CHAPTER II

REGIONAL INVESTMENT TRENDS

INTRODUCTION

Global foreign direct investment (FDI) inflows rose by 38 per cent overall in 2015 to $1,762 billion, up from $1,277 billion in 2014, but with considerable variance between country groups and regions (table II.1).

FDI flows to *developed economies* jumped by 84 per cent to reach their second highest level, at $962 billion. Strong growth in flows was reported in Europe (up 65 per cent to $504 billion). In the United States FDI flows almost quadrupled, although from a historically low level in 2014. *Developing economies* saw inward FDI reach a new high of $765 billion, 9 per cent above the level in 2014. Developing Asia, with inward FDI surpassing half a trillion dollars, remained the largest FDI recipient in the world. FDI flows to Latin America and the Caribbean – excluding Caribbean offshore financial centres – remained flat at $168 billion.

Table II.1. FDI flows, by region, 2013–2015 (Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2013	2014	2015	2013	2014	2015
World	**1 427**	**1 277**	**1 762**	**1 311**	**1 318**	**1 474**
Developed economies	680	522	962	826	801	1 065
Europe	323	306	504	320	311	576
North America	283	165	429	363	372	367
Developing economies	662	698	765	409	446	378
Africa	52	58	54	16	15	11
Asia	431	468	541	359	398	332
East and South-East Asia	350	383	448	312	365	293
South Asia	36	41	50	2	12	8
West Asia	46	43	42	45	20	31
Latin America and the Caribbean	176	170	168	32	31	33
Oceania	3	2	2	2	1	2
Transition economies	85	56	35	76	72	31
Structurally weak, vulnerable and small economies[a]	**52**	**55**	**56**	**14**	**14**	**8**
LDCs	21	26	35	8	5	3
LLDCs	30	30	24	4	7	4
SIDS	6	7	5	3	2	1
***Memorandum*: percentage share in world FDI flows**						
Developed economies	47.7	40.9	54.6	63.0	60.7	72.3
Europe	22.7	24.0	28.6	24.4	23.6	39.1
North America	19.8	12.9	24.3	27.7	28.2	24.9
Developing economies	46.4	54.7	43.4	31.2	33.8	25.6
Africa	3.7	4.6	3.1	1.2	1.2	0.8
Asia	30.2	36.6	30.7	27.4	30.2	22.5
East and South-East Asia	24.5	30.0	25.4	23.8	27.7	19.9
South Asia	2.5	3.2	2.9	0.2	0.9	0.5
West Asia	3.2	3.4	2.4	3.4	1.5	2.1
Latin America and the Caribbean	12.3	13.3	9.5	2.5	2.4	2.2
Oceania	0.2	0.2	0.1	0.2	0.1	0.1
Transition economies	5.9	4.4	2.0	5.8	5.5	2.1
Structurally weak, vulnerable and small economies[a]	**3.6**	**4.3**	**3.2**	**1.1**	**1.1**	**0.5**
LDCs	1.5	2.1	2.0	0.6	0.4	0.2
LLDCs	2.1	2.3	1.4	0.3	0.5	0.2
SIDS	0.4	0.6	0.3	0.2	0.1	0.1

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

With overall inflows declining by 7 per cent to $54 billion, Africa's share in global FDI fell to 3.1 per cent (down from 4.6 per cent in 2014). Flows to *transition economies* fell further, by 38 per cent, to $35 billion.

Outward FDI outflows from *developed economies* increased by 33 per cent to $1,065 billion, accounting for almost three quarters of global FDI. Driven mainly by cross-border mergers and acquisitions (M&As), outward FDI from Europe surged by 85 per cent to $576 billion. Investments by North American MNEs remained almost flat at $367 billion. By contrast, developing economies saw their FDI outflows decline by 15 per cent to $378 billion. After emerging as the largest investing region in 2014, developing Asia saw investments by its MNEs fall 17 per cent to $332 billion. Outward FDI from *transition economies* also slowed to $31 billion, as acquisitions by Russian MNEs were hampered by reduced access to international capital markets.

FDI flows to *structurally weak, vulnerable and small economies* increased moderately, by 2 per cent to $56 billion, but with divergent trends: flows to least developed countries (LDCs) jumped by one third, to $35 billion, mainly due to large increases in Angola; flows to landlocked developing countries (LLDCs) and small island developing States (SIDS) decreased by 18 per cent and 32 per cent, respectively.

DEVELOPING ECONOMIES

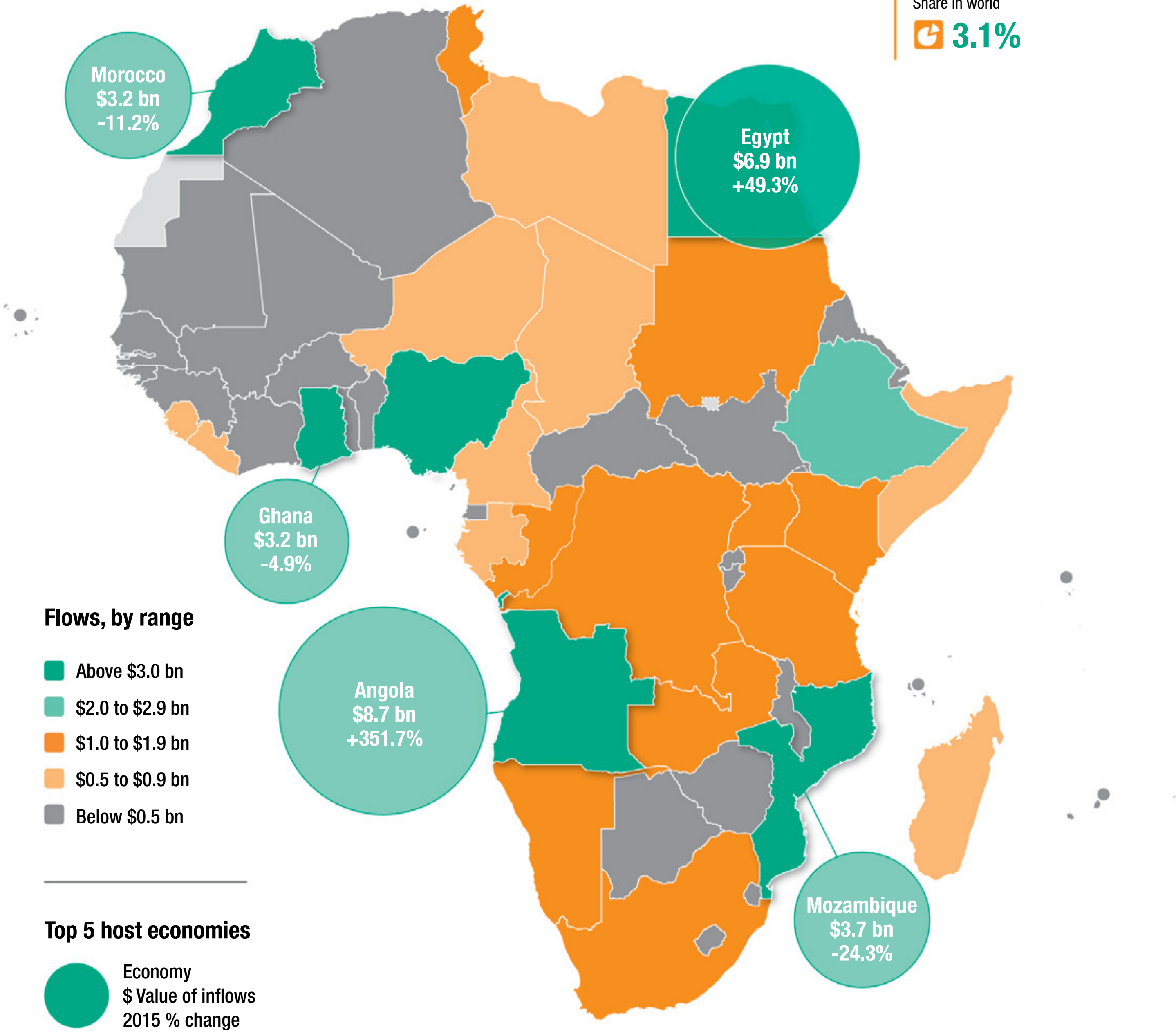
AFRICA

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
54.1 bn

2015 Decrease
-7.2%

Share in world
3.1%



Outflows: top 5 home economies

(Billions of dollars, and 2015 growth)

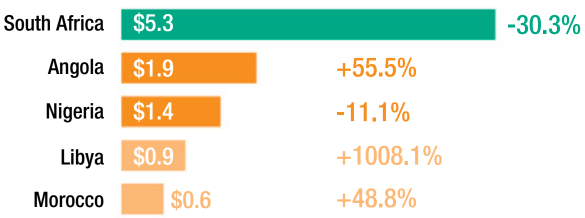
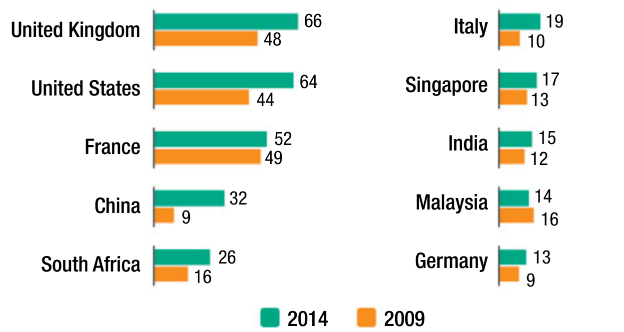


Figure A. **Top 10 investor economies, by FDI stock, 2009 and 2014** (Billions of dollars)



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. 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

- Weak commodity prices held back FDI to Sub-Saharan Africa
- Investor confidence returned to North Africa
- FDI is likely to increase modestly in 2016

Figure B. FDI inflows, 2009–2015 (Billions of dollars and per cent)

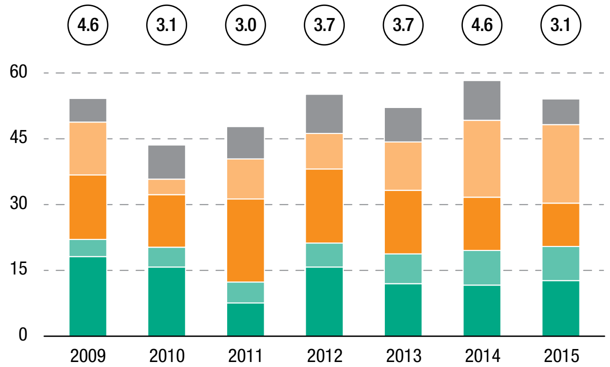
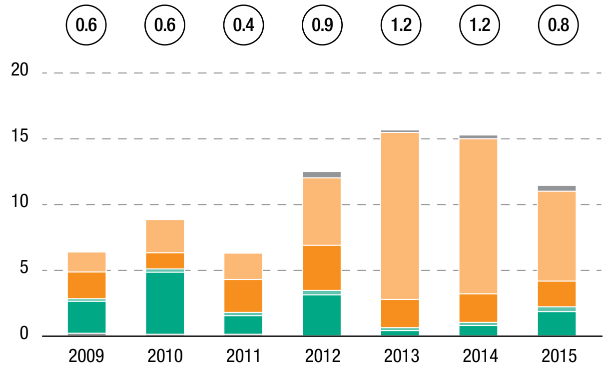


Figure C. FDI outflows, 2009–2015 (Billions of dollars and per cent)



North Africa | East Africa | West Africa | Southern Africa | Central Africa | Share in world total

Table A. Cross-border M&As by industry, 2014–2015 (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**5 152**	**20 414**	**5 449**	**3 358**
Primary	**2 566**	**1 011**	**1 595**	**-438**
Mining, quarrying and petroleum	2 556	1 011	1 595	-820
Manufacturing	**330**	**20 937**	**209**	**-391**
Food, beverages and tobacco	22	289	35	9
Pharmaceuticals, medicinal chemicals and botanical products	55	182	-51	-192
Furniture	-	20 433	-	-
Services	**2 256**	**-1 534**	**3 644**	**4 187**
Electricity, gas, water and waste management	144	-	1 176	-
Trade	92	22	1 919	212
Information and communication	116	-2 578	81	938
Financial and insurance activities	1 419	639	233	2 227
Business activities	15	309	129	802

Table B. Cross-border M&As by region/economy, 2014–2015 (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**5 152**	**20 414**	**5 449**	**3 358**
Developed economies	**-8 231**	**21 574**	**1 675**	**-162**
European Union	-6 800	18 631	154	506
France	-5 648	684	246	-180
Netherlands	-61	17 788	58	99
United States	-1 801	1 384	21	-396
Developing economies	**13 339**	**-1 219**	**3 781**	**2 320**
Africa	2 424	149	2 424	149
Asia	10 515	-1 367	262	2 221
India	2 730	-1 114	137	347
Singapore	1 293	118	-	-
United Arab Emirates	5 685	-616	-	1 543
Transition economies	**-**	**-**	**-6**	**1 200**

Table C. Announced greenfield FDI projects by industry, 2014–2015 (Millions of dollars)

Sector/industry	Africa as destination 2014	Africa as destination 2015	Africa as investor 2014	Africa as investor 2015
Total	**89 134**	**71 348**	**13 517**	**12 548**
Primary	**21 974**	**15 841**	**48**	**285**
Mining, quarrying and petroleum	21 974	15 841	48	285
Manufacturing	**29 270**	**18 819**	**3 929**	**2 581**
Food, beverages and tobacco	2 099	2 623	1 214	64
Coke, petroleum products and nuclear fuel	11 845	4 053	22	29
Chemicals and chemical products	6 705	2 698	120	700
Motor vehicles and other transport equipment	2 050	3 069	15	22
Services	**37 890**	**36 687**	**9 541**	**9 682**
Electricity, gas and water	10 648	15 523	125	2 139
Construction	9 229	8 353	462	2 595
Transport, storage and communications	6 341	5 309	2 305	1 295
Business services	6 177	3 926	4 950	2 471

Table D. Announced greenfield FDI projects by region/economy, 2014–2015 (Millions of dollars)

Partner region/economy	Africa as destination 2014	Africa as destination 2015	Africa as investor 2014	Africa as investor 2015
World	**89 134**	**71 348**	**13 517**	**12 548**
Developed economies	**63 866**	**39 039**	**1 153**	**699**
European Union	47 896	27 774	980	570
France	19 519	5 830	130	-
Italy	323	7 444	61	-
United Kingdom	2 563	4 935	133	30
United States	7 904	6 902	39	63
Developing economies	**25 178**	**28 036**	**12 327**	**11 788**
Africa	10 220	10 889	10 220	10 889
Morocco	820	3 403	16	16
Bahrain	-	3 672	-	-
United Arab Emirates	5 153	4 310	76	250
Transition economies	**90**	**4 273**	**37**	**60**

FDI flows to Africa fell to $54 billion in 2015, a decrease of 7 per cent over the previous year. An upturn in investment into North African economies such as Egypt was offset by decreasing flows into Sub-Saharan Africa, especially in natural-resource-based economies in West and Central Africa. Lacklustre economic performance pushed FDI to a low level in South Africa, traditionally one of the top recipients in the region. Despite the depressed global economic environment, FDI inflows to Africa are expected to rise in 2016, due to liberalization measures in the region and some privatization of State-owned enterprises.

Inflows

Dynamic investment into Egypt boosted FDI inflows to North Africa. A degree of investor confidence appears to have returned to *North Africa* as FDI flows rose by 9 per cent to $12.6 billion in 2015. Much of the growth was due to investments in Egypt, where FDI flows increased by 49 per cent to $6.9 billion, driven mainly by the expansion of foreign affiliates in the financial industry (CIB Bank and Citadel Capital) and pharmaceuticals (Pfizer). Egypt's inward FDI also benefitted from sizable investments in telecommunications, such as the purchase of Mobile Towers Services by Eaton Towers (United Kingdom) and continuing investment in the gas industry by Eni (Italy). FDI flows to Morocco remained sizable at $3.2 billion in 2015. The country continues to serve as a major manufacturing base for foreign investors in Africa: in 2015 it attracted large amounts of FDI in the automotive industry, especially from France. Real estate developments in the country also attracted FDI from West Asia. FDI flows to Sudan increased by 39 per cent to $1.7 billion, thanks to continued investment from Chinese oil major CNPC.

Weak commodity prices weighed on FDI to Sub-Saharan Africa. In contrast to North Africa, FDI inflows to *West Africa* declined by 18 per cent to $9.9 billion, largely because of a slump in investment to Nigeria, the largest economy in the continent. Weighed down by lower commodity prices, a faltering local currency and some delays in major projects (such as Royal Dutch Shell's multibillion-dollar offshore oil operations), FDI flows to the country fell from $4.7 billion in 2014 to $3.1 billion in 2015. Yet despite bleak economic conditions, consumer spending remained strong, which attracted FDI inflows. The German pharmaceutical company Merck, for example, opened its first office in Nigeria as part of a broader African expansion. Outside Nigeria, high cocoa prices drove FDI inflows to the region's major exporters, such as Ghana and Côte d'Ivoire. French chocolatier Cémoi established its first chocolate processing factory in Côte d'Ivoire.

FDI flows to *Central Africa* fell by 36 per cent to $5.8 billion, as flows to the two commodity-rich countries declined significantly. In the Congo, flows dropped to $1.5 billion after the unusually high $5.5 billion value recorded in 2014. In the Democratic Republic of the Congo, flows declined by 9 per cent to $1.7 billion, and large investors such as Glencore (Switzerland) suspended their operations.

East Africa received $7.8 billion in FDI in 2015 – a 2 per cent decrease from 2014. Textile and garments firms from Bangladesh, China and Turkey seeking alternative production bases for export to the European Union (EU) and North America invested $2.2 billion in Ethiopia last year, especially because of its privileged exports under the African Growth and Opportunity Act (AGOA) and economic partnership agreements (EPAs) (chapter III). Shaoxing Mina Textile (China), for example, announced the establishment of a textile and garment factory there to supply African and international markets. FDI flows to Kenya reached a record level of $1.4 billion in 2015, resulting from renewed investor interest and confidence in the country's business climate and booming domestic consumer market. Kenya is becoming a favoured business hub, not only for oil and gas exploration but also for manufacturing exports, as well as consumer goods and services. For instance, the upmarket hotel group Carlson Rezidor (United States) expanded its presence in Nairobi. In contrast, flows to the United Republic of Tanzania decreased by 25 per cent to $1.5 billion. In an effort to attract more foreign investors, both the United Republic of Tanzania and Kenya now allow 100 per cent foreign ownership of companies listed on their stock exchanges.

In *Southern Africa,* FDI flows increased by 2 per cent to $17.9 billion, mainly driven by large inflows in Angola. After several years of negative flows, that country attracted a record $8.7 billion of FDI in 2015, becoming the largest recipient in Africa. This jump was largely due to loans provided to local affiliates by their foreign parents. Declining oil prices – oil accounts for roughly 52 per cent of government revenues and 95 per cent of export earnings – as well as the depreciating national currency and rising inflation have severely affected Angola's economy. Consequently, foreign affiliates in the country increased their borrowing from their parent companies to strengthen their balance sheets. Nevertheless, expansion in energy-related infrastructure continued to occur: Puma Energy (Singapore) opened one of the world's largest conventional buoy mooring systems in Luanda Bay.

FDI into South Africa, by contrast, decreased markedly by 69 per cent to $1.8 billion – the lowest level in 10 years – owing to factors such as lacklustre economic performance, lower commodity prices and higher electricity costs. Divestments during the first quarter from non-core assets in manufacturing, mining, consulting services and telecommunications contributed to the decline in FDI. Even excluding divestments, however, inflows were considerably lower than in 2014, owing to the economy's continued reliance on mineral-based exports.[1]

After years of record inflows, FDI to Mozambique declined in 2015. Yet the country attracted a still considerable $3.7 billion, which – though 24 per cent lower than 2014 inflows – still made it the third largest FDI recipient in Africa. The decline was due primarily to uncertainty related to the 2015 elections and low gas prices. In addition, the mining giant Anglo-American (United Kingdom) closed its office in Mozambique in 2015, 18 months after cancelling the $380 million purchase of a majority stake in a coal asset in the country. Intra-African FDI, however, helped support investment to the country: for example, Sasol (South Africa) announced it would build a second loop line to move gas from Mozambique to industrial customers in South Africa. FDI flows in Zambia declined by 48 per cent to $1.7 billion, as electricity shortages and uncertainties related to the mining tax regime continued to constrain FDI into the mining sector. Lower prices for copper (which accounts for over 80 per cent of Zambia's exports), the collapse of the national currency and surging inflation all affected reinvested earnings.

MNEs from developing economies were increasingly active in Africa, but those from developed countries remained major players. Reflecting recent global trends of rising FDI flows from emerging markets observed in developing countries, half of the top 10 investors in Africa were from developing economies, including three BRICS countries: China, South Africa and India (figure A). China's FDI stock increased more than threefold from 2009 to 2014, as China overtook South Africa as the largest investor from a developing country in the region. Developed economies, led by the United Kingdom, the United States and France, remain the largest investors in the continent.

Outflows

FDI outflows from Africa fell by 25 per cent to $11.3 billion. Investors from South Africa, Nigeria and Angola reduced their investment abroad largely because of lower commodity prices, weaker demand from main trading partners and depreciating national currencies. South Africa, which continues to be the continent's largest investor, reduced its FDI outflows by 30 per cent to $5.3 billion. Similarly, investors from Angola reduced their investment abroad by 56 per cent to $1.9 billion, down from $4.3 billion in 2014. In both countries, there was a marked decline in intracompany loans, as parent firms withdrew funds or their foreign affiliates paid back loans to strengthen corporate balance sheets at home. Equity investment from South Africa continued to be high, however, reflecting large acquisitions abroad, such as Naspers' (South Africa) purchase of the Russian company Kekh eKommerts for $1.2 billion.

North African firms are playing an active role in outward FDI. Outward investment increased from Libya and Morocco. In Algeria, State-owned Sonatrach, the largest oil-and-gas company in Africa with operations in Mali, Niger, Libya and Egypt, as well as in Europe, was mostly responsible for outward FDI from that country. The increased outward FDI from Morocco is largely intra-African and reflects the increasing capabilities of Moroccan firms in financial services, telecommunications and manufacturing.

Prospects

FDI inflows to Africa could return to a growth path in 2016, increasing by an average of 6 per cent to $55–60 billion. This bounce-back is already becoming visible in announced greenfield projects in Africa. In the first quarter of 2016, their value was $29 billion, 25 per cent higher than the same period in 2015. The biggest rise in prospective investments are in North African economies such as Egypt and Morocco, but a more optimistic scenario also prevails more widely, for example in Mozambique, Ethiopia, Rwanda and the United Republic of Tanzania.

Depressed conditions in oil and gas and in mining continue to weigh significantly on GDP growth and investment across Africa. The rise in FDI inflows, judging by 2015 announcements, will mostly occur in services (electricity, gas and water, construction, and transport primarily), followed by manufacturing industries, such as food and beverages and motor vehicles (table C). MNEs are indeed showing great interest in the African auto industry, with announced greenfield capital expenditure into the industry amounting to $3.1 billion in 2015. Investment into Africa's auto industry is driven by industrial policies in countries such as Morocco, growing urban consumer markets, improved infrastructure, and favourable trade agreements. Major automotive firms are expected to continue to expand into Africa: PSA Peugeot-Citroen and Renault (France) and Ford (United States) have all announced investments in Morocco; Volkswagen and BMW (Germany) in South Africa; Honda (Japan) in Nigeria; Toyota (Japan) in Kenya; and Nissan (Japan) in Egypt.

To reduce the vulnerability of Africa to commodity price developments, countries are reviewing policies to support FDI into the manufacturing sector. East Africa has already become more attractive in this sector as a source and investment location, especially in light manufacturing. MNEs are therefore investing across Africa for market-seeking and efficiency-seeking reasons. Proximity can be beneficial, so Bahrain, France, Italy, the United Arab Emirates and the United Kingdom remain prominent as investors (table D); but closeness to major markets in Europe and West Asia is also attracting export-oriented investors from East, South and South-East Asia, which are focusing on locations in North and East Africa such as Ethiopia.

Liberalization of investment regimes and privatization of State-owned commodity assets should also provide a boost to inflows. In Algeria, for example, Sonatrach SPA, the State-owned oil and gas company, intends to sell its interest in 20 oil and gas fields located in the country. Similarly in Zambia, the Government is bundling State-owned businesses into a holding company and trying to attract foreign buyers.

Other liberalization measures include the removal of further restrictions on foreign investments in most African countries (chapter III). Kenya has moved to abolish restrictions on foreign shareholding in listed companies as competition for capital heats up among Africa's top capital markets. The move comes just a year after the United Republic of Tanzania lifted a 60 per cent restriction on foreign ownership of listed companies, permitting full foreign control.

