

REGIONAL INVESTMENT TRENDS

CHAPTER II



INTRODUCTION

In 2013, foreign direct investment (FDI) inflows increased in all three major economic groups – developed, developing and transition economies (table II.1) – although at different growth rates.

FDI flows to *developing economies* reached a new high of \$778 billion, accounting for 54 per cent of global inflows in 2013. Flows to most developing subregions were up. Developing Asia remained the largest host region in the world. FDI flows to *transition economies* recorded a 28 per cent increase, to \$108 billion. FDI flows to *developed countries* increased by 9 per cent to \$566 billion – still only 60 per cent of their pre-crisis average during 2005–2007. FDI flows to the *structurally weak, vulnerable and small economies* fell by 3 per cent in 2013, from \$58 billion in 2012 to \$57 billion, as the growth of FDI to least developed countries

(LDCs) was not enough to offset the decrease of FDI to small island developing States (SIDS) and landlocked developing countries (LLDCs) (table II.1). Their share in the world total also fell, from 4.4 per cent in 2012 to 3.9 per cent.

Outward FDI from developed economies stagnated at \$857 billion in 2013, accounting for a record low share of 61 per cent in global outflows. In contrast, flows from developing economies remained resilient, rising by 3 per cent to reach a new high of \$454 billion. Flows from developing Asia and Africa rose while those from Latin America and the Caribbean declined. Developing Asia remained a large source of FDI, accounting for more than one fifth of the global total. And flows from transition economies rose significantly – by 84 per cent – reaching a new high of \$99 billion.

Table II.1. FDI flows, by region, 2011–2013
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2011	2012	2013	2011	2012	2013
World	1 700	1 330	1 452	1 712	1 347	1 411
Developed economies	880	517	566	1 216	853	857
European Union	490	216	246	585	238	250
North America	263	204	250	439	422	381
Developing economies	725	729	778	423	440	454
Africa	48	55	57	7	12	12
Asia	431	415	426	304	302	326
East and South-East Asia	333	334	347	270	274	293
South Asia	44	32	36	13	9	2
West Asia	53	48	44	22	19	31
Latin America and the Caribbean	244	256	292	111	124	115
Oceania	2	3	3	1	2	1
Transition economies	95	84	108	73	54	99
Structurally weak, vulnerable and small economies^a	58	58	57	12	10	9
LDCs	22	24	28	4	4	5
LLDCs	36	34	30	6	3	4
SIDS	6	7	6	2	2	1
Memorandum: percentage share in world FDI flows						
Developed economies	51.8	38.8	39.0	71.0	63.3	60.8
European Union	28.8	16.2	17.0	34.2	17.7	17.8
North America	15.5	15.3	17.2	25.6	31.4	27.0
Developing economies	42.6	54.8	53.6	24.7	32.7	32.2
Africa	2.8	4.1	3.9	0.4	0.9	0.9
Asia	25.3	31.2	29.4	17.8	22.4	23.1
East and South-East Asia	19.6	25.1	23.9	15.8	20.3	20.7
South Asia	2.6	2.4	2.4	0.8	0.7	0.2
West Asia	3.1	3.6	3.0	1.3	1.4	2.2
Latin America and the Caribbean	14.3	19.2	20.1	6.5	9.2	8.1
Oceania	0.1	0.2	0.2	0.1	0.1	0.1
Transition economies	5.6	6.3	7.4	4.3	4.0	7.0
Structurally weak, vulnerable and small economies^a	3.4	4.4	3.9	0.7	0.7	0.7
LDCs	1.3	1.8	1.9	0.3	0.3	0.3
LLDCs	2.1	2.5	2.0	0.4	0.2	0.3
SIDS	0.4	0.5	0.4	0.1	0.2	0.1

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

^aWithout double counting.

A. REGIONAL TRENDS

1. Africa

Table A. Distribution of FDI flows among economies, by range,^a 2013

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

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

Figure B. FDI inflows, 2007–2013
(Billions of dollars)

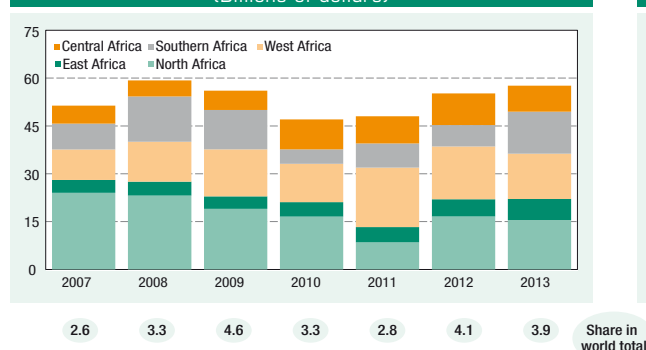


Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

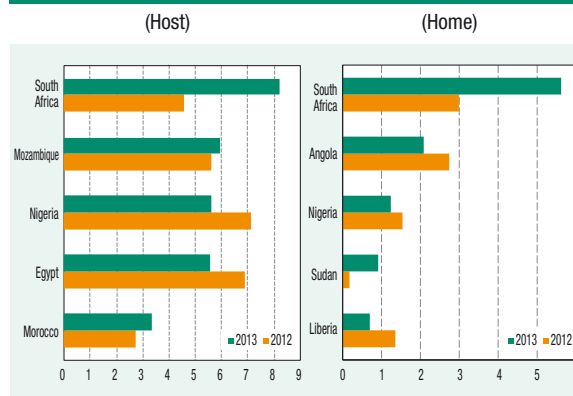


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

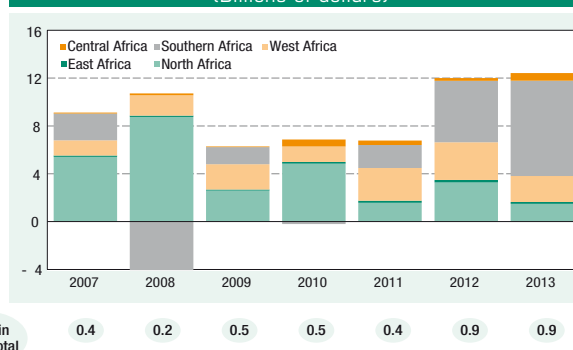


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	-1 254	3 848	629	3 019
Primary	-1 125	135	308	289
Mining, quarrying and petroleum	-1 148	135	286	289
Manufacturing	231	3 326	1 518	1 632
Food, beverages and tobacco	634	1 023	185	244
Chemicals and chemical products	17	16	-162	-
Pharmaceuticals, medicinal chemical & botanical prod.	42	567	502	1 310
Non-metallic mineral products	-25	1 706	81	-
Services	-360	387	-1 197	1 098
Transportation and storage	2	27	2	27
Information and communication	-750	-207	-11	105
Financial and insurance activities	335	240	-1 688	653
Business services	24	104	374	135

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	-1 254	3 848	629	3 019
Developed economies	-3 500	-8 953	635	2 288
European Union	841	-4 831	1 261	1 641
North America	-1 622	-5 196	19	-17
Australia	-1 753	141	-645	664
Developing economies	2 172	12 788	-7	731
Africa	126	130	126	130
Asia	2 050	13 341	145	596
China	1 580	7 271	-	78
India	22	419	410	233
Indonesia	-	1 753	212	-
Singapore	271	543	-615	167
Transition economies	-	-	-	-

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	Africa as destination		Africa as investors	
	2012	2013	2012	2013
Total	47 455	53 596	7 764	15 807
Primary	7 479	5 735	455	7
Mining, quarrying and petroleum	7 479	3 795	455	7
Manufacturing	21 129	13 851	4 013	7 624
Food, beverages and tobacco	2 227	1 234	438	373
Textiles, clothing and leather	206	1 750	34	128
Non-metallic mineral products	1 067	3 616	674	2 896
Motor vehicles and other transport equipment	2 316	1 593	-	108
Services	18 847	34 010	3 296	8 177
Electricity, gas and water	6 401	11 788	60	-
Construction	3 421	3 514	-	1 005
Transport, storage and communications	3 147	7 652	1 221	2 558
Business services	1 892	7 096	889	2 662

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	Africa as destination		Africa as investors	
	2012	2013	2012	2013
World	47 455	53 596	7 764	15 807
Developed economies	17 541	27 254	1 802	2 080
European Union	8 114	16 308	370	960
United States	4 844	2 590	1 362	1 076
Japan	708	1 753	39	-
Developing economies	29 847	26 234	5 962	13 652
Africa	4 019	12 231	4 019	12 231
Nigeria	711	2 261	161	2 729
South Africa	1 397	4 905	396	344
Asia	25 586	13 807	1 474	1 337
China	1 771	303	102	140
India	7 747	5 628	149	68
Transition economies	67	108	-	76

FDI inflows to Africa rose by 4 per cent to \$57 billion, driven by international and regional market-seeking flows, and infrastructure investments. Expectations for sustained economic and population growth continue to attract market-seeking FDI into consumer-oriented industries. Intraregional investments are increasing, led by South African, Kenyan and Nigerian corporations. Most of the outflows were directed to other countries in the continent, paving the way for investment-driven regional integration.

Consumer-oriented sectors are beginning to drive FDI growth. Expectations for further sustained economic and population growth underlie investors' continued interest not only in extractive industries but also in consumer-market-oriented sectors that target the rising middle-class population (*WIR13*).¹ This group is estimated to have expanded 30 per cent over the past decade, reaching 120 million people. Reflecting this change, FDI is starting to diversify into consumer-market-oriented industries, including consumer products such as foods, information technology (IT), tourism, finance and retail. Similarly, driven by the growing trade and consumer markets, infrastructure FDI showed strong increases in transport and in information and communication technology (ICT).

Data on announced greenfield investment projects (table D) show that the services sector is driving inflows (see also chapter I). In particular, investments are targeting construction, utilities, business services and telecommunications. The fall in the value of greenfield investment projects targeting the manufacturing sector was caused by sharply decreasing flows in resource-based industries such as coke and petroleum products, and metal and metal products, both of which fell by about 70 per cent. By contrast, announced greenfield projects show rising inflows in the textile industry and high interest by international investors in motor vehicle industries. Data on cross-border merger and acquisition (M&A) sales show a sharp increase in the manufacturing sector, targeting the food processing industry, construction materials (non-metallic mineral products) and pharmaceutical industries (table B).

Some foreign TNCs are starting to invest in research and development (R&D) in agriculture

in the continent, motivated by declining yields, global warming, concerns about supply shortages and the sectoral need for a higher level of technological development. For example, in 2013, Dupont (United States) gained a majority stake in the seed company Pannar by promising to invest \$6.2 million by 2017 to establish an R&D hub in South Africa to develop new seed technology for the region. Similarly, Barry Callebaut (Switzerland) inaugurated its Cocoa Centre of Excellence to promote advanced agricultural techniques in Côte d'Ivoire, the world's largest cocoa-producing country. That investment is estimated at \$1.1 million.

Technology firms have also started to invest in innovation in Africa. In November 2013, IBM opened its first African research laboratory, on the outskirts of Nairobi, with an investment of more than \$10 million for the first two years. The facility reflects IBM's interest in a continent where smartphones are becoming commonplace. Kenya has become a world leader in payment by mobile phone, stirring hope that Africa can use technology to leapfrog more established economies. In October, Microsoft announced a partnership with three African technology incubation hubs to develop businesses based on cloud-computing systems. In the last few years, Google has funded start-up hubs in Nigeria, Kenya and South Africa, as part of a push to invest in innovation in Africa.

Trends in FDI flows vary by subregion. Flows to North Africa decreased by 7 per cent to \$15.5 billion (figure B). However, with this relatively high level of FDI, investors appear to be ready to return to the region. FDI to Egypt fell by 19 per cent but remained the highest in the subregion at \$5.6 billion. In fact, many foreign investors, especially producers of consumer products, remain attracted by Egypt's large population (the largest in the subregion) and cheap labour costs. Most of the neighbouring countries saw increasing flows. Morocco attracted increased investment of \$3.4 billion – especially in the manufacturing sector, with Nissan alone planning to invest about \$0.5 billion in a new production site – as well as in the real estate, food processing and utility sectors. In Algeria, the Government is intensifying efforts to reform the market and attract more foreign investors. As an example, State-owned Société de Gestion des Participations Industrielles Manufacturières concluded

an agreement with Taypa Tekstil Giyim (Turkey), to construct a multimillion-dollar centre in the textile-clothing industry. Among other objectives, the partnership aims to promote public-private joint ventures in Algeria and to create employment opportunities for more than 10,000 people, according to the Algerian Ministry of Industry.

FDI flows to West Africa declined by 14 per cent, to \$14.2 billion, much of that due to decreasing flows to Nigeria. Uncertainties over the long-awaited petroleum industry bill and security issues triggered a series of asset disposals from foreign TNCs. National champions and other developing-country TNCs are taking over the assets of the retreating TNCs. Examples are two pending megadeals that will see Total (France) and ConocoPhillips (United States) sell their Nigerian assets to Sinopec Group (China) and local Oando PLC for \$2.5 billion and \$1.8 billion, respectively. By contrast, in 2013 Ghana and Côte d'Ivoire started to produce oil, attracting considerable investment from companies such as Royal Dutch Shell (United Kingdom), ExxonMobil (United States), China National Offshore Oil Company (CNOOC) and China National Petroleum Corporation (CNPC), as well as from State-owned petroleum companies in Thailand and India.

Central Africa attracted \$8.2 billion of FDI in 2013, a fall of 18 per cent from the previous year. Increasing political turmoil in the Central African Republic and the persisting armed conflict in the Democratic Republic of the Congo could have negatively influenced foreign investors. In East Africa, flows surged by 15 per cent to \$6.2 billion, driven by rising flows to Kenya and Ethiopia. Kenya is developing as the favoured business hub, not only for oil and gas exploration in the subregion but also for industrial production and transport. The country is set to develop further as a regional hub for energy, services and manufacturing over the next decade. Ethiopia's industrial strategy is attracting Asian capital to develop its manufacturing base. In 2013, Huanjin Group (China) opened its first factory for shoe production, with a view to establishing a \$2 billion hub for light manufacturing. Early in the year, Julphar (United Arab Emirates), in conjunction with its local partner, Medtech, officially inaugurated its first pharmaceutical manufacturing facility in Africa in Addis Ababa. Julphar's investment in the

construction of the plant is estimated at around \$8.5 million. Uganda, the United Republic of Tanzania and Madagascar maintained relatively high inward flows, thanks to the development of their gas and mineral sectors.

FDI flows to Southern Africa almost doubled in 2013, jumping to \$13.2 billion from \$6.7 billion in 2012, mainly owing to record-high flows to South Africa and Mozambique. In both countries, infrastructure was the main attraction. In Mozambique, investments in the gas sector also played a role. Angola continued to register net divestments, albeit at a lower rate than in past years. Because foreign investors in that country are asked to team with local partners, projects are failing to materialize for lack of those partners, despite strong demand.²

Outward FDI flows from Africa rose marginally to \$12 billion. The main investors were South Africa, Angola and Nigeria, with flows mostly directed to neighbouring countries. South African outward FDI almost doubled, to \$5.6 billion, powered by investments in telecommunications, mining and retail. Nigeria outflows were concentrated in building materials and financial services. A few emerging TNCs expanded their reach over the continent. In addition to well-known South African investors (such as Bidvest, Anglo Gold Ashanti, MTN, Shoprite, Pick'n'Pay, Aspen Pharmacare and Naspers), some other countries' conglomerates are upgrading their cross-border operations first in neighbouring countries and then across the whole continent. For example, Sonatrach (Algeria) is present in many African countries in the oil and gas sector. Other examples include the Dangote and Simba Groups (Nigeria), which are active in the cement, agriculture and oil-refining industries. Orascom (Egypt), active in the building materials and chemicals industries, is investing in North African countries. Sameer Group (Kenya) is involved in industries that include agriculture, manufacturing, distribution, high-tech, construction, transport and finance. The Comcraft Group (Kenya), active in the services sector, is extending its presence beyond the continent into Asian markets.

Regional integration efforts intensified. African leaders are seeking to accelerate regional integration, which was first agreed to in the 1991 Abuja Treaty. The treaty provided for the African

Economic Community to be set up through a gradual process, which would be achieved by coordinating, harmonizing and progressively integrating the activities of regional economic communities (RECs).³ Recent efforts in this direction include a summit of African Union leaders in January 2012 that endorsed a new action plan to establish a Continental Free Trade Area. In addition, several RECs plan to establish monetary unions as part of a broader effort to promote regional integration.

Another example of these integration efforts was the launch of negotiations on the COMESA-EAC-SADC Free Trade Area in 2011, between the Common Market for East and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). The Tripartite Free Trade Agreement (FTA) involves 26 African countries in the strategic objective of consolidating RECs to achieve a common market as well as a single investment area. In the Tripartite Roadmap, Phase I covers the implementation of the FTA for trade in goods.⁴ Phase II will discuss infrastructure and industrial development, addressing investment issues as well as services, intellectual property rights, competition policy, and trade development and competitiveness.

Although Phase II plans to address investment issues, the primary impact on FDI will most likely occur through tariff and non-tariff measures, especially non-tariff barriers, the main remaining impediment to the free and competitive flow of goods and services on the continent.

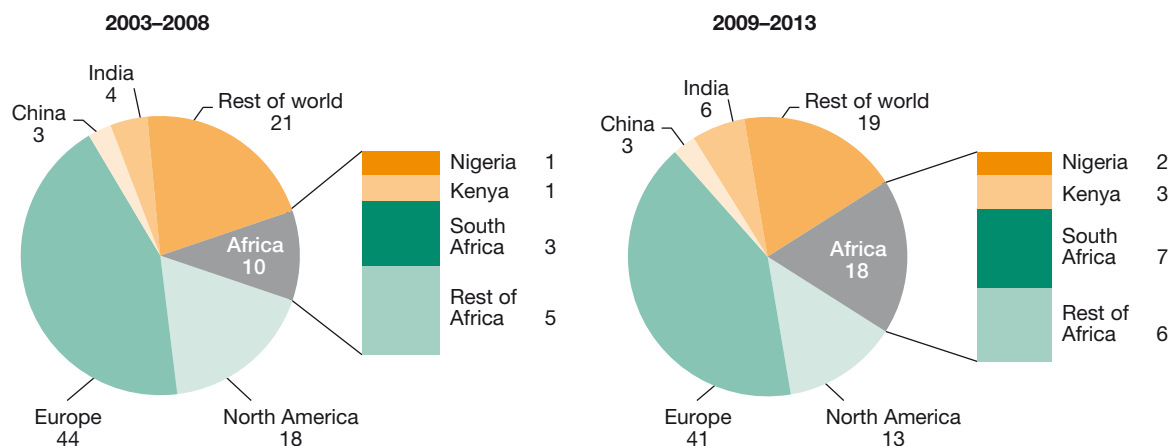
Raising intraregional FDI supports African leaders' efforts to achieve deeper regional integration. The rapid economic growth of the last decade underlies the rising dynamism of African firms on the continent, in terms of both trade and foreign investment.⁵ Led by the cross-border operations of TNCs based in the major economies of the continent, this trend is sustaining African leaders' efforts. Intra-African investments are trending up, driven by a continuous rise in South African FDI into the continent, as well as by increases of flows since 2008 from Kenya, Nigeria, and Northern African countries.⁶

Between 2009 and 2013, the share of cross-border greenfield projects – the major investment type in Africa – originating from other African countries

has increased to 18 per cent, from about 10 per cent in the period 2003–2008 (figure II.1). All major investors – South Africa (7 per cent), Kenya (3 per cent) and Nigeria (2 per cent) – more than doubled their shares. Over the same five years, the gross value of cross-border intra-African acquisitions grew from less than 3 per cent of total investments in 2003–2008 to more than 9 per cent in the next five years. Growing consumer markets are a key force enabling these trends, given that an increasing amount of FDI into Africa – from abroad and by region – goes to consumer-facing industries, led by banking and telecommunications.

Compared with other foreign investment, intra-African projects are concentrated in manufacturing and services; the extractive industries play a very marginal role (figure II.2). Comparing the sectoral distribution across sources shows that 97 per cent of intra-African investments target non-primary sectors compared with 76 per cent of investments from the rest of the world, with a particularly high difference in the share that targets the manufacturing sector. Intra-African investments in the manufacturing sector concentrate in agri-processing, building materials, electric and electronic equipment, and textiles, while in the services sector African TNCs have been attracted to telecommunications and retail industries, especially in rapidly growing economies like those in Nigeria, Ghana, Uganda and Zambia. Other very active industries for intraregional investments are finance, especially banking, and business services, where investors from South Africa, Kenya, Togo and Nigeria are expanding in the neighbouring countries. In finance, low-technology consumer products and wood furniture, intra-African investments accounted for roughly 40 per cent of all greenfield investments by number of projects. In residential construction and in hotels and restaurants services, TNCs from South Africa, Kenya and Egypt were the leading investors in Africa by number of cross-border acquisitions deals. The high shares of intra-African investment targeting the manufacturing sector accord with evidence from trade statistics showing that the industry products that are most traded intraregionally are manufactured goods – especially those entailing low and medium levels of processing (UNCTAD, 2013b). These industries could thus benefit the most from

Figure II.1. Geographical distribution of sources of greenfield investment in Africa by number of projects, 2003–2008 and 2009–2013
(Per cent)



Source: UNCTAD, based on information from the Financial Times Ltd., fDi Markets (www.fDimarkets.com).

regional integration measures; an enlarged market could provide companies enough scope to grow and create incentives for new investments.

The share of intra-African FDI in the manufacturing and services sectors varies widely across RECs. In some RECs, such as ECOWAS and EAC, intraregional FDI in these sectors represents about 36 per cent of all investments; in others, such as UMA, it is marginal (figure II.3). Furthermore, excluding SADC, investments from all of Africa

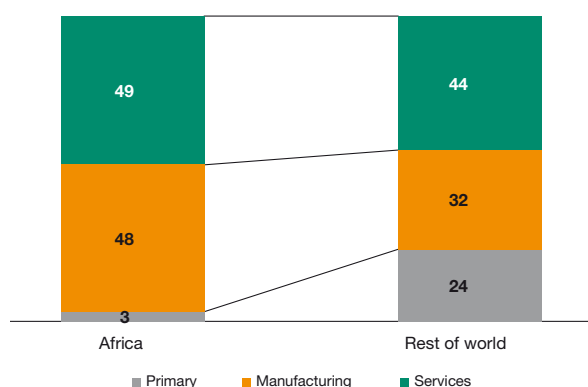
usually represents a much higher share of FDI than intra-REC investments do.

The gap between intra-African and intra-REC FDI indicates that cross-REC investment flows are relatively common and suggests the importance of viewing RECs as building blocks of a continental FTA. Because RECs' market size is limited and not all RECs have advanced TNC members that can drive FDI, the integration of RECs into a single Africa-wide market will benefit most the economies of the smallest and less industrially diversified groups such as the Economic Community of Central African States (ECCAS).

Intraregional FDI is a means to integrate smaller African countries into global production processes. Smaller African economies rely more heavily on regional FDI (figure II.4). For many smaller countries, often landlocked or non-oil-exporting ones, intraregional FDI is a critical source of foreign capital.

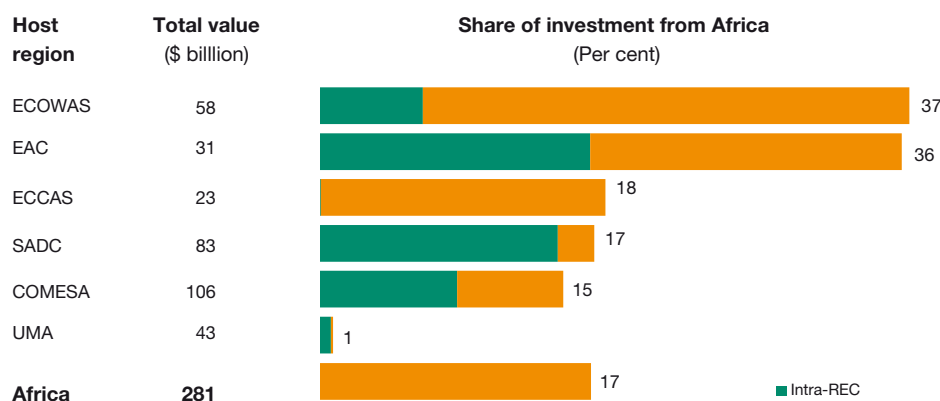
For smaller countries such as Benin, Burkina Faso, Guinea-Bissau, Lesotho, Rwanda and Togo, investments from other African countries represented at least 30 per cent of their FDI stocks. Similarly, Southern African countries such as Malawi, Mozambique, Namibia, Uganda and the United Republic of Tanzania received a sizeable

Figure II.2. Sectoral distribution of announced value of FDI greenfield projects by source, cumulative 2009–2013
(Per cent)



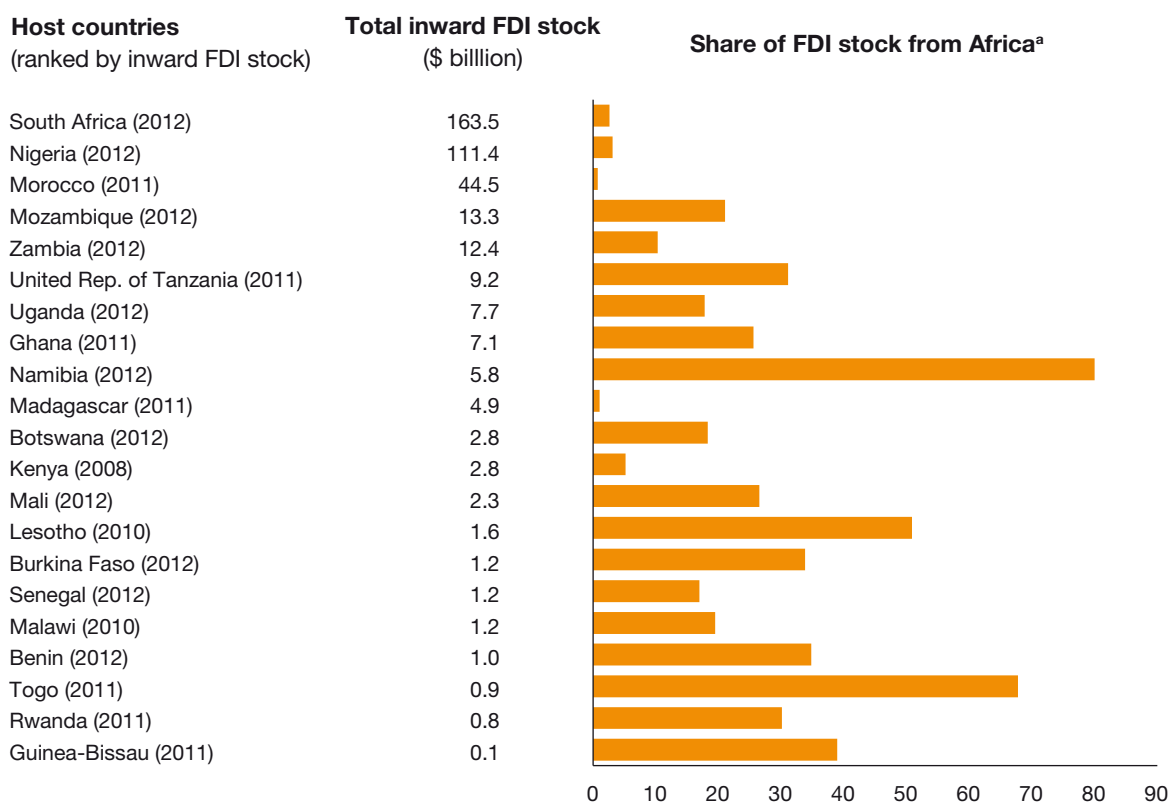
Source: UNCTAD, based on information from the Financial Times Ltd., fDi Markets (www.fDimarkets.com).

Figure II.3. Announced value of FDI greenfield projects in manufacturing and services, cumulative 2009–2013
(Billions of dollars and per cent)



Source: UNCTAD, based on information from the Financial Times Ltd., fDi Markets (www.fDimarkets.com).

Figure II.4. Intraregional FDI stock in Africa (various years)
(Per cent)



Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

^a Mauritius was excluded from the calculation of the African share as it acts as an investment platform for many extraregional investors.

amount of their FDI stock from the region (excluding stock from Mauritius), most of that from South Africa. By contrast, African investments in North African countries such as Morocco are minimal; the bulk of investments there come from neighbouring countries in Europe and the Middle East.

Intraregional FDI is one of the most important mechanisms through which Africa's increasing demand can be met by a better utilization of its own resources. Furthermore, intra-African investment helps African firms enhance their competitiveness by increasing their scale, developing their production know-how and providing access to better and cheaper inputs. Several of the most prominent African TNCs that have gone global, such as Anglo American and South African Breweries (now SABMiller), were assisted in developing their international competitiveness through first expanding regionally.

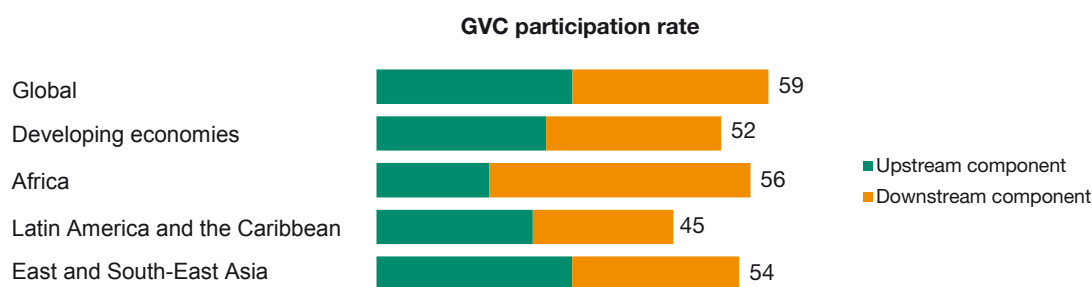
The rising intra-African investments have not yet triggered the consolidation of regional value chains. In terms of participation in global value chains (GVCs), Africa ranks quite high in international comparisons: its GVC participation rate in 2011 was 56 per cent compared with the developing-country average of 52 per cent and the global average of 59 per cent (figure II.5). However, the analysis of the components of the GVC participation rate shows that the African downstream component (exports that are incorporated in other products and re-exported) represents a much higher share than the upstream component (foreign

value added in exports). This high share reflects the important contribution of African natural resources to other countries' exports.

Natural resources are mainly traded with extraregional countries, do not require much transformation (nor foreign inputs), and thus contribute little to African industrial development and its capacity to supply the growing internal demand. The high share of commodities in the region's exports together with inadequate transport, energy and telecommunications infrastructure is also a key factor hampering the development of regional value chains. Among the world's regions, Africa relies the least on regional interactions in the development of GVCs. On both the upstream side (the foreign value added) and the downstream side (the domestic value added included in other countries' exports), the share of intra-African value chain links is very limited compared with all other regions (figure II.6). In terms of sectors, manufacturing and services appear to be more regionally integrated than the primary sector. One of the industries most integrated regionally is agri-processing, where Africa benefits from economies of scale – deriving from regional integration measures – in processing raw materials. However, further development and upscaling of the regional value chains in this industry remains difficult as long as intra-African investments are local market-oriented FDI.

Across RECs, regional value chains seem to be most developed in the three RECs that are

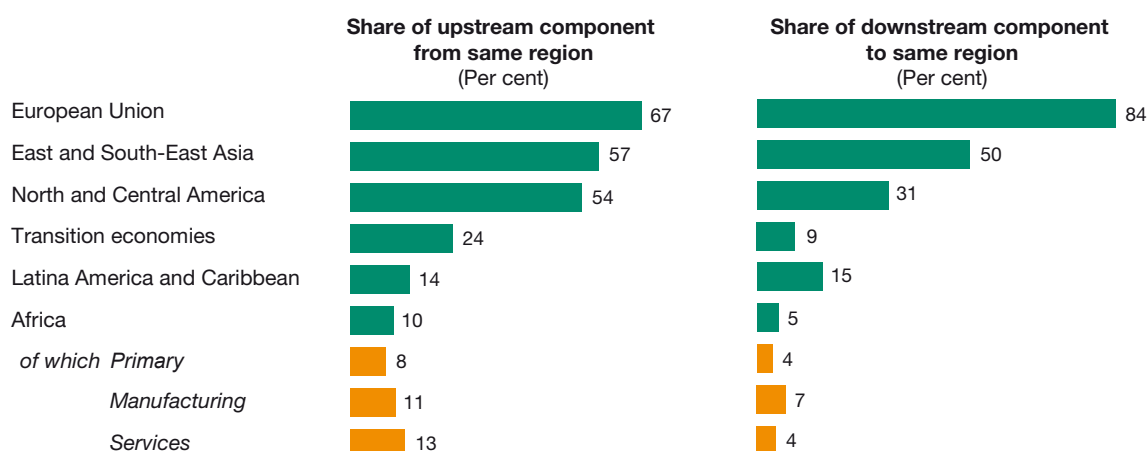
Figure II.5. GVC participation rate for Africa and other selected regions, 2011
(Per cent)



Source: UNCTAD-EORA GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

Figure II.6. Regional value chain participation, 2011



Source: UNCTAD-EORA GVC Database.

Note: The upstream component is defined as the foreign value added used in a country's exports; the downstream component is defined as the domestic value added supplied to other countries' exports.

planning to create the Tripartite FTA (COMESA, EAC and SADC). This suggests that the economies in this subregion are a step ahead in the regional integration process. Northern African countries that belong to UMA are the least involved in regional value chains, while the participation of ECCAS and ECOWAS in regional value chains is relatively in the average of the continent.

Future prospects for regional integration and industrial development. The Tripartite FTA that COMESA, EAC and SADC members aim to establish could be a useful model for other regional communities to use in boosting their efforts to bring Africa's small and fragmented economies together into a single market. By deepening regional integration, resources will be pooled and local markets enlarged, thus stimulating production and investment and improving prospects for growth and development in the continent. One of the main obstacles to integration as well as to the development of regional value chains is inadequate and poor infrastructure. Insufficient and nonexistent transport and energy services are common problems that affect all firms operating in Africa.⁷ To tackle some infrastructure gaps and make further economic development possible, international support is needed. In particular, the sustainable development goals (SDGs) (chapter IV) offer an opportunity to increase FDI that targets the continent's major needs.

