Regional Investment Trends

CHAPTER II

INTRODUCTION

Global foreign direct investment (FDI) inflows fell by 16 per cent overall in 2014 to $1.23 trillion, down from $1.47 trillion in 2013, but with considerable variance between country groups and regions.

FDI flows to developing economies increased by 2 per cent to reach their highest level at $681 billion in 2014, accounting for 55 per cent of global FDI inflows (table II.1). Five of the top 10 host economies now are developing ones. However, the increase in developing-country inflows is, overall, primarily a developing Asia story. FDI inflows to that region grew by 9 per cent to $465 billion, constituting the lion's share of total FDI in developing economies. Africa's overall inflows remained flat at $54 billion, while those to Latin America and the Caribbean saw a 14 per cent decline to $159 billion, after four years of consecutive increases. FDI to *transition economies* dropped by more than half to $48 billion. Inflows to developed economies as a whole fell by 28 per cent to $499 billion, decreasing both in Europe and North America. Flows to Europe fell by 11 per cent to $289 billion, one third of their 2007 peak, while in North America FDI dropped 51 per cent to $146 billion.

Outward FDI from developing economies increased by 23 per cent in 2014, to $468 billion. In contrast, net investment by *developed countries* was flat, primarily because a large expansion in cross-border mergers and acquisitions (M&As) by some developed-country multinational enterprises (MNEs) was offset by large divestments by others. FDI outflows from

Table II.1. FDI flows, by region, 2012–2014 (Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2012	2013	2014	2012	2013	2014
World	**1 403**	**1 467**	**1 228**	**1 284**	**1 306**	**1 354**
Developed economies	679	697	499	873	834	823
Europe	401	326	289	376	317	316
North America	209	301	146	365	379	390
Developing economies	639	671	681	357	381	468
Africa	56	54	54	12	16	13
Asia	401	428	465	299	335	432
East and South-East Asia	321	348	381	266	292	383
South Asia	32	36	41	10	2	11
West Asia	48	45	43	23	41	38
Latin America and the Caribbean	178	186	159	44	28	23
Oceania	4	3	3	2	1	0
Transition economies	85	100	48	54	91	63
Structurally weak, vulnerable and small economies[a]	**58**	**51**	**52**	**10**	**13**	**10**
LDCs	24	22	23	5	7	3
LLDCs	34	30	29	2	4	6
SIDS	7	6	7	2	1	1
***Memorandum:* percentage share in world FDI flows**						
Developed economies	48.4	47.5	40.6	68.0	63.8	60.8
Europe	28.6	22.2	23.5	29.3	24.3	23.3
North America	14.9	20.5	11.9	28.5	29.0	28.8
Developing economies	45.6	45.7	55.5	27.8	29.2	34.6
Africa	4.0	3.7	4.4	1.0	1.2	1.0
Asia	28.6	29.2	37.9	23.3	25.7	31.9
East and South-East Asia	22.9	23.7	31.0	20.7	22.4	28.3
South Asia	2.3	2.4	3.4	0.8	0.2	0.8
West Asia	3.4	3.0	3.5	1.8	3.1	2.8
Latin America and the Caribbean	12.7	12.7	13.0	3.4	2.2	1.7
Oceania	0.3	0.2	0.2	0.1	0.1	0.0
Transition economies	6.1	6.8	3.9	4.2	7.0	4.7
Structurally weak, vulnerable and small economies[a]	**4.1**	**3.5**	**4.3**	**0.7**	**1.0**	**0.8**
LDCs	1.7	1.5	1.9	0.4	0.6	0.2
LLDCs	2.5	2.0	2.4	0.2	0.3	0.4
SIDS	0.5	0.4	0.6	0.2	0.1	0.1

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
[a] Without double counting countries that are part of multiple groups.
Note: LDCs = least developed countries, LLDCs = landlocked developing countries, SIDS = small island developing States.

transition economies fell by 31 per cent to $63 billion as natural-resources-based MNEs, mainly from the Russian Federation, reduced their investment abroad. Developing economies now account for more than one third of global FDI outflows, up from about just one tenth in 2000.

FDI flows to *structurally weak, vulnerable and small economies* increased by 3 per cent to $52 billion, but with divergent trends: flows to least developed countries (LDCs) and small island developing States (SIDS) rose by 4.1 per cent and 22 per cent, respectively; landlocked developing countries (LLDCs) saw a decrease of 2.8 per cent.

The outcome of the first Conference on Financing for Development, the Monterrey Consensus of 2002, was a pledge by participants to mobilize financial assistance for developing economies in six principal areas, which include mobilizing international financial resources, such as FDI.[1] Both then and since, particular concern has focused on mobilizing financing and investment for the structurally weak, vulnerable and small economies, in order to ensure robust, resilient growth and sustainable development. Over the past decade (2004–2014), FDI stock tripled in LDCs and SIDS, and quadrupled in LLDCs. With a concerted effort by the international investment-development community, it would be possible to have FDI stock in these structurally weak economies quadruple by 2030 from today's level. And more important, further efforts are needed to harness financing for economic diversification to foster greater resilience and sustainability in these countries.

At the third Conference on Financing for Development on 13–16 July 2015 in Addis Ababa, and at the global summit on the Sustainable Development Goals in New York on 25–27 September 2015, external financing for development will come again under the spotlight, as will the performance of FDI in developing economies since the Monterrey conference. In light of this background, section B of this chapter includes a stocktaking of FDI trends in LDCs, LLDCs and SIDS since 2002, in addition to analysis of last year's trends.

AFRICA

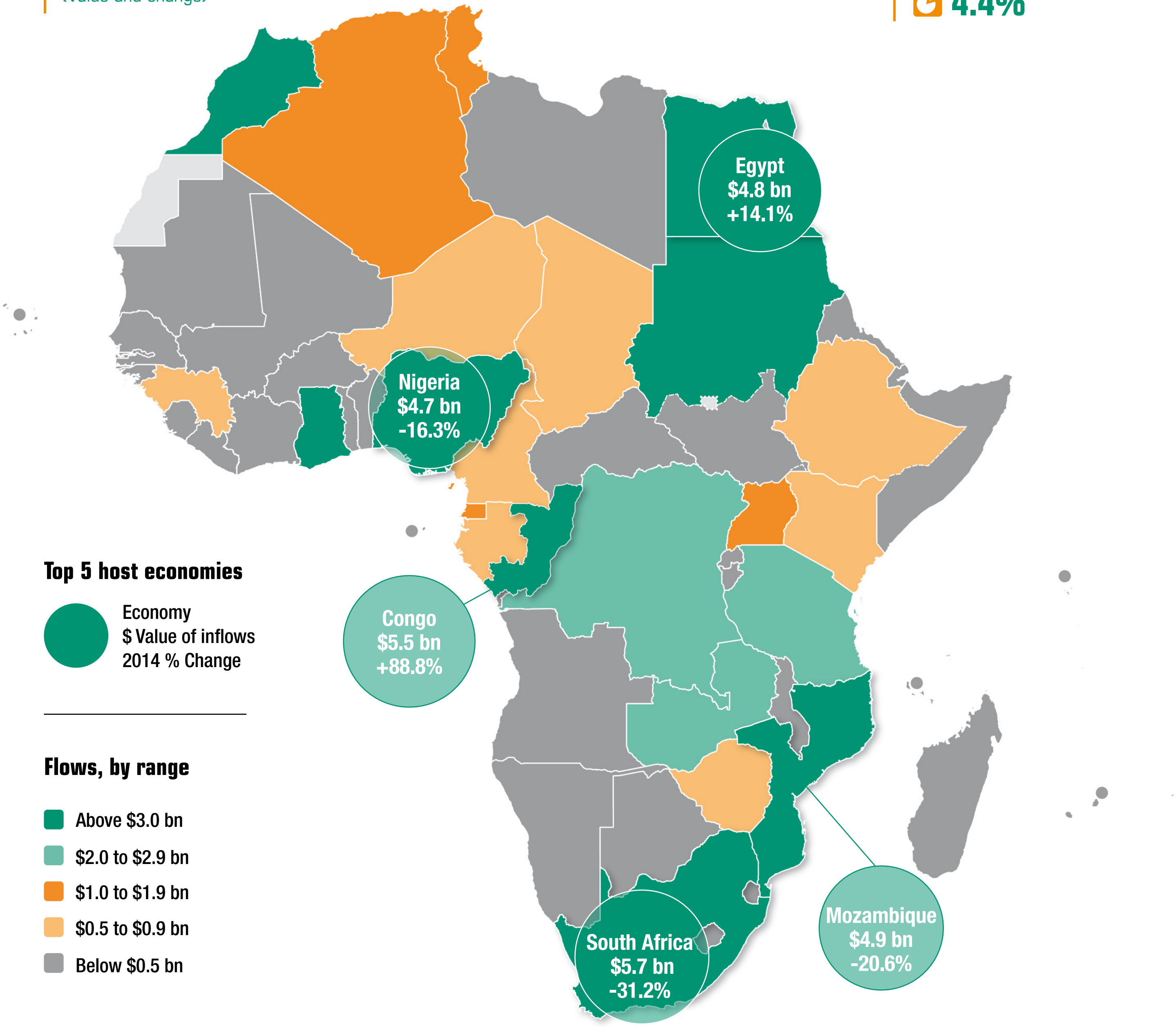
FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows
54 bn

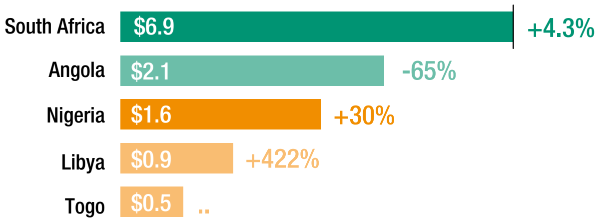
2014 Decrease
-0.1%

Share in world
4.4%



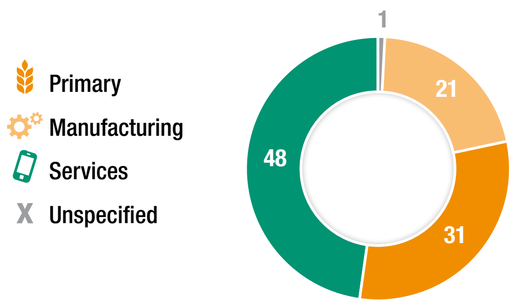
Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



Inward FDI stock by sector

(Percentage of the total inward FDI stock in subregion)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

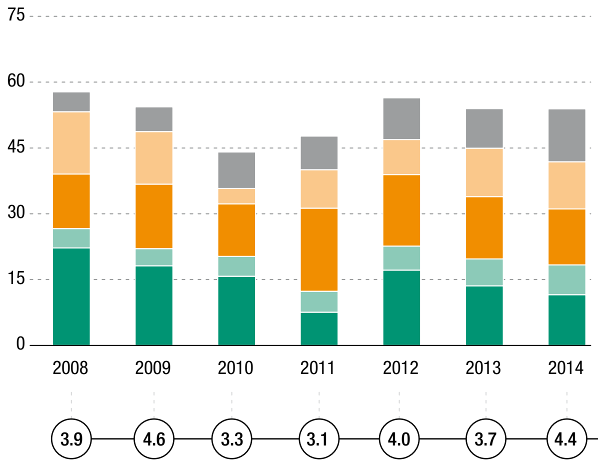
HIGHLIGHTS

- Increasing investment by developing-economy MNEs
- Services: largest sector in Africa's stock of FDI
- FDI in services concentrated in a few countries

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

Figure B. FDI outflows, 2008–2014 (Billions of dollars)

North Africa · East Africa · West Africa · Southern Africa · Central Africa



Share in world total

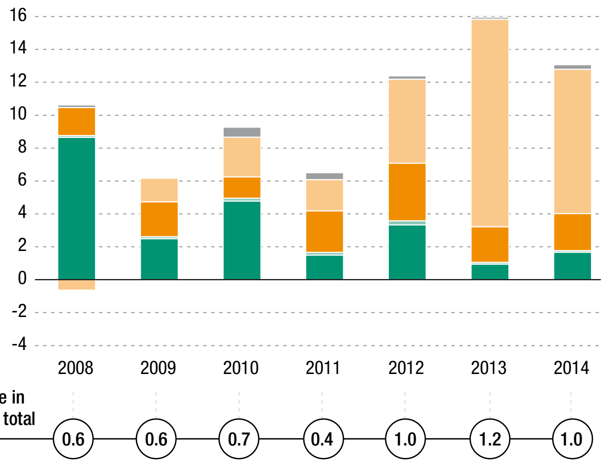


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	Africa as destination 2013	Africa as destination 2014	Africa as investors 2013	Africa as investors 2014
Total	**55 124**	**88 295**	**17 402**	**13 386**
Primary	**6 114**	**21 974**	**7**	**48**
Mining, quarrying and petroleum	3 750	21 974	7	48
Manufacturing	**14 722**	**28 787**	**8 013**	**3 848**
Food, beverages and tobacco	1 437	2 099	535	1 214
Textiles, clothing and leather	1 744	2 091	126	23
Non-metallic mineral products	3 921	2 213	2 805	1 918
Motor vehicles and other transport equipment	1 642	1 585	98	15
Services	**34 287**	**37 534**	**9 382**	**9 490**
Electricity, gas and water	11 537	10 648	-	125
Construction	3 536	9 229	1 005	462
Transport, storage and communications	7 774	5 909	2 919	2 305
Business services	7 099	6 323	2 656	4 949

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	Africa as destination 2013	Africa as destination 2014	Africa as investors 2013	Africa as investors 2014
World	**55 124**	**88 295**	**17 402**	**13 386**
Developed economies	**28 010**	**63 024**	**2 742**	**1 112**
European Union	16 939	46 957	1 575	939
France	2 070	18 931	297	127
United States	2 559	8 014	1 121	39
Developing economies	**27 013**	**25 180**	**14 587**	**12 274**
Africa	13 082	10 209	13 082	10 209
Nigeria	2 260	545	2 784	1 321
South Africa	5 379	4 789	343	176
Asia	13 735	14 886	1 421	1 769
China	289	6 132	454	92
India	5 311	1 122	83	107
Transition economies	**101**	**90**	**74**	**-**

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
Total	**3 829**	**5 058**	**3 019**	**5 446**
Primary	**135**	**2 566**	**289**	**1 595**
Mining, quarrying and petroleum	135	2 556	289	1 595
Manufacturing	**3 326**	**326**	**1 632**	**209**
Food, beverages and tobacco	1 023	22	244	35
Paper and paper products	-5	-101	-	-101
Pharmaceuticals, medicinal chemicals and botanical products	567	51	1 310	-51
Basic metal and metal products	-	301	-	-
Services	**368**	**2 166**	**1 098**	**3 642**
Electricity, gas, water and waste management	250	58	-	1 176
Transportation and storage	27	425	27	74
Financial and insurance activities	222	1 419	653	228
Business activities	104	12	135	129

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
World	**3 829**	**5 058**	**3 019**	**5 446**
Developed economies	**-8 953**	**-8 317**	**2 288**	**1 670**
European Union	-4 831	-6 886	1 641	154
France	-2 310	-5 648	147	246
United States	-4 751	-1 801	-15	21
Developing economies	**12 769**	**13 331**	**731**	**3 783**
Africa	130	2 424	130	2 424
Latin America and the Caribbean	-430	400	-	1 094
Asia	13 069	10 507	596	265
India	419	2 730	233	137
Qatar	2 529	729	-	-
United Arab Emirates	538	5 677	29	-
Transition economies	**-**	**-**	**-**	**-6**

FDI inflows to Africa remained flat at $54 billion, decreasing in North Africa and rising in Sub-Saharan Africa.

North Africa saw its FDI flows decline by 15 per cent to $11.5 billion, while flows to Sub-Saharan Africa rose by 5 per cent to $42.4 billion. As a percentage of global FDI flows, though, Africa's share increased to 4.4 per cent, from 3.7 per cent in 2013. Slow global economic growth may make the faster-growing African economies relatively more attractive, especially to emerging-market investors; at the same time, future growth prospects in key markets such as Nigeria and Zambia are weakening, as commodity prices fall. Important drivers that shape FDI trends to Africa include rising intra-African FDI; expansion by emerging-market firms (increasingly from West Asia) and non-traditional actors (private equity); and growing consumer markets, with the food and beverages industry having another standout year.

In *North Africa*, the decline in flows to Algeria, Libya, the Sudan, South Sudan and Tunisia was larger than the rise of flows in Egypt and Morocco. FDI flows to Egypt grew by 14 per cent to $4.8 billion, driven by investments in oil and construction projects. Morocco also saw increased FDI flows, growing 8.6 per cent to $3.6 billion. In 2014, Algeria saw its FDI flows almost halved from the level in the previous year, due to a 87 per cent fall in announced greenfield investment. The continuing unrest in Libya negatively influenced investors' perception of the region's potential as an FDI host.

FDI flows to *West Africa* declined by 10 per cent to $12.8 billion, as Ebola, regional conflicts and falling commodity prices affected several countries. In those affected by Ebola, several companies either closed or suspended their expansion; e.g. in Sierra Leone, Africa Minerals (25 per cent Chinese owned) closed its flagship mine Tonkolili, and in Liberia, ArcelorMittal (Luxembourg) suspended an iron ore expansion project after contractors moved staff out of the country. Nigeria – the largest host country in the continent – saw its FDI flows fall by 16 per cent, as it moves away from overdependence on oil and diversifies into non-oil sectors.

East Africa saw its FDI flows increasing by 11 per cent, to $6.8 billion. The gas sector in the United Republic of Tanzania, which has enormous potential, drew FDI despite political wrangling over its future. In Ethiopia, the expanding textiles sector continued to attract FDI with its low wages and cheap power.[2]

Central Africa received $12.1 billion, up 33 per cent from 2013. FDI flows in the Republic of the Congo almost doubled to $5.5 billion as foreign investors continued investing in the oil refinery, despite falling commodity prices (for example Berven Group International Development (United States) signed an agreement with the government to build the country's second oil refinery for $1.6 billion). The Democratic Republic of the Congo continued to attract notable flows, despite falling copper prices. Glencore significantly upgraded the Democratic Republic of the Congo's main hydroelectric plant as mining companies looked to overcome bottlenecks in power supplies.

Flows to *Southern Africa* fell by 2 per cent to $10.8 billion. Mozambique saw its flows decline by 21 per cent to $4.9 billion, despite a significant rise in cross-border M&As in the oil and gas industry (for example, ONGC Videsh Ltd (India) acquired a 10 per cent stake in Rovuma Offshore Area 1 for $2.6 billion). South Africa – the largest host country in the subregion – received $5.7 billion, down 31 per cent from 2013.

MNEs from developing economies continue to invest in Africa, targeting assets relinquished by developed-country MNEs. Although developed countries continue to account for the largest share of FDI stock, the investment of developing-country MNEs is increasing, as reflected in cross-border M&As and announced greenfield FDI projects. MNEs from developed economies (in particular, France and the United Kingdom) continued to divest from Africa. Demand from developing-economy investors for these divested assets was significant; for instance, Emirates Telecommunications Corp (United Arab Emirates) bought a 53 per cent stake in Itissalat Al Maghrib SA – a foreign affiliate of Vivendi (France) – for $5.7 billion.

Chinese and Indian firms continue to be notable investors in Africa, with Tata investing in Algeria in 2014 and Chinese firms investing in South Africa's solar panel industry. The rise of non-traditional investors, especially from the United Arab Emirates, particularly Dubai, has been a new factor underpinning FDI flows into Africa in recent years. The country accounted for 6 per cent of total capital expenditure related to greenfield FDI projects into Africa in 2014, targeting consumer industries, infrastructure and services.[3] Other major deals from this region include one by

Qatar National Bank, the Gulf's largest lender, which paid $500 million to become the largest stakeholder in pan-African lender Ecobank.

Private equity drove many of the largest investments into Africa in 2014. Private equity group KKR (United States) made its first direct investment in Africa in 2014, investing $200 million in Ethiopian rose producer Afriflora. Carlyle secured nearly $700 million for its first Sub-Saharan African fund in early 2014, which it began to use by investing in TiAuto, a vehicle retailer in South Africa, as well as taking an 18 per cent stake ($50 million) in Nigerian lender Diamond Bank. Private equity firm Blackstone entered into a partnership with Nigerian businessman Aliko Dangote to invest across the region, and Edmond de Rothschild opened its first private equity fund focused on Africa.

Sectoral investment trends in 2014 reflect the continued importance of services and manufacturing investments. Some 38 per cent of announced greenfield FDI projects and 33 per cent of related capital expenditure were in manufacturing in 2014. The services sector recorded 60 per cent of projects and 43 per cent of capital expenditures. Unusually high planned capital expenditures in services FDI were due to a notable pickup in announced construction projects. Noteworthy investments took place in manufacturing in Africa, mainly in electronic equipment, motor vehicles and food. In Nigeria, Nissan, Peugeot and Hyundai all began auto assembly in 2014. Nigeria's Automotive Industry Plan (introduced in 2012) has been important in the industry's expansion, positioning itself within the emerging automotive regional value chains. Food and beverages FDI is another beneficiary of growing consumer markets in Africa, with several large deals in 2014; e.g. Danone (France) bought a 40 per cent stake in Brookside Dairy, East Africa's largest milk processor, based in Kenya.

FDI outflows from Africa decreased by 18 per cent, from $16 billion in 2013 to $13 billion in 2014. Services continued to be the focus of African firms' outward FDI. In cross-border M&As, South Africa's Woolworths announced plans to acquire David Jones, the Australian department store, in a deal valued at $2.14 billion.

Intra-African FDI remained preponderant in 2014. The share of intraregional greenfield investments by African firms in total announced greenfield investments in Africa remained similar to the 2013 figures, at 76 per cent in terms of value and 68 per cent in the number of projects. Intra-African M&As accounted for 45 per cent of total cross-border M&A purchases by African firms, with Nigeria accounting for a large portion of sales and purchases. South African firms remained important investors: Nedbank agreed to purchase a 20 per cent stake in Togo's Ecobank for $0.5 billion, while Shoprite will open 30 new stores on the continent by June 2015.

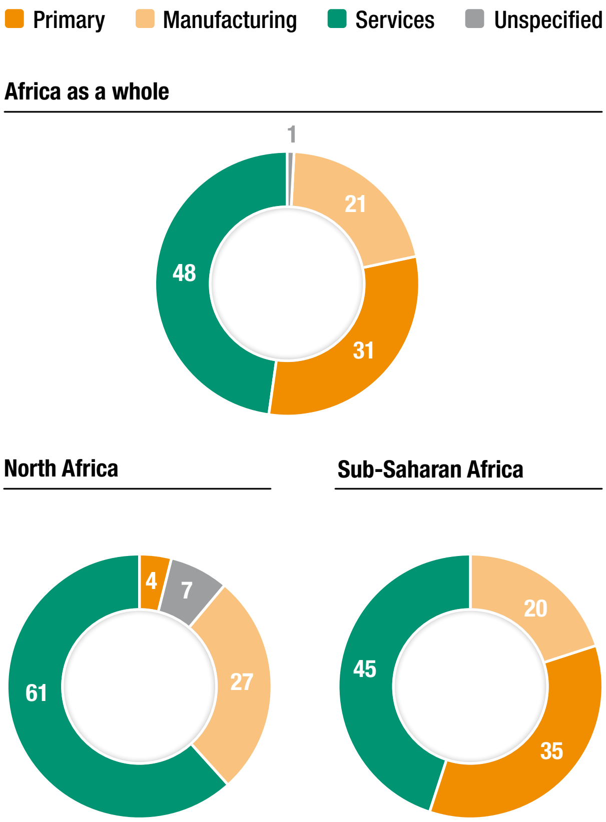
The potential of FDI into Africa's services sector

Services is the largest sector in Africa's stock of FDI. Available data show that Africa's services FDI stock increased four-fold between 2001 and 2012. The share of services FDI stock in the continent is still lower than the corresponding global and developing-country shares. In 2012 (the latest year for which data are available), although concentrated in a few countries, services FDI nonetheless accounted for 48 per cent of Africa's total stock of FDI, more than twice the share of manufacturing (21 per cent) and significantly more than the primary sector (31 per cent) (figure II.1).

Confirmation of the importance of FDI in services can be seen in announced greenfield investment data:[4] the sector accounted for the majority of greenfield FDI projects into Africa and the largest single portion of related planned capital expenditure in 2014. For the 2003–2014 period, including the period when the commodity boom was in full swing, 38 per cent of planned capital expenditure (and 55 per cent of projects) related to announced greenfield FDI projects were in the services sector, more than in either the manufacturing sector or the primary sector.

The stock of services FDI in Africa is concentrated. In North Africa, where the services sector accounts for more than 60 per cent of the subregion's total FDI stock, Morocco has grown as a services hub in the subregion, through its efforts to position itself as a gateway to the continent. The array of incentives offered by Casablanca's "Finance City" have helped attract major MNEs such as BNP Paribas, AIG, Boston Consulting Group, Microsoft and Ford to move their regional headquarters there. Factors such as substantial investment in infrastructure (especially in information and communication technology (ICT)), a strong skills base, political stability and proximity to Europe make Morocco well placed to attract services FDI.

Figure II.1 **Africa's inward FDI stock by sector and by subregion, 2012**
(Percentage of total inward FDI stock in region and subregion)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Where 2012 numbers are unavailable, 2011 data are used. Data used here account for 20 per cent and 68 per cent, respectively, of total stock in North Africa and Sub-Saharan Africa.

Services FDI, at 61 per cent of Morocco's inward FDI stock ($45 billion), is the largest component of the country's FDI and has been consistently so over the past decade. In 2012, some 29 per cent of Morocco's stock of services FDI was held in transport, storage and communications (with more than half in telecommunications), followed by real estate (27 per cent) and finance (15 per cent).

In *Sub-Saharan Africa*, South Africa predominates in the services sector. Over the past decade, South Africa's stock of manufacturing FDI has shrunk relative to services FDI. By 2012 finance and business services alone accounted for the major portion of its inward FDI stock at 36 per cent. When other industries are included, such as transport and retail, the services sector accounted for 51 per cent, the primary sector (mining) for 31 per cent, and manufacturing for 18 per cent of the country's inward FDI stock. Two financial industry investments that considerably increased South Africa's – and Africa's – services FDI stock were the purchase by Barclays Bank of over 50 per cent of Absa Bank for R33 billion in 2005 ($2.7 billion in current prices); and the purchase by China's largest bank, the Industrial and Commercial Bank of China (ICBC), of a 20 per cent stake in Standard Bank for R36.7 billion in 2007 ($3 billion).[5]

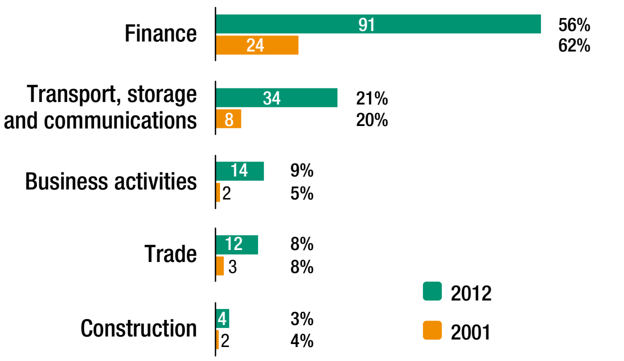
Growth in the rest of Africa has been a primary reason why South Africa's services sector has received strong inflows, as companies look to use that country as a base from which to expand regionally. Notable non-financial examples are MNEs setting up Africa-oriented information technology services and call centres in the country (e.g. Wipro of India's establishment of a software company in 2014) and investments in hospitality (e.g. Marriott's acquisition of the 116-hotel Protea Hotel Group, completed in 2014).

In contrast to South Africa, Nigeria's services sector has attracted FDI oriented mostly to the local market. At $30 billion, services FDI accounted for 39 per cent of Nigeria's inward stock in 2012. Finance accounted for the largest portion, at 63 per cent (indicating the importance of foreign – and especially African – banks in advancing into Nigeria's retail banking market), followed by transport, storage and communications (26 per cent), and construction (9 per cent).

Finance accounts for the major portion of Africa's stock of services FDI. By 2012 more than half of Africa's services FDI stock was held in finance (56 per cent), followed by transport, storage and communications (21 per cent) and business activities (9 per cent) (figure II.2). FDI in tourism, though significant, is spread across a number of service industries. FDI in service industries is demonstrating. For instance, financial FDI inflows amounted to 11 per cent of total FDI inflows into Africa in 2010–2012. In absolute terms, inflows in this industry expanded from 30 per cent ($0.9 billion) to 35 per cent ($3.4 billion) of services FDI between 2001–2003 and 2010–2012.

Infrastructure and other services, including telecommunications, are becoming increasingly salient. The stock of FDI into the transport, storage and communications industry grew more than four-fold between 2001 and 2012, from $8 billion to

Figure II.2. **Africa: Services FDI stock, by industry, 2001 and 2012**
(Billions of dollars and per cent of Africa's inward FDI stock in services)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Where 2012 numbers are unavailable, 2011 data are used.

$34 billion. Although FDI accounts for a small portion of total infrastructure financing and development in Africa because of the wide use of non-equity modes (NEMs) of operation by MNEs, FDI is increasingly visible in, for instance, the growing ICT network as investors look to capture expanding consumer markets.

The rise of telecommunications FDI into the continent reflects increased consumer spending, unsaturated markets with first-mover advantages, greater affordability of smartphones and a push to expand broadband, 4G and fibre optics in order to take advantage of these trends. Another important aspect has been the disposal of cell phone towers by telecommunications companies (box II.1).

As an example of this push to advance connectivity, India's Bharti group undertook 11 greenfield investment projects in Nigeria and Uganda in 2014 alone, adding to its existing investment in 13 other African countries (Burkina Faso, Chad, the Democratic Republic of Congo, Ghana, Kenya, Madagascar, Malawi, the Republic of Congo, Seychelles, Sierra Leone, the United Republic of Tanzania, Zambia and Uganda), in order to establish a Wi-Fi network across Africa.

African investors accounted for 31 per cent of global planned capital expenditure in announced greenfield FDI projects on the continent in 2014. Some 21 per cent of all such projects in transport, storage, and communications were led by Africa-based investors. South Africa's MTN is one major investor, establishing data centres, sales offices and 4G projects in Côte d'Ivoire, Ghana, Swaziland and Uganda in 2013. Mauritian companies are also prominent: in 2013, Smile Telecoms and Liquid Telecom established several greenfield FDI projects across Sub-Saharan Africa in order to construct a cross-country 4G and fibre-optic network.

The electricity, gas and water industry has seen strong inflows in recent years too, accounting for 9 per cent of FDI inflows into Africa's services sector in 2010–2012, though this has not yet translated into significant FDI stock holding. Inflows into the subsector reflect a growing willingness on the part of African governments to move public service provision into the sphere of public-private partnerships (PPPs), and a greater readiness by development financial institutions to help finance such projects through blending and leveraging arrangements.

African services MNEs are investing regionally. The dispersal of affiliates of African service MNEs confirms the intraregional dimension in a number of industries, including finance, infrastructure and

Box II.1. Disposal of cell phone towers in Africa

MTN, Bharti Airtel, and Orange SA have all sold off large portions of their tower networks in Africa in recent years to reduce exposure arising from ownership and maintenance. Towers and the infrastructure that accompanies them can account for more than 60 per cent of the expense to build a cell phone network in the continent.[6] The towers are especially costly to run due to electricity shortages, which means that backup generators and the employment of security personnel are required. Also, revenue per user in Africa is generally lower. Selling the towers to third parties allows for the hosting of multiple tenants—mobile operators and Internet providers—on the same tower. HIS Holding, partially owned by a Goldman Sachs–led consortium and now Africa's largest mobile telecommunications infrastructure provider, has purchased nearly 3,000 towers from MTN in Rwanda, Zambia, Cameroon and Côte d'Ivoire since 2012. Airtel has also agreed to sell and lease back over 1,100 towers from HIS in Zambia and Rwanda under a 10-year renewable contract. As a result, HIS now manages over 21,000 towers in Africa.

Source: UNCTAD, based on media sources.

trade. UNCTAD[7] identified more than 500 African service MNEs, with some 2,700 overseas affiliates, half of them in other African countries. In industries other than finance, more than 60 African MNEs in both infrastructure and trade have expanded abroad, reflecting demand for these services. In trade, three quarters of 265 foreign affiliates are located within Africa, while in infrastructure two fifths are intraregional. Similarly, MNEs in the financial services sector have both a domestic and regional focus. Africa's growing consumer markets, financial deregulation and the regional orientation of financial firms are factors in intra-African investment flows (box II.2).

The potential for services FDI to develop Africa's economy is significant. FDI in services is important in supporting the participation of African economies in global value chains, as an increasing part of value added in trade consists of services. It is also important in the context of financing progress towards the sustainable development goals. As shown in *WIR14*, the principal investment gaps are in infrastructure industries and vital public services. Increasing attractiveness for services FDI therefore constitutes an opportunity for policymakers. At the same time, it is important to ensure continued affordability and accessibility of services provision for all.

Box II.2. The contribution of intra-African services FDI to development of Africa's financial industry

Intra-African FDI has played a vital role in driving Africa's burgeoning financial industry, especially in retail banking services (Krüger and Strauss, 2015). Financial services accounted for about 50 per cent of intra-Africa greenfield investment projects between 2003 and the start of 2014, with about 38 per cent of these projects in retail banking, and 5 per cent in insurance.

Intra-African FDI into the financial industry has been led by banks from Kenya (Kenya Commercial Bank and Guaranty Trust Bank/Fina Bank), Nigeria (United Bank for Africa) and South Africa (FirstRand and Standard Bank). The geographical spread of these services has been impressive: South Africa's Standard Bank operates in 20 countries in Africa; Ecobank, a Togo-based pan-African bank in 36; and Nigeria's United Bank for Africa in 19. There has also been strong regional expansion by banks from North Africa – especially Banque Marocaine du Commerce Extérieur and Libya Foreign Arab Bank. Much of this expansion has occurred since the 2008 financial crisis. For example, in response to the crisis, South Africa's Standard Bank sold off its global operations and focused on becoming an African bank.

UNCTAD's database on foreign affiliates, which is based on data from Bureau van Dijk's Orbis database, reports 114 financial companies headquartered in Africa that have established 465 affiliates in other countries, three quarters of them located in the continent.

Source: UNCTAD, based on various sources.

