2

External finance, debt and foreign direct investment

2.1 External finance and debt

OVERVIEW

Total **aggregate net resource flows** rose sharply between 1990 and 1996. After surging in the 1970s, when they increasingly replaced official flows as the major source of external financing, **net private capital flows** to developing countries had fallen considerably during the debt crisis of the 1980s, reaching their lowest level in 1986. After that they accelerated until 1996 and then declined sharply in connection with the East Asian financial crisis.

These developments were accompanied by a shift from syndicated bank lending to foreign direct investment (FDI) as the major source of external financing for developing countries. Whereas in 1980–1985 bank lending and suppliers' credits accounted for 69% of all private capital flows to developing countries and countries in Central and Eastern Europe, this share fell to 11% in 1998–2002. During the same period, the share of FDI rose from 30% to 82%, and that of portfolio equity investment from less than 0.1% to more than 6%.

The evolution of private capital flows suggests that they are not a reliable source of financing for development, partly because portfolio equity flows are very volatile and because financial liberalization has led to an increase in short-term speculative flows. Moreover, private capital flows, including FDI, are concentrated in a small number of emerging-market economies, while most low-income and least developed countries, which are the most dependent on external financing, receive no or very small amounts of such flows.

Official development assistance (ODA) to all developing countries and countries in Central and Eastern Europe grew steadily, in nominal terms, between the mid-1980s and the early 1990s, but then declined until 2001. In particular, assistance to Africa fell both in absolute terms and as a share of the total. While official development assistance to African countries fell by one third, flows to countries in Central and Eastern Europe more than tripled between 1990 and 2001.

DEFINITIONS

- ***Aggregate net resource flows,*** *as reported by the World Bank, are the sum of net private capital flows and official flows, including loans and grants.*
- ***Net private capital flows*** *include flows of FDI, portfolio equity investment flows, bank lending, bonds, and trade-related lending from private creditors, less repayments on outstanding debt.*
- ***Official development assistance (ODA),*** *as reported by the OECD, includes concessional loans (with a grant element of at least 25%) and grants by members of the OECD Development Assistance Committee (DAC). The main objective of such aid is to promote the economic development of developing countries (official development assistance) or countries in Central and Eastern Europe (official aid).*

DATA SOURCES

[1] *UNCTAD Handbook of Statistics 2003*, table 6.2.
World Bank, *Global Development Finance*.

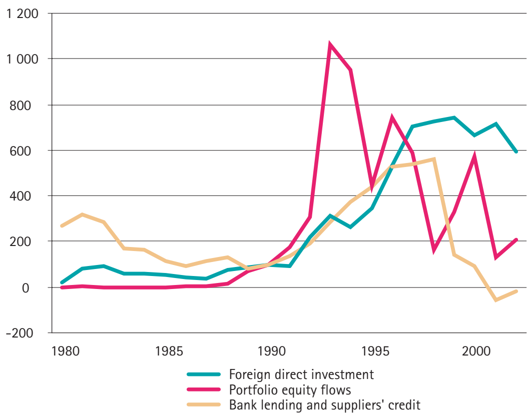
[2] *UNCTAD Handbook of Statistics 2003*, table 6.5.
OECD Development Assistance Committee online database.

To learn more

For more information, see UNCTAD's ***Trade and Development Report 2003***, chapter 2; ***External Debt and Development***, Report by the Secretary-General of the United Nations to the General Assembly at its fifty-eighth session; and UNCTAD's ***Capital Flows and Growth in Africa.***

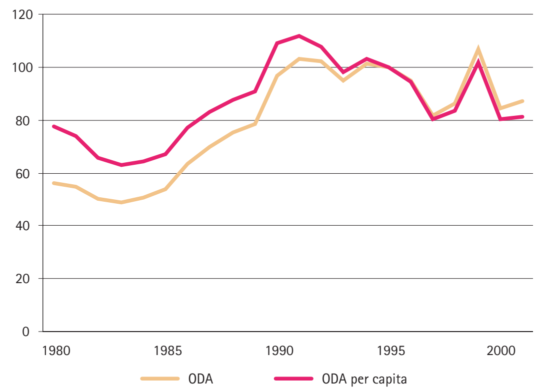
Net private capital inflows by type [1]

(1990 = 100)



Official development assistance [2]

(1990 = 100)



Aggregate net resource flows [1]

In million US$

Region	Total flows				Private capital flows			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries	**70 794**	**86 648**	**211 719**	**175 399**	**41 441**	**38 013**	**190 154**	**145 985**
Africa	**19 067**	**26 169**	**23 244**	**28 887**	**7 560**	**1 927**	**12 475**	**19 322**
North Africa	7 563	8 079	2 923	6 109	3 234	469	2 684	6 625
Sub-Saharan Africa	11 504	18 091	20 321	22 778	4 325	1 458	9 790	12 697
Sub-Saharan Africa less South Africa	..	..	13 962	15 936	..	..	3 741	6 070
America	**29 263**	**21 448**	**88 290**	**78 018**	**24 784**	**13 147**	**87 309**	**71 373**
Asia and Oceania	**22 464**	**39 031**	**100 186**	**68 495**	**9 098**	**22 939**	**90 371**	**55 290**
West Asia	6 077	3 579	12 050	3 470	666	1 532	11 774	968
Central Asia	..	..	3 402	6 109	..	..	2 422	5 247
South, East and South-East Asia and Oceania	16 387	35 452	84 733	58 916	8 431	21 407	76 175	49 075
South, East and South-East Asia and Oceania less China	..	25 218	27 754	13 281	..	13 149	20 995	5 837
Countries in Central and Eastern Europe	**..**	**9 919**	**28 094**	**22 330**	**..**	**5 925**	**26 143**	**24 764**
Memorandum								
Developing countries less China	..	76 415	154 740	129 765	..	29 755	134 974	102 746
Least developed countries	7 532	12 145	10 017	11 105	1 375	685	2 096	2 642

Official development assistance [2]

