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UNCTAD

Global Investment Trends Monitor

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Second and Third Quarters of 2010

HIGHLIGHTS

- As governments are gradually winding down stimulus packages and in some cases reducing public investment in the face of mounting deficits and debt levels, private investment in the form of foreign direct investment (FDI) does not appear ready to step up to the plate.

Global FDI flows actually declined again in the second quarter of 2010, after four quarters of low-level recovery in the wake of the financial crisis. FDI inflows in the second quarter were down compared to the previous quarter and compared to the same quarter of last year, with UNCTAD's FDI Global Quarterly Index falling from 113 to 85 (table 1).

Early estimates for 2010 based on FDI flows for the first and second quarter, combined with data on greenfield investments and M&A-related flows for the third quarter, now lead to a picture of stagnant FDI activity so far for the year. That would imply that 2010 flows will still be 25 per cent less than the

average pre-crisis levels, and 40 per cent less than those in the peak year of 2007 (fig. 1), even though FDI may increase modestly towards the end of the year.

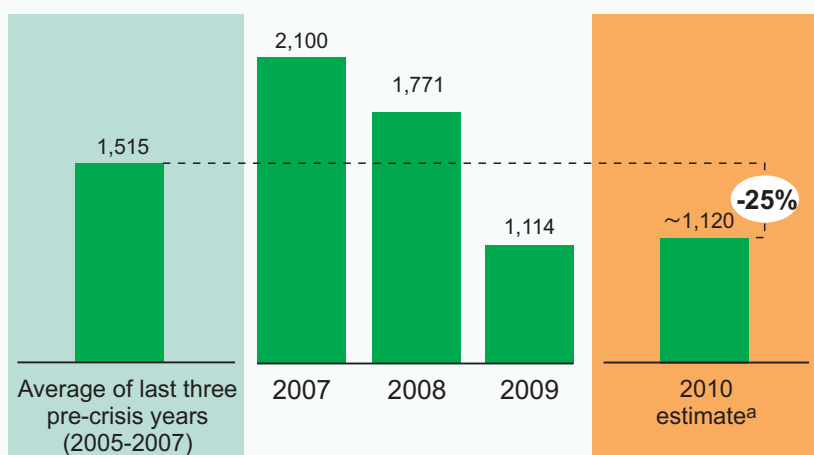
- Transnational corporations (TNCs), reacting to disappointing economic news and turmoil in sovereign debt markets, moved resources invested out of many host countries. This was clearly reflected in a marked decline in intra-company loans, one of the three components of FDI flows, as parent firms withdrew or were paid back loans from their affiliates in order to strengthen their balance sheets at home or elsewhere. Likewise, reinvested earnings tumbled as firms repatriated a larger share of the earnings of their foreign affiliates.

- FDI flows to the United Kingdom and the United States were especially hard hit in the second quarter of 2010. In contrast, flows to the Russian Federation and China increased by 30 per cent and 20 per cent respectively. In the meantime, developing and transition economies, as a whole, experienced smaller decreases in FDI inflows.
- While data from the third quarter for cross-border M&As show a gradual rebounding, greenfield investments declined, suggesting that prospects for a sustained FDI recovery are still uncertain.
- The uncertainty is aggravated by new risk factors that may seriously affect FDI flows, such as currency wars and related escalation of trade protectionism.

Table 1. UNCTAD's FDI Global Quarterly Index
(2005 = 100)

| | |
|---------|-------|
| 2008 Q1 | 219.7 |
| 2008 Q2 | 160.0 |
| 2008 Q3 | 145.2 |
| 2008 Q4 | 161.2 |
| 2009 Q1 | 58.2 |
| 2009 Q2 | 101.8 |
| 2009 Q3 | 119.4 |
| 2009 Q4 | 114.2 |
| 2010 Q1 | 112.8 |
| 2010 Q2 | 84.6 |

Figure 1. Global FDI inflows, various periods
(Billions of US dollars)



Source: UNCTAD FDI database.

^a Based on FDI data for 67 countries for the first and second quarters of 2010, and data on greenfield and M&A investments for the third quarter.

FDI declined during the second quarter of 2010

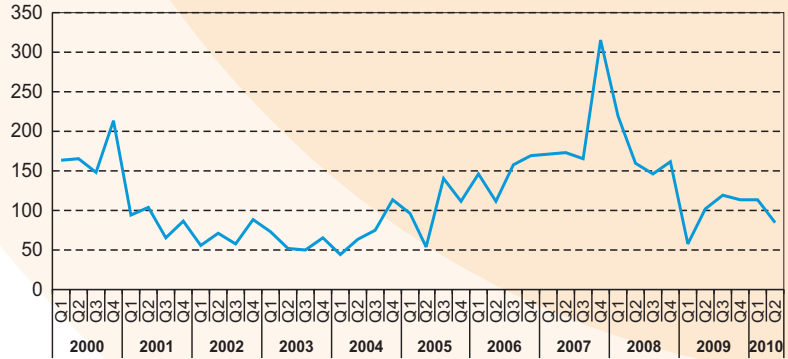
Global FDI flows registered a sharp decline during the second quarter of 2010, after a slight recovery in the second half of 2009, indicating that the expected rebound of FDI flows this year is still fraught with uncertainty (fig. 2). The value of the UNCTAD's FDI Global Quarterly Index¹ declined to 85 in the second quarter, though this was still above the low level recorded in the first quarter of 2009 (58).

The decline in FDI inflows in the second quarter was particularly pronounced in developed countries with declines leading to negative flows in some countries such as the United Kingdom (a decline of \$49 billion; from \$42 billion in the first quarter to -\$7 billion in the second quarter of 2010), Belgium (a decline of \$18 billion; from \$10 billion) and Ireland (a decline of \$7 billion; from \$6 billion) as turmoil in the sovereign debt markets of Europe and lower-than-expected economic growth rates in some countries raised questions about the stability of economic recovery. The United States also saw a decline of \$20 billion; from \$48 billion. Only a handful of developed countries saw their FDI flows increase – the Netherlands (up by \$44 billion), Switzerland (up by \$6 billion) and Norway (up by \$5.5 billion).

Developing and transition economies continued to outperform developed countries in terms of absolute value of FDI inflows, with small decreases in FDI flows to most of the top host countries in the former

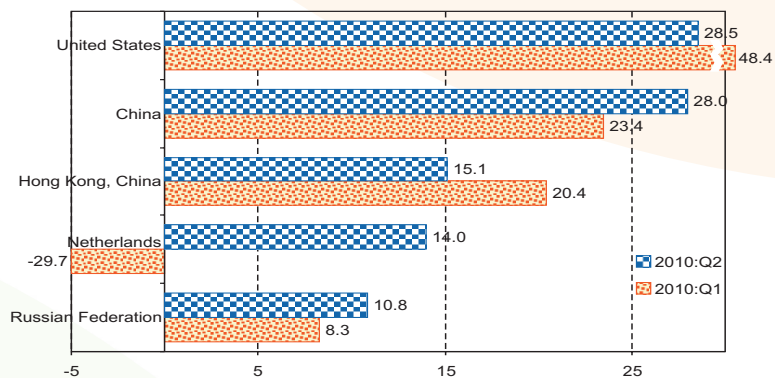
group. China was the second-largest host country for FDI flows in the second quarter, only \$0.5 billion behind the largest recipient (United States). Among the top five FDI recipients globally, three were developing and transition economies (China, Hong Kong (China) and the Russian Federation) (fig. 3)

Figure 2. UNCTAD's Global FDI Quarterly Index, 2000 Q1–2010 Q2
(Base 100: quarterly average of 2005)



Source: UNCTAD.

Figure 3. Global FDI flows: top 5 economies, 2010 Q1–2010 Q2
(Billions of US dollars)



Source: UNCTAD.

The decline was due to reinvested earnings and intra-company loans.

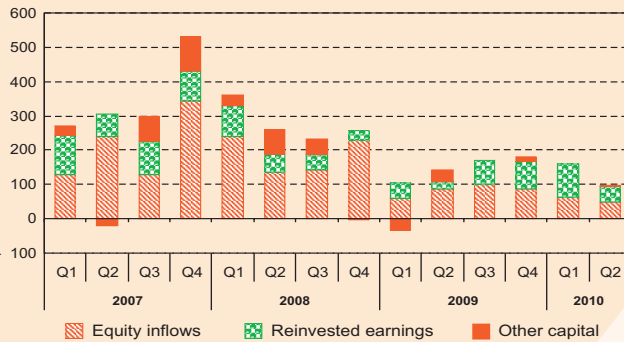
In spite of the rising profits of foreign affiliates, reinvested earnings fell in the second quarter of 2010 as parent companies repatriated a larger share of their profits (fig. 4). Intra-company loans fell sharply too, as parent firms withdrew or were paid

back loans from their affiliates, in particular those in developed host countries, in order to strengthen their balance sheets at home or elsewhere. This was especially true of European TNCs which, after facing fears of a sovereign debt crisis spreading

throughout the eurozone during the quarter, significantly reduced loans to their affiliates in the United Kingdom and the United States, causing FDI inflows to those countries to fall. In the United States, while flows from the EU declined considerably

¹ 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. Data on FDI flows to Hungary, Luxembourg and the Netherlands exclude FDI in special purpose entities (SPEs).

Figure 4. Quarterly FDI inflows by components for 36 selected economies,^a 2007 Q1 - 2010 Q2
(Billions of US dollars)



Source: UNCTAD.

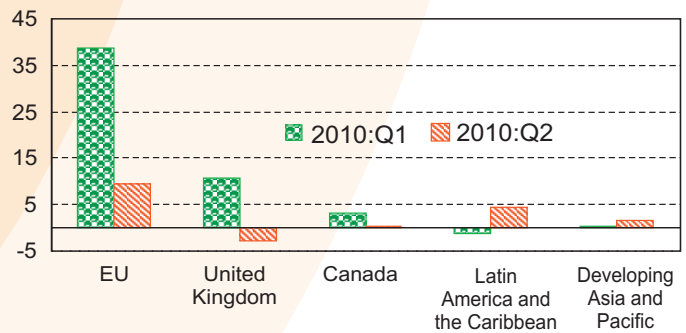
Note: The economies included are those of Argentina, Australia, Belgium, Bulgaria, Chile, Denmark, Estonia, France, Germany, Hong Kong (China), Hungary, India, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal,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

in the second quarter, those from developing regions rose (fig. 5).

The value of cross-border M&As remained subdued in the second quarter of 2010 at \$73 billion, though the number of deals continued to rise (fig. 6). Preliminary data for the third quarter, however, show a 27% increase in the value of activity over the previous quarter. The number of deals in the third quarter fell but remained higher than the overall average for 2009. Generally speaking, the trends in cross-border M&As reflect overall improvements in business sentiments.

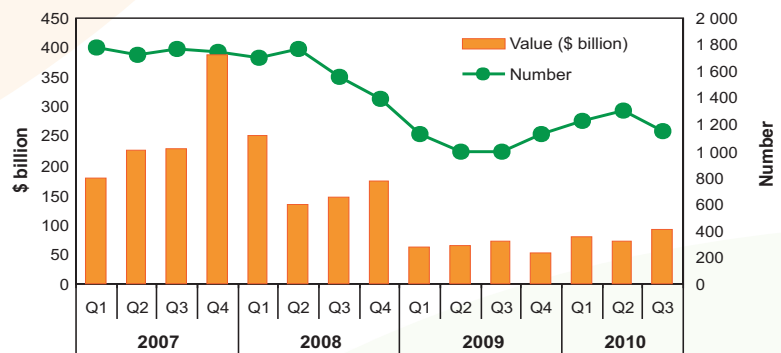
Greenfield investments – the other mode of FDI, as opposed to M&As – rose in both number and value terms in the second quarter of 2010, but in the third quarter, their value declined, although the number remained almost the same (fig. 7). A strong growth of projects in developing and transition economies accounted for much of the increase in the second quarter, but this was not enough to compensate for the loss in developed countries in the third quarter. Overall, compared with the previous year, the number of greenfield projects in 2010 has shown little change so far (fig. 7).

Figure 5. FDI flows to the United States by investing country, 2010 Q1 - 2010 Q2
(Billions of US dollars)



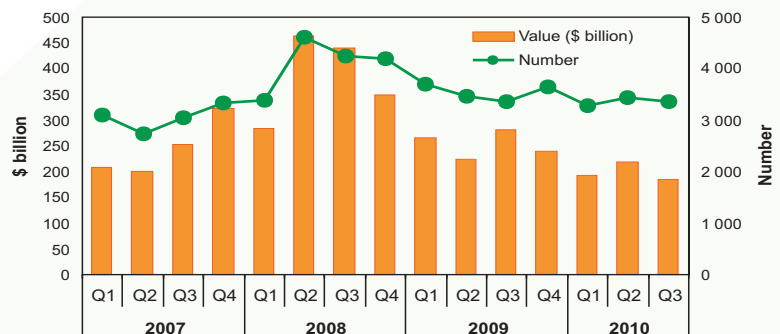
Source: UNCTAD, based on data from the United States Department of Commerce.

Figure 6. Value and number of global cross-border M&A sales, 2007 Q1 - 2010 Q3
(Billions of dollars and number of deals)



Source: UNCTAD.

Figure 7. Value and number of greenfield FDI projects, 2007 Q1 - 2010 Q3^a
(Billions of US dollars)



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

^a The data for September 2010 are estimated.

Note: Data for value refer to estimated amounts of total capital investment – not necessarily to FDI alone.

A new FDI boom remains a distant prospect

The rebound in cross-border M&As registered in the first three quarters gives credence to the expectation that FDI flows may slightly improve during the third and last quarters of 2010. Indeed, the second and third quarters already saw a doubling in the number of megadeals compared to the same period in 2009 with developing and transition economies hosting more than one third of those deals (table 2). Thus, overall, as estimated by UNCTAD in the *World Investment*

Report 2010, global FDI flows in 2010 will remain stable or rise moderately led by M&As. However, this assessment is fraught by the vulnerabilities of the global financial system and by new risk factors such as currency wars and related trade protectionism.

The second quarter's sharp contraction showed the continued fragility of FDI inflows. Reinvested earnings, which are a more stable component of FDI flows, dropped notably in the quarter, even as

corporate profits continued to rise. This suggests that as the international financial system is continuing to struggle, TNCs are being forced to strengthen their balance sheets by recalling financial resources from their affiliates abroad. Renewed efforts may be required to improve the functioning of global credit markets and to promote stronger economic growth in developed countries and a full recovery in FDI may well be hampered until this happens.

Table 2. Cross-border M&A deals with a value of over \$3 billion, first three quarters of 2010

| Value (\$ million) | Acquired company | Industry of the acquired company | Host economy | (Ultimate) acquiring company | (Ultimate) economy |
|-----------------------|---|--|----------------------------------|------------------------------|--------------------|
| 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 | Carabobo Block | Crude petroleum and natural gas | Bolivarian Republic of 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 |
| 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 |
| 4 052 | 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 |
| 3 330 | 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 |

Source: UNCTAD.

The next issue of the UNCTAD Global Investment Trends Monitor is planned for release in mid-January 2011.

