

REGIONAL INVESTMENT TRENDS

CHAPTER II

The slow recovery of FDI flows in 2010 masked starkly divergent trends among regions: while East and South-East Asia and Latin America experienced strong growth in FDI inflows, those to Africa, South Asia, West Asia, transition and developed countries continued to decline. Inward FDI flows to Africa varied between subregions. In developing Asia, ASEAN and East Asia attracted record amounts of FDI, while in West Asia the impact of the global economic crisis continued to hold back FDI. Latin America and the Caribbean witnessed a surge in cross-border M&As, mainly from developing Asia. In transition economies, the marginal rise of flows to the CIS did not compensate for the sharp drop in South-East Europe. Among developed countries, flows to Europe and Japan declined, overshadowing the increased flows to the United States. All three groups in the structurally weak, vulnerable and small economies – LDCs, LLDCs and SIDS – saw their FDI inflows fall.

Some major developments feature in regional FDI:

- Intraregional FDI in Africa is increasing but has yet to realize its potential.
- FDI outflows from South, East and South-East Asia have been rising rapidly, demonstrating new and diverse industrial patterns.
- State-owned enterprises lead outward FDI from West Asia with a strategy of improving the competitiveness of the home economies.
- Latin America and the Caribbean are witnessing a surge in resource-seeking FDI from developing Asia.
- The investment link between developing and transition economies is gaining momentum, fuelled by the commodity boom and government support within both group of economies.
- The restructuring of the banking industry in developed countries resulted in both significant divestments of foreign assets and the generation of new FDI.
- A new plan of action for LDCs is proposed within an integrated policy framework on investment, technical capacity-building and enterprise development.
- TNC participation has led to significant infrastructure build-up in LLDCs.
- TNCs are contributing to the economic challenges of climate change adaptation in SIDS.

A. REGIONAL TRENDS

1. Africa

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,* 2010

Range	Inflows	Outflows
Above \$3.0 billion	Angola, Egypt, Nigeria and Libyan Arab Jamahiriya	..
\$2.0 to \$2.9 billion	Democratic Republic of the Congo, Congo, Ghana, and Algeria	..
\$1.0 to \$1.9 billion	Sudan, South Africa, Tunisia, Morocco and Zambia	Libyan Arab Jamahiriya, Egypt and Angola
\$0.5 to \$0.9 billion	Niger, Madagascar, Namibia, Uganda, Mozambique, Chad, United Republic of Tanzania, Equatorial Guinea and Botswana	Nigeria and Morocco
\$0.1 to \$0.4 billion	Mauritius, Cameroon, Côte d'Ivoire, Seychelles, Guinea, Liberia, Senegal, Ethiopia, Gabon, Mali, Malawi, Kenya, Somalia, Cape Verde, Benin and Zimbabwe	South Africa, Zambia, Algeria, Senegal and Mauritius
Below \$0.1 billion	Swaziland, Central African Republic, Eritrea, Lesotho, Rwanda, Togo, Gambia, Burkina Faso, Sierra Leone, Djibouti, Burundi, Mauritania, Comoros, Guinea-Bissau and São Tomé and Príncipe.	Gabon, Tunisia, Sudan, Liberia, Kenya, Zimbabwe, Niger, Ghana, Swaziland, Democratic Republic of the Congo, Benin, Seychelles, Sierra Leone, São Tomé and Príncipe, Mali, Mauritania, Cameroon, Malawi, Mozambique, Côte d'Ivoire, Burkina Faso, Cape Verde, Guinea-Bissau, Namibia, Togo and Botswana

* Economies are listed according to the magnitude of their FDI flows.

Figure A. FDI inflows, 2000–2010

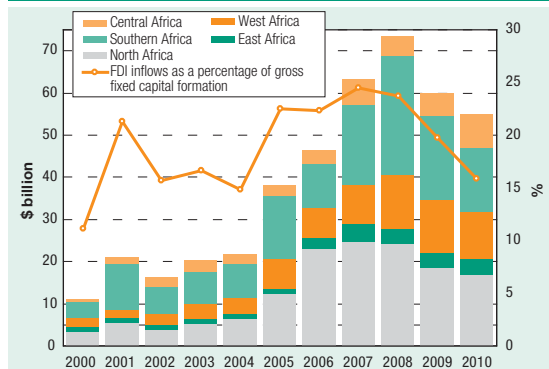


Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Africa	60.2	55.0	5.6	6.6	5.1	7.6	2.7	3.2
North Africa	18.5	16.9	2.5	3.4	1.5	1.1	1.0	1.5
East Africa	3.6	3.7	0.1	0.2	-	0.3	0.2	0.2
West Africa	12.7	11.3	1.5	1.1	- 0.2	0.4	-	-
Southern Africa	20.0	15.1	1.4	1.9	3.9	5.6	1.5	1.5
Central Africa	5.4	8.0	0.1	0.1	-	0.2	-	-

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Africa	488.8	554.0	106.0	122.4	39.2	50.1	2.2	2.7
North Africa	190.7	206.1	20.2	23.6	8.7	12.7	0.5	0.7
East Africa	27.5	30.9	0.9	1.1	0.7	0.7	0.1	0.2
West Africa	84.1	95.4	5.7	6.8	12.2	15.3	0.3	0.4
Southern Africa	153.6	182.8	78.2	90.0	14.0	17.2	1.1	1.2
Central Africa	32.9	38.8	1.0	1.0	3.5	4.3	0.1	0.2

Figure B. FDI outflows, 2000–2010

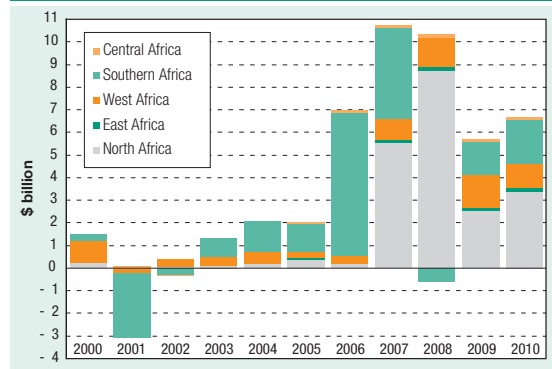


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	5 140	7 608	2 702	3 184
Primary	2 579	2 149	621	- 81
Mining, quarrying and petroleum	2 579	2 149	621	- 81
Manufacturing	- 110	303	138	381
Food, beverages and tobacco	-	263	39	2
Wood and wood products	11	- 1	-	1
Chemicals and chemical products	- 620	5	-	- 38
Non-metallic mineral products	250	-	- 4	416
Metals and metal products	248	32	102	-
Machinery and equipment	-	2	-	-
Electrical and electronic equipment	-	- 9	-	-
Precision instruments	-	- 10	-	-
Services	2 672	5 157	1 942	2 885
Construction	-	-	- 103	-
Trade	-	84	- 1	- 26
Hotels and restaurants	- 117	136	3	-
Transport, storage and communications	3 058	1 912	-	-
Finance	- 295	38	1 643	2 572
Business services	21	3 003	32	340
Health and social services	5	-	-	-
Community, social and personal service activities	0	- 23	369	- 1
Other services	-	6	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	5 140	7 608	2 702	3 184
Developed economies	4 328	6 355	1 378	1 336
European Union	3 159	1 459	782	1 224
United States	1 125	1 927	-	45
Japan	-	3 199	-	-
Developing economies	797	952	1 124	1 460
Africa	927	268	927	268
North Africa	324	-	-	54
Sub-Saharan Africa	603	268	927	214
South Africa	597	100	500	- 88
Uganda	-	257	-	-
Zambia	-	-	-	257
Zimbabwe	-	-	-	62
Latin America and the Caribbean	- 70	- 84	395	- 75
South America	-	-	383	- 75
Caribbean	-	- 84	12	-
Asia	- 60	768	102	1 267
West Asia	-	- 10 653	-	965
South, East and South-East Asia	-	11 421	102	302
Oceania	-	-	-	- 300
South-East Europe and the CIS	-	51	200	388
Russian Federation	-	16	200	388

Inflows to Africa, which peaked in 2008 amidst the resource boom, continued their downward trend in 2010, although there were significant subregional variations. For the region as a whole, FDI in 2010 stood at \$55 billion, 9 per cent down from 2009 (figure A). Other developing regions performed considerably better, leading Africa's share of FDI inflows among developing countries to fall from 12 per cent in 2009 to 10 per cent in 2010.

Inflows to North Africa account for roughly one-third of the total in Africa. These fell for the second year running, although the rate of decline was much reduced and the picture uneven. Indeed, inflows to the Libyan Arab Jamahiriya rose over 40 per cent in 2010, though this rebound seems certain to be short-lived, given the current political situation in the country.

In West Africa, the two largest recipients had contrasting fortunes: inflows increased significantly in Ghana, but not enough to compensate for the large fall in Nigeria to reverse the downward trend of this subregion. In both countries, the major factor was the oil industry. In Nigeria, uncertainty over the Petroleum Industry Bill,¹ which is perceived as unfavourable for TNCs, and the unresolved political problem in the Niger Delta, discouraged foreign investors and, for instance, allegedly led Shell to sell a number of its onshore licences. As for Ghana, the start of major oil production has attracted the interest of TNCs, some of which are seeking an alternative subregional source of oil to Nigeria.

In Southern Africa, inflows fell by 24 per cent. One of the two major recipients in the subregion, South Africa, saw its inflows fall by over 70 per cent to \$1.6 billion, a level amounting to one-sixth of the peak recorded in 2008. Inflows to Angola, the region's largest recipient, fell by 15 per cent. Although the decline was large, the inflow levels achieved in 2008 (\$16.6 billion) and 2009 (\$11.7 billion), when there had been major investments in oil and agriculture, were perhaps not sustainable, considering that inflows to Angola had been just over \$5 billion in 2003 when the civil war in the country ended. One of the problems of Angola's oil industry is that its production has exceeded Angola's OPEC quota.

Elsewhere in West and Southern Africa, oil and gas TNCs are divesting their downstream businesses.

In April 2010, Shell announced its plan to withdraw from the downstream markets – considered “low-margin” – in 21 African countries. Similarly, BP announced plans to divest from five Southern African countries.

In Central Africa and East Africa, inflows of FDI increased in 2010 to reach \$8.0 billion and \$3.7 billion, respectively. The inflows to the larger recipients in Central Africa (Chad, Congo, the Democratic Republic of the Congo, Equatorial Guinea and Gabon) were mostly due to oil-related investments. The only significant instance of FDI in non-primary sectors was investment in telecommunications in the Democratic Republic of the Congo. East Africa's increase was modest (2.5 per cent), as inflows to the subregion's largest recipient, Madagascar, fell substantially (19 per cent). FDI to the subregion's two other large recipients, Uganda and the United Republic of Tanzania, have tended to be stable in recent years and held broadly steady in 2010.

The source countries and industry distribution of FDI to Africa can be gauged from the expansion of TNCs' affiliate networks in Africa through cross-border M&As (tables D and E) and greenfield projects. As in previous years, TNCs investing in Africa in 2010 were mostly from developed countries. Among developing countries, China, India and the United Arab Emirates were the main source countries in 2010.

In terms of industry distribution, the primary sector (mainly coal, oil and gas) accounted for 43 per cent, manufacturing for 29 per cent (of which almost half was in the metal industry) and services (mainly communications and real estate) for 28 per cent. One of the largest M&A deals worldwide in 2010 was the acquisition of the telecoms operations of Zain (Kuwait) in 15 African countries (not including those in North Africa) by the Indian mobile operator Bharti Airtel, for \$10.7 billion. Although the deal itself did not bring in any net external finance to Africa, the new owner announced that it would invest \$1 billion to expand its operations in 2011.²

As for the future, inflows to North Africa seem likely to fall significantly, due to the military conflict in the Libyan Arab Jamahiriya and the general political uncertainty hanging over the subregion (box II.1).

It would require a major upturn in sub-Saharan Africa to reverse the downward trend of FDI inflows to the continent. Data on FDI projects (greenfield investments and cross-border M&A deals) for the first few months of 2011 show a 9 per cent rise over the same period of 2010 in Africa as a whole, but this rise was mainly driven by a large investment in Ghana.³ FDI projects in North Africa fell by half in this period (annex tables I.3 and I.8).

The continuing pursuit of natural resources by Chinese TNCs, and the increasing interest in Africa of Indian TNCs, which also have a significant presence in other sectors, could provide a boost. The nascent oil industry in Ghana perhaps represents the single most important positive prospect. Overall, however, 2011 is likely to be another challenging year for FDI inflows to Africa.

b. Intra-regional FDI for development

Intra-African FDI offers a huge potential; subregional organizations can do more to boost these flows.

The extent of intraregional FDI in Africa is limited. Judging from data on FDI projects, intra-regional FDI accounts for only 5 per cent of the total in terms of value and 12 per cent in terms of number (table II.1). The large share accounted for by FDI projects within sub-Saharan Africa suggests that South African investors are playing a large role. The pattern indicates that aside from South Africa, which has an exceptional propensity to invest regionally, intraregional FDI is particularly underdeveloped in Africa.

From a development perspective, the lack of intra-regional FDI is suggestive of a missed opportunity. Geographical proximity and cultural affinity are thought to give regional TNCs an advantage in terms of familiarity with the operational environment and business needs in the host country. From the host country's point of view, developing country TNCs are likely to be in possession of more appropriate technologies – with a greater potential for technology transfer – and better able to address the needs of local consumers, especially the poor (UNCTAD, 2011b).

Indeed, there is some anecdotal evidence of regional FDI bringing positive development impacts to host countries in Africa. For example, investments from foreign farmers have played a role in revitalizing agriculture in Zambia. Mozambique has offered generous incentives to foreign farmers to invest, and other countries have considered similar packages (e.g. Kenya, Nigeria, the United Republic of Tanzania and Uganda).⁴

The scope for joint ventures between domestic and foreign partners in the African context is often constrained by the absence of domestic partners with the required technical and financial capacity. In manufacturing, Coleus Crowns (Uganda) provides a successful example of a joint venture at the intraregional level. It is a joint venture between the Madhvani Group (Uganda) and Coleus Packaging (South Africa), which began production of bottle crowns in 2007. Since then, it has succeeded in establishing itself as a supplier to major TNCs

Table II.1. Intra-regional FDI projects^a in Africa: the value and number of projects and their shares in Africa's totals, cumulative 2003–2010

Total and intraregional FDI	Value		Projects	
	\$ billion	% share	Number	% share
All intraregional FDI projects	46	5	570	12
North Africa to North Africa	8	1	65	1
Sub-Saharan Africa to sub-Saharan Africa	35	4	461	10
North Africa to sub-Saharan Africa	2	0.2	43	1
Sub-Saharan Africa to North Africa	0.2	0	1	0
<i>Memorandum</i>				
Total FDI projects in Africa	848	100	4 702	100

Source: UNCTAD.

^a Including cross-border M&A and greenfield FDI projects.

Box II.1. The Arab Spring and prospects for FDI in North Africa

The Arab Spring led to a blossoming of democratic expression in the subregion, but it has dampened investor confidence in the short term. The available data for the first few months of 2011 indicate that FDI inflows, as shown by greenfield investments and cross-border M&As (annex tables I.3 and I.8) to the subregion declined substantially. For example, there was no record of cross-border M&As in North Africa for the first five months (annex table I.3). It could take months before confidence among investors in those countries is restored.

In Egypt, where greenfield investments fell by 80 per cent in the first four months of 2011 compared to the corresponding period of 2010 (annex table I.8), the most important investor country is the United States, which reportedly accounted for about \$9 billion out of \$11.1 billion of foreign investment (both FDI and portfolio) in the country. In May 2011, the United States offered loan guarantees of up to \$1 billion through the Overseas Private Investment Corporation to finance infrastructure development and boost job creation in Egypt.

It was also reported that some Gulf States had agreed to contribute to a fund worth about \$170 million set up by the Government of Egypt to encourage investment. In addition to international support, the Government has approved measures to simplify the procedure for approving new industrial projects and to ease the restrictions on setting up franchises. However, the impact of investment incentives might be limited in the current climate of political transition, and the return of investor confidence is likely to depend on the overall political settlement and the geopolitical situation surrounding the country.

In the long term, democratization should result in better governance and thus lead to a more sustainable growth of economic activities, including FDI.

Source: UNCTAD.

such as Nile Breweries (an affiliate of SABMiller), Pepsi Uganda and Coke Uganda. It also serves the regional markets in Burundi, Rwanda and the Sudan.⁵

In services, some African TNCs in telecommunications and banking have actively engaged in regional expansion. Leading players in the region's telecommunications industry include MTN (South Africa), Orascom (Egypt) and Seacom (Mauritius). In the financial industry, a number of banks based in Nigeria and South Africa have established a regional/subregional presence. Nigerian banks have a reputation of bringing in innovative services to neighbouring countries in West Africa, and many of the leading banks have an extensive presence throughout the region.

In spite of these successful instances, the extent of intraregional FDI is limited. There is a paucity of disaggregate data on the source countries of FDI in Africa, but such data as are available reveal intraregional FDI in Africa to have a skewed and underdeveloped nature. Most of the intraregional flows are attributable to investment from South Africa in neighbouring countries in East and Southern Africa. Countries with high shares of

intraregional FDI flows/stock (i.e. Botswana, Malawi, Morocco, Mozambique, Namibia and the United Republic of Tanzania) are those in which investors from South Africa are active, primarily in natural resource-related industry. For South Africa, the importance of Africa in its outward investment has increased over time. The share of Africa in its outward FDI stock rose from 8 per cent in 2005 to 22 per cent in 2009 (table II.2). The dominant role of South Africa is also confirmed by data on the expansion of TNCs' affiliate networks through greenfield projects and M&As.

Given the geographical proximity and cultural affinity, there ought to be potential for diverse intraregional FDI in terms of industry and source country. However, available country-level evidence indicates that the actual picture in this regard is very mixed. For instance, Senegalese FDI in the Gambia is relatively diverse, covering finance, manufacturing, real estate, wholesale and retail. In contrast, outward FDI from Nigeria is concentrated in finance. In the United Republic of Tanzania, FDI from Kenya is diversified into various manufacturing, finance and service activities, while FDI from South Africa has mainly been in mining, although

Table II.2. Intra-regional FDI in Africa, various years

Country	Period average / year	Source region (\$ million)		Share of Africa in world (%)
		From Africa	From the World	
FDI inflows				
Egypt	2007-2009	162.6	13 882.1	1.2
	1997-1999	0.8	206.4	0.4
Ethiopia	2002-2004	37.3	421.7	8.8
	1990-1992	1.8	24.9	7.3
Mauritius	2007-2009	45.6	348.1	13.1
	1996-1998	20.3	664.7	3.1
Morocco	2006-2008	41.0	3 735.2	1.1
Mozambique	2007-2009	229.1	636.3	36.0
	1991-1993	78.4	98.0	80.0
Namibia	2006-2008	522.7	653.4	80.0
	1990-1992	8.4	261.7	3.2
Tunisia	2007-2009	70.6	2 020.7	3.5
Inward FDI stock				
Botswana	1997	769.7	1 280.2	60.1
	2007	310.0	968.9	32.0
Malawi	2000	103.6	357.7	29.0
	2004	151.5	562.3	26.9
Morocco	2004	236.1	19 883.1	1.2
	2008	303.1	39 388.3	0.8
South Africa	2000	301.1	43 451.0	0.7
	2009	802.4	117 434.1	0.7
United Rep. of Tanzania	1998	924.3	3 352.5	27.6
	2005	2 224.9	5 141.6	43.3
Outward FDI stock		To Africa	To the World	
South Africa	2005	3 017.0	36 826.0	8.2
	2009	15 676.0	72 583.0	21.6

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

the greater value of investment projects in mining obscures the significant number of investment projects in other sectors (Bhinda and Martin, 2009).

The current situation calls for more efforts to encourage FDI at the regional and subregional levels. Various subregional initiatives have been introduced to this end. The Free Trade Area of the Southern African Development Community (SADC)⁶ was established with the objective of promoting, among other activities, FDI and domestic investment, by creating a larger single market (Rwelamira and Kaino, 2008). SADC has concluded a Protocol on Finance and Investment, which sets out the legal basis for regional cooperation and harmonization in the area of finance, investment and macro-economic policy. SADC also has a "services protocol", though not yet in force, which would also have implications for FDI. The East African Community (EAC)⁷ has discussed the need to promote FDI into the subregion, but there seems to be no well-developed structure in place to promote intra-subregional FDI.

There are also initiatives to promote FDI between the regional groupings, most notably by the Common Market for Eastern and Southern Africa (COMESA) (Fujita, 2009; UNCTAD, 2008a). Its Common Investment Area is aimed at promoting intra-COMESA and international FDI into infrastructure, information technology, telecoms, energy, agriculture, manufacturing and finance.⁸

One major problem with regional groupings in Africa is their great proliferation, resulting in overlaps and inconsistencies. There are around 30 regional trade agreements (RTAs) in Africa, each country typically belonging to several such groupings. Recognizing this, COMESA, EAC, and SADC started a process to enhance integration among their members in 2008 (Brenton et al., 2011). The harmonization of Africa's RTAs, and accelerated and closely coordinated planning with respect to FDI, would help Africa to achieve its full intra-regional FDI potential.

2. South, East and South-East Asia

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,^a 2010

Range	Inflows	Outflows
Above \$50 billion	China and Hong Kong (China)	Hong Kong (China) and China
\$10 to \$49 billion	Singapore, India and Indonesia	Singapore, Republic of Korea, India, Malaysia and Taiwan Province of China
\$1.0 to \$9.9 billion	Malaysia, Viet Nam, Republic of Korea, Thailand, Islamic Republic of Iran, Macao (China), Taiwan Province of China, Pakistan, Philippines and Mongolia	Thailand and Indonesia
\$0.1 to \$0.9 billion	Bangladesh, Cambodia, Myanmar, Brunei Darussalam, Sri Lanka, Lao People's Democratic Republic, Timor-Leste and Maldives	Viet Nam, Philippines and Islamic Republic of Iran
Below \$0.1 billion	Afghanistan, Nepal, Democratic People's Republic of Korea and Bhutan	Mongolia, Pakistan, Sri Lanka, Cambodia, Bangladesh, Brunei Darussalam, Lao People's Democratic Republic and Macao (China)

^a Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
South, East and South-East Asia	241.5	299.7	193.2	231.6	34.7	32.1	40.5	93.5
East Asia	161.1	188.3	142.9	174.3	15.7	16.1	35.9	53.1
South Asia	42.5	32.0	16.4	15.1	6.1	5.6	0.3	26.4
South-East Asia	38.0	79.4	33.8	42.2	12.9	10.4	4.3	14.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
South, East and South-East Asia	2 565.6	3 087.8	1 766.1	2 115.2	190.6	232.4	99.1	116.8
East Asia	1 599.4	1 888.4	1 365.5	1 586.5	145.6	177.9	90.9	107.6
South Asia	220.0	261.0	83.7	97.2	16.2	17.0	1.5	1.4
South-East Asia	746.3	938.4	317.0	431.5	28.8	37.4	6.7	7.7

Figure A. FDI inflows, 2000–2010

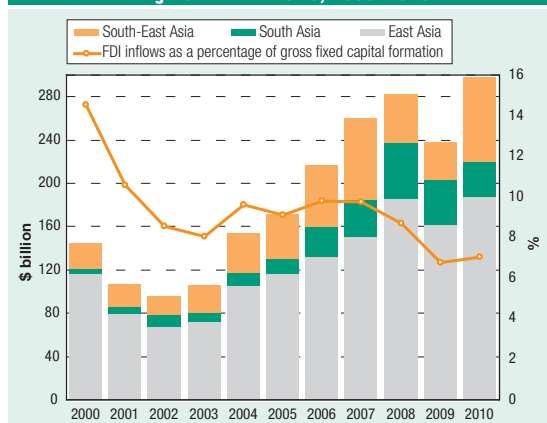


Figure B. FDI outflows, 2000–2010

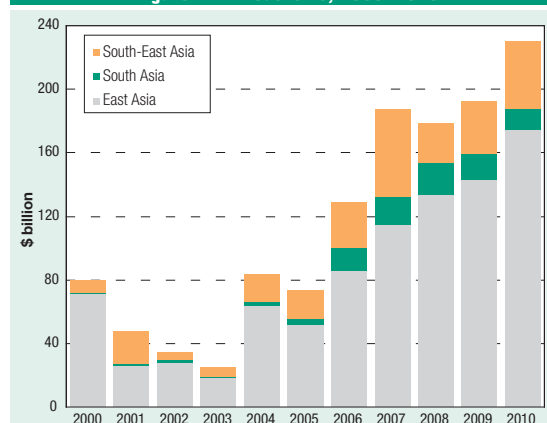


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	34 748	32 089	40 467	93 521
Primary	1 597	- 428	12 962	23 948
Agriculture, hunting, forestry and fishing	4	180	- 54	72
Mining, quarrying and petroleum	1 593	- 608	13 016	23 875
Manufacturing	17 084	17 806	2 798	8 812
Food, beverages and tobacco	3 298	2 896	- 142	4 152
Textiles, clothing and leather	86	367	235	981
Coke, petroleum products and nuclear fuel	2 212	265	-	1 299
Chemicals and chemical products	1 038	5 950	154	1 361
Rubber and plastic products	14	460	35	35
Metals and metal products	- 351	1 557	958	- 557
Machinery and equipment	1 119	300	531	- 127
Electrical and electronic equipment	9 441	918	787	- 499
Motor vehicles and other transport equipment	88	4 201	206	2 000
Services	16 067	14 711	24 707	60 761
Electricity, gas and water	2 241	408	7 973	1 048
Trade	2 609	239	2 273	1 765
Hotels and restaurants	- 3	138	262	1 144
Transport, storage and communications	5 758	2 165	-3 639	13 768
Finance	2 839	1 650	17 876	39 271
Business services	2 532	4 837	947	138
Health and social services	- 236	3 330	41	3 101

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	34 748	32 089	40 467	93 521
Developed economies	11 320	14 936	19 966	42 661
European Union	1 031	1 446	2 875	18 594
United States	3 985	5 780	1 014	8 329
Australia	206	910	3 529	9 383
Japan	5 473	4 840	350	625
Developing economies	23 195	16 223	18 796	50 816
Africa	102	302	105	11 421
Latin America and the Caribbean	374	- 618	1 018	19 935
South America	-	39	981	19 353
Central America	246	9	-	25
Asia	22 497	16 539	17 649	19 284
West Asia	5 005	-2 143	158	602
South, East and South-East Asia	17 491	18 682	17 491	18 682
China	4 519	7 024	9 333	2 536
Hong Kong, China	7 746	1 790	2 403	8 924
Korea, Republic of	276	3 536	243	- 318
Malaysia	2 637	1 061	323	2 119
Singapore	2 482	3 192	4 940	4 448
South-East Europe and the CIS	13	-	1 706	44
Kazakhstan	-	-	1 359	24
Russian Federation	13	-	347	16

In 2010, FDI inflows to South, East and South-East Asia rose 24 per cent, to \$300 billion (figure A). However, the performance of major economies within the region varied significantly: inflows to the 10 ASEAN countries more than doubled; those to China and Hong Kong (China) enjoyed double-digit growth; while those to India, the Republic of Korea and Taiwan Province of China declined (table B).

