VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues by
the Vale Columbia Center on Sustainable International Investment
No. 42 July 18, 2011
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From the FDI Triad to multiple FDI poles?

by
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Twenty years ago, in the inaugural issue of the *World Investment Report*,[1] the United Nations highlighted a shift in the global pattern of foreign direct investment (FDI) from bipolar, dominated by the United States and the European Community, to tri-polar (the FDI Triad), dominated by the European Community, the United States and Japan.

This Triad needs to be revisited, given the rise of FDI from emerging markets (EMs).[2] To qualify as a Triad member, a "pole" has to account for at least 10% of global FDI outward stocks and flows. While an arbitrary cut-off share, it is indicative of a considerable presence in the world FDI market.

Since 1991, the share of the European Community (modified to include all 27 members of the European Union) declined from 85% in 1990 to 74% in 2009 in world outward FDI *stock* and from 85% during 1990-1992 to 74% during 2007-2009 in world outward FDI *flows*.[3] Of the three poles of the original Triad, Japan's share in the global FDI outward *stock* slumped from 10% to 4% between 1990 and 2009, while its share in global *outflows* fell from 16% during 1990-1992 to 5% during 2007-2009. According to the "at-least-10%" cut-off share, Japan no longer qualifies as a Triad pole.

The ascendancy of EMs makes them a candidate for a Triad pole. Their share in the world's outward FDI *stock* rose from 7% in 1990 to 16% in 2009. Moreover, the momentum is on their side: their share of global FDI *outflows* jumped from 8% during 1990-1992 to 25% during 2007-2009.

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[1] UNCTC, *World Investment Report 1991: The Triad in Foreign Direct Investment* (New York: United Nations, 1991).

[2] "Emerging markets" are all economies not classified as "developed countries" by UNCTAD.

[3] All data are from UNCTAD's FDI database.

Admittedly, EMs are a large group of economies at different stages of development. However, only 20 together accounted for 85% of FDI outflows from all EMs during 2005-2009 (excluding tax havens). This smaller group is roughly comparable, at least in number, to the 27 members of the European Union, also a rather diverse group of countries at different levels of development.

The share of the top 20 (all at least middle-income economies) EMs in global FDI *stock* rose from 6% to 13% between 1990 and 2009. Their share in global *outflows* grew from 6% in 1990-1992 to 14% in 2007-2009. With a share of over 10% in both outward flows and stocks, EMs (essentially the top 20) could be seen as having replaced Japan as a pole in a new FDI Triad, alongside the United States and the European Union.

However, EMs as a Triad pole may be a short-lived phenomenon. The BRICs as a group are emerging as strong candidates for a pole. As of 2009, they had not made the cut-off in terms of *stocks*, together accounting for only 4% of global outward FDI stocks; even if Hong Kong, China and Macao, China are included in China's stock, their share would reach only 8%.[4] However, the BRICs may soon reach the 10% cut-off in terms of *flows*: over the period 2008-2010, their share in global FDI outflows jumped to 9%; if Hong Kong, China and Macao, China are included, that share becomes 13%.

Furthermore, regional integration schemes (e.g. ASEAN), or individual EMs (e.g. China) - could become FDI poles. This would signify a fuller transition from the old FDI Triad to a multi-polar FDI world, one in which smaller poles coexist with the dominant members of the former Triad.

What are policy implications of these changes? On a practical level, investment promotion agencies need to target these new poles when attracting FDI. Also, the new players (and established investors) will need to understand that countries no longer look just for *more* FDI, but for *sustainable* FDI – investment contributing as much as possible to economic, environmental and social development in the framework of mechanisms that ensures a fair distribution of the FDI benefits and on the basis of the commercial viability of individual projects.

Most importantly, the rise of FDI from EMs, crystallizing moreover in multiple FDI poles, is likely to influence international rule-making. In particular, the perspectives of industrialized countries and EMs regarding the rights and responsibilities of host countries and multinational enterprises under international investment law are likely to become more similar, now that the most important among these markets have become significant outward investors. Should this occur, the conditions could be ripe for negotiating a multilateral framework for investment.

[4] Double-counting probably still exists as an unknown share of outflows from Hong Kong, China and Macao, China consists of transshipment FDI from China and other countries or involves "round-tripping" investment back to China.

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The Vale Columbia Center on Sustainable International Investment (VCC), led by Dr. Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

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