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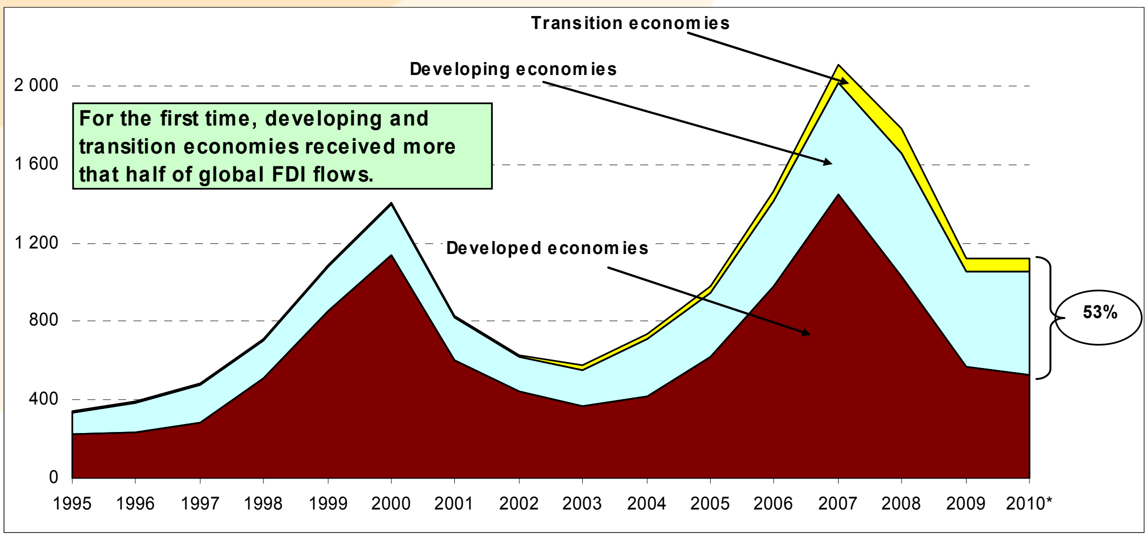
Global and Regional FDI Trends in 2010

HIGHLIGHTS

Developing and transition economies, for the first time, absorbed more than half of global FDI flows.

- Global inflows of foreign direct investment (FDI) rose marginally by 1%, from $1,114 billion in 2009 to almost $1,122 billion in 2010, based on UNCTAD estimates.

Figure 1. FDI inflows, global and by group of economies, 1995-2010
(Billions of dollars)



Source: UNCTAD.

* Preliminary estimates.

- A strong rebound in FDI flows to developing Asia and Latin America offset a further decline in inflows to developed countries (figure 1).

- Stagnant global flows in 2010 were accompanied by diverging trends in the components of FDI. While the increased profits of foreign affiliates, especially in developing countries, boosted reinvested earnings, the uncertainties surrounding global currency markets and European sovereign debt, resulted in negative intra-company loans and lower equity investments.

- Cross-border mergers and acquisitions (M&As) increased by 37% in 2010, while international greenfield projects, fell both in number and in value. Nevertheless, the total project value of greenfield investments has been much higher than that of cross-border M&As since the crisis, which was the opposite case before the crisis.

- The year was characterized by an unexpected drop in flows during the second quarter and a rebound in the third quarter. UNCTAD's Global FDI Quarterly Index dropped from 107.7 to 82.5 and then rose to 121 (see table 1 below). Projections for the fourth quarter – based on available data on M&As and greenfield investments – show a continuing flat trend. Cross-border M&As were down in the fourth quarter, compared to the third. Greenfield investments in the fourth quarter showed some improvements, but remained nearly at the same level as that of the previous year's fourth quarter.

Table 1. UNCTAD's Global FDI Quarterly Index

2009:Q1	62.1
2009:Q2	105.8
2009:Q3	125.7
2009:Q4	119.9
2010:Q1	107.7
2010:Q2	82.5
2010:Q3	121.0
2010:Q4	105.3*

**Preliminary estimates.*

Global FDI flows stagnant in 2010

Global FDI inflows remained stagnant in 2010 at an estimated $1,122 billion (table 2), compared to $1,114 billion in the previous year. However, they showed an uneven pattern among regions, components and modes of FDI. While FDI inflows to developed countries contracted further in 2010, those to developing and transition economies recovered, surpassing the 50% mark of global FDI flows. The improvement of economic conditions in 2010 drove up reinvested earnings, while equity capital and intra-company loans remained relatively subdued. Cross-border M&A volume rebounded in 2010, whereas greenfield investments continued to decline.

The quarterly fluctuations during 2010, as reported in previous Global Trends Monitors, indicate that the worldwide FDI recovery is still hesitant, although after an unexpectedly weak second quarter, global FDI flows registered an increase in the third quarter of 2010 (figure 2). UNCTAD's FDI Global Quarterly Index jumped upwards, reaching 121 for the quarter, its highest reading in 2010. Preliminary data for the fourth quarter suggests that global FDI flows continue to struggle to establish a sustainable growth path. FDI flows in the quarter are likely to be flat, or slightly down, compared to the third quarter. While reinvested earnings will be helped by higher corporate profits, weak equity capital flows – from cross-border M&As and greenfield investments – will continue to keep FDI flows in a holding pattern during the quarter. In particular, cross-border M&As registered a fall in value and in number during the fourth quarter. The high level of announced deals in the latter half of 2010, however, indicates that the fourth quarter's lull may be temporary and that M&A volumes are likely to improve in early 2011.

Table 2. FDI inflows and cross-border M&As, by region and major economy, 2009–2010
(Billions of dollars)

Region / economy	FDI inflows 2009	FDI inflows 2010 [a]	FDI inflows Growth rate (%)	Net cross-border M&As[b] 2009	Net cross-border M&As[b] 2010	Net cross-border M&As[b] Growth rate (%)
World	**1 114.1**	**1 122.0**	***0.7***	**249.7**	**341.4**	***36.7***
Developed economies	**565.9**	**526.6**	***-6.9***	**203.5**	**252.1**	***23.9***
Europe	378.4	295.4	*-21.9*	133.9	125.0	*-6.6*
European Union	361.9	289.8	*-19.9*	116.2	115.3	*-0.8*
Austria	7.1	12.6	*78.8*	1.8	4.9	*174.2*
Belgium	33.8	50.5	*49.5*	12.1	9.4	*-22.3*
Czech Republic	2.7	8.2	*199.6*	2.7	- 0.5	..
Denmark	7.8	6.3	*-19.2*	1.7	1.4	*-12.6*
Finland	2.6	2.6	*3.1*	0.5	0.3	*-36.3*
France	59.6	57.4	*-3.7*	0.7	4.3	*500.3*
Germany	35.6	34.4	*-3.5*	12.8	10.8	*-15.2*
Greece	3.4	2.1	*-38.3*	0.5	- 1.2	..
Ireland	25.0	8.4	*-66.3*	1.7	2.3	*31.8*
Italy	30.5	19.7	*-35.5*	1.1	7.7	*590.2*
Luxembourg	27.3	12.1	*-55.7*	0.4	2.1	*368.9*
Netherlands	26.9	- 24.7	..	18.0	3.5	*-80.8*
Poland	11.4	10.4	*-8.9*	0.8	1.0	*32.5*
Portugal	2.9	3.4	*17.8*	0.5	2.2	*338.1*
Spain	15.0	15.7	*4.3*	32.2	8.5	*-73.4*
Sweden	10.9	12.1	*11.6*	1.1	0.8	*-23.0*
United Kingdom	45.7	46.2	*1.2*	25.2	56.3	*123.5*
United States	129.9	186.1	*43.3*	40.1	79.6	*98.6*
Japan	11.9	2.0	*-83.4*	- 5.8	7.1	..
Developing economies	**478.3**	**524.8**	***9.7***	**39.1**	**85.1**	***117.6***
Africa	58.6	50.1	*-14.4*	5.1	7.7	*49.3*
Egypt	6.7	6.8	*1.7*	1.0	0.2	*-80.4*
Nigeria	5.9	2.3	*-60.4*	- 0.2	0.4	..
South Africa	5.7	1.3	*-77.9*	4.2	3.9	*-6.5*
Latin America and the Caribbean	116.6	141.1	21.1	- 4.4	32.0	..
Argentina	4.9	5.1	*4.0*	0.1	3.5	*3001.5*
Brazil	25.9	30.2	*16.3*	- 1.4	9.4	..
Chile	12.7	18.2	*43.4*	0.8	1.8	*121.0*
Colombia	7.2	8.7	*20.8*	- 1.6	0.6	..
Mexico	12.5	19.1	*52.9*	0.1	8.0	*7616.1*
Peru	4.8	6.9	*44.7*	0.0	0.7	*1689.7*
Asia and Oceania	303.2	333.6	*10.0*	38.3	45.3	*18.4*
West Asia	68.3	57.2	*-16.2*	3.5	4.8	*34.5*
Turkey	7.6	7.0	*-8.0*	2.8	2.1	*-28.0*
South, East and South-East Asia	233.0	274.6	*17.8*	34.7	31.5	*-9.2*
China	95.0	101.0 [c]	*6.3*	10.9	6.0	*-44.6*
Hong Kong, China	48.4	62.6	*29.2*	3.0	12.2	*301.5*
India	34.6	23.7	*-31.5*	6.0	5.2	*-14.3*
Indonesia	4.9	12.8	*162.7*	1.3	0.9	*-33.1*
Malaysia	1.4	7.0	*409.7*	0.4	3.7	*939.0*
Singapore	16.8	37.4	*122.7*	9.7	4.7	*-51.1*
Thailand	5.9	6.8	*14.2*	0.3	0.5	*32.0*
South-East Europe and the CIS	**69.9**	**70.5**	***0.8***	**7.1**	**4.3**	***-39.8***
Russian Federation	38.7	39.7	*2.5*	5.1	2.9	*-43.6*