FDI to ASEAN surged to \$79 billion in 2010, surpassing 2007's previous record of \$76 billion. The increase was driven by sharp rises in inflows to Malaysia (537 per cent), Indonesia (173 per cent) and Singapore (153 per cent) (table A; annex table I.1). Proactive policy efforts at the country level contributed to the good performance of the region, and seem likely to continue to do so: in 2010, Cambodia, Indonesia and the Philippines liberalized more industries; Indonesia improved its FDI-related administrative procedures; and the Philippines strengthened the supportive services for public-private partnerships (PPPs) (chapter III).

In Singapore, which accounted for half of ASEAN's FDI, inflows amounted to a historic level of \$39 billion in 2010. As a global financial centre and a regional hub of TNC headquarters, the island State has benefited considerably from increasing investment in developing Asia, against a background of rising capital flows to the emerging economies in general in the post-crisis era. Due to rising production costs in China, some ASEAN countries, such as Indonesia and Viet Nam, have gained ground as low-cost production locations, especially for low-end manufacturing.⁹ ASEAN LDCs also received increasing inflows, particularly from neighbouring countries like China and Thailand. For instance, the Lao People's Democratic Republic has been successful in attracting foreign investment in infrastructure in recent years; as a result of Chinese investment in an international high-speed rail network, FDI to the country is likely to boom in the coming years (section II.B.2).

FDI to East Asia rose to \$188 billion, thanks to growing inflows to Hong Kong (China) (32 per cent) and China (11 per cent) (table A). Benefiting greatly from its close economic relationship with mainland China, Hong Kong (China) quickly recovered from the shock of the global financial crisis, and FDI inflows recorded a historic high of \$69 billion in

2010. However, inflows to the other two newly industrializing economies, namely the Republic of Korea and Taiwan Province of China, declined by 8 per cent and 11 per cent, respectively.

China continues to experience rising wages and production costs, so the widespread offshoring of low-cost manufacturing to that country has been slowing down and divestments are occurring from the coastal areas. Meanwhile, structural transformation is shifting FDI inflows towards high-technology sectors and services. For instance, FDI in real estate alone accounted for more than 20 per cent of total inflows to China in 2010, and the share was almost 50 per cent in early 2011. Mirroring similar arrangements in some developed countries, China established a joint ministerial committee in 2011 to review the national security implications of certain foreign acquisitions.

FDI to South Asia declined to \$32 billion, reflecting a 31 per cent slide in inflows to India and a 14 per cent drop in Pakistan, the two largest recipients of FDI in the subcontinent. In India, the setback in attracting FDI was partly due to macroeconomic concerns, such as a high current account deficit and inflation, as well as to delays in the approval of large FDI projects;¹⁰ these factors are hindering the Indian Government's efforts to boost investment, including the planned \$1.5 trillion investment in infrastructure between 2007 and 2017. In contrast, inflows to Bangladesh increased by nearly 30 per cent to \$913 million; the country is becoming a major low-cost production location in South Asia.

Cross-border M&As in the region declined by about 8 per cent to \$32 billion in 2010. M&As in manufacturing rose slightly while they declined by 8 per cent in services. Within manufacturing, the value of deals surged in industries such as chemical products (\$6.0 billion), motor vehicles (\$4.2 billion) and metal products (\$1.6 billion), but dropped in industries such as food and beverages (\$2.9 billion) and electronics (\$920 million) (table D). Greenfield investment remained stable in 2010, after a significant slowdown due to widespread divestments and project cancellations in 2009 (annex table I.8).

FDI inflows to East Asia should continue to grow in the near future, and those to South Asia are likely to

regain momentum. The competitiveness of South-East Asian countries in low-cost production will be strengthened, and further FDI increases can be expected. Prospects for inflows to the LDCs in the region are promising, thanks to intensified South–South economic cooperation, fortified by surging intraregional FDI. Indeed, countries in the region have made significant progress in their regional economic integration efforts (within Greater China, and between China and ASEAN, for example), which will translate into a more favourable investment climate for intraregional FDI flows.

b. Rising FDI from developing Asia: emerging diversified industrial patterns

Rising FDI outflows from developing Asia display new and diverse patterns in the primary sector, manufacturing and services.

FDI outflows from South, East and South-East Asia rose by 20 per cent to about \$230 billion in 2010 (figure B), driven by increased outflows from China, Hong Kong (China), Malaysia, the Republic of Korea, Singapore and Taiwan Province of China. Outflows from the region's two largest FDI sources – Hong Kong (China) and China – increased by more than \$10 billion each and reached historic highs of \$76 billion and \$68 billion, respectively. In 2010, China exceeded Japan for the first time in outward FDI, as well as in GDP. Asian companies actively acquired overseas assets through large deals covering a wide range of industries and countries (annex table I.7). As a result, cross-border M&A purchases surged to nearly \$94 billion in 2010, a record level, with China alone accounting for over 30 per cent of the total. M&A purchases by India boomed, while FDI outflows were down by 8 per cent,¹¹ perhaps reflecting the fact that a few large deals, such as the Bharti Airtel–Zain acquisition, discussed later, were not included in the official statistics.

FDI outflows from the region have been rising rapidly since 2005, with only a modest setback in 2008 due to the global financial crisis (figure B). The region's share in global FDI outflows jumped from below 10 per cent before 2008 to around 17 per cent in the past two years. The rise in FDI outflows has been driven by various corporate motives

and strategies, and is a manifestation of new and diversified industrial patterns in recent years.

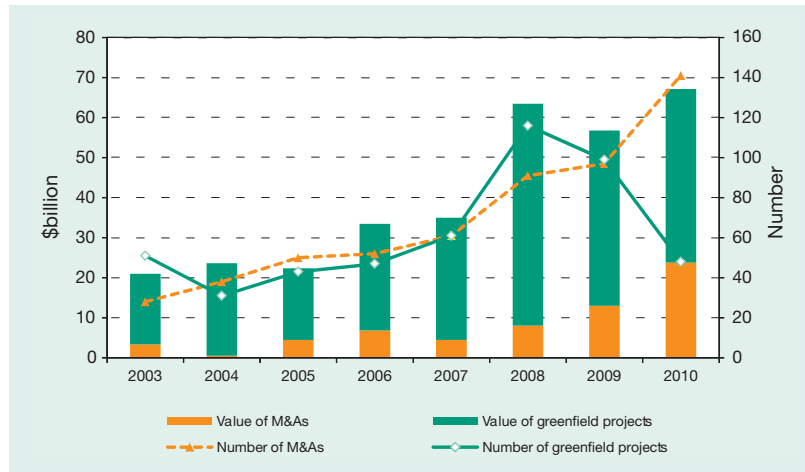
FDI outflows in extractive industries. FDI in extractive industries (including oil and gas, metal mining, as well as other extractive activities) accounts for a significant part of total FDI from South, East and South-East Asia, with China, India, the Republic of Korea and Malaysia being the major investor countries. In terms of FDI stock, the share of extractive industries might seem unimpressive, but their share in FDI outflows from the region has been rising.¹² For example, although Chinese companies have been actively acquiring mineral assets abroad and extractive industries has accounted for well above 20 per cent of FDI outflows from China in recent years, the share of these industries in China's total FDI stock was nevertheless at a modest level of 16 per cent at the end of 2009.

The number and value of recorded greenfield projects show a certain degree of fluctuation, while the number and value of cross-border M&As have kept rising (figure II.1). Due to the capital-intensive nature of projects in extractive industries, although the number of deals is small, the amount of total investment is very large. Indeed, during the period 2003–2010, about 560 cross-border M&As and 500 greenfield projects were recorded in extractive industries, but the total investment was \$65 billion and \$258 billion (19 per cent and 25 per cent of the total), respectively.

The growth in FDI outflows in extractive industries has been driven by the rising demand for oil and gas and minerals in economies such as China and India, to support their rapid economic growth, industrialization and urbanization, as well as by the need of both governments and companies to guarantee a long-term, stable supply of natural resources against a background of rising commodity prices. Beyond that, a national energy security strategy has further reinforced the motivation of State-owned companies to acquire mineral assets abroad.

The major oil and gas companies and mining companies from the region are traditional natural-resource acquirers (table II.3), but new investors have been emerging, including metal companies, conglomerates, such as CITIC (China) and

Figure II.1. Number and value of extractive industry projects undertaken by firms based in South, East and South-East Asia, 2003–2010



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Reliance Group (India), and sovereign wealth funds, such as China Investment Corporation and Temasek Holdings (Singapore). In particular, metal companies have been increasingly involved in a vertical relationship along the value chain in order to gain access to upstream mineral assets, such as iron ore and copper. For instance, a number of steel companies in the region have invested in overseas iron ore production bases (table II.3); facing rising iron ore prices, they have been actively acquiring mines around the world in order to secure stable supplies.

China's position as a leading investor in extractive industries has been strengthened. The country overtook the United States to become the world's largest energy user in 2010,¹³ and Chinese oil companies have continued their buying spree, spending \$25 billion on overseas assets, accounting for around one-fifth of all global deal activities.¹⁴ Mining companies from the country spent much less – \$4.5 billion – but are catching up, as highlighted by the \$6.5 billion bid for Equinox Minerals (Australia and Canada) by Minmetals Corporation. As a result of such investments, China has become the leading foreign investor in Australia.

FDI in extractive industries from developing Asia has targeted resource-rich countries all around the world (table II.3). Major investment locations include

mineral-rich Australia and Canada in the developed world, and oil-abundant developing and transition economies, such as Iraq, Sudan and Uzbekistan. Sub-Saharan Africa continues to be a major target,¹⁵ but Latin America and the Caribbean and Oceania (section B.3) have also appeared on the radar screens of Asian resource acquirers.¹⁶

FDI outflows in manufacturing. Outflows in manufacturing from South, East and South-East Asia have been mainly via greenfield investment. For the region as a whole, manufacturing accounts for about half of accumulated outward FDI through greenfield investment, but less than 15 per cent of the total amount of cross-border M&A purchases. In 2010, the total value of deals in manufacturing was \$9 billion, equivalent to about 9 per cent of all M&A purchases.

Major industrial targets of FDI outflows from East and South-East Asia are electronics, metal and metal products, motor vehicles, and chemicals and chemical products (figure II.2). As the global centre of electronics production, the region is also the major source of FDI in the electronics industry. Indeed, this industry accounts for more than one-quarter of both greenfield projects and cross-border M&As in the region, in value terms. The significance of electronics in outward FDI from the region is in line with the international competitiveness of Asian

Table II.3. Major foreign production locations of selected oil and gas, mining and steel companies based in South, East and South-East Asia, 2010

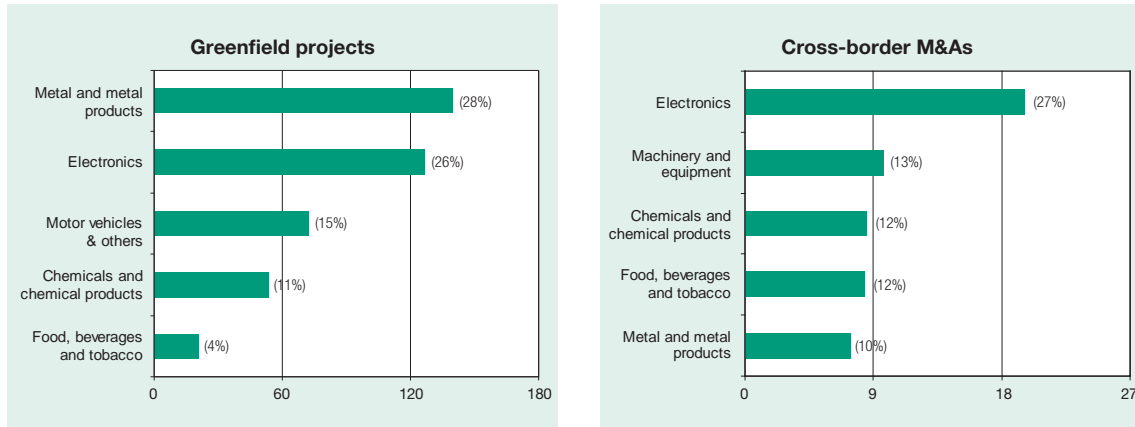
Major foreign production location	Oil and gas companies				Mining companies		Steel companies	
	CNPC (China)	ONGC (India)	KNOC (Republic of Korea)	PETRONAS (Malaysia)	Minmetal (China)	MSC Group (Malaysia)	Sinosteel (China)	Tata Steel (India)
Algeria	X			X				
Australia				X	X	X	X	X
Azerbaijan	X		X					
Cameroon				X			X	
Canada	X		X			X		X
Chad	X			X				
Guinea	X							
Indonesia	X		X	X		X	X	
Iran, Islamic Rep. of	X	X						
Iraq	X	X	X	X				
Kazakhstan	X	X	X					
Libyan Arab Jamahiriya	X	X	X					
Mauritania	X			X				
Myanmar	X	X		X				
Niger	X							
Nigeria	X	X	X					
Oman	X							X
Peru	X		X		X			
Philippines						X	X	
Russian Federation	X	X	X					
Sudan	X	X						
Syrian Arab Republic	X	X						
United States			X		X			X
Thailand	X							X
Uzbekistan	X		X					
Venezuela, Bolivarian Rep. of	X	X	X					
Viet Nam		X	X	X				X

Source: UNCTAD, based on company annual reports and UNCTAD's database on cross-border M&As.

companies in the industry, particularly the contract manufacturers, which have become a dominant force at the production stage of the global electronics value chain (chapter IV). For instance, Hon Hai (Taiwan Province of China) has become the world's largest contract manufacturer, with about \$60 billion sales and 1,000,000 employees in 2010.¹⁷ So far its production activities are concentrated in East Asia, most notably China. However, the company is establishing new production locations both within and outside the region, such as in South-East Asia (Malaysia and Viet Nam) and the Czech Republic; it is also considering a multi-billion investment in Brazil. Within China, Hon Hai is aggressively investing in large-scale production bases in inner land areas such as Chongqing, Henan, Sichuan and Shanxi.

As illustrated by the case of electronics, greenfield investment in manufacturing from South, East and South-East Asia is concentrated within the region. Driven by market- and efficiency-seeking motivations, manufacturers from a wide range of industries have been investing mainly in neighbouring countries. However, as the industrial landscape in the world evolves, with rising production costs in some economies in the region and shifting corporate strategies, the pattern of outward FDI from the region has started to change. New production locations outside of the region have emerged. Although the scale of Asian FDI in manufacturing in Africa and Latin America and the Caribbean remains small so far, the potential seems to be large. A new round of industrial restructuring and upgrading is taking place in China, and some

Figure II.2. Outward FDI from South, East and South-East Asia in manufacturing, top 5 industries, cumulative 2003–2010
(Billions of dollars and per cent)



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDI Markets (www.fDimarkets.com).

Note: Figures in parenthesis show the share of the industry in the region's total amount of investment.

low-end, export-oriented manufacturing activities have been shifting from coastal China to low income countries in South-East Asia and also Africa.

In recent years, companies from major economies in the region, including China, India, the Republic of Korea and Singapore, have actively been taking over companies in developed countries, as highlighted by a number of mega-deals (table II.4). For Asian companies eager to tackle global markets, accumulate ownership advantages and enhance international competitiveness, strategic assets-seeking investment through cross-border M&A is a particularly attractive choice. For example, Chinese companies are often attracted by various intangible assets, such as advanced, proprietary technologies, brand names and distribution channels (Buckley et al., 2007). M&A opportunities in developed countries, triggered by industrial restructuring during and after the global financial crisis, and high profitability and abundant bank lending at home, also help boost outward FDI in manufacturing.

Asian companies have been facing political obstacles in undertaking strategic assets-seeking FDI as they become important players in M&A markets in developed countries. This is illustrated

by the failed attempts by Huawei Technologies (China) to take over 3Com and 3Leaf in the United States in 2008 and 2010.¹⁸ How to clear such hurdles for Chinese investors became an important issue discussed at the third China-United States Strategic and Economic Dialogue in 2011.

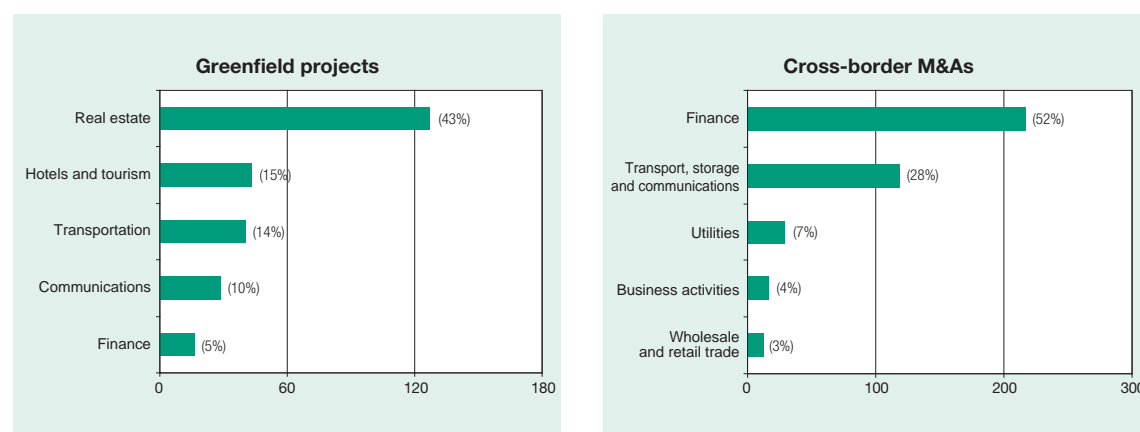
FDI outflows in services. As the major target of international investment by Asian firms, services account for about 70 per cent of accumulated outward FDI through cross-border M&A purchases. In contrast, the share is below 30 per cent for greenfield investment. The main target services for FDI outflows from South, East and South-East Asia are real estate, hotels and tourism, telecommunications, transportation, and financial services (figure II.3).

During the past few years, although FDI outflows from the region in the services sector have declined, market-seeking M&As in specific service industries, such as hotels, health services and telecommunications, have been increasing, targeting economies both in and outside the region. In the meantime, FDI outflows in financial services have also rebounded since the global financial crisis. In 2010, the value of deals in finance more than doubled to \$39 billion.

Table II.4. Selected M&A mega-deals in manufacturing undertaken by firms from South, East and South-East Asia in developed countries, 2007–2011

Acquiring company	Target company	Industry	Value (\$ million)	Year
Tata Steel (India)	Corus Group (United Kingdom)	Steel	11 791	2007
Hindalco Industries (India)	Novelis Inc. (United States)	Aluminium	5 789	2007
Doosan (Republic of Korea)	Ingersoll-Rand Co. (United States)	Construction equipment	4 900	2007
Flextronics (Singapore)	Solectron Corp. (United States)	Electronics	3 675	2007
Tata Motors Ltd. (India)	Jaguar Cars Ltd. (United Kingdom)	Motor vehicles	2 300	2008
China National Agrochemical	Elkem AS (Norway)	Aluminium	2 179	2011
Wanhua Polyurethanes (China)	BorsodChem Zrt (Hungary)	Chemical products	1 701	2011
Essar Steel Holdings (India)	Algoma Steel Inc. (Canada)	Steel	1 603	2007
United Spirits (India)	Whyte & Mackay (United Kingdom)	Food and beverages	1 176	2007
Geely Holding Group (China)	Volvo (Sweden)	Motor vehicles	1 500	2010

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Figure II.3. Outward FDI from South, East and South-East Asia in the services sector, top 5 industries, cumulative 2003–2010 (Billions of dollars and per cent)

Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Figures in parenthesis show the share of the industry in the region's total amount of investment.

In telecommunications, the total value of deals surged to about \$14 billion in 2010. Bharti Airtel (India) alone spent \$10.7 billion to buy Zain's (Kuwait) mobile operations in Africa (annex table I.7). Through this aggressive market-seeking deal, Bharti Airtel gained access to mobile markets in 15 African countries and became the world's fifth largest mobile telecom operator, by number of subscribers. The Indian company aims to have 100

million subscribers and \$5 billion annual revenue in Africa by 2013, growing from the baseline of 42 million subscribers and \$3.6 billion revenue in 2010. However, it faces challenges to streamline its operations across the 15 different countries, and turn around loss-making assets.¹⁹ In the hotel industry, HNA (China) paid \$620 million for a 20 per cent stake in NH Hotels (Spain) in May 2011, aiming at market expansion in Europe.²⁰

3. West Asia

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,^a 2010

Range	Inflows	Outflows
Above \$10 billion	Saudi Arabia	..
\$5.0 to \$9.9 billion	Turkey and Qatar	..
\$1.0 to \$4.9 billion	Lebanon, United Arab Emirates, Oman, Jordan, Iraq and Syrian Arab Republic	Saudi Arabia, Kuwait, United Arab Emirates, Qatar and Turkey
Below \$1.0 billion	Bahrain, Palestinian Territory, Kuwait and Yemen	Lebanon, Bahrain, Oman, Yemen, Iraq, Jordan, Syrian Arab Republic and Palestinian Territory

^a Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
West Asia	66.0	58.2	26.3	13.0	3.5	4.6	26.8	- 15.6
Gulf Cooperation Council (GCC)	47.1	39.9	23.4	10.5	0.6	2.0	26.6	- 15.5
Turkey	8.4	9.1	1.6	1.8	2.8	2.1	-	-
Other West Asia	10.5	9.3	1.4	0.7	0.1	0.6	0.3	- 0.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
West Asia	487.6	575.2	151.1	161.0	19.8	21.0	6.7	6.9
Gulf Cooperation Council (GCC)	274.9	314.9	119.2	127.0	14.2	14.6	5.7	5.7
Turkey	143.6	181.9	22.3	23.8	2.9	3.0	0.2	0.2
Other West Asia	69.1	78.4	9.5	10.2	2.7	3.3	0.9	1.0

Figure A. FDI inflows, 2000–2010

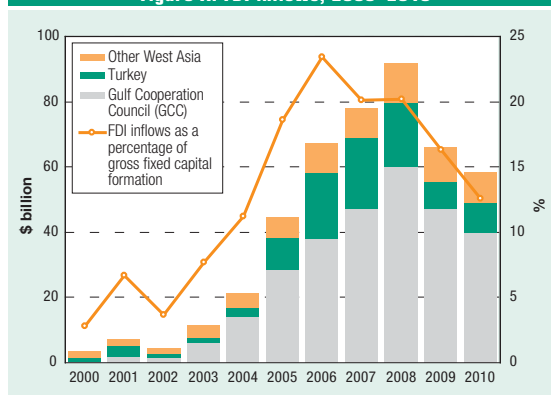


Figure B. FDI outflows, 2000–2010

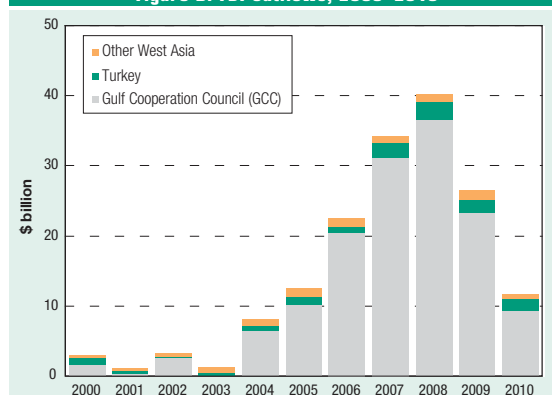


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	3 543	4 617	26 843	-15 560
Primary	8	170	52	1 484
Mining, quarrying and petroleum	8	170	52	1 484
Manufacturing	199	2 126	142	8
Food, beverages and tobacco	91	32	113	-
Textiles, clothing and leather	-	32	-	-
Coke, petroleum products and nuclear fuel	-	1 525	-	-
Chemicals and chemical products	- 56	19	- 4	- 19
Non-metallic mineral products	- 44	-	-	20
Metals and metal products	110	410	33	-
Electrical and electronic equipment	97	107	-	-
Services	3 336	2 321	26 648	-17 052
Electricity, gas and water	2 361	- 59	724	400
Construction	78	14	-	-
Trade	85	74	85	12
Hotels and restaurants	-	331	-	- 15
Transport, storage and communications	41	100	1 645	-10 736
Finance	550	1 637	24 510	-1 897
Business services	120	146	297	556
Public administration and defence	-	-	- 612	- 5 372
Health and social services	100	112	-	-
Community, social and personal service activities	-	- 38	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	3 543	4 617	26 843	-15 560
Developed economies	3 174	2 357	21 451	-2 909
European Union	2 457	1 472	16 387	-1 037
United States	349	112	3 012	-2 333
Australia	-	3	1 143	322
Japan	-	343	146	-
Developing economies	358	1 673	5 362	-12 691
Africa	-	965	- 164	-10 653
North Africa	-	965	- 164	47
Sub-Saharan Africa	-	-	-	-10 700
Latin America and the Caribbean	-	-	320	-
Asia	358	708	5 206	-2 038
West Asia	201	105	201	105
Jordan	-	- 15	101	-
Saudi Arabia	114	27	12	66
Turkey	-	-	118	49
South, East and South-East Asia	158	602	5 005	-2 143
Korea, Republic of	-	122	49	-2 234
Singapore	-	2	3 923	- 92
South-East Europe and the CIS	-	21	30	40
Armenia	-	-	30	-
Russian Federation	-	21	-	40

FDI flows to West Asia in 2010 continued to be affected by the global economic crisis. They decreased by 12 per cent to \$58 billion (table B and figure A), despite the steady economic recovery registered in 2010 in most of the economies of the region, underpinned by sizeable increases in government spending in oil-rich countries. Private investors however remained cautious. The estimated value of greenfield FDI projects fell in both 2009 (by 42 per cent) and 2010 (by 44 per cent). Cross-border M&A sales – traditionally concentrated mainly in Turkey – whilst increasing by 30 per cent in 2010, remained at a very low level (\$4.6 billion), due to the ending of the privatization process in this country.

