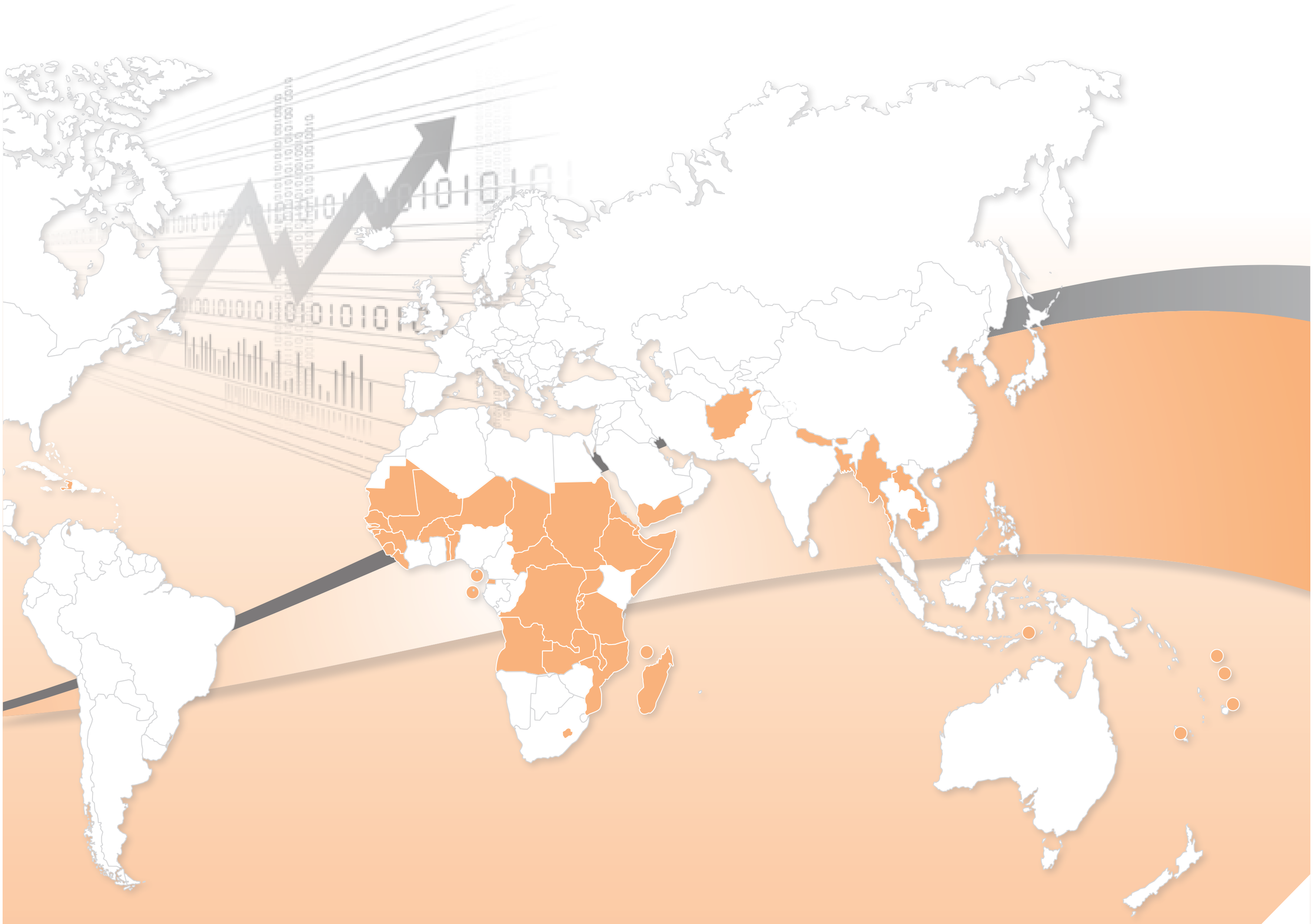
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001–2010 and the Way Forward



PLUS Investment Profiles

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NOTE

As the focal point in the United Nations system for investment and enterprise development, and building on over 30 years of experience in these areas, UNCTAD, through its Division on Investment and Enterprise (DIAE), promotes understanding of key issues, particularly matters related to foreign direct investment (FDI). DIAE also assists developing countries in attracting and benefiting from FDI, and in building their productive capacities and international competitiveness. The emphasis is on an integrated policy approach to investment, technical capacity-building and enterprise development.

The terms country/economy as used in this investment country profile also refer, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgment about the stage of development reached by a particular country or area in the development process. The major country groupings used in this investment country profile follow the classification of the United Nations Statistical Office. These are:

Developed countries: the member countries of the Organization for Economic Cooperation and Development (OECD) (other than Chile, Mexico, the Republic of Korea and Turkey), plus the new European Union member countries which are not OECD members (Bulgaria, Cyprus, Latvia, Lithuania, Malta and Romania), plus Andorra, Liechtenstein, Monaco and San Marino.

Transition economies: South-East Europe and the Commonwealth of Independent States.
Developing economies: in general all economies not specified above. For statistical purposes, the data for China do not include those for Hong Kong, China; Macao, China; and Taiwan Province of China.

Reference to companies and their activities should not be construed as an endorsement by UNCTAD of those companies or their activities.

The boundaries and names shown and designations used on the maps presented in this publication do not imply official endorsement or acceptance by the United Nations.