In million US$

Region	Total assistance				Bilateral DAC assistance			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries*	**32 511**	**56 074**	**47 820**	**49 532**	**15 940**	**36 924**	**34 861**	**33 960**
Africa*	**10 510**	**25 311**	**15 791**	**16 514**	**6 336**	**15 817**	**10 384**	**10 042**
North Africa	3 339	7 843	2 412	2 533	1 932	4 501	1 750	1 753
Sub-Saharan Africa	6 802	16 474	12 123	12 841	4 111	10 476	7 787	7 378
Sub-Saharan Africa less South Africa	..	..	11 636	12 412	..	..	7 433	7 064
America*	**2 259**	**5 288**	**5 161**	**6 065**	**1 322**	**4 188**	**4 034**	**4 512**
Asia and Oceania*	**14 772**	**19 395**	**17 820**	**18 472**	**6 371**	**11 780**	**12 381**	**11 966**
West Asia	5 188	3 893	2 558	2 669	1 067	1 403	1 385	1 084
Central Asia	..	..	1 271	1 463	..	..	763	821
South, East and South-East Asia and Oceania	9 188	14 293	13 267	13 838	5 208	10 075	9 737	9 674
South, East and South-East Asia and Oceania less China	9 122	12 256	11 535	12 367	5 185	8 610	8 481	8 599
Countries in Central and Eastern Europe*	**..**	**2 222**	**8 034**	**7 656**	**..**	**1 789**	**4 240**	**3 790**
Memorandum								
Developing countries less China	32 445	54 037	46 088	48 061	15 918	35 459	33 604	32 885
Least developed countries	8 723	16 751	12 450	13 633	4 753	9 888	7 735	7 602

* Includes unspecified groups.

2.1 External finance and debt

OVERVIEW

In the past two decades, **workers' remittances** from developed countries, but also from developing countries with higher levels of per-capita income, have become an increasingly important source of external development finance, both in absolute terms and relative to other sources of external finance. Remittances rose steadily in the 1990s, reaching more than $60 billion in 2001. During the 1990s, they were the most stable source of external finance, and, unlike foreign aid, they are not a burden on public budgets.

The importance of workers' remittances as a source of foreign exchange income differs considerably among developing countries. India, Mexico and the Philippines receive the largest amounts of workers' remittances (more than $5 billion each in 2001). However, in relation to GDP, such flows are even more important for smaller economies such as El Salvador, Jamaica, Jordan, Nicaragua and Yemen. In the 1990s, remittances increased particularly fast in India, Jordan, the Philippines, Sudan and a number of countries in Latin America and the Caribbean. Indeed, some developing countries have come to depend on this type of financial inflow, which in some cases constitutes the single most important source of foreign exchange income.

In absolute terms, the United States is the most important country of origin of workers' remittances to developing and other countries, but these flows constitute only a small item in that country's balance of payments. Expressed as a percentage of total imports, the outflow of remittances is particularly large in Saudi Arabia, where they correspond to almost 30% of the total import bill, and some other resource-rich countries in the Middle East. It also exceeds 5% of total imports in countries as diverse as Israel, Kazakhstan and Switzerland.

DEFINITIONS

- *According to the IMF Balance of Payments Manual,* ***workers' remittances*** *are goods and financial instruments transferred by migrants living and working (residing) in a new economy to residents of the economy in which the migrants formerly resided. A migrant must live and work in the new economy for more than one year to be considered a resident there. The Manual classifies workers' remittances separately from compensation of employees and migrants' capital transfers. Workers' remittances as presented here include all three categories in order to show a clearer picture of the flows that enter or exit economies via transfers by migrant workers. For example, if temporary movements of labour to another country were seen as an export, then migrants' transfers, workers' remittances and compensation of employees could be considered part of the payment for "exporting labour services".*

DATA SOURCES

[1] *UNCTAD Handbook of Statistics 2003*, tables 6.3A and 6.3B.

To learn more

The data on workers' remittances, compensation of employees and migrants' transfers come from balance-of-payments statistics and correspond to concepts described in the IMF ***Balance of Payments Manual***. Labour force migration, with its multiple economic and social implications, is discussed in various forums. The ***Manual on Statistics of International Trade in Services*** (2002), a joint publication by the United Nations, the European Commission, the International Monetary Fund, the Organisation for Economic Co-operation and Development, UNCTAD and the World Trade Organization, gives preliminary recommendations for compiling relevant statistics on the movement of natural persons. The UNCTAD document ***Report of the expert meeting on market access issues in mode 4 (movement of natural persons to supply services) and effective implementation of article iv on increasing the participation of developing countries*** (2003) provides additional information relevant to this subject.

Inflows of workers' remittances to developing countries by destination [1]

In million US$ and in % of total exports and GDP, ranked by the year 2000 values

Country	Million US$		As % of total exports		As % of GDP	
	1990	2000	1990	2000	1990	2000
India	2 384	9 160	10.4	14.9	0.8	2.0
Mexico	3 098	7 596	6.3	4.2	1.2	1.3
Philippines	1 465	6 212	12.8	15.1	3.3	8.3
Turkey	3 246	4 560	15.4	8.9	2.2	2.3
Egypt	4 284	2 852	43.3	16.9	9.9	2.9
Morocco	2 006	2 161	32.2	20.7	7.8	6.5
Bangladesh	779	1 968	37.7	27.3	2.6	4.2
Jordan	499	1 845	19.9	52.2	12.4	21.8
Dominican Republic	315	1 839	17.2	20.5	4.5	9.4
El Salvador	366	1 765	37.6	48.2	7.6	13.4
Thailand	973	1 697	3.3	2.1	1.1	1.4
Brazil	573	1 650	1.6	2.6	0.1	0.3
Colombia	495	1 608	5.7	10.3	1.2	1.9
Yemen	1 498	1 437	100.6	33.4	31.0	15.7
Ecuador	51	1 322	1.6	22.1	0.5	9.7
Indonesia	166	1 190	0.6	1.7	0.1	0.8
Sri Lanka	401	1 166	17.5	18.3	5.0	7.2
Pakistan	2 006	1 075	29.4	10.6	5.0	1.8
Jamaica	229	892	10.3	24.8	5.4	11.6
Tunisia	551	796	10.6	9.2	4.5	4.1
China	124	758	0.2	0.3	0.0	0.1
Korea, Republic of	1 037	735	1.4	0.4	0.4	0.2
Peru	87	718	2.1	8.3	0.3	1.3
Sudan	62	641	12.4	34.9	0.5	5.7
Guatemala	119	596	7.6	15.4	1.6	3.1
Honduras	63	416	6.1	16.8	2.1	7.0
Malaysia	185	342	0.6	0.3	0.4	0.4
Nicaragua	..	320	..	33.5	..	13.4
Georgia	_	274	_	41.1	_	9.1
Paraguay	34	265	1.3	9.3	0.6	3.4

