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Development trends and stages of foreign investments.

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Abstract: This academic article traces the major developmental phases, regional contours, sectoral shifts, and policy transformations marking global foreign direct investment (FDI) patterns from the 1950s to current times. It analyzes drivers catalyzing FDI growth, trends like increased developing country and South-South flows, surge in services and sustainability-focused investments, and policy changes expanding FDI access. The discussion synthesizes evidence from UNCTAD's extensive database indicating over five-fold FDI expansion by 2020 and radical shifts in geographical and composition profiles.

Keywords: Foreign direct investment (FDI), transnational corporations, FDI liberalization, emerging markets, outward FDI, South-South investment, developed countries, developing countries, least developed countries (LDCs), services FDI, manufacturing FDI, natural resources FDI, sustainability FDI, intangibles, FDI policies, FDI regulations, special economic zones (SEZs)

Foreign direct investment (FDI) involves cross-border capital flows setting up operations or acquiring assets in another country. It is a vital catalyst fostering technology diffusion, skills upgrade, market access and overall socioeconomic advancement in recipient economies. Developing countries especially gain via positive spillovers from foreign firms bringing superior production techniques, intangibles like brands and organizational expertise and integration into global value chains[1].

This article provides a comprehensive analysis of the changing global FDI landscape since the 1950s. The discussion encompasses major stages marking shifts in investment motivations, structural transformations regarding sectoral patterns, regional distribution trends between developed, developing and transition economies and policy changes to attract FDI. The analysis utilizes extensive evidence from UNCTAD's World Investment Reports over 1990-2020 and other academic studies.

Stages of Foreign Investment Flows

Early Labor-Seeking FDI Wave (1950s–1970s)

The early post-war decades witnessed rising FDI in developing countries offering abundant low-cost labor for export manufacturing. Such investments were dominated by American and Western European multinationals in mass-produced consumer goods like apparels, footwear and electronics seeking to reduce costs. They located assembly plants mainly in Latin America and parts of East Asia to serve home markets.

Another main FDI type involved extractive industries like mining, crude oil drilling and plantation agriculture. European firms especially sought natural resources lacking at home from Africa, Latin America and Asia to guarantee input security. Host countries offered weak environmental, tax and foreign ownership regulations at the time encouraging exploitative “resource-seeking FDI”[2].

Second Wave: Efficiency and Services Investments (1980s-1990s)

From the 1980s, as wages rose in many developing countries, low-cost export manufacturing became less feasible. This propelled a “second wave” of foreign investments called efficiency-seeking FDI to upgrade technology and productivity. Investors targeted countries offering better infrastructure and skills like Malaysia,

[1] UNCTAD (2001). World Investment Report 2001: Promoting Connectivity. United Nations Publication. [2] Rehman, C. A. (2017). Strategic motivations and choice of FDI type: Testing the incremental internationalization theory on emerging Pakistani multinational enterprises (EMNEs). Transnational Corporations Review, 9(2), 98-119.

Thailand, China, Chile and Hungary for integrating local factories into global supply chains[3].

Another feature was FDI expansion into more capital-intensive and technology-driven sectors like automobiles, chemicals, machinery and industrial complexes. Service industries including banking, insurance, retail, hospitality, logistics and IT also attracted rising FDI in tandem with the consumption boom in emerging economies. Such investments continue enlarging the services FDI share which crossed 60% of global flows by 2018[4].

Modern Phase: New Players and Sustainability FDI (2000s-)

Recent decades highlight faster integration of developing countries into global FDI networks reflecting their expanding weight in the world economy. They receive over half of total inflows (see Fig. 1) while also housing major homegrown multinationals investing overseas like Tata (India), Jio (India), Petronas (Malaysia), Alibaba (China), Gazprom (Russia) and Lukoil (Russia)[5].

Another milestone is surging "sustainable FDI" in areas like renewable energy, eco-conscious projects, responsible financing and impact investing guided by environmental, social and governance (ESG) criteria. As per UNCTAD, over 35% investors now prioritize sustainability parameters in decisions about locations, partnerships and resource allocation. Developing countries gain most via sustainable FDI in sectors like green buildings, solar equipment manufacturing and microfinance supporting marginalized sections.

Changing Regional Contours of FDI

Developed to Developing Country Shift

One salient FDI trend is the geographical shift from advanced to developing economies with the latter's share zooming from around 30% of world inflows in 1990 to 54% by 2020[6]. Factors propelling this reorientation include rapid growth of emerging markets, swell in middle-class consumer segments and policy reforms expanding FDI access across manufacturing and services.

