UNCTAD MEDIA SUMMARY

10 May 2001
LDCIII/PRESS/01

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FDI increases to the world's poorest countries

*A new UNCTAD report on **FDI in Least Developed Countries at a Glance**, released today, shows that foreign direct investment (FDI) in the world's 49 poorest countries*[a] *is on the rise, in contrast to official aid. Still, while the least developed countries (LDCs) represent a quarter of the world's countries, they receive only half a per cent of global FDI flows (table 1).*

UNCTAD's latest report is the first comprehensive but concise presentation of information on FDI in each of the LDCs. It answers such questions as:

- Which countries are investing in LDCs?
- How much FDI have the LDCs received over time?
- How does FDI compare to domestic investment in the LDCs?
- Which LDC industries are being targeted by foreign investors?
- What percentage of FDI in LDCs can be attributed to cross-border mergers and acquisitions and privatization?
- Which are the largest foreign companies in LDCs? Do they include the world's largest transnational corporations?
- How many bilateral investment and double taxation treaties have the LDCs concluded, and with which partner countries?
- To which FDI-related international agreements are they a party?
- Are there any investment promotion agencies in the LDCs, and how can they be contacted?

There are several reasons why FDI is important for the LDCs – countries with an average per capita GDP under $900 and low levels of capital, human and technological development:

- First, although data on FDI are not always reliable, they show that FDI to LDCs increased substantially, from $0.6 billion in 1990 to $5.2 billion in 1999 (table 2). This growth was broadly based: 27 LDCs experienced an average annual growth rate of more than 20% and another 8 of between 10 and 20% during 1986-1999 (table 4).

- Second, although the LDCs' share of global FDI is a mere 0.5% (table 1), its contribution to total investment in these countries rose from 1.6% to 11% during the 1990s. More than 90% of these flows was through greenfield investment, rather than cross-border mergers and acquisitions. Privatizations involving FDI accounted for only 2% of all FDI in the LDCs in the 1990s.

- Third, FDI can bring not only much-needed capital but also access to technology, know-how and international markets – key assets for economic growth and development.

[a] Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

- Fourth, there is a growing need to complement official development assistance (ODA) with private finance. ODA to LDCs declined from $16.7 billion in 1990 to $11.6 billion in 1999. Bilateral ODA also declined, from $9.9 billion to $7.2 billion (table 2). In fact, there are 29 countries that during the 1990s experienced simultaneously increases in FDI and decreases in bilateral ODA (table 3).

The geographical origin of FDI is varied. France and the United Kingdom are the principal sources of FDI in African LDCs, where Europe generally outstrips the US. Most Japanese FDI in African LDCs has been concentrated in Liberia (three-quarters of all Japanese FDI in Africa). In Asian LDCs, intraregional FDI is substantial, and firms from Malaysia, Singapore and Thailand are major investors.

Despite the obvious constraints of limited purchasing power and scarce technological and human resources, investment opportunities do exist in many areas. Investment in the LDCs takes place in numerous industries. One of the challenges, according to the Report, is to ensure that investment opportunities are adequately communicated to the business community. The tendency to lump all poor countries together in a single negative stereotype is wrong. As of 1999, 44 of the *Fortune 500* firms had found investment opportunities and invested in 31 LDCs.

> *"It is clear that the LDCs offer major, still unexploited business opportunities. However, to assess the real potential, investors cannot treat the LDCs as if they were a homogenous group. Instead, each opportunity must be evaluated on its own merits."*
>
> – ***FDI in Least Developed Countries at a Glance***

Improved regulatory framework

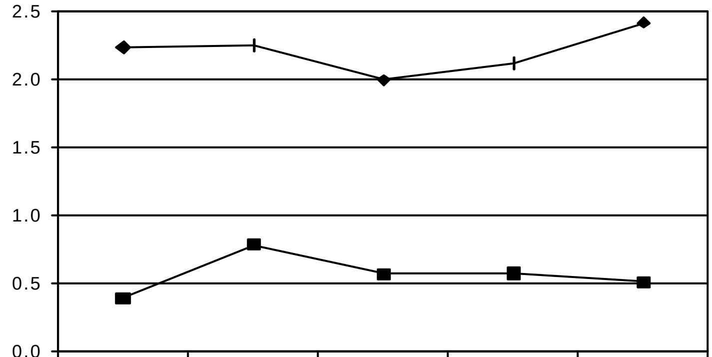
The Report notes that major efforts have been undertaken by LDCs to improve their investment climates. At the **national** level, legislation in most LDCs now offers a wide range of guarantees, non-discrimination between foreign and domestic investors, protection against expropriation, and permission for foreign affiliates to remit profits. Moreover, some leading industries have been liberalized and are now open to foreign investors.

The LDCs themselves have also been actively promoting their countries to foreign investors; investment promotion agencies have been established in 37 LDCs, 25 of which have joined the World Association of Investment Promotion Agencies.