Outflows of workers' remittances by origin [1]

In million US$ and in % of total imports, ranked by the year 2000 values

Country	Million US$		As % of total imports	
	1990	2000	1990	2000
United States	11 850	26 820	1.9	1.9
Saudi Arabia	11 236	15 411	25.6	29.1
Germany	6 856	7 804	1.6	1.2
Switzerland	7 868	7 304	8.2	6.7
France	6 949	3 786	2.5	1.1
Belgium-Luxembourg	2 310	3 588	1.7	1.8
Israel	850	3 337	4.2	7.2
Japan	..	3 167	..	0.7
Netherlands	1 393	3 120	0.9	1.3
Italy	3 764	2 582	1.7	0.9
Spain	254	2 059	0.3	1.1
United Kingdom	2 034	2 027	0.8	0.5
Kuwait	770	1 734	10.7	15.2
Oman	856	1 451	25.6	23.6
Russian Federation	_	1 101	_	1.8
Australia	674	1 066	1.3	1.2
Bahrain	332	1 013	8.3	19.7
Korea, Republic of	364	972	0.5	0.5
Austria	320	858	0.5	0.9
China	5	790	0.0	0.3
Norway	295	718	0.8	1.5
Denmark	..	662	..	1.0
Czech Republic	_	605	_	1.6
Malaysia	230	599	0.7	0.6
Greece	122	545	0.6	1.3
Sweden	654	545	0.9	0.6
New Zealand	367	542	3.1	3.1
Kazakhstan	_	440	_	5.0
South Africa	1 199	390	5.7	1.2
Côte d'Ivoire	471	390	13.7	10.7

2.1 External finance and debt

OVERVIEW

The **total external debt** of developing countries and countries in Central and Eastern Europe has risen considerably over the past decade. This rise has been accompanied by a shift from commercial bank debt to bond debt, mostly dollar-denominated and issued mainly by middle-income emerging-market economies. Moreover, the share of public and publicly guaranteed debt fell, while that of private debt increased as a consequence of financial and capital account liberalization.

The share of debt owed to multilateral official creditors rose considerably, especially beginning in the mid-1990s, when the international financial institutions began to provide credits to emerging markets in the context of financial crises.

The increase in external debt and **debt service** obligations has been greatest in Asian developing countries and Central and Eastern Europe, where the stock of debt more than doubled in the past decade, and in Latin America, where debt service payments tripled. In many countries, particularly in East and South-East Asia, this trend was accompanied by a large increase in foreign exchange reserves as countries strove to reduce their vulnerability to the increased volatility in international financial markets. The debt of African and least developed countries, most of which have no or very limited access to international capital markets, also grew, albeit at a lower rate. This slower growth rate was partly caused by reduced official development assistance flows and partly by debt relief.

Unfavourable developments in commodity export earnings and terms of trade have made the debt burden of many poor countries unsustainable. While the **HIPC Initiative** addresses part of this problem, a systematic international solution to the debt burdens of other low- and middle-income countries, and to problems related to debt owed to private creditors, remains to be found.

An increasing number of developing countries has been trying to strengthen their capacity for debt management at the national level and, in this context, has sought international technical support.

DEFINITIONS

- ***Total external debt*** *comprises long-term debt, short-term debt and use of International Monetary Fund credits.*
- ***Debt service*** *is the sum of interest payments on outstanding debt and repayments of principal.*
- *The* ***HIPC Initiative*** *was launched by the World Bank and the International Monetary Fund in 1996 to coordinate and harmonize official debt relief by the multilateral financial institutions and bilateral creditors for heavily indebted poor countries (HIPC).*

DATA SOURCES

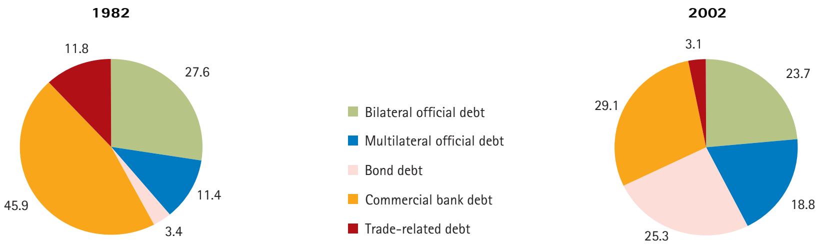
[1] *UNCTAD Handbook of Statistics 2003*, table 6.6.
World Bank, *Global Development Finance* online database.

To learn more

For more information, see ***External Debt Crisis and Development***, Report by the Secretary-General of the United Nations to the General Assembly at its fifty-eighth session; the UNCTAD publications ***From Adjustment to Poverty Reduction: What Is New?;*** and UNCTAD ***Trade and Development Report 2001***, Part 2, chapters 3 and 4. Also visit UNCTAD's Debt Management and Financial Analysis System (DMFAS) website at www.unctad.org/dmfas.

