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FDI FLOWS BOUNCE BACK – LED BY DEVELOPING COUNTRIES

New estimates from UNCTAD show that global foreign direct investment (FDI) inflows in 2004 rose to $612 billion, thus reversing the downward trend of the past few years. The upswing in FDI was led by developing countries, which saw an overall rise of 48% compared with 2003, whereas developed countries slumped further. As a result, developing countries attracted an estimated 42% of global flows – the highest share in a decade.

Global flows up by 6%

According to UNCTAD data released in January 2005 (see UNCTAD/PRESS/PR/2005/002), global FDI inflows in 2004 are estimated to have risen by 6% to $612 billion (table 1). As in 2003, however, flows to developed countries slumped, but that decline was offset by rising flows to developing countries and Central and Eastern Europe (CEE). Not only did this put an end to the global FDI downturn that had begun in 2001, it also meant that investment flows to developing countries and CEE surpassed their respective previous records. Developing countries now account for an estimated 42% of world FDI inflows, compared with 27% during 2001-2003.

Mixed picture among rich countries

The $321 billion flows to developed countries marked a 16% drop from the previous year's $380 billion. The continued decline was due primarily to sharp reductions of inflows into some host countries, particularly the Benelux countries, and major disinvestments in Germany. Meanwhile, flows into the United Kingdom and the United States, two of the largest traditional host countries, recovered to more "normal" levels. With more than $120 billion of inflows, the United States resumed its position as the number one destination, although current estimates suggest that these inflows remained smaller than United States FDI abroad in 2004. The net contribution of FDI flows to the balance of payments remained negative.

Developing countries surge ahead

Inflows into developing countries last year are estimated to have totalled $255 billion, up 48% from 2003. This would be the highest level ever recorded. The increase was felt in each developing region.

FDI in *Africa* account for a mere 3% of global inflows, but rose last year to an estimated $20 billion – a record high. A large part of this increase stems from investment in natural resource exploration, spurred by a strong rebound in global commodity prices and demand for diamonds, gold, oil, platinum and palladium. As a result, such natural-resource-rich countries as Algeria, Angola, Libyan Arab Jamahiriya, Mauritania, Nigeria and South Africa received more FDI. UNCTAD believes that the likelihood of continuing high prices for key commodities may encourage TNCs to pursue new exploration projects in African countries, leading to sustained high levels of FDI. At the same time, for many investment promotion agencies in Africa, attracting FDI not related to natural resources remains a priority.

Asia in focus

FDI in Asia and the Pacific is estimated to have reached the unprecedented level of $166 billion, a 55% increase over 2003. China accounted for a major share of the total, with inward FDI for the first time exceeding the $60 billion mark. India; the Republic of Korea; Hong Kong (China) and Singapore all reported higher inflows too. While FDI rose in all sub-regions, FDI remains concentrated. North-East Asia – notably China and Republic of Korea – still accounts for the lion's share, followed by the ASEAN countries and South Asia. Flows to Central and West Asia expanded as a result of higher oil investment, while flows to the Pacific sub-region increased only marginally.

Latin America and the Caribbean in 2004 finally saw a turn in the tide, with FDI inflows up 37% to an estimated $69 billion. Mexico and Brazil continue to dominate the picture, accounting together for half the regional total last year. The recovery is impressive in Mexico, and inflows into Brazil are picking up

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again as well. Flows to Chile doubled. Despite the upturn, the gap to Asia and the Pacific widened further. While flows to these two regions were of about the same magnitude in 1999, in 2004, Asia and the Pacific attracted more than twice as much.

The new EU members surge ahead

Following the temporary decline to $27 billion in 2003, FDI inflows into Central and Eastern Europe also rebounded, reaching a new record high of $36 billion. The eight new member countries of the European Union – the group most affected by the 2003 downturn – experienced the most vigorous increase. Led by Romania and Bulgaria, flows to South-East Europe grew rapidly as well, while the Russian Federation chalked up a record $10 billion.

Promising prospects

Overall, UNCTAD is predicting that FDI flows will expand over the medium term because the main fundamentals that drive FDI – a broad-based economic recovery, equity market valuations, and mergers and acquisitions – are in place.

UNCTAD is currently preparing its annual survey of investment promotion agencies and investors to gauge the prospects in more detail.

Source: UNCTAD.

Table 1. FDI inflows, by host region and major host economy, 2001-2004

(Billions of US dollars)

Host region/economy	2001	2002 [a]	2003 [a]	2004 [b]
World	818	681	580	612
Developed countries	571	490	380	321
European Union	357	374	308	165
Belgium	..	15	29	7
France	50	49	47	35
Germany	21	36	13	-49
Luxembourg	..	117	92	52
United Kingdom	53	28	21	55
Japan	6	9	6	7
United States	159	63	30	121
Developing economies	220	159	173	255
Africa	20	12	15	20
LAC	88	53	51	69
Brazil	22	17	10	16
Chile	4	2	3	6
Mexico	27	15	11	18
Asia and the Pacific	112	94	107	166
China	47	53	54	62
Hong Kong, China	24	10	14	33
India	3	3	4	6
Korea, Republic of	4	3	4	9
Singapore	15	6	11	21
Central and Eastern Europe [c]	26	31	27	36
Czech Republic	6	8	3	5
Poland	6	4		5
Russian Federation	2	3	7	10

Source: UNCTAD (www.unctad.org/fdistatistics) and UNCTAD's own estimates.

[a] Revised data.

[b] Preliminary estimates. See note below.

[c] The eight CEE countries that acceded to the EU in 2004 are included under this heading.

Note: Projection on the basis of 101 economies for which data are available for part of 2004, as of 29 December 2004. For further details, see UNCTAD Press Release UNCTAD/PRESS/PR/2005/002, 11 January 2005.

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