Global Investment Trends

CHAPTER I

A. CURRENT TRENDS

Global foreign direct investment (FDI) inflows fell by 16 per cent in 2014 to $1.23 trillion, down from $1.47 trillion in 2013.[1] The decline in FDI flows was influenced mainly by the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. New investments were also offset by some large divestments. The decline in FDI flows was in contrast to growth in GDP, trade, gross fixed capital formation and employment (table I.1).

UNCTAD forecasts an upturn in FDI flows to $1.4 trillion in 2015 and beyond ($1.5 trillion in 2016 and $1.7 trillion in 2017) due to growth prospects in the United States, the demand-stimulating effects of lower oil prices and accommodating monetary policy, and continued investment liberalization and promotion measures. Forecasts for macroeconomic fundamentals and continued high levels of profitability and cash reserves among multinational enterprises (MNEs) support the expectation of higher FDI flows. However, a number of economic and political risks, including ongoing uncertainties in the Eurozone, potential spillovers from geopolitical tensions, and persistent vulnerabilities in emerging economies, may disrupt the projected recovery.

1. FDI by geography

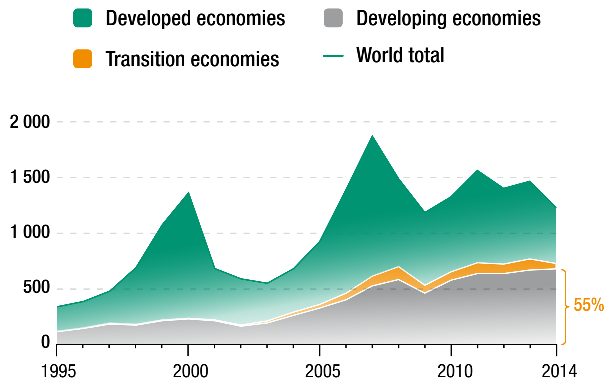
a. FDI inflows

The global FDI decline masks regional variations. While developed countries and economies in transition saw a significant decrease, inflows to developing economies remained at historically high levels.

FDI flows to the latter now account for 55 per cent of the global total (figure I.1). Developing Asia drove the increase while flows to Latin America declined and those to Africa remained flat.

FDI flows to *developed countries* dropped by 28 per cent to $499 billion. Inflows to the United States fell to $92 billion (40 per cent of their 2013 level), mainly due to Vodafone's divestment of Verizon, without which flows into the United States would have remained stable. FDI flows to Europe also fell by 11 per cent to $289 billion. Among European economies, inflows decreased in Ireland, Belgium, France and Spain while they increased in the United Kingdom, Switzerland and Finland.

Figure I.1. FDI inflows, global and by group of economies, 1995–2014 (Billions of dollars)



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

Table I.1. Growth rates of global GDP, GFCF, trade, employment and FDI, 2008–2016 (Per cent)

Variable	2008	2009	2010	2011	2012	2013	2014	2015[a]	2016[a]
GDP	1.5	-2.0	4.1	2.9	2.4	2.5	2.6	2.8	3.1
Trade	3.0	-10.6	12.6	6.8	2.8	3.5	3.4	3.7	4.7
GFCF	3.0	-3.5	5.7	5.5	3.9	3.2	2.9	3.0	4.7
Employment	1.2	1.1	1.2	1.4	1.4	1.4	1.3	1.3	1.2
FDI	-20.4	-20.4	11.9	17.7	-10.3	4.6	-16.3	11.4	8.4
Memorandum									
FDI value (in $ trillions)	1.49	1.19	1.33	1.56	1.40	1.47	1.23	1.37	1.48

Source: UNCTAD, FDI/MNE database for FDI in 2008–2014; United Nations (2015) for GDP; IMF (2015) for GFCF and trade; ILO for employment; and UNCTAD estimates for FDI in 2015–2016.

[a] Projections.

Note: FDI excludes Caribbean offshore financial centres. GFCF = gross fixed capital formation.

Methodological changes in FDI data compilation

In 2014, many countries adopted new guidelines for the compilation of FDI data, on the basis of the sixth edition of the International Monetary Fund's *Balance of Payments and International Investment Position Manual* (BPM6) and the fourth edition of the Organization for Economic Cooperation and Development's *Benchmark Definition of Foreign Direct Investment* (BD4). Two important aspects should be kept in mind in interpreting FDI statistics in this Report.

1. FDI statistics on an asset/liability basis vs the directional basis. On an *asset/liability basis*, direct investment statistics are organized according to whether the investment relates to an asset or a liability for the reporting country. On a *directional basis*, the direct investment flows and positions are organized according to the direction of the investment for the reporting economy – either inward or outward. The two presentations differ in their treatment of reverse investment (e.g. when an affiliate provides a loan to its parent).

Although presentation on an asset/liability basis is appropriate for macroeconomic analysis (i.e. the impact on the balance of payments), the directional basis is more useful in formulating investment policies because they capture the source or destination countries of direct investment and access to specific markets by direct investors. *UNCTAD will continue to report FDI data on the basis of the directional principle.*

2. Indirect or transit investment flows. BD4 recommends that countries compile FDI statistics in two ways, both including and excluding resident SPEs.[2] This recommendation provides a more meaningful measure of the FDI of an economy by removing FDI that involves funds passing through an SPE on their way to another destination (outward FDI) and those coming to the country through another economy's SPE (inward FDI). To avoid double counting, *UNCTAD removes SPE flows from its statistics where possible.* For similar reasons, FDI flows through offshore financial centres are excluded from analyses where possible.

Source: UNCTAD.
Note: Full details on methodological changes in UNCTAD's FDI data series are available online.

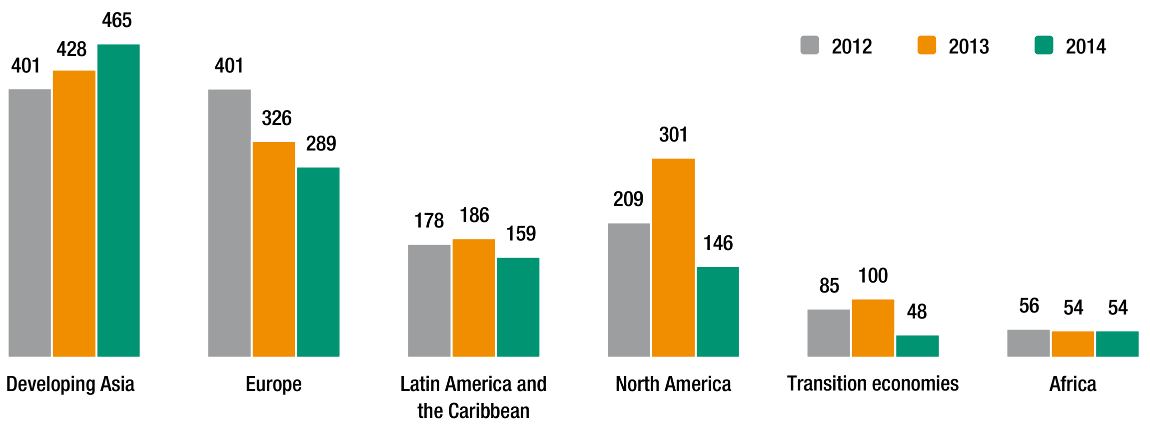
Inflows to *transition economies* declined by 52 per cent to $48 billion, as regional conflict and sanctions deterred new foreign investors. FDI flows to the Russian Federation fell by 70 per cent to $21 billion, in part an adjustment from the level reached in 2013 as a result of the Rosneft-BP mega-transaction (see *WIR14*).

FDI flows to *developing economies* increased by 2 per cent to a historically high level in 2014, reaching $681 billion. *Developing Asia* drove the increase while flows to Latin America and the Caribbean declined and those to Africa remained flat (figure I.2). FDI flows to Asia grew by 9 per cent to $465 billion in 2014. East Asia, South-East Asia and South Asia all saw increased inflows. FDI in China amounted to $129 billion, up 4 per cent from 2013, mainly because of an increase in FDI in the services sector. FDI inflows also rose in Hong Kong (China) and Singapore. India experienced a significant increase of 22 per cent to $34 billion. However, FDI flows to West Asia continued their downward trend in 2014 for the sixth consecutive year, decreasing by 4 per cent to $43 billion, owing to the security situation in the region.

FDI flows to *Latin America and the Caribbean* – excluding the Caribbean offshore financial centres – decreased by 14 per cent to $159 billion in 2014, after four years of consecutive increases. This decrease was mainly the consequence of a 72 per cent decline in cross-border mergers and acquisitions (M&As) in Central America and the Caribbean, and of lower commodity prices, which reduced investment in the extractive industries in South America. While FDI flows to Mexico, the Bolivarian Republic of Venezuela, Argentina, Colombia and Peru declined, flows to Chile increased, owing to high levels of cross-border M&A sales. In Brazil, the sharp fall of FDI in the primary sector was compensated by an increase in FDI in manufacturing and services, keeping total flows similar to 2013 levels.

Inflows to *Africa* remained stable at $54 billion. North Africa saw its FDI flows decline by 15 per cent to $12 billion, while flows to Sub-Saharan Africa increase by 5 per cent to $42 billion. In Sub-Saharan Africa, FDI flows to *West Africa* declined by 10 per cent to $13 billion, as Ebola, regional conflicts and falling commodity prices negatively affected several countries. Flows to *Southern Africa* also fell by 2 per cent to $11 billion. By contrast, *Central Africa* and *East Africa* saw their FDI flows increase by 33 per cent and 11 per cent, to $12 billion and $7 billion, respectively.

Figure I.2. **FDI inflows, by region, 2012–2014** (Billions of dollars)



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

Structurally weak, vulnerable and small economies witnessed divergent trends in FDI flows in 2014. FDI to least developed countries (LDCs) increased by 4 per cent to $23 billion, led by greenfield investment projects. Landlocked developing countries (LLDCs) experienced a fall of 3 per cent in FDI inflows to $29 billion, mainly in Asia and Latin America. FDI inflows to small island developing States (SIDS) increased by 22 per cent to $7 billion, boosted by a strong rise in cross-border M&As sales.

Overall, China became the largest FDI recipient in the world in 2014 (figure I.3), while the United States dropped to the third largest host country, primarily because of the large Verizon divestment by Vodafone (United Kingdom). Of the top 10 FDI recipients in the world, five are developing economies.

Most major regional groupings and groups of economies engaged in regional integration initiatives experienced a fall in inflows in 2014. The global and regional declines in FDI inflows in 2014 affected the performance of FDI to regional groupings and initiatives. The groups of countries discussing the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP), saw their combined share in global FDI flows decline. Two Asian groups bucked the trend – the Association of Southeast Asian Nations (ASEAN), with a 5 per cent increase in inflows, and the Regional Comprehensive Economic Partnership (RCEP), with a 4 per cent increase (figure I.4).

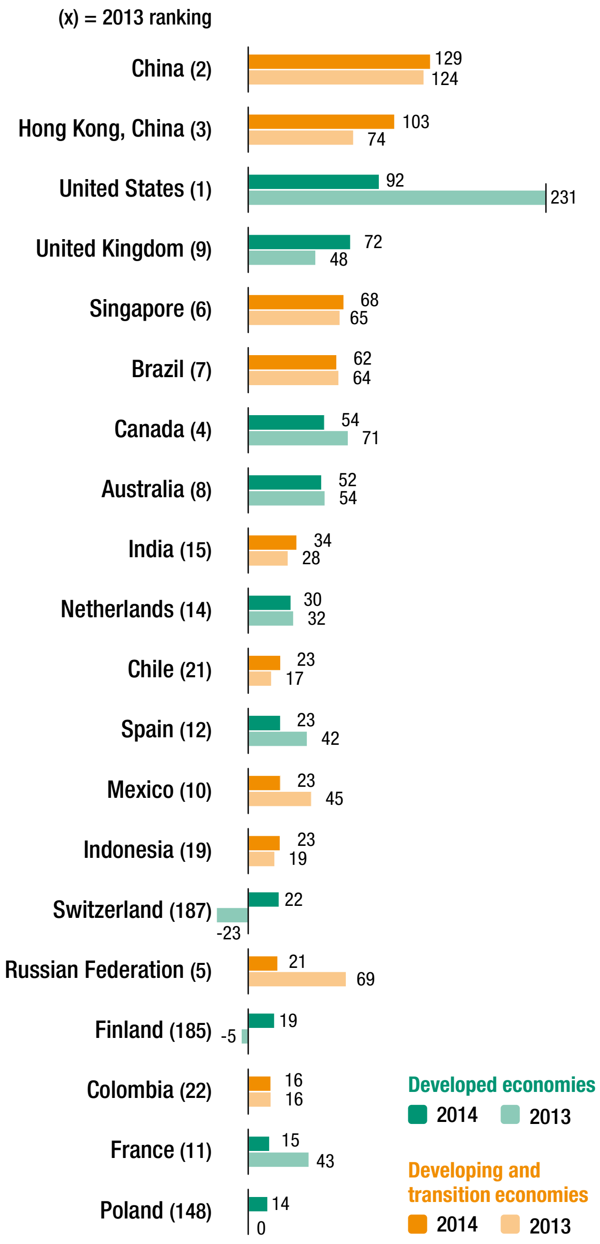
FDI trends in regional groups were largely determined by wider global trends, economic performance and geopolitical factors. Longer-term cooperation efforts will, for the most part, lead to increased FDI in regional groups, by opening sectors to investment and aligning policies for the treatment of investors. Intraregional FDI may increase as a result of fewer investment restrictions (e.g. liberalizing investment in particular industries) or reduced transaction costs and converging policy regimes. Extraregional FDI (i.e. inflows by investors from outside a region) may increase as a result of enlarged market size (especially important for regional groups of smaller economies). Investment from outside a region may also increase as a result of coordinated efforts to promote regional investment.