Debt profile of developing countries and Central and Eastern Europe by type of creditor [1]

(in %)



Total and long-term external debt [1]

In billion US$

Region	Total debt				Long-term debt			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries	**480.5**	**1 091.9**	**1 823.7**	**1 777.8**	**355.8**	**895.1**	**1 526.0**	**1 464.7**
Africa	**117.3**	**285.0**	**310.0**	**297.9**	**93.9**	**244.6**	**256.3**	**247.1**
North Africa	56.5	108.1	98.6	94.9	47.3	95.0	84.8	82.6
Sub-Saharan Africa	60.8	176.9	211.4	203.0	46.6	149.7	171.6	164.6
Sub-Saharan Africa less South Africa	..	..	186.5	178.9	..	..	156.3	148.9
America	**241.4**	**440.8**	**754.6**	**735.9**	**171.9**	**349.4**	**642.8**	**619.6**
Asia and Oceania	**151.5**	**459.2**	**947.8**	**930.4**	**114.8**	**372.7**	**768.3**	**740.9**
West Asia	29.6	93.1	167.5	162.4	24.8	71.6	122.1	121.4
Central Asia	..	..	21.3	24.0	..	..	19.3	21.6
South, East and South-East Asia and Oceania	121.8	366.1	759.1	744.1	90.0	301.1	626.9	597.9
South, East and South-East Asia and Oceania less China	..	310.8	613.4	574.0	..	255.6	494.3	471.8
Countries in Central and Eastern Europe	**9.8**	**144.3**	**327.3**	**321.9**	**7.1**	**116.3**	**274.6**	**266.8**
Memorandum								
Developing countries less China	..	1 036.6	1 678.0	1 607.7	..	849.6	1 393.4	1 338.5
Least developed countries	34.9	104.8	118.5	112.3	27.3	89.0	98.7	93.5

Debt service [1]

In billion US$

Region	Debt service				Interest payments			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries	**75.4**	**120.1**	**313.2**	**296.1**	**39.8**	**52.8**	**98.7**	**92.9**
Africa	**14.3**	**26.0**	**24.3**	**23.6**	**7.0**	**10.0**	**8.4**	**7.5**
North Africa	7.6	15.2	10.8	10.3	3.5	4.7	3.9	3.7
Sub-Saharan Africa	6.7	10.9	13.5	13.3	3.5	5.3	4.5	3.8
Sub-Saharan Africa less South Africa	..	..	9.6	8.9	..	..	3.2	2.6
America	**45.9**	**43.6**	**178.8**	**158.4**	**24.3**	**21.8**	**54.3**	**53.2**
Asia and Oceania	**18.7**	**61.3**	**140.9**	**145.3**	**10.2**	**25.7**	**45.6**	**40.8**
West Asia	3.4	10.8	26.2	26.6	1.6	4.6	8.5	7.5
Central Asia	..	..	4.6	4.6	..	..	1.1	1.1
South, East and South-East Asia and Oceania	15.3	50.5	110.1	114.1	8.5	21.0	36.0	32.2
South, East and South-East Asia and Oceania less China	..	43.4	83.0	89.8	..	17.8	28.8	24.6
Countries in Central and Eastern Europe	**1.5**	**18.7**	**45.2**	**62.0**	**0.6**	**6.5**	**13.8**	**16.3**
Memorandum								
Developing countries less China	..	113.1	286.1	271.8	..	49.6	91.5	85.2
Least developed countries	2.7	3.8	3.1	2.8	1.2	1.4	1.0	0.8

2.1 External finance and debt

OVERVIEW

Ratios of debt and debt service to **gross national income (GNI)** or exports of goods and services indicate the debt burden of an economy relative to its size and foreign exchange income, from which both imports and debt service have to be paid.

During the 1990s, the ratio of debt to GNI fell slightly for developing countries as a group. If fast-growing China is excluded, the ratio remained constant. It more than doubled for countries in Central and Eastern Europe. By contrast, the ratio of **total external liabilities** to GNI, which also considers the stock of foreign direct investment and portfolio investments, rose during the 1990s for all regions.

Debt service as a percentage of exports rose not only for Central and Eastern European countries but also for developing regions (with the exception of North Africa), in particular Latin America. While interest payments as a percentage of exports have been decreasing since the mid-1980s owing to lower international interest rates, outward transfers related to foreign direct investment (FDI) and equity investment (profit remittances) rose considerably in the 1990s. The latter are, by definition, not reflected in external debt indicators, but their effect on the balance of payments can be similar to that of debt service.

It is worth noting, however, that within the regional aggregates, debt indicators differ considerably across countries. For many countries, these indicators have reached levels that are unsustainable in the medium term. When interpreting traditional debt and debt service indicators, it is also necessary to take account of the higher import content – and, thus, foreign exchange requirement – of exports resulting from international production networks, which have gained increasing importance for many developing countries. Finally, in response to the volatility of private capital flows, many developing countries have substantially increased their **international reserves**, and this is reflected in the decreasing ratio of short-term debt to reserves.

DEFINITIONS

- ***Gross national income (GNI)*** *is gross domestic product (GDP) less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world plus the corresponding items receivable from the rest of the world (in other words, GDP less primary incomes payable to non-resident units plus primary incomes receivable from non-resident units).*
- ***Total external liabilities*** *are the sum of total debt and inward foreign direct investment (FDI) stocks.*
- ***International reserves*** *consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of international payments imbalances, for indirect regulation of the magnitude of such imbalances through intervention in foreign exchange markets to affect their currency's exchange rate, and for other purposes. The category of international reserves defined in the IMF Balance of Payments Manual (BPM5) comprises monetary gold, special drawing rights (SDRs), reserve position in the IMF, foreign exchange assets (consisting of currency, and deposits and securities), and other claims.*

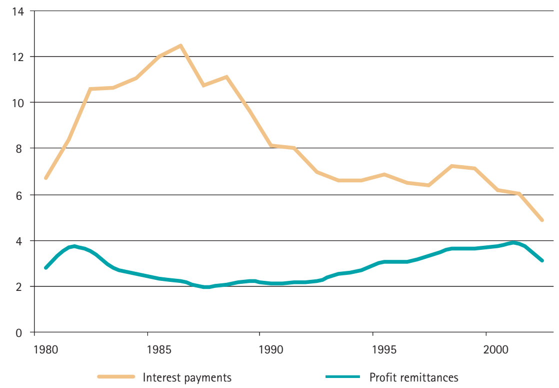
DATA SOURCES

[1] UNCTAD secretariat calculations based on the World Bank's *Global Development Finance* (CD-ROM).
UNCTAD Handbook of Statistics 2003, table 6.4.

