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PART ONE

FDI TRENDS, POLICIES AND PROSPECTS

CHAPTER I

GLOBAL TRENDS: FDI FLOWS IN DECLINE

The current global financial and economic crisis has had a dampening effect on foreign direct investment (FDI). As a result, FDI flows are expected to fall to $900–$1,200 billion in 2009, though there should be a slow recovery in 2010 and an acceleration in 2011.

In 2008 and early 2009, global FDI flows declined following a period of uninterrupted growth from 2003 to 2007. Meanwhile, the share of developing and transition economies in global FDI flows surged to 43% in 2008.

Shrinking corporate profits and plummeting stock prices have greatly diminished the value of, and scope for, cross-border mergers and acquisitions (M&As) – the main mode of FDI entry in developed countries, and increasingly in developing countries as well. Falling demand for goods and services has caused companies to cut back on their investment plans in general, including abroad – whether through cross-border M&As or greenfield projects. The latter mode of investment began falling only in 2009.

FDI initially began to decline significantly in developed countries, which experienced a 29% fall in their inflows, while flows to developing countries and to the transition economies of South-East Europe (SEE) and the Commonwealth of Independent States (CIS) continued to increase, by 17% and 26% respectively. However, in late 2008 and early 2009, the latter two groups of countries also started to feel the impact of the crisis on their inflows. A number of these economies are expecting a significant fall in FDI inflows throughout 2009.

This chapter examines global trends in FDI flows in 2008 and the first half of 2009, including why and how the financial crisis and the ensuing economic slowdown have affected FDI flows (section A). Section B then examines how the largest transnational corporations (TNCs) are dealing with the global crisis, while section C presents recent developments with respect to FDI by private equity firms and sovereign wealth funds (SWFs). Section D outlines recent policy developments with respect to FDI and policy responses to the crisis. Finally, section E considers the prospects for global FDI flows in the short and medium terms as the world's economies act to restore financial stability and economic growth.

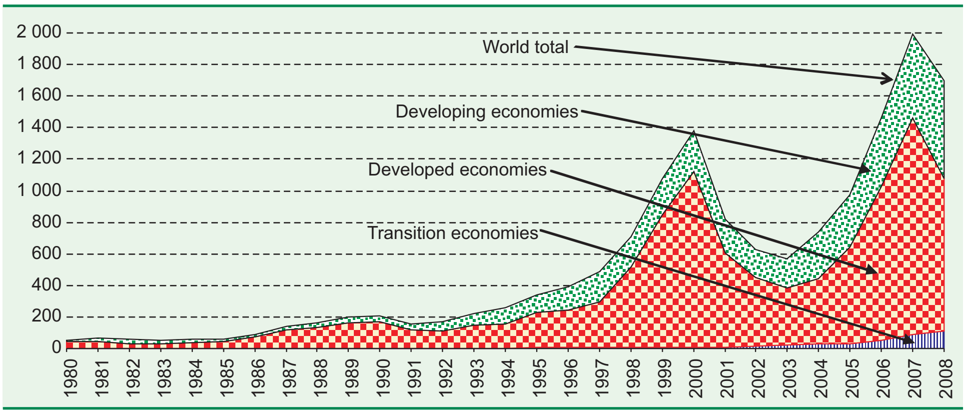
A. The financial crisis, economic downturn and FDI flows

1. Global slowdown in FDI flows, prompted by the crisis[1]

Turmoil in the financial markets and the worldwide economic downturn progressively affected global FDI in 2008 and in the first half of 2009. After uninterrupted growth in FDI activity in the period 2003–2007, global FDI inflows fell by 14% in 2008 to $1,697 billion, from a record high of $1,979 billion in 2007 (figure I.1). While the 2008 level was the second highest in history, FDI flows began gradually declining over the course of that year. In the first half of 2009, FDI flows fell at an accelerated rate.

The pattern of FDI flows has varied by groups of economies. FDI inflows and outflows of developed countries plunged in 2008, with inflows declining by 29%, to $962 billion, and outflows by 17%, to $1,507 billion. FDI flows fell further as the financial crisis entered a tumultuous new phase in

Figure I.1. FDI inflows, global and by groups of economies, 1980–2008
(Billions of dollars)



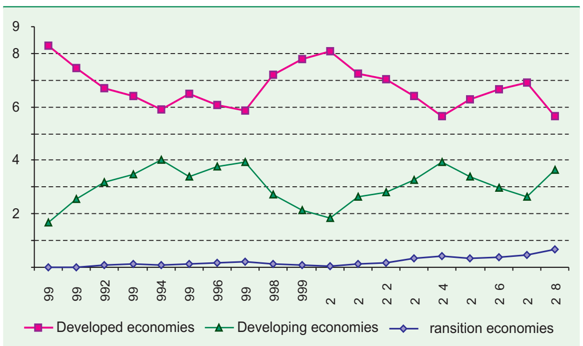
Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD Secretariat estimates.

September 2008 following the collapse of Lehman Brothers (one of the largest financial institutions in the United States), and as major developed economies fell into, or approached, economic recession. In the first half of 2009, developed countries' FDI inflows are estimated to have dropped by another 30–50% compared with the second half of 2008.[2]

In contrast, developing and transition economies saw FDI inflows rise in 2008 to record levels for both, with their shares in global FDI inflows growing to 37% and 7%, respectively, from 27% and 5% in the previous year (figure I.2). The combined share was 43%, close to the record share attained in 1982 and 2004, which demonstrates the increasing importance of these economies as hosts for FDI during the crisis – at least in 2008.

Their inflows, however, started to decline in late 2008 as the economic downturn in major export markets began to seriously affect their economies, and as the risk premiums of their sovereign and corporate debt sharply increased. Thus the downturn in FDI inflows into developing and transition economies began almost one year after it had started in developed countries. This reflects the time lag associated with

Figure I.2. Shares of the three major groups of economies in global FDI inflows, 1990–2008
(Per cent)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD secretariat estimates.

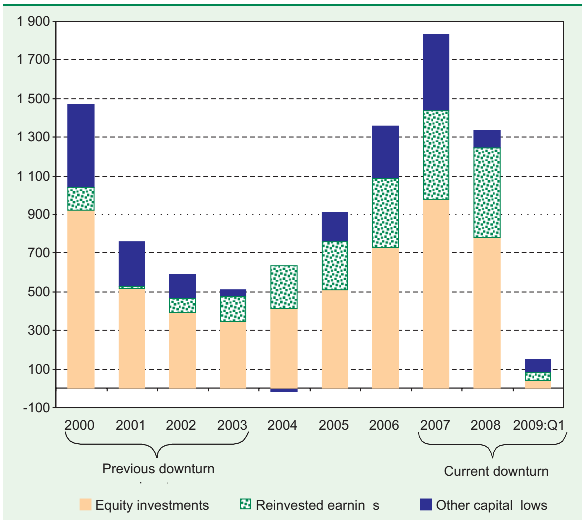
the initial economic downturn and consequent slump in demand in developed-country markets, which are important destinations for goods produced by developing-country and transition-economy firms.

There were declines in all three components of FDI inflows – equity, reinvested earnings and other capital flows (mainly intra-company loans) – in late 2008 and early 2009, particularly in developed countries. Equity investments fell as cross-border M&As declined. Lower profits of foreign affiliates have been driving down reinvested earnings significantly, particularly in 2009. The restructuring of parent companies and their headquarters led, in some cases, to repayments of outstanding loans by foreign affiliates. As a result, net intra-company capital flows from TNCs to their foreign affiliates declined, or turned negative, which depressed FDI flows.

The structure of the fall in FDI flows in the current downturn is similar to that of the previous downturn in 2001 (figure I.3). However, the proportionate decline in equity investments today vis-à-vis reinvested earnings and other capital flows is larger than that registered during the previous downturn. This development is striking, since the larger the proportion of the decline in FDI flows due to a fall in equity investment (as opposed to reinvested earnings and other capital flows), the longer the recovery is likely to take. This is because equity investments are relatively long term and are undertaken for the purpose of funding and expanding production facilities. They therefore require careful consideration by parent firms. Reinvested earnings and intra-company credit flows, on the other hand, are often determined by the short-term liquidity or tax-driven motivations of TNCs, and can recover rapidly, even in response to temporary government measures (e.g. tax incentives).

Although declining, FDI flows to developing countries have proved to be more resilient in 2008 and 2009 than other capital flows, such as portfolio

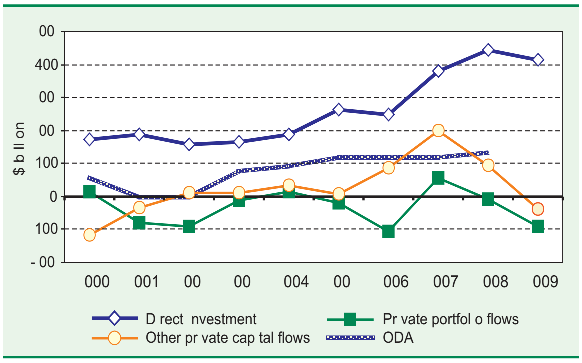
Figure I.3. Global FDI inflows by component, 2000–2009[a]
(Billions of dollars)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD Secretariat estimates.

[a] For 2009, January-March only, based on 46 countries that account for roughly two thirds of global FDI inflows .

Figure I.4. Net capital flows[a] to developing countries, 2000–2009
(Billions of dollars)



Source: IMF, 2008, for net direct investment flows, net private portfolio flows and other private capital flows; and OECD/DAC for official development assistance (ODA).

[a] Data are shown in accordance with the standard balance-of-payments presentation. Thus total net capital flows are equal to the balance on financial account. For example, net FDI flows refer to FDI inflows (or direct investment flows into the reporting economy) less FDI outflows (direct investment flows abroad). Official flows refer to official borrowing.

Note: The IMF's classification of developing countries is used in this figure. It differs from UNCTAD's classification in that it includes new EU member States from Central and Eastern Europe, and excludes high-income countries such as the Republic of Korea and Singapore from developing countries.

investments and bank lending. The main reasons for this is that FDI is more of a long-term nature than other capital flows.

The positive and even relatively high economic growth rates that still prevail in several developing countries (e.g. China, India) are also a countervailing force against low export demand and low commodity prices, which exert a downward pressure on FDI. FDI inflows into developing countries are projected to fall in 2009, but should nevertheless remain relatively high overall, with expected net inflows of about $400 billion (IMF, 2008). In contrast, net flows of both portfolio capital and bank loans to developing countries are expected to turn negative (figure I.4).

Not all companies were similarly affected by the crisis. The fairly long upward trend of the world economy over the past four years or more strengthened the financial and competitive position of many TNCs. The financial crisis and the fall in stock markets also give them the opportunity to tap new markets or to acquire former competitors. In fact, the need for consolidation of the most affected financial institutions, as well as enterprises in other sectors, has encouraged FDI transactions. Examples abound (box I.1).

2. The transmission channels of the crisis

The decline in FDI flows in 2008–2009 reflects, with some time lag (particularly in developing countries), the impact of the financial crisis. The crisis began in the second half of 2007, became more serious in the last quarter of 2008, and led to a slowing down of global economic activity, especially in the major developed economies. Its negative impact on FDI has been twofold: because of reduced access to finance it has affected firms' *capacity* to invest, while their *propensity* to invest has been affected by gloomy economic and market prospects and heightened risk perceptions.

Reduced access to finance. Financial factors have adversely affected TNCs' *capacity* to invest, both internally and externally, as tighter credit conditions and lower corporate profits have curtailed TNCs' financial resources for funding overseas investment projects (as well as domestic ones). At the same time, credit has become less abundant and more expensive. For instance, spreads in corporate bonds soared dramatically in the last few months of 2008, and they still remain at a very high level.[3] Syndicated bank loans, as well as funds for leveraged buyouts (LBOs), also shrank dramatically.[4] This deterioration in the external funding environment makes it more difficult for non-financial companies to invest in foreign operations or to make cross-border M&A deals.

On the other hand, poor earnings of large companies – in a broad range of industries – in Europe, Japan and the United States, as evidenced by declared or projected profits since the fourth quarter of 2008, have reduced these companies' self-financing capabilities.[5] During the course of 2008, the corporate sector came under growing financial pressures. Liquidity for FDI purposes fell as profits

Box I.1. Examples of FDI projects in the form of cross-border M&As and restructuring

- In mining industries, particularly in the oil sector, large companies that earned record profits in 2008 due to high oil prices during the first three quarters of the year, such as ExxonMobil, Total and Shell, are in a position to acquire smaller or more fragile competitors. For instance, Shell bought the Virginia-based natural gas company Enspire Energy in December 2008. In contrast, Rio Tinto, which is in a very difficult financial situation, narrowly escaped a hostile bid by BHP in late 2008, and is still in search of fresh cash to secure its financial position.
- In chemicals, BASF is set to purchase Ciba, but will have to sell some activities to abide by European Union competition rules.
- In the automotive industry, large United States automakers, such as General Motors and Chrysler, have fallen to bankruptcy despite a massive bailout by the United States Government, and they are still fighting for survival. Fiat acquired a stake in the ailing United States car manufacturer Chrysler, while various European and Chinese car makers may buy Volvo from Ford.
- In pharmaceuticals, Sanofi is seeking mid-sized acquisitions to secure new blockbusters and to compensate for the loss of patents and the growing competition from generics. Roche has acquired full ownership of its United States subsidiary Genentech. Pfizer has purchased Wyeth for about $64.5 billion, while Merck has taken control of Schering Plough for 45.9 billion euros.
- In utilities, RWE has acquired the Dutch State-owned utility Essent, for 9.3 billion euros. Enel has increased its share in Endesa from 67% to 92%, but is also going through a period of financial distress, which could pave the way for a further major restructuring. GDF Suez has allied with Iberdrola to bid for the renewal of its nuclear power plant programme through a United Kingdom tender.
- In financial services, Japanese financial companies have recently acquired several crisis-hit United States financial companies (e.g. Nomura Holdings acquired the Asian and European operations of Lehman Brothers and Mitsubishi UFJ Financial Group took a 21% stake in Morgan Stanley). Financial companies established abroad by Icelandic firms were also bought up: Glitnir AB (a branch of Glitnir in Sweden), was acquired by HQ AB (Sweden), and DLG Ltd. and Kaupthing Singer & Friedland Premium Finance Ltd. in the United Kingdom (both of which were owned by Kaupthing Bank), were acquired by DM Plc (United Kingdom) and Close Brothers Group Plc (United Kingdom), respectively, in 2008.

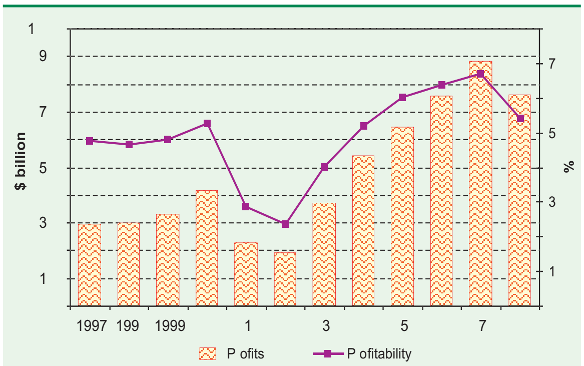
Source: UNCTAD, 2009a.

of TNCs plummeted from the high levels of 2007 (figure I.5). At the same time, a decline of about 50% in stock markets worldwide since January 2007 has reduced TNCs' ability to turn to these markets for financing purposes and for leveraging their M&A activities using stock shares.

The fall in profits has also hit foreign affiliates of TNCs which, as a result, are able to reinvest less from their earnings. While global reinvested earnings of foreign affiliates in 2008 as a whole increased marginally, from $468 billion in 2007 to $487 billion in 2008 (figure I.6), those in the first quarter of 2009 fell by roughly 40% from the same period in 2008, sharply reversing the trend of previous years and contributing further to the downward movement in FDI inflows. As in earlier periods of slow global economic growth, it is expected that the value of reinvested earnings in total FDI inflows will shrink further during the ongoing economic downturn.

Gloomy market prospects. The depressed evolution of markets (especially in developed countries, which are experiencing the worst recession

Figure I.5. Profitability[a] and profit levels of TNCs, 1997–2008

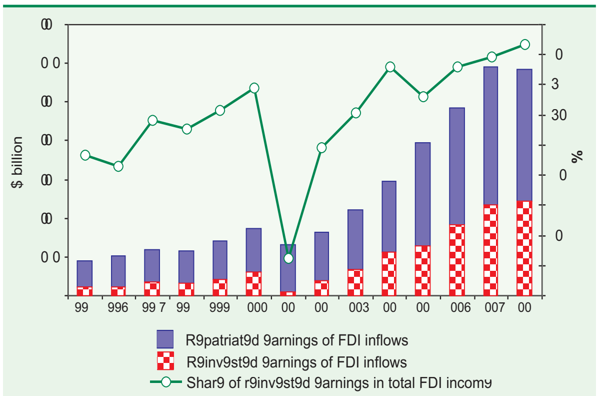


Source: UNCTAD, based on data from Thomson One Banker.

[a] Profitability is calculated as the ratio of net income to total sales.

Note: This calculation covers 987 TNCs.

Figure I.6. Worldwide income on FDI and reinvested earnings, 1995–2008[a]



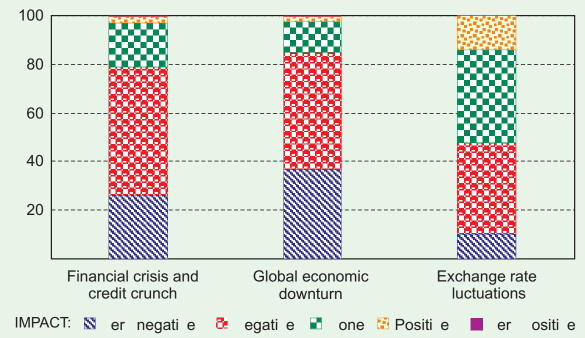
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

since the Second World War) has also reduced firms' *propensity* to invest in further expansion of production capacity, both domestically and internationally. The latest IMF forecasts envisage a decline in world output in 2009, for the first time in 60 years. Total output in developed countries as a whole is expected to contract in 2009 by 3.8%, compared with a 0.8% rise in 2008 – the first such fall in the post-war period – while the growth rate in emerging and developing economies is likely to be lower, though still positive at 1.5%. The Organisation for Economic Co-operation and Development (OECD), the United Nations and the World Bank point to similar negative trends (table I.1).

Risk aversion. Companies' investment plans may also be scaled back due to a high level of perceived risks and uncertainties, in order to develop resilience to possible "worst-case" scenarios of financial and economic conditions. Many confidence indicators have fallen to historic lows – as exemplified, for instance, by the fall in the *Ifo World Economic Climate Index*,[6] the consumer confidence index of the Conference Board (United States) and the *Euro Zone Economic Confidence Index*. A large percentage of companies might implement cost-cutting programmes (including divestments, layoffs, and postponement or cancellation of investment projects) beyond what might be justified by the grim business outlook.

An UNCTAD survey of firms' investment prospects suggests that the investment plans of large TNCs have already been impacted significantly by the ongoing crisis (UNCTAD, 2009b).[7] Of the TNCs responding to the survey, 85% reported that the economic downturn had a "negative" or "very negative" impact on their planned investment expenditures, and 79% and 47% reported "negative" or "very negative" impacts from the financial crisis and volatile exchange rates respectively (figure I.7).

Figure I.7. Impact of various aspects of the crisis on companies' investment plans
(Per cent of responses)



Source: UNCTAD, 2009b.

Table I.1. World economic growth and growth prospects, 2008–2010

Source	Region/economy[a]	GDP (annual growth rate %) 2008	2009	2010
IMF	**World**	3.1	- 1.4	2.5
	of which:			
	Advanced economies	0.8	- 3.8	0.6
	Developing and emerging economies	6.0	1.5	4.7
World Bank	**World**	1.9	- 1.7	2.3
	of which:			
	High income countries	0.8	- 2.9	1.6
	Developing countries	5.8	2.1	4.4
United Nations	**World**	2.5	1.0 (baseline)	..
	of which:			
	Developed economies	1.2	-0.5 (baseline)	..
	Developing economies	5.9	4.6 (baseline)	..
	Transition economies	6.9	4.8 (baseline)	..
OECD	**OECD countries**	0.8	- 4.1	0.7

Source: IMF, 2009a; World Bank, 2009a; OECD, 2009 and United Nations, 2009.

[a] Each institution uses different classifications.

3. Key features of the FDI downturn and underlying factors

The previous sections noted the overall decline in FDI flows and explained the transmission channels by which the economic and financial crisis has negatively impacted FDI. This section focuses on the key features of the downturn in terms of different FDI modes. It is important to have a good understanding of its causes, as different drivers call for different policy responses by host and home governments.

FDI flows have fallen mainly for the following reasons:

- New investments to expand business abroad, either through cross-border M&As or greenfield projects, are falling; and
- Divestments[8] or other transfers of funds (e.g. repayments of debt, reverse loans)[9] from existing foreign affiliates to their parent firms are exceeding new investments by parent firms.

a. The role of divestments

Since the second or third quarter of 2008, divestments, including repatriated investments, reverse intra-company loans and repayments of debt to parent firms, have exceeded gross FDI flows to several host countries for which data were available. This phenomenon has produced negative inflows in the balance-of-payments statistics of several developed countries (table I.2). For example, in Ireland and the United Kingdom, FDI inflows in the form of other capital (intra-company loans) turned negative in 2008, although for the latter they improved

Table I.2. Selected developed countries with negative FDI inflows, by component, 2007–2009

(Millions of dollars)

FDI inflows by component	2007				2008				2009
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1
Denmark									
Total	2 119	2 094	2 839	2 622	3 652	4 499	2 594	- 178	4 076
Equity	160	4 392	2 781	- 799	77	- 932	4 452	458	158
Reinvested earnings	610	- 591	1 285	595	1 338	1 309	1 257	638	2 089
Other capital	1 349	-1 708	-1 227	2 825	2 237	4 123	-3 115	-1 274	1 830
Ireland									
Total	11 850	-1 077	8 313	5 621	-1 112	-5 251	-6 674	-6 993	1 163
Equity	2 517	-2 991	2 180	-4 307	-2 175	-3 567	-2 662	- 300	-3 081
Reinvested earnings	7 745	7 537	4 753	4 937	7 497	6 574	7 888	4 424	9 069
Other capital	1 588	-5 624	1 380	4 990	-6 434	-8 259	-11 902	-11 117	-4 825
Netherlands									
Total	13 458	9 087	-5 357	101 188	26 635	4 641	79	-34 847	4 950
Equity	1 857	24 444	-1 855	103 824	9 460	788	2 010	-41 538	573
Reinvested earnings	3 353	1 326	2 075	2 824	5 490	2 823	5 205	3 828	5 570
Other capital	8 246	-16 683	-5 579	-5 460	11 685	1 030	-7 138	2 862	-1 194
Norway									
Total	-3 212	3 899	- 658	4 404	-6 814	2 407	-2 514	6 825	172
Equity	-3 693	- 210	684	4 687	-8 334	- 62	228	3 628	-6 465
Reinvested earnings	674	674	674	674	701	701	701	701	701
Other capital	- 193	3 435	-2 015	- 958	820	1 768	-3 442	2 497	5 937
United Kingdom									
Total	27 324	47 864	26 802	94 399	45 560	27 666	-4 531	28 244	63 177
Equity	25 698	50 551	32 411	67 039	41 534	22 279	4 518	22 616	6 299
Reinvested earnings	14 881	11 527	11 277	10 913	11 490	13 463	2 794	1 676	6 002
Other capital	-13 254	-14 214	-16 886	16 448	-7 463	-8 077	-11 843	3 952	50 876
United States									
Total	18 523	85 816	99 100	67 737	57 825	101 995	64 244	92 048	33 312
Equity	19 894	49 442	57 628	28 416	42 203	44 227	53 889	109 864	22 158
Reinvested earnings	19 724	19 374	11 649	-5 953	10 077	27 618	16 101	-2 822	-10 258
Other capital	-21 094	17 000	29 823	45 274	5 545	30 150	-5 745	-14 995	21 412

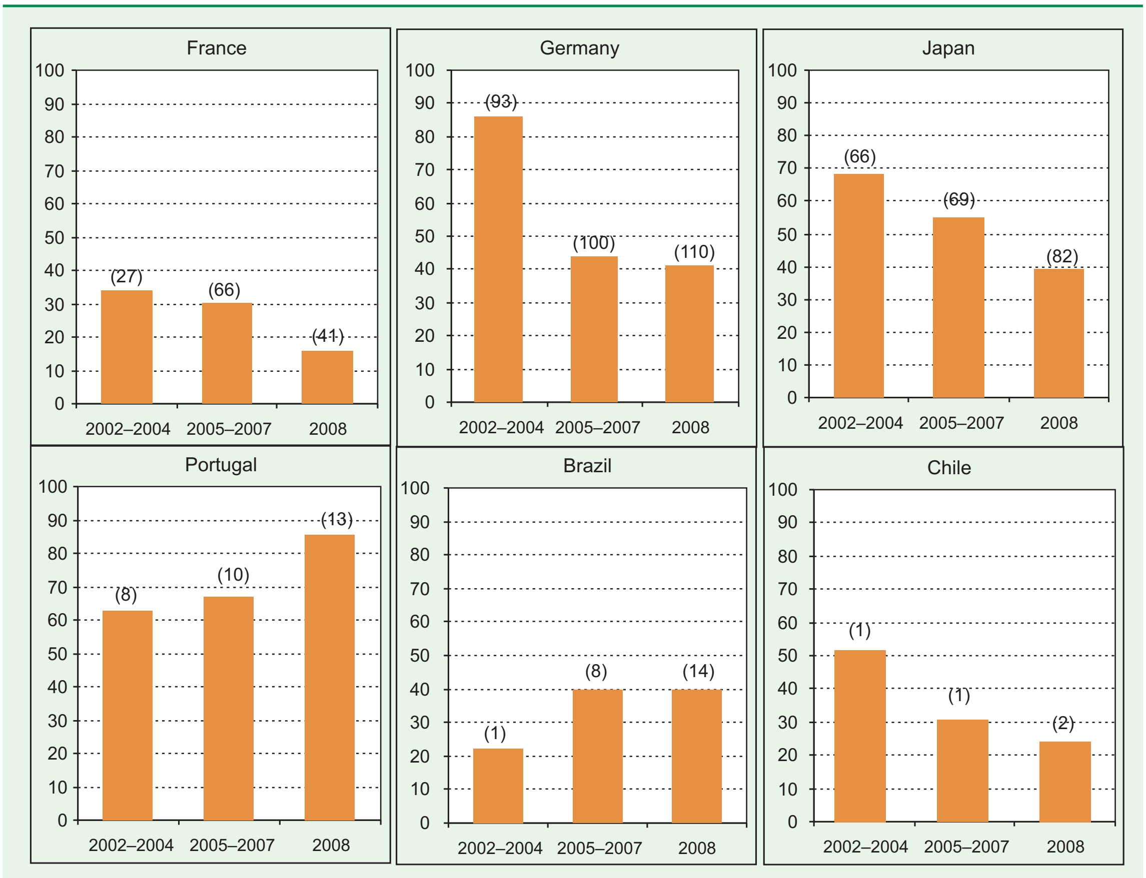
Source: UNCTAD, based on balance of payments statistics in each country.

in the first quarter of 2009. This was because foreign affiliates in these countries increased lending to their parents abroad. In Norway, negative inflows were due to large divestments of equity, a trend that accelerated in early 2009.

Generally, divestments are not uncommon: they affect between one quarter and four fifths of all FDI projects. The fact that the FDI boom during the period 2001–2007 was fuelled primarily by a surge in cross-border M&As, rather than by greenfield investments, suggests that divestments will rise later (Benito, 1997; Chow and Hamilton, 1993). During a recession or economic slowdown, parent firms are also likely to draw on funds available in their foreign affiliates, either in the form of reverse loans (loans provided to parent firms by foreign affiliates) or repayments of debts by foreign affiliates to parent firms. Evidence of the impact of the present crisis on divestments, however, remains scarce. This is due to the fact that, as the crisis deepened in late 2008, its impact on overall annual flows – those for which divestment data are currently more readily available – was limited in 2008. In most countries for which data were available divestments rose in absolute value in 2008 as compared to the 2005–2007 period, but there was not a clear increase in their share of gross FDI outflows (figure I.8). However, quarterly data suggest that the share of divestments began increasing from the fourth quarter of 2008 onwards. For instance, the share of divestments in total FDI outflows in the first quarter of 2009 reached 64% in Japan (from 39% in 2008), 116% in Brazil (from 40%), and 19% in France (from 16%).

Divestment is the result of the interplay of factors external and internal to TNCs. Some of the recent divestments represent the relocation of activities to low-cost production sites in order to cut costs in increasingly competitive world markets, particularly in those markets where economic slowdown due to the current financial and economic crisis has led to lower demand. The relocation to other host countries can be a response to general economic difficulties in the home countries of the investing firms, or it may reflect changes in the strategic positions of units within TNCs' international production systems as they restructure their international operations. Both

Figure I.8. Divestment[a] and its share in gross outward FDI[b] in selected countries, 2002–2008
(Per cent and billions of dollars)



Source: UNCTAD, based on information from Banco do Brasil, Banco Central de Chile, Banque de France, Deutsche Bundesbank, Bank of Japan and Banco de Portugal.

[a] Includes reverse equity investments and reverse loans.

[b] (Net) FDI flows plus divestments.

Note: Figures in parentheses show the value of divestments as a share of total gross investments. For example, in Portugal in 2008, an equivalent of over 80% of total new investments were divested. In other words, only less than 20% of gross investments were finally recorded as net FDI outflows.

factors have been at play during the present crisis, as the deterioration in the external environment has led to reduced investment opportunities and to poorer performance by affiliates of many TNCs.

Divestments can also be spurred by changes in the economic environment, which can affect specific industries. For example in industries associated with the product life-cycle, divestments may occur as a result of a large number of simultaneous exits when the activity reaches maturity, or they may occur if there is a restructuring of an industry, as is currently happening in the automotive, electrical and electronics industries.

Strategic considerations have been behind a large number of divestments undertaken recently. A decision to focus on core business and divest from non-core activities often leads to the closure of operations and their replacement by outsourcing or imports. Divestments also take place when TNCs merge: some operations are eliminated to avoid duplication and to achieve the cost savings that often drive mergers in the first place.[10] In addition, divestments may be driven by the poor economic performance of an individual affiliate – a common occurrence during economic downturns.[11] It then becomes difficult to separate divestments triggered by the crises from other divestments.

In some cases, foreign affiliates are closed down in a host country and part or all of their activities relocated to the home country (box I.2).

The current economic downturn has forced many TNCs to undertake internal restructuring in order to cut costs because of reduced demand or demand growth, and growing competition. In such an environment, retaining existing FDI is no less important for host countries than attracting new FDI. In order for governments to prevent divestment, there is a need to distinguish between divestment and relocation, even though for individual host countries the consequences for FDI inflows are identical.

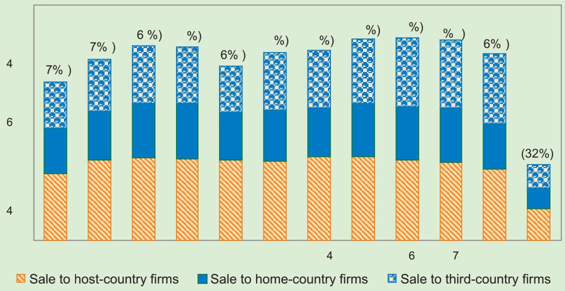
Box I.2. The impact of international restructurings on FDI flows: some puzzling evidence

In the current economic downturn, parent firms are likely to restructure their foreign operations, including through the closure of foreign affiliates, and/or relocation to third countries or back to their home country. However, the way the relocated FDI is reflected in the balance of payments depends on where the relocated FDI goes. Its impact on FDI flows can be positive, negative or nil:

- A positive impact on global FDI flows will result when a company reduces its investment at home to invest abroad, and/or sells a subsidiary in its home country to a foreign company.
- A negative impact on FDI inflows in the host economy, and on global flows, will result if a company reduces its activities abroad to relocate to its home country, and/or if it sells a foreign subsidiary to a domestic company in the host country.
- Finally, if a company decides to dispose of its activities in a foreign country and relocate to another foreign country, or sells a subsidiary abroad to another foreign company, the impact on global FDI flows will be nil.

A foreign affiliate may be sold to a firm based in the host country, the home country or a third country. In 2008, some 2,400, or 26% of the total number of cross-border M&A deals in the world, involved transactions in which foreign affiliates were purchased by other firms. The total number of these cases did not increase from that in 2007, and was even lower than in the previous downturn period of 2001–2003 (box figure I.2.1). However, of these deals in 2008, the number of deals involving the sale of a foreign company to a firm in a third country hit a record high, reaching more than 900. On the other hand, sales to domestic firms, or firms based in the same home country as the divesting company, decreased slightly.

Box figure I.2.1. Sale of foreign affiliates to firms based in host, home or third country, 1998–2009[a]
(Number of deals)



Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] Data for 2009 refer to January–June only.

Note: Figures in parentheses show the proportion of deals involving disposal of foreign affiliates to other firms (whether based in a host, home or third country) in the total number of deals.

Source: UNCTAD.

Divestment and relocation call for different policy responses, and the ability of policymakers to influence them also differs. When a country is faced with the closure of foreign affiliates in its economy due to a shift of investment to another, more locationally advantageous country, the major policy challenge for that country is to maintain its relative attractiveness for FDI. This is particularly important for investment that does not have high barriers to exit (i.e. does not involve high sunk costs).

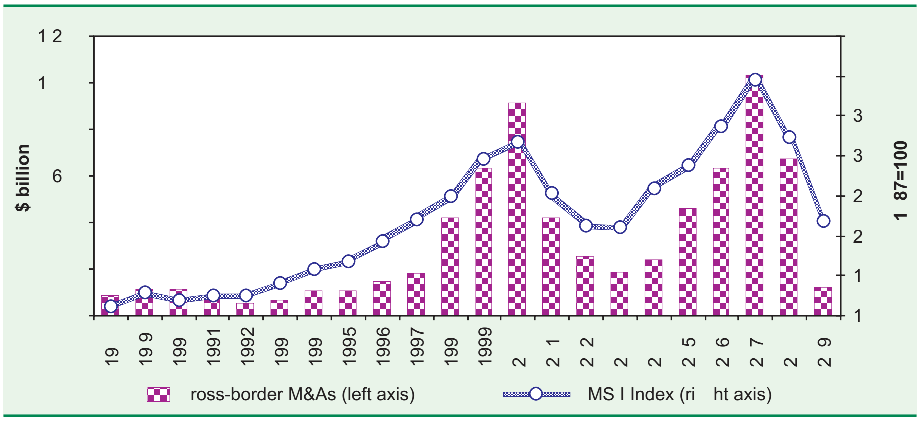
b. Mode of investment

The crisis had different impacts on cross-border M&As and greenfield projects. This suggests that these two modes of entry were adversely affected for different reasons. These differences may have distributional implications for individual host and home countries and industries in terms of the extent of the fall in FDI. To a large extent, in addition to lack of finance, the decline in the value of M&As has been driven by falling stock prices (figure I.9). In 2008, the fall in equity prices alone was equivalent to an $81 billion decline in cross-border M&As, which accounted for 18% of the total decline. On the other hand, the value of greenfield projects, which diminished following a considerable time lag, is likely to have reflected investors' responses to dimmer economic prospects and, to some extent, to financing difficulties.

(i) Large decreases in M&As

Cross-border M&As in general have been strongly affected as a direct consequence of the crisis, with a 35% decline in their value in 2008 compared with 2007. A fall was also recorded for the first half of 2009, to $123 billion (figure I.9). In particular, in 2008 there was a global reduction in the number and value of mega deals (i.e. cross-border M&As valued at more than $1 billion). The number of such deals fell by 21% and their value by 31% (table I.3). The decrease in total cross-border M&As has had a significant impact on FDI flows, as they are strongly correlated with the value of cross-border M&A transactions.

Figure I.9. Value of global cross-border M&As and MSCI World Index, 1988–2009[a]



Source: UNCTAD cross-border M&A database; and Morgan Stanley Capital International, MSCI World Index.
[a] For 2009, January–June only.

Note: The MSCI All Country World Index is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As atJanuary 2009, the MSCI index covered 46 countries: 23 developed and 23 emerging-market economies.

Several factors contributed to the decline. As mentioned earlier, the sharp fall in share prices on developed countries' stock markets – where stock-market indices plunged, on average by more than 40% in 2008 – depressed the value of M&A transactions (annex table B.4). The extent of the fall in share prices was similar in all major developed economies: in the United States, the S&P 500 Index saw a 41% drop, in the euro area the DJ Euro Stoxx 50 fell by 44%, while in Japan the Nikkei fell by 44%.[12] In developed countries, share prices of the financial services industry plummeted by 60% and the value of cross-border M&A purchases by 36%, although the number of cross-border M&As shrank by only 14%.

The financial crisis has also made equity and debt financing of M&A transactions more difficult and expensive. Whereas normally during times of falling corporate profits, companies tend to finance M&A deals with new stock, with the rapidly falling stock markets this is less feasible. Another impact of the crisis has been to reduce the cash financing of M&As, which had been the main method of funding in the boom years prior to 2008. At the same time, the cost of debt financing for cross-border M&As has risen, as bank lending conditions have deteriorated rapidly following tightening credit conditions and rising interest rate premiums for the corporate sector. One outcome of the crisis is that a number of large privatization projects have had to be cancelled (table I.4).[13]

Leveraged buyouts, which generally involve private equity funds or hedge funds, nearly dried up during the course of 2008 (section C), as banks hesitated to take the risk of extending highly leveraged loans to these funds. These funds had been among the main drivers of cross-border M&As during the period 2005–2007. The rising share of bank loans in the financing of M&As by private equity funds aggravated the decline, as private equity firms had less funds to finance M&As and as rolling over short-term debt became more difficult.

In developed countries, the number of mega deals declined from 274 in 2007 to 203 in 2008. In contrast, in developing countries, M&A activity remained strong in 2008, with 41 mega deals concluded, compared with 35 such deals in 2007. In the transition economies the number decreased: 7 in 2008 compared with 10 in 2007.

Table I.3. Cross-border M&As (valued at over $1 billion), 1987−2009 [a]

Year	Number of deals	Percentage of total	Value ($billion)	Percentage of total
1987	19	1.6	39	40.1
1988	24	1.3	53	38.7
1989	31	1.1	68	40.8
1990	48	1.4	84	41.7
1991	13	0.3	32	27.0
1992	12	0.3	24	21.0
1993	18	0.5	38	30.5
1994	36	0.8	73	42.5
1995	44	0.8	97	41.9
1996	48	0.8	100	37.9
1997	73	1.1	146	39.4
1998	111	1.4	409	59.0
1999	137	1.5	578	64.0
2000	207	2.1	999	74.0
2001	137	1.7	451	61.7
2002	105	1.6	266	55.0
2003	78	1.2	184	44.8
2004	111	1.5	291	51.5
2005	182	2.1	569	61.3
2006	215	2.4	711	63.6
2007	319	3.0	1 197	70.4
2008	251	2.6	823	68.3
2009[a]	40	1.2	171	67.2

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.

Table I.4. Selected cross-border M&As and privatization programmes cancelled or postponed due to the global financial crisis

Acquiring company (country)/privatization	Target company (country)	Value	Industry
Samsung Electronics (Rep. of Korea)	SanDisk (United States)	$5.9 billion	Electronics
Xstrata (United Kingdom and Switzerland)	Lonmin (United States)	$10 billion	Mining
AT&T, Vodafone, Blackstone	Huawei (only mobile handset business operations) (China)	$2 billion	Electronics
Ping An Insurance (China)	Fortis (Belgium)	€ 2.2 billion	Finance
Cancelled or postponed privatization	Punta Colonet (Mexico)	$6 billion	Ports
Cancelled or postponed privatization	Kuwait Airways (Kuwait)	-	Airlines
Cancelled or postponed privatization	La Poste (France)	-	Postal services
Cancelled or postponed privatization	TeliaSonera (Sweden)	-	Telecoms
Cancelled or postponed privatization	Nordea (Sweden)	-	Finance
Cancelled or postponed privatization	Oman Telecommunication Company (25%)	-	Telecoms
Cancelled or postponed privatization	SBAB (Sweden)	-	Finance

Source: UNCTAD, 2009a.

In terms of value, in the first half of 2009 M&A deals fell not only in developed countries, but also in developing and transition economies (figures I.10 a, b and c). In the latter economies, this was partly the result of shrinking exports and lower prices of energy and other natural resources, which made target firms less attractive.

(ii) Downturn in greenfield investments since end 2008

Greenfield investment projects (new investments and expansion of existing facilities) began to feel the impact of the crisis only in the fourth quarter of 2008. The number of such investments actually increased markedly during the first three quarters of that year, reaching over 11,000. It thus almost equalled the total for the whole of 2007[14] (annex tables A.I.1–A.I.2 for country and industry breakdown data, respectively). But from September 2008 onwards there has been a continuous decline in the monthly flow of projects.[15] As with M&As, recent announcements in various industries mention the cancellation or postponement of many projects,[16] the consequences of which will be fully felt in 2009.

Figure I.10. Value of global cross-border M&As, by quarter, 2006–2009
(Billions of dollars)

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] Net sales on the basis of the region of the immediate acquired company.
[b] South-East Europe and CIS.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economy to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of foreign companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

4. Uneven impact of the crisis on different regions and sectors

The impact of the crisis on FDI patterns in 2008 has varied by region, and by sector/industry. Its impact on FDI also differs from the impact of the dot-com crisis in 2001 (box I.3).

a. Geographical patterns

(i) FDI inflows

FDI inflows to developed countries in 2008 shrank by 29%, to $962 billion, compared with the previous year. This was mostly due to a decline in cross-border M&A sales, which fell by 39% in value after a five-year boom (annex table B.4). In Europe cross-border M&A deals diminished by 56%,[17] and in Japan by 43%. Worldwide mega deals have been particularly badly affected by the crisis: their number fell by 21% in 2008, and their value by 31%. By contrast, the number of greenfield investments in developed countries rose in 2008 to 6,972 from 6,195 in 2007, but fell in the first quarter of 2009 at an annual rate of 16% (annex table A.I.1).

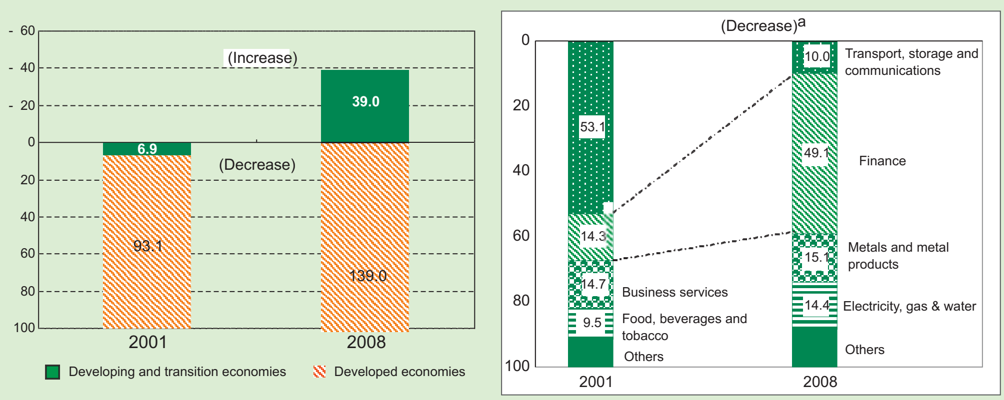
In 2008, FDI inflows into *developing countries* were less affected than those into developed countries. In the first half of 2008 developing countries seemed better able to weather the global financial crisis, as their financial systems were less closely interlinked with the hard-hit banking systems of the United States and Europe. Their economic growth remained robust, supported by rising commodity prices. FDI inflows into developing countries therefore increased in 2008, but at 17% this was a lower rate than in previous years. FDI inflows increased considerably in Africa (+27%) and in Latin America and the Caribbean (+13%), continuing the upward trend of the preceding years for both regions. Economic growth slowed down in 2008 in both regions, but less forcefully down than developed countries and, to a lesser extent, the developing countries of Asia. In 2008, there were some large cross-border M&A deals in Africa, especially in the construction industry, as illustrated by the acquisition of OCI Cement Group of Egypt by Lafarge SA (France) for $15 billion – one of the biggest M&A transactions that year (annex table A.I.3). Asia, the developing region that received the largest amount of FDI, saw a rise in inflows of 17% in 2008. However, the experience of the different subregions and economies in this region varied greatly. In South Asia, FDI inflows continued to grow considerably, rising by 49%, whereas they decreased in South-East Asia (-14%). In early 2009,

Box I.3. Downturn in FDI: comparison with the previous reversal

In the 2001 dot-com crisis, the first to be hit by the decline in FDI inflows was Germany, followed by (in order of magnitude) the United States, the United Kingdom, Canada and Hong Kong (China). In contrast, in 2008, the five countries with the largest declines were the Netherlands, the United Kingdom, Canada, Belgium and Ireland, in that order.

With regard to industries, in the 2001 downturn, telecommunications experienced the largest fall in FDI, whereas in the current downturn, finance has been the hardest hit (box figure I.3.1). These and other differences by country and industry reflect the contrasting sources and origins of the previous and current downturns.

Box figure I.3.1. Comparison of falling FDI in 2001 and 2008
(Per cent)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

[a] Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Source: UNCTAD.

the overall picture for developing countries changed significantly, as discussed later.

In developing countries, M&A activity remained strong in 2008, with 41 mega deals concluded – six more than in 2007. In Africa and Asia, TNCs expanded their M&A transactions, which contributed to their overall rise by 13% in 2008. In the first half of 2009, however, Asia and other developing regions saw a sharp decline in exports and tumbling prices of energy and other natural resources, and their M&A transactions also fell sharply.

FDI inflows to the transition economies of South-East Europe and the CIS maintained their upward trend in 2008 to reach a new record high. This was despite the financial crisis, the sharp downturn in oil and gas prices in the second half of 2008 and regional conflicts. As in previous years, foreign investors remained eager to access the fast-growing local consumer markets of the region. FDI flows to the natural resources sector of the Russian Federation also increased. Despite stricter regulations, foreign investors continued to invest in natural-resource projects. Indeed, the Russian Federation was the target of four mega M&A deals in 2008. In 2009, however, FDI inflows into transition economies began to fall.

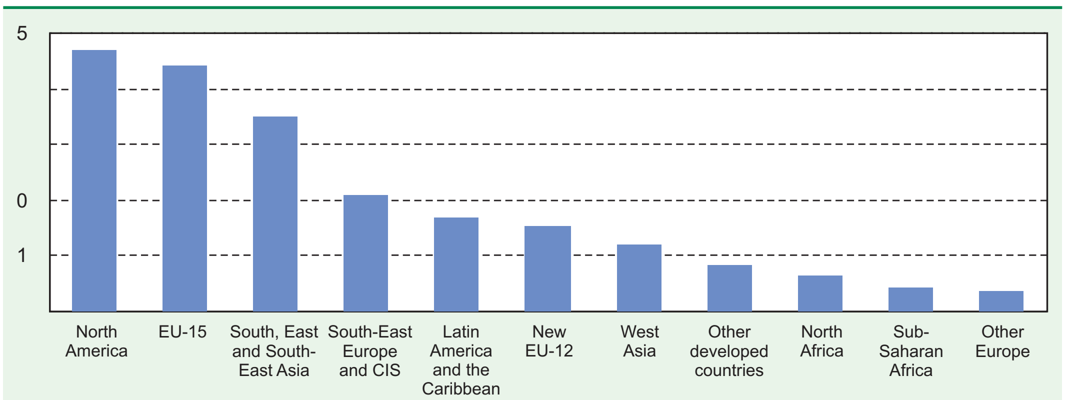
The *World Investment Prospects Survey 2009–2011* (WIPS) conducted by UNCTAD also shows that the developed economies of North America and the EU-15 – which still host the largest proportion of world FDI flows and stocks – have so far been the hardest hit by reductions in TNCs' investment plans (figure I.11). Roughly 47% of respondents reported that their investment plans in North America (the United States and Canada) have been cut due to the crisis, and another 44% indicated the same for the EU-15. WIPS also shows that among developing host regions, the subregions of East and South-East Asia are the most adversely affected by the crisis (35% of respondents), though to a lesser degree than developed countries (figure I.11).

Judging from preliminary data for the first quarter of 2009, FDI took a nosedive in all three groups of economies: developed, developing and transition (figure I.12). For the 96 countries for which quarterly data on FDI inflows were available up to June 2009 (which account for roughly 91% of global inflows), FDI inflows in the first quarter of 2009 were down by 44% as compared to the same period of 2008, and 70 countries recorded a decline. While in both developed and transition economies FDI flows fell gradually over 2008 and the first quarter of 2009, in developing countries – following the slight increase registered in 2008 – a fall was observed in the first quarter of 2009 (figure I.12). Indeed, FDI flows to the countries for which data were available for the first quarter of 2009 are on a clear downward trend. For example, China recorded a 21% decline in inflows during this period compared to the same period in 2008, and flows to Brazil and Pakistan were down by 39% and 30% respectively.

Regarding structurally weak and vulnerable economies such as the least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS), in addition to ODA, FDI has been an important source of funding over the past two decades for many of them (UNCTAD, 2003c, 2006e). In line with general trends in FDI flows to developing countries, those to the structurally weak and vulnerable economies rose by 43% in 2008, to $61 billion. Their share in total FDI flows to developing and transition economies also rose, from 7% to 8%.

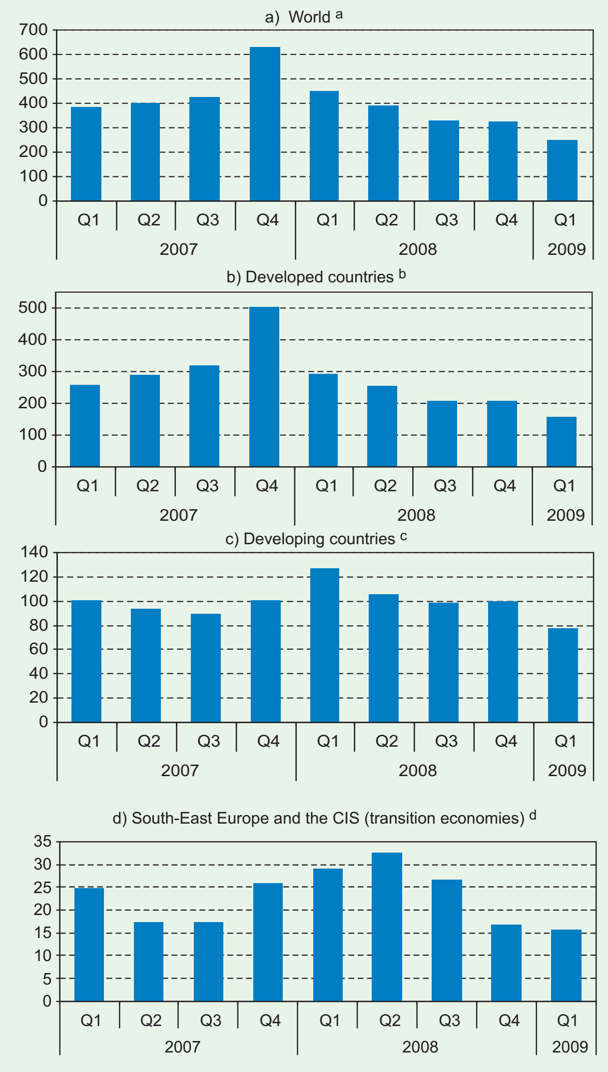
However, because these countries rely heavily on exports of a narrow range of commodities (and tourism in the case of SIDS), the global financial and economic crisis is beginning to have a strong impact on their economies in 2009 and has reduced demand for their exports. Preliminary data on FDI flows to these economies for the first quarter of 2009 indicate that the financial turmoil could have an adverse

Figure I.11. Percentage of TNCs planning to cut investments in different regions owing to the crisis
(% of respondents)



Source: UNCTAD, 2009b.

Figure I.12. FDI inflows, by quarter, 2007–2009
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Total for 96 countries accounting for 91 % of world inflows in 2007–2008.

[b] Total for 35 countries accounting for almost all of developed country inflows in 2007–2008.

[c] Total for 49 countries accounting for 74 % of developing country inflows in 2007–2008.

[d] Total for 12 countries accounting for 95 % of South-East Europe and CIS (transition economies) inflows in 2007–2008.

impact on the sustainability of those flows. For example, in the first quarter of 2009 there was a 15% year-on-year decline in FDI inflows into LDCs.

The three groups of economies showed similar growth rates of FDI inflows in 2008: 29% in 49 LDCs, 32% in 29 SIDS and 54% in 31 LLDCs. Those flows continue to focus on a few countries in each group: Angola and Sudan among LDCs, Madagascar among SIDS, and Kazakhstan among LLDCs. Angola, for example, accounted for about half of FDI inflows to all LDCs. Furthermore, their FDI inflows mainly target natural resource exploitation, a form of investment that generally does not lend itself to broad-based and sustainable economic growth.

As the major investors in these economies are from developing countries, their declining FDI in 2009 (figure I.13) poses a particular challenge, accentuated by reduced financial flows from both official and other private sources during the crisis. Moreover, since these economies will face stiffer competition from other developing countries in attracting investments, they risk being further marginalized in global FDI. These economies may wish to target FDI in industries that are less prone to cyclical fluctuations, such as agriculture-related industries including food and beverages, as part of a diversification strategy.

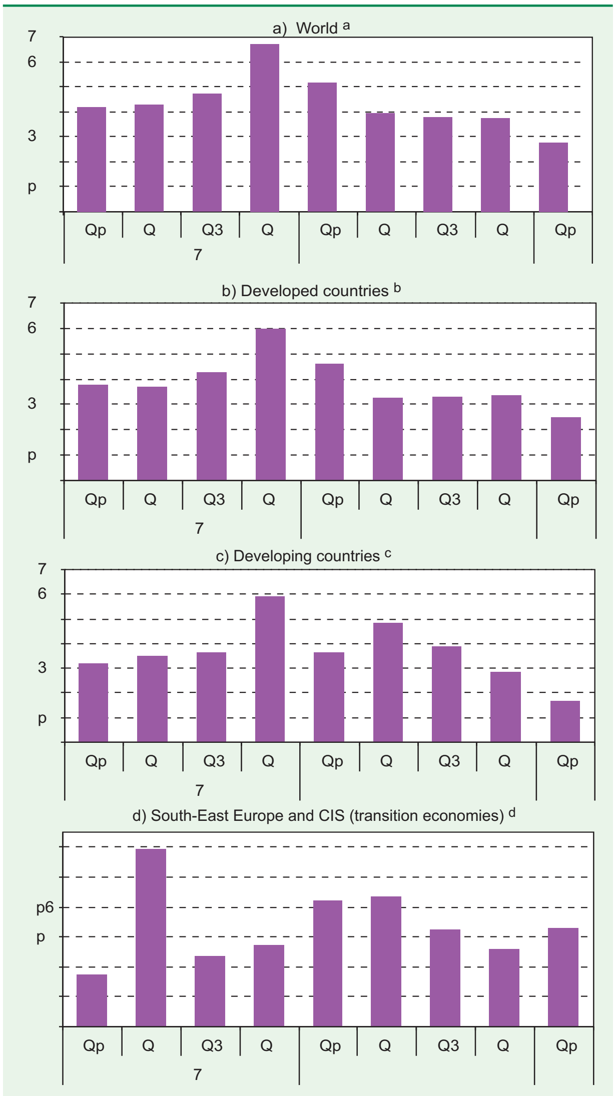
(ii) FDI outflows

Outflows of FDI from developed countries as a group declined in 2008, but with some notable exceptions, as discussed later. While such flows increased substantially to a record level in 2007, the financial crisis and the economic recession in many developed countries reduced the capacity of, and propensity for, TNCs to invest abroad in both 2008 and early 2009.

FDI outflows from the United States fell, although reinvested earnings (one of the three components of FDI) of United States TNCs' foreign affiliates were strong in 2008. FDI outflows from the euro area also declined, as did those from the United Kingdom, where TNCs cut their investments abroad by 60% in 2008, reflecting their deteriorating financing capabilities. Only Japanese TNCs were able to increase their FDI outflows significantly, a feature which continued into early 2009. Japanese companies have been increasing their foreign acquisitions, taking advantage of the price cuts of target firms caused by the global financial crisis and economic slowdown. The Japanese corporate sector is still in a relatively strong position in terms of cash and a healthy debt-to-equity ratio. The value of cross-border M&As by Japanese companies in 2008 reached $54 billion – a record level. These large cross-border investments have brought Japan back into the group of countries with the largest outflows of FDI.

FDI outflows from developing countries rose by 3% in 2008, but began to decline in the first half of 2009. Asian economies, especially China, continued to dominate as FDI sources. Meanwhile, TNCs from some West Asian countries, along with SWFs from this subregion, continued to invest abroad (section C). As a result, the share of developing countries in global outward FDI, and in FDI to both developed and LDCs has increased. Developing-country TNCs now account for a larger share of outward FDI

Figure I.13. FDI outflows, by quarter, 2007–2009
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

a Total for 79 countries accounting for 93% of world outflows in 2007–2008.
b Total for 35 countries accounting for almost all of developed country outflows in 2007–2008.
c Total for 34 countries accounting for 54% of developing country outflows in 2007–2008.
d Total for 10 countries accounting for 99% of South-East Europe and CIS (transition economies) outflows in 2007–2008.

than ever before – 16% of global FDI outflows in 2008, compared with 13% in 2007 (annex table B.1). FDI outflows from transition economies grew considerably in 2008, accounting for 3% of the world total (annex table B.1), and they remained stable in the first quarter of 2009 (figure I.13).

Overall, global FDI outflows for the first quarter of 2009 fell by 46% over the same period of 2008 for 79 countries (accounting for about 93% of global FDI outflows) for which such data were available. The majority of these countries (56 out of 79 countries), including major investors such as France, Germany, Japan and the United States experienced a decline in FDI outflows in the first quarter of 2009 (figure I.13).

b. Sectoral and industrial patterns of FDI

Both inflows and outflows of FDI in 2008 exhibited some marked differences by sector (primary, manufacturing and services) and by industry. While FDI activity in most industries declined substantially in 2008, there were a few exceptions, notably in the primary sector and in the food, beverages and tobacco industry, where FDI transactions increased. In the absence of data on FDI broken down by sector/industry for 2008 (annex tables A.I.4 – A.I.7 for 2009), data on cross-border M&As with that breakdown are examined as indicative of overall trends. Overall, there was a decline in M&A activity in both manufacturing and services, but with a relative shift to non-financial services, and to food, beverages and tobacco. The value of M&As in the primary sector rose both in absolute terms and as a share of total M&As. In 2008, of 26 industries in the classification of data on M&As, there were only 9 that generated higher investments via cross-border M&As than in the previous year, and only 13 in which investors concluded a higher value of such M&As (table I.5). This is consistent with the earlier observation that the overall value of cross-border M&As fell. It suggests that firms, regardless of the industries in which they operate, are more selective in choosing the activities in which they invest during a downturn. Food-related industries were the most active in terms of purchases of foreign companies, and among the most active in terms of M&A sales (table I.5).

In 2008, the value of cross-border M&As in the primary sector increased by 17%. Rising prices of oil and other commodities in the first half of 2008 triggered a further increase in the value of cross-border M&A investments in the mining, quarrying and petroleum industry group, to $83 billion (table 1.5). The increase in FDI in the primary sector was also reflected in the growing number of greenfield investments, which reached 1,022 in 2008 compared with 611 in 2007 (annex table A.I.2).

In manufacturing – which accounts for nearly one third of estimated world inward FDI stocks – the value of cross-border M&A sales fell by 10% in 2008. The decline was very uneven by industry. Textiles and clothing, rubber and plastic products, as well as metals and metal products, saw an average fall of 80%, while in industries, such as machinery and equipment, the decrease was much less dramatic. In contrast, cross-border M&A sales in the food, beverages and tobacco industry rose considerably, to $112 billion – a 125% increase (table 1.5). Several large TNCs

Table I.5. Industries with a rise in cross-border M&As in 2008
(Millions of dollars)

Industry	2007	2008	Increases
Net sales [a]			
Agriculture, hunting, forestry and fisheries	2 421	2 963	542
Mining, quarrying and petroleum	70 878	83 137	12 260
Food, beverages and tobacco	49 902	112 093	62 191
Coke, petroleum and nuclear fuel	2 663	3 086	424
Motor vehicles and other transport equipment	3 048	11 940	8 892
Precision instruments	- 17 036	23 028	40 063
Business services	100 359	102 628	2 269
Public administration and defense	29	30	1
Other services	2 216	4 767	2 551
Net purchases [b]			
Agriculture, hunting, forestry and fisheries	- 1 880	5 302	7 182
Food, beverages and tobacco	30 794	77 406	46 612
Textiles, clothing and leather	- 2 361	416	2 777
Publishing and printing	- 6 308	9 535	15 843
Rubber and plastic products	- 1 588	206	1 793
Non-metallic mineral products	15 334	22 198	6 864
Motor vehicles and other transport equipment	533	12 081	11 547
Precision instruments	- 9 823	7 817	17 640
Hotels and restaurants	- 11 617	- 12	11 605
Trade	- 3 460	1 674	5 134
Business services	10 421	23 976	13 555
Community, social and personal service activities	- 9 066	- 4 206	4 860
Other services	- 2 560	2 914	5 474

Source: Annex table B.6.

[a] Net sales in the industry of the acquired company.

[b] Net purchases by the industry of the acquiring company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

took the opportunity to improve their competitive position in foreign markets. Four mega deals of more than $10 billion each drove the increase in the value of cross-border M&As in this industry. Stichting Interbrew (Belgium) acquired Anheuser Busch, a United States brewery, for $52 billion, and British Imperial Tobacco bought Altadis, a Spanish cigarette company, for $18 billion (annex table A.I.3).

In the services sector – which accounts for around three fifths of world FDI stock – cross-border M&A deals declined by 54% in 2008. Most of the larger services were hit to a similar extent, with the exception of business services, where such deals grew by 2%. In financial services, the value of cross-border M&As declined by 73% in 2008. Nevertheless, there were several large cross-border acquisitions in the North American and European banking sectors. Very low stock prices offered the chance to step into markets that had formerly been difficult to enter. In Europe there were two very large M&A transactions involving intra-European targets and acquirers. The banking operations of Belgian/Dutch bank Fortis SA/NV were acquired by BNP Paribas, and Banca Antonveneta, an Italian affiliate of Banco Santander SA, was bought by the Italian BMPS for $13.2 billion. In the United States, several large banks that were on the brink of collapse were acquired by other United States institutions, supported by government funding. Foreign banks took the opportunity to acquire equity stakes in several large banks in the United States. Toronto Dominion Bank (Canada) and the Japanese Mitsubishi UFJ Financial Group increased their holdings in the United States Commerce Bancorp (for $8.6 billion) and in Morgan Stanley (for $7.8 billion) respectively. Japanese banks, with relatively abundant funds at home, are gradually returning to the international banking scene as major investors. This is similar to the 1980s, but with a greater focus on international banking services for non-Japanese clients, which is a departure from their strategies of the 1980s.

B. How the largest TNCs are coping with the global crisis[18]

Today there are some 82,000 TNCs worldwide, with 810,000 foreign affiliates in the world (annex table A.I.8). These companies play a major and growing role in the world economy. For instance, exports by foreign affiliates of TNCs are estimated to account for about one third of total world exports of goods and services. And the number of people employed by them worldwide, which has increased about fourfold since 1982, amounted to about 77 million in 2008 (table I.6) – more than double the total labour force of a country like Germany.

The largest TNCs contribute to a significant proportion of total international production by all TNCs, both in developed and developing economies. Over the three-year period 2006–2008, on average, the 100 largest non-financial TNCs[19] accounted for 9%, 16% and 11%, respectively, of the estimated foreign assets, sales and employment of all TNCs in the world (table I.6). They also accounted for about 4% of world GDP, a share which has remained relatively stable since 2000.[20] This section analyses the major trends and recent developments with respect to the largest TNCs, and examines the impacts of the ongoing financial and economic crisis on these firms and their international activities.

Over the past 15 years, the largest TNCs have undergone a steady process of internationalization. Also there has been a progressive increase in the proportion of companies operating in the services sector, and of firms based in developing countries. These largest TNCs are presently being strongly affected by the ongoing economic and financial

Table I.6. Selected indicators of FDI and international production, 1982–2008

Item	Value at current prices (Billions of dollars)				Annual growth rate (Per cent)							
	1982	1990	2007	2008	1986–1990	1991–1995	1996–2000	2004	2005	2006	2007	2008
FDI inflows	58	207	1 979	1 697	23.6	22.1	39.4	30.0	32.4	50.1	35.4	-14.2
FDI outflows	27	239	2 147	1 858	25.9	16.5	35.6	65.0	-5.4	58.9	53.7	-13.5
FDI inward stock	790	1 942	15 660	14 909	15.1	8.6	16.0	17.7	4.6	23.4	26.2	-4.8
FDI outward stock	579	1 786	16 227	16 206	18.1	10.6	16.9	16.8	5.1	22.2	25.3	-0.1
Income on inward FDI	44	74	1 182	1 171	10.2	35.3	13.3	33.4	32.8	23.3	21.9	-0.9
Income on outward FDI	46	120	1 252	1 273	18.7	20.2	10.3	42.3	28.4	18.4	18.5	1.7
Cross-border M&As [a]	..	112	1 031	673	32.0[b]	15.7	62.9	28.4	91.1	38.1	62.1	-34.7
Sales of foreign affiliates	2 530	6 026	31 764[c]	30 311[c]	19.7	8.8	8.1	26.8	5.4[c]	18.9[c]	23.6[c]	-4.6[c]
Gross product of foreign affiliates	623	1 477	6 295[d]	6 020[d]	17.4	6.8	6.9	13.4	12.9[d]	21.6[d]	20.1[d]	-4.4[d]
Total assets of foreign affiliates	2 036	5 938	73 457[e]	69 771[e]	18.1	13.7	18.9	4.8	20.5[e]	23.9[e]	20.8[e]	-5.0[e]
Exports of foreign affiliates	635	1 498	5 775[f]	6 664[f]	22.2	8.6	3.6	21.3[f]	13.8[f]	15.0[f]	16.3[f]	15.4[f]
Employment by foreign affiliates (thousands)	19 864	24 476	80 396[g]	77 386[g]	5.5	5.5	9.7	12.2	8.5[g]	11.4[g]	25.4[g]	-3.7[g]
GDP (in current prices)	11 963	22 121	55 114	60 780[h]	9.5	5.9	1.3	12.6	8.4	8.2	12.5	10.3
Gross fixed capital formation	2 795	5 099	12 399	13 824	10.0	5.4	1.1	15.4	11.8	10.9	13.8	11.5
Royalties and licence fee receipts	9	29	163	177	21.1	14.6	8.1	23.7	10.6	9.1	16.1	8.6
Exports of goods and non-factor services	2 395	4 414	17 321	19 990	11.6	7.9	3.7	21.3	13.8	15.0	16.3	15.4

Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi statistics), UNCTAD, *GlobStat*, and IMF, *International Financial Statistics*, June 2009.

[a] Data are available only from 1987 onwards.

[b] 1987–1990 only.

[c] Data for 2007 and 2008 are based on the following regression result of sales against inward FDI stock (in $ million) for the period 1980–2006: sales=1 471.6211+1.9343* inward FDI stock.

[d] Data for 2007 and 2008 are based on the following regression result of gross product against inward FDI stock (in $ million) for the period 1982-2006: gross product=566.7633+0.3658* inward FDI stock.

[e] Data for 2007 and 2008 are based on the following regression result of assets against inward FDI stock (in $ million) for the period 1980–2006: assets= -3 387.7138+4.9069* inward FDI stock.

[f] Data for 1995–1997 are based on the following regression result of exports of foreign affiliates against inward FDI stock (in $ million) for the period 1982-1994: exports=139.1489+0.6413*FDI inward stock. For 1998–2008, the share of exports of foreign affiliates in world export in 1998 (33.3 %) was applied to obtain the values.

[g] Based on the following regression result of employment (in thousands) against inward FDI stock (in $ million) for the period 1980–2006: employment=17 642.5861+4.0071* inward FDI stock.

[h] Based on data from IMF, *World Economic Outlook*, April 2009.

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from Austria, Canada, the Czech Republic, Finland, France, Germany, Italy, Japan, Luxembourg, Portugal, Sweden and the United States for sales; those from the Czech Republic, Portugal, Sweden and the United States for gross product; those from Austria, Germany, Japan and the United States for assets; those from Austria, the Czech Republic, Japan, Portugal, Sweden and the United States for exports; and those from Austria, Germany, Japan, Switzerland and the United States for employment, on the basis of the shares of those countries in worldwide outward FDI stock.

crisis, both at company and industry levels, as evidenced by declining profits, divestments and layoffs, restructurings and some bankruptcies. According to preliminary estimates, the increase in their overall degree of internationalization seems to have slowed down markedly in 2008. However, an UNCTAD survey (UNCTAD, 2009b) shows that, despite a temporary setback in their investment plans in the short term, large TNCs expect to continue to internationalize and increase their FDI expenditures in the medium term, with a growing focus on emerging markets (see section E).

In addition to the 100 largest TNCs worldwide, two other important categories of top-ranking firms are considered in this section: (i) the top non-financial TNCs from developing countries, which have grown in relative importance over the past few years (subsection 2); and (ii) the top financial TNCs, which are presently going through a major restructuring process triggered by the devastating impacts of the crisis (subsection 3). In addition, non-listed companies (mainly government- or family-owned), which are not necessarily included in the traditional UNCTAD list of the largest TNCs due to paucity of data, but which also play an important role in international production, are considered in box I.4.

1. The 100 largest non-financial TNCs[21]

a. A slowdown of internationalization in 2008

Data on the world's 100 largest TNCs (annex tables A.I.9 and A.I.10) show a recent slowdown in their rate of internationalization. While their Transnationality Index (TNI)[22] continued to increase in 2007 (figure I.14), due especially to the rapid growth of foreign sales (table I.7), this did not happen in 2008. Preliminary estimates for 2008[23] show that the ratio of both foreign assets and sales to total assets and sales did not increase compared to 2007, while

Table I.7. Snapshot of the 100 largest TNCs worldwide, 2006–2007/2008

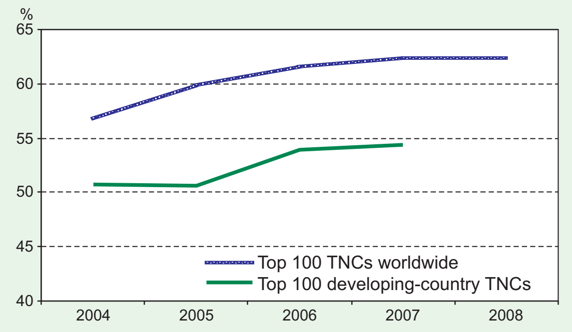
Variable	2006	2007	2006–2007 % change	2008	2007–2008 % change
Assets ($ billion)					
Foreign	5 245	6 116	16.6	6 094	-0.4
Total	9 239	10 702	15.8	10 687	-0.1
Foreign as % of total	57	57	0.4[a]	57	-0.1 [a]
Sales ($ billion)					
Foreign	4 078	4 936	21.0	5 208	5.5
Total	7 088	8 078	14.0	8 518	5.5
Foreign as % of total	58	61	3.6[a]	61	0.0 [a]
Employment (thousands)					
Foreign	8 582	8 440	-1.66	8 898	5.4
Total	15 388	14 870	-3.4	15 302	2.9
Foreign as % of total	56	57	0.98[a]	58	1.4 [a]

Source: UNCTAD/ Erasmus University database.

[a] In percentage points.

Note: 2007 and 2008 data represent companies from the 2007 top 100 TNCs list. Projected 2008 data are based on the rates of change observed in 90 of the top 100 TNCs with 2008 data, applied to 2007 totals. A top 100 list for 2008 will appear in WIR 2010.

Figure I.14. Average TNI for the 100 largest TNCs worldwide and from developing countries, 2004–2008



Source: UNCTAD.

Note: Average TNI in 2008 is based on the percentage change between 2007 and 2008 of the average TNI values for 90 of the top 100 TNCs worldwide in 2007.

foreign employment increased only slightly more than total employment (table I.7). Consequently, the overall TNI in 2008 remained almost at a standstill for the largest TNCs for which data were available (table I.7 and figure I.14).

The analysis of TNI by industry and home region is limited to 2007, as non-availability of data for some TNCs (e.g. Japanese TNCs) for 2008 causes a bias in certain industries and regions. The presence of companies from the services sector in the list of the top 100 has continued to increase: from 14 in 1991 to 24 in 1998 and finally to 26 in 2007.[24] Many of them operate in telecommunications and utilities. However, the majority of the 100 largest TNCs still belong to the manufacturing sector (table I.8). No agricultural company presently features among the list of top TNCs, although no less than nine companies in the top 100 list belong to the food, beverages and tobacco industries.

The largest TNCs in the various industries display very different levels of internationalization. For instance, the TNI for the top companies in the pharmaceuticals, telecommunications and food and beverages industries is higher than that for companies in motor vehicles, petroleum or utilities (table I.8).[25]

The 2007 data also confirm the trend towards a growing role of companies from developing countries. In particular, the number of firms in the top 100 list from developing economies has increased significantly, from none in 1993 to six in 2006 and seven in 2007. In 2007, three of them were from the Republic of Korea, and one each from China, Hong Kong (China), Malaysia and Mexico.

The degree of internationalization of companies among the top 100 varies widely by country: for instance, the value of the TNI in 2007 was above the

Table I.8. TNI values for the 100 largest TNCs worldwide and from developing countries, by selected industries, 2007

Industry	Top 100 TNCs		Top 100 TNCs from developing countries	
	2007	TNI [a]	2007	TNI [a]
Motor vehicles	13	56.0	3	39.3
Petroleum expl./ref./distr.	10	56.2	9	24.0
Electrical & electronic equipment	9	57.7	19	59.9
Food & beverages & tobacco	9	68.1	7	60.5
Pharmaceuticals	9	63.6	1	50.4
Utilities (electricity, gas and water)	8	55.5	2	41.6
Telecommunications	8	70.3	7	47.7
All industries	**100**	**62.4**	**100**	**54.4**

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Note: Due to differing reporting periods of the top TNCs, comparable industry data for 2008 are not yet available.

Table I.9. TNI values for the top 100 largest TNCs worldwide, by selected countries, 2006–2007

Region/economy	Average TNI [a]		Number of TNCs
	2006	2007	2007
EU-27	64.2	66.4	57
of which:			
France	63.8	63.6	14
Germany	54.8	56.5	13
United Kingdom	72.8	74.1	15
Japan	52.1	53.9	10
United States	57.8	57.1	20
World	61.6	62.4	100

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Note: Due to differing reporting periods of the top 100 TNCs, comparable regional data for 2008 are not yet available.

Box I.4. The top non-listed companies

The 150 largest non-listed companies employed upwards of 13 million people worldwide in 2006,[a] a figure lower but comparable to the total of the largest 150 listed companies that are responsible for 19 million jobs. Lack of data, however, makes it difficult to assess precisely the level of internationalization and the dynamics of non-listed companies, as they tend to disclose only a very limited amount of information.

By sector, State-owned oil and gas companies play an important role among the top non-listed companies. Saudi Aramco was the largest non-listed company worldwide. With $781 billion in assets in 2007, it is substantially bigger than the largest listed TNC in the same industry, ExxonMobil. There are also some significant private equity firms among the top unlisted firms. Due to many acquisitions in the United States and Europe, their assets increased substantially during the 2006–2008 period**.** The top non-listed private equity firms were Kohlberg Kravis Roberts and the Carlyle Group.[b]

By country of origin, many of the largest non-listed TNCs are Asian State-owned companies, operating mainly in the oil, gas and utilities sector. In major fast-growing emerging economies, such as China, non-listed companies tend to play an even more important role than in developed countries. For instance, in 2005, the import and export volume of China's non-listed companies accounted for 16% of the country's total trade.[c]

Information about the internationalization of non-listed companies is scarce. This is particularly true for State-owned oil and gas companies, which probably have most of their assets concentrated in the home country. However, the few private companies for which data were available already seem to have a large presence abroad. Examples are firms such as Mars, GMAC Financial Services, Murdock Holding Companies or Glencore, each of which are present in more than 40 countries.

The financial crisis did not leave private companies unaffected. In the financial sector, for example, GMAC, a global financial company with major business activities in mortgage and auto lending obtained the official status of a bank holding company which made it eligible for State help. The United States Government acquired a 35.4% stake in GMAC after providing $12.5 billion in aid in December 2008.[d]

Not all non-public financial companies have suffered from adverse impacts of the crisis. One of the few beneficiaries is the German Sparkassen-Finanzgruppe. Its conservative strategies compared to those of other banks attracted large amounts of new capital transferred to it by clients who began to fear for the safety of their savings in other financial institutions that were suffering heavy losses. Non-listed oil and gas TNCs have been affected by the economic crisis in much the same way as their listed counterparts. However, some – mainly State-owned – oil and gas TNCs are weathering the crisis in different ways. For example, in March 2009 Kuwait Petroleum Corporation announced nearly $80 billion in new investments for the coming five years.[e] Pemex (Mexico), on the other hand, is suffering from a weakening currency that is hurting its ability to maintain its capital expenditures at their current levels.[f] The company recently asked the Mexican Government to make up the difference. Since many non-listed oil and gas companies are State-owned, they are under added pressure to help finance their countries' budgets. This may undermine their ability to finance investments in the short term.[g]

Source: UNCTAD.

[a] "Hidden value: how unlisted companies are eclipsing the public equity market", *Financial Times,* 15 December 2006.
[b] Six of the top 30 companies in the *Financial Times*' list of non-public companies are private equity firms.
[c] *People's Daily online* (11 February 2006), China.
[d] http://blog.taragana.com/n/gmac-financial-services-prices-45-billion-debt-offering-71458/.
[e] http://www.arabianoilandgas.com/article-5115-kuwait_petroleum_corp_reveals_80bn_plans.
[f] http://www.reuters.com/article/usDollarRpt/idUSN2649419020090526.
[g] "National oil groups' shares hit harder by downturn", *Financial Times,* 26 February 2009.

world average for TNCs from the United Kingdom, and below average for TNCs from Germany, Japan and the United States (table I.9).

The list of top 100 TNCs prepared by UNCTAD for the *World Investment Reports (WIRs)* contains, for statistical reasons, mainly listed companies, as their data are publicly available. Therefore it largely ignores the many non-listed companies (mainly State- or family-owned) that constitute an important proportion of the corporate sector in many countries. If these TNCs were taken into account, a number of non-listed companies would feature among the top 100 TNCs, both worldwide[26] and from developing countries (box I.4).

b. The impact of the global crisis on the top 100 TNCs

The ongoing economic and financial crisis, which erupted in the latter half of 2007, has resulted in a period of major turbulence for the world's top 100 TNCs. While their activities continued to grow during the first half of 2008, albeit moderately, they experienced setbacks towards the end of that year. Particularly affected were industries that are sensitive to the business cycle, such as automotive and transport equipment, electronic equipment, intermediate goods and mining. The downturn became worse during the first months of 2009. By then, other industries, such as food and beverages, utilities and telecommunication services, also began to feel the adverse effects of the crisis, though to a lesser extent. Confronted by declining profits and growing overcapacities, many TNCs announced major cost-cutting programmes, including layoffs, divestments, and a reduction of investment expenditures. In some of the most affected industries, such as automotives, the crisis also triggered a wave of major restructurings (as mentioned in section A above).

Activity indicators for the top 100 TNCs show that the impact of the crisis was only marginal in 2008 as a whole (annex tables A.I.9-A.I.10). Their total sales increased from their 2007 sales figures by 12% in current dollar terms, representing additional revenue of about $901 billion, and their total employment also rose by 4%.[27] A handful of TNCs in the automotive industry (especially General Motors, Chrysler, Toyota, Nissan and Honda), which had already faced a depressed market even before the crisis began, recorded declining sales in 2008.

There are three major reasons for these apparently paradoxical results. First, the financial crisis, which deepened in September 2008, started affecting the activities of the largest TNCs only from the last quarter of 2008, thus limiting the apparent impact on activity indicators for the year as a whole (figure I.15). For instance, despite a sharp fall in demand for commodities (and subsequently in prices) at the end of 2008, many oil and even some mining companies, such as Total, ExxonMobil and BHP Billiton, outperformed the previous year's results in terms of sales and profits for the whole year because of favourable market conditions in the first three quarters of 2008.

Second, in many industries such as utilities, food and beverages and business services, the market remained relatively stable until the end of the year. For instance, sales for the fourth quarter of 2008 by E.ON, InBev and Vivendi Universal were higher than those observed for the same period in 2007.

Third, the largest TNCs continued to acquire other companies, with direct consequences for the apparent growth in volume of their activity. In 2008, they undertook 21 major cross-border M&A purchases valued at more than $3 billion (annex table A.I.3).

However, what did turn negative was their net income, which declined by 27% overall.[28] There were a number of causes of this downturn. First, as a direct consequence of the financial crisis, the cost of borrowing increased in the last months of 2008. The spread on corporate bonds, for instance, reached a historic high at the end of 2008.[29]

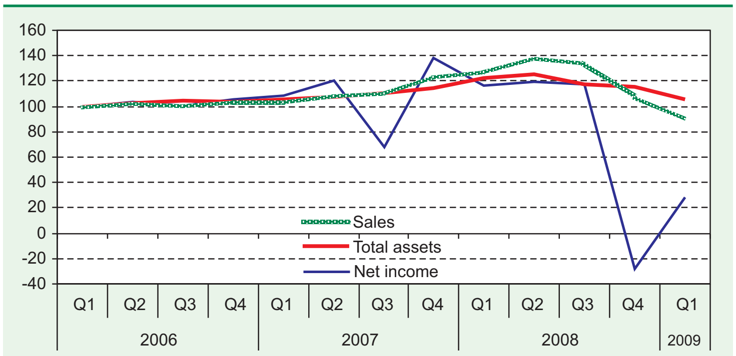
Second, companies' results reflected heavy losses in the value of their assets and real estate property as a result of falling stock markets and real estate markets.[30] At the end of 2008, the value of the total assets of the largest TNCs was 0.9% lower than the previous year.[31] Provisions were also made to cover the costs of cost-cutting plans, especially with respect to layoffs (see below). Thus, some companies, such as Cemex, Dow Chemical, Rio Tinto, Alcoa and Xtrata, which in the past had implemented very ambitious development plans – especially through M&As – were suddenly confronted with high levels and costs of debt, lower asset values and a slowdown in their markets and revenues.

Third, for some of the largest TNCs, which had already experienced a slowdown of activity before the crisis erupted, yearly profits declined significantly in 2008, turning into heavy losses for a number of them. Those particularly hard hit were many automobile companies such as Ford, General Motors, Nissan and Toyota.

Fourth, some companies – especially those directly involved in processing commodities into manufactured goods – were faced with higher prices of inputs, which they were unable to pass on in their selling prices due to tightening market conditions. This resulted in a squeeze on margins, and therefore on profits.

Negative consequences of the economic and financial crisis on the largest TNCs' activities and their financial results have continued to unfold and deepen, particularly from the beginning of 2009. This is especially true for TNCs engaged in commodities, intermediate goods and automotives. For instance, sales in the first quarter of 2009, as compared to the same period last year, were down by 49.3% for ArcelorMittal, 49% for Royal Dutch/Shell, 47% for General Motors, 47% for Chevron, and 46% for ExxonMobil.[32]

Figure I.15. Quarterly evolution of sales, total assets, and net income for selected TNCs among the 100 largest, 2006–2009
(Index: 100 = 2006 1st quarter)



Source: UNCTAD, based on Bloomberg.

Note: Based on data for 62 of the top 100 TNCs that reported quarterly data for the entire period.

In order to improve their balance sheets and arrest their deteriorating profits, TNCs have been extensively curtailing expenditures and taking steps to reduce their debt.

This is being done through three major channels:

- Large cuts in operating expenditures, especially through layoffs. Plans for large job cuts have been announced by many of the top 100 TNCs since September 2008.[33]
- Scaling down investment programmes. Many planned acquisitions or greenfield projects of the top TNCs have been cancelled, reduced or postponed due to the combined impact of a setback in market expectations and reduced internal and external financial resources.[34]
- Divestments of some corporate units and assets. These operations are meant not only to curtail operating costs, but also to generate cash in order to reduce debt ratios, and/or simply beef up available cash that had diminished due to faltering sales. This has led, in particular, to a rising number of sales of non-strategic affiliates.[35]

Another consequence of the crisis is an acceleration of industry restructurings due to two main factors. First, some companies suffering from an already fragile financial situation before the crisis might be affected by the current turmoil to the point that they go bankrupt or have no other choice than to be acquired to survive. Others might become vulnerable to such hostile bids due to the presently low market value of their stocks. Such companies as Chrysler or Endesa have already changed owners (table I.10). Others (e.g. Volvo among others) might also go through major changes in ownership in the coming months.

Table I.10. Examples of recent restructurings by some of the 100 largest non-financial TNCs

Daimler Chrysler AG	A de-merger took place in May 2007 between Daimler and Chrysler. The latter was then sold to a consortium of United States investors led by the investment fund, Cerberus. After filing for bankruptcy in April 2009, Chrysler's capital was restructured. Major owners will be the United Auto Workers (a trade union) and the Italian auto maker Fiat. The United States Federal Government and the Governments of Canada and its Province of Ontario will also own some stakes.
Suez	Suez merged with GDF (France) in July 2008. Total foreign assets of the two companies amounted to more than $110 billion in 2007, placing the new group 12th among the largest non-financial TNCs.
General Motors	GM filed for bankruptcy in June 2009. According to the rescue plan, it will be owned 60% by the United States Federal Government, 17% by the United Auto Workers, and 12% by the Governments of Canada and Ontario Province.
Endesa	In February 2009, the Italian group Enel, which already owned 67% of Endesa, acquired an additional 25% share in Endesa from the Spanish construction company Acciona.

Source: UNCTAD.

Second, and conversely, companies less affected than others by the crisis, and having substantial cash reserves, could seize takeover opportunities triggered by the crisis to increase their market share or critical mass.[36] Some large TNCs have undertaken major acquisitions (e.g. Enel, Suez, Roche and Fiat).

Consequently, the crisis might accelerate underlying trends towards restructuring and concentration in many industries. This is likely to have major consequences for the size and ranking of the top 100 TNCs. Regarding their internationalization level, these opposing factors seem to have balanced each other, as the average TNI of the top TNCs remained practically unchanged between 2007 and 2008 (figure I.14).

However, it should be emphasized that the impact of the crisis on the largest TNCs has differed widely by industry and country, and even by individual firm. On the one hand, firms in many business-cycle-sensitive industries such as automotive and other transport materials, construction, electrical and electronic equipment, and intermediate goods, as well as those in the financial sector, have been among the worst hit by the crisis. On the other hand, those in some less cyclical industries, with more stable demand patterns, have been less affected. For example, among the 100 largest TNCs, many in oil and gas (ExxonMobil, Chevron, British Petroleum, Royal Dutch Shell, GDF Suez, Total), in food, beverages and tobacco (Nestlé, SAB-Miller, Coca-Cola, Kraft Foods, British American Tobacco), in telecommunication services (Deutsche Telekom, TeliaSonera), in utilities (Endesa, RWE, EDF) and in pharmaceuticals (Roche, AstraZeneca, Johnson & Johnson), as well as in consumer goods (Unilever, LVMH) and retailing (Wal-Mart) continued to register large profits, and some even growing profits, in 2008.

2. The top 100 TNCs from developing economies

a. *A growing role in the world economy*

Reflecting the overall strengthening of emerging economies, the relative size of the top TNCs from developing countries, compared to their counterparts from developed countries, has grown rapidly over the past 15 years. This trend continued in 2007, when the assets of the 100 largest TNCs

Table I.11. Snapshot of the 100 largest TNCs from developing economies, 2006–2007

Variable	2006	2007	% Change
Assets ($ billion)			
Foreign	571	767	34.3
Total	1 694	2 186	29.0
Foreign as % of total	34	35	1.4[a]
Sales ($ billion)			
Foreign	605	737	21.8
Total	1 304	1 617	24.0
Foreign as % of total	46	46	-0.8[a]
Employment (thousands)			
Foreign	2 151	2 638	22.6
Total	5 246	6 082	15.9
Foreign as % of total	41	43	2.4[a]

Source: UNCTAD/ Erasmus University database.

[a] In percentage points.

Note: Due to differing reporting periods, an insufficient number of TNCs from the developing list have reported 2008 data to present a 2007–2008 comparison.

from developing countries rose by 29% from their level in 2006, while those of the top 100 TNCs worldwide increased by only 16% (table I.11). As a result, while the total assets and employment of the top 100 non-financial companies from developing countries amounted to only 18% and 34% of assets and employment, respectively, of the top 100 non-financial TNCs worldwide in 2006, these figures rose within just one year to 20% and 41% respectively.

This dynamism of TNCs from developing countries is largely due to the appearance of new players. Over the past 10 years, the composition of the list of top 50 TNCs from developing economies has changed considerably: only 20 of those present in the *WIR99* list are in the *WIR09* list, while 30 new companies have appeared.

As noted above (section B.1), seven companies from developing economies already rank among the top 100 TNCs, as against none in 1993. With foreign assets of $83 billion in 2007, Hutchison Whampoa (Hong Kong, China) remained in the lead among the top 100 developing-economy TNCs, accounting for almost 11% of their total foreign assets. It was followed by Cemex (Mexico), LG Corp (Republic of Korea), Samsung Electronics (Republic of Korea), Petronas (Malaysia), Hyundai Motor (Republic of Korea) and CITIC (China) (annex table A.I.11).

The internationalization of the 100 largest TNCs based in developing economies, as measured by their TNI, remains substantially lower than that of the world's 100 largest TNCs (figure I.14): 54% as against 62% in 2007. However, the gap between the two has been noticeably reduced since 1993, due to the rapid internationalization of the largest firms from the developing world.

In terms of the nationality of firms, Asia remains by far the major home region, even increasing its lead over time. Hong Kong (China) and Taiwan Province of China dominate both the 2007 and 2008 lists. Singapore and China have maintained their rankings with 11 companies each. Other important home countries are South Africa (9), Malaysia (6), the Republic of Korea and Mexico (5 each).[37] Companies from East Asia are, on average, more internationalized than others (table I.12).

An analysis by industry shows a very diverse pattern of activities. Companies from the electrical/ electronic and computer industries still dominate the 2007 list of the 100 largest TNCs from developing countries, with 19 entries. They are followed by TNCs in petroleum industries (9), telecoms (7), food and beverages (7), and transport and storage (6). There are also a larger number of diversified TNCs (12), a figure much higher than for the 100 largest TNCs worldwide (5).

Table I.12. TNI values for the 100 largest TNCs from developing countries, by region, 2007

Region	Average TNI [a]	
	TNI	Number of TNCs
Africa (South Africa)	47.6	9
South-East Asia	49.9	19
South Asia	47.4	2
East Asia	59.2	57
West Asia	56.1	4
Latin America and the Caribbean	40.9	9
Total	**54.4**	**100**

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

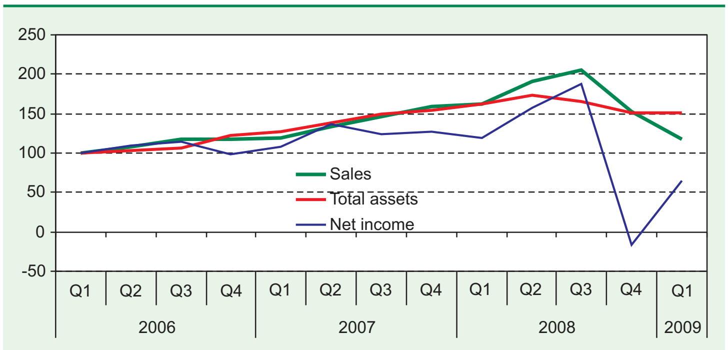
Note: Due to differing reporting periods, an insufficient number of TNCs in the developing-country list have reported 2008 data to enable a 2007–2008 comparison.

The degree of internationalization of the top developing-country TNCs varies widely by industry. For instance, the average TNI for developing countries' largest TNCs in the electrical and electronics and computer industries is slightly higher than that of their counterparts worldwide, while in telecommunications, petroleum and motor vehicles it is much lower.

b. The impact of the global crisis on developing-country TNCs

The decline in exports to developed countries since the last quarter of 2008, as a direct consequence of the crisis, has had a considerable impact on the largest TNCs from developing countries. Their sales began to fall markedly from that period, and their profits for the whole year fell by 28.9% (figure I.16).[38] But many of them also benefited from growth in their domestic markets, especially in Asia, despite a slowdown. Those with abundant cash at their disposal may take advantage of the present low prices of assets

Figure I.16. Quarterly evolution of sales, total assets, and net income for selected TNCs among the 100 largest from developing countries, 2006–2009
(Index: 100 = 2006 1st quarter)



Source: UNCTAD, based on Bloomberg.
Note: Based on data from 28 of the top 100 developing-country TNCs that reported quarterly data for the entire period.

to make new acquisitions in order to strengthen their presence in developed-country markets and foster their technological capabilities.

However, the situation varies widely by activity and company. Companies in the petroleum and gas industries saw their revenues shrink in 2008, as many commodity prices fell from their previous highs. However, these companies are still undertaking investments in order to acquire new sources of energy. Chinese energy TNCs, for example, are taking advantage of low asset prices by continuing to seek acquisitions abroad.

Producers of metals and metal products posted sharp declines in sales in early 2009. For example, the Brazilian company, Metalurgica Gerdau SA, reported significantly lower sales, production and profits in early 2009, and has postponed previously announced investment plans. But there are also a handful of companies that are reporting better results and prospects: for example, Gold Fields Limited (South Africa), supported by high global demand for gold, reported favourable prospects.

Electrical and electronics manufacturers are also facing a decline in demand, mainly in their western markets. Some of them are carrying out aggressive innovation and technology diversification strategies that might alleviate the consequences of this downturn. For example, Quanta Computer (Taiwan Province of China) has announced a major investment in touchscreen technology, which is used extensively in the growing smart-phone market worldwide. Furthermore, as the largest notebook manufacturer contracted by Acer Inc (Taiwan Province of China), it expects to benefit from Acer's sales forecast for continued growth. Lenovo (China) has decided to focus on China, with its large domestic market, as well as on other emerging markets, while attempting to stabilize its high-end markets overseas.

In telecommunications, the situation seems better. Companies such as Qatar Telecom, América Móvil (Mexico) and Zain (Kuwait) have posted good results, and even significant growth in sales. All of them are aiming to expand their international presence. Some diversified groups, especially those well positioned in East Asia and China, have demonstrated quite a resilience to the present economic downturn. For example, Hutchison Whampoa saw its revenue rise 8% in 2008 to more than $30 billion, although its profits fell by 42%. Despite a more cautious expansion strategy, it is still examining potential new investments, especially land and property deals in China, in addition to some in its home economy. On the other hand, firms such as Capitaland Limited, a Singaporean real estate company, has cancelled its planned building of 12 malls in China.

3. The top 50 financial TNCs

As the effects of the current financial and economic crisis continue to ripple throughout the global economy, the world's largest financial TNCs find themselves in an unusual state of flux. The collapse of the subprime mortgage market in the United States and subsequent credit writedowns of more than $1 trillion laid bare a number of serious systemic problems within the international financial system. Most notably, by revealing the lack of transparency in the true valuation of a number of financial institutions' assets, this series of writedowns precipitated a severe erosion of confidence that threatened to undermine the stability of the system. While the situation has improved marginally in 2009, the potential for additional shocks remains high. Recent estimates suggest that total write-downs on United States-originated assets may amount to $2.7 trillion globally, with additional write-downs of $1.3 trillion on other assets due to the economic downturn, putting a further strain on both banks and governments (IMF, 2009b). In this tumultuous environment, the health of the world's largest financial TNCs and their prospects for further internationalization will continue to be tested.

a. Internationalization of the top 50 financial TNCs in 2008

Even though battered by the events of 2007 and 2008, many of the largest financial TNCs ended the year at a high point in terms of internationalization. Measured by UNCTAD's Geographical Spread Index (GSI), Citigroup (United States) had the largest geographical spread among the financial TNCs in 2008, even after suffering severe setbacks and becoming partially State-owned. European financial groups continue to dominate the top 50 list, with 36 entries, propelled higher in the rankings because of their ownership of affiliates in many countries. This is partly due to the continent's open markets and the euro zone. North American financial TNCs – with 11 entries – were decimated by the events of the past year. This might result in a future decrease in their overall internationalization, with large groups such as Citigroup facing the possibility of being broken up into smaller companies. Financial TNCs in Japan and China, which have significant assets and could benefit from the crisis, continue to show lower levels of internationalization than their developed-country peers. Mitsubishi UFJ Financial Group (Japan) was once again the most internationalized Asian bank, ranking 38th (annex table A.I.12).

b. The impact of the global crisis on the top 50 financial TNCs

While there was a lull in mid-2008, after the near collapse and subsequent rescue of both Northern Rock (United Kingdom) and Bear Stearns (United States), the effects of tightening credit markets and continued asset write-downs abruptly accentuated the crisis in September 2008. During that month, and in the months that followed, some of the largest financial TNCs in the world collapsed, and were either bailed out by their governments, or, in the case of Lehman Brothers (United States), allowed to fail, with far-reaching consequences. Among other institutions which failed, or were nationalized or bailed out at that time, were American International Group (United States), Fortis (Belgium), and Dexia (Belgium). Prominent Wall Street banks, such as Merrill Lynch (United States, which was sold to Bank of America), Goldman Sachs (United States) and Morgan Stanley (United States) did not fail, but ceased to operate as investment banks, opting instead to convert to commercial banks.

There were a number of bank failures in some other countries as well. For example, by October 2008, most of Iceland's financial sector fell into government hands. In 2009, government rescue programmes had been implemented in many developed countries to bolster, and in some cases take control of, their respective financial sectors. In the United States, the Troubled Asset Relief Program (TARP) allowed the Government to inject, initially, $125 billion worth of capital into the country's largest banks, which were among the largest financial TNCs in the world. Subsequent capital injections resulted in the Government becoming the largest single shareholder in a number of banks, including Citigroup. European governments were also active in providing capital. For example, Crédit Agricole, BNP Paribas and Société Générale all received capital from the French Government.

As the economic situation continued to deteriorate globally, financial TNCs saw their profits fall and were forced to take strong action to maintain their companies as ongoing concerns. Large layoffs were planned by several of the largest financial TNCs, along with announcements of divestments of foreign operations or liquidations of equity positions throughout the year. By early 2009, several of the largest financial TNCs in the world had sold, or were in the process of selling, large equity positions around the globe: Royal Bank of Scotland (United Kingdom) sold its entire stake in Bank of China (China) for roughly $2.3 billion; UBS (Switzerland) sold 3.4 billion shares of Bank of China, valued at $900 million; Bank of America reduced its position in China Construction Bank by selling a $7.3 billion block of shares; and Allianz (Germany) and American Express (United States) jointly announced the sale of $1.9 billion of shares in Industrial and Commercial Bank of China (China).[39] Divestments were also becoming a frequent occurrence by early 2009. Citigroup sold its Japanese trust banking unit to Mitsubishi UFJ Financial Group (Japan) for about 25 billion yen ($282 million). However, the expected dissolution of American International Group, among other failed or nationalized TNCs, failed to materialize by mid-2009. This has created the potential for several acquisition targets to come onto the market later in the year and in 2010. To improve their operating budgets, many large transnational financial institutions began employee retrenchments at home and abroad. Goldman Sachs, Deutsche Bank, Morgan Stanley, Citigroup, Nomura, UBS and Credit Suisse all announced layoffs in their overseas operations.[40]

M&As, though difficult to finance in this environment, did not cease. They continued mainly for two motives: survival and strategic gain. Though not strictly FDI related, Merrill Lynch, which faced potential collapse, found it expedient to be acquired by Bank of America in the United States, marking its exit from future lists of top 50 financial TNCs. Santander (Spain) made several strategic acquisitions during 2008, such as Alliance & Leicester (United Kingdom) and Bradford & Bingley (United Kingdom). Santander also acquired the outstanding shares of Sovereign Bancorp (United States) that it did not already hold, thus gaining its first retail presence in the United States. Nomura (Japan) and Barclays (United Kingdom) both picked assets from the stricken Lehman Brothers and thus extended their operations. Mitsubishi UFJ Financial Group (Japan) took a 21% stake in United States investment bank Morgan Stanley.

4. Conclusion

Faced with the worst global recession in decades, the world's largest TNCs are struggling in 2009. The sharp fall in profits registered by many of them in 2008 was only a harbinger of the many difficulties they are now facing. As global demand continues to weaken, and threatens to remain depressed throughout 2009, many of the largest TNCs will find their revenues falling beyond what they had anticipated a year ago. This will have a strong impact on their propensities and capabilities to invest abroad. And, given the global dimensions of the current economic situation, this applies to all TNCs in nearly every region of the world and in nearly every industry.

However, the current economic crisis should not be seen only as a negative force for the largest TNCs, both financial and non-financial. It also creates an opportunity for them to expand into additional markets at a relatively low cost. Many of the largest TNCs could promote their internationalization strategies with the aim of maximizing efficiencies across markets and geographies. Moreover, in the current situation, TNCs from developing economies could gain strength if they manage to successfully nurture domestic and foreign demand for their products. Their strong growth so far, as a result of the internal dynamics of their home-country markets, could gather momentum if demand for their products in the wider global market picks up when conditions improve.

C. FDI by special funds

1. Declining FDI by private equity funds

FDI by private equity funds and other collective investment funds has also been adversely affected by the financial crisis. Cross-border M&As by these funds fell to $291 billion in 2008, or by 38% from the peak of $470 billion in 2007 (table I.13). The number of transactions went down by 9%, to 1,721. The sharp drop in the value of cross-border M&As by private and collective investment funds was associated with a strong decline in large-scale investments (table I.13). In 2009 this trend has even accentuated: in the first half of 2009, both the value and number of these deals further declined, by 78% and 17% respectively.

Cross-border M&As by private equity and hedge funds were hit harder by the financial market crisis than those by other investors. While their share in the total value of all cross-border M&As for the year declined slightly from 28% in 2007 to 24% in 2008, it fell dramatically in the fourth quarter of 2008 to only 11%. This trend continued well into the first half of 2009 (table I.13). The main catalyst for this sharp decline was that the financing of LBOs – which contributed most to the dynamic growth of cross-border M&As by these funds in previous years (*WIR08*: 20) – nearly dried up in the second half of 2008. This was largely due to the increasing risk consciousness of financial institutions in Europe and North America, which caused them to halt loans for large and highly leveraged M&A buyout transactions. In addition, even though private equity funds were able to raise $554 billion in 2008 as a whole,[41] (making it their second strongest fund-raising year), their fund-raising in the second half of that year dropped by 40%, compared to that in the first half (Private Equity Intelligence, 2009:8).

The relative importance of private equity funds and other collective investment funds is likely to be

Table I.13. Cross-border M&A purchases by private equity firms and hedge funds, 1996–2009
(Number of deals and value)

Year	Number of deals: Number	Number of deals: Share in total cross-border M&As (%)	Value: $ billion	Value: Share in total cross-border M&As (%)
1996	715	12.2	44.0	16.6
1997	782	11.6	55.4	14.9
1998	906	11.3	77.9	11.2
1999	1 147	12.7	86.9	9.6
2000	1 208	12.0	91.6	6.8
2001	1 125	13.9	87.8	12.0
2002	1 126	17.2	84.7	17.5
2003	1 296	19.6	109.9	26.7
2004	1 626	22.0	173.2	30.5
2005	1 724	19.5	205.8	22.1
2006	1 693	17.7	285.5	25.4
2007	1 890	17.6	469.9	27.6
Q1	*451*	*16.7*	*73.3*	*25.3*
Q2	*520*	*19.2*	*183.2*	*37.8*
Q3	*439*	*16.6*	*115.6*	*29.5*
Q4	*480*	*18.1*	*97.7*	*18.3*
2008	1 721	17.7	291.0	24.1
Q1	*440*	*17.1*	*127.1*	*35.5*
Q2	*414*	*16.3*	*69.9*	*23.6*
Q3	*446*	*18.3*	*60.4*	*24.3*
Q4	*421*	*19.2*	*33.5*	*11.1*
2009	711	21.7	43.6	17.2
Q1	*362*	*20.5*	*34.9*	*23.1*
Q2	*349*	*23.3*	*8.7*	*9.6*

Source: UNCTAD cross-border M&As database.
Note: Private equity firms and hedge funds refer to acquirers whose industry falls in the category "investors not elsewhere classified". This classification is based on the Thomson Finance database on M&As. Data show gross cross-border M&As purchases of companies by private equity firms and hedge funds (i.e. without subtracting cross-border sales of companies owned by private equity firms and hedge funds).

negligible as long as the financial crisis continues. Several large LBOs collapsed in the latter half of 2008 and 2009,[42] and it is expected that a large number of private equity firms will succumb to the crisis. The surviving firms may therefore concentrate increasingly on smaller transactions in small and medium-sized enterprises (SMEs). For instance, the average value of cross-border M&As in 2008 was less than $200 million, 32% lower than in the previous year. In the last quarter of 2008, it was only $80 million (table I.13). Private equity firms are also looking for more deals in infrastructure and energy-related industries, which are benefiting from economic stimulus packages initiated by various governments. Because of their sheer size, such transactions often take the form of joint deals with private or public companies. Distressed debt financing and special parts of private equity are also growing. These trends combined suggest that these funds are not targeting large companies as much as before, which may depress the total value of their cross-border M&As well into the future.

2. FDI by sovereign wealth funds on the rise despite the crisis

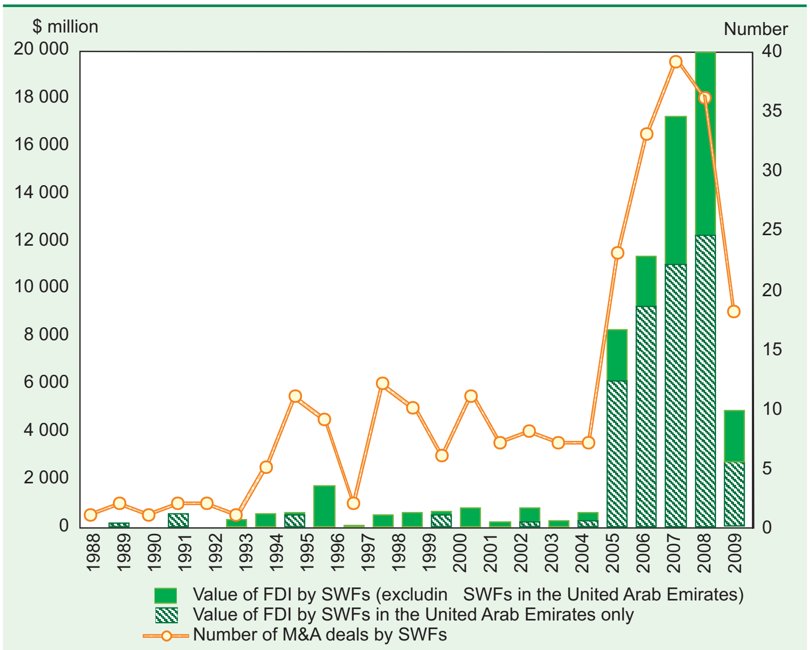
SWFs, which are relatively new investors, registered a record $20 billion in FDI in 2008, a rise of 16% over the previous year (figure I.17). Their assets under management at the end of the year totalled $3.9 trillion, despite the fall in oil prices. Since 2005, SWFs have embarked on a conspicuous quest to participate in FDI or cross-border M&As. Indeed, fuelled by higher export surpluses in merchandise trade, and rising incomes from the export of oil and other natural resources, they have generated rapidly growing foreign-exchange reserves for their home countries. Several SWFs have also started to diversify their asset portfolios by investing in equity capital abroad, including FDI (*WIR08*: 20ff.; IWG, 2008a). This increase bucked the downward trend in global FDI as a whole. However, during the course of the calendar year 2008, the sharp economic downturn in developed countries and the worldwide slump in stock prices led to large losses in SWFs' investments and depressed the pace of growth of their cross-border M&A investments.

Cumulative cross-border M&A investments by SWFs over the past two decades totalled $65 billion by the end of 2008, of which $57 billion was invested only in the past four years. Although this level of investment is still low compared with the total volume of these funds' assets (accounting for just 1.7% of assets), FDI is a much larger component of these funds than in the past.

FDI by SWFs has been largely concentrated in developed countries, which as a group have received nearly three quarters of SWFs' total FDI outflows over the past two decades. The United Kingdom, the United States and Canada, in that order, have been the most preferred destinations. In 2008 alone, SWFs invested large amounts of equity capital in the United States and Sweden through cross-border M&As: $4.8 billion and $4.6 billion respectively. For instance, Temasek (Singapore) acquired an 11% stake in Merrill Lynch (United States) for $4.4 billion, and Dubai International Financial Centre (DIFC) acquired a 69% stake in OMX AB, a Swedish financial markets group.[43]

In terms of sectoral distribution, SWFs' investments have been highly concentrated in financial and business services. During 1987–2008, financial services accounted for 26% (by value) of SWFs' total cross-border M&As, and business services for 15% (figure I.18). The largest investments were made by SWFs of the United Arab Emirates and by

Figure I.17. FDI[a] by sovereign wealth funds, 1987–2009[b]



Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] Cross-border M&As only; greenfield investments by sovereign wealth funds (SWFs) are assumed to be extremely limited. Data show gross cross-border M&A purchases of companies by SWFs (i.e. without subtracting cross-border sales of companies owned by SWFs).

[b] For 2009, preliminary data for January-June only. Transaction values for some deals were not available.

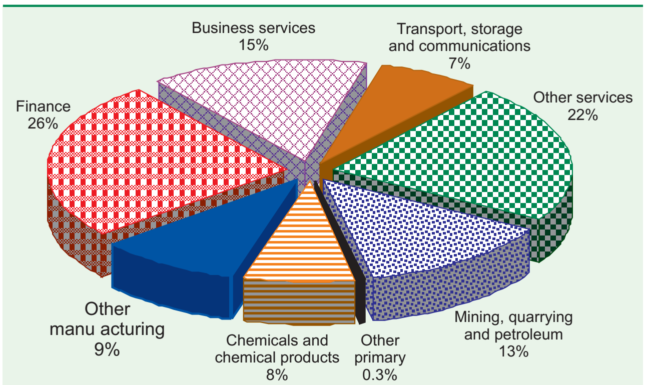
Singapore's Temasek. This pattern of investments has led to an increased concentration of risk (Deutsche Bank Research, 2008: 8). For example, investments in the financial sector contributed the most to the massive losses that SWFs had to bear in 2008, and provoked criticism in the home countries of the funds (e.g. China).[44] Compared with the services sector, the shares of the manufacturing and primary sectors were very low: 17% and 14% respectively. However, in 2008, SWFs extended their investments abroad in mining, quarrying and petroleum industries. Thus the share of these industries rose to over one fifth of SWFs' total FDI flows in 2008, making them the second largest recipients after financial services (at 51%).

In 2008, SWFs (with some exceptions, such as the Qatar Investment Authority) reacted to the financial crisis by pulling out of financial services, which nevertheless remains the largest recipient industry. This was a departure from their earlier focus, typified by capital injections into United States and European global banks, which ended up causing them to suffer heavy losses in 2008. While SWFs do not necessarily need to raise funds, and tend to have long time horizons in their investments, the financial crisis has started to affect their home economies. A number of them are withdrawing their investments in anticipation of further reductions in the value of their investments, and some of them are re-routing their funds for use in their domestic economies to restore investor confidence. Meanwhile, some host countries have attempted to prevent foreign takeovers by SWFs in certain industries for reasons of economic security (*WIR08*).

In recent years, growing investments by SWFs in developed countries have provoked mixed reactions in those host countries. On the one hand, the entry of SWFs has been welcomed, as they have helped to ease the capital shortages of their target firms. In particular, the large-scale investments of several SWFs in the North American and European financial sectors contributed, for a while, to the stabilization of their banking systems (*WIR08*). Most of these investments were portfolio investments, as SWFs only acquired minority stakes of less than 10%. In several cases of larger investments, SWFs did not acquire even voting rights. On the other hand, SWFs' investments have also provoked harsh policy reactions in many developed host countries, and a tightening of investment rules (*WIR08*: 25–26). One outcome has been that investing countries and host countries have responded to growing protectionist sentiments by combining their efforts to develop guidelines for an investor-friendly framework, including requiring greater transparency of investments by SWFs (box I.5).

Prospects for further increases in cross-border M&As by SWFs in 2009 have deteriorated dramatically. As noted above, the asset portfolios of these funds have lost considerable value since the onset of the financial market crisis. According to some estimates, the total value of their assets may have fallen by 25–30% in 2008.[45] The steady flow of foreign exchange reserves that were channelled into the funds by home governments and central banks has slowed since the second half of 2008 due to the falling prices of oil and other natural resources and to shrinking export surpluses. Many emerging-market and transition economies have lost substantial amounts of foreign-exchange reserves since 2008. In response, SWFs are starting to invest more in their home-country domestic markets – either directly or indirectly – to support their banking industries, to boost expenditures by their firms, and, in some cases, to avoid foreign takeovers of some domestic firms.

Figure I.18. Cumulative FDI[a] by SWFs, by main target sectors and top five target industries, 1987–2008



Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] Cross-border M&As only; greenfield investments by SWFs are assumed to be negligible.

3. FDI by private equity funds and sovereign wealth funds compared

Private equity funds and SWFs gained a significant share in cross-border FDI during the previous M&A boom in 2003–2007. Both funds drew widespread attention in international financial markets, which focused on their investment behaviour and the effects of their investments on host countries. Discussion on these issues led to some political disputes. The crisis in financial markets has seriously affected both funds, initially private equity funds, followed with some time lag by SWFs. It is useful for policymakers to have a good understanding of these funds' role in FDI transactions and the differences between them in terms of their investment patterns and performance.

Private equity funds invest in venture capital, growth capital, distressed capital, and

Box I.5. Guidelines on cross-border investments by SWFs

Increased FDI by SWFs in developed countries has raised concerns about the possible detrimental effects of investments by the funds. The main point of criticism is that many of the investing SWFs that are domiciled in China, the Russian Federation and the West Asian countries lack a reasonable degree of transparency and accountability (Truman, 2007a).[a] This perceived lack of transparency, and the fear that SWFs could be pursuing political rather than economic goals, has provoked reactions from recipient countries.

In principle, the rise of FDI by SWFs should not precipitate the erection of new barriers to international capital flows and to FDI. This view has been reiterated in various declarations within developed-country forums. In October 2007, the Group of Eight (G-8) declared that "SWFs are increasingly important participants in the international financial system and our economies can benefit from openness to SWF investment flows" (Group of Eight, 2007). In February 2008, the European Commission urged a common European approach to SWFs that should strike the right balance between addressing concerns about SWFs and maintaining the benefits of open capital markets (Commission of the European Communities, 2008). Yet, at least 11 developed countries have approved, or are seriously planning, new rules to restrict certain types of FDI, or to expand government oversight of cross-border investments (Marchick and Slaughter, 2008: 2).

Countries that own SWFs have responded to these criticisms and to the policy reactions of recipient countries by taking steps themselves. The fear of further discriminatory measures being applied, that were already under way, led to the establishment of the International Working Group of Sovereign Wealth Funds (IWG) on 1 May 2008. With the help of the International Monetary Fund (IMF), which facilitated and coordinated their work, IWG members agreed on Generally Accepted Principles and Practices (GAPP) – the so-called Santiago Principles – in October 2008. The GAPP seeks to ensure that SWFs bring economic and financial benefits to home countries, recipient countries and the international financial system (IWG, 2008b). These principles represent a collaborative effort by SWFs from developed, developing and transition economies to establish a comprehensive framework for providing a clearer understanding of their operations. Voluntary adoption by all members would signal a strong commitment to the GAPP, enhance the stabilizing role that SWFs can play in financial markets and help maintain the free flow of cross-border investments. The EU and the OECD have reacted very positively to the Santiago Principles (Almunia, 2008; OECD, 2008a).

In June 2008 the ministers of OECD countries stated that recipient countries should not erect new protectionist barriers to foreign investments, and that they should not discriminate between investors. Accordingly, the OECD and its member countries adopted a declaration expressing their commitment to preserve and expand an open international investment environment for SWFs. In this context, they also endorsed guidelines, developed under the auspices of the OECD Investment Committee, to ensure that investment measures to safeguard national security are not a form of disguised protectionism (OECD, 2008b).

Source: UNCTAD.

[a] Truman (2007b) and the Sovereign Wealth Fund Institute (2009) have developed indices that measure the transparency of SWFs.

buyouts, among other forms. In recent years, cross-border M&As by private equity funds and other collective investment funds have extended across all sectors, and originated mainly in North America and Europe. While there is little doubt that venture capital financing may spur economic growth by providing capital to firms that otherwise would have only limited possibilities to raise capital or loans, the effects of private equity investments in the form of LBOs are not clear. Some contend that LBOs can improve economic welfare by increasing efficiency and productivity (United States, GAO, 2008); but other studies have found that the performance of private equity funds, as reported by industry associations and previous research, has been overstated (Phalippou and Gottschalg, 2009). The collapse of cross-border LBOs by private equity funds in the second half of 2008 depressed the performance of those funds in 2009, seriously affecting their fund-raising capabilities. This, combined with the hesitant lending policy of the financial sector, will further depress cross-border M&As by private equity funds and other collective investment funds in the near future.

SWFs have some similarities with private equity funds, but there are also large differences in their investment behaviour and the financing of FDI. There are over 50 such funds in more than 40 countries, but "there is no such thing as an average SWF".[46] Some funds are new (e.g. China Investment Corporation, established in 2007), while others are very old (e.g. Kuwait Investment Authority, founded in 1953). Some SWFs are very big (e.g. Abu Dhabi Investment Authority, with assets of more than $500 billion), and others are very small in size (e.g. Sao Tome and Principe, with assets of $20 million). Some are passive investors, while others are active investors (e.g. Singapore's Temasek Holdings). Their growth has reflected rising oil and non-oil commodity prices and the fast growing current-account surpluses of their home countries. During 2008, like other large asset funds, SWFs were hit by the financial market crisis, the value of their assets falling by nearly 30%.[47]

Despite the sharp decline in their assets, their more hesitant investment strategy since the second half of 2008, and in some cases a tendency to increase investments at home (Federal Reserve Bank of San Francisco, 2009: 4), SWFs could undertake more cross-border FDI in the near future. Worldwide, SWFs have more readily available financing for investment at their disposal than private equity funds. Unlike private equity funds, they are not under pressure to produce high short-term returns, they do not need co-financing by bank loans, and their investment horizon is longer than that of private equity funds and other collective investment funds.

The effects of SWFs on acquired firms are difficult to assess for a number of reasons. First their FDI is relatively recent. Second, their investments have not produced an above-average yield by spurring the efficiency of the firms they have acquired in the short term, since most of the acquired firms were in financial distress at the time of the investment or acquisition. In the long run, however, the performance of these firms is not certain; it depends on the quality of governance by SWFs and on various ancillary costs, including those of monitoring the operation and management of the target firms (Chhaochharia and Laeven, 2008; Fotak, Bortolotti and Megginson, 2008).

D. NEW DEVELOPMENTS IN FDI POLICIES

1. Developments at the national level

UNCTAD's 2008 survey of Changes to National Laws and Regulations related to FDI indicates that 110 new FDI-related measures were introduced by a total of 55 countries (table I.14). Of these, 85 measures were more favourable to FDI. Compared to the previous year, the percentage of less favourable measures for FDI has remained unchanged and stands at 23 per cent (table I.14).

From a regional perspective, South, East and South-East Asia and Oceania had the highest share of regulatory changes (25 per cent), followed by developed countries (20 per cent) (figure I.19). In all regions, the number of changes more favourable to FDI clearly exceeded those that were less favourable. They accounted for 75 per cent of the 16 measures adopted in Africa, 79 per cent of the 28 measures adopted in South, East and South-East Asia and Oceania, 80 per cent of the 15 measures adopted in the Commonwealth of Independent States (CIS), 91 per cent of the 22 measures in the developed countries, 55 per cent of the 20 measures adopted in Latin America, and 89 per cent of the 9 measures taken in West Asia and the SEE countries combined.

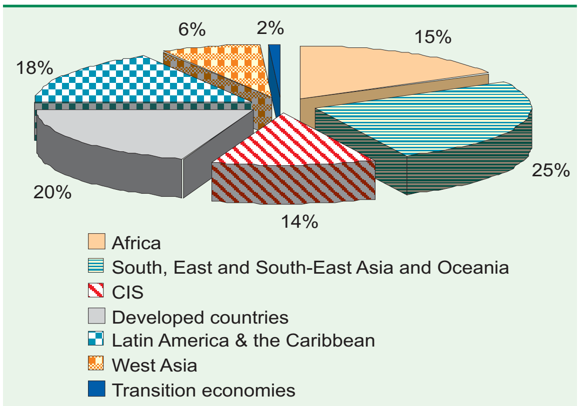
Out of the 110 new measures adopted during the review period, 33% introduced more favourable entry regulations, and another 44% of all measures improved the treatment or operations. Only 13% and 10% were less favourable in entry and treatment or operations, respectively (figure I.20).

a. Major policy trends

Investment liberalization continued during the review period in numerous countries. Several countries lowered existing obstacles to foreign investment, thereby continuing the trend of more openness towards FDI. Measures in this regard included raising FDI ceilings or the level of the general review threshold. In other cases, the acquisition of residential real estate by foreign investors was eased (chapter II). As in previous years, the trend towards lowering taxes on foreign investments (identified in *WIR08*) continued in the review period.

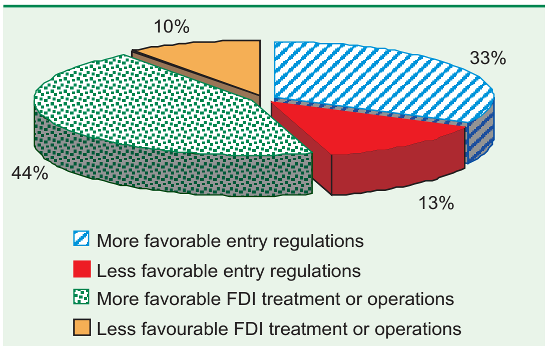
At the same time, various countries took new steps to regulate FDI. The trend of scrutinizing foreign investments for national security reasons continued in

Figure I.19. Regional distribution of FDI-related measures in 2008



Source: UNCTAD.

Figure I.20. Nature of FDI-related measures in 2008



Source: UNCTAD.

Table I.14. National regulatory changes, 1992–2008

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58	55
Number of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98	110
More favourable	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74	85
Less favourable	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24	25

Source: UNCTAD database on national laws and regulations.

several countries. Some countries in Latin America took further steps to nationalize strategic industries, particularly extractive industries (chapter II).

b. Policies introduced in response to the financial crisis and their potential impact on FDI

So far, the current financial and economic crisis has had no major impact on FDI policies per se. Although numerous countries have adopted FDI-related legislation since the beginning of the crisis, it is difficult to determine whether and to what extent these measures were taken in response to the crisis. Also, while some new legislation is likely to have a positive effect on FDI flows, other regulations might produce the opposite result. Moreover, the crisis has had a considerable psychological effect inasmuch as it has triggered large public support for a stronger role of the State in the economy in numerous countries. It cannot be ruled out that State involvement will continue beyond the actual crisis, with longer term effects on FDI policies in the future (UNCTAD, 2009a).

(i) National policy measures

Many countries have adopted bailout programmes and individual rescue packages to support ailing companies, particularly those in the financial sector. Numerous countries – both developed and developing – have adopted economic stimulus packages, including public investment programmes, cuts in taxes and interest rates, and provision of low-interest loans. These measures may have a positive effect on inward FDI, provided they are designed and implemented in a non-discriminatory manner and open to participation by foreign investors.

Fears have been expressed that these government actions could result in investment protectionism by favouring domestic over foreign investors, or by introducing obstacles to outward investment in order to keep capital at home. There are no signs yet of a general trend towards more restrictive FDI policies in response to the crisis. However, some protectionist tendencies have emerged, as some countries have begun to discriminate against foreign investors and/or products in a "hidden" way using gaps in international regulations. Examples of "covert" protectionism include favouring products with high "domestic" content in government procurement – particularly in huge public infrastructure projects, de facto preventing banks from lending for foreign operations, invoking "national security" exceptions that stretch the definition of national security, or moving protectionist barriers to sub-national levels that are outside the scope of the application of international obligations (e.g. in procurement issues).

Looking to the future, a crucial question is which FDI policies host countries will apply once the global economy begins to recover. The expected exit of public funds from flagship industries is likely to provide a boost to private investment, including FDI. This could possibly trigger a new wave of economic nationalism to protect "national champions" from foreign takeovers.

(ii) Policy implications for developing countries

One major challenge for developing countries is to be able to continue to attract FDI during the crisis, especially investment that serves their long-term development goals and enhances competitiveness. Retaining existing investment is particularly important, since TNCs in financial difficulty may consider closing foreign affiliates or transferring them to other locations. Some developing countries, especially the more rapidly emerging countries, also need to consider the impact of the crisis and the evolving policy environment on their outward investment flows. Such flows have become an increasingly important aspect of their development strategies. In particular, divestment strategies of companies in financial difficulty in developed countries offer an opportunity for developing-country firms to purchase such foreign companies at an attractive price, and to acquire crucial technology, brands and other assets (UNCTAD, 2009a).[48]

2. Developments at the international level

During 2008, the network of IIAs continued to expand, although the number of bilateral investment treaties (BITs) concluded in 2008 (59) was lower than in 2007 (65). The number of newly concluded double taxation treaties (DTTs) (75) and other international agreements with investment provisions (16) exceeds those concluded in 2007 (69 and 13, respectively). Moreover, the first six months of 2009 already saw the conclusion of 25 BITs and 6 other IIAs – a development that further strengthens and expands the current international investment regime. This also points to a continued reliance – in spite of the ongoing global economic and financial crisis – on the conclusion of IIAs as a means to promote foreign investment.

In parallel to the sustained expansion of the IIA regime, the number of investor-State disputes has also continued to increase. With numerous awards on key substantive issues, investor-State tribunals have contributed substantially to the increasing body of international investment law.

a. Bilateral investment treaties

In 2008, 59 new BITs were concluded. Developing countries were involved in 46, and developed countries in 38 new BITs. The total number of BITs rose to 2,676 at the end of 2008 (figure I.21).

In terms of regions, countries from developing Asia and the Oceania led, with the conclusion of a total of 31 BITs in 2008, half of which were with developed countries. Compared with 2007, the number of BITs Asian countries concluded with Latin American partners rose to 4. Overall, countries in the Asia-Oceania region are now party to 41% of all BITs.

African countries signed 12 new BITs in 2008, 8 of which were concluded with developed countries in Europe; Spain alone accounted for 3 of these. With a total of 715 BITs, African countries are now party to 27% of all BITs. The transition economies of South-East Europe (SEE) and the CIS signed 19 BITs, 11 of them with developed countries (all of them European partners). These transition economies are now party to 613 BITs, which account for 23% of all BITs. Latin America and the Caribbean, with 8 new BITs in 2008, followed at a slower pace. This region is now party to 483 BITs, or 18% of all BITs.

The number of BITs *between developing countries* also continued to grow. Of the 59 new BITs signed during the year, 13 were among developing countries. This points to the continuing importance of South-South cooperation on investment issues. At present 26% of all BITs are South-South treaties (figure I.22).

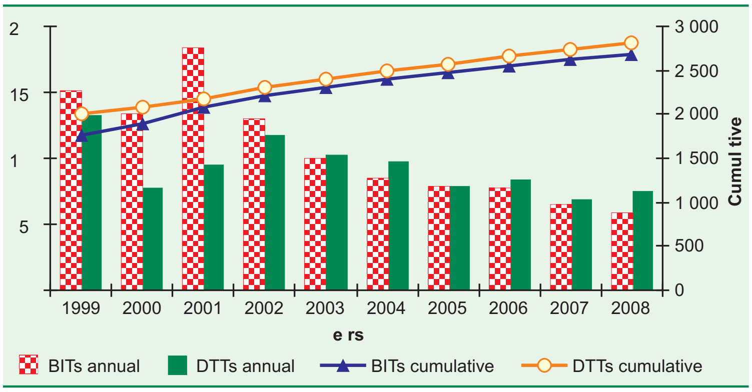
Three other notable developments shaped the evolution of the BITs network in 2008. One relates to the *termination of BITs*, a process involving mutual agreement between the signatory countries. Until the end of 2008, six BITs were terminated, and others are in the process of termination. For example, in 2008, the Czech Republic initiated the process for termination of 23 BITs which it had concluded with individual EU countries. One reason for the termination of BITs between EU member countries is to eliminate overlapping rules governing intra-EU investment flows. The current overlaps between BITs and EU law are due to the fact that, at the time of signature of the BITs in question, European rules for intra-EU investment did not apply between EU members and those countries that only later became EU members. Similarly, the termination might be related to the conclusion of a free trade agreement (FTA) that includes investment rules between the same treaty partners (e.g. the 2004 FTA between Morocco and the United States).

A second development relates to the *denunciation of BITs*, which is a unilateral act of withdrawal from an agreement. The denunciation of 11 BITs occurred in 2008. Ecuador denounced nine BITs, mainly with neighbouring Latin American countries. The other denounced BITs are the one between El Salvador and Nicaragua and the one between the Bolivarian Republic of Venezuela and the Netherlands. Among the reasons likely to motivate such a development could be a general reluctance towards BITs, questions about the effects that BITs have on a country's economic development, as well as the objective of ensuring compatibility between IIAs and domestic investment laws, including – as in the case of Ecuador and Bolivia – the country's constitution.[49]

A third development relates to the *renegotiation of BITs* – the continuation of an earlier trend, though on a smaller scale. In 2008, eight BITs were renegotiated. Again, the Czech Republic was particularly active: it concluded five protocols on amendments to its original BITs, a process reported as renegotiation of BITs. These renegotiations are based on Article 307 of the EC Treaty and aim at bringing the country's BITs into conformity with EU law.[50] Notably, in March 2009, the European Court of Justice (ECJ) ruled against two EU members (Austria and Sweden), because of their failure to adopt appropriate measures to eliminate incompatibilities between BITs entered into with third countries prior to accession of the member States to the EU and the EC Treaty.[51]

With the completed renegotiation of eight EU BITs,[52] the number of renegotiated BITs had reached a total of 132. While this is a continuation of an earlier trend on a lower scale, the fact that numerous renegotiations are ongoing, suggests an acceleration of this trend in the future. It remains to be seen, whether, in this context, countries will take renegotiations as an opportunity to re-balance some of the agreements, going beyond issues related to compatibility with

Figure I.21. Number of BITs and DTTs concluded, annual and cumulative, 1999–2008



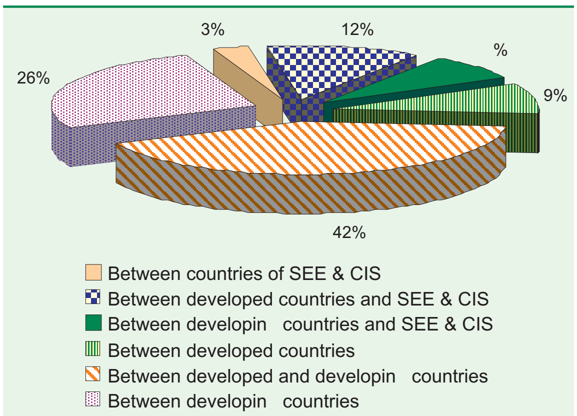
Source: UNCTAD (www.unctad.org/iia).

on the contracting parties with regard to investment liberalization and protection. The scope of the investment chapters in the new FTAs is comparable to provisions found in BITs, including provisions for investor-State dispute settlement.

Canada and Singapore were the most active, concluding three new FTAs each with investment provisions. China, the members of the European Free Trade Association (EFTA),[54] Colombia, Peru and the United States concluded two new agreements each. Significant examples include the FTAs concluded by Canada with Colombia and Peru, which contain substantive chapters covering investment liberalization and protection. At the same time, the European Community (EC) concluded an Economic Partnership Agreement (EPA) with 15 CARIFORUM States, involving a total of 42 countries[55] and setting out important rules for investment liberalization.

In Asia, countries continued to conclude a number of FTAs; China concluded two agreements with New Zealand and Singapore. While the China-New Zealand FTA includes a full investment protection chapter, the FTA with Singapore incorporates the provisions of the China-ASEAN investment agreement upon its conclusion. The Association of Southeast Asian Nations (ASEAN) signed an agreement with Japan, which includes general investment cooperation provisions. The FTA also establishes a Sub-Committee on Investment to discuss and negotiate more substantive investment provisions. Furthermore the Gulf Cooperation Council (GCC) concluded its first comprehensive FTA with Singapore and individual GCC member

Figure I.22. Distribution of BITs concluded at end-2008, by country group
(Per cent)



Source: UNCTAD (www.unctad.org/iia).

EU law. Such a tendency has already emerged with respect to the introduction of new model BITs, and might be strengthened in light of the current global financial and economic crisis (see section 2.e).

With respect to a possible increase in investment protectionism in response to the financial crisis, IIAs have a role to play in ensuring predictability, stability and transparency of national investment regimes. Policymakers should also consider strengthening the investment promotion dimension of IIAs through effective and operational provisions. Investment insurance and other home-country measures encouraging outward investment are cases in point where continued international cooperation can be useful.

b. Double taxation treaties

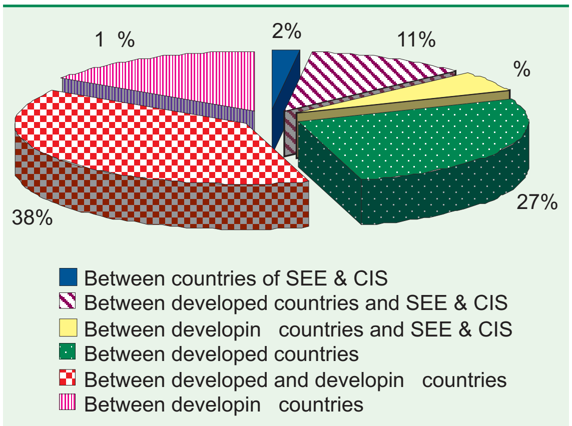
In 2008, 75 new DTTs were concluded, bringing the total to 2,805 (figure I.21). Developed countries were parties to 63 of these new DTTs, and 18 of them were concluded between developed countries only. Ireland and the Netherlands were the most active, each concluding six DTTs in 2008. Developing countries as a group were involved in 39 of the new DTTs, led by Qatar and Viet Nam with 4 DTTs each. Five of the DTTs signed in 2008 were among developing countries only, amounting to 16% of all DTTs concluded in 2008. Those between developed and developing countries still account for the largest share: 38% of all the DTTs (figure I.23).

c. International investment agreements other than BITs and DTTs[53]

In 2008, 16 international agreements with investment provisions were concluded, bringing the total number of such agreements to 273 by the end of 2008 (figure I.24). Most of them were free trade agreements (FTA), establishing binding obligations countries. The parties agreed that investment issues will be dealt with through BITs between Singapore and individual GCC member countries.

In Africa, countries relied on regional integration organizations to negotiate FTAs and framework agreements. The United States concluded a Trade and Investment Framework Agreement (TIFA) with the East African Community (EAC) and a Trade and Investment Cooperative Agreement with the Southern African Customs Union (SACU). These agreements establish an institutional framework to monitor trade and investment relations between the parties and to consider ways to promote investment (see annex table A.I.13).

Figure I.23. Distribution of DTTs concluded at end-2008, by country group
(Per cent)



Source: UNCTAD (www.unctad.org/iia).

d. Investor-State dispute settlement

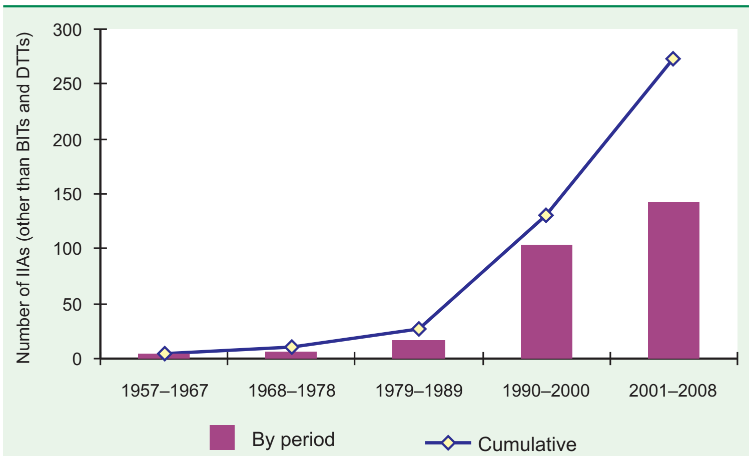
In parallel with the expanding IIA regime, the number of investor-State disputes has remained relatively high. The cumulative number of known treaty-based cases had reached 317 by end 2008 (figure I.25).[56] In 2008, at least 30 new treaty-based investor-State dispute cases were filed, 21 of them with the International Centre for Settlement of Investment Disputes (ICSID). While this was lower than in 2007, when 35 new cases were filed, it is nonetheless considerably higher than those filed before 2002. Since ICSID is the only arbitration facility to maintain a public registry, the actual number of treaty-based cases is likely to be higher.

The rise in disputes continues to affect many countries. In fact, at least 77 governments – 47 in developing countries, 17 in developed countries and 13 in transition economies – were involved in investment treaty arbitration by the end of 2008. Argentina still tops the list with 48 claims lodged against it, two of which were brought in 2008. Mexico is second, with 18 known claims, followed by the Czech Republic (15) and Ecuador (14). Countries with a relatively large number of new known cases in 2008 included: Ecuador (4), Ukraine (4) and Georgia (3). Three countries faced arbitration for the first time in 2008: Gabon, Senegal and Uzbekistan.

As many as 92% of known claims (317) were initiated by investors from developed countries, whereas by the end of 2008, there were 20 cases filed by investors from developing countries and 9 from transition economies. Of the 96 cases concluded by end 2008, 51 were decided in favour of the State, and 45 in favour of the investor, although four of these cases are still pending before an ICSID annulment committee. At the same time, 48 cases were discontinued following settlement, 142 cases were still pending and for 31 cases the status was unknown.

The large majority of cases were initiated on the grounds of violating a BIT provision. The BIT between Argentina and the United States leads with 18 claims, followed by the BIT between Ecuador and the United States and that between the Republic of Moldova and the Russian Federation, with nine claims each. With regard to regional and plurilateral international investment agreements, the North American Free Trade Agreement (NAFTA) alone was used in 48 claims while the Energy Charter Treaty (ECT) was used for at least 20 claims.[57] The Central American Free Trade Agreement (CAFTA) has been used in at least two claims since its entry into force. This shows that investors are increasingly using investment chapters of free trade agreements (FTAs) for filing claims against host States.

Figure I.24. Number of IIAs concluded at end-2008, cumulative and per period



Source: UNCTAD (www.unctad.org/iia).

e. International investment agreements and the financial crisis

The financial crisis raises a series of novel issues for IIA negotiators. On the one hand, IIAs could serve as a tool to counter declining FDI inflows or the risk of investment protectionism. On the other hand, there are concerns that governments may be constrained by IIAs in implementing emergency measures in response to the crisis. Finally, the emerging consensus on the need for more global regulation of the financial sector raises the issue of how to ensure coherence between the international financial system and the international investment regime. These issues are discussed in this subsection.

(i) Investment protectionism and IIAs

To some extent, IIAs can serve as a bulwark against the risk of investment protectionism. IIA provisions on non-discrimination, for example, prohibit contracting parties from favouring domestic over foreign investors. Provided that the non-discrimination clause extends to the pre-establishment phase, it may also protect foreign investors against unjustified entry restrictions. Effective safeguards against such potentially protectionist behaviour are particularly important for emerging economies that are increasingly investing abroad through their State-owned enterprises and SWFs.

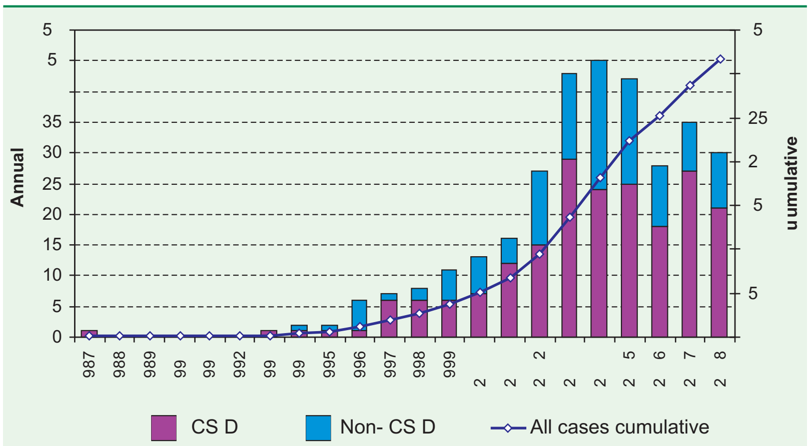
However, IIAs are less effective in preventing restrictions on outward FDI, because they generally lack legally binding rules in this area. The question therefore arises as to whether IIA negotiators would want future IIAs to offer protection against governments' restrictions on outward FDI.

At the international level, various initiatives have been taken to avoid recourse to investment protectionism. At the Group of Twenty (G-20) Summit on Financial Markets and the World Economy, held in Washington, D.C., on 14 November 2008, leaders renewed their political commitment to an open global economy. Their declaration stated that "within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports."[58] This commitment was reaffirmed at the G-20 Summit in London, held on 2 April 2009, where leaders committed to "minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector."[59] They further pledged: "We will not retreat into financial protectionism, particularly [through] measures that constrain worldwide capital flows, especially to developing countries."[60] UNCTAD, in collaboration with other relevant organizations, regularly monitors policy developments in the area of FDI (box I.6).

(ii) Emergency measures in response to the crisis

The financial crisis also highlights the relevance of national security exceptions in IIAs. In the context of Argentina's financial crisis in the early 2000s, several arbitration awards confirmed that the scope of "essential security" exceptions is not necessarily limited to military threats, but may also cover emergency measures taken in times of major economic crises.[61] Tribunals disagreed, however, on the degree of severity of an economic crisis that would justify invocation of the national security exception. Questions also remain about whether or not such a clause is self-judging,[62] and whether a national security exception extends to the protection of strategic industries.

Figure I.25. Known investment treaty arbitrations, cumulative and newly instituted cases, 1987–end 2008



Source: UNCTAD (www.unctad.org/iia).

(iii) Regulation of the financial system and IIA provisions

The financial crisis has given rise to calls for stricter regulation of international financial markets. As more State intervention might undermine investor rights, questions arise about how to ensure coherence between the international financial system and the IIA universe. This encompasses three main issues.

The first relates to the definition of "investment" in

Box I.6. Investment policy developments in G-20 countries

An UNCTAD review of national and international investment policy developments taken by G-20 member States (including the member countries of the EU[a]), shows that in response to the crisis, these countries have mostly refrained from taking policy measures that are restrictive towards foreign inward and domestic outward investment (UNCTAD, 2009c). In fact, a substantial number of the policy changes surveyed were in the direction of facilitating investment.

UNCTAD found that 39 of the 42 countries surveyed undertook 167 policy measures in the investment area (in the period between October 2008 and June 2009). Forty (24%) specifically addressed foreign investment and 127 (76%) were part of the general legal framework that also applies to foreign investments. Among the measures specific to foreign investment, 8 countries took measures concerning the entry of foreign investors (15 measures altogether). Five countries undertook measures aimed at facilitating investment flows (9 measures), and 7 enacted laws and regulations that concern the operation of foreign affiliates (7 measures). Three countries changed their relevant tax laws (9 measures). There were a few policy measures that restricted private (including foreign) participation in certain highly sensitive sectors, or introduced new criteria and tests, such as a national security test for investments that raise national security concerns.

Among the measures related to investment, 11 countries enacted laws and regulations that concern the general legal framework for the operation of companies, including foreign affiliates (17 measures). Furthermore, 7 countries adopted new taxation measures (7 measures) and 33 enacted State aid measures and/or stimulus packages in response to the crisis (98 measures).

Investment policy developments also occurred at the international level, where G-20 member countries concluded 27 BITs, 36 DTTs and 11 other IIAs between October 2008 and June 2009.

Overall, recent policy developments paint a comforting picture. However, economic stimulus packages could give rise to "covert" protectionism (i.e. using gaps in international regulations to discriminate against foreign investors and products). Furthermore, protectionist pressures could still arise from the spreading of the crisis to less-affected economic sectors and countries, and a new wave of economic nationalism could occur in the aftermath of the crisis, when the exit of the State from bailed out flagship industries might lead to the protection of "national champions" from foreign takeovers (UNCTAD, 2009c).

This UNCTAD review is intended to contribute to a joint effort by WTO, UNCTAD, OECD and IMF to respond to the 2 April 2009 G-20 Leaders' request for quarterly reporting on their adherence to an open trade and investment regime and avoidance of a retreat into protectionism. The summit called upon international bodies to monitor and report publicly on G-20 members' adherence to this pledge.

Source: UNCTAD, 2009c.

[a] The European Union is the 20th member of the G-20, represented by the rotating Council presidency and the European Central Bank.

IIAs. Since most IIAs include portfolio investment in their definition, they cover a vast number of financial products that potentially could become the target of State regulation. Recent IIAs between some countries have shown a trend towards narrowing the scope of the term "investment". This has been achieved, for instance, through (i) a negative list that excludes specific kinds of capital commitments from the definition of investment,[63] or (ii) limiting the term "investment" to cover only assets that contribute to economic development in the host country.[64] Both approaches could potentially exclude purely speculative forms of short-term portfolio transactions from the definition of investment.

Second, national bailouts and rescue packages in response to the crisis have sometimes resulted in the partial or total nationalization of domestic financial institutions. If foreign investors hold shares in these companies, they may be entitled to compensation under the expropriation provisions of IIAs. In addition, foreign investors might have the possibility to challenge stricter State control over the financial sector "as regulatory takings" in the context of investor-State disputes. This risk may give new momentum to discussions about the possible need to clarify the relationship between "normal" regulatory activities of a country and regulatory actions for which investors have to be compensated.[65]

A third set of issues relates to the specificities of financial sector regulation. IIA negotiators wishing to emphasize the rights of financial regulators could clarify in the agreement that contracting parties are not prevented from adopting or maintaining measures for prudential reasons. Such "prudential carve-out provisions" have already been included in a number of IIAs.[66] Another consideration relates to dispute settlement. Recognizing the special nature of investment disputes involving financial matters, some IIAs grant financial authorities a stronger role in the conduct of such proceedings.[67]

E. Prospects

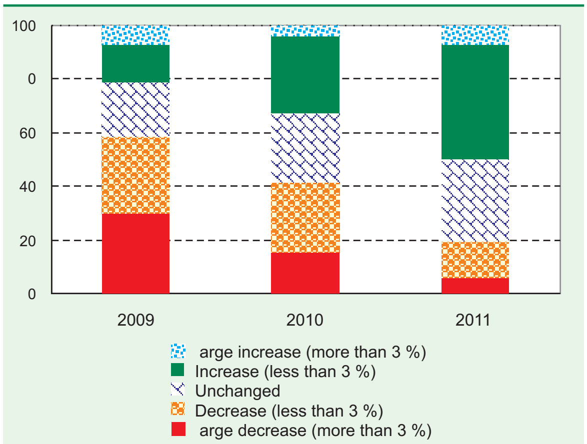
As a result of the worst global recession in a generation, FDI appears set to continue falling in the short term. TNCs seem hesitant – or unable – to maintain their FDI expenditures at former levels in at least 2009 and 2010. According to IMF forecasts, world GDP is set to fall by more than 1% in 2009, aggravating the difficulties already faced by many companies (IMF, 2009a). Mirroring this trend, the profits of many TNCs are falling at double-digit rates.[68] This has resulted in a climate of widespread pessimism among business executives worldwide. PricewaterhouseCoopers' *12th Annual Global CEO Survey Report*, released in January 2009 (PwC, 2009), showed a dramatic fall in respondents' confidence as compared to the year before. Only 34% of the CEOs were optimistic about their growth prospects for the three years ahead – the lowest level since the survey was started in 2003.

In this environment, it is not surprising that the prospects for FDI in 2009 and beyond, as revealed by UNCTAD's *World Investment Prospects Survey 2009–2011* (WIPS), have been adversely affected by the economic and financial crisis. As with other studies, the UNCTAD survey found that business executives are very apprehensive about the short-term evolution of their business environment. Roughly 90% of them declared being pessimistic or very pessimistic about 2009. They also expressed concern for their own company, albeit to a lesser extent. However, they seemed less negative about prospects in the medium term. Some 45% of them reported being "optimistic" or "very optimistic" about the global business environment in 2011, as compared to 10% for 2010 and nil for 2009.

Among the looming global risks that could potentially affect TNCs' FDI plans for the next three years, respondents to WIPS considered three as especially threatening: a deepening of the global economic downturn, an increase in financial instability, and a rise in protectionism involving a change in foreign investment regimes.

These economic prospects and negative sentiments imply that there will most likely be a continued decline in FDI in the short term. According to *WIPS*, big TNCs clearly plan to reduce their FDI

Figure I.26. Changes in respondent companies' FDI expenditure plans as compared to 2008
(Per cent of responses)



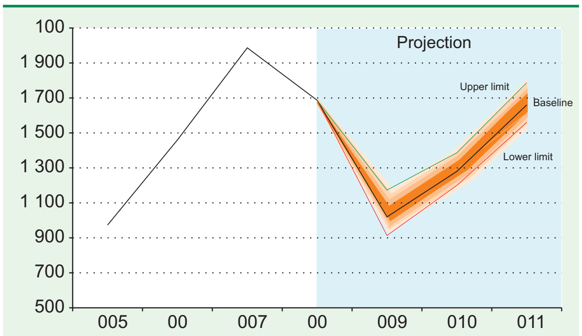
Source. UNCTAD, 2009b.

expenditures in 2009. About 58% of respondents mentioned that they intended to reduce their FDI abroad in 2009, with nearly one third expecting a large decrease (more than 30%) from 2008 levels (figure I.26). This appears to be largely confirmed by data on FDI flows for the first quarter of 2009 as noted above (section A.4). If this trend continues, world FDI flows could amount to only $900–$1,200 billion in 2009 (figure I.27).

Nevertheless, responses to the survey also suggest that a progressive rebound of FDI could be expected by 2011. The exit of government funds from ailing industries that were poured during the crisis will possibly trigger a new wave of cross-border M&As. It also appears that TNCs intend to continue internationalizing, and that they are generally more optimistic about the medium term outlook for the global economy. With this in mind, there should be a slow recovery in FDI in 2010, before gaining momentum in 2011 (figure I.27). Half of the respondents to the UNCTAD survey forecast that their FDI expenditures in 2011 will be higher than their 2008 level, against only 33% in 2010 and 22% in 2009. The level of FDI inflows in 2010 would be 20–30% lower than the level of 2008, to reach an estimated $1.1–1.4 trillion, and only in 2011 would the level be almost the same as that in 2008, to reach an estimated $1.5–1.8 trillion (figure I.27).

However, these general trends belie sentiments that vary widely by home region of TNCs. The "decrease-then-rebound" pattern in TNCs' investment plans for 2009–2011 appears to be uniform across all

Figure I.27. Global FDI flows, 2005–2008, and projections for 2009–2011



Source. UNCTAD estimates, based on the results of *WIPS*.
Note: Estimates for 2009, 2010 and 2011 are based on the results of WIPS, taking into account data on the first quarter of 2009 for FDI flows and the first half of 2009 for cross-border M&As for the 2009 estimates. For example, for 2010, total FDI inflows in 2008 were split into five groups corresponding to the share of respondents' forecast for 2010 (grouped by large increase, increase, no change, decrease and large decrease (figure I.26)). Next, FDI inflows of each group in 2010 were calculated by applying the average of respondents' forecasts of their investments for their group. Finally, the results were added up to a single forecast value for 2010. The same methodology was applied for 2009 and 2011. In addition to the baseline scenario, two less likely scenarios: 25% upper and lower ranges to the respondents' forecasts average of their investments for their group are included in the figure.

home regions, but European TNCs, which already witnessed a strong pullback in outward FDI in 2008, seemed slightly less optimistic than average. In contrast, TNCs from developing countries, whose FDI outflows were relatively resilient in 2008, showed greater optimism about the coming three years than companies from other regions. Japanese TNCs, after posting a very strong year in 2008, did not show much appetite for further increasing their FDI until 2011. North American TNCs, on the other hand, seemed quite eager to resume FDI expenditure after a setback in 2008 and, most probably, in 2009.

Viewed by industry, FDI prospects also seem to vary. Companies in business-cycle-sensitive industries that have been severely affected by the crisis, such as automotives, metals and chemicals, were among those expressing the most negative views concerning their FDI prospects. On the other hand, some activities that are less dependent upon business cycles and more on stable demand, such as agri-food and many services, or those supplying markets with quick growth prospects in the medium term, such as pharmaceuticals, seem to have been less affected by the crisis, and more optimistic about future FDI prospects.

In terms of the countries that attract FDI the most, results from *WIPS* were largely in line with the results of previous years, and with surveys carried out by other organizations. The list of the 15 most favoured investment locations continues to be topped by China, followed by the United States, India, Brazil and the Russian Federation. This mirrors, by and large, the results of a survey conducted by Ernst & Young (2009), which found China, India, the Russian Federation and Brazil among the six most attractive regions for the coming three years. A survey of Japanese manufacturing TNCs conducted by the Japan Bank for International Cooperation (JBIC, 2009) also found China, followed by India, the Russian Federation and Brazil, as the most promising countries over the coming three years. According to *WIPS,* TNCs are mainly interested in these countries due to the long-term potential growth of their markets and, to a lesser extent, availability of cheap labour.

In conclusion, the outlook for global FDI seems quite grim in the short term due to the impact of the ongoing economic and financial crisis. However, a strong commitment by the largest TNCs to expanding their operations abroad, as well as their relative optimism for the medium-term evolution of their business environment, leaves open the possibility for a rebound in FDI by 2011.

Notes

1 This subsection documents overall trends in worldwide FDI inflows and outflows in 2008 and the first half of 2009 as indicated by balance-of-payments data, supplemented by data on cross-border M&As and greenfield projects, and examines why FDI flows have fallen.

2 This estimate is based on FDI flow data for the first quarter of 2009 (figures I.12 and I.13) and cross-border M&A data for the first half of 2009 (annex table B.4–B.6).

3 Bond spreads continued to be maintained at an unsustainable level in mid-2009 ("Corporate bond, swaps spreads 'Unsustainable' Barclays says", *Bloomberg*, 21 May 2009).

4 According to Dealogic, syndicated loans in the world fell by half in 2008 and were less than half of what they were in the same period in 2008, reaching $620 billion in the first five months of 2009. Syndicated loans for leveraged buyouts (LBOs) were particularly badly affected, declining more than 60% in 2008.

5 For example, losses of S&P 500 companies amounted to $182 billion in the fourth quarter of 2008, the first negative figure since 1935. More than a quarter of these companies published losses for the entire year 2008. In Europe the 310 companies of the DJ Stoxx 600 lost 2.2 billion euros during the fourth quarter of 2008, as against $75.1 billion in profits in the same period a year earlier. Almost one third (90) of the companies are expected to publish negative results for the whole year 2008 (*Les Echos*, 18 March 2009). Similarly, 541 Japanese manufacturing companies listed on stock markets are projected to register a reduction of more than 20% in their profits in 2008 (*Nikkei*, 2 November 2008).

6 The *Ifo World Economic Climate Index*, published quarterly by the German Ifo Institute for Economic Research since 1987, fell to its lowest historic level in March 2009, though it rose in the second quarter for the first time since 2007.

7 The survey, entitled *World Investment Prospects Survey* (WIPS), provides an outlook on future trends in FDI by the largest TNCs. The 2009–2011 survey is the most recent in a series of similar surveys that have been carried out regularly by UNCTAD since 1995, as part of the background work for its annual *World Investment Reports*.

8 Divestment is the partial or complete dismantling of ownership relationships across national borders, either as a result of a strategic decision concerning the geographic scope of the TNC's value added activities (i.e. the concentration of resources at national, regional or global levels), or a change in a foreign servicing mode (e.g. from local production to exports or licensing), or a complete withdrawal from a host country.

9 FDI statistics on a balance-of-payments basis are reported net, and are generally unable to indicate the magnitude of divestments.

10 Indeed, according to a survey of 384 Japanese affiliates in 2006, some 62% of them were closed due to internal factors such as restructuring and redeployment of resources (Japan, METI, 2008: 199–200).

11 A divestment may also be made, quite independently of an economic downturn, when a TNC decides to change its mode of servicing a foreign market (e.g. from FDI to export or licensing). As a result of the internal restructuring that follows, some foreign affiliates may lose their synergies with the rest of the TNC, and although they might be profitable on their own, their existence no longer fits in with the strategic direction of the TNC as a whole. Such developments very often lead to divestments. There can also be forced divestment, which is the seizure of foreign-owned property through nationalization, expropriation or confiscation.

12 ECB, *Monthly Bulletin*, June 2009.

13 The following are some examples of cancellations due to the global financial crisis: the Swedish Government has halted its $26 billion privatization programme, two years before its scheduled completion (*The Local*, 30 January 2009); the French Government is postponing privatization of the State-owned company, La Poste (*Financial Times*, 4 November 2008); in Mexico, the Government has pushed back the bidding deadline for Punta Colonet, a $6 billion port project (*La Jornada*, 24 June 2009). In Kuwait, the privatization of Kuwait Airways Corporation might be postponed (Kuwait News Agency, 23 October 2008). The Greek Government may have trouble meeting its 2009 privatization goals in the current economic climate, adding pressure to an economy already burdened by high debt levels (Reuters, 16 February 2009).

14 Unlike the data for cross-border M&As and FDI flows and stocks used in this report, data for greenfield investment projects are on an announcement basis, and not on an actual or implementation basis.

[15] Data from fDi Markets, fDi Intelligence (www.fdimarkets.com).

[16] For example, Hutchison Whampoa (Hong Kong, China), the largest TNC from the developing world and a leading conglomerate in infrastructure industries globally (*WIR08*), announced in 2008 that it would suspend all new investments in its global operations.

[17] In the Netherlands and the United Kingdom, cross-border M&A sales fell by $170 billion and $45 billion respectively, in 2008, as both those countries had fewer mega deals of a magnitude that had pushed up the value of total M&A transactions in 2007. This reduction in both countries was responsible for 61% of the decline in the value of M&A transactions in developed countries in 2008 and for most of it in Europe.

[18] Following the practice of previous *WIRs*, the section on the largest TNCs analyses data two years before the reference year. Thus, for example, *WIR08* analysed data for 2006. However, *WIR09* seeks to analyse data for both 2007 and 2008, in the light of the exceptional and dramatic changes caused by the financial crisis.

[19] "Top" or "largest" TNCs in the discussion in section B.1 refer only to non-financial TNCs.

[20] This calculation is based on the size of the TNCs, measured by the share of their value added (e.g. the sum of salaries and benefits, depreciation and amortization, and pre-tax income) in a country's GDP.

[21] While the ranking used in UNCTAD's list of the largest TNCs is based on foreign assets, ranking the companies by foreign sales or by foreign employment would give a different picture. If ranked by sales, petroleum TNCs would occupy the top four positions in the list, and three automobile manufacturers would be in the top 10. Ranking the companies by foreign employment gives yet another picture, with two retail companies and two electrical and electronic equipment companies in the top five positions.

[22] The degree of international involvement of firms can be analysed from a number of perspectives: their operations, stakeholders and the spatial organization of management. Given the range of perspectives and dimensions that can be considered for each, the degree of transnationality of a TNC cannot be fully captured by a single, synthetic measure. UNCTAD's Transnationality Index (TNI) was introduced in 1995 as a response to the academic debate on the ways to measure transnationality. It is a composite of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment. The conceptual framework underlying this index helps assess the degree to which the activities and interests of companies are embedded in their home country and abroad.

[23] Data for TNI in 2008 were calculated only for the 90 companies of the 2007 list of largest TNCs for which data on foreign components (i.e. foreign sales, employment and assets) were available at end June 2009.

[24] This number would rise to 28 if two companies classified as "diversified" in this list, but operating mainly in the services sector (Vivendi and Hutchinson Whampoa), were also taken into account.

[25] However, within the same industry, internationalization levels may vary considerably. For instance, in the motor vehicles industry, Honda's TNI reaches 82.3%, while it is only 27.9% for Hyundai.

[26] Some non-listed companies for which information on international sales, employment and assets were available are also included in the list of largest TNCs from developing countries, for example Petroliam Nasional Berhad (Petronas).

[27] Based on 2007 and 2008 data from Bloomberg for 94 TNCs.

[28] BHP Billiton reported a 57% plunge in profits for the second half of 2008. Profits of Xstrata fell by 35% in 2008, as rising costs eroded earnings. Hitachi lost 8 billion yen in 2008, with especially bad results in its semiconductors business. Hyundai, the fifth largest car manufacturer in the world, announced a fall of 14% in its 2008 profits, and Toyota reported a loss of 2.9 billion euros in 2008. PSA lost 400 million euros in 2008 (*Source*: UNCTAD, based on various press accounts).

[29] In the United States, the spread of AAA corporate bonds over Treasury peaked to more than 1,000 points at the end of 2008, and was still at around 600 points in April 2009, compared with less than 200 points at the beginning of 2007 (IMF, 2009c: 2).

[30] Many companies in the oil and mining industries, in particular, have written off the value of their inventories and assets as the result of a sharp fall in demand and prices.

[31] Based on 2007 and 2008 data for 94 TNCs from Bloomberg. The data differ from those in table I.7 owing to the different number of companies covered.

[32] Results based on Bloomberg in United States dollars.

[33] These plans included, among others, 20,000 job cuts at Nissan, 19,000 at Anglo-American, 16,000 at Sony, 15,000 at Alcoa, 11,600 at United Technologies, 10,000 at GSK, 8,300 at Pfizer, 7,400 at Astra Zeneca, 7,000 at Hitachi, 6,400 at HP, 6,000 at BHP Billiton, 6,000 at Philips Electronics, 6,000 at Renault, 5,000 at IBM, 4,800 at Honda, 3,500 at Azko Nobel, 3,300 at Holcim and 3,000 at Daimler. As part of its rescue plan, General Motors may close 14 factories worldwide, involving several thousand job cuts. Other large TNCs, not listed among the top 100, also announced planned job cuts: 20,000 at Caterpillar, 20,000 at NEC, 15,000 at Panasonic, 12,000 at ATT, 11,000 at PSA, 10,000 at Pionnier, 10,000 at Boeing, 9,000 at Dell, 6,000 at Intel and 5,000 at Microsoft, among others. (*Source*: UNCTAD, based on various press accounts).

[34] France Telecom, for example, although still holding large amounts of cash and keeping debt under control, will stick to a low-risk strategy in its new three-year business plan, with no major acquisitions planned. Hutchison Whampoa has bought back $5 billion of its debt to reduce interest payments, and has announced a very conservative investment strategy. Anglo American will slash its capital expenditures by more than half in 2009, to $4.5 billion. Statoil is to cut spending on exploration for new sources of oil and gas by about 13% in 2009 as oil prices fall, and it will take advantage of the potential cost savings made possible from its merger in 2007 with Norsk Hydro. Other large TNCs, such as E.ON, Veolia, Lafarge, Saint-Gobain, WPP, Metro and ThyssenKrupp, have also announced cost-cutting measures and a reduction in their investment plans. (*Source*: UNCTAD, based on various press accounts).

[35] Cemex, for example, announced that it plans to cut costs by $900 million and sell assets in Austria, Australia, Hungary and other locations to ease high indebtedness. Rio Tinto, hit by the global fall in commodity markets and saddled with $39 billion in debt, is searching for fresh cash. It is trying to sell assets, such as the recent sale of potash assets to the Brazilian company, Vale, and the failed attempt to sell $15 billion in assets to the Chinese company, Chinalco. Dow Chemicals might divest $4 billon worth of assets in 2009 (*Source*: UNCTAD, based on various press accounts).

[36] Among the cash-rich companies and institutions, there are two types that might play a particularly active role in triggering a structural change in the balance of power between economies: new TNCs from emerging economies and SWFs from, among others, oil-exporting countries. In the coming months, these two categories could take part in major takeover operations involving ailing TNCs in developed countries (UNCTAD, 2009a).

[37] In 2007, 16 new companies appeared in the list of top 100 TNCs from developing economies. Among them, five were from Hong Kong (China), and two each were from China, Taiwan Province of China and Kuwait. Four new companies entered the top 50: Tata Steel Ltd. (India), Zain (Kuwait), Wilmar International Ltd (Singapore) and Qatar Telekom (Qatar).

[38] Based on 2007 and 2008 data from Bloomberg for 28 TNCs.

[39] http://www.usatoday.com/money/industries/banking/2009-05-14-bank-america-china-stock_N.htm and http://www.ft.com/cms/s/0/14ee5830-33b1-11de-88cd-00144feabdc0.html

[40] http://www.businessweek.com/globalbiz/content/nov2008/gb20081124_461696.htm; http://www.independent.co.uk/news/business/news/nomura-and-credit-suisse-to-lay-off-1650-staff-in-london-1052790.html.

[41] IFSL (International Financial Services London) estimated this at $700 billion in 2008. The same institute estimated that hedge funds raised $1.7 trillion, although these funds are devoted mainly to portfolio investments and are seldom used for FDI.

[42] Standard & Poors estimates that about 100 European companies with a rating of BB+ or worse are not able to fulfil their debt obligations in 2009 (*Source*: "LBO-Firmen droht Massensterben", *Financial Times Deutschland*, 14 April 2009).

[43] OMX AB was bought by Nasdaq in February 2008, shortly after an investment by DIFC.

44 For example, Zhang Hongli, vice-executive president of the China Investment Corp, said that "as far as possible we will refrain from making investments" (quoted in "China SWF to slow investment", *The Straits Times*, 6 January 2009).

45 "Sovereign wealth funds lose their gloss", *Financial Times*, 28 February 2009.

46 "The rise of state capitalism", *The Economist*, 18 September 2008.

47 *Financial Times*, 28 February 2009, op. cit.

48 For instance, it has been reported that two Chinese car manufacturers, Chery and Geely, are interested in buying Volvo from Ford. Mahindra & Mahindra, an Indian producer of utility vehicles, is in the running to buy LDV, an ailing British truck manufacturer. Vale, Brazil's mining giant, recently picked up a clutch of assets from Rio Tinto, its debt-ridden Anglo-Australian rival (*The Economist*, 28 March 2009: 18).

49 See Articles 255 ff of the "Nueva Constitución Política del Estado" (October 2008) of the Plurinational State of Bolivia. In Ecuador, Article 416 of the 2008 Constitution promotes a new international trade and investment system, based on, among others, justice, solidarity and complementarity. Article 422 stipulates that the State cannot enter into contracts or join such international instruments which result in the transfer of its sovereign jurisdiction over contractual or commercial disputes between the State and natural or private juridical person to international arbitration authorities. Similar considerations are also addressed by Ecuador's Inter-institutional Consultative Committee, which is mandated to evaluate the impact of existing IIAs and to design a new model BIT that is in conformity with domestic investment laws, as well as to develop policy recommendations aimed at promoting development through FDI (Resolution No. 290 of the Council of International Trade and Investment, available at: http://www.mmrree.gov.ec/mre/documentos/novedades/boletines/boletines%20promocion/2005/resolucion_290_comexi.pdf).

50 Communications with the Government of the Czech Republic through e-mails dated, 2 November 2008; and 15 May 2009.

51 ECJ Cases C-205/06; C-249/06, March 2009.

52 This figure includes the five protocols concluded by the Czech Republic.

53 Examples of such agreements include closer economic partnership agreements, regional economic integration agreements or framework agreements on economic cooperation.

54 Including Iceland, Liechtenstein, Norway and Switzerland.

55 The 15 CARIFORUM States are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago.

56 This number does not include cases that are exclusively based on investment contracts (State contracts) and cases where a party has so far only signalled its intention to submit a claim to arbitration (notice of intent), but has not yet commenced the arbitration.

57 Members of the ECT are the EU and its member states, most SEE and CIS countries, and Japan.

58 Paragraph 13 of the Declaration of Summit on Financial Markets and the World Economy.

59 Paragraph 22 of the Leader's Statement, London Summit of the Group of Twenty, 2 April 2009.

60 Ibid.

61 The relevant cases are: *CMS Gas Transmission Company v. The Argentine Republic*, ICSID Case No. ARB/01/08, Award of 12 May 2005; *LG&E Energy Corp./LG&E Capital Corp./LG&E International Inc. v. The Republic of Argentine*, ICSID Case No. ARB/02/1, Award of 3 October 2006; *Enron Corporation Ponderosa Assets L.P. v. The Argentine Republic*, ICSID Case No. ARB/01/03, Award of 22 May 2007; *Sempra Energy International v. The Argentine Republic*, ICSID Case No. ARB/02/16, Award of 28 September 2007; *Continental Casualty Company v. The Argentine Republic*, ICSID Case No. ARB/03/9A, Award of 5 September 2008.

62 Meaning that either country has the right to decide on its own terms whether a particular event falls within the scope of the clause.

63 For example, as far as debts are concerned, the 2004 United States model BIT includes a footnote explaining that "[s]ome forms of debt, such as bonds, debentures, and long-term notes, are more likely to have the characteristics of an investment, while other forms of debt, such as claims to payment that are immediately due and result from the sale of goods or services, are less likely to have such characteristics." In a similar vein, a footnote could clarify that certain forms of capital commitments do not generally constitute an investment.

64 This approach is based on some recent ICSID awards, in which tribunals have interpreted Article 25 of the ICSID Convention as establishing the jurisdiction of the Centre only with regard to investments contributing to economic development in the host country. See, for example, the ICSID cases *SGS (Switzerland) v Pakistan*, decision on jurisdiction, para 133 and footnote 153; and the *Salini (Italy) v Morocco* decision at para 52.

65 For instance, the BIT between the United States and Uruguay (2005) observes in an annex: "Except in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety and the environment, do not constitute indirect expropriations."

66 A case in point is the 2004 Canadian model Foreign Investment Promotion and Protection Agreement (FIPA) (article 10). It stipulates, *inter alia*, that "[n]othing in this Agreement shall be construed to prevent a Party from adopting or maintaining reasonable measures for prudential reasons, such as (a) the protection of investors, depositors, financial market participants, policy-holders, policy-claimants, or persons to whom a fiduciary duty is owed by a financial institution." Prudential carve-outs are also a standard feature of international trade agreements covering trade and commercial presence in financial services.

67 An example is the 2004 United States model BIT which allows the BIT parties to participate jointly and directly in the decision-making process of the tribunal in order to ensure that the necessary financial expertise is taken into account. For this reason, Article 20(3) of the 2004 model creates special procedures applicable to disputes involving either of the two financial services exceptions in the United States model BIT. Where the host country invokes either exception in investor-State arbitration, it shall, within 120 days of the submission of the claim to arbitration, transmit to the "competent financial authorities" of both BIT parties, and to the tribunal, a written request for a joint determination on the issue of the extent to which either exception is a valid defence. The competent financial authorities shall attempt in good faith to make the determination. Any such determination shall be binding on the tribunal. The model BIT also calls for arrangements to ensure that the arbitrators have expertise or experience in financial services.

68 *S&P Index Service*, 1st Quarter 2009.

CHAPTER II

REGIONAL TRENDS

INTRODUCTION

This chapter examines geographical, sectoral and industry patterns of FDI flows and cross-border mergers and acquisitions (M&As) in the six major regions and subregions of the world. Significant changes occurred in all of them in 2008 and the first quarter or half of 2009. The chapter also analyses prospects for FDI flows to and from each region and subregion, taking into consideration the underlying policy developments in each of them.

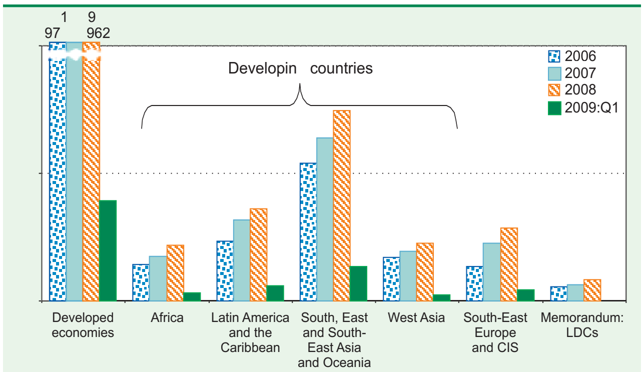
In 2008, inward FDI flows into developed countries declined, while those to developing countries and transition economies continued to increase, though at a slower rate than in 2007 (figure II.1). Despite the financial crisis, developing and transition economies attracted record FDI flows in 2008, as a result, the share of these economies in global FDI inflows increased to 43% – the second highest percentage ever. The least developed countries (LDCs) also saw their share rise to 2%. Among developing regions, South, East, South-East Asia and Oceania, taken together as a region, remained the largest recipient, accounting for almost half of the total inflows of developing economies, while Africa recorded the greatest increase in inward FDI (by 27%).

However, data for FDI inflows in the first quarter of 2009 reveal a different picture: in developing and transition economies in virtually all regions and subregions, they declined dramatically (by more than 40%, on average, from their level in the first quarter of 2008). Meanwhile, developed countries experienced further reductions.

In 2008, FDI outflows fell not only from developed countries, but also from Africa and West Asia. In the first quarter of 2009, there was also a downturn in outward FDI from other subregions such as South, East and South-East Asia. In addition, outflows from Latin America and the Caribbean, as suggested by cross-border M&A data, turned negative as TNCs from the region divested more than they invested during that period (annex table B.4).

Judging from cross-border M&A data by sector and industry (as sectoral/industry data on FDI flows for 2008 were not available), there was a relative decline in the share of services in global inward FDI while the share of the manufacturing sector increased in all regions. The share of the primary sector rose significantly in developed countries, while it fell in developing countries and transition economies (table II.1).

Figure II.1 FDI inflows by region, 2006 to first quarter of 2009
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Note: For the first quarter of 2009, FDI inflows for each region were estimated on the basis of available data weighted by their regional share in global FDI inflows for 2008.

Table II.1. Cross-border M&A sales, by sector and by groups of economies, 2007–2009
(Millions of dollars)

Group of economies	2007				2008				2009: first half			
	All industries	Primary	Manu-facturing	Services	All industries	Primary	Manu-facturing	Services	All industries	Primary	Manu-facturing	Services
World	1 031 100	73 299	336 310	621 491	673 214	86 101	302 582	284 531	123 155	10 004	22 698	90 453
Developed economies	903 430	55 806	311 264	536 360	551 847	80 514	261 139	210 194	102 313	8 294	18 967	75 051
Developing economies	96 998	9 268	22 859	64 871	100 862	3 186	38 273	59 403	19 837	1 541	3 371	14 925
South-East Europe and CIS (transition economies)	30 671	8 225	2 187	20 259	20 505	2 401	3 169	14 934	1 005	168	360	477

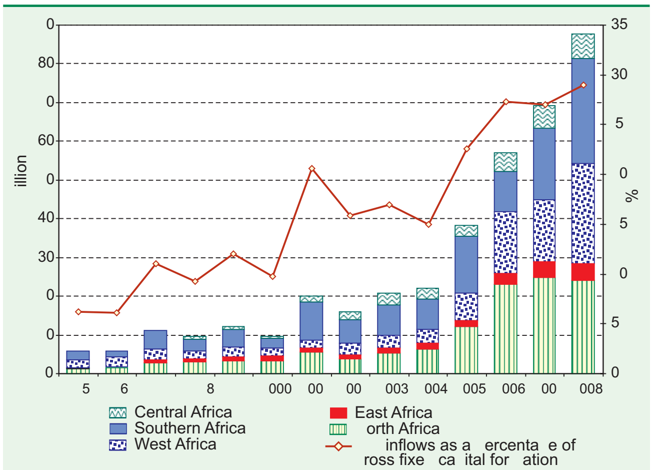
Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

A. Developing countries

1. Africa

In Africa, FDI inflows rose to another record level of $88 billion in 2008 (figure II.2), despite the global financial crisis, resulting in an increase of FDI stock in the region to $511 billion (annex table B.2). Cross-border M&As were an important contributory factor in the increased inflows, more than doubling their level of 2007 (annex table B.4). TNCs, mainly from Europe and to a lesser extent Asia, stepped up M&As of firms in the region in early 2008, particularly in the manufacturing sector. Inflows as a share of Africa's gross fixed capital formation grew to 29% in 2008, from 27% in 2007 (figure II.2). In contrast, divestments by some African firms abroad reduced FDI outflows from the region. A number of policy measures adopted by several African countries continued to make the business environment more conducive to FDI – both inward and outward. However, the sharp decline in commodity prices and the slowdown in global economic growth in the second half of 2008 may signal a possible reversal of the trend towards rising FDI in 2009, breaking the region's six years of consecutive growth in inflows as TNCs cancel or postpone new projects.

Figure II.2. Africa: FDI inflows, by value and as a percentage of gross fixed capital formation, by region, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

a. *Geographical trends*

i. *Inward FDI: flows continued to rise in most subregions*

FDI inflows increased in four of the five subregions of Africa in 2008. North Africa attracted 27% of the FDI to the region in 2008, compared with 36% in 2007; and the 47 countries of sub-Saharan Africa attracted 73% in 2008, up from 64% in 2007. The distribution of inflows among the top host countries changed little from the previous year. The six countries of North Africa continued to perform well in terms of inward FDI, while large inflows to Nigeria, Angola and South Africa, plus good performances in Congo, Ghana, Guinea and Madagascar (each receiving more than $1 billion worth of inflows in 2008) boosted overall FDI flows to sub-Saharan Africa. Inflows rose in 29 countries, and fell in the other 24 (annex table B.1). The decline was due to TNCs cancelling or postponing projects as a result of the global financial crisis. The main FDI recipients included many natural-resource producers that have been attracting large shares of the region's inflows in the past few years, as well as new commodity-rich host countries. Developed countries remained the main sources of FDI in the region, although the share of developing countries, especially from Asia, has been increasing over time.

The record rise of FDI inflows to the region in 2008 was partly due to favourable global commodity markets (at least during the first half of the year) and good returns on investment related to the high commodity prices. TNCs, including firms from within the region (sub-section a.ii), took advantage of this situation to expand their regional operations, opening a variety of exploration projects in new locations and injecting large volumes of capital into greenfield projects. They also undertook a record level of cross-border M&As.

Some FDI inflows were in the form of cross-border M&As, which doubled in value in the first half of 2008, before the fall in commodity prices and the onset of the global financial crisis. The total value of cross-border M&A sales in Africa reached its highest level: $21 billion in 2008, compared with $8 billion in 2007 (table II.4). Most of the M&A sales were in the manufacturing sector, and were concentrated in two countries: Egypt and South Africa. For example in Egypt, Lafarge SA (France) concluded a deal to acquire OCI Cement Group for $15 billion though it was not paid fully in that year (table II.2) The other African countries that hosted the top 10 cross-border M&A sales in the region in 2008 were Equatorial Guinea, Ghana, the Democratic Republic of the Congo and Nigeria (table II.2).

In the second half of 2008, liquidity constraints faced by TNCs in many countries led to fewer cross-borders M&As in the region, most of them at significantly lower prices. At the peak of the crisis, cancellations of some cross-border M&A deals and a slowdown in the number of new projects occurred. The total number of announced cross-border deals and greenfield ventures fell significantly in the final months of the year, with some major project cancellations.[1] Data on FDI flows for the first quarter of 2009 indicate a 67% fall from the same period of 2008 (table II.3).

The total number of greenfield FDI projects in the region rose to 820 in 2008, from 381 in 2007 (annex table A.I.1), although in the latter half of the year the number started to decline, partly because of fewer new mining projects.[2] Nevertheless, natural-resource-related projects attracted more FDI in 2008. Many projects that began in the region in the first half of 2008, when global economic prospects looked good, were concentrated in natural-resource exploitation.

Despite the global economic slowdown that took place in the second half of 2008, more African countries, including LDCs (box II.1), registered higher growth in their FDI inflows in 2008 as a whole than in 2007. The ratio of FDI to gross fixed capital formation remained high for many African countries, illustrating the relative importance of FDI in total investment in those economies. However, the ratio has to be seen against a low level of overall investment in the economies. The sustained and slightly larger FDI inflows to Africa in 2008 led to an increase in the region's share of global FDI to 5.2%, as compared with 3.5% in 2007, and raised its FDI stock by 20%.

The main elements in the performances of the subregions are outlined below.

North Africa.[3] Sustained efforts at policy reforms, including privatizations by host countries, and intensified search for natural-resource reserves by TNCs, at least in the first half of 2008, drove FDI inflows to the North African subregion to $24 billion, although this was slightly lower than in 2007. In Algeria, Sudan and Tunisia there was an increase in FDI inflows, which was driven by investments in their oil and gas industries, in addition to privatizations of public companies engaged in the oil industry. On the other hand flows to Egypt, the Libyan Arab Jamahiriya and Morocco declined. As in the past, Egypt remained among the largest recipients in the region, despite falling inflows from $12 billion in 2007 to $9 billion in 2008. In 2008, Edison International (Italy) secured a 40% stake in a mature gas field in Egypt for $1.4 billion, with a commitment to participate in an investment of $1.7 billion in additional exploration and development work. The deal marks the first time that Egypt has opened up to tenders for concession rights in an existing gas field.[4] A combination of lower greenfield FDI and reduced cross-border M&As is likely to lead to a fall in FDI inflows to the subregion in 2009.

West Africa.[5] FDI inflows to the West African subregion increased significantly, to $26 billion in 2008 from $16 billion in 2007. This was mainly the result

Table II.2. Africa: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	15 018	OCI Cement Group	Egypt	Cement, hydraulic	Lafarge SA	France	100
2	5 617	Standard Bank Group Ltd	South Africa	Banks	ICBC	China	20
3	2 200	Devon Energy Corp	Equatorial Guinea	Crude petroleum and natural gas	Undisclosed	Equatorial Guinea	100
4	900	Ghana Telecommunications Co Ltd	Ghana	Radiotelephone communications	Vodafone Group PLC	United Kingdom	70
5	732	DRC Resources Holdings Ltd	Congo, Democratic Republic of	Ferroalloy ores, except vanadium	Central African Mining & Expl	United Kingdom	50
6	700	Alstom SA (Pty) Ltd	South Africa	Power, distribution, and specialty transformers	Investor Group	United Kingdom	100
7	670	Egyptian Container Handling Co	Egypt	Marine cargo handling	Undisclosed	United Arab Emirates	90
8	626	OML 125	Nigeria	Crude petroleum and natural gas	Oando PLC	Nigeria	50
9	513	Lafarge Titan Egypt	Egypt	Cement, hydraulic	Titan Cement Co SA	Greece	50
10	475	Banco de Fomento Angola	Angola	Banks	Unitel SA	Angola	50

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company

Table II.3. Africa: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Cape Verde	73	50	46	44	24	-	-	-	-	-
Egypt	3 482	1 985	1 655	2 373	1 211	214	702	700	305	75
Gambia	17	17	15	15	11	..	..	..	..	..
Ghana	132	205	1 361	422	372	2	1	1	1	8
Lesotho	54	53	53	41	43	..	..	..	..	..
Mauritius	60	70	122	126	39	19	15	7	12	6
Seychelles	66	71	168	59	44	2	3	3	2	2
South Africa	5 642	793	2 879	328	1 175	940	360	1 496	-5 113	439
Tunisia	659	714	618	771	304	..	..	..	..	..
Uganda	209	209	211	159	183	..	..	..	..	..
Zimbabwe	15	-	37	-	15	2	2	3	2	-
Total	*10 408*	*4 165*	*7 164*	*4 339*	*3 422*	*1 179*	*1 082*	*2 209*	*-4 792*	*531*

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

of an increase in new projects in Nigeria's oil industry, and investments in project upgrades, especially in the mining industry, by existing TNCs in Burkina Faso, Mali and Nigeria. Large cross-border M&As also took place in some other countries of the region. For example, Vodafone Group (United Kingdom) acquired a 70% stake in Ghana Telecommunications Co Ltd. for $900 million.[6] Payments, partly or wholly, for acquisitions of firms prior to 2008, and progressive expansion of projects by TNCs were a major part of the FDI inflows. In Nigeria, a consortium of foreign TNCs (Bg International Ltd, Chevron Nigeria Ltd, and Shell Gas and Power Development) continued their construction of the OK-LNG plant in Olokola Free Trade Zone. Chinese energy company CNOOC Ltd made further payments for a 45% stake in an offshore oilfield in Nigeria, which it had purchased in 2006 for $2.3 billion. Large FDI inflows to the subregion are expected to slow down in 2009, judging by data on cross-border M&As in the first half of 2009.

East Africa.[7] In East Africa, FDI inflows amounted to $4 billion – almost the same as in 2007. This represents 5% of total inflows into Africa, making it the lowest recipient among African subregions. FDI inflows increased in seven countries: Comoros, Djibouti, Madagascar, Mauritius, Seychelles, Uganda and the United Republic of Tanzania. Madagascar, Uganda and the United Republic of Tanzania received large inflows of FDI, particularly through cross-border M&As. These were mainly in expansion projects relating to several natural resource exploitation ventures that were already ongoing, and mostly before the onset of the global financial crisis and deteriorating economic prospects. In 2009, there is likely to be a levelling off or decline in FDI inflows to the subregion.

Central Africa.[8] The Central African subregion attracted almost the same amount of FDI inflows as in 2007 – $6 billion. With a share of 7% of FDI inflows into Africa, the subregion ranked fourth among FDI recipients in 2008. Congo was the leading destination with $2.6 billion. It was followed by Equatorial Guinea, where FDI inflows remained high ($1.3 billion) despite the fact that some TNCs, such as the United Kingdom-based Devon Energy Corporation, divested their interests in the country in 2008 due to disagreements.[9] The financial crisis and dampened global economic prospects are likely to reduce inflows to the subregion in 2009.

Southern Africa.[10] A major recovery of FDI inflows to Angola and South Africa drove FDI inflows to this subregion to their highest level ever: $27 billion in 2008, compared with $19 billion in 2007. Southern Africa accounted for 31% of the inflows to Africa, making it the leading recipient in 2008. As in the past, cross-border M&As were a very important component of these inflows. FDI inflows to South Africa surged, partly as a result of further payments by the State-run Industrial and Commercial Bank of China (ICBC) of $5.6 billion (table II.2) for a 20% stake in Standard Bank. This represents South Africa's biggest FDI deal since independence, beating the tie-up between Barclays and Amalgamated Banks of South Africa (ABSA) in 2005 (in South African rand value). Prospects remain good for further inflows to the subregion, with many countries there set to remain among the top 10 FDI recipients in Africa.

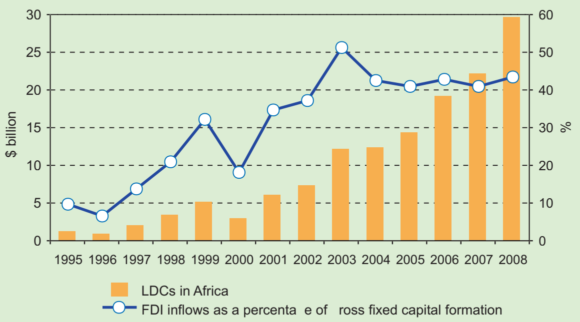
The top 10 recipient countries in Africa accounted for nearly 82% of the total FDI inflows to that region in 2008. They received inflows totalling $71 billion, up from $55 billion in 2007. Policy changes played a role, as did their larger markets and cross-border M&As. Each of the top 10 attracted inflows in excess of $1 billion, and in 4 of them (Angola, Egypt, Nigeria and South Africa), inflows were higher than $9 billion in 2008 (figure II.3). In Nigeria, the largest FDI recipient in Africa in 2007 and 2008, Chinese involvement grew further.

Box II.1. Inward FDI in African LDCs:[a] eight consecutive years of growth

In 2008, FDI inflows to the 33 African LDCs increased throughout the first six months, before a slowdown during the latter part of the year. Nevertheless, for the year as a whole, the group registered a net increase in inflows, from $22 billion in 2007 to $30 billion (box figure II.1.1) – the eighth consecutive year of growth. This latest increase also raised the share of LDCs in Africa's total FDI inflows slightly, to 34% in 2008 as compared with 32% in 2007, although the amount of FDI received by the group remains very low. Most of the inflows took place in the early part of 2008, as TNCs responded to the continued rise in global commodity prices. A large share of the inflows was in the form of greenfield and expansion projects prospecting for reserves of base metals and oil, in addition to some investments in infrastructure development. In infrastructure development, for instance, Eskom of South Africa continued to inject capital into the Grand Inga Dams project in the Democratic Republic of the Congo.

Given their concentration in the extractive industries, FDI inflows to the group were not evenly distributed: they were largely concentrated in a few natural-resource-rich countries. The main recipients among the LDCs of Africa in 2008 included: Angola, Sudan, Madagascar, Guinea, Equatorial Guinea and the Democratic Republic of the Congo, in that order. A large proportion of the inflows to these countries targeted petroleum exploitation and other mining activities. Among the LDCs in Africa, Angola and Sudan were among the top 10 recipients in the region as a whole in 2008. Angola's high FDI inflows were due to an expansion of investment in oil exploration and exploitation activities.

Box figure II.1.1. African LDCs: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

The main sources of FDI to African LDCs have remained the traditional developed-country investors, particularly France, the United Kingdom and the United States. In 2008, in countries such as Madagascar and Uganda, FDI from the developing countries of Asia and Africa, particularly China, grew through cross-border M&As. South African TNCs also expanded their activities in Angola, the Democratic Republic of the Congo, Mozambique and Zambia; many of the South African TNCs, such as Eskom, were engaged in infrastructure development and other service industries.[b]

Only one African LDC (Eritrea) continued to register negative FDI inflows in 2008, unlike its performance in the 1990s. Generally, many African LDCs, particularly those that had been hurt by civil wars, such as Angola and Uganda, are now witnessing a stable political situation. They have also achieved macro-economic stabilization and embarked on deregulation of their economies, as well as privatization, introduction of business facilitation measures, and revised and improved legal frameworks for FDI. In addition, with the slowdown in the global economy, TNCs are rethinking their investment strategies, investing some of their assets in the manufacturing sector which had been neglected for years, mainly to supply local regional markets. This change in strategy was obvious in the surge in cross-border M&A purchases of African manufacturing production units in 2008, including in the LDCs.[c]

Market access initiatives, such as the Generalized System of Preferences (GSP), Everything but Arms (EBA) and the African Growth and Opportunity Act (AGOA), are supposed to help African LDCs attract FDI into the manufacturing sector, even though constraints relating to domestic costs and capacities in many of the countries remain an impediment to exploiting these opportunities adequately. Some investments aimed at taking advantage of preferential market access initiatives (e.g. textile exports to the United States under AGOA, for instance) continued to be withdrawn in 2008 because with the expiration of the Multi-fibre Arrangement in 2005, the costs of production in the host economies outweighed the advantages, while some production locations, in Asia for instance, proved more competitive (UNCTAD, 2008a: 6).[d]

Source: UNCTAD.

[a] The 33 African LDCs are: Angola, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, the United Republic of Tanzania and Zambia (Cape Verde graduated out of LDC status in 2008).

[b] "Eskom considers alternatives", *The Sunday Independent,* 4 January 2008.

[c] The following are examples of cross-border M&As in African LDCs: Sino Union Petroleum & Chemical International (Hong Kong, China) merged with a paints, varnishes, lacquers and allied products company, the Madagascar Energy International (Madagascar); Norfund SA (Norway) acquired a majority stake in a pesticide and agrichemicals company SOPRWA (Rwanda); Dimension Data PLC (South Africa) acquired a majority stake in a pre-packaged software company, Dimension Data PLC (Angola); and Barry Callebaud AG (Switzerland) acquired a chocolate and cocoa products company, Biolands (United Republic of Tanzania).

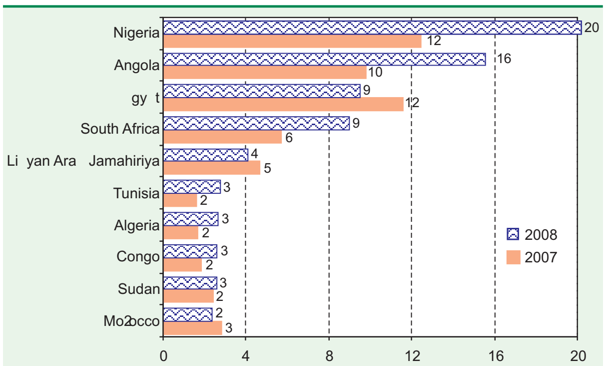
[d] See also "Footloose Industry and Labour Rights", *AfricaFocus Bulletin*, 27 January 2008.

ii. Outward FDI: a few countries dominated

FDI outflows from Africa declined by 12%, to $9 billion in 2008 (figure II.4) mainly due to large divestments by South African TNCs: in 2008, the Rubert family (South Africa) divested its participation in British American Tobaco (BAT) through its controlled affiliates, Richemont and Remgro.[11] The Libyan Arab Jamahiriya accounted for the largest share of the outflows from the region in 2008, with a share of about 63%. As part of efforts to diversify their revenue base through investments in non-commodity industries, Libya Africa Investment Portfolio launched activities abroad in the energy, information and communication technology (ICT) and tourism industries.[12] TNCs from Angola and Egypt were also very active in 2008, as they used FDI as one of the means of competing for global markets, often in the form of acquisitions of major assets abroad.

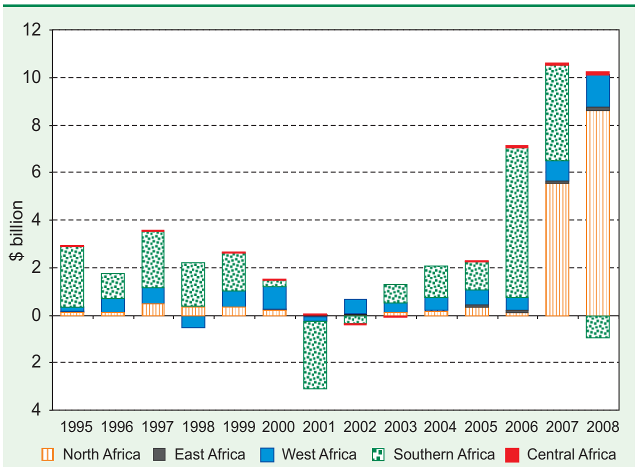
In 2008, African outward FDI targeted mainly the services sector. This is most visibly reflected in the pattern of cross-border acquisitions by African TNCs, which almost doubled to $6.8 billion in 2008 from $3.8 billion in 2007 (section b). Nigerian TNCs have also expanded their activities in the region: Dangote group (Nigeria) purchased a substantial minority stake in Sephaku Cement (South Africa) for $383 million (table II.5); Altech Stream Holdings (South Africa) acquired a 51% stake in Ugandan Internet service provider Infocom for $85 million, and Sonangol (Angola) invested in several ventures outside Angola, mainly in Portugal, where it acquired a 50% stake in Banco Millennium Angola (BMA), a subsidiary of Portugal's Banco Millennium BCP.

Figure II.3. Africa: top 10 recipients of FDI inflows, 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked by the magnitude of 2008 FDI inflows.

Figure II.4. Africa: FDI outflows, by subregion, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

African TNCs also set a new record of mega cross-border acquisitions concluded in 2008, particularly in the services sector (table II.5). The share of the banking industry was particularly pronounced, though overall outflows slowed down in the second half of the year. A number of intraregional cross-border M&As were also postponed or cancelled in 2008, particularly in the mining industry, as a result of the global financial crisis.

The leading home economies for outward FDI from the region in 2008 were the Libyan Arab Jamahiriya, followed by Angola, Egypt and Guinea. Due to negative flows, South Africa was not among the largest outward investors in Africa in 2008 (annex table B.1). Outward FDI from all of these countries focused primarily on natural resource exploitation and the services sector.

b. Sectoral analysis: FDI focused on manufacturing

The main focus of FDI inflows to the region, particularly in the first half of 2008 – before the spreading of the economic crisis – was on the manufacturing and services sectors, judging by the data on cross-border M&As. The share of manufacturing in cross-border M&As shot up to about 75% of the total, or nearly $16 billion in 2008, from less than $1.4 billion in 2007, largely because of the above-mentioned $15 billion deal in Egypt (table II.2). Although the region, in particular sub-Saharan Africa, has not shown an established upward trend in TNC activity in the manufacturing sector, this rise contrasts with stagnating manufacturing activities in other regions of the world, and partly reflects concerted efforts by African recipient countries to

Table II.4. Africa: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in Africa[b]			Net purchases by African companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
World	7 906	20 901	3 332	9 914	8 214	186
Developed economies	3 462	13 093	2 780	9 405	7 361	18
Europe	- 658	15 918	1 821	3 727	6 714	38
European Union	-1 336	15 855	1 811	1 363	6 714	38
France	1 547	14 208	1 857	40	4 141	39
Netherlands	-	40	-	70	- 779	-
United Kingdom	-5 301	2 078	- 15	1 097	2 131	- 1
North America	3 965	-2 619	956	6 012	420	- 65
Canada	1 046	51	- 102	5 864	15	- 65
United States	2 919	-2 670	1 058	149	405	- 0
Developing economies	3 923	7 698	536	344	853	168
Africa	22	504	25	22	504	25
Nigeria	-	383	-	280	- 4	-
South Africa	99	81	25	-	386	-
Asia and Oceania	4 056	7 194	577	732	174	143
Kuwait	1 210	- 65	-	-	125	-
United Arab Emirates	1 900	817	180	-	-	-
China	209	5 617	-	-	-	-
South-East Europe and CIS	250	15	-	165	-	-
Russian Federation	250	15	-	165	-	-

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

shift towards higher value-added production and services.

Primary sector. In the primary sector, many TNCs in the region held on to their greenfield projects, following the exuberance from the rise in global commodity prices of the past few years, the intensified search for natural resource reserves, and subsequent project profitability in the region. In contrast, both the number and value of cross-border M&As in the sector fell rapidly in 2008: indeed selling off foreign affiliates (divestments) exceeded even new acquisitions (-$2 billion) which were down from about $4 billion in 2007 (table II.6), as commodity prices declined in late 2008. Nevertheless, the primary sector received the lion's share of the FDI inflows to the region, mostly in the form of increased equity investments in greenfield or expansion projects in the first half of 2008, when commodity prices were high and global economic prospects seemed good.

As in the past, African host governments failed to attract or induce much investment in the activities that are crucial for development (see for instance, *WIR07*; Jordan, 2007). In general, downstream activities and diversification efforts related to inflows in the primary sector remain marginal. A major policy challenge for these countries is to reverse this trend.

Manufacturing. In 2008, TNCs shifted their focus to Africa's manufacturing sector, more than doubling the value of their total cross-border M&As to reach their highest level ever – about $16 billion – in sharp contrast to the decline of such deals in the 1990s and their low levels earlier in the 2000s. The bulk of M&A activities were largely confined to non-metallic minerals (table II.2). Some countries, such as Algeria, Nigeria and South Africa, attracted sizeable greenfield FDI (though small by global standards) in other industries such as chemicals and chemical products, textiles, clothing and leather, and transport vehicles and other transport equipment.[13] African TNCs, for their part, made acquisitions abroad of about $1.6 billion in the sector.

Services. In the services sector, the finance industry, in particular, saw continued growth of FDI inflows in 2008. Cross-border M&As in services rose to more than $7 billion, from about $3 billion in 2007, though this was well short of the $14 billion worth of deals in 2006. Small foreign TNCs operating in

Table II.5. Africa: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	4 141	Lafarge SA	France	Cement, hydraulic	NNS Holding	Egypt	13
2	1 906	Tradus PLC	United Kingdom	Catalog and mail-order houses	Naspers Ltd	South Africa	100
3	1 082	M-real Corp	Finland	Paper mills	Sappi Ltd	South Africa	100
4	700	Gateway Telecommunications PLC	United Kingdom	Radiotelephone communications	Telkom SA Ltd	South Africa	100
5	383	Sephaku Cement	South Africa	Cement, hydraulic	Dangote Group	Nigeria	45
6	340	Gavilon Group LLC	United States	Security and commodity services, nec	Orascom Constr Ind SAE	Egypt	20
7	299	National Australia Bank Ltd	Australia	Truck rental and leasing, without drivers	Super Group Ltd	South Africa	100
8	282	Nuffield Hospitals	United Kingdom	General medical and surgical hospitals	Netcare Ltd	South Africa	100
9	276	Datacraft Asia Ltd	Singapore	Computer facilities management services	Dimension Data PLC	South Africa	45
10	153	Strides Latina	Brazil	Pharmaceutical preparations	Aspen Pharmacare Holdings Ltd	South Africa	50

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Table II.6. Africa: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in Africa[b] 2007	2008	2009[a]	Net purchases by African companies worldwide[c] 2007	2008	2009[a]
Total	7 906	20 901	3 332	9 914	8 214	186
Primary	3 837	- 2 055	2 430	5 328	- 261	- 36
Mining, quarrying & petroleum	3 837	- 2 055	2 430	5 328	- 261	- 36
Secondary	1 367	15 639	393	810	1 649	82
Wood and wood products	- 1 438	-	-	351	1 082	-
Non-metallic mineral products	831	15 469	145	466	339	-
Metals and metal products	250	104	248	55	7	44
Services	2 702	7 316	509	3 776	6 827	140
Trade	- 396	32	-	- 267	299	-
Transport, storage and communications	335	1 665	644	250	- 156	-
Finance	2 595	5 613	6	1 099	7 168	179
Business services	91	- 157	- 77	122	12	- 39
Health and social services	-	152	5	2 363	282	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Net sales in the industry of the acquired company.

[c] Net purchases by the industry of the acquiring company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

the region in geological surveys and related business services also engaged in cross-border M&As.

Economic growth and strategic national reforms have contributed to the wave of expansion of FDI by the region's TNCs in the services sector, particularly in financial services. The main home countries of participating TNCs included Egypt, Kenya, the Libyan Arab Jamahiriya, Nigeria and South Africa. In Nigeria specifically, reforms by the central bank encouraged banking consolidation, which resulted in the rapid expansion of Nigerian banks into other African countries such as Benin, Ghana, Gambia, Côte d'Ivoire, Liberia, Sierra Leone and Togo. In particular, M&As have driven the expansion of Ecobank Transnational International (ETI) (Nigeria) into 24 countries.

c. Policy developments

In 2008, more African governments demonstrated stronger commitment to maintaining a policy environment crucial for attracting stable and increasing FDI inflows, although the region's investment climate still presents a mixed picture. Many African countries have put in place policy incentives to attract more FDI and strengthen institutional support for their regulatory changes, thanks to greater stability and the drive to benefit from surging commodity prices.

Several African countries adopted policy measures that seek to promote private investment, including FDI. Burundi adopted a new investment code which aims to attract foreign investors. Egypt decided to establish various free industrial zones;[14] Kenya privatized a number of utilities. Mauritius enacted competition legislation, introducing restrictions on monopolies and collusion.[15] On the other hand, Zambia introduced a new tax regime which raises the tax rate in the mining industry from 31.7% to 47%.

Policy developments were not limited to unilateral measures. African countries signed 12 new BITs in 2008, bringing the total number of BITs involving African countries to 715 by end 2008. The Libyan Arab Jamahiriya was the most active, with two new BITs signed with Albania and the Russian Federation. As far as DTTs are concerned, African countries concluded eight new agreements in 2008, bringing the total number of DTTs for the region to 467. Again, the most active was the Libyan Arab Jamahiriya, with three new agreements concluded with Belarus, Ukraine and the United Kingdom. Morocco concluded two new agreements with the Islamic Republic of Iran and Latvia.

In terms of other IIAs, the Southern African Customs Union (SACU) and the United States concluded a trade, investment and development cooperative agreement, and the East African Community (EAC) and the United States concluded a Trade and Investment Framework Agreement (TIFA). Both agreements establish an institutional framework between the parties to monitor trade and investment relations. Also the Economic Partnership Agreement (EPA) between Côte d'Ivoire and the European Community (comprising the EU-27) contains a commitment to cooperate on investment-related issues. In addition, the Africa-India Summit resulted in April 2008, *inter alia,* in the conclusion of an Africa-India Framework for Cooperation Agreement, which recognizes the need to foster an environment for mutually beneficial economic development by reinforcing efforts to promote FDI.[16]

At the subregional level, the Economic Community of West Africal States (ECOWAS) adopted three Acts: (i) the Supplementary Act A/SA.3/06/08 Adopting Community Rules on Investment and the Modalities for their implementation within ECOWAS, (ii) the Supplementary Act A/SA.1/06/08 Adopting Community Competition Rules and the Modalities of their Application within ECOWAS, and (iii) the Supplementary Act A/SA.2/06/08 on the establishment and function of the Regional Competition Authority for ECOWAS. These Acts aim to foster the creation of a single economic space within which business and labour can operate, in order to stimulate greater productive efficiency, higher levels of domestic and foreign investment, increased employment, and growth of intraregional trade and extraregional exports.

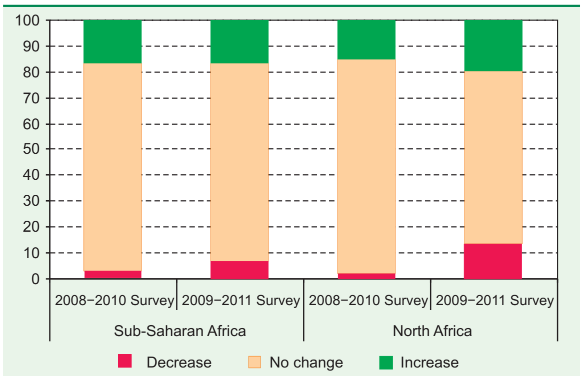
d. Prospects: the global economic slowdown could hurt FDI growth, especially in LDCs

In 2009, Africa is expected to see a break in FDI inflows, after a half decade of consecutive annual growth. The main reasons are the slowdown in the global economy, falling global commodity prices and a worsening of the financial crisis in many developed and fast-growing developing economies. The most seriously affected are likely to be Africa's LDCs, where many new natural-resource exploration and exploitation projects that were started in response to the surge in global commodity prices are being postponed or cancelled. The economic downturn and the drastic drop in oil prices have caused share prices of most energy companies to plunge, forcing many of them to cut capital spending to maintain liquidity. If commodity prices remained low, several smaller oil and natural gas TNCs in the region could become prey to hostile buyers.

The global financial crisis is also expected to push struggling TNCs in the region to reduce FDI activities, as illustrated by a number of recent examples of project postponements or cancellations. Few cross-border M&As in Africa are expected in 2009, and possibly beyond, because of a lack of available credit and investors' current aversion to debt.

The net effect of the global financial crisis and economic downturn is expected to dampen FDI inflows to all the subregions of Africa, except Southern Africa where consolidation of activities in certain industries is expected to lead to more inflows, particularly to South Africa. Judging by data on FDI inflows for the first quarter of 2009 (table II.3) and by cross-border M&As for the first half of 2009 (table II.4), FDI flows for the entire year are likely to fall and continue their downward trend in 2009. UNCTAD's latest *World Investment Prospects Survey* suggests that TNCs may increase their FDI in the region only towards the end of 2011 (figure II.5).

Figure II.5. Africa: comparison of the results of *WIPS 2009−2011* with *WIPS 2008−2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

2. South, East, South-East Asia and Oceania

The global economic and financial crisis spread to South, East and South-East Asia with a moderate time lag, affecting the region's exports as well as economic growth. A sharp fall in external demand has caused exports to plunge, and economic growth has slowed down in many countries in the region. Particularly in the newly industrializing economies (NIEs), GDP started to fall significantly in the fourth quarter of 2008, and a deep recession is inevitable. For the region at large, FDI inflows grew considerably in 2008, although slower than in the previous two years. Nevertheless, the 17% growth rate for the year as a whole does not reflect the current situation in a number of Asian economies, as the crisis started to have an impact on FDI inflows mainly in the last quarter of the year. As a result, the region is facing a downturn in FDI inflows in 2009.

Outward FDI from China flourished in 2008, driving total outflows from the region to $186 billion in 2008. However, due to the negative impact of the global crisis on Asian TNCs, FDI outflows from the region will slow down in 2009, although to a lesser degree than in many other parts of the world.

a. Geographical trends

(i) Inward FDI: divergent trends against the backdrop of crisis

Despite the impact of the global financial and economic crisis on host economies in South, East and South-East Asia and on the major home countries of TNCs investing in the region, total FDI inflows to the region in 2008 still rose by 17%, reaching $300 billion. As many as 14 countries saw a rise in inflows. Part of this increase was due to the growth in cross-border M&As (especially intraregional ones), the net value of which climbed to $51 billion (table II.7 and annex table B.4).

However, FDI inflows started to fall in 2009 in all major host economies, including China, Hong Kong (China) and India (table II.8);[17] and the value of cross-border M&A sales in the region dropped sharply in the first half of 2009, to $16 billion (table II.7). Like other developing regions, South, East and South-East Asia cannot escape the shock of the global financial crisis. In particular, since the region's economies are heavily dependent on exports, falling external demand has slowed down economic growth since the last quarter of 2008. This in turn is dragging down FDI and does not bode well for short-term FDI prospects in the region.

Inflows to Oceania declined by an estimated 30% to $881 million. FDI data (or estimations) for 2008 show that among the 19 island States in this subregion,[18] only 5 registered FDI growth. During the past few years, growth in FDI flows to a few major FDI recipients in the subregion has been driven by high mineral prices and investments in extractive industries. Thus, the falling commodity prices due to the global financial crisis and economic recession have inevitably slowed down inflows to these economies and weakened FDI prospects.

Table II.7. South, East and South-East Asia: value of cross-border M&A sales and purchases, by region/ economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in South, East and South-East Asia[b] 2007	2008	2009[a]	Net purchases by South, East and South-East Asian companies worldwide[c] 2007	2008	2009[a]
World	45 328	50 796	15 857	54 180	68 759	8 654
Developed economies	38 109	26 716	7 316	52 278	44 419	989
Europe	21 870	9 130	1 381	21 850	27 809	1 027
European Union	20 622	10 043	1 369	19 994	24 247	1 024
Netherlands	1 837	17	- 599	569	1 152	-
United Kingdom	12 264	2 912	1 157	15 953	19 144	28
Other developed Europe	1 248	- 913	12	1 856	3 562	3
Norway	7	- 943	-	1 458	3 539	3
North America	8 856	8 295	1 156	17 801	12 598	- 71
Canada	268	172	265	2 287	3 696	128
United States	8 588	8 123	891	15 514	8 902	- 198
Other developed countries	7 384	9 291	4 779	12 627	4 013	32
Australia	1 340	356	185	7 421	5 691	- 111
Japan	5 998	8 941	4 594	2 371	-1 355	142
Developing economies	2 375	22 551	8 240	2 891	24 315	7 574
Africa	218	284	143	571	6 134	64
South Africa	97	13	3	77	5 650	59
Latin America and the Caribbean	787	231	665	932	512	1 019
Asia and Oceania	1 370	22 036	7 432	1 388	17 669	6 491
West Asia	1 308	7 394	793	1 323	2 700	0
Turkey	-	695	-	1 280	2 712	-
United Arab Emirates	582	3 176	- 91	44	- 89	0
South, East and South-East Asia	61	14 953	6 467	61	14 953	6 467
China	-2 712	6 646	834	3 287	311	3 024
Hong Kong, China	-8 012	- 17	1 502	-1 221	4 153	- 106
India	1 999	185	139	-12 316	1 877	14
Malaysia	1 351	6 079	2 659	2 209	1 064	62
Singapore	5 811	506	1 729	2 601	5 668	3 734
South-East Europe and the CIS	132	840	-	- 989	25	92

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Sales to the region/economy of the ultimate acquiring company.
[c] Purchases in the region/economy of the immediate acquired company.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

FDI inflows to East Asia, South-East Asia and South Asia in 2008 amounted to $187 billion, $60 billion and $51 billion respectively (figure II.6). In 2007, the rate of growth of inflows to the three subregions was quite similar, but in 2008 growth rates varied considerably: 49% in South Asia, 24% in East Asia, and -14% in South-East Asia.

The performance of major economies in the region in attracting FDI also varied significantly. Inflows to the two largest emerging economies, China and India, continued to increase in 2008 (figure II.7). Among the four Asian NIEs, inflows to the Republic of Korea boomed and they continued to grow in Hong Kong (China), but they declined sharply in Singapore and Taiwan Province of China. In Malaysia and Thailand FDI inflows fell slightly. A number of other South-East Asian countries, including Indonesia and Viet Nam, have demonstrated a capacity to maintain growth in FDI, despite the crisis.

One of the striking features of FDI flows to the region during the past few years has been the steadily growing importance of China and India as host economies. With its inflows surging to a historic high ($108 billion) in 2008, China became the third largest FDI recipient country (after the United States and France) in the world. India ranked 10 places behind, but was catching up. And these two largest emerging economies ranked numbers one and three, respectively, as the most preferred FDI locations in UNCTAD's *World Investment Prospects Survey 2009–2011*. Their strong performance, even during the current crisis, has reshaped the landscape of FDI flows to the region as well as to the world at large.

- *China*. The pattern of inflows changed dramatically during the course of the year: from a surge in the first half of 2008 to a sharp decline in the second half. From January to June, the influx of "hot money" was one of the factors that caused inflows to rise sharply;[19] but they slowed down after July, and especially in the fourth quarter, due to the evolving global financial crisis and the deteriorating world economic situation. Rising production costs during the past few years,[20] coupled with shrinking demand from developed countries, have adversely affected many small and medium-sized enterprises (SMEs), including foreign affiliates based in the major manufacturing hubs (especially the Pearl River Delta). Many of them have shut down, sending a huge number of migrant workers back home to rural areas.[21] In terms of the geographic pattern of FDI inflows, there has been a rise of investment in western

Table II.8. South, East and South-East Asia and Oceania: FDI flows of selected economies,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows 2008:Q1	FDI inflows 2008:Q2	FDI inflows 2008:Q3	FDI inflows 2008:Q4	FDI inflows 2009:Q1	FDI outflows 2008:Q1	FDI outflows 2008:Q2	FDI outflows 2008:Q3	FDI outflows 2008:Q4	FDI outflows 2009:Q1
Cambodia	224	272	186	133	87	6	6	6	6	-
China [b]	27 414	24 974	21 986	18 022	21 777	..	..	..	..	..
Hong Kong, China	19 588	14 806	11 097	17 513	11 792	12 381	25 084	6 938	15 518	4 558
India	14 197	11 891	8 782	6 684	6 256	..	..	..	..	..
Indonesia	1 460	2 040	1 921	2 498	3 511	1 730	1 436	1 517	1 217	814
Korea, Republic of [c]	- 674	- 212	1 633	1 454	- 63	4 116	2 702	3 916	2 061	1 132
Lao People's Democratic Republic	72	37	55	64	58	..	..	..	..	..
Malaysia	1 045	5 342	256	1 410	828	1 973	4 448	5 774	1 864	- 130
Pakistan	983	2 104	1 117	1 234	691	5	36	5	- 11	- 6
Papua New Guinea	13	- 51	6	2	359	-	-	-	-	1
Philippines	266	434	555	265	44	- 6	77	102	64	52
Singapore	8 268	3 649	3 561	7 246	3 220	2 656	751	4 012	1 509	1 478
Solomon Islands	15	19	18	23	17	3	3	3	3	3
Taiwan Province of China	597	1 107	989	2 739	263	3 165	2 623	2 174	2 331	980
Thailand	2 959	2 230	2 545	2 357	2 324	541	1 215	186	893	573
Vanuatu	7	9	3	14	5	-	-	- 1	-	-
Total	76 433	68 651	54 709	61 658	51 169	26 570	38 381	24 633	25 454	9 456

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Only those economies were selected for which data were available for the first quarter of 2009 (as of July 2009).
[b] Data exclude the financial industry.
[c] Data are from the Bank of Korea.

China, driven by both proactive government policies and foreign firms' efforts to reduce costs (box II.2). In 2009, while inflows are likely to decline overall, FDI seeking to tap the large Chinese market is expected to remain strong.

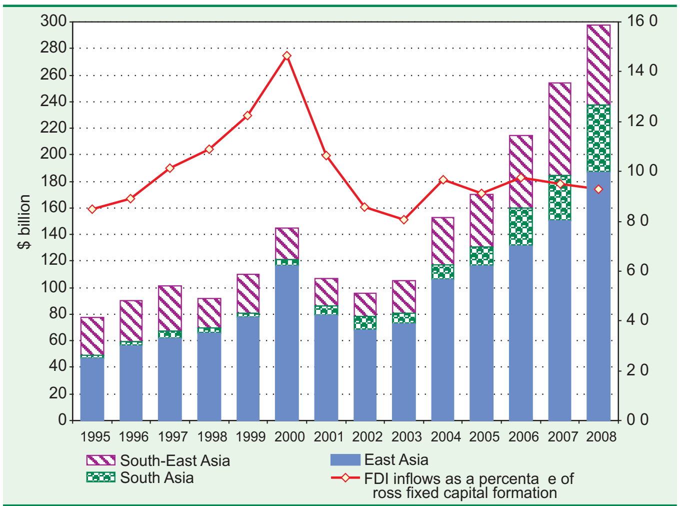
- *India*. In recent years, leading TNCs in many manufacturing and service industries, ranging from steel and automotives to retail (*WIR07*), have speeded up their market entry and expansion in India. Accordingly, FDI flows to the country in 2008 surged, continuing the trend of the previous two years, to reach a record $42 billion. However, as some large TNCs are reconsidering their global expansion plans in response to the global financial crisis and economic recession, their investment projects in India may be affected.[22]

Among the Asian NIEs, Singapore and Taiwan Province of China were hit the hardest by the global financial crisis, with economic growth and FDI inflows declining significantly. On the other hand, the Republic of Korea saw a surge in inflows.

- *Republic of Korea*. Following a continous decline in FDI inflows during the period 2005–2007, to $2.6 billion, FDI resumed growth and surged to $7.6 billion in 2008. Even before the global financial crisis the economic performance of the country had been weakening. The massive debts of its firms and households, and a heavy reliance on exports suggest serious troubles ahead due to the crisis.[23] However, a large stimulus plan by the Government and a weakening won may help the economy maintain positive growth in the coming years and the recovery in FDI may continue.
- *Singapore*. As one of the region's most open economies and its financial and logistics centres, Singapore has been shaken by the global financial crisis, slipping into economic recession. As a result, it saw its FDI inflows drop by 28% in 2008, to $23 billion.

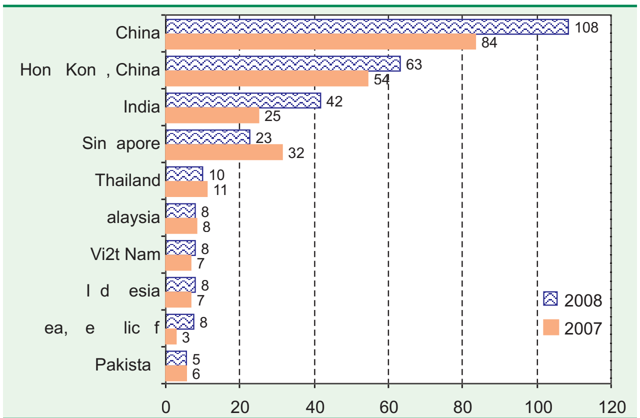
Some countries in South-East Asia saw lower FDI inflows: inflows to Malaysia and Thailand dropped by 4% and 10% respectively. While a number

Figure II.6. South, East and South-East Asia: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

Figure II.7. South, East and South-East Asia: top 10 recipients of FDI inflows,[a] 2007–2008
(Billion of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked by the magnitude of 2008 FDI inflows.

of other countries in the subregion were successful in attracting greater FDI inflows to promote their economic development.

- *Indonesia*. FDI inflows rose by 14% in 2008, reaching around $8 billion. Political stability, buoyant domestic demand and sound economic fundamentals should help boost economic growth and FDI prospects in the country.[24]
- *Viet Nam*. In 2008, FDI inflows to the country totalled a record $8 billion, up nearly 20% from last year, and there has been no sign of a weakening in the first half of 2009. In UNCTAD's *World Investment Prospects Survey 2009–2011*, Viet Nam ranked 11th among the most preferred investment locations for foreign investors in 2009, down from 6th position in the previous survey, perhaps due to high inflation and macroeconomic instability. Nevertheless, the country continues to attract record foreign investments, suggesting that investors are still confident in its long-term growth prospects. Viet Nam is becoming an increasingly attractive location for FDI in labour-intensive manufacturing and other activities. Most of its FDI comes from investors in other developing economies.[25]

Judging from data on cross-border M&A sales in the region, the share of developed countries as source of investment declined in 2008 (table II.7), and the share of investors from within the region itself was rapidly catching up. In other words, intraregional FDI is rising. Indeed 6 of the top 10 cross-border M&A deals concluded in the region were intraregional (table II.9).

(ii) Outward FDI: strong, but falling

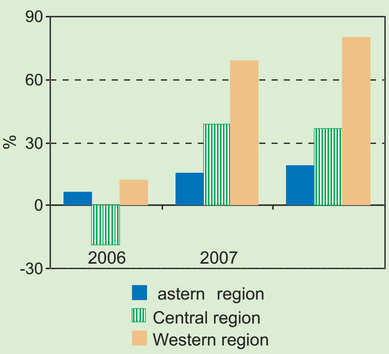
FDI outflows from South, East and South-East Asia rose by 7% to $186 billion (figure II.8). The total value of cross-border M&A purchases by TNCs based in the region was $69 billion in 2008, up by 27% from 2007 (table II.7). M&A purchases had already surpassed M&A sales in 2007 and continued to do so in 2008. In recent years, rising outflows from major economies in the region have been fuelled by their relatively high economic growth, rapid accumulation of foreign currency reserves as a result of trade surpluses,[26] and, more fundamentally, the greater competitiveness of firms based in these economies. Supportive government policies have also played a role, especially in China – the second largest outward investing economy in the region (following Hong

Box II.2. Booming FDI to West China: drivers and determinants

FDI inflows into China have been concentrated in the coastal areas of the country. By the end of 2008, more than four fifths of the accumulated inflows were in the eastern region. However, in recent years, FDI inflows to the central and western regions have boomed, and the growth rates of inflows were much higher than in the eastern region (box figure II.2.1). This reflects a growing interest by TNCs to explore investment opportunities in the inland areas.

FDI inflows into China's central and western regions surged in response to a proactive "Go West" policy introduced by the Central Government a decade ago. This policy aims to promote economic growth of the inland areas in order to reduce income disparity between the coastal and inland areas. Preferential treatment is offered to FDI projects in the economically backward central and western provinces.[a] In addition, rising production costs in the coastal areas have been influencing TNCs' location decisions in favour of inland areas. Moreover, rapid infrastructure development in the central and western regions has significantly reduced transportation and other costs related to production.

Box figure II.2.1. FDI growth rates in the three regions of China, 2006–2008



Source: Ministry of Commerce of China.

Source: UNCTAD.

[a] For instance, foreign invesment projects falling into the *Catalogue of Advantaged Industries for Foreign Investment in the Central-Western Region* (newly amended in 2008) are entitled to preferential tax treatments.

Table II.9. South, East and South-East Asia: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	7 785	China Netcom Group Corp (Hong Kong) Ltd	Hong Kong, China	Radiotelephone communications	China Unicom Ltd.	China	31
2	3 442	Ranbaxy Laboratories Ltd	India	Pharmaceutical preparations	Daiichi Sankyo Co Ltd	Japan	43
3	3 072	Tuas Power Ltd	Singapore	Electric services	Huaneng Group	China	100
4	2 763	Senoko Power Ltd	Singapore	Electric services	Lion Power (2008) Pte Ltd	Japan	100
5	2 474	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	53
6	2 231	Peak Gain International Ltd	China	Land subdividers and developers, except cemeteries	Shanghai Shimao Co Ltd	China	100
7	2 116	Himart Co Ltd	Korea, Republic of	Radio, television, and consumer electronics stores	Eugene Himart Holdings Co Ltd	Korea, Republic of	100
8	2 082	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	45
9	1 869	Homever	Korea, Republic of	Grocery stores	Tesco PLC	United Kingdom	100
10	1 800	Indonesian Satellite Corp PT {Indosat}	Indonesia	Telephone communications, except radiotelephone	Qtel	Qatar	41

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

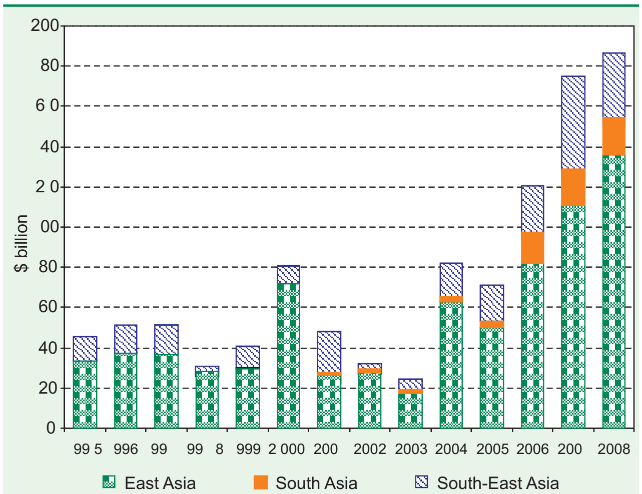
[a] In the immediate host economy.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Kong, China). Since late 2008, the global financial crisis has weakened economic performance and undermined the ability and motivation of many TNCs in the region to invest abroad.[27] As a result, their FDI outflows are set to slow down.

China and India have become important sources of outward investment from the region (figure II.9). Their share in total regional outflows rose from 23% in 2007 to 37% in 2008. Despite the global crisis, FDI from China, in particular, surged, reaching $52 billion in 2008, 132% up from 2007, and its outflows continued to grow in early 2009. The country ranked thirteenth in the world as a source of FDI and third among all developing and transition economies. Many large Chinese TNCs are driven to invest abroad by their need to secure access to natural resources (such as oil, gas and mineral deposits) and created assets (such as technologies, brand names and distribution networks). Moreover, significant exchange-rate fluctuations and falling share prices abroad as a result of the crisis might have created good opportunities for them to buy bargain assets.

Figure II.8. South, East and South-East Asia: FDI outflows, by subregion, 1995–2008



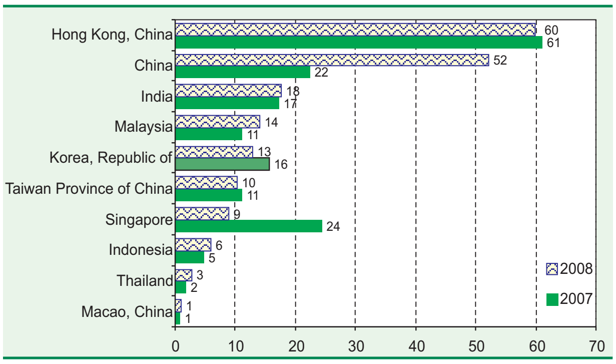
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

In contrast, FDI outflows from other major economies in the region slowed down in 2008. Outflows from all four Asian NIEs declined, by 2% in Hong Kong (China), by 7% in Taiwan Province of China, by 18% in the Republic of Korea, and by a massive 63% in Singapore (with outflows amounting to $60 billion, $10 billion, $13 billion and $9 billion, respectively) (figure II.9). This caused their share in total outward FDI from the region to decline from 64% in 2007 to 49% in 2008. The Asian NIEs have been hit particularly hard by the crisis, and their relative significance in the region's outward FDI is continuing to decline, as suggested by the fall in their cross-border M&A purchases in the first half of 2009.

The bulk of the South-South flows (excluding those targeting offshore financial centres) from the region are intraregional in nature. Flows within East and South-East Asia are particularly pronounced, and have contributed to the promotion of regional economic integration. Those flows have been on the rise in infrastructure industries.[28] There has also been a rise in FDI to low-income African countries. In 2008, for example, investments from Asian countries in infrastructure projects in sub-Saharan Africa rose significantly. They play a crucial role in the financing of infrastructure in African LDCs, such as Angola and the Democratic Republic of the Congo.

Outward FDI from South, East and South-East Asia to developed countries has also been

Figure II.9. South, East and South-East Asia: top 10 sources of FDI outflows, 2007–2008[a]
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked by the magnitude of 2008 FDI outflows.

rising as part of efforts by Asian firms to acquire strategic assets abroad. Indeed, an increasing number of large deals undertaken by companies and funds based in the region have been targeting all the three economic sectors in developed counties (section b).

b. Sectoral trends

(i) Inward FDI: services and manufacturing continued to be targeted

In 2008, FDI directed towards the services sector in South, East and South-East Asia continued to increase, as also reflected in the rising value of cross-border M&A sales in that sector (table II.10). In the NIEs, a major part of their cross-border M&As continued to be in services, although in late 2008, and particularly in early 2009, they fell sharply in banking. This is because banks and private equity firms based in the United States as well as Europe are not able to invest any more, and have even started to divest due to the difficulties they face at home. In China and India FDI growth was significant in such services as infrastructure and retail. For example, following its global competitors such as Metro AG (Germany), Wal-Mart Stores (United States) opened its first store in India in 2008, and plans to open 15 more over the next few years.

Cross-border M&A sales in the region increased in the manufacturing sector while they declined in the primary sector in 2008. Investment in pharmaceuticals was noteworthy, including two acquisitions of Ranbaxy Laboratories Ltd (India) by Daiichi Sankyo Co Ltd (Japan) for $5 billion. Manufacturing still accounts for about half of inflows to China, and more inflows are targeting high-tech industries. However, the country now faces fierce competition from low-income countries in South and South-East Asia in attracting FDI in labour-intensive production. How to tackle the impacts of the "hollowing out" of the production base, while also to upgrade to high-end industries and high-value-added activities has become a challenge for a number of China's coastal provinces, such as Guangdong.

In India in 2008, FDI in industries such as steel continued to increase, including from Western steelmakers, as well as from Chinese metal companies (Minmetals and Xinxing for instance). In the steel industry, Formosa Plastics Corporation (Taiwan Province of China) started to invest in an $8 billion plant in Viet Nam. In the electronics industry, leading companies such as Foxconn (Taiwan Province of China) and Samsung (Republic of Korea) are also investing in several multibillion dollar projects in Viet Nam.[29] All of these investments were through greenfield projects, rather than acquisitions.

Table II.10. South, East and South-East Asia: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

	Net sales of companies in South, East and South-East Asia[b]			Net purchases by South, East and South-East Asian companies worldwide[c]		
Sector/industry	**2007**	**2008**	**2009[a]**	**2007**	**2008**	**2009[a]**
Total	45 328	50 796	15 857	54 180	68 759	8 654
Primary	3 348	823	786	- 28	6 098	384
Mining, quarrying and petroleum	2 566	624	776	2 258	6 104	375
Secondary	13 828	18 936	4 492	16 089	6 569	2 064
Food, beverages and tobacco	1 903	1 661	2 660	- 575	201	16
Textiles, clothing and leather	23	286	13	487	579	374
Chemicals and chemical products	1 600	8 237	176	1 189	228	- 40
Non-metallic mineral products	1 313	1 116	349	60	396	- 13
Metals and metal products	2 308	1 635	- 0	1 727	759	1 455
Machinery and equipment	1 771	875	132	6 162	1 146	45
Electrical and electronic equipment	2 666	1 612	79	5 847	776	68
Motor vehicles and other transport equipment	561	1 703	8	261	2 557	85
Services	28 152	31 037	10 580	38 119	56 092	6 206
Electricity, gas and water	194	7 498	2 357	2 099	3 444	2 484
Construction	- 181	41	47	260	1 360	41
Trade	- 37	1 942	1 242	803	- 109	1 332
Transport, storage and communications	2 286	5 314	4 202	- 11 940	- 238	- 3 342
Finance	15 170	11 640	432	45 990	47 753	5 339
Business services	7 647	3 566	2 111	560	1 196	278

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Net sales in the industry of the acquired company.
[c] Net purchases by the industry of the acquiring company.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

(ii) Outward FDI: resource-seeking FDI rose

In 2008, cross-border M&A purchases by firms based in South, East and South-East Asia increased significantly in the primary and services sectors, but declined in manufacturing (table II.10). Some of the largest deals targeted the services sector both in the region and in developed countries: investment by Temasek Holdings (Singapore) in Merrill Lynch (United States) is a good example (table II.11). A recent case in manufacturing was the $2.3 billion acquisition of Jaguar Cars Ltd (United Kingdom) by Tata Motors Ltd (India) (table II.11).

In the primary sector, outward FDI in agriculture from East and South-East Asia has been on the rise. In 2008, resource-seeking FDI from the region continued to expand as well. In addition to oil companies, large mining and metal companies from China and India have become more and more aggressive in acquiring overseas assets. For example, in February 2008, in cooperation with Alcoa (United States), Chinalco (China) acquired a 12% stake in Rio Tinto PLC in the United Kingdom, for $14 billion. This deal, China's biggest ever acquisition overseas, gave Chinalco 9% ownership of Rio Tinto (Australia/United Kingdom) as a whole, making it the largest shareholder. However, in early 2009, a second deal by Chinalco aiming at acquiring Rio Tinto's Australian assets failed.

The global financial crisis may to some extent promote more natural-resource-seeking investments by Asian firms. During the global financial crisis, for example, the slump in share prices of mining companies in Australia, together with the sharp depreciation of its currency, have created good acquisition opportunities for resource-hungry investors from developing Asia. In addition, heavily indebted Western mining companies' need for cash might enable Asian companies to control mining assets. In July 2008, for instance, Sinosteel (China) acquired a 51% stake in Midwest (Australia), an iron ore mining firm, for $1.4 billion.

In financial services, a number of sovereign wealth funds and other financial institutions based in East and South-East Asia started to invest in troubled banks in developed countries in 2007 and 2008. The Asian investors might have seen this as a good opportunity to buy big Western banks that were in urgent need of cash during the credit crunch, and to access developed-country markets for financial services. However, the huge losses in book value suffered by the investors in late 2008 and 2009 highlighted the high risks associated with such investments.

c. Policy developments

The overall trend in Asian countries to change national policies and legislation to become more favourable to FDI led to the further opening up of markets and to a more enabling environment for foreign companies to do business in several countries. Government policy responses to address the financial crisis and its economic aftermath have played an important role in creating favourable conditions for a recovery of economic growth and FDI inflows in the region.

Regarding changes in national legislation more favourable to FDI, India abolished existing FDI ceilings, or at least raised some of them, for certain industries in 2008 and early 2009.[30] In March 2009, China streamlined the procedures for approval of FDI projects in general and holding companies in particular.[31] In April 2009, Malaysia raised foreign equity limits in financial services.[32] In Viet Nam, beginning from September 2008, a newly introduced decree eliminated permits and sub-licence

Table II.11. South, East and South-East Asia: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	14 284	Rio Tinto PLC	United Kingdom	Gold ores	Chinalco	China	12
2	7 785	China Netcom Group Corp (Hong Kong) Ltd	Hong Kong, China	Radiotelephone communications	China Unicom Ltd.	China	31
3	5 617	Standard Bank Group Ltd	South Africa	Banks	ICBC	China	20
4	4 400	Merrill Lynch & Co Inc	United States	Security brokers, dealers, and flotation companies	Temasek Holdings	Singapore	11
5	3 072	Tuas Power Ltd	Singapore	Electricity services	Huaneng Group	China	100
6	2 656	Sabiha Gokcen International Airport	Turkey	Airports and airport terminal services	Investor Group	India	100
7	2 501	Awilco Offshore ASA	Norway	Oil and gas field exploration services	Undisclosed	China	100
8	2 489	Santos Ltd	Australia	Crude petroleum and natural gas	Undisclosed	Malaysia	40
9	2 474	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	53
10	2 300	Jaguar Cars Ltd	United Kingdom	Motor vehicles and passenger car bodies	Tata Motors Ltd	India	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home economies.

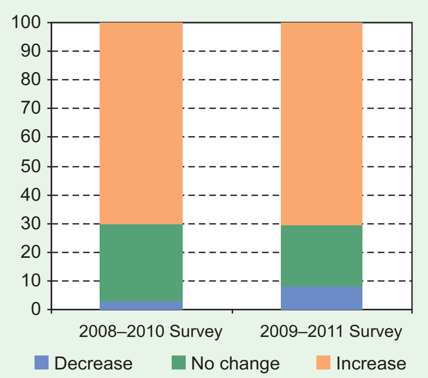
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

requirements imposed by ministries, agencies and local authorities on businesses.[33] In terms of more openness to FDI in R&D, the Republic of Korea now allows foreign institutions to take the lead role in joint research projects between entities based in the country and other countries.[34]

In 2008, several Asian countries also adopted measures with a regulatory effect on FDI. In Indonesia, for example, in March 2008 the Ministry of Communications issued a decree banning foreigners from investing in the construction and ownership of wireless communications towers.[35] China introduced its Anti-monopoly Law (effective as of 1 August 2008) and an enforcement system involving three government agencies. The first rejected M&A case was the $2.4 billion bid by Coca Cola (United States) to acquire Huiyuan, a Chinese fruit juice company.[36]

At the regional level, the Asia Pacific Economic Cooperation (APEC) forum reached agreement in May 2008 on its Investment Facilitation Action Plan 2008–2010, which was designed to encourage investment in the Asia-Pacific region by reducing obstacles to foreign investors. Specifically, the plan contains investment facilitation principles to guide the collective actions of APEC member economies in key areas affecting investment flows.[37] Also, the Heads of State of the Association of Southeast Asian Nations (ASEAN) affirmed their commitment to ensure the free flow of investments and to expand regional cooperation, including among ASEAN countries, plus China, Japan and the Republic of Korea.[38]

Figure II.10. South, East and South-East Asia: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD 2009b.

The countries of the region concluded 19 BITs and 13 DTTs in 2008, bringing the total to 777 and 767, respectively. South, East and South-East Asia continued to be the most active developing region, with 10 new agreements other than BITs and DTTs signed in 2008 (chapter I). Singapore concluded FTAs with the GCC, China and Peru, while China concluded agreements with New Zealand and Peru. ASEAN countries concluded FTAs with Japan, Australia and New Zealand; Viet Nam concluded an FTA with Japan.

d. Prospects: downturn is looming

Due to the heavy reliance of East and South-East Asia on trade, the impact of the current financial crisis on the region's economic performance will be much deeper than was anticipated, and will inevitably have a negative impact on FDI flows in the short to medium term. Weakened FDI activity in the first half of 2009 ended the growth trend of FDI to the region. The duration and depth of the downturn in FDI will depend on a range of factors, including, in particular, the severity and duration of the global recession and the efficiency and effectiveness of national and international policy responses in the region.

FDI inflows into the region that have been driven by both efficiency- and market-seeking motives are being affected. A big fall in demand from developed countries is inevitably causing a fall in efficiency-seeking, export-oriented FDI to the region. In the countries where the confidence of domestic consumers is falling and economic and income growth are sharply slowing down, market-seeking FDI is also decreasing. However, in China and India, such kind of FDI is expected to recover soon. This is partly supported by the view of TNCs in response to the *WIPS 2009–2011* (figure II.10). In China, proactive fiscal policy responses to sustain economic growth, such as the $580 billion stimulus package, as well as the expansionist monetary policy, may help maintain foreign investors' confidence and FDI inflows at relatively high levels.

In terms of outward FDI, as noted above, the ability and motivation of some large TNCs in the region to invest abroad have been weakened significantly by the global financial and economic crisis. On the other hand, companies and funds from a number of Asian economies that are not, or are less, affected by the financial turmoil may maintain an aggressive strategy for overseas investments and become more important actors on the global FDI scene.[39] Furthermore, for many Chinese and Indian companies, in particular, the desire to acquire undervalued assets (such as mineral deposits, technologies, brand names and distribution networks) during the global and financial crisis may boost Asian investments in developed countries.

3. West Asia

FDI inflows into West Asia increased in 2008 for the sixth consecutive year. The increase was largely due to a significant rise of inflows to Saudi Arabia, whereas FDI growth was uneven among the other countries of the region. It was mainly driven by real estate, petrochemicals, refining, construction and trade. Until September 2008, FDI inflows were still bolstered by the continuous rise in oil prices, robust economic growth and the proliferation of mega development projects. However, seizure in global credit markets has had a severe impact on the financing of development projects, which is likely to cut FDI inflows in 2009. FDI outflows from West Asia fell sharply in 2008, along with the value of net cross-border M&A purchases by West Asian TNCs. After suffering large losses related to the global crisis, outward investors have become more risk averse, and some have turned their spending to their own economies. On the other side, the fall in global equity markets has offered new investment opportunities for cash-rich enterprises and entities, which is likely to positively affect outward prospects for 2009. The policy liberalization trend continued in 2008, with the implementation in a number of countries of new policy measures aimed at encouraging FDI.

a. Geographical trends

(i) Inward FDI: 2008 marked six years of growth

FDI inflows to West Asia increased by 16%, to $90 billion in 2008, marking the sixth consecutive year of increase (figure II.11). The region's share in total FDI flows in the developing world rose to 15% in 2008, compared with a paltry 3% in 2002. Traditionally, FDI inflows in West Asia have been concentrated in Saudi Arabia, Turkey and the United Arab Emirates, particularly since 2003. They accounted for 75% of cumulated inflows during the period 2003–2007, and for 78% in 2008. They were also the top three holders of inward FDI stock, with 70% of West Asia's aggregate FDI stock concentrated in them in 2008.

The increase of FDI inflows in 2008 was largely due to soaring flows to Saudi Arabia, which rose by 57% to $38 billion (figure II.12). The petrochemical and refining industry in that country accounted for most of the growth in inflows, which amounted to $12 billion (a 57% increase over the previous year), and there was a fourfold rise in the real estate sector, where inflows totalled $7.9 billion (SAGIA, 2009). Saudi Arabia attracted 42% of total inflows to the region, consolidating its position as the region's top FDI recipient (figure II.12).

In Turkey, the second largest recipient in the region, inflows declined by 17% to $18 billion, after reaching an exceptionally high level in 2007 due to a number of cross-border M&A mega deals in the financial industry (see *WIR07*). Inflows fell by 3% in the United Arab Emirates to $14 billion, as the global financial crisis in the last quarter of 2008 began to hit Dubai's tourism, real estate and banks.

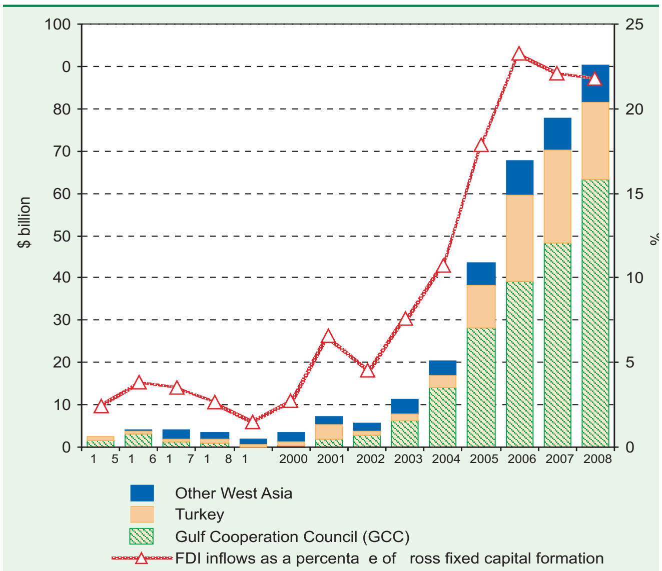
Among the other countries of the region, Qatar saw a sizeable 43% increase in FDI inflows, mainly in liquefied natural gas (LNG), power and water, and telecommunications. In Lebanon, the 32% rise in inflows was mainly driven by real estate. In the Syrian Arab Republic the massive 70% rise in inflows, that reached $2 billion, was attributable to growing business opportunities resulting from that country's increasing economic openness and improving international relations. FDI inflows rose only slightly in Bahrain, Iraq and the Palestinian territory, remained almost at the same level in Jordan, and fell in Kuwait, Oman and Yemen (annex table B.1).

Until September 2008, FDI to West Asia was still bolstered by the continuing rise in oil prices, which formed the basis for robust economic growth. The members of the Gulf Cooperation Council (GCC)[40] have used their abundant oil wealth to launch massive projects in a variety of industries, such as refineries, petrochemicals, electricity, water, telecommunications, real estate, and tourism and leisure. In the process, their reliance on FDI has increased, not so much for its financial contribution, but for the technology, expertise and management it brings with it. High oil prices also contributed to the increase in FDI in countries that are not significant oil exporters in two principal ways: (i) they made funds available for increased intraregional FDI; and (ii) they boosted economic growth through increased aid, investment and workers' remittances from the GCC countries. These factors increased the attractiveness of these countries for FDI.

The sharp fall in oil prices and the steadily worsening outlook for the world economy since the third quarter of 2008 have dampened the optimism that infused the region for the past six years. Countries are now facing the prospect of deficits on their fiscal and current accounts for the first time in over five years, and development projects across the region are being hit hard by the global credit crunch and the changing economic outlook. The number of international banks willing to lend to projects in GCC countries has shrunk sharply: only 12 banks were actively seeking project finance deals there at the end of 2008, down from 45 in 2006.[41] As a result, major oil and gas, industrial and infrastructure projects that have a substantial amount of FDI have been delayed (see box II.3). Countries that are not (or not significant) oil exporters face worsening economic prospects and much lower oil revenues for intraregional FDI.

While FDI inflows to West Asia remained resilient to the global economic and financial crisis in 2008, cross-border M&A sales in the region dropped by 36% to $14.7 billion in 2008. This was due to a 71% fall in net acquisitions by TNCs from developed countries, which plummeted to $4.2 billion. TNCs from developing countries registered a smaller

Figure II.11. West Asia: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

decrease in net acquisitions (5%), which totalled \$7.5 billion, 62% of which involved West Asian TNCs (table II.12). Most of the net cross-border sales (79%) took place in Turkey where they amounted to \$11.6 billion (annex table B.4.), half of which were privatization deals. The fall in cross-border M&A sales accelerated during the first half of 2009, as net sales in that period totalled only \$1.4 billion (table II.12).

(ii) Outward FDI: strong decline, especially to developed countries

FDI outflows from West Asia amounted to \$34 billion in 2008, down by 30% (figure II.13). They fell the most in Saudi Arabia (from \$13.1 billion to \$1.1 billion) and in Qatar (from \$5.3 billion to \$2.4 billion). Outward stocks amounted to \$132 billion, with GCC countries accounting for more than 80% of the total. All major investors from the region are GCC countries (figure II.14).

This strong decline in outward FDI is largely explained by the 45% fall in the value of net cross-border M&A purchases by West Asian TNCs, due to a 73% drop in their net purchases (by value) of firms in developed countries.[42] By contrast, West Asia's cross-border acquisitions in developing Asia increased by 63%. As a result, the share of developed countries in the net value of total purchases abroad by West Asian enterprises declined sharply, from 70% in 2007 to 34% in 2008 (table II.12). The GCC countries accounted for 97% of West Asia's cross-border M&A purchases in 2007 and for 93% in 2008 (annex table B.4).[43]

Outward FDI activities have become part of the diversification policy of GCC countries, away from oil- and gas-based economies, with sovereign wealth funds (SWFs), State-owned enterprises (SOEs) and other government-controlled entities playing a key role.

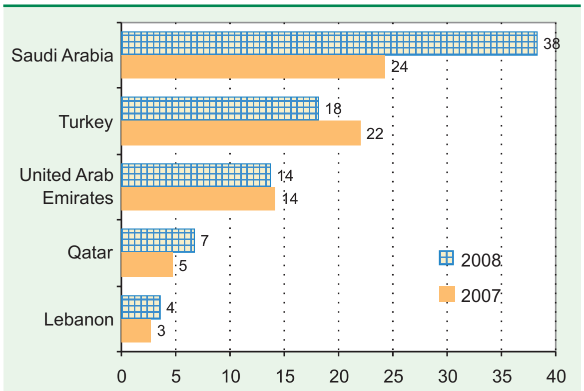
With the global financial crisis and the collapse of global equity markets, most SWFs in the region – as elsewhere – have registered significant losses, estimated at close to 30% of their portfolios (table II.14). This has made them risk averse (box II.4). At the same time, SOEs and government-controlled entities in general (including SWFs) have switched their spending to their own crisis-hit economies. They are thus reducing purchases of foreign assets, and several have even liquidated assets abroad in order to secure funds to bail out their domestic banking systems and capital markets.[44]

However, the exception is GCC members' State-owned telecom companies, which were actively investing abroad in 2008. Saudi Telecom, Zain (Kuwait), and Qatar Telecom (Qtel) each concluded a cross-border M&A mega deal (table II.15), and Omantel (Oman) acquired a 65% stake in Pakistan's WorldCall for \$204 million. In addition, a number of GCC States' telecom companies secured licences to operate abroad.[45]

b. Sectoral trends: manufacturing up

Sectoral data for Saudi Arabia and Turkey, which together attracted 63% of total FDI inflows to the region in 2008, show an FDI boom in real estate acquisitions. Inflows to this industry increased by 120%, to \$10.9 billion. There was a 28% increase

Figure II.12. West Asia: top 5 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Ranked by the magnitude of 2008 FDI inflows.

in the manufacturing sector – mainly oil refining and petrochemicals as well as food and beverages – resulting in total investments of $17.8 billion. On the other hand, the services sector with $20.3 billion worth of inflows registered a 3% decline, and the primary sector saw an even larger decline of 13% with inflows amounting to $4 billion. Within the services sector, FDI increased strongly in construction (104%) and trade (154%), to $3.7 billion and $2.9 billion respectively, while it decreased by 36% in finance to $8.4 billion.[46]

The sectoral breakdown of cross-border M&A net sales in the region shows a halving of net sales in the services sector and their doubling in manufacturing in 2008 (table II.16). The latter is mainly the result of a number of privatization deals that took place in Turkey, which involved the sale, among others, of a refinery for $2 billion and a tobacco company for $1.7 billion.

In the *primary sector,* TNCs have been very active in West Asia, despite restrictions on foreign investment in the upstream segment of the oil and natural gas industry. Moreover, they have remained active even after the fall in oil prices since the second half of 2008. Depending on national regulations, their participation takes the form of either service contracts, production sharing agreements, concessions, or joint ventures with SOEs.

- In *Saudi Arabia*, a number of foreign companies, including the Royal Dutch/Shell Group (United Kingdom/Netherlands), Sinopec (China), Eni (Italy) and Lukoil (Russian Federation) are exploring for gas in the south-east of the country. In addition, all the major international oil/gas design, engineering, and project management companies have a strong presence, and are competing with each other for signing oil and gas service contracts with the State-owned Saudi Aramco. In 2009, J. Ray McDermott (United States), Hyundai Engineering and Construction (Republic of Korea) and Petrofac (United Kingdom) were awarded contracts for development of the offshore Karan gas field and onshore processing facilities.[47]
- In the *United Arab Emirates* in 2009, Adco[48] awarded contracts worth a total of $3.6 billion to Petrofac (United Kingdom), Tecnicas Reunidas (Spain) and CCC Group (Greece), for the expansion of production capacity in three fields.[49]

Box II.3. Reappraisal of some big project deals in GCC countries

West Asia has emerged in recent years as the world's biggest market in project finance, with the private sector (both national and foreign) playing an increasing role. For example, in the first nine months of 2008, nearly $40 billion in project debt was raised for developments in West Asia and North Africa compared with $32 billion in Western Europe and $29 billion in North America. In addition, the project finance debt raised in West Asia and North Africa in the whole of 2006 amounted to over 5% of the region's GDP, compared with less than 0.25% in Western Europe, with Saudi Arabia in the lead.

However, the deepening global financial and economic crisis has dried up project finance, and has also led developers to reappraise projects in light of the new economic outlook. Indeed, falling demand and the worsening outlook for credit markets are affecting project prospects and their financing, especially those that require substantial investments (box table II.3.1).

The collapse of the project finance market and the drying up of financing from international banks has put pressure on governments to mobilize local liquidity through increased direct public funding, additional local equity, or loans from local banks. For example, the Saudi Arabian Government has significantly relaxed its tight monetary policy by cutting both the repurchase rate and reserve requirements for banks. Moreover, in 2009 it awarded two railroad contracts worth some $3.6 billion, financed through the State-owned Public Investment Fund. The first was awarded to a consortia led by local groups, with Chinese minority participation, and the second to China Railway Construction Corporation. Finally, the $2.5 billion Rabigh power project has been resumed with the financial backing of two local institutions, Samba and Al-Rajhi Bank. The Republic of Korea's State-run electricity company, KEPCO, is to develop the project in a consortium with Saudi Arabia's ACWA Power International.

Box table II.3.1. Examples of delayed projects in some GCC countries

Nature of the project	Host country	Investors	Amount ($ billion)
Aluminium smelter	Saudi Arabia	Rio Tinto Alcan (Canada) /Maaden (Saudi Arabia)	10.0
Refinery (Yanbu)	Saudi Arabia	Saudi Aramco (Saudi Arabia) /ConocoPhillips (United States)	10.0
Refinery (Jubail)	Saudi Arabia	Saudi Aramco (Saudi Arabia)/Total (France)	10.0
Water and power (Ras el Zour)	Saudi Arabia	Sumitomo (Japan) /Malakoff (Malaysia)/Al Jomaih (Saudi Arabia)	5.5
Power generation and water desalination (Shuweihat 2)	United Arab Emirates	ADWEA (UAE) (60%) /GDF Suez (France) (40%)	2.0
Worlds of Discovery theme park collection	United Arab Emirates	Nakheel (UAE) /Busch Entertainment (United States)	-
Power and water (Al Dur)	Bahrain	Gulf Investment Corporation (Kuwait)/GDF Suez (France) (50%)	2.2

Source: UNCTAD, based on EIU, *Business Middle East*, 1–15 November 2008, 1–31 December 2008, and 1–15 March 2009*; Middle East Business Intelligence* (MEED), 24 February 2009, 19 March 2009 and 27 March 2009; *Trade Arabia*, 4 March 2009; *Global Water Intelligence*, 9(10), October 2008; and *Project Finance*, November 2006.

Table II.12. West Asia: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in West Asia[b]			Net purchases by West Asian companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
World	22 976	14 677	1 391	37 056	20 498	8 652
Developed economies	14 332	4 179	1 394	25 994	7 030	7 037
Europe	9 783	4 369	1 394	3 525	1 376	1 848
European Union	9 835	3 892	1 258	3 890	1 376	1 595
France	- 647	- 80	408	210	3 714	- 129
Germany	1 840	- 64	-	40	51	951
Netherlands	2 895	244	187	898	- 268	-
Sweden	3 100	-	-	-1 658	-4 109	-
United Kingdom	247	3 593	33	3 352	854	757
North America	4 376	13	-	21 717	5 307	3 904
Canada	-	11	-	5 388	3 989	-
United States	4 376	3	-	16 329	1 318	3 904
Other developed countries	172	- 203	-	752	347	1 285
Australia	32	- 203	-	- 21	335	1 143
Developing economies	7 956	7 532	- 11	10 901	13 178	1 615
Africa	525	115	-	3 485	1 060	513
Egypt	525	125	-	2 372	837	180
Latin America and the Caribbean	-	52	-	-	60	320
Asia	7 431	7 364	- 11	7 416	12 058	782
West Asia	6 108	4 664	- 11	6 108	4 664	- 11
Iraq	-	-	-	-	1 234	-
Kuwait	1 044	2 383	20	3 801	22	- 58
Oman	-	159	-	621	10	28
Qatar	4 087	908	6	-	117	-
Saudi Arabia	68	1 087	- 64	125	26	-
Turkey	-	-	-	833	1 087	-
United Arab Emirates	764	43	28	169	1 020	-
South, East and South-East Asia	1 323	2 700	-	1 308	7 394	793
India	37	2 678	-	9	- 181	-
Indonesia	-	-	-	510	1 816	793
Malaysia	5	76	-	330	1 278	-
Pakistan	-	-	-	- 708	417	-
Singapore	7	- 53	-	1 041	3 301	-
South-East Europe and the CIS	612	2 622	-	161	290	-
Kazakhstan	257	2 050	-	-	-	-

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Sales to the region/economy of the ultimate acquiring company.
[c] Purchases in the region/economy of the immediate acquired company.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

- In *Oman* in 2009, the Ministry of Oil and Gas awarded Epsilon Energy (Canada) the rights to explore for oil and gas in concession block 55. Foreign oil companies are very active in the country's petroleum sector. The main producer, Petroleum Development Oman – a joint venture that includes the Omani Government, Royal Dutch/Shell (United Kingdom/Netherlands), Hunt Oil (United States), Circle Oil (Ireland) and Sinopec (China) – has signed concession agreements in recent years. In addition, Occidental Petroleum (United States), the Mubadala Development Company (United Arab Emirates) and the State-owned Oman Oil Company signed an agreement in November 2008 to develop together four gas fields in Oman.[50]
- In *Bahrain*, the National Oil and Gas Authority (NOGA) has selected a consortium led by Occidental Petroleum (United States) to upgrade facilities and increase production at its Awali oilfield. The two sides signed an initial accord in March 2009, with a final 20-year development and production sharing agreement expected to be concluded later.[51]
- In the *Syrian Arab Republic*, the Royal Dutch/Shell Group and France's Total signed extensions to their production sharing contracts in 2008, while Petrofac (United Kingdom) was awarded two gas development contracts worth almost $1 billion in total.[52]

In the *manufacturing sector*, soaring energy prices have encouraged FDI in downstream oil refining, petrochemicals and natural gas liquefaction in recent years, especially in the GCC countries. While a number of mega refinery and petrochemical projects with foreign participation have been delayed (section a), other projects went ahead. For example construction began of a liquefied natural gas (LNG) plant in Yemen for which Yemen LNG (France/United States/Yemen) obtained $2.8 billion in financing in 2008. A number of cross-border acquisitions took place in Turkey in 2008, including the privatization of a refinery and a tobacco factory (table II.13), and the sale of companies in industries such as steel, cement, plastics, and aluminium.

FDI in *services* has become more prominent in recent years after liberalization and privatization policies in most countries spurred foreign investment in telecoms, banking, power, water and real estate. However, the ongoing economic and financial crisis has also dried up credit in a number of infrastructure mega projects with foreign participation. In addition, investments in residential, commercial and tourism-related real estate projects have been especially hard hit by the crisis, as the lack of liquidity has forced developers to either cancel or suspend many projects.

c. Policy developments

Since the late 1990s, there have been continuous legal reforms towards liberalization in West Asian countries (including regulations governing the status of foreign firms), with the new legal environment becoming more favourable to foreign investors (see *WIR06*, *WIR07* and *WIR08*). Changes have included more liberal entry, fewer performance requirements, more incentives, and more guarantees and protection for investors. The number of activities in which FDI

Table II.13. West Asia: top 10 cross-border M&A sales,[a] 2008

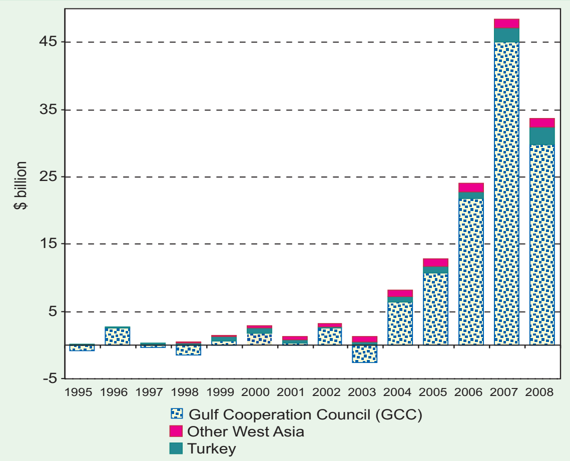
Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	2 850	Oger Telecom	United Arab Emirates	Telephone communications, except radiotelephone	Undisclosed	Saudi Arabia	35
2	2 656	Sabiha Gokcen International Airport	Turkey	Airports and airport terminal services	Investor Group	India	100
3	2 050	Petkim Petrokimya Holding AS {Petkim}	Turkey	Petroleum refining	Investor Group	Kazakhstan	51
4	1 720	Tutun Tutun Mamulleri Tuz ve Alkol Isletmeleri AS	Turkey	Chewing and smoking tobacco and snuff	British American Tobacco PLC	United Kingdom	100
5	1 654	Migros Turk Ticaret AS	Turkey	Grocery stores	Migros Turk Ticaret AS SPV	United Kingdom	51
6	1 200	IRAQNA Company for Mobile Phone Services Ltd	Iraq	Telephone communications, except radiotelephone	Zain Group	Kuwait	100
7	1 080	Turkiye Finans Katilim Bankasi AS	Turkey	Banks	Undisclosed	Saudi Arabia	60
8	877	Eregli Demir Celik Fabrikalari TAS	Turkey	Cold-rolled steel sheet, strip and bars	Arcelor Mittal NV	Luxembourg	11
9	730	Jordan Kuwait Bank	Jordan	Banks	Burgan Bank KSC	Kuwait	44
10	600	United Arab Bank	United Arab Emirates	Banks	Commercial Bank of Qatar QSC	Qatar	40

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] In the immediate host country.

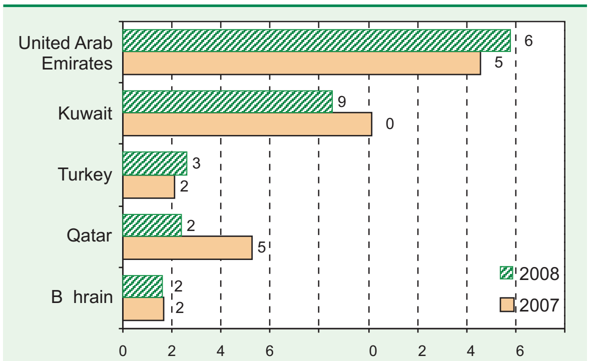
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the utlimate home economy correspond to the acquisition of a foreign affiliate by a national company

Figure II.13. West Asia: FDI outflows, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Figure II.14. West Asia: top 5 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Ranked by the magnitude of 2008 FDI outflows.

is barred or restricted has been reduced, especially in the manufacturing sector, but also, increasingly, in natural resources and services.

This liberalization trend continued in 2008, with relevant policy measures implemented in a number of countries. Examples include the following:

In Saudi Arabia, the business visa requirements have been eased and visas can be issued not only through Saudi embassies but also Chambers of Commerce. In order to facilitate foreign investments into Saudi Arabia, the Government set up 2 new one-stop-shop offices and allowed the Saudi Arabian General Investment Authority offices abroad to issue investment licences to foreigners.[53]

In Kuwait, in 2008 the parliament passed a law to cut the rate of tax levied on foreign companies to 15% from 55%, and to abolish capital gains tax on stock market holdings. It also approved the partial privatization of Kuwait Airways Corporation.[54]

In Jordan, in a move towards liberalization of the downstream segment of the petroleum industry, the Government will allocate distribution and retail assets, and associated staff of the Jordan Petroleum Refinery Company (JPRC), to four new companies; and it will proceed with an international tendering process for the privatization of the four companies. Regarding the privatization of the Jordan Post Company, the Council of Ministers approved, on 6 January 2009, the privatization strategy encompassing the tendering of up to 74% of the company's shares, excluding the company's land and real estate, which shall be retained by the Government of Jordan.[55]

In Turkey, the privatization process continued. The overall privatization proceeds of the Turkish Privatization Administration (PA) amounted to $38.2 billion in July 2009, of which $30 billion related to

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Corrigendum

Table II.14

The data corresponding to the Kuwait Investment Authorities (KIA) and Qatar Investment Authority (QIA) have been mistakenly inverted. The correct table is:

Table II.14. Estimated gains and losses of Gulf funds

(Billions of dollars)

Agency	Value Dec. 2007	Changes in value: Capital gain/loss	Changes in value: Net inflows	Value Dec. 2008	Gain/loss on Dec. 2007 portfolio (%)
Abu Dhabi Investment Authority (ADIA), Abu Dhabi Investment Council (ADIC)	453	-183	59	328	-40
Kuwait Investment Authority (KIA)	262	-94	57	228	-36
Qatar Investment Authority (QIA)	65	-27	28	58	-41
Saudi Arabian Monetary Agency (SAMA)[a]	385	-46	162	501	-12
Other GCC	116	0	-33	84	0
GCC Total	1 282	-350	273	1 200	-27
Memorandum					
Norway	371	-111	64	325	-30

Source: Setser and Ziemba, 2009.
[a] Includes assets managed for other government institutions.

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Kuwait Investment Authority (KIA)	65	-27	28	58	-41
Saudi Arabian Monetary Agency (SAMA)	385	-46	162	501	-12
Other GCC	116	0	-33	84	0
GCC Total	1282	-350	273	1200	-27
Memorandum					
Norway	371	-111	64	325	-30

Source: Setser and Ziemba, 2009.

the period 2004–July 2009. Furthermore, a revenue of $10.6 billion was generated from privatizations implemented by other government institutions.[56]

In the Syrian Arab Republic, the Government took a number of steps in 2008 to liberalize the exchange-rate regime and to improve the access of investors to financing. The cabinet issued a decree allowing foreign investors to obtain external loans in foreign currency, and to purchase foreign currency from local banks to service those facilities. In a further move, the central bank established a hard currency clearing room, allowing conversions between dollars and euros to be conducted automatically. Finally, the Credit and Monetary Council issued a decree authorizing Syrian banks to lend in foreign currency to licensed investment projects.[57]

Oman and Qatar ended the fixed-line monopoly. Oman awarded a second fixed-line licence

Box II.4. The evolving investment strategies of GCC member States' SWFs

Until the 1990s, West Asian SWFs were largely risk-averse investors abroad, investing primarily in dollar-denominated United States Treasury bill holdings. Their role was mainly to support economic stabilization, particularly in the 1990s when oil prices fell to around $10 per barrel. For example, the Saudi Arabian Monetary Agency, which has been accumulating surplus oil revenues since the 1970s, helped fund expansion in Saudi Arabia throughout the decade of low growth from 1980 to 1990. The Kuwait Investment Authority emerged as the main driver of the country's rebuilding efforts in the aftermath of the first Gulf War.

In the late 1990s, GCC governments decided to reduce their dependence on oil by diversifying their investments. With fewer immediate possibilities at home, their SWFs started investing in relatively riskier assets abroad, such as stocks and real estate. This trend gained strength as oil prices started to rise at the beginning of the 2000s, and grew stronger with increased globalization. With oil prices rising further, the strategies of SWFs sought not just to support economic stability and investment diversification, but also to maximize returns, which drove most of them to undertake riskier investments.

The recent oil price boom also led some SWFs to adopt a new approach, using part of their financial surplus to invest in industries that their governments perceive as particularly relevant for the development and diversification of their national economies. This led the more proactive SWFs to seek greater involvement in managing the companies in which they invested. Recent examples of proactive investors include Mubadala Development Company, Dubai Investment Corp (both United Arab Emirates) and Qatar Investment Authority (QIA). Mubadala, for instance, was created in 2002, and over the past few years it has used its assets to develop a network of international and domestic partnerships in numerous industries, including energy, automotives, aerospace, real estate, health care, technology and infrastructure and services. These are industries that benefit the United Arab Emirates' overall economic development objectives. For example, in acquiring a 5% stake in Ferrari in 2005, it improved the potential for increased tourism in Abu Dhabi in the form of the Ferrari theme park. It has also invested $8 billion in an R&D partnership with General Electric (United States), which in turn has committed to increasing its investments and transfer of technology to the United Arab Emirates.

However, the recent collapse of real estate and equity markets has generated large losses for SWFs (table II.14), but it also offers investment opportunities. It is too early to gauge the impact of the financial crisis on the investment strategies of these funds. Some have helped European and North American banks weather the crisis,[a] but, after sustaining large losses,[b] they have become more cautious in their investments abroad and are switching to investments in support of their local economies. Others are continuing to engage in strategic investments by making smaller scale acquisitions that support their national economic development objectives (see section d).

Source: UNCTAD, based on *Knowledge@Wharton*, 11 March 2009; *Stratfor Global Intelligence*, 25 November 2008; *SWF Radar*, 19 February 2008; EIU, *Business Middle East,* 1-15 January 2008; *Thomson Reuters*, 31 January 2008; and Behrendt, 2009.

[a] For example, Abu Dhabi Investment Authority (United Arab Emirates) injected $7.5 billion into Citigroup (United States) at the beginning of 2008 for a 4.9% stake; Kuwait Investment Authority (Kuwait) acquired a minority stake in Merrill Lynch (United States) for $2 billion; and Qatar Investment Authority (Qatar) invested $500 million in Credit Suisse for a 2% stake.

[b] For example, in late September 2008, KIA admitted to a loss so far of $270 million on a $3 billion investment in Citigroup made in January 2008.

Table II.15. West Asia: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 964	PrimeWest Energy Trust	Canada	Crude petroleum and natural gas	Undisclosed	United Arab Emirates	100
2	3 397	OMX AB	Sweden	Security brokers, dealers, and flotation companies	Undisclosed	United Arab Emirates	69
3	2 964	Cegelec SA	France	Engineering services	Undisclosed	Qatar	100
4	2 850	Oger Telecom	United Arab Emirates	Telephone communications, except radiotelephone	Undisclosed	Saudi Arabia	35
5	1 800	Indonesian Satellite Corp PT	Indonesia	Telephone communications, except radiotelephone	Qtel	Qatar	41
6	1 598	Labroy Marine Ltd	Singapore	Ship building and repairing	Undisclosed	United Arab Emirates	98
7	1 400	280 Park Ave,New York,NY	United States	Operators of nonresidential buildings	SIPCO Ltd	Bahrain	100
8	1 256	JTC Corp-Industrial Property Portfolio	Singapore	Land subdividers and developers, except cemeteries	Arcapita Bank BSC	Bahrain	100
9	1 205	RHB Capital Bhd	Malaysia	Investment advice	Undisclosed	United Arab Emirates	25
10	1 200	IRAQNA Company for Mobile Phone Services Ltd	Iraq	Telephone communications, except radiotelephone	Zain Group	Kuwait	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

to Nawras (Oman-based affiliate of Qatar Telecom) in November 2008, while Qatar did the same in September 2008 with a consortium including United Kingdom's Vodafone Group.[58]

A one-stop-shop the system for foreign investments was implemented in Yemen. It makes possible the completion of a business start-up at a single location, where the licence and registration services of 14 government agencies (such as immigration, customs, taxation and project registration) are available in one place.[59]

In the area of international investment agreements, West Asian countries concluded 15 new BITs, bringing the total number of BITs for the region to 407 by end 2008. The Syrian Arab Republic was the most active, signing three new BITs with the Czech Republic, India and Romania, followed by Jordan, Qatar, Turkey and Yemen, with two new BITs each.

As far as DTTs are concerned, 12 new agreements were concluded by West Asian countries in 2008, bringing the total number of the region's DTTs to 311 by the end of 2008. The most active was Qatar with four new agreements (Cyprus, Malaysia, the Netherlands and the former Yugoslav Republic of Macedonia), followed by the Syrian Arab Republic with two new DTTs (with Croatia and the Czech Republic).

Regarding IIAs other than BITs and DTTs, Turkey and Chile concluded an FTA that includes investment promotion provisions. Also the GCC and Singapore concluded an FTA, including provisions encouraging the conclusion of BITs between Singapore and GCC countries.

d. Prospects: fall in inflows, but a possible rise in outflows

FDI inflows to West Asia are expected to fall in 2009 as the impacts of the ongoing global economic and financial crisis cause a further drop in international trade and in key revenue sources, as well as a continued tightening of credit markets for

Table II.16. West Asia: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

	Net sales of companies in West Asia[b]			Net purchases by West Asian companies worldwide[c]		
Sector/industry	2007	2008	2009[a]	2007	2008	2009[a]
Total	22 976	14 677	1 391	37 056	20 498	8 652
Primary	144	3	-	5 782	3 486	281
Mining, quarrying and petroleum	140	-	-	5 782	3 486	281
Secondary	2 449	5 224	39	14 999	2 597	45
Food, beverages and tobacco	581	1 720	-	53	876	113
Coke, petroleum and nuclear fuel	-	2 050	-	- 392	-	-
Chemicals and chemical products	781	-	- 59	11 645	48	- 64
Motor vehicles and other transport equipment	-	27	-	2 261	1 607	-
Services	20 383	9 451	1 352	16 274	14 416	8 327
Electricity, gas and water	479	51	1 145	12	240	320
Trade	38	1 861	-	- 1 819	174	- 10
Transport, storage and communications	9 634	2 900	6	3 890	3 651	1 077
Finance	7 803	3 682	20	17 985	8 574	7 197
Business services	810	206	104	- 2 276	2 779	- 257

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Net sales in the industry of the acquired company.

[c] Net purchases by the industry of the acquiring company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

investment projects. Preliminary data show a strong reduction in net cross-border M&A sales in West Asia during the first half of 2009 (table II.12).[60] However, accumulated reserves and brighter prospects for oil prices could have a positive effect on FDI to West Asia in the medium term.

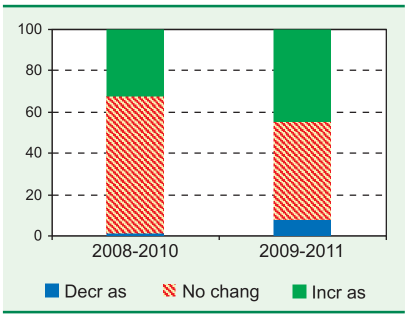
According to UNCTAD's *World Investment Prospects Survey 2009–2011*, FDI prospects in West Asia seem more favourable than those reported in the previous survey. Of the total respondents to the latest survey, 45% expected an increase in FDI during the period 2009–2011 (compared with 32% for the period 2008–2010 of the previous survey), 47% expected no change (compared with 67%), and 8% expected a decline (compared with almost no respondents in the previous survey) (figure II.15).

Outward FDI flows from West Asian countries, largely originating from GCC countries, are expected to increase, as the global economic and financial crisis offers new investment opportunities for cash-rich companies and investment funds. They can take advantage of their relatively strong financial position to buy companies weakened by tight credit markets at discount prices.

Some of them have already begun to make acquisitions that support their national economic development objectives. Particularly active in doing so is the Government of the Abu Dhabi Emirate, which has undertaken a series of acquisitions and/or partnerships through the International Petroleum Investment Company (IPIC),[61] the Mubadala Development Company,[62] the Abu Dhabi National Energy Company (Taqa),[63] and the Abu Dhabi future energy company, Masdar.[64]

In addition, some of them are planning to expand their operations abroad. For example, IPIC (Abu Dhabi) plans to invest not only in the oil and gas sector but also into new areas, increasing its investment stock (including portfolio) to $40 billion within five years. This is double the company's previous 2007 estimates of $20 billion which it was close to reaching at the end of 2008.[65]

Figure II.15. West Asia: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD 2009b.

4. Latin America and the Caribbean

In 2008, FDI inflows to Latin America and the Caribbean (LAC), overall, remained resilient despite the spreading financial crisis and world economic slowdown. However growth rates varied among the different subregions: in South America there was a significant increase in FDI, while Central America and the Caribbean registered a decline. This divergent evolution is due to the differing impacts of the global financial and economic crisis on economies in the two subregions. Natural resources and related activities remained the main attraction for FDI in South America, and they are increasingly becoming a greater FDI target in Central America and the Caribbean. FDI outflows from the region increased, mainly driven by Brazilian TNCs, which offset the strong decline in outflows from Mexico. The shift towards a bigger role of the State in the economies and more restrictive FDI-related policies continued in a number of countries and extended to new activities, some of which related to the financial crisis, such as banking and pension funds.

a. Geographical trends

i. Inward FDI: resilient to the spreading crisis

FDI inflows into Latin America and the Caribbean increased in 2008 by 13%, showing resilience to the spreading financial crisis and world economic slowdown (figure II.16). However, the growth of FDI was uneven among subregions, with a significant increase of 29% in flows to South America, a decline of 6% to Central America and the Caribbean (other than financial centres) and of 7% to the offshore financial centres. In the first quarter of 2009 FDI flows declined by 42% compared to the first quarter of 2008, for a number of Latin American and Caribbean countries (table II.17) while cross-border M&As in the first half of 2009 plummeted to negative values (table II.19).

The strong increase in South America was due to the sharp rise of inflows to the top four recipient countries of the subregion: Brazil (by 30%), Chile (by 33%), Colombia (by 17%) and Argentina (by 37%); together they represented 89% of the subregion's total inflows. *Brazil* alone, with a record $45 billion in investments (figure II.17), accounted for half of the region's total inflows. The rise of FDI to this country resulted from an almost trebling of inflows to the primary sector, mainly due to cross-border M&As in the metals and minerals extractive industry (tables II.18 and II.21). Inter-company loans, which increased by 76% (compared with 15% for equity capital), explain most of the FDI growth in Brazil. In *Chile,* FDI growth was mainly due to a 223% increase in equity capital, partly boosted by a 117% increase in cross-border M&As (see annex table B.4) which compensated for the 27% decline in reinvested earnings.[66] In *Argentina,* FDI growth can be explained by the increase of 152% in intercompany loans and 51% in equity capital. Strong increases in inflows were also registered in countries such as Bolivia, the Bolivarian Republic of Venezuela, Ecuador, Guyana, Paraguay and Uruguay, but from a lower level. Only Peru and Suriname recorded a decline in inflows, though in the case of Peru, they remained above their 2006 level (annex table B.1).

In Central America and the Caribbean (other than financial centres), the decline in FDI inflows was largely due to a 20% fall in flows to Mexico, which mainly resulted from a halving of inflows to the manufacturing sector (CNIE, 2009). Although Mexico remained the subregion's main recipient in 2008, its share in the subregion's total inflows decreased from 76% in 2007 to 65%, suggesting that FDI growth was uneven among the countries of this subregion. Indeed, FDI inflows soared from $830 million to $3 billion in Trinidad and Tobago, which became the subregion's second largest recipient country due to the $2.2 billion acquisition of RBTT Financial by Royal Bank of Canada. Inflows increased by 83% to $2.9 billion in the Dominican Republic, despite a strong decline in the traditional sectors such as tourism, free zones and real estate, suggesting that the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) might have opened new investment opportunities for foreign firms. In Costa Rica, FDI increased by 7%, to $2 billion. It was driven by strong growth in agriculture, which compensated for declining FDI in all the other activities.[67] Increases were also registered in Belize, Cuba, Guatemala, Honduras and Nicaragua – although from low levels – while El Salvador, Haiti and Jamaica registered declining inflows (annex table B.1).

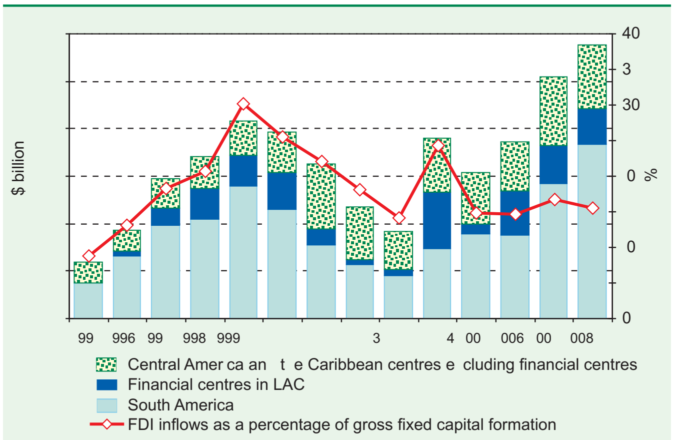
The divergent evolution of FDI inflows to the two main subregions in 2008 is due to the differing impacts of the global financial and economic crisis on their economies. Central American economies, which are strongly dependent on the United States economy, both for their exports and remittances, were directly hit by the slowdown that began in the United States economy in late 2007, and the rapidly deteriorating demand and job market there. South American economies, more reliant on commodity export revenues, were affected by a drop in commodity prices, deteriorating terms of trade and weaker demand in export markets other than the United States, but with a certain time lag. Indeed, until September 2008, South American growth was bolstered by robust domestic and global demand and high prices for commodities such as oil and gas, iron ore, copper, gold, soya beans, of which the subregion is a major exporter. This economic environment continued to attract increasing flows of FDI (mainly resource- and market-seeking) to the subregion.

ii. Outward FDI: sharp rise in outflows from South America

FDI outflows from Latin America and the Caribbean increased in 2008 by 22%, to reach $63 billion (figure II.18). This was due to a strong increase of outflows from South America (131%) that offset the 22% decline of outflows from Central America and the Caribbean. In South America, the strongest increase was registered in Brazil (189%), where outflows amounted to $20 billion as a result of soaring intercompany loans. This suggests that Brazilian parent companies may have transferred capital to their financially distressed affiliates abroad.[68] In contrast, outflows from Mexico plummeted to $0.7 billion from their previous level of $8 billion (figure II.19), as did net cross-border acquisitions by Mexican firms, which posted negative results of -$358 million (annex table B.4). This meant that sales of foreign affiliates of Mexican-based TNCs were higher than the purchases of firms abroad by Mexican-based TNCs.

In 2008, Brazilian enterprises continued to acquire assets abroad in mining and natural-resource-based activities, such as foods and metal and steel (table II.20), which they had started to undertake in 2006. However, the global financial crisis and the fall in commodity prices have revealed the vulnerabilities of these acquiring TNCs. For example, following its

Figure II.16. Latin America and the Caribbean: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Table II.17. Latin America and the Caribbean: FDI flows of selected countries, 2008–2009, by quarter

(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Argentina	3 483	2 236	2 221	913	1 685	346	318	498	188	393
Bahamas	159	219	161	160	163	..	..	..	..	..
Bolivia	253	- 33	200	92	104	..	..	..	..	..
Brazil	8 799	7 910	14 145	14 203	5 342	4 453	4 125	6 829	5 050	- 392
Chile	6 505	1 270	4 883	4 130	3 505	1 959	812	2 655	1 466	2 193
Colombia	2 822	2 623	2 606	2 513	2 528	360	444	764	589	1 168
Costa Rica	375	797	459	390	286	1	- 3	1	7	1
Dominican Republic	1 072	507	998	308	637	..	..	..	..	..
El Salvador	292	58	58	376	- 32	160	- 116	31	- 10	- 31
Guatemala	243	220	217	158	180	4	4	4	4	14
Haiti	6	7	7	11	11	..	..	..	..	..
Mexico	5 995	7 085	3 748	5 122	2 663	- 501	631	6	549	2 939
Nicaragua	125	129	203	169	143	..	..	..	..	..
Panama	562	696	614	529	387	..	..	..	..	..
Paraguay	117	37	118	48	49	2	2	2	2	2
Peru	2 822	1 599	903	- 515	1 391	6	91	35	598	5
Uruguay	569	668	526	442	374	2	4	- 4	- 2	- 2
Venezuela, Bolivarian Republic of	637	1 394	- 33	- 282	906	1 068	1 871	747	- 929	80
Total	*34 836*	*27 422*	*32 034*	*28 766*	*20 322*	*7 862*	*8 184*	*11 569*	*7 512*	*6 369*

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

acquisition of the large nickel producer Inco (Canada) in 2007, Brazil's CVRD (mining) has become more exposed to commodity price volatility. In addition, losses from bad currency bets using derivatives have affected Brazilian and Mexican companies after the sharp devaluation of the real and peso against the dollar. In Brazil, the affected companies include TNCs such as Sadia (a food processor), Votorantim (an industrial conglomerate) and Aracruz (a cellulose maker) that have incurred losses of several billion dollars.[69]

In Mexico, companies such as Cemex, Gruma, Grupo Industrial Saltillo and Comercial Mexicana also reported derivative losses, mostly tied to currency devaluation. In addition to $700 million in losses on derivatives in the third quarter of 2008, Cemex registered a sharp contraction in sales volumes in Spain, the United Kingdom and the United States, as well as a significant increase in the cost of debt and difficulty in refinancing it, not to mention high energy and transportation costs. Moreover, its assets in the Bolivarian Republic of Venezuela were nationalized. The firm also saw a significant decline in its stock price, as well as downgrades from rating agencies.[70]

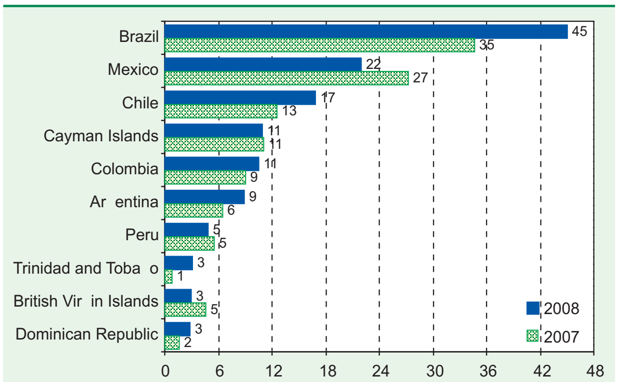
b. Sectoral analysis: continued interest in natural resources and related activities

Natural resources and related activities continued to be the main attraction for FDI in South America. For example in Brazil, which accounted for about half of inflows to South America in 2008, FDI to the primary sector increased threefold in 2008 and represented 34% of total inward FDI to that country. In the manufacturing sector – which accounted for 35% of total FDI in Brazil – natural-resources-related activities (such as metallurgy, food and beverages, plastics and rubber, refining, metals and non-metallic mineral products) attracted more than 80% of total FDI flows to the sector (Banco Central do Brasil, 2009).

In Central America and the Caribbean too, FDI continued to increase in natural-resource-related activities in 2008, in contrast to the decline in total FDI flows to the subregion. For example in Mexico, which accounted for 65% of FDI flows to the subregion in 2008, foreign investments in non-oil extractive industries increased more than threefold in 2008, to reach an unprecedented level of $4.2 billion. While FDI in these industries was almost nil

Figure II.17. Latin America and the Caribbean: top 10 recipient of FDI inflows,[a] 2007–2008

(Billion of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Ranked by the magnitude of 2008 FDI inflows.

Table II.18. Latin America and the Caribbean: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 493	IronX Mineracao SA	Brazil	Iron ores	Anglo American PLC	United Kingdom	64
2	3 120	Nacionale Mineros SA	Brazil	Iron ores	Investor Group	Japan	40
3	2 235	RBTT Financial Holdings Ltd	Trinidad and Tobago	Banks	Royal Bank of Canada	Canada	100
4	2 235	YPF SA	Argentina	Crude petroleum and natural gas	Enrique Eskenazi	Argentina	15
5	2 223	Grupo Financiero Inbursa SA de CV	Mexico	Investment offices, nec	La Caixa	Spain	20
6	1 647	ArcelorMittal Inox Brasil SA	Brazil	Steel works, blast furnaces, and rolling mills	Arcelor Mittal NV	Luxembourg	40
7	1 515	YPF SA	Argentina	Crude petroleum and natural gas	Enrique Eskenazi	Argentina	10
8	1 500	ING Seguros SA de CV	Mexico	Life insurance	AXA SA	France	100
9	1 310	Antofagasta PLC	Chile	Copper ores	Marubeni Corp	Japan	30
10	1 287	Sociedad Austral de Electricidad SA	Chile	Electric services	Investor Group	Canada	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Table II.19. Latin America and the Caribbean: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in Latin America and the Caribbean[b]			Net purchases by Latin American and Caribbean companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
World	20 554	15 231	- 748	38 514	2 584	- 721
Developed economies	14 243	14 119	-1 442	32 130	1 998	- 643
Europe	11 042	6 917	-1 669	4 287	2 139	-3 363
European Union	10 250	7 092	-1 113	3 699	1 595	-3 363
France	866	3 368	- 728	- 23	-	5
Germany	292	164	- 3	4	1 012	-
United Kingdom	1 760	1 986	- 930	2 734	21	-3 121
North America	1 371	2 975	483	12 237	-1 838	2 688
Canada	3 408	4 356	280	2 364	34	162
United States	-2 037	-1 381	203	9 873	-1 872	2 526
Other developed countries	1 830	4 227	- 256	15 606	1 697	32
Australia	59	19	- 3	14 992	184	2
Japan	1 175	4 430	- 262	615	1 513	30
Developing economies	6 274	918	703	6 384	454	- 37
Africa	- 410	175	-	- 155	-	- 66
Latin America and the Caribbean	5 752	170	- 636	5 752	170	- 636
Argentina	625	265	- 98	576	217	850
Brazil	1 995	506	1 529	1 371	863	- 93
Chile	466	- 102	130	220	- 624	- 233
Venezuela	-	- 896	- 7	100	-	-1 970
Central America	1 116	- 479	-	- 424	135	10
Mexico	2 558	- 185	-	270	101	-
Panama	-1 582	- 294	-	-	35	10
Asia	932	572	1 339	787	283	665
China	64	- 33	133	113	- 15	-
Hong Kong, China	232	490	12	561	- 291	- 300
Korea, Republic of	-	125	893	-	112	161
Singapore	356	- 1	-	- 61	215	-

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

before 2007, its share increased to 7% in 2007 and reached 23% in 2008 (CNIE, 2009).

Primary sector

The metal mining extractive industry attracted large amounts of FDI in 2008, along with soaring cross-border M&As. Indeed, net cross-border M&A sales in mining and quarrying increased more than eightfold to reach $9 billion (table II.21), mostly targeting Brazil (table II.18). In contrast, cross-border M&A sales in the oil and gas industry fell to negative values in 2008 and the first half of 2009, indicating divestments by foreign firms (table II.21).

But TNCs were active in greenfield investments both in oil and gas, and in metal and mineral projects. In oil and gas, foreign firms have been very active in exploration activities, especially in Brazil, Colombia and Peru. In Brazil, State-owned Petrobras announced major offshore deepwater discoveries in a number of fields located very deep below the seafloor (in the "pre-salt" area), including those in which the company already has partnerships with foreign TNCs.[71] Although very expensive to exploit, these discoveries have created considerable optimism, not only in the newly discovered fields but also in neighbouring areas, where a number of TNCs have concessions. Some TNCs have already announced significant investment plans, such as the BG Group (United Kingdom), which in January 2009 confirmed investment plans of up to $5 billion over the four-year period to 2012 for development of Brazil's offshore "pre-salt" oil and gas fields.[72]

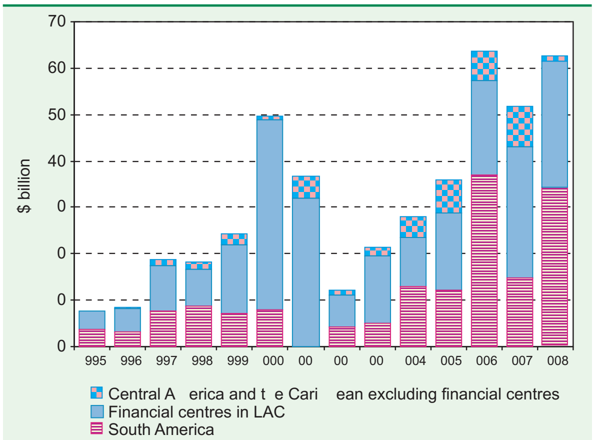
TNCs were also active in metal mining exploration and development projects. In Peru for example, where more than 250 foreign mining companies have been established since 1990, investments in the non-oil mining sector totalled

$1.6 billion in 2008, most of it undertaken by foreign companies (Peru, Ministerio de Energía y Minas, 2009). This excludes investments in exploration, which amounted to $475 million in 2007. In addition, there were three mining projects by foreign companies, totalling more than $4 billion, which were at the feasibility study stage, and another two projects worth $2.1 billion each have also been confirmed. However, there is widespread dissatisfaction among local communities where major mining and energy projects are located (section c).

While South American countries have attracted most of the FDI in the primary sector, the traditional targets of resource-seeking, export-oriented FDI in the region, an increasing share is being directed to Central American countries. This is a trend that has developed since the latest commodity price boom. In Mexico, for example, Goldcorp of Canada has made a large new investment of close to $2.2 billion in various mining projects, including the $1.5 billion Peñasquito project that is expected to reach completion by mid-2009. In addition, Jinchuan Group of China is expected to invest $612 million to develop a large copper-zinc deposit acquired from Tyler Resources (Canada) in January 2008 (Business Monitor, 2008). In the Dominican Republic, Barrick Gold (United States) plans to spend $3 billion on the reopening of the formerly State-owned Pueblo Viejo gold mine. Exploration in oil and gas by foreign firms is also taking place in Cuba, Guyana and Nicaragua.[73]

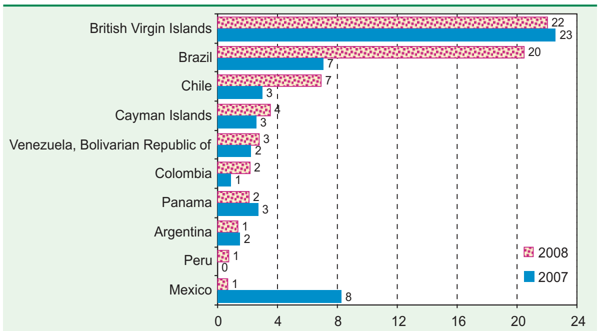
However, slackening world demand for commodities and tightening loan conditions since the second half of 2008 have led to investment cuts and/or delays in some cases. For example, BHP Billiton (Australia) has delayed work on a $6.7 billion expansion plan at its Escondida copper mine in Chile.[74]

Figure II.18. Latin America and the Caribbean: FDI outflows, by subregion, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Figure II.19. Latin America and the Caribbean: top 10 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by the magnitude of 2008 FDI outflows.

Manufacturing sector

FDI inflows to the manufacturing sector in Latin America and the Caribbean declined in 2008. This was due to a sharp drop in flows to Central America and the Caribbean, where foreign-owned export-oriented manufacturing activities are closely tied to the United States economic cycle. In South America, FDI inflows to manufacturing activities are mostly concentrated in Brazil, and more oriented to the internal market and to export destinations other than the United States, so that they more or less maintained their previous level. For example, while in Mexico inflows to the manufacturing sector decreased by 37% in 2008, in Brazil they remained at the same level as in 2007 (at around $16 billion), and double that of 2006 (Banco Central do Brazil, 2009: and CNIE, 2009).

The export factories established in Central America and the Caribbean have been particularly hard hit by the dramatic deterioration of macroeconomic conditions in the United States, which constitutes by far their main export destination. In Mexico, for example, 25% of Ciudad Juarez's 330 plants have temporarily laid off 40,000 employees. In Tijuana, 25,000 jobs were lost before December 2008. Auto-parts maker Delphi, which has 50 plants in Mexico, laid off workers in the first quarter of 2008, and General Motors and Chrysler announced their intentions to reduce production at several plants in Mexico to cut costs and inventories (La Botz, 2009). In other Central American countries there were factory closures in the *maquila* textile industry, and sharp drops in exports and employment. In Nicaragua, for example, employment in the industry fell from around 85,000 workers in 2007 to 65,000 in 2008. The fall accelerated dramatically in 2009: in the month of January alone, the export volume of textiles fell by 35% in Guatemala, 28% in Costa Rica, 27% in El Salvador, 16% in Honduras and 8% in Nicaragua.[75]

Table II.20. Latin America and the Caribbean: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	1 749	Quanex Corp	United States	Steel works, blast furnaces, and rolling mills	Gerdau SA	Brazil	100
2	1 386	Shinsei Bank Ltd	Japan	Banks	Investor Group	Cayman Islands	23
3	944	LWB Refractories GmbH	Germany	Brick and structural clay tile	Magnesita Refratarios SA	Brazil	100
4	565	Smithfield Beef Group Inc	United States	Beef cattle, except feedlots	J&F Participacoes SA	Brazil	100
5	537	OC Oerlikon Corp AG	Switzerland	Semiconductors and related devices	Columbus Trust Co Ltd	Bahamas	11
6	474	Mineracao Taboca SA	Brazil	Miscellaneous metal ores, nec	Cia de Minas Buenaventura SAA	Peru	100
7	455	Sementes Selecta	Brazil	Soybeans	Grupo Los Grobo SA	Argentina	90
8	425	Inalca SpA	Italy	Sausages and other prepared meat products	J&F Participacoes SA	Brazil	50
9	380	Refrigerantes Minas Gerais Ltd[a]	Brazil	Bottled & canned soft drinks & carbonated waters	Coca-Cola FEMSA SA CV	Mexico	100
10	295	US Zinc Corp	United States	Secondary nonferrous metals	Grupo Votorantim	Brazil	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home economy.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

In South America, FDI in the manufacturing sector remained buoyant in 2008 and mostly targeted natural-resource-related activities. In Brazil, metallurgy, food and beverages, petroleum refining, plastics and rubber, and chemical products continued to attract significant FDI, totalling around $13 billion, almost the same amount as in 2007. In Uruguay, the construction by Ence (Spain) of the second of two very large pulp mills was the major driver of FDI growth in 2008. In Peru, implementation of a free trade agreement with the United States boosted FDI in the ethanol industry. Maple Energy (United States) has built a $220 million ethanol facility and Brazilian companies are also interested in investing in the industry, although their plans may be disrupted by the credit crisis.[76]

Table II.21. Latin America and the Caribbean: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in Latin America and the Caribbean[b] 2007	2008	2009 [a]	Net purchases by Latin American and Caribbean companies worldwide[c] 2007	2008	2009 [a]
Total	20 554	15 231	- 748	38 514	2 584	- 721
Primary	1 734	5 173	- 1 675	3 984	1 880	2 262
Agriculture, hunting, forestry and fisheries	278	849	43	-	1 610	-
Mining, quarrying and petroleum	1 456	4 324	- 1 718	3 984	270	2 262
Mining and quarrying	1 001	8 665	309	3 866	137	2 335
Petroleum	454	-4 341	-2 027	118	134	- 72
Secondary	5 212	- 1 540	- 1 553	24 111	2 830	204
Food, beverages and tobacco	1 219	- 539	-	1 654	583	2 502
Chemicals and chemical products	702	- 1 182	29	759	172	9
Non-metallic mineral products	57	-	373	14 437	913	- 65
Metals and metal products	2 357	194	- 1 960	7 313	740	- 1 960
Services	13 609	11 598	2 480	10 419	- 2 126	- 3 187
Trade	1 716	944	1 267	935	134	- 3 106
Transport, storage and communications	3 381	1 350	545	1 749	- 1 849	120
Finance	4 878	7 243	- 36	7 674	1 172	- 207
Business services	2 506	1 785	607	- 196	- 1 731	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Net sales in the industry of the acquired company.

[c] Net purchases by the industry of the acquiring company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

The automobile industry – another important FDI recipient both in Brazil and Argentina – went from boom to bust in a matter of months. Having registered a record-breaking performance since 2003, and strong sales growth during the first nine months of 2008, car manufacturers (almost exclusively foreign investors) were still announcing ambitious investment plans as late as September 2008.[77] However, the global financial crisis and deteriorating local and external demand took their toll at the end of the year. In December alone, production fell year-on-year by over 51% in Brazil and 47% in Argentina. Brazilian automakers reported 1,900 layoffs in January – the third straight month of layoffs. This scenario seems to be changing in Brazil due to the Government's fast action in reducing the IPI, a direct tax on industrialized products. The industry recorded an average growth of 6.1% between January and May.[78]

Services sector

In the financial industry, the worsening of the financial crisis has led some international financial institutions to focus on domestic markets in their home countries, and to shed some of their operations abroad, while others are taking the opportunity to expand through acquisitions at a time when the prices of bank assets are low. For example, the insurance firm American International Group, Inc (AIG) (United States) is reportedly selling its consumer finance businesses in Latin America, and HSBC (United Kingdom) is to close branches and move out of retail banking in Nicaragua and to sell its 18.7% interest in Mexican micro-lender Financiera Independencia. On the other hand, as mentioned above, Royal Bank of Canada acquired RBTT financial holding (Trinidad and Tobago) for $2.2 billion, and the Spanish bank Santander continued to expand its activities in Brazil with the $650 million acquisition in 2008 of Torre Sao Paolo, an owner and operator of office buildings. It also signed an agreement in March 2009 for the purchase of 50% of Brazilian insurer, Real Tokio Marine Vida e Previdencia, for $285 million.[79]

At the same time, in Brazil, the financial crisis has triggered the expansion of domestic banks (either private or State-owned) which had little direct exposure to derivatives markets and other toxic assets, and had learned from the lessons of previous crises and boom-and-bust cycles. These banks have led a wave of consolidations starting with the creation in November 2008 of the Itau Unibanco Banco Multiplo SA through the acquisition of Unibanco by Banco Itaú for 23 billion real. The new entity has become the largest financial institution in the country, and one of the major banks in Latin America. However, this may not be for long, as State-controlled Banco do Brasil, backed by the Government (section c), has been making a series of acquisitions in a move to regain the leadership position in a strategic sector of the economy at a time of global financial crisis.[80]

In retail, the global financial and economic crisis has forced some retailers to reduce their expansion plans, while it has represented opportunities for others to get bigger. For instance, Chilean retailers that were undergoing a period of expansion in Latin America at the time of the crisis began to postpone or cancel foreign investment plans or sell some of their assets abroad: Ripley decided to postpone its plans to invest an estimated $400 million in Mexico during 2009. In January 2009, Wal-Mart Stores (United States) paid $2.8 billion for a 58.2% controlling stake in D&S, Chile's largest grocer. Wal-Mart has not been hurt by the crisis, and has even continued to grow, increasing its income by 5.2% in 2008. Its strategy of low prices and its financial strength seem to have given it a competitive advantage in a time of crisis. The company announced that in 2009 it would open stores in Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Chile and Puerto Rico.[81]

In the tourism industry, dominated in the Caribbean countries by foreign investors, the global credit crunch and declining demand have had a severe impact on projects. Several airlines have announced substantial cuts to their existing timetables or halted flights to the region completely. Luxury real estate and tourism resort activities have fallen victim to tougher credit terms and growing risk aversion. For example, the Cap Cana project in the Dominican Republic, the Caribbean's largest resort development, laid off hundreds of workers and suspended construction due to financing problems. The scarcity of funding also paralysed the construction of a hotel in the Turks and Caicos Islands for the Ritz-Carlton hotel chain (United States).[82]

c. Policy developments

FDI-related policies in parts of Latin America and the Caribbean have moved towards more State control, a trend that had already been observed in previous years (see *WIR08*, *WIR07*, *WIR06*). This is not only due to dissatisfaction with the outcome of the economic reforms implemented during the 1990s, in which privatization and FDI promotion were core policy tools; it is also because of the commodity price boom, which led governments to review incentives given to resource-oriented FDI and reduced their dependence on external finance by improving their current-account balances. The policy trend towards more State control has been most visible in oil and natural gas, where a number of measures have been implemented.

For example, in Bolivia, after the nationalization of the country's largest telephone company Entel (Telecom Italy) in May 2008 (see *WIR08*), the Government went on to complete the nationalization of the Bolivian oil and natural gas industry.[83] Until May 2009, the following companies had been nationalized: Andina, Chaco, Transredes, YPFB Refinación, CLHB and Air BP S.A.[84] In addition, voters approved a new constitution that reaffirms the Central Government's ownership and control over Bolivia's natural resources, and also gives Bolivian investment priority over foreign investment.

In Ecuador, a new constitution was approved in September 2008, which stipulates, *inter alia*, that foreign investment is complementary to national investment, and that FDI has to be oriented to the needs and priorities defined in the National Development Plan and in the development plans of the decentralized autonomous governments. A policy shift towards increasing taxes on windfall profits on oil has generated frictions with some foreign companies. For example, in March 2009 the Government began to seize crude oil produced by Perenco (France) to cover the company's contested tax debts after the latter refused to abide by the 2007 decree that raised the levy on windfall oil revenues to 99% (see *WIR08*). The resulting dispute between Perenco and Ecuador is still far from being resolved.[85] At the same time, a mining law was approved in early 2009, which, although providing for more State revenue and control over mining, also opens the door to foreign investment and large-scale mining projects.

In the Bolivarian Republic of Venezuela, the Government has continued its nationalization policy. In the course of the nationalization of its Venezuelan cement plants, Cemex (Mexico) sought ICSID arbitration after the Government rejected its demand for $1.3 billion in compensation in October 2008.[86] Also in 2008, the Venezuelan National Assembly adopted a Liquid Fuel Internal Market Reorganization Organic Law,[87] which under certain conditions reserves for the State the intermediation in the supply of liquid fuels between the State-owned company PDVSA and its affiliates and gasoline stations. Following this legislation, the national oil company Petróleos de Venezuela S.A. (PDVSA) took over the operations run by the gas company Exterran (United States).

In Peru, protests by Amazonian native groups led to the suspension of recent decrees by Congress.[88] The questioned decrees aimed at facilitating the exploration and exploitation of the Amazon and other natural-resource-rich areas by foreign investors.

In Mexico, after several years of national debate on the pros and cons of opening up the oil sector (nationalized since the 1930s) to private investors, Congress passed a reform of the energy sector in 2008 which aims to change the way in which the State-owned oil enterprise PEMEX operates. It allows PEMEX to enter into performance-based service contracts with private oil companies, but specifically prohibits shared production and risk contracts with the private sector.

In November 2008, the Brazilian President decreed a change to Brazil's telecommunications law aimed at allowing fixed-line telecom providers to operate in more than one region of the country. This will permit Oi Participações (Brazil) to buy Brasil Telecom, the country's third largest fixed-line carrier, and will enable the new company to compete with foreign players that dominate the market, namely Telefonica (Spain) and America Movil (Mexico).

Several measures were adopted in the region in response to the global financial crisis, which also have an effect on FDI. For example, in Argentina, the State resumed control over assets held by private pension funds after the Senate approved a law converting the private pension system into a public one in November 2008.[89] The Government of Brazil issued a decree that allows the State-controlled Banco do Brasil to buy stakes in privately owned banks, a move aimed at permitting the bank to regain its leadership position in a strategic sector of the economy in the midst of the global financial crisis.[90] Also, taxes imposed on foreign investors for financial market transactions and for their liquidation of foreign currency loans were eliminated in October 2008.[91] The Government of the Bolivarian Republic of Venezuela took over Stanford Bank (United States) to protect depositors and prevent contagion in the Venezuelan banking system. The Bank was later sold to the local Banco Nacional de Crédito.[92]

Countries of Latin America and the Caribbean concluded six new BITs and eight DTTs in 2008, bringing the total number of BITs and DTTs for the region to 483 and 327, respectively. Mexico was the most active in both treaties. Peru signed three new comprehensive FTAs with Canada, China and Singapore. Chile concluded FTAs with Australia and Turkey, while Colombia concluded agreements with Canada and the members of the European Free Trade Association. The CARIFORUM States concluded the Economic Partnership Agreement with the European Community, which addresses the progressive, reciprocal and asymmetric liberalization of investment. Honduras joined the Bolivarian Alternative for the Americas (ALBA).[93] In June 2009, Ecuador also joined ALBA, and in July 2009, Ecuador's President decreed the withdrawal from the Convention of the International Centre for Settlement of Investment Disputes (ICSID Convention), which will take effect on 7 January 2010.

d. Prospects: gloomy in the short term, improving in the medium term

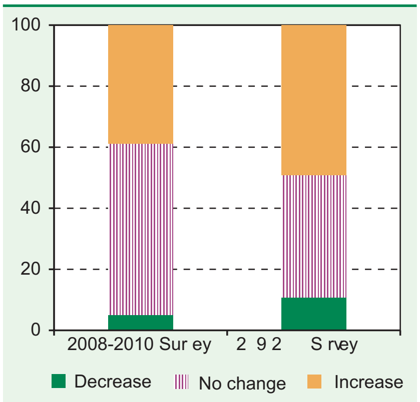
The drop in international trade and tightened credit markets for investment as a result of the global economic and financial crisis has dimmed the short-term prospects for FDI to Latin America and the Caribbean. In 2009, the GDP growth rate in Latin America is expected to average around -2%. Central America is expected to suffer from the most severe recession, with a fall of 6% in GDP growth due to an estimated 7% drop in Mexican GDP, while the growth rate in South America and the Caribbean is expected to be close to zero (IMF, 2009a).

Preliminary cross-border M&A data for the first half of 2009 show net sales of Latin American and Caribbean firms plummeting to negative values. This means that the amount of divestment (i.e. sales of foreign affiliates to domestic firms) was higher than that of the sales of domestic firms to foreign TNCs. It accentuates the trend of the declining share of cross-border M&A sales in inward FDI in the region that began in the early 2000s (*WIR07* and *WIR06*). Cross-border M&A sales of Latin American firms to developed countries were the most affected (table II.19).

However, positive trends in commodity prices could have a favourable impact on medium-term prospects for natural-resource-related FDI, mainly concentrated in South America but increasingly also targeting Central America and the Caribbean.

According to UNCTAD's *World Investment Prospects Survey 2009–2011*, FDI prospects in Latin America and the Caribbean are likely to be more favourable than those indicated in the previous survey. Of the total respondents to the latest survey, 53% expected to increase their FDI for the period 2009–2011 (compared with 39% in the previous survey), 39% expected no change (compared with 56% in the previous survey), and 8% expected a decrease (compared with 5% in the previous survey) (figure II.20).

Figure II.20. Latin America and the Caribbean: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

Outward FDI flows from Latin America and the Caribbean are expected to fall in 2009, as preliminary data for selected countries for which data were available show a 19% decline during the first quarter of 2009 compared to the first quarter of 2008 (table II.17).

Medium-term prospects for outward FDI from the region depend on world economic growth prospects, which affect sales and revenues generated abroad, and on the capacity of Latin American TNCs – especially those from Brazil and Mexico – to overcome their financial problems stemming from the global economic and financial crisis (see section a).

B. South-East Europe and the CIS[94]

1. Geographical trends

In 2008, inward FDI flows in South-East Europe and the Commonwealth of Independent States (CIS) reached a new record high, despite the global financial and economic crisis and armed conflicts within and between countries in certain parts of the region. The growth rate of inflows was high, especially in the first half of 2008. However, with the crisis deeply affecting several countries by late 2008, initial hopes that the region would prove relatively immune to the global turmoil evaporated. Judging from data on cross-border M&As, which have become an important mode of FDI in the region, FDI inflows started to slow down in the second half of 2008, and were showing signs of a sharp decline in the first half of 2009.

In South-East Europe most of the FDI inflows continued to be driven by privatization of the remaining State-owned enterprises (SOEs) in 2008. In the CIS, on the other hand, inward FDI was motivated by a desire to gain access to large and growing local consumer markets, such as those of the Russian Federation and Ukraine, and to benefit from business opportunities arising from the liberalization of selected industries. TNCs from EU countries accounted for the bulk of both greenfield projects and cross-border M&A purchases in the region, while there was also an increase in intraregional investments. Outward FDI flows, dominated yet again by Russian TNCs, maintained their upward trend in spite of some divestments that took place in the second half of 2008.

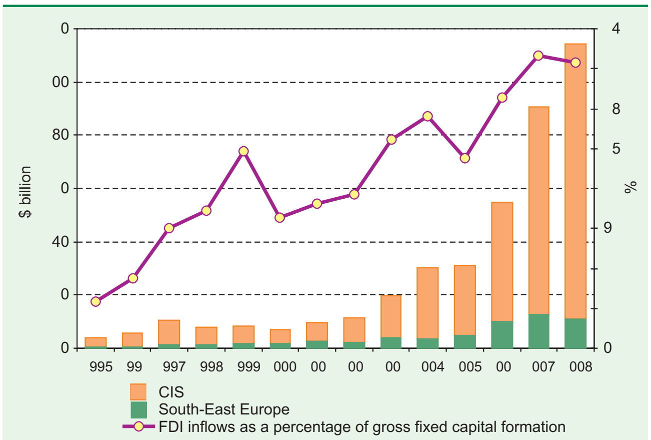
Governments in natural-resource-rich economies continued to increase their control over strategic primary industries, while policy changes in South-East Europe were related to seeking closer association with the EU. The reduction of economic growth in the region, resulting from tight credit markets and lower domestic demand, coupled with recession in the main FDI partners and a collapse in commodity prices, have dampened the prospects for inward and outward FDI in 2009 and beyond.

a. *Inward FDI: the upward trend continued*

In 2008, despite the financial and economic crisis, FDI inflows into South-East Europe and the CIS reached $114 billion, up by 26%. This marked the eighth consecutive year of growth and represented a 13-fold increase over flows of 10 years ago. As domestic investment grew almost as fast as FDI, the ratio of inward FDI to gross fixed capital formation decreased only marginally, from 22% in 2007 to 21% in 2008 (figure II.21).

As in previous years, inflows in 2008 remained unevenly distributed, with three large countries (the Russian Federation, Kazakhstan, and Ukraine, in that order) accounting for 84% of the region's total. Inflows rose in 13 countries and fell in 5 countries (annex table B.1). Despite a worldwide credit crunch and high volatility in capital markets, the number of cross-border M&A transactions increased by 13% in 2008, driven by medium-sized deals,[95] while

Figure II.21. South-East Europe and CIS: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

their *value* fell by 33% (annex tables B.4 and B.5). Although inward FDI in 2008 as a whole increased due to robust growth in the first half of the year, the second half of 2008 saw a slowdown, and even a decline of inflows in some of the region's economies. The decline accelerated in the first quarter of 2009, as there was a 46% fall of inward FDI flows compared to the same period of 2008 (table II.22).

Inflows to the region's largest economy, *the Russian Federation*, increased again in 2008 (figure II.22), driven mainly by large investments in the liberalized power generation industry, as well as in the automotive and real estate industries. The bulk of FDI in the country continued to be in natural-resource-related projects (extraction, as well as oil and gas refining), though a substantial amount of natural-resource-based FDI is financed from round-tripped Russian capital (box II.5).

However, in the second half of 2008, conflict with Georgia and tensions with certain developed countries, combined with concerns about the business environment and weaker economic performance, reduced investor confidence in the Russian Federation.[96] While all these factors were largely disregarded when oil prices were in triple digits, with the price at a third of that level, the extractive industry is looking less attractive in terms of the risk-reward ratio.

In *Kazakhstan,* FDI inflows grew to $14.5 billion in 2008, up from $11 billion in 2007, driven by additional investments in three main oil and gas projects (Kashagan, Tengiz and Karachaganak), as well as in geological exploration activities by foreign investors in major deposits of uranium, gold, zinc and copper. In contrast, in 2008, the net cross-border M&A sales of Kazakhstan firms turned negative (with more divestments than investments) in the wake of the global economic crisis, as potential buyers struggled to raise funds. FDI flows to *Ukraine* maintained their upward trend and exceeded $10 billion, owing mainly to large investments in the banking and steel industries: the two largest deals in 2008 were the acquisition of OJSC Ukrsotsbank by Unicredit (Italy) and the acquisitions of Sukhaya Balka GOK by Evraz group (Russian Federation), both for around $2.2 billion (table II.23).

In *Croatia*, the fourth largest recipient of inflows in the region in 2008, almost half of inward FDI went to financial services. Other notable cases of large inflows were *Serbia*, with inflows amounting to $3 billion, *Belarus*, which received more than $2 billion mainly, as a result of its liberalization of the financial services industry, and Armenia, which saw a 71% surge of FDI flows resulting in more than $1 billion.

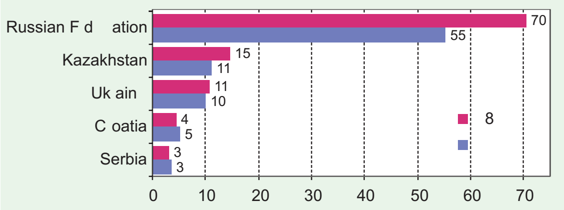
Table II.22. South-East Europe and CIS: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Albania	155	188	267	331	161	34	13	31	15	2
Belarus	907	308	809	135	971	3	1	3	3	3
Bosnia and Herzegovina	118	209	382	294	40	-	-	-	-	-
Georgia	538	605	135	286	125	7	-	34	1	-
Kazakhstan	2 690	3 476	4 299	4 078	2 539	874	252	1 542	1 143	296
Kyrgyzstan	75	64	54	39	- 9	..	..	..	..	..
Moldova, Republic of	129	191	259	134	49	2	6	30	- 5	- 2
Montenegro	244	292	221	183	144	38	30	28	13	15
Russian Federation	20 537	22 679	16 799	10 305	9 993	15 818	16 342	11 174	9 056	12 892
Serbia	1 255	1 071	331	338	828	29	57	128	62	2
The FYR of Macedonia	172	201	133	93	71	..	..	..	..	..
Ukraine	2 596	3 762	3 401	934	957	166	671	77	96	16
Total	*29 416*	*33 047*	*27 089*	*17 149*	*15 869*	*16 970*	*17 372*	*13 048*	*10 383*	*13 225*

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

Figure II.22. South-East Europe and CIS: top 5 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by magnitude of 2008 FDI inflows.

In nine countries of the region, FDI inflows still remained below $1 billion, but in certain economies such as *Albania*, they increased by 45% in 2008 due to the privatization of large State-owned companies and improvements in the business environment. On the other hand, in *Bosnia and Herzegovina*, the lumpiness of privatization-related FDI, with exceptionally large transactions in 2006 and 2007 but few in 2008, led to a lower level of inflows in 2008. After two consecutive years of negative inflows, FDI to *Azerbaijan* turned positive, although it was very small in value.

Developed countries, mainly EU members, continued to account for the bulk of FDI in the region in 2008, although there was a slight increase of intraregional greenfield FDI projects.[97] The share of the EU in cross-border M&As fell from 85% to 83% in 2008 and in greenfield projects from 60% in 2007 to 57%. Companies from developing countries also undertook some greenfield FDI projects.[98] Finland became the leading source of investment through cross-border M&As in South-East Europe and the CIS, when its power utility firm, Fortum, acquired a controlling stake in the Russian regional power-generating company TGK-10 for $3.2 billion (box II.6). It was followed by Italy, reflecting the acquisitions in Ukraine by two major banks, Unicredit and Intesa San Paolo, and purchases of Enel in the Russian power-generating industry. The share of transition economies as buyers in cross-border M&As in the region remained the same in 2008 as in 2007, at 12% (table II.24).

b. Outward FDI: more moderate growth

In 2008, FDI outflows from the region maintained their upward trend, reaching $58 billion (figure II.23). However, as with inflows, trends in outflows differed between the first and second halves of 2008: in the first half, abundant liquidity, a drive to enter new markets and access to raw materials continued to spur outward FDI; in the second half, divestments or freezing of acquisitions characterized the FDI activities of TNCs from the region. Outward FDI flows were dominated by Russian TNCs, although TNCs from Kazakhstan also invested large amounts abroad.

Outward FDI from the Russian Federation reached a new high in 2008 ($52 billion) (annex table B.1), making that country again the second leading source of FDI among developing and transition economies, after Hong Kong (China). With a slowdown in foreign demand for their products, Russian TNCs shifted their strategies from expanding markets for their products abroad (through securing access to downstream activities along value chains) to gaining access to technological innovations and

Box II.5. Who are the real investors in the Russian Federation?

A closer look at FDI in the Russian Federation reveals that a substantial proportion of inflows was in reality a return of offshore capital held by Russian residents in Europe and various financial hubs around the world (box table II.5.1). For example, nearly half of inward FDI in 2008 was invested in oil production and exploration, according to statistics reported by the central bank, though no new major acquisitions or large investments by foreign firms in the Russian oil industry were reported to have taken place. Since a large share of inflows in 2008 originated in the Netherlands, it is likely that it was mainly Gazprom's financial services affiliate in that country which was channelling money back into the Russian energy industry. In addition, special purpose entities in Cyprus and the British Virgin Islands also appear to have been involved in such investments.

Box table.II.5.1. Sources of FDI flows to the Russian Federation, 2007–2008
(Million of dollars)

Economy	2007	2008[a]
World	47 853	52 173
Austria	324	387
Bahamas	354	-1 003
Bermuda	8 369	7 492
British Virgin Islands	- 392	2 178
Cyprus	12 061	18 336
Finland	980	1 574
France	414	419
Germany	7 695	2 446
Gibraltar	873	641
Italy	780	955
Luxembourg	-2 309	- 123
Netherlands	9 384	8 773
Norway	1 302	244
Seychelles	- 441	59
Sweden	529	500
United Kingdom	3 266	3 657
United States	1 498	2 003
CIS	131	9

Source: The central bank of the Russian Federation.
[a] Only first three quarters.
Note: The data cover only non-banking corporations.

Source UNCTAD.

advanced marketing and management know-how. Indeed in the first half of 2008, Russian oil and gas TNCs continued market-seeking acquisitions of processing entities, distribution networks and storage and transportation facilities across Europe and the United States. For example, Gazprom concluded an agreement with Austrian OMV for the purchase of 50% of the largest Central European gas distribution terminal and storage facility in January 2008, and Lukoil acquired a 49% stake in the Priolo oil refinery of ERG (Italy) for $2.1 billion (table II.25) – the first ever deal of a firm from the Russian Federation in such activities in Western Europe. Russian TNCs in iron and steel also continued to increase investments in developed countries. For instance, the Evraz Group acquired a Swedish steel and pipe tube company in Canada for $4 billion and OAO SeverStal purchased two steel companies in North America for a total of $1.9 billion (table II.25), while the major Russian mobile phone operators consolidated their position in other CIS countries (e.g. Vimpel-Communications OJSC raised its stake in a wireless telecommunication services provider in Kazakhstan from 50% to 75%).

The situation changed in the second part of 2008 when outward FDI from the region declined significantly. The lack of external financing due to shrinking market capitalization arising from falling commodity prices, and the high indebtedness of some Russian TNCs, in particular the country's major natural-resource companies and industrial corporations such as Norilsk Nickel, affected those companies' capacities to invest. The fall in outward FDI took place either through divestments, through cancelling acquisitions abroad or through the freezing of acquisitions that were in the process (for example, Basic Element ceded its 10% stake in the construction major Hochtief (Germany), and its 20% stake in the car parts major Magna (Canada) both acquired in 2007).

2. Sectoral trends: manufacturing attracted market-seeking FDI

To a large extent, the sectoral and industrial patterns of cross-border M&A sales and purchases are indicative of the patterns of FDI flows to and from South-East Europe and the CIS, as the bulk of FDI in and from the region takes place through privatizations and acquisitions of existing private firms. In 2008, cross-border M&A sales of firms in the manufacturing sector increased further, while those in the primary and services sectors fell significantly after reaching exceptionally high values in 2007 (table II.26). On the other hand, cross-border M&A purchases increased in the manufacturing sector, marked a pause in the primary sector and decreased in the services sector.

Primary sector. In 2008, FDI inflows in the primary sector were much lower than in 2007, judging from data on cross-border M&A sales of companies in the region**.** One of the main reasons for this decline was increasing host-country restrictions on investment in oil and gas. In the first half of that year, high commodity prices gave significant leverage to host-country governments when dealing with foreign oil and gas companies operating in the region. However, strategic investors still saw value in investing in the primary sector, and their technological know-how in developing oil and gas reserves was welcomed in the exploitation of vast and complex oil and gas fields. In 2008, various companies from developing countries invested in Kazakhstan and Uzbekistan. For example Malaysia's Petronas signed a production sharing agreement with the Government of Uzbekistan for three oil fields in the northern region of Ustyurt.

Manufacturing. Market opportunities, as well as improvements in some aspects of the business environment, resulted in a sharp increase in cross-border M&A sales of firms in the region's manufacturing industries that are not deemed

Table II.23. South-East Europe and CIS: top 10 cross-border M&A sales,[a] 2008

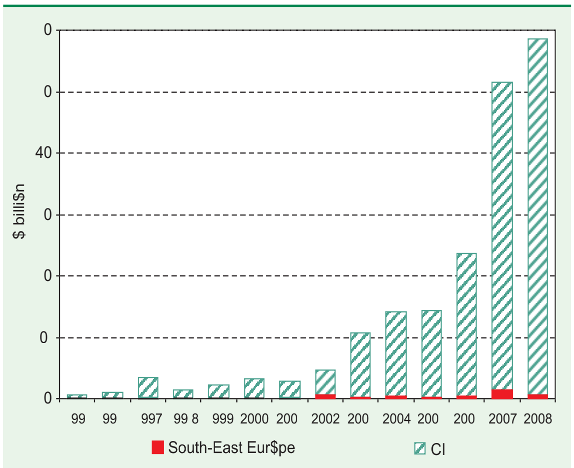
Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 188	Territorial Generation Co	Russian Federation	Electric services	Fortum Oyj	Finland	76
2	2 231	OJSC Ukrsotsbank	Ukraine	Banks	Unicredito Italiano SpA	Italy	94
3	2 189	Sukhaya Balka GOK	Ukraine	Iron ores	Evraz Group SA	Russian Federation	99
4	1 481	AES Corp-Ekibastuz	Kazakhstan	Electric services	Kazakhmys PLC	United Kingdom	100
5	1 448	JSC The Fifth Power Generation Co	Russian Federation	Electric services	Enel SpA	Italy	23
6	1 166	OAO Avtovaz	Russian Federation	Motor vehicles and passenger car bodies	Renault SA	France	25
7	1 165	Insurance Co RESO-Garantia	Russian Federation	Life insurance	AXA SA	France	37
8	746	JSC Pravex-Bank	Ukraine	Banks	Intesa SanPaolo SpA	Italy	100
9	745	Expobank Commercial Bank	Russian Federation	Banks	Barclays PLC	United Kingdom	100
10	720	Berezovskaya Mine JSC	Russian Federation	Bituminous coal and lignite surface mining	Arcelor Mittal NV	Luxembourg	98

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Figure II.23. South-East Europe and CIS: FDI outflows, 1995–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

"strategic". The relatively large domestic markets of Kazakhstan, the Russian Federation and Ukraine attracted new investors. Cross-border M&A sales in the region increased almost 50% in 2008 mainly in beverages and the motor vehicles industry. For example in the Russian Federation, Renault (France) increased its equity share from 25% to 50%-plus-one in OAO Avtovaz for $1.2 billion. In addition, in that country there were some large transactions in the food, beverages and tobacco industry: PepsiCo (United States) purchased a 75% stake in Lebedyansky, the country's largest juice producer, for $1.4 billion. This was the biggest deal in juice production in the Russian Federation, so far, and the largest foreign acquisition by PepsiCo worldwide (*WIR08*).

Services. Although in the first half of 2008, M&A sales in the services sector of the region more than doubled, compared to the first half of 2007, a very low level of acquisitions in the second half reduced total M&A sales for the year by 26%. Half of the acquisitions in 2008 took place in the banking industry, reflecting European banks' increasing interest in growth opportunities outside their traditional markets.[99] Foreign investors also invested some $5.4 billion in the Russian energy generation and distribution industry in 2008, seizing opportunities resulting from its reorganization (whereby the national monopoly was broken down into regional providers and the latter were partly privatized).

3. Policy developments

In 2008, the bulk of policy changes in South-East Europe and the CIS were more favourable for foreign investors. Some countries continued to liberalize FDI regulations in certain industries. The most salient case was the liberalization of electricity generation in the Russian Federation – one of that country's major liberalizing reforms of recent years – which resulted in the participation of a large number of foreign firms (box II.6). Additionally, Belarus opened up certain industries (banking, retail and telecommunications)[100] to partial foreign participation. In the Ukraine a new

Box II.6. Liberalization of electricity generation in the Russian Federation: Opportunities for FDI

The Russian Federation is the world's fourth largest producer of electricity, behind the United States, China and Japan. Its generation capacity is based on a broad range of energy sources, such as thermal, hydropower, coal, natural gas and nuclear power. The Government has recognized the need for structural reform to enable the industry to meet the growing demand for electric power and to attract the investment needed to modernize and expand production capacities (Tumminia, 2007). Until 2007, electricity generation was dominated by State-owned Unified Energy Systems (RAO UES), which owned various assets along the electricity value chain (i.e. power plants, vertically integrated energy companies, the federal high voltage transmission grid and the energy dispatch system). Unlike other large Russian TNCs, RAO UES sold almost all its output to the domestic market, and had no export earnings to set against the cost of the domestic subsidies it provided (Thomson, 2004).

In 2008, the reorganization of the power generation industry was completed, and the unbundling of RAO UES was carried out. The reform involved the lifting of the company's quasi-monopoly and the divestment of stakes in 72 vertically integrated affiliates, each of which has a regional monopoly on electricity generation and distribution. Through a subsequent process of consolidation, these entities were transformed into six wholesale generation companies (WGCs) and 14 territorial generation companies (TGCs). This restructuring and sales of assets have provided opportunities for foreign investors to enter the industry. A number of the stakes in WGCs and TGCs have already been acquired by various European TNCs such as Fortum (Finland), Enel (Italy), E.ON (Germany), CEZ (Czech Republic), RWE (Germany) and EDF (France).[a]

While it is clear that the implementation of the restructuring plan creates new opportunities, the Russian electricity market continues to be highly regulated with respect to transmission, distribution and tariff policies, with a prominent role for the State.

Source: UNCTAD based on "Russian power reform: five years on" Power Engineering International, April 2008.

[a] In 2008, Fortum (Finland) purchased a controlling stake in TGC-10 and RWE (Germany) bought a majority share in TGC-12, while EDF (France) has entered into a partnership with the Russian bidder TransNeftServis-S to acquire OGC-1, one of RAO UES' most valuable assets.

Table II.24. South-East Europe and CIS: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in South-East Europe and the CIS[b]			Net purchases by South-East Europe and the CIS's companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
World	30 671	20 505	1 005	21 728	20 648	3 534
Developed economies	27 675	17 196	761	17 074	14 673	3 401
Europe	26 974	17 196	680	5 175	5 720	2 333
European Union	26 205	17 070	776	4 972	5 404	2 333
Finland	-	4 782	-	816	112	-
France	2 085	2 336	-	- 11	-	-
Italy	9 595	4 272	250	263	2 098	-
United Kingdom	1 007	3 074	33	485	1 642	482
North America	619	11	75	11 900	7 941	1 068
Canada	42	- 22	-	8 547	5 278	-
United States	577	33	75	3 353	2 663	1 068
Developing economies	- 663	448	50	994	3 478	-
Africa	165	-	-	250	15	-
Latin America and the Caribbean	-	133	- 42	-	1	-
Asia	- 828	315	92	744	3 462	-
West Asia	161	290	-	612	2 622	-
Turkey	161	-	-	612	2 622	-
South, East and South-East Asia	- 989	25	92	132	840	-
South-East Europe and the CIS	3 659	2 497	133	3 659	2 497	133
Kazakhstan	365	-	-	- 980	217	-
Russian Federation	2 417	2 510	165	-	-	-
Ukraine	25	-	-	353	2 237	158

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

law on joint stock companies was approved[101] and in Georgia, the Government took various steps towards simplifying the tax system and making it easier to start a business.[102]

Some governments in the natural-resource-rich countries of the CIS continued to strengthen their control over their natural resources in order to increase their share of windfall income. For instance, the new law on foreign investment in strategic industries approved in the Russian Federation in May 2008 expanded the number of strategic industries to 42 (*WIR08*: 227).

The financial crisis that erupted in the second half of 2008 led some governments in the region to take measures to help sustain the profitability of companies suffering from the economic slowdown. In the Russian Federation, for example, as part of the economic stimulus package, the Government cut corporate profit taxes to 20% from 24% in 2009.[103]

Countries of the South-East European subregion continued to strengthen their ties with the EU. Among them, Croatia was negotiating its membership agreement, while Albania's Stabilization and Association Agreement entered into force on 1 April 2009.[104]

In addition to 19 new BITs (chapter I) countries of the region concluded as many as 25 DTTs – the highest number of DTTs per region. In terms of other IIAs, Bosnia and Herzegovina concluded an Interim Agreement on Trade and Trade-related Matters with the EU, which includes a commitment to refrain from restrictive measures concerning the free transfer of funds related to investment.

4. Prospects: slowdown expected

The results of UNCTAD's *World Investment Prospects Survey 2009–2011* suggest a decline in FDI inflows to large economies in the CIS, such as the Russian Federation, Kazakhstan and Ukraine, in the near future. Preliminary data for FDI flows in the first quarter of 2009 and cross-border M&As for the

Table II.25. South-East Europe and CIS: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	4 025	IPSCO Inc	Canada	Steel pipe and tubes	Evraz Group SA	Russian Federation	100
2	2 189	Sukhaya Balka GOK	Ukraine	Iron ores	Evraz Group SA	Russian Federation	99
3	2 098	ERG Raffinerie Mediterranee SpA	Italy	Crude petroleum and natural gas	OAO LUKOIL Holdings	Russian Federation	49
4	2 050	Petkim Petrokimya Holding AS	Turkey	Petroleum refining	Investor Group	Kazakhstan	51
5	1 524	Oriel Resources PLC	United Kingdom	Ferro-alloy ores, except vanadium	OAO Mechel	Russian Federation	100
6	1 200	IPSCO Tubulars Inc	United States	Steel pipe and tubes	TMK	Russian Federation	100
7	1 115	Penfold Capital Acquisition Corp	Canada	Investors, nec	OAO SeverStal	Russian Federation	95
8	1 009	Consolidated Minerals Ltd	Australia	Ferro-alloy ores, except vanadium	Palmary Enterprises Ltd	Ukraine	88
9	940	Formata Holding BV	Netherlands	Grocery stores	Pyaterochka Holding	Russian Federation	100
10	810	Sparrows Point LLC	United States	Cold-rolled steel sheet, strip and bars	OAO SeverStal	Russian Federation	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Table II.26. South-East Europe and CIS: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in South-East Europe and the CIS[b]			Net purchases by South-East Europe and the CIS's companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
Total	30 671	20 505	1 005	21 728	20 648	3 534
Primary	8 225	2 401	168	3 779	3 464	2 333
Mining, quarrying and petroleum	7 823	2 399	168	3 779	3 464	2 333
Secondary	2 187	3 169	360	9 841	12 031	1 068
Food, beverages and tobacco	571	1 329	102	-	2	-
Metals and metal products	51	297	7	9 748	11 818	1 068
Motor vehicles and other transport equipment	-	1 177	250	-	11	-
Services	20 259	14 934	477	8 108	5 153	133
Electricity, gas and water	9 833	5 349	-	-	- 50	-
Transport, storage and communications	1 033	972	- 35	1 723	799	- 32
Finance	8 939	7 583	377	4 171	3 438	162
Business services	639	395	75	394	46	2

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January-June only.
[b] Net sales in the industry of the acquired company.
[c] Net purchases by the industry of the acquiring company.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

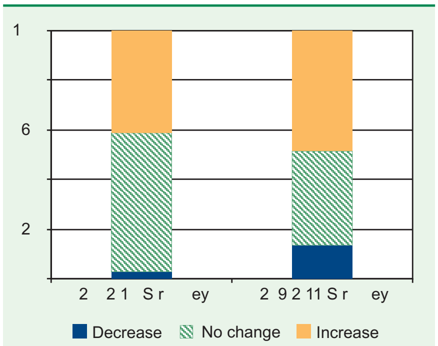
first half of 2009 support this finding (table II.22 and table II.24).

The economic and financial crisis, coupled with the near-exhaustion of major privatization opportunities in various South-East European countries, is likely to cause a decline in FDI flows to the subregion. The significant slowdown of economic growth worldwide during the course of 2008 and its expected continuation in 2009 (IMF, 2009a), along with the fall in commodity prices and deterioration of external demand for the main export commodities of the transition economies, could significantly affect FDI inflows into natural-resource-abundant countries (e.g. Ukraine, which exports around 80% of its processed metal). Moreover, the financial and economic crisis could affect FDI inflows considerably in some countries hit by the crisis (such as Ukraine), due principally to high risk aversion by foreign investors. Some countries of the region (for example Belarus) are seeking to attract buyers for their big State-owned industrial enterprises in the hope that this will relieve pressures on their budgets, but this is proving difficult in the current depressed global investment climate.

The medium-term outlook for inward FDI in South-East Europe and the CIS is better than the short-term prospects. For instance, according to UNCTAD's *World Investment Prospects Survey 2009-2011,* the outlook for investment in the region should be better in 2009–2011 than in 2008–2010 (figure II.24). In some countries such as Ukraine, this relative optimism about investment prospects can be explained by the fact that certain sales of large-scale State assets are expected to be completed in the coming years, such as the privatizations of the State-owned fixed-line telecommunications monopoly, Ukrtelecom, and of the large chemicals producer, Odessa Portside Plant. As the financial crisis has left the Russian Federation unable to invest in the development of its oil and natural gas assets, some foreign companies such as Shell, are being invited again to invest in projects such as Sakhalin 3 and 4.[105]

Outward FDI from the region is expected to slow down in 2009. However some Russian TNCs with large cash reserves, but which are new to foreign expansion, expanded in early 2009 despite the financial crisis. For example, Surgutneftgaz bought 21.2% shares in the National Hungarian Oil Company, MOL, from the Austrian National Oil Company OMV for $1.4 billion, marking the first major acquisition abroad by that Russian company. As for future outward FDI beyond 2009, it is notable that, according to PricewaterhouseCoopers' *12th Annual Global CEO Survey* (2009), Russian business leaders are more optimistic about their business prospects than their foreign counterparts: 30 Russian CEOs surveyed expressed confidence that revenue would increase in the coming years.

Figure II.24.South-East Europe and CIS: Comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

C. Developed countries

1. Geographical trends

After reaching a historical peak in 2007, FDI flows to and from developed countries fell sharply in 2008: inflows fell by 29%, to $962 billion, and outflows by 17%, to $1,507 billion. The decline was widespread, as the financial crisis and the accelerating economic downturn seriously affected all major economies of the world in 2008. Firms cut their investments at home and abroad significantly. Cross-border M&As – the main mode of FDI entry, and the principal drivers of the FDI boom during the period 2003–2007 – plunged. Falling profits and financial pressures led to a decline in reinvested earnings and a rechanneling of loans from foreign affiliates to the headquarters of TNCs, which depressed net FDI outflows.

As most developed countries fell into deep recession, FDI flows continued to decline in the first half of 2009, with a significant reduction in cross-border M&As. A recovery in FDI flows will depend crucially on future developments in the world economy and the financial system. Until financial markets regain systemic stability and major economies recover, FDI will remain sluggish due to financing difficulties as well as poor markets and dim profit prospects for TNCs. The results of UNCTAD's latest *World Investment Prospects Survey* (UNCTAD, 2009b) point to a further decline in FDI activity in 2009 and 2010, and a small recovery in 2011.

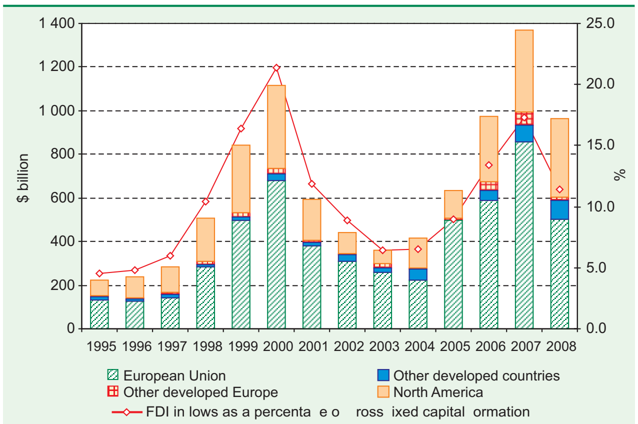
a. Inward FDI: strong decline as the financial and economic crisis unfolds

FDI inflows to developed countries fell sharply in 2008, to reach $962 billion (figure II.25). Out of 38 developed countries, 23 experienced a decline in FDI inflows (annex table B.1). All major host countries except the United States received lower FDI flows.

In 2008, FDI inflows into *North America* decreased by 5%, to $361 billion (figure II.25). Despite turbulence in financial markets, which originated in the United States and led to the sharpest downturn of its economy in decades, the *United States* retained its position as the largest FDI recipient, both among developed countries (figure II.26) and worldwide (annex table B.1). FDI flows to the United States amounted to $316 billion, up by 17%. The rise was due to a 61% increase in equity capital inflows amounting to $250 billion. The flows targeted mainly manufacturing and finance and the largest sources were the Netherlands, the United Kingdom, Japan and Switzerland in that order. The rise in FDI is in sharp contrast to the dramatic fall in other capital flows (including portfolio flows and bank lending) to the United States. Several high-value cross-border acquisitions of United States firms contributed to the strong increase in the equity capital stock of foreign TNCs. Eight of the 20 largest inward M&A transactions worldwide, each valued at more than $7 billion, involved United States firms (annex table A.I.3). Among others, a Belgian investor acquired the United States brewery Anheuser-Busch Cos Inc for $52 billion, the Swiss firm Novartis bought Alcon Inc for $10.5 billion, and the British company Cadbury paid $10.3 for Dr. Pepper Snapple Group Inc. Therefore the largest recipient of equity capital investments was the manufacturing industry. While foreign equity investments in this sector increased by 10% to $99 billion, they increased more than sixfold in financial services, amounting to $85 billion. Reinvested earnings of foreign affiliates in the United States rose by 14% in 2008. Intra-company debt flows contributed to the increase in FDI inflows in the first half of 2008, but declined as the growing financial needs of foreign TNCs led to a re-channelling of financial resources from their affiliates in the United States to their headquarters in their home countries in the second half of 2008.

After a strong increase in the preceding two years, FDI inflows into *Canada* plummeted in 2008, from $108 billion in 2007 to $45 billion. This was mainly due to the end of the boom in natural-resources that had led to a wave of high-value cross-border investments in the Canadian mining and natural-resource industries in 2006 and 2007. In 2008, foreign investors continued to invest in those industries – about half of foreign investments in Canada being in the energy and metallic minerals sector – but the number of mega deals (valued at

Figure II.25. Developed countries: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

more than $1 billion) declined sharply. This caused the value of cross-border M&A inflows to drop to $35 billion in 2008 (a 65% decrease from the level of 2007). The leading sources of Canada's FDI inflows were the United States and European countries.

FDI flows into the *EU-27* countries fell by 40% in 2008, to a total of $503 billion. The financial crisis and the economic downturn were responsible for the decline in inward FDI in the majority of these countries. In 2008, seven of the ten largest cross-border M&As worldwide took place in the EU (annex table A.I.3), of which four were intra-EU transactions. Cross-border bank mergers played an important role, as the process of consolidation in the European financial services industry continued.[106] In the first quarter of 2009, FDI activity in most of EU countries was down compared to the first quarter of 2008 (table II.27).

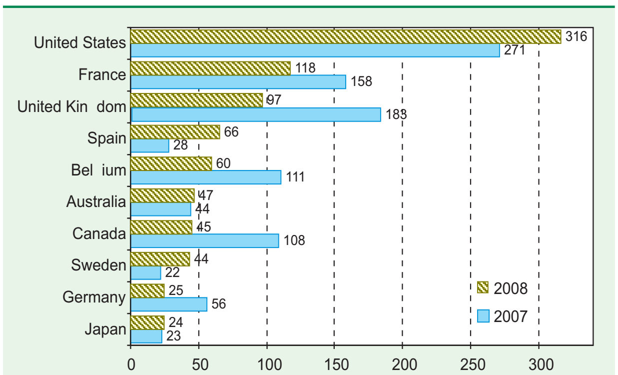
Inward FDI flows to the 15 countries of the *European Monetary Union* (EMU) (or the euro zone) declined in 2008 by 48%, to $287 billion. A large share of inflows to EMU-member countries consisted of intra-EMU FDI.[107] Ten of the 15 EMU countries recorded a significant decline in FDI inflows in 2008. In *France*, FDI inflows fell by 26%, from a record level of $158 billion in 2007 to $118 billion, which was nevertheless still a high level. Indeed, France ranked second among FDI recipients worldwide in 2008 (figure II.26), with inflows spread across a wide range of sectors. The overall decline in FDI inflows was mainly due to cutbacks in lending by TNCs to their foreign affiliates located in France. These intra-company loans fell by 35% to $68 billion. Equity capital inflows fell by 32% while reinvested earnings of foreign affiliates in France rose by 23%. *Belgium* saw its FDI inflows plunge by 46% to $60 billion in 2008. Flows to Belgium are very volatile due to the presence of special purpose entities and corporate headquarters (*WIR03*, box. II.11). FDI inflows into *Germany* also fell sharply, by 56%, to only $25 billion. As a result, Germany's ranking among the top developed-country recipients of FDI fell from seventh place in 2007 to ninth in 2008 (figure II.26). A fall in the net equity capital component of FDI inflows by 59% (to $18 billion) – the lowest level for Germany since the 1990s – contributed to most of the decline in FDI inflows. This was largely due to the sharply shrinking investments of foreign private equity funds. Their leveraged buyouts (LBOs) in Germany fell by $12 billion to $1.5 billion in 2008 (Deutsche Bundesbank 2009: 30). In addition, intra-company loans to foreign affiliates in Germany dried up.

Among the other EMU-15 host countries *Austria*, *Italy* and the *Netherlands* also recorded a decline in FDI inflows. The Netherlands hosts large holding and financing TNCs that contribute to volatile FDI flows, especially in the form of intra-company loans. Inward FDI in the Netherlands in 2008 turned negative (-$3.5 billion) compared with $118 billion in 2007. Part of this dramatic fall can be attributed to one-off divestment deals. Thus, while FDI inflows in 2007 had been extraordinarily high due to two large takeovers,[108] in 2008, one of the three banks that took over ABN-AMRO withdrew from it (i.e. assets of ABN-AMRO were sold) and the Government took over the stake that Fortis Belgium owned in Fortis Netherlands. Together, these two withdrawals reduced the 2008 figure by some €30 billion. FDI inflows in Italy fell sharply, from $40 billion to $17 billion. The large cross-border acquisition of an Italian energy supplier (Endesa Italia by the German E.ON for $14.3 billion) was more than offset by divestments by foreign investors in the banking industry (Banca Monte dei Paschi di Siena SpA (Italy) acquired Banca Antonveneta SpA from Santander Central Hispano SA (SC) for $13.2 billion).

FDI inflows to *Finland* and *Ireland* turned negative in 2008. Ireland was seriously hit by the financial crisis. Foreign investors withdrew a massive $38 billion worth of intra-company loans from the country, and reduced their equity investments by $9 billion. This caused FDI inflows to turn negative, falling by $45 billion: from an inflow of $25 billion in 2007 to minus $20 billion in 2008.

Bucking the general downward trend of FDI inflows in 2008, five of the EMU-15 countries (Spain, Luxembourg, Greece, Portugal and Slovenia) recorded an increase in FDI inflows. Inward FDI to *Spain* more than doubled, to $66 billion, driven by several high-value cross-border M&As, such as the $18 billion acquisition of the Spanish Cigarette producer Altadis by British Imperial Tobacco. This consistent rise in inflows raised its stock of FDI to $635 billion – the sixth highest of all developed countries. FDI inflows into *Luxembourg,* which were negative in 2007, turned positive and reached $3 billion. FDI inflows also increased in *Greece*

Figure II.26. Developed countries: top 10 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by magnitude of 2008 FDI inflows.