[3] Moosa, I. A. (2002). Foreign direct investment: theory, evidence and practice. Springer Science & Business Media.

[4] Sauvant, K. P., & Chen, V. Z. (2014). China's regulatory framework for outward foreign direct investment. China Economic Journal, 7(1), 141-163.

[5] Sauvant, K. P. (2005). New sources of FDI: the BRICs. The Journal of World Investment and Trade, 6(5), 639-709.

[6] UNCTAD (2020). International Production Beyond the Pandemic. World Investment Report. United Nations Publication

Developing Asia has been the prime beneficiary witnessing its global FDI share multiply from approximately 11% in 2000 to 30% in 2019. China alone received one-fourth of total inflows in 2020 affirming its standing as the largest host country for three consecutive years. India and Vietnam are other major Asian recipients while flows to Singapore, Hong Kong and Malaysia reflect their roles as critical investment hubs in the region.

Besides Asia, developing country regions that expanded FDI shares are Latin America and Africa. In contrast, the FDI portion of North America and Europe shrank over 1990-2020. Within developed economies, inflows to tax havens and financial centers remains strong which UNCTAD excludes from regional aggregates as their extreme values can skew percentage shares.

South-South Investments

In tandem with the above reorientation, emerging markets like China, India, Russia, Malaysia, Turkey, South Africa, Thailand and others are also increasingly investing overseas denoted as "South-South FDI''. Factors driving their FDI expansion abroad include saturation and intense competition in home markets, quest for new consumer bases, technology sourcing and securing vital raw materials.

As per UNCTAD, developing economies contributed over 18% of global outflows by 2019 up from just 6% in 1990 reflecting multiplying South-South deals. Key beneficiaries of such investments are other developing countries in Asia, Africa and Latin America with deal values exceeding $380 billion in 2019[7]. Thus, South-South cooperation is steadily overshadowing North-South flows that long dominated FDI ties.

Shifts in Sectoral Patterns

Rise of Intangibles and Digital FDI

In addition to locational shifts, the sectoral profile of foreign investments today markedly varies from natural resource and manufacturing dominance in the 20th century. A major portion of contemporary FDI represents intangible, knowledge-based assets including patents, licenses, brands, trademarks, industrial processes, R&D findings and proprietary organizational models. As per

[7] UNCTAD (2020). South-South Cooperation at the Time of COVID-19: Building Solidarity Among Developing Countries. Policy Brief No. 85. United Nations Publication.

UNCTAD's estimates, such intangibles constitute over one-third of global FDI stock, equivalent to $15 trillion by 2020.

Technology firms lead this form of FDI from advanced economies establishing engineering support hubs, design centers and R&D outfits across Asia and Eastern Europe. Developing countries gain via skills upgrade, innovation spillovers and by utilizing foreign intellectual property to elevate exports [33]. Overall, this structurally transforms FDI from physical to intangible asset transfers keeping with the evolution towards a digital economy.

Surge in Sustainable FDI

Another structural shift is the zooming significance of "sustainable" or "green" FDI aligning business operations with ecological conservation, social welfare and ethical corporate governance. As per industry estimates, investments guided by environmental, social and governance (ESG) criteria have exceeded 35% of total FDI flows over 2017-2020. Sectors attracting the most responsible investments are renewable energy, eco-friendly buildings, microfinance, livelihood financing and vocational training in line with Sustainable Development Goals.

Developing countries gain immensely as recipients of such FDI in industries like solar equipment manufacturing, eco-tourism, green construction, organic food and sustainability-focused financial services. Leading sources of sustainable funds are asset management groups and developmental finance bodies in Europe and Canada like Green Investment Group, Caisse de dépôt et placement du Québec (CDPQ), Deutsche Bank, Unilever and the World Bank[8].

Policy Changes to Boost FDI Attractiveness

Liberalization Push

Developing countries have also proactively liberalized foreign investment regulations since the 1990s to capture more FDI, technology and export gains. Earlier policies included stringent caps on overseas ownership shares, exclusion of foreigners from sectors categorized as strategic or sensitive and ambiguous bureaucratic procedures. Post liberalization, industrial policy generally avoids prescriptive performance targets for investors such as exports, local content and technology transfer which earlier breeding inefficiency.

[8] Sahoo, P. (2020). Foreign direct investment in South Asia: Policy, trends, impact and determinants. Transnational Corporations Review, 12(1), 23-35.

