

FDI in Services: Trends and Policy Issues for Developing Countries

Richard Newfarmer

Special Representative to the WTO and UN

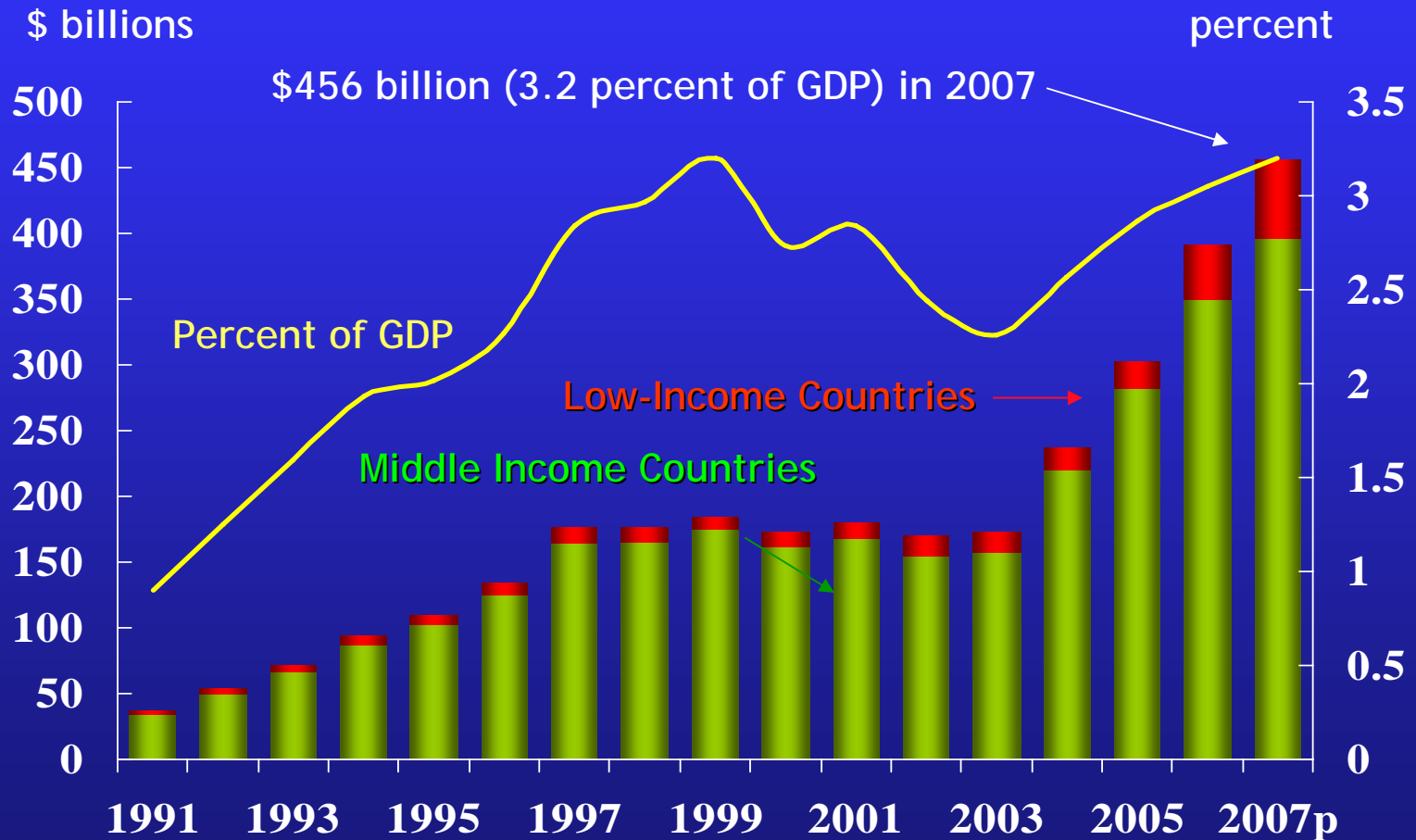
Council for Multilateral Business Diplomacy

February 14, 2008

Main points

- FDI has grown dramatically after a post-1997 hiatus, in large measure because of services, but may slow in the near term
- Openness to FDI in developing countries has generally spurred investment, increased productivity, raised incomes – but results are not automatic...
- Developing countries, once principally recipients, are now increasingly outward investors in services -- and have an interest in multilateral rules governing trade in services

