	30	-11	19
Germany	51	2	46
Ireland	70	-105	18
United States	17	-55	156

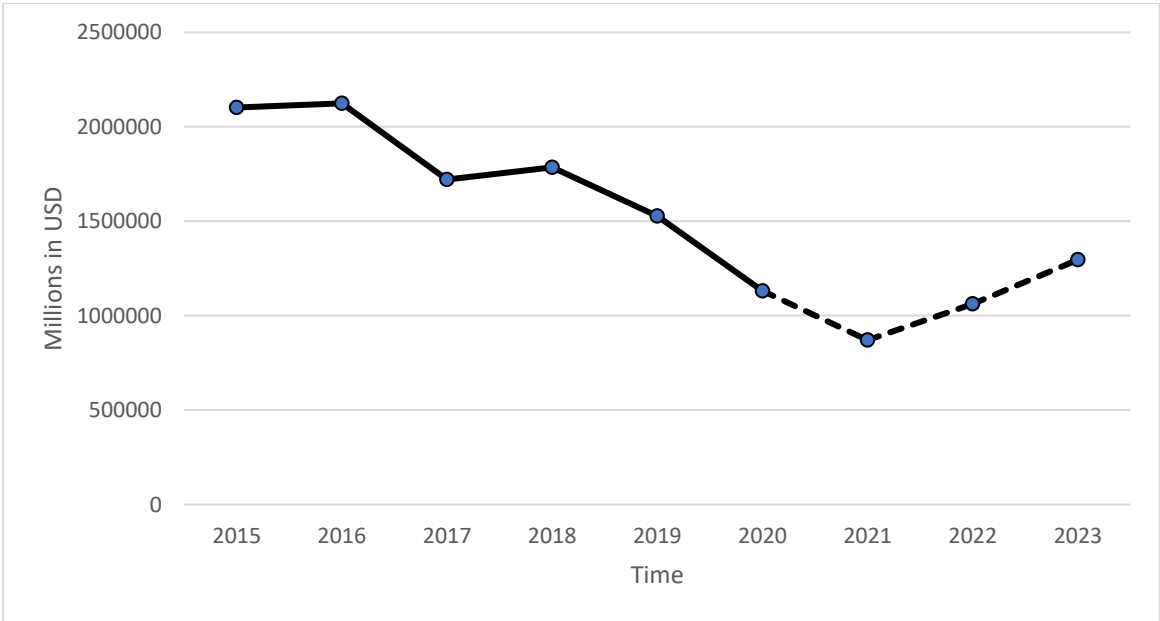
Source: OECD (2021).

### 2.3 Future trends in the global FDI

In this subchapter we will firstly investigate the short-term and medium-term future and conclude with the long-term forecast. Due to the current extremely high uncertainty about the future, the thesis will put larger importance on the short-term and medium-term future. As stated throughout the thesis, based on the theoretical research and statistical analysis of the FDI data, FDI is expected to have a growing role in the global economy. Moreover, in the current pandemic times, FDI is expected to take a significant role with supporting economies all over the world. The significant role will consist of providing financial support to MNC’s affiliates in foreign countries, assisting governments in addressing the pandemic and post pandemic investing climate, and through linkages with local firms. The pandemic impacted the FDI sector significantly with no expectations of recovery before the year 2022.

Furthermore, as observed in the Figure 6, in 2021 the FDI is expected to fall below the mark of 1 trillion USD for the first time since 2005. There are currently no expectations of recovery before the start of 2022, based on the slow recovery of the FDI flows, led by global value chains (GVCs) restructure, replenishment of the capital stock and recovery of the global economy. This forecast would represent a U-shaped recovery (UNCTAD, 2020b; Zhan, 2020). The Figure 6 considers UCTAD’s World Investment report 2020 statistical data and expected decline in the FDI inflows in combination with the OECD’s annual FDI statistical data. The expected decline moves approximately 30 percent in the year 2021 and slow recovery of 22 percent in the year 2022 and 2023. From the figure above, we can clearly see the downward trends of the FDI even before the pandemic.

Figure 6: Forecast of the FDI inflows (2020–2023)



Adapted from UNCTAD (2020b); OECD (2021).

OECD forecasts three different expectations for the short-term and medium-term future. In the most optimistic one, earnings recover by the end of 2021 and the economy is on track for a fast recover. Nevertheless, due to the FDI downward trends since 2015, FDI is not expected to grow quickly despite the earnings recovery. The uncertainty about the future and fear of a possible economic downturn might discourage companies to introduce new investments and rather stay on track to complete or deliver already introduced ones. In the medium scenario, OECD expects uneven recovery across different sectors. Consequently, the FDI inflows across the sectors and industries would vary greatly. Moreover, some of the M&A and greenfield investments are expected to be cancelled or pushed back to a later date, giving the MNCs an option to reconsider the strategic approach. The most pessimistic scenario expects a high disinvestment and FDI inflows drop by more than 40 percent that would persist until the future gets clearer. Despite one of the bright outlooks in vaccine and soaring U.S. stock market, the statistics are still indicating slow recovery. Overall, the forecasts expect the companies to adapt their global value chains to future economic turmoil (OECD, 2020d).

Moreover, we must mention the additional consequences of the currently ongoing pandemic of COVID-19 on the FDI. Foreign investors were redirecting their investments from developing countries into developed countries in order to remain safe and protected from the sudden economic downturn. Nevertheless, nobody could foresee the pandemic of COVID-19. The pandemic significantly impacted the FDI sector with OECD predicting FDI inflows to drop for 30 percent in the most optimistic scenarios and with UNCTAD being even more critical and forecasting a 49 percent drop in the FDI inflows all over the world. Furthermore, the primary and manufacturing sectors were hit the most which represent a significant problem for the developing countries, since these two sectors account for a large share of their FDI in comparison with the developed countries. Moreover, FDI is expected to play a big role in the bounce back after the pandemic. Bringing in the capital to support MNCs affiliates could assist governments that are trying to mitigate the financial impact of the pandemic on local economy. There are currently no expectations for the FDI to quickly rebound and hit the pre-recession levels of FDI inflows. Nevertheless, FDI is expected to increase their role and significance in the global economy and thus represent s a bright future for this sector of investments (Antonietti, De Masi, & Ricchiuti, 2020; Antoniou, 2020; Alfaro & Chen, 2010; OECD, 2020b; UNCTAD, 2020a; The World Bank, 2020b; Yu, 2020).

Only 57 percent of the companies expressed optimism in the next three economic years, which is significant fall from the 72 percent at the beginning of the pandemic. Highly rattled investors will have to use the method of “Wait and see”, bunker down and wait for the impact of the vaccines. Nevertheless, United States are expected to stay at the top of the FDI leader board since the main FDI determinants still revolve around taxation, innovativeness, R&D development, and stability. Moreover, foreign investors should focus on specific industries since the pandemic has left certain areas without a room for profit margins (e.g., travel, retail,

etc.). Other industries like energy and oil will consolidate as smaller companies get acquired by opportunistic larger companies. Despite the shaky ground and uncertainty, the opportunities exist and only the smartest and strongest can use them and prosper themselves to exit the economic turmoil ahead of the competition (Kearney, 2021).

Talking about economic resilience, we must mention the economy of China, who did not only record a 4 percent growth of the overall FDI flows in the year 2020, but also overtook the U.S. as the largest FDI destination. China recorded 163 billion USD in FDI inflows, which is 21.6 percent higher than the U.S. with 134 billion USD in the second place. This represents a major shift in the global economy, with Chinese economy becoming the most resilient between the largest players. Lastly, we must mention correlation between Brexit and future FDI flows since both of our observed countries are directly involved. Due to the United Kingdom's Brexit decision, European trade agreements feel apart and are in need to be furtherly discussed and renegotiated. Moreover, the British pound depreciated due to the uncertainty and made foreign investing into UK more affordable and attractive (B. Whyman & Petrescu, 2020; Hansen, 2021; Rapoza, 2020; UNCTAD, 2021).

There was a significant rise in the real estate industry, with non-resident investing into the UK property. Furthermore, the future FDI flows depend on the regulation and the trade agreements (Barker, 2019; McGrattan & Waddle, 2017). Based on the theory, openness of the economy highly contributes to the investment environment and consequently to the FDI inflows. Looking at the progress of the negotiations between the European Union and UK, and the actions undertaken by the UK government, disinvestment is to be expected. To what degree will this disinvestment happen is still to be decided. Nevertheless, the UK is looking for other potential FDI partners in likes of the U.S. and Japan, which would impact the FDI flows of the Netherlands and Switzerland (Osnago, Rocha, & Ruta, 2017; Osnago, Rocha, & Ruta, 2020).

Lastly looking at the long-term future of the FDI outflow and inflows, the forecasts predict a strong move towards securing the resilience of existing supply chains and securing access to critical supplies. The MNEs have learned from the ongoing pandemic the importance of achieving greater supply chain resilience and potential national or regional self-sufficiency. Moreover, tighter restrictions on international trade and investments have emerged as a consequence of the pandemic. Furthermore, new trends of FDI alternatives of rationalization of international operations, nearshoring and localization will put pressure on the future FDI outflows and inflows (UNCTAD, 2020b).

### **3 COMPARISON OF THE FDI IN THE NETHERLANDS AND SWITZERLAND**

#### **3.1 The methodology of comparison**

In this chapter we will firstly focus on the comparison of FDI flows between the Netherlands and Switzerland. Moreover, comparison of the determinants, flows and other major characteristics will be done. To stay consistent with our theoretical and global FDI foundation, the comparison will be divided between FDI inflows and FDI outflows. In addition, countries' macroeconomic aspects that impact the inflows and outflows of the FDI will be explored in order to get the grasp of the existing FDI determinants. Moreover, we will investigate the factors such as export and import, global competitiveness, investment climate, country's GDP, and labour force. Secondly, we will build on the FDI flows and macroeconomic factors and proceed with the comparison of the FDI structure and comparison of the two observed countries with the global competition. The observed data will be compared and evaluated between three different periods for a clearer interpretation. The observed periods will be from the year 2012 to the year 2020 in groups of three years (2012-2014, 2015-2017, 2018-2020). Lastly the key findings of the comparison will be made and combined in a detailed table for an easier overlook of the complete analysis.

Lastly before we start the comparison, the problem of the FDI measuring has to be pointed out. Despite the FDI being quite important measure for financial markets, the problems arise when we are looking at the process of measuring FDI flows (inflows and outflows), FDI positions or FDI income. More specifically, there are significant and expected problems when we are trying to collect and compare FDI statistics from all over the world. There are three main problems that need to be pointed out and discussed to conduct a proper comparison research. The first problem occurs when data collectors try to identify if a certain FDI flow is either a greenfield investment, a merger or acquisition or is it a foreign investment going through an SPE to a different country to avoid certain corporate obligations. Determining the nature of the FDI is not only important for better understanding the investments themselves, but also relevant when we want to exclude FDI SPE flows due to the misinterpretation of the FDI flows and consequently the inflation of the numerical data (Dingwerth & Weinhardt, 2018).

Second problem arises with the definition of the FDI and its components. Moreover, some of the investments that should be included into the definition are getting left out and other investments that do not belong in the dataset are there to stay. Excellent example can be represented by a purchase of the holiday real estate by a foreign non-resident. In theory, based on the definition and the data, this kind of investment counts under the FDI, despite it not representing any major importance or relevance. On the other hand, significant investments where the foreign investor gains a seat at the board, but his overall investment falls under 10 percent, is not considered under FDI, due to the lack of "active" investment

since the investment is below the dreaded 10 percent that defines foreign investment as FDI by the definition (Dingwerth & Weinhardt, 2018; Wacker, 2013).

Lastly, there is problem with various statistical practices all over the world. The recording of the FDI varies by countries and can consequently represent a big issue when we are trying to compare the data between the selected countries. Moreover, this phenomenon can be observed in the Figure 1 representing global FDI outflows and global FDI inflows where the measured factors do not represent the same line. The difference between the FDI flows is quite large, but consistent, which indicates the consistency of different measuring of the FDI across the world (Wacker, 2013).

Having in mind all three problems, the data used for this thesis was taken only from the globally trustworthy institutions and databases like OECD, IMF, UNCTAD and ECB. Most of the mentioned problems were eliminated through using OECD's Benchmark Definition 4th edition. Nevertheless, the inconsistency and problems with measuring FDI flows had to be pointed out. The thesis tries to mitigate the second problem with the definition by combining and considering the definitions from different institutions supported by the theory. Consequently, the theoretical part of the thesis where the definition, components and other FDI factors were established represent an important base for further research and comparison. Lastly, it is worth mentioning that due to the rising importance and role in the global economy, the FDI needs a better system of measuring and global consistency between the various statistical practices. However, this problem is not only distinct for the FDI flows, but also for other economic statistics (Eurostat, 2020).

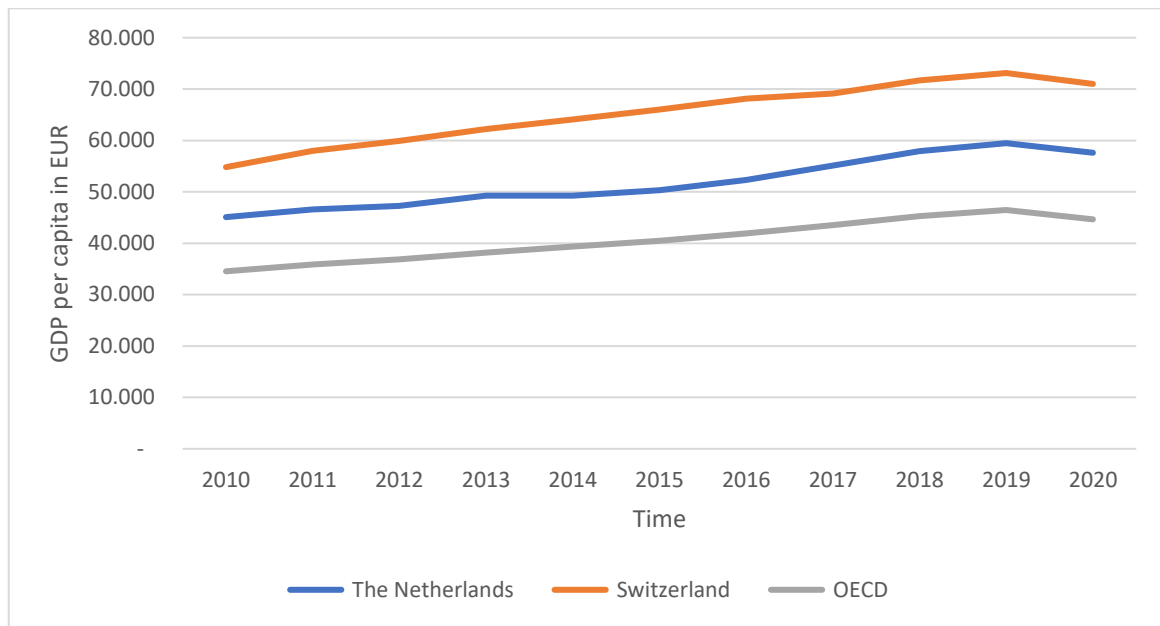
### **3.2 Comparison of FDI inflows: determinants, flows and major characteristics**

Since the FDI inflows stand on the foundation of the determinants that are being offered by each individual target host country, the paper will firstly dive into the Netherlands' and Switzerland's macroeconomic factors and FDI determinants that will provide us with better knowledge foundation on top of which the thesis can proceed with statistical comparison. To maintain consistency, firstly the Netherlands will be investigated followed by Switzerland. Furthermore, the comparison of the FDI inflows and major characteristics will be done on the newly set foundation of knowledge.