(by 166% to $5.1 billion), *Slovenia* (by 26% to $1.8 billion) and *Portugal* (by 16% to $3.5 billion).

Trends in inward FDI flows to the three EU-15 countries that do not participate in the EMU were uneven in 2008. In *Sweden* inward FDI rose by 98% to $44 billion, driven by an increase in cross-border M&As (e.g. the acquisition of the Swedish Vin & Sprit AB by the French Pernod Ricard for $8.9 billion). However, privatization – a magnet for recent FDI flows to Sweden – is losing momentum due to the global economic downturn, which is likely to affect the country's inflows in 2009. In the *United Kingdom,* FDI inflows halved in 2008 to $97 billion, and the country lost its position as the largest FDI recipient in Europe to France. The fall in inflows was mainly due to equity investments, which fell in value from $161 billion in 2007 to $91 billion in 2008 – the lowest value since 2005.[109] Reinvested earnings of foreign affiliates in the United Kingdom amounted to $31 billion (37% lower than in 2007), and intra-company loans of foreign TNCs to their affiliates in the United Kingdom turned negative (-$24 billion), reducing net FDI inflows to this country (chapter I). Despite the decline in inflows in the form of cross-border M&As, the United Kingdom recorded several high-value transactions by foreign TNCs: Woodbridge (Canada) acquired Reuters Group (United Kingdom) for $17.6 billion, Akzo Nobel (Netherlands) bought Imperial Chemical Industries for $16.3 billion and L'Arche Green NV (Netherlands) bought Scottish & Newcastle Plc. for $14.9 billion (table II.28).

Inward FDI of the *nine[110] new EU member countries* (those that joined the EU in 2004 and 2007) that did not participate in the EMU fell by 9% in 2008, to $65 billion. This was a much smaller rate of decline than that of inflows into the EU-15 countries. Inward FDI flows to the group in 2008 were unevenly distributed: the *Czech Republic*, *Hungary, Romania* and *Slovakia* saw an increase in inflows that was more than offset by the decrease in flows to the other five countries, *Bulgaria*, *Estonia*, *Latvia*, *Lithuania* and *Poland*. Four countries together accounted for the lion's share (77%) of the group's total inflows: *Poland* ($16.5 billion), *Romania* ($13.3 billion), the *Czech Republic* ($10.7 billion) and *Bulgaria* ($9.2 billion). As many companies scaled back or suspended their expansion plans due to the global financial crisis, FDI inflows into Poland and Bulgaria declined considerably in 2008, but in the Czech Republic and Hungary they did not change significantly, despite increasing macroeconomic problems in both countries. For many years the automotive industry has been the key driver of strong FDI inflows to the new EU member countries, but the decline in euro-area car sales that began in the last quarter of 2008 has revealed the region's vulnerability on account of its heavy reliance on the industry.

In *Japan,* inward FDI flows maintained their upward trend in 2008, reaching $24 billion, with more than two thirds concentrated in the services sector. Inflows were not much affected by the current crisis, except for a few cases of divestments by foreign firms and a decline of FDI in real estate. However, in comparison to its potential, the second largest economy in the world, with its large trade and financial market ties with the rest of the world, still has a low inward FDI stock. Large divestments in 2009 due to weakened activities by foreign finance companies (e.g. selling of the Japanese affiliates of AIG, the largest United States insurance company) will further reduce FDI inflows in the finance industry, which is the largest FDI recipient industry in Japan.

Table II.27. Developed countries: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Developed countries	292 494	252 280	205 920	207 271	157 435	462 188	328 009	328 888	337 086	248 386
European Union	193 819	123 008	111 411	71 357	109 556	305 227	193 447	193 944	166 628	176 684
France	28 207	41 206	38 629	9 469	9 243	62 322	72 150	56 657	28 917	44 345
Germany	8 740	6 020	4 548	5 692	2 550	64 597	50 259	13 504	29 761	17 898
Ireland	-1 112	-5 251	-6 674	-6 993	1 129	1 994	902	6 555	4 050	1 185
Luxembourg	4 247	-3 076	2 597	- 757	5 699	-16 407	-12 125	3 221	375	4 073
Netherlands	26 635	4 641	79	-34 847	4 950	47 365	-15 252	-2 457	27 914	11 155
United Kingdom	45 560	27 666	-4 531	28 244	63 177	45 560	44 435	31 661	12 364	59 945
Other developed Europe	-2 173	8 643	-1 489	9 747	5 483	14 191	15 535	38 333	39 368	12 373
Iceland	- 262	-1 216	505	-1 619	- 10	-1 816	477	- 709	-4 933	- 245
Switzerland	4 902	7 452	520	4 541	5 321	16 022	10 711	28 725	30 838	8 409
North America	73 463	107 211	79 793	100 358	33 543	120 130	112 997	80 819	75 517	28 918
United States	57 825	101 995	64 244	92 048	33 312	92 164	101 833	55 819	61 980	25 022
Other developed countries	27 386	13 417	16 205	25 808	8 854	22 639	6 030	15 792	55 574	30 412
Australia	13 035	3 949	10 156	19 634	4 118	-9 309	-12 412	-8 089	-6 128	11 959
Japan	10 339	6 408	1 744	5 934	2 347	29 828	18 141	21 887	58 164	17 196

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

The lumpiness of FDI in *Switzerland*, with an exceptional number of acquisitions of large Swiss companies in 2006 and 2007, but few in 2008, led to a lower level of inflows ($17 billion) to that country in 2008. Moreover, foreign TNCs withdrew loans from their affiliates in Switzerland, thereby reducing flows through intra-firm lending. Reinvested earnings also declined, although they contributed the most to inward FDI. In addition, divestments further reduced FDI inflows. Inflows to *Australia* remained almost the same level, while those to *New Zealand* declined.

In 2008, the value of cross-border M&A sales of developed-country firms fell by 39% to $552 billion, roughly their 2006 level (table II.29), as the financial crisis and economic downturn exerted a dampening effect on cross-border M&A activity. The number of such M&A deals fell by 13%, to 4,481. Data for the first half of 2009 show a continuing downward trend: the number of high-value M&A deals fell sharply during the first semester, as banks were hesitant to finance such transactions in the prevailing climate of high and rising risk (chapter I). In 2008, strategic investors dominated cross-border M&A activity, whereas private equity funds and other collective investment funds lost importance. Around 84% of cross-border M&As in developed countries were concluded by firms from other developed countries. The share of developing countries' cross-border acquisitions in developed countries declined marginally and the acquisitions were uneven across major regions and countries. In comparison to 2007, TNCs from Latin America and Asia considerably reduced their cross-border M&As in developed countries. Chinese and Russian TNCs were by far the largest investors from developing countries and transition economies. Chinese acquisitions of developed-country firms totalled $25 billion – 23 times their 2007 level. The increasing cross-border M&As from the Russian Federation and China fuelled the ongoing debate about investments by SWFs and State-owned enterprises in developed countries, and provoked a variety of policy reactions.

b. Outward FDI: moderate but a widespread decline

In 2008, outward FDI from developed countries fell by 17% to $1,507 billion (figure II.27). Outflows exceeded inflows by $544 billion, so that, as in previous years, developed countries retained their position as the largest net outward investor group. The decline in FDI outflows of developed countries was widespread, with 24 out of 37 countries registering a fall (annex table B.1). In 2009, a further drop in FDI flows is expected, as the continuing financial crisis and the accelerating economic downturn in all major regions of the world have a negative impact on the investment plans of developed-country TNCs.

Among the largest FDI source countries, only *Japan, Switzerland, Canada* and the *Netherlands* saw a rise in their FDI outflows in 2008. *Japan's* TNCs, awash with cash until mid-2008,[111] increased their FDI outflows by 74% to $128 billion. As in 2007, Japanese outward FDI reached a new record high due to a strong increase in cross-border equity investments. Japanese outward FDI was spread wide across major economies in the world and a range of industries. The majority of investments have been undertaken by firms oriented toward the domestic market, but they are now seeking foreign markets. An appreciating yen encouraged further FDI in 2008. However, this trend is being reversed in 2009, as Japanese TNCs' rapidly declining sales and profits are affecting their investment expenditures, both domestic and foreign.[112] FDI outflows from *Switzerland* grew by 74%, reaching $86 billion in 2008. This mainly reflects an increase in equity investments by banks in their affiliates abroad, but also a rise in investments by Swiss holding companies abroad. *Canada's* FDI outflows increased by 30% to $78 billion –

Table II.28. Developed countries: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	52 178	Anheuser-Busch Cos Inc	United States	Malt beverages	Stichting Interbrew SA	Belgium	100
2	23 137	Fortis Bank Nederland(Holding) NV	Belgium/Netherlands	Banks	Government of the Netherlands	Netherlands	100
3	17 873	Altadis SA	Spain	Cigarettes	Imperial Tobacco Group PLC	United Kingdom	100
4	17 628	Reuters Group PLC	United Kingdom	News syndicates	Woodbridge Co Ltd	Canada	100
5	16 258	Imperial Chemical Industries PLC	United Kingdom	Paints, varnishes, lacquers, & allied products	Akzo Nobel NV	Netherlands	100
6	16 000	Intelsat Ltd	Bermuda	Communications services, nec	Serafina Holdings Ltd	United Kingdom	76
7	14 900	Scottish & Newcastle PLC	United Kingdom	Malt beverages	L'Arche Green NV	Netherlands	100
8	14 342	Endesa Italia	Italy	Electric services	E ON AG	Germany	80
9	14 284	Rio Tinto PLC	United Kingdom	Gold ores	Chinalco	China	12
10	13 212	Banca Antonveneta SpA	Italy	Banks	BMPS	Italy	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] In the immediate host economy.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

the country's highest annual outflow ever. Around two thirds of the FDI outflows originated from the financial sector of the Canadian economy, and was similar to the average of the last three years. On a geographical basis, the bulk of FDI flows (around 60%) were directed to the United States. Canadian investors preferred to inject new funds into existing foreign affiliates via reinvested earnings and intra-company loans, rather than acquiring or establishing new firms.

The *United States* maintained its position as the largest outward investor in 2008 (figure II.28). Outward FDI of that country's TNCs declined by 18% – from a record level of $378 billion in 2007 to $312 billion in 2008. As in 2007, reinvested earnings of foreign affiliates of the United States TNCs were strong. At $231 billion, they were the major element fuelling cross-border outward investments by United States TNCs. In addition, United States' companies raised their cross-border equity capital investments by $90 billion with negative intra-company loans. Three of the top 20 cross-border M&A transactions worldwide, each valued at over $8 billion, were undertaken by United States TNCs (annex table A.I.3). In 2009, the decline in the outward FDI of the United States is likely to accelerate, as profits of foreign affiliates are expected to decline due to recession in most of the main host countries.

EU outward FDI fell to $837 billion in 2008, representing a sharp decline of 30%. As a result, the EU countries' share in total outward FDI from developed countries dropped to 56% from 66% in 2007. The *United Kingdom* lost its position as the largest source country of FDI in Europe, as that country's TNCs cut their new investments abroad to $111 billion, compared to $275 billion the previous year. A large fall in equity investments and net divestments in the form of intra-company loans contributed the most to the decline.[113] The largest share of FDI from the United Kingdom targets the United States, particularly its financial service – which was the industry the most seriously affected by the financial and economic crisis. In 2008, *France* ranked first among countries in Europe in terms of outward FDI, with investments amounting to $220 billion – slightly lower than in 2007. In contrast outward FDI of the other larger economies in Western Europe (*Germany, Italy* and *Spain*), hit by the deteriorating economic climate and the turmoil in the financial markets, fell considerably by 13%, 52% and 20% respectively.

The nine *new EU members* that are not members of EMU accounted for 1% of the outward FDI of EU countries, and their FDI outflows declined by 30% in 2008.[114] Growing financial needs of the parent companies led to shrinking cross-border equity investments and a withdrawal of intra-company loans abroad.

2. Sectoral trends: robust FDI growth in the primary sector

Judging from data on cross-border M&As, while FDI inflows in the manufacturing and services sectors of developed countries declined substantially

Table II.29. Developed countries: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in developed countries[b] 2007	2008	2009 [a]	Net purchases by developed countries' companies worldwide[c] 2007	2008	2009 [a]
World	903 430	551 847	102 313	841 999	539 598	99 936
Developed economies	743 949	464 828	89 146	743 949	464 828	89 146
Europe	500 453	280 016	76 370	515 503	197 191	66 907
European Union	473 025	248 873	73 909	489 091	180 484	59 509
Belgium	6 518	30 279	124	898	2 307	11 027
France	73 175	35 592	29 039	27 423	-3 397	280
Germany	48 820	54 966	4 885	42 445	27 243	- 188
Italy	48 277	16 968	17 257	21 526	-5 740	1 301
Netherlands	-8 007	51 828	- 752	160 646	-9 389	9 974
Spain	34 935	-12 644	3 321	50 821	29 381	14 932
Sweden	27 827	7 461	12 660	5 226	20 915	821
United Kingdom	211 989	38 116	3 833	146 833	100 713	15 671
Other developed Europe	27 428	31 143	2 461	26 413	16 707	7 398
Switzerland	10 461	25 128	2 543	19 412	5 641	6 530
North America	207 125	107 878	7 545	190 966	230 325	15 703
Canada	41 780	39 680	5 053	75 613	21 010	927
United States	165 345	68 198	2 492	115 353	209 315	14 775
Other developed countries	36 372	76 933	5 231	37 480	37 312	6 537
Australia	41 587	17 856	213	21 730	26 000	5 866
Japan	23 043	40 686	4 416	12 350	8 847	-1 400
Developing economies	119 807	60 868	7 402	70 375	57 574	10 028
Africa	9 405	7 361	18	3 462	13 093	2 780
Egypt	908	4 488	-	- 813	15 058	1 407
South Africa	8 542	2 782	18	3 784	348	1 496
Latin America and the Caribbean	32 130	1 998	- 643	14 243	14 119	-1 442
Brazil	8 790	4 685	66	4 849	7 211	479
Asia and Oceania	78 272	51 509	8 027	52 670	30 362	8 690
West Asia	25 994	7 030	7 037	14 332	4 179	1 394
Turkey	606	618	-	13 162	5 165	1 332
China	1 078	24 632	591	3 763	4 672	- 31
Hong Kong, China	-1 501	-1 714	-1 086	5 161	4 558	392
India	26 559	8 850	76	16 383	7 602	3 206
Singapore	17 682	6 174	159	3 663	4 164	106
South-East Europe and the CIS	17 074	14 673	3 401	27 675	17 196	761
Russian Federation	15 443	13 727	3 401	22 550	13 352	778

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

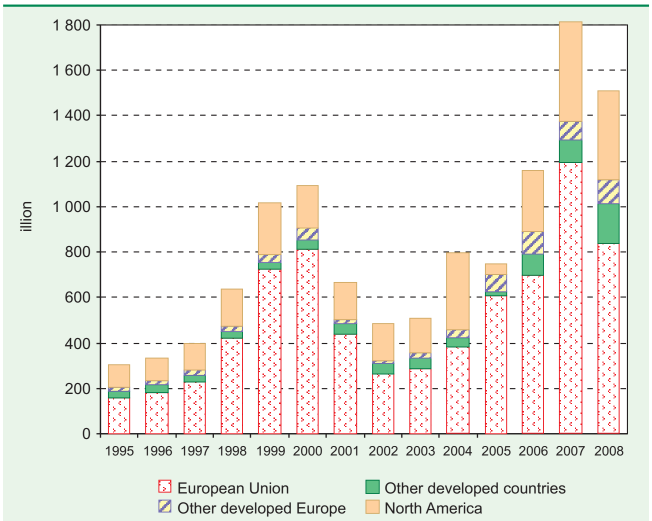
[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Figure II.27. Developed countries: FDI outflows, by sub-group, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

in 2008, foreign investments in the primary sector experienced robust growth (table II.31). On the other hand, FDI outflows declined in the primary sector and services and increased in manufacturing.

In the *primary sector*, cross-border M&A sales in developed countries increased by 44%. In the mining and quarrying industries, the consolidation process, which had been driven by the boom in natural resources, continued in 2008 and the first half of 2009. Mining and quarrying TNCs from developed countries invested heavily in the sector through cross-border M&As, including in other developed countries, in order to strengthen their position against competitors. In addition, large companies from developing countries (notably from China) undertook cross-border M&As to acquire substantial stakes in developed-country firms in the primary sector.

In the *manufacturing sector,* cross-border M&A sales of companies in developed countries declined by 16%, while cross-border M&A purchases by developed-country TNCs increased by 63%. Nearly all industries suffered from falling investments, with the exception of food, beverages and tobacco, in which cross-border M&A sales more than doubled, driven by several large-scale investments. The industry profited from the expectation that it would suffer much less in the economic crisis than other industries. Among the 20 largest cross-border M&As in 2008, five were in the food, beverages and tobacco industry (annex table A.I.3). This trend is continuing in 2009, with a $3.6 billion bid by Agrium (Canada) to acquire CF industries (United States).

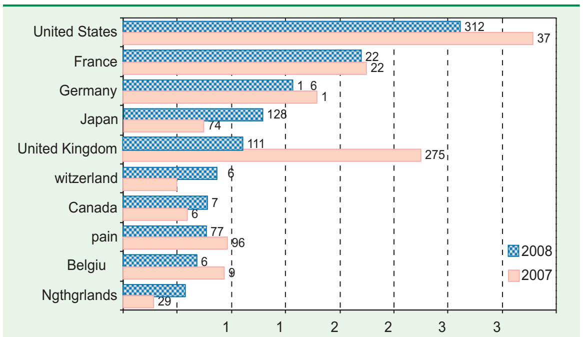
In the *services sector,* both cross-border M&A sales and purchases of developed countries declined substantially, by 61% and 53% respectively. Services, which remain the sector with the largest FDI activity in developed countries, accounting for 38% of cross-border M&A sales, suffered most from the financial crisis and the economic downturn. Cross-border M&As fell in almost all services. In financial services M&A activity that had soared in previous years, driven by several mega deals, shrank dramatically by around 84%. Among the larger industries, business services partially withstood the sharp downward trend.

3. Policy developments

In 2008, the national and international policy environments for FDI in developed countries were influenced by the continuing debate on cross-border investments by sovereign wealth funds (SWFs). Furthermore, several countries adopted legislation concerning the review of foreign investment on national security grounds. In addition, some countries took measures to further improve investment conditions.

SWFs have been criticized mainly on the grounds of lack of transparency. Moreover, the fear that they may be pursuing political rather than purely economic goals led to reactions in several developed countries. In principle, it was acknowledged that the rise of SWFs should not lead to new barriers to international capital flows. The European Commission, in February 2008, urged a common European approach to SWFs that should strike a balance between addressing concerns about SWFs and maintaining the benefits of open capital markets. Fears of possible discriminatory measures towards SWFs led to the establishment of the International Working Group of Sovereign Wealth Funds (IWG) in May 2008, which agreed on Generally Accepted Principles and Practices (GAPP) – the so-called Santiago Principles (chapter I). The GAPP seek to ensure that SWFs bring economic

Figure II.28. Developed countries: top 10 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Ranked on the basis of the magnitude of 2008 FDI outflows.

Table II.30. Developed countries: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	52 178	Anheuser-Busch Cos Inc	United States	Malt beverages	Stichting Interbrew SA	Belgium	100
2	17 873	Altadis SA	Spain	Cigarettes	Imperial Tobacco Group PLC	United Kingdom	100
3	17 628	Reuters Group PLC	United Kingdom	News syndicates	Woodbridge Co Ltd	Canada	100
4	16 258	Imperial Chemical Industries PLC	United Kingdom	Paints, varnishes, lacquers, & allied products	Akzo Nobel NV	Netherlands	100
5	16 000	Intelsat Ltd	Bermuda	Communications services, nec	Serafina Holdings Ltd	United Kingdom	76
6	15 018	OCI Cement Group	Egypt	Cement, hydraulic	Lafarge SA	France	100
7	14 900	Scottish & Newcastle PLC	United Kingdom	Malt beverages	L'Arche Green NV	Netherlands	100
8	14 342	Endesa Italia	Italy	Electric services	E ON AG	Germany	80
9	10 547	Alcon Inc	United States	Ophthalmic goods	Novartis AG	Switzerland	25
10	8 888	Vin & Sprit AB	Sweden	Wines, brandy, and brandy spirits	Pernod Ricard SA	France	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

and financial benefits to home countries, recipient countries and the financial system.[115] Emphasis is placed on transparency. The GAPP state that "the policy purpose of the SWF should be clearly defined and publicly disclosed." And they call for increased cooperation between the domestic authorities and the SWF if a potential investment is likely to have broader macroeconomic implications. Furthermore, they state that SWFs should establish a clear and effective division of roles and responsibilities to improve accountability with the objective of ensuring a high degree of independence of their managing boards from possible policy interventions.

Several countries have adopted or amended regulations to review foreign investment on national security grounds (Marchick and Slaughter, 2008: 2). In the United States, the CFIUS (Committee on Foreign Investments in the United States), an inter-agency committee, is authorized to review transactions that could result in control of a United States business by a foreign person ("covered transactions"), in order to determine the effect of such transactions on the country's national security. The CFIUS process has been subjected to significant reforms over the past several years. The latest has been the revision of the CFIUS regulations in November 2008, and publication of guidance on CFIUS's national security considerations in December 2008.[116] The number of national security-related cases investigated increased to 23 in 2008 from 6 in 2007.[117] In April 2009, Germany adopted an amendment to its Foreign Trade and Payments Act and its implementing regulations. According to the amendment, the Federal Ministry of Economics and Technology has the right to initiate a review of foreign investments, and can exceptionally prohibit transactions that threaten to impair public security or public order. The screening is applicable to investors from outside the EU and the European Free Trade Association that seek to acquire 25% or more voting rights of a German company. It is not limited to specific sectors or a certain size of the target enterprise. Also Canada amended its Investment Canada Act in March 2009, which authorizes the Government to review investments that impair or threaten to impair national security and, if necessary, take appropriate action. At the same time, the reform also aimed at liberalizing the review process by raising the general review threshold from $312 million for 2009 to $1 billion for 2010, by eliminating lower review thresholds in identified areas (i.e. transportation services, financial services and uranium production) and by requiring the Minister to justify any decisions to disallow an investment.[118]

In November 2008, France announced the establishment of a new public fund which will be run by the French Government and the Caisse des Dépôts et Consignations, a public entity under the supervision of the parliament. It would provide capital injections to strategic industries as well as small and medium-sized enterprises with a high development potential.

Several developed countries have changed tax policies and other incentives to promote domestic and foreign investment. In Switzerland, a referendum approved the reform of the corporate tax, which will reduce the double taxation of dividends.[119] In Australia, various provisions were introduced to encourage foreign investment. For instance, it relaxed the review process of foreign investment in residential real estate.[120]

In Japan, the Government introduced various measures in 2008 and 2009 aimed at encouraging inward investments, as well as improving Japan's capital markets. Foreign investors satisfying certain requirements who invest in foreign private equity funds are eligible as of April 2009 for tax exemptions on capital gains that they made at the time when foreign private equity firms sold shares of their acquired Japanese firms. The Government has also

Table II.31. Developed countries: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in developed countries[b] 2007	2008	2009 [a]	Net purchases by developed countries' companies worldwide[c] 2007	2008	2009 [a]
Total	903 430	551 847	102 313	841 999	539 598	99 936
Primary	55 806	80 514	8 294	80 890	33 519	- 3 343
Mining, quarrying and petroleum	54 895	78 604	7 823	80 483	29 826	- 3 448
Secondary	311 264	261 139	18 967	128 754	209 539	14 465
Food, beverages and tobacco	45 629	107 922	1 623	29 662	75 743	1 624
Chemicals and chemical products	111 800	66 611	9 440	80 988	59 943	8 815
Non-metallic mineral products	34 933	11 926	- 460	372	20 553	74
Metals and metal products	64 488	9 877	291	- 1 872	3 660	- 236
Machinery and equipment	17 704	13 236	184	2 945	5 788	207
Electrical and electronic equipment	21 894	10 537	5 628	34 370	23 786	561
Precision instruments	- 17 165	22 980	1 996	- 9 868	7 140	2 777
Services	536 360	210 194	75 051	632 143	296 497	88 814
Electricity, gas and water	91 681	34 998	48 990	41 405	13 978	26 725
Hotels and restaurants	8 188	3 155	539	- 11 652	636	233
Trade	42 335	10 847	- 2 890	- 3 113	191	1 990
Transport, storage and communications	53 862	20 766	2 067	28 011	- 7 117	7 747
Finance	214 827	33 794	21 358	567 124	270 740	54 455
Business services	88 666	96 833	3 963	11 817	21 631	- 1 049

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Net sales in the industry of the acquired company.
[c] Net purchases by the industry of the acquiring company.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

introduced a tax reduction for repatriated foreign income by Japanese TNCs to stimulate domestic investment in Japan. Concerning outward FDI, the Japan Bank for International Cooperation can now extend loans to Japanese firms that invest in other developed countries so as to reduce the impact of the credit crunch due to the financial crisis in those countries. Previously it could only extend loans to just those investing in developing countries.

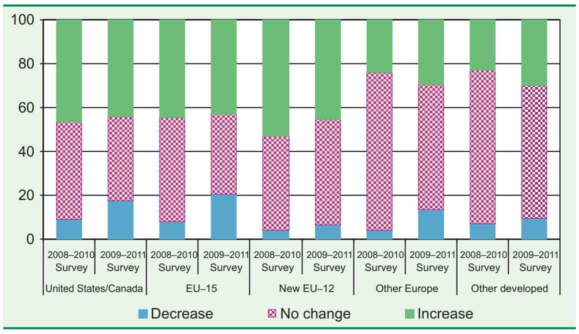
At the international level, developed countries concluded 38 new BITs, most of which were with developing countries (26 BITs). As far as DTTs are concerned, 63 new agreements were concluded by developed countries in 2008, bringing their total number of DTTs to 2,148. In terms of IIAs (other than BITs and DTTs) involving developed countries, 15 agreements were concluded in 2008 (for example the FTAs between Canada and Colombia, Canada and Peru, China and New Zealand, and ASEAN and Japan).

4. Prospects: FDI flows expected to fall further

The short-term prospects for FDI flows to and from developed countries have deteriorated sharply. In 2009, developed countries fell into the severest economic and financial crisis in several decades. An end of the economic downturn and a recovery of developed economies are not foreseeable in the near future. The real GDP of developed countries as a group is expected to decline by 3% in 2009, with the real GDP of the United States forecast to decline by 2.5%, of the EU by 3% and of Japan by 2% (IMF, 2009a). In addition, access to bank financing of cross-border M&As remains difficult. Several bank lending surveys point in this direction (ECB, 2009). Banks have tightened credit standards, and risk premiums have risen considerably. Private equity funds and other collective investment funds that were important drivers of the previous M&A boom have been seriously hurt by the crisis. Financing for large leveraged buyouts is hard to find. As a result, TNCs are cutting back their investment plans. For example, while in 2008 Japanese TNCs were very active abroad, as noted, their FDI is expected to fall by as much as 33% in fiscal year 2009 (ending March 2010), and this fall will be mostly in developed countries, ranging between 40% for EU countries and 44% for the United States; China, on the other hand, is expected to see only a small decline in Japanese FDI, of 3%.[121] FDI flows, both outward and inward, could fall by 30–50% in 2009.

In UNCTAD's *World Investment Prospects Survey 2009-2011,* respondent firms indicated a decline in planned investments in the medium term, in all sub-groups of developed countries except "other Europe" and "other developed countries" (figure II.29). Almost 42% of European investors indicated they would reconsider the way they propose to expand their international operations and FDI activity in 2009. Non-cash mergers and consolidation are likely to be the preferred modes, as companies seek to survive the financial turmoil by optimizing assets and combining with competitors to cut costs (Ernst & Young, 2009). In the *12th Annual Global CEO Survey* (2009) by PricewaterhouseCoopers, pessimism prevails across all geographic regions, business sectors and levels of economic development: nearly 70 per cent of CEOs mentioned that they would delay planned investments due to higher financing costs.

Figure II.29. Developed countries: comparison of the results of *WIPS 2009−2011* with *WIPS 2008−2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

Notes

1 For example, two of the world's largest mining groups, Anglo American and Rio Tinto, with major operations in African countries, have announced sizeable cutbacks in planned capital spending in 2009 – a move that is bound to have adverse repercussions in Africa. Anglo is halving its budget to $4.5 billion, while Rio Tinto is cutting spending by $5 billion (EIU, "Sub-Saharan Africa industry: multinationals cut back", *Viewswire*, 19 January 2009, at: www.eiu.com). Norilsk Nickel (Russian Federation) will also seek to divest its assets in Australia, Botswana and South Africa, and will halve its total investment programme to $1.2 billion. The firm is said to be considering all options, including a possible merger with another metals producer, because of the difficult international environment (EIU, "Sub-Saharan Africa industry: Norilsk Nickel pulling out of market", *Viewswire*, 5 February 2009, at www.eiu.com).

2 Data on greenfield projects in this chapter are from fDi Markets, fDi Intelligence (www.fDimarkets.com).

3 Countries in the subregion are: Algeria, Egypt, the Libyan Arab Jamahiriya, Morocco, Sudan and Tunisia.

4 "Egypt industry: Edison secures 40% stake in mature gas field", *EIU Viewswire,* 15 January 2008.

5 Countries in the subregion are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

6 Other investments included the following: in Côte d'Ivoire, Energy Allied International, WCW International (United States) and the Ivorian State-owned oil company, Petroci, began construction of a crude oil refining and storage facility for $1.4 billion. Cape Verde performed exceptionally well, after a 28.5% stake in the State-owned Empresa Nacional de Combustíveis (Enacol), was offered on the country's stock exchange, Bolsa de Valores de Cabo Verde (BVC). In addition, a Spanish consortium, Bucan, is investing $308 million in tourism infrastructure for construction of luxury hotels.

7 Countries in the subregion are: Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Mayotte, Reunion, Seychelles, Somalia, Uganda and the United Republic of Tanzania.

8 Countries in the subregion are: Burundi, Cameroon, Central African Republic, Chad, Congo, the Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda and Sao Tome and Principe.

9 See: "Equatorialguinean govt buys oil assets", *AfrolNews,* 3 June 2008 (www.afrol.com).

10 Countries in the subregion are: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

11 Richemont, the jewellery company, sold its 19.4% stake in BAT in 2008 and distributed to the owner, while Remgro spinned off 10.7% of its holding of BAT. ("UK tobacco: Richemont to spin off BAT stake", *Financial Times*, 8 August 2008).

12 Libyan African Investment Portfolio, owned by the Government of the Libyan Arab Jamahiriya, has a number of successful FDI operations across Africa ("Libya invades energy, ICT and tourism sectors", at http://www.eastandard.net/InsidePage.php?id=1143990200&cid=4) *The Standard,* 14 July 2008).

13 For example, one of Algeria's largest gas-based industrial projects, entailing the construction of a fertilizer complex in Arzew in the west of the country, is being carried out by Sorfert, owned by Orascom Construction Industries (OCI) of Egypt (51%) and by Algeria's national oil and gas corporation, Sonatrach (49%) ("Arzew fertiliser complex project achieves financial close", *EIU-Viewswire,* 23 July 2008).

14 Egypt State Information Service available at www.sis.gov.eg.

15 Communication from the Permanent Mission of Mauritius in Geneva, Switzerland, and http://supremecourt.intnet.mu/Entry/dyn/GuestGetDoc.Asp?Doc_Idx=8292881&Mode=Html&Search=No.

16 India-Africa, Forum Summit 2008, New Delhi, 8–9 April 2008 (for details, see: http://www.africa-union.org).

17 FDI inflows declined by 21% in China, 40% in Hong Kong (China) and 56% in India for the first quarter of 2009 compared to the corresponding period of 2008.

18 Among the 19 States, 15 of them have data (or estimates) on FDI inflows in 2008. They are: Cook Islands, Fiji, French Polynesia, Kiribati, Marshall Islands, the Federated States of Micronesia, Nauru, New Caledonia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

19 Between January and June 2008, FDI inflows into the non-financial sector in China rose by 45.6%, to reach $52.4 billion. However, inward FDI in the form of "hot money" (speculative capital driven by the expectation of further appreciation of the renminbi) in the first half of 2008 showed signs of slowing by the last quarter (Mure Cickie, "China sees slowdown in 'hot money' flow", *Financial Times*, 14 October 2008).

20 During the past few years, in the coastal regions of China, production costs have increased due to higher wages, tighter labour regulations and a stronger yuan, which makes those regions less competitive than before in the production of low-end goods such as textiles and garments. This trend has been interrupted by the impact of the global financial crisis.

21 By January 2009, 15% of China's 130 million migrant workers had lost their jobs and quit coastal manufacturing centres ("Downturn has sent 20m rural Chinese home", *Financial Times*, 3 February 2009).

22 For example, ArcelorMittal may cut some components of its eight-year global expansion programme, and other planned projects may be postponed, such as plans for two new steel plants in India with a total investment of $20 billion. (Peter Marsh, "Mittal reviews $35bn growth plans", *Financial Times*, 23 October 2008).

23 See, for example, "Asian economies: sitting on the dock of a bay", *The Economist*, 22 November 2008; "Troubled tigers", *The Economist*, 31 January 2009; "Unlucky numbers", *Financial Times*, 10 February 2009.

24 Arijit Ghosh, "BRIC should include Indonesia, Morgan Stanley says", 15 June 2009 (www.bloomberg.com).

25 The three largest cases of FDI in Viet Nam in 2008 involved two steel firms and one oil refinery. Companies from Malaysia, Taiwan Province of China and Kuwait, respectively, were involved. In addition, in November 2008, Formosa Plastics (Taiwan Province of China) announced its intention to invest up to $15 billion in a large-scale petrochemical complex in central Viet Nam.

26 The economies in South, East and South-East Asia had total foreign exchange reserves of about $3 trillion by end 2008 and early 2009. (UNCTAD secretariat calculations based on data from central banks). Part of these reserves were invested abroad through direct investment by SWFs. They have also facilitated outward investment by State-owned and privately owned firms through the reduction or elimination of regulatory controls on FDI and/or easier access to foreign exchange.

27 For example, Hutchison Whampoa (Hong Kong, China), the largest TNC in both the region and the developing world as a whole, and a leading conglomerate in global infrastructure industries (*WIR08*), announced that it would suspend all new investments in its global operations (www. dwnews.com).

28 For example, in the electricity industry, State Grid (China) won a bid for operating the national transmission network in the Philippines for 25 years. In roads, TNCs from South-East Asia have been participating on a build-operate-transfer (BOT) basis in various expressway projects in China, which connect some remote and economically backward areas to the country's expressway network. For example, MTD (Malaysia) is investing in, and will operate a highway linking Yangshuo and Luzhai in Guangxi Province. This and other investments have been taking place as part of China's "Go West" strategy (box II.2).

29 See: "Taiwan's Foxconn hunkers down in Vietnam" (http://www.thanhniennews.com/).

30 For example, India allows FDI up to 100% for publication of facsimile editions of foreign newspapers, and allows FDI up to 26% with prior approval of the Government for publication of Indian editions of foreign magazines dealing with news and current affairs (Ministry of Commerce and Industry, Department of Industrial Policy and Promotion Press Note n°1, 2009).

31 Circular of the Ministry of Commerce on Delegation of the Authority to Examine and Approve the Establishment of Investment Companies by Foreign Investors and Circular of the Ministry of Commerce on Further Improving Examination and Approval of Foreign Investment.

32 On 27 April 2009, the Prime Minister of Malaysia announced a package of measures to liberalize financial services, including raising the foreign equity limits in investment in Islamic banks and insurance and Takaful firms from 49% to 70% (Official website of the Prime Minister's Office of Malaysia, www.pmo.gov.my).

33 Decree Providing Detailed Guidelines for Implementation of a Number of Articles of the Law on Enterprises (see, for example, www.itpc.gov.vn).

34 "Foreign firms allowed to lead R&D projects", 22 May 2008, *Investment News*, Investment Korea (www.investkorea.org).

35 Regulation No. 02/PER/M.KOMINFO/3/2008.

36 See: http://fldj.mofcom.gov.cn/aarticle/ztxx/200903/20090306108494.html.

37 APEC, "APEC Peru 2008: Outcomes" (www.apec.org).

38 Press statement on the global economic and financial crisis, Cha-am, Thailand, 1 March 2009, available at: www.aseansec.org/22323.htm.

39 Temasek (Singapore), for instance, is targeting more Asian financial companies which are undervalued due to the financial turmoil. (See: "Temasek to target more Asian investments", *Financial Times*, 6 October 2008).

40 The GCC is a regional grouping consisting of six Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

41 EIU, *Business Middle East*, 1–15 November 2008; and *MEED*, "Gulf project finance market collapses", 26 September 2008.

42 This drop in cross-border M&A value occurred despite a 17% increase in the number of deals, reflecting the fall in stock values.

43 Based on UNCTAD cross-border M&As database (www.unctad.org/fdistatistics).

44 See: Knowledge@Wharton.com, 11 March 2009; and EIU, *Business Middle East*, February 16–17, 2009.

45 For example, Saudi Telecom gained ownership of a 26% stake in Kuwait's third mobile phone licence, and was awarded the third mobile phone licence in Bahrain. The United Arab Emirates' Etisalat was awarded the third mobile phone licence in the Islamic Republic of Iran, and plans to invest around $1 billion in the construction of its network.

46 SAGIA (2009) and Undersecretariat of Treasury, Republic of Turkey Prime Ministry, at: www.treasury.gov.tr.

47 EIU, *Business Middle East*, 1–15 April 2008, London, and J. Ray Mcdermott, *Press Release*, 10 March 2009, www.jraymcdermott.com.

48 Adco is the onshore arm of the Abu Dhabi National Oil Company (ADNOC). ADNOC, which is entirely owned by the Government of Abu Dhabi, has a 60% share in Adco, with the remaining equity held by BP, Shell, ExxonMobil, Total and Partex.

49 Alexander's *Gas & Oil Connections*, 14 (3), 5 March 2009, www.gasandoil.com/goc/company/cnm90993.htm.

50 EIU, *Business Middle East*, 16–28 February 2009.

51 *Arabian Business.com*, 16 March 2009, at: www.arabianbusiness.com.

52 EIU, *Business Middle East*, 1–15 October 2008.

53 Communication from Saudi Arabian General Investment Authority.

54 EIU, *Business Middle East,* 16-31 January 2008.

55 Website of the Executive Privatization Commision, (www.epc.gov.jo)

56 Permanent Mission of Turkey to WTO

57 EIU, *Business Middle East*, 1-15 February 2008, 1-15 March 2008.

58 Websites of Supreme Council of Information & Communication Technology of Qatar (www.ict.gov.qa) and Telecom Regulatory Authority of Oman (www.tra.gov.om)

59 Website of General Investment Authority (www.giay.org)

60 Preliminary FDI data for the first quarter of 2009 were available only for Turkey and Jordan by July 2009. Together, they accounted for 22% of total inflows to the region in 2008, but FDI inflows decreased by 54% in the first quarter of 2009 compared to the first quarter of 2008.

61 IPIC's outward acquisition activities in 2009 included a 17.6% stake for around $1 billion in Oil Search Ltd. (Australia), which operates all of the oil and gas producing fields in Papua New Guinea; a 70% stake in a German industrial services company, Man Ferrostaal; a 71% stake in the energy investment company, Aabar Investments Co., for which it paid $1.63 billion; a 100% stake in NOVA Chemicals (Canada), the total value of

which (including assumption of NOVA Chemicals' net debt obligations) is approximately $2.3 billion; and a 32.5% stake in the Spanish energy company Cepsa.

62 Mubadala's outward FDI activities consisted of a number of partnerships aimed at strengthening the United Arab Emirate's position in the global aviation, aerospace and technology industries. Partnerships have been established in particular with the following: Finmeccanica, the Italian aerospace company, to manufacture aerospace composite components for civil aircraft; the European Aeronautic Defence and Space Company, EADS, to build a new aerostructure composites plant; and GE, in a broad range of initiatives, including commercial finance, clean energy R&D, aviation and corporate learning.

63 Taqa took a 50% stake in the Caribbean operations of Japan's Marubeni Corporation in 2009.

64 Masdar purchased a stake in WinWinD of Finland (which specializes in the production of wind turbines). It also formed a joint venture with Spain's Sener Group de Ingenieria (Torresol Energy) to work on the design and construction of concentrated solar power plants, and it has started work on the construction of a $230 million solar photovoltaic plant in Germany.

65 In 2007, IPIC announced plans to increase its investment portfolio to $20 billion from $11 billion over five years. But the company's Managing Director said it had already reached $14 billion in 2007 and it was close to reaching $20 billion at the end of 2008 (Gulfnews.com, 12 September 2008, at http://www.gulfnews.com/Business/Investment/10244404.html).

66 Banco Central do Brasil, Balanço de pagamentos, at: www.bcb.gov.br; Banco Central de Chile, Balanza de pagos de Chile, at: www.bcentral.cl; and INDEC (Argentina), 2009.

67 Banco Central de la Republica Dominicana, www.bancentral.gov.do; and Mideplan (Costa Rica): www.mideplan.go.cr.

68 The strong increase in inter-company loans resulted from a 112% increase in claims on affiliated enterprises of Brazilian TNCs and a 35% decrease in liabilities to affiliated enterprises (Banco Central do Brasil, Balanço de pagamentos, at: www.bcb.gov.br).

69 These companies made overoptimistic bets on their country's currency: they were holding foreign-currency-denominated debt and purchasing foreign exchange rate derivatives (basically betting on the future value of their national currency against the dollar) (EIU, *Business Latina America*, 24 November 2008; and *Latin Finance,* 1 November 2008).

70 *Jamaica Observer*, 11 February 2009.

71 These fields are equivalent to 41% of the pre-salt area, 60% of which belongs to Petrobras.

72 See EIU, *Business Latin America*, 19 January 2009; *Gazeta Mercantil*, 13 February 2009; and *Offshore Magazine*, Volume 68, Issue 7, July 2008.

73 See EIU, *Business Latin America*, 11 February 2008, 12 May 2008, 24 November 2008, and 16 February 2009.

74 Mineweb, 9 June 2009, at: http://www.mineweb.com/mineweb/view/mineweb/en/page36?oid=84557&sn=Detail.

75 *El Universal*, 19 January 2009; *Nacion.com*, 24 March 2009; and *Business Latin America*, 12 January 2009 and 2 February 2009.

76 See *América Economía*, 21 October 2008; and *Inter-American Dialogue's*, 23–27 June 2008, at: www.iamericas.org/news/energy/LEA080626.pdf.

77 For example, Toyota announced in September 2008 that it would set up its second car plant in Brazil to produce some 150,000 small-size passenger cars per year by 2011 (EIU, *Business Latin America*, 8 September 2008), and Hyundai Motor announced also in September that it would build its first South American auto plant in Brazil as part of its drive to go global (*The Economic Times*, 19 September 2008).

78 See ANFAVEA, at: www.anfavea.com.br; ADEFA, at: www.adefa.com.ar; EIU, *Business Latin America*, 24 November 2008 and 16 February 2009; and *Valor Economico*, "Incentivos puxam a lenta recuperação da indústria", 6 May 2009.

79 See EIU, *Business Latin America*, 2 February 2009 and 29 September 2008; and Eldiariomontanes.es, 10 March 2009.

80 Banco do Brasil acquired several State-owned banks from various states of the country: Santa Catarina (in the southern region), Piauí (northeast), and São Paulo, the country's wealthiest state, which agreed to sell a majority stake in Nossa Caixa for $2.3 billion. It then bought half of Banco Votorantim, a private Brazilian bank, in January 2009 for which it will pay $1.3 billion (EIU, *Business Latin America*, 16 March 2009)

81 *Bloomberg.com*, 23 January 2009; and Universia Knowledge@Wharton, 10 December 2008 and 25 March 2009.

82 EIU, *Business Latin America*, 24 November 2008, and 15 December 2008.

83 This process was initiated by Supreme Decree No. 28701 ("Héroes del Chaco"), which regulates the full recuperation of all oil and natural gas resources by the State.

84 Ministerio de Hidrocarburos & Energía, Boletín Informativo No. 2, Año 1, 2009.

85 In May 2009, an ICSID tribunal, pursuant to Perenco's application for provisional measures, provisionally prohibited the disposal of the seized oil production, *Perenco Ecuador Ltd. v. Republic of Ecuador and Petroecuador* (ICSID Case No. ARB/08/6, Decision on Provisional Measures, 8 May 2009).

86 *CEMEX Caracas Investments B.V. and CEMEX Caracas II Investments B.V. v. Bolivarian Republic of Venezuela* (ICSID Case No. ARB/08/15).

87 The Law was published in the Official Gazette No. 39.019, 18 September 2008.

88 Ley No. 29376, 10 June 2009, at www.congreso.gob.pe.

89 Sistema Integrado Provisional Argentino, Ley 26425, 20 November 2008, at: www.infoleg.gov.ar.

90 Medida Provisória No. 443, 21 October 2008, converted into Law No. 11.908/2009, at: http://www010.dataprev.gov.br/sislex/paginas/45/2008/443.htm.

91 Decreto No. 6.613, 22 October 2008, and: "Lula assina decreto zerando alícuota do IOF", Agencia Brasil, at: www.agenciabrasil.gov.br.

92 "Vendido Stanford Bank a Banco Nacional de Crédito", Nota de Prensa, 8 May 2009, *Ministerio del Poder Popular para Economía y Finanzas*, at: www.mf.gov.ve.

93 ALBA was established in 2004 and aims at social, political, and economic integration between the countries of Latin America and the Caribbean (see *WIR06*).

94 In this report, Georgia is still treated as part of the CIS, since its effective separation from the CIS took place in August 2009.

95 Medium-sized M&A transactions are deals valued at between $30 million and $300 million (PricewaterhouseCoopers, 2008).

96 As a result, there was a net capital outflow (of direct and portfolio investment) of $100 billion as TNCs operating in the country scaled back their capital expenditures.

97 For example in Armenia, nearly two thirds of the total

FDI inflows in 2008 came from the Russian Federation, mainly in the energy, telecommunications and transport industries (EIU, 2009).

98 For example in 2008, there was a large announced project by an investor based in the United Arab Emirates to set up an oil refinery and petrochemical complex worth $4.5 billion in the Chelyabinsk Oblast of the Russian Federation

99 In addition to the previously mentioned acquisition of Ukrsotsbank in Ukraine by Unicredit (Italy), Barclays (United Kingdom) acquired Moscow-based Expobank for $745 million, and Commerzbank AG (Germany) acquired Kiev-based Bank Forum for $600 million.

100 Some of the liberalization measures in the financial services industry included dropping the requirement for a mandatory deposit, and an increase in the level of authorized foreign capital in domestic banks from 25% to 50% (European Bank for Reconstruction and Development, "Recent legal developments in transition countries", 2008, at http://www.ebrd.com/country/sector/law/new/transition.pdf).

101 European Bank for Reconstruction and Development, "Recent legal developments in transition countries", 2008 at http://www.ebrd.com/country/sector/law/new/transition.pdf.

102 "Implementation of the European Neighbourhood Policy in 2008: Progress Report Georgia", at http://ec.europa.eu/world/enp/pdf/progress2009/sec09_513_en.pdf.

103 At http://www.premier.gov.ru/eng/anticrisis/.

104 European Commission, at http://ec.europa.eu/enlargement/press_corner/whatsnew/accession-negotiations_en.htm.

105 "Putin welcomes Shell to offshore projects", *Financial Times*, 28 June 2009

106 European Central Bank, 2008. The consolidation process in the European banking sector is driven by the growing role of institutional investors (notably mutual funds, pension funds and insurance companies) as shareholders in European banks.

107 FDI inflows from third countries into the euro area declined sharply in 2008, to only €50 billion compared to €365 billion in 2007 (*ECB Monthly Bulletin*, March 2009: S64).

108 One was the acquisition of Dutch bank ABN-AMRO by a consortium of three foreign banks for more than €60 billion, and the other was the takeover of Nutricia, a baby-food company, by the French Danone for €12 billion.

109 United Kingdom, Office for National Statistics, 2009: 5.

110 Slovenia joined the EMU in January 2007, while Cyprus and Malta joined it in January 2008.

111 However, the profitability of Japanese TNCs has been deteriorating drastically in 2009 with a more than 30% decline in profits.

112 According to Nikkei (8 June 2009), investment expenditures fell by 5.6% in fiscal year 2008 (ending March 2009), and are projected to fall by another 15.9% in fiscal year 2009 (ending March 2010).

113 However, the United Kindom was the home for the second largest acquisition made by developed-country firms (table II.30)

114 However, some companies such as CEZ (Czech Republic) continued to expand and consolidate their position in South-East European markets. In 2008, CEZ finalized an agreement with the Government of Albania for the acquisition of a 76% stake in the State-owned electricity distribution company OSSH for $131 million.

115 The 24 principles cover: (i) the legal framework, objectives and coordination with macroeconomic policies, (ii) the institutional and governance structure, and (iii) the investment and risk-management framework of SWFs (IWG, 2008).

116 United States Treasury Department: http://www.treas.gov/offices/international-affairs/cfius/

117 United States Treasury Department: http://www.ustreas.gov/offices/international-affairs/cfius/docs/Covered-Transactions_2006-2008.pdf

118 Investment Canada Act: http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk50926.html.

119 Swiss Confederation: http://www.admin.ch/ch/d/as/2008/2893.pdf (accessed on 22 July 2009)

120 Foreign Investment Review Board Australia: www.firb.gov.au/content/policy.asp (accessed on 21 July 2009).

121 *Nikkei*, 6 June 2009.