CHAPTER II

REGIONAL TRENDS

INTRODUCTION

Global foreign direct investment (FDI) inflows declined by 2 per cent overall in 2016 to $1,746 billion, down from $1,774 billion in 2015, but with variance among country groups and regions (table II.1).

Flows to *developed economies* increased by 5 per cent to $1,032 billion. The decline of FDI flows to Europe (by 6 per cent to $533 billion) was more than offset by a modest growth in flows to North America (+9 per cent to $425 billion) and by investment more than doubling in other developed economies. FDI to *developing economies* experienced a decline of 14 per cent, to $646 billion. Flows to developing Asia contracted by 15 per cent to

Table II.1. FDI flows by region, 2014–2016 (Billions of dollars and per cent)

Group of economies/region	FDI inflows			FDI outflows		
	2014	2015	2016	2014	2015	2016
World	**1 324**	**1 774**	**1 746**	**1 253**	**1 594**	**1 452**
Developed economies	563	984	1 032	708	1 173	1 044
Europe	272	566	533	221	666	515
North America	231	390	425	353	370	365
Developing economies	704	752	646	473	389	383
Africa	71	61	59	28	18	18
Asia	460	524	443	412	339	363
East Asia	257	318	260	289	237	291
South-East Asia	130	127	101	89	56	35
South Asia	41	51	54	12	8	6
West Asia	31	28	28	23	38	31
Latin America and the Caribbean	170	165	142	31	31	1
Oceania	2	2	2	1	1	1
Transition economies	57	38	68	73	32	25
Structurally weak, vulnerable and small economies[a]	**68**	**64**	**58**	**26**	**14**	**10**
LDCs	41	44	38	18	9	12
LLDCs	28	25	24	6	5	-2
SIDS	6	4	4	0.3	0.7	0.2
Memorandum: percentage share in world FDI flows						
Developed economies	42.6	55.5	59.1	56.5	73.6	71.9
Europe	20.6	31.9	30.5	17.7	41.8	35.4
North America	17.4	22.0	24.3	28.1	23.2	25.2
Developing economies	53.2	42.4	37.0	37.7	24.4	26.4
Africa	5.4	3.5	3.4	2.3	1.1	1.3
Asia	34.8	29.5	25.3	32.9	21.2	25.0
East Asia	19.4	17.9	14.9	23.0	14.9	20.1
South-East Asia	9.9	7.1	5.8	7.1	3.5	2.4
South Asia	3.1	2.9	3.1	1.0	0.5	0.4
West Asia	2.3	1.6	1.6	1.8	2.4	2.1
Latin America and the Caribbean	12.8	9.3	8.1	2.5	2.0	0.1
Oceania	0.2	0.1	0.1	0.1	0.1	0.1
Transition economies	4.3	2.1	3.9	5.8	2.0	1.7
Structurally weak, vulnerable and small economies[a]	**5.1**	**3.6**	**3.3**	**2.1**	**0.9**	**0.7**
LDCs	3.1	2.5	2.2	1.5	0.6	0.8
LLDCs	2.1	1.4	1.4	0.5	0.3	-0.1
SIDS	0.4	0.2	0.2	0.03	0.04	0.01

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.

$443 billion, and those to Latin America and the Caribbean – excluding Caribbean offshore financial centres – fell further, by 14 per cent to $142 billion. With inflows declining by 3 per cent to $59 billion, Africa's share in global FDI decreased marginally from 3.5 per cent to 3.4 per cent. Flows to *transition economies* rebounded by 81 per cent to $68 billion.

Outward FDI outflows from *developed economies* declined by 11 per cent to $1 trillion, while still accounting for more than 70 per cent of global FDI. The decline was sharper in Europe (-23 per cent to $515 billion), after the surge of 2015. Investments by North American multinational enterprises (MNEs) held steady at $365 billion. Overall outflows from *developing economies* were almost flat at $383 billion. After a lull in 2015, developing Asia saw its outward investments recover by 7 per cent to $363 billion, thanks to record outflows from China. Outward FDI from *transition economies*, in contrast, declined by 22 per cent to $25 billion – their lowest level since 2005 – as outflows from Kazakhstan turned negative.

FDI flows to *structurally weak, vulnerable and small economies* declined, but at different speeds: flows to *least developed countries* (LDCs) retreated strongly (by 13 per cent to $38 billion); flows to *landlocked developing countries* (LLDCs) fell only marginally (by 2 per cent to $24 billion), while flows to *small island developing States* (SIDS) shrank by 6 per cent to $3.5 billion.

DEVELOPING ECONOMIES

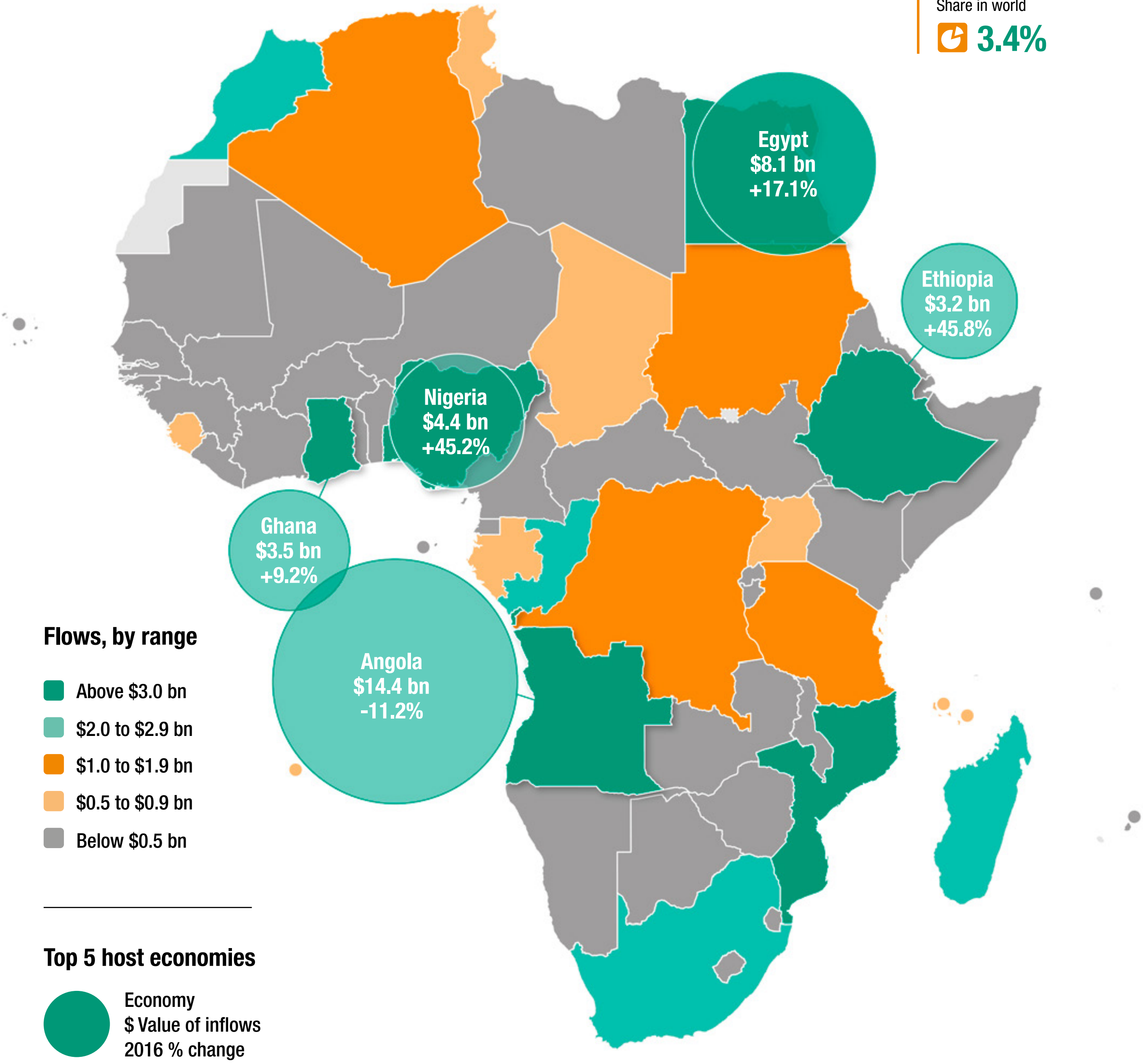
AFRICA

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
59.4 bn

2016 Decrease
-3.5%

Share in world
3.4%



Flows, by range

- Above $3.0 bn
- $2.0 to $2.9 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2016 % change