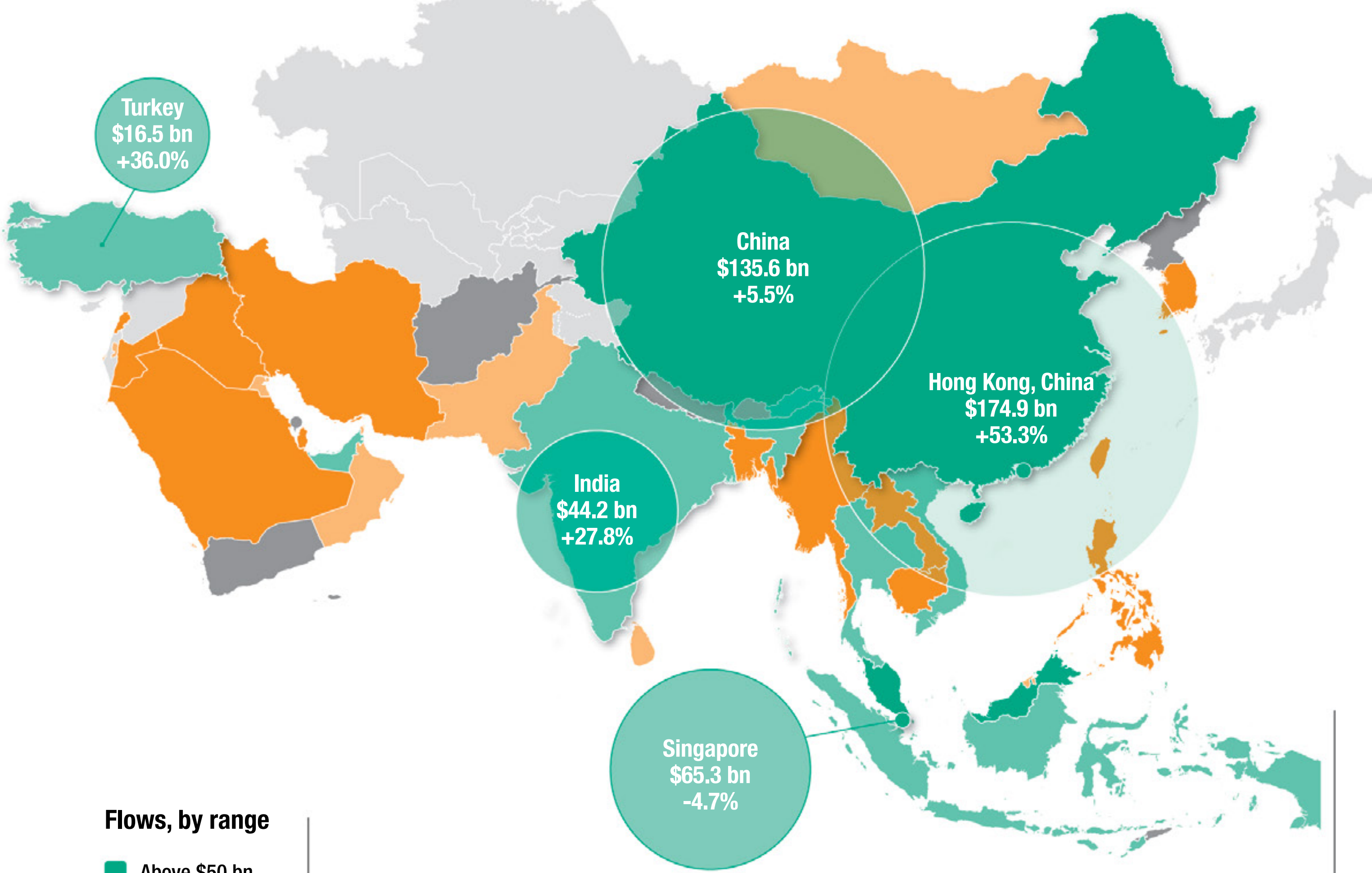
DEVELOPING ASIA

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
540.7 bn

2015 Increase
+15.6%

Share in world
30.7%



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

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies

(Billions of dollars, and 2015 growth)

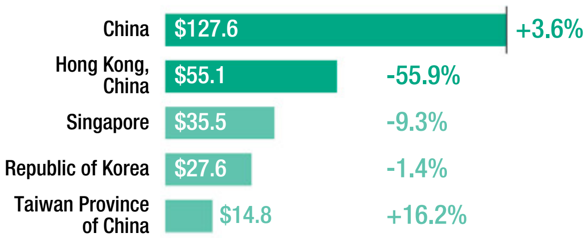
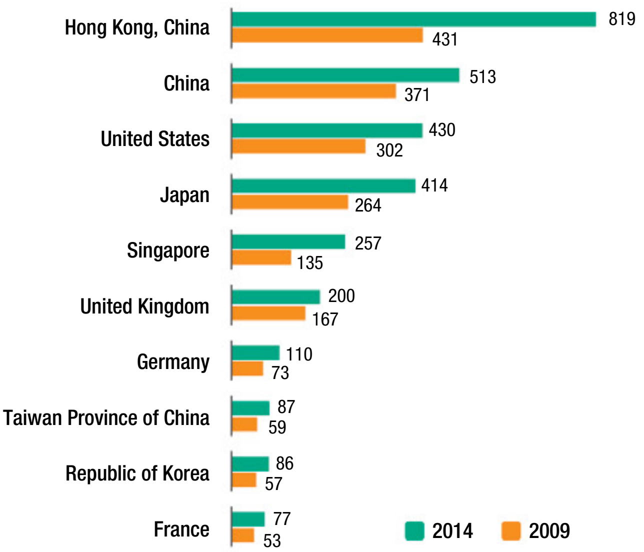


Figure A. Top 10 investor economies, by FDI stock, 2009 and 2014 (Billions of dollars)



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. 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

- Developing Asia remains the world's largest FDI recipient
- Outflows declined, but remain at their third highest level ever
- FDI inflows are expected to fall in 2016

Figure B. FDI inflows, 2009–2015
(Billions of dollars and per cent)

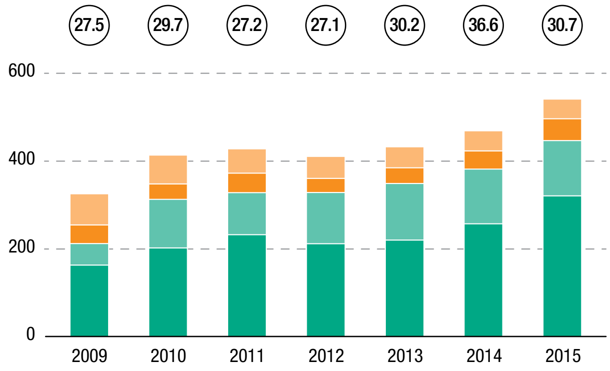
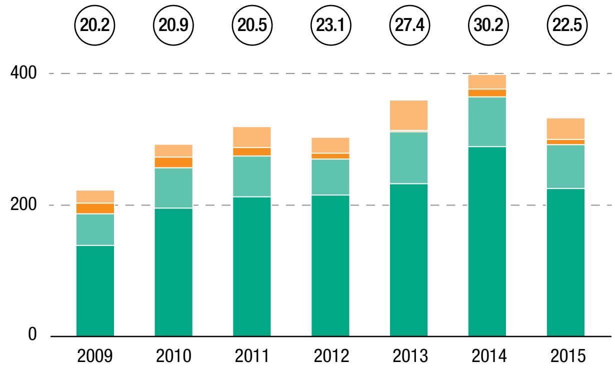


Figure C. FDI outflows, 2009–2015
(Billions of dollars and per cent)



East Asia · South-East Asia · South Asia · West Asia · Share in world total

Table A. Cross-border M&As by industry, 2014–2015 (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**96 188**	**46 398**	**140 880**	**110 342**
Primary	173	6 287	14 702	13 032
Mining, quarrying and petroleum	-154	4 694	15 017	7 828
Manufacturing	14 599	1 962	47 104	1 504
Food, beverages and tobacco	4 030	2 249	-2 491	1 307
Pharmaceuticals, medicinal chemicals and botanical products	2 790	-2 371	2 232	4 771
Computer, electronic, optical products and electrical equipment	976	1 168	1 539	4 775
Machinery and equipment	63	-3 052	1 181	-726
Services	81 417	38 149	79 075	95 805
Transportation and storage	3 693	3 504	775	4 136
Information and communication	2 946	-7 061	9 040	-8 732
Financial and insurance activities	54 103	19 793	57 183	81 870
Business activities	10 553	18 219	6 392	10 700

Table B. Cross-border M&As by region/economy, 2014–2015 (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**96 188**	**46 398**	**140 880**	**110 342**
Developed economies	19 505	10 460	48 581	71 789
European Union	15 033	-2 995	19 294	29 840
United Kingdom	7 259	-6 586	7 380	16 094
United States	24	1 456	13 175	27 195
Japan	6 772	10 030	2 110	1 286
Developing economies	74 966	35 594	90 929	35 346
Asia	74 421	33 425	74 421	33 425
China	10 305	14 051	52 575	6 454
Hong Kong, China	53 323	8 297	16 603	12 287
Malaysia	-850	87	91	2 192
Singapore	10 711	3 164	1 724	1 528
Transition economies	256	-1 305	1 369	3 206

Table C. Announced greenfield FDI projects by industry, 2014–2015 (Millions of dollars)

Sector/industry	Developing Asia as destination 2014	Developing Asia as destination 2015	Developing Asia as investor 2014	Developing Asia as investor 2015
Total	**268 776**	**323 271**	**190 622**	**243 389**
Primary	6 270	8 598	5 846	2 349
Mining, quarrying and petroleum	6 270	8 598	5 824	2 349
Manufacturing	135 231	135 054	86 854	94 507
Chemicals and chemical products	16 029	17 813	7 293	10 081
Electrical and electronic equipment	22 236	34 394	18 069	23 161
Motor vehicles and other transport equipment	35 319	16 959	21 606	11 078
Services	127 274	179 618	97 922	146 534
Electricity, gas and water	20 405	72 215	15 431	60 121
Construction	31 440	43 080	38 162	50 132
Transport, storage and communications	18 054	14 294	10 511	9 442
Finance	18 499	14 776	11 117	8 862
Business services	23 633	16 574	12 752	6 541

Table D. Announced greenfield FDI projects by region/economy, 2014–2015 (Millions of dollars)

Partner region/economy	Developing Asia as destination 2014	Developing Asia as destination 2015	Developing Asia as investor 2014	Developing Asia as investor 2015
World	**268 776**	**323 271**	**190 622**	**243 389**
Developed economies	152 583	147 187	39 291	30 677
European Union	57 204	59 476	17 512	15 469
United States	40 926	41 952	13 904	7 792
Japan	34 817	32 187	2 601	2 030
Developing economies	114 079	171 542	140 440	194 709
Asia	111 803	170 013	111 803	170 013
China	21 073	39 879	28 965	25 422
India	8 913	6 100	6 890	27 960
Korea, Republic of	17 942	18 863	6 730	6 584
Singapore	12 483	22 370	1 431	985
United Arab Emirates	10 030	10 303	8 768	3 881
Transition economies	2 114	4 542	10 891	18 003

Developing Asia, with its FDI inflows surpassing half a trillion dollars, remained the largest FDI recipient region in the world. The 16 per cent growth was pulled by the strong performance of East and South Asian economies. Flows remained flat in South-East Asia while declining further in West Asia. Hong Kong (China) saw its FDI inflows jump by 53 per cent to $175 billion, partly due to corporate reconfiguration. FDI to India and Turkey increased by more than a quarter in 2015, while flows to China reached $136 billion – a 6 per cent increase. After the unusually high jump in values recorded in 2015, FDI inflows are expected to revert to their previous level of 2014. Despite the decline of outflows from developing Asia by 17 per cent to $332 billion, they remain the third highest recorded in the region.

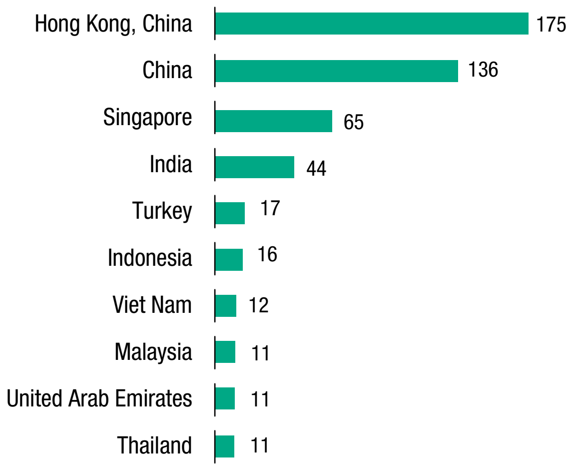
Inflows

Developing Asia is the largest recipient region of FDI inflows in the world, but a major part of FDI inflows are in relatively high-income and/or large economies in the region. In 2015, the four largest recipients – namely Hong Kong (China), China, Singapore and India – received more than three quarters of total inflows to developing Asia. However, inward FDI into other Asian economies is not small compared with the levels prevailing in other developing and transition regions, with countries such as Turkey, Indonesia and Viet Nam also receiving significant levels of FDI (figure II.1).

East Asia: huge inflows into Hong Kong (China) and China drove up FDI. Total inflows to the subregion rose by 25 per cent to $322 billion (figure II.2). With $175 billion in inflows in 2015, a 53 per cent increase over 2014, Hong Kong (China) became the second largest FDI recipient in the world after the United States. This increase was mainly due to a rise in equity investment, which resulted in part from a major corporate restructuring involving Cheung Kong Holdings and Hutchison Whampoa, under the control of the Li family (box II.1).

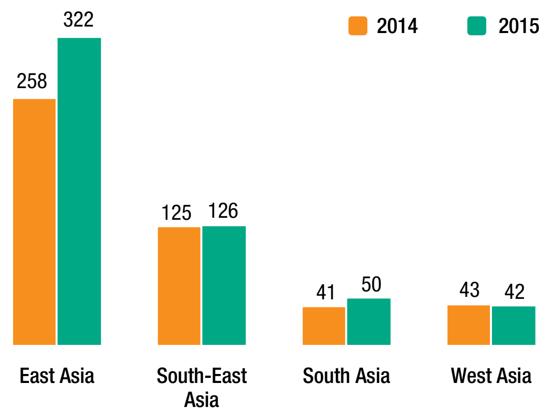
In China, inflows rose by 6 per cent to $136 billion and continued to shift towards services, which accounted for a new record of 61 per cent of FDI. Inflows to the sector expanded by 17 per cent, while FDI into manufacturing stagnated, resulting in its share of FDI flows dropping to 31 per cent. Rising wages and production costs, particularly in the coastal region, have put an end to the significant edge that China once held in manufacturing in general and labour-intensive production in particular. In some highly competitive manufacturing industries, however, Chinese companies have grown their market shares and moved up along the value chain. In 2015, domestic brands accounted for nearly four fifths of the production of smartphones in China, for instance. At the same time, market-seeking investment has become more important for foreign MNEs, as exemplified by

Figure II.1. Developing Asia: FDI inflows, top 10 host economies, 2015
(Billions of dollars)



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

Figure II.2. Developing Asia: FDI inflows, by subregion, 2014 and 2015
(Billions of dollars)



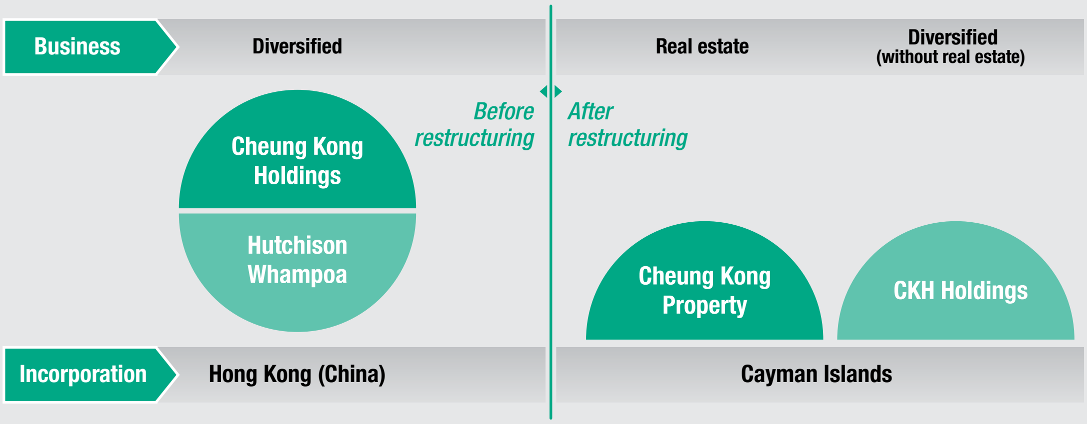
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Box II.1. Restructuring of Cheung Kong Holdings and Hutchison Whampoa in Hong Kong, China

Through a sweeping restructuring in 2015, the conglomerate under the control of Li Ka-shing and his family has reshuffled its main businesses and switched its base of incorporation from Hong Kong (China) to the Cayman Islands. The restructuring involved previous Cheung Kong Holdings and Hutchison Whampoa, the two flagship companies, which had a total market capitalization of HK$660 billion.

According to the restructuring plan, all real estate businesses of the two companies were injected into a new entity, Cheung Kong Property Holdings, to be listed separately in the Hong Kong Stock Exchange. All other businesses, including energy, ports, retail and telecommunications, were put into the newly formed CK Hutchison Holdings (CKH Holdings), incorporated in the Cayman Islands (box figure II.1.1).

Box figure II.1.1. Restructuring of Cheung Kong Holdings and Hutchison Whampoa, structures before and after transactions



Source: ©UNCTAD, based on company press releases and media accounts.

A number of M&A transactions were involved in this process. For instance, Cheung Kong Holdings paid $24 billion in stock to buy out Hutchison Whampoa and spun off its property assets. Investors had to swap their shares in Cheung Kong Holdings for stakes in CKH Holdings.

Through this reconfiguration, the "layered holding structure" has been removed. More important, the conglomerate has been separated into a property business in Hong Kong (China) and a diversified business with a growing portfolio of assets located in more than 50 countries. As both companies became incorporated in the Cayman Islands, this restructuring led to a significant increase in FDI inflows into Hong Kong (China) in statistical terms in 2015.

Source: ©UNCTAD.

the automotive industry, in which MNEs continue to invest heavily, as the Chinese car market – already the largest in the world – becomes increasingly central to their global strategy. In this industry, foreign automakers' investments are increasingly targeting populous inland regions.[2]

FDI inflows to the Republic of Korea, another major recipient, declined by 46 per cent to $5 billion, due to a major divestment by Tesco (United Kingdom). To consolidate its global operation and focus more on the home market, the foreign supermarket chain sold its Korean affiliate to a group of investors led by the local private equity firm MBK Partners for $6 billion in August 2015.[3]

South-East Asia: FDI to low-income economies soared but was offset by the lacklustre performance of higher-income countries. FDI inflows to South-East Asia (10 ASEAN member States and Timor-Leste) increased slightly, by 1 per cent, to $126 billion in 2015. Inflows to Singapore, the leading recipient country in ASEAN, dropped by 5 per cent to $65 billion, and the total amount of announced greenfield investments by MNEs in the country decreased from $12 billion in 2014 to $8 billion in 2015. Short-term economic uncertainties led to a decline of FDI inflows to Indonesia by 29 per cent to $16 billion. In contrast, inflows to Thailand tripled, reaching $11 billion, although that amount is still much lower than those recorded in 2012 and 2013.

Low-income countries in ASEAN continued to perform well. In particular, FDI inflows to Myanmar soared by almost 200 per cent, to about $3 billion. In August 2015, the Governments of Myanmar and Thailand signed an agreement to develop the Dawei Special Economic Zone in the former, for a total investment of $8.6 billion, to be implemented in two phases. FDI flows to Myanmar are therefore set to continue performing well, as the construction of such foreign-invested industrial zones will help boost FDI into both infrastructure and manufacturing. FDI flows to Viet Nam remained on an upward trend, as leading MNEs in the electronics industries continued to expand their production facilities in the country. After establishing a $1.4 billion production facility in the Saigon Hi-Tech Park in Ho Chi Minh City, Samsung – already the largest investor in Viet Nam – announced a $600 million expansion plan in late 2015.[4] As a result of such investment in recent years, Samsung already produces more mobile phones in Viet Nam than in China.

South Asia: an increase of FDI thanks to an upswing of flows to India. As a result of rising FDI in India, total inflows to South Asia increased by about 22 per cent to $50 billion – surpassing FDI into West Asia. India became the fourth largest recipient of FDI in developing Asia and the tenth largest in the world, with inflows reaching $44 billion. New liberalization steps enacted since the inauguration of the new Government have contributed to attracting FDI from all quarters. In 2015, the top sources of equity investment (equivalent to 88 per cent of FDI in 2015) were Singapore, Mauritius, the United States, the Netherlands, Japan, Germany, the United Kingdom, China, Hong Kong (China) and the United Arab Emirates, in that order. Singapore and Mauritius alone accounted for nearly three fifths of total foreign equity investment in India, including rising connections with MNE affiliates located in the former and round-tripping FDI through the latter.[5] At the same time, India is maintaining FDI inflows from developed-country sources, especially Europe and the United States.

Thanks to rising FDI in labour-intensive manufacturing, inflows to Bangladesh jumped by 44 per cent to $2.2 billion, a historically high level. However, inflows to Pakistan and Sri Lanka declined, to $865 million and $681 million, respectively. In the Islamic Republic of Iran, FDI inflows have declined for three consecutive years, to $2 billion in 2015; but the lifting of sanctions should prove an impetus for further FDI flows. In Nepal, FDI inflows rose by 74 per cent to $51 million in 2015.

West Asia: rising inflows to Turkey partly offset the impact of commodity prices on oil-producing economies. Overall FDI to West Asia decreased by 2 per cent to $42 billion. Inflows to Turkey, the largest recipient in the subregion, rose by 36 per cent to $17 billion. The significant increase, boosted by a surge in cross-border M&As, has made Turkey the fifth largest FDI recipient in developing Asia as a whole. Financial services became a major industry target, as highlighted by a $2.5 billion acquisition of Turkiye Garanti Bankasi AS by Banco Bilbao Vizcaya (Spain). Investors from Qatar accounted for a high share of cross-border M&A sales: Mayhoola bought a 31 per cent stake in Boyner Perakende (a Turkish retailer) for $330 million; Bein Media Group acquired Digiturk (Turkey's biggest pay-television network) for an undisclosed amount.

Depressed oil prices and geopolitical uncertainty continued to affect FDI to oil-producing West Asian countries, with inflows remaining at low levels in Qatar and Saudi Arabia. In Bahrain, inflows declined from $1.5 billion in 2014 to a negative $1.5 billion in 2015, reflecting major foreign divestments. FDI flows to the United Arab Emirates were stable at $11 billion.

Outflows

Combined FDI outflows from developing Asia dropped by about 17 per cent to $332 billion in 2015. Despite declining overall outflows across the four subregions, FDI expanded from a number of Asian economies, including China and Thailand. In 2015, the largest investing economies – China, Hong Kong (China), Singapore and the Republic of Korea (in that order) – accounted for three quarters of total outflows from developing Asia (figure II.3).

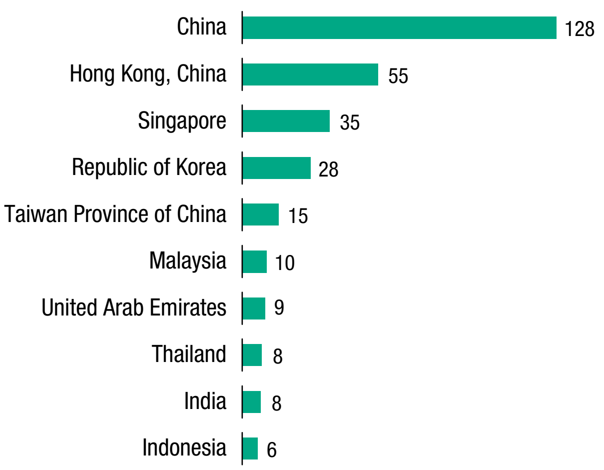
East Asia: China's foreign investment broke new records, while divestments weigh on FDI from Hong Kong (China). FDI outflows from East Asia dropped by 22 per cent to $226 billion in 2015 (figure II.4). Outward investment from China rose by about 4 per cent to $128 billion. As a result, China remained the third-largest investing country worldwide, after the United States and Japan. It has emerged as a leading investor in developed economies, undertaking a number of cross-border M&A megadeals (box II.2). In the developing world, China has become a leading investor in African countries: in the United Republic of Tanzania, for example, it has become the second largest foreign investor, with Chinese MNEs having invested $2.5 billion in about 500 projects, 70 per cent of which are in manufacturing.

After a surge of outward FDI in 2014, investment from Hong Kong (China) more than halved, to $55 billion. Over the past few years, FDI by conglomerates in Hong Kong (China) has become a major source of investment in the United Kingdom, particularly in infrastructure industries such as electricity, water and telecommunications. The Li family's conglomerate alone owns about $45 billion in assets in the United Kingdom. The conglomerate, however, has divested an estimated $13 billion from real estate in China, partly associated with its strategic corporate restructuring (see box II.2). This operation contributed to the sharp decline of outflows from Hong Kong (China) in 2015, as divestment is normally recorded as negative outflows in FDI statistics.

Outflows from the Republic of Korea remained at $28 billion. The global expansion of major Korean MNEs, such as Samsung, continues to translate into significant outflows, increasingly to low-income economies within the region, especially in Viet Nam. Meanwhile, FDI flows from Taiwan Province of China rose significantly, by 16 per cent to $15 billion, reflecting further expansion by its advanced manufacturing MNEs in mainland China.

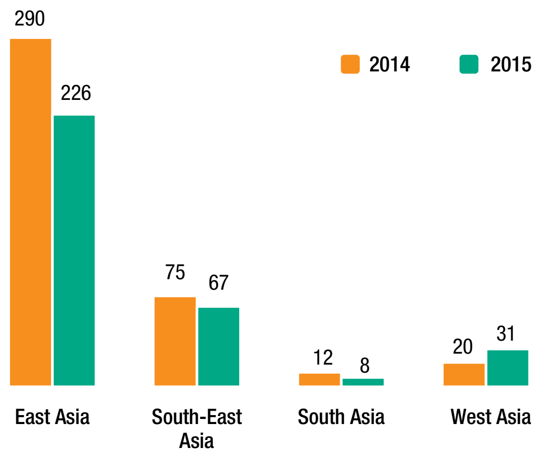
South-East Asia: outward investment was mainly concentrated in Asia. FDI outflows from South-East Asia decreased by 11 per cent to $67 billion. After a large increase in FDI outflows in 2014, investments from Singapore, the leading outward investing economy in the subregion, declined by 9 per cent to $35 billion – still the third highest on record.

