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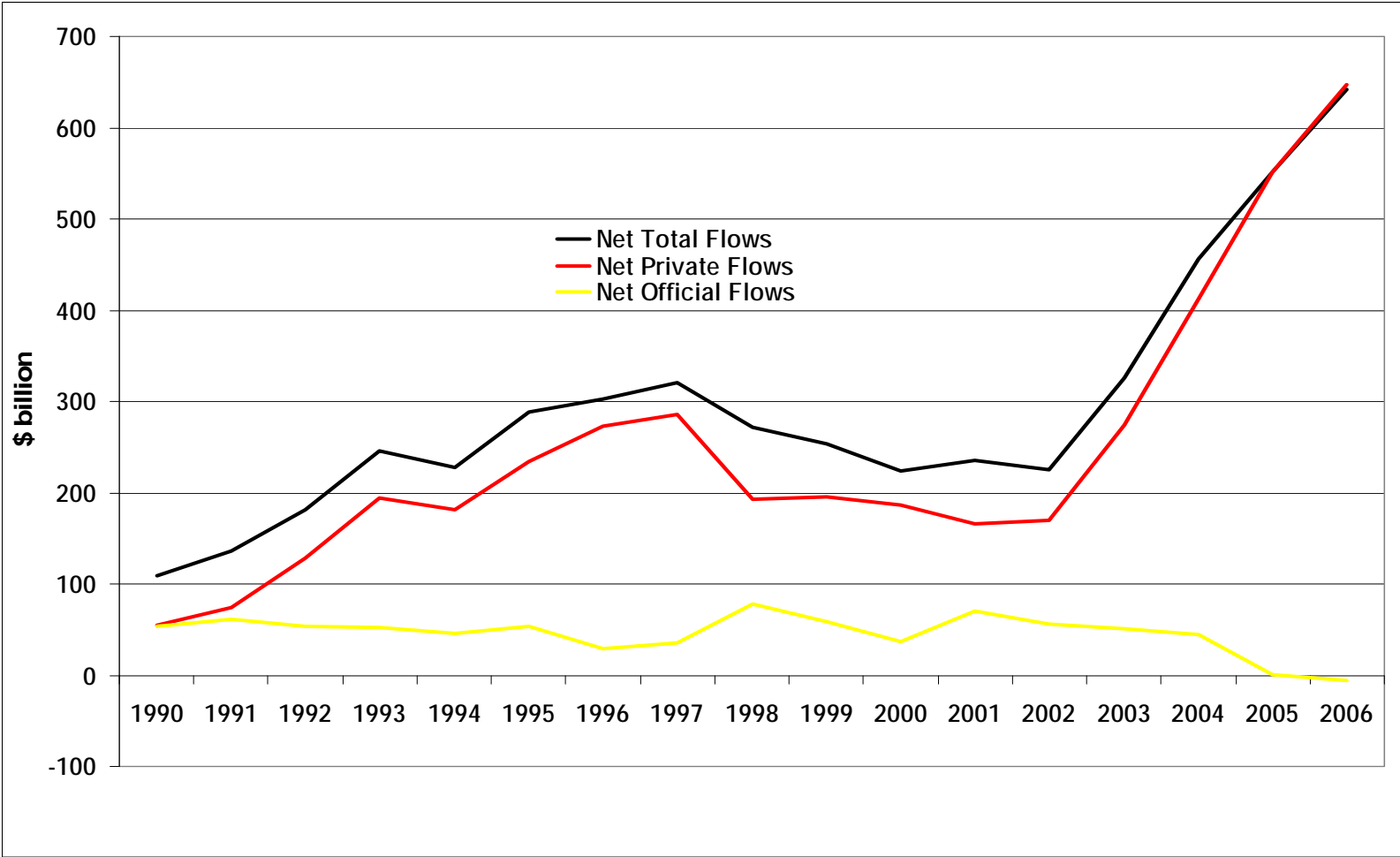
Economic Growth Officers Workshop

Foreign Direct Investment in Developing Countries Trends and Implications for Growth

Roger Manring
Nathan Associates Inc.