Outflows: top 5 home economies
(Billions of dollars and 2016 growth)

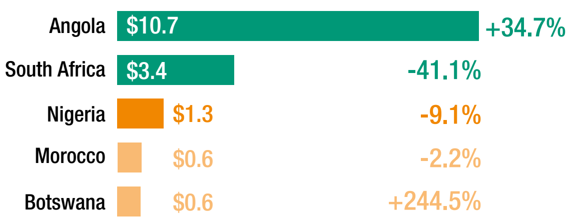
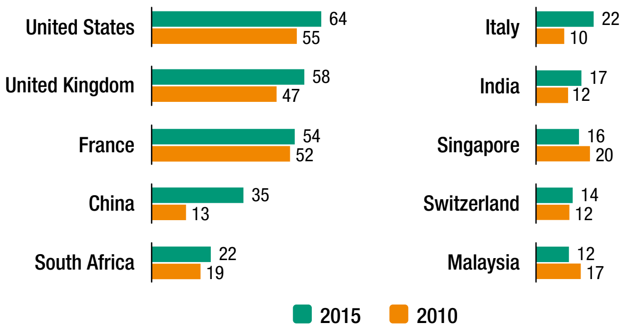


Figure A. **Top 10 investor economies by FDI stock, 2010 and 2015** (Billions of dollars)



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**
- **Robust FDI to Egypt continues to boost FDI in North Africa**
- **FDI is expected to increase moderately in 2017**

Figure B. **FDI inflows, 2010–2016**
(Billions of dollars and per cent)

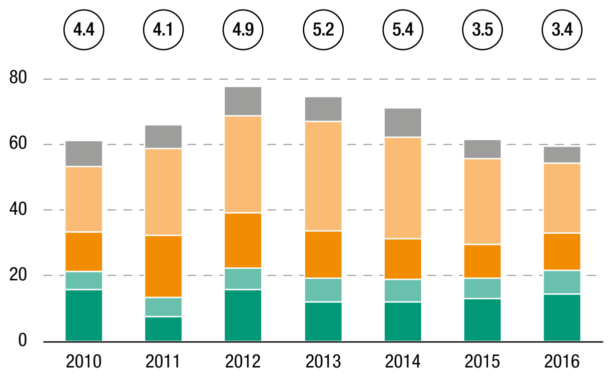


Figure C. **FDI outflows, 2010–2016**
(Billions of dollars and per cent)

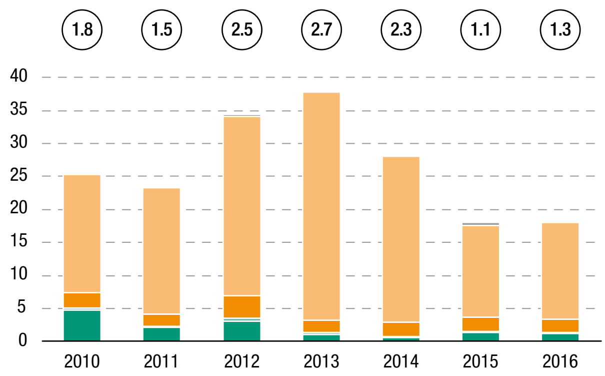


Table A. **Cross-border M&As by industry, 2015–2016** (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**21 259**	**9 689**	**3 533**	**6 061**
Primary	**998**	**52**	**-419**	**329**
Mining, quarrying and petroleum	998	45	-806	329
Manufacturing	**21 716**	**-254**	**-391**	**3 667**
Food, beverages and tobacco	221	780	9	-35
Basic metal and metal products	-72	-1 102	-	-
Furniture	20 433	-	-	3 027
Services	**-1 455**	**9 891**	**4 343**	**2 065**
Trade	75	6	212	-174
Information and communication	-2 572	-39	938	342
Financial and insurance activities	652	426	2 374	1 336
Business activities	309	103	803	315
Human health and social work activities	-	9 350	-	16

Table B. **Cross-border M&As by region/economy, 2015–2016** (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**21 259**	**9 689**	**3 533**	**6 061**
Developed economies	**22 357**	**-2 199**	**-165**	**5 792**
European Union	18 605	847	490	3 131
France	612	236	-180	-
United Kingdom	201	596	161	965
United States	2 194	-3 085	-396	2 445
Developing economies	**-1 194**	**12 911**	**2 497**	**162**
Africa	174	390	174	390
Morocco	81	-	-	375
South Africa	43	284	-9	-
United Arab Emirates	-616	9 187	1 543	-
China	53	2 932	279	-
Transition economies	**-**	**-1 135**	**1 200**	**106**

Table C. **Announced greenfield FDI projects by industry, 2015–2016** (Millions of dollars)

Sector/industry	Africa as destination 2015	Africa as destination 2016	Africa as investor 2015	Africa as investor 2016
Total	**67 047**	**94 073**	**13 192**	**11 739**
Primary	**14 972**	**3 713**	**383**	**-**
Mining, quarrying and petroleum	14 972	3 713	383	-
Manufacturing	**15 178**	**19 385**	**2 491**	**5 985**
Textiles, clothing and leather	401	1 077	97	46
Coke, petroleum products and nuclear fuel	53	5 354	29	-
Chemicals and chemical products	2 709	5 107	696	4 596
Motor vehicles and other transport equipment	3 019	2 788	23	28
Services	**36 897**	**70 975**	**10 318**	**5 754**
Electricity, gas and water	14 791	15 601	2 139	156
Construction	8 339	16 372	2 595	2 542
Transport, storage and communications	5 887	12 879	2 068	698
Business services	3 733	22 734	2 282	1 003

Table D. **Announced greenfield FDI projects by region/economy, 2015–2016** (Millions of dollars)

Partner region/economy	Africa as destination 2015	Africa as destination 2016	Africa as investor 2015	Africa as investor 2016
World	**67 047**	**94 073**	**13 192**	**11 739**
Developed economies	**37 412**	**19 979**	**756**	**1 378**
European Union	26 549	11 864	646	1 182
Italy	7 420	4 006	-	-
United States	6 447	3 640	62	48
Japan	368	3 070	-	-
Developing economies	**29 362**	**73 642**	**12 376**	**10 342**
Africa	11 550	8 604	11 550	8 604
Morocco	3 403	4 751	16	-
China	2 651	36 144	169	110
Singapore	206	3 197	24	13
Saudi Arabia	1 506	4 057	1	743
United Arab Emirates	4 068	11 004	248	117

FDI flows to Africa continued to decline in 2016, though by a moderate 3 per cent to $59 billion. Continued robust foreign investment into Egypt boosted inflows to North Africa. In contrast, sluggish commodity prices have diminished economic prospects in Sub-Saharan Africa and tempered investor interest in the subregion. Flows to Angola – the largest FDI recipient in the continent – were subdued. Despite some recovery from its 2015 lows, FDI to Nigeria and South Africa remained well below past averages. Some diversified producers of East Africa registered strong FDI in 2016, with Ethiopia attracting more inflows than ever before. MNEs from developing economies are increasingly active in the continent, but those from developed countries still hold most of the foreign investment stock. Outward investment from Africa remained steady at $18 billion in 2016, with higher outflows from Angola offsetting declines in FDI from Nigeria and South Africa. FDI flows to Africa are likely to increase moderately in 2017 on the back of modest oil price rises and a potential increase in non-oil FDI.

Inflows

Robust FDI to Egypt continues to boost inflows to North Africa. FDI flows into North Africa rose by 11 per cent, to $14.5 billion, driven by foreign investment reforms and new gas discoveries. As in 2015, much of the growth was due to investments in Egypt, where FDI inflows increased by 17 per cent to $8.1 billion. The discovery by Shell (Netherlands) of gas reserves in Egypt's Western Desert continued to drive investment in the country's hydrocarbons sector. FDI inflows to Morocco, in contrast, were down by 29 per cent to $2.3 billion in 2016, owing to reduced European consumer demand, which negatively affected export-oriented FDI in the country. After registering negative inflows in 2015, Algeria attracted $1.5 billion in FDI in 2016, led partly by improved investment policies and a recent recovery in its oil production. Low oil prices and continued conflicts kept FDI flows to the rest of North Africa subdued.

Low commodity prices have dampened economic prospects in Sub-Saharan Africa and shrunk investor interest in the subregion. FDI flows to Central Africa fell by 15 per cent in 2016, to $5.1 billion. The Democratic Republic of the Congo saw FDI decline by 28 per cent to $1.2 billion in 2016, as the country attracted only investment into its mineral sector. Central Africa's major net oil exporters saw mixed performances, highlighting the importance of strong government responses to macroeconomic and financing conditions. Equatorial Guinea saw a substantial decline in FDI inflows (-77 per cent to $54 million), Chad experienced no change, while flows to Gabon increased by 13 per cent to $703 million. FDI in the Congo rose by 8 per cent, to $2 billion, mostly due to continued investments by Chinese companies operating in cobalt and copper extraction.

East Africa received $7.1 billion in FDI in 2016, 13 per cent more than in 2015. However, the aggregate increase masks divergent FDI performance within the subregion. Flows to Ethiopia rose by 46 per cent to $3.2 billion, propelled by investments in infrastructure and manufacturing. FDI was also buoyant in Mauritius, thanks to a variety of services investments and in Madagascar, in the context of a continued recovery since the decline in 2014. FDI into Kenya continued its decline, slumping by 36 per cent to $394 million in 2016 – only slightly more than a quarter of its 2011 level – despite investment reforms and a supportive domestic policy environment. Yet the trading value on Kenya's liquid stock exchange overtook that of Nigeria's exchange for the first time last year. This propped up cross-border M&As, with the private equity fund Helios (United Kingdom) buying 70 per cent of Telkom Kenya from Orange (France). Flows to the United Republic of Tanzania shrank by

15 per cent to $1.4 billion amid concerns about the country's regulatory environment and tax policies towards foreign firms.

FDI flows to West Africa increased by 12 per cent to $11.4 billion in 2016, driven by recovering investment into Nigeria. Although flows to Nigeria rebounded to $4.4 billion in 2016 (up 45 per cent from a 2015 low), they remained well below previous record levels. Nigeria's FDI remained relatively depressed, as its oil output declined to historic lows in 2016, and the country fell into recession for the first time since 1991. FDI inflows to Ghana increased by 9 per cent to $3.5 billion. Vitol Group (Netherlands) and Eni (Italy), in partnership with Ghana's National Petroleum Corporation, continued development on the $7 billion offshore oil and natural gas project in West Ghana. Ghana's and Côte d'Ivoire's industrial policy efforts to combine cocoa processing bode well for future investment regionally, although the latter experienced a minor decline (-3 per cent) in FDI inflows in 2016. FDI flows to Senegal slid by some 4 per cent in 2016, to $393 million, despite policy efforts to attract more investors, such as the revamping of the country's special economic zones, in partnership with Mauritius.

In Southern Africa, FDI inflows contracted by 18 per cent to $21.2 billion. With the exception of Malawi and South Africa, FDI fell in all the economies of the subregion. FDI flows to Angola declined by 11 per cent to $14.4 billion, mainly due to a decline in reinvested earnings, reflecting the impact of low prices on profit margins. Flows to Mozambique declined by 20 per cent, although they remained sizeable at $3 billion. Despite a serious financial crunch, investors remained upbeat about long-term value in Mozambique's commodity sector, with Eni (Italy) approving $8 billion in offshore gas exploration at the end of 2016, and ExxonMobil (United States) buying a multibillion-dollar stake in Eni (Italy). Flows to Zambia fell sharply, dropping 70 per cent to $469 million, amid low commodity prices.

South Africa, the economic powerhouse on the continent, continues to underperform, with FDI at a paltry $2.3 billion in 2016; that was up 31 per cent from a record low in 2015 but still well off its past average. Nonetheless, State-owned Beijing Automotive International Corporation (China) agreed to build a $759 million automotive plant – the biggest investment in a vehicle-production facility in the country in four decades.

MNEs from developed economies remain the major investors in Africa and investors from developing economies are increasingly active. In 2015, developed economies, led by the United States, the United Kingdom and France, remained the largest investors in Africa (figure A). Yet half of the top 10 investors in Africa were from developing economies, reflecting recent global trends of rising FDI flows from the South. China's FDI stock in the region increased almost threefold between 2010 and 2015, while Malaysia and Singapore reduced their investment presence.

Investors from developing economies continued buying assets held in Africa by developed-country MNEs. In 2016, cross-border M&A sales in the continent fell by 54 per cent to $9.7 billion. Developed-country MNEs divested over $2 billion worth of assets to MNEs from developing economies, mainly China. For example, China Molybdenum (China) acquired the entire share capital of Freeport-McMoRan DRC Holdings (United States) for $2.8 billion to secure a supply of cobalt, which is vital for the production of Tesla batteries. African MNEs were also prominent in buying assets located in Africa. Barclay's (United Kingdom), for example, sold its 150-year-old affiliate in Egypt to Morocco's Attijariwafa Bank for $500 million. Liquid Telecom, owned by telecommunication company Econet Wireless (Zimbabwe), bought the South African fixed-line operator Neotel (majority owned by India's Tata Communications) for $430 million, in a deal that will create the continent's biggest broadband network.

Outflows

FDI outflows from Africa remained flat, at $18.2 billion (up 1 per cent from 2015). The reduced investments from South Africa, the Democratic Republic of the Congo, Ghana and Nigeria, in that order, were offset by the rise of outflows from Angola, the region's largest investor. Investments from Angola, mainly by the State-owned petroleum and natural gas MNE Sonangol, increased by 35 per cent to $10.7 billion. FDI from South Africa slowed by 41 per cent in 2016 to $3.4 billion, down from a high of $5.7 billion in 2015. Outflows from Nigeria contracted by 9 per cent to $1.3 billion. Outward FDI from North Africa fell by 6 per cent to $1.3 billion, with FDI from Morocco contracting 2 per cent to $639 million. Weak commodity prices and higher borrowing costs (as the value of local currencies fell and interest rates rose) tempered the expansion of many African MNEs.

India and the United Kingdom were key targets for cross-border M&A purchases from the continent. South Africa's Brait, for instance, undertook major investments in fashion retailer New Look (United Kingdom) for $966 million and in gym chain Virgin Active (United Kingdom) for $852 million. Intra-African FDI remained prominent in 2016, driven by South African and Moroccan firms. South Africa's Sanlam purchased a 30 per cent stake in Morocco's Saham Finances for $375 million. Moroccan firms continued to expand regionally (e.g. Office Cherifien des Phosphates, the world's largest phosphate exporter, signed at the end of 2016 a joint venture with Ethiopia to build a $3.7 billion fertiliser plant).

Prospects

FDI inflows to Africa are expected to increase by about 10 per cent in 2017, to almost $65 billion, in view of modest oil price rises and a potential increase in non-oil FDI. An uptick in oil prices, if sustained, should help stabilize capital spending in major oil-dependent African economies in 2017 and might revive foreign appetites for oil assets, even as capital expenditure remains muted. French oil giant Total has already agreed in 2017 (through its South African subsidiary) to purchase a stake in a development in Uganda led by Tullow Oil (United Kingdom) for $900 million in order to revitalize an ailing project. The launch of a $3.3 billion joint venture by the Africa Finance Corporation, a Lagos-based development institution, and the infrastructure fund of South Africa's Harith General Partners to create one of the biggest pan-African energy companies will further support energy investments in the continent.

Africa will need to rely on greater non-oil FDI in 2017, if FDI is to expand amid low commodity prices. Announced greenfield projects for 2016 – which were high in real estate, followed by natural gas, infrastructure, renewable energy, chemicals and automotives – indicate such an increase. Non-commodity FDI may occur in 2017, with multiple prospective investments by MNEs from China and the United Arab Emirates being initiated in infrastructure and business services. The challenge remains putting policies in place to leverage this FDI so as to diversify domestic productive capacity before the next commodity downturn.