The Netherlands consistently ranks at the top of the leader boards of most economically competitive countries in the world. Not only are the Netherlands attractive in terms of investment location due to their investment climate, but they also represent an excellent location for the MNCs that want to shelter their wealth in a developed and strategically located tax heaven country. Nevertheless, there are plenty of factors that play a major role in the Netherlands' economic and FDI success (Damgaard, Elkjaer & Johannesen, 2019b).



Figure 7: Comparison of the GDP per capita from 2010 to 2020



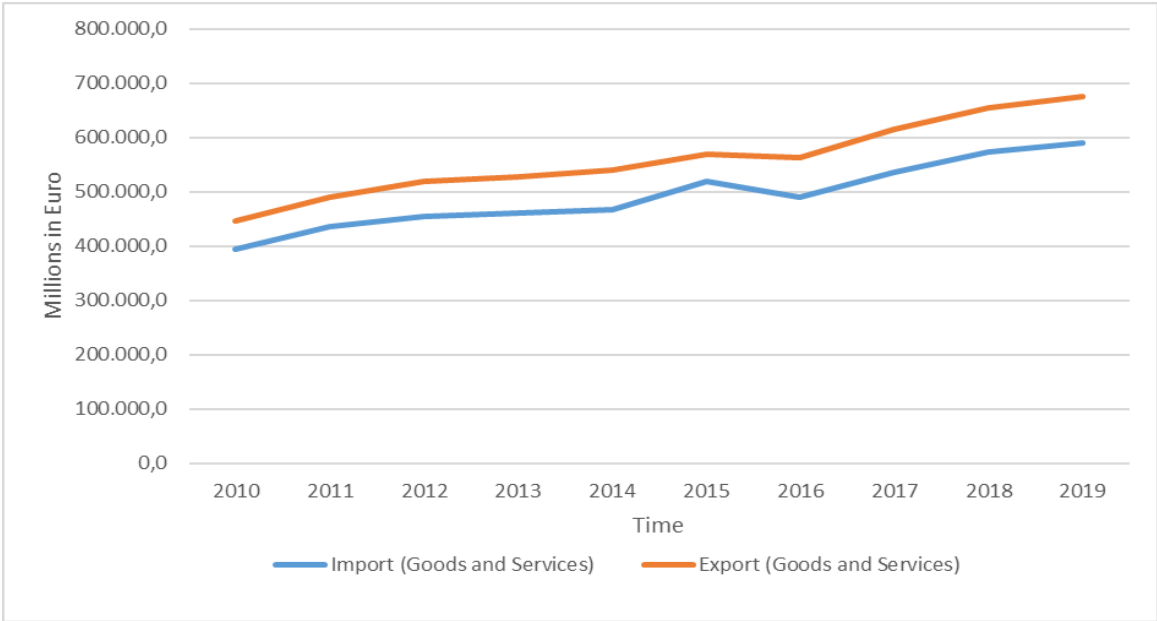
Source: OECD (2020a).

The Netherlands can boast with determinants like stable political sector, good macroeconomic climate, strategic location with the largest seaport in Europe, developed financial sector and well educated and highly productive labour force. Moreover, the Netherlands possess the fourth largest airport and an excellent telecommunication penetration all over the country. Furthermore, friendly business tax climate and investor protecting trade treaties contribute to the Netherlands status as one of the largest recipients of the FDI in the last decade which can be correlated with the investing companies' demand for a stable regulatory system (OECD, 2017b; U.S. Department of State, 2020a).

If we observe GDP per capita data in the Figure 7 above, we can see that the Netherlands had a steady increase from the year 2010 onward. Furthermore, the GDP per capita is well above the OECD mean indicating strong competitiveness. Nevertheless, Switzerland recorded higher GDP per capita with 73 thousand euro in 2019 which is 23.7 percent higher than the Netherlands GDP per capita of 59 thousand. In the year 2019, the Netherlands GDP was recorded at 810 thousand million euro which is 26.8 percent higher in comparison with the year of 2010. The GDP growth of the Netherlands falls right in the comparison with the mean growth for the whole EU, which stands at a 28.3 percent. Moreover, the Netherlands success can be correlated with the high exports out of the country and significant imports into the country. Furthermore, in 2019 the Netherlands recorded impressively low unemployment percentage at 3.2 percent, which decreased even further down to 2.98 percent despite the ongoing pandemic of COVID-19 in the year 2020. These two stated factors indicate a strong economic environment that can be correlated with the determinants like demand for a stable and safe market that offers resilience to a possible economic turmoil (Eurostat, 2021; Statista, 2020).

From the year 2010 onwards, we can observe that the Netherlands’ exports recorded higher volume than imports on a steady basis despite various global economic and macroeconomic problems. Having in mind the strategic location of the country and the highly developed transportation for goods and services, the data indicates that the Netherlands live to their historical reputation as a trade rich nation with trade open economy. If we look more deeply into the numbers, we can observe that the Netherlands export and imports 2.5 times more goods than services. Consequently, the Netherlands’ focus industries also mostly consist of goods-oriented companies. In 2019 the Exports reached 83.3 percent of the GDP and Imports 72.9 percent. Both measures highly exceed the mean for the European countries which varies around the 45 percent. Having an open economy with high exports is especially attractive for the foreign investors that are in search of establishing a new production site that can lead to a successful European market entry due to the existing supporting exporting facilities and services. (Eurostat, 2021).

*Figure 8: Comparison of the Goods and Services Import and Export in the Netherlands (2010-2019)*



*Source: Eurostat (2021).*

The Netherlands biggest industries are chemicals and chemical products and food and beverages industry. The government choose chemical and chemical industry as one of the focus industries, encouraging growth, technology development and innovativeness which represent a great determinant for the inward oriented FDI flows. On the other hand, the beverage and food industry is led by a giant global beverage producer Heineken, that significantly contributes to the exporting all over the world. Furthermore, we must mention refined petroleum and petroleum coke industry which is mostly invested in to satisfy the country’s high energy demand that is rising every year consecutively and represent a significant market opportunity for the foreign company to enter into. The lack of energy and

the arising problems will be touched upon later in the thesis. The Netherlands biggest strategic partner is United States of America, replacing Germany as the biggest export destination and complimenting with the biggest FDI inflows and FDI outflows investments. Other partners worth mentioning consist of Germany, Belgium, France, Switzerland, Luxemburg, and the UK<sup>5</sup> (Deloitte, 2012; OECD, 2017a; U.S. Department of State, 2020b).

Looking further into the investment climate in the Netherland we can observe the corruption perception index, global innovation index, global competitiveness report and lastly a FDI Confidence Index. The Corruption Perception Index measures perception of public sector corruption in 180 countries based on various factors such as managing conflict of interest, controlling political financing, regulating lobbying activities and even tackling preferential treatment. Furthermore, all the countries are ranked with a score from 0 to 100. The higher the score, the better the result. The Netherlands ranks 8<sup>th</sup> in the world or 6<sup>th</sup> within the European Union with a solid score of 82 which is 39 points above the average. Looking at the global innovation index, the Netherlands rank 5<sup>th</sup> and 4<sup>th</sup> in the Global Competitiveness Index 4.0 2019 Rankings. Rounding up the good results for the investors climate is the FDI Confidence Index, conducted by a consulting company Kearney, who places the Netherlands in 12<sup>th</sup> place on the leader board with a rising index score and even brighter future. All mentioned indexes and FDI leader board represent a great overall summary of the Netherlands offer of positive FDI determinants like low corruption, high innovation, and excellent investor climate (Global Innovation Index, 2020; Kearney, 2019; Transparency International, 2020; World Economic Forum, 2019).

From the theoretical basis that we explored in the first half of the thesis it is clear that there are many determinants that play a significant role when countries are trying to attracting FDI. More specifically we can observe that the Netherlands offers a geographical strategic position, excellent infrastructure, socioeconomic policies that attract foreign investors, quality labour force and even solid financial institutions with a strong regulatory foundation. Nevertheless, in 2019 a significant research was conducted concerning the correlation between human capital and increase in FDI in the Netherlands. The conclusion indicated that despite quality and productivity of the labour force and despite the need to maximize human capital to reap the most out of the FDI, the investors deemed it too expensive (Canadian Center of Science and Education, 2020).

The reason for high FDI inflow and outflow lies in different factors. The Netherlands is highly known for their tax friendly climate that encourage tax treaty shopping from foreign investors, more specifically MNCs. Good corporate tax rates and related benefits represent the biggest determinant for foreign FDI based on the Kearney's FDI Confidence Index. As indicated in the theory, the basis for the corporate tax evading loopholes is governmental effort to reduce the double taxation that is inflicted upon foreign investors. The Netherlands

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<sup>5</sup> The current Brexit situation is yet to be determined. Nevertheless, the outcome of potential trade agreement is out most important for the Netherlands.

removed the tax on dividend and interest payments. On the first look this indicates that the foreign companies pay out higher dividend and reduce the reinvestment rate, but on the other hand it proved to attract more FDI and consequently more capital that is being invested back into the market. Nevertheless, there is a significant percentage of companies that use the Netherlands as a middleman when trying to invest or move the capital into other countries. Consequently, the Netherlands FDI outflow numbers are inflated and do not always represent the real picture (Canadian Center of Science and Education, 2020; Kearney, 2021; Weyzig, 2013).

Looking at the tax rate, the Netherlands has one of the lowest corporate tax rates at 25 percent with governmental announcement that the rate will drop to 20.5 percent in the year of 2021. Furthermore, all profit from corporations up to 200 thousand euros is taxed at a lower rate of 19 percent, which will be dropped to 15 percent in 2021. The government is actively looking to improve and encourage foreign investments with transparency and outstanding customer service that strives to attract foreign capital. The service offers multiple offices in the biggest FDI partner countries, in likes of U.S. and Germany. Moreover, the government even sponsors the internet websites that offer clear and easy information and tax calculation for foreign corporations. The positive and affirming regulatory measures and focus on customer service has resulted in significant results with the UNCTAD (United Nations Conference on Trade and Development) marking the Netherlands as 5<sup>th</sup> largest FDI inflow destinations in the world and 3<sup>rd</sup> largest FDI outflow investors (Government of the Netherlands, 2020; Lang, et al., 2010; UNCTAD, 2017; U.S. Department of State, 2020a).

In addition to the significant tax regulation benefits, deeper research of various literature and multiple databases (OECD, IMF, and Eurostat) indicate that there is a significant FDI inflow invested into the industries that are leading in national export. Moreover, foreign companies are more prone to export and import in comparison with Dutch owned resident companies.

Despite many positive outlooks for the Netherlands there are some questions that will have to be answered in the future for the Netherlands to retain the attractiveness for the potential foreign investors. On one hand the Netherlands is ranked high in competitiveness and innovation, but on the other hand they are struggling with the sustainability index. The national economy is highly reliable on efficient use of natural resources in likes of natural gas. Consequently, due to the booming economy, the country is not placing sustainability as one of their top priorities. The results are already showing in the levels of air pollution which rank as one of the worst in Europe. Global warming and environmental sustainability are becoming one of the most important FDI determinants with 77 percent of the investors taking the determinant into the account when deciding on where to invest to (Kearney, 2021; Kraaijenbrink, 2020).

Arguments that defend the low sustainability efforts are claiming that a country cannot achieve high global competitiveness and high score in sustainability are rebutted by the success of Scandinavian countries who are a living proof that the countries can achieve both

at the same time. Moreover, there is a big question that relies around Brexit and potential trade agreement between the United Kingdoms and European Union. United Kingdom represent one of the main partners in trade and investments for the Netherlands. In total it results in approximately 2-3 percent of the annual GDP which sums up to 29 billion dollars. Moreover, there will be additional logistical problems that might interfere with previously fluid cooperation between the two nations. The future is still bright, with potential UK based companies relocating to the Netherlands, but the time to address the rising sustainability problem is running out (Mavadiya, 2019; McCown, 2018).

In 2019, Switzerland recorded annual GDP of 650 million euro. Furthermore, that marks a 43.4 percent growth from the year 2010 which is almost twice the size of the Dutch growth rate over the 10-year period. Consequently, Switzerland had a great and prosperous decade behind them, despite coming out of the great recession. (Eurostat, 2021) Moreover, despite the pandemic of COVID-19 in 2020, Switzerland ranked as one of the most successful countries that managed to increase their wealth during the pandemic. The countries wealth increase can be mostly related to the Swiss franc (CHF) fluctuations. Trough the last decade the Swiss franc is known to appreciate together with gold during a financial market turmoil. Consequently, Swiss franc is known as a safe haven currency and a good hedge mechanism against recession or other economic downturns which provides the FID investors with a great determinant of relatively safe economic environment (Grise & Thomas, 2015; Williams, 2020).

The Swiss franc as a strong currency is increasing capital inflow. This phenomenon is believed to increase during the economic downturn. Nevertheless, there are studies disputing the said phenomenon and trying to encourage taking a step back and looking at the situation broader and bigger perspective. Moreover, Swiss franc is also a currency of denomination for private sector lending in several European countries like Austria, Hungary, Poland, Luxemburg, and Germany. Especially interesting are the Swiss franc retail loans made in Hungary and Poland, since none of the countries represent a major financial and investing partner like the other three stated countries do (Brown, Peter, & Wehrmüller, 2009; Yeşin, 2017).

Looking at the Figure 9, we can observe that the Swiss franc is a stable yet flexible currency that is getting strong or appreciated in the times of recessions or other economic turmoil. In 2011 and 2015 Euro crashed to Swiss franc which was a consequence of actions made by the Swiss central bank. During the recession Swiss central bank pegged Euro and increased foreign currency reserves to prevent huge appreciation of the Swiss franc which would consequently impact the Swiss trading and export sector. Once the Swiss central bank released the foreign currencies back to the market, the Euro crashed and that can be observed on the graph. Despite the benefits of a strong currency in the time periods of a downturn, strong appreciation impacts the country's ability to export efficiently and competitively. This does indeed also impact foreign direct investments, who strive towards currencies that are not overvalued, and that maintain stable yet flexible exchange rate and thus provide an

excellent FDI inflow determinant (Chambers, 2015; European Central Bank, 2020; Kiyota & Urata, 2004).