Figure II.3. **Developing Asia: FDI outflows, top 10 home economies, 2015**
(Billions of dollars)



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

Figure II.4. **Developing Asia: FDI outflows, by subregion, 2014 and 2015**
(Billions of dollars)



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

Box II.2. Chinese companies are proactively pursuing M&As in developed countries

China has become one of the largest investing countries in some developed countries. This position was further consolidated as Chinese companies undertook a number of megadeals in 2015 and early 2016:

- **Haier's acquisition of GE Appliances (United States).** The largest home appliance maker in China, privately owned Haier generated $30 billion in global revenues in 2015. The company has been active in the United States for 18 years, but its sales there stood at $500 million, only 2 per cent of the market. To enlarge its market share in the United States, Haier acquired GE Appliances – which generated $6 billion in revenues in 2014 – for $5.4 billion. This was significantly higher than the price offered by Electrolux (Sweden) in 2014.
- **Wanda's purchases in the United States.** Privately owned Wanda Group has undertaken a series of large acquisitions in the entertainment industry in the United States. After the purchase of AMC Theaters for $2.6 billion in 2012, Wanda acquired Legendary Entertainment for $3.5 billion in January 2016. Two months later, the newly acquired AMC announced that it would buy Carmike Cinemas for $1.1 billion, further strengthening Wanda's market position in the United States.
- **ChemChina's purchases in Europe.** Chinese companies have become more and more active in Europe as well. For instance, ChemChina bought into Pirelli PECI.MI (Italy) in a €7 billion transaction in late 2015. The State-owned company also agreed a deal to buy Syngenta (Switzerland) for $44 billion in February 2016.
- **COSCO's deal for Piraeus Port.** In 2016, shipping company COSCO bought a stake in Piraeus Port, the largest harbour in Greece. Under the agreement, COSCO will acquire 67 per cent of the listed Piraeus Port Authority, invest €350 million over the next decade and pay an annual fee to the Greek Government to run the port.

Source: ©UNCTAD.

In addition to major destinations such as China, Indonesia, Malaysia and Thailand, Singaporean investors increasingly targetted lower-income countries: between April 2015 and March 2016, approved FDI projects by Singaporean investors in Myanmar amounted to more than $4.3 billion.

Thailand's outward investment soared by 76 per cent to $8 billion, driven by large greenfield investments in infrastructure and industrial zones in neighbouring countries. Announcements of planned investments suggest this trend is likely to continue. Large cross-border M&As also contributed to the growth.

South Asia: after a boom in 2014, FDI outflows declined sharply. Outward FDI from India, the dominant investor in the subregion, dropped by more than one third to $7.5 billion – which resulted in an overall 36 per cent decline of outflows from South Asia to $8 billion. The decline in commodity prices and problems of overcapacity in industries such as steel have negatively affected some of the largest Indian conglomerates' motivation and ability to invest abroad.

FDI outflows from Bangladesh rose slightly to $46 million, while those from the Islamic Republic of Iran jumped from $89 million in 2014 to $139 million in 2015. For the latter country, the end of sanctions means access to more than $50 billion in frozen assets and rising oil incomes, which could help boost outward FDI.

West Asia: outward FDI resumed an upward trend. Outflows from West Asia soared by 54 per cent to $31 billion, mainly due to the turnaround by Kuwait, a major investor in the subregion. Outflows from the United Arab Emirates rose by 3 per cent to $9.3 billion, while those from Saudi Arabia increased by 2 per cent, remaining above $5 billion. Regional tensions may have hampered outward FDI flows from Turkish MNEs, which fell by 28 per cent to $4.8 billion.

Prospects

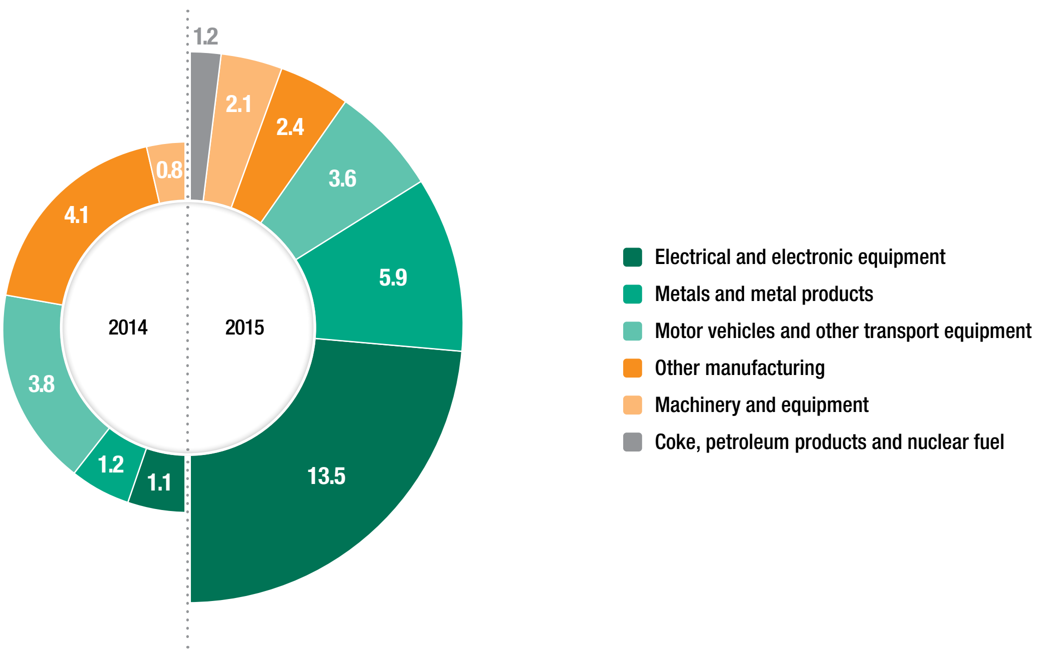
Hindered by the current global and regional economic slowdown, FDI inflows to Asia are expected to decline in 2016 by about 15 per cent, reverting to their 2014 level. Data on cross-border M&A sales and announced greenfield investment projects support the expected decline. For instance, cross-border M&As in the region announced in the first quarter of 2016 were $5 billion, only 40 per cent of the same period in 2015. In addition, the number of greenfield projects announced in 2015 was 5 per cent lower than in 2014.

There are indications that intraregional investments are rising: 53 per cent of announced greenfield projects in developing Asia by value in 2015 were intraregional, especially from China, India, the Republic of Korea and Singapore (table D). Among the most important industries driving this intraregional development are infrastructure and electronics (table C). The rise of investments from Singapore to India exemplify this trend.

FDI flows to some Asian economies such as China, India, Myanmar and Viet Nam are likely to see a moderate increase in inflows in 2016. During the first four months of 2016, FDI inflows in non-financial sectors in China amounted to $45 billion, 5 per cent up from the same period in 2015. In India, the large increase of announced greenfield investments in manufacturing industries (figure II.5) may provide further impetus to FDI into the country.

Viet Nam is expected to continue strengthening its position in regional production networks in industries such as electronics, while Myanmar is likely to receive increasing levels of FDI inflows in infrastructure, labour-intensive manufacturing and extractive industries. Announced greenfield projects in Myanmar totalled $11 billion in 2015 and $2 billion in the first quarter of 2016, pointing to sustained FDI inflows in the near future.[6] In addition, on the basis of greenfield announcements in 2015, a number of other economies may perform better, including Bhutan, the Islamic Republic of Iran and Pakistan.

Figure II.5. **India: industry distribution of announced greenfield investments in manufacturing, 2014 and 2015** (Billions of dollars)



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

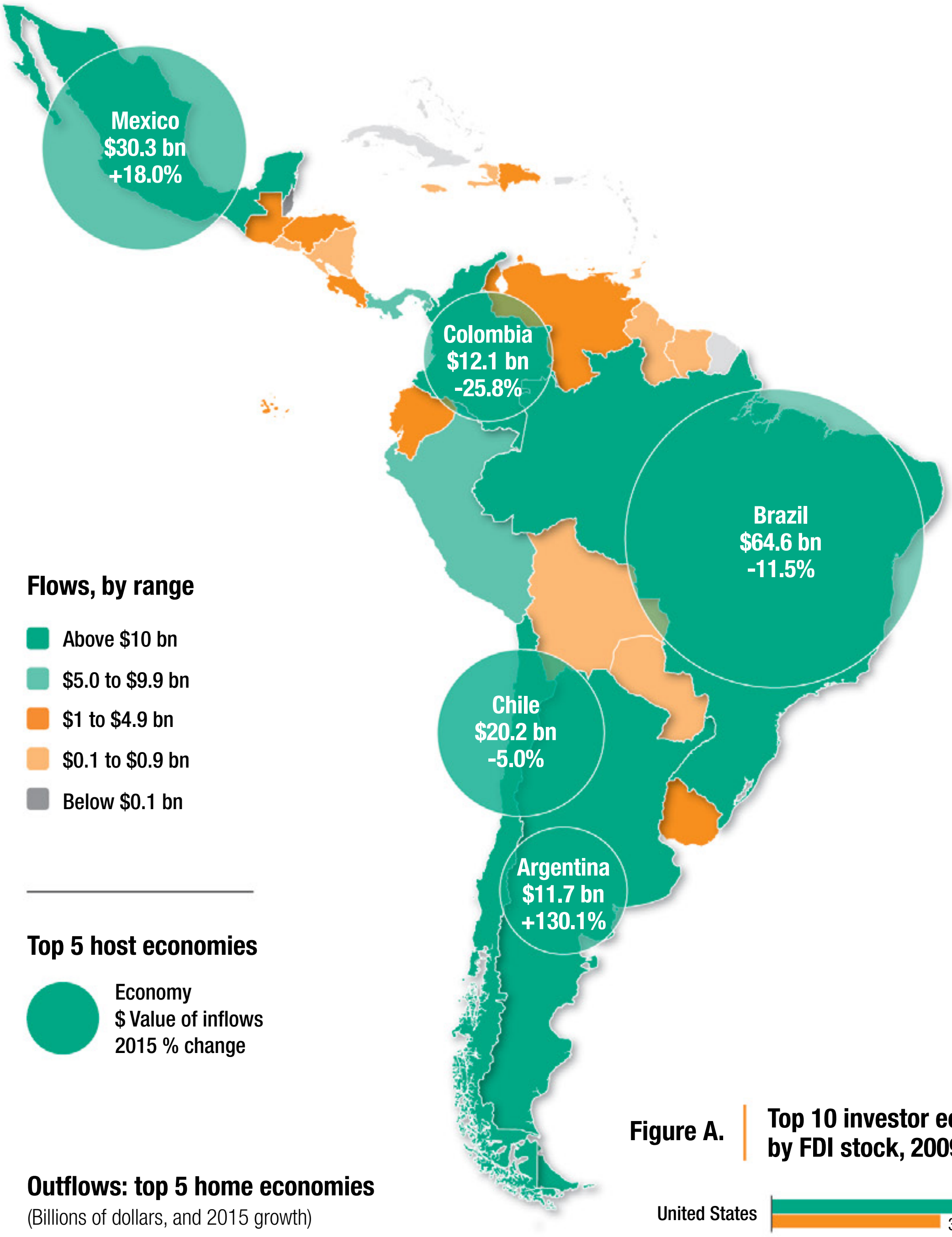
LATIN AMERICA & THE CARIBBEAN

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
167.6 bn

2015 Decrease
-1.6%

Share in world
9.5%



Outflows: top 5 home economies
(Billions of dollars, and 2015 growth)

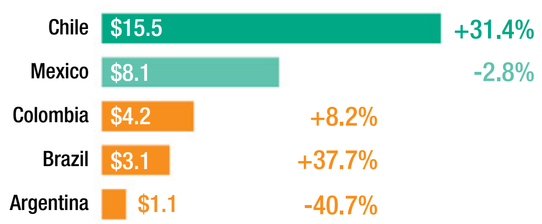
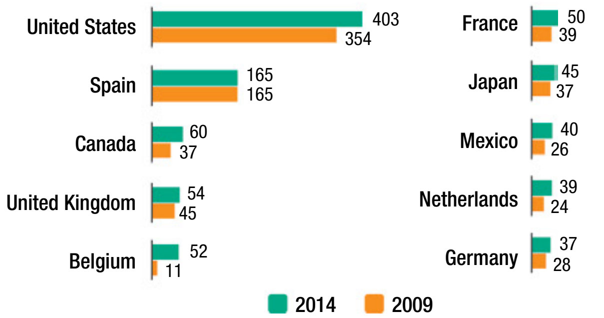


Figure A. **Top 10 investor economies, by FDI stock, 2009 and 2014** (Billions of dollars)



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

- FDI flows to South America dipped as its terms of trade further weakened
- Manufacturing FDI made gains in Central America
- Flows set to decline in 2016

Figure B. FDI inflows, 2009–2015 (Billions of dollars and per cent)

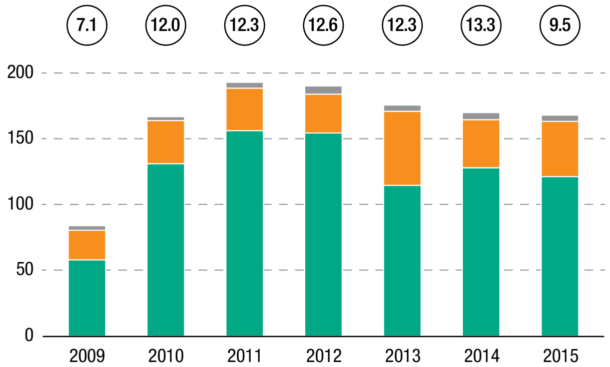
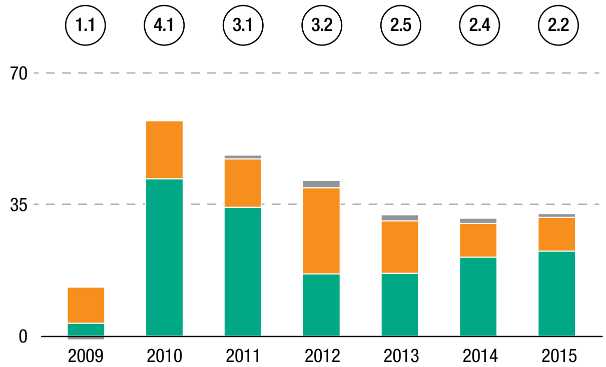


Figure C. FDI outflows, 2009–2015 (Billions of dollars and per cent)



Central America | South America | Caribbean, excluding financial centres | Share in world total

Table A. Cross-border M&As by industry, 2014–2015 (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**25 565**	**12 134**	**8 490**	**5 340**
Primary	392	638	-2 756	1 607
Mining, quarrying and petroleum	188	631	-2 571	1 607
Manufacturing	3 050	9 572	3 690	5 072
Food, beverages and tobacco	-31	5 042	1 963	4 674
Coke and refined petroleum products	-5 317	-	-	-24
Basic metal and metal products	40	1 671	52	-
Non-metallic mineral products	300	2 432	1 375	-58
Services	22 122	1 924	7 557	-1 339
Electricity, gas, water and waste management	4 805	3 961	840	1 141
Transportation and storage	5 510	682	400	355
Information and communication	2 483	-6 555	219	-7 060
Financial and insurance activities	5 994	1 198	5 241	3 820

Table B. Cross-border M&As by region/economy, 2014–2015 (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**25 565**	**12 134**	**8 490**	**5 340**
Developed economies	17 987	6 278	8 131	733
Europe	-1 548	-6 860	4 214	-4 331
North America	11 115	11 143	3 916	3 458
Other developed countries	8 420	1 995	-	1 606
Developing economies	6 861	5 296	359	4 607
Africa	1 094	-50	400	-
Latin America and the Caribbean	-201	4 497	-201	4 497
South America	288	3 540	-1 041	3 753
Central America	-488	922	840	666
Asia and Oceania	5 968	849	160	110
South, East and South-East Asia	4 968	849	-	110
Transition economies	601	556	-	-

Table C. Announced greenfield FDI projects by industry, 2014–2015 (Millions of dollars)

Sector/industry	LAC as destination 2014	LAC as destination 2015	LAC as investor 2014	LAC as investor 2015
Total	**88 866**	**73 496**	**8 675**	**8 656**
Primary	11 097	1 594	22	22
Manufacturing	33 022	35 048	3 601	3 710
Food, beverages and tobacco	2 859	2 967	1 470	1 269
Coke, petroleum products and nuclear fuel	1 280	6 873	269	65
Non-metallic mineral products	464	1 419	167	1 166
Electrical and electronic equipment	2 665	2 206	86	77
Motor vehicles and other transport equipment	17 265	12 038	263	170
Services	44 746	36 853	5 052	4 923
Electricity, gas and water	11 663	16 733	453	430
Trade	2 550	2 085	1 059	853
Transport, storage and communications	18 141	8 748	2 215	1 752
Finance	4 110	3 471	962	652

Table D. Announced greenfield FDI projects by region/economy, 2014–2015 (Millions of dollars)

Partner region/economy	LAC as destination 2014	LAC as destination 2015	LAC as investor 2014	LAC as investor 2015
World	**88 866**	**73 496**	**8 675**	**8 656**
Developed economies	68 559	59 613	1 852	1 824
Spain	9 684	9 803	80	150
United Kingdom	5 020	1 347	334	119
Canada	10 358	3 301	-	18
United States	23 856	21 061	1 257	1 244
Developing economies	20 198	13 747	6 745	6 832
China	8 072	3 700	282	179
Korea, Republic of	3 813	2 508	14	60
Latin America and the Caribbean	6 178	5 635	6 178	5 635
South America	3 250	3 417	4 294	4 462
Central America	2 648	1 992	1 120	772
Transition economies	109	136	78	-

FDI flows to Latin America and the Caribbean – excluding the Caribbean offshore financial centres – registered little change, as significant declines in the region's largest recipient – Brazil – and in Colombia were offset by increases in Mexico and Argentina. Slowing domestic demand and a worsening of the terms of trade caused by plummeting commodities prices hampered FDI flows. Net cross-border M&As sales registered a significant retreat (down 53 per cent), largely due to a sizeable telecommunications divestment in Brazil. During the year a clear gap opened between FDI in South America and in Central America, the latter performing significantly better in terms of economic growth and investment. FDI prospects remain muted in the region and may fall further in 2016.

Inflows

FDI to Latin America and the Caribbean – excluding the Caribbean offshore financial centres – stayed flat in 2015 at $168 billion.

FDI flows to Central America made gains in 2015, rising 14 per cent to $42 billion, mainly into manufacturing. Strong flows to Mexico (up 18 per cent to $30 billion) were the principal motor of FDI growth in Central America. FDI in automotive manufacturing continued to rise (up 31 per cent to $6 billion), reflecting the realization of at least some of the $26 billion in greenfield projects announced between 2012 and 2014. Cross-border M&A sales in the country rose significantly on the back of the completion of a number of megadeals, including the purchase of Grupo Lusacell SA de CV, a wireless telecommunications provider, by AT&T (United States) for $2.5 billion and the acquisition of Vitro SAB de CV, a glass and plastic bottling manufacturer, by Owens-Illinois Inc. (United States) for $2 billion. FDI flows in mining in Mexico retreated, falling from $2 billion to a net divestment of $29 million in 2015, reflecting the continued decline in minerals and metals prices (chapter I), as well as the sector's adjustment to a new fiscal framework that took effect at the beginning of the year.

Although FDI flows held steady or dipped slightly in other Central American countries, manufacturing investment proved to be resilient across the subregion, bolstered by continued growth in the United States, the primary trade partner. In El Salvador, despite a sharp decline in FDI in the information and communications industries, FDI flows rose by 38 per cent as FDI in manufacturing tripled. In Guatemala, in contrast, slowing FDI in the primary sector and a slump in FDI in retail and wholesale trade were largely responsible for the decline in inflows (down 13 per cent). Flows to Honduras rose moderately (up 5 per cent), with lower FDI across a number of sectors being offset by an increase in maquila-related manufacturing and a near doubling in financial and business services.

Elsewhere in Central America, FDI flows to Costa Rica rose slightly (by 4 per cent) as an increase in FDI in manufacturing and agriculture (from $64 million in 2014 to $467 million) was offset by a sharp reduction in FDI in real estate, which had accounted for more than a quarter of inflows in 2014. In Panama, rising reinvested earnings and greater inflows of intracompany loans to non-financial enterprises supported a 17 per cent increase in FDI inflows.

South America saw its FDI flows fall by 6 per cent to $121 billion, reflecting slowing domestic demand and worsening terms of trade caused by plummeting commodity prices. Investment in the region's extractive sector tapered in line with the deterioration of the prices of the region's principal commodities exports. To some extent, this reflected a slowdown in project execution, especially as MNEs in the sector grappled with the high levels of debt they had taken on during the boom years. However, FDI flows into the sector – and in South America more generally – were strongly affected by a decline in reinvested earnings, reflecting the impact of lower prices on profit margins. Governments in the region have taken a number of measures to bolster production and investment, reflecting the importance of the sector as a source of investment, foreign exchange and public revenues (box II.3).

FDI flows to Brazil, the region's principal recipient, fell 12 per cent to $65 billion. Overall investment activity in Brazil – measured by gross fixed capital formation – plummeted throughout the year, registering a cumulative decline of 14 per cent in real terms by the end of 2015. With the economy tipping into recession and corporate profits declining, reinvested earnings tumbled 33 per cent. FDI equity inflows were resilient, posting a modest 4 per cent gain. Despite a slump in car production, equity investment in the automotive industry rose sharply, as previously announced projects moved forward. FDI in the health care industry also surged, with equity inflows rising from $16 million to $1.3 billion, in response to the adoption of Law 13.097 in January, which created new opportunities for foreign investors. The falling value of the real also created opportunities to buy Brazilian assets at a discount. British America Tobacco Plc (United Kingdom), for example, purchased the outstanding shares that it did not own in its affiliate Souza Cruz S.A. for $2.45 billion. Nonetheless, significant declines in equity investment were registered in industries related to infrastructure.

An acceleration in the decline of minerals and metals prices significantly affected flows to Chile (down 5 per cent) and Peru (down 13 per cent). In Chile, the fall in FDI reflected a significant decline in new equity, due in part to unusually high activity in 2014 – when four acquisitions in excess of $1 billion were recorded. In Colombia, the overall decline in FDI (down 26 per cent) was driven by falling flows in the petroleum sector and in mining, which was softened by rising FDI in retail trade. Flows to the Plurinational State of Bolivia likewise retreated, falling 22 per cent, as FDI in the country's hydrocarbons sector declined in line with lower export prices.

FDI in the oil sector in Ecuador halved in 2015, but overall inflows rose 37 per cent on the back of significant flows in business services and manufacturing (principally due to a large investment from Peru). Likewise, in the Bolivarian Republic of Venezuela, despite FDI to the country's oil sector falling to a net divestment, overall inflows rose sharply led by an increase in intracompany loans to the non-oil sector.

In Argentina, FDI surged 130 per cent, although this is in part due to comparison with the abnormally low flows in 2014 when the Government compensated Repsol (Spain) for the nationalization of its majority-owned subsidiary YPF S.A. Excluding that transaction, inflows posted a more moderate increase of 15 per cent. FDI flows to Paraguay dipped 18 per cent, driven by lower equity inflows,

Box II.3. Investment promotion efforts for the extractive industry in South America

In an effort to boost production, South American governments actively stepped up their FDI attraction and retention efforts in the extractive sector during 2015. At the end of 2014, the Government of Argentina had revised tax rates for hydrocarbons exports again, adopting a new sliding scale for certain products, including crude oil, to bolster the competitiveness of domestic producers. Under the new system, exporters pay a tax rate of only 1 per cent when the price of Brent crude is below $79, compared with rates of up to 13 per cent under the regime adopted earlier in 2014. In February 2015, the Government announced the creation of the Crude Oil Production Stimulus Program (Programa de Estimulo a la Producción de Petróleo Crudo), through which it was set to pay production and export subsidies, up to $6 per barrel, during the 2015 calendar year.

In October, the Government of Ecuador presented a portfolio of 25 new mining exploration areas, as well as 17 oil blocks, as part of an effort to attract greater investment, especially foreign investment, in exploration and production during the 2016–2020 period. In December, the Government of the Plurinational State of Bolivia enacted a law for the promotion of investment in the exploration and exploitation of hydrocarbons (Ley de Promoción para Inversión en Exploración y Explotación Hidrocarburífera). The law stipulates that a portion of the revenues generated from the Direct Hydrocarbons Tax (IDH) will be deposited in a fund to finance production incentives meant to promote greater investment, and increase the country's reserves and output of hydrocarbons.

Some of these efforts have already generated substantial FDI commitments. In Argentina, for example, Chevron Corporation (United States) and Petronas (Malaysia) have initiated projects – both with FDI in excess of $1 billion over the lifetime of the projects – to further explore oil and shale gas in the country's Vaca Muerta formation. Total (France) and BG Gas (United Kingdom) have also announced plans to invest $1.1 billion to expand exploration and production of natural gas in the Plurinational State of Bolivia in the coming years.

Source: ©UNCTAD.

which more than halved. Uruguay also experienced a decline in FDI (down 25 per cent), largely due to lower investment in real estate and in the purchase of land.

FDI flows to Caribbean economies retreated 12 per cent, led by a sharp decline in Trinidad and Tobago. The decline of inflows in the country (down 35 per cent), the largest recipient of FDI in the subregion, reflected the unusually high level of FDI in 2014 owing to the sale of Methanol Holdings Trinidad Limited for $1.2 billion. Excluding this transaction, flows fell a more moderate 9 per cent. FDI in the Dominican Republic was largely unchanged (up 0.6 per cent), with a doubling of flows in tourism and real estate offsetting declining flows into electricity generation. In Jamaica the rise of inflows by 34 per cent was associated with activity in the hotel sector as well as FDI in infrastructure and business process outsourcing.

Outflows

Decelerating economic growth and depreciating currencies strongly affected the composition of outward FDI flows from the region. During the past decade, the region's MNEs internationalized significantly, in many cases thanks to cheap financing in United States dollars. Debt issuance by companies from Brazil, Chile, Colombia, Mexico and Peru jumped between 2007 and 2014 (IMF, 2015b). As regional economic growth slows and national currencies tumble relative to the dollar, debt repayments are now beginning to rise, often at the expense of capital expenditures and acquisitions. New equity investments – which encompass M&As as well as the establishment of new affiliates and projects – evaporated throughout the year, falling from $10 billion in the first quarter to just $2 billion in the last quarter of the year. Likewise, the value of cross-border M&As carried out by the region's MNEs fell 37 per cent in value to $5 billion, its lowest level since 2008.

Despite this difficult context, FDI outflows from the region rose 5 per cent to $33 billion in 2015, driven principally by changes in debt flows. In Brazil outward FDI rose a surprisingly strong 38 per cent, despite a marked decline in equity investment. This increase predominantly reflected a significant reduction in reverse investment by Brazilian foreign affiliates. In recent years, these subsidiaries raised significant debt in international markets and funnelled the proceeds to their Brazilian parents through intracompany loans (Central Bank of Brazil, 2015). These transactions, which subtract from outflows when calculated on a directional basis, totalled $24 billion in 2014, before falling to $11 billion in 2015. Given their magnitude, these flows have strongly affected the region's overall trends in outward FDI.

In Chile, outflows rose 31 per cent to $16 billion, due entirely to a large increase in the provision of intracompany loans to foreign affiliates; equity investment and reinvested earnings both fell sharply. Chilean MNEs, especially in retail, had rapidly expanded their operations in Argentina and Brazil in recent years, where the deterioration in economic and financial conditions has weighed heavily on the operations of affiliates. For example, Cencosud (Chile) loaned $350 million to its subsidiary in Brazil, where interest rates are increasing, so that the latter could pay off its domestic debts. Intracompany loans were also boosted by a strong pass-through effect in the third quarter of the year, when debt inflows spiked to $7.7 billion and debt outflows to $9.4 billion.

Prospects

UNCTAD forecasts that FDI inflows in Latin America and the Caribbean could decline by 10 per cent in 2016, falling to $140–160 billion. Macroeconomic conditions will remain challenging, with the region projected to slip further into recession in 2016 (IMF, 2016). Weak domestic demand led by softening private consumption, coupled with the potential for further currency depreciation, will weigh on investment in domestic manufacturing as well as in the services sector. A further decline in the prices of the region's principal export commodities will likely serve to delay investment projects in the extractive industry as well as crimp reinvested earnings.

The value of announced greenfield projects dropped 17 per cent from 2014, to $73 billion, led by an 86 per cent decline in the extractive sector in 2015 (table C). This largely accords with the capital expenditure plans of the region's major State-owned oil companies – Petrobras (Brazil), Ecopetrol (Colombia) and Pemex (Mexico) – which also foresee a sharp reduction in their investment outlays in the medium term. Lower project announcement values were also registered in the services sector, due principally to a significant pullback in transportation and communications as well as in retail and wholesale trade. Preliminary data for the first quarter of 2016 suggest that greenfield investments will continue to be weak, with the number of projects falling 19 per cent and their value sliding 18 per cent, compared with the same period in the previous year. M&A activity in the first part of 2016 was also well below the quarterly average in previous years.

These trends notwithstanding, a number of factors point to an uptick in FDI inflows. For example, national currency depreciation may motivate the acquisition of assets in the region. Cross-border M&As in the first quarter of 2016 were up sharply (80 per cent), thanks to higher net sales in Brazil, Chile and Colombia, though the comparison is somewhat skewed by what was an extremely weak first quarter in 2015.

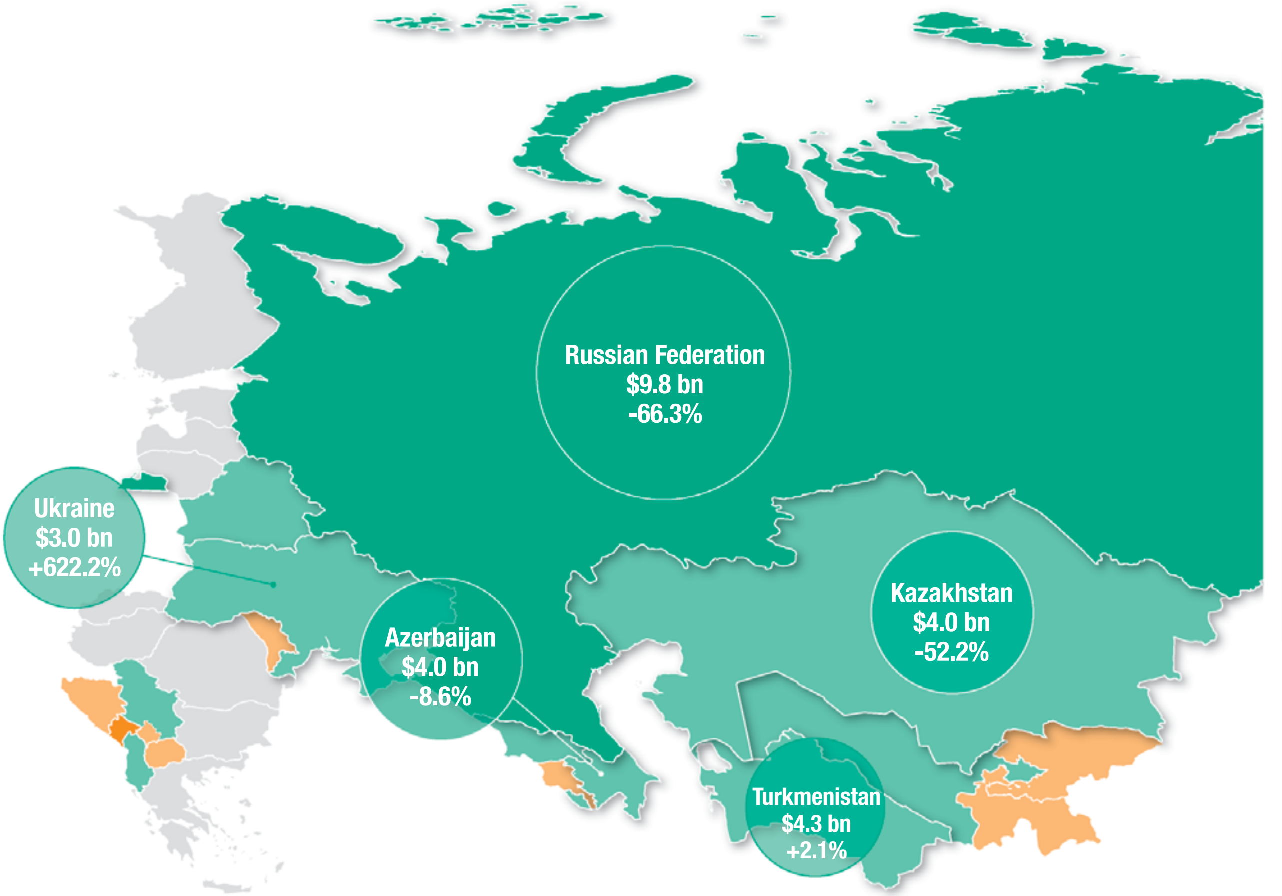
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
35 bn

2015 Decrease
-38%

Share in world
2%



Flows, by range

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

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies

(Billions of dollars, and 2015 growth)

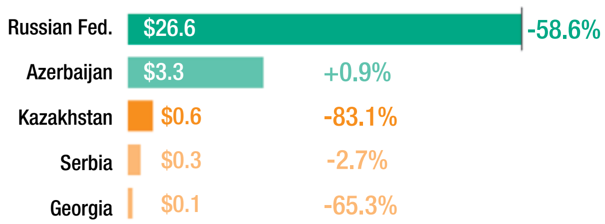
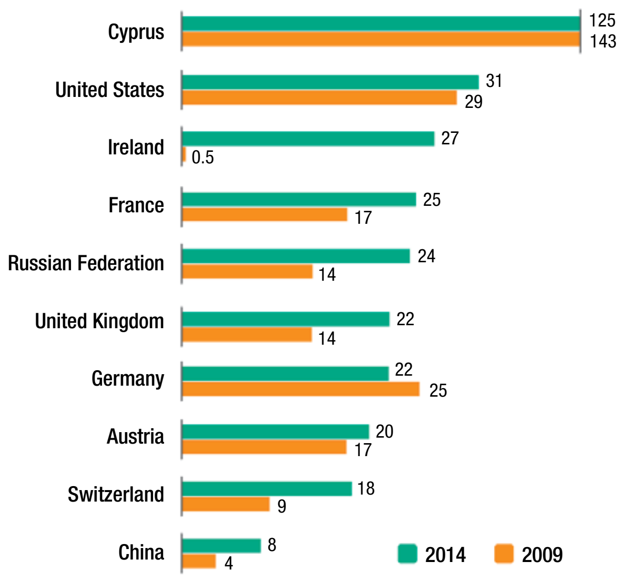


Figure A. Top 10 investor economies, by FDI stock, 2009 and 2014 (Billions of dollars)



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

- FDI flows to transition economies fell to their lowest level since 2005
- Reduced access to international capital markets hindered outward FDI
- Inflows are expected to increase modestly in 2016

Figure B. FDI inflows, 2009–2015 (Billions of dollars and per cent)

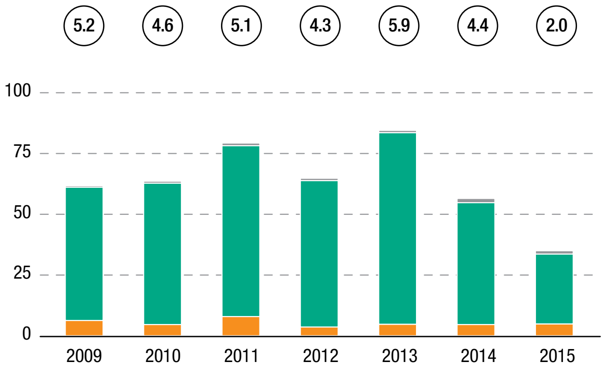
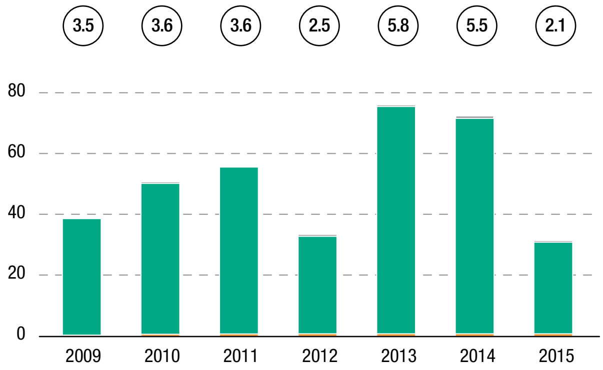


Figure C. FDI outflows, 2009–2015 (Billions of dollars and per cent)



Commonwealth of Independent States | South-East Europe | Georgia | Share in world total

Table A. Cross-border M&As by industry, 2014–2015 (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**4 125**	**9 421**	**1 558**	**4 358**
Primary	**2 907**	**7 953**	**2 526**	**3 859**
Mining, quarrying and petroleum	2 907	7 949	2 526	3 858
Manufacturing	**1 309**	**-355**	**-2 491**	**-304**
Coke and refined petroleum products	134	-300	59	-300
Pharmaceuticals, medicinal chemicals and botanical products	379	96	-	-
Basic metal and metal products	24	5	-2 406	-4
Motor vehicles and other transport equipment	750	-171	-	-
Services	**-91**	**1 822**	**1 524**	**803**
Electricity, gas, water and waste management	-1 267	244	-	281
Transportation and storage	57	159	13	3
Financial and insurance activities	-251	4	1 475	1 250
Business activities	1 361	1 201	-	-755

Table B. Cross-border M&As by region/economy, 2014–2015 (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**4 125**	**9 421**	**1 558**	**4 358**
Developed economies	**1 719**	**6 214**	**-251**	**6 419**
European Union	439	6 380	2 184	5 589
Cyprus	5 034	850	20	7
Netherlands	-1 284	-491	-	23
United Kingdom	-1 013	5 780	-	5 384
United States	487	-200	-2 414	-10
Developing economies	**1 363**	**4 406**	**857**	**-749**
South Africa	-6	1 200	-	-
China	1 642	1 121	-	-
Malaysia	-	2 250	-	-
Transition economies	**953**	**-1 312**	**953**	**-1 312**
Russian Federation	1 096	-1 288	-173	93

Table C. Announced greenfield FDI projects by industry, 2014–2015 (Millions of dollars)

Sector/industry	Transition economies as destination 2014	Transition economies as destination 2015	Transition economies as investor 2014	Transition economies as investor 2015
Total	**25 290**	**35 648**	**5 948**	**15 321**
Primary	**391**	**1 273**	**931**	**44**
Mining, quarrying and petroleum	391	1 273	931	44
Manufacturing	**15 215**	**21 434**	**1 719**	**9 480**
Food, beverages and tobacco	1 738	5 246	376	168
Coke, petroleum products and nuclear fuel	126	5 481	171	7 731
Metals and metal products	601	2 771	123	154
Motor vehicles and other transport equipment	4 311	1 156	319	522
Services	**9 684**	**12 941**	**3 298**	**5 797**
Electricity, gas and water	3 172	1 466	355	962
Construction	1 458	6 533	97	-
Transport, storage and communications	1 437	2 013	1 121	3 692
Finance	1 798	570	1 042	326

Table D. Announced greenfield FDI projects by region/economy, 2014–2015 (Millions of dollars)

Partner region/economy	Transition economies as destination 2014	Transition economies as destination 2015	Transition economies as investor 2014	Transition economies as investor 2015
World	**25 290**	**35 648**	**5 948**	**15 321**
Developed economies	**12 286**	**13 491**	**1 637**	**2 310**
European Union	9 562	10 933	1 473	2 005
Germany	2 044	1 622	118	142
United Kingdom	748	1 401	2	108
United States	1 747	981	34	200
Developing economies	**11 006**	**18 097**	**2 313**	**8 951**
Asia	10 891	18 003	2 114	4 542
China	8 338	4 745	805	738
United Arab Emirates	122	5 629	45	129
Viet Nam	64	3 734	7	140
Transition economies	**1 998**	**4 059**	**1 998**	**4 059**
Russian Federation	1 618	3 470	51	194

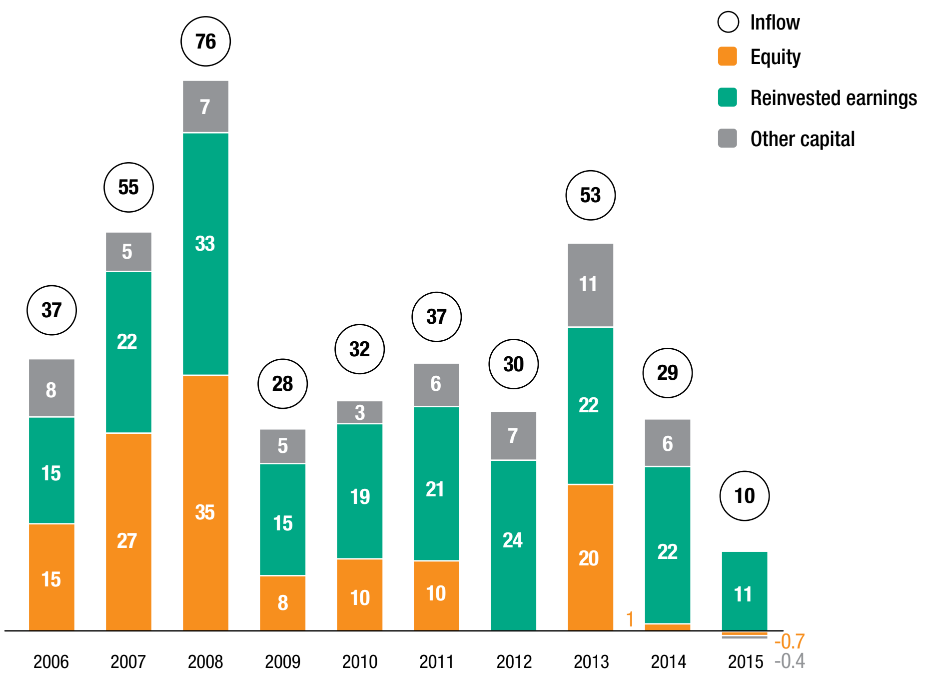
In 2015, FDI flows to and from transition economies declined further, to levels last seen almost 10 years ago. In the Commonwealth of Independent States (CIS), FDI inflows continued to contract sharply in a situation of low commodity prices, weakening domestic markets, regulatory changes, and the direct and indirect impacts of geopolitical tensions. South-East Europe recorded a modest rise of inflows, mainly in the manufacturing sector. Outward FDI from transition economies also slowed down, with acquisitions by Russian MNEs – the region's largest investors – hampered by sanctions and reduced access to international capital markets. After this slump, FDI flows to transition economies are expected to increase moderately, as large privatization plans announced in some CIS countries, if realized, will open new avenues for foreign investment.

Inflows

Reduced investment in the Russian Federation and Kazakhstan resulted in the lowest levels of FDI in transition economies in almost a decade. In 2015, FDI flows to transition economies fell by 38 per cent to $35 billion. The FDI performance of transition subgroups differed: in South-East Europe, FDI inflows increased by 6 per cent to $4.8 billion, as better macroeconomic situations and the EU accession process continued to improve investors' risk perception. In contrast, FDI flows to the CIS and Georgia declined by 42 per cent to $30 billion. The Russian Federation and Kazakhstan saw their FDI flows more than halve from their 2014 level, while flows to Belarus declined slightly. FDI to Ukraine, by contrast, increased more than seven times, to $3 billion.

The Russian Federation recorded FDI flows of $9.8 billion, a 66 per cent contraction from the previous year. FDI flows were mainly in the form of reinvested earnings, as new FDI flows almost dried up (figure II.6). Falling oil prices and geopolitical tensions continued to damage economic

Figure II.6. **Russian Federation: FDI inflows, total and by component, 2006–2015**
(Billions of dollars)



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

growth prospects and erode investor interest in the country. The scaling back of operations and a string of divestment deals resulted in negative equity flows. Likewise, intracompany loans declined from $6.4 billion in 2014 to –$0.4 billion in 2015 and may have also responded to currency movements. With consumer confidence weakening, some large MNEs reduced their presence in the country, especially in manufacturing (for example, General Motors (United States)) and banking (for example, Deutsche Bank (Germany) and Raiffeisen Bank (Austria)). Others completed their retreat from the country altogether (box II.4). A new law that limits FDI in all media to 20 per cent also triggered a string of divestment deals (Pearson (United Kingdom) and Dow Jones (United States), for example, sold their stakes in the Russian business newspaper Vedemosti, and the German group Axel Springer withdrew from the market).

The economic crisis and regulatory changes in the Russian Federation have also reduced the scale and scope of round-tripping FDI. Within less than two years, from 2013 to September 2015, FDI stock from Cyprus – the largest investor in, and recipient of, FDI from Russia – decreased by 50 per cent. Besides the depreciating currency, this contraction also reflects the economic difficulties affecting Russian investors that use Cyprus as an offshore base to reinvest back in the country. A new Russian anti-offshore law adopted at the end of 2014 is also biting. In addition, some of the investments in offshore centres are transhipped to third countries, rather than recycled back into the home country. This trend is the main reason for the drop in 2015 of the British Virgin Islands to eighth place in the ranking of the largest foreign investors in the Russian Federation (down from second in 2009), although the territory still remains the second largest destination of Russian outward FDI stock, according to the Bank of Russia (figure II.7).

In other resource-based economies in the CIS, the combined effects of a drop in energy prices, the deepening economic crisis in the region and economic slowdowns in major trading partners also had adverse effects. FDI flows to Kazakhstan more than halved, to $4 billion in 2015, reflecting the challenge of adjusting to a large terms-of-trade shock in a context of declining domestic and external demand. Foreign MNEs, mainly in the oil and gas industry, have shelved their spending on new projects, while low energy prices have shrunk their profits, resulting in negative reinvested earnings for the first time. FDI flows declined also in other Central Asian countries, as Russian investors reduced their presence in the region. In contrast, FDI flows to Ukraine increased from $410 million in 2014 to $3 billion in 2015, mainly owing to large recapitalization needs in the banking sector and the privatization of the 3G mobile network through licence sales.

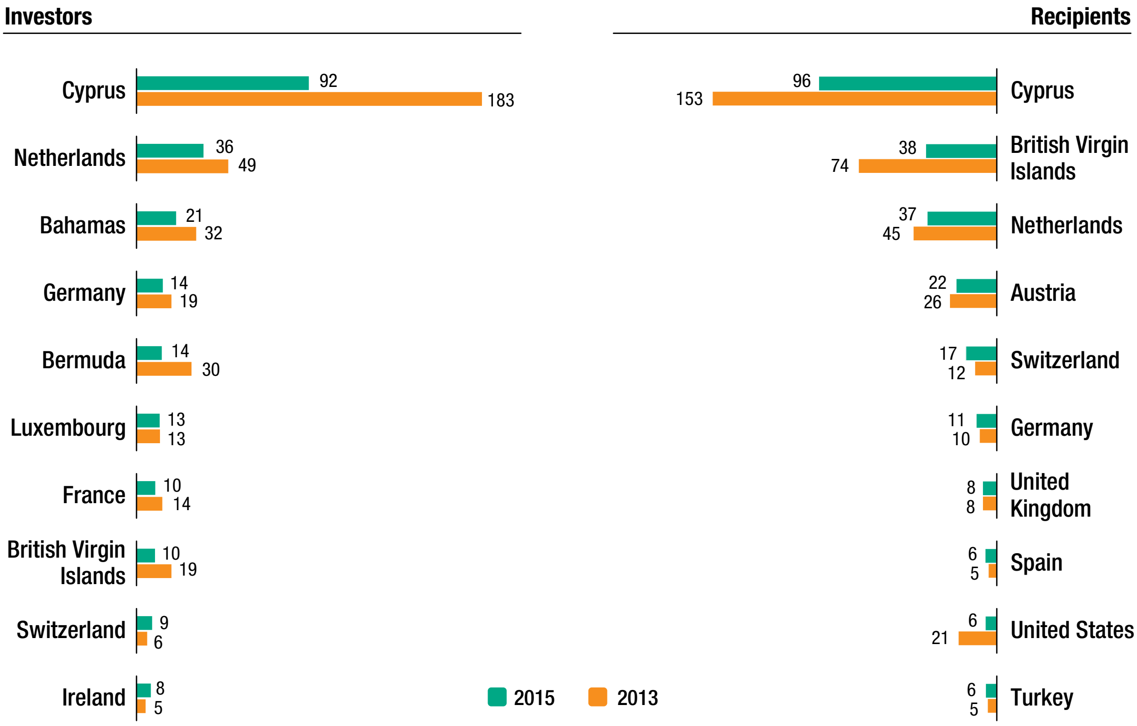
Box II.4. The divestment of ConocoPhillips from the Russian Federation

In 2015, ConocoPhillips (United States), one of the pioneers of foreign investment in the Russian oil and gas industry, completed a full divestment from the country by selling its share of the Polar Lights joint venture with Rosneft. Conoco's decision to leave the Russian Federation after more than 25 years highlights the challenges facing foreign investors in the country's energy sector, which has been hit by political tensions and a fall in oil prices.

Conoco's withdrawal was also the result of a string of disappointing investments in the country and a change of the company's strategic focus toward developed countries, and North America in particular. Before its merger with Phillips, Conoco was one of the earliest Western oil groups to invest in the Russian Federation, having started negotiations before the collapse of the Soviet Union. Its Polar Lights joint venture, registered in 1992, made it the largest foreign investor in the Russian energy sector in the early 1990s. In 2004, the company increased its commitment in the country, taking an 8 per cent stake in Lukoil, one of the country's largest oil producers, which it later raised to 20 per cent. However, the investment failed to give Conoco the access to the vast Russian oil and gas reserves that it had hoped for, and by 2011, it had sold off its stake. It also retreated from other parts of the region, selling a 30 per cent stake in a joint venture with Lukoil in 2012 and its stake in Kazakhstan's Kashagan field in 2013.

Source: ©UNCTAD, based on "Conoco quits Russia after 25 years", *Financial Times*, 22 December 2015.

Figure II.7. **Russian Federation: top 10 investors and recipients by FDI stock, 2013 and 2015**
(Billions of dollars)



Source: ©UNCTAD, based on data from the Central Bank of Russia.
Note: As of 30 September 2015. Including data for Caribbean offshore financial centres and special purpose entities.

However, some foreign investors continued to invest in the primary sector in CIS economies. For example, Gaetano Ltd. (United Kingdom), a private equity firm, acquired Kumi Oil OOO in the Russian Federation, and the Malaysian State-owned Petronas acquired a 15.5 per cent stake in Azerbaijan Gas Supply Co. for $2.25 billion. A Kazakh-Chinese investment fund was also established in 2015 with the participation of the China-Eurasia Economic Cooperation Fund (50 per cent) and Kazakhstan's National Holding Baiterek (50 per cent). The Fund, which has an initial capital of $500 million, will invest in Kazakhstan's economy to finance investments in industries such as steel, non-ferrous metals, sheet glass, oil refining, hydropower and automobiles.

FDI in the CIS also declined drastically in some manufacturing activities, such as automotive production. In the past decade, the increase of FDI inflows in the transition economies' automotive industries was fuelled by foreign manufacturers' search for low-cost, high-skilled labour and access to a growing market. An industrial assembly policy allowing zero customs duties on a long list of auto parts also encouraged many key players in the international car-manufacturing market to open production facilities in transition economies. In 2015, for the first time since 2000, the share of cars produced by foreign companies in the Russian Federation declined by four percentage points from the preceding year (from 75 per cent to 71 per cent). Much of this drop was due to the closure of the General Motors (United States) factory in Saint Petersburg, but the one-quarter contraction of the Niva SUV output also played a part. In contrast, Ford (United States) opened a new $275 million engine plant in Yelabuga to supply its Ford Sollers joint venture and its own plant in the Saint Petersburg region.

In South-East Europe, the rise of FDI flows was mainly driven by European investors, although the presence of investors from the South is growing. FDI flows in the subregion were largely directed towards manufacturing industries, such as food and tobacco, chemicals, textiles and garments, automobiles and pharmaceutical industries. FDI flows rose in Serbia and Montenegro, while those to Albania remained above $1 billion. In the former Yugoslav Republic of Macedonia, FDI flows declined. While eurozone countries (Austria, the Netherlands, Greece and Italy) remained the major investors in the subgroup, investors from developing countries such as the United Arab Emirates and China are increasingly active.

Outflows

MNEs from transition economies more than halved their investment abroad. Sanctions, sharp currency depreciation and constraints in the capital markets reduced outward FDI to $31 billion in 2015. As in previous years, Russian MNEs accounted for most of the region's outflows, followed by MNEs from Azerbaijan. Flows from the Russian Federation slumped to $27 billion in 2015, a value last recorded in 2005. Similar to inflows, investments to Cyprus, the largest destination for Russian FDI, contracted sharply ($6.6 billion in 2015, compared with $23 billion in 2014). Investments from Russian MNEs also decreased in major developed countries such as the United States, the United Kingdom, Germany and the Netherlands. However, significant acquisitions still took place in 2015: Sacturino Ltd (Russian Federation), for example, acquired the remaining shares of Polyus Gold International Ltd (United Kingdom) for $1 billion.

Prospects

After the slump in 2015, FDI flows to transition economies are expected to increase in the range of $37–47 billion in 2016, barring any further escalation of geopolitical conflicts in the region. In South-East Europe, the EU integration process and increasing regional cooperation will likely support FDI inflows. In the CIS, FDI is expected to increase, as some companies with hefty debt burdens and reduced access to the international capital market are forced to sell equity stakes; for example, Rosneft, the largest Russian oil producer, decided to sell 29.9 per cent of its Taas-Yuriakh subsidiary, which operates one of the largest oil and gas fields in eastern Siberia, to a consortium of three Indian companies: Oil India, Indian Oil and Bharat PetroResources. Furthermore, several countries, including Kazakhstan, the Russian Federation and Uzbekistan, have announced large privatization plans in response to ballooning current account deficits and depleted foreign exchange reserves, resulting from the depreciation of their currencies and low energy prices (box II.5).

Greenfield investments announced in 2015 support projections of a moderate FDI rebound over the next few years. Investment projects in the primary sector and related manufacturing industries, and in construction, as well as in food, beverages and tobacco, supported a 41 per cent increase compared with 2014, compensating the decline in the automotive industry (table C). Investors from developing countries, particularly from the United Arab Emirates and Viet Nam, were responsible for the increasing value in greenfield investment in 2015, overtaking developed-country investors (table D). For example, the TH Group, one of Viet Nam's leading milk suppliers, is expected to invest $2.7 billion in a cow breeding and dairy processing facility in Moscow.

Prospects for outward FDI will depend on the ability of Russian MNEs to improve their financial standing. The value of greenfield projects announced by MNEs from transition economies almost tripled in 2015, largely driven by energy-related manufacturing and to a lesser extent by services (see table C). Most of this investment is directed at developing and transition economies (see table D).

Box II.5. The revival of privatization plans in CIS countries

The deepening economic crisis has galvanized policymakers to revive or accelerate privatization plans in some CIS countries.

At the end of 2015, the Government of Kazakhstan announced the largest privatization of State-owned companies since the country became independent in 1991. Large industrial companies including the oil and gas group KazMunaiGas (KMG), Kazakhtelecom (the main telecommunication operator), Kazakhstan Temir Zholy (the national railway), Kazatomprom (the nuclear holding company) and Samruk Energy (an energy business), are set to sell equity stakes to foreign investors ahead of planned stock market listings. With State assets accounting for 40 per cent of Kazakhstan's GDP, privatization is expected to attract foreign investment. Also included among 60 companies planned for privatization are the Government's 40 per cent stake in Eurasian Resources Group (the miner formerly known as ENRC), Air Astana (the flag carrier part-owned by BAE), Astana airport, the Caspian Sea port of Aktau and smaller groups such as a sanatorium in Almaty and the operator of an international free trade zone by the Chinese border.

In November 2015, Uzbekistan also announced plans to privatize 68 large companies – including Kizilkumcement, the country's biggest cement maker, chemical producer Ferganaazot and electronics plant Foton – to attract strategic investors who can bring new technology and capital equipment, and introduce modern production methods and competitive products. Initially, foreign investors will be able to buy only minority stakes, which will nonetheless give them priority rights to buy out the firms completely in the future.

In the same vein, the Russian Government announced in 2016 new privatization measures of significant State-owned companies, including 50 per cent of the oil firm Bashneft, as well as a 10.9 per cent stake in both the diamond miner Alrosa and VTB bank.

Source: ©UNCTAD.

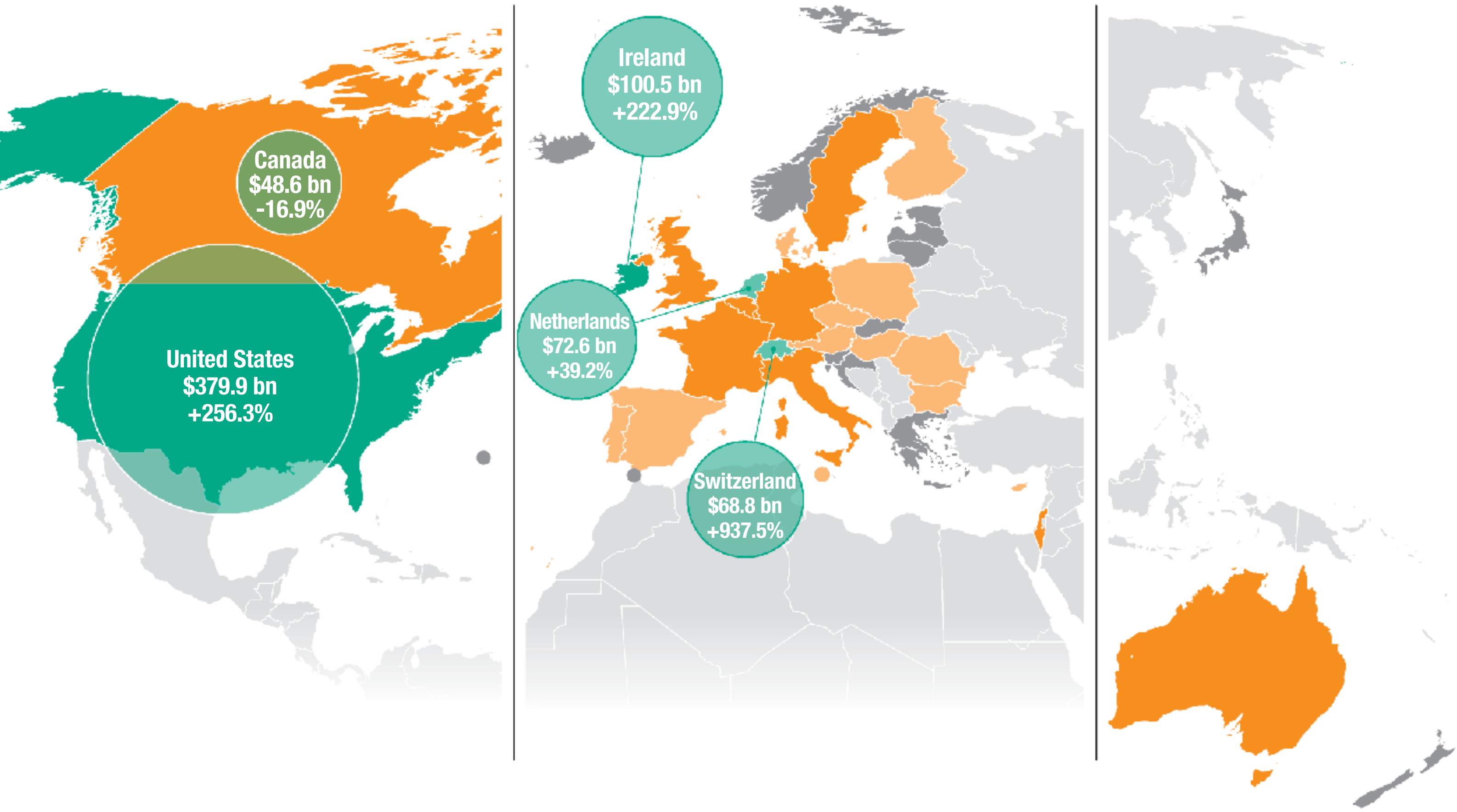
DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
962.5 bn

2015 Increase
+84.4%

Share in world
54.6%



Flows, by range

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

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies

(Billions of dollars, and 2015 growth)

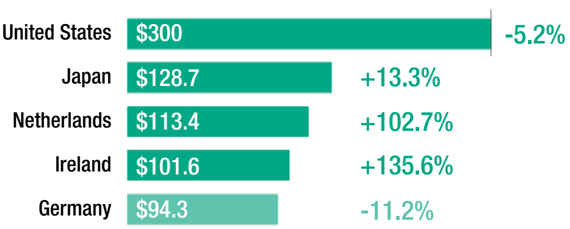
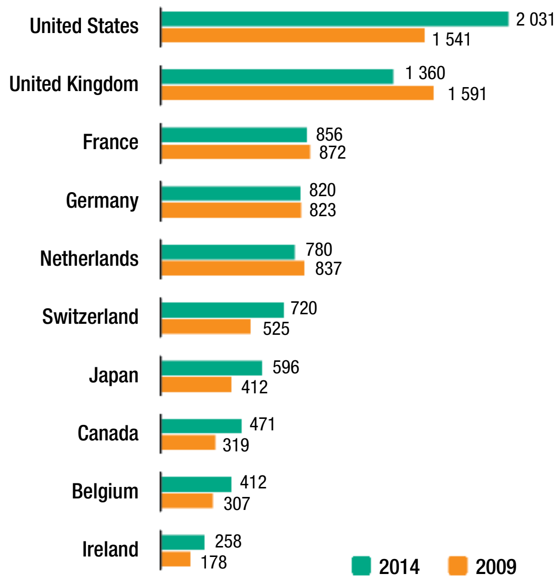


Figure A. Top 10 investor economies, by FDI stock, 2009 and 2014 (Billions of dollars)



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

- FDI inflows bounced back to their highest level since 2007
- Europe became the world's largest investor region
- The recovery of FDI is unlikely to be sustained in 2016

Figure B. **FDI inflows, 2009–2015**
(Billions of dollars and per cent)

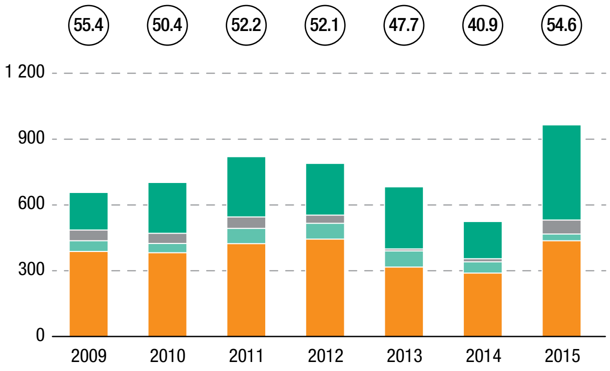
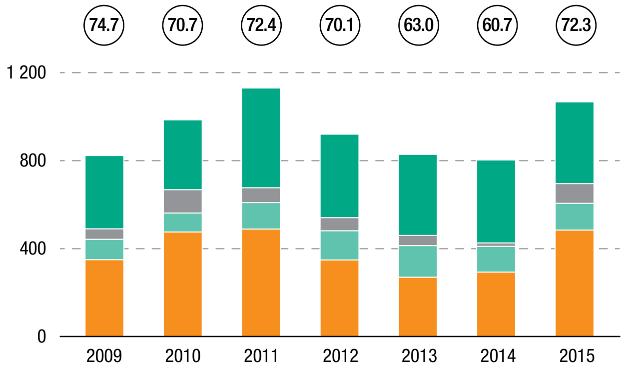


Figure C. **FDI outflows, 2009–2015**
(Billions of dollars and per cent)



North America | Other developed countries | European Union | Other developed Europe | Share in world total

Table A. **Cross-border M&As by industry, 2014–2015** (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**301 171**	**630 853**	**256 853**	**585 860**
Primary	**30 050**	**15 661**	**-3 019**	**-15 315**
Mining, quarrying and petroleum	28 496	14 232	-3 276	-15 847
Manufacturing	**169 951**	**354 495**	**150 585**	**359 853**
Chemicals and chemical products	25 405	47 208	27 218	18 991
Pharmaceuticals, medicinal chemicals and botanical products	44 136	114 154	45 264	144 955
Computer, electronic, optical products and electrical equipment	24 199	25 135	14 841	34 642
Non-metallic mineral products	2 542	27 780	42	25 288
Services	**101 170**	**260 697**	**109 286**	**241 322**
Transportation and storage	11 960	29 038	8 336	12 661
Information and communication	-76 849	34 683	-86 774	32 738
Financial and insurance activities	30 151	79 784	100 162	172 631
Business activities	70 210	70 598	31 808	21 106

Table B. **Cross-border M&As by region/economy, 2014–2015** (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**301 171**	**630 853**	**256 853**	**585 860**
Developed economies	**225 619**	**541 720**	**225 619**	**541 720**
Europe	47 113	302 135	189 176	259 136
North America	126 834	192 963	18 666	274 624
Other developed countries	51 672	46 621	17 778	7 960
Developing economies	**59 424**	**72 361**	**29 514**	**37 926**
Africa	1 675	-162	-8 231	21 574
Latin America and the Caribbean	8 131	733	17 987	6 278
Asia	48 581	71 789	19 505	10 460
China	25 444	27 387	1 909	3 035
Hong Kong, China	8 405	9 924	506	11 440
Oceania	1 037	-	253	-385
Transition economies	**-251**	**6 419**	**1 719**	**6 214**

Table C. **Announced greenfield FDI projects by industry, 2014–2015** (Millions of dollars)

Sector/industry	Developed countries as destination 2014	Developed countries as destination 2015	Developed countries as investor 2014	Developed countries as investor 2015
Total	**232 808**	**261 466**	**487 287**	**485 585**
Primary	**1 865**	**7 741**	**34 772**	**32 348**
Mining, quarrying and petroleum	1 865	7 741	34 772	32 348
Manufacturing	**104 705**	**112 080**	**221 602**	**212 205**
Textiles, clothing and leather	18 919	17 453	23 734	21 938
Chemicals and chemical products	15 246	17 596	32 652	29 627
Electrical and electronic equipment	6 482	10 665	14 560	26 034
Motor vehicles and other transport equipment	22 453	27 565	59 194	49 013
Services	**126 239**	**141 645**	**230 912**	**241 032**
Electricity, gas and water	17 332	27 950	47 635	70 236
Construction	21 385	27 784	25 267	33 990
Transport, storage and communications	19 006	14 511	46 828	28 763
Business services	37 774	44 737	56 081	59 383

Table D. **Announced greenfield FDI projects by region/economy, 2014–2015** (Millions of dollars)

Partner region/economy	Developed countries as destination 2014	Developed countries as destination 2015	Developed countries as investor 2014	Developed countries as investor 2015
World	**232 808**	**261 466**	**487 287**	**485 585**
Developed economies	**188 875**	**225 842**	**188 875**	**225 842**
Europe	112 023	142 369	106 687	133 743
North America	56 350	57 115	62 231	71 642
Other developed countries	20 502	26 357	19 957	20 458
Developing economies	**42 296**	**33 314**	**286 126**	**246 252**
Africa	1 153	699	63 866	39 039
Asia	39 291	30 677	152 583	147 187
China	20 581	9 185	46 427	32 814
India	2 844	6 997	18 387	35 345
Latin America and the Caribbean	1 852	1 824	68 559	59 613
Oceania	-	115	1 119	414
Transition economies	**1 637**	**2 310**	**12 286**	**13 491**

After three successive years of contraction, FDI inflows to developed countries bounced back sharply to $962 billion in 2015, the highest level since 2007. Buoyant cross-border M&As within developed economies, in particular acquisitions of assets in the United States by foreign MNEs, were the major contributing factor. Strategic considerations, but also tax optimization, drove acquisitions and corporate restructuring in industries such as pharmaceuticals. At the same time, sluggish commodity prices weighed on FDI in the primary sector in Australia and Canada. Outward FDI from developed countries also performed well, leaping to $1.1 trillion in 2015. Europe became the world's largest investor region, while foreign acquisition of assets by financial MNEs from Canada and Japan played a big role in FDI outflows from both countries. The recovery of FDI activity, however, is unlikely to be sustained in 2016, primarily owing to global uncertainty and lacklustre economic prospects.

Inflows

Cross-border M&As drive an FDI rebound in Europe. Regaining much of the ground lost during the three preceding years, inflows to Europe rose to $504 billion, accounting for 29 per cent of global inflows. This rebound was driven by large increases in a relatively few countries such as Ireland (a threefold increase) and Switzerland (a 10-fold increase), which more than offset declining inflows in 19 economies. These two economies and the Netherlands became the three largest recipients in Europe. Other major recipients were France and Germany, both of which recovered sharply from the low points in 2014. Inflows into the United Kingdom – the largest recipient in 2014 – fell back to $40 billion but remained among the largest in Europe.

Cross-border M&A sales in Europe rose to $295 billion, the highest level since 2007. Reflecting the overall FDI pattern in Europe, these sales were largely concentrated in a few countries and declined in the majority of European countries. In the two largest target countries in 2014, the United Kingdom and France, cross-border M&A sales increased substantially (to $71 billion in the United Kingdom and $44 billion in France). Nevertheless, Ireland became the second-largest target country in 2015 with $48 billion. In sectoral terms, cross-border M&A sales in manufacturing more than doubled, to $166 billion. Corporate inversion deals played a key part in this increase, but assets in a range of industries in France, Switzerland and the United Kingdom also became major acquisition targets. Corporate strategy to restructure asset profiles motivated many of those transactions (chapter I). In Europe's services sector, cross-border M&A sales declined by 16 per cent to $115 billion, due primarily to a $30 billion fall in telecommunications. MNEs from developed countries were the main acquirers of assets in Europe, with Europe accounting for 38 per cent and North America, 47 per cent. Among developing economies, China and Hong Kong (China) together accounted for 6.6 per cent.

In Ireland, inflows more than trebled from 2014 to $101 billion. Intracompany loans rose by $37 billion, accounting for much of the increase. M&A sales were boosted by the Medtronic-Covidien inversion megadeal (chapter I.A). In the Netherlands, inflows rose by 39 per cent to $73 billion, of which equity investments were $61 billion – more than trebling from the year before. However, cross-border M&A sales in the country increased by just $2 billion to $15.5 billion.

France's inflows almost trebled, to $43 billion, most of which was accounted for by the equity component of inflows, which rose to $37 billion. M&A sales reached a record high at $44 billion. Major transactions included the merger of the cement manufacturer Lafarge with its Swiss rival Holcim in a deal worth $21 billion, and the acquisition of Alstom's energy business by GE (United States) for $11 billion. Cross-border M&A sales in the United Kingdom almost doubled in 2015, to $71 billion, with pharmaceuticals ($17 billion) and real estate ($12 billion) being the largest target industries. Chinese investors were active in the latter. Supported by a robust economic performance, especially compared with other European economies, equity and reinvested earnings of FDI inflows made strong gains in the United Kingdom, rising by 31 per cent. Nevertheless, total FDI inflows declined by 25 per cent to $40 billion, due to a fall in intracompany loans, from $8 billion to –$19 billion.

In Germany, cross-border M&A sales fell and so did the equity component of FDI. Nevertheless, total FDI inflows rose to $32 billion (from less than $1 billion in 2014) as intracompany loans recovered by more than $42 billion. FDI inflows to Italy declined by 13 per cent to $20 billion as the sharp fall in equity FDI was partly offset by a recovery in intracompany loans. In the 11 Central and Eastern European member countries of the EU, combined inflows almost halved, to $19 billion. The decline was particularly pronounced in 2014's larger recipients such as Poland (down 40 per cent to $7.5 billion), Hungary (down 83 per cent to $1.3 billion) and the Czech Republic (down 78 per cent to $1.2 billion). Bulgaria and Romania, however, maintained their levels of inflows. In 2015, Chevron and ConocoPhillips (United States) stopped their shale gas exploration in Poland, following the lead of ExxonMobil (United States), Total (France) and Marathon Oil (United States), which had withdrawn from the country in recent years. Hopes for the potential of shale gas in Poland had been raised in 2011, but establishing commercially viable shale gas operations turned out to be more difficult than initially anticipated. In Hungary, there were a string of divestments in infrastructure businesses in 2015. Moreover, the relatively high level of inflows in 2013 and 2014 had been the result of one-off factors such as the recapitalization of foreign-owned banks that had sustained losses.

FDI inflows in North America reached a record high. In 2015, North America received inflows worth $429 billion – a quarter of global FDI flows – surpassing the record high of 2000. The United States accounted for most of this, with record inflows worth $380 billion, an increase of more than 250 per cent. This performance partly reflects the exceptionally low level of inflows to the United States in 2014, a result of the Vodafone-Verizon divestment deal, which was worth $130 billion. In addition, a sizable part of the inflows in 2015 were consequences of large corporate inversions, such as the Medtronic-Covidien and Mylan-Abbott deals. In the United States, almost 70 per cent of FDI inflows were in manufacturing; 9 per cent were in finance and insurance. Europe accounted for 77 per cent of inflows. Other developed countries such as Japan (11 per cent) and Canada (7 per cent) were also major sources.

Cross-border M&A sales in the United States amounted to $299 billion – a record high – 60 per cent of them in the manufacturing sector. In particular, the pharmaceutical industry accounted for over a quarter of total M&A sales. The largest deal completed in 2015 was the takeover of the United States pharmaceutical company Allergan by Actavis, which is incorporated in Ireland. Services accounted for 40 per cent of cross-border M&A sales, with finance and insurance receiving 17 per cent. In April 2015, the United States conglomerate GE announced its plan to sell most its financial services operations, worth about $200 billion. In the United States, this resulted in cross-border M&A sales with a combined value of $28 billion, all to Canadian investors (see discussion of outflows below). The geographical distribution of cross-border MNEs that acquired assets in North America largely reflects that of FDI inflows. However, the role of developing-economy MNEs is more visible, with a share of 11 per cent. China and Hong Kong (China) accounted for 6 per cent. Other large investor economies were Singapore (with a share of 3 per cent), Qatar (1.2 per cent) and the United Arab Emirates (0.8 per cent).

In Canada, inflows fell 17 per cent to $49 billion. Declines were more pronounced in energy and mining (down 59 per cent) as well as in manufacturing (down 47 per cent). Three quarters of inflows to Canada were from the United States.

FDI to developed countries in Asia-Pacific failed to recover. Inflows to Australia, which had been stable until 2013 despite the downturn in the commodities markets, began to recede in 2014, falling by 30 per cent to $40 billion. In 2015 the decline accelerated, with inflows being nearly halved, to $22 billion. Australia's lacklustre performance was partly due to divestment in the oil and gas industries. In addition, more resource and energy projects were delayed or deferred.[7] As foreign MNEs are extensively involved in those projects, these delays contributed to a fall in FDI. Japanese inflows fell, to a net divestment, as European MNEs withdrew funds.

Outflows

Europe became the world's largest investing region. FDI by MNEs in Europe shot up by 85 per cent to $576 billion, accounting for more than one third of the world total. The Netherlands became the largest investor country in Europe, with outflows worth $113 billion, followed by Ireland where outflows more than doubled, to $102 billion. Germany remained a top investor country, despite its outflows falling by 11 per cent to $94 billion. The increase in outflows from Switzerland was the largest among developed countries (an increase of $74 billion). Other major investor countries in Europe were Luxembourg (up 68 per cent to $39 billion), Belgium (a more than sixfold increase to $39 billion) and France (down 18 per cent to $35 billion). Outflows from the United Kingdom rose by $20 billion but remained negative at –$61 billion.

Cross-border M&A purchases by European MNEs amounted to $318 billion, of which 76 per cent were in manufacturing. This was largely driven by deals in the pharmaceutical industry, which accounted for 40 per cent of the total. The financial and insurance industry attracted another 18 per cent. At the same time, a number of industries recorded a net divestment, including some related to mining and utilities. European MNEs invested in other developed economies: of their total cross-border M&A purchases, one third went to acquisitions in Europe and two thirds to acquisitions in North America. In developing regions, European MNEs made a net divestment of assets in Asia as well as in Latin America. The share of Africa in MNEs' investments was 6 per cent.