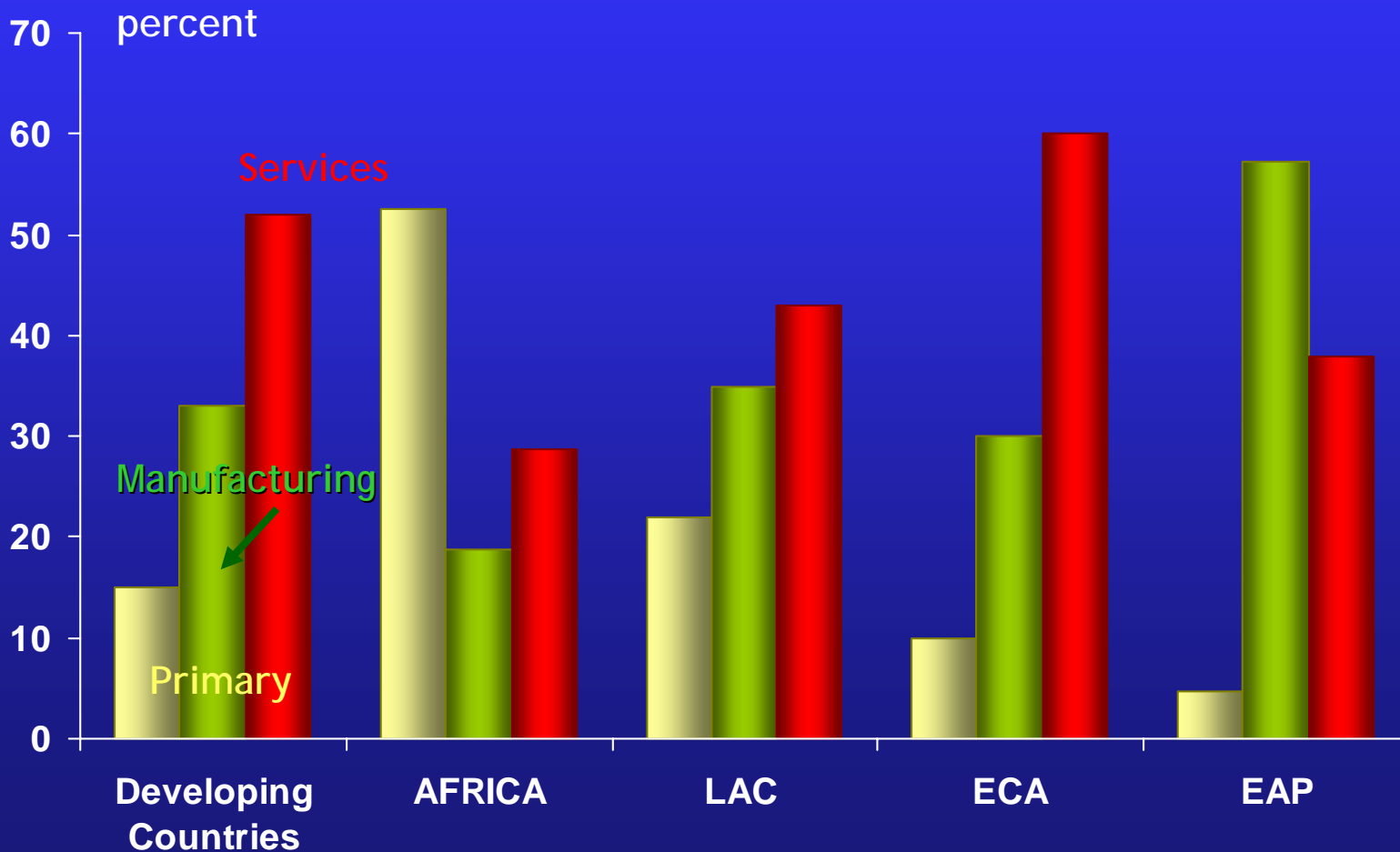
Growth in overall FDI flows has accelerated...



...but FDI may slacken if global economy slows.

