

CHAPTER I

# GLOBAL INVESTMENT TRENDS



# A. CURRENT TRENDS

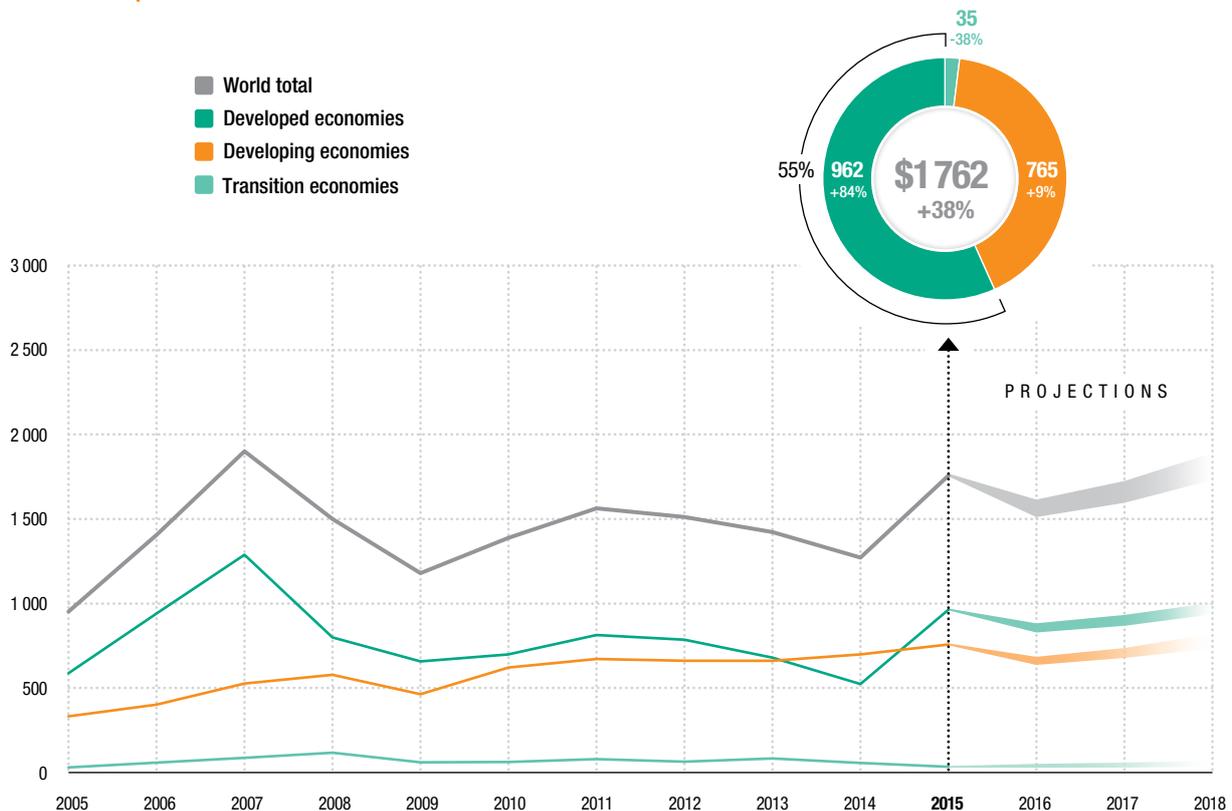
Global FDI flows rose by 38 per cent to \$1.76 trillion in 2015,<sup>1</sup> their highest level since the global economic and financial crisis of 2008–2009 (figure I.1). However, they still remain some 10 per cent short of the 2007 peak. A surge in cross-border mergers and acquisitions (M&As) to \$721 billion, from \$432 billion in 2014, was the principal factor behind the global rebound. These acquisitions were partly driven by corporate reconfigurations (i.e. changes in legal or ownership structures of multinational enterprises (MNEs), including tax inversions). Discounting these large-scale corporate reconfigurations implies a more moderate increase of about 15 per cent in global FDI flows. The value of announced greenfield investment projects<sup>2</sup> remained at a high level, at \$766 billion.

Looking ahead, FDI flows are expected to decline by 10–15 per cent in 2016, reflecting the fragility of the global economy, persistent weakness of aggregate demand, effective policy measures to curb tax inversion deals and a slump in MNE profits. Elevated geopolitical risks and regional tensions could further amplify the expected downturn. FDI flows are likely to decline in both developed and developing economies, barring another wave of cross-border M&A deals and corporate reconfigurations. Over the medium term, global FDI flows are projected to resume growth in 2017 and to surpass \$1.8 trillion in 2018 (see figure I.1).

Figure I.1.

## Global FDI inflows by group of economies, 2005–2015, and projections, 2016–2018

(Billions of dollars and per cent)



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

## 1. FDI by geography

### a. FDI inflows

**FDI recovery was strong in 2015, but lacked productive impact.** Global FDI flows jumped by 38 per cent to \$1,762 billion. The rise in FDI was somewhat at odds with the global macroeconomic environment, which was dominated by slowing growth in emerging markets and a sharp decline in commodity prices. The principal explanation for this seeming inconsistency was a surge in cross-border M&As, especially in developed economies.

Although FDI through cross-border M&As can boost productive investments, a number of deals concluded in 2015 can be attributed to corporate reconfiguration, including tax inversions. Such reconfigurations often involve large movements in the balance of payments but little change in actual MNE operations. This trend was especially apparent in the United States and Europe, but was also noticeable in the developing world. In Hong Kong (China), a part of the sharp uptick in inward FDI can be attributed to the restructuring of two large conglomerates (chapter II).

Discounting these deals implies, however, a more moderate increase of about 15 per cent in global FDI flows. In 2015, announced greenfield investments reached \$766 billion – an 8 per cent rise from the previous year. The rise was more pronounced in developed economies (up 12 per cent), signalling a potential rebound in FDI in productive assets as macroeconomic and financial conditions improve.

In this context, a concern is the apparent pullback in productive investments by MNEs. During 2015, capital expenditures by the 5,000 largest MNEs declined further (down 11 per cent) after posting a drop in 2014 (down 5 per cent) (figure I.2).

To some extent, these trends are a reflection of the current global macroeconomic situation. A large number of MNEs in the extractive sector, for example, reduced their capital expenditures and have announced significant reductions in their medium-term investment plans. Likewise, MNEs in other sectors are reviewing their capital expenditure needs and trade in light of slowing global growth and weakening aggregate demand. In 2015, the volume of world trade in goods and services failed to keep pace with real GDP growth, expanding just 2.6 per cent as compared with an average rate of 7.2 per cent between 2000 and 2007, before the financial crisis.

**Figure I.2. Top 5,000 MNEs: capital expenditures and acquisition outlays, 2007–2015** (Billions of dollars)



Source: ©UNCTAD, based on data from Thomson ONE.

The meagre growth in trade volumes after the financial crisis, while in part explained by weaker economic growth and fixed capital formation, has also been partly attributed to a significant slowdown in the pace of international vertical specialization.

**The geographic pattern tilted in favour of developed economies in 2015, although developing Asia remained the largest recipient of FDI flows.**

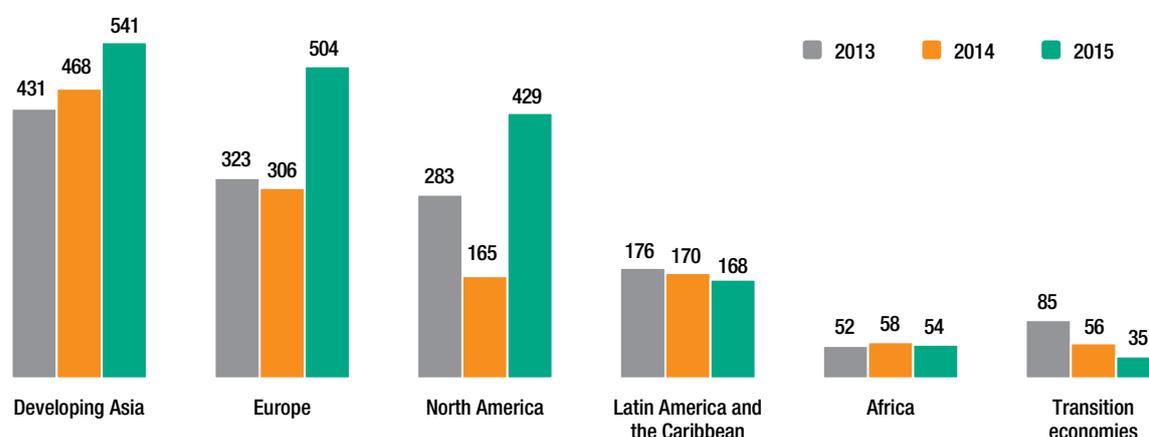
Flows to developed economies nearly doubled (up 84 per cent) rising from \$522 billion in 2014 to \$962 billion. FDI to developing economies – excluding Caribbean financial centres – increased to \$765 billion, a rise of 9 per cent, while those to transition economies fell by 38 per cent to \$35 billion (figure I.3). The net result was that the share of developed economies in world FDI inflows leapt from 41 per cent in 2014 to 55 per cent in 2015 (see figure I.1), reverting a five-year trend that had seen developing and transition economies emerge as majority recipients of these flows.

FDI flows to North America and Europe registered particularly large increases during the year (see figure I.3). In North America the increase in foreign investment, which rose 160 per cent to \$429 billion, was driven by a more than 250 per cent increase in flows to the United States. Although the comparison with 2014 is skewed due to the exceptionally low level of that year, the \$380 billion FDI inflows to the country in 2015 represent the highest level since 2000. FDI flows to Europe were also up sharply (65 per cent, to \$504 billion) as a result of a 50 per cent increase in FDI to the European Union and a large upturn in Switzerland (from \$7 billion to \$69 billion).

A surge in cross-border M&As during the year was the primary driver of the increase in FDI flows to developed economies. The value of the deals rose by 109 per cent to \$631 billion, reaching their highest level since 2007. Activity was particularly pronounced in the United States, where net sales rose from \$17 billion in 2014 to \$299 billion. Deal making in Europe was also up significantly (36 per cent).

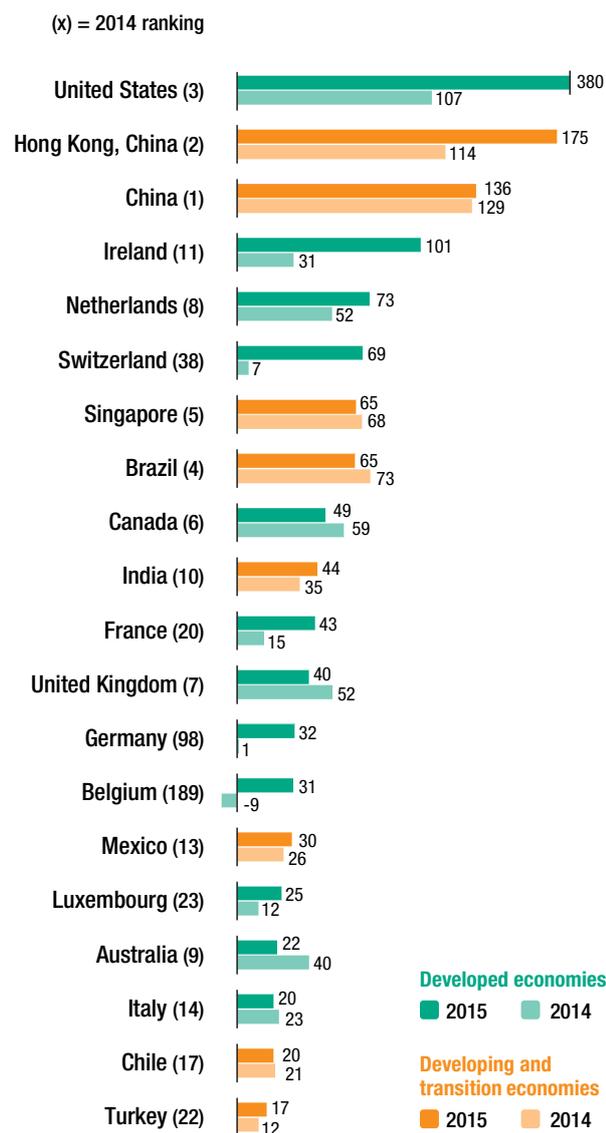
A large-scale increase in FDI flows to Asia contrasted with a more modest performance in other developing regions. Overall FDI flows to developing and transition economies registered a modest rise (6 per cent). This increase, however, belies a much more complex picture, as a large increase in FDI to some Asian economies offset significant declines in nearly every developing region and in transition economies. Investment flows fell in Africa (down 7 per cent to \$54 billion), Latin America and the Caribbean (down 2 per cent to \$168 billion) and in transition economies (down 38 per cent to \$35 billion). These trends notwithstanding, half of the top 10 largest recipients of FDI were from developing economies (figure I.4).

**Figure I.3. FDI inflows, by region, 2013–2015** (Billions of dollars)



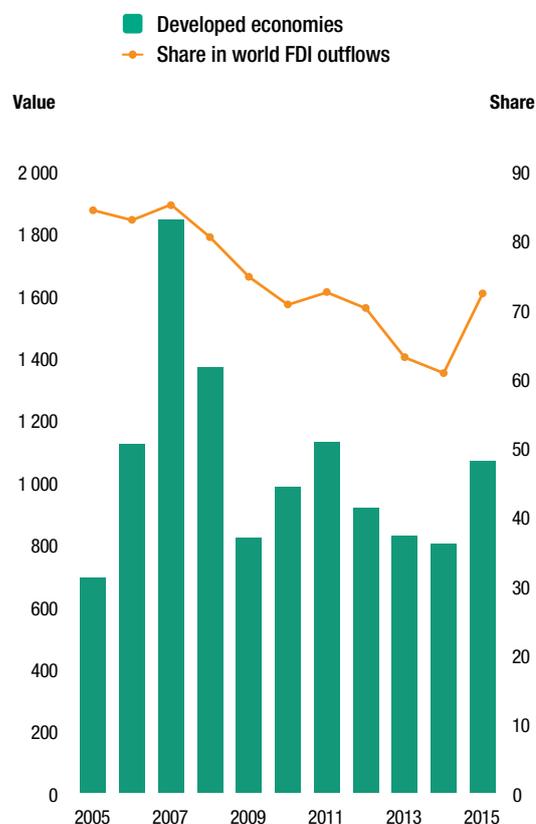
Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure I.4. FDI inflows, top 20 host economies, 2014 and 2015** (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure I.5. Developed economies: FDI outflows and their share in total world outflows, 2005–2015** (Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

A primary catalyst of decreasing inflows in developing and transition economies was the continued decline in commodity prices, especially for crude oil and for metals and minerals. The precipitous fall in oil prices that occurred in the second half of 2014 weighed heavily on FDI flows to oil-exporting countries in Africa, South America and transition economies. FDI to oil-producing economies was affected not only by reductions in planned capital expenditures in response to declining prices, but also by a sharp reduction in reinvested earnings as profit margins shrank. Economies in which mining plays a predominant role in FDI also registered declines.

