



UNITED NATIONS

# UNCTAD

## Global Investment Trends Monitor

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### Fourth Quarter of 2009 and First Quarter of 2010

#### HIGHLIGHTS

- Foreign direct investment (FDI) flows remained relatively stable during the fourth quarter of 2009, though at a level much lower than that of 2007 and 2008. UNCTAD's FDI Global Quarterly Index was practically unchanged at 117 over the previous quarter, and half the level in the first quarter of 2008 (table 1).

Table 1. UNCTAD's FDI Global Quarterly Index

(2005 = 100)

2008 Q1	218.5
2008 Q2	169.6
2008 Q3	155.6
2008 Q4	154.1
2009 Q1	72.0
2009 Q2	115.3
2009 Q3	117.5
2009 Q4	117.4

- During the last quarter of 2009 only a handful of economies – including China, Hong Kong (China) and Ireland – received

more FDI inflows than those in the quarterly average of 2007.

- Among the three components of FDI flows, equity flows – the most closely linked to real investment operations abroad – compared to reinvested earnings and other capital (intra-company loans) remained at a very low level. Transnational corporations (TNCs) thus apparently remained cautious regarding their international investment expenditures during the last quarter of 2009, as also illustrated by the low value of cross-border mergers and acquisitions (M&As) and number of greenfield projects.
- Prospects for the first quarter of 2010 are better as indicated by improvements of the global business environment and a growing optimism of TNC executives regarding their

own company's prospects and a pick-up in the value of cross-border M&As.

- In general, growth of FDI inflows trails economic growth. The current trend of gross domestic product (GDP) turned positive in mid-2009. Government policies regarding the current crisis have double-edged effects. While the majority of these policies may promote and facilitate FDI, some policies such as increased screening requirements and new limitations of foreign equity may work against renewed flows.
- With the slight drop in the number of greenfield projects in the first quarter of 2010, it is premature to say that FDI is now on a strong rebound. TNCs still remain very cautious in their international investment programmes.

#### FDI remained stable at a low level during the fourth quarter of 2009

After a continuous drop from the fourth quarter of 2007 to the first quarter of 2009, followed by a slight pick-up in the second quarter of 2009, FDI inflows have remained practically unchanged,

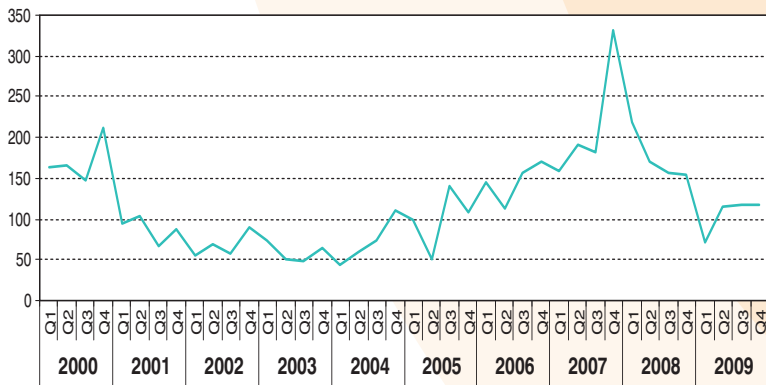
at a low level, for the last three quarters (figure 1). The value of the UNCTAD's FDI Global Quarterly Index<sup>1</sup> remained at 117 in the fourth quarter, a level similar to that of the third quarter of 2009

and comparable to the 2006 average, but markedly lower than that in 2007 and 2008.

Inflows to most of the major recipient countries remained much lower than those in the quarterly

<sup>1</sup> This index is based on national data on FDI inflows for over 60 major FDI recipients around the world, representing more than 90 per cent of total FDI inflows in 2008.

**Figure 1. UNCTAD's Global FDI Quarterly Index, 2000 Q1- 2009 Q4**  
(Base 100: quarterly average of 2005)



Source: UNCTAD.

average of 2007. This is the case for Canada, Japan, the Netherlands, the Russian Federation, Spain, Switzerland and the United States, among others, where FDI inflows dropped significantly during the fourth quarter of 2009. In some other countries, FDI inflows rose as compared to the third quarter, but remained markedly lower than those in the quarterly average of 2007. This is the case, in particular, of Belgium, France and the United Kingdom. Only in a handful of economies such as China, Hong Kong (China), Ireland, and, to a smaller extent, Norway, were inflows larger in the last quarter of 2009 than those in the quarterly average of 2007.