Salient measures adopted are relaxation of FDI ownership limits with 100% allowed in most sectors barring a small negative list, national treatment to foreign firms through equal incentives and simplifying approval processes. Customized inducements like tax holidays, capital subsidies and duty exemptions are offered to multinationals in preferred areas like export manufacturing and islands through special economic zones (SEZs). Such structural reforms have slashed restrictive FDI policies among developing countries from 55% in 1992 to just 15% by 2020[9].

Regional Cooperation

Additionally, developing countries crafted regional trading blocs like ASEAN, SAFTA (South Asia) and Mercosur (South America) towards unified markets to attract efficiency-seeking FDI in the 1990s. Integrated investment norms, policy coordination and tariff-free commerce enable members to gain as a bloc from deals in automobile, electronics and other supply chains. US and EU deepening also boosted intra-regional FDI for accessing their vast consumer markets and advanced technologies.

Overall, both autonomous policy liberalization and collective platforms resulted in developing country FDI stock soaring from 12% of the world total in 1990 to over 35% by 2020 affirming enhanced global competitiveness[10]. Further efficiency gains are expected as South-South cooperation accelerates across the Global South.

Evidence from UNCTAD's Analyses

Global Overview

UNCTAD's annual World Investment Reports offer extensive evidence validating the FDI trends elaborated above. Some key insights over 1990-2020 are[11]:

Global FDI flows surged from $207 billion in 1990 to $1.4 trillion in 2019 prior to the pandemic induced plunge showing expanding integration of countries through cross-border investments.

[9] OECD (2003). Checklist for Foreign Direct Investment Incentive Policies. Organisation for Economic Cooperation and Development.
[10] UNCTAD (2021). World Investment Report 2021: Investing in Sustainable Recovery. United Nations Publication.
[11] UNCTAD (2020). International Production Beyond the Pandemic. World Investment Report 2020. United Nations Publication.

Developing economies considerably expanded both inward and outward investment activity accounting for 54% of world inflows and over 35% of outflows by 2020[12].

FDI stock jumped five times from $2 trillion in 1990 to over $10 trillion by 2020 reflecting rising penetration of foreign firms across host economies.

Services now dominate FDI patterns receiving over 60% of flows aligned to growth in emerging market consumer demand and spending.

Regional Evidence

At the regional level, UNCTAD documents validate the marked increase in FDI into developing countries:

Developing Asia's share of global inflows zoomed from 11% in 2000 to 30% by 2020 with China and India together receiving one-fourth of world FDI.

Transition economies expanded their FDI portion from 5% to 10% over 2000-2020 reflecting rising integration of Eastern Europe and former Soviet countries.

West Asia's share doubled from 3% in 2000 to 7% in 2020 as hydrocarbon exporting GCC members like Saudi Arabia, UAE and Qatar sought to diversify their resource-based economies by inviting foreign capital and expertise.

Thus, both UNCTAD statistics and incisive analysis in World Investment Reports strongly validate this article's discussion of trends in global FDI patterns.

[12] Sauvant, K. P. (2009). Driving and countervailing forces: a rebalancing of national FDI policies. Yearbook on international investment law and policy, 2008/2009, 215-236.

Conclusion

In conclusion, global integration through cross-border investments has magnified extensively since the 1990s as encapsulated in surging FDI flows and stocks. Developing countries mainly in emerging Asia have been prime beneficiaries receiving over half of world inflows by 2020. Rapid growth, expanding consumer markets and policy reforms heightened their appeal. Further efficiency gains are expected as South-South cooperation gathers momentum.

Sectorally too, FDI patterns now significantly vary from traditional extractive and manufacturing projects towards intangible assets and services. Currently, overseas ventures transferring advanced digital technologies and intellectual property contribute over one-third of global FDI flows. Sustainability focused investments in areas like renewable energy, responsible financing and social entrepreneurship are also rising guided by ecological and ethical priorities. Thus, contemporary FDI represents far more diverse asset types and complex location drivers than just cost factors.

As the world grows more interdependent through investment and trade networks, developing nations have abundant opportunities to profit through FDI for upgrading production capabilities, expanding exports and providing employment. With apt strategies involving specialization in competitive industries, technological readiness and responsible governance, FDI can play a pivotal role in their ascent towards prosperous emerging economy status. However, risks of overly relying on volatile foreign capital also call for balancing policies to grow domestic investment sources. Thus, by carefully leveraging FDI’s positives while mitigating potential downsides, developing countries would progress faster towards inclusive and sustainable growth models.

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