Ireland and the Netherlands led the rise in FDI outflows from Europe. Corporate inversion deals were largely responsible for this performance, as large United States MNEs became affiliates of newly created parent companies in these economies, thereby boosting their outward FDI (box II.6). In a similar vein, the Netherlands was a preferred site of incorporation for South Africa based retailer Steinhoff, which took advantage of a reverse takeover by Genesis International Holdings, incorporated in the Netherlands, to relocate to Europe. The holding company was renamed Steinhoff International Holdings N.V. before the transaction was finalized. Steinhoff, while retaining its operational headquarters in South Africa, transferred ownership of its assets to this holding company in the Netherlands and moved its primary listing to Frankfurt.

Declining overseas earnings dented FDI outflows from the United States, but Canadian outward investment increased by 21 per cent. At $367 billion, FDI from North America remained at a level similar to 2014. A 5 per cent decline in FDI from the United States was offset by a large increase of investment by Canadian MNEs. Reinvested earnings have dominated outward FDI from the United States in recent years: they accounted for 91 per cent of outflows in 2015. Compared with 2014, reinvested earnings, though still high, declined by 16 per cent to $274 billion.

Regulatory changes enacted in September 2014 in the United States to curb tax inversions have begun to have impacts. In October 2014, AbbVie (United States) called off its $54 billion acquisition of Shire (Ireland), citing the new guidelines as a key reason. However, a number of inversion deals were announced in 2015, including the $27 billion merger of Coca-Cola Enterprises (United States) with its counterparts in Germany and Spain, to create a new company headquartered in the United Kingdom. In response, the United States Government announced additional measures to tighten loopholes in November 2015 and April 2016 (chapter III). After the last announcement, Pfizer abandoned its proposed $160 billion merger with Ireland-based Allergan (box II.6).

Box II.6. Megadeals and corporate inversions in the pharmaceuticals industry

Acquisitions in the pharmaceuticals industry over the past few years illustrate the strategic and tax considerations that have been driving the M&A surge in developed economies (chapter I).

In 2012, Actavis, a Swiss pharmaceutical group, was acquired by Watson (United States), which had grown rapidly through a series of acquisitions in the United States. The following year, the merged entity – which retained the name Actavis – acquired Ireland-based Warner Chilcott. In addition to diversifying Actavis's product range, this deal carried two advantages. First, at the time of the deal's announcement, competitors Valeant (Canada) and Mylan (United States at the time) were targeting Actavis for a takeover. Actavis was able to fend off such threats by making itself larger. Second, Actavis was able to relocate its headquarters to Ireland, thus benefiting from the country's lower tax rate. In 2014, Actavis made further acquisitions, including Forest Laboratories (United States) for $25 billion. Acting as a white knight, Actavis then acquired Allergan (United States), which was the target of a hostile bid from Valeant (Canada). After the takeover, the Ireland-based company renamed itself Allergan.

Frenetic deal making around Allergan and its competitors continued after the completion of the Actavis-Allergan deal. In November 2015, the United States pharmaceutical giant Pfizer announced a merger agreement with Allergan worth $160 billion, which would have allowed Pfizer to relocate to Ireland: however, this plan was dropped following regulatory changes in the United States in April 2016. This was Pfizer's second failed attempt in as many years to achieve inversion: in May 2014, it had abandoned its $110 billion bid for AstraZeneca (United Kingdom), owing to political pressure and changes in the United States tax inversion regulations (chapter III).

Separately, in July 2015, Teva (Israel) agreed to buy Allergan's generics unit (Actavis Generics) for $41 billion, pending approval from the regulatory authorities. Teva had previously been in pursuit of Mylan. The latter, while fending off this hostile bid, concluded a deal to purchase the assets of Abbott Laboratories outside the United States in 2015, thereby shifting its headquarters to the Netherlands.

Source: ©UNCTAD.

FDI flows from Canada rose by 21 per cent to $67 billion, driven by investment in the finance and insurance industry, which shot up fivefold. Pension funds were extensively involved in Canadian outward FDI. Of 22 overseas acquisitions worth more than $1 billion by Canadian investors, pension funds were involved in 9. Canada's 10 largest public pension funds collectively manage over $1.1 trillion in assets, of which $500 billion is thought to be invested abroad. The funds run a network of offices outside Canada to seek additional investment opportunities.[8] Their preferred approach to asset management is to invest directly (rather than in publicly traded stocks) and manage internally at low cost.[9] About one third of their assets are invested in alternative classes (e.g. infrastructure, private equity, real estate), which accounts for the pattern of their cross-border acquisitions. In the financial industry, Canada's big banks were also looking for investment opportunities abroad as the growth of the domestic banking markets slowed. Acquisitions of assets divested by GE were among the largest deals completed by Canadian investors in finance and insurance in 2015, including the acquisition of GE Antares Capital (United States) for $12 billion. A Canadian pension fund was also a joint partner in the acquisition of the 99-year lease of Australian State-owned TransGrid, an operator of an electricity transmission network, for $7.4 billion.

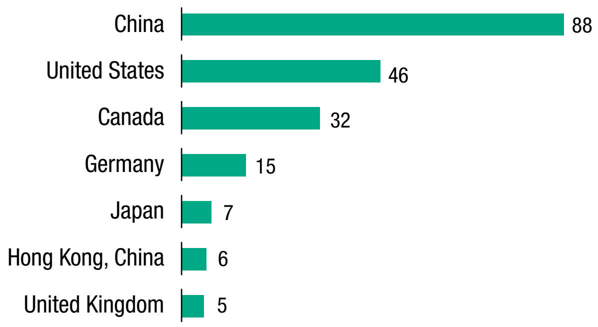
Financial MNEs led Japan's FDI expansion. In Asia-Pacific, Japanese MNEs, beset by limited prospects in their home market, continued to seek growth opportunities abroad. Outflows reached $129 billion, exceeding $100 billion for the fifth consecutive year. Two thirds of Japanese outflows targeted developed countries, with North America accounting for 35 per cent and Europe 25 per cent. The share of Asia was 24 per cent. Outflows in the finance and insurance industry doubled from 2014, to $32 billion, representing a quarter of all Japanese outflows. Insurance companies were particularly active, making acquisitions most notably in the United States but also in Asia. This illustrates the growing importance of developing Asia economies not merely as production bases but as growing consumer markets. For instance, the share of services in Japanese FDI stock in China at the end of 2014 was less than one third. In contrast, services accounted for 40 per cent of Japanese FDI flows to China both in 2014 and in 2015.

Prospects

Levels of FDI into developed countries are unlikely to be sustained. The recovery of FDI in developed countries is unlikely to be sustained in 2016. UNCTAD forecasts indicate that FDI flows to developed countries will be in the range of $830–880 billion, with the median falling by 11 per cent. Apart from continued sluggish growth and weak aggregate demand, the unusually high level of M&A activity is unlikely to be sustained in the wake of regulatory measures to reduce inversion deals and also because rising interest rates will reduce the incentive for debt-based financing of deals (chapters I and III). Uncertainty over whether the United Kingdom will exit the EU is also likely to weigh on FDI to the country in 2016 – and beyond, if a "Brexit" materializes.

The third wave of administrative action against tax inversions by the United States Treasury Department in 2016 should make it harder for companies to move their tax domiciles out of the United States and shift profits to low-tax countries. For instance, the $160 billion merger of drug maker Pfizer (United States) with Ireland-based Allergan was dropped in April 2016.

Figure II.8. **Developed economies: announced cross-border M&A sales, by major acquirer economies, January–April 2016** (Billions of dollars)



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

Although announced greenfield investment projects in developed countries in 2015 were up across many industries and from a range of source countries, especially Europe (tables C and D), cross-border M&A data on deals announced over the period January–April 2016 probably provide a better indication of prospects for 2016 as a whole. In this period, $292 billion worth of M&A deals targeting assets in developed countries were announced; compared with the year before, cross-border M&A deals made a much slower start. In the same period in 2015, the value of announced deals amounted to $423 billion. The decline would have been much more pronounced had it not been for a flurry of deals announced by Chinese MNEs which were worth $93 billion, representing 32 per cent of the total (figure II.8). The largest announced deal was the proposed takeover of the agribusiness MNE Syngenta (Switzerland) by ChemChina (China) for $44 billion. Agribusiness might see further consolidation with the German pharmaceutical MNE Bayer launching a $62 billion bid for Monsanto (United States) in May 2016.

In addition to announced deals, the transactions completed in the first four months of 2016 provide some pointers. In Europe, M&As will be boosted by Royal Dutch Shell (Netherlands/United Kingdom) takeover of the gas exploration and production company BG Group (United Kingdom) for $69 billion. However, the subdued 2015 level of M&A sales in telecommunications in Europe might decline further in 2016. The merger of two mobile operators in the United Kingdom, BT and EE, resulted in divestments of stakes in EE by Orange (France) and Deutsche Telecom (Germany) amounting to –$19 billion. By contrast, foreign investors may make substantial inroads into Japan in 2016, with high-profile deals such as the acquisition of the electronics group Sharp and a concession to operate airports in Kansai.

STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

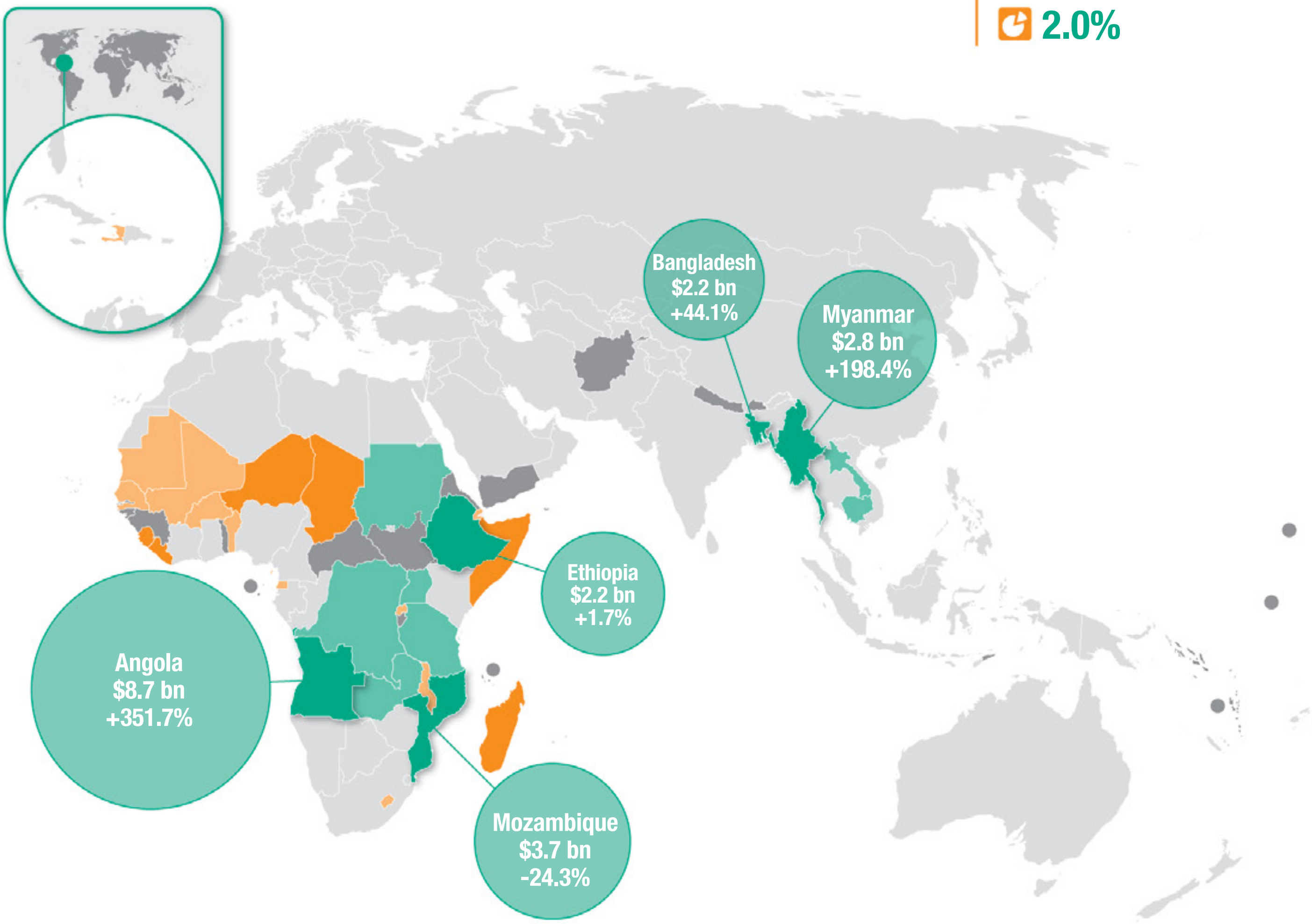
LEAST DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
35.1 bn

2015 Increase
+33.4%

Share in world
2.0%



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

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies

(Billions of dollars, and 2015 growth)

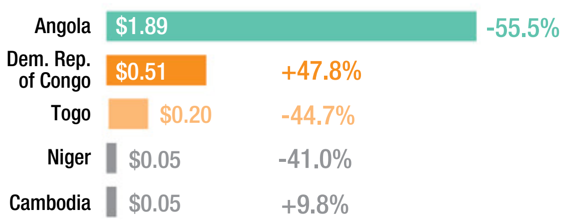
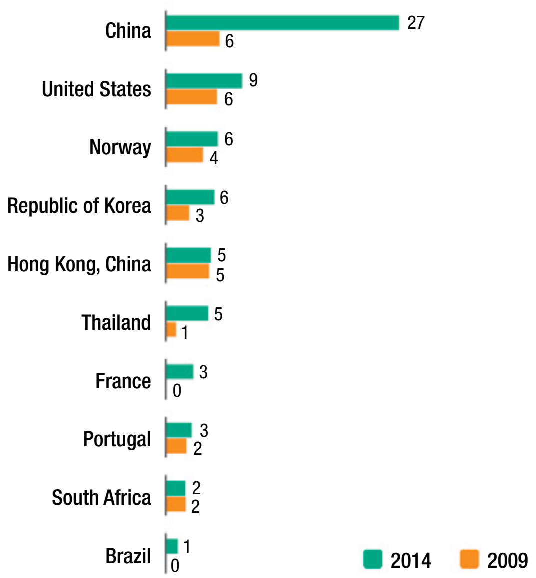


Figure A. Top 10 investor economies, by FDI stock, 2009 and 2014 (Billions of dollars)



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. 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 inflows jumped by one third
- China now holds the largest stock of FDI
- FDI prospects are subdued

Figure B. FDI inflows, 2000–2015 (Billions of dollars and per cent)

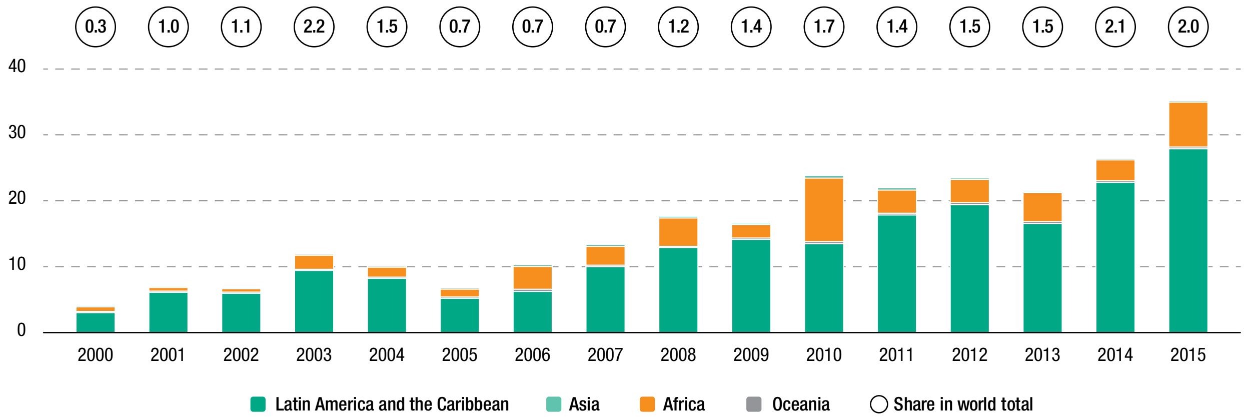


Table A. Cross-border M&As by industry, 2014–2015 (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**3 819**	**1 016**	**23**	**-**
Primary	**2 661**	**2**	**2**	**-**
Mining, quarrying and petroleum	2 661	2	2	-
Manufacturing	**120**	**631**	**-**	**-**
Food, beverages and tobacco	12	586	-	-
Chemicals and chemical products	-	19	-	-
Pharmaceuticals, medicinal chemicals and botanical products	51	26	-	-
Services	**1 038**	**383**	**20**	**-**
Electricity, gas, water and waste management	-	19	-	-
Accommodation and food service activities	-	302	-	-
Transportation and storage	400	-	-	-
Information and communication	112	-	-	-
Financial and insurance activities	516	62	25	-

Table B. Cross-border M&As by region/economy, 2014–2015 (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**3 819**	**1 016**	**23**	**-**
Developed economies	**-1 115**	**874**	**25**	**-**
European Union	-1 275	-7	25	-
Canada	-3	-447	-	-
United States	12	27	-	-
Australia	-	294	-	-
Japan	-	1 007	-	-
Developing economies	**4 869**	**142**	**-2**	**-**
Africa	-18	67	2	-
Asia	4 487	75	-4	-
India	2 702	45	-	-
Singapore	1 333	-	-	-
Sri Lanka	-	19	-4	-

Table C. Announced greenfield FDI projects by industry, 2014–2015 (Millions of dollars)

Sector/industry	LDCs as destination 2014	LDCs as destination 2015	LDCs as investor 2014	LDCs as investor 2015
Total	**48 256**	**49 717**	**1 605**	**808**
Primary	**17 165**	**6 338**	**-**	**-**
Mining, quarrying and petroleum	17 165	6 338	-	-
Manufacturing	**9 662**	**11 780**	**294**	**31**
Food, beverages and tobacco	1 307	2 251	-	-
Coke, petroleum products and nuclear fuel	1 246	4 147	-	-
Non-metallic mineral products	1 952	2 483	-	-
Services	**21 429**	**31 600**	**1 311**	**777**
Electricity, gas and water	948	13 834	-	-
Construction	6 802	10 555	-	283
Transport, storage and communications	3 528	3 261	15	8
Finance	2 279	1 483	639	411
Business services	4 823	1 328	624	24

Table D. Announced greenfield FDI projects by region/economy, 2014–2015 (Millions of dollars)

Partner region/economy	LDCs as destination 2014	LDCs as destination 2015	LDCs as investor 2014	LDCs as investor 2015
World	**48 256**	**49 717**	**1 605**	**808**
Developed economies	**32 483**	**17 452**	**77**	**116**
European Union	24 446	8 861	67	116
United States	4 515	3 005	10	-
Japan	1 304	3 460	-	-
Developing economies	**15 773**	**28 068**	**1 508**	**658**
Africa	6 477	4 851	1 045	168
Asia	9 228	22 871	182	490
China	1 199	2 468	81	162
India	1 153	3 511	-	-
Thailand	1 006	8 341	-	283
Transition economies	**-**	**4 197**	**21**	**34**
Russian Federation	-	4 000	21	34

Although many LDCs were hit by the commodity bust, total FDI inflows to LDCs rose by 33 per cent to $35 billion. An upturn in Angola more than compensated for the drop in FDI in other LDCs, contributing to the record high. Cross-border M&A sales in mining and quarrying were thin, and net sales value plummeted from a peak of $3.8 billion in 2014 to $1 billion in 2015. Measured by FDI stock, China has become the largest investor in LDCs, ahead of the United States. Announced greenfield FDI projects suggest that MNEs from developing economies are likely to play a greater role in the primary and services sectors in LDCs.

Inflows

Despite weak commodity prices, FDI to LDCs hit a record high, bolstered by loans to foreign affiliates based in Angola. FDI inflows reached $35 billion, representing 2 per cent of global FDI and 5 per cent of FDI in all developing economies. Yet declining commodity prices (chapter I) discouraged new energy and mining investments in the majority of LDCs, and even resulted in operations shutting down or being suspended in a number of African countries. Sluggish transactions in mining and quarrying also contributed to a slump in the net sales value of cross-border M&As in LDCs (table A). The largest fall in FDI flows was observed in a number of resource-rich LDCs in Africa, even though some continued to attract MNEs' interest in large-scale greenfield projects in hydrocarbons and mining (table II.2).

FDI flows to the LDCs remains concentrated in the extractive industries and related manufacturing activities, although the amounts received by countries have varied considerably depending on the goods and services they export (UNCTAD, 2015b) (figure II.9). Since 2011, seven mineral exporters[10] in Africa have been the largest recipients of FDI flows to LDCs, but in line with the downward pressure on mineral commodity prices, their FDI fell by more than 25 per cent; and FDI to three of them – the Democratic Republic of the Congo, Mozambique and Zambia – showed negative growth.

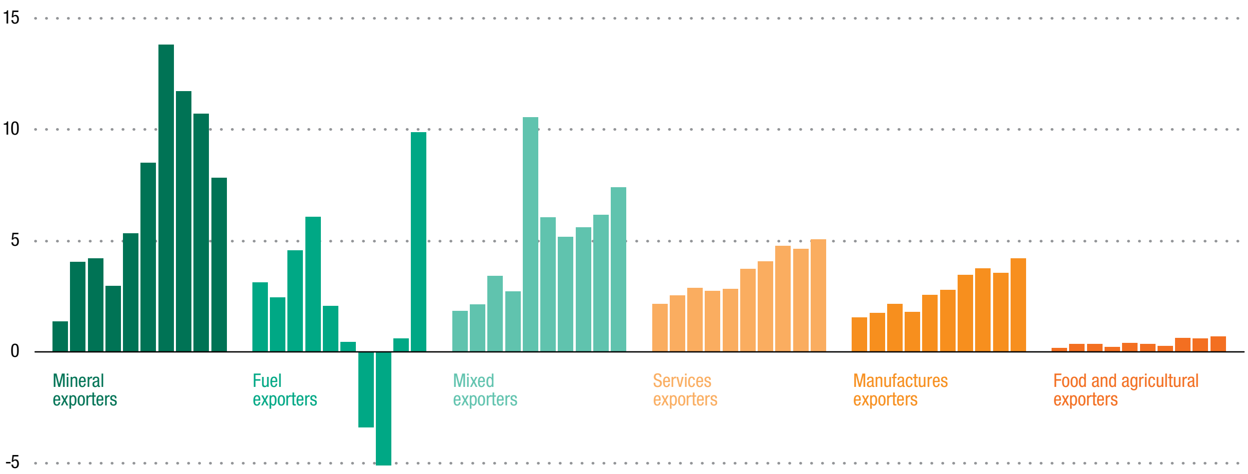
By contrast, the majority of fuel exporters[11] reported positive gains. Angola (up 352 per cent to $8.7 billion) became the largest FDI recipient among LDCs in 2015. However, its performance was largely due to an influx of loans ($6.7 billion in 2015, compared with –$1.6 billion in 2014) provided to struggling foreign affiliates in the country by their parents abroad.

Table II.2. LDCs: 10 largest greenfield projects announced in 2015

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Uganda	Petroleum refineries	Russian Technologies State Corporation (Rostec)	Russian Federation	4 000
Myanmar	Fossil fuel electric power and hydroelectric power	Electricity Generating Authority of Thailand (EGAT)	Thailand	3 326[a]
Myanmar	Fossil fuel electric power	Toyo-Thai	Thailand	2 800
Angola	Oil and gas extraction	Total	France	2 236
Myanmar	Industrial building construction	Nippon Steel & Sumikin Bussan Corporation	Japan	1 600
Bangladesh	Fossil fuel electric power	Adani Enterprises Ltd.	India	1 500
Bangladesh	Fossil fuel electric power	Reliance Power	India	1 500
Mozambique	Crop production	Al-Bader Group	Kuwait	1 500
Cambodia	Residential building construction	HLH Group	Singapore	1 332[a]
Guinea	Bauxite mining	Alcoa	United States	1 000

Source: ©UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] Total of three projects.

Figure II.9. | **FDI Inflows to the LDCs, by export specialization, 2006–2015** (Billions of dollars)



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

While divestments from South Sudan and Yemen continued (but at a lower level than in 2014), FDI flows to Chad bounced back from –$676 million in 2014 to $600 million, and those to the Sudan rebounded to $1.7 billion – the highest level in three years.

Total FDI in the small group of food and agricultural exporters[12] increased by 14 per cent in 2015. Services exporters,[13] which make up nearly one third of the 48 countries in the grouping, registered growth of 9 per cent. The performance of the larger FDI hosts in this group was modest – Ethiopia (up 2 per cent to $2.2 billion, representing 43 per cent of flows to this group) and Uganda (down 0.1 per cent to $1.1 billion). The performance in others – e.g. Liberia (up 85 per cent to $512 million) and Madagascar (up 48 per cent to $517 million) – bounced back. FDI to Rwanda maintained its upward trajectory (up 3 per cent to a record high of $471 million).

Strong FDI in Asia drove inflows to manufactures and mixed exporters. Five manufactures exporters[14] reported 18 per cent growth in FDI flows, thanks to record flows to Bangladesh (up 44 per cent to over $2.2 billion). FDI in the textile and garments industries remains strong in Bangladesh, as does FDI in power generation.[15] Reinvested earnings in the country continued to rise, exceeding the value of the equity component. Bangladesh became the largest FDI host in this subgroup of exporters, as flows into Cambodia fell slightly (down 1 per cent to $1.7 billion). Although the majority of mixed exporters[16] in Africa, including the United Republic of Tanzania, reported losses, overall FDI into this group rose by 20 per cent to $7.4 billion (see figure II.9). Prospects of deeper economic integration in the ASEAN region spurred investments into two Asian LDC economies: the Lao People's Democratic Republic (up 69 per cent to a record high of $1.2 billion) and Myanmar (up 198 per cent to $2.8 billion, the highest in five years).