## Cross-border M&As and greenfield projects still at a very low level

Available data for a selected number of countries allow for a more in-depth analysis of the three components of FDI flows. During the last four quarters, while FDI inflows were very low (2009:Q1) or stable at a low level (2009:Q2-Q4), there

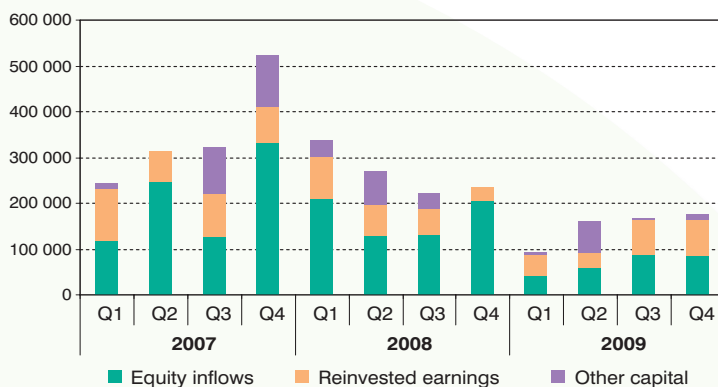
was an increase in reinvested earnings in the last two quarters of 2009, compared to those in the previous quarters, reflecting an overall improvement in profitability (figure 2). However, equity inflows, which is the most directly related to real investment

operations, have remained at a low level since the beginning of 2009.

The value of cross-border M&As dropped during the fourth quarter to the lowest level: US\$41 billion (or one tenth the historical peak in the fourth quarter of 2007) (figure 3), but picked up during the first quarter of 2010.

Greenfield projects, despite a slight increase, remained at a level lower than that in the quarterly average of 2008 (figure 4). It should be noted, however, that their decline during the past two years was by far smaller than for M&As, either in terms of number or value. Despite sharp cuts in investment for increasing production capacity, internal growth (new investments or expansion through greenfield projects) has thus showed more resilience to the crisis than external growth (acquisition through M&As) in TNCs' FDI strategy.

**Figure 2. Quarterly FDI inflows by components for 35 selected countries,<sup>a</sup> 2009 Q1- 2009 Q4**  
(Billions of US dollars)



Source: UNCTAD.

<sup>a</sup> Countries included are: Argentina, Australia, Belgium, Bulgaria, Chile, Denmark, Estonia, France, Germany, Hong Kong (China), Hungary, Iceland, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, Mexico, Republic of Moldova, Netherlands, New Zealand, Norway, Panama, Philippines, Poland, Portugal, Russian Federation, Slovakia, Sweden, Switzerland, Taiwan Province of China, United Kingdom, United States and Bolivarian Republic of Venezuela.

## Prospects for early 2010: a modest increase in FDI flows

As the world economy is slowly recovering from the crisis, an improvement in TNCs' business environment is on the way as shown by various surveys. This can be illustrated, among others, by the fact that, after a sharp drop at the beginning of 2009, profits are progressively coming back to near pre-crisis levels. Generally speaking, FDI growth trails economic growth by at least two quarters. Thus,

the continued growth of GDP – which turned positive in mid-2009 – will provide additional impetus for FDI flows in the coming quarters.

As a consequence, TNCs may be returning to more ambitious international investment programmes. This is evidenced, in particular, by the marked pick-up in the value of cross-border M&As during