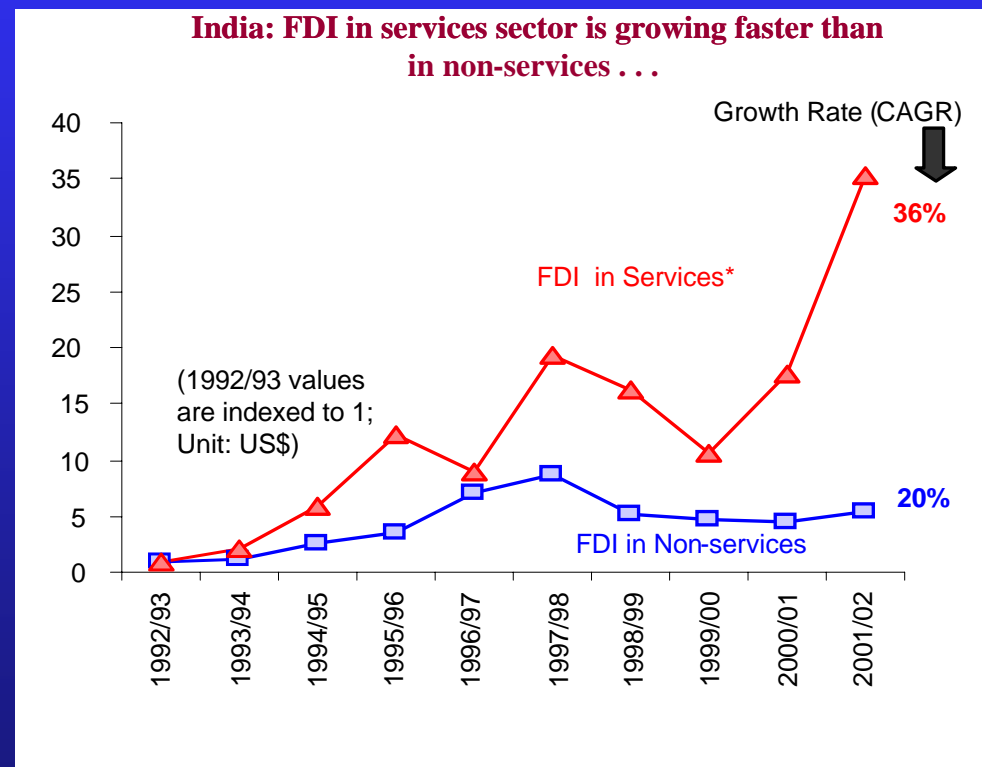
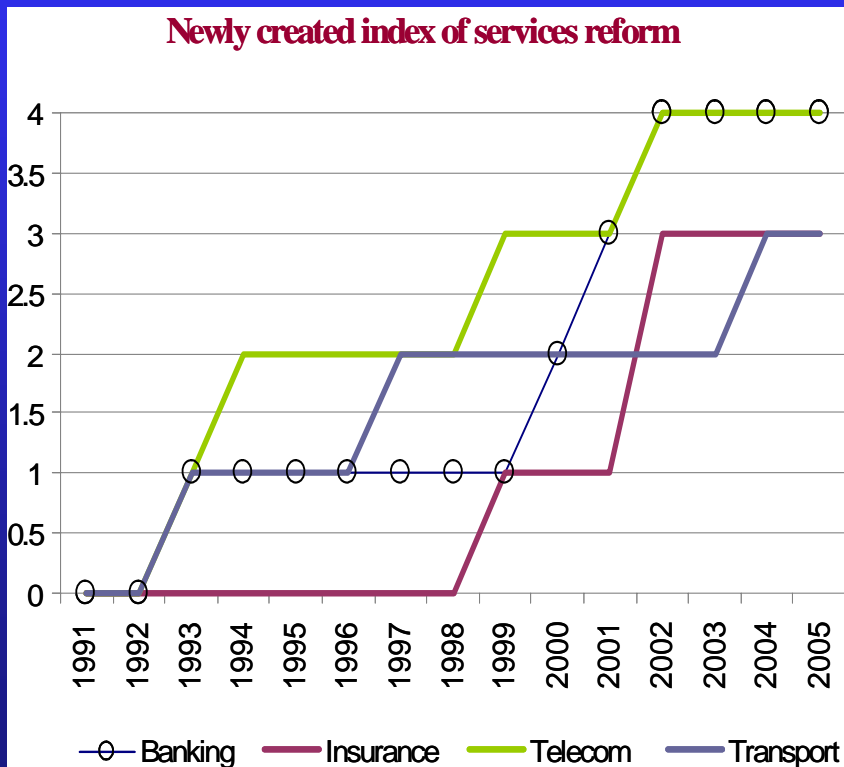
Services have been an important driver of growth...

