INVESTMENT BY SOUTH TNCs CONTINUES TO GROW: DEVELOPING ASIA BECAME THE WORLDS' LARGEST INVESTOR REGION

**HIGHLIGHTS**

- In 2014, transnational corporations (TNCs) from developing economies alone invested almost half a trillion US dollar abroad – a 30% increase from the previous year. Their share in global foreign direct investment (FDI) reached a record of 36%, up from 12% in 2007, the year prior to the financial crisis (figure 1).

Figure 1. Developing economies: FDI outflows and their share in total world outflows, 2000-2014
(Billions of US dollars and per cent)

- Developing Asia has become, for the first time, the world’s largest investor region with US$440 billion invested, followed by North America (US$390 billion) and Europe (US$286 billion).

- In 2014, Hong Kong (China) and China were the second and the third largest investors in the world, after the United States. Among 20 largest investors, nine were either from developing or transition economies.

Source: ©UNCTAD.
Note: Excluding Caribbean offshore financial centres.
• **Investments by developed country TNCs were largely flat at US$792 billion**, with the modest rise in flows from North America and Europe more than offset by a 16% decline in Japanese investment abroad.

• **More than half of investments from TNCs based in developing economies were in equity**, while as much as four-fifths of FDI outflows from developed country TNCs were in the form of reinvested earnings – the result of record amounts of cash reserves in their foreign affiliates.

• **The value of cross-border merger and acquisitions (M&As) surged to US$399 billion in 2014 – 28% above 2013 levels.** Megadeals dominated the scene in 2014. TNCs from the South continued to acquire developed country foreign affiliates in developing world.

• **Announced greenfield investment projects rose by only 7% reaching US$744 billion.** The increase was driven mainly by investments from TNCs of the South. Greenfield investors from developed countries, however, account for a larger share (66%).

• **UNCTAD estimates that TNC investment appetite will improve**, encouraged by better economic prospects, especially in the United States, proactive monetary policy in the Eurozone and the large cash holdings of companies. However, TNCs remain guarded due to the fragility in some emerging markets, exchange rate volatility and increased geopolitical tensions.

Investment activity by TNCs from the South increased by 30% in 2014, reaching a record level of US$486 billion (excluding transition economies and offshore financial centres in the Caribbean). Among developing regions, TNCs from Asia, Latin America and the Caribbean increased their investment abroad, while those from Africa reduced theirs. Developing Asian TNCs for the first time became the world's largest investors, accounting for almost one third of the total (figure 2 and table 1).

**Figure 2. FDI outflows, by groups of economies and region, 2012–2014**

(Billions of US dollars)

Source: ©UNCTAD.

Note: Excluding Caribbean offshore financial centres. Estimates as of 30 April 2015.

---

1 Data for 2014 in this Monitor includes estimates as of 30 April 2015. Final data will be in the World Investment Report 2015, to be released on 24 June 2015.
In 2014, investors from the South continued their expansion abroad. The slowing down of their economies may have boosted the desire of their TNCs to diversify abroad. TNCs from developed countries were active in cross-border M&A markets both in new acquisitions and large divestments.

More than half of FDI outflows from TNCs in developing economies were in equity, while developed country TNCs continued to hold large amounts of cash reserves in their foreign affiliates in the form of reinvested earnings, which accounted for a record 81% of total FDI outflows (figure 3).

**Figure 3.** FDI outflows by components, by group of economies, 2007–2014 (Per cent of FDI outflows)

- Developed country\textsuperscript{a} TNCs
- Developing economy\textsuperscript{b} TNCs

Source: ©UNCTAD.

**Developing country investment spread the globe**

In 2014, nine of the twenty largest investors were from developing or transition economies including Hong Kong (China), China, the Russian Federation, Singapore, the Republic of Korea, Malaysia, Chile, Kuwait and Taiwan Province of China (figure 4).

FDI outflows from developing Asia increased by a third to some US$440 billion in 2014. The growth was widespread across all the major Asian economies and subregions.

- In East Asia, investment by TNCs in Hong Kong (China) jumped to a historical level of US$150 billion, making the economy the second largest investor in the world, trailing behind only the United States. The phenomenal growth was mainly due to booming cross-border M&A activity such as the purchases of Envestraa (Australia) by Cheung Kong Holdings for US$2.4 billion and the acquisition of CSL New World Mobility (Australia) by HKT Group Holdings for US$1.8 billion. In the meantime, investment by Chinese TNCs grew faster than inflows into the country, reaching a new high of US$116 billion. As a result, the share between inflows and outflows changed from 11:1 in 2004 to almost 1:1 in 2014.
- In South-East Asia, the increase was principally the result of surging outflows from Singapore, at US$41 billion in 2014 as a result of deals such as Temasek Holdings' acquisition of a 25% stake in AS Watson (Hong Kong, China) for US$5.6 billion. Outflows from Malaysia rose as well, to US$16 billion.
- In South Asia, FDI outflows from India reversed the slide of 2013, increasing fivefold to US$12 billion in 2014. As the performance of the Indian economy improved, large Indian TNCs resumed their international expansion.
Investments from West Asian TNCs rose by 16% in 2014, driven by increased flows from Kuwait that emerged once again as the region’s largest overseas investor, with flows of US$12.7 billion. Investments by Turkish TNCs jumped by 89% to US$6.7 billion mainly through equity outflows. Turkish TNCs have consistently increased the level of outward FDI in recent years, although a slight decrease was registered in 2013.

