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UN reports upsurge in FDI to developing countries

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Record flows of foreign direct investment to developing countries last year helped end a three year-long downturn in global investment flows, the United Nations said on Tuesday.

World foreign direct investment (FDI) flows increased by 6 per cent to \$612bn in 2004, as increased flows to developing countries and Central and Eastern Europe offset a slump in flows into developed countries.

The UN Conference on Trade and Development predicted that a continuing improvement in the fundamental drivers of FDI - economic activity, equity market valuations and mergers and acquisitions - would fuel its expansion over the medium term.

Developing country FDI rose by 48 per cent from 2003 to \$255bn, with increases reported by every region. Karl Sauvant, director of UNCTAD's investment division said the data was "good news" for developing countries, which now account for an estimated 42 per cent of world FDI inflows, compared with 27 per cent during 2001-2003.

Developed countries saw a 16 per cent fall in FDI flows to \$321bn, largely due to the repayment of intra-company loans by some host countries, particularly Belgium, Germany and the Netherlands.

The US once again became the world's largest recipient of FDI with inflows of \$121bn, pushing China into second place with inflows of \$62bn. The UK, another traditionally important host country, also saw a recovery of FDI inflows, which increased from \$21bn to \$55bn.


FDI flows to Asia and the Pacific reached \$166bn, a 55 per cent increase over 2003. Improved economic performance, a more favourable policy environment, higher corporate profitability and a rise in mergers and acquisitions fuelled the growth, which was mostly felt by north-east Asia, particularly China and the Republic of Korea.

A strong rebound in commodity prices helped FDI inflows to Africa to increase for the second consecutive year to \$20bn. UNCTAD predicted a further increase if high commodity prices prompted multinational companies to undertake new exploration projects in Africa, which currently accounts for just 3 per cent of global FDI flows.

FDI flows to Latin America and the Caribbean rose for the first time in five years, up 37 per cent to \$69bn, as a result of economic and policy improvements.

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