

UNCTAD Investment Brief

Number 1  2008

FDI SURGED TO RECORD LEVELS IN 2007

Global flows of foreign direct investment (FDI) last year surged to the highest level ever recorded. UNCTAD estimates that total inflows reached \$1.5 trillion, with significant increases in all major country groupings. However, investment activity may slow down in 2008, as a result of weaker economic growth and the credit crunch.

United States still at the top

FDI flows to *developed countries* in 2007 rose by 17 per cent to reach \$1 trillion (table 1) — almost three times higher than in 2003. However, they were still below their peak in 2000. The United States retained its position as the largest single host country for FDI in the world, with estimated inflows of some \$193 billion. The 25 countries of the European Union together accounted for about 40 per cent of total FDI inflows in 2007. Japan reversed its negative net inflows in 2006 to a surplus of almost \$29 billion, according to UNCTAD.

FDI surged in oil-rich African countries

Continued high oil and gas prices helped to maintain inflows into *Africa* at the record level achieved in 2006. The continent attracted investments totalling \$36 billion. Cross-border mergers and acquisitions (M&As) in the extraction and related service industries remained a significant source of FDI, but there were also new inbound M&A deals in the banking industry. Egypt, Morocco and South Africa were the main recipients.

FDI resumed growth in Latin America

After an extended period of relatively stagnant inflows, FDI in *Latin America and the Caribbean* rose to its highest level on record: \$125 billion. Inward FDI doubled in the region's major economies, especially Brazil, Chile and Mexico. In contrast to developments in the developed countries, the strong growth here was driven by greenfield investments (new investments and expansion) rather than by M&As. It reflected strong regional economic growth and high corporate profits on the back of the commodity-price boom.

Asia reached a new record level

FDI flows to *Asia and Oceania* maintained an upward trend for the sixth consecutive year, reaching a new high of \$277 billion. Nevertheless, their share of all FDI flows to developing countries fell from 69 to 63 per cent. China and Hong Kong (China) remained

the leading developing-economy destinations, with inflows of \$67 billion and \$54 billion respectively. Singapore attracted FDI worth some \$37 billion — a new record. Other members of the Association of Southeast Asian Nations, such as Malaysia, the Philippines and Thailand, also had higher inflows than ever before. FDI in *West Asia* fell by 12 per cent. Turkey and oil-rich Gulf States continued to attract the most FDI, but geopolitical uncertainty in parts of the region affected FDI negatively overall.

More investment in the Russian Federation, despite stricter legislation on FDI in some industries

FDI in *South-East Europe and the Commonwealth of Independent States* increased by 41 per cent to a record level of \$98 billion. This was the seventh year of uninterrupted FDI growth in the region. Inflows into the region's largest recipient, the Russian Federation, almost doubled. FDI prospects in that country may, however, be affected by tighter regulations on FDI in extractive industries. The privatization of State-owned enterprises boosted FDI in South-East Europe.

Mixed prospects for 2008

Despite unfavourable economic growth projections and potential tightening of rules for foreign investment in resource extraction, strong demand for natural resources around the world is likely to boost FDI in the extractive industries in 2008.

At the same time, global external imbalances, sharp exchange-rate fluctuations, rising interest rates and increasing inflationary pressures, as well as high and volatile commodity prices, pose risks that may have a chilling effect on global FDI flows. Cross-border M&A activity already declined in the second half of 2007. The overall level of FDI activity in 2008 therefore remains uncertain.

Source: UNCTAD.

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Table 1. FDI inflows, by host region and major host economy, 2006 – 2007
(Billions of dollars)

Host region/economy	2006	2007 ^a	Growth rate (%)
World	1 305.9	1 537.9	17.8
Developed economies	857.5	1 001.9	16.8
Europe	566.4	651.0	14.9
European Union	531.0	610.0	14.9
<i>EU 15, 1995</i>	492.1	572.0	16.2
France	81.1	123.3	52.1
Germany	42.9	44.8	4.4
Italy	39.2	28.1	- 28.1
Netherlands	4.4	104.2	2 285.1
United Kingdom	139.5	171.1	22.6
<i>New European Union members (10)</i>	38.9	38.0	- 2.3
Czech Republic	6.0	7.6	27.3
Hungary	6.1	- 0.3	..
Poland	13.9	18.1	30.3
United States	175.4	192.9	10.0
Japan	- 6.5	28.8	..
Developing economies	379.1	438.4	15.7
Africa	35.5	35.6	0.1
Egypt	10.0	10.2	1.6
Morocco	2.9	5.2	78.6
South Africa	- 0.3	5.0	..
Sudan	3.5	2.2	- 37.9
Tunisia	3.3	1.0	- 69.1
Latin America and the Caribbean	83.8	125.8	50.2
Argentina	4.8	2.9	- 39.6
Brazil	18.8	37.4	99.3
Chile	8.0	15.3	92.2
Colombia	6.3	8.2	30.5
Mexico	19.0	36.7	92.9
Venezuela (Bolivarian Rep. of)	- 0.5	0.4	..
Asia and Oceania	259.8	277.0	6.6
West Asia	59.9	52.8	- 11.9
Lebanon	2.8	2.1	- 25.5
Turkey	20.1	19.4	- 3.7
South, East and South-East Asia	199.5	224.0	12.3
China	69.5	67.3	- 3.1
Hong Kong (China)	42.9	54.4	26.9
India	16.9	15.3	- 9.4
Indonesia	5.6	5.9	6.3
Malaysia	6.1	9.4	54.4
Philippines	2.3	2.5	4.6
Singapore	24.2	36.9	52.6
Thailand	9.8	10.0	2.3
Transition economies	69.3	97.6	40.8
Kazakhstan	6.1	8.3	34.4
Romania	11.4	9.0	- 21.3
Russian Federation	28.7	48.9	70.3

Source: UNCTAD.

^a Preliminary estimates.

Note: World FDI inflows are projected on the basis of 105 economies for which data are available for part of 2007, as of 19 December 2007. Data are estimated by annualizing their available data – in most cases, the first three quarters of 2007. The proportion of inflows into those economies in total inflows into their respective region or subregion in 2006 is used to extrapolate the 2007 data.

This UNCTAD Investment Brief draws on the press release UNCTAD/PRESS/PR/2008/001.

For more data on FDI and TNC activities, visit <http://stats.unctad.org/fdi>.

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