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FOREIGN DIRECT INVESTMENT IN LDCs

INVESTMENT TRENDS AND POLICIES SINCE LDC IV AND THE WAY FORWARD

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CONTEXT

The Programme of Action for the Least Developed Countries for the Decade 2011–2020, also known as the Istanbul Programme of Action (IPoA), was adopted at the Fourth United Nations Conference on the Least Developed Countries (LDC IV) in 2011. It emphasized the role of foreign direct investment (FDI) as a channel to mobilize financial resources for productive capacities and human and social development in LDCs. LDCs committed to promoting private sector development and improving investment conditions; development partners committed to supporting them in this endeavor (United Nations, 2011).

Despite significant policy reform efforts aimed at improving the investment climate, FDI inflows to LDCs as a group increased only marginally during the last decade. The pandemic has further undermined the attainment of the goals of the IPoA, as well as the sustainable development goals (SDGs). Nonetheless, FDI remains an important source of external finance for LDCs, crucial for their sustainable development and eventual graduation.

This report analyzes FDI as well as investment policy reform trends in LDCs since the LDC IV. Section A provides a brief overview of FDI trends, while section B summarizes national and international investment policy trends. Section C provides recommendations to revitalize investment flows to the countries that need them the most.

The discussion in this report brings together in a concise form the extensive analysis of investment and investment policy trends in LDCs contained in annual editions of UNCTAD's flagship *World Investment Report (WIR)*. The *WIR* contains dedicated sections and datasets for LDCs, as well as specific sections on trends in SDG-relevant investment projects in the poorest countries included at the request of the UN General Assembly. The policy guidance in this report synthesizes the recommendations relevant for LDCs and their development partners contained in a decade of *WIRs* and other relevant publications of UNCTAD's Investment and Enterprise Division, including the Investment Policy Reviews.

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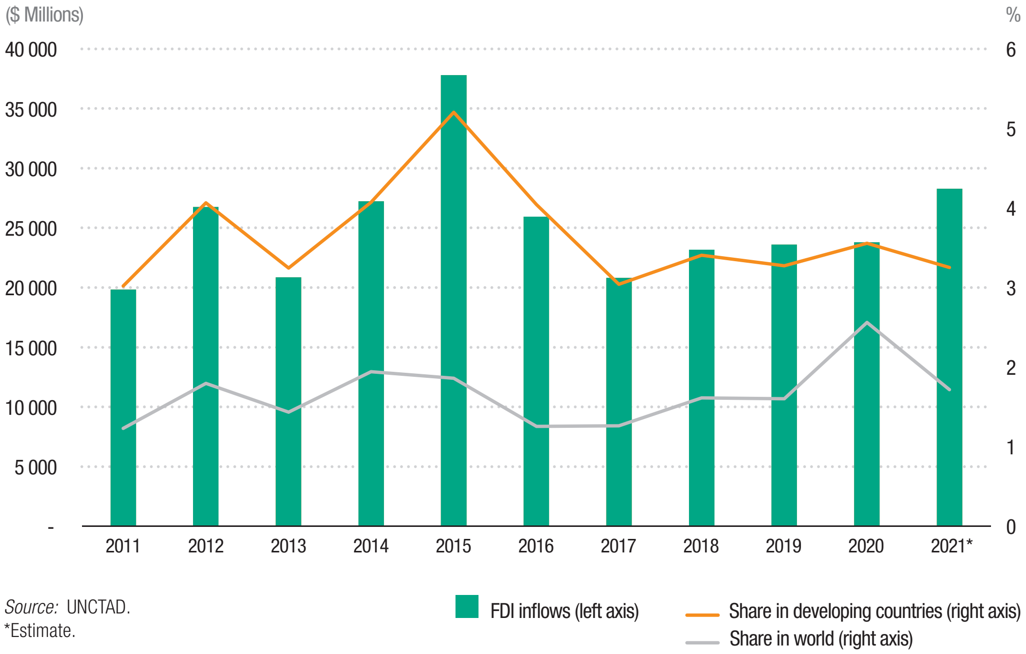
A. FDI TRENDS

Overall trends

FDI inflows to LDCs as a group have displayed only modest growth since LDC IV (figure 1). From $20 billion in 2011, they increased by 3 per cent annually to an estimated $28 billion in 2021. Their share in global FDI remains below 2 per cent and their share in developing country inflows below 4 per cent. In several LDCs, FDI inflows actually declined over the period. Furthermore, LDCs have not fully benefited from the strong recovery in FDI flows observed globally in 2021. UNCTAD's latest estimates[1] indicate that FDI flows to LDCs increased by 19 per cent, compared to 30 per cent in other developing economies.