The fall in FDI inflows in 2010 varied by country. For example, they dropped by 12 per cent in Saudi Arabia, where a number of flagship mega-projects in the petrochemical industry involving joint ventures between the State-owned Saudi Aramco and foreign TNCs saw the withdrawal of foreign partners (ConocoPhillips from the Yanbu project), or were temporarily frozen (such as the Ras Tanura integrated project with Dow Chemical), or failed to attract enough foreign investment, and became domestic operations fully funded by Saudi Aramco (as for example the Jazan refinery). In Qatar, FDI inflows fell by 32 per cent as the last of four LNG Qatargas plants, that had bolstered FDI in 2009, was completed in 2010. In the United Arab Emirates FDI stayed at the same low level as in 2009, when it had plummeted to \$4 billion due to the economic crisis. The 8 per cent rise in Turkey mainly resulted from a 40 per cent increase in real estate investment.

FDI inflows are now expected to bottom out, as cross-border M&As have risen fivefold during the first five months of 2011 from the low value registered during the corresponding period of 2010, due to a large acquisition in Turkey,²¹ and greenfield investments increased by 9 per cent in the first four months of 2011 over the corresponding period of 2010. However, concerns about the political stability of the region are likely to remain, holding back its recovery, as foreign companies will be reluctant to sink large sums of money into projects until the political outlook becomes clearer.

This uncertainty is likely to affect both inflows

and outflows, given the importance of both intra-regional investments and West Asia's investment in North Africa. For example in March 2011, AES (United States) withdrew from bidding for a power plant project in Saudi Arabia. Qatar Electricity Company is evaluating the situation in the Syrian Arab Republic before proceeding with plans to build a plant there. In addition, the telephone company Etisalat (United Arab Emirates) recently cancelled its \$12 billion bid for Zain, a Kuwaiti rival, citing unrest as one of the reasons.²²

Unrest is also affecting outward investment by putting pressure on governments and government-controlled entities to direct more investment into their own economies and to finance higher social spending to pre-empt or respond to popular discontent. Long-term prospects for outward investments are nevertheless positive on the whole, as oil prices prospects suggest that funds available for investment abroad will continue to rise.

b. Outward FDI strategies of West Asian TNCs

FDI outflows from West Asia declined significantly for the second consecutive year (table B and figure B). They fell by 51 per cent in 2010 due to divestments by West Asian firms.

The largest ones included the \$10.7 billion sale by Zain Group (Kuwait) of its African operations to Bharti Airtel (India), and the \$2.2 billion sale by International Petroleum Investment Company of a 70 per cent stake in Hyundai Oilbank in the Republic of Korea to Hyundai Heavy Industries Co. At the same time, the estimated value of West Asian greenfield projects abroad dropped by 52 per cent.

Outward investment from West Asia is driven mainly by government-controlled entities that have been redirecting part of their investment to support their home economies, weakened by the global financial crisis. In addition, outward investment by the private sector has been affected by the tightening of lending by local banks to the private sector amid the financial crisis.

State-owned entities from oil-rich countries have led West Asia's outward FDI boom since the early 2000s. Their strategy is driven not only by financial returns, but also by economic and political objectives.

The decline of outward FDI from West Asia since 2009 came after a period of notable increase that began in 2004, raising outward FDI stock from \$25 billion in 2003 to \$161 billion in 2010. Gulf Cooperation Council (GCC) countries accounted for 79 per cent of the total, led by the United Arab Emirates and Saudi Arabia which together accounted for 45 per cent of the region's total outward FDI stock (annex table I.2).

A number of factors explain this surge of outward FDI from rich Arab countries. These include the accumulation of considerable surpluses, thanks to the surge in oil prices; low interest rates and high volatility of equity markets, which diverted part of these surpluses from purely financial investment; and the adoption of a policy of economic diversification that includes investing abroad in industries perceived as strategic for the development and diversification of their national economies.

The outward FDI boom was largely driven by State-owned enterprises. These companies accounted for 73 per cent of the amount of cross-border acquisitions by West Asian firms and for 47 per

cent of the region's greenfield outward FDI projects during the period 2004–2010. Companies from the United Arab Emirates have been by far the most active investors abroad. Qatar, Saudi Arabia, Bahrain and Kuwait have been other significant outward investors (table II.5).

Targeted regions and sectors. In terms of geographical distribution, developed countries have been the preferred destination of cross-border M&A purchases by West Asian firms, attracting 68 per cent of net purchases during 2004–2010 (table II.6). In contrast, developing and transition economies are by far the main destination of West Asian greenfield FDI abroad: between 2003 and 2010, they attracted 93 per cent of the total, the main destinations being West Asia (31 per cent) and North Africa (29 per cent) (table II.7).

In sectoral terms, 59 per cent of the estimated value of greenfield projects during 2003 and 2010 concerned real estate, located mainly in developing and transition economies (98 per cent), particularly in North Africa and West Asia. Other significant industries in West Asian outward greenfield projects are oil and gas (10 per cent) and hotels and tourism

Table II.5. West Asia: cross-border M&A purchases and greenfield outward FDI projects by ownership type and by home economy, cumulative 2004–2010
(Billions of dollars and per cent)

Home economy	Net cross-border M&A purchases				Greenfield FDI projects ^a			
	State owned ^b	Private owned	Total		State owned ^b	Private owned	Total	
			Value	Per cent			Value	Per cent
Bahrain	0.3	4.0	4.3	3	41.1	35.9	76.9	13
Iraq	-	-	-	-	-	0.1	0.1	-
Jordan	-	0.3	0.3	-	0.2	4.4	4.6	1
Kuwait	-6.5	6.6	0.1	-	18.0	38.0	56.0	10
Lebanon	-	1.1	1.1	1	-	9.7	9.7	2
Oman	0.3	0.8	1.1	1	2.4	1.0	3.4	1
Palestinian territory	-	-	-	-	-	0.3	0.3	-
Qatar	21.8	1.5	23.2	18	24.5	5.2	29.7	5
Saudi Arabia	20.8	9.1	29.9	23	13.2	28.0	41.2	7
Syria	-	-	-	-	-	0.4	0.4	-
Turkey	-	2.7	2.7	2	-	21.8	21.8	4
United Arab Emirates	56.5	8.7	65.2	51	169.6	157.5	327.1	57
Yemen	-	-	-	-	-	0.1	0.1	-
Total	93.1	34.7	127.8	100	268.9	302.4	571.3	100
Total, per cent	73	27	100	-	47	53	100	-

Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

^a The value refers to the estimated amounts of capital investment.

^b Refers to TNCs in which the State has a controlling stake.

(6 per cent). In the case of cross-border M&As, purchases in developed countries have targeted companies that operate mainly in the chemicals, motor vehicle, extractive, transport and hotel

industries, in that order (table II.6). In developing countries, the preferred purchase targets have been telecommunications, and electrical and electronic equipment in South, East and South-East Asia.

Table II.6. West Asia: cross-border M&A purchases by region/industry of destination, cumulative 2004–2010
(Millions of dollars and per cent)

Sector / industry	Developed economies			Developing and transition economies			World	
	Total	North America	Europe	Total	West Asia	South, East and South-East Asia	Value	Per cent
Primary, of which	15 253	7 932	5 616	- 991	228	-1 922	14 261	11
Mining, quarrying and petroleum	14 910	7 932	5 616	- 991	228	-1 922	13 918	11
Secondary, of which	38 343	20 517	17 040	11 136	315	9 632	49 479	39
Chemicals and chemical products	18 005	13 826	4 178	3 887	- 44	3 128	21 892	17
Motor vehicles and other transport equipment	14 954	1 800	13 154	2 136	82	2 054	17 090	13
Electrical and electronic equipment	3 220	3 216	3	4 070	97	3 972	7 289	6
Tertiary, of which	32 929	10 731	21 914	31 229	19 420	13 795	64 158	50
Post and communications	3 947	- 13	3 900	16 735	13 380	9 736	20 683	16
Transport	9 479	1 249	8 299	1 092	161	- 40	10 571	8
Business activities	7 209	1 677	5 459	2 377	947	1 515	9 586	7
Hotels and restaurants	8 928	7 349	1 550	580	0	352	9 508	7
Total	86 525	39 180	44 571	41 374	19 963	21 505	127 899	100
Total, per cent	68	31	35	32	16	17	100	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Table II.7. West Asia: greenfield outward FDI projects by region/industry of destination, cumulative 2004–2010
(Millions of dollars and per cent)

Sector / industry	Developed economies			Developing and transition economies				World	
	Total	North America	Europe	Total	West Asia	North Africa	South, East and South-East Asia	Value	Per cent
Primary, of which	3 016	38	2 177	59 698	11 018	11 948	23 073	62 713	10.7
Coal, oil and natural gas	2 478	22	1 657	56 773	10 769	11 345	21 497	59 251	10.1
Secondary, of which	15 921	3 158	12 314	66 308	19 819	10 922	26 349	82 229	14.0
Metals	103	10	93	22 112	6 603	6 563	7 551	22 216	3.8
Chemicals	1 342	5	971	14 317	828	292	11 711	15 658	2.7
Non-metallic minerals	1 545	2	1 543	10 162	4 213	505	3 434	11 707	2.0
Food, beverages and tobacco	448	18	430	9 206	5 026	2 054	981	9 655	1.6
Plastics	6 712	88	6 621	633	185	37	288	7 345	1.3
Tertiary, of which	20 327	3 408	16 397	421 253	149 237	148 309	60 130	441 580	75.3
Real estate	6 297	2 272	4 025	338 395	118 449	132 424	40 581	344 692	58.8
Hotels and tourism	6 757	-	6 687	26 219	16 071	3 487	3 582	32 976	5.6
Communications	1 013	105	908	18 934	3 170	3 346	3 938	19 947	3.4
Transportation	3 964	370	3 493	13 942	509	2 311	7 238	17 906	3.1
Leisure and entertainment	580	324	256	11 480	5 444	5 746	223	12 060	2.1
Total	39 264	6 604	30 888	547 258	180 074	171 179	109 552	586 522	100
Total, per cent	7	1	5	93	31	29	19	100	-

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The value refers to the estimated amounts of capital investments.

The most important investors and their strategy.

Investors from West Asia have traditionally played a passive role, focusing on liquidity and safety rather than return on investments. However, with access to increasing funding derived from high commodity prices, and with higher levels of managerial skill, they have become increasingly active in direct acquisitions and greenfield FDI projects that entail a long-term relationship and involvement in management.

West Asia's outward investment flows are concentrated in a small number of companies – 10 companies accounted for 83 per cent of cross-border M&A purchases between 2004 and 2010. Of these, only three undertake specific activities (such as petrochemicals, telecom, construction), the others are holding groups or investment companies. Furthermore, the United Arab Emirates is home to half of them. All but two of these companies are owned by or strongly related to the State. Most of them were created in the 2000s (table II.8).

The FDI strategies of these State-owned investors are generally linked to the economic and political objectives of their respective governments. They aim not only at achieving revenue maximization and diversification, but also at building international partnerships and strategic alliances that generally support economic and political objectives. It is also common that the State-owned entities use foreign alliances and partnerships built through outward FDI as a tool to attract FDI and enhance its impact on the host economy. The example of two State-owned entities or SWFs established during the 2000s – the Qatar Investment Authority (QIA) and Mubadala – illustrates this new trend.

Qatar Investment Authority (QIA) has been making a number of high-profile international direct investments in the financial services, automotive, aerospace and construction industries, and in real estate.²³ These include the acquisition of 17 per cent of the voting rights in Volkswagen, which was accompanied by a memorandum of understanding seeking to establish R&D collaboration, testing and training facilities in Doha; the acquisition of the German construction firm Hochtief in 2010, aimed at facilitating the transfer of advanced technology and know-how to Qatar;²⁴ and the acquisition of an 8 per cent share in the French public works company

Vinci in 2009 (becoming the top shareholder after its employees), which reinforced its partnership with this company, and widened the scope of Vinci's activities in Qatar.²⁵

Mubadala aims to develop world-leading clusters of expertise in strategically important sectors, and accordingly has created nine business units. Amongst them, Mubadala Aerospace aims at turning Abu Dhabi into a global aerospace hub. Mubadala Industry is pursuing investment and development opportunities in capital, energy and intellectual property-intensive sectors, and Mubadala Information & Communications Technology is creating a portfolio of global ICT assets to develop industry-leading facilities at home and in the region. Other projects include the energy, healthcare, real estate, infrastructure and services sectors. For example, in recent years, Mubadala has acquired stakes in the aircraft manufacturing company Piaggio Aero (Italy), the semiconductor company Advanced Micro Devices (United States), the provider of technical solutions to airlines SR Technics (United States), the oil and gas company Pearl Energy (Singapore), the car manufacturer Ferrari (Italy), and the global investment firm Carlyle Group (United States). It has also developed joint ventures and funds with notable investors and industry leaders such as Credit Suisse and General Electric.²⁶

Given the high levels of their foreign exchange reserves and the relatively small sizes of their respective economies, GCC countries can afford to spend large amounts of foreign currency on overseas investments. It is important, however, that they assess the performance and effectiveness of their strategy of using outward FDI as an instrument for economic development.

The economic diversification policies of GCC countries has been pursued by a dual strategy. In sectors such as construction and real estate, finance, telecommunications, and transport, Gulf countries have developed a certain level of expertise at home that has allowed them to engage in outward direct investment in these fields. This outward FDI has aimed mainly at building a presence in other Arab countries in West Asia and North Africa to compensate for the small size of their domestic economies. Lacking strong proprietary assets, West Asian firms have expanded to neighbouring countries where

they took advantage of their financial capacities and cultural proximity, which contributed to increasing their expertise and improving their competitiveness.

In investing in developed countries and Asian emerging economies, consisting mainly in using M&As, the region has a different strategy to aim at enhancing capabilities in industries existing at home – such as finance, hotels and petrochemicals – but also and increasingly to develop capabilities in industries not actually present at home, such as motor vehicles, aerospace, alternative energies and electronics. This approach differs from that of other countries, which have generally first developed a

certain level of capacity at home, before engaging in outward direct investment.

It is generally through the medium of exchanges between parent companies and foreign affiliates – such as transfer of technological knowledge, movement of employees and intra-firm trade – that outward FDI can become a source of improved competitiveness at home. In the absence of a parent company that performs related activities at home, a question is raised about the nature of the channels through which cross-border purchases of enterprises can contribute to the development and diversification of the region's economies.

Table II.8. The top 10 West Asian companies, ranked by the total value of cross-border M&A purchases, cumulative 2004–2010
(Millions of dollars)

Company name	Home country	Cross-border M&A purchases ^a	Activity	Creation date	Ownership	Information about the company
Dubai World	United Arab Emirates	18 282	Holding company	2006	State-owned	Owned by the Government of Dubai. Its mandate is to manage and supervise a portfolio of businesses and projects for the Dubai Government across a wide range of industries.
Qatar Investment Authority (QIA)	Qatar	14 293	SWF	2005	State-owned	Its mandate is to diversify the Qatari national economy.
SABIC	Saudi Arabia	12 411	Petrochemical company	1976	State-owned	Created in 1976, it is 70% State-owned. It produces chemicals, fertilizers, plastics and metals.
International Petroleum Investment Company (IPIC)	United Arab Emirates	12 255	Energy investment fund	1984	State-owned	Owned by the Government of Abu Dhabi with a mandate to invest in the energy sector across the globe.
Dubai Holding	United Arab Emirates	10 754	Holding company	2004	State-owned	99.67% owned by the ruler of Dubai. Its mandate is to consolidate the various large scale infrastructure and investment projects in Dubai that were created over the past five years as well as to identify and execute future major projects.
Arcapita	Bahrain	10 163	Islamic Investment Bank	2005	Private	It acquires controlling interests in foreign companies with the aim of providing investments with strategic and financial support when necessary, and to exit at the right time and price.
TAQA	United Arab Emirates	9 848	Energy investment company	2005	State-owned	51% owned by ADWEA, wholly owned by the Abu Dhabi Government. Its mandate is to own, invest in and/or operate companies engaged in the oil and gas, power generation, water, energy and infrastructure sectors, in addition to making other investments as considered appropriate to meet its objectives.
Mubadala	United Arab Emirates	7 808	Investment Company	2002	State-owned	Owned by the Government of Abu Dhabi. Its mandate is to facilitate the diversification of Abu Dhabi's economy.
STC	Saudi Arabia	5 900	Telecom company	1998	State-owned	70% State-owned. It is Saudi Arabia's largest telecom service provider and the only integrated service provider.
Saudi Oger	Saudi Arabia	4 215	Construction and infrastructure	1978	Private	Founded as a construction company, it covers several activities including telecommunication, real estate development, printing, utilities and IT services.

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

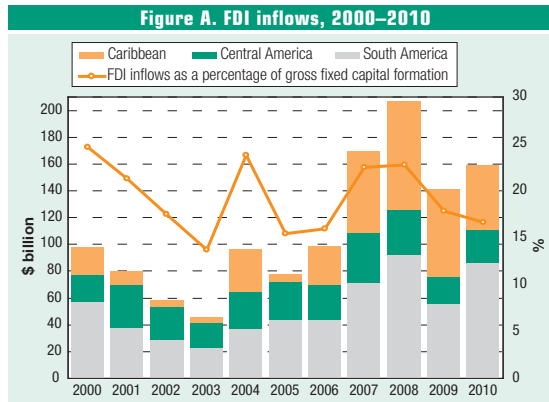
^a Estimated value. Includes only deals involving the acquisition of at least 10 per cent of the shares.

4. Latin America and the Caribbean

a. Recent trends

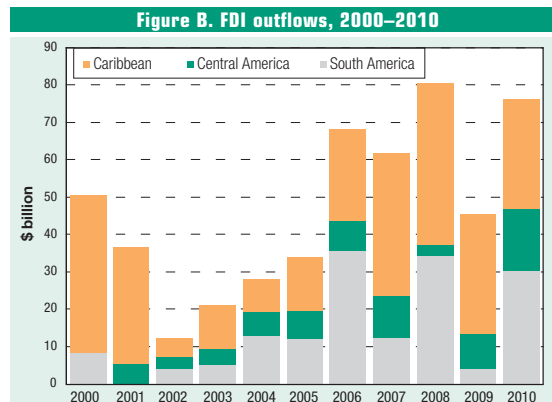
Range	Inflows	Outflows
Above \$10 billion	Brazil, British Virgin Islands, Mexico, Chile and Cayman Islands	British Virgin Islands, Mexico and Brazil
\$5.0 to \$9.9 billion	Peru, Colombia and Argentina	Chile, Cayman Islands and Colombia
\$1.0 to \$4.9 billion	Panama, Uruguay, Dominican Republic and Costa Rica	Bolivarian Republic of Venezuela and Panama
\$0.1 to \$0.9 billion	Bahamas, Honduras, Guatemala, Plurinational State of Bolivia, Trinidad and Tobago, Nicaragua, Paraguay, Jamaica, Guyana, Suriname, Ecuador, Aruba, Haiti, Saint Kitts and Nevis, Netherlands Antilles and Antigua and Barbuda	Argentina and Peru
Less than \$0.1 billion	Saint Lucia, Belize, Turks and Caicos Islands, Saint Vincent and the Grenadines, Grenada, Cuba, Barbados, El Salvador, Dominica, Anguilla, Montserrat and Bolivarian Republic of Venezuela	Jamaica, Guatemala, Netherlands Antilles, Nicaragua, Ecuador, Costa Rica, Uruguay, Turks and Caicos Islands, Aruba, Barbados, Belize, Honduras, Paraguay, Dominican Republic and Plurinational State of Bolivia

^a Economies are listed according to the magnitude of their FDI flows.



Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Latin America and the Caribbean	141.0	159.2	45.5	76.3	- 4.4	29.5	3.7	15.7
South America	55.3	86.5	4.1	30.3	- 5.3	18.0	3.1	11.7
Central America	20.5	24.6	9.4	16.8	0.2	8.9	3.4	3.3
Caribbean	65.2	48.1	32.1	29.2	0.8	2.6	- 2.8	0.7

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Latin America and the Caribbean	1 507.7	1 722.3	664.4	732.8	77.7	91.4	7.7	8.8
South America	787.8	899.5	272.4	307.5	63.0	77.7	7.2	7.4
Central America	352.6	407.7	94.5	98.6	12.1	10.9	0.1	0.9
Caribbean	367.3	415.1	297.5	326.7	2.6	2.8	0.5	0.5



Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	-4 358	29 481	3 740	15 710
Primary	-2 327	11 692	4 689	2 112
Agriculture, hunting, forestry and fishing	43	423	- 1	96
Mining, quarrying and petroleum	-2 370	11 269	4 690	2 016
Manufacturing	-2 768	8 092	859	4 962
Food, beverages and tobacco	404	6 771	3 224	2 834
Wood and wood products	61	- 115	-	- 130
Coke, petroleum products and nuclear fuel	-	57	- 947	-
Chemicals and chemical products	61	- 1 221	63	373
Non-metallic mineral products	125	695	- 1 337	990
Metals and metal products	-3 219	82	5	672
Electrical and electronic equipment	- 90	1 742	- 188	-
Motor vehicles and other transport equipment	- 134	72	-	150
Services	737	9 697	- 1 808	8 637
Electricity, gas and water	-2 642	409	- 103	1 227
Construction	- 12	18	- 12	49
Trade	1 575	1 410	- 14	762
Transport, storage and communications	3 421	2 962	120	164
Finance	-2 353	1 565	- 2 113	4 105
Business services	735	2 437	379	1 070
Education	18	503	-	-
Community, social and personal service activities	1	217	-	1 200

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	-4 358	29 481	3 740	15 710
Developed economies	-6 815	3 581	3 475	11 544
European Union	-3 023	946	- 1 233	2 534
United States	- 797	- 512	5 603	5 225
Japan	- 89	4 508	561	125
Developing economies	1 850	24 970	420	4 313
Africa	395	- 75	- 70	- 84
Latin America and the Caribbean	116	5 015	116	5 015
South America	2 288	4 086	- 62	2 062
Brazil	1 659	386	- 90	257
Colombia	211	3 116	796	182
Central America	16	747	177	2 839
Mexico	16	761	10	193
Caribbean	- 2 188	182	2	115
Asia	1 338	19 935	374	- 618
West Asia	320	-	-	-
South, East and South-East Asia	1 018	19 935	374	- 618
China	133	12 915	374	281
Korea, Republic of	893	720	161	-
India	-	5 460	64	- 735
South-East Europe and the CIS	-	- 3	- 156	- 147
Russian Federation	-	- 3	- 159	- 156

FDI inflows to Latin America and the Caribbean rose 13 per cent to \$159 billion in 2010 (table B), following a 32 per cent decline in 2009. However, they remained below their 2008 level (figure A). The strongest increase was in South America, where FDI rose by 56 per cent to \$86 billion, with Brazil alone accounting for 56 per cent of this amount. Inflows to Central America increased by 20 per cent to \$25 billion, of which Mexico attracted \$19 billion. Those to the Caribbean decreased by 26 per cent, to \$48 billion, of which offshore financial centres accounted for 95 per cent.

