UNCTAD Investment Brief

Number 3 2006

NEW SOURCES OF FDI ATTRACTING ATTENTION FROM IPAs

Investment promotion agencies (IPAs) from all parts of the world recognize the emerging role of developing and transition economies as sources of foreign direct investment (FDI). A new UNCTAD survey shows that 74% of IPAs already target FDI from these economies. The interest is particularly pronounced among IPAs in the developing world, in which "South-South" FDI accounts for a large share of total inflows.

FDI from the "South" on the rise

During the past few years, FDI from developing as well as transition economies has reached record levels. While only 6 of these economies had outward FDI stocks of more than $5 billion in 1990, this now applies to as many as 25 of them.

As will be featured in the forthcoming *World Investment Report 2006* the top sources of FDI (in terms of stock data) from developing and transition economies are Hong Kong (China), the British Virgin Islands, Russia, Singapore, Taiwan Province of China and Brazil. However, more and more countries are recognizing that outward FDI can bring benefits in the form of access to resources, markets and technology, and are actively encouraging their firms to internationalize.

Many IPAs target the new sources of FDI

A growing number of host countries are also beginning to appreciate that the spectrum of potential investors is becoming more diverse. This is reflected in the activities of IPAs, a large number of which already seek to attract FDI from developing and transition economies. In an UNCTAD survey to which 68 IPAs responded in February-March 2006, 74% reported that they already target FDI from developing countries and economies in South-East Europe and the CIS.

In general, developing Asia is the top target region for IPAs that actively promote FDI from developing and transition economies. However, clear regional preferences can be noted from the responses (see figure 1). For example, whereas IPAs in developing Asia focus almost exclusively on FDI sources within the Asian region, Latin American and Caribbean IPAs concentrate on FDI from other parts of Latin America.

In general, China is the most favoured target country for IPAs. However, the target economies most often mentioned by IPAs in the South are consistently countries within their own region. For example, for African IPAs South Africa tops the list, and in Latin America and the Caribbean, Brazil is the source country most often targeted by IPAs.

China hosts most IPA offices

Of the 68 responses, 18 IPAs (27%) have already established an office abroad in a developing or transition economy to support their effort to attract FDI. It is more common for developed-country IPAs to have at least one such overseas office, probably reflecting the considerable costs that are involved in setting up offices abroad. Relatively few IPAs in developing (21%) and transition economies (17%) have set up any offices in other developing or transition economies.

Among the IPAs that have offices abroad in developing or transition economies, China has so far been the preferred choice: 61% of those IPAs today have a local presence in that country. Other relatively popular locations include India, Singapore and the Republic of Korea. Among the developed-country IPAs, all but one has a presence in China. The picture is more varied among developing-country IPAs, obviously reflecting regional priorities. In the case of developing Asia, 91% of the IPAs' overseas offices in developing countries are located in Asia. For IPAs in Latin America and the Caribbean, 77% of the overseas offices in developing countries are located within their own region. Meanwhile, only 50% of such offices established by African IPAs are in Africa.

Tourism and textile industries most targeted

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Four out of ten respondents stated that their efforts to attract FDI from developing and transition economies are targeted at certain industries. The top targets are tourism (mentioned by 50% of those IPAs that target specific industries), followed by textiles and leather (46%), agriculture, forestry and fishing (43%), ICT (36%) and the electronic & electrical industry (29%). Developed-country IPAs seem to put priority on the ICT industry; African IPAs focus on FDI in textiles & leather; while IPAs in developing Asia mentioned agriculture, forestry and fishing most frequently, together with tourism.

Implications for IPAs

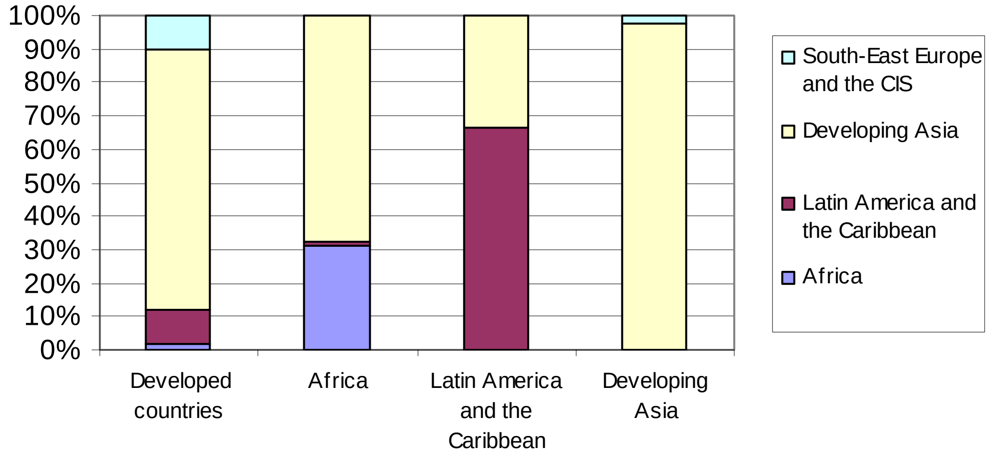
The survey shows that IPAs already attach importance to the potential for attracting FDI from developing and transition economies. This is particularly pronounced among IPAs from developing countries, in which "South-South" FDI already accounts for a significant share of total inflows.

In terms of enhancing the positive impact of inward FDI, host country Governments need to consider the full range of policies that can influence the behaviour of foreign affiliates, and their interaction with the local business environment. In doing this, they need to take the specific characteristics of different industries and activities into account.

In light of the strong regional dimension of such FDI, there are good reasons for IPAs to attach special importance to neighbouring countries in their targeting strategies. This may be more cost-effective than seeking to attract FDI from more distant source countries. There may also be scope for more "South-South" collaboration among IPAs on the one hand and agencies promoting outward FDI on the other. The latter include EXIM Banks, trade promotion organizations and some IPAs that also work with outward investment. Among developing countries, agencies dealing with outward FDI are most common in Asia.

Source: UNCTAD.

Figure 1. Regional distribution of target developing and transition economies by host region



Source: UNCTAD Survey of IPAs, February-March 2006.

More on this topic will be presented in the

World Investment Report 2006: FDI from Developing Countries and Transition Economies.

The *WIR06* is launched worldwide on **16 October 2006.**

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