EAST & SOUTH-EAST ASIA

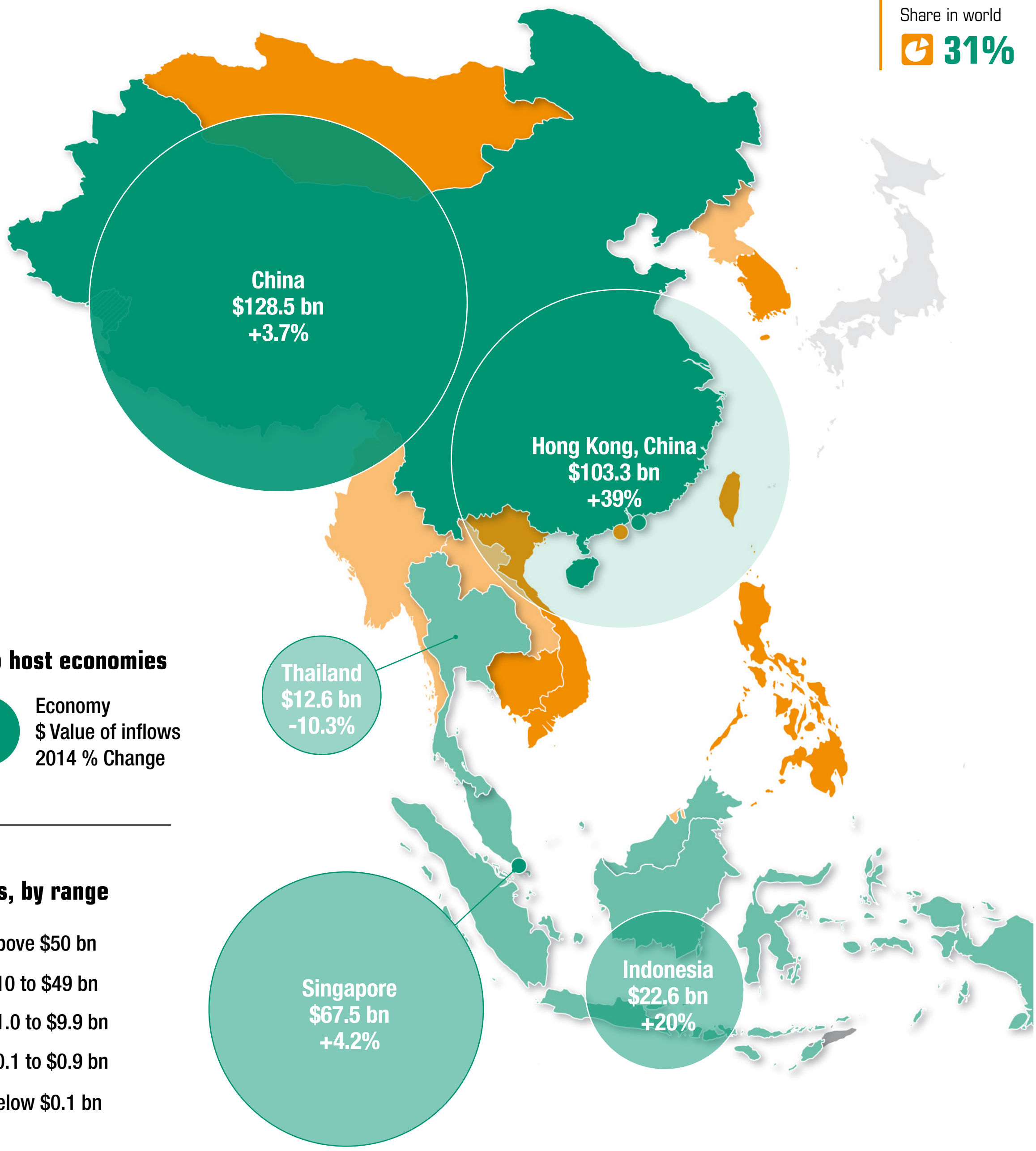
FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows
381 bn

2014 Increase
+9.6%

Share in world
31%



Top 5 host economies

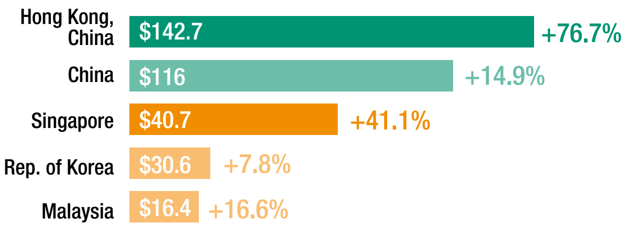
Economy
$ Value of inflows
2014 % Change

Flows, by range

- Above $50 bn
- $10 to $49 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

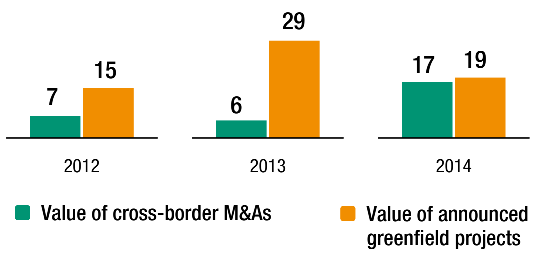
Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



East and South-East Asia: Cross-border M&As and announced greenfield investments in infrastructure industries, 2012–2014

(Billions of dollars)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- East and South-East Asia: largest recipient subregions
- China: largest FDI recipient
- Infrastructural connectivity intensifies

Figure A. **FDI inflows, 2008–2014** (Billions of dollars)

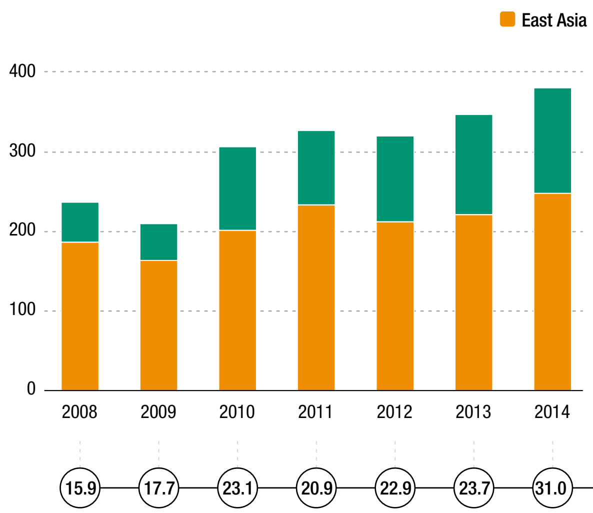


Figure B. **FDI outflows, 2008–2014** (Billions of dollars)

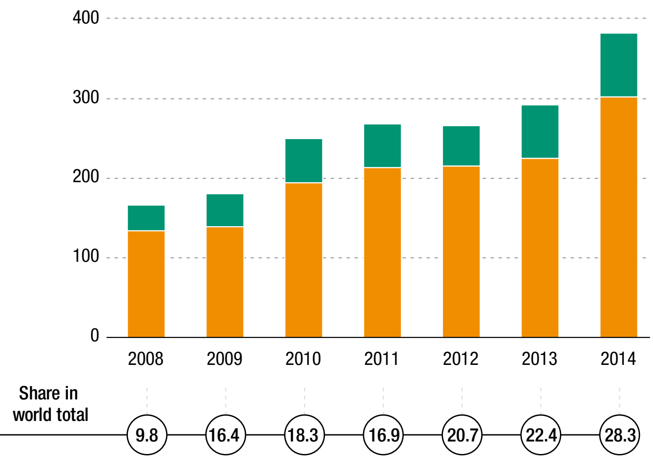


Table A. **Announced greenfield FDI projects by industry, 2013–2014** (Millions of dollars)

Sector/industry	East and South-East Asia as destination		East and South-East Asia as investors	
	2013	2014	2013	2014
Total	**158 851**	**192 612**	**117 002**	**145 108**
Primary	**1 045**	**4 056**	**2 180**	**5 513**
Mining, quarrying and petroleum	823	4 056	2 180	5 491
Manufacturing	**81 779**	**106 402**	**24 241**	**69 877**
Textiles, clothing and leather	5 591	6 519	1 367	4 276
Chemicals and chemical products	13 903	13 097	3 719	5 209
Electrical and electronic equipment	9 132	20 158	6 612	17 654
Motor vehicles and other transport equipment	18 155	28 896	3 157	19 098
Services	**76 028**	**82 154**	**90 581**	**69 718**
Electricity, gas and water	17 946	10 521	8 375	14 289
Construction	11 317	24 593	13 569	26 231
Finance	11 466	11 149	6 322	5 418
Business services	10 148	15 494	42 912	9 462

Table B. **Announced greenfield FDI projects by region/country, 2013–2014** (Millions of dollars)

Partner region/economy	East and South-East Asia as destination		East and South-East Asia as investors	
	2013	2014	2013	2014
World	**158 851**	**192 612**	**117 002**	**145 108**
Developed economies	**107 844**	**114 729**	**17 999**	**28 369**
European Union	42 975	41 227	9 150	9 938
Germany	13 340	14 982	398	388
United Kingdom	8 668	6 286	4 503	5 503
United States	25 142	30 794	5 133	12 024
Japan	29 540	29 201	1 785	2 553
Developing economies	**50 457**	**77 093**	**97 361**	**107 058**
Africa	483	111	2 411	7 587
Asia and Oceania	49 107	76 530	43 651	88 413
China	3 724	14 073	20 541	28 499
Latin America and the Caribbean	867	451	51 299	11 058
Transition economies	**550**	**789**	**1 643**	**9 681**

Table C. **Cross-border M&As by industry, 2013–2014** (Millions of dollars)

Sector/industry	Sales		Purchases	
	2013	2014	2013	2014
Total	**33 344**	**80 653**	**91 009**	**125 250**
Primary	**-3 489**	**496**	**10 902**	**7 361**
Mining, quarrying and petroleum	-3 492	172	10 845	7 657
Manufacturing	**11 679**	**7 497**	**6 427**	**47 954**
Food, beverages and tobacco	6 070	1 969	5 701	-1 879
Chemicals and chemical products	637	1 843	892	1 057
Basic metal and metal products	919	480	-2 339	42 161
Computer, electronic, optical products and electrical equipment	1 269	1 323	1 696	4 021
Services	**25 154**	**72 660**	**73 680**	**69 935**
Electricity, gas, water and waste management	1 216	899	4 873	5 955
Trade	-4 630	6 213	792	2 373
Financial and insurance activities	15 010	53 781	59 246	54 103
Business activities	10 149	7 453	3 714	5 418

Table D. **Cross-border M&As by region/country, 2013–2014** (Millions of dollars)

Partner region/economy	Sales		Purchases	
	2013	2014	2013	2014
World	**33 344**	**80 653**	**91 009**	**125 250**
Developed economies	**6 065**	**8 720**	**50 834**	**44 887**
European Union	-5 814	9 682	8 927	18 063
United Kingdom	721	1 767	3 033	5 673
United States	5 038	-3 269	11 279	12 597
Australia	-270	-1 065	6 861	7 737
Japan	9 005	4 894	1 676	2 801
Developing economies	**24 836**	**70 869**	**38 015**	**79 225**
Africa	334	119	9 456	1 358
Asia and Oceania	23 723	70 750	25 713	72 855
China	2 330	10 148	19 018	49 601
Latin America and the Caribbean	779	-	2 846	5 012
Transition economies	**597**	**447**	**2 160**	**1 138**

Despite the slowdown in economic growth in East and South-East Asia, FDI inflows to the region remained resilient. Combined inflows grew by 10 per cent to a historical high of $381 billion in 2014. As a result, East and South-East Asia together continues to be the largest recipient region in the world. Both subregions saw growth: inflows to East Asia rose by 12 per cent to $248 billion, while those to South-East Asia rose 5 per cent, to $133 billion. Infrastructural connectivity is intensifying, with MNEs providing much of the investment; in particular, their contributions through NEMs are significant.

China has surpassed the United States to become the largest FDI recipient in the world. FDI inflows to China reached $129 billion in 2014, an increase of about 4 per cent. This was driven mainly by an increase in FDI to the services sector, particularly in retail, transport and finance, while FDI fell in manufacturing, especially in industries that are sensitive to rising labour costs. FDI inflows in services surpassed the share of manufacturing for the first time in 2011. In 2014, the share of services climbed to 55 per cent, while that of manufacturing dropped to 33 per cent. Among major investing countries, the Republic of Korea's investment in China rose by nearly 30 per cent in 2014, and the European Union (EU) experienced a slight increase. By contrast, FDI flows from Japan and the United States declined by 39 per cent and 21 per cent, respectively.

FDI outflows from China reached $116 billion. They continued to grow faster than inflows. FDI outflows from China grew by 15 per cent to a record-high $116 billion; increasing faster than inflows into the country. Overseas acquisitions have become an increasingly important means of international expansion by some Chinese financial institutions. For instance, through six cross-border M&As during a short period between October 2014 and February 2015, China's Anbang Insurance Group took over Waldorf Astoria Hotel in New York in the United States at $1.95 billion, FIDEA Assurances (cost undisclosed) and Delta Lloyd Bank (€219 million) in Belgium, Vivant Verzekeringen in the Netherlands at $171 million, Tong Yang Life in the Republic of Korea at $1 billion, and a 26-story office tower in New York from Blackstone Group. The rapid growth of Chinese outward FDI is likely to continue, particularly in services, as well as in infrastructure-related industries, as the country's "One Belt, One Road" strategy (referring to the Silk Road Economic Belt and the 21st Century Maritime Silk Road) starts to be implemented.

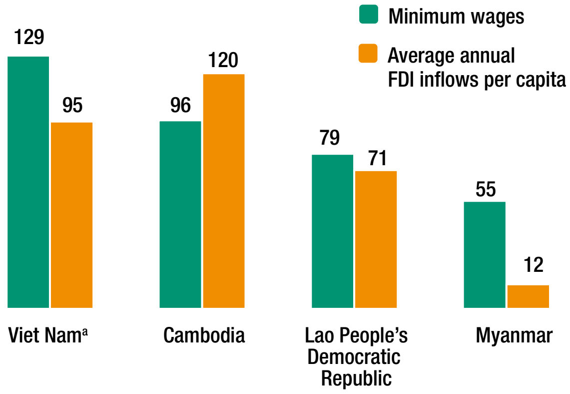
Inflows to Hong Kong (China) and Singapore rose at different paces. Inflows to Hong Kong (China) rose by 39 per cent to $103 billion. This strong growth was driven by a surge in equity investment associated with some large cross-border M&As, such as the purchase of a 25 per cent stake in A.S. Watson Co. by Singapore's Temasek Holdings at $5.7 billion, and the $4.8 billion acquisition of Wing Hang Bank by OCBC Bank (also from Singapore). Investors from mainland China contributed considerably to growth as well. Companies from the mainland were important players in the M&A market in Hong Kong (China) in 2014. For example, COFCO Corporation acquired a 51 per cent stake in Noble Agri Limited, paying $4 billion to its parent Novel Group, a global supply chain manager of agricultural and mineral products based in Hong Kong (China). In terms of greenfield projects, Chinese companies accounted for about one fifth of all projects recorded by InvestHK in 2014.[8] FDI inflows to Singapore, another financial centre in the region, by contrast, rose by only 4 per cent to $68 billion.

Performance of South-East Asian economies differed significantly. Singapore remained the dominant recipient of FDI in South-East Asia. FDI growth also increased in other South-East Asian economies. Inflows to Indonesia rose by 20 per cent to about $23 billion. The increase was driven by a significant increase in equity investment, particularly in the third quarter of the year. According to recent data from the Indonesia Investment Coordinating Board, the most important targeted industries were mining; food; transportation and telecommunications; metal, machinery and electronics; and chemical and pharmaceutical. The largest investing countries were Singapore, Japan, Malaysia, the Netherlands and the United Kingdom, in that order.

Viet Nam saw its inflows increase 3 per cent in 2014. In November, the government decided to raise the minimum wage by about 15 per cent in 2015. Compared with 15 years ago, the nominal minimum wage at the national level had already increased 17-fold. Viet Nam still enjoys a labour cost advantage over China, but rapidly rising wages have reduced the difference, which may affect relatively small investors in labour-intensive industries.[9]

Neighbouring low-income countries in South-East Asia have significant labour cost advantages over Viet Nam. As a result, efficiency-seeking FDI in manufacturing to

Figure II.3. **CLMV countries: Minimum monthly wages, 2014, and annual FDI inflows per capita, 2012–2014** (Dollars)



Source: UNCTAD, based on information from the government of Viet Nam and Asia Briefing Ltd.
[a] Viet Nam refers to only suburban areas.
Note: CLMV = Cambodia, the Lao People's Democratic Replublic, Myanmar and Viet Nam.

those countries increased, including for large projects. In November 2014, for instance, the Taekwang and Huchems Group (Republic of Korea) announced an investment of $600 million for producing chemical and related products in the Thilawa Special Economic Zone in Myanmar. However, labour costs are clearly not the only factor driving FDI, as witnessed by the FDI inflows per capita in the Lao People's Democratic Republic and Myanmar, which are still considerably lower than in Viet Nam (figure II.3).

Enhancing regional connectivity in East and South-East Asia through international investment

Connectivity between countries and economies of East and South-East Asia is intensifying across infrastructure, business connections and institutions. This has contributed to reduced transaction costs and easier movement of goods, services, information and people, both within and outside the region. There are strong links between international investment and the intensification of regional connectivity in East and South-East Asia.

Infrastructural connectivity intensifies, but more investment is needed. This trend is being driven by policy efforts to deepen regional integration, and by business and economic imperatives in pursuit of more interlinked regional value chains. Investment in infrastructure industries has helped improve the investment climate and enhanced the region's attractiveness for efficiency-seeking manufacturing FDI, in particular.

Regional cooperation has helped improve infrastructural connectivity within the region and especially that between East Asia and South-East Asia. For example, the Greater Mekong Subregion initiative has brought together Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam, together with Yunnan Province in China. The initiative also has contributed to infrastructure connectivity between the CLMV (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) countries and other parts of the region. Driven by regional integration initiatives, cross-border infrastructure projects are further strengthening regional connectivity in the electricity, highway and railway industries. For example, regional cooperation has led to the transmission of electricity supply from the CLMV countries to China, and to the development of the Singapore-Kunming railway link.

Cooperation on various growth triangles, corridors or areas in ASEAN (e.g. Indonesia-Malaysia and Thailand Growth Triangle) has also contributed to strengthening connectivity among contiguous areas. A number of new initiatives introduced recently at the national (e.g. China's "One Belt, One Road" initiative, Korea's Eurasia initiative), regional and international (e.g. Asian Infrastructure Investment Bank, AIIB) levels will further boost regional integration and connectivity. Japan pledged $110 billion over the next five years to top up investment fund for infrastructure development in the Asian Development Bank. The planned AIIB is expected to have initial capital of about $100 billion, to be contributed by more than 50 participating countries. The AIIB has the specific objective of boosting infrastructure investment and connectivity across Asia.

Nevertheless, uneven development in infrastructural connectivity between countries, subregions and sectors persists. In transport, for example, the quality of the intraregional road network remains much lower than in the industrialized economies, and the region as a whole has a much lower road density than the OECD average (World Bank, 2014). One reason is that among countries within the region, there are significant gaps in the level of infrastructural development. For instance, in terms of infrastructure quality, a number of South-East Asian countries rank high globally – Singapore is second – but others rank low: Viet Nam and the Philippines, for instance, rank 82nd and 96th, respectively (WEF, 2013). For some low-income countries in the region, poor infrastructural connectivity has long been a major obstacle to attracting efficiency-seeking FDI and linking to global value chains.

In consequence, there are very large investment needs for infrastructure development in the region. According to estimates by the Asian Development Bank, total investment in infrastructure in Asia as a whole (including for connectivity) is expected to exceed $8 trillion between 2010 and 2020 (ADB and ADBI, 2009). Lacking the necessary capital or capacity to meet these needs, both countries and the region need to mobilize sources of funding, in which private investors, both domestic and foreign, can play an important role (*WIR14*).

International investment in infrastructure by MNEs has been on the rise. For example, Metro Pacific Investments Corporation, an affiliate of First Pacific (listed in Hong Kong, China), is one of the leading infrastructure investment firms in the Philippines. With businesses in electricity, rail, road and water, its total assets amounted to $4.5 billion in 2013. In the electricity industry in Thailand, Glow Energy – an affiliate of GDF Suez (France) – is an important player, with total assets and sales at $3.8 billion and $2.1 billion, respectively. In mobile telecommunications, subsidiaries of international operators from within and outside of the region account for significant market shares in South-East Asian countries such as Indonesia and Thailand. Asian companies, such as China Mobile and Singapore Telecommunications Ltd., have become important regional players in the industry.

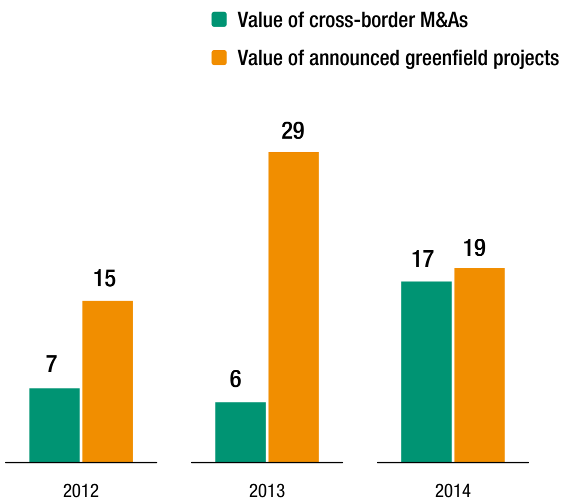
In East Asia, FDI stock in transport, storage and telecommunications had reached $33 billion in Hong Kong (China) by 2012. In South-East Asia, FDI stock in the same sectors stood at $37 billion in Singapore and $15 billion in Thailand, in the same year. More recently, FDI inflows to some infrastructure industries have been rising rapidly. In ASEAN, FDI inflows in electricity and gas utilities had reached $1.2 billion in 2013, a five-fold rise over the year before. In China, inflows in transport, storage and postal services rose from $3.4 billion in 2012 to $4.2 billion in 2013, and this growth has been continuing.

In 2014, the value of cross-border M&As in infrastructure industries nearly tripled to $17 billion, but that of announced greenfield projects declined by 37 per cent to $19 billion (figure II.4).

Major cross-border M&As included the purchase of companies in China, Hong Kong (China) and the Republic of Korea in East Asia, as well as in Indonesia, the Philippines, Singapore and Thailand in South-East Asia. In the latter subregion, electricity generation and mobile telecommunications have become important objects of cross-border M&As. In the Philippines, for example, Angat Hydropower Corporation, a subsidiary of Korea Water Resources Corp., took over a hydroelectric plant in Bulacan for $440 million in October 2014. In June, China Mobile, the world's largest mobile operator by subscribers, bought an 18 per cent stake in True Corp., the third largest mobile operator in Thailand, for $880 million.

MNEs also invested in infrastructure industries in South-East Asia by implementing new projects. In electricity, Japanese MNEs have been particularly active in the subregion: after investing in large power

Figure II.4. **East and South-East Asia: Cross-border M&As and announced greenfield investments in infrastructure industries, 2012–2014**
(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 investment projects.

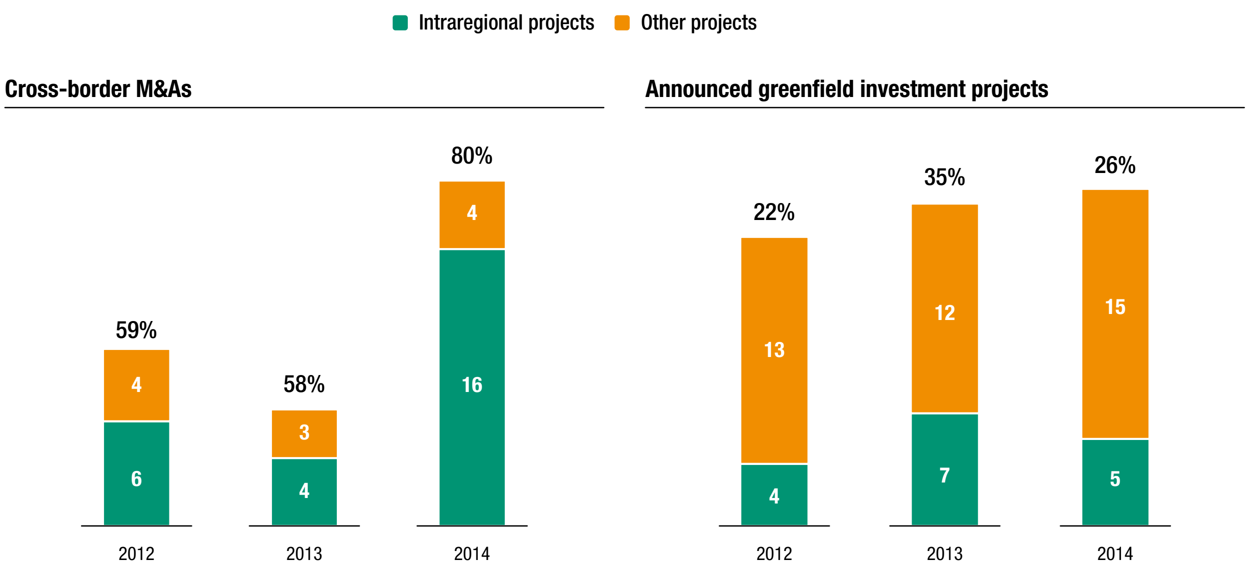
generation projects in Myanmar and Viet Nam in 2013, they announced big investment plans in Malaysia, the Philippines and Thailand in 2014. For instance, Mitsui & Co. Ltd. (Japan), in cooperation with Gulf Energy Development Company Limited (United Arab Emirates), plans to invest approximately $2.4 billion in a series of cogeneration plants in Thailand. The project aims to build, own and operate 12 gas-fired power plants with a total capacity of 1,470 MW in several industrial estates.

Intraregional FDI is a major driving force for infrastructure investment. A growing part of investment in infrastructure originates from within the region, with Hong Kong (China), China, Japan, Malaysia and Singapore among the most important sources of both investment and operations. There are, however, considerable differences in industry focus by country.

Outward investment in infrastructure industries from East and South-East Asia through cross-border M&As jumped by about 200 per cent to $20.1 billion while the value of overseas greenfield investment announcements increased slightly in 2014 (figure II.5). The growth in M&As was mainly a result of an increase in large deals in energy, telecommunications, transport and water. Major acquirers from China, Hong Kong (China) and Singapore were responsible for the largest 10 deals in 2014.

An estimated 45 per cent of outward investment by Asian MNEs in infrastructure industries targeted the region. Intraregional projects accounted for a much higher share in cross-border M&As than in greenfield projects (figure II.5). Traditionally, MNEs from Hong Kong (China) and Singapore have been the important investors in infrastructure industries. During the past few years, Chinese companies have also invested heavily in transport and energy (including electricity generation and transmission, pipelines, and so on) in countries such as Indonesia, Myanmar, the Philippines and Viet Nam. In transport, Chinese investment is expected to increase in railways, including in the Lao People's Democratic Republic and Myanmar. China and Thailand recently signed an agreement for the development of a high-speed rail line in Thailand with an estimated investment of $23 billion – part of a planned regional network of high-speed railways linking Kunming, China and Singapore. A major part of the region's largest cross-border M&As in infrastructure

Figure II.5. **International investment projects in infrastructure by investors from East and South-East Asia, value of projects and share of intraregional projects, 2012–2014**
(Billions of dollars and per cent)



Source: UNCTAD cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield investment projects.
Note: Figures in percentages refer to the share of intraregional projects in the total.

in 2014 were intraregional, including the largest deal, the acquisition of electric utility company Castle Peak Power (Hong Kong (China)) by China Southern Power Grid and CLP Power Hong Kong from ExxonMobil Energy for $3 billion.

For low-income countries in the region, intraregional flows account for a major share of FDI inflows, contributing to the build-up of infrastructure and productive capacities. For instance, with improving transport and energy infrastructure, Myanmar is emerging as an investment location for labour-intensive industries, including textiles, garments and footwear.

MNE participation through non-equity and mixed modalities increased as well. MNE contributions in the region through NEMs and mixed forms such as build, operate and transfer (BOT) are significant. In many cases, a PPP is developed, with governments providing subsidies while the private sector builds, finances and operates projects. Data from the World Bank's PPI database show that accumulated investment in infrastructure industries in East and South-East Asia through concessions and through management and lease contracts amounts to about $50 billion. Among major infrastructure industries, water and transport are the most targeted for non-equity and mixed mode participation by MNEs. The two industries accounted for 46 per cent and 31 per cent of the total amount of such activities.

Some projects with BOT and other concession structures have leveraged significant foreign capital and contributed to infrastructure build-up in industries such as electricity and transport. For example, AES Corp (United States) partnered with POSCO Power Corp (Republic of Korea) and China Investment Corporation (a major Chinese sovereign wealth fund) in developing the Mong Duong II power plant in Viet Nam. Through a BOT-type agreement with the government, the project will involve a total investment of $1.4 billion and is likely to set an example for PPP-based power projects in the country.

In transport, a number of large projects have been signed or are being planned on a PPP/concession basis. Indonesia, for instance, has recorded a number of such projects in transport infrastructure with a total investment greater than $1 billion. Examples are the West Coast Expressway concession and the Soekarno-Hatta Railway Project.[10]

Prospects for regional infrastructure and connectivity – and beyond. Further infrastructure expansion is necessary to boost regional connectivity in support of value chain development, trade facilitation and the development prospects of distant or isolated areas and communities. New and existing initiatives at national, regional and international levels are increasing the prospects for expansion of infrastructure investment and connectivity across the region – and beyond. In addition to initiatives by the Asian Development Bank, which has a long history of providing infrastructure loans to the region, a number of regional initiatives underpin regional integration development and connectivity.

A number of ASEAN member states have begun to open some transport industries to foreign participation, which may lead to more intraregional FDI. For example, Indonesia has recently allowed foreign investment in service industries such as port management as part of government efforts to enable Indonesia to become a strong maritime country. As more countries in South-East Asia announce ambitious long-term plans, total investment in infrastructure in this subregion is expected to grow further.

SOUTH ASIA

FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows

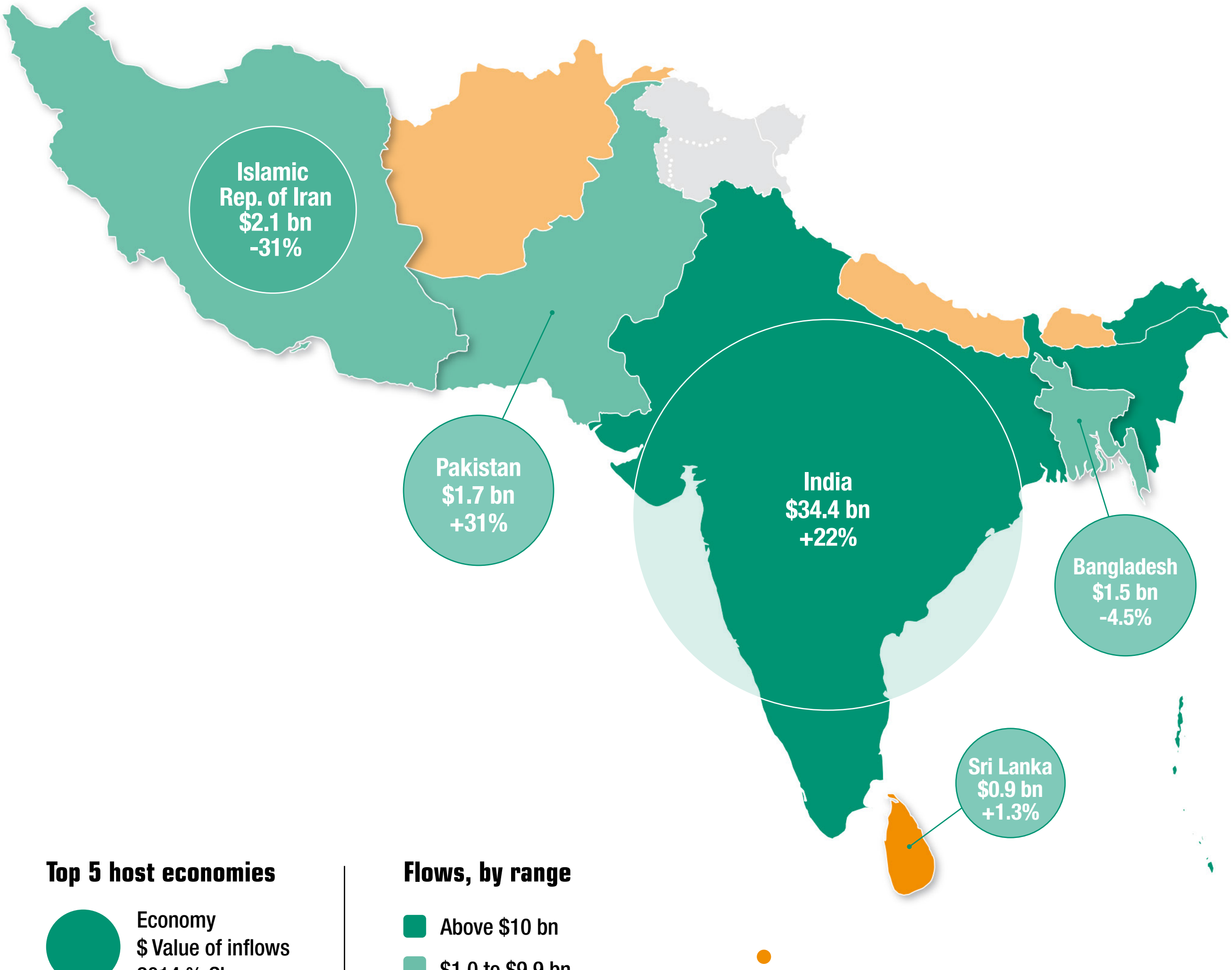
41.2 bn

2014 Increase

+16%

Share in world

3.4%



Top 5 host economies

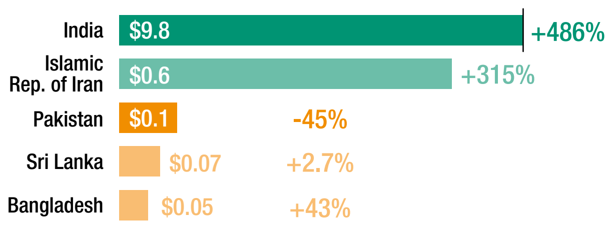
Economy
$ Value of inflows
2014 % Change

Flows, by range

- Above $10 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



Five largest announced greenfield projects, Bangladesh, 2014 (Millions of dollars)

Industry	Capital expenditures	Investor	Home country
Oil and natural gas	1 048	Chevron Bangladesh	United States
Communications	107	SEA-ME-WE 5	Singapore
Communications	107	Verizon Communications	United States
Paper, printing and packaging	107	Britannia Garment Packaging	United Kingdom
Chemicals, paints, coatings, additives and adhesives	81	Asian Paints	India

Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI inflows to India gained strength
- More FDI from China to the region
- FDI boosts automotive industry, particularly in India

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

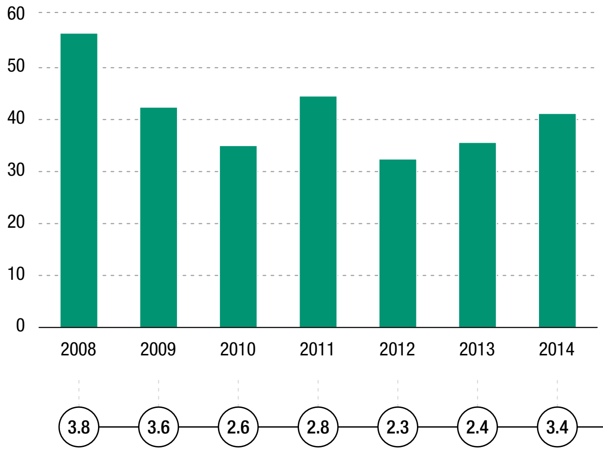


Figure B. FDI outflows, 2008–2014 (Billions of dollars)

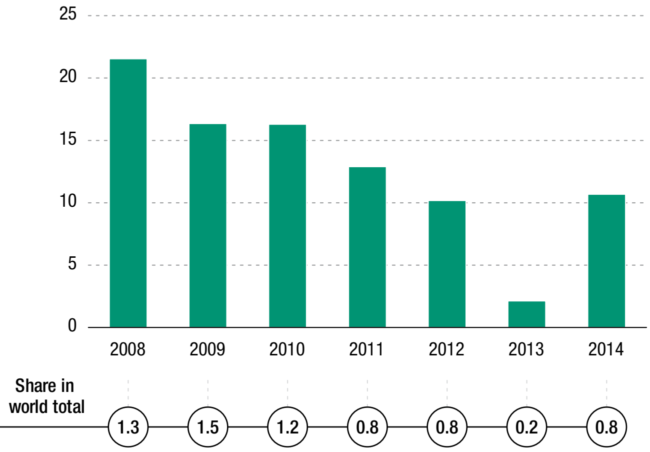


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	South Asia as destination		South Asia as investors	
	2013	2014	2013	2014
Total	**26 368**	**38 957**	**15 955**	**14 220**
Primary	**22**	**311**	**43**	**11**
Mining, quarrying and petroleum	22	311	43	11
Manufacturing	**10 919**	**14 223**	**7 085**	**6 879**
Textiles, clothing and leather	397	431	104	1 037
Coke, petroleum products and nuclear fuel	44	1 057	81	2 645
Metals and metal products	589	1 364	885	369
Motor vehicles and other transport equipment	1 971	4 270	2 791	933
Services	**15 427**	**24 423**	**8 827**	**7 331**
Electricity, gas and water	2 044	6 701	2 756	250
Transport, storage and communications	3 644	5 936	2 185	784
Finance	3 378	5 216	861	793
Business services	2 710	3 389	2 079	1 179

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	South Asia as destination		South Asia as investors	
	2013	2014	2013	2014
World	**26 368**	**38 957**	**15 955**	**14 220**
Developed economies	**19 282**	**23 129**	**4 134**	**2 856**
European Union	7 384	7 358	2 587	1 503
Germany	2 061	2 074	491	31
United Kingdom	2 470	1 146	1 718	530
United States	5 405	8 489	1 314	744
Japan	2 997	3 129	45	13
Developing economies	**7 011**	**15 724**	**10 952**	**11 079**
Africa	637	107	5 482	1 366
Asia and Oceania	6 355	15 586	4 755	9 202
China	884	6 079	506	137
Latin America and the Caribbean	20	30	715	510
Transition economies	**74**	**104**	**870**	**285**

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2013	2014	2013	2014
Total	**4 784**	**5 955**	**1 621**	**1 105**
Primary	**28**	**-40**	**1 482**	**2 934**
Mining, quarrying and petroleum	2	-40	1 482	2 924
Manufacturing	**4 608**	**4 170**	**920**	**-3 670**
Food, beverages and tobacco	1 173	2 026	-34	-727
Chemicals and chemical products	3 620	28	246	19
Pharmaceuticals, medicinal chemicals and botanical products	3 148	1 757	551	55
Basic metal and metal products	-4 068	-1	65	-586
Services	**148**	**1 824**	**-781**	**1 841**
Trade	42	240	-80	-
Information and communication	-209	546	85	49
Financial and insurance activities	-298	89	-691	2 469
Business activities	621	314	350	-533

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales		Purchases	
	2013	2014	2013	2014
World	**4 784**	**5 955**	**1 621**	**1 105**
Developed economies	**3 367**	**5 361**	**1 883**	**-880**
European Union	1 518	3 324	1 734	-551
United Kingdom	1 110	3 346	510	-657
United States	1 368	1 591	387	-422
Japan	382	250	-	-
Developing economies	**1 212**	**556**	**-262**	**1 900**
Africa	233	147	419	2 730
Asia and Oceania	979	409	-1 240	-771
India	-	24	-	32
Singapore	540	265	-771	-808
Latin America and the Caribbean	-	-	559	-59
Transition economies	**-**	**-**	**-**	**85**

Inflows to South Asia rose to $41 billion in 2014, primarily owing to growth in India, the dominant FDI recipient in the region. Both announced greenfield investments and cross-border M&As increased across the region: the value of the former jumped by 48 per cent to $39 billion, while that of the latter rose by about one quarter to $6 billion. At the regional level, FDI in manufacturing has risen, as illustrated by the automotive industry. In the recently launched "Make in India" initiative, the country's government has identified automotive as a key industry in which India has the potential to become a world leader.