In the nowadays, currencies can rise and fall. In this aspect they act similar to the stock market, where various stocks and indexes rise and fall as a consequence of the demand and supply. If the demand for a certain currency is higher than the supply, the currency will rise in comparison with other available currencies. Moreover, the demand of currencies is determined by many factors such as country's economic stability, low inflation, high interest rates, country's development and high growth, investment friendly environment and even attractive and developed export sector. Both currencies of our observed countries, the Swiss franc, and Euro, check most of the boxes stated above. Furthermore, the currencies can also be used as a hedge against risky or significant investments into the market. A perfect example is the Swiss franc that appreciates in the times of economic turmoil or downturn. Consequently, some the investments made into the Swiss economy can benefit and gain value. On the other hand, investors must stay wary and careful, since currencies do not only get impacted by the straightforward effects, but also second order effect. For example, investment into the Netherlands might lose initial value if the Euro depreciates, but on the other hand the depreciation can boost already booming export sector and consequently bring value in other forms (Ikenson, 2018; Moore, 2017; Rolph, 2015).

Figure 9: Euro vs Swiss Franc Exchange rate (2010-2020)



Source: European Central Bank (2020).

The exchange rates and currencies possess a great role when we are talking about the investments, and it is no different when we touch upon the FDI. A significant Harvard based research done in the 90's (Froot & Stein, 1991) confirmed that the exchange rate has a systemic effect on FDI, due to easier nature of investing into a FDI host country with

depreciated currency. Despite the investments losing value, the buy in is much more affordable and consequently the FDI inflows should rise. On the other hand, a research done in 2008 (Schmidt & Broll, 2008) indicates that the depreciation also impacts the FDI outflows in a negative way. Nevertheless, due to the time period that the research was conducted in, the results were not completely correlating since the FDI flows were on a quick rise worldwide, disregarding the depreciation or appreciation of country's currency. Lastly there is correlation between the exchange rate risk. The empirical analysis showed a statistically significant negative effect on country's FDI outflows for most of the industries.

The connection between the exchange rate and FDI does indeed play a significant role in our observed countries. The Netherlands backed by Euro and with a strong trading industry strive to keep the Euro depreciated not only to increase the exports, but also to attract more foreign direct investments at a cheaper price. Switzerland with the Swiss franc represent a strong currency with even stronger financial sector to back it up. Moreover, the currency being used as a hedge indicates that the FDI inflows should relocate to the country in times of uncertainty. Considering the last three years, the relocation of the FDI flows from the developing countries to the developed ones, and the ever growing, the future FDI flows for Switzerland should grow higher and higher.

Like the Netherlands, Switzerland ranks high in various indexes or rankings that compare competitiveness and success of the countries all over the world. Switzerland ranks 1<sup>st</sup> in the Global Innovation Index, 4<sup>th</sup> in the Corruption Perception Index, and 10<sup>th</sup> in the FDI Confidence Index 2020. Dissimilar to the Netherlands, rounding up good results is the 1<sup>st</sup> place in the sustainability score in 2018 and solid top 10 finish in 2019. Lastly Switzerland finished on 36<sup>th</sup> place out of 190 in The World Bank's Ease of Doing Business rankings. All of the rankings and indexes represent a great overall view on the offer of Swiss FDI determinants (Global Innovation Index, 2020; Kearney, 2019; The World Bank, 2020a; UNCTAD, 2017; World Economic Forum, 2019).

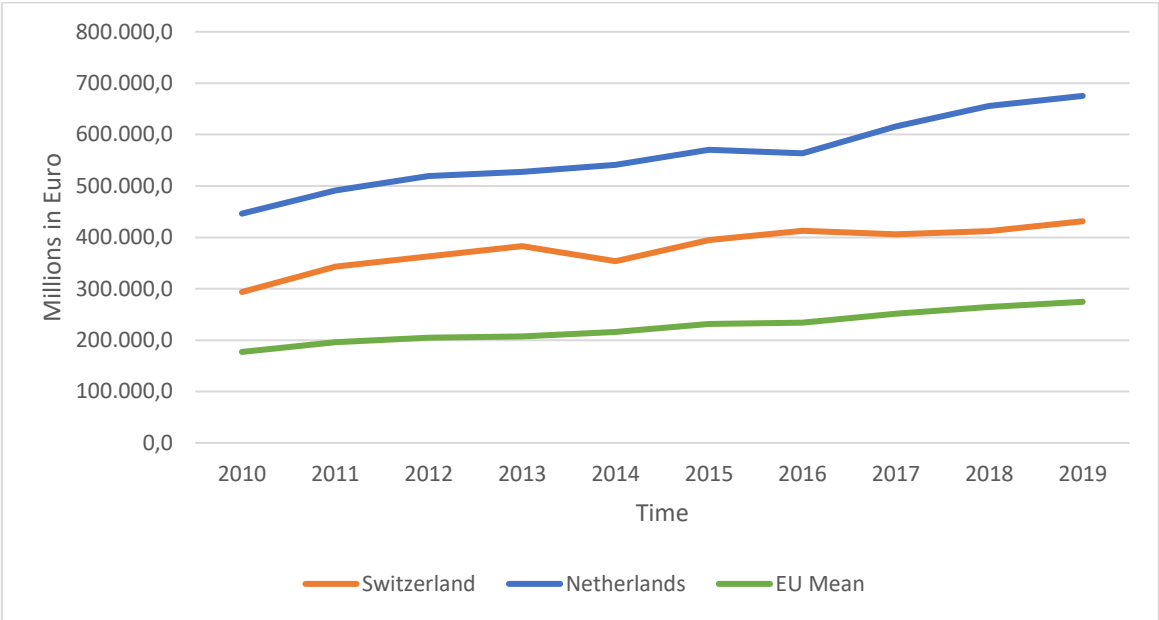
Furthermore, Switzerland offers highly skilled and educated labour force, excellent strategic geographic location and export infrastructure that allows the investors to efficiently transport goods and services to other countries, political, social, and financial stability and lastly a legal and regulatory environment that is much less restrictive and more attractive than the one in European Union (Forbes, 2018).

Switzerland is one of the most open economies in the world, which can be highly comparable with the Netherlands. Moreover, the 26 Swiss cantons enjoy a lot of autonomy when it comes up to deciding the investment climate. Cantons are free to set their own corporate tax and other regulatory actions to attract foreign capital. Nevertheless, Zurich is used as a base for corporate tax calculations, currently standing at 19.7 percent. Some of the cantons even offer tax free treaties for new companies up to ten-year period. Furthermore, the government is actively partaking in attracting investments from the Switzerland's main investing partner countries. In 2019, Luxemburg and the Netherlands represented more than half of all the

foreign investments with 28 percent each, respectively. Following two main partners are Ireland and the UK with 6 and 7 percent of all foreign direct investments streaming into Switzerland (Forbes, 2018; Swiss National Bank, 2020; The Federal Council; The portal of the Swiss government, 2020; U.S. Department of State, 2020b).

Moreover, the main categories or sectors that attract the foreign investments are the financial sector (including all holding companies) with 58.5 percent, trading sector and exports with 23.7 percent, chemical and plastic industry with 11 percent, and insurance sector with 2.6 percent. Furthermore, foreign investing into these sectors is protected and regulated by a strong Swiss’s laws and regulations like Securities Law, Cartel Law, Lex Friedrich/Koller Law and Swiss Code of Obligations (Swiss National Bank, 2020; The Federal Council; The portal of the Swiss government, 2020).

*Figure 10: Comparison of Export (Goods and Services) between Switzerland and the Netherlands (2010-2020)*



*Source: Eurostat (2021).*

Comparable with the Netherlands, Switzerland can commend itself with a successful and open trading economy that excels with exporting services and goods all over the world. Observing Figure 10 above, we can see that Switzerland exports more than an average country in European Union. Furthermore, we can see a slight dip in 2014 which is correlated with high appreciation of Swiss franc that consequently caused Swiss export to drop due to the increased price of exported goods and services. The Swiss exports increased from 290 thousand million in 2010 to 430 thousand million in 2019. Moreover, goods represent 71.9 percent of total exports in comparison with services that represent the other 29.1 percent. On the import side, the distribution between goods and service is similar to the exports with goods representing 69.1 percent and services 30.1 percent. Looking at the Figure 11, we can



see that Switzerland in 2020 exports 22.9 percent more than imports, which is an increase from 20.4 percent difference in the year 2010. This indicates a steady rise in the difference and bright future for all ready strong Swiss exporting and trade industry (Eurostat, 2021).

Despite the reputation of financial success that Switzerland possesses, there are some questions and problems to be resolved in the future. Although the Swiss economy is very open to the global markets, the country has relatively small economy that is limited by the land. Consequently, the market is one of the most competitive ones in the world making the ability to achieve competitive advantage much harder. Switzerland is also highly dependable on their financial industry and international trade, which explains their high ambition and strive when it comes to attracting foreign capital. Despite the success, financial diversification of income and investments can be beneficial also on the level of a sovereign nation and not only on the corporate or personal level of finance. Furthermore, strong financial market attracts “economic refuge” that exploit and profit out of bank secrecy and regulations that protect foreign investors. In recent years, Switzerland has come under developing pressure from other Western countries to provide information about its financial depositors and investors. Consequently, this has an impact on slowing the FDI and other economic investments or capital inflows (Forbes, 2018; The World Bank (IBRD,IDA), 2020).

*Figure 11: Comparison of the Goods and Services Import and Export in Switzerland (2010-2019)*



*Source: Eurostat (2021).*

Lastly, there was a strong push from the European Union on the matter of tax incentives to attract foreign investments. Consequently, the government passed The Federal Act on Tax Reform and Swiss Pension System Financing (TRAF) that entered into force in the year of

2020. The new law prescribed the 26 Swiss cantons to set the same corporate tax rate for foreign and domestic companies. Nevertheless, the setting of the corporate rate is still under the jurisdiction of individual cantons which contributes to the strong economic fundamentals that put Switzerland as a country at the top of the Global Competitiveness Index 4.0 2019 Rankings (U.S. Department of State, 2020b; World Economic Forum, 2019).

With the macroeconomic environment and individual FDI determinants stated, we can proceed to the statistical part of comparison of inward oriented FDI between the two observed countries. The foundation for the numerical analysis of the FDI data will be the OECD FDI database. As mentioned in the theoretical part, the FDI measurements are complex due to the various factors, such as tax treaty shopping and different reporting of the FDI outflows and inflows, that impact the overall validity of the data. Bearing in mind this problem, the paper will use OECD’s Benchmark Definition of Foreign Direct Investment – 4<sup>th</sup> Edition or BMD4 for short. This data collecting approach allows for a better objective perspective when we are measuring the methodological differences that exist between national statistics both for cross-country and industry analysis of the FDI. Lastly, it must be mentioned that the 4<sup>th</sup> Edition measuring was used from 2014 onwards, so any period before 2014 is measured using 3<sup>rd</sup> Edition measurements. The difference should not impact the data or the analysis for this paper, nevertheless it does need a small disclaimer for transparency (OECD, 2021c).

The numerical data will be complimented with the previously researched theoretical foundation and macroeconomic observations as well as official OECD FDI and investing reports. Having all that in mind and taking into the account all the previously stated factors, the paper will try and explain as best as possible the fluctuations and movement of the FDI flows in the Netherlands and Switzerland.

*Table 3: Comparison of the FDI inflows between the Netherlands and Switzerland in billions USD (2010-2019)*

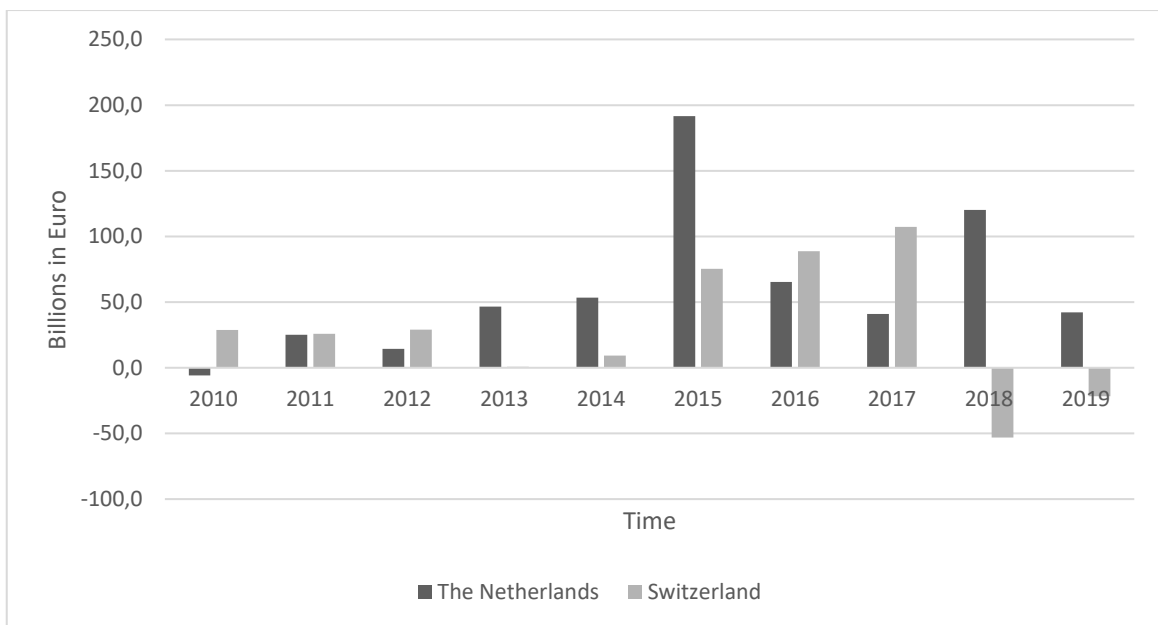
<b>Time</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>The Netherlands</b>	-5,7	25,0	14,5	46,7	53,5	191,6	65,3	41,0	120,2	42,2
<b>Switzerland</b>	28,7	25,9	29,0	0,6	9,4	75,3	88,6	107,3	-53,2	-21,7

*Source: OECD (2021).*

In 2012, the global FDI inflows declined by 14 percent from 2011. The drop was mostly in equity and intercompany loans component of the FDI. On the inflows side, China took the top spot, followed by the U.S. and Brazil. The global FDI economy was still under the influence of the recent great recession from 2008. The disinvestments in the field of FDI were present all around the globe. Equity and reimbursement of intercompany debt were the

main components that dropped significantly from the pre-recession levels. In the year 2013, OECD recorded a 4.5 percent increase of the FDI flows, which was still 30 percent below the pre-crisis levels. Most notably, equity declined in inflows and outflows as a consequence of further disinvestments. On the other hand, intercompany loans and reinvestments increased in inflows and debt component increased by 20 times in outflows. This also correlates with further data that indicates low percentage of mergers and acquisition FDI component and increase in reinvestments in existing investments. Due to the consequences of the financial crisis, companies strive to manage and maintain existing operations in comparison with trying to expand and opening new facilities abroad (OECD, 2013; OECD, 2014).