Source: UNCTAD.

[a] Preliminary estimates by UNCTAD.

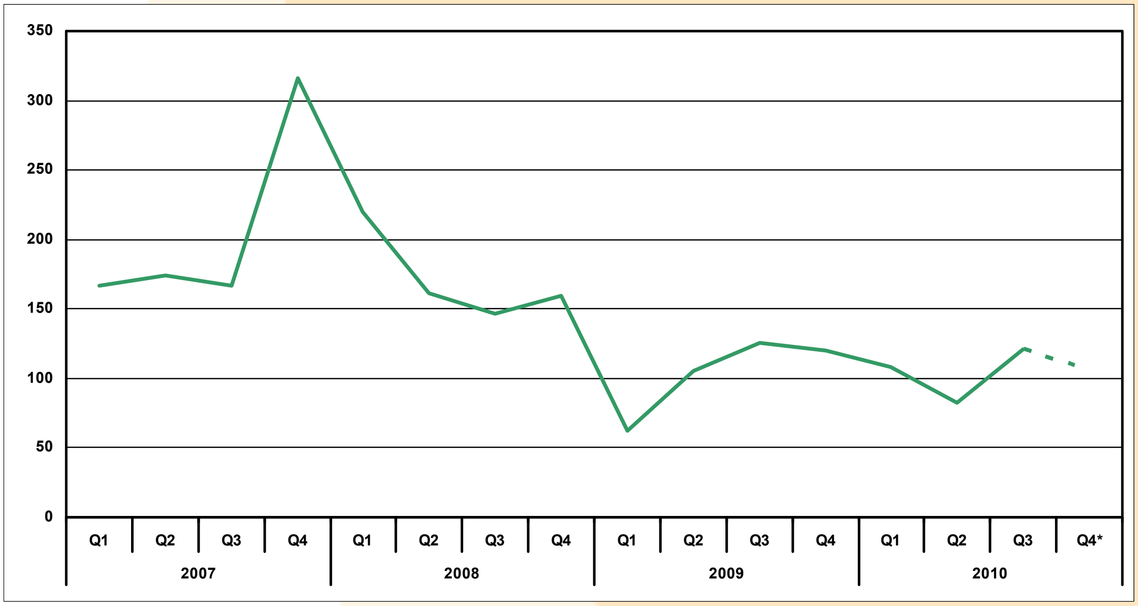
[b] Net cross-border M&As are sales of companies in the host economy to foreign transnational corporations (TNCs) excluding sales of foreign affiliates in the host economy, while table 3 includes all cross-border M&A deals.

[c] Not including the financial sector.

Note: World FDI inflows are projected on the basis of 153 economies for which data are available for part of 2009 or full year estimate, as of 7 January 2011. Data are estimated by annualizing their available data, in most cases the first two or three quarters of 2010. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2009 is used to extrapolate the 2010 regional data.