Inflows to India increased by 22 per cent to $34 billion. As an expected economic recovery gains ground, FDI inflows are likely to maintain an upward trend in 2015. In terms of sectoral composition, manufacturing is gaining strength, as policy efforts to revitalize the sector are sustained, including for instance the launch of the "Make in India" Initiative in mid-2014.

FDI outflows from South Asia originate mainly from India. In 2014, Indian outflows saw a five-fold jump to $10 billion, recovering from a sharp decline in 2013. As the performance of the Indian economy has improved, large Indian MNEs have stopped large-scale divestments and some have resumed international expansion, including announcements of some intraregional investments in manufacturing (such as in the automotive and chemical products industries) in neighbouring countries.

A number of South Asian countries saw rising FDI from China. FDI inflows to Pakistan increased by 31 per cent to $1.7 billion as a result of rising Chinese FDI flows in services, in particular a large investment made by China Mobile in telecommunications. In addition, Pakistan will benefit significantly from the China-Pakistan Industrial Corridor (*WIR14*, box II.3) and the associated Chinese investment in infrastructure and manufacturing in the overall context of implementing China's "One Belt, One Road" strategy. According to agreements signed between the two governments in April 2015, Chinese companies will invest about $45.6 billion in Pakistan over the next few years, including $33.8 billion in electricity and $11.8 billion in transport infrastructure.

In Sri Lanka, FDI flows from China rose as well. China has become the largest source of FDI to Sri Lanka in recent years.[11] For instance, a joint venture between two local companies and China Merchants Holdings (International) Company has invested $500 million in Colombo International Container Terminals, the country's largest foreign investment project. After two years of construction, the port started operation in August 2014. A China–Sri Lanka FTA will be signed in June 2015. If the implementation of the 21st Century "Maritime Silk Road" gains ground, an increasing amount of Chinese investment will flow to Sri Lanka, particularly in large infrastructure projects, including another port planned in Hambantota, as well as highways and an airport. Large projects with

Table II.2. Ten largest announced greenfield projects in Bangladesh, 2014

Industry	Estimated capital expenditures (Millions of dollars)	Investor	Home country
Oil and natural gas	1 048	Chevron Bangladesh	United States
Communications	107	SEA-ME-WE 5	Singapore
Communications	107	Verizon Communications	United States
Paper, printing and packaging, converted paper products	107	Britannia Garment Packaging	United Kingdom
Chemicals, paints, coatings, additives and adhesives	81	Asian Paints	India
Transportation, freight/distribution services	70	Pacific International Lines	Singapore
Transportation, air transportation	70	Emirates SkyCargo	United Arab Emirates
Building and construction materials	64	Holcim	Switzerland
Medical devices	63	Telstar	Japan
Transportation, freight/distribution services	61	TNT Express	Netherlands

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) investment from India and United States were also recorded in Sri Lanka in 2014.[12]

Greenfield investment to Bangladesh increased. FDI inflows to Bangladesh remained relatively high at $1.5 billion, thanks to large greenfield investments in a range of industries (table II.2). As one of the most important foreign investors and the largest producer of natural gas in Bangladesh, Chevron (United States) invested $500 million in the Bibiyana Expansion Project and prepared to invest another $650 million to Petrobangla, the local State-owned oil company. Fully operational in 2015, the project in Bibiyana is the largest foreign investment project in the country in value. Other significant projects announced in 2014 were in manufacturing industries such as chemicals, construction materials and medical devices, as well as services industries such as telecommunications and transportation. In April, for example, a joint venture subsidiary of Azbil Telstar (Japan) in Dhaka was inaugurated with a local partner, SAKA International, aiming to serve the fast-growing pharmaceutical industry in the host country.

Nepal began to attract attention from MNEs. The country started to attract some FDI in manufacturing, services and infrastructure industries. For instance, Global Auto Tech (Republic of Korea) reached an agreement with a local company to invest in a truck production plant in Nepal. The announced investment is worth about $200 million, twice the value of current annual FDI inflows. There is some expectation that Chinese and Indian investments may help boost foreign investment to Nepal in the coming years. In recent years, hydropower has been the main attraction in Nepal, bringing in investors from electricity-hungry neighbouring countries.[13] However, the earthquake in April 2015 has raised a major challenge to the economy and to foreign investment.

FDI helped develop the automotive industry in South Asia

Facing constraints such as weak productive capacities and poor infrastructure, South Asian countries have generally lagged behind East and South-East Asian countries in attracting FDI in manufacturing. However, some success stories have emerged at country, industry and local levels, partly because of higher growth rates in recent years and efforts to improve infrastructure and communication. The automotive industry shows how FDI inflows can reshape the trajectory of industrial progress.

India is the dominant recipient of FDI in the automotive industry in South Asia. The country accounted for the preponderance of greenfield investment projects announced by global automakers and first-tier part suppliers in South Asia during 2013–2014, including 12 projects larger than $100 million (table II.3).

The automotive industry accounts for about 20 per cent of India's manufacturing value added. With annual production of 18 million vehicles, India is the seventh largest automotive producer and, with its large population and growing economy, is likely to ascend in the global ranking.[14]

Table II.3. India: Announced greenfield investments in automotive industry greater than $100 million, 2013

Industry	Estimated capital expenditures (Millions of dollars)	Investor	Home country
Automobiles	456	Fiat	Italy
Automobiles	320	Renault-Nissan Motor	Japan
Automobiles	249	Volkswagen	Germany
Heavy-duty trucks	235	Scania	Germany
Heavy-duty trucks	235	VE Commercial Vehicles	Sweden
Automobiles	233	Renault-Nissan Motor	Japan
Heavy-duty trucks	233	Wrightbus	United Kingdom
Automotive component	220	Bosch	Germany
Automobiles	207	Ford India	United States
Automobiles	206	Fiat-Tata	Italy
Automobiles	164	Honda Cars India	Japan
Automobiles	127	Mercedes-Benz	Germany

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

In the "Make in India" initiative, the government identified 25 industries in which India has the potential to become a world leader, including the automotive, chemicals, pharmaceuticals and textiles industries. The government has also prioritized environmentally friendly vehicles and launched a new scheme to provide financial incentives for hybrid and electric cars.

The development of the Indian automotive industry has been built on domestic efforts, supplemented and supported by foreign investors and technology. Since the formal opening of the industry to foreign investment in the early 1990s, FDI has flowed in and delivered impacts across different industries, products and value chain segments – from original equipment manufacturing to components and services.[15] According to data from the country's Department of Industrial Policy and Promotion, accumulated FDI inflows to the automotive industry from April 2000 to November 2014 amounted to $11.4 billion. As MNEs have entered the Indian market, domestic companies (e.g. Tata Motors, Mahindra and Mahindra) have also started collaborations with MNEs to upgrade their own product offerings.[16]

The major sources of FDI in the automotive industry are Japan, United States and the Republic of Korea. MNEs from these countries entered the Indian market through either joint ventures or wholly owned subsidiaries. For example, Suzuki (Japan) was one of the earliest foreign investors in the Indian automotive industry through a joint venture with Maruti, a local company; the investment was aimed at the local market and has so far enjoyed an enduring first-mover advantage. In the early 2010s, Maruti Suzuki still accounted for nearly 40 per cent of India's passenger vehicle market. Other major global automakers, including Hyundai (Republic of Korea) and GM (United States), are also investing significantly in India.

An examination of the geographical distribution of automotive production within India shows that inward FDI has led to the emergence of a number of industrial clusters in the country, including those in the National Capital Region (Delhi–Gurgaon–Faridabad), Maharashtra (Mumbai–Nasik–Aurangabad), and Tamil Nadu (Chennai–Bangalore–Hosur) (figure II.6). Though considerable differences exist in the patterns of formation of these clusters,[17] it is clear that FDI can play an important catalytic role. For example, the early entry of Suzuki has contributed to the development of an industrial cluster in the National Capital Region. The presence of six foreign companies, two domestic companies and more than 100 local suppliers has produced a strong automotive cluster in Tamil Nadu (Bapat et al., 2012).

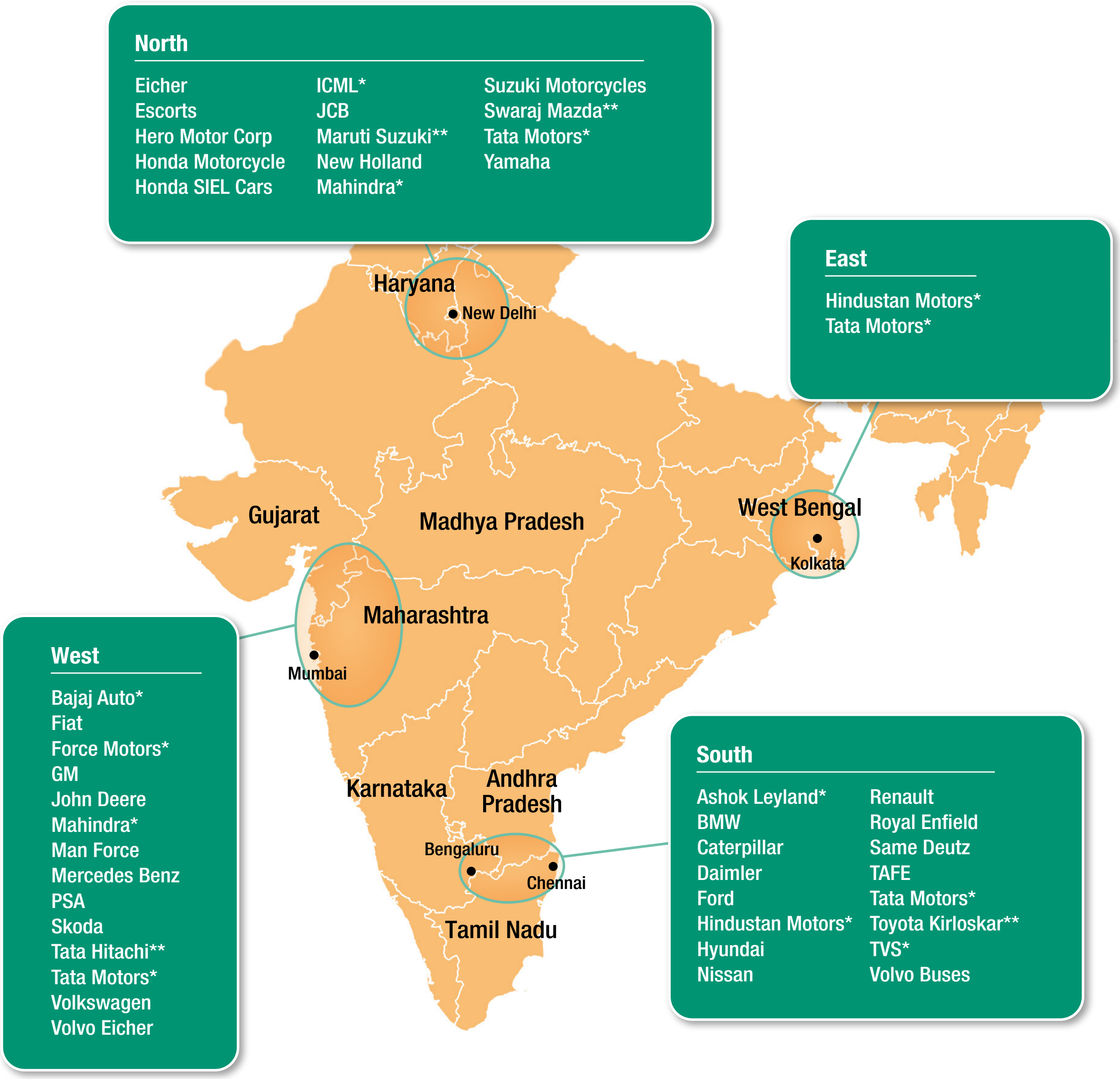
Spillover effects may appear in other South Asian countries. During 2013–2014, Bangladesh, Nepal, Pakistan and Sri Lanka each recorded one greenfield investment project by foreign companies (table II.4). These projects are relatively large investments with a significant number of jobs created. In 2013, for instance, Mahindra & Mahindra (India) invested more than $200 million in a plant to produce light trucks and utility vehicles in Bangladesh. Investment from the growing automotive industry in India shows the potential of a positive spillover effect to productive capacity-building in South Asia as a whole.

Table II.4. South Asian countries other than India: Announced greenfield investments in automotive industry, 2013–2014

Host country	Industry	Estimated capital expenditures (Millions of dollars)	Investor	Home country	Year
Bangladesh	Light trucks and utility vehicles	227	Mahindra & Mahindra	India	2013
Nepal	Heavy-duty trucks	200	Global Autotech	Korea, Republic of	2014
Pakistan	Automobiles	200	Honda Atlas Cars Pakistan	Japan	2013
Sri Lanka	Automobiles	3	Toyota Lanka	Japan	2013

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

Figure II.6. India: Major industrial clusters in the automotive industry



Source: UNCTAD, based on the Automotive Component Manufacturers Association of India.
Note: Companies listed in the boxes are major manufacturers in each cluster; companies marked with an asterisk are Indian domestic companies; companies marked with two asterisks are joint ventures between Indian and foreign companies.
The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

WEST ASIA

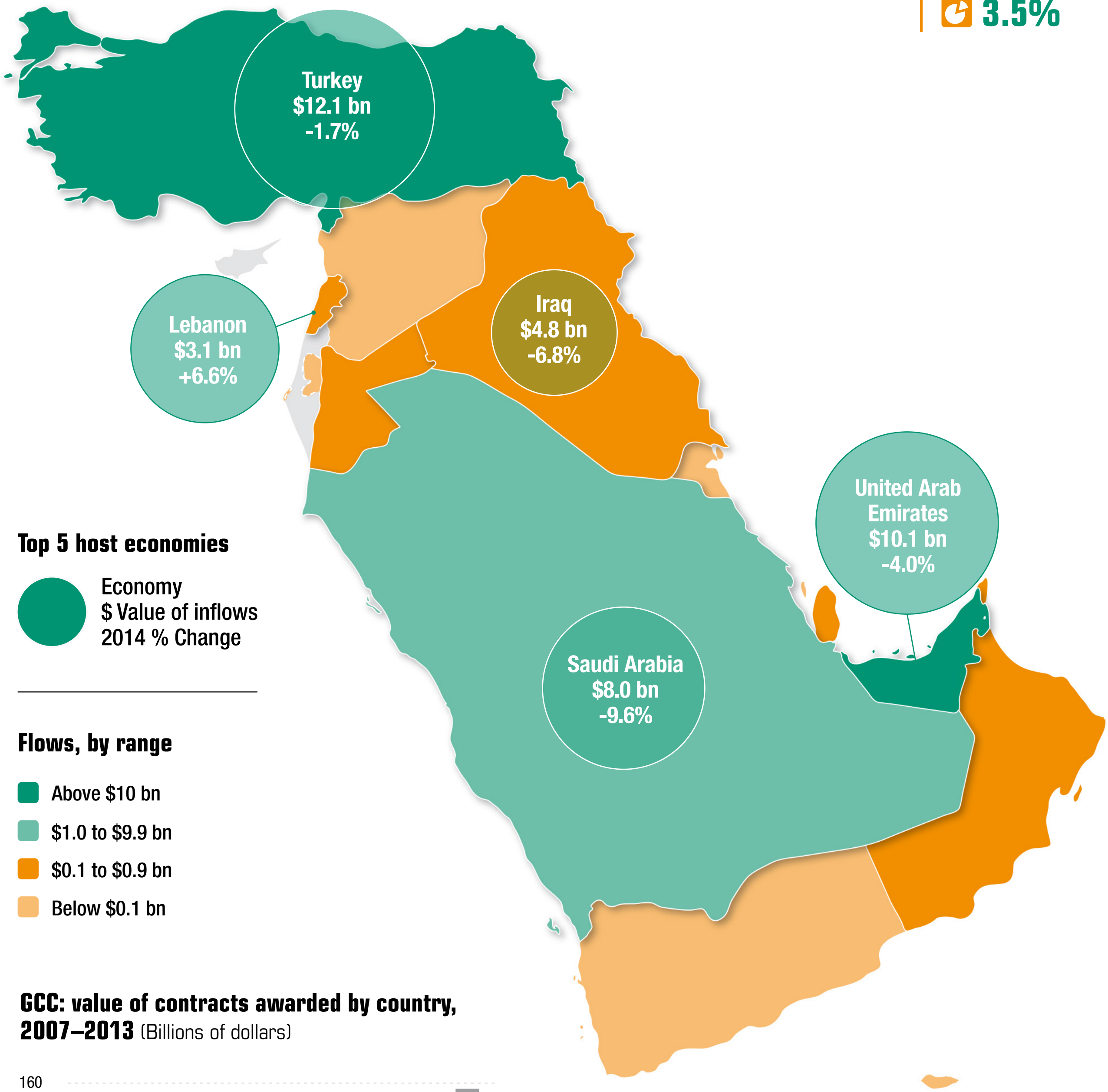
FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows
43 bn

2014 Decrease
-3.7%

Share in world
3.5%



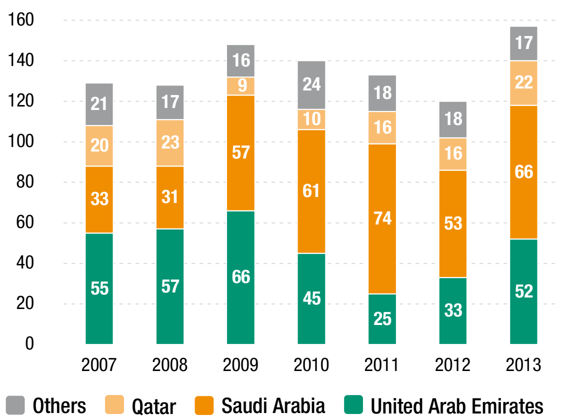
Top 5 host economies

Economy
$ Value of inflows
2014 % Change

Flows, by range

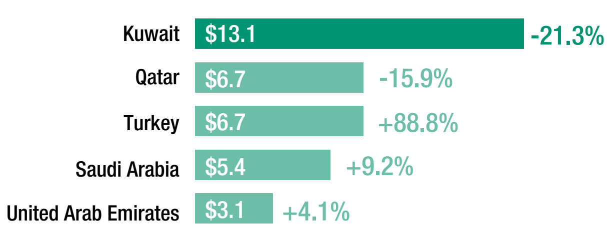
- Above $10 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

GCC: value of contracts awarded by country, 2007–2013 (Billions of dollars)



Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Regional conflict, political tensions still deter FDI
- Falling private investment, rising public investment
- Rise in non-equity modes of MNE operations in the GCC

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

Figure B. FDI outflows, 2008–2014 (Billions of dollars)

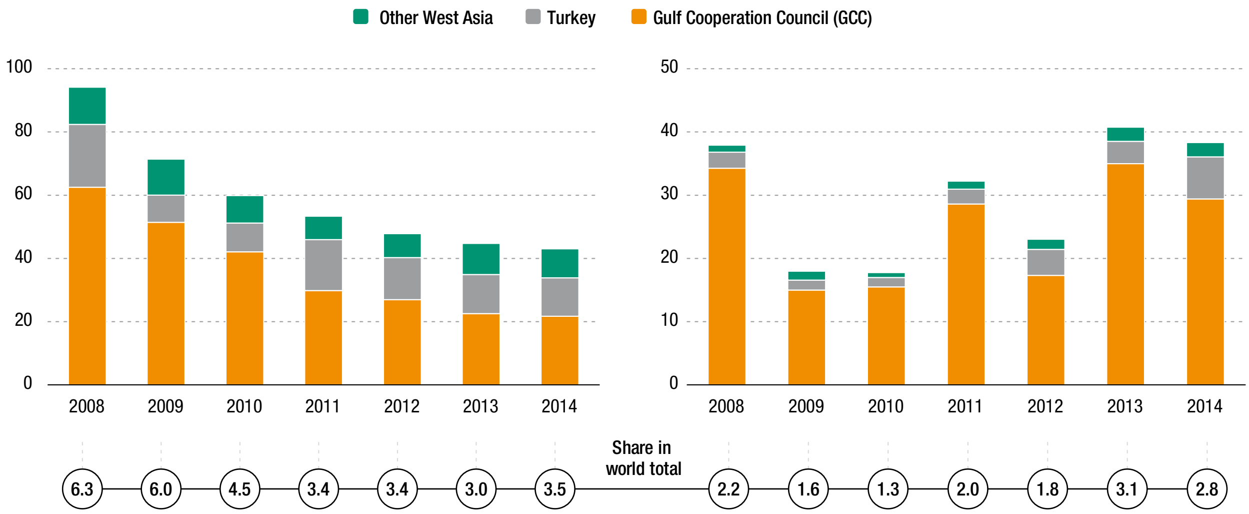


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	West Asia as destination 2013	West Asia as destination 2014	West Asia as investors 2013	West Asia as investors 2014
Total	**56 047**	**37 316**	**38 638**	**26 929**
Primary	**5 989**	**2 620**	**1 677**	**322**
Manufacturing	**18 976**	**14 739**	**18 067**	**8 062**
Coke, petroleum products and nuclear fuel	3 754	5 277	9 655	2 088
Chemicals and chemical products	4 503	1 623	209	1 660
Machinery and equipment	756	634	254	18
Motor vehicles and other transport equipment	5 770	3 790	97	145
Services	**31 082**	**19 957**	**18 895**	**18 545**
Electricity, gas and water	13 759	3 210	1 725	1 020
Construction	2 239	5 215	3 281	7 150
Hotels and restaurants	3 605	2 871	3 246	1 631
Finance	1 791	1 871	2 499	4 751
Business services	6 131	4 770	3 961	1 230

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	West Asia as destination 2013	West Asia as destination 2014	West Asia as investors 2013	West Asia as investors 2014
World	**56 047**	**37 316**	**38 638**	**26 929**
Developed economies	**27 560**	**14 907**	**4 539**	**5 567**
Europe	15 903	8 366	2 392	4 782
United States	9 894	2 683	1 954	381
Developing economies	**15 671**	**21 329**	**30 397**	**20 490**
Africa	301	1 551	5 842	5 932
Egypt	86	1 307	1 588	4 048
Asia and Oceania	15 326	19 778	24 318	14 336
India	1 209	7 899	2 088	4 407
West Asia	11 701	5 323	11 701	5 323
United Arab Emirates	9 178	4 035	833	655
Transition economies	**12 816**	**1 081**	**3 703**	**872**
Russian Federation	12 748	974	1 345	289

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
Total	**2 055**	**2 729**	**8 077**	**10 705**
Primary	**357**	**-283**	**476**	**3 455**
Mining, quarrying and petroleum	344	-286	466	3 455
Extraction of crude petroleum and natural gas	344	-311	-	3 305
Manufacturing	**451**	**988**	**61**	**130**
Computer, electronic, optical products and electrical equipment	46	283	-	-
Non-metallic mineral products	14	624	-	-
Services	**1 248**	**2 024**	**7 540**	**7 120**
Electricity, gas, water and waste management	140	226	1 908	-
Accommodation and food service activities	-	75	-99	-1 429
Information and communication	21	27	1 137	4 794
Financial and insurance activities	456	201	3 972	3 020
Business activities	371	533	184	-7

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
World	**2 055**	**2 729**	**8 077**	**10 705**
Developed economies	**181**	**1 738**	**2 739**	**3 944**
European Union	714	783	1 312	1 609
North America	-573	530	69	2 335
Developing economies	**1 375**	**377**	**4 913**	**6 614**
Africa	29	-	3 194	6 420
North Africa	-	-	3 150	5 708
Egypt	-	-	3 150	29
Morocco	-	-	-	5 659
Latin America and the Caribbean	54	160	266	1 000
Asia and Oceania	1 293	217	1 454	-806
West Asia	1 039	-321	1 039	-321
Transition economies	**3**	**-191**	**425**	**146**

FDI flows to West Asia maintained their downward trend in 2014 for the sixth consecutive year, decreasing by 4 per cent to $43 billion. This continuing decline stems from the succession of crises that have hit the region, starting with the impact of the global economic crisis, followed quickly by the eruption of political unrest that swept across the region and, in some countries, escalated into conflicts. This is deterring FDI not only in the countries directly affected – such as Iraq, the Syrian Arab Republic and Yemen – but also in neighbouring countries and across the region.

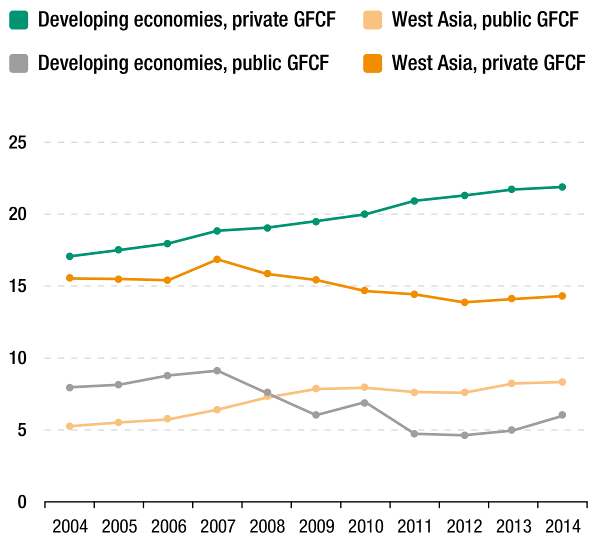
Turkey remained the largest FDI recipient in the region, with flows registering a 2 per cent decrease to $12 billion. Growth was uneven: Real estate acquisitions increased for the third consecutive year and at a faster rate (29 per cent), reaching $4 billion and accounting for 25 per cent of total FDI flows to the country in 2014. FDI in services dropped by 28 per cent, to $5 billion, mainly due to declining flows into public utilities (–44 per cent to $1 billion) and financial services (–55 per cent to $2 billion). FDI in the manufacturing sector rebounded by 30 per cent to $3 billion after a steep fall in 2013, still short of its 2011–2012 level.

FDI remained sluggish even in the oil-rich Gulf Cooperation Council (GCC) countries (–4 per cent to $22 billion), which have been relatively spared from political unrest and enjoyed robust economic growth in recent years. In this group of countries – the region's main FDI destination (61 per cent over 2009–2014) – FDI flows have also failed to recover since 2009. Flows to the United Arab Emirates and Saudi Arabia – the region's second and third largest recipients – registered slight declines and remained about $10 billion and $8 billion, respectively.

While flows to Jordan and Lebanon remained stable, deteriorating security cut short the recent resurgence of FDI to Iraq, where a significant part of FDI targets the oil sector. Although most of the country's giant oilfields are located in the south, where relative security prevails, disruptions have severed land connections to the north, affecting the supply chain by this route. The crisis might cause delays in oilfield development and – together with the strong decrease in oil prices at the end of 2014 – is likely to deter new investors.

Outward FDI from West Asia also declined by 6 per cent in 2014, driven mainly by divestment (negative intracompany loans) from Bahrain. Kuwait, which has been the region's largest overseas investor, saw FDI outflows decline by 21 per cent to $13 billion. Outward FDI from Turkey jumped by 89 per cent to $6.7 billion, driven mainly by equity outflows which rose by 61 per cent to $5 billion.

Figure II.7. **West Asia and developing economies: Share of public/private GFCF in GDP, current prices, 2004–2014** (Per cent)



Source: UNCTAD, based on IMF 2015.
Note: The State of Palestine and Syrian Arab Republic are not included. GFCF = gross fixed capital formation.

The decline of FDI flows to West Asia has occurred within a regional context of weakening private investment in relation to GDP starting from 2008 (figure II.7), affected by the same factors that prompted the fall in FDI. In all West Asian countries, except Lebanon and the United Arab Emirates, the average annual ratio of private investment to GDP decreased during 2009–2014 compared with 2003–2008 (table II.5). In Bahrain, Lebanon and Turkey, even the absolute value of private gross fixed capital formation (GFCF) has exhibited a downward trend in recent years.[18] The decline of private investment and increase of public investment in relation to GDP in West Asia contrasts with the trend in developing economies as a whole, where the opposite occurred.

The decline of the share of private investment in GDP in West Asia has been more than offset, at the regional level, by the increase of the share of public investment, with the average annual ratio of total GFCF to GDP rising from 21.9 per cent in 2003–2008 to 22.3 per cent in 2009–2014. However, the situation varies by country and subregion, as the increase in public investment took place mainly in the GCC countries – financed by their income from oil revenues – and most strongly in Saudi Arabia and Kuwait (table II.5).

The increasing weight of public investment was most evident in GCC economies and has translated into State-led construction growth that focuses on infrastructure and oil and gas development. Capital spending was higher as a share of GDP in all GCC countries between 2009 and 2014, and the public share of total investment increased significantly – in all except the United Arab Emirates – reaching almost 40 per cent (table II.5). This has translated into a construction boom different from the one that took place in the early part of the preceding decade, Saudi Arabia's being the largest in the region (figure II.8). The residential and commercial megaprojects that defined that boom – most dynamic in the United Arab Emirates – have been replaced by government-led projects in infrastructure, especially in Qatar and Saudi Arabia, and in oil and gas. Ambitious plans for infrastructure upgrading and development were implemented, with a growing emphasis on rail projects. For example, in 2013 more than $30 billion worth of contracts were awarded for the Riyadh and Doha metro projects alone. In contrast, the residential and commercial buildings segment, largely privately owned, was hit hard by the crisis and was unable to recover until 2013 (figure II.9). Oil and gas projects benefited from the oil price spike in 2008 that – together with the collapse in the price of building materials and in engineering, procurement, and construction services after the onset of the global financial crisis – enabled national oil companies such as Saudi Aramco, Abu Dhabi National Oil Company and Qatar Gas to proceed with project plans.

This State-led construction growth has an impact on the mode of foreign involvement. The segments of the construction industry[19] that most benefited from expanded State-led investment – oil and gas, and transport – are those with a significant presence of foreign contractors, in contrast to the residential and commercial buildings segment, where local contractors dominate. This shift within the construction sector has opened further opportunities for foreign contractors to engage in new projects through NEMs. From the perspective of a foreign investor, NEMs reduce exposure to risks associated with the region's evolving instability.