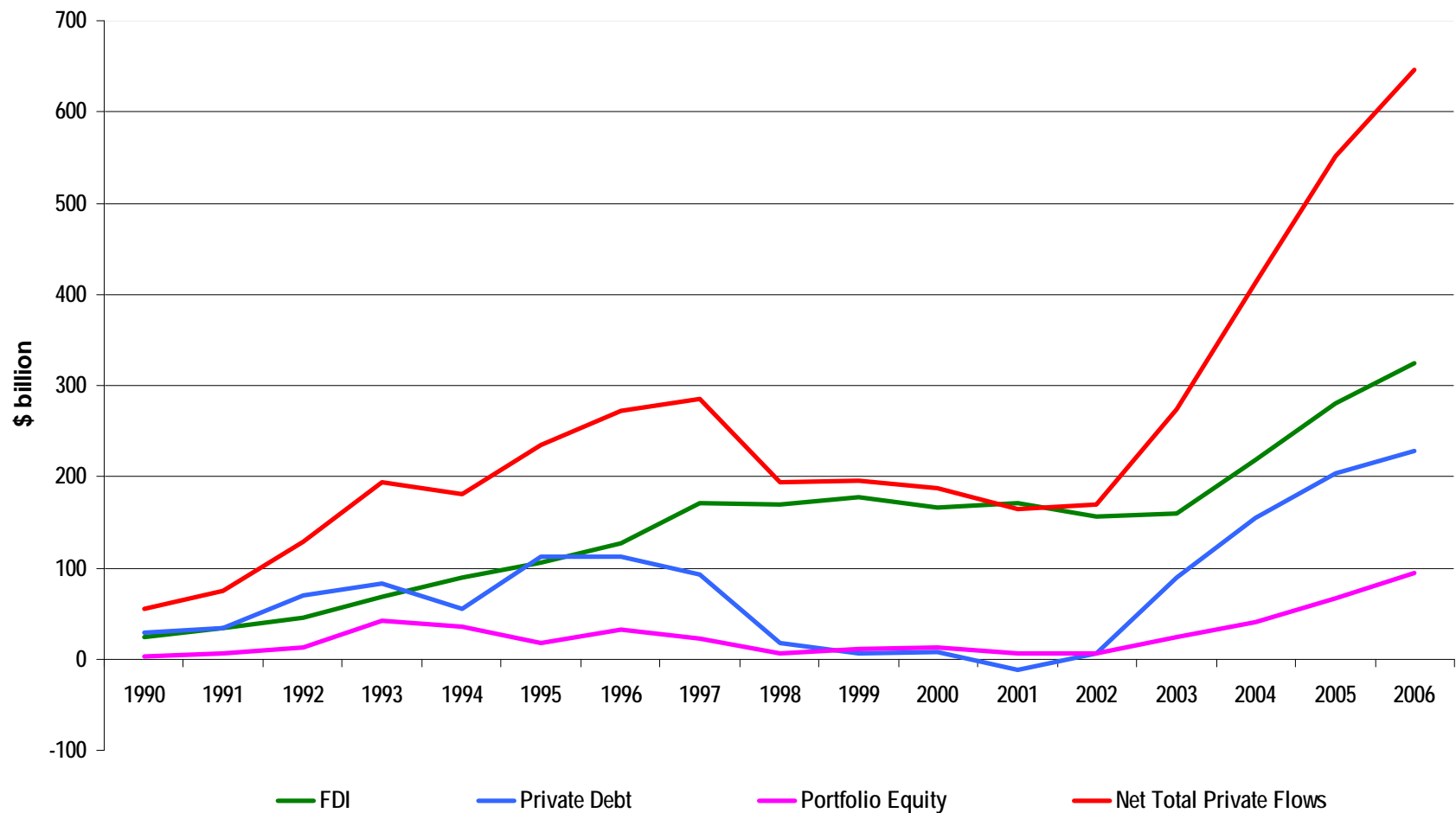
October 15, 2007

Net total capital flows to developing countries, 1990-2006



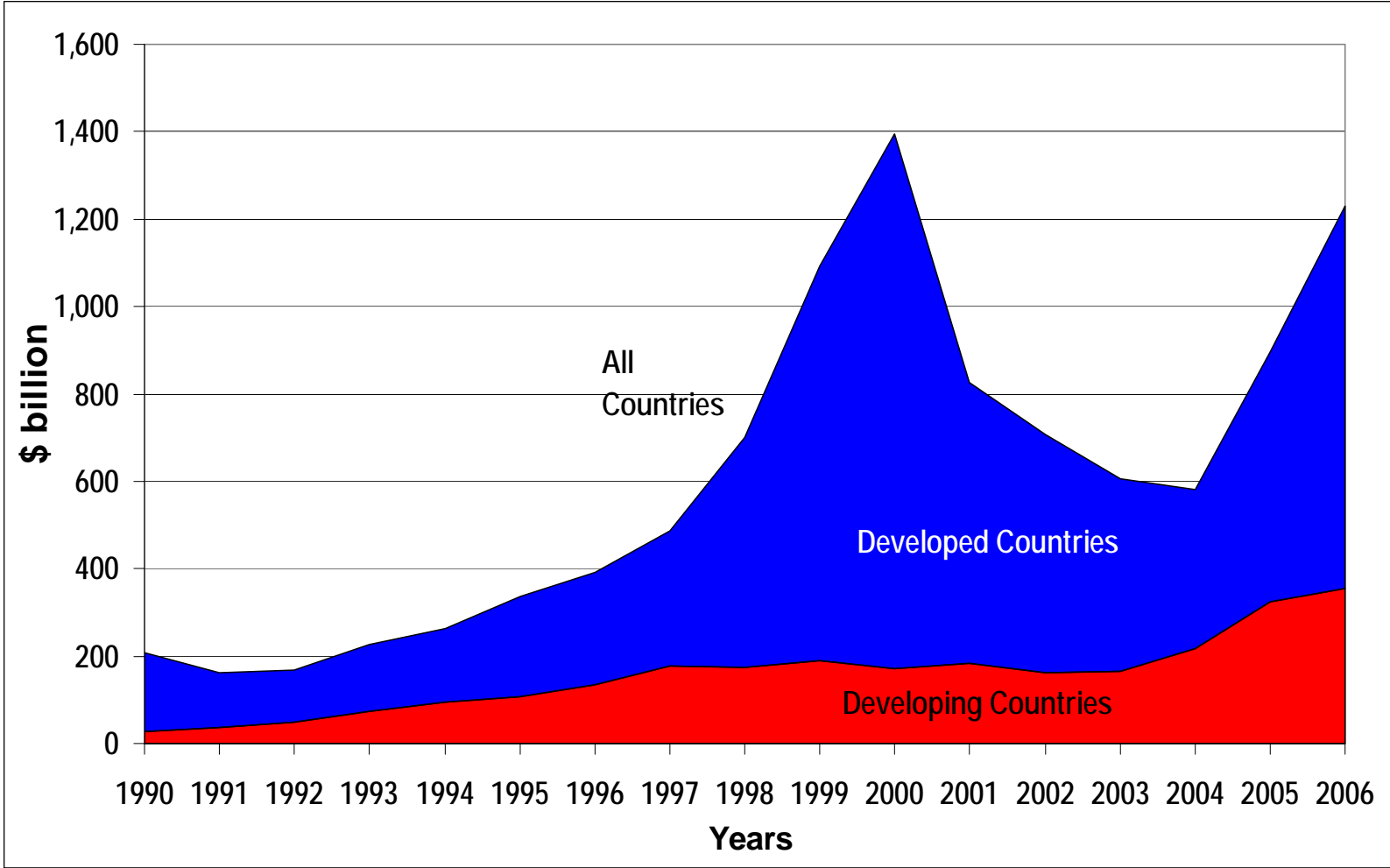
Source: World Bank, Global Development Finance, 2007; Global Development Finance Database

Net private capital flows to developing countries, 1990-2006



Source: World Bank, Global Development Finance, 2007; Global Development Finance Database

