REGIONAL TRENDS IN FDI

CHAPTER II

Foreign direct investment (FDI) flows fell in all major regional groupings of countries in 2009, though not equally. In contrast with the previous year, flows to developing and transition regions also registered declines – marking the end of a prolonged period of near uninterrupted growth. FDI flows to these regions, however, recovered in the second half of 2009 and showed increase vigour in the first quarter of 2010.

The evolving nature and role of FDI varies among regions:

- Africa is witnessing the rise of new sources of FDI.
- Industrial upgrading through FDI in Asia is spreading to more industries and more countries.
- Latin American transnational corporations (TNCs) are going global.
- Foreign banks play a stabilizing role in South-East Europe, but their large scale presence also raises potential concerns.
- High levels of unemployment in developed countries triggered a concern of the impact of outward investment on employment at home.
- Official development assistance (ODA) can act as a catalyst for boosting the role of FDI in least developed countries (LDCs).
- For landlocked developing countries (LLDCs) to succeed in attracting FDI they need to shift their strategy to focus on distance to markets rather than distance to ports.
- Focussing on key niche sectors is crucial if small island developing States (SIDS) are to succeed in attracting FDI.

This chapter analyses regional trends in FDI, with some additions to the coverage and changes in presentation as compared to previous *World Investment Reports*. It first focuses on the traditional regions (four developing-country regions, South-East Europe and the Commonwealth of Independent States (CIS), and developed countries). Then it goes on to discuss FDI in special groups of economies with similar common geographical or organizational features, such as structurally weak, vulnerable and small economies (LDCs, LLDCs and SIDS). The analysis in each subregion begins with a presentation of facts and figures in graphs and tables. Then, salient developments and issues with respect to regional FDI trends are highlighted. Finally, for each of the traditional major regions – and LDCs, LLDCs and SIDS – a topic of particular relevance is discussed with the aim of drawing attention to an important FDI-related issue for the region.

A. Regional trends

FDI flows to *developed countries* experienced the largest decline (44 per cent) in 2009 among all regions and subregions. Among the developing economies – which as a whole registered a 24 per cent fall in inflows – *South, East and South-East Asia* showed the smallest decline (17 per cent) and remained the largest recipient, accounting for almost half of the total inflows. *Africa* recorded a decrease of 19 per cent in 2009. In terms of the decline rate, flows to Latin America and the Caribbean and West Asia fell more. However, all developing regions saw their shares rise in global FDI inflows (table II.1). This is not the case for transition economies of *South-East Europe and the Commonwealth of Independent States* (CIS), which suffered a decline of 43 per cent.

FDI outflows in 2009 showed a similar pattern to inflows: they decreased in all regions and subregions. FDI outflows from developed country TNCs were almost halved in 2009 (table II.1). The share of developing countries in global FDI outflows rose to 21 per cent, while those of transition economies, although small, maintained their upward trend to 5 per cent (table II.1). Within the developing countries, outflows from South, East and South-East Asia have been particularly noteworthy, accounting for 14 per cent of global outflows in 2009.

Table II.1. FDI flows, by region, 2007–2009
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2007	2008	2009	2007	2008	2009
World	2 100	1 771	1 114	2 268	1 929	1 101
Developed economies	1 444	1 018	566	1 924	1 572	821
Developing economies	565	630	478	292	296	229
Africa	63	72	59	11	10	5
Latin America and the Caribbean	164	183	117	56	82	47
West Asia	78	90	68	47	38	23
South, East and South-East Asia	259	282	233	178	166	153
South-East Europe and the CIS	91	123	70	52	61	51
Memorandum: percentage share in world FDI flows						
Developed economies	68.8	57.5	50.8	84.8	81.5	74.5
Developing economies	26.9	35.6	42.9	12.9	15.4	20.8
Africa	3.0	4.1	5.3	0.5	0.5	0.5
Latin America and the Caribbean	7.8	10.3	10.5	2.5	4.3	4.3
West Asia	3.7	5.1	6.1	2.1	2.0	2.1
South, East and South-East Asia	12.3	15.9	20.9	7.9	8.6	13.9
South-East Europe and CIS	4.3	6.9	6.3	2.3	3.1	4.6

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

1. Developing countries

a. Africa

(i) Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $3.0 billion	Angola, Egypt, Nigeria, South Africa and Sudan	
$2.0 to $2.9 billion	Algeria, Libyan Arab Jamahiriya and Congo	
$1.0 to $1.9 billion	Tunisia, Ghana, Equatorial Guinea and Morocco	South Africa and Libyan Arab Jamahiriya
$0.5 to $0.9 billion	Zambia, Democratic Republic of the Congo, Mozambique, Uganda, Niger, United Republic of Tanzania, Madagascar and Namibia	Egypt
$0.2 to $0.4 billion	Chad, Côte d' Ivoire, Liberia, Cameroon, Mauritius, Seychelles, Botswana and Senegal	Morocco, Liberia and Algeria
Below $0.1 billion	Burkina Faso, Guinea, Kenya, Cape Verde, Rwanda, Mali, Somalia, Djibouti, Ethiopia, Benin, Swaziland, Malawi, Zimbabwe, Togo, Lesotho, Gambia, Central African Republic, São Tomé and Principe, Sierra Leone, Gabon, Guinea-Bissau, Burundi, Comoros, Eritrea and Mauritania	Nigeria, Gabon, Tunisia, Kenya, Sudan, Mauritius, Democratic Republic of the Congo, Senegal, Rwanda, Niger, Angola, Ghana, Seychelles, São Tomé and Principe, Mali, Botswana, Mozambique, Malawi, Burkina Faso, Guinea-Bissau, Zimbabwe, Cape Verde, Namibia, Benin, Côte d' Ivoire, Swaziland, Cameroon and Togo

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Africa	72.2	58.6	9.9	5.0	21.2	5.1	8.2	2.7
North Africa	24.1	18.3	8.8	2.6	16.3	1.5	4.7	1.0
East Africa	3.8	2.9	0.1	0.1	0.1	0.0	0.3	0.2
West Africa	11.1	10.0	1.5	0.5	0.4	-0.2	0.4	0.0
Southern Africa	28.7	21.6	- 0.6	1.6	6.2	3.9	2.8	1.5
Central Africa	4.4	5.7	0.2	0.1	-1.8	0.0	0.0	0.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Africa	413.1	514.8	84.5	102.2	49.5	34.3	2.4	2.1
North Africa	172.1	191.4	17.7	20.3	10.0	7.5	0.4	0.5
East Africa	23.2	26.4	0.7	0.8	0.8	0.9	0.1	0.1
West Africa	88.9	98.9	10.9	11.4	12.9	11.0	0.2	0.2
Southern Africa	101.4	165.1	54.3	68.7	24.3	13.7	1.5	1.0
Central Africa	27.6	32.9	0.9	0.9	1.6	1.2	0.1	0.1

Figure A. FDI inflows, 2000–2009

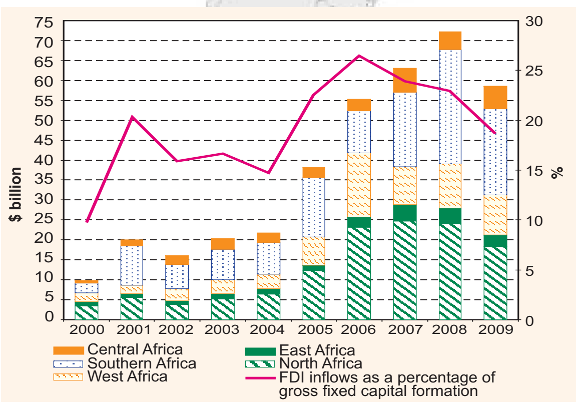


Figure B. FDI outflows, 2000–2009

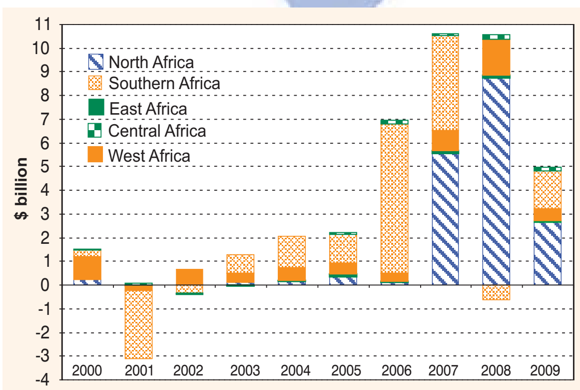


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/Industry	Sales		Purchases	
	2008	2009	2008	2009
Total	21 193	5 140	8 216	2 702
Primary	-2 055	2 579	- 133	621
Mining, quarrying and petroleum	-2 055	2 579	- 133	621
Manufacturing	15 639	- 110	1 645	138
Food, beverages and tobacco	-	-	-	39
Textiles, clothing and leather	-	-	7	-
Wood and wood products	-	11	1 082	-
Publishing and printing	- 4	-	- 4	-
Chemicals and chemical products	21	- 620	153	-
Non-metallic mineral products	15 469	250	340	- 4
Metals and metal products	104	248	-	102
Services	7 609	2 672	6 704	1 942
Trade	37	-	-	- 1
Hotels and restaurants	4	- 117	-	3
Transport, storage and communications	1 665	3 058	4	-
Finance	5 613	- 295	7 037	1 643
Business services	- 157	21	-	-
Health and social services	152	5	282	-

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	21 193	5 140	8 216	2 702
Developed economies	13 385	4 328	7 362	1 378
European Union	16 147	3 159	6 714	782
United States	-2 670	1 125	405	- 0
Japan	-	-	-	-
Developing economies	7 698	797	853	1 124
Africa	504	927	504	927
North Africa	-	324	-	-
Sub-Saharan Africa	504	603	504	927
South Africa	81	597	386	500
Latin America and the Caribbean	-	- 70	175	395
South America	-	- 66	175	383
Central America	-	-	-	-
Asia	7 194	- 60	399	102
West Asia	1 060	- 164	115	-
South, East and South-East Asia	6 134	105	284	102
South-East Europe and the CIS	15	-	-	200
Russian Federation	15	-	-	200

Visit www.unctad.org/wir or www.unctad.org/fdistatistics for detailed statistics on FDI and cross-border M&As.

After almost a decade of growth (fig. A), ***FDI flows*** to Africa declined from a peak of $72 billion in 2008 to $59 billion in 2009, due to the contraction of global demand and the fall in commodity prices.[1] This decrease in foreign investment is particularly serious for a region where FDI accounts for about a fifth of gross fixed capital formation. Thus FDI could be an important source of job creation and value-added activities.

The extent of the FDI decline varied across subregions. ***West Africa and East Africa***, having benefited most from the previous boom in commodity-related investments, experienced a decline in FDI inflows. Flows to ***North Africa*** also declined despite its more diversified FDI and sustained privatization programmes. Central Africa is the only subregion that saw FDI rise because of large investments in Equatorial Guinea. While flows declined, ***Southern Africa*** remained the largest recipient subregion, as a result of a number of large investment deals (e.g. telecommunications in South Africa).

Cross-border mergers and acquisitions (M&As) in Africa plummeted (tables D and E), whereas the decline in ***greenfield investments*** was more muted. M&A sales and purchases declined by 76 per cent and 67 per cent respectively, mainly due to large projects being postponed or cancelled, such as the deal between South African telecoms giant MTN and India's Bharti Airtel, and the transaction between mining firms Xstrata (Switzerland) and AngloAmerican (United Kingdom). Some greenfield investments – including, for example, Senegal's new airport – were also delayed.

Income on FDI in Africa – which yielded the highest rate of return among developing host regions (UNCTAD, 2008a) – declined by 31 per cent in 2009 (table C), after several years of rapid growth.

While foreign investment in ***manufacturing*** was under severe strain, FDI inflows to the ***primary sector*** were at a low level due to the collapse in commodity prices and the drying up of international financial resources.[2] The ***services*** sector, led by the telecommunications industry, became the dominant FDI recipient and attracted the largest share of cross-border M&As in Africa with transactions such as a $2.4 billion Vodafone deal in South Africa.

While the ***distribution of FDI*** by industry shows a concentration in the mining industry in terms of value, the manufacturing sector accounted for 41 per cent of the total number of greenfield investment projects during 2003–2009, including, for example, metals (9 per cent of the total), transport equipment (7 per cent) and food and beverage (6 per cent). This calls for reassessment of FDI in Africa as a different picture emerges, depending on whether the analysis is conducted with investment values versus investment cases.

Outward FDI declined in all subregions except Southern Africa, where African TNCs kept investing in natural resources and the service sector, mainly in other countries within the region.

Some countries introduced ***policy measures*** to promote foreign investment by lowering corporate taxes (e.g. Gambia and Morocco) or improved their general investment policy environment (e.g. Rwanda and Libyan Arab Jamahiriya). In contrast, there was also a tightening of the regulatory framework by adding local content requirements (e.g. Nigeria) or by introducing new foreign ownership limitations in specific sectors (e.g. Algeria).

Prospects for FDI inflows to Africa suggest a slow recovery, as global economic and financial conditions are expected to improve and commodity prices to rebound from the lows reached in early 2009 (IMF, 2010a). The region's largest economies are relatively well positioned: South Africa ranked 20th among the top priority economies for FDI in the world, while Egypt ranked 31st in the UNCTAD's *World Investment Prospects Survey* (*WIPS*) (UNCTAD, forthcoming a). The strong performance of emerging Asian economies that are important sources of FDI in Africa will support a revival of FDI inflows to Africa, and sustained intraregional investment will help small and low-income African countries ease their dependence on flows from traditional economies (section ii).

The ***outlook for FDI outflows*** is also improving. Investment from Africa, especially within Africa, is expected to rebound in 2010, sustained by recovering commodity prices and improving economic conditions in the region's main investing countries, such as South Africa and Egypt.

(ii) New sources of investment in Africa

TNCs from developing economies are making a rapid entry into Africa. They are providing additional development opportunities and access to global markets.

The expansion of FDI from developing economies continues to be an important factor in Africa's investment landscape in recent years. The share of those emerging investors in FDI inflows to Africa increased from an average of 18 per cent in 1995–1999 to 21 per cent for the period 2000–2008 (table II.2). The global financial crisis has reinforced this pattern, as investments from new sources proved more resilient than FDI from developed countries.

Emerging TNCs from various regions. Although developed-country TNCs still account for the lion's share of inward FDI stock and flows to many African countries, the presence of firms from developing countries – in particular, developing countries from Asia[3] – has been increasingly significant (table II.2; UNCTAD, 2010a). Behind this increase are some important factors such as high commodity prices, the growing internationalization of emerging TNCs and fast-growing emerging economies in need of natural resources.

FDI flows from developing Asia to Africa now account for a major part of interregional FDI flows among developing countries. China, in particular, has become one of the most significant foreign investors in some sub-Saharan African countries, while India and Malaysia are also substantial sources of FDI to the region (fig. II.1).

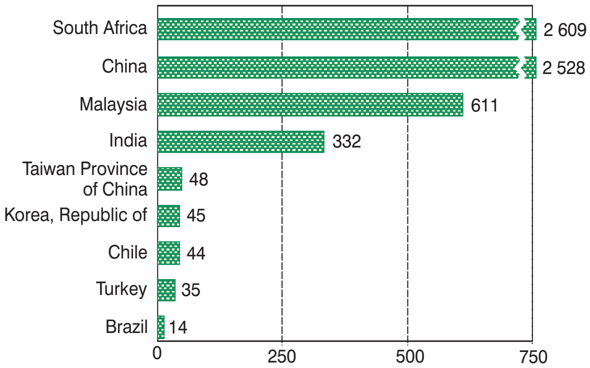
When measured in value, most of the investments in the region from developing countries are resource-seeking, and often involve state-owned enterprises such as CNOOC (China), Petronas (Malaysia) and ONGC (India) (table II.3). The largest number of investment projects undertaken by Chinese and Indian investors, however, are in manufacturing and infrastructure (Gu, 2009); 80 per cent of Indian investments in eight East African countries, for example, are market-seeking. While labour costs in Africa may not differ significantly from those in the firms' home economies, the duty-free, quota-free access of African countries to developed countries through the African Growth and Opportunity Act (AGOA) and the European Union's (EU's) Everything But Arms (EBA) initiative have generated some efficiency-seeking investment. This

Table II.2. Distribution of estimated inward FDI flows and stock in Africa, by home region

Home region	Share in world total (%)			
	Inflows		Inward stock	
	1995–1999	2000–2008	1999	2008
Total world	**100.0**	**100.0**	**100.0**	**100.0**
Developed countries	79.0	72.1	89.0	91.6
Developing economies	17.7	20.8	6.9	7.4
Africa	5.1	4.9	2.3	2.9
Latin America and the Caribbean	5.5	0.7	1.3	1.3
Asia	6.7	15.2	3.1	3.2
South-East Europe and the CIS	0.3	0.0	0.0	0.0

Source: UNCTAD, 2010a.
Note: Compiled on the basis of Africa as the reporting host countries. Unspecified regions are included in the total.

Figure II.1. Major developing economy investors in Africa, 2006–2008
(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

Note: Data refer to the outward flows of the developing economies listed above to Africa as a region in 2006–2008 or the latest three-year period available. Data for India and Taiwan Province of China are on an approval basis. Data for Malaysia refer to equity only. As data on outflows to Africa are not available, data for South Africa are derived as differences between two-year stocks.

has been the case particularly in the textiles and clothing industries, with TNCs from China, Hong Kong (China), Singapore and Taiwan Province of China among the most active investors.

Chinese FDI stock in Africa – 40 per cent of it in South Africa – reached $7.8 billion by the end of 2008, accounting for only 4 per cent of China's total outward FDI stock (fig. II.2). Whereas much attention has been focused on the role of Chinese state-owned enterprises, Chinese private investors have become increasingly active players in the region (Gu, 2009).

Indian FDI in Africa, accounting for 9 per cent of total outward FDI from India, has traditionally been concentrated in Mauritius, taking advantage of the latter country's offshore financial facilities and favourable tax conditions; as a result, the final destinations of these investments have often been elsewhere. Indian investors have, however, been branching out to other countries in the region, such as Côte d'Ivoire, Senegal and Sudan; in 2010, India's Bharti Airtel acquired the African mobile phone networks[4] of Kuwait's Zain for $10.7 billion. In addition, Malaysian companies such as Petronas and Telkom Malaysia have been responsible for more than 24 per cent of all M&A purchases in the African continent during the period 1987–2005 (UNCTAD, 2007a).

FDI flows from West Asia into Africa picked

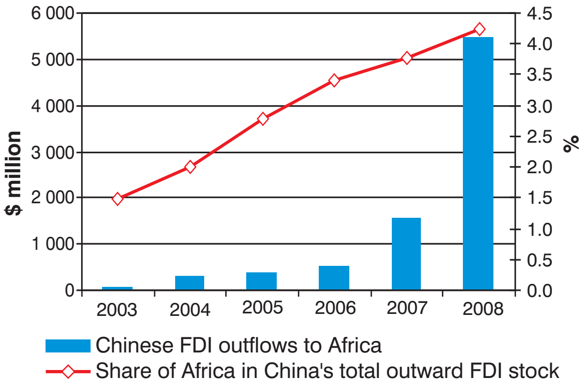
Table II.3. The ten largest cross-border M&A deals in Africa concluded by developing country TNCs, 1991–2009

Year	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Shares acquired
2008	5 617	Standard Bank Group Ltd	South Africa	Banks	Industrial & Commercial Bank of China	China	20
2006	2 692	Nigerian National Petroleum Corp-OML 130	Nigeria	Crude petroleum and natural gas	CNOOC Ltd	China	45
2006	2 313	Tunisie-Telecoms	Tunisia	Telephone communications, except radiotelephone	Investor Group	United Arab Emirates	35
2003	1 766	Egyptian LNG	Egypt	Natural gas liquids	Petroliam Nasional Bhd (Petronas)	Malaysia	35
2007	1 410	Egyptian Fertilizers Co SAE	Egypt	Nitrogenous fertilizers	Abraaj Capital Ltd	United Arab Emirates	100
2006	1 332	MobiTel	Sudan	Radiotelephone communications	Mobile Telecommunications Co	Kuwait	61
2007	962	Al Watany Bank of Egypt	Egypt	Banks	National Bank of Kuwait	Kuwait	93.7
2006	898	Waco International Ltd	South Africa	Construction materials	Waco International Ltd SPV	South Africa	100
2006	806	Bashair Telecom Co Ltd	Sudan	Telephone communications, except radiotelephone	Investcom	Lebanon	30
2003	768	Greater Nile Petroleum Operating Co	Sudan	Crude petroleum and natural gas	Oil & Natural Gas Corp Ltd (ONGC)	India	25

Source: UNCTAD, cross-border M&A database.

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

Figure II.2. FDI from China to Africa, 2003–2008



Source: UNCTAD, FDI/TNC database.

up during the second half of the past decade, with Egypt as the main destination.[5] Recently, the Gulf Cooperation Council investments in sub-Saharan African countries such as Ethiopia, Sudan and the United Republic of Tanzania have also been on the rise, especially in agriculture (UNCTAD, 2009b).

TNCs from transition economies, mainly from the Russian Federation, have also expanded into Africa, seeking to enhance their access to supplies of raw materials and moving into new segments of strategic commodities. They entered the African market either directly (the total value of African M&A sales to Russian firms reached $2 billion), or through acquisitions of parent firms in developed countries (UNCTAD, 2008a).

In addition to interregional FDI from developing and transition economies, ***intraregional FDI*** in Africa is increasing. The share of African host countries in the outward stock of South African FDI has increased from less than 5 per cent before 2000 to 22 per cent in 2008, reaching almost $11 billion (table II.4). The 2,250 South African projects in other African countries recorded in 2009 were concentrated in infrastructure, telecoms, mining and energy.

Some 55 per cent and 84 per cent of the stocks of Moroccan and Tunisian outward FDI, respectively, goes to North Africa, while more than a third of outward FDI from Mauritius goes to Africa, mainly to Madagascar. Furthermore, the share of Africa in the inward FDI stock is high in Botswana (32 per cent in 2007), Madagascar (21 per cent in 2005), Malawi (27 per cent in 2004), the United Republic of Tanzania (43 per cent in 2005) and Uganda (18 per cent in 2003). Regional integration has facilitated intraregional FDI in the continent (UNCTAD, 2009b). The key investors in the United Republic of Tanzania, for instance, were South Africa, Mauritius and Kenya – which partly cushioned the impact of the global financial crisis. Regional integration, by providing access to larger markets, also fostered FDI in general, including from other regions (Te Velde and Bezemer, 2006).

Table II.4. South Africa's outward FDI stock in Africa, selected years
(Millions of dollars and per cent)

Items	1990	1995	2000	2002	2008
FDI stock in Africa	716	1057	1768	1353	10843
Share of Africa in total FDI outward stock (%)	4.8	4.5	5.0	7.0	21.8

Source: UNCTAD, based on South African Reserve Bank; and Page and te Velde, 2004.

Impacts on the African economy. As TNCs from developing and transition economies have a tendency to invest in labour-intensive manufacturing, their FDI has a large potential for employment generation. Brazil-based TNC Odebrecht, for example, is one of Angola's largest employers. FDI in Lesotho's apparel industry has also generated much-needed employment. In addition, during the period 2003–2005 developing country investors doubled their employment in Africa (UNIDO, 2007).

Technologies used by TNCs from developing countries are likely to be suitable for other developing countries and may therefore contribute to technological upgrading in host African countries (*WIR06*). A World Bank survey found that a significant amount of new machinery brought into host African countries – both by Chinese and Indian TNCs – was bought in China (Broadman, 2007). At the same time, the share of developing countries and transition economies in joint-ventures in Africa increased from 24 per cent in 2000 to 45 per cent in 2009 (table II.5); these partnerships suggest an increasing likelihood that FDI from developing countries will facilitate the diffusion of knowledge to local entrepreneurs and contribute to the structural transformation of African companies.

Table II.5. International joint ventures in Africa, by home region, 2000, 2008, 2009

Home region	2000	2008	2009
Total number	76	99	33
Developed countries' share (%)	76.3	62.6	55.3
Developing countries' share (%)	23.7	37.4	44.7

Source: UNCTAD.

TNCs from developing countries – like their peers from developed countries – provide host African countries with access to resources and markets through their international production systems. The financial capital generated, mobilized and invested by those cash-rich TNCs (especially state-owned enterprises) represents a significant addition to domestic savings and domestic investment in host African countries.

FDI from developing countries often carries benefits for infrastructure: in many African countries (Angola, Democratic Republic of the Congo, Ghana and Nigeria), Chinese loans backed by natural resources extracted through FDI projects involving Chinese investment are earmarked for infrastructure development (Bräutigam, 2010). In addition, Asian investors (mainly from China) are involved in building special economic zones (SEZs) in various African countries (Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia). These SEZs may boost industrialization and employment, as they are expected to result in improved infrastructure, technology transfer and employment opportunities, as well as new schools and hospitals (Bräutigam, 2010; Sohlman, 2009).

Finally, investors from developing countries are less apprehensive about the deterioration of locational factors in Africa than investors from developed countries (UNIDO, 2007). This confidence has translated in more resilient FDI, helping African countries to better weather the global downturn. The fact that state-owned enterprises account for a fair share of FDI from developing countries, as mentioned above, also suggests that FDI was less affected by the financial crisis.

Investment from developing and transition economies provides additional development opportunities to Africa. These new sources of FDI have offered a buffer against the worst impact of the recent global crises by offering more resilient flows and a broader base of financial resources. It is important, however, that African countries should be more proactive to ensure development benefits from investments from those economies (UNCTAD, 2010a).

b. Asia

(i) South, East and South-East Asia

(1) Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $50 billion	China	Hong Kong (China)
$10 to $49 billion	Hong Kong (China), India and Singapore	China, India and Republic of Korea
$1.0 to $9.9 billion	Thailand, Republic of Korea, Indonesia, Viet Nam, Islamic Republic of Iran, Taiwan Province of China, Pakistan, Macao (China), Philippines and Malaysia	Malaysia, Singapore, Taiwan Province of China, Thailand and Indonesia
$0.1 to $0.9 billion	Bangladesh, Cambodia, Mongolia, Sri Lanka, Myanmar, Brunei Darussalam, Afghanistan and Lao People's Democratic Republic	Philippines, Islamic Republic of Iran, Macao (China) and VietNam
Below $0.1 billion	Nepal, Bhutan, Timor-Leste, Maldives and Democratic People's Republic of Korea	Brunei Darussalam, Sri Lanka, Bangladesh, Cambodia, Pakistan and Mongolia

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows 2008	FDI inflows 2009	FDI outflows 2008	FDI outflows 2009	Cross-border M&As sales 2008	Cross-border M&As sales 2009	Cross-border M&As purchases 2008	Cross-border M&As purchases 2009
South, East and South-East Asia	282	233	166	153	53	35	72	40
East Asia	185	155	132	117	17	16	40	36
South Asia	50	41	19	15	13	6	13	0
South-East Asia	47	37	15	21	23	13	19	4

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock 2008	FDI inward stock 2009	FDI outward stock 2008	FDI outward stock 2009	Income on inward FDI 2008	Income on inward FDI 2009	Income on outward FDI 2008	Income on outward FDI 2009
South, East and South-East Asia	2 174	2 469	1 572	1 786	193	197	105	108
East Asia	1 349	1 561	1 184	1 362	145	153	98	100
South Asia	172	218	67	82.0	15	15	2	2
South-East Asia	653	690	321	342	33	30	6	6

Figure A. FDI inflows, 2000–2009

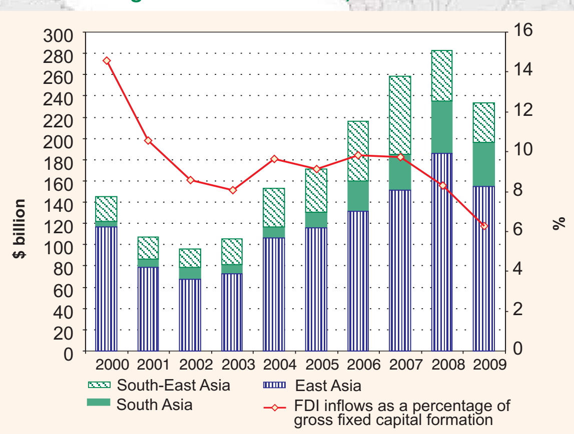


Figure B. FDI outflows, 2000–2009

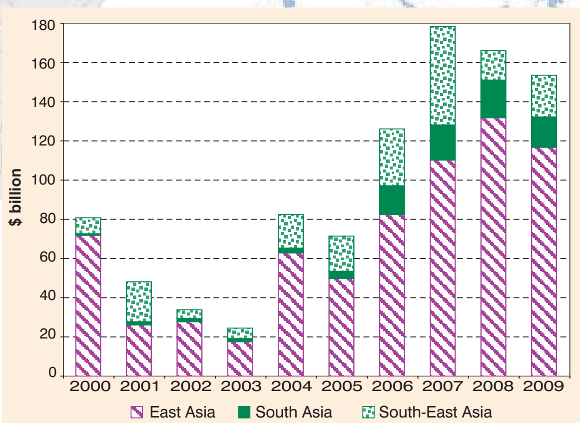


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales 2008	Sales 2009	Purchases 2008	Purchases 2009
Total	52 622	34 748	72 298	40 467
Primary	658	1 597	8 102	12 962
Agriculture, hunting, forestry and fishing	199	4	31	- 54
Mining, quarrying and petroleum	460	1 593	8 072	13 016
Manufacturing	18 981	17 084	8 207	2 798
Food, beverages and tobacco	1 696	3 298	199	- 142
Chemicals and chemical products	8 254	1 038	2 198	154
Metal and metal products	1 680	- 351	- 99	958
Machinery and equipment	875	1 119	1 155	531
Electrical and electronic equipment	1 607	9 441	736	787
Motor vehicles and other transport equipment	1 645	88	2 454	206
Services	32 983	16 067	55 989	24 707
Electricity, gas and water	7 525	2 241	3 549	7 973
Trade	1 972	2 609	2 379	2 273
Transport, storage and communications	6 280	5 758	24 579	-3 639
Finance	11 661	2 839	53 220	17 876
Business services	3 834	2 532	-1 404	759

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales 2008	Sales 2009	Purchases 2008	Purchases 2009
World	52 622	34 748	72 298	40 467
Developed economies	26 689	11 320	46 094	19 966
European Union	9 962	1 031	26 857	2 875
United States	8 122	3 985	8 662	1 014
Japan	8 941	5 473	-1 355	350
Developing economies	24 884	23 195	26 179	18 796
Africa	284	102	6 134	105
Latin America and the Caribbean	164	374	987	1 018
South America	-	0	- 116	981
Central America	- 298	248	171	-
Asia	24 762	22 497	19 042	17 649
West Asia	8 420	5 005	2 700	158
South, East and South-East Asia	16 342	17 491	16 342	17 491
China	5 375	4 518	37 941	9 333
India	10 427	219	13 482	89
South-East Europe and the CIS	360	13	25	1 706
Russian Federation	329	13	0	347

South, East and South-East Asia has experienced a relatively small decline in ***FDI inflows***, and is likely to become the first region to bottom out of the current downturn. Inflows to the region dropped by 17 per cent to $233 billion in 2009 with a wide spread across subregions and major economies (table B). However, the decline was less than that in many other parts of the world. In addition, the region has become the first to benefit from a rebound in global consumer and business confidence, which has translated into a pickup in FDI flows in several key economies since mid or late 2009.

A drop in ***cross-border M&As*** was largely responsible for declining FDI inflows to the region. The value of M&A sales totalled $35 billion in 2009, down 34 per cent from 2008 (table D); in the four newly industrializing economies (NIEs) (Hong Kong (China), Republic of Korea, Singapore and Taiwan Province of China) in particular, the total value of cross-border M&As plummeted by 44 per cent. Although the decline was less pronounced, ***greenfield investment*** also slowed down as some projects were cancelled or postponed;[6] divestments made things worse.[7]

A wide range of ***sectors and industries*** saw a significant decline in FDI inflows, while industries less sensitive to the business cycle, targeted more towards national or regional markets (rather than developed country markets), and/or benefiting from government stimulus packages, were generally the most resilient. M&A sales in services suffered the most (-51 per cent), while manufacturing was much less affected (-10 per cent) (table D).

Inflows from developed countries contracted the most,[8] while ***intraregional FDI*** gained ground. In particular, flows between East Asia and South-East Asia (notably between China and a number of Association of South-East Asian Nations (ASEAN) member countries) surged. Increasing intraregional FDI has become an effective vehicle for industrial upgrading in the region, providing opportunities to countries at different stages of development (section 2).

FDI outflows from the region slowed down, but to a much lesser extent than those from other regions. In 2009, outflows declined by 8 per cent to $153 billion (table B). FDI from China in non-financial sectors continued to grow (by 7 per cent to $43 billion). (Total outflows from the country were estimated at $48 billion.) Outflows from Hong Kong (China) rose slightly to $52 billion, while those from the other NIEs dropped significantly.

Although total ***cross-border M&A purchases*** by firms from the region declined by 44 per cent, some large companies from the region took advantage of opportunities generated by global industrial restructuring. In developed countries, for instance, they undertook a number of mega M&A deals in the automotive industry.[9] In addition, leading sovereign wealth funds continued to be active acquirers abroad, although it appears that they have changed their investment focus from financial services to manufacturing and mineral assets.[10]

Outward FDI targeting mineral resources remained buoyant (table D). Oil and gas companies, mining companies and increasingly metal companies from China and India continued to acquire mineral reserves abroad in both developed and developing countries. Some deals were successfully completed, or are still under negotiation; several others failed due to restrictive policy measures in host countries, however.[11]

The great majority of ***policy measures*** in the region were towards promoting foreign investments, although some new restrictions to engage in certain activities were introduced (e.g. in India and Indonesia). Promotion measures included investment liberalization and deregulations (e.g. China, India, Indonesia, Iraq, Malaysia, Taiwan Province of China and the Republic of Korea), streamlining or simplification of administrative processes (e.g. India), or provision of incentives (e.g. China). In some cases, efforts to attract foreign investment have focused on new or high valued-added industries. Some countries eased conditions for outward FDI through the simplification of foreign exchange regulations (e.g. China, Sri Lanka and Thailand).

Prospects for FDI inflows are improving, as the region has been leading the recovery of the global economy, and TNCs continue to give priority to the region in their FDI plans (chapter I). The timing and strength of the economic recovery vary across countries, thus affecting FDI performance: inflows to China and India have picked up since mid-2009 and are rapidly expanding (inflows to the two countries in the second half of 2009 rose both by 18 per cent from the same period of 2008); inflows to Hong Kong (China) surged in late-2009, while those to the Republic of Korea, Singapore and Taiwan Province of China, on the other hand, are expected to bottom out only in 2010.

FDI outflows from the region will rebound in 2010, sustained by M&A opportunities associated with the ongoing industrial restructuring in the developed world and by Chinese and Indian firms' persistent pursuit of natural resources and markets.[12] However, the ***recovery of FDI outflows*** will be relatively slow in the NIEs.

(2) FDI and industrial upgrading in Asia: new features and opportunities

Industrial upgrading has followed a sequential path within Asia, in which FDI has played a crucial role. This upgrading process is involving more industries and more countries, including some LDCs.

In Asia, the process of industrial upgrading has generally followed a sequential path, linking up countries at different stages of development. In this process, the more advanced economies constantly move towards more sophisticated value-added activities, thus opening up opportunities for their less developed neighbours to enter into a regional division of labour by increasing their resource-based, labour-intensive activities.[13] FDI has played a crucial role in the process, serving as a vehicle for transferring technologies, "recycling" comparative advantages and enhancing competitiveness. For low-income countries in the region, participation in TNCs' regional production networks has become an effective way to build productive capacities and promote exports, industrial development and economic growth. In recent years, the pattern of FDI and industrial upgrading has continued to evolve, creating new development opportunities.

Intraregional FDI has made an increasing contribution to industrial upgrading. The relative weight of the region's FDI sources has shifted: while the United States played a leading role in the 1960s and 1970s, followed by Japan in the 1980s, their share has been declining since the early 1990s (table II.6). Regional economic integration has boosted intraregional investment, which now accounts for around 40 per cent of the total FDI stock of the region (table II.6). If investment via offshore financial centres were included, the share might be as high as 50 per cent. Following in the footsteps of Japanese TNCs, companies from NIEs have been relocating their production operations within the region to take advantage of lower costs, thereby enhancing their competitiveness and promoting industrial restructuring and upgrading in their home countries (*WIR06*). Through this process, neighbouring host countries have gained increased access to capital, technology, productive capability and foreign markets.

Both new sources and recipients of intraregional FDI flows have emerged over the past few years. As a result, for instance, FDI flows between ASEAN and China increased substantially in the 2000s (fig. II.3),[14] in parallel with their growing trade links.[15] The establishment of the China-ASEAN Free Trade Area (CAFTA) – a free trade zone of 1.9 billion people and a $6 trillion gross domestic product (GDP) – will further strengthen regional economic integration and boost intraregional FDI flows.[16]

More countries and industries have been involved in the upgrading process. In recent years, the relocation of some manufacturing activities from Asian economies that have become more advanced (such as China and Malaysia) has provided opportunities for the latecomers to become part of TNCs' regional production networks. Viet Nam, for instance, is an increasingly important node in such networks, thanks in part to the multi-billion dollar investments undertaken by companies from within the region. In addition, the least developed countries (LDCs) in the region – Cambodia, the Lao People's Democratic Republic and Myanmar – have also started to reap the benefits of increased intraregional FDI: the major sources of their FDI inflows are now countries within the region, such as China, Indonesia, Malaysia, the Republic of Korea and Thailand.

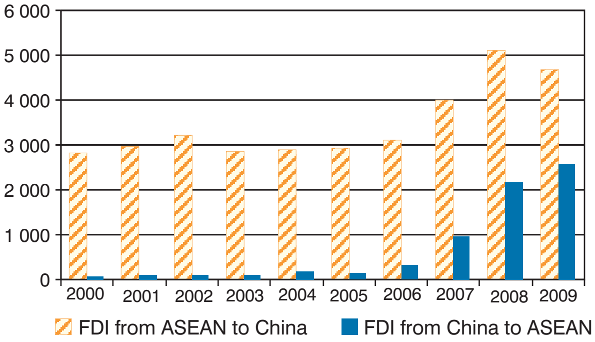
The sequential process of industrial upgrading has traditionally been confined to a small number of manufacturing industries. Today, electronics continues to be a key industry driving regional industrial upgrading, but what is new is that more high-tech products have been involved and specialization has been intensified. For instance, by leveraging FDI inflows, China has established competitive positions in a series of high-tech products (Liang, 2004); Viet Nam is now following suit. Similarly, Huawei's (China) $500 million investment in India will help the latter develop its domestic productive capacity in telecom equipment.[17] Beyond electronics, more production activities have been subject to sequenced relocation within the region in recent years, as highlighted by the investments in steel and automotive industries in Viet Nam. Chinese companies in the textile and automotive industries have also been relocating part of their produc-

Table II.6. Major sources of FDI to South, East and South-East Asia, amount and share of inward FDI stock, 1981, 1991, 2001 and 2008
(Millions of dollars and per cent)

Region / economy	1981		1991		2001		2008	
	Value ($ million)	Share (%)	Value ($ million)	Share (%)	Value ($ million)	Share (%)	Value ($ million)	Share (%)
Total world	27 659	100.0	141 547	100.0	1 123 527	100.0	2 305 637	100.0
European Union	5 060	18.3	23 131	16.3	143 110	12.7	329 537	14.3
United States	6 422	23.2	22 046	15.6	112 912	10.0	181 287	7.9
Japan	5 405	19.5	32 099	22.7	100 021	8.9	185 445	8.0
South, East and South-East Asia	6 204	22.4	43 448	30.7	461 543	41.1	875 083	38.0
China	29	0.1	575	0.4	125 259	11.1	307 469	13.3
Newly industrializing economies	4 935	17.8	37 585	26.6	306 979	27.3	511 811	22.2
Hong Kong, China	3 298	11.9	23 870	16.9	199 974	17.8	328 379	14.2
Korea, Republic of	208	0.8	2 539	1.8	18 840	1.7	48 419	2.1
Singapore	1 146	4.1	4 448	3.1	44 971	4.0	74 045	3.2
Taiwan Province of China	284	1.0	6 729	4.8	43 195	3.8	60 967	2.6
Others[a]	4 567	16.5	20 823	14.7	305 941	27.2	734 285	31.8
of which: 4 offshore financial centres[b]	64	0.2	711	0.5	204 241	18.2	348 946	15.1

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Including unspecified amounts (i.e. amounts not allocated by country or region).
[b] Bahamas, Bermuda, British Virgin Islands and Cayman Islands.
Note: Data should be interpreted with caution. The regional totals are based on data covering only 11 countries in 1981, 19 countries in 1991, 16 countries in 2001 and 19 countries in 2008, which account for most of the total inward stock into South, East and South-East Asia. Data for the following countries were estimated based on approval data: Bangladesh (1981), China (1981 and 1991), Lao People's Democratic Republic (1991), Malaysia, Mongolia, Myanmar (1991 and 2001), Nepal (1991), Sri Lanka and Taiwan Province of China. Whenever data for the year in question is not available, the latest year available was used.

Figure II.3. FDI flows between ASEAN and China, 2000–2009
(Millions of dollars)



Source: UNCTAD, based on Chinese FDI data from MOFCOM (China, Ministry of Commerce).

Note: In 2009, Chinese FDI in non-financial sectors in ASEAN was $2.3 billion (*Source*: MOFCOM).The total amount ($2.8 billion) is based on UNCTAD estimates.

tion operations to ASEAN countries, such as Cambodia, Indonesia and Thailand. As intraregional FDI flows in manufacturing continue to increase, those in related services, such as finance and infrastructure, are expanding as well.[18] ICBC (China), for example, has recently acquired a number of banks in South-East Asia – including ACL Bank (Thailand) and Halim Bank (Indonesia) – partly to serve Chinese overseas investors; and Taekwang Industrial (Republic of Korea) is investing $4.5 billion in a power plant in Viet Nam.

China plays a multifaceted role. While the contribution of Japan as a major driver of industrial upgrading and economic growth has been declining and the strength of the NIEs as a whole has been relatively weakened by the recent crisis, China's role in the region has expanded (table II.6).[19] The country plays a multifaceted role in the current process of industrial restructuring and upgrading in Asia: (a) it continues to be attractive to market-seeking FDI, but the coastal region becomes less attractive to labour-intensive, efficiency-seeking FDI due to the rising costs of production (*WIR08*; *WIR09*); (b) it has become an important source of capital and technology for neighbouring, low-income countries; (c) within China, a new round of industrial upgrading is taking place, with significant implications for the development trajectories of both China and other countries in the region. Some low-end, export-oriented manufacturing activities have been shifting from coastal China to a number of neighbouring countries, while efficiency-seeking FDI in coastal provinces of China has been upgrading to high-end products, and market-seeking FDI has been increasingly targeting the inland regions (Zhan, 2009). Due to its economy's size and growth potential, China is becoming a key force that could shape the region's production landscape in the years to come.

To conclude, a broader and more complicated pattern of industrial upgrading has been emerging in South, East and South-East Asia. As in the past, the pattern will keep evolving. The future direction will be determined by various factors at different levels, including, among others, the changing strategies and practices of TNCs in their internationalization, the technological progresses and institutional changes which shape the global industrial and competitive landscape, and the long-term implications of policy responses to the various challenges for the region as well as for the world at large, such as the global macroeconomic imbalance,[20] energy security and climate change.

(ii) West Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $10 billion	Saudi Arabia	
$5.0 to $9.9 billion	Qatar and Turkey	Kuwait and Saudi Arabia
$1.0 to $4.9 billion	Lebanon, United Arab Emirates, Jordan, Oman, Syrian Arab Republic and Iraq	Qatar, United Arab Emirates, Turkey and Lebanon
Below $1.0 billion	Bahrain, Kuwait, Yemen and Palestinian Territory	Oman, Iraq, Jordan, Yemen, Palestinian Territory, Syrian Arab Republic and Bahrain

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
West Asia	90	68	38	23	16	4	22	27
Gulf Cooperation Council (GCC)	60	51	34	20	2	1	21	27
Turkey	18	8	3	2	13	3	1	0
Other West Asia	12	10	1	1	2	0	0	0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
West Asia	356	425	146	159	32	24	4	3
Gulf Cooperation Council (GCC)	227	278	124	135	25	18	3	2
Turkey	70	78	14	15	3	2	0	0
Other West Asia	59	69	9	10	4	3	1	1

Figure A. FDI inflows, 2000–2009

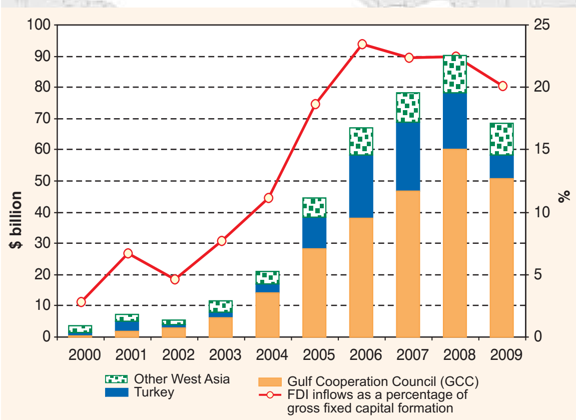


Figure B. FDI outflows, 2000–2009

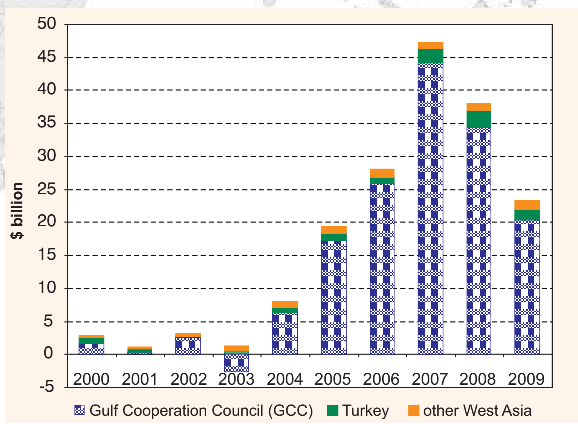


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2008	2009	2008	2009
Total	16 287	3 543	22 099	26 843
Primary	3	8	417	52
Manufacturing	5 286	199	2 212	142
Food, beverages and tobacco	1 720	91	862	113
Coke, petroleum products and nuclear fuel	2 050	-	-	-
Chemicals and chemical products	62	- 56	48	- 4
Non-metallic mineral products	213	- 44	-	-
Metals and metal products	941	110	130	33
Machinery and equipment	114	-	-	-
Motor vehicles and other transport equipment	27	1	1 172	-
Services	10 998	3 336	19 470	26 648
Electricity, gas and water	51	2 361	4 259	724
Construction	528	78	-3 124	-
Trade	3 393	85	447	85
Transport, storage and communications	2 916	41	7 831	1 645
Finance	3 682	550	15 657	24 510
Business services	206	120	3 785	253

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	16 287	3 543	22 099	26 843
Developed economies	5 773	3 174	7 589	21 451
European Union	5 486	2 457	1 387	16 387
United States	3	349	1 309	3 012
Japan	-	-	-	146
Developing economies	7 548	358	14 220	5 362
Africa	115	-	1 060	- 164
Latin America and the Caribbean	52	-	60	320
Asia	7 380	358	13 100	5 206
West Asia	4 680	201	4 680	201
Saudi Arabia	1 087	114	26	12
Turkey	-	-	1 103	118
United Arab Emirates	59	28	1 020	-
South, East and South-East Asia	2 700	158	8 420	5 005
South-East Europe and the CIS	2 622	-	290	30
Armenia	-	-	200	30
Kazakhstan	2 050	-	-	-

Visit www.unctad.org/wir or www.unctad.org/fdistatistics for detailed statistics on FDI and cross-border M&As.

FDI inflows to West Asia decreased by 24 per cent to $68 billion in 2009, after six years of consecutive increase (table B and fig. A). The tightening of credit markets has affected cross-border M&As and development projects in the region involving significant foreign investment. In the case of Turkey, a decline in international trade has also weighed on export-oriented FDI.

FDI inflows fell in all of the region's ***countries*** except Kuwait, Lebanon and Qatar. The last of these registered a 112 per cent increase of foreign investment, mainly in liquefied natural gas, with two more liquefied natural gas "super-trains" expected to come on stream in 2010, while inflows to Lebanon increased by 11 per cent mainly in real estate. Among the main recipient countries, the United Arab Emirates and Turkey were hit the hardest, with declines of 71 per cent and 58 per cent, respectively: cross-border M&A sales in Turkey plummeted from $13.2 billion to $2.8 billion, while the Dubai debt crisis[21] explains the FDI collapse in the United Arab Emirates. Saudi Arabia remained the region's largest recipient of FDI, with total inflows reaching $36 billion, down by only 7 per cent (table A).

Cross-border M&A sales plummeted in 2009, mainly due to a steep fall of transactions in Turkey. The decline was registered in manufacturing and services, affecting all industries in those two sectors except electricity and gas (table D), where two privatization deals in Turkey drove acquisitions.[22]

FDI outflows from West Asia decreased by 39 per cent in 2009 (table B and fig. B), but the decline was uneven. Outflows from the United Arab Emirates plummeted from $16 billion to $3 billion due to the Dubai debt crisis, downgrading the country's position from largest outward investor in the region to fourth largest. Outflows from Kuwait remained almost constant, making it the region's largest outward investor in 2009, followed by Saudi Arabia, where outward FDI increased significantly, from $1.5 billion to $6.5 billion.

Investment policy measures taken in the West Asian region have generally improved the conditions for foreign investment. Some countries opened sectors of the economy to FDI (e.g. Qatar) or raised the ceiling for foreign ownership (e.g. Syrian Arab Republic). A number of countries reduced the tax rate in order to stimulate the economy across the board or in particular sectors or regions (e.g. Turkey, Oman).

Prospects for FDI inflows to West Asia are expected to improve in 2010 and beyond in the medium term, provided the Dubai debt crisis or new developments in the global economic situation do not affect the revival of investors' access to international credit markets observed in the second half of 2009. West Asian governments remain committed to their ambitious infrastructure development plans, which represent significant opportunities for foreign investors. TNCs are also keen to get better access to the region's affluent private consumers.

The outlook for outward FDI from West Asia is mixed in the short term, with uneven growth among countries. FDI outflows from Qatar are expected to significantly increase as the country's sovereign wealth fund (Qatar Investment Authority) is looking for investment opportunities in the European, United States and Asian markets.[23] FDI outflows from the region's other main investors are expected to decrease in 2010, as government-controlled entities – the main outward investors – have been refocusing their spending towards their crisis-hit home economies. The debt crisis will significantly affect foreign investment from Dubai (United Arab Emirates) and is likely to squeeze the financing of Dubai's Government-related enterprises, further straining their investment abroad. In the medium term, however, cash-rich and well capitalized Gulf financial institutions are likely to acquire foreign companies that have successfully weathered the global financial crisis and can deliver both short- and long-term gains to investors.

c. Latin America and the Caribbean

(i) Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $10 billion	Brazil, British Virgin Islands, Cayman Islands, Chile and Mexico	British Virgin Islands
$5.0 to $9.9 billion	Colombia	Chile, Mexico and Cayman Islands
$1.0 to $4.9 billion	Argentina, Peru, Dominican Republic, Panama, Costa Rica, Uruguay and Jamaica	Colombia, Panama and Bolivarian Republic of Venezuela
$0.1 to $0.9 billion	Trinidad and Tobago, Bahamas, Guatemala, Honduras, Nicaragua, El Salvador, Plurinational State of Bolivia, Ecuador, Barbados, Paraguay, Saint Lucia, Suriname, Guyana, Antigua and Barbuda, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Netherlands Antilles	Argentina, Peru and El Salvador
Less than $0.1 billion	Belize, Turks and Caicos Islands, Aruba, Grenada, Anguilla, Dominica, Haiti, Cuba, Montserrat and Bolivarian Republic of Venezuela	Jamaica, Barbados, Guatemala, Nicaragua, Ecuador, Paraguay, Costa Rica, Trinidad and Tobago, Aruba, Belize, Honduras, Plurinational State of Bolivia, Netherlands Antilles, Uruguay, Dominican Republic and Brazil

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Latin America and the Caribbean	183	117	82	47	16	- 4	3	4
South America	92	55	34	4	8	- 5	5	3
Central America	31	18	3	10	3	0	- 1	3
Financial centres in Latin America and the Caribbean	56	42	46	36	2	0	0	- 3

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Latin America and the Caribbean	1 260	1 473	589	643	94	77	11	8
South America	638	788	254	265	78	63	10	7
Central America	347	365	74	84	14	11	1	0
Financial centres in Latin America and the Caribbean	256	298	286	321	2	2	0	0

Figure A. FDI inflows, 2000–2009

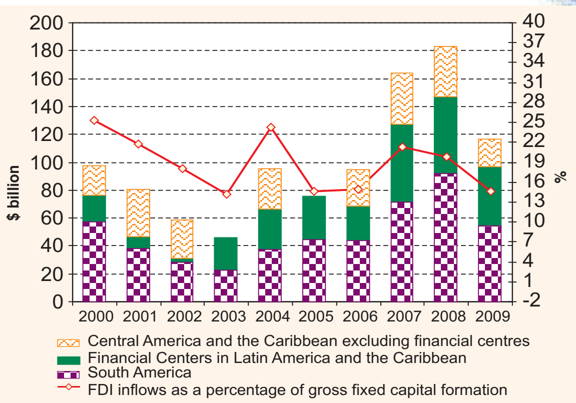


Figure B. FDI outflows, 2000–2009

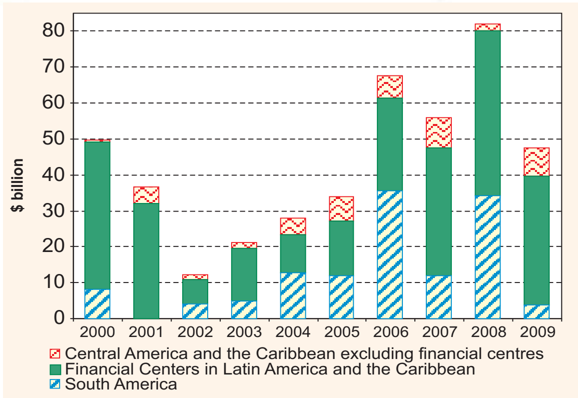


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2008	2009	2008	2009
Total	15 452	-4 358	2 466	4 350
Primary	5 136	-2 327	2 270	5 428
Agriculture, hunting, forestry and fishing	784	43	1 185	-1
Mining, quarrying and petroleum	4 352	-2 370	1 085	4 690
Manufacturing	-1 811	-2 768	5 158	859
Food, beverages and tobacco	- 645	404	901	3 224
Chemicals and chemical products	-1 718	61	172	54
Non-metallic mineral products	-	125	608	-1 337
Metal and metal products	544	-3 219	2 605	5
Electrical and electronic equipment	2	-90	754	-188
Services	12 127	737	-4 961	-1 808
Electricity, gas and water distribution	770	-2 642	-7	-103
Construction	-	-12	-165	-12
Trade	968	1 575	134	- 14
Transport, storage and communications	1 350	3 421	- 220	120
Finance	7 243	-2 366	-2 735	-2 113
Business services	1 806	735	-	405
Education	1 806	735	110	-

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	15 452	-4 358	2 466	3 740
Developed economies	13 956	-6 815	2 028	3 475
European Union	7 665	-3 023	1 636	-1 233
United States	-3 405	- 797	-1 884	5 603
Japan	4 460	- 89	1 513	561
Developing economies	1 302	1 850	295	420
Africa	175	395	-	-70
Latin America and the Caribbean	79	116	79	116
South America	481	2 288	635	-62
Brazil	506	1 6589	756	- 90
Central America	-584	16	137	177
Mexico	- 291	16	101	10
Asia	1 048	1 338	216	374
West Asia	60	320	52	-
South, East and South-East Asia	987	1 018	164	374
Korea, Republic of	125	893	112	161
South-East Europe and the CIS	1	-	144	- 156
Russian Federation	1	-	121	- 159

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FDI inflows to Latin America and the Caribbean decreased by 36 per cent to $117 billion in 2009 (table B), following three consecutive years of growth. The decline – which reflected the impact of the global economic crisis on investment, trade and profits – occurred across the region. This was due in part to the 18 per cent decrease of income on FDI from $94 billion in 2008 to $77 billion in 2009, which affected reinvested earnings that had become the main driver of FDI inflows to the region in recent years (*WIR08*). The drop of cross-border M&As sales that reached negative values in 2009 (table B) also contributed to a decrease in FDI. Brazil remained the region's ***largest FDI recipient*** in 2009, although inflows dropped by 42 per cent to $26 billion (table A).

The negative values of ***cross-border M&A sales*** indicate that the sales of foreign affiliates located in the region to domestic companies surpassed those of domestic companies to foreign TNCs. Sales of foreign affiliates to domestic companies were valued at over $14 billion in 2009, the largest in developing regions and more than twice that in South, East and South-East Asia. Acquisitions of foreign affiliates by local companies took place mainly in Brazil (53 per cent of the total), the Bolivarian Republic of Venezuela (23 per cent) and Colombia (17 per cent), and in finance (25 per cent), metallurgy (23 per cent), electric services (19 per cent), petroleum (14 per cent) and mining (5 per cent).

FDI outflows decreased by 42 per cent to $47 billion in 2009, mainly due to Brazil's large negative outflows of $10 billion (fig. B). Brazil's negative outward investment resulted from a surge in intra-company loans from Brazilian affiliates abroad to their parent companies (section ii). Outflows from offshore financial centres represented more than 70 per cent of the region's total. The British Virgin Islands was the largest outward investor with $27 billion, followed by Chile and Mexico with almost $8 billion each.

Cross-border M&As purchases by Latin American and Caribbean firms increased by 52 per cent, to $3.7 billion (table E), driven by acquisitions from companies in mining and petroleum, as well as food and beverages (table D). Acquisitions largely concentrated in the United States, while the divestment trend initiated in 2008 in this country continued in Europe in 2009(table E).

With regard to ***policy measures***, in parts of Latin America and the Caribbean governments strengthened the role of the State in their economies. This was the case for the petrochemical industries (Bolivarian Republic of Venezuela), but also affected other industries. For instance, a number of nationalizations were observed in the energy sector and financial services (e.g. the Plurinational State of Bolivia and the Bolivarian Republic of Venezuela).

On the other hand, there were also moves towards further liberalization, including in the financial sector (e.g. Brazil) and the telecommunications sector (e.g. Bahamas and Costa Rica). Measures were also taken to promote foreign investment in the region. These included tax incentives, for instance for the promotion of specific sectors or regions (e.g. Mexico and Peru), and free zone reforms (e.g. Costa Rica).

Prospects for FDI inflows to Latin America and the Caribbean are improving in 2010, as the region is recovering relatively rapidly from the global financial and economic crisis. Flows are expected to recover faster in South America, a subregion more reliant on commodities and exports to emerging markets, where demand is picking up strongly. FDI inflows to the region are likely to continue increasing in the medium term, given the resilience and growth potential of Latin American economies. Brazil and Mexico, in particular, remain among the top 10 FDI destinations for TNCs (chapter I). Quarterly inflows data for three major recipient countries[24] show a recovery since the last quarter of 2009 during which inflows increased by 24 per cent compared to the previous quarter. Inflows continued increasing during the first quarter of 2010 – at a similar rate – and surpassed by 19 per cent the level they had reached in the same quarter of 2009.

Outward FDI from Latin America and the Caribbean is expected to pick up in 2010, as outflows from Brazil are very likely to return to positive values. ***Outward FDI prospects*** are also positive in the medium term for Latin American TNCs in general: their home region – and main market – has been generally less affected by the crisis than other regions; they have a relatively small presence in industries sensitive to business cycles; and most of them have a relatively low debt-to-earnings ratio (section ii).

(ii) The emergence of Latin American TNCs

Latin American TNCs are looking beyond the region and focusing on developed economies.

Since 2003, Latin American companies' outward investment has swelled, thanks to an improved regional macro-economic environment and robust growth in the region. The rapid emergence of Brazil as the region's main foreign investor, as well as the expansion outside Latin America of an increasing number of companies, has characterized this new phase.

Levels of outward FDI from Latin America increased significantly from 2003 to 2008, largely driven by cross-border acquisitions. Brazil recorded the largest expansion, with FDI outflows leaping from an average of $1 billion annually in 1991–2000 to $11 billion a year in 2003–2008. In 2006, for the first time ever, Brazilian outflows were larger than FDI flows into Brazil. The total stock of Brazilian FDI topped $158 billion in 2009 – almost three times its 2003 level and the largest in the region.

Whereas only Mexico's Cemex had the stature of a global player until the end of the 1990s (*WIR06*), an increasing number of Latin American companies – mostly Brazilian and Mexican – are now expanding outside Latin America, mainly into developed economies (table II.7).

A booming regional economy since 2003, following five years of economic recession, supported Latin American companies' expansion, both at home and abroad. Economic dynamism and better access to finance improved Latin American companies' ability to compete with TNCs from other regions for local and foreign acquisitions.

Besides market conditions, government policies also contributed to the consolidation of domestic firms at home and their further outward expansion.[25] The region's main foreign investors today (table II.8) are often the largest and oldest business groups that prospered and consolidated their positions during the import substitution era.[26] Economic liberalization in the 1990s then forced Latin American companies to achieve significant productivity gains and modernize in order to compete with imports; as a result, local firms disappeared or were consolidated. Those that survived were able to expand abroad to increase their markets, reduce their cost of capital and improve their risk profiles.

Moreover, privatizations in both Brazil and Mexico in the 1990s promoted the creation of national champions that later became large TNCs. For instance, the sale of Mexico's state-owned telecom firm as a vertically integrated company with restrictions on foreign participation favoured the creation of Telmex and América Móvil. In Brazil, the process of privatizations and reforms intended to create large, specialized, restructured and publicly-listed firms – such as Vale, Embraer or Petrobras; at the same time, the Government still holds controlling shares in Petrobras, as well as golden shares

Table II.7. Cross-border acquisitions by Latin American and Caribbean firms,[a] by host region, 2003–2009

(Millions of dollars)

Company name	Industry	Home country	Developed economies	Latin America and the Caribbean	Total world
Vale S.A. (CVRD)	Mining	Brazil	20 978	1 529	22 507
Cemex S.A.	Cement	Mexico	14 286	–	14 286
Metalurgica Gerdau S.A.	Steel	Brazil	6 780	693	7 473
América Móvil	Telecom	Mexico	–	6 728	ó
FEMSA	Food & beverages	Mexico	3 692	458	4 150
Petrobras	Oil and gas	Brazil	452	2 565	3 017
Telmex	Telecom	Mexico	–	2 813	2 813
Grupo Bimbo	Food & beverages	Mexico	2 500	5	2 505
Grupo Industrial Minera Mexico	Mining	Mexico	2 220	26	2 246
JBS SA	Beef cattle	Brazil	1 939	–	1 939
Grupo Votorantim	Cement	Brazil	684	1 148	1 832
Cencosud	Retail	Chile	–	1 286	1 286
Banco Itau	Banking	Brazil	498	650	1 148
Alfa	Holding	Mexico	1 075	–	1 090
Camargo Correa	Construction	Brazil	–	1 025	1 025

Source: UNCTAD, cross-border M&As database.

[a] Only firms whose home region is Latin America and the Caribbean (excluding offshore financial centres) as of June 2010 that accumulated more than $1 billion of cross-border acquisitions in 2003 and 2009 have been considered.

in Vale and Embraer that provide control over their strategy and would probably prevent takeovers (Finchelstein, 2009).

The Brazilian National Development Bank (BNDES) has played an active role in domestic consolidation and, more recently, in the further internationalization of local companies. BNDES started increasing credit lines for domestic firms in 1994 and created a specific line to support their outward expansion in 2002. In 2009, BNDES lent

Table II.8. The top 10 non-financial TNCs from Latin America, ranked by foreign assets, 2008[a]

(Millions of dollars and number of employees)

Corporation	Home economy	Industry [b]	Foreign assets	Foreign sales	Foreign employment [c]	TNI [d] (Per cent)
Cemex S.A.	Mexico	Non-metalic mineral products	40 258	17 982	41 586	81.6
Vale S.A (CVRD)	Brazil	Mining & quarrying	19 635	30 939	4 725	38.3
Petróleos de Venezuela	Venezuela, Bolivarian Republic of	Petroleum expl./ref./distr.	19 244	52 494	5 140	21.5
Petrobras	Brazil	Petroleum expl./ref./distr.	15 075	40 179	6 775	16.2
Metalurgica Gerdau S.A.	Brazil	Metal and metal products	13 658	10 274	22 315	48.6
América Móvil	Mexico	Telecommunications	10 428	17 323	36 353	52.6
Ternium SA	Argentina	Metal and metal products	7 063	5 357	10 042	64.5
Telmex	Mexico	Telecommunications	3 948	2 464	18 812	28.6
FEMSA	Mexico	Food, beverages and tobacco	3 508	4 792	40 631	30.3
Gruma S.A. de C.V.	Mexico	Food, beverages and tobacco	1 986	2 873	11 720	64.9

Source: UNCTAD.

[a] All data are based on the companies' annual reports unless otherwise stated.

[b] Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

[c] In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.

[d] TNI, the Transnationlity Index, 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.

$8 billion to help the expansion of Brazilian transnationals in agribusiness, capital goods, construction, engineering, consumer electronics, energy, technical services and information technology. Brazilian TNCs' access to domestic finance is still limited, and most have to use their own capital or rely on foreign funding.[27]

The global financial crisis has exposed Latin American TNCs to considerable risk, though. For instance, Brazilian and Mexican TNCs suffered severe losses in 2008 as a result of declining sales and exposure to exchange rate derivatives (*WIR09*).[28] Partly because of this, Cemex sold its Australian affiliate to the Swiss giant Holcim for $1.9 billion and renegotiated its $14.5 billion debt (Basave Kunhardt and Guitiérrez-Haces, 2008). In addition, intra-company loans from Brazilian foreign affiliates to their parent companies were worth an unprecedented net value of $14.6 billion in 2009, probably to ease financial difficulties. Although most Latin American TNCs enjoy a relatively low debt-to-earnings ratio (The Boston Consulting Group, 2009), weak effective domestic financing to compensate for tightening credit conditions in international markets might well become an obstacle to their further internationalization.

On the other hand, several factors could favour their expansion. First, their home region – and main market – has been on average less affected by the crisis than the rest of the world. The region was on average better prepared to weather the shocks resulting from the global crisis than in the past, with more comfortable fiscal and external positions and much more resilient financial systems. In addition, Latin American TNCs have a relatively small presence in industries sensitive to the business cycle – such as the automotive and other transport equipment industries, as well as electronics – which have been among the most affected by the crisis. Conversely, they are most present in industries with stable demand patterns, such as agri-business, telecommunication, and retailing, which have so far been less affected by the downturn.

The resilience and growth potential of Latin American economies that contribute to the strength of TNCs from the region are derived from structural factors that include current account surplus, reductions in the cost of credit, and abundant natural resources. In a context of international financial crisis, however, access to domestic finance needs to improve for Latin American TNCs to continue their outward expansion.

2. South-East Europe and the Commonwealth of Independent States

a. Recent trends

Table A. Distribution of FDI flows among economies, by range [a], 2009

Range	Inflows	Outflows
Above $5.0 billion	Russian Federation and Kazakhstan	Russian Federation
$1.0 to $4.9 billion	Ukraine, Croatia, Serbia, Belarus, Turkmenistan and Montenegro	Kazakhstan and Croatia
$0.5 to $0.9 billion	Albania, Armenia, Georgia, Uzbekistan and Bosnia and Herzegovina	
Below $0.5 billion	Azerbaijan, the former Yugoslav Republic of Macedonia, Republic of Moldova, Kyrgyzstan and Tajikistan	Azerbaijan, Ukraine, Serbia, Armenia, Montenegro, Albania, Belarus, the former Yugoslav Republic of Macedonia, Republic of Moldova, Bosnia and Herzegovina, Georgia and Kyrgyzstan

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
South-East Europe and the CIS	122.6	69.9	60.6	51.2	20.3	7.1	20.2	7.4
South-East Europe	12.7	7.6	1.9	1.4	0.8	0.5	-0.0	-0.2
Commonwealth of Independent States	109.9	62.4	58.7	49.7	19.6	6.6	20.2	7.6

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008-2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
South-East Europe and the CIS	426.2	497.4	227.7	279.8	93.0	60.6	30.1	13.4
South-East Europe	68.3	77.6	9.3	10.4	3.8	2.6	0.4	0.1
Commonwealth of Independent States	357.9	419.8	218.4	269.4	89.2	57.9	29.7	13.3

Figure A. FDI inflows, 2000–2009

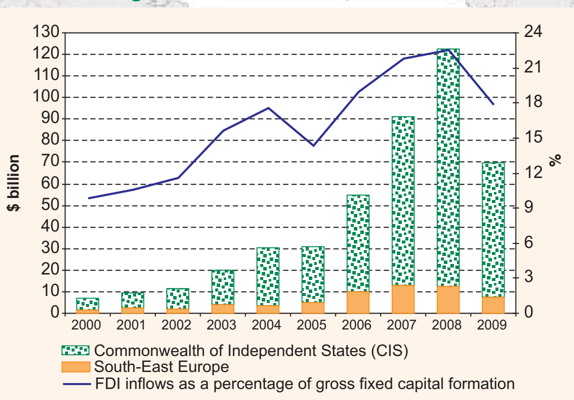

Figure B. FDI outflows, 2000–2009

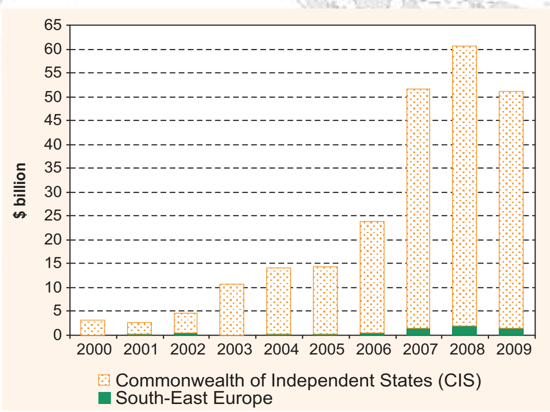

Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2008	2009	2008	2009
Total	20 337	7 125	20 167	7 432
Primary	2 401	5 037	3 809	7 897
Mining, quarrying and petroleum	2 399	5 033	3 809	7 897
Manufacturing	3 529	522	11 475	1 032
Food, beverages and tobacco	1 329	175	2	-
Chemicals and chemical products	376	52	166	-
Non-metallic mineral products	47	-	47	-
Metals and metal products	297	7	11 249	1 015
Machinery and equipment	300	7	-	17
Motor vehicles and other transport equipment	1 177	252	11	-
Services	14 407	1 565	4 883	-1 497
Electricity, gas and water	4 657	259	-	4
Construction	-	3	31	-
Trade	745	716	986	-
Hotels and restaurants	152	-	-	8
Transport, storage and communications	983	111	692	-
Finance	7 636	356	3 026	590
Business services	395	120	155	2

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	20 337	7 125	20 167	7 432
Developed economies	16 916	5 336	14 672	7 616
European Union	16 789	4 320	5 445	6 536
United States	33	265	2 663	1 072
Japan	-	174	-	-
Developing economies	458	1 779	2 998	13
Africa	-	200	15	-
Latin America and the Caribbean	144	- 156	1	-
Caribbean	144	- 82	-	-
Asia	315	1 736	2 982	13
West Asia	290	30	2 622	-
South, East and South-East Asia	25	1 706	360	13
China	-	3 843	-	5
South-East Europe and the CIS	2 497	- 197	2 497	- 197
Southeast Europe	- 13	- 167	39	- 157
CIS	2 510	- 30	2 458	- 40
Russian Federation	2 510	- 30	-	-
Ukraine	-	-	2 237	158

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After an eight-year upward trend, ***FDI inflows*** to South-East Europe and the Commonwealth of Independent States (CIS) declined by 43 per cent in 2009 (fig. A and table B). The economic and financial crisis reduced foreign investors' confidence in the strength of local economies in the region, and investment plans were scaled down or postponed. In spite of this slump, FDI inflows in 2009 were the third largest in the history of the region, while the FDI stock in the region reached almost half a trillion dollars.

In South-East Europe, the winding-up of privatization-linked projects made FDI inflows, which declined for the second consecutive year, sensitive to business cycle fluctuations. Croatia and Serbia – the largest recipients in the subregion – saw their FDI inflows decline sharply, while FDI flows to Montenegro continued to increase, reaching more than $1 billion for the first time ever (table A). Yet the subregion – where foreign investors have focused on domestic market-oriented services such as finance, retail and telecoms – was slightly less affected than the ***CIS***, where all resource-based economies experienced a strong reduction in FDI inflows. Inward investment to the region's largest economy, the Russian Federation, almost halved, mainly due to sluggish local demand, declining expected returns in natural-resource projects and the drying-up of round tripping.[29] Ukraine saw its FDI inflows shrink by more than half in 2009, while the decline in Kazakhstan was more modest, as the country continued to attract hydrocarbon projects (visit www.unctad.org/wir for detailed statistics on FDI flows and stocks).

In 2009 the value of ***cross-border M&A sales*** declined by 65 per cent (table D), and the number of ***foreign greenfield projects*** shrank by 29 per cent. The decline in M&As was mainly due to a slump in acquisitions from the EU, which nonetheless continued to account for the largest share of flows to the region. Cross-border M&A purchases by developing-economy firms – mainly from China – were on the rise, however (table E).

Outward FDI flows declined, but at a smaller rate than inflows (table B). In 2009 the Russian Federation became a net outward investor. Decreases in the export revenues of the region's natural resource-based TNCs and a sharp devaluation of their assets contributed to a fall in FDI outflows by 16 per cent. Russian TNCs, however, continued to look for strategic assets in developed countries, mainly in downstream energy activities in the oil sector.

Most of the ***policy measures*** reported in the review period concerned investment promotion, including by simplifying business registration (e.g. Tajikistan and Turkmenistan) reducing restrictions for foreign currency transactions (e.g. Kazakhstan), improving conditions in special economic zones (e.g. Russian Federation) and concluding preferential investment contracts (e.g. Belarus). In one case, however, local content requirements in the subsoil sector were reinforced (Kazakhstan). Some countries have continued sector-specific privatization (e.g. Croatia). Others have also lowered corporate tax rates (e.g. Uzbekistan).

Prospects for inward FDI remain positive in the medium term. FDI inflows are expected to increase moderately in 2010 on the back of stronger commodity prices, a faster economic recovery in large commodity exporting countries, and a new round of privatization. They already started picking up in the first quarter of 2010 (an estimated increase of 21 per cent over the previous quarter).

Outward FDI is expected to pick up in 2010–2012, due to stronger commodity prices and economic recovery in countries with large natural resources. In the first five months of 2010, the cross-border M&A purchases of the region increased by 44 per cent compared with the same period in 2009.

b. Foreign banks in South-East Europe and the global financial crisis

Foreign banks played a stabilizing role in South-East Europe during the crisis, but their large presence also poses potential risk.

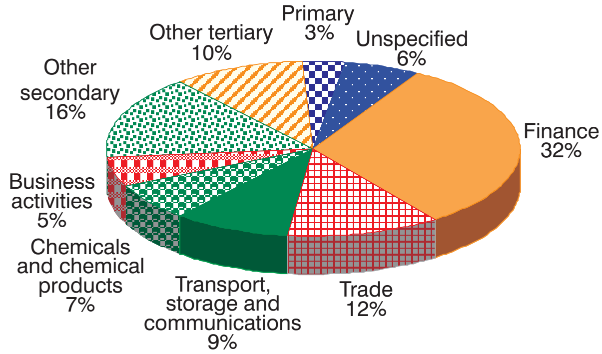
As part of the process of extensive market reform over the past two decades, South-East European countries have restructured and consolidated their banking industry by privatizing state-owned assets and opening up to foreign ownership. Foreign companies have invested in the financial sector, banking on the first-mover advantage related to low levels of financial intermediation, macroeconomic stabilization and a rapprochement with the EU. In 2008, finance was the largest recipient of FDI, accounting for 32 per cent of the sub-region's inward FDI stock (fig. II.4).

As a result, the presence of foreign-owned banks in South-East Europe expanded dramatically: by 2008, the share of banking assets owned by foreign entities had risen to 90 per cent – higher than the share of foreign banks in new EU member countries (EBRD, 2009). Changes have often been radical – foreign ownership in Montenegro, for example, rose from about 17 per cent of assets in 2002 to more than 85 per cent in 2008 (fig. II.5).

Given South-East European countries' small size and low income, banks from countries with close cultural and historical links – rather than global financial institutions based in the United States, the United Kingdom or Japan – have invested in the local banking sector. The largest banking investors in the subregion are financial institutions from European countries such as Austria, France, Greece and Italy. In 2009, Italy's Banca Intesa and UniCredit, for example, owned almost one fifth of total bank assets in Serbia, while Austria's Erste, Raiffeisen and Hypo Group Alpe Adria own one third of banking assets in Croatia.[30] Greek banks are estimated to enjoy average market shares of 20 per cent in South-East Europe.[31] Foreign banks have either acquired local banks (mainly Austrian and Italian banking groups), or established local affiliates or regional branches.

Overall, foreign banks appear to have had a positive influence on the efficiency and stability of the banking system in South-East Europe. They have strengthened risk management and corporate governance through a more efficient allocation of capital,

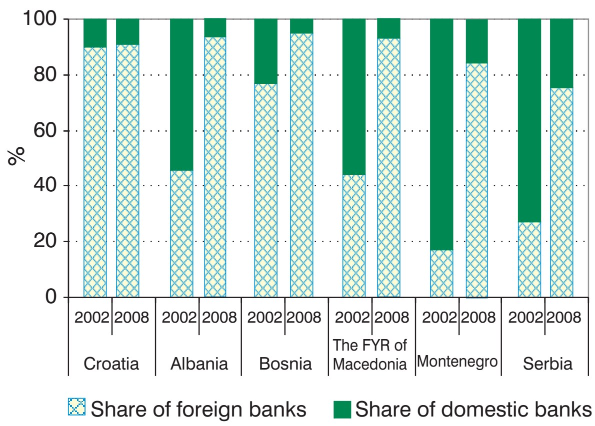
Figure II.4. Sectoral distribution of FDI inward stock in South-East European countries, by major host industry, 2008



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

Note: Data cover FDI inward stock of Albania, Bosnia and Herzegovina, Croatia and the former Yugoslav Republic of Macedonia.

Figure II.5. Share of foreign banks in total bank assets in South-East Europe, 2002 and 2008



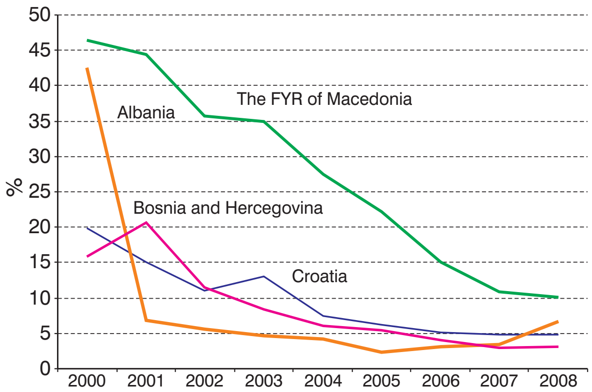
Source: UNCTAD, based on banking supervision reports of South-East European countries.

increased competition, and introduced more sophisticated financial services (Bonin et al., 2005). Foreign banks have also tended to be more cost-efficient than domestic banks (Fries and Taci, 2005), and have reduced non-performing loans, which were the hallmark of the banking system in the early stages of transition (fig. II.6).

Nevertheless, the recent financial crisis has raised concerns about systemic risk in countries where a relatively small number of large foreign-owned banks dominate the financial services industry. In home countries, the high exposure to South-East European assets has been perceived to be too risky in turbulent times. Host countries, on the other hand, have been concerned about the potential transmission of the crisis through foreign banks, and the adverse effects on local affiliates' lending abilities. If parent companies are forced to scale back their operations or put their lending on hold everywhere, the share of non-performing loans could loom large for lower income countries of the region (IMF, 2009). There are also questions about what would happen to local affiliates if parent banks go bankrupt or need to be bailed out by their home country.

In reality, the adverse effects of the crisis have been contained so far. Although GDP in South-East European countries has declined, the collapse of banking systems and currencies has largely been avoided. As local financial markets have refrained from using high-risk financial products, the prevalence of non-performing loans has remained moderate (EBRD, 2009). Reversals in net capital flows have also been limited.[32] In fact, some parent companies (e.g. Erste Bank, Raiffeisen Bank) have provided capital support to their local affiliates to maintain credit growth. And although foreign affiliates have reduced their lending during the crisis, this decline has been smaller than the contraction of lending by domestic banks.

Figure II.6. Non-performing loans in selected South-East European countries, 2000–2008



Source: UNCTAD, based on banking supervision reports of South-East European countries.

As for bankruptcy and bailout of parent banks, only Hypo Alpe Adria Bank had to be nationalized in December 2009. Since then, the bank has decided to keep its assets in Bosnia and Herzegovina, Croatia and Serbia, and sell its holdings only in the smaller markets of Montenegro and the former Yugoslav Republic of Macedonia (as well as in Bulgaria, Hungary and Ukraine).[33] In addition to national efforts, coordinated international initiatives to stabilize the banking industry have also been launched. One of these plans, the European Bank Coordination Initiative,[34] includes two South-East European countries (Bosnia and Herzegovina, and Serbia) and some new EU members (Hungary, Latvia and Romania).

Yet the large presence of foreign banks makes the region vulnerable to potential systemic risks, as highlighted by the recent Greek debt crisis (box II.1). This leaves South-East European countries with the challenge of how to harvest fully the benefits of financial integration, while better containing its risk.[35]

Box II.1. The Greek debt crisis and its potential contagion to South-East Europe

Greece's commercial banks, faced with a relatively small and increasingly saturated domestic market, have been expanding rapidly in South-East Europe for the past decade, acquiring subsidiaries or establishing branches. They have faced stiff competition from much larger European banks, but still managed to carve out solid market shares in the subregion. The "big four" – National Bank of Greece (NBG), Alpha, Eurobank EFG and Piraeus – have an estimated market share of 28 per cent in the former Yugoslav Republic of Macedonia, 25 per cent in Albania and 16 per cent in Serbia. In 2008, Greek commercial banks' exposure in South-East Europe stood at about $70 billion – close to 22 per cent of Greek GDP or about 13 per cent of the Greek banking system's total assets.[a]

The recent downgrading not only of Greek banks' ratings but also of their affiliates in Bulgaria and Romania[b] has highlighted the potential risks of parent banks' failure and the possible contagion to affiliates. Unlike in other countries, the Greek Government does not have spare financial resources to bail out its troubled banks, raising the threat of eventual contagion to South-East Europe. In addition, contagion can also take place through "Mediterranean" channels: the Greek crisis could affect the credit rating of Italian banks, which are also major investors in South-East Europe (Moodys Investor Services, 2010).

That lending from Greek banks' affiliates in South-East Europe is mostly funded with loans from Greece rather than from local deposits is another challenge. Even if Greek banks do not withdraw from the region, they will seek to reduce their funding and are likely to avoid making new loans.[c] This will leave Greek-owned businesses operating in South-East Europe with less financial resources, forcing them to reduce their activities.

Source: UNCTAD.

a Including Bulgaria and Romania.

b Moodys downgraded nine Greek banks in May 2010; the Bulgarian affiliate of the National Bank of Greece (NBG), United Bulgarian Bank, had its credit rating cut by S&P in April 2010, and Fitch downgraded the affiliates of the National Bank of Greece (NBG) and EFG Eurobank in Romania and Bulgaria in late February 2010.

c In May 2010, the "big four" banks have asked for access to 14 billion euros of the support plan put together during the financial crisis in 2008, to counter a liquidity squeeze derived from a significant flight of deposits. "Greece's four largest banks are seeking government support to help counter a liquidity squeeze resulting from a significant flight of deposits in the first two months of the year", *Financial Times*, 7 May 2010.

3. Developed countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $100 billion	United States	United States and France
$50 to $99 billion	France	Japan and Germany
$10 to $49 billion	United Kingdom, Germany, Belgium, Italy, Luxembourg, Netherlands, Ireland, Australia, Canada, Spain, Japan, Poland and Sweden	Italy, Canada, Norway, Sweden, Ireland, United Kingdom, Australia, Netherlands, Spain, Denmark, Switzerland and Luxembourg
$1 to $9 billion	Switzerland, Denmark, Austria, Norway, Romania, Cyprus, Bulgaria, Israel, Greece, Portugal, Czech Republic, Finland and Estonia	Cyprus, Austria, Finland, Poland, Greece, Estonia, Iceland, Czech Republic, Portugal and Israel
Below $1 billion	Malta, New Zealand, Lithuania, Bermuda, Gibraltar, Latvia, Slovakia, Slovenia, Iceland and Hungary	Slovenia, Slovakia, Bermuda, Romania, Lithuania, Malta, Latvia, Bulgaria, New Zealand, Hungary and Belgium

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Developed economies	1 018	566	1 572	821	581	204	568	161
European Union	537	362	916	389	251	116	307	90
Other developed countries	87	39	169	94	45	18	95	18
Other developed Europe	14	16	76	51	22	18	52	13
North America	380	148	411	287	263	51	114	40

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Developed economies	10 851	12 353	13 586	16 011	650	548	1 029	874
European Union	6 670	7 448	8 068	9 007	386	359	514	424
Other developed countries	628	669	990.	1 158	55	41	71	63
Other developed Europe	559	590	900	977	59	32	26	36
North America	2 994	3 646	3 628	4 870	151	116	418	352

Figure A. FDI inflows, 2000–2009

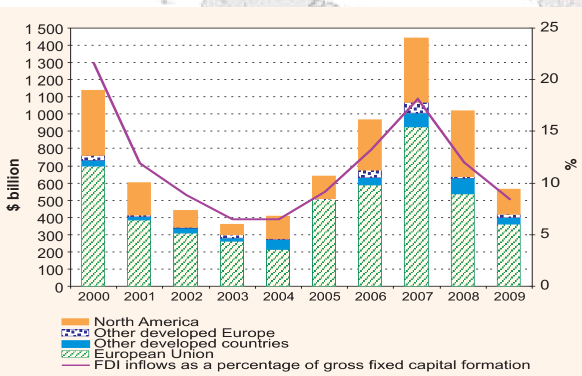


Figure B. FDI outflows, 2000–2009

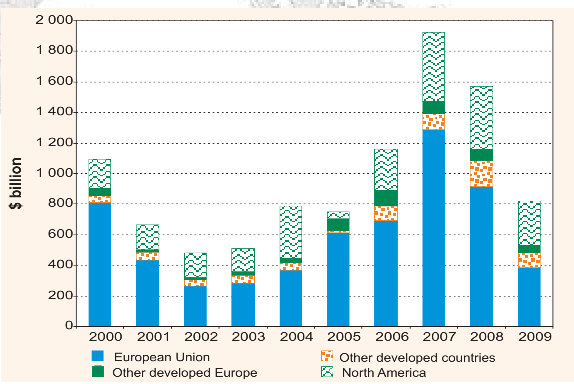


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2008	2009	2008	2009
Total	581 394	203 530	568 041	160 785
Primary	84 816	41 198	37 949	2 875
Mining, quarrying and petroleum	82 906	40 216	34 929	1 344
Manufacturing	284 475	61 153	215 956	32 663
Food, beverages and tobacco	127 756	5 669	52 702	-4 038
Chemicals and chemical products	66 566	32 084	68 541	28 648
Non-metallic mineral products	12 100	- 139	21 562	728
Metals and metal products	10 650	252	6 811	- 680
Machinery and equipment	13 667	1 305	6 656	2 086
Electrical and electronic equipment	12 535	8 315	30 910	1 281
Motor vehicles and other transport equipment	8 738	8 546	6 617	- 686
Precision instruments	23 011	3 841	18 499	4 798
Services	212 103	101 179	314 137	125 247
Electricity, gas and water	35 966	59 408	17 469	39 015
Construction	1 869	10 254	-2 014	-1 641
Trade	10 342	-1 327	15 897	1 017
Transport, storage & communications	21 131	3 523	15 202	14 062
Finance	37 795	8 434	222 721	60 286
Business services	94 617	13 638	7 212	3 545
Public administration and defence	13	110	116	51
Community, social and personal service activities	741	3 175	217	474
Other services	4 776	647	-2 291	704

Tables E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	581 394	203 530	568 041	160 785
Developed economies	491 855	143 163	491 855	143 163
European Union	250 684	81 751	204 242	88 575
France	35 729	38 372	-3 474	- 342
Germany	59 011	20 372	29 193	1 561
United Kingdom	39 105	-6 307	120 274	21 678
United States	68 092	18 834	211 444	26 640
Japan	42 978	11 882	8 847	-6 945
Developing economies	64 168	46 272	59 270	12 286
Africa	7 362	1 378	13 385	4 328
Latin America and the Caribbean	2 028	3 475	13 956	-6 815
South America	4 232	959	7 276	-6 681
Central America	- 172	3 169	2 488	16
Asia	53 683	41 417	32 462	14 494
West Asia	7 589	21 451	5 773	3 174
South, East and South-East Asia	46 094	19 966	26 689	11 320
China	24 838	12 994	4 716	1 418
India	10 671	40	7 610	5 573
Oceania	1 094	2	- 533	280
South-East Europe and the CIS	14 672	7 616	16 916	5 336
Russian Federation	13 725	7 616	13 071	4 487
Ukraine	972	-	3 696	- 14

Visit www.unctad.org/wir or www.unctad.org/fdistatistics for detailed statistics on FDI and cross-border M&As.

In 2009, ***FDI inflows*** to developed countries declined by 44 per cent, to $566 billion (table B). Remarkably, however, this contraction was relatively smaller than the decline in the previous downturn of 2000–2003 (fig. A), even though the current economic and financial crisis has been far more severe.

The decrease in ***equity capital flows***, which are most directly related to TNCs' investment strategies, was particularly marked. ***Intra-company loans*** to foreign affiliates also declined, as many parent companies faced liquidity problems due to falling profits at home and reduced bank lending. ***Reinvested earnings*** – a relatively stable component of FDI flows in times of protracted economic growth – did not decline for the whole year as they recovered during the latter half of the year.

Inward FDI flows fell in all major regions (table B). ***North America*** was affected the most as inflows to the United States, the largest host country for FDI in the world, declined by 60 per cent to $130 billion, while inflows to Canada fell to $19 billion – roughly one fifth of that country's record FDI inflows in 2007. FDI inflows to ***Japan***, the second largest economy in the world but only the 14th largest developed-country host in terms of inward FDI stock, fell from $24 billion in 2008 to $12 billion in 2009 due to some large divestments to domestic companies. FDI flows into the 27 ***European Union*** (EU) countries declined by 33 per cent (to $362 billion), though at a much lower rate than those of North America and Japan on average. FDI inflows to the United Kingdom, however, collapsed by 50 per cent in 2009, as the country's economy and financial sector were hit particularly hard during the crisis. FDI inflows to France declined by 4 per cent to $60 billion. The largest decline in terms of value took place in Belgium (a drop of $76 billion). In contrast, some EU countries recorded an increase in FDI flows in 2009. Among them was Germany, the fourth-largest host country in the EU in terms of inward FDI stock: the country's inflows increased by 46 per cent to $36 billion, mainly due to an upswing in intra-company loans after the end of major company restructurings.

Cross-border M&As, the main mode of FDI flows to and from developed countries, fell sharply in 2009 (tables D and E) and recovered only slightly in the first half of 2010. The decline was due to a reduction in the number as well as values of M&A transactions. Greenfield investments were hit much less, as they have a longer planning and investment period and react with a certain time lag to economic shocks.

Although the bulk of FDI inflows to developed countries came from other developed countries, TNCs from developing countries were active investors in 2009 and increased their relative share of M&A sales (table E). They participated in 25 megadeals valued at over $1 billion (visit http://www.unctad.org/wir for the full list of mega deals).[36]

Outward FDI flows from developed countries declined by 48 per cent, to $821 billion in 2009 (table B), as falling profits and financial pressures resulted in depressed reinvested earnings, re-channelled dividends and re-called/withdrawn intra-company loans.[37] Employment in foreign affiliates of developed-country TNCs is rising over the years, even when there is the general decline in the overall employment of home countries (section B).

The global economic and financial crisis hit FDI in various ***sectors and industries*** of developed countries unevenly. In the manufacturing sector, cross-border M&A sales and purchases declined by around 80 per cent (table D), while the decline in services was less pronounced. The manufacturing sector, on the other hand, recorded a larger number of greenfield projects (3,229 inward cases) than other sectors. Industries that were hard hit by the economic crisis, like automobile and machinery, suffered from a stronger decline in greenfield projects, whereas the number of projects in industries with a more stable demand fell less (chemical industry) or even increased (food, beverages and tobacco).

Regarding national ***policy measures***, on the one hand, there has been a continuous trend towards investment liberalization, particularly in the air transport sector in Australia and between the EU and Canada. On the other hand, Germany and Canada tightened their laws and regulations concerning screening requirements of foreign investment for national security reasons. To respond to the financial crisis, most developed countries also implemented economic stimulus packages and individual rescue packages with potential impacts on international investment. The measures were first aimed to rescue the financial sector and were later complemented with measures directed to the real economy. Foreign investors were not excluded from State aids supplied in response to the crisis.

The short- and medium-term ***prospects for FDI inflows*** have improved during the first half of 2010. In line with developed countries' economic recovery – reflected in growing production and foreign trade – inward investment stabilized in the first half of 2010 and is expected to increase over the year as a whole. FDI inflows are expected also to increase due to a new round of privatizations in European countries with large public debts.[38] In the medium term, inward FDI to developed countries could recover to the levels seen in the first half of the past decade, provided no major economic shocks hit these economies. The further integration of developed countries' markets, competitive pressures and the ongoing liberalization process in several areas – such as the European energy and information technology network industries – are also fostering inward FDI to these countries. A further stimulus could be expected from developing economies' TNCs, which are increasingly interested in expanding their presence in developed countries. Based on 36 countries FDI inflows in the first quarter of 2010 rose by more than 2 times compared to the same period of 2009 and 9 per cent of the previous quarter.

Outward FDI from developed countries is expected to recover in 2010 and increase in the medium term. The recovery of the world economy in 2010 and brightened prospects for 2011 and 2012 will encourage developed countries' TNCs to increase their foreign investments to strengthen their competitive position and gain access to new markets. In the first five months of 2010, outward cross-border M&As of developed countries' firms increased by 35 per cent compared to the same period of 2009. Data for the first quarter of 2010 show that FDI outflows increased by 17 per cent over the same period of the previous year.

b. Impacts of outward FDI on home-country employment

The effect of FDI on employment at home varies, depending on the type of FDI and TNCs' employment strategy.

In many developed countries, the growing internationalization of production has raised concerns about outward FDI's possible detrimental effects on employment at home. Due to the rapid growth of their outward FDI in the past decade, the share of foreign affiliates in the total employment of developed-country TNCs has risen, while that of domestic employment in headquarters and affiliates at home fell. Employment in foreign affiliates of United States TNCs reached 11.7 million in 2007 (the most recent year for which data are available) compared to 6.8 million in 1990 (table II.9). The workforce of United States companies abroad increased at an annual rate of 2.7 per cent between 2000 and 2007, compared to an average annual increase of total domestic employment in the United States of 0.7 per cent during the same period.

The unprecedented decline of domestic

employment caused by the economic downturn in the United States has further fuelled concerns regarding the employment impact of outward FDI. From the beginning of the recession in October 2007 to early 2010, roughly 8.5 million payroll jobs were lost in the United States, more than 6 per cent of total employment in late 2007 (Slaughter, 2010). In contrast, employment in foreign affiliates of United States TNCs, which had risen by 5.2 per cent in 2007, is estimated to have grown again in 2008 and 2009.

Developed-country TNCs tend to be more capital-intensive in their parent firms than their foreign affiliates, as indicated by a lower share of the former in total employment, compared to relative weights in output or capital expenditures. But the growth of employment in foreign affiliates and the relative importance of employment abroad and at home differ across countries and sectors. TNCs with a home base in relatively small economies (e.g. Austria and Switzerland) employ a relatively large share of their total workforce in foreign affiliates.[39] TNCs based in large home economies, like the United States and Japan, typically employ a high share of their workforce in headquarters and domestic affiliates: in 2007, the majority of the workforce of United States TNCs (69 per cent or 22 million workers) was employed in parent firms in the United States (Slaughter, 2010); and data on Japanese TNCs show that about half of their consolidated employment is still located at home (Japan, METI, 2010b). The parent company shares of value added and employment in those countries, however, are on a downward trend, and declined by about 10 percentage points in the past 20 years in the United States (Barefoot and Mataloni, 2009). For Japanese TNCs, the share of parent firms in total employment decreased from 72 per cent in 1989 to 48 per cent in 2008, while their share in total sales fell from 97 per cent to 67 per cent during the same period (Japan, METI, 2010b).

Table II.9. Employment in foreign affiliates of home-based TNCs of selected developed countries, 1990–2007
(Thousand employees)

Home country	1990	2000	2006	2007
Austria	43.6	248.6	478.9	573.3
Czech Republic	..	12.3	36.6	37.4
Finland	137.3 [a]	288.1	381.8	588.9
Germany	2 337.0	4 440.0	5 229.0	5 467.0
Italy	551.6 [b]	1 258.0 [c]	1 243.9	1 297.9
Japan	1 549.7	3 452.9	4 557.1	4 746.1
Norway	26.9	78.3	78.9 [d]	78.6 [e]
Sweden [f]	591.0	910.0	1 021.7	1 132.9
Switzerland	1 012.6	1 763.0	2 212.4	2 350.2
United States	6 833.9	9 713.0	11 149.9	11 737.5

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] 1996. [b] 1991. [c] 2001. [d] 2002. [e] 2003.
[f] Data refer to majority-owned affiliates only.

In several sectors and industries, developed-country TNCs employ a very large share of their total workforce abroad. In the primary sector, developed-country TNCs have expanded abroad due to a lack of sufficient natural resources at home: some companies, such as Xstrata (United Kingdom) and Anglo American (United Kingdom), employ more than 90 per cent of their total workforce abroad. In other industries such as textiles, where labour cost is an important consideration, developed-country TNCs closed down a large part of their production facilities at home in the early 1970s and 1980s, and relocated them in new plants in developing countries.

An increase in investments and employment abroad, however, does not automatically come at the cost of domestic investment and employment. On the contrary, outward FDI can save or create employment at home through various channels:

- A large part of FDI is related to marketing, financing and distribution activities, which help stimulate domestic exports and GDP growth, which in turn stimulate employment at home. For example, employment by German TNCs in trade and repair alone accounts for more than one fifth of total employment in foreign affiliates of German TNCs. Several studies covering different countries have shown that outward FDI and exports go hand in hand and stimulate each other (Krautheim, 2009).

- Relocations of production facilities abroad – which cause layoffs at home in the short-run – may help to save and increase employment in some types of FDI. In these cases, outward FDI could enhance labour skills by engaging redundant labour force in higher value added activities at home in the longer run, if firms improve their overall competitiveness via a reduction in input costs in foreign affiliates. Studies indicate that companies that internationalize their operations are more productive and successful than competitors that concentrate their investments and activities in the domestic economy (Desai et al., 2009; Becker and Muendler, 2006).
- The largest part of developed-country TNCs' employment in foreign affiliates is concentrated in other developed countries – and not in low-wage developing countries. Roughly 70 per cent of United States FDI abroad, for example, is concentrated in high-income countries, and the share of investment in developing countries has fallen in recent years (Jackson, 2009). Developed countries therefore may profit the most from employment created by TNCs' foreign affiliates.

There is no strong evidence that supports the hypothesis that outward FDI causes job reduction at home across the board (*WIR07*). The impact depends on the type of investment and the location of foreign affiliates, as well as TNCs' employment strategies. A study of German and Swedish TNCs points to the substitution of jobs in home countries by foreign-affiliate employment, particularly for investments in Central and Eastern Europe (Becker and Muendler, 2006). In the case of Italy, efficiency-seeking FDI has also had a negative effect on home-country employment (Mariotti et al., 2003).

On the other hand, market-seeking investment from United States TNCs has been associated with a positive effect on home-country employment (Hanson et al., 2005). Several other studies conducted in the first half of the past decade have shown that increased employment in the overseas affiliates of United States TNCs had a positive or no significant effect on employment in the parent firms. Similarly, when it has been driven by the search for new markets, as well as by marketing, distribution and customer service motives, German outward FDI is perceived to have also strengthened the overall competitiveness of the German corporate sector and contributed to investment and employment growth at home (Deutsche Bundesbank, 2006; DIHK, 2009). In addition, a recent survey of Japanese TNCs reveals that only 6 per cent of parent firms would cut employment, while 18 per cent of them would rather utilize excess labour for enhancing value-added activities (table II.10).

Ultimately, the potential long-term effects of FDI on employment at home strongly depend on economic growth and technological progress. They also depend on the sector of operation and technology involved in TNCs' home-based activities, and their employment strategy.

Table II.10. Response of Japanese TNCs with respect to plans for home-country employment while relocating production abroad, 2004
(Distribution share)

Total	Enhancing value added activity at home to avoid excess labour	Will not reduce employees even though there is excess labour	Will reduce employment in the future	No plan at the moment for excess labour	There will be no excess labour	No answer
100.0	17.8	4.2	5.8	2.6	62.4	7.2

Source: Japan, METI, 2006.
Note: Based on 969 Japanese TNCs.

B. Trends in structurally weak, vulnerable and small economies

1. Least developed countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $10.0 billion	Angola	
$2.0 to $9.9 billion	Sudan	
$1.0 to $1.9 billion	Equatorial Guinea	
$0.5 to $0.9 billion	Zambia, Democratic Republic of the Congo, Mozambique, Uganda, Niger, Bangladesh, United Republic of Tanzania, Madagascar and Cambodia	
$0.2 to $0.4 billion	Chad, Liberia, Myanmar and Senegal	Liberia
Below $0.1 billion	Afghanistan, Solomon Islands, Burkina Faso, Lao People's Democratic Republic, Yemen, Rwanda, Mali, Somalia, Djibouti, Ethiopia, Benin, Malawi, Togo, Lesotho, Gambia, Central African Republic, Nepal, Haiti, Bhutan, São Tomé and Principe, Sierra Leone, Vanuatu, Timor-Leste, Guinea-Bissau, Burundi, Maldives, Comoros, Tuvalu, Kiribati, Samoa, Eritrea and Mauritania	Yemen, Sudan, Democratic Republic of the Congo, Bangladesh, Senegal, Solomon Islands, Rwanda, Niger, Angola, São Tomé and Principe, Mali, Mozambique, Samoa, Malawi, Burkina Faso, Guinea-Bissau, Vanuatu, Cambodia, Benin and Togo

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Least developed countries (LDCs)	32.4	28.0	3.4	0.6	- 2.5	- 0.8	- 0.3	0.0
LDCs: Africa	27.9	25.6	3.3	0.5	- 2.6	- 0.5	0.0	0.0
LDCs: Latin America and the Caribbean	0.0	0.0	0.0	0.0	-	0.0	-	-
LDCs: Asia	4.3	2.1	0.1	0.1	0.0	- 0.3	-	-
LDCs: Oceania	0.1	0.2	0.0	0.0	0.0	0.0	- 0.3	-

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Least developed countries (LDCs)	112.7	130.4	9.6	10.0	25.2	15.8	0.3	0.2
LDCs: Africa	87.4	103.2	8.3	8.7	19.2	10.1	0.3	0.2
LDCs: Latin America and the Caribbean	0.4	0.4	0.0	0.0	-	-	-	-
LDCs: Asia	22.6	24.4	0.8	0.9	5.8	5.5	0.0	0.0
LDCs: Oceania	2.2	2.4	0.4	0.4	0.2	0.2	0.0	0.0

Figure A. FDI inflows, 2000–2009

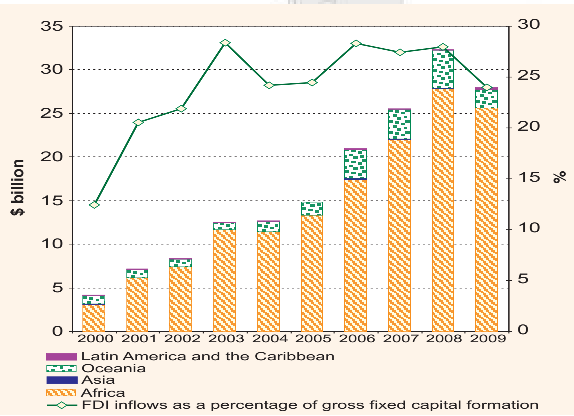


Figure B. FDI outflows, 2000–2009

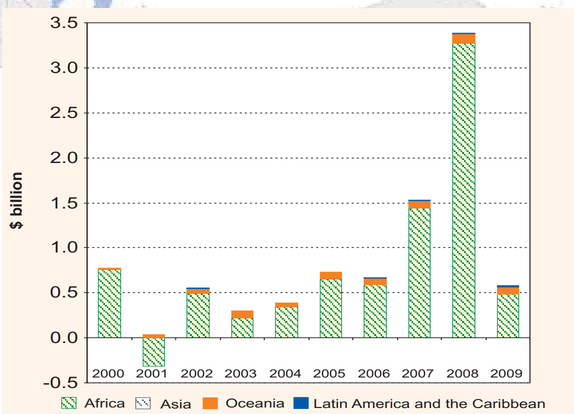


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales 2008	Sales 2009	Purchases 2008	Purchases 2009
Total	-2 549	- 774	- 261	16
Primary	-2 170	8	- 321	16
Mining, quarrying and petroleum	-2 170	8	- 321	16
Manufacturing	71	11	- 3	-
Food, beverages and tobacco	-	- 0	-	-
Wood and wood products	-	11	-	-
Publishing and printing	-	-	1	-
Chemicals and chemical products	19	-	-	-
Rubber and plastic products	-	-	- 4	-
Metals and metal products	40	-	-	-
Machinery and equipment	- 1	-	-	-
Electrical and electronic equipment	13	-	-	-
Services	- 450	- 793	63	-
Hotels and restaurants	3	-	-	-
Transport, storage and communications	-	- 346	-	-
Finance	- 453	- 354	20	-
Business services	-	- 94	43	-

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales 2008	Sales 2009	Purchases 2008	Purchases 2009
World	-2 549	- 774	- 261	16
Developed economies	-2 464	-1 156	43	-
European Union	- 435	-1 160	-	-
United States	-2 200	- 15	-	-
Japan	350	-	-	-
Developing economies	- 100	372	- 305	16
Africa	106	354	20	-
North Africa	-	324	-	-
Other Africa	106	30	20	-
Latin America and the Caribbean	-	- 5	-	16
Caribbean	-	- 5	-	16
British Virgin Islands	-	- 5	-	16
Asia	- 206	23	- 325	-
West Asia	115	-	-	-
South, East and South-East Asia	- 321	23	- 325	-
South-East Europe and the CIS	15	-	-	-
Russian Federation	15	-	-	-

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FDI inflows to the 49 LDCs[40] declined by 14 per cent to $28 billion in 2009, ending eight years of uninterrupted growth (table B and fig. A). The decrease was mainly due to a lull in the global demand for commodities – a major driver of FDI in many LDCs – and the cancellation of some cross-border M&A deals. The impact of lower inward investment is particularly serious in LDCs, where, judging from the ratio of FDI inflows to gross fixed capital formation, FDI is a major contributor to capital formation.[41] FDI inflows to LDCs still account for limited shares in both global FDI inflows (3 per cent in 2009) and inflows to the developing world (6 per cent).

FDI flows have been concentrated in a limited number of countries, and this ***concentration*** has risen further in LDCs (as well as LLDCs) over the past decade, while in SIDS – the other structurally weak, vulnerable and small group of economies – the geographical concentration of FDI flows was lessened.[42]

The bulk of investments in LDCs are in the form of ***greenfield projects*** (269 in 2009). These projects are concentrated in services (such as financial and business services), while more than 60 per cent of them originate from developing and transition economies. In contrast, in 2008 and 2009, ***cross-border M&A sales*** were negative as some large divestments took place in Equatorial Guinea and Angola in the primary sector (e.g. oil) and banking (table D). With the end of large divestments, however, cross-border M&A sales rose to $1.5 billion in the first five months of 2010.

The ***distribution of FDI flows*** among LDCs remains uneven. In terms of value, foreign investment is highly concentrated in a few natural resource-rich countries, but in terms of number of projects, FDI is diversified: during 2003–2009, out of over 1,200 greenfield investment projects in LDCs, some 470 (39 per cent of the total) and 530 (44 per cent) were registered in the manufacturing and services sectors, respectively. FDI in telecommunications is on the rise in African LDCs, offering some diversification. FDI to Asian LDCs, on the other hand, is primarily in manufacturing and services such as electricity.

TNCs from developed countries remain the ***main sources of FDI inflows*** to LDCs. Investment from developing economies such as China, India, Malaysia and South Africa is, however, on the rise in both relative and absolute terms (A.1.a in this chapter). In addition, investments from the Gulf Cooperation Council countries in African LDCs have recently increased in sectors such as telecoms, tourism, finance, infrastructure, mining, oil and gas and agriculture.

FDI prospects for LDCs will remain limited for the next few years. Many LDCs suffer from substantial disadvantages, including limited market size, weak business environment, high level of perceived risk, and relatively low competitiveness compared to other, relatively more advanced developing economies. None of the LDCs are ranked among the top 30 priority destinations by investors surveyed in the *WIPS* (UNCTAD, forthcoming a); and sub-Saharan Africa – where a large proportion of LDCs is concentrated – was given the lowest priority for future investment projects. LDCs could benefit from the global recovery in FDI, however. The investment momentum generated by TNCs from developing and transition economies is primarily resources- and market-seeking, but LDCs have the potential to attract export-oriented FDI, taking advantage of preferential market access to developed country markets. In addition, LDCs' structural disadvantages could be partly mitigated if ODA were to be used more effectively in conjunction with FDI (section b).

b. Enhancing interaction between ODA and FDI

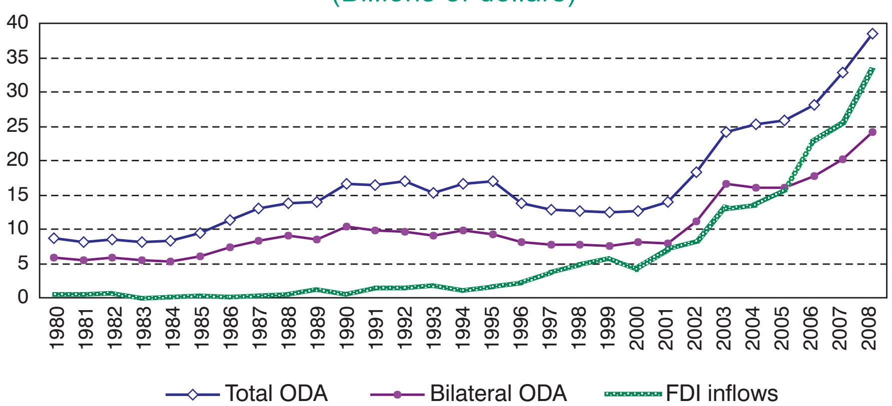
ODA can act as a catalyst for boosting the limited role of FDI in LDCs.

The contribution of FDI to LDCs' capital inflows has been on the rise since 1990 and accelerated after 2000 (fig. II.7), driven by rising commodity prices, economic reforms and the participation of new investors from within the developing world. Although total ODA remains the main source of foreign capital in LDCs, FDI inflows have overtaken bilateral ODA since 2005.

During 1990–2008, FDI flows to almost all LDCs rose; exceptions included Burundi, Eritrea, Nepal, Samoa and Timor-Leste (fig. II.8). FDI inflows to 15 LDCs increased while their bilateral ODA decreased. In the same period, 29 other countries experienced simultaneous increases in FDI and bilateral ODA.

ODA flows to a country can be expected to depend on the degree of the country's need for development assistance and its ability to utilize it effectively, rather than on its locational advantages for economic activity vis-à-vis other countries.[43] FDI is determined by a country's locational advantages relative to alternative production sites – such as large markets, low-cost resources, and/or cost advantages for efficient production.

Figure II.7. FDI inflows and ODA flows to LDCs, 1980–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) for FDI and OECD for ODA.

Some of these advantages – particularly market size and cost competitiveness – tend to improve with economic development and growth, improving FDI prospects as countries develop and incomes rise.

Private investment requires a minimum threshold of adequate human capital and sound infrastructure to flourish (UNDP, 2005). Until countries reach a sufficient level of development, FDI primarily flows to the primary sector (especially mining) – as is the case with LDCs – and far less into manufacturing and infrastructure services that are essential for development.

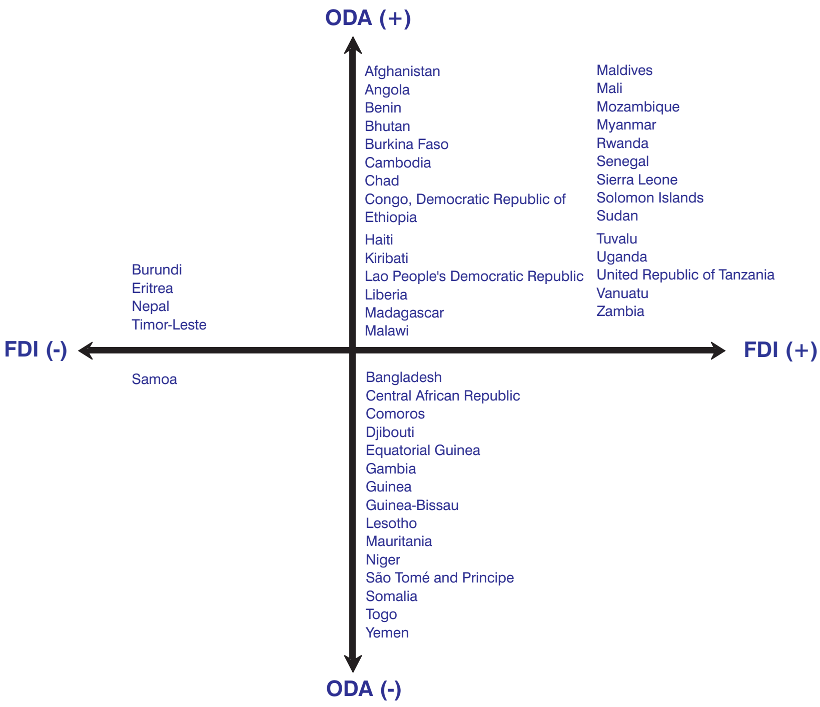
In this context, ODA can act as a catalyst for FDI – and private investment generally – through investments in human capital and in infrastructure, and assistance to regulatory reform. However, such aid should not be used as subsidies for individual FDI projects. In aid-financed development plans, ODA country ownership is seen as a necessary condition for improving aid quality and impact in host countries (OECD, 2009). With this condition, LDCs could leverage ODA for improving conditions in their respective economies to enhance the impact of potential FDI. Once a sufficient threshold of capabilities is achieved, FDI can expand into a broader range of production activities. At that stage, foreign investment is better able to contribute to development through additions to domestic capital formation, employment, and income generation, both directly and through local linkages, as well as transfers of technology, technical skills and management practices to host-country enterprises (*WIR99*). However, the impact of FDI on productivity, poverty alleviation and the development process depends on the volume and type of FDI that a country attracts and the host country conditions in which foreign affiliates operate.

A close association between FDI and ODA, as well as interaction with domestic investment, can foster local development. In some cases, public-private partnerships (PPPs) offer promising avenues for such cooperation. Successful partnerships, however, require coherent PPP policies providing clear directions to investors and donor countries, a coherent legal and regulatory framework, transparent public decisions and selection of partners, and a commitment to sustainable development. Investors' legal rights and the rights of the public in case of investment disputes also need to be protected.

In LDCs there is significant latency in opportunities for the private sector. The opportunity for FDI derives not only from exploiting current potential – whether resource, labour or market-based, but more so in participating in the developmental dynamics which move a country along a development trajectory. The private sector can be both a proactive agent independently seeking potential business opportunities in development processes and it can work with the public sector in delivering goods and services in government-led PPP frameworks. These opportunities relate to building and operating various types of enabling physical infrastructure and utilities in the energy, transport and communication industries, developing more efficient intermediation of finance in the financial services industry, and, in partnership with the public sector, facilitating the delivery of social services in such sectors as health and education. These industries are the most promising ones for the convergence of ODA, FDI and domestic investment through PPPs. Enhancing the national ownership of aid processes and outcomes (UNCTAD, 2010a) would lead to further interaction between FDI and ODA.

The degree to which the latent opportunity to attract FDI to an LDC is realized depends, however, on the many contextual factors. ODA can play an enabling role in this respect by focusing on key public sector institutional limitations and helping resolve critical planning and other process bottlenecks.

Figure II.8. Growth in FDI and ODA flows to LDCs, 1990–2008



Source: UNCTAD.

2. Landlocked developing countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $1 billion	Kazakhstan and Turkmenistan	Kazakhstan
$500 to $999 million	Zambia, Armenia, Uganda, Uzbekistan and Niger	..
$100 to $499 million	Azerbaijan, Chad, Mongolia, Plurinational State of Bolivia, the former Yugoslav Republic of Macedonia, Botswana, Afghanistan, Paraguay, Burkina Faso, Lao People's Democratic Republic, Rwanda and Mali	Azerbaijan
$10 to $99 million	Ethiopia, Republic of Moldova, Swaziland, Malawi, Zimbabwe, Kyrgyzstan, Lesotho, Central African Republic, Nepal and Bhutan	Armenia, Rwanda, the former Yugoslav Republic of Macedonia and Niger
Below $10 million	Burundi and Tajikistan	Paraguay, Republic of Moldova, Mali, Botswana, Malawi, Burkina Faso, Zimbabwe, Plurinational State of Bolivia, Kyrgyzstan, Swaziland and Mongolia

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Landlocked developing countries (LLDCs)	26.3	21.9	1.5	3.5	0.1	1.7	2.7	- 0.0
Africa	4.1	4.0	- 0.0	0.0	0.0	0.1	0.0	0.0
Latin America and the Caribbean	0.6	0.6	0.0	0.0	0.0	- 0.1	0.0	0.0
Asia and Oceania	1.2	0.9	0.0	- 0.1	0.0	0.3	0.1	- 0.0
Transition economies	20.4	16.5	1.6	3.5	0.1	1.4	2.6	0.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Landlocked developing countries (LLDCs)	128.2	149.7	10.1	14.7	27.5	17.9	- 0.0	- 0.3
Africa	26.9	31.1	1.4	1.2	2.9	2.6	0.1	0.1
Latin America and the Caribbean	8.3	9.0	0.3	0.3	1.1	1.0	0.0	0.0
Asia and Oceania	5.0	5.8	0.0	0.0	0.4	0.3	0.0	0.0
Transition economies	88.0	103.8	8.5	13.1	23.2	14.1	- 0.2	- 0.5

Figure A. FDI inflows, 2000–2009

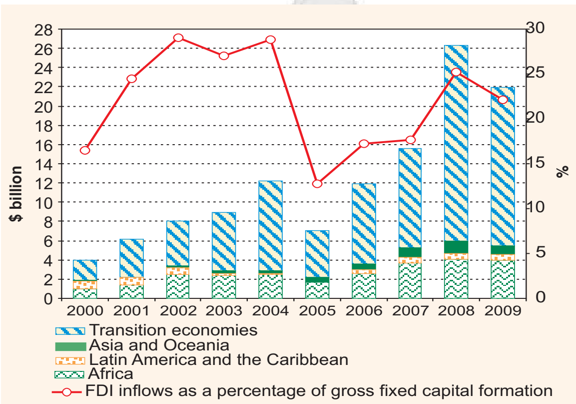


Figure B. FDI outflows, 2000–2009

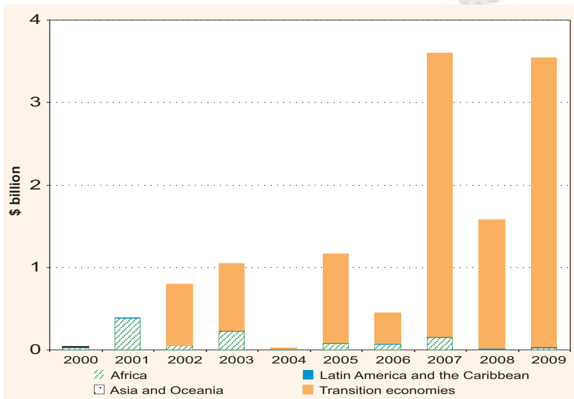


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/Industry	Sales		Purchases	
	2008	2009	2008	2009
Total	144	1 708	2 676	- 8
Primary	- 141	1 614	520	1 216
Agriculture, hunting, forestry and fishing	2	-	-	-
Mining, quarrying and petroleum	- 144	1 614	520	1 216
Manufacturing	68	25	-	-
Food, beverages and tobacco	8	-	-	-
Wood and wood products	24	11	-	-
Chemicals and chemical products	36	10	-	-
Machinery and equipment	-	4	-	-
Services	218	70	2 156	-1 224
Electricity, gas and water	-	- 247	-	-
Construction	-	-	31	-
Trade	-	335	-	-
Hotels and restaurants	4	-	-	-
Transport, storage and communications	25	0	-	-
Finance	82	- 24	2 053	-
Business services	-	-	106	-
Public administration and defence	-	-	- 34	-1 224
Community, social and personal service activities	106	-	-	-
Other services	-	5	-	-

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	144	1 708	2 676	- 8
Developed economies	- 487	75	71	-
European Union	1 008	- 418	- 34	-
United States	-1 501	- 53	106	-
Japan	-	52	-	-
Developing economies	259	1 831	2 604	- 8
Africa	106	74	4	-
Latin America and the Caribbean	- 3	-	-	16
South America	- 26	-	-	-
Caribbean	23	-	-	16
Asia	156	1 757	2 600	- 24
West Asia	115	30	2 569	-
Turkey	-	-	2 569	-
United Arab Emirates	200	-	-	-
South, East and South-East Asia	41	1 727	31	- 24
China	-	3 558	-	- 24
India	15	-	31	-
Indonesia	-	-2 604	-	-
South-East Europe and the CIS	221	- 198	-	-
Russian Federation	221	- 198	-	-

Visit www.unctad.org/wir or www.unctad.org/fdistatistics for detailed statistics on FDI and cross-border M&As.

The 31 landlocked developing countries (LLDCs)[44] have not been attractive destinations for ***FDI inflows***, as their economic performance continues to be hampered by inherent geographical disadvantages compounded by poor infrastructure, inefficient logistics systems and weak institutions (section b). Nevertheless, economic reforms, investment liberalization and favourable global economic conditions over the past few years had translated into a steady and significant increase in FDI inflows during 2000–2008, interrupted only once, in 2005 (fig. A). Although FDI flows to LLDCs declined by 17 per cent to $22 billion in 2009 (table B), this contraction was less pronounced than that in the world as a whole, pushing the LLDCs' share of global FDI inflows to 2 per cent, from 1.5 per cent in 2008.

The majority of inward investments in 2009 were ***greenfield projects*** (326), while the contribution of cross-border ***M&As*** remained limited (table D). Given the lack of diversification of productive capacities, FDI inflows have remained concentrated in the primary sector in spite of the financial crisis and lower commodity prices. However, FDI in other industries, in particular telecommunications, has recently been rising in African LLDCs.[45]

The ***geographic distribution*** of FDI remains uneven. Investment has been heavily concentrated in a few resource-rich transition economies (Kazakhstan alone accounted for 58 per cent of the total in 2009), while 15 African LLDCs only received $4 billion.

Developing-country TNCs – mainly from Asia, but also Africa – were the main ***sources of FDI*** in the LLDCs in 2009. China has intensified its investment in the LLDCs, especially in resource-rich countries such as Afghanistan (mainly metals), Kazakhstan (mainly oil),[46] Turkmenistan (mainly gas) and Zambia (mainly copper). South Africa invests in neighbouring LLDCs.

Prospects for FDI inflows to LLDCs suggest a slow recovery. Inward FDI is expected to increase especially in resource-rich countries due to the rebound in commodity prices and improving economic and financial conditions. For example, FDI inflows to Kazakhstan in the first quarter of 2010 reached $3 billion or 16 per cent higher than the same period in 2009. Firms from developing and transition economies will continue their search for natural resources.

b. Overcoming barriers to FDI in LLDCs

For LLDCs to succeed in attracting FDI they must shift their strategic focus from distance to markets.

LLDCs perform poorly as FDI destinations. Judging by FDI flow and stock data, their poor performance seems connected to their lack of territorial access to the sea, remoteness and isolation, in addition to a low level of income (UNCTAD, 2003). Studies have highlighted the key role that geography plays in economic development and growth in general (MacKellar et al., 2002; and Hausmann, 2001). Yet the impact of geography should not be exaggerated when considering options for FDI policy making, and alternatives other than securing access to sea ports offer promising avenues for development.

The curse of geography? To a certain degree, the geographic position of LLDCs constrains their ability to expand their economies through trade and to take part in the international production systems of TNCs. Access to the sea is critical because land transport costs are much higher than those of shipping by sea. Shipping is also particularly suitable for the bulky, low value added goods in which most economic activity of LLDCs is concentrated. High transport costs, particularly so during periods of high oil prices, often render the shipping of such goods to more distant locations entirely unprofitable.

Long distances from the sea and ports entail high transport costs. According to UNCTAD estimates, LLDCs spend almost twice as much on average for transport (and insurance services) – as a percentage of their export earnings – than developing countries taken as a whole, and three times more than developed economies.[47] Furthermore, access of LLDCs to ports depends on their immediate neighbours, and therefore on political and commercial relationships. The links of some LLDCs to the sea and ports transit through more than one country (Uzbekistan, for example, is double landlocked, as it is surrounded by other LLDCs), compounding these difficulties.

High transport costs therefore make LLDCs less attractive for FDI that relies on trade, whether (a) export-oriented (i.e. efficiency-seeking or resource-seeking); or (b) import-intensive (i.e. market-seeking or export-oriented with high import content in the production process). This prevents LLDCs from becoming part of TNCs' global production networks in many industries.

Compounding these geographical disadvantages, some LLDCs are small, with a narrow resource base and a tiny domestic market. The size of many LLDCs inhibits market-seeking FDI. Their disadvantage is particularly severe when production for local consumption depends on imported inputs.

Not all products and activities are equally sensitive to the geographic constraints of LLDCs, though. For raw materials and many manufacturing products, distance is a critical element of cost. But intangible products (such as services, including digital products that can be transferred electronically), for instance, are not sensitive to such limitations, as their transportation costs are negligible or non-existent. New communication technologies that reduce costs or enable the transportation of these industries' output at little or no cost – provided access to telecommunication and information networks is available – facilitate international delivery of such products.

Notwithstanding the severe geographic disadvantages it imposes, it is not clear that being landlocked deters FDI by itself. Some of the world's significant FDI destinations are landlocked. The average FDI per capita of the European landlocked countries (Austria, the Czech Republic, Hungary, Slovakia and Switzerland)[48] is on par with, or even larger than, the average for their respective region as a whole. These landlocked countries have successfully overcome the "tyranny of geography" by developing strength in economic activities that do not require access to the sea. Despite being the most remote LLDC, a long way from ports, Kazakhstan also receives large amounts of FDI because of its natural resources. On the other hand, "man-made" weaknesses in public policy and the administrative regimes governing business in general and foreign investments in particular are considered the major barriers to investment. That two of the top 10 African countries in the ranking by UNCTAD's FDI Performance Index are LLDCs (Niger is ranked third and Zambia seventh visit www.unctad.org/wir for data on this Index) also suggests that geography is not an insurmountable obstacle to FDI, though the geographical disadvantages of the two countries mentioned are discounted by the existence of natural resources.

Policy implications. The assumption that the remedy for the LLDCs' situation lies in the development of adequate transportation infrastructure that would facilitate access to the main world markets seems to dominate most discussions on the economic difficulties of LLDCs. Such infrastructure might indeed be attractive for countries that are not at a very great distance from the sea and ports, and whose transit countries support such initiatives. It may also be appealing in the case of economies with comparative and competitive advantages that justify such an approach (such as resource-rich Kazakhstan).

The development of adequate transportation, however, is by no means the only option, and not the most appropriate in all cases. A more promising approach for LLDCs seeking to become more attractive for FDI might lie in the creation of competitive advantages in areas that are not sensitive to transport costs. The production process today requires an increasingly growing share of knowledge and information, while the importance of geography in production appears to be diminishing. This evolution has tremendous potential for alleviating the disadvantages of LLDCs, particularly the geographic factor. A challenge for LLDCs is therefore to develop, over the long run, a comparative advantage in industries and activities with high knowledge and information content.[49] An alternative is to encourage investment that makes use of local content[50] and is not dependent on imported inputs and materials – provided local content of sufficient quality and quantity can be made available.

Another avenue is to promote regional integration, since selling to the closer regional markets is easier and less expensive. In this context, the focus has to shift from LLDCs' distance from ports to their distance from markets. From this point of view, some of the LLDCs are not that disadvantaged in terms of their geographic location. Paraguay, for example, is located at the centre of the Southern Common Market (MERCOSUR).

Economic integration with neighbouring countries can make LLDCs more attractive for FDI in a number of ways. LLDCs could become attractive offshore production locations for TNCs to serve large neighbouring markets, and many LLDCs may also become bases from which to serve their entire regions, thanks to their central geographic situation. Regional integration also creates much larger markets, alleviating another disadvantage of some LLDCs.

3. Small island developing States

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2009

Range	Inflows	Outflows
Above $1 billion	Jamaica	
$500 to $999 million	Trinidad and Tobago and Bahamas	
$100 to $499 million	Papua New Guinea, Barbados, Mauritius, Seychelles, Fiji, Solomon Islands, Saint Lucia, Antigua and Barbuda, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Cape Verde	
$50 to $99 million	Grenada	Jamaica and Barbados
$1 to $49 million	Dominica, São Tomé and Principe, Vanuatu, Timor-Leste, Tonga, Maldives, Comoros, Marshall Islands, Federated States of Micronesia, Tuvalu, Kiribati, Palau and Samoa	Mauritius, Solomon Islands, Seychelles, Fiji, São Tomé and Principe, Papua New Guinea, Tonga, Trinidad and Tobago and Samoa
Below $1 million	Nauru	Vanuatu and Cape Verde

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&As sales and purchases, 2008–2009
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&As sales		Cross-border M&As purchases	
	2008	2009	2008	2009	2008	2009	2008	2009
Small island developing states (SIDS)	7.6	5.0	0.9	0.2	1.8	0.0	1.8	0.4
Africa	0.9	0.7	0.1	0.0	0.1	0.0	0.3	0.2
Latin America and the Caribbean	6.2	3.4	0.8	0.2	2.5	-	0.8	0.0
Asia	0.0	0.0	0.0	0.0	0.0	-	-	-
Oceania	0.4	0.9	0.0	0.0	- 0.7	0.0	0.8	0.2

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2008–2009
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2008	2009	2008	2009	2008	2009	2008	2009
Small island developing states (SIDS)	53.9	59.5	3.6	3.8	2.3	2.2	0.5	0.5
Africa	3.3	4.3	0.4	0.5	0.3	0.3	0.1	0.1
Latin America and the Caribbean	43.7	47.1	2.4	2.6	0.9	0.8	0.4	0.3
Asia	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Oceania	6.4	7.6	0.7	0.8	1.0	1.0	0.0	0.0

Figure A. FDI inflows, 2000–2009

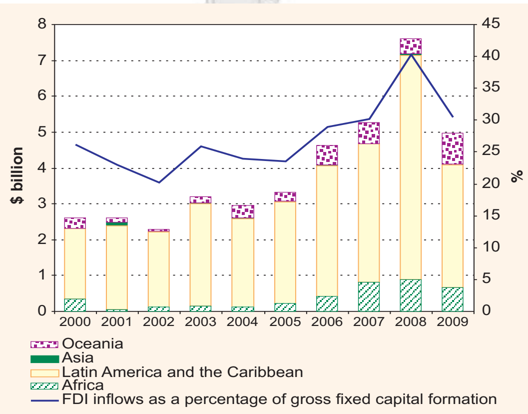


Figure B. FDI outflows, 2000–2009

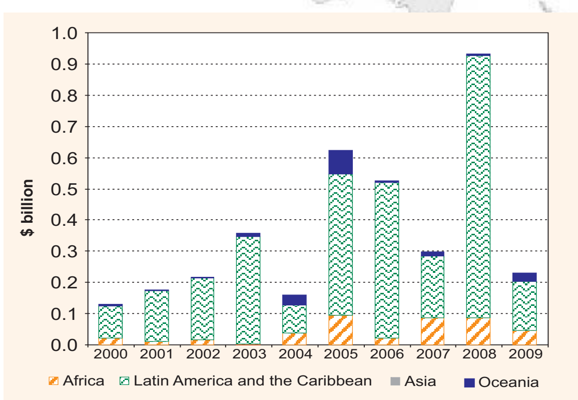


Table D. Cross-border M&As by industry, 2008–2009
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2008	2009	2008	2009
Total	1 824	31	1 803	393
Primary	- 758	-	930	-
Mining, quarrying and petroleum	- 758	-	930	-
Manufacturing	15	-	632	-
Food, beverages and tobacco	-	-	14	-
Publishing and printing	-	-	1	-
Chemicals and chemical products	2	-	16	-
Rubber and plastic products	-	-	- 4	-
Electrical and electronic equipment	13	-	537	-
Other manufacturing	-	-	67	-
Services	2 566	31	241	393
Electricity, gas and water	41	-	-	6
Trade	- 0	-	-	-
Hotels and restaurants	3	-	-	-
Finance	2 462	25	198	385
Business services	60	-	43	2
Health and social services	-	5	-	-

Table E. Cross-border M&As by region/country, 2008–2009
(Millions of dollars)

Region/country	Sales		Purchases	
	2008	2009	2008	2009
World	1 824	31	1 803	393
Developed economies	2 659	- 207	1 651	31
European Union	15	22	14	- 10
United States	897	- 188	-	0
Japan	-	- 320	-	28
Developing economies	- 835	237	151	361
Africa	- 210	- 300	-	6
Latin America and the Caribbean	- 693	-	207	-
South America	- 900	-	-	-
Caribbean	207	-	207	-
Asia	68	537	- 56	355
West Asia	-	320	-	-
South, East and South-East Asia	68	217	- 56	355
Hong Kong, China	62	-	- 322	172
India	-	5	126	181
Malaysia	- 3	192	66	-
South-East Europe and the CIS	-	-	-	-

Visit www.unctad.org/wir or www.unctad.org/fdistatistics for detailed statistics on FDI and cross-border M&As.

FDI in the 29 small island developing States (SIDS)[51] is low: their combined ***FDI stock*** in 2009 amounted to just $60 billion (table C) – or 1.2 per cent of the total stock in developing countries.[52] The small size of domestic markets, the limited domestic natural and human resources, and additional transaction costs (in particular transport costs) have hampered the growth of the competitiveness of those countries as hosts for FDI.

In spite of its small absolute size, FDI represents a crucial source of investment capital for SIDS. Indeed, the ratio of inward FDI stock to GDP in SIDS was 81 per cent in 2009; in some islands (such as Saint Kitts and Nevis, Saint Lucia, Antigua and Barbuda, Saint Vincent and the Grenadines, Kiribati, Grenada, Vanuatu and Dominica in that order) it accounts for over 150 per cent of the GDP.

FDI inflows to SIDS declined by 35 per cent in 2009, marking the end of four consecutive years of increase (fig. A). Nevertheless, at $5.0 billion, inflows were the second largest ever. The share of inward FDI flows in gross fixed capital formation declined from 40 per cent in 2008 to 30 per cent in 2009.

FDI was ***unevenly distributed*** among SIDS in 2009. While inflows to small Latin American and Caribbean islands declined by 45 per cent, those to SIDS in Oceania doubled, reaching $900 million (table B) due to investment in the mining sector of Papua New Guinea. The top three host economies (Jamaica, Trinidad and Tobago and Bahamas, in that order (table A)) absorbed nearly half of the grouping's total inflows. The amount of FDI that SIDS attracts also depends on how much tax-haven economies receive. Tax-haven SIDS accounted for roughly one quarter of both FDI inflows and FDI stock of all SIDS in 2009. However, with tightened fiscal polices imposed on these economies (chapter I), FDI to tax-haven SIDS is likely to fall.

Cross-border M&A sales of SIDS firms collapsed in 2009, after one single large acquisition in 2008 (Royal Bank of Canada acquired Royal Bank of Trinidad and Tobago for $2.2 billion). Similarly, ***greenfield investment*** fell by 46 per cent. Mining has been attracting more interest recently. For example, ExxonMobil (United States) invested $400 million in the oil and gas industry in Papua New Guinea in 2009.

While the SIDS face economic and geographic disadvantages in attracting FDI, there is potential for increased FDI in the countries. Identifying areas of such potential is an important task for policymakers (section b).

Prospects for FDI are mixed. FDI flows to tax-haven SIDS are expected to fall, while some large-scale investments related to mining may take place. Because of the small size of the countries, it is very likely that FDI fluctuates widely with a single large FDI transaction.

b. Identifying and exploiting SIDS' FDI potential

Focusing on key niche sectors, such as eco-tourism and business services, is key if SIDS are to succeed in attracting FDI.

The 29 SIDS face distinct challenges in attracting and benefiting from FDI, due their size, geographical isolation and vulnerability to natural disasters. In addition, the success of some SIDS in attracting FDI based on their tax and regulatory regimes – in some cases making them tax havens[53] – is also being threatened by pressures toward more transparency (chapter I). Yet research on SIDS has been limited thus far,[54] leaving a knowledge gap with respect to the magnitude and nature of FDI inflows to the group, as well as in how to address the limitations of SIDS as FDI destinations.

FDI performance among SIDS varies widely, largely depending on whether or not they are tax havens. Thus, the stock of FDI per capita varies from $35 in Comoros to $32,600 in Saint Kitts and Nevis. This variation is also apparent in absolute terms, as some SIDS have accumulated a substantial stock of FDI (Trinidad and Tobago, for instance, with $16.9 billion) while others, such as Tuvalu with $34 million, have minuscule stocks. Such differences suggest that size and geographic isolation have different implications in terms of FDI performance.

In spite of these differences in performance, the distinguishing characteristics common to SIDS generally limit their ability to attract and retain FDI:

- A small market size implies that much economic activity cannot reach the minimum efficient scale of production, resulting in high unit costs of production;
- The small size of SIDS also translates into a high dependence on trade, both on imports – for the supply of raw materials and intermediate products – and on exports – for the sale of the output. International trade is the primary source of economic growth in SIDS: the average share of trade to GDP of the SIDS is 50 per cent, compared with 35 per cent for developing countries as a group. The reliance on trade, added to the limited room for economic and export diversification due to size, exposes SIDS to high risks of exogenous shocks;
- The remote location of many SIDS entails high transport costs. In addition, air and sea transport are the only options for the movement of goods and people;
- SIDS are highly vulnerable to natural disasters, including the rise of the sea level, which increases the risk and volatility of economic activity.

These characteristics carry implications for various types of FDI:

Market-seeking FDI. Small size severely limits investment in production destined for the local market. On the other hand, low competitive pressures in many industries can result in relatively high market shares for foreign or domestic investors, somewhat mitigating the impact of the small size of the market. In addition, the population's high purchasing power in some SIDS – such as the Bahamas (with a per capita income of $21,275 in 2009) and Barbados ($13,244) – may compensate to some extent for the small number of inhabitants. This might make these SIDS attractive niche destinations for specific industries such as retailing (luxury goods, typically sold in small quantities).

Efficiency-seeking FDI. This type of investment requires host countries to offer advantages such as low-cost production or specialized expertise, as well as low-cost trade, as the output of efficiency seeking investment is mainly sold to other TNC affiliates or the parent firm. As a result, SIDS are unlikely to benefit from the increasing fragmentation of TNCs production systems across the globe.

Resource-seeking FDI. This type of investment is driven by the local availability of natural resources and low-cost labour. Few SIDS are endowed with natural resources, with exceptions such as Papua New Guinea, where the bulk of FDI is concentrated in the mining sector (table II.11).

Strategic asset-seeking FDI. This type of FDI is driven by access to created assets such as special skills and technology. SIDS are for the most part too small to possess such strategic assets to any significant degree.

Given the limitations outlined above, SIDS need to focus their efforts with respect to inward FDI on the few areas in which: (a) economies of scale are not crucial; (b) natural resources are not essential; and (c) there is limited reliance on external trade. Such considerations largely rule out low-cost, labour-intensive manufacturing activities. But they favour two major sectors: services and knowledge-based manufacturing activities. For example, in SIDS that are combating climate change, efforts to attract FDI in adaptation are paramount.

SIDS are attractive destinations for FDI in tourism, including eco-tourism. Some countries in the group (e.g. Seychelles and the Maldives) have pursued, in some cases very successfully, a niche strategy highlighting tourism services with a combination of quality and exclusivity based on their small size – an offering not always available in mass-market package destinations.

In addition, significant advances in information technology and e-commerce are making distance, and hence location, less important in a variety of services, and also diminish the constraint of size. These developments open up significant FDI opportunities for SIDS, and their implications can be particularly profound for the more remote and peripheral States within this group.

Foreign firms' growing demand for the outsourcing of skilled and semi-skilled activities the output of which can be transmitted electronically (for example, back office activities) offers promising potential for SIDS, especially those with a skilled labour force. The success of Mauritius in attracting information technology investment, based on a declared policy of turning Mauritius into a "cyber island", is an example of the potential that exists in this area. In general, however, such investment – recorded under "business services" – has been relatively small (table II.11).

For SIDS to succeed in attracting FDI into services and knowledge-based areas, adequate information and communication technology infrastructure – an area where at present many SIDS are lagging behind – needs to be developed, in some cases with

Table II.11. Sectoral distribution of inward FDI flows to selected SIDS, latest available three-year period

(Percentage share in total)

Sector/industry	Fiji[a]	Jamaica[b]	Mauritius[b]	Papua New Guinea[c]	Trinidad and Tobago[d]	Vanuatu[a]
Primary	2.3	19.7	1.7	83.9	85.2	2.5
Agriculture, hunting, forestry and fishing	2.3	-	1.7	9.3	-	2.5
Mining, quarrying and petroleum	-	19.7	-	74.6	85.2	-
Manufacturing	46.4	5.7	2.0	8.8	2.0	4.1
Food, beverages and tobacco	2.2	-	-	-	0.8	-
Textiles, clothing and leather	27.3	-	-	-	-	-
Wood and wood products	4.2	-	-	-	-	-
Non-metallic mineral products	11.4	-	-	-	-	-
Services	51.3	33.2	96.3	4.4	6.2	90.5
Trade	-	-	1.1	0.9	0.3	26.3
Hotels and restaurants	-	18.2	41.5	0.2	-	1.5
Transport, storage and communications	35.8	-	0.3	0.1	-	34.8
Finance	-	-	40.5	3.1	-	3.2
Business activities	-	15.1	11.5	-	-	20.6
Memorandum						
Total ($ million)	13.8	1 061.8	332.3	1 627.7	884.1	9.8

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

[a] Average 2000–2002.
[b] Average 2006–2008.
[c] Inward FDI stock in 2008.
[d] Average 2005–2007.

Note: Totals do not add up to 100 because of inclusion of unspecified activities.

TNC participation. Such infrastructure development would also benefit key sectors in many SIDS economies, such as financial services and tourism.

The accumulation of high-quality human capital is also a critical source of comparative advantage for SIDS, and should be treated as such by policymakers. Investment in education, training and learning-by-doing has significant long-run effects on productivity and growth. It also improves the absorptive capacity of an economy with respect to technology, which is of particular relevance in small States such as SIDS, given their lack of domestic research and development and innovation.

Endnotes

1 The analysis of FDI flows and stocks in Africa is severely limited by data availability and quality, particularly those from developing and transition economies.

2 Several mining exploration and exploitation activities were suspended or scaled back in countries such as the Democratic Republic of the Congo and Mozambique.

3 The share of Latin America and the Caribbean might be underestimated as neither Angola nor Mozambique – two countries where Brazilian investors have a significant presence – are among the reporting countries for data shown in table II.2.

4 The deal does not include Zain's operation in Sudan and Morocco.

5 West Asia's cross-border M&A purchases in Africa reached $8 billion in 2005–2009, with Egypt accounting for almost 50 per cent.

6 For example, ArcelorMittal pushed back two steel projects in India, which affected FDI inflows to the country in 2009 (*Source*: Peter Marsh, "Mittal reviews $35bn growth plans", *Financial Times*, 23 October 2008).

7 In the coastal region in China, for instance, a large number of foreign-invested small and medium-sized enterprises undertook divestment during the peak of the crisis (*Source*: Xinhua News Agency, *Economic Information Daily*, http://jjckb.xinhuanet.com/zhuanti/2008122301.htm).

8 FDI flows from developed countries in general and the United States and the United Kingdom (which were at the epicentre of the global financial crisis) in particular declined significantly in 2009. In China, for instance, inflows to non-financial sectors dropped slightly by 3 per cent, but those from the United States and the United Kingdom decreased by 13 per cent and 26 per cent respectively (*Source*: MOFCOM, China).

9 For example, Geely Automobile (China) acquired Volvo Cars (Sweden) for $1.8 billion in March 2010.

10 For instance, Temasek Holdings (Singapore) sold its stake in Bank of America in the first half of 2009, while CIC (China) acquired three mineral assets in October alone (*Source*: various newspaper accounts). The shift from financial services was perhaps due to the lessons learnt from their money-losing investments in foreign banks. For instance, GIC (Singapore) had lost $5 billion by March 2010 due to its investment in UBS in 2008 (*Source*: Kevin Brown, "GIC incurs SFr 5.5bn paper loss on UBS", *Financial Times*, 4 March 2010).

11 Successful examples include the Sinopec-Addax deal, the CNPC/BP-Rumaila bid and the Minmetals-Oz acquisition; while cases of failure include, for instance, the second Chinalco-Rio Tinto deal. A number of deals targeting mineral resources in Australia were cancelled due to restrictive actions in investment policy implementation.

12 This has been confirmed by results of a survey undertaken by CCPIT (China Council for the Promotion of International Trade) in collaboration with UNCTAD and the European Commission (CCPIT, 2010).

13 A number of enabling mechanisms for sequential upgrading have been identified (see e.g. Ozawa, 2009 for an overview), including market factors, institutional factors, and a specific regional feature of effective learning from neighbours as a result of geographic proximity and cultural affinity (Liang, 2004).

14 Flows from ASEAN member countries to China remained at a high level during 2000–2006 and rose considerably during 2007–2008. At the same time, starting from a low base, Chinese FDI in ASEAN has boomed in recent years.

15 Bilateral trade between China and ASEAN more than doubled in four years after 2004, reaching $231 billion in 2008. In the first quarter of 2010, bilateral trade between China and ASEAN rose by 61 per cent.

16 The signing of the China-ASEAN Investment Agreement in August 2009, together with the

already-signed agreements on trade in goods and services, completed the negotiation process of CAFTA, effective as of 1 January 2010. It can be expected to further promote two-way FDI flows between China on the one hand and ASEAN member States on the other. (*Source*: Xinhua News Agency, *Economic Information Daily*, http://www.jjckb.cn/wzyw/2010-01/04/content_200697.htm.)

17 *Source*: James Lamont, "Huawei in $500m India outlay", *Financial Times*, 10 January 2010.

18 TNC participation in infrastructure (including electricity, telecommunications and transport) has surged in the region. From the recipient perspective, FDI has become a key source of financing for telecommunications in some countries in the region (*WIR08*).

19 For instance, in the area of trade, the so-called "triangular trade" (that among the United States, China and other East Asian economies) through China has acted as a primary growth engine for the region (Kuroiwa et al., 2009).

20 For a number of economies in East and South-East Asia, the problem is one of over-reliance on exports to developed-country markets, as well as insufficient domestic consumption. The global imbalance is exemplified by the current trade relationship between China and the United States. A similar situation existed between Japan and the United States in the 1980s, and led to significant FDI flows from the former to the latter by the end of 1990s.

21 The crisis relates to Dubai World, which is a holding company owned by the Government of Dubai. The group has a central role in the direction of Dubai's economy. It manages some 90 entities that expand beyond its home country and region. In November 2009, Dubai World asked to delay for six months payment on $26 billion of debt, which shook the confidence of investors holding the Government's debt, and caused the downgrading of the credit ratings for several government-related entities in Dubai.

22 French GDF Suez acquired the natural gas distribution company Izmit Gaz Dagitim for $600 million, and Czech power company CEZ purchased the electricity distribution company Sakarya Elektrik Dagitim for $408 million.

23 "Qatar and its emir: he'll do it his way", *The Economist*, 27 May 2010.

24 These are Brazil, Chile and Mexico that together attracted 44 per cent of total FDI inflows to the region in 2009.

25 In the case of the Chilean retail sector, however, outward FDI increased in the last few years without State intervention. Strong pro-market institutions in Chile helped in the process of internationalization of this highly competitive and unregulated sector (Finchelstein, 2009).

26 This is the case for instance with companies like Argentina's Techint and Arcor; Brazil's Petrobras, Vale (CVRD), Embraer, Gerdau, Votorantim, and Camargo Correa; and Mexico's Cemex, FEMSA, Alfa, Gruma, Bimbo and Mexichem.

27 Finchelstein, 2009; Lima and de Barros, 2009; "Brazil and investment", *The Economist*, 12 November 2009; and "Credit: BNDES to support internationalization of Brazilian businesses", *Investimentos e Noticias*, 17 February 2010.

28 The Bank for International Settlements estimated that Brazilian companies lost $25 billion in these transactions, whereas Mexican companies lost $4 billion (The Boston Consulting Group, 2009).

29 FDI flows from Cyprus, a major home for round-tripping FDI, decreased from $20 billion (or 27 per cent of the total) in 2008 to $5.7 billion in 2009.

30 Banking supervision reports (Croatia National Bank and National Bank of Serbia).

31 Banking supervision reports (Central Bank of Albania, National Bank of the former Yugoslav Republic of Macedonia and National Bank of Serbia).

32 The results of a cross-sectional econometric estimation of cross-border lending flows in the last quarter of 2008 indicated that foreign bank ownership was a highly significant predictor of smaller net outflows (a 10 percentage point increase in foreign ownership of banks reduced the net outflow of cross-border loans by 1.4 percentage points) (EBRD, 2009).

33 "Hypo will Aufschub für Sanierungsplan", *Wirtschaftsblatt*, 11 March 2010 (www.wirtschaftsblatt.at/archiv/411940/index.do).

34 In the face of the financial crisis, international institutions (including the EBRD, the IMF and the European Commission) initiated a process aimed at addressing the systemic risk in selected countries of the region. The initiative took the form of financial support (of €52 billion) to parent banks recapitalizing subsidiaries when necessary while broadly maintaining exposure to countries.

35 This suggestion is also confirmed by the findings of the latest EBRD report (EBRD, 2009).

36 Including, among others, the following: Sinopec (China) through its Mirror Lake Oil & Gas Co Ltd. bought the Swiss Addax Petroleum Corp. for $7.2 billion; International Petroleum Investment Co. (United Arab Emirates) acquired a 37.5 per cent stake of Ciá Española de Petròleos (Spain) for $4.4 billion; and Korea National Oil

Corp (KNOC) bought (100 per cent) of Harvest Energy Trust (Canada) for $3.9 billion.

37 The strong decline of German outward FDI, for instance, was mainly caused by the recalls of loans made by German TNCs to their foreign affiliates abroad.

38 The Greek Government, for example announced long-delayed plans to privatize state-owned companies as part of its attempt to fix the country's public finances and chip away at the massive public debt. "Greece Lays Out Plans to Privatize". *Wall Street Journal,* 3 June 2010.

39 Nestlé, the Swiss multinational specialized in food products and beverages, employs 97 per cent of its workforce abroad (*Source*: company annual report).

40 Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

41 FDI flows accounted for 24 per cent of gross fixed capital formation in LDCs in 2009 compared with only 9 per cent during the 1990s.

42 According to Herfindahl-Hirschman index, the concentration index rose from 0.17 in 2000 to 0.36 in 2009 for LDCs, 0.27 to 0.45 for LLDCs, and declined from 0.26 to 0.17 for SIDS.

43 Other considerations, such as donor strategic, economic and political self-interest, also influence ODA distribution (Nunnenkamp et al., 2004). Thus, aid allocation has been found to be related not only to recipient need and effective use, but also to the objective of reinforcing political linkages and trade relationships (Berthelèmy, 2004).

44 The countries of this group include: Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe. Sixteen of the 31 LLDCs are classified as LDCs.

45 Itissalat Al Maghrib (Morocco), an affiliate of Vivendi SA (France), acquired a 51 per cent stake in the Office National des Télécommunications (Burundi) for $289 million in 2006 as well as Sotelma (Mali) for $334 million in 2009.

46 The largest deal in 2009 was the acquisition by CNPC (China) of a 50 per cent stake of Mangistaumunaigaz (Kazakhstan) for $1.4 billion, adding to China's involvement in the Kazakh oil and gas industry.

47 Landlocked Developing Countries website of the United Nations (www.un.org/special-rep/ohrlls/lldc/default.htm).

48 Although not all of these countries are landlocked in a strict sense, as some of them have access to the sea through the Danube River.

49 An example can be found in the development of the telecommunications sector in which governments played an important role, along with TNCs (e.g. in Rwanda), or without TNCs (Uzbekistan) (UNCTAD, 2003).

50 For example SABMiller makes beer out of sorghum in some African countries such as Uganda.

51 The countries of this group include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

52 A number of SIDS do not collect and publish FDI data. Data are thus estimated from major investing countries that publish data on outward FDI to these economies.

53 Out of 29 economies, 14 are tax-haven economies. These are: Antigua and Barbuda, Barbados, Dominica, Grenada, Maldives, Marshall Islands, Nauru, Samoa, Seychelles, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Tonga and Vanuatu.

54 For a recent report on these economies, see, for example, United Nations Commission on Sustainable Development. "Review of progress in the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States". E/CN.17/2004/8. 11 March 2004.