Prospects for Foreign Direct Investment and the Strategies of Transnational Corporations, 2005-2008

CHAPTER 5

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V. Concluding remarks

The GIPA survey results, global leading economic indicators and recent FDI policy developments all show that FDI flows are likely to recover further from the recession that dominated the early years of this decade. That recovery will be increasingly fuelled by FDI flows to selected developing countries and by investment in services sectors and selected manufacturing industries.

Overall, expectations for short- and medium-term FDI prospects are best described as cautiously optimistic. Much depends, as it always has, on economic growth. To the extent that growth does not falter, FDI will be strong in developing and developed countries alike, further reinforced in the latter by a resurgence of cross-border M&As.

It is clear that competition for FDI is intensifying. Countries will continue to put in place attractive investment environments through more liberal regulatory regimes and incentive structures, and through increased bilateral and regional investment agreements (Hamdani 2005). It is now common for countries to have liberal FDI entry and ownership requirements, as well as streamlined admission procedures, and to offer standard guarantees and protection to foreign investors (in such areas as national treatment, expropriation, dispute settlement, arbitration and the repatriation of funds). Investment agencies are shifting their focus away from authorisation and regulation to facilitation (one-stop operations and aftercare) and promotion (greater targeting, incentives, special economic zones and the development of industrial clusters).

The winners will not necessarily be those countries that attract the most FDI, but rather those that are able to derive the most benefits from the investment that they receive. FDI strategies are important and should be embedded in an overall national development plan or industrial development strategy. For smaller countries, a regional approach will bear dividends. For the least developed countries, the complementarity between aid and FDI will need to be realised, particularly with respect to the development of infrastructure, human resources, technological capacities and the domestic private sector. This requires greater cooperation between host and home countries on FDI issues. There is a need for innovative partnerships between public and private sectors to develop investment opportunities in infrastructure and less developed sub-regions, as well as in socially focused sectors, like education and medical services. There will also be a need for effective public-private dialogue and multi-stakeholder interaction to promote good governance and also inculcate a greater sense of corporate responsibility among resident investor communities.

Notes

1 For an analysis of these trends, see the *World Investment Reports 2000-2005*.

2 Calculations based on information from the Thomson financial database for 247 of the largest global TNCs.

3 For detailed analysis, including a definition of these agreements, see UNCTAD, *Economic Integration Investment Agreements* (http://www.unctad.org/iia).

4 Japan established duty-free and quota-free preferences for LDCs on almost all (99%) industrial and agricultural products (http://docsonline.wto.org/DDFDocuments/t/WT/COMTD/N2A10.doc).

5 The question on prospects for FDI by industry was posed to IPAs and FDI experts only, since TNCs are generally not well placed to provide forecasts for industries other than their own.

6 In this section, “IPA respondents” refers to IPAs from developed countries that took part in the survey.

7 “IPAs” in this section refers to those IPAs from Africa that took part in the survey.

8 “IPAs” in this section refers to those Asian IPAs that took part in the GIPA 2005 survey.

9 ‘IPAs’ in this section refers to those IPAs from Latin America and the Caribbean taking part in the survey.

10 The fact that Poland, last year’s number one business location, no longer features in the top five is purely due to its new country classification as a developed country (discussed earlier). As members of the EU, the United Nations has reclassified Poland and the Czech Republic as developed countries.

11 In this section, “IPAs” refer to those IPAs from South-east Europe and the CIS taking part in the survey.