Growing inter- and intraregional integration through the signing of economic partnership agreements with Europe by key African regional economic communities in the last years, as well as the negotiations between the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community towards the Tripartite Free Trade Agreement, should foster competitive global integration and encourage stronger FDI flows. The Continental Free Trade Area negotiated under the African Union could also have a significant impact on intra-African FDI flows in the medium term.

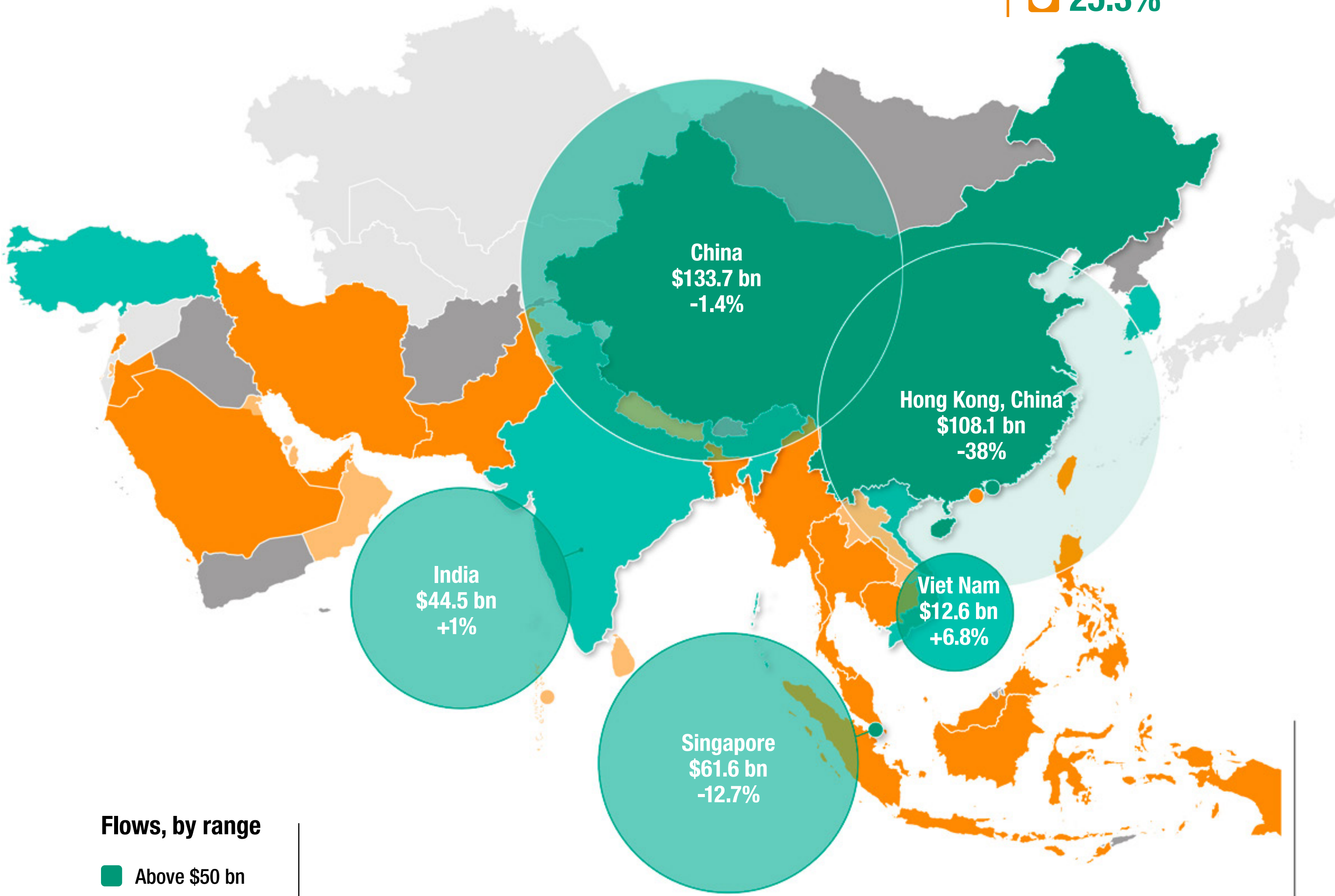
DEVELOPING ASIA

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
442.7 bn

2016 Decrease
-15.5%

Share in world
25.3%



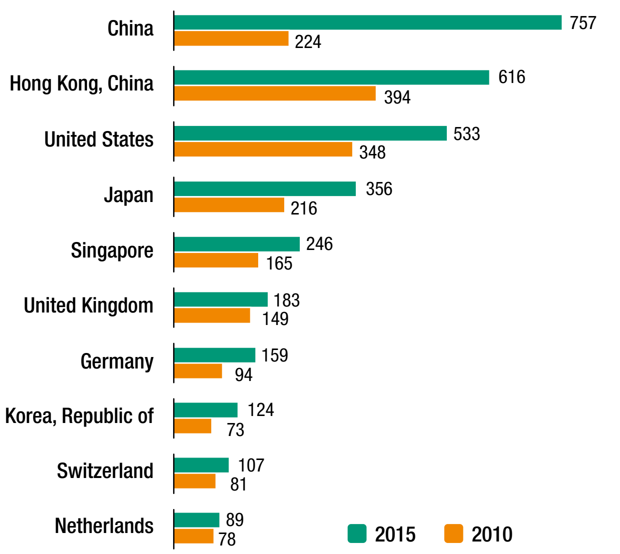
Flows, by range

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

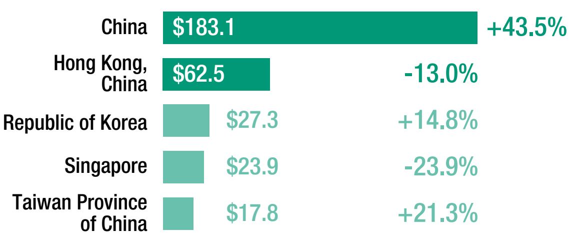
Top 5 host economies

Economy
$ Value of inflows
2016 % change

Figure A. **Top 10 investor economies by FDI stock, 2010 and 2015** (Billions of dollars)



Outflows: top 5 home economies
(Billions of dollars and 2016 growth)



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

HIGHLIGHTS

- FDI inflows to developing Asia experienced their first decline since 2013
- Outward FDI rose thanks to surging outflows from China
- A recovery in inflows is expected

Figure B. FDI inflows, 2010–2016
(Billions of dollars and per cent)

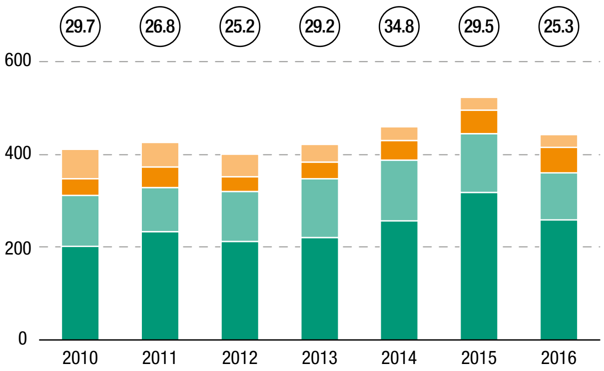
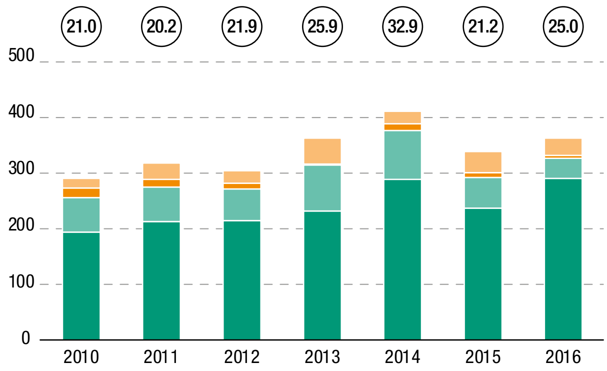


Figure C. FDI outflows, 2010–2016
(Billions of dollars and per cent)



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

Table A. Cross-border M&As by industry, 2015–2016 (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**49 919**	**41 861**	**122 609**	**143 235**
Primary	**6 597**	**-1 969**	**13 032**	**12 362**
Mining, quarrying and petroleum	5 005	-1 833	7 847	12 174
Manufacturing	**2 408**	**17 013**	**3 177**	**24 131**
Food, beverages and tobacco	2 408	4 769	2 551	2 947
Chemicals and chemical products	943	1 280	2 492	3 055
Computer, electronic, optical products and electrical equipment	1 314	4 034	5 791	7 192
Machinery and equipment	-3 150	3 397	530	6 321
Services	**40 914**	**26 816**	**106 400**	**106 742**
Electricity, gas, water and waste management	2 766	3 465	1 695	8 075
Transportation and storage	3 743	5 770	4 930	17 974
Information and communication	-6 985	5 579	-8 166	1 117
Financial and insurance activities	20 084	4 378	75 704	50 104

Table B. Cross-border M&As by region/economy, 2015–2016 (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**49 919**	**41 861**	**122 609**	**143 235**
Developed economies	**10 642**	**3 812**	**80 470**	**79 387**
European Union	-3 272	-2 530	36 350	11 296
United States	1 666	4 423	28 529	43 700
Japan	10 029	2 904	1 254	4 683
Developing economies	**39 027**	**37 121**	**38 696**	**57 999**
Africa	2 374	186	-1 367	12 510
Asia	36 707	36 393	36 707	36 393
China	14 910	21 769	8 842	10 157
Hong Kong, China	9 911	458	12 452	8 962
Singapore	2 980	3 114	1 676	998
Latin America and the Caribbean	69	543	918	9 096
Transition economies	**-1 305**	**150**	**3 442**	**5 849**

Table C. Announced greenfield FDI projects by industry, 2015–2016 (Millions of dollars)

Sector/industry	Developing Asia as destination 2015	Developing Asia as destination 2016	Developing Asia as investor 2015	Developing Asia as investor 2016
Total	**322 335**	**346 803**	**241 924**	**301 466**
Primary	**8 600**	**6 081**	**2 713**	**5 516**
Mining, quarrying and petroleum	8 600	6 081	2 713	5 396
Manufacturing	**129 634**	**131 666**	**91 868**	**83 866**
Coke, petroleum products and nuclear fuel	15 912	12 372	12 863	11 641
Chemicals and chemical products	18 347	19 515	10 384	7 948
Electrical and electronic equipment	28 873	33 062	17 690	24 720
Motor vehicles and other transport equipment	17 639	19 728	11 370	9 709
Services	**184 100**	**209 057**	**147 343**	**212 084**
Electricity, gas and water	74 762	63 271	60 767	57 749
Construction	45 107	75 929	49 618	88 317
Transport, storage and communications	14 582	15 479	9 448	21 448
Business services	16 746	21 124	6 502	28 022

Table D. Announced greenfield FDI projects by region/economy, 2015–2016 (Millions of dollars)

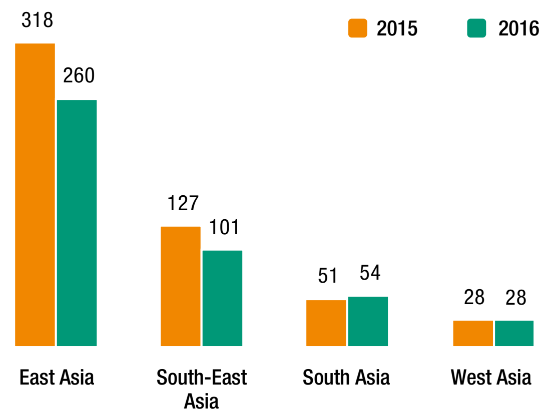
Partner region/economy	Developing Asia as destination 2015	Developing Asia as destination 2016	Developing Asia as investor 2015	Developing Asia as investor 2016
World	**322 335**	**346 803**	**241 924**	**301 466**
Developed economies	**150 630**	**164 762**	**30 999**	**45 304**
Europe	66 111	78 011	16 071	16 867
European Union	60 985	72 004	15 971	16 463
United States	42 147	49 578	7 860	12 497
Japan	33 467	28 004	2 016	4 512
Developing economies	**167 041**	**174 700**	**190 894**	**247 389**
Africa	619	1 739	17 439	65 017
China	40 750	44 249	26 367	31 281
Korea, Republic of	19 353	22 641	6 396	1 219
Singapore	21 812	19 659	1 014	1 693
Latin America and the Caribbean	804	658	7 831	9 782
Transition economies	**4 663**	**7 341**	**20 032**	**8 773**

Following a record high in 2015, combined FDI flows to developing Asia contracted by 15 per cent to $443 billion in 2016. The decline in inflows to the region was relatively widespread, with three of the four subregions registering reductions. However, the reasons for this decline varied by subregion. In East Asia, stable flows into China were not enough to offset the decline of FDI to Hong Kong (China), following one-off large restructuring in 2015. In South-East Asia, several ASEAN member countries saw their inflows decline owing to uncertainties in the world economy. In West Asia, weak oil prices and political uncertainty continued to weigh on FDI inflows. Only South Asia escaped the sharp decline, thanks to stable flows to India and a rise in flows to Pakistan. Yet, developing Asia remained the second largest FDI recipient in the world, with China, Hong Kong (China), Singapore and India ranking among the top 10 FDI host economies. FDI outflows from developing Asia rose by 7 per cent to $363 billion, mainly because of surging FDI outflows from China. An improved economic outlook in ASEAN and China is likely to lift investor confidence and help boost FDI inflows in 2017 and beyond.

Inflows

The decline in FDI flows to developing Asia affected three of the four subregions (figure II.1) and most major economies. In absolute terms, the bulk of the decline in flows to developing Asia was registered in Hong Kong (China), but inflows to Indonesia, Mongolia, Singapore, Thailand and Turkey also fell sharply. In contrast, foreign investment in China and India remained more or less unchanged, experiencing a 1 per cent decline and 1 per cent increase, respectively.

Figure II.1. Developing Asia: FDI inflows by subregion, 2015 and 2016
(Billions of dollars)



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

In East Asia, FDI decreased in Hong Kong (China), but held steady in China. FDI flows to East Asia registered a decline of 18 per cent to $260 billion. This was mainly the result of diminishing flows to Hong Kong (China) – from $174 billion in 2015 to $108 billion in 2016. Following a major corporate restructuring in 2015 that had made the economy the largest FDI recipient in developing Asia and the second largest in the world (*WIR15*), inflows normalized in 2016. FDI to Hong Kong (China) nonetheless remained well above the average of about $80 billion registered over 2010–2013.

Inflows to China saw a slight decrease, by 1 per cent to $134 billion, owing to a decline in FDI in finance. In non-financial sectors, the country recorded 27,900 new foreign-invested enterprises (FIEs)[1] in 2016, including 840 with investments above $100 million. In addition, 450 existing FIEs significantly expanded their businesses, undertaking additional investment above $100 million.[2] Non-financial services continued to underpin new FDI, with inflows in the sector growing by 8 per cent while foreign investment into manufacturing continued to shift to higher value added production. In March 2017, for example, Boeing started to build an assembly facility in China, the first such project outside the United States. Further openness and reforms at both the national and local levels have contributed to the growth in FDI inflows. The four pilot free trade zones – the first established in Shanghai in 2013 and the other three set up later in Fujian, Guangdong and Zhejiang – received inflows of $13 billion in 2016, a surge of 80 per cent.

Flows to the Republic of Korea more than doubled in 2016 to $11 billion, from the unusually low $4 billion recorded in 2015, due to a large divestment by a foreign retailer that year. Cross-border M&A sales in the country were robust, as finance and technology industries continued to be attractive targets. More M&As could be facilitated by the One-Shot Act passed in March 2016, which aimed at helping businesses affected by unfavourable developments on global markets through corporate restructuring.[3] Mongolia registered a negative $4 billion in FDI inflows in 2016, due to negative intracompany loans by foreign MNEs. The country has experienced a continued decline in FDI inflows since 2011, related to changes in commodity prices and concerns about the regulatory and legal environment for FDI projects.