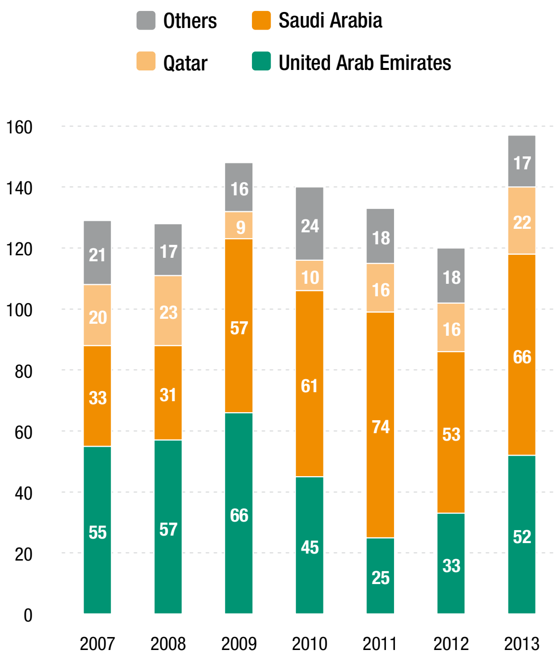
Local contracting companies predominate in terms of contracts awarded, but foreign contractors are preponderant in terms of projects under execution. Local contracting companies picked up 62 per cent of the $88 billion worth of

Table II.5. Share of public/private GFCF in GDP and in total GFCF, current prices, 2003–2008 and 2009–2014 (Per cent)

Region/economy	Share of private GFCF in GDP		Share of public GFCF in GDP		Share of public sector in GFCF	
	2003–2008	2009–2014	2003–2008	2009–2014	2003–2008	2009–2014
World	**17.8**	**17.7**	**5.0**	**5.8**	**21.6**	**24.5**
Developing economies	18.0	21.0	8.9	9.7	32.8	31.4
West Asia[a]	15.7	14.4	6.2	7.9	28.1	35.6
Iraq[b]	8.4	7.5	14.4	14.7	63.1	66.2
Jordan	20.3	17.2	7.1	5.1	26.0	22.9
Lebanon	20.7	22.3	2.4	1.8	10.2	7.5
Syrian Arab Republic[c]	11.0	9.9	9.5	9.5	46.3	49.2
Turkey	17.1	15.9	3.4	3.9	16.7	19.8
Yemen	10.2	5.7	7.4	3.5	41.8	38.3
GCC	15.2	14.4	7.4	9.5	32.6	39.7
Bahrain	23.7	13.9	5.8	6.0	19.6	30.0
Kuwait	13.3	11.3	3.8	5.9	22.3	34.1
Oman	14.4	11.0	14.1	14.8	49.5	57.3
Qatar	31.6	22.1	8.3	8.5	20.9	27.7
Saudi Arabia	13.8	12.6	7.6	11.4	35.4	47.4
United Arab Emirates	13.3	16.3	7.3	7.5	35.5	31.5

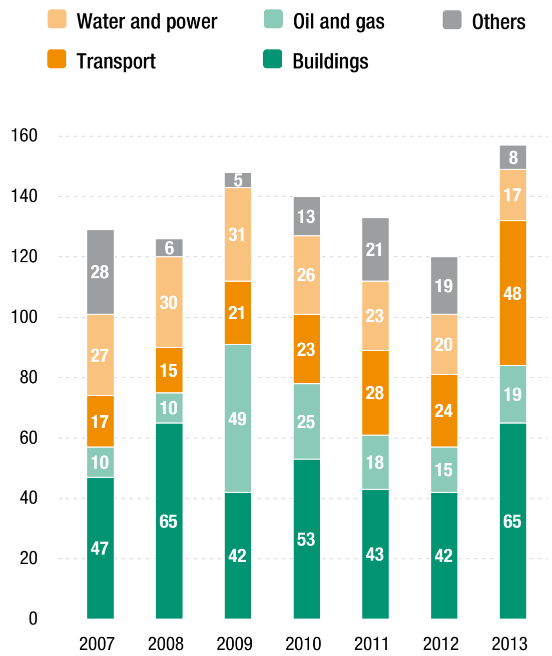
Source: UNCTAD, based on IMF 2015.
[a] The State of Palestine is not included for lack of available data.
[b] Data for 2003 are not available.
[c] Data since 2011 are not available.

Figure II.8. **GCC: Value of contracts awarded by country, 2007–2013** (Billions of dollars)



Source: UNCTAD, based on MEED Insight, "GCC Construction Projects Market 2015", August 2014.

Figure II.9. **GCC: Value of contracts awarded by segment, 2007–2013** (Billions of dollars)



Source: UNCTAD, based on MEED Insight, "GCC construction projects market 2015", August 2014.

contracts awarded in 2013 (the latest available data) to the largest contractors of each country and across all industries.[20] However, foreign contractors hold sway in work under way. For instance, in Saudi Arabia – the GCC's largest market – the share of foreign companies in the value of contracts awarded to the 10 largest contractors was 48 per cent in 2013, but foreign contractors held 53 per cent of the value of the 10 largest projects under execution as of June in that year. The difference is even bigger in the United Arab Emirates, the GCC's second largest market, where foreign companies won only 31 per cent of the value of contracts awarded to the 10 largest contractors in 2013, but held 88 per cent of the value of the 10 largest projects under execution as of May in that year.[21] This difference could arise from a number of factors such as delays or cancellations of contracts awarded to local private companies, which may face greater funding challenges.

Data for Saudi Arabia and the United Arab Emirates show that in both countries foreign firms, especially from the Republic of Korea (table II.6, box II.3), make up most of the 10 largest contractors with work under execution. However, local firms are also significant in Saudi Arabia: three are among the four largest contractors (table II.6), with Saudi Binladin by far the country's leading contractor, accounting for more than a quarter of the $80 billion worth of work carried out by the largest contractors.

However, data on contracts awarded and on work under execution may underestimate the importance of foreign involvement, as they do not capture the subcontract market that has grown around GCC construction projects. This is especially the case with multibillion-dollar projects involving complex civil works, electromechanical systems and other vital infrastructure (Singapore Human Resources Institute, 2012).

The sharp fall in oil prices since mid-2014, particularly following the OPEC meeting in November, is likely to have a significant direct and indirect impact on the construction market in the GCC, particularly in planned oil and gas projects. Already in January 2015 two projects had been adversely affected by cheap oil prices: Qatar Petroleum and Royal Dutch Shell announced the cancellation of their planned $6.5 billion Al Karaana petrochemicals joint venture, and Saudi Aramco suspended plans to build a $2 billion clean fuels plant at its largest oil refinery in Ras Tanura. The fiscal squeeze induced by falling oil prices is also likely to affect government spending, the major driver of the construction market in recent years. Oman and Saudi Arabia have already cut planned capital expenditures in their 2015 budgets by 11 and 25 per cent, respectively;[23] and spending plans will be revised downward in Abu Dhabi where the awards of new projects – such as the Etihad Railway network and the Zayed National and Guggenheim museums – are expected to be delayed.

However, huge fiscal reserves will still allow further State spending. Priority will most likely be given to ongoing and strategic projects, including a number of big infrastructure projects associated with the 2022 World Cup in Qatar, the World Expo 2020 in Dubai, the $66 billion affordable housing construction programme in Saudi Arabia and infrastructure pipelines in Qatar – all set to provide major business opportunities over the medium term. If the oil price weakness persists, the GCC countries' strategy to prop up GDP growth through increased government spending may not be viable in the long run. Genuine economic diversification is crucial for GCC countries to reduce the dependence of economic growth on oil.[24]

Table II.6. **Saudi Arabia and the United Arab Emirates: The 10 largest contractors by value of work in progress** (Billions of dollars)

Saudi Arabia, June 2013			United Arab Emirates, May 2013		
Company name	**Home country**	**Contract value**	**Company name**	**Home country**	**Contract value**
Saudi Binladin Group (SBG)	Local	23.1	Samsung Engineering	Korea, Republic of	7.7
Daelim Industrial Company	Korea, Republic of	10.2	Hyundai E&C	Korea, Republic of	6.9
Al-Shoula consortium	Local	7.7	Habtoor Leighton Group	Local	6.2
Saudi Oger	Local	7.2	Petrofac	United Kingdom	5.5
SKE&C	Korea, Republic of	6.7	GS E&C	Korea, Republic of	5.3
Samsung Engineering	Korea, Republic of	6.7	Daewoo E&C	Korea, Republic of	4.1
Tecnicas Reunidas	Spain	5.2	Samsung C&T	Korea, Republic of	4
Doosan Heavy I&C	Korea, Republic of	5.1	Doosan Heavy I&C	Korea, Republic of	4
Samsung C&T	Korea, Republic of	4.6	Eni Saipem	Italy	3.5
Eni Saipem	Italy	3.7	China State Construction	China	3.1

Source: MEED Insight, "The UAE Projects Market 2013", July 2013; MEED Insight, "MENA Projects Market Forecast & Review 2014", July 2014.

Box II.3. **The rise of the Republic of Korea's engineering, procurement and construction contractors in the GCC**

The presence of the Republic of Korea's construction companies in the GCC dates back to the 1970s, when pioneering companies such as Daelim, LG E&C and Hyundai E&C took advantage of the unprecedented scale of development projects sparked by the oil boom. The cumulative amount of overseas construction contracts signed by Korean firms since 1965 exceeded $500 billion in June 2014. Orders from the Middle East represented 60 per cent, with Saudi Arabia having awarded the largest number: 8,638 projects valued at $50 billion. Overall, because of their long-established presence in the GCC, as well as their scale, Korean contractors have built up a formidable capacity in the region to rapidly bid for contracts and execute them.

While GCC countries' share in all construction contracts of Korean firms is significant, in contrast their share in the Republic of Korea's outward FDI is small. Among the GCC countries, the United Arab Emirates has received the largest portion (a stock of $721 million in 2012) of this FDI, and Saudi Arabia the second largest ($468 million).

In 2009 Korean contractors made a major breakthrough, as GCC oil-producing countries found themselves flush with petrodollars from the oil price spike of 2008, amid tumbling prices for building materials brought on by the global financial crisis. Some GCC countries therefore took a strategic decision to weather the economic storm by promoting State-led construction activity in key sectors, thereby making the GCC one of the most active projects markets in the world. At the same time, the shift transformed the sector from one led by contractors to one led by project owners (States). Korean engineering, procurement and construction firms were in a position to take advantage of this shift and sought to displace competitors by bidding aggressively, with competitive cost structures.[22]

Source: UNCTAD.

LATIN AMERICA & THE CARIBBEAN

FDI inflows, top 5 host economies, 2014

(Value and change)

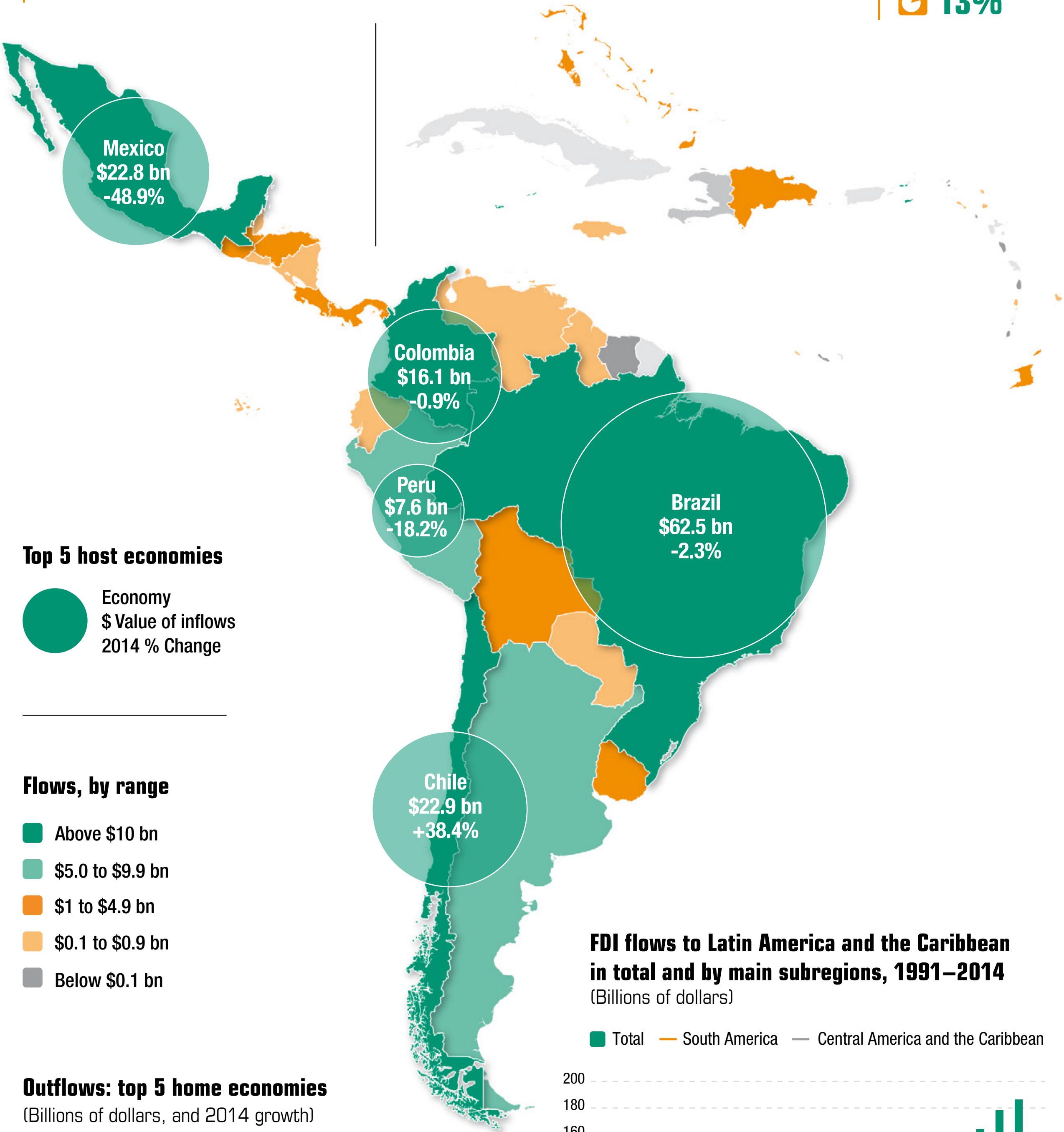
$ 159.4 bn

2014 Decrease

-14.4%

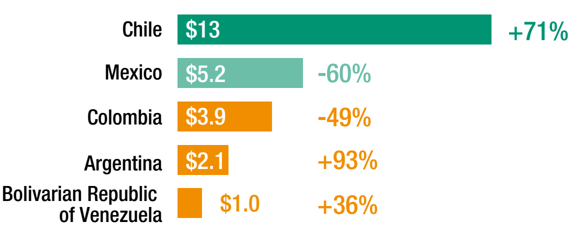
Share in world

13%



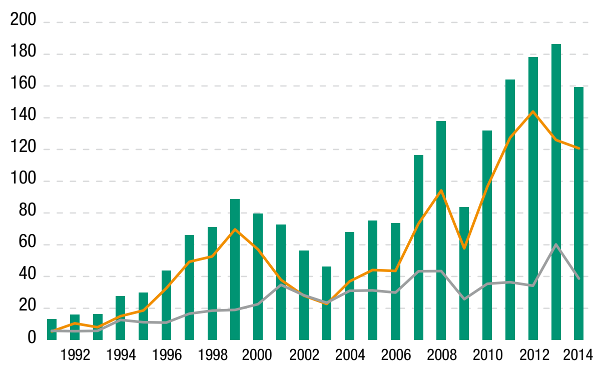
Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



FDI flows to Latin America and the Caribbean in total and by main subregions, 1991–2014

(Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Inflows fall with commodity prices and cross-border M&As
- European, Asian and regional investors gain ground
- FDI being re-evaluated for post-2015 development agenda

Figure A. **FDI inflows, 2008–2014** (Billions of dollars)

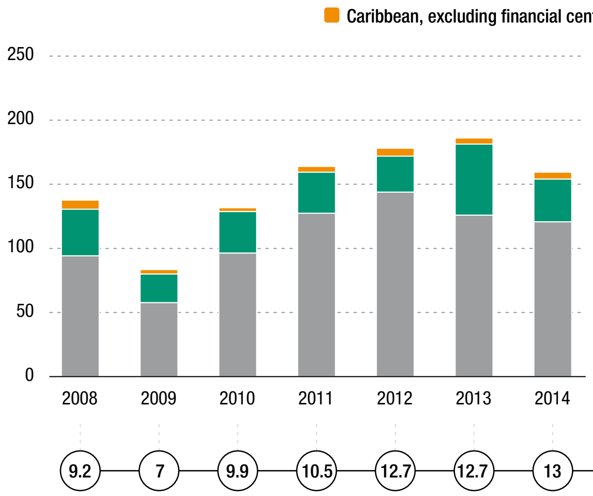


Figure B. **FDI outflows, 2008–2014** (Billions of dollars)

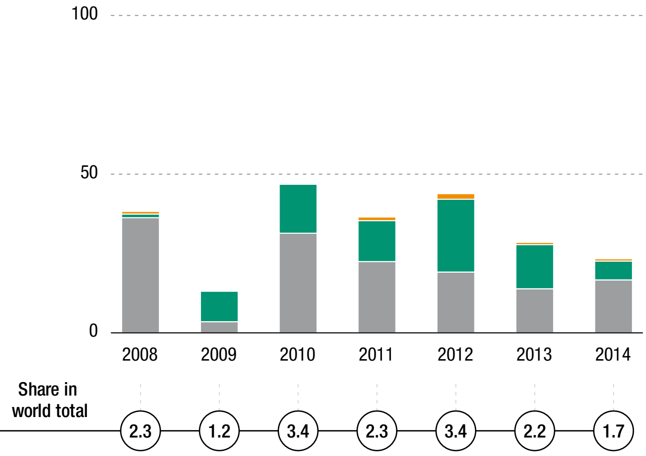


Table A. **Announced greenfield FDI projects by industry, 2013–2014** (Millions of dollars)

Sector/industry	LAC as destination 2013	LAC as destination 2014	LAC as investors 2013	LAC as investors 2014
Total	**153 023**	**89 446**	**20 499**	**8 689**
Primary	**12 568**	**11 097**	**4 000**	**22**
Manufacturing	**38 427**	**32 127**	**6 937**	**3 652**
Food, beverages and tobacco	3 956	2 726	1 741	1 579
Metals and metal products	4 197	2 638	89	207
Electrical and electronic equipment	2 687	3 029	406	86
Motor vehicles and other transport equipment	13 517	16 229	128	263
Services	**102 028**	**46 222**	**9 562**	**5 015**
Electricity, gas and water	17 067	13 363	809	453
Trade	3 652	2 446	1 255	1 012
Transport, storage and communications	19 380	18 018	4 403	2 215
Finance	5 090	4 135	805	994
Business services	49 701	6 152	1 493	186

Table B. **Announced greenfield FDI projects by region/country, 2013–2014** (Millions of dollars)

Partner region/economy	LAC as destination 2013	LAC as destination 2014	LAC as investors 2013	LAC as investors 2014
World	**153 023**	**89 446**	**20 499**	**8 689**
Developed economies	**81 987**	**71 167**	**1 539**	**1 760**
Europe	39 167	30 526	684	551
Canada	4 553	10 358	10	-
United States	26 304	26 190	805	1 151
Developing economies	**70 071**	**18 170**	**18 864**	**6 651**
Asia and Oceania	52 250	11 790	931	481
China	3 258	8 154	377	282
Hong Kong, China	44 424	175	143	29
Latin America and the Caribbean	17 737	6 084	17 737	6 084
South America	12 341	3 229	14 447	4 201
Central America	5 152	2 576	2 477	1 120
Transition economies	**965**	**109**	**96**	**278**

Table C. **Cross-border M&As by industry, 2013–2014** (Millions of dollars)

Sector/industry	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
Total	**34 797**	**25 457**	**16 239**	**8 440**
Primary	**1 287**	**391**	**288**	**-2 759**
Extraction of crude petroleum and natural gas	345	184	207	-2 600
Mining of metal ores	928	-1	74	26
Manufacturing	**25 138**	**2 929**	**7 117**	**3 830**
Food, beverages and tobacco	23 848	-42	4 644	1 953
Coke and refined petroleum products	-	-5 317	-	-
Chemicals and chemical products	-116	3 796	156	923
Pharmaceuticals, medicinal chemicals and botanical products	317	3 603	25	11
Services	**8 372**	**22 137**	**8 834**	**7 369**
Electricity, gas, water and waste management	3 720	4 805	85	840
Transportation and storage	1 488	5 510	628	400
Financial and insurance activities	2 371	5 994	7 953	5 071

Table D. **Cross-border M&As by region/country, 2013–2014** (Millions of dollars)

Region/country	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
World	**34 797**	**25 457**	**16 239**	**8 440**
Developed economies	**19 678**	**17 949**	**5 118**	**8 131**
Europe	11 870	-1 269	2 913	4 214
North America	6 792	10 899	2 092	3 916
Other developed countries	1 016	8 319	113	-
Developing economies	**14 401**	**6 797**	**11 134**	**309**
Africa	-	1 094	-430	400
Latin America and the Caribbean	10 731	-251	10 731	-251
South America	7 928	248	6 177	-1 091
Central America	2 803	-499	3 927	840
Asia and Oceania	3 670	5 954	833	160
South, East and South-East Asia	3 404	4 954	779	-
Transition economies	**-**	**596**	**-13**	**-**

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 fall was mainly the consequence of a 72 per cent decline in cross-border M&As in Central America and the Caribbean and of lower commodity prices, which reduced investment in the extractive industries in South America. The decline took place in both subregions but was stronger in Central America and the Caribbean (down 36 per cent to $39 billion), where inflows returned to their normal values after the unusually high levels reached in 2013, which were due to a cross-border megadeal in Mexico. Flows to South America continued declining for the second consecutive year, down 4 per cent to $121 billion, with all the main recipient countries, except Chile, registering negative FDI growth.

Brazil remained the region´s leading FDI target with flows amounting to $62 billion, down 2 per cent despite a significant increase in cross-border M&A sales (by 42 per cent to $14 billion). The FDI decline was driven by a fall in the primary sector (–58 per cent to $7 billion), while flows to manufacturing and services increased by 5 and 18 per cent to $22 billion and $33 billion, respectively. FDI to the motor vehicles industry registered the strongest increase in absolute value ($1.4 billion) and reached a total amount of $4 billion, placing this industry among the four largest FDI recipient sectors in 2014 after commerce ($6.8 billion), telecommunications ($4.2 billion), and oil and gas extraction ($4.1 billion).

Chile recovered its place as the region's second largest target for FDI flows. Inflows to the country rose by 38 per cent to $23 billion, boosted by exceptionally high levels of cross-border M&A sales, which increased more than three-fold to $9 billion. Mexico registered the strongest decline in absolute value, with inflows dropping by almost half ($23 billion) and bringing the country back to the third position in the ranks of FDI recipients. This resulted from a drop of cross-border sales after the exceptional levels reached in 2013 with the $18 billion sale of the Modelo brewery (*WIR14*), intensified by the $5 billion divestment by AT&T (United States) in 2014 of its stake in América Móvil. Bucking the general declining trend, the automobile industry continued to attract increasing amounts of FDI, which reached $4.3 billion, up 21 per cent, representing 19 per cent of total inflows to the country and the highest amount received by all industries in 2014.

Declining investments in the extractive industry affected flows to Argentina (–41 per cent), Colombia (–1 per cent), Peru (–18 per cent) and the Bolivarian Republic of Venezuela (–88 per cent). In Argentina, the negative trend was accentuated by the $5.3 billion compensation received by the Spanish oil company Repsol for the 2012 nationalization of 51 per cent of YPF, part of which is recorded in FDI flows through income (which affects reinvested earnings). In Colombia, the strong decline of FDI in the extractive industries (21 per cent to $6.4 billion) was offset mainly by the rises registered in finance (54 per cent to $2.5 billion), transport and communications (39 per cent to $1.9 billion), and manufacturing (13 per cent to $2.9 billion). In the Bolivarian Republic of Venezuela, a strong increase in reverse intracompany loans (the repayment of loans to the parent company) also contributed to the FDI decline.

In Panama – after strong growth registered in 2013 (up by 56 per cent) – flows increased only slightly (1.4 per cent) and remained close to $5 billion as the peak in large-scale foreign investment related to the canal expansion continues to pass. In Costa Rica, flows decreased by 21 per cent to $2.1 billion, affected by the closure of Intel's factory[25] and Bank of America's restructuring. Intel moved its operations (except R&D facilities) to Malaysia, Viet Nam and China, cutting 1,500 jobs in Costa Rica, while Bank of America laid off 1,400 workers as part of a global restructuring programme. Flows to Trinidad and Tobago increased by 21 per cent as the result of the $1.2 billion acquisition of the remaining 57 per cent stake in Methanol Holdings Trinidad Limited by Consolidated Energy Company (Mauritius). In the Dominican Republic, FDI registered an 11 per cent rise to $2.2 billion, partly explained by increased investment in free zones.[26]

Outward FDI from Latin America and the Caribbean, excluding offshore financial centres, decreased by 18 per cent in 2014, to $23 billion. Owing to the high incidence of intracompany loans and significant investment in offshore financial centres, outward FDI data may not accurately reflect reality. Brazil ranked last as the region's outward direct investor, registering negative flows (–$3.5 billion) for the fourth consecutive year, but it remained the region's largest outward direct investor in terms of equity capital outward flows, which increased by 32 per cent to $20 billion in 2014 (half of which was directed to offshore financial centres). This is explained by the high amounts of loans from foreign affiliates to parent companies in Brazil, which surpassed by $23 billion the loans granted by Brazilian parents to their affiliates abroad. Chile and Mexico are other examples of the effect of the high incidence of intracompany loans on total outward FDI flows. Chile was the region's main direct investor abroad in 2014, with flows increasing by 71 per cent to $13 billion, despite a 26 per cent decline in equity capital outflows. Mexico – the region's second largest outward investor after Chile – saw a 60 per cent decline in outward FDI flows, to $5.2 billion, driven mainly by a decline in intracompany loans.

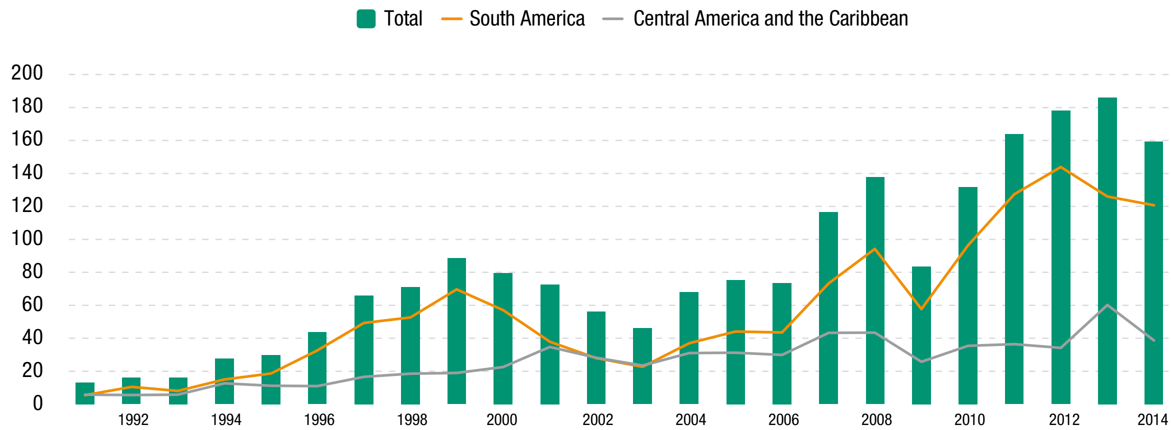
Part of MNEs' activities abroad can be captured by their cross-border acquisitions. For Latin American MNEs, such acquisitions decreased by half in 2014, to $8.4 billion, with Brazil registering the strongest decline (from $3 billion in 2013 to –$2.4 billion in 2014). The decrease was due to the small value of new cross-border purchases and the large divestment by Petrobras of its Peruvian oil and gas assets to PetroChina for $2.6 billion. There has also been a strong decrease in cross-border purchases by MNEs from Chile (–73 per cent to $750 million) and Colombia (–75 per cent to $1.6 billion). Mexican MNEs raised the value of their acquisitions abroad by 40 per cent. The most important deals included Grupo Bimbo's acquisition of Canada Bread for $1.7 billion and América Móvil's purchase of a 34.7 per cent stake in Telekom Austria for $1.5 billion.

FDI to Latin America and the Caribbean: the current slowdown in a historical perspective

Historically, FDI in Latin America has been concentrated in manufacturing activities to supply highly protected domestic markets. A radical shift in economic policy orientation took place region-wide in the 1990s, opening up a new era for FDI flows into the region. This led to two main waves of FDI in succeeding decades (figure II.10).

The first wave began in the mid-1990s as a result of liberalization and privatization policies that encouraged FDI into sectors such as services and extractive industries, which had previously been closed to private and/or foreign capital. Significant flows of market-seeking FDI went towards non-tradable service activities – such as telecommunications, electricity generation and distribution, transportation and banking – mainly through cross-border acquisitions.[27] Simultaneously, large-scale resource-seeking FDI flows targeted the extractive industries mainly in South America, as Mexico kept its oil and gas sector

Figure II.10. **FDI flows to Latin America and the Caribbean in total and by main subregions, 1991–2014** (Billions of dollars)

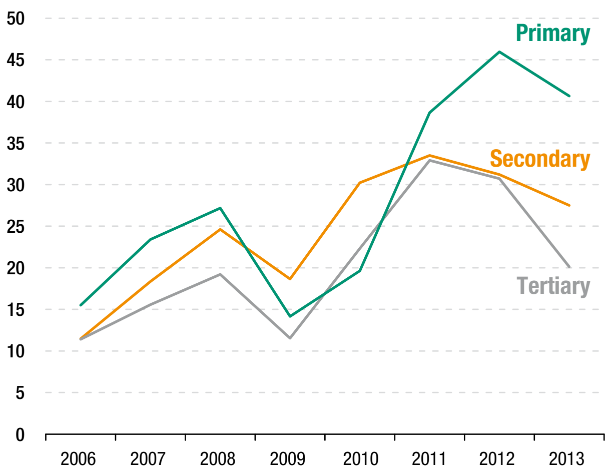


Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes Caribbean offshore financial centres.

closed to private capital. Finally, efficiency-seeking FDI expanded in Mexico as MNEs established plants in industries such as automobiles and auto parts, electrical and electronic equipment, garments and furniture. Many Central American and some Caribbean countries emulated Mexico's export-oriented model by establishing export processing zones, thereby also receiving efficiency-oriented FDI. This wave came to an end in the period 2000–2003 with a strong decline in FDI inflows, as a result of a number of factors including a period of economic stagnation across the region and globally.

The second wave began in the mid-2000s in response to a surge in commodity prices, leading to increased FDI in extractive industries in the region (especially South America). The effect was both direct and indirect, owing to higher prices for commodity exports, improved terms of trade and higher consumption, which encouraged market-seeking FDI, mainly in services but also in manufacturing (see *WIR12*).[28] However, with the abrupt collapse in commodity prices over the last few years, FDI flows began contracting in the primary and secondary sectors after 2012, while those in the tertiary sector began declining in 2013, although it is not clear yet whether the second wave is over (figure II.11). In contrast to the situation in South America, FDI to most Central America and Caribbean countries expanded slowly during the 2000s and was more vulnerable to the global economic crisis.

Figure II.11. South America: FDI flows by sector, 2006–2013
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Countries included are Argentina, the Plurinational State of Bolivia, Brazil, Chile, Colombia, Ecuador. Paraguay and Uruguay. These countries attracted 89 per cent of total FDI flows to South America in 2006–2013.

Developed countries remain by far the largest source of FDI into Latin America and the Caribbean, excluding the offshore financial centres (82 per cent of total inward FDI stock in 2013), although intraregional FDI expanded in the 2000s. Half of FDI stock in 2013 was from Europe, while 27 per cent came from North America. The latter is the main foreign investor in the Central America and the Caribbean subregion with half of FDI stock there, while Europe has a greater share in South America. Developing and transition economies represent only 13 per cent of total inward FDI, the largest part of which is intraregional FDI (table II.7). Changes occurred between the two waves of FDI, however. There is a clear decline in the relative size of the United States and Spain: the combined share of these two countries in total FDI flows to the region declined from 50 per cent in 1996–2003 to 32 per cent in 2004–2013. Intraregional FDI expanded strongly during the "second wave", representing 16 per cent of total FDI flows, compared with 12 per cent previously, but with an important part originating from regional offshore financial centres. Other developing and transition economies remain small, though FDI from China has recently been on the rise.

For example, Chinese acquisitions of enterprises in Latin America and the Caribbean, apart from financial centres, are estimated to have totalled only $7 billion in the two decades prior to 2010, a year in which they jumped to an estimated $14 billion before continuing at an estimated $9 to $10 billion annually (ECLAC, 2015). The four major Chinese oil companies (CNPC, Sinopec, CNOOC and Sinochem) have a presence in all oil-exporting Latin American countries, except Mexico and the Plurinational State of Bolivia; and Minmetals significantly expanded its investments in Peru in 2014 by purchasing the Las Bambas mine for $5.85 billion. Initiatives to boost trade between the Atlantic and Pacific sides of Latin America and the Caribbean – for example, proposed new canals across Central America and connectivity across the Amazon – are likely to attract further interest by investors from Asia.

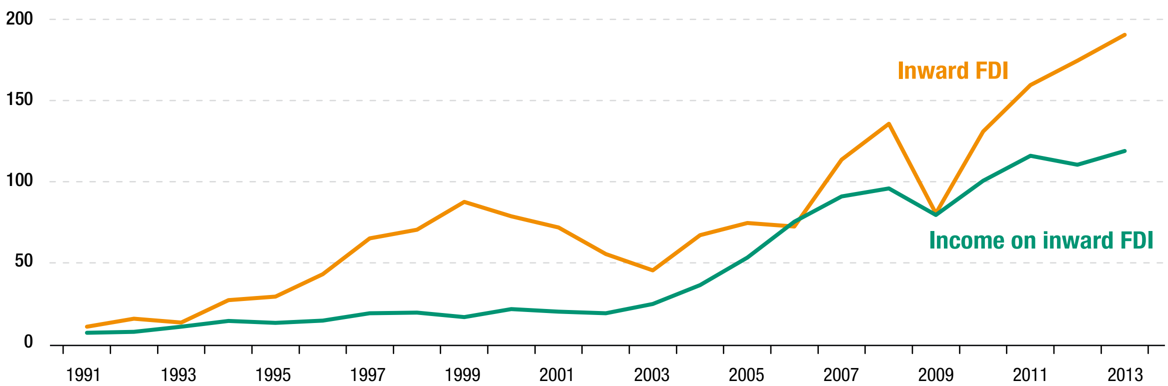
The rise of FDI income has raised the relative share of reinvested earnings in FDI components. Income on inward FDI has grown steadily since

Table II.7. **FDI to Latin America and the Caribbean by main home countries, group of economies and regions** (Percentage shares in regional totals)

Home economy/region	Latin America and the Caribbean			South America			Central America and the Caribbean		
	Flows 1996–2003	Flows 2004–2013	Stocks 2013	Flows 1996–2003	Flows 2004–2013	Stocks 2013	Flows 1996–2003	Flows 2004–2013	Stocks 2013
United States	33.3	23.9	23.8	19.2	14.8	15.2	59.9	40.7	44.9
Netherlands	8.2	13.9	16.7	8.5	14.6	19.8	7.6	12.6	9.0
Spain	17.1	8.5	10.6	20.7	7.3	10.7	10.5	10.7	10.2
Belgium/Luxembourg	1.4	7.3	6.9	1.9	7.8	6.3	0.5	6.2	8.3
Canada	2.1	5.1	3.6	1.4	2.9	2.8	3.4	9.0	5.3
United Kingdom	3.3	4.2	3.7	2.8	5.0	3.3	4.2	2.8	4.5
Switzerland	1.3	3.7	2.4	0.8	4.9	2.4	2.2	1.6	2.5
France	4.1	3.2	3.1	6.3	4.4	4.0	-0.1	0.9	1.0
Japan	1.5	3.0	2.8	1.4	3.7	3.2	1.8	1.7	1.9
Mexico	0.2	3.0	2.0	0.1	3.9	2.4	0.3	1.3	1.1
Chile	0.6	2.6	1.4	0.9	3.9	1.8	0.2	0.2	0.2
Developed economies	**81.2**	**80.6**	**81.8**	**74.3**	**75.2**	**77.4**	**94.3**	**90.5**	**92.4**
Europe	42.8	46.4	49.8	50.2	50.6	53.9	29.0	38.7	39.9
North America	35.7	28.9	27.4	21.2	17.7	18.0	63.2	49.7	50.2
Developing economies	**12.5**	**17.8**	**12.6**	**16.7**	**22.8**	**14.9**	**4.6**	**8.5**	**7.1**
Latin America and the Caribbean	11.8	15.9	10.7	16.3	20.5	13.0	3.4	7.3	5.3
Financial centres	7.4	6.4	3.3	10.4	8.6	4.2	1.7	2.5	1.2
South America	2.4	5.8	4.8	3.3	7.8	6.0	0.6	2.0	1.9
Central America and the Caribbean	2.1	3.7	2.4	2.6	4.1	2.5	1.1	2.8	2.2
Asia and Oceania	0.7	1.9	1.8	0.4	2.3	1.7	1.2	1.2	1.8
South-East Europe and CIS	**0.0**	**0.1**	**0.1**	**0.0**	**0.2**	**0.1**	**0.0**	**0.0**	**0.0**
Unspecified	6.3	1.5	5.5	9.0	1.8	7.6	1.1	1.0	0.5

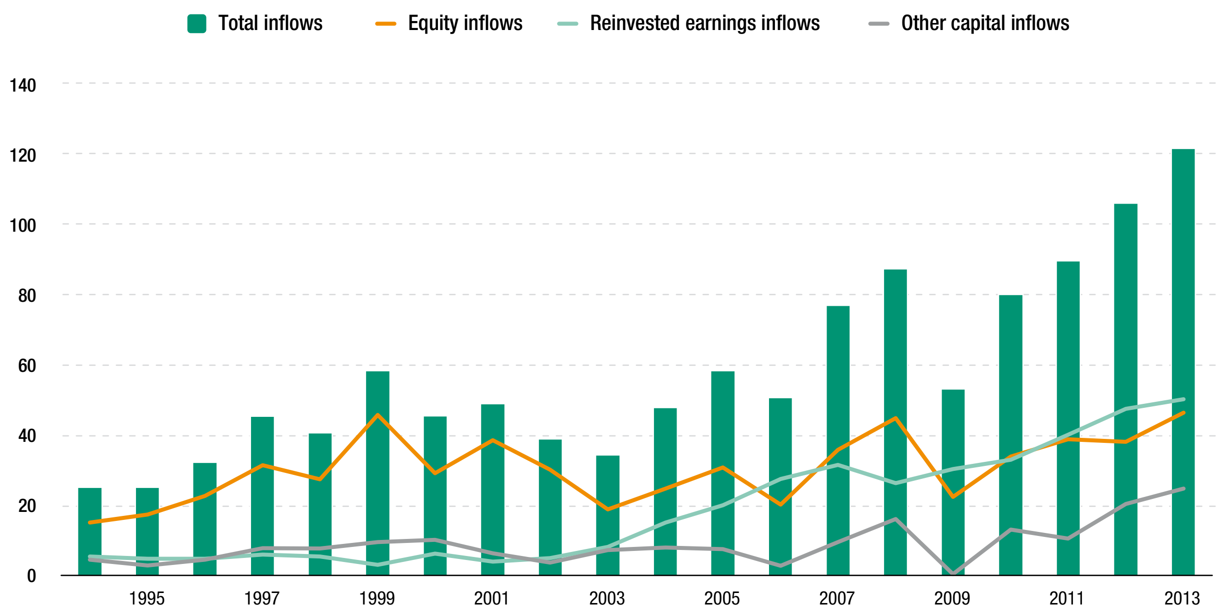
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Host countries in South America: Argentina, the Plurinational State of Bolivia, Brazil, Chile (only stocks), Colombia (only flows), Ecuador (only flows), Paraguay, Peru, Uruguay (only stocks, 2012) and the Bolivarian Republic of Venezuela (flows data cover only 1996–2012). In Central America and the Caribbean: Costa Rica, the Dominican Republic (only flows), El Salvador (flows data cover only 1998–2012), Honduras, Mexico, and Trinidad and Tobago (flows data cover only 1996–2012; stocks data are 2012).

Figure II.12. **FDI flows and income on FDI in Latin America and the Caribbean, 1991–2013**
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes offshore financial centres. Host countries in South America: Argentina, the Plurinational State of Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and the Bolivarian Republic of Venezuela. In Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama. In the Caribbean: the Dominican Republic, Jamaica, and Trinidad and Tobago.

Figure II.13. **Latin America and the Caribbean: FDI inflows, total and by components, 1994–2013**
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Excludes offshore financial centres. Brazil is not included because data on reinvested earnings are not available. Countries included in South America: Argentina, Bolivia, Chile Colombia, Ecuador, Guyana, Paraguay, Peru, Surinam, Uruguay and the Bolivarian Republic of Venezuela. In Central America and the Caribbean: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, the Dominican Republic, and Trinidad and Tobago.

2003–2004 (mainly because of the high prices and profits enjoyed in the extractive industry until recently), approaching the scale of inflows in the latter part of the 2000s (figure II.12). As a result, reinvested (or retained) earnings became the main component of FDI inflows in the 2000s, in contrast to the 1990s when this FDI component was marginal and equity capital predominant (figure II.13).

The current slowdown in FDI flows to the region is an occasion for a reflection on the experience of the two FDI waves across the region. In the context of the post-2015 development agenda, policymakers may consider potential policy options on the role of FDI for the region's development path. Lessons from the past include the following:

- The commodity "bonanza" in part distracted policymakers from carefully designed development strategies in which FDI can play a role in supporting Latin American and Caribbean economies' entry into, and growth within, global value chains (*WIR13*). A re-evaluation of development policies is needed, based on a careful assessment of spillovers from FDI, the capacities needed by domestic firms to benefit from them, and options to establish effective linkages between MNEs and local enterprises.
- The impact of FDI entry on the balance of payments is broader than a mere assessment of flows and income generated. The consequences depend, among others, on FDI motivations – i.e. resource-seeking, market-seeking, efficiency-seeking, or just "parking" assets. In light of MNEs' high retained investment income across the region, it is essential for policymakers to encourage the use of such income for productive reinvestments and longer-term benefits.
- Across the region, MNEs are hampered by the slowdown in commodity prices, lower economic growth and flat domestic demand. Policymakers may consider the broader role of FDI in local development pathways. Prospects for reduced relative importance of commodities-related FDI may provide opportunities for diversification of FDI flows, including into sectors key for sustainable development.

TRANSITION ECONOMIES

FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows

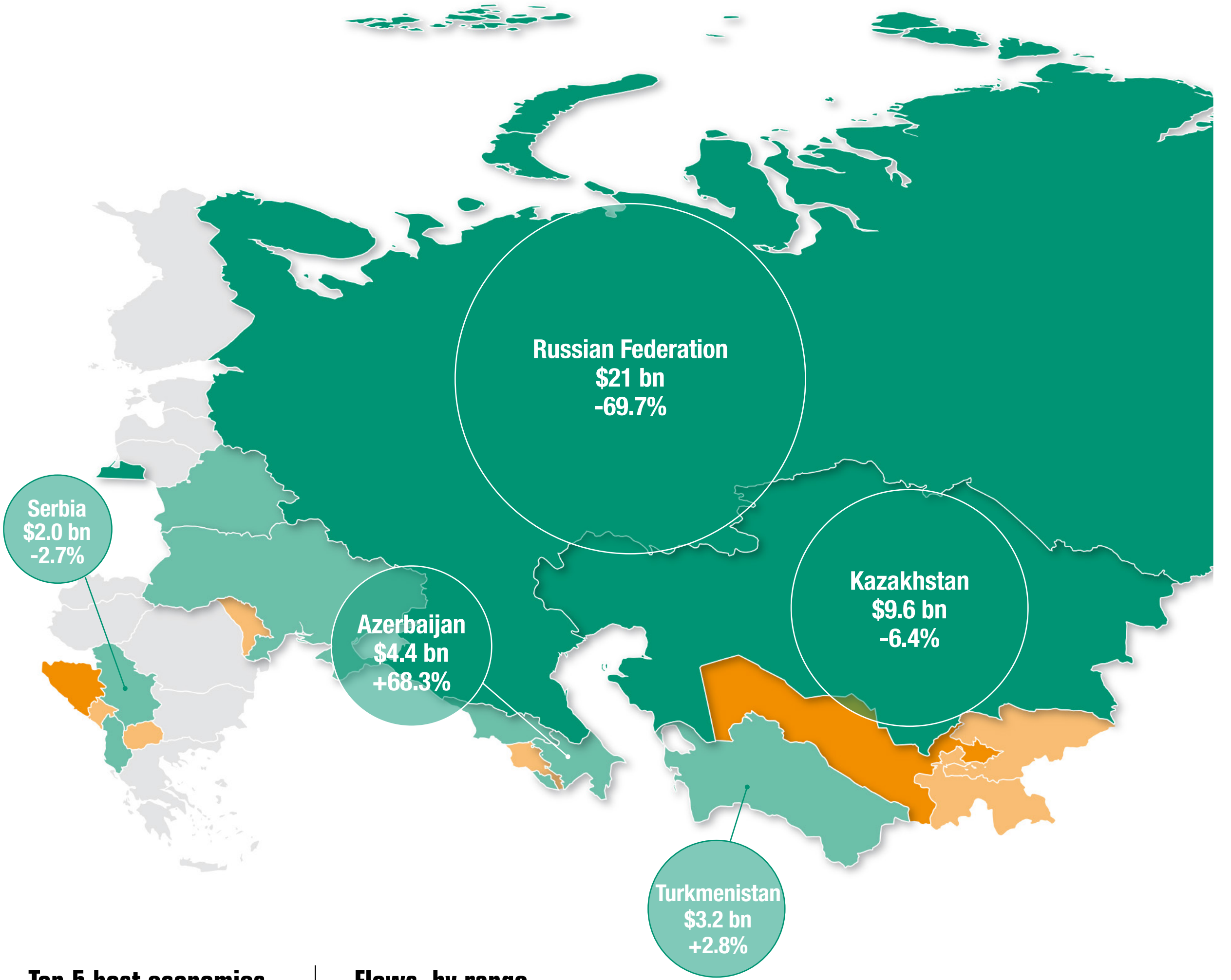
48.1 bn

2014 Decrease

-51.7%

Share in world

3.9%



Top 5 host economies

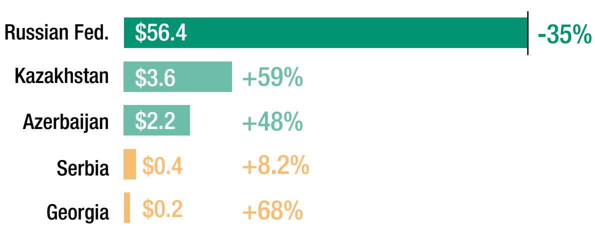
Economy
$ Value of inflows
2014 % Change

Flows, by range

- Above $5.0 bn
- $1.0 to $4.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



The five largest greenfield FDI projects announced in the transition economies, 2014 (Millions of dollars)

Name of investing company	Source country	Destination	Value
China Triumph International Engineering	China	Russian Federation	3 000
Hawtai Motor Group	China	Russian Federation	1 100
TERNA	Italy	Montenegro	1 000
Hareon Solar Technology	China	Bosnia and Herzegovina	636
Great Wall Motors (GWM)	China	Russian Federation	520

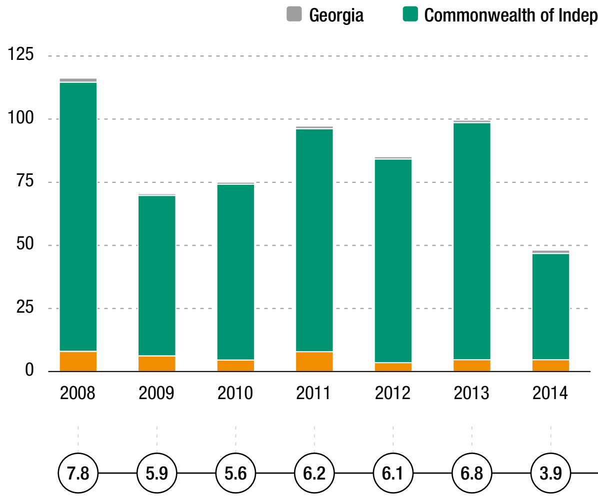
Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Geopolitical risk, regional conflict weighed down flows to the CIS
- Developing-economy MNEs becoming large investors
- FDI to decline in 2015 with continued recession and low oil prices

Figure A. **FDI inflows, 2008–2014** (Billions of dollars)

Figure B. **FDI outflows, 2008–2014** (Billions of dollars)



Share in world total

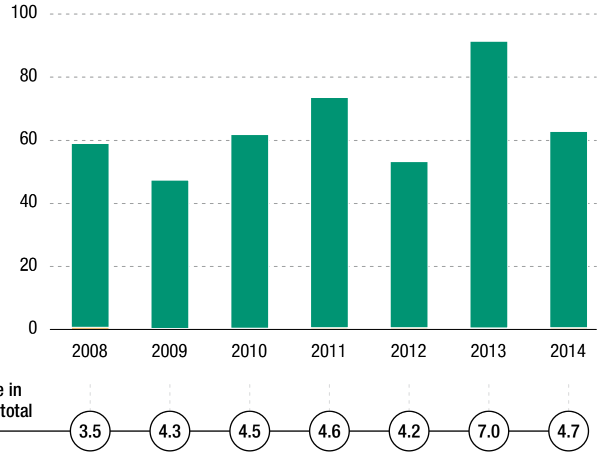


Table A. **Announced greenfield FDI projects by industry, 2013–2014** (Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investors	
	2013	2014	2013	2014
Total	**29 345**	**25 650**	**18 818**	**5 801**
Primary	**551**	**391**	**3 135**	**931**
Mining, quarrying and petroleum	551	391	3 135	931
Manufacturing	**10 920**	**15 682**	**2 559**	**1 701**
Food, beverages and tobacco	890	1 938	248	376
Non-metallic mineral products	834	1 194	-	402
Machinery and equipment	655	3 373	174	87
Motor vehicles and other transport equipment	2 065	4 278	696	319
Services	**17 874**	**9 578**	**13 123**	**3 169**
Electricity, gas and water	5 468	3 172	10 335	355
Construction	3 045	1 458	-	97
Transport, storage and communications	2 727	1 335	734	989
Finance	2 490	1 798	1 434	1 042

Table B. **Announced greenfield FDI projects by region/country, 2013–2014** (Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investors	
	2013	2014	2013	2014
World	**29 345**	**25 650**	**18 818**	**5 801**
Developed economies	**20 914**	**12 537**	**2 266**	**1 630**
European Union	15 679	9 842	2 126	1 465
Germany	2 773	1 942	158	116
Italy	972	1 900	-	-
United States	2 775	1 747	40	34
Developing economies	**6 385**	**11 116**	**14 506**	**2 173**
Africa	74	-	101	90
East and South-East Asia	1 643	9 681	550	789
China	757	8 332	89	665
West Asia	3 703	872	12 816	1 081
Latin America and the Caribbean	96	278	965	109
Transition economies	**2 046**	**1 998**	**2 046**	**1 998**

Table C. **Cross-border M&As by industry, 2013–2014** (Millions of dollars)

Sector/industry	Sales		Purchases	
	2013	2014	2013	2014
Total	**-3 820**	**4 220**	**3 054**	**1 831**
Primary	**-3 726**	**3 011**	**1 771**	**2 526**
Mining, quarrying and petroleum	-3 726	3 011	1 771	2 526
Manufacturing	**2 813**	**1 309**	**-24**	**-2 491**
Chemicals and chemical products	2 000	-	30	-
Pharmaceuticals, medicinal chemicals and botanical products	-34	379	-	-
Basic metal and metal products	425	24	-59	-2 406
Motor vehicles and other transport equipment	60	750	-	-
Services	**-2 907**	**-100**	**1 307**	**1 797**
Electricity, gas, water and waste management	857	-1 267	597	-
Telecommunications	-2 326	5	-	-
Financial and insurance activities	-164	-305	-17	1 757
Business activities	-73	1 361	72	-

Table D. **Cross-border M&As by region/country, 2013–2014** (Millions of dollars)

Region/country	Sales		Purchases	
	2013	2014	2013	2014
World	**-3 820**	**4 220**	**3 054**	**1 831**
Developed economies	**-7 191**	**1 536**	**1 682**	**-251**
European Union	-3 987	200	243	2 184
Cyprus	-234	5 085	-	20
Italy	-1 905	-2 803	357	1 588
United Kingdom	-487	-1 013	5	-
United States	-3 580	487	30	-2 414
Developing economies	**2 572**	**1 363**	**600**	**852**
Asia	2 585	1 369	600	256
South, East and South-East Asia	2 160	1 223	597	447
China	2 000	1 642	-	-
Transition economies	**771**	**1 231**	**771**	**1 231**
Russian Federation	607	1 374	817	-173

FDI inflows of the transition economies of South-East Europe, the Commonwealth of Independent States (CIS) and Georgia fell by more than half in 2014 compared with the previous year, to $48 billion – a value last seen in 2005. In the CIS, regional conflict coupled with falling oil prices and international sanctions reduced foreign investors' confidence in the strength of local economies. In South-East Europe, FDI flows remained flat at $4.7 billion.

In South-East Europe, foreign investors mostly targeted manufacturing. In contrast to previous years, when the largest share of FDI flows was directed to the financial, construction and real estate industries, in 2014 foreign investors targeted manufacturing, buoyed on the back of competitive production costs and access to EU markets. Serbia and Albania, both EU accession candidates, remained the largest recipients of FDI flows in the subregion at $2 billion and $1 billion, respectively.

Geopolitical risk and regional conflict weighed heavily on FDI flows to the transition economies of the CIS. FDI flows to Ukraine fell by 91 per cent to $410 million – the lowest level in 15 years – mainly due to the withdrawal of capital by Russian investors, and investors based in Cyprus (partly linked to round-tripping from the Russian Federation and Ukraine). The Russian Federation – the region's largest host country – saw its flows fall by 70 per cent to $21 billion because of the country's negative growth prospects as an well as an adjustment after the exceptional level reached in 2013 (due to the large-scale Rosneft–BP transaction (*WIR14*)). FDI flows to Kazakhstan fell by 6 per cent in 2014, as a rise in equity investments was offset by a decline in intracompany loans. Geological exploration activities by foreign investors continued, accounting for more than half of FDI stock in the country. Other transition economies in the CIS saw their FDI flows rise in 2014. Flows to Azerbaijan almost doubled to $4.4 billion, with investments in the oil and gas industry accounting for three quarters of the total (primarily BP exploration in Shahdeniz).

In 2014, developing and transition economies became the largest investors in the region in terms of value of announced greenfield investment projects. China, with projects worth more than $8 billion, is by far the largest greenfield investor in the region. Among the top 10 greenfield projects announced, seven were by Chinese investors (table II.8). In 2014, China became the fifth largest FDI investor in the Russian Federation, up 13 positions since 2007. In the oil and gas industry, for instance, the State-owned China National Petroleum Corp acquired a 20 per cent stake in OAO Yamal SPG, for $1.1 billion. In the automotive industry, Great Wall Motor (China) started to build an automotive plant in

Table II.8. The 10 largest greenfield FDI projects announced in the transition economies, 2014

Rank	Name of investing company	Source country	Destination	Sector	Key Business Function	Estimated capital expenditures (Millions of dollars)	Jobs created
1	China Triumph International Engineering	China	Russian Federation	Industrial Machinery, Equipment & Tools, All other industrial machinery	Manufacturing	3 000	3 000
2	Hawtai Motor Group	China	Russian Federation	Automotive OEM, Automobiles	Manufacturing	1 100	3 000
3	TERNA	Italy	Montenegro	Coal, Oil and Natural Gas, Other electric power generation	Electricity	1 000	292
4	Hareon Solar Technology	China	Bosnia and Herzegovina	Alternative/Renewable energy, Solar electric power	Electricity	636	306
5	Great Wall Motors (GWM)	China	Russian Federation	Automotive OEM, Automobiles	Manufacturing	520	2 500
6	New Hope Group (NHG)	China	Russian Federation	Food & Tobacco, Animal food	Manufacturing	500	1 267
6	Dongfeng Motor	China	Russian Federation	Automotive OEM, Automobiles	Manufacturing	500	2 931
7	Weibo	China	The former Yugoslav Republic of Macedonia	Textiles, Textiles & Textile Mills	Manufacturing	400	4 500
8	IKEA	Sweden	Serbia	Consumer Products, Furniture, homeware & related products	Retail	373	2 789
9	EVN	Austria	Russian Federation	Chemicals, Basic chemicals	Manufacturing	343	785
10	Valorem	France	Ukraine	Alternative/Renewable energy, Wind electric power	Electricity	335	161

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

the Tula region with an estimated value of $500 million. Although the presence of Indian investors is still small, it might strengthen. For example, in 2014, the Russia Direct Investment Fund and IDFC Ltd., India's leading financial services company, agreed to jointly invest in infrastructure projects worth $1 billion.

Developed-country MNEs continued their divestments in 2014, selling their assets to either domestic or foreign investors. For example, ENI Spa (Italy) sold 60 per cent of Artic Russia BV – an oil and gas exploration and production company – to OOO Yamal Razvitiye (Russia Federation), for $3 billion; while AO Samruk-Energo, a wholly owned subsidiary of Kazakhstan's State-owned AO Fond Natsionalnogo Blagosostoyaniya Samruk-Kazyna, acquired the remaining 50 per cent in TOO Ekibastuzskaya GRES-1, an electric utility company, from Kazakhmys PLC (United Kingdom), for $1.25 billion.

FDI outflows fell by 31 per cent to $63 billion. Natural-resources-based MNEs, mainly from the Russian Federation, reduced their investment abroad in the face of constraints in international financial markets (see below), low commodity prices and strong depreciation of the rouble. Almost 60 per cent of outflows from the Russian Federation went to Cyprus, Switzerland, the Netherlands and Bermuda.

FDI to and from transition economies is expected to decline further in 2015 owing to the continued economic recession and low oil prices. The GDP of the Russian Federation is expected to experience negative growth in 2015 – a 3 per cent contraction, according to latest estimates (United Nations, 2015).

The impact of sanctions on FDI in transition economies of the CIS

Since March 2014, a number of countries have implemented a series of sanctions against the Russian Federation. Coupled with the strong depreciation of the rouble and other macroeconomic factors, these sanctions began affecting inward and outward FDI in the second half of 2014, an effect that is expected to continue in 2015.

Direct impact on FDI inflows. In the last 10 years, annual FDI inflows to the Russian Federation grew almost five-fold, from $15 billion in 2004 to $69 billion in 2013, before they fell dramatically in 2014. Driven by high expected rates of return, foreign MNEs increased their investments in energy and natural-resources-related projects. Foreign investors have entered the Russian energy market mainly through two channels: asset swaps and technology provision deals. Oil and gas firms of the Russian Federation were allowed to enter downstream markets in developed countries in exchange for allowing MNEs from those countries to take minority participations in those firms' domestic exploration and extraction projects. For example, Wintershall (Germany) acquired a stake in the Yuzhno-Russkoye gas field in Siberia, and Eni (Italy) gained access to exploration and production facilities in the Russian Federation. In return, Gazprom (Russian Federation) acquired parts of those companies' European assets in hydrocarbons transportation, storage and distribution. In some oil and gas projects that require high technology, such as the development of the Shtokman field, the involvement of developed-country MNEs such as StatoilHydro (Norway) and Total (France) was necessary because of their expertise.

After a period of growth, FDI in natural-resources-related industries has come to a standstill. Sanctions have had an impact on both channels. For example, in November 2014, BASF (Germany) and Gazprom (Russian Federation) agreed to scrap a $14.7 billion asset swap that would have given Gazprom full control of a jointly operated European gas trading and storage business, including the biggest underground gas storage facility in Europe. In return, BASF's Wintershall affiliate was set to gain stakes in two west Siberian gas fields.[29] The oil industry was also affected by a ban on the exports of a wide range of goods, services and technology to Russian oil projects, in particular those in Arctic, deep-water and shale areas. The enormous Siberian oilfields developed in Soviet times are ageing, and without the development of new resources – from the Arctic to Siberia – Russian oil production could fall. Some foreign affiliates have already begun to hold back in some projects in the Arctic. For example, ExxonMobil (United States) had to freeze all 10 of its joint ventures with Rosneft in this region, including the Kara Sea project. Similarly, a Shell (United States) joint project with Gazprom Neft for the development of the Bazhenov field had to be suspended, as did the Total (France) project with Lukoil.

Indirect impact on FDI inflows. The Russian economy has suffered from the sanctions in three ways: (i) massive capital outflows, which have made the foreign exchange market more volatile and caused a significant depreciation of the rouble; (ii) restricted access to international financial markets for some Russian banks and firms, making external borrowing very expensive for others; and (iii) the low confidence of domestic businesses and consumers in future growth prospects reducing consumption and investment (World Bank, 2015).

In the last 10 years, foreign investors in the Russian Federation responded positively to the country's fast-growing consumer market and the liberalization of selected industries. Rising market opportunities and improvements in the business environment resulted in a sharp increase in cross-border M&A sales of firms in the country's manufacturing industries. Although the presence of foreign affiliates does not dominate the Russian economy, those in several key industries, such as the automotive, beverages and tobacco, and power generation industries, have become important in recent years.[30]

In the automotive industry in recent years, leading international car manufacturers such as Renault, Volkswagen, Toyota and General Motors have established production facilities in the Russian Federation, prompted also by the country's industrial assembly policy, which allows for zero customs duties on a long list of auto parts. However, as consumer confidence declined and the falling value of the rouble raised the prices of imports and components in the first eight months of 2014, there was a significant drop in automotive sales in the Russian Federation.

As a result, some foreign automotive companies are cutting their production in the country (e.g. Volkswagen will reduce its production in Kaluga), while others will divest. General Motors announced its withdrawal from the Russian Federation by December 2015, with production in St. Petersburg ceasing in the middle of the year. The contract for manufacturing Chevrolet vehicles held by Russian car manufacturer GAZ will also end. Some other companies continue to maintain confidence in the country despite declines in sales. Ford Motor (United States), for example, took control of its Russian joint venture, Ford-Sollers, providing it with additional financial support.[31]

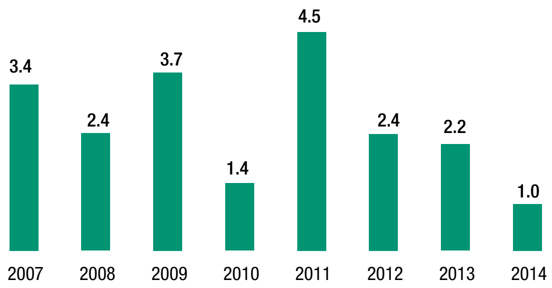
Foreign firms are reassessing their position in the market. In the beverages and tobacco industry, large soft-drink MNEs PepsiCo (United States) and Coca-Cola Hellenic (Greece), which control a large share of the juice market in the Russian Federation, have announced plans to halt production at key plants. PepsiCo will close a fruit juice plant in the Ramenskoye; Coca-Cola Hellenic has already closed its plant in Nizhny Novgorod.[32] Carlsberg (Denmark), the world's fourth-largest brewer, will close 2 of its 10 breweries in the country. [33] As examples of slumps in other market-seeking industries, German retailer Metro has postponed a listing of its Russian unit on the London stock exchange, while in December 2014 the blue-chip health care company Fresenius (Germany) cancelled a planned pharmaceutical joint venture with a Russian partner.

Impact on FDI outflows. Russian State-owned and privately owned firms participated in outward investment, ensuring their control over the value chains of their products in natural resources (metals, oil and gas) and services (telecommunications, banking). The most important destinations for this outward FDI are Europe – accounting for over one quarter of the total (*WIR14*) – and the United States. The interests of Russian MNEs may be affected, e.g. through the reviewing of cross-border M&As.

In addition, as the amounts involved in large international transactions require the active participation of banks and other financial institutions, the sanctions are intensifying difficulties already faced by Russian companies following the onset of the financial crisis. Sanctions against State-controlled banks such as VTB, Sberbank, Gazprombank and Vnesheeconobank, as well as other big financiers of Russian MNEs investing abroad, represent one of the biggest threats to Russian investment abroad. The sanctions make it harder for those banks to raise equity and to borrow in developed countries.

In other transition economies of the former Soviet countries in Central Asia, the current sanctions also had an impact on FDI as Russian investors – among the largest investors in the region – began to reduce their presence (figure II.14). For example, in Kyrgyzstan, Russian energy giant Inter RAO is having difficulties financing the Kambarata-1 hydro project, while State oil company Rosneft could not take over the Manas International Airport and its affiliates. As the transition economies of Central Asia are economically closely linked to the Russian Federation, the sanctions will affect their economies as well. Tajikistan may face the

Figure II.14. **FDI outflows from Russian Federation to CIS countries, 2007–2014**
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Data for 2014 are estimated on the basis of the first three quaters of 2014.

most severe and direct consequences of a Russian economic slowdown, as 47 per cent of its GDP come from remittances by migrant workers in the Russian Federation. Such a slowdown may affect FDI inflows negatively in an indirect way.

DEVELOPED COUNTRIES

FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows

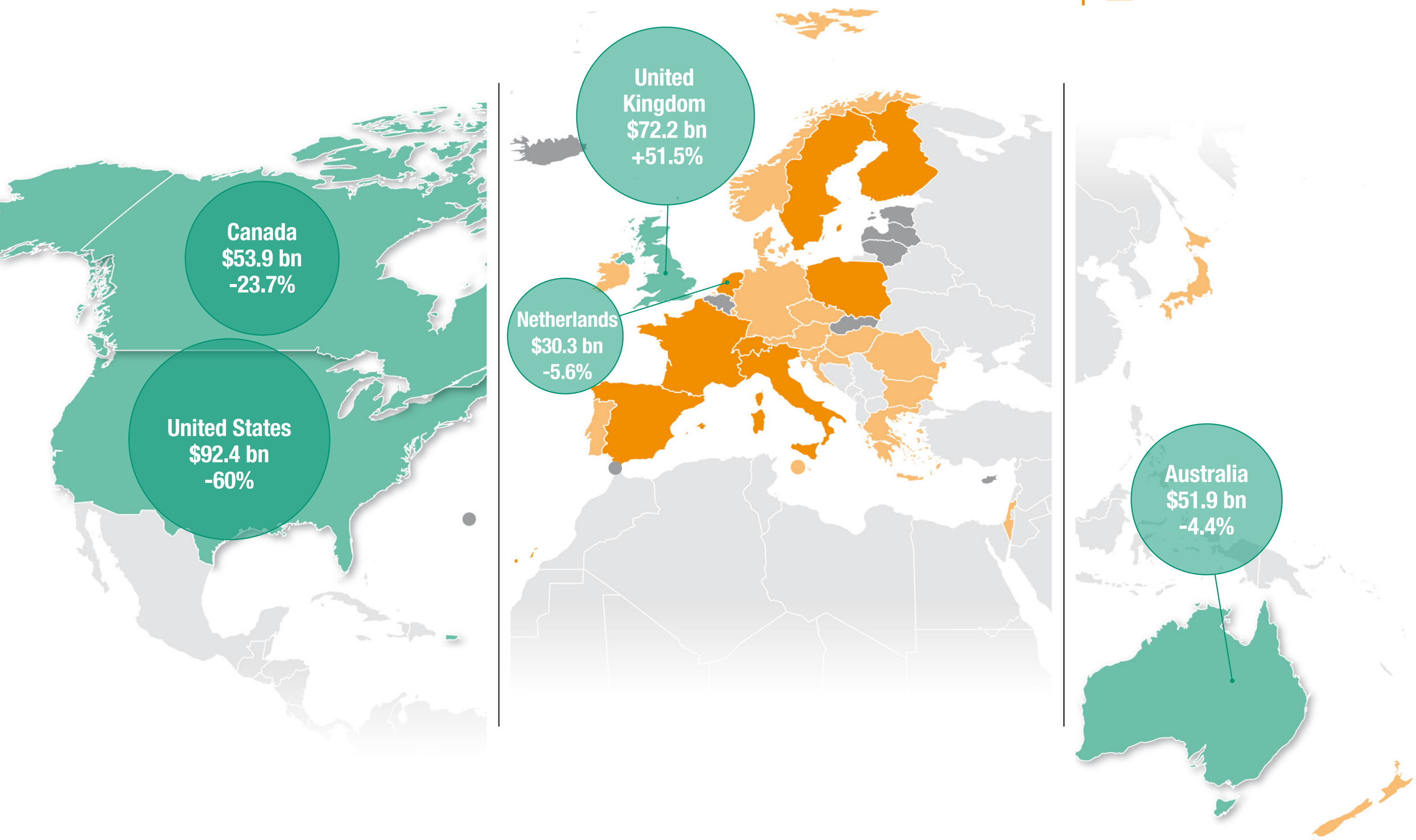
498.8 bn

2014 Decrease

-28.4%

Share in world

40.6%



Top 5 host economies

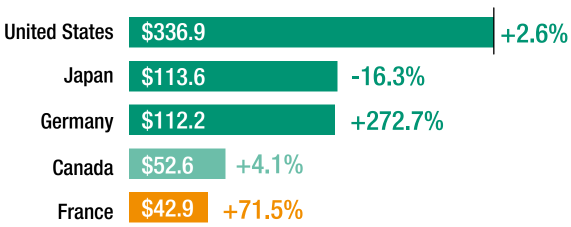
Economy
$ Value of inflows
2014 % Change

Flows, by range

- Above $100 bn
- $50 to $99 bn
- $10 to $ 49 bn
- $1 to $9 bn
- Below $1 bn

Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



United States and Japan: Current account balance, 2006 and 2013 (Billions of dollars)

Current account items	United States		Japan	
	2006	2013	2006	2013
Balance on goods	-837	-702	95	-90
Balance on services	76	231	-32	-36
Balance on primary income	43	200	122	176
Primary income receipts	693	780	172	233
Investment income on FDI	333	467	41	79
Primary income payments	650	580	50	57
Investment income on FDI	159	176	11	17
Balance on current account	**-807**	**-400**	**175**	**40**

Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- Inflows fell for third year, outflows held steady
- Key factors: an exceptional divestment, rapid changes in intracompany loans
- MNE operations: growing impact on balance of payments

Figure A. **FDI inflows, 2008–2014** (Billions of dollars)

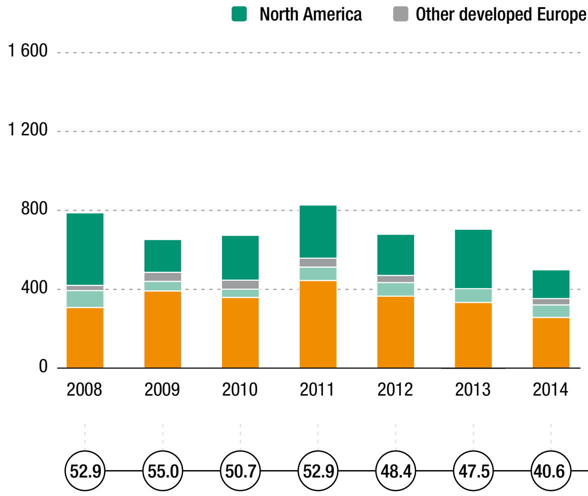


Figure B. **FDI outflows, 2008–2014** (Billions of dollars)

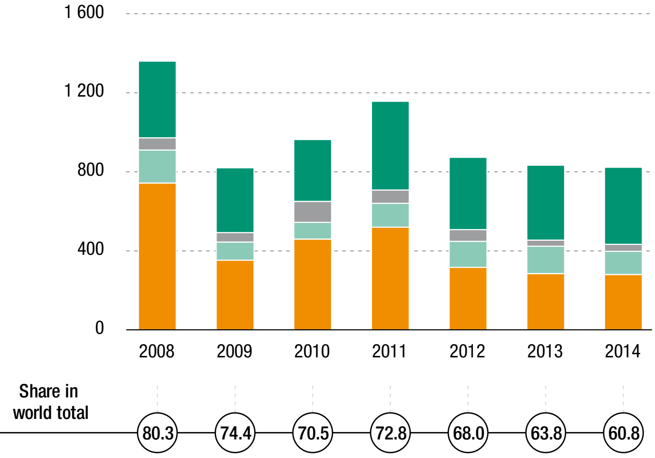


Table A. **Announced greenfield FDI projects by industry, 2013–2014** (Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investors	
	2013	2014	2013	2014
Total	**225 555**	**222 378**	**479 064**	**481 443**
Primary	**1 700**	**1 920**	**18 848**	**35 543**
Mining, quarrying and petroleum	1 696	1 920	16 258	35 543
Manufacturing	**98 034**	**100 445**	**207 972**	**218 396**
Textiles, clothing and leather	13 785	17 402	18 835	22 057
Coke, petroleum products and nuclear fuel	2 115	5 311	6 538	25 767
Chemicals and chemical products	16 346	14 818	33 632	32 207
Motor vehicles and other transport equipment	18 319	21 871	54 474	60 145
Services	**125 820**	**120 013**	**252 245**	**227 505**
Electricity, gas and water	25 817	16 660	69 638	48 563
Construction	13 120	20 225	20 167	25 233
Transport, storage and communications	19 039	17 706	42 703	44 710
Business services	35 489	35 801	58 921	55 159

Table B. **Announced greenfield FDI projects by region/country, 2013–2014** (Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investors	
	2013	2014	2013	2014
World	**225 555**	**222 378**	**479 064**	**481 443**
Developed economies	**192 338**	**181 085**	**192 338**	**181 085**
Europe	116 954	106 572	110 253	100 049
North America	57 182	54 654	60 107	61 161
Other developed countries	18 201	19 859	21 978	19 875
Japan	11 472	12 732	8 296	5 995
Developing economies	**30 952**	**39 664**	**265 812**	**287 822**
Africa	2 742	1 112	28 010	63 024
Asia and Oceania	26 671	36 792	155 815	153 631
China	10 919	19 655	53 469	47 051
India	3 557	2 728	14 511	17 919
Latin America and the Caribbean	1 539	1 760	81 987	71 167
Transition economies	**2 266**	**1 630**	**20 914**	**12 537**

Table C. **Cross-border M&As by industry, 2013–2014** (Millions of dollars)

Sector/industry	Sales		Purchases	
	2013	2014	2013	2014
Total	**237 516**	**274 549**	**178 870**	**228 389**
Primary	**39 337**	**27 842**	**-14 302**	**-920**
Mining, quarrying and petroleum	37 897	25 975	-14 553	-1 178
Manufacturing	**84 807**	**152 185**	**80 051**	**128 229**
Food, beverages and tobacco	19 708	30 534	25 278	34 340
Chemicals and chemical products	19 232	23 611	4 822	25 172
Pharmaceuticals, medicinal chemicals and botanical products	742	44 058	20 443	45 165
Computer, electronic, optical products and electrical equipment	10 753	24 247	11 808	14 877
Services	**113 373**	**94 522**	**113 121**	**101 081**
Trade	7 406	28 483	-2 067	23 551
Information and communication	29 273	-73 170	22 476	-87 172
Financial and insurance activities	9 077	29 728	64 197	100 908
Business services	35 799	65 929	22 220	28 260

Table D. **Cross-border M&As by region/country, 2013–2014** (Millions of dollars)

Region/country	Sales		Purchases	
	2013	2014	2013	2014
World	**237 516**	**274 549**	**178 870**	**228 389**
Developed economies	**165 726**	**201 150**	**165 726**	**201 150**
Europe	35 455	24 853	112 622	169 943
North America	84 976	125 234	40 618	13 485
Other developed countries	45 296	51 063	12 487	17 722
Japan	44 872	37 906	2 576	3 947
Developing economies	**62 869**	**58 789**	**20 335**	**25 703**
Africa	2 288	1 670	-8 953	-8 317
Asia and Oceania	55 463	48 988	9 609	16 072
China	37 405	24 353	6 201	2 385
India	1 883	-880	3 346	5 327
Latin America and the Caribbean	5 118	8 131	19 678	17 949
Transition economies	**1 682**	**-251**	**-7 191**	**1 536**

FDI inflows to developed countries contracted for the third successive year, falling by 28 per cent to $499 billion, the lowest level since 2004. Inflows declined in 24 of the 39 developed economies. Outflows from developed economies held steady at $823 billion. Across individual economies, FDI flows fluctuated widely from year to year as MNEs actively engaged in M&As, acquiring as well as disposing of assets. Against the backdrop of a global savings glut – including saving by MNEs – intracompany loans continued to have major impacts, adding to volatility.