The FDI rebound in 2010 was due mainly to the strong rise in cross-border M&As. These rose from negative values (because of divestment) in 2009 to \$29 billion in 2010 (tables D and E), the highest level since 2000. This shows a renewed interest by foreign firms in the acquisition of Latin American enterprises, after a decade of sluggish cross-border M&A activities in the region. On the other hand, the estimated value of greenfield projects in 2010 increased by 8 per cent – after a 13 per cent decrease in 2009 – sustaining the recovery of FDI inflows from the impact of the global financial crisis.

In an unprecedented surge of investment, developing Asian countries (mostly China and India) became the main acquirers of Latin American and Caribbean firms in 2010 (see section 4.b). Their acquisitions totalled \$20 billion or 68 per cent of the total. The share of developed countries was only 12 per cent, and that of Latin America and the Caribbean 17 per cent. In the case of greenfield investment, however, developed countries were responsible for 79 per cent of the total amount of projects in 2010, while Latin America and the Caribbean accounted for 10 per cent and developing Asia for 9 per cent.

The sectoral breakdown in 2010 differs by entry mode. Cross-border M&A predominantly concerned the primary sector (40 per cent of total amount), while greenfield projects were mostly in the manufacturing sector (58 per cent of total estimated amounts), especially the metal industry.

All the main recipient countries, except for Colombia, registered significant increases in FDI inflows in 2010. The highest growth (87 per cent) occurred in Brazil and resulted from the doubling

of equity capital, mainly in the primary sector, but also in manufacturing (16 per cent). In Mexico (22 per cent) and Chile (17 per cent), the increases were due to the growth of cross-border M&A sales, while the 58 per cent growth in Argentina stemmed from intra-company loans. The decrease of FDI to Colombia (down 5 per cent) was due mainly to a 32 per cent decrease in FDI into metal mining.

FDI inflows are expected to increase in 2011, due to a jump of FDI inflows to Brazil, the main recipient country, which absorbed 30 per cent of the region's total FDI inflows in 2010. Preliminary data show that in the first four months of 2011, FDI into Brazil amounted to \$23 billion, a threefold increase over the corresponding period of 2010. This resulted from a strong increase in both equity capital (an increase of 147 per cent to \$18 billion) and intra-company loans (15-fold increase to \$5 billion). Greenfield FDI projects into the region also registered a significant increase in the four first months of 2011: their estimated value was 94 per cent above the corresponding period of the previous year.

After plummeting in 2009, FDI outflows from Latin America and the Caribbean increased by 67 per cent to \$76 billion in 2010 (table B). Strong increases were registered in the region's two main outward investor countries: Mexico and Brazil. In the latter, outflows jumped from a large negative value in 2009 (–\$10 billion) to \$11.5 billion in 2010, and they increased by 104 per cent in Mexico.

This rise in outward FDI – the strongest among the world's economic regions – is mainly due to the surge in cross-border M&A purchases, which increased more than fourfold to \$15.7 billion (tables D and E). Greenfield projects abroad also increased (23 per cent) in 2010, after declining by 19 per cent in 2009.

The region's TNCs, bolstered by strong economic growth at home, have increased their investments abroad, in particular in developed countries (table E), where investment opportunities have arisen in the aftermath of the crisis. Brazilian companies such as Vale, Gerdau, Camargo Correa, Votorantim, Petrobras and Braskem have made acquisitions in the iron ore, steel, food, cement, chemical, and petroleum-refining industries in developed

countries. Mexican firms such as Grupo Televisa, Sigma Alimentos, Metalsa and Inmobiliaria Carso purchased firms in the United States in industries such as media, food, motor vehicles and services. There have been also some important intraregional acquisitions (table E), the most significant being the \$1.9 billion purchase by Grupo Aval (Colombia) of BAC Credomatic, a Panamanian affiliate of General Electric.

While 73 per cent of the region's cross-border M&A purchases were concentrated in developed countries in 2010 (table E), an estimated 75 per cent of outward greenfield projects were located in developing countries. Of these, 78 per cent targeted Latin America and the Caribbean, 13 per cent South, East and South-East Asia, and 5 per cent Africa.

FDI from the region is expected to decrease in 2011, as preliminary data for the first four months of 2011 show high negative values for FDI outflows from Brazil (minus \$9 billion). This is the result of a more than sevenfold increase (to \$14 billion) in repayment of loans (intra-company loans) from foreign affiliates to their parent company in Brazil. Outflows from Mexico also decreased in 2011, accounting in the first quarter of 2011 for only one-fifth of their value in the same period of 2010.

b. Developing country TNCs' inroads into Latin America

Intraregional FDI gained strength during the 2000s, and investments in resource-seeking activities from developing Asia surged in 2010.

Direct investment by TNCs from developing countries has been on the rise in Latin America and the Caribbean during the 2000s. This follows decades during which TNCs based in developed countries were the most dynamic foreign source of direct investment into the region. This trend is obvious in the region's cross-border M&A market, where the average amount of annual purchases by developing economy-based TNCs increased from \$1.3 billion in 1991–2000 to \$5.6 billion in 2001–2010, which brought their share in the total from 8 to 43 per cent. TNCs based in Latin America and Asia are the main investors from developing regions.²⁷

At the intraregional level, both cross-border M&As

and greenfield FDI projects followed a rising trend during the 2000s, reflecting the growing strength of Latin American firms, bolstered by the region's strong economic recovery. Greenfield FDI projects reached an estimated \$11.6 billion in 2010 (up from \$4.5 billion in 2003), and their share in the total grew from 5 per cent in 2003 to 10 per cent in 2010.

In the case of cross-border M&As, the share of intraregional deals in the total increased considerably from the early 2000s: during the period 1995–2002, Latin American companies were the origin of only 5 per cent of the total amount of cross-border M&A sales in the region; this share rose to 36 per cent during the period 2003–2010 (table II.9). This increase was favoured by a relative retrenchment of developed country-based TNCs (see figure II.4), that resulted from a number of factors, among which were the region's economic stagnation between 1998 and 2003, the rise of regulatory problems with the privatized companies involving investment from developed country TNCs, and the dot com crisis in the 2000s that affected developed country TNCs' financial capacities. The recent global financial crisis had a strong impact on the region's cross-border M&A market, including on intraregional acquisitions that fell to zero in value in 2008 and 2009, though they resumed growth in 2010 (figure II.4).

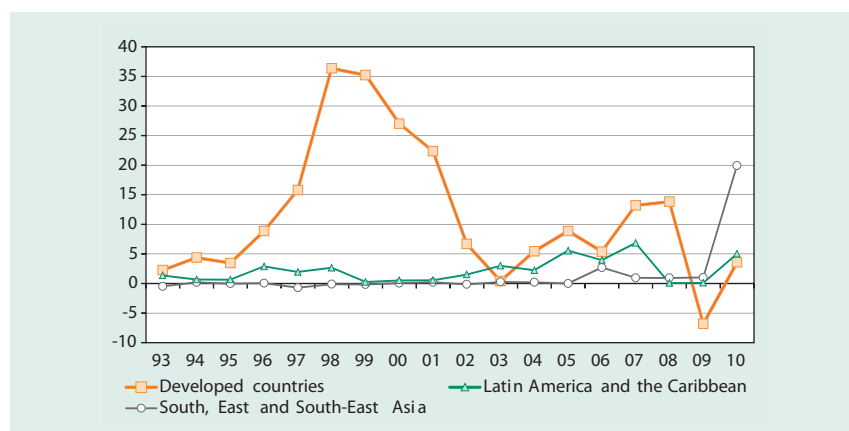
The surge of developing Asian TNCs in the Latin American and the Caribbean cross-border M&A market in 2010.

Firms based in developing Asia had been only marginal investors in the region's cross-border M&A market until 2010, their FDI activity being undertaken mainly through greenfield FDI projects, where their share represented 10 per cent of the region's total during 2003–2010.²⁸

In 2010, however, the region's cross-border M&A market witnessed a notable and unprecedented surge of investment by developing Asian TNCs, following their near-inactivity of previous years. Acquisitions by these companies jumped to \$20 billion in 2010, accounting for 68 per cent of the total, and more than three times their total accumulated acquisitions in the region over the previous two decades.

Most of these acquisitions were undertaken by Chinese enterprises (44 per cent), and took

Figure II.4. Latin America and the Caribbean: cross-border M&A sales by main acquiring regions, 1993–2010
(Billions of dollars)



Source: UNCTAD, cross-border M&As database (www.unctad.org/fdistatistics).

Note: Africa and South-East Europe and the CIS are not represented in this figure because of the small amounts involved.

Table II.9. Latin America and the Caribbean: cross-border M&As by main acquiring regions and countries and main targeted industries, 2003–2010
(Per cent)

Sector/industry - Investing country	World	Developed economies	Developing economies	Latin America and the Caribbean			Developing Asia		
				Total	Mexico	Brazil	Total	China & Hong Kong (China)	India
Total sectors	100	100	100	100	100	100	100	100	100
Primary	18.7	-11.4	44.4	11.1	-	33.1	81.0	81.3	95.1
Mining of metal ores	15.4	29.0	4.7	4.7	-	10.4	6.6	5.9	-
Petroleum	1.3	-43.3	37.6	3.7	-	16.0	72.5	74.6	89.3
Manufacturing	24.3	32.6	18.0	24.7	13.4	48.3	9.2	12.4	3.8
Food, beverages and tobacco	14.3	26.8	4.6	7.5	7.0	10.8	1.4	0.8	3.6
Metal and metal products	3.0	3.4	2.8	5.5	-0.3	15.3	0.1	0.1	-
Services	57.0	79.8	37.6	64.1	86.6	18.6	9.9	6.3	1.0
Finance	20.0	37.5	6.3	9.1	-	12.8	2.9	5.1	-
Post and communications	13.4	10.1	16.1	30.8	80.1	-	1.8	-	-
Business activities	10.5	22.0	1.2	0.7	0.1	-	0.5	0.7	0.3
Total sectors, in \$billion	99.6	43.9	54.0	26.8	10.1	7.6	26.6	15.9	6.8
Share in total world	100	44	54	27	10	8	27	16	7

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Note: Africa and South-East Europe and the CIS are not shown in this table because of the small amounts.

place in South America in oil and gas and energy activities. Two Chinese oil and gas companies – China Petrochemical Corp. (Sinopec) and CNOOC – made big upstream acquisitions in Argentina and Brazil in 2010 and 2011 that totalled \$12.6

billion (annex table I.7). In addition, China's State Grid Corporation acquired seven Brazilian power transmission companies for \$1.7 billion. India was also the source of significant resource-seeking acquisitions in the region, especially in the oil and

gas industry in Venezuela and in the sugar cane industry in Brazil.²⁹

TNCs from developing Asia accounted for one-tenth of the total estimated value of greenfield FDI projects in the region during 2003–2010, with China and Hong Kong (China) alone the source of 47 per cent of the projects from developing Asian countries. As with their M&A activities, resources were the main attraction, with metals and oil and

gas the underlying reason for most of the projects (table II.10).

The strong increase in resource-seeking FDI from developing Asia into South America in 2010–2011 raises concerns by some countries in the region about the trade patterns, with South America exporting mostly commodities and importing manufactured goods.³⁰

Table II.10. Greenfield FDI projects by main investing regions and countries and main targeted industries, 2003–2010
(Per cent)

Sector/industry Investing country	World	Developed economies	Developing economies	Latin America and the Caribbean				Developing Asia			
				Total	Brazil	Chile	Mexico	Total	China & Hong Kong (China)	India	Korea, Rep. of
Total sectors	100	100	100	100	100	100	100	100	100	100	100
Primary	25	24	28	24	29	12	4	26	23	41	6
Coal, oil and natural gas	19	17	24	19	18	10	4	25	23	35	6
Manufacturing	58	58	56	54	68	63	29	60	65	53	91
Metals	27	27	27	14	25	-	10	36	50	33	37
Motor vehicles and other transport equipment	9	10	8	1	1	-	-	12	11	14	18
Automotive OEM	7	7	7	1	-	-	-	11	11	14	17
Food, beverages and tobacco	5	6	3	6	1	23	6	1	2	-	-
Chemicals and chemical products	4	4	3	4	-	17	3	2	-	5	2
Services	18	18	16	22	4	25	67	14	12	7	3
Communications	5	6	4	10	-	1	56	1	1	-	1
Business activities	4	4	3	4	-	17	3	2	-	5	2
Transportation	3	3	4	1	2	-	-	7	8	-	-
Total sectors, in \$ billion	708	566	142	55	25	8	6	74	35	13	12
Share in total world	100	80	20	8	4	1	1	10	5	2	2

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: The values refer to estimated amounts of capital investments.

5. South-East Europe and the Commonwealth of Independent States

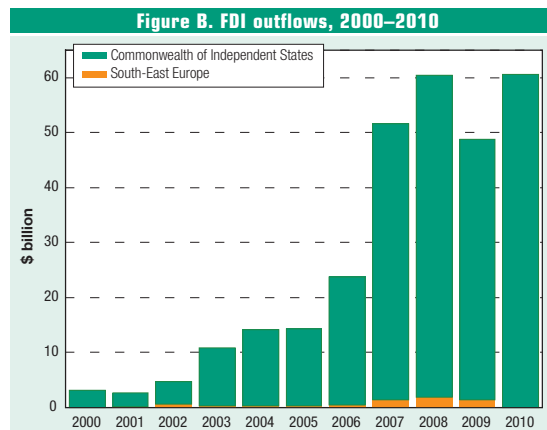
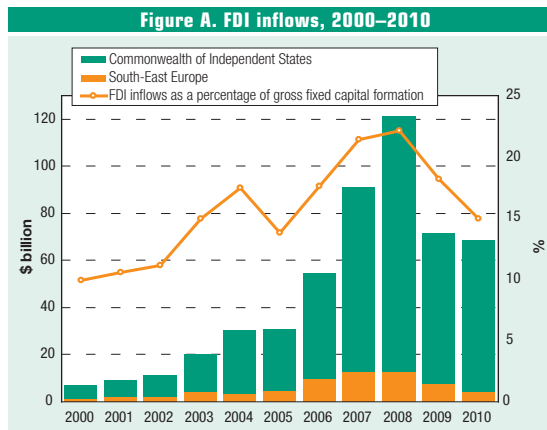
a. Recent trends

Range	Inflows	Outflows
Above \$5.0 billion	Russian Federation, Kazakhstan and Ukraine	Russian Federation and Kazakhstan
\$1.0 to \$4.9 billion	Turkmenistan, Belarus, Serbia and Albania	..
\$0.5 to \$0.9 billion	Uzbekistan, Montenegro, Croatia, Armenia, Azerbaijan and Georgia	Ukraine
Below \$0.5 billion	The FYR of Macedonia, Kyrgyzstan, Republic of Moldova, Bosnia and Herzegovina and Tajikistan	Azerbaijan, Serbia, Bosnia and Herzegovina, Belarus, Montenegro, Armenia, Georgia, Republic of Moldova, the FYR of Macedonia, Albania and Croatia

^a Economies are listed according to the magnitude of their FDI flows.

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
South-East Europe and the CIS	71.6	68.2	48.8	60.6	7.1	4.3	7.4	9.7
South-East Europe	7.8	4.1	1.4	0.1	0.5	0.3	- 0.2	0.3
CIS	63.8	64.1	47.4	60.5	6.6	4.1	7.6	9.4

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
South-East Europe and the CIS	626.6	687.8	337.7	472.9	58.7	72.3	10.8	17.4
South-East Europe	77.3	76.4	11.2	8.8	2.6	2.8	0.1	0.3
CIS	549.4	611.4	326.5	464.1	56.1	69.5	10.7	17.2



Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	7 125	4 321	7 432	9 698
Primary	5 037	- 85	7 897	1 965
Mining, quarrying and petroleum	5 033	- 85	7 897	1 965
Manufacturing	522	1 857	1 032	270
Food, beverages and tobacco	175	1 366	-	325
Wood and wood products	-	51	-	126
Publishing and printing	12	20	-	-
Chemicals and chemical products	52	- 7	-	- 7
Non-metallic mineral products	-	50	-	-
Metals and metal products	7	12	1 015	- 174
Machinery and equipment	7	-	17	-
Electrical and electronic equipment	-	350	-	-
Precision instruments	-	14	-	-
Services	1 565	2 549	-1 497	7 463
Electricity, gas and water	259	625	4	-
Construction	3	6	-	519
Trade	716	330	-	13
Hotels and restaurants	-	15	8	-
Transport, storage and communications	111	1 020	-	5 077
Finance	356	543	590	1 248
Business services	120	185	2	7
Public administration and defence	-	-	-2 101	599

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	7 125	4 321	7 432	9 698
Developed economies	5 336	-3 076	7 616	3 464
European Union	4 320	2 202	6 536	1 888
United States	265	119	1 072	205
Japan	174	-	-	-
Developing economies	1 779	325	13	69
Africa	200	388	-	51
Latin America and the Caribbean	- 156	- 147	-	- 3
South America	- 78	-	-	- 3
Caribbean	- 82	- 156	-	-
Asia	1 736	84	13	21
West Asia	30	40	-	21
South, East and South-East Asia	1 706	44	13	-
China	3 843	-	5	-
Korea, Republic of	426	20	-	-
India	-	24	8	-
Indonesia	-2 604	-	-	-
South-East Europe and the CIS	- 197	6 166	- 197	6 166
South-East Europe	- 167	-	- 157	4
CIS	- 30	6 166	- 40	6 163
Russian Federation	- 30	6 152	-	-
Ukraine	-	15	158	5 519

In 2010, FDI inflows to South-East Europe and the Commonwealth of Independent States (CIS)³¹ declined by 5 per cent (to \$68 billion), after falling more than 40 per cent in 2009 (figure A and table B).

FDI flows to the CIS rose marginally by less than 1 per cent, thanks to favourable commodity prices, economic recovery and improving stock markets. In the Russian Federation, FDI flows rose by 13 per cent (to \$41 billion) (table A). Foreign investors continue to be attracted to the fast-growing local consumer market. The acquisition of the Russian soft drinks brand Wimm-Bill-Dann by PepsiCo for \$3.8 billion was seen as a sign of investor confidence in the country. However, some foreign banks, such as Morgan Stanley and Spain's Santander, divested or downsized their operations.³²

FDI flows to Ukraine increased by 35 per cent, due to better macroeconomic conditions and the revival of cross-border acquisitions by Russian companies. FDI inflows declined in Kazakhstan in 2010, even though it remained the second largest recipient in the subregion.

In contrast to the CIS, FDI flows to South-East Europe fell, for the third consecutive year (by 47 per cent in 2010), partly as a result of the sluggishness of investment from EU countries (traditionally the dominant source of FDI in this subregion). In particular, Greece, which used to be a gateway or conduit for foreign investors into South-East Europe, ceased to be an entry point as its domestic economic crisis worsened. Another reason for the sluggishness of FDI is structural: investors rarely set up export-oriented projects in the subregion, which has been excluded from international production networks – the engine of recovery in 2010. FDI flows to Croatia and Serbia declined sharply in 2010, while Albania saw its FDI rise to more than \$1 billion for the first time ever, making it the second-largest FDI recipient country in the subregion after Serbia (table A).

Cross-border M&A sales in the region declined by 39 per cent in 2010 (tables D and E), whereas the value of greenfield projects declined by 4 per cent. A large increase in intraregional M&A purchases – mainly from the Russian Federation – could not compensate for the slump in M&A activity by

developed country firms, whose net value (new M&As less divested projects) became negative for the first time ever, due to the divestment by Telenor (Norway) of ZAO Kyivstar GSM (Ukraine) to the Russian firm VimpelCom (\$5.5 billion, annex table I.7). Developed countries remained the largest source of greenfield projects in the transition economies (more than two-thirds), despite a continued rise in the share of developing countries.

In both greenfield and M&A projects, the share of manufacturing continued to rise in 2010 at the expense of the primary and services sectors, especially in “non-strategic” industries, which are open to foreign investors (e.g. food and beverages, motor vehicles and chemicals).

Outward FDI flows rose by 24 per cent in 2010 to a record \$61 billion (table B), thanks to better cash flows of TNCs located in the region, higher commodity prices, economic recovery and strong support by the State.³³ Most of the outward FDI projects, as in past years, were carried out by Russian TNCs, followed by those from Kazakhstan. Both cross-border M&A purchases and greenfield projects rose in 2010. Transition-economy firms increased their purchases within the region and in developing countries in 2010 (section 5.b). More than 60 per cent – a record share – of greenfield investment projects by transition-economy firms took place in developing countries.

Prospects for inward FDI are positive. FDI inflows are expected to increase in 2011 on the back of a more investor-friendly environment, the anticipated WTO accession of the Russian Federation, and a new round of privatizations in the major host countries of the region (the Russian Federation and Ukraine).³⁴ Outward FDI is expected to pick up in 2011–2013, due to stronger commodity prices and economic recovery in countries with large natural resources. In the first five months of 2011, the cross-border M&A purchases of the region increased by more than seven times compared with the same period in 2010.

b. East-South interregional FDI: trends and prospects

Bilateral FDI between transition and developing economies is gaining momentum, reflecting the priorities and strategies of their governments.

The landscape of international investment has gained an important new dimension in recent years with the expansion of FDI from developing and transition economies. Rapid economic growth, high commodity prices and liberalization have been feeding a boom in outward investment from these economies. This reached a record level of \$388 billion in 2010, representing almost 30 per cent of world outflows (chapter I). Ten years ago, that share was only 11 per cent. Although the bulk of South-South FDI (including the flows to and from transition economies) is intra-regional, TNCs based in developing and transition economies have increasingly ventured into each other's markets.

Trends

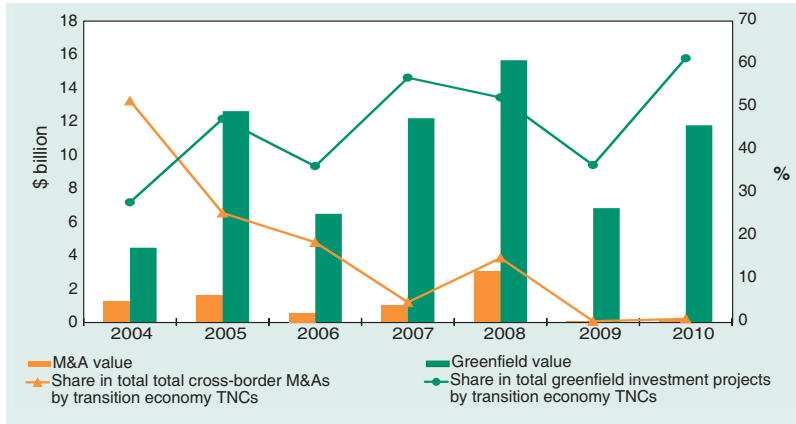
Bilateral FDI flows between developing and transition economies are relatively small. However, they have grown rapidly during the past decade and this process is expected to continue to gain momentum. Increasingly, transition-economy

TNCs are finding their way to Africa, Asia and Latin America and the Caribbean. For example, in 2010, the share of developing countries in greenfield investment projects from transition economies rose to 60 per cent, up from only 30 per cent in 2004 (figure II.5). Similarly, South to East FDI has been on the rise: developing countries' share in transition economies' greenfield investment projects rose from 9 per cent in 2004 to 21 per cent in 2010. Central Asian countries have been increasingly targeted by neighbouring Chinese TNCs (box II.2).

The growing demand for energy in developing countries, especially China and India, has prompted TNCs from these countries to actively pursue joint ventures and other forms of collaboration in resource-rich transition economies. For example, CNPC (China) formed a joint-venture with Rosneft (Russian Federation) to develop oil extraction projects in the Russian Federation and downstream operations in China. In another large project, India's State-owned ONGC Videsh participated in the development of the Sakhalin I oil and gas exploration project.

In contrast to TNCs from developing countries, the main aim of transition-economy TNCs is not simply to ensure the supply of raw materials to their home countries, but rather to expand their control over

Figure II.5. Cross-border M&As and greenfield FDI projects undertaken in developing countries by transition economy TNCs, 2004–2010
(Billions of dollars and as a per cent of total)



Source: UNCTAD.