In cross-border M&A sales, two large deals in Cambodia ($302 million in a hotel resort complex by an Australian MNE) and Myanmar ($560 million in malt beverages by a Japanese MNE) together accounted for 85 per cent of net M&A sales in all LDCs (table B). The saturation of the domestic economy has forced many Japanese brewers to seek new markets with high-growth potential overseas.[17]

China has become the largest source of investment in LDCs. From 2009 to 2014 (the latest year available), MNEs from China more than quadrupled their FDI stock in LDCs (figure A). FDI from China in the three ASEAN LDCs grew from $2.9 billion in 2009 to $11.6 billion in

2014. In Africa, where Chinese FDI stock jumped from $3.6 billion to $13.3 billion in 2014, fuel- and mineral-exporting LDCs, primarily Zambia, the Democratic Republic of the Congo and the Sudan, took the lion's share. Likewise, more than 70 per cent of the United States' FDI stock in LDCs was concentrated in two African fuel exporters: Angola and Equatorial Guinea. Norway's FDI stock in LDCs was also focused in Africa (more than 90 per cent of the total), particularly in Angola (66 per cent in 2014). Similarly, a 281 per cent growth in investments in the three ASEAN LDCs contributed to a fivefold increase in Thai MNEs' FDI stock in the group as a whole.

Prospects

Natural resources still largely determine LDCs' FDI prospects. Although the number of greenfield projects in LDCs announced in 2015 fell by 6 per cent, the number of those targeting the mining, quarry and petroleum industries more than doubled, to a three-year high. The 10 largest greenfield projects announced in 2015 (see table II.2) highlight MNEs' intentions to pursue large-scale hydrocarbon projects in resource-rich African LDCs, despite weak energy prices and deteriorating short-term profitability.

Long-term greenfield project data suggest that LDCs are diversifying their FDI portfolios away from extractive industries towards the services sector, but many MNEs are still focused mainly on investment opportunities in untapped or underdeveloped natural resources. As a result, FDI over the next few years looks set to remain highly concentrated in the larger resource-rich economies, which have already become major FDI recipients by attracting large investments in the extractive industries, as well as in electricity, construction and other associated projects in the services sector. FDI in Myanmar, for instance, is expected to keep growing and diversifying: approved FDI projects for 2015 totalled $9.5 billion, of which more than 50 per cent was attributed to the oil and gas industry and 20 per cent to transport and communications.[18] For fiscal year 2016/2017, Myanmar aims to secure $8 billion of new FDI in agriculture, trade and infrastructure to accelerate its economic development.[19]

MNEs from the South are actively seeking investment opportunities in LDCs. For instance, during 2015, the Indian State-owned Oil and Natural Gas Corporation (ONGC), which concluded a $2.6 billion acquisition deal in oil and gas extraction in Mozambique in 2014, announced plans to double its investment in oil and gas projects in Africa (where the company has already invested $8 billion).[20] Chinese investors plan to maintain their interests in LDCs in Africa. Though about half of their capital spending plans announced in 2015 ($1.3 billion in 14 projects) targeted Asian LDCs, including Nepal, more than 40 per cent of total spending plans targeted Liberia, where Wuhan Iron and Steel announced investments valued at $865 million in construction and $179 million in metal manufacturing.

In the services sector, greenfield project data points to a strong growth in FDI from MNEs based in developing Asian economies. The estimated capital spending on greenfield projects announced by Asian investors more than doubled in 2015 (table D). Thai investors increased their capital spending plans in LDCs by eight times from 2014 to 2015 to $8 billion (from 22 to 33 projects, of which 30 are in ASEAN LDCs). Almost all projects in Myanmar listed in table II.2 are linked to the public-private partnership for developing the Dawei SEZ (box II.6, *WIR14*), which finally got going during 2015. Capital spending plans by Indian MNEs in 2015 (in 20 projects) were boosted by two proposed large-scale electricity projects in Bangladesh but remained below the peak of $4.8 billion (in 39 projects) announced in 2011.

LDCs in Asia and East Africa will continue to benefit from FDI from Asian MNEs by attracting a larger amount of FDI, as well as public and private capital in (regional) infrastructure development. In contrast, smaller and more fragile LDCs still face challenges in attracting steady flows of FDI.

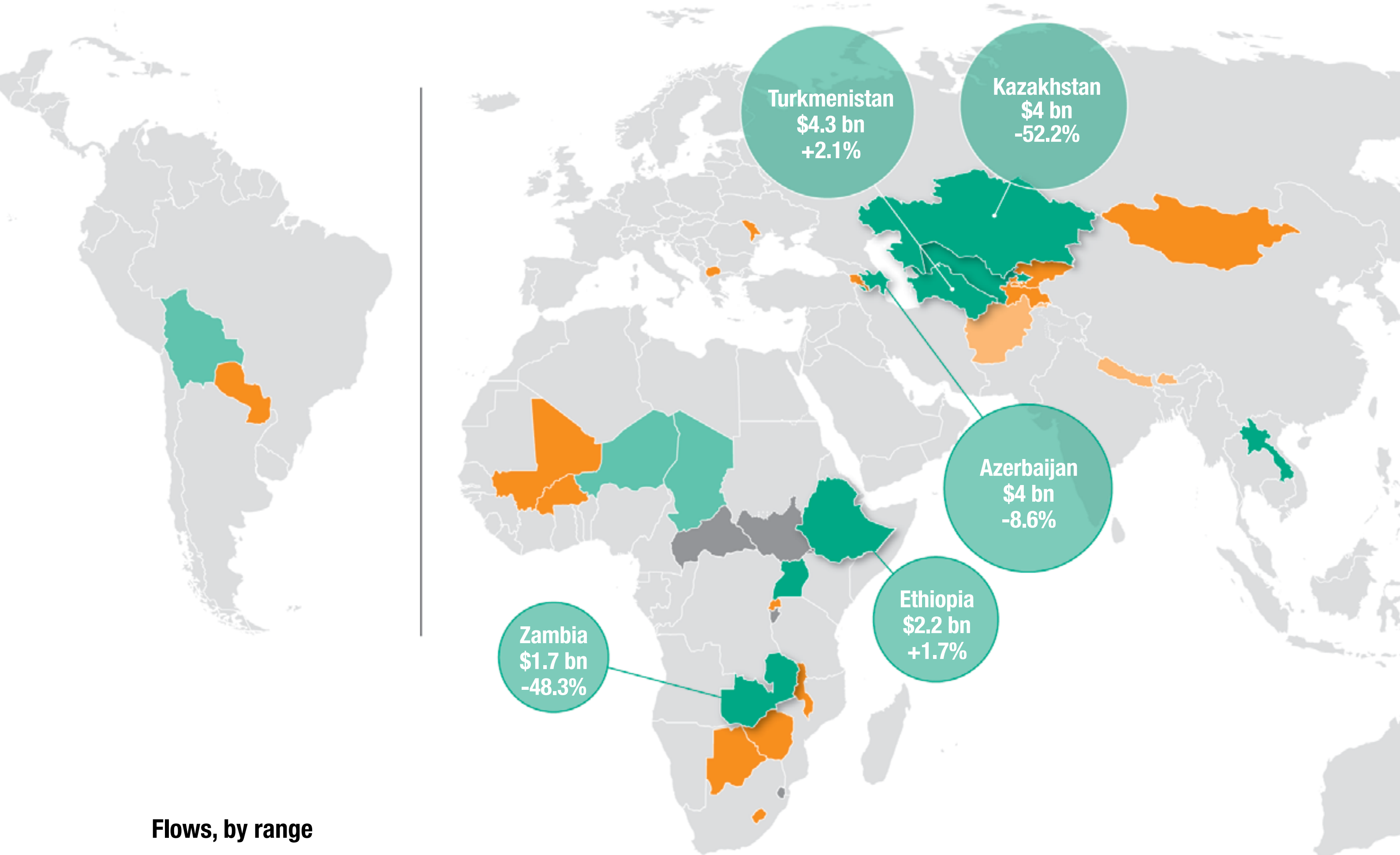
LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
24.5 bn

2015 Decrease
-17.6%

Share in world
1.4%



Flows, by range

- Above $1 bn
- $0.5 to $0.9 bn
- $0.1 to $0.5 bn
- $10 to $99 mn
- Below $10 mn

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies
(Billions of dollars, and 2015 growth)

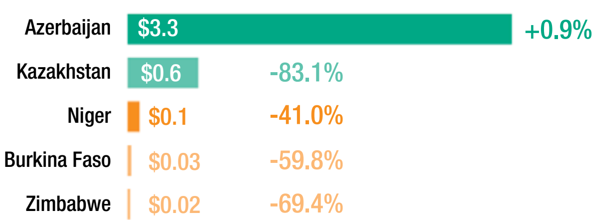
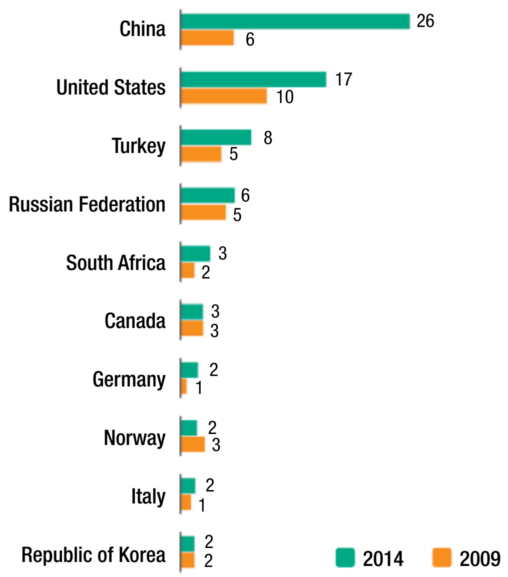


Figure A. **Top 10 investor economies, by FDI stock, 2009 and 2014** (Billions of dollars)



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. 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 fall for the fourth consecutive year
- Asian State-owned enterprises made some strategic investments in extractives industries
- Investment prospects are positive

Figure B. | **FDI inflows, 2000–2015** (Billions of dollars and per cent)

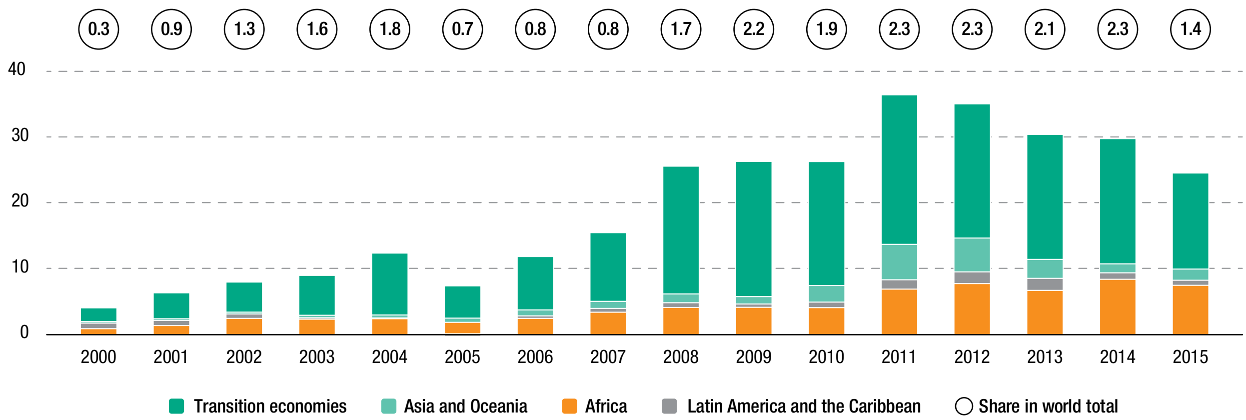


Table A. **Cross-border M&As by industry, 2014–2015** (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**-1 081**	**2 620**	**270**	**-459**
Primary	**-60**	**2 285**	**-250**	**-1 304**
Mining, quarrying and petroleum	-70	2 285	-250	-1 305
Manufacturing	**285**	**51**	**57**	**-**
Food, beverages and tobacco	12	41	-	-
Pharmaceuticals, medicinal chemicals and botanical products	51	26	-	-
Non-metallic mineral products	314	-35	-1	-
Services	**-1 305**	**284**	**463**	**845**
Electricity, gas, water and waste management	-1 193	180	-	-
Trade	8	40	-	-
Transportation and storage	30	15	13	3
Financial and insurance activities	-158	48	450	818
Business services	8	-	-	24

Table B. **Cross-border M&As by region/economy, 2014–2015** (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**-1 081**	**2 620**	**270**	**-459**
Developed economies	**-2 366**	**497**	**14**	**848**
Cyprus	-	500	-	-
Netherlands	-1 374	-326	-	-
United Kingdom	-1 067	-23	-	-
Canada	1	207	-	-
United States	7	206	-	-
Developing economies	**109**	**3 253**	**257**	**-1 308**
China	526	1 121	-	-
Hong Kong, China	-614	-170	-	-
Malaysia	-	2 250	-	-
Transition economies	**1 177**	**-1 219**	**-1**	**1**
Russian Federation	1 147	-1 219	-1	1

Table C. **Announced greenfield FDI projects by industry, 2014–2015** (Millions of dollars)

Sector/industry	LLDCs as destination 2014	LLDCs as destination 2015	LLDCs as investor 2014	LLDCs as investor 2015
Total	**16 517**	**34 239**	**1 220**	**880**
Primary	**402**	**8 307**	**-**	**-**
Mining, quarrying and petroleum	402	8 307	-	-
Manufacturing	**8 697**	**18 286**	**654**	**111**
Coke, petroleum products and nuclear fuel	320	11 487	44	-
Non-metallic mineral products	2 488	1 899	-	-
Metals and metal products	738	2 245	-	-
Services	**7 418**	**7 646**	**566**	**769**
Electricity, gas and water	982	2 210	-	22
Construction	407	1 864	-	283
Transport, storage and communications	1 275	1 370	399	197
Finance	1 526	617	149	77
Business services	922	832	7	51

Table D. **Announced greenfield FDI projects by region/economy, 2014–2015** (Millions of dollars)

Partner region/economy	LLDCs as destination 2014	LLDCs as destination 2015	LLDCs as investor 2014	LLDCs as investor 2015
World	**16 517**	**34 239**	**1 220**	**880**
Developed economies	**6 173**	**16 242**	**56**	**67**
European Union	2 444	13 722	34	57
France	554	2 615	-	-
United Kingdom	413	7 597	-	2
Developing economies	**8 796**	**10 438**	**1 076**	**712**
Africa	2 991	1 758	611	394
Asia	5 296	8 547	465	295
China	1 893	3 818	395	12
India	810	1 132	-	-
Thailand	444	1 286	-	283
Transition economies	**1 548**	**7 559**	**89**	**102**
Russian Federation	1 414	7 288	-	102

FDI inflows to the LLDCs fell dramatically in 2015, mainly because of reduced investor interest in Kazakhstan. Flows dropped by 18 per cent from $29.7 billion to $24.5 billion, the fourth consecutive yearly decline for this group of economies. This left Turkmenistan as the largest recipient of FDI inflows among the LLDCs; flows there increased from $4.2 billion to $4.3 billion. Asian State-owned enterprises made a number of strategic investments in extractives industries, accounting for the majority of cross-border M&As and announced greenfield investments by value. This reflects the trend of rising interest from investors based in developing and transition economies. Several Asian and African LLDCs received significant FDI flows in the manufacturing and services sectors, namely in the construction and banking industries. Although commodity prices and geopolitical considerations will continue to weigh on FDI prospects, a surge in announced greenfield investments should support higher inflows over the next few years. Extractive industries are expected to still attract the largest share of FDI, but increasing domestic demand for consumer products and services could generate investor interest.

Inflows

Among the transition economy subgroup of LLDCs, Turkmenistan was the largest recipient of inflows, followed by Azerbaijan, as the hydrocarbon sector continued to attract foreign investors in both countries. FDI flows to Kazakhstan plunged by over half, from $8.4 billion to $4 billion. FDI in the country has been negatively affected by the weakened economic performance of the Russian Federation, Kazakhstan's largest trading partner. However, most of this fall was accounted for by a reversal in reinvested earnings, from almost $5 billion in 2014 to –$200 million last year; equity inflows into the country actually increased, from –$300 million in 2014 to $2.2 billion, sounding a note of optimism for FDI in the economy. The move to a free-floating exchange rate in August immediately devalued the tenge by a third against the United States dollar and thus contributed to the reduction in the value of inward FDI stock in Kazakhstan, although this may also have the effect of accelerating investor plans.

Among the African subgroup of LLDCs, Ethiopia continued to attract foreign investments, with inflows rising slightly to almost $2.2 billion, making it the fourth largest LLDC recipient. FDI to Uganda remained the same as in 2014, mainly accounted for by a large increase in reinvested earnings (up 253 per cent) which displaced equity inflows as the largest FDI component. FDI to Zambia collapsed by almost 50 per cent, to $1.7 billion. The decline is linked to the price of copper, which fell to its lowest level since 2009.

FDI flows to the Asian subgroup of LLDCs increased by 26 per cent to $1.5 billion, mainly due to the Lao People's Democratic Republic's upward FDI trajectory, as the country continued to attract investment from Vietnamese, Thai and Chinese investors. Inflows to the country reached $1.2 billion, up 69 per cent on 2014. FDI in Mongolia dropped again, to $195 million, a shadow of its position just four years ago, despite the announcement by Rio Tinto (United Kingdom) of a $5 billion investment in the Oyu Tolgoi copper and gold mine. Equity inflows have been on the decline, and reinvested earnings have been negative for the past three years, indicating that investors are taking money out of the country.

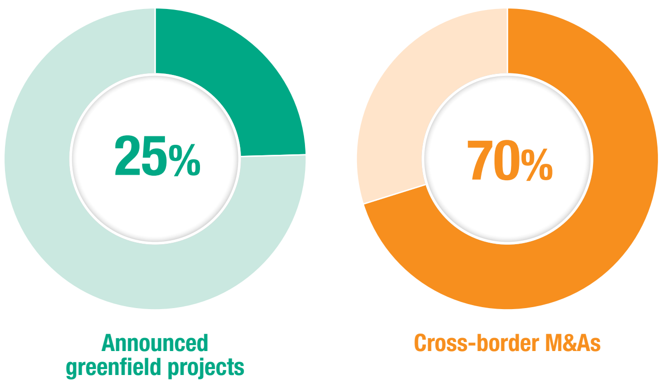
On the upside, cross-border M&As in the LLDCs rebounded in 2015. Following net negative sales (down $1 billion) in 2014, cross-border M&As in the grouping jumped to $2.6 billion last year. This was driven mainly by FDI in the primary sector, and in particular the mining industry (table A). State-owned firms from Malaysia and China continued to seek strategic investments despite the decline in commodity prices (table B). Nevertheless, the strength of the M&A rebound was offset by divestments by firms from the Russian Federation valued at $1.2 billion as well as continued divestment by firms based in the Netherlands.

Large, strategic FDI from Asian State-owned MNEs, mainly in the extractive sector, dominated M&A and greenfield activity in the LLDCs. To an extent, this trend reflects the fact that large hydrocarbon firms in Asia are State-owned. Nevertheless, as exploration of the Caspian Basin oil and gas fields continues to drive regional investment in Central Asia, State-owned foreign investors have been active in acquiring assets. State-owned Sinopec Group (China), the world's largest company by revenue, concluded a deal to buy the remaining 50 per cent stake in a joint partnership with Caspian Investments Resources Ltd., owned by the Kazakh affiliate of Lukoil OAO.[21] Simultaneous transactions by State-owned Petronas (Malaysia) to buy a 15.5 per cent stake in Shah Deniz & the South Caucasus Pipeline from Statoil ASA (Azerbaijan) and a 12.4 per cent stake in Azerbaijan Gas Supply Company from Statoil ASA (Norway) were together valued at $2.25 billion. In a deal worth $565 million, minority State-owned Tibet Summit Industrial Co. Ltd. (China) acquired 100 per cent of the shares in Tajikistan China Mining Co. Ltd. (Tajikistan), a lead and zinc ore exploration company. Although these deals do not represent new FDI (they essentially involve assets changing hands from one foreign owner to another), they do represent the largest M&As in the LLDCs by a significant margin, accounting for almost 70 per cent of gross M&As by value in 2015, and they illustrate the growing strategic presence of Asian State-owned firms in the region (figure II.10).

LLDCs were targets for greenfield investment in the construction and banking industries. The African LLDCs of Uganda, Ethiopia, Zimbabwe, Burundi, Malawi and Zambia were all targets for the expansion of banking services, mainly by Equity Bank and Diamond Trust Bank (both Kenya). Intra-African investment was also strong in the communications sector.[22] In Asia, with the exception of timber, the Lao People's Democratic Republic has few natural resources and suffers from the structural disadvantages common to other LLDCs. However, the rise in FDI last year was driven by greenfield investment in the manufacturing sector, particularly in construction and chemicals, where announced greenfield investments totalled $2.2 billion (see also LDCs, this section). Three notable deals in the cement industry accounted for almost $700 million of announced investment in Nepal, Zambia and Uganda.

Firms from developing and transition economies hold increasing shares in FDI stock in the LLDCs. They have been active in both greenfield and M&A deals in recent years and now account for half of the top 10 investors in the LLDCs. China has increased its FDI stock in the LLDCs fourfold since 2009, and Turkey's FDI stock in the grouping has risen by 70 per cent (figure A). Although the Netherlands reports holding more than $40 billion of FDI stock in the LLDCs – 90 per cent of which is invested in Kazakhstan – it does not appear in the chart: almost all the country's stock is invested by special purpose entities (SPEs), which UNCTAD excludes from its FDI data.

Figure II.10. Share of FDI projects, by value, undertaken by State-owned enterprises in LLDCs, 2015



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

Prospects

A rise in the value of announced greenfield investments in the LLDCs provides signs of optimism. More than half of announced greenfield investments by value, in 2015, was targeted at the manufacturing sector. In LLDCs, manufacturing has consistently accounted for about 50 per cent of greenfield investments since the global financial crisis, with the exception of 2013. Much of this was in the extractive sector value chain (table II.3). The other half of announced greenfield investments was split equally between the services and primary sectors (table C), which accounted for some of the largest deals in the LLDCs, heralding a potential investment recovery in countries such as Mongolia.

