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COUNTRY AND REGIONAL EXPERIENCES IN ATTRACTING FOREIGN DIRECT INVESTMENT FOR DEVELOPMENT

Foreign direct investment in developing countries

Report by the UNCTAD secretariat

SUMMARY

While investment flows to developing countries have been increasing rapidly in the 1990s, the different regions have enjoyed varying degrees of success in attracting FDI. The Asian and Pacific region, with nearly half of the developing country FDI stocks is -- and is likely to remain -- the principal host region for FDI in the developing world. Within the region, China dominates in terms of FDI inflows, but many other Asian countries in South, East and South-east Asia also attract sizeable and growing flows. Still others, however, including the least developed countries and most of the Pacific island economies continue to receive little FDI. Taken as a whole, the region's dynamic economic growth and development have sustained continued flows of FDI at high levels. In this process, developing country-based TNCs from within the region have begun to play an increasingly important role. TNCs from the Triad, the traditional source of investment to the region, are also likely to increase their presence in the region owing, among other factors, to increased attention from European Union TNCs.

Latin America and the Caribbean is the second most important region for FDI in the developing world. Several countries in the region are enjoying high and growing flows of FDI but flows to others have been low or stagnant. The region's FDI patterns have been significantly influenced by structural adjustment strategies and particularly the privatization programmes associated with them. Besides differences in the volume of FDI flows, the nature of investment integration among countries of the region also varies. Mexico stands out in this respect with investment integration accompanied by regionally integrated production that provided a strong impetus for NAFTA. Such impetus may be less strong for the extension of NAFTA beyond its current membership.

Africa is the region that has received the least attention from TNCs. This continues to be the case in the 1990s. Africa's relative share in inflows to developing countries has declined considerably since the early 1980s. African countries have undertaken many efforts to improve investment conditions and there is considerable potential for investment in several countries of the region and in specific sectors and industries. Privatization could provide one link between this potential and concrete investment opportunities in African countries.

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INTRODUCTION

1. Foreign direct investment (FDI) has become the single most important component of private external resource flows to developing countries.[1/] Investment inflows to developing countries have been increasing dramatically in the 1990s; as a result; their share in world FDI inflows reached 39 per cent by 1993, with a value of $71 billion (estimated to reach to $80 billion in 1994) (table 1). Experiences with FDI are diverse, varying both among countries and regions. The present report -- prepared by the Division on Transnational Corporations and Investment for the twenty-first session of the Commission on International Investment and Transnational Corporations in response to ECOSOC decision 1994/226 -- deals with the different experiences of the developing country regions (Asia and the Pacific, Latin America and the Caribbean, and Africa) in attracting FDI for development. It is supplemented by a background note on developments in Central and Eastern Europe. The contributions of the ECLAC and ESCAP joint units on transnational corporations towards the preparation of this report are gratefully acknowledged.

A. Asia and the Pacific

1. Trends

2. Asia and the Pacific is the most important focus of FDI by transnational corporations (TNCs) in the developing world, with nearly half of the developing country FDI stock being located there (table 1). In fact, the FDI stock in that region more than doubled between 1988 and 1993, an increase unrivalled by any other developing country region. Investment flow figures show that the region is further building its lead: FDI flows to Asia and the Pacific reached $47 billion in 1993 and an estimated $52 billion in 1994, a considerable increase from $31 billion in 1992 (table 2). Among others, this reflects that South, East and South-east Asia continued to perform best among developing country regions in terms of GDP and export-growth rates, as well as external indebtedness. The sub-region’s sustained economic growth and development, in fact, led to a doubling of its share in world FDI flows between the first half of the 1980s and the early 1990s, from 10 per cent to 20 per cent (table 1).

3. Within this overall trend, countries performed unevenly with respect to FDI inflows in the early 1990s. The economies that did best in 1993 were China, Indonesia and the Philippines, while Hong Kong and the Republic of Korea showed minor declines in FDI. Some countries (Afghanistan, Bangladesh, Nepal and most of the Pacific economies) continued to attract a very small volume of flows, and others (China, Singapore) a remarkably large volume (table 2). West Asia and the Pacific continued to be relatively small host sub-regions, accounting together for only 3 per cent of the region’s FDI flows during 1991-1993. This picture reflects not only the differing stages of economic development of the countries in the region -- they range in annual per capita income from $15,000 (Singapore) to $150 (Bhutan) in 1991 and their differing rates of economic growth[2/] -- but also some underlying factors peculiar to this period, especially the slow growth of major industrial countries (especially Japan in 1992 and 1993) which are of varying importance for different host countries in the region, and increasing competition among countries of the region (including countries newly opened to FDI) for resources considered as essential for national development.

2. The importance of China as a host country

4. China has been particularly successful in attracting FDI, accounting for over four-fifths of the increase in inflows to those countries that received higher FDI flows in 1993 as compared to 1992. With an inflow of $28 billion -- more than twice as much as that during the previous year -- China became the single largest recipient of FDI in the world in 1993. Excluding inflows to China, the region enjoyed only a marginal increase (of $200 million) in FDI inflows, to obtain $20 billion in 1993, an amount, however, still somewhat larger than that attracted by Latin America and the Caribbean that year. In 1994, China further improved its performance, receiving an estimated $30 billion

Table 1. FDI inflows and stock in developing countries, by region, 1981-1994
(Billions of dollars and percentage)

Region	Annual average inflow			Inflow	Inflow	Stock
	1981-1985	1986-1990	1991-1993	1993	1994 a/	1993
Developing countries b/						
Value	13.1	25.3	54.1	70.8	79.7	494.0
Share of the world total	25.9	16.0	32.3	38.6	39.0	23.1
Africa						
Value	1.7	2.8	3.1	3.2	3.8	48.3
Share of the world total	3.4	1.8	1.9	1.8	1.8	2.3
Share of developing-country total	12.9	11.2	5.7	4.6	4.7	9.8
Latin America and the Caribbean						
Value	5.9	8.0	17.1	19.5	22.1	167.6
Share of the world total	11.6	5.1	10.2	10.6	10.8	7.9
Share of developing-country total	44.7	31.7	31.6	27.5	27.7	34.1
West Asia						
Value	0.4	0.4	0.7	0.5	0.7	29.4
Share of the world total	0.9	0.3	0.4	0.3	0.4	1.4
Share of developing-country total	3.4	1.7	1.3	0.8	0.9	6.0
East, South and South-east Asia						
Value	4.9	13.8	32.9	47.2	52.4	245.0
Share of the world total	9.8	8.7	19.6	25.7	25.7	11.4
Share of developing-country total	37.6	54.4	60.7	66.7	65.7	49.2
The Pacific						
Value	0.1	0.2	0.1	0.2	0.6	2.4
Share of the world total	0.3	0.1	0.1	0.1	0.3	0.1
Share of developing-country total	1.1	0.7	0.3	0.3	0.7	0.5
Memorandum:						
Least developed countries						
Value	0.2	0.6	0.4	0.5	0.6	8.1
Share of the world total	0.4	0.4	0.3	0.3	0.3	0.4
Share of developing-country total	1.4	2.3	0.8	0.7	0.7	1.6
Developing countries excluding China						
Value	12.3	22.4	39.8	43.3	49.7	433.6
Share of the world total	24.3	14.2	23.8	23.6	24.4	20.4
Share of developing-country total	93.9	88.5	73.6	61.2	62.4	88.3

Source: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved on 5 January 1995, data from the UNCTAD, Division on Transnational Corporations and Investment FDI database and the Organisation for Economic Co-operation and Development secretariat.

a/ Estimates.

b/ Includes developing countries in Europe (Gibraltar, Malta and former Yugoslavia).

Table 2. FDI inflows to Asia and the Pacific, 1981-1993
(Millions of dollars)

Economy	1981-1985 (Annual average)	1986-1990 (Annual average)	1991-1993 (Annual average)	1991	1992	1993
All East, South and South-east Asian economies	4,930	13,758	32,865	20,739	30,656	47,198
China	850	2,853	14,346	4,366	11,156	27,515
East, South and South-east Asian economies, excluding China	4,080	10,905	18,519	16,373	19,500	19,684
Newly industrializing economies	2,231	6,940	9,317	7,813	10,210	9,929
Hong Kong a/	576	1,945	1,419	538	2,051	1,667
Korea, Republic of	117	676	727	1,116	550	516
Singapore	1,349	3,333	6,149	4,888	6,730	6,830
Taiwan, Province of China	189	987	1,022	1,271	879	917
ASEAN b/	1,661	3,405	8,487	8,039	8,590	8,832
Indonesia	236	599	1,754	1,482	1,777	2,004
Malaysia	1,083	1,126	4,273	3,999	4,469	4,351
Philippines	63	493	512	544	228	763
Thailand	279	1,188	1,948	2,014	2,116	1,715
Other countries of which:	189	559	714	522	699	922
Afghanistan a/	0.1	0.1	-	-0.3	0.4	-
Bangladesh	-	2.2	6.4	1.4	3.7	14
Cambodia	-	-	23	-	33	37
India a/	59	182	188	145	147	273
Lao People's Democratic Republic	-0.3	2.4	21.7	8	9	48
Myanmar a/	0.1	33.5	5.8	0.5	17	-
Nepal a/	0.1	1.9	0.7	2.2	-	-
Pakistan	77	175	313	257	335	347
Sri Lanka	42	40	122	48	123	195
Viet Nam a/	6.2	5.6	12	32	0.1	3.7
The Pacific	139	184	150	138	121	190
West Asia	445	432	696	504	1,038	547
TOTAL	5,514	14,373	33,710	21,382	31,814	47,936

Source: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved on 5 January 1995, and data from the UNCTAD, Division on Transnational Corporations and Investment FDI database and the Organisation for Economic Co-operation and Development Secretariat.

a/ FDI from DAC member countries only.

b/ Singapore is included among the newly industrializing economies, and Brunei Darussalam in the total for "other countries".

in FDI. Approval figures on FDI inflows to China, however, declined by 32 per cent until September 1994,[3/] perhaps foreshadowing a decline of FDI flows in 1995.[4/] Given its size, rapid growth and natural and human resource endowments, the country will most likely continue to maintain its position as one of the largest FDI host countries in the world.