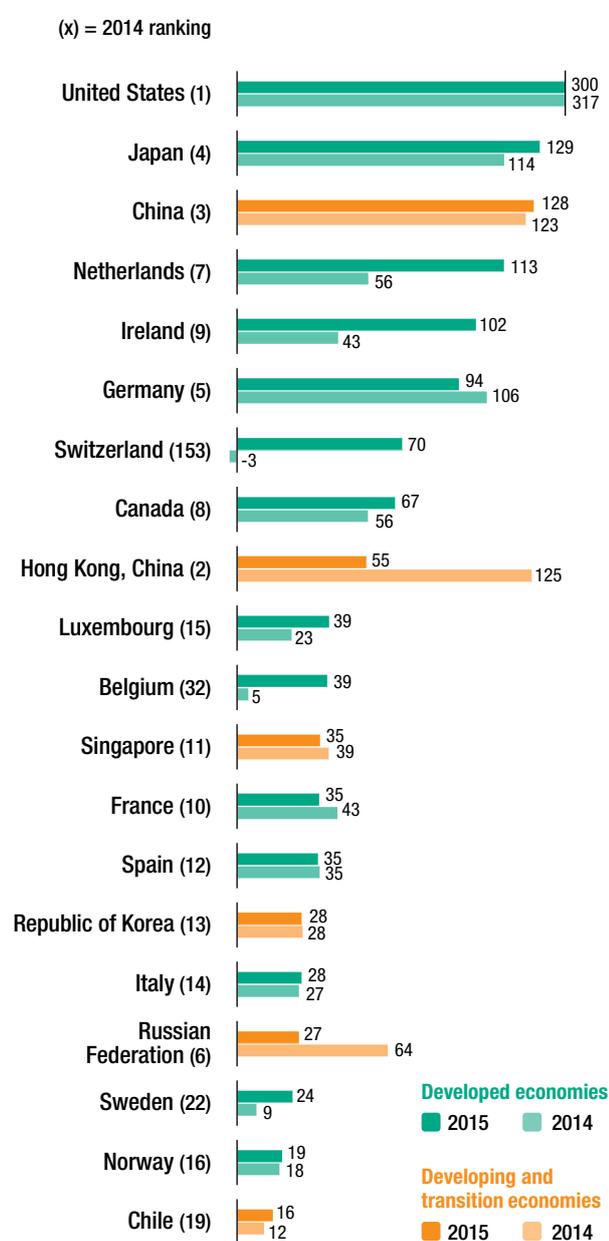
An associated factor was the relatively slow growth of emerging markets as a whole, which dampened investment activity. Among BRICS economies, which represented roughly a third of FDI flows to developing and transition economies, Brazil and the Russian Federation were in recession. Growth was slow in South Africa, slowing in China and relatively stable in India. In turn, depreciating national currencies weighed on profits when expressed in dollars, which put downward pressure on reinvested earnings.

## b. FDI outflows

### Investments by MNEs from developed economies surged. Europe became the world's largest investing region.

In 2015, MNEs from developed economies invested abroad \$1.1 trillion – a 33 per cent increase from the previous year, with MNEs from Europe and Japan contributing to the growth.<sup>3</sup> This increase notwithstanding, their level of FDI remained 40 per cent short of its 2007 peak. MNEs from developing and transition economies, in contrast, reduced their investment. These trends resulted in a significant shift in the overall share of developed countries in world FDI outflows, which rose from 61 per cent in 2014 to 72 per cent in 2015 (figure I.5).

**Figure I.6.** FDI outflows, top 20 home economies, 2014 and 2015 (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

The reemergence of European MNEs as major investors, after experiencing four consecutive years of declining investment, was the major driver of this surge. Their outward FDI rose 85 per cent in 2015 to \$576 billion, accounting for almost 40 per cent of global FDI outflows. Behind this result was a strong rebound in their cross-border M&A purchases, the net value of which rose to \$318 billion in 2015, up more than five times from \$57 billion in 2014, a year that was abnormally low due to the divestment of Vodafone's (United Kingdom) stake in Verizon Wireless (United States) for \$130 billion. Excluding the effect of this deal, the value of their net purchases still jumped 70 per cent.

The upturn in cross-border M&As was due in part to more favourable financial conditions, as the European Central Bank undertook stimulus measures. Competition also created its own dynamics for deal making in industries such as pharmaceuticals, where tax considerations were often a key motivator. For example, the acquisitions of Allergan (United States) by Actavis (Ireland) for \$68 billion, of Sigma (United States) by Merck AG (Germany) for \$17 billion, and of the Oncology Business of GlaxoSmithKline PLC (United States) by Novartis (Switzerland) for \$16 billion.

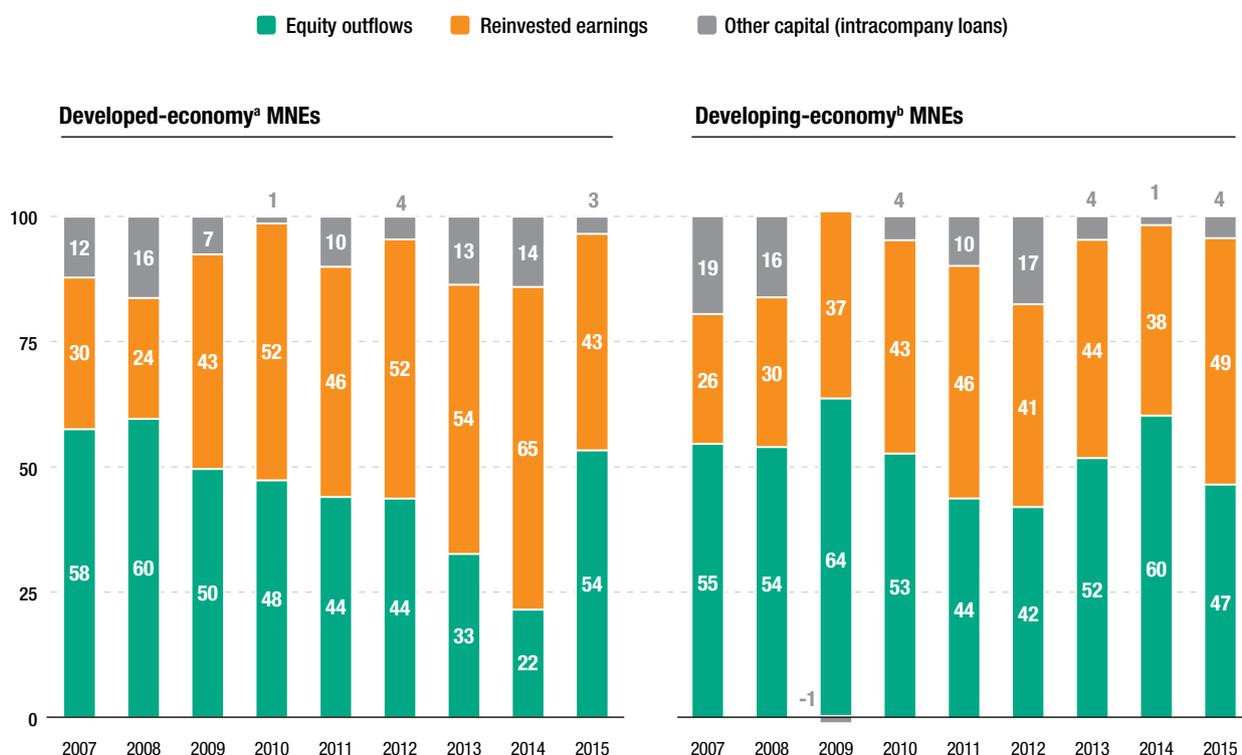
Rising investment by European MNEs, boosted by a number of megadeals, also served to reshuffle the make-up of the top 20 investors in 2015. In particular, Switzerland (from the 153 spot in 2014 to 7th), Belgium (32nd to 11th) and Ireland (9th to 5th) rose markedly in this ranking (figure I.6). Foreign investment by MNEs from North America posted a 1 per cent decrease, with a significant gain in Canada (21 per cent) being offset by a moderate decline in the United States (down 5 per cent). Nevertheless, both countries retained their 2014 rankings, with the United States as the largest outward investor and Canada as the eighth largest. Japanese MNEs continued to seek growth opportunities abroad, investing more than \$100 billion for the fifth consecutive year, making the country the second largest investor in 2015.

By contrast, almost all developing and transition regions saw their FDI outflows decline. In developing Asia, which had emerged as the largest investing region in 2014, MNEs cut their foreign investments by 17 per cent to \$332 billion. This decline, which amounted to roughly \$70 billion, was driven principally by a 56 per cent fall in outward FDI from Hong Kong (China) (chapter II).

Weakening aggregate demand and declining commodity prices, accompanied by depreciating national currencies, weighed on outward investment from many developing and transition economies. In addition, in a number of cases regulatory as well as geopolitical considerations shaped outward investment flows. FDI by Russian MNEs slumped, reflecting, in part, the effect of their reduced access to international capital markets and new policy measures that sought to reduce “round-tripping” investments (chapter II). Regional conflict has also dampened the confidence of some West Asian MNEs.

Against this general downward trend, a limited number of developing economies registered an increase in their outward FDI. Examples include China (rising from \$123 billion to \$128 billion), which remained the third largest investor in the world after the United States and Japan. The country has become a major investor in some developed countries, especially through cross-border M&As (chapter II). Other countries that saw a rise of FDI abroad include Kuwait (from -\$10.5 billion to \$5.4 billion) and Thailand (from \$4.4 billion to \$7.8 billion). Latin America also saw its FDI outflows rise by 5 per cent, mainly due to changes in intracompany loans (chapter II).

**Figure I.7. FDI outflows by component, by group of economies, 2007–2015 (Per cent)**



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

<sup>a</sup> Economies included are Australia, Austria, Belgium, Bermuda, Bulgaria, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

<sup>b</sup> Economies included are Algeria, Angola, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Benin, the Plurinational State of Bolivia, Botswana, Brazil, Burkina Faso, Cabo Verde, Cambodia, Chile, Colombia, Costa Rica, Côte d'Ivoire, Dominica, El Salvador, Fiji, the Gambia, Grenada, Guatemala, Guinea-Bissau, Honduras, Hong Kong (China), India, Indonesia, Iraq, the Republic of Korea, Kuwait, Lebanon, Libya, Mali, Mexico, Mongolia, Montserrat, Morocco, Mozambique, Namibia, Nicaragua, the Niger, Nigeria, Pakistan, Panama, Papua New Guinea, the Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Senegal, Seychelles, Singapore, Solomon Islands, South Africa, Sri Lanka, the State of Palestine, Suriname, Taiwan Province of China, Thailand, Togo, Turkey, Uganda, Uruguay, Vanuatu, the Bolivarian Republic of Venezuela and Viet Nam.

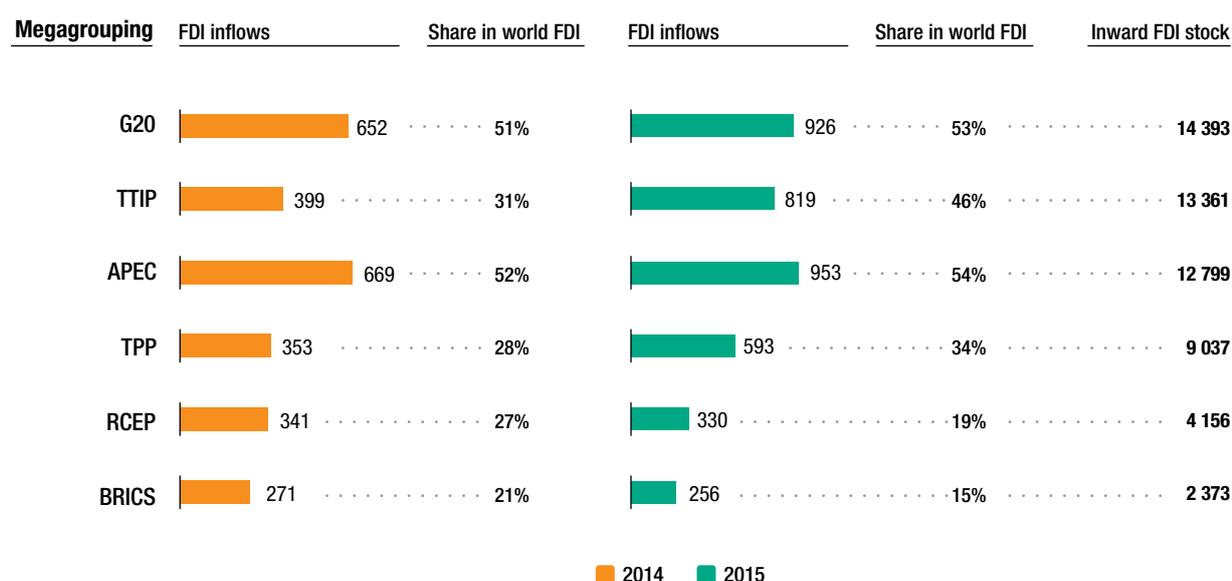
The shift in outward FDI trends of MNEs from developed economies relative to that of their peers in developing economies was also apparent in the composition of flows. In 2015, over half of FDI outflows by developed-country MNEs came in the form of new equity investments, reflecting the surge in cross-border acquisitions (figure I.7). For MNEs from developing economies, in contrast, the share of new equity investments slumped – falling from 60 per cent to 47 per cent – in line with lower cross-border acquisitions and limited openings of new affiliates abroad. The vast majority of their outward FDI for the year was in the form of reinvested earnings, with the exception of Chinese MNEs.

### c. FDI in major economic groups

The G20, Transatlantic Trade and Investment Partnership, Asia-Pacific Economic Cooperation, Trans-Pacific Partnership, Regional Comprehensive Economic Partnership and the BRICS account for a significant share of global FDI (figure I.8). Intragroup investment is significant, with some 30 per cent to 63 per cent of these inflows originating from within the group. There is significant cross-membership among these existing and prospective major groups (figure I.9).

Most of these groups' objectives include fostering more investment-friendly environments to further encourage FDI flows into and within the group in 2015. The actual impact of these partnerships on FDI, however, is likely to vary, depending on a number of factors, including specific provisions of the agreements among members, transaction costs, the scale and distribution of existing MNE operations within a grouping, and corporate strategy.<sup>4</sup> Nevertheless, 61 per cent of executives participating in the 2016 UNCTAD World Investment Prospect Survey (WIPS) expect the emergence of these economic megagroups to influence their companies' investment decisions over the next few years.

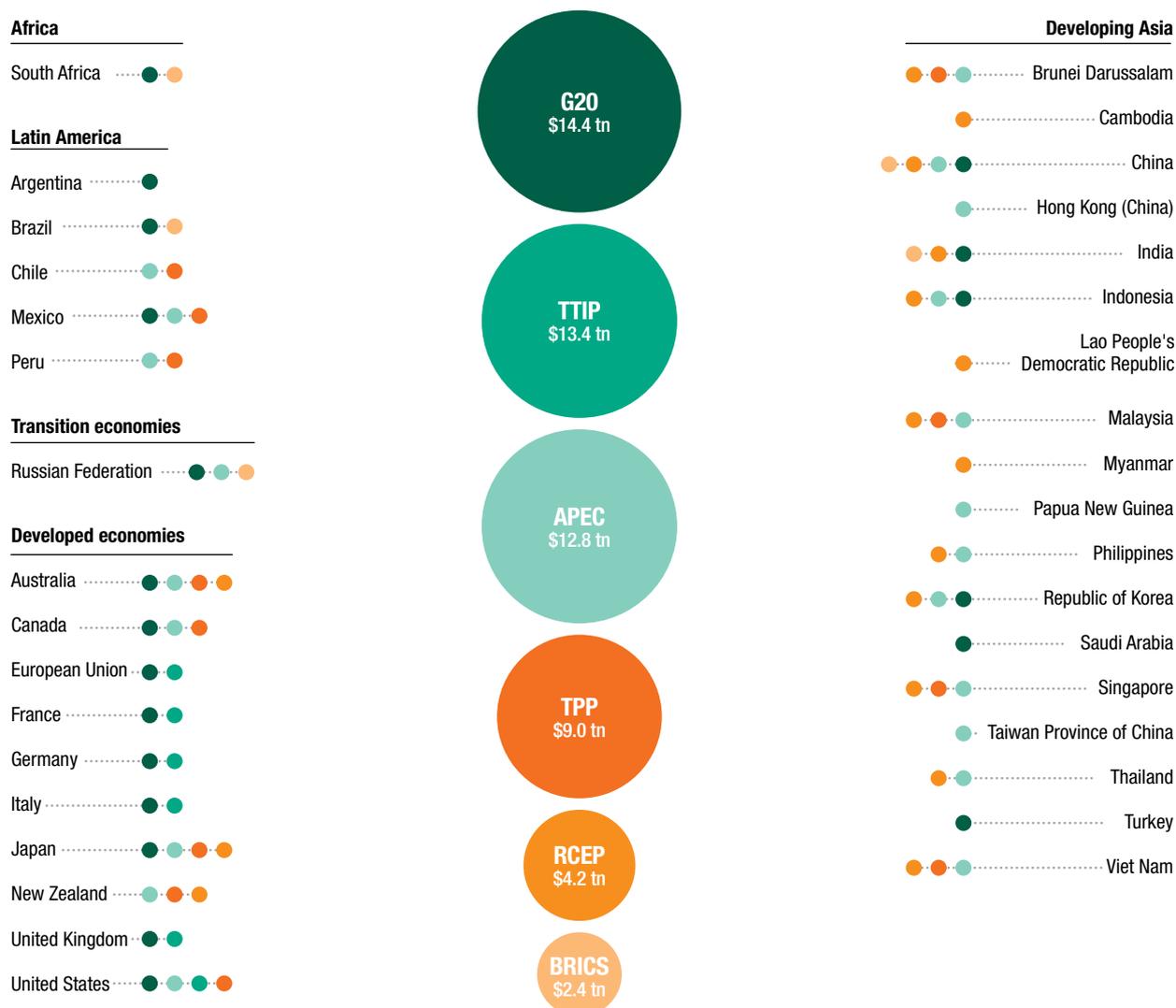
**Figure I.8. FDI inflows in selected megagroupings, 2014 and 2015** (Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

Note: In descending order of 2015 inward FDI stock. G20 = includes only the 19 member countries (excludes the European Union); TTIP = Transatlantic Trade and Investment Partnership (under negotiation); APEC = Asia-Pacific Economic Cooperation; TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership (under negotiation); BRICS = Brazil, Russian Federation, India, China and South Africa.

**Figure I.9. Membership in selected mega-groupings and inward FDI stock, 2015** (Trillions of dollars)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).  
 Note: Presented in descending order of 2015 inward FDI stock.

## G20

The G20<sup>5</sup> members generated over three quarters of global GDP but attracted half of global world FDI flows in 2015. Overall FDI flows to the group increased by 42 per cent in 2015, with foreign investment increasing in most members. Yet nearly two thirds of the total inflows to the G20 were concentrated in only three countries – the United States, China and Brazil.

Some 58 per cent of global FDI stock is invested in the G20 (\$14.4 trillion) (figure I.9). The G20 member economies are home to more than 95 per cent of the Fortune Global 500 companies. Intra-G20 investment is a significant source of FDI within the group, accounting for an annual average of 42 per cent of inflows in 2010–2014 (figure I.10). Intra-G20 M&As in 2015 rose by 187 per cent, from \$92 billion in 2014 to \$265 billion, and are contributing to stronger intragroup investment and corporate connectivity. About half of cross-border M&A sales in the group in 2015 are intra-G20 transactions, mainly driven by sales in the United States (chapter II). Indeed, 18 per cent of the intra-G20 M&A sales in 2015 were in the United States; Canada, Japan and the United Kingdom led asset acquisition within the group last year. As a result, total M&A sales in the G20 increased by 96 per cent, to \$519 billion.

## Transatlantic Trade and Investment Partnership (TTIP)

With \$13.4 trillion in FDI stock in 2015, the TTIP initiative is the second largest holder of FDI stock after the G20, and received 46 per cent of worldwide FDI flows (figure I.8). Yet the group generated a much smaller proportion of global GDP than the G20. FDI flows to members of this proposed group rose by 106 per cent in 2015 to \$819 billion, due to a significant rise in inflows to the United States and selected EU countries (Belgium, France, Germany, Ireland and the Netherlands) (chapter II). Negotiations for a TTIP agreement are still under way.

The proposed partnership – home to about half of the Fortune Global 500 companies, as well as smaller MNEs – already exhibits strong corporate connectivity. Intra-TTIP FDI flows accounted for 63 per cent of total inflows to the group in 2010–2014, by far the largest proportion among all major partnerships and forums (figure I.10). Cross-border M&A transactions within the TTIP rose to \$331 billion in 2015 – 46 per cent of the world total – driven by several very large transatlantic deals (chapter II). The proposed transatlantic partnership, depending on the scope and depth of the arrangement, will impact corporate connectivity, FDI flows and cross-border M&As to and within the group (section A.1.a).<sup>6</sup>

## Asia Pacific Economic Cooperation (APEC)

In 2015, APEC<sup>7</sup> was the largest recipient of global FDI flows, attracting 54 per cent of the total (figure I.8), which was roughly in line with its share of world GDP. APEC economies held about \$12.8 trillion FDI stock in 2015, the third largest among major existing and prospective groupings. FDI flows to APEC, which rose by 42 per cent to \$953 billion in 2015, are also highly concentrated: almost 80 per cent went to the United States, China, Hong Kong (China) and Singapore. Intragroup investment is significant in APEC, accounting for 47 per cent of the total in 2010–2014 (figure I.10) and reflecting increasingly connected economies.

MNEs headquartered in APEC member economies have been actively investing within the group. MNEs from Japan, the Republic of Korea, ASEAN member economies, China, Hong Kong (China) and Taiwan Province of China have a significant presence in other Asian APEC members, while United States<sup>8</sup> and Canadian MNEs are heavily invested in the NAFTA subregion. Taken together, these MNEs are contributing to a wide production network and to inter- and intraregional value chains across the Pacific.

## Trans-Pacific Partnership (TPP)

The TPP<sup>9</sup> receives a significant share of global FDI inflows (34 per cent) (figure I.8), largely in line with its weight in world GDP. In 2015, FDI to the partnership rose by 68 per cent to \$593 billion, reflecting a significant rebound of investment to the United States from an atypical low point of \$107 billion in 2014 to \$380 billion in 2015 (chapter II). Within the group, NAFTA, which accounted for 75 per cent of the TPP's GDP in 2015, remains the largest recipient subgroup, attracting about 80 per cent of FDI flows to the TPP. The partnership's FDI stock in 2015 was \$9 trillion, about the size of the economies of Australia, Belgium, Canada, France, Germany and Sweden combined.

Intra-TPP investment accounted for an average 36 per cent of total inflows to the group between 2010 and 2014 (figure I.10). Unlike in other major groups, however, intra-TPP cross-border M&A sales in 2015 increased by 7 per cent to \$113 billion. TPP partner countries acquired 46 per cent more assets in the United States than in 2014. FDI into and within TPP continues to be highly concentrated, with the United States and Singapore both the main recipients and sources.

Although the TPP agreement has not yet entered into force, its conclusion and signing on 4 February 2016 may impact on FDI flows into the group, which offers a large combined market, prospects of further liberalization, easier movement of goods and services, and complementary locational advantages among member economies (chapter III). As the TPP agreement gets implemented, some MNE production networks could be reconfigured and consolidated, as parts and components become easier and cheaper to source through intrafirm and interfirm arrangements.<sup>10</sup> Yet it remains difficult to quantify the impact on FDI, which will vary according to industries and value chain segments, and specific tariff reductions.

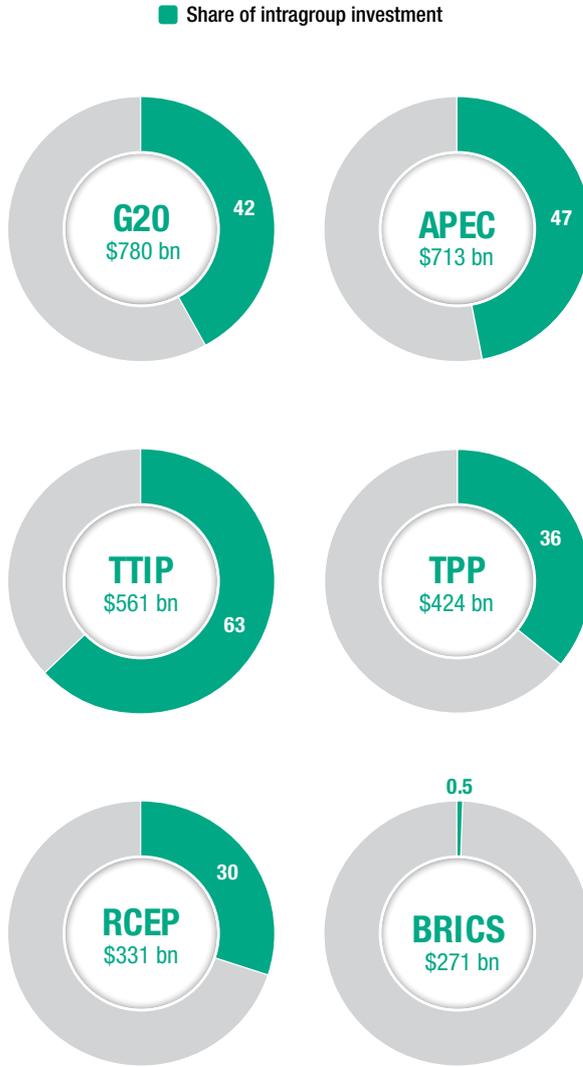
### Regional Comprehensive Economic Partnership (RCEP)

The RCEP is a proposed free trade agreement involving the 10 members of ASEAN<sup>11</sup> and six other partner countries.<sup>12</sup> FDI flows to the RCEP declined by 3 per cent to \$330 billion in 2015, reflecting a fall in inflows to a majority of partner countries. Negotiations to establish the RCEP are still under way. Together, the RCEP countries generated about 31 per cent of world GDP in 2015 but accounted for a much lower 19 per cent share of global FDI inflows (figure I.8). FDI in the RCEP partners is dominated by ASEAN and China – the two largest recipients in the developing world (chapter II) – which together held 70 per cent of the group’s FDI stock in 2015.

Intra-RCEP investment accounts for about 30 per cent of FDI flows to the prospective group (figure I.10) and is expected to remain a major source of FDI. Intra-RCEP M&As (sales) have been significant – at \$18 billion in 2015, representing 43 per cent of total RCEP cross-border M&A sales. The strong level of intra-RCEP M&As is also contributing to a greater interconnection of corporate activities in the proposed partnership.

The prospective RCEP member countries are increasingly interconnected through trade, investment and regional production networks: many Japanese, Korean, ASEAN and Chinese MNEs, for instance, have already established a strong presence in other RCEP partner countries. These connections could become stronger when a negotiated RCEP agreement is signed and implemented. ASEAN is a key player in the RCEP, as the largest recipient of intragroup investment; it also established the ASEAN Economic Community on 31 December 2015 as a single market and production base. The rise in intra-ASEAN investment and regional value chains is further strengthening the connectivity of firms and countries within this subgroup and with other RCEP countries (ASEAN Secretariat and UNCTAD, 2014).

**Figure I.10.** Major groups: total and intragroup FDI flows, annual average, 2010–2014 (Billions of dollars and per cent)



Source: ©UNCTAD.  
 Note: Latest period in which intragroup investment data are available.

## BRICS

FDI flows to BRICS<sup>13</sup> countries declined by 6 per cent in 2015, to \$256 billion (figure I.8). Increasing investment to China and India could not fully compensate for the decline in FDI flows in the other countries in the group. The five BRICS countries are home to 41 per cent of the world population and account for 23 per cent of world GDP between them but received 15 per cent of global FDI flows in 2015. They held \$2.4 trillion FDI stock in 2015 – 9 per cent of the world total.

FDI in BRICS is highly concentrated, with China alone receiving more than 50 per cent of the group's total FDI inflows in 2015. Unlike other economic groups, BRICS members are not active investors in each other's economies (figure I.10): the share of intra-BRICS investment in total FDI flows to the group was less than 1 per cent between 2010 and 2014, and intra-BRICS cross-border M&A sales have also been low, averaging \$2 billion in 2014–2015. This reflects the minimal intra-BRICS corporate connectivity.

Yet BRICS countries are a growing source of investment in other developing economies, contributing to strengthening South–South cooperation. A significant percentage of outward FDI from BRICS countries is in neighbouring economies. China, India and South Africa also have significant and growing investment further afield in Africa and other parts of Asia. For instance, 14 per cent of Brazil's outward FDI stock in 2014 was in Latin America, 35 per cent of Indian outward FDI stock is in Asia, and 50 per cent of South African outward FDI stock is in Asia and Africa. Seventy-five per cent of Chinese FDI stock abroad is invested in Asian developing economies. Unlike the other partner countries in this group, more than 80 per cent of the Russian Federation's outward FDI stock is in developed countries (table I.1).

**Table I.1. Outward FDI stock from BRICS, 2014** (Billions of dollars)

Destination	Brazil	Russian Federation	India	China	South Africa
<b>World</b>	186	258	88	789	144
Developed countries	155	222	39	135	66
Developing and transition economies	30	31	48	654	78
Unspecified	1	5	-	-	-
<b>Top developing and transition regions</b>	Latin America (26)	Transition economies (17) West Asia (8) ASEAN (5)	ASEAN (22) Africa (15) West Asia (10)	East Asia (522) ASEAN (48)	East Asia (47) Africa (26)
<b>Top 5 developing and transition economies</b>	Argentina (6) Uruguay (4) Panama (4) Peru (3) Venezuela (3)	Turkey (7) Belarus (5) Kazakhstan (3) Singapore (3) Viet Nam (2)	Singapore (21) United Arab Emirates (5) Bahrain (5) Russian Federation (1) Colombia (1)	Hong Kong (China) (510) Singapore (21) Russian Federation (9) Kazakhstan (8) Indonesia (7)	China (46) Mozambique (2) Zimbabwe (2) Botswana (1) Namibia (1)

Source: ©UNCTAD.

Note: Totals exclude the Caribbean financial centres. Offshore financial centres are significant FDI destinations for the BRICS. For instance, some \$43 billion of Russian OFDI stock is in the British Virgin Islands. About \$56 billion of OFDI stock from Brazil is in the Cayman Islands and \$28 billion in the British Virgin Islands.

## 2. FDI by sector and industry

### a. The sectoral distribution of global FDI

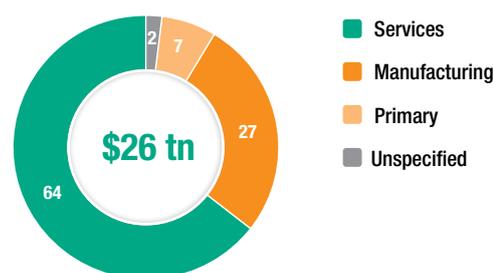
**The services sector accounts for almost two thirds of global FDI stock.** In 2014, the latest year for which sectoral breakdown estimates are available, services accounted for 64 per cent of global FDI stock, followed by manufacturing (27 per cent) and the primary sector (7 per cent), with 2 per cent unspecified (figure I.11).

The overall sectoral patterns of inward investment are similar in developed and developing economies, but variations among developing regions are pronounced (figure I.12). The share of the primary sector in FDI to Africa and to Latin America and the Caribbean – 28 and 22 per cent, respectively – was much higher than the 2 per cent recorded in developing Asia, largely reflecting the weight of extractive industries. In developing Asia, in contrast, services accounted for a considerable share of FDI, mainly owing to their predominance in Hong Kong (China).<sup>14</sup> The recent collapse of commodity prices has started to significantly affect the structural pattern of FDI flows to the developing world in general, and to Africa and Latin America and the Caribbean in particular.

**In 2015, cross-border M&As in manufacturing soared, with developed and developing economies exhibiting different industrial patterns.**

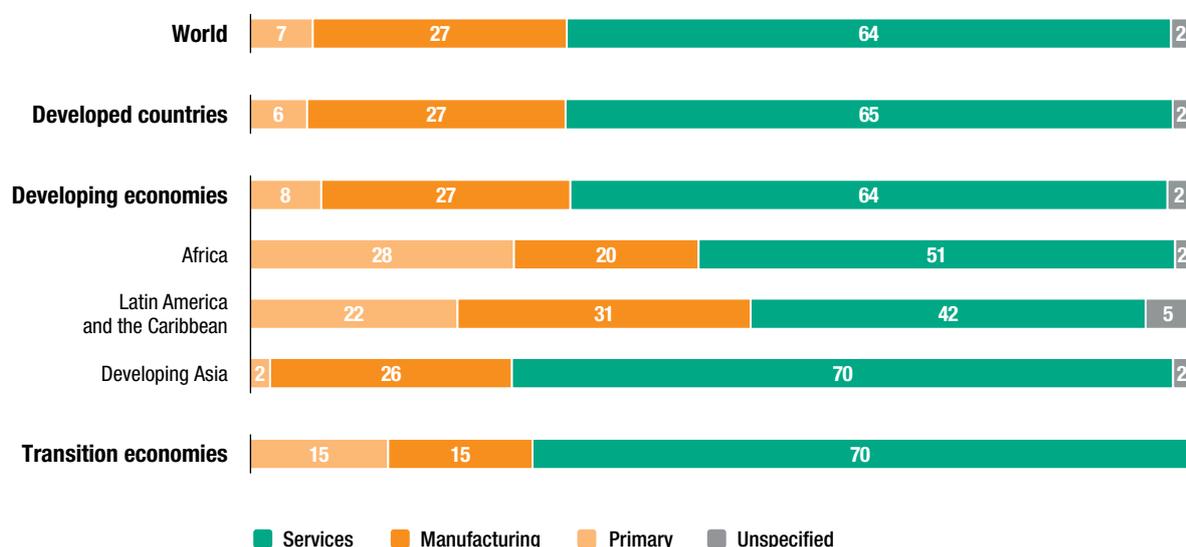
The total value of cross-border M&As, as well as their sectoral breakdown, has changed significantly over the past few years (figure I.13). Although the combined amount of cross-border M&As in services increased by \$95 billion in 2015, the balance tilted in favour of manufacturing, which accounted for 54 per cent of all cross-border M&As, compared with 41 per cent in 2012, and 28 per cent in 2009.

**Figure I.11. Global inward FDI stock, by sector, 2014** (Trillions of dollars and per cent)



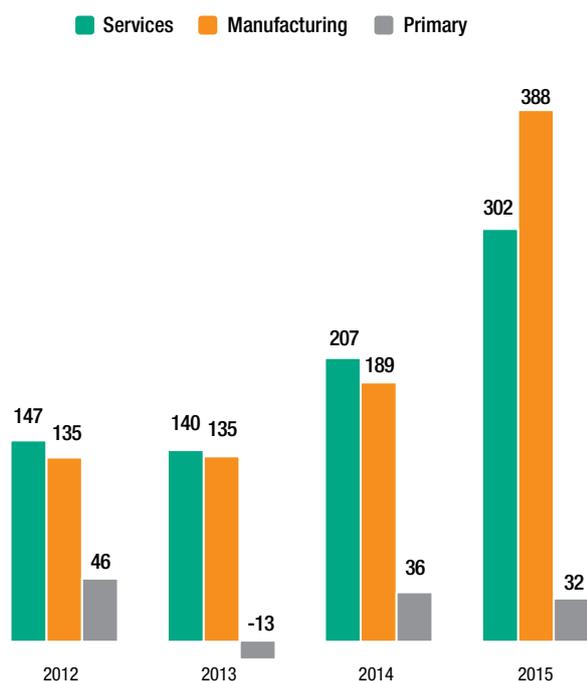
Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure I.12. Global inward FDI stock, sectoral distribution by grouping and region, 2014** (Per cent)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure I.13.** Value of cross-border M&A sales, by sector, 2012–2015 (Billions of dollars)



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

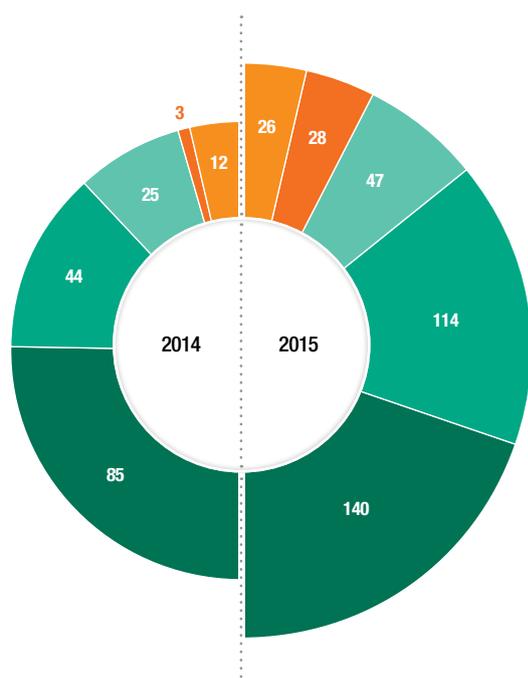
Sales of cross-border M&As in manufacturing reached a historical high in absolute terms (\$388 billion in 2015), surpassing the previous record set in 2007.

At the global level, increases in cross-border M&As were particularly significant in pharmaceuticals (up \$61 billion), non-metallic mineral products (up \$26 billion), furniture (up \$21 billion) and chemicals and chemical products (up \$16 billion).

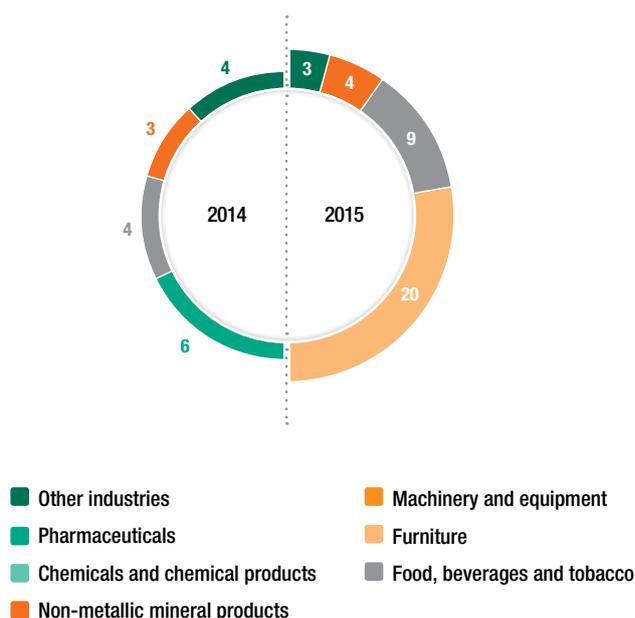
Differences exist between the developed and developing economies, however, in the sectoral distribution of cross-border M&As in manufacturing. In developed economies, the increase in cross-border M&As was mainly in pharmaceuticals and chemicals and chemical products, non-metallic mineral products, and machinery and equipment (figure I.14.a), but also in industries such as rubber and plastics products, basic metal and metal products, and motor vehicles and other transport equipment. The high level of M&A sales in the manufacture of pharmaceuticals and medicinal chemical products in 2014 and 2015 partly reflects some megadeals previously mentioned.

**Figure I.14.** Value of cross-border M&A sales in manufacturing industries, by grouping, 2014 and 2015 (Billions of dollars)

**a. Developed countries**



**b. Developing economies**



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

In developing economies, in contrast, the increase in cross-border manufacturing M&As was driven by large acquisitions in a limited number of industries, such as furniture, food and beverages, and non-metallic mineral products (figure I.14.b). At the same time, large-scale divestments were recorded in pharmaceuticals and in machinery and equipment. A major divestment in pharmaceuticals involved Daiichi Sankyo (Japan) selling its stake in for example, Ranbaxy Laboratories (India) to Sun Pharmaceutical Industries (India) for \$3 billion.

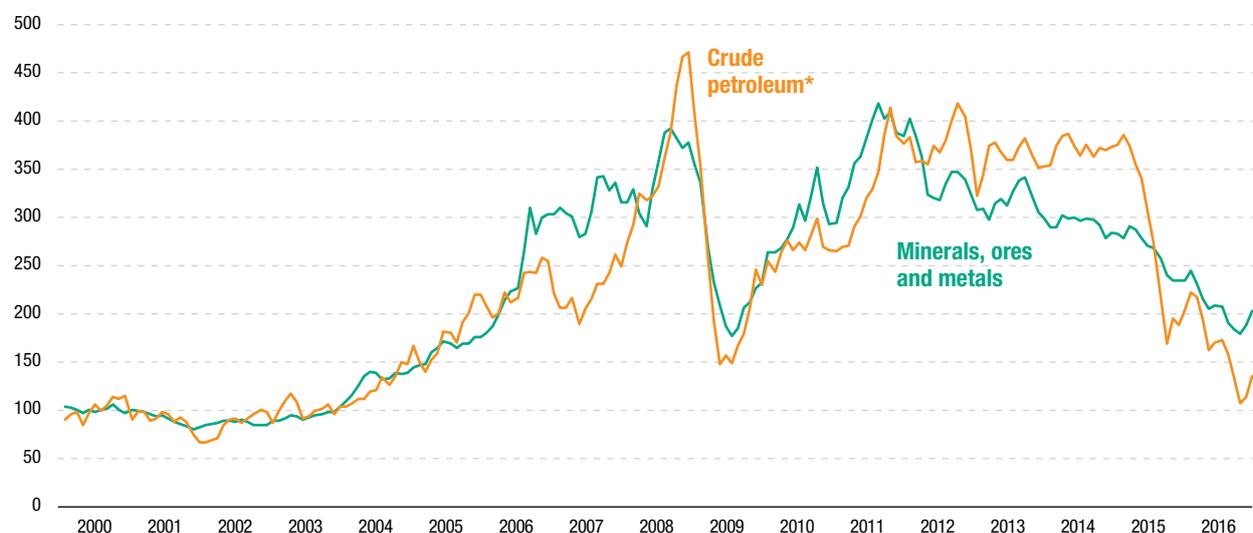
## b. The impact of commodity prices on FDI in the primary sector

**Collapsing commodity prices have resulted in a sharp decline of FDI flows to extractive industries.** The “commodity supercycle” that emerged in the late 1990s and early 2000s, which pushed oil and metal prices steadily to historically high levels, was interrupted in 2008 by the global financial crisis. Although the supercycle later regained strength, it has entered its downward phase (UNCTAD, 2015a). The price index of minerals, ores and metals has declined steadily since the end of 2012, and oil prices have been dropping precipitously since mid-2014 (figure I.15).

The sharp decline in commodity prices has affected corporate profitability, especially in the oil and gas industry. For example, BP Plc (United Kingdom) reported a net loss of \$6.5 billion in 2015, its largest in at least 30 years.<sup>15</sup> In addition, lower prices have dampened capital expenditures in extractive industries, which in turn have reduced the amount of international investment in the sector. For instance, major oil companies such as Chevron and ExxonMobil (United States) cut their work force, operation expenditures and capital spending in 2015. With commodity prices expected to remain relatively low over the next few years, MNEs’ capital expenditures in extractive industries are likely to remain subdued. Chevron announced further spending cuts for 2017 and 2018.<sup>16</sup>

Data on cross-border M&As and announced greenfield projects highlight the impact of global commodity prices on equity investment in extractive industries. The share of the primary sector (mainly extractive industries, including oil and gas) in cross-border M&As sales declined from 8 per cent in 2014 to 4 per cent in 2015, compared with more than 20 per cent in 2010–2011

**Figure I.15.** Global commodity price indices, January 2000–March 2016 (Price indices, 2000 = 100)



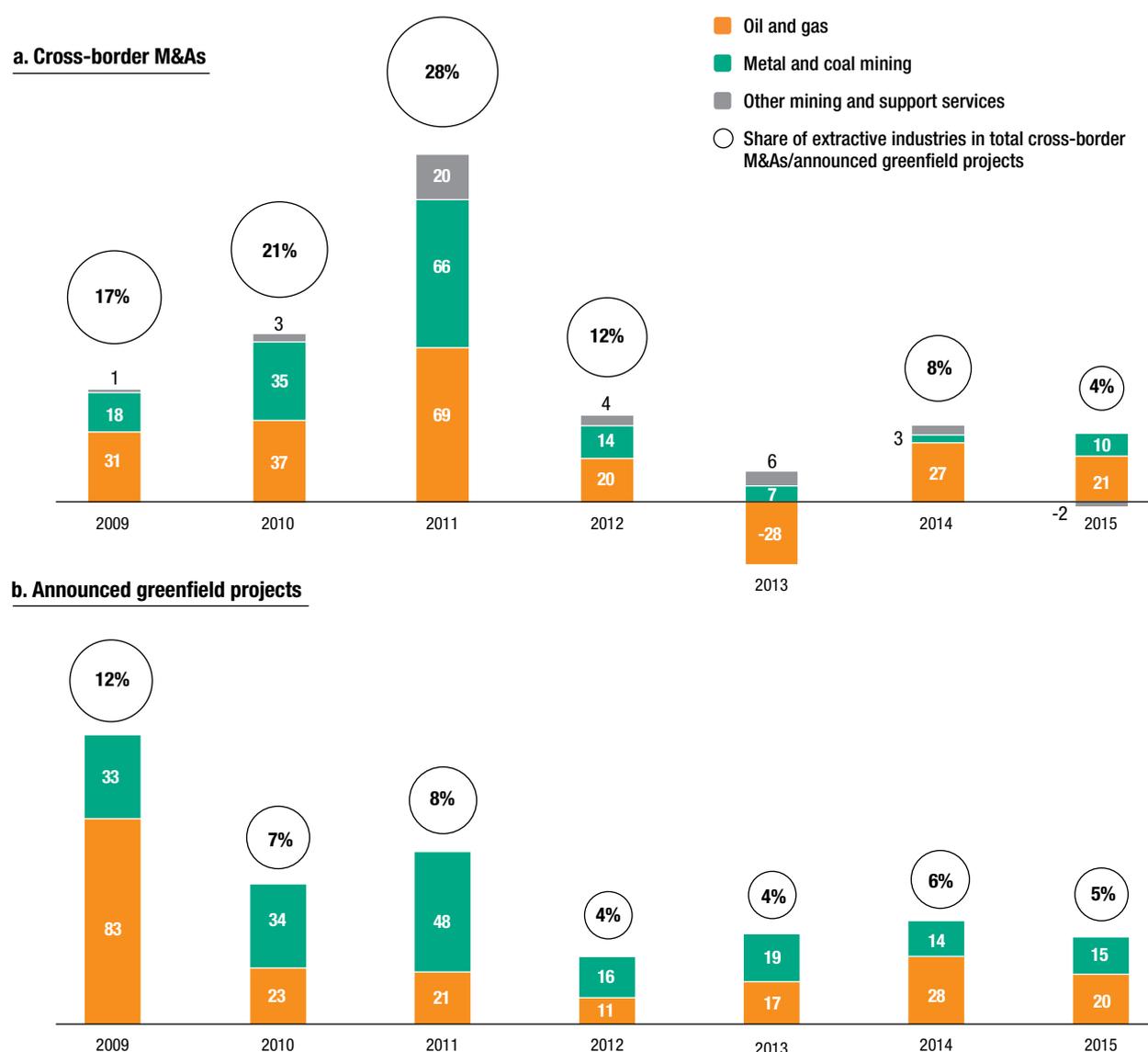
Source: ©UNCTAD.

\* Simple average of Brent (light), Dubai (medium) and Texas (heavy).

(figure I.16.a). The same contraction is apparent in announced greenfield investment: the share of the primary sector fell to an average 5 per cent during 2013–2015, nearly half of the average level recorded over the 2009–2011 period (figure I.16.b).

At the global level, the prolonged weak cycle will continue to affect the structure of FDI in the medium and long run. This is due not only to the negative impact of lower commodity prices on FDI inflows to extractive industries, but also to a potentially positive impact on activity and FDI in other sectors, as input costs decrease. Indeed, lower commodity prices are supporting the global economy by stimulating or maintaining economic growth in the largest importing economies, including China, the European Union, India and Japan. The decline in oil prices is expected to add 0.3–0.5 per cent to global GDP in 2015 (IMF, 2015a). As the manufacturing and services industries benefit, so does international investment in those industries. At the regional and national levels, the impact of lower commodity prices on FDI inflows varies according to the economic weight of extractive industries versus energy-dependent industries, as well as trading positions when it comes to minerals and hydrocarbons.

**Figure I.16. FDI projects in extractive industries, value and share in total, 2009–2015**  
(Billions of dollars and per cent)



Source: ©UNCTAD, cross-border M&A database and information from Financial Times Ltd, fDi Markets ([www.fDimarkets.com](http://www.fDimarkets.com)) for announced greenfield projects.

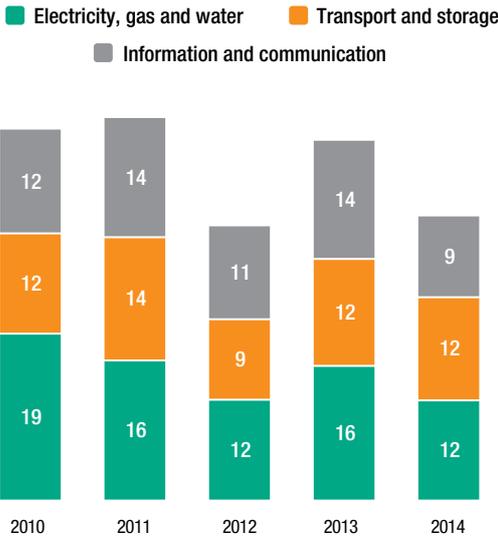
FDI inflows to commodity-exporting countries in Africa, Latin America and the Caribbean, and West Asia have been strongly and adversely affected (chapter II). Economies whose exports and FDI inflows rely heavily on oil and metals are in a particularly challenging situation. In Latin America and the Caribbean, for instance, FDI inflows to the oil and gas industry in Colombia and Ecuador declined by 66 per cent and 50 per cent, respectively, in 2015. In Africa, FDI inflows to the metal mining industry decreased significantly in major metal exporting countries, such as Guinea and Zambia. In Asian economies relying heavily on extractive industries, the situation is similar. FDI flows to Mongolia, which depends heavily on mining, dropped from 50 per cent of GDP to less than 5 per cent, which had a considerable impact on job creation and economic growth.

### c. FDI in infrastructure industries in the wake of the Sustainable Development Goals

The United Nations Summit for the adoption of the post-2015 development agenda was held in New York in September 2015. At the high-level plenary meeting of the General Assembly, countries adopted the 2030 Agenda for Sustainable Development together with the set of Sustainable Development Goals (SDGs) to be achieved over the next 15 years. The SDGs carry significant implications for resources worldwide, including for public and private investment in infrastructure. UNCTAD has estimated that achieving the SDGs by 2030 in developing countries alone will require investment in the range of \$3.3–\$4.5 trillion annually (or about \$2.5 trillion over and above the amount currently being invested), mainly in basic infrastructure (power, telecommunications, transport, and water and sanitation) and infrastructure related to specific goals (e.g. food security, climate change mitigation and adaptation, health and education) (WIR14).

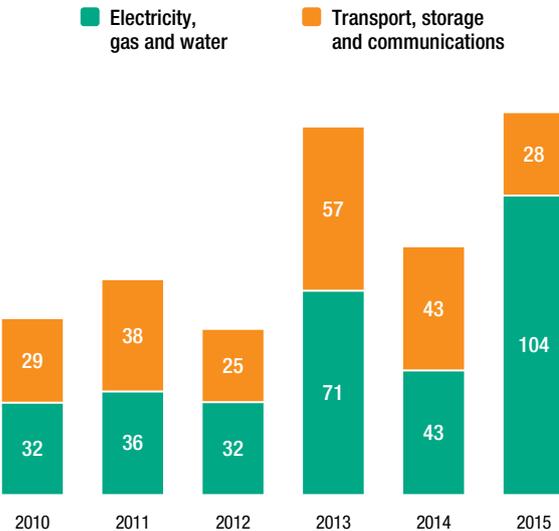
The scale of the necessary resources, even allowing for a significant increase in public and domestic private investment, requires a much larger contribution by MNEs in infrastructure FDI. At the moment, social infrastructure (education and health) and other SDG sectors attract little FDI. Even in areas such as power, telecommunications, transport and water, FDI in developing countries remains consistently small (figure I.17). However, FDI numbers underestimate MNE participation in developing-country infrastructure, as much of it occurs through non-equity modes such as build-own-operate and other concession arrangements (WIR08, WIR10). In addition, greenfield announcements

**Figure I.17.** Developing economies: FDI inflows in infrastructure industries, 2010–2014 (Billions of dollars)



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

**Figure I.18.** Developing economies: announced greenfield investment projects in infrastructure industries, 2010–2015 (Billions of dollars)



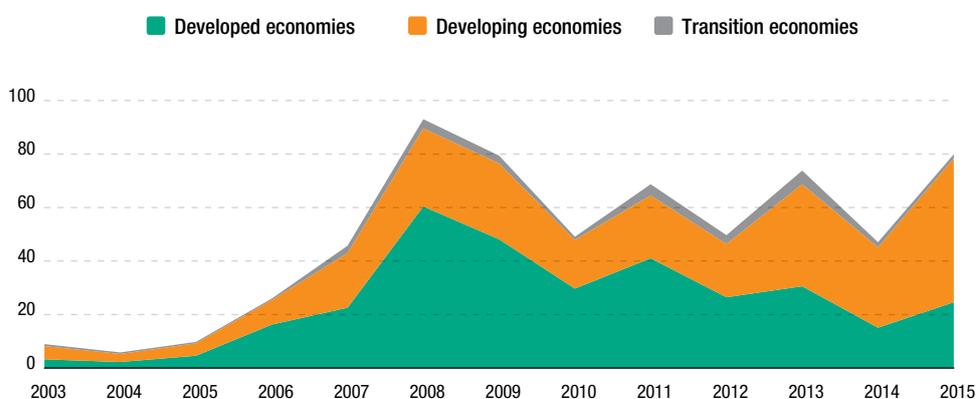
Source: ©UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

suggest that FDI in infrastructure is picking up (figure I.18). Yet existing investment still accounts for only a small fraction of the resources needed to meet the SDGs.

With the SDG targets and indicators agreed only in 2015, policies and processes to encourage further investment are not yet fully in place; and businesses, including MNEs, are just beginning to take on board the implications of the post-2015 development agenda. Several developments suggest that an increase in infrastructure FDI may be forthcoming. For instance, there is some evidence of MNEs' contribution to low-carbon activities related to climate change through greenfield investment projects, although this has partly stalled since the onset of the financial and economic crisis (figure I.19). Moreover, infrastructure financing is increasingly becoming available. Lenders are also increasingly applying sustainability measures when considering projects in these industries. This is the case for private banks, existing multilateral banks and emerging new ones, such as the New Development Bank and the Asian Infrastructure Investment Bank (*WIR14*). Nevertheless, achieving the post-2015 development goals will require far more significant commitments from MNEs from developed economies as well as from developing and transition economies, and a corresponding expansion in large-scale investment in SDG sectors, including infrastructure.

In the follow-up to the SDG adoption, the international community is trying to establish monitoring mechanisms (including the related data requirements) to measure and monitor progress towards the goals, and UNCTAD is playing its part (Inter-Agency Task Force, 2016).

**Figure I.19.** | **Announced greenfield projects in selected low-carbon business areas, by group of host economies, 2003–2015** (Billions of dollars)



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

Note: Low-carbon business areas include alternative/renewable energy, recycling and manufacturing of environmental technology.

### 3. Investment flows through offshore financial hubs

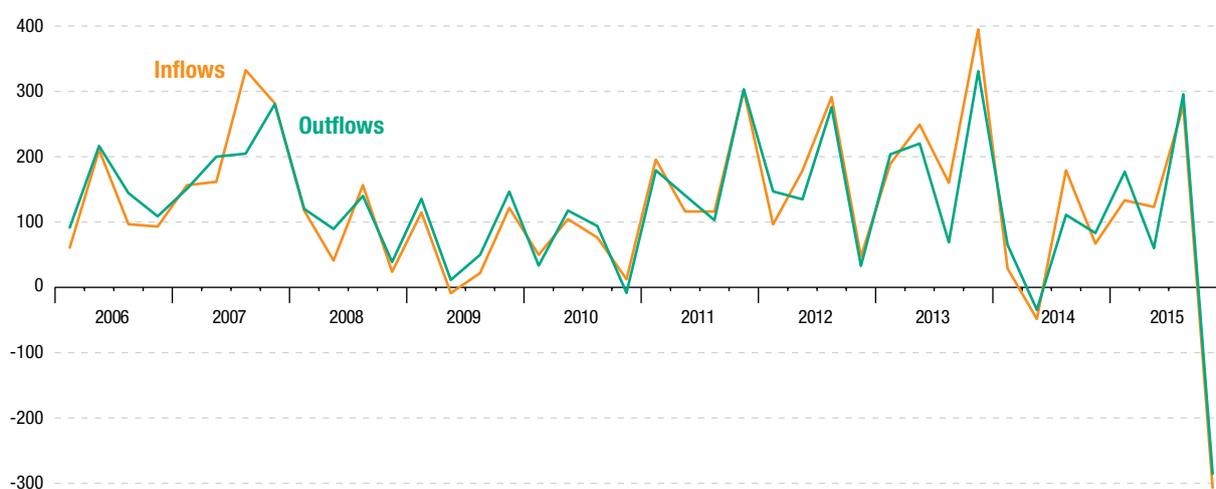
**Investment flows to offshore financial hubs declined but remain significant.** The volatility of investment flows to offshore financial hubs – including those to offshore financial centres and special purpose entities (SPEs)<sup>17</sup> – increased in 2015. These flows, which UNCTAD excludes from its FDI data, remain high.

Offshore financial hubs offer low tax rates or beneficial fiscal treatment of cross-border financial transactions, extensive bilateral investment and double taxation treaty networks, and access to international financial markets, which make them attractive to companies large and small. Flows through these hubs are frequently associated with intrafirm financial operations – including the raising of capital in international markets – as well as holding activities, including of intangible assets such as brands and patents.

**Investment flows through SPEs surged in volume in 2015.** Investment flows to SPEs, which represent the majority of offshore investment flows, registered significant volatility in 2015. Financial flows through SPEs surged in volume during much of the year. The magnitude of quarterly flows through SPEs, in terms of absolute value, rose sharply compared with 2014, reaching the levels registered in 2012–2013. Pronounced volatility, with flows swinging from large-scale net investment during the first three quarters to a huge net divestment during the last quarter, tempered the annual 2015 results (figure I.20).

The primary recipient of SPE-related investment flows in 2015 was Luxembourg. Flows to SPEs located in Luxembourg were associated with funds' financing investments in the United States. This was especially apparent in the first quarter of the year, when SPE inflows rose to \$129 billion. SPE outflows in the same quarter reached \$155 billion, which in turn was reflected in data from the United States, where inward FDI from Luxembourg topped \$153 billion (77 per cent of total inflows). After surging for three quarters, more than tripling their 2014 levels for the same period, SPE inflows turned negative in the last three months of the year, recording a net divestment of roughly \$115 billion, as SPEs in the country paid down intracompany loans to the tune of \$207 billion.

Figure I.20. Investment flows to and from SPEs, 2006 Q1–2015 Q4 (Billions of dollars)

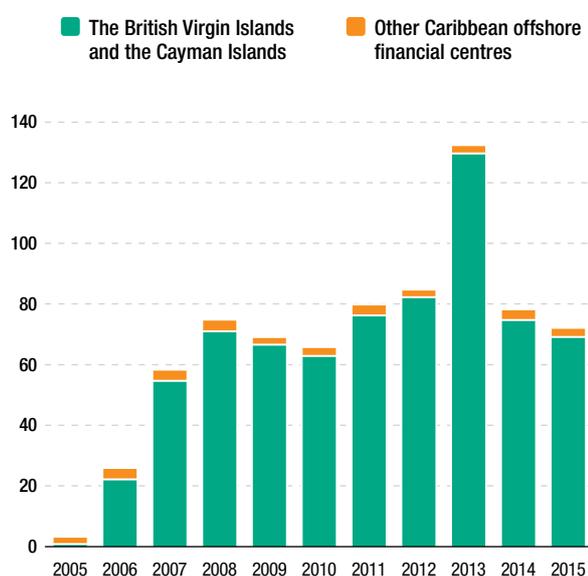


Source: ©UNCTAD.

Note: SPEs include all countries that publish SPE data.

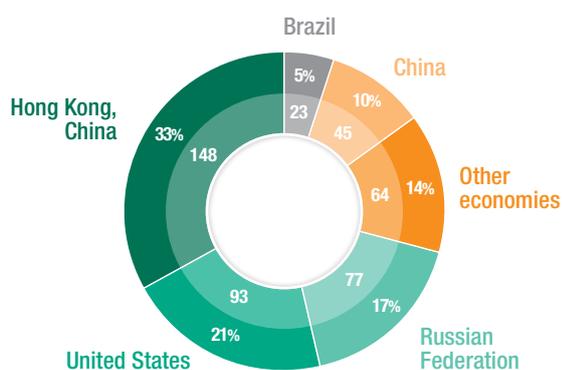
After registering a sharp decline in 2014, SPE-related inflows in the Netherlands initially showed signs of a rebound in 2015, rising from \$2 billion in the first quarter to \$148 billion in the third quarter (their highest quarterly level since the third quarter of 2007). As in Luxembourg, these flows retreated sharply in the fourth quarter, with a net divestment of equity capital and reinvested earnings of roughly \$200 billion. An analysis of the geographical breakdown of total investment flows suggests that this trend was driven by investors from Luxembourg and the United Kingdom. Reflecting the pass-through nature of these flows, outward investment flows by SPEs also tumbled in the fourth quarter, led by declines in overall investments targeting Luxembourg and the United Kingdom. The tight interrelation between SPE flows in Luxembourg and the Netherlands highlights the existence of dense and complex networks of these entities in both countries, with capital flowing rapidly among them in response to financing needs and tax planning considerations.

**Figure I.21. Investment flows to Caribbean offshore financial centres, 2005–2015** (Billions of dollars)



Source: ©UNCTAD.

**Figure I.22. Geographical origin of investment flows to the British Virgin Islands and the Cayman Islands, sum of 2010–2014 values** (Billions of dollars and per cent)



Source: ©UNCTAD.

Recent policy changes may be responsible for the most recent decline in investment flows to SPEs. The Netherlands, for instance, adopted new substance requirements for group financing and licensing companies; these requirements also allowed for the automatic exchange of information about entities that have little or no substance in the country with tax treaty partners and other EU countries. In Luxembourg, the authorities enacted a number of changes in their tax framework, including greater substance requirements, a revision of transfer pricing rules and a reform of the process and substance of tax rulings. In addition, in late 2015 both countries enacted general anti-abuse rules, as required by the amended EU Parent Subsidiary Directive, which seeks to eliminate abuse of the benefits of the directive for purposes of obtaining a tax advantage.<sup>18</sup> Given the volatile nature of offshore financial flows, the actual impact of these policy changes will become clearer over the next few years.

**Investment flows to Caribbean financial centres slowed but remain at a high level.** Flows to Caribbean offshore financial centres continued to decline from their 2013 record levels, when a single large cross-border M&A had caused them to surge markedly. Compared with that year, inflows in these economies were down 45 per cent, to an estimated \$72 billion in 2015, in line with the average for 2008–2012 (figure I.21).

Although MNEs from developed economies, in particular from the United States, traditionally have dominated flows to these jurisdictions, in recent years rising investment flows from developing and transition economies have played an important role. Between 2010 and 2014, Hong Kong (China), the Russian Federation, China and Brazil accounted for 65 per cent of investment flows to the two largest Caribbean financial centres, the British Virgin Islands and the Cayman Islands (figure I.22).

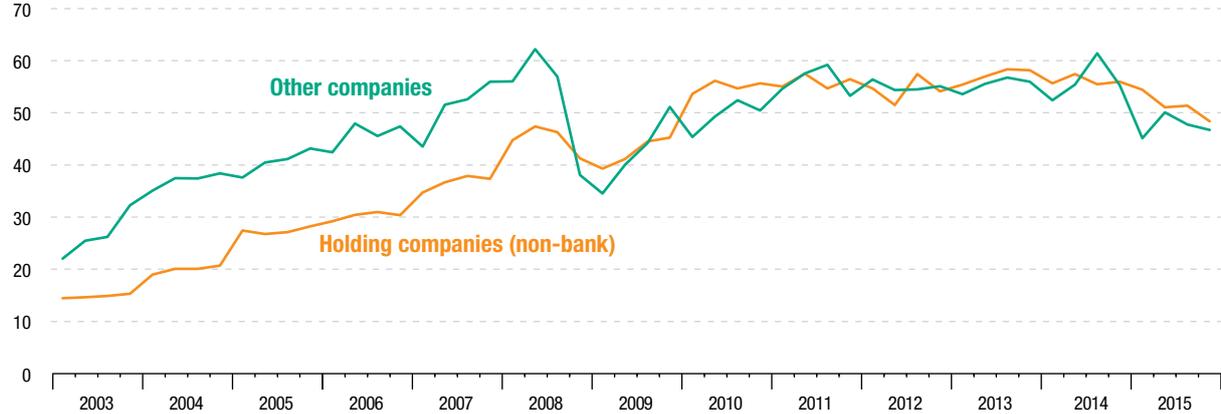
**High concentration of FDI income in low-tax, often offshore, jurisdictions.** A key concern for policymakers globally is the potential for a substantial disconnect between productive investments and income generation by MNEs with implications for sustainable development in their economies. As UNCTAD’s work for *WIR15* found, fiscal losses due to MNEs’ tax practices are sizable. The significant share of MNEs’ total FDI income booked in low-tax, often offshore, jurisdictions remains therefore problematic.

The ratios of income attributed to the foreign affiliates of outward-investing countries to the GDP of the economy where those affiliates are resident reveal profits that are out of line with economic fundamentals. For example, MNEs from a sample of 25 developed countries registered more profits in Bermuda (\$44 billion) than in China (\$36 billion) in 2014 (table I.2). Unsurprisingly, the share of their profits relative to the size of Bermuda’s economy is an impressive 779.4 per cent of GDP, compared with less than 1 per cent of GDP in a number of countries. Elevated ratios of FDI income to GDP can also be observed in other countries. For example, the FDI income of foreign affiliates (as reported by their home countries) in the Netherlands, Luxembourg, Ireland and Singapore relative to the GDPs of those countries all exceed the weighted world average by a substantial margin.

High ratios of FDI income to GDP reflect the emergence of holding companies as major aggregators of MNEs’ foreign profits. In the case of Bermuda, the outsized profits of foreign affiliates in the country largely reflect income attributed to investors from the United States. According to statistics from the United States, the majority of the outward direct investment position in Bermuda is in holding companies, which likely serve to channel investment to other countries as well as aggregate income – in line with the controlled foreign corporation (CFC) rules of the income tax code of the United States – from these investments for tax purposes.

Taking a longer term view, data from the United States highlights a significant shift in the sources of overall FDI income since the global economic and financial crisis (figure I.23). Before the crisis, most FDI income was generated from entities other than holding companies, the latter accounting for an average 4 per cent of total quarterly income between 2003 and 2008. In the aftermath of the crisis, however, the share of FDI income attributed to holding companies has steadily risen to a quarterly average of 52 per cent in 2015. The growing importance of holding companies is due to a number of factors, including the greater reliance on regional centres to coordinate activities in host countries, but their frequent location in jurisdictions with low tax rates or favourable fiscal regimes suggests that tax motivations play a key role.

**Figure I.23. United States: FDI income on outward investment, 2003 Q1–2015 Q4** (Billions of dollars)



Source: ©UNCTAD, based on data from the United States Bureau of Economic Analysis (BEA).

This shift towards holding companies as the principal aggregators of earnings has also increased the geographical concentration of where FDI income is ultimately booked. The economies that each accounted for 5 per cent or more of the United States' outward FDI stock in holding companies in 2014 – Bermuda, Ireland, Luxembourg, the Netherlands, the United Kingdom, and the United Kingdom Islands, Caribbean<sup>19</sup> – generated an average 40 per cent of FDI outward income between 2005 and 2008. In 2015, this share had risen to a quarterly average of 59 per cent, an increase of nearly 20 percentage points in the span of less than a decade.

**The urgent need for international tax and investment policy coordination.** Efforts to stem offshore financial flows have been under way at both the national and international levels. Besides the policy reforms in the Netherlands and Luxembourg mentioned above, and the European Commission anti-tax avoidance package, the United States has been gradually implementing the Foreign Account Tax Compliance Act (FATCA), which largely classifies as foreign financial institutions (FFIs) the affiliates of non-financial MNEs from the United States that are involved in group financing or holdings and thus triggers new compliance obligations. There has also been momentum towards tighter international cooperation in tax affairs, such as the Base Erosion Profit Shifting (BEPS) initiative launched by the G20 and the Organization for Economic Cooperation and Development (OECD) in 2013.

Revelations that firms large and small have been using offshore financial centres and jurisdictions to evade or avoid taxes have provided additional impetus to policy reforms in these areas. More efforts are indeed necessary, and the persistence of investment flows routed through offshore finance centres, as well as the level of profits booked in these jurisdictions, highlight the pressing need to create greater coherence among tax and investment policies at the global level. A lack of coordination between these two crucial policy areas will limit positive spillovers from one to the other, limiting potential gains in tax compliance as well as productive investment.

In *WIR15*, UNCTAD proposed a set of guidelines for coherent international tax and investment policies that could help realize the synergies between investment policy and initiatives to counter tax avoidance. Key objectives include removing aggressive tax planning opportunities as investment promotion levers; considering the potential impact of anti-avoidance measures on investment; taking a partnership approach in recognition of shared responsibilities between host, home and conduit countries; managing the interaction between international investment and tax agreements; and strengthening the role of both investment and fiscal revenues in sustainable development as well as the capabilities of developing countries to address tax avoidance issues.

Table I.2.

**Income booked in foreign affiliates, 2014** (Billions of dollars)

Partner economy	Outward FDI income (25 economies)		
	Value	Share of total	Relative to GDP
Netherlands	155	12.3	17.6
United States	114	9.1	0.7
United Kingdom	98	7.8	3.3
Luxembourg	74	5.9	114.4
Switzerland	62	5.0	8.9
Ireland	61	4.9	24.3
Singapore	57	4.6	18.6
Bermuda	44	3.5	779.4
Canada	41	3.3	2.3
China	36	2.9	0.3
Germany	32	2.6	0.8
Brazil	32	2.5	1.3
Cayman Islands	30	2.4	874.9
Belgium	26	2.1	4.9
Australia	24	1.9	1.7
Hong Kong, China	23	1.9	8.0
Spain	21	1.7	1.5
Japan	18	1.4	0.4
Russian Federation	18	1.4	1.0
France	17	1.4	0.6
Sweden	15	1.2	2.7
Mexico	15	1.2	1.2
Norway	13	1.0	2.6
Qatar	12	1.0	5.9
Austria	12	1.0	2.8
<b>Memorandum</b>			
208 economies	1 258	100.0	1.6

Source: ©UNCTAD, based on data from OECD and the United Nations Statistics Division.

# B. PROSPECTS

## Global FDI flows are expected to decline by 10–15 per cent in 2016. Over the medium term, flows are projected to resume growth in 2017 and surpass \$1.8 trillion in 2018.

These expectations are based on the current forecast for a number of macroeconomic indicators and firm level factors, the findings of UNCTAD's survey of investment prospects of MNEs and investment promotion agencies (IPAs), UNCTAD's econometric forecasting model for FDI inflows and preliminary 2016 data for cross-border M&As and announced greenfield projects.

The expected decline of FDI flows in 2016 reflects the fragility of the global economy, persistent weakness of aggregate demand, effective policy measures to curb tax inversion deals and a slump in MNE profits. Barring another wave of cross-border M&A deals and corporate reconfigurations, FDI flows are likely to decline in both developed and developing economies.

### 1. Key factors influencing future FDI flows

The world economy continues to face major headwinds, which are unlikely to ease in the near term. Global GDP is expected to expand by only 2.4 per cent, the same relatively low rate as in 2015 (table I.3). A tumultuous start to 2016 in global commodity and financial markets, added to the continuing drop in oil prices, have increased economic risks in many parts of the world. The momentum of growth slowed significantly in some large developed economies towards the end of 2015. In developing economies, sluggish aggregate demand, low commodity prices, mounting fiscal and current account imbalances and policy tightening have further dampened the growth prospects of many commodity-exporting economies. Elevated geopolitical risks, regional tensions and weather-related shocks could further amplify the expected downturn.

The global economic outlook and lower commodity prices has had a direct effect on the profits and profitability of MNEs, especially in extractive industries. After two years of increase, profits of the largest 5,000 MNEs slumped in 2015 to the lowest level since the global economic and financial crisis of 2008–2009 (figure I.24).

**Table I.3. Real growth rates of GDP and gross fixed capital formation (GFCF), 2014–2017**  
(Per cent)

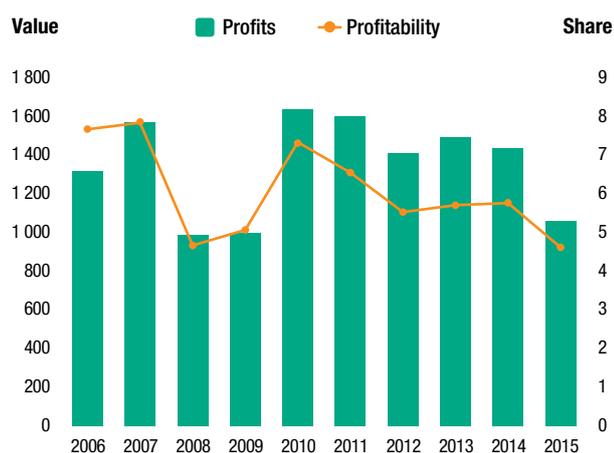
Variable	Region	2014	2015	2016	2017
GDP growth rate	World	2.6	2.4	2.4	2.8
	Developed economies	1.7	1.9	1.8	1.9
	Developing economies	4.4	3.8	3.8	4.4
	Transition economies	0.9	-2.8	-1.2	1.1
GFCF growth rate	World	3.8	2.2	3.2	4.2
	Advanced economies <sup>a</sup>	2.8	2.5	2.5	3.2
	Emerging and developing economies <sup>a</sup>	4.5	2.0	3.8	4.8

Source: ©UNCTAD, based on United Nations (2016) for GDP and IMF (2016) for GFCF.

<sup>a</sup> IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

A decrease of FDI flows in 2016 was also apparent in the value of cross-border M&A announced in the beginning of 2016. For the first four months, the value of cross-border M&A announcements (including divestments) was about \$350 billion, or 32 per cent lower than the same period in 2015. However, some industries such as agribusiness might see further consolidation in 2016 following megadeals announced by ChemChina (China) for Syngenta (Switzerland) for \$46 billion and by Bayer AG (Germany) for Monsanto (United States) for \$62 billion.

**Figure I.24.** Profitability and profit levels of MNEs, 2006–2015  
(Billions of dollars and per cent)



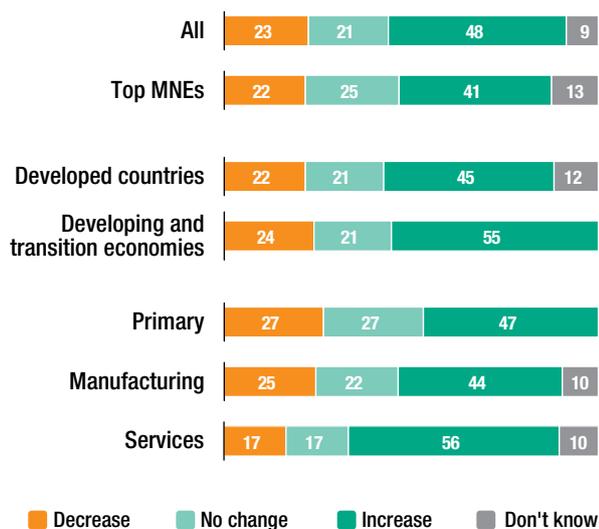
Source: ©UNCTAD, based on data from Thomson ONE.  
Note: Profitability is calculated as the ratio of net income to total sales.

The value of announced cross-border deals would have been larger if the United States Treasury Department had not imposed new measures to rein in corporate inversions in April 2016. The new rules, the Government's third wave of administrative action against inversions, make it harder for companies to move their tax domiciles out of the United States and then shift profits to low-tax countries. As a result, the \$160 billion merger of pharmaceutical company Pfizer (United States) with Ireland-based Allergan Plc was cancelled<sup>20</sup> (chapter II).

Over the medium term, FDI flows are projected to resume growth at 5–10 per cent in 2017 and surpass \$1.8 trillion in 2018, reflecting the projected increase in global growth.

## 2. UNCTAD business survey

**Figure I.25.** Executives' expectations for global FDI activity level, 2016–2018  
(Per cent of executives based in each region and sector)



Source: ©UNCTAD business survey.  
Note: The top MNEs are the respondents from among the 100 largest non-financial MNEs worldwide, ranked by foreign assets.

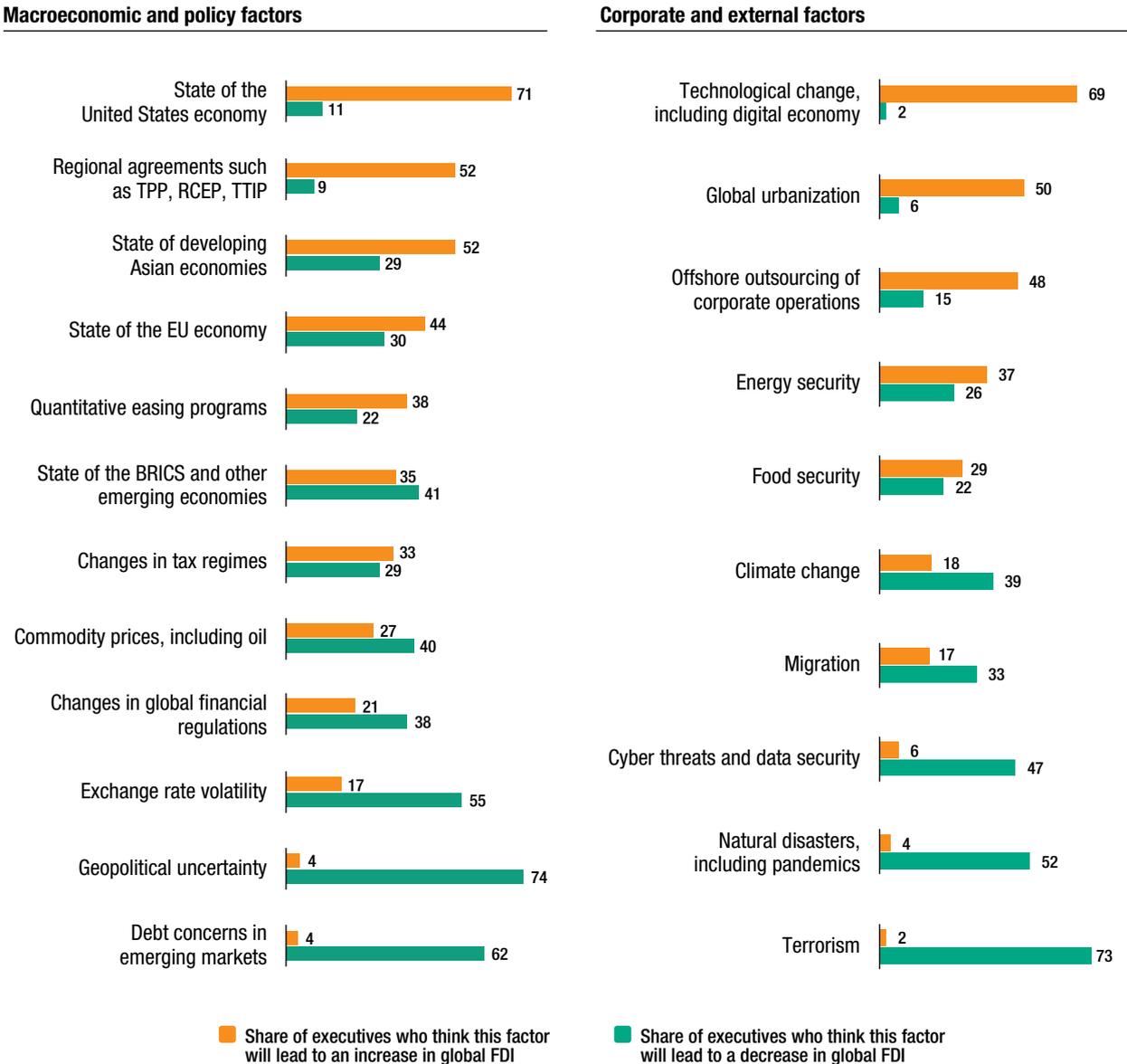
**Global FDI activity outlook.** This year's survey results reveal muted overall expectations for FDI prospects over the next three years, with less than half of all MNEs anticipating FDI increases to 2018; moreover, only 40 per cent of executives at top MNEs expect an increase (figure I.25). Macroeconomic factors, such as geopolitical uncertainty, exchange rate volatility and debt concerns in emerging markets, as well as other concerns such as terrorism and cyberthreats, are among the factors cited as influencing future global FDI activity (figure I.26). However, there are differences across sectors and between economic groupings. Executives from developing and transition economies are more optimistic than those at MNEs headquartered in developed countries; and not unexpectedly, given the decline in commodity prices, MNEs from the primary sector are more pessimistic than those in the manufacturing and, especially, services sectors (see figure I.25).