Figure 2. UNCTAD's Global FDI Quarterly Index[a] 2007 Q1–2010 Q4

(Base 100: quarterly average of 2005)



Source: UNCTAD.

* Preliminary estimate.

[a] *The Global FDI Quarterly Index* is based on quarterly data of FDI inflows for 67 countries, which together account for roughly 90% of global flows. The index has been calibrated such that the average of quarterly flows in 2005 is equivalent to 100.

Developed countries: a further contraction

Developed countries did not return to FDI growth in 2010. UNCTAD's latest estimates show that FDI flows to this group of economies fell some 7% to $527 billion, despite the robust recovery in some countries. Most notably, FDI in the United States surged by more than 40% over 2009 levels, an increase worth $56 billion, the single biggest increase in FDI among the major economic regions. This rise is largely due to a significant recovery in reinvested earnings of foreign affiliates.

Europe stood out as the subregion where flows fell most sharply, explained largely by two groups of countries. First, the Netherlands and Luxembourg saw significant declines. Negative FDI flows in the former country were caused by more volatile flows related to transactions of financial affiliates. Second, uncertainties about sovereign debts caused drops in FDI, with the largest impacts seen in Ireland and Italy (Greece and Spain are less significant FDI recipients). FDI in the region's major economies (France and Germany) fell only slightly.

Within the group of developed countries, declining FDI flows were also registered in Japan due to a number of large divestments (e.g. Liberty Group, Ford).

Developing countries: the recovery has started

FDI flows to developing economies rose some 10% to $525 billion in 2010, thanks to a relatively fast economic recovery and increasing South–South flows. The value of cross-border M&As doubled – an increasingly important mode of FDI entry into developing countries. Behind this general increase lie significant differences: while Latin America and South, East and South-East Asia experienced strong growth in FDI inflows, West Asia and Africa continued to see declines (table 2).

Inflows to **Africa**, which peaked in 2008 driven by the resource boom, appear to continue the downward trend of the previous year. For the region as a whole, UNCTAD estimates show that FDI inflows fell by 14% to $50 billion in 2010, although there are significant regional variations. While the downward trends of inflows to North Africa appear to have stabilized, in sub-Saharan Africa, inflows to South Africa declined to barely a quarter of the 2009 level, contributing to the large fall of FDI inflows in the subregion. Cross-border M&As,

mainly in extractive industries, registered an increase of 49%,[1] while the number and value of greenfield projects − normally the main mode of FDI in Africa − suffered a decline of about 10% in 2010. The rise of FDI from developing Asia and Latin America to Africa was not yet enough to compensate for the decline of FDI from developed countries which still account for the lion's share of inward FDI flows to many African countries.

Thanks to its position as a leader of the global economic recovery, FDI flows to **South, East and South-East Asia** have picked up markedly, outperforming other developing regions. After a 17% decline in 2009, inflows to the region rose by about 18% in 2010, reaching $275 billion, due to booming inflows in Singapore, Hong Kong (China), China, Indonesia, Malaysia and Viet Nam, in that order. FDI flows (in the non-financial sector) to China, for example, reached more than $100 billion. Breaking this general upward trend, South Asia experienced a 14% drop in FDI, mainly due to declines in flows to India.

FDI flows to **West Asia,** at $57 billion, continued to be affected by the global economic crisis, despite the steady economic recovery registered by the economies of the region. Sizeable increases in government spending by oil-rich countries helped push their economies forward, but conditions in the private sector remained subdued. The picture varies by country, with inflows to the United Arab Emirates rebounding modestly from the relatively low values of 2009, to little change in performance for Lebanon, to a drop in Saudi Arabia due in part to foreign investors pulling out of or freezing large refinery projects (ConocoPhillips, Dow Chemicals).

A surge in cross-border M&As is the main factor explaining the significant increase in FDI flows to **Latin America and the Caribbean,** which attained the level of $141 billion. Compared with negative values in 2009, M&As reached $32 billion in 2010, nearly reaching the high values registered in the region during the 1990s. The targets of these deals were mainly in the oil and gas, metal mining and food and beverages industries. Strong economic growth, spurred by robust domestic and external demand, good macroeconomic fundamentals and higher commodity prices, explain the quick recovery of FDI flows to the region. Nearly all the big recipient countries saw inward flows increase, with Brazil remaining the largest destination for the fourth consecutive year.

