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World Investment Report

2001 Promoting
Linkages

Overview



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WORLD INVESTMENT REPORT 2001: PROMOTING LINKAGES

OVERVIEW

THE GEOGRAPHY OF INTERNATIONAL PRODUCTION

FDI flows reached record levels in 2000...

Foreign direct investment (FDI) continues to expand rapidly, enlarging the role of international production in the world economy. FDI grew by 18 per cent in 2000, faster than other economic aggregates like world production, capital formation and trade, reaching a record \$1.3 trillion (table 1). FDI flows are, however, expected to decline in 2001.

The global expansion of investment flows is driven by more than 60,000 transnational corporations (TNCs) with over 800,000 affiliates abroad. *Developed countries* remain the prime destination of FDI, accounting for more than three-quarters of global inflows. Cross-border mergers and acquisitions (M&As) remain the main stimulus behind FDI, and these are still concentrated in the developed countries. As a result, inflows to developed countries increased by 21 per cent and amounted to a little over \$1 trillion. FDI inflows to *developing countries* also rose, reaching \$240 billion. However, their share in world FDI flows declined for the second year in a row, to 19 per cent, compared to the peak of 41 per cent in 1994. The countries in *Central and Eastern Europe*, with inflows of \$27 billion, maintained their share of 2 per cent. The 49 least developed countries (LDCs) remained marginal in terms of attracting FDI, with 0.3 per cent of world inflows in 2000.

Within the developed world, the *Triad* - the European Union (EU), the United States and Japan - accounted for 71 per cent of world inflows and 82 per cent of outflows in 2000 (table 2). Within the Triad, the *EU* has gained both as a recipient and source of FDI. Record inflows (\$617 billion) were stimulated by further progress in regional integration, while the United States and other Western European countries remain its main partners outside the region. Due to the take-over of Mannesmann by VodafoneAirTouch - the largest cross-border merger deal so far - Germany became, for the first time, the largest recipient of FDI in Europe. The United Kingdom maintained its position as the top source country worldwide for a second year. The *United States* remained the world's largest FDI recipient country as inflows reached \$281 billion. Outflows with \$139 billion decreased by 2 per cent. *Japan* saw its inflows in 2000 drop by 36 per cent from the previous year to \$8 billion, partly due to the prolonged slow-down of the country's economic growth, but also perhaps indicative of the fact that, in spite of its welcoming FDI policies, other factors deter investment inflows. In contrast, outflows from Japan rebounded to \$33 billion, the highest level in ten years. Among *other developed countries*, the most conspicuous events were the unprecedented levels of FDI into and from Canada, reflecting several major M&A deals, in particular with partners in Europe and the United States.

There were major differences in FDI trends among developing countries. In contrast to the experience in most other parts of the world, inflows to *Africa* (including South Africa) declined in 2000 (for the first time since the mid-1990s), from \$10.5 billion to \$9.1 billion. As a result, the share of Africa in total FDI flows fell below 1 per cent. The decline was mainly related to two countries: South Africa and Angola. In the former country, fewer privatization and M&A deals caused the slow-down, while in the latter, inflows in the petroleum sector declined. The Southern African Development Community maintained its position as the most important subregion for FDI inflows in Africa. Its share in total FDI inflows into Africa was 44 per cent, compared to 21 per cent in the first half of the 1990s. The Community's improved attractiveness to FDI may have been principally driven by country-specific factors, but at least some FDI inflows were also motivated by the economic integration of the region.

After tripling during the second half of the 1990s, FDI flows into *Latin America and the Caribbean* also fell in 2000, by 22 per cent, to \$86 billion. This was mainly a correction from 1999 - when FDI inflows into the region were greatly affected by three major cross-border acquisitions of Latin American firms - rather than a shift in the underlying trend. Privatization slowed down in 2000, but continues to be important as a factor driving inward FDI. In terms of sectors, FDI into South America was mainly in services and

Table 1. Selected indicators of FDI and international production, 1982-2000
(Billions of dollars and percentage)