*Figure 12: Comparison of the FDI inflows (2010–2019)*



*Source: OECD (2021).*

Looking at the FDI inflows data for the Netherlands and Switzerland, we can observe quite interesting distinctions between the two countries. The Netherlands is following the path of an average OECD member country and Switzerland is recording a reverse situation in the time-period from 2012 to 2014. The initial hypothesis is that the financial crisis had different effect on both countries and their FDI inflows. To confirm the hypothesis, we can observe the specific OECD data for FDI inflows and outflows in different sectors or industries in both countries in the observed period. In Switzerland, the most FDI inflows rich was financial and insurance sector with 55 billion USD, followed by the manufacturing industry and other services both recording approximately 50 billion USD in FDI inflows. In the Netherlands, beverages and tobacco products sector brought in the most FDI flows, followed by other services and manufacturing. Despite the financial sector being significantly more exposed to the risk of the economic turmoil in 2008, the Swiss financial industry stayed relatively strong mostly as a consequence of the Swiss Franc hedge against risk. On the other

hand, the beverages and tobacco industry was hit hard without any additional support from financial tools like hedging. Consequently, both countries exited the financial crisis in different state, with Switzerland being ahead and the result can be observed in the FDI inflows as well. Moreover, due to the risk mitigating Swiss franc, the companies felt safe to invest into Switzerland even in the worst times of the decade in 2000s (OECD, 2021b).

Nevertheless, after 2012, the Netherlands started to recover on a significant pace with 282 percent growth in comparison with Switzerland that had a drop of 67 percent between the years 2012 and 2014. The disinvestment pattern in Switzerland was expected mostly due to the historical trend of disinvestment period right after two or three years of significant increase in FDI. In comparison with Switzerland, the Netherlands tend to stay positive in term of the FDI inflows with only slight disinvestment in the year 2010 as a result of recovering global economy (OECD, 2021c).

Moving to the next three years, we can observe a huge increase in FDI inflows. Observing the Figure 11 and Figure 12, we can see that the timeline from 2015 to 2017 represented the period with the largest FDI inflows for both observed countries. The Netherlands started strong in 2015 with approximately 190 billion in inflows. This represents a 258 percent growth from 2014 and a huge inflow of foreign capital. In Switzerland, the FDI inflows correlated with a huge growth in the Netherlands and recorded inflows of 75.3 billion euro, which represented 700 percent growth from the year 2014. To better understand huge growth of the FDI flows in these two countries, we must look at the broader macroeconomic factors that were happening at the time on the global scale (OECD, 2015a; OECD, 2016b).

Globally the FDI flows in 2015 reached record high levels since the year 2007 just before the great recession in 2008. The FDI flows reached 1.7 trillion USD with the United States as the main player in global FDI outflows and inflows. Beside the U.S. Ireland, the Netherlands, and Switzerland also contributed a major share to the vast increase in the FDI flows. The main driving force of the increase were the open intentions of U.S. companies to increase and partake in cross-border mergers and acquisitions. Moreover, with these moves the companies strived to reduce their corporate tax obligations and there is no surprise that the Netherlands and Switzerland join Ireland as one of the top destinations of the FDI outflows. Furthermore, the FDI soaring was further impacted in 2016 with big acquisitions like Anheuser-Busch InBev acquiring SABMiller (OECD, 2017a; OECD, 2018).

Overall, the equity inflows and intercompany debt flows doubled in 2015 just to get pushed back in 2016 and 2017 when the overall FDI flows dropped by 7 percent and 18 percent, respectively. OECD reported huge disinvestments in Switzerland despite the statistical data showing a steady increase until 2018 when the FDI flows dropped to negative. This could be explained by the vast size of the investment coming into the country in the year 2015 and persisting due to the longer duration of the FDI to be completed. On the other hand, the Netherlands' inflows stagnated after the record high in 2015. The stagnation in high growth and decline in overall flows are mostly the consequence of cooling down after huge flows in

2015. The volatility of the FDI inflows is extremely high and periods of stagnation after huge spikes are something regular and not out of the normal movement (OECD, 2017a; OECD, 2018).

Switzerland also benefited from the corporate and financial restructuring since the country is a common destination for redomiciled companies. Furthermore, Switzerland often played a great role when it comes to the intragroup lending for MNCs. The Swiss developed and stable financial sector played a big role in 2015 investing and thus could be an explanation for continued growth in 2016 and 2017 in comparison with the FDI flow stagnation in the Netherlands. Moreover, in 2016 most of the investors turned towards the developed countries which represent a more stable environment for the investments. Due to the rising uncertainty about the future, investors and MNCs looked towards the stable macroeconomic environments in likes of Europe and North America. Europe represented even better destination due to the weakened euro which consequently made the investments cheaper in comparison with the dollar (Peterson R. & Laudicina A., 2017).

The general believe was that the undeveloped countries represented more of a bearish market in comparison with the bullish market for the developed countries. In 2017 the MNCs started to diversify again their investments into undeveloped or emerging markets like middle east and or Africa. Consequently, strong financial industries like Switzerland's industry represented a great middleman when the MNCs were transferring their funds and entering new markets. On the other hand, developed countries in like of the Netherlands started to stagnate due to the diversification abroad. Nevertheless, the uncertainty about the future was starting to develop and investors were searching for the next phenomena that would drop the market into another financial recession (Kearney, 2016; Peterson R. & Laudicina A., 2017).

Lastly, we can look at the last three years that passed, the period from 2017 to 2019. The overall FDI flows dropped by 27 percent in 2018 after the U.S. introduced a new tax reform. A big impact on the overall drop was also significant disinvestment into Ireland and Switzerland (-53.2 billion euro) which can also be observed in the Figure 12. Moreover, large equity disinvestments to and from SPEs impacted the Netherlands. Nevertheless, the country still recorded a significant amount of FDI inflows with approximately 120 billion euro. In 2019, the global market recorded an increase of 12 percent in overall FDI flows (OECD, 2019).

Despite the bounce back from 2018, the overall FDI flows still stayed relatively low and under the levels between the years 2010 and 2017. Next to the U.S., the Netherlands were the only other country that appeared at the top of FDI inflows and FDI outflows. Switzerland remained in the negative numbers due to the further disinvestment. Overall, the FDI flows were struggling even before 2020 when the pandemic of COVID-19 hit. The uncertainty about the future recession was preventing MNCs from undertaking huge investment risks and it showed in the data. For the last year of 2020, there is currently lack of official data,

but the forecasts predict at least 30 percent drop in the FDI flows all over the world (OECD, 2019; OECD, 2020c).

All in all, Europe made a comeback in attracting the FDI inflows. After the diversification of the FDI inflows by MNCs in 2017, Europe once again became the top destination. More than half of the FDI inflow positions were in the Europe. Moreover, Europe represented 5 out of 10 top destination countries. Developed countries represented 84 percent of all FDI destinations, mostly due to the strong economic performance, competitive advantage over emerging countries, technological innovation, and additional regulatory and competitive pressure to localize the investments. All the mentioned factors benefit both of our observed countries. Furthermore, the forecasts see the developed market as bullish, but open to a potential political crisis. Since the U.S. represent the most important destination and investor in the FDI sector, a strong and stable U.S. government is preferred. More importantly, 80 percent of investors believe that FDI will become even more important for corporate profitability and competitiveness in the next few year. This does indicate a bright future for both of our countries since they already have a strong FDI history to build upon (Alfaro & Andrew, 2007; Kearney, 2019; McCaffrey Rickert, Peterson, & Paul, 2018).

Looking at the 2020 we can safely claim that the FDI inflows were decimated by the pandemic. The uncertainty is at the all-time high with a grey looking future ahead. Due to the sudden stop of all investments, the top FDI inflow destinations stayed relatively similar to the previous years. Investor confidence dropped and all the possible investments returned to the large stable markets with reliable future. Moreover, the phenomenon of the FDI inflows moving to the developed countries got reaffirmed and encouraged by the high uncertainty. Investors are looking for a destination with strong plans and great foundation for the future FDI flows. Consequently, the Netherlands and Switzerland both emerge as a potential front runner that will capitalize on the FDI inflows movement in the post pandemic world (Kearney, 2020).

### **3.3 Comparison of FDI outflows: determinants, flows and major characteristics**

Having looked at the comparison of the FDI inflows between the two observed countries, we can continue with the comparison of the FDI outflows. Before we dive in the statistical comparison we must build upon the Netherlands' and Switzerland's FDI outflow determinants. Due to the FDI outflow being dominated by the western developed countries, the determinants of both countries do not differ from the competition. Nevertheless, there is one significant difference that does come into relevance. Both countries having a great tax rates, the domestic companies do not necessarily need to seek for a better one in the foreign countries.

Moreover, due to the overall great macroeconomic environment with excellent technological advances, educated labour force and stable political and regulatory field, the main

determinants do not really represent the highest initiative for both countries to undergo the FDI.

Since a beneficial low corporate tax rate, market stability and high innovativeness represent the main FDI determinant as stated by the Kearney’s FDI Confidence Index, the outward oriented FDI determinants of both observed countries move more towards reducing the high labour, material and other production costs, expanding in other foreign market to benefit from competitive advantage and to acquire additional specific knowledge from other markets to increase competitiveness in the domestic market. Interestingly enough both countries outward FDI determinants move more towards theoretical foundation that we have set, especially towards Dunning three main conditions (Dunning, 1988; OECD, 2017a; OECD, 2017b) (OECD, 2017b).

Moreover, the overall FDI outflow volume of the Netherlands and Switzerland is inflated due to the activity of the SPEs. As stated in the theoretical chapter and throughout the thesis, various companies tend to take advantage of low corporate tax trough the SPEs that move capital abroad after benefiting from the low tax rate. This does indeed make the true picture distorted and consequently must be pointed out before advancing to the statistical comparison.

*Table 4: Comparison of the FDI outflows between the Netherlands and Switzerland in billions USD (2010-2019)*

<b>Time</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>The Netherlands</b>	69,83	35,68	0,52	65,28	62,42	261,3	190,6	43,48	-12,8	74,87
<b>Switzerland</b>	85,72	48,10	43,57	38,57	-0,05	88,76	122,1	30,14	60,78	11,10

*Source: OECD (2021).*

Looking at the table 4 above, we can again correlate the volume with different impact of the financial recession in the 2008 on both observed countries. Switzerland recorded higher FDI outflow volume in comparison with the Netherland that experienced a significant drop, especially from the year 2011 to 2012. On the outflows level, Switzerland’s biggest sector was again the financial and insurance sector which does correlate with their country’s specialization and strong financial industry. On the other hand, the Netherlands’ biggest FDI outflows sector was the petroleum and chemical sector which correlates with the macroeconomic factors such as need for the energy and strong chemical industry. On the global levels, the FDI outflows or investments abroad dropped by 15 percent, with U.S. leading the leader board at 351 billion USD invested, followed by the Japan with 122 billion and Belgium with 85 billion<sup>6</sup> (OECD, 2013; OECD, 2014; OECD, 2021c).

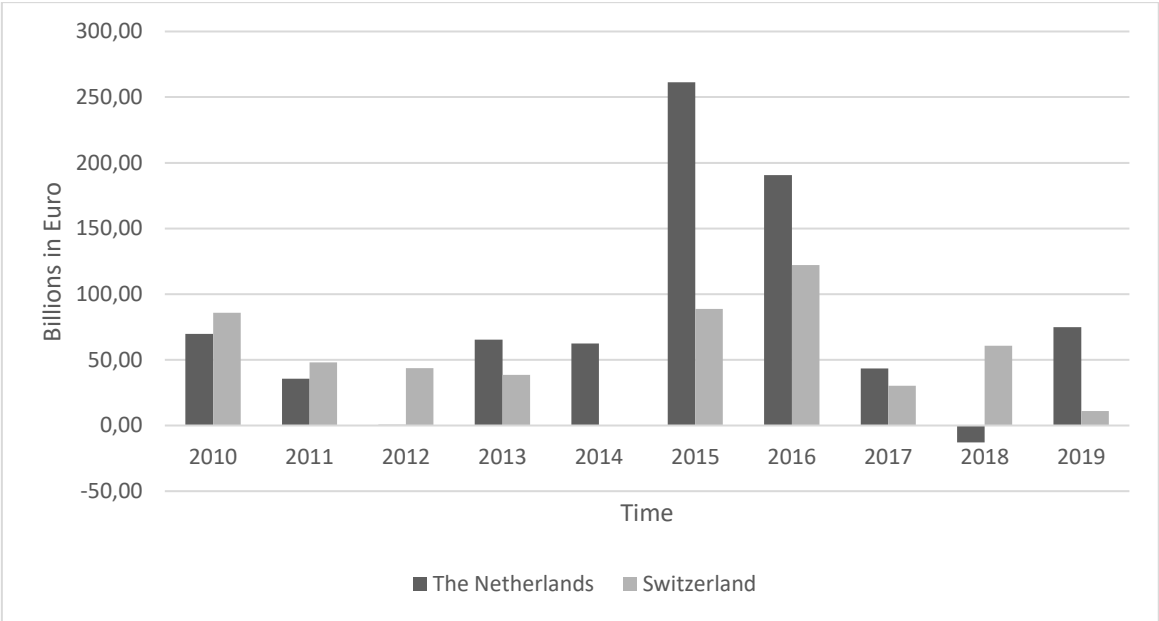
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<sup>6</sup> The Belgian FDI outflow is mostly correlated with the foreign acquisitions made by Anheuser-Busch InBev SA/NV.

Looking at the volatility of the FDI outflow in the Figure 13 below, we can observe that Switzerland represents a much less volatile investor with the FDI outflows staying at similar level. On the other hand, the Netherlands' FDI outflows spike and drop significantly. This can be explained by a much larger amount of SPEs that are being active in the said flows. The Netherlands acting as a middleman between traveling capital that has a goal of reducing corporate tax represent an interesting story, especially looking at the FDI outflow data (OECD, 2021b).