Transition economies: a halt to the decline

The transition economies of South-East Europe and the Commonwealth of Independent States (CIS) registered a marginal increase in FDI inflows, of roughly 1%, in 2010 to $71 billion, after falling more than 40% in the previous year. FDI flows to South-East Europe continued their decline with a further negative 31% due to sluggish investments from European Union countries (traditionally the dominant source of FDI in the subregion). In contrast, the CIS economies saw flows increase by 5% on the back of stronger commodity prices, a faster economic recovery and improving stock markets. Foreign investors in the Russian Federation are increasingly targeting the fast growing local consumer market (the deal agreed by PepsiCo to buy Russian juice and dairy company Wimm-Bill-Dann for $3.8 billion is emblematic).

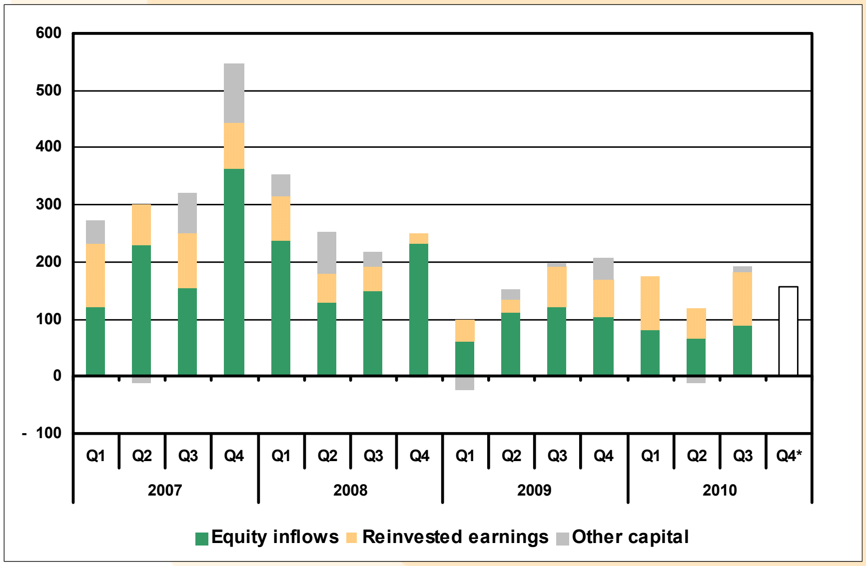
Diverging patterns in FDI components and modes of entry

Stagnant FDI flows in 2010 were accompanied by diverging trends in the components of FDI flows (equity, intra-company loans and reinvested earnings) and by modes of entry (M&A and greenfield investments). Improved economic performance in many parts of the world and increased profits of foreign affiliates, especially in developing countries, lifted reinvested earnings to nearly double their 2009 level (figure 3). This increase compensated for the decline in equity capital flows (down slightly despite an up-tick in cross-border M&As) and in other capital flows (mainly intra-company loans) which saw a significant drop.

[1] India's Bharti Airtel acquisition of the African mobile phone networks of Kuwait's Zain for $10.7 billion (table 3) is not reported as an addition to FDI flows to Africa since it is only a change of foreign ownership.

Figure 3. Quarterly FDI inflows by components for 37 selected economies, 2007 Q1- 2010 Q4

(Billions of dollars)



Source: UNCTAD.

