



Foreign Direct Investment: An Orientation

Foreign direct investment (FDI) is an increasingly significant aspect of globalization, especially with the flurry of recent financial market crises that make **portfolio flows** look very unpredictable and destabilizing. In the late 1990s, sales of **foreign affiliates** were almost twice as high as global exports, and their production totaled about one-tenth of global GDP.

Comparing inward and outward FDI stocks by level of development and region gives a more specific sense of where FDI is going and where it is coming from. A country's stock of FDI in a particular year is the sum total of all the FDI it has received up to that year, so it gives a good sense of the overall importance of FDI independent of short-term

changes from one year to the next (the annual amount of FDI is called a "flow").

The first thing one notices when looking at FDI is that it is very concentrated in particular countries and regions. First, it is concentrated among developed countries, both inward and outward stocks, meaning that most FDI comes from developed countries and goes to developed countries. But the amount received by developing countries has increased, particularly in the last decade. Among developing regions, Asia is the largest recipient, with most FDI going to South, East and Southeast Asia (17.2 percent of the world's inward stock of FDI). Latin America and the Caribbean are next on the list for developing countries, where Brazil, Argentina and Mexico attract the lion's share of FDI.

Concentration can also be measured in terms of FDI flows: in 1999, only ten countries received 74 percent of FDI inflows (in order: U.S., U.K., Sweden, China (not including Hong Kong, which is number 11 on the list), France, Netherlands, Brazil, Germany, Canada, and Argentina). In looking at these numbers, one should keep in mind that it is difficult to get information on relationships of **subcontracting**, which have become a more prevalent form of interna-

**Regional Distribution of Inward and Outward FDI Stock,
1985 and 1999 (percentage)**

Region/Country	Inward FDI Stock		Outward FDI Stock	
	1985	1999	1985	1999
Developed Countries	72.3	67.7	95.7	89.9
Developing Countries	27.7	30.1	4.3	9.8
Africa	3.1	1.9	0.9	0.4
Latin America and the Caribbean	10.1	10.2	1.1	2.2
Developing Europe	0.1	0.2	-	-
Asia	14.3	17.7	2.3	7.3
The Pacific	0.2	0.1	-	-
Central and Eastern Europe	-	2.2	-	0.3

Source: *World Investment Report 2000*, Tables B.3 and B.4

Mergers and Acquisitions

Over the past ten years, most of the growth in international production has been through [cross-border mergers and acquisitions](#) (M&As) of companies that already exist, rather than through what is called “greenfield investment,” where firms from one country set up new facilities in another. Although not all M&As can be counted as FDI due to accounting rules, the two measures significantly overlap. The ratio of the value of cross-border M&As to world FDI flows was 80 percent in 1999, but M&As were mostly dominant in foreign investment flowing to developed countries (90 percent of all cross-border M&As (by value) in 1999 happened in developed countries). In developing countries, the value of M&As to total FDI inflows was about one-third at the end of the 1990s, and most of it was due to privatization of previously public-owned companies, particularly in Latin America and the Caribbean.

There is reason to be particularly concerned about the dominance of mergers and acquisitions in foreign investment from a development perspective. The biggest criticism is that M&As do not add to productive capacity or employment like greenfield investment does, and in fact often result in layoffs as a result of streamlining and consolidation. Foreign firms can also dominate local markets, reducing competition and constraining local capacity-building.

tional production in recent years and is not reflected in FDI statistics.

What about employment? There has been a clear upward trend in employment by [foreign affiliates](#), especially for developing countries, where it has increased from 7 million employees in 1985 to 19 million in 1998. But compared to overall employment, the numbers are still small. In developing countries, MNCs account for one to two percent of overall employment. In the United States, 3.9% of workers were employees of foreign affiliates in 1996.

Since most FDI happens among developed economies, and it does not employ large numbers of people when considered relative to the rest of the economy, it seems counterintuitive to think that the

movement of multinational corporations, which FDI measures, should have a very big effect on wages and working conditions in both developed and developing countries. But

the numbers mask the important issues of [threat effects](#), where even the ability that firms have to move production elsewhere enhances their power over workers.

Source:
UNCTAD. 1999, 2000. *World Investment Report*. New York: United Nations.

Estimated Employment in MNCs
(millions of employees)

Year	Total employment in MNC*	Employment in affiliates in developed countries	Employment in affiliates in developing countries
1985	65	15	7
1995	78	15	15
1998	86	17	19

Source: *World Investment Report 1999*, Table IX.2, p. 265.

* Includes all parent firms and their foreign affiliates.

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