Share in FDI Stock in 2005



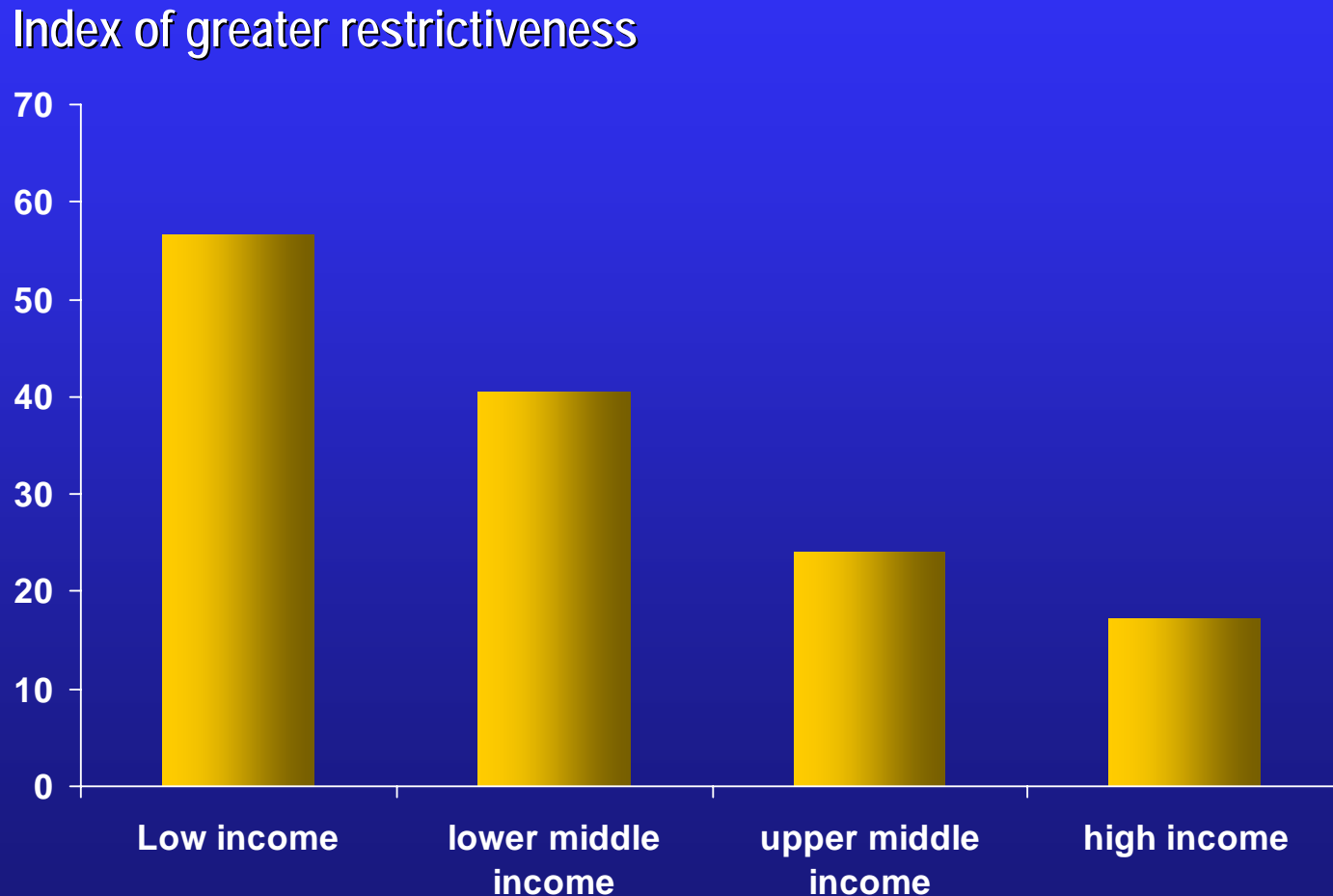
Policy changes towards greater openness have spurred more investment...

One dramatic example: India



...nearly all policy changes have arisen from unilateral initiatives – unassociated with multilateral or regional trade agreements

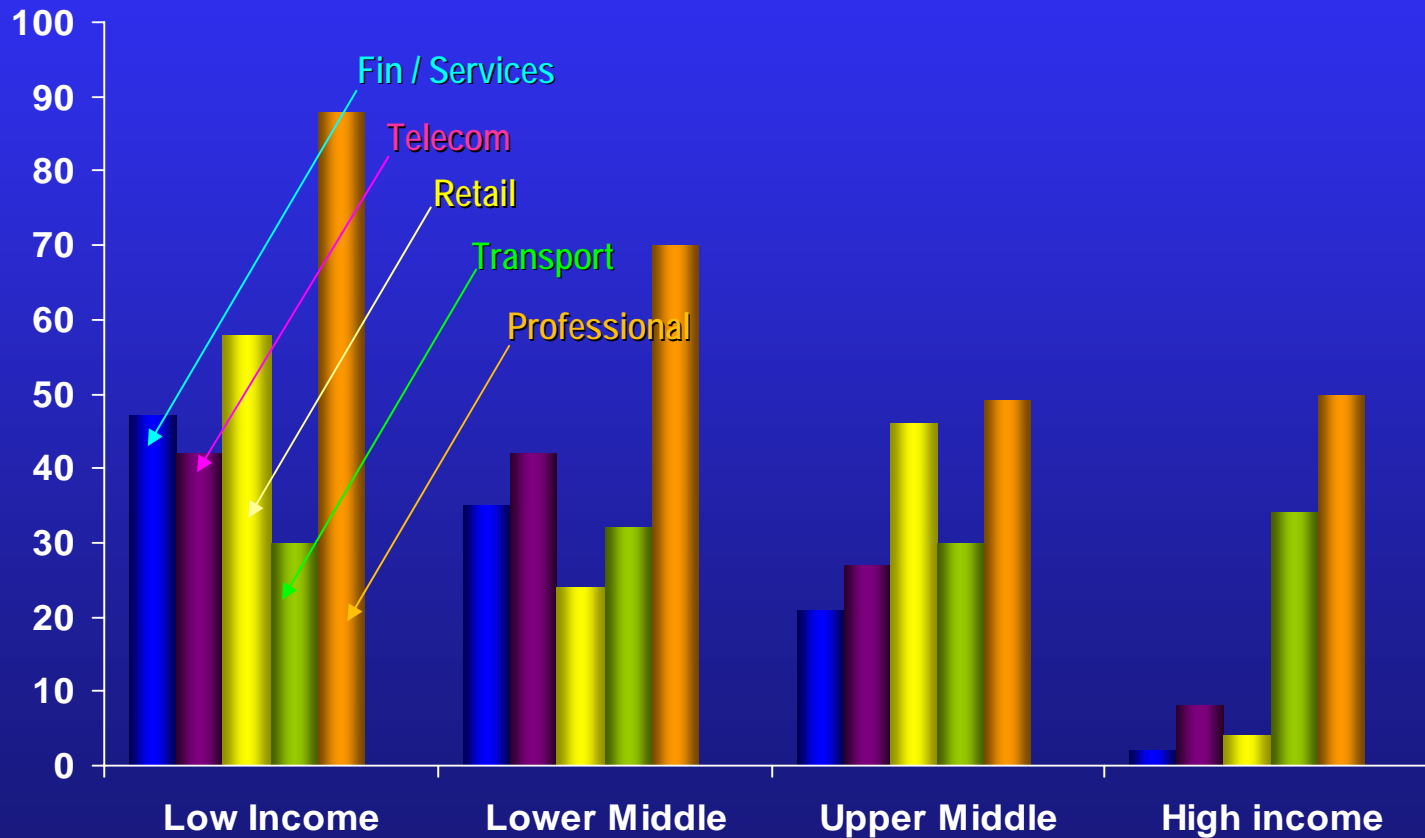
But restriction have eased primarily in middle income countries