TNCs from Latin America and the Caribbean (excluding offshore financial centres) increased their investment by 14% to US$35 billion in 2014. This growth was driven by Chilean TNCs – the region’s main direct investors abroad in 2014 – with flows increasing by 51% to US$13 billion boosted by a strong increase in intra-company loans. Brazilian TNCs continued to receive repayments of loans or borrow loans from their foreign affiliates, resulting in negative FDI outflows for the fourth consecutive year. Among the other main direct investors, Mexico outward flows plummeted by 42% to US$8 billion – triggered mainly by the fall of intra-company loans.

**Figure 4. Top 20 investors, 2014**
(Billions of US dollars)

Investments from Africa decreased by 21% in 2014 to US$11 billion. South African TNCs invested in telecommunications, mining and retail while those from Nigeria focused largely on financial services. Intra-African investments rose significantly during the year.

TNCs from transition economies decreased their investment abroad by 31% to US$63 billion. Natural resource-based TNCs, mainly from the Russian Federation, reduced their investment abroad, due to constraints in international financial markets, low commodity prices and the strong depreciation of the rouble.
Investment by developed country TNCs remained flat

Investments from TNCs based in developed economies reached US$792 billion, virtually unchanged from 2013. But the static trend hides a flurry of both new investments and divestments that cancel each other out in the collated numbers, thus creating a skewed overall picture.

Outflows from European TNCs remained flat, rising by only 2%. The rises of investments by German and French TNCs were offset by the negative flows from the United Kingdom, Luxembourg and Italy. Outward FDI increased from Germany (up US$82 billion to US$112 billion) and France (up US$59 billion to US$56 billion from a negative value) with the former becoming the largest investor country in Europe. In addition to changes in the flows of intra-company loans, German and French firms actively made acquisitions abroad. Examples include the acquisition of the consumer care business of Merck in the United States by Bayer (Germany) for US$14.2 billion and the acquisition of the United Kingdom-based manufacturer Invensys by Schneider Electric (France) for US$5 billion. Vodafone's divestment from its stake in Verizon Wireless heavily dented outflows from the United Kingdom (down US$45 billion to -US$60 billion). Divestments by Italian TNCs, including Enel's divestment from its oil interest in the Russian Federation and the Italian retailer Gruppo PAM's sale of its stake in the Swiss retailer the Nuance Group, contributed to the fall of Italian outward FDI to -US$1.1 billion. Outflows from Luxembourg (down US$34 billion to -US$4.3 billion) also fell sharply, primarily due to changes in intra-company loans.

In North America, active acquisitions of assets by Canadian TNCs, such as Encana's bid for the United States oil and gas production and exploration company Athlon Energy for US$6.8 billion, pushed up its outflows to US$53 billion. FDI from the United States rose by 3% to US$337 billion. Investment in and divestment from equity and lending, and the withdrawal of intra-company loans cancelled out each other so that all of United States TNCs' outward investment in 2014 constituted reinvested earnings.

FDI from Japan declined by 16% ending a three-year expansion run. Although Japanese TNCs' investments into North America kept apace, they declined sharply in major recipient economies in Asia and Europe.

South TNCs continued acquiring assets owned by developed country firms in the developing world

In 2014 the value of cross-border M&A purchases surged by 28%, reaching US$399 billion largely on the back of increased investment flows from both developed and developing economy TNCs.