Moving to the next period of years, we can observe similar story to the FDI inflows, with a significant spike in the years 2015 to 2016. Again, the volume of the Netherlands is skewed due to larger activities of the SPEs, especially the SPEs in ownership of the American companies due to the U.S. initiatives to significantly increase FDI. The Netherlands started strong in 2015 with approximately 260 billion Euro in that represent a 319 percent growth from the year before. In Switzerland, the FDI flows correlated with a huge growth in the Netherlands and recorded 88,7 billion euro in outflows, which was a large step up from an overall worst year for the Swiss FDI in 2014, that was mostly a consequence of a multinational disinvestment into the country (OECD, 2015a; OECD, 2016a).

Figure 13: Comparison of the FDI outflows (2010–2019)



Source: OECD (2021).

Lastly, we will investigate the period from 2017 to 2019. As stated, before the U.S. introduced a new tax reform that impacted the overall investment, due to the country being on top of the FDI leader board for nine years consequently. Both countries rebounded differently from the overall global FDI disinvestment. Switzerland bounced back in 2018 and increased their FDI outflows from 30.1 billion USD to 60.7 billion USD. Having the historical reputation for doing well in times of economic uncertainty, this represents no

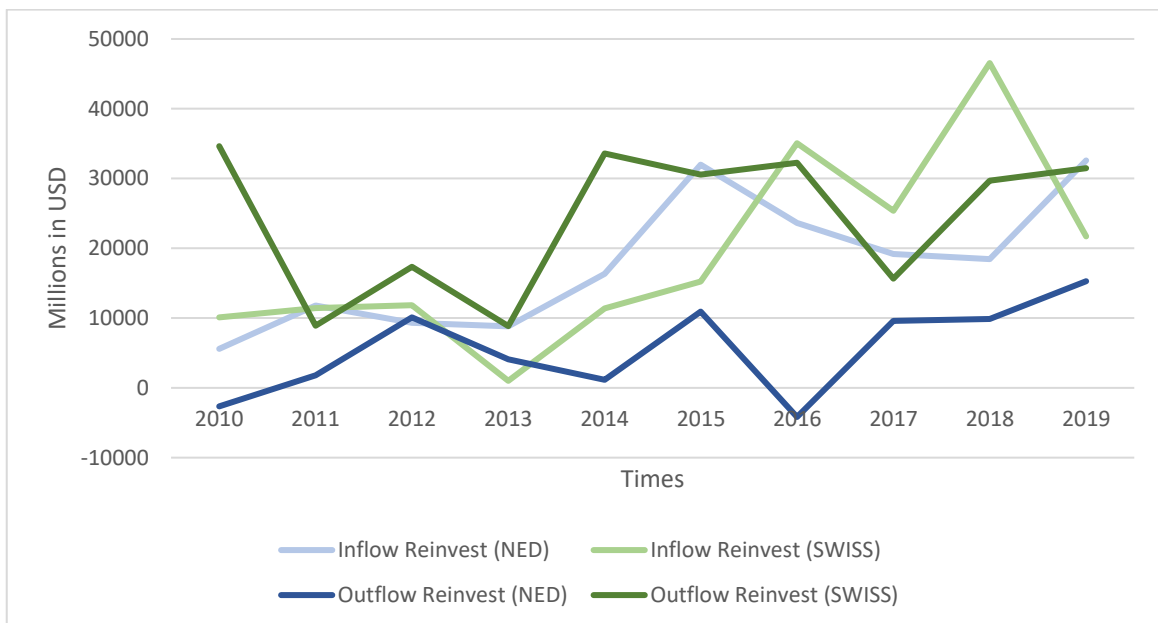


surprise and correlates well with the data from the Netherlands, where the FDI outflows slinked into the negatives. Moreover, in the 2019 the success switched with Switzerland falling to 11.1 billion USD in outflows and the Netherlands significantly jumping to 74.8 billion USD. Nevertheless, despite the positive outlook indicating a steady rise of the FDI outflows, the volume was decimated in the 2020 due to the global pandemic of COVID-19 that still persist into the year 2021 (OECD, 2019; OECD, 2020b).

### 3.4 Comparison of the FDI flows components

With the comparison of the FDI inflows and outflows between the Netherlands and Switzerland in the period from 2012 to 2020 completed, we can focus our attention to the FDI components and try to analyse any potential deviations between the two observed countries. As stated in the theoretical part of the master thesis, the FDI inflows and outflows consist of equity capital, debt or intracompany loans, and reinvested earnings. If we look at the FDI inflows the component with highest volume are reinvested earnings.

*Figure 14: Comparison of the FDI flows Reinvestment (2010-2019)*

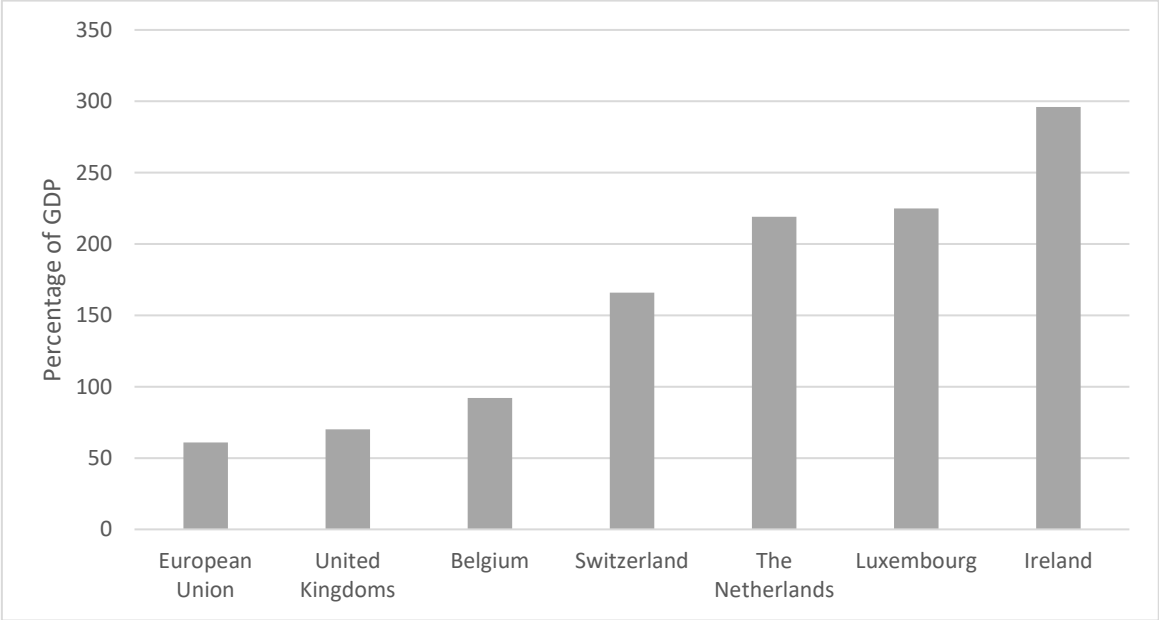


*Source: OECD (2021).*

Moreover, if we look at the Figure 14 above, foreign companies in Switzerland tend to reinvest more in comparison with the foreign companies in the Netherlands. The discrepancy is even more observable if we look at the FDI outflows reinvested earnings, where Swiss companies out reinvest the Dutch companies every single year. Furthermore, if we look at the last decade, we can see a positive trend in term of reinvested earnings, especially in the FDI inflows department, which is highly important for country's further development. This trend also indicates that once the initial FDI are made by the companies, they tend to reinvest the earned profit and not pay it out as a dividend or as a direct capital to the parent company.

Looking at the other two FDI flows component we can observe that the debt represents a bigger role in the FDI inflows and equity capital represents a bigger role in the FDI outflows. The role of the debt can be correlated with a strong financial industry in both domestic markets. Investors tend to use the financial tools such as loans, deposits, 10 years bonds, etc. when they are investing in strong financially stable countries in likes of Switzerland and the Netherlands. On the other hand, both countries use their own financial markets to satisfy their needs. Moreover, Switzerland recorded less FDI outflow debt that the Netherlands, which supports the theoretical hypothesis of the country relying on its own strong financial market. On the side of the equity capital, the Netherlands recorded high volume of FDI outflow equity capital. Furthermore, in the years 2015 and 2016, when the FDI flows hit the peak, the Netherlands invested almost 200 billion USD in 2015 and 140 billion USD in 2016 into Equity capital. This huge amount of capital was mostly used to purchase common and preferred shares, invest into the reserves, and expand capital contributions (OECD, 2021a).

Figure 15: FDI Inflow positions as Percentage of GDP (2019)



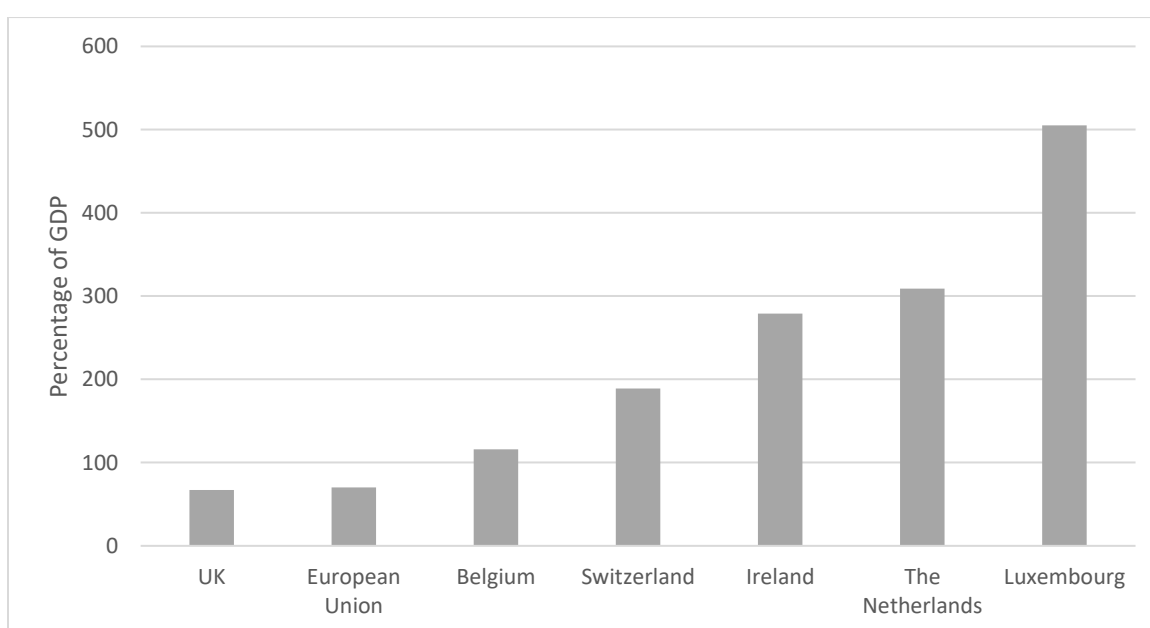
Source: OECD (2021).

Having looked at the FDI flows throughout the last decade, it is important to take a step back and look at the overall FDI positions of both countries. FDI positions or FDI stocks represent the cumulative value of the investments in each year or in a certain time period. FDI positions are quite important since they allow the data gatherers to differentiate the total FDI positions with SPEs and total FDI positions without counting the activities of the SPEs. Moreover, we can look at the data as the percentage of GDP, which can give us a great insight into the bigger picture.

Looking at the Figure 15 above, we can observe the countries with highest FDI inflow positions as percentage of GDP in the world. The inward FDI position is the value of foreign

investors' equity in and net loans to enterprises resident in the reporting economy. Due to the vast difference in size between the countries, percentage of GDP introduces nice comparison. To no surprise, the Netherlands and Switzerland both rank in the top 4 positions with 219 percent of the GDP and 166 percent of the GDP. Two countries beating them are Luxembourg and Ireland. Both observed countries are high above the mean of European union that stand at 61 percent. Moreover, the data presented is excluding the FDI positions accounting for SPEs. Adding the SPEs rises both countries to the second and third position with the Netherlands recording 614.5 percent of the GDP and Switzerland 213.4 percent of the GDP. Not surprisingly Luxemburg rises to 6049.1 percent of the GDP and thus secures the first place on the leader boards (OECD, 2021b; OECD Data, 2021b).

*Figure 16: FDI Outflow positions as Percentage of GDP (2019)*



*Source: OECD (2021).*

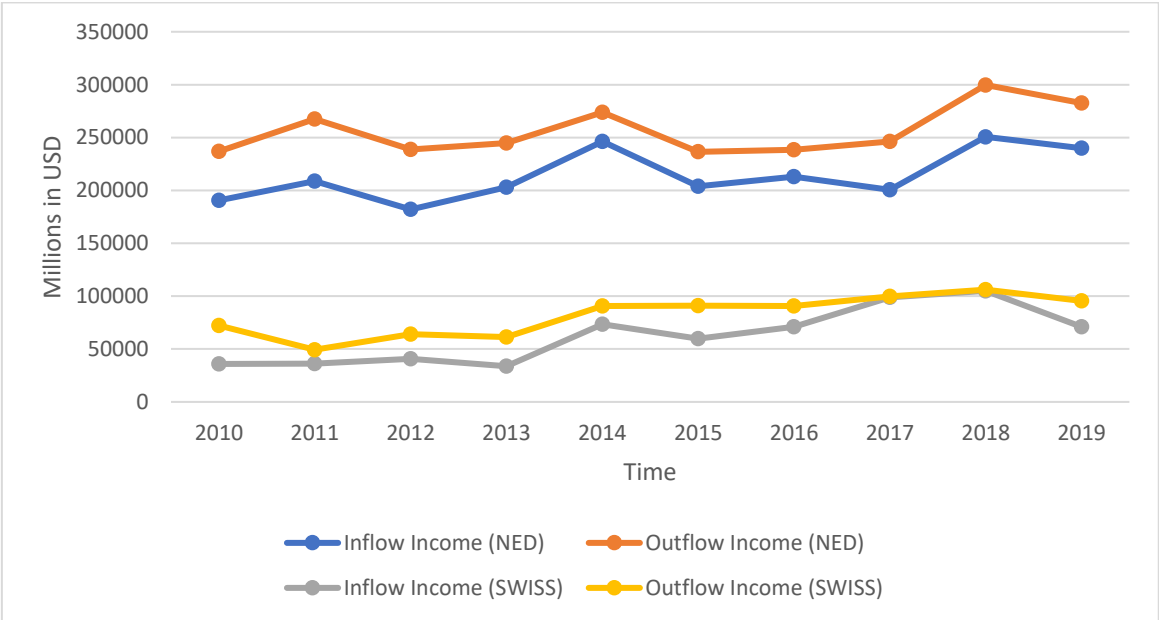
Moving to the FDI outflow positions, we can see a similar story in comparison with the inflow positions. At the top is Luxembourg with the Netherlands, Ireland, and Switzerland trailing behind. Furthermore, with including the SPEs activities the percentages jump again. Including SPEs, the Netherlands jump from 309 percent to 489 percent and Switzerland jumps from 189 percent to 192.1 percent. We can observe that the jump including SPEs activities in the FDI outflow positions is much smaller than in the inflow positions. This is mostly due to the capital coming into these countries to reduce the corporate tax. Once the investments arrive to their destination, they take advantage of local tax regulation. Since these countries already count as a tax haven country, most of the time there is no need to search for additional benefits and tax reliefs (OECD, 2021b).

