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COUNTRIES CONTINUE TO COMPETE FOR FDI, BUT NOT UNCONDITIONALLY

Ever since UNCTAD began to analyse trends in national foreign direct investment (FDI) policies, countries have been amending their regulatory environments to become more attractive to foreign investment. New UNCTAD research shows that the trend continues, but with some important exceptions. Policymakers in both developed and developing countries have recently cautioned about FDI in some areas, notably extractive industries and certain "strategic" industries.

Overall trend of welcoming FDI stays on course

UNCTAD has collected data on changes in national laws related to FDI since 1992. This annual survey has uniquely documented how countries in the past two decades have introduced new policy measures to make their environments more favourable to FDI. Between 1992 and 2007, of 2,540 national regulatory changes 2,292 – or 90 per cent – were welcoming to inward investment.

Most of the changes observed are related to investment promotion (see table). Many countries have introduced new or more generous fiscal and financial incentives, established special economic zones (SEZs) and strengthened their investment promotion agencies. UNCTAD has been observing a steady trend of lowering corporate income taxes, often justified on the grounds of making locations more attractive to FDI. Other areas in which many changes have been noted relate to specific sectors and measures concerning the protection of FDI.

Less welcoming changes more frequent in recent years

The broad trend of greater openness has continued throughout the years, despite growing concerns over rising protectionism. However, the share of changes that are less welcoming to FDI has grown in recent years. While in the period 2000–2003, only 6 per cent belonged to that category; in the 2004–2007 period, that share shot up to 18 per cent. And in 2006–2007, about one quarter of the registered changes were less welcoming to FDI. Those changes are concentrated in a few sectors.

The extractive industries represent the main example of this trend. On the back of higher commodity prices, many resource-exporting countries have introduced new sectoral or ownership restrictions, or have sought to renationalize some projects. This trend has been observed in particular in Latin America (see figure). In Bolivia, for example, the State oil company, YPFB, reclaimed full control of two main oil refineries from Petrobras (Brazil). Ecuador increased the State's share of the profits gained in the hydrocarbon sector. Meanwhile, the Bolivarian Republic of Venezuela took control of a number of oil projects, including the Cerro project.

Governments have also introduced new reservations concerning inward FDI that could raise national security concerns. Several countries have introduced lists of "strategic sectors" which require government review and approval. Such changes seem to be closely linked to certain infrastructure areas and to investments by State-owned companies or sovereign wealth funds. For example, in the United States and the Russian Federation, stricter regulations have been adopted with regard to foreign investment projects with potential implications for national security. In Europe, investments by sovereign wealth funds have come under increased scrutiny.

Trend towards FDI promotion set to continue, but not unconditionally

Despite an increased share of policy changes that are less positive towards inward FDI, competition for FDI is likely to continue. Countries remain eager to attract the capital, technology and know-how that transnational corporations can bring. At the same time, promotional activities may become more

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selective and targeted. In the future, countries might increasingly re-evaluate the implications of companies or wealth funds controlled or closely linked to the Governments of other States. Consequently, while the broad trend of creating an environment that is conducive to FDI will stay its course, the targeting of investment promotion activities may become more fine-tuned and accompanied by careful evaluations by countries to attract such FDI that contributes to set development objectives.

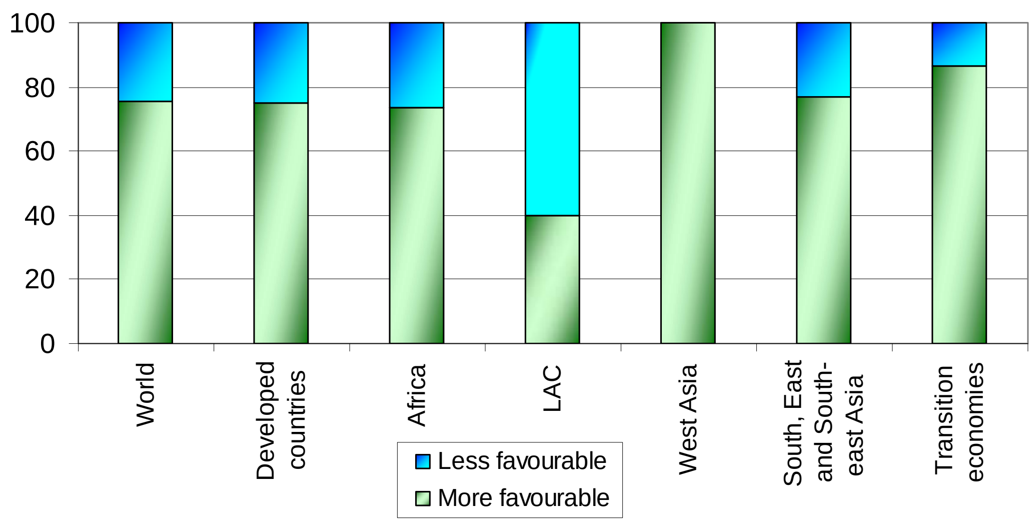
Source: UNCTAD.

Average annual changes in national FDI policy by type of change, 2000–2003, 2004–2007

	2000-2003		2004-2007	
Type of measure	More favourable	Less favourable	More favourable	Less favourable
Foreign ownership	8	1	14	4
Sectoral restrictions	39	2	30	6
Approval procedures	13	2	18	4
Operational conditions	15	3	12	6
Foreign exchange	9	3	4	1
FDI promotion (including incentives)	48	2	61	11
Protection (including guarantees)	45	1	11	1
Corporate regulation	22	1	4	1
Total	198	13	153	34
Total (% share)	*94%*	*6%*	*82%*	*18%*

Source: UNCTAD database on changes in national FDI policies.

Regulatory changes in 2007, by nature and region



Source: UNCTAD.

For more on this topic, see *World Investment Report 2008,* which will be launched on 24 September 2008.

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