5. China's opening and attractiveness has, of course, intensified competition for FDI in Asia, with possible implications for FDI flows to other host countries in the region. Nevertheless in the aggregate, FDI inflows to East, South and South-east Asia excluding China grew fairly substantially during the early 1990s as compared with the late 1980s (table 2). However, the levels of FDI flows to China and their growth rate during 1992 and 1993 were substantially higher while a number of countries of the region experienced a decline of inflows, suggesting perhaps that some of the new investments in China might otherwise have been made elsewhere. In fact, liberalization measures implemented or introduced in 1993 and 1994 in countries such as Indonesia and Thailand[5/] may have been partly a response to these developments. However, the scope for investors to substitute actual or potential FDI in one host country by FDI in another depends largely on the type of FDI as well as the sector or industry concerned (assuming, of course, that all countries permit such investment). The following factors need to be considered in this connection:

- A significant portion of FDI in South East and South-east Asia is of the market-seeking type that is unlikely to shift as long as there are profitable opportunities for production for a host country's market. The sheer size and income growth of many countries in South, East and South-east Asia have started to generate a consumption boom for goods and services. This points to a large market-oriented FDI potential that is not restricted to the newly industrializing economies alone. In India, for example, the potential for market-oriented FDI is enormous, especially as the effects of FDI liberalization are taking hold: FDI approvals rose dramatically from $165 million in 1990/1991 to $4 billion in 1993/1994.[6/] In particular, large-scale infrastructure-related FDI has been picking up in response to liberalization in such industries as power and telecommunications. Similarly, Malaysia and Thailand have reached income levels at which it has become profitable to establish automobile manufacturing facilities for the domestic (and foreign) markets.[7/] Indeed, recent data on FDI approvals suggest that considerable increases in FDI flows to ASEAN countries may be in the offing: in the case of Indonesia, FDI approvals grew by 180 per cent in 1994; in the Philippines and Thailand, FDI approvals increased by 550 per cent and 360 per cent, respectively, in the first half of 1994 compared to the same period in 1993; in Malaysia, FDI approvals were expected to double in 1994.[8/] There may, of course, eventually be significant discrepancies between approved and actually realized FDI, but these data suggest that TNCs are in a buoyant mood regarding the ASEAN sub-region, a mood which had doubtless been further encouraged by the agreement of the Asia-Pacific Economic Cooperation Ministerial Meeting, 11-12 November 1994, "to complete the achievement of our goal of free and open trade and investment in Asia Pacific no later than the year 2020".[9/]

  Furthermore, the services sector is attracting more and more FDI flows, especially in the newly industrializing economies;[10/] given the non-tradability of most services, FDI in this sector is particularly difficult to divert. For example, in the Republic of Korea, the share of the services sector in total inward FDI stock was 37 per cent as of September 1994, compared with about one quarter in 1981; in Taiwan Province of China, the share of services in FDI stock went up from 21 per cent in 1980 to 32 per cent in 1993.[11/]

- Natural-resource-seeking FDI, another important part of FDI in several countries of the region, is also largely location-specific. In addition to resource-seeking FDI in established resource-abundant host countries such as Indonesia, Malaysia, Papua New Guinea and the Philippines, new entrants such as Viet Nam and Myanmar have begun to attract FDI in the primary sector and this can be expected to grow.

- The situation differs, however, with respect to FDI in export-oriented manufacturing, which is based largely on cost considerations. To the extent that locational advantages -- especially regarding labour costs -- differ or change, this can have an impact on such FDI, and this can work to the advantage of China (and, for that matter, other low-cost countries in the region). Indeed, it appears that FDI and TNC activities are gradually being restructured in Asia with export-oriented labour-intensive manufacturing activity gradually shifting from the more developed of the developing countries in the region to the less developed ones. For example, in the Republic of Korea, average annual FDI inflows into the textile and clothing industries declined from $157 million during 1989-1992 to $5 million during 1993-1994 on an approval basis. Counterbalancing that, a number of Asian countries are increasingly attracting FDI in capital-intensive industries. For example, average annual flows to the chemical industry in the Republic of Korea increased from $91 million during the period 1980-1986 to $189 million during 1987 to 1991, climbing to $230 million during 1992-1993.[12/] Foreign-direct-investment policies of countries in the region also reflect a recognition of this shift in locational advantages; countries such as Malaysia and Singapore are becoming more selective with respect to the kind of FDI they seek to attract, putting an increased focus now on its technological content.

- Finally, a special factor: about three-quarters of FDI inflows to China come from economies with predominantly ethnic Chinese populations, such as Hong Kong, Macao, Singapore and Taiwan Province of China (although some flows are indirect, i.e., undertaken by foreign affiliates in these economies). Firms from those economies may have certain advantages in investing in China, e.g., better knowledge of market conditions and reduced transaction costs owing to language advantages and family networks.[13/] China, as a result, may have a special edge in attracting FDI from these economies compared to others which lack such links. In any event, individual FDI projects would not be undertaken unless they promised to be profitable *per se*.

6. To sum up, several types of FDI do not lend themselves easily to shifting between locations, and this is one important reason for expecting continued growth of FDI in Asian and Pacific countries other than China. To the extent that FDI has shifted, this is likely to have been relatively limited and, in most cases, accompanied by industrial upgrading. In any event, the amount of FDI available to a region is not a fixed quantity. The pattern of flows to the region suggests, moreover, that a process of adaptation is under way in response to the changing locational advantages and capabilities of countries for hosting FDI in different industries and activities.

3. Have European Union transnational corporations neglected Asia?

7. Asia and the Pacific, and particularly the East and South-east Asian subregion, have emerged as the most dynamic region worldwide in terms of economic performance, with large and growing markets and profitable investment opportunities in manufacturing and services. This had led to an increase in the region's FDI share: (inward) FDI stock in the Asia-Pacific region rose from some 7 per cent to 11 per cent of worldwide stock during 1980-1993 (table 3), and from 31 per cent to 50 per cent of developing country FDI during the same period. The Triad -- Japan, United States and European Union -- has played the most important role in this build-up of FDI, but the importance of the Triad as a whole is declining, reflecting the considerable role that intra-regional developing-country TNCs are assuming in the region (table 4). Moreover, FDI in the region has not been accorded equal importance by TNCs based in the different Triad members:

- Japan's FDI stock in the region increased more rapidly than that of the other Triad members during 1980-1993 (table 3).[14/] This occurred even though, by the mid-1980s, there was a marked shift of FDI by Japanese TNCs towards the developed countries,[15/] particularly the United States and the European Community; this is reflected in the decline in the share

Table 3. Outward FDI and exports from the Triad* to Asia and the Pacific [a/], 1980-1993 (Billions of dollars and percentage)

Home country/area	FDI stocks			FDI flows or exports (Annual average)	
	1980	1985	1993	1985-1987	1990-1993
Japan					
(a) Value of outward FDI to Asia and the Pacific [b/]	4.7	8.5	30.8	1.3	3.3
(b) Share of (a) in total outward FDI [b/] from Japan	24.0	18.9	11.7	9.6	12.0
(c) Value of exports to Asia and the Pacific	.	.	.	49.8	112.6
(d) Share of (c) in total exports from Japan	.	.	.	24.1	34.5
(e) Share of imports from Japan in total imports of Asia and the Pacific	.	.	.	23.8	21.4
United States					
(a) Value of outward FDI to Asia and the Pacific [c/]	8.5	14.9	39.4	0.8	4.2
(b) Share of (a) in total outward FDI from United States [c/]	3.9	5.8	7.2	4.9	10.9
(c) Value of exports to Asia and the Pacific	.	.	.	27.8	71.2
(d) Share of (c) in total exports from United States	.	.	.	12.2	16.5
(e) Share of imports from United States in total imports of Asia and the Pacific	.	.	.	13.8	14.3
European Union					
(a) Value of outward FDI to Asia and the Pacific [d/]	7.4	11.7	26.1	1.0 [h/]	2.2
(b) Share of (a) in total outward FDI [j/] from the European	4.8	4.4	3.9	2.3 [h/]	2.6
(c) Value of exports to Asia and the Pacific	.	.	.	32.4	70.0
(d) Share of (c) in total exports [k/] from European Union	.	.	.	4.0	5.1
(e) Share of imports from European Union in total imports of Asia and the Pacific	.	.	.	15.1	13.4
Total above					
(a) Value of outward FDI to Asia and the Pacific	25.6	46.1	132.0	3.1	9.7
(b) Share of (a) in total outward FDI from the above	5.7	7.6	8.1	4.3	6.5
(c) Value of exports to Asia and the Pacific	.	.	.	110.0	253.9
(d) Share of (c) in total exports from the above	.	.	.	8.9	11.9
(e) Share of imports from above in total imports of Asia and the Pacific	.	.	.	52.6	49.2
Memo item:					
Inward FDI stock in Asia and the Pacific	33.4	65.6	245.0	8.4	10.3
Share of Asia and the Pacific in world (inward) FDI	6.7	8.8	11.7	8.9	16.8

Source: UNCTAD, Division on Transnational Corporations and Investment, based on United Nations, Transnational Corporations and Management Division *World Investment Directory, vol. III: Developed Countries* (United Nations publication, Sales No. E.93.II.A.9); Organisation for Economic Co-operation and Development, *International Direct Investment Statistics Yearbook 1994* (Paris, OECD, 1994) and national official sources.

* Japan, United States and European Union.

a/ Including South, East and South-east Asia and the Pacific islands, except in the case of FDI flows for Japan for 1987 and 1990-1993 which do not include data for the Pacific islands.

b/ Estimated, for Asia and the Pacific, by multiplying the values of the cumulative flows to the region according to FDI approvals for fiscal years ending in March in the case of stocks, and values of annual flows to the region according to FDI approvals in the case of flows for 1985-1986, by the relevant ratios of disbursed to approved/notified FDI world-wide. Total outward stocks, and total flows for 1985-1986 were estimated in a similar manner using ratios of disbursed to approved/notified FDI for the world as a whole. Data do not include reinvested earnings.

c/ Adjusted to exclude FDI in the finance (except banking), insurance and real estate industries of the Netherlands Antilles.

d/ FDI stock data relate to France, Germany, the Netherlands and the United Kingdom only; these four countries accounted for over 90 per cent of FDI flows to Asia and the Pacific from 10 European Union member countries in 1990-1993. Flow data relate to these four countries plus Denmark, Finland, Portugal, and Sweden. Data for Denmark, France and Finland exclude reinvested earnings.

e/ Data for France and the United Kingdom (not shown separately) relate to 1982 and 1983, respectively.

f/ Data for France (not shown separately) relate to 1987 and for the Netherlands and the United Kingdom (not shown separately), to 1984.

g/ Data for Germany, the Netherlands and the United Kingdom (not shown separately) relate to 1992.

h/ Data for Portugal (not shown separately) relate to 1985-1986.

i/ Data relate to 1990-1992, except for Finland and Sweden (not shown separately).

j/ Including, also, intra-European Union FDI.

k/ Including, also, intra-European Union exports.

