

# **Global capital flows - FDI trends**

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**November 2005**

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# From the 'simple' era of trade...

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- **B of P analysis used to be dominated by trade flows – capital flows small**
- **The exchange rate's role was to maintain trade equilibrium (competitiveness)**
- **FDI a form of aid to poor countries**
- **Other flows needed to complete B of P**
- **Models simple - Mundell-Fleming linked 'capital flow' to interest rate differentials**

# Global flows: trade and capital

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US\$trn	1970	1980	1990	2000	2010
Goods trade (exports)	0.4	1.9	3.4	6.3	12+
Total Capital inflows	neglig.	0.1	0.5	4	10+

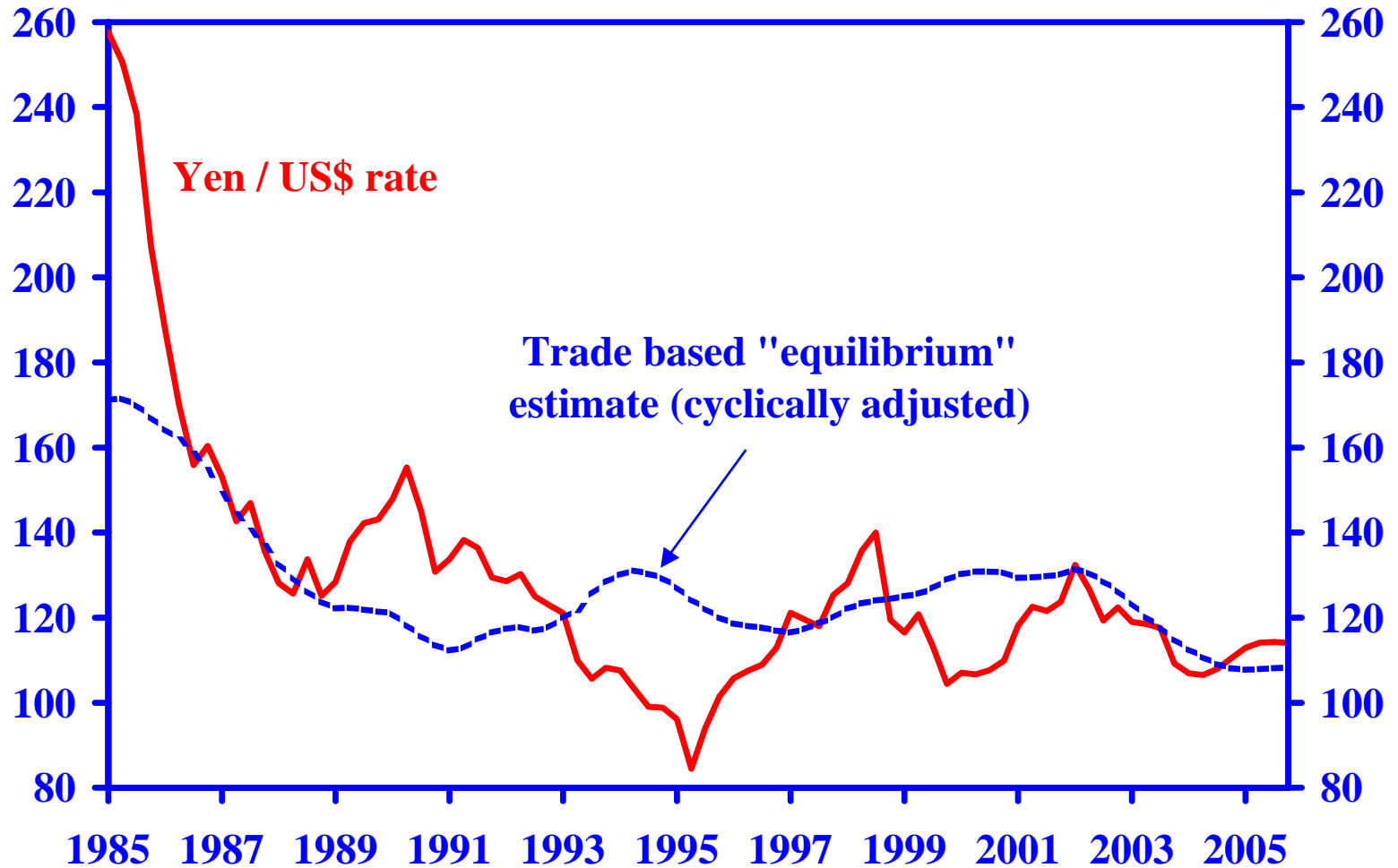
(sources: IMF, UNCTAD, OEF)