The sharp increase in the number of Asian businesses engaging in Africa (through both trade and FDI), as well as the new investments from North America and Europe in R&D and consumer industries, could provide an extraregional impetus to the development of regional value chains and GVCs. With declining wage competitiveness, China, for example, may relocate its labour-intensive industries to low-income countries while upgrading its industry towards more sophisticated products with higher value added (Lin 2011, Brautigam 2010).⁸ The relocation of even a small part of China's labour-intensive industries could support industrial development in Africa, providing a much-needed source of employment for the burgeoning working-age population.⁹

2. Asia

Asia continues to be the world's top FDI spot, accounting for nearly 30 per cent of global FDI inflows. Thanks to a significant increase in cross-border M&As, total inflows to the region as a whole amounted to \$426 billion in 2013, 3 per cent higher than in 2012. The growth rates of FDI inflows to the East, South-East and South Asia subregions ranged between 2 and 10 per cent, while inflows to West Asia declined by 9 per cent (figure II.7). FDI outflows from subregions showed more diverging trends: outflows from East and South-East Asia experienced growth of 7 and 5 per cent, respectively; outflows from West Asia increased

by about two thirds; and those from South Asia plummeted to a negligible level (figure II.7).

For some low-income countries in the region, weak infrastructure has long been a major challenge in attracting FDI and promoting industrial development. Today, rising intraregional FDI in infrastructure industries, driven by regional integration efforts (section a) and enhanced connectivity through the establishment of corridors between subregions (section b), is likely to accelerate infrastructure build-up, improve the investment climate and promote economic development.

Figure II.7. FDI in and out of developing Asia, by subregion, 2012–2013
(Billions of dollars)



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

a. East and South-East Asia

Table A. Distribution of FDI flows among economies, by range,^a 2013

Range	Inflows	Outflows
Above \$50 billion	China, Hong Kong (China) and Singapore	China and Hong Kong (China)
\$10 to \$49 billion	Indonesia, Thailand, Malaysia and Republic of Korea	Republic of Korea, Singapore, Taiwan Province of China and Malaysia
\$1.0 to \$9.9 billion	Viet Nam, Philippines, Taiwan Province of China, Myanmar, Macao (China), Mongolia and Cambodia	Thailand, Indonesia, Philippines and Viet Nam
\$0.1 to \$0.9 billion	Brunei Darussalam, Lao People's Democratic Republic and Democratic .. People's Republic of Korea	
Below \$0.1 billion	Timor-Leste	Mongolia, Macao (China), Cambodia, Timor-Leste, Lao People's Democratic Republic and Brunei Darussalam

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

Figure B. FDI inflows, 2007–2013
(Billions of dollars)



Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

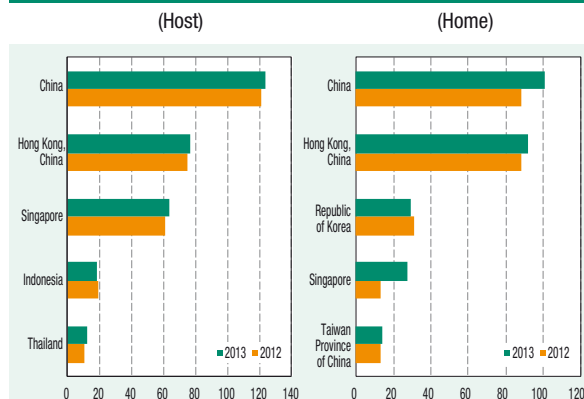


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

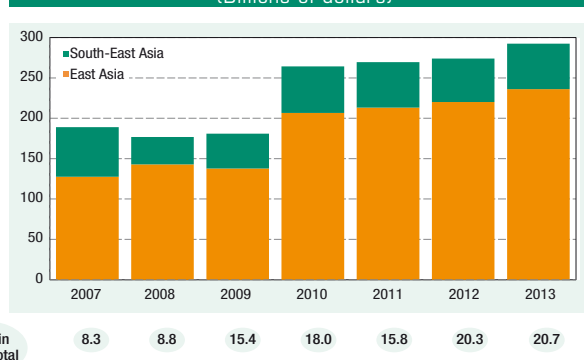


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	22 377	40 655	78 736	98 217
Primary	831	-3 489	10 578	10 902
Mining, quarrying and petroleum	421	-3 492	11 982	10 845
Manufacturing	12 702	19 017	12 956	6 376
Food, beverages and tobacco	7 197	13 411	4 820	5 701
Basic metal and metal products	281	919	2 822	-2 339
Computer, electronic optical prod. & elect. equipment	712	1 239	2 878	1 635
Machinery and equipment	1 830	196	1 525	1 897
Services	8 844	25 128	55 203	80 939
Electricity, gas, water and waste management	858	1 216	2 761	4 873
Information and communications	4 379	104	4 827	2 827
Financial and insurance activities	709	14 977	46 321	66 826
Business services	1 056	10 149	452	3 704

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	22 377	40 655	78 736	98 217
Developed economies	5 357	6 065	54 514	50 844
European Union	2 686	-5 814	24 286	8 927
United Kingdom	-2 958	721	15 364	3 033
Canada	-290	-32	7 778	20 805
United States	-1 149	5 038	7 608	11 289
Australia	580	-270	11 050	6 861
Japan	3 821	9 005	2 969	1 676
Developing economies	16 040	32 148	23 966	45 213
Africa	-386	334	1 861	9 728
Asia and Oceania	16 339	30 619	16 614	32 610
Latin America and the Caribbean	87	1 194	5 491	2 875
Transition economies	-	597	256	2 160

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	East and South-East Asia as destination		East and South-East Asia as investors	
	2012	2013	2012	2013
Total	147 303	146 465	110 393	106 067
Primary	363	593	3 022	2 195
Mining, quarrying and petroleum	363	372	3 022	2 195
Manufacturing	70 298	76 193	43 738	22 285
Food, beverages and tobacco	6 260	5 012	4 028	2 181
Chemicals and chemical products	9 946	13 209	10 770	3 301
Electrical and electronic equipment	9 361	7 571	11 562	5 492
Motor vehicles and other transport equipment	17 212	16 855	4 844	3 293
Services	76 641	69 679	63 632	81 588
Electricity, gas and water	4 507	17 925	14 392	7 979
Construction	19 652	11 179	29 147	13 388
Finance	13 658	9 080	6 109	4 951
Business services	9 611	9 553	2 184	42 666

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	East and South-East Asia as destination		East and South-East Asia as investors	
	2012	2013	2012	2013
World	147 303	146 465	110 393	106 067
Developed economies	98 785	100 261	35 998	15 789
European Union	38 453	41 127	19 012	8 230
Germany	12 036	13 189	468	401
United Kingdom	8 443	7 632	15 003	4 079
United States	27 637	23 173	13 417	3 943
Japan	24 252	27 191	677	1 728
Developing economies	47 849	45 721	69 027	88 723
Asia	47 327	44 652	59 632	36 904
East Asia	23 966	17 753	25 144	21 185
South-East Asia	19 728	14 094	18 549	10 662
South Asia	2 386	2 627	8 211	3 016
Transition economies	1 247	10 178	7 728	2 041

Against the backdrop of a sluggish world economy and a regional slowdown in growth, total FDI inflows to East and South-East Asia reached \$347 billion in 2013, 4 per cent higher than in 2012. Inflows to East Asia rose by 2 per cent to \$221 billion, while those to South-East Asia increased by 7 per cent to \$125 billion. FDI outflows from the overall region rose by 7 per cent to \$293 billion. In late 2012, the 10 member States of the Association for Southeast Asian Development (ASEAN) and their 6 FTA partners (Australia, China, India, Japan, the Republic of Korea and New Zealand) launched negotiations for the Regional Comprehensive Economic Partnership (RCEP). In 2013, combined FDI inflows to the 16 negotiating members amounted to \$343 billion, accounting for 24 per cent of global FDI flows. The expansion of free trade areas in and beyond the region is likely to further increase the dynamism of FDI growth and deliver associated development benefits.

China's outflows grew faster than inflows. FDI inflows to China have resumed their growth since late 2012. With inflows at \$124 billion in 2013, the country again ranked second in the world (figure I.3) and narrowed the gap with the largest host country, the United States. China's 2 per cent growth in 2013 was driven by rising inflows in services, particularly trade and real estate. As TNCs invest in the country increasingly through M&As, the value of cross-border M&A sales surged, from \$10 billion in 2012 to \$27 billion in 2013.

In the meantime, China has strengthened its position as one of the leading sources of FDI, and its outflows are expected to surpass its inflows within two years. During 2013, FDI outflows swelled by 15 per cent, to an estimated \$101 billion, the third highest in the world. Chinese companies made a number of megadeals in developed countries, such as the \$15 billion CNOOC-Nexen deal in Canada and the \$5 billion Shuanghui-Smithfield deal in the United States – the largest overseas deals undertaken by Chinese firms in the oil and gas and the food industries, respectively. As China continues to deregulate outward FDI,¹⁰ outflows to both developed and developing countries are expected to grow further. For instance, Sinopec, the second largest Chinese oil company, plans to invest \$20 billion in Africa in the next five years,¹¹ while Lenovo's recent acquisitions of IBM's X86 server business (\$2.3 billion) and

Motorola Mobile (\$2.9 billion) will boost Chinese FDI in the United States.

High-income economies in the region performed well in attracting FDI. Inflows to the Republic of Korea reached \$12 billion, the highest level since the mid-2000s, thanks to rising foreign investments in shipbuilding and electronics – industries in which the country enjoys strong international competitiveness – as well as in the utility industries. In 2013, FDI inflows to Taiwan Province of China grew by 15 per cent, to \$4 billion, as economic cooperation with Mainland China helped improve business opportunities in the island economy.¹² In 2013, FDI outflows from the Republic of Korea declined by 5 per cent to \$29 billion, while those from Taiwan Province of China rose by 9 per cent to \$14 billion.

Hong Kong (China) and Singapore – the other two high-income economies in the region – experienced relatively slow growth in FDI inflows. Inflows to Hong Kong (China) increased by 2 per cent to \$77 billion. Although this amount is still below the record level of \$96 billion in 2011, it is higher than the three-year averages before the crisis (\$49 billion) and after the crisis (\$68 billion). In 2012, annual FDI inflows to Singapore rose above \$60 billion for the first time. A number of megadeals in 2013, such as the acquisition of Fraser & Neave by TCC Assets for about \$7 billion, drove FDI inflows to a record \$64 billion. As the recipients of the second and third largest FDI in developing Asia, Hong Kong (China) and Singapore have competed for the regional headquarters of TNCs with each other, as well as with some large Chinese cities, in recent years (box II.1).

FDI growth in ASEAN slowed, particularly in some lower-income countries. FDI inflows to ASEAN rose by 7 per cent in 2013, to \$125 billion. It seems that the rapid growth of FDI inflows to ASEAN during the past three years – from \$47 billion in 2009 to \$118 billion in 2012 – has slowed, but the balance between East Asia and South-East Asia continued to shift in favour of the latter (figure B).

Among the ASEAN member States, Indonesia was most affected by the financial turmoil in emerging economies in mid-2013. However, FDI inflows remained stable, at about \$18 billion.

Box II.1. Attracting regional headquarters of TNCs: competition among Asian economies

Hong Kong (China) and Singapore are very attractive locations for the regional headquarters of TNCs. The two economies are similar in terms of specific criteria that are key for attracting regional headquarters (European Chamber, 2011). As highly open economies, strong financial centres and regional hubs of commerce, both are very successful in attracting such headquarters. The number of TNC headquarters based in Hong Kong (China), for example, had reached about 1,380 by the end of 2013. Its proximity to Mainland China may partly explain its competitive edge. The significant presence of such headquarters has helped make the two economies the major recipients of FDI in their subregions: Hong Kong (China) is second only to Mainland China in East Asia, while Singapore is the largest host in South-East Asia.

The two economies now face increasing competition from large cities in Mainland China, such as Beijing and Shanghai. By the end of October 2013, for example, more than 430 TNCs had established regional headquarters in Shanghai, as well as 360 R&D centres.¹³ However, the TNCs establishing these headquarters have targeted mainly the Chinese market, while Hong Kong (China) and Singapore remain major destinations for the headquarters of TNCs targeting the markets of Asia and the Pacific at large.

In March 2014, the Chinese Government decided to move the headquarters of CIFIT Group, China's largest TNC in terms of foreign assets, from Beijing to Hong Kong (China). This decision shows the Government's support for the economy of Hong Kong (China) and is likely to enhance the city's competitive advantages for attracting investment from leading TNCs, including those from Mainland China.

Source: UNCTAD.

In Malaysia, another large FDI recipient in ASEAN, inflows increased by 22 per cent to \$12 billion as a result of rising FDI in services. In Thailand, inflows grew to \$13 billion; however, about 400 FDI projects were shelved in reaction to the continued political instability, and the prospects for inflows to the country remain uncertain.¹⁴ Nevertheless, Japanese investment in manufacturing in Thailand has risen significantly during the past few years and is likely to continue to drive up FDI to the country. FDI inflows to the Philippines were not affected by 2013's typhoon Haiyan; on the contrary, total inflows rose by one fifth, to \$4 billion – the highest level in its history. The performance of ASEAN's low-income economies varied: while inflows to Myanmar increased by 17 per cent to \$2.6 billion, those to Cambodia, the Lao People's Democratic Republic and Viet Nam remained at almost the same levels.

FDI outflows from ASEAN increased by 5 per cent. Singapore, the regional group's leading investor, saw its outward FDI double, rising from \$13 billion in 2012 to \$27 billion in 2013. This significant increase was powered by large overseas acquisitions by Singaporean firms and the resultant surge in the amount of transactions. Outflows from Malaysia and Thailand, the other two important investing

countries in South-East Asia, dropped by 21 per cent and 49 per cent, to \$14 billion and \$7 billion, respectively.

Prospects remain positive. Economic growth has remained robust and new liberalization measures have been introduced, such as the launch of the China (Shanghai) Pilot Free Trade Zone. Thus, East Asia is likely to enjoy an increase of FDI inflows in the near future. The performance of South-East Asia is expected to improve as well, partly as a result of the accelerated regional integration process (see below). However, rising geopolitical tensions have become an important concern in the region and may add uncertainties to the investment outlook.

As part of a renewed effort to bring about economic reform and openness, new policy measures are being introduced in trade, investment and finance in the newly established China (Shanghai) Pilot Free Trade Zone. In terms of inward FDI administration, a new approach based on pre-establishment national treatment has been adopted in the zone, and a negative list announced. Specific segments in six service industries – finance, transport, commerce and trade, professional services, cultural services and public services – have been opened to foreign investors (chapter III). FDI

inflows to the zone and to Shanghai in general are expected to grow as a result.¹⁵

Accelerated regional integration contributes to rising FDI flows

Regional economic integration in East and South-East Asia has accelerated in recent years. This has contributed to enhanced competitiveness in attracting FDI and TNC activities across different industries. In particular, investment cooperation among major economies has facilitated international investment and operation by regional TNCs in their neighbouring countries, contributing to greater intraregional FDI flows and stronger regional production networks. Low-income countries in the region have benefited significantly from such flows in building up their infrastructure and productive capacities. The geographical expansion of free trade areas in and beyond the region is likely to further extend the dynamism of FDI growth and deliver associated development benefits.

A comprehensive regional partnership in the making. ASEAN was the starting point of regional economic integration in East and South-East Asia, and has always been at the centre of the integration process. Established in 1967, ASEAN initially involved Indonesia, Malaysia, the Philippines, Singapore and Thailand. Subsequently, Brunei Darussalam, Viet Nam, the Lao People's Democratic Republic, Myanmar and Cambodia joined. Since its establishment, ASEAN has made efforts to widen as well as deepen the regional integration process, contributing to improved regional connectivity and interaction. Its economic links with the rest of the world have increasingly intensified and its intraregional links have strengthened.

Over time, ASEAN has broadened the scope of regional economic integration alongside its major partners – China, the Republic of Korea and Japan – through the ASEAN+3 Cooperation.¹⁶ The East Asia Summit involves these three countries as well, in addition to Australia, India and New Zealand.¹⁷ ASEAN has signed FTAs with all six countries. In November 2012, the 10 ASEAN member States and the six ASEAN FTA partners launched negotiations for RCEP, which aims to establish the largest free trade area in the world by population. In

2013, combined FDI inflows to the 16 negotiating members amounted to \$343 billion, or 24 per cent of global FDI inflows.

Proactive investment cooperation. Investment cooperation is an important facet of these regional economic integration efforts. In 1998, ASEAN members signed the Framework Agreement on the ASEAN Investment Area (AIA). In 2009, the ASEAN Comprehensive Investment Agreement (ACIA) consolidated the 1998 AIA Agreement and the 1987 Agreement for the Promotion and Protection of Investments (also known as the ASEAN Investment Guarantee Agreement). At the ASEAN Economic Ministers Meeting in August 2011, member States agreed to accelerate the implementation of programmes towards the ASEAN Economic Community in 2015, focusing on initiatives that would enhance investment promotion and facilitation.

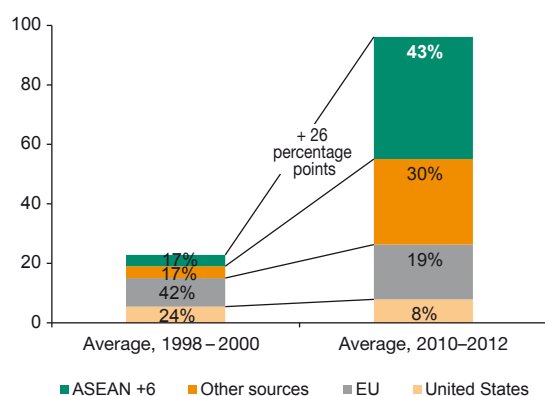
In addition, various investment agreements have been signed under general FTA frameworks in East and South-East Asia. In recent years significant progress has been made, involving leading economies in Asia, including China, India, Japan and the Republic of Korea. For instance, ASEAN and China signed their investment agreement in August 2009. In May 2012, China, Japan and the Republic of Korea signed a tripartite investment agreement, which represented a crucial step in establishing a free trade bloc among the three East Asian countries.

Within the overall framework of regional integration, these investment agreements aim to facilitate international investment in general but may also promote cross-border investment by regional TNCs in particular. In addition, ASEAN has established effective institutional mechanisms of investment facilitation and promotion, aiming to coordinate national efforts within the bloc and compete effectively with other countries in attracting FDI.

Rising intraregional FDI flows. Proactive regional investment cooperation efforts in East and South-East Asia have contributed to a rise in FDI inflows to the region in general and intraregional FDI flows in particular. ASEAN has seen intraregional flows rise over the past decade, and for some of its member States, inflows from neighbouring countries have increased significantly. During 2010–2012,

the RCEP-negotiating countries (or ASEAN+6 countries) provided on average 43 per cent of FDI flows to ASEAN, compared with an average of 17 per cent during 1998–2000 (figure II.8).

Figure II.8. Major sources of FDI inflows to ASEAN, 1998–2000 and 2010–2012
(Billions of dollars)



Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

China, India, Japan and the Republic of Korea, as well as Singapore, Malaysia and Thailand have made considerable advances as sources of FDI to ASEAN. It seems that this has taken place mainly at the cost of the United States and the European Union (EU). Singapore is an important source of FDI for other countries in ASEAN, as well as for other major Asian economies, such as China and India.¹⁸ Japan has been one of the leading investors in South-East Asia, and ASEAN as a whole accounted for more than one tenth of all Japanese outward FDI stock in 2012. In 2013, Japanese investors spent nearly \$8 billion in ASEAN, which is replacing China as the most important target of Japanese FDI. In recent years, FDI flows from China to ASEAN countries have rapidly increased, and the country's outward FDI stock in ASEAN as a whole had exceeded \$25 billion by the end of 2012 (figure II.9). The establishment of the China-ASEAN Free Trade Area in early 2010 has strengthened regional economic cooperation and contributed to the promotion of two-way FDI flows, particularly from China to ASEAN. Accordingly, the share of ASEAN in China's total outward FDI stock rose to 5.3 per cent in 2012.

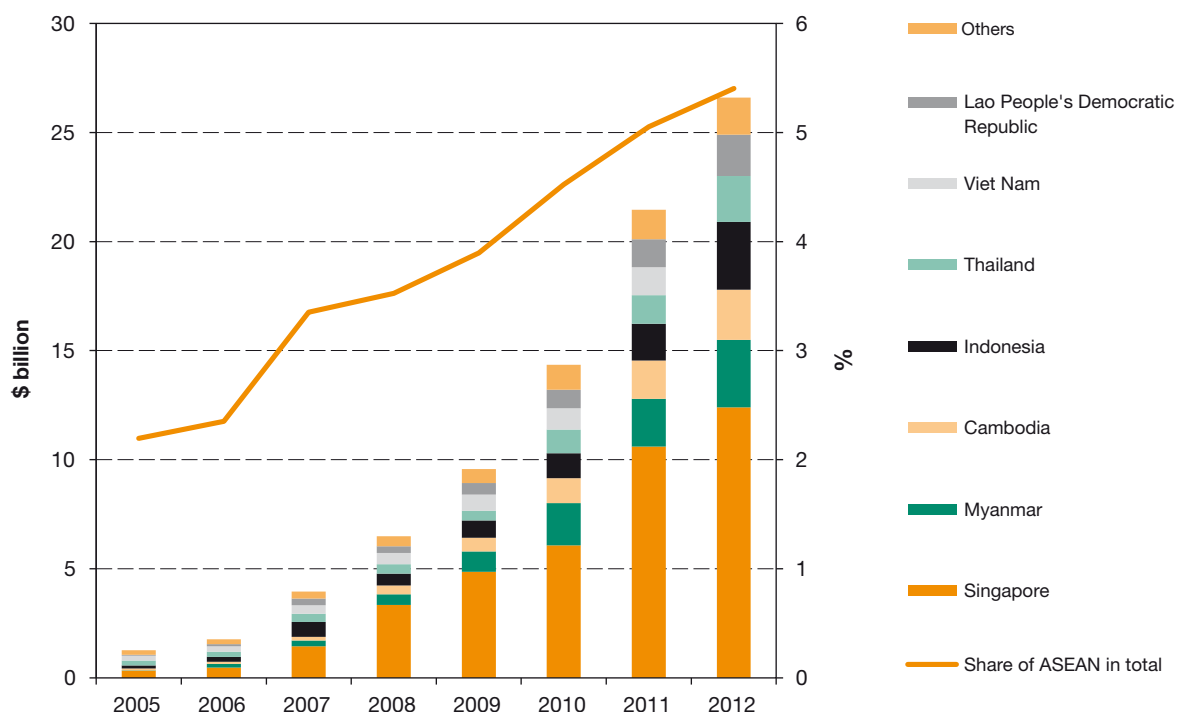
Emerging industrial patterns and development implications.

Rising intraregional FDI flows have focused increasingly on infrastructure and manufacturing. Low-income countries in the region have gained in particular.

- Manufacturing.** Rising intraregional FDI in manufacturing has helped South-East Asian countries build their productive capacities in both capital- and labour-intensive industries. TNCs from Japan have invested in capital-intensive manufacturing industries such as automotive and electronics. For instance, Toyota has invested heavily in Thailand in recent years, making the country its third largest production base. Attracted by low labour costs and good growth prospects, Japanese companies invested about \$1.8 billion in Viet Nam in 2011, and \$4.4 billion of Japanese investment was approved in 2012. FDI from Japan is expected to increase in other ASEAN member States as well, particularly Myanmar. China's investment in manufacturing in ASEAN covers a broad range of industries but is especially significant in labour-intensive manufacturing.

- Infrastructure.** TNCs from Singapore have been important investors in infrastructure industries in the region, accounting for about 20 per cent of greenfield investments. In recent years, Chinese companies have invested in Indonesia and Viet Nam.¹⁹ In transport, Chinese investment is expected to increase in railways, including in the Lao People's Democratic Republic and Myanmar. In November 2013, China and Thailand signed a memorandum of understanding on a large project that is part of a planned regional network of high-speed railways linking China and Singapore. In the meantime, other ASEAN member States have begun to open some transport industries to foreign participation, which may lead to more intraregional FDI (including from Chinese companies). For example, Indonesia has recently allowed foreign investment in service industries such as port management.²⁰ As more countries in South-East Asia announce ambitious long-term plans, total investment in infrastructure in this subregion between 2011 and 2020 is expected to exceed \$1.5 trillion.²¹ Fulfilling this huge amount of investment will require mobilizing various sources of funding, in which TNCs and financial institutions within East and South-East Asia can

Figure II.9. China: outward FDI stock in ASEAN member States and share of ASEAN in total, 2005–2012
(Billions of dollars and per cent)



Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

play an important role, through both equity- and non-equity modes.

For most of the low-income countries in the region, intraregional flows account for a major share of FDI inflows, contributing to a rapid build-up of infrastructure and productive capacities. For instance, Indonesia and the Philippines have seen higher capital inflows to infrastructure industries, such as electricity generation and transmission, through various contractual arrangements. Cambodia and Myanmar, the two LDCs in South-East Asia, have recently emerged as attractive locations for investment in labour-intensive industries, including textiles, garments and footwear. Low-income South-East Asian countries have benefited from rising production costs in China and the subsequent relocation of production facilities.

Outlook. The negotiation of RCEP started in May 2013 and is expected to be completed in 2015. It is likely to promote FDI inflows and associated development benefits for economies at different

levels of development in East and South-East Asia, through improved investment climates, enlarged markets, and the build-up of infrastructure and productive capacities. RCEP is not the only integration mechanism that covers a large range of economies across Asia and the Pacific. As the Asia Pacific Economic Cooperation and the Trans-Pacific Partnership (chapter I) extend beyond the geographical scope of the region, so may the development benefits related to increased flows of both trade and investment.

b. South Asia

Table A. Distribution of FDI flows among economies, by range,^a 2013

Range	Inflows	Outflows
Above \$10 billion	India	..
\$1.0 to \$9.9 billion	Islamic Republic of Iran, Bangladesh and Pakistan	India
\$0.1 to \$0.9 billion	Sri Lanka and Maldives	Islamic Republic of Iran and Pakistan
Below \$0.1 billion	Nepal, Afghanistan and Bhutan	Sri Lanka and Bangladesh

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

Figure B. FDI inflows, 2007–2013
(Billions of dollars)

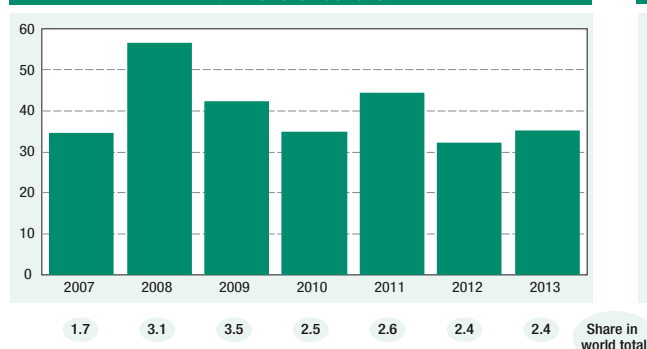


Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

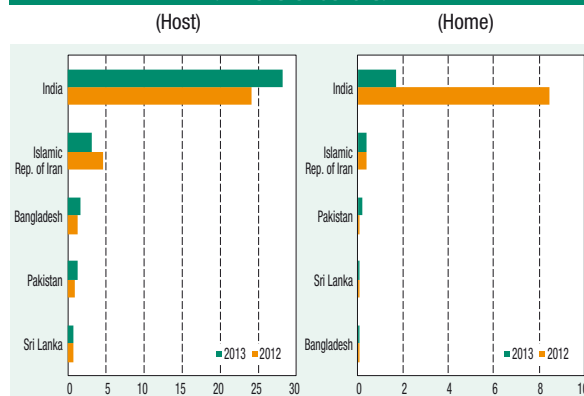


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

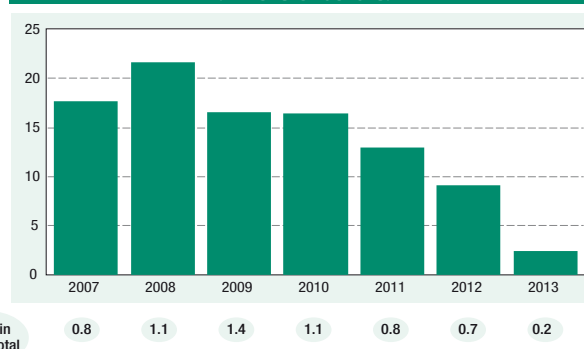


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	2 821	4 784	3 104	1 621
Primary	130	28	-70	1 482
Mining, quarrying and petroleum	130	2	-70	1 482
Manufacturing	1 232	4 608	718	920
Food, beverages and tobacco	355	1 173	-2	-34
Chemicals and chemical products	-207	3 620	12	246
Pharmaceuticals, medicinal chemical & botanical prod.	138	3 148	502	551
Basic metal and metal products	124	-4 068	116	65
Services	1 459	148	2 456	-781
Electricity, gas, water and waste management	40	-677	-	-
Information and communications	-430	-209	414	85
Financial and insurance activities	1 597	-298	675	-691
Business services	-59	621	56	350

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	2 821	4 784	3 104	1 621
Developing economies	1 350	3 367	2 421	1 883
European Union	467	1 518	669	1 734
France	1 051	144	-	108
United Kingdom	-791	1 110	62	510
United States	627	1 368	1 759	387
Japan	1 077	382	7	-
Switzerland	-1 011	-62	357	-
Developing economies	1 456	1 212	683	-262
Africa	431	233	22	419
Asia and Oceania	1 026	979	542	-1 240
Latin America and the Caribbean	-	-	119	559
Transition economies	-	-	-	-

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	South Asia as destination		South Asia as investors	
	2012	2013	2012	2013
Total	39 525	24 499	27 714	15 789
Primary	165	23	4 602	47
Mining, quarrying and petroleum	165	23	4 602	47
Manufacturing	16 333	11 220	11 365	6 842
Chemicals and chemical products	1 786	1 161	1 668	900
Metals and metal products	3 317	896	2 178	886
Motor vehicles and other transport equipment	4 248	1 969	2 941	2 386
Other manufacturing	1 089	1 008	103	509
Services	23 027	13 256	11 747	8 900
Electricity, gas and water	6 199	2 044	4 236	3 069
Transport, storage and communications	7 210	3 265	1 442	2 121
Finance	3 264	1 906	726	722
Business services	2 805	2 389	2 048	2 021

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	South Asia as destination		South Asia as investors	
	2012	2013	2012	2013
World	39 525	24 499	27 714	15 789
Developing economies	23 579	17 495	8 598	4 115
European Union	12 962	6 543	2 895	2 593
Germany	4 291	1 137	847	500
United Kingdom	2 748	2 386	1 765	1 733
United States	5 559	4 718	829	1 308
Japan	3 147	2 801	84	45
Developing economies	15 694	6 928	18 736	10 802
Africa	149	871	9 315	5 799
Asia and Oceania	15 511	6 031	8 815	4 717
East and South-East Asia	8 211	3 016	2 386	2 627
West Asia	4 972	2 293	4 100	1 367
Transition economies	252	76	380	872

FDI inflows to South Asia rose by 10 per cent to \$36 billion in 2013. Outflows from the region slid by nearly three fourths, to \$2 billion. Facing old challenges and new opportunities, South Asian countries registered varied performance in attracting FDI. At the regional level, renewed efforts to enhance connectivity with other parts of Asia are likely to help build up infrastructure and improve the investment climate. India has taken various steps to open its services sector to foreign investors, most notably in the retail industry. It seems that the opening up of single-brand retail in 2006 has led to increased FDI inflows; that of multi-brand retail in 2012 has so far not generated the expected results.

Trends in M&As and announced greenfield projects diverged. In 2013, the total amount of announced greenfield investments in South Asia dropped by 38 per cent, to \$24 billion (table D). In manufacturing, greenfield projects in metals and metal products and in the automotive industry experienced considerable drops; in services, a large decline took place in infrastructure industries and financial services. Most major recipients of FDI in the region experienced a significant decline in greenfield projects, except for Sri Lanka, where they remained at a high level of about \$1.3 billion.

In contrast, the total amount of cross-border M&A sales rose by 70 per cent, to \$5 billion. The value of M&As boomed in manufacturing, particularly in food and beverage, chemical products and pharmaceuticals (table B). A number of large deals took place in these industries. For instance, in food and beverage, Relay (Netherlands) acquired a 27 per cent stake in United Sprits (India) for \$1 billion, and, in pharmaceuticals, Mylan (United States) took over Agila (India) for \$1.9 billion. Some smaller deals also took place in other South Asian countries, including Bangladesh, Pakistan and Sri Lanka.

FDI inflows rose in India, but macroeconomic uncertainties remain a major concern. The dominant recipient of FDI in South Asia, India, experienced a 17 per cent increase in inflows in 2013, to \$28 billion (table A). The value of greenfield projects by TNCs declined sharply in both manufacturing and services. Flows in the form of M&As from the United Kingdom and the United States increased, while those from Japan declined considerably. In the meantime, the value of greenfield projects from

these countries all dropped, but only slightly. The main manufacturing industries targeted by foreign investors were food and beverage, chemical products, and pharmaceuticals.

Macroeconomic uncertainties in India continue to be a concern for foreign investors. The annual rate of GDP growth in that country has slowed to about 4 per cent, and the current account deficit has reached an unprecedented level – nearly 5 per cent of GDP. The Indian rupee depreciated significantly in mid-2013. High inflation and the other macroeconomic problems have cast doubts on prospects for FDI, despite the Government's ambitious goal to boost foreign investment. Policy responses to macroeconomic problems will play an important role in determining FDI prospects in the short to medium run.²²

For Indian companies, domestic economic problems seemed to have deterred international expansion, and India saw its outward FDI drop to merely \$1.7 billion in 2013. The slide occurred mainly as a result of reversed equity investment – from \$2.2 billion to -2.6 billion – and large divestments by Indian TNCs accounted for much of the reverse. Facing a weak economy and high interest rates at home, some Indian companies with high financial leverage sold equity or assets in order to improve cash flows.²³

Facing old challenges as well as new opportunities, other countries reported varied performance. Bangladesh experienced significant growth in FDI inflows: from \$1.3 billion in 2012 to about \$1.6 billion in 2013. Manufacturing accounted for a major part of inflows and contributed significantly to employment creation (UNCTAD, 2013a). The country has emerged as an important player in the manufacturing and export of ready-made garments (RMG) and has become a sourcing hotspot with its advantages of low cost and capacity (*WIR13*). However, the industry in Bangladesh has faced serious challenges, including in labour standards and skill development (box II.2).

FDI inflows to Pakistan increased to \$1.3 billion, thanks to rising inflows to services in 2013. The country recently held its first auction for 3G and 4G networks of mobile telecommunications. China Mobile was the winning bidder and now plans to invest \$1.5 billion in Pakistan in the next four years.

Box II.2. Challenges facing the garment industry of Bangladesh: roles of domestic and foreign companies

Bangladesh has been recognized as one of the “Next 11” emerging countries to watch, following the BRICS countries (Brazil, Russian Federation, India, China, and South Africa) and listed among the “Frontier Five” emerging economies, along with Kazakhstan, Kenya, Nigeria and Viet Nam. The RMG industry has been the major driver of the country’s economic development in recent decades and is still fundamental to the prospects of the Bangladesh economy. This industry is considered the “next stop” for developed-country TNCs that are moving sourcing away from China. Such opportunity is essential for development, as Bangladesh needs to create jobs for its growing labour force (ILO, 2010).

With the prediction of further growth in the industry and the willingness of developed-country firms to source from Bangladesh, the picture on the demand side seems promising. However, realizing that promise requires the country to address constraints on the supply side. At the national level, poor infrastructure continues to deter investment in general and FDI in particular (UNCTAD, 2013a). At the firm level, one issue concerns the need for better compliance with labour legislation, as illustrated by several tragedies in the country’s garment industry. Besides strengthening such compliance, the industry needs to develop its capabilities, not only by consolidating strengths in basic garment production but also by diversifying into higher-value activities along the RMG value chain.

Currently, Bangladesh’s garment firms compete predominantly on price and capacity. The lack of sufficient skills remains a major constraint, and both domestic and foreign-invested firms need to boost their efforts in this regard. A recent UNCTAD study shows the dominance of basic and on-the-job training, which links directly to established career trajectories within firms. However, high labour turnover hampers skill development at the firm level. On-the-job training is complemented by various initiatives supported by employer organizations, which have training centres but often cooperate with governmental and non-governmental organizations.

FDI has accounted for a relatively small share of projects in the Bangladesh RMG industry in recent years. During 2003–2011, only 11 per cent of investment projects registered in the industry were foreign-originated. Nevertheless, owing to the larger scale of such projects, they account for a significantly high share of employment and capital formation, and they can be an important catalyst for skills development in the labour force.

Source: UNCTAD (2014a).

FDI to the Islamic Republic of Iran focuses heavily on oil exploration and production, and economic sanctions have had negative effects on those inflows, which declined by about one third in 2013, to \$3 billion.

Services have attracted increasing attention from TNCs, as countries open new sectors to foreign investment. However, as demonstrated in India’s retail industry (see next subsection), some of the new liberalization efforts have not yet been able to boost FDI inflows as governments expected. One reason is the uncertain policy environment. For instance, responses from foreign investors to the Indian Government’s liberalization efforts have been mixed.

Enhanced regional connectivity improves FDI prospects in South Asia. Poor infrastructure has long been a major challenge in attracting FDI and promoting industrial development in the region. Policy developments associated with enhanced connectivity with East Asia, especially the potential establishment of the Bangladesh-China-India-

Myanmar Economic Corridor and the China-Pakistan Economic Corridor (box II.3), are likely to accelerate infrastructure investment in South Asia, and to improve the overall investment climate. As a result of interregional initiatives, China has shown its potential to become an important source of FDI in South Asia, particularly in infrastructure and manufacturing industries. The Chinese Government has started negotiating with the Indian Government on setting up an industrial zone in India to host investments from Chinese companies. China is the third country to consider such country-specific industrial zones in India, following Japan and the Republic of Korea (WIR13).

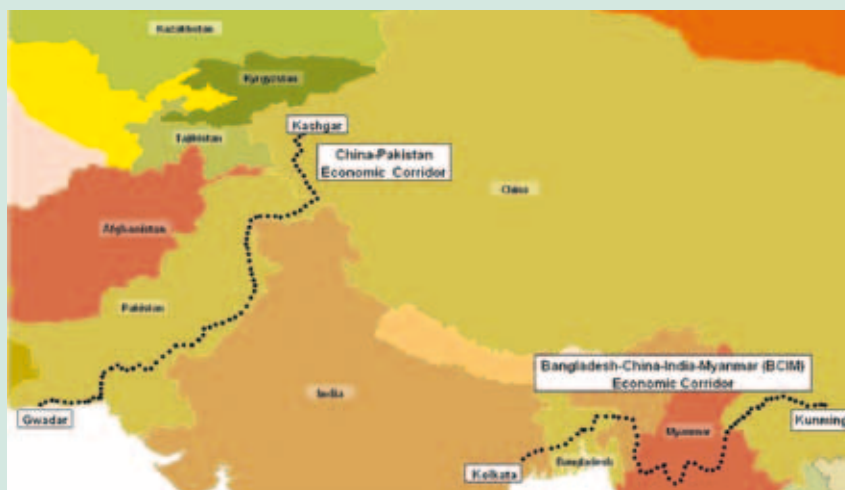
New round of retail liberalization has not yet brought expected FDI inflows to India

Organized retailing, such as supermarkets and retail chains, has expanded rapidly in emerging markets.²⁵ In India, organized retail has become a \$28 billion sector and is expected to grow to

Box II.3. International economic corridors and FDI prospects in South Asia

Two international economic corridors linking South Asia and East and South-East Asia are to be established: the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor and the China-Pakistan Economic Corridor. Countries involved in the two initiatives have drawn up specific timetables for implementation. For the BCIM Economic Corridor, for example, the four countries have agreed to build transport, energy and telecommunication networks connecting each other.²⁴

Box figure II.3.1. The Bangladesh-China-India-Myanmar Economic Corridor and the China-Pakistan Economic Corridor: the geographical scope



Source: UNCTAD.

The two initiatives will help enhance connectivity between Asian subregions and foster regional economic cooperation. In particular, these initiatives will facilitate international investment, enhancing FDI flows between participating countries and benefiting low-income countries in South Asia. Significant investment in infrastructure, particularly for land transportation, is expected to take place along these corridors, strengthening the connectedness of the three subregions. In addition, industrial zones will be built along these corridors, leading to rising investment in manufacturing in the countries involved. This is likely to help South Asian countries benefit from the production relocation that is under way in China.

Source: UNCTAD.

a market worth \$260 billion by 2020, according to forecasts of the Boston Consulting Group. As part of an overall reform programme and in order to boost investment and improve efficiency in the industry, the Indian Government opened up single-brand and multi-brand retail in 2006 and 2012, respectively. However, the two rounds of liberalization have had different effects on TNCs' investment decisions, and the recent round has not yet generated the expected results.

Two rounds of retail liberalization. The liberalization of the Indian retail sector has encountered significant political resistance from domestic interest groups, such as local retailers and

small suppliers (Bhattacharyya, 2012). In response, the Government adopted a gradual approach to opening up the sector – first the single-brand segment and then the multi-brand one. When the Government opened single-brand retail to foreign investment in 2006, it allowed 51 per cent foreign ownership; five years later, it allowed 100 per cent. In September 2012, the Government started to allow 51 per cent foreign ownership in multi-brand retail.

However, to protect relevant domestic stakeholders and to enhance the potential development benefits of FDI, the Government has simultaneously introduced specific regulations. These regulations

cover important issues, such as the minimum amount of investment, the location of operation, the mode of entry and the share of local sourcing. For instance, single-brand retailers must source 30 per cent of their goods from local small and medium-size enterprises. Multi-brand retailers may open stores only in cities with populations greater than 1 million and must invest at least \$100 million. In addition, the Government recently clarified that foreign multi-brand retailers may not acquire existing Indian retailers.

The opening up of single-brand retail in 2006 led to increased FDI inflows.

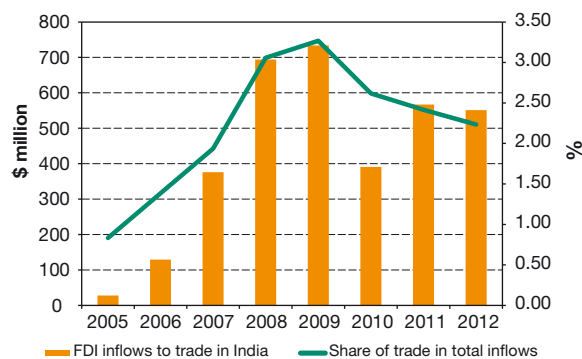
Since the initial opening up of the retail sector, a number of the world's leading retailers, such as Wal-Mart (United States) and Tesco (United Kingdom), have taken serious steps to enter the Indian market. These TNCs have started doing businesses of wholesale and single-brand retailing, sometimes through joint ventures with local conglomerates. For instance, jointly with Bharti Group, Wal-Mart opened about 20 stores in more than a dozen major cities. Tesco's operations include sourcing and service centres, as well as a franchise arrangement with Tata Group. It has also signed an agreement to supply Star Bazaar with exclusive access to Tesco's retail expertise and 80 per cent of the stock of the local chain.

Thanks to policy changes in 2006, annual FDI inflows to the trade sector in general jumped from an average of \$60 million during 2003–2005 to about \$600 million during 2007–2009. Inflows have fluctuated between \$390 million and \$570 million in recent years (figure II.10). The share of the sector in total FDI inflows rose from less than 1 per cent in 2005 to about 3 per cent during 2008–2009. However, that share has declined as investment encouraged by the first round of investment liberalization lost momentum.

The opening up of multi-brand retail in 2012 has not generated the expected results.

Policy-related uncertainties continue to hamper the expansion plans of foreign chains. Although foreign investment continues to flow into single-brand retail, no new investment projects have been recorded in multi-brand retail and in fact divestments have taken place. Major TNCs that entered the Indian market after the first round of liberalization have taken steps to get out of the market. For instance,

Figure II.10. India: wholesale and retail trade inflows, 2005–2012
(Millions of dollars and per cent)



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

Wal-Mart (United States) recently abandoned its plan to open full-scale retail outlets in India and dissolved its partnership with Bharti.

TNCs' passive and even negative reactions to the second round of retail liberalization in India were due partly to the strict operational requirements and continued policy uncertainties. As the two rounds of policy changes encountered significant political resistance, compromises have been made at both national and local levels to safeguard local interests by regulating issues related to the location of operations, the mode of entry and the share of local sourcing required.

The way forward. A different policy approach could be considered for better leveraging foreign investment for the development of Indian retail industry. For example, in terms of mode of entry, franchising and other non-equity forms of TNC participation can be options. Through such arrangements, the host country can benefit from foreign capital and know-how while minimizing potential tensions between foreign and local stakeholders.

c. West Asia

Table A. Distribution of FDI flows among economies, by range,^a 2013

Range	Inflows	Outflows
Above \$10 billion	Turkey and United Arab Emirates	..
\$5.0 to \$9.9 billion	Saudi Arabia	Kuwait and Qatar
\$1.0 to \$4.9 billion	Iraq, Lebanon, Kuwait, Jordan and Oman	Saudi Arabia, Turkey, United Arab Emirates, Oman and Bahrain
Below \$1.0 billion	Bahrain, State of Palestine, Yemen and Qatar	Lebanon, Iraq, Yemen, Jordan and State of Palestine

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

Figure B. FDI inflows, 2007–2013 (Billions of dollars)

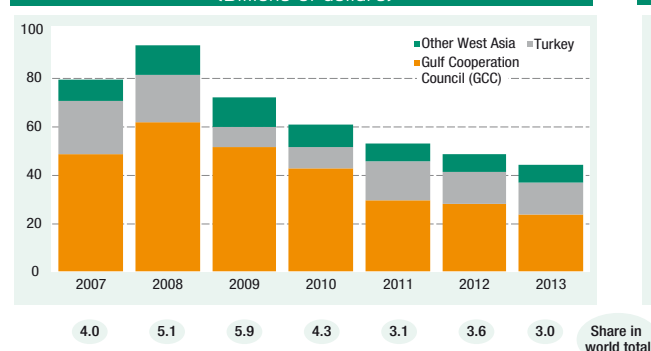


Figure A. FDI flows, top 5 host and home economies, 2012–2013 (Billions of dollars)

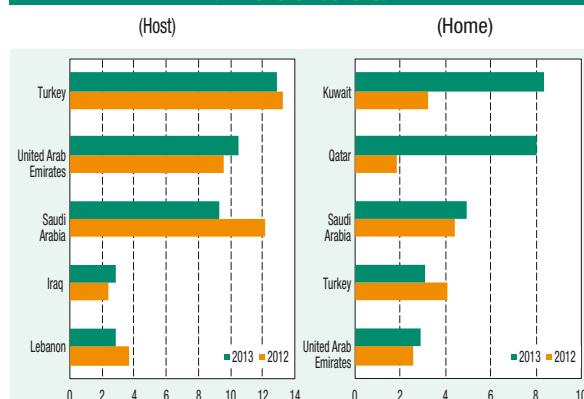


Figure C. FDI outflows, 2007–2013 (Billions of dollars)

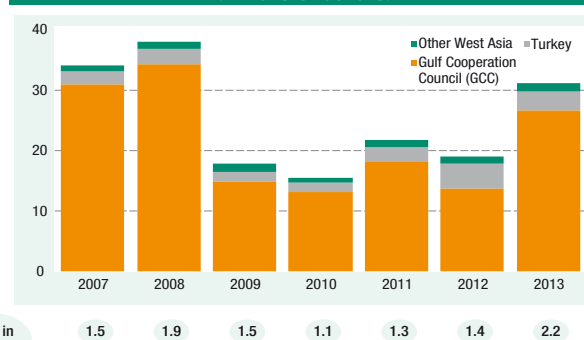


Table B. Cross-border M&As by industry, 2012–2013 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	8 219	2 065	11 390	8 077
Primary	233	357	21	476
Mining, quarrying and petroleum	233	344	21	466
Manufacturing	2 568	451	1 668	61
Food, beverages and tobacco	1 019	186	1 605	-
Pharmaceuticals, medicinal chem. & botanical prod.	700	40	27	-
Services	5 419	1 257	9 700	7 540
Electricity, gas and water	284	140	-	1 908
Construction	125	14	1 126	-47
Transportation and storage	874	55	-132	483
Information and communications	3 357	21	2 803	1 137
Financial and insurance activities	-298	465	6 543	3 972
Business services	1 039	371	73	184

Table C. Cross-border M&As by region/country, 2012–2013 (Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	8 219	2 065	11 390	8 077
Developed economies	-1 083	406	5 223	2 739
European Union	-3 007	714	5 319	1 312
Germany	72	3 456	-584	-654
United Kingdom	-214	390	1 318	1 527
United States	1 700	-573	-244	67
Developing economies	4 228	1 160	4 585	4 913
Egypt	-	-	9	3 150
West Asia	3 855	1 039	3 855	1 039
Iraq	-14	-	1 503	630
Qatar	3 357	449	-	-
Transition economies	4 023	3	1 582	425
Russian Federation	3 873	3	1 582	425

Table D. Greenfield FDI projects by industry, 2012–2013 (Millions of dollars)

Sector/industry	West Asia as destination		West Asia as investors	
	2012	2013	2012	2013
Total	44 668	56 527	35 069	39 240
Primary	2	5 990	37	1 701
Mining, quarrying and petroleum	2	5 990	37	1 701
Manufacturing	20 249	18 692	12 401	17 880
Coke, petroleum products and nuclear fuel	5 002	3 769	5 768	9 666
Chemicals and chemical products	6 181	4 178	103	202
Motor vehicles and other transport equipment	1 019	5 750	130	111
Services	24 417	31 845	22 630	19 659
Electricity, gas and water	2 608	13 761	601	1 777
Construction	6 693	3 253	5 105	4 313
Hotels and restaurants	3 809	3 555	3 302	3 142
Finance	2 226	1 641	3 993	2 305
Business services	2 038	6 155	588	3 953

Table E. Greenfield FDI projects by region/country, 2012–2013 (Millions of dollars)

Partner region/economy	West Asia as destination		West Asia as investors	
	2012	2013	2012	2013
World	44 668	56 527	35 069	39 240
Developed economies	15 652	27 253	2 054	4 572
Europe	9 883	15 801	1 640	2 509
North America	5 102	10 009	342	1 976
Developing economies	25 860	16 496	30 874	31 016
North Africa	1 047	109	10 511	3 906
Egypt	1 047	86	7 403	1 552
East Asia	4 901	1 058	820	500
South-East Asia	2 827	984	427	9 678
South Asia	4 100	1 367	4 972	2 293
West Asia	12 746	12 729	12 746	12 729
Transition economies	3 156	12 779	2 140	3 653
Russian Federation	122	12 710	313	1 345

FDI flows to West Asia decreased in 2013 by 9 per cent, to \$44 billion, the fifth consecutive decline since 2009 and a return to the level they had in 2005. Persistent tensions in the region continued to hold off foreign direct investors in 2013. Since 2009, FDI flows to Saudi Arabia and Qatar have maintained a downward trend. During this period, flows to a number of other countries have started to recover, although that recovery has been bumpy in some cases. Flows have remained well below the levels reached some years ago, except in Kuwait and Iraq, where they reached record levels in 2012 and 2013, respectively.

Turkey remained West Asia's main FDI recipient in 2013, although flows decreased slightly, remaining at almost the same level as in the previous year – close to \$13 billion (figure A). This occurred against a background of low cross-border M&A sales, which dropped by 68 per cent to \$867 million, their lowest level since 2004. While inflows to the manufacturing sector more than halved, dropping to \$2 billion and accounting for only 16 per cent of the total, they increased in electricity, gas and water supply (176 per cent to \$2.6 billion), finance (79 per cent to \$3.7 billion), and real estate (16 per cent to \$3 billion). Together these three industries represented almost three quarters of total FDI to the country.

FDI flows to the United Arab Emirates continued their recovery after the sharp decline registered in 2009, increasing in 2013 for the fourth consecutive year and positioning this country as the second largest recipient of FDI after Turkey. Flows increased by 9 per cent to \$10.5 billion, remaining however well below their level in 2007 (\$14.2 billion). This FDI recovery coincided with the economy rebounding from the 2009 debt crisis, driven by both oil and non-oil activities. Among the latter, the manufacturing sector expanded, led by heavy industries such as aluminium and petrochemicals; tourism and transport benefited from the addition of more routes and capacity by two local airlines; and the property market recovered, thanks to the willingness of banks to resume loans to real estate projects, which brought new life to the construction business, the industry that suffered most from the financial crisis and has taken the longest to recover. That industry got further impetus in November

2013, when Dubai gained the right to host the World Expo 2020.

Flows to Saudi Arabia registered their fifth consecutive year of decline, decreasing by 24 per cent to \$9.3 billion, and moving the country from the second to the third largest host economy in the region. This decline has taken place despite the large capital projects under way in infrastructure and in downstream oil and gas, mainly refineries and petrochemicals. However, the Government remains the largest investor in strategically important sectors, and the activities of many private firms (including foreign ones) depend on government contracts (non-equity mode) or on joint ventures with State-owned companies. The departure in 2013 of over 1 million expatriate workers has exacerbated the mismatch of demand and supply in the private job market that has challenged private businesses since the 2011 launch of the policy of “Saudization” (WIR13).

Flows to Iraq reached new highs. Despite high levels of instability in Iraq, affecting mainly the central area around Baghdad, FDI flows are estimated to have increased by about 20 per cent in 2013, to \$2.9 billion. The country's economic resurgence has been underpinned by its vast hydrocarbon wealth. Economic growth has been aided by substantial increases in government spending to compensate for decades of war, sanctions and underinvestment in infrastructure and basic services. In addition, work on several large oilfields has gathered speed since the award of the largest fields to foreign oil TNCs. A significant development for the industry in 2013 was the start of operations of the first stage of a long-delayed gas-capture project run by Basra Gas Company (State-owned South Gas Company (51 per cent), Shell (44 per cent) and Mitsubishi (5 per cent)). The project captures associated gas that was being flared from three oil fields in southern Iraq and processes it for liquefied petroleum gas (LPG), natural gas liquids and condensate for domestic markets.

FDI flows to Kuwait are estimated to have decreased by 41 per cent in 2013, after having reached record highs in 2012 owing to a one-off acquisition deal worth \$1.8 billion (see WIR13). FDI to Jordan increased by 20 per cent to \$1.8 billion, despite regional unrest and sluggish economic growth.

Because of the country's geostrategic position, countries and foreign entities have been extending considerable new funding in the form of aid, grants, guarantees, easy credit and investment.²⁶ FDI to Lebanon is estimated to have fallen by 23 per cent, with most of the flows still focused on the real estate market, which registered a significant decrease in investments from the Gulf Cooperation Council (GCC) countries.

Prospects for the region's inward FDI remain bleak, as rising political uncertainties are a strong deterrent to FDI, even in countries not directly affected by unrest and in those registering robust economic growth. The modest recovery in FDI flows recorded recently in some countries would have been much more substantial in the absence of political turmoil, given the region's vast hydrocarbon wealth.

FDI outflows from West Asia soared by 64 per cent to \$31 billion in 2013, boosted by rising flows from the GCC countries, which enjoy a high level of foreign exchange reserves derived from their accumulation of surpluses from export earnings. Although each of these countries augmented its investment abroad, the quadrupling of outflows from Qatar and the 159 per cent growth in flows from Kuwait explain most of the increase. Given the high levels of their foreign exchange reserves and the relatively small sizes of their economies, GCC countries are likely to continue to increase their direct investment abroad.

New challenges faced by the GCC petrochemicals industry. With the goal of diversifying their economies by leveraging their abundant oil and gas and their capital to develop industrial capabilities and create jobs where they enjoy competitive advantages, GCC Governments have embarked since the mid-2000s on the development of large-scale petrochemicals projects in joint ventures with international oil companies (see *WIR12*). These efforts have significantly expanded the region's petrochemicals capacities.²⁷ And they continue to do so, with a long list of plants under development, including seven megaprojects distributed between Saudi Arabia, the United Arab Emirates, Qatar and Oman (table II.2). The industry has been facing new challenges, deriving among others from the shale gas production under way in North America (see chapter I), which has affected the global strategy of petrochemicals TNCs.

TNC focus on the United States. The shale gas revolution in North America, combined with gas shortages in the GCC region,²⁸ has reduced the cost advantage of the GCC petrochemicals players and introduced new competition. By driving down gas prices in the United States,²⁹ the shale revolution is reviving that country's petrochemicals sector.³⁰ Some companies have been looking again to the United States, which offers a huge consumer base and the opportunity to spread companies' business risks. Global petrochemicals players that have engaged in several multibillion-

Table II.2. Selected mega-petrochemicals projects under development in the GCC countries

Project/Company name	Partners	Location	Start Up	Capital expenditure (\$ million)
Sadara	Aramco (65%) and Dow Chemical (35%)	Jubail, Saudi Arabia	2016	20 000
Chemaweya	Abu Dhabi Investment Council (40%); International Petroleum Investment Company (IPIC) (40%) and Abu Dhabi National Oil Company (ADNOC) (20%)	Al-Gharbia UAE	2018	11 000–20 000
Petro Rabigh 2	Aramco (37.5%) and Sumitomo (37.5%)	Rabigh, Saudi Arabia	2016	7 000
Al Karaana	Qatar Petroleum (80%) and Shell (20%)	Ras, Laffan, Qatar	2017	6 400
Al-Sejeel	Qatar Petroleum (80%) and Qatar Petrochemical (Qapco) (20%)	Ras Laffan, Qatar	2018	5 500
Liwa Plastics	Oman Oil Refineries and Petroleum Industries (Orpic)	Sohar, Oman	2018	3 600
Kemya	SABIC (50%) and Exxon Mobil (50%)	Jubail, Saudi Arabia	2015	3 400

Source: UNCTAD, based on various newspaper accounts.

dollar megaprojects in GCC countries in the last 10 years – including Chevron Phillips Chemical, Dow Chemical and ExxonMobil Chemical – have been considering major projects in the United States. For example, Chevron Phillips is planning to build a large-scale ethane cracker and two polyethylene units in Texas.³¹ Dow Chemical has restarted its idled Saint Charles plant in Louisiana and is undertaking a major polyethylene and ethylene expansion in its plant in Texas.³² As of March 2014, the United States chemical industry had announced investment projects valued at about \$70 billion and linked to the plentiful and affordable natural gas from domestic shale formations. About half of the announced investment is by firms based outside the United States (see chapter III).

Shale technology is being transferred through cross-border M&As to Asian TNCs.

United States technology has been transferred to Asian countries rich in shale gas through M&A deals, which should eventually help make these regions more competitive producers and exporters for chemicals. Government-backed Chinese and Indian companies have been aggressively luring or acquiring partners in the United States and Canada to gather the required production techniques, with a view to developing their own domestic resources.³³

GCC petrochemicals and energy enterprises have also invested in North America.

The North American shale gas boom has also attracted investment from West Asian petrochemicals companies: NOVA Chemicals (fully owned by Abu Dhabi's State-owned International Petroleum Investment Company) is among the first to build a plant to exploit low-cost North American ethylene.³⁴ SABIC (Saudi Arabia) is also moving to harness the shale boom in the United States. The company – which already has a presence in the United States through SABIC Americas, a chemicals and fertilizer producer and a petrochemicals research centre – is looking to seal a deal to invest in a petrochemicals project as well.³⁵ The boom has also pushed State-owned Qatar Petroleum (QP) to establish small footholds in North America's upstream sector. Because QP is heavily dependent on Qatar's North Field, it has invested to diversify risk geographically. In April 2013, its affiliate, Qatar Petroleum International (QPI), signed a memorandum of understanding with ExxonMobil for future joint

investment in unconventional gas and natural gas liquids in the United States, which suggests a strategy of strengthening ties with TNCs that invest in projects in Qatar³⁶ and reflects joint interest in expanding the partnership both domestically and internationally. QPI also announced a \$1 billion deal with Centrica (United Kingdom) to purchase oil and gas assets and exploration acreage in Alberta from oil sands producer Suncor Energy (Canada). However, new evidence suggests that the outlook for the shale gas industry may be less bright than was thought.³⁷

Petrochemicals producers in the Middle East should nonetheless build on this experience

to develop a strategy of gaining access to key growth markets beyond their diminishing feedstock advantage. Rather than focusing on expanding capacity, they need to leverage their partnership with petrochemicals TNCs to strengthen their knowledge and skills base in terms of technology, research and efficient operations, and to establish linkages with the global manufacturing TNCs that use their products. Efforts towards that end have been undertaken, for example, by SABIC, which has opened R&D centres in Saudi Arabia, China and India, and is developing a strategy to market its chemicals to international manufacturing giants.

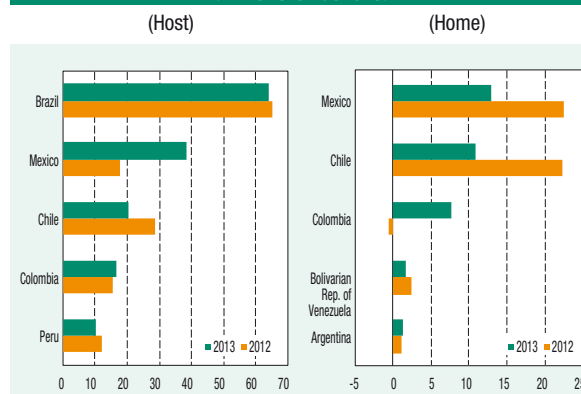
3. Latin America and the Caribbean

Table A. Distribution of FDI flows among economies, by range,^a 2013

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

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

Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)



Note: Not including offshore financial centres.

Figure B. FDI inflows, 2007–2013
(Billions of dollars)

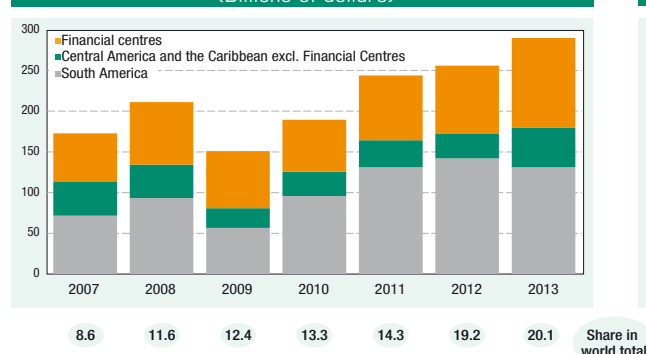


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

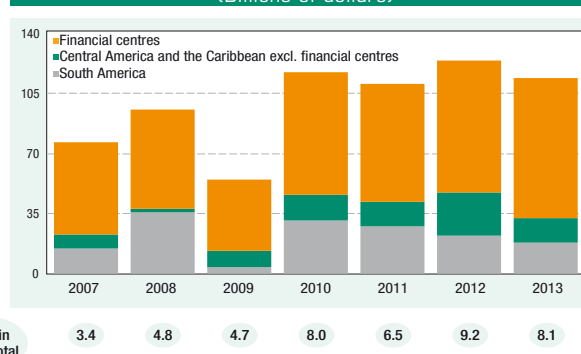


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	24 050	61 613	33 673	18 479
Primary	-2 550	28 245	823	309
Mining, quarrying and petroleum	-2 844	28 238	868	309
Manufacturing	9 573	25 138	4 849	7 153
Food, beverages and tobacco	3 029	23 848	235	4 644
Basic metal and metal products	4 367	-34	1 326	39
Non-metallic mineral products	-	-	66	1 936
Services	17 027	8 230	28 001	11 017
Electricity, gas, water and waste management	-73	3 720	398	85
Transportation and storage	4 550	1 520	3 443	628
Information and communications	1 146	252	-10	345
Financial and insurance activities	5 121	2 189	19 586	9 931
Business services	3 043	-488	960	-23

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	24 050	61 613	33 673	18 479
Developed economies	1 699	-7 188	17 146	7 274
Belgium	1 237	15 096	-	-60
Spain	-1 996	-7 083	1 109	422
United Kingdom	-4 592	-30 530	932	-213
United States	8 717	6 299	4 642	2 250
Developing economies	22 011	14 168	16 705	10 818
Brazil	1 138	21	8 555	2 909
Chile	9 445	2 769	608	617
Colombia	2 277	4 815	4 260	1 500
Mexico	-134	2 700	448	214
Transition economies	-	-53 916	-178	387
Russian Federation	-	-53 916	-178	370

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	LAC as destination		LAC as investors	
	2012	2013	2012	2013
Total	69 731	145 066	9 508	18 257
Primary	5 557	12 485	159	4 000
Mining, quarrying and petroleum	5 557	12 485	159	4 000
Manufacturing	32 236	34 630	3 745	4 292
Food, beverages and tobacco	3 605	3 844	692	1 493
Chemicals and chemical products	1 790	3 038	157	362
Metals and metal products	5 226	3 913	823	89
Motor vehicles and other transport equipment	12 409	11 794	523	114
Services	31 939	97 952	5 605	9 966
Electricity, gas and water	11 802	17 454	1 040	809
Transport, storage and communications	4 150	14 205	560	4 703
Finance	2 138	5 770	413	923
Business services	9 553	49 961	1 993	1 501

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	LAC as destination		LAC as investors	
	2012	2013	2012	2013
World	69 731	145 066	9 508	18 257
Developed economies	56 709	80 421	2 172	1 249
Europe	27 786	37 739	385	653
Italy	8 106	6 013	-	-
Spain	6 799	11 875	62	121
North America	22 852	30 687	1 780	585
Japan	3 250	6 420	-	-
Developing economies	12 684	63 790	7 336	16 912
East Asia	4 582	45 538	99	693
Latin America and the Caribbean	6 576	15 730	6 576	15 730
Brazil	2 706	5 926	1 895	3 022
Mexico	1 260	4 144	790	1 113
Transition economies	337	855	-	96

FDI flows to Latin America and the Caribbean reached \$292 billion in 2013 (figure B). Excluding the offshore financial centres, they increased by 6 per cent to \$182 billion. Flows to Central America and the Caribbean increased by 64 per cent to \$49 billion, boosted by a mega-acquisition in Mexico. Whereas in previous years FDI growth was driven largely by South America, in 2013 flows to this subregion declined by 6 per cent to \$133 billion, as the decline in metal prices dampened FDI growth in the metal mining industry of some countries. FDI outflows reached \$115 billion in 2013. Excluding financial centres, they declined by 31 per cent to \$33 billion.

Central America and the Caribbean drove FDI growth to the region.

The purchase by the Belgian brewer AB InBev of the remaining shares in Grupo Modelo for \$18 billion more than doubled inflows to Mexico to \$38 billion (figure A), and is largely behind the strong increase of FDI to Central America and the Caribbean. Flows also increased in Panama (61 per cent to \$4.7 billion) – Central America's second largest recipient after Mexico – on the back of large infrastructure investment projects, including the expansion of the Panama Canal and of the capital city's metro rail system, both part of ambitions to develop the country into a regional logistical hub and expand its capacity for assembly operations. Flows to Costa Rica rose by 14 per cent to \$2.7 billion, boosted by a near tripling of real estate acquisitions by non-residents, accounting for 43 per cent of total FDI to the country. The growth of FDI to Guatemala and to Nicaragua slowed in 2013, with flows growing by only 5 per cent after registering substantial increases in the last few years. The growth was powered primarily by surges in FDI in the mining and banking industries in Guatemala, and in free trade zones and offshore assembly manufacturing in Nicaragua.

In the Caribbean, flows to the Dominican Republic fell by 37 per cent to \$2 billion, after two years of strong recovery which had driven them to \$3.1 billion in 2012. This fall is due to both the predictable decline of cross-border M&As in 2013 – after the one-off acquisition of the country's largest brewer for \$1.2 billion in 2012 – and the completion of the Barrick Gold mining investment project, which started production in 2012. FDI in Trinidad and

Tobago – highly concentrated in the oil and gas extractive industry, which attracted more than 70 per cent of total inflows to the country in 2001–2011 (see section B.3) – decreased by 30 per cent to \$1.7 billion, owing to the halving of reinvested earnings as natural gas prices remained weak.

After three consecutive years of strong growth, FDI to South America declined

(figure B). Among the main recipient countries, Brazil saw only a slight decline from 2012 – 2 per cent to \$64 billion (figure A) – but with highly uneven growth by sector. Flows to the primary sector soared by 86 per cent to \$17 billion, powered primarily by the oil and gas extractive industry (up 144 per cent to \$11 billion), while flows to the manufacturing and services sectors decreased by 17 and 14 per cent, respectively. FDI to the automobile and electronics industries bucked the trend of the manufacturing sector, rising by 85 and 120 per cent, respectively. FDI to Chile declined by 29 per cent to \$20 billion, driven mainly by decreasing flows to the mining industry, which accounted for more than half of total FDI flows to this country in 2006–2012. The decrease in this sector is due to the completion of a number of investment projects that started production in 2013 and to the indefinite suspension of Barrick Gold's (Canada) \$8.5 billion Pascua-Lama gold-mining mega-project, located on the Chilean-Argentinian border.³⁸ The suspension, prompted mainly by lower gold prices and Barrick's financial strains, has also affected FDI to Argentina, which declined by 25 per cent. Flows to Peru decreased by 17 per cent to \$10 billion, following a strong decline of reinvested earnings (by 41 per cent to \$4.9 billion) and of equity capital (by 48 per cent to \$2.4 billion), partly compensated by the increase in intracompany loans. The Bolivarian Republic of Venezuela saw its FDI inflows more than double, to \$7 billion. Inflows to Colombia increased by 8 per cent to \$17 billion (figure A), largely on the back of cross-border M&A sales in the electricity and banking industries.

Decreasing cross-border purchases and increasing loan repayments caused a slide of outward FDI from the region.

FDI outflows reached \$115 billion in 2013 (figure C). Excluding offshore financial centres, they declined by 31 per cent to \$33 billion. The decline is the result of both a 47 per cent decrease in cross-border acquisitions

from the high value reached during 2012 (\$31 billion) and a strong increase in loan repayments to parent companies by foreign affiliates of Brazilian and Chilean TNCs.³⁹ Colombian TNCs clearly bucked the region's declining trend in cross-border M&As, more than doubling the value of their net purchases abroad to over \$6 billion, mainly in the banking, oil and gas, and food industries.

FDI prospects in the region are likely to be led by developments in the primary sector. New opportunities are opening for foreign TNCs in the region's oil and gas industry, namely in Argentina and in Mexico.

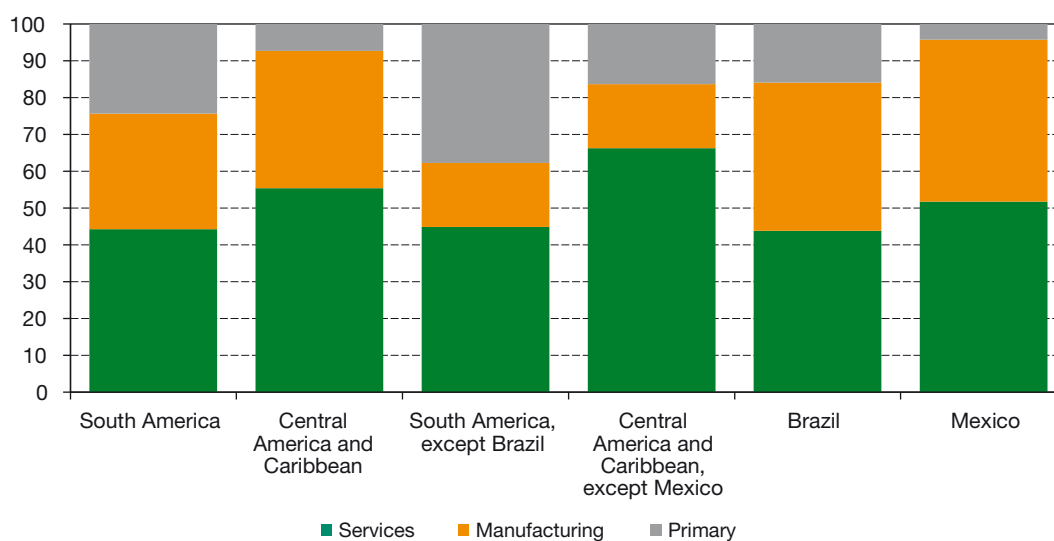
Argentina's vast shale oil and gas resources⁴⁰ and the technical and financial needs of Yacimientos Petrolíferos Fiscales (YPF), the majority State-owned energy company, to exploit them open new horizons for FDI in this industry. The agreement reached in 2014 with Repsol (Spain) regarding compensation for the nationalization of its majority stake in YPF⁴¹ removed a major hurdle to the establishment of joint ventures between YPF and other foreign companies for the exploitation of shale resources. YPF has already secured some investment, including a \$1.2 billion joint venture with Chevron (United States) for the exploitation of the Vaca Muerta shale oil and gas field. Total (France) will also participate in a \$1.2 billion upstream joint venture.

In Mexico, FDI in the oil and gas industry is likely to receive a powerful boost after the approval of the long-disputed energy reform bill that ended a 75-year State oil monopoly and opened the Mexican energy industry to greater participation by international energy players in the upstream, midstream and downstream oil and gas sectors (see chapter III).

The sectoral composition of FDI stock in Latin America and the Caribbean shows similarities and differences by countries and subregions.

The services sector is the main target of FDI both in South America and in Central America and the Caribbean (figure II.11), albeit relatively more important in the latter. The prominence of this sector is the result of the privatizations and the removal of restrictions on FDI that took place in both subregions in the last two decades. The manufacturing sector is the second most important target in both subregions, but more important in Central America and the Caribbean. The primary sector is relatively more important in South America but marginal in the other subregion. In Brazil and Mexico – the two biggest economies, where the region's FDI to the manufacturing sector is concentrated – FDI is driven by two different strategies; export-oriented in Mexico (efficiency-seeking) and domestic-market-oriented in Brazil (market-seeking).

Figure II.11. Latin America and the Caribbean: share of FDI stock by main sectors, subregions and countries, 2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database.

These different patterns of FDI flows and the different strategies of TNCs have shaped the different export structures of the two subregions, with primary products and commodity-based manufactures predominating in South America's exports and manufactured products predominating in Central America and the Caribbean's exports, resulting in two distinct GVC participation patterns. A closer look at the industry level also shows significant differences in GVC patterns within the same manufacturing activities, resulting from different industrialization strategies.

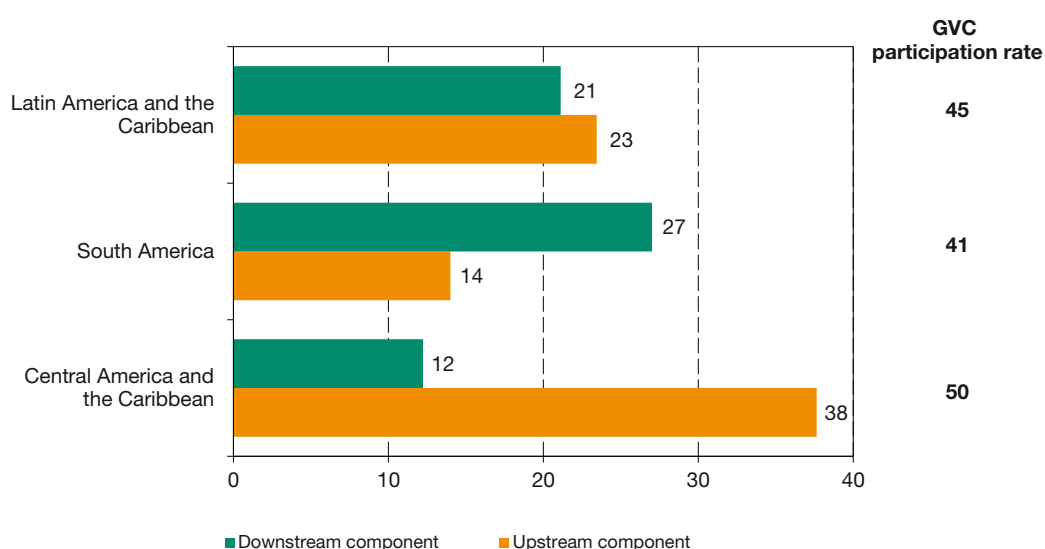
Different patterns of GVC integration. In 2011, the share of Latin American exports dependent on GVCs was 45 per cent, but the subregional figures differ strongly. In Central America and the Caribbean, GVC participation derives primarily from the relatively high imported foreign value added in exports (upstream component), while the downstream component is low. This occurs because most exports are made up of medium- and high-skill technology-intensive products (e.g. automobiles, electronics) as well as low-technology products (e.g. textiles) near the end of the value

chain. In South America, by contrast, there is low upstream but high downstream participation in GVCs (figure II.12). This is due to the predominance of primary products and commodity-based manufactures in exports, which use few foreign inputs and, because they are at the beginning of the value chain, are themselves used as intermediate goods in third countries' exports.

The same phenomenon can be observed in the value added exports of the manufacturing sector. While GVC participation in this sector in South America was 34 per cent in 2010 – shared equally between imported value added and downstream use of exports (at 17 per cent each) – participation was much higher in Central America and the Caribbean (50 per cent) and highly imbalanced in favour of imported value added in exports (44 per cent), while downstream use represented only 6 per cent (figure II.13). Differences between the two subregions are more accentuated in industries such as electronics, motor vehicles, machinery and equipment, and textiles and clothing (table II.3).

This different degree and pattern of participation in GVCs between the two subregions – in the same

Figure II.12. GVC participation rate in Latin America and the Caribbean, 2011
(Per cent)

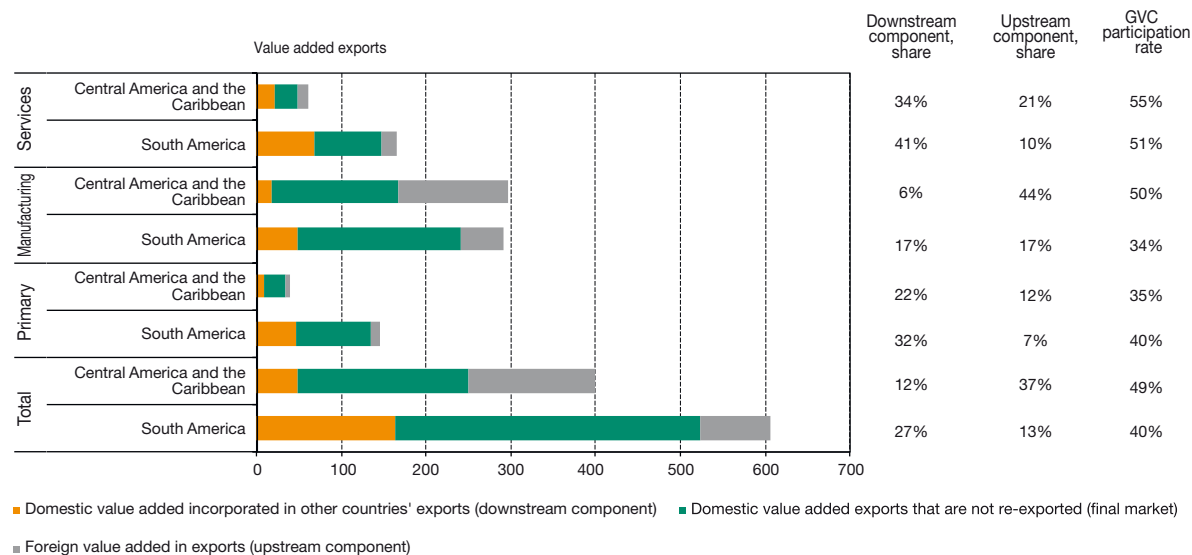


Source: UNCTAD-Eora GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

The share of foreign value added in Central America and the Caribbean's exports is under-estimated because the UNCTAD-EORA data do not take into account the high import content of production in the maquiladora industry.

Figure II.13. Latin America and the Caribbean: value added exports by main components, sectors and subregions, 2010
(Billions of dollars and per cent)



Source: UNCTAD-Eora GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

Total exports as calculated in GVCs (sum of the three components) are not necessarily the same as reported in the national account of exports of goods and services.

manufacturing activities – derives from their position in the value chain, the nature of end markets, the linkages between export activities and the local economy, the nature of industrial policy, and the degree of intraregional integration. Central American and Caribbean countries rely heavily on the United States as both an export market for manufacturing products (76 per cent of all such exports) (figure II.14) and a GVC partner, especially in the upstream part of the chain, contributing 55 per cent of the imported value added in those exports (table II.4). However, their intraregional trade links and GVC interaction are weak: the subregion absorbs only 5 per cent of its own manufacturing exports (see figure II.4) and accounts for a small part of its upstream and downstream GVC links in the manufacturing sector (2 per cent and 6 per cent respectively) (see table II.4).

By contrast, intraregional trade links in South America are much stronger, accounting for 49 per cent of the subregion's manufacturing exports, 24 per cent of its upstream GVC manufacturing links, and 13 per cent of its downstream links

(table II.4). Finally, South America's manufacturing exports integrate a much lower share of imported value added (17 per cent) than do those of Central America (44 per cent) (table II.4).

In the manufacturing sector in particular, the differences between South America and Central America in patterns of GVC participation derive mostly from two sources: different industrialization strategies and different modes of integration in international trade of Latin America's biggest economies, Brazil and Mexico.⁴² This is illustrated by the example of the automobile industry, which, in both countries, is dominated by almost the same foreign vehicle-assembly TNCs but shows very different patterns of GVC participation.

Two ways to participate in GVCs: the automobile industry in Brazil and Mexico.

Brazil and Mexico are respectively the seventh and eighth largest automobile producers and the fourth and sixteenth largest car markets, globally.⁴³ Almost all of their motor vehicle production is undertaken

Table II.3. Latin America and the Caribbean manufacturing sector: GVC participation, components and share in total value added manufacturing exports by main industry, 2010

(Per cent)

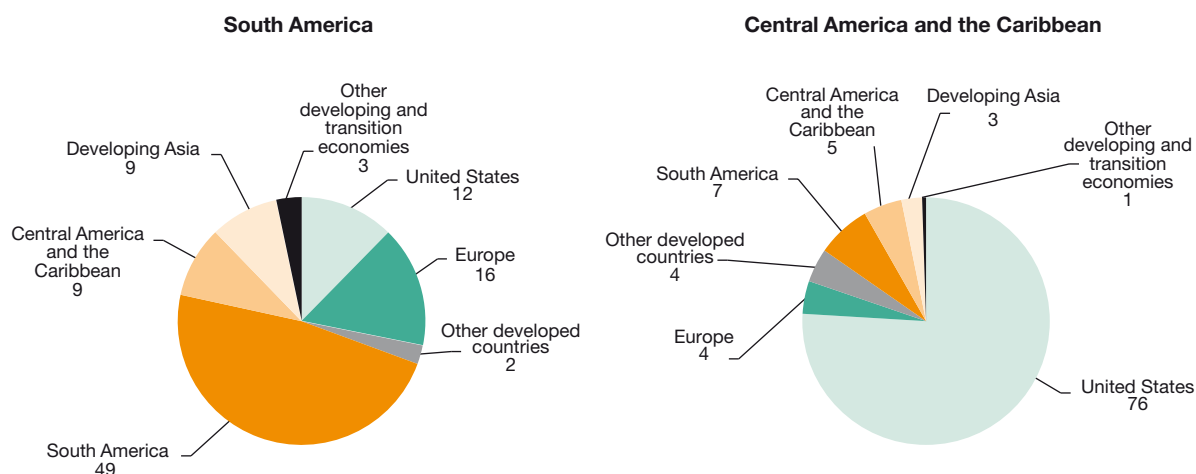
Industry	South America				Central America and the Caribbean			
	GVC participation rate	FVA share	DVX share	Share in total manufacturing exports	GVC participation rate	FVA share	DVX share	Share in total manufacturing exports
Manufacturing sector	34	17	17	100	50	44	6	100
Electrical and electronic equipment	40	24	16	4	63	59	4	33
Motor vehicles and other transport equipment	34	25	9	12	50	47	4	25
Food, beverages and tobacco	20	13	8	17	25	21	4	6
Chemicals and chemical products	42	22	20	16	38	20	18	5
Textiles, clothing and leather	27	16	11	8	41	38	2	10
Metal and metal products	43	16	27	12	55	29	26	4
Machinery and equipment	27	16	12	7	41	38	4	5
Wood and wood products	35	13	22	8	45	31	14	2
Coke, petroleum products and nuclear fuel	40	9	31	5	42	31	11	3
Rubber and plastic products	42	21	21	3	56	42	14	1
Non-metallic mineral products	29	11	18	3	27	12	15	2

Source: UNCTAD-Eora GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

Figure II.14. Latin America and the Caribbean: geographical distribution of export of manufactured goods by destination, 2010

(Per cent)



Source: UNCTAD GlobStat.

by global vehicle assemblers, most of which – including Ford, General Motors, Honda, Nissan, Renault, Toyota and Volkswagen – have assembly plants in both countries. This shared characteristic notwithstanding, clear differences exist between the

industries in the two countries. The most significant one is that the Brazilian automobile value chain has the domestic market as its main end market, whereas the Mexican one is largely export-oriented and directed mainly to the United States as its end

Table II.4. Latin America and the Caribbean: GVC upstream and downstream links in the manufacturing sector by subregion and by geographical origin and destination, 2010

(Per cent)

Partner region	FVA share (by origin)		DVX share (by destination)		GVC participation rate (by origin and destination)	
	South America	Central America and the Caribbean	South America	Central America and the Caribbean	South America	Central America and the Caribbean
Developed countries	55	76	64	76	59	76
North America	23	54	14	35	19	52
Europe	27	16	46	38	36	19
Other developed	5	6	4	3	5	6
Developing and transition economies	45	24	36	24	41	24
Latin America and the Caribbean	26	7	18	10	22	7
South America	24	5	13	4	19	5
Central America and the Caribbean	2	2	5	6	3	2
Asia and Oceania	15	15	15	11	15	15
Other developing and transition economies	4	2	3	3	4	2
World	100	100	100	100	100	100
Amount (\$ billion)	50	130	48	19	98	149
Share in total value added manufacturing exports	17	44	17	6	34	50

Source: UNCTAD-Eora GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

market. In 2012, the Mexican automobile industry exported, for example, 82 per cent of its vehicle production⁴⁴ – 64 per cent of it to the United States. By contrast, only 13 per cent of vehicle production in Brazil was exported, with MERCOSUR absorbing 67 per cent of exports by value.⁴⁵

The inward/outward orientation of the motor vehicle industries in the two countries is also reflected by the much lower GVC participation of Brazil's motor vehicle exports – 26 per cent, compared with 58 per cent for Mexico's exports. This difference is explained mainly by the much lower imported content in Brazil's exports (21 per cent versus 47 per cent in Mexico) and also – but to a lesser extent – by the lower participation of Brazil's motor vehicle exports in other countries' exports (5 per cent, compared with 11 per cent) (table II.5).

Another difference is the major interaction of Brazil's automotive industry with other Latin American countries – mainly Argentina, with which Brazil has an agreement on common automotive policy.⁴⁶ Mexico's industry relies strongly on developed countries, mainly the United States; its few linkages

with other Latin American countries are with neighbours that do not have significant activity in the automotive industry. Indeed, whereas Latin America and the Caribbean accounts for only 4 per cent of GVC participation in Mexico's motor vehicle exports, in Brazil its share is 12 per cent. More tellingly, Brazil represents an important step in Argentina's motor vehicle value chain: it accounts for 34 per cent of GVC participation in Argentina's motor vehicle exports (table II.5) and absorbs 77 per cent of the value of those exports.⁴⁷

Different TNC strategies and different government industrial policies have resulted in distinct GVC integration patterns with different implications in each country for business linkages, innovation and technology.

Mexico opted for an export-oriented strategy that allows companies operating under the IMMEX programme⁴⁸ to temporarily import goods and services that will be manufactured, transformed or repaired, and then re-exported, with no payment of taxes, no compensatory quotas and other specific benefits.⁴⁹ This strategy relies mainly on

Table II.5. Latin America: GVC upstream and downstream links in the motor vehicle industry, selected countries, by geographical origin and destination, 2010

(Per cent)

Partner region/country	FVA share (by origin)			DVX share (by destination)			GVC participation rate (by origin and destination)		
	Brazil	Mexico	Argentina	Brazil	Mexico	Argentina	Brazil	Mexico	Argentina
Developed countries	79	89	43	70	81	50	72	83	48
<i>United States</i>	36	72	18	24	56	17	27	59	17
Europe	33	10	20	37	16	27	36	15	26
Other developed	9	7	5	9	9	6	9	8	6
Developing and transition economies	21	11	57	30	19	50	28	17	52
Latin America and the Caribbean	12	4	49	12	4	37	12	4	40
South America	11	4	49	11	4	36	11	4	39
<i>Argentina</i>	9	0	0	6	0	0	7	0	0
<i>Brazil</i>	0	3	42	0	2	31	0	2	34
Central America and the Caribbean	1	0	1	1	0	1	1	0	1
<i>Mexico</i>	1	0	1	1	0	1	1	0	1
Asia and Oceania	9	7	7	14	13	12	13	12	11
<i>China</i>	4	3	4	6	5	6	6	5	5
Other developing and transitional economies	1	0	0	3	2	2	3	1	1
World	100	100	100	100	100	100	100	100	100
Amount (\$ billion)	5.7	33.2	2.2	1.4	8.1	0.7	7.0	41.2	2.9
Share in total value added motor vehicle exports (%)	21	47	50	5	11	15	26	58	65

Source: UNCTAD-Eora GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

UNCTAD-Eora's estimates of foreign and domestic value added in Mexico's gross exports do not take into account the high import content of production in the Maquiladora and PITEX programmes, likely leading to a significant under-estimation of the share of foreign value added in its exports. UNCTAD-Eora's data, based on a country's input-output table, relies on the assumption that the intensity in the use of imported inputs is the same between production for exports and production for domestic sales. This assumption does not hold for countries, like Mexico, hosting significant processing exports characterized by favourable tax treatment for temporary imports to produce export goods. This implies a significant difference in the intensity of imported intermediate inputs between the production of processing exports on the one hand and the production for normal exports and domestic sales on the other hand. Estimates using an input-output table for the maquiladora industry for 2003, found a foreign value added share of about 74 per cent for the transportation equipment industry (NICS 336) in 2003 (De la Cruz et al. (2011), while UNCTAD-Eora's estimates for the same year are 41 per cent for the manufacture of motor vehicles trailers and semi-trailers and other transport equipment (ISIC D34 and D35).

the low cost of labour as a fundamental factor of competitiveness and GVC integration. It has resulted in the development of an extensive network of maquiladora-type producers, including carmakers and automobile suppliers, mostly foreign owned, that has transformed Mexico into a significant export hub. However, it has not necessarily forged strong linkages with local suppliers (Sturgeon et al., 2010).⁵⁰ The weak linkages with local suppliers in the automobile value chain may also be attested to by the high level of foreign value added in the industry's exports (table II.5).

In contrast, the automotive value chain in Brazil has benefited from the advantages offered by a large internal and regional market, and thus has expanded into more complex and diverse activities, generating local innovation. Brazilian affiliates of TNC carmakers have increased their technological capabilities through the search for solutions to meet local demand, related to technical differences in materials, fuels and road conditions or to distinct consumer preferences. Thus, the capabilities of Brazilian automotive engineering have been formed through a learning process of adapting and, more

recently, designing and developing vehicles suitable for local conditions. This process has generated opportunities to involve locally owned component producers, local research and engineering services institutions, and other smaller suppliers of parts and components, which may have specific local knowledge not available in multinational engineering firms (Quadros, 2009; Quadros et al., 2009).⁵¹

Although the size of the Brazilian car market was one of the main factors behind the wave of investment in the 1990s and the progressive delegation of innovation activities to Brazilian affiliates and their local suppliers, Government policies have been a strong determinant in the attraction of new vehicle assemblers and in the expansion of innovation and R&D activities. In contrast to Mexico, where since the 1990s, Government policy has moved towards free trade and investment rules, automotive policy in Brazil maintains high tariffs on automotive products imported from outside MERCOSUR. Brazil also introduced a series of incentives for exports and for investment in new plants. In 2011, faced with an increase in imported models favoured by the expanding internal market, an overvalued local currency and depressed export markets in developed countries, the Government introduced an internal tax on car purchases. However, it exempted carmakers that sourced at least 65 per cent of their parts from MERCOSUR partners or from Mexico (with which Brazil has an automotive deal). This reduced vehicle imports from a peak of 27 per cent in December 2011 to 19 per cent in October 2013. In 2012, the Government renegotiated the bilateral deal with Mexico, imposing import quotas. A new automotive regime for 2013–2017 (Inovar Autos), introduced in 2012, set new rules that are intended to boost local content, energy efficiency, innovation and R&D. Companies that achieve specific targets in production steps located in Brazil and in investment in product development and R&D will benefit from additional tax incentives.⁵²

Both Brazil and Mexico continue to attract significant foreign investment in their automobile sector. In Brazil, the new automobile regime, combined with the continued expansion of the car market in Brazil and Argentina, has encouraged foreign investors to step up investment plans and increase local content.⁵³ In Mexico, low labour costs, an

increasingly dense and capable foreign-owned supply chain, and a global web of FTAs are driving a production surge in the automotive industry, much of it from Japanese and German manufacturers.⁵⁴

The growth potential of the automotive industry appears promising in both countries, despite clear differences between the two in government policies and TNC strategies. Mexico has successfully leveraged its strategic proximity to the United States market and its trade agreements with more than 40 countries to attract important amounts of FDI to its automobile industry, which has transformed the country into a major export base, creating significant job opportunities. However, the country's competitiveness is still based primarily on low wages, and the industry – strongly export-oriented – has developed only weak linkages with local suppliers. In Brazil, the exports are lower but the advantages represented by the large internal and regional markets have attracted FDI to the automobile industry. The need to adapt to the specificities of this market, coupled with a government policy introduced in the 2000s to provide greater incentives for innovation, R&D and development of domestic productive capacity, have led to more integration of local suppliers into the automobile value chain, and the development of local innovation and R&D capabilities.

4. Transition economies

Table A. Distribution of FDI flows among economies, by range,^a 2013

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

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

Figure B. FDI inflows, 2007–2013
(Billions of dollars)

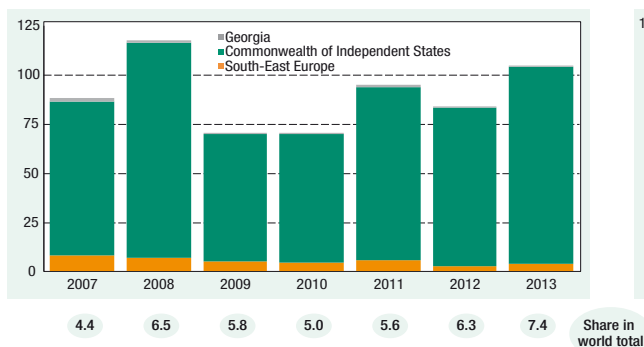


Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

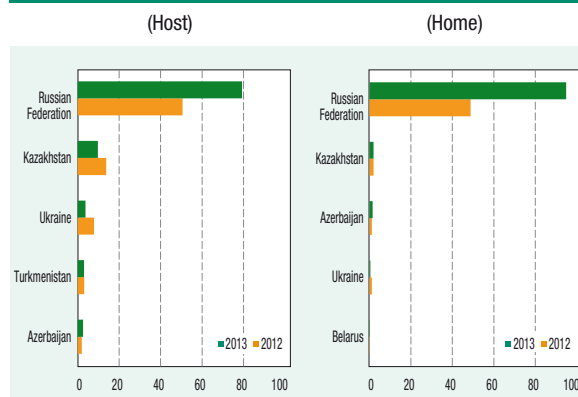


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

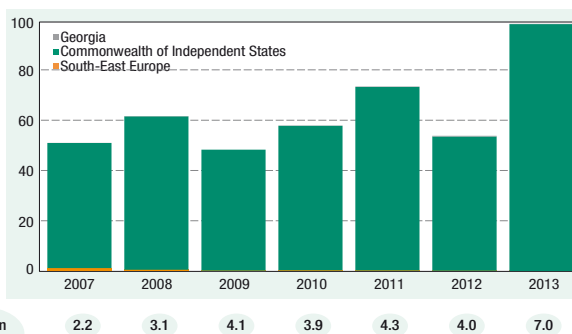


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	6 852	-3 820	9 296	56 970
Primary	-1 193	-3 726	2 173	55 687
Mining, quarrying and petroleum	-1 212	-3 726	2 173	55 687
Manufacturing	340	2 813	-547	-24
Food, beverages and tobacco	6	189	-40	4
Chemicals and chemical products	281	2 000	-	30
Basic metal and metal products	5	425	-182	-59
Motor vehicles and other transport equipment	-390	60	-	-
Services	7 705	-2 907	7 669	1 307
Electricity, gas, water and waste management	-451	857	-	597
Transport and storage	2 148	348	1 291	652
Information and communications	6 714	-4 106	23	-
Financial and insurance activities	-168	-164	6 314	-17

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	6 852	-3 820	9 296	56 970
Developed economies	4 746	-7 591	4 848	1 682
European Union	3 709	-3 987	5 164	243
Cyprus	7 988	-234	-	-
Sweden	-1 747	-3 384	-	15
United States	-212	-3 580	-283	30
Developing economies	1 661	2 972	4 023	54 516
Africa	-	-	-	-
Latin America and the Caribbean	-178	387	-	53 916
West Asia	1 582	425	4 023	3
South, East and South-East Asia	256	2 160	-	597
China	200	2 000	-	-
Transition economies	424	771	424	771

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investors	
	2012	2013	2012	2013
Total	39 389	27 868	9 950	18 611
Primary	2 604	560	145	3 146
Mining, quarrying and petroleum	2 604	560	145	3 146
Manufacturing	18 134	10 041	6 496	2 462
Food, beverages and tobacco	2 348	725	201	248
Coke, petroleum products and nuclear fuel	424	501	3 747	714
Chemicals and chemical products	5 316	995	186	396
Motor vehicles and other transport equipment	4 229	2 027	1 682	673
Services	18 651	17 267	3 310	13 003
Electricity, gas and water	3 984	5 076	594	10 389
Construction	2 908	3 069	31	-
Transport, storage and communications	4 051	2 698	893	676
Finance	2 056	2 359	1 134	1 330

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investors	
	2012	2013	2012	2013
World	39 389	27 868	9 950	18 611
Developed economies	29 092	19 633	3 060	2 327
European Union	20 338	14 719	2 337	2 186
Germany	4 329	2 767	29	157
United Kingdom	2 538	563	540	80
United States	4 610	2 570	279	41
Developing economies	7 888	6 253	4 481	14 302
Africa	-	76	67	108
East and South-East Asia	5 368	1 556	668	483
South Asia	380	872	252	76
West Asia	2 140	3 653	3 156	12 779
Latin America and the Caribbean	-	96	337	855
Transition economies	2 409	1 982	2 409	1 982

FDI flows to and from transition economies reached record levels in 2013. The Russian Federation was the world's third largest recipient of FDI and the world's fourth largest investor, mostly due to a single large deal. In South-East Europe, most of the increase in inflows was driven by the privatization of remaining State-owned enterprises in the services sector. FDI in the transition economies is likely to be affected by uncertainties related to regional conflict; FDI linkages between the transition economies and the EU may be particularly impacted.

FDI inflows to the transition economies increased by 28 per cent in 2013, to \$108 billion (figure B). The FDI performance of both transition subgroups was significant: in South-East Europe, flows increased by 43 per cent, from \$2.6 billion in 2012 to \$3.7 billion in 2013, reflecting a rise of investments in the services sector; in the Commonwealth of Independent States (CIS), the 28 per cent rise in flows was due to the significant growth of FDI to the Russian Federation, which made it the world's third largest recipient of inflows for the first time. Large countries in the region continued to account for the lion's share of inward FDI, with the top two destinations (Russian Federation and Kazakhstan) accounting for 82 per cent of the flows (figure A).

The Russian Federation saw FDI flows grow by 57 per cent, reaching \$79 billion. Foreign investors were motivated by continued strong growth in the domestic market coupled with productivity gains. They primarily used intracompany loans from parent companies to finance these investments. Investors

also continued to be attracted by high returns in energy and other natural-resource-related projects, as illustrated by partnership deals in "hard to access" oil projects, for which tax relief is offered. The FDI surge was also due to the acquisition by BP (United Kingdom) of an 18.5 per cent equity stake in Rosneft (Russia Federation) as part of a bigger deal between those two companies (box II.4). As a result, in 2013 the United Kingdom was the largest investor in the Russian Federation for the first time, accounting for an estimated 23 per cent of FDI to the country.

FDI inflows to Kazakhstan declined by 29 per cent, to \$10 billion, as investments in financial services slowed, with some foreign banks divesting their assets. For example, Unicredit (Italy) sold its affiliate ATF bank to a domestic investor. Political uncertainties since 2013 have halved FDI flows to *Ukraine* to \$3.8 billion, partly due to a number of divestments – in particular, in the banking sector.

In South-East Europe, most of the FDI inflows were driven by privatizations in the services sector. In Albania, FDI inflows reached \$1.2 billion, owing mainly to the privatization of four hydropower plants and to the acquisition of a 70 per cent share of the main oil-refining company ARMO by Heaney Assets Corporation (Azerbaijan). In Serbia, the jump in FDI can be ascribed to some major acquisitions. The private equity group KKR (United States) acquired pay-TV and broadband group SBB/Telemach, for \$1 billion. Abu Dhabi's Etihad Airways acquired a 49 per cent stake in Jat Airways, the Serbian national flag

Box II.4. The Rosneft-BP transactions

In March 2013, Rosneft, the Russian Federation's State-owned and largest oil company, completed the acquisition of TNK-BP. Rosneft paid \$55 billion to the two owners: BP (United Kingdom) and A.A.R. Consortium, an investment vehicle based in the British Virgin Islands that represented the Russian co-owners of TNK-BP. A.A.R. was paid all in cash, while BP received \$12.5 billion in cash and an 18.5 per cent stake in Rosneft, valued at \$15 billion. The payment by Rosneft was reflected as direct equity investment abroad in the balance-of-payment statistics of the Russian Federation, while the acquisition by BP of the stake in Rosneft was reflected as direct equity inflow. The remainder of the acquisition was funded by borrowing from foreign banks (reported at \$29.5 billion) and from domestic banks. The Rosneft-BP transactions raised FDI inflows in the first quarter of 2013 by \$15 billion in the Russian Federation. It raised foreign borrowing by about \$29.5 billion, while boosting FDI outflows by \$55 billion in the British Virgin Islands.

Source: UNCTAD, based on conversation with the Central Bank of Russia; Institute of International Finance, "Private capital flows to emerging market economies", June 2013.

carrier, as part of the offloading of loss-making State-owned enterprises.

Although developed countries were the main investors in the region, developing-economy FDI has been on the rise. Chinese investors, for example, have expanded their presence in the CIS by acquiring either domestic or foreign assets. Chengdong Investment Corporation acquired a 12 per cent share of Uralkali (Russian Federation), the world's largest potash producer. CNPC acquired ConocoPhillips' shares in the Kashagan oil-field development project in Kazakhstan for \$5 billion.

In 2013, outward FDI from the region jumped by 84 per cent, reaching \$99 billion. As in past years, Russian TNCs accounted for most FDI projects, followed by TNCs from Kazakhstan and Azerbaijan. The value of cross-border M&A purchases by TNCs from the region rose more than six-fold, mainly owing to the acquisition of TNK-BP Ltd (British Virgin Islands) by Rosneft (box II.4). Greenfield investments also rose by 87 per cent to \$19 billion.

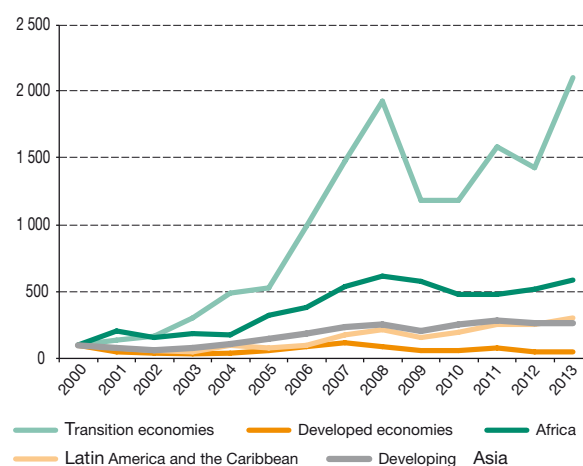
Prospects. FDI in the transition economies is expected to decline in 2014 as uncertainties related to regional conflict deter investors – mainly those from developed countries. However, regional instability has not yet affected investors from developing countries. For example, in the Russian Federation, the government's Direct Investment Fund – a \$10 billion fund to promote FDI in the country – has been actively deployed in collaboration with foreign partners, for example, to fund a deal with Abu Dhabi's Finance Department to invest up to \$5 billion in Russian infrastructure. In South-East Europe, FDI is expected to rise – especially in pipeline projects in the energy sector. In Serbia, the South Stream project, valued at about €2 billion, is designed to transport natural gas from the Russian Federation to Europe. In Albania, the Trans-Adriatic pipeline will generate one of that country's largest FDI projects, with important benefits for a number of industries, including manufacturing, utilities and transport. The pipeline will enhance Europe's energy security and diversity by providing a new source of gas.⁵⁵

(i) Interregional FDI with the EU

FDI linkages between the East (transition economies) and the West (EU) were strong until 2013, but the deepening stand-off between the EU and the Russian Federation over Ukraine might affect their FDI relationship.

Over the past 10 years, transition economies have been the fastest-growing hosts for FDI worldwide, overtaking both developed and all developing groups (figure II.15). During 2000–2013, total FDI in these economies – in terms of stocks as well as flows – rose at roughly 10 times the rate of growth of total global FDI. Similarly, outflows from transition economies rose by more than 17 times between 2000 and 2013, an increase unrivalled by any other regional grouping. EU countries have been important partners, both as investors and recipients, in this evolution.

Figure II.15. FDI inflow index of selected regions, 2000–2013
(Base 2000 = 100)



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

In transition economies, the EU has the largest share of inward FDI stock, accounting for more than two thirds of the total. North America has consistently accounted for a lower share of inward FDI to transition economies (3 per cent), while the share of developing economies has been on the rise to 17 per cent. In the CIS, EU investors are motivated by a desire to gain access to natural resources and growing local consumer

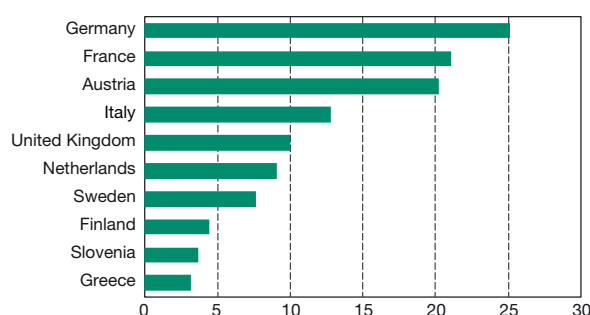
markets, and to benefit from business opportunities arising from the liberalization of selected industries. In South-East Europe, most of the EU investments are driven by the privatization of State-owned enterprises and by large projects benefiting from a combination of low production costs in the region and the prospect of association with or membership in the EU. Among the EU countries, Germany has the largest stock of FDI, followed by France, Austria, Italy and the United Kingdom (figure II.16).

Data on individual FDI projects show a similar pattern: In terms of cross-border M&As, TNCs from the Netherlands are the largest acquirers (31 per cent), followed by those from Germany and Italy. In greenfield projects, German investors have the largest share (19 per cent), followed by those from the United Kingdom and Italy. With regard to target countries, about 60 per cent of the region's M&As and announced greenfield projects took place in the Russian Federation, followed by Ukraine.

Data on cross-border M&As indicate that EU investments in transition economies are more concentrated in finance; electricity, gas and water,

information and communication; and mining and quarrying (figure II.17). Construction; transport, storage and communication; motor vehicles and other transport equipment; coke and petroleum products; and electricity, gas and water are the main recipient industries of announced greenfield

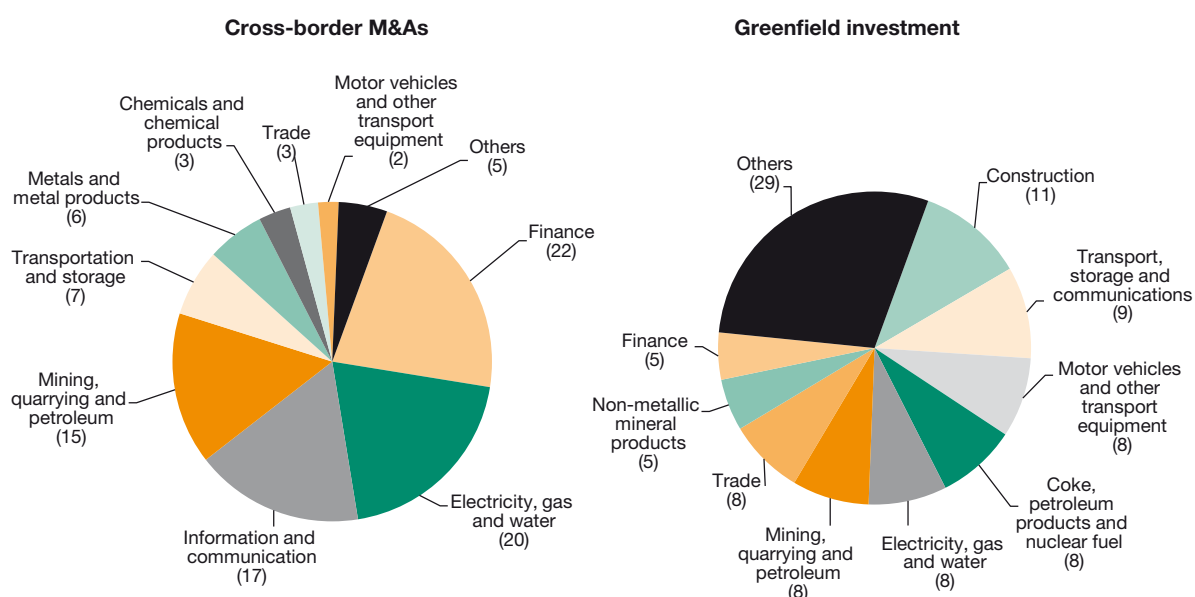
Figure II.16. Major EU investors in transition economies, 2012 outward stock
(Billions of dollars)



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

Note: Data as reported by the investor countries.

Figure II.17. Distribution of cross-border M&As and greenfield investment in transition economies concluded by EU TNCs, by industry, cumulative 2003–2013
(Per cent of total value)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Note: M&A data cover only those deals that involved an acquisition of an equity stake of more than 10 per cent. Greenfield data refer to estimated amounts of capital investment.

projects by EU investors. Salient FDI trends in some of these industries are as follows:

- The relaxation of foreign ownership restrictions in the *financial services* industry and accession to the WTO of some transition economies facilitated the entry of EU investors. It also reflected European banks' increasing interest in growth opportunities outside their traditional markets. For example, UniCredit (Italy) acquired Ukrspotsbank (Ukraine) for \$2.1 billion and Société Générale Group (France) bought a 20 per cent equity stake in Rosbank, one of the largest Russian banks, for \$1.7 billion. In South-East Europe, the share of banking assets owned by foreign entities, mainly from the EU, has risen to more than 90 per cent. Foreign banks (mainly Austrian, Italian and Greek banking groups) have either acquired local banks or established local affiliates or regional branches.
- The need for structural reform to enable the *electricity* industry to meet the growing demand for electric power in the Russian Federation prompted the unbundling and reorganization of State-owned Unified Energy Systems. This restructuring and sales of assets have provided opportunities for foreign investors to enter the industry. A number of the stakes have been acquired by European TNCs, such as Fortum (Finland), Enel (Italy), E.ON (Germany), CEZ Group (Czech Republic), RWE Group (Germany) and EDF (France).
- Driven by high expected returns, EU TNCs increased their investments in *energy and natural-resource-related projects*, mainly through two channels. First, the European companies entered transition economies' oil and gas markets through asset-swap deals by which those companies obtained minority participation in exploration and extraction projects in exchange for allowing firms from transition economies to enter downstream markets in the EU. For example, Wintershall (Germany) acquired a stake in the Yuzhno-Russkoye gas field in Siberia; in return, Gazprom (Russian Federation) could acquire parts of Wintershall's European assets in hydrocarbons transportation, storage and distribution. Second, in some "hard to access" oil and gas projects requiring cutting-edge technology, such as the

development of the Yamal and Shtokman fields, EU TNCs were invited to invest.

- Among announced greenfield projects, the increased activity in the *automotive industry* in transition economies was fuelled by EU manufacturers' search for low-cost, highly skilled labour and access to a growing market. Many EU car manufacturers – among them, Fiat, Volkswagen, Opel, Peugeot and Renault – have opened production facilities in transition economies, mainly in the Russian Federation. Car assembly plants have already created a sufficient critical mass to encourage the entry of many types of component suppliers.

The bulk of outward FDI stock from transition economies is in EU countries. Virtually all (95 per cent) of the outward stock from South-East Europe and CIS countries is due to the expansion abroad of Russian TNCs. These investors increasingly look for strategic assets in EU markets, including downstream activities in the energy industry and value added production activities in metallurgy, to build global and regional value chains through vertical integration. Much of the outward FDI has been undertaken by relatively few major TNCs with significant exports, aiming to reinforce their overseas business activities through investment. Russian oil and gas TNCs made some market-seeking acquisitions of processing activities, distribution networks, and storage and transportation facilities across Europe. For example, Gazprom concluded an agreement with OMV (Austria) for the purchase of 50 per cent of its largest Central European gas distribution terminal and storage facility, and Lukoil acquired a 49 per cent stake in the Priolo oil refinery of ISAB (Italy) for \$2.1 billion (table II.6). Russian TNCs in iron and steel also continued to increase their investments in developed countries. For M&As, the United Kingdom was the main target with almost one third of all investment; for greenfield projects, Germany accounted for 36 per cent of investments from transition economies (figure II.18).

Prospects for the FDI relationship between the EU and transition economies. Since the global economic crisis, several Russian TNCs have had to sell foreign companies they acquired through M&As as the values of their assets declined (an example is Basic Element, which lost some of its foreign assets in machinery and construction in Europe).

Table II.6. The 20 largest cross-border M&A deals in EU countries by transition economy TNCs, 2005–2013

Year	Value (\$ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Industry of the ultimate acquiring company
2008	2 098	ISAB Srl	Italy	Crude petroleum and natural gas	NK LUKOIL	Russian Federation	Crude petroleum and natural gas
2005	2 000	Nelson Resources Ltd	United Kingdom	Gold ores	NK LUKOIL	Russian Federation	Crude petroleum and natural gas
2009	1 852	MOL Magyar Olaj es Gazipari Nyrt	Hungary	Crude petroleum and natural gas	Surgutneftegaz	Russian Federation	Crude petroleum and natural gas
2007	1 637	Strabag SE	Austria	Industrial buildings and warehouses	KBE	Russian Federation	Investors, nec
2011	1 600	Ruhr Oel GmbH	Germany	Petroleum refining	Rosneftegaz	Russian Federation	Crude petroleum and natural gas
2009	1 599	Lukarco BV	Netherlands	Pipelines, nec	NK LUKOIL	Russian Federation	Crude petroleum and natural gas
2008	1 524	Oriel Resources PLC	United Kingdom	Ferroalloy ores, except vanadium	Mechel	Russian Federation	Iron and steel forgings
2007	1 427	Strabag SE	Austria	Industrial buildings and warehouses	KBE	Russian Federation	Investors, nec
2006	1 400	PetroKazakhstan Inc	United Kingdom	Crude petroleum and natural gas	NK KazMunaiGaz	Kazakhstan	Crude petroleum and natural gas
2010	1 343	Kazakhmys PLC	United Kingdom	Copper ores	Kazakhstan	Kazakhstan	National government
2009	1 200	Romp petrol Group NV	Netherlands	Crude petroleum and natural gas	NK KazMunaiGaz	Kazakhstan	Crude petroleum and natural gas
2012	1 128	BASF Antwerpen NV-Fertilizer Production Plant	Belgium	Nitrogenous fertilizers	MKHK YevroKhim	Russian Federation	Chemical and fertilizer mineral mining, nec
2012	1 024	Gefco SA	France	Trucking, except local	RZhD	Russian Federation	Railroads, line-haul operating
2009	1 001	Sibir Energy PLC	United Kingdom	Crude petroleum and natural gas	Gazprom	Russian Federation	Crude petroleum and natural gas
2008	940	Formata Holding BV	Netherlands	Grocery stores	Pyaterochka Holding NV	Russian Federation	Grocery stores
2012	926	Bulgarian Telecommunications Co AD	Bulgaria	Telephone communications, except radiotelephone	Investor Group	Russian Federation	Investors, nec
2011	744	Sibir Energy PLC	United Kingdom	Crude petroleum and natural gas	Gazprom	Russian Federation	Crude petroleum and natural gas
2012	738	Volksbank International AG (VBI)	Austria	Banks	Sberbank Rossii	Russian Federation	Banks
2009	725	Total Raffinaderij Nederland NV	Netherlands	Crude petroleum and natural gas	NK LUKOIL	Russian Federation	Crude petroleum and natural gas
2006	700	Lucchini SpA	Italy	Steel works, blast furnaces, and rolling mills	Kapital	Russian Federation	Steel foundries, nec

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

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

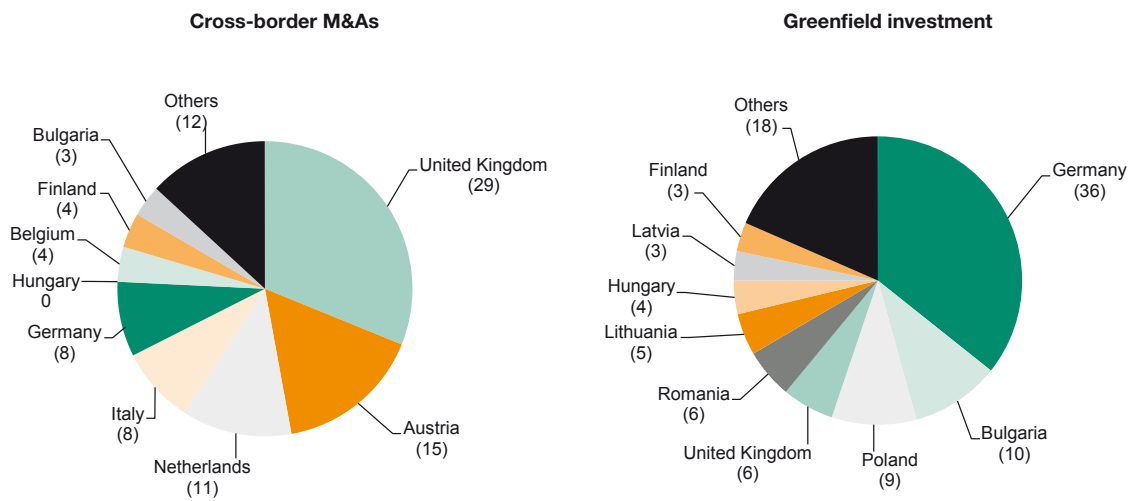
The regional conflict might affect FDI flows to and from transition economies. The outlook for developed-country TNCs investing in the region appears gloomier. For Russian TNCs investing abroad, an important concern is the risk of losing

access to foreign loans. Banks in developed countries may be reluctant to provide fresh finance. Although some Russian State banks might fill the gap left by foreign lenders, some Russian TNCs depend on loans from developed countries.

Furthermore, additional scrutiny of Russian investments in Europe, including an asset swap between Gazprom and BASF (Germany), may slow

down the vertical integration process that Russian TNCs have been trying to establish.⁵⁶

Figure II.18. Distribution of cross-border M&As and greenfield investment in EU countries concluded by transition-economy TNCs, by host country, cumulative 1990–2013 (M&As) and 2003–2013 (greenfield investments)
(Per cent of total value)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics) for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

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

5. Developed countries

Table A. Distribution of FDI flows among economies, by range,* 2013

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

* Economies are listed according to the magnitude of their FDI flows.

Figure A. FDI flows, top 5 host and home economies, 2012–2013 (Billions of dollars)

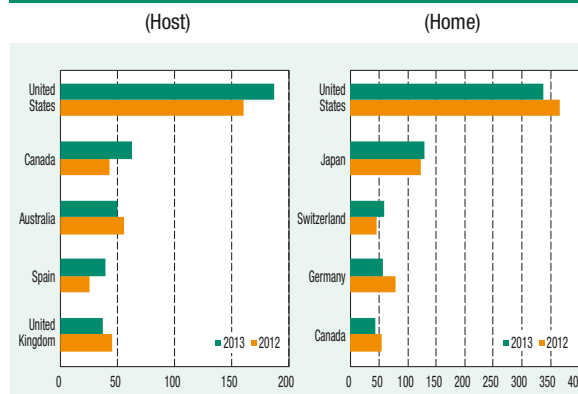


Figure B. FDI inflows, 2007–2013 (Billions of dollars)

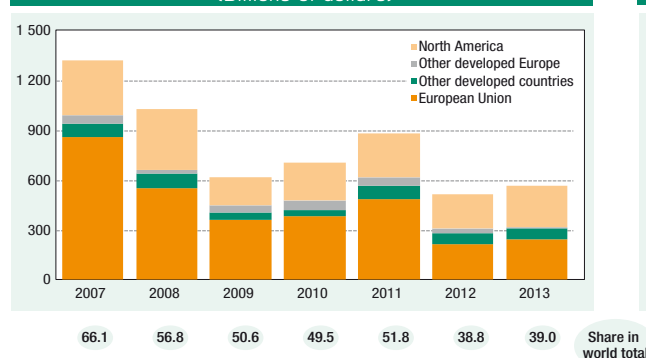


Figure C. FDI outflows, 2007–2013 (Billions of dollars)

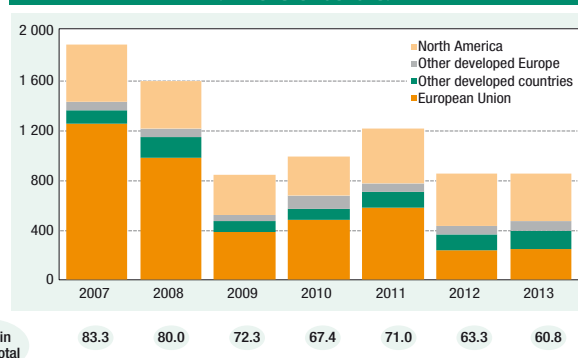


Table B. Cross-border M&As by industry, 2012–2013 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	268 652	239 606	183 914	151 752
Primary	50 161	39 346	-10 406	-41 903
Mining, quarrying and petroleum	43 032	37 906	-10 411	-42 154
Manufacturing	109 481	86 617	117 068	79 993
Food, beverages and tobacco	20 616	19 708	24 945	25 231
Chemicals and chemical products	16 411	21 132	19 705	4 822
Pharmaceuticals, medicinal chem. & botanical prod.	11 638	742	17 951	20 443
Computer, electronic optical prod. & electrical equip.	22 061	10 776	23 909	11 808
Services	109 010	113 643	77 252	113 662
Trade	12 581	7 406	19 537	-2 067
Information and communications	22 395	29 374	9 372	22 476
Financial and insurance activities	9 905	9 081	27 461	64 741
Business services	31 406	35 965	16 865	22 220

Table C. Cross-border M&As by region/country, 2012–2013 (Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	268 652	239 606	183 914	151 752
Developed economies	175 408	165 650	175 408	165 650
Europe	45 246	34 225	93 865	112 545
North America	103 729	85 138	67 732	40 618
Other developed countries	26 432	45 287	13 811	12 487
Japan	32 276	44 872	-1 548	2 576
Developing economies	79 982	65 035	3 760	-6 307
Africa	635	2 288	-3 500	-8 953
Latin America and the Caribbean	17 146	7 274	1 699	-7 188
Asia and Oceania	62 201	55 473	5 561	9 833
China	27 009	37 405	3 251	6 201
Singapore	-1 039	2 745	6 004	4 386
Transition economies	4 848	1 682	4 746	-7 591

Table D. Greenfield FDI projects by industry, 2012–2013 (Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investors	
	2012	2013	2012	2013
Total	224 604	215 018	413 541	458 336
Primary	9 222	1 687	16 979	17 878
Mining, quarrying and petroleum	9 220	1 683	16 977	15 712
Manufacturing	88 712	92 748	186 278	197 086
Textiles, clothing and leather	6 579	13 711	10 080	18 269
Chemicals and chemical products	13 165	15 615	26 090	32 542
Electrical and electronic equipment	10 604	13 853	15 108	20 716
Motor vehicles and other transport equipment	21 423	15 944	52 736	49 247
Services	126 670	120 584	210 285	243 372
Electricity, gas and water	27 023	25 463	41 758	69 487
Transport, storage & communications	17 070	19 436	40 067	41 630
Finance	11 120	10 260	23 106	21 309
Business services	31 316	33 689	50 188	56 767

Table E. Greenfield FDI projects by region/country, 2012–2013 (Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investors	
	2012	2013	2012	2013
World	224 604	215 018	413 541	458 336
Developed economies	170 919	184 887	170 919	184 887
Europe	107 093	112 784	109 572	107 921
North America	47 082	54 615	45 010	57 582
Other developed countries	16 744	17 488	16 337	19 383
Japan	9 818	11 212	4 317	7 920
Developing economies	50 625	27 804	213 530	253 816
Africa	1 802	2 080	17 541	27 254
Asia and Oceania	46 650	24 475	139 280	146 140
China	6 232	9 171	50 451	48 894
India	8 553	3 530	21 249	13 571
Latin America and the Caribbean	2 172	1 249	56 709	80 421
Transition economies	3 060	2 327	29 092	19 633

After the sharp fall in 2012, overall FDI of the 39 developed economies⁵⁷ resumed its recovery in 2013, albeit marginally in the case of outflows. Inflows were \$566 billion, rising 9 per cent over 2012 (figure B). Outflows were \$857 billion in 2013, virtually unchanged from \$852 billion a year earlier (figure C). Both inflows and outflows were still barely half of the peak level in 2007. In terms of global share, developed countries accounted for 39 per cent of total inflows and 61 per cent of total outflows – both historically low levels.

Despite the overall increase in inflows, recovery was concentrated in a smaller set of economies; only 15 of 39 economies registered a rise. Inflows to Europe were \$251 billion (up 3 per cent over 2012), with EU countries accounting for the bulk, at \$246 billion. Inflows to Italy and Spain made a robust recovery, with the latter receiving the largest flows in Europe in 2013 (figure A). Inflows to North America rebounded to \$250 billion with a 23 per cent increase, making the United States and Canada the recipients of the largest flows to developed countries in 2013 (figure A). The increase was primarily due to large inflows from Japan in the United States and a doubling of United States FDI in Canada. Inflows to Australia and New Zealand together declined by 12 per cent, to \$51 billion.

The recovery of outflows from developed countries was more widely shared, with an increase in 22 economies. Outflows from Europe rose by 10 per cent to \$328 billion, of which \$250 billion was from the EU countries. Switzerland became Europe's largest direct investor (figure A). In contrast, outflows from North America shed another 10 per cent, slipping to \$381 billion. The effect of greater cash hoarding abroad by United States TNCs (i.e. an increase in reinvested earnings) was countered by the increasing transfer of funds raised in Europe back to the home country (i.e. a decline in intracompany loans). Outflows from Japan grew for the third successive year, rising to \$136 billion. In addition to investment in the United States, market-seeking FDI in South-East Asia helped Japan consolidate its position as the second largest direct investor (figure A).

Diverging trends among major European countries. European FDI flows have fluctuated considerably from year to year. Among the major

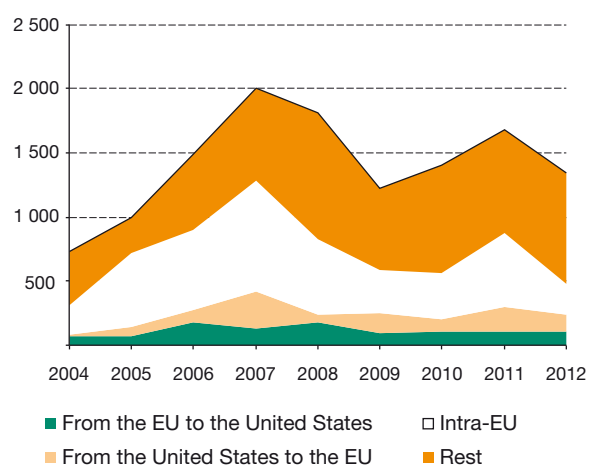
economies, Germany saw inflows more than double from \$13 billion in 2012 to \$27 billion in 2013. In contrast, inflows to France declined by 80 per cent to \$5 billion and those to the United Kingdom declined by 19 per cent to \$37 billion. In all cases, large swings in intracompany loans were a significant contributing factor. Intracompany loans to Germany, which had fallen by \$39 billion in 2012, bounced back by \$20 billion in 2013. Intracompany loans to France fell from \$5 billion in 2012 to -\$14 billion in 2013, implying that foreign TNCs pulled funds out of their affiliates in France. Similarly, intracompany loans to the United Kingdom fell from -\$2 billion to -\$10 billion. Other European countries that saw a large change in inflows of intracompany loans in 2012 were Luxembourg (up \$22 billion) and the Netherlands (up \$16 billion).

Negative intracompany loans weigh down outflows from the United States.

In 2013, two types of transactions had opposite effects on FDI outflows from the United States. On the one hand, the largest United States TNCs are estimated to have added more than \$200 billion to their overseas cash holdings in 2013, raising the accumulated total to just under \$2 trillion, up 12 per cent from 2012. On the other hand, non-European issuers (mostly United States but also Asian TNCs) reportedly sold euro-denominated corporate bonds worth \$132 billion (a three-fold increase from 2011) and transferred some of the proceeds to the United States to meet funding needs there.⁵⁸ Rather than repatriating retained earnings, United States TNCs often prefer to meet funding needs through additional borrowing so as to defer corporate income tax liabilities.⁵⁹ Favourable interest rates led them to raise those funds in Europe. As a consequence, the United States registered negative outflows of intracompany loans (-\$6.1 billion) in 2013, compared with \$21 billion in 2012.

TTIP under negotiation. The Transatlantic Trade and Investment Partnership (TTIP) is a proposed FTA between the EU and the United States. Talks started in July 2013 and are expected to finish in 2015 or early 2016. If successfully concluded, TTIP would create the world's largest free trade area. Its key objective is to harmonize regulatory regimes and reduce non-tariff "behind the border" barriers to trade and investment.⁶⁰ Aspects of TTIP could have implications for FDI.

Figure II.19. FDI inflows between the EU and the United States and intra-EU against global flows, 2004–2012
(Billions of dollars)



Source: UNCTAD, based on data from Eurostat.

The EU and the United States together constitute more than 45 per cent of global GDP. FDI flows within the TTIP bloc accounted for, on average, half of global FDI flows over the period 2004–2012 (figure II.19). Intra-EU FDI has tended to be volatile, but FDI flows between the EU and the United States have remained relatively stable in recent years.

Viewed from the United States, the EU economies make up about 30 per cent of the outside world in terms of GDP. The EU's importance as a destination for United States FDI has been much more significant, with its share in flows ranging from 41 per cent to 59 per cent over 2004–2012, and its share in outward stocks at over 50 per cent by the end of that period.⁶¹ In contrast, the EU's share in United States exports averaged only 25 per cent over the same period. Major host countries of United States FDI are listed in table II.7.

The industry breakdown shows that about four fifths of United States FDI stock in the EU is in services, in which "Holding Companies (nonbank)" account for 60 per cent and "Finance (except depository institutions) and insurance" for another 20 per cent. Manufacturing takes up 12 per cent.

From the EU's perspective, much of the inflows to EU countries arrive from other EU countries. Over the period 2004–2012, on average, 63 per cent of FDI flows to the region came from other EU

countries and 15 per cent from the United States. The combined share of the EU and the United States in FDI stock in the EU at the end of 2012 was 76 per cent. Considering the EU as a single block, the United States was the largest investment partner, accounting for one third of all investment flows from outside the EU.

For the United States, the share of the EU in its

Table II.7. United States FDI stock abroad, by major recipient economies, 2012

Destination	FDI stock (\$ million)	Share (%)
Netherlands	645 098	14.5
United Kingdom	597 813	13.4
Luxembourg	383 603	8.6
Canada	351 460	7.9
Ireland	203 779	4.6
Singapore	138 603	3.1
Japan	133 967	3.0
Australia	132 825	3.0
Switzerland	130 315	2.9
Germany	121 184	2.7
European Union	2 239 580	50.3
All countries total	4 453 307	100.0

Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

Note: Excludes Bermuda and United Kingdom Caribbean islands (British Antilles, British Virgin Islands, Cayman Islands, Montserrat).

inflows ranged from 45 per cent to 75 per cent over the period 2004–2012. In terms of FDI stock, the EU's share was 62 per cent at the end of 2012 (table II.8). The top investors include the larger economies in the EU, such as France and Germany, along with the United Kingdom. Luxembourg and the Netherlands rank high as source countries of FDI in the United States, too. One explanation for the high share of these economies is that they have become preferred locations for incorporating global companies. The merger between two of the largest suppliers of chip-making equipment, Applied Materials (United States) and Tokyo Electron (Japan), in 2013 illustrates the case. To implement the merger, the two companies set up a holding company in the Netherlands. The existing companies became United States and Japanese affiliates of the Dutch holding company through share swaps.

Table II.8. FDI stock in the United States, by major source economy, 2012

Source	FDI stock (\$ million)	Share (%)
United Kingdom	486 833	18.4
Japan	308 253	11.6
Netherlands	274 904	10.4
Canada	225 331	8.5
France	209 121	7.9
Switzerland	203 954	7.7
Luxembourg	202 338	7.6
Germany	199 006	7.5
Belgium	88 697	3.3
Spain	47 352	1.8
Australia	42 685	1.6
European Union	1 647 567	62.2
All countries total	2 650 832	100.0

Source: UNCTAD, Bilateral FDI Statistics (<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>).

Note: Excludes Bermuda and United Kingdom Caribbean islands (British Antilles, British Virgin Islands, Cayman Islands, Montserrat).

Booming inflows to Israel. One beneficiary of the growing cash holdings among TNCs seems to be Israel, which hosts a vibrant pool of venture-capital-backed start-up companies, especially in knowledge-intensive industries. These companies have become acquisition targets of global TNCs. In 2013, foreign TNCs are estimated to have spent \$6.5 billion on Israeli companies,⁶² raising inflows to Israel to the record high of \$12 billion. High-profile examples include the acquisitions of Waze by Google for \$966 million, Retalix by NCR for \$735 million and Intucell by Cisco for \$475 million. Berkshire Hathaway paid \$2.05 billion to take full control of its Israeli affiliate IMC. A Moody's report noted that, at 39 per cent at the end of 2013, the technology industry had the largest hoard (domestic and offshore) of total corporate cash of non-financial United States companies; the health-care and pharmaceuticals industries followed.⁶³ This concentration of cash in knowledge-intensive industries may signal further deals in the making for Israel.

A shift towards consumer-oriented industries.

As the weight of developing countries in the global economy increases, their effects on both the inward and outward FDI patterns of developed countries are becoming more apparent. The growth of more affluent, urbanized populations in developing

economies presents significant market potential that TNCs around the world are keen to capture. For example, the shift in emphasis in the Chinese economy from investment-led to consumption-led growth is beginning to shape investment flows in consumer-oriented industries such as food (tables B and D).

On the one hand, TNCs from developed countries are entering the growing food market in China. The Japanese trading house Marubeni, the largest exporter of soya beans to China, finalized a \$2.7 billion deal to acquire the grain merchant Gavilon (United States) after the deal was approved by China's competition authority. On the other hand, the trend is also shaping investment flows in the other direction: in the largest takeover of a United States company by a Chinese company, Shuanghui acquired pork producer Smithfield for \$4.7 billion. Shuanghui's strategy is to export meat products from the United States to China and other markets. Another example of Chinese investment in agri-processing occurred in New Zealand, where Shanghai Pengxin proposed to acquire Synlait Farms, which owns 4,000 hectares of farmland, for \$73 million.⁶⁴ The company had already acquired the 8,000-hectare Crafar farms for \$163 million in 2012.

A slowdown in investment in extractive industries. Earlier optimism in the mining industry, fuelled by surging demand from China, has been replaced by a more cautious approach. Rio Tinto (United Kingdom/Australia) announced that its capital expenditure would fall gradually from over \$17 billion in 2012 to \$8 billion in 2015. BHP Billiton (Australia) also announced its intent to reduce its capital and exploration budget. Glencore Xstrata (Switzerland) announced it would reduce its total capital expenditures over 2013–2015 by \$3.5 billion. The investment slowdown in mining has affected developed countries that are rich in natural resources, an effect that was particularly apparent in cross-border M&As (table B). Net M&A sales (analogous to inward FDI) of developed countries in mining and quarrying were worth \$110 billion at the peak of the commodity boom in 2011 but declined to \$38 billion in 2013. For example, in the United States they fell from \$46 billion in 2011 to \$2 billion in 2013 and in Australia from \$24 billion

in 2011 to \$5 billion in 2013. Similarly, net cross-border purchases (analogous to outward FDI) by developed-country TNCs in this industry declined from \$58 billion in 2011 to a net divestment of -\$42 billion in 2013.

TNCs eyeing growth markets. Growing consumer markets in emerging economies remain a prime target for developed-country TNCs. The Japanese beverages group Kirin Holdings, which bought control of Brazil's Schincariol in 2011, announced its plan to invest \$1.5 billion during 2014 to expand its beer-brewing capacity in the country. Japanese food and beverage group Suntory acquired the United States spirits company Beam Inc. for \$13.6 billion and the drinks brands Lucozade and Ribena of GlaxoSmithKline for \$2.1 billion. These deals give the Japanese group not only a significant presence in the United States and the United Kingdom, but also access to distribution networks in India, the Russian Federation and Brazil in the case of Beam, and Nigeria and Malaysia in the case of Lucozade and Ribena.

Growing urban populations are driving a rapid expansion of power generation capacity in emerging economies, which is drawing investment from developed-country TNCs. In October 2013, an international consortium comprising Turkish Electricity Generation Corporation, Itochu (Japan), GDF Suez (France) and the Government of Turkey signed a framework agreement to study the feasibility of constructing a nuclear power plant in Sinop, Turkey.⁶⁵ GDF Suez (France) also teamed up with Japanese trading house Mitsui and Moroccan energy company Nareva Holdings to form the joint venture Safi Energy Company, which was awarded a contract to operate a coal-fired power plant in Morocco in September 2013.⁶⁶ Another European power company, Eon (Germany), acquired a 50 per cent stake in the Turkish power company Enerjisa and increased its stake in the Brazilian power generation company MPX in 2013, in an effort to build a presence in emerging markets.

The pursuit of "next emerging markets" has led TNCs to target lower-income countries, too. For instance, the Japanese manufacturer Nissin Food invested in a joint venture with the Jomo Kenyatta University of Agriculture and Technology in Kenya,

initially to market imported packaged noodles, but also to start local production in 2014. The joint venture aims to source agricultural input from local producers and to export packaged noodles to neighbouring countries, taking advantage of free trade within EAC.

Facilitating investment in Africa. In June 2013, the Government of the United States announced Power Africa – an initiative to double the number of people in sub-Saharan Africa with access to power. For the first phase over 2013–2018, the Government has committed more than \$7 billion in financial support and loan guarantees, which has resulted in the leveraging of commitments by private sector partners, many of them TNCs, to invest over \$14.7 billion in the power sectors of the target countries. In a different sector, the Government of Japan announced a \$2 billion support mechanism for its TNCs to invest in natural resource development projects in Africa.⁶⁷ One of the projects earmarked for support is Mitsui's investment – expected to be worth \$3 billion – in natural gas in Mozambique.

General optimism might not be reflected in FDI statistics in 2014. UNCTAD's forecast based on economic fundamentals suggests that FDI flows to developed economies could rise by 35 per cent in 2014 (chapter I). As an early indication, M&A activities picked up significantly in the first quarter of 2014. Furthermore, shareholder activism is likely to intensify in North America, adding extra impetus to spend the accumulated earnings. However, reasons to expect declines in FDI flows are also present. The divestment by Vodafone (United Kingdom) of its 45 per cent stake in Verizon Wireless (United States) was worth \$130 billion, appearing in statistics as negative FDI inflows to the United States.

B. TRENDS IN STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

1. Least developed countries

Table A. Distribution of FDI flows among economies, by range, 2013

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

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

Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

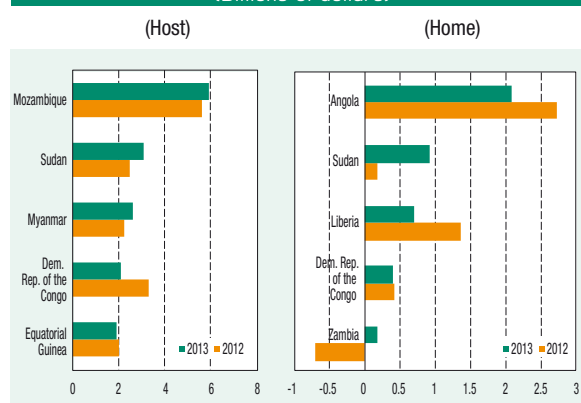


Figure B. FDI inflows, 2007–2013
(Billions of dollars)

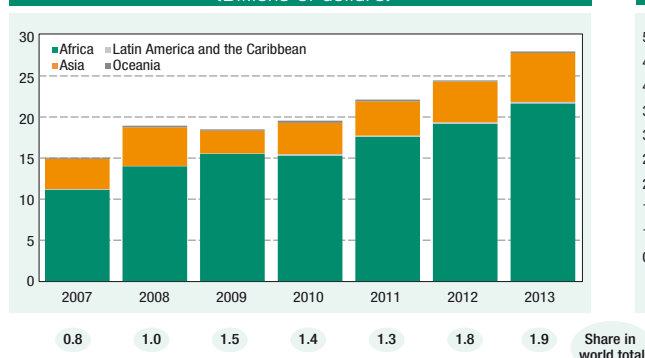


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

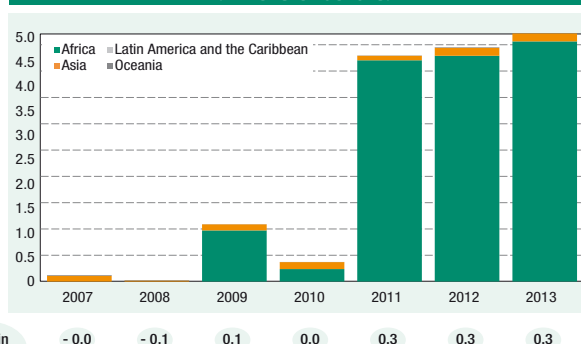


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	374	26	-102	-12
Primary	11	16	-	-12
Mining, quarrying and petroleum	11	16	-	-12
Manufacturing	342	37	-185	-
Food, beverages and tobacco	351	20	-	-
Textiles, clothing and leather	-	2	-	-
Chemicals and chemical products	-	-	-185	-
Pharmaceuticals, medicinal chem. & botanical prod.	-	15	-	-
Non-metallic mineral products	90	-	-	-
Services	22	-27	83	-
Information and communications	18	3	-	-
Transport and insurance activities	1	-42	83	-
Business services	-	12	-	-

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	374	26	-102	-12
Developed economies	-1 217	-4 020	88	2
Cyprus	-	-155	-	-
Italy	-	-4 210	-	-
Switzerland	-	761	-	-
Canada	-1 258	-353	-	-
Australia	-115	-36	-	-
Developing economies	1 591	4 046	-190	-14
Nigeria	-	-	-185	-
Panama	-	-430	-	-
China	1 580	4 222	-	-14
Malaysia	-	176	-	-
Transition economies	-	-	-	-

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investors	
	2012	2013	2012	2013
Total	21 923	39 943	1 005	1 528
Primary	4 390	3 461	-	7
Agriculture, hunting, forestry and fisheries	-	1 940	-	-
Mining, quarrying and petroleum	4 390	1 520	-	7
Manufacturing	6 727	8 100	91	395
Coke, petroleum products and nuclear fuel	1 970	1 764	-	-
Non-metallic mineral products	1 265	3 379	-	262
Motor vehicles and other transport equipment	397	812	-	-
Services	10 806	27 482	914	1 126
Electricity, gas and water	3 905	17 902	-	-
Transport, storage and communications	2 234	4 819	168	92
Finance	1 920	1 523	327	593
Business services	725	1 224	418	37

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investors	
	2012	2013	2012	2013
World	21 923	39 943	1 005	1 528
Developed economies	8 822	24 806	32	122
Finland	18	1 942	-	-
United Kingdom	1 289	2 152	-	-
Iceland	-	4 000	-	-
United States	3 251	1 194	-	-
Japan	1 371	11 322	-	-
Developing economies	13 072	14 237	973	1 366
Nigeria	691	1 833	-	17
South Africa	786	2 360	8	-
Malaysia	342	1 059	1	2
India	4 383	3 479	-	41
Transition economies	30	-	-	39

FDI flows to LDCs rose to \$28 billion in 2013. Greenfield investments in LDCs rebounded to a three-year high, driven by announced projects in the services sector. External finance constitutes an important part of the financing of infrastructure projects in LDCs, but a substantial portion of announced investments has not generated FDI inflows. Growing official development finance to support infrastructure projects in LDCs is encouraging, but LDCs' estimated investment needs are much greater. Mobilization of resources for infrastructure development in LDCs remains a challenge.

FDI inflows to LDCs increased by 14 per cent to \$28 billion. While inflows to some larger LDCs fell or stagnated (figure A), rising inflows were recorded elsewhere. A \$2.6 billion reduction in divestment (negative inflows) in Angola contributed most to this trend, followed by gains in Ethiopia (\$0.7 billion or 242 per cent), Myanmar (\$0.4 billion or 17 per cent), the Sudan (\$0.6 billion or 24 per cent) and Yemen (a \$0.4 billion or 75 per cent fall in divestment). The share of inflows to LDCs in global inflows continued to be small (figure B). Among the developing economies, the share of inflows to LDCs increased to 3.6 per cent of FDI inflows to all developing economies compared with 3.4 per cent in 2012.

As in 2012, developed-economy TNCs continued selling their assets in LDCs to other foreign investors. The net sales value of cross-border M&As in LDCs (table B) masks the fact that more than 60 such deals took place in 2013. While the value of net sales to developed-economy investors continued to decline in 2013 (table C) – indicating the highest-ever divestments in LDCs by those economies – net sales to developing-economy investors rose to a record level, mainly through the acquisition of assets divested by developed economies. Examples include the \$4.2 billion divestment of a partial stake in the Italian company Eni's oil and gas exploration and production affiliate in Mozambique, which was acquired by the China National Petroleum Corporation. Other such deals include a series of acquisitions by Glencore (Switzerland) in Chad and the Democratic Republic of the Congo, which were recorded as a \$0.4 billion divestment by Canada and a \$0.4 billion divestment by Panama (table C).⁶⁸

Announced greenfield FDI rebounded, driven by large-scale energy projects. The number of

announced new projects reached a record high,⁶⁹ and the value of announced investments reached their highest level in three years. The driving force was robust gains in the services sector (table D), contributing 70 per cent of total greenfield investments. Greenfield investments in energy (in 11 projects) and in transport, storage and communications (in 59 projects) both hit their highest levels in 2013 (table D). Announced greenfield FDI from developed economies was at a 10-year high, led by record-high investments from Iceland and Japan to LDCs (table E). A single large electricity project from each of these home countries boosted greenfield investments in LDCs.

The largest fossil fuel electric power project from Japan (table II.9) was linked with the development of a newly established special economic zone (SEZ) in Myanmar (box II.2). Iceland's \$4 billion geothermal power project in Ethiopia (see also table II.9) received support from the Government of the United States as part of its six-nation Power Africa initiative, a \$7 billion commitment to double the number of people with access to electricity in Africa.⁷⁰ In this, the largest alternative energy project ever recorded in LDCs, Reykjavik Geothermal (Iceland) will build and operate up to 1,000 megawatts of geothermal power in the next 8–10 years.

India continued to lead greenfield FDI from developing economies to LDCs, with South Africa and Nigeria running second and third. Among investors from developing economies, India remained the largest, despite a 21 per cent fall in the value of announced investments in LDCs (table E). Announced greenfield investments from India were mostly in energy – led by Jindal Steel & Power – and telecommunications projects – led by the Bharti Group – in African LDCs. In Asia, Bangladesh was the only LDC in which Indian greenfield FDI projects were reported in 2013.⁷¹ Announced greenfield investments from South Africa and Nigeria to LDCs showed a strong increase (table E). The fourth largest project in Mozambique (table II.9) accounted for two thirds of announced greenfield FDI from South Africa to LDCs. Announced greenfield FDI projects from Nigeria to LDCs hit a record high, led by the Dangote Group's cement and concrete projects in five African LDCs and Nepal (\$1.8 billion in total). Greenfield projects from Nigeria also boosted greenfield investments in non-metallic mineral products in LDCs (table D).

Table II.9. The five largest greenfield projects announced in LDCs, 2013

Host economy (destination)	Industry segment	Investing company	Home economy	Estimated investment (\$ million)
Myanmar	Fossil fuel electric power	Mitsubishi	Japan	9 850
Ethiopia	Geothermal electric power	Reykjavik Geothermal	Iceland	4 000
Mozambique	Forestry and logging	Forestal Oriental	Finland	1 940
Mozambique	Petroleum and coal products	Beacon Hill Resources	South Africa	1 641
Cambodia	Biomass power	Wah Seong	Malaysia	1 000

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

External finance constitutes an important part of the financing of a growing number of infrastructure projects announced in LDCs.

The surge in announced greenfield investments in energy, transport, storage and communications (table D) indicates increasing foreign engagement in infrastructure projects in LDCs. From 2003 to 2013, nearly 290 infrastructure projects⁷² – including domestic and non-equity modes of investment – were announced in LDCs.⁷³ The cumulative costs amounted to \$332 billion (about \$30 billion a year),⁷⁴ of which 43 per cent (\$144 billion) was attributed to 142 projects that were announced to be financed partly or fully by foreign sponsors (including public entities, such as bilateral and multilateral development agencies) and almost half (\$164 billion) was attributed to 110 projects whose sponsors were unspecified.⁷⁵ Energy projects have been the driver, accounting for 61 per cent of the estimated cost of all foreign participating projects (and 71 per cent of the total project costs with unspecified sponsors).

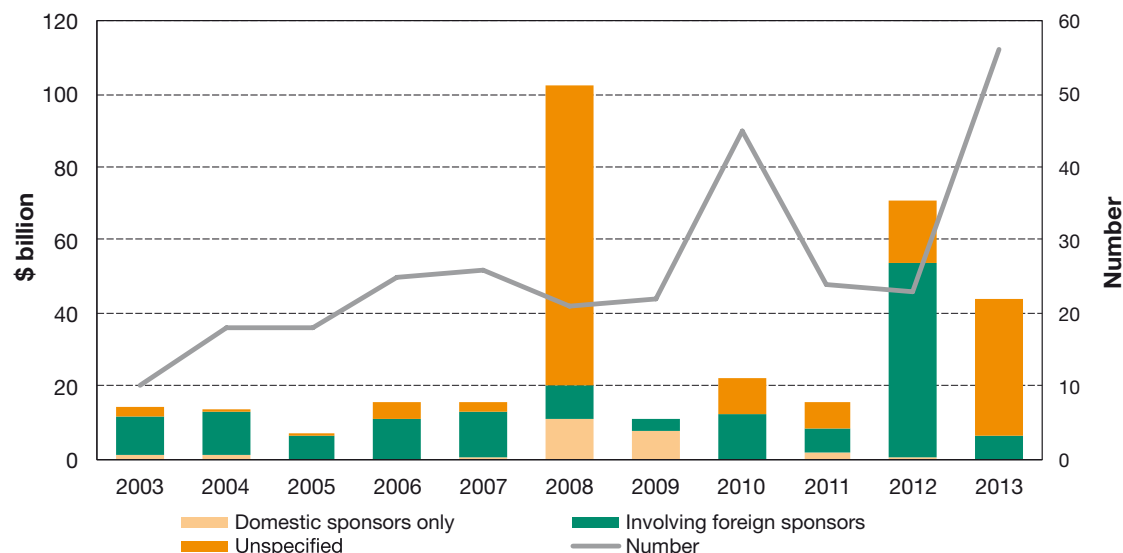
Over the past decade, the number of announced infrastructure projects in LDCs rose from an annual average of 15 in 2003–2005 to 34 in 2011–2013. Growth in total announced project costs nearly quadrupled (from an annual average of \$11 billion in 2003–2005 to \$43 billion in 2011–2013). The total value of announced infrastructure projects hit an exceptionally high level twice: first in 2008 and then in 2012 (figure II.20). In both cases, the driver was the announcement of a single megaproject – in the Democratic Republic of the Congo (\$80 billion in energy)⁷⁶ in 2008 and in Myanmar (\$50 billion in transportation) in 2012. Not only did the number of projects increase to their highest level in 2013, but

the total value of announced projects also made significant gains, in 2012–2013 (figure II.20). This was due to a sharp increase in transport projects in Africa, led by a \$10 billion project for an oil and gas free port zone in the United Republic of Tanzania, as well as a \$4 billion rail line project and a \$3 billion rail and port project in Mozambique.⁷⁷

A substantial portion of announced infrastructure investments has not generated FDI inflows.

Judging from the level of current FDI stock in LDCs (annex table II.2) and the average annual FDI inflows to all LDCs (\$16.7 billion in 2003–2013), a substantial portion of foreign and unspecified contributions to announced infrastructure projects (about \$29 billion annually, of which \$15 billion was attributed to unspecified sponsors) did not generate FDI inflows. Project costs could be shared among different types of sponsors, so that not all were funded by foreign investors alone. Also, the FDI statistics do not capture a large part of foreign sponsors' investment commitments, which were financed with non-equity modes of investments by TNCs (*WIR08* and *WIR11*), debts, structured finance, or bilateral or multilateral donor funding.⁷⁸ It is also possible that some announced projects may have been cancelled or never realized. Another possible explanation is that the year when a project is announced does not correspond to the year when the host LDC receives FDI.⁷⁹ The status of two megaprojects announced in 2008 and 2012 (boxes II.5 and II.6) reflects these gaps between announced project costs and their impacts on FDI flows. Neither project has yet triggered the announced levels of foreign or domestic investment.

Figure II.20. Estimated value and number of announced infrastructure projects in LDCs, by type of sponsor, 2003–2013



Source: UNCTAD, based on data from Thomson ONE.

Box II.5. The Grand Inga Hydroelectric Power Station Project: no foreign investment secured to start first phase

When the \$80 billion Grand Inga hydroelectric project was recorded in 2008, the Democratic Republic of the Congo was one of five African countries (with Angola, Botswana, Namibia and South Africa) that agreed to develop this project under the management of the Western Power Corridor, a consortium of five national utility companies representing each of the five States sharing 20 per cent of the equity. The host country had already secured an agreement with BHP Billiton (Australia) to jointly develop a \$3 billion aluminium smelter to use 2,000 megawatts of electricity to be generated by the first phase of the project, “Inga III”.⁸⁰ In 2009, however, seeking a greater controlling share in the project, the Democratic Republic of the Congo withdrew from the agreement and went alone to develop Inga III.⁸¹ BHP Billiton was then selected to build a \$5 billion smelter, along with a 2,500-megawatt plant for \$3.5 billion. In early 2012, citing economic difficulties, the company abandoned both plans and withdrew from Inga III.

In May 2013, the stalled project was revived as a 4,800-megawatt project at an estimated cost of \$12 billion, to be managed by Eskom (South Africa) and Société Nationale d’Electricité (Democratic Republic of the Congo). By the end of 2013, a cooperation treaty had been sealed between the Democratic Republic of the Congo and South Africa, in which South Africa committed to buy more than half of the electricity generated. With financial and technical assistance from the African Development Bank (\$33 million) and the World Bank (\$73 million),⁸² feasibility studies were conducted for the base chute development. Other bilateral development agencies and regional banks expressed interest in funding the project, but no firm commitments have been made.

Three consortiums, including TNCs from Canada, China, the Republic of Korea and Spain, have been prequalified to bid for this \$12 billion project, and a winning bidder will be selected in the summer of 2014.⁸³ This will result in an expansion in both FDI and non-equity modes of activity by TNCs, though the exact amounts will depend on which consortium wins and the configuration of the project. Construction is scheduled to start in early 2016, to make the facility operational by 2020.

Source: UNCTAD based on “Grand Inga Hydroelectric Project: An Overview”, www.internationalrivers.org, and “The Inga 3 Hydropower Project”, 27 January 2014, www.icafrica.org.

Box II.6. Dawei Special Economic Zone: \$10 billion secured, search continues for new investors to finance remaining \$40 billion

Although the announced \$50 billion build-operate-own project in Dawei, Myanmar – the Dawei SEZ – was registered as a transportation project, it is a multisectoral infrastructure project: a two-way road between Myanmar and Thailand, a seaport, steel mills, oil refineries, petrochemical factories, power plants, telecommunication lines, water supply, a wastewater treatment system, and housing and commercial facilities.

When this project was announced in late 2012, Thailand's largest construction group, Italian-Thailand Development (ITD), was in charge under a 75-year concession. ITD was responsible for implementing the first phase, estimated at \$8 billion, and construction was scheduled to start in April 2014.⁸⁴ However, due to ITD's failure to secure sufficient investments and reach an agreement on the development of energy infrastructure, the Governments of Myanmar and of Thailand took over the project in 2013, establishing a joint special purpose vehicle (SPV).⁸⁵

Stressing the potential for Dawei to grow into a new production hub in the ASEAN region, the Thai-Myanmar SPV approached the Government of Japan, which had been engaged in the development of another SEZ in Thilawa.⁸⁶ In November 2013, the Thai-Myanmar SPV involved a leading Japanese TNC in a 7-megawatt power station project in Dawei at an estimated cost of \$9.9 billion (table II.9). To manage this project, a Thai-Japan joint venture has been established by Mitsubishi Corporation (Japan) (30 per cent) and two Thai firms – Electricity Generating Authority of Thailand (50 per cent) and ITD (20 per cent).⁸⁷

To implement the remaining six segments of infrastructure development in the SEZ, the Thai-Myanmar SPV continues to look for new investors. The viability of the SEZ depends on successful implementation of the planned infrastructure developments. Until the remaining \$40 billion is secured, therefore, its fate is on hold.

Source: UNCTAD.

The growth in development finance to support infrastructure projects in LDCs is encouraging, but the estimated investment needs in these countries are much greater. Along with FDI and non-equity modes, official development assistance (ODA) from the OECD Development Assistance Committee (DAC) has been the important external source of finance for infrastructure projects in LDCs. Because ODA can act as a catalyst for boosting FDI in infrastructure development in LDCs (*WIR10*), synergies between ODA disbursements and FDI inflows to LDCs should be encouraged to strengthen productive capacities in LDCs.⁸⁸

Led by transport and storage, gross disbursements of official development finance (ODF) to selected infrastructure sectors⁸⁹ in LDCs are growing steadily (figure II.21). ODF includes both ODA and non-concessional financing⁹⁰ from multilateral development banks. In cumulative terms, however, gross ODF disbursements to infrastructure projects in LDCs amounted to \$41 billion,⁹¹ or an annual average of \$4 billion, representing 0.9 per cent of average GDP in 2003–2012.

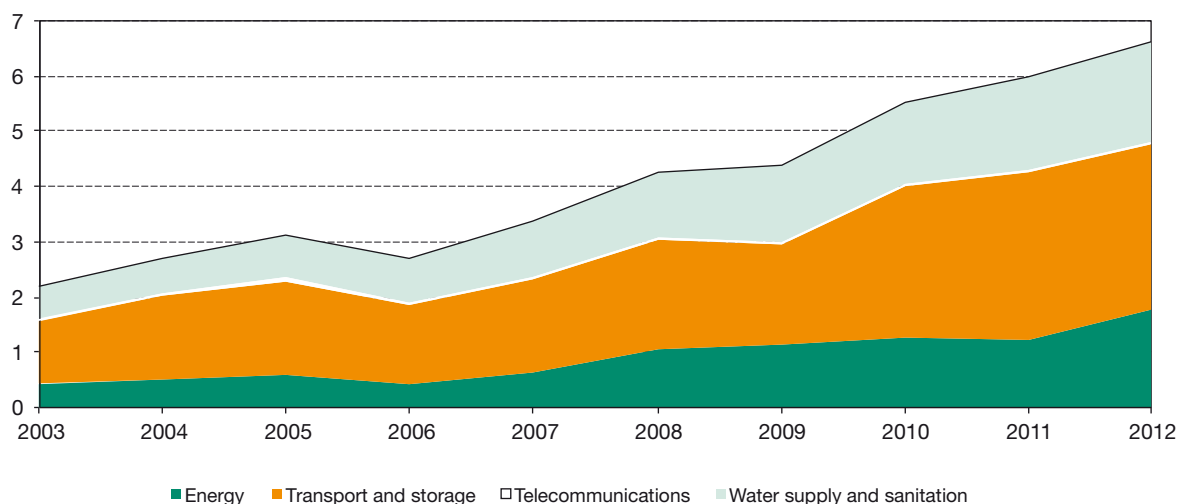
Relatively small infrastructure financing by DAC donors is not unique to LDCs.⁹² Yet, considering

that low-income countries had to spend 12.5 per cent of GDP (or about \$60 billion for LDCs) annually to develop infrastructure to meet the Millennium Development Goals (MDGs),⁹³ ODF of \$4 billion a year (7 per cent of the estimated \$60 billion) for all LDCs appears to fall short of their investment requirements. Given the structural challenges such countries face, where the domestic private sector is underdeveloped, it is a daunting task to bridge the gap between ODF and investment needs for achieving the SDGs (see chapter IV).

For instance, in water supply and sanitation, where hardly any foreign investments in announced projects have been recorded in the last decade, the highest level of gross ODF disbursements to LDCs (\$1.8 billion in 2012) would cover no more than 10 per cent of the estimated annual capital that LDCs need (\$20 billion a year for 2011–2015) to meet the MDG water supply and sanitation target (\$8 billion) and universal coverage target (an additional \$12 billion).⁹⁴ With the current level of external finance, therefore, the remaining \$18 billion must be secured in limited domestic sources in LDCs.

Prospects. Announced projects suggest that FDI inflows to infrastructure projects in LDCs

Figure II.21. Gross ODF disbursements to LDCs, selected sectors, 2003–2012
(Billions of dollars)



Source: UNCTAD, based on selected sectoral data available from the OECD Creditor Reporting System.

Note: Excludes disbursements to finance-related training, policy, administration and management projects in these four sectors.

are growing, which is imperative for sustainable economic growth. FDI inflows to LDCs in the ASEAN region are likely to grow further by attracting not only large-scale infrastructure investments but also FDI in a range of industries in the manufacturing and services sectors (section A.2.a). As infrastructure investments tend to flow more into larger resource-rich LDCs than into smaller resource-scarce ones, there is a risk that uneven distributions of FDI among LDCs may intensify.

Mobilization of available resources for improving infrastructure in LDCs remains a great challenge. Along with the international aid target for LDCs, donor-led initiatives for leveraging private finance in infrastructure development in developing economies – such as some DAC donors' explicit support for public-private partnerships (PPPs),⁹⁵ EU blending facilities,⁹⁶ and the G-20's intent to identify appropriate actions to increase infrastructure investment in low-income countries (OECD, 2014, p. 27) – can generate more development finance for LDCs. The promotion of impact investments and private-sector investments in economic and social infrastructure for achieving the SDGs (chapter IV) will lead to opportunities for some LDCs. The increasing importance of FDI and development finance from the South to LDCs⁹⁷ is also encouraging.

The extent of FDI growth and sustainable economic development in LDCs largely depends on the successful execution and operation of infrastructure projects in the pipeline. In this respect, domestic and foreign resources should be mobilized more efficiently and effectively. Although international development partners are stepping up their efforts to deliver on their commitments for better development outcomes, LDCs are also expected to increase domestic investments in infrastructure.⁹⁸

2. Landlocked developing countries

Table A. Distribution of FDI flows among economies, by range,* 2013

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

* Economies are listed according to the magnitude of their FDI flows.

Figure B. FDI inflows, 2007–2013
(Billions of dollars)

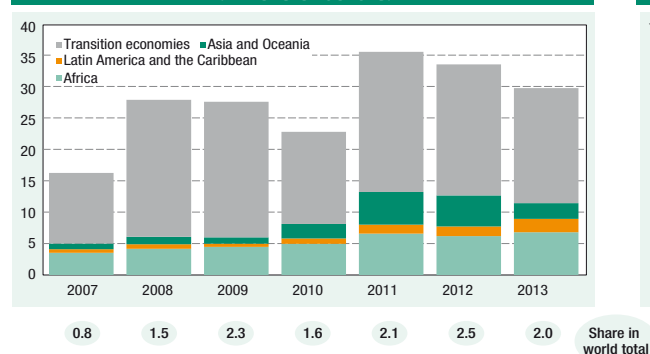


Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

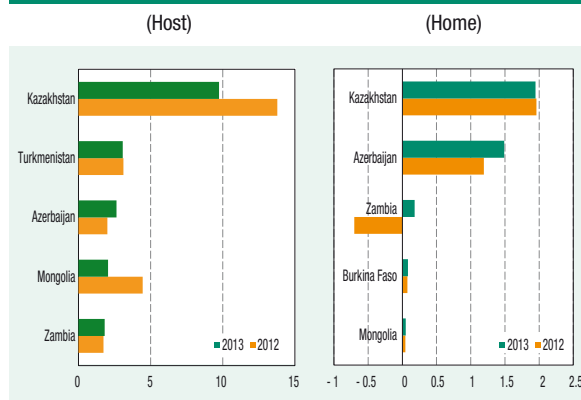


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

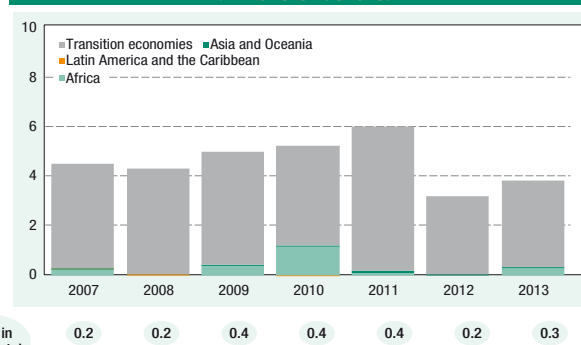


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	-574	258	544	6
Primary	-2 612	-22	160	2
Mining, quarrying and petroleum	-2 614	-22	160	2
Manufacturing	468	257	-183	-
Food, beverages and tobacco	377	177	-	-
Chemicals and chemical products	-	5	-185	-
Motor vehicles and other transport equipment	-	60	-	-
Non-metallic mineral products	90	-	-	-
Services	1 570	23	566	3
Trade	-	-	20	-
Information and communications	1 542	20	-	-
Financial and insurance activities	17	3	598	3
Public administration and defence, compulsory social sec.	-	-	-52	-

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	-574	258	544	6
Developed economies	-804	99	445	2
European Union	-823	72	435	2
Other developed Europe	-5	331	-	-
Canada	2	-298	10	-
United States	-22	-	-	-
Other developed countries	44	-6	-	-
Developing economies	191	160	-35	3
Africa	106	-	-185	3
Latin America and the Caribbean	-150	-	-	-
West Asia	-	6	150	-
South, East and South-East Asia	235	154	-	-
Transition economies	23	-	133	-

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	LLDCs as destination		LLDCs as investors	
	2012	2013	2012	2013
Total	17 931	17 211	4 005	1 033
Primary	1 443	1 207	-	-
Mining, quarrying and petroleum	1 443	1 207	-	-
Manufacturing	8 931	5 273	3 276	407
Chemicals and chemical products	4 781	128	-	92
Non-metallic mineral products	66	1 624	18	75
Metals and metal products	1 784	279	-	70
Electrical and electronic equipment	246	587	-	-
Services	7 558	10 730	729	626
Electricity, gas and water	2 300	5 213	-	-
Trade	400	467	197	133
Transport, storage and communications	1 823	2 349	168	139
Finance	1 306	1 301	240	332

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	LLDCs as destination		LLDCs as investors	
	2012	2013	2012	2013
World	17 931	17 211	4 005	1 033
Developed economies	5 279	9 879	178	188
European Union	3 109	3 618	128	150
Other developed Europe	12	4 346	-	-
United States	1 131	502	50	3
Other developed countries	431	1 060	-	35
Developing economies	11 853	6 163	3 587	507
Africa	679	2 872	308	174
East and South-East Asia	5 561	1 249	244	36
South Asia	3 643	776	-	116
West Asia	1 962	582	3 034	114
Latin America and the Caribbean	10	684	-	66
Transition economies	799	1 168	240	338

FDI flows to the landlocked developing countries (LLDCs) fell by 11 per cent to \$29.7 billion in 2013 after the 2012 figure was revised slightly downward to \$33.5 billion. Investment to the group was still concentrated in the transition-economy LLDCs, which accounted for 62 per cent of FDI inflows. In African LLDCs, FDI flows increased by 10 per cent but the picture was mixed: 7 of the 15 countries experienced falls and 8 countries, predominantly mineral-exporting economies, saw increases. In contrast to 2012, when the Republic of Korea and the West Asian economies led investments, in 2013 developed-economy investors took the lead (in particular Europe), which increased their share in the group from 29 per cent in 2012 to 57 per cent. Services continued to attract strong investor interest, especially in the electricity, water and gas sectors and the transport sector.