Table 4. Intra-regional FDI stock among selected economies in South, East and South-east Asia, 1980 and 1993 a/
(Millions of dollars)

Host region/economy		Home region/economy							
		Newly industrializing economies b/		ASEAN c/		China		Total	
		1980	1993	1980	1993	1980	1993	1980	1993
Newly industrializing economies d/									
Hong Kong e/	Value	43	88	46	11	..	537	89	635
	Share (%)	2.9	1.8	3.2	0.2	..	11.1	6.1	13.1
Korea, Republic of f/	Value	67	414	..	1	..	11	67	426
	Share (%)	3.6	3.7	..	-	..	0.1	3.6	3.8
Taiwan Province of China	Value	585	2,756	235	805	..	..	820	3561
	Share (%)	21.5	15.6	8.6	4.5	..	..	30.2	20.1
Sub-total	Value	695	3,258	281	817	..	548	976	4622
	Share (%)	7.4	5.6	3.0	1.4	..	0.9	10.3	8.0
ASEAN g/									
Indonesia	Value	1,196	17,231	72	280	..	70	1,268	17,581
	Share (%)	11.6	25.5	0.7	0.4	..	1.0	12.3	26.9
Malaysia	Value	2,375	9,692	16	1,392	..	212	2,391	11,296
	Share (%)	36.3	31.8	0.2	4.6	..	0.7	36.3	37.0
Philippines	Value	68	604	-	21	..	..	68	624
	Share (%)	5.5	19.2	-	0.7	..	..	5.5	19.9
Thailand	Value	181	3,882	16	70	..	22	198	3,974
	Share (%)	18.5	31.6	1.7	0.6	..	0.2	20.2	32.4
Sub-total	Value	3,820	31,408	104	1,762	..	304	3,924	33,475
	Share (%)	20.1	27.7	0.5	1.6	..	0.3	20.6	29.5
China h/	Value	5,494	92,662	46	1,225	..	..	5,540	93,887
	Share (%)	52.5	76.7	0.4	1.0	..	..	53.0	77.7
Total	Value	10,009	127,328	431	3,805	1	851	10,440	131,984
	Share (%)	25.7	43.1	1.1	1.3	-	0.3	26.8	44.7

Source: UNCTAD, Division on Transnational Corporations and Investment, based on UNCTC, *World Investment Directory, Volume 1: Asia and the Pacific* (United Nations publication, Sales No. E.92.II.A.11) and official national sources.

a/ Data relate to FDI stocks or cumulative FDI flows. Percentages in the table indicate the share of the sub-region/country in total inward FDI in each of the economies. Data for China, Indonesia, Republic of Korea, Taiwan Province of China and Thailand are on an approval basis.

b/ Includes Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

c/ Includes Indonesia, Malaysia, Philippines and Thailand.

d/ Singapore is excluded as a host country because the geographical breakdown of inward FDI is not available.

e/ Only manufacturing. Data are as of end-1984 and end-1992.

f/ Data under 1980 are as at end-1981.

g/ Data under 1993 are as at end September 1993, August 1993 and August 1992, respectively, for Malaysia, Philippines and Thailand.

h/ Data under 1980 are for 1984; and under 1993, as at end-June 1993.

of Asia and the Pacific in Japan's outward FDI stock. Nevertheless, the region's share in Japan's outward FDI stocks remained well above the Asia and Pacific share in the outward FDI stocks of the United States and the European Union, judging from data for the four largest home countries in the Union.

- As far as United States TNCs are concerned, they had paid increasing attention to Asia and the Pacific throughout 1980s (as reflected in the region's rising share in the United States outward FDI stock figures), and continued to do so during the 1990s (as indicated by flow figures) (table 3). Thus, there was a growing recognition by United States TNCs of the enormous potential that the fast-growing Asian region represents; that has translated itself into a higher share of total United States FDI outflows being directed to Asia and the Pacific.

- By contrast, FDI in Asia and the Pacific accounted for a low (and during 1980-1985, declining) share of the European Union's outward FDI stock, judging from data for four major TNC home countries (table 3). This was well below the share of Asia and the Pacific in world (inward) FDI stocks, which rose steadily over the period 1980 to 1993; it was also well below the share of the region in the outward FDI stock of Japan (which remained, despite a marked shift of outward FDI away from the region, above the share of Asia and the Pacific in world FDI stock throughout the period). Data for some principal member countries of the European Union provide a further illustration. For example, Germany's 1992 FDI stock in Asia and the Pacific was only about half of its FDI stock in Spain, with flows to that region during 1990-1992 being slightly less than two-thirds of those to Austria. France's 1991 FDI stock in Asia and the Pacific were similar to its stock in Ireland, while its 1990-1992 flows could be compared to those to Norway. For the United Kingdom FDI in the region, the comparable countries were Australia (for FDI stock, 1992) and Spain (FDI flows in 1990-1992).[16/] In other words, TNCs from the European Union paid relatively limited attention to Asia and the Pacific during the 1980s and the early 1990s. In fact, the European Union's relative share in FDI in East and South-east Asia is reported to have declined steeply (between 1986 and 1992, only 10 per cent of the region's FDI came from the European Union).[17/]

8. The limited attention paid to Asia by European Union TNCs reflects, to some extent, the fact that since the mid-1970s, developing countries in general have lost importance as a FDI destination for European Union based TNCs. Over the 1980s, European Union TNCs focused, mainly on the opportunities offered by the European integration process and, in some cases, the United States market.[18/] Furthermore, judging from the share of the Asian and Pacific region in their outward FDI stock at the end of the 1980s, as compared with that of developing countries as a whole, TNCs from several major European home countries focused, at least until the late 1980s, more on other developing regions than on Asia and the Pacific.[19/] Despite growth of FDI from the European Union to the Asia-Pacific region between the mid-1980s and the early 1990s, the relatively smaller volume of its outward FDI stock in the region, as compared with that of Japan and the United States, indicates that investors from the European Union are not exploiting fully the growing regional market potential of Asia.

9. Nor has the low relative importance of FDI in Asia for European Union investors been offset by the relative importance of their exports to Asian markets (table 3), as an alternative vehicle to deliver goods and services to those markets. While the shares of European Union members in the region's total imports remained more or less unchanged during the 1980s and early 1990s, Asia and the Pacific remained of only limited importance as an export market for European Union firms, accounting for 5 per cent of their exports in 1990-1993. Again, this contrasts with the Asian and Pacific region's greater and growing importance as a destination for exports from the other Triad members, especially Japan.

Table 5. The distribution of inward FDI stock and average annual FDI inflows of selected Asian economies by source among the Triad members, 1980-1993
(Millions of dollars)

Economy	Stock a/						Inflows (Annual average)			
	1980		1985		1993		1985-1987		1990-1993	
	Value	Share of total FDI (%)	Value	Share of total FDI(%)	Value	Share of total FDI(%)	Value	Share of total FDI (%)	Value	Share of total FDI (%)
Thailand b/	981	100	2,000	100	13,772	100	259	100	2,059	100
European Union	156	16	330	17	1,476	11	39	15	239	12
Japan	285	29	558	28	4,539	33	100	39	602	29
United States	322	33	648	32	2,365	17	69	27	311	15
Taiwan Province of China b/c/	2,718	100	5,160	100	17,705	100	964	100	1,689	100
European Union	280	10	551	11	2,140	12	150	16	207	12
Japan	505	19	1,182	23	5,056	29	278	29	518	31
United States	952	35	1,932	37	4,716	27	311	32	412	24
Republic of Korea b/c/	1,866 d/	100	3,634	100	11,209	100	442 e/	100	1,034	100
European Union	123 d/	7	241	7	2,220	20	30 e/	7	360	35
Japan	1,206 d/	65	1,902	52	4,466	40	219 e/	50	226	22
United States	491 d/	26	1,073	30	3,259	29	145 e/	33	333	32
Hong Kong b/f/	..	..	1,466 g/	100	3,562	100	183	100	170 h/	100
European Union	..	..	182 g/	12	405	11	24	13	11 h/	6
Japan	..	..	308 g/	21	1,171	33	104	57	82 h/	48
United States	..	..	788 g/	54	1,005	28	31	17	41 h/	24
Indonesia b/c/	9,231	100	16,655	100	67,625	100	1,047	100	8,999	100
European Union	851	9	2,496	15	9,031	13	243	23	1,105	12
Japan	3,462	38	4,951	30	13,937	21	329	31	1,379	15
United States	437	5	1,331	8	3,701	5	123	12	450	5
Total, above b/	14,796	100	28,915	100	113,873	100	2,895	100	13,951	100
European Union	1,410	10	3,500	13	15,272	13	486	17	1,922	14
Japan	5,458	37	8,901	31	29,169	26	1,030	36	2,807	20
United States	2,209	15	5,772	20	15,046	13	679	23	1,547	11

Source: UNCTAD, Division on Transnational Corporations and Investment, FDI database.

a/ Estimated on the basis of cumulated inflows.
b/ Values in row indicate total FDI stock/flows from all sources; shares indicate share of Triad in total FDI stocks/flows.
c/ Based on approvals since geographical distribution of actual FDI is not available.
d/ 1981.
e/ 1982-1986.
f/ Inward stock (book value) and flows in manufacturing only.
g/ 1984.
h/ 1990-1991.

10. There are, however, signs that TNCs from the European Union are changing course: for example, outward FDI flows from the European Union to Asia and the Pacific rose both in absolute value and as a share of the European Union's total outward stock and flows in the early 1990s (table 3). Data on inward FDI for selected Asian economies confirm this trend (table 5). Approved inward FDI by European Union TNCs, as reported by Indonesia, Malaysia, Philippines and Thailand combined, increased by 87 per cent in 1992, as compared with 47 per cent for United States and 12 per cent for Japanese firms.[20/]

11. The trends described above as regards the response of European Union firms and firms from other Triad members to FDI opportunities in Asia coincide with the growth of intra-regional FDI, especially from the newly industrializing economies of the region. Indeed, the share of nine Asian economies (China, Hong Kong, Indonesia, Malaysia, Philippines, Republic of Korea, Singapore, Taiwan Province of China and Thailand) in the total inward FDI stock in those nine economies increased from 30 per cent in 1980 to 45 per cent in 1993 (table 4). The growing importance of FDI originating within Asia is particularly evident in China and in other economies such as Indonesia, Philippines and Thailand (as well as lower-income economies such as Viet Nam, Lao People's Democratic Republic and Myanmar),[21/] but not in the newly industrializing economies. Intra-regional outward FDI, moreover, appears to be increasing in importance for the region's home economies as well. For example, firms from the Republic of Korea had invested 11 per cent of the total outward FDI stock approved by 1987 in East, South and South-east Asia and the Pacific; that share had increased to 47 per cent by 1991.[22/] Similarly, one half of that country's approved outward FDI flows in 1993 ($1.8 billion in total) and 41 per cent of that in the first half of 1994 ($1.6 billion in total) went to East, South and South-east Asia, especially China, Indonesia and Viet Nam.[23/] In the case of outward FDI stock by firms from Taiwan Province of China, the ASEAN countries accounted for 35 per cent of total FDI in 1992 ($2 billion out of $5.6 billion), a significant rise from 7 per cent in 1980 ($2.9 million out of $42 million).[24/]

12. To sum up: when compared with firms from other Triad members, European Union firms paid less attention, particularly during the 1980s, to Asia and the Pacific, despite the region's rapidly growing economic importance. The share of the Asia-Pacific region in FDI and exports from European Union firms had remained largely stagnant, and, in the case of FDI at a level below that attained by Japanese and United States TNCs. Moreover, opportunities are being increasingly seized by TNCs from the region itself, led by those from the newly industrializing economies. In fact, regional TNCs have become serious competitors of firms from all Triad members in the world's most dynamic market. There are indications, however, of increased interest in investment and trade in Asia on the part of European Union TNCs.

4. Policy implications

13. The diversity of experiences in Asia and the Pacific with respect to FDI requires different policy approaches on the part of host countries. Those countries that have only recently become open to FDI need to ensure that this open policy environment is maintained and remains stable. They could also examine the possibility of a further liberalization of FDI regimes, if necessary; the harmonization of FDI and related policies (e.g., trade and technology); and improving the efficiency of their administrative frameworks for investment approval. In particular more mature recipients, i.e., countries with a longer history of large investment inflows, may be able to shift more towards policies that encourage the upgrading of FDI.