FDI income, represents income payments measure that records payments made by partner countries within a year of the direct investment position paid by the enterprises or MNCs. It

is made of earning on equity investments and interest on debt payables by enterprises resident in reporting country. FDI income payments are recorded under the counterpart country that represents the other partner involved in the process (OECD Data, 2021a).

As with all FDI data, the FDI income is divided on outflows and inflows. The Netherlands in the last decade recorded higher FDI income than Switzerland. Furthermore, we can observe in Figure 16, that in each country the outflow income is higher on consistent basis than the inflow income. This would correlate with the hypothesis that both countries are receiving more FDI than outputting it. Moreover, looking at the Figure 17, we can see that the Netherlands follow an interesting pattern of income spikes every 3-4 years. On the other hand, Switzerland has a much more uncorrelated pattern between the income inflows and inflow outflows.

Figure 17: Comparison of FDI Income between the Netherlands and Switzerland (2010-2019)



Source: OECD (2021).

When we are talking about the FDI income we must mention return on investment. Rate of return provides enterprises with the indication if the investment brings in a gain or a loss. In the context of FDI, it helps analysing the profitability of the FDI flows into foreign countries. Most of the MNCs strive to maximize the return, decide where to invest next, where to produce the product or service and lastly where to realize the income to pay as little corporate tax as possible. The FDI rate of return is defined as the total inward/outward FDI income divided by the total the total inward/outward FDI. More interestingly, Switzerland recorded high return on investment and placed third on the leader board with 9 percent rate of return for Swiss investments abroad and 8 percent rate of return for foreign investors investing in Switzerland. Not only does Switzerland present a great location for foreign investments

based on the return on investment, but also manages to gain even more on their own investments abroad (OECD, 2017c).

On the other hand, the Netherlands brings the investors 6 percent rate of return and 4.7 percent rate of return on their own foreign investments. Consequently, foreign investors investing into the Netherlands bring a higher return on investments than the country itself guarantees with their own investments abroad. Rate of return for Netherlands' investments is also the EU median, which makes the Switzerland's efficiency even more impressive. There is no one big explanation for swiss success, but having a strong, globally renown and developed financial industry can only bring positive results (Bosworth, Collins, Chodorow-Reich, & Tille, 2007; OECD, 2017a).

### **3.5 Comparison of the FDIs with the global competition**

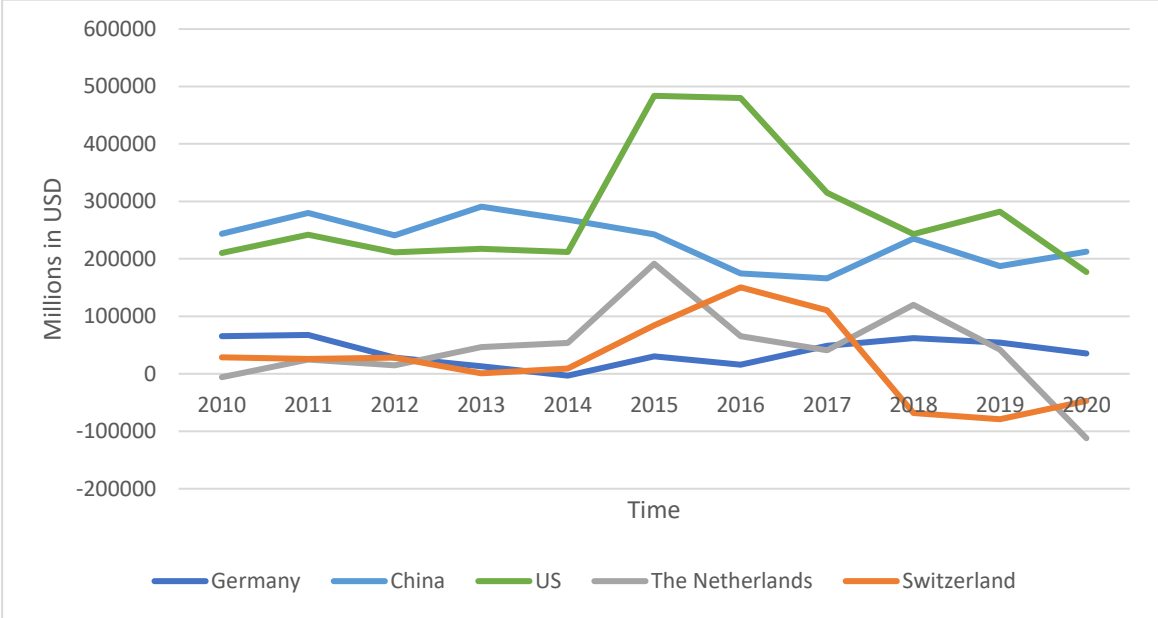
Throughout the thesis, I have noted that the Netherlands and Switzerland rank highly on most leader boards and indexes that compare countries all over the world. Nevertheless, due to the size of both countries, the ability to go toe to toe with largest countries in the world is impressive. The direct competition can be divided into three major groups. The first group contains large, developed countries that are financial powerhouses on their own. In this group we can find countries like U.S., Germany, UK, Japan, and China. The second group is represented by smaller developed nations like the Netherlands and Switzerland, with a few other mostly western European countries. Lastly, we have emerging or undeveloped countries that are attractive destination due to the high growth potential and overall inexpensive business environment. We could divide any of these groups even further, but for our research these three groups should suffice (OECD, 2021b).

Based on the OECD data and additional theoretical research, the third group of undeveloped countries does not represent a direct competition, nor can it be compared on the FDI flow basis. Not only did the FDI flows, and FDI positions decrease after the great financial crisis in the 2008, the FDI flows also steered towards countries with strong regulatory and legal basis that offer great asylum from uncertainty. Moreover, countries in Europe seem even more attractive due to the technological advantage, strong educated workforce, and strategic locational position. Third group will always represent an attractive destination for enterprises all over the world, but in the current time and with the uncertainty at all-time high, developed countries represent a better destination and offer more desirable investment determinants for the FDI flows (Kearney, 2019).

Comparing both main countries with the first group of large, developed nations, we can quickly observe that the United States and China lead in FDI inflows with no real competition. Despite the large advantage in countries' GDP, the Netherlands and Switzerland are not only catching up with the big countries, but also surpassing Germany as the first and second most competitive country in the Europe. Moreover, due to the bright forecast about the importance of the FDI for the global financial markets in the future, both

countries have additional room for improvement, growth, and additional development (World Economic Forum, 2019).

Figure 18: Comparison of the FDI inflows (2010-2020)



Source: OECD (2021).

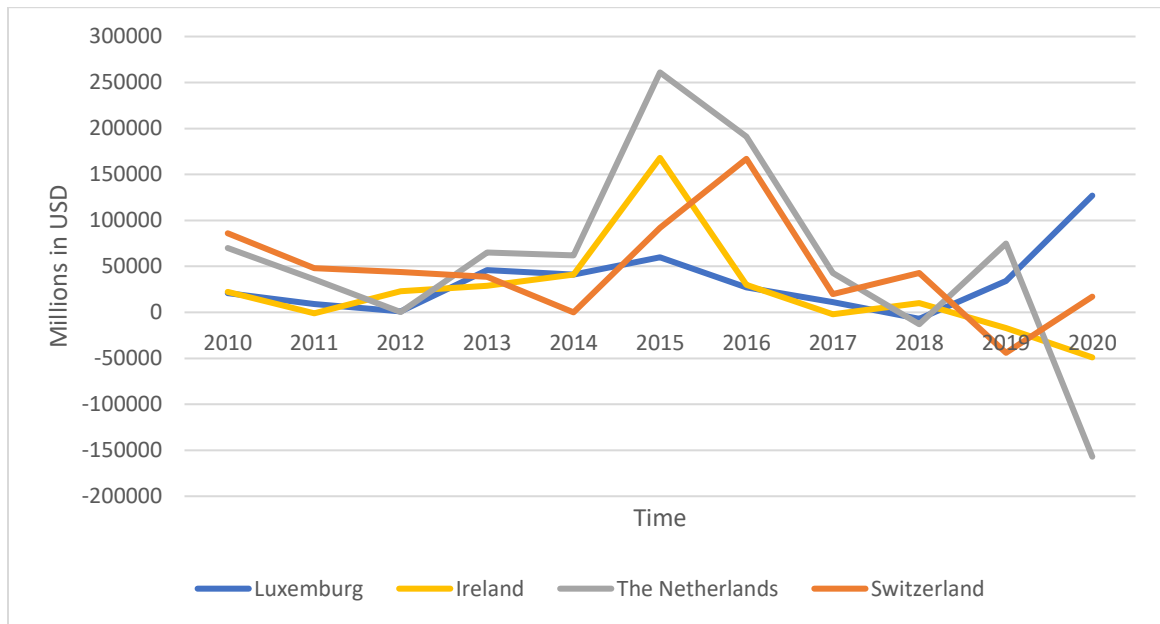
Looking at the Figure 18, we can confirm first observations of China and U.S. being in the group of their own when we are looking at the FDI inflows data. Nevertheless, two additional observations can be made. The first one is the confirmation that both of the observed countries surpassed the Germany not only in the global competitiveness level, but also in terms of the FDI inflows. The second observation is the volatility of the FDI inflows. Observing the Figure 18, U.S., the Netherlands, and Switzerland record a much higher volatility of the FDI inflows in comparison with Germany and China. This indicates that the countries with higher volatility are more prone to the effects of FDI determinants, both the positive and the negative ones. The volatility can also be correlated with the activities of the SPEs in both observed countries (OECD, 2021b).

On the side of the FDI outflows, U.S. has a clear advantage over other four countries with the Netherlands and Switzerland being more competitive with China than in the field of the FDI inflows. Nevertheless, the U.S. FDI outflows feel sharply in 2018 and returned on the levels of other compared countries in the year 2019. This data does indicate that both observed countries are more competitive in term of FDI outflows despite being one of the best and most desired FDI destinations in the world (OECD, 2021b).

Lastly, we must compare the Netherlands and Switzerland with the similar sized developed countries that represent a great and attractive destination for the global FDI flows. Looking at the OECD FDI inflow, outflow, income, and positions data, we can safely say that beside

the Netherlands and Switzerland only two countries can compete on regular basis for longer periods of time. Those two countries are Ireland and Luxembourg. The correlation between all of the four countries are tax reliefs and friendly investor regulation. Moreover, Luxemburg and the Netherlands are leading countries with the most SPE activities in the world (OECD, 2017a; OECD, 2021b).

*Figure 19: Comparison of the FDI inflows (2010-2020)*



*Source: OECD (2021).*

Looking at the Figure 19, the Netherlands and Switzerland record higher volumes of the FDI outflows in comparison with other two countries. Moreover, the Netherlands and Switzerland can be much more comparable with the Ireland and Luxembourg, placing them in a similar FDI level group. Furthermore, all of these countries are known to operate with large quantities of the SPE activities and consequently significant volatility is expected both in the FDI inflows and FDI outflows. On the side of the FDI outflows, Ireland holds an advantage over both of the observed countries. Nevertheless, the Netherlands and Switzerland still follow Ireland in terms of the FDI inflow volume indicating high competitiveness and investor attractiveness (OECD, 2021b).

Data indicates that for smaller developed nations to compete with larger developed nations, they need to attract MNCs and other foreign investments and what better way than making the investment environment as friendly as they can. Nevertheless, in recent years there was already some pushback by the European Union to reduce corporate tax reliefs and benefits to spread the foreign capital. Despite countries like Switzerland already acting upon this pushback and changing legislation and regulations, these countries still provide multinational enterprises with an option to go tax treaty shopping to reduce their corporate tax (OECD, 2017b; OECD, 2017c).

### **3.6 Key findings of the comparative analysis**

In this chapter the thesis will summarize the key findings of comparative analysis with the in-depth table of the FDI comparison between the Netherlands and Switzerland. The table was designed to compare the seven most important factors when trying to evaluate similarities and differences between both European countries. The evaluated factors are:

1. Inward oriented FDI determinants
2. Outward oriented FDI determinants
3. Macroeconomic factors
4. Volume of the FDI inflows
5. Volume of the FDI outflows
6. Structure of the FDI flows
7. FDI income and ROI
8. FDI trends

The detailed comparison table can be observed on the next page followed by the additional analysis and explanations of the provided content. The table serves not only as a summary of the key finding, but also as a concrete additional value that can be used for future FDI investigation in the Netherlands or/and Switzerland.

Observing the table of comparison, we can dive in the first factor of the Inward oriented FDI determinants, both countries share the most desirable determinant of beneficial corporate tax rates and other tax benefits or reliefs. Moreover, both countries represent a stable economic, political, and regulatory environment which serve as an immense benefit in the current times when the FDI flows are striving towards developed countries to remain safe and protected from uncertainty and other potential risks. The Netherlands does have an advantage in the openness of the economy, offering excellent supporting facilities and highly utilized resources. On the other hand, Switzerland excels due to the strong financial market and historically good performance in the economic downturn due to the domestic currency Swiss Franc.

Outward oriented FDI determinants share similarities between the countries, with both searching for more affordable means of production and labour. The Netherlands also searches for advantages to expand in the energy industry to satisfy domestic demand or expand on already achieved knowledge with foreign “Know how”. The Switzerland’s main determinant is acquiring competitive advantage in highly competitive domestic market through expansion into foreign countries.



Table 5: Comparison of the main FDI factors between the Netherlands and Switzerland

FDI factors	The Netherlands	Switzerland
<b>1 Inward oriented FDI determinants</b>	<ul style="list-style-type: none"> <li>- Beneficial tax rates and other tax reliefs</li> <li>- Excellent supporting facilities (large seaport, airport, telecommunication)</li> <li>- Stable economic environment</li> <li>- Stable political and regulatory sector</li> <li>- Educated and skilled labour force</li> <li>- Trade openness of the economy</li> </ul>	<ul style="list-style-type: none"> <li>- Beneficial tax rates and other tax reliefs</li> <li>- Environmentally conscience economic market</li> <li>- Low corruption and strong regulatory foundation</li> <li>- Strong financial market &amp; domestic currency</li> <li>- Stable economic market in economic downturns</li> </ul>
<b>2 Outward oriented FDI determinants</b>	<ul style="list-style-type: none"> <li>- Cheaper labour force due to the expensive domestic one</li> <li>- Demand for energy to sustain high usage</li> <li>- Lower cost of production and materials</li> <li>- Competitive advantage in foreign markets due to the strong domestic market and specific “Know how”</li> </ul>	<ul style="list-style-type: none"> <li>- Cheaper labour force due to the expensive domestic one</li> <li>- Competitive advantage in foreign markets in order to retain or increase market share in highly competitive domestic market</li> <li>- Expansion due to the highly saturated domestic market</li> </ul>
<b>3 Macroeconomic factors</b>	<ul style="list-style-type: none"> <li>- Investor friendly environment with governmental and service support</li> <li>- High exports providing great facilities and supporting services</li> <li>- High utilization of natural resources</li> <li>- Stable political and regulatory sector</li> </ul>	<ul style="list-style-type: none"> <li>- Strong and stable financial industry with strong domestic currency</li> <li>- Strong regulatory system with low corruption and support from the government</li> <li>- Excellent strategic entry point for further expansion in the Europe</li> </ul>
<b>4 Volume of the FDI inflows</b>	<ul style="list-style-type: none"> <li>- High volume and stability of the FDI inflows</li> <li>- Skewed by the actions of SPEs and MNEs to gain benefits of tax reliefs</li> <li>- Main partners consist of U.S., Germany, UK, Luxemburg, France, and Switzerland</li> <li>- Recorded 42,2 billion USD in 2019, consistently ranks in top 5 of inward oriented FDI destinations</li> </ul>	<ul style="list-style-type: none"> <li>- High volatility of the FDI inflows with specific historical patterns</li> <li>- Occurrence of high disinvestment in the country (2013-2014, 2018-2019)</li> <li>- Main partners consist of Ireland, UK, Luxemburg, and the Netherlands</li> <li>- Recorded negative FDI inflows of 21,7 billion USD in 2019 due to the disinvestment</li> <li>- Consistently ranks in top 10 of inward oriented FDI destinations</li> </ul>
<b>5 Volume of the FDI outflows</b>	<ul style="list-style-type: none"> <li>- High volatility of the FDI outflows, skewed by the activities of SPEs</li> <li>- Recorded 74.8 billion USD in 2019, outperforming Switzerland in volume</li> <li>- Main destinations consist of Switzerland, U.S., Belgium, Ireland, France, and UK</li> </ul>	<ul style="list-style-type: none"> <li>- Stable and consistent volume of the FDI outflows</li> <li>- Recorded 11.1 billion USD in 2019</li> <li>- Main destination consists of the Netherlands, Luxemburg, and Ireland</li> </ul>
<b>6 Structure of the FDI flows</b>	<ul style="list-style-type: none"> <li>- Lower reinvestment rate than Switzerland, consistent with SPEs activity</li> <li>- High equity outflows, mostly share repurchases</li> <li>- Higher debt in inflows and outflows in comparison with Switzerland</li> </ul>	<ul style="list-style-type: none"> <li>- Higher reinvestment rate, indicating positive retainment of foreign capital</li> <li>- High debt inflow due to strong financial market, low debt outflow</li> </ul>
<b>7 FDI income and ROI</b>	<ul style="list-style-type: none"> <li>- High FDI income in comparison with Switzerland</li> <li>- 282 thousand USD FDI outflow and 239 thousand USD FDI inflow income in 2019</li> <li>- 6 percent ROI for FDI inflows, 4.7 percent on the FDI outflows; on par with the EU median</li> </ul>	<ul style="list-style-type: none"> <li>- Still relatively high FDI income, but lower than the Netherlands</li> <li>- 95 thousand USD FDI outflow and 70 thousand USD FDI inflow income in 2019</li> <li>- High 8 percent ROI for FDI inflows, 9 percent on the FDI outflows; 70 percent higher return for the foreign investors in comparison with the Netherlands</li> </ul>
<b>8 FDI trends</b>	<ul style="list-style-type: none"> <li>- Positive outlook despite the impact of the ongoing pandemic</li> <li>- Needs to improve the sustainability problems that has arisen due to high utilization for natural resources</li> <li>- Needs to satisfy growing demand for energy</li> </ul>	<ul style="list-style-type: none"> <li>- Excellent outlook due to the strong historical performance during economic downturn</li> <li>- High competitiveness does not allow for rapid expansions and domestic growth</li> </ul>

Source: Own work.

Macroeconomic factors for both countries represent a friendly investor environment with governmental subsidies to attract foreign capital. Moreover, stable political and regulatory environment makes the countries more attractive. The Netherlands in comparison with the Switzerland represent a more trade-oriented nation with high export and import volume. The Switzerland on the other and relies on their strong financial market and is oriented strongly toward exports with high reliance on foreign import. Not surprisingly the Netherlands represent one of the main Swiss trade partners.

The volume of the FDI flows highly differ between the two countries. Despite the statistical data being skewed by the SPEs activities, comparison can be made. The Netherlands possess higher volume of FDI flows in comparison with Switzerland. The Netherlands has higher volatility in the FDI outflows and Switzerland in FDI inflows. This is due to the to the volatility of the activity of the SPEs in the Netherlands and strong reliable Swiss economy that maintains consistent FDI outflows. Moreover, the comparison of the flows must take into the account FDI structure, FDI income and ROI. The Netherland has higher FDI income with lower reinvestment rate, but high equity outflows that consist of share repurchases of foreign companies. The debt part of the FDI structure remain higher in comparison with Switzerland that can rely on the domestic financial market. This can also be seen in the high FDI debt inflow coming to the Switzerland with foreign companies using the financial tools. Switzerland does not only have higher reinvestment rate which correlates with higher retainment of the foreign capital, but also higher return on the investment for all FDI flows in comparison with the Netherlands. Despite the Netherland possessing the higher overall volume, Switzerland can easily compete with the quality of the FDI flows.

Lastly the FDI trends for both countries look bright, with Switzerland currently in advantage due to the pandemic situation that will leave a lasting impact on the global economy. Both countries need to solve a few problems that will decide their success and competitiveness in the future. The Netherlands must improve the sustainability aspect of the economy to satisfy the changing demand for environmentally friendly investing environment. On the other hand, the Switzerland is dealing with highly competitive domestic market that is representing higher and higher barrier to entry for foreign capital.

## **CONCLUSION**

In conclusion we will firstly look at the consolidated general conclusion of the master thesis that includes the main results and outcomes. Secondly, the research questions that were gathered in the introduction will be looked at and thoroughly discussed. Lastly, I will state the limitations and suggestions for the future research in this field.

## **Consolidated conclusion**

Foreign direct investments represent an interesting and important topic within the field of finance and economy. Furthermore, the countries that excel at attracting the FDI inflows seem to be highly developed and competitive on the global level (OECD, 2021b). Consequently, the thesis tried not only to research and investigate the volumes of the FDI flows, but also to compare the FDI flows determinants of the two most successful countries in the FDI field.

The initial approach was to establish a strong theoretical base upon which the thesis could build further research and comparison of the FDI statistics between the Netherlands and Switzerland. Furthermore, due to the nature of the FDI statistics the thesis had to establish which FDI definition and which FDI databases will be used to conduct the research. The most important factor in the definition being the 10 percent stake and making the investment sufficiently active to count as an FDI (IMF COMMITTEE, 2004; OECD, 2008a; UNCTAD, 2007). Moreover, additional complications do not only occur due to the FDI definition, but also due to the measuring of the FDI. Considering the FDI actions by SPEs the thesis used internationally renowned databases such as the OECD Benchmark Definition 4<sup>th</sup> edition that mitigate the impact of the phantom FDI (Baker, Foley, & Wurgler, 2009; OECD, 2015a).

Moreover, the theoretical foundation explored the phenomenon of FDI inflows and outflows determinants that contribute to the overall volume of the FDI flows. The companies tend to search for a specific advantage over competition in the target country so that they can use to make the foreign investments profitable. Based on the research the most important determinants are the tax rates and the ease of tax payments, followed by the technological and innovation capabilities and regulatory transparency. The companies seek a secure, stable, and predictable economic environment that still offers flexibility for their capabilities. Moreover, the next few determinants in the likes of general economic environment security, domestic economic performance, government incentives for investors and domestic market size indicate the advantage of the developed countries in comparison with the developing when trying to attract FDI inflows.

In 2019, 84 percent of all FDI positions were recorded in the developed countries, as a consequence of the recent movement of the FDI due to the high uncertainty from developing into developed countries. Moreover, due to the friendly investment climate, strong and stable financial and political sectors, and educated and productive labour force, the developed countries can reap the benefits of the FDI. FDI contributes with capital inflow determinants (source of financing, access to global market and foreign currencies), macroeconomic determinants (increasing and aggregating productivity, increasing and diversifying exports, generating new employment, improving and pushing technological frontiers, constructing and stimulating new economic sectors, and introducing new competition on the market), and microeconomic determinants (knowledge and technology spill over, improvement of

managerial and employee skill, increased local productivity and competitiveness). Furthermore, detailed analysis of the global FDI indicated the prevalence of the U.S. both in FDI outflows and FDI inflows. Nevertheless, the Netherlands and Switzerland can still be compared due to their macroeconomic factors and FID determinants. The thesis also investigated the future trends with FDI taking a significant role in the post pandemic economic recovery.

Lastly the statistical FDI comparison between the observed countries indicates that the Netherlands possesses an advantage over Switzerland in term of the FDI inflow and outflow volume. Statistical data also reveals that each of the observed countries recorded different annual volatility of the FDI volume. The Netherlands dominated the period from 2013 to 2015 in FDI inflows, just to be beaten by Switzerland in the period from 2015 to 2017. On the side of the FDI outflows, Switzerland had an advantage from 2010 to 2012, surpassed by the Netherland from 2013 onwards. The Netherlands possesses more volume of the FDI flows and higher value of the FDI positions, but Switzerland is more effective and efficient with the FDI positions and FDI flows and consequently brings in higher rate of return on the investments. Finally, the effectiveness and efficiency of Switzerland is higher than the Netherlands' advantage in quantity of the FDI. Nevertheless, both countries are at the top of the global FDI flows, FDI positions and FDI income leader boards.

Both of the observed countries also possess the majority of the most desirable FDI determinants like offering beneficial tax rates and other tax reliefs. In addition, the Netherlands provides excellent supporting facilities (large seaport, airport, telecommunication), stable economic and political environment, educated and skilled labour force and trade opened economy. In comparison, Switzerland provides environmentally conscience economic market, low corruption and strong regulatory foundation, strong financial market, reliable domestic currency, and stable economic market in economic downturns. Both of the countries deal with specific disadvantages, with the Netherlands struggling with ever growing energy demand and Switzerland with high domestic market competitiveness.

The master thesis covered a broad spectrum of the FDI sector. Moreover, the master thesis did not stop with the comparison of the FDI flows between the Netherlands and Switzerland, but also challenged the theoretical background and overall global FDI flows, FDI determinants and FDI structure. Furthermore, the thesis focused on the developed countries, which is contrast to the numerous researches done on the topic of the FDI and growth in developing or undeveloped countries. Combining all of the factors above, the master thesis represents a unique work that covers and interesting and developing economic topic. The thesis represents a good foundation of statistical FDI data and theoretical background for additional and more specific research in the future.

## Addressing main research questions

Throughout this subchapter, the thesis will dive into each individual research question that was set in the introduction and provide a detailed answer based on the theoretical foundation and statistical comparison.

*Q1: What are the main factors that contribute to the Netherlands' and Switzerland's success with the FDI inflows and outflows and what are the main difference between the two countries in this respect?*

When we are looking at the statistical data of the FDI inflows and outflows between the Netherlands and Switzerland, we can observe that overall, the Netherlands possesses a volume advantage over Switzerland. More interestingly, each country acts different when we are looking at the annual volatility. The Netherlands dominates the early period from 2013 to 2015 in FDI inflows surpassed by Switzerland in the period from 2015 to 2017 (OECD, 2013; OECD, 2014; OECD, 2015a; OECD, 2016b). On the side of the FDI outflows the situation is reversed with the Netherlands surpassing Switzerland in 2013. Overall, the comparison needs to include FDI positions and FDI income to come to relevant and firm conclusion. The Netherlands possesses more volume of the overall FDI flows and higher value of the FDI positions, but Switzerland is more effective with the FDI positions and the overall FDI flows and consequently brings in higher rate of return to the investors. The difference between the effectiveness or quality is higher than the difference between quantity, especially if we do not take into the account FDI made or recorded by the SPEs that are more prevalent in the Netherlands. Nevertheless, both countries are at the top of the global FDI flows, FDI positions and FDI income leader boards (OECD, 2021b; OECD Data, 2021b).

The FDI inflows and outflows are built upon the FDI determinants that attract the foreign investors. Both of the countries possess a significant amount of the most desirable FDI determinants and consequently attracting a large amount of the FDI volume. Despite both of the countries sharing similar determinants they do differ in some aspect. The Netherlands provides excellent supporting facilities (large seaport, airport, telecommunication), stable economic and political environment, educated and skilled labour force and trade opened economy. In comparison, Switzerland provides environmentally conscience economic market, low corruption and strong regulatory foundation, strong financial market, reliable domestic currency, and stable economic market in economic downturns.

In addition to the FDI inflow and outflow determinants, significant role of the MNCs and SPEs has to be stated. The multinational corporations do not only represent 90 percent of all FDI flows, but they also contribute to the FDI flows with using special purpose entities to reap various tax relief benefits. The amount of FDI flows that go through an SPE is in some country three to four times bigger than the amount of the FDI flow without the SPE activity. For instance, Luxemburg is regarded as one of the most active countries in term of the FDI,

but if we eliminate the majority of the SPE's FDI activities, the country's FDI flows fall significantly. Similar observations can be found in the case of the Netherlands and Switzerland, but in comparison with Luxemburg or Ireland, the observed countries also record a significant amount of FDI inflows and FDI outflows without the so called phantom FDI. Nevertheless, the Netherlands are in comparison with Switzerland more involved in the SPEs FDI activities which contributes to the overall larger FDI inflow and outflow volume (Baker, Foley, & Wurgler, 2009; OECD, 2015b; Wellhausen, 2020).

*Q2: Which macro-economic factors are being taken by the Netherlands and Switzerland as an advantage to secure a strategic position in terms of the FDI inflows and outflows?*

Throughout the thesis it became quite clear that the Netherlands and Switzerland possess many similar FDI inflow and outflow determinants that contribute to the overall success. Based on the statistical data and theoretical research there are two main groups of determinants that drive the force of the FDI. First group is represented by the macroeconomic determinants and the second group is represented by the existence of corporate tax reducing benefits that attract foreign MNCs. Both groups significantly contribute to the Netherlands' and Switzerland's FDI success. Diving deeper into the macroeconomic determinants we can segment further into three main determinants (Damgaard, Elkjaer & Johannesen, 2019b).