FDI inflows, developed and developing countries, 1990-2006

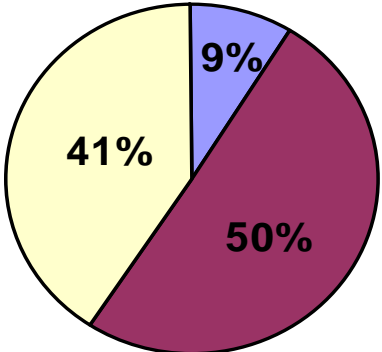


Source: UNCTAD

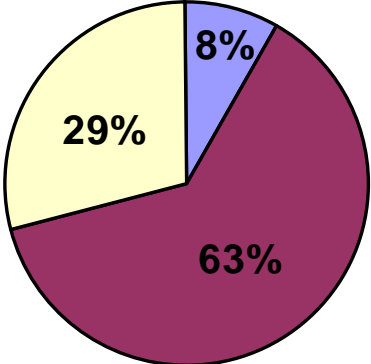
FDI by purpose, developing countries, 1990 and 2004

Inward FDI Stock

2004



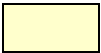
1990



Natural resource-seeking



Efficiency-seeking

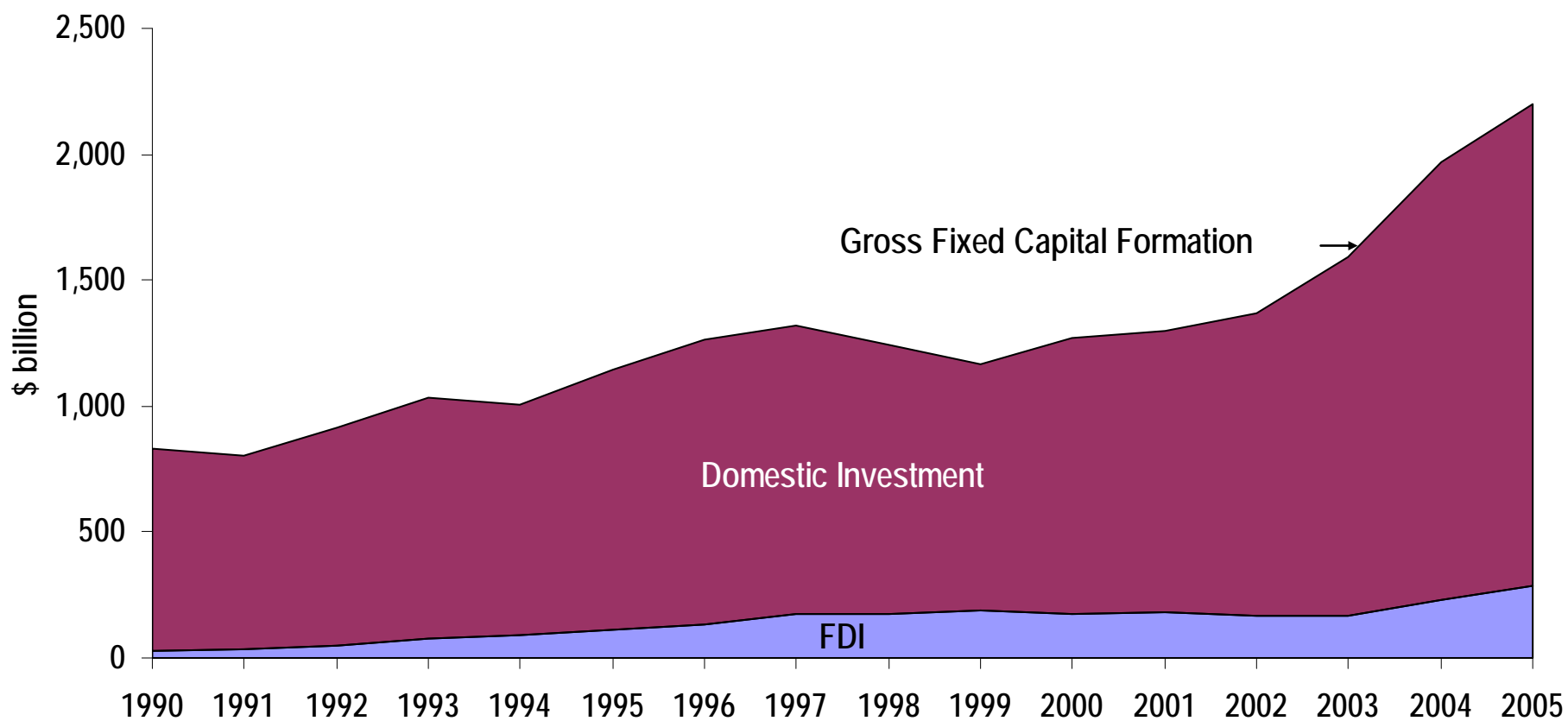


Market-seeking



Source: Nathan Associates estimates based on UNCTAD

Domestic investment and FDI in developing countries