# ... to an era of capital flows

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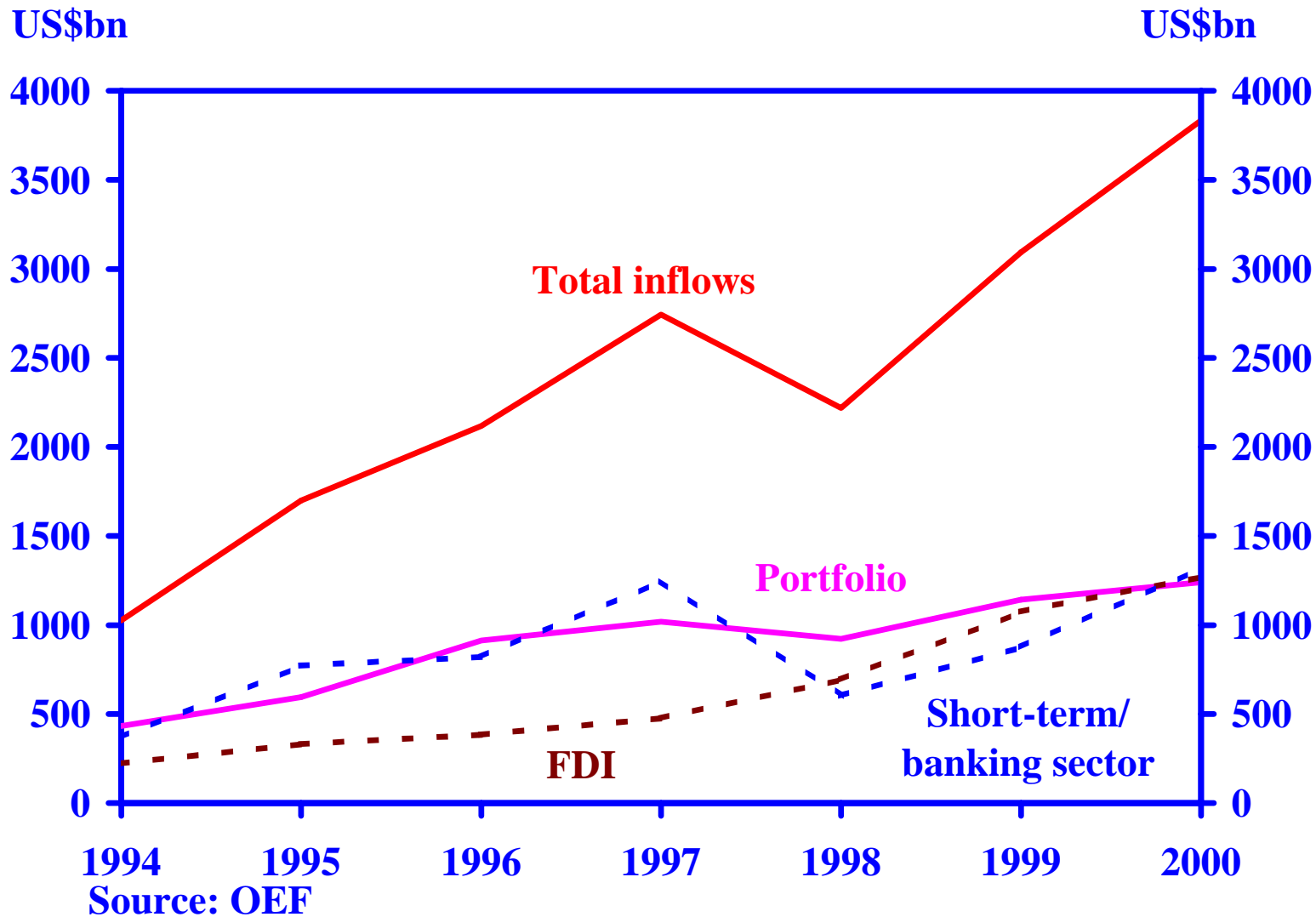
- **Total global capital inflows rise from under \$1trn to over \$4trn pa from 1990 to 2000: big boost from boom in bilateral flows between OECD countries – eg US**
- **Developing country net inflows: up from under \$25bn in late 1980s to \$150-250bn pa (IMF WEO) – China \$50-60bn pa**
- **More interest in *type* of flows and volatility: attempts to link this with risk profiles and exchange rates**