Source: World Bank staff estimates in Gootiz and Mattoo, 2008.

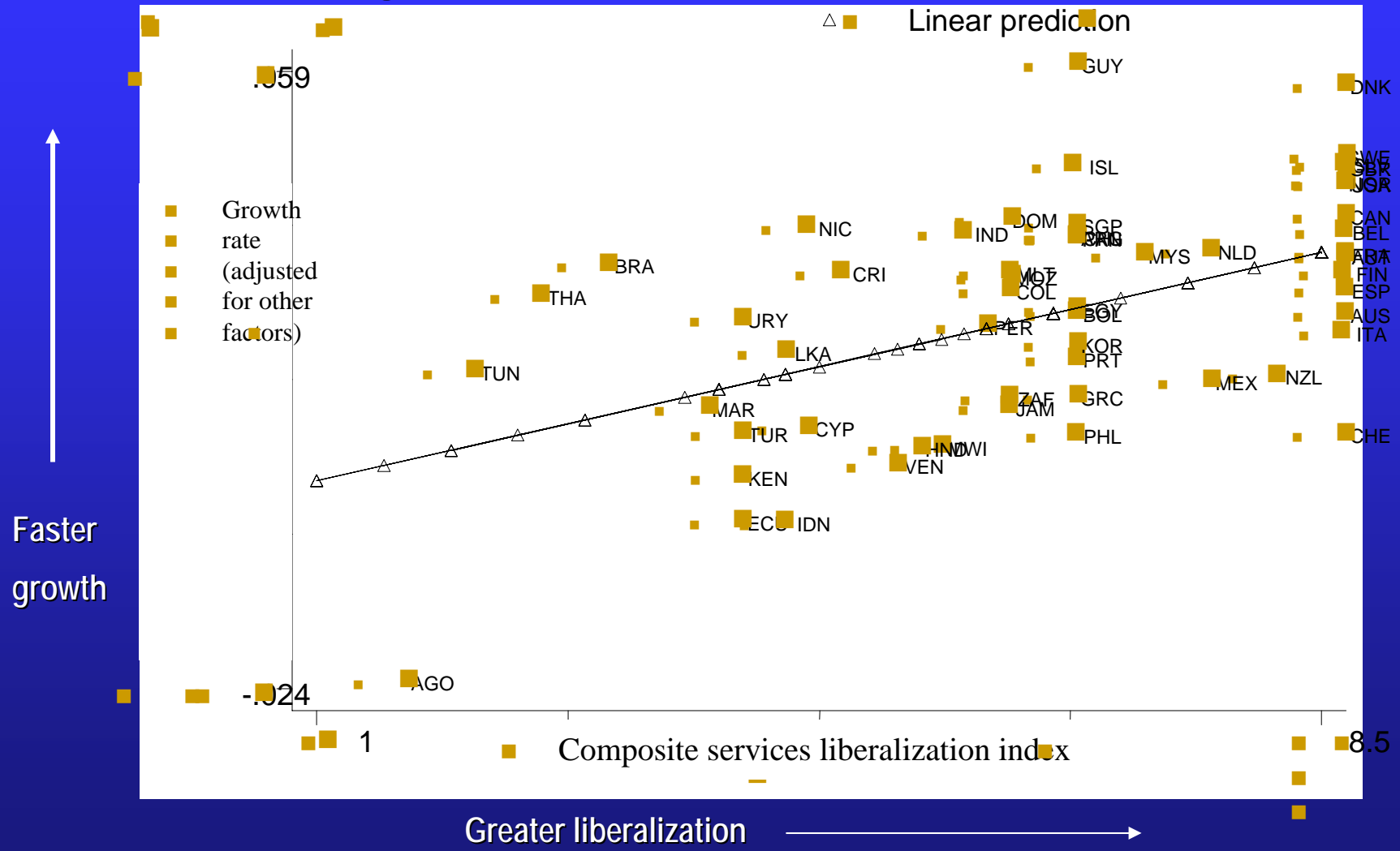
...particularly in finance, telecoms, and retail