Source: Nathan Associates based on UNCTAD

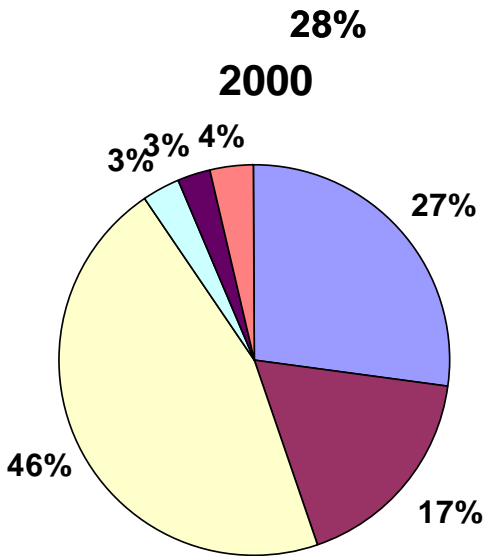
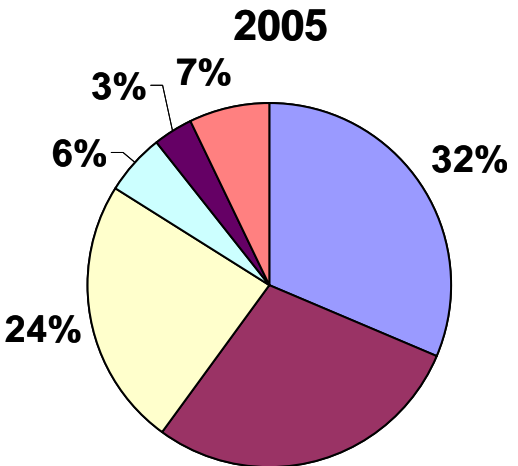
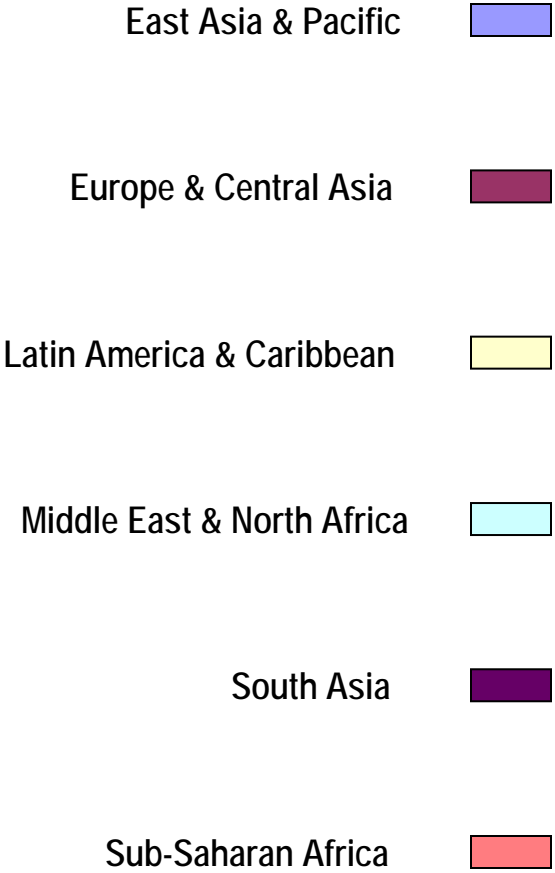
FDI and growth—the development case for FDI

- Growth inducing—in the right circumstances
 - Capital accumulation
 - Global trade enhancement
- Productivity raising—in the right circumstances
 - Technology spillover (vertical, horizontal)
 - Human capital development
 - Competition impacts
- Right circumstances
 - Open competitive markets, policies, institutions

