

Although the United States continued to be the largest source of FDI stocks in 2006, eight of the top fifteen economies in terms of stocks were from the European Union. Developed countries accounted for 85.9 percent of all outbound FDI stocks in 2006 compared to 84.1 percent for outflows.

## Industry distribution

Rapid growth in FDI, faster than the growth of world production and trade, has been one of the key drivers of globalization. This growth has, in fact, been driven by FDI in services. The importance of FDI as an instrument of globalization is much greater in service industries than in manufacturing, because many services are not tradable and establishing foreign affiliates is often the only mode of accessing foreign markets. In addition, other reasons for serving foreign markets through foreign affiliates, such as the need for proximity to clients for effective delivery or because of regulations requiring local presence, while common to both service and

goods industries, are stronger in the former than in the latter.

As a result of these factors, the share of services in global FDI has increased at the expense of the manufacturing and primary sectors (Figure 3). The services sector accounted for 46.6 percent of global FDI stock in 1990, and by 2005 its share climbed to 67.1 percent. On the other hand, the share for manufacturing fell from 44.0 percent in 1990 to 26.2 percent in 2005, while that for the primary sector slipped from 9.0 percent to 5.9 percent over the same period. The pattern observed at the global level holds for the developed countries, which are the main sources of foreign direct investment: services represented 65.5 percent of FDI stock from developed countries in 2005. The share of services in FDI stock from developing countries was even higher, at 82.7 percent, in 2005.

Within the service industries, business activities<sup>3</sup>, finance, and trade-related activities experienced

<sup>3</sup> Business activities are concerned with providing knowledge-intensive support for the business processes of other organizations. They comprise: R&D services; engineering services; computer-related services; legal, accountancy and management consultancy and marketing services.