

Building productive capacities in LDCs through FDI and domestic enterprise development

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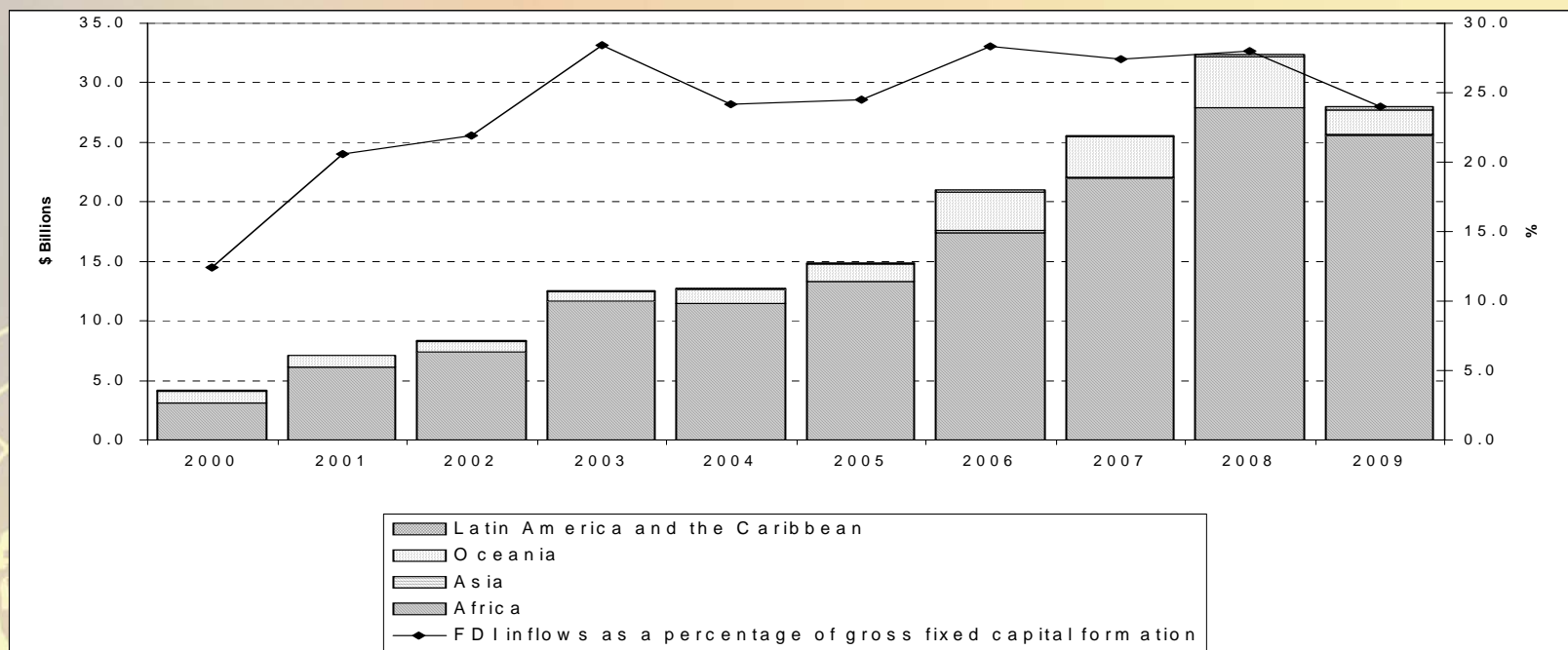
Director

Division on Investment and Enterprise

FDI in LDCs on the rise...

- Inflows to LDCs: more important source of financing
\$8 billion in 2002 → about \$28 billion in 2008 (although declined in 2009)
- They account for a significant share of domestic capital formation (between 23-28%)

FDI inflows into the LDCs and their share in gross fixed capital formation, 2000-2009

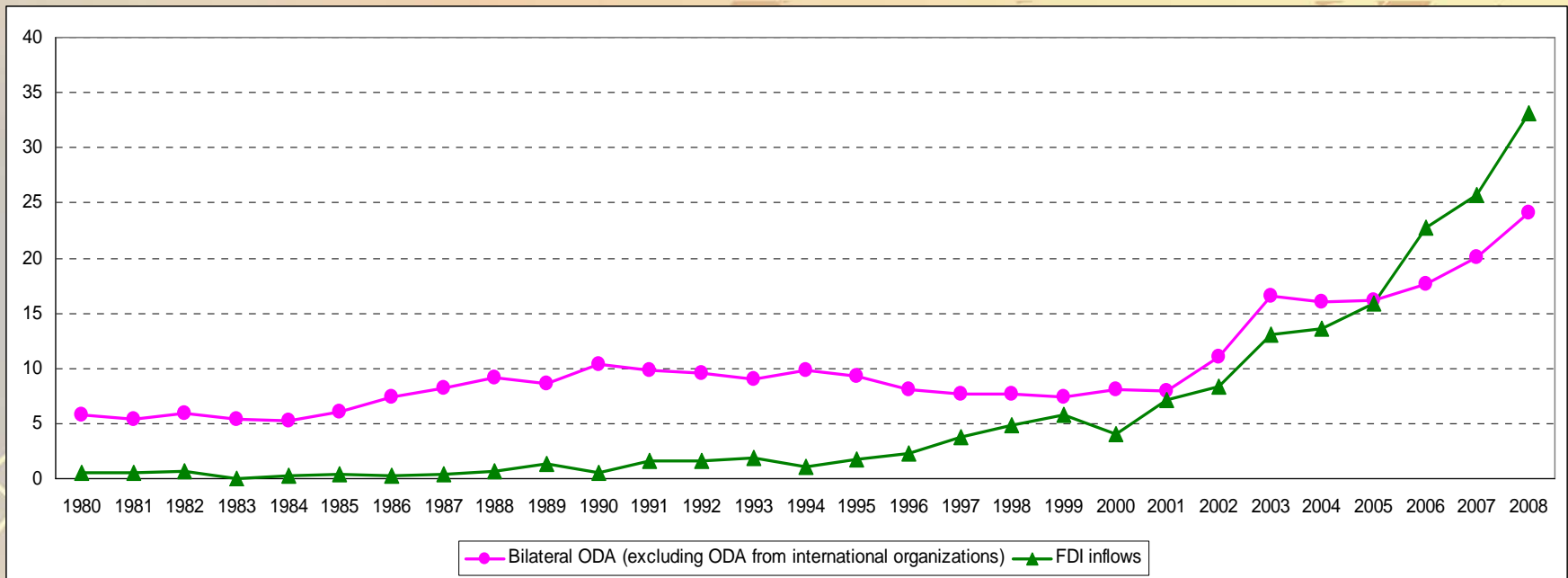


Source: UNCTAD, FDI/TNC database.

FDI inflows have grown over the years, and since 2004 constitute the most important resource flow to LDCs

FDI inflows and bilateral ODA flows to LDCs, 1980-2008

(Billions of dollars)



Source: UNCTAD FDI/TNC database and OECD.

... but the distribution remains uneven

Distribution of FDI flows among economies by range*

(Millions of dollars)

| Range | Inflows | Outflows |
|------------------------|---|---|
| Above \$10.0 billion | Angola | .. |
| \$2.0 to \$9.9 billion | Sudan | .. |
| \$1.0 to \$1.9 billion | Equatorial Guinea | .. |
| \$0.5 to \$0.9 billion | Zambia, Democratic Republic of Congo, Mozambique, Uganda, Niger, Bangladesh, United Republic of Tanzania, Madagascar and | .. |
| \$0.2 to \$0.4 billion | Chad, Liberia, Myanmar and Senegal | Liberia |
| Below \$0.1 billion | Afghanistan, Solomon Islands, Burkina Faso, Lao People's Democratic Republic, Yemen, Rwanda, Mali, Somalia, Djibouti, Ethiopia, Benin, Malawi, Togo, Lesotho, Gambia, Central African Republic, Nepal, Haiti, Bhutan, São Tomé and Príncipe, Sierra Leone, Vanuatu, Timor-Leste, Guinea-Bissau, Burundi, Maldives, Comoros, Tuvalu, Kiribati, Samoa, Eritrea and Mauritania | Yemen, Sudan, Democratic Republic of Congo, Bangladesh, Senegal, Solomon Islands, Rwanda, Niger, Angola, São Tomé and Príncipe, Mali, Mozambique, Samoa, Malawi, Burkina Faso, Guinea-Bissau, Vanuatu, Cambodia, Benin and Togo |