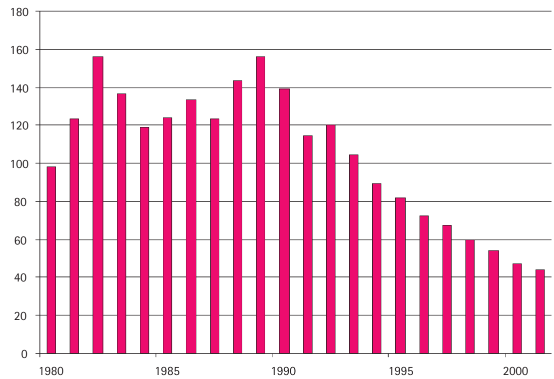
To learn more

For more information, see ***External Debt Crisis and Development***, Report by the Secretary-General of the United Nations to the General Assembly at its fifty-eighth session; ***The External Debt and Debt-Servicing Problems of Developing Countries, Including Those Resulting from Global Financial Instability,*** Report by the Secretary-General of the United Nations to the General Assembly at its fifty-sixth session; and UNCTAD's ***Trade and Development Report 2001***, Part 2, chapters 3 and 6.

Interest payments and profit remittances [1]
(as % of exports of goods and services)



Short-term debt [1]
(as % of international reserves)



Total external liabilities [1]

Region	Total liabilities as % of gross national income				Total debt as % of gross national income			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries	**38.1**	**48.3**	**61.9**	**64.5**	**31.6**	**39.3**	**36.9**	**36.3**
Africa	**42.8**	**78.8**	**88.8**	**90.0**	**33.0**	**66.0**	**59.8**	**58.0**
North Africa	65.6	85.4	66.9	66.6	58.2	71.5	46.6	44.3
Sub-Saharan Africa	34.2	75.2	103.8	106.7	23.5	63.1	68.8	67.7
Sub-Saharan Africa less South Africa	..	..	135.2	129.0	..	..	102.2	94.1
America	**40.2**	**51.3**	**67.1**	**73.1**	**34.1**	**41.9**	**40.0**	**40.4**
Asia and Oceania	**28.8**	**35.8**	**53.4**	**54.9**	**23.5**	**28.7**	**32.4**	**31.9**
West Asia	22.4	36.1	55.6	60.8	15.8	30.7	47.3	51.9
Central Asia	..	..	90.8	102.7	..	..	53.6	57.0
South, East and South-East Asia and Oceania	31.4	35.8	52.5	53.3	26.6	28.3	30.0	29.0
South, East and South-East Asia and Oceania less China	..	41.1	56.9	56.0	..	33.4	41.9	40.0
Countries in Central and Eastern Europe	**..**	**19.6**	**69.7**	**63.2**	**..**	**19.5**	**53.0**	**45.7**
Memorandum								
Developing countries less China	..	52.3	66.1	68.9	..	42.9	43.3	42.7
Least developed countries	50.5	96.3	104.1	98.5	47.7	92.6	88.7	82.0

Debt service [1]

Region	Debt service as % of exports of goods and services				Debt service as % of gross national income			
	1980	1990	2000	2001	1980	1990	2000	2001
Developing countries	**21.3**	**20.1**	**19.7**	**19.2**	**5.0**	**4.3**	**6.3**	**6.0**
Africa	**11.3**	**20.5**	**12.8**	**12.4**	**4.0**	**6.0**	**4.7**	**4.6**
North Africa	22.7	35.8	15.6	14.4	7.8	10.0	5.1	4.8
Sub-Saharan Africa	7.2	12.8	11.2	11.2	2.6	3.9	4.4	4.4
Sub-Saharan Africa less South Africa	..	..	11.7	10.9	..	..	5.3	4.7
America	**36.7**	**23.8**	**38.9**	**35.7**	**6.5**	**4.1**	**9.5**	**8.7**
Asia and Oceania	**14.2**	**17.4**	**13.1**	**14.0**	**2.9**	**3.8**	**4.8**	**5.0**
West Asia	11.5	17.2	22.1	23.3	1.8	3.6	7.4	8.5
Central Asia	..	..	25.5	24.9	..	..	11.7	10.9
South, East and South-East Asia and Oceania	14.9	17.5	11.7	12.6	3.3	3.9	4.4	4.4
South, East and South-East Asia and Oceania less China	..	19.0	12.8	15.1	..	4.7	5.7	6.3
Countries in Central and Eastern Europe	**..**	**40.6**	**15.4**	**20.0**	**..**	**2.5**	**7.3**	**8.8**
Memorandum								
Developing countries less China	..	21.0	22.0	22.1	..	4.7	7.4	7.2
Least developed countries	18.8	17.3	8.8	7.4	3.7	3.3	2.4	2.0

2.2 Foreign direct investment

OVERVIEW

Global **foreign direct investment (FDI) flows** have grown steadily in the past 30 years, with some declines between the early 1980s and the early 1990s. After climbing sharply in 1999 and 2000, investments fell dramatically during 2001–2002. The decrease resulted mainly from weak economic growth, tumbling stock markets that contributed to a steep decline in **cross-border mergers and acquisitions**, and institutional factors such as the winding down of privatization in several countries.

In 2002, FDI **inflows** declined by 21% to $651 billion, or just half the peak amount in 2000. The decline was distributed across all major regions and countries except Central and Eastern Europe, where inflows were up by 15%. The main recipients of FDI inflows remain developed countries, with about 71% of the total in 2002, although the share of inflows to developing economies increased to 25% (from 18% during 1986–1990). Inflows to least developed countries, at $5 billion, represented a small but increasing share (3%) of developing countries' inflows, compared to 2% in 1997. When FDI is broken down by economic activity, services are the most important sector: in 2001, they accounted for almost two-thirds of the total, compared to less than half in the late 1980s.

Global FDI **outflows** declined by 9% in 2002, reaching $647 billion. Again, all regions experienced a decline except Central and Eastern Europe, which was up by 20%. Developing countries' share in total outflows remained relatively stable during the past two decades, at around 7%.

Although FDI flows declined much more sharply than gross domestic product figures, exports and domestic investment, they remain the biggest component of net resource flows to developing economies. Since 1990, they have been a growing part of total investment in developing economies.