Note: Data for value of greenfield FDI projects refer to estimated amounts of capital investment.

Box II.2. China's rising investment in Central Asia

China initiated its investment in Central Asia through the signing in April 1996 of general economic and security agreements with the Central Asian economies of Kazakhstan, Kyrgyzstan and Tajikistan. Since then, Chinese investment in the subregion has increased dramatically. Chinese firms built two oil and gas pipelines from Kazakhstan and Turkmenistan to China (inaugurated in 2006 and 2009, respectively), laying the ground for large-scale exploration and development of oil and gas fields. In Turkmenistan, the China National Petroleum Corporation (CNPC) is the only foreign company possessing an onshore contract for oil and gas exploration. In Kazakhstan, the China Investment Corporation bought a 14.5 per cent stake in KazMunaiGas, and CNPC bought a 49 per cent share of Mangistaumunaigaz for \$2.6 billion, both in 2009. In the electricity industry, China's Tebian Electric Apparatus is building power transmission lines and substations in Kyrgyzstan and Tajikistan. In an offsetting deal, this company has acquired the right to extract gold, silver, copper and tungsten in the Pamir Mountains of Tajikistan. Another company, XD Group, is modernizing the electricity system in the Uzbek capital, Tashkent.^a In nuclear energy, CNPC formed a joint venture with Kazakhstan's State-owned Kazatomprom to invest in uranium production in Kazakhstan, and an affiliate of the China Guangdong Nuclear Power Corporation is in a joint venture to develop black-shale uranium in the Navoi Province of Uzbekistan.

Source: UNCTAD.

^a "Chinese-Central Asian Relationship Requires Delicate Balancing Act", *Radio Free Europe*, 4 April 2010.

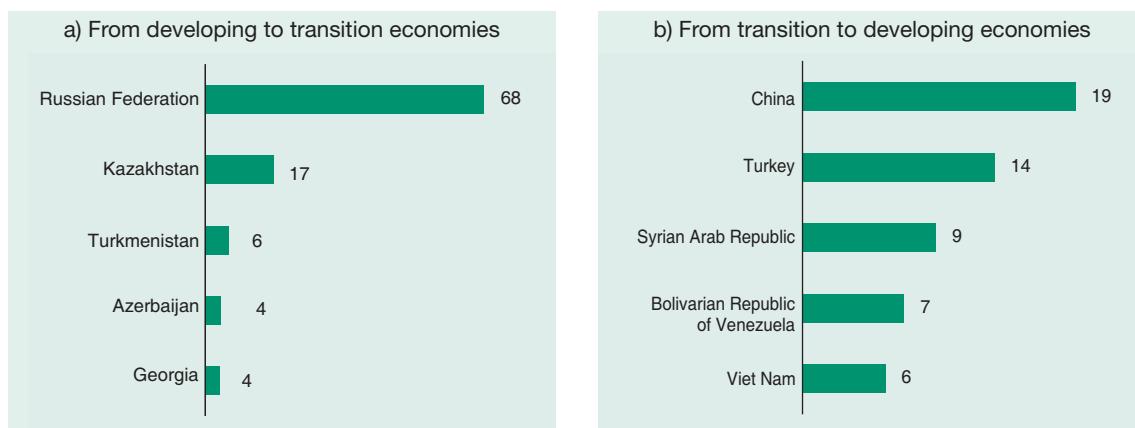
the value chain of their natural resources, to build sustainable competitive advantages vis-à-vis other firms, and to strengthen their market positions in key developing countries.

East-South investment links are concentrated in a handful of countries. While Kazakhstan and the Russian Federation are the most important targets of developing-country investors, China and Turkey are the most popular destinations for FDI from transition economies (figure II.6). Africa also has

attracted important investment flows from the Russian Federation (box II.3).

As for the host country pattern, there is a limited number of home countries in South to East bilateral investments. While the Russian Federation is the dominant transition-economy investor in developing countries, Turkey, China, India and the Republic of Korea are major investors in transition economies. In 2009, more than one-third of Turkey's outward FDI stock was located in

Figure II.6. Top 5 destinations of FDI projects,^a cumulative 2003–2010
(Billions of dollars)



Source: UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

^a Including both cross-border M&As and greenfield FDI projects.

Box II.3. Russian TNCs expand into Africa

The expansion of Russian TNCs in Africa is fairly recent. The arrival of these TNCs has been motivated by a desire to enhance raw-material supplies and to expand to new segments of strategic commodities, as well as a desire to access local markets. For example RusAl, the world's largest aluminium producer, has operations in Angola, Guinea, Nigeria and South Africa.

Russian TNCs have acquired certain assets directly, such as South Africa's Highveld Steel and Vanadium (by Evraz group) or Burkina Faso's High River Gold (by Severstal); in other cases they acquired the parent firms of African assets in developed countries. Other forms of investment include joint ventures, such as in the case of Severstal's \$2.5 billion iron mining project in Liberia, in collaboration with African Aura Mining (United Kingdom).

Russian banks are also moving into Africa. Vneshtorgbank for instance opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire, while Renaissance Capital owns 25 per cent of the shares in Ecobank, one of the largest Nigerian banks, with branches in 11 other African countries.

In Southern Africa, Russian mining companies are currently involved in developing manganese deposits in the Kalahari Desert (Renova Group, a leading Russian asset management company, has invested up to \$1 billion). The largest Russian diamond producer, Alrosa, is building electric power plants in Namibia and a hydroelectric dam in Angola. In the latter case, the project is coupled with a licence to explore for oil and gas.

In North Africa, Gazprom has signed three exploration and production-sharing agreements with the National Oil Corporation (NOC) of the Libyan Arab Jamahiriya. In Egypt, the Government of Russia has signed an agreement on civilian nuclear development, allowing Russian companies to bid for nuclear power plant construction contracts.

Source: UNCTAD.

transition economies; in the cases of China and the Republic of Korea, that share was only 2–3 per cent (figure II.7).

South to East FDI benefited from outward FDI support (e.g. from the Governments of China and India) and from geographical proximity, cultural affinity and historical relationships. TNCs often invest in countries with common cultural and ethnic ties and heritage (e.g. Turkish investment in South-East Europe and Central Asia, Chinese investment in Central Asia), or with which their countries have historical links (e.g. in the case of the Russian–Vietnamese cooperation in coal mining, electricity and natural gas).

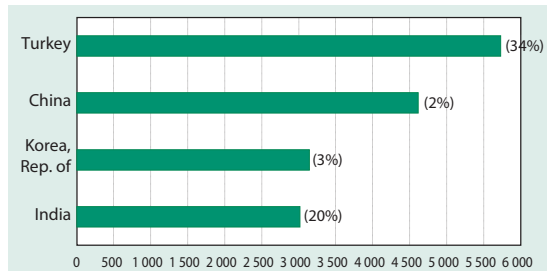
As developing-country investors are interested in the fast-growing consumer markets of large transition economies such as Kazakhstan and the Russian Federation, most of the acquisitions took place in the services sector (figure II.8). Examples of market-seeking projects include investments of Chinese companies and companies from West Asia in real estate construction projects in the Russian Federation, and the expansion of the Turkish retail group Migros (part of Koc Group) in this country and Kazakhstan. Investments by

Korean firms (e.g. Ssangyong Motor's \$480 million production agreement and Hyundai's \$400 million new car assembly plant, both in the Russian Federation) are also of this type. The primary sector accounts for almost one-third of FDI projects, and the largest acquisitions took place in this sector.³⁵ A greater proportion of acquisitions by transition-economy TNCs were made in the primary sector, followed by manufacturing and services, mainly in telecommunications.

Policy response. FDI between developing countries and transition economies often involves large State-owned TNCs, following national strategic objectives. For this reason, integration schemes and regional cooperation encompassing these groups, such as the Shanghai Cooperation Organisation (SCO),³⁶ play an important role. Other important measures are bilateral partnerships which can underpin cooperation conducive to East–South investment links.³⁷

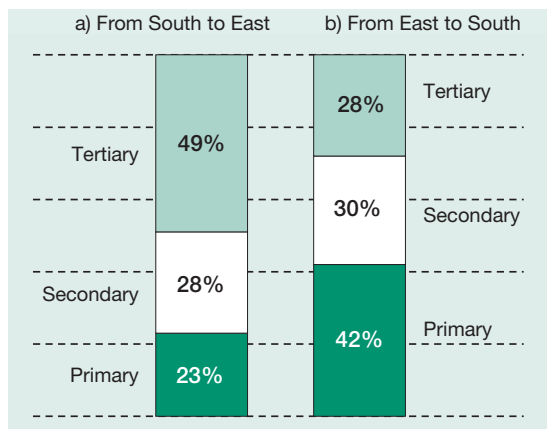
The Silk Road Initiative seeks to enhance regional cooperation between China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The initiative is an important step in establishing networks, encouraging dialogue, bridging cultural divides

Figure II.7. Major developing country investors in transition economies, outward FDI stock in 2009
(Millions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
Note: Figures in parenthesis show the share of transition economies in the country's total outward FDI stock in 2009. Data for India refer to 2005 and are on an approval basis.

Figure II.8. Sectoral distribution of FDI projects, cumulative, 2004–2010
(Per cent of total value)



Source: UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

^a Including both cross-border M&As and greenfield FDI projects.

and promoting awareness of the potential for cooperation in the investment area between countries of the region.

A growing number of bilateral agreements such as bilateral investment treaties (BITs) and double taxation treaties (DTTs) have been concluded between developing countries and transition economies. As of the end of 2010, 233 BITs had been concluded. Transition economies have signed the largest number of BITs with Asia, followed by Africa and then Latin America. The Russian

Federation is the transition country with the largest number of BITs concluded with developing countries (31); among developing countries China has signed BITs with all transition economies (17). By the end of 2010, the number of East–South DTTs had grown to 175.

Prospects. Despite the recent financial crisis, and stricter regulations and conditions governing natural resources projects in the Russian Federation and other transition economies, developing country TNCs have continued to access the natural resources of these economies. In addition, the fast growing consumer market of transition economies and the rise of commodity prices will induce further investment by developing country TNCs in the East. Governments could also consider nurturing long-lasting relationships by focusing on businesses based on comparative advantages and by providing specific measures to promote investment. For the former, FDI based on technology and other firm-specific advantages is crucial for firms from developing countries and transition economies to increase their investment links.³⁸ For the latter, for example, in the Russian Federation, the launch of a \$10 billion FDI fund to attract foreign investors in the country can be expected to further increase FDI, including from developing countries.

Outward FDI from transition economies, mainly the Russian Federation, is expected in particular to grow fast in the near future. It will include Africa. Some large resource-based firms are seeking to become regional and global players, while some banks are expanding into other countries in the region. State-owned TNCs such as Gazprom can play a major role in that expansion.

6. Developed countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,^a 2010

Range	Inflows	Outflows
Above \$100 billion	United States	United States and Germany
\$50 to \$99 billion	Belgium	France, Switzerland and Japan
\$10 to \$49 billion	Germany, United Kingdom, France, Australia, Ireland, Spain, Canada, Luxembourg and Norway	Canada, Belgium, Netherlands, Sweden, Australia, Spain, Italy, Luxembourg, Ireland, Norway, United Kingdom and Austria
\$1 to \$9 billion	Poland, Italy, Czech Republic, Austria, Sweden, Israel, Cyprus, Finland, Romania, Iceland, Hungary, Greece, Bulgaria, Estonia, Portugal and Malta	Finland, Israel, Poland, Cyprus, Denmark, Czech Republic, Hungary and Greece
Below \$1 billion	Slovenia, Lithuania, New Zealand, Slovakia, Latvia, Bermuda, Gibraltar, Japan, Denmark, Switzerland and Netherlands	Bermuda, New Zealand, Slovakia, Bulgaria, Romania, Slovenia, Estonia, Lithuania, Malta, Latvia, Iceland and Portugal

^a Economies are listed according to the magnitude of their FDI flows.

Figure A. FDI inflows, 2000–2010

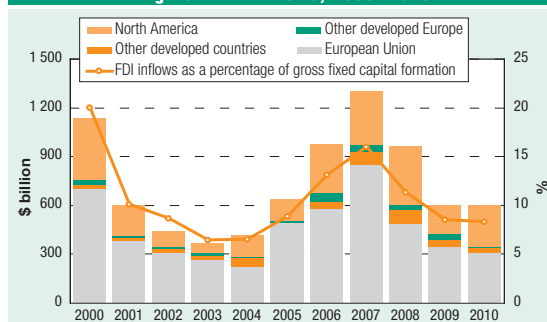


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	203 530	251 705	160 785	215 654
Primary	41 198	50 945	2 875	23 548
Mining, quarrying and petroleum	40 216	46 107	1 344	23 041
Manufacturing	61 153	98 998	32 663	105 333
Food, beverages and tobacco	5 669	27 797	-4 038	27 603
Chemicals and chemical products	32 084	27 496	28 648	41 409
Non-metallic mineral products	-139	2 436	728	3 050
Metals and metal products	252	-155	-680	2 832
Machinery and equipment	1 305	7 619	2 086	5 870
Electrical and electronic equipment	8 315	10 129	1 281	6 902
Precision instruments	3 841	9 303	4 798	7 331
Motor vehicles and other transport equipment	8 546	3 210	-686	4 488
Services	101 179	101 762	125 247	86 773
Electricity, gas and water	59 408	-3 265	39 015	-21 331
Construction	10 254	6 301	-1 641	-2 700
Trade	-1 327	12 331	1 017	7 001
Hotels and restaurants	1 535	4 712	400	-43
Transport, storage and communications	3 523	7 603	14 062	7 112
Finance	8 434	26 496	60 286	63 832
Business services	13 638	35 025	15 995	24 914
Health and social services	1 254	5 613	-1	698
Community, social and personal service activities	3 175	4 080	-291	5 195

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Developed economies	602.8	601.9	851.0	935.2	203.5	251.7	160.8	215.7
European Union	346.5	304.7	370.0	407.3	116.2	113.5	89.7	17.3
Other developed countries	40.7	37.1	92.5	91.9	18.2	33.6	17.6	63.2
Other developed Europe	41.3	8.4	64.2	68.5	17.6	9.8	13.0	16.5
North America	174.3	251.7	324.4	367.5	51.5	94.7	40.5	118.7

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Developed economies	12 263.7	12 501.6	16 171.4	16 803.5	558.5	669.2	910.5	1 098.2
European Union	7 296.1	6 890.4	9 080.9	8 933.5	353.8	387.1	439.4	524.9
Other developed countries	762.6	874.2	1 153.1	1 320.2	41.6	55.2	59.6	57.3
Other developed Europe	655.1	724.5	1 012.9	1 090.4	47.9	44.9	61.5	73.4
North America	3 550.0	4 012.5	4 924.4	5 459.5	115.3	182.0	350.0	442.6

Figure B. FDI outflows, 2000–2010

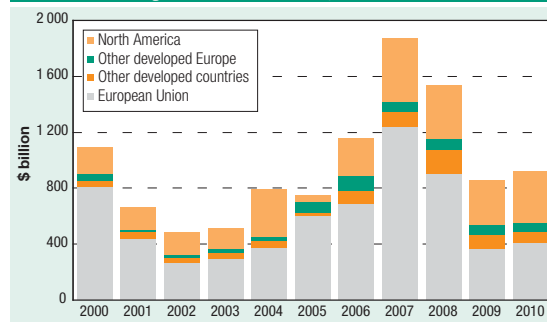


Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	203 530	251 705	160 785	215 654
Developed economies	143 163	182 657	143 163	182 657
European Union	81 751	9 804	88 575	84 910
France	38 372	2 451	-342	3 496
Germany	20 372	6 293	1 561	9 665
United Kingdom	-6 307	-7 516	21 678	42 782
United States	18 834	79 091	26 640	66 819
Japan	11 882	18 126	-6 945	3 051
Developing economies	46 272	52 629	12 286	36 073
Africa	1 378	1 336	4 328	6 355
Latin America and the Caribbean	3 475	11 544	-6 815	3 581
South America	959	7 561	-6 681	-4 129
Central America	3 169	2 559	16	5 787
Asia	41 417	39 752	14 494	17 294
West Asia	21 451	-2 909	3 174	2 357
South, East and South-East Asia	19 966	42 661	11 320	14 936
China	12 994	9 047	1 418	2 976
India	40	7 949	5 573	7 465
Oceania	2	-4	280	8 843
South-East Europe and the CIS	7 616	3 464	5 336	-3 076
Russian Federation	7 616	2 896	4 487	1 719
Ukraine	-	-12	-14	-5 206

In 2010, FDI inflows to developed countries declined marginally. At \$602 billion, FDI inflows to the region were only 46 per cent of the peak level in 2007 (figure A).

From a global perspective, the developed countries' share of FDI inflows in the world total fell below 50 per cent for the first time in 2010. A gloomier economic outlook prompted by government austerity measures, looming sovereign debt crises and regulatory concerns were among the factors hampering the recovery of FDI flows in developed countries.

The overall figures, however, mask wide subregional variations among developed countries. In North America, inflows of FDI showed a strong turnaround with a 44 per cent increase over the previous year to \$252 billion (table A). In contrast, inflows to Europe were down by 19 per cent. In addition to a 36 per cent fall in the United Kingdom, which has been one of the largest recipients in Europe, large divestments from two of the subregion's small open economies, namely the Netherlands and Switzerland, dragged down the total. Significant divestments also occurred in Japan where growth prospects were perceived to be poor, especially in comparison with emerging economies.

The divergent pace of economic recovery is reflected, to an extent, in the components of inward FDI. In the two large economies leading the recovery of FDI in the grouping, namely Germany and the United States, there was a more robust economic recovery, resulting in strong growth of reinvested earnings, which increased more than threefold compared with the 2009 level in both economies.

In contrast to the declining inflows, FDI outflows from developed countries reversed their downward trend, with a 10 per cent increase over the previous year. FDI from developed countries amounted to \$935 billion, still accounting for 71 per cent of the world total (figure B).

TNCs in developed countries accumulated an unprecedented amount of cash on their balance sheets and the rates of debt financing were at a historic low, facilitating their overseas expansion. Furthermore, M&A remained an attractive strategy for firms seeking growth as well as for those seeking cost-cutting through synergy. Although

these factors appear to have generated a sizeable recovery of outward FDI from developed countries, the total for the region as a whole was half of its peak in 2007.

By subregion, the recovery of FDI outflows in developed countries was, like inflows, driven by North America. Cross-border M&A deals by United States firms more than tripled, resulting in a 16 per cent increase in total outflows from the United States. Furthermore, the value of reinvested earnings increased by 35 per cent. In addition to the increase in profits, a greater share of profits was reinvested rather than repatriated.³⁹

In Europe, despite a 67 per cent fall in cross-border M&A deals by European TNCs, outflows of FDI overall increased by 10 per cent, due largely to the upswing of intra-company loans. For Germany, for example, intra-company loans from its TNCs turned from a negative \$25 billion in 2009 to nearly \$18 billion in 2010. Similarly, intra-company loans from Swiss TNCs increased from a negative \$7 billion in 2009 to \$11 billion in 2010.

Cross-border M&A deals by Japanese firms almost doubled, but this was still not enough to compensate for the fall in intra-company loans and reinvested earnings at Japanese affiliates abroad. Japanese TNCs continued to repatriate much of the profits from their affiliates to take advantage of the tax break on dividends introduced in 2009 (*WIR10*).

At the industry level, M&A activities in the natural resource-related industries drew much attention, not least because of the political sensitivity associated with them. For instance, the takeover of Dana Petroleum (United Kingdom) by Korea National Oil Corporation in 2010 was thought to have been the first hostile bid for a developed country-based firm by a State-owned company from an emerging economy.⁴⁰ Some proposed mega-deals in the sector, namely the separate bids by BHP Billiton and Sinochem for PotashCorp (Canada), as well as the plan to merge the Australian iron ore operations of BHP Billiton and Rio Tinto, did not materialize, as they failed to address regulatory concerns.

Another active industry in terms of M&As was the pharmaceutical industry. The populations in many developed countries are ageing, and consequently,

the long-term prospects for the healthcare-related industries are regarded as favourable. Furthermore, the patents of a number of top-selling drugs will shortly expire, prompting takeovers of smaller pharmaceutical and biotechnology firms with products and technologies by large international pharmaceutical companies. One of the largest M&A deals in 2010 was the takeover of Millipore (United States) by the drug and chemical group Merck (Germany) (annex table I.7). Other reported deals included the acquisition of Talecris Biotherapeutics (United States) by Grifols (Spain) and of OSI Pharmaceuticals (United States) by Astellas Pharma (Japan). This trend has continued into 2011.

As for the prospect, the comparison of the first several months of 2011 and those of 2010 suggests a more solid recovery of FDI flows in 2011. The value of greenfield projects indicates that outflows will continue their recovery – at a faster rate. The values of greenfield projects from all the subregions in the first four months of 2011 are showing a 20–25 per cent increase over the same period of 2010. Despite suffering from a serious natural disaster, Japan's outward FDI flows are buoyant, in particular through cross-border M&As in 2011. For inflows, the picture is more mixed. Data on greenfield projects show a small overall decline for the region. In contrast, M&A data show a similar pattern to 2010: a robust increase in North America but declines in Europe and Japan. As growth prospects for major economies in the region, including the United States, are uncertain, the return of confidence and a recovery of inward FDI may take longer than was the case after previous FDI downturns.

b. Bailing out of the banking industry and FDI

The restructuring of the banking industry following government bail-outs in Europe and the United States has resulted in both divestment of foreign assets and generation of new FDI.

capital from SWFs, rival banks or governments to shore up their balance sheets. In some cases, the bail-outs by foreign banks and SWFs were large enough to qualify as FDI.⁴¹ The bail-outs by national

The financial crisis and the banking industry. Amid the turmoil in the financial markets which followed the failure of Lehman Brothers in September 2008, some of the largest banks in the world sought injections of

governments were followed by a restructuring process of those banks, which in some cases resulted in divestments of foreign assets but in others generated new FDI (table II.11).

Over the period from September 2008 to December 2010, divestment of foreign assets by the rescued banks resulted in a net decrease of FDI (i.e. assets abroad sold to a domestic bank in the host country) by about \$45 billion. In the same period, the sell-offs of nationalized banks and their assets generated FDI worth about \$35 billion.⁴²

The restructuring of the banks that were beneficiaries of government rescue – a process which is still ongoing in 2011 – has been driven by concerns over competition in the banking industry and efforts towards the reform of the financial system. The future policy discourse over these issues is likely to have implications for the FDI flows of the financial industry for years to come.

Restructuring and divestment. The bail-outs of the banks left governments holding substantial amounts of equity in the rescued banks. As financial markets around the world recovered some stability in the course of 2009 and 2010, governments began to seek exit from holding major stakes in the banks. In some cases, governments simply sold off their equity holdings through public offerings.⁴³ In others, banks were required to restructure and to sell off assets while under government control. This process has generated FDI, resulting in further transnationalization of the banking industry, especially in Europe, where the competition policy of the European Commission was the major driving force behind the restructuring.

The concerns of the European Commission were twofold. First, injection of public funds should not give the recipient banks an unfair competitive advantage. Second, consolidation of the industry resulting from acquiring weaker banks should not reduce competition in the industry.

