

Distribution of FDI in the Developing World

The 1980s and early 1990s witnessed large changes in the geographical allocation of FDI flows. As noted, overall flows to the developing world declined in the first part of the 1980s, then recovered strongly; its growth has accelerated in the 1990s. At the regional level, the share of Asia and the Pacific in developing countries' inflows increased substantially, from 30 percent in 1985 to over 45 percent in 1992. Latin America and the Caribbean suffered declines in shares, from a peak 44 percent in 1987 to 30 percent in 1990-92.²¹ Flows to Africa (including North Africa) increased in the second half of the 1980s, but from a very low base, and again declined in the early 1990s. In 1991, the region received just over 4 percent of FDI to the developing world.²²

The relative shares of the main regions are shown for the beginning and end years in Chart 2²³. The Commonwealth developing countries are also shown, though the individual countries

are also parts of the different geographical regions. The share of these countries rose marginally from 11 percent in 1982 to 14 percent in 1992, while the volume of FDI inflows rose from \$2.5 billion to \$6.1 billion (in current terms). MNE interest continued to concentrate in a few more advanced developing countries, and this concentration has increased in recent years. The ten largest recipients in the developing world accounted for 76% of total flows in 1992, up from around 70% in the preceding 10 years (but still below the peak of 81% reached in 1981).²⁴

This is partly due to the impressive growth in FDI into China, which attracted negligible amounts in 1981 but by 1992 accounted for one quarter of all inflows to developing countries.²⁵ It is expected that if India, the other large economy in the region that is seriously 'underinvested' by foreign companies, continues with liberalisation and is able to boost economic growth, there will be a massive increase in FDI there also.²⁶

Chart 2: Percentage Shares of Regions in Total FDI to Developing Countries 1982 - 1992

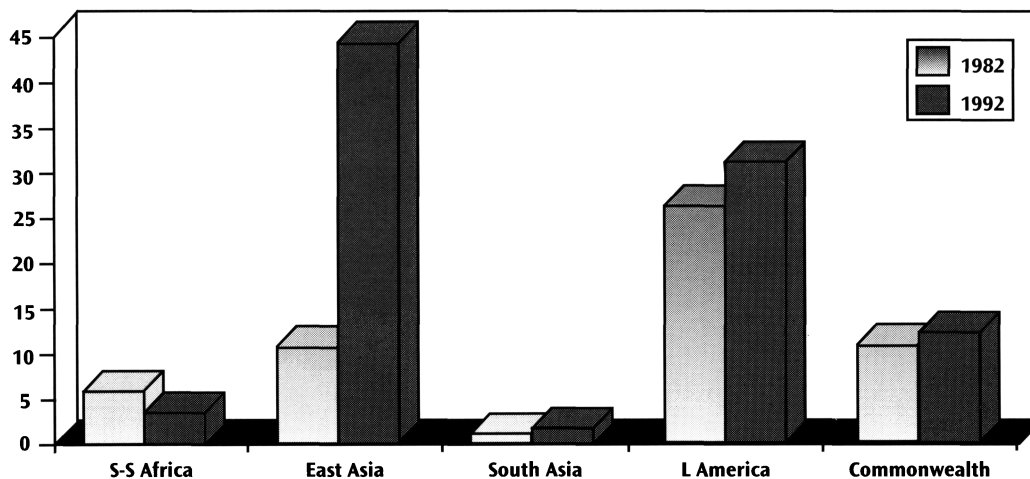


Table 2: **Regional Origin of Inward FDI in Selected CDCs²⁷ (%)**

	1985			1988		
	Developed areas	Developing areas	Former socialist	Developed areas	Developing areas	Former socialist
Flows						
Bangladesh	96.35	3.65	—	92.35	7.61	—
India	76.52	8.38	—	89.08	10.63	0.29
Malaysia	—	—	—	61.04	38.92	0.04
Pakistan	56.92	43.08	—	87.23	13.15	0.01
Papua New Guinea	100	—	—	98.04	1.78	—
Sri Lanka	54.99	45.01	—	68.67	31.34	—
Stocks						
Bangladesh	86.30	13.69	—	100	—	—
India	85.65	10.37	0.05	85.65	8.63	0.22
Malaysia	60.99	39.01	—	59.23	40.77	—
Pakistan	64.88	16.10	3.50	63.82	27.19	3.21
Papua New Guinea	99.72	0.28	—	99.64	0.35	—
Sri Lanka	49.85	50.15	—	50.89	49.11	—
Jamaica	55.89	43.81	—	—	—	—

The 47 least developed countries have been, and continue to be, marginal to FDI flows. In 1992 such flows declined by 15% to a total of \$300 million, accounting for only 0.6% of total flows to developing countries. Sub-Saharan Africa, in particular, received very little FDI despite widespread moves to liberalise foreign investment regimes and offer attractive incentives. The only exceptions were the traditional attractors of investment into the oil sector. Of the others, even countries undergoing strong structural adjustment programmes failed to increase inward investment inflows. The reasons for this are considered later.

Turning now to Commonwealth developing countries (CDCs), the pattern of FDI generally follows the basic pattern for developing countries. Data were collected for 39 of the 42 developing countries in the Commonwealth area – figures on Nauru, Tuvalu and Western Samoa were not available. Of the CDCs in the sample, 18 are low-income countries, 14 lower-middle income,

and 7 upper-middle income. A summary of the data for the main CDCs is given in Table 2.

Over 1982-92, CDCs accounted for an annual average of 14 percent of FDI to developing countries. By far the largest recipient was Malaysia: its share was over 30 percent of total flows to CDCs in the second half of the 1980s, and 64 percent in 1990-92. Following Malaysia in the early 1990s were: Nigeria (12 percent), Pakistan (5 percent), India (4 percent), Jamaica, and Trinidad and Tobago (both with about 2 percent). Among the Pacific Islands, Papua New Guinea emerged as the major recipient of FDI, primarily concentrated in minerals and in petroleum exploration and development. At the other end was Zimbabwe, with negative inflows – disinvestment – for most of the 1980s.

Two characteristics of the CDCs partly explain the relative low weight of the Commonwealth economies (excluding Malaysia) in total FDI to the developing world. First, almost half (36) are located in Africa; and, second, a

large number are very small economies, notably islands in the Caribbean and Pacific. The patterns of relative FDI flow appears different if gauged by each country's ratio of FDI to GDP. It is in fact the small island economies that record

the highest ratios in the 1980s and early 1990s. In particular, in the period 1990-92, average FDI inflows to St. Lucia and to St. Kitts and Nevis were close to one quarter of GDP. In comparison, the ratio for Malaysia was 8 percent.