DEFINITIONS

- ***Foreign direct investment (FDI)*** *is investment involving a long-term relationship and lasting interest in and control by a resident entity in one economy in an enterprise resident in another economy. In FDI, the investor exerts significant influence on the management of the enterprise resident in the other economy. The ownership level required in order for a direct investment to exist is 10% of the voting shares. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals or by business entities. (Some countries use a definition of FDI that differs from the preceding one.)*
- ***FDI flows*** *have three components: equity capital, reinvested earnings, and other capital (including short- and long-term intra-company loans as well as trade credits).*
- *FDI* ***inflows*** *are capital received, either directly or through other related enterprises, in a foreign affiliate from a direct investor.*
- *FDI* ***outflows*** *are capital provided by a direct investor to its affiliate abroad.*
- ***Cross-border mergers and acquisitions*** *(M&A) involve FDI in a host country by merging with or acquiring an existing local firm. In the latter case, the acquisition involves an equity stake of 10% or more. The share of FDI accounted for by cross-border M&As is difficult to determine, since data sets are not directly comparable. First, the value of cross-border M&As includes funds raised in local and international financial markets. Second, FDI data are reported on a net basis, using the balance-of-payments concept, while data on cross-border M&A purchases or sales report only the total value of the transaction. Finally, payments for cross-border M&As are not necessarily made in a single year but may be spread over a longer period.*

DATA SOURCES

[1] UNCTAD, *World Investment Report 2003*.

To learn more

In its annual ***World Investment Report***, UNCTAD analyses current FDI trends and the activities of transnational corporations and provides policy recommendations. The *Report* is available at www.unctad.org/wir. UNCTAD's databases on FDI and transnational corporations contain data on inward and outward flows of FDI for almost 200 countries and economies since 1970. In addition to national data sources, these databases utilize secondary sources, data published by international organizations and UNCTAD estimates. The data can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained via statfdi@unctad.org.

FDI flows by region in 2002 [1]

FDI inflows [1]

In million US$

Region	1970	1980	1990	2000	2001	2002
World	**12 938**	**54 957**	**208 674**	**1 392 957**	**823 825**	**651 188**
Developing countries	**3 461**	**8 392**	**36 959**	**246 057**	**209 431**	**162 145**
Africa	**928**	**392**	**2 430**	**8 489**	**18 769**	**10 998**
Northern Africa	403	152	1 157	3 125	5 474	3 546
Sub-Saharan Africa	525	239	1 272	5 364	13 295	7 452
Sub-Saharan Africa less South Africa	190	259	1 351	4 476	6 506	6 698
America	**1 586**	**7 485**	**9 701**	**95 358**	**83 725**	**56 019**
Central America and the Caribbean	1 063	3 854	4 826	38 110	44 032	30 183
South America	522	3 631	4 874	57 248	39 693	25 836
Asia	**811**	**396**	**24 264**	**142 091**	**106 778**	**94 989**
West Asia	168	-3 162	2 141	1 523	5 211	2 341
Central Asia	..	..	4	1 871	3 963	4 035
South, East and South-East Asia	644	3 558	22 120	138 698	97 604	88 613
South, East and South-East Asia less China	..	3 501	18 633	97 926	50 758	35 913
Oceania	**136**	**119**	**564**	**118**	**159**	**140**
Countries in Central and Eastern Europe	**..**	**35**	**640**	**26 373**	**25 015**	**28 709**
Developed countries	**9 477**	**46 530**	**171 076**	**1 120 528**	**589 379**	**460 334**
North America	3 083	22 725	56 004	380 764	172 787	50 625
Europe	5 207	21 427	103 363	709 877	400 813	384 391
Others	1 187	2 377	11 708	29 887	15 778	25 319
Memorandum						
Developing countries less China	..	8 335	33 472	205 285	162 585	109 445
Least developed countries	-153	494	331	3 175	5 368	5 027

FDI outflows [1]

In million US$

Region	1970	1980	1990	2000	2001	2002
World	**14 158**	**53 674**	**242 490**	**1 200 783**	**711 445**	**647 363**
Developing countries	**47**	**3 310**	**16 683**	**99 052**	**47 382**	**43 095**
Africa	**19**	**1 119**	**2 102**	**1309**	**-2 522**	**173**
Northern Africa	2	126	135	228	202	267
Sub-Saharan Africa	17	993	1 967	1 081	-2 725	-94
Sub-Saharan Africa less South Africa	..	247	1 940	810	455	307
America	**29**	**1 129**	**3 163**	**13 534**	**7 961**	**5 770**
Central America and the Caribbean	11	717	2 072	5 714	8 720	2 044
South America	18	411	1 090	7 820	- 758	3 726
Asia	**-1**	**1 044**	**11 414**	**84 139**	**41 827**	**37 121**
West Asia	..	586	-496	3 508	4 718	2 131
Central Asia	..	..	..	17	201	765
South, East and South-East Asia	-1	458	11 910	80 614	36 907	34 225
South, East and South-East Asia less China	..	..	11 080	79 698	30 023	31 375
Oceania	**..**	**18**	**4**	**69**	**116**	**30**
Countries in Central and Eastern Europe	**..**	**21**	**54**	**3 936**	**3 505**	**4 205**
Developed countries	**14 110**	**50 343**	**225 754**	**1 097 796**	**660 558**	**600 063**
North America	8 521	23 328	36 219	189 251	140 406	148 534
Europe	5 104	24 065	138 667	872 422	468 807	411 665
Others	485	2 950	50 868	36 122	51 345	39 864
Memorandum						
Developing countries less China	..	..	15 853	98 136	40 498	40 245
Least developed countries	..	229	-11	768	-54	75

2.2 Foreign direct investment

OVERVIEW

In the past two decades, world inward **foreign direct investment (FDI) stock** has grown more than ten-fold to reach $7.1 trillion in 2002. The recent economic downturn has not changed the importance of FDI in the integration of global production activities. The global stock of FDI continues to grow, albeit more slowly. Developed countries remain dominant, hosting about two-thirds of world **inward FDI stock**, although developing countries' share has increased, with the least developed countries remaining marginal.

Outward stock originating from developing countries grew to 12% of the global total by 2002. South, East and South-East Asia constitute the most important developing-country home region, whose stock increased to almost twice Japan's. The Latin American and Caribbean region registered a three-fold increase between 1980 and 2002. The European Union became the most important source of **outward FDI stocks**, reaching $3.4 trillion in 2002, more than twice the figure for the United States.