The impact of regional integration on intraregional and extraregional FDI varies considerably by region. The share of intraregional FDI among some regional groupings of developing economies in total inward FDI is still very low.[3] In contrast, regional integration in Asia, e.g. through ASEAN, has had a significant impact on FDI. FDI inflows into the APEC economies reached $652 billion in 2014, accounting for more than half of global FDI flows. Intra-APEC FDI flows and stocks are significant, at about 40 per cent of inward stock in 2009–2011.

b. FDI outflows

Investment by MNEs from developing and transition economies continued to grow.

Figure I.3. **FDI inflows: top 20 host economies, 2013 and 2014**
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes Caribbean offshore financial centres.

Developing Asia became the world's largest investor region. In 2014, MNEs from developing economies alone invested $468 billion abroad, a 23 per cent increase from the previous year. Their share in global FDI reached a record 35 per cent, up from 13 per cent in 2007 (figure I.5).

Developing-country MNEs have expanded foreign operations through greenfield investments as well as cross-border M&As.

More than half of FDI outflows by developing-economy MNEs were in equity, while developed-country MNEs continued to rely on reinvested earnings, the share of which increased to a record 81 per cent of their FDI outflows (figure I.6). Equity-financed flows are more likely to result in new investments and capital expenditures than are reinvested earnings, which may translate into further accumulation of cash reserves in foreign affiliates.

Among developing economies, MNEs from Asia increased their investment abroad, while outflows from Latin America and the Caribbean, and Africa fell. For the first time, MNEs from developing Asia became the world's largest investing group, accounting for almost one third of the total (figure I.7). Nine of the 20 largest home economies were developing or transition economies, namely Hong Kong (China), China, the Russian Federation, Singapore, the Republic of Korea, Malaysia, Kuwait, Chile and Taiwan Province of China (figure I.8).

Outward investments by MNEs based in *developing Asia* increased by 29 per cent to $432 billion in 2014. The growth was widespread, including all the major Asian economies and subregions. In East Asia, investment by MNEs from Hong Kong (China) jumped to a historic high of $143 billion, making the economy the second largest investor after the United States. The remarkable growth was mainly due to booming cross-border M&A activity. Investment by Chinese MNEs grew faster than inflows into the country, reaching a new high of $116 billion. In South-East Asia, the increase was principally the result of growing outflows from Singapore, to $41 billion in 2014. In South Asia, FDI outflows from India reversed the slide of 2013, increasing fivefold to $10 billion in 2014, as large Indian MNEs resumed their international expansion. Investments by West Asian MNEs declined by 6 per cent in 2014, owing to decreased flows from Kuwait, the region's largest overseas investor, with flows of $13 billion. Investments by Turkish MNEs almost doubled to $7 billion.

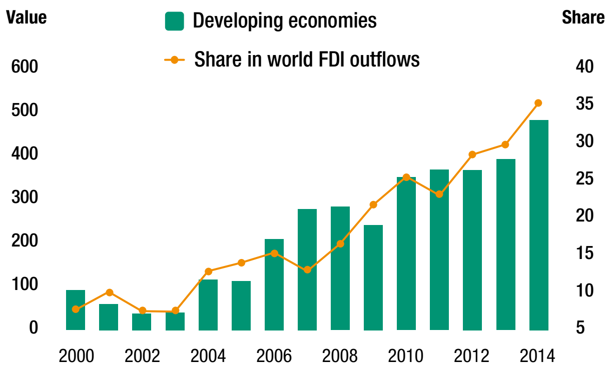
MNEs from *Latin America and the Caribbean*, excluding offshore financial centres, decreased their investment in 2014 by 18 per cent to $23 billion.

Figure I.4. **FDI inflows to selected regional and interregional groups, 2013 and 2014**
(Billions of dollars and per cent)

Regional/ interregional groups	2013 FDI inflows (Billions of dollars)	2013 Share in world (%)	2014 FDI inflows (Billions of dollars)	2014 Share in world (%)
APEC	837	57	652	53
G20	894	61	635	52
RCEP	349	24	363	30
TTIP	564	38	350	28
TPP	517	35	345	28
BRICS	294	20	252	21
NAFTA	346	24	169	14
ASEAN	126	9	133	11
MERCOSUR	83	6	73	6

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Ranked in descending order of 2014 FDI flows. G20 = only the 19 member countries of the G20 (excludes the European Union); APEC = Asia-Pacific Economic Cooperation; TTIP = Transatlantic Trade and Investment Partnership; TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership; BRICS = Brazil, Russian Federation, India, China and South Africa; NAFTA = North American Free Trade Agreement; ASEAN = Association of Southeast Asian Nations; MERCOSUR = Common Market of the South.

Figure I.5. **Developing economies: FDI outflows and their share in total world outflows, 2000–2014**
(Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes Caribbean offshore financial centres.

Outward flows from Mexican and Colombian MNEs fell by almost half to $5 billion and $4 billion, respectively. In contrast, investment by Chilean MNEs – the region's main direct investors abroad for the year – increased by 71 per cent to $13 billion, boosted by a strong increase in intracompany loans. Brazilian MNEs continued to receive repayments of loans or to borrow from their foreign affiliates, resulting in negative FDI outflows from that country for the fourth consecutive year.

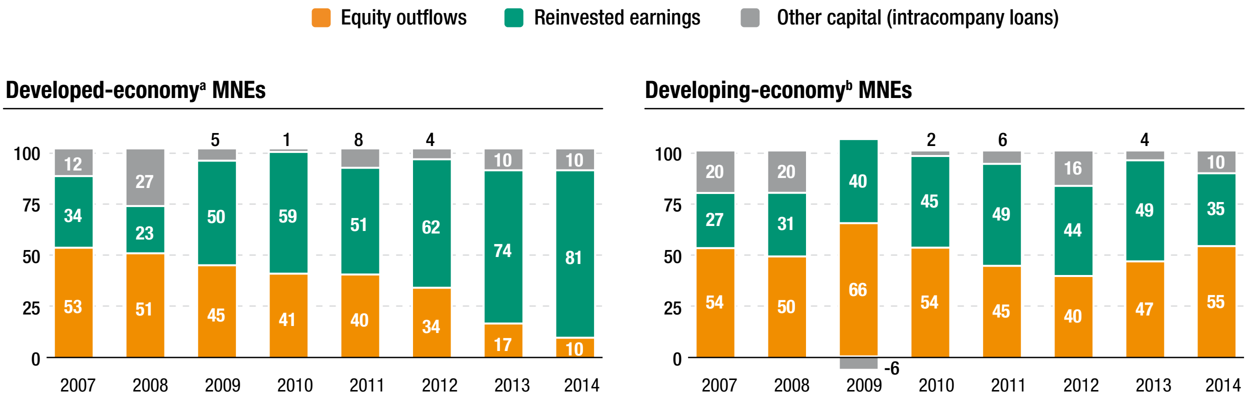
Outward investments by MNEs in *Africa* decreased by 18 per cent in 2014 to $13 billion. South African MNEs invested in telecommunications, mining and retail, while those from Nigeria focused largely on financial services. These two largest investors from Africa increased their investments abroad in 2014. Intra-African investments rose significantly during the year.

MNEs from *transition economies* decreased their investments abroad by 31 per cent to $63 billion. Natural-resource-based MNEs, mainly from the Russian Federation, reduced investments in response to constraints in international financial markets, low commodity prices and the depreciation of the rouble.

Investments from MNEs based in *developed economies* were almost steady at $823 billion at the aggregate level, but this figure hides a large number of new investments and divestments that cancelled each other out.

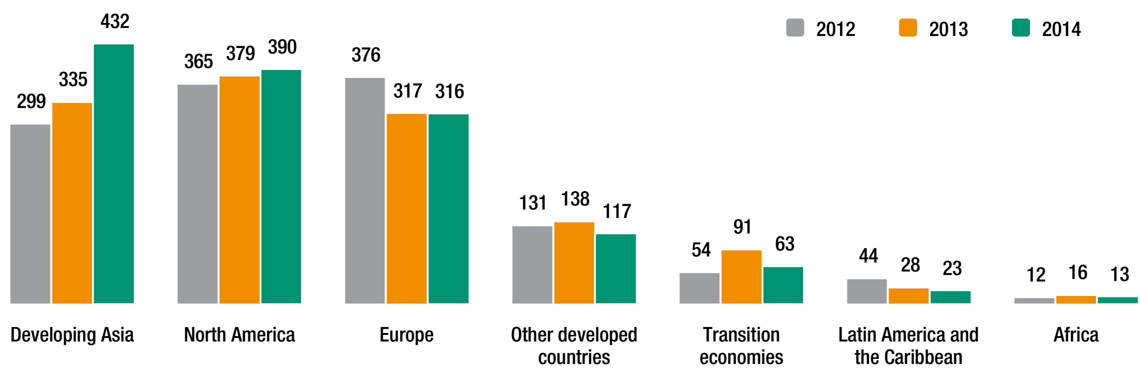
Outflows from *European* MNEs remained flat. A robust rise in investments by German and French MNEs

Figure I.6. **FDI outflows by component, by group of economies, 2007–2014**
(Per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
[a] Economies included are Australia, Belgium, Bulgaria, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Iceland, Ireland, Israel, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.
[b] Economies included are Algeria, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Bahrain, Bangladesh, Barbados, Belize, the Plurinational State of Bolivia, Botswana, Brazil, Cambodia, Cabo Verde, Chile, Costa Rica, Curaçao, Dominica, El Salvador, Fiji, Grenada, Guatemala, Honduras, Hong Kong (China), India, Indonesia, the Republic of Korea, Kuwait, Lesotho, Malawi, Mexico, Mongolia, Montserrat, Morocco, Namibia, Nicaragua, Nigeria, Pakistan, Panama, the Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Singapore, Sint Maarten, South Africa, Sri Lanka, the State of Palestine, Suriname, Swaziland, Taiwan Province of China, Thailand, Trinidad and Tobago, Turkey, Uganda, Uruguay, the Bolivarian Republic of Venezuela and Viet Nam.

Figure I.7. **FDI outflows, by group of economies and region, 2012–2014**
(Billions of dollars)

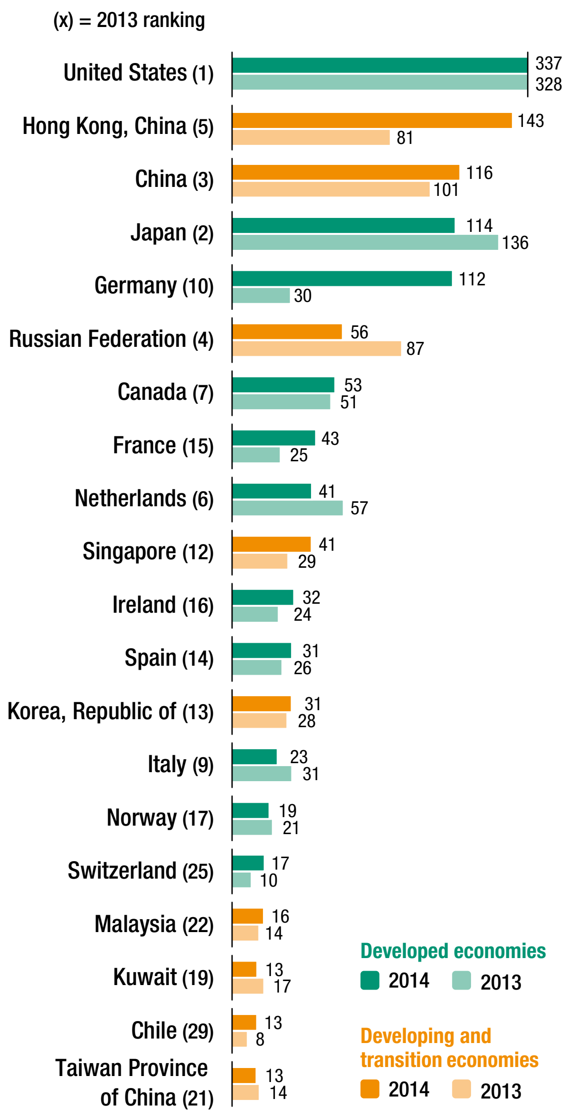


Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes Caribbean offshore financial centres.

was offset by the negative flows from MNEs in the United Kingdom and Luxembourg. Germany became the largest investing country in Europe. Vodafone's divestment of its stake in Verizon Wireless heavily dented outflows from the United Kingdom (down $45 billion to –$60 billion). Outflows from Luxembourg fell sharply (down from $35 billion to –$4 billion), primarily due to changes in intracompany loans.

In *North America*, active acquisitions of assets by Canadian MNEs increased Canada's outflows by 4 per cent to $53 billion. FDI from the United States rose by 3 per cent to $337 billion. Investment in and divestment from equity, and the withdrawal of intracompany loans cancelled each other out, so that United States outward investment in 2014 effectively consisted only of reinvested earnings. FDI from *Japan* declined by 16 per cent, ending a three-year expansion. Although Japanese MNEs' investments into North America remained stable, they declined sharply in major recipient economies in Asia and Europe.

Figure I.8. FDI outflows: top 20 home economies, 2013 and 2014
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes Caribbean offshore financial centres.

c. Intensity index and South–South FDI

South–South FDI flows, including intraregional flows, have intensified in recent years. FDI from developing economies has grown significantly over the last decade and now constitutes over a third of global flows. The largest outward investing economies include Brazil, China, Hong Kong (China), India, the Republic of Korea, Malaysia, Mexico, Singapore, South Africa and Taiwan Province of China. FDI outward stock from developing economies to other developing economies, excluding Caribbean offshore financial centres, grew by two-thirds from $1.7 trillion in 2009 to $2.9 trillion in 2013. East Asia and South-East Asia were the largest recipient developing regions by FDI stock in 2013 (figure I.9). The share of the poorest developing regions in South-South FDI is still low, but it is growing.

Most developing-economy investment tends to occur within each economy's immediate geographic region. Familiarity eases a company's early internationalization drive, and regional markets and value chains are a key driver. The strong regional links of South African FDI are a particular case in point, as shown by the country's high bilateral FDI intensities with neighbouring countries (table I.2).

Beyond the familiarity of immediate regions, factors determining the specific patterns of South-South FDI include MNE investment motives, home government policies and historical connections (*WIR06*). In terms of motives, for example, MNEs from the Republic of Korea investing for efficiency-seeking reasons especially target East and South East Asia, whereas South Asia is also a destination for those looking for markets. In a similar vein, the geography of natural resources determines FDI in extractive industries to a high degree; hence, for instance, the high bilateral FDI intensities between China and a number of African countries.

Home government policies can also strongly influence patterns of FDI internationalization. The narrow geographic dispersal of Singapore MNEs has been influenced by the country's strategic policy encouraging enterprise internationalization into nearby Asian countries.

Finally historical connections, such as diaspora, also affect the location of investments, which partly explains the high FDI intensity between India and countries such as Kenya, Gabon and the United Arab Emirates.

2. FDI by mode of entry

Significant momentum for cross-border M&As, decline in greenfield FDI projects.[4] After two consecutive years of decline, M&A activity resumed growth in 2014 (figure I.10). In net terms,[5] the value of cross-border M&As increased by 28 per cent over 2013, reaching almost $400 billion. MNEs have gradually regained the confidence to go back on the acquisition trail.

Table I.2. Relative bilateral FDI intensity of selected major developing home economies, 2012

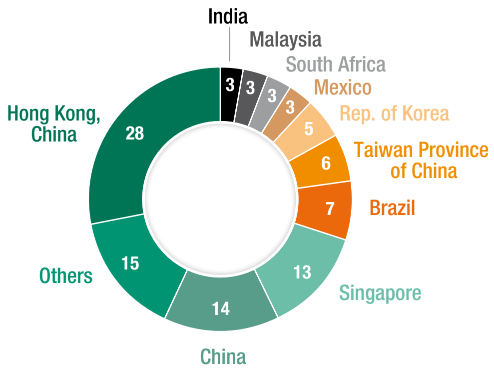
	Home economy: China		Republic of Korea		Malaysia		Mexico	
Host economies: Strong relationship	Burundi	43.4	Madagascar	23.6	Indonesia	13.4	Honduras	25.5
	Lao People's Democratic Republic	34.8	Cambodia	21.9	Cambodia	10.9	Guatemala	20.4
	Angola	28.8	Yemen	16.5	Viet Nam	7.3	El Salvador	20.2
	Zimbabwe	15.1	Myanmar	12.7	Singapore	5.3	Ecuador	18.6
	Afghanistan	13.8	Viet Nam	11.2	Thailand	4.7	Costa Rica	9.8
	Tajikistan	13.7	Philippines	8.7	Philippines	3.4	Nicaragua	9.7
	Guinea-Bissau	13.1	China	6.9	Australia	2.3	Dominican Republic	7.4
	Cambodia	13.0	Solomon Islands	5.8	Taiwan Province of China	2.1	Brazil	5.3
	Congo, Democratic Republic of	12.3	Lao People's Democratic Republic	5.7			Colombia	4.9
	Myanmar	11.7						

	Home economy: Brazil		India		Singapore		South Africa	
Host economies: Strong relationship	Angola	51.5	Nepal	177.6	Malaysia	10.1	Swaziland	101.0
	Austria	29.9	Timor-Leste	32.5	Indonesia	7.1	Zimbabwe	71.6
	Uruguay	15.6	Bhutan	32.3	Philippines	7.0	Botswana	64.7
	Luxembourg	10.2	Bahrain	22.2	Taiwan Province of China	4.6	Namibia	64.0
	Paraguay	9.9	Sri Lanka	14.7	China	4.2	Malawi	49.2
	Argentina	5.8	United Arab Emirates	7.9	Thailand	4.0	Mozambique	32.0
	Peru	4.1	Singapore	5.3	Lao People's Democratic Republic	3.1	Lesotho	27.8
	Netherlands	4.0	Gabon	3.5	Australia	2.4	Ghana	24.1
	Hungary	3.2	Bangladesh	2.9	India	1.8	Kenya	22.1
	Venezuela, Bolivarian Republic of	2.5	Kenya	1.2	Viet Nam	1.8	Luxembourg	16.0

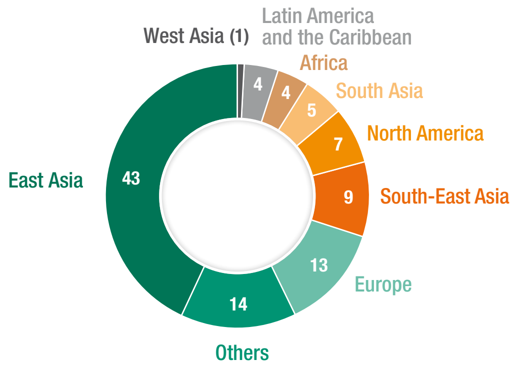
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Ranking is based on the relative bilateral FDI intensity ratios for 2012. Relative bilateral FDI intensity is the share of the host economy in the outward FDI stock of a given investor country, divided by the share of the host economy in world inward FDI stock, i.e. the relative importance of the host economy in the outward stock of the investor country compared to the importance of the host economy in global FDI.

Figure I.9. **FDI stock by developing economies: major source economies and destination regions, 2013** (Per cent)

Major developing-economy sources of FDI



Developing-economy FDI by major destination regions



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

The value of cross-border M&As in developed economies increased by 16 per cent and those in developing and transition economies by 66 per cent.

Investors' appetite for new greenfield investment projects is less buoyant. After a first rebound in 2013, the total value of announced greenfield investment declined slightly by 2 per cent, remaining close to the $700 billion level of 2013. In particular, in 2014 the value of greenfield projects in developed and developing economies was substantially unchanged compared with 2013 (annual growth rates of –1 per cent in both groupings), while transition economies saw a considerable fall (–13 per cent).

MNEs back on the acquisition trail. The gross value of cross-border M&A deals increased in 2014 by 34 per cent, hitting $900 billion, considerably above the recent annual average ($775 billion during the period 2010–2014). The acquisition wave involved both manufacturing (up 77 per cent in the gross value of cross-border M&As) and services (up 36 per cent). Although growth occurred across all industries in the two sectors, the chemicals and pharmaceutical industries and the telecommunications industry were particularly active, as evidenced by some large deals.

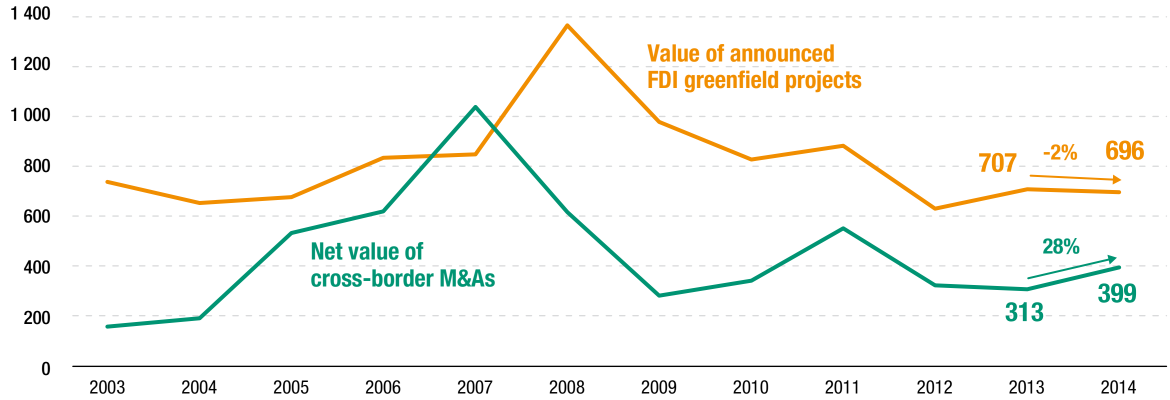
The return of large deals. The re-emergence of large deals was one key factor in the increased cross-border deal activity. The largest MNEs were more willing to use their significant cash reserves to engage in large cross-border operations. In 2014, the number of M&A deals with values larger than $1 billion expanded, from 168 to 223 – the highest number since 2008. The average value of these deals was almost $3.4 billion, compared with $2.9 billion in 2013. Of the 223 largest deals, 173 took place in developed economies, with a value of $598 billion or some 77 per cent of the total value of large deals ($762 billion).

United States companies represented an attractive target, absorbing more than one third of the largest M&A acquisitions globally. European MNEs targeted the United States market, in particular pharmaceutical firms but also other industries. For example, Germany-based Bayer purchased the consumer care business of Merck for $14.2 billion, and Swiss Roche Holding acquired Intermune for $8.3 billion. In January 2014, Italian automaker Fiat completed its acquisition of Chrysler for $3.65 billion, gaining full ownership.

Large M&A deals in Europe occurred predominantly in the telecommunications industry. Of the five largest acquisitions in Europe, three were in telecommunications, and all were led by other European MNEs. The largest deal was the acquisition of SFR SA (France) by Altice SA (Luxembourg) for $23 billion.

Divestments: the other side of MNEs' cross-border M&A activity. MNEs resorted to strategic transactions not only to expand but also to downsize their international assets. The value of sales of MNEs' stakes in foreign entities (divestments,[6] including sales to domestic firms or to other MNEs) reached a record high in 2014, at $511 billion, a 56 per cent increase over 2013

Figure I.10. **Value of cross-border M&As and announced greenfield projects, 2003–2014**
(Billions of dollars)



Source: UNCTAD, cross-border M&A database for M&As (www.unctad.org/fdistatistics); Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

(figure I.11) and the highest value since 2008. This value was split almost equally in transactions between sales to other MNEs (52 per cent) and transfers from MNEs to domestic companies (48 per cent).

The wave of divestments reflects an increase in overall cross-border M&A activity, rather than signalling ongoing "de-internationalization" through M&As. In fact, the ratios in figure I.11 show that the share of divestments (*divested deals*) relative to acquisitions (*gross M&A deals*) is on par with the recent historical average, after removing the impact of the Vodafone divestment in Verizon.

Developing-economy MNEs continued "shopping" for developed-country MNE assets in developing economies. MNEs from developing and transition economies are consolidating their role as investors in cross-border M&A operations. The share of these MNEs in the total (net) value of cross-border M&As rose from about 10 per cent in 2003 to almost 40 per cent in 2012 and has remained stable since then.