In South-East Asia, declining flows to Indonesia, Singapore and Thailand weighed on aggregate FDI inflows, whereas low-income economies continued to perform well. FDI flows to the 11 economies in South-East Asia dropped by 20 per cent, to $101 billion. Singapore, one of the economies most dependent on developments in the global economy, as a hub for foreign MNEs' regional headquarters, recorded a 13 per cent decline in FDI inflows, to $62 billion. Flows to Malaysia – the second largest recipient in ASEAN in 2016 – declined by 11 per cent to $10 billion in the face of economic uncertainties, despite an increase in cross-border M&A sales. Thailand and Indonesia also saw their FDI inflows plunge, due to sluggish cross-border M&A sales and significant divestments by foreign MNEs. In Indonesia, large negative equity inflows in the fourth quarter dragged total FDI inflows to $3 billion. In contrast, flows to the Philippines – the third largest recipient in the subregion – increased by more than 60 per cent to a new high of $8 billion in 2016.

Inflows to Myanmar, a major LDC in the region, decreased to $2.2 billion in 2016. Telecommunication became the largest industry absorbing FDI, accounting for 47 per cent of inflows in the fiscal year 2016/2017,[4] followed by manufacturing, hotel and construction. Recent foreign investment projects in the manufacturing sector targeted labour-intensive industries such as garments, footwear and electronic assembly. Inflows to Viet Nam rose by 7 per cent to a new record of $13 billion. That country is becoming a major electronics manufacturing centre in the region, attracting projects from other developing economies, including the Republic of Korea and ASEAN members such as Singapore and Malaysia. MNEs from these countries are benefiting from trade liberalization, low production costs, a relatively stable regulatory environment and tax incentives.

South Asia was the only subregion to avoid a contraction in foreign investment. FDI flows to South Asia rose by 6 per cent, to $54 billion. Despite a historically high number of announced greenfield projects in 2015, FDI flows to India were largely flat at about $44 billion in 2016, up only 1 per cent from 2015. Foreign MNEs are increasingly relying on cross-border M&As to penetrate the rapidly growing Indian market. Several significant deals were announced in 2016, including the $13 billion acquisition of Essar Oil by Rosneft (Russian Federation) and a consortium led by Trafigura (Singapore) – the largest deal ever in the country. Although new liberalization efforts continue to improve the investment climate in India, tax-related concerns remain a deterrent for some foreign investors.

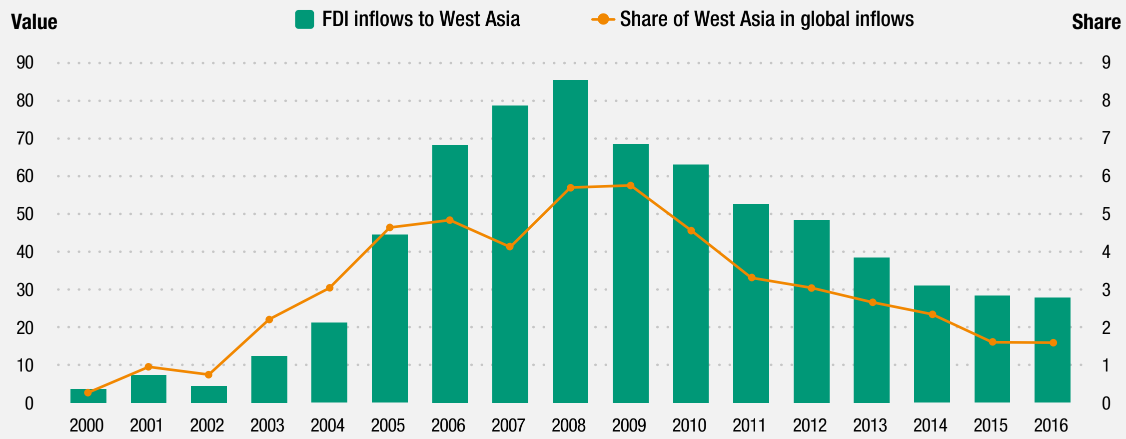
FDI to Pakistan rose by 56 per cent, pulled by China's rising investment in infrastructure related to the One Belt One Road Initiative (box I.1). Some projects currently under construction under the overall framework of the China–Pakistan Economic Corridor have also attracted a large amount of foreign investment in infrastructure, especially electricity generation and transport. Inflows to Bangladesh increased slightly, to $2.3 billion, as the country benefited from the announcement of new, large-scale electricity projects.

In West Asia, weak oil prices and political uncertainty continued to weigh on FDI inflows. In 2016, FDI flows to the subregion registered another decline but appeared to stabilize after eight consecutive years of decreases. Inflows dropped by 2 per cent to $28 billion, as persistent low oil prices, political and geopolitical uncertainties, and regional conflicts continued to affect FDI and other forms of MNE activities. These factors have long been critical determinants of FDI inflows in West Asia (box II.1). FDI figures for oil and gas do not give an accurate picture of the scale of MNEs' involvement in this industry, however, as foreign entry in oil and gas production often involves non-equity modes such as management contracts and production-sharing arrangements.

Box II.1. Key determinants of FDI inflows in West Asia

West Asia absorbed only 1.6 per cent of the world's FDI inflows in 2015 and 2016. The global financial and economic crisis that started in 2008–2009 presaged a significant decline in both the amount of FDI flowing to the subregion and its share of global flows, after the preceding five years of robust growth. Total FDI had surged from a mere $4 billion in 2002 to a peak of $85 billion in 2008 (box figure II.1.1), propelling the subregion's share of global FDI flows from 0.7 per cent to 5.7 per cent.

Box figure II.1.1 West Asia: FDI inflows and share in global inflows, 2000–2016
(Billions of dollars and per cent)



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

Two factors stand out as major determinants of FDI inflows to the subregion:

Oil price volatility. The rise of West Asia's share in global FDI during 2003–2008 paralleled a surge in oil prices. Rising oil prices boosted expected returns in oil-related industries and therefore boosted foreign investment in oil-exporting countries in the subregion. Rising income from oil production and exports also increased public spending in oil and gas production and in infrastructure, which further encouraged foreign investment to flow into related areas. When the global financial crisis in 2008 disrupted the oil-price super-cycle, FDI flows to West Asia started declining. The collapse of oil prices in mid-2014 accentuated the trend in 2015 and 2016.

Political instability and regional conflict. Protracted political instability and regional conflicts in the subregion have also weighed heavily on FDI. Conflicts in countries lying at regional crossroads, such as Iraq and the Syrian Arab Republic, have interrupted traditional business links, dragging down FDI flows in all West Asian economies.

Turkey, Saudi Arabia and the United Arab Emirates account for the lion's share of inward FDI stock in the subregion. However, measuring the competitiveness of the individual economies of the region for FDI varies greatly: FDI stock per capita ranges from $104 in Yemen to $20,000 in Bahrain; similarly, the ratio of inward FDI stock to GDP varies from about 6 per cent in Iraq to about 116 per cent in Lebanon. With regard to both measures, some West Asian economies, such as Bahrain, Lebanon, the United Arab Emirates and Saudi Arabia, in that order, stand out as strong performers in attracting FDI.

Source: ©UNCTAD.

FDI flows to Turkey fell by 31 per cent to $12 billion in 2016. Unlike most countries in the subregion, which rely heavily on oil, manufacturing accounted for about half of the total FDI inflows into Turkey in recent years, reflecting the country's diversified industrial structure. Although Turkey's FDI performance is therefore relatively insulated from fluctuations in oil prices, the failed coup attempt in 2016 cast doubt on the country's political stability and disrupted economic growth, which in turn affected FDI inflows.

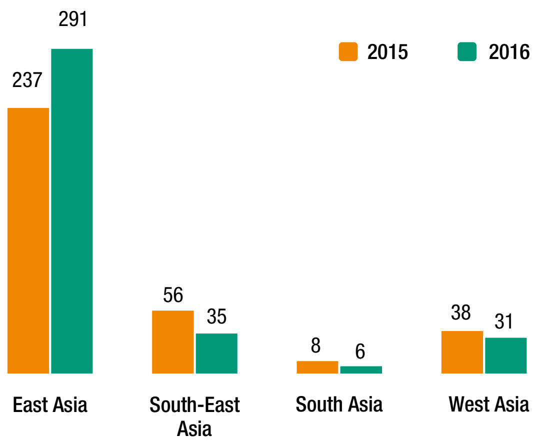
The impact of low oil prices on FDI and other forms of MNE activities in the subregion continued to be apparent in key economies such as Saudi Arabia, where FDI flows declined by 8 per cent. Country- and industry-level evidence confirms that, in the energy sector, MNEs' production-sharing and management contracts in oil and gas, as well as public-private partnerships in renewable energies, have declined considerably. In contrast, the presence of foreign contractors in the construction industry of some West Asian countries is rising, although they remain less important than local firms as contractors and project executioners. This is true not only for oil and gas, but also for health care and social services.

