



OECD GLOBAL FORUM ON
INTERNATIONAL INVESTMENT

*NEW HORIZONS AND POLICY CHALLENGES FOR FOREIGN
DIRECT INVESTMENT IN THE 21ST CENTURY*

Mexico City, 26-27 November 2001

**Recent FDI Trends, Implications for Developing Countries and
Policy Challenges**

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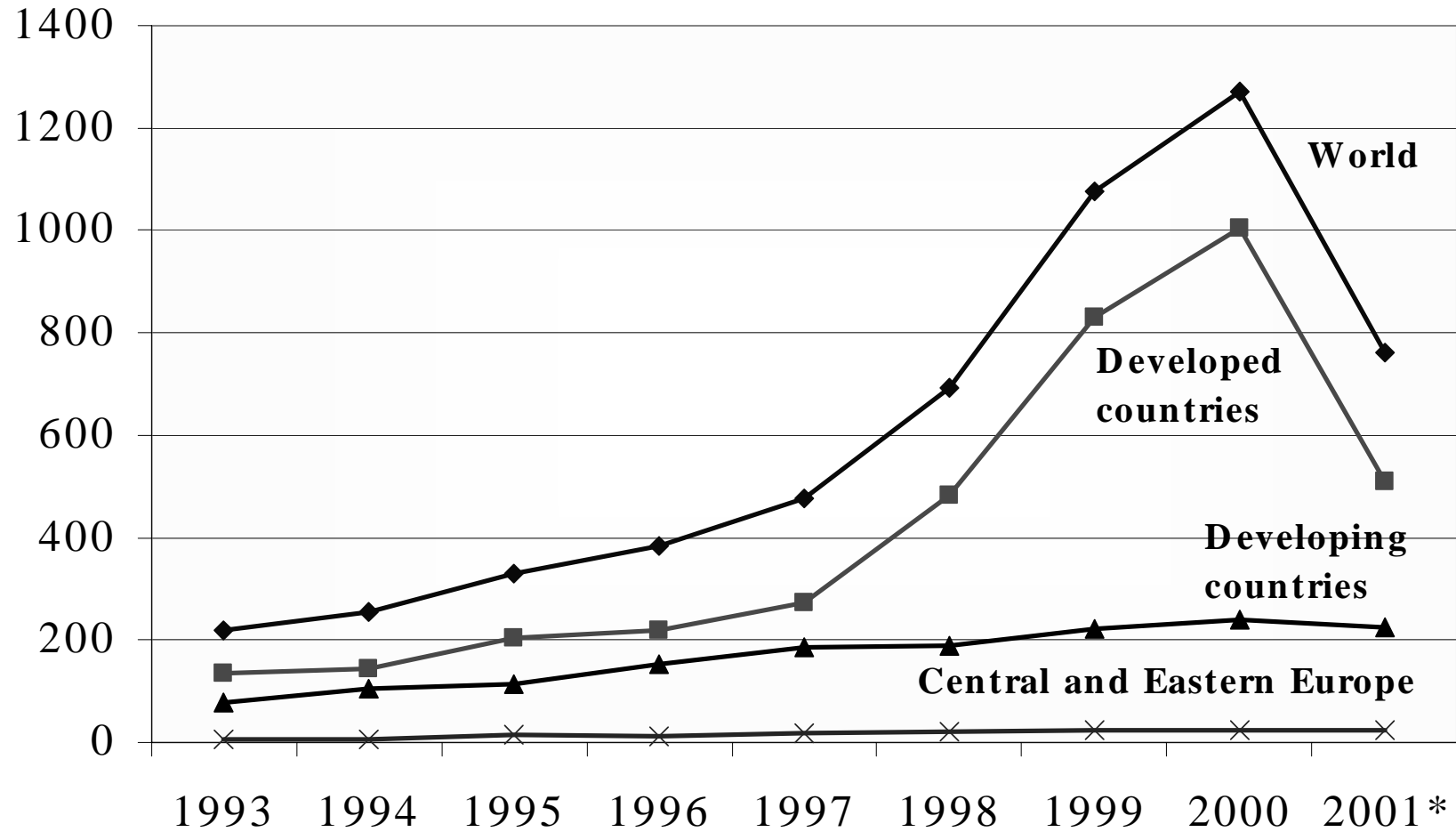
New Horizons and Policy Challenges for FDI in the 21st Century

Mexico, 26-27 November 2001



Global inflows of FDI

1993-2001, USD billions, by group of countries

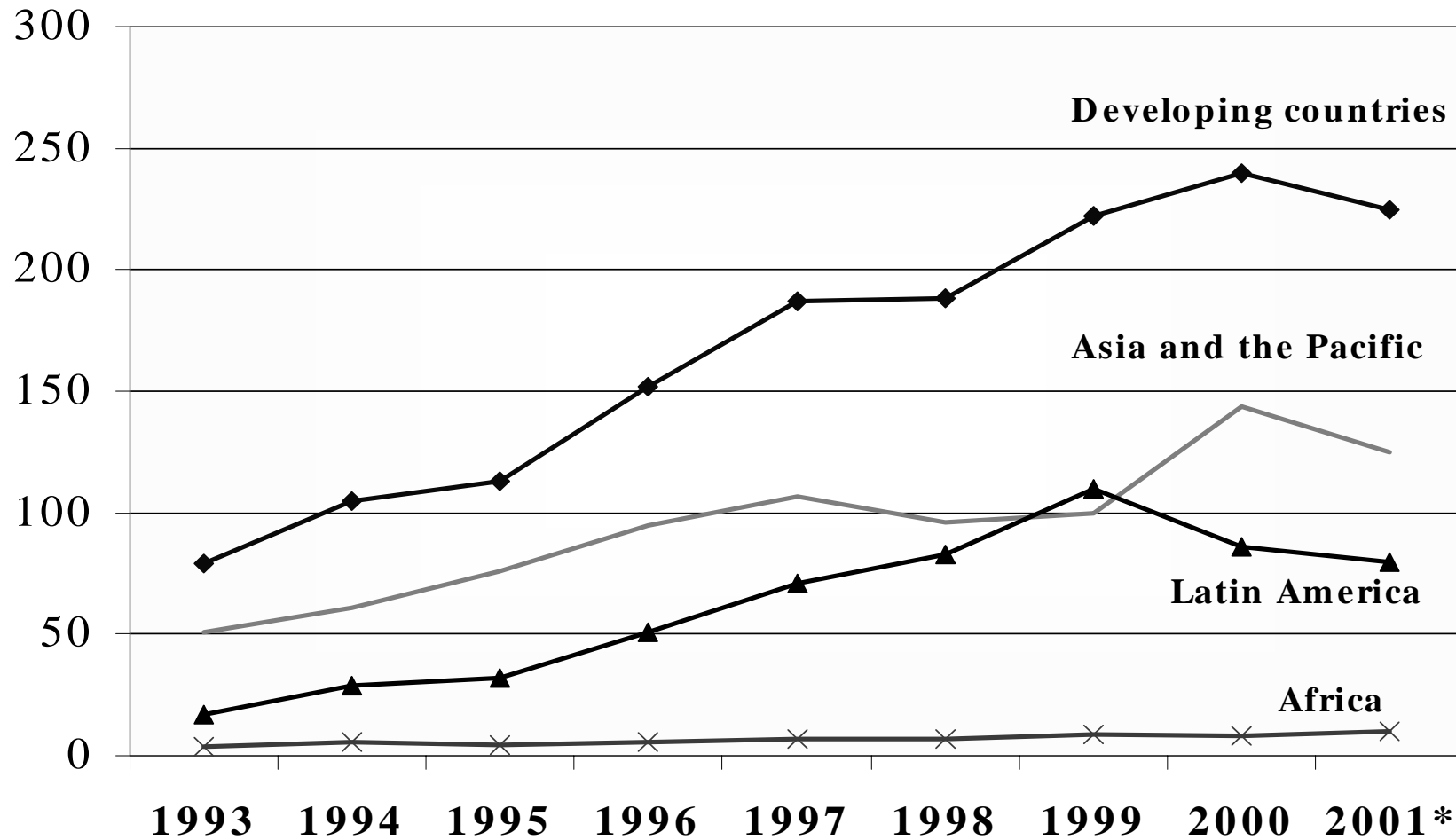


* Preliminary data based on information available before the September 11 events.

Source: UNCTAD, World Investment Report 2001

Inflows of FDI to developing countries

1993-2001, USD billions, by group of countries



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Expected decline in 2001

- From \$1.3 trillion to \$760 billion (-40%)
 - developed countries: -49%
 - developing countries: -6%
 - Central and Eastern Europe: +/-0%
- Reasons:
 - slowdown in the world economy
 - sharp drop in M&A activity

The 11 September events: impact on FDI

- Increased uncertainty
- Accentuated (but uneven) economic slowdown (?)
- Impact on M&A activity (?)
- Fiercer competition (?)
- Effect on regulatory regimes?
- Short-term (below \$700 bn ?) vs. long-term impact?

Key policy challenge:

restore confidence among consumers and investors

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First response to decline in FDI

Investment promotion

- 1st generation:
 - liberalization of FDI flows
 - opening up of sectors to foreign investors
- 2nd generation:
 - marketing of countries as locations for FDI
 - setting up of national investment promotion agencies
- 3rd generation:
 - targeting of foreign investors at the level of industries and clusters
 - marketing of regions and clusters
 - aim: to match the locational advantages of countries with the needs of the foreign investor.

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Second response to decline in FDI

Optimize the benefits from FDI

- Potential benefits from FDI are acknowledged
 - capital inflows
 - employment
 - information, technology and knowledge transfers
 - access to international markets
 - competition
- However, these benefits cannot be taken for granted
- Linkage promotion - key policy area to benefit more from FDI

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Why promote backward linkages?

- Potential benefits to foreign affiliates, local firms and host countries.
- *Foreign affiliates*: using suppliers in a host country way to reduce costs, increase flexibility and expand sales. Outsourcing and sub-contracting raise the need for inter-firm linkages.
- *Local firms*: become part of global production networks of TNCs, can increase sales and benefit from productivity-enhancing information and knowledge transmitted from foreign affiliates.
- *Host countries*: can benefit when linkages contribute to the upgrading of domestic enterprises and as foreign affiliates become more firmly embedded in the host economy.

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Policy matters!

- Firms have self-interest in forging linkages...
- ...and many firms make considerable efforts to strengthen their suppliers...
- ... but policy still matters!

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Best practice in linkage promotion

some lessons learned

- Part of development strategy, political commitment
- Collaborate with private sector
- Be selective!
- Focus on measures to upgrade local supply capacity
- Areas of intervention (matchmaking, information, technology, training and financial assistance)