

United Nations Conference on Trade and Development

World Investment Report

**2004 The Shift Towards
Services**



**United Nations
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PREFACE

After three years of decline in global investment flows, there are signs of revival. With global economic growth improving in 2004, prospects for global investment look bright. This is particularly the case in services, which make up the largest economic sector in many countries, and which dominate foreign direct investment. The *World Investment Report 2004* looks at the shift towards services and examines the challenges and opportunities that arise for development.

In the knowledge-based economy, services are critical to the competitiveness of firms in all sectors. Foreign direct investment is a key source of financing for telecommunications, energy and financial services, as well as for other important industries. New information and communication technologies make it possible to trade in services, making their production increasingly subject to the international division of labour. The offshoring that results can lead to new opportunities for developing countries to become better integrated into global markets. The importance of services is therefore increasingly reflected in the policy agenda – ranging from liberalization to promotional efforts to regulation at national and international levels.

Foreign direct investment in services can offer important benefits. It can provide the capital, skills and technology required to make services more efficient, and thus improve the competitiveness of host countries. But there are risks, too – and these must be addressed through appropriate policies. Since many services are embedded in the social, cultural and political fabric of societies, the right balance must be struck between economic efficiency and broader developmental objectives. The overriding challenge is to create an environment that will help countries strike such a balance, so that the benefits of the new international division of labour in services can be reaped by all.



Kofi A. Annan
Secretary-General of the United Nations

New York, July 2004

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TABLE OF CONTENTS

	Page
PREFACE	iii
ACKNOWLEDGEMENTS.....	iv
ABBREVIATIONS	xv
OVERVIEW	xvii

PART ONE FDI SET TO RECOVER

CHAPTER I. GLOBAL FDI GROWTH SET TO RESUME 3

A. FDI inflows down again - but recovery is on its way	3
1. An uneven picture.....	3
2. International production continues to grow	8
3. Many countries have not realized their potential	12
a. Indices of Inward FDI Performance and Potential	12
b. The Outward FDI Performance Index	16
B. Outward FDI from developing countries is becoming important	19
C. Changing sectoral distribution	29
D. Prospects: growth set to resume.....	31
Annex to chapter I. How transnational are TNCs?.....	37

CHAPTER II. REGIONAL FDI TRENDS: A MIXED PICTURE 39

A. Developing countries	39
1. Africa: a turnaround.....	39
a. Inflows regain momentum	40
b. Policies increasingly liberal	42
c. Natural resources and services dominate	45
d. Prospects are positive	46
2. Asia and the Pacific: a rebound	49
a. A mild upturn	49
b. Policies improved further	52
c. Services FDI on the rise	52
d. Promising prospects	56
3. Latin America and the Caribbean: another disappointing year	58
a. A continuous decline	58
b. Policy developments: continued liberalization	64
c. Sectoral patterns	64
d. Better prospects ahead	67
B. Central and Eastern Europe: awaiting the boom	69
1. Inward FDI sharply down, outward FDI sharply up	70
a. Inward FDI: new EU members performed less well than other CEE countries	70
b. FDI outflows: robust increase	72
2. Implications of EU membership for national policy	75
3. A shift towards services brings about structural change.....	78
4. Prospects: again sunny	79

Page

C. Developed countries: the decline continues, but prospects are good	80
1. Uneven trends	80
2. Policy responses	85
3. Services dominate	88
4. Prospects: FDI will pick up again, but not everywhere	89

PART TWO

THE SHIFT TOWARDS SERVICES

INTRODUCTION	95
---------------------------	-----------

CHAPTER III. THE GROWTH OF FDI IN SERVICES AND ITS IMPLICATIONS	97
--	-----------

A. Changing patterns of FDI in services	97
1. The growth of services FDI and its changing mix	97
2. Changing distribution among home and host countries	99
a. Outward FDI	99
b. Inward FDI	101
3. Transnationalization is lower in the services sector and differs by industry and country ..	101
4. Non-equity forms of investment are common in services	104
B. Players and driving forces	105
1. Goods TNCs invest in services	107
2. Service TNCs are expanding rapidly	107
a. The players	107
b. M&As take the lead in entry patterns	111
c. Catching up with manufacturing TNCs?	114
3. Drivers and determinants	115
4. Most services FDI is still market-seeking – but this is changing	118
C. Impact on host countries	123
1. Financial resources and balance of payments	126
2. Services provision, competition and crowding out	128
3. Technology, knowledge and skills	132
4. Export competitiveness	135
5. Employment	137
6. An assessment	137

Annex to chapter III. What are services? Classifying invisibles	145
--	------------

CHAPTER IV. THE OFFSHORING OF CORPORATE SERVICE FUNCTIONS: THE NEXT GLOBAL SHIFT?	147
--	------------

A. The tradability revolution	148
1. The tradability of services	148
2. Limitations to offshoring	149
3. Is the globalization of IT-enabled services different from that of manufacturing?	152
B. Future prospects for the offshoring of services	153
C. Outsourcing vs. captive business models	156
1. What determines how offshoring is undertaken?	156
2. A new breed of TNCs provides services globally	157
D. Search for competitiveness drives corporate offshoring	159
1. FDI related to the offshoring of services is still concentrated	159

