UNITED NATIONS

UNCTAD
Global Investment Trends Monitor
No. 2

Global and Regional FDI Trends in 2009*

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HIGHLIGHTS

Annual trends: there was a decrease of 39% in global FDI flows in 2009, which impacted on all countries and FDI components.

- Global inflows of foreign direct investment (FDI) fell by 39% from US$1.7 trillion in 2008 to a little over US$1.0 trillion in 2009, based on UNCTAD estimates.
- The decline in FDI was widespread across all major groups of economies. After experiencing a severe fall in 2008, FDI flows to developed countries continued their dramatic decline in 2009 (by a further 41%). FDI flows to developing and transition economies, which had risen in 2008, declined in 2009 (by 35% and 39%, respectively), as the impact of the global financial and economic crisis continued to unfold.
- All components of FDI – equity capital, reinvested earnings and other capital flows (mainly intra-company loans) – were affected by the downturn. However, the decrease was especially marked for equity capital flows, which are most directly related to transnational corporations' (TNCs) longer-term investments strategies.
- Regarding the mode of entry, cross-border mergers and acquisitions (M&As) were the most affected, with a 66% decrease in 2009 as compared to 2008. The number of international greenfield projects also declined markedly, though to a much lesser degree (-23%).

Quarterly profile: FDI flows remained relatively stable during the third quarter of 2009, but at a low level. No pick up was detected in the fourth quarter.

- After a sharp fall in the first quarter of the 2009, followed by a slight rebound in the second quarter, FDI flows in the third quarter remained relatively stable. UNCTAD's Global FDI Quarterly Index declined only slightly, from 113 to 111 (see table below).
- However, when compared to the corresponding quarter of 2008, global FDI flows in 2009 remained much lower. The Global FDI Quarterly Index in the third quarter in 2009 was 36 points lower than the level in the previous year.
- Initial indicators for the fourth quarter of 2009 show no signs of a pick up in FDI flows. Global cross-border M&As, which are highly correlated with FDI equity capital flows, plunged in the fourth quarter of 2009 after several quarters of marginal improvement.
- Nevertheless, it is still likely that a modest rebound in flows will take place in 2010, as investment conditions are improving in many countries.

Table 1.
Global FDI Quarterly Index
(2005 = 100)

2008 Q1	211.0
2008 Q2	158.1
2008 Q3	147.1
2008 Q4	139.8
2009 Q1	65.1
2009 Q2	113.4
2009 Q3	110.8

Global FDI flows in 2009 down by 39%, to about US$1.0 trillion

The decline of FDI was widespread, affecting all three major groups of economies: developed, developing and transition. Of the major host economies there were only a few exceptions to this general decline (table 2). Sharp declines were recorded in all constituent components of FDI during the year.

Table 2. FDI inflows and cross-border M&As, by region and major economy, 2008–2009

(Billions of dollars)

Region/economy	FDI inflows 2008	FDI inflows 2009 [a]	FDI inflows Growth rate (%)	Cross-border M&As 2008	Cross-border M&As 2009	Cross-border M&As Growth rate (%)
World	**1 697.4**	**1 040.3**	***- 38.7***	**706.5**	**239.9**	***- 66.0***
Developed economies	**962.3**	**565.6**	***- 41.2***	**581.4**	**195.4**	***- 66.4***
Europe	518.3	373.5	*- 27.9*	273.3	127.1	*- 53.5*
European Union	503.5	356.7	*- 29.2*	251.2	109.6	*- 56.4*
Austria	13.6	9.8	*- 27.8*	1.3	1.8	*35.4*
Belgium	59.7	35.1	*- 41.2*	2.5	12.1	*385.3*
Czech Republic	10.7	4.0	*- 63.0*	5.2	2.7	*- 48.4*
Denmark	10.9	11.3	*3.2*	6.1	1.6	*- 74.3*
Finland	- 4.2	3.0	..	1.2	0.5	*- 55.9*
France	100.7	65.0	*- 35.5*	4.6	1.3	*- 72.4*
Germany	24.9	35.1	*40.7*	31.9	2.4	*- 92.6*
Hungary	6.5	- 4.2	*- 165.2*	1.6	1.9	*18.7*
Ireland	- 20.0	14.0	..	2.9	1.4	*- 50.5*
Italy	17.0	29.9	*75.5*	-2.4	1.1	..
Netherlands	- 3.5	37.8	..	-8.2	22.6	..
Poland	16.5	13.4	*- 19.2*	1.0	0.5	*- 51.6*
Romania	13.3	6.1	*- 54.4*	1.0	0.0	*- 97.7*
Spain	65.5	25.8	*- 60.6*	33.7	31.5	*- 6.6*
Sweden	43.7	15.5	*- 64.4*	18.8	1.0	*- 94.5*
United Kingdom	96.9	7.0	*- 92.7*	147.7	24.9	*- 83.2*
United States	316.1	135.9	*- 57.0*	227.4	39.9	*- 82.5*
Japan	24.4	11.4	*- 53.4*	9.3	-5.9	*- 163.5*
Developing economies	**620.7**	**405.5**	***- 34.7***	**104.8**	**37.7**	***- 64.0***
Africa	*87.6*	*55.9*	*- 36.2*	21.2	5.7	*- 73.1*
Egypt	9.5	8.2	*- 13.9*	15.9	1.6	*- 90.2*
Morocco	2.4	1.0	*- 56.6*	-0.1	0.3	..
South Africa	9.0	6.8	*- 24.6*	6.7	4.2	*- 36.9*
Latin America and the Caribbean	*144.4*	*85.5*	*- 40.7*	15.5	-4.4	*- 128.5*
Argentina	8.9	5.1	*- 42.7*	-3.3	0.1	..
Brazil	45.1	22.8	*- 49.5*	7.6	-1.4	*- 118.2*
Chile	16.8	12.9	*- 23.0*	3.2	0.8	*- 74.5*
Colombia	10.6	8.6	*- 18.6*	-0.1	-1.6	..
Mexico	21.9	13.0	*- 40.8*	2.3	0.1	*- 95.6*
Peru	4.8	6.2	*28.1*	0.3	0.0	*- 86.9*
Asia and Oceania	*388.7*	*264.1*	*- 32.1*	68.2	36.5	*- 46.5*
West Asia	90.3	51.3	*- 43.1*	16.3	2.3	*- 85.9*
Turkey	18.2	7.9	*- 56.3*	13.2	1.6	*- 87.7*
South, East and South-East Asia	297.6	202.8	*- 31.8*	52.6	34.1	*- 35.1*
China	92.4 [b]	90.0 [b]	*- 2.6*	5.4	11.2	*108.5*
Hong Kong, China	63.0	36.0	*- 42.8*	8.7	2.1	*- 75.3*
India	41.6	33.6	*- 19.0*	10.4	6.2	*- 40.5*
Indonesia	7.9	5.1	*- 36.0*	2.1	1.3	*- 34.9*
Malaysia	8.1	2.7	*- 66.6*	2.8	0.2	*- 93.0*
Singapore	22.7	18.3	*- 19.5*	14.2	9.7	*- 32.1*
Thailand	10.1	4.6	*- 54.3*	0.1	0.3	*142.4*
South-East Europe and the CIS	**114.4**	**69.3**	***- 39.4***	**20.3**	**6.8**	***- 66.6***
Russian Federation	70.3	41.4	*- 41.1*	13.5	5.0	*- 62.6*
Ukraine	10.7	4.8	*- 55.2*	5.9	0.2	*- 97.0*

Source: UNCTAD.

[a] Preliminary estimates.

[b] Not including finance..

Note: World FDI inflows are projected on the basis of 153 economies for which data are available for part of 2009 as of 7 January 2010. Data are estimated by annualizing their available data, in most cases the first two and three quarters of 2009. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2008 is used to extrapolate the 2009 data.

Against the background of the drastic FDI decline, most countries have refrained from investment protectionism but implemented policy changes aimed at further liberalizing and facilitating FDI entry and operations. However, increasing policy slippage in the trade area is exerting an impact on FDI and the global operations of TNCs (see ***UNCTAD's Investment Policy Monitor***).

Developed countries: a further slump

UNCTAD estimates show that FDI flows to developed countries continued to fall in 2009, declining roughly 41% compared to the previous year. FDI inflows declined sharply in the United States, the United Kingdom, Spain, France and Sweden (table 2). The fall in inflows to the United States reflects the strong decline – in both number and size – of M&A transactions made by foreign firms from major home countries, which themselves were suffering from the consequences of the economic slowdown. The combination of falling profits – which pushed reinvested earnings downwards – and a re-channelling of loans from foreign affiliates back to their headquarters, contributed to a fall in FDI flows to many countries in the European Union. Japan's decline can be attributed, in part, to the sale of a large foreign affiliate (Nikko Cordial Securities) to local companies. A drop in leveraged buyout transactions by private-equity funds from many countries served to further dampen cross-border M&As sales which, in turn, further depressed FDI flows in developed countries.

Flows to developing countries: the end of six years of growth

As the impact of the global financial crisis on FDI unfolded relentlessly, inflows to developing countries declined by 35% in 2009, after six years of uninterrupted growth. Shrinking corporate profits and plummeting stock prices have greatly diminished the value of, and scope for, cross-border M&As globally – an increasingly important mode of FDI entry into developing countries.

Africa saw inflows fall roughly 36% in 2009 after the peak year of 2008. This decline is a matter of concern as FDI is a major contributor to the continent's capital formation: indeed, the share of FDI flows in gross fixed capital formation was as high as 29% in 2008. Furthermore, FDI flows to Africa's 33 least developed countries (LDCs) suffered a major decrease in 2009 due to a crisis-induced lull in the global demand for commodities, which is a major driver for FDI in these economies. The cancellation of some cross-border M&A deals, combined with the absence of any exceptionally large one-off acquisitions, depressed the value of cross-border M&A operations in Africa during 2009 compared to the previous year.

In **South, East and South-East Asia**, the upward trend which lasted for six years came to an end, as the region experienced its worst downturn since the Asian crisis of the late 1990s. This downturn reduced FDI flows across the region to US$203 billion in 2009, an estimated decline of 32% over 2008. In particular, falling external demand for Chinese- and Indian-made goods and services has caused foreign companies to cut back on their investment plans in these two large countries. The severity of FDI falls however varied by country, depending on the structure of their economies, the effectiveness of policy responses to the crisis and the strength of the subsequent economic recovery. In addition, as the region leads the rebound in global consumer and business confidence, FDI stopped declining in a number of countries, such as China, in the latter half of 2009.

In **West Asia**, the worsening regional and global economic outlook, together with frozen global credit markets, has negatively impacted the financing of mega development projects in the oil-rich countries of the region. This, coupled with plummeting cross-border M&A activities and decreased intra-regional FDI flows, resulted in a 43% decline in FDI flows to the region during 2009, to US$51 billion, as compared to the previous year.

In **Latin America and the Caribbean**, preliminary estimates point to a nearly 41% decrease (to US$86 billion) of inflows in 2009. Both subregions – South America, and Central America and the Caribbean – experienced a sharp decline in FDI flows during the year. A large number of divestments of foreign affiliates to local owners impacted on the overall level of cross-border M&As. FDI to Brazil, which is a significant FDI recipient, declined by 49%; but the country remained the region's top FDI destination with inflows reaching US$23 billion. Flows to Mexico, the region's second-largest recipient, registered a 41% plunge to US$13 billion.

Transition economies: no exception

FDI flows to the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) slumped by 39% during 2009. In South-East Europe, the economic and financial crisis, coupled with the near-exhaustion of major privatization opportunities and the structural weakness of their economies, were major contributing factors. For the CIS, the combination of a significant slowdown in economic growth and a deterioration in demand for, and the price of, major export commodities significantly affected FDI flows into natural-resource-abundant countries.

All FDI components and modes of entry were affected

The FDI downturn of 2009 manifested itself in all three components of FDI flows. Reinvested earnings, normally a relatively stable component, were squeezed by falling TNC profits at the end of 2008 and the beginning of 2009 – though they showed some signs of recovery in the latter half of the year. Intra-company loans also went through a decline. These falls paled, however, compared to those witnessed in equity investment, largely reflecting the lower propensity of TNCs' ability to invest, especially abroad, against the backdrop of the economic and financial crisis.

All types of equity investment were affected by this decline. The most dramatic fall was observed in cross-border M&As, the value of which declined by 66% over the year, reflecting both the shrinking value of assets on the stock market and the lower financial capability of potential buyers to carry out such operations. The number of international greenfield projects also declined markedly (by 23%) due to the cancellation of many operations and the downsizing of international expansion programmes.

Quarterly profile: FDI flows remain sluggish in the second half of 2009

The sharp decline in global FDI flows estimated for 2009 is also apparent in quarterly flows data. After a sharp fall in the first quarter of the year and a slight rebound in the second quarter,[1] flows in the third quarter dipped only slightly – though they were still significantly below the previous year's levels. Initial indicators for the fourth quarter, especially the value of cross-border M&As, do not suggest a solid rebound in the second-half of the year.

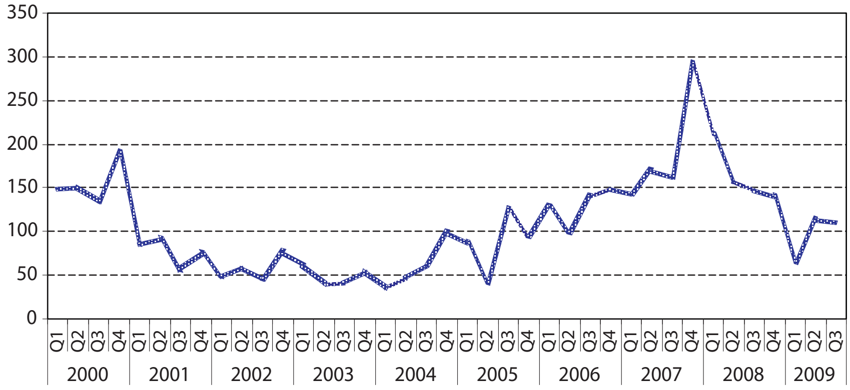
Stagnation in FDI inflows during the third quarter

Global FDI flows in the third quarter remained practically unchanged from the previous quarter. UNCTAD's Global FDI Quarterly Index (see box on the UNCTAD Global Investment Trends Monitor) slightly declined, dropping roughly 2.5 points (from 113.4 to 110.8) between quarters (figure 1). The index therefore remains at a quite low level, as compared to the values observed prior to the crisis: 36 points lower than in the same period of 2008, and 182 points lower than the all-time record reached in the 4th quarter of 2007.

This sluggishness in flows was aggravated by the fact that among the three

[1] For details, see UNCTAD *Global Investment Trends Monitor*, No.1, 1 December 2009 (http://www.unctad.org/en/docs/webdiaeia200910_en.pdf).

Figure 1. Global FDI Quarterly Index, 2000 Q1–2009 Q3
(Base 100: quarterly average of 2005)



Source: UNCTAD.

major components of FDI flows, equity investment – the one most directly related to TNCs' long-term investments strategies – failed to shift from its already low second quarter level.[2] This suggests that companies remained very cautious about their international expansion programmes during the 3rd quarter. In contrast, reinvested earnings showed initial signs of rebounding from their extremely low second quarter levels, reflecting overall economic improvements in the third quarter in major host countries. Other capital flows – mainly highly volatile intra-company loans – decreased slightly.[3]

On a geographical basis, there were marked increases in third quarter flows to Canada, the Netherlands, Norway, the United Kingdom and the United States; whereas flows to Belgium, Hong-Kong (China) and Spain decreased significantly.

UNCTAD *Global Investment Trends Monitor*

The *Global Investment Trends Monitor* is released every quarter of the year (in mid-January, mid-April, mid-July and mid-October). In order to present global investment trends clearly, with a view to user requirements, UNCTAD has developed the *Global FDI Quarterly Index*. This index is based on quarterly data of FDI inflows for 67 countries,[a] which together account for roughly 90% of global flows. The index has been calculated from the year 2000 onwards, and calibrated such that the average of quarterly flows in 2005 is equivalent to 100.

[a] For the list of countries, see the first issue of the *Global Investment Trends Monitor*, 1 December 2009 (http://www.unctad.org/en/docs/webdiaeia200910_en.pdf).

Fourth quarter of 2009: no robust rebound in FDI anticipated

Initial indicators for the fourth quarter underscore that a steady recovery of FDI growth may not yet be underway.

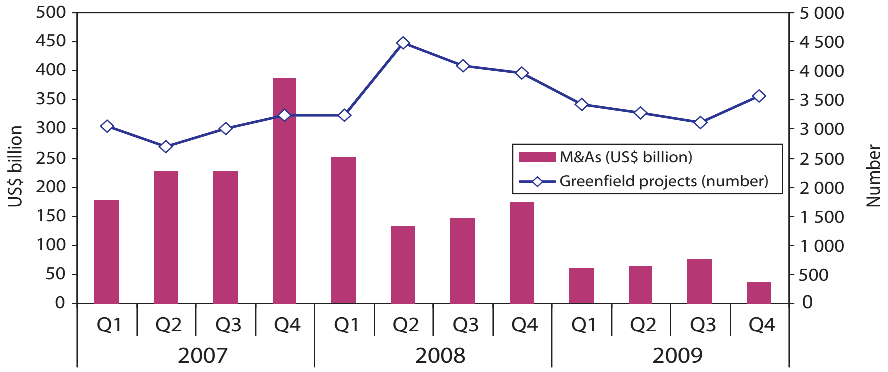
In particular, global cross-border M&As during the fourth quarter reverted from the previous upward trajectory, falling markedly from the low, but improved, level of activity observed during the third quarter (figure 2). The number of large deals remained practically unchanged at a modest level: 10 cross-border M&As with a value of more than $3 billion were undertaken during the fourth quarter of 2009, as compared to 9 during the previous quarter (annex table).

International greenfield investments – another indicator of FDI activity – remained much lower than during the same period of 2008 (figure 2), although they showed a slight pick up during the fourth quarter.

Based on these initial indications, and also on monthly data on FDI inflows available for some countries, FDI flows during the fourth quarter of 2009 are expected to show little increase as compared to the level in the third quarter and, as a consequence, remain far lower than those for the same period in 2008.

[2] A decline of 12% for the countries for which such component data are available.
[3] A decline of 8% for the countries for which such component data are available.

Figure 2. Cross-border M&A sales and international greenfield projects, 2007 Q1 - 2009 Q4



Source: UNCTAD, 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 on greenfield projects for 2009:Q4 are estimates based on available figures for October and November.

Modest recovery expected in 2010

Nevertheless, a number of macroeconomic indicators signal that the overall environment for international investment is slowly improving. For instance, the International Monetary Fund's latest *World Economic Outlook*, released last October, forecasts a 3.1% growth in world gross domestic product for 2010, as against -1.1% in 2009. At the company level, profits of TNCs worldwide have been rising since the second quarter of 2009, thus reversing the sharp drop observed at the end of 2008. According to Standard and Poors, profits made by the firms that make up the S&P 500 bounced back as early as the second quarter of 2009, to levels equivalent to those of the same period of the previous year.

Improving conditions will ultimately encourage companies to revise upward their international investment plans for 2010 onward, which in turn should give rise to growing FDI flows in 2010. However, as the recovery in economic growth and profits remains fragile, especially because it has been boosted by the potentially transitory impact of special economic packages implemented by major economies, the recovery in FDI is expected to be modest. Nevertheless, as reported in UNCTAD's *World Investment Report 2009*, overall medium-term prospects remain positive.