FDI inflows to LLDCs as a group registered a decline of 11 per cent in 2013, to \$29.7 billion. This follows revised figures for 2012 that show a slight fall, making 2013 the first year in which FDI has fallen two years in a row for this group of economies. The Asian group of LLDCs experienced the largest fall, nearly 50 per cent, mainly due to a precipitous decline in investment in Mongolia. As reported in UNCTAD's Investment Policy Review of Mongolia (UNCTAD, 2014), this fall was linked to an investment law introduced in early 2012 which was thought to have concerned many investors, especially those who were already cautious.⁹⁹ The law was amended in November 2013. The more than 12 per cent drop in FDI to the transition LLDCs is accounted for mainly by a tailing off of investment to Kazakhstan in 2013, despite strong performance in Azerbaijan, where inflows rose by 31 per cent.

In other subregions, FDI performance was positive in 2013. Inflows to the Latin American LLDCs increased by 38 per cent, as a result of the steadily increasing attractiveness of the Plurinational State of Bolivia to foreign investors. African LLDCs saw their share of total LLDC inflows increase from 18 to 23 per cent, with strong performance in Zambia, where flows topped \$1.8 billion. Nevertheless, inflows to LLDCs in 2013 remained comparatively small, representing just 2 per cent of global flows – a figure which has shrunk since 2012 and illustrates the continuing economic marginalization of many of these countries.

LLDC outflows, which had surged to \$6.1 billion in 2011, declined in 2012 but recovered to \$3.9 billion last year, up 44 per cent. Historically, Kazakhstan has accounted for the bulk of LLDC outflows and, together with Azerbaijan, it accounted for almost all outward investment last year.

Greenfield and M&A figures reveal a changed pattern of investment in 2013 in terms of sectors and source countries. In 2012, the major investors in LLDCs were developing economies, primarily the Republic of Korea and India. However, in 2013, developing-economy flows to LLDCs fell by almost 50 per cent from \$11.9 billion in 2012 to \$6.2 billion – albeit with some notable exceptions such as Nigeria, which was the second largest investor in LLDCs in 2013. Europe was the major investor, accounting for 46 per cent of FDI in terms of source; as investors in LLDCs, developed economies as a whole increased their share from 29 per cent in 2012 to 57 per cent in 2013.

In terms of investors' sectoral interests, services remain strong: in 2013, announced greenfield investments in this sector increased 42 per cent from the previous year. Investment in infrastructure doubled, in particular to the electricity, water and gas sectors, primarily on the back of an announced greenfield project in the geothermal sector in Ethiopia by Reykjavik Geothermal, valued at \$4 billion (see previous section on LDCs); FDI to the transport sector rose 29 per cent. With regard to M&As, the pattern of divestment in the primary sector – especially by European firms – that was seen in 2012 continued, albeit more slowly, and European firms registered a positive number for total M&As in 2013.

a. FDI in the LLDCs – a stock-taking since Almaty I (2003)

The Almaty Programme of Action for the LLDCs, adopted in 2003, addressed transport and transit cooperation to facilitate the integration of LLDCs into the global economy. The follow-up Second United Nations Conference on Landlocked Developing Countries, to be held in November 2014, will examine LLDC performance in this respect and assess their infrastructure needs, in particular those that can improve trade links, reduce transport costs and generate economic development. Recognizing

Table II.10. Selected FDI and GVC indicators, 2004–2013
(Per cent)

Indicator	LLDCs	Developing countries	World
FDI inflows, annual growth	10	12	8
Inward FDI stock as % of GDP, 10-year average	34	29	30
FDI inflows as % of GFCF, 10-year average	21	11	11
GVC participation, annual growth ^a	18	12	10

Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC/database (www.unctad.org/fdistatistics) and UNCTAD-Eora GVC Database.

Note: Annual growth computed as compound annual growth rate over the period considered.

GVC participation indicates the part of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX).

^a 2004–2011.

the critical role that the private sector can play, it will be essential for LLDCs to adopt measures to boost investment, in particular investment in infrastructure for transport, telecommunications and utilities.

An analysis of FDI indicators (table II.10) over the past 10 years reveals a mixed performance in LLDCs. In terms of FDI growth, they fared better than the global average but worse than other developing countries as a group. Among LLDCs, FDI growth in the Latin American and African subregions was stronger than in the transition economies and Asian subregion. Looking at the importance of FDI for LLDC economies, in terms of the share of FDI stock in GDP, it has averaged 5 percentage points higher than in developing countries, revealing the importance of foreign investment for growth in the LLDCs. In terms of the ratio of FDI to gross fixed capital formation (GFCF) – one of the building blocks of development – FDI's role was again more important for LLDCs than for developing economies over the previous 10 years. And LLDCs registered a much stronger growth rate in GVC participation than either the developing-country or the global average.

b. FDI inflows over the past decade

Since 2004, FDI inflows to LLDCs have generally followed a rising trajectory, with the exception of declines in 2005 and following the global economic crisis in 2009 and 2010. Figures for 2012 and 2013 also show a decline in inward investment to the group, but FDI has nevertheless stabilized around the previous three-year average (figure II.22).

At 10 per cent, the compound annual growth rate (CAGR) for FDI inflows to LLDCs was higher

than the world rate of 8 per cent but lower than for developing countries as a whole, at 12 per cent (table II.10). Although the transition LLDCs accounted for the bulk of the increase in FDI in value terms, the subregion's CAGR was in fact the lowest of all LLDC regions over the period (table II.11). The Asian and Latin American economies experienced the strongest FDI growth in terms of their CAGR, which dampens the effects of volatility in flows. However, the picture in Latin America is distorted by the presence of only two landlocked economies, and in Asia by the impact of Mongolia's natural resources boom, which attracted significantly increased FDI over the past decade.

Another distortion therefore concerns the weight of the mineral-exporting economies that mainly form part of the transition-economy subregion, and in particular, Kazakhstan. As a group, the transition-economy LLDCs accounted for the bulk of FDI inflows over the period 2004–2013, with an average share of almost 70 per cent. Indeed, just six mineral-exporting countries – Kazakhstan, Turkmenistan

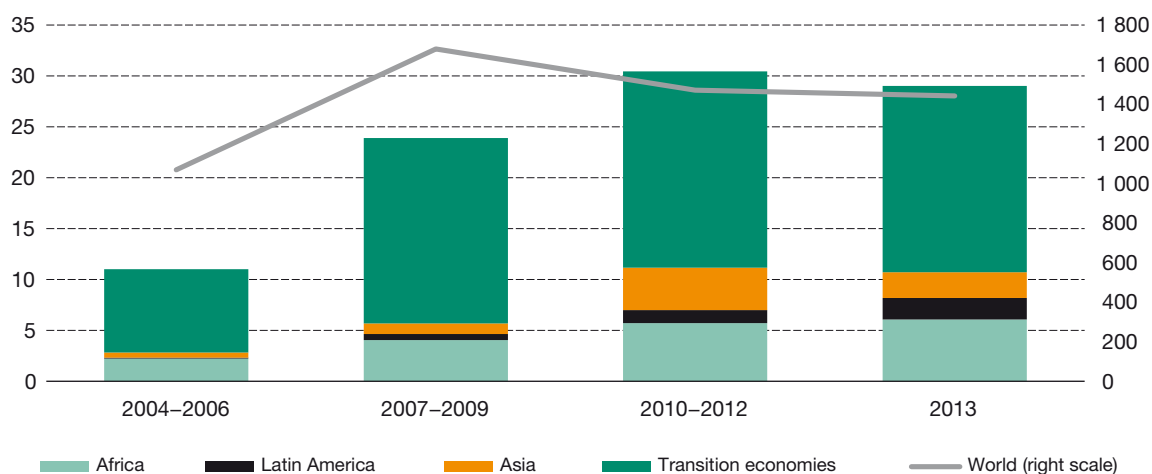
Table II.11. FDI inflows to LLDCs, 2004–2013
(Millions of dollars and per cent)

Subregion	2004	2013	Growth
LLDCs Subregion	12 290	29 748	10
LLDCs-Africa	2 464	6 800	12
LLDCs-Latin America and the Caribbean	113	2 132	39
LLDCs-Asia and Oceania	305	2 507	26
LLDCs-Transition economies	9 408	18 309	8

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

Note: Growth computed as compound annual growth rate over the period.

Figure II.22. FDI inflows to LLDCs, average, various years and 2013
(Billions of dollars)



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

and Azerbaijan, plus the non-transition - economies of Mongolia, Uganda and Zambia – accounted for almost three quarters of all LLDC inflows. Although trends have remained broadly similar over the past decade, several countries have attracted increasing flows, largely as a result of the development of their natural resource sectors, among them Mongolia, Turkmenistan and Uganda. All three countries started to attract large increases in FDI in the past five years. Kazakhstan, which accounted for over 60 per cent of LLDC FDI during the boom years of 2006–2008, has since seen its share of inflows decline to about 41 per cent and to just under a third in 2013.

However, as a share of global flows, FDI inflows to LLDCs remain small, having grown from 1.7 per cent of global flows in 2004 to a high of 2.5 per cent in 2012, and retreated to just 2 per cent this year.

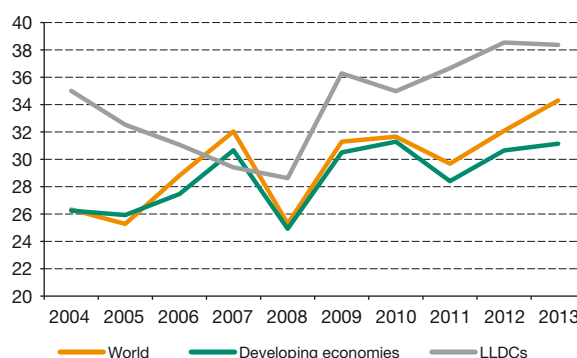
c. FDI's contribution to economic growth and capital formation

With the caveat that FDI trends in LLDCs remain skewed by the dominance of the mineral-exporting economies of Central Asia, it is clear that FDI has made a significant contribution to economic development in LLDCs. As a percentage of GDP, inflows have been relatively more important for this group of countries than for the global average or for

developing countries as a group. FDI flows peaked at over 6 per cent of GDP in 2004 and remained an important source of investment at 5 per cent of GDP in 2012. Even ignoring Kazakhstan, and latterly Mongolia, FDI as a percentage of GDP has remained above the world and developing-country averages (1.04 percentage points higher than developing countries without Kazakhstan, and 0.53 percentage point higher without Kazakhstan and Mongolia, averaged over the past decade.)

The story repeats itself when FDI stocks are used instead of flows (figure II.23). Despite having fallen

Figure II.23. FDI stock as a percentage of GDP, 2004–2013
(Per cent)

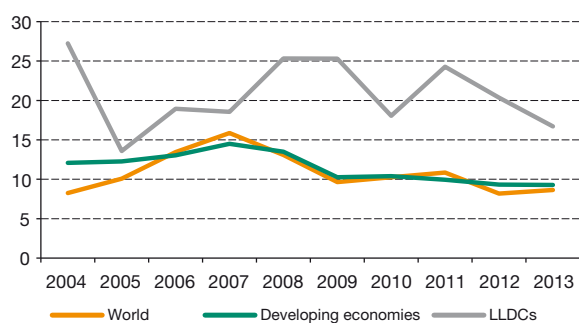


Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics).

below the world and developing-country averages in 2007, FDI stocks as a percentage of GDP have since risen steeply and now represent a value equivalent to 38 per cent of GDP, compared with 31 per cent for developing countries as a whole.

This picture is reinforced by the role of FDI in gross fixed capital formation (GFCF) – one of the essential building blocks of long-term investment and development. In LLDCs, FDI can potentially contribute to GFCF: it plays a far more important role in GFCF than in the global average or in developing countries generally (figure II.24). The average ratio of FDI to GFCF peaked at over 27 per cent in 2004; after a dramatic fall in 2005, it climbed steadily to more than 20 per cent in 2012. What is significant, however, is the difference between the relative importance of FDI for GFCF for LLDCs: the average ratio of FDI to GFCF is almost twice that for other developing countries and for all economies, both of which have hovered around 10 per cent in the past five years.

Figure II.24 FDI inflows as a share of gross fixed capital formation, 2004–2013
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI/TNC database (www.unctad.org/fdistatistics) and IMF for gross fixed capital formation data.

d. The role of investment in LLDC GVC patterns

WIR13 drew attention to the links between investment and trade, particularly through the GVCs of TNCs. It is striking that, despite their structural constraints, LLDCs do not differ markedly from other developing countries in terms of their participation in GVCs: as a group, almost 50 per cent of their exports form part of a multistage trade

process – not far below the developing-country average of 52 per cent (figure II.25).

LLDCs have a much smaller share in the upstream component of GVC participation, reflecting the role that natural resources play in several countries' exports. Consequently, the average LLDC upstream component – 18 per cent in 2011 – is lower than the average developing-country share – 25 per cent. However, the growth of LLDC participation in GVCs in all subregions in the past decade looks very different: the compound annual growth rate has averaged more than 18 per cent from 2004 to 2011. This compares with a global growth rate in GVC participation of 10 per cent and a developing-country growth rate of 12 per cent. In view of the rising rates of foreign investment in this group of countries over the past decade, a relationship can be inferred between increasing FDI flows, principally from TNCs, and rapid growth in GVC participation.

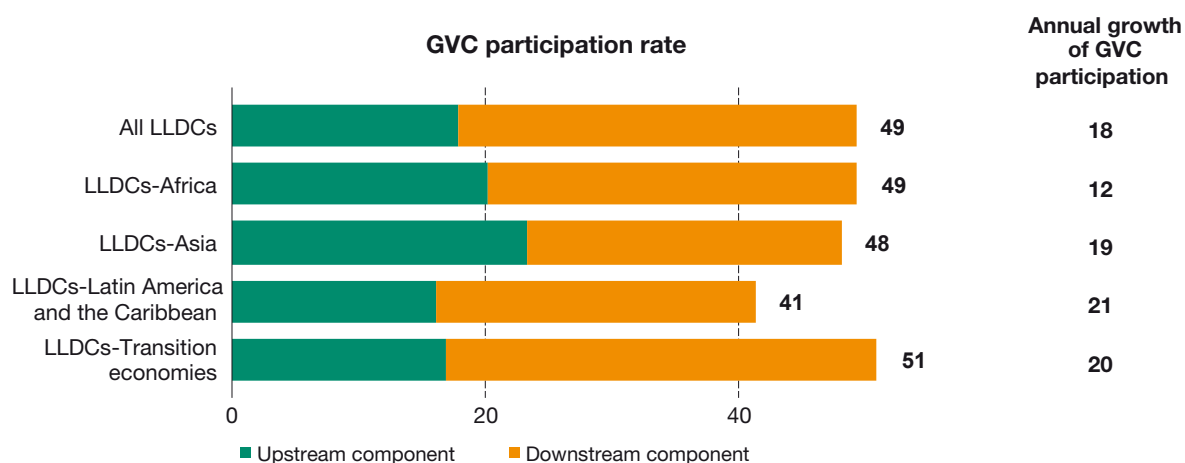
e. M&As and greenfield investments in the LLDCs – a more nuanced picture

Like FDI as a whole, M&As in the LLDC group are dominated by Kazakhstan. Of the 73 M&A deals worth over \$100 million completed in the LLDCs over the last 10 years, almost half were in Kazakhstan, including 8 of the top \$10 billion-plus deals. Of these, all but two were in the mineral and gas sectors. However, the telecommunications sector also produced a number of large deals, not only in Kazakhstan but also in Zambia, Uganda and Uzbekistan.

From 2004 through 2013, the average value of announced greenfield investments has been greater than that of M&As and more diversified across the group. Of the 115 largest greenfield investments worth more than \$500 million, just over a quarter were in Kazakhstan, a significantly smaller proportion than the country's share of M&As. Kazakhstan also took a similar proportion of the \$42 billion-plus investments. However, in terms of sectoral distribution, greenfield projects were even more concentrated in the mineral and gas sectors than were M&As.

Focusing specifically on investment in infrastructure (in this case in electricity generation, telecommunications and transportation), where LLDCs have particular needs, shows that greenfield

Figure II.25. GVC participation rate, 2011, and GVC participation growth, 2004–2011
(Per cent)



Source: UNCTAD-EORA GVC Database.

Note: GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added (FVA) used in a country's exports (the upstream component) plus the value added supplied to other countries' exports (the downstream component, or DVX), divided by total exports.

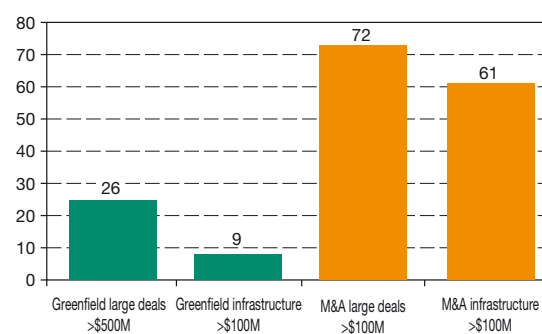
investment has been relatively more distributed geographically over the past decade. Although Kazakhstan still accounts for 9 per cent of greenfield projects in infrastructure worth over \$100 million, this share is lower than its shares in M&As in infrastructure and in large greenfield FDI projects (figure II.26). Of the 133 greenfield projects in infrastructure worth over \$100 million in the past decade, 99 were in the Asian and transition economy LLDCs, 29 were in Africa and 5 were in South America.

M&A and greenfield data portray a more nuanced picture of the geographical spread of foreign investment deals and projects in LLDCs. For example, they do not all take place in Kazakhstan and a small number of Central Asian economies. The data also reveal the concentration of investment in two sectors: minerals and gas, where investment is primarily resource seeking, and telecommunications, where it is primarily market seeking.

The indicators of FDI performance in LLDCs since 2004 (table II.10) show that LLDCs performed relatively well compared with developing countries and with the global economy on all indicators, even when Kazakhstan and Mongolia are excluded from the analysis. However, it is clear that to speak of LLDCs as a homogenous group is misleading and disguises regional and country differences. As

LLDCs prepare for the follow-up Global Review Conference in 2014, policymakers and the international community must reflect on how to spread the benefits of FDI to other members of the grouping and beyond a relatively narrow set of sectors, as well as how to promote FDI attraction in those LLDCs, while minimizing any negative impacts.¹⁰⁰

Figure II.26. Kazakhstan: share of LLDC M&As, greenfield investment projects and greenfield infrastructure projects, 2004–2013
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd., fDiMarkets (www.fDimarkets.com) for greenfield projects.

3. Small island developing States

Table A. Distribution of FDI flows among economies, by range,^a 2013

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

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

Figure A. FDI flows, top 5 host and home economies, 2012–2013
(Billions of dollars)

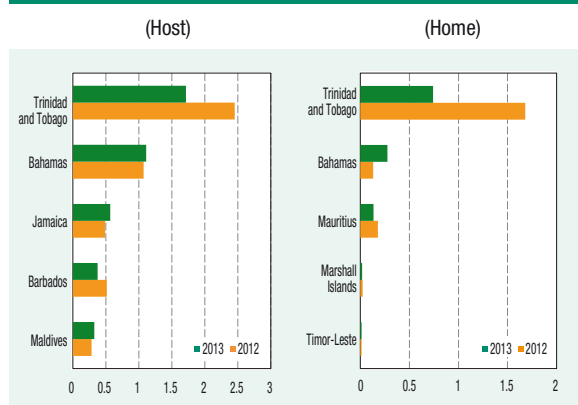


Figure B. FDI inflows, 2007–2013
(Billions of dollars)

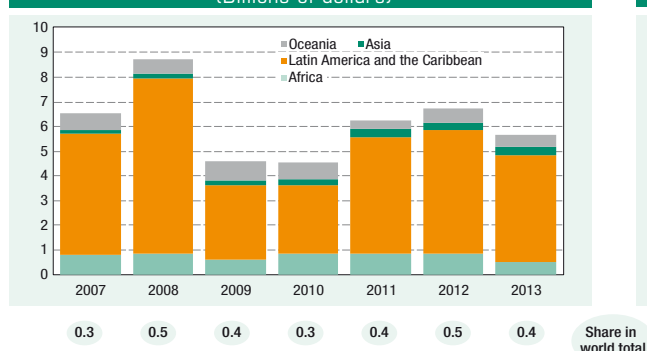


Figure C. FDI outflows, 2007–2013
(Billions of dollars)

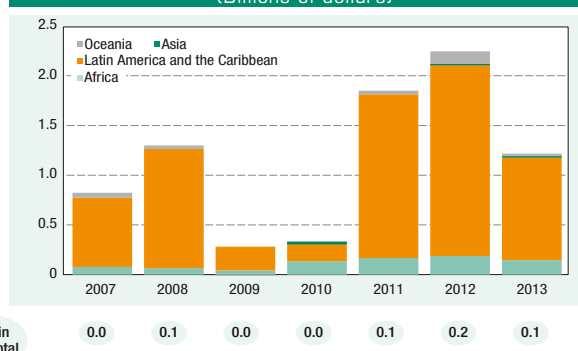


Table B. Cross-border M&As by industry, 2012–2013
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2012	2013	2012	2013
Total	97	-596	-2	-266
Primary	110	-600	25	-14
Agriculture, forestry and fishing	-	-	20	-
Mining, quarrying and petroleum	110	-600	5	-14
Manufacturing	-47	-5	-	10
Food, beverages and tobacco	-47	-	-	-
Basic metal and metal products	-	-	-	10
Services	33	9	-27	-262
Electricity, gas, water and waste management	-	-	228	-
Transportation and storage	20	-	-	-
Information and communications	-	4	-	108
Financial and insurance activities	13	-	-254	-369
Business services	-	5	-	-

Table C. Cross-border M&As by region/country, 2012–2013
(Millions of dollars)

Region/country	Sales		Purchases	
	2012	2013	2012	2013
World	97	-596	-2	-266
Developed economies	-42	-604	5	-219
Germany	-	285	-	-
Switzerland	-	-285	-	-
United States	-37	-600	-	103
Developing economies	119	3	-7	-47
Latin America and the Caribbean	-	-272	330	-86
Guatemala	-	-	228	-
Cayman Islands	-	-272	-	-86
India	115	-	66	38
Indonesia	-	-	189	-
Singapore	7	331	-655	9
Transition economies	-	-	-	-

Table D. Greenfield FDI projects by industry, 2012–2013
(Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investors	
	2012	2013	2012	2013
Total	2 298	6 506	205	3 809
Primary	8	2 532	-	-
Mining, quarrying and petroleum	8	2 532	-	-
Manufacturing	1 169	1 986	130	-
Coke, petroleum products and nuclear fuel	929	1 048	-	-
Chemical and chemical products	-	850	-	-
Services	1 121	1 988	75	3 809
Electricity, gas and water	156	-	-	-
Construction	-	1 350	-	-
Hotels and restaurants	505	65	30	-
Transport, storage and communications	116	477	-	1 871
Finance	201	22	12	190
Business services	77	46	33	1 749

Table E. Greenfield FDI projects by region/country, 2012–2013
(Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investors	
	2012	2013	2012	2013
World	2 298	6 506	205	3 809
Developed economies	1 493	2 814	26	3
Europe	307	255	26	3
United States	181	1 379	-	-
Australia	1 005	316	-	-
Japan	-	863	-	-
Developing economies	805	3 691	179	3 806
Kenya	-	-	-	450
Nigeria	-	-	-	2 296
China	-	3 250	-	164
Latin America and the Caribbean	30	13	30	457
Small island developing states (SIDS)	30	-	30	-
Transition economies	-	-	-	-

a. FDI in small island developing States – a decade in review

FDI inflows to the SIDS declined by 16 per cent to \$5.7 billion in 2013, putting an end to a two-year recovery. Flows decreased in all subregions, but unevenly. African SIDS registered the highest decline (41 per cent to \$499 million), followed by Latin American SIDS (14 per cent to \$4.3 billion). SIDS in Asia and Oceania registered a slight 3 per cent decline to \$853 million. This trend is examined in a long-term context.

SIDS face unique development challenges that are formally recognized by the international community. For this reason, their financing needs to achieve economic, social and environmentally sustainable development are disproportionately large, both as a share of their GDP and as compared with other developing countries' needs. Mobilization of financing through various channels – private or public, and domestic or international – is no doubt required for sustainable development in SIDS. External finance includes ODA and private capital flows (both FDI and portfolio and other investment, such as bank loan flows) as well as remittances and other flows.

A third United Nations Conference on SIDS is to be held in September 2014 in Samoa. It seeks a renewed political commitment to SIDS' development through identifying new and emerging challenges and opportunities for their sustainable development and establishing priorities to be considered in the elaboration of the post-2015 UN development

agenda. This section reviews a decade of FDI to the 29 SIDS countries – as listed by UNCTAD (box II.7) – in terms of their trends, patterns, determinants and impacts.

The global economic crisis halted strong FDI growth. FDI inflows into SIDS increased significantly over 2005–2008, reaching an annual average of \$6.3 billion, more than twice the level over 2001–2004. However, the global financial crisis led to a severe reversal of this trend, with FDI plummeting by 47 per cent, from \$8.7 billion in 2008 to \$4.6 billion in 2009. Flows recovered in 2011 and 2012, before declining again in 2013, remaining below the annual average they had reached in 2005–2008 (figure II.27).

Although FDI flows to the SIDS are very small in relative terms, accounting for only 0.4 per cent of global FDI flows over 2001–2013, they are very high compared with the size of the SIDS' economies. The ratio of inflows to current GDP during 2001–2013 was almost three times the world average and more than twice the average of developing and transition economies. These relatively high inflows to the group are the result of fiscal advantages offered to foreign investors in a number of SIDS, and of a limited number of very large investments in extractive industries.

Caribbean SIDS have traditionally attracted the bulk of FDI into SIDS, accounting for 78 per cent of flows over the period 2001–2013. Their proximity to and economic dependence on the large North American market are the main factors

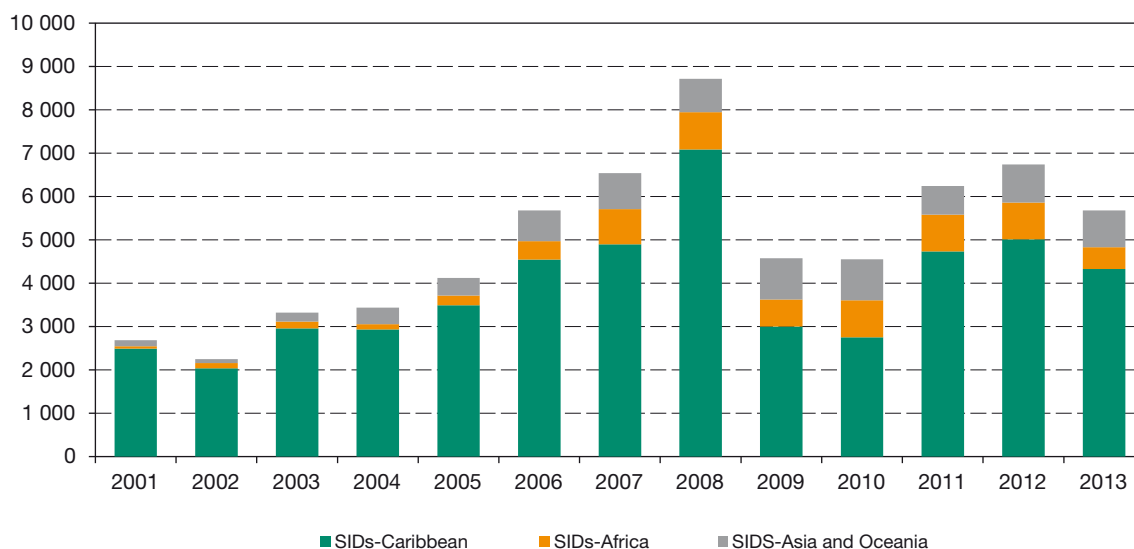
Box II.7. UNCTAD's list of SIDS

The United Nations has recognized the particular problems of SIDS without, however, establishing criteria for determining an official list of them. Fifty-two countries and territories are presently classified as SIDS by the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS); 29 have been defined by UNCTAD and used for analytical purposes. This review regroups the 29 countries in three geographical regions:

- **Africa SIDS:** Cape Verde, São Tomé and Príncipe, the Comoros, Mauritius and Seychelles.
- **Asia and Oceania SIDS:** Maldives, Timor-Leste, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.
- **Caribbean SIDS:** Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago.

Source: UNCTAD; UN OHRLLS, "Small Islands Developing States - Small Islands Big(ger) Stakes", United Nations, New York, 2011.

Figure II.27. FDI flows into SIDS by main subregion, 2001–2013
(Millions of dollars)



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

explaining their higher attractiveness compared with other SIDS regions.

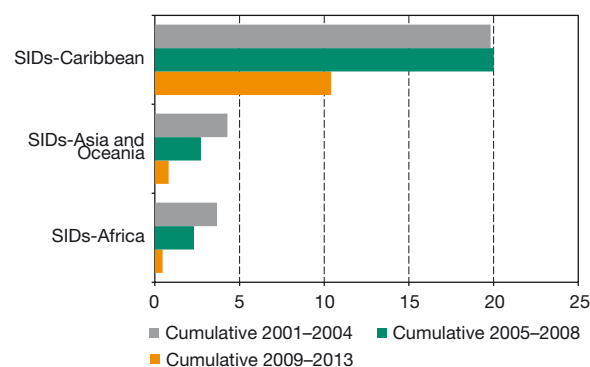
However, SIDS located in Africa and in Asia and Oceania experienced relatively stronger FDI growth during the 2000 (figure II.28). Their share in total FDI flows increased from 11 per cent in 2001–2004 to 20 per cent in 2005–2008, to 29 per cent in 2009–2013. The actual importance of Asia and Oceania as a SIDS recipient subregion is probably underestimated, because of the undervaluation of FDI flows to Papua New Guinea and Timor-Leste, two countries rich in natural resources that host significant FDI projects in the extractive industry (box II.8) but do not include those projects in official FDI statistics (Timor-Leste) or do not reflect them fully (Papua New Guinea).

Mineral extraction and downstream-related activities, tourism, business and finance are the main target industries for FDI. Sectoral FDI data are available for very few SIDS countries. Only Jamaica, Mauritius, Trinidad and Tobago, and Papua New Guinea make available official sectoral data on FDI. These data show a high concentration of FDI in the extractive industries in Papua New Guinea and in Trinidad and Tobago.¹⁰¹ FDI flows to Mauritius are directed almost totally to the services

sector, with soaring investments in activities such as finance, hotels and restaurants, construction and business in the period 2007–2012. FDI to Jamaica, which used to be more diversified among the primary, manufacturing and services sectors, has increasingly targeted service industries during the period 2007–2012 (table II.12).

In the absence of FDI sectoral data for most SIDS countries, information on greenfield FDI projects announced by foreign investors in the SIDS

Figure II.28. FDI flows to the SIDS by region, 2001–2013
(Billions of dollars)



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

Box II.8. TNCs in the extractive industry in Papua New Guinea and Timor-Leste

Papua New Guinea has high prospects for oil and gas, with deposits of both found across its territory. The most developed of its projects is the liquefied natural gas (LNG) project led by ExxonMobil,¹⁰² which is expected to begin production in 2014. It will produce 6.6 million tonnes of LNG per year for end users in Taiwan Province of China, Japan and China. The project cost is now estimated at \$19 billion, significantly more than the initial cost ceiling of \$15 billion. A potential second project is the Gulf LNG project initially driven by InterOil (United States) and now operated by Total (France), which took a majority share in 2013. Oil and gas drilling by foreign companies is continuing apace, with plenty of untapped potential and more gas and oil being discovered each year.

Papua New Guinea is also rich in metal mining, with copper and gold being the major mineral commodities produced. The country is estimated to be the 11th largest producer of gold, accounting for about 2.6 per cent of global production. It also has deposits of chromite, cobalt, nickel and molybdenum. Several international mining companies are majority owners or shareholders in metal-producing operations, including Newcrest Mining (Australia), Harmony Gold Mining (South Africa), Barrick Gold (Canada), New Guinea Gold (Canada) and MCC (China).

Timor-Leste has many oil and gas deposits both onshore and offshore, although most petroleum development has been far offshore. It also has significant untapped mineral potential in copper, gold, silver and chromite, but the mountainous terrain and poor infrastructure have impeded widespread exploration and development. Major oil and gas discoveries in the Timor Sea in 1994 have led to the development of a large-scale offshore oil industry. ConocoPhillips, Eni, Santos, INPEX Woodside, Shell and Osaka Gas are among the international oil companies operating there.

Source: United States Department of the Interior, *2011 Minerals Yearbook Papua New Guinea*, December 2012; Revenue Watch Institute, "Timor-Leste; Extractive Industries", www.revenuewatch.org.

between 2003 and 2013 is used as an alternative way to assess which countries and industries have attracted foreign investors' interest, if not actual investments. (M&As – another mode of FDI – are almost nonexistent in SIDS.) Upstream and downstream activities in the oil, gas and metal minerals industries¹⁰³ have been the focus of most capital expenditures in greenfield projects

announced by foreign investors (57 per cent of the total), with Papua New Guinea, Trinidad and Tobago, Timor-Leste and Fiji hosting these projects. Hotels and restaurants are the next largest focus of foreign investors' pledges to invest (12 per cent of total announced investments), with Maldives being their favourite destination. Other services industries, such as construction, transport

Table II.12. SIDS: FDI flows and stock by sector, selected countries, various years
(Millions of dollars)

Sector/industry	FDI flows (average per year)						FDI stock	
	Jamaica		Mauritius		Trinidad and Tobago		Papua New Guinea	
	2001–2006	2007–2012	2001–2006	2007–2012	2001–2006	2007–2011	2006	2012
Primary	141	71	3	4	768	796	1 115	4 189
Mining, quarrying and petroleum	141	71	-	-	768	796	991	4 000
Manufacturing	68	36	6	8	10	26	126	184
Services	169	238	78	363	43	487	61	149
Business activities	67	133	18	146	..	..	..	..
Finance	..	..	37	114	..	..	43	64
Hotels and restaurants	99	106	10	46	..	..	3	5
Construction	..	..	2	31	..	..	..	..
Other services	3	-	11	26	..	..	14	80
Total	663	587	87	375	876	1 344	1 350	4 576
Unspecified	285	242	-	-	54	35	48	54

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

and communications, finance, public utilities and business activities, are among the other typical activities for which greenfield FDI projects have been announced in SIDS countries (table II.13).