Some 60% of FDI stock is now in the services industries, compared to less than 50% a decade ago. The share of manufacturing in FDI inward stock has fallen from more than 40% in 1990 to 35% today, while the share of the primary sector has declined from 10% to 6%.

DEFINITIONS

- ***Foreign direct investment (FDI) stock*** *is the value of the share of the capital and reserves, including retained profits, attributable in an affiliate enterprise to the parent enterprise, plus the net indebtedness of the affiliate to the parent enterprise. For branches, it is the value of fixed assets and current assets and investment, excluding amounts due from the parent, less liabilities to third parties. Data on FDI stocks are not always readily available. For several economies, stocks are estimated either by cumulating FDI flows over a period of time or by adding flows to or subtracting them from an FDI stock figure obtained for a particular year from national official data sources or the IMF data series on assets and liabilities of direct investment. Estimating FDI on the basis of flows can be misleading, and in many countries FDI stock surveys are performed regularly. It is recommended that FDI stock data be valued at market prices. If market prices are not available, book values from the balance sheets of direct investment enterprises can be used to determine the value of stocks. Changes in the stock of an economy's external financial assets and liabilities result from transactions recorded in the financial account (FDI inflows and outflows). In addition, price changes, exchange rate variations and other adjustments affect the estimated amount of financial assets and liabilities.*
- ***Inward FDI stock*** *reflects the position at the end of a reporting period of a country's external financial liabilities, owned by direct investors either directly or through other related enterprises, in foreign affiliates.*
- ***Outward FDI stock*** *reflects the position at the end of a reporting period of a country's external financial assets, owned by direct investors either directly or through other related enterprises, in affiliates abroad.*

DATA SOURCES

[1] UNCTAD, *World Investment Report 2003.*
Statistics on FDI stocks are only available from 1980 onwards.

To learn more

In its annual ***World Investment Report,*** UNCTAD analyses current FDI trends and the activities of transnational corporations and provides policy recommendations. The *Report* is available at www.unctad.org/wir. UNCTAD's databases on FDI and transnational corporations contain data on inward and outward stocks of FDI for almost 200 countries and economies since 1980. In addition to national data sources, these databases utilize secondary sources, data published by international organizations and UNCTAD estimates. The data can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained via statfdi@unctad.org.

FDI stocks by region in 2002 [1]

Inward FDI stock *(in %)* **Outward FDI stock** *(in %)*

Inward FDI stock [1]

In million US$

Region	1980	1985	1990	1995	2000	2002
World	**699 415**	**977 755**	**1 954 203**	**3 001 995**	**6 146 656**	**7 122 350**
Developing countries	**307 469**	**406 805**	**551 481**	**920 400**	**2 029 412**	**2 339 632**
Africa	**32 162**	**33 844**	**50 775**	**77 400**	**144 503**	**170 876**
Northern Africa	4 322	8 242	16 903	26 300	38 082	48 310
Sub-Saharan Africa	27 840	25 602	33 872	51 101	106 421	122 566
Sub-Saharan Africa less South Africa	11 321	16 578	24 751	36 002	59 003	71 568
America	**50 404**	**80 129**	**116 963**	**201 755**	**608 924**	**762 229**
Central America and the Carribean	21 059	37 890	50 337	89 605	228 863	321 119
South America	29 345	42 238	66 625	112 150	380 061	441 110
Asia	**223 707**	**291 626**	**381 481**	**638 222**	**1 272 245**	**1 402 488**
West Asia	7 568	37 657	41 196	51 662	69 979	72 376
Central Asia	..	..	..	4 018	16 123	25 139
South, East and South-East Asia	216 139	253 969	340 285	582 542	1 186 143	1 304 973
South, East and South-East Asia less China	209 888	243 470	315 523	445 107	837 797	857 081
Oceania	**1 196**	**1 207**	**2 263**	**3 022**	**3 740**	**4 039**
Countries in Central and Eastern Europe	**..**	**49**	**2 841**	**40 187**	**129 169**	**187 868**
Developed countries	**391 946**	**570 901**	**1 399 880**	**2 041 408**	**3 988 075**	**4 594 850**
North America	137 209	249 272	507 793	658 843	1 419 383	1 572 561
Europe	232 717	286 179	796 179	1 213 733	2 361 428	2 779 857
Others	22 021	35 450	95 908	168 833	207 263	242 432
Memorandum						
Developing countries less China	301 219	396 306	526 719	782 965	1 681 066	1 891 740
Least developed countries	3 720	5 398	8 256	15 096	31 761	41 888

Outward FDI stock [1]

In million US$

Region	1980	1985	1990	1995	2000	2002
World	**563 997**	**743 267**	**1 762 963**	**2 901 059**	**5 991 756**	**6 866 362**
Developing countries	**64 606**	**78 176**	**133 088**	**310 864**	**817 450**	**849 464**
Africa	**6 871**	**10 960**	**20 777**	**33 004**	**48 591**	**43 574**
Northern Africa	460	872	1 474	1 528	2 998	3 471
Sub-Saharan Africa	6 412	10 088	19 303	31 475	45 592	40 103
Sub-Saharan Africa less South Africa	690	1 124	4 439	8 042	10 315	11 348
America	**51 529**	**55 517**	**63 358**	**90 861**	**160 186**	**173 187**
Central America and the Carribean	5 444	8 161	11 882	26 240	64 728	75 002
South America	46 085	47 356	51 476	64 620	95 458	98 185
Asia	**6 193**	**11 662**	**48 868**	**186 574**	**608 232**	**632 114**
West Asia	1 447	2 143	7 609	7 112	13 318	19 777
Central Asia	..	..	..	0	558	1 521
South, East and South-East Asia	4 746	9 519	41 259	179 462	594 356	610 816
South, East and South-East Asia less China	..	9 388	38 771	163 660	568 552	575 278
Oceania	**13**	**37**	**85**	**426**	**442**	**588**
Countries in Central and Eastern Europe	**..**	**..**	**616**	**6 372**	**19 339**	**29 152**
Developed countries	**499 391**	**665 090**	**1 629 259**	**2 583 824**	**5 154 968**	**5 987 746**
North America	239 158	281 512	515 358	817 224	1 528 943	1 775 134
Europe	237 694	330 825	874 369	1 463 467	3 248 357	3 771 452
Others	22 539	52 754	239 533	303 132	377 667	441 160
Memorandum						
Developing countries less China	64 606	78 046	130 600	295 062	791 646	813 926
Least developed countries	82	446	689	1 799	3 090	3 105

2.2 Foreign direct investment

OVERVIEW

The downturn in foreign direct investment (FDI) inflows in 2002 reinforced the trend towards liberalization of FDI policies and regulations. Like 2001, 2002 saw a record number of favourable changes in national FDI legislation. Indeed, during 1991–2002, 95% of the changes introduced by 165 countries in their FDI laws were in the direction of greater liberalization.

