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World Investment Report

**2004 The Shift Towards
Services**



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PREFACE

After three years of decline in global investment flows, there are signs of revival. With global economic growth improving in 2004, prospects for global investment look bright. This is particularly the case in services, which make up the largest economic sector in many countries, and which dominate foreign direct investment. The *World Investment Report 2004* looks at the shift towards services and examines the challenges and opportunities that arise for development.

In the knowledge-based economy, services are critical to the competitiveness of firms in all sectors. Foreign direct investment is a key source of financing for telecommunications, energy and financial services, as well as for other important industries. New information and communication technologies make it possible to trade in services, making their production increasingly subject to the international division of labour. The offshoring that results can lead to new opportunities for developing countries to become better integrated into global markets. The importance of services is therefore increasingly reflected in the policy agenda – ranging from liberalization to promotional efforts to regulation at national and international levels.

Foreign direct investment in services can offer important benefits. It can provide the capital, skills and technology required to make services more efficient, and thus improve the competitiveness of host countries. But there are risks, too – and these must be addressed through appropriate policies. Since many services are embedded in the social, cultural and political fabric of societies, the right balance must be struck between economic efficiency and broader developmental objectives. The overriding challenge is to create an environment that will help countries strike such a balance, so that the benefits of the new international division of labour in services can be reaped by all.



Kofi A. Annan

Secretary-General of the United Nations

New York, July 2004

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ABBREVIATIONS

ACP	African, Caribbean and Pacific (group of countries)
AGOA	African Growth and Opportunity Act (of the United States)
ASEAN	Association of South-East Asian Nations
BIT	bilateral investment treaty
BOT	build-operate and transfer
BTO	build-transfer and operate
BPO	business-process outsourcing
CARICOM	Caribbean Community
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
DTT	double taxation treaty
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EPZ	export processing zone
EU	European Union
FDI	foreign direct investment
FEZ	free economic zone
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GDP	gross domestic product
ICC	International Chamber of Commerce
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communications technology
IIA	international investment agreement
IIF	Institute of International Finance
ILO	International Labour Organization
IPA	investment promotion agency
IPR	Investment Policy Review
IT	information technology
LAC	Latin America and the Caribbean
LDC	least developed country
M&A	merger and acquisition
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	most favoured nation
MIGA	Multilateral Investment Guarantee Agency
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
RTA	regional trade agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCM	Subsidies and Countervailing Measures (Uruguay Round Agreement)
SME	small and medium-sized enterprise
TNB	transnational bank
TNC	transnational corporation
TNI	transnationality index (UNCTAD)
TRIMs	trade-related investment measures (also a WTO agreement)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization