GLOBAL INVESTMENT TRENDS MONITOR

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UNCTAD

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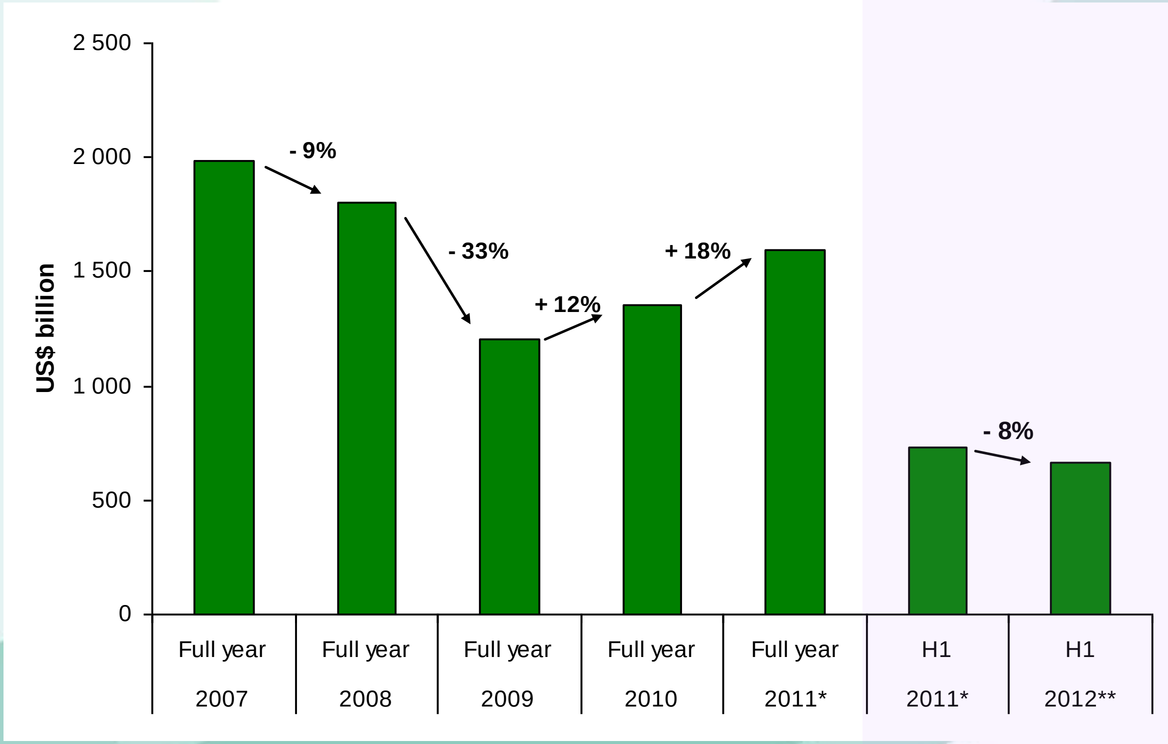
FDI FLOWS RETREATED IN THE FIRST HALF OF 2012
UNCTAD REVISES DOWN ITS FULL YEAR FORECAST

HIGHLIGHTS

- In the first half of 2012, global foreign direct investment (FDI) inflows reached US$668 billion, a decline of 8 per cent compared with the same period of 2011 (figure 1), as the economic recovery suffered new setbacks in the second quarter of 2012.

Figure 1. Global FDI inflows and growth rates, 2007−2011 and 2011:H1−2012:H1
(Per cent)



Source: UNCTAD.
* Revised.
** Estimates.
Abbreviation: H1– first half of the year.

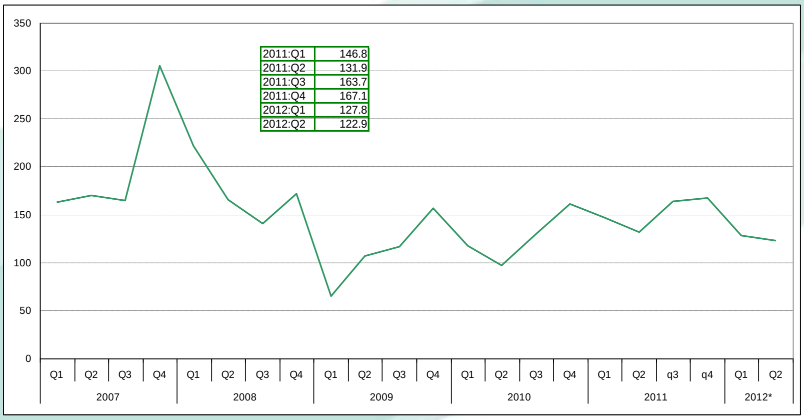
- The US$61 billion fall was mainly caused by a decline of US$37 billion in inflows to the United States and a US$23 billion fall in inflows to BRIC countries – Brazil, Russian Federation, India and China.
- The declines were caused by steep falls in both greenfield investment projects (-40 per cent) and cross-border M&A transactions (-60 per cent), which are also visible in the reduced importance of the equity component of FDI inflows. The fact that the overall decline remains limited to -8 per cent reflects the stable reinvested earnings component of FDI, indicating that TNCs' earnings overseas continued to be strong.
- Developing countries (without transition economies) for the first time absorbed half of global FDI inflows due to the steep fall in flows to the United States and a moderate decline in flows to the EU. Despite a decline in FDI inflows, China became the world's largest recipient in the first half of 2012.
- FDI flows showed an uneven pattern among regions. In developing economies, while flows to developing Asia declined, those to Latin America and Africa rose. In developed countries, the rise in flows to Europe (in spite of a fall in flows to the European Union (EU)) and other developed countries was not enough to compensate for the decline in flows to North America.
- Compared to the full-year forecast of FDI inflows published in July, UNCTAD now projects that FDI flows will, at best, level-off in 2012 at slightly below US$1.6 trillion. The slow and bumpy recovery of the global economy, weak global demand and elevated risks related to regulatory policy changes continue to reinforce the wait-and-see attitude of many transnational companies (TNCs) toward investment abroad.

Global FDI inflows declined in the first half of 2012

In the first half of 2012, global FDI fell by 8 per cent to an estimated US$668 billion, down from US$729 billion in first half of 2011. This was due to increased uncertainty in the global economy, marked by fears of an exacerbation of the sovereign debt crisis in Europe and a slow down of growth in major emerging market economies. In the second quarter of 2012 the value of UNCTAD’s FDI Global Quarterly Index, which tracks FDI flows, dropped from 128 to 123.

FDI analysis in the quarterly Global Investment Trend Monitor cannot avoid limitations of the quarterly and half-yearly data, which are lumpy in nature and subject to considerable revisions.

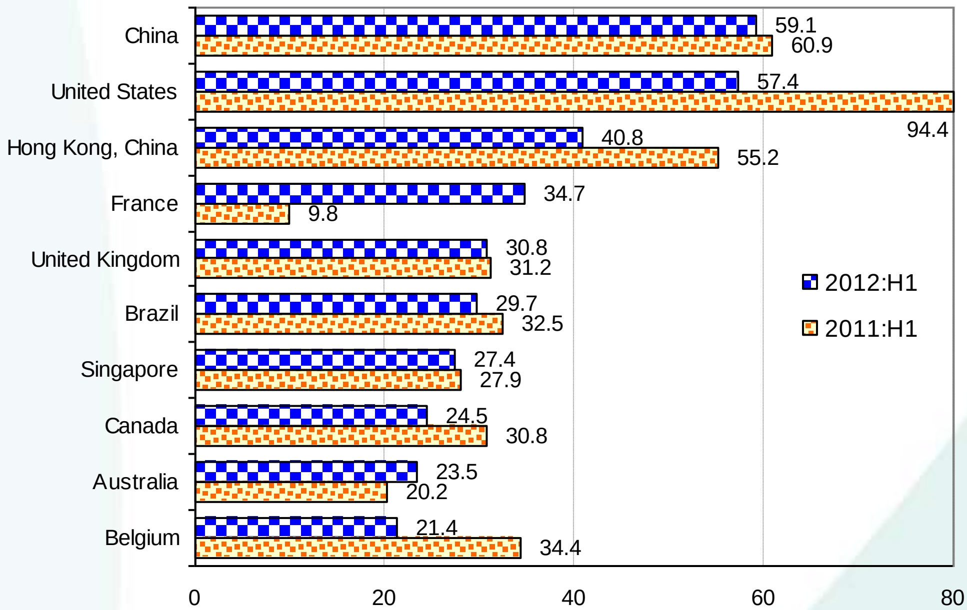
Figure 2. UNCTAD's Global FDI Quarterly Index, 2007 Q1— 2012 Q2
(Base 100: quarterly average of 2005)



