# GLOBAL INVESTMENT TRENDS

## CHAPTER I

*Global foreign direct investment (FDI) flows exceeded the pre-crisis average in 2011*, reaching $1.5 trillion despite turmoil in the global economy. However, they still remained some 23 per cent below their 2007 peak.

*UNCTAD predicts slower FDI growth in 2012, with flows levelling off at about $1.6 trillion*. Leading indicators – the value of cross-border mergers and acquisitions (M&As) and greenfield investments – retreated in the first five months of 2012. Longer-term projections show a moderate but steady rise, with global FDI reaching $1.8 trillion in 2013 and $1.9 trillion in 2014, barring any macroeconomic shocks.

*FDI inflows increased across all major economic groupings in 2011*. Flows to developed countries increased by 21 per cent, to $748 billion. In developing countries FDI increased by 11 per cent, reaching a record $684 billion. FDI in the transition economies increased by 25 per cent to $92 billion. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global FDI. UNCTAD's projections show these countries maintaining their high levels of investment over the next three years.

*Sovereign wealth funds (SWFs) show significant potential for investment in development*. FDI by SWFs is still relatively small. Their cumulative FDI reached an estimated $125 billion in 2011, with about a quarter in developing countries. SWFs can work in partnership with host-country governments, development finance institutions or other private sector investors to invest in infrastructure, agriculture and industrial development, including the build-up of green growth industries.

*The international production of transnational corporations (TNCs) advanced, but they are still holding back from investing their record cash holdings*. In 2011, foreign affiliates of TNCs employed an estimated 69 million workers, who generated $28 trillion in sales and $7 trillion in value added, some 9 per cent up from 2010. TNCs are holding record levels of cash, which so far have not translated into sustained growth in investment. The current cash "overhang" may fuel a future surge in FDI.

*UNCTAD's new FDI Contribution Index shows relatively higher contributions by foreign affiliates to host economies in developing countries, especially Africa*, in terms of value added, employment and wage generation, tax revenues, export generation and capital formation. The rankings also show countries with less than expected FDI contributions, confirming that policy matters for maximizing positive and minimizing negative effects of FDI.

# A. GLOBAL FDI FLOWS

## 1. Overall trends

**Global FDI inflows in 2011 surpassed their pre-crisis average despite turmoil in the global economy, but remained 23 per cent short of the 2007 peak.**

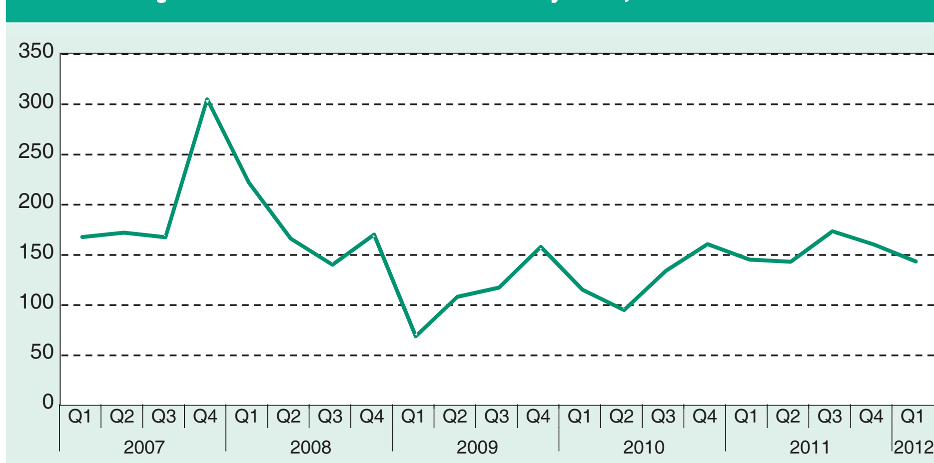
Global foreign direct investment (FDI) inflows rose in 2011 by 16 per cent compared with 2010, reflecting the higher profits of TNCs and the relatively high economic growth in developing countries during the year. Global inward FDI stock rose by 3 per cent, reaching $20.4 trillion.

The rise was widespread, covering all three major groups of economies – developed, developing and transition – though the reasons for the increase differed across the globe. FDI flows to developing and transition economies saw a rise of 12 per cent, reaching a record level of $777 billion, mainly through a continuing increase in greenfield projects. FDI flows to developed countries also rose – by 21 per cent – but in their case the growth was due largely to cross-border M&As by foreign TNCs.

Among components and modes of entry, the rise of FDI flows displayed an uneven pattern. Cross-border M&As rebounded strongly, but greenfield projects – which still account for the majority of FDI – remained steady. Despite the strong rebound in cross-border M&As, equity investments – one of the three components of FDI flows – remained at their lowest level in recent years, particularly so in developed countries. At the same time, difficulties with raising funds from third parties, such as commercial banks, obliged foreign affiliates to rely on intracompany loans from their parents to maintain their current operations.

On the basis of current prospects for underlying factors such as growth in gross domestic product (GDP), UNCTAD estimates that world FDI flows will rise moderately in 2012, to about $1.6 trillion, the midpoint of a range estimate. However, the fragility of the world economy, with growth tempered by the debt crisis and further financial market volatility, will have an impact on flows. Both cross-border M&As and greenfield investments slipped in the last quarter of 2011 and the first five months of 2012. The number of M&A announcements, although marginally up in the last quarter, continues to be weak, providing little support for growth in overall FDI flows in 2012, especially in developed countries. In the first quarter of 2012, the value of UNCTAD's Global FDI Quarterly Index declined slightly (figure I.1) – a decline within the range of normal first-quarter oscillations. But the high cash holdings of TNCs and continued strong overseas earnings – guaranteeing a high reinvested earnings component of FDI – support projections of further growth.

**Figure I.1. UNCTAD's Global FDI Quarterly Index, 2007 Q1–2012 Q1**




*Source*: UNCTAD.
*Note*: The Global FDI Quarterly Index is based on quarterly data on FDI inflows for 82 countries. The index has been calibrated so that the average of quarterly flows in 2005 is equivalent to 100.

### a. FDI by geography

#### (i) FDI inflows

**The rise of FDI flows in 2011 was widespread in all three major groups – developed, developing and transition economies. Developing economies continued to absorb nearly half of global FDI and transition economies another 6 per cent.**

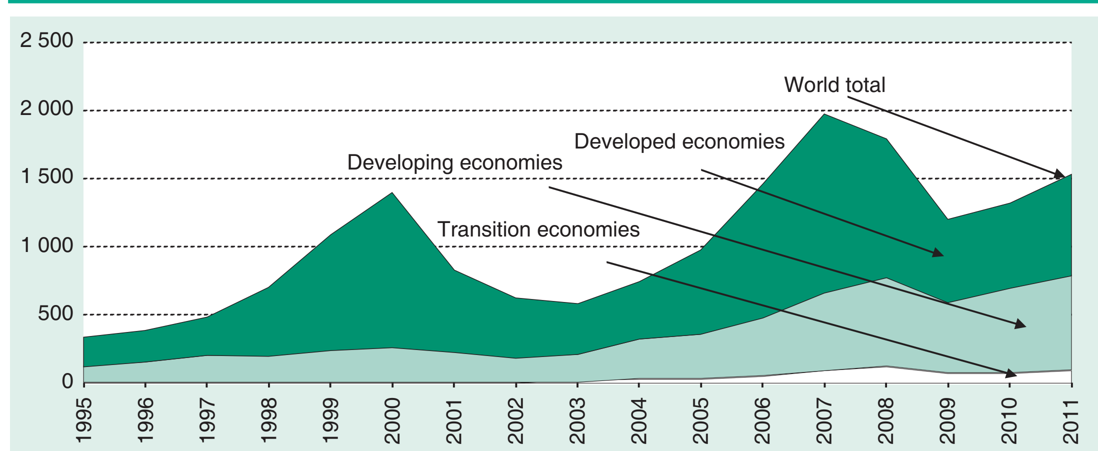
Amid uncertainties over the global economy, global FDI flows rose by 16 per cent in 2011 to $1,524 billion, up from $1,309 billion in 2010 (figure I.2). While the increase in developing and transition economies was driven mainly by robust greenfield investments, the growth in developed countries was due largely to cross-border M&As.

FDI flows to developed countries grew strongly in 2011, reaching $748 billion, up 21 per cent from 2010. FDI flows to Europe increased by 19 per cent, mainly owing to large cross-border M&A purchases by foreign TNCs (chapter II). The main factors driving such M&As include corporate restructuring, stabilization and rationalization of companies' operations, improvements in capital usage and reductions in costs. Ongoing and post-crisis corporate and industrial restructuring, and gradual exits by States from some nationalized financial and non-financial firms created new opportunities for FDI in developed countries. In addition, the growth of FDI was due to increased amounts of reinvested earnings, part of which was retained in foreign affiliates as cash reserves (see section B). (Reinvested earnings can be transformed immediately in capital expenditures or retained as reserves on foreign affiliates' balance sheets for future investment. Both cases translate statistically into reinvested earnings, one of three components of FDI flows.) They reached one of the highest levels in recent years, in contrast to equity investment (figure I.3).

Developing countries continued to account for nearly half of global FDI in 2011 as their inflows reached a new record high of $684 billion. The rise in 2011 was driven mainly by investments in Asia and better than average growth in Latin America and the Caribbean (excluding financial centres). FDI flows to transition economies also continued to rise, to $92 billion, accounting for another 6 per cent of the global total. In contrast, Africa, the region with the highest number of LDCs, and West Asia continued to experience a decline in FDI.

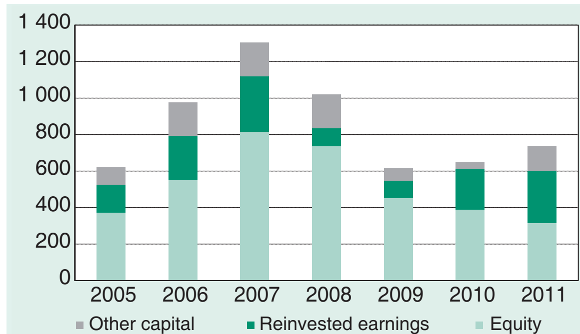
- FDI inflows to Latin America and the Caribbean (excluding financial centres) rose an estimated 27 per cent in 2011, to $150 billion. Foreign investors continued to find appeal in South America's natural resources and were increasingly attracted by the region's expanding consumer markets.
- FDI inflows to developing Asia continued to grow, while South-East Asia and South Asia experienced faster FDI growth than East Asia. The two large emerging economies, China and India, saw inflows rise by nearly 8 per cent and

**Figure I.2. FDI inflows, global and by group of economies, 1995–2011**
(Billions of dollars)




*Source*: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

**Figure I.3. FDI inflows in developed countries by component, 2005–2011**
(Billions of dollars)




*Source*: UNCTAD, based on data from FDI/TNC database (www.unctad.org/fdistatistics).
*Note*: Countries included Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

by 31 per cent, respectively. Major recipient economies in the Association of South-East Asian Nations (ASEAN) subregion, including Indonesia, Malaysia and Singapore, also experienced a rise in inflows.

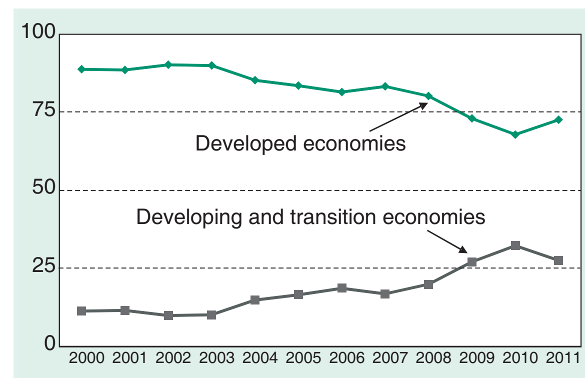
- West Asia witnessed a 16 per cent decline in FDI flows in 2011 despite the strong rise of FDI in Turkey. Some Gulf Cooperation Council (GCC) countries are still recovering from the suspension or cancellation of large-scale projects in previous years.
- The fall in FDI flows to Africa seen in 2009 and 2010 continued into 2011, though at a much slower rate. The 2011 decline in flows to the continent was due largely to divestments from North Africa. In contrast, inflows to sub-Saharan Africa recovered to $37 billion, close to their historic peak.
- FDI to the transition economies of South-East Europe, the Commonwealth of Independent States (CIS) and Georgia recovered strongly in 2011. In South-East Europe, competitive production costs and access to European Union (EU) markets drove FDI; in the CIS, large, resource-based economies benefited from continued natural-resource-seeking FDI and the continued strong growth of local consumer markets.

### *(ii) FDI outflows*

**Driven by developed-country TNCs, global FDI outflows also exceeded the pre-crisis average of 2005–2007. The growth in FDI outflows from developing economies seen in the past several years lost some momentum in 2011.**

Global FDI outflows rose by 17 per cent in 2011, compared with 2010. The rise was driven mainly by growth of outward FDI from developed countries. Outward FDI from developing economies fell slightly by 4 per cent, while FDI from the transition economies rose by 19 per cent (annex table I.1). As a result, the share of developing and transition economies in global FDI outflows declined from 32 per cent in 2010 to 27 per cent in 2011 (figure I.4). Nevertheless, outward FDI from developing and transition economies remained important, reaching the second highest level recorded.

**Figure I.4. FDI outflow shares by major economic groups, 2000–2011**
(Per cent)




*Source*: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

Outward FDI from developed countries rose by 25 per cent, reaching $1.24 trillion, with the EU, North America and Japan all contributing to the growth. Outward FDI from the United States reached a record of $397 billion. Japan re-emerged as the second largest investor, helped by the appreciation of the Japanese yen, which increased the purchasing power of the country's TNCs in making foreign acquisitions. The rise of FDI outflows from the EU was driven by cross-border M&As.

Developed-country TNCs made acquisitions largely in other developed countries, resulting in a higher share of the group in total FDI projects (both cross-border M&A transactions and greenfield projects). FDI flows for greenfield projects alone, however, show that developed-country TNCs are continuing to shift capital expenditures to developing and transition economies for their stronger growth potential.

The growth in FDI outflows from developing economies seen in the past several years lost some momentum in 2011 owing to declines in outward FDI from Latin American and the Caribbean and a slowdown in the growth of investments from developing Asia. FDI outflows from developing countries fell by 4 per cent to $384 billion in that year. More specifically:

- Outward flows from Latin America and the Caribbean have become highly volatile in the aftermath of the global financial crisis. They decreased by 17 per cent in 2011, after a strong 121 per cent increase in 2010, which followed a large decline in 2009 (-44 per cent). This high volatility is due in part to the importance of the region's offshore financial centres such as the British Virgin Islands and Cayman Islands (which accounted for roughly 70 per cent of the outflows from Latin America and the Caribbean in 2011). Such centres can contribute to volatility in FDI flows, and they can distort patterns of FDI (box I.1). In South America, a healthy level of equity investments abroad was undercut by a large negative swing in intracompany loans as foreign affiliates of some Latin American TNCs provided or repaid loans to their home-country parent firms.
- FDI outflows from developing Asia (excluding West Asia) declined marginally in 2011, after a significant increase in the previous year. Outward FDI from East Asia decreased, while that from South Asia and South-East Asia rose markedly. FDI from Hong Kong, China, the region's largest source of FDI, declined by 14 per cent to $82 billion. FDI outflows from China also fell, to $65 billion, a 5 per cent decline from 2010. Cross-border M&As by Asian firms rose significantly in developed countries, but declined in developing countries.
- FDI from Africa accounts for a much smaller share of outward FDI from developing economies than do Latin America and the Caribbean, and developing Asia. It fell by half in 2011, to $3.5 billion, compared with $7.0 billion in 2010. The decline in outflows from Egypt and Libya, traditionally important sources of outward FDI from the region, weighed heavily in that fall. Divestments by TNCs from South Africa, another major outward investor, also pulled down the total.
- In contrast, West Asia witnessed a rebound of outward FDI, with flows rising by 54 per cent to $25 billion in 2011, after falling to a five-year low in 2010. The strong rise registered in oil prices since the end of 2010 increased the availability of funds for outward FDI from a number of oil-rich countries – the region's main outward investors.

FDI outflows from the transition economies also grew, by 19 per cent, reaching an all-time record of $73 billion. Natural-resource-based TNCs in transition economies (mainly in the Russian Federation), supported by high commodity prices and increasing stock market valuations, continued their expansion into emerging markets rich in natural resources.[1]

Many TNCs in developing and transition economies continued to invest in other emerging markets. For example, 65 per cent of FDI projects by value (comprising cross-border M&As and greenfield investments) from the BRIC countries (Brazil, the Russian Federation, India and China) were invested in developing and transition economies (table I.1), compared with 59 percent in the pre-crisis period.

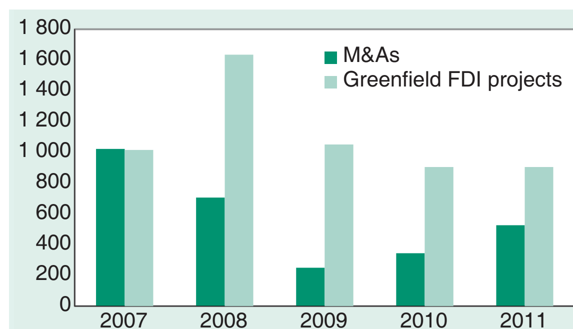
A key policy concern related to the growth in FDI flows in 2011 is that it did not translate to an equivalent expansion of productive capacity. Much of it was due to cross-border acquisitions and the increased amount of cash reserves retained in foreign affiliates (rather than the much-needed direct investment in new productive assets through greenfield investment projects or capital expenditures in existing foreign affiliates). TNCs from the United States, for example, increased cash holdings in their foreign affiliates in the form of reinvested (retained) earnings.

**Table I.1. Share of FDI projects by BRIC countries, by host region, average 2005–2007 (pre-crisis period) and 2011**
(Per cent)

| Partner region/economy | 2005–2007 (average) | 2011 |
|---|---|---|
| **World** | **100** | **100** |
| **Developed countries** | **41** | **34** |
| European Union | 18 | 14 |
| United States | 9 | 5 |
| **Developing economies** | **49** | **57** |
| Africa | 9 | 11 |
| Asia | 30 | 31 |
| East and South-East Asia | 13 | 22 |
| South Asia | 5 | 2 |
| West Asia | 11 | 7 |
| Latin America and the Caribbean | 10 | 15 |
| **Transition economies** | **10** | **8** |
| ***Memorandum*** | | |
| BRIC | 8 | 11 |

*Source*: UNCTAD estimates based on cross-border M&A database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

**Figure I.5. Value of cross-border M&As and greenfield FDI projects worldwide, 2007–2011**




*Source*: UNCTAD, based on UNCTAD cross-border M&A database and information from Financial Times Ltd, fDi Markets (www.fDimarkets.com).
*Note*: Data for value of greenfield FDI projects refer to estimated amounts of capital investment. Values of all cross-border M&As and greenfield investments are not necessarily translated into the value of FDI.

### b. FDI by mode of entry

**Cross-border M&As and greenfield investments have shown diverging trends over the past three years, with M&As rising and greenfield projects in slow decline, although the value of greenfield investments is still significantly higher.**

Cross-border M&As rose 53 per cent in 2011 to $526 billion (figure I.5), as deals announced in late 2010 came to fruition, reflecting both the growing value of assets on stock markets and the increased financial capacity of buyers to carry out such operations. Rising M&A activity, especially in the form of megadeals in both developed countries and transition economies, served as the major driver for this increase. The total number of megadeals (those with a value over $3 billion) increased from 44 in 2010 to 62 in 2011 (annex table I.7). The extractive industry was targeted by a number of important deals in both of those regions, while in developed countries a sharp rise took place in M&As in pharmaceuticals. M&As in developing economies rose slightly in value. New deal activity worldwide began to falter in the middle part of the year as the number of announcements tumbled. Completed deals, which follow announcements by roughly half a year, also started to slow down by year's end.

In contrast, greenfield investment projects remained flat in value terms, at $904 billion despite a strong performance in the first quarter. Because these projects are registered on an announcement basis,[2] their performance coincides with investor sentiment during a given period. Thus, their fall in value terms beginning in the second quarter of 2011 was strongly linked with rising concerns about the direction of the global economy and events in Europe. Greenfield investment projects in developing and transition economies rose slightly in 2011, accounting for more than two thirds of the total value of such projects.

Greenfield investment and M&A differ in their impacts on host economies, especially in the initial stages of investment (*WIR00*). In the short run, M&As clearly do not bring the same development benefits as greenfield investment projects, in terms of the creation of new productive capacity, additional value added, employment and so forth. The effect of M&As on, for example, host-country employment can even be negative, in cases of restructuring to achieve synergies. In special circumstances M&As can bring short-term benefits not dissimilar to greenfield investments; for example, where the alternative for acquired assets

## Box I.1. The increasing importance of indirect FDI flows

The current geographical pattern of FDI in terms of home and host countries is influenced by several factors that are not, or not adequately, taken into account by current data on FDI. A significant proportion of global FDI flows is indirect. Various mechanisms are behind these indirect flows, including:

- *Tax-haven economies and offshore financial centres.* Tax-haven economies[a] account for a non-negligible and increasing share of global FDI flows, reaching more than 4 per cent in 2011. It is likely that those investment flows do not stay in the tax-haven economies and are redirected. At the regional or country level, the share of those economies in inward FDI can be as high as 30 per cent for certain Latin American countries (Brazil and Chile), Asian economies (Hong Kong, China) and the Russian Federation.
- *Special-purpose entities (SPEs).* Although many tax-haven economies are in developing countries, SPEs, including financial holding companies, are more prevalent in developed countries. Luxembourg and the Netherlands are typical of such countries (box table I.1.1). It is not known to what extent investment in SPEs is directed to activities in the host economy or in other countries.

**Box table I.1.1. FDI stock in financial holding companies, 2009**
(Per cent)

| Economy | Share in total | |
|---|---|---|
| | Inward | Outward |
| Cyprus | 33 | 31 |
| Denmark | 22 | 18 |
| France | 9 | 6 |
| Luxembourg | 93 | 90 |
| Netherlands | 79 | 75 |
| Argentina | 2 | - |
| Hong Kong, China | 66 | 73 |
| Singapore | 34 | - |

*Source*: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
*Note*: Data for Hong Kong, China, refer to FDI in investment holdings, real estate and various business activities.

FDI by SPEs and FDI from tax-haven economies are often indirect in the sense that the economies from which the investment takes place are not necessarily the home economies of the ultimate beneficiary owners. Such investments influence real patterns of FDI. Survey data on FDI stock in the United States allows a distinction by countries of the immediate and the ultimate owner. The data show that FDI through SPEs or originating in offshore financial centres is undertaken largely by foreign affiliates (e.g. as in Luxembourg) (box table I.1.2). By contrast, foreign assets of developing countries that are home to TNCs are underestimated in many cases (e.g. Brazil).

In general, whether or not through the use of tax havens and SPEs, investments made by foreign affiliates of TNCs represent an indirect flow of FDI from the TNC's home country and a direct flow of FDI from the country where the affiliate is located. The extent of this indirect FDI depends on various factors:

- *Corporate governance and structures.* A high degree of independence of foreign affiliates from parent firms induces indirect FDI. Affiliates given regional headquarters status often undertake FDI on their own account.
- *Tax*. Differences in corporate taxation standards lead to the channelling of FDI through affiliates, some established specifically for that purpose. For example, Mauritius has concluded a double-taxation treaty with India and has attracted foreign firms – many owned by non-resident Indians – that establish holding firms to invest in India. As a result, Mauritius has become one of the largest FDI sources for India.
- *Cultural factors.* Greater cultural proximity between intermediary home countries and the host region can lead to TNCs channeling investment through affiliates in such countries. Investment in Central and Eastern Europe by foreign affiliates in Austria is a typical case.

Investment can originate from any affiliate of a TNC system at any stage of the value chain. As TNCs operate more and more globally, and their corporate networks become more and more complex, investments by foreign affiliates will become more important.

## Box I.1. The increasing importance of indirect FDI flows (concluded)

**Box table I.1.2. Inward FDI stock in the United States, by immediate and ultimate source economy, 2000 and 2010**
(Millions of dollars)

| Source economy | 2000 | | 2010 | |
|---|---|---|---|---|
| | By immediate source economy | By economy of ultimate beneficial owner | By immediate source economy | By economy of ultimate beneficial owner |
| Australia | 18 775 | 18 624 | 49 543 | 52 893 |
| Bahamas | 1 254 | 51 | 128 | 211 |
| Bermuda | 18 336 | 38 085 | 5 142 | 124 804 |
| Brazil | 882 | 1 655 | 1 093 | 15 476 |
| Canada | 114 309 | 127 941 | 206 139 | 238 070 |
| France | 125 740 | 126 256 | 184 762 | 209 695 |
| Germany | 122 412 | 131 936 | 212 915 | 257 222 |
| Hong Kong, China | 1 493 | 12 655 | 4 272 | 11 615 |
| Japan | 159 690 | 161 855 | 257 273 | 263 235 |
| Korea, Republic of | 3 110 | 3 224 | 15 213 | 16 610 |
| Luxembourg | 58 930 | 1 779 | 181 203 | 24 437 |
| Mexico | 7 462 | 9 854 | 12 591 | 33 995 |
| Netherlands | 138 894 | 111 514 | 217 050 | 118 012 |
| Netherlands Antilles | 3 807 | 1 195 | 3 680 | 12 424 |
| Panama | 3 819 | 377 | 1 485 | 761 |
| Singapore | 5 087 | 5 214 | 21 831 | 21 283 |
| South Africa | 704 | 1 662 | 687 | 2 190 |
| Spain | 5 068 | 6 352 | 40 723 | 44 237 |
| Sweden | 21 991 | 23 613 | 40 758 | 36 034 |
| Switzerland | 64 719 | 54 265 | 192 231 | 61 598 |
| United Arab Emirates | 64 | 1 592 | 591 | 13 319 |
| United Kingdom | 277 613 | 326 038 | 432 488 | 497 531 |
| Venezuela, Bolivarian Republic of | 792 | 4 032 | 2 857 | 3 111 |

*Source*: UNCTAD, based on information from the United States Department of Commerce, Bureau of Economic Analysis.

*Source*: UNCTAD.

[a] As defined by OECD, includes Andorra, Gibraltar, the Isle of Man, Liechtenstein and Monaco in Europe; Bahrain, Liberia and Seychelles in Africa; and the Cook Islands, Maldives, the Marshall Islands, Nauru, Niue, Samoa, Tonga and Vanuatu in Asia; as well as economies in the Caribbean such as Anguilla, Antigua and Barbuda, Aruba, Barbados, Belize, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Montserrat, the Netherlands Antilles, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, the Turks and Caicos Islands and the United States Virgin Islands.

would be closure. Privatizations are another special case, where openness of the bidding process to foreign acquirers will enlarge the pool of bidders and increase the value of privatized assets to the State. In any case, over a longer period, M&As are often followed by sequential investments yielding benefits similar to greenfield investments. Also, in other investment impact areas, such as employment and technology dissemination, the differentiated impact of the two modes fades away over time.

### c. FDI by sector and industry

**FDI in the services and primary sectors rebounded in 2011 after falling sharply in 2009 and 2010, with their shares rising at the expense of the manufacturing sector.**

In 2011, FDI flows rose in all three sectors of production (primary, manufacturing and services), and the rise was widespread across all major economic activities. This is confirmed by the increased value of FDI projects (cross-border M&As and greenfield investments) in various industries,

which may be considered indicative of the sectoral and industrial patterns of FDI flows, for which data become available only one or two years after the reference period. On the basis of the value of FDI projects, FDI in the services sector rebounded in 2011 to reach some $570 billion, after falling sharply in the previous two years. Investment in the primary sector also reversed the negative trend of the previous two years, reaching $200 billion. The share of both sectors rose slightly at the expense of the manufacturing sector (table I.2). Compared with the average value in the three years before the financial crisis (2005–2007), the value of FDI in manufacturing has recovered. The value of FDI in the primary sector now exceeds the pre-crisis average, while the value of FDI in services has remained lower, at some 70 per cent of its value in the earlier period.

During this period, FDI in the primary sector rose gradually, characterized by an increase in investment in mining, quarrying and petroleum. It now accounts for 14 per cent of total FDI projects (see table I.2). Investment in petroleum and natural gas rose, mainly in developed countries and transition economies, in the face of stronger final demand (after a fall in 2009, global use of energy resumed its long-term upward trend).[3] In the oil and gas industries, for example, foreign firms invested heavily in United States firms.[4]

The value of FDI projects in manufacturing rose by 7 per cent in 2011 (table I.3). The largest increases were observed in the food and chemicals industries, while FDI projects in coke, petroleum and nuclear fuel saw the biggest percentage decrease. The food, beverages and tobacco industry was among those least affected by the crisis because it produces mainly basic consumption goods. TNCs in the industry that had strong balance sheets took advantage of lower selling values and reduced competition to strengthen their competitive positions and consolidate their roles in the industry. For example, in the largest deal in the industry, SABMiller (United Kingdom) acquired Foster's Group (Australia) for $10.8 billion.

The chemicals industry saw a 65 per cent rise in FDI, mainly as a result of large investments in pharmaceuticals. Among the driving forces behind its growth is the dynamism of its final markets, especially in emerging economies, as well as the need to set up production capabilities for new health products and an ongoing restructuring trend throughout the industry. As a record number of popular drugs lose their patent protection, many companies are investing in developing countries, as illustrated by the $4.6 billion acquisition of Ranbaxy (India) by Daiichi Sankyo (Japan). The acquisition by Takeda (Japan) of Nycomed (Switzerland), a generic drug maker, for $13.7 billion was one the largest deals in 2011.

The automotive industry was strongly affected by the economic uncertainty in 2011. The value of FDI projects declined by 15 per cent. The decline was more pronounced in developed countries because of the effects of the financial and sovereign debt crises. Excess capacity in industries located in developed countries, which was already an issue before the crisis, was handled through shift reductions, temporary closures and shorter working hours, but there were no major structural capacity reductions, and thus divestments, in Europe.

FDI in the services sector rose by 15 per cent in 2011, reaching $570 billion. Non-financial services,

**Table I.2. Sectoral distribution of FDI projects, 2005–2011**
(Billions of dollars and per cent)

| Year | Value | | | Share | | |
|---|---|---|---|---|---|---|
| | Primary | Manufacturing | Services | Primary | Manufacturing | Services |
| Average 2005–2007 | 130 | 670 | 820 | 8 | 41 | 50 |
| 2008 | 230 | 980 | 1 130 | 10 | 42 | 48 |
| 2009 | 170 | 510 | 630 | 13 | 39 | 48 |
| 2010 | 140 | 620 | 490 | 11 | 50 | 39 |
| 2011 | 200 | 660 | 570 | 14 | 46 | 40 |

*Source*: UNCTAD estimates based on cross-border M&A database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

**Table I.3. Distribution shares and growth rates of FDI project values, by sector/industry, 2011**
(Per cent)

| Sector/industry | Distribution shares | Growth rates | |
|---|---|---|---|
| | | 2011 compared with 2010 | 2011 compared with pre-crisis average (2005–2007) |
| **Total** | **100** | **15** | **-12** |
| **Primary** | **14** | **46** | **50** |
| Mining, quarrying and petroleum | 14 | 51 | 53 |
| **Manufacturing** | **46** | **7** | **-1** |
| Food, beverages and tobacco | 6 | 18 | 40 |
| Coke, petroleum and nuclear fuel | 4 | -37 | -30 |
| Chemicals and chemical products | 10 | 65 | 25 |
| Electrical and electronic equipment | 5 | -8 | -26 |
| Motor vehicles and other transport equipment | 6 | -15 | 10 |
| **Services** | **40** | **15** | **-31** |
| Electricity, gas and water | 8 | 43 | 6 |
| Transport, storage and communications | 8 | 38 | -31 |
| Finance | 6 | 13 | -52 |
| Business services | 8 | 8 | -33 |

*Source*: UNCTAD estimates based on cross-border M&A database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

which accounted for 85 per cent of the total, rose modestly, on the back of increases in FDI targeting electricity, gas and water as well as transportation and communications. A number of megadeals – including Vattenfall's acquisition of an additional 15 per cent stake, valued at $4.7 billion, in Nuon (Netherlands) and Hutchison Whampoa's $3.8 billion acquisition of the Northumbrian Water Group (United Kingdom) – increased the value of FDI projects in electricity, gas and water. FDI projects in the transportation and communication industry also rose, with the majority coming from greenfield investments in telecommunications. Latin America, in particular, hosted a number of important telecommunications investments from America Movil (Mexico), Sprint Nextel (United States), Telefonica (Spain) and Telecom Italia (Italy), which all announced projects that target the growing middle class in the region.