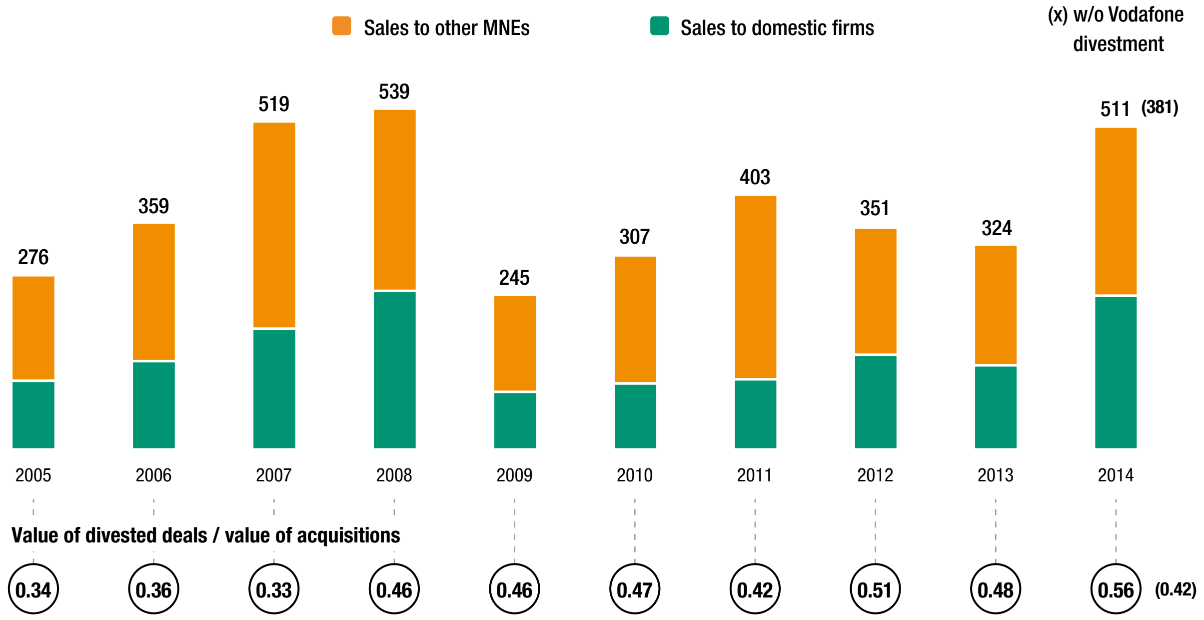
The bulk of acquisitions by MNEs from developing economies (about 70 per cent) are in other developing economies (including intraregional transactions). A sizable share (about 50 per cent) of their M&A activity in developing economies represents the acquisition of assets from developed-economy MNEs (*WIR14*). In 2014, MNEs continued to acquire firms and other assets owned by developed-country MNEs in host developing economies. For example, MMG South America Management Co Ltd (Hong Kong, China) acquired Xstrata Peru – a foreign affiliate of Glencore/Xstrata (Switzerland) – for $7 billion, and Emirates Telecommunications Corp (United Arab Emirates) bought a 53 per cent stake of Itissalat Al Maghrib SA – a foreign affiliate of Vivendi (France) – for $5.7 billion.

MNEs from developing economies are becoming more active directly in developed economies as well. In 2014, some 32 per cent of M&A acquisitions by these MNEs targeted developed economies, more than in 2013 (at 28 per cent); in the first three months of 2015, acquisitions by these MNEs in developed economies rose to 47 per cent of their total M&A purchases. A number of sizable deals involved MNEs from China, Hong Kong (China) and Singapore, targeting companies in the United States and the United Kingdom in particular. For example GIC, Singapore's sovereign wealth fund, acquired IndCor Properties (United States) for $8.1 billion.

In greenfield projects, developing economies dominate. At the global level, announced greenfield FDI projects declined slightly in 2014. This decline is similar in both developed and developing economies (figure I.12). Greenfield projects in developing economies increased in 2013 and remained high in 2014, while the trend in developed economies remained stable.

A similar trend is observable on the investor side. Over the last 10 years, the announced value of greenfield projects from developed-economy MNEs has been essentially flat, with a compound annual growth rate (CAGR) of –1 per cent, while the same value for developing economies has increased steadily despite the financial crisis (at a CAGR of 5 per cent).

Figure I.11. **Divested M&A deals, value, 2005–2014** (Billions of dollars)



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

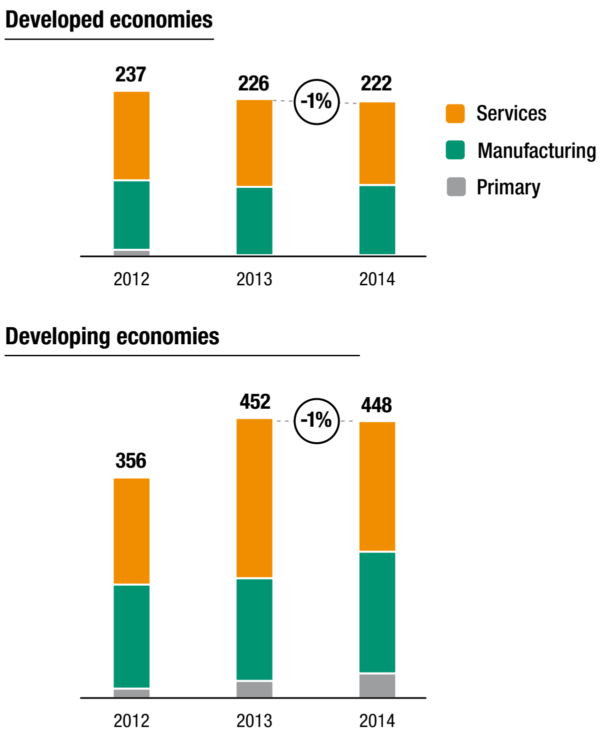
As a consequence, developing economies have gained 10 percentage points in the global value of announced greenfield FDI projects, from 20 per cent in 2005 to 30 per cent in 2014.

3. FDI by sector and industry

FDI stock data by sector highlight the prominent role of services in global FDI. In 2012, the latest year for which sectoral data are available, *services* accounted for 63 per cent of global FDI stock, more than twice the share of *manufacturing*, at 26 per cent. The *primary sector* contributed less than 10 per cent to global FDI stock (figure I.13).

The importance of services in the international investment landscape is the result of a long-term structural trend. In the period 2001–2012, the share of services in global FDI increased by 5 per cent (to 63 per cent), offset by a comparable decrease in the share of manufacturing. Overall, since 1990, the share of services in world FDI stock has gained 14 percentage points (from 49 per cent to 63 per cent) with a corresponding decrease in manufacturing (from 41 per cent to 26 per cent), while the share of the primary sector has been stable (at about 7 per cent). The ongoing shift in the sectoral composition of FDI from manufacturing to services

Figure I.12. **Value of announced greenfield FDI projects, by sector and economic grouping, 2012–2014** (Billions of dollars)



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

reflects an analogous trend in the distribution of global GDP, but it is also the result of increasing liberalization in the sector, enabling large FDI inflows, particularly in industries traditionally closed to foreign investment such as finance and telecommunications. This shift has occurred in both developed and developing economies. Among developing regions, Asia and Oceania has been the growth engine for services FDI, with services stock in the region increasing from about $800 billion in 2001 to $3.5 trillion in 2012, corresponding to roughly 80 per cent of the total growth of services FDI in the developing economies. This sector is also the largest in Africa (chapter II.A.1). Between developing regions, pronounced differences emerge in terms of industry distribution.

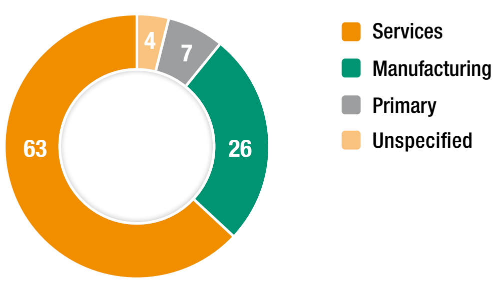
Recent trends in FDI by sector and industry. The most recent data on announced greenfield FDI projects and cross-border M&As reveal various sectoral trends (figure I.14). Globally in 2014, the primary sector recorded high growth in the value of greenfield projects (up 42 per cent from 2013), in the face of a decrease in the value of cross-border M&As (–2 per cent). The pattern ran the other way in the services sector, with a decrease in the value of greenfield projects (–15 per cent) and a strong increase in cross-border M&As (37 per cent). In manufacturing, the picture is consistent across the two modes of entry, with an increase of 14 per cent in greenfield projects and 25 per cent in cross-border M&As.

FDI in the *primary sector* is driven mostly by the extractive industry in developing economies. In 2014, the value of greenfield FDI projects in *mining, quarrying and petroleum* in developing economies increased 60 per cent, from $25 billion to $40 billion. The bulk of the growth took place in Africa, where the total value of greenfield projects increased almost six-fold (from $4 billion to $22 billion). The increase in cross-border M&As in the extractive industry in developing economies, in contrast, was moderate, from –$2 billion in 2013 to $3 billion in 2014.

Manufacturing greenfield FDI projects rose from $275 billion in 2013 to $312 billion in 2014 (14 per cent). The fastest-growing industries were coke, petroleum products and nuclear fuels (60 per cent), machinery and equipment (29 per cent), and motor vehicles and other transports (32 per cent).

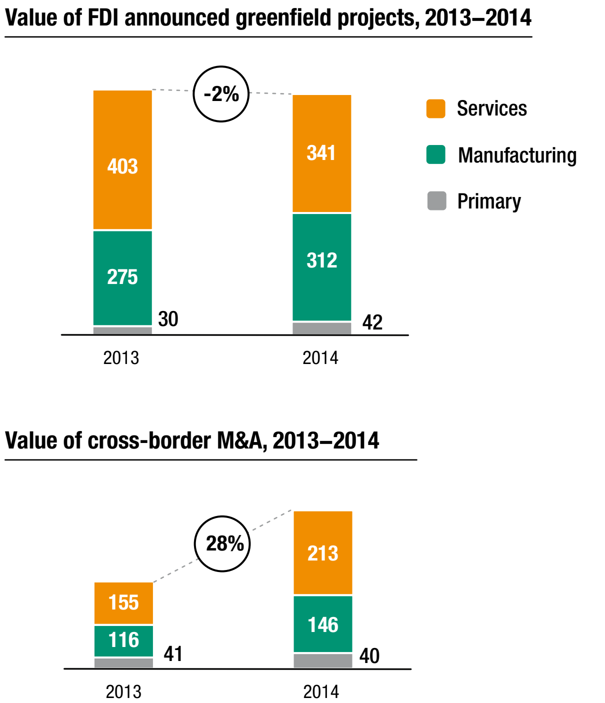
Unlike in developing economies (18 per cent), the value of greenfield FDI projects in developed economies was stable, levelling off for a third consecutive year between $90 billion and $100 billion, with no major trends discernible in individual manufacturing industries.

Figure I.13. **Global inward FDI stock, by sector, 2012** (Per cent of total value)



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

Figure I.14. **FDI projects, by sector, 2013–2014** (Billions of dollars)



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

Developed and developing economies display opposite trends in M&A activity in manufacturing. In 2014, there was a considerable increase in M&As in developed economies, with the total net value of deals rising from $85 billion to $152 billion (79 per cent). The growth was most marked in electrical and electronic equipment (125 per cent) and in food, beverages and tobacco (55 per cent). There was a sharp decrease in M&As in developing economies (from $45 billion to $16 billion); the decline occurred across most industries, particularly in food, beverages and tobacco, where the value of cross-border M&As plummeted to $4 billion after peaking in 2013 at a historically high $32 billion.

Services saw contrasting trends in greenfield FDI projects and cross-border M&As. While the total value of greenfield projects decreased (–15 per cent compared with 2013), the value of cross-border M&As registered a significant increase, from $155 billion to $213 billion (37 per cent).

The value of greenfield projects in developing economies decreased (from $259 billion in 2013 to $211 billion in 2014), but with differentiated dynamics at the industry level. *Construction* jumped from $22 billion to $42 billion and became the second largest service industry in developing economies, overtaking industries that traditionally receive large amounts of FDI, such as *finance* and *business services*. By contrast, both *business services* and *electricity, gas and water* – after strong expansion in 2013 (at $76 billion and $63 billion) – fell by 52 per cent and 27 per cent, respectively. Contraction in *business services* was particularly critical in Latin America and the Caribbean (–88 per cent), while *electricity, gas and water* declined in both Latin America and the Caribbean (–22 per cent) and West Asia (–77 per cent).

In developing economies, the growth engine of cross-border M&As in services was the increase in *finance* (from $18 billion to $61 billion), in particular in East and South-East Asia. For developed economies, the picture is multifaceted. While the traditionally largest FDI industries, *business services* and *finance*, saw a considerable increase, from $36 billion to $66 billion and from $9 billion to $30 billion respectively, the value of *information and communication* took a sharp downturn to a negative value (–$73 billion against $29 billion in 2013) because of the Vodafone divestment.

4. FDI by selected types of special investors

a. Private equity firms

Cross-border M&As by private equity funds rose. The total value of cross-border M&As undertaken by private equity funds rose to $200 billion in 2014 (table I.3), accounting for about 17 per cent of the global total. This share declined by 6 percentage points from 2013 and was 13 percentage points lower than in 2007 and 2008. In 2014 alone, global private equity funds cashed in about $115 billion from previous overseas M&A deals, bringing the value of net cross-border M&As to $85 billion. As the amount of cash and commitments from investors is at a very high level (estimated at about $360 billion) and interest rates in developed countries remain low, prospects for private equity funds' leveraged international transactions are promising. Furthermore, more active global financial markets are expected to generate more cross-border investment opportunities.

The largest funds have played an increasingly important role in the global private equity market. In terms of fund raising, nine mega-funds attracted more than $5 billion each, amounting to nearly half of the total capital raised by private equity funds in 2013. This contributed to an overall 21 per cent increase in global fund raising.[7] As these mega-funds tend to invest in megadeals, the significance of private equity funds in the global picture of cross-border M&As is reflected in transactions involving large companies from large host-country economies. For example, 3G Capital (Brazil and the United States) was behind the merger of Tim Hortons (Canada) and Burger King Worldwide (United States) in 2014 which, at $12.5 billion, was the largest international buyout of the year.