Europe was host to inflows worth $289 billion (down 11 per cent from 2013) accounting for 24 per cent of the world total in 2014. Inflows fell in 18 European economies, including major recipients in 2013 such as Belgium, France and Ireland. In contrast, some of the European countries that made the largest gains in 2014 were those that had received negative inflows in 2013, such as Finland and Switzerland. FDI to the United Kingdom jumped to $72 billion, leaving it in its position as the largest recipient country in Europe. Inflows to North America halved to $146 billion, mostly due to an exceptional M&A divestment. The share of North America in global FDI flows was reduced to 12 per cent (compared with 21 per cent in 2013). Inflows to the United States decreased to $92.4 billion, mainly due to one large divestment (Vodafone-Verizon). However, the United States remained the largest host developed country. In Asia-Pacific, FDI flows to Australia and Japan contracted, while those to New Zealand rebounded.

Outflows from European countries were virtually unchanged at $316 billion, or 23 per cent of the global total. Reflecting the highly volatile trends at the level of individual economies, Germany almost trebled its outflows, becoming the largest direct investor country in Europe in 2014. France also increased its outflows sharply, to $43 billion. In contrast, FDI from other major investor countries in Europe plummeted; FDI from the Netherlands (the largest European investor country in 2013) lost 28 per cent, and flows from Luxembourg (the second largest in 2013) fell to a negative value. United Kingdom outflows fell to –$60 billion (largely owing to the mirror effect of the Vodafone-Verizon divestment). In North America, both Canada and the United States increased their outflows modestly. FDI from Japan declined by 16 per cent, ending a three-year run of expansion.

Upturn in M&A activities, including divestments. Cross-border M&As reflected a general upturn in global M&As, rising to a gross value of $1.2 trillion, of which $911 billion was targeted at assets in developed countries. Health care industries (e.g. pharmaceutical, chemical) and the telecommunications industry were particularly active, with the former contributing to the large increase in M&A purchases by German firms. The latter raised M&A sales in France.

However, increased cross-border M&A activity was partially offset by significant divestments. The Vodafone-Verizon deal pushed divestments in the United States by foreign MNEs to $176 billion in 2014, more than double the average during 2011–2013 of $68 billion.

Effects of volatile intracompany loans. Some of the largest swings in FDI flows in 2014 were caused by rapid changes in the volume or even direction of intracompany loans. A reversal in intracompany loans from $8 billion to –$28 billion accounts for the large decline of inflows to Germany (table II.9). A similar reversal in intracompany loans to Ireland reduced total inflows to just $7.7 billion (compared with $37 billion in 2013). By contrast, a large increase in intracompany loans boosted inflows to the United Kingdom.

Changes in intracompany loans also played a major role in the huge increase in outflows from Germany. Over the period 2011–2013, intracompany loans from affiliates of German MNEs abroad back to their parent companies averaged $31 billion, in effect suppressing German outward FDI. Loans back to parent companies diminished to $3.8 billion in 2014. Although loans from German parent companies to their affiliates also decreased (from $22 billion in

Table II.9. Intracompany loans, selected European countries, 2013 and 2014
(Billions of dollars)

	2013	2014
Inward		
Germany	8.2	-28.1
Ireland	4.3	-24.9
United Kingdom	-3.9	32.6
Outward		
Germany	-15.3	19.0
Luxembourg	47.0	0.2
United Kingdom	1.9	44.4

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

2013 to $15 billion), the combined effect led to a rise intracompany loans to $19 billion (table II.9). Changes of similar magnitudes were observed in Luxembourg and the United Kingdom.

Resilience of natural-resource-related FDI. Although weaker commodity markets have had some influence on FDI to resource-rich countries, natural resources MNEs have generally maintained their investment plans. For instance, inflows to Australia declined for the third successive year to $52 billion. However, foreign MNEs remain extensively involved in oil and gas projects, including 12 of the 13 oil and gas projects at the "committed stage", with a combined value of $177 billion (A$197 billion).[34] In Canada, flows into the energy and mining sector in 2014 were worth $13 billion, down from $21 billion in 2013 but still substantial, considering that the average for 2010–2012 was $11 billion. Canadian outward FDI in this sector bounced back from –$2.5 billion in 2013 to $6.5 billion. Acquisitions of assets by Canadian MNEs contributed to the rise; an example is Encana's bid for the United States oil and gas production and exploration company Athlon Energy for $6.8 billion.

Mixed picture in flows from developed to developing economies.[35] FDI from the United States to developing regions increased by 8 per cent to $110 billion. If those economies are excluded, United States FDI to developing regions was $52 billion, up 5 per cent from the year before. United States FDI to Africa almost doubled, to $5.4 billion, the highest level since 2010. FDI to developing economies in Asia and the Pacific (excluding Singapore) increased by 32 per cent to $25 billion. In contrast, Japanese FDI to developing regions (excluding offshore financial centres) declined by 15 per cent to $39 billion.[36] FDI from Japan to developing Asia also lost ground, declining by 24 per cent to $28 billion. In contrast, Japanese FDI to Africa rose to $4.5 billion, a record high.

FDI data from the United States and Japan appear to contradict trends in M&As, which show that developed-country MNEs continued to divest assets in Africa (from –$3.8 billion in 2013 to –$8.3 billion in 2014). However, M&A data for Africa are often skewed by a few large deals. The large value of divestment in 2014 was accounted for mostly by just three M&A transactions: Vivendi's sale of its majority stake in the telecommunications services provider Itissalat (Morocco) for $5.7 billion; the sale of Nigerian assets by ConocoPhillips for $1.79 billion; and the sale of a stake in Tanzanian gas fields by Ophir Energy (United Kingdom) for $1.3 billion. These divestments do not signal diminishing interest in Africa among MNEs. Announcement-based data suggest that greenfield projects by developed-country MNEs in Africa are on the rise, with the total value of such projects announced in 2014 rising to $63 billion, the highest level since 2008.

The growing impact of MNE operations on the balance of payments of the United States and Japan

Global FDI and international production by MNEs has generally grown faster than GDP or international trade. Consequently, the impact of MNE operations on the balance of payments has increased, not only through FDI flows (on the financial account), but also through trade and investment income (on the current account). Data for the United States and Japan show that outward FDI creates avenues for exports of knowledge-intensive services. Growing investment income from outward FDI also has the effect of counterbalancing trade deficits (table II.10).

United States

In the early 2000s, the current account deficit of the United States began to grow, driven by trade in goods. By 2006, it had reached 5.8 per cent of GDP, raising concerns over its sustainability. Since then, the growing surplus in services trade and primary income[37] has helped narrow the current account deficit; in 2014, it was down to 2.4 per cent of GDP.

Table II.10. United States and Japan: Current account balance, 2006 and 2013 (Billions of dollars)

Current account items	United States 2006	United States 2013	Japan 2006	Japan 2013
Balance on goods	-837	-702	95	-90
Balance on services	76	231	-32	-36
Balance on primary income	43	200	122	176
Primary income receipts	693	780	172	233
Investment income on FDI	333	467	41	79
Primary income payments	650	580	50	57
Investment income on FDI	159	176	11	17
Balance on current account	**-807**	**-400**	**175**	**40**

Source: UNCTAD, based on data from the United States Department of Commerce, Bureau of Economic Analysis, and Japan's Ministry of Finance.

Intra-firm trade of United States MNEs (i.e. trade between a parent company and foreign affiliates) contributed to the overall deficit in goods and the surplus in services (table II.11). Intra-firm trade in goods is a relatively small part of the overall deficit, although its share has grown in recent years. In services, intra-firm trade accounted for 22 per cent of total United States exports in 2012. Half ($73 billion) of intra-firm services exports were charges for the use of intellectual property, such as industry process and computer software, which suggests the knowledge-intensive nature of intra-firm trade in services.

Table II.11. Intra-firm trade of United States MNEs, 2012
(Billions of dollars)

	Exports (parent to affiliates)	Imports (affiliates to parent)	Balance
Goods	278	331	-53
Services	144	73	71

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

Though significant, the value of exports by the parent companies of United States MNEs are dwarfed by the value of goods and services supplied by their foreign affiliates (figure II.15). Total sales of foreign affiliates are many times the value of all United States exports. FDI is clearly a more significant modality for United States firms to reach foreign markets.

As foreign affiliates are likely to use some inputs imported from the United States, a part of their revenues will find its way to the United States balance of payments in the form of exports of goods and services to foreign affiliates of United States MNEs. Another route is through investment income.

FDI income receipts amounted to $474 billion in 2014, a multiple of the deficit in intra-firm trade in goods. In comparison, investment income payments (earnings of foreign affiliates in the United States) amounted to $178 billion. Thus, investment income on FDI is an important factor offsetting the deficit in trade in goods.

A peculiar aspect of the United States investment income balance is that it remains in surplus despite the net negative investment position of the United States. At the end of 2014, the value of foreign investment (FDI, as well as portfolio and "other"[38] investment) in the United States (liabilities for the United States) exceeded that of United States investment abroad (United States assets) by $6.9 trillion. Yet investment income receipts exceeded payments by $227 billion. Recent research suggests that FDI is primarily responsible for this phenomenon and highlights the role of intangible assets and taxation (box II.4).

Japan

Since 2011, Japan's current account surplus has diminished rapidly, primarily owing to increased energy imports. A longer-term trend is the slowdown of Japanese exports, due to the relocation of the Japanese manufacturing base. Since the 1980s, Japanese manufacturing MNEs have invested extensively in low-cost export locations, as well as in developed countries, in industries where proximity to markets matters.

Increased overseas production has partly replaced exports from Japan. In recent years, Japanese merchandise exports have stagnated as sales by foreign affiliates of Japanese manufacturing MNEs

Figure II.15. United States MNEs: Goods and services exported by parent companies and supplied by majority-owned foreign affiliates, 2012
(Trillions of dollars)

Source: UNCTAD, based on data from the United States Department of Commerce, Bureau of Economic Analysis.
Note: Goods and services exported by parent companies refer only to intra-firm trade, which accounted for 38 per cent of total exports of goods by parent companies in the United States in 2012. Goods and services supplied by foreign affiliates exclude those exported back to the United States.

Box II.4. Why is United States outward FDI so profitable?

Despite maintaining a negative net international investment position since 1989, investment income that the United States receives from abroad has been consistently higher than the income foreign investors receive from their investment in the United States. The rates of return on United States assets abroad are higher (3.8 per cent on average over 1999–2014) than those earned by foreign investors in the United States (2.7 per cent).

Recent studies find that this difference in returns is due to income on FDI. The returns on other types of assets were similar for United States assets abroad and foreign-owned assets in the United States; if anything, returns on foreign-owned assets were slightly higher. In contrast, returns for FDI were, on average, 7.0 per cent for United States outward FDI and 3.1 per cent for inward FDI.

Common explanations for this phenomenon include the higher risks associated with investing outside the United States, and the age of investments. Recent studies suggest that intangible assets and the treatment of taxes on the balance of payments can explain large parts of the return differentials (Curcuru et al., 2013; Bridgman, 2014).

Investment in intangible assets (e.g. R&D activities) can be a source of the returns gap by, first, depressing the profitability of inward FDI in the United States and, second, understating the value of United States outward FDI.

The United States is a prime location for R&D because of its infrastructure, its networks of scientists and its accounting rules, which allow investments in R&D to be deducted as expenses. This causes R&D activities to reduce the apparent profitability of foreign affiliates in the United States. In fact, R&D expenditures of foreign affiliates in the United States are high relative to sales (box table II.4.1).

Box table II.4.1. United States MNEs: R&D expenditures, sales and net income of foreign affiliates, average over 2009–2012 (Billions of dollars)

	Foreign affiliates in the United States	Affiliates of United States MNEs abroad
R&D expenditures	49	42
Sales	3 665	6 396
Net income	113	1 098

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

Furthermore, for parent companies of United States MNEs, the share of R&D expenditures in total fixed investment for 2009–2012 was 30 per cent.[39] The operations of United States MNEs abroad are likely to benefit from intangible assets created at home. Thus, the outward FDI stock of the United States could underestimate the true extent of its assets, resulting in artificially higher rates of returns for United States businesses abroad.

Another factor explaining the rate differentials is the tax system. The United States applies a worldwide taxation system in which the parent company in the United States is also liable for taxes on the income of its affiliates abroad. Taxes paid abroad by affiliates are deducted from the total tax liabilities. Since the United States corporate income tax rate is higher than in many other countries, the parent company in the United States needs to pay the difference when the profits abroad are repatriated. This repatriation tax does not appear on the balance of payments. Investment income on United States direct investment abroad reported in the balance of payments is net of foreign taxes, but the United States taxes that the parent company would have to pay are not deducted. In contrast, the United States taxes are already deducted from the earnings of foreign affiliates in the United States. Effectively, investment income on United States direct investment abroad is pre-tax (or partially taxed) income, whereas investment income on FDI in the United States is after-tax income, giving rise to the seemingly higher earnings of outward FDI of the United States.

Curcuru et al. (2013) argue that the effects of such tax issues add up to 1.8 per cent to annual returns on United States outward FDI. Bridgeman (2014) concludes that taking into account intangible assets and repatriation taxes reduces the difference in returns on FDI from 4.2 per cent to 1.7 per cent for the period 1994–2010.

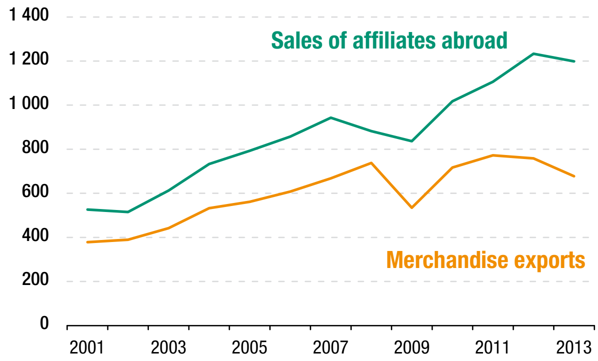
Source: UNCTAD, based on various sources.

grew substantially (figure II.16). In 2014, Japanese auto manufacturers' overseas production increased by 4.3 per cent over 2013 while their exports from Japan declined by 4.5 per cent.[40] Furthermore, Japanese manufacturers' overseas production bases are also serving the Japanese market, as seen from the gradual increase in their exports to Japan (figure II.17). Thus, the internationalization of Japanese MNEs' production system has, to an extent, negatively affected Japan's trade balance.

However, the internationalization of Japanese MNEs is also positively contributing to the current account. First, foreign production does not always substitute domestic production but may also complement it. The proliferation of global value chains means that increased foreign production often requires more inputs from the home country. According to Japanese survey data, almost 60 per cent of exports by Japanese parent companies are destined for their foreign affiliates (figure II.17). Foreign affiliates of Japanese MNEs are importing more from Japan than they export to the country, although the share of locally procured inputs has been rising gradually in recent years. Second, despite the trade deficit, the current account remained in surplus due to growing investment income. In gross terms, investment income receipts in 2013 amounted to $233 billion, 34 per cent of which were returns on FDI. The share of FDI is relatively small but has been rising in recent years. Finally, royalty payments on intellectual property are adding to the positive current account balance. The balance of "charges for the use of intellectual property" up to 2003 was negative, but since then it has been in surplus, rising to $14 billion in 2013. Of gross receipts worth $32 billion, over 40 per cent come from royalties from foreign affiliates.

From the viewpoint of the current account balance, outward FDI can make positive contributions in the long run, as seen from the experience of the United States and Japan. Thus, short-term impacts, such as loss of export capacity, must be seen in the overall context of a longer time horizon.

Figure II.16. **Merchandise exports of Japan and sales of foreign affiliates in manufacturing, 2001–2013** (Billions of dollars)



Source: UNCTAD, based on data from the Bank of Japan and Ministry of Economy, Trade and Industry.

Figure II.17. **Japanese MNEs: Trade with Japan by foreign affiliates, 2001–2013** (Billions of dollars)

Source: UNCTAD, based on data from the Ministry of Economy, Trade and Industry.

B. TRENDS IN STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

2014 Inflows

23.2 bn

2014 Increase

+4%

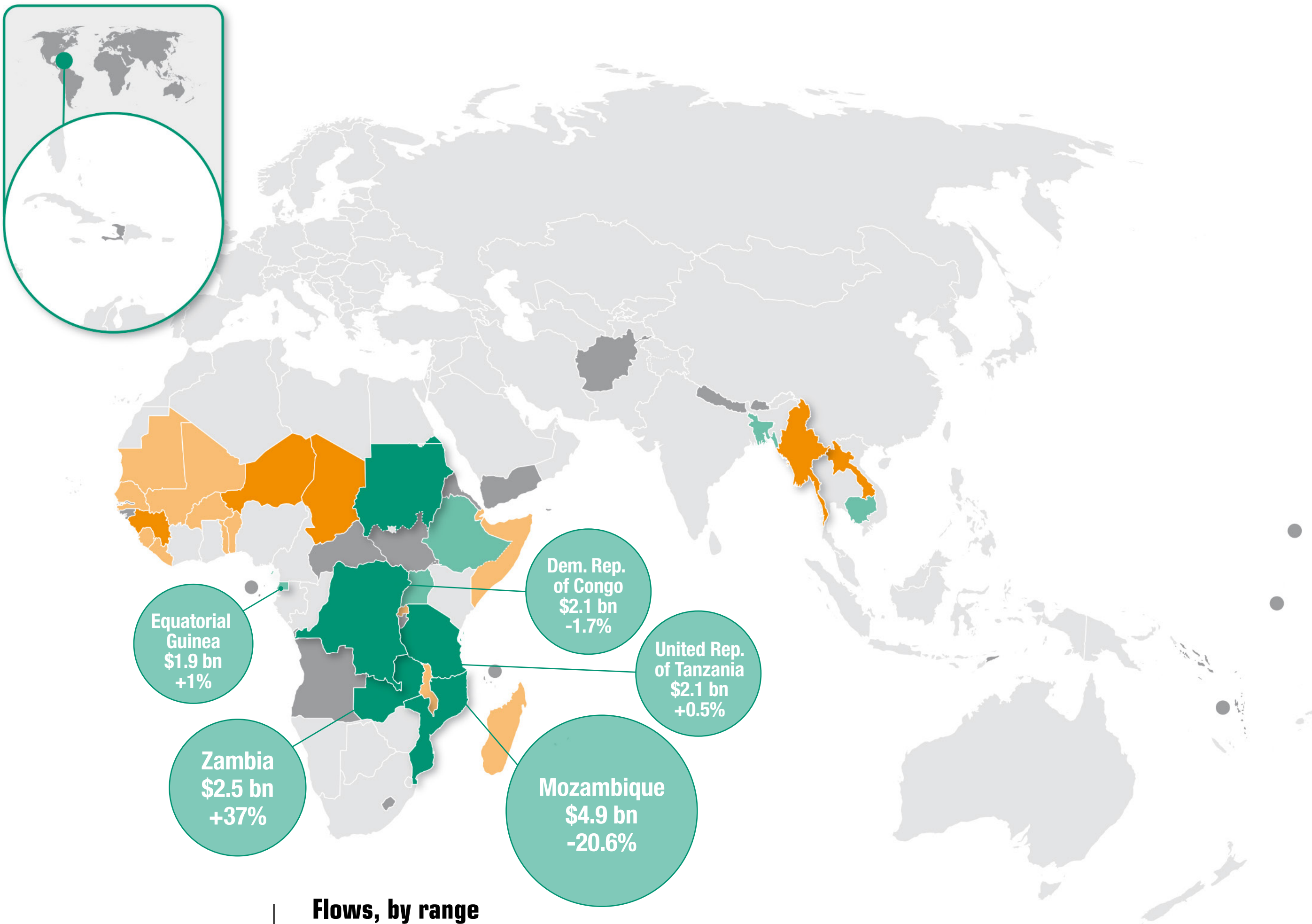
Share in world

1.9%

LEAST DEVELOPED COUNTRIES

FDI inflows, top 5 host economies, 2014

(Value and change)



Top 5 host economies

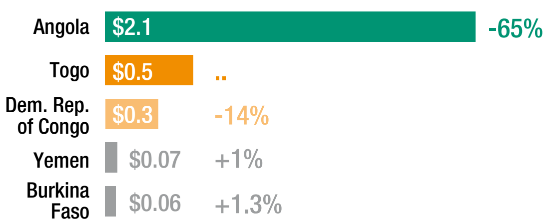
Economy
$ Value of inflows
2014 % Change

Flows, by range

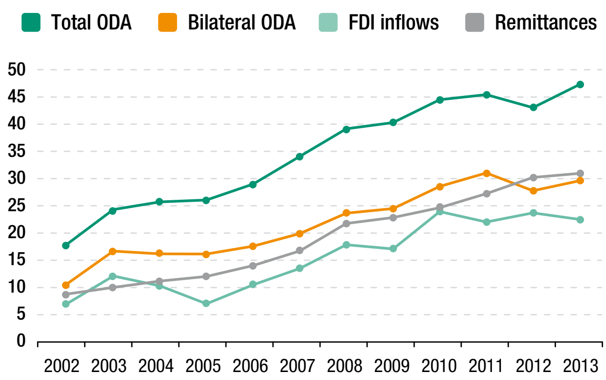
- Above $2.0 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- $0.1 to $0.4 bn
- Below $0.1 bn

Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



FDI inflows, ODA flows and remittances to LDCs, 2002–2013 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI stock tripled during 2004–2014
- FDI flows are just 2 per cent of global inflows, smaller than ODA and remittances
- FDI in manufacturing, services gravitates to larger, mineral-rich LDCs

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

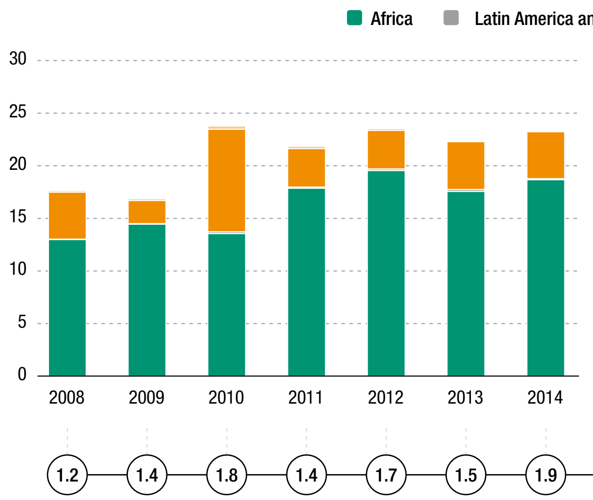


Figure B. FDI outflows, 2008–2014 (Billions of dollars)

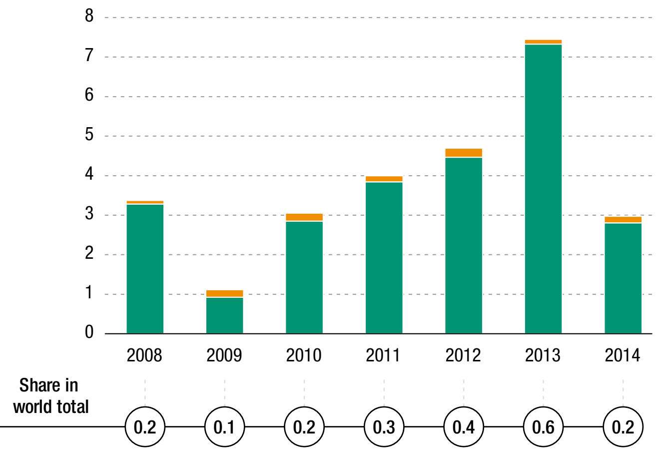


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	LDCs as destination 2013	LDCs as destination 2014	LDCs as investors 2013	LDCs as investors 2014
Total	**40 279**	**47 680**	**1 624**	**1 604**
Primary	**3 884**	**17 165**	**7**	**-**
Mining, quarrying and petroleum	1 519	17 165	7	-
Manufacturing	**8 407**	**9 578**	**395**	**294**
Textiles, clothing and leather	519	2 019	-	38
Coke, petroleum products and nuclear fuel	1 764	1 246	-	-
Non-metallic mineral products	3 234	1 952	262	-
Services	**27 988**	**20 937**	**1 222**	**1 311**
Construction	590	6 802	-	-
Trade	833	2 138	-	4
Transport, storage and communications	5 092	3 500	92	15
Finance	2 086	2 198	691	639
Business services	1 213	4 814	37	624

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	LDCs as destination 2013	LDCs as destination 2014	LDCs as investors 2013	LDCs as investors 2014
World	**40 279**	**47 680**	**1 624**	**1 604**
Developed economies	**25 448**	**32 429**	**123**	**76**
European Union	7 000	24 435	82	66
Switzerland	411	1 701	-	-
United States	1 205	4 507	-	10
Japan	11 484	1 269	-	-
Developing economies	**14 831**	**15 251**	**1 464**	**1 508**
Africa	6 073	6 477	1 049	1 045
South Africa	2 791	3 564	-	11
Latin America and the Caribbean	170	69	9	281
South, East and South-East Asia	8 020	8 162	354	168
West Asia	568	544	52	14
Transition economies	**-**	**-**	**37**	**21**

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
Total	**26**	**3 734**	**2**	**23**
Primary	**16**	**2 661**	**2**	**2**
Mining, quarrying and petroleum	16	2 661	2	2
Manufacturing	**37**	**120**	**-**	**-**
Food, beverages and tobacco	20	12	-	-
Textiles, clothing and leather	2	2	-	-
Pharmaceuticals, medicinal chemicals and botanical products	15	51	-	-
Non-metallic mineral products	-	56	-	-
Services	**-27**	**952**	**-**	**20**
Electricity, gas, water and waste management	-	-86	-	-
Transportation and storage	-	400	-	-
Information and communication	3	112	-	-
Financial and insurance activities	-42	516	-	25

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
World	**26**	**3 734**	**2**	**23**
Developed economies	**-4 020**	**-1 201**	**2**	**25**
European Union	-4 409	-1 361	2	25
North America	-338	10	-	-
Other developed countries	-33	114	-	-
Developing economies	**4 046**	**4 869**	**-**	**-2**
Africa	5	-18	-	2
Latin America and the Caribbean	-430	400	-	-
South, East and South-East Asia	4 427	3 975	-	-4
India	15	2 702	-	-
Singapore	9	1 333	-	-
West Asia	44	512	-	-
Transition economies	**-**	**-**	**-**	**-**

FDI flows to LDCs rose by 4 per cent to $23 billion in 2014, representing 2 per cent of global inflows. Both cross-border M&A sales and greenfield FDI projects were driven by large-scale projects in extractive industries. FDI flows in LDCs remain smaller than official development assistance (ODA) and remittances, but FDI stock has increased three-fold over the past 10 years. FDI can play a catalytic role in economic development, enhancing productive capacity and creating jobs and expertise. An integrated policy approach to investment promotion, coupled with international community support for greater inward investment, would help quadruple FDI stock in LDCs by 2030, including into the SDG sectors.

FDI inflows to LDCs rebounded in 2014. The top five recipients were Mozambique ($4.9 billion, down 21 per cent), Zambia ($2.5 billion, up 37 per cent), the United Republic of Tanzania ($2.1 billion, up by 1 per cent), the Democratic Republic of the Congo ($2.1 billion, down by 2 per cent) and Equatorial Guinea ($1.9 billion, a gain of 1 per cent). These five countries accounted for 58 per cent of total FDI inflows to LDCs.

The share of LDCs in global inflows remained virtually unchanged from 2013 at 1.9 per cent. Among developing economies, the change in LDCs' share stayed close to its 2013 level at 3.4 per cent.

African LDCs registered a 6 per cent rise in FDI inflows from 2013 to 2014, owing to a substantial reduction in divestment in Angola. FDI inflows to a dozen recipients contracted, and robust gains were recorded in only two LDCs: Ethiopia (an increase of 26 per cent to $1.2 billion) and Zambia (up 37 per cent to $2.5 billion). The outbreak of Ebola may have had some impact on investment in West Africa (see the Africa section), where FDI inflows to LDCs shrank by 15 per cent. However, in two Ebola-affected countries, Guinea and Sierra Leone, FDI inflows more than tripled.

Asian LDCs saw a 2 per cent drop in FDI inflows, a negative growth for the first time in four years. This was mainly owing to declines in seven Asian LDCs, including Bangladesh ($1.5 billion, a decrease of 5 per cent), Cambodia ($1.7 billion, an 8 per cent fall), and Yemen ($1 billion of divestment), despite strong FDI growth in the Lao People's Democratic Republic (69 per cent) and Myanmar (62 per cent). FDI inflows to Haiti faced a 50 per cent reduction. In Oceania,[41] FDI inflows were down for the fourth consecutive year to below $3 million, a decline of 92 per cent. Continued divestment in Vanuatu further dampened already weakened FDI flows to this region.

Record (net) sales in cross-border M&As. The net value of cross-border M&A sales in LDCs jumped to $3.7 billion in 2014, on the back of acquisitions by Asian investors in African LDCs. The value of assets in LDCs sold by developed-country MNEs to other foreign investors continued to rise, exceeding the value of their purchases in LDCs. Cross-border M&A sales in LDCs to investors from developing economies were driven by two oil and gas deals in Africa involving Asian State-owned MNEs. The largest, a $2.6 billion deal in which India's State-owned Oil and Natural Gas Corporation Limited acquired a 10 per cent stake in an oil and gas exploration block in Mozambique, represented more than 70 per cent of net sales in all LDCs.

In financial services, Qatar National Bank, aspiring to become the largest bank in Africa and West Asia by 2017,[42] acquired a 23.5 per cent stake in Ecobank Transnational (Togo), a deal that helped the industry register a record-high net sales value of $0.5 billion in LDCs. Acquisitions initiated by developing-economy investors more than doubled the number of deals in financial and insurance activities (from 6 in 2013 to 13 in 2014).[43] A net sales value of $0.4 billion in the transportation and storage industry was attributable to a single deal in Liberia, in which a Bahamas-based company acquired a 30 per cent stake in a provider of deep-sea freight transportation services.

Announced greenfield investment hit a six-year high. A $16 billion oil and gas project in Angola (table II.12)[44] alone contributed more than a third of total greenfield investment announced for all LDCs in 2014 ($48 billion, more than twice as much as total reported FDI inflows). The second largest project, announced by a Belgian investor (table II.12) pushed the value of LDCs' greenfield investment in construction to new heights. The third largest real estate project by a South African MNE (table II.12) helped South Africa rank as the largest source of greenfield investment in LDCs in 2014. Although the share of announced services sector investment tumbled from 69 per cent of the total in 2013[45] to 44 per cent in 2014, the value of services sector greenfield investment was the second highest on record.

In manufacturing, two industries saw a jump in announced greenfield investments. In textiles, clothing and leather, 20 announced projects, with a combined value of over $2 billion, propelled activity in this industry to a new high in 2014. Over $1.8 billion of the investment (in 11 projects) went to Ethiopia, one of the beneficiary countries under the African Growth and Opportunity Act (AGOA), which confers preferential treatment on apparel exports to the United States. MNEs from Asia, in particular, are increasing their presence in Ethiopia. In 2014, two major projects targeted the country: an Indian company announced a $550 million investment to construct Africa's largest plant to produce cotton yarn for export,[46] and a Chinese MNE announced another project to build a $500 million textile plant by creating more than 20,000 jobs.[47] In non-metallic and mineral products, almost $2 billion worth of greenfield FDI was recorded in 13 projects for the manufacture of cement and concrete products and targeted at a dozen LDCs. The largest of these projects ($370 million with 1,500 new jobs to be created) will be built in the Lao People's Democratic Republic by Thai investors.