The impact of sanctions on the Russian Federation, combined with increasing tensions between regional powers in Central Asia and the continuing fall in the price of oil, may further affect investments in Kazakhstan, the grouping's largest FDI host country (by stock). These factors may also continue to weigh on other large hydrocarbon-based exporters, such as Turkmenistan and Azerbaijan. Kazakhstan depends on the Black Sea route through the Bosporus for most of its hydrocarbon exports but has been exploring options for rail access to a southern port in the Islamic Republic of Iran at Chabahar, following the opening of the Iran–Turkmenistan–Kazakhstan railway, as well as agreements with other countries. Abandoning a reliance on pipelines, which are used exclusively for the export of oil and gas, the country now intends to invest in a blue-water (ocean-going) fleet. Kazakhstan is betting that maritime trade (combined with extensive regional rail links) can eventually help increase its imports of consumer goods and exports of manufactures, and attract investors.[23]

Table II.3. LLDCs: 10 largest greenfield projects announced in 2015

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Mongolia	Metals; copper, nickel, lead and zinc mining	Rio Tinto Group	United Kingdom	5 000
Uganda	Coal, oil and natural gas; petroleum refineries	Russian Technologies State Corporation	Russian Federation	4 000
Uzbekistan	Coal, oil and natural gas; natural, liquefied and compressed gas	Lukoil	Russian Federation	3 054
Bolivia, Plurinational State of	Coal, oil and natural gas; natural, liquefied and compressed gas	Total	France	1 200
Kazakhstan	Metals; iron and steel mills and ferroalloy	Eurasian Resources Group	Luxembourg	1 200
Kazakhstan	Coal, oil and natural gas; natural, liquefied and compressed gas	CompactGTL	United Kingdom	1 048
Turkmenistan	Metals; iron and steel mills and ferroalloy	Pohang Iron & Steel (POSCO)	Korea, Republic of	1 000
Bolivia, Plurinational State of	Coal, oil and natural gas; natural, liquefied and compressed gas	Total	France	980
Kyrgyzstan	Metals; gold ore and silver ore mining	Zijin Mining Group	China	902
Rwanda	Real estate; commercial and institutional building construction	Taaleritehdas	Finland	865

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

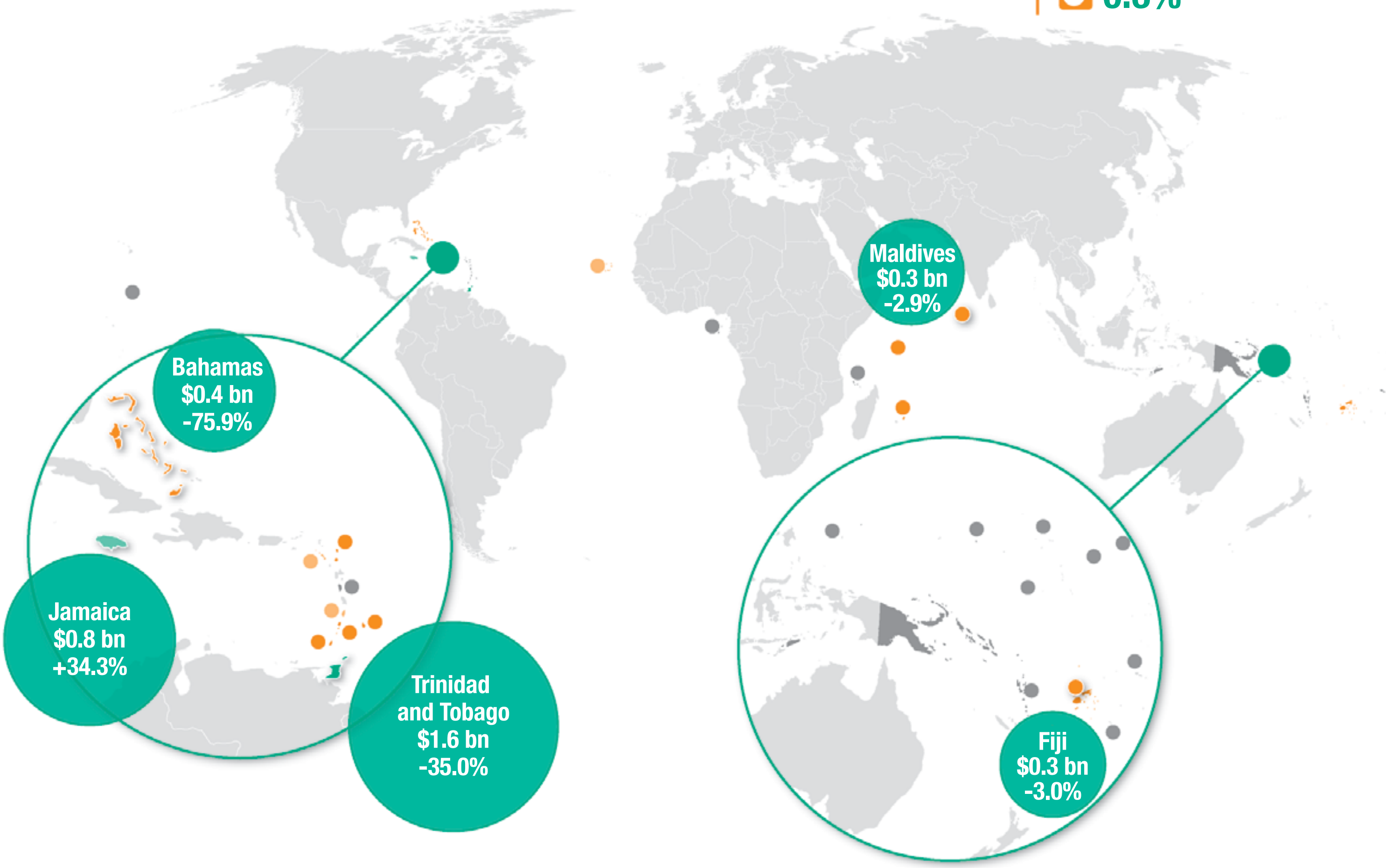
SMALL ISLAND DEVELOPING STATES

FDI flows, top 5 host economies, 2015 (Value and change)

2015 Inflows
4.8 bn

2015 Decrease
-31.7%

Share in world
0.3%



Flows, by range

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

Top 5 host economies

Economy
$ Value of inflows
2015 % change

Outflows: top 5 home economies

(Millions of dollars, and 2015 growth)

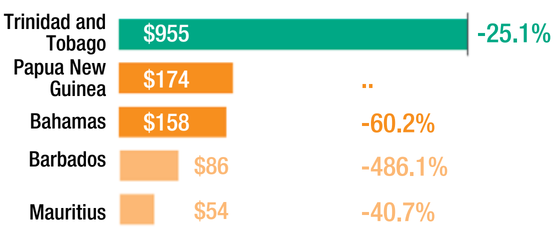
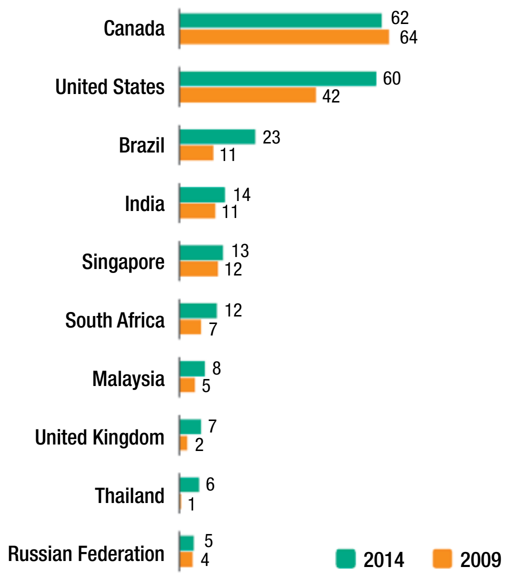


Figure A. Top 10 investor economies, by FDI stock, 2009 and 2014 (Billions of dollars)



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. 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

- Inflows dropped to a five year low
- Developing economies account for a majority of the top 10 investors
- FDI prospects are expected to decrease in 2016

Figure B. | **FDI inflows, 2000–2015** (Billions of dollars and per cent)

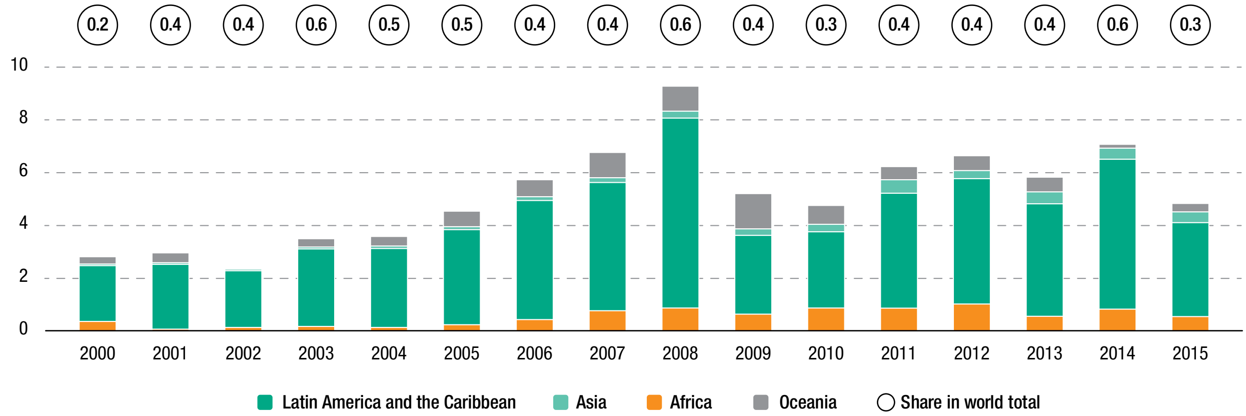


Table A. **Cross-border M&As by industry, 2014–2015** (Millions of dollars)

Sector/industry	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
Total	**1 503**	**2 332**	**2 065**	**3 168**
Primary	**5**	**103**	**-**	**-**
Mining, quarrying and petroleum	5	103	-	-
Manufacturing	**1 175**	**1 708**	**-**	**-**
Food, beverages and tobacco	-	1 708	-	-
Chemicals and chemical products	1 175	-	-	-
Services	**323**	**521**	**2 065**	**3 168**
Transportation and storage	258	155	-81	-
Financial and insurance activities	68	355	-183	2 428
Business activities	-	-	12	806
Public administration and defence; compulsory social security	-	-	1 116	-
Human health and social work activities	-	-	-	-66
Arts, entertainment and recreation	-	11	-	-

Table B. **Cross-border M&As by region/economy, 2014–2015** (Millions of dollars)

Region/economy	Sales 2014	Sales 2015	Purchases 2014	Purchases 2015
World	**1 503**	**2 332**	**2 065**	**3 168**
Developed economies	**74**	**-773**	**1 149**	**1 835**
European Union	3 307	-403	-328	453
Netherlands	526	781	-	-
United Kingdom	2	-1 183	2	220
Switzerland	-125	-	-	1 035
Canada	-109	-300	-	54
Developing economies	**1 428**	**3 105**	**916**	**1 333**
Africa	1 175	-	12	6
Asia	253	2 931	9	1 256
China	-	710	-10	501
India	-	-	10	683
Malaysia	-	1 593	-	-

Table C. **Announced greenfield FDI projects by industry, 2014–2015** (Millions of dollars)

Sector/industry	SIDS as destination 2014	SIDS as destination 2015	SIDS as investor 2014	SIDS as investor 2015
Total	**5 377**	**3 742**	**2 021**	**2 519**
Primary	**22**	**-**	**-**	**-**
Agriculture, hunting, forestry and fisheries	22	-	-	-
Manufacturing	**477**	**494**	**262**	**19**
Food, beverages and tobacco	261	57	259	-
Textiles, clothing and leather	-	6	-	16
Metals and metal products	160	200	-	-
Services	**4 878**	**3 248**	**1 760**	**2 500**
Electricity, gas and water	1 298	148	125	-
Hotels and restaurants	234	2 049	-	-
Transport, storage and communications	808	105	1 369	559
Finance	186	68	67	241
Business services	252	574	161	1 700

Table D. **Announced greenfield FDI projects by region/economy, 2014–2015** (Millions of dollars)

Partner region/economy	SIDS as destination 2014	SIDS as destination 2015	SIDS as investor 2014	SIDS as investor 2015
World	**5 377**	**3 742**	**2 021**	**2 519**
Developed economies	**2 499**	**2 689**	**81**	**121**
European Union	1 981	672	2	115
Canada	1	520	37	-
United States	464	1 355	7	-
Developing economies	**2 877**	**1 052**	**1 941**	**2 365**
Africa	59	15	1 720	2 039
Nigeria	-	-	1 148	1 298
Asia	2 773	816	-	104
China	2 429	203	-	81
Macao, China	-	277	-	-
Latin America and the Caribbean	45	221	221	221
Transition economies	**-**	**-**	**-**	**34**

Combined FDI inflows to the SIDS dipped to a five-year low of $4.8 billion – or 0.3 per cent of global FDI inflows – due to the significant retreat of foreign investment in the Bahamas and in Trinidad and Tobago, two FDI host economies in the group. Yet the net value of cross-border M&As in SIDS (excluding the Caribbean offshore centres) increased by 55 per cent to $2.3 billion, boosted by deals in food manufacturing, banking and mining from MNEs in the global South. Developing economies now account for the majority of the top 10 investors in SIDS, although developed economies still accounted for the majority of planned investments announced in 2015. Overall FDI prospects remain subdued, even though the hotel industry attracted a record-high announced greenfield investment.

Inflows

The commodity downturn hit the largest SIDS host economy, Trinidad and Tobago. The slowdown of energy MNEs' activities contributed to a 35 per cent contraction in FDI flows to Trinidad and Tobago, where more than 80 per cent of FDI stock is held in mining, quarrying and petroleum. In Jamaica, where mining and fuels generated nearly 70 per cent of merchandise exports in 2014, FDI grew by 34 per cent to $794 million, making it the second largest FDI host economy in the group in 2015. Unlike in Trinidad and Tobago, Jamaica's FDI portfolio is more diversified and depends more on the services sector, and the growing tourism industry helped the latter SIDS attract more foreign capital not only in tourism but also in other industries.[24] FDI flows into the Bahamas, the second largest FDI recipient in 2014, tumbled by 76 per cent from $1.6 billion in 2014 to $385 million in 2015, the lowest in 13 years. Intercompany loans to tourism-related construction projects, which supported FDI growth in 2013 and 2014, contracted by nearly $1 billion,[25] and equity investment fell from $325 million in 2014 to $97 million in 2015. FDI flows into Barbados fell by 48 per cent, to $254 million. As a result, FDI flows to the 10 Caribbean SIDS contracted by 37 per cent to $3.6 billion.

In all other regions, leading FDI hosts saw their FDI inflows shrink. In Africa, five SIDS reported a 35 per cent reduction in FDI flows (from $815 million in 2014 to $531 million in 2015) as they were suffering from lower investment in the tourism sector. FDI flows to Mauritius contracted by 50 per cent to $208 million, although this is likely to be only a hiatus. For instance, a record high investment of $1.9 billion (for the next five years) was recently approved.[26] In addition to weaker investment flows to hotels and restaurants,[27] a slowdown in the construction industry[28] suggests reduced foreign investments in high-end real-estate projects, where more than 40 per cent of FDI flows had been generated. Seychelles also registered negative FDI growth (down 15 per cent to $195 million).

In Asia and Oceania, where the scale of FDI flows is much smaller in relation to official development flows,[29] reductions in FDI flows were less significant (down 4 per cent to $367 million and up 124 per cent to $323 million, respectively). Maldives ($324 million) and Fiji ($332 million) both reported a decline of 3 per cent from 2014 to 2015. FDI in Papua New Guinea, where mining, quarrying and petroleum accounts for nearly 90 per cent of FDI stock, remained negative at –$28 million.

Despite the overall FDI decline, the net sales value of cross-border M&As in SIDS (excluding the Caribbean offshore centres) increased by 55 per cent. The largest deal of the year, a $3 billion acquisition of Bahamas-based Columbus International by Cable & Wireless Communications (CWC) (United Kingdom) (table II.4), was followed by a takeover offer to CWC by another major MNE, Liberty Global (United Kingdom). CWC, listed in London but headquartered in Miami (United States), has been active in the Caribbean SIDS, mainly through two brands: LIME (excluding the Bahamas) and BTC (Bahamas).[30] Large deals were recorded in the manufacturing sector for two consecutive years (table A). In 2015 Sime Darby, a Malaysian State-owned enterprise, acquired Papua New Guinea's largest agribusiness company, New Britain Palm Oil, for $1.7 billion.[31]

Table II.4. SIDS: Five largest cross-border M&A sales in 2015

Host economy	Ultimate target economy	Target company's industry segment	Ultimate acquiring company	Home economy	Value (Millions of dollars)
Bahamas	Bahamas	Telephone communications	Cable & Wireless Communications	United Kingdom	3 084
Papua New Guinea	Papua New Guinea	Vegetable oil mills	Sime Darby Bhd	Malaysia	1 708
Bahamas	Bahamas	Beauty shops	Catterton Partners Corp.	United States	834
Jamaica	United Kingdom	Malt beverages	L'Arche Green NV	Netherlands	781
Barbados	United Kingdom	Copper ores	Zijin Mining Group Co. Ltd.	China	412

Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Total number of deals was 40, of which half did not have the transaction value disclosed. Due to their offshore financial status, the two deals in the Bahamas are not included in tables A and B.

Driven by investments from China and Malaysia, net cross-border M&A sales involving investors from developing economies hit the highest level in a decade. In contrast, net sales to developed-economy investors became negative for the fourth time in the past five years. United Kingdom investors divested a total of $1.2 billion (in two deals) by selling assets in the Caribbean SIDS to other foreign companies. In 2011–2015, investors from the global South were responsible for $6.5 billion worth of M&A transactions, while MNEs from developed economies divested a net $2.3 billion. Over that period, Australian investors divested $2.9 billion, followed by the United States ($1.8 billion). Chinese MNEs, by contrast, led cross-border M&A transactions in SIDS with $2.6 billion in acquisitions, followed by French MNEs ($2.5 billion).

Growing presence of developing economies in the top 10 sources of FDI stock in SIDS. Cross-border M&A transactions reflect the growing FDI footprint of investors from the global South in SIDS. Although developed countries, such as Canada and the United States, still hold the highest levels of FDI stock in SIDS,[32] 6 of the top 10 investors are developing economies (figure A). Some of this FDI, however, is held in countries such as the Bahamas and Mauritius,[33] which MNEs also use for onward investment.

Although not among the top 10 investors, Chinese FDI stock in SIDS more than trebled between 2009 and 2014, to $3 billion, mostly because of a $1 billion expansion in Trinidad and Tobago's hydrocarbons sector, a $0.5 billion rise in Oceanian SIDS,[34] and another $0.5 billion in African SIDS (Cabo Verde, Mauritius and Seychelles).[35]

Prospects

Weak commodity prices and the slowdown of the Chinese economy affected capital spending in the greenfield FDI projects announced in 2015 (tables C and D).[36] Even though the number of announced projects was reduced only marginally (from 52 in 2014 – the highest in six years – to 51 in 2015), the 30 per cent decline in estimated capital spending suggests that investment prospects in SIDS remain poor in the short term. Similar to the cases in the LDCs and LLDCs, the uneven distribution of FDI among SIDS is likely to continue.

Prospects for large-scale investments in SIDS' extractive industries are weak. No new hydrocarbon project was announced in 2015 for the second year running. A $200 million metal (manufacturing) project in Trinidad and Tobago (table II.5) was the only greenfield project announced in extractive related industries in SIDS. Compared with the annual average of 2012–2014, the level of expected new investments in Trinidad and Tobago fell by 24 per cent to $423 million (in three projects) and by 85 per cent to $254 million (in six projects) in Papua New Guinea. This prospect can be easily overturned by an investment decision of a single MNE operating in or targeting one resource-rich SIDS, and it should not prevent these resource-rich SIDS from attracting FDI in other industries (see table II.5).

Jamaica, by contrast, made a huge leap by attracting 14 announced greenfield investment projects with a value of $1.4 billion (compared with the annual average of $0.6 billion in 6 projects in 2012–2014). Nearly 40 per cent of announced greenfield investment in all SIDS ($3.7 billion in 51 projects) went to this country, thanks primarily to capital investment plans by United States MNEs in hotels (table II.5) and customer contact centres. In terms of the number of announced projects attracted, Mauritius (eight projects or 16 per cent of total) and Fiji (five projects or 10 per cent of total) continued doing well by attracting diverse but small projects in the services sector and in light manufacturing (such as automotive OEM from Tata Motors (India) in Mauritius, and manufacturing of clothing and accessories in Fiji).

With prospects subdued overall, the services sector – primarily tourism – remains the focus of foreign investors' plans in SIDS (table C). A record high level of greenfield investment was announced in the hotel industry in 2015, driven by a surge in prospective capital spending by MNEs from developed countries (table II.5): the value of planned projects announced (over $2 billion in 10 projects) was almost 10 times greater than in 2014 ($234 million in four projects) (see table A). Lower fuel prices helped boost foreign investor sentiment in tourism-related projects to raise capacities in SIDS to accommodate the projected growth in tourism in the coming years. The third largest greenfield project announced by an MNE based in Macao, China (table II.5), also concerns tourism (namely, the construction of a resort and gambling complex).[37]

Business services also registered robust growth in 2015, with the number of projects hitting a record high of 15 (compared with 10 in 2014). Yet the growth in outward investment plans from this industry (including fixed-line telecommunication carriers and data processing) is noteworthy (see table C), as it has risen from an annual average of $0.6 billion in 2012–2014 to $1.7 billion in eight projects in 2015. The dominant investors in outward greenfield projects are those based in Mauritius targeting Africa, and Nigeria in particular (table D).

Securing the necessary resources and technical assistance to tackle climate change adaptation and mitigation has also been a priority for most countries within the group. Effective global action following the Paris Agreement, adopted at the Conference of the Parties to the United Nations Framework Convention on Climate Change in December 2015, is expected to improve SIDS' access to additional development finance, but this will take time. FDI by MNEs can be a major source of external private capital to SIDS and a provider of technology and skills. Implementation of already announced alternative or renewable energy projects in SIDS could be accelerated by stronger partnerships with governments and the international community, where active investment policies can maximize the development impact of private capital flows (*WIR14*).

Table II.5. SIDS: 10 largest greenfield projects announced in 2015

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Jamaica	Hotels	Karisma Hotels & Resorts	United States	1 010[a]
Antigua and Barbuda	Hotels	Sunwing Travel Group	Canada	400
Cabo Verde	Gambling industries	Macau Legend Development	Macao, China	277
Trinidad and Tobago	Data processing, hosting and related services	Digicel	Jamaica	221
Trinidad and Tobago	Metals	Bosai Minerals	China	200
Maldives	Hotels	Hayleys	Sri Lanka	183
Papua New Guinea	Hotels	InterContinental Hotels Group (IHG)	United Kingdom	183
Maldives	Hotels	RIU Hotels & Resorts	Spain	152[a]
Saint Lucia	Hotels	Sunwing Travel Group	Canada	120
Samoa	Wired telecommunication carriers	Amper SA	Spain	107

Source: ©UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] Total of three projects.

NOTES

[1] Although cross-border M&A activity into South Africa leaped to nearly $21 billion, this figure reflects one very large deal involving Steinhoff International's acquisition of the entire share capital of its affiliate in South Africa for the exceptionally large amount of $20.4 billion in a stock swap transaction through a reverse takeover.

[2] For instance, Volkswagen (Germany) is investing €22 billion in order to boost its Chinese production to 5 million vehicles; most of the investment will be in inland provinces, such as Hunan.

[3] This deal dragged net M&A sales in the Republic of Korea to a negative $4 billion.

[4] Mai Nguzen, "Samsung ups investment in southern Vietnam project to $2 billion", Reuters, 29 December 2015.

[5] The level of round-tripping is likely to decrease when a protocol signed by the Indian and Mauritian Governments amending the Double Taxation Avoidance Agreement comes into effect in April 2017. Under one of its provisions the Indian Government will impose capital gains tax on investment from Mauritius.

[6] The Government of Myanmar is targeting $8 billion foreign investment in fiscal year 2016/2017, and in order to do so it has been encouraging more FDI in agriculture, infrastructure and trade. See Nay Pyi Taw, "Myanmar targets $8 billion foreign investment", Business Standard, 9 May 2016.

[7] Australia, Department of Industry, Innovation and Science (2015).

[8] "Canadian pension funds putting down roots abroad", Pension & Investments, 7 July 2014.

[9] The Boston Consulting Group, "Measuring Impact of Canadian Pension Funds", October 2015. http://files.newswire.ca/29/ENG_Top_Ten_Report.pdf.

[10] The Democratic Republic of the Congo, Eritrea, Guinea, Mali, Mauritania, Mozambique and Zambia.

[11] Angola, Chad, Equatorial Guinea, South Sudan, the Sudan and Yemen.

[12] Guinea-Bissau, Malawi, Solomon Islands and Somalia.

[13] Afghanistan, Burundi, the Comoros, Djibouti, Ethiopia, the Gambia, Liberia, Madagascar, Nepal, Rwanda, Sao Tome and Principe, Timor-Leste, Tuvalu, Uganda and Vanuatu.

[14] Bangladesh, Bhutan, Cambodia, Haiti and Lesotho.

[15] "FDI picture mixed", 26 April 2016, www.thedailystar.net.

[16] Benin, Burkina Faso, the Central African Republic, Kiribati, the Lao People's Democratic Republic, Myanmar, the Niger, Senegal, Sierra Leon, Togo and the United Republic of Tanzania.

[17] "Japan brewers buying assets abroad as home market shrinks", 20 April 2016, www.asianikkei.com.

[18] "Foreign investment in Myanmar jumps 18 per cent amid political transition", 20 April 2016, Nikkei Asian Review.

[19] "Myanmar targets $8 billion foreign investment", Business Standard, 9 May 2016.

[20] "ONGC Videsh to double Africa investments to $16 bn in 3 years", Business Standard, 28 October 2015.

[21] "Sinopec buys Kazakhstan Oil Assets from Lukoil for $1.09 Billion", Bloomberg, 20 August 2015, www.bloomberg.com.

[22] In the services sector, Orange (France) announced an investment in wireless communications in Botswana worth $150 million. Announced investments by MTN Group (South Africa) and East Africa Capital Partners (Kenya), also in wireless communications as well as data processing, were valued at $150 million each.

[23] "Land-locked Kazakhstan plans to build a blue-water commercial fleet", Jamestown Foundation, www.jamestown.org.

[24] IMF, Jamaica Country Report, No. 15/343, December 2015; "Jamaica's trailblazing tourism growth in 2015", Caribbean Journal, 29 December 2015.

[25] Central Bank of the Bahamas, The Quarterly Economic Review, 24 (4), December 2015.

[26] "Mauritius investment flows tail off despite record-high deals", Bloomberg, 12 April 2016, www.bloomberg.com.

[27] "Foreign investment in Mauritius falls 29 pct in first 9 months", Reuters, 15 December 2015, http://af.reuters.com.

[28] IMF, Mauritius Country Report, No. 16/89, 22 March 2016.

[29] See figure II.28, *WIR15*.

[30] "Columbus International Inc. closes upon its acquisition by CWC", 31 March 2015, http://finance.yahoo.com/news.

[31] "Sime Darby expansion to follow takeover of Papua New Guinea's New Britain Palm Oil", Business Advantage PNG, 4 March 2015.

[32] Both Canada and the United States report their large stock holdings in the Caribbean offshore centres. In 2014, 90 per cent of FDI stock from Canada was held in Barbados, and nearly 80 per cent of the United States' stock was held in Barbados and the Bahamas.

[33] For example, in both 2009 and 2014, almost all FDI stock from Brazil to SIDS was composed of Brazil's stock holding in the Bahamas; thus, a jump in this country's stock holding in SIDS is explained by the growth in the FDI stock in the Bahamas, from $10.5 billion in 2009 to $22.8 billion in 2014.

[34] In 2014, nearly 80 per cent of stock in the Oceanian SIDS was held in Papua New Guinea (compared with 72 per cent in 2009).

[35] Mauritius has been the largest destination of Chinese FDI stock among the African SIDS (more than 80 per cent in 2014, compared with 95 per cent in 2009).

[36] Although the number of projects announced by Chinese investors during 2015 fell only from three in 2014 to two, the value of announced greenfield projects slumped, as presented in table D, from $2.4 billion to $0.2 billion.

[37] The construction has already started and is scheduled to be complete in three years ("Macau Legend breaks ground on casino in Cape Verde", 12 February 2016, http://calvinayre.com).