North America and Europe continued to be the major regions targeted for cross-border M&As by private equity funds in 2014. In Canada, for example, Blackstone (United States) acquired Gates Corporation – a manufacturer of power transmission belts and fluid power products – for $5.4 billion, and TPG Capital Management LP (United States) bought Warranty Group – a provider of extended warranty contracts from the local Onex Corp for $1.5 billion. These two large private equity funds have been important players in M&A markets not only in North America, but also

Table I.3. Cross-border M&As by private equity firms, 1996–2014
(Number of deals and value)

	Number of deals		Gross M&As		Net M&As	
Year	Number	Share in total (%)	Value ($ billion)	Share in total (%)	Value ($ billion)	Share in total (%)
1996	970	16	43	16	18	12
1997	1 057	15	58	15	18	10
1998	1 228	15	62	9	28	8
1999	1 451	15	80	9	27	5
2000	1 457	14	82	6	30	3
2001	1 435	17	82	11	34	8
2002	1 281	19	71	14	13	5
2003	1 555	23	91	23	31	19
2004	1 675	22	134	25	62	31
2005	1 842	20	202	22	103	19
2006	1 859	18	259	23	115	18
2007	2 046	17	528	30	279	27
2008	1 946	18	437	31	103	17
2009	2 083	24	105	17	62	22
2010	2 195	22	144	19	66	19
2011	1 953	19	155	15	66	12
2012	2 209	23	188	23	63	19
2013	1 964	23	169	23	82	26
2014	2 358	24	200	17	85	21

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

in other developed regions and in developing ones. With $67 billion under management, for instance, TPG Capital has established significant operations in Asia and Europe since the mid-1990s.

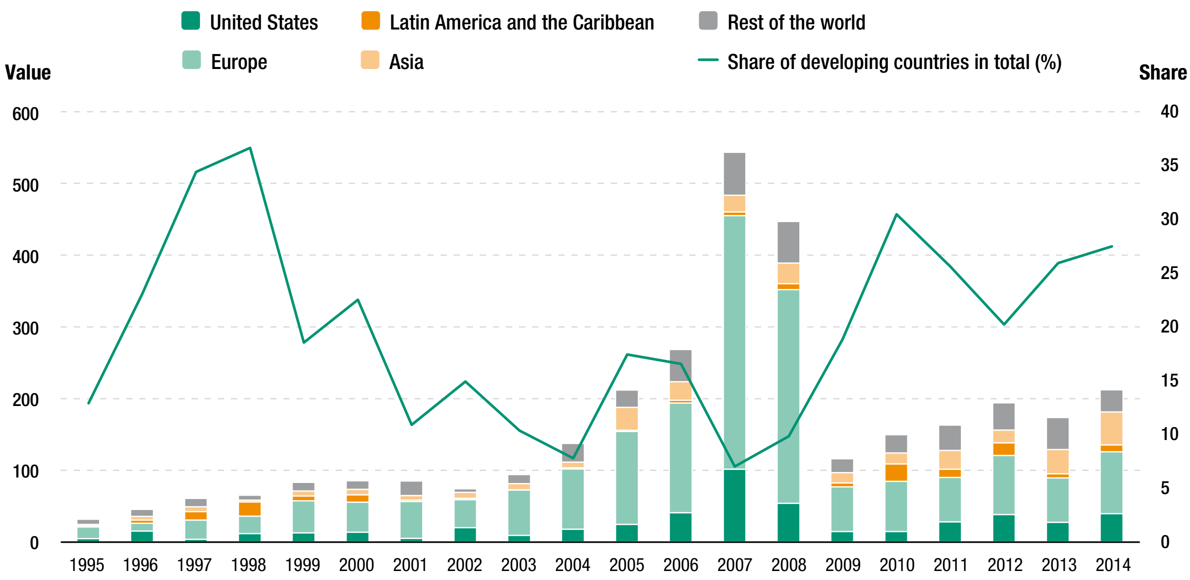
Asia has become increasingly attractive. In 2014, both the amount of transactions and their share in total private equity deals reached historically high levels (figure I.15). In East Asia, both China and the Republic of Korea experienced more deal making activities. In China, a number of megadeals were implemented, including pre-IPO deals related to Alibaba and JD.com, the country's leading e-commerce companies. In the Republic of Korea, Carlyle Group undertook a $2 billion carve-out of the Korean unit of ADT, owned by Tyco (Switzerland). In South-East Asia, strong inflows of foreign private equity funds drove up the value of transactions but also led to fierce competition between funds.

b. SWFs

FDI by SWFs more than doubled in 2014. There are more than 100 sovereign wealth funds (SWFs), managing more than $7 trillion of assets in 2014 and accounting for about one tenth of the world's total assets under management. These funds are in a strong position to influence global financial and capital markets, but are much less active in FDI. The value of their FDI has been marginal compared with the value of assets under management. During the period 2011–2013, the value of their FDI dropped continuously, but the downward trend has reversed (figure I.16). In 2014, the amount of FDI by SWFs more than doubled to reach $16 billion, the highest level in five years. It was driven by large cross-border M&As undertaken by SWFs of a limited number of countries, in particular Singapore. There, Temasek Holdings acquired a 25 per cent stake in AS Watson Holdings (Hong Kong, China) for $5.7 billion, while GIC Pte bought an 11 per cent stake in Emperador Inc. (Philippines) for $390 million.

Many SWFs whose sources of finance rely on oil revenues (approximately 60 per cent of all SWFs) have had to face lower oil prices since mid-2014. This may affect their sources of funds in the near future, as well as their scale of investment. For a number of Asian SWFs, decelerated export growth may have similar effects.

Figure I.15. **FDI by private equity funds, by major host region, 1995–2014**
(Billions of dollars and per cent)

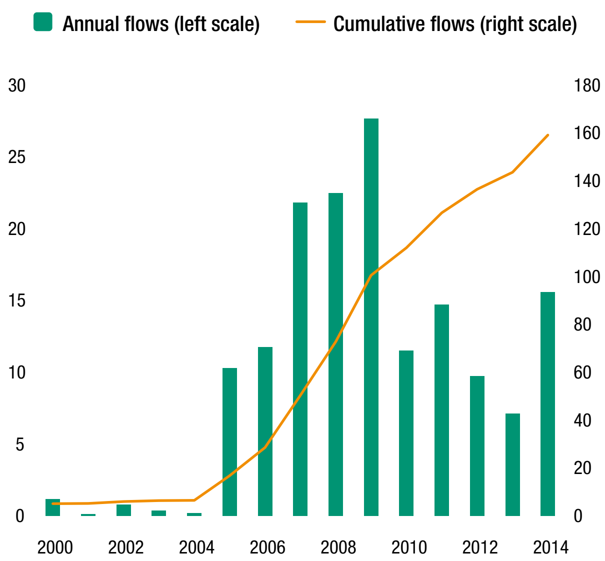


Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Data refer to gross values of M&As by private equity firms; they are not adjusted to exclude FDI by SWFs.

Some SWFs have engaged in long-term investments; they are increasingly involved in FDI projects, including through cross-border corporate acquisitions and overseas real estate purchases. For example, the Norwegian SWF, the world's largest in terms of assets under management, will increase the number of companies in which it can own more than 5 per cent equity to 100; its long-term investment in venture capital, private equity funds and real estate assets is on the rise.

As an increasingly important asset class, infrastructure offers SWFs some specific advantages for their portfolio management, including, for instance large-scale investment opportunities, and relatively stable returns. Consequently, more than half of SWFs have already started to invest in infrastructure. For example, GIC of Singapore has been an important investor in the sector in both developed countries and emerging markets, aiming at operating infrastructure assets.[8] CIC (China) has included infrastructure projects in its investment strategy under the overall category of long-term assets, which account for 28 per cent of its total assets. In late 2014, GIC planned to participate in a $1.6 billion co-investment in three airports in the United Kingdom. The company already owns a part of Heathrow Airport Holdings, together with other SWFs, including CIC, Qatar Holding and Caisse de Dépôt et Placement du Québec.

Figure I.16. **Annual and cumulative value of FDI by SWFs, 2000–2014**
(Billions of dollars)



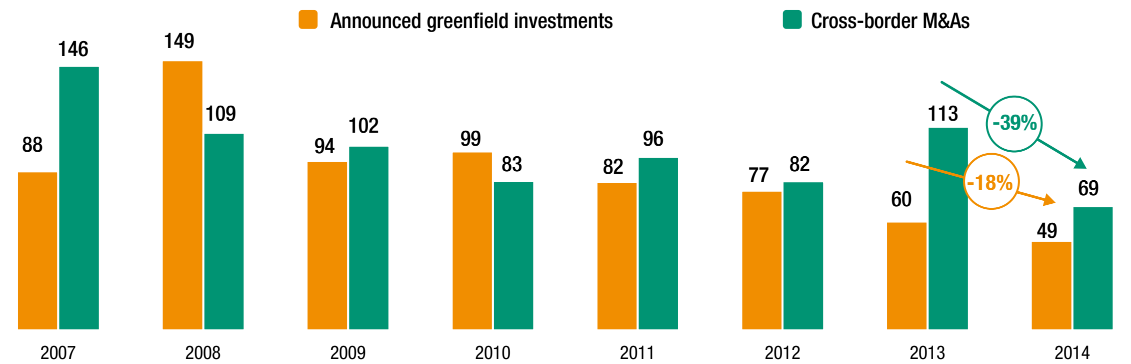
Source: UNCTAD, cross-border M&A database for M&As (www.unctad.org/fdistatistics) and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.
Note: Data should be considered approximate, as they include the value of flows for both cross-border M&As and announced greenfield FDI projects (for limitations of announced greenfield projects data, see the note in the section on modes of entry) and only investments in which SWFs are the sole and immediate investors. Data do not include investments made by entities established by SWFs or those made jointly with other investors. In 2003–2014, cross-border M&As accounted for about 60 per cent of the total.

c. State-owned MNEs

Internationalization of SO-MNEs continued in 2014 but it is slowing down. The amount of cross-border M&As and greenfield projects in 2014 dropped by 39 per cent to $69 billion and 18 per cent to $49 billion, respectively, to their lowest levels since the outbreak of the global financial crisis. In particular, the amount of announced greenfield investment by SO-MNEs has declined for four consecutive years – to only one third of the 2008 peak (figure I.17).

A number of SO-MNEs continued to consolidate their global activities. For instance, GDF Suez (France), the fifth largest SO-MNE in terms of foreign activities (foreign sales, assets and employment; see table I.4), initiated a three-year, $11 billion divestment programme in 2012, leading to significant sales of assets in Belgium, Italy and other countries. A number of other large SO-MNEs from developed countries undertook similar divestment programmes. Policy factors have also negatively affected the internationalization of SO-MNEs. For instance, stricter control of foreign ownership in extractive industries has reduced the access of SO-MNEs to mineral assets in a number of countries, for example in Latin America. From the home-country perspective, some government policy measures have also affected the degree of international investment of SO-MNEs.

Figure I.17. **Value of recorded cross-border M&As and announced greenfield investments undertaken by SO-MNEs, 2007–2014** (Billions of dollars)



Source: UNCTAD, 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.

Table I.4. **The top 10 non-financial State-owned MNEs, ranked by foreign assets, 2013** (Millions of dollars and number of employees)

SO-MNE	Home economy	Industry	Assets		Sales		Employment		Transnationality Index[a]
			Foreign	Total	Foreign	Total	Foreign	Total	
Volkswagen Group	Germany	Motor vehicles	176 656	446 555	72 133	118 561	73 000	147 199	50
Eni SpA	Italy	Petroleum	141 021	190 125	211 488	261 560	317 800	572 800	70
Enel SpA	Italy	Utilities (electricity, gas and water)	140 396	226 006	109 886	152 313	56 509	83 887	67
EDF SA	France	Utilities (electricity, gas and water)	130 161	353 574	61 867	106 924	37 125	71 394	49
GDF Suez	France	Utilities (electricity, gas and water)	121 402	219 759	46 978	100 364	28 975	158 467	40
Deutsche Telekom AG	Germany	Telecommunications	120 350	162 671	50 049	79 835	111 953	228 596	62
CITIC Group	China	Diversified	97 739	703 666	11 127	60 586	25 285	125 215	17
Statoil ASA	Norway	Petroleum	78 185	144 741	23 953	105 446	3 077	23 413	30
Airbus Group NV	France	Aircraft	77 614	128 474	72 525	78 672	89 551	144 061	72
General Motors Co	United States	Motor vehicles	70 074	166 344	56 900	155 427	104 000	219 000	42

Source: UNCTAD, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.
[a] The Transnationality Index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.
Note: These MNEs are at least 10 per cent owned by the State or public entities, or the State/public entity is the largest shareholder.

B. INTERNATIONAL PRODUCTION

Despite the uncertainty of global economic recovery, international production continued to strengthen in 2014, with all indicators of foreign affiliate activity rising. Indicators of international production – production of MNE foreign affiliates (table I.5) – show a rise in sales by 7.6 per cent, while employment of foreign affiliates reached 75 million. Exports of foreign affiliates remained relatively stable, registering a 1.5 per cent rise. Value added increased by 4.2 per cent. Assets of foreign affiliates rose by 7.2 per cent over the previous year. The financial performance of foreign affiliates in host economies improved, with the rate of return on inward FDI rising from 6.1 per cent in 2013 to 6.4 per cent in 2014. However, this level is still lower than that in the pre-crisis average (2005-2007).

In 2014, the top 100 MNEs again increased their degree of internationalization (table I.6) after some years of decline. A series of big deals and mergers that were concluded during the year contributed to growth in foreign assets, while sales of domestic non-core assets led to decreases in total assets (e.g. Deutsche Telekom's sale of the German e-commerce company 24Scout for roughly $2 billion). A similar pattern is found for sales and employment, confirming MNEs' expansion of operations abroad. For developing- and transition-economy MNEs, growth rates of assets, sales and employment, both domestic and foreign, are higher than for their developed-country counterparts.

Table I.5. Selected indicators of FDI and international production, 2014 and selected years

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2012	2013	2014
FDI inflows	205	1 397	1 403	1 467	1 228
FDI outflows	244	1 423	1 284	1 306	1 354
FDI inward stock	2 198	13 894	22 073	26 035	26 039
FDI outward stock	2 254	14 883	22 527	25 975	25 875
Income on inward FDI[a]	82	1 024	1 467	1 517	1 575
Rate of return on inward FDI[b]	*4.4*	*7.6*	*7.0*	*6.1*	*6.4*
Income on outward FDI[a]	128	1 105	1 445	1 453	1 486
Rate of return on outward FDI[b]	*5.9*	*7.6*	*6.6*	*5.8*	*5.9*
Cross-border M&As	98	729	328	313	399
Sales of foreign affiliates	4 723	21 469	31 687	33 775[c]	36 356[c]
Value-added (product) of foreign affiliates	881	4 878	7 105	7 562[c]	7 882[c]
Total assets of foreign affiliates	3 893	42 179	88 536	95 230[c]	102 040[c]
Exports of foreign affiliates	1 444	4 976	7 469	7 688[d]	7 803[d]
Employment by foreign affiliates (thousands)	20 625	53 306	69 359	71 297[c]	75 075[c]
Memorandum					
GDP[e]	22 327	51 799	73 457	75 453	77 283
Gross fixed capital formation[e]	5 592	12 219	17 650	18 279	18 784
Royalties and licence fee receipts	31	172	277	298	310
Exports of goods and services[e]	4 332	14 927	22 407	23 063	23 409

Source: UNCTAD.

[a] Based on data from 174 countries for income on inward FDI and 143 countries for income on outward FDI in 2014, in both cases representing more than 90 per cent of global inward and outward stocks.

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

[c] Data for 2013 and 2014 are estimated based on a fixed effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2012.

[d] For 1998–2014, the share of exports of foreign affiliates in world exports in 1998 (33.3%) was applied to obtain values. Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994.

[e] Data from IMF (2015).

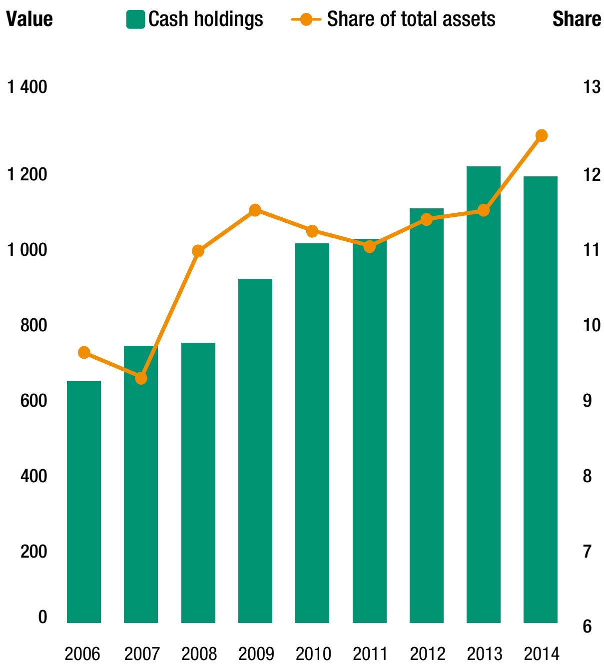
Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated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

The largest MNEs maintained high cash balances. The 100 largest MNEs registered a marginal decrease in the value of their cash balances in 2014, as these companies started to spend on new investments, especially through M&As, buy-backs of their own shares and dividend payments (figure I.18). For example, Ford Motors (United States) reduced its cash reserves by about 25 per cent to finance an increase in capital expenditures (13 per cent), and to finance significant share buy-backs and increased dividend payments. However, cash holdings of the top 100 remained exceptionally high as a share of their total assets as MNEs also undertook restructurings, including shedding non-core assets.

Looking at a far larger sample of 5,000 MNEs, the cash reserve picture is consistent. At the end of 2014, these MNEs had an estimated $4.4 trillion of cash holdings, nearly double the level before the global financial crisis. These holdings have been accumulated in an effort to lessen their reliance on debt and to secure refinancing while interest rates are low, creating a buffer against financial turmoil.

However, in the last two years, MNEs in some industries have started to use their cash holdings for

Figure I.18. **Cash holdings of the largest 100 MNEs and their share of total assets, 2006–2014**
(Billions of dollars and per cent)



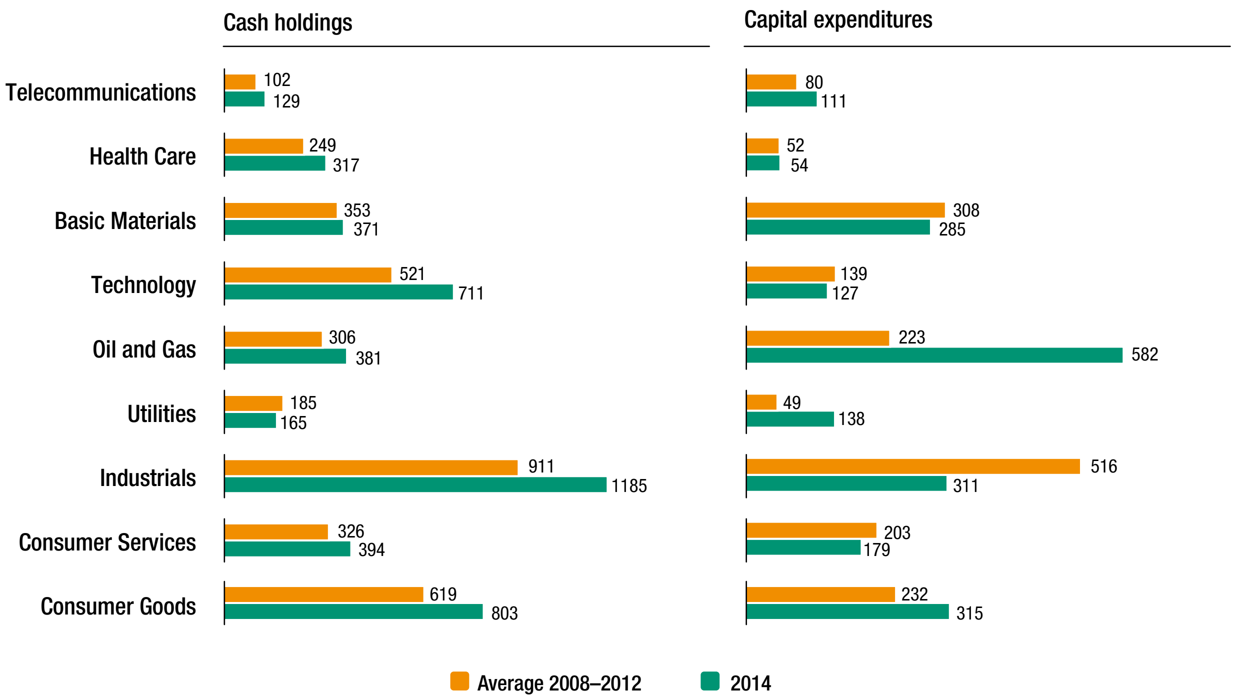
Source: UNCTAD, based on data from Thomson ONE.

Table I.6. **Internationalization statistics of the 100 largest non-financial MNEs worldwide and from developing and transition economies**
(Billions of dollars, thousands of employees and per cent)

Variable	100 largest MNEs worldwide					100 largest MNEs from developing and transition economies		
	2012	2013[a]	2012–2013 % change	2014[b]	2013–2014 % change	2012	2013	% change
Assets								
Foreign	7 942	8 249	3.9	8 266	0.2	1 506	1 632	8.4
Domestic	5 421	5 759	6.2	5 581	-3.1	4 025	4 403	9.4
Total	13 363	14 008	4.8	13 847	-1.1	5 531	6 034	9.1
Foreign as % of total	59	59	-0.5[c]	60	0.8[c]	27	27	-0.2[c]
Sales								
Foreign	5 885	6 053	2.9	6 132	1.3	1 690	1 806	6.8
Domestic	3 072	3 263	6.2	3 101	-5.0	2 172	2 415	11.1
Total	8 957	9 316	4.0	9 233	-0.9	3 863	4 221	9.3
Foreign as % of total	66	65	-0.7[c]	66	1.4[c]	44	43	-1.0[c]
Employment								
Foreign	9 831	9 562	-2.7	9 599	0.4	4 103	4 226	3.0
Domestic	7 106	7 135	0.4	7 211	1.1	6 493	6 688	3.0
Total	16 937	16 697	-1.4	16 810	0.7	10 596	10 914	3.0
Foreign as % of total	58	57	-0.8[c]	57	-0.2[c]	39	39	0.0[c]

Source: UNCTAD.
[a] Revised results.
[b] Preliminary results.
[c] In percentage points.
Note: Data refer to fiscal year results reported between 1 April of the base year to 31 March of the following year. Complete 2014 data for the 100 largest MNEs from developing and transition economies are not yet available.

Figure I.19. **Cash holdings and capital expenditures of the top 5,000 MNEs, by sector, 2008–2012 average and 2014** (Billions of dollars)



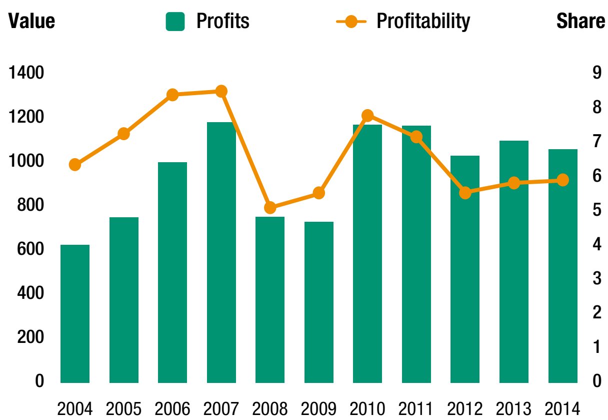
Source: UNCTAD, based on data from Thomson ONE.

capital expenditures and acquisitions. Taking average annual expenditures between 2008 and 2012 as a benchmark, for example, the oil and gas industry and the utilities industry more than doubled their capital expenditure, reaching $582 billion and $138 billion, respectively, in 2014 (figure I.19) (although capital expenditures in the oil and gas industry are expected to be cut back again in response to lower oil prices). Important increases in expenditure also took place in the telecommunications industry, where operators invested heavily in their networks, and in the food production and transport equipment industries.

The lower levels of cash holdings do not necessarily mean higher levels of capital expenditure, as cash holdings can be used for buying back a company's own shares and paying dividends to shareholders. Furthermore, the observed increases in capital expenditures are limited to a selected group of MNEs and changes in behaviour are not as yet broad-based. However, as the UNCTAD business survey shows, companies are more optimistic about capital spending in 2015 and beyond (see next section).

Firm-level factors support prospects for growing capital expenditures. Annual MNE profits in 2014 remained at a high level (figure I.20), adding to existing cash reserves at about the same rate as increased capital expenditures, implying further room for expansion.

Figure I.20. **Profitability and profit levels of MNEs, 2004–2014** (Billions of dollars and per cent)



Source: UNCTAD, based on data from Thomson ONE.

C. PROSPECTS

Global FDI flows are expected to reach $1.4 trillion in 2015 – an 11 per cent rise. Flows are expected to increase further to $1.5 trillion and $1.7 trillion in 2016 and 2017, respectively. These expectations are based on current forecasts for a number of macro-economic indicators, the findings of an UNCTAD business survey carried out jointly with McKinsey & Company, UNCTAD's econometric forecasting model for FDI inflows, and data for the first four months of 2015 for cross-border M&As and greenfield investment projects.

Macroeconomic factors and firm-level factors are expected to influence flows positively. Indeed, the gradual improvement of macroeconomic conditions, especially in North America, and accommodating monetary policy, coupled with increased investment liberalization and promotion measures, are likely to improve the investment appetite of MNEs in 2015 and beyond. Global economic growth and gross fixed capital formation are expected to grow faster in 2015 and 2016 than in 2014 (table I.7).

However, the FDI growth scenario could be upended by a multitude of economic and political risks, including ongoing uncertainties in the Eurozone, potential spillovers from geopolitical tensions, and persistent vulnerabilities in emerging economies.

1. UNCTAD's econometric forecasting model

UNCTAD's econometric model projects that FDI flows will increase by 11 per cent in 2015 (table I.8). Developed countries should see a large increase in flows in 2015 (up by more than 20 per cent), reflecting stronger economic activity.