The value of FDI in LDCs remains concentrated in a small number of mineral-rich economies. Despite weaker prices of key primary commodity exports, extractive industries in LDCs continue attracting foreign investors. Judging from announced FDI greenfield projects in 2014, the skewed distribution of FDI inflows among LDCs will continue for some time. Investment in extractive industries is reinforced by FDI in the manufacturing and services sectors (including infrastructure), which also tends to be drawn to larger, mineral-rich LDCs. The expected extension of AGOA for another 15 years may support more diversified FDI flows to LDCs, but it is unlikely to affect patterns of FDI to nearly 30 eligible LDCs in Africa in the short run, considering the weight of crude oil exports to the United States under AGOA since 2000 (USITC, 2014).[48]

Among Asian LDCs, Myanmar is expected to see further growth in FDI, with the implementation of announced projects commencing in various sectors and industries. In association with the development of the country's first special economic zone (SEZ), led by a Myanmar-Japanese joint venture,[49] 8 of 41 registered companies, of which 21 are Japanese MNEs, will start operations in 2015.[50] Greenfield activity from Japan to Myanmar suggests an increase in projects in the services sector, supporting Japanese manufacturers that are set to operate in the SEZ. Two other ASEAN LDCs (namely, Cambodia and the Lao People's Democratic Republic) will also benefit from enhanced infrastructural connectivity (see the East and South-East Asia section) and may be in a better position than other LDCs to attract export-oriented FDI and donor-funded large-scale infrastructure projects.[51]

The acceleration of existing regional integration efforts in Africa may also lead to more FDI and external funding for infrastructure development. Trends in announced greenfield investment suggest that some LDCs rich in natural resources (e.g. Mozambique, which is expected to become a major exporter of liquefied natural gas in the coming years) have started attracting market-seeking FDI projects in the services sector, alongside large-scale projects in the extractive industries and auxiliary infrastructure development (such as electricity, petroleum bulk stations and terminals).

Table II.12. LDCs: Five largest greenfield investment projects announced in 2014

Host economy (destination)	**Industry segment**	**Investing company**	**Home economy**	**Estimated capital expenditures** (Millions of dollars)
Angola	Oil and gas extraction	Total	France	16 000[a]
Mozambique	Commercial and institutional building construction	Pylos	Belgium	5 189[b]
Mozambique	Real estate	Atterbury Property Developments	South Africa	2 595[c]
Zambia	Building material, garden equipment and supplies dealers	Enviro Board	United States	2 078
Bangladesh	Natural, liquefied and compressed gas	Chevron Corporation	United States	1 048

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] Most likely product-sharing contract.
[b] Sum of six projects for the same amount.
[c] Sum of three projects for the same amount.

FDI trends in LDCs since the Monterrey Conference

FDI flows are an important external source of finance for LDCs. While ODA remains by far the largest external financial flow to LDCs, FDI has been on an upward trajectory since 2002 and is larger than other private flows (figures II.18 and II.19). Remittances also remain an important private external flow for this group of countries.

FDI flows to LDCs have outpaced portfolio investment for the entire period of 2002–2014; they also have been less volatile than "other investment" (mainly bank lending) (figure II.19).

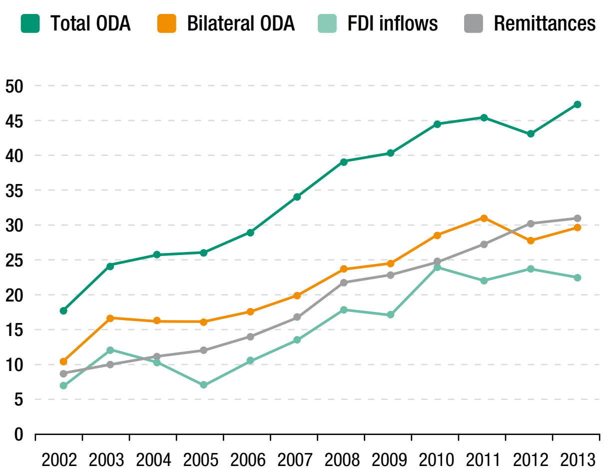
FDI stock in LDCs tripled in the last decade (2004–2014). FDI inflows grew at an annual average rate of 11 per cent since the Monterrey Consensus (figure II.20). This rate of growth was similar to that for developing economies as a whole and well above the rate for the world (table II.13). At the subregional level, the bulk of FDI went to African LDCs, followed by Asian LDCs. Although FDI stock as a percentage of GDP is smaller for LDCs than for both developing countries and the world, FDI inflows represent a potentially greater contribution to GFCF.

The number of LDCs hosting inward stock of more than $10 billion increased from one (Angola) in 2002 to seven in 2014. The five largest recipients – Mozambique ($26 billion), Sudan ($23 billion), Myanmar ($18 billion), and Equatorial Guinea and the United Republic of Tanzania ($17 billion each) – hold 45 per cent of total inward FDI stock in all LDCs. This concentration of FDI in a small number of LDCs appears to be reinforced by the export specialization of these LDCs.[52] Robust gains in FDI inflows have been seen in mineral-exporting LDCs since 2002. Mixed exporters have started attracting more FDI since 2010, again largely due to just two mineral-rich LDCs (Myanmar and the United Republic of Tanzania). Flows to fuel-exporting LDCs have dipped in recent years (especially in Angola and Yemen, which recorded negative inflows).

Some policy implications. An integrated policy approach is essential to ensure that FDI and other sources of finance – domestic and external – are deployed effectively to help LDCs advance their development objectives and goals. FDI, for instance, can complement domestic investment but will not replace it as the main driver of sustainable development and structural transformation (UNCTAD, 2014). Thus, to take advantage of FDI or links with MNEs and participate in global value chains, LDCs must build indigenous productive capacities through capital accumulation, skills development and innovation (UNCTAD, 2011).

To enhance productive capacities through FDI, UNCTAD produced a Plan of Action for Investment in LDCs for the fourth UN conference on the LDCs in Turkey in 2011. The plan called for an integrated policy approach to investment, capacity-building and enterprise development in the following five areas:

Figure II.18. FDI inflows, ODA flows and remittances to LDCs, 2002–2013 (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI inflows), OECD (for ODA flows) and World Bank (for remittances).

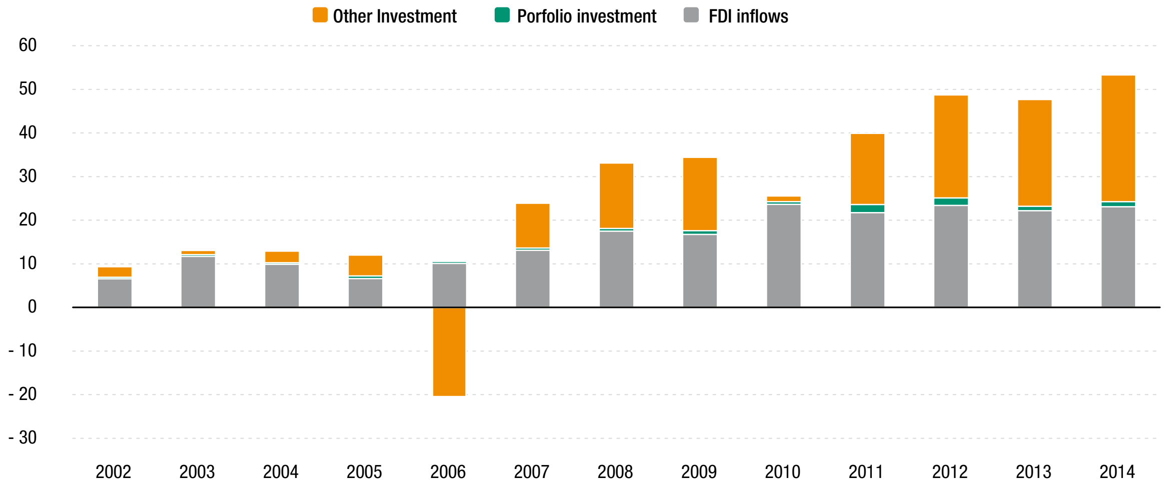
Table II.13. Selected FDI indicators, 2002–2014 (Per cent)

Indicator	LDCs	Developing economies	World
FDI inflows, annual growth	**11**	12	6
Inward FDI stock as % of GDP, 13-year average	**22**	26	27
FDI inflows as % of GFCF, 13-year average	**13**	10	9

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics); World Bank for GDP and GFCF data.

Note: Annual growth computed as compound annual growth rate over the period considered. LDCs = least developed countries.

Figure II.19. LDCs: Private capital inflows by type, 2002–2014 (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI inflows) and IMF (for portfolio and other investments).

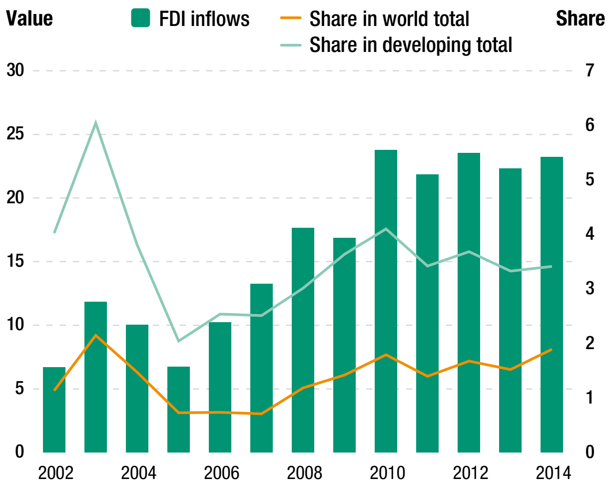
- **Strengthening public-private infrastructure development efforts.** Poor physical infrastructure constrains domestic and foreign investment and LDCs' integration into the global economy. A new partnership for infrastructure development in LDCs is called for to address the problem.

- **Boosting international development assistance for productive capacity.** A shortfall in "soft" infrastructure also presents a hurdle to attract foreign investors and develop productive capacities in LDCs. A partnership to build skills commensurate with productive capacity needs is critical.

- **Enabling firms of all sizes to capture untapped business opportunities.** Large MNEs often bypass investment opportunities in LDCs, where markets are typically small and operating conditions are more challenging than in other countries. Efforts need to be stepped up to encourage small- and medium-scale international investors to tap into underexploited business opportunities and to promote the types of FDI that offer a good match with LDCs' needs.

- **Fostering local business and easing access to finance.** Foreign investors are typically attracted by countries where the local business sector is thriving, and they need a minimum level of local services and suppliers to operate. New initiatives to support local business and the development of linkages with MNEs are essential.

Figure II.20. LDCs: FDI inflows and share in world and developing country inflows, 2002–2014 (Billions of dollars and per cent)



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

- **Implementing a new wave of regulatory and institutional reforms.** While significant reforms of regulatory frameworks for investment have been carried out, much remains to be done in most

LDCs. A new wave of reforms should attempt to co-opt business as partners for development and emphasize aspects of regulations that could shape FDI impact and strengthen State institutions and public services (such as taxation and governance).

These efforts need support by the international community, including a viable programme to boost inward investment. To be effective, the programme would require elements such as multi-agency technical assistance consortia, and partnerships between IPAs promoting inward investment in LDCs and IPAs of major investment home countries promoting outward investment (*WIR14*). The principal aims of the programme would be to deepen and spread investment within LDCs and across the group, especially in sectors pertinent to the sustainable development goals (SDGs). An overall target in pursuit of these aims would be to quadruple the stock of FDI in LDCs over the next 15 years.

LANDLOCKED DEVELOPING COUNTRIES

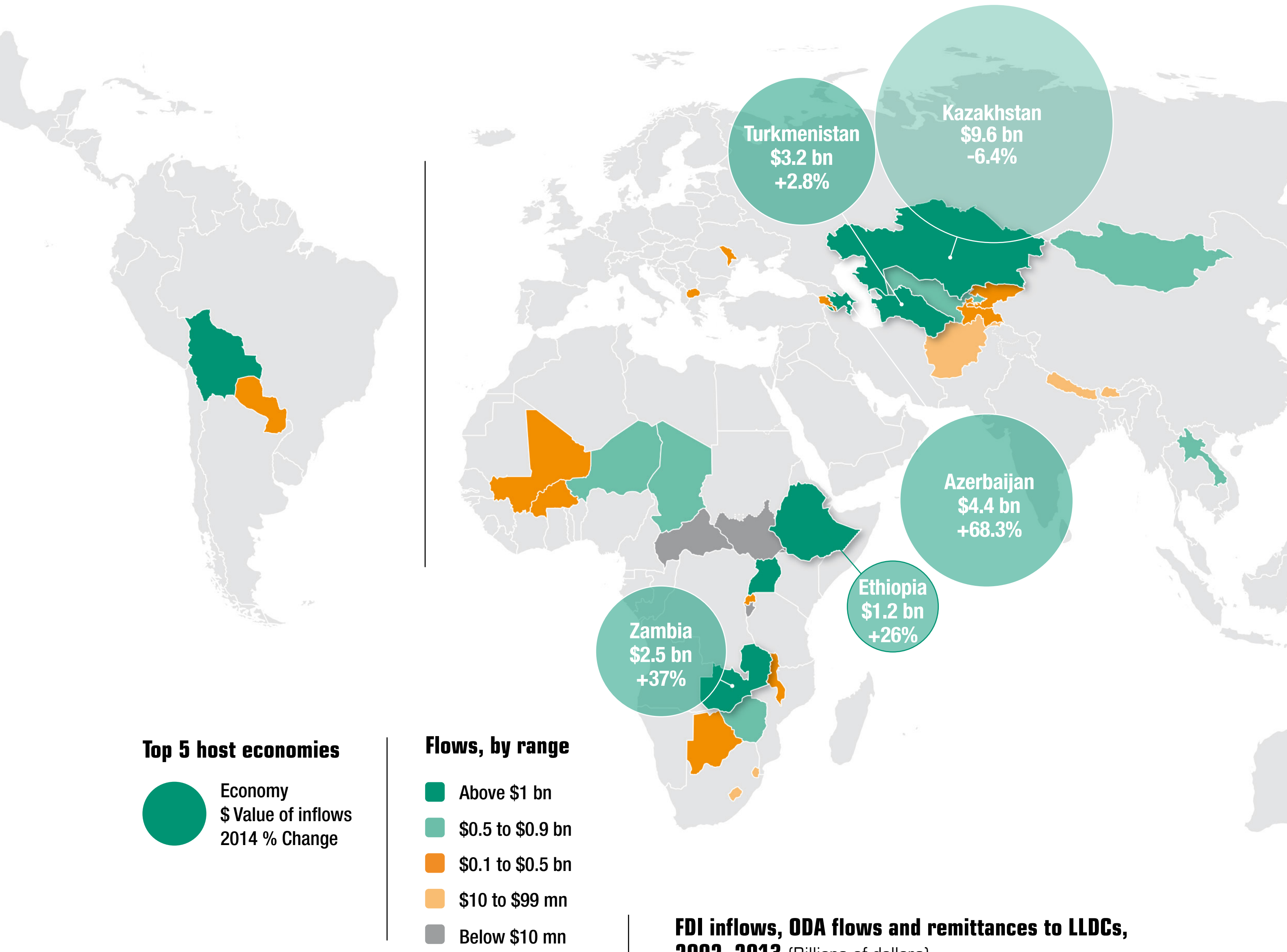
FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows
29.2 bn

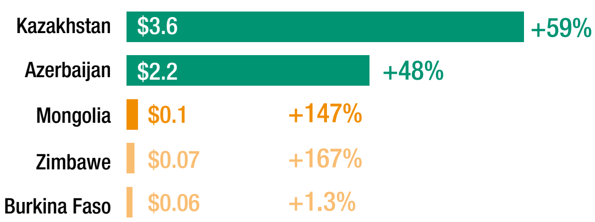
2014 Decrease
-2.8%

Share in world
2.4%

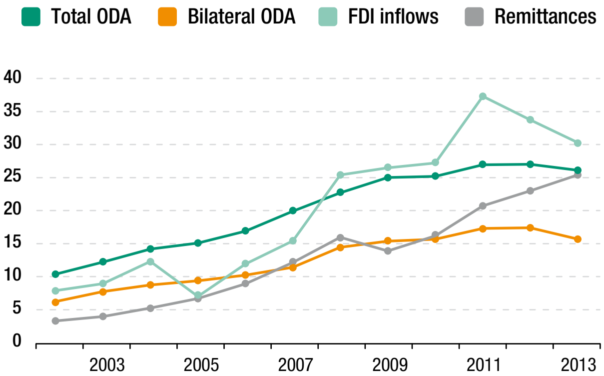


Outflows: top 5 home economies

(Billions of dollars, and 2014 growth)



FDI inflows, ODA flows and remittances to LLDCs, 2002–2013 (Billions of dollars)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

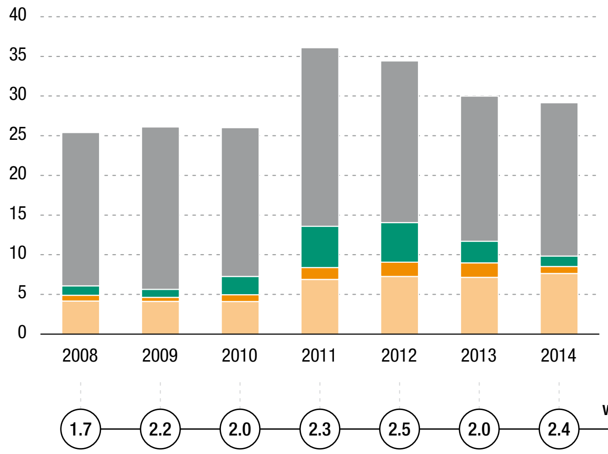
HIGHLIGHTS

- FDI flows: largest external capital flow to LLDCs
- Top five economies receive 71 per cent of flows
- Developed countries: largest holders of FDI stock in LLDCs

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

Figure B. FDI outflows, 2008–2014 (Billions of dollars)

Transition economies | Asia and Oceania | Latin America and the Caribbean | Africa



Share in world total

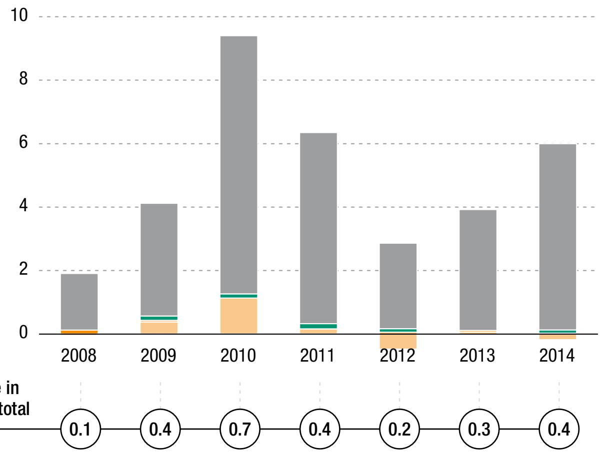


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	LLDCs as destination 2013	LLDCs as destination 2014	LLDCs as investors 2013	LLDCs as investors 2014
Total	**17 712**	**16 398**	**1 047**	**1 220**
Primary	**1 201**	**402**	**-**	**-**
Mining, quarrying and petroleum	1 201	402	-	-
Manufacturing	**5 410**	**8 661**	**404**	**654**
Textiles, clothing and leather	308	2 446	39	-
Non-metallic mineral products	1 634	2 488	75	-
Metals and metal products	279	738	69	-
Motor vehicles and other transport equipment	613	773	-	-
Services	**11 102**	**7 335**	**643**	**566**
Electricity, gas and water	5 213	982	-	-
Trade	524	2 023	132	11
Transport, storage and communications	2 427	1 238	138	399
Finance	1 535	1 481	354	149

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	LLDCs as destination 2013	LLDCs as destination 2014	LLDCs as investors 2013	LLDCs as investors 2014
World	**17 712**	**16 398**	**1 047**	**1 220**
Developed economies	**9 943**	**6 127**	**186**	**56**
France	912	543	-	-
Iceland	4 000	-	-	-
United States	513	2 770	3	-
Australia	560	-	35	-
Developing economies	**6 575**	**8 723**	**525**	**1 076**
South Africa	931	864	42	15
China	380	1 893	-	395
Korea, Republic of	130	529	35	-
India	742	810	52	-
Transition economies	**1 194**	**1 548**	**335**	**89**
Russian Federation	729	1 414	34	-

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
Total	**258**	**-1 062**	**6**	**270**
Primary	**-22**	**44**	**2**	**-250**
Mining, quarrying and petroleum	-22	34	2	-250
Manufacturing	**257**	**285**	**-**	**57**
Food, beverages and tobacco	177	12	-	-
Paper and paper products	-	-101	-	-
Pharmaceuticals, medicinal chemicals and botanical products	15	51	-	-
Non-metallic mineral products	-	314	-	-1
Services	**23**	**-1 391**	**3**	**463**
Electricity, gas, water and waste management	-	-1 279	-	-
Transportation and storage	-	30	-	4
Information and communication	20	1	-	-
Financial and insurance activities	3	-158	3	459

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales 2013	Sales 2014	Purchases 2013	Purchases 2014
World	**258**	**-1 062**	**6**	**270**
Developed economies	**99**	**-2 456**	**2**	**14**
Luxembourg	20	-277	-	-
Netherlands	359	-1 374	-	-
United Kingdom	-448	-1 152	2	-
Switzerland	331	319	-	-
Developing economies	**160**	**216**	**3**	**257**
South Africa	-	-125	-	-
Peru	-	307	-	-
China	56	526	-	-
Hong Kong, China	-77	-507	-	-
Transition economies	**-**	**1 177**	**-**	**-1**
Russian Federation	-	1 147	-	-1

FDI flows to the landlocked developing countries (LLDCs) fell by 3 per cent to $29 billion in 2014, the third consecutive yearly decline for this group of economies. Investment in the group became more concentrated in the top five economies, which increased their share from 62 per cent to 71 per cent of total flows. Ethiopia entered the top five for the first time, in terms of value of inflows, while Mongolia dropped out of the top five owing to a precipitous 76 per cent fall in flows. The largest investors in LLDCs last year came from developing countries, which increased their share of flows in the grouping from 44 per cent to 63 per cent. Over the past decade, FDI stock in LLDCs quadrupled.

As a group, the LLDCs accounted for 2.4 per cent of total global FDI inflows, up slightly from 2013 despite the fall in their value. The Asian group of LLDCs (5 countries) saw FDI to the subregion fall again, due to the continuing decline in flows to Mongolia, which dropped from $2.1 billion to $508 million. In the transition economy group (9 countries), flows rose by more than $1 billion, despite a 6 per cent decrease in FDI to Kazakhstan, the largest economy in the subregion. Transition economies increased their share in the group to 66 per cent. Flows to the African group (16 countries) went up by over 6 per cent to $7.6 billion, owing to large increases in FDI to Zambia and Ethiopia. FDI to the Latin America group (2 countries) fell by more than half as a result of a big drop in flows to the Plurilateral State of Bolivia, following four years of steady increases.

Outward investment by the LLDCs, although they represent only 0.4 per cent of total global outflows, increased by almost 50 per cent to $5.8 billion. This was mostly accounted for by investors from Kazakhstan and Azerbaijan.

Announced greenfield investments to the LLDCs fell in 2014. Announced greenfield investment in the LLDCs has been erratic since its peak in 2008, which it still has not passed in terms of the number or value of deals. In 2014, the number of greenfield deals declined by 5 per cent to 315, representing just 2 per cent of the world total.

The number of deals in the primary sector has been declining in recent years, and their value accounted for just 2 per cent of total announced greenfield investment in LLDCs, at $402 million, despite the prevalence of extractive industries in several LLDC economies. Greenfield investments in manufacturing remain strong, in particular in the textiles industry, where their value jumped from $308 million in 2013 to $2.45 billion in 2014.[53] The non-metallic minerals industry also registered strong performance, with the value of announced investments rising from $1.63 billion to $2.45 billion in 2014. A large share of this was accounted for by cement manufacturing firms, investing particularly in African LLDCs.

In the services sector, the number of deals in nearly all industries fell in 2014. Announced greenfield investment projects in the electricity, gas and water industries fell sharply, from $5.2 billion to $982 million, although these industries had experienced exceptional growth in 2013. In the transport, storage and communications industries, the value of announced greenfield projects halved in 2014 to $1.2 billion. One bright spot was trade, as greenfield investments grew from $524 million to $2 billion.

Investors from developing and transition economies accounted for 63 per cent of all greenfield investment in the LLDCs, up from 44 per cent in 2013, although this large change in share is partly explained by a single investment made by Reykjavik Geothermal (Iceland) in Ethiopia in 2013. The United States was the single largest greenfield investor in the LLDCs in 2014, followed by China and the Russian Federation.

M&A activity negative in 2014. Investors' purchases were –$1 billion, meaning that the value of divested assets was greater than the value of acquired assets. Investors from the United Kingdom made the largest divestment, roughly $1.2 billion, principally in Kazakhstan, where AO Samruk-Energo, a subsidiary of a Kazakh State-owned sovereign wealth fund, bought the remaining 50 per cent stake in the electric utility company, TOO Ekibastuzskaya GRES-1. Sappi Ltd (South Africa) also made a sizable $100 million divestment of Usutu Forests Products Co Ltd in Swaziland to local investors. The largest M&A investment was made by Polymetal International PLC (Russian Federation), which acquired the entire share capital of Altynalmas Gold Ltd (Kazakhstan), for over $1.1 billion. In terms of sectoral trends, the services sector suffered the most and in particular the electricity, gas and water industries.

Developed countries remain the largest holders of FDI stock in LLDCs, but China is now a stronger presence, and the Republic of Korea is also an emerging force. Data on bilateral FDI stock for

25 of the 32 LLDCs reveal that, as of 2012, developed economies accounted for 67 per cent of FDI stock in this group of economies.

Among developing- and transition-economy investors, China and the Russian Federation, as well as Turkey, the United Arab Emirates and the Republic of Korea, have become the most important investors in the Central Asian region (table II.14). In Azerbaijan, Turkish investors hold the largest FDI stock; they are the third largest group of developing-country investors in Central Asia as a whole. Indeed, among developing-country investors, there is growing competition for investments in the region, which is also reflected in FDI stock held by investors from the United Arab Emirates, the Republic of Korea and the Islamic Republic of Iran.

The Republic of Korea was the largest investor in LLDCs in 2012, according to greenfield data, and has been promoting growing investment ties with Central Asian LLDCs. Its 2013 the "Eurasia Initiative" aims to boost connectivity and economic ties between the Korean peninsula and Europe (see section A.2). The country has strong trade ties with the region, particularly Uzbekistan, and is one of the largest foreign investors there, together with the Russian Federation, China and Kazakhstan.[54] Businesses from the Republic of Korea are also heavily invested in Turkmenistan, with over $5 billion worth of projects. During the visit by that country's president to Uzbekistan in 2014, a further $5 billion worth of FDI in the natural gas and chemicals sectors was announced.[55]

FDI inflows to Mongolia showed a decline for the fourth successive year. Political and policy instability coupled with an economic slowdown (GDP growth fell from 12 to 6 per cent in 2014) has led to reduced investor interest. One potential area for FDI growth concerns the construction of a gas pipeline between the Russian Federation and China that could pass through Mongolia, as the Russian Federation explores increasing trade and investment cooperation with China. For the time being, though, growth in FDI to the country is weak.

FDI trends in the LLDCs since the Monterrey Conference

FDI developments in the LLDCs during the 13 years since the Monterrey Conference fall in two periods: relatively modest flows prior to 2007, followed by increasing flows with slightly more diverse regional distribution after 2008 (figure II.21). However, flows to the LLDCs remain dominated by few countries: just five economies account for over 70 per cent of total FDI in the group.

The growth of FDI flows to the LLDCs since 2002 has been faster than the global rate of FDI growth but the same as that for developing economies as a whole (table II.16). As reported in *WIR14*, FDI has been an important source of finance for the LLDCs in terms of both the value of FDI stock as a percentage of GDP and the contribution of FDI to capital formation (GFCF). For both these indicators, FDI has been of greater significance in the LLDCs than it has been for developing economies in general and for the world since 2002 (figure II.22).

At the subregional level, FDI growth in the LLDCs has been strongest among the Asian and transition group of LLDCs, although this growth is mainly accounted for by the rapid inflows to Mongolia in the mining sector, and to Kazakhstan. In the two Latin American LLDCs, FDI growth has been positive but much weaker than in other regions (table II.16).

The Monterrey Consensus intended to mobilize international capital flows, which includes private capital flows

Table II.14. Central Asian LLDCs: Inward FDI stock held by selected developing and transition economies, 2012 (Millions of dollars)

Home country	Armenia	Azerbaijan	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Total in region
China	4	170	4 512	334	3 727	476	9 224
Russian Federation	2 450	478	1 933	132	296	-	5 289
Turkey	-	1 933	549	68	7	2	2 559
United Arab Emirates	1	413	1 203	9	1	-	1 627
Korea, Republic of	-	76	1 068	71	365	-	1 580
Iran, Islamic Republic of	17	910	40	4	1	-	972

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: The position of the Russian Federation may be understated due to indirectly held FDI stock.

Table II.15. Selected FDI indicators, 2002–2014 (Per cent)

Indicator	LLDCs	Developing economies	World
FDI inflows, annual growth	12	12	6
Inward FDI stock as % of GDP, 13-year average	33	26	27
FDI inflows as % of GFCF, 13-year average	19	10	9

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Annual growth computed as compound annual growth rate over the period. LLDCs = landlocked developing countries.

Table II.16. LLDCs: FDI inflows, by subregion, 2002–2014 (Millions of dollars and per cent)

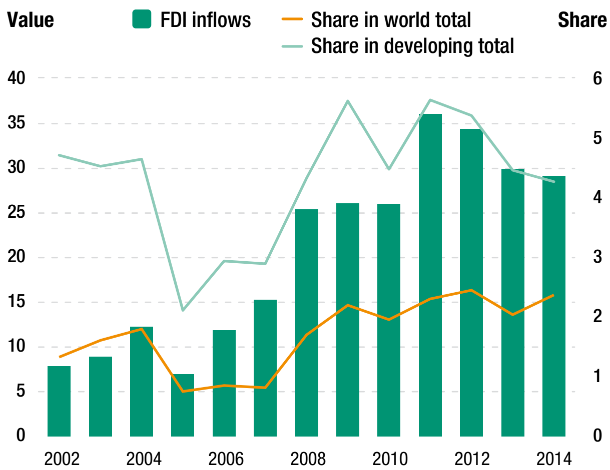
	2002	2014	Growth (%)
Landlocked countries (LLDCs)	**7 872**	**29 151**	**12**
LLDCs-Africa	2 501	7 631	10
LLDCs-Latin America and the Caribbean	682	884	2
LLDCs-Asia and Oceania	129	1 317	21
LLDCs-Transition economies	4 559	19 319	13

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Growth computed as compound annual growth rate over the period 2004–2013. LLDCs = landlocked developing countries.

such as FDI, portfolio investments and "other" investment (mainly bank lending). In the LLDCs, FDI has provided the bulk of private capital flows, with portfolio investment less significant and more volatile[56] (figure II.23).

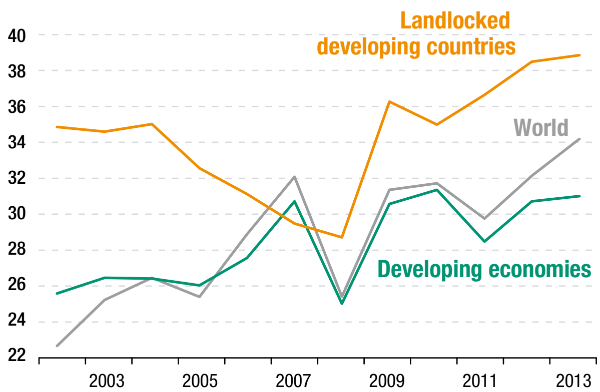
With regard to increasing international assistance, which was also highlighted by the Monterrey Consensus, a comparison of FDI inflows to aid flows (ODA) shows that FDI flows were mostly higher than bilateral aid flows during the period; they overtook total ODA in 2008 and now represent the largest external capital flow to the LLDCs (figure II.24). However, it is important to note variations among the LLDCs: the bulk of FDI flows to the LLDCs has been concentrated in a few countries only, mainly resource-rich, mineral-exporting economies; ODA has been more widely distributed among LLDCs, and its role in government budget support is often critical for the provision of essential services and infrastructure. Migrant remittances have also been an important source of external capital flows for several LLDCs, notably Tajikistan and Kyrgyzstan, where they accounted for 47 per cent and 31 per cent of GDP, respectively, in 2012. Nevertheless, FDI to the LLDCs plays a catalytic role in building productive and export capacities in the region, as well as transferring technology, skills and management practices that can

Figure II.21. LLDCs: FDI inflows and their share in world and developing-country inflows, 2002–2014
(Billions of dollars and per cent)



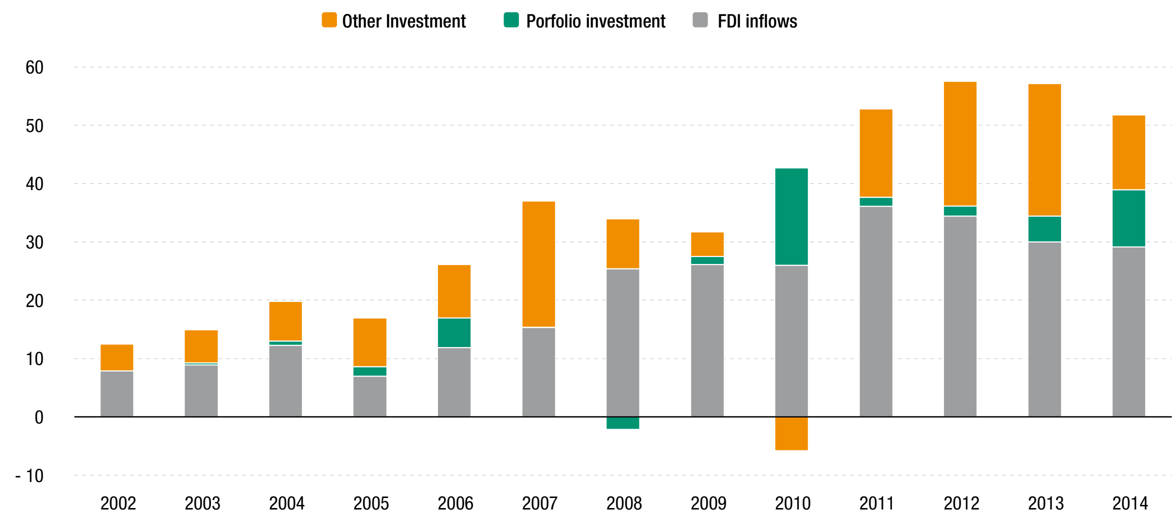
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure II.22. LLDCs: FDI stock as a percentage of GDP compared with developing countries and world, 2002–2013
(Per cent)



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

Figure II.23. LLDCs: Private capital inflows by type, 2002–2014 (Billions of dollars)



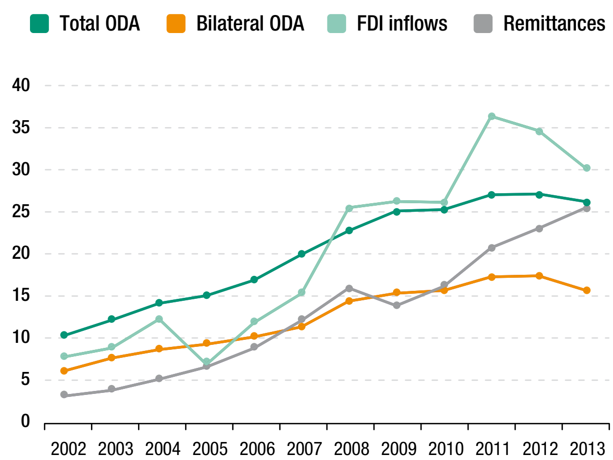
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI inflows) and IMF (for portfolio and other investments).

further enhance the competitiveness of this group of economies.