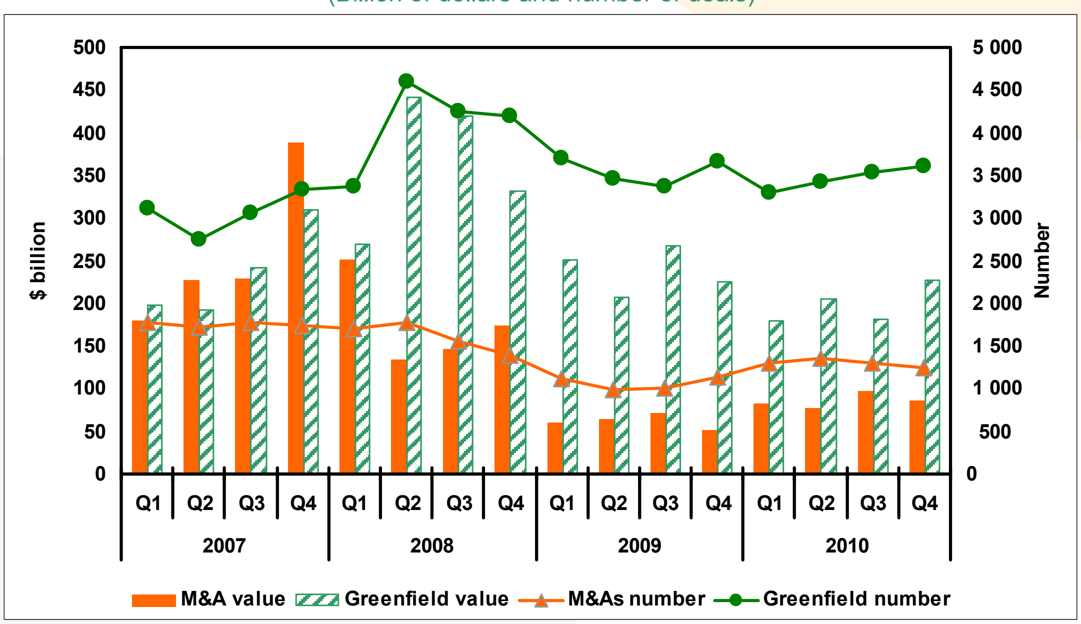
* Preliminary estimate.

Note: Economies included are: Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Denmark, Estonia, France, Germany, Hong Kong (China), Hungary, India, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, Mexico, Republic of Moldova, Netherlands, New Zealand, Norway, Panama, Philippines, Poland, Portugal, Slovakia, Sweden, Switzerland, Taiwan Province of China, United Kingdom, United States and the Bolivarian Republic of Venezuela.

Cross-border M&As, which typically react more quickly to changing economic conditions, jumped 37% in 2010 (figure 4), reflecting both the growing value of assets on the stock market and the increased financial capability of potential buyers to carry out such operations. International greenfield investments, however, still registered a drop in both value and number during the year (figure 4).

Figure 4. Value and number of cross-border M&As and greenfield FDI projects, 2007 Q1 - 2010 Q4

(Billion of dollars and number of deals)



Source: UNCTAD.

Note: Data for value of greenfield FDI projects refer to estimated amounts of capital investment.

Project value of greenfield investments has held up better since the crisis than that of cross-border M&As. While the value of M&As equalled or exceeded greenfield investment before the crisis, it is now significantly lower.

Improving FDI prospects for 2011

For 2011, UNCTAD estimates FDI flows to be between $1.3 trillion and $1.5 trillion. Improved macroeconomic conditions in 2010 strengthened TNCs' corporate profits and boosted stock market valuations. These favourable conditions coupled with rising business confidence in 2011 will help translate TNCs' record levels of cash holdings (in the order of four to five trillion dollars among developed country firms alone) into new investments. TNCs will also face increasing pressure to make strategic investments to cement their business plans for the post-crisis period. Worldwide M&A activity (domestic and cross-border M&As combined) is also expected to rise further in 2011. The current overall favourable policy climate for foreign investors further supports the positive prospects for FDI flows in 2011. Clearly, a number of risks to this positive scenario persist. Worldwide GDP growth, after the "recovery-boost" in 2010, will slow down. In addition, risks related to currency volatility, sovereign debt and investment protectionism could still derail the expected FDI upturn. A strong global FDI recovery depends much on the steady economic and FDI recovery of the developed economies.