Outflows

FDI outflows from developing Asia rose by 7 per cent to $363 billion. This was primarily due to surging cross-border M&A purchases by Chinese firms. Outflows from South Asia and ASEAN, in contrast, declined substantially. Overall, the value of cross-border M&As by Asian companies rose from $123 billion in 2015 to $143 billion in 2016, with assets in developed countries accounting for nearly 60 per cent of all acquisitions.

China drove up outflows from East Asia. FDI outflows from East Asia rose by almost one fourth, to $291 billion (figure II.2). Chinese outward FDI rose by 44 per cent to $183 billion, driven by a surge of cross-border M&A purchases by Chinese firms, propelling the country to the position of second largest investor for the first time. Chinese firms' investment abroad targeted a wide range of manufacturing and services industries. Purchases of real estate properties by Chinese individuals in developed countries such as Australia, the United Kingdom and the United States also contributed to the boom in FDI outflows. Outward FDI from Hong Kong (China) and the Republic of Korea, the other two major investing economies in the subregion, followed diverging trends: outflows from Hong Kong (China) declined by 13 per cent to $62 billion, the lowest level since 2010; outflows from the Republic of Korea increased by 15 per cent to $27 billion, driven by rising greenfield investments.

Figure II.2. **Developing Asia: FDI outflows by subregion, 2015 and 2016**
(Billions of dollars)



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

Indonesia and Singapore dragged down outflows from South-East Asia. FDI outflows from the subregion dropped by 36 per cent to $35 billion. Outflows from Singapore, the leading outward investing economy in ASEAN, fell by 24 per cent to $24 billion as the regional investment hub was affected by uncertainty in the global economy. FDI flows from Indonesia turned negative, at -$12 billion, owing to equity divestments. Outward FDI from Malaysia, traditionally another major investor in South-East Asia, fell sharply – by 43 per cent to $6 billion. The country has a strong position in outward investment in the primary sector, particularly in oil and gas; the oil price decline that started in 2014 has led to a continued fall in its outward FDI, now at its lowest level in a decade. Thailand, in contrast, diverged from the general decline, with outflows surging by nearly seven times to a historical high of $13 billion, driven by sizeable greenfield investments in neighbouring countries.

Outflows from South Asia and West Asia continued to slide. FDI outflows from South Asia declined by 29 per cent to only $6 billion in 2016, as India's outward FDI dropped by about one third. The signing of a tax treaty by the Indian and Mauritian Governments in May 2016 might have contributed to reduced round-tripping FDI.[5] Outflows from West Asia slid as well, by 19 per cent to $31 billion. FDI flows from Kuwait declined to -$6.3 billion from $5.4 billion in 2015, mainly due to large divestments. In contrast, there was a rise in FDI outflows from some other oil-producing and oil-exporting countries, including Qatar and Saudi Arabia, where outflows surged by 96 per cent and 55 per cent, respectively. In the latter, outflows reached $8 billion, a new high. Most of these outward FDI projects were related to diversification efforts of the home countries.

Growing FDI flows among East Asia, South-East Asia and South Asia have underpinned an industrial reconfiguration in these subregions over the past few years (box II.2). What is taking place in FDI in manufacturing, as well as in various infrastructure industries, is likely to reshape the patterns of intraregional FDI in developing Asia, with increasing flows expected between China and countries in East and South Asia.

Box II.2. Intraregional FDI flows drive industrial reconfiguration in developing Asia

Regional value chains in ASEAN, China and India, have become increasingly interlinked as a result of rising intraregional FDI flows. As these regional production networks evolve, the contours of a new industrial landscape are emerging:

ASEAN diversifies across value chains. Production networks in ASEAN have shifted from labour- to capital-intensive industries. The recent growth of domestic productive capacity in manufacturing industries such as automotive and high-end consumer electronics is strongly related to ASEAN's rapidly evolving regional production networks and intraregional FDI flows. Production networks in the regional bloc have expanded their industrial and geographical coverage, and have become increasingly sophisticated. This has been linked to industrial reconfiguration in China, the Republic of Korea and Taiwan Province of China. Both national and regional policies – in particular enhanced infrastructural connectivity and more free trade and investment arrangements within ASEAN and beyond (ASEAN+3) – have contributed to these changes.

China moves up the value chain. China's domestic companies have captured larger market shares and moved up the value chain in highly competitive manufacturing industries, such as high-end chemicals, electronics (in particular information technology (IT)), automotive and aircraft. They have done so by establishing their own brands, building up their innovative capacities and expanding their distribution networks internationally. Cross-border M&As have become important tools to achieve strategic objectives. In smartphone production, for example, domestic brands already accounted for nearly four fifths of the Chinese market in 2015 and continued to strengthen their share in 2016. Companies such as Huawei, OPPO, Vivo and Xiaomi are fast expanding internationally. For instance, in five European countries, Huawei has gained a market share of more than 20 per cent, and in India, four Chinese brands ranked second to fifth in market share, together accounting for 46 per cent of the Indian market.[a]

South Asia links up with regional value chains. India and other South Asian countries are linking up with regional value chains and infrastructure networks. Indian manufacturing industries have started to integrate significantly into the strong and sophisticated regional production networks in East and South-East Asia. This new trend is illustrated by some large-scale investments in dynamic industries, such as smartphone production, mainly from China. In the smartphone industry, for instance, OPPO (China) moved into the Indian market in 2014, establishing a manufacturing facility in Noida. In late 2016, the company announced an investment of $216 million in Andhra Pradesh.[b] In addition, Huawei and Xiaomi have also started to invest massively in India. Chinese investment into other industries is also growing apace: for example, Sany Group – a major heavy-equipment manufacturer in China – is set to invest $5 billion in India.

Source: ©UNCTAD.
[a] Counterpoint Research.
[b] "Oppo proposes to set up Rs 1000-crore facility in Andhra Pradesh", *The Economic Times*, 29 June 2016.

Prospects

FDI inflows to developing Asia are expected to increase by about 15 per cent in 2017, as an improved economic outlook in major Asian economies is likely to boost investor confidence in the region. In major recipients such as China, India and Indonesia, renewed policy efforts to attract FDI may also contribute to higher inflows in 2017. At the beginning of the year, for instance, the Chinese Government took the bold step of opening up a wide range of industries to foreign investment, including extractive industries, infrastructure, finance and manufacturing.

Following the withdrawal of the United States from the Trans-Pacific Partnership (TPP), the agreement's future has become highly uncertain, and FDI flows to other members of the bloc may be adversely affected. Within developing Asia, the investment prospects of Malaysia and Viet Nam may suffer in the short run. However, progress in negotiations towards the Regional Comprehensive Economic Partnership (RCEP) could provide fresh impetus for FDI growth.

In South and South-East Asia, several countries, including Bangladesh, Nepal and the Philippines, are expected to receive more FDI in years to come, especially from within the region, in line with a division of labour between more developed countries (increasingly focusing on goods with higher value added) and less developed countries (increasingly focusing on labour-intensive activities). This may continue to strengthen these countries' positions in regional production networks. For instance, five Chinese companies plan to invest $10 billion in the aviation, downstream oil, renewable energy, iron and steel, and shipbuilding industries in the Philippines.[6]

Prospects for FDI outflows from developing Asia are uncertain. After a year of skyrocketing outflows, the Chinese Government has started curbing some outward investments, particularly overseas acquisitions. Therefore, the growth of outward FDI from China is unlikely to be sustained in 2017. In the meantime, a significant structural change is under way: more investment through greenfield projects in developing economies is expected, propelled by the accelerated implementation of the One Belt One Road Initiative, whereas cross-border M&As in developed countries are likely to decline.