Policy implications. Although FDI has become the most important external capital flow to the LLDCs and will remain essential for the development financing strategies of this group of countries, it should be seen as part of an overall financing strategy that involves domestic as well as foreign sources, and public as well as private ones (*WIR14*). Moreover, beyond their shared geographic characteristic, the LLDCs should not be considered a homogenous group. There are clear regional and country differences, which policymakers and the international community should consider when setting policies so as to spread the benefits of foreign investment beyond a relatively small group of economies and sectors.

The *Vienna Programme of Action (POA)*, the outcome document of the Second United Nations Conference on Landlocked Developing Countries held in November 2014, highlighted a number of areas for action to address infrastructure and connectivity in the LLDCs. The document called for travel times for the transport of cargo to be reduced, which will require significant investment in transport infrastructure as well as attention to trade facilitation, including customs harmonization and streamlined inspections and certification. The growth of regional economic agreements could also help create efficiencies in time and cost by reducing the number of border stops and associated costs (as well as create larger regional markets, which would be attractive to market-seeking FDI).

Figure II.24. LLDCs: FDI inflows, ODA flows and remittances, 2002–2013 (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI inflows), OECD (for ODA flows) and World Bank (for remittances).

SMALL ISLAND DEVELOPING STATES

FDI inflows, top 5 host economies, 2014

(Value and change)

2014 Inflows

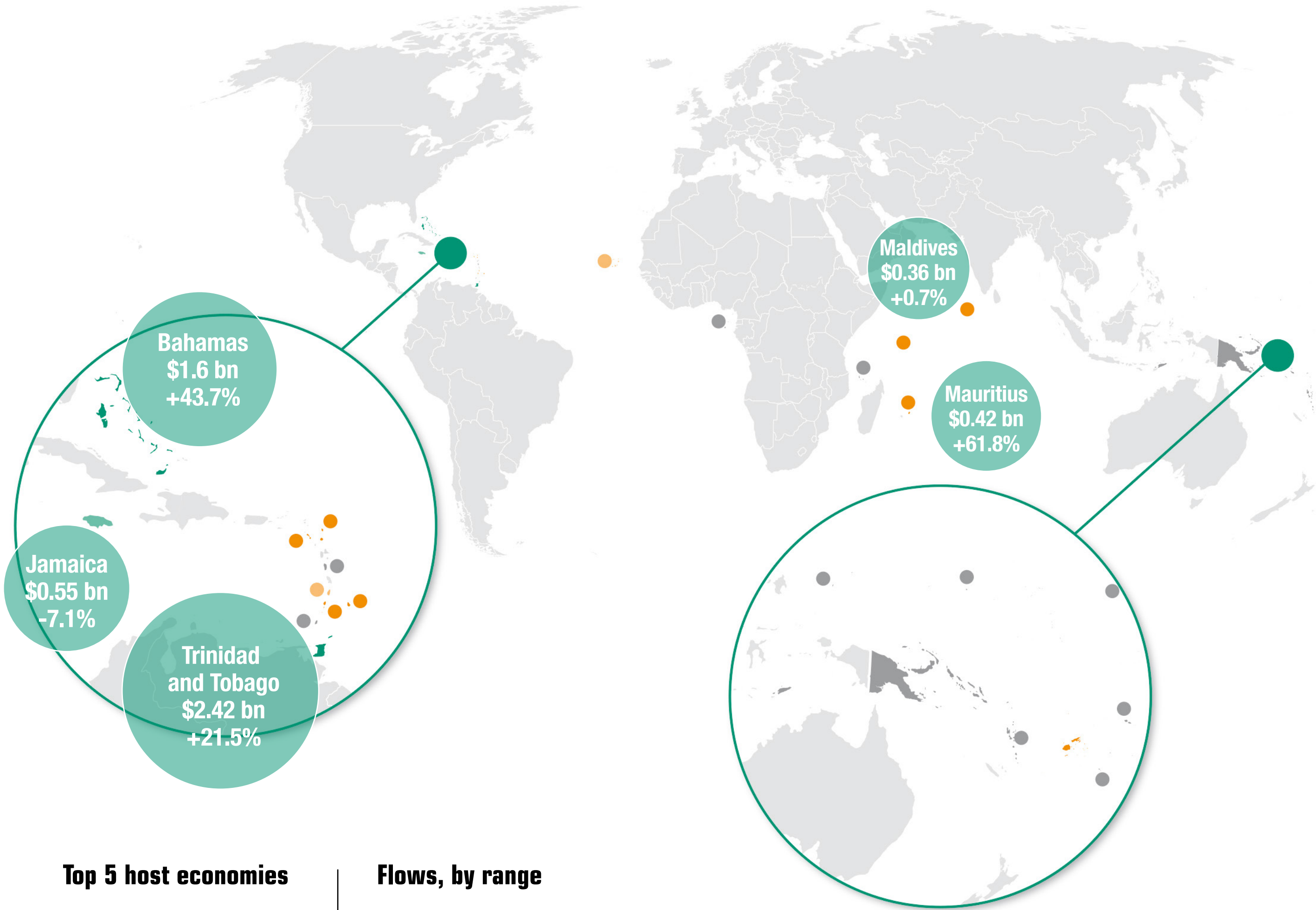
6.9 bn

2014 Increase

+21.8%

Share in world

0.6%



Top 5 host economies

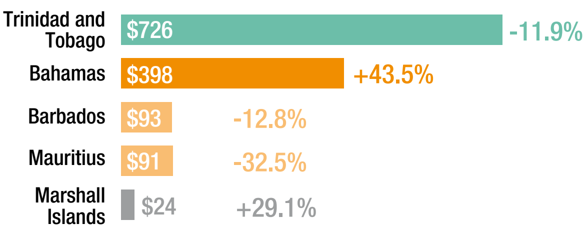
Economy
$ Value of inflows
2014 % Change

Flows, by range

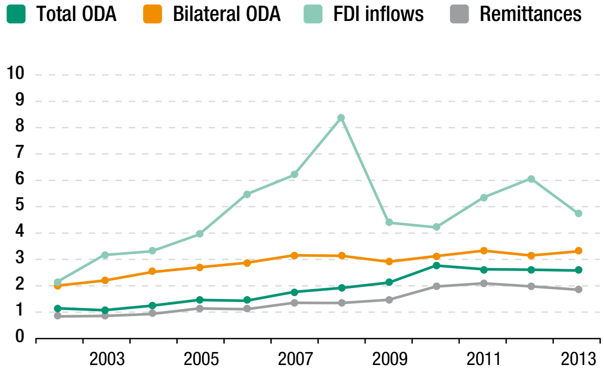
- Above $1 bn
- $500 to $999 mn
- $100 to $499 mn
- $50 to $99 mn
- Below $50 mn

Outflows: top 5 home economies

(Millions of dollars, and 2014 growth)



FDI inflows, ODA flows and remittances to SIDS, 2002–2013 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI remains largest external source of financing
- ODA has role to play, especially in Africa and Oceania
- International community can coordinate sustainable investment

Figure A. FDI inflows, 2008–2014 (Billions of dollars)

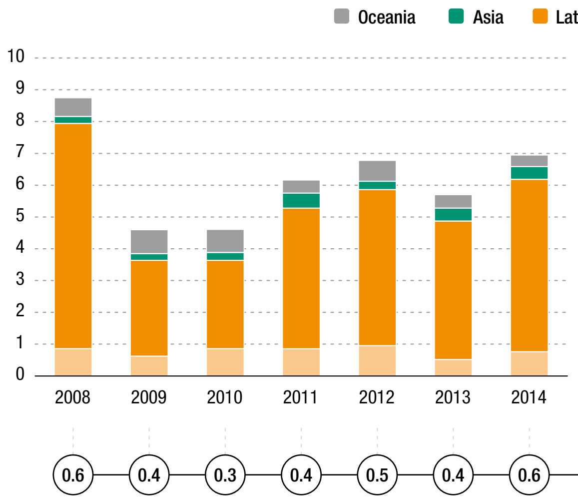


Figure B. FDI outflows, 2008–2014 (Billions of dollars)

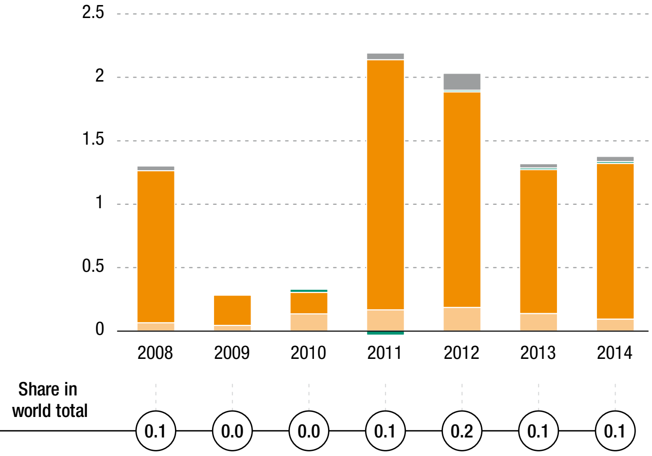


Table A. Announced greenfield FDI projects by industry, 2013–2014 (Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investors	
	2013	2014	2013	2014
Total	**6 504**	**4 841**	**3 605**	**2 021**
Primary	**2 532**	**22**	**-**	**-**
Manufacturing	**1 984**	**223**	**-**	**262**
Coke, petroleum products and nuclear fuel	1 048	-	-	-
Chemicals and chemical products	850	-	-	-
Metals and metal products	-	160	-	-
Services	**1 989**	**4 596**	**3 605**	**1 760**
Electricity, gas and water	-	1 298	-	125
Construction	1 350	2 000	-	-
Hotels and restaurants	65	234	-	-
Transport, storage and communications	477	588	1 648	1 369
Finance	22	186	210	67
Business services	47	190	1 748	161

Table B. Announced greenfield FDI projects by region/country, 2013–2014 (Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investors	
	2013	2014	2013	2014
World	**6 504**	**4 841**	**3 605**	**2 021**
Developed economies	**2 812**	**1 964**	**3**	**81**
Europe	253	1 707	3	2
United States	1 380	211	-	7
Australia	316	45	-	35
Japan	863	-	-	-
Developing economies	**3 692**	**2 877**	**3 602**	**1 941**
Africa	56	59	3 192	1 720
Kenya	-	-	461	86
Nigeria	-	-	2 296	1 148
Asia and Oceania	3 624	2 773	177	-
China	3 250	2 429	162	-
Latin America and the Caribbean	13	45	233	221

Table C. Cross-border M&As by industry, 2013–2014 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2013	2014	2013	2014
Total	**-596**	**1 503**	**-294**	**2 065**
Primary	**-600**	**5**	**-14**	**-**
Extraction of crude petroleum and natural gas	-600	-7	-	-
Mining of metal ores	-	12	-14	-
Manufacturing	**-5**	**1 175**	**-**	**-**
Chemicals and chemical products	-	1 175	-	-
Services	**9**	**323**	**-280**	**2 065**
Electricity, gas, water and waste management	-	-2	-	1 175
Transportation and storage	-	258	-	-81
Information and communication	4	-	7	-
Financial and insurance activities	-	68	-286	-183
Business activities	5	-	-	12
Public administration and defence; compulsory social security	-	-	-	1 116

Table D. Cross-border M&As by region/country, 2013–2014 (Millions of dollars)

Region/country	Sales		Purchases	
	2013	2014	2013	2014
World	**-596**	**1 503**	**-294**	**2 065**
Developed economies	**-604**	**74**	**-333**	**1 149**
European Union	280	3 307	-367	-328
United States	-600	-142	2	194
Australia	-	-2 857	20	1 098
Developing economies	**3**	**1 428**	**39**	**916**
Africa	5	1 175	-	12
Mauritius	5	1 175	-	-
Zimbabwe	-	-	-	12
Latin America and the Caribbean	-	-	-	895
Trinidad and Tobago	-	-	-	1 175
Asia and Oceania	-2	253	39	9
Singapore	60	-1	9	-

FDI flows to small island developing States (SIDS) increased by 22 per cent to $6.9 billion, mostly due to a strong rise in cross-border M&A sales. Between 2004 and 2014, FDI stock in the SIDS tripled. The third International Conference on SIDS (in September 2014, in Samoa) highlighted the need for further efforts to harness financing for economic diversification to foster greater resilience and sustainability in these countries.

Caribbean SIDS received the bulk of FDI flows (78 per cent of the total), followed by African SIDS (11 per cent), Asian SIDS (6 per cent) and Pacific SIDS (5 per cent). Cross-border M&As turned from negative values (because of divestment) in 2013 (–$600 million) to $1.5 billion in 2014.

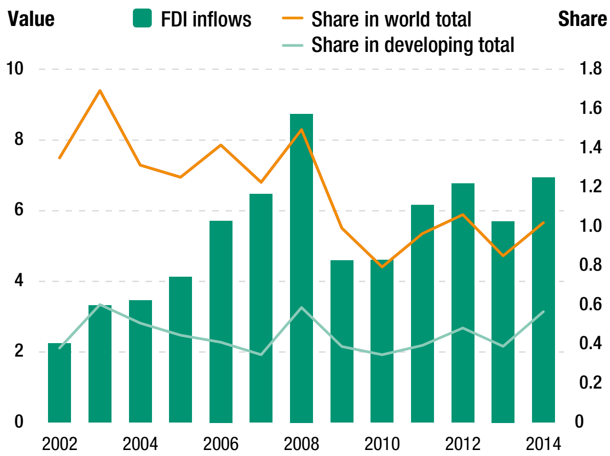
Trinidad and Tobago, the Bahamas, Jamaica and Mauritius were the largest destinations for FDI flows to SIDS in 2014, accounting for 72 per cent of the total. Flows to Trinidad and Tobago – 35 per cent of the total – increased by 21 per cent to $2.4 billion as a result of the $1.2 billion acquisition of the remaining 57 per cent stake in Methanol Holdings Trinidad Limited by Consolidated Energy Company (Mauritius). Mauritius also registered strong growth of FDI flows, which reached $418 million (up 62 per cent), boosted by the $68 million acquisition of CIEL Investment Limited – a provider of investment services – by an investor group of mostly French companies. Total cross-border acquisitions in Mauritius – including deals that involved changes of ownership between non-residents – have renewed their growth since 2012 and reached $574 million in 2014. On the other hand, flows to Jamaica – the group's second largest recipient – decreased by 7 per cent to $551 million, despite new equity inflows in infrastructure and tourism projects.

Although Papua New Guinea and Timor-Leste have hosted a number of big projects in the extractive industry, they continued to register modest FDI flows, partly due to non-equity investment (e.g. production sharing), and partly due to incomplete coverage of data. Foreign investors' involvement in Papua New Guinea's oil and gas industry is reflected by the number of cross-border M&As megadeals that took place in 2014, totalling $4 billion, and all involving the sale by Interoil Corp (Singapore) of its upstream and downstream business to Total (France), Oil Search (Australia) and Puma Energy Singapore (Netherlands).

FDI trends in the SIDS since the Monterrey Conference

FDI flows to the SIDS have grown more slowly than to developing economies as a whole, and they took a particular hit after the onset of the financial crisis. The annual growth of FDI inflows to SIDS over 2002–2014, while sizeable and keeping pace with the world average, was much slower than to developing countries as a whole (table II.17). In addition, FDI to SIDS fell considerably after the onset of the financial crisis and have not yet recovered (figure II.25).

Figure II.25. **SIDS: FDI inflows and their share in world and developing-country inflows, 2002–2014**
(Billions of dollars and per cent)



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

Table II.17. **Selected FDI indicators, 2002–2014** (Per cent)

Indicator	SIDS	Developing countries	World
FDI inflows, annual growth	10	12	6
Inward FDI stock as % of GDP, 13-year average	70	26	27
FDI inflows as % of GFCF, 13-year average	32	10	9

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Annual growth computed as compound annual growth rate over the period considered.

Nevertheless, FDI stock in SIDS as a group tripled during the past decade (2004–2014).

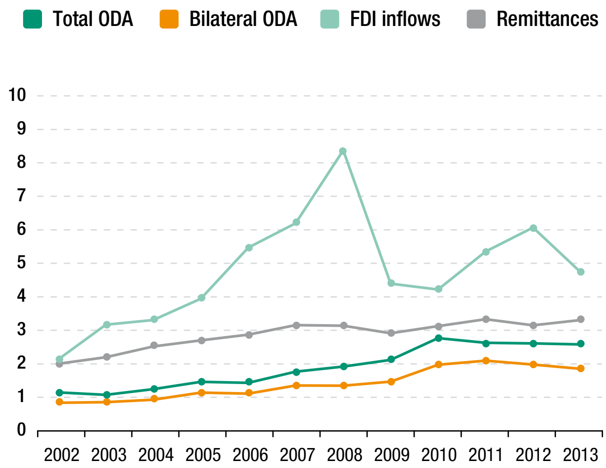
FDI to the 29 SIDS is very small in absolute value but relatively high in relation to the size of their economies. Annual average flows amounted to only $6 billion (0.4 per cent of the world's total) and average annual stocks to $62 billion (0.36 per cent) over the past decade. However, these flows are relatively high when comparing the size of SIDS economies with the world and developing-economy averages (table II.17). This is partly due to the sizeable fiscal advantages offered to foreign investors in a number of SIDS, and some very large investments in natural resources. The ratio of FDI stock to GDP during 2002–2014 and FDI inflows as a percentage of GFCF were each almost three times as high as the world and developing-economy average over the same period.

The bulk of FDI into the SIDS is concentrated in a few regions and economies. The Caribbean SIDS received the lion's share of FDI flows to the group, at 77 per cent of total flows during 2002–2014, followed by Africa (especially in recent years) and Oceania. Trinidad and Tobago alone accounted for 27 per cent of total FDI stocks in SIDS in 2014, owing to the presence of large oil and gas resources, coupled with proximity to North America. The Bahamas, which enjoys the highest GDP per capita among SIDS, accounted for 19 per cent. Jamaica, which has metal mineral deposits and is the second most populated of the SIDS after Papua New Guinea, received 14 per cent. Among the 10 largest host countries of FDI stock to the SIDS, three are rich in mineral deposits (Papua New Guinea, Trinidad and Tobago, and Jamaica), four are home to the bulk of the SIDS population (Papua New Guinea, Jamaica, Trinidad and Tobago, and Mauritius), and some offer fiscal advantages (e.g. the Bahamas, Barbados, Mauritius and Seychelles, among others).

At the bottom of the ranking, eight countries[57] for which data are available account for less than 2 per cent of total FDI stock in the group: $2.1 billion or just $264 million per country. Of these countries, three are LDCs, all but three have fewer than 200,000 inhabitants, none (except Timor-Leste) has significant mineral resources, and six are Pacific SIDS, which are among the smallest and most remote.

Across the SIDS group as a whole, there has been a shift in the relative share of different sources of external finance. FDI, despite a dip after the financial crisis, remains the largest external source of financing to the group. Since 2002, ODA has declined in relative importance but remains a stable source of external finance (figure II.26). Comparing FDI with other private sector sources of financing and investment shows that "other" investment (mostly bank loans) has become an increasingly important source of external finance for SIDS. However, it is much less stable than FDI (figure II.27).[58]

Figure II.26. SIDS: FDI inflows, ODA flows and remittances, 2002–2013
(Billions of dollars)

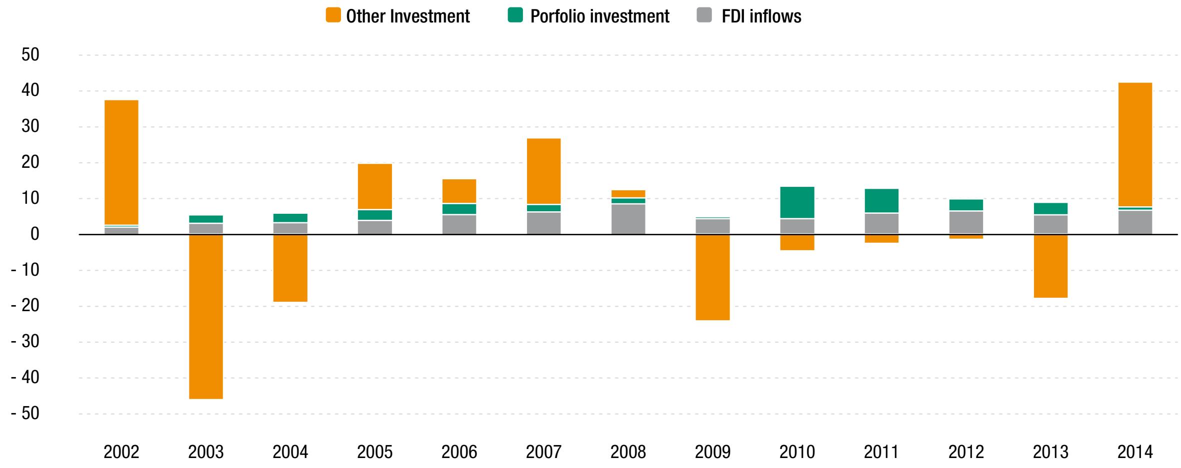


Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI flows), IMF (for portfolio investment), OECD (for ODA) and World Bank (for remittances).

Among SIDS, there are major country and subgroup differences in the composition of flows, and these need to be taken into account by policymakers in their diversification strategies. Caribbean SIDS attracted more than three quarters of FDI flows in 2002–2013 (figure II.28). Oceania SIDS absorbed 57 per cent of ODA and only 9 per cent of FDI. More than half of the overall amount of ODA aimed at SIDS in 2002–2013 went to four countries, the largest recipient being Papua New Guinea, followed by Timor-Leste and the Solomon Islands – two LDCs – and Cape Verde. ODA is vital for many SIDS, being equivalent to more than 10 per cent of GDP for 13 of them, and more than 50 per cent for countries such as Tuvalu (70 per cent) and the Marshall Islands (54 per cent).

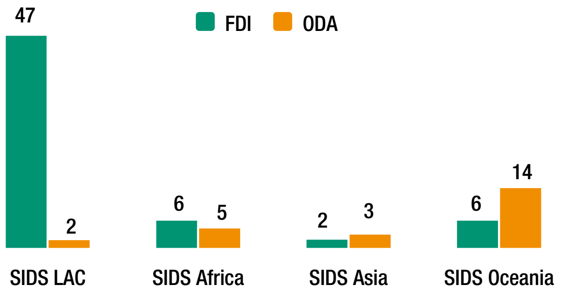
Policy implications. For the most part, small market size, a narrow resource base, remote locations, and

Figure II.27. **SIDS: Private capital inflows by type, 2002–2014** (Billions of dollars)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics) (for FDI inflows) and IMF (for portfolio and other investment).

Figure II.28. **SIDS: FDI flows and ODA flows by region, 2002–2013** (Millions of dollars)



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

high vulnerability to natural disasters affect the nature and the scope of economic activities that can be developed in SIDS.

Nevertheless, in pursuing diversification and sustainable development, SIDS have to mobilize and effectively channel a range of domestic and external sources of development finance, such as ODA, FDI, portfolio investment, bank lending and remittances for economic development and long-term sustainability. Efforts on three fronts are required:

- A tailored, long-term industrial strategic plan, focusing on investment in sustainable investment.
- A rigorous assessment of current and potential sources of financing realistically available to them, recognizing that the composition of flows varies by country.
- A careful matching of the characteristics of available flows to specific development goals and objectives, including building relevant capabilities, to ensure that the most suitable sources of financing and investment are utilized in any project, scheme or sector. In many cases, for instance for investment related to climate change mitigation and adaptation, this will entail PPPs relying on multiple sources of financing, both domestic and foreign.

Coordinated efforts by the international community are needed to support SIDS in working towards these goals, including in helping smooth the systemic challenges and constraints they face. Quadrupling the FDI stock in the next decade and a half and ensuring its positive contribution to the SDG sectors is a challenging but achievable goal.

Notes

[1] The other five are mobilizing domestic financial resources, harnessing trade as an engine for development, increasing international financial assistance (ODA) and technical cooperation, providing debt relief, and addressing systemic issues and coherence between the international monetary, financial and trading systems.

[2] See http://apparel.edgl.com/news/The-New-Kid-on-the-Block--Africa-Is-Vying-for-a-Larger-Share-of-the-Global-Textile-and-Apparel-Pie96802.

[3] They include several by Dubai-based private equity firm Abraaj Group into consumer sectors and by Dubai's DP World, which currently operates 12 terminals in six African countries, with projects under way in Egypt and Senegal. The Investment Corporation of Dubai (the country's sovereign wealth fund) invested $300 million in Dangote Cement (Nigeria) in 2014. The Emirates Investment Authority (United Arab Emirates) acquired 53 per cent of the Morocco-based telecommunications company, Itissalat (France). See also http://web.dpworld.com/wp-content/uploads/2014/05/22294_DP_World_RA14_Web_v2.pdf.

[4] A simple categorization of FDI by firm type rather than project type can be misleading. For example, SRK Consulting, a prominent mining consulting *service* firm, has invested in several African countries over recent years to support mineral extraction. Although in UNCTAD's greenfield investment database, the firm's investments are counted as being in "business services", i.e. in the services sector, they constitute a mining investment in terms of FDI data as the firm's activity is incidental to mining.

[5] The ICBC deal was also the largest investment outside of China by a Chinese bank at the time. This meant that by 2012, some 10.5 per cent of South Africa's inward FDI stock was in the banking industry.

[6] See http://mg.co.za/article/2014-03-25-mtn-said-to-start-selling-mobile-tower-networks.

[7] Information comes from UNCTAD's database on foreign affiliates, which is based on Bureau van Dijk's Orbis.

[8] "HK Foreign Direct Investment", *InvestHK Newsletter*, January 2015.

[9] "Foreign investors worried Vietnamese minimum wages jump 17-fold over 15 years", *NIKKEI Asian Review*, 18 November 2014.

[10] InfraPPP (www.infrapppworld.com) and Indonesia Investments (www.indonesia-investments.com). See e.g. "Soekarno-Hatta Railway Project Indonesia: Tendered to Private Sector" (www.indonesia-investments.com/business/business-columns/soekarno-hatta-railway-project-fully-tendered-to-private-sector/item2718).

[11] Jack Goodman, "Sri Lanka's Growing Links with China: Trade, investment and a strategic Indian Ocean location bring the two countries closer together", *The Diplomat*, 6 March 2014.

[12] For example, in 2014, Asian Paints (India) started to build a plant with an investment of $81 million, and r-pac International Corporation (United States) announced plans to invest $107 million in a production facility in Sri Lanka.

[13] Large Chinese companies, such as China International Water & Electric Corp. and Three Gorges International Corp., are investing in hydroelectricity plans in Nepal. In 2014, agreements were signed with two Indian companies in the same sector, each investing about $1 billion.

[14] Automobile Industry in India, India Brand Equity Foundation (IBEF), January 2015.

[15] See, e.g. Bhasker (2013).

[16] These Indian automakers started operating in the passenger car market first with multi-utility vehicles and, later, with small cars (see e.g. Kumaraswamy et al., 2012).

[17] See, e.g. Okada and Siddharthan (2007).

[18] Starting in 2009 in Bahrain, 2012 in Lebanon and Turkey, and 2013 in Iraq.

[19] The segments of the construction industry include residential and commercial buildings, water and energy, transport, oil and gas, among others. In the absence of official statistics, data on contract awards and on work under execution are the main bases for gauging the trends shaping the GCC construction market since 2008–2009, and assessing the importance of foreign contractors in this market.

[20] The $88 billion awarded to the largest contractors represented 56 per cent of the value of total contracts awarded in the GCC in 2013 (see MEED Insight, "GCC Construction Projects Market 2015", August 2014; and "Local firms dominate GCC construction", MEED (Middle East Economic Digest), 58(3), 17 January 2014).

[21] See "Local firms dominate GCC construction", *MEED*, 58(3), 17 January 2014; MEED Insight, "MENA projects market and review 2014", July 2014; MEED Insight, "The UAE projects market 2013, A comprehensive forecast and review of opportunities in the United Arab Emirates' projects market", www.meedinsight.com.

[22] Korean firms have won the vast majority of their projects by using lump-sum turnkey contracts to submit aggressive prices and to employ stringent project management (aimed at finishing the scheme ahead of schedule wherever possible), and by using highly effective procurement strategies to ensure that they bring the project in on time and on budget.

[23] Economist Intelligence Unit, "GCC companies face challenging 2015", 22 January 2015.

[24] Although significant efforts have been made since the early 2000s to diversify GCC economies, progress toward genuine diversification has been modest. Growth in non-oil output averaged 6.8 per cent during 2001–13, and the share of the non-oil sector in total real GDP rose by 12 percentage points to 70 per cent, driven mainly by Saudi Arabia and the United Arab Emirates (Callen et al., 2014). However, "non-oil growth is in most cases concentrated in service industries that rely on demand generated by oil revenues; moreover, in many cases, productivity in the non-oil economy has been declining" (IMF, 2014: 25).

[25] Intel's operations in Costa Rica are worth about $2 billion a year, making up about 20 per cent of the country's exports. The firm accounted for 11 per cent of net FDI over 2000–12. ("Business in Costa Rica, Intel outside", *The Economist*, 19 April 2014).

[26] "Dominican Rep. Investment in Free Zones Up 6%", CentralAmerica*Data*.com, 21 April 2015.

[27] During 1996–2000, roughly half of FDI flows were related to M&As in connection with the privatization of State-owned utilities and domestic banks (Elson, 2006).

[28] Brazil attracted 69 per cent of FDI flows to South America's secondary sector in 2006–2013, and Argentina 18 per cent.

[29] "BASF, Gazprom Fall Victim to Sanctions as Asset Swap Ends", *Bloomberg Business*, 19 December 2014.

[30] Within manufacturing, basic metals and metal products were the largest industries in terms of FDI stock in 2013. However, these investments often represent round-tripping FDI undertaken by Russian investors. For example, the second largest Russian steel company, Evraz, is owned by offshore companies in which Russian investors have key interests (Kuznetsov, 2012).

[31] "Ford bullish on Russia as it takes control of local JV", http://europe.autonews.com/article/20150410/ANE/150419998/ford-bullish-on-russia-as-it-takes-control-of-local-jv.

[32] "PepsiCo and Coca-Cola close plants in Russia", http://rbth.com/news/2015/03/04/pepsico_and_coca-cola_close_plants_in_russia_44207.html.

[33] "Carlsberg Forced to Close 2 Russian Breweries", *The Moscow Times*, 29 January 2015.

[34] Australia, Bureau of Resources and Energy Economics. www.industry.gov.au. Projects at the "Committed Stage" have completed all commercial, engineering and environmental studies; received all required regulatory approvals; and finalized the financing for the project.

[35] At the time of writing, apart from the United States and Japan, few other major investor countries had made available geographical breakdowns of 2014 FDI data.

[36] For estimating geographical breakdowns of Japanese FDI, directional principle (BPM5) data are used for 2013 while the asset/liabilities principle data (BPM6) are used for 2014. For developing regions excluding offshore financial centres, the two methodologies should produce more or less the same data.

[37] Primary income refers to investment income and compensation of employees earned abroad (receipts) or owed to foreign entities (payments). For the United States, investment income accounted for 99 per cent of primary income receipts and 97 per cent of primary income payments in 2014.

[38] The category "other investment" includes currency and deposits, loans, trade credits, etc.

[39] Total fixed investment is estimated by adding capital expenditures and R&D expenditures of United States parent companies.

[40] Measured by number of vehicles. Data are from the Japan Automobile Manufacturers Association (www.jama.or.jp).

[41] Due to the unavailability of FDI data for Tuvalu, this group is represented by three LDCs: Kiribati, Solomon Islands and Vanuatu.

[42] "Qatar National Bank increases stake in African lender Ecobank", 15 September 2014, *Financial Times*.

[43] The transaction value was not available for the majority of these deals; thus, the total value of cross-border M&A sales in LDCs is likely to be higher.

[44] An ultra-deep offshore oil development project, in which France's Total (30 per cent) formed a joint venture with two local companies (50 per cent), ExxonMobil (15 per cent) from the United States and Galp Energia (5 per cent) from Portugal ("Angola: Total launches the development of Kaombo, an ultra-deep offshore project", 14 April 2014, press release, www.total.com/en/media/news/press-releases/angola-total-launches-development-kaombo-ultra-deep-offshore-project?%FFbw=kludge1%FF). This is most likely a product-sharing contract; thus, no impact is expected on FDI inflows to Angola.

[45] In 2013, announced greenfield investment in electricity and gas amounted to $18 billion, while primary sector investment was at $4 billion.

[46] "Ethiopia: Indian firm to plant Africa's largest cotton mill here", 3 May 2014, allafrica.com.

[47] "Ethiopia: Chinese textile giant eyes U.S. $500 million plant", 6 September 2014, allafrica.com.

[48] Throughout the period 2000–2013, crude petroleum accounted for almost 90 per cent of AGOA exports to the United States. Refined petroleum products contributed to the major part of growth in non-crude oil exports from AGOA to the United States in this period (USITC, 2014).

[49] It comprises private and public entities from Myanmar (51 per cent); Japanese MNEs, including general trading companies Mitsui, Marubeni and Sumitomo (about 40 per cent); and the Japan International Cooperation Agency (about 10 per cent). Upon the completion of the first phase of development in 2016, this special economic zone is expected to create 50,000 jobs by hosting some 100 companies.

[50] "After decades of decay, Myanmar bets on Thilawa to lead industrial boom", 7 May 2015, www.reuters.com; "Eight companies set to begin operations in Thilawa SEZ", 29 April 2015, *The Myanmar Times*.

[51] For example, China has pledged $11 billion to develop the Trans-Asian Railway to connect the Greater Mekong Subregion, consisting of Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam ("High-quality trains to speed up GMS connectivity", 21 December 2014, news.xinhuanet.com). It has pledged an additional $1 billion for infrastructure development to improve inter-connectivity within the subregion ("Cambodia welcomes Chinese premier's pledge of over 3 bln USD aid to GMS countries", 20 December 2014, news.xinhuanet.com).

[52] Based on exports accounting for 45 per cent of a country's total exports of goods and services during

2010–2012, LDCs are classified into six categories of export specialization: food and agricultural exporters, fuel exporters, manufactures exporters, mineral exporters, mixed exporters and services exporters (UNCTAD, 2014, p. xiii).

[53] Investments by Jiangsu Lianfa Textile (China) in Ethiopia, and Weibo (China) in the former Yugoslav Republic of Macedonia, as well as Shrivallabh Pittie Group (India) in Ethiopia, were among the six largest projects by value, totalling $1.4 billion. Ethiopia also attracted other large greenfield investments in the textiles industry from India, Turkey, Pakistan and the Republic of Korea (see LDCs section).

[54] Uzbekistan is not included in table II.15 because of a lack of reported bilateral FDI data; the analysis is based on announced greenfield and M&A deals only.

[55] www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42623&no_cache=1#.VWMhPE-qpBc.

[56] Other investments have been more significant than portfolio investment but similarly erratic, increasing in value and share in recent years but recording a decline in 2014.

[57] Vanuatu, Sao Tome and Principe, Samoa, Timor-Leste, Tonga, the Comoros, Palau, Kiribati.

[58] In addition, there are "other" investment flows, which are even more volatile, especially for Caribbean SIDS.

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