In the United Kingdom, for instance, in 2008 the Government injected £37 billion into its two largest banks, Lloyds Banking Group and the Royal Bank of Scotland, followed by additional support measures in the following year.⁴⁴ As the price for the State bail-out, the European Commission required Lloyds to sell at least 600 branches and reduce its

Table II.11. Selected cases of government bail-out of international banks, 2008–2010

Bank	Government	Bail-out, 2008–2010	Implications for FDI flows
Hypo Group Alpe Adria	Austria	€450 million	67% stake worth €3 billion held by Bayerische Landesbank (Germany) written off when nationalized in 2009.
Dexia	Belgium France Luxembourg	€3 billion €3 billion €376 million	20% stake in Credit du Nord (France) sold for €645 million in 2009. 70% stake in Dexia Crediop (Italy) and 85.5% stake in Dexia Banka Slovensko (Slovakia) to be divested by October 2012; 60% stake in Dexia Sabadell (Spain) by December 2013.
Fortis	Belgium/Luxembourg Netherlands	€9.4 billion/€2.5 billion €16.8 billion	Sold to BNP Paribas (France) in 2009 Amlin (United Kingdom) acquiring Fortis Corporate Insurance from the Government of the Netherlands for €350 million in 2009.
KBC Group	Belgium	€7 billion	Investment banking unit, KBC Peel Hunt (United Kingdom), global convertible bonds and Asian equity derivatives businesses, and its reverse mortgage activities in the United States all divested.
Commerzbank	Germany	€18.2 billion	Its Swiss affiliates Dresdner Bank (Switzerland) and Commerzbank (Switzerland) divested in 2009. The following assets divested in 2010: Privatinvest Bank (Austria), Dresdner VPV (Netherlands), Dresdner Van Moer Courtens (Netherlands), and the Belgian affiliate of Commerzbank International (Luxembourg), Commerzbank International Trust Singapore, its United Kingdom affiliates, Channel Islands Holdings and Kleinwort Benson Private Bank, Allianz Dresdner Bauspar AG (ADB) (Austria), Dresdner Bank Monaco. Its affiliate in Germany Montrada GmbH, a card payments processing company, sold to a Dutch firm in 2010.
IKB Deutsche Industriebank	Germany	\$3.1 billion	Bailed out through State-owned development bank, KfW. Its 90.8% stake sold to the United States private equity fund Lone Star for \$150 million in 2008.
Allied Irish Bank	Ireland	€9.2 billion	22.4% stake in M&T Bank (United States) sold through public offering (agreed in October 2010). Bank Zachodni WBK (Poland) sold to Banco Santander (Spain) for €4 billion (purchase completed in March 2011).
Bank of Ireland	Ireland	€5.5 billion	50% stake in Paul Capital Investments (United States), a private equity fund, and its United States-based foreign currency business sold in 2011.
ING	Netherlands	€10 billion	Swiss private banking unit sold to Julius Baer (Switzerland) for \$505 million; 51% equity stakes in ING Australia and ING New Zealand sold to the ANZ Bank (Australia) for €1.1 billion; and Asian Private Banking business sold for \$1 billion in 2010. Most of its real estate investment management business around the world sold for \$1.1 billion in 2011.
Lloyds TSB/HBOS	United Kingdom	£17 billion	632 branches in the United Kingdom put up for sale in 2011 as agreed with the European Commission. Bank of Western Australia sold for \$1.4 billion in 2008.
RBS	United Kingdom	£20 billion	318 branches sold to Santander (Spain) in 2010. RBS WorldPay sold for £2 billion.
Bank of America	United States	\$45 billion	Its stake in a Chinese affiliate reduced in 2009 and stake in Mexican affiliate disposed in 2010.
Citigroup	United States	\$25 billion	Nikko Cordial Securities (Japan) sold for \$5.8 billion and Nikko Asset Management (Japan) for \$1.2 billion in 2009. Citi Cards Canada sold for \$1 billion in 2009.

Source: UNCTAD, based on media reports, corporate press releases and annual reports.

market share by an agreed percentage by selling some of its operations.⁴⁵ Similarly, the Royal Bank of Scotland was told to sell 318 branches, which were subsequently purchased by Santander (Spain) for £1.65 billion. The Spanish bank announced that it would inject £4.46 billion of equity capital to its affiliates in the United Kingdom, although

the deal is not expected to be completed until 2012.⁴⁶ Furthermore, the Royal Bank of Scotland announced in 2010 an agreement to sell an 80 per cent share in its payment processing business to a consortium of United States private equity funds, Advent International and Bain Capital, for £2 billion.⁴⁷

In the case of the banks in the United Kingdom, some of the required sell-offs took the form of the sale of domestic assets to foreign investors, thus generating inward FDI. For other European banks, it often resulted in divestment of foreign assets, i.e. negative outward FDI. For instance, in return for receiving State support amounting to €18.2 billion over the period 2008–2010, Commerzbank was required by the European Commission to reduce its assets by 45 per cent, including its private bank operations in Belgium, Germany, the Netherlands and the United Kingdom.

The sell-off of foreign assets has not been limited to European Banks. To address regulatory concerns, Bank of America sold part of its equity holdings in China Construction Bank for \$7.3 billion in 2009 and its entire 24.9 per cent stake in Grupo Financiero Santander (Mexico) for \$2.5 billion in 2010.

A much more complex process of restructuring took place in the aftermath of the bail-out of Fortis (Belgium). In September 2008, the Governments of Belgium, the Netherlands and Luxembourg took the decision to buy 49 per cent stakes in Fortis's respective national arms, jointly injecting €11.2 billion. Subsequently, the Government of the Netherlands renegotiated the bail-out package, to buy all of Fortis's Dutch operation as well as the Dutch operation of ABN Amro, also previously owned by Fortis, for €16.8 billion.

The Belgian part of Fortis, Fortis Bank, was fully nationalized in October 2008. In the following year, an agreement was reached between the Government of Belgium and BNP Paribas (France), whereby France's largest bank took over a 75 per cent stake of Fortis Bank in an all-share exchange transaction. This deal left the Government of Belgium as the largest shareholder of BNP Paribas, with a stake of around 11.7 per cent in the French bank, which became the biggest bank in Europe in terms of deposits. For the Dutch part of the assets, it was reported in June 2009 that Lloyds of London insurer Amlin had agreed to buy Fortis Corporate Insurance for €350 million.

Nationalization of Icelandic banks. One of the most spectacular banking failures during the financial crisis was the collapse of the Icelandic banks. The three largest banks in Iceland, Kaupthing, Landsbanki and Glitnir had to be nationalized in

October 2008, and the fourth largest, Straumur, followed suit in March 2009. In the process of subsequent restructuring, unsecured creditors (mostly foreign) agreed to a deal involving a debt-equity swap, as a result of which the foreign creditors took control of the remnants of three of those banks. The Government of Iceland reached an agreement in November 2008 to hand over 95 per cent of Glitnir, renamed Islandsbanki, to creditors, which included RBS and Mitsui-Sumitomo Bank. Similarly, in December 2009, creditors of Kaupthing agreed to take an 87 per cent stake in Arion Bank, the successor to Kaupthing, that took over its healthy assets, as compensation and to inject further capital worth more than \$500 million. Finally, an agreement was reached in September 2010 whereby holders of unsecured debt issued by Straumur, including hedge funds Davison Kempner and Varde Partners, assumed 100 per cent ownership of the bank's remaining businesses. The exact equity shares taken over by foreign creditors in those deals are not known, but some of them are likely to have been over 10 per cent, in effect, turning their portfolio investment into FDI.

At the same time, the restructuring of Icelandic banks has resulted in divestment of their foreign assets (e.g. retailers based in the United Kingdom), resulting in negative outward FDI from Iceland, but which, in turn, have generated FDI by private equity groups from a third country (mostly the United States).

Prospects. The process of restructuring is still ongoing. In developed countries, the nationalization of banks is only a temporary measure and the equity held by governments will be sold off. Thus, FDI flows in the banking industry in the coming years are likely to be influenced by the policies of the competition authorities as well as the exit strategies of governments. In the longer term, the global efforts towards reforming the financial system could have important implications. For instance, Basel III, the revised international bank capital and liquidity framework, imposes tougher bank capital requirement rules. Although the implementation of these rules is to be gradually phased in, starting in 2013 up to January 2019, there is some evidence that banks have been reconfiguring their assets, including divestment of their foreign assets, in an effort to strengthen their capital base.

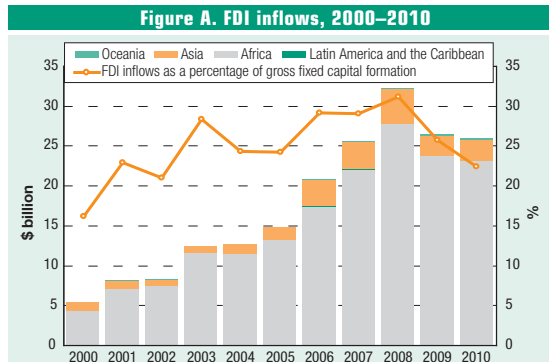
B. Trends in structurally weak, vulnerable and small economies

1. Least developed countries

a. Recent trends

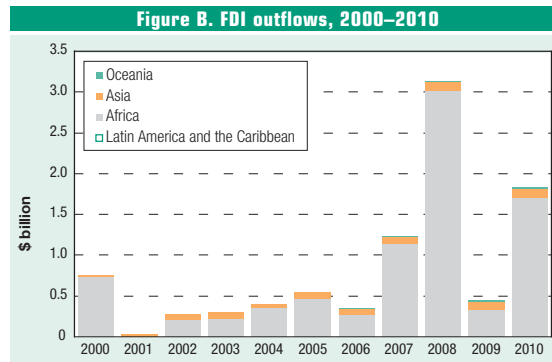
Range	Inflows	Outflows
Above \$10.0 billion
\$2.0 to \$9.9 billion	Angola and Democratic Republic of the Congo	..
\$1.0 to \$1.9 billion	Sudan and Zambia	Angola
\$0.5 to \$0.9 billion	Niger, Bangladesh, Madagascar, Uganda, Mozambique, Cambodia, Chad, Myanmar, United Republic of Tanzania and Equatorial Guinea	..
\$0.1 to \$0.4 billion	Lao People's Democratic Republic, Guinea, Timor-Leste, Liberia, Solomon Islands, Senegal, Ethiopia, Haiti, Mali, Malawi, Somalia and Benin	Zambia and Senegal
Below \$0.1 billion	Afghanistan, Central African Republic, Eritrea, Lesotho, Rwanda, Togo, Nepal, Vanuatu, Gambia, Burkina Faso, Sierra Leone, Djibouti, Burundi, Mauritania, Bhutan, Comoros, Guinea-Bissau, Kiribati, São Tomé and Príncipe, Samoa, Tuvalu and Yemen	Yemen, Sudan, Liberia, Cambodia, Bangladesh, Niger, Democratic Republic of the Congo, Benin, Lao People's Democratic Republic, Sierra Leone, São Tomé and Príncipe, Mali, Mauritania, Solomon Islands, Malawi, Vanuatu, Mozambique, Burkina Faso, Kiribati, Guinea-Bissau, Samoa and Togo

^a Economies are listed according to the magnitude of their FDI flows.



Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Least developed countries (LDCs)	26.5	26.4	0.4	1.8	- 0.8	2.2	-	0.4
LDCs: Africa	23.8	23.1	0.3	1.7	- 0.5	2.0	-	0.3
LDCs: Latin America and the Caribbean	-	0.2	-	-	-	0.1	-	-
LDCs: Asia	2.6	2.9	0.1	0.1	- 0.3	0.1	-	-
LDCs: Oceania	0.2	0.3	0.0	0.0	0.0	-	-	0.1

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Least developed countries (LDCs)	127.8	151.7	7.4	10.9	16.3	19.6	0.3	0.4
LDCs: Africa	100.2	121.0	6.5	9.9	10.7	13.0	0.3	0.4
LDCs: Latin America and the Caribbean	0.5	0.6	-	-	-	-	-	-
LDCs: Asia	26.2	28.9	0.9	1.0	5.4	6.4	-	-
LDCs: Oceania	0.9	1.2	-	0.1	0.2	0.2	-	-



Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	- 774	2 201	16	354
Primary	8	1 094	16	2
Mining, quarrying and petroleum	8	1 094	16	2
Manufacturing	11	94	-	96
Food, beverages and tobacco	-	65	-	95
Textiles, clothing and leather	-	10	-	-
Wood and wood products	11	-	-	-
Chemicals and chemical products	-	20	-	-
Metals and metal products	-	-	-	1
Machinery and equipment	-	-	-	-
Electrical and electronic equipment	-	-	-	-
Precision instruments	-	-	-	-
Services	- 793	1 013	-	257
Electricity, gas and water	-	110	-	-
Trade	-	-	-	-
Transport, storage and communications	- 346	903	-	-
Finance	- 354	-	-	257
Business services	- 94	-	-	-

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	- 774	2 201	16	354
Developed economies	- 1 156	1 655	-	2
European Union	- 1 160	786	-	1
United States	- 15	1 300	-	-
Australia	-	- 427	-	-
Developing economies	372	511	16	352
Africa	354	252	-	257
North Africa	324	-	-	-
Sub-Saharan Africa	30	252	-	257
Uganda	-	257	-	-
Zambia	-	-	-	257
Latin America and the Caribbean	- 5	-	16	95
Panama	-	-	-	95
Asia	23	259	-	-
West Asia	-	- 280	-	-
South, East and South-East Asia	23	539	-	-
South-East Europe and the CIS	-	35	-	-
Ukraine	-	35	-	-

FDI inflows to the 48 LDCs declined by a further 0.6 per cent in 2010 to \$26 billion, following the 20 per cent fall a year earlier that had interrupted the upwards trend of the previous decade (table B and figure A). Almost two-fifths of the LDCs – in particular Yemen, Mauritania, Burkina Faso, Djibouti, Rwanda, Equatorial Guinea and Sudan – saw their FDI inflows reduced. This unprecedented two-year retreat in FDI inflows to LDCs has taken place against a backdrop of rising commodity prices, a modest recovery in global FDI flows, and a 10 per cent increase in inflows to developing and transition economies.

The delay in recovery of FDI flows to LDCs is a matter of grave concern, as FDI is a major contributor to their capital formation (figure A). This is especially so in African LDCs, where FDI flows were equivalent to as high as 25 per cent of gross fixed capital formation over most of the past decade. In addition, FDI is a key source of technology and management know-how, which are of particular importance for LDCs.

Most investments in 2010 were in the form of greenfield projects, which totalled \$37.1 billion in their combined (foreign and domestic) capital expenditures (annex table I.8). There were 288 such projects of a significant size (annex table I.9), which generated a total of 67,400 jobs (UNCTAD, 2011b). The projects were concentrated in the primary and manufacturing sectors, accounting for 44 and 39 per cent of the total, respectively, compared with 17 per cent in services.

Many large FDI projects were in base metals and oil prospecting and exploitation. In Africa, extraction activities account for the majority of inflows, while in Asian LDCs services industries such as telecommunications and electricity have attracted more foreign investment.

In terms of the number of deals, service industries such as financial services, transportation and communications represented the majority of investments, accounting for 48 per cent of the total, followed by manufacturing (36 per cent). The primary sector accounted for just 11 per cent of the deals. FDI in telecommunications is on the rise in African LDCs, while FDI to Asian LDCs is primarily in manufacturing or services such as electricity. Fifty-

six per cent of the deals originated from developing and transition economies, rather than developed economies.

FDI via M&As is still limited in LDCs, but their number has nearly doubled over the last decade. In particular, some of the large investments, such as in telecommunications, were through mergers and acquisitions. Cross-border M&A sales turned positive in 2010, amounting to \$2.2 billion in 2010 (tables D and E), in contrast to 2008 and 2009, when they were negative.

The *distribution of FDI flows* among LDCs remains highly uneven. The accumulated stock of inward FDI in LDCs now stands at \$152 billion. However the 10 countries (Angola, Sudan, Zambia, Myanmar, the United Republic of Tanzania, Equatorial Guinea, Bangladesh, Cambodia, Uganda and Mozambique, in that order) with FDI stocks of more than \$5 billion as of 2010, account for two-thirds of the total inward stock. Four mostly natural resources exporting countries – Angola, Equatorial Guinea, Sudan and Zambia – received over half of total FDI into LDCs. This concentration of FDI in a limited number of resource-rich countries continues to increase. The FDI pattern in LDCs is also evident from the expanding presence of the largest TNCs, whose presence in LDCs doubled over the past decade. There was a particularly impressive expansion of global TNCs investing in Mozambique, Malawi, Bangladesh and Uganda. However, some 75 TNCs have pulled out from LDCs during the past decade (UNCTAD, 2011b).

As of 2010, judging by FDI project data (cross-border M&A and greenfield investment projects), European companies accounted for the largest share of FDI flows from developed countries to LDCs, with over 36 per cent of the world total (UNCTAD, 2011b).

Substantial shifts are taking place in world FDI patterns, due to the emergence of FDI from developing economies, which have become major players with respect to international investment, exports and technology flows into LDCs. Currently, the shares of developing and transition economies in LDCs' FDI stock vary from 30 per cent in Malawi to more than 70 per cent in Cambodia, and most countries have seen a considerable increase in their

proportion in recent years. Although starting from a low base, FDI from Brazil, China, India and South Africa, in particular, has become sizeable in many African LDCs.

While such investments focused principally on extractive industries at first, they have become more diversified in recent years in a number of host countries, ranging from manufacturing, to commerce and finance, to agriculture. In addition, investments from the Gulf Cooperation Council (GCC) countries in African LDCs have recently increased in industries such as telecoms, tourism, finance, infrastructure, mining, oil and gas and agriculture. South–South FDI is likely to play an increasing role for LDCs in the future, and holds the potential to boost productivity and significantly affect development patterns in LDCs. It has been less volatile than that from developed countries, and has been more resilient during the recent global economic crisis, partly because it is less dependent on debt financing.

FDI prospects for LDCs remain challenging. Data for the first four months of 2011 on greenfield investment, which is the main mode of investment in LDCs, rather than cross-border M&A, show further decline of 25 per cent (annex table I.8).

The regulatory conditions established in many LDCs are on a par with those in other developing countries, and recent regulatory reforms have made several LDC economies more attractive to FDI. Increased attention has been paid by many LDCs to policy initiatives at the bilateral, regional and multilateral levels in order to enhance international cooperation and/or integration in matters relating to FDI. By the end of 2010, LDCs had concluded a total of 455 BITs and 188 DTTs. On average, LDCs concluded nine BITs and four DTTs per country, compared with 14 BITs and 12 DTTs for all developing countries.

On the partners' side, Germany is the country that has signed most BITs with LDCs (33), followed by Switzerland (26) and China (19). However, there are serious challenges that require renewed policy efforts at the national and international levels if FDI is to effectively contribute to sustainable development in LDCs (see the following section).

b. Enhancing productive capacities through FDI

In preparation for the Fourth United Nations Conference on the Least Developed Countries, held

in Istanbul, Turkey, in May 2011, UNCTAD carried out a broad review of FDI trends in LDCs over the past decade since the Brussels Declaration and the Programme of Action for the Least Developed Countries (BPoA), examining the impact of FDI on their economies with a view to proposing a plan of action to enhance its effectiveness (UNCTAD, 2011b). The report focuses on the challenges LDCs face in attracting and benefiting from FDI, and on what can be done to improve the situation in the light of UNCTAD's long-standing work on FDI in LDCs.

The study found that despite the recent setback, FDI flows to LDCs had grown at an annual rate of 15 per cent during the last decade, raising their share in global FDI flows from less than 1 per cent to over 2 per cent by 2010. Some LDCs have succeeded in diversifying the type of FDI they attract, but over 80 per cent of total FDI flows went to resource-rich economies in Africa, with a weak impact on employment generation, and inflows have stagnated or declined in some countries. In addition, LDCs as a whole still remain at the margin of global value chains, accounting for only 1 per cent of world trade flows (exports plus imports) in industrial goods. Also, the predominance of FDI in natural-resource extraction has reinforced the commodity dependence of LDCs, exacerbating their unbalanced economic structures and vulnerability to external shocks.

The geographic concentration of FDI flows has increased over the past decade, contributing to further divergence in economic performance among LDCs, and regional disparities inside countries remain acute. Most LDCs are still characterized by a dual economy in which a relatively small formal private sector coexists with a large informal segment, which includes subsistence agriculture. FDI linkages with the domestic economy have been hard to establish, and transfers of skills and know-how have been limited.⁴⁸

An ambitious new plan of action for FDI in LDCs to enhance productive capacities is urgently needed.

Technological advances and organizational changes in the global economy and within TNCs are fundamentally altering the way goods and services are produced. Global value chains with a high degree of specialization have become the norm. TNCs are increasingly outsourcing parts of their value chains, in order to increase their efficiency and competitiveness and avail of the lowest worldwide cost options. This in turn requires new approaches and development policies for LDCs. The relevant new paradigm implies a more proactive approach to developing productive capacities, with a better balance between markets and the State, and places production and employment at the heart of policies.

UNCTAD's plan of action for LDCs builds on the reforms and efforts that have been undertaken in recent times, but strives to present new ways of addressing old problems, taking into account the changed circumstances and the lessons of the past decade. The emphasis is on an integrated policy approach to investment, capacity-building and enterprise development. The plan calls for steps to be taken by all key stakeholders involved – governments in LDCs, development partners and home countries of TNCs – and envisages a clear role for the private sector itself. There are five key areas:

- **Public-private initiatives in infrastructure.** Poor physical infrastructure constrains not just FDI, but more generally the development of productive capacities and LDCs' ability to reap the benefits of economic globalization. Successfully addressing the problem calls for strengthened PPP initiatives for infrastructure development and a strong role for private investment.

- **Aid for productive capacity.** Shortfalls in terms of skills and human capital are at least as big a constraint on development in LDCs as poor physical infrastructure. An aid-for-productive-capacity programme focusing on education, training and transfer of skills is called for.

- **Building on investment opportunities.** Efforts need to be redoubled to enable firms of all sizes to capture opportunities in LDCs. Large TNCs frequently bypass investment opportunities in LDCs, where markets are typically small and operating conditions are more challenging. However, LDCs offer significant untapped business opportunities for nimble and innovative investors of a more modest size, as well as potential for high returns on investment.

- **Local business development and access to finance.** The presence of efficient and dynamic local businesses is particularly important for efficiency-seeking foreign investors, which LDCs need to attract on a much larger scale and sustainable basis if they are to integrate into global value chains. New initiatives to support SME development and linkages with TNCs are essential.

- **Regulatory and institutional reform.** LDCs need to launch the next wave of regulatory and institutional reforms to further strengthen the relevant State institutions and their implementation capacities within a partnership-based approach. While significant reforms have been carried out in LDCs in this area in the past 10 years, much remains to be done.

In these five areas of action, there are specific measures to be taken by each stakeholder. These are summarized in table II.12.

Table II.12. Plan of action for investment in LDCs

Actions	Selected measures on the part of...	
	LDC governments	Development partners
Strengthen public-private infrastructure development efforts	<ul style="list-style-type: none"> • Pursuing a liberalization of infrastructure sectors and stable regulatory frameworks to ensure competitive outcomes and protect the national interest. • Legal and regulatory framework for PPPs, with pipeline of projects and regional coordination. 	<ul style="list-style-type: none"> • LDC infrastructure development fund focused on infrastructure PPPs: risk coverage, direct participation and lending on soft terms. • Technical assistance for regulation and implementation of infrastructure PPPs.
Boost aid for productive capacity	<ul style="list-style-type: none"> • Increased public investment in technical and vocational training. • Reform of immigration and work permitting procedures. 	<ul style="list-style-type: none"> • Aid-for-productive capacity funds, including support for technical and vocational training and entrepreneurship.
Enable firms of all sizes to capture LDC opportunities	<ul style="list-style-type: none"> • Proactive targeting of SME FDI and “impact investors”. • Proactively promoting of the primary sector with opportunities for fast technological catching-up, e.g. telecom services, renewable energy. 	<ul style="list-style-type: none"> • Risk coverage institutions at the national level to service SME FDI. • Home-country measures to help firms tap into business opportunities in LDCs: IPA–EPA coordination mechanisms, “impact investment” regulatory framework.
Foster local business and ease access to finance	<ul style="list-style-type: none"> • Credit guarantee schemes for micro, small and medium-sized firms, and strengthened development banks. • Regulatory reform to enable SME access to bank lending and strengthen financial infrastructure. • Simplification of procedures for formal business development. 	<ul style="list-style-type: none"> • Technical support for the development of financial infrastructure and regulatory and institutional environment. • Support for increased lending and credit guarantee schemes for SMEs.
Start the next wave of regulatory and institutional reform	<ul style="list-style-type: none"> • New reform to put increasing emphasis on aspects of regulations that shape FDI impact and strengthen State institutions, including taxation and competition. • Building on mutually reinforcing interests: avoid command and control regulatory bias, establish systematic consultation mechanisms with investors on draft laws. • Build client-oriented investment institutions. • Strengthened efforts to combat corruption under top to bottom zero-tolerance policy. 	<ul style="list-style-type: none"> • Strengthened technical assistance on key regulatory issues, including taxation and competition. • Systematic institution twinning. • Adoption of home-country measures to support LDCs: tax engineering avoidance, oversight of business practices by TNCs.

Source: UNCTAD, 2011b.

2. Landlocked developing countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,^a 2010

Range	Inflows	Outflows
Above \$1 billion	Kazakhstan, Turkmenistan, Mongolia and Zambia	Kazakhstan
\$500 to \$999 million	Niger, Uganda, Uzbekistan, Chad, Plurinational State of Bolivia, Armenia, Azerbaijan and Botswana	..
\$100 to \$499 million	Paraguay, Lao People's Democratic Republic, the FYR of Macedonia, Kyrgyzstan, Republic of Moldova, Ethiopia, Mali, Malawi and Zimbabwe	Zambia and Azerbaijan
\$10 to \$99 million	Swaziland, Afghanistan, Central African Republic, Lesotho, Tajikistan, Rwanda, Nepal, Burkina Faso, Burundi and Bhutan	Mongolia, Zimbabwe and Niger
Below \$10 million	..	Armenia, Swaziland, Lao People's Democratic Republic, Mali, Republic of Moldova, the FYR of Macedonia, Malawi, Burkina Faso, Kyrgyzstan, Paraguay, Botswana and Plurinational State of Bolivia

^a Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Landlocked countries (LLCs)	26.2	23.0	3.8	8.4	1.7	0.6	-	0.5
Africa	4.2	5.0	0.2	0.3	0.1	0.3	-	0.3
Latin America and the Caribbean	0.6	1.0	-	-0.1	-0.1	-	-	-
Asia and Oceania	1.2	2.2	0.1	0.1	0.3	0.2	-	-
Transition economies	20.1	14.8	3.5	8.1	1.4	0.2	-	0.3

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Landlocked countries (LLCs)	149.1	169.6	15.6	27.1	19.6	25.2	- 0.2	- 0.1
Africa	29.6	34.0	2.4	4.5	2.9	3.4	0.2	0.2
Latin America and the Caribbean	9.1	10.0	0.3	0.3	1.3	1.5	-	-
Asia and Oceania	6.4	8.6	0.1	0.2	0.2	0.7	-	-
Transition economies	104.0	117.0	12.8	22.2	15.1	19.6	- 0.5	- 0.4

Figure A. FDI inflows, 2000–2010

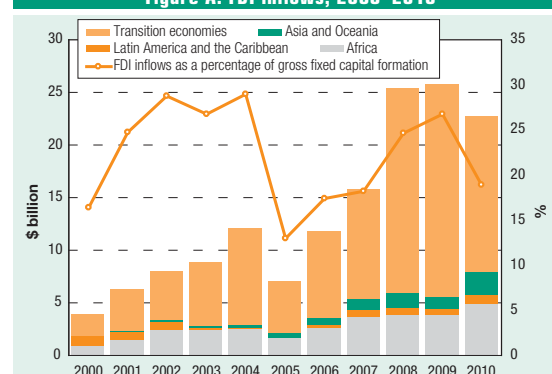


Figure B. FDI outflows, 2000–2010

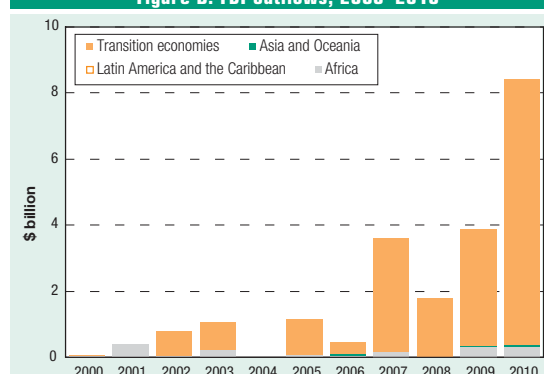


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	1 708	639	- 8	518
Primary	1 614	45	1 216	123
Mining, quarrying and petroleum	1 614	45	1 216	123
Manufacturing	25	44	-	-
Food, beverages and tobacco	-	0	-	-
Wood and wood products	11	-	-	-
Chemicals and chemical products	10	42	-	-
Non-metallic mineral products	-	-	-	-
Metals and metal products	-	-	-	-
Machinery and equipment	4	-	-	-
Electrical and electronic equipment	-	1	-	-
Services	70	551	-1 224	395
Electricity, gas and water	- 247	110	-	-
Trade	335	0	-	-
Transport, storage and communications	0	371	-	-
Finance	- 24	69	-	396
Public administration and defence	-	-	-1 224	- 1
Other services	5	-	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	1 708	639	- 8	518
Developed economies	75	88	-	261
European Union	- 418	89	-	260
United States	- 53	- 17	-	-
Japan	52	- 3	-	-
Developing economies	1 831	550	- 8	257
Africa	74	303	-	257
Latin America and the Caribbean	-	-	16	-
British Virgin Islands	-	-	16	-
Asia	1 757	246	- 24	-
West Asia	30	0	-	-
South, East and South-East Asia	1 727	246	- 24	-
China	3 558	46	- 24	-
India	-	80	-	-
Indonesia	-2 604	-	-	-
Thailand	-	110	-	-
South-East Europe and the CIS	- 198	-	-	-
Russian Federation	- 198	-	-	-

In 2010, FDI inflows to the 31 landlocked developing countries (LLDCs)⁴⁹ declined by 12 per cent to \$23 billion (table B and figure A). LLDCs accounted for 3.6 per cent of FDI flows to all developing and transition economies, down from 4.5 per cent in 2009. Inherent geographical disadvantages and structural macroeconomic weaknesses have hampered the overall economic performance of these countries. They also face severe constraints in attracting FDI inflows, including the small size of their economies, weak infrastructure and high transportation costs. However, some of them have made significant progress in attracting FDI inflows over the past decade, as the result of economic reforms, investment liberalization and favourable external economic conditions (*WIR10*).

The five largest recipients of FDI in this special grouping of structurally weak economies were Kazakhstan, Turkmenistan (both in the CIS), Mongolia (East Asia), Zambia (Southern Africa) and Niger (West Africa), with inflows of \$10 billion, \$2.1 billion, \$1.7 billion, \$1 billion and \$950 million, respectively (table A). Large cross-border M&A deals in LLDCs have been increasingly targeting services (table II.13), while in Zambia, Kazakhstan and Kyrgyzstan, privatization in telecommunications led to significant foreign investment through M&As, including from other developing countries. Large cross-border M&As also took place in financial services.

In the LLDCs, greenfield investments are more significant than cross-border M&As, covering a

wider range of industries and business functions. While the largest projects were concentrated in extractive industries (table II.14), a significant amount of investment also took place in manufacturing, including in automotives, chemicals, electronics, food and beverages, and textiles. Some large greenfield projects highlight the success of a number of LLDCs in attracting FDI, thereby enhancing their productive capabilities and generating employment. For instance, Xinxiang Kuroda (China) invested \$67 million in a project in the textiles industry in Ethiopia, creating about 1,100 jobs.⁵⁰ Similarly, an Indian-funded project in the food industry, also in Ethiopia, is expected to create about 340 jobs. Though not yet reflected in FDI statistics, some projects announced in 2010 will be implemented in the years to come and drive up FDI inflows to countries such as Uganda.

The performance of LLDCs in attracting FDI inflows varies widely (table A). For instance, Mongolia has demonstrated high performance in attracting FDI (up by 171 per cent to \$1.7 billion in 2010), but inflows to the country have concentrated in mining industries. In contrast, a number of countries in different regions, such as Ethiopia (Africa), Paraguay (Latin America) and Uzbekistan (Central Asia), have received more diversified FDI inflows. For instance, Uzbekistan attracted greenfield FDI projects in a number of manufacturing industries in 2010, including the automotive industry, building materials, chemicals and consumer electronics (box II.4).

Table II.13. The 10 largest cross-border M&As in LLDCs, 2010

Target company	Country	Acquiring company	Home country	Industry	Value (\$ million)	Share (%)
Zambia Telecommunications Co Ltd	Zambia	Libya Africa Investment Portfolio	Libyan Arab Jamahiriya	Telecommunications	257	75
Nam Theun 2 Power Co Ltd	Lao PDR	Investor Group	Thailand	Energy	110	15
TOO Mobile Telecom Service	Kazakhstan	Tele2 AB	Sweden	Telecommunications	77	51
Zimbabwe Alloys Chrome(Pvt)Ltd	Zimbabwe	Metmar Ltd	South Africa	Electrometallurgical products	51	40
Stopanska Banka AD	Macedonia, TFYR	National Bank of Greece SA	Greece	Banks	46	22
OAO Kyrgyztelekom	Kyrgyzstan	Investor Group	Cyprus	Telecommunications	40	78
Rwenzori Tea Investments Ltd	Uganda	McLeod Russel India Ltd	India	Food preparations, nec	30	100
Maamba Collieries Ltd	Zambia	Nava Bharat Ventures Ltd	India	Mining	26	65
AO Danabank	Kazakhstan	Punjab National Bank	India	Banks	24	64
Ovoot Coking Coal Project	Mongolia	Windy Knob Resources Ltd	Australia	Coal mining	8	100

Source: UNCTAD, cross border M&A database (www.unctad.org/fdistatistics).

Table II.14. The 10 largest greenfield projects in LLDCs, 2010

Investor or project	Industry	Host country	Home country	Investment (\$ million)
Rio Tinto Group	Metals	Paraguay	United Kingdom	6 000
Tullow Oil	Coal, oil and natural gas	Uganda	United Kingdom	5 000
Kenol-Kobil Group (KenolKobil)	Coal, oil and natural gas	Uganda	Kenya	1 701
International Petroleum Investment Company	Chemicals	Uzbekistan	United Arab Emirates	1 340
Albatros Energy	Coal, oil and natural gas	Uganda	Mauritius	749
Lukoil	Coal, oil and natural gas	Kazakhstan	Russian Federation	500
Move One	Transportation	Afghanistan	United Arab Emirates	497
Globalstar	Communications	Botswana	United States	470
Dimension Data Holdings (DiData)	Communications	Uganda	South Africa	468
Vale (Companhia Vale do Rio Doce)	Metals	Zambia	Brazil	400

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Box II.4. Overcoming the disadvantages of being landlocked: experience of Uzbekistan in attracting FDI in manufacturing

Uzbekistan is an LLDC with a GDP of \$39 billion and GDP per capita of \$1,400 in 2010. FDI to the country has increased since the mid-2000s as a result of a privatization programme.^a In recent years, the country has attracted some large greenfield projects in manufacturing, with a number of them announced or implemented in 2010 (box table II.4.1).

Box table II.4.1. Selected FDI projects in manufacturing in Uzbekistan, 2010

Investor or project	Industry	Home country	Investment (\$ million)
International Petroleum Investment Company	Chemicals	United Arab Emirates	1 340
Omnivest	Pharmaceuticals	Hungary	100
Knauf	Building materials	Germany	50
EMG	Ceramics and glass	Iran, Islamic Republic of	24
CLAAS	Industrial machinery	Germany	20
Erae Cs Ltd	Automotive components	Korea, Republic of	13
LG	Consumer electronics	Korea, Republic of	9

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

In the automotive components industry, for instance, Erae Cs Ltd (Republic of Korea) and Uztoanoat, a local company, established an international joint venture with a total investment of \$13 million. The facility will supply 150,000 km of car cables per year to General Motors' new plant in Uzbekistan, starting production in the second half of 2011.^b In the petrochemicals industry, a \$1.34 billion project is being funded from the United Arab Emirates, and a company from Singapore has signed a deal for a joint venture project for polyethylene production.

These large projects illustrate the success of government policies in attracting FDI in manufacturing to Uzbekistan. A favourable investment climate and a sound framework of FDI legislation, which includes guarantees for foreign investors and certain preferences for them, have contributed to this success. It seems that institutional advantages can help LLDCs overcome their geographical disadvantages, and Uzbekistan provides an example in this regard.

Source: UNCTAD.

^aFor instance, the Government privatized more than 600 enterprises each year in 2006 and 2007, and foreign investors purchased 28 companies for \$115 million in 2007 alone.

^bCurrently, GM Uzbekistan produces seven models of automotive vehicles in the country. With a total investment of \$136 million, the new plant will produce a compact sedan in late 2011.

With intensified South–South economic cooperation and increasing capital flows from emerging markets, prospects for FDI inflows to the grouping of LLDCs are promising, for 2011 and beyond. Indeed, the total amount of investment of recorded greenfield projects jumped by over 40 per cent in the first four months of 2011, compared with the same period of 2010.

b. Leveraging TNC participation in infrastructure development

Under appropriate regulatory frameworks and proactive policies, TNCs can help develop badly needed infrastructure in LLDCs, including through various forms of public-private partnerships.

Infrastructure development is crucial for LLDCs to reduce high transaction (communication and transportation) costs, overcome geographic disadvantages and move onto a path of sustainable development and poverty reduction.

To realize the objective of rapid infrastructure build-up, governments need to introduce specific infrastructure development strategies, making use of the private sector and leveraging the potential contribution of TNCs (*WIR08*).

In a number of LLDCs, greenfield investment and other forms of TNC participation have contributed to infrastructure development, in particular in electricity, transport and telecommunications. During 2005–2010, 12 large infrastructure development projects of at least \$100 million each with TNC participation were undertaken in seven LLDCs, namely Uganda (three projects), Lao People's Democratic Republic (two projects), the former Yugoslav Republic of Macedonia (two projects) and Afghanistan (two projects), as well as Azerbaijan, Bhutan and Rwanda (one project each) (table II.15).

TNCs have been involved in these infrastructure projects through different modalities, including various forms of PPPs, such as build-operate-transfer (BOT), build-own-operate (BOO), and concession (table II.15). TNCs are often attracted by the growth potential in host developing countries and regions, as well as by business opportunities triggered by new liberalization and deregulation initiatives. Furthermore, PPP arrangements have

helped infrastructure TNCs mitigate risks and overcome difficulties in their operations abroad. In some cases, TNCs from different home countries have set up joint ventures for a project. In other cases, TNCs form joint ventures with local partners, such as in the TE–TO Skopje electricity generation project in the former Yugoslav Republic of Macedonia and the Aktau airport terminal project in Kazakhstan.

TNC participation has helped mobilize significant amounts of capital for the development of infrastructure in LLDCs. The projects listed in table II.15 were associated with a total investment of \$5.3 billion, and, sometimes, multilateral support was involved, as in the two largest electricity projects in the Lao People's Democratic Republic and Uganda, respectively.⁵¹

A few LLDCs have been particularly successful in leveraging TNC participation to improve their infrastructure, which is badly needed to bring them on a track of fast and sustainable development. For instance, the Lao People's Democratic Republic and Uganda have successfully implemented a number of large electricity generation and transmission projects with the involvement of TNCs from both developed and developing countries.

The impact on financing and investment varies by industry. Table II.15 shows that TNCs' contributions have been high in electricity generation and mobile telecommunications. Few projects were recorded in water and sanitation, which is in line with the general situation of TNC participation in infrastructure in the developing world (*WIR08*), but a number of large projects for extending transport networks and building transport utilities in LLDCs have brought in substantial financial resources.

For example, in 2005, Rift Valley Railways, a consortium led by Sheltam (South Africa), won a 25-year concession to operate the combined Kenya and Uganda railway system. The company underwent several rounds of restructuring, but has devoted a significant amount of investment to upgrade the century-old transport system and increase the traffic volume. A systematic turnaround strategy was implemented to improve the services and a considerable reduction in rail-related accidents bolstered customers' confidence.

Table II.15. Infrastructure development projects with TNC participation in LLDCs, with investment above \$100 million, 2005–2010

Project	Country	Industry	Segment	Investment (\$ million)	TNCs involved	Modality	Year
Nam Theun II Hydropower Project	Lao PDR	Energy	Electricity generation	1250	Italian-Thai Development Public Company (Thailand), Electricite de France (France)	BOT	2005
Bujagali Hydro Project	Uganda	Energy	Electricity generation	799	Sithe Global Power (United States), Aga Khan Fund (Switzerland)	BOT	2007
Nam Ngum 2 Hydro Power Plant	Lao PDR	Energy	Electricity generation	760	Ch Karnchang Company Limited (Thailand), Ratchaburi Electricity Generating Holding Plc (Thailand)	BOT	2006
Warid Telecom Uganda Limited	Uganda	Telecommunications	Various services	481	Abu Dhabi Group (United Arab Emirates), Essar Group (India)	Greenfield	2007
Kenya-Uganda Railways	Uganda	Transport	Railroads	404	Sheltam Rail Company (Pty) Ltd (South Africa), Trans Century Ltd. (Kenya)	Concession	2006
Etisalat Afghanistan	Afghanistan	Telecommunications	Mobile access	340	Emirates Telecommunications Corporation (Etisalat) (United Arab Emirates)	Greenfield	2006
Azerfon	Azerbaijan	Telecommunications	Mobile access	300	Extel (United Kingdom), Siemens AG (Germany), Celex Communications (United Kingdom)	Greenfield	2006
Skopje and Ohrid Airports Concession	Macedonia, FYR	Transport	Airports	295	TAV Airports Holding Co. (Turkey)	Concession	2008
TE-TO Skopje	Macedonia, FYR	Energy	Electricity generation	233	Itera Holding Ltd. (Russian Federation), Toplifikacija (Macedonia, FYR), Sintez Group (Russian Federation)	BOO	2007
Dagachhu Hydro Power Project	Bhutan	Energy	Electricity generation	201	Tata Enterprises (India)	BOO	2009
Areeba Afghanistan	Afghanistan	Telecommunications	Mobile access	133	MTN Group (South Africa)	Greenfield	2005
Millicom Rwanda	Rwanda	Telecommunications	Mobile access	117	Millicom International (Luxembourg)	Greenfield	2009

Source: UNCTAD, based on World Bank PPI database.

At present the railway system handles less than 6 per cent of cargo passing through the Northern Corridor,⁵² and the Governments of Kenya and Uganda plan to build a new railway from the port of Mombasa.⁵³ The example of the Maputo Corridor, in which TNCs are involved in the development of a transport network for facilitating trade and regional integration, provides useful lessons.⁵⁴

In Asia, proactive national policies and regional integration efforts have brought benefits of infrastructure improvement and associated socio-economic development to LLDCs. For instance, the Lao People's Democratic Republic has introduced

a “land-linked” strategy in parallel with regional and subregional infrastructure development schemes, within the frameworks of ASEAN and the Greater Mekong Subregion.⁵⁵ The ASEAN Highway Network Project has helped improve road transport in the Lao People's Democratic Republic.⁵⁶ Construction of a high-speed railway system linking China and Singapore and passing through the Lao People's Democratic Republic, Thailand and Malaysia will start in 2011. The project will bring a significant amount of foreign investment and advanced technology to related countries, and will play a particularly significant role in infrastructure

development in the Lao People's Democratic Republic.

The cases discussed above show that, in an enabling institutional environment (including a high-quality regulatory framework, an effective risk-mitigation system and proper investment promotion activities), TNCs can be engaged in various types of infrastructure development projects, and their involvement can help mobilize financial resources and increase investment levels in infrastructure industries in LLDCs. In particular, the development of region-wide transport infrastructure is a vital way

for those countries to access regional markets and sea ports; and TNCs, particularly those from the South, can play an important role in this regard.

Governments in LLDCs need to develop the capacity to assess the feasibility and suitability of different forms of infrastructure provision – whether public, private or through some forms of PPPs – as well as to identify the potential role of TNCs and to design the framework of specific projects. Capacity-building needs to be strengthened in this regard, and regional collaboration among developing countries should be encouraged.

3. Small island developing States

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,^a 2010

Range	Inflows	Outflows
Above \$1 billion
\$500 to \$999 million	Bahamas and Trinidad and Tobago	..
\$100 to \$499 million	Mauritius, Seychelles, Timor-Leste, Solomon Islands, Jamaica, Maldives, Saint Kitts and Nevis, Fiji, Cape Verde and Antigua and Barbuda	Mauritius
\$50 to \$99 million	Saint Lucia, Saint Vincent and the Grenadines, Grenada and Barbados	Jamaica
\$1 to \$49 million	Vanuatu, Dominica, Papua New Guinea, Tonga, Federated States of Micronesia, Comoros, Marshall Islands, Kiribati, São Tomé and Príncipe, Palau, Samoa and Tuvalu	Seychelles, São Tomé and Príncipe, Fiji, Solomon Islands, Barbados and Vanuatu
Below \$1 million	..	Kiribati, Papua New Guinea, Cape Verde and Samoa

^a Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Small island developing states (SIDS)	4.3	4.2	-	0.2	-	9.7	0.4	0.2
Africa	0.7	0.9	-	0.1	-	0.2	0.2	-
Latin America and the Caribbean	2.7	2.4	-	0.1	-	0.5	-	0.1
Asia	0.2	0.4	-	-	-	-	-	-
Oceania	0.7	0.5	-	-	-	9.0	0.2	0.1

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Small island developing states (SIDS)	56.6	60.6	3.4	3.6	2.0	2.0	0.5	0.5
Africa	4.8	5.7	0.6	0.8	0.3	0.2	-	-
Latin America and the Caribbean	46.2	48.3	2.4	2.5	0.9	0.9	0.4	0.5
Asia	0.8	1.2	-	-	-	-	-	-
Oceania	4.8	5.5	0.3	0.3	0.8	0.9	-	-

Figure A. FDI inflows, 2000–2010

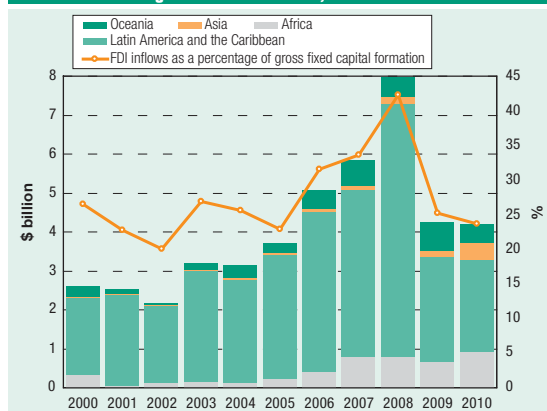


Figure B. FDI outflows, 2000–2010

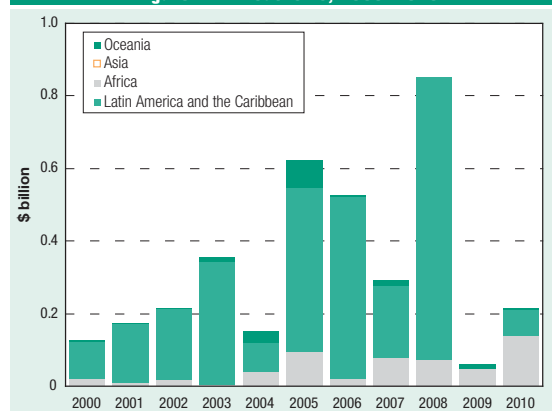


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	31	9 735	393	161
Primary	-	9 037	-	- 11
Mining, quarrying and petroleum	-	9 037	-	- 11
Manufacturing	-	-	-	95
Food, beverages and tobacco	-	-	-	95
Chemicals and chemical products	-	-	-	-
Metals and metal products	-	-	-	-
Machinery and equipment	-	-	-	-
Services	31	699	393	77
Electricity, gas and water	-	82	6	-
Trade	-	-	-	-
Hotels and restaurants	-	136	-	-
Transport, storage and communications	-	-	-	- 3
Finance	25	480	385	- 23
Business services	-	1	2	3
Health and social services	5	-	-	-
Other services	-	-	-	100

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	31	9 735	393	161
Developed economies	- 207	9 038	31	113
European Union	22	28	- 10	18
United States	- 188	- 175	-	100
Australia	220	8 987	-	- 4
Japan	- 320	-	28	1
Developing economies	237	698	361	48
Africa	- 300	-	6	- 88
Latin America and the Caribbean	-	94	-	90
Asia	537	603	355	47
West Asia	320	-	-	-
South, East and South-East Asia	217	603	355	47
China	-	328	-	10
Hong Kong, China	-	- 63	172	-
India	5	163	181	38
Malaysia	192	176	-	- 1
South-East Europe and the CIS	-	-	-	-

FDI inflows to small island developing States (SIDS) dropped marginally by less than 1 per cent, to \$4.2 billion in 2010 (table B and figure A), following a 47 per cent decline in 2009. The largest five recipients of FDI in this special grouping of structurally weak economies were Bahamas, Trinidad and Tobago (both in the Caribbean), Mauritius, Seychelles (both in East Africa) and Timor-Leste (South-East Asia), with inflows ranging between \$977 million and \$280 million (table A).

Geographically and culturally diverse, the 29 SIDS⁵⁷ nevertheless share similar development challenges: small but rapidly growing populations, low availability of resources, remoteness, susceptibility to natural disasters, and a lack of economies of scale. They also face a number of difficulties in attracting FDI, such as the small size of their economies, a lack of human resources, and high transportation and communication costs. As a result, total inflows to these economies remain at a very low level, accounting for less than 1 per cent of total FDI

inflows to the developing world in recent years.

Despite a number of large cross-border M&A deals in industries such as mining and hotels (table II.16), FDI flows to SIDS stagnated in 2010. The \$9 billion acquisition of Lihir Gold by Newcrest Mining (Australia) was not reflected in FDI inflows to Papua New Guinea in 2010, as this transaction was between foreign investors, involving a change in foreign ownership only. However, other deals by firms from developing countries may drive inflows to the country to new highs in 2011.

FDI inflows in SIDS have traditionally been concentrated in extractive industries and services, including hotels and tourism, financial services and real estate. In 2010, there were a number of greenfield investments in these industries (table II.17). The Maldives accounted for most of the large projects in hotels and tourism, as well as in other services, while Papua New Guinea hosted a major share of large mining projects. Noteworthy were two investments in manufacturing in Mauritius: one

Table II.16. Selected large cross-border M&As in SIDS, 2010

Target company	Country	Acquiring company	Home country	Industry	Value (\$ million)	Shares (%)
Lihir Gold Ltd	Papua New Guinea	Newcrest Mining Ltd	Australia	Gold ore	9 018	100
Garden Plaza Capital SRL	Barbados	Fosun Intl Hldgs Ltd	China	Holding companies	328	100
CTP(PNG)Ltd	Papua New Guinea	Kulim(Malaysia)Bhd	Malaysia	Vegetable oil mills	175	80
Darius Holdings Ltd	Mauritius	Asian Hotels (North) Ltd	India	Hotels	136	53
Digicel Pacific Ltd	Fiji	Digicel Group Ltd	Jamaica	Telecommunications	132	100
Light & Power Holdings Ltd	Barbados	Emera Inc	Canada	Investors	85	38

Source: UNCTAD, cross border M&A database (www.unctad.org/fdistatistics).