Source: UNCTAD.
* Estimates.
Abbreviation: Q – quarter.

In the first half of 2012, developing and transition economies continued to absorb more than half of global FDI flows. For the first time, developing economies alone accounted for a half of the global total. Despite a slight decline in FDI inflows, China became the largest recipient country in the first half of 2012, followed by the United States (figure 3). However, early indications show that FDI flows to the United States might be stronger in the second half of 2012. The value of cross-border M&As in the third quarter of 2012 were double those of the first half of the year, while some further acquisitions are already taking place or announced in the fourth quarter (for example, the acquisition by the Japanese telecommunication company SoftBank of Sprint Nextel (United States) for more than US$20 billion -- the largest investment ever by a Japanese company).

Figure 3. Global FDI inflows: top 10 host economies, 2011:H1–2012:H1
(Billions of US dollars)



Source: UNCTAD.
Abbreviation: H1– first half of the year.

Developing countries account for more than half of global FDI

Flows to *developing economies* decreased by 5 per cent. While flows to developing Asia declined, those to Latin America and the Caribbean and Africa rose (figure 4). FDI flows fell to the BRICs as a whole and to each of individual country within the group.

In the first half of 2012, FDI inflows declined by 11 per cent in *developing Asia*, despite a strong recovery after the global financial crisis. This reflects a protracted period of weak external demand with consequent strongly negative effects on exports and increasing uncertainty about high-growth emerging countries.

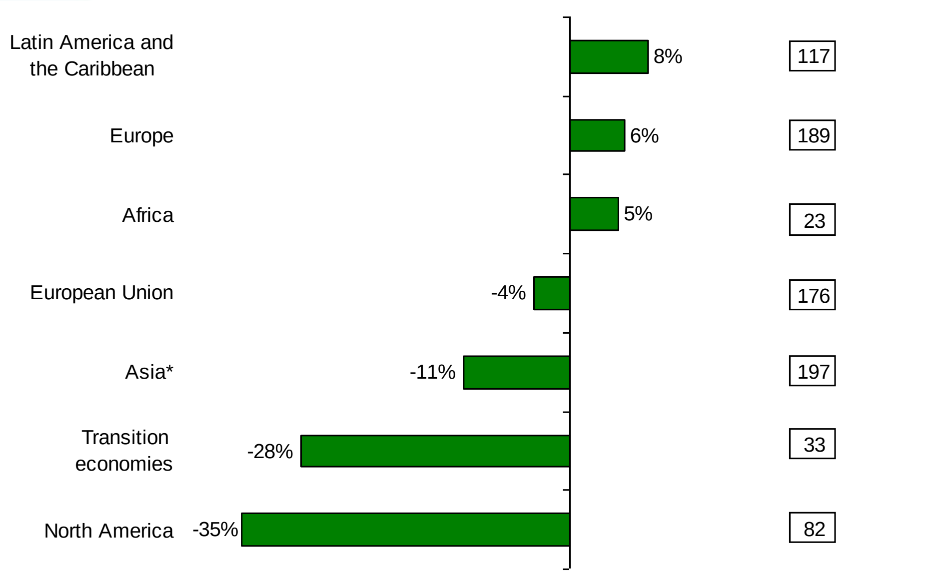
As a result of declines in China and Hong Kong (China), total FDI inflows to East Asia fell by about 11 per cent. Half-year inflows to China amounted to US$59 billion —a 3 per cent decline from US$61 billion in the first half of last year. China is experiencing structural adjustments in their FDI flows, including the relocation of labour-intensive and low-end market-oriented FDI to neighbouring countries. Inflows to Hong Kong (China) declined much more significantly, by 26 per cent to US$41 billion. In the meantime, Taiwan Province of China performed well, with inflows rising to US$1.8 billion.

Similarly, FDI flows to *South-East Asia* decreased by 5 per cent to US$52 billion. Member States of ASEAN demonstrated diverging trends: inflows to Cambodia, the Philippines and Thailand rose in the first half of 2012, while those to Indonesia, Malaysia and Singapore declined.

South Asia also saw its inflows fall by 40 per cent as a result of declines across nearly all countries in the subcontinent. Inflows to India, which accounts for the lion's share of inward FDI to the subregion, fell from US$18 billion to US$10 billion, partly as a result of shrinking market-seeking FDI to the country. Strong interest by foreign investors in manufacturing, especially in garments, helped keep FDI inflows to Bangladesh at a relatively high level — about US$430 million in the first two quarters.

In the first half of 2012, *West Asia* saw FDI inflows remaining at almost the same level as in the corresponding period of the previous year, increasing by 1 per cent. This reflects difficulty in recovering after three successive years of significant decline, in a region entangled with political crisis. Turkey — where FDI began its recovery in 2010 then strongly increased in 2011 — remained an exception, with FDI inflows increasing by 21 per cent in the first half of 2012. FDI to the other West Asian countries declined. Both the global economic crisis and the deepening regional crisis continue to weigh on private investors' capacity and propensity to invest in West Asia.

Figure 4. The growth rate and the amount of FDI inflows, by group of economies 2011:H1–2012:H1
(Per cent and billions of US dollars)



Source: UNCTAD.
*Asia includes East Asia, South-East Asia, South Asia and West Asia

FDI inflows to *Latin America and the Caribbean* increased by 8 per cent in the first half of 2012, compared with the same period of the previous year, as a result of increases in South America (11 per cent) and the Caribbean (14 per cent) that more than compensated for a 14 per cent decline in Central America. FDI growth in South America mainly resulted from strong FDI rises in Chile, Colombia, Peru and Argentina. Flows to Brazil declined by 9 per cent although they remained at a high level. Offshore financial centres were the main drivers of FDI growth to the Caribbean, while the 19 per cent decline of FDI flows to Mexico largely explains the FDI fall in Central America. FDI continued to be attracted into South America by natural resource endowments, relatively higher economic growth, and high interest rate differentials (that boost the amount of reinvested earnings and intra-company loans — two of the three components of FDI flows).

FDI flows to *Africa* showed signs of recovery in the first half of 2012, with year-on-year growth reaching 5 per cent, after three consecutive years of decline. North Africa led the way — Egypt, in particular — as FDI flows to the region increased by three-quarters with a gradual return of investors' confidence in the region. In Sub-Saharan Africa, South Africa suffered a significant fall in FDI inflows in the first half of 2012 due to slower economic growth.

FDI flows to North America and transition economies plummeted

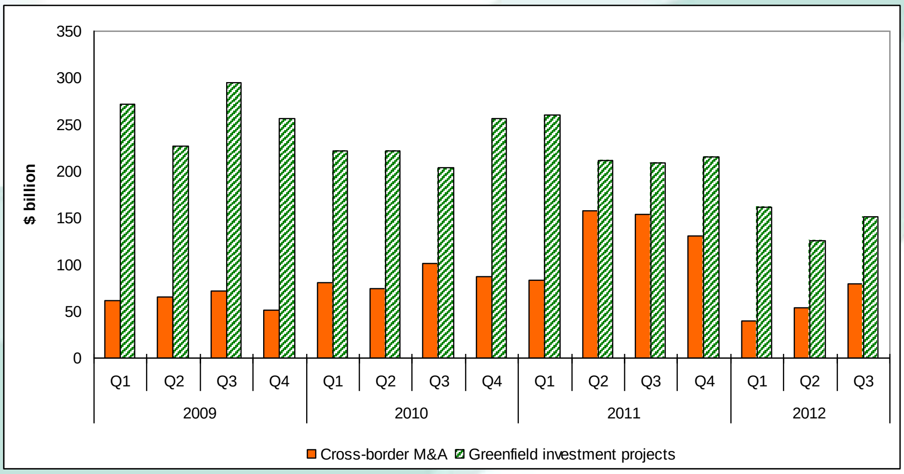
The recovery of FDI flows to ***developed countries*** since 2010 appears to be losing its momentum. While inflows to the EU for the first half of 2012 declined slightly compared to the same period in 2011, inflows to North America were down by more than one third due to a dramatic fall in the flows to the United States (39 per cent). Elsewhere, Australia and Switzerland saw solid increases in their inflows. The trend of net divestment (negative inflows) continued in Japan. Overall, inflows to developed countries declined by 9.5 per cent. Among the eurozone countries hit by the sovereign debt crisis, inflows recovered in Portugal and Spain, partly because of recapitalization of banking affiliates by their foreign parent banks in Spain and China's investment in state-owned assets in Portugal (e.g. EDP-Energias de Portugal). On the other hand, Italy saw a net divestment of US$1.6 billion, compared with inflows of US$13.9 billion in the same period of 2011. In Greece, FDI inflows remained at a very low level.

Transition economies of South-East Europe, the Commonwealth of Independent States (CIS) and Georgia experienced a slump in FDI flows of 28 per cent, reaching US$33 billion. As developed economies — traditionally the dominant source of FDI in the region.— have encountered increasingly strong headwinds, the transition economies have suffered from weak external demand. In addition, domestic economic growth remains weak and fiscal consolidation provided a drag on the economies. FDI inflows to the Russian Federation declined by 39 per cent to US$16 billion in the first half of 2012 as the large acquisitions which took place in the first half of 2011 were not repeated in 2012.

Greenfield investment projects and cross-border M&As decreased sharply

Both greenfield investment projects and cross-border M&A transactions registered sharp declines in the first three quarters of 2012 compared with the same period of 2011. The value of greenfield projects went down 35 per cent mainly due to declines in Latin America and the Caribbean, South Asia and the transition economies. Cross-border M&As, accounting for roughly 34 per cent of FDI inflows in 2011, fell by 55 per cent mainly due to South Asia and the transition economies.

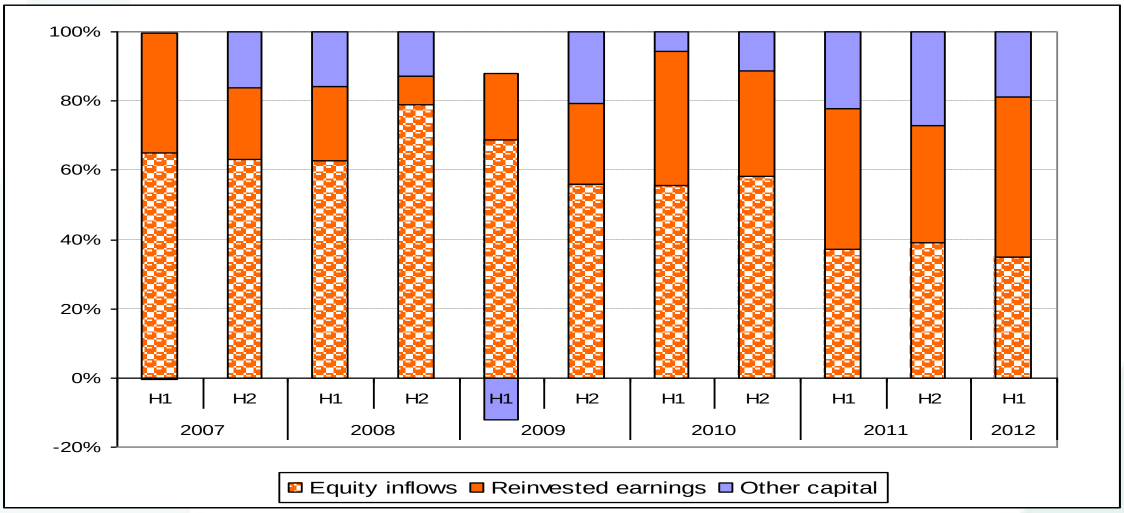
Figure 5. The value of cross-border M&A sales and of greenfield investment projects, 2009 Q1 – 2012 Q3[a]
(Billions of US dollars)



Source: UNCTAD, based on cross-border M&A database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.
[a] Data for the third quarter of 2012 are preliminary.

Despite the steep drops in greenfield and cross-border M&As, the fact that the overall decline in FDI flows remains limited (-8 per cent) reflects the relatively stable reinvested earnings component of FDI at US176 billion compared to US$177 billion in the first half of 2011. This indicates that TNC earnings overseas continued to be strong. The share of this component in the first half of 2012 was 46 per cent, the highest share ever recorded, at the expense of equity flows (figure 6), which are usually associated with greenfield projects and cross-border M&As transactions.

Figure 6. The share of quarterly FDI inflow components for selected countries, [a] 2007 H1 - 2012 H2
(Billions of US dollars)



Source: UNCTAD.
a Countries included are: Armenia, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Czech Republic, Denmark, Estonia, Georgia, Germany, Guatemala, Honduras, Hong Kong (China), Hungary, Indonesia, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, Luxembourg, Mexico, Mongolia, Montenegro, Namibia, Netherlands, New Zealand, Norway, Panama, Peru, Philippines, Portugal, Republic of Korea, Republic of Moldova, Serbia, Slovakia, Sweden, Switzerland, Thailand, The FYR of Macedonia, Uganda, United Kingdom, United States, Uruguay and the Bolivarian Republic of Venezuela for which quarterly data on FDI by component are available.

FDI flows are expected, at best, to level-off in 2012

Compared to the full-year forecast of FDI inflows published in July, UNCTAD now projects that FDI flows will, at best, level-off in 2012, at slightly below US$1.6 trillion. The slow and bumpy recovery of the global economy, weak global demand and elevated risks related to regulatory policy changes continue to reinforce the wait-and-see attitude of many transnational companies (TNCs) toward investment abroad.

UNCTAD's longer term projections still show a moderate rise. However, the risk of further macroeconomic shocks in 2013 can impact FDI inflows negatively. "Investment leads economic growth but the current trends of investment flows to developing countries, particularly to Asia, are worrisome and the challenge for channeling FDI into key development sectors such as infrastructure, agriculture and the green economy remains daunting" said Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi.

Annex 1. Global FDI inflows, by region and major economy, 2010:H1-2012:H1

(Billions of US dollars)