The first macroeconomic determinant is represented by the great strategic location of both compared countries. Not only are both countries geographically located in between the great economic powers of the U.S. and China, but they also benefit from being geographically positioned in the centre of Europe. The Netherlands can boast with excellent infrastructure such as the largest seaport in Europe, one of the largest airports and excellent telecommunication system across the whole country (OECD, 2017b; U.S. Department of State, 2020a). On the other hand, Switzerland's infrastructure is up to par with the Netherlands. Due to the excellent financial infrastructure and great geographical location, Switzerland is known to be an excellent entry point for the MNCs if they desire to expand or enter the markets of eastern Europe or even the Middle East. Furthermore, both countries strive to keep the infrastructure up to date to satisfy the investors and warrant their reputation as open economies.

Being an open economy does not only generate high exports, high imports, or trade volume, but it also signals to the foreign investors that the country is a perfect location with a great investment climate (Eurostat, 2021). The Netherlands excels at exporting goods and services from the food and beverages industry (Company: Heineken), chemicals and chemical products (Companies: LyondellBasell, Shell Chemicals, Royal DSM), and refined petroleum and petroleum coke (Company: Royal Dutch Shell). On the other hand, Switzerland excels at exporting financial services due to their strong financial industry, insurance sector, and chemicals and plastic products (Companies: Givaudan, Syngenta, Novartis). Moreover, both countries strive to attract investors and thus actively pursue investor friendly treaties, such

as investor protecting trade treaties that also represent a highly positive FDI flow determinant.

Following trade treaties as a second macroeconomic determinant, we come to the third macroeconomic determinant, the country's stability. With current investor trend moving toward stable developed countries to secure investments from uncertainty, stability is becoming one for the most important factors for the foreign investors. The Netherlands and Switzerland can both present a great stable political sector with strong, investor friendly regulation and less restrictive legislation (Forbes, 2018). Moreover, their social stability with highly educated and skilled labour force represents another attractive factor. Lastly, the financial stability is guaranteed with large and globally renowned Swiss financial industry or well developed and strong Dutch financial industry. Both countries also recorded high growth rates in the last decade in comparison with other western developed countries and rank highly on corruption perception index, investment confidence index and even global competitiveness rankings (Global Innovation Index, 2020; Kearney, 2019; Transparency International, 2020; World Economic Forum, 2019).

Diving into the second group of determinants, we discover a large amount of tax reducing benefits. The Netherlands offers various tax treaty shopping options as well as infamous "Dutch Sandwich" capital movement (Wood, 2016). Consequently, the Netherlands are known as a tax haven and an excellent location for special purpose entities. Switzerland offers excellent corporate tax rate via tax setting autonomy of Swiss cantons (Government of the Netherlands, 2020; Lang, et al., 2010; UNCTAD, 2017). Moreover, due to the secrecy of the Swiss depositors, Switzerland represents a great destination for capital from all over the world (Forbes, 2018; Swiss National Bank, 2020; The Federal Council; The portal of the Swiss government, 2020; U.S. Department of State, 2020b). Lastly, the Swiss franc as a strong currency offers a viable hedge against economic turmoil (Grise & Thomas, 2015; Williams, 2020).

*Q3: How does the FDI success of the Netherlands and Switzerland compare to the global competition?*

Due to the rising importance of the FDI flows in the economy, the global competition is getting bigger and stronger. Attracting the foreign direct investments became a priority for numerous countries. Due to the switch of the FDI inflows target countries from the developing to the developed ones in the recent years, most of the competition in the developing world was eliminated. Moreover, 84 percent of all the FDI positions are located in the developed countries (Alfaro & Andrew, 2007; Kearney, 2019; McCaffrey Rickert, Peterson, & Paul, 2018). Furthermore, the Netherlands and Switzerland overtook most of the similar sized developed nations like Ireland and Belgium due to the better macroeconomic factors and FDI inflow and outflow determinants which contribute to the overall excellent investing attractiveness. Lastly both countries can go toe to toe with the biggest economic powers in the world like the U.S., China, and Germany with both of the

observed countries overtaking the latter in terms of global competitiveness. Despite not gaining any benefits over the competition with the macroeconomic determinants, they do benefit from offering various tax relief benefits that in addition to foreign investors also attract large MNCs that strive to create SPEs and thus take advantage of the corporate tax loopholes (Kearney, 2019; OECD, 2017b; OECD, 2017c; OECD, 2021c; World Economic Forum, 2019).

Lastly, the thesis emphasizes on the rising importance of the FDI in the global economy. Not only are the countries realizing the importance of attracting large amounts of foreign capital, the FDI is expected to play a significant role in the recovery after the pandemic of COVID-19 (OECD, 2020c). Having that in mind, this master thesis, and the topic of the FDI will be increasingly more relevant with each consecutive year to come. Especially since the topic offers a lot of room for additional research.

*Q4: What is the impact and importance of the FDI on the developed countries?*

Lastly, the thesis considered the impact of the FDI on the developed countries. Judging only from the competition standpoint we can assume that the positive FDI inflows and outflows determinants are certainly worth the additional work and struggles in order to attract foreign direct investments. The importance of the FDI for the developed countries is quite well represented with the push and pull factors. On the push side, the companies are attracted by the lower transportation cost to other countries, significant differences in factor prices, slow growth rate in domestic market and many others. On the pull side, the developed countries are striving to bring in additional foreign capital, capture new technology as a direct result of a spill over from successful MNCs and additional know-how knowledge for the labour force (Alfaro & Chauvin, 2020).

Moreover, beneficial inward oriented FDI determinants for the developed countries can be divided into three major groups. The first group of determinants is a direct consequence of an increased capital inflow that comes with the FDI. Not only does it increase availability of capital as a factor of production, but it can also act as a source of financing for local companies and provides a valid substitution to the local banks. The second group of benefits represent macroeconomic determinants that impact the host countries on the larger scale. Here we can find benefits like stimulating higher growth of GDP, increasing, and aggregating productivity, increasing, and diversifying exports, generating new employment, improving, and pushing technological frontiers, constructing, and stimulating new economic sectors, and introducing new competition. Lastly, we have a group consisting of microeconomic determinants that benefit the local economy in a more direct aspect. The FDI is stimulating knowledge spill over (Blomström, 1991), technology transfer from foreign companies to local ones, improving managerial and employee skills, boosting further investing incentives, improving local competitiveness, and boosting company productivity (Alfaro & Charlton, 2007; Alfaro & Chauvin, 2020; Denisia, 2010; OECD, 2008a; Siegel, Licht, & Schwartz, 2012).



In addition, looking at the research databases from various educational institutions, we could observe a large number of theses and research papers that were trying to correlate the relationship between the FDI and GDP growth rate in the developing countries. The research done in this master thesis did not only disputed that there is indeed a significant statistical correlation between the GDP growth in the developing countries and FDI as stated in various research papers from best universities in the world, but it also provided statistical data that the majority of the FDI positions are located in the developing world. Moreover, with the recent development of the high uncertainty due to the global pandemic ravaging the economy, the trend is moving even further towards the developed countries that are waiting to reap the positive FDI inflow benefits.

### **Limitations and suggestions for future research**

Throughout the theoretical research and statistical data analysis, I have found a concrete answer to each of the four research questions. Moreover, throughout the thesis additional information about the topic was learned, researched, and used to support the findings to answer the initial four research questions. Nevertheless, the research is suffering from the mentioned problems of lack of clear definitions and potential irregularities when measuring the statistical FDI data. The clear lack of globally accepted definition of the FDI introduces more problems especially with the yearly development of the FDI economic sector. Having a globally agreed upon definition would not only clear up further misunderstandings with definition of the FDI components, but it would also allow institutions to develop a better statistical tool to measure and collect FDI from all over the world.

This is crucial for effective and valid comparison between the countries, as well as for identifying the correct foreign investments as FDI and not as something different. Lastly the existence of phantom FDI and SPE's FDI activities has a large impact on the data collection and interpretation (Voytko, 2019). Despite globally renowned institutions like OECD introducing statistical tools such as OECD's Benchmark Definition 4th edition, the measuring still deviates from country to country. Moreover, the tool was developed in the year 2006 and used from 2014 onwards with no news about any possible update (OECD, 2006). With the forecasted future of the FDI, it would be necessary to update not only the definitions, but also the measuring practices.

The main driver for future research should be further research into the impact of the FDI on the developed countries in the future after the pandemic of COVID-19 settles down. Moreover, some of the additional benefits, determinants and correlations seem to offer additional room for research. For example, a thorough research on the correlation between the foreign direct investment flows and the country's exports.

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## **APPENDIX**



## **Appendix 1: Povzetek (Summary in the Slovene language)**

NTI predstavljajo zanimivo in pomembno temo v finančnem in ekonomskem sektorju. Magistrsko delo ne poizkuša zgolj identificirati primerjavo NTI prilivov in NTI odlivov med Nizozemsko in Švico temveč tudi določiti pomembne NTI determinante, ki vplivajo na njun uspeh. Teoretična raziskava predstavlja začetni temelj na kateri lahko magistrsko delo gradi statistično primerjavo med obema državama. Poleg tega je magistrsko delo, zaradi statistične narave neposrednih tujih investicij, poizkuša ugotoviti katera NTI definicija in katera podatkovna zbirka bi bili uporabljeni skozi samo raziskavo. Najpomembnejši dejavnik pri NTI definiciji je 10 odstotni delež ter da sama investicija dosega zahtevani NTI pogoj aktivnosti.

Zaradi velikega števila NTI aktivnosti podjetij s posebnim namenom, pomanjkanja univerzalno sprejemljive definicije in drugačnih statističnih navad je OECD razvila statistično orodje Benchmark Definition 4th edition, z namenom natančnega merjenja NTI prilivov in odlivov, NTI prihodkov in NTI pozicij. Upoštevajoč aktivnosti subjektov s posebnim namenom (SPEs) je magistrsko delo uporabilo podatkovno bazo OECD, kjer z orodjem OECD Benchmark Definition 4th edition blažijo sam vpliv fantomskih neposrednih naložb.

Teoretična podlaga tudi raziše pojav dejavnikov priliva in odliva NTI, ki prispevajo k celotni količini NTI tokov. Podjetja iščejo prednosti pred konkurenco v ciljni državi, da bi zagotovila dobičkonosnost investicij. Na podlagi raziskave je ugotovljeno, da sta najpomembnejša dejavnika davčna stopnja in enostavnost plačevanja davkov. Omenjenima dejavnikoma sledijo tudi tehnološke in inovacijske zmogljivosti in regulatorna prosojnost. Podjetja iščejo varno, stabilno in predvidljivo gospodarsko okolje, ki ponuja prilagodljivost za njihove potrebe in zmogljivosti. Poleg tega dejavniki kot so splošna okolijska ekonomska varnost, uspeh domačega gospodarstva, državne finančne pomoči vlagateljem in velikost domačega trga kažejo na prevlado razvitih držav v primerjavi z državami v razvoju, ki po večini teh dejavnikov ne zagotavljajo.

V letu 2019 so razvite države predstavljale kar 84 procentov vseh NTI pozicij. Situacija je nastala kot posledica negotovosti in premikanja NTI iz razvijajočih držav v razvite. Razvite države lahko koristijo prednosti NTI zaradi prijaznega investicijskega ozračja, močnega finančnega in političnega sektorja ter izobražene in produktivne delovne sile. NTI prida prednosti kot so priliv kapitala (vir financiranja, dostop do svetovnega trga in tujih valut), makroekonomske prednosti (povečanje in generiranje produktivnosti, povečanje in raznolikost izvoza, generiranje novih zaposlitev, izboljšava in napredek v tehnologiji, izdelava in stimulacija novih ekonomskih sektorjev in vpeljava novih tekmecev) in mikroekonomskih prednosti (tehnološki in izobraževalni napredek, izboljšanje vodstvenih in delavskih sposobnosti, povečana lokalna produktivnost in tekmovalnost). Izvedena je bila tudi podrobna analiza globalnega NTI kjer je položaj dominantnega igralca v NTI prilivih in odlivih zasedla ZDA.

Statistični podatki NTI kažejo, da v primerjavi med Nizozemsko in Švico prva poseduje prednost pred drugo v številčnosti NTI prilivov in NTI odlivov. Statistični podatki tudi kažejo, da je vsaka izmed izbranih držav beležila različna letna nihanja NTI prilivov in odlivov. Nizozemska je dominirala med letoma 2013 in 2015 v NTI prilivih, Švica pa je dominirala med letoma 2015 do 2017. Na strani NTI odlivov je Švica imela nad moč med letoma 2010 in 2012, Nizozemska pa jo je nadomestila od leta 2013 dalje. Nizozemska poseduje večje število NTI prilivov in odlivov ter višjo vrednost NTI pozicij, Švica pa je z NTI prilivi in odlivi ter NTI pozicijami bolj učinkovita in beleži višjo stopnjo donosa na investicije. Potrebno je izpostaviti, da je učinkovitost Švice večja kot prednost Nizozemske v kvantiteti NTI prilivov in odlivov. Neglede na vse, sta obe državi uvrščeni visoko na globalnih NTI lestvicah prilivov in odlivov.

Obe državi tudi posedujeta večje število zaželenih NTI determinant kot so različne davčne olajšave in druge davčne prednosti. Poleg tega Nizozemska tudi ponuja odlične podporne objekte in storitve (veliko pristanišče, letališče, telekomunikacije), stabilno ekonomsko in politično okolje, izučeno in kvalificirano delovno silo in trgovsko odprtost domačega trga. V primerjavi Švica ponuja okoljsko osveženi ekonomski trg, nizko stopnjo korupcije in močne regulatorne temelje, močno finančno industrijo, zanesljivo domačo valuto in stabilno ekonomsko okolje v primeru gospodarske recesije. Obe državi pa se tudi spopadata z specifičnimi pomanjkljivostmi. Nizozemska se spopada z visoko rastjo potrebe po energiji, med tem ko se Švica bori z visoko stopnjo tekmovnosti na domačem trgu.

Magistrsko delo je pokrilo velik spekter NTI področja ter se ni zadovoljilo zgolj s primerjavo NTI odlivov in prilivov med Nizozemsko in Švico, ampak se je tudi spopadlo s teoretičnim ozadjem, globalnimi NTI tokovi, NTI determinantami in strukturo NTI. Poleg tega se je magistrsko delo osredotočilo na razvite države, kar je v nasprotju z veliki številom raziskav na temo korelacije med NTI in gospodarsko rastjo razvijajočih in nerazvitih držav. Upoštevajoč vse omenjene dejavnike, magistrsko delo predstavlja unikatno delo, ki pokriva zanimivo in razvijajoče področje. Magistrsko delo predstavlja dobro osnovo statističnih NTI podatkov in teoretičnega ozadja za nadaljnje bolj podrobne raziskave.