Table II.17. The 10 largest greenfield projects in SIDS, 2010

Investor or project	Industry	Host country	Home country	Investment (\$ million)
Eni SpA (Eni)	Coal, oil and natural gas	Timor-Leste	Italy	1 000
InterOil	Coal, oil and natural gas	Papua New Guinea	Australia	550
Daewoo Shipbuilding & Marine Engineering	Coal, oil and natural gas	Papua New Guinea	Korea, Republic of	406
Pruksa Real Estate	Real estate	Maldives	Thailand	373
Allied Gold	Metals	Solomon Islands	Australia	217
Mubadala Development	Hotels and tourism	Maldives	United Arab Emirates	170
Fairmont Raffles Hotels International	Hotels and tourism	Maldives	Canada	170
Shangri-La Hotels and Resorts	Hotels and tourism	Maldives	Hong Kong, China	165
Dubai Holding	Hotels and tourism	Maldives	United Arab Emirates	160
Fairmont Raffles Hotels International	Hotels and tourism	Seychelles	Canada	128

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

undertaken by Pick n Pay (South Africa) in the food industry, and the other by Mango (Spain) in textiles.

FDI inflows were still biased towards relatively large economies and tax havens. In 2010, 62 per cent of the grouping's total FDI inflows targeted the top five recipients noted above (table A), and 38 per cent went into the tax havens;⁵⁸ however the latter share might drop as TNCs move less funds to these economies in the future. In relative terms, a number of SIDS performed well in attracting FDI inflows, and resource-rich Papua New Guinea stands out as one of the winners, resulting from booming investment in its extractive industries (box II.5).

Rising greenfield investments and cross-border M&As will drive up FDI inflows to SIDS in 2011. Total investment of recorded greenfield projects had jumped by 90 per cent in the first four months of 2011, compared with the same period of 2010. In the meantime, the value of cross-border M&A purchases rose to over \$200 million. Considering the high potential of capital flows from emerging economies, FDI inflows to SIDS seem likely to increase in the years to come.

b. Roles of TNCs in climate change adaptation

Highly vulnerable to the effects of climate change, SIDS are looking to attract TNCs and FDI projects that can contribute to adaptation efforts.

SIDS are perhaps the countries that are most vulnerable to the effects of climate change. A warming of the ocean surface and a rise in sea level around these island economies have been detected, and this is expected to continue (UNFCCC, 2007). The associated adverse impacts pose a serious danger to many aspects of economic development in SIDS.⁵⁹ For instance, the tourist industry, which the economies of SIDS particularly depend on, will be strongly affected – the shift of tourism to higher altitudes and latitudes is expected to result in a significant drop in the tourist industry in such SIDS as the Maldives (Morin, 2006).

To avoid the grave danger posed by climate change, aggressive mitigation action by the major green house gas (GHG) emitters is crucial, while SIDS themselves have an urgent need for adaptation activities.⁶⁰ For this grouping of structurally

vulnerable economies, the cost of inaction would be tremendous.⁶¹ The governments of SIDS are taking various initiatives to incorporate adaptation practices into their economic planning and investment activities. Key industries identified in this process are agriculture, tourism, public health and water infrastructure, while the actors involved range from individuals, governments, local communities and international organizations to the private sector and civil society (AOSIS and UNF, 2008). The SIDS have dedicated their own resources to this critical area, and are calling for action among the international community.

The private sector is a crucial actor in the fight against the negative impacts of global warming in SIDS. In particular, TNCs can play an important role.

First, the participation of and optimal use of TNCs' resources is useful in filling the financial and technological gaps for climate change adaptation in SIDS. Considerable funds are needed to implement climate change adaptation activities (including improving land and water management and introducing new agricultural production technologies) and to enhance the countries' adaptive capacities (including improving education, information and infrastructure). Various multilateral and bilateral sources of funding are available,⁶² but they are not of the magnitude needed (AOSIS and UNF, 2008). Evidence shows that TNCs can make a significant contribution through mobilizing resources and undertaking necessary investments, but lack of data prevents a systematic assessment of the extent of the financial and technological contributions of TNCs.

Secondly, foreign affiliates have strengthened host countries' adaptation efforts by undertaking their own adaptation activities as private sector participants, as well as indirectly through demonstration effects. In important industries such as tourism, which accounts for a large share of the economy of many SIDS,⁶³ TNCs' contribution in dealing with the economic challenges of climate change is considerable (box II.6).

Thirdly, TNC involvement can enhance the adaptive capacities of host countries by improving infrastructure. To respond successfully to the risks of economic disruption, SIDS need infrastructure

Box II.5. Natural resource-seeking FDI in Papua New Guinea: old and new investors

Papua New Guinea is a SIDS with substantial mineral reserves, including gold, copper and nickel, as well as oil and gas. Those natural resources have traditionally attracted significant investment from big companies based in Australia, the United Kingdom and the United States; but in recent years, these companies have been joined by investors from emerging economies.

Companies from developed countries are still the major investors in extractive industries in Papua New Guinea and have been trying to strengthen their positions. In the oil and gas industry, for instance, ExxonMobil and its joint venture partners have invested \$14 billion in a liquefied natural gas project, starting from early 2010.^a In metal mining, the “majors” from the developed world, such as BHP Billiton, Rio Tinto and Xstrata, are the main players in the country. Xstrata, the world’s largest copper producer, has invested over \$2 billion in Frieda River, a copper mine in Sandaun and East Sepik Provinces in Papua New Guinea in recent years.

Now, mining companies from developing countries, mainly large emerging economies, such as China and India, are investing in a big way. For example, following an agreement signed with the Government of Papua New Guinea in 2005, Metallurgical Construction Group (China) has made significant investments in the country’s mining industries, including through the Ramu nickel-cobalt project, in which the Chinese corporation holds 85 per cent of equity. The total investment in the project in 2009 was \$1.4 billion.^b

Source: UNCTAD.

^a Elizabeth Fry, “Exxon LNG project arranges \$14bn in financing”, *Financial Times*, 16 December 2009.

^b E&MJ’s Annual Survey of Global Mining Investment, project survey 2010.

systems that are modern and resilient to climate change. There are many interdependencies between the infrastructure industries, all of which are important for adaptive capacities (Royal Academy of Engineering, 2011),⁶⁴ but for most SIDS a resilient water industry (including water storage facilities, potable and waste water treatment plants, transmission lines, local distribution systems etc.) is a priority.

A number of projects with TNC participation have contributed to infrastructure development in SIDS, helping to reduce the vulnerability of SIDS to natural disasters and the anticipated rise in sea level. For instance, Berlinwasser (Germany) invested in a water and sewerage project in Mauritius in 2008, raising standards and improving the efficiency and resilience of the water industry in the country.⁶⁵ In the Maldives, Hitachi Plant Technologies Group (Japan) acquired a 20 per cent stake in a major water and sewage treatment company in 2010, and helped streamline and update operations by leveraging the company’s strengths and know-how.⁶⁶ Some TNCs involved in infrastructure industries are also

from developing countries, and sometimes they have cooperated with international organizations which provide multilateral support on climate change adaptation as well as related infrastructure development to SIDS.⁶⁷

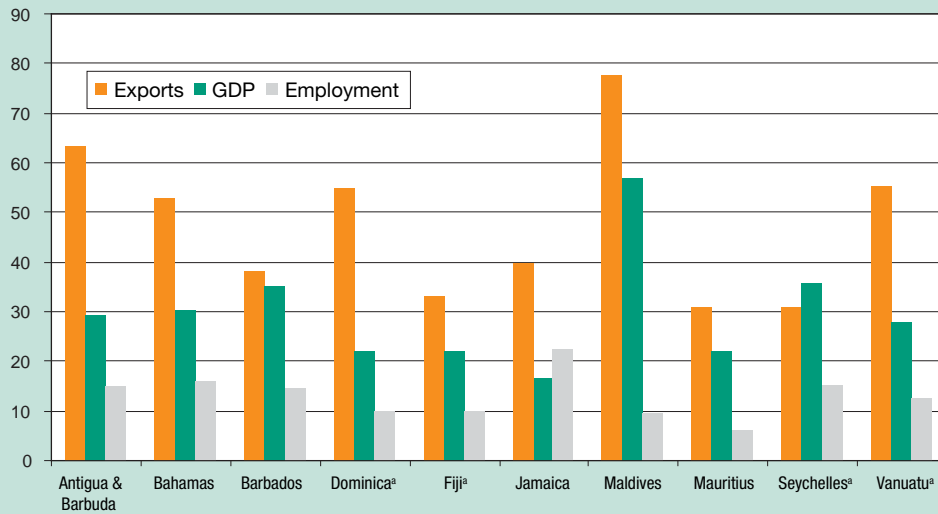
Effective climate change adaptation in SIDS is beyond the scope and capability of any single organization; it should involve partnerships among all relevant entities and stakeholders to achieve scale-up (AOSIS and UNF, 2008). With a proper institutional framework in place, TNCs can participate and play an important role. However, a number of barriers still exist to the private financing of adaptation practices in SIDS, including the lack of local capacities and resources, weak domestic markets and institutions, as well as the lack of interest by international investors. PPPs are needed to overcome these barriers and for a creative leveraging of foreign private resources; capacity-building of host country governments is the crucial first step. In this context, the importance of data collection cannot be overstated, which is fundamental to any further research in the area.

Box II.6. TNCs and climate change adaptation in the tourism industry in SIDS

The tourism industry is a key economic sector for SIDS in terms of income, employment and exports (box figure II.6.1), and is the major target of FDI inflows to these countries. The far-reaching consequences of climate change will affect the industry through increased infrastructure damage,^a additional emergency preparedness requirements, higher operating expenses (e.g., insurance, back-up water and power systems, and evacuations), and business interruptions. Awareness of the need for climate-change mitigation measures is also changing the way that consumers think about tourism, all of which has significant implications for patterns of consumption and for the kinds of services that are desired or valued most. How to deal with these consequences has become a critical concern for SIDS such as Barbados and Dominica in the Caribbean, and Fiji and Vanuatu in Oceania.

Box figure II.6.1. Share of the hotel and tourism industry in total exports, GDP and employment, selected SIDS, 2007 or latest available year

(Per cent)



Source: UNCTAD.

^a Share in total employment is estimated.

Foreign and domestic service providers (including hotel chains, tour operators, etc.) are active participants in sector-specific adaptation plans for tourism in some SIDS. For example, a project of adaptation to “extreme temperatures and risk of tropical storms” was undertaken by the Caribbean Tourism Organization, the governments of several Caribbean islands, as well as companies in the accommodation industry. Another project of “water impact and adaptation” was conducted by individual accommodation providers and tour operators in Fiji (Becken, 2005). The country receives the highest number of tourists in Oceania, and its major hotels are managed by global TNCs such as Accor, Intercontinental, Radisson, Sheraton, Warwick etc.^b In this and other cases, a range of technological, managerial and behavioural adaptation measures have been utilized by foreign affiliates to deal with climate change impacts.

Foreign affiliates can also play an indirect role in this regard. UNCTAD research in a number of developing countries found that foreign hotels were typically relatively early adopters of “green” technologies and approaches compared to local hotels and appeared to be able to recover from natural disasters more rapidly (UNCTAD, 2007). For instance, all four of Accor’s hotels in Fiji have reached benchmark status for achieving the Green Globe certification.^c A wide range of methodologies and decision tools exist to guide adaptation practices,^d but none have been specifically applied to the tourism industry (UNWTO, UNEP and WMO, 2008). Therefore, in addition to raising the awareness of adaptation among domestic tourism operators, the adaptation activities conducted by foreign affiliates become important sources of possible “best practice” examples for local firms to learn from and imitate.

Source: UNCTAD.

^a For instance, in Barbados: 70 per cent of the island’s hotels are located within 250 metres of the high water mark and are at a high risk of major structural damage.

^b Lengefeld, Klaus, “Sustainable tourism and climate change in the Pacific island region”, GTZ Sector Project, 2011.

^c Green Globe is an international environmental accreditation organization for travel and tourism operators.

^d These include the UNFCCC’s Compendium of Decision Tools to Evaluate Strategies for Adaptation to Climate Change, as well as those developed by organizations such as UNDP Adaptation Policy Framework, United States Country Studies Program and United Kingdom Climate Impacts Programme.

Notes

- ¹ Nigeria's Petroleum Industry Bill (PIB) is aimed at reforming the legal and fiscal arrangements governing the oil industry. It has yet to be passed. Operating companies are concerned about maintaining their tax exemptions. The proposed bill would also require existing joint ventures to become incorporated with the restructured State-owned oil company, impose separate licences for oil and gas, preferential tax treatment for gas, relinquishment of licences for inactive fields and further reallocation of marginal fields to indigenous operators, enhanced environmental reporting, and higher local content mandates especially for professional and managerial staff. "Nigeria: Petroleum Industry Bill – of Senate warning and public agitation", AllAfrica.com, 14 March 2011; Revenue Watch Institute (no date), "The Nigerian Petroleum Industry Bill: key upstream questions for the National Assembly", www.revenuewatch.org.
- ² "Bharti sets USD1bn African budget in 2011", TeleGeography, 25 May 2011. www.telegeography.com.
- ³ Hasan International (Hong Kong, China) invested an estimated \$4 billion in metals in Ghana in 2011.
- ⁴ "Is Zambia Africa's next breadbasket?", Mail and Guardian Online, 1 October 2010 (www.mg.co.za); "The great trek north", BNet, July 2004 (www.findarticles.com).
- ⁵ "Coleus Crowns: past, present and future", *Madhvani Group Magazine*, 18(1): 25, June 2010.
- ⁶ Members include Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe.
- ⁷ EAC member countries are Burundi, Kenya, Rwanda, Uganda and the United Republic of Tanzania.
- ⁸ The Daily News Egypt, "Member States push for infrastructure investment at COMESA", 13 April 2010 (www.trademarksa.org).
- ⁹ In 2010, for example, Viet Nam surpassed China to become the largest production base for Nike (United States). In 2011, Coach (United States) is planning to shift half of its production activities out of China to neighbouring Asian countries, due to rising labour costs.
- ¹⁰ Harsh Joshi, "Foreign capital shuns India", *Wall Street Journal*, 7 February 2011.
- ¹¹ The decline in FDI outflows from India was due to the depressed level of equity investment by Indian companies. By component, of FDI outflows from India: reinvested earnings remained at the same level of 2009 (\$1.1 billion); other capital flows (mainly intra-company loans) increased by 99 per cent in 2010, while equity investments dropped by 40 per cent.
- ¹² It is difficult to estimate the share of extractive industries in the region's total FDI stock due to lack of data at the country level, but it might be around 15 per cent, which is well above the global average of less than 10 per cent (Web table 24 – www.unctad.org/wir).
- ¹³ Source: International Energy Agency.
- ¹⁴ Sylvia Pfeifer, "Chinese demand for energy pumps up M&A share", *Financial Times*, 7 November 2010.
- ¹⁵ See e.g. "The Chinese are coming ... to Africa", *The Economist*, 22 April 2011.
- ¹⁶ Attractive mineral resources are, for instance, copper (in Chile and Peru), iron ore (in Brazil) and oil and gas (in Ecuador and Venezuela).
- ¹⁷ Source: company website (www.foxconn.com.cn).
- ¹⁸ Adam Goldberg and Joshua Galper, "Where Huawei went wrong in America", *Wall Street Journal*, 3 March 2011.
- ¹⁹ Source: *International Business Times* (www.ibtimes.com).
- ²⁰ As the target company runs 400 hotels in 25 countries, mainly in Europe, the deal has helped HNA realize its plan of European market expansion.
- ²¹ There was a \$3.8 billion acquisition of Turkiye Garanti Bankasi by the Spanish Bank BBVA in March 2011.
- ²² "Arab unrest takes toll on foreign investment", *Financial Times*, 30 March 2011.
- ²³ QIA's cross-border purchases have included investments in the London Stock Exchange, Credit Suisse, Barclays Bank, Volkswagen, the French electrical engineering group Cegelec, the French media and aerospace group Lagardère, Singapore's Raffles Medical Group, the grocery stores Sainsbury (United Kingdom), the Industrial & Commercial Bank of China, the German construction firm Hochtief, and the Brazilian affiliate of Banco Santander.
- ²⁴ "Qatar Holding acquires 9.1 per cent stake in German industrial giant Hochtief", *Gulfnews.com*, 7 December 2010, <http://gulfnews.com>.
- ²⁵ The acquisition was through the swap of a 100 per cent share of the French electrical engineering group Cegelec (wholly owned by QIA) for an 8 per cent share of Vinci (Vinci Press release, 31 August 2009, www.vinci.com).
- ²⁶ Mubadala, Annual Report 2009, Abu Dhabi, Mubadala website <http://mubadala.ae>.
- ²⁷ They were the source of 99 per cent of the value of the region's cross-border M&A sales to developing countries in 2001–2010, and 99 per cent of greenfield FDI projects by TNCs from developing countries in 2003–2010. Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDI markets (www.fDImarkets.com).
- ²⁸ Source: UNCTAD, based on information from the Financial Times Ltd, fDI Markets (www.fDImarkets.com).

- ²⁹ Shree Renuka Sugars (India) bought out stakes in two Brazilian sugar and ethanol production companies for a total amount of \$492 million: 50.34 per cent of Equipav AA, and 100 per cent of Vale Do Ivaí.
- ³⁰ For example, in 2010, three commodities – iron ore, soya and crude oil – made up 84 per cent of Brazilian exports to China in 2010, while its imports from China were dominated almost entirely by manufactured goods (98 per cent). *Source*: Latin American Economy and Business, April 2011. See also the Economist Intelligence Unit, “Brazil/China economy: rebalancing the relationship”, Viewswire, 13 April 2011, and “Chinese investment in Brazil soars”, *Financial Times*, 31 January 2011.
- ³¹ Georgia is listed under CIS, although it formally ceased to be a member in 2009.
- ³² “Foreign banks are fleeing Russia”, *Bloomberg Business Week*, 3 March 2011.
- ³³ See endnote 1 in Chapter I for this State support.
- ³⁴ A government fund is to be set up in the Russian Federation to attract foreign investment and help modernize the economy, sharing risks with foreign investors in projects designed to help modernize the country. “Russia plans \$10 billion investment in fund”, *Wall Street Journal*, 22 March 2011.
- ³⁵ Examples include the acquisitions of OAO Udmurneft (Russia Federation) and OAO MangistauMunaiGaz (Kazakhstan) by two Chinese TNCs for \$3.6 trillion and \$2.6 trillion, respectively.
- ³⁶ Its members include China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan, and Uzbekistan. India, the Islamic Republic of Iran, Mongolia and Pakistan are observer States, and Belarus and Sri Lanka dialogue partners.
- ³⁷ Examples include the “Sino-Russian Beijing declaration”, guiding the two countries’ strategic partnership, and “Russian Federation-India declaration on strategic partnership”, signed in 2000.
- ³⁸ For example, Tencent, the Chinese company that runs the country’s largest social networking and instant messaging service, is seeking to extend its business model overseas, initially through a 10 per cent stake in one of Russia’s leading internet companies, Digital Sky Technologies. Yin et al., 2011.
- ³⁹ Repatriated earnings by United States TNCs rose from \$99 billion in 2009 to \$104 billion in 2010, whereas reinvested earnings rose from \$219 billion to \$296 billion.
- ⁴⁰ This hostile bid received wide media coverage, e.g. “Smooth sailing in rough seas for merger arbitrageurs”, FT.com, 6 December 2010.
- ⁴¹ Examples of bail-outs by rival banks include the \$9 billion investment in Morgan Stanley by Mitsubishi UFJ Financial, for 21 per cent of the equity. Though not in the period under study, the most well-known bail-out was that of Merrill Lynch in December 2007, which with additional investments in 2008 amounted to about \$6 billion in total.
- ⁴² The calculations are based on the Thomson Reuters M&A data base and media reports.
- ⁴³ Examples include the sale of equity in UBS by the Government of Switzerland in 2009 and the sale of equity in Citigroup by the Government of the United States over the course of 2010.
- ⁴⁴ The State bail-out left the Government owning 84 per cent of the Royal Bank of Scotland Group and 43 per cent of the Lloyds Banking Group.
- ⁴⁵ “Too late for an ‘unbundling’ of Lloyds-HBSO”, *Financial Times*, 7 April 2011.
- ⁴⁶ “Santander buys RBS branches, UK spin-off seen”, Reuters, 4 August 2010.
- ⁴⁷ “RBS agrees to sell 80.01 per cent interest in Global Merchant Services to a consortium of Advent International and Bain Capital”, Press Release of the Royal Bank of Scotland Group, 6 August 2010.
- ⁴⁸ Some efforts, such as UNCTAD’s Business Linkages programme, have proved useful, as exemplified by the projects undertaken in four LDCs: Mozambique, Uganda, the United Republic of Tanzania, and Zambia, in 2008–2010.
- ⁴⁹ The countries of this grouping include: Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People’s Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe. Sixteen of the 31 LLDCs are classified as LDCs, and 9 are economies in transition.
- ⁵⁰ China’s Xinxiang Kuroda Mingliang Leather Co. opened a \$67 million leather factory in Ethiopia on 24 November 2010. The company financed 55 per cent of the project, with the remainder coming from the China-Africa Development Fund (Source: Bloomberg).
- ⁵¹ In the Nam Theun II Hydropower Project in the Lao People’s Democratic Republic, multilateral supports were from IDA (Guarantee/\$42 million/2005), IDA (Loan/\$20 million/2005), MIGA (Guarantee/\$91 million/2005), ADB (Guarantee/\$50 million/2005), EIB (Loan/\$55 million/2005), ADB (Loan/\$70 million/2005), and others (Loan/\$131 million/2005). In the Bujagali Hydro Project in Uganda, multilateral supports were from IFC (Loan/\$130 million/2007), IDA (Guarantee/\$115 million/2007), ADB (Loan/\$110 million/2007), EIB (Loan/\$130 million/2007), and MIGA (Guarantee/\$115 million/2007) (Source: World Bank).
- ⁵² The Northern Corridor links Burundi, the Democratic Republic of the Congo, Ethiopia, Kenya, Rwanda, Sudan Uganda, and United Republic of Tanzania.
- ⁵³ Source: Reuters.

- ⁵⁴ South Africa, Mozambique and other countries in Southern Africa have promoted the establishment of the Maputo Corridor with substantial public and private (including foreign) investment. The corridor is intended to stimulate sustainable growth and development in the area.
- ⁵⁵ The Greater Mekong Subregion comprises Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province in China.
- ⁵⁶ Launched in 1999, the ASEAN Highway Network Project aims to upgrade all designated national routes to Class I standards by 2020. The network consists of 23 designated routes totalling 38,400 km.
- ⁵⁷ The countries of this group include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.
- ⁵⁸ According to the OECD, the following SIDS are tax havens: Antigua and Barbuda, Bahamas, Dominica, Grenada, Marshall Islands, Nauru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, and Vanuatu.
- ⁵⁹ The adverse impacts of global warming on SIDS include: increases in extreme weather events, rises in sea level, reductions in water resources, diminished marine resources, displacement of local species, and increased hazards to human health (Alliance of Small Island States (AOSIS) and United Nations Foundation (UNF), 2008; Kelman and West, 2009).
- ⁶⁰ In the context of climate change, mitigation refers to human intervention to reduce the sources or enhance the sinks of greenhouse gases. Examples include using fossil fuels more efficiently for industrial processes and electricity generation, switching to solar energy or wind power, improving the insulation of buildings, and expanding forests and other "sinks" to remove greater amounts of carbon dioxide from the atmosphere. Adaptation refers to the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities (*Source*: UNFCCC).
- ⁶¹ In the absence of adaptation efforts, the annual costs of climate change impacts in exposed developing countries in general and SIDS in particular are expected to range from several per cent to tens of per cent of GDP (World Bank, 2006).
- ⁶² These sources of funding for adaptation available for SIDS include, for instance, the GEF Trust Fund, the Special Climate Change Trust Fund and the Least Developed Countries Trust Fund (administered by the UN Global Environment Facility), the Adaptation Fund (administered by the AF Board under the authority and guidance of CMP), and the Convention on Biological Diversity.
- ⁶³ In the Caribbean, the industry accounts for 15 per cent of GDP, 13 per cent of employment, and 15 per cent of total exports; in Oceania the shares are 12 per cent, 12 per cent and 17 per cent, respectively (Nurse, 2009).
- ⁶⁴ The interdependencies in many cases are quite straightforward: energy directly affects all other industries which require power to function; workers in all industries rely on transport to get to work, and can only work if water supplies are maintained; all other industries are reliant on a supply of electricity for energy and on the ICT for communication (Royal Academy of Engineering, 2011).
- ⁶⁵ *Source*: World Bank PPI database.
- ⁶⁶ The company operates water supply and sewerage systems on seven islands, including the island of Malé, where the capital is. Its services are used by 40 per cent of the population of the Maldives (*source*: hitachi-pt.com).
- ⁶⁷ For example, Digicel (incorporated in Bermuda) has been actively investing in telecommunications in countries such as the Maldives (together with IFC) and Papua New Guinea (together with the Asian Development Bank). An energy and water project with the involvement of the Asian Development Bank has contributed to infrastructure in the Maldives, improving the country's adaptive capability.