The following symbols have been used in the tables:

- Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;
- A dash (–) indicates that the item is equal to zero or its value is negligible;
- A blank in a table indicates that the item is not applicable, unless otherwise indicated;
- A slash (/) between dates representing years, e.g., 1994/95, indicates a financial year;
- Use of an en dash (–) between dates representing years, e.g., 1994–1995, signifies the full period involved, including the beginning and end years;
- Reference to “dollars” ($) means United States dollars, unless otherwise indicated;
- Annual rates of growth or change, unless otherwise stated, refer to annual compound rates;

Details and percentages in tables do not necessarily add to totals because of rounding.

The material contained in this study may be freely quoted with appropriate acknowledgement.

PREFACE

Ten years ago, the world community adopted the Brussels Declaration and the Programme of Action for the Least Developed Countries (LDCs), providing a framework to accelerate economic growth and achieve sustainable development in LDCs. Yet, despite the fact that some of them enjoyed the world's highest and most sustained growth rates and they have development potential in general, more than half of their population still lives in absolute poverty. Their economic hardships are being compounded by the recent economic and financial crisis, increasing food and energy insecurity and climate variability.

UNCTAD has made comprehensive proposals for a new international development architecture for LDCs. The paradigm shift involves a more pro-active approach to developing productive capacities, which will require a better balance between markets and the State, and places production and employment at the heart of efforts to reduce poverty. This productive capacity approach gives greater emphasis to the promotion of investment, both domestic and foreign, while using aid to end, rather than reinforce, aid dependence.

Foreign direct investment (FDI) has played an important role in LDCs in the last decade, as it was a major contributor to the group's capital formation. FDI contributed towards promoting pro-poor growth and sustainable development, and reducing social and income disparities. However, the concentration of FDI in enclaves of export-oriented primary production with limited employment, technological and productivity linkages remains the main challenge in most LDCs.

The present report by UNCTAD, prepared on the eve of the Fourth United Nations Conference on the Least Developed Countries, aims to give readers a broad overview of the FDI trends in LDCs over the past decade, focusing on the challenges LDCs face in attracting and benefitting from FDI for developing their productive capacities and on what can be done to improve the situation in the light of our longstanding work on FDI at UNCTAD. This report provides useful analysis and insights for all stakeholders, and will contribute to designing new measures and strategies for achieving sustainable development in the LDCs.

The report was prepared by Masataka Fujita, Quentin Dupriez and Richard Bolwijn under the direction of James Zhan. Inputs were received from Tserenpuntsag Batbold, Astrit Sulstarova, Elisabeth Tuerk and Lorenzo Tosini. Significant comments were received from Padma Mallampally. Bradley Boicourt and Lizanne Martinez provided statistical assistance. Elisabeth Anodeau-Mareschal and Katia Vieu provided administrative support. It was desktop-published by Teresita Ventura.

Supachai Panitchpakdi
Secretary-General of UNCTAD

Geneva, April 2011

DEFINITION OF LEAST DEVELOPED COUNTRIES

Forty-eight countries are currently designated by the United Nations as "least developed countries" (LDCs). These are: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia. The list of LDCs is reviewed every three years by the Economic and Social Council of the United Nations, in the light of recommendations by the Committee for Development Policy.

The criteria underlying the current list of LDCs are:

(a) A low-income criterion, as measured by the gross national income (GNI) per capita;

(b) A weak human assets criterion, as measured by a composite index (the Human Assets Index) based on indicators of (i) nutrition (per capita calorie intake as a percentage of the relevant requirement); (ii) health (child mortality rate); (iii) school enrolment (secondary school enrolment ratio); and (iv) literacy (adult literacy rate); and

(c) An economic vulnerability criterion, as measured by a composite index (the Economic Vulnerability Index) based on indicators of (i) instability in agricultural production; (ii) instability in exports of goods and services; (iii) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); (iv) economic concentration (UNCTAD's merchandise export concentration index); and (v) economic smallness (population in logarithm).[1]

Different thresholds are used for addition to, and graduation from, the list of LDCs. A country qualifies for addition to the list if it meets inclusion thresholds on all three criteria, and if its population does not exceed 75 million. A country qualifies for graduation from LDC status if it meets graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list.

At the time of the 2009 triennial review of the list of LDCs, the low-income threshold for addition to the list was a GNI per capita of $905, and the threshold for graduation was $1,086.

Source: UNCTAD, *The Least Developed Countries Report 2010* (New York and Geneva: United Nations), United Nations publication, sales no. E.10.II.D.5.

[a] As a supplement to data on the instability of agricultural production, the percentage of population displaced by natural disasters has been added to these five components, thereby creating a modified Economic Vulnerability Index.

ABBREVIATIONS

ABB	Asian Development Bank
AGOA	African Growth and Opportunity Act (United States of America)
BIT	bilateral investment treaty
CREFAA	Convention on the Recognition and Enforcement of Foreign Arbitral Award
CSR	corporate social responsibility
DTT	double taxation treaty
EBA	everything but arms
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GATS	General Agreement on Trade in Services (WTO Agreement)
GCC	Gulf Cooperation Council
GDP	gross domestic product
GFCF	gross fixed capital formation
GMS	Greater Mekong Subregion
ICSID	International Centre for Settlement of Investment Disputes
IIA	international investment agreement
IPA	investment promotion agency
IPR	intellectual property rights
LDC	least developed country
UNLDC–IV	Fourth United Nations Conference on the Least Developed Countries
M&A	merger and acquisition
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
ODA	official development assistance
PPP	public–private partnership
SADC	Southern African Development Community
SME	small and medium-sized enterprise
TNC	transnational corporation
TRIMS	Agreement on Trade-Related Investment Measures (WTO Agreement)
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO Agreement)
ult.	ultimate
UNFCCC	United Nations Framework Convention on Climate Change
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organization

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