Financial services recorded a 13 per cent increase in the value of FDI projects, reaching $80 billion. However, they remained some 50 per cent below their pre-crisis average (see table I.3). The bulk of activity targeted the insurance industry, with the acquisition of AXA Asian Pacific (France) by AMP (Australia) for $11.7 billion. FDI projects in banking remained subdued in the wake of the global financial crisis. European banks, which had been at the forefront of international expansion through FDI, were largely absent, with a number of them remaining under government control (*WIR11*: 71–73).

### d. Investments by special funds

Investments by private equity funds and sovereign wealth funds (SWFs) have been affected quite differently by the crisis and its aftermath. Private equity funds have faced continuing financial difficulties and are declining considerably as sources of FDI. SWFs, by contrast, have continued to add to their assets and strengthen their potential as sources of FDI, especially in developing economies.

#### (i) Private equity funds and FDI

FDI by private equity funds[5] increased 18 per cent to $77 billion – measured by the net value of cross-border M&As (table I.4).[6] They once were emerging as a new and growing source of international investment but have lost momentum. Before the crisis, some private equity firms (e.g.

**FDI by private equity funds rose in 2011 but remained far short of its pre-crisis average, with investments in the services sector outgrowing investments in both the primary and manufacturing sectors. Rising concerns relate to long-term sustainability, transparency and corporate governance.**

Apollo Management, RHJ International and KKR) had listed their shares in stock markets and successfully raised funds for investments. Most of the money stemmed from institutional investors, such as banks, pension funds and insurance companies. Hence, the deterioration of the finance industry in the recent crisis has led to difficulties in the private equity fund industry and slowed the dynamic development of such funds' investment abroad. The supply of finance for their investments has shrunk. As a result, funds raised by private equity have fallen by more than 50 per cent since the peak in 2007, to about $180 billion in 2011. The scale of investment has also changed. In contrast to the period when large funds targeted big, publicly traded companies, private equity in recent years has been predominantly aimed at smaller firms.

While the private equity industry is still largely concentrated in the United States and the United Kingdom, its activity is expanding to developing and transition economies where funds have been established. Examples include Capital Asia (Hong Kong, China), Dubai International Capital (United Arab Emirates), and H&Q Asia Pacific (China). Asian companies with high growth potential have attracted the lion's share of spending in developing and transition regions, followed by Latin America and Africa. In 2009–2010, private equity activity expanded in Central and Eastern Europe (including both new EU member States such as Poland, the Czech Republic, Romania, Hungary and Bulgaria, in that order, and transition economies such as Ukraine). This activity was driven by venture and growth capital funds, which are becoming important in the financing of small and medium-sized enterprises in the region.[7]

The private equity market has traditionally been stronger in the United States than in other countries. The majority of private equity funds invest in their own countries or regions. But a growing proportion of investments now cross borders. Private equity funds compete in many cases with traditional TNCs in acquiring foreign companies and have joined with other funds to create several of the largest deals in the world.[8]

In terms of sectoral interest, private equity firms invest in various industries abroad but are predominantly represented in the services sector, with finance playing a significant part. However, the primary sector, which was not a significant target in the mid-2000s, has become an increasingly important sector in the past few years (figure I.6). Private equity has targeted mining companies and firms with a strong interest in the mining sector, such as Japanese transnational trading houses (sogo shosha).[9] Interest in manufacturing has also been increasing, particularly in 2011.

Differences have also emerged between the patterns of FDI by private equity firms in developing countries and in developed ones. In developing countries, they focus largely on services (finance and telecommunications) and mining. In developed countries, private equity firms invest in a wide range of industries, from food, beverages and tobacco in the manufacturing sector to business activities (including real estate) in the services sector.

The increasing activity of private equity funds in international investment differs from FDI by TNCs in terms of the strategic motivations of the investors, and this could have implications for the long-run growth and welfare of the host economies. On the upside, private equity can be used to start new firms or to put existing firms on a growth path. For example, it has been shown that firms that receive external private equity financing tend to have a greater start-up size and can therefore better exploit growth potential. In developing countries, where growth potential is high but perceived risks are equally high, traditional investors are often deterred or unfamiliar with the territory. Some private equity funds specialize in developing regions to leverage their region-specific knowledge and better risk perception. For example, Helios Investment Partners, a pan-African private equity group with a $1.7 billion investment fund, is one of the largest private equity firms specializing in the continent. BTG Pactual, Avent International

**Table I.4. Cross-border M&As by private equity firms, 1996–2011**
(Number of deals and value)

| Year | Gross cross-border M&As | | | | Net cross-border M&As | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of deals | | Value | | Number of deals | | Value | |
| | Number | Share in total (%) | $ billion | Share in total (%) | Number | Share in total (%) | $ billion | Share in total (%) |
| 1996 | 932 | 16 | 42 | 16 | 464 | 13 | 19 | 14 |
| 1997 | 925 | 14 | 54 | 15 | 443 | 11 | 18 | 10 |
| 1998 | 1 089 | 14 | 79 | 11 | 528 | 11 | 38 | 9 |
| 1999 | 1 285 | 14 | 89 | 10 | 538 | 10 | 40 | 6 |
| 2000 | 1 340 | 13 | 92 | 7 | 525 | 8 | 45 | 5 |
| 2001 | 1 248 | 15 | 88 | 12 | 373 | 9 | 42 | 10 |
| 2002 | 1 248 | 19 | 85 | 18 | 413 | 13 | 28 | 11 |
| 2003 | 1 488 | 22 | 109 | 27 | 592 | 20 | 53 | 29 |
| 2004 | 1 622 | 22 | 157 | 28 | 622 | 17 | 76 | 33 |
| 2005 | 1 737 | 20 | 221 | 24 | 795 | 16 | 121 | 26 |
| 2006 | 1 698 | 18 | 271 | 24 | 786 | 14 | 128 | 20 |
| 2007 | 1 918 | 18 | 555 | 33 | 1 066 | 15 | 288 | 28 |
| 2008 | 1 785 | 18 | 322 | 25 | 1 080 | 17 | 204 | 29 |
| 2009 | 1 993 | 25 | 107 | 19 | 1 065 | 25 | 58 | 23 |
| 2010 | 2 103 | 22 | 131 | 18 | 1 147 | 21 | 65 | 19 |
| 2011 | 1 900 | 19 | 156 | 15 | 902 | 16 | 77 | 15 |

*Source*: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
*Note*: Value on a net basis takes into account divestments by private equity funds. Thus it is calculated as follows: Purchases of companies abroad by private equity funds (-) Sales of foreign affiliates owned by private equity funds. The table includes M&As by hedge and other funds (but not sovereign wealth funds). Private equity firms and hedge funds refer to acquirers as "investors not elsewhere classified". This classification is based on the Thomson Finance database on M&As.

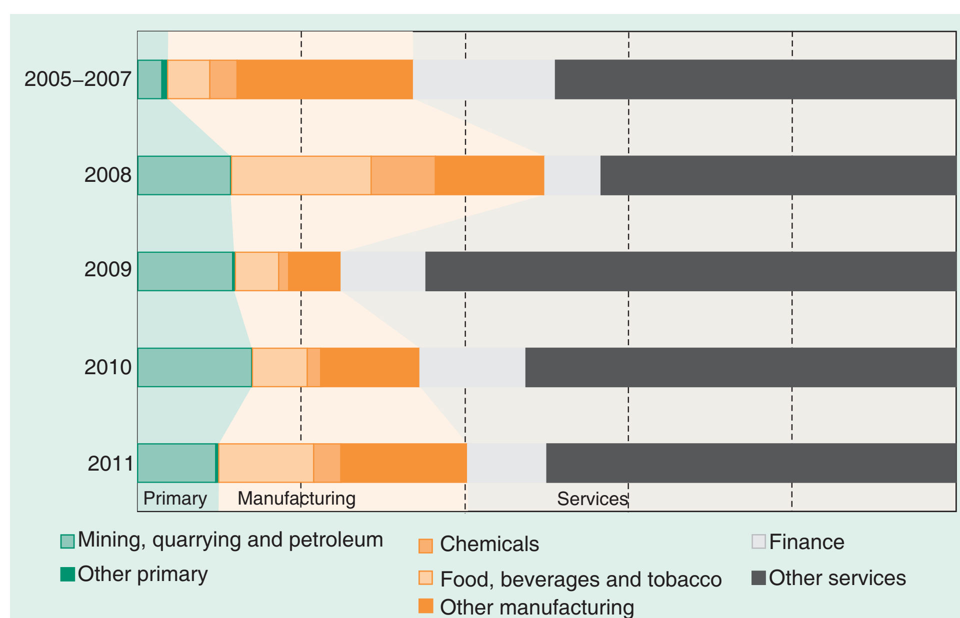
and Vinci Partners, all based in Brazil, are major investors in Latin America, an $8 billion plus market for private equity funds.

On the downside, some concerns exist about the sustainability of high levels of FDI activity by private equity funds. First, the high prices that private equity funds paid for their investments in the past have made it increasingly difficult for them to find buyers, increasing further the pressure that private equity firms normally exert to focus on short-run profit targets, often leading to layoffs and restructuring of companies.[10] Second, acquiring stock-listed companies deviates from the private equity funds' former strategy of investing in alternative asset classes (e.g. venture capital, unlisted small firms with growth potential).

Furthermore, there are concerns related to transparency and corporate governance, because most funds are not traded on exchanges that have regulatory mechanisms and disclosure requirements. And there are differences in the investment horizons of private equity funds and traditional TNCs. Private equity funds, often driven by short-term performance targets, hold newly acquired firms on average for five to six years, a period which has declined in recent years. TNCs, which typically are engaged in expanding the production of their goods and services to locations abroad, have longer investment horizons.

Despite the implications of these differences for the host economy, many private equity firms have nevertheless demonstrated more awareness about long-term governance issues and disclosure; for example, environmental and social governance. According to a survey by the British Private Equity and Venture Capital Association (2011), more than half of private equity firms have implemented programmes on environmental and social governance in their investments.[11]

**Figure I.6. Cross-border M&As by private equity firms, by sector and main industry, 2005 and 2011**
(Per cent)




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

### *(ii) FDI by sovereign wealth funds*

**Cumulative FDI by SWFs amounts to only $125 billion, on an asset base of nearly $5 trillion, suggesting significant potential for further investment in sustainable development.**

With nearly $5 trillion in assets under management at the end of 2011, SWFs – funds set up by or on behalf of sovereign states – have become important actors in global financial markets.[12] The growth of SWFs has been impressive: even during 2007–2011, a period spanning the global financial crisis, and despite losses on individual holdings, the total cumulative value of SWF assets rose at an annual rate of 10 per cent, compared with a 4 per cent decline in the value of international banking assets.[13] That growth is likely to continue as the emerging-market owners of most funds keep outperforming the world economy, and as high commodity prices further inflate the revenue surpluses of countries with some of the largest SWFs.

SWFs are for the most part portfolio investors, with the bulk of their funds held in relatively liquid financial assets in mature market economies. Only a small proportion of their value (an estimated $125 billion) is in the form of FDI. FDI thus accounts for less than 5 per cent of SWF assets under management and less than 1 per cent of global FDI stock in 2011. However, evidence shows a clear growth trend since 2005 (figure I.7) – when SWFs invested a mere $7 billion – despite a steep decline in annual flows in 2010 in response to global economic conditions.

FDI by SWFs in developed countries has grown faster than that in developing countries (table I.5), also reflecting the availability of acquisition opportunities in North America and Europe during the crisis. However, SWF FDI in developing countries is rising steadily. Some countries in developing Asia that have more advanced capital markets are already significant recipients of investment by SWFs, but in forms other than FDI.

FDI by SWFs is concentrated on specific projects in a limited number of industries, finance, real estate and construction, and natural resources (table I.6). In part, this reflects the strategic aims of the relatively few SWFs active in FDI, such as Temasek (Singapore), China Investment Corporation, the

Qatar Investment Authority and Mubadala (United Arab Emirates). Even these four SWFs have devoted only a fraction of their total holdings to FDI. For example, Temasek is the most active SWF investor in developing countries, where it holds roughly 71 per cent of all its assets located abroad (S$131 billion or $102 billion in 2011). Yet, only $3 billion of those assets are FDI (acquisitions of more than 10 per cent equity).[14]

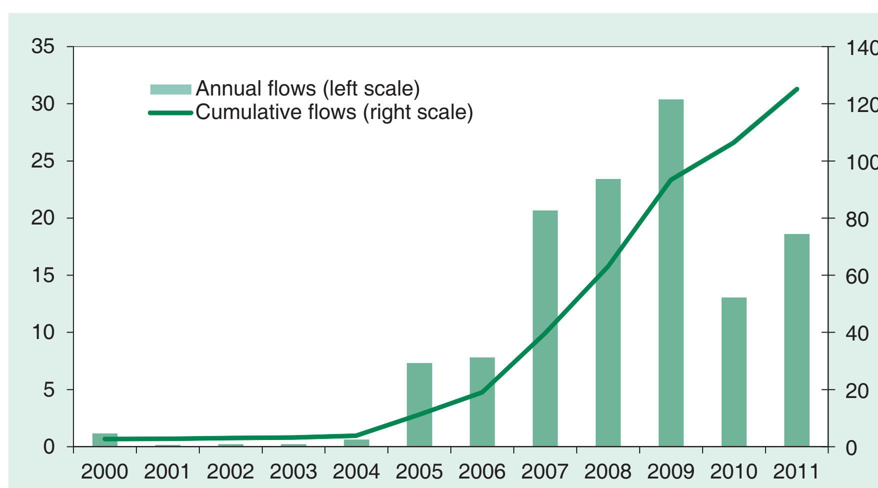
Despite SWFs' current focus on developed countries, and the concentration of their activities with their long-term and strategically oriented investment outlook, SWFs may be ideally well placed to invest in productive activities abroad, especially in developing countries, including in particular the LDCs that attract only modest FDI flows from other sources. The scale of their holdings enables SWFs to invest in large-scale projects such as infrastructure development and agricultural production – key to economic development in many LDCs – as well as industrial development, including the build-up of green growth industries.

For both developing and developed countries, investment by foreign State-owned entities in strategic assets such as agricultural land, natural resources or key infrastructure assets can lead to legitimate policy concerns. Nonetheless, given the huge gap across the developing world in development financing for the improvement of agricultural output, construction of infrastructure, provision of industry goods as well as jobs, and generation of sustainable growth, FDI by SWFs presents a significant opportunity.

As SWFs become more active in direct investments in infrastructure, agriculture or other industries vital to the strategic interests of host countries, controlling stakes in investment projects may not always be imperative. Where such stakes are needed to bring the required financial resources to an investment project, SWFs may have options to work in partnership with host-country governments, development finance institutions or other private sector investors that can bring technical and managerial competencies to the project – acting, to some extent, as management intermediaries.

SWFs may set up, alone or in cooperation with others, their own general partnerships dedicated

**Figure I.7. Annual and cumulative value of FDI by SWFs, 2000–2011**
(Billions of dollars)




*Source*: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information obtained from Financial Times Ltd, fDi Markets (www.fDimarkets.com).

*Note*: Data include value of flows for both cross-border M&As and greenfield FDI projects and only investments by SWFs which are the sole and immediate investors. Data do not include investments made by entities established by SWFs or those made jointly with other investors. In 2003–2011, cross-border M&As accounted for 85 per cent of the total.

**Table I.5. FDI by SWFs by host region/country, cumulative flows, 2005–2011**
(Millions of dollars)

| Target economy | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **World** | **11 186** | **19 005** | **39 673** | **63 085** | **93 476** | **106 534** | **125 152** |
| **Developed economies** | **5 738** | **12 582** | **26 573** | **38 354** | **62 016** | **71 722** | **84 346** |
| Europe | 4 394 | 9 438 | 17 775 | 23 429 | 39 078 | 42 148 | 53 143 |
| European Union | 4 394 | 9 438 | 17 746 | 23 399 | 39 049 | 42 118 | 53 113 |
| United States | 125 | 1 925 | 5 792 | 10 210 | 10 335 | 12 007 | 14 029 |
| **Developing economies** | **5 449** | **6 423** | **12 926** | **23 544** | **29 277** | **31 210** | **35 868** |
| Africa | 900 | 900 | 1 304 | 7 560 | 7 560 | 8 973 | 11 418 |
| Latin America and the Caribbean | 228 | 228 | 1 149 | 1 216 | 1 291 | 1 696 | 3 118 |
| East and South-East Asia | 4 278 | 5 040 | 5 270 | 7 366 | 9 845 | 9 930 | 10 721 |
| South Asia | 43 | 143 | 1 092 | 1 209 | 1 239 | 1 268 | 1 268 |
| West Asia | - | 112 | 4 112 | 6 193 | 9 343 | 9 343 | 9 343 |
| **Transition economies** | **-** | **-** | **174** | **1 187** | **2 183** | **3 602** | **3 938** |

*Source*: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
*Note*: Data refer to net M&A cumulative flows since 1992 and greenfield cumulative flows since 2003. Only data on investments by SWFs that are the sole and immediate investors are included, not those made by entities established by SWFs or those made jointly with other investors.

