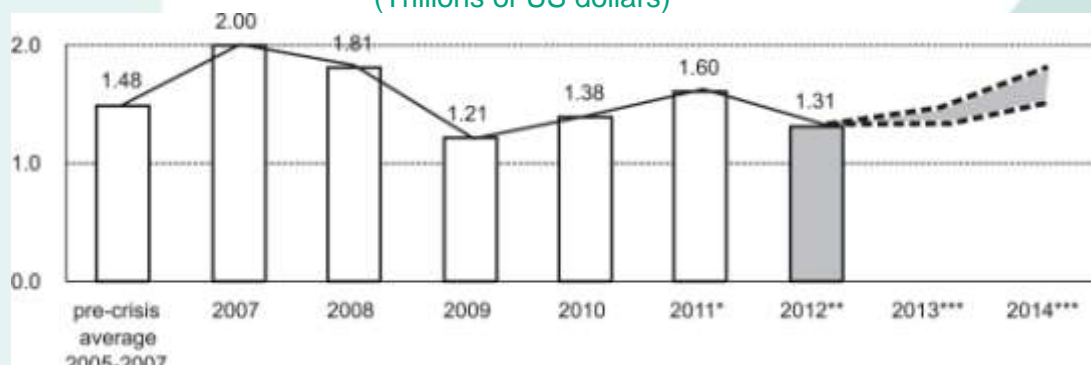


GLOBAL FDI RECOVERY DERAILS

HIGHLIGHTS

- *Global foreign direct investment (FDI) inflows declined by 18% in 2012, to an estimated US\$1.3 trillion (figure 1) – a level close to the trough reached in 2009 – due mainly to macroeconomic fragility and policy uncertainty for investors.*
- *The FDI recovery that had started in 2010 and 2011 will take longer than expected. FDI flows could rise moderately over 2013-2014, although significant risks to this scenario persist.*
- *The strong decline of FDI flows presents a stark contrast to other macroeconomic variables, including GDP, trade and employment growth which remain in positive territory (table 1).*

Figure 1. Global FDI inflows, average 2005–2007, 2007–2014
(Trillions of US dollars)



Source: UNCTAD.

* Revised, ** Estimates, *** Forecast.

- *In developed countries FDI flows fell drastically to values last seen almost ten years ago. The majority of EU countries saw significant drops in FDI flows with the total fall amounting to some US\$150 billion. United States FDI flows also fell by US\$80 billion.*
- *FDI flows to developing economies, for the first time ever, exceeded those to developed countries, by some US\$130 billion. FDI flows to developing economies remained resilient, declining only 3%. Flows to developing Asia lost some momentum, although they remained at historically high levels. Latin America and Africa saw a small increase.*
- *Cross-border merger and acquisitions (M&As) data shows that developed country investors are divesting massively while investors from developing countries are bucking the trend. Their share in cross-border M&A purchases rose to a record 37%.*

Global FDI inflows declined by one fifth in 2012

Global FDI flows fell by 18% to an estimated US\$1.3 trillion, down from a revised US\$1.6 trillion in 2011, as significant investor uncertainty continues to hamper the FDI recovery. This uncertainty is driven by a weakening macroeconomic environment with lower growth rates for GDP, trade, capital formation and employment (table 1), and by a number of perceived risk factors in the policy environment, related to the Eurozone crisis, the United States fiscal cliff, changes of government in a number of major economies in 2012, and broad-based policy changes with implications for FDI.

Table 1. Growth rates of global GDP, GFCF, trade, employment and FDI, 2008–2014
(Per cent)

Variable	2008	2009	2010	2011	2012 ^a	2013 ^b	2014 ^b
GDP	1.4	-2.1	4.0	2.7	2.3	2.4	3.1
Trade	3.0	-10.4	12.6	5.8	3.2	4.5	5.8
GFCF	2.3	-5.6	5.3	4.8	4.6	5.3	6.0
Employment	1.1	0.4	1.4	1.5	1.3	1.3	1.3
FDI	-9.5	-33.0	14.1	16.2	-18.3	7.7	17.1
Memorandum:							
FDI value (in trillions)	1.81	1.21	1.38	1.60	1.31	1.4	1.6

Source: UNCTAD based on World Bank for GDP, IMF for GFCF and Trade and ILO for employment.

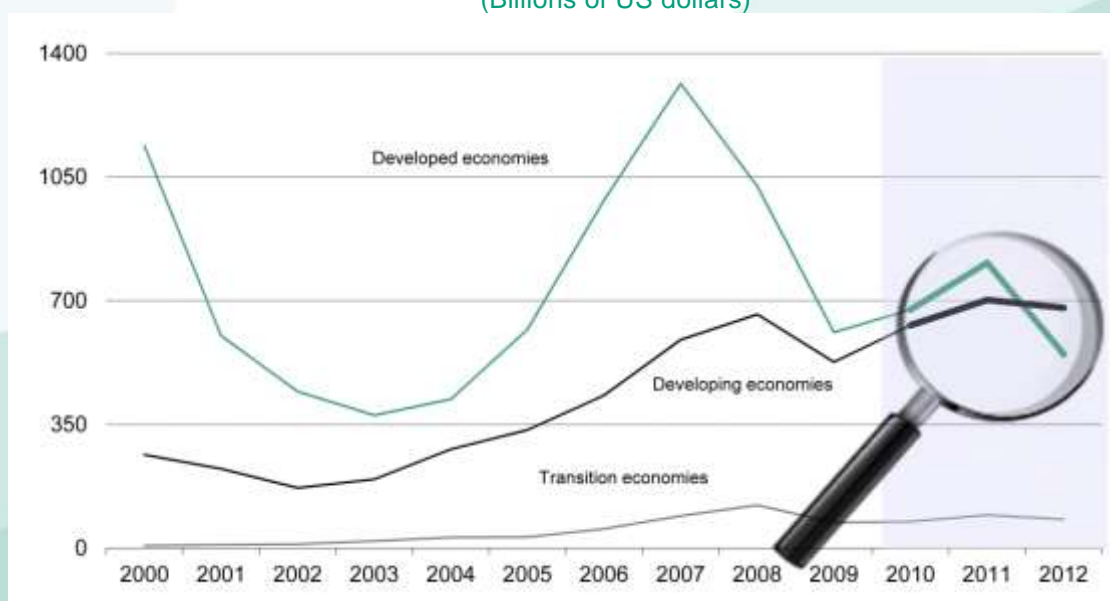
^a Estimation. ^b Projections.

GFCF=gross fixed capital formation.

Developing countries surpassed developed countries in FDI inflows

FDI flows to *developing economies* remained relatively resilient in 2012, reaching US\$680 billion, the second highest level ever recorded. Developing economies absorbed an unprecedented US\$130 billion more than developed countries (figure 2).

Figure 2. Global FDI inflows, developed, developing and transition economies, 2000–2012
(Billions of US dollars)



Source: UNCTAD.

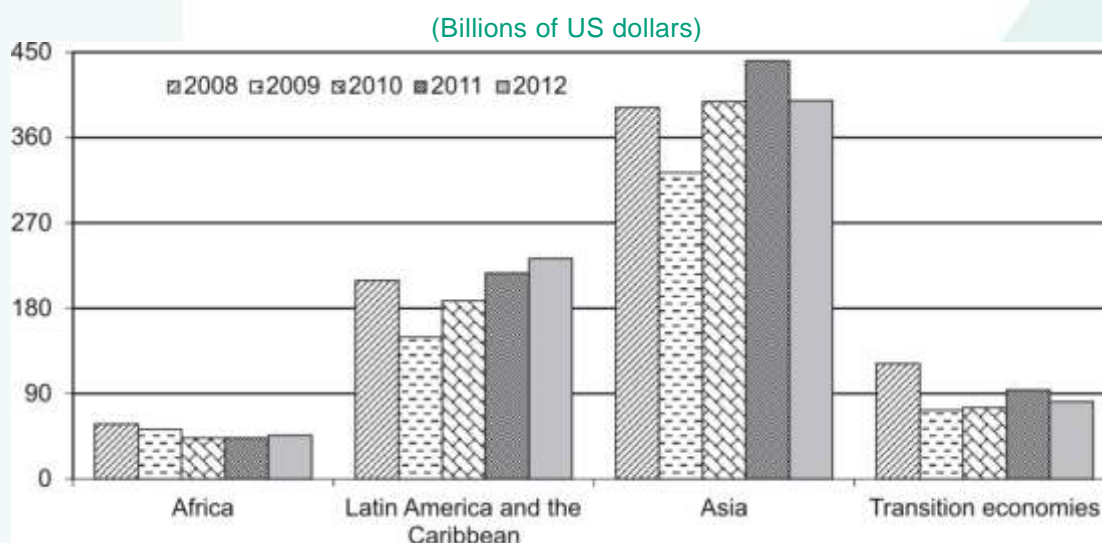
FDI inflows to *developing Asia* fell by 9.5% as a result of declines across most sub-regions and major economies, including China, Hong Kong (China), India, the Republic of Korea, Singapore and Turkey. However, 2012 inflows to Asia were still at the second highest level recorded, accounting for 59% of FDI flows to developing countries.

FDI flows to China declined slightly but the country continues to be a major FDI recipient – the second largest in the world. FDI inflows to China declined by only 3.4% to \$120 billion in 2012, despite a strong downward pressure on FDI in manufacturing caused by rising production costs and weakening export markets. The 7.8% growth of the Chinese economy helped maintain investor confidence. FDI to India declined by 14%, although it remained at the high levels achieved in recent years. The country's prospects in attracting FDI are improving thanks to ongoing efforts to open up key economic sectors.

Despite an overall 7% decline in FDI inflows to the Association of Southeast Asian Nations (ASEAN), some countries in this group of economies appear to be a bright spot: preliminary data show that inflows to Cambodia, Myanmar, the Philippines, Thailand and Viet Nam grew in 2012.

FDI flows to *West Asia* did not turn around their negative trend in 2012, declining for the fourth consecutive year. With continuing political uncertainty at the regional level, and subdued economic prospects at the global level, foreign investors are still holding back. FDI to Saudi Arabia – the region's main recipient – did register an increase. Turkey, the region's second main recipient, experienced a decline in FDI flows due to a fall in cross-border M&As sales in 2012.

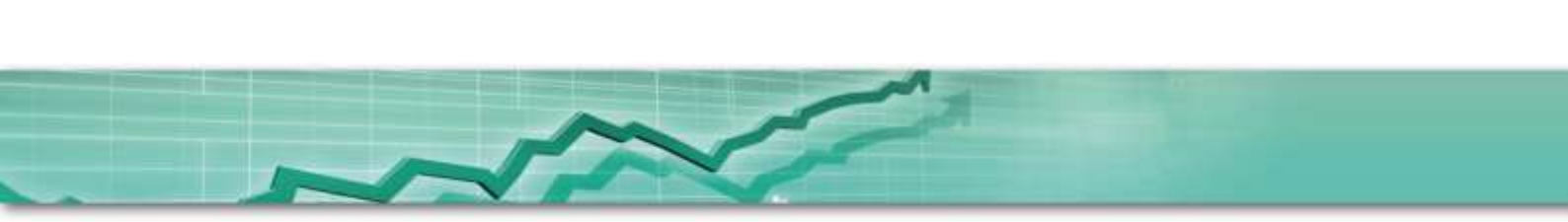
Figure 3. FDI inflows to developing and transition economies, 2008–2012



Source: UNCTAD.

*Asia includes East Asia, South-East Asia, South Asia and West Asia

Latin America and the Caribbean registered positive growth in FDI in 2012. The rise was strongest in South America due to the sub-region's economic buoyancy, leading to a significant number of market-seeking investments, and persistent strength of commodity prices, which continue to encourage investments in the extractive industries, particularly in Chile, Peru and Colombia. Inflows registered also strong growth in Argentina. FDI to Brazil slowed but remained robust, confirming the country's primacy as the leading investment destination in the region, accounting for 28% of the total. FDI flows to Central America decreased mainly as the result of a decline in Mexico.



FDI flows to *Africa* rose in 2012. Flows to North Africa reversed their downward trend, as Egypt saw a rebound of investment from European investors. Angola – an important holder of FDI stock in Africa – posted lower divestments in 2012 compared with 2010 and 2011 while positive growth of FDI flows to South Africa contributed to a rise in inward FDI flows to Southern Africa.

Transition economies experienced a decline in FDI flows of 13%, reaching US\$81 billion. FDI flows to South-East Europe fell 52%, as a result of sluggishness of investment from EU countries, the main investors in the region. Flows to the Commonwealth of Independent States (CIS) declined, as the rise of FDI to Kazakhstan and Ukraine were not enough to compensate the 17% fall of FDI flows in the Russian Federation.

FDI flows to developed countries plummeted

FDI flows fell drastically in developed countries to values last seen almost ten years ago. Of the global decline of US\$300 billion in FDI inflows, from US\$1.6 trillion in 2011 to an estimated US\$1.3 trillion in 2012, almost 90% was accounted for by developed countries. FDI declined sharply both in Europe and in the United States. In Europe, Belgium and Germany saw large declines in FDI inflows. In Belgium – which, with a drop of US\$80 billion, accounted for much of the fall – FDI flows are often volatile or inflated by the transactions of the special purpose entities (SPE). Germany posted a large decline from US\$40 billion in 2011 to only US\$1 billion in 2012, due in part to large divestments. The decline of inflows to the United States is largely explained by the fall in cross-border M&A sales; despite the fall the country remained the largest recipient of FDI flows in the world. Elsewhere, Japan saw a net divestment for the third successive year.

There were a few developed countries that bucked the trend and saw FDI inflows increase, namely France, Canada, Ireland, and the United Kingdom, although none of these increases were significant in historic terms. With the return of stability and confidence in the Irish economy, which was severely impacted by the banking crisis in 2008, there has been a revival of transitional corporation (TNC) activity in the country.

FDI flows to the Southern European countries hit by the crisis (Greece, Italy, Portugal, and Spain) together more than halved from 2011. In Italy, where weak economic growth in 2011 turned into a recession (an estimated contraction by 2.3%), the country saw sizable divestments and loan repayments. In Spain inflows declined from US\$29.5 billion in 2011 to US\$17.5 billion in 2012. Inward FDI to Portugal fell but remained at a relatively high level, helped by Chinese acquisitions of state assets in the energy sector. Inward FDI to Greece remained marginal but saw a rise, mostly explained by injections of capital by parent TNCs to cover losses of their affiliates.

Cross-border M&As decreased sharply, but developing country investors are bucking the trend

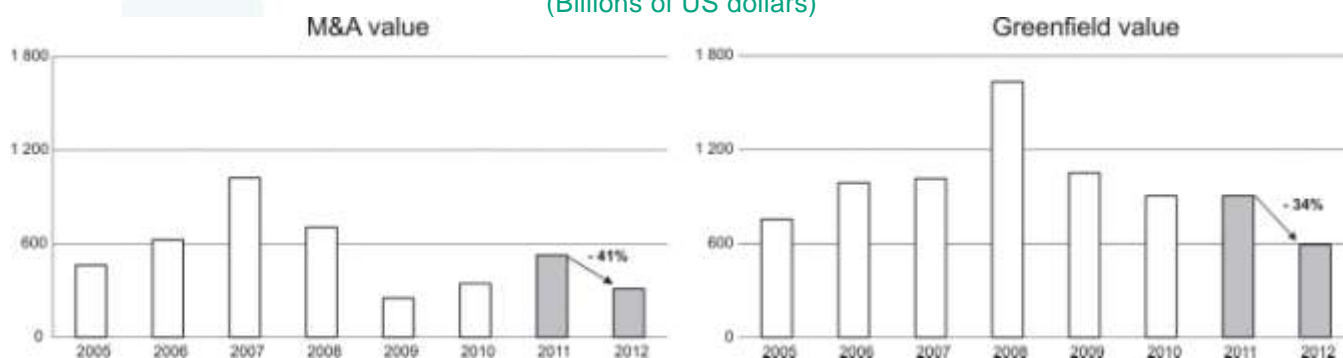
In 2012, the value of cross-border M&As fell by 41% to the lowest activity level since 2009. The weak M&A market reflected global macro-economic uncertainty and the resulting low corporate confidence, especially in developed markets. In many European countries, cross-border M&A sales decreased significantly from 2011 levels.

Many developed countries such as the Australia, France, Luxembourg, Portugal and the United Kingdom saw large divestments by their TNCs from assets abroad in 2012. Examples include the divestments of ING Group in the United States and Canada for US\$12 billion, and the sale by BP of a stake in a group of oil fields in the Gulf of Mexico for US\$5.6 billion. In contrast, purchases by TNCs from developing economies reached US\$115 billion, accounting for a record-high share of 37% of total world

M&A purchases. Large deals include the acquisition by Petronas (Malaysia) of Progress Energy Resources Corp (Canada) for US\$5.4 billion, the purchase by Sinopec Group (China) of Petrogal Brasil Ltda (Brasil) for US\$4.8 billion and the purchase of Energias de Portugal SA (Portugal) by China Three Gorges Corp (China) for US\$3.5 billion. While M&A purchases by TNCs from Latin American saw the most rapid increase (to US\$28 billion), Asian investors continue to account for the lion's share (75%) of acquisitions from developing countries (annex 2).

The value of announced greenfield projects declined for the fourth straight year, falling by 34% to their lowest level ever. However, the value of greenfield investments still account for two thirds of global investments.

Figure 4. The value of cross-border M&A sales and of greenfield investment projects, 2005 – 2012^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 2012 are preliminary.

FDI prospects for 2013 and 2014: delayed recovery?

FDI flows could rise moderately to US\$1.4 trillion in 2013 and US\$1.6 trillion in 2014 (table 1) as the global economy is expected to make a hesitant and uneven recovery over the coming two years. GDP growth, gross fixed capital formation and trade are projected to rise gradually, both at the global level and, especially, in developing countries. Such a slight improvement in macroeconomic conditions could prompt TNCs to transform their record levels of cash holdings into new investments. If investor confidence returns, TNCs may also be induced to make strategic investments to cement their business plans for the post-crisis period. In addition, possible further sales of publicly owned assets to restructure sovereign debt may also provide FDI opportunities.

Significant risks to this scenario persist, including structural weaknesses in major developed economies and in the global financial system, the possible further deterioration of the macroeconomic environment, and significant policy uncertainty in areas crucial for investor confidence, including fiscal policy and investment regulations and restrictions. Should these risks prevail, FDI recovery could be further delayed.

"FDI recovery is on a bumpy road. While FDI in developing countries remained resilient, more investment in sectors that can contribute to job creation and enhance local productive capacity is still badly needed. Therefore promoting FDI for sustainable development remains a challenge" said Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi.

Annex 1: FDI inflows, 2010-2012

(Billions of dollars and per cent)

Region / economy	2010	2011 ^a	2012 ^b	Growth rate 2011-2012 (%)
World	1 381.0	1 604.2	1 310.7	-18.3
Developed economies	674.9	807.8	548.9	-32.1
Europe	407.6	459.3	293.5	-36.1
<i>European Union</i>	358.0	440.0	287.0	-34.8
Austria	0.8	14.7	5.0	-65.9
Belgium	85.7	103.3	19.3	-81.3
Czech Republic	6.1	5.4	10.0	84.3
Denmark	- 7.4	14.8	2.1	-86.1
France	30.6	40.9	58.9	43.8
Germany	46.9	40.4	1.3	-96.8
Greece	0.3	1.1	2.6	128.7
Ireland	42.8	11.5	39.6	245.1
Italy	9.2	34.3	5.3	-84.7
Luxembourg	27.7	14.4	22.6	57.0
Netherlands	- 9.9	13.6	- 2.1	..
Poland	13.9	18.9	4.1	-78.2
Portugal	2.6	10.4	9.2	-11.8
Spain	40.8	29.5	17.5	-40.6
Sweden	- 1.3	14.7	10.1	-31.1
United Kingdom	50.6	51.1	62.5	22.2
Switzerland	32.5	11.8	6.1	-48.2
Canada	29.1	41.4	47.2	14.0
United States	197.9	226.9	146.7	-35.3
Australia	35.2	65.8	48.5	-26.3
Japan	- 1.3	- 1.8	- 0.4	..
Developing economies	630.9	702.7	680.4	-3.2
<i>Africa</i>	43.2	43.4	45.8	5.5
Egypt	6.4	- 0.5	3.5	..
Nigeria	6.1	8.9	5.3	-40.8
Angola	- 3.2	- 5.6	- 3.1	..
South Africa	1.2	5.8	6.4	10.3
<i>Latin America and the Caribbean</i>	187.9	217.0	232.6	7.2
Argentina	7.1	8.7	11.0	27.3
Brazil	48.5	66.7	65.3	-2.0
Chile	15.4	17.3	26.4	52.7
Colombia	6.7	13.6	15.8	15.9
Peru	8.5	8.2	11.0	34.2
Mexico	21.0	20.8	17.4	-16.5
<i>Asia</i>	397.8	440.7	399.0	-9.5
West Asia	59.3	48.6	47.0	-3.3
Saudi Arabia	29.2	16.3	18.8	15.1
Turkey	9.0	15.9	12.4	-22.1
East Asia	214.6	237.5	213.1	-10.3
China	114.7	124.0	119.7	-3.4
Hong Kong, China	82.7	96.1	72.5	-24.6
Korea, Republic of	10.1	10.2	9.0	-11.9
South Asia	31.7	39.6	32.3	-18.4
India	24.2	31.6	27.3	-13.5
South-East Asia	92.1	115.0	106.5	-7.3
Cambodia	0.8	0.9	1.8	104.3
Indonesia	13.8	19.2	19.2	-0.1
Malaysia	9.1	12.0	10.0	-16.8
Myanmar	1.0	1.0	1.9	90.0
Philippines	1.3	1.3	1.5	15.5
Singapore	48.6	64.0	54.4	-15.1
Thailand	9.1	7.8	8.1	3.9
Viet Nam	8.0	7.4	8.4	12.5
Transition economies	75.2	93.7	81.4	-13.1
<i>South-East Europe</i>	4.6	7.2	3.5	-51.9
<i>Commonwealth of Independent States (CIS)</i>	70.6	86.5	78.0	-9.9
Kazakhstan	11.6	13.7	15.6	13.4
Russian Federation	43.3	52.9	44.1	-16.6
Ukraine	6.5	7.2	8.0	11.5

Source: UNCTAD.

^a Revised.

^b Preliminary estimates.

Note: World FDI inflows are projected on the basis of 199 economies for which data are available for part of 2012 or full year estimate, as of 16 January 2013. Data are estimated by annualizing their available data, in most cases the first three quarters of 2012. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2011 is used to extrapolate the 2012 regional data.

Annex 2. Cross-border M&As, by region economy of seller/purchaser, 2011-2012

(Millions of dollars)

Region / economy	Net Sales			Net Purchases		
	2011	2012	Growth rate 2011-2012 (%)	2011	2012	Growth rate 2011-2012 (%)
World	525 881	310 141	-41.0	525 881	310 141	-41.0
Developed economies	409 691	258 003	-37.0	400 929	176 292	-56.0
Europe	200 363	135 352	-32.4	145 542	26 775	-81.6
European Union	172 257	119 707	-30.5	117 050	310	-99.7
Austria	6 928	1 938	-72.0	3 627	1 835	-49.4
Belgium	3 920	1 790	-54.3	7 757	-1 362	..
Cyprus	780	51	-93.5	3 903	5 021	28.6
Finland	973	1 949	100.3	3 303	4 358	32.0
France	24 325	11 467	-52.9	31 804	-3 867	..
Germany	12 709	8 229	-35.2	4 801	15 522	223.3
Greece	1 205	35	-97.1	79	-1 562	..
Ireland	2 181	12 066	453.3	-6 018	774	..
Italy	13 450	3 293	-75.5	4 176	-1 680	..
Luxembourg	9 393	6 461	-31.2	-20 751	-6 290	..
Netherlands	14 031	13 656	-2.7	19 750	-2 795	..
Poland	10 043	832	-91.7	511	3 399	564.9
Portugal	911	8 334	815.2	2 404	-4 741	..
Spain	17 298	5 246	-69.7	11 579	-2 312	..
United Kingdom	35 691	35 313	-1.1	53 876	-7 678	..
Iceland	0	0	..	- 446	-2 547	..
Switzerland	19 627	8 658	-55.9	17 463	16 331	-6.5
Canada	30 263	29 412	-2.8	40 215	39 532	-1.7
United States	134 103	66 259	-50.6	130 210	78 721	-39.5
Australia	35 460	23 086	-34.9	6 868	-4 983	..
Israel	3 663	942	-74.3	8 086	-2 132	..
Japan	4 991	1 278	-74.4	62 687	35 612	-43.2
Developing economies	83 220	48 381	-41.9	103 615	114 657	10.7
Africa	7 205	-1 195	..	4 812	592	-87.7
South Africa	5 228	- 879	..	4 252	821	-80.7
Latin America and the Caribbean	20 689	20 011	-3.3	18 659	28 149	50.9
Argentina	- 246	430	..	102	2 799	2646.9
Brazil	15 422	15 299	-0.8	5 540	7 427	34.1
Chile	574	- 113	..	1 083	9 764	801.6
Colombia	- 884	1 978	..	4 314	2 278	-47.2
Mexico	1 231	331	-73.1	4 390	2 450	-44.2
Asia	55 302	29 580	-46.5	80 179	85 873	7.1
East Asia	12 575	11 983	-4.7	50 403	57 953	15.0
China	11 176	9 927	-11.2	34 355	37 051	7.8
Hong Kong, China	1 028	2 787	171.2	11 293	13 237	17.2
Korea, Republic of	2 466	-1 767	..	4 109	5 508	34.0
South-East Asia	20 139	10 682	-47.0	17 563	16 409	-6.6
Malaysia	4 517	721	-84.0	3 909	9 293	137.7
Thailand	570	- 72	..	4 996	5 448	9.0
South Asia	12 875	2 620	-79.6	6 078	2 658	-56.3
India	12 577	2 456	-80.5	6 072	2 657	-56.2
West Asia	9 713	4 295	-55.8	6 136	8 852	44.3
Qatar	28	92	222.8	- 833	5 133	..
Turkey	7 348	2 690	-63.4	908	2 012	121.6
Transition economies	32 970	3 756	-88.6	13 510	8 615	-36.2
Russian Federation	29 705	5 617	-81.1	5 084	7 791	53.2

Sources: UNCTAD.



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

The next issue of UNCTAD's *Investment Policy Monitor* will be released in February 2013.

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