The international policy dimension of countries' efforts to attract FDI and benefit from it continues to intensify, especially at the bilateral, subregional, regional and interregional levels. The existing network of investment rules is laid out in a large number of **bilateral investment treaties (BITs)**, free trade agreements with investment components, **double taxation treaties (DTTs)**, regional trade agreements and multilateral agreements.

Since 1959, the year of the first bilateral investment treaty, their number has grown steadily; they numbered 385 by 1989, and 2,181 in 2002, encompassing 176 countries. The number of DTTs has reached 2,256 in 2002.

At the regional level, the trend is towards comprehensive agreements that include both trade-related and investment-related provisions. Out of 60 regional trade agreements in force, 65% contain specific chapters on investment, and 18% have general provisions on investment. At the international level, certain instruments dealing with specific aspects of investment exist, but efforts applied during the last 50 years to create comprehensive multilateral rules have not borne fruit.

This network of agreements is multi-layered and multi-faceted, with obligations differing in geographical scope and coverage and ranging from voluntary to binding, thus constituting an intricate web of commitments that partly overlap and partly supplement one another.

DEFINITIONS

- ***Bilateral investment treaties (BITs)*** *are agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by companies based in either country. Treaties typically cover the following areas: scope and definition of foreign investment; admission and establishment; national treatment in the post-establishment phase; most-favoured-nation treatment; fair and equitable treatment; guarantees and compensation in the event of expropriation; guarantees of free transfers of funds and repatriation of capitals and profits; and dispute settlement provisions, both state-state and investor-state.*
- ***Double taxation treaties (DTTs)*** *are agreements between two countries to relieve the double taxation that occurs when income or gains are taxable in both countries. The treaties are designed to avoid double taxation; prevent tax evasion; promote international trade; create certainty and tax stability; provide mechanisms for resolving international tax disputes; promote tax incentives to developing countries; allocate taxing rights between contracting states; and prevent tax discrimination.*

DATA SOURCES

[1] UNCTAD, *World Investment Report 2003.*

To learn more

UNCTAD runs a technical assistance programme on international investment agreements. The programme is designed to help developing countries participate as effectively as possible in international discussions on investment at the bilateral, regional and international levels. Key activities include publication of the series ***Issues in International Investment Agreements*** and of ***International Investment Agreements: A Compendium***. The technical cooperation focuses on training sessions for negotiators, seminars for policy makers, advisory missions, and facilitation of negotiations of bilateral investment treaties and double taxation treaties. For more information visit www.unctad.org/iia.

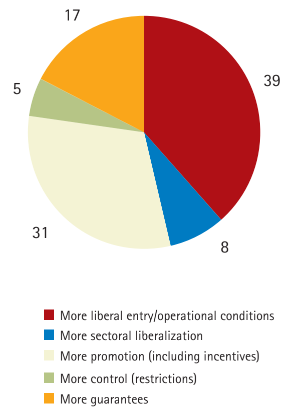
Changes in national FDI regulations, 1992 – 2002 [1]

Item	1992	1995	1999	2000	2001	2002
Number of countries that introduced changes in their investment regimes	43	64	63	69	71	70
Number of regulatory changes	79	112	140	150	208	248
of which:						
More favourable to FDI[a]	79	106	131	147	194	235
Less favourable to FDI[b]	–	6	9	3	14	12

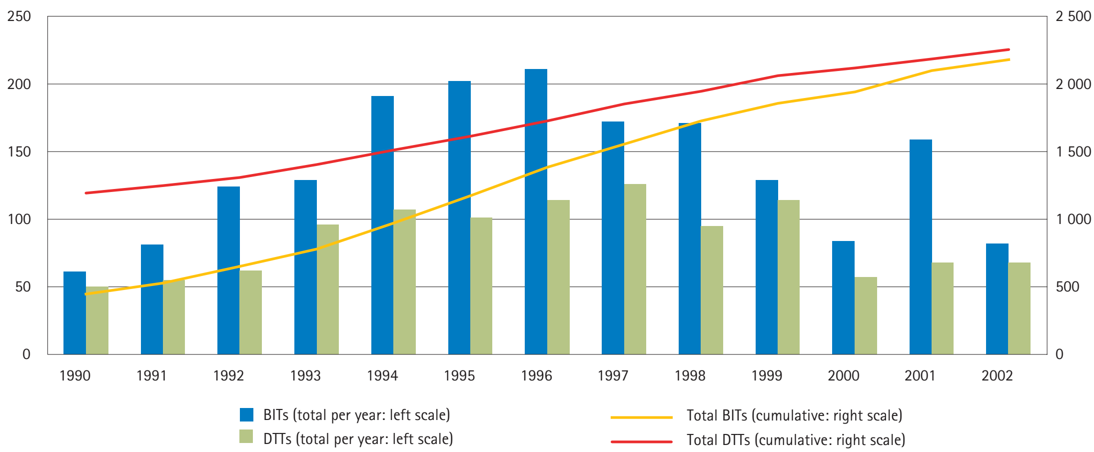
[a] Including liberalizing changes or changes aimed at strengthening market functioning, as well as increased incentives.
[b] Including changes aimed at increasing control as well as reducing incentives.

Types of changes in laws, 2002 [1]

(in %)



Number of BITs and DTTs concluded, cumulative and yearly total [1]



Concentration of BITs worldwide, 1 January 2003 [1]