**Factors influencing FDI activity.** MNE executives do not universally agree on the likely impact – positive or negative – of potential factors on future global FDI activity; in some cases, it is a matter of perceptions (impressions of “the state of the EU economy”, for

instance, depend on the origin of the investor, the industry or the motive behind an investment) and in others, categories are complex (e.g. some BRICS are doing better than others). However, executives overwhelmingly considered factors such as the state of the United States economy; agreements such as the TPP, the RCEP and the TTIP; ongoing technological change and the digital economy; global urbanization; and offshoring as likely to boost FDI between now and 2018 (figure I.26). Clearly, MNEs have their eyes on longer-term trends such as rising urbanization in developing as well as developed countries (and hence, for instance, potential consumer markets), the digital economy and prospective megagroups. Geopolitical uncertainty, debt concerns, terrorism and cyberthreats are almost universally considered in a negative light and as likely to dampen FDI activity.

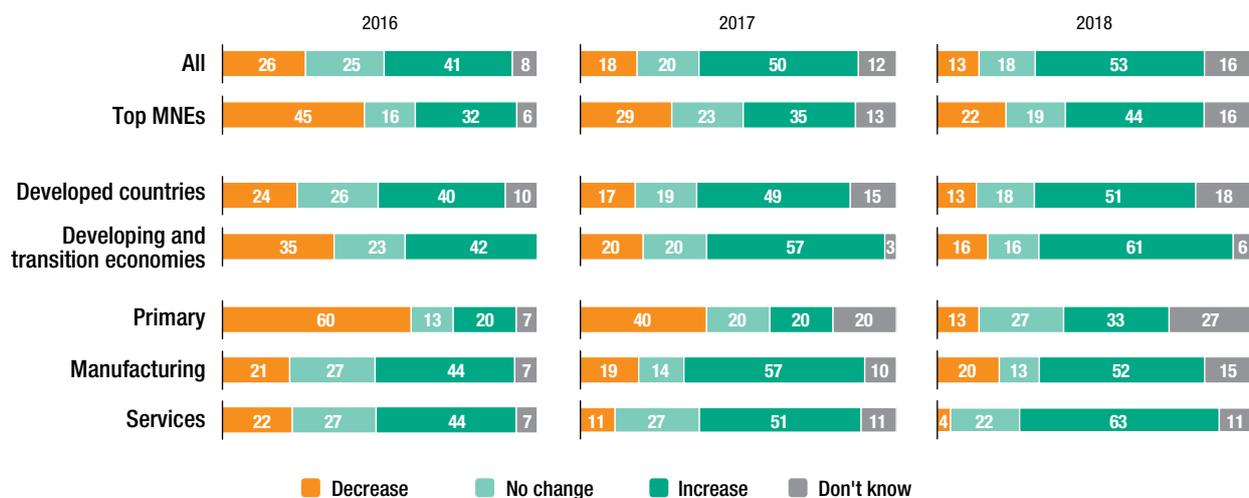
**FDI spending intentions.** The mix of factors influencing FDI activity, combined with uncertainty in the near term, translates into a mildly gloomy picture for FDI spending over the next three years. Overall about 40 per cent of executives expect their companies to increase FDI spending

**Figure I.26. Factors influencing future global FDI activity** (Per cent of all executives)



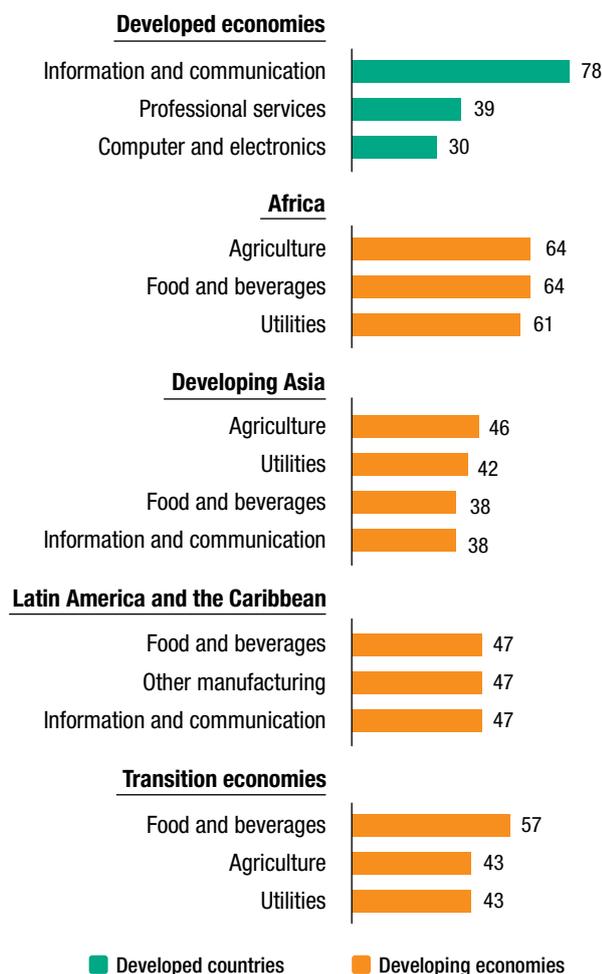
Source: ©UNCTAD business survey.

**Figure I.27. Executives' global FDI spending intentions, 2016–2018, with respect to 2015 levels**  
(Per cent of responding executives, based in each region and sector)



Source: ©UNCTAD business survey.

**Figure I.28. IPAs' selection of most promising industries for attracting FDI in their own economy, by region**  
(Per cent of IPAs responding)



Source: ©UNCTAD IPA survey.

in 2016, rising to 53 per cent by 2018; while 26 per cent expect a fall this year, declining to 13 per cent by 2018 (figure I.27). Top MNEs, which invest the most, are far more pessimistic. Only 32 per cent expect to spend more this year, while 45 per cent expect less FDI spending; and this marked difference with MNEs as a whole persists to 2018.

While developing- and transition-economy MNEs are more optimistic than those from developed countries overall (figure I.25), a bigger proportion are expecting to spend less (35 to 24 per cent) in 2016 (figure I.27). This reflects the difficult investment environment currently faced by MNEs from emerging economies. The biggest difference in spending, however, is between different sectors. Sixty per cent of MNEs in the primary sector – mainly oil, gas and mining – anticipate lower FDI expenditures this year, with only a fifth expecting an increase. This compares with MNEs in manufacturing and services, where a little over 20 per cent expect a fall and over 40 per cent an increase in both sectors. Moreover, the slump in prices and activity in the primary sector is expected to persist. By 2018 still only 33 per cent of MNEs in the primary sector expect to be spending more. The equivalent proportion for MNEs in manufacturing and services is much higher, at 52 and 63 per cent respectively.

**Most attractive industries in host economies.** IPAs surveyed this year identified the most promising industries for attracting FDI to their country. There are differences between regions and – mirroring the MNE survey – extractive industries do not appear among the

most promising in any region. Information and communication is identified as one of the top promising industries in three regions – developed countries, developing Asia and Latin America and the Caribbean (figure I.28).

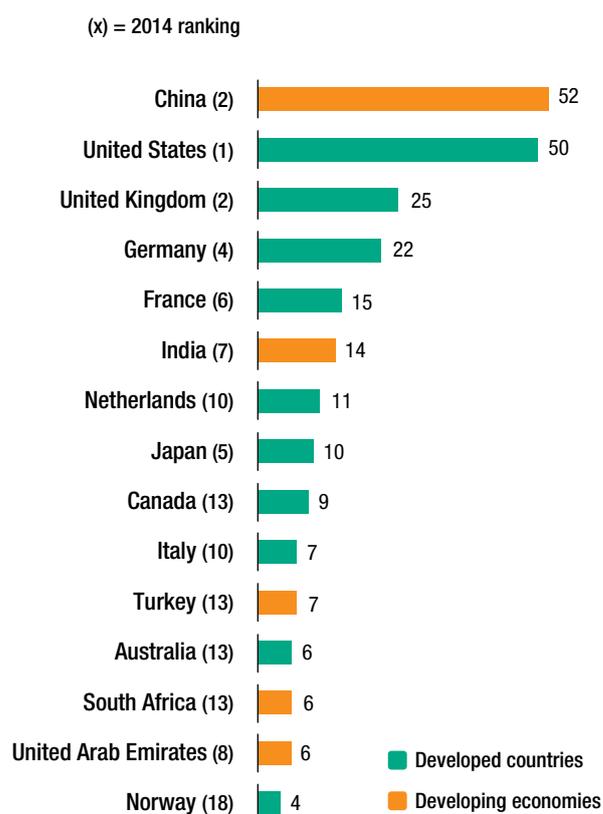
The industries regarded as most promising by IPAs in each region reflect the regional level of development, economic endowments and specialization. Thus, in addition to information and communication, IPAs in developed countries also select professional services and computers and electronics as being among the most promising for attracting FDI, while for developing and transition regions, industries most commonly chosen by IPAs are agriculture, food and beverages, and utilities.

For a large, middle-income region such as Latin America and the Caribbean, it is not surprising that food and beverages are deemed a promising industry; but the selection of “other manufacturing” by local IPAs, which includes everything from jewellery to medical equipment, indicates that there is a degree of niche specialization in the region. Developing Asia includes a very large number of countries, with vastly different endowments, from least developed countries to highly advanced, rich economies. The most promising industries in this region reflect this diversity: agriculture (a major endowment in some countries), utilities (necessary for the region’s development goals), food and beverages (as a whole, a burgeoning, urbanizing consumer market) and information and communication (both for development per se, but also because of major pockets of sophisticated specialization).

**Prospective top investing economies.** The most promising sources of investment, from the perspective of IPAs, is little changed from previous years, e.g. compared with 2015 India has moved up, as has Canada, while Japan has moved down and Spain has dropped out of the list. A number of potential investors, especially from developing economies, are perhaps magnified in terms of expectations, compared with their actual investments (figure I.29), but this probably reflects IPAs awareness of South–South and regional proximity and trends. Thus, three quarters of African agencies have identified China as their most promising investor, despite its slowing economy and decreasing demand for oil and minerals. Similarly, increased investment by India and Turkey (including in transition economies and landlocked countries in both cases; chapter II) has been observed; and although South Africa is investing less than in the past, it remains a big source in Southern Africa.

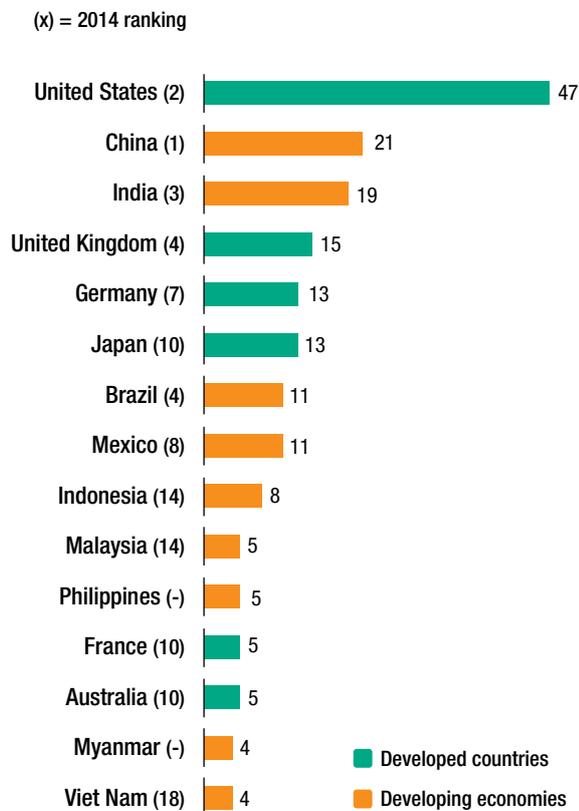
**Prospective top destinations.** MNEs’ three top prospective host countries – China, India and the United States – remain unchanged in this year’s survey compared with recent years, though the order has changed since last year (figure I.30). However, lower down in the ranking there has been some change. In particular Hong Kong (China) and Singapore do not rank in the top 14, while the Philippines and Myanmar

**Figure I.29.** IPAs’ selection of most promising home economies for 2016–2018  
(Per cent of IPA respondents selecting economy as a top source of FDI)



Source: ©UNCTAD IPA survey.

**Figure I.30. MNEs' top prospective host economies for 2016–2018**  
(Per cent of executives responding)



Source: ©UNCTAD business survey.

Note: Percentage of respondents selecting a country (each executive was asked to select the three most promising prospective host countries).

have entered the list. Eight of the top prospective host countries are developing economies in Asia and in Latin America and the Caribbean, which reflects the longer-term prospects of these two regions. Interestingly, the list does not include major destinations of inward investment in 2015 (and recent years), including Belgium, Canada, Ireland, Luxembourg and the Netherlands (as well as Hong Kong (China) and Singapore) (section A.1).

# C. INTERNATIONAL PRODUCTION

**International production continues to expand.** Sales and value added of MNEs' foreign affiliates rose in 2015 by 7.4 per cent and 6.5 per cent, respectively. Employment of foreign affiliates reached 79.5 million (table I.4). However, the return on FDI of foreign affiliates in host economies worsened, falling from 6.7 per cent in 2014 to 6.0 per cent in 2015.

**The foreign operations of the top 100 MNEs retreated in the wake of falling commodity prices, although employment increased.** Virtually all MNEs in extractive industries such as oil, gas and mining, which make up over a fifth of the top global ranking, reduced their operations abroad in terms of assets and sales; for instance, in the case of oil companies, lower prices reduced sales revenues by more than 10 per cent. Moreover, a number of global factors, including currency volatility and weaker demand, have unfavourably affected some companies'

**Table I.4. Selected indicators of FDI and international production, 2015 and selected years**

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2013	2014	2015
FDI inflows	207	1 418	1 427	1 277	1 762
FDI outflows	242	1 445	1 311	1 318	1 474
FDI inward stock	2 077	14 500	24 533	25 113	24 983
FDI outward stock	2 091	15 104	24 665	24 810	25 045
Income on inward FDI <sup>a</sup>	75	1 025	1 526	1 595	1 404
Rate of return on inward FDI <sup>b</sup>	4.4	7.3	6.5	6.7	6.0
Income on outward FDI <sup>a</sup>	122	1 101	1 447	1 509	1 351
Rate of return on outward FDI <sup>b</sup>	5.9	7.5	6.1	6.3	5.6
Cross-border M&As	98	729	263	432	721
Sales of foreign affiliates	5 101	20 355	31 865	34 149 <sup>c</sup>	36 668 <sup>c</sup>
Value added (product) of foreign affiliates	1 074	4 720	7 030	7 419 <sup>c</sup>	7 903 <sup>c</sup>
Total assets of foreign affiliates	4 595	40 924	95 671	101 254 <sup>c</sup>	105 778 <sup>c</sup>
Exports of foreign affiliates	1 444	4 976	7 469	7 688 <sup>d</sup>	7 803 <sup>d</sup>
Employment by foreign affiliates (thousands)	21 454	49 565	72 239	76 821 <sup>c</sup>	79 505 <sup>c</sup>
<b>Memorandum</b>					
GDP <sup>e</sup>	22 327	51 288	75 887	77 807	73 152
Gross fixed capital formation <sup>e</sup>	5 072	11 801	18 753	19 429	18 200
Royalties and licence fee receipts	29	172	298	311	299
Exports of goods and services <sup>e</sup>	4 107	15 034	23 158	23 441	20 861

Source: ©UNCTAD.

Note: Not included in this table are the value 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 MNEs 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, the 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 the share of those countries in worldwide outward FDI stock.

