UNCTAD Investment Brief

Number 1 ◎ 2006

SHARP RISE IN FDI DRIVEN BY M&As IN 2005

New UNCTAD estimates show that global FDI flows rose to US$897 billion last year. This time the upswing affected all sub-regions. Developed countries attracted $573 billion, up by 38 per cent from the previous year. Record levels were noted for FDI into Africa and Developing Asia. Overall, the share of developing countries was about 30 per cent. Increased levels of FDI were mainly linked to mergers and acquisitions. The number of greenfield projects declined in 2005.

Global flows up by 29 per cent

UNCTAD data released in January 2006 (see UNCTAD/PRESS/PR/2006/002) estimates that global FDI inflows in 2005 rose by 29 per cent to $897 billion (Table 1). This reflected an estimated 38 per cent increase of flows to developed countries, reversing the four-year slump. The rise was led by mounting inflows to the United Kingdom, which became the top FDI destination for the first time since 1977. Increases were also noted for developing countries and for the countries of South-East Europe and the Commonwealth of Independent States.

Royal Dutch Shell behind surge in the UK

The massive capital inflows to the United Kingdom ($219 billion) represented the highest figure ever recorded for a European country. These inflows were largely accounted for by the $100 billion merger of Shell Transport and Trading Company Plc and Royal Dutch Petroleum Company into Royal Dutch Shell, a Dutch company. This transaction also affected the outflows of FDI from the Netherlands, which should exceed $140 billion as a result.

The *10 new EU members* continued to attract more FDI. The $38 billion received in 2005 set a new record level. The Czech Republic saw its inflows rise to $12.5 billion, making it the top recipient among these countries. Flows to the United States continued to rise, reaching $106 billion, almost a doubling since 2003. Japan had net inflows of $9.4 billion, which is still a relatively modest level given the size the Japanese economy.

Developing countries report solid growth

Overall, FDI inflows to the developing world continued to rise in 2005 - up 13 per cent to an estimated $274 billion. Following the increase of 41 per cent in 2004, this brought FDI to the highest level ever for developing countries. FDI inflows grew in all sub-regions.

FDI into *Africa* rose in all the major oil-producing countries (including the Sudan) as well as in Egypt and South Africa. Overall, FDI into the region reached an estimated new record level of $29 billion. While these increases are significant in a historical context, they relate primarily to the oil sector and to other natural resources industries.

Asia remains top developing destination

FDI flows to *Asia and Oceania* rose about 11 per cent to an estimated $173 billion. FDI to China — the largest developing country recipient — remained stable around $60 billion. Meanwhile, FDI to the Republic of Korea and to Malaysia fell. Large increases were noted for Hong Kong (China), Indonesia and Thailand. Among sub-regions, the sharpest growth was in West Asia, where FDI shot up by some 50 per cent, largely because of increased investment in the oil sector and related activities, as well as in telecommunications and real estate.

FDI flows to *Latin America and the Caribbean* continued their upward trend, rising by 5 per cent to an estimated $72 billion. As flows to Brazil declined to $16 billion, Mexico became the top regional recipient with its $17 billion. Chile maintained a relatively high level of inflows, despite a small decline compared with 2004.

In *South-East Europe and the Commonwealth of Independent States (CIS)*, FDI inflows

UNCTAD Investment Briefs are published by the Investment Issues Analysis Branch of UNCTAD.
For more information, contact Torbjörn Fredriksson on +41 22 917 2143 or via e-mail at torbjorn.fredriksson@unctad.org.

reached an estimated $50 billion, largely as a result of the more than doubling of FDI into Russia. High oil prices apparently further accelerated inward FDI.

Decline in greenfield FDI projects

The FDI surge in 2005 was mainly the result of increased merger and acquisition (M&A) activity. According to Dealogic, global M&As increased by 40 per cent to $2.9 trillion — almost as high as the level reached in 2000. Cross-border M&A activity grew particularly fast in Europe.

Greenfield FDI data show a different picture. Judging from information produced by LOCOMonitor, the number of such projects actually dropped somewhat in 2005. The decline was particularly pronounced in Latin America and the Caribbean, where greenfield FDI projects fell by about 30 per cent.[1] China, India and the United Kingdom had the highest number of projects in 2005. Toyota (Japan) and Metro (Germany) were the most active investors, with 53 and 49 greenfield projects from January to November.

Source: UNCTAD.

[1] Calculated on the basis of 2005 data up to November.

Table 1. FDI inflows, by host region and selected host economy, 2003-2005
(Billions of dollars)

Host region/economy	2003 a	2004 a	2005 b	Growth rate (%)
World	**637.8**	**695.0**	**896.7**	**29**
Developed economies	**441.7**	**414.7**	**573.2**	**38**
Europe	358.9	258.2	449.2	74
European Union (25)	340.1	259.1	445.3	72
EU-15	*327.6*	*231.4*	*407.7*	*76*
United Kingdom	27.4	77.6	219.1	182
New 10 EU member states	*12.5*	*27.8*	*37.7*	*36*
Czech Republic	2.1	4.5	12.5	181
United States	56.8	95.9	106.0	11
Japan	6.3	7.8	9.4	21
Developing economies	**172.1**	**243.1**	**273.5**	**13**
Africa	17.2	18.7	28.9	55
Latin America and the Caribbean	48.0	68.9	72.0	5
Brazil	10.1	18.2	15.5	-15
Chile	4.4	7.6	7.0	-8
Mexico	12.8	17.9	17.2	-4
Asia and Oceania	106.9	155.5	172.7	11
West Asia	11.9	17.6	26.5	51
South, East and South-East Asia	94.7	137.8	146.2	6
China	53.5	60.6	60.3	-0.54
Hong Kong, China	13.6	34.0	39.7	17
India	4.3	5.3	6.0	12
Singapore	9.3	16.1	15.9	-1
South-East Europe and the CIS	**24.0**	**37.2**	**49.9**	**34**
Russian Federation	8.0	12.5	26.1	109

Source: UNCTAD.

[a] Revised data.

[b] Preliminary estimates.

Note: World FDI inflows are projected on the basis of 96 economies for which data are available for part of 2005, as of 3 January 2006. Data are estimated by annualizing their available data, in most cases first quarter data. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2004 is used to extrapolate the 2005 data.

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For more information, contact Torbjörn Fredriksson on +41 22 917 2143 or via e-mail at torbjorn.fredriksson@unctad.org.