Future FDI flows to the developing world

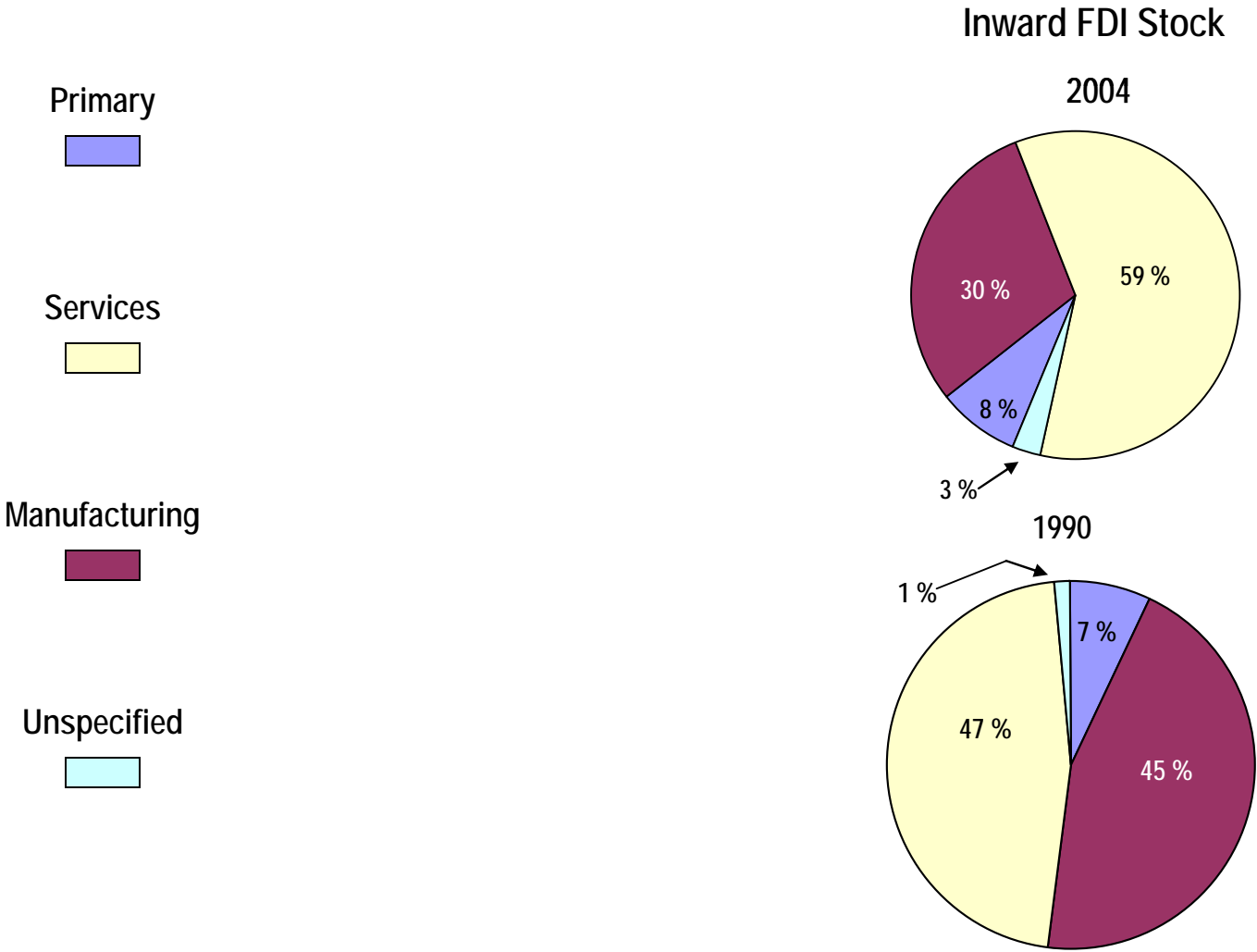
- Medium-term prospects
 - Continued increases ... but moderate and uneven
 - Shifting regional profile
 - Service sector targets
- Drivers
 - World economy (growth, corporate profits, liquidity, equities)
 - Business environment liberalization
 - Commodity prices
 - China
 - South-South FDI
 - Privatization of infrastructure

FDI inflows by developing region, 2000 and 2005



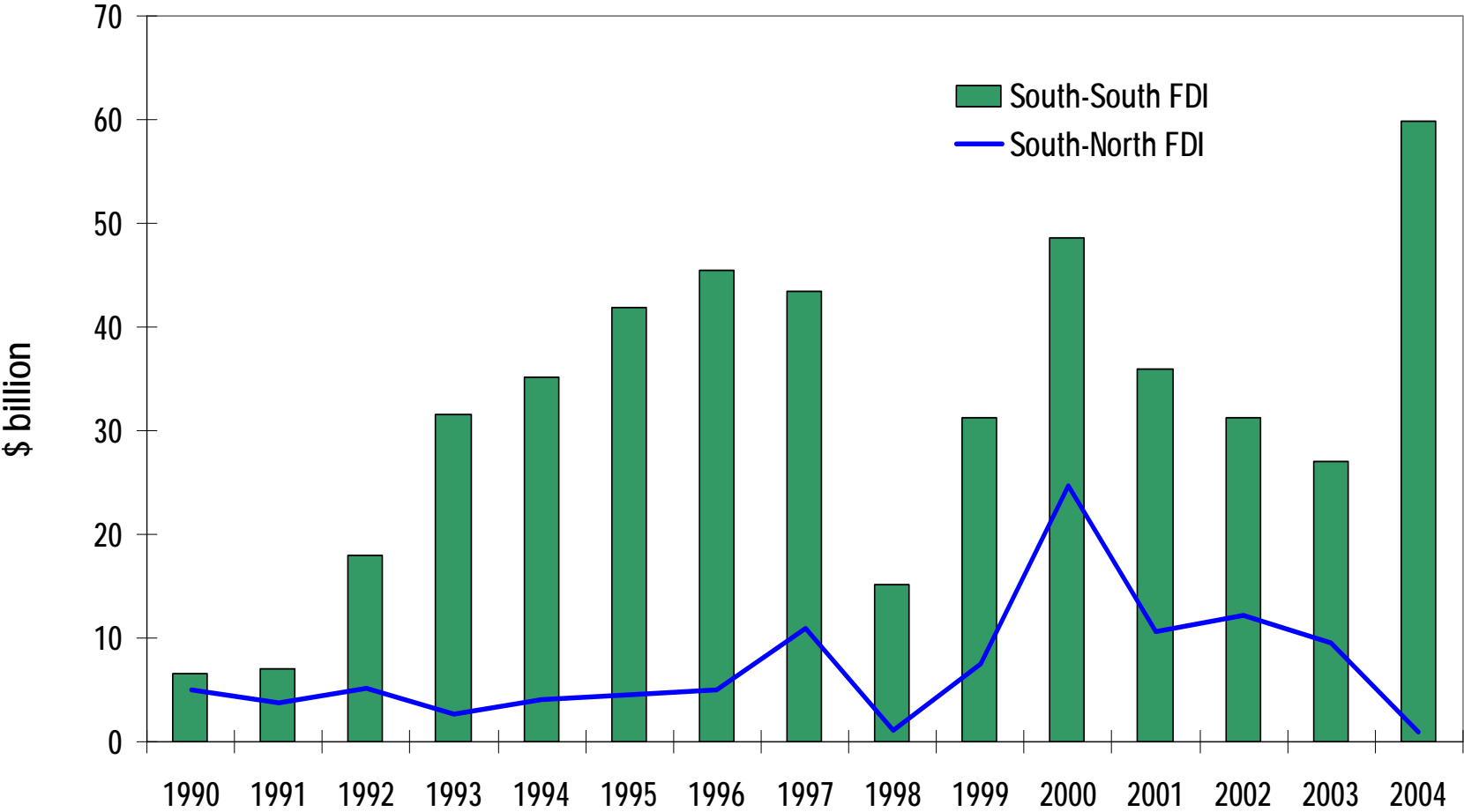
Source: Nathan Associates based on UNCTAD