During 2014, cross-border M&As from developed country TNCs increased by 28% to US$228 billion, 90% of which targeted other developed country TNCs. The decline of investment in the primary and services sectors was more than compensated for by the rise of purchases in the manufacturing sector, mainly in chemicals. Large acquisitions took place in pharmaceuticals (for example Walgreen Co (United States) acquired the remaining 55% of Alliance Boots (Switzerland) for US$15.3 billion, and Bayer (Germany) acquired the consumer care business of Merck (United States) for US$14.2 billion). At the same time, however, developed country TNCs divested heavily in 2014. In addition to the US$130 billion Vodafone-Verizon megadeal, Nestlé (Switzerland) sold its 8% share in L'Oreal for US$9 billion. Large acquisitions, mostly targeting developed countries, took place in 2014. Out of the 223 megadeal acquisitions (i.e. deals with more than US$1 billion), 171 took place in developed economies.
Table 1. FDI outflows, by region and major economy, 2012–2014
(Billions of US dollars)

<table>
<thead>
<tr>
<th>Region / Economy</th>
<th>2012</th>
<th>2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Growth rate 2013–2014 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1280</td>
<td>1263</td>
<td>1341</td>
<td>6.2</td>
</tr>
<tr>
<td>Developed economies</td>
<td>875</td>
<td>797</td>
<td>792</td>
<td>-0.7</td>
</tr>
<tr>
<td>Europe</td>
<td>380</td>
<td>280</td>
<td>286</td>
<td>2.0</td>
</tr>
<tr>
<td>European Union</td>
<td>321</td>
<td>248</td>
<td>250</td>
<td>0.6</td>
</tr>
<tr>
<td>United States</td>
<td>311</td>
<td>328</td>
<td>337</td>
<td>2.6</td>
</tr>
<tr>
<td>Japan</td>
<td>123</td>
<td>136</td>
<td>114</td>
<td>-16.3</td>
</tr>
<tr>
<td>Developing economies</td>
<td>351</td>
<td>374</td>
<td>486</td>
<td>30.0</td>
</tr>
<tr>
<td>Africa</td>
<td>12</td>
<td>14</td>
<td>11</td>
<td>-20.6</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>44</td>
<td>31</td>
<td>35</td>
<td>14.3</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>294</td>
<td>329</td>
<td>440</td>
<td>33.9</td>
</tr>
<tr>
<td>West Asia</td>
<td>23</td>
<td>33</td>
<td>38</td>
<td>16.4</td>
</tr>
<tr>
<td>East Asia</td>
<td>211</td>
<td>227</td>
<td>311</td>
<td>37.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>9</td>
<td>2</td>
<td>12</td>
<td>407.5</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>51</td>
<td>67</td>
<td>79</td>
<td>18.5</td>
</tr>
<tr>
<td>Transition economies</td>
<td>54</td>
<td>91</td>
<td>63</td>
<td>-31.1</td>
</tr>
</tbody>
</table>

Source: ©UNCTAD. The data can be cited provided acknowledgement is explicitly given to UNCTAD.

<sup>a</sup> Revised.

<sup>b</sup> Estimated.

Note: FDI in this Trends Monitor are primarily based on (extended) directional principle, though there are some countries for which the asset/liability data are used. World FDI outflows are projected on the basis of 126 economies for which data are available for the full year or part of 2014, as of 30 April 2015. Data are estimated by annualizing their available data, in most cases the first three quarters of 2014. The proportion of outflows to these economies in total outflows from their respective region or subregion in 2013 is used to extrapolate the 2014 regional data. Data exclude Caribbean offshore financial centres.

TNCs based in developing economies increased their M&As abroad by 27% to US$152 billion, continuing to acquire firms and other assets owned by developed country TNCs also in the host developing world. For example MMG South America Management Co Ltd (Hong Kong, China) acquired Xstrata Peru – a foreign affiliate of Glencore/Xstrata (Switzerland) – for US$7 billion, and Emirates Telecommunications Corp (United Arab Emirates) bought a 53% stake of Itissalat Al Maghrib SA – a foreign affiliate of Vivendi (France) – for US$5.7 billion.

Unlike cross-border M&As, the growth of announced greenfield investment projects was tepid, struggling to recover from the trough in 2012. However, the aggregate picture disguises different performances by grouping. The growth of greenfield investment projects by developing economies in the past two years was steady and broad-based, while the trend of those by developed economies was weak. As in the past years South TNCs invested the bulk of greenfield projects (80% of the total in 2014) in other developing economies (figure 5).
Overall TNCs’ investment appetite is growing

The gradual improvement of macroeconomic conditions, especially in North America, and proactive monetary policy in the Eurozone, coupled with increased investment liberalization and promotion measures will improve the investment appetite of TNCs in 2015 and beyond. In addition to record levels of cash holdings by TNCs, the prospects for developed economies have been upgraded with average economic growth rates projected to accelerate from 1.6% in 2014 to 2.2% in 2015. Almost all major developed economies are expected to see the growth momentum picking up. However, negative factors, such as geopolitical instability and the decline in commodity prices will lower investment, but this is expected to be geographically limited and affect specific sectors only, including oil and gas and other commodity industries.
Detailed and individual region/country final data for 2014 will only be available in the World Investment Report 2015, scheduled to be released on 24 June 2015.

The next issue of UNCTAD’s Global Investment Trends Monitor on investment data will be released in mid-October 2015.