14. In doing so, all countries in the region should pay particular attention to large and small firms from neighbouring countries, so as to capitalize on the growing importance of intra-regional investment. At the same time, TNCs from the Triad will probably strengthen their presence in the region. Asian countries seeking to attract FDI may be particularly able to look towards TNCs -- including small and medium-sized enterprises -- from those regions that, in the past, have neglected Asia, in order to tap into their desire -- and need -- to strengthen their economic presence in a region whose size and growth prospects make it one of the most dynamic in the world. In the process, they can also benefit from efforts undertaken or initiated by the European Union and

its members to pay more attention to Asia. Such efforts can be quite helpful in terms of: sensitizing firms to investment opportunities in the Asian and Pacific region; providing concrete information on market and investment conditions; and facilitating the investment process by, for example, promoting business cooperation between European and Asian firms.[25/] In this context, special attention needs to be given to small and medium-sized enterprises whose special needs -- dictated largely by their more limited financial and managerial resources and insufficient information -- may call for additional assistance, perhaps even financial incentives, for instance, joint ventures. For their part, small and medium-sized enterprises will need to pay special attention to the Asian market if they wish to prosper in a globalizing world economy.

B. Latin America and the Caribbean

1. Trends

15. By 1993, the FDI stock in Latin America and the Caribbean had reached $168 billion, which makes this region the second most important for TNCs in the developing world (table 1). Inflows exceeded $19 billion in 1993, and were an estimated $22 billion in 1994. Within this overall trend, experiences have varied across countries. Argentina ($6.3 billion) and Mexico ($4.9 billion) were the principal recipients of FDI inflows in 1993, with one survey suggesting that Mexico's inflows surpassed $8 billion in 1994.[26/] Argentina and Peru experienced spectacular increases in 1992 and 1993 in comparison with earlier years, while Mexico has enjoyed substantial and relatively stable FDI inflows since the beginning of the 1990s. Chile had not regained the FDI flow levels attained in 1989 by 1993, although flows since 1991 have increased significantly. The trend for Colombia, albeit uneven, has generally been upwards, with flow levels exceeding those for Chile in 1992 and 1993. In contrast, inflows to most of the rest of Latin America -- Venezuela and Brazil, in particular -- stagnated (table 6). Flows to the Caribbean remained small, amounting to about two per cent of flows to the region as a whole.[27/]

16. The financial crisis in Mexico at the end of 1994 had raised the question of whether FDI flows to Mexico would be affected. To the extent that the financial crisis has an impact on the country's economic growth and stability, FDI flows, especially those directed to the weakened domestic market, might suffer. Still, the precipitous decline in portfolio equity investment was not likely to be paralleled by a similar drop in FDI, principally because the latter is driven more by longer-term structural and strategic considerations. This holds especially true in the case of Mexico and the United States, considering the degree of integration attained between these two countries at the level of production. The ongoing restructuring of TNC operations in response to the North American Free Trade Agreement (NAFTA) further deepens this integration. At the same time, the devaluation of the Mexican peso creates new opportunities for export-oriented investment and lowers the price which foreign investors have to pay to acquire domestic assets (including assets that may be privatized). Non-NAFTA-based TNCs, in fact, may seize this opportunity to invest in Mexico to gain better access to the NAFTA market; in some cases, investment considerations may also be motivated by the need to meet the NAFTA rules of origin in industries such as automobiles and consumer electronics. Provided that macroeconomic stability can be restored, Mexico remains an attractive FDI location, even though inflows in 1995-1996 may not reach the record level attained in 1994.

17. The region's FDI patterns have been significantly influenced by structural adjustment strategies. Mexico and Chile have gone through the full adjustment process involving structural reforms, renegotiation of external debt, and implementation of incentive programmes in the form of debt-equity conversions and privatizations; as a result, the two countries have reached a stage in which FDI flows are again shaped more by market forces than by policy-driven opportunities. Argentina and Peru, conversely, are still in the midst of structural adjustment programmes that offer foreign investors opportunities associated with privatizations and debt-equity conversions. Brazil, for its part, has pursued a stop-and-go approach to structural adjustment.

Table 6. FDI inflows into Latin America, 1988-1993
(Millions of dollars)

Country	1988	1989	1990	1991	1992	1993 a/	Total 1988-1993
Mexico	2,594	3,174	2,634	4,762	4,393	4,901	22,458
Regular FDI	1,671	2,785	2,434	3,956	4,302	4,901	20,049
Debt conversions	868	389	85	19	-	-	1,361
Privatization	55	-	115	787	91	-	1,048
Argentina	1,147	1,028	1,836	2,439	4,179	6,305	16,934
Regular FDI	807	869	305	465	518	628	3,592
Debt conversions	340	159	1,531 b/	1,974 b/	3,661 b/	5,611 b/	13,342 b/
Privatization	-	-					
Brazil	2,969	1,267	901	972	1,454	802	8,365
Regular FDI	882	321	618	850	1,359	752	4,782
Debt conversions	2,087	946	283	68	95	50	3,529
Privatization	-	-	-	54	-	-	54
Chile	933	1,289	590	523	699	841	4,875
Regular FDI	-15	67	235	563	731	891	2,472
Debt conversions	809	1,107	355	-40	-32	-50	2,149
Privatization	139	115	-	-	-	-	254
Venezuela	89	213	451	1,916	629	372	3,670
Regular FDI	39	30	148	159	545	347	1,268
Debt conversions	50	183	303	258	70	25	889
Privatization	-	-	-	1,499	14	-	1,513
Colombia	203	576	500	457	790	850	3,376
Regular FDI	203	576	500	405	790	850	3,324
Debt conversions	-	-	-	-	-	-	-
Privatization	-	-	-	52	-	-	52
Peru	26	59	41	-7	127	349	595
Regular FDI	26	59	41	-7	-13	60	166
Debt conversions	-	-	-	-	-	-	-
Privatization	-	-	-	-	140	289	429
Total of above	7,961	7,606	6,953	11,062	12,271	14,420	60,273
Regular FDI	3,613	4,707	4,281	6,391	8,232	8,429	35,653
Debt conversions	4,154	2,784	1,026 c/	305 c/	133 c/	25 c/	7,928 c/
Privatization	194	115	1,646 d/	4,366 d/	3,906 d/	5,966 d/	16,692 d/

Source: ECLAC/UNCTAD Joint Unit on Transnational Corporations, "Informe sobre la inversion extranjera en America Latina y el Caribe" (Santiago, Chile, ECLAC, 1995), mimeo. and UNCTAD, Division on Transnational Corporations and Investment, FDI database.

a/ Preliminary estimates.
b/ Data on privatizations and debt conversions are combined.
c/ Does not include debt conversions in Argentina.
d/ Includes debt conversions in Argentina.

18. Privatization programmes, in particular, have played a role in increasing FDI in the region. For seven of the most important countries of the region in terms of FDI, privatization-related flows accounted for about 28 per cent of total FDI inflows during 1988-1993, although some of these countries have introduced only very limited privatization programmes (table 6):

- Mexico and Chile have moved beyond the stage during which debt conversions and privatizations contributed significantly to FDI flows. In Chile, privatizations accounted for one-tenth of FDI inflows before the country returned to normal inflows at the end of the 1980s (table 6). In Mexico, privatizations peaked in 1991, accounting for 17 per cent of total FDI inflows. In 1993, Mexican inward FDI did not include any privatizations or debt-equity conversions.

- In the cases of Argentina and Peru, privatization programmes accounted for the lion's share of recent FDI inflows (table 6). In fact, privatizations alone made Argentina the region's single largest host country in 1993 in terms of inflows; estimated privatization-related inflows to Peru in 1994 were more than seven times the country's total inflows in 1993.[28/]

- Brazil has not yet implemented a consistent privatization programme; expectations were, that this would begin in 1995. If so, and if it is open to foreign investors, FDI inflows would likely increase substantially. In 1994, Brazil owned 28 of the 50 largest Latin American public companies as ranked by sales.[29/] By comparison, Argentina had privatized $6.6 billion of assets by 1992, whereas Brazil had privatized only $1.4 billion,[30/] despite its much greater potential in this area.

19. Mainly as a result of privatization programmes, the number of foreign affiliates among the 500 largest companies in Latin America as ranked by sales increased from 139 to 151 between 1990 and 1993 (with the number of state enterprises falling from 105 to 72), while the proportion of their sales increased from 26 per cent to 29.[31/] The principal economic significance of the relatively large and growing number of foreign affiliates among the largest 500 lies in the dynamism and know-how which they can give to the economies in which they are located. For example, exports by foreign affiliates as a share of total exports by the 200 largest exporters in the region increased from 23 per cent to 27 per cent between 1991 and 1993.[32/] Of the $5 billion increase of exports of these 200 firms during that period, foreign affiliates contributed over $4 billion; foreign affiliates in Mexico alone produced over half of all exports by foreign affiliates from the region.[33/]

20. Although privatizations are distinct events with an immediate and noticeable impact on FDI flows when foreign investors participate, the flows involved are not necessarily one-off occurrences. In many cases, the contractual arrangements specify further capital commitments to be undertaken subsequent to the original purchase, sometimes stretching over years.[34/] These commitments can be reflected in a lower initial purchasing price. Furthermore, to the extent that privatization leads to increased profitability, privatized firms will typically contribute to reinvested earnings which, over time, can become substantial and account for a considerable proportion of FDI inflows. In other words, the impact of privatization programmes can extend far beyond the initial transaction and build momentum for future FDI flows.

2. Extending NAFTA: FDI integration in the Americas?

21. Well before NAFTA negotiations even started, foreign affiliates in Mexico had begun a fundamental restructuring process which was accompanied by substantially increased FDI flows from the United States to Mexico. This increase involved not only existing affiliates but also new entrants; in fact, half of the foreign firms that operated in Mexico by 1994 had arrived since 1989.[35/] At the same time, Mexican FDI in the United States had increased, reaching fairly significant levels by 1993 ($1 billion).[36/] The result has been intense integration of Mexico with the United States at the level of production. This integration has been led by the automobile, electrical machinery and electronic equipment industries. It has been characterized by the reorganization of corporate networks through which foreign affiliates in Mexico

have become fully integrated into a regional production structure. As a result, a substantial share of trade between Mexico and the United States is undertaken on an intra-firm basis (table 7). The deepened integration of the North American economies has had a distinctly manufacturing flavour, with foreign manufacturing affiliates shifting from a stand-alone, domestic-market orientation towards a regionally integrated production system. This investment-led integration provided a major impetus for the NAFTA negotiations which, in turn, reinforced the regional production integration already underway.

22. In contrast with the Mexican experience, nothing of similar significance in terms of FDI integration has taken place in the rest of Latin America and the Caribbean, although some other countries -- including Chile -- have received substantial inflows of FDI in relation to the size of their economies.

23. Chile's FDI integration into the North American economy is similar to that of Mexico in one respect: FDI inflows increased substantially in the mid-1980s, to reach a fairly high level, and they came increasingly from United States and Canadian firms. Flows for 1994 were projected to stand at about $2.4 billion, most of them from the United States and Canada.[37/] They are adding to an already substantial FDI stock in Chile (table 8). In fact, during 1990-1991, FDI as a share of gross domestic capital formation was an average of 11.8 per cent per annum in Chile, compared with 7.3 per cent in Mexico.[38/] Unlike the situation in Mexico, however, FDI by Chilean firms in NAFTA countries was negligible[39/] while FDI integration by the United States TNCs was not led by manufacturing but rather by natural resource firms (especially in minerals, cellulose, wood pulp and fruit): in 1993, 70 per cent of United States FDI stock in Mexico was in manufacturing while the equivalent figure for Chile was only 8 per cent.[40/] Furthermore, it was not accompanied by the establishment of corporate networks between Chile and NAFTA or the accompanying intra-firm trade. In fact, the share of Chile's intra-firm trade for majority-owned foreign affiliates with the United States was only 9 per cent in 1992, whereas the average for Latin America as a whole, excluding Mexico, was 15 per cent. Mexico has the highest intra-firm trade share (30 per cent) of the major FDI recipients in the region (table 7).

24. Thus, while Chile's investment integration into the North American economy is substantial, it is not as strong as Mexico's. Consequently, production integration exercises less pressure to move institutional arrangements further. This, in turn, is reflected in the less active and less broad-based support that North American TNCs have given to Chile's accession to NAFTA, as compared with the expansion of the Canada-United States Free Trade Agreement to include Mexico. Nevertheless, integration at the production level augurs well for Chile's becoming a member of NAFTA, although bringing about Chile's accession to NAFTA may require more of a policy lead than in the case of Mexico. The plans for a Free Trade Area of the Americas outlined during the Summit of the Americas in Miami in December 1994 was a step in that direction.

25. Other Latin American and Caribbean countries have received substantial amounts of FDI, with Canadian and United States firms accounting for about half of the region's FDI stock (table 8). However, there is little to indicate significant increases in FDI integration with NAFTA countries in recent years. This reflects the fact that the region's share (excepting Mexico) in United States outward FDI stock declined from 19 per cent to 16 per cent between 1984 and 1993,[41/] which implies that the region may have received decreasing attention from United States TNCs. However, recent flow data show a steady increase in the Latin American share (excluding Mexico) of outward United States FDI from 16 per cent to 19 per cent between 1990 and 1993,[42/] suggesting that this trend may now be reversing itself, as the region emerges from its "lost decade". Conversely, FDI from the region in NAFTA countries is low: in the case of the United States, only 4 per cent of total inward FDI stock is from the region. Finally, relatively high barriers to trade and investment have impeded the establishment of regional production networks, which is reflected in the generally low level of intra-firm trade (table 7). Nevertheless, the current trend towards trade and investment liberalization (through agreements such as

Table 7. Share of intra-firm trade of United States majority-owned foreign affiliates in total trade with Latin America and the Caribbean, 1989-1992
(Percentage)

Country/region	1989	1990	1991	1992
Total Latin America and Caribbean a/	15	13	14	15
Eight major FDI recipients b/	14	13	13	13
Mexico	25	25	28	30
Brazil	23	21	20	21
Chile	..	8	10	9

Source: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, *Direction of Trade Statistics Yearbook, 1994* (Washington, D.C., IMF, 1994), and United States, Department of Commerce, "United States multinational companies: operations in 1992", *Survey of Current Business*, volume 74, no. 6 (June 1994), pp. 42-62.

Note: Percentage share of imports and exports combined.

a/ Excludes Mexico.

b/ Argentina, Brazil, Chile, Colombia, Ecuador, Panama, Peru and Venezuela. Import data of United States affiliates for Venezuela are not available for disclosure reasons. As a consequence, the shares of trade by United States affiliates in total trade for Venezuela are underestimated since they are based only upon exports of United States parent firms to United States affiliates in Venezuela.

Table 8. Share of Canadian and United States FDI in Latin and Central American FDI stocks, by country, 1975-1993
(Percentage)

Country	1975	1980	1985	1990	1992	1993
Argentina	44.1 a/	42.0	45.7	45.0 b/	..	..
Bolivia	55.7	70.9	74.9	72.1	..	..
Brazil	38.4	32.3	36.3	33.6	36.2	36.6
Chile	50.4	60.1	52.6	46.7	47.1	48.8
Colombia	58.4	58.1	66.9	72.2	68.9	..
Ecuador	65.1	54.3	54.1	53.9	52.3	..
El Salvador	42.9	49.2	49.9	49.3	45.3	..
Guatemala	55.7	46.0	28.7	..	..	..
Panama	85.4	88.3	83.7	80.9	76.2	..
Paraguay	..	..	17.3 f/	14.1 g/	..	..
Peru	61.7	58.9	53.7	50.2	44.1	..
Venezuela	63.0 h/	64.6	58.5	54.7	51.9 e/	..
Mexico	75.6	70.5	68.8	64.3	63.2	64.4

Source: Data provided by ECLAC/UNCTAD Joint Unit on Transnational Corporations.

a/ 1976.
b/ 1989.
c/ The share for Brazil is based on data up to 30 June 1993.
d/ Estimated.
e/ 1991.
f/ 1984.
g/ 1988.
h/ 1977.

MERCOSUR[43]), combined with the competitive pressures to rationalize production on a regional or global basis, could lead NAFTA TNCs to reorganize their operations in a manner similar to that done in Mexico. If so, the already existing substantial NAFTA FDI stock in Latin America and the Caribbean could became a dynamic force for FDI and policy integration in the Western Hemisphere.

* * *

26. The integration of the Western Hemisphere -- as envisaged by the Enterprise-for-the Americas initiative -- requires not only integration at the policy and institutional levels, but also (and perhaps even more importantly) integration at the levels of markets and production. Integration at the level of production is fostered by a combination of FDI liberalization (which allows TNCs to locate production facilities according to efficiency criteria) and trade liberalization (which allows TNCs to move intermediate and finished products freely throughout their production networks). Increased production integration, in turn, eventually needs to be complemented by institutional and policy arrangements. Naturally, the precise nature of interaction between production and policy integration, in terms of which one takes the lead, depends on the specific situation.

27. In the case of NAFTA, production integration played the lead role. Extending NAFTA beyond its current membership may require more of a policy lead than in the case of Mexico. Sub-regional integration arrangements, such as MERCOSUR, can be, among other initiatives, a step in this direction. If that is the intention, such arrangements should not only aim at eliminating internal barriers to economic transactions but also seek to reduce external barriers, for increased production integration.

C. Africa

1. Trends

28. With $48 billion of accumulated FDI stock in 1993, Africa is the developing country region that has received least attention from TNCs (table 1). This has not changed, as FDI inflows in 1994 remained within the $2 - $4 billion range that has characterized inflows to that continent since the late 1980s. Since inflows to the developing countries as a whole increased considerably during the same period, Africa's share has declined from 14 per cent in 1982-1986 to 10 per cent in 1987-1991 and to about 5 per cent in 1992-1994 (table 9). Reflecting this, the share of Africa in the total stock of developing countries had declined from 13 per cent in 1985 to 10 per cent in 1993, although the FDI stock grew in absolute terms, owing to positive FDI inflows. The oil-exporting countries of the region continue to dominate inward FDI, accounting for about two-thirds of its stocks and flows (table 9).

29. Low FDI inflows and an almost total absence of portfolio equity investment flows distinguish Africa from other developing regions where FDI has risen to the largest component of net external resources inflows. Africa, and especially Sub-Saharan Africa, continues to rely on grants and official loans, which constitute the bulk of its external resources inflows, while FDI accounted in 1993 for only about 12 per cent of the total.[44]

2. Investment opportunities

30. In spite of the small FDI flows to Africa, it is not correct to perceive Africa as a location with poor investment opportunities. Grouping together 54 countries conceals a complex diversity of economic performance and factors determining FDI flows, which in many cases are similar to those in other developing countries receiving sizeable FDI inflows. Disparities exist among African countries in terms of market size and growth, natural resource endowments, entrepreneurial and institutional capabilities, social and economic infrastructure, political stability and economic policies. This heterogeneity inevitably leads to differences in FDI performance and potential.

Table 9. FDI in Africa, inward flows and stock, 1982-1994
(Millions of dollars and percentage)

	Flows								Stock		
	Annual averages										
	1982-1986	1987-1991	1992-1993	1990	1991	1992	1993	1994 a/	1985	1990	1993
Africa, total	1,751.0	3,033.8	3,240.4	2,206.9	2,851.6	3,251.9	3,228.9	3,759.2	25,044.7	39,414.1	48,276.5
Africa's share in developing countries (per cent)	13.6	10.0	5.3	6.9	7.2	6.2	4.6	4.7	13.2	12.0	9.9
Africa's oil-exporting countries b/	1,500.3	2,084.7	2,207.2	1,245.8	1,861.2	2,288.1	2,126.3	2,539.0	15,918.8	26,960.2	32,765.8
Share of the oil-exporting countries in total Africa (per cent)	85.7	68.7	68.1	56.5	65.3	70.4	65.9	67.5	63.6	68.4	67.9

Source: UNCTAD, Division on Transnational Corporations and Investment, FDI database.

a/ Preliminary estimates.
b/ Algeria, Angola, Cameroon, Congo, Egypt, Gabon, Libya, Nigeria and Tunisia.

31. If standardized FDI inflows (FDI inflows per $1,000 of GDP) are taken as a measure of FDI performance (table 10), then Africa includes, apart from countries attracting large absolute amounts of FDI inflows, a number of other countries which have done very well in terms of attracting FDI inflows relative to the size of their economies. In other words, not only does a potential exist but it has also translated into investment in several countries. The annual average FDI inflows that these countries received during the period 1991-1993 per $1,000 of GDP were considerably above the average for African countries ($14), and above the average for developing countries ($21). Other countries on this list are high performers also in terms of the absolute size of inflows. The performance of such countries as Angola, Seychelles and Nigeria is linked to specific locational advantages based on natural resources. It also appears that a number of these countries have capitalized on locational advantages that resulted in above-the-average performances. As the analysis of the key FDI determinants in the next section suggests, some of the countries that already are good FDI performers, be it in absolute or relative terms, may still have unexploited FDI potential, in some cases perhaps even a large one. Such a potential exists, and has not yet been tapped, in several other African countries as well.

a. Potential at the country level

32. Factors such as level of development (as measured by GDP per capita), market size (in terms of total GDP or size of population) and market growth (GDP growth rates in constant prices) are, as a rule, the most important determinants for the locational decisions of TNCs.[45/] Naturally, there are a number of other factors that determine FDI flows (such as the availability of natural resources and infrastructure and the cost and productivity of labour); and it is of course assumed that government policies are favourable to foreign investment. However, any analysis of FDI potential has to start from the three determinants mentioned above. Potential for more FDI exists if an African country (a) is comparable or does better on these determinants in relation to other African countries or to other developing countries; and, at the same time, (b) receives less FDI than these other countries. To put it differently: the more favourably a country compares on one FDI determinant, the more FDI determinants compare favourably; and the lower the current FDI, the greater the potential for increased FDI flows, although this potential can still vary by sector. The presence of privatization programmes also indicates that there may be easy entry possibilities into specific markets.

Table 10. The largest host countries to FDI inflows into Africa, by absolute and relative size of inflows, 1991-1993

Host countries by absolute size of inflows a/		Host countries by the size of inflows per $1,000 of GDP b/	
(Millions of dollars)		(Dollars)	
Nigeria	836	Equatorial Guinea	196
Morocco	422	Swaziland	65
Angola	418	Seychelles	54
Egypt	402	Angola	49
Tunisia	244	Sierra Leone	37
Libyan Arab Jamahiriya	157	Namibia	33
Namibia	79	Gambia	26
Côte d'Ivoire	63	Nigeria	26
Swaziland	58	Mozambique	22
Gabon	57		
Average for: Developing countries	398	Developing countries	21
Africa	62	Africa	14

Source: UNCTAD, Division on Transnational Corporations and Investment, FDI database.

a/ Annual average in 1991-1993.
b/ Annual average FDI inflows in 1991-1993 by annual average GDP in 1991-1992.