Table 3. Cross-border M&A deals with a value of over 3 billion in 2010

Value ($ million)	Acquired company	Industry of the acquired company	Host economy	(Ultimate) acquiring company	Ultimate acquiring nation
		First quarter			
7 603	Solvay Pharmaceuticals SA	Pharmaceutical preparations	Belgium	Abbott Laboratories	United States
5 195	Unity Media 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, nec	United States	Nestle SA	Switzerland
3 363	Springer Science+Business Media Deutschland GmbH	Books: publishing, or publishing & printing	Germany	Group of Investors	Guernsey
		Second quarter			
18 769	Cadbury PLC	Candy and other confectionery products	United Kingdom	Kraft Foods Inc	United States
10 700	Zain Africa BV	Radiotelephone communications	Nigeria	Bharti Airtel Ltd	India
8 496	T-Mobile(UK)Ltd	Radiotelephone communications	United Kingdom	France Telecom SA	France
7 325	Fomento Economico Mexicano SAB de CV-Beer Operations	Malt beverages	Mexico	Group of Investors	Netherlands
5 516	ZAO Kyivstar GSM	Radiotelephone communications	Ukraine	Vimpelkom	Russian Federation
4 848	Republic of Venezuela-Carabobo Block	Crude petroleum and natural gas	Venezuela	Group of Investors	India
4 031	OSI Pharmaceuticals Inc	Pharmaceutical preparations	United States	Astellas Pharma Inc	Japan
3 800	Bunge Participacoes e Investimentos SA	Soybean oil mills	Brazil	Vale SA	Brazil
3 426	Tandberg ASA	Radio & TV broadcasting & communications equipment	Norway	Cisco Systems Inc	United States
3 160	Tommy Hilfiger Corp	Men's shirts and nightwear	Netherlands	Phillips-Van Heusen Corp	United States
3 100	Bridas Corp	Crude petroleum and natural gas	Argentina	CNOOC	China
		Third quarter			
9 743	Brasilcel NV	Radiotelephone communications	Brazil	Telefonica SA	Spain
9 018	Lihir Gold Ltd	Gold ores	Papua New Guinea	Newcrest Mining Ltd	Australia
6 127	Millipore Corp	Laboratory analytical instruments	United States	Merck KGaA	Germany
5 959	Sybase Inc	Prepackaged Software	United States	SAP AG	Germany
4 931	Ratiopharm International GmbH	Pharmaceutical preparations	Germany	Teva Pharm Inds Ltd	Israel
4 380	Tomkins PLC	Mechanical power transmission equipment, nec	United Kingdom	Onex Corp	Canada
4 110	Denway Motors Ltd	Motor vehicle parts and accessories	Hong Kong, China	GAIG	China
4 052	AXA SA-Life Assurance Business,UK	Life insurance	United Kingdom	Resolution Ltd	Guernsey
3 717	Valeant Pharmaceuticals International Inc	Pharmaceutical preparations	United States	Valeant Pharmaceuticals	Canada
3 713	Piramal Healthcare Ltd- Healthcare Solutions Business	Pharmaceutical preparations	India	Abbott Laboratories	United States
3 679	Abertis Infraestructuras SA	Highway and street construction	Spain	CVC Capital Partners Ltd	United Kingdom
3 330	Interactive Data Corp	Information retrieval services	United States	Interactive Data Corp SPV	United States
3 164	Arrow Energy Ltd	Crude petroleum and natural gas	Australia	Royal Dutch Shell PLC	Netherlands
3 100	BP PLC-Permian Basin Assets	Crude petroleum and natural gas	United States	Apache Corp	United States
		Fourth quarter			
9 056	EDF Energy PLC-UK Power Distribution Business	Electric services	United Kingdom	Group of Investors	Hong Kong, China
7 625	E.ON US LLC	Natural gas distribution	United States	PPL Corp	United States
7 111	Repsol YPF Brasil SA	Crude petroleum and natural gas	Brazil	Sinopec Group	China
4 540	Porsche Holding GmbH	Automobiles and other motor vehicles	Austria	Porsche Automobil Holding SE	Germany
4 517	Pactiv Corp	Plastics foam products	United States	Rank Group Ltd	New Zealand
3 397	HS1 Ltd	Railroads, line-haul operating	United Kingdom	Group of Investors	Canada
3 374	Andean Resources Ltd	Gold ores	United States	Goldcorp Inc	Canada
3 270	General Growth Properties Inc	Real estate investment trusts	United States	Brookfield Asset Mgmt Inc	Canada
3 269	Sunrise Communications AG	Radiotelephone communications	Switzerland	CVC Capital Partners Ltd	Luxembourg
3 250	BP PLC-Western Canadian Upstream Gas Assets	Crude petroleum and natural gas	Canada	Apache Corp	United States
3 119	Dimension Data Holdings PLC	Computer integrated systems design	South Africa	Nippon Telegraph & Telephone	Japan
3 090	Intoll Group	Investment offices, nec	Australia	Canada Pension Plan	Canada
3 019	RBS WorldPay	Functions related to depository banking, nec	United Kingdom	Group of Investors	United States

Source: UNCTAD.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-April 2011.

The next issue of UNCTAD's *Investment Policy Monitor* will be released in the last week of January 2011.