Source: UNCTAD, FDI/TNC database.

* Ranked on the basis of 2009 FDI inflows.

- High concentration in few natural-resource-rich countries, driven by high global oil and gas demand
- Bulk of FDI is aimed at extracting activities in particular in Africa
- In Asian LDCs, FDI is also occurring in services (telecommunications, utilities)

Greenfield FDI projects in LDCs, by investor/region, 2007-2009

(Number)

| Investor region/economy | 2007 | 2008 | 2009 |
|---------------------------------|------|------|------|
| World | 110 | 327 | 269 |
| Developed countries | 49 | 124 | 106 |
| European Union | 28 | 78 | 77 |
| Japan | 3 | 5 | 5 |
| United States | 10 | 21 | 15 |
| Developing economies | 61 | 201 | 161 |
| Africa | 10 | 77 | 66 |
| Latin America and the Caribbean | 4 | 3 | 5 |
| Asia | 47 | 121 | 90 |
| West Asia | 13 | 35 | 12 |
| South, East and South-East Asia | 34 | 86 | 78 |
| China | 10 | 12 | 16 |
| India | 7 | 18 | 12 |
| Malaysia | 2 | 16 | 17 |
| Viet Nam | 6 | 19 | 9 |
| Transition economies | - | 2 | 2 |
| Russian Federation | - | 1 | 2 |

Investments from developing countries account for more than half of the total

Source: UNCTAD FDI/TNC database.

Greenfield FDI projects (dominant mode of investment) in LDCs, by sector/industry, 2007-2009

(Number)

| Sector/industry | 2007 | 2008 | 2009 |
|--|------|------|------|
| Total sectors | 110 | 327 | 269 |
| Primary | 20 | 55 | 26 |
| Coal, oil and natural gas | 12 | 29 | 17 |
| Manufacturing | 45 | 113 | 97 |
| Food, beverages and tobacco | 10 | 33 | 30 |
| Textiles | 6 | 5 | 4 |
| Chemicals and chemical products | 1 | 7 | 4 |
| Non-metallic minerals | 2 | 12 | 8 |
| Metals | 18 | 30 | 15 |
| Machinery and equipment | 1 | 5 | 6 |
| Electrical and electronic equipment | 2 | 3 | 4 |
| Motor vehicles & other transport equipment | 4 | 8 | 18 |
| Services | 45 | 159 | 146 |
| Hotels and tourism | 9 | 16 | 10 |
| Transport, storage and communications | 12 | 26 | 30 |
| Financial services | 14 | 93 | 76 |
| Business activities | 9 | 22 | 27 |

