Comments to Ronald B. Davies *"Thoughts on the demise of FDI*", Discussion Paper in "Economics.The Open-Access, Open-Assessment E-Journal"

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While I fully agree on the concluding remark that "the importance of multinationals as a driving force in the global economy will be maintained for a long time to come", I would submit a couple of qualifications.

First, the marked slowdown in outward FDI from advanced economies since 2007 clearly reflects the medium-long term impact of the global Great Recession in the US and even ore in Europe (disruption in banking and financial markets, falling domestic demand due to increasing uncertainties, fears about the increased level of debt/GDP etc). But at the same time we have seen an increasing share of Developing Economies (and even of Least Developed Economies) as receivers of FDI. Inward FDI as a source of external finance for these countries has increased from $350 bn in 2000 to more than $650bn in 2017, of which $400 in South and South-East Asia. Far from falling about 25% from 2016 to 2017 (as registered by global FDI), intra-Asean investment remained strong in 2017. Outward FDI from Developing Asia account today about one quarter of global outflows.[1]

Hence I don't find convincing evidence that "profitable investment opportunities are starting to dry up. On the one hand, I can easily agree that some drivers of the quick spread of international investment in the recent decades are losing strength (offshoring of Western manufacturing to low labour cost Asian economies, massive privatization of former SOEs after the fall of Berlin wall, early buildup of global value chains exploiting the fast diffusion of IT). Moreover, the spread of fears of globalization have raised the level of populist anxieties about the loss of national identities facing an excessive economic and political power by large multinational companies.

On the other hand one should not forget the classical "tariff jumping" determinant of decision to invest abroad by HOME exporting companies that feel hit by trade barriers in HOST countries. The current pendulum shift towards protectionism may well play the role of greater propensity to invest abroad. This argument does not fit convincingly to those sectors that HOST countries deem as "strategic" from the viewpoint of defense and national security (such as some sensitive IT and telecommunication sectors), but widely applies to a wide range of manufacturing and business service activities in which trade barriers reinforce the incentive to undertake FDIs in order to get closer to local final users, reinforce HOME'image and brand, exploit the proximity to local governmental authorities: in other words the incentive to become "insider" in the foreign market.

[1] All data drawn from UNCTAD, World Investment Report 2018. Investment and New Industrial Policies , Geneva 2018