# Japanese YEN: US\$ rate v 'equilibrium' rate?



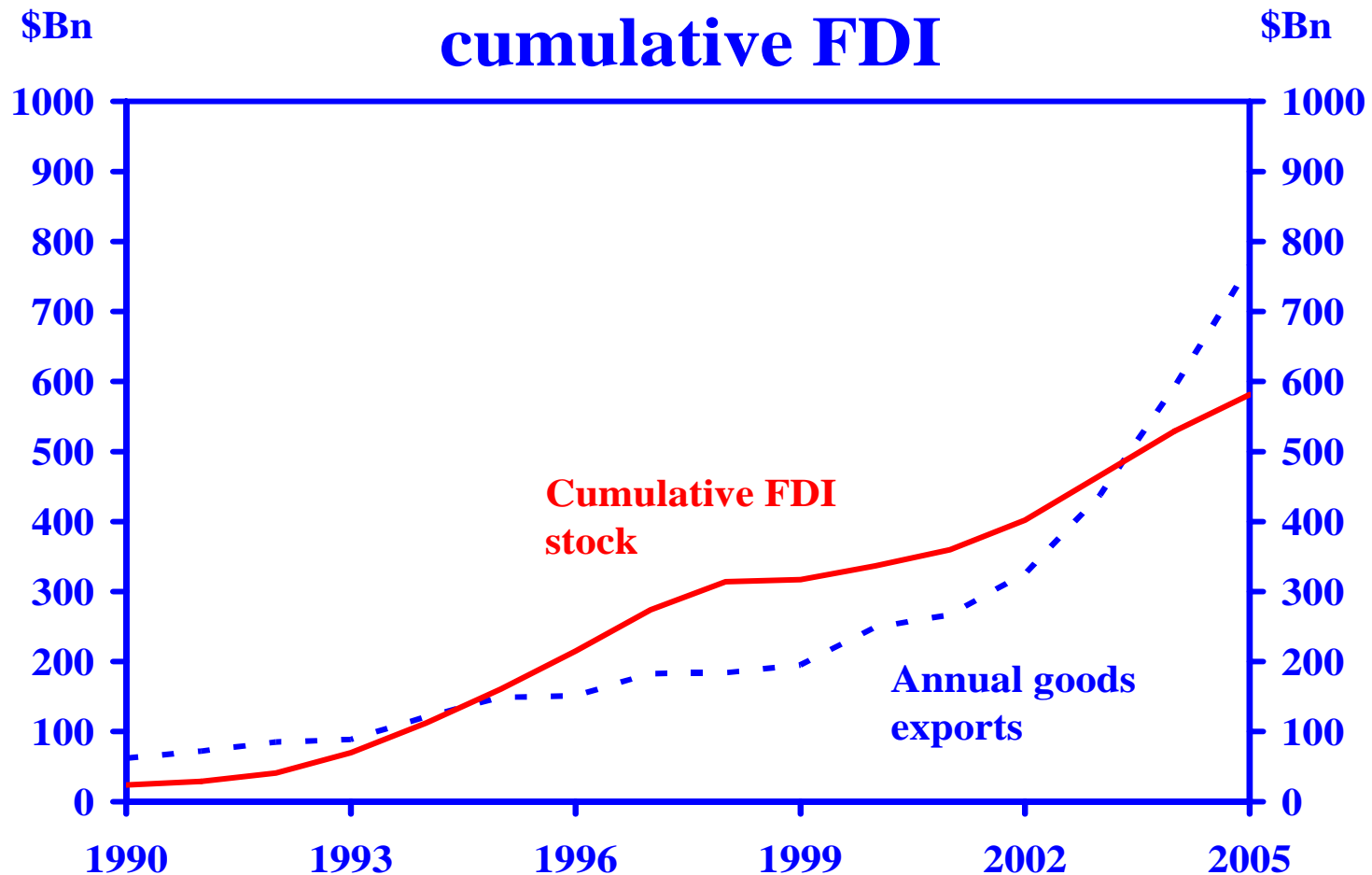
Source: OEF

# World capital account inflows by type



# FDI accumulation led exports

## China total goods export versus cumulative FDI



Source: National Statistics

# FDI: explanatory factors

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- **Institutional issues such as market access, tariff and tax regimes, the rise of multinationals all have an influence**
- **Economies of scale and reductions in production costs – eg car plants, textiles**
- **Brands, delivery and quality assurance etc**
- **Organisational skills – centralise functions and gain from economies of scale here – eg R&D**
- **M&A affected by asset prices versus cost of ‘greenfield’ development - large part of FDI**



# FDI largely M&A driven

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US\$bn	1998	2000	2002
Total FDI	700	1400	650
Cross border M&A	330	866	214

Total M&A deals over \$1bn, source UNCTAD

Cross border deals 25-30% of total M&A deals