Table I.7. Real growth rates of GDP and gross fixed capital formation (GFCF), 2014–2016 (Per cent)

Variable	Region	2014	2015	2016
GDP growth rate	World	2.6	2.8	3.1
	Developed economies	1.6	2.2	2.2
	Developing economies	4.4	4.9	4.8
	Transition economies	0.7	-2.0	0.9
GFCF growth rate	World	2.9	3.0	4.7
	Advanced economies[a]	2.7	3.3	3.9
	Emerging and developing economies[a]	3.2	2.9	5.3

Source: UNCTAD, based on United Nations (2015) for GDP and IMF (2015) for GFCF.
[a] IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

Table I.8. Projections of FDI flows, by group of economies (Billions of dollars and per cent)

	Averages				Projections		
	2005–2007	2009–2011	2013	2014	2015	2016	2017
Global FDI flows	**1 397**	**1 359**	**1 467**	**1 228**	**1 368**	**1 484**	**1 724**
Developed economies	917	718	697	499	634	722	843
Developing economies	421	561	671	681	707	734	850
Transition economies	60	81	100	48	45	47	53
	Average growth rates		*Growth rates*		*Growth rate projections*		
Memorandum	*2005–2007*	*2009–2011*	*2013*	*2014*	*2015*	*2016*	*2017*
Global FDI flows	***40.1***	***3.1***	***4.6***	***-16.3***	***11.4***	***8.4***	***16.2***
Developed economies	*48.2*	*3.0*	*2.7*	*-28.4*	*23.8*	*13.9*	*16.7*
Developing economies	*26.1*	*4.8*	*5.0*	*1.6*	*3.3*	*3.9*	*15.8*
Transition economies	*48.0*	*-1.1*	*17.0*	*-51.7*	*-2.3*	*5.3*	*12.3*

Source: UNCTAD.
Note: Excludes Caribbean offshore financial centres.

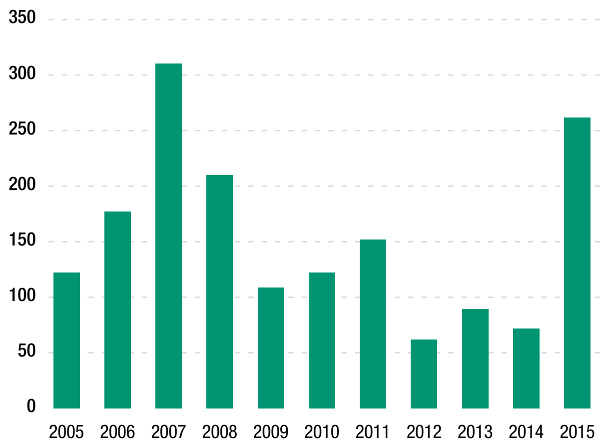
FDI inflows to developing countries will continue to be high, rising by an average of 3 per cent over the next two years. They will, however, remain the major host group for FDI flows. Negative GDP growth rates in transition economies, due to continued economic recession, sanctions and low oil prices, imply that flows to those economies could decline further in 2015.

A jump in cross-border M&A activity in the beginning of 2015. An increase in FDI inflows and the rise of developed countries as FDI hosts are reflected in the value of cross-border M&As in early 2015. Between January and April 2015, (net) cross-border M&As increased almost four times compared with those in 2014, to reach their highest level since 2007 (figure I.21). MNEs from developing and transition economies continued to acquire assets in developed economies, consolidating their position as investors in cross-border M&As.

2. UNCTAD business survey

Global FDI activity outlook. According to UNCTAD's survey, carried out in collaboration with McKinsey & Company, of over 1,000 top managers in companies based in 89 countries, most executives expect an increase in global FDI activity in the coming years. This positive outlook is explained by relatively good economic prospects in North America, the BRICS and other emerging economies, as well as regional integration processes and driven by corporate factors such as the expected continued offshoring of manufacturing and services functions.

Figure I.21. Cross-border M&As, January–April of each year, 2005–2015 (Billions of dollars)



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

Risk factors to the overall positive outlook listed by respondents include the risks of sovereign debt defaults, austerity policies and the state of the EU economy (figure I.22). They also include countertrends to the offshoring factors driving increased FDI, in the form of expected increases in the reshoring of business functions.

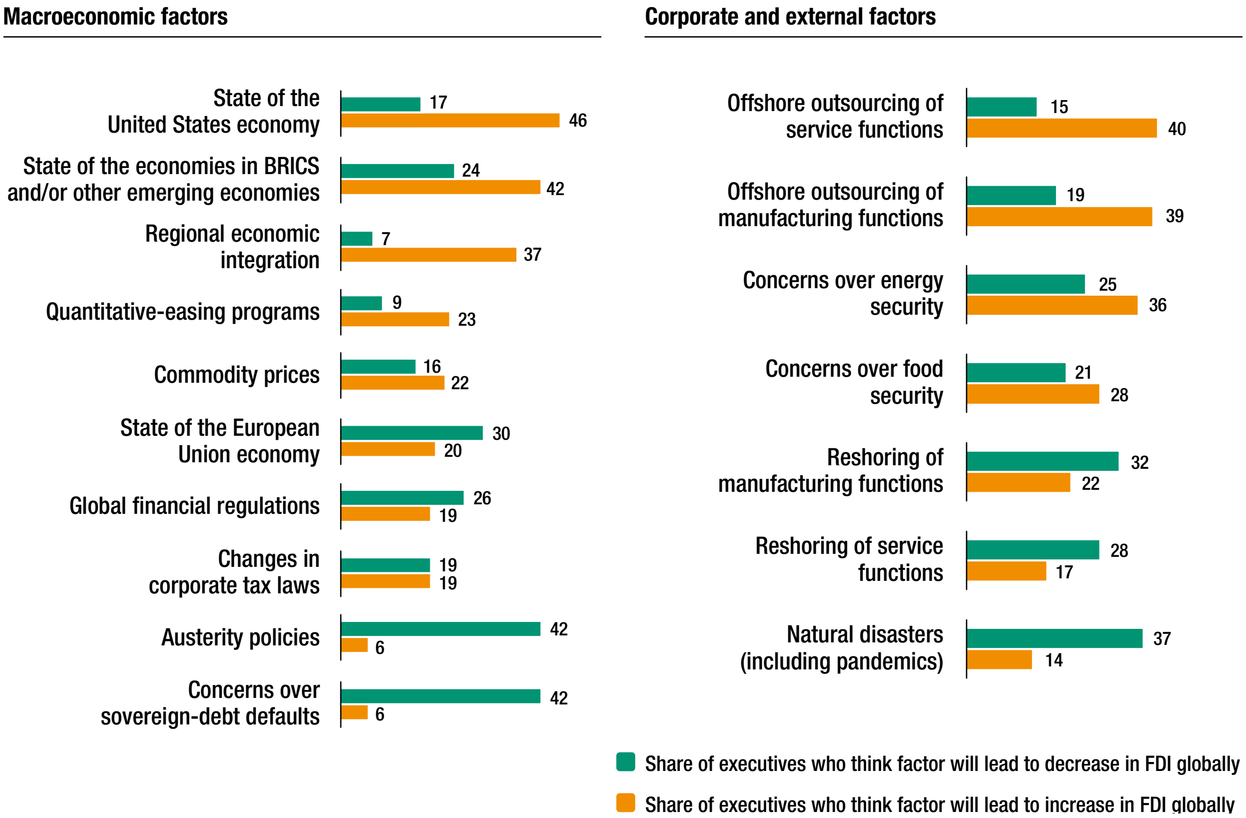
CEO investment sentiments vary by region. Executives from Africa and the Middle East[9] are the most optimistic about FDI prospects: 67 per cent expect global FDI activity to increase in the next few years (figure I.23); they are closely followed by respondents based in developing Asia.

Among developed economies, European MNEs are the most upbeat about global FDI prospects (see figure I.24), despite continuing concern about the EU regional economy. These expectations arise from factors such as the quantitative easing programme launched by the European Central Bank; the considerable cash holdings accumulated by major MNEs in the region; the attractiveness for foreign investors of firms, in particular SMEs, based in weaker EU economies;[10] and MNEs' consolidation strategies in industries such as pharmaceuticals and telecommunications. In contrast, executives from Latin America, North America and other developed economies (Australia, Japan, New Zealand, etc.) are less optimistic about global FDI prospects.

FDI spending intentions. MNEs' overall positive expectations of high global FDI translate only partly into their organizations' investment plans. About a quarter of executives plan to increase FDI expenditures in 2015; this share is set to grow to almost a third by 2017 (figure I.24). By corollary, the share of executives expecting to hold budgets constant or decrease them over the years from 2015 to 2017 shrank from 49 per cent to 34 per cent and from 10 per cent to 6 per cent, respectively.

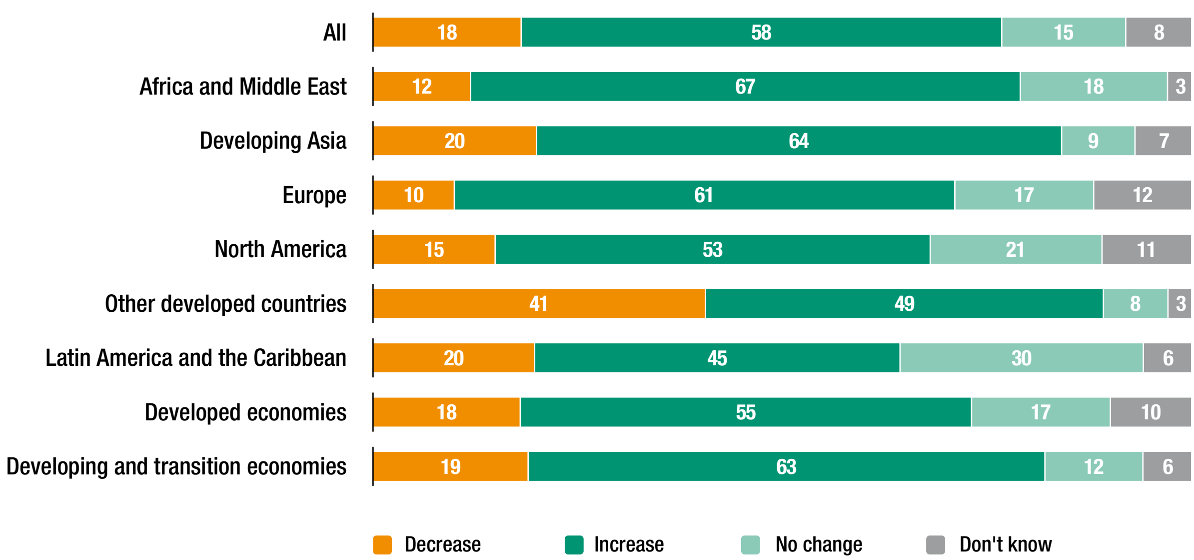
By sector, firms in the financial and business services industries report the highest prospects for FDI expansion in 2015 (figure I.25), while a higher share of corporations active in the high-tech, telecommunications, pharmaceuticals and other manufacturing industries expect FDI to increase for 2016 and 2017.

Figure I.22. **Factors influencing future global FDI activity** (Per cent of all executives)



Source: UNCTAD business survey.
Note: BRICS = Brazil, the Russian Federation, India, China and South Africa.

Figure I.23. **Expectations for global FDI activity level from beginning 2015 until 2017**
(Per cent of executives based in each region)

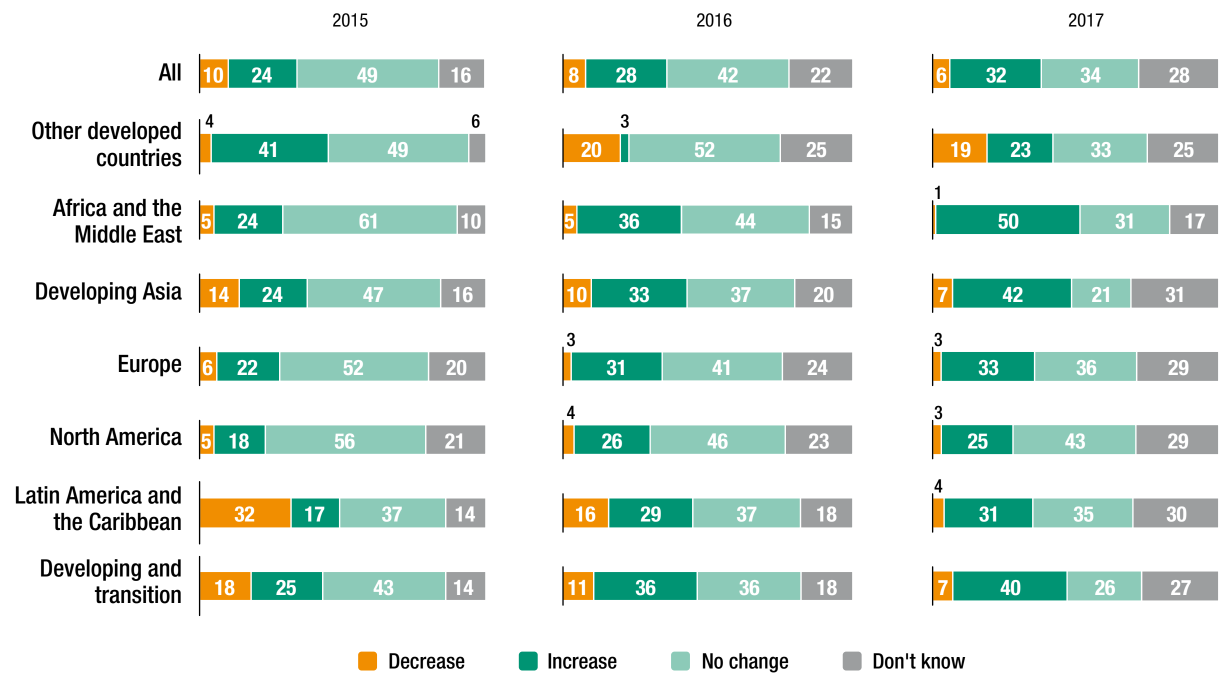


Source: UNCTAD business survey.