In West Asia, the modest recovery of oil prices and growing diversification efforts in oil-rich countries, as well as political and geopolitical uncertainties, will have a significant impact on FDI inflows. An eventual recovery of oil prices would bode well for FDI prospects in the short to medium term. Outflows from selected oil-exporting West Asian countries may rise further, spurring increased intraregional FDI flows in 2017 and beyond. However, as the recovery in oil prices has been rather modest to date, the impact on FDI flows to the subregion will be muted. In order to lessen the economic vulnerability associated with reliance on the export of a single commodity, countries in West Asia have introduced various programmes to diversify their economies, such as the United Arab Emirates' Vision 2021, launched in 2010. Inward FDI has been included as a key to achieving the "competitive knowledge economy" envisaged by the programme. Net inflow of FDI as a share of GDP is considered an important indicator, and a target of 5 per cent has been set for 2021 (from 3.8 per cent in 2015).

More recently, Saudi Arabia launched its Vision 2030, an unprecedented initiative to restructure the economy and diversify away from oil, which will have long-term implications for both inflows and outflows of FDI. For instance, the plan envisages privatizing key State-owned businesses and doubling the size of the domestic stock market in a bid to attract more foreign investment. In addition, the expansion of the country's sovereign wealth fund should boost outward investment.

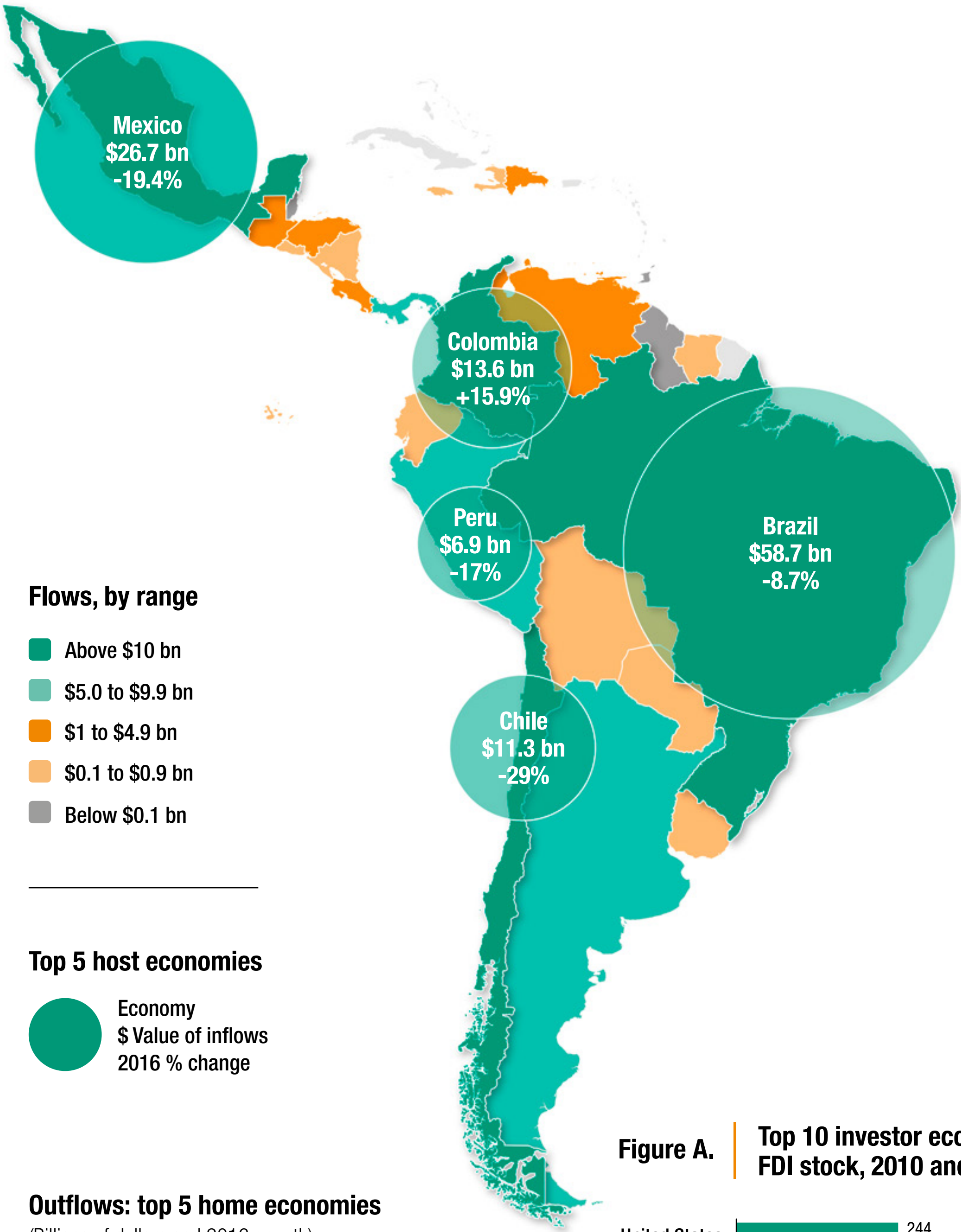
LATIN AMERICA & THE CARIBBEAN

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
142.1 bn

2016 Decrease
-14.1%

Share in world
8.1%



Outflows: top 5 home economies

(Billions of dollars and 2016 growth)

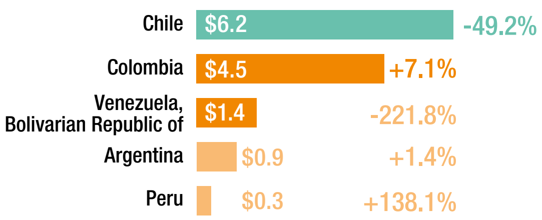
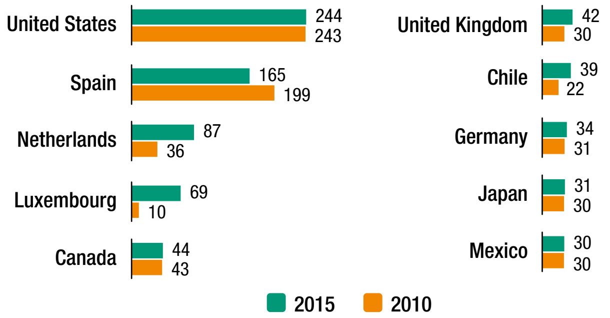


Figure A. Top 10 investor economies by FDI stock, 2010 and 2015 (Billions of dollars)



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

- The decline in inflows to Latin America and the Caribbean accelerated
- Outward investment plunged
- FDI prospects for 2017 remain muted

Figure B. **FDI inflows, 2010–2016**
(Billions of dollars and per cent)

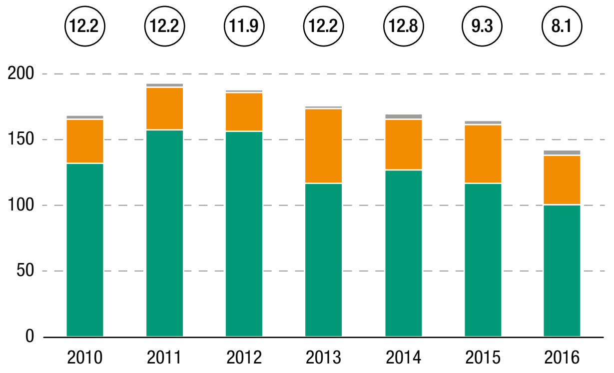
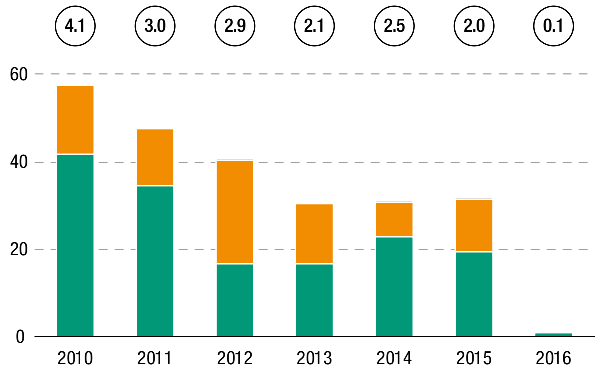


Figure C. **FDI outflows, 2010–2016**
(Billions of dollