GLOBAL INVESTMENT TRENDS

CHAPTER I

A. CURRENT TRENDS

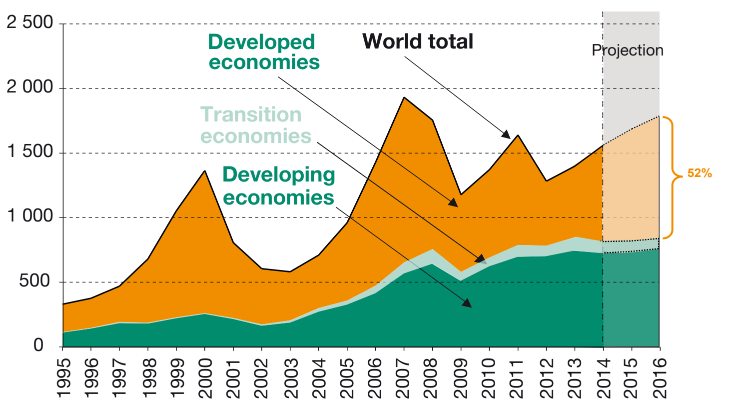
Global FDI flows rose by 9 per cent in 2013 to $1.45 trillion, up from $1.33 trillion in 2012, despite some volatility in international investments caused by the shift in market expectations towards an earlier tapering of quantitative easing in the United States. FDI inflows increased in all major economic groupings – developed, developing, and transition economies. Although the share of developed economies in total global FDI flows remained low, it is expected to rise over the next three years to 52 per cent (see section B) (figure I.1). Global inward FDI stock rose by 9 per cent, reaching $25.5 trillion, reflecting the rise of FDI inflows and strong performance of the stock markets in many parts of the world. UNCTAD's FDI analysis is largely based on data that exclude FDI in special purpose entities (SPEs) and offshore financial centres (box I.1).

1. FDI by geography

a. FDI inflows

The 9 per cent increase in global FDI inflows in 2013 reflected a moderate pickup in global economic growth and some large cross-border M&A transactions. The increase was widespread, covering all three major groups of economies, though the reasons for the increase differed across the globe. FDI flows to developed countries rose by 9 per cent, reaching $566 billion, mainly through greater retained earnings in foreign affiliates in the European Union (EU), resulting in an increase in FDI to the EU. FDI flows to developing economies reached a new high of $778 billion, accounting for 54 per cent of global inflows. Inflows to transition economies rose to $108 billion – up 28 per cent from the previous year – accounting for 7 per cent of global FDI inflows.

Figure I.1. FDI inflows, global and by group of economies, 1995–2013 and projections, 2014–2016
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

***Developing Asia* remains the world's largest recipient region of FDI flows** (figure I.2). All subregions saw their FDI flows rise except West Asia, which registered its fifth consecutive decline in FDI. The absence of large deals and the worsening of instability in many parts of the region have caused uncertainty and negatively affected investment. FDI inflows to the Association of Southeast Asian Nations (ASEAN) reached a new high of $125 billion – 7 per cent higher than 2012. The high level of flows to East Asia was driven by rising inflows to China, which remained the recipient of the second largest flows in the world (figure I.3).

After remaining almost stable in 2012, at historically high levels, FDI flows to Latin America and the Caribbean registered a 14 per cent increase to $292 billion in 2013. Excluding offshore financial centres, they increased by 6 per cent to $182 billion. In contrast to the preceding three years, when South America was the main driver of FDI flows to the region, 2013 brought soaring flows to Central America. The acquisition in Mexico of Grupo Modelo by the Belgian brewer Anheuser Busch explains most of the FDI increase in Mexico as well as in the subregion. The decline of inflows to South America resulted mainly from the almost 30 per cent slump noted in Chile, the second largest recipient of FDI in South America in 2012. The decrease was due to equity divestment in the mining sector and lower reinvested earnings by foreign mining companies as a result of the decrease in commodity prices.

Box I.1. UNCTAD FDI data: treatment of transit FDI

TNCs frequently make use of special purpose entities (SPEs) to channel their investments, resulting in large amounts of capital in transit. For example, an investment by a TNC from country A to create a foreign affiliate in country B might be channeled through an SPE in country C. In the capital account of the balance of payments of investor home and host countries, transactions or positions with SPEs are included in either assets or liabilities of direct investors (parent firms) or direct investment enterprises (foreign affiliates) – indistinguishable from other FDI transactions or positions. Such amounts are considerable and can lead to misinterpretations of FDI data. In particular:

(i) SPE-related investment flows might lead to double counting in global FDI flows (in the example above, the same value of FDI is counted twice, from A to C, and from C to B); and

(ii) SPE-related flows might lead to misinterpretation of the origin of investment, where ultimate ownership is not taken into account (in the example, country B might consider that its inflows originate from country C, rather than from Country A).

In consultation with a number of countries that offer investors the option to create SPEs, and on the basis of information on SPE-related FDI obtained directly from those countries, UNCTAD removes SPE data from FDI flows and stocks, in order to minimize double counting. These countries include Austria, Hungary, Luxembourg, Mauritius and the Netherlands (box table I.1.1).

Box table I.1.1. FDI with and without SPEs reported by UNCTAD, 2013

	Austria		Hungary		Luxembourg		Mauritius		Netherlands	
FDI	With SPE	Without SPE (UNCTAD use)	With SPE	Without SPE (UNCTAD use)	With SPE	Without SPE (UNCTAD use)	With SPE	Without SPE (UNCTAD use)	With SPE	Without SPE (UNCTAD use)
FDI inflows	11.4	11.1	2.4	3.1	367.3	30.1	27.3	0.3	41.3	24.4
FDI ouflows	13.9	13.9	2.4	2.3	363.6	21.6	25.1	0.1	106.8	37.4
Inward FDI stock	286.3	183.6	255.0	111.0	3 204.8	141.4	312.6	3.5	3 861.8	670.1
Outward FDI stock	346.4	238.0	193.9	39.6	3 820.5	181.6	292.8	1.6	4 790.0	1 071.8

Source: UNCTAD, based on data from respective central banks.
Note: Stock data for Mauritius refer to 2012.

Similar issues arise in relation to offshore financial centres such as the British Virgin Islands and Cayman Islands. UNCTAD's FDI data include those economies because no official statistics are available to use in disentangling transit investment from other flows, as in the case of SPEs. However, for the most part UNCTAD excludes flows to and from these economies in interpreting data on investment trends for their respective regions. Offshore financial centres accounted for 8 per cent of global FDI inflows in 2013, with growth rates similar to global FDI; the impact on the analysis of global trends is therefore likely to be limited.

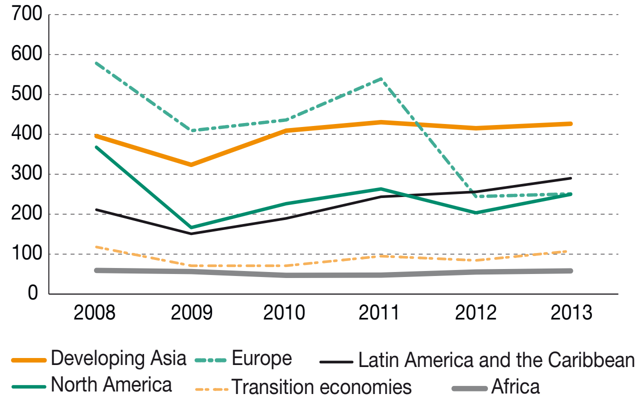
Source: UNCTAD.

FDI inflows to *Africa* rose by 4 per cent to $57 billion. Southern African countries, especially South Africa, experienced high inflows. Persistent political and social tensions continued to subdue flows to North Africa, whereas Sudan and Morocco registered solid growth of FDI. Nigeria's lower levels of FDI reflected the retreat of foreign transnational corporations (TNCs) from the oil industry.

In developed countries, inflows to *Europe* were up by 3 per cent compared with 2012. In the EU, Germany, Spain and Italy saw a substantial recovery in their FDI inflows in 2013. In Spain, lower labour costs attracted the interests of manufacturing TNCs. The largest declines in inflows were observed in France, Hungary, Switzerland and the United Kingdom.

FDI flows to *North America* grew by 23 per cent as acquisitions by Asian investors helped sustain inflows to the region. The largest deals included the takeover of the Canadian upstream oil and gas company, Nexen, by CNOOC (China) for $19 billion; the acquisition of Sprint Nextel, the third

Figure I.2. FDI inflows, by region, 2008–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

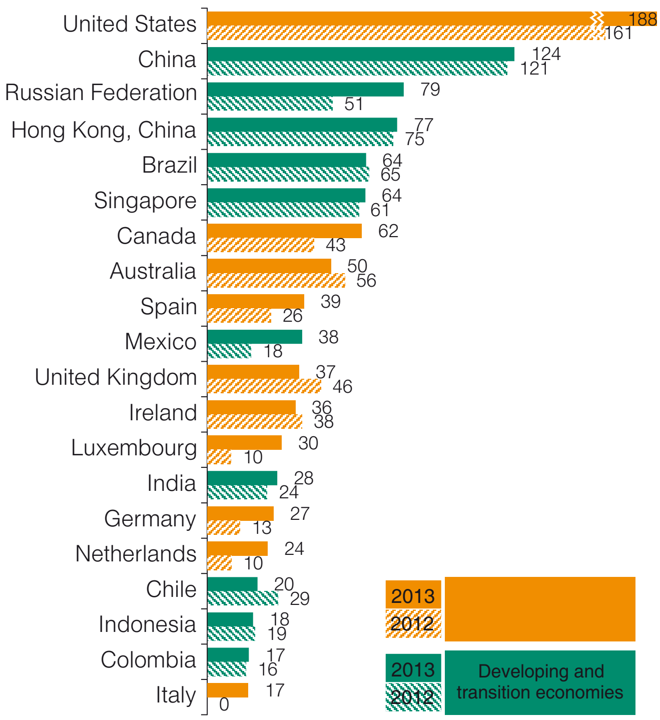
largest wireless network operator in the United States, by Japanese telecommunications group Softbank for $21.6 billion, the largest deal ever by a Japanese company; and the $4.8 billion acquisition of the pork producer Smithfield by Shuanghui, the largest Chinese takeover of a United States company to date. FDI flows to the United States rose by 17 per cent, reflecting signs of economic recovery in the United States over the past year.

Transition economies experienced a 28 per cent rise in FDI inflows, reaching $108 billion – much of it driven by a single country. The Russian Federation saw FDI inflows jump by 57 per cent to $79 billion, making it the world's third largest recipient of FDI for the first time (figure I.3). The rise was predominantly ascribed to the increase in intracompany loans and the acquisition by BP (United Kingdom) of 18.5 per cent of Rosneft (Russia Federation) as part of Rosneft's $57 billion acquisition of TNK-BP (see box II.4).

In 2013, APEC absorbed half of global flows – on par with the G-20; the BRICS received more than one fifth. Among major regional and interregional groupings, two – Asia-Pacific Economic Cooperation (APEC) countries and the BRICS (Brazil, Russian Federation, India, China and South Africa) countries – saw a dramatic increase in their share of global FDI inflows from the pre-crisis level (table I.1). APEC now accounts for more than half of global FDI flows, similar to the G-20, while the BRICS jumped to more than one fifth. In ASEAN and the Common Market of the South (MERCOSUR), the level of FDI inflows doubled from the pre-crisis level. Many regional and interregional groups in which developed economies are members (e.g. G-20, NAFTA) are all experiencing a slower recovery.

Mixed trends for the megaregional integration initiatives: TPP and RCEP shares in global flows grew while TTIP shares halved. The three megaregional integration initiatives – the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) – show diverging FDI trends (see chapter II for details). The United States

Figure I.3. FDI inflows: top 20 host economies, 2012 and 2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).
Note: British Virgin Islands is not included in the ranking because of its nature as an offshore financial centre (most FDI is in transit).

Table I.1. FDI inflows to selected regional and interregional groups, average 2005–2007, 2008–2013

(Billions of dollars)

Regional/inter-regional groups	2005–2007 pre-crisis average	2008	2009	2010	2011	2012	2013
G-20	878	992	631	753	892	694	791
APEC	560	809	485	658	765	694	789
TPP	363	524	275	382	457	402	458
TTIP	838	858	507	582	714	377	434
RCEP	195	293	225	286	337	332	343
BRICS	157	285	201	237	286	266	304
NAFTA	279	396	184	250	287	221	288
ASEAN	65	50	47	99	100	118	125
MERCOSUR	31	59	30	65	85	85	85
Memorandum: percentage share in world FDI flows							
G-20	59	55	52	53	52	52	54
APEC	37	44	40	46	45	52	54
TPP	24	29	23	27	27	30	32
TTIP	56	47	41	41	42	28	30
RCEP	13	16	18	20	20	25	24
BRICS	11	16	16	17	17	20	21
NAFTA	19	22	15	18	17	17	20
ASEAN	4	3	4	7	6	9	9
MERCOSUR	2	3	2	5	5	6	6

Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).
Note: G-20 = 19 individual members economies of the G20, excluding the European Union, which is the 20th member, APEC = Asia-Pacific Economic Cooperation, TTIP = Transatlantic Trade and Investment Partnership, TPP = Trans-Pacific Partnership, RCEP = Regional Comprehensive Economic Partnership, BRICS = Brazil, Russian Federation, India, China and South Africa, NAFTA = North American Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, MERCOSUR = Common Market of the South. Ranked in descending order of the 2013 FDI flows.

and the EU, which are negotiating the formation of TTIP, saw their combined share of global FDI inflows cut nearly in half over the past seven years, from 56 per cent during the pre-crisis period to 30 per cent in 2013. The share of the 12 countries participating in the TPP negotiations was 32 per cent in 2013, markedly smaller than their share in world GDP of 40 per cent. RCEP, which is being negotiated between the 10 ASEAN member States and their 6 FTA partners, accounted for 24 per cent of global FDI flows in recent years, nearly twice as much as before the crisis.

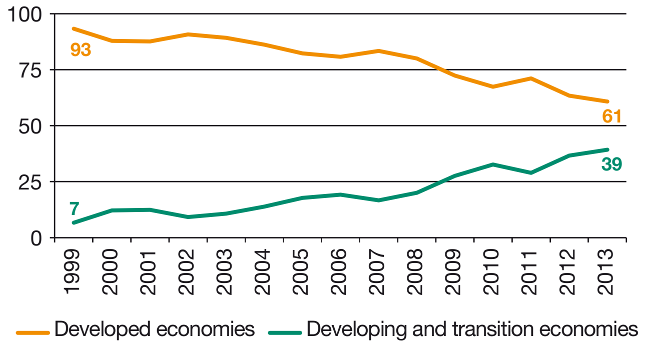
b. FDI outflows

Global FDI outflows rose by 5 per cent to $1.41 trillion, up from $1.35 trillion in 2012. Investors from developing and transition economies continued their expansion abroad, in response to faster economic growth and investment liberalization (chapter III) as well as rising income streams from high commodity prices. In 2013 these economies accounted for 39 per cent of world outflows; 15 years earlier their share was only 7 per cent (figure I.4). In contrast, TNCs from developed economies continued their “wait and see” approach, and their investments remained at a low level, similar to that of 2012.

FDI flows from developed countries continued to stagnate. FDI outflows from developed countries were unchanged from 2012 – at $857 billion – and still 55 per cent off their peak in 2007. Developed-country TNCs continued to hold large amounts of cash reserves in their foreign affiliates in the form of retained earnings, which constitute part of reinvested earnings, one of the components of FDI flows. This component reached a record level of 67 per cent (figure I.5).

Investments from the largest investor – the United States – dropped by 8 per cent to $338 billion, led by the decline in cross-border merger and acquisition

Figure I.4. Share of FDI outflows by group of economies, 1999–2013
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

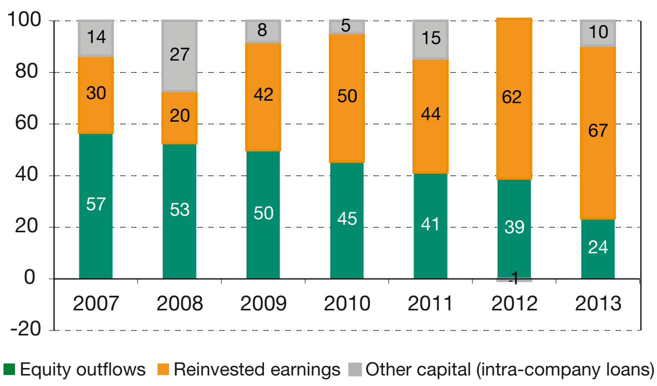
(M&A) purchases and negative intracompany loans. United States TNCs continued to accumulate reinvested earnings abroad, attaining a record level of $332 billion. FDI outflows from the EU rose by 5 per cent to $250 billion, while those from Europe as a whole increased by 10 per cent to $329 billion. With $60 billion, Switzerland became the largest outward investor in Europe, propelled by a doubling of reinvested earnings abroad and an increase in intracompany loans. Countries that had recorded a large decline in 2012, including Italy, the Netherlands and Spain, saw their outflows rebound sharply. In contrast, investments by TNCs from France, Germany and the United Kingdom saw a substantial decline. TNCs from France and the United Kingdom undertook significant equity divestment abroad. Despite the substantial depreciation of the currency, investments from Japanese TNCs continued to expand, rising by over 10 per cent to a record $136 billion.

Flows from developing economies remained resilient, rising by 3 per cent. FDI from these economies reached a record level of $454 billion in 2013. Among developing regions, flows from developing Asia and Africa increased while those from Latin America and the Caribbean declined (figure I.6). Developing Asia remained a large source of FDI, accounting for more than one fifth of the world's total.

Flows from developing Asia rose by 8 per cent to $326 billion with diverging trends among subregions: East and South-East Asia TNCs experienced growth of 7 per cent and 5 per cent, respectively; FDI flows from West Asia surged by almost two thirds; and TNC activities from South Asia slid by nearly three quarters. In East Asia, investment from Chinese TNCs climbed by 15 per cent to $101 billion owing to a surge of cross-border M&As (examples include the $19 billion CNOOC-Nexen deal in Canada and the $5 billion Shuanghui-Smithfield Foods deal in the United States). In the meantime, investments from Hong Kong (China) grew by 4 per cent to $92 billion. The two East Asian economies have consolidated their positions among the leading sources of FDI in the world (figure I.7). Investment flows from the two other important sources in East Asia – the Republic of Korea and Taiwan Province of China – showed contrasting trends: investments by TNCs from the former declined by 5 per cent to $29 billion, while those by TNCs from the latter rose by 9 per cent to $14 billion.

FDI flows from Latin America and the Caribbean decreased by 8 per cent to $115 billion in 2013. Excluding flows to offshore financial centres (box I.1), they declined by 31 per cent to $33 billion. This drop was largely attributable to two developments: a decline in cross-border M&As and a strong increase in loan repayments to parent companies by

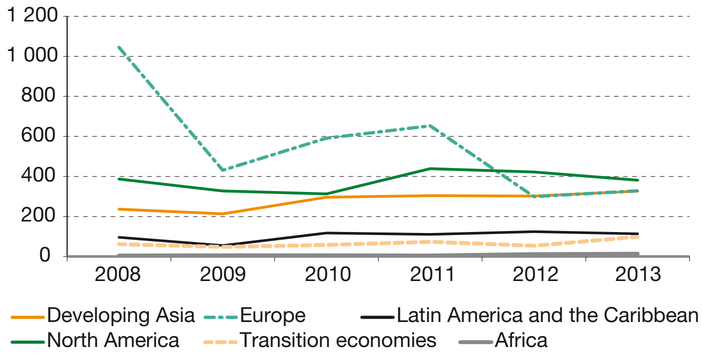
Figure I.5. Share of FDI outflow components for selected developed countries,[a] 2007–2013
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Economies included are Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, Germany, Hungary, Japan, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Sweden, Switzerland, the United Kingdom and the United States.

Figure I.6. FDI outflows, by region, 2008–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

Brazilian and Chilean foreign affiliates abroad. Colombian TNCs, by contrast, bucked the regional trend and more than doubled their cross-border M&As. Investments from TNCs registered in Caribbean countries increased by 4 per cent in 2013, constituting about three quarters of the region's total investments abroad.

FDI flows from transition economies increased significantly, by 84 per cent, reaching a new high of $99 billion. As in past years, Russian TNCs were involved in the most of the FDI projects, followed by TNCs from Kazakhstan and Azerbaijan. The value of cross-border M&A purchases by TNCs from the region rose significantly in 2013 – mainly as a result of the acquisition of TNK-BP Ltd (British Virgin Islands) by Rosneft; however, the number of such deals dropped.

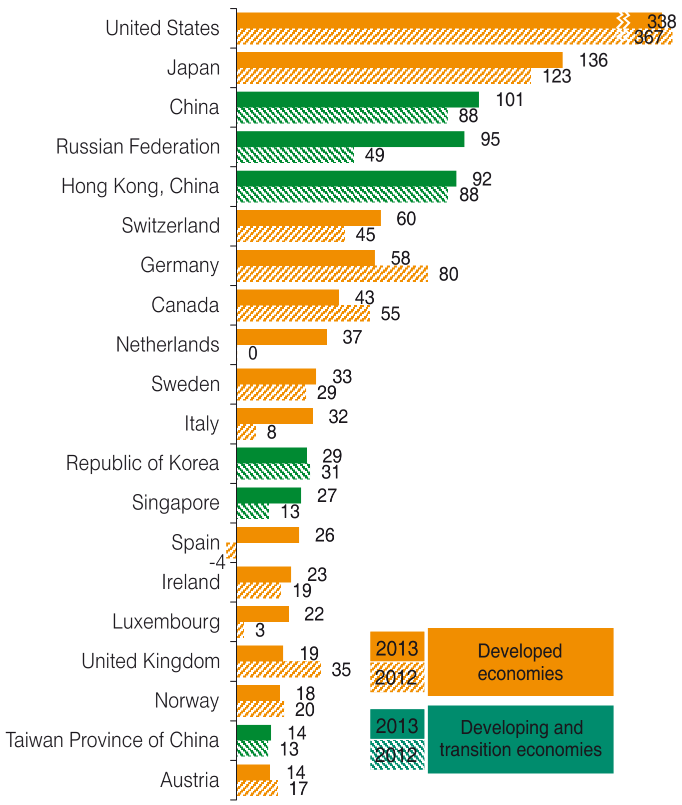
2. FDI by mode of entry

The downward trend observed in 2012 both in FDI greenfield projects[1] and in cross-border M&As reversed in 2013, confirming that the general investment outlook improved (figure I.8). The value of announced greenfield projects increased by 9 per cent – remaining, however, considerably below historical levels – while the value of cross-border M&As increased by 5 per cent.

In 2013, both FDI greenfield projects and cross-border M&As displayed differentiated patterns among groups of economies. Developing and transition economies largely outperformed developed countries, with an increase of 17 per cent in the values of announced greenfield projects (from $389 billion to $457 billion), and a sharp rise of 73 per cent for cross-border M&As (from $63 billion to $109 billion). By contrast, in developed economies both greenfield investment projects and cross-border M&As declined (by 4 per cent and 11 per cent, respectively). As a result, developing and transition economies accounted for historically high shares of the total values of greenfield investment and M&A projects (68 per cent and 31 per cent respectively).

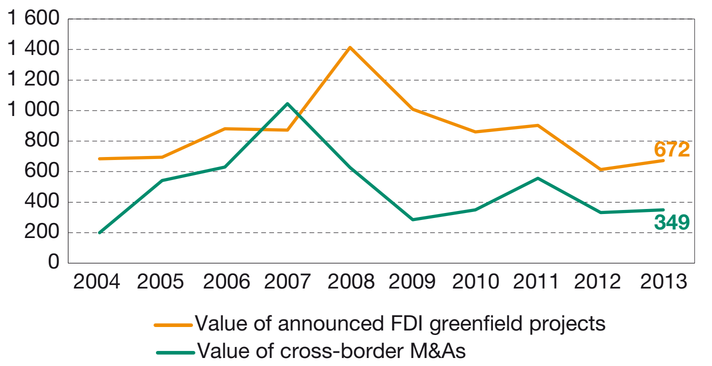
The importance of developing and transition economies stands out clearly in

Figure I.7. FDI outflows: top 20 home economies, 2012 and 2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).
Note: British Virgin Islands is not included in the ranking because of its nature as an offshore financial centre (most FDI is in transit).

Figure I.8. Historic trend of FDI projects, 2004–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

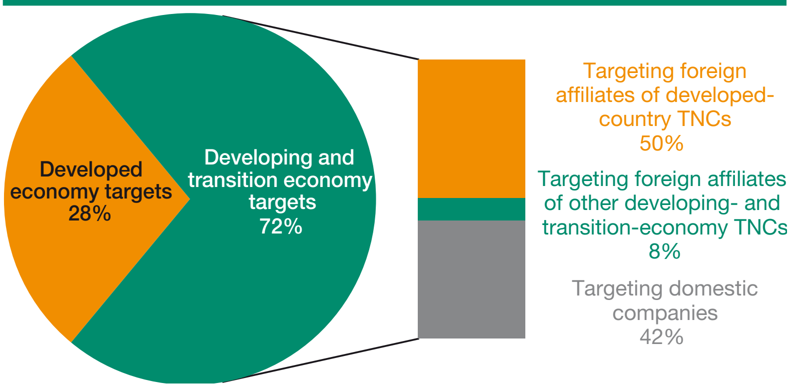
their roles as acquirers. Their cross-border M&As rose by 36 per cent to $186 billion, accounting for 53 per cent of global cross-border M&As. Chinese firms invested a record $50 billion. A variety of firms, including those in emerging industries such as information technology (IT) and biotechnology, started to engage in M&As. As to outward greenfield investments, developing and transition economies accounted for one third of the global total. Hong Kong (China) stands out with an announced value of projects of $49 billion, representing 7 per cent of the global total. Greenfield projects from the BRICS registered a 16 per cent increase, driven by TNCs based in South Africa, Brazil and the Russian Federation.

Southern TNCs acquired significant assets of developed-country foreign affiliates in the developing world. In 2013, the value of cross-border M&A purchases increased marginally – by 5 per cent, to $349 billion – largely on the back of increased investment flows from developing and transition economies, whose TNCs captured a 53 per cent share of global acquisitions. The global rankings of the largest investor countries in terms of cross-border M&As reflect this pattern. For example, among the top 20 cross-border M&A investors, 12 were from developing and transition economies – 7 more than in the case of FDI outflows. More than two thirds of gross cross-border M&As by Southern TNCs were directed to developing and transition economies. Half of these investments involved foreign affiliates of developed-country TNCs (figure I.9), transferring their ownership into the hands of developing-country TNCs.

This trend was particularly marked in the extractive industry, where the value of transactions involving sales by developed-country TNCs to developing-country-based counterparts represented over 80 per cent of gross acquisitions by South-based TNCs in the industry. In Africa as a whole, these purchases accounted for 74 per cent of all purchases on the continent. In the extractive sector, in particular, Asian TNCs have been making an effort to secure upstream reserves in order to satisfy growing domestic demand. At the same time, developed-country TNCs have been divesting assets in some areas, which eventually opens up opportunities for local or other developing-country firms to invest.

The leading acquirer in South-South deals was China, followed by Thailand, Hong Kong (China), Mexico and India. Examples of this trend include several megadeals such as the Italian oil and gas group Eni's sale of its subsidiary in Mozambique to PetroChina for over $4 billion; the oil and gas group

Figure I.9. Distribution of gross cross-border M&As purchases by TNCs based in developing and transition economies, 2013
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).
Note: "Gross" refer to all cross-border M&As.

Apache's (United States) sale of its subsidiary in Egypt to Sinopec (China) for almost $3 billion; and ConocoPhillips's sale of its affiliates in Algeria to an Indonesian State-owned company, Pertamina, for $1.8 billion.

The banking industry followed the same pattern: for example, in Colombia, Bancolombia acquired the entire share capital of HSBC Bank (Panama) from HSBC (United Kingdom) for $2.1 billion; and in Egypt, Qatar National Bank, a majority-owned unit of the State-owned Qatar Investment Authority, acquired a 77 per cent stake of Cairo-based National Société Générale Bank from Société Générale (France) for $1.97 billion.

This trend – developing countries conducting a high share of the acquisitions of developed-country foreign affiliates – seems set to continue. Whereas in 2007 only 23 per cent of acquisitions from Southern TNCs from developing and transition economies targeted foreign affiliates of developed-country corporations, after the crisis this percentage increased quickly, jumping to 30 per cent in 2010 and 41 per cent in 2011 to half of all acquisitions in 2013.

3. FDI by sector and industry

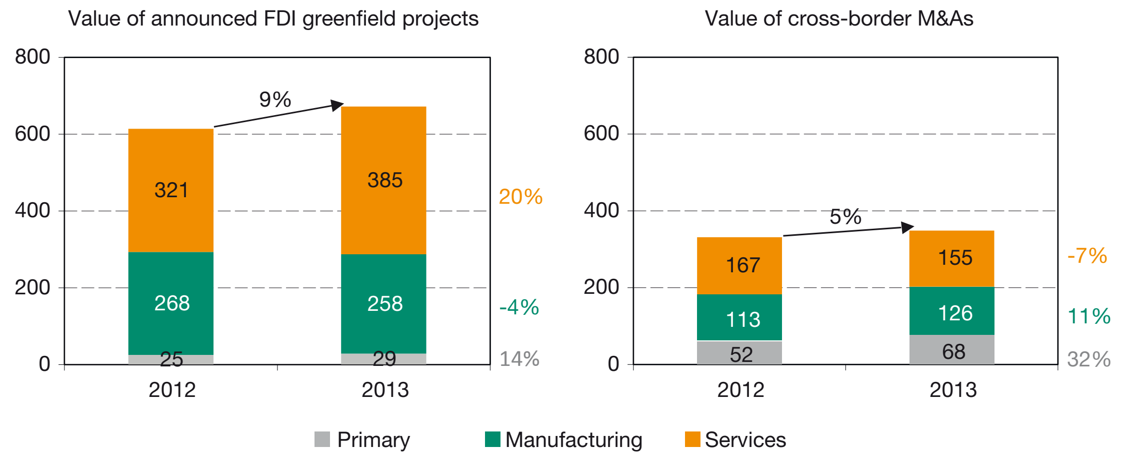
At the sector level, the types of investment – greenfield activity and cross-border M&As – varied (figure I.10).

Primary sector. Globally, values of greenfield and M&A projects in the primary sector regained momentum in 2013 (increasing by 14 per cent and 32 per cent, respectively), with marked differences between groups of countries. Greenfield activity in the extractive industry by developed and transition economies plummeted to levels near zero, leaving almost all the business to take place in developing countries.

In developing countries the value of announced greenfield projects doubled, from $14 billion in 2012 to $27 billion in 2013; the value of cross-border M&As also increased, from a negative level of -$2.5 billion in 2012 to $25 billion in 2013. Although the value of greenfield projects in developing economies still remains below historic levels, cross-border M&As are back to recent historic highs (2010–2011).

Manufacturing. Investment in manufacturing was relatively stable in 2013, with a limited decrease in the value of greenfield projects (-4 per cent) and a more pronounced increase in the value of cross-border M&As (+11 per cent). In terms of greenfield projects, a sharp rise in investment activity was observed in the *textile and clothing* industry, with the value of announced investment projects totalling more than $24 billion, a historical high and more than twice the 2012 level. Conversely, the *automotive* industry registered a significant decline for the third year in a

Figure I.10. FDI projects, by sector, 2012–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

row. As for cross-border M&As, the regional trends display a clear divergence between developed and developing economies. While the value of cross-border M&As in developed economies decreased by more than 20 per cent, developing economies enjoyed a fast pace of growth, seeing the value of such deals double. The growth in momentum was mainly driven by a boom in the value of cross-border M&As in the *food, beverages and tobacco* industry, which jumped from $12 billion in 2012 to almost $40 billion in 2013.

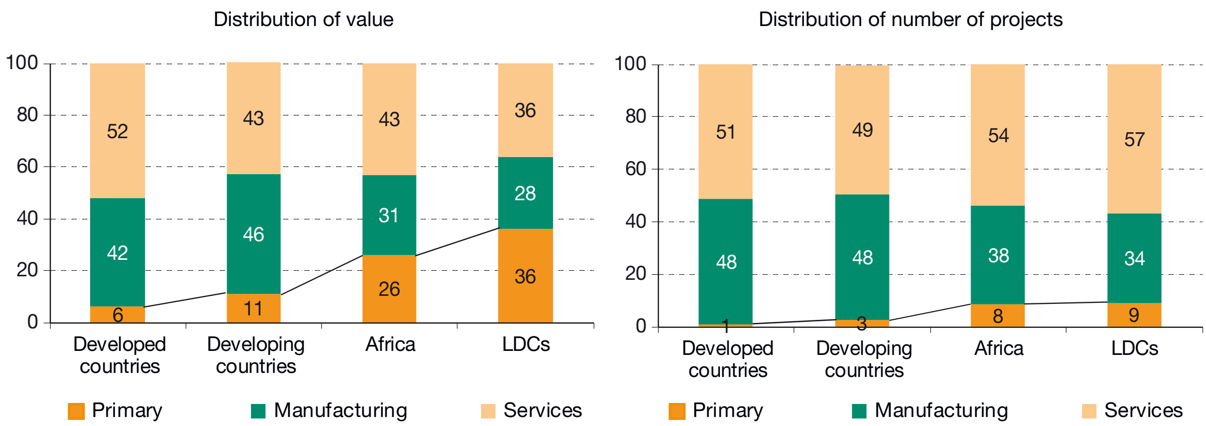
Services. Services continued to account for the largest shares of announced greenfield projects and M&A deals. In 2013, it was the fastest-growing sector in terms of total value of announced greenfield projects, with a significant increase of 20 per cent, while the value of M&A deals decreased moderately. As observed in the primary sector, the increase in greenfield projects took place in developing economies (+40 per cent compared with -5 per cent in developed economies and -7 per cent in transition economies). The growth engines of the greenfield investment activity in developing economies were *business services* (for which the value of announced greenfield project tripled compared with 2012) and *electricity, gas and water* (for which the value of greenfield projects doubled).

The analysis of the past sectoral distribution of new investment projects shows some important emerging trends in regional investment patterns. In particular, although foreign investments in many poor developing countries historically have concentrated heavily on the extractive industry, analysis of FDI greenfield data in the last 10 years depicts a more nuanced picture: the share of FDI in the extractive industry is still substantial but not overwhelming and, most important, it is rapidly decreasing.

The analysis of the cumulative value of announced greenfield projects in developing countries for the last 10 years shows that investment in the primary sector (almost all of it in extractive industries) is more significant for Africa and least developed countries (LDCs) than for the average developed and developing economies (figure I.11). It also shows that in both Africa and LDCs, investment is relatively balanced among the three sectors. However, looking at greenfield investment in terms of the number of projects reveals a different picture, in which the primary sector accounts for only a marginal share in Africa and LDCs.

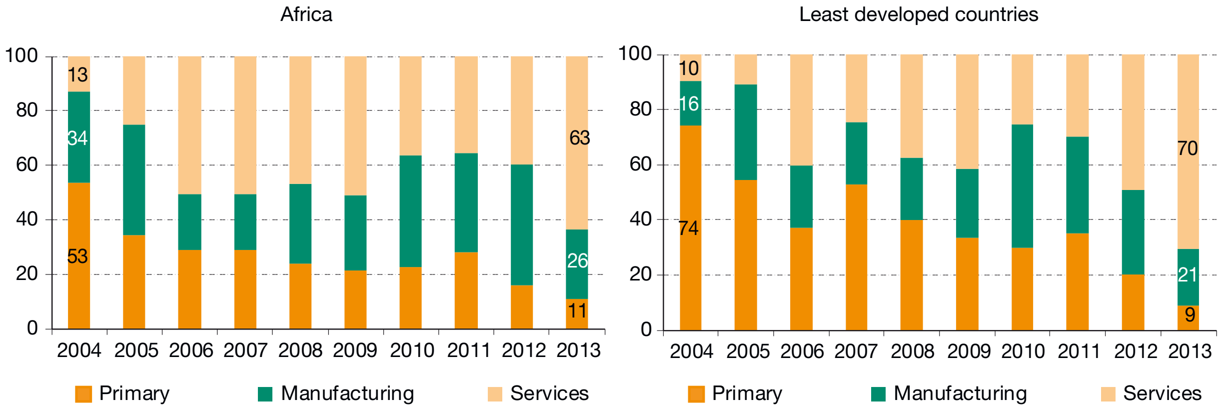
Over the past 10 years the share of the primary sector in greenfield projects has been gradually declining in both Africa and LDCs, while that of the services sector has increased significantly (figure I.12). The value share of announced greenfield projects in the primary sector has decreased from 53 per cent in 2004 to 11 per

Figure I.11. Sectoral distribution of announced greenfield FDI projects, by group of economies, cumulative 2004–2013
(Per cent)



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

Figure I.12. Historic evolution of the sectoral distribution of annouced greenfield FDI projects in Africa and LDCs, 2004–2013
(Per cent of total value)



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

cent in 2013 for Africa, and from 74 per cent to 9 per cent for LDCs. By comparison, the share for the services sector has risen from 13 per cent to 63 per cent for Africa, and from 10 to 70 per cent for LDCs.

At the global level some industries have experienced dramatic changes in FDI patterns in the face of the uneven global recovery.

- *Oil and gas*. The shale gas revolution in the United States is a major game changer in the energy sector. Although questions concerning its environmental and economic sustainability remain, it is expected to shape the global FDI environment in the oil and gas industry and in other industries, such as petrochemicals, that rely heavily on gas supply.
- *Pharmaceuticals.* Although FDI in this industry remains concentrated in the United States, investments targeting developing economies are edging up. In terms of value, cross-border M&As have been the dominant mode, enabling TNCs to improve their efficiency and profitability and to strengthen their competitive advantages in the shortest possible time.
- *Retail industry.* With the rise of middle classes in developing countries, consumer markets are flourishing. In particular, the retail industry is attracting significant levels of FDI.

a. *Oil and gas*

The rapid development of shale gas is changing the North American natural gas industry. Since 2007 the production of natural gas in the region has doubled, driven by the boom in shale gas production, which is growing at an average annual rate of 50 per cent.[2] The shale gas revolution is also a key factor in the resurgence of United States manufacturing. The competitive gain produced by falling natural gas prices[3] represents a growth opportunity for the manufacturing sector, especially for industries, such as petrochemicals, that rely heavily on natural gas as a fuel.

The shale gas revolution may change the game in the global energy sector over the next decade and also beyond the United States. However, the realization of its potential depends crucially on a number of factors. Above all, the environmental impact of horizontal drilling and hydraulic fracturing is still a controversial issue, and opposition to the technique is strengthening. An additional element of uncertainty concerns the possibility of replicating the United States success story in other shale-rich countries, such as China or Argentina. Success will require the ability to put in place in the near future the necessary enablers, both “under the ground” (the technical capability to extract shale gas effectively and efficiently) and “above the ground” (a favourable business and investment climate to attract foreign players to share technical and technological know-how). In addition, new evidence suggests that recoverable resources may be less than expected (see chapter II.2.c).

From an FDI perspective, some interesting trends are emerging:

- In the United States oil and gas industry, the role of foreign capital supplied by major TNCs is growing as the shale market consolidates and smaller domestic players need to share development and production costs.
- Cheap natural gas is attracting new capacity investments, including foreign investments, to United States manufacturing industries that are characterized by heavy use of natural gas, such as petrochemicals and plastics. Reshoring of United States manufacturing TNCs is also an expected effect of the lowering of prices in the United States gas market.
- TNCs and State-owned enterprises (SOEs) from countries rich in shale resources, such as China, are strongly motivated to establish partnerships (typically in the form of joint ventures) with United States players to acquire the technical expertise needed to lead the shale gas revolution in their countries.

The FDI impact on the United States oil and gas industry: a market consolidation story. From an FDI perspective, the impact of the shale revolution on the United States oil and gas industry is an M&A story. In the start-up (greenfield) stage, the shale revolution was led by North American independents rather than oil and gas majors. Greenfield data confirm that, despite the shale gas revolution, FDI greenfield activity in the United States oil and gas industry has collapsed in the last five years, from almost $3 billion in 2008 (corresponding to some 5 per cent of all United States greenfield activity) to $0.5 billion in 2013 (or 1 per cent of all greenfield activity).[4] Only in a second stage will the oil and gas majors enter the game, either engaging in M&A operations or establishing partnerships, typically joint ventures, with local players who are increasingly eager to share the development costs and ease the financial pressure.[5]

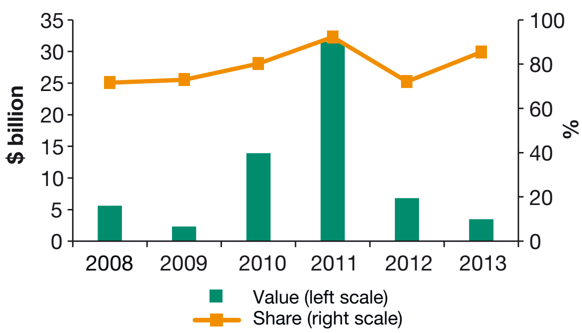
Analysis of cross-border M&A deals in the recent years (figure I.13) shows that deals related to shale gas have been a major driver of cross-border M&A activity in the United States oil and gas industry, accounting for more than 70 per cent of the total value of such activity in the industry. The peak of the consolidation wave occurred in 2011, when the value of shale-related M&As exceeded $30 billion, corresponding to some 90 per cent of the total value of cross-border M&As in the oil and gas industry in the United States.

The FDI impact on the United States chemical industries: a growth story. The collapse of North American gas prices, down by one third to one fourth since 2008, is boosting new investments in United States chemical industries.

Unlike in the oil and gas industry, a significant part of the foreign investment in the United States chemical industry goes to greenfield investment projects. A recent report by the American Chemical Council[6] confirms the trend toward new capacity investments. On the basis of investment projects that had been announced by March 2013, the report estimates the cumulative capital expenditure in the period 2010–2020 attributable to the shale gas revolution at $71.7 billion. United States TNCs such as ExxonMobil, Chevron and Dow Chemicals will play a significant role in this expenditure, with investments already planned for several billion dollars.

These operations may also entail a reshoring of current foreign business, with a potential negative

Figure I.13. Estimated value and share of shale gas cross-border M&A deals in all such deals[a] in the United States oil and gas industry, 2008–2013
(Billions of dollars and per cent)

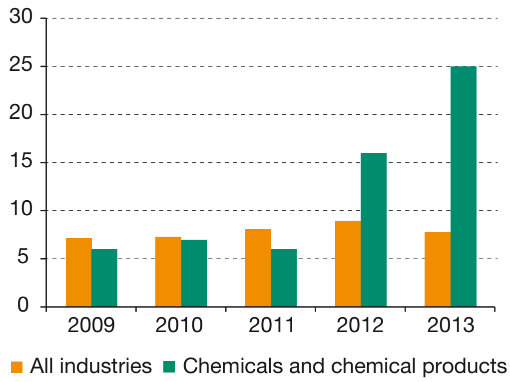


Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As; other various sources.
[a] Includes changes of ownership.

impact (through divestments) on inward FDI to traditionally cheap production locations such as West Asia or China (see chapter II.2.c). TNCs from other countries are also actively seeking investment opportunities in the United States. According to the Council's report, nearly half of the cumulative $71.7 billion in investments is coming from foreign companies, often through the relocation of plants to the United States. The investment wave involves not only TNCs from the developed world; those from developing and transition economies are also increasingly active, aiming to capture the United States shale opportunity.[7]

As a consequence, the most recent data show a significant shift in global greenfield activity in chemicals towards the United States: in 2013 the country's share in chemical greenfield projects (excluding pharmaceutical products) reached a record high of 25 per cent, from historical levels between 5 and 10 per cent – well above the average United States share for all other industries (figure I.14).

Figure I.14. United States share of global annouced greenfield FDI projects, chemicals[a] vs all industries, 2009–2013
(Per cent of total value)



Source: UNCTAD FDI-TNC-GVC Information System, information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] Excluding the pharmaceutical industry.

The FDI impact on other shale-rich countries (e.g. China): a knowledge-sharing story. TNCs, including SOEs from countries rich in shale resources, are strongly motivated to establish partnerships with the United States and other international players to acquire the technical know-how to replicate the success of the United States shale revolution in their home countries. In terms of FDI, this is likely to have a twofold effect:

- Outward FDI flows to the United States are expected to increase as these players proactively look for opportunities to acquire know-how in the field through co-management (with domestic companies) of United States shale projects. Chinese companies have been among the most active players. In 2013, for example, Sinochem entered into a $1.7 billion joint venture with Pioneer Natural Resources to acquire a stake in the Wolcamp Shale in Texas.
- Foreign capital in shale projects outside the United States is expected to grow as companies from shale-rich countries are seeking partnerships with foreign companies to develop their domestic shale projects. In China the two giant State oil and gas companies, PetroChina and CNOOC, have signed a number of agreements with major western TNCs, including Shell. In some cases these agreements involve only technical assistance and support; in others they also involve actual foreign capital investment. This is the case with the Shell-PetroChina partnership in the Sichuan basin, which entails a $1 billion investment from Shell. In other shale-rich countries such as Argentina and Australia the pattern is similar, with a number of joint ventures between domestic companies and international players.

b. Pharmaceuticals

A number of factors caused a wave of restructuring and new market-seeking investments in the pharmaceuticals industry. They include the "patent cliff" faced by some large TNCs,[8] increasing demand for generic drugs, and growth opportunities in emerging markets. A number of developed-country TNCs are divesting non-core business segments and outsourcing research and development (R&D) activities,[9] while acquiring or merging with firms in both developed and developing economies to secure new streams of revenues and to optimize costs. Global players in this industry are keen to gain access to high-quality, low-cost generic drug manufacturers.[10] To save time and resources, instead of developing new products from scratch, TNCs are looking for acquisition opportunities in successful research start-ups and generics firms (UNCTAD 2011b). Some focus on smaller biotechnology firms that are open to in-licensing activities and collaboration. Others look for deals to develop generic versions of medicines.[11] Two other factors – the need to deploy vast reserves of retained earnings held overseas and the desire for tax savings – are also driving developed-country TNCs to acquire assets abroad. A series of megadeals over the last two decades has reshaped the industry.[12]

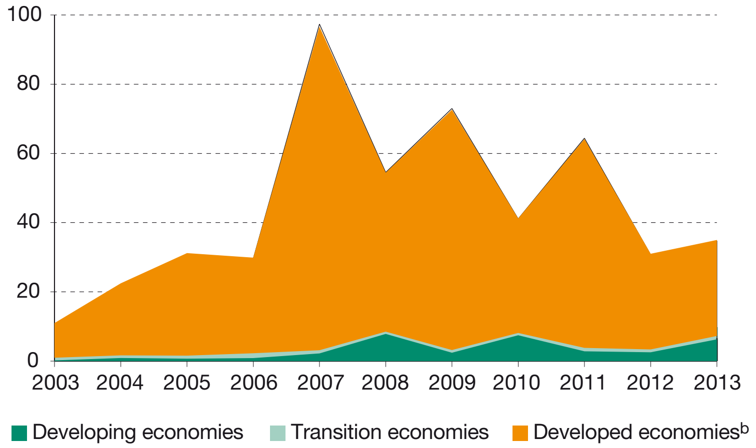
FDI in pharmaceuticals[13] has been concentrated in developed economies, especially in the United States – the largest pharmaceuticals market for FDI.[14] Although the number of greenfield FDI projects announced was similar to the number of cross-border M&As,[15] the transaction values of the M&As (figure I.15) were notably greater than the announced values of the greenfield projects for the entire period (figure I.16). The impact of M&A deals in biological products on the overall transaction volume became more prominent since 2009. After a rise in 2011, these cross-border M&A activities – both in value and in the number of deals – dropped in 2012–2013. The slowdown also reflects a smaller number of megadeals involving large TNCs in developed economies.

Announced greenfield investments in developing economies have been relatively more important than developed-country projects since 2009, when they hit a record $5.5 billion (figure I.16). In 2013, while greenfield FDI in developed economies stagnated ($3.8 billion), announced greenfield investments in developing economies ($4.3 billion) represented 51 per cent of global greenfield FDI in pharmaceuticals (compared with an average of 40 per cent for the period 2003–2012).

Pharmaceutical TNCs are likely to continue to seek growth opportunities through acquisitions, pursuing growth in emerging markets and opportunities for new product development and marketing.[16] Restructuring efforts by developed-country TNCs are gaining momentum, and further consolidation of the global generic market is highly likely.[17] During the first quarter of 2014, the transaction value of cross-border M&As ($22.8 billion in 55 deals) already surpassed the value recorded for all of 2013.[18] Announcements of potential deals strongly suggest a return of megadeals,[19] led by cash-rich TNCs holding record amounts of cash reserves in their foreign affiliates.[20]

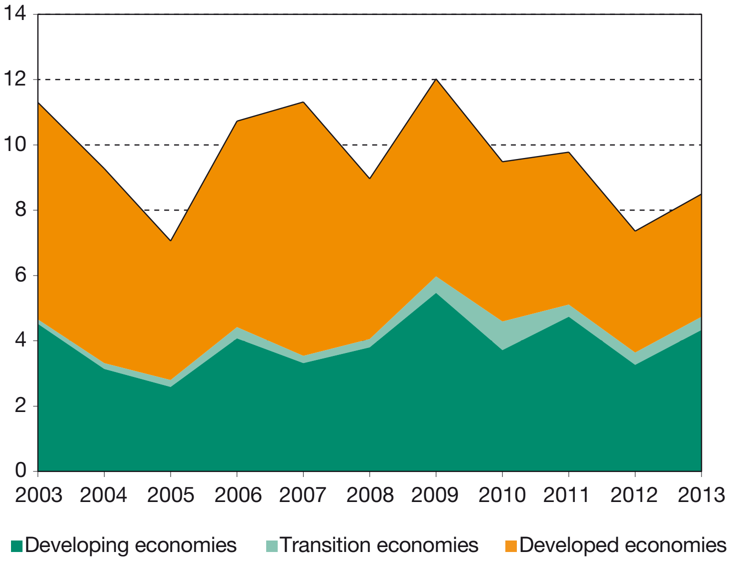
The increasing interest of pharmaceuticals TNCs in emerging markets can also be witnessed in the trends in cross-border M&As. In developing economies, the transaction value of cross-border M&A deals in pharmaceuticals, including biological products, soared in 2008 (from $2.2 billion in 2007 to $7.9 billion),[21] driven by the $5.0 billion acquisition of Ranbaxy Laboratories (India) by Daiichi Sankyo (Japan).[22] It hit another peak ($7.5 billion) in 2010, again led by a $3.7 billion deal that targeted India.[23] As shown in figure I.15, transaction volumes in developing and transition economies remain a fraction of global cross-border M&A activities in this industry, but their shares are expanding. In 2013, at $6.6 billion,[24] their share in global pharmaceutical deals reached the highest on record (figure I.17).[25]

Figure I.15. Cross-border M&A deals in pharmaceuticals,[a] 2003–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.
[a] Includes biological products.
[b] A substantial part of pharmaceuticals in developed countries is accounted for by biological products.

Figure I.16. Value of greenfield FDI projects announced in pharmaceuticals, by group of economies, 2003–2013
(Billions of dollars)



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

which will adversely affect access to inexpensive, high-quality generic drugs by people in need (UNCTAD 2013a). In Bangladesh, where the domestic manufacturing base for generics has been developed by restricting FDI and benefitting from TRIPS exemptions, the Government will have to make substantial changes in its policies and in development strategies pertaining to its pharmaceutical industry in order to achieve sustainable growth.[31]

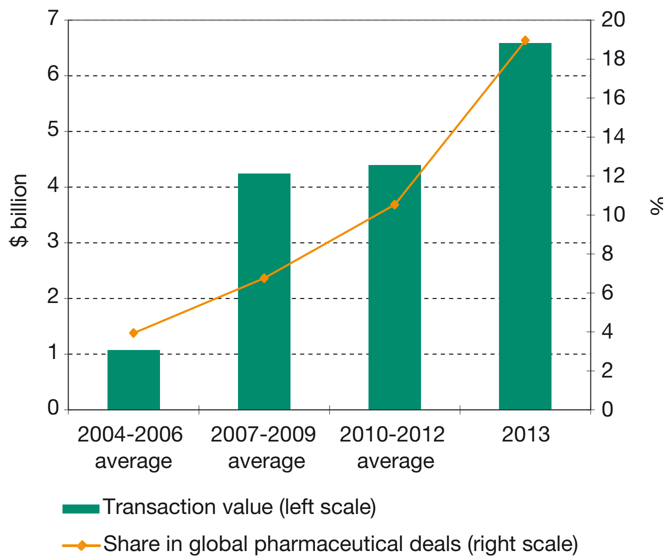
c. Retail

Changing industrial context. The global retail industry is in the midst of an industrial restructuring, driven by three important changes. First, the rise of e-commerce is changing consumers' purchasing behaviour and exerts strong pressures on the traditional retail sector, particularly in developed countries and high-income developing countries. Second, strong economic growth and the rapid expansion of the middle class have created important retail markets in not only large emerging

Pharmaceutical TNCs' growing interest in emerging markets as a new platform for growth will expand opportunities for developing and transition economies to attract investment. In Africa, for example, where the growing middle class is making the market more attractive to the industry, the scale and scope of manufacturing and R&D investments are likely to expand to meet increasing demands for drugs to treat non-communicable diseases.[26] At the same time, TNCs may become more cautious about their operations and prospects in emerging markets as they face shrinking margins for generics[27] as well as bribery investigations,[28] concerns about patent protection of branded drugs,[29] and failures of acquired developing-country firms to meet quality and regulatory compliance requirements.[30]

For some developing and transition economies, the changing global environment in this industry poses new challenges. For example, as India and other generic-drug-manufacturing countries start to export more drugs to developed economies, one possible scenario is a supply shortage in poor countries, leading to upward pressures on price,

Figure I.17. Cross-border M&A deals in pharmaceuticals[a] targeted at developing and transition economies, 2004–2013



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.
[a] Includes biological products.

markets but also other relatively small developing countries. Third, competition has intensified, and margins narrowed, as market growth has slowed. In some large emerging markets, foreign retailers now face difficulties because of the rising number of domestic retailers and e-commerce companies alike, as well as rising operational costs due to higher real estate prices, for example.

These changes have significantly affected the internationalization strategies and practices of global retailers. Some large retail chains based in developed countries have started to optimize the scale of their businesses to fewer stores and smaller formats. They do this first in their home countries and other developed-country markets, but now the reconfiguration has started to affect their operations in emerging markets. In addition, their internationalization strategies have become more selective: a number of the world's largest retailers have slowed their expansion in some large markets (e.g. Brazil, China) and are giving more attention to other markets with greater growth potential (e.g. sub-Saharan Africa).

Global retailers slow their expansion in large emerging markets. Highly internationalized, the top five retail TNCs (table I.2) account for nearly 20 per cent of the total sales of the world's 250 largest retailers, and their share in total foreign sales is more than 30 per cent.[32] The latest trends in their overseas investments showcase the effects of an overall industry restructuring on firms' international operations. For instance, the expansion of Wal-Mart (United States) in Brazil and China has slowed. After years of rapid expansion, Wal-Mart has nearly 400 stores in China, accounting for about 11 per cent of Chinese hypermarket sales. In October 2013, the company announced that it would close 25 underperforming stores, some of which were gained through the acquisition of Trust-Mart (China) in 2007.[33]

A number of companies undertake divestments abroad in order to raise cash and shore up balance sheets,[34] and it seems that regional and national retailers have accordingly taken the opportunity to expand their market shares, including through the acquisition of assets sold by TNCs. Carrefour (France) sold $3.6 billion in assets in 2012, withdrawing from Greece, Colombia and Indonesia. In 2013, the French retailer continued to downsize and divest internationally. In April, it sold a 12 per cent stake in a joint venture in Turkey to its local partner, Sabanci Holding, for $79 million. In May, it sold a 25 per cent stake in another joint venture in the Middle East to local partner MAF for $680 million. Carrefour has also closed a number of stores in China.

New growth markets stand out as a focus of international investment. Some relatively low-income countries in South America, sub-Saharan Africa and South-East Asia have become increasingly attractive to FDI by the world's top retailers. After the outbreak of the global financial crisis, the international expansion of large United States and European retailers slowed owing to economic recession and its effects on consumer spending in many parts of the world. Retailers' expansion into large emerging markets also slowed, as noted above. However, Western retailers continued to establish and expand their presence in the new growth markets, because of their strong economic growth, burgeoning middle

Table I.2. Top 5 TNCs in the retail industry, ranked by foreign assets, 2012
(Billions of dollars and number ef employees)

Corporation	Home economy	Sales		Assets		Employment		Countries of operation	Transnationality Index[a]
		Foreign	Total	Foreign	Total	Foreign	Total		
Wal-Mart Stores Inc	United States	127	447	84	193	800 000	2 200 000	28	0.76
Tesco PLC	United Kingdom	35	103	39	76	219 298	519 671	33	0.84
Carrefour SA	France	53	98	34	61	267 718	364 969	13	0.57
Metro AG	Germany	53	86	27	46	159 344	248 637	33	0.62
Schwarz Group[b]	Germany	49	88	..	..	..	..	26	0.56

Source: UNCTAD, based on data from Thomson ONE.

a The Transnationality Index is calculated as the average of the following three ratios: foreign to total assets, foreign to total sales and foreign to total employment, except for Schwarz Group which is based on the foreign to total sales ratio.

b Data of 2011.

class, increasing purchasing power and youthful populations.

Africa has the fastest-growing middle class in the world: according to the African Development Bank, the continent's middle class numbers about 120 million now and will grow to 1.1 billion by 2060. Wal-Mart plans to open 90 new stores across sub-Saharan Africa over the next three years, as it targets growth markets such as Nigeria and Angola. As Carrefour retreats from other foreign markets, it aims to open its first store in Africa in 2015, in Côte d'Ivoire, followed by seven other countries (Cameroon, Congo, the Democratic Republic of the Congo, Gabon, Ghana, Nigeria and Senegal). In the luxury goods segment as well, some of the world's leading companies are investing in stores and distribution networks in Africa (chapter II.1).

More and more cross-border M&As, including in e-commerce. Global retailers invest internationally through both greenfield investments and cross-border M&As, and sometimes they operate in foreign markets through non-equity modes, most notably franchising. Available data show that, since 2009, international greenfield investment in retail dropped for three years before a recent pickup; by contrast, the value of cross-border M&As in the sector has increased continuously. In 2012, driven by the proactive international expansion of some large TNCs, total global sales of cross-border M&As surpassed the pre-crisis level, and that amount continued to rise in 2013.

A number of megadeals have been undertaken in industrialized economies over the past few years.[35] At the same time, the world's leading retailers have expanded into emerging markets more and more through cross-border M&As. For instance, in 2009, Wal-Mart (United States) acquired a 58 per cent stake in DYS, Chile's largest food retailer, with an investment of $1.5 billion; and in 2012, it acquired South Africa's Massmart for $2.4 billion. International M&As have also targeted e-commerce companies in key markets, particularly China, where online retail sales have reached almost the same level as in the United States. Apart from foreign e-commerce companies, international private equity investors such as Bain Capital and IDG Capital Partners (both from the United States) and sovereign wealth funds (SWFs) such as Temasek (Singapore) have invested in leading Chinese e-commerce companies, including in Alibaba and JD.com before their planned initial public offering (IPO) in the United States (table I.3).

Table I.3. Five largest cross-border international private equity investments in e-commerce in China, 2010–2012

Company	Foreign investors	Investment ($ million)	Year
Alibaba	Sequoia Capital, Silver Lake, Temasek	3 600	2011, 2012
JD.com	Tiger Fund, HilhouseCapitalMa-nagement	1 500	2011
Yougou	Belly International	443	2011
Gome	Bain Capital	432	2010
VANCL	Temasek, IDG Capital	230	2011

Source: UNCTAD, based on ChinaVenture (www.chinaventure.com.cn).

4. FDI by selected types of investors

This subsection discusses recent trends in FDI by private equity funds, SWFs and SOEs.

a. Private equity firms

In 2013, the unspent outstanding funds of private equity firms (so-called dry powder) grew further to a record level of $1.07 trillion, an increase of 14 per cent over the previous year. Firms thus did not use funds for investment despite the fact that they could raise more money for leverage owing to quantitative easing and low interest rates. This is reflected also in lower levels of FDI by such firms. In 2013, their new cross-border investment (usually through M&As due to the nature of the business) was only $171 billion ($83 billion net of divestments), accounting for 21 per cent of gross cross-border M&As. This was 10 percentage points lower than in the peak year of 2007 (table I.4). Private equity markets remain muted. In addition, private equity firms are facing increasing scrutiny from regulatory and tax authorities, as well as rising pressure to find cost savings in their operations and portfolio firms.

Private equity firms are becoming relatively more active in emerging markets (figure I.18). In particular, in Asia they acquired more companies, pushing up the value of M&As. Examples include the acquisitions

Table I.4. Cross-border M&As by private equity firms, 1996–2013
(Number of deals and value)

	Number of deals		Gross M&As		Net M&As	
Year	Number	Share in total (%)	Value ($ billion)	Share in total (%)	Value ($ billion)	Share in total (%)
1996	989	16	44	16	18	12
1997	1 074	15	58	15	18	10
1998	1 237	15	63	9	29	8
1999	1 466	15	81	9	27	5
2000	1 478	14	83	6	30	3
2001	1 467	17	85	11	36	8
2002	1 329	19	72	14	14	6
2003	1 589	23	91	23	31	19
2004	1 720	22	134	25	62	31
2005	1 892	20	209	23	110	20
2006	1 898	18	263	23	118	19
2007	2 108	17	541	31	292	28
2008	2 015	18	444	31	109	17
2009	2 186	24	115	18	70	25
2010	2 280	22	147	19	68	20
2011	2 026	19	161	15	69	12
2012	2 300	23	192	23	67	20
2013	2 043	24	171	21	83	24

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

Note: Value on a net basis takes into account divestments by private equity funds. Thus it is calculated as follows: Purchases of companies abroad by private equity funds (-) Sales of foreign affiliates owned by private equity funds. The table includes M&As by hedge and other funds (but not sovereign wealth funds). Private equity firms and hedge funds refer to acquirers as "investors not elsewhere classified". This classification is based on the Thomson ONE database on M&As.

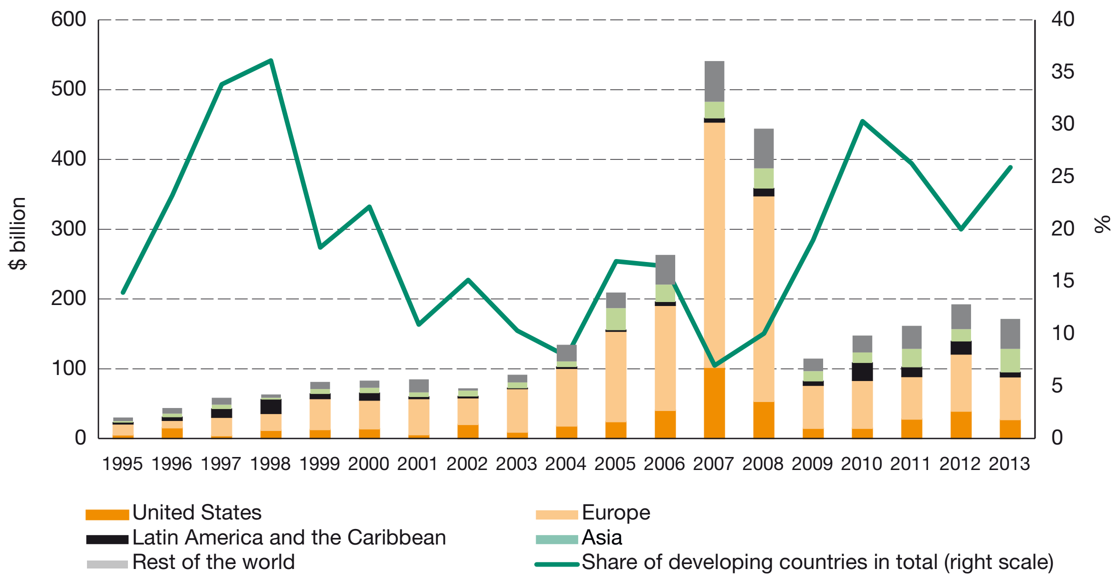
of Ping An Insurance of China by a group of investors from Thailand for $9.4 billion and Focus Media Holding (China) by Giovanna Acquisition (Cayman Islands) for $3.6 billion. Outside Asia, some emerging economies, such as Brazil, offer opportunities for the growth of private equity activity. For example, in Latin America, where Latin America-based private equity firms invested $8.9 billion in 2013, with $3.5 billion going to infrastructure, oil and energy.[36] In addition, FDI by foreign private equity firms for the same year was $6 billion. In contrast, slow M&A growth in regions such as Europe meant fewer opportunities for private equity firms to pick up assets that might ordinarily be sold off during or after an acquisition. Furthermore, the abundance of cheap credit and better asset performance in areas such as real estate made private equity less attractive.

In 2013, private equity funds attracted attention with their involvement in delisting major public companies such as H. J. Heinz and Dell (both United States), and with large cross-border M&As such as the acquisition of Focus Media Holding, as mentioned above. Furthermore, increases in both club deals – deals involving several private equity funds – and secondary buyouts, in which investments change hands from one private equity fund to another, may signal a diversification of strategies in order to increase corporate value in the context of the generally low investment activity by private equity firms.

Secondary buyouts have been increasingly popular also as an exit route in 2013, particularly in Western Europe. Some of the largest private equity deals of the year were sales to other buyout firms. For example, Springer Science+Business Media (Germany), owned by EQT Partners (United States) and the Government of Singapore Investment Corporation (GIC), was sold to BC Partners (United Kingdom) for $4.4 billion. Nevertheless, there is still an overhang of assets that were bought before the financial crisis that have yet to realize their expected value and have not been sold.

Although emerging market economies appear to provide the greater potential for growth, developed countries still offer investment targets, in particular

Figure I.18. FDI by private equity funds, by major host region, 1995–2013
(Billions of dollars and per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Data refer to gross values of M&As by private equity firms; they are not adjusted to exclude FDI by SWFs.

in small and medium-size enterprises (SMEs), which are crucial to economic recovery and to the absorption of unemployment. In the EU, where one of the dominant concerns for SMEs is access to finance – a concern that was further aggravated during the crisis[37] – private equity funds are an important alternative source of finance.

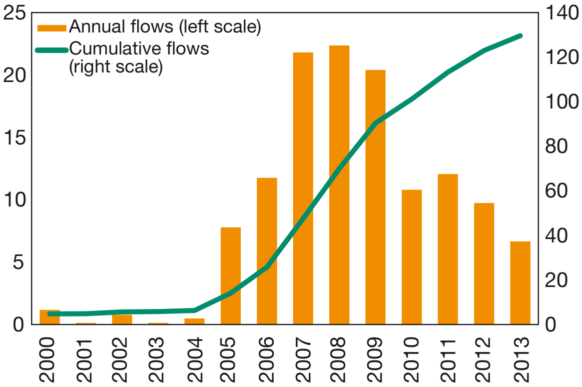
b. SWFs

SWFs continue to grow, spread geographically, but their FDI is still small. Assets under management of more than 70 major SWFs approached $6.4 trillion based in countries around the world, including in sub-Saharan Africa. In addition to the $150 billion Public Investment Corporation of South Africa, SWFs were established recently in Angola, Nigeria and Ghana, with oil proceeds of $5 billion, $1 billion and $500 million, respectively. Since 2010, SWF assets have grown faster than the assets of any other institutional investor group, including private equity and hedge funds. In the EU, for example, between 15 and 25 per cent of listed companies have SWF shareholders. In 2013, FDI flows of SWFs, which had remained subdued after the crisis, reached $6.7 billion, with cumulative flows of $130 billion (figure I.19).

FDI by SWFs is still small, corresponding to less than 2 per cent of total assets under management and represented mostly by a few major SWFs. Nevertheless, the geographical scope of their investment has recently been expanding to markets such as sub-Saharan Africa. In 2011, China Investment Corporation (CIC) bought a 25 per cent stake in Shanduka Groupe (South Africa) for $250 million, and in late 2013 Temasek (Singapore's SWF) paid $1.3 billion to buy a 20 per cent stake in gas fields in the United Republic of Tanzania.

SWFs' investment portfolios are expanding across numerous sectors, including the retail and consumer sectors, where Temasek's acquisition of a 25 per cent stake in AS Watson (Hong Kong, China) for $5.7 billion in early 2014 is an example. SWFs are also expanding their investment in real estate markets in developed countries. For example, in early 2014, the Abu Dhabi Investment Authority and Singapore's GIC purchased an office building in New York for $1.3 billion, and China's CIC spent £800 million for an office area in London. In December 2013, GIC and Kuwait's government real estate company bought office buildings in London for £1.7 billion. Norway's Government Pension Fund Global, the largest SWF, also started

Figure I.19. Annual and cumulative value of FDI by SWFs, 2000–2013
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Note: Data include value of flows for both cross-border M&As and greenfield FDI projects and only investments by SWFs which are the sole and immediate investors. Data do not include investments made by entities established by SWFs or those made jointly with other investors. In 2003–2013, cross-border M&As accounted for about 80 per cent of total.

to invest in real estate outside Europe in 2013, with up to 5 per cent of its total funds. Global real estate investment by SWFs is expected to run to more than $1 trillion in 2014, a level similar to the pre-crisis position seven years ago.[38]

SWF motives and types of investment targets differ. The share of investment by SWFs in the Gulf region, for example, has been increasing in part due to external factors, such as the euro crisis, but also in support of boosting public investment at home. Gulf-based SWFs are increasingly investing in their domestic public services (health, education and infrastructure), which may lower their level of FDI further. For countries with SWFs, public investment is increasingly seen as having better returns (financial and social) than portfolio investment abroad. Chapter IV looks at ways that countries without SWFs may be able to tap into this public-services investment expertise.

By contrast, Malaysia's SWF, Khazanah, like many other SWFs,[39] views itself more as a strategic development fund. Although 35 per cent of its assets are invested abroad, it targets the bulk of its investment at home to strategic development sectors, such as utilities, telecommunications and other infrastructure, which are relevant for sustainable development, as well as trying to crowd in private-sector investment.[40]

In an effort to source funds widely and attract private investment for public investment, some SWFs are engaged in public offerings. For example, in 2013, Doha Global Investment Company (backed by the Qatari SWF) decided to launch an IPO. The IPO will offer shares only to Qatari nationals and private Qatari companies, thereby sharing some of the benefits of Qatari sovereign investments directly with the country's citizens and companies.

SWFs are undertaking more joint activity with private equity fund managers and management companies, in part as a function of the decline of private equity activity since the crisis. SWFs are also taking larger stakes in private equity firms as the funds look for greater returns following declining yields on their traditional investments (e.g. government bonds). SWFs may also be favouring partnerships with private equity firms as a way of securing managerial expertise in order to support more direct involvement in their acquisitions; for example, Norway's Government Pension Fund Global, which is a shareholder of Eurazeo (France), Ratos (Sweden), Ackermans en Van Haaren (Belgium) and other companies; and the United Arab Emirates' Mubadala, which is a shareholder in The Carlyle Group (United States). These approaches by SWFs to using and securing funds for further investment provide useful lessons for other financial firms in financing for development.

c. SOEs

State-owned TNCs (SO-TNCs) represent a small part of the global TNC universe,[41] but the number of their foreign affiliates and the scale of their foreign assets are significant. According to UNCTAD's estimates, there are at least 550 SO-TNCs; their foreign assets are estimated at more than $2 trillion.[42] Both developed and developing countries have SO-TNCs, some of them among the largest TNCs in the world (table I.5). A number of European countries, such as Denmark, France and Germany, as well as the BRICS, are home to the most important SO-TNCs.

Table I.5. The top 15 non-financial State-owned TNCs,[a] ranked by foreign assets, 2012
(Billions of dollars and number of employees)

SO-TNCs	Home country	Industry	State share	Assets		Sales		Employment		Transnationality Index[b]
				Foreign	Total	Foreign	Total	Foreign	Total	
GDF Suez	France	Utilities	36	175	272	79	125	110 308	219 330	0.59
Volkswagen Group	Germany	Motor vehicles	20	158	409	199	248	296 000	533 469	0.58
Eni SpA	Italy	Oil and gas	26	133	185	86	164	51 034	77 838	0.63
Enel SpA	Italy	Utilities	31	132	227	66	109	37 588	73 702	0.57
EDF SA	France	Utilities	84	103	331	39	93	30 412	154 730	0.31
Deutsche Telekom AG	Germany	Telecommunications	32	96	143	42	75	113 502	232 342	0.58
CITIC Group	China	Diversified	100	72	515	10	52	30 806	140 028	0.18
Statoil ASA	Norway	Oil and gas	67	71	141	28	121	2 842	23 028	0.29
General Motors Co	United States	Motor vehicles	16	70	149	65	152	108 000	213 000	0.47
Vattenfall AB	Sweden	Utilities	100	54	81	19	25	23 864	32 794	0.72
Orange S.A.	France	Telecommunications	27	54	119	24	56	65 492	170 531	0.42
Airbus Group	France	Aircraft	12	46	122	67	73	88 258	140 405	0.64
Vale SA	Brazil	Metal mining	3[c]	46	131	38	48	15 680	85 305	0.45
COSCO	China	Transport and storage	100	40	52	19	30	7 355	130 000	0.50
Petronas	Malaysia	Oil and gas	100	39	150	43	73	8 653	43 266	0.35

Source: UNCTAD.

[a] These TNCs are at least 10 per cent owned by the State or public entities, or the State/public entity is the largest shareholder.

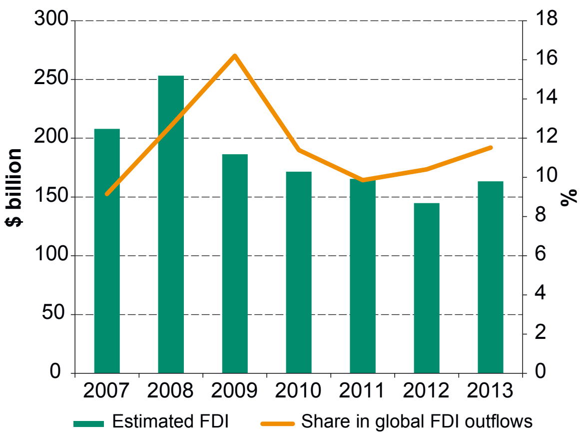
[b] The Transnationality Index is calculated as the average of the following three ratios: foreign to total assets, foreign to total sales and foreign to total employment.

[c] State owns 12 golden shares that give it veto power over certain decisions.

In line with the industrial characteristics of SOEs in general, SO-TNCs tend to be active in industries that are capital-intensive, require monopolistic positions to gain the necessary economies of scale or are deemed to be of strategic importance to the country. Therefore, their global presence is considerable in the extractive industries (oil and gas exploration and metal mining), infrastructure industries and public utilities (electricity, telecommunication, transport and water), and financial services. The oil and gas industry offers a typical example of the prominence of SOEs, particularly in the developing world: SOEs control more than three fourths of global crude oil reserves. In addition, some of the world's largest TNCs in the oil and gas industry are owned and controlled by developing-country governments, including CNPC, Sinopec and CNOOC in China, Gazprom in the Russian Federation, Petronas in Malaysia, Petrobras in Brazil and Saudi Aramco in Saudi Arabia.

Owing to the general lack of data on FDI by companies with different ownership features, it is difficult to assess the global scale of FDI flows related to SO-TNCs. However, the value of FDI projects, including both cross-border M&A purchases and announced greenfield investments, can provide a rough picture of such FDI flows and their fluctuation over the years (figure I.20). Overall, FDI by SO-TNCs had declined in every year after the global financial

Figure I.20. Value of estimated FDI by SO-TNCs, 2007–2013
(Billions of dollars and per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Note: Estimated FDI is the sum of greenfield investments and M&As. The combined value here is only an indication of the size of total investment by SO-TNCs.

crisis, but in 2013 such investment started to pick up, and the upward trend is likely to be sustained in 2014, driven partly by rising investments in extractive industries.

Rising FDI by SO-TNCs from emerging economies, especially the BRICS, contributed to the growth in FDI flows in 2013. The internationalization of Chinese SOEs accelerated, driving up FDI outflows from China. In extractive industries, Chinese SO-TNCs have been very active in cross-border acquisitions: for instance, CNOOC spent $15 billion to acquire Nexen in Canada, the largest overseas deal ever undertaken by a Chinese oil and gas company; and Minmetal bought the Las Bambas copper mine in Peru for $6 billion. Furthermore, Chinese SOEs in manufacturing and services, especially finance and real estate, have increasingly invested abroad. Indian SO-TNCs in the extractive industries have become more proactive in overseas investment as well. For example, ONGC Videsh Limited, the overseas arm of the State-owned Oil and Natural Gas Corporation, is to invest heavily in Rovuma Area I Block, a project in Mozambique.

In the Russian Federation, State ownership has increased as Rosneft, Russia's largest oil and gas company, acquired BP's 50 per cent interest in TNK-BP for $28 billion (part in cash and part in Rosneft shares) in March 2013. This deal made Rosneft the world's largest listed oil company by output. In the meantime, Rosneft has expanded its global presence by actively investing abroad: its subsidiary Neftegaz America Shelf LP acquired a 30 per cent interest in 20 deep-water exploration blocks in the Gulf of Mexico held by ExxonMobil (United States). In December, Rosneft established a joint venture in cooperation with ExxonMobil to develop shale oil reserves in western Siberia.

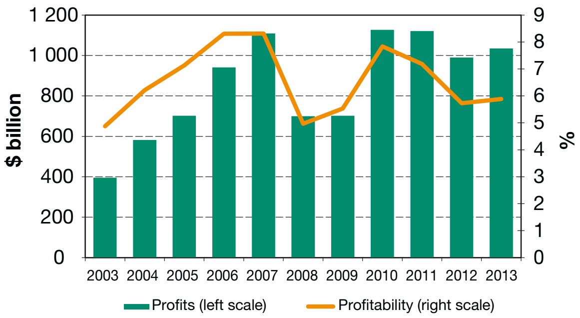
Compared with their counterparts from the BRICS, SO-TNCs from developed countries have been less active in investing abroad and their international investment remains sluggish. This is partly because of the weak economic performance of their home countries in the Eurozone. However, a number of large M&A projects undertaken by these firms, such as those of EDF (France) and Vattenfall (Sweden), were recorded in infrastructure industries. In addition, emerging investment opportunities in utilities and transport industries in Europe may increase FDI by SO-TNCs in these industries.

B. PROSPECTS

The gradual improvement of macroeconomic conditions, as well as recovering corporate profits and the strong performance of stock markets, will boost TNCs' business confidence, which may lead to a rise in FDI flows over the next three years. On the basis of UNCTAD's survey on investment prospects of TNCs and investment promotion agencies (IPAs), results of UNCTAD's FDI forecasting model and preliminary 2014 data for cross-border M&As and greenfield activity, UNCTAD projects that FDI flows could rise to $1.62 trillion in 2014, $1.75 trillion in 2015 and $1.85 trillion in 2016 (see figure I.1).

The world economy is expected to grow by 3.6 per cent in 2014 and 3.9 per cent in 2015 (table I.6). Gross fixed capital formation and trade are projected to rise faster in 2014–2015 than in 2013. Those improvements could prompt TNCs to gradually transform their record levels of cash holdings into new investments. The slight rise in TNC profits in 2013 (figure I.21) will also have a positive impact on their capacity to invest.

Figure I.21. Profitability[a] and profit levels of TNCs, 2003–2013
(Billions of dollars and per cent)



Source: UNCTAD, based on data from Thomson ONE.
[a] Profitability is calculated as the ratio of net income to total sales.

UNCTAD's econometric model (*WIR11*) projects that FDI flows will pick up in 2014, rising 12.5 per cent to reach $1.62 trillion (table I.7), mainly owing to the strengthening of global economic activity. Much of the impetus will come from developed countries, where FDI flows are expected to rise by 35 per cent.

Table I.6. Annual growth rates of global GDP, trade, GFCF and employment, 2008–2015
(Per cent)

Variable	2008	2009	2010	2011	2012	2013[a]	2014[b]	2015[b]
GDP	2.8	-0.4	5.2	3.9	3.2	3.0	3.6	3.9
Trade	3.1	-10.6	12.5	6.0	2.5	3.6	5.3	6.2
GFCF	2.0	-4.6	5.6	4.6	4.3	3.1	4.4	5.1
Employment	1.1	0.5	1.3	1.5	1.3	1.3	1.3	1.3

Source: UNCTAD based on IMF for GDP, trade and GFCF, and ILO for employment.
[a] Estimation.
[b] Projections.
Note: GFCF = gross fixed capital formation.

FDI flows to developing countries will remain high in the next three years. Concerns about economic growth and the ending of quantitative easing raise the risk of slow growth in FDI inflows in emerging markets. Following the recent slowdown in growth of FDI inflows in developing countries (a 6 per cent increase in 2013 compared with an average of 17 per cent in the last 10 years), FDI in these countries is expected to remain flat in 2014 and then increase slightly in 2015 and 2016 (table I.7).

In light of this projection, the pattern of FDI by economic grouping may tilt in favour of developed countries. The share of developing and transition economies would decline over the next three years (figure I.22).

However, the results of the model are based mainly on economic fundamentals – projections which are subject to fluctuation. Furthermore, the model does not take into account risks such as policy uncertainty and regional conflict, which are difficult to quantify. It also does not take into account megadeals such as the $130 billion buy-back of shares by Verizon (United States) from Vodafone (United Kingdom in 2014), which will reduce the equity component of FDI inflows to the United States and affect the global level of FDI inflows.

Although the introduction of quantitative easing appears to have had little impact on FDI flows in developing countries, this might not be the case for the ending of those measures. Although there seems to be a strong relationship between the easing of monetary policy

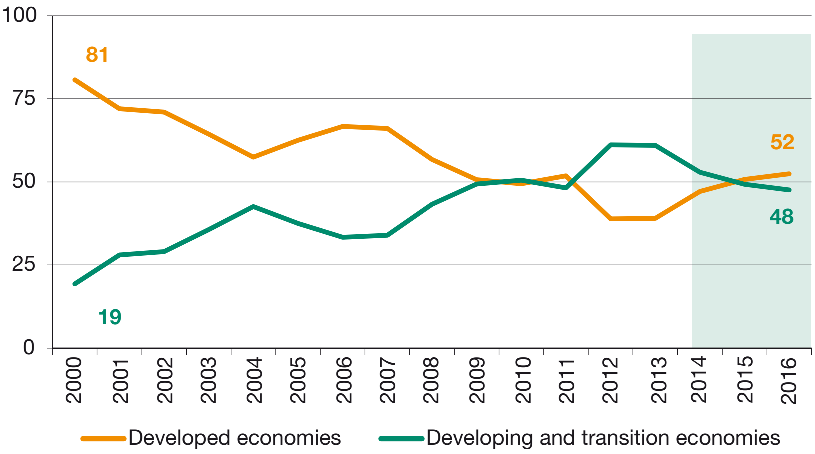
Table I.7. Summary of econometric medium-term baseline scenarios of FDI flows, by groupings
(Billions of dollars and per cent)

	Averages				Projections		
	2005–2007	2009–2011	2012	2013	2014	2015	2016
Global FDI flows	**1 493**	**1 448**	**1 330**	**1 452**	**1 618**	**1 748**	**1 851**
Developed economies	978	734	517	566	763	887	970
Developing economies	455	635	729	778	764	776	799
Transition economies	60	79	84	108	92	85	82

Memorandum	*Average growth rates*		*Growth rates*		*Growth rate projections*		
	2005–2007	*2009–2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Global FDI flows	***39.6***	***1.0***	***- 21.8***	***9.1***	***11.5***	***8.0***	***5.9***
Developed economies	46.5	- 0.4	- 41.3	9.5	34.8	16.3	9.5
Developing economies	27.8	4.4	0.6	6.7	- 1.8	1.6	2.9
Transition economies	47.8	- 1.9	- 11.3	28.3	- 15.0	- 7.6	- 3.9

Source: UNCTAD.

Figure I.22. FDI inflows: share by major economic groups, 2000–2013 and prospects, 2014–2016
(Per cent)



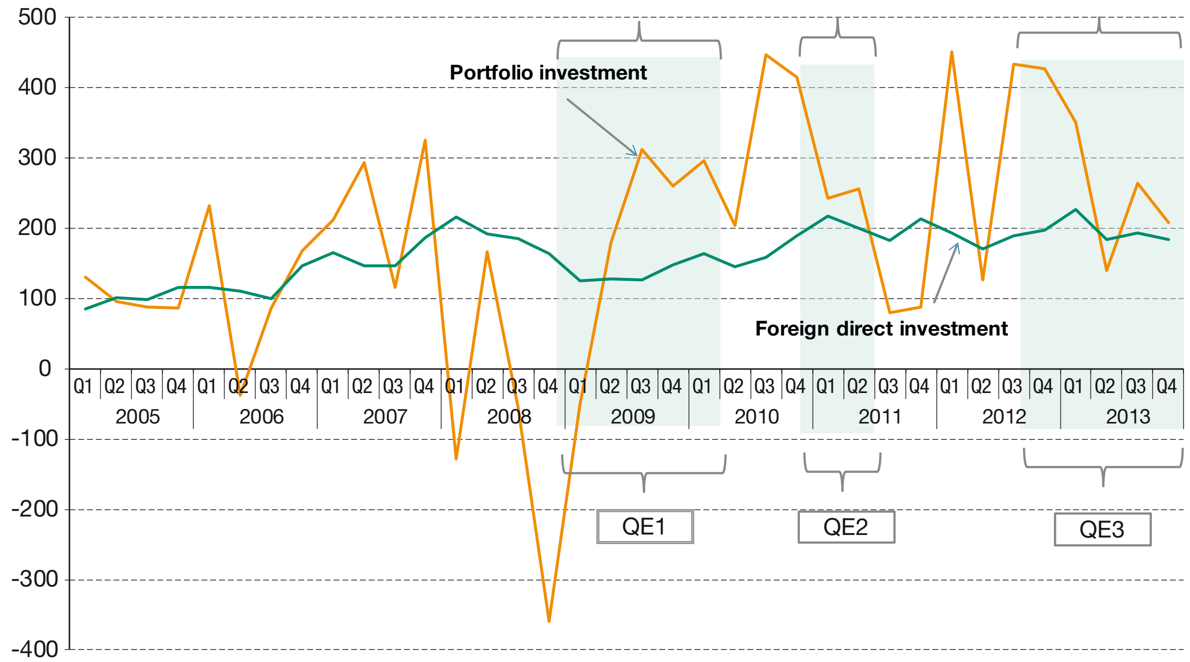
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics); and UNCTAD estimates.

in developed countries and portfolio capital flows to emerging economies, quantitative easing had no visible impacts on FDI flows (figure I.23). FDI projects have longer gestation periods and are thus less susceptible to short-term fluctuations in exchange rates and interest rates. FDI generally involves a long-term commitment to a host economy. Portfolio and other investors, by contrast, may liquidate their investments when there is a drop in confidence in the currency, economy or government.

Although quantitative easing had little impact on FDI flows in the period 2009–2013, this might change with the ending of unconventional measures, judging by developments when the tapering was announced and when it began to be implemented. During the first half of 2013 and the beginning of 2014, there is evidence of a sharp decrease in private external capital flows and a depreciation of the currencies of emerging economies.

FDI inflows to the countries affected by the tapering could see the effect of more company assets offered for sale, given the heavy indebtedness of domestic firms and their reduced access to liquidity. Increases in cross-border

Figure I.23. Portfolio investment and FDI inflows to emerging markets, quarterly Index, 2005 Q1–2013 Q4
(Base 100: quarterly average of 2005)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics); IMF for portfolio investment.
Note: 2013 Q4 is estimated.
Countries included are Argentina, Brazil, Bulgaria, Chile, Colombia, Ecuador, Hong Kong (China), Hungary, India, Indonesia, Kazakhstan, the Republic of Korea, Malaysia, Mexico, the Philippines, Poland, the Russian Federation, South Africa, Thailand, Turkey, Ukraine and the Bolivarian Republic of Venezuela.

M&As in emerging markets in late 2013 and the beginning of 2014 may reflect this phenomenon. Foreign investors may also see the crisis as an opportunity to pick up assets at relatively low cost. Furthermore, some affected developing countries (e.g. Indonesia) have intensified their efforts to attract long-term capital flows or FDI to compensate for the loss in short-term flows. Their efforts essentially concentrate on further promoting and facilitating inward FDI (chapter III). The impact of tapering on FDI flows may evolve differently by type of FDI.

- *Export-oriented FDI:* Currency depreciation, if continued, can increase the attractiveness of affected emerging economies to foreign investors by lowering the costs of production and increasing export competitiveness.
- *Domestic market-oriented FDI:* Reduced demand and slower growth could lead to some downscaling or delay of FDI in the countries most affected. The impact on domestic-market-oriented affiliates varies by sector and industry. Foreign affiliates in the services sector are particularly susceptible to local demand conditions.

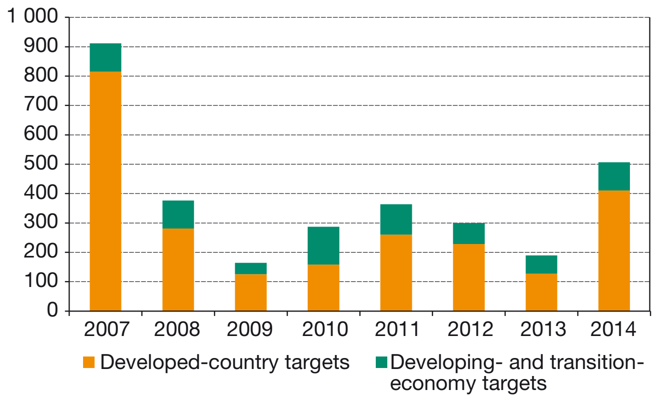
Reviving M&A activity in the beginning of 2014. An overall increase of FDI inflows and the rise of developed countries as FDI hosts are apparent in the value of cross-border M&As announced in the beginning of 2014. For the first four months of 2014, the global market for cross-border M&As was worth about $500 billion (including divestments), the highest level since 2007 and more than twice the value during the same period in 2013 (figure I.24). The deals in this period were financed either by stocks or by cash held in the form of retained earnings abroad. The 10 largest deals announced in the first quarter of 2014 all targeted companies in developed countries (table I.8); in 2013 only 5 of the top 10 deals were invested in developed countries.

Table I.8. Top 10 largest cross-border M&A announcements by value of transaction, January–April 2014

Date announced	Target company	Target industry	Target nation	Acquiror name	Value of transaction ($ million)	Acquiror ultimate parent firm	Acquiror ultimate parent nation
04/28/2014	AstraZeneca PLC	Pharmaceutical preparations	United Kingdom	Pfizer Inc	106 863	Pfizer Inc	United States
04/04/2014	Lafarge SA	Cement, hydraulic	France	Holcim Ltd	25 909	Holcim Ltd	Switzerland
02/18/2014	Forest Laboratories Inc	Pharmaceutical preparations	United States	Actavis PLC	25 110	Actavis PLC	Ireland
04/30/2014	Alstom SA-Energy Businesses	Turbines and turbine generator sets	France	GE	17 124	GE	United States
04/22/2014	GlaxoSmithKline PLC-Oncology	Pharmaceutical preparations	United Kingdom	Novartis AG	16 000	Novartis AG	Switzerland
01/13/2014	Beam Inc	Wines, brandy, and brandy spirits	United States	Suntory Holdings Ltd	13 933	Kotobuki Realty Co Ltd	Japan
03/17/2014	Grupo Corporativo ONO SA	Telephone communications, except radiotelephone	Spain	Vodafone Holdings Europe SLU	10 025	Vodafone Group PLC	United Kingdom
02/21/2014	Scania AB	Motor vehicles and passenger car bodies	Sweden	Volkswagen AG	9 162	Porsche Automobil Holding SE	Germany
04/22/2014	Novartis AG-Vaccines Business	Biological products, except diagnostic substances	Switzerland	GlaxoSmithKline PLC	7 102	GlaxoSmithKline PLC	United Kingdom
03/16/2014	RWE Dea AG	Crude petroleum and natural gas	Germany	L1 Energy	7 099	LetterOne Holdings SA	Luxembourg

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.

Figure I.24. Global markets for cross-border M&As on announcement basis January–April of each year of 2007–2014, by group of economies
(Billions of dollars)

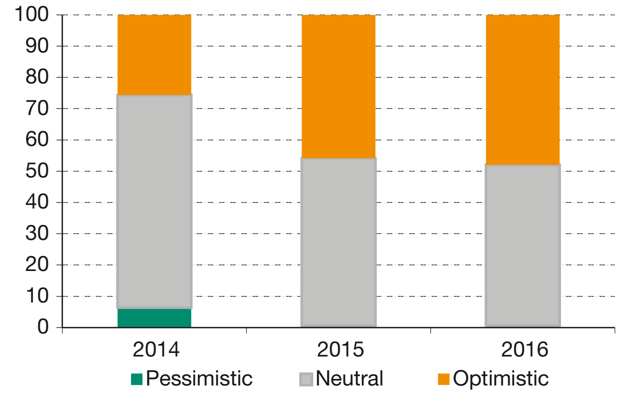


Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.

Responses to this year's World Investment Prospects Survey (WIPS) support an optimistic scenario. This year's survey generated responses from 164 TNCs, collected between February and April 2014, and from 80 IPAs in 74 countries. Respondents revealed that they are still uncertain about the investment outlook for 2014 but had a bright forecast for the following two years (figure I.25). For 2016, half of the respondents had positive expectations and almost none felt pessimistic about the investment climate. When asked about their intended FDI expenditures, half of the respondents forecasted an increase over the 2013 level in each of the next three years (2014–2016). Among the factors positively affecting FDI over the next three years, respondents most frequently cited the state of the economies of the United States, the BRIC (Brazil, Russian Federation, India and China), and the EU-28. Negative factors remain the pending sovereign debt issues and fear of rising protectionism in trade and investment.

In the medium term, FDI expenditures are set to increase in all sectors. However, low-tech manufacturing industries are expected to see FDI decreases in 2014. According to the WIPS responses, TNCs across all sectors will either maintain or increase FDI in 2015 and 2016. In contrast, for 2014 investors expressed some uncertainties about their plans, with respondents from some low-tech industries in the manufacturing sector forecasting decreases of expenditures.

Figure I.25. TNCs' perception of the global investment climate, 2014–2016
(Percentage of respondents)



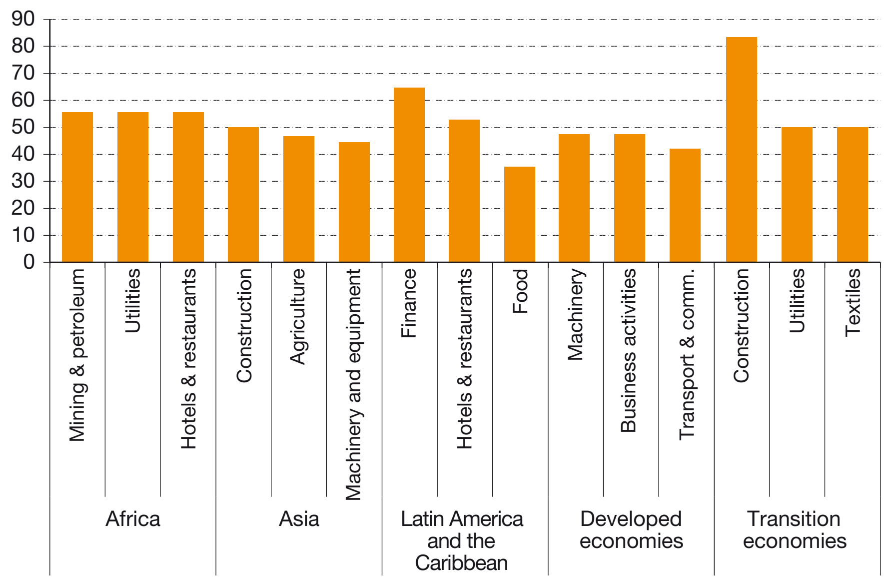
Source: UNCTAD survey.
Note: Based on responses from 164 companies.

Respondents from manufacturing industries such as textiles, wood and wood products, construction products, metals and machinery indicated a fall in investments in 2014. By 2016, almost half of TNCs in all sectors expect to see an increase in their FDI expenditures, in line with their rising optimism about the global investment environment.

Echoing the prospects perceived by TNCs, IPAs also see more investment opportunities in services than in manufacturing. Indeed, few IPAs selected a manufacturing industry as one of the top three promising industries. However, the view from IPAs differs for inward FDI by region (figure I.26). IPAs in developed economies anticipate good prospects for FDI in machinery, business services, such as computer programming and consultancy, and transport and communication, especially telecommunications. African IPAs expect further investments in the extractive and utilities industries, while Latin American IPAs emphasize finance and tourism services. Asian IPAs refer to positive prospects in construction, agriculture and machinery. IPAs in transition economies have high expectations in construction, utilities and textiles.

FDI expenditures are set to grow, especially from developing countries, and to be directed more to other developing countries. This year's survey results show diverging trends across groups of economies with regard to investment expenditures. More than half of the respondents from the developing and transition economies

Figure I.26. IPAs' selection of most promising industries for attracting FDI in their own country
(Percentage of IPA respondents)

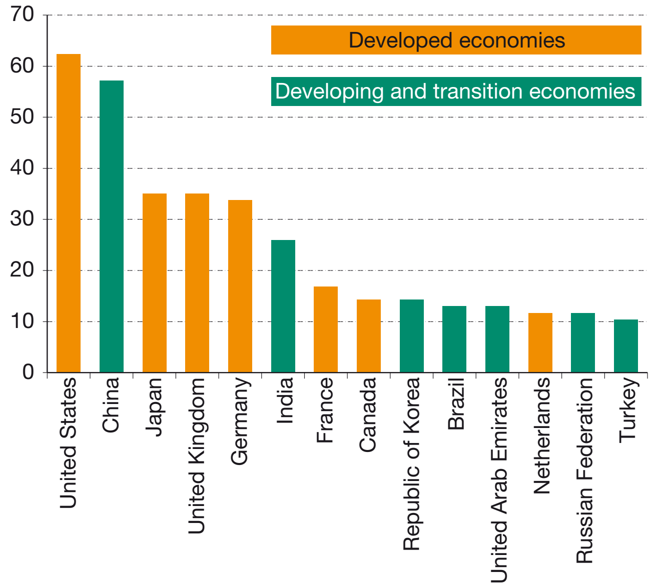


Source: UNCTAD survey.
Note: Based on responses from 80 IPAs. Aggregated by region or economic grouping to which responding IPAs belong.

foresaw an increase in FDI expenditures in 2014 (57 per cent) and in the medium term (63 per cent). In contrast, TNCs from developed countries expected to increase their investment budgets in only 47 per cent of cases, in both the short and medium terms.

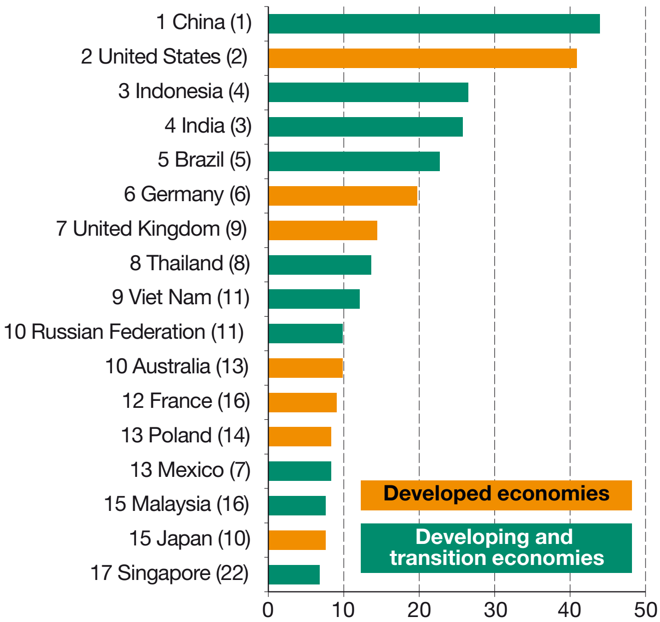
Developed economies remain important sources of FDI but are now accompanied by major developing countries such as the BRIC, the United Arab Emirates, the Republic of Korea and Turkey. Indeed, China is consistently ranked the most promising source of FDI, together with the United States (figure I.27). Among the developed economies, the United States, Japan, the United Kingdom, Germany and France are ranked as the most promising developed-economy investors, underscoring their continuing role in global FDI flows. As to host economies, this year's ranking is largely consistent with past ones, with only minor changes. South-East Asian countries such as Viet Nam, Malaysia and Singapore, and some developed economies, such as the United Kingdom, Australia, France and Poland, gained some positions, while Japan and Mexico lost some (figure I.28).

Figure I.27. IPAs' selection of most promising investor home economies for FDI in 2014–2016
(Percentage of IPA respondents selecting economy as a top source of FDI)



Source: UNCTAD survey.
Note: Based on responses from 80 IPAs.

Figure I.28. TNCs' top prospective host economies for 2014–2016
(Percentage of respondents selecting economy as a top destination, (x)=2013 ranking)



Source: UNCTAD survey.
Note: Based on responses from 164 companies.

C. TRENDS IN INTERNATIONAL PRODUCTION

International production continued to gain strength in 2013, with all indicators of foreign affiliate activity rising, albeit at different growth rates (table I.9). Sales rose the most, by 9.4 per cent, mainly driven by relatively high economic growth and consumption in developing and transition economies. The growth rate of 7.9 per cent in foreign assets reflects the strong performance of stock markets and, indeed, is in line with the growth rate of FDI outward stock. Employment and value added of foreign affiliates grew at about the same rate as FDI outflows – 5 per cent – while exports of foreign affiliates registered only a small increase of 2.5 per cent. For foreign employment, the 5 per cent growth rate represents a positive trend, consolidating the increase in 2012 following some years of stagnation in the growth of the workforce, both foreign and national. By contrast, a 5.8 per cent growth rate for value added represents a slower trend since 2011, when value added rebounded after the financial crisis. These patterns suggest that international production is growing more slowly than before the crisis.

Cash holdings for the top 5,000 TNCs remained high in 2013, accounting for more than 11 per cent of their total assets (figure I.29), a level similar to 2010, in the immediate aftermath of the crisis. At the end of 2013, the top TNCs from developed economies had cash holdings, including short-term investments, estimated at $3.5 trillion, compared with roughly $1.0 trillion for firms from developing and transition economies. However, while developing-country TNCs have held their cash-to-assets ratios relatively constant over time at about 12 per cent, developed-country TNCs have increased their ratios since the crisis, from an average of 9 per cent in 2006–2008 to more than 11 per cent in 2010, and they maintained that ratio through 2013. This shift may reflect the greater risk aversion of developed-economy corporations, which are adopting cash holding ratios similar to the ones prevalent in the developing world. Taking the average cash-to-assets ratio in 2006–2008 as a benchmark, developed-country TNCs in 2013 had an estimated additional amount of cash holdings of $670 billion.

Given the easy access to finance enjoyed by large firms, partly thanks to the intervention of central banks in the aftermath of the crisis, financial constraints might not be the only reason for the slow recovery of investments. However, easy money measures did not lead to a full recovery of debt financing to its pre-crisis level (figure I.30); in 2013, net debt issuance amounted to just under $500 billion, almost a third less than the level in 2008. At the same time, corporations did increase share buy-backs and dividend payments, producing total cash outflows of about $1 trillion in 2013. Two factors underlie this behaviour: on the one hand, corporations are repaying debt and rewarding their shareholders to achieve greater stability in an economic environment still perceived as uncertain, and on the other hand, depending in which industry they operate, they are adopting a very cautious attitude toward investment because of weak demand.

Figure I.30 shows sources and uses of cash at an aggregate level for the biggest public TNCs, which hides important industry-specific dynamics. In fact, overall capital expenditures (for both domestic and foreign activities) have increased in absolute terms over the last three years; at the same time, expenditures for acquisition of business have decreased. However, there are wide differences across industries. TNCs in the oil and gas, telecommunications and utilities industries all significantly increased their expenditures (capital expenditures plus acquisitions), especially in 2013. In contrast, investments in industries such as consumer goods, and industrials (defined as transport, aerospace and defence, and electronic and electrical equipment) fell after the crisis and have remained low. This is largely consistent with the level of cash holdings observed by industry. These industries accumulated cash holdings of $440 billion and $511 billion between the pre-crisis period and 2013 (figure I.31). This represents a jump of more than three and two percentage points, respectively, to 12.8 and 11.5 per cent. This suggests that the companies operating in these industries are the ones most affected by the slow

Table I.9. Selected indicators of FDI and international production, 2013 and selected years

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2011	2012	2013
FDI inflows	208	1 493	1 700	1 330	1 452
FDI outflows	241	1 532	1 712	1 347	1 411
FDI inward stock	2 078	14 790	21 117	23 304	25 464
FDI outward stock	2 088	15 884	21 913	23 916	26 313
Income on inward FDI [a]	79	1 072	1 603	1 581	1 748
Rate of return on inward FDI [b]	3.8	7.3	6.9	7.6	6.8
Income on outward FDI [a]	126	1 135	1 550	1 509	1 622
Rate of return on outward FDI [b]	6.0	7.2	6.5	7.1	6.3
Cross-border M&As	111	780	556	332	349
Sales of foreign affiliates	4 723	21 469	28 516	31 532[c]	34 508[c]
Value-added (product) of foreign affiliates	881	4 878	6 262	7 089[c]	7 492[c]
Total assets of foreign affiliates	3 893	42 179	83 754	89 568[c]	96 625[c]
Exports of foreign affiliates	1 498	5 012[d]	7 463[d]	7 532[d]	7 721[d]
Employment by foreign affiliates (thousands)	20 625	53 306	63 416	67 155[c]	70 726[c]
Memorandum:					
GDP	22 327	51 288	71 314	72 807	74 284
Gross fixed capital formation	5 072	11 801	16 498	17 171	17 673
Royalties and licence fee receipts	29	161	250	253	259
Exports of goods and services	4 107	15 034	22 386	22 593[e]	23 160[e]

Source: UNCTAD.

[a] Based on data from 179 countries for income on inward FDI and 145 countries for income on outward FDI in 2013, in both cases representing more than 90 per cent of global inward and outward stocks.

[b] Calculated only for countries with both FDI income and stock data.

[c] Data for 2012 and 2013 are estimated using a fixed effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2010.

[d] Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994. For 1998–2013, the share of exports of foreign affiliates in world exports in 1998 (33.3 per cent) was applied to obtain values.

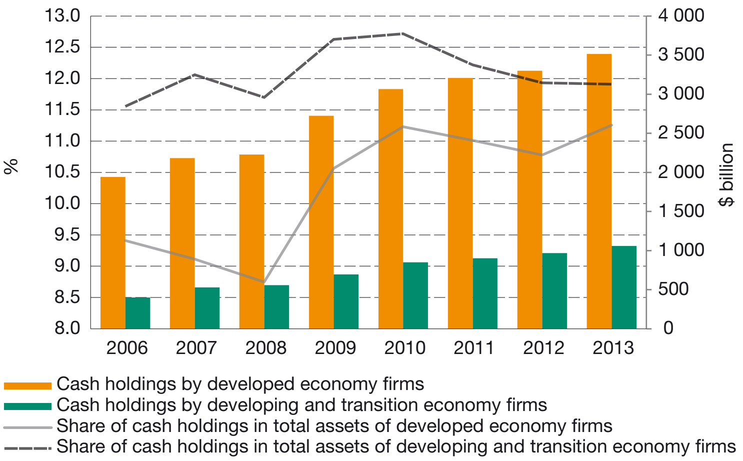
[e] Data from IMF, *World Economic Outlook*, April 2014.

Note: Not included in this table are the values of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from Australia, Austria, Belgium, Canada, the Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden, and the United States for sales; those from the Czech Republic, France, Israel, Japan, Portugal, Slovenia, Sweden, and the United States for value added (product); those from Austria, Germany, Japan and the United States for assets; those from the Czech Republic, Japan, Portugal, Slovenia, Sweden, and the United States for exports; and those from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland, and the United States for employment, on the basis of three-year average shares of those countries in worldwide outward FDI stock.

economic recovery and related persistent demand slack in developed countries.

The other industries with bulging cash holdings are computer services and software (here represented by technology), which in 2013 saw an increase in cash holdings of $319 billion over the pre-crisis level (figure I.31). On the one hand, firms with more growth opportunities and with high R&D expenditures have higher cash holdings than the average because returns on research activities are highly risky and unpredictable; hence firms prefer to rely on cash generated in-house rather than on external resources. On the other hand, these technology industries – as well as health care industries – often move intellectual property and drug patents to low-tax jurisdictions, letting earnings from those assets pile up offshore to avoid paying high home taxes. This adds significantly to corporate cash stockpiles.

Figure I.29. Cash holdings of top 5,000 TNCs and their share in total assets, 2006–2013



Source: UNCTAD, based on data from Thomson ONE.
Note: Data based on records of 5,309 companies of which 3,472 were in developed countries. These do not include non-listed companies such as many developing country SO-TNCs.

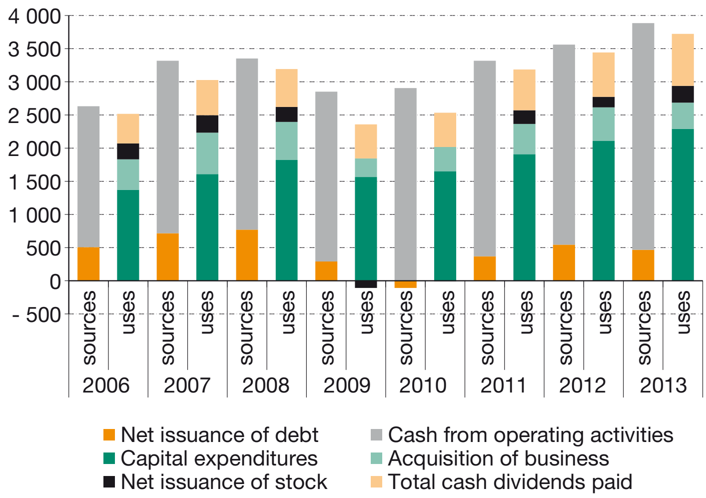
For example, Apple (United States) has added $103 billion to its cash holdings since 2009. Other United States corporations in these industries such as Microsoft, Google, Cisco Systems and Pfizer, are all holding record-high cash reserves.

The cash-to-assets ratios in these industries are thus normally much higher and have also increased the most over the years, from 22 to 26 per cent for technology and from 15 to 16 per cent for health care. By contrast, oil and gas production, basic materials, utilities and telecommunications are the industries in which cash holdings have been low during the period considered (with an average cash-to-assets ratio of 6–8 per cent). In the oil and gas industry, not only have large investments been made in past years, but United States oil and gas production and capital spending on that production have continued to rise, boosted by the shale gas revolution. Similarly, big investments have been required in telecommunications (e.g. 4G wireless networks, advanced television and internet services).

The degree of internationalization of the world's largest TNCs remained flat. Data for the top 100 TNCs, most of them from developed economies, show that their domestic production – as measured by domestic assets, sales and employment – grew faster than their foreign production. In particular, their ratio of foreign to total employment fell for the second consecutive year (table I.10). Lower internationalization may be partly explained by onshoring and relocation of production to home countries by these TNCs *(WIR13).*

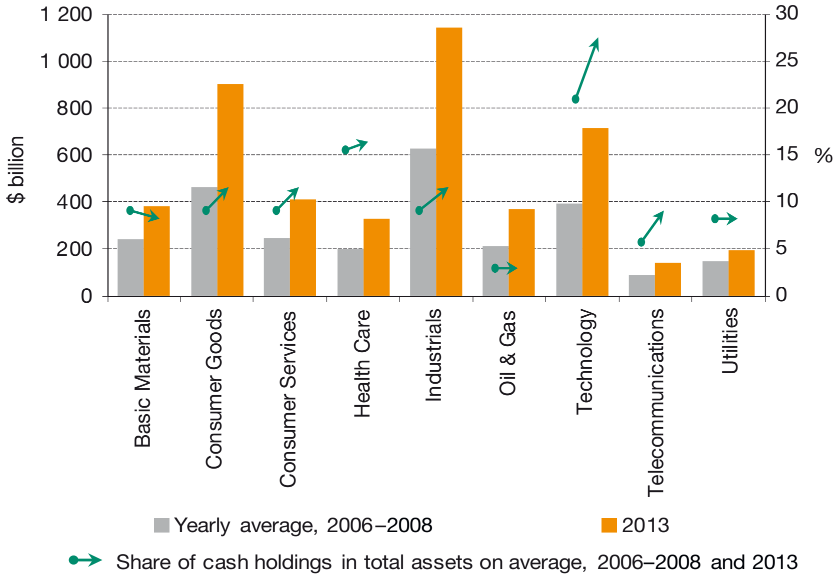
Similarly, the internationalization level of the largest 100 TNCs domiciled in developing and transition economies remained stable. However, this was not due to divestments or relocation of international businesses, but to larger domestic investment. Thus, while the foreign assets of TNCs from these economies rose 14 per cent in 2012 – faster than the rate of the world's largest 100 TNCs – the rise was similar to the increase in domestic

Figure I.30. Top 5,000 TNCs: major cash sources and uses, 2006–2013
(Billions of dollars)



Source: UNCTAD, based on data from Thomson ONE.
Note: Based on records of 5,108 companies, of which 3,365 were in developed countries. Both domestic and foreign activities are covered. These companies do not include non-listed companies such as SOEs.

Figure I.31. Cash holdings and their ratio to total assets, top 5,000 TNCs, by industry, 2006–2008 and 2013
(Billions of dollars and per cent)



Source: UNCTAD, based on data from Thomson ONE.
Note: Data based on records of 5,309 companies, of which 3,472 were in developed countries.

Table I.10. Internationalization statistics of the 100 largest non-financial TNCs worldwide and from developing and transition economies
(Billions of dollars, thousands of employees and per cent)

Variable	100 largest TNCs worldwide					100 largest TNCs from developing and transition economies		
	2011	2012 [a]	2011–2012 % Change	2013 [b]	2012–2013 % Change	2011	2012	% Change
Assets								
Foreign	7 634	7 888	3	8 035	2	1 321	1 506	14
Domestic	4 897	5 435	11	5 620	3	3 561	4 025	13
Total	12 531	13 323	6	13 656	2	4 882	5 531	13
Foreign as % of total	61	59	-2[c]	59	0[c]	27	27	0[c]
Sales								
Foreign	5 783	5 900	2	6 057	3	1 650	1 690	2
Domestic	3 045	3 055	0	3 264	7	1 831	2 172	19
Total	8 827	8 955	1	9 321	4	3 481	3 863	11
Foreign as % of total	66	66	0[c]	65	-1[c]	47	44	-4[c]
Employment								
Foreign	9 911	9 821	-1	9 810	0	3 979	4 103	3
Domestic	6 585	7 125	8	7 482	5	6 218	6 493	4
Total	16 496	16 946	3	17 292	2	10 197	10 596	4
Foreign as % of total	60	58	-2[c]	57	-1[c]	39	39	0[c]

Source: UNCTAD.
[a] Revised results.
[b] Preliminary results.
[c] In percentage points.
Note: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year to 31 March of the following year. Complete 2013 data for the 100 largest TNCs from developing and transition economies are not yet available.

assets (13 per cent) (table I.10). The growth of sales and foreign employment at home outpaced foreign sales. In particular, the 19 per cent growth in domestic sales demonstrates the strength of developing and transition economies.

Notes

1 Greenfield investment projects data refer to announced ones. The value of a greenfield investment project indicates the capital expenditure planned by the investor at the time of the announcement. Data can be substantially different from the official FDI data as companies can raise capital locally and phase their investments over time, and the project may be cancelled or may not start in the year when it is announced.

2 United States Energy Information Administration.

3 United States natural gas prices dropped from nearly $13 per MMBtu (million British thermal units) in 2008 to $4 per MMBtu in 2013 (two to three times lower than European gas prices and four times lower than Japanese prices for liquefied natural gas).

4 According to UNCTAD database, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

5 Both United States and foreign companies benefit from these deals. United States operators get financial support, while foreign companies gain experience in horizontal drilling and hydraulic fracturing that may be transferable to other regions. Most of the foreign investment in these joint ventures involves buying a percentage of the host company's shale acreages through an upfront cash payment with a commitment to cover a portion of the drilling cost. Foreign investors in joint ventures pay upfront cash and commit to cover the cost of drilling extra wells within an agreed-upon time frame, usually between 2 and 10 years.

6 American Chemical Council, "Shale Gas Competitiveness, and new US chemical industry investment: an analysis based on announced projects", May 2013.

7 As examples, South African Sasol is investing some $20 billion in Louisiana plants that turn gas into plastic, in the largest-ever manufacturing project by a foreign direct investor in the United States; Formosa Plastics from Taiwan Province of China plans two new factories in Texas to make ethylene and propylene, key components in the manufacture of plastics and carpets; EuroChem, a Russian company that makes fertilizers, is building an ammonia plant in Louisiana, where proximity to the Mississippi River provides easy access to Midwest farms. Recently the CEO of Saudi Basic Industries Corporation (SABIC), the world's biggest petrochemicals maker by market value, disclosed company plans to enter the United States shale market.

8 The potential sharp decline in revenues as a firm's patents on one or more leading products expire from the consequent opening up of the market to generic alternatives.

9 Innovation used to drive this industry, but outsourcing of R&D activities has become one of the key industry trends in the past decade as a result of big TNCs shifting their R&D efforts in the face of patent cliffs and cost pressures (IMAP, *Global Pharma & Biotech M&A Report 2014*, www.imap.com, accessed on 2 April 2014).

10 "India approves $1.6bn acquisition of Agila Specialties by Mylan", 4 September 2014, www.ft.com.

11 "Pharma & biotech stock outlook – Dec 2013 – industry outlook", 3 December 2013, www.nasdaq.com.

12 "Big pharma deals are back on the agenda", *Financial Times,* 22 April 2014.

13 In the absence of global FDI data specific to the pharmaceutical industry, trends in cross-border M&A deals and greenfield FDI projects are used to represent the global FDI trends in this industry. Subindustries included in M&A deals are the manufacture of pharmaceuticals, medicinal chemical products, botanical products and biological products. In greenfield FDI projects, pharmaceuticals and biotechnology.

14 In the United States, FDI inflows to this industry represented about one quarter of manufacturing FDI in 2010–2012 ("Foreign direct investment in the United States", 23 October 2013, www.whitehouse.gov).

15 For the period 2003–2013, the number of greenfield FDI projects was between 200 and 290, with an annual average of 244, while that of cross-border M&As was between 170 and 280, with an annual average of 234.

16 PwC (2014), *Pharmaceutical and Life Science Deals Insights Quarterly*, quoted in "Strong Q4 pharmaceutical & life sciences M&A momentum expected to continue into 2014, according to PwC" (PwCUS, press release, 10 February 2014).

17 "Why did one of the world's largest generic drug makers exit China?", *Forbes*, 3 February 2014, www.forbes.com.

18 The largest deals reported in the first quarter of 2014 were a $4.3 billion acquisition of Bristol-Myers Squibb (United States) by AstraZeneca (United Kingdom) through its Swedish affiliate, followed by a $4.2 billion merger between Shire (Ireland) and ViroPharma (United States).

19 Among them, the largest so far was a bid made by Pfizer (United States) for AstraZeneca (United Kingdom) (table I.8). Even though Pfizer walked away, AstraZeneca may look for another merger option with a smaller United States company ("Big pharma deals are back on the agenda", *Financial Times,* 22 April 2014).

20 "Corporate takeovers: Return of the big deal", *The Economist*, 3 May 2014.

21 In 2008, no information on transaction value was available for transition economies.

22 Daiichi Sankyo plans to divest in 2014.

23 Abbott Laboratories (United States) acquired the Healthcare Solutions business of Piramal Healthcare (India). In transition economies, only $7 million was recorded in 2010.

24 The largest deal was a $1.9 billion acquisition of Agila Specialties, a Bangalore-based manufacturer of pharmaceuticals, from Strides Arcolab (United States) by Mylan (United States).

25 When deals in biological products are excluded, the share of developing and transition economies in 2013 exceeded 30 per cent.

26 GlaxoSmithKline (United Kingdom) has announced plans to invest over $200 million in sub-Saharan Africa in the next five years to expand its existing manufacturing capacities in Kenya, Nigeria and South Africa and to build new factories in Ethiopia, Ghana and/or Rwanda, as well as the world's first open-access R&D laboratory for non-communicable diseases in Africa, creating 500 new jobs ("Drugmaker GSK to invest $200 mln in African factories, R&D", 31 March 2014, www.reuters.com).

27 "The world of pharma in 2014 – serialization, regulations, and rising API costs", 23 January 2014, www.thesmartcube.com.

28 IMAP, *Global Pharma & Biotech M&A Report 2014,* www.imap.com, accessed on 2 April 2014.

29 For example, "Low-Cost Drugs in Poor Nations Get a Lift in Indian Court", *The New York Times*, 1 April 2013.

30 See, for example, "What does Mylan get for $1.6 billion? A vaccine maker with a troubled factory", 24 September 2013, www.forbes.com; "US drug regulator slams poor maintenance of Ranbaxy plant", 27 January 2014, http://indiatoday.intoday.in.

31 See UNCTAD (2013a) for details.

32 Data on the world's top 250 retailers show that these companies receive about one quarter of their revenues from abroad (Deloitte, 2013).

33 Laurie Burkitt and Shelly Banjo, "Wal-Mart Takes a Pause in China ", *Wall Street Journal*, 16 October 2013.

34 Reuters, "Carrefour sells stake in Middle East venture for $683m", *Al Arabiya News*, 22 May 2013.

35 In 2011, for example, Aldi (Germany) took over Walgreen's and Home Depot in the United States.

36 Latin American Private Equity & Venture Capital Association, as quoted in "LatAm investment hit six-year high", Private Equity International, 20 February 2014, and "PE drives LatAM infrastructure", 16 December 2013, Financial Times.

37 European Central Bank, *2013 SMEs' Access to Finance Survey*, http://ec.europa.eu.

38 Forecast by Cushman & Wakefield.

39 As reported in an interview with the managing director of Kazanah: "We have a mandate to 'crowd-in' and catalyze some parts of the economy, hence we tend to find our natural home in those areas where there is a strategic benefit, perhaps in providing an essential service or key infrastructure, and where there are high barriers to entry for the private sector, inter alia very long investment horizons or large balance sheet requirements."

40 Available at http://blogs.cfainstitute.org/investor/2013/07/30/malaysias-khazanah-not-just-a-swf-but-a-nation-building-institution/.

41 In UNCTAD's definition, SO-TNCs are TNCs that are at least 10 per cent owned by the State or public entities, or in which the State or public entity is the largest shareholder or has a "golden share".

42 UNCTAD has revamped the SO-TNC database by strictly applying its definition, thereby shortening the list of SO-TNCs. In addition, some majority privately owned TNCs, in which the State has acquired a considerable share through financial investment, are no longer considered State-owned. See, e.g., Karl P. Sauvant and Jonathan Strauss, "State-controlled entities control nearly US$ 2 trillion in foreign assets", *Columbia FDI Perspectives*, No. 64 April 2, 2012.

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