Region / economy	2010		2011[a]		2012[b]	Growth rate over 2011:H1
	H1	H2	H1	H2	H1	(%)
World	**580.0**	**771.6**	**728.7**	**849.4**	**667.6**	***-8.4***
Developed economies	**256.4**	**397.1**	**329.2**	**462.0**	**298.1**	***-9.5***
Europe	154.5	238.0	178.6	264.5	188.8	*5.7*
European Union	147.0	207.4	182.7	249.5	175.9	*-3.8*
Austria	8.8	- 7.7	11.2	3.3	- 0.4	..
Belgium	23.3	63.6	34.4	67.6	21.4	*-37.9*
Denmark	- 1.1	- 6.6	8.5	6.7	- 0.7	..
Finland	1.4	5.3	1.3	1.3	0.1	*-96.2*
France	15.9	14.4	9.8	31.1	34.7	*252.3*
Germany	21.2	25.7	11.1	29.2	10.0	*-9.7*
Greece	0.4	0.1	- 0.7	2.4	0.1	..
Hungary	- 0.9	3.2	- 0.6	5.0	6.3	..
Ireland	23.3	20.2	26.1	- 13.8	14.7	*-43.7*
Italy	5.2	4.4	13.9	15.2	- 1.6	..
Luxembourg	16.1	11.1	8.6	6.0	6.0	*-30.8*
Netherlands	- 12.2	0.2	- 5.6	18.5	16.7	..
Poland	6.3	2.8	7.2	7.9	- 1.0	..
Portugal	2.6	0.0	2.2	8.1	7.8	*262.8*
Spain	7.6	33.6	3.1	25.4	14.8	*372.1*
Sweden	1.2	- 2.8	10.2	4.8	8.2	*-19.8*
United Kingdom	21.3	30.5	31.2	23.7	30.8	*-1.4*
Switzerland	6.3	14.6	- 2.8	6.3	12.3	..
North America	84.6	136.9	125.2	143.1	81.9	*-34.6*
Canada	19.4	4.2	30.8	10.5	24.5	*-20.5*
United States	65.3	132.6	94.4	132.6	57.4	*-39.2*
Australia	15.6	18.8	20.2	45.6	23.5	*16.4*
Japan	0.3	- 1.7	- 1.7	0.0	- 1.7	..
Developing economies	**286.8**	**336.3**	**352.8**	**340.3**	**336.0**	***-4.8***
Africa	20.9	22.2	22.0	21.4	23.1	*5.1*
Egypt	4.1	2.3	- 0.1	- 0.4	2.5	..
South Africa	0.8	0.4	3.0	2.7	1.7	*-43.6*
Latin America and the Caribbean	85.1	102.6	108.4	111.5	117.3	*8.2*
Argentina	3.5	3.6	3.8	4.9	5.4	*41.7*
Brazil	12.1	36.4	32.5	34.2	29.7	*-8.6*
Chile	7.6	7.8	6.8	10.5	12.3	*80.2*
Colombia	3.6	3.1	6.6	6.8	7.8	*18.3*
Mexico	13.3	7.6	11.8	8.5	9.6	*-18.6*
Peru	4.3	4.1	4.2	4.1	5.4	*30.9*
Asia	**179.8**	**210.5**	**221.7**	**206.5**	**196.9**	*-11.2*
East Asia	102.4	101.6	121.0	102.2	107.4	*-11.3*
China	51.4	54.3	60.9	55.1	59.1	*-3.0*
Hong Kong, China	42.6	40.1	55.2	40.1	40.8	*-26.2*
Taiwan Province of China	1.7	0.8	- 1.4	- 0.5	1.8	..
South-East Asia	41.8	51.8	54.7	62.4	51.8	*-5.4*
Cambodia	0.3	0.5	0.3	0.6	0.9	*165.7*
Indonesia	6.3	7.4	10.3	8.9	8.2	*-20.6*
Malaysia	3.7	5.5	6.9	5.1	4.4	*-36.6*
Philippines	0.7	0.6	0.8	0.4	0.9	*10.6*
Singapore	20.2	28.8	27.9	36.2	27.4	*-1.9*
Thailand	5.6	4.0	3.4	6.1	5.6	*62.1*
South Asia	15.1	18.4	21.4	17.9	12.8	*-40.1*
Bangladesh	0.6	0.3	0.4	0.4	0.4	*-2.4*
India	12.3	13.6	18.2	13.3	10.4	*-42.8*
West Asia	20.6	38.8	24.5	24.0	24.8	*1.3*
Turkey	3.2	5.9	6.8	9.1	8.2	*20.8*
Transition economies	**36.8**	**38.2**	**46.7**	**47.0**	**33.5**	***-28.3***
Russian Federation	19.6	23.7	26.8	26.1	16.3	*-39.3*

Source: UNCTAD.

[a] Revised.

[b] World and regional totals are estimated.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-January 2013.

The next issue of UNCTAD's Investment Policy Monitor will be released in mid-November 2012.

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