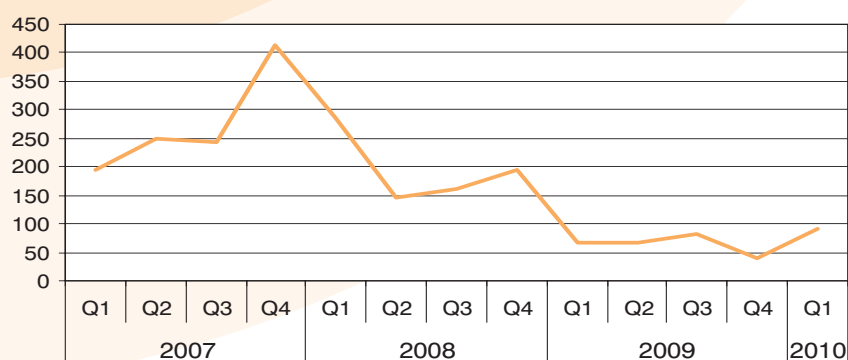
the first quarter of 2010, which practically doubled, although from a low level, as compared to the previous period (figure 3). A number of mega deals were also concluded, in particular in the telecommunications industry, as well as in the pharmaceutical and food businesses (table 2).

Available data, however, suggest that there is no clear dynamic for FDI flows in the coming quarter. M&As, which were a primary driver of FDI flows in the past years, posted a solid gain in the first quarter of 2010 pointing to a potential rise in FDI flows for the quarter. However, the slight drop in the number of greenfield projects shows that TNCs still remain very cautious in their international investment programmes (figure 4).

Most of the government policy changes affecting FDI introduced during the current crisis were in the direction of liberalization and facilitation of FDI flows. These changes, combined with the State aid and stimulus packages, should have a favourable impact on FDI. However, at the same time, government policies have double-edged effects. Some of them – including increased screening requirements and new limitations on foreign equity – affect FDI flows. Government exit policies may or may not impact FDI flows favourably, depending on how foreign companies are treated (i.e. whether foreign firms can acquire shares released by governments), and when and how they are implemented.

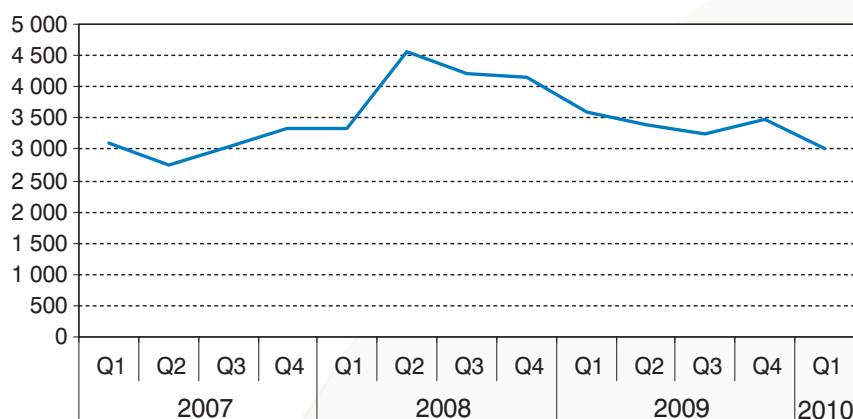
Therefore, it is still premature to say that FDI is now on a strong rebound.

**Figure 3. Value of global cross-border M&A sales, 2007 Q1 - 2010 Q1**  
(Billions of US dollars)



Source: UNCTAD.

**Figure 4. Number of greenfield FDI projects, 2007 Q1 - 2010 Q1**



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

Note: Data for 2010:Q1 are estimates based on available figures for January and February. Data are available for the number of cases only (not for the value).

**Table 2. Cross-border M&As deals with a value of over \$3 billion during the first quarter of 2010**

Value (millions of dollars)	Target company	Target industry	Target nation	(Ultimate) acquiring company	(Ultimate) acquiring nation
7 603	Solvay Pharmaceuticals SA	Pharmaceutical preparations	Belgium	Abbott Laboratories	United States
5 195	Unitymedia GmbH	Cable and other pay television services	Germany	Liberty Media Corp	United States
4 469	Egyptian Co for Mobile Services	Radiotelephone communications	Egypt	France Telecom SA	France
4 000	Liberty Global Inc-Subsidiaries	Cable and other pay television services	United States	KDDI Corp	Japan
3 700	Kraft Foods Inc-North American Pizza Business	Frozen specialties	United States	Nestle SA	Switzerland

Source: UNCTAD.

The next issue of the UNCTAD Global Investment Trends Monitor initially planned for release in mid-July 2010 will be replaced by the *World Investment Report 2010*, launched on 22 July. Thus the next issue of the Monitor will appear in mid-October 2010.