33. Table 11, comparing the key economic FDI determinants with standardized FDI inflows in African countries and other developing countries, permits a basic assessment of the FDI potential in African countries. For each of the four FDI determinants shown in the table, countries are divided into two groups. The first group includes developing countries (including African countries) with a **high** value of the FDI determinant indicator and a **high** value of FDI inflows per $1,000 of GDP, that is, a value above the $21 average for all developing countries. The second group includes African countries with a **high** value of the indicator and with a **low** value of FDI inflows. While the first group denotes countries already exploiting their FDI potential (i.e., high performers), the second group comprises African countries with FDI potential (i.e., low performers in terms of attracting FDI inflows). The difference between the size of average FDI inflows in these two groups of countries delineates, broadly speaking, the existing potential. The third and largest group of African countries is not included in the table. It consists of countries where the low value of the indicators corresponds with a low or very low value of FDI inflows. When looking at individual FDI determinants in these countries, their low level of development (measured by GDP per capita) typically goes hand in hand with the small size of their markets (measured by total GDP). Only those countries from within this group that have high growth rates are likely to improve on the first two determinants, if their growth rates are higher than the growth rates of their populations.

34. Importantly, the number of countries with FDI potential is quite sizeable. They are grouped on the right side of table 11, combining (as explained earlier) high values of the FDI determinant indicators with an average of FDI inflows below that for the developing countries as a group (and in a number of cases even below the average for Africa). The size of this group varies depending on the variable:

Table 11. The FDI potential in African countries

Developing countries (including African countries) utilizing their FDI potential a/			African countries with unexploited FDI potential a/		
Determinant: GDP per capita b/					
Economy	GDP per capita (Dollars)	FDI/GDP (Dollars per $1,000 GDP)	Economy	GDP per capita (Dollars)	FDI/GDP (Dollars per $1,000 GDP)
Grenada	2,308	90.5	Tunisia	1,603	17.2
Malaysia	2,568	81.3	Morocco	1,077	15.1
Swaziland	1,146	65.3	Botswana	2,853	14.5
Seychelles	4,750	54.1	Gabon	4,063	10.2
Maldives	665	45.4	Côte d'Ivoire	765	6.4
Costa Rica	1,810	36.9	Mauritius	2,514	4.8
Jamaica	1,491	34.7	Djibouti	983	3.7
Namibia	1,629	32.7	Libyan Arab Jamahiriya	9,551	3.5
Belize	2,176	32.4	Congo	1,266	1.6
Trinidad and Tobago	4,200	29.7	Senegal	773	1.4
			Cape Verde	813	0.5
			Algeria	1,714	0.3
			Cameroon	893	-3.5
Average	2,362	69.2		1,660	5.7
Determinant: total GDP (at current prices) c/					
Economy	GDP (Billion dollars)	FDI/GDP (Dollars per $1,000 GDP)	Economy	GDP (Billion dollars)	FDI/GDP (Dollars per $1,000 GDP)
Singapore	45	135.4	Morocco	28	15.0
Malaysia	52	81.3	Egypt	34	11.8
China	493	29.1	Libyan Arab Jamahiriya	45	3.5
Nigeria	32	25.8	Algeria	44	0.3
Average	156	41.0	Average	38	6.6
Determinant: GDP growth rate d/					
Economy	Growth rate (Per cent)	FDI/GDP (Dollars per $1,000 GDP)	Economy	Growth rate (Per cent)	FDI/GDP (Dollars per $1,000 GDP)
Costa Rica	5.6	36.6	Tunisia	5.1	17.2
Namibia	3.8	32.7	Botswana	4.6	14.5
Nigeria	4.1	25.8	Benin	4.1	4.9
Mozambique	6.6	21.7	Ghana	4.5	3.2
			Uganda	4.2	0.8
			Sudan	4.9	-0.03
Range/average	3.8-6.6	27.7	Range/average	3.8-6.6	9.1
Determinant: commodity exports e/					
Economy	Commodity exports (Per cent)	FDI/GDP (Dollars per $1,000 GDP)	Economy	Commodity exports (Per cent)	FDI/GDP (Dollars per $1,000 GDP)
Seychelles	55.9	54.1	Zambia	84.9	14.4
Angola	99.7f/	49.5	Egypt	53.6	11.8
Trinidad and Tobago	63.8	29.7	Gabon	95.3	10.2
Nigeria	95.7	25.9	Libyan Arab Jamahiriya	95.5 g/	3.5
			Mauritania	51.5 f/	2.4
			Congo	86.0	1.6
			Togo	66.6 h/	1.2
			Zaire	73.0	0.5
			Niger	86.4	0.3
			Algeria	97.4 f/	0.3
			Sudan	56.3 f/h/	-0.03
			Mali	66.0	-0.4
			Cameroon	65.2	-3.5
Average	92.9	30.8	Average	88.0	3.8

Source: UNCTAD, Division on Transnational Corporations and Investment, FDI database; and UNCTAD, *Handbook of International Trade and Development Statistics 1993*.

a/ The borderline between countries with FDI potential and those utilizing their FDI potential is $21 FDI inflows per $1,000 GDP, the average for all developing countries. Data on FDI/GDP are in dollars per $1,000 GDP. FDI data are annual average inflows in 1991-1993. GDP data are annual average in 1991-1992.

b/ Countries with GDP per capita above $650. Data on GDP per capita are for 1991.

c/ Countries with average GDP for 1991-1992 above $26 billion.

d/ Countries with an annual growth rate in 1991-1993 above the developing country average of 3.7 per cent, but below the highest rate of an African country, 6.6 per cent.

e/ Countries with the share of exports of agricultural raw materials, fuels, ores and metals in total exports above 50 per cent in the early 1990s.

f/ Data do not include agricultural raw materials.

g/ Data do not include ores and metals.

h/ Data do not include fuels.

- Looking at the level of development, 13 African countries at the middle level of development (that is, with a GDP per capita higher than $650), including Libyan Arab Jamahiriya with a higher than middle-level income, underperform in terms of FDI flows per $1,000 of GDP, even if some of them already receive sizeable absolute amounts of FDI inflows (e.g., Morocco and Tunisia). These countries received, during the period 1991-1993, an annual average of only $5.7 inflows per $1,000 GDP, compared to $70.6 inflows received by their seven counterparts from non-African developing countries and compared to $42.8 of inflows of three high-performing countries in Africa at a similar level of development.

- The market-size variable shows one African country that is performing well (Nigeria) and four countries with FDI potential, if the size of GDP above $26 billion is taken as an indicator of a relatively large market. These four countries, although having an average market size ($38 billion) larger than that of Nigeria ($32 billion) receive average inflows amounting to only a quarter of the inflows received by Nigeria. They are lagging even more behind three other developing countries that score higher on the market-size determinant.

- The market-growth variable produces six African countries underperforming in terms of FDI to GDP inflows and four countries within a similar range of growth rates performing above average in terms of FDI (three of them are African countries).

- If specific locational advantages in natural resources are taken as a key FDI determinant, measured by a share of commodities in exports that is above 50 per cent (table 11), Angola, Nigeria, the Seychelles and one other developing country score high on both this determinant and the size of FDI flows they receive, while 13 African countries show unexploited FDI potential.

35. In a number of countries, this unexploited potential is especially strong, as they score high on more than one determinant and below the average of all developing countries as regards average FDI inflows: Libyan Arab Jamahiriya and Algeria (scoring on three determinants) and Egypt, Botswana, Cameroon, Congo, Gabon, Morocco, Sudan and Tunisia (two determinants). In addition, there are 15 African countries with some potential, scoring high on one FDI determinant.

36. This is, of course, only a rough preliminary assessment of the FDI potential of African countries, and it is limited to basic economic FDI determinants only, excluding in particular political and other factors. It is only meant to do two things: (a) to underline the need to differentiate when looking at the African continent and, hence, examine investment opportunities in each country separately; and (b) to point out that, at least when considering some basic FDI determinants, an unexploited FDI potential seems to exist in a number of African countries.

b. Potential at the sector and industry levels

37. An analysis at the sector and industry levels can provide further hints about FDI potential because the aggregate data do not necessarily capture some specific sectoral locational advantages.

- Primary sector. As Africa is rich in natural resources, not surprisingly, more than half of FDI in Africa has traditionally been oriented towards resource-based activities, to a much greater degree than FDI in other developing regions. It is in mining of high-value minerals, rare earths and petroleum where Africa is particularly prominent as a host to FDI[46/] and where great potential for future FDI exists. Reserves of petroleum are large, particularly in Nigeria and Angola, and exploration activities have high success rates compared to other regions;[47/] it is widely believed that important deposits are likely to be discovered in other parts of Africa.[48/] Africa has also important deposits of high-value minerals such as gold and diamonds. Namibia has also large reserves of uranium. Guinea alone holds about three-quarters of the world's bauxite reserves. Of course, the mere availability of natural resources is not a sufficient condition for FDI to occur. Other conditions include demand in relation to supply, prices, and the costs of exploration and extraction. Where the potential for profitable investment exists, TNCs have a key role to play in exploiting it.

- Manufacturing. Africa's abundance of natural resources gives it also a certain locational advantage for FDI in manufacturing, which, to the extent that it takes place, appears to be much more resource-related than FDI in manufacturing in Asia or Latin America.[49/] Most attractive in this regard are metal products, textiles, paper and wood products, rubber products and building materials.[50/] Additional sources of potential advantages for export-oriented FDI include cheap labour in a number of countries and preferential access of most African countries to the markets of the European Union (via the Lomé Convention and special association agreements), the United States (via the Generalized System of Preferences) and South Africa (via the South African Development Coordinating Conference (SADCC)). Possibilities of even closer integration of the countries of northern Africa with the European Union would provide additional impetus to FDI in this sub-region. Finally, to the extent that competition from domestic producers is weak, market-seeking FDI in many African countries may be particularly profitable -- although in such cases the host economies may not benefit as much as they could if markets were competitive.

- Services. The non-tradability of most services means that investment in this sector is directed overwhelmingly towards domestic markets. Demand for many services is growing fast in Africa while local supply of many services is limited.[51/] In services based on human capital (e.g., professional and business services), most African countries have a deficit of the highly educated employees essential to these industries. In capital-intensive services (e.g., telecommunications, modern hotels, transportation), capital shortages create serious constraints. This opens considerable opportunities for foreign investors, especially also since many service industries were closed to them until recently. So far, only about 30 per cent of the stock of FDI in Africa in the late 1980s was in services. This is roughly equivalent to the position in Latin America, but well behind the proportion in Asia.[52/]

  Tourism deserves special attention. The African continent offers a rich variety of tourist attractions, some of them (e.g., beaches, eco-tourism) similar to those offered by other countries (and therefore competing with them) while some of them are specific to Africa and face little or no competition (e.g., safari tourism). While some of this potential is already being exploited, a large part of it still awaits investment in tourism infrastructure. Zimbabwe illustrates the dimensions of this potential. Since 1989, tourism in that country has grown at an annual rate of over 10 per cent, attracting, in 1993, some 880,000 visitors. Receipts from this sector (including spillovers) during the same year were estimated to have reached almost 5 per cent of Zimbabwe's GDP.[53/] Only a part of the tourism-related demand for goods and services (e.g., lodging, food and catering, transportation, communication, car rentals) can be met in most African countries by domestic suppliers -- the remaining gap would have to be filled by foreign investors. While a few large TNCs, chiefly in the hotel industry, are already active in Africa (e.g., Hilton, Intercontinental and Sheraton), mainly via non-equity arrangements, most of the FDI potential in this area is still unexploited.