FDI by sector, developing countries, 2004 and 1990



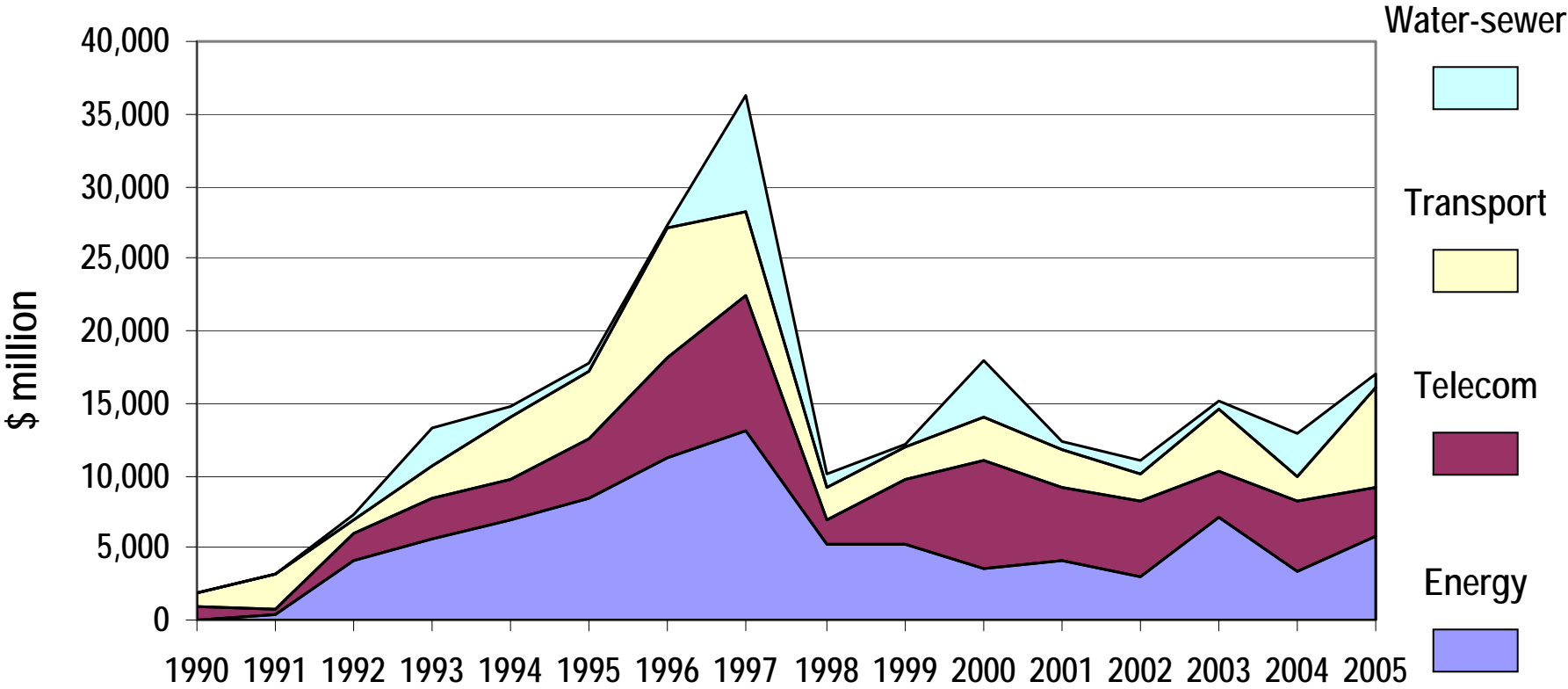
Source: Nathan Associates estimates based on UNCTAD

South-South FDI flows, 1990 to 2004



Source: Nathan Associates estimates based on UNCTAD

Private Infrastructure investment, 1990-2005



Source: World Bank, PPI database

Attracting FDI

- What foreign investors want
 - Market access, cost-efficiency, investment climate
- Back to basics—the “right climate”
 - Good governance
 - Openness to trade
 - Minimal distortions
 - Reliable infrastructure
- EPZ issue ... and incentives
- Investment promotion agencies ... effective?

Possible USAID/EGAT strategic assistance priorities

- Technical priorities
 - Microeconomic investment climate (e.g., regulatory reform)
 - Macroeconomic investment climate (e.g., Dutch disease)
 - Supply linkages for spillover
 - Infrastructure provision
 - Benefit-cost for incentive offers
 - Trade capacity building (e.g., trade and investment agreements)
- Functional priorities ... proven package
 - Benchmarking, public-private dialogue, design