COLUMN

R. Seetharaman

Global standards should regulate FDI flows

THE global foreign direct investment (FDI) inflows rose by 17 per cent in 2011 to \$1.5 trillion. The FDI inflows in developed economies grew up by 18.5 per cent, while in developing economies it grew up by 13.7 per cent. Developing and transitional economies account for half of global FDI in 2011 as inflows reach a new high. The FDI inflows to China rose by eight per cent, in Europe it increased by 23 per cent, but in US it declined by eight per cent. Good performance in the FDI inflows in South East Asia was driven mainly in Indonesia, Malaysia and Thailand. West Asia witnessed a 13 per cent decline in inflows with the exception of Turkey.

Global foreign direct investment outflows rose in 2011 by 16 per cent to a peak of 1.66 trillion, surpassing pre-crisis levels. The FDI outflows in developed economies grew up by 25.4 per cent. The FDI outflow to Europe was 26.5 per cent and US was 16.7 per cent. FDI outflows in developing economies fell by 6.8 per cent. Rise of FDI outflows in 2011 was mainly driven by growth of outward FDI from developed countries.

Outward FDI in developing countries fell by seven per cent in 2011. Global investment does not come unless clarity comes in Universal standards of measurement for valuation of investments. Uniform accounting principles should be followed to facilitate meaningful comparison. The risk and other measurement mechanisms pertaining to Securitisation of assets should be strengthened to protect the interests of investors. The capital inflows to developing economies also increased due to Quantitative easing measures adopted after the crisis by developed economies.

On account of low rates prevailing in developed economies and also due to better growth opportunities in developing economies particularly emerging economy's hot money moved to emerging economies from developed economies and substantially increased the valuations of investments in these countries. The commodities and currencies market also witnessed significant volatility on account of these inflows. Policies should be their in place to regulate such inflows to avoid creation of bubbles. The police framework should aim to attract FDI inflows as it is more sustainable.

The FDI may bring new activities or industries to host countries. – *Bloomberg*

Growth in inflows was driven by cross-border mergers and acquisitions (M&A) which arose sharply by mid of 2011 particularly in developed and transitional economies. In developed and transitional economies extractive industries were targeted for M&A deals also in developed economies the pharmaceutical industry witnessed M&As. Growth in outflows was mainly due to strategic acquisitions by multinational corporations from developing countries. The FDI outflow in EU was driven in Italy and UK where corporate restructuring were driven by European multinational corporations. Jump in Japan's outward FDI was due to appreciation of yen. The FDI inflows and outflows will moderately rise in 2012 however we need to be cautiously optimistic.

The positive growth in the GCC region is going to invite investments from Overseas. Huge project developments in GCC require massive funds from overseas investors. Projects prevail in Qatar non-hydrocarbon sector mainly in real estate and infrastructure. In Saudi Arabia the major projects in non-hydrocarbon sector include King Abdullah Economic City and Jizan Economic City. Major projects in the UAE are witnessed in Jebel Ali area. Major projects in Oman include Duqm New town and Deep water Gas line worth \$24 billion.

The FDI investors will support capital formation and employment augmentation. The FDI may bring new activities or industries to host countries and then increase manufacturing export competitiveness. Investment climate and tax incentives will encourage FDIs inflows. It can improve quality of life through better products such as retail.

The FDI inflows are witnessed more in manufacturing, telecom and infrastructure segments. The long term plan, budget and fiscal policies of a country should give more emphasis to infrastructure. And above all effective corporate governance encourages sustainable flow of the FDIs. Global FDI inflows can significantly contribute to infrastructure development. The global hovernance standards should be designed in place to effectively regulate investment flows between developed and developing economies.

The writer is group CEO at Doha Bank. Views expressed by the author are his own and do not reflect the newspaper's policy