  Infrastructure is another area that holds promise, and FDI in this area is encouraged by Governments. The scale of the work required usually rules out local suppliers; at the same time, many of these projects involve large amounts of unskilled labour. Project finance or co-finance is, in many cases, available from international financial institutions such as the World Bank or the European Investment Bank (whose participation, moreover, reduces the investment risk).

c. Potential at the firm level

38. A major indicator of investment potential at the firm level would be the profitability of foreign affiliates: what matters most for firms in the final analysis is that investment opportunities be profitable. Tables 12 and 13, which provide data on the profitability of United States foreign affiliates for which data are available, show that investment that has taken place is highly profitable: net income of affiliates as a share of owner's equity in Africa is, in fact, double that of foreign affiliates in Latin America and the Caribbean and higher than that in Western Asia. Indeed, it is much higher than that in most developed country regions. Moreover, since 1988, this profitability has been consistently high in both absolute and relative terms. Finally, it translates into highly profitable individual affiliates. For example, the average United States foreign affiliate in Africa generated a higher amount of investment income in 1992 than the average affiliate in Spain and close to that of an affiliate in Brazil and Hong Kong. However, FDI stock and the number of foreign affiliates in Africa are not large compared to those in other host developing regions, and the average size of affiliates (measured by FDI stock per affiliate) is much smaller. Furthermore, most of the profits of these affiliates are generated in the primary sector, although profitability in that sector (net income as a percentage of owner's equity) is lower than that in services and manufacturing. Hence, further information, particularly as regards the actual or perceived risk attached by TNCs to investing in Africa, is required, however, before drawing any conclusions for the region's FDI potential on the basis of the high profitability observed.

d. Privatization

39. Privatization programmes can provide the link between the potential at country and industry levels and concrete investment opportunities at the firm level. As the experiences of Latin America and Central and Eastern Europe show, to the extent that foreign participation in privatization programmes is permitted, TNCs can use them as a vehicle for fast entry into host country markets. Another attraction of such programmes for TNCs is that they can provide profitable investment opportunities, even though they may require the restructuring of acquired companies and/or additional investments. In addition, by buying a company, TNCs also buy its market share in international and local markets. As has become evident from the preceding analysis of key FDI determinants, some of these attractions of privatization programmes -- such as significant domestic markets -- exist in Africa in a limited number of countries. Furthermore, when looking at the profitability data of existing foreign affiliates, there is no reason to believe that privatization programmes in Africa would not create profitable foreign affiliates.

40. So far, African privatization programmes -- with some exceptions -- are still rudimentary. They are undertaken on a visible scale in no more than ten countries.[54/] The natural resources sector is prominent in most programmes, including also agricultural projects and, specifically, large plantations of agricultural raw materials. Foreign participation is particularly sought in infrastructural projects, including public utilities, especially water supply and electricity, and, in some countries, air transportation. In all these cases, experienced firms are being sought with access to investment resources, technology and skills. On the other hand, TNCs typically have not yet been allowed to participate in the privatization of large state monopolies in the manufacturing sector. In the manufacturing sector, as the industrial base in most African countries is small, there is little to be privatized.

3. Policies to improve investment conditions

41. In the light of low investment flows, African countries have undertaken many efforts during the past ten years to increase their attractiveness to foreign investors and thus enhance their own growth prospects. These efforts have included, at the macroeconomic level, wide-reaching domestic economic policy reforms (usually at high social cost) and, at the level of the FDI regulatory framework, the liberalization of existing frameworks or the adoption

Table 12. The profitability of majority-owned nonbank foreign affiliates of nonbank United States parent firms in Africa and other regions, 1982-1992 [a/]
(Percentage)

Region/country	1982	1985	1987	1988	1989	1990	1991	1992
Developing countries	**14.6**	**13.1**	**12.9**	**14.0**	**17.1**	**15.9**	**13.7**	**14.8**
Africa	**10.8**	**14.3**	**14.7**	**22.9**	**20.1**	**22.2**	**22.7**	**23.8**
East, South and South-east Asia and the Pacific	34.2	22.0	22.3	25.4	26.8	30.1	26.0	24.8
Western Asia	28.7	25.6	8.7	11.1	9.4	19.0	16.4	16.4
Latin America and the Caribbean	10.1	10.6	10.7	10.9	14.6	11.4	9.4	11.1
Developed countries	**10.0**	**14.6**	**16.8**	**19.9**	**18.1**	**15.6**	**12.8**	**10.8**
Canada	7.2	12.8	11.9	13.0	12.1	8.1	4.8	2.7
Europe	11.0	15.7	18.9	22.9	20.0	17.6	14.9	12.2
Other developed countries [b/]	11.5	14.6	14.6	17.0	18.1	15.4	12.2	13.6
All countries	**11.5**	**13.8**	**15.3**	**18.0**	**17.7**	**15.7**	**13.0**	**11.8**

Source: UNCTAD, Division on Transnational Corporations and Investment, based on United States, Department of Commerce, *U.S. Direct Investment Abroad: Benchmark Survey* 1982-1989 (Washington, D.C., Government Printing office) and *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and their Foreign Affiliates* 1985, 1987, 1988, 1990, 1991, 1992 (Washington, D.C., Government Printing Office).

a/ Measured by net income of affiliates as a share of owner's equity.
b/ Australia, Israel, Japan, New Zealand, South Africa.

Table 13. Performance of United States foreign affiliates in Africa and other selected locations, 1982-1992

Host region/ economy	No. of affiliates	FDI stock (Million dollars)	Net income of affiliates (Million dollars)				Net income per affiliate (Million dollars)	FDI stock per affiliate (Million dollars)	Profitability of affiliates, [a/] by sector (Per cent)	
	1992	1992	1982	1989	1990	1992	1992	1992	1982	1989
Africa	379	3,561	395	751	827	1,234	3.2	9.4	10.8	20.1
By sector										
Primary b/	..	..	262	502	..	..	..	..	9.3	16.7
Manufacturing	..	..	52	155	..	..	..	..	14.4	37.4
Services	..	..	80	94 c/	..	..	..	..	16.5	31.2
Brazil	448	16,343	843	3,010	1,037	1,821	4.1	36.5	..	..
Hong Kong	404	8,730	598	1,737	1,545	1,765	4.3	21.6	..	..
Singapore	330	6,728	504	1,128	1,948	1,659	5.0	20.4	..	..
Spain	468	8,345	156	2,018	1,956	809	1.7	17.8	..	..
Switzerland	485	29,190	1,664	5,475	5,131	4,040	8.3	60.2	..	..

Source: United States, Department of Commerce, *US Direct Investment Abroad: 1982 and 1989* Benchmark Surveys Data; Operations of US Parent Companies and Their Foreign Affiliates, preliminary 1990 and 1992 estimates (Washington, D.C., various years).

a/ As in table 12, profitability is measured by net income of affiliates as a share of owner's equity.
b/ Including public utilities, transportation, retail trade and construction.
c/ Including business services in South Africa.

of new ones, the simplification of administrative procedures applicable to foreign investors, the conclusion of bilateral investment protection and promotion treaties and accession to various multilateral treaties facilitating FDI flows.[55/]

42. All these efforts have led to a recognizable improvement of investment conditions in Africa, although more can and needs to be done to realize the investment opportunities that exist in Africa. As Africa, as a continent, comprises a great variety of political and economic country situations (in addition to differentiated investment opportunities), no single prescription for action to improve investment conditions would be appropriate. Answers need to be sought in each country. Some Governments would need to make efforts to restore or maintain economic and political stability, as a general precondition for increased FDI. Others would need to continue with the liberalization of FDI policies and increase the efficiency of administrative procedures, learning from best practices elsewhere. Still others, with favourable indicators of FDI potential but receiving FDI below their potential, when reviewing their regulatory frameworks, would need to focus on promotional efforts and attracting TNCs to particular projects. And, finally, a small group of countries in Africa may be able to pay increased attention to policies aimed at upgrading the quality of FDI they receive, e.g., by focusing on the improvement of the skills of their labour force or on the upgrading of infrastructure.

43. A policy action likely to contribute immediately to the improvement of investment conditions in many African countries relates to privatization programmes. Judging from the experience of other countries, privatization programmes with foreign participation can provide a vehicle to increase FDI flows (with potential qualitative contributions to the economy) over a longer period of time, since FDI flows can continue after the acquisition of an asset owing to post-privatization investment. Such programmes have been a major factor behind the rapid increase of FDI flows to Latin America and Central and Eastern Europe, but not to Africa. To try to benefit from privatization-related FDI, existing programmes need to be improved and perhaps new programmes launched. In some cases, this may require the establishment of a broader political consensus, to end the stop-and-go nature of some of these programmes, to make them more transparent and to expand them to include firms of all sizes and from all sectors of the economy. The last of these considerations may be of special importance to countries that need to compensate certain deficiencies in investment conditions by increasing the attractiveness of privatization programmes. Furthermore, including only loss-making firms while excluding profitable firms would certainly not make a privatization programme attractive. The attractiveness of programmes could be further increased in some countries by linking them to debt-equity swaps.

44. The outside world has supported the efforts of African countries to improve investment conditions, e.g., by helping in the implementation of structural adjustment programmes and increasing official grants and loans (from $14 billion in 1986 to $23 billion in 1992).[56/] Further assistance, however, is required -- especially in terms of debt-forgiveness and upgrading infrastructure -- in order to improve investment conditions for both domestic and foreign investors. For example, although various debt-relief schemes have been in place for African countries since the 1980s, Africa’s debt as a percentage of GNP has increased from 60 per cent in 1986-1990 to 67 per cent in 1994, a level more than double those in Latin America and Asia.[57/] The continuing debt problem prolongs balance-of-payments difficulties which, in turn, make it difficult to liberalize the capital account and, thus, ease profit-remittance regulations -- an indispensable ingredient of any good investment climate. In addition, debt-servicing deprives Africa of badly needed domestic investment resources that could be used to improve infrastructure and encourage investment, thus enhancing the prospects for economic growth -- one of the single most important FDI determinants.

45. An important new factor that may influence prospects for FDI in Africa is the emergence of South Africa as a politically stable and economically dynamic country. For one, South Africa may serve as an example for conflict resolution in other countries plagued by internal political conflict and may thus help them achieve the basic requirement of any good investment climate, i.e., political

stability. Secondly, South Africa itself has a potential to attract sizeable inflows of FDI. Thirdly, if such inflows materialize and contribute to the acceleration of economic growth, then South Africa could well become a regional growth pole, and itself become a home country for FDI in the countries of southern Africa. In addition, it could become a dynamic market for export-oriented FDI in neighbouring countries linked to South Africa by free trade agreements.

46. The message from this analysis is clear: one needs to stop thinking about Africa as a continent without investment opportunities. Contrary to the common perception, FDI in Africa can be profitable, and at a level above average that of foreign affiliates in two out of three other developing country regions. Firms wishing to benefit from the opportunities existing should, therefore, consider African countries as investment locations. At the same time, the Governments in the region have to make every effort to maintain or restore economic and political stability, as a general precondition for increased FDI.

D. Conclusions

47. The experience of different developing country regions and of the countries within them differs with respect to their success in attracting FDI. The sharp increase in FDI flows to developing countries during the 1990s has been confined to Asia and the Pacific (especially China) and to Latin America and the Caribbean. Flows to Africa have remained largely unchanged in absolute terms and even decreased as a proportion of the developing country total FDI. Furthermore, within the Asia-Pacific as well as the Latin American and Caribbean regions, countries have performed unevenly with respect to inflows of FDI. This reflects mainly different underlying economic factors that are major determinants of FDI flows, including per capita income and its growth, market size, and availability of natural and human resources. Since the general trend in the majority of developing countries has been towards more liberal policies regarding FDI, the diversity of experience suggests that liberalization may be a necessary condition, it is not in itself sufficient for attracting FDI.

48. In line with the difference in experience, policy implications for countries also vary. Some countries need to make efforts to restore or maintain economic and political stability, as a general precondition for increased FDI. Others may need to continue with the process of liberalization of FDI regimes, harmonize FDI policies with policies for trade and technology, and/or improve administrative frameworks related to FDI, while generally ensuring an open and stable policy environment. Still others, particularly those with indicators of an FDI potential in excess of actual flows, could focus on promotional efforts, especially for attracting TNCs to particular projects. And finally, some countries may be able to shift towards policies for upgrading the FDI that they receive, by improving their human resource and infrastructural capabilities as well as becoming more selective with respect to the kind of investments that they encourage.

Notes

1/ The share of FDI in total private external resource flows to developing countries in 1993 was 40 per cent. See TD/B/ITNC/2.

2/ The data on GDP per capita are from UNCTAD, *Handbook of International Trade and Development Statistics 1993* (United Nations publication, Sales No. E/F.94.II.D.24), table 6.1, p. 434.

3/ Data from Development Research Centre of the State Council, China, as quoted in "China investment flows surge", *Financial Times*, 5 December 1994, p. 4.

4/ A decline might occur if investors are influenced by new tax policies (which have reduced preferential tax treatment for foreign affiliates) and partly because of tighter credit policies in several industries (such as real estate) to control overly rapid growth which has led to more than 20 per cent increases in inflation in major cities of China.

5/ As regards Indonesia, the new regulations allow 100 per cent foreign ownership of local enterprises for 15 years and require only a 1 per cent divestment afterwards. In joint ventures, local firms are now required to hold only 5 per cent of ownership, a substantial drop from 20 per cent in the past. Previously restricted industries such as transportation, telecommunications and power are now open to foreign firms. In the case of Thailand, previously restricted industries such as advertising, garments, certain types of construction and engineering work are to be opened to FDI. See "The year of doing business", *Far Eastern Economic Review*, 1 September 1994, "All’s fair", *Far Eastern Economic Review*, 17 November 1994 and "Just how liberal?", *Far Eastern Economic Review*, 17 November 1994.

6/ Paul Taylor, "Writing is on the wall for controllers", *Financial Times*, 8 November 1994, p. 6.

7/ Victor Mallet, "World’s car markers prefer the Thai tiger", *Financial Times*, 9 November 1994, p. 4.

8/ *Nihon Keizai Shimbun*, 11 August 1994.

9/ *APEC Economic Leaders’ Declaration of Common Resolve* (Bogor, 15 November 1994), mimeo., para. 6.

10/ Increases in FDI in the services sector not only reflect the growing importance of services-related activities in national economies but are also promoted by liberalization in this sector (e.g., relaxation of regulations in the retail industry in 1993 and infrastructure construction in 1994 in the Republic of Korea and the financial services industry in Taiwan Province of China).

11/ Economic Cooperation Bureau, *Trends in Foreign Investment* (Seoul, Ministry of Finance, 1994), and Investment Commission, *Statistics on Overseas Chinese & Foreign Investment, Technical Cooperation, Outward Investment, Outward Technical Cooperation, Indirect Mainland Investment* (Economic Authority, Taiwan Province of China).

12/ Economic Cooperation Bureau, *Trends in Foreign Investment*, *op.cit.*

13/ R. Waldinger, *et al*. *Ethnic Entrepreneurship and Immigrant Business in Industrial Societies* (London, Sage Publication, 1990).

14/ It may be noted that cumulative FDI flows from Japan to Asia and the Pacific, according to approvals data, amounted to $68.4 billion as of 1993. (Data from Japan, Ministry of Finance.)

15/ The share of the developed countries in Japan's outward FDI stock increased from 44 per cent in 1980 to 68 per cent in 1990; the share of the United States increased from 24 per cent to 42 per cent, and that of Western Europe from 12 per cent to 19 per cent. (Based on United Nations, Transnational Corporations and Management Division, *World Investment Directory: volume III, Developed Countries* (United Nations publication, Sales No. E.93.II.A.9)).

16/ UNCTAD, Division on Transnational Corporations and Investment FDI database.

17/ Commission of the European Communities, "Towards a new Asia Strategy" Communication from the Commission to the Council, Brussels, 27 July 1994, mimeo., p. 15.

18/ For example, the share of Western Europe in the total (outward) FDI stocks of the United Kingdom and France rose from 57 per cent in 1975 to 72 per cent in 1988 and from 25 per cent in 1978 to 39 per cent in 1988, respectively; and the proportion of FDI flows from France, Germany, the Netherlands and the United Kingdom combined that went to the European Union, judging from FDI between the four, rose from 34 per cent in 1985-1989 to 56 per cent in 1990-1992 (United Nations, Transnational Corporations and Management Division, *World Investment Directory: volume III, Developed Countries*, *op. cit.*).

19/ Asia and the Pacific accounted for 25 per cent, 24 per cent, and 35 per cent of the outward FDI stocks of Germany, Netherlands and United Kingdom, respectively, in 1992, and 24 per cent of the outward FDI stock of France in 1991. The comparable shares of Latin America in the FDI stock of the four countries were 55 per cent, 24 per cent, 53 per cent and 40 per cent, respectively. In comparison, the shares of Asia and the Pacific in the FDI stock of Japan and the United States in 1992 were 51 per cent and 24 per cent, respectively, and the shares of Latin America, 38 per cent and 68 per cent respectively (UNCTAD, Division on Transnational Corporations and Investment FDI database).

20/ JETRO, *JETRO Hakusho:Toshi-hen* (Tokyo, JETRO, 1994), p. 166.

21/ UNCTAD, Division on Transnational Corporations and Investment FDI database.

22/ Bank of Korea, *Current Status of Foreign Direct Investment* (Seoul, 1991).

23/ *Nihon Keizai Shimbun*, 16 July 1994 (Tokyo).

24/ Industrial Development & Investment Center, *Outward Investment from Taiwan ROC: A New Source of International Capital* (Economic Authority, Taiwan Province of China).

25/ See Commission of the European Communities, *op. cit.*, pp. 20-22. The Commission mentioned, in this context, European Business Councils, Joint Investment Committees and especially European Business Information Centres.

26/ ECLAC/UNCTAD Joint Unit on Transnational Corporations, "Informe sobre la inversion extranjera en America Latina y el Caribe" (Santiago, ECLAC, 1995), mimeo. (in Spanish).

27/ UNCTAD, Division on Transnational Corporations and Investment based on IMF, balance-of-payments tape, retrieved 5 January 1995 and data from the Organisation for Economic Co-operation and Development secretariat.

28/ ECLAC/UNCTAD Joint Unit on Transnational Corporations, *op. cit.*

29/ *America Economia*, "Latin America's largest companies 500", Special issue, 1994/95, p. 54.

30/ United Nations, Division on Transnational Corporations and Investment, *World Investment Directory, volume 4: Latin America and the Caribbean* (United Nations publication, Sales No. E.94.II.A.10), p. 19, table 4.

31/ *America Economia*, "Latin America's largest companies 500", *op. cit.*, p. 54.

32/ *America Economia*, "Los mayores exportadores de America Latina", Special issue, September 1994 (in Spanish).

33/ *Ibid*.

34/ See, e.g., Aurelio Garcia, Miro and Steven, Murphy, "Telefonica's Peruvian connection", *Business Latin America*, 14 March 1994.

35/ ECLAC/UNCTAD Joint Unit on Transnational Corporations, "Informe sobre la inversion extranjera en America Latina y el Caribe", *op. cit.*, p. 29.

36/ United States, Department of Commerce, " Foreign direct investment in the United States: detail for historical-cost position and related capital and income flows, 1993", *Survey of Current Business*, vol. 74, No. 8 (August 1994).

37/ UNCTAD/ECLAC Joint Unit on Transnational Corporations, "Informe sobre la inversion extranjera en America Latina y el Caribe", *op. cit.*

38/ United Nations, Division on Transnational Corporations and Investment, *World Investment Directory, volume 4: Latin America and the Caribbean*, *op. cit.*

39/ *Ibid.*

40/ The amount of Chilean FDI in the United States is so small that it does not appear separately in United States statistics; instead, it is included in "other" sources of FDI into the United States from South and Central America, which, together, accounted for $494 million in 1993. United States, Department of Commerce, " Foreign direct investment in the United States: detail for historical-cost postion and related capital and income flows, 1993", *Survey of Current Business*, *op. cit.*

41/ Data exclude outflows to the Netherlands Antilles. United States, Department of Commerce, "U.S. direct investment abroad: detail for historical-cost position and related capital and income flows, 1993", *Survey of Current Business*, vol. 74, No. 8 (August 1994).

42/ *Ibid.*

43/ See TD/B/ITNC/2.

44/ UNCTAD, Division on Transnational Corporations and Investment, "Country and regional experiences in attracting foreign direct investment for development: foreign investment in Africa". Report prepared for the Commission on Transnational Corporations, Geneva, 2-11 May 1994, E/C.10/1994/5.

45/ UNCTAD, Division on Transnational Corporations and Investment, *Determinants of Foreign Direct Investment: A Survey of Evidence* (New York, United Nations, 1992).

46/ J. Cantwell, "Foreign multinationals and industrial development in Africa" in P.J. Buckley and L.J. Clegg, eds., *Multinational Enterprises in Less Developed Countries* (London, MacMillan 1991).

47/ L. Cockcroft and R.C. Riddell, "Foreign direct investment in Sub-Saharan Africa": World Bank working paper, WPS 619 (Washington, D.C., World Bank, 1991), mimeo.

48/ J. Greenwald, "Black gold rush", *Time*, June 1994, pp. 36-41.

49/ Cantwell, *op. cit.*

50/ Cantwell, *op. cit.*

51/ J. Cantwell, "Globalization and development in Africa", forthcoming in UNCTAD, Division on Transnational Corporations and Investment publication on globalization and developing countries.

52/ Ibid.

53/ *International Herald Tribune*, 6 December 1994, p. 18.

54/ F. Sader, "Privatization techniques and foreign investment in developing countries, 1988-1993" (Washington, D.C., FIAS, 1994), mimeo.

55/ For details see UNCTAD, Division on Transnational Corporations and Investment, "Country and regional experiences in attracting foreign direct investment for development: foreign investment in Africa", *op. cit.*, and *Foreign Direct Investment in Africa* (Geneva, UNCTAD, Division on Transnational Corporations and Investment publication, forthcoming).

56/ The World Bank, *World Debt Tables 1993-94* (Washington D.C., World Bank, 1993).

57/ International Monetary Fund, *World Economic Outlook* (Washington, D.C., IMF, 1992 and 1993). 1994 data are a projection by the International Monetary Fund.