The next issue of the *UNCTAD Global Investment Trends Monitor* will be released in mid-April 2010.

Annex 1. Major cross-border M&As in 2009

(Value of more than United States $3 billion)

Acquired company	Host economy [a]	Industry of acquired company	Acquiring company	Home economy [a]	Transaction value (US$ million)
		1st quarter			
Genentech Inc	United States	Biological products, except diagnostic substances	Roche Holding AG	Switzerland	46 695
British Energy Group PLC	United Kingdom	Electric services	Lake Acquisitions Ltd	United Kingdom	16 938
Puget Energy Inc	United States	Electric services	Padua Holdings LLC	United States	6 713
Somerfield Stores Ltd	United Kingdom	Grocery stores	Co-operative Group Ltd	United Kingdom	3 127
Total transaction value					**73 473**
		2nd quarter			
Endesa SA	Spain	Electric services	Enel SpA	Italy	13 470
Fortis Bank SA/NV	Belgium	Banks	BNP Paribas SA	France	12 765
Itinere Infraestructuras SA	Spain	Highway and street construction	Pear Acquisition Corporation SL	Spain	7 927
Distrigaz SA	Belgium	Natural gas transmission and distribution	ENI G&P Belgium SpA	Belgium	3 174
Total transaction value					**37 337**
		3rd quarter			
Nuon NV	Netherlands	Electric services	Vattenfall AB	Sweden	10 796
Essent NV	Netherlands	Combination utilities, nec	RWE AG	Germany	10 411
Addax Petroleum Corp	Switzerland	Crude petroleum and natural gas	Mirror Lake Oil & Gas Co Ltd	Canada	7 157
Macquarie Communications Infrastructure Group	Australia	Television broadcasting stations	Canada Pension Plan Investment Board	Canada	5 064
Thomson Reuters PLC	United Kingdom	Information retrieval services	Thomson Reuters Corp	United States	4 938
Cia Espanola de Petroleos SA {CEPSA}	Spain	Crude petroleum and natural gas	International Petroleum Investment Co	United Arab Emirates	4 372
Merial Ltd	United States	Pharmaceutical preparations	Sanofi-Aventis SA	France	4 000
GCL Solar Energy Technology Holdings Inc	China	Semiconductors and related devices	GCL-Poly Energy Holdings Ltd	Hong Kong, China	3 788
Stiefel Laboratories Inc	United States	Pharmaceutical preparations	GlaxoSmithKline PLC	United Kingdom	3 600
Total transaction value					**54 126**
		4th quarter			
Barclays Global Investors Ltd	United States	Investment advice	BlackRock Inc	United States	13 345
Nikko Cordial Securities Inc	Japan	Security brokers, dealers, and flotation companies	Sumitomo Mitsui Banking Corp	Japan	5 787
Constellation Energy Nuclear Group LLC	United States	Electric services	Electricite de France International SA	France	4 500
OAO “Severneftegazprom”	Russian Federation	Crude petroleum and natural gas	E ON AG	Germany	3 959
Harvest Energy Trust	Canada	Crude petroleum and natural gas	Korea National Oil Corp{KNOC}	Korea, Republic of	3 937
Chartered Semiconductor Manufacturing Ltd	Singapore	Semiconductors and related devices	Advanced Technology Investment Co LLC	United Arab Emirates	3 923
Lake Acquisitions Ltd	United Kingdom	Investors, nec	Centrica PLC	United Kingdom	3 457
Procter & Gamble Pharmaceuticals Inc	United States	Pharmaceutical preparations	Warner Chilcott PLC	United States	3 100
Friends Provident PLC	United Kingdom	Life insurance	Resolution Ltd	Guernsey	3 064
Anheuser-Busch Inbev-Central European Operations	Bulgaria	Malt beverages	CVC Capital Partners Ltd	Luxembourg	3 032
Total transaction value					**48 103**

Source: UNCTAD, cross-border M&A database.

[a] Immediate economy basis. For those deals with identical names for host and home economies, ultimate host economy is not the same as ultimate home economy.