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FDI RECOVERY CONTINUED IN FIRST HALF OF 2011, BUT SECOND HALF PROSPECTS ARE BLEAKER

HIGHLIGHTS

- Global foreign direct investment (FDI) inflows rose in the first half of 2011 by 2 per cent compared with the previous half, continuing the 5 per cent moderate recovery observed in 2010.

- However, amidst turmoil in financial markets, preliminary third quarter-data on cross-border merger and acquisitions (M&As) and greenfield investment indicate an FDI growth deceleration.

- Our full-year forecast remains cautiously optimistic, projecting FDI flows close to the pre-crisis average (though still remaining some 25 per cent below the 2007 peak). Downside risks, however, have intensified.

- At a time when the global economy urgently needs a boost from private investment to generate growth and jobs, investors are becoming increasingly cautious. Moreover, the attention of policymakers is diverted away from the necessities of long-term productive investment by the urgencies of short-term crisis management.

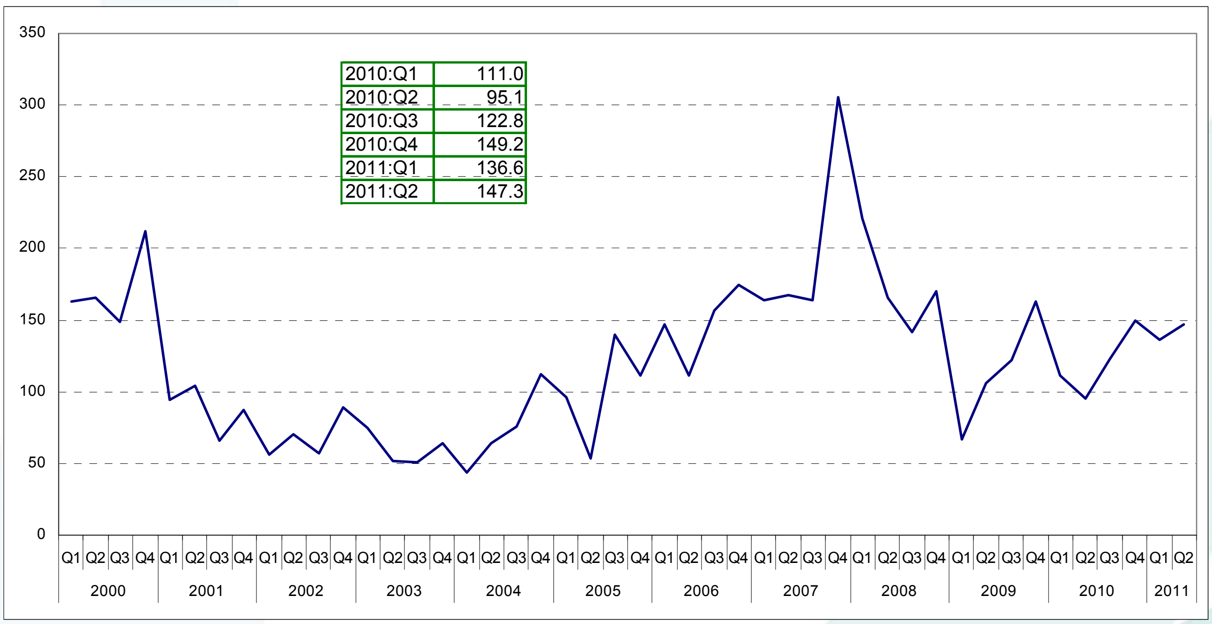
- Developing and transition economies absorbed more than half of global FDI flows in the first half of 2011, as they had in 2010, as transnational corporations (TNCs) continued to direct their investment to emerging markets. Developed countries experienced a further 4 per cent decline in FDI in the first half of 2011.

While FDI rose during the first half of 2011…

Global FDI inflows rose in the first half of 2011 by only 2 per cent compared with the previous half in 2010, continuing the moderate recovery observed in 2010. In the second quarter of 2011 the value of UNCTAD's FDI Global Quarterly Index rose to 147 − a level above the average of FDI indices in 2009 and 2010 (figure 1).

However, FDI prospects were dampened in mid-2011, at the global and regional levels, on account of increased turmoil in the global economy, which was marked by fears of a debt crisis in Europe, a slowdown in the United States economy and declining investor confidence.

Figure 1. UNCTAD's Global FDI Quarterly Index, 2000 Q1- 2011 Q2
(Base 100: quarterly average of 2005)



Source: UNCTAD.
Note: Second quarter data for the United Kingdom was estimated using quarterly outward data from four major investor countries (Belgium, Germany, Netherlands, and the United States).
Abbreviations: Q – quarter.

Developing and transition economies continued to account for more than half of global FDI inflows in the first half of 2011 mainly due to their strong economic growth and reinforced by the uncertain economic outlook in the major developed countries (table 1).