**Table I.6. FDI by SWFs by sector/industry, cumulative flows, 2005–2011**
(Millions of dollars)

| Target industy | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **Total industry** | **11 186** | **19 005** | **39 673** | **63 085** | **93 476** | **106 534** | **125 152** |
| **Primary** | **1 170** | **1 512** | **1 682** | **3 055** | **9 645** | **10 945** | **11 899** |
| Agriculture, hunting, forestry and fisheries | - | - | 170 | 170 | 170 | 170 | 170 |
| Mining, quarrying and petroleum | 1 170 | 1 512 | 1 512 | 2 885 | 9 475 | 10 775 | 11 729 |
| **Manufacturing** | **3 114** | **4 369** | **10 675** | **16 357** | **30 122** | **31 470** | **31 594** |
| Publishing and printing | - | - | - | 248 | 248 | 248 | 248 |
| Coke, petroleum and nuclear fuel | - | - | 5 146 | 10 253 | 13 449 | 13 457 | 13 457 |
| Chemicals and chemical products | 2 800 | 2 800 | 2 800 | 2 800 | 3 301 | 4 641 | 4 765 |
| Rubber and plastic products | - | - | 1 160 | 1 160 | 1 160 | 1 160 | 1 160 |
| Non-metallic mineral products | - | - | - | - | 150 | 150 | 150 |
| Metals and metal products | 47 | 47 | 47 | 374 | 374 | 374 | 374 |
| Machinery and equipment | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Electrical and electronic equipment | - | 15 | 15 | 15 | 364 | 364 | 364 |
| Motor vehicles and other transport equipment | 251 | 1 492 | 1 492 | 1 492 | 11 061 | 11 061 | 11 061 |
| **Services** | **6 903** | **13 124** | **27 316** | **43 673** | **53 709** | **64 120** | **81 659** |
| Electricity, gas and water | 1 396 | 1 396 | 2 317 | 2 317 | 2 532 | 4 112 | 8 789 |
| Construction | 19 | 19 | 19 | 2 738 | 3 994 | 5 227 | 13 081 |
| Hotels and restaurants | 508 | 2 300 | 3 132 | 4 174 | 4 249 | 4 337 | 4 997 |
| Trade | 20 | 320 | 2 125 | 2 125 | 3 011 | 5 309 | 5 380 |
| Transport, storage and communications | 14 | 303 | 3 197 | 3 499 | 3 652 | 4 532 | 6 280 |
| Finance | 754 | 1 296 | 4 171 | 14 878 | 15 199 | 18 667 | 19 596 |
| Business services | 2 697 | 5 994 | 9 282 | 10 385 | 12 413 | 12 698 | 14 299 |
| Real estate | 2 697 | 5 994 | 8 872 | 9 975 | 12 002 | 12 287 | 13 889 |
| Health and social services | - | - | 1 578 | 2 062 | 2 062 | 2 062 | 2 062 |
| Community, social and personal service activities | 1 495 | 1 495 | 1 495 | 1 495 | 6 598 | 7 174 | 7 174 |

*Source*: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
*Note*: Data refer to net cumulative flows through cross-border M&As since 1992 and cumulative flows through greenfield projects since 2003. Only data on investments by SWFs that are the sole and immediate investors are included, not those made by entities established by SWFs or those made jointly with other investors.

to particular investment themes – for example, infrastructure, renewable energy or natural resources. In 2010, Qatar Holding, the investment arm of the Qatar Investment Authority, set up a $1 billion Indonesian fund to invest in infrastructure and natural resources in Indonesia. In the same year, the International Finance Corporation (IFC) committed up to $200 million as a limited partner in the IFC African, Latin American and Caribbean Fund, in which the anchor investors, with total commitments of up to $600 million, include SWFs such as the Korea Investment Corporation and the State Oil Fund of the Republic of Azerbaijan, as well as investors from Saudi Arabia. In 2011, Morocco's Tourism Investment Authority established Wissal Capital, a fund that aims to develop tourism in the country, through a partnership with the sovereign funds of Qatar, the United Arab Emirates and Kuwait, with investment funds of $2.5–4 billion.

Where SWFs do take on the direct ownership and management of projects, investments could focus on sectors that are particularly beneficial for inclusive and sustainable development, including the sectors mentioned above – agriculture, infrastructure and the green economy – while adhering to principles of responsible investment, such as the *Principles for Responsible Agricultural Investment*, which protect the rights of smallholders and local stakeholders.[15] Expanding the role of SWFs in FDI can provide significant opportunities for sustainable development, especially in less developed countries. Overcoming the challenges of unlocking more capital in the form of FDI from this investment source should be a priority for the international community.

## 2. Prospects

**The growth rate of FDI will slow in 2012, with flows levelling off at about $1.6 trillion. Medium-term flows are expected to rise at a moderate but steady pace, barring macroeconomic shocks.**

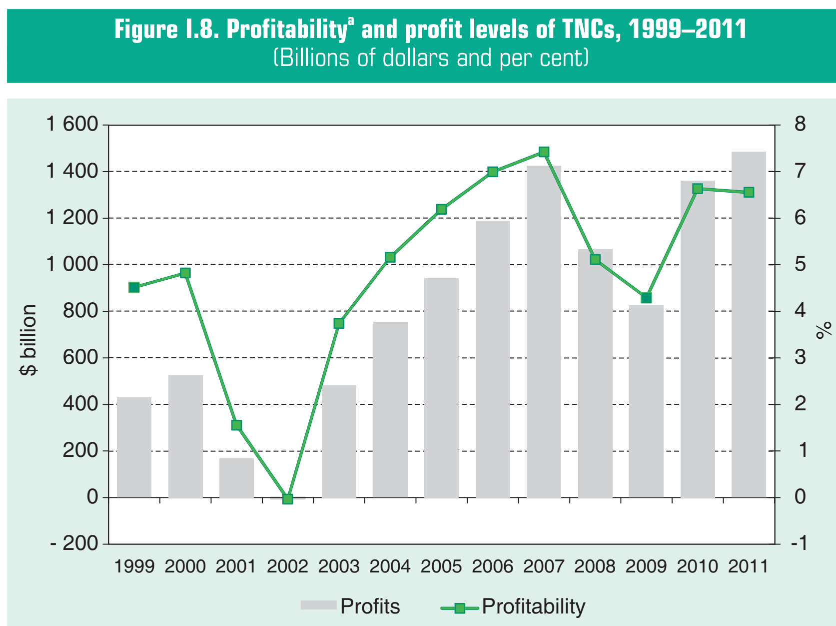
Prospects for FDI flows have continued to improve since the depth of the 2008–2009 crisis, but they remain constrained by global macroeconomic and financial conditions. At the macroeconomic level, the prospects for the world economy continue to be challenging. After a marked slowdown in 2011, global economic growth will likely remain tepid in 2012, with most regions, especially developed economies, expanding at a pace below potential and with subdued growth (United Nations et al., 2012). Sluggish import demand from developed economies is also weighing on trade growth, which is projected to slow further. Oil prices rose in 2011 and are projected to remain relatively elevated in 2012 and 2013, compared with the levels of 2010 (although recently there has been downward pressure on prices). The global outlook could deteriorate further. The eurozone crisis remains the biggest threat to the world economy, but a continued rise in global energy prices may also stifle growth.

The global economic outlook has had a direct effect on the willingness of TNCs to invest. After two years of slump, profits of TNCs picked up significantly in 2010 and continued to rise in 2011 (figure I.8). However, the perception among TNC managers of risks in the global investment climate continues to act as a brake on capital expenditures, even though firms have record levels of cash holdings.

In the first months of 2012 cross-border M&As and greenfield investments slipped in value. Cross-border M&As, which were the driving force for the growth in 2011, are likely to stay weak in the remainder of 2012, judging from their announcement data, although announcements increased slightly in the last quarter. These factors indicate that the risks to further FDI growth in 2012 remain in place.

UNCTAD scenarios for future FDI growth (figure I.9) are based on the results of leading indicators and an econometric model forecasting FDI inflows (table I.7). UNCTAD's *World Investment Prospects Survey 2012–2014* (*WIPS*), data for the first quarter of 2012 on FDI flows and data for the first four to five months of 2012 on the values of cross-border M&As and greenfield investment complement the picture. On the basis of the forecasting model, the recovery in 2012 is likely to be marginal. FDI flows are expected to come in between $1.5 trillion and $1.7 trillion, with a midpoint at about $1.6 trillion. *WIPS* data, strong earnings data (driving reinvested earnings) and first-quarter FDI data support this estimate. In the medium term, FDI flows are expected to increase at a moderate but steady pace, reaching $1.8 trillion in 2013 and $1.9 trillion in 2014 (baseline scenario).This trend also reflects

**Figure I.8. Profitability[a] and profit levels of TNCs, 1999–2011**
(Billions of dollars and per cent)



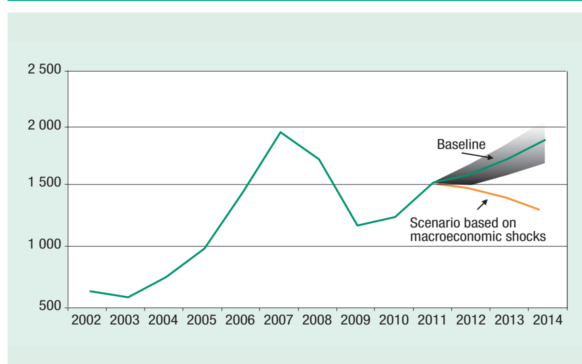

*Source*: UNCTAD, based on data from Thomson One Banker.
[a] Profitability is calculated as the ratio of net income to total sales.
*Note*: The number of TNCs covered in the calculations is 2,498.

opportunities arising not only from corporate and industry restructuring, including privatization or re-privatization, particularly in the crisis-hit countries, but also from continued investment in crisis-resilient industries related to climate change and the green economy such as foods and the energy sector.[16]

The baseline scenario, however, does not take into account the potential for negative macroeconomic shocks. It is also possible that the fragility of the world economy, the volatility of the business environment, uncertainties related to the sovereign debt crisis and apparent signs of lower economic growth in major emerging-market economies will negatively impact FDI flows in the medium term, including causing them to decline in absolute terms (scenario based on macroeconomic shocks).

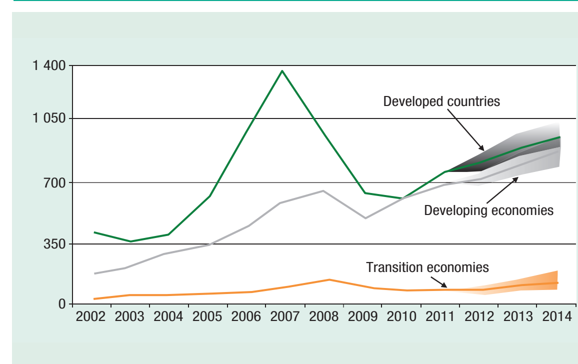
The growth of FDI inflows in 2012 will be moderate in all three groups – developed, developing and transition economies (figure I.10; table I.7). All these groups are expected to experience further growth in the medium term (2013–2014).

**Figure I.9. Global FDI flows, 2002–2011, and projection for 2012–2014**
(Billions of dollars)




*Source*: UNCTAD.

**Figure I.10. FDI flows by group of economies, 2002–2011, and projection for 2012–2014**
(Billions of dollars)



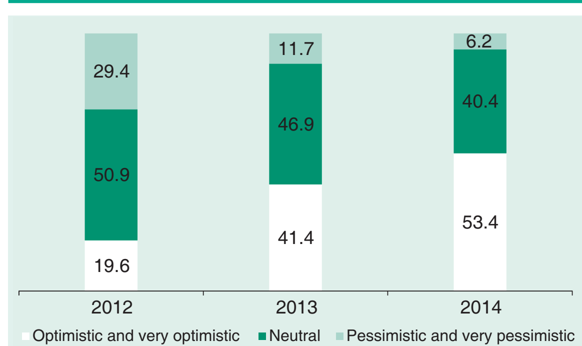

*Source*: UNCTAD.

There are some regional differences. In developing regions, inflows to Africa are expected to recover as a result of stronger economic growth, ongoing economic reforms and high commodity prices, as well as improving investor perceptions of the continent, mainly from other emerging markets (chapter II). In contrast, growth of FDI flows is expected to be moderate in Asia (including East and South-East Asia, South Asia and West Asia) and Latin America. FDI flows to transition economies are expected to grow further in 2012 and exceed the 2007 peak in 2014, in part because of the accession of the Russian Federation to the World Trade Organization and a new round of privatization in the region.

These regional forecasts are based mainly on economic fundamentals and do not necessarily take into account region-specific risk factors such as intensifying financial tensions in the eurozone or policy measures such as expropriations and capital controls that may significantly affect investor sentiment. (For a detailed discussion of the econometric model, see box I.3 in *WIR11*.)

Responses to this year's *WIPS* (box I.2) revealed that firms are cautious in their reading of the current global investment environment. Investor uncertainty appears to be high, with roughly half of respondents stating that they were neutral or undecided about the state of the international investment climate for 2012. However, although respondents who were pessimistic about the global investment outlook for 2012 outnumbered those who were optimistic by 10 percentage points, medium-term prospects continued to hold relatively stable (figure I.11). Also, the uncertainty among investors does not necessarily translate to declining FDI plans. When asked about their intended FDI expenditures, half of the respondents forecast an increase in each year of the 2012–2014 period over 2011 levels.

**Figure I.11. TNCs' perception of the global investment climate, 2012–2014**
(Percentage of respondents)




*Source*: UNCTAD survey.
*Note*: Based on 174 validated company responses.

### a. By mode of entry

**Equity and non-equity forms of investment will grow in importance for TNCs in the medium term, as the importance of exports from TNCs' home economies declines.**

Among the ways TNCs enter foreign markets, equity modes (including M&As and greenfield/ brownfield investments) are set to grow in importance, according to responses to this year's *WIPS*. Roughly 40 to 50 per cent of respondents remarked that these modes will be "very" or "extremely" important for them in 2014 (figure I.12). In the case of M&As, this reflects in part the increasing availability of potential targets around the world, especially in developing and transition economies. This trend is likely to drive M&As in these economies in the medium term as TNCs from both developed and developing economies seek to fulfil their internationalization plans. Nevertheless, M&A activity will be heavily contingent on the health of global financial markets, which could hamper any increase in activity in the short term.

International production by TNCs through equity modes is growing in importance, as are, to a lesser extent, non-equity modes, which nearly one third of respondents stated would be highly important in 2014 (up from one quarter saying so for 2012). In contrast, exports from TNCs' home countries are set to decline in importance in the medium term (figure I.12). The rise of complex global production networks has reduced the importance of exports from home by TNCs (Epilogue, *WIR10*). Whereas 43 per cent of survey respondents gave home-country exports high importance in 2012, only 38 per cent did so for 2014. Among manufacturing TNCs, which often operate highly developed global networks, the decline was greater, falling 7 percentage points over the period.

**Table I.7. Summary of econometric results of medium-term baseline scenarios of FDI flows, by region**
(Billions of dollars)

| Host region | Averages | | | | | Projections | | |
|---|---|---|---|---|---|---|---|---|
| | 2005–2007 | 2009–2011 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| **Global FDI flows** | **1 473** | **1 344** | **1 198** | **1 309** | **1 524** | **1 495–1 695** | **1 630–1 925** | **1 700–2 110** |
| **Developed countries** | **972** | **658** | **606** | **619** | **748** | **735–825** | **810–940** | **840–1 020** |
| European Union | 646 | 365 | 357 | 318 | 421 | 410–450 | 430–510 | 440–550 |
| North America | 253 | 218 | 165 | 221 | 268 | 255–285 | 280–310 | 290–340 |
| **Developing countries** | **443** | **607** | **519** | **617** | **684** | **670–760** | **720–855** | **755–930** |
| Africa | 40 | 46 | 53 | 43 | 43 | 55–65 | 70–85 | 75–100 |
| Latin America and the Caribbean | 116 | 185 | 149 | 187 | 217 | 195–225 | 215–265 | 200–250 |
| Asia | 286 | 374 | 315 | 384 | 423 | 420–470 | 440–520 | 460–570 |
| **Transition economies** | **59** | **79** | **72** | **74** | **92** | **90–110** | **100–130** | **110–150** |

*Source*: UNCTAD estimates, based on UNCTAD (for FDI inflows), IMF (G20 growth, GDP and openness) and United Nations (oil price) from the Link project.

[a] The variables employed in the model include: market growth of G-20 countries (G-20 growth rate), market size (GDP of each individual country), price of oil and trade openness (the share of exports plus imports over GDP). The following model, $FDI_{jt}=\alpha_o+\alpha_1{*}G20_t+\alpha_2{*}GDP_{jt-1}+\alpha3{*}Openness_{jt}+\alpha4{*}Oil_price_{jt-1}+\alpha5{*}FDI_{jt-1}+\varepsilon_{jt}$, is estimated with fixed effect panel regression using estimated generalized least squares with cross-section weights. Coefficients computed by using White's hereroscedasticity-consistent standard errors.

**Box I.2. *World Investment Prospects Survey 2012–2014*: methodology and results**

The aim of the *WIPS* is to provide insights into the medium-term prospects for FDI flows. This year's survey was directed to executives in the largest 5,000 non-financial TNCs and professionals working in 245 national and sub-national IPAs.[a] Questions for TNC executives were designed to capture their views on the global investment climate, their company's expected changes in FDI expenditures and internationalization levels, and the importance their company gives to various regions and countries. IPAs were asked about their views on the global investment climate and which investor countries and industries were most promising in terms of inward FDI.

This year's survey results are based on 174 validated responses by TNCs and 62 responses by IPAs collected by e-mail and through a dedicated website between February and May 2012. TNCs in developed economies accounted for 77 per cent of responses (Europe, 44 per cent; other developed economies – mainly Japan – 27 per cent; and North America, 6 per cent). TNCs in developing and transition economies accounted for 23 per cent of responses (Asia, 12 per cent; Africa, 6 per cent; Latin America and the Caribbean, 4 per cent; and transition economies, 1 per cent). In terms of sectoral distribution, 57 per cent of respondent TNCs were classified as operating in the manufacturing sector, 36 per cent in the services sector and 7 per cent in the primary sector. For IPAs, 74 per cent of respondents were located in developing or transition economies and 26 per cent were located in developed economies.

*Source*: UNCTAD.

[a] The past surveys are available at www.unctad.org/wips.

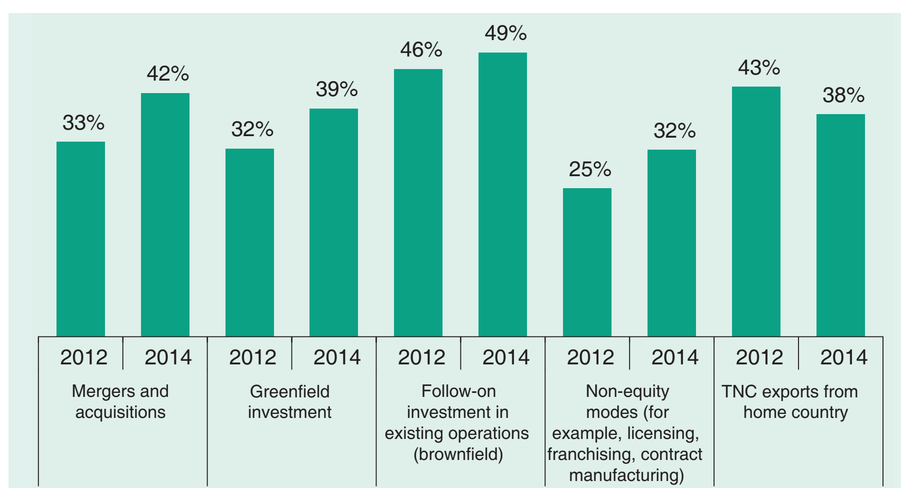
### b. By industry

**Although FDI expenditures are set to increase, short-term concerns about the global investment climate are shared across industries; primary sector TNCs may temper their investment plans in the medium term.**

Reflecting the general trend, TNCs across all major sectors are similarly cautious about the international investment climate in 2012; however, medium-term prospects appear stronger across sectors.

Short-term FDI plans vary across sectors, according to the survey results. Manufacturing TNCs were the most bullish about their foreign investments in 2012, with roughly 60 per cent of respondents indicating that they will be increasing their FDI expenditures over 2011 levels. In contrast, only 45 per cent of TNCs in the primary sector and 43 per cent of those in services expected an increase. For 2014, however, more than half of TNCs in all three major sectors foresaw an increase in their FDI budgets, in line with their rising optimism about the global investment environment.

**Figure I.12. Importance of equity and non-equity modes of entry, 2012 and 2014**
(Percentage of survey respondents selecting the mode of entry as "very important" or "extremely important")




*Source*: UNCTAD survey.
*Note*: Based on 174 validated company responses.

Overall trends, however, reflect a more complex spectrum of FDI prospects by sector. In the primary sector nearly 40 per cent of respondents forecast cuts in their FDI expenditures in 2013, with 30 per cent indicating this intention for 2014 as well. These percentages are much higher than those in other sectors, suggesting that the growth of FDI activity in the primary sector may slow in the medium term as TNCs consolidate the numerous acquisitions they have made in recent years. Notably, in the services sector a relatively high level of respondents (roughly 4 in 10) reported no expected change in FDI expenditures over the period.

At the receiving end of FDI projects, IPAs' views appear to be highly split by major region. IPAs in developed economies gave high marks to the prospects for FDI in high-tech industries – such as scientific research and development (R&D), as well as computer programming and consultancy – which they view as the most promising for attracting FDI to their countries. IPAs in developing and transition economies had a more expansive view, noting as promising for inward FDI activities in a variety of industries across sectors, including manufacture of food products, accommodation, mining of metal ores, extraction of crude petroleum and natural gas, and real estate activities.

### c. By home region

**FDI budgets are set to expand across home regions, though developing-country TNCs may rationalize their expenditures in the medium term.**

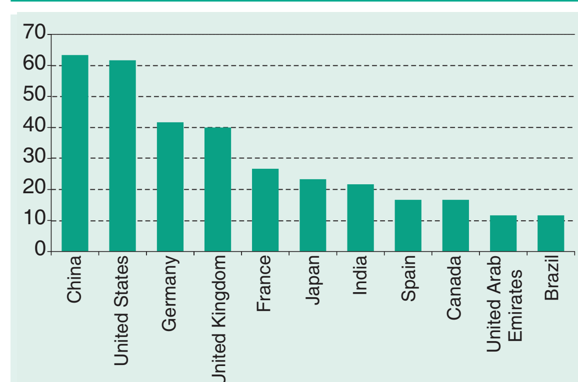
This year's survey reveals a significant shift in opinions on the global investment climate held by TNCs in developed economies and by TNCs in developing and transition economies. While the latter have historically been more optimistic, results from the survey show that only 14 per cent were optimistic for 2012, compared with 21 per cent of the former. Strikingly, TNCs in developed economies were also less pessimistic than their peers in developing and transition economies about the global investment climate in 2013 and 2014 (9 per cent in 2013 and 4 per cent in 2014, compared with 20 per cent and 14 per cent). Yet, the inescapable undertone of this year's survey results is that investor uncertainty remains high, with 57 per cent of respondents from developing and transition economies either neutral or undecided about the investment climate in 2012.

Despite the uncertainty that TNCs, regardless of their region of origin, foresee an increase in their FDI expenditures in 2012 and beyond. For 2012,

more than half of the respondents across all groups of economies forecast an increase in their FDI over 2011 levels. Differences begin to appear when comparing medium-term prospects. Reflecting their greater pessimism about the medium term, nearly one quarter of respondents in developing and transition economies foresaw a decline in their FDI budgets in 2013 and 2014. This is in marked contrast to their developed-country peers, of which only 1 in 10 forecast a cut. In part this reflects the differing trends in outward FDI from these regions. TNCs from developing and transition economies, which continued to invest at near record levels during the crisis, may focus on rationalizing their investments in the medium term, consolidating their purchases and pursuing organic growth. TNCs from developed countries, in contrast, may just be entering new cycle of FDI expenditures after cutting back dramatically during the crisis. These dynamics may yield an increase in the share of global outward FDI originating in developed economies in the medium term, even though the long-term trend is likely to be one of greater participation by TNCs from developed and transition economies.

Reflecting these trends, IPAs largely saw developed-country TNCs as the most promising sources of FDI in the medium term (figure I.13). Only four developing economies were ranked as the most promising over the period by 10 per cent or more of the IPA respondents. China led the list, with more than 60 per cent of respondents selecting it, thanks largely to the rapid increase of its outward FDI in recent years. Chinese TNCs have raised awareness of their home country as a source of investment through their active role in a number of industries and the wide spread of their FDI projects over a large number of host economies. The United States, Germany and the United Kingdom ranked as the most promising developed-economy investors, underscoring their continuing role in global FDI flows despite the fallout of the global financial and economic crisis.

**Figure I.13. IPAs' selection of most promising investor home economies for FDI in 2012–2014**
(Percentage of IPA respondents selecting economy as a top source of FDI)




*Source*: UNCTAD survey.
*Note*: Based on 62 IPA responses.

### d. By host region

**Developing and transition economies will continue to experience strong FDI inflows in the medium term, becoming increasingly important for TNCs worldwide.**

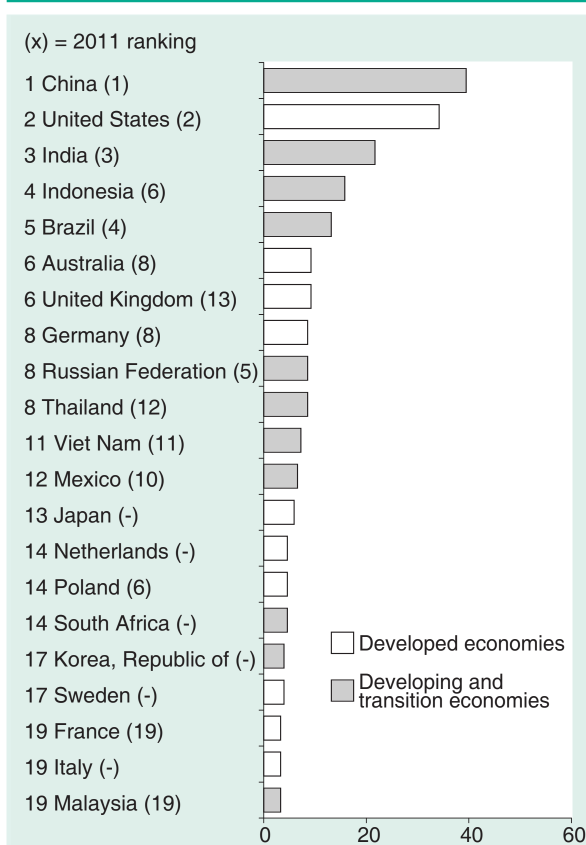
IPAs, like TNCs, were also cautious about the global investment situation in 2012. Only one third of respondents in both developed economies and developing and transition economies were optimistic about FDI flows for the year. Low optimism about the global situation did not, however, translate to expectations about inflows, with nearly 60 per cent of respondents in both groups of economies expressing optimism in that regard. For the medium term, IPAs – regardless of location – exhibited a rising optimism, although those in developing and transition economies were clearly the most optimistic when it came to their own countries' prospects for FDI inflows in 2014.

This optimism is not unwarranted. TNCs that respond to the survey have increasingly ranked developing-country host regions as highly important. Developing Asia scores particularly well, with 64 per cent of respondents rating East and

South-East Asia as "very" or "extremely" important and 43 per cent giving the same rating to South Asia. The rising importance of these regions as destinations for FDI does not come at the expense of developed regions. The survey results suggest that the EU and North America remain among the most important regions for FDI by TNCs.

The importance of developing regions to TNCs as locations for international production is also evident in the economies they selected as the most likely destinations for their FDI in the medium term. Among the top five, four are developing economies (figure I.14). Indonesia rose into the top five in this year's survey, displacing Brazil in fourth place. South Africa entered the list of top prospective economies, ranking 14th with the Netherlands and Poland. Among developed countries, Australia and the United Kingdom moved up from their positions in last year's survey, while Germany maintained its position.

**Figure I.14. TNCs' top prospective host economies for 2012–2014**
(Percentage of respondents selecting economy as a top destination)




*Source*: UNCTAD survey.
*Note*: Based on 174 validated company responses.

# B. INTERNATIONAL PRODUCTION AND THE LARGEST TNCs

## 1. International production

**Foreign affiliates posted strong employment growth in 2011, as international production gathered strength, even as developed economies struggled to return to sustainable growth.**

International production gathered strength across all major indicators (sales, value added, assets, exports and employment), in 2011 (table I.8). The underlying factors for this increase were two-fold. First, the relatively favourable economic conditions during the year, especially in emerging markets but also in some developed countries like the United States, increased demand for the goods and services produced by foreign affiliates representing the breadth of FDI stock. Second, that stock continued to be augmented by new FDI flows during the year, as TNCs increased their internationalization.

Employment in foreign affiliates rose noticeably during the year, as TNCs continued to expand their production abroad in response to the rise in market opportunities in emerging markets. Globally, foreign affiliates accounted for 69 million jobs in 2011, an 8 per cent increase over the previous year. This stands in stark contrast to the 2 per cent increase in employment projected globally for 2011 (ILO, 2012). Developing and transition economies increasingly account for the majority of employment in foreign affiliates. China alone, for example, accounted for 18.2 million, or 28 per cent, of the total in 2010 (China National Bureau of Statistics, 2012). This trend continued to be driven by increased FDI generated by both efficiency- and market-seeking motivations, with much of the recent momentum being driven by the latter. A rapidly expanding middle class has attracted FDI in both the manufacturing and the services sectors as TNC executives seek to go "local" and improve their positions in emerging markets (PWC, 2012).

Foreign affiliates' sales and value added also rose in 2011, continuing their recovery from the lows during the crisis. After dipping in 2009, sales generated by foreign affiliates rebounded in 2010 (table I.8). This trend continued into 2011, with sales rising 9 per cent over the previous year, hitting a record $28 trillion. Likewise, value added increased, reaching $7 trillion, or roughly 10 per cent of global GDP. Although M&As, especially in developed economies, have driven sales and value added figures in the past, the strong recent growth in international production originating in emerging markets has come largely from TNCs pursuing the organic growth of their own facilities and joint ventures with local companies (Deloitte, 2011). As noted in section A.1.b, in developing and transition economies rising international production is often generated from new production capacity, through greenfield investment, rather than through a change in ownership of existing assets.

The financial performance of foreign affiliates also improved in 2011. The rate of return on outward FDI rose 0.9 percentage points to 7.3 per cent (table I.8). Although this increase brings it near its 2005 high of 7.6 per cent, it remains below the more than 10 per cent returns of the early 1980s. This long-term structural decline in performance is likely to be the result of the changing industry composition of FDI stock over time, with a shift from capital-intensive, high-return activities in the primary sector to services-related activities with relatively lower returns.

Results from UNCTAD's annual survey of the internationalization levels of the world's largest TNCs reflect these global trends in international production, though they also suggest that the top 100 TNCs, mostly from developed economies, continue to struggle in their activities at home. Foreign sales of the largest 100 TNCs in the world increased almost 20 per cent in 2011, while their domestic sales – largely in developed economies – rose 13 per cent (table I.9). Foreign employment likewise expanded, rising 4 per cent for the year, while domestic employment slumped, falling 3 per cent. Although some of this differential represents the easier expansion of sales and employment in emerging markets than in mature markets, it also highlights the sluggish recovery of developed economies in the aftermath of the crisis. These trends in sales and employment are likely to be reinforced by the increasing impact of austerity

**Table I.8. Selected indicators of FDI and international production, 1990–2011**
(Billions of dollars, value at current prices)

| Item | 1990 | 2005–2007 pre-crisis average | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| FDI inflows | 207 | 1 473 | 1 198 | 1 309 | 1 524 |
| FDI outflows | 241 | 1 501 | 1 175 | 1 451 | 1 694 |
| FDI inward stock | 2 081 | 14 588 | 18 041 | 19 907 | 20 438 |
| FDI outward stock | 2 093 | 15 812 | 19 326 | 20 865 | 21 168 |
| Income on inward FDI [a] | 75 | 1 020 | 960 | 1 178 | 1 359 |
| *Rate of return on inward FDI* [b] | *4.2* | *7.3* | *5.6* | *6.3* | *7.1* |
| Income on outward FDI [a] | 122 | 1 100 | 1 049 | 1 278 | 1 470 |
| *Rate of return on outward FDI* [b] | *6.1* | *7.2* | *5.6* | *6.4* | *7.3* |
| Cross-border M&As | 99 | 703 | 250 | 344 | 526 |
| Sales of foreign affiliates | 5 102 | 20 656 | 23 866 | 25 622 [c] | 27 877 [c] |
| Value added (product) of foreign affiliates | 1 018 | 4 949 | 6 392 | 6 560 [c] | 7 183 [c] |
| Total assets of foreign affiliates | 4 599 | 43 623 | 74 910 | 75 609 [c] | 82 131 [c] |
| Exports of foreign affiliates | 1 498 | 5 003 | 5 060 | 6 267 [d] | 7 358 [d] |
| Employment by foreign affiliates (thousands) | 21 458 | 51 593 | 59 877 | 63 903 [c] | 69 065 [c] |
| *Memorandum:* | | | | | |
| GDP | 22 206 | 50 411 | 57 920 | 63 075 [e] | 69 660 [e] |
| Gross fixed capital formation | 5 109 | 11 208 | 12 735 | 13 940 | 15 770 |
| Royalties and licence fee receipts | 29 | 156 | 200 | 218 | 242 |
| Exports of goods and non-factor services | 4 382 | 15 008 | 15 196 | 18 821 [e] | 22 095 [e] |

*Source*: UNCTAD.

[a] Based on data from 168 countries for income on inward FDI and 136 countries for income on outward FDI in 2011, in both cases representing more than 90 per cent of global inward and outward stocks.

[b] Calculated only for countries with both FDI income and stock data.

[c] Data for 2010 and 2011 are estimated based on a fixed effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2009.

[d] Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994. For 1998–2011, the share of exports of foreign affiliates in world export in 1998 (33.3 per cent) was applied to obtain values.

[e] Data from IMF, *World Economic Outlook*, April 2012.

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

policies, particularly in Europe, and a possible return to recession in many developed economies in 2012.

In contrast, data on internationalization indicators for the largest 100 TNCs domiciled in developing and transition economies, reveal the relative strength of their home economies. While foreign assets of those economies rose 7 per cent in 2010, a rate faster than that of the largest 100 TNCs, the rise could not keep up with the remarkable 23 per cent increase in domestic assets (table I.9). Sales at home also outpaced foreign sales in terms of growth, though both easily surpassed growth rates seen among developed-economy TNCs. The only area where this trend did not hold was in employment, where the growth of foreign jobs outpaced that of domestic jobs in 2010.

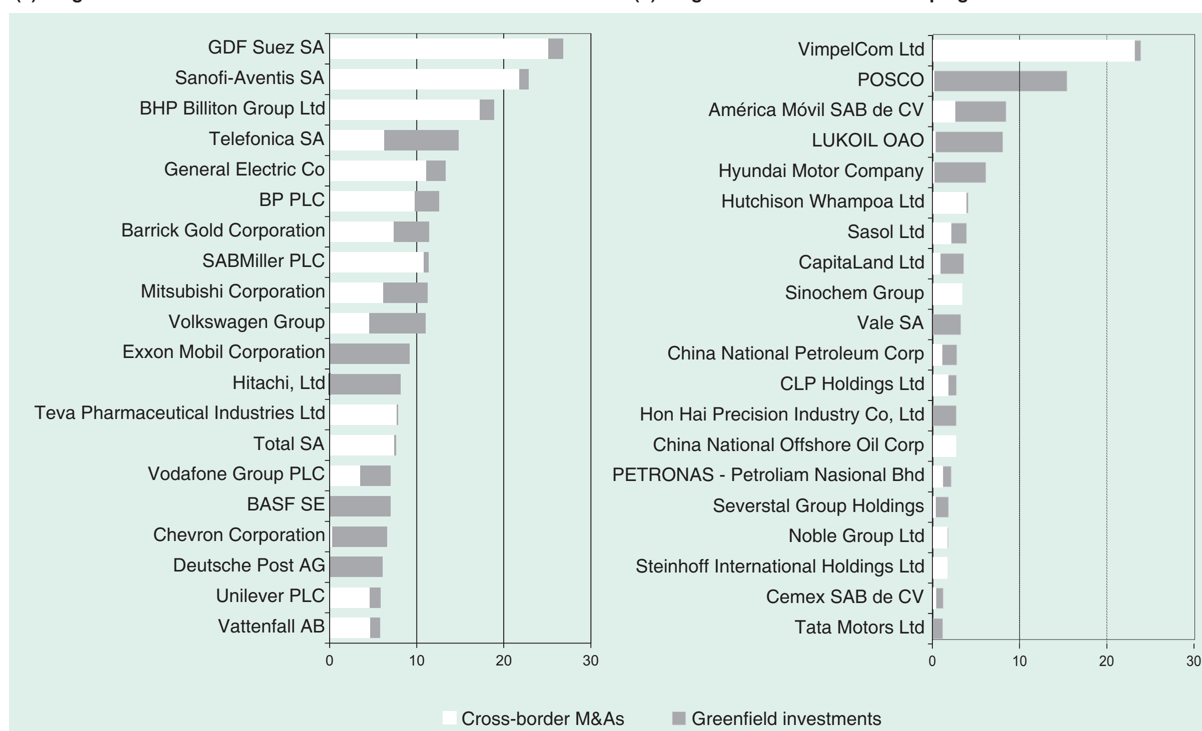
For both groups of TNCs, however, their investment behaviour is indicative of their intention to follow through with their proactive internationalization plans. The top 100 TNCs undertook FDI projects worth $374 billion in 2011, largely driven by a minority of the group's members (figure I.15.a). During the year, the group concluded $194 billion in gross cross-border deals, representing 20 per cent of M&A purchases in the world by value. The share of cross-border deals in their total deals, both domestic and foreign, reached 72 per cent

**Table I.9. Internationalization statistics of the 100 largest non-financial TNCs worldwide and from developing and transition economies**
(Billions of dollars, thousands of employees and per cent)

| Variable | 100 largest TNCs worldwide | | | | | 100 largest TNCs from developing and transition economies | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010[a] | 2009–2010 % Change | 2011[b] | 2010–2011 % Change | 2009 | 2010 | % Change |
| **Assets** | | | | | | | | |
| Foreign | 7 147 | 7 495 | 4.9 | 7 776 | 3.7 | 997 | 1 068 | 7.1 |
| Domestic | 4 396 | 4 417 | 0.5 | 4 584 | 3.8 | 2 154 | 2 642 | 22.6 |
| Total | 11 543 | 11 912 | 3.2 | 12 360 | 3.8 | 3 152 | 3 710 | 17.7 |
| Foreign as % of total | 62 | 63 | 1.0 [c] | 63 | 0.0 [c] | 32 | 29 | -2.9 [c] |
| **Sales** | | | | | | | | |
| Foreign | 4 602 | 4 870 | 5.8 | 5 696 | 17.0 | 911 | 1 113 | 22.1 |
| Domestic | 2 377 | 2 721 | 14.5 | 3 077 | 13.1 | 1 003 | 1 311 | 30.7 |
| Total | 6 979 | 7 590 | 8.8 | 8 774 | 15.6 | 1 914 | 2 424 | 26.6 |
| Foreign as % of total | 66 | 64 | -1.8 [c] | 65 | 0.8 [c] | 48 | 46 | -1.7 [c] |
| **Employment** | | | | | | | | |
| Foreign | 8 568 | 8 684 | 1.4 | 9 059 | 4.3 | 3 399 | 3 726 | 9.6 |
| Domestic | 6 576 | 6 502 | -1.1 | 6 321 | -2.8 | 4 860 | 5 112 | 5.2 |
| Total | 15 144 | 15 186 | 0.3 | 15 380 | 1.3 | 8 259 | 8 837 | 7.0 |
| Foreign as % of total | 57 | 57 | 0.6 [c] | 59 | 1.7 [c] | 41 | 42 | 1.0 [c] |

*Source*: UNCTAD.
[a] Revised results.
[b] Preliminary results.
[c] In percentage points.
*Note*: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year and 31 March of the following year. Complete 2011 data for the 100 largest TNCs from developing and transition economies are not yet available.

**Figure I.15. Top investors among the largest TNCs, 2011**
(Billions of dollars of completed cross-border M&As[a] and greenfield investments)




Source: UNCTAD, based on data from Thomson ONE and fDi Markets.
[a] Value is on a gross basis, not net value as in other M&A tables in this chapter.

in 2011, a level significantly higher than that of the preceding two years (roughly 50 per cent). Greenfield investments fell slightly to $180 billion in 2011, though this amount still represented 20 per cent of all greenfield investment projects.

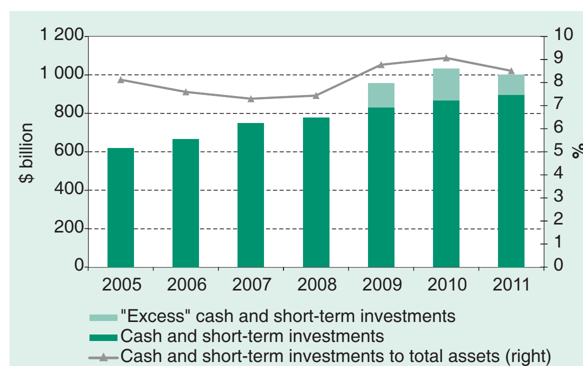
FDI activity by the largest 100 TNCs from developing and transition economies slowed in 2011, after nearly doubling in 2010. As a group, these TNCs completed $119 billion of FDI projects in 2011 ($109 billion, excluding TNCs that are also members of the top 100 TNCs worldwide). Greenfield investments reached $66 billion, or 55 per cent of their total FDI projects, accounting for roughly 7 per cent of total projects around the world. The value of gross cross-border M&As completed by the group in 2011 jumped 42 per cent to $53 billion, or roughly 5.5 per cent of all deals. VimpelCom Ltd (Russian Federation) was the primary driver of this increase, completing $23 billion in deals during the year (figure I.15.b).

## 2. Disconnect between cash holdings and investment levels of the largest TNCs

**TNCs' record cash levels have so far not translated into sustained growth in investment levels, though improved economic conditions could fuel a future surge in FDI.**

In the aftermath of the recent global crisis, a lack of business investment stymied economic recovery, especially in developed economies. This occurred at the same time as many corporations around the world were posting record cash holdings. In the United States, for example, the non-financial corporations in the S&P 500 had cash holdings, including short-term investments, of $1.24 trillion at the end of 2011.[17] Globally UNCTAD estimates that TNCs had cash holdings of $4–5 trillion in 2011, including a significant share held as earnings retained overseas (UNCTAD, 2011a). However, it is unclear to what extent corporations can or will convert their sizable cash holdings into new investment. This section analyses this seeming disconnect between cash holdings and investment through an examination of the annual reports of the largest 100 TNCs, which account for a significant share of global FDI flows and international production (section B.1), with a particular view to their FDI expenditures.

**Figure I.16. Top 100 TNCs: cash holdings, 2005–2011**
(Billions of dollars and per cent)

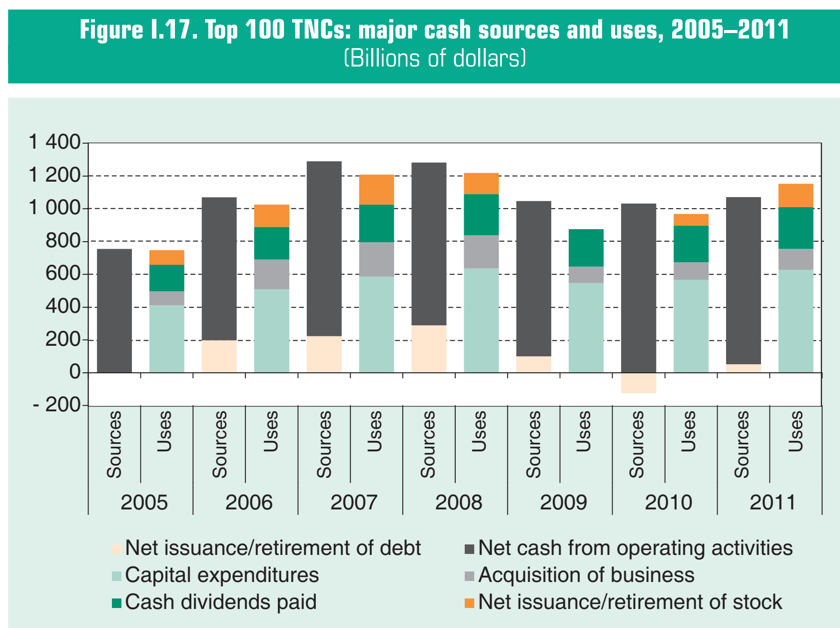



*Source*: UNCTAD, based on data from Thomson ONE.
*Note*: "Excess" cash and short-term investments are those above the cash level implied by the 2005–2008 average cash-to-assets ratio.

Following the general trend observed globally, the largest 100 TNCs also sharply increased their cash holdings (figure I.16). Compared with their 2008 levels, cash and short-term investments rose by one third, to reach a peak of $1.03 trillion in 2010. Concomitantly, the ratio of their cash to total assets jumped nearly 1.5 percentage points, from an average of 7.6 per cent in 2005–2008 to 9.1 per cent in 2010. This seemingly small change marks a sharp change in their cash-holding behaviour. Using the immediate pre-crisis ratio as a baseline, the largest 100 TNCs held an estimated $166 billion more in cash in 2010 than their pre-crisis behaviour would suggest.

Although this is a substantial sum, "excess" cash holdings are a symptom of the financial uncertainty that TNCs were faced with, rather than a cause of the decline in their investment activities. Today's "excess" cash must be contrasted with yesterday's surge in debt. In the run-up to the financial crisis, the largest 100 TNCs, and corporations more generally, availed themselves of the favourable market conditions of the time to open or expand their lines of credit with financial institutions and to tap debt markets. UNCTAD's analysis of corporate reports between 2006 and 2008 finds that the largest 100 TNCs added a net $709 billion in debt. This flood of borrowed money allowed the largest TNCs to maintain their dividend payments, repurchase shares and expand their investment expenditures, all at the same time (figure I.17).

**Figure I.17. Top 100 TNCs: major cash sources and uses, 2005–2011**
(Billions of dollars)

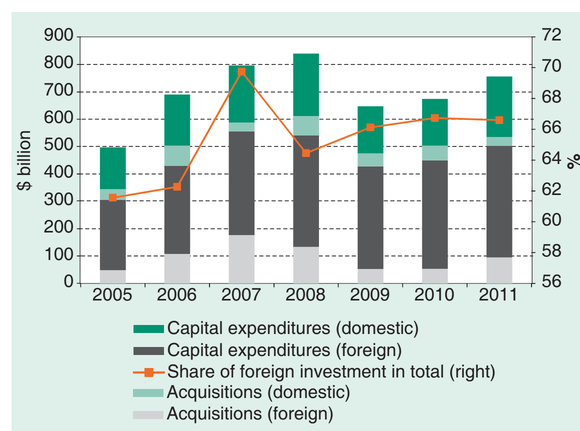



*Source*: UNCTAD, based on data from Thomson ONE.

With the outbreak of the global financial crisis, this flood of available finance became a trickle seemingly overnight. Over the next two years, the top 100 TNCs faced a roughly $400 billion hole in their cash flows as net issuance of debt fell from $289 billion in 2008 to a net repayment of $125 billion in 2010, as debt markets froze and lenders refused to roll over maturing debt. The need to compensate for reduced credit issuance and to spend cash on debt repayments required a significant build-up of liquidity levels. Fiat (Italy) is a prime example of this behaviour, nearly quadrupling its cash holdings between 2008 and 2009 in an effort to create sufficient liquidity to cover its looming financial liabilities.[18]

The top 100 TNCs were forced to make difficult decisions on how to bring their expenditures in line with the cash generated from their operations. These measures, including layoffs and the shuttering of plants, were widely reported in the media and noted in the *World Investment Report 2009* (*WIR09*: 21–22), but they cut costs only marginally. To close the gap, TNCs were forced to contemplate cutting dividends or investment expenditures. Given companies' extreme reluctance to cut their dividends for fear of seeing their stock price punished by the market, most TNCs decided to slash their investment budgets. Capital expenditures and acquisitions experienced a 23 per cent retrenchment between 2008 and 2009, despite a fall of only 5 per cent in cash from operating activities. In contrast, cash dividends retreated only 8 per cent, largely in line with the fall in cash from operations.

**Figure I.18. Top 100 TNCs: capital expenditures and acquisitions, 2005–2011**
(Billions of dollars and per cent)




*Source*: UNCTAD, based on data from Thomson ONE.
*Note*: Domestic versus foreign split of acquisitions calculated using data on the top 100 TNCs from UNCTAD's M&A database. Domestic versus foreign split of capital expenditures calculated using available data from annual reports of the top 100 TNCs over the period (on average, data for 39 firms per year).

While investment expenditures fell in general, not all types of investment were affected equally (figure I.18). Capital expenditures, which play a crucial role in shaping the long-term direction of any company, were the most resilient. Foreign capital expenditures, in particular, were the least affected, with only an 8 per cent decline between 2008 and 2009. Domestic capital expenditures, however, experienced a 25 per cent cut, reflecting the relatively weaker economic conditions in the home economies of the top 100 TNCs – mainly developed countries. Acquisitions were reduced sharply, falling 50 per cent over the period. Domestic M&As, normally a relatively small expense for the largest 100 TNCs, dropped 33 per cent in value. The investment component that bore the brunt of the decline was cross-border acquisitions, which were cut by 60 per cent. This largely is in line with the general global trends in cross-border M&As, which also fell sharply over the period (*WIR11*: 11).

The latest data from 2011 suggest that the investment drought of recent years – especially in cross-border acquisitions – may be subsiding. FDI expenditures by the top 100 TNCs, as estimated by UNCTAD, rose 12 per cent to $503 billion in 2011, compared with 2010. They remained, nevertheless, 10 per cent below their 2008 high. Of the major investment components, only foreign capital expenditures had returned to their 2008 levels as of 2011. Although estimated "excess" cash levels fell slightly in 2011, they were still far from being fully deployed (figure I.16). The data also suggest that these additional holdings are not necessarily waiting to be used for FDI. Shut out of the easy financing of the pre-crisis era, TNCs may also choose to use this cash for other purposes, including holding additional cash to insure liquidity, paying off debt or distributing cash to shareholders. The recent announcement that Apple (United States) would use $10 billion of its cash holdings to pay dividends and repurchase shares is indicative of this possibility.[19] The precarious state of the global financial system will also limit the ability of TNCs to translate into new investments their remaining $105 billion in "excess" cash – an amount that, if used completely, would equate to roughly one fifth of their estimated 2011 FDI expenditures. Nevertheless, as conditions improve the current cash "overhang" may fuel a future surge in FDI. Projecting the amount for the top 100 TNCs over the estimated $5 trillion in total TNC cash holdings results in more than $500 billion in investable funds, or about one third of global FDI flows.

# C. FDI ATTRACTION, POTENTIAL AND CONTRIBUTION INDICES

## 1. Inward FDI Attraction and Potential Indices

**The UNCTAD FDI Attraction Index features 8 developing and transition economies in the top 10, compared with only 4 a decade ago.**

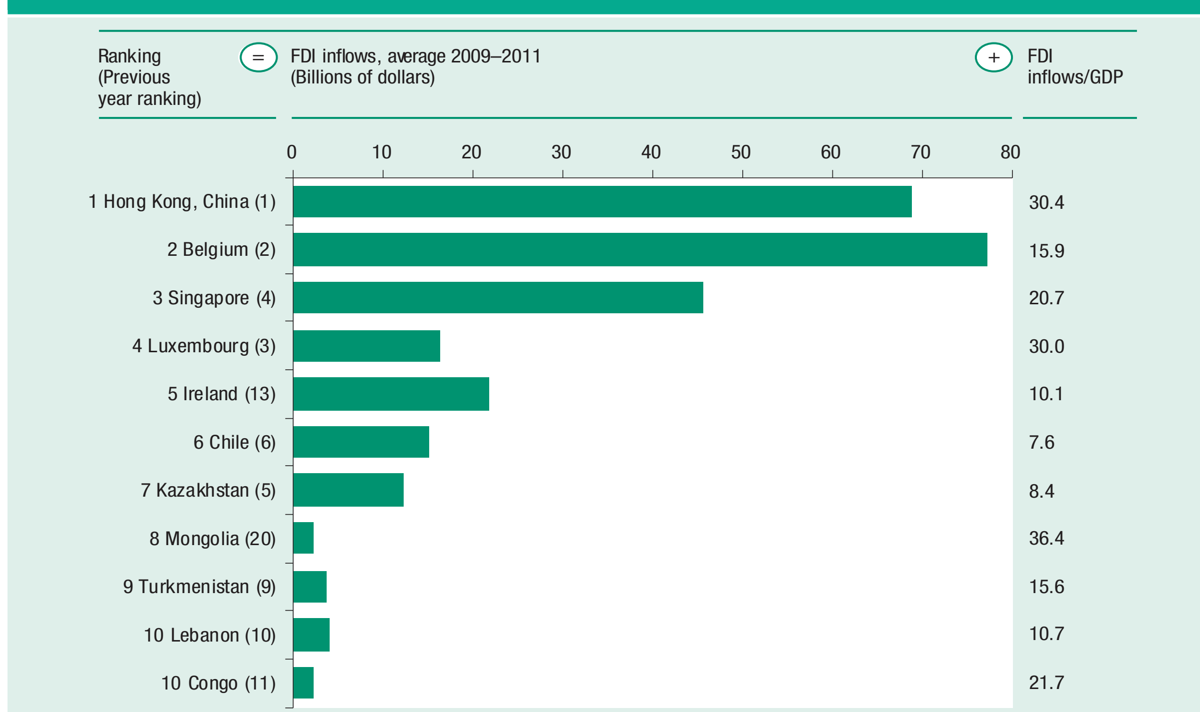
The ranking of economies in UNCTAD's FDI Attraction Index, which measures countries' success in attracting FDI over a rolling three-year period (box I.3), has seen some significant changes in 2011. The top 10 (figure I.19) contains newcomers including Ireland (5th, previously 13th) and Mongolia (8th, previously 20th) and Congo (10th, previously 11th). Saudi Arabia dropped out of the top 10 during the year, falling to 12th place.[20]

The top performers – Hong Kong, China; Belgium; Singapore; and Luxembourg – are fixed features at the top of the list, with high absolute inflows because of their attractive investment climates and the important "hinterlands" for which they act as gateways, and with outsized inflows relative to the size of their economies. A number of resource-rich countries also feature in the higher ranks of the index, as resource-seeking FDI essentially ignores host-country size (as well as other determinants of FDI). In the top 10, these are Chile, Kazakhstan, Mongolia, Turkmenistan and Congo; immediately below the top 10, examples include Saudi Arabia (12th), Chad (14th) and Ghana (16th).

A number of countries have made significant jumps in the table. They include Portugal (moving from 116th to 68th place), Belarus (from 86th to 38th place), and Brunei Darussalam (from 121st to 80th place). In some cases these jumps can be mostly explained by a few large investments or deals; for example, in Equatorial Guinea (up 43 places), Zimbabwe (up 32) and Gabon (up 24). In other cases, improvements signal longer-term changes in the investment climate; examples include Peru and Ghana, which have improved their rankings in each of the last six years.

Comparing performance in attracting FDI over the past three years with the UNCTAD FDI Potential Index (figure I.20) yields two groups of economies that have attracted significantly more – or

**Figure I.19. FDI Attraction Index: top 10 ranked economies, 2011**




*Source*: UNCTAD.

## Box I.3. UNCTAD's FDI Attraction, Potential and Contribution Indices

***Assessment Tools for Policymakers***

UNCTAD has regularly published its FDI Attraction and Potential Indices in its annual *World Investment Report* since 2002. These indices have largely stayed the same over these 10 years. This year's report proposes a number of changes in the Indices[a] to strengthen their potential use as tools for policymakers and adds a new index to measure the extent to which FDI contributes to economic development in host countries.

***Attraction Index***

The Inward FDI Attraction Index ranks countries by the FDI they receive in absolute terms and relative to their economic size. It is the average of a country's rankings in FDI inflows and in FDI inflows as a share of GDP. The Attraction Index can be calculated using FDI flows, to measure success in attracting FDI in a given year, or using FDI stocks (or average flows over a certain period) to look at a longer time frame. For policymakers, looking at a longer time frame is more relevant because (i) FDI flows can fluctuate significantly year on year, (ii) direct investment decisions can span more than one year and imply long-term commitments, and (iii) policy initiatives and tools to improve FDI attraction generally take time to have an effect. This year's *WIR* therefore looks at FDI flows over the 2009–2011 period; data to generate alternative approaches can be found at www.unctad.org/wir.

***Potential Index***

The Inward FDI Potential Index captures four key economic determinants of the attractiveness of an economy for foreign direct investors (for a full discussion of FDI determinants, see *WIR98*). They are the attractiveness of the market (for market-seeking FDI), the availability of low-cost labour and skills (to capture efficiency-seeking FDI), the presence of natural resources (resource-seeking FDI), and the presence of FDI-enabling infrastructure. Countries can be ranked according to their attractiveness for FDI on each of these broad determinants using a range of proxy indicators, as summarized in box table I.3.1. The index purposely includes only economic determinants and indicators in order to facilitate its use as a tool for measuring policy effectiveness.

**Box table I.3.1. Measuring FDI Potential: FDI determinants and proxy indicators**

| Determinant | Proxy indicators |
|---|---|
| Market attractiveness | • Size of the market (GDP (purchasing power parity))<br>• Spending power (per capita GDP (purchasing power parity))<br>• Growth potential of the market (real GDP growth rate) |
| Availability of low-cost labour and skills | • Unit labour cost (hourly compensation and labour productivity)<br>• Size of manufacturing workforce (existing skill base) |
| Presence of natural resources | • Exploitation of resources (value of fuels and ores exports)<br>• Agricultural potential (availability of arable land) |
| Enabling infrastructure | • Transport infrastructure<br>- (road density: km of road per 100 km$^2$ of land area)<br>- (percentage of paved roads in total)<br>- (rail lines total route-km)<br>- (liner shipping connectivity index)<br>• Energy infrastructure<br>- (electric power consumption)<br>• Telecom infrastructure<br>- (telephone lines/100 inhabitants)<br>- (mobile cellular subscriptions/100 inhabitants)<br>- (fixed broadband Internet subscribers/100 inhabitants) |

*Source*: UNCTAD.

For the purpose of this year's *WIR,* countries have been categorized in homogeneous groups (quartiles) with similar levels of attractiveness for each determinant. An overall FDI Potential Index is obtained by combining the score on all four determinants, using equal weights. For countries to be included in the ranking on individual determinants, at least three indicators must be available per determinant – sufficient data for an overall ranking are currently available for some 177 countries. Raw data used in the calculations can be found at the UNCTAD website. The list of proxy indicators cannot be exhaustive – UNCTAD's choices are based on relevance for developing countries, especially LDCs, leading to the exclusion of indicators such as R&D expenditures or patents. The website provides alternative calculation options and additional indicators.

/...

## Box I.3. UNCTAD's FDI Attraction, Potential and Contribution Indices (Concluded)

***Contribution Index***

The Inward FDI Contribution Index aims to measure the development impact of FDI in the host economy. It looks at the contribution of foreign affiliates to GDP (value added), employment, wages and salaries, exports, R&D expenditures, capital formation and tax payments, as a share of the host-country total (e.g. employment by foreign affiliates as a percentage of total employment). These seven variables are among those recommended by the *Manual on Statistics of International Trade in Services* (2010) for inclusion in the collection of foreign affiliate statistics. A number of these variables are also proposed by the G-20 in its work on indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains.[b]

Data on the impact of foreign affiliates in each area of contribution are not readily available for most countries. Where they are not, FDI contributions can be estimated by applying the ratios of each indicator in foreign affiliates of countries that collect data on their overseas investors (Finland, Germany, Japan, Sweden, Switzerland and the United States for employment; the United States alone for the other variables) to the inward stock of these countries in the total inward stock of host economies.

As in the case of the FDI Potential Index, countries have been categorized in homogeneous groups (quartiles) with similar levels of contribution for each type of impact. The ranking of an economy in the FDI Contribution Index is calculated based on the simple average of the percentile rankings for each of the impact types, using equal weights. An economy is ranked only if it has at least four data points. Currently, sufficient data are available for 79 countries.

***Using the Indices as Policy Tools***

FDI policy generally aims to set the conditions and create a climate conducive to the *attraction* of FDI and to maximize the *development contribution* of FDI. The Indices can help policymakers assess the effectiveness of their policy frameworks by plotting their countries' performance against potential and by measuring the contribution of FDI, making comparisons with peer countries or within regional groupings, and tracking changes in performance over time. Although the Indices can provide only rough guidance, because they necessarily exclude country-specific factors, they can be a useful starting point for the assessment of policy effectiveness, which is an integral part of UNCTAD's Investment Policy Framework for Sustainable Development (see chapter IV).

*Source:* UNCTAD.

[a] Numerous suggestions have been made over the past 10 years to improve the assessment of countries' potential for the attraction of investment. See, inter alia, Rodríguez et al. (2009).

[b] UNCTAD's work with the G-20 in the area of investment can be found at www.unctad.org/DIAE/G-20.

significantly less – FDI than could be expected on the basis of their economic determinants alone.

The "above-potential" economies include, again, resource-rich countries that – even though the Potential Index takes into account the presence of natural resources – exceeded expectations. They also include small economies, such as small island developing States, where single large investments can make a big impact on performance in attracting FDI (and, more importantly, on their economies) or that have created specific locational advantages, either in the investment or tax regime or by providing access to larger markets (e.g. through Djibouti's sea port). This group also includes a number of countries such as Albania, which are in a "catch-up phase" for FDI, having embarked on a course to improve their investment climates. Because the FDI Attraction Index captures the most recent investment performance, they receive a premium.

The "below-potential" group includes a number of economies that have traditionally not relied much on foreign investment for capital formation, such as Japan and the Republic of Korea, or that are traditionally low recipients of FDI, such as Italy. A number of countries have significant potential from the perspective of economic determinants but either are closed to FDI or maintain a policy climate that is unattractive to investors. A group of developing countries with emerging market status and with growing investment potential nevertheless is currently receiving FDI flows below expectations, including the Philippines and South Africa and, to a lesser extent, countries such as India, Indonesia and Mexico (although these countries may be successful in attracting NEM operations). To realize the investment flows that their economic determinants alone indicate, these countries may wish to explore policy options and innovations in comparable economies.

**Figure I.20. FDI Attraction Index vs FDI Potential Index Matrix, 2011**
(Quartiles)

Above expectations | In line with expectations | Below expectations

| FDI Attraction Index \ FDI Potential Index | 4th quartile (Low) | 3rd quartile | 2nd quartile | 1st quartile (High) |
|---|---|---|---|---|
| High 1st quartile | Chad, Liberia, Madagascar, Niger | Albania, Bahamas, Congo, Congo (Democratic Republic of), Equatorial Guinea, Jordan, Lebanon, Luxembourg, Mongolia, Mozambique, Zambia | Bulgaria, Ghana, Ireland, Israel, Nigeria, Norway, Panama, Turkmenistan, Uruguay | Australia, Belarus, Belgium, Brazil, Chile, China, Colombia, Hong Kong (China), Kazakhstan, Malaysia, Peru, Poland, Russian Federation, Saudi Arabia, Singapore, Switzerland, Ukraine, United Kingdom, Viet Nam |
| 2nd quartile | Armenia, Cambodia, Guinea, Nicaragua, Saint Vincent and the Grenadines, Solomon Islands | Costa Rica, Georgia, Honduras, Kyrgyzstan, Libya, Maldives, Malta, Namibia, Seychelles, Sudan, United Republic of Tanzania | Brunei Darussalam, Croatia, Dominican Republic, Egypt, Estonia, Iraq, Portugal, Qatar, Serbia, Tunisia, Uzbekistan | Austria, Canada, Czech Republic, France, Germany, Hungary, India, Indonesia, Mexico, Netherlands, Romania, Spain, Thailand, Turkey, United Arab Emirates, United States |
| 3rd quartile | Antigua and Barbuda, Belize, Cape Verde, Central African Republic, Djibouti, Dominica, Fiji, Grenada, Guyana, Mali, São Tomé and Principe, Vanuatu | Barbados, Botswana, Cameroon, Lao People's Democratic Republic, the former Yugoslav Republic of Macedonia, Mauritius, the Republic of Moldova, Myanmar, Uganda, Zimbabwe | Algeria, Azerbaijan, Bolivia (Plurinational State of), Denmark, Gabon, Guatemala, Iceland, Jamaica, Latvia, Morocco, Oman, Pakistan, Syrian Arab Republic, Trinidad and Tobago | Argentina, Finland, Iran (Islamic Republic of), Italy, Japan, Korea (Republic of), South Africa, Sweden |
| 4th quartile Low | Afghanistan, Benin, Bhutan, Burkina Faso, Burundi, Comoros, Côte d'Ivoire, Eritrea, Gambia, Guinea-Bissau, Haiti, Kiribati, Lesotho, Malawi, Mauritania, Nepal, Rwanda, Samoa, Sierra Leone, Suriname, Swaziland, Togo, Tonga | Angola, Bangladesh, Bosnia and Herzegovina, El Salvador, Ethiopia, Kenya, Papua New Guinea, Paraguay, Senegal, Tajikistan, Yemen | Bahrain, Ecuador, Greece, Kuwait, Lithuania, New Zealand, Philippines, Slovakia, Slovenia, Sri Lanka | Venezuela (Bolivarian Republic of) |

*Source*: UNCTAD.

## 2. Inward FDI Contribution Index

**The UNCTAD FDI Contribution Index shows relatively higher contributions of foreign affiliates to local economies in developing countries, especially in Africa, in value added, employment and wage generation, tax revenues and export generation.**

The UNCTAD FDI Contribution Index ranks economies on the basis of the significance of FDI – foreign affiliates – in their economy, in terms of value added, employment, wages, tax receipts, exports, R&D expenditures and capital formation (overall ranking in annex table I.10; methodology in box I.3). According to this year's index – the first of its kind – the host economy with the largest contribution by FDI is Hungary, followed by Belgium and the Czech Republic.

Looking at regional patterns in the Contribution Index shows that there are more host countries with higher index values in the developing regions (table I.10). Africa is the region where TNCs contribute most to the economy in terms of value added (tied with transition economies) and wages. In general, the index is higher for developing than developed countries and transition economies (with more indicators balanced in favour of developing economies): the role of TNCs relative to the size of the economy is larger. The higher ratio for employment compared to value added for developing countries reflects the fact that the labour-intensity of production there is higher than in developed countries. Similarly, the higher ratio for wages in developing countries compared with that for developed countries means that TNC affiliates in

developing countries pay a higher wage premium over local wages than do those in developed countries. It also means that foreign affiliates there are likely to use more capital-intensive techniques (also reflected in lower ratios for capital expenditures for some regions).

The export ratio is higher in some developing regions, especially East and South-East Asia, where export-oriented industries have been built up with significant involvement of foreign affiliates of TNCs. The higher tax ratio compared with the value added ratio in Latin America and the Caribbean shows that TNCs can contribute to higher fiscal revenues for host states and to the process of formalizing the economy. The share of TNC foreign affiliates in total R&D expenditures in host countries is similar in developing than in developed countries, with high shares in Africa and Latin America.

Looking at individual countries shows significant variation in individual indicators. The export and employment quartile rankings vary from country to country depending on the predominant types of investment. Where efficiency-seeking FDI is high (e.g. China, Mexico), these indicators tend to have higher rankings than other indicators. The employment quartile ranking is clearly dependent on local labour costs and the consequent predominant industries in which TNCs operate in host countries, with common offshoring destinations such as China, India, Taiwan Province of China and Mexico all showing higher quartile rankings for employment compared with the rankings for value added. The ranking for tax payments differs from that for value added in many countries, depending on the level of formalization of local economies (especially in poorer countries) on the one hand, and on the fiscal treatment of foreign investors on the other.

The "high contribution" (top quartile) countries show impact values significantly above the values given in table I.10. TNC foreign affiliates contribute about half of their GDP (in value added) and exports, about one fifth of employment and significantly higher values for three indicators: wages (with TNCs accounting for a large share of formal employment and paying higher wages than local firms), R&D spending (with TNCs accounting for nearly 70 per cent of some countries' registered R&D), and capital expenditures (in total gross fixed capital formation) (table I.11).

The contribution of foreign investors to host economies is first and foremost a function of the share of FDI stock to GDP (table I.11). However, for numerous economies the FDI contribution is either significantly above or below what could be expected on the basis of the presence of foreign investment. Comparing the FDI Contribution Index with the presence of FDI in each economy highlights those that have the greatest positive and negative differentials between FDI contribution to local economies and expected contribution levels based on FDI stock (figure I.21).

**Table I.10. UNCTAD's FDI Contribution Index, by host region, 2009[a]**
(Percentage shares in each variable's total for the region)

| Region/economy | Value added | Employment | Exports | Tax revenue | Wages and salaries | R&D expenditures | Capital expenditures |
|---|---|---|---|---|---|---|---|
| **Total world** | | | | | | | |
| **Developed countries** | **12.7** | **7.5** | **19.3** | **13.9** | **14.6** | **24.2** | **10.5** |
| **Developing economies** | **12.2** | **7.9** | **17.3** | **14.6** | **15.4** | **24.1** | **11.6** |
| Africa | 21.7 | 7.3 | .. | .. | 21.7 | 37.2 | 18.4 |
| East and South-East Asia | 10.5 | 9.9 | 30.9 | 7.7 | 8.9 | 22.5 | 6.2 |
| South Asia | 10.3 | 6.1 | .. | .. | 16.0 | .. | 3.8 |
| West Asia | 16.8 | 5.5 | 1.9 | .. | 15.0 | .. | 3.8 |
| Latin America and the Caribbean | 15.9 | 6.0 | 17.9 | 18.9 | 16.0 | 35.0 | 14.8 |
| **Transition economies** | **21.7** | **3.0** | **..** | **..** | **11.2** | **15.4** | **25.7** |

*Source*: UNCTAD; for further information on data and methodology, see www.unctad.org/wir.
[a] Or latest year available.
*Note*: Data from economies not listed in the FDI Contribution Index (because they do not cover at least four of the seven variables), are included in these calculations.

**Table I.11. FDI Contribution Index median values, by indicator**
(Per cent of economy totals)

| Quartiles | FDI Contribution Index indicators | | | | | | | Memorandum item: |
|---|---|---|---|---|---|---|---|---|
| | Value added | Employment | Exports | Tax revenue | Wages and salaries | R&D expenditures | Capital expenditures | FDI inward stock/GDP |
| 1 | 41.1 | 22.2 | 47.2 | 64.5 | 37.0 | 62.7 | 37.9 | 75.4 |
| 2 | 24.6 | 12.0 | 20.0 | 28.3 | 22.8 | 34.0 | 17.6 | 42.8 |
| 3 | 16.5 | 4.6 | 7.6 | 12.7 | 12.0 | 19.6 | 7.3 | 31.2 |
| 4 | 5.5 | 0.9 | 2.3 | 4.9 | 5.0 | 7.8 | 2.1 | 13.3 |

*Source*: UNCTAD; for further information on data and methodology, see www.unctad.org/wir.

A number of major emerging markets – Argentina, Brazil, China, Indonesia and South Africa – appear to get a higher contribution to their economies "per unit of FDI" than average, with high quartile rankings in exports, employment, wages and R&D (more than in value added or capital formation). In some cases this may be due to active investment policymaking; for example, channeling investment to specific higher-impact industries. Other countries in this group, such as Germany or Italy, have traditionally low shares of FDI stock compared with the size of local economies but appear to get relatively high contributions, in some cases on individual indicator ratios (e.g. tax, wages and R&D expenditures in the case of Italy). A number of developing countries receive above-average contributions on some indicators but lag on others – with policy opportunities to improve impact. An example is Colombia, which has significant FDI stock that is contributing above-average value added but relatively little employment.

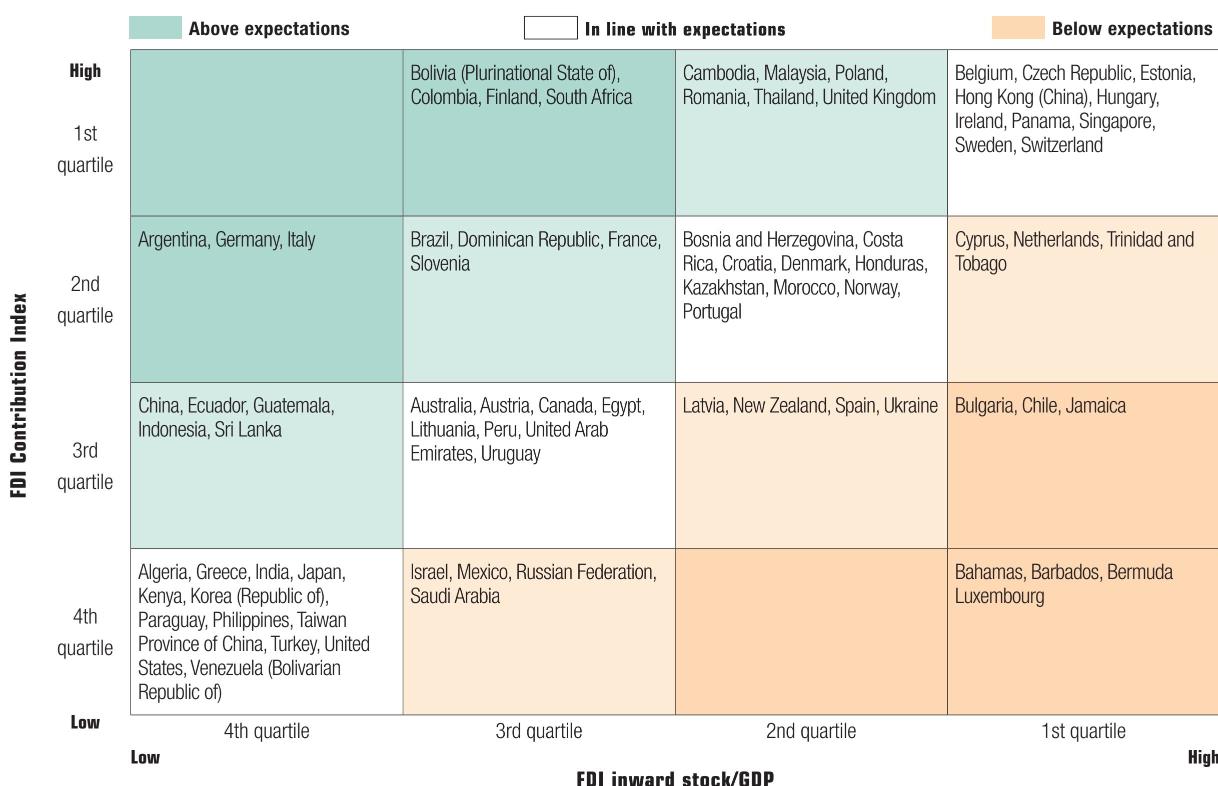
At the other end of the scale, a group of economies with a significant presence of TNCs (i.e. a high ratio of FDI stock to GDP) receives a below-average contribution of FDI in terms of the Index indicators. This group includes a number of economies that attract investment largely owing to their fiscal or corporate governance regimes (including tax havens and countries that allow special-purpose vehicles or other corporate governance structures favoured by investors, such as Luxembourg and the Netherlands). Such regimes obviously lead to investment that has little impact in terms of local value added or employment. This group also contains countries with a high share of resource-seeking FDI, such as Chile and Saudi Arabia, confirming concerns about the relatively low impact of this type of investment in terms of, for example, local employment. (The poorest resource-rich countries are absent from the current list owing to the lack of data.)

Although the FDI Contribution Index provides valuable insights, it cannot fully capture FDI's contribution to development, which is multifaceted, with impacts – both positive and negative – that cannot be easily quantified. For example, it does not take into account impacts across the spectrum of labour, social, environmental and development issues. Its coverage of economic impacts is also limited, largely because of the paucity of data. The FDI Contribution Index also does not measure the full range of TNCs' involvement in a host economy. For example, non-equity modes of international production, an increasing phenomenon, play an important role in a number of developing economies, but their impact is not captured in their entirety in any of the indices presented in this section.

Even with these limitations, the rankings of the FDI Contribution Index underscore that FDI is not homogenous and that its economic contribution can differ markedly between countries, even those that have similar levels of FDI. This confirms that policy plays a critical role in maximizing positive and minimizing negative effects of FDI. UNCTAD's Investment Policy Framework for Sustainable Development may serve as a starting point for policymakers of those countries where performance does not match potential or where the economic contribution of FDI is lower than expected (see chapter IV).

The FDI Contribution Index is the very first attempt at a systematic comparative analysis of the contribution of FDI to economic development,

**Figure I.21. FDI Contribution Index vs FDI presence, 2011**
(Quartiles)




*Source*: UNCTAD.

a field in which data are extremely sparse and difficult to interpret because of widely varying national statistical methods. UNCTAD will continue to conduct research on the impact of investment and seek to improve on data and methodology for the index. UNCTAD is ready to engage with policymakers in the interpretation of the results of the index, and in helping countries to improve its statistical basis through national data collection efforts.

## Notes

[1] For example, TNK-BP (Russian Federation) entered the Brazilian oil industry in 2011 with a $1 billion acquisition of a 45 per cent stake in 21 oil blocks located in the Solimoes Basin.

[2] The value of these projects on an announcement basis is eventually replaced in the database with the actual amount of funds invested.

[3] International Energy Agency (2011) "World Energy Outlook 2011".

[4] Examples include investments by Sinopec (China) in the oil and gas fields in Devon for $2.2 billion, and the acquisition of a minority stake by Total (France) in the oil and gas firm Chesapeake Energy (United States) for $2.3 billion, as well as the purchase by Repsol (Spain) of a $1 billion minority share in fields being developed by Sand Hill Energy (United States).

[5] A number of types of private investment funds are involved in FDI. Because of data constraints, the following analysis concentrates on the activities of private equity funds, which are still the most active in the business. Unlike other funds (e.g. hedge funds), private equity funds typically obtain a majority stake or all of the shares, to control and manage the companies they buy, and they stay longer in that position than other funds. But the different kinds of funds increasingly act together and the boundaries between private equity funds, hedge funds, other collective investment funds and even investment banks are beginning to fade away.

[6] This figure is based on the assumption that all the funds used in cross-border M&As are recorded as FDI flows.

[7] European Private Equity and Venture Capital Association, "CEE private equity shows robust growth in fundraising and exits in 2010", 7 July 2011.

[8] For example, Global Infrastructure Partners (United States), a joint venture between Credit Suisse Group and GE Infrastructure Inc., acquired London Gatwick Airport Ltd from Grupo Ferrovial (Spain) for $2.5 billion in 2009.

[9] KKR and Itochu Corp, for example, jointly invested $7 billion to buy assets of Samson Investment Company (United States), an oil and gas group, in 2011.

[10] For example, in the Republic of Korea, several cases provoked anger from the public towards such firms (e.g. Newbridge Capital and Lone-Star (United States), both private equity firms, when the former sold Korea First Bank in 2005 and the latter sold Korean Exchange Bank in 2006). Similar examples also were observed in developed countries (e.g. Japan) in the 1990s when, after the collapse of the bubble economy, nationalized Japanese banks were acquired by foreign private equity investors. In major EU countries where private equity business is more active, concerns about private equity business are also widespread.

[11] This survey, based on 79 private equity firms, found that 63 per cent of respondent firms had substantially implemented environmental and social policies in their investments, compared with only 24 per cent in 2009. For example, KKR (United States) has implemented such programmes in a quarter of its portfolio (Private Equity International, “Study: PE firms adjusting to ESG”, 22 November 2011).

[12] There is considerable variation in estimates of assets under the management of SWFs because the definition of SWFs varies between sources and because not all SWFs release data on their assets.

[13] BIS, *Quarterly Review*, various issues. Data refer to the international position with respect to total assets of banks in all reporting countries taken together.

[14] Based on UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from Financial Times Ltd and fDi Markets (www.fDimarkets.com).

[15] FAO, IFAD, UNCTAD and World Bank, *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources* (see www.unctad.org/en/Pages/DIAE/G-20/PRAI.aspx).

[16] For example, worldwide total investment in the renewable energy sector continued to grow (except in 2009) even during the financial crisis, to reach a record $257 billion in 2011 (UNEP and Frankfurt School of Finance & Management, 2012).

[17] See www.moodys.com/research/Moodys-US-Corporate-Cash-Pile-At-124-Trillion-Over-Half--PR_240419.

[18] Fiat SpA, *2009 Annual Report*, p. 65.

[19] *New York Times*, “Flush With Cash, Apple Plans Buyback and Dividend”, 19 March 2012.

[20] Ranking comparisons are based on a time series of the FDI Attraction Index calculated for this *WIR*.