	Page
2. Cost reduction and improved quality are key drivers	164
3. European TNCs offshore less than their United States rivals.....	168
E. Impact on host countries.....	169
1. India	169
2. Other Asian locations	174
3. Latin America and the Caribbean	174
4. Africa	174
5. Central and Eastern Europe.....	175
F. Implications for home countries.....	176

PART THREE

NATIONAL AND INTERNATIONAL POLICY CHALLENGES

INTRODUCTION.....	183
--------------------------	------------

CHAPTER V. NATIONAL POLICIES.....	185
--	------------

A. Host-country policies on services are key to development gains.....	185
1. Countries are opening up to FDI in services	185
2. Benefits from FDI in infrastructure-related services: the case of privatization	187
3. Promotion of FDI in services	194
a. Investment promotion agencies increasingly target services	194
b. The role of incentives	196
c. EPZs in developing countries see potential in services	201
d. Infrastructure and skills development	203
e. Regulatory issues related to data protection and intellectual property	207
4. Benefiting more from services FDI: upgrading and linkages	207
B. Home countries: the challenge of adapting	208
1. The reaction to offshoring in the United States	209
2. The European response	210
a. The United Kingdom	210
b. Other European responses	211
3. Reactions in other developed countries	212
4. Meeting the challenge of adapting	212
C. Conclusions.....	212

CHAPTER VI. NATIONAL AND INTERNATIONAL POLICIES: A COMPLEX AND DYNAMIC INTERACTION	221
---	------------

A. The growing multifaceted network of services IIAs	221
1. The evolving nature of approaches covering FDI in services	221
2. Salient features	225
B. Complexities and challenges	231
C. National and international policies: a complex and dynamic interaction.....	233
D. Conclusion: striking a development-oriented balance	235
REFERENCES	243
SELECTED UNCTAD PUBLICATIONS ON TNCs AND FDI	423
QUESTIONNAIRE	437

Boxes

I.1.	Developments in the world's 100 largest TNCs in 2002	11
I.2.	South-South FDI flows rose in the 1990s	20
I.3.	The top 50 TNCs from developing economies	21
I.4.	FDI flows from Hong Kong (China)	26
I.5.	FDI prospects: reports paint a rosy picture	34
I.6.	Global Investment Prospects Assessment by UNCTAD	35
II.1.	Africa: examples of FDI-related policy changes in selected countries, 2003-2004	43
II.2.	Algeria: policy reforms may keep FDI high	43
II.3.	Mauritania: better opportunities set to boost FDI	44
II.4.	Private mobile operators in Africa	46
II.5.	The Libyan Arab Jamahiriya: the end of sanctions and the resumption of FDI	48
II.6.	Asia and the Pacific: examples of efforts to improve the investment climate, 2003-2004	53
II.7.	Cambodia and Nepal: investment guides highlight opportunities	53
II.8.	The Closer Economic Partnership Arrangement between China and Hong Kong (China)	54
II.9.	Liberalization of services in the ASEAN subregion: implications for FDI flows	55
II.10.	Liberalization of services in China: implications for FDI flows	56
II.11.	Promising FDI prospects for Turkey	57
II.12.	Is the FDI relocation from Mexico's <i>maquila</i> industries ending?	61
II.13.	Why privatization is losing popularity in LAC	63
II.14.	Two major players in the telecom industry	66
II.15.	Privatization in the electric power market: the case of Endesa	67
II.16.	Slovakia: a new hub for European automobile production	70
II.17.	EU enlargement has not led to large-scale FDI diversion	72
II.18.	The 25 largest TNCs of CEE	73
II.19.	Norilsk Nickel: the fourth largest Russian TNC	74
II.20.	BITs between the United States and the new EU member States and candidate countries	76
II.21.	Can Japan double its inward FDI stock by the end of 2006?	82
II.22.	France adopts new measures to attract FDI and skills	87
II.23.	Free Trade Area of the Americas	88
III.1.	International delivery modes in goods and services	98
III.2.	Transnational hotels: non-equity participation on the rise	106
III.3.	Airlines: little FDI, many alliances	108
III.4.	Accountants network led by the Big Four	110
III.5.	Legal partners	112
III.6.	Tax havens – no longer tax heavens?	115
III.7.	Telecoms: the emergence of a global industry	117
III.8.	An electrifying rise	119
III.9.	Water services: falling in developing countries and rising in developed ones?	121
III.10.	Postal services go transnational	125
III.11.	Insuring and reinsuring the world	129
III.12.	Consumer goods anyone? The rise and spread of retail TNCs	131
III.13.	FDI by <i>sogo sosha</i> : shifting from manufacturing to services	133
III.14.	The world's bankers	136

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