At the **bilateral** level, as of 1 January 2000 the 49 LDCs had concluded a total of 224 bilateral investment treaties, more than 60% of them during the 1990s alone. Other important measures include the conclusion of 130 treaties for the avoidance of double taxation. Finally, a growing number of LDCs are now signatories of relevant **multilateral** agreements. For example, as of April 2001, 18 LDCs had acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards; 33 LDCs had ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States; 40 LDCs were members of the Multilateral Investment Guarantee Agency; and 32 LDCs were members of the World Trade Organization.

This volume (*UNCTAD/ITE/IIA/3)* will be used as background documentation for the session on "Enhancing Productive Capacities: The Role of Investment and Enterprise Development" on 18 May during the Third United Nations Conference on the Least Developed Countries (Brussels, 14-20 May). After the embargo date it will be available online at www.developmentgateway.org

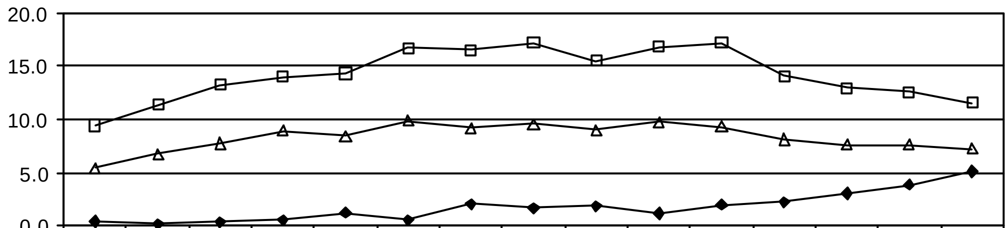
Table 1. Share of FDI flows to LDCs in total FDI flows to developing countries and in the world, 1986-1999
(Percentage)



	1986-1990	1991-1995	1996-1999	1998	1999
Share of LDCs in total FDI flows to developing countries	2.2	2.2	2.0	2.1	2.4
Share of LDCs in world FDI flows	0.4	0.8	0.6	0.6	0.5

Source: UNCTAD, *FDI in Least Developed Countries at a Glance*, p. 3.

Table 2. FDI inflows and ODA flows to LDCs, 1985-1999
(Billions of dollars)



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
FDI inflows	0.4	0.2	0.4	0.6	1.3	0.6	2.1	1.7	1.9	1.2	2.0	2.3	3.1	3.9	5.2
Total ODA	9.5	11.4	13.3	14.0	14.3	16.7	16.6	17.2	15.5	16.8	17.2	14.1	13.0	12.6	11.6
Bilateral ODA	5.5	6.8	7.8	8.9	8.5	9.9	9.2	9.6	9.0	9.8	9.3	8.1	7.6	7.6	7.2

Source: UNCTAD, *FDI in Least Developed Countries at a Glance*, p. 3.

Table 3. Growth trends[a] in FDI and bilateral ODA flows, 1990-1999

	FDI (-)	FDI (+)
ODA (+)	Bhutan Tuvalu	Angola Cambodia Cape Verde Eritrea Haiti Lao, People's Democratic Republic Liberia Madagascar Malawi Maldives Uganda
ODA (-)	Benin Burundi Guinea-Bissau Niger Rwanda Sierra Leone Yemen	Afghanistan Bangladesh Burkina Faso Central African Republic Chad Comoros Congo, Democratic Republic of Djibouti Equatorial Guinea Ethiopia Gambia Guinea Kiribati Lesotho Mali Mauritania Mozambique Myanmar Nepal Samoa Sao Tome and Principe Senegal Solomon Islands Somalia Sudan Togo United Republic of Tanzania Vanuatu Zambia

Source: UNCTAD, *FDI in Least Developed Countries at a Glance*, p. 4.

[a] Calculated as the slope of the linear regression for FDI and ODA flows between 1990 and 1999.

Table 4. Annual average FDI growth rates in LDCs, 1986-1999
(Percentage)

Growth rates	Country	
More than 20%	Afghanistan	Malawi
	Bangladesh	Mali
	Benin	Mozambique
	Bhutan	Myanmar
	BurkinaFaso	Nepal
	Cambodia	Samoa
	CapeVerde	Sao Tome and Principe
	Chad	Senegal
	Comoros	Somalia
	Djibouti	Tuvalu
	Eritrea	Uganda
	Ethiopia	United Republic of Tanzania
	Lao, People's Democratic Republic	Yemen
	Lesotho	
10-19.9%	Angola	Kiribati
	Congo, Democratic Republic of	Maldives
	Equatorial Guinea	Sudan
	Gambia	Vanuatu
0-9.9%	Guinea	Niger
	Guinea-Bissau	Solomon Islands
	Haiti	Togo
	Liberia	Zambia
	Madagascar	
Decline	Burundi	Rwanda
	Central African Republic	Sierra Leone
	Mauritania	

Source : UNCTAD, FDI in Least Developed Countries at a Glance, p. 2.

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