Large MNEs (those with more than $1 billion of revenues) and those already well internationalized (with more than 21 company locations and/or with more than 50 per cent of revenue from outside the company's home market) have the most positive spending plans: about 45 per cent of them indicate intentions to increase FDI spending in 2017.

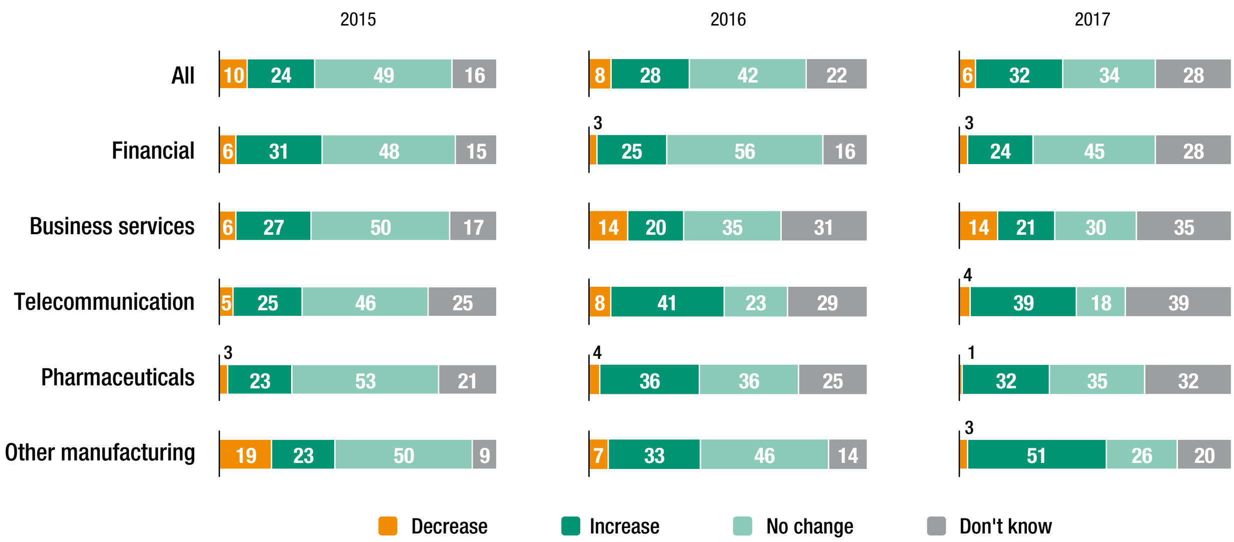
UNCTAD's survey of investment promotion agencies (IPAs)[11] indicates which industries are more likely to witness an increase in FDI activity. IPAs in developed

Figure I.24. **Global FDI spending intentions with respect to 2014 levels, by headquarters region, 2015–2017** (Per cent of executives based in each region)



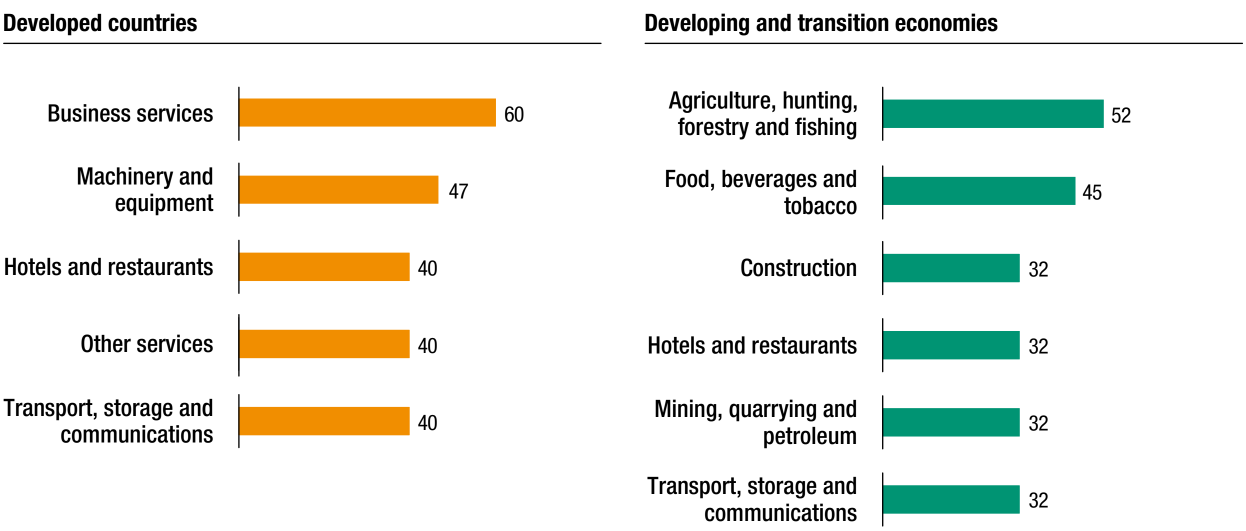
Source: UNCTAD business survey.

Figure I.25. **FDI spending intentions with respect to 2014 levels, by selected industries, 2015–2017** (Per cent of all executives)



Source: UNCTAD business survey.

Figure I.26. **IPAs' selection of most promising industries for attracting FDI in their own country**
(Per cent of all IPA respondents)



Source: UNCTAD IPA survey.

countries expect foreign inflows to target business services, machinery, transport and telecommunications, hotels and restaurants, and other services. Agencies in developing and transition economies consider the best targets in their countries to be in the agricultural and agribusiness industry, along with the transport and telecommunications, hotels and restaurants, construction and extractive industries (figure I.26).

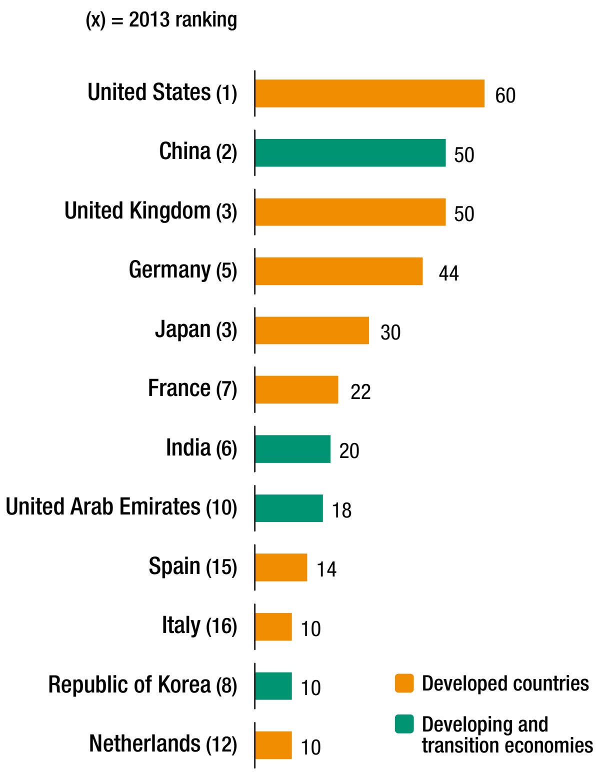
Prospective top investing countries. Results from this year's IPAs survey point to developed countries as top global investing countries; of developing economies, only China, India, the United Arab Emirates, and the Republic of Korea appear in the top 12 positions (figure I.27). Domestic economic woes probably influenced expectations about some emerging economies, such as Brazil (ranked 10th in 2013) and the Russian Federation (ranked 13th) that do not figure in the results this year. The United Kingdom matched China in the rankings (2nd), and Italy and Spain gained several positions.

Prospective top destinations. Global corporate executives view China and the United States as the best investment locations worldwide: 28 per cent chose China and 24 per cent chose the United States (figure I.28). India, Brazil and Singapore make up the remainder of the top 5 destinations; interestingly, developing-country economies constitute 6 of the top 10. Only the United Kingdom, Germany and Australia feature in this group, apart from the United States.

The rankings are influenced by the views of executives in various industries. For example, businesses linked to the information technology industry are more likely to have investment plans favouring the United States or India. Similarly, the United States maintains its leadership in rankings on the basis of their strength in the high-tech and telecommunication industries.

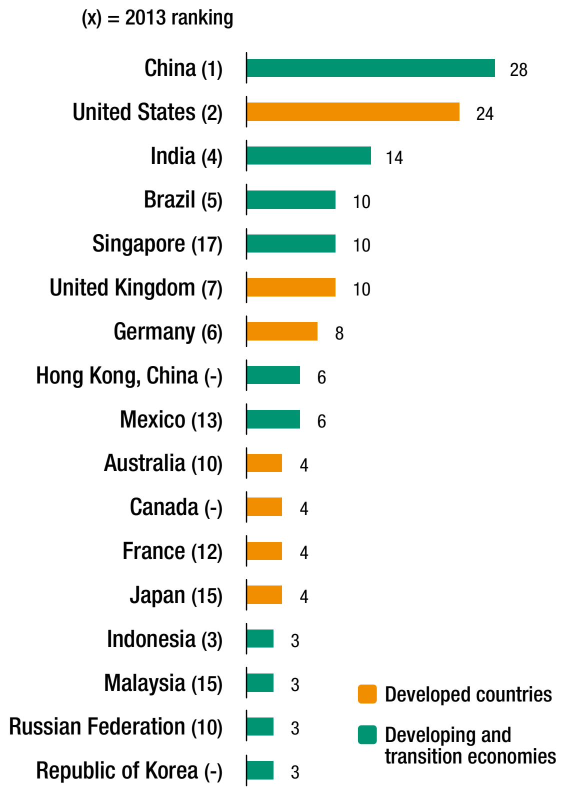
The overall global FDI trend in 2014 was negative. Cross-border investment flows remain significantly (about one third) below their 2007 peak. However, regional trends varied, with the developing-country group showing marginal positive growth. Inaddition, prospects for global FDI flows to 2017 are somewhat more positive. Nevertheless, in light of the important role that FDI is expected to play in financing for development – the subject of discussion during the third International Conference on Financing for Development in Addis Ababa mid-July 2015 – the current subdued trend is of concern. Policymakers may wish to consider concerted action to push increased productive investment for sustainable development.

Figure I.27. **IPAs' selection of the most promising investor home economies for FDI in 2014–2016**
(Per cent of IPA respondents selecting economy as a top source of FDI)



Source: UNCTAD IPA survey.

Figure I.28. **MNEs top prospective host economies for 2015–2017**
(Per cent)



Source: UNCTAD business survey.
Note: Previous survey ranking appears in parentheses. The absence of a number in parentheses means the economy was not in the top 20.

Notes

1 There are some differences in value between global FDI inflows and global FDI outflows, and these flows do not necessarily move in parallel. This is mainly because home and host countries may use different methods to collect data and different times for recording FDI transactions. This year is one of transition from directional-based FDI data to asset/liability-based FDI data. Although UNCTAD made efforts to use the data based on the directional principle, as explained in the methodological box in section A.1.a, many large countries already report data on the basis of the asset/liability principle. This is not the first year in which inflows and outflows did not move in parallel. The most recent years in which this data mismatch occurred were 2003 and 2005.

2 SPEs are legal entities that have little or no employment or operations or physical presence in the jurisdiction in which they are created by their parent enterprises, which are typically located in other jurisdictions (in other economies). SPEs are often used as vehicles to raise capital or to hold assets and liabilities, and usually do not undertake significant production (BD4).

3 UNCTAD, "Regional integration and FDI in developing and transition economies", Multi-Year Expert Meeting on Investment, Innovation and Entrepreneurship for Productive Capacity-building and Sustainable Development, Geneva, 28– 30 January 2013.

4 Greenfield investment projects data refer to *announced* projects. The value of such a project indicates the capital expenditure planned by the investor at the time of the announcement. Data can differ substantially from the official FDI data as companies can raise capital locally and phase their investments over time, and a project may be cancelled or may not start in the year when it is announced.

5 The net value of cross-border M&As is computed as the difference between M&A gross sales (all MNE cross-border acquisitions) and divestment of sales (sales from MNEs to domestic entities or to other MNEs). It reflects the M&A component of FDI flows.

6 In this context, the term "divestment" refers to the sale of MNEs to domestic companies or to other MNEs. It does not include liquidation and capital impairment.

7 Data from Bain Capital.

8 GIC Annual Report 2013/2014.

9 Because of low numbers of responses from Africa and the Middle East, the two regions are combined to enhance statistical credibility. This action hides subregional differences within Africa and regional differences between Africa and West Asia.

10 For example, see "Chinese go on spending spree and double investment in Europe", *Financial Times*, 10 February 2015.

11 This survey obtained responses from 54 IPAs in 51 countries.

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