Developed-country TNCs have announced the most capital spending in greenfield projects in SIDS countries (almost two thirds of total capital expenditures). Resource-rich countries such as Papua New Guinea, Trinidad and Tobago, and Timor-Leste represented 63 per cent of such TNCs' announced capital spending. TNCs from developing and transition economies have focused their interest mainly in four SIDS countries, namely Papua New Guinea, Maldives, Mauritius and Jamaica, which together represented the destinations of 89 per cent of those TNCs' total announced capital spending (table II.14).

Main location advantages of SIDS, and the opportunities and risks they represent for sustainable development. The endowments of

SIDS, principally in natural resources and human capital, confer a number of location advantages. In addition, all of these countries qualify for at least one trade preference regime¹⁰⁴ that gives them, in principle, preferential access to developed-country markets. A number of industries have flourished based on these advantages:

- *Tourism and fishing industries* have been favoured because of the valuable natural resources, including oceans, sizeable exclusive economic zones, coastal environments and biodiversity. Tourism is often identified as a promising growth sector in SIDS, offering one of the few opportunities for economic diversification through the many linkages it can build with other economic sectors. If adequately integrated into national development plans, it can contribute to the growth of sectors such as agriculture, fishing and services. But if not properly planned and managed, tourism can have negative social and environmental impacts,

Table II.13. SIDS: announced value of greenfield FDI projects by sector, total and top 10 destination countries, 2003–2013
(Millions of dollars)

Sector/industry	Papua New Guinea	Trinidad and Tobago	Maldives	Timor-Leste	Mauritius	Jamaica	Fiji	Bahamas	Seychelles	São Tomé and Príncipe	Others	Total
Primary	8 070	3 091	-	1 000	-	-	792	-	-	-	228	13 181
Mining, quarrying and petroleum	8 070	3 091	-	1 000	-	-	792	-	-	-	228	13 181
Manufacturing	7 155	3 865	78	4 010	203	687	59	142	102	351	248	16 900
Coke, petroleum products and nuclear fuel	6 650	791	-	4 000	1	-	-	-	-	-	-	11 442
Metal and metal products	228	404	-	-	2	384	-	-	-	-	-	1 019
Chemicals and chemical products	-	2 435	-	-	3	10	-	-	-	-	80	2 527
Food, beverages and tobacco	214	92	-	10	-	258	46	-	59	-	129	808
Other manufacturing	63	143	78	-	197	35	13	142	43	351	39	1 104
Services	1 113	301	5 683	116	4 344	3 147	551	1 079	695	161	2 337	19 527
Hotels and restaurants	-	-	3 153	-	362	504	206	128	476	-	1 171	5 999
Construction	-	-	1 997	-	2 445	1 350	-	-	-	-	-	5 792
Transport, storage and communications	70	23	326	116	362	1 027	70	837	186	150	446	3 613
Finance	162	111	208	-	164	96	248	34	19	11	241	1 295
Electric, gas and water distribution	775	-	-	-	-	-	-	-	-	-	340	1 115
Business activities	48	55	-	-	774	43	27	55	14	-	77	1 094
Other services	59	111	-	-	237	126	-	24	-	-	63	619
Total	16 338	7 256	5 762	5 126	4 547	3 834	1 403	1 220	797	512	2 813	49 608

Source: UNCTAD, based on information from the Financial Times Ltd., fDi Markets (www.fdimarkets.com).

Table II.14. SIDS: announced value of greenfield FDI projects by top 10 home countries to top 10 destination countries, 2003–2013
(Millions of dollars)

Home country	Papua New Guinea	Trinidad and Tobago	Maldives	Timor-Leste	Mauritius	Jamaica	Fiji	Bahamas	Seychelles	São Tomé and Príncipe	Other SIDS	Total SIDS
United States	3 005	3 094	206	-	569	1 207	554	252	-	-	1 161	10 046
Australia	3 535	316	-	4 000	5	-	456	-	-	-	290	8 601
China	3 528	-	-	-	-	1 350	8	-	-	-	98	4 983
South Africa	3 000	-	-	-	1 320	-	-	-	-	-	-	4 320
India	923	171	1 565	-	419	3	3	-	224	-	-	3 307
Canada	970	1 205	617	-	121	38	-	-	241	-	63	3 254
United Kingdom	139	1 412	42	-	119	367	13	328	7	351	367	3 145
France	-	-	13	-	1 732	103	41	550	-	-	-	2 439
Thailand	-	-	1 620	10	3	-	-	-	-	-	65	1 698
United Arab Emirates	-	23	715	-	72	-	42	-	265	-	64	1 180
Italy	8	-	-	1 000	-	-	-	-	-	-	-	1 008
Korea, Republic of	959	4	-	-	11	-	-	-	-	-	-	975
Others	272	1 032	985	116	178	766	288	90	60	161	707	4 653
World	16 338	7 256	5 762	5 126	4 547	3 834	1 403	1 220	797	512	2 813	49 608
Developed economies	7 705	6 967	1 302	5 108	2 686	2 441	1 115	1 131	298	501	2 072	31 325
Developing and transition economies	8 634	289	4 460	19	1 861	1 393	288	89	498	11	741	18 283

Source: UNCTAD, based on information from the Financial Times Ltd., fDi Markets (www.fdimarkets.com).

significantly degrade the environment on which it is so dependent and lead to irreversible damage to ecosystems and to traditional activities such as agriculture and fishing (UN OHRLLS, 2011).

- *Mining and related activities* have been developed in some SIDS that have sizeable nonrenewable natural resources. If properly managed, mineral endowments can provide opportunities for economic development and poverty alleviation. However, exploitation of non-renewable resources poses serious challenges – economic, social and environmental – to prospects for long-term sustainable development. The economic challenges consist in defining how to create value from mineral resources, how to capture that value locally and how to make the best use of the revenues created. The social and environmental challenges derive from the strong environmental footprint and the profound social impacts that the extractive industry tends to have (see *WIR07*).
- *Business and offshore financial services* have prospered in a number of SIDS countries against the backdrop of strong incentives for non-resident companies and individuals to establish headquarters and financial and trading operations

in their jurisdictions. These include favourable tax regimes, efficient business registrations, secrecy rules and lax regulatory frameworks. Host countries see these services as a source of growth and economic diversification, with positive spillover effects on other activities, including tourism, hotels and restaurants, telecommunications and transport. However, they could bring some disadvantages, such as making small, open economies vulnerable to sharp changes in global financial flows and putting them under the scrutiny of the very countries affected by the activities facilitated by favourable tax regimes.¹⁰⁵

- Exports such as textiles, apparel, garment assembly and processed fish have been developed in some SIDS – for example, Cabo Verde, Fiji, Jamaica and Mauritius – under the cover of preference trade regimes. However, trade liberalization on a most-favoured-nation basis and the dismantling of textile and clothing quotas under the Agreement on Textiles and Clothing of the World Trade Organization have resulted in preference erosion that has been particularly acute among garment-exporting SIDS.

These sectors have been the primary target of FDI and will continue to offer the greatest development opportunities. These activities also constitute the main sources of the foreign exchange earnings that are necessary to finance the energy and food imports on which these island countries are often highly dependent. Although FDI represents an important additional source of investment capital in industries that are critical to growth and development, very little is known about FDI impacts on SIDS – in particular, how these impacts interact with their structural vulnerabilities.

The small size of SIDS countries means that development and the environment are closely

interrelated and interdependent. There is usually great competition for land and water resources among tourism, agriculture and other land uses (such as mining, in resource-rich countries), and the overdevelopment of any of these sectors could be detrimental to the others. The environmental consequences of ill-conceived development can threaten not only the livelihood of people but also the islands themselves and the cultures they nurture. The challenge for SIDS is to ensure that FDI and its use for economic development do not cause any permanent harm to sustainable use of land, water and marine resources.

Notes

- ¹ Estimates for Africa's middle class vary considerably among sources. The figure quoted is consistent with those of the African Development Bank (AfDB) and the Standard Chartered Bank regional head of research for Africa. It is based on a definition of middle class that includes people spending between \$4 and \$20 per day. This class of consumers represented in 2010 more than 13 per cent of the continent's population.
- ² "The MPLA sticks to its course", *Africa Confidential*, Vol. 55, No. 1, 10 January 2014.
- ³ The African Union recognizes eight RECs as the building blocks of an eventual African Economic Community: the Arab Maghreb Union (UMA), the Common Market for East and Southern Africa (COMESA), the Community of Sahel-Saharan States (CENSAD), the Economic Community of Central African States (ECCAS), the East African Community (EAC), the Economic Community of West African States (ECOWAS), the Inter-Governmental Authority for Development (IGAD) and the Southern African Development Community (SADC). Other regional groups exist, but are not among these building blocks. Moreover, some of the RECs recognized by the African Union are not active. Thus, in this section, the analysis is limited to the major RECs: COMESA, SADC, ECOWAS, ECCAS, UMA and EAC.
- ⁴ This involves the negotiation of seven main technical issues: (1) rules of origin; (2) non-tariff barriers; (3) standardization, metrology, conformity, assessment and accreditation (i.e. technical barriers to trade), and sanitary and phytosanitary measures; (4) customs cooperation, documentation, procedures and transit instruments; (5) trade remedies; (6) dispute settlement; and (7) tariff liberalization.
- ⁵ Intra-African trade has increased fourfold since 2000, though its share in global trade has remained constant over the last decade at 11–14 per cent.
- ⁶ Conclusive analysis of the impact of regional integration on FDI would require data on bilateral FDI flows and detailed sectoral data, which are not available for most African countries. There is also some degree of imprecision in FDI data for Africa related to the large scale of the informal economy. The analysis presented here relies on announced greenfield data.
- ⁷ For example, 60 per cent of Japanese companies in Africa cite transport and energy service gaps as their biggest problems, according to a survey by the Japan External Trade Organization.
- ⁸ Investment patterns as well as the establishment of special Chinese trade and investment zones in Africa lend some support to this hypothesis (Brautigam and Tang, 2011).
- ⁹ By the middle of the century, Africa's working-age population will number 1.2 billion, from about 500 million today, meaning it will provide one in four of the world's workers, compared with one in eight from China.
- ¹⁰ For instance, according to a policy document released in December 2013, overseas investment projects below \$1 billion are not subject to government approval.
- ¹¹ "Sinopec will invest \$20 billion in Africa in five years", *China News Service*, 17 December 2013.
- ¹² However, controversy and political turmoil related to the Cross-Strait Service Trade Agreement have cast doubt on the prospects for FDI in services. The agreement, signed in June 2013, aimed to substantially liberalize trade in services between mainland China and Taiwan Province of China. Under the terms of the treaty, service industries such as banking, health care, tourism, film, telecommunications and publishing will be opened to bilateral investment.
- ¹³ Data released by the Shanghai Municipality.
- ¹⁴ Board of Investment, Thailand (see: Michael Peel, "Thailand political turmoil imperils foreign and domestic investment", *Financial Times*, 9 March 2014).
- ¹⁵ In the first three quarters of 2013, for example, 33 TNCs established headquarters in Shanghai, including 10 for the Asia Pacific region. In addition, some large storage and logistic projects are under construction in the zone. About 600 foreign affiliates have been established there.
- ¹⁶ Each of the three East Asian economies has its own economic arrangement and relationship with ASEAN, and all three are currently negotiating their agreement on a free trade area.
- ¹⁷ The East Asia Summit is an annual forum, initially held by leaders of the ASEAN+6 countries (ASEAN+3 and Australia, India and New Zealand). Membership has expanded to include the United States and the Russian Federation. The Summit has gradually moved towards a focus on economic cooperation and integration.
- ¹⁸ Asia as a whole accounted for 58 per cent of Singapore's total outward FDI stock of \$350 billion by the end of 2011, including ASEAN (which accounted for 22 per cent of the total FDI stock of Singapore), China (18 per cent), Hong Kong (China) (9 per cent), Japan (4 per cent) and India (3 per cent). The largest recipients of Singaporean FDI within ASEAN are Malaysia (8 per cent), Indonesia (7 per cent) and Thailand (4 per cent). For many of these economies, Singapore ranks among the top investing countries. Detailed data on the breakdown of FDI stock of South-East Asian countries show that Singapore is among the leading investors for countries such as Malaysia and Thailand.
- ¹⁹ In Viet Nam, for instance, a joint venture between China Southern Power Grid and a local firm is investing \$2 billion in a power plant.
- ²⁰ According to the latest policy change approved in April 2014, harbour management may be 49 per cent foreign owned.
- ²¹ China International Capital Corporation estimates.
- ²² See, for instance, Saurabh Mukherjee, "Removing inflation distortions will bring back FDI", *The Economic Times*, 26 May 2014.
- ²³ See, for example, "Standard and Poor: Indian corporates divesting stake to improve cash flows", *Singapore: Commodity Online*, 19 March 2014.
- ²⁴ Saibal Dasgupta, "Plan for economic corridor linking India to China approved", *The Times of India*, 20 December 2013.
- ²⁵ In India, organized retailing refers to trading activities undertaken by licensed retailers, such as supermarkets and retail chains, while unorganized retailing refers to the traditional formats of low-cost retailing, such as local corner shops, convenience stores and pavement vendors. Currently supermarkets and similar organized retailing account for about 2–4 per cent of the whole retail market.
- ²⁶ In 2013, GCC countries began disbursing a \$5 billion grant agreed in 2011, and the United States provided a 100 per cent guarantee for a seven-year, \$1.25 billion Eurobond with interest set at 2.503 per cent. The International Finance Corporation (IFC) announced that it was heading a consortium of lenders that would provide \$221 million for construction of a 117-megawatt wind farm in Jordan's southwest. The European Bank for Reconstruction and Development (EBRD) opened a permanent office in Amman and officially conferred "Recipient Nation" status on Jordan, which henceforth can benefit from more of EBRD's regular products and services, including financing tools, soft loans and technical assistance (EBRD has already provided a \$100 million soft loan to finance a power plant near the capital). The United States Agency for International Development (USAID) launched two initiatives: the Jordan Competitiveness Program, a \$45 million scheme aimed at attracting \$700 million in FDI and creating 40,000 jobs over the next five years, and an agreement to provide \$235 million for

- education development over five years. And the EU announced about \$54 million in new assistance to help Jordan cope with the costs of hosting Syrian refugees (Oxford Business Group, "Jordan attracts flurry of foreign funds", *Economic Update*, 19 December 2013).
- ²⁷ In 2012, GCC countries hosted 13 per cent of the world's primary petrochemicals production. Their production capacity grew by 5.6 per cent to 127.8 million tonnes in 2012, in contrast to that of the global industry, which grew by a mere 2.6 per cent. Among GCC countries, Saudi Arabia leads the industry with a production capacity of 86.4 million tonnes in 2012, or 68 per cent of total capacity in GCC countries. Forecasts are that the region's petrochemicals capacity will reach 191.2 million tonnes by 2020, with Saudi Arabia leading the expansion and adding 40.6 million tonnes, and Qatar and the United Arab Emirates adding 10 million tonnes and 8.3 million tonnes, respectively.
- ²⁸ Cheap natural gas has fed the industry's growth, but that advantage is slowly eroding as the opportunity cost of natural gas goes up. Despite huge reserves, natural gas is fast becoming a scarce commodity in the region owing to rising power consumption. The unrelenting drive towards industrialization and diversification in energy-intensive industries since the 2000s has placed significant demand pressure on gas production. Low regulated gas prices have resulted in physical shortages of gas in every GCC country except Qatar, as demand has outstripped local supply capacity. Consequently, the supply of ethane – a key by-product of natural gas used as a petrochemicals feedstock – is not expected to grow significantly, and most of the anticipated supply is already committed (Booz & Co., 2012).
- ²⁹ The price of natural gas in the United States was about \$3.75 per million British thermal units at the end of 2012, down from more than \$13 per million in 2008. United States ethane has fallen from about \$0.90 a gallon in 2011 to about \$0.30 a gallon at the end of 2012. ("Sabic looks to tap into US shale gas", *Financial Times*, 28 November 2012.)
- ³⁰ The United States produced nearly a third of the world's petrochemicals products in the 1980s, but that market share had shrunk to 10 per cent by 2010. ("GCC Petrochemicals Sector Under Threat From US", *Gulf Business*, 14 October 2013.)
- ³¹ "Global shale revolution threatens Gulf petrochemicals expansion", *Financial Times*, 13 May 2013, www.ft.com.
- ³² "Dow Chemical moving ahead with polyethylene investments", *Plastic News*, 19 March 2014; "Global Economic Weakness Pares Saudi Petchem Profits", *MEES*, 15 February 2013.
- ³³ To acquire upstream assets in North America, China's national oil companies have spent more than \$34 billion since 2010, most of that on unconventional projects. The latest deal was the \$15.1 billion acquisition by CNOOC of Nexen (Canada) in 2013, which gives CNOOC control over significant oil and shale gas operations in Canada. In the same vein, in 2010 Reliance Industries Limited (India) acquired shale gas assets in the United States for \$3.45 billion, while State-owned GAIL India Limited acquired a 20 per cent stake in the Eagle Ford shale acreage from Carrizo Oil & Gas Inc. (United States) for \$64 million.
- ³⁴ It is building a 454,000 tonne/year linear low-density polyethylene plant at its site in Alberta (Canada). ("NOVA weighs US Gulf, Canada ethylene to supply possible PE plant", *Icिस*, 7 May 2013, www.icis.com.)
- ³⁵ The United States Energy Information authority is expected to publish new estimates that considerably downplay the country's recoverable shale reserves. ("U.S. officials cut estimate of recoverable Monterey Shale oil by 96%", *Los Angeles Times*, 20 May 2014; "Write-down of two-thirds of US shale oil explodes fracking myth", *The Guardian*, 22 May 2014.)
- ³⁶ "Sabic eyes investing in US petrochemicals", *Financial Times*, 8 October 2013.
- ³⁷ QP (70 per cent) and ExxonMobil (30 per cent) are partners in RasGas, an LNG-producing company in Qatar. In addition, ExxonMobil has a 7 per cent stake in QP's Barzan gas project, which is set to come online in 2014.
- ³⁸ Sectoral data for Brazil and Chile are from the Central Bank of Brazil and the Central Bank of Chile, respectively.
- ³⁹ Intracompany loans in both Brazil and Chile registered negative values in 2013, indicating that loan repayments to parent companies by foreign affiliates were higher than loans from the former to the latter. Net intracompany loans reached -\$18 billion in Brazil (compared with -\$10 billion in 2012), and -\$2 billion in Chile (compared with \$8 billion in 2012).
- ⁴⁰ The United States Energy Information Administration estimated Argentina's shale gas resources as the second largest in the world and its shale oil resources as the fourth largest (The Economist Intelligence Unit, "Industry Report, Energy, Argentina", April 2014).
- ⁴¹ Under the agreement, Repsol will receive \$5 billion in bonds. The dollar bond payment – which will mature between 2017 and 2033 – guarantees a minimum market value of \$4.67 billion. If the market value of the bonds does not amount to the minimum, the Argentine government must pay Repsol an additional \$1 billion in bonds. The agreement also stipulates the termination of all judicial and arbitration proceedings and the reciprocal waiver of future claims. (Repsol, "Argentina and Repsol reach a compensation agreement over the expropriation of YPF", press release, 25 February 2014, www.repsol.com).
- ⁴² Brazil accounts for 57 per cent of South America's total manufactured exports, and Mexico accounts for 88 per cent of manufactured exports of Central America and the Caribbean (UNCTAD GlobalStat).
- ⁴³ The difference in market size between Brazil and Mexico has increased considerably in recent years. Vehicle sales amounted to 1.7 million and 1.2 million units, respectively, in Brazil and Mexico in 2005, and 3.8 million and 1.1 million units in 2013. This translated to a more than doubling of vehicle sales per capita in Brazil from 9.2 to 18.8 units per 1,000 inhabitants, and a decrease in Mexico from 10.6 to 9 per 1,000 inhabitants (Organisation Internationale des Constructeurs d'Automobiles, www.oica.net for vehicle sales data, and UNCTAD Globstat for population data).
- ⁴⁴ Including cars, light commercial vehicles, buses, trucks and agricultural machinery.
- ⁴⁵ Instituto Nacional de Estadística y Geografía (INEGI), 2013, "La industria automotriz en México", Serie Estadísticas Sectoriales; Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA), www.anfavea.com.br; UNCTAD GlobalStat.
- ⁴⁶ Brazil and Argentina have been developing a common automotive policy since the creation of MERCOSUR. In 2002 they subscribed to the "Agreement on Common Automotive Policy between the Argentine Republic and the Federative Republic of Brazil", which establishes a bilateral regime of administered trade and was in force until 30 June 2014, before being extended in May 2014 for one year ("Brasil y Argentina prorrogarán su acuerdo automotriz por un año", *América Economía*, 5 mayo 2014).
- ⁴⁷ UNCTAD GlobalStat.
- ⁴⁸ On 1 November 2006, the Mexican government published the Decree for the Promotion of the Manufacturing, Maquila and Export Service Industry (the IMMEX Decree). This instrument integrates the programs for the Development and

Operation of the Maquila Export Industry and the Temporary Import Programs to Produce Export Goods. The companies supported by those programmes jointly represent 85 per cent of Mexico's manufactured exports.

- ⁴⁹ Mexico passed a tax reform law, which took effect on 1 January 2014, that includes certain provisions that reduce benefits for IMMEX companies. However, in order to reduce the impact of these reforms on IMMEX companies, a presidential decree and resolutions issued in late 2013 enabled IMMEX companies to retain some benefits taken away in the general provisions.
- ⁵⁰ In general, despite the higher technology content of its manufactured exports than the Latin American average (19 per cent versus 12 per cent), Mexico lags behind countries like Brazil and Argentina in terms of research intensity (R&D as a share of GDP). This share was 0.5 per cent in 2013 compared with 1.3 per cent for Brazil and 0.6 per cent for Argentina. The country's prospects for long-term growth based on innovation are perceived as limited, given its current resources, priorities and national aspirations. See "2014 global R&D funding forecast", *R&D Magazine*, December 2013; and Economist Intelligence Unit, "Intellectual-Property Environment in Mexico", 2010.
- ⁵¹ For instance, anti-corrosion technologies related to the use of ethanol fuel have seen considerable development in research institutions in Brazil. In addition, national suppliers such as Arteb, Lupatech and Sabó have not only become more directly involved in co-design with assemblers' affiliates in Brazil, but have even become involved in innovation projects led by assemblers' headquarters or their European affiliates. Arteb and Lupatech provide innovation inputs directly from Brazil to General Motors. Sabó has worked with Volkswagen in Wolfsburg and through Sabó's European subsidiary (Quadros, 2009; Quadros et al., 2009).
- ⁵² Economist Intelligence Unit, Industry Report, Automotive, Brazil, January 2014.
- ⁵³ See Economist Intelligence Unit, Industry Report, Automotive, Brazil, January 2014; "Brazil's growing taste for luxury", Economist Intelligence Unit, 14 January 2014.
- ⁵⁴ See Economist Intelligence Unit, Industry Report, Automotive, Mexico, April 2014.
- ⁵⁵ The pipeline will transport natural gas from the giant Shah Deniz II development in Azerbaijan through Greece and Albania to Italy, from which it can be transported farther into Western and Central Europe.
- ⁵⁶ The deal by Gazprom (Russian Federation) to take over one of Europe's largest gas storage facilities is attracting fresh scrutiny in Germany. The State-owned enterprise is finalizing an asset swap with BASF, its long-term German partner, under which it will increase its stake in Wingas, a German gas storage and distribution business, from less than 50 per cent to 100 per cent. In return, BASF will obtain stakes in western Siberian gas fields. When the deal was announced in 2012, it raised little concern in Germany, where Gazprom has been the biggest foreign supplier of energy for decades and an increasingly important investor in domestic energy. But the recent crisis has prompted some to question the transaction.
- ⁵⁷ Croatia is now counted as a developed country, as are all other EU member countries.
- ⁵⁸ "Companies flock to Europe to raise cash", *Financial Times*, 20 January 2014. The article reports data from Dealogic.
- ⁵⁹ See, for example, "Microsoft favors Europe for record bond sale: corporate finance", *Bloomberg*, 4 December 2013.
- ⁶⁰ Widely cited but also disputed research by the Centre for Economic Policy Research estimates that if the most ambitious comprehensive agreement is reached, the deal would add €120 billion and €95 billion, respectively, to the GDP of the EU and the United States by 2027. The gains therefore would amount to about 0.5 per cent of projected GDP for 2027.
- ⁶¹ The exception is 2005, when there was a net divestment of United States FDI in Europe caused by the repatriation tax holiday introduced by the United States Government.
- ⁶² "Cross-border mergers and acquisitions deals soared in 2013", *Haaretz*, 9 January 2014.
- ⁶³ Moody's Investors Service, "US non-financial corporates' cash pile grows, led by technology", announcement, 31 March 2014.
- ⁶⁴ The takeover was approved by the New Zealand Overseas Investment Office in February 2014.
- ⁶⁵ If the plan is approved, ATMEA, the Paris-based joint venture between Mitsubishi Heavy Industries (Japan) and Areva (France), is to build reactors for the project worth \$22 billion.
- ⁶⁶ The power plant will be built by Daewoo Engineering and Construction (Republic of Korea).
- ⁶⁷ The support is provided through the State-owned Japan Oil, Gas and Metals National Corporation.
- ⁶⁸ In Chad, Glencore acquired partial stakes in exclusive exploration authorizations owned by Griffiths Energy International (Canada). In the Democratic Republic of the Congo, Glencore raised its stake in a copper mining company to 69 per cent by acquiring a 14.5 per cent stake from High Grade Minerals (Panama).
- ⁶⁹ The number of projects in 2013 was 408, as compared with 357 in 2012.
- ⁷⁰ "Reykjavik plans to start \$2 billion Ethiopian power project", *Bloomberg*, 12 March 2014, www.bloomberg.com.
- ⁷¹ The largest was a \$227 million project by the Mahindra Group in the automotive industry, followed by a \$107 million telecommunication project by the Bharti Group and a \$60 million project in the transport industry by Hero Cycles.
- ⁷² Here, "infrastructure" refers to four sectors: energy and power, telecommunications, transportation, and water and sewerage.
- ⁷³ Based on the project data registered in the Thomson ONE database.
- ⁷⁴ The relevant project information for LDCs in the Thomson ONE database, however, is far from complete. For example, about 40 per cent of registered projects do not report announced or estimated project costs.
- ⁷⁵ The contributions by foreign sponsors could be greater because more than a quarter of foreign participating projects were registered without values.
- ⁷⁶ This project was reported with unspecified sponsors in the Thomson ONE database.
- ⁷⁷ All three were registered as build-own-operate projects with no information on sponsors.
- ⁷⁸ FDI inflows comprise capital provided by a foreign direct investor to an FDI enterprise (positive inflows) and capital received from an FDI enterprise by a foreign direct investor (negative inflows). Thus, external funding flows into LDCs under non-equity modes – without the involvement of direct investments – are beyond the scope of the FDI statistics.
- ⁷⁹ For example, in large-scale projects, investors' commitments are often divided in multiple phases, stretching into years or even decades. Delays in the execution of announced projects are also common, owing to changing political situations and to social or environmental concerns. These tendencies also apply to the value of announced greenfield FDI investments (table D), which are usually (but not always) much greater than annual FDI inflows in the corresponding years (figure B).
- ⁸⁰ "Agreement to investigate development of DRC aluminium smelter using power from Inga 3 hydropower scheme", 23 October 2007, www.bhpbilliton.com.

- ⁸¹ "Africa's biggest electricity project, Inga 3 powers regional cooperation", 11 October 2013, www.theafricareport.com.
- ⁸² "World Bank Group Supports DRC with Technical Assistance for Preparation of Inga 3 BC Hydropower Development", 20 March 2014, www.worldbank.org.
- ⁸³ "US and Chinese work together on Inga 3?", 22 January 2014, www.esi-africa.com.
- ⁸⁴ "Myanmar-Thai Dawei project likely to begin construction in April", 7 November 2012, www.4-traders.com.
- ⁸⁵ "Italian-Thai ditched as Thailand, Myanmar seize Dawei development zone", 21 November 2013, www.reuters.com; "Burma, Thailand push ahead with Dawei SEZ", *Bangkok Post*, 31 December 2013.
- ⁸⁶ To manage the Thilawa SEZ project, a Myanmar-Japan joint venture was established in October 2013. It comprises private and public entities from Myanmar (51 per cent), Japanese TNCs (about 40 per cent) and the Japan International Cooperation Agency (about 10 per cent).
- ⁸⁷ "Mitsubishi to build massive power plant in Myanmar", 22 November 2013, <http://asia.nikkei.com>.
- ⁸⁸ In this respect, UNCTAD's plan of action for investment in LDCs recommends strengthening public-private infrastructure development efforts (UNCTAD 2011c).
- ⁸⁹ In the OECD Creditor Reporting System, the corresponding sectors included here are "Energy" (excluding energy policy and administration management, and related education and training), "Transport & Storage" (excluding transport policy and administration management, and related education and training), "Telecommunications" and "Water Supply & Sanitation" (excluding water resources policy and administration management).
- ⁹⁰ Non-concessional financing, provided mainly by multilateral development banks to developing economies, is not ODA and is reported as "other official flows" (OOF) in the OECD Creditor Reporting System. Because of the significance of such financing for supporting infrastructure development, OECD (2014) argues that ODF, which includes both ODA and OOF, better represents the reality of infrastructure finance from DAC members to developing economies. In the case of LDCs, however, the scale of OOF (cumulative total of \$1.1 billion in the selected four sectors) was insignificant, compared with that of ODA (cumulative total of \$39.7 billion in the four sectors) for the period 2003–2012.
- ⁹¹ This represents 10 per cent of cumulative gross ODF disbursements to all sectors in LDCs for the period 2003–2012.
- ⁹² The OECD (2014) estimates that gross ODF disbursements account for only 5–8 per cent of all infrastructure finance in developing economies and that the rest comes from the domestic public sector and citizens (55–75 per cent) and the private sector (20–30 per cent). The majority of ODF has gone to upper-middle-income countries rather than low-income ones. The low level of support for low-income countries reflects the difficulty of maximizing returns on investment, reflecting their weak enabling environment (OECD 2014, p. 6).
- ⁹³ Estache (2010) estimated that the annual infrastructure investment needs (including both operating and capital expenditures for 2008–2015) in low-income countries were 12.5 per cent of their GDP. Because no estimates were available for LDCs as a group, the suggested ratio of 12.5 per cent was applied to LDCs' annual average GDP in 2003–2012 (\$477 billion) to derive the estimate of \$59.6 billion.
- ⁹⁴ Calculations were based on annex tables C–D in WHO (2012) by extracting total financial capital costs estimated for LDCs.
- ⁹⁵ For example, the Government of Japan not only supports PPPs in infrastructure "at the heart of its development co-operation" but also encourages domestic companies to take part in infrastructure projects in its aid recipient countries through the Japan International Cooperation Agency's Private Sector Investment Finance (PSIF) component (OECD, 2014, p. 14).
- ⁹⁶ Blending grants with loans, equity or guarantees from public or private financiers reduces the financial risk of projects. Through regional EU blending facilities (e.g. the EU-Africa Infrastructure Trust Fund), grants from the European Commission and EU member States are combined with long-term loans or equity provided by development financial institutions or private financiers (OECD, 2014).
- ⁹⁷ See, for example, United Nations, "Review of progress made in implementing the Buenos Aires Plan of Action, the new directions strategy for South-South cooperation and the Nairobi outcome document of the High-level United Nations Conference on South-South Cooperation, taking into account the complementary role of South-South cooperation in the implementation of relevant major United Nations conferences in the social, economic and related fields", SSC/18/1, 31 March 2014.
- ⁹⁸ At the national level, this entails changes in fiscal policy and tax administration brought about by strengthening government capacity to manage revenues (UNCTAD 2013c).
- ⁹⁹ The Law on Foreign Investment in Strategic Sectors (SEFIL) established comprehensive permitting requirements on FDI entry and operation by private and State-owned enterprises in a number of sectors, including mining, in May 2012.
- ¹⁰⁰ Towards this end, UNCTAD will produce a comprehensive paper on investment in the LLDCs later in 2014.
- ¹⁰¹ In Trinidad and Tobago, FDI to the services sector increased strongly in 2007–2011 as a consequence of one large acquisition undertaken in 2008 in the financial sector, namely the \$2.2 billion purchase of RBTT Financial Group by the Royal Bank of Canada.
- ¹⁰² Other partners in the project are Australian Oil Search Limited, Santos, Merlin Petroleum, local landowners and the State-owned Petromin.
- ¹⁰³ Petroleum, chemical and metal products are among the most relevant downstream activities of the oil, gas and metal minerals industries.
- ¹⁰⁴ SIDS status confers no special trade preference. However, all SIDS qualify for at least one preference scheme. Although SIDS that fall within the LDC category benefit from LDC-specific preferences, all other SIDS – a majority – are beneficiaries of preferences through special programmes such as the Caribbean Basin Initiative of the United States, Caribbean of Canada and SPARTECA of Australia and New Zealand. The EU grants special trade preferences to a large majority of SIDS by virtue of the Cotonou Partnership Agreement between African, Caribbean and Pacific countries on the one hand, and members of the EU on the other (UNCTAD, 2004).
- ¹⁰⁵ See "Bankers on the Beach", *Finance and Development*, vol. 48, no. 2, June 2011.