Services trade restrictiveness indices by sector



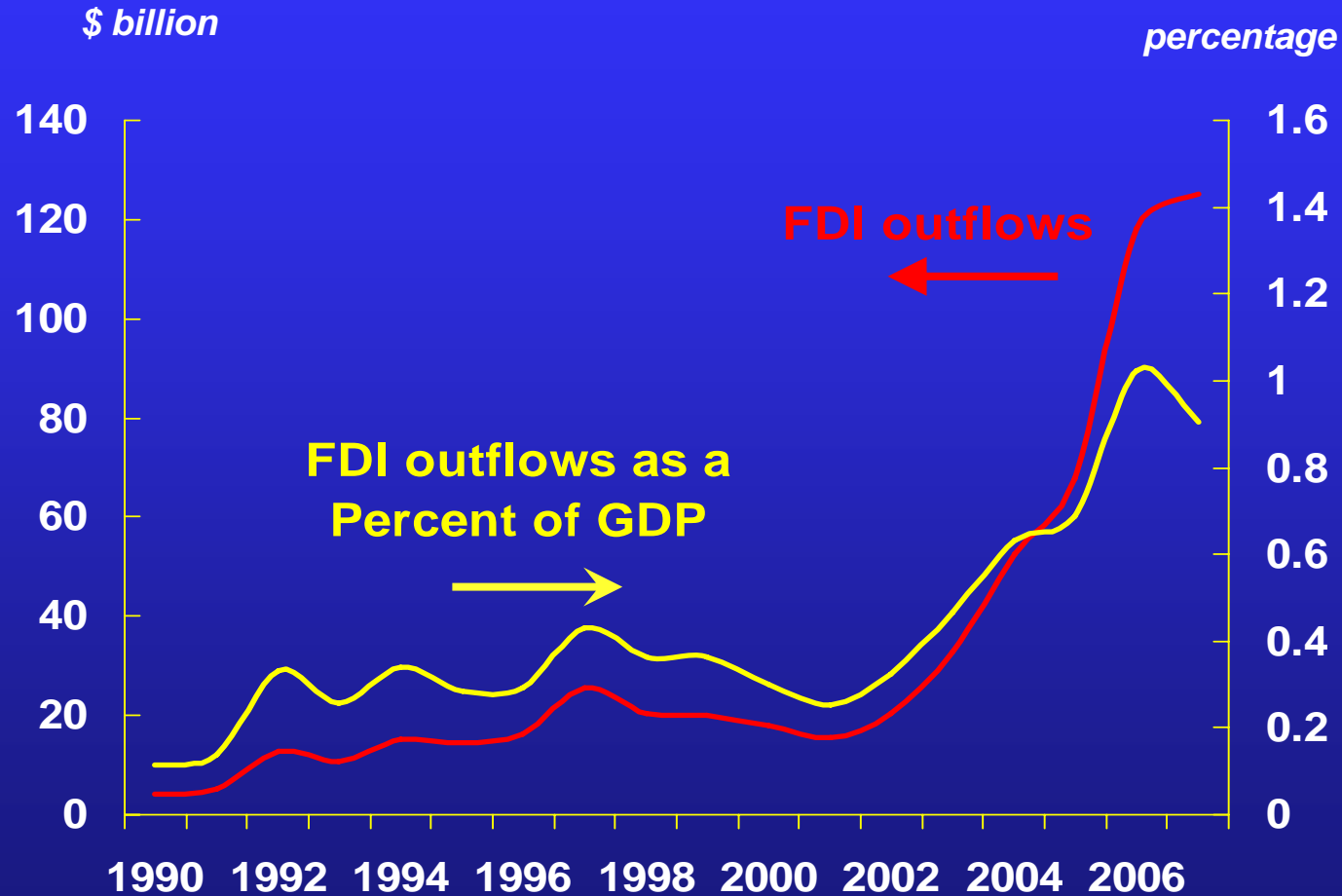
Source: World Bank staff estimates in Gootiz and Mattoo, 2008.

In general, liberalization is associated with more rapid economic growth

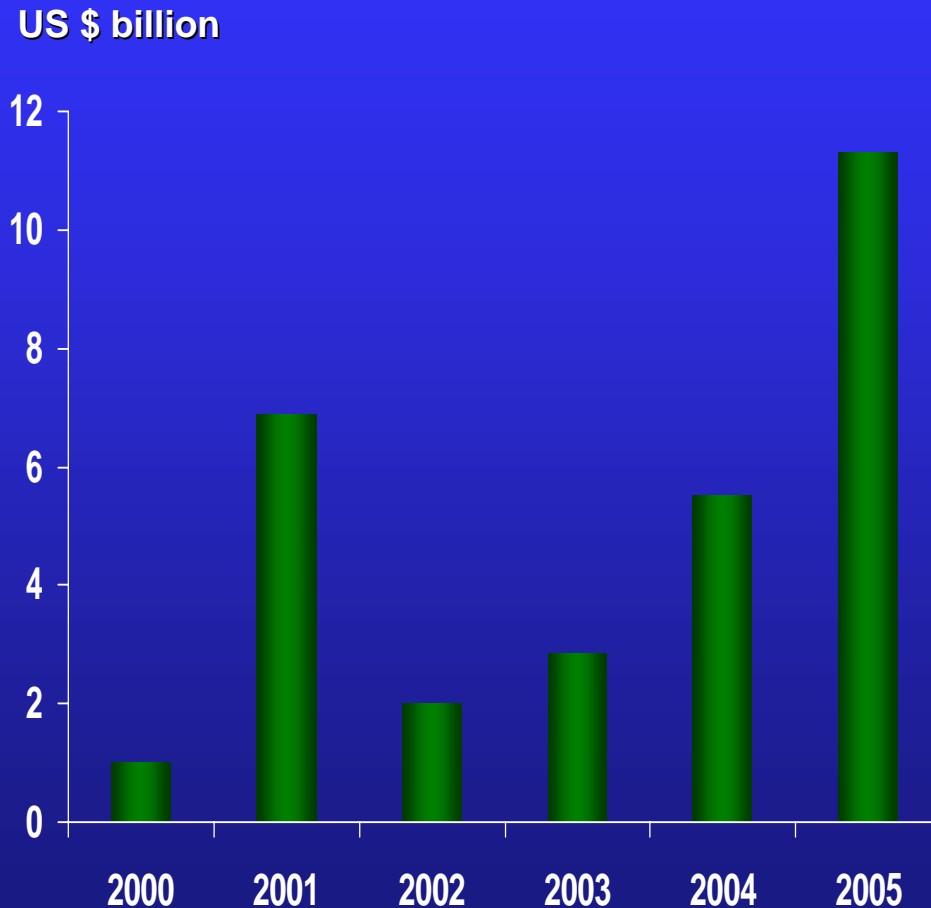


Source: Mattoo, Rathindran and Subramanian (2006)

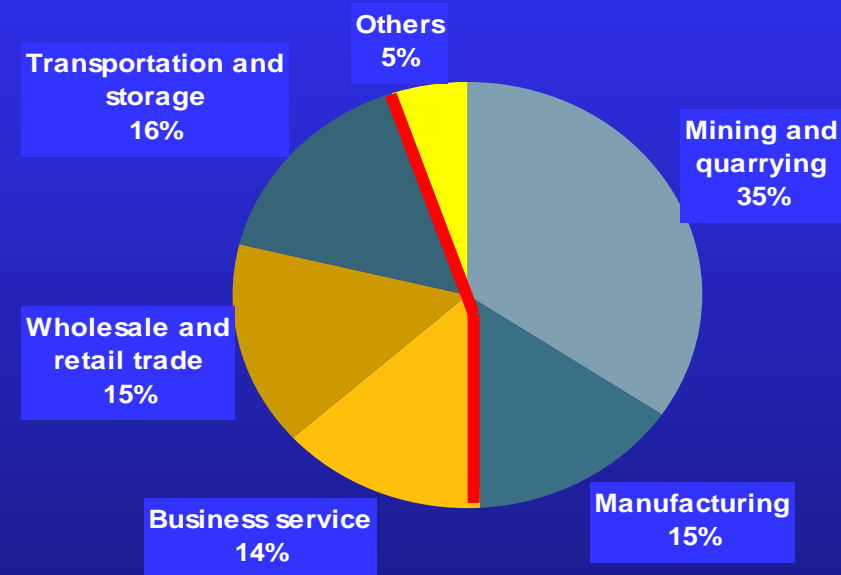
Developing countries themselves have an increasing interest in openness... as they become investors