FDI inflows to *South, East and South-East Asia* continued to grow, driven by increasing cross-border M&A deals in major economies in the region. The two large emerging economies, China and India, saw inflows rising by nearly 20 per cent in the first half of 2011. FDI to China is likely to reach a historically high level in 2011, and that to India is bouncing back after a slide in 2010. Major recipient economies in ASEAN, including Indonesia, Malaysia, and Singapore also experienced a rise in inflows.

Latin America and the Caribbean also saw its FDI flows rising in the first half of 2011. FDI flows to Brazil soared to $32 billion, accounting for more than one-third of total flows to the region. In the region as a whole there was a significant decline in the value of cross-border M&As deals following a year of exceptional increase, but greenfield investments pushed FDI to a higher level.

Table 1. FDI inflows by region and major economy, 2010:H1−2011:H1[a]

(Billions of dollars)

Host region / economy	2010 H1	2010 H2	*Growth rate (%)*	2010 H2	2011 H1[a]	*Growth rate (%)*
World	**546**	**706.7**	***29.4***	**706.7**	**720.7**	***2.0***
Developed economies	**247.8**	**367.3**	***48.2***	**367.3**	**353.1**	***-3.9***
Europe	127.0	197.3	*55.4*	197.3	227.3	*15.2*
United States	83.2	145.1	*74.4*	145.1	74.3	*-48.8*
Japan	0.3	- 1.7	..	- 1.7	- 1.6	..
Developing economies	**263.9**	**304.5**	***15.4***	**304.5**	**326.5**	***7.3***
Africa	26.7	28.9	*8.2*	28.9	30.2	*4.5*
Latin America and the Caribbean	71.5	89.6	*25.4*	89.6	94.2	*5.1*
West Asia	20.6	31.0	*50.5*	31.0	20.8	*-32.9*
South, East and South-East Asia	144.3	154.1	*6.8*	154.1	184.2	*19.5*
South-East Europe and the CIS	**34.4**	**34.9**	***1.4***	**34.9**	**41.1**	***17.6***

Source: UNCTAD.

[a] Preliminary estimates.

Note: Global FDI inflows are estimated on the basis of 104 economies for which data are available for first and second quarters of 2011, as of 5 October 2011.

Abbreviations: H1– first half of the year, H2 – second half of the year.

FDI flows to *Africa* in the first six months of 2011 rose moderately largely due to the recovery in South Africa, after a dramatic fall in 2010. However, continuing political uncertainty in Egypt and the Libyan Arab Jamahiriya caused a significant fall in FDI flows to North Africa, which will inevitably cloud the overall performance of the continent.

No sooner had FDI to *West Asia* recovered in the second half of 2010 from the fallout of the global financial crisis, than it suffered from the impacts of the spreading protests in the Arab world in the first half of 2011, pushing flows down to a level similar to that in the same period of the previous year. This occurred in spite of the rise of FDI to Turkey, which attracted a third of total flows to the region.

Against the background of a fragile world economy, FDI to the transition economies of *South-East Europe and the Commonwealth of Independent States (CIS)* still managed to recover strongly in the first half of 2011. Investors were motivated by the continued growth of local consumer markets, and by a new round of privatizations.

Developed economies as a group experienced a 4 per cent decline in FDI inflows in the first half of 2011 compared with the previous half (although it was still up by 42 per cent year on year). Individual country experiences varied, however, as a number of major economies in Europe – including France and Germany – saw declines in the first half of 2011, while countries such as Ireland posted strong gains. FDI flows to North America fell, particularly to the United States. Among the other developed economies, flows to Australia remained high in the first half of 2011, while Japan slipped into divestment for two consecutive halves.

... with diverging trends in FDI modes of entry...

The value of cross-border M&As rose to $352 billion during the first three quarters of 2011, up 38 per cent year on year and the strongest increase since 2007. After a sluggish first quarter, global M&A sales rebounded strongly in the second quarter, encouraged by better economic prospects at that time. However, the sudden worsening of the debt crisis in Europe and the United States in the second half of 2011 has truncated the growth of cross-border M&A sales in the third quarter and is likely to dampen enthusiasm for major acquisitions in the last quarter of the year.

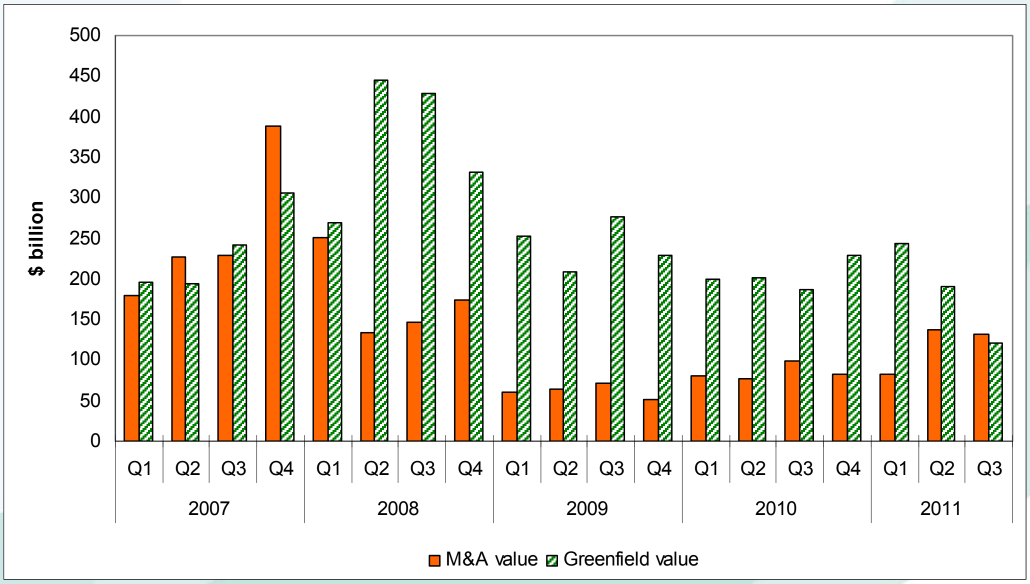
Table 2. Cross-border M&As and greenfield projects, by region and major economy, January–September 2010 and January–September 2011
(Billions of dollars)

Region / economy	Cross-border M&As 2010 9 months	Cross-border M&As 2011 9 months	Cross-border M&As *Growth rate (%)*	Greenfield project values 2010 9 months	Greenfield project values 2011 9 months	Greenfield project values *Growth rate (%)*
World	**255.5**	**352.4**	***37.9***	**582.1**	**568.5**	***-2.3***
Developed economies	**192.1**	**275.6**	***43.5***	**182.6**	**154.4**	***-15.5***
Europe	100.3	129.6	*29.3*	103.9	97.0	*-6.6*
United States	59.7	103.7	*73.7*	40.5	35.7	*-12.0*
Japan	6.1	3.0	*-51.3*	2.6	2.5	*-4.9*
Developing economies	**60.9**	**55.3**	***-9.3***	**359.5**	**374.7**	***4.2***
Africa	3.6	4.4	*21.9*	64.8	53.0	*-18.3*
Latin America and the Caribbean	23.7	15.3	*-35.2*	66.0	102.4	*55.1*
West Asia	1.4	6.3	*351.7*	41.4	35.6	*-14.1*
South, East and South-East Asia	23.3	29.2	*25.5*	186.9	180.7	*-3.3*
South-East Europe and the CIS	**2.5**	**21.5**	***772.1***	**40.0**	**39.4**	***-1.6***

Source. UNCTAD.

The strong growth registered in cross-border M&A deals during the first three quarters of 2011 was uneven among economic regions. Developed countries have increased their lead as target countries and acquirers as well: their cross-border sales grew by 43 per cent to $276 billion (table 2). In transition economies cross-border sales surged from a low of $2.5 to $21 billion. In developing countries, a 9 per cent decrease in cross-border M&As sales was weighed down by a 35 per cent decline in Latin America and the Caribbean.

Figure 2. The value of cross-border M&A sales and greenfield investment projects, 2007 Q1 - 2011 Q3
(Billions of dollars)



Source: UNCTAD.

Greenfield investments – which with M&As make up the two modes of FDI – declined slightly in terms of value in the first three quarters of 2011 compared with the same period last year (figure 2). Growth in projects in developing and transition economies was not strong enough to compensate for the decline in developed countries. Nevertheless developing and transition economies continue to host about two-thirds of the total value of greenfield investment projects.

… FDI recovery is at risk for 2011 as a whole.

Our full-year forecast remains cautiously optimistic, projecting FDI flows close to the pre-crisis average (which is still some 25 per cent below their 2007 peak). However, downside risks have increased, reflecting turmoil in the eurozone sovereign debt markets and related uncertainties in the banking sectors, a slow recovery in the United States, spikes in investor risk aversion, and rising financial market turbulence. Due to the significant uncertainties that investors face when confronting the current economic situation, both greenfield investment and cross-border M&As declined in value terms between the second quarter and third quarter of 2011. A sharp slowdown in announced cross-border M&As during the first half of 2011 further suggests that equity investments may continue to decline during the rest of the year.

Global investment prospects continue to be clouded by the significant uncertainties that investors face when confronting the current economic situation. Worldwide demand for private productive investment is increasing as many countries are shifting towards fiscal austerities. Governments must facilitate and promote ways for private investment to take up the slack in the global economy and support a sustained recovery.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-January 2012.

For the latest issue of UNCTAD's *Investment Policy Monitor* please look at http://www.unctad.org/en/docs/webdiaeia2011d12_en.pdf

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