	Value at current prices (Billions of dollars)			Annual growth rate (Per cent)					
	1982	1990	2000	1986-1990	1991-1995	1996-1999	1998	1999	2000
FDI inflows	57	202	1 271	23.0	20.8	40.8	44.9	55.2	18.2
FDI outflows	37	235	1 150	26.2	16.3	37.0	52.8	41.3	14.3
FDI inward stock	719	1 889	6 314	16.2	9.3	16.9	19.8	22.3	21.5
FDI outward stock	568	1 717	5 976	20.5	10.8	16.4	20.9	19.5	19.4
Cross border M&As ^a	..	151	1 144	26.4 ^b	23.3	50.0	74.4	44.1	49.3
Sales of foreign affiliates	2 465	5 467	15 680 ^c	15.6	10.5	10.4	18.2	17.2 ^c	18.0 ^c
Gross product of foreign affiliates	565	1 420	3 167 ^d	16.4	7.2	11.0	3.2	27.2 ^d	16.5 ^d
Total assets of foreign affiliates	1 888	5 744	21 102 ^e	18.2	13.9	15.9	23.4	14.8 ^e	19.8 ^e
Export of foreign affiliates	637	1 166	3 572 ^f	13.2	14.0	11.0	11.8	16.1 ^f	17.9 ^f
Employment of foreign affiliates (thousands)	17 454	23 721	45 587 ^g	5.7	5.3	7.8	16.8	5.3 ^g	12.7 ^g
GDP at factor cost	10 612	21 475	31 895	11.7	6.3	0.7	-0.9	3.4	6.1
Gross fixed capital formation	2 236	4 501	6 466 ^h	12.2	6.6	0.6	-0.6	4.3	..
Royalties and Licences fees receipts	9	27	66 ^h	22.1	14.1	4.0	6.1	1.1	..
Export of goods and non-factor services	2 124	4 381	7 036 ^h	15.4	8.6	1.9	-1.5	3.9	..

Source : UNCTAD, *World Investment Report 2001: Promoting Linkages*, table I.1, p. 10.

^a Data are only available from 1987 onward.

^b 1987-1990 only

^c Based on the following regression result of sales against FDI inward stock for the period 1982-1998: Sales=967+2.462*FDI inward stock.

^d Based on the following regression result of gross product against FDI inward stock for the period 1982-1998: Gross product=412+0.461*FDI inward stock.

^e Based on the following regression result of assets against FDI inward stock for the period 1982-1998: Assets= -376+3.594*FDI inward stock.

^f Based on the following regression result of exports against FDI inward stock for the period 1982-1998: Exports=231+0.559*FDI inward stock.

^g Based on the following regression result of employment against FDI inward stock for the period 1982-1998: Employment=13 925+5.298*FDI inward stock.

^h Data are for 1999.

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from France, Germany, Italy, Japan and the United States (for sales and employment) and those from Japan and the United States (for exports), those from the United States (for gross product), and those from Germany and the United States (for assets) on the basis of the shares of those countries in the worldwide outward FDI stock.

Table 2. Regional distribution of FDI inflows and outflows, 1989-2000

(Billions of dollars)

Region/country	FDI inflows							FDI outflows						
	1989-1994 (Annual average)	1995	1996	1997	1998	1999	2000	1989-1994 (Annual average)	1995	1996	1997	1998	1999	2000
Developed countries	137.1	203.5	219.7	271.4	483.2	829.8	1 005.2	203.2	305.8	332.9	396.9	672.0	945.7	1 046.3
Western Europe	79.8	117.2	114.9	137.5	273.4	485.3	633.2	114.2	173.6	204.3	242.4	475.2	761.1	820.3
European Union	76.6	113.5	109.6	127.6	261.1	467.2	617.3	105.2	159.0	183.2	220.4	454.3	720.1	772.9
Other Western Europe	3.1	3.7	5.2	9.9	12.3	18.2	15.8	9.0	14.6	21.1	22.0	21.0	41.1	47.4
Japan	1.0	-	0.2	3.2	3.3	12.7	8.2	29.6	22.5	23.4	26.1	24.2	22.7	32.9
United States	42.5	58.8	84.5	103.4	174.4	295.0	281.1	49.0	92.1	84.4	95.8	131.0	142.6	139.3
Developing countries and economies	59.6	113.3	152.5	187.4	188.4	222.0	240.2	24.9	49.0	57.6	65.7	37.7	58.0	99.5
Africa	4.0	4.7	5.6	7.2	7.7	9.0	8.2	0.9	0.5	0.0	1.7	0.9	0.6	0.7
Latin America and the Caribbean	17.5	32.3	51.3	71.2	83.2	110.3	86.2	3.7	7.3	5.5	14.4	8.0	21.8	13.4
Asia and the Pacific	37.9	75.9	94.5	107.3	95.9	100.0	143.8	20.3	41.1	51.9	49.4	28.7	35.5	85.3
Asia	37.7	75.3	94.4	107.2	95.6	99.7	143.5	20.3	41.1	51.9	49.4	28.6	35.4	85.2
West Asia	2.2	-	2.9	5.5	6.6	0.9	3.4	0.3	-1.0	2.3	-0.3	-1.7	0.7	1.3
Central Asia	0.4	1.7	2.1	3.2	3.0	2.6	2.7	-	0.3	0.0	0.2	0.3	0.3	0.3
										19.7	49.5	30.0	34.4	83.6
										0.3	0.1	0.1	0.1	0.3
										-	-	0.1	0.1	0.0
										0.1	0.2	0.1	0.1	0.1
										1.0	3.4	2.1	2.1	4.0
										11.6	466.0	711.9	1 005.8	1 149.9

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