China is beginning to invest abroad...and in services



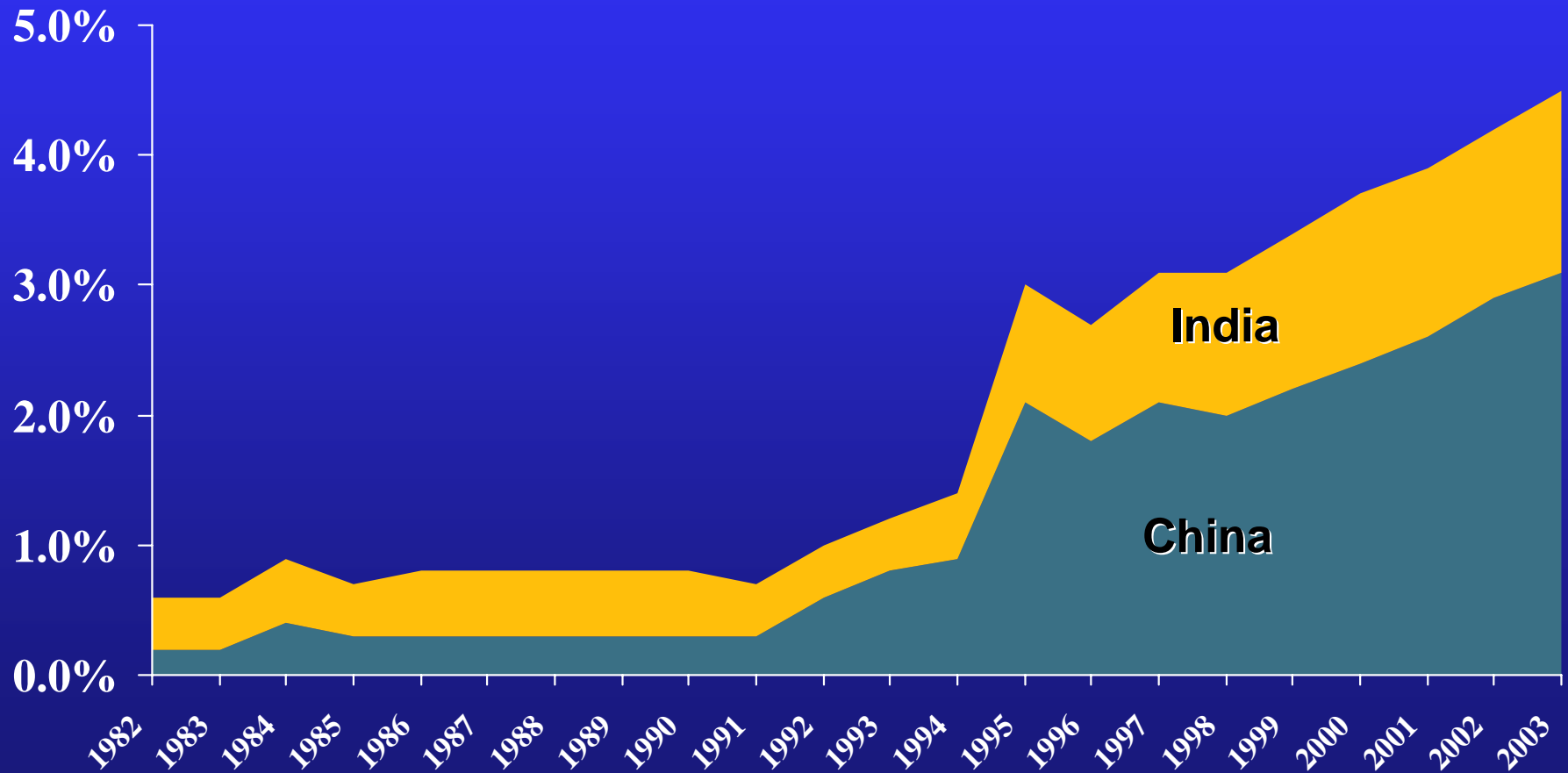
China's outward direct investment flows by industry in 2004 (%)



Source: MOFCOM, China. 2006

China's and India's share of the world services market have grown...

Share of global services market measured through balance of payments



Source: IMF IFS

Conclusions

- Services investment is likely to be central to FDI trends in the future
- But countries have ample scope for further opening and for taking advantage of potential productivity gains associated with liberalization.
- Developing countries, once principally recipients, are now increasingly outward investors in services -- enhancing the returns to MFN liberalization and creating a new set of interests in multilateral rules governing trade in services

FDI in Services: Trends and Policy Issues for Developing Countries

Richard Newfarmer

Special Representative to the WTO and UN

Council for Multilateral Business Diplomacy

February 14, 2008