GLOBAL INVESTMENT TRENDS MONITOR

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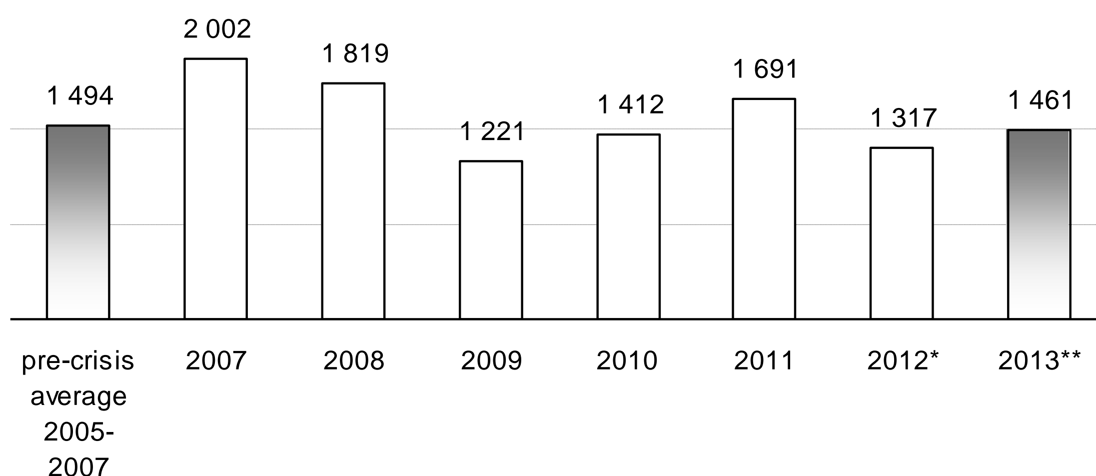
GLOBAL FDI ROSE BY 11%; DEVELOPED ECONOMIES ARE TRAPPED IN A HISTORICALLY LOW SHARE

HIGHLIGHTS

- *Global foreign direct investment (FDI) inflows rose by 11% in 2013, to an estimated US$1.46 trillion – a level comparable to the pre-crisis average (figure 1) – reaching the upper range of UNCTAD's forecast.*

Figure 1. Global FDI inflows, average 2005–2007, 2007–2013
(Billions of US dollars)



Source: UNCTAD.
* Revised
** Preliminary estimates.

- *FDI flows to developed countries remained at a historically low share of global total FDI flows (39%) for the second consecutive year*. They increased by 12% to US$576 billion, but only to 44% of their peak value in 2007. FDI to the European Union (EU) increased, while flows to the United States continued their decline.

- *FDI flows to developing economies reached a new high of US$759 billion,* accounting for 52% of global FDI inflows in 2013. At the regional level, flows to Latin America and the Caribbean, and Africa were up; developing Asia, with its flows at a level similar to 2012, remained the largest host region in the world.

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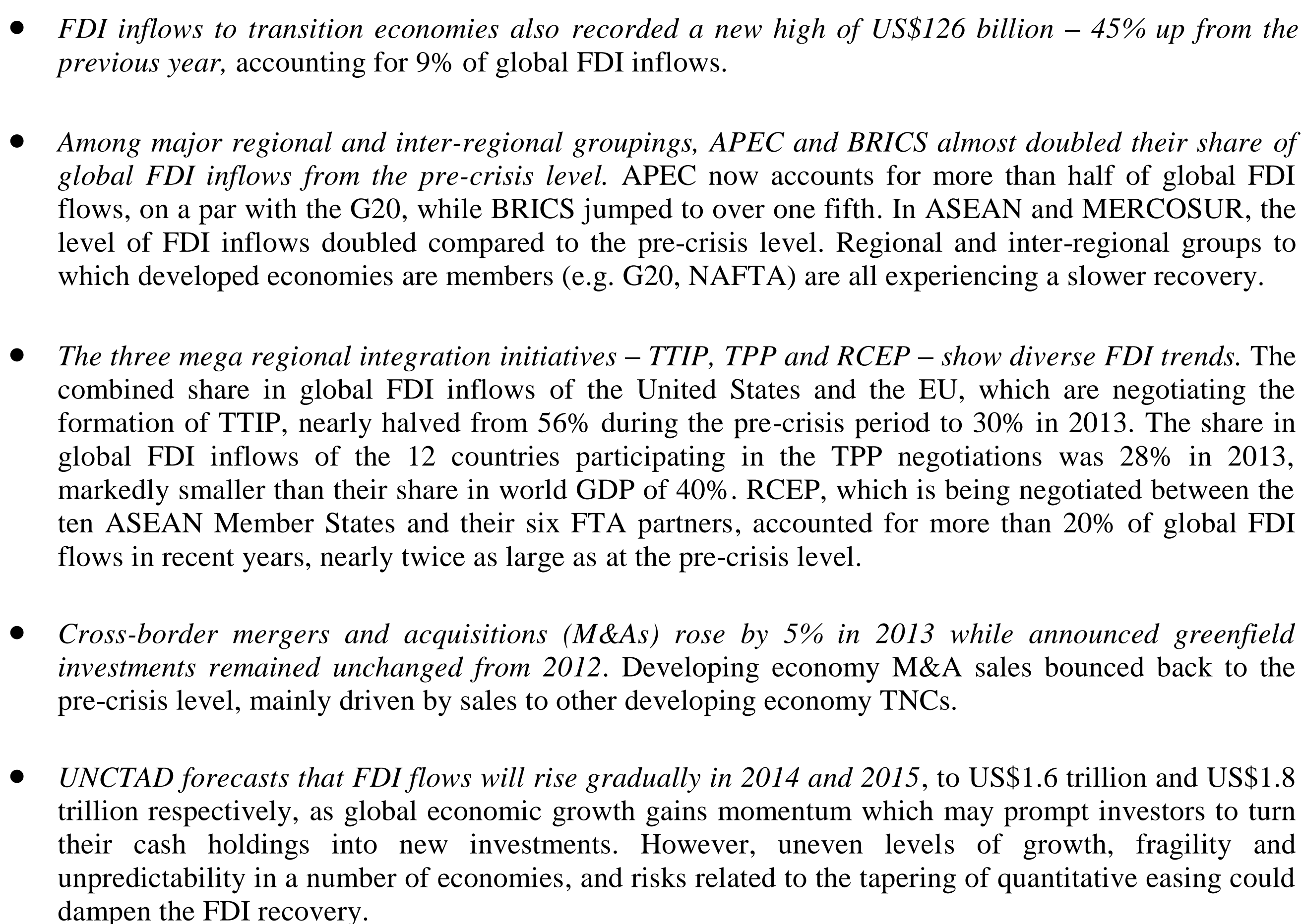


- *FDI inflows to transition economies also recorded a new high of US$126 billion – 45% up from the previous year,* accounting for 9% of global FDI inflows.

- *Among major regional and inter-regional groupings, APEC and BRICS almost doubled their share of global FDI inflows from the pre-crisis level.* APEC now accounts for more than half of global FDI flows, on a par with the G20, while BRICS jumped to over one fifth. In ASEAN and MERCOSUR, the level of FDI inflows doubled compared to the pre-crisis level. Regional and inter-regional groups to which developed economies are members (e.g. G20, NAFTA) are all experiencing a slower recovery.

- *The three mega regional integration initiatives – TTIP, TPP and RCEP – show diverse FDI trends.* The combined share in global FDI inflows of the United States and the EU, which are negotiating the formation of TTIP, nearly halved from 56% during the pre-crisis period to 30% in 2013. The share in global FDI inflows of the 12 countries participating in the TPP negotiations was 28% in 2013, markedly smaller than their share in world GDP of 40%. RCEP, which is being negotiated between the ten ASEAN Member States and their six FTA partners, accounted for more than 20% of global FDI flows in recent years, nearly twice as large as at the pre-crisis level.

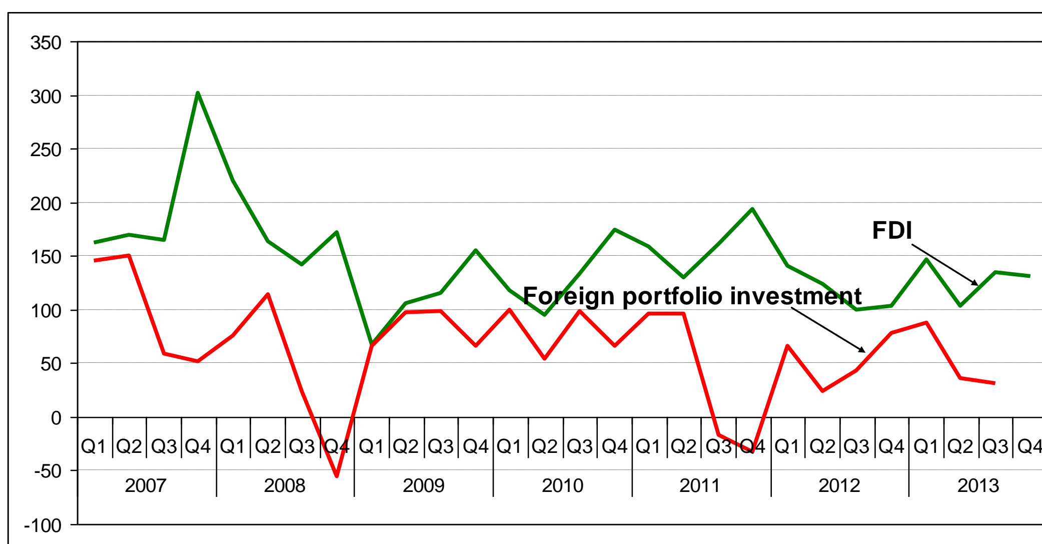
- *Cross-border mergers and acquisitions (M&As) rose by 5% in 2013 while announced greenfield investments remained unchanged from 2012*. Developing economy M&A sales bounced back to the pre-crisis level, mainly driven by sales to other developing economy TNCs.

- *UNCTAD forecasts that FDI flows will rise gradually in 2014 and 2015*, to US$1.6 trillion and US$1.8 trillion respectively, as global economic growth gains momentum which may prompt investors to turn their cash holdings into new investments. However, uneven levels of growth, fragility and unpredictability in a number of economies, and risks related to the tapering of quantitative easing could dampen the FDI recovery.

Global FDI flows rose by 11% in 2013 to an estimated US$1.46 trillion, up from a revised US$1.32 trillion in 2012. FDI inflows increased in all major economic groupings − developed, developing and transition economies.

In 2013, the shift in market expectations towards an earlier tapering of quantitative easing in the United States caused some volatility for international investments. The impact was large in some emerging markets, which suffered real exchange rate depreciation, stock market declines and a withdrawal of capital. However, in contrast to foreign portfolio flows that declined dramatically in the second and third quarter of 2013, FDI flows were relatively less volatile (figure 2).

Figure 2. UNCTAD's Global FDI Quarterly Index compared with the Global Foreign Portfolio Investment Index, first quarter 2007 to last quarter 2013
(Base 100: quarterly average of 2005)



Source: UNCTAD.

Notes: The Global FDI Quarterly Index is based on quarterly data of FDI inflows for 67 countries. The index has been calibrated so that the average of quarterly flows in 2005 is equivalent to 100. The similar index for global foreign portfolio investment is also based on quarterly data of portfolio investment inflows for the same 67 countries. This index has also been calibrated so that the average of quarterly flows in 2005 is equivalent to 100. FDI figures for the 4th quarter of 2013 are UNCTAD estimates.

Developed countries account for only two-fifths of global FDI despite a 12% rise

Inflows to developed countries appear to be recovering, with preliminary estimates showing a 12% rise in 2013, over 2012, to US$576 billion, for the group of 38 economies as a whole (table 1).

However, the picture is mixed: despite positive signs of recovery in some developed country regions, such as parts of the EU, FDI flows to the United States failed to reverse their decline, contrary to other signs of economic recovery over the past year. Inflows to Japan rose by 61% to US$2.8 billion, but Australia and New Zealand saw sharp declines of 28% to US$40 billion and 75% to US$0.5 billion, respectively. Flows to developed economies were therefore still at only 44% of their peak level of 2007. Even though the growth rate in FDI flows to developed countries was twice that compared to developing countries in 2013, it was not enough to restore their position as primary recipients of FDI inflows. The developed country share remained well below half of global inflows at 39% (figure 3).

The aggregate inflows to the EU in recent years were largely accounted for by flows to four relatively small economies – Belgium, Ireland, the Netherlands and Luxembourg – that offer a tax-friendly environment for investment, particularly for special purpose entities. As a result, these economies are hosts to a large number of TNCs' financial or treasury functions. Having fallen by over US$169 billion in 2012, inflows to these four economies grew by over US$100 billion in 2013. Elsewhere in the EU, Germany (+392% to US$32.3 billion), Spain (+37% to US$37.1 billion) and Italy (from US$0.1 billion to US$9.9 billion) saw a substantial recovery in their FDI inflows. Conversely, flows declined in 15 out of 27 EU economies, with the largest declines observed in France (-77% to US$5.7 billion) and Hungary (from US$13.8 billion to -US$3 billion). Outside the EU, inflows to Norway and Switzerland also fell sharply by 46% to US$9.4 billion and by 98% US$0.2 billion, respectively.

Table 1. FDI inflows, by major region, 2011–2013
(Billions of US dollars)

Region / Economy	2011	2012[a]	2013[b]	*Growth rate 2012–2013 (%)*
World	**1691**	**1317**	**1461**	***10.9***
Developed economies	**866**	**516**	**576**	***11.6***
Europe	521	236	296	*25.2*
European Union	473	207	286	*37.7*
North America	267	211	223	*5.8*
Developing economies	**729**	**715**	**759**	***6.2***
Africa	46	53	56	*6.8*
North Africa	9	14	14	*-1.8*
Other Africa	37	39	42	*10.0*
Latin America and the Caribbean	242	250	294	*17.5*
South America	131	144	134	*-6.8*
Central America	33	25	48	*92.7*
Caribbean	79	82	113	*37.8*
Developing Asia	439	409	406	*-0.8*
West Asia	49	48	38	*-19.6*
East Asia	236	216	219	*1.1*
South Asia	44	32	33	*3.2*
South-East Asia	110	113	116	*2.4*
Transition economies	**96**	**87**	**126**	***45.1***

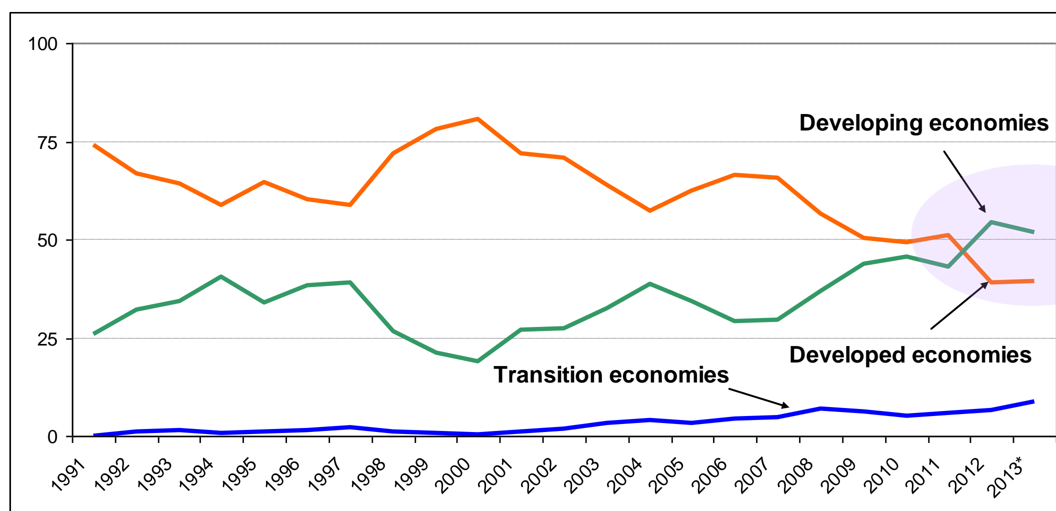
Source: UNCTAD. The data can be cited provided acnowledgement is explicitly given to UNCTAD.

[a] Revised.

[b] Estimated.

Note: World FDI inflows are projected on the basis of 136 economies for which data are available for part of 2013, as of 16 January 2014. Data are estimated by annualizing their available data, in most cases the first three quarters of 2013. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2012 is used to extrapolate the 2013 regional data.

Figure 3. FDI inflow shares by major economic groupings, 1991-2013
(Per cent)



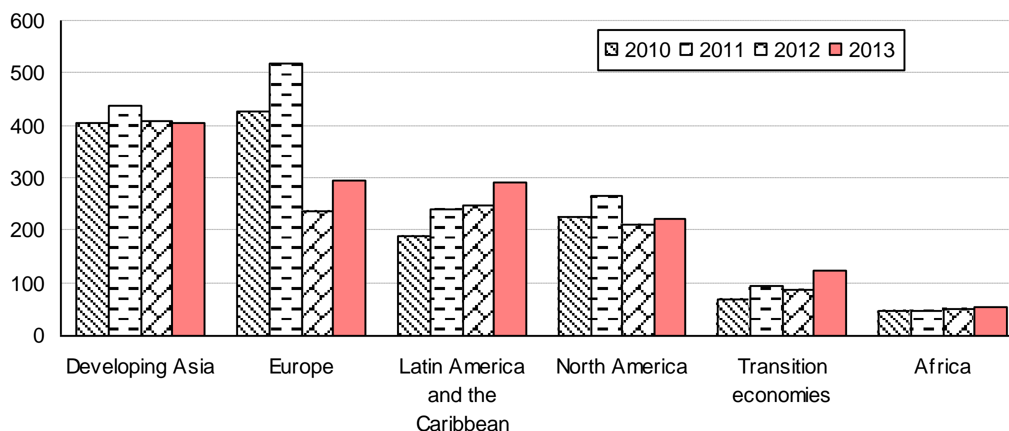
Source: UNCTAD.

Estimates for North America show that inflows grew by 6% due to a turnaround in Canada (+49% to US$64.1 billion) where inflows rose across a broad range of industries. The recovery was largely ascribed to a sharp increase in intra-company loans to foreign affiliates in Canada. Cross-border M&A sales in both Canada and the United States declined, which is partly explained by large divestments. Inflows to Israel (+ 48% to US$14 billion), primarily attracted by the country's high-tech industry, are estimated to have reached a level comparable to the previous high in 2006. In Australia, which has benefited from the commodity boom in the recent past, M&A sales halved and FDI inflows declined by more than a quarter in 2013. An upturn in M&A sales helped increase FDI inflows to Japan, but the value of inflows was still marginal.

Developing Asia remains the world's top FDI spot; Latin America at similar levels to Europe

Continuing their 2012 performance, developing economies accounted for more than half of global FDI again in 2013, as their inflows reached a new high, at an estimated US$759 billion. The increase was mainly driven by Latin American and the Caribbean, and Africa while developing Asia − the world's largest recipient region for FDI − saw its flows at a level similar to 2012 (figure 4).

Figure 4. FDI inflows, by region, 2010–2013
(Billions of US dollars)



Source: UNCTAD.

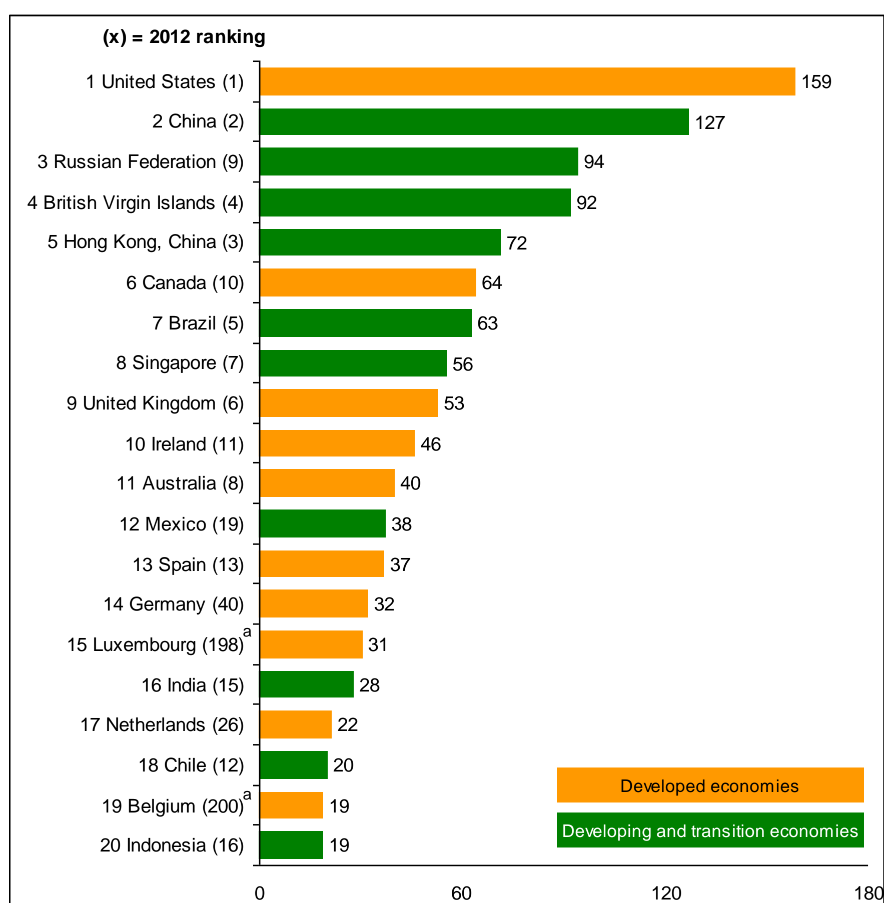
Total inflows to *developing Asia* − comprising East Asia, South Asia, South-East Asia and West Asia − as a whole amounted to an estimated US$406 billion in 2013, at a level similar to 2012. The performance of sub-regions continues to diverge, with FDI growth rates ranging between 3% in South Asia (to US$33 billion), 2% in South-East Asia (to US$116 billion), 1% in East Asia (to US$219 billion) and -20% in West Asia (down to US$38 billion).

With inflows to China at an estimated US$127 billion – including both financial and non-financial sectors – the country again ranked second in the world, closing the gap with the United States to some US$32 billion (figure 5). India experienced a 17% growth in FDI flows, to US$28 billion, despite unexpected capital outflows in the middle of the year. FDI growth slowed in the Association of Southeast Asian Nations (ASEAN), as inflows to Singapore – the largest recipient in South-East Asia – stagnated at US$56 billion. However, prospects for this regional grouping continue to be promising, as more FDI arrives from China and Japan in a wide range of sectors, including infrastructure, finance and manufacturing.

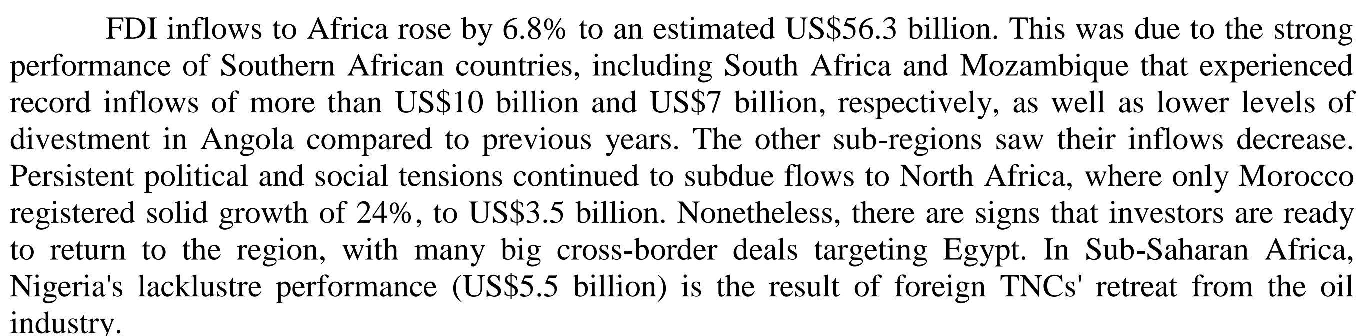
West Asia is the only region to see a fifth consecutive decline in FDI in 2013, dropping by another 20% to US$38 billion. The region's two main recipients – Saudi Arabia and Turkey – both registered significant FDI declines of 19% to US$9.9 billion and 15% to US$11 billion, respectively. Turkey witnessed virtually a total absence of large FDI deals. In addition, the worsening political instability in many parts of the region have caused uncertainty and negatively affected investment.

FDI flows to *Latin America and the Caribbean* increased by 18% in 2013 – the fourth consecutive year of growth – reaching an estimated US$294 billion. While in previous years FDI growth to the region was largely driven by South America, in 2013 Central America and the Caribbean were the main recipient of FDI growth (FDI inflows increasing by 93% and 38% respectively). Flows to South America declined by 7%. The US$18 billion acquisition of Grupo Modelo in Mexico explains most of Central America's increase in FDI, while the strong rise in the Caribbean was mainly driven by the British Virgin Islands (see below). The decline of FDI flows to South America came after three years of strong growth bolstered by the strength of commodity prices that fuelled rising profits on investment as well as reinvested earnings in the mining industry. Decreasing commodity prices seem to have brought a stop to the boom in FDI in this industry, especially in countries such as Chile (-33% to US$20.4 billion) and Peru (-2% to US$12 billion). In addition, FDI to Brazil – the largest recipient of FDI in the sub-region, with 47% of South American total FDI flows in 2013 – declined by a slight 3.9% in 2013, but remained significant (US$63 billion). Nevertheless, this decline should be seen in the context of strong growth in previous years that boosted FDI in Brazil to historical highs.

Figure 5. FDI inflows: top 20 host economies, 2013
(Billions of US dollars)



Source: UNCTAD.
[a] Negative flows in 2012.



FDI inflows to Africa rose by 6.8% to an estimated US$56.3 billion. This was due to the strong performance of Southern African countries, including South Africa and Mozambique that experienced record inflows of more than US$10 billion and US$7 billion, respectively, as well as lower levels of divestment in Angola compared to previous years. The other sub-regions saw their inflows decrease. Persistent political and social tensions continued to subdue flows to North Africa, where only Morocco registered solid growth of 24%, to US$3.5 billion. Nonetheless, there are signs that investors are ready to return to the region, with many big cross-border deals targeting Egypt. In Sub-Saharan Africa, Nigeria's lacklustre performance (US$5.5 billion) is the result of foreign TNCs' retreat from the oil industry.

The Russian Federation jumps to third in global ranking – for the first time ever

Transition economies experienced a significant 45% rise in FDI inflows, reaching a record level – an estimated US$126 billion. FDI inflows to the Russian Federation jumped by 83% to US$94 billion making it the world's third largest recipient of FDI for the first time ever (figure 5). The rise was predominantly ascribed to the large acquisition by BP (United Kingdom) of 18.5% of Rosneft (Russia Federation) as part of Rosneft's US$57 billion acquisition of TNK-BP, which is owned by a company registered in the British Virgin Islands. FDI in the Russian Federation is expected to keep pace with its 2013 performance as the Russian Government's Direct Investment Fund – a US$10 billion fund to promote FDI in the country – has been very actively deployed in collaboration with foreign partners, for example funding a deal with Abu Dhabi's Finance Department to invest up to US$5 billion in Russian infrastructure.

APEC now receives half of global flows – on a par with G20; BRICS get more than one fifth

FDI to the ***G20*** (not including EU) increased by 11% to US$789 billion in 2013, but its share in global FDI flows (54%) is 5 percentage points lower than the pre-crisis level (59%) (table 2). FDI growth in 2013 was highly disparate among member states: FDI increased in 10 countries, with strong growth rates (close to or over 50%) registered in Canada, Germany, Japan, Italy, Mexico, the Russian Federation and South Africa, boosted in most of them by cross-border M&A mega-deals. FDI decreased in nine countries, of which France registered the sharpest decline, followed by Australia, Saudi Arabia, the United Kingdom and Turkey. Within the G20, developed economies have been witnessing an erosion of their share in recent years – from 72% during the pre-crisis period to 46% in 2013.

FDI inflows to the 21 member economies of Asia-Pacific Economic Cooperation (***APEC***) amounted to some US$757 billion in 2013, an 8% increase over 2012. Their share in global FDI inflows rose to 52%, which was 15 percentage points higher than that of the pre-crisis level. The rise in flows in 2013 was driven largely by a surge in FDI to the Russian Federation, Mexico, Canada and China. The performance of a number of developed members, however, remained disappointing: Australia and United States experienced decreases of US$15 billion and US$9 billion, respectively.

Table 2. FDI inflows to selected regional and inter-regional groups, average 2005-2007, 2008–2013
(Billions of US dollars)

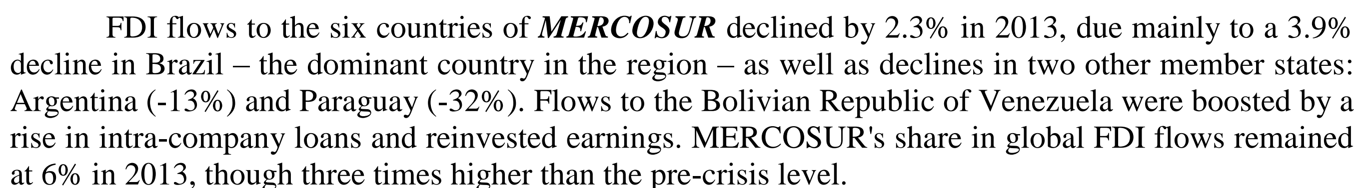
Regional / inter-regional groups	2005-2007 average	2008	2009	2010	2011	2012	2013
G20	879	992	629	740	887	712	789
APEC	559	809	486	656	781	699	757
TTIP	834	852	502	573	700	375	444
TPP	362	523	276	379	466	404	413
RCEP	195	293	227	284	350	329	326
BRICS	158	284	201	237	286	267	322
NAFTA	279	396	183	249	290	226	260
ASEAN	64	51	48	98	110	113	116
MERCOSUR	31	59	30	61	85	85	83
Memorandum: percentage share in world FDI flows							
G20	59	55	52	52	52	54	54
APEC	37	44	40	46	46	53	52
TTIP	56	47	41	41	41	28	30
TPP	24	29	23	27	28	31	28
RCEP	13	16	19	20	21	25	22
BRICS	11	16	16	17	17	20	22
NAFTA	19	22	15	18	17	17	18
ASEAN	4	3	4	7	7	9	8
MERCOSUR	2	3	2	4	5	6	6

Source: UNCTAD.The data can be cited provided acknowledgement is explicitly given to UNCTAD.
Note: Ranked in a descending order of the 2013 FDI flows.

G20 = 19 individual members economies of the G20, excluding the European Union, which is the 20th member, APEC = Asia-Pacific Economic Cooperation, TTIP = Transatlantic Trade and Investment Partnership,TPP = Trans-Pacific Partnership, RCEP = Regional Comprehensive Economic Partnership, BRICS = Brazil, Russia Federation, India, China and South Africa, NAFTA = North American Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, MERCOSUR = Common Market of the South.

The ***BRICS*** – Brazil, Russian Federation, India, China and South Africa – continued to be strong performers in attracting FDI. Their current share of global FDI flows at 22% is twice that of their pre-crisis level. Total inflows to the five leading emerging economies reached US$322 billion in 2013, 21% higher than in 2012. South Africa outperformed other countries within the group, with FDI inflows rising by 126%. Though inflows to Brazil maintained a high level, the rate of growth (-4%) was the lowest among the BRICS.

FDI *to North American Free Trade Agreement (**NAFTA**)* increased by 15% to US$260 billion due to soaring FDI to Mexico and Canada. The share within NAFTA of the United States – the group's main recipient country – decreased to 61% in 2013 compared with 78% in 2008-2012. NAFTA slightly improved its share in global FDI flows to 18% in 2013 (against 17% in 2012), close to its pre-crisis level. Cross-border M&A sales in NAFTA in 2013 remained at the same level as the previous year. This stability hides significant changes in their source regions, with significant increases in acquisitions from developing economies (+63% to US$37 billion) and a decrease from developed countries (-21%). A number of developed countries such as Australia, United Kingdom, France, Ireland and Spain undertook large divestments from NAFTA in 2013.



FDI flows to the six countries of ***MERCOSUR*** declined by 2.3% in 2013, due mainly to a 3.9% decline in Brazil – the dominant country in the region – as well as declines in two other member states: Argentina (-13%) and Paraguay (-32%). Flows to the Bolivian Republic of Venezuela were boosted by a rise in intra-company loans and reinvested earnings. MERCOSUR's share in global FDI flows remained at 6% in 2013, though three times higher than the pre-crisis level.

Mixed fortunes for the mega-regional integration initiatives: TPP, RCEP share of flows grow; TTIP's halve

The combined share of the United States and the EU, which are negotiating the formation of the Transatlantic Trade and Investment Partnership ***(TTIP)***, averaged as high as 56% over the period 2005–2007 (table 2). With the onset of the economic crisis, their share began to decline and by 2012 it was down to only 28%. Estimates for 2013 suggest only a marginal recovery of the grouping's share, despite an 18% rise. Although inflows to the EU showed signs of recovery in 2013, those to the United States remained sluggish. Cross-border M&As have a large bearing on inflows to those economies. The downturn in M&A activity in recent years has suppressed their FDI inflows, but once confidence returns, an upturn in M&As should help the FDI recovery.

The share in global FDI inflows of the 12 countries participating in the Trans-Pacific Partnership ***(TPP)*** negotiations was 28% in 2013, down slightly from 2012 (31%). This share is markedly smaller than their share of world GDP, which is close to 40%, mainly due to the modest share of Japan in global FDI inflows. In 2008 when inflows to the United States were at record levels, the share of the 12 countries was 29 per cent. Their share has remained stagnant since. However, the distribution of the inflows has shifted in favour of developing members. In 2008, the share of the United States in the grouping's inflows was 59%. By 2013, this share has declined to 38% as inflows to the United States almost halved in value. The lost ground due to falling inflows to the Unites States was made up by the robust growth of emerging economies, most notably Singapore, Mexico and Chile. The share of developing countries within the group more than doubled from 15% in 2008 to 36% in 2013.

In late 2012, the ten ASEAN Member States and their six FTA partners – Australia, China, India, the Republic of Korea, Japan and New Zealand – launched the negotiation of the Regional Comprehensive Economic Partnership ***(RCEP)***. The region have combined FDI flows of US$326 billion, accounting for more than 20% of global FDI flows in recent years.

Developing economy M&A sales bounced back to the pre-crisis level, mainly driven by sales to developing economy TNCs

Expectations of a rebound in cross-border M&A activity in 2013 did not materialize as TNCs maintained a cautious approach. The value of cross-border M&A sales increased only modestly by 5% (figure 6) to reach US$337 billion, in 2013. This increase was mainly driven by deals in East and South-East Asia, particularly in China, Singapore and Thailand. Latin America's increase in sales was due to the US$18 billion mega deal in Mexico, mentioned above.

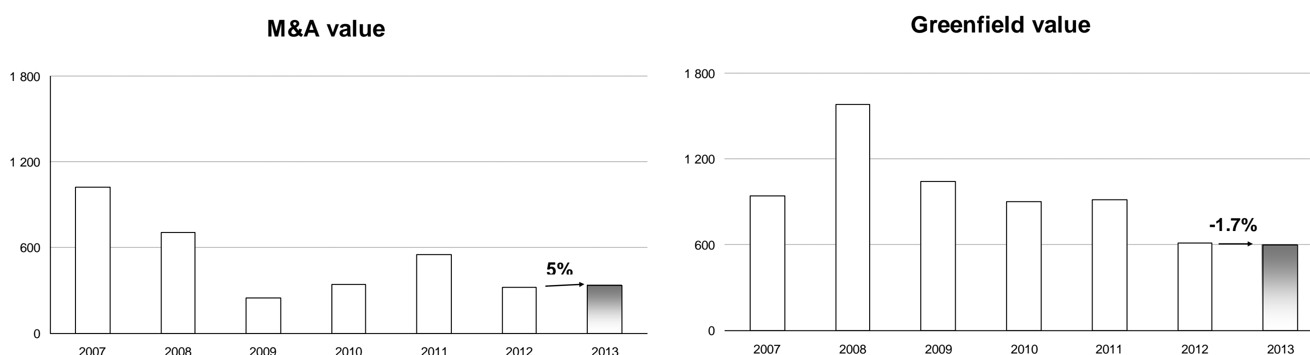
Cross-border sales in developed countries decreased by about 10% on both sides of the Atlantic. However there are signs that confidence is returning in Europe. Germany, for example, more than doubled its sales with some major deals including Vodafone's acquisition of Kabel Deutschland for US$7.7 billion. Increases in FDI flows to Japan in 2013 were mainly owing to a number of mega deals, including United States–based Micron Technology Inc's merger with Elpida Memory Inc for US$2.5 billion.

Developing economy M&A sales' value in 2013 increased by 64% to US$88 billion, bouncing back to their pre-crisis levels. Almost 68% of the acquisitions were from other developing countries (up from about 50% in 2006). An example of this trend is the acquisition of Chinese Ping An Insurance Co. by a group of Thai investors for US$9.4 billion.

The value of announced greenfield projects continued to decline in 2013, although only minimally, by 1.7% from the previous year (figure 6). A 17% decrease of project values in developed economies was counterbalanced by a few developing countries (such as Nicaragua, Mexico, Iraq, Jordan, Myanmar and Viet Nam) that saw announced greenfield activity increase.

Figure 6. The value of cross-border M&A sales and of announced greenfield investment projects, 2007–2013[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 announced greenfield projects.

[a] Greenfield data for the full year 2013 are estimated based on January-November data.

Gradual recovery of FDI forecast in 2014-2015

FDI flows could rise further in 2014 and 2015, to US$1.6 trillion and US$1.8 trillion, respectively, as global economic growth gains momentum. Activity is expected to improve further in 2014 and 2015, largely on account of recovery in developed economies. GDP growth, gross fixed capital formation and trade are projected to rise globally over the next years. Those improvements could prompt TNCs to gradually transform their record levels of cash holdings into new investments.

However, uneven levels of growth, fragility and unpredictability in a number of economies, and the risks associated with a gradual exit from the quantitative easing programmes by the United States and other major countries may dampen the recovery. The announced deals for FDI projects in late 2013, be they M&As or greenfield, suggest that the lift off in FDI may not be strong in the short term.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-April 2014.

The next issue of UNCTAD's *Investment Policy Monitor* will be released in late February 2014.

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