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Global FDI: Issues and Challenges

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Editorial Note

Foreign Direct Investment (FDI) is a double edge weapon as it cuts both ways. On the one hand it does contribute and promote development of an economy and on the other side it may generate flight of capital or replacing local capital which in turn affects the development of a host country.

Emerging Trends in Global FDI

Global foreign direct investment (FDI) inflows have recorded an increase of 11% in 2013, to an estimated US$1.46 trillion. This is a level comparable to the pre-crisis average– reaching the upper range of UNCTAD's forecast. FDI flows to developed countries remained at a historically low share of global total FDI flows 39 per cent for the second consecutive year. They registered a rise of 12 per cent to US $ 576 billion, but only to 44% of their highest value in 2007. FDI to the European Union (EU) increased, while flows to the United States continued their decline.

FDI flows to developing economies reached a new height of US$759 billion, accounting for 52 per cent of total world FDI inflows in 2013. At the regional level, flows to Latin America and the Caribbean, and Africa were up; developing Asia, with its flows at a level similar to 2012, remained the largest host region in the globe.

FDI has been accepted as a lesser evil, and become the most vital and strong vehicle for accelerating growth and development of the world economy in general and developing economies of the world in particular. The most appropriate example is the emergence of China and India. China has come out as the biggest recipient of FDI in the world replaced USA. India has also come up as a favoured destination for FDI in the world. FDI has been contributed significant in the emergence of China as the second largest economy of the world and has also replaced Japan. The most significant contribution has been the becoming of manufacturing hub. Chinese economy has attracted as much as US $ 127 billion FDI flows in 2013 and has emerged out as the second largest recipient country in the world.

Transition Economies

FDI inflows to transition economies have also touched a new height amounting to US $ 126 billion. The increase has been 45 per cent on the previous year, constituting 9% of global FDI inflows.

Regional pattern

Among major regional and inter-regional groupings, APEC and BRICS almost doubled their share of global FDI inflows from the pre-crisis level. APEC now forms more than half of global FDI flows, which is at par with the G20. On the other hand, BRICS countries jumped to over one fifth. In case of ASEAN and MERCOSUR, the level of FDI inflows doubled compared to the pre-crisis level. Regional and inter-regional groups to which developed economies are members (e.g. G20, NAFTA) are all experiencing a slower recovery.

Least developing countries (LDCs)

Some least developing economies has failed in attracting FDI inflows due to major political and macroeconomic instability, low growth, weak infrastructure, poor governance, inhospitable regulatory environment and ill-conceived investment promotion strategies adopted by these countries. The major factors which need immediate action and strategy are as follows:

- Promotion of trade and investment relations among the countries;
- Availability of incentives from the host countries to foreign investors;
- Intensified completion for FDI in developing economies;
- Regional pattern of FDI; and
- Emerging issues and challenges in 21st century.

FDI inflows to India

India has also trying hard to attract more FDI inflows in order to speed up the process of growth and development of its economy. The most strategic example is allowing FDI in defence and Railways.

In India, FDI inflows are on the uptick. FDI inflows during the April-August 2014 has registered a rise of 41 per cent and touched a level of US $ 12.2 billion. The largest FDI inflows come to telecommunications with an amount of US $ 2.33 followed by services amounting US $ 1.08 billion and the lowest is in case of computers software just 0.37 billion

The above increase in FDI inflow to India economy has been possible because of allowing 49 per cent in defence sector; 100 per cent through automatic route in railway infrastructure; delicensing of several defence items to promote manufacturing; and relaxing norms for FDI inflows in construction sector.

What Should be Done?

It is evident that FDI inflows are playing an important as well as increasing role and contribution in the process of growth and development f world economy in general and

Developed; developing and least developing countries. What is required to evolve cautious and careful strategies so that these flows could play a constructive and positive role in the acceleration of growth and development in developing economies in general and least developing countries in particular?