Figure 1. FDI inflows to the LDCs and their share in world inflows and developing-country inflows, 2011-2021 (Millions of dollars and per cent)

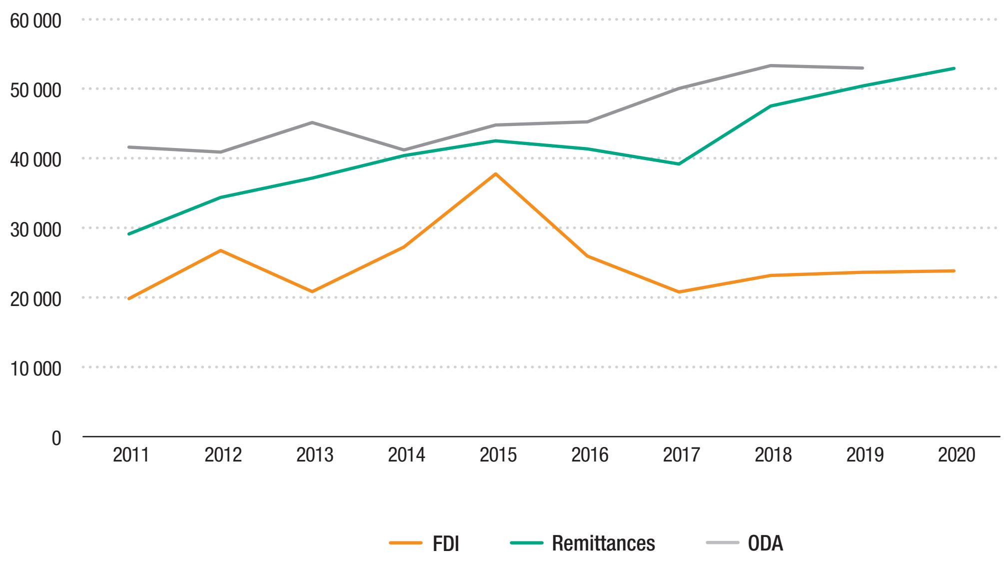


Source: UNCTAD.
*Estimate.

The growth of FDI in LDCs lagged that of other external sources of finance, including the (modest) growth of official development assistance (ODA) and the steady increase in remittances (figure 2). FDI flows remain nonetheless an important source of external finance for LDCs and can be complementary to ODA. Compared to portfolio investment flows to LDCs, FDI inflows were four times larger through most of the decade; portfolio flows to LDCs even turned negative in some years.

FDI trends for LDCs as a group mask significant variations by country. Over 2011-2019, FDI inflows to Asian LDCs increased steadily at an annual rate of 12 per cent. In contrast, FDI inflows to LDCs in Africa and Haiti declined by 2 per cent on average, and in island LDCs by 8 per cent. The COVID-19 pandemic also had different effects across the group. In 2020, the Asian LDCs saw a 6 per cent drop in FDI inflows, while African LDCs (and Haiti) even registered an increase (It should be noted that due to the overall low inflows across the group, a small number of relatively large investment projects can cause significant fluctuations).

Figure 2. **LDCs: FDI inflows, ODA and remittances, 2011–2020**
(Millions of dollars)



Source: UNCTAD, based on World Bank (for remittances), UNCTAD (for FDI) and OECD (for ODA).
Note: Remittances and ODA are approximated by flows to low-income countries, as grouped by the World Bank.

Due to these differences in FDI trends, the list of top FDI recipient countries among LDCs changed notably over the decade (table 1). Several Asian LDCs became more prominent, both as a result of relatively stronger neighbouring economies in Asia and because of a steady decline in FDI in extractive industries (especially oil and gas) that affected LDCs in Africa.

The list of top home countries of FDI in LDCs also changed over the decade. In 2011, the Netherlands, China, France, the United States and Norway made up the top-five home countries of FDI stock in LDCs, in that order. In 2020, China topped the list, followed by the Netherlands, France, Mauritius, and Thailand. China's FDI stock in the group more than tripled, from $13 to $46 billion. Compared to the list of top home countries in the previous decade, a new important home country is Mauritius, which includes significant amounts of capital originating from India. LDCs also continue to attract FDI from Thailand, Singapore, Republic of Korea, Hong Kong, China and South Africa.