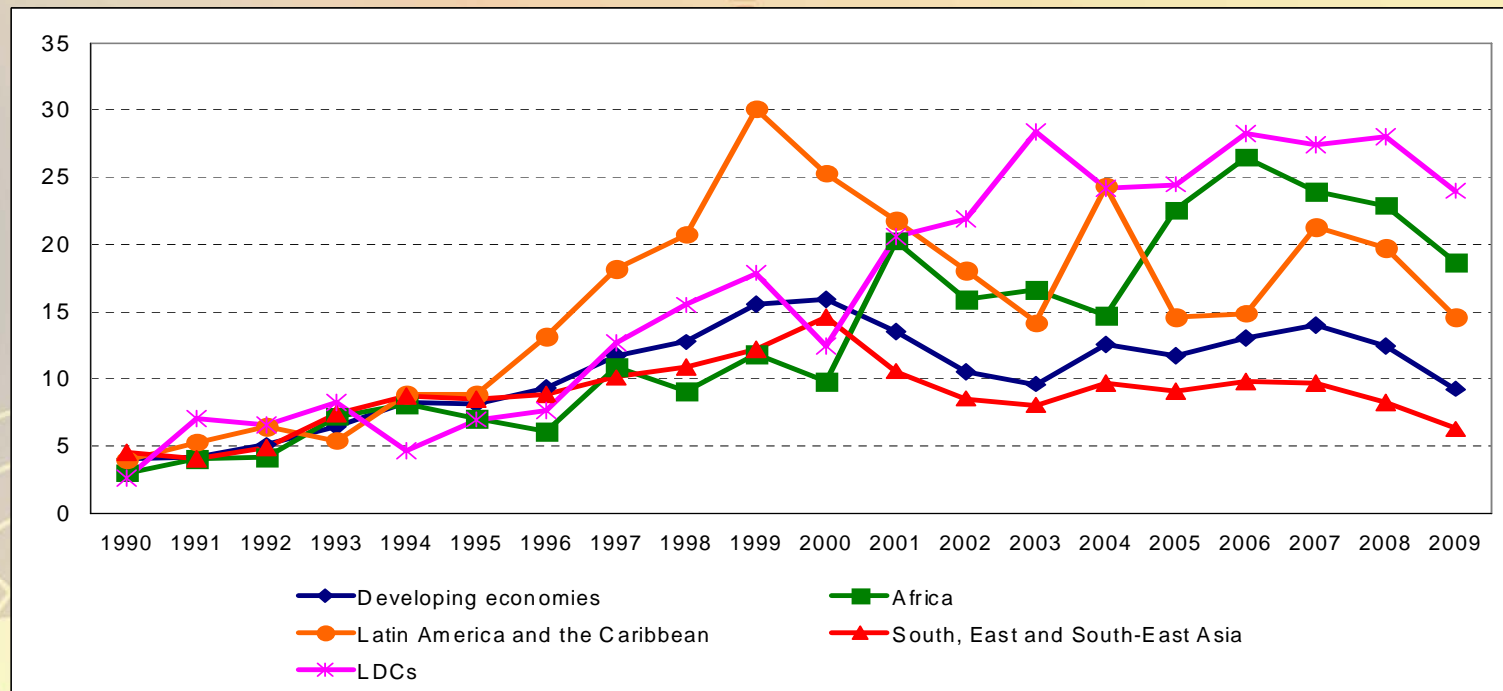
Manufacturing and services are important recipient sectors:

- Agro-business accounts for one third of manufacturing investments
- In the services sector, financial services account for the bulk of investments, followed by transport and communications

Source: UNCTAD FDI/TNC database.

The share of FDI in capital formation is higher in LDCs than in other developing regions

FDI inflows as a percentage of gross fixed capital formation, 1990-2009
(Per cent)



Source: UNCTAD, FDI/TNC database.

Due to the predominance of FDI in extractive industries, the labour intensity of FDI projects in LDCs is relatively low

Sales, employment and labour intensity, by region, 2007

| Host region | Sales (\$ million) | Employment (thousand employees) | Share of foreign affiliates in total sales in host economies | Share of foreign affiliates in total employment in host economies | Labour intensity (number of employees per \$1 million sales) |
|---------------------------------|--------------------|---------------------------------|--|---|--|
| Sub-saharan Africa | 236 454 | 698 | 14.9 | 0.2 | 3.0 |
| <i>Memorandum</i> | | | | | |
| World | 20 862 156 | 67 041 | 18.7 | 2.3 | 3.2 |
| Developed countries | 15 842 663 | 30 103 | 20.3 | 6.3 | 1.9 |
| Developing economies | 4 753 877 | 35 433 | 15.9 | 1.5 | 7.5 |
| Latin America and the Caribbean | 1 620 600 | 7 365 | 21.7 | 3.0 | 4.5 |
| South, East and South-East Asia | 2 510 480 | 26 046 | 15.3 | 1.5 | 10.4 |

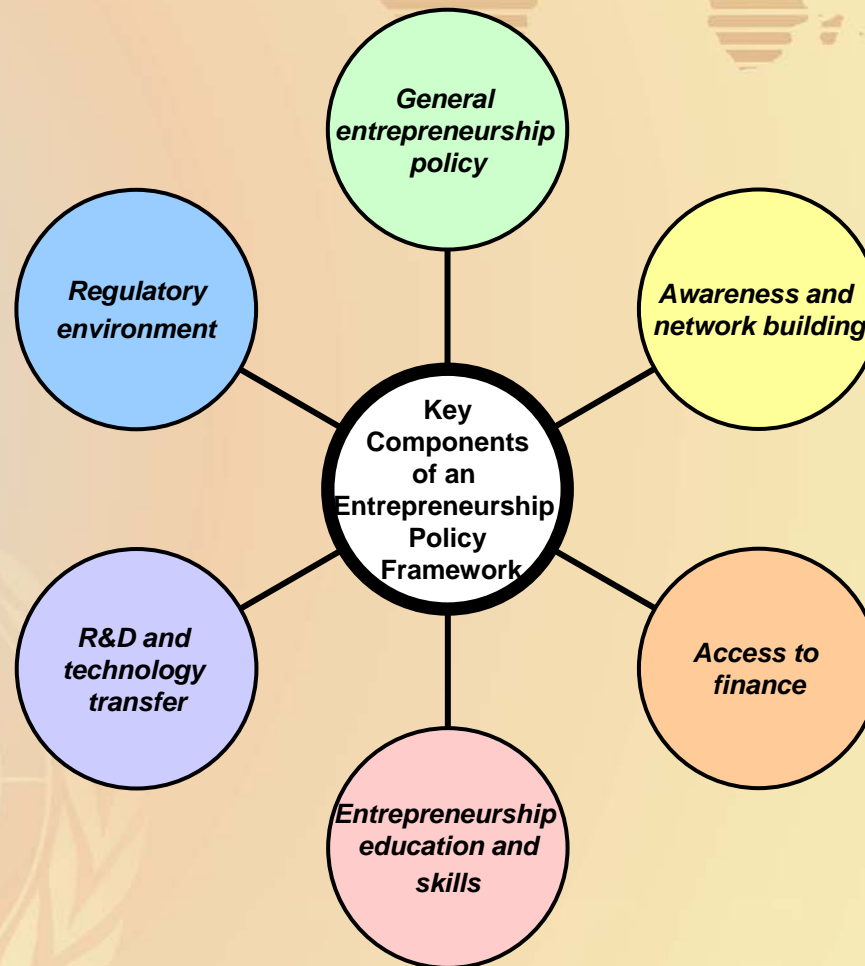
Source: UNCTAD.

Issues for discussion (based on the findings)

- Follow a sector specific approach: focus on agriculture, infrastructure and manufacturing and on development of productive capacities in LDCs
- Promote public-private partnerships to harness FDI for infrastructure and agricultural development
- Develop synergies between FDI and ODA to complement respective advantages
- Maximize the benefits of South-South FDI

Source: UNCTAD, FDI/TNC database.

Key Components of an Entrepreneurship Policy Framework



Enhancing capacity building of domestic firms: UNCTAD Business Linkages Programme

- Connects large companies with domestic suppliers in developing countries.
- Currently operational in **Argentina, Brazil, Mozambique, Peru, Tanzania, Uganda and Zambia.**

Key activities:

- Upgrading local businesses to meet international standards;
- Strengthening small businesses to become dependable partners for large companies;
- Providing policy advice on improving the environment for sustainable business linkages;
- Sharing effective international business linkage strategies with the various stakeholders;
- Involving companies in cost-sharing with a view to operational sustainability.



Thank you