<sup>a</sup> Based on data from 174 countries for income on inward FDI and 143 countries for income on outward FDI in 2015, in both cases representing more than 90 per cent of global inward and outward stocks.

<sup>b</sup> Calculated only for countries with both FDI income and stock data.

<sup>c</sup> Data for 2014 and 2015 are estimated based on a fixed-effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2012.

<sup>d</sup> For 1998–2015, the share of exports of foreign affiliates in world exports in 1998 (33.3 per cent) was applied to obtain values. Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994.

<sup>e</sup> Data from IMF (2016).

business, especially firms in consumer goods. These adverse effects on the top MNEs were only partly offset by the impact of the digital economy and active corporate consolidation in 2015.<sup>21</sup>

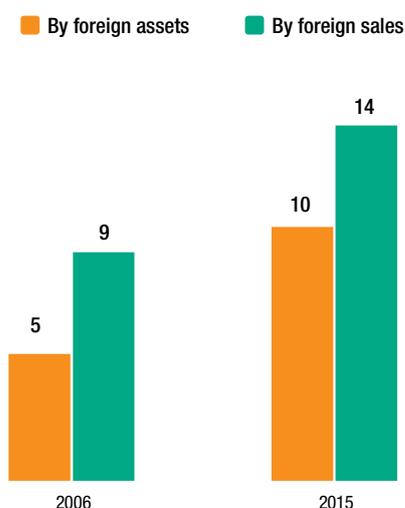
The top 100 largest non-financial MNEs' foreign operations fell in terms of foreign assets (down 4.9 per cent in 2015 over 2014), sales (down 14.9 per cent), while employment increased by 6.4 per cent (table I.5). With their domestic operations performing better, the foreign share of MNEs' total assets, sales and employment fell between 1.4 and 1.7 per cent (table I.5).

Weaker revenues have prompted other companies to refocus on their core business and domestic market, which has led to some divestments. A notable example is General Electric (United States) divesting from its finance businesses during 2015 (Antares, GE Capital, GE Capital Fleet, GE Commercial Lending and Synchrony), resulting in a reduction of the company's total assets of more than \$250 billion (almost a quarter of its 2014 value) and of its foreign assets by 15 per cent.

MNEs from developing and transition economies displayed different characteristics. They are more dynamic, with a higher number of new entrants each year and, consequently, more exits. With fewer oil MNEs in their ranking, foreign activities of top MNEs from developing and transition economies have been expanding, with assets, sales and employment up by 11.2, 6.6 and 2.2 per cent respectively. However, these data cover only 2014, and data for 2015 may well display a trend similar to that observed for top MNEs worldwide.

**Digital-economy companies increasingly feature among the top 100 MNEs, led by United States software giants and Asian equipment manufacturers.** The growing impact of the digital economy is becoming evident, driven by innovation; consumers' hunger for new devices and life styles linked to the digital economy; and companies' rapid uptake of new technologies. This is apparent in the rankings: 10 digital-economy MNEs – including two from developing economies – were part of the list of top MNEs by foreign assets in 2015, double the number in 2006 (figure I.31).

**Figure I.31.** Number of MNEs in the digital economy among the top 100 MNEs, by foreign assets and sales, 2006 and 2015



Source: ©UNCTAD, based on data from Thomson ONE.

Note: The digital economy includes computer, electronic components and communication equipment production, computer and data processing services and e-retailing.

Yet rankings based on foreign assets may underestimate the significance of companies in the digital economy. Apart from companies involved in hardware production, the MNEs most active in the digital economy – which includes e-commerce and e-business, as well as supporting infrastructure (equipment/hardware, software and telecommunications) – are typically “asset light”. Ranking companies by foreign sales is therefore more representative. On this basis, digital-economy MNEs account for 14 of the top 100, with technology giants such as Alphabet (United States) and Amazon (United States) appearing in the list. Furthermore, using foreign sales instead of assets also emphasizes the technological advance of emerging economies in recent years. The top “digital” companies includes five MNEs from developing and transition economies, including Samsung Electronics (Republic of Korea), Hon Hai Precision Industries (Taiwan Province of China) and Huawei Technologies (China).

### Developing- and transition-economy MNEs are closing the productivity gap.

The involvement of MNEs from developing and transition countries in the digital economy and related equipment manufacture is resulting in the narrowing of the productivity gap with developed-country MNEs. Improving labour productivity is especially evident in industries such as computers, electronics, electrical equipment, textiles and apparel, construction and trade (figure I.32).

Such industries are connected to internationally oriented, technologically more advanced segments of value chains and thus have greater potential to raise productivity at both the company and country level (*WIR13*). Exposure to trade, FDI and non-equity mode relationships with developed-country MNEs (and other firms) encourages flows of knowledge and best organizational practices to developing country MNEs, including through competition, demonstration effects, both technology transfer and technological spillovers, as well as acquisition by developing country MNEs of firms in developed countries<sup>22</sup> (*WIRO6*, *WIR11*, *WIR13*). In contrast, developing-country MNEs still lag farther behind in industries that are more traditional, mature or less internationalized – such as wood and wood products – or that are more oriented towards local markets, such as many services.

MNEs are central to global innovation patterns, and pivotal in the global value chains at the heart of the international trade and investment nexus. This makes them potential sources of technology, know-how and good practices to support productivity growth in local companies and economies. Just as MNEs from developing and transition economies from the top 100 rankings have gained from competition and collaboration with global MNEs, other companies in developing economies can do the same, including through South–South FDI.

The challenge is to effectively diffuse knowledge and productivity gains to a greater number of developing countries and, within countries, to wider sectors of the economy. Evidence suggests

Table I.5.

### Internationalization statistics of the 100 largest non-financial MNEs worldwide and from developing and transition economies (Billions of dollars, thousands of employees and per cent)

Variable	100 largest MNEs worldwide					100 largest MNEs from developing and transition economies		
	2013 <sup>a</sup>	2014 <sup>a</sup>	2013–2014 % change	2015 <sup>b</sup>	2014–2015 % change	2013 <sup>a</sup>	2014	% change
<b>Assets</b>								
Foreign	8 198	8 341	1.8	7 933	-4.9	1 556	1 731	11.2
Domestic	5 185	4 890	-5.7	4 921	0.6	3 983	4 217	5.9
Total	13 382	13 231	-1.1	12 854	-2.8	5 540	5 948	7.4
Foreign as % of total	61	63	1.8 <sup>c</sup>	62	-1.3 <sup>c</sup>	28	29	1.0 <sup>c</sup>
<b>Sales</b>								
Foreign	6 078	6 011	-1.1	5 115	-14.9	2 003	2 135	6.6
Domestic	3 214	3 031	-5.7	2 748	-9.3	2 167	2 160	-0.3
Total	9 292	9 042	-2.7	7 863	-13.0	4 170	4 295	3.0
Foreign as % of total	65	66	1.1 <sup>c</sup>	65	-1.4 <sup>c</sup>	48	50	1.7 <sup>c</sup>
<b>Employment</b>								
Foreign	9 555	9 375	-1.9	9 973	6.4	4 083	4 173	2.2
Domestic	6 906	6 441	-6.7	7 332	13.8	7 364	7 361	0.0
Total	16 461	15 816	-3.9	17 304	9.4	11 447	11 534	0.8
Foreign as % of total	58	59	1.2 <sup>c</sup>	58	-1.6 <sup>c</sup>	36	36	0.5 <sup>c</sup>

Source: ©UNCTAD.

Note: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year and 31 March of the following year. Complete 2015 data for the 100 largest MNEs from developing and transition economies are not yet available.

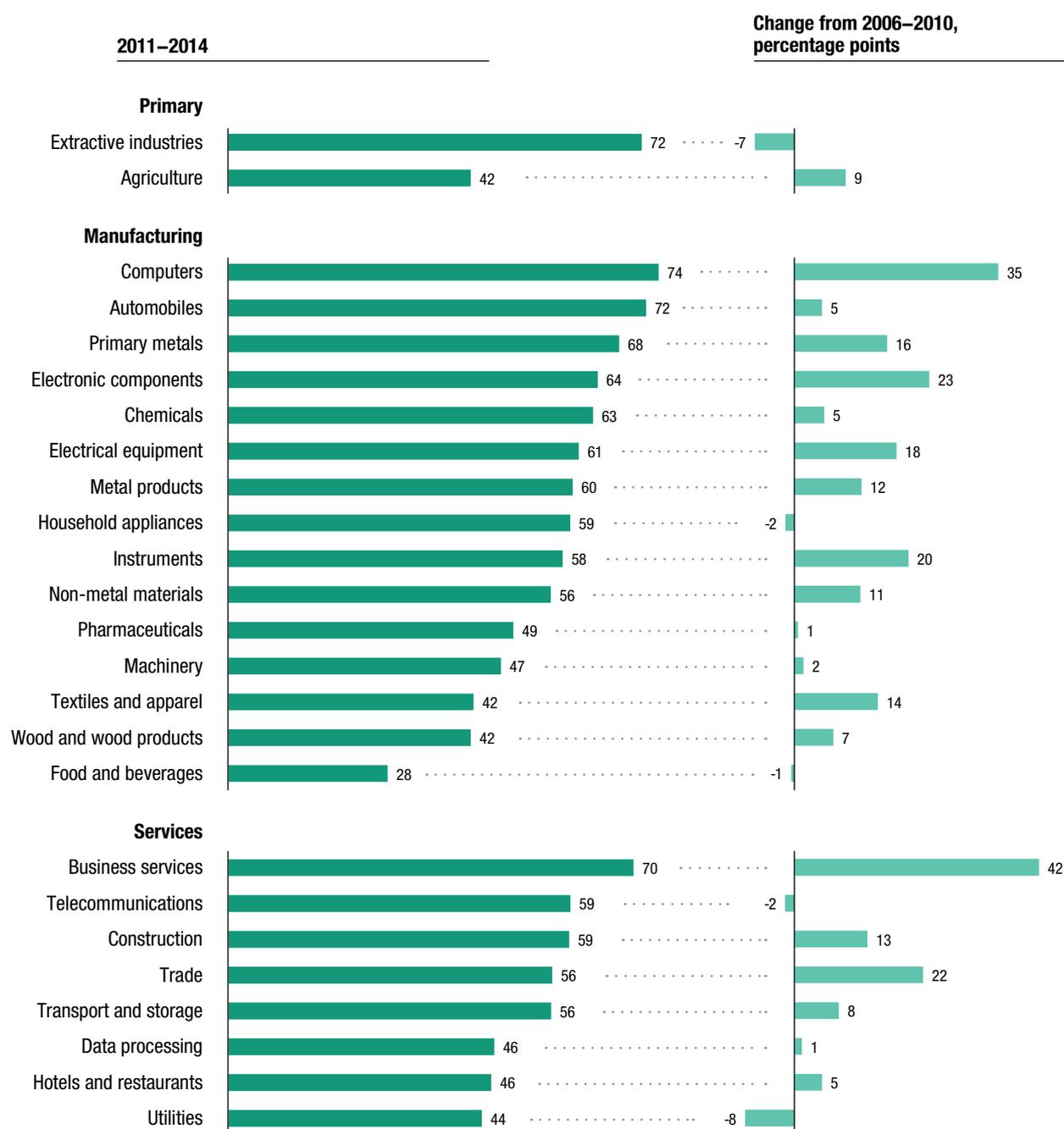
<sup>a</sup> Revised results.

<sup>b</sup> Preliminary results.

<sup>c</sup> In percentage points.

that a coordination of trade and investment policies is an effective tool to facilitate technological upgrading and development (WIR13; OECD, 2015a). Policies that are essential to promote such diffusion include supporting investment in human capital and infrastructure, as well as sectoral restructuring seeking to release resources from unproductive industries to more competitive ones. Also important is to support domestic R&D, innovation and other activities to build capabilities and absorptive capacity at both the economy and the enterprise levels.

**Figure I.32. Labour productivity of developing- and transition-economy MNEs as a ratio to that of developing-economy MNEs, selected industries, average 2011–2014 (Per cent)**



Source: ©UNCTAD, based on data from Thomson ONE.

# NOTES

- <sup>1</sup> FDI data may differ from one *WIR* issue to another as data are continually revised, updated and corrected by the responsible authorities, such as central banks and statistical offices, that provide FDI data to UNCTAD.
- <sup>2</sup> Greenfield investment projects data refer to announced projects. The value of such a project indicates the capital expenditure planned by the investor at the time of the announcement. Data can differ substantially from the official FDI data as companies can raise capital locally and phase their investments over time, and a project may be cancelled or may not start in the year when it is announced.
- <sup>3</sup> There are differences in value between global FDI inflows and global FDI outflows, and these flows do not necessarily move in parallel. This is mainly because home and host economies may use different methods to collect data and different times for recording FDI transactions. For this year, the difference is more pronounced because of different methodologies used for recording transactions related to tax inversion deals.
- <sup>4</sup> Tariff reductions may or may not affect FDI decisions. Much depends on their extent and the net effect on the overall transaction costs of investing and operating in a group. If most-favoured-nation (MFN) tariffs are already low, further reductions are unlikely to have a significant impact on FDI. Deep tariff cuts on high starting rates, by contrast, are more likely to encourage “FDI diversion” as well as “FDI creation” effects.
- <sup>5</sup> Member economies are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.
- <sup>6</sup> The negotiation of the proposed TTIP agreement is already influencing corporate plans. More than 25 per cent of companies surveyed by A.T. Kearney (2014) said they had already changed their investment plans because of the prospective TTIP, and more than 50 per cent plan to do so once the agreement is finalized and ratified.
- <sup>7</sup> Consists of 21 Pacific Rim economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan Province of China, Thailand, the United States and Viet Nam.
- <sup>8</sup> MNEs from the United States also have a significant presence in the Asian partner economies.
- <sup>9</sup> Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam.
- <sup>10</sup> A few studies indicate that some investors have begun taking into account the expected establishment of the TPP trade agreement in their investment decisions. For instance, Japanese companies in the United States and Canada plan to use the TPP to conduct their import-export activities in the rest of the group (JETRO, 2015a, 2015b). About 22 per cent of the 300 executives surveyed by AT Kearney (2014) indicated that the prospect of the TPP had already affected their corporate FDI decisions in favour of the 12 Pacific Rim member countries, while over 50 per cent suggested that the agreement, if implemented, will influence their investment decisions.
- <sup>11</sup> Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.
- <sup>12</sup> Australia, China, India, Japan, the Republic of Korea and New Zealand.
- <sup>13</sup> Brazil, the Russian Federation, India, China and South Africa.
- <sup>14</sup> Hong Kong (China) accounted for 38 per cent of investment in services in developing economies and 12 per cent of the world total in 2014.
- <sup>15</sup> See e.g. Rakteem Katakey, “BP profit tumbles 91 per cent amid oil slump, falling short of estimates”, Bloomberg, 2 February 2016.
- <sup>16</sup> Dan Molinski, “Offshore drillers’ problem: few oil firms need their rigs”, Wall Street Journal, 28 April 2015.
- <sup>17</sup> Although there is no specific definition of an SPE, they are characterized by little or no real connection to the economy in which they are resident but serve an important role within an MNE’s web of affiliates by holding assets or liabilities or by raising capital.
- <sup>18</sup> Council Directive (EU) 2015/121 of 27 January 2015, amending Directive 2011/96/EU, on the common system of taxation applicable in the case of parent companies and subsidiaries of member States.
- <sup>19</sup> The “United Kingdom Islands, Caribbean” includes the British Virgin Islands, the Cayman Islands, Montserrat, and the Turks and Caicos Islands.
- <sup>20</sup> “Pfizer Walks Away From Allergan Deal”, Wall Street Journal, 6 April 2016.

<sup>21</sup> For example, the inclusion in the top rankings of the pharmaceutical company Allergan (Ireland) after the inversion deal with Actavis, and of the software provider SAP SE (Germany) after its acquisition at the end of 2014 of Concur Technologies Inc. (United States).

<sup>22</sup> Such investments seek to access, obtain or create technology assets to enhance innovation capabilities. Technology assets are strategic assets critical to firms' long-term competitiveness (Dunning and Narula, 1995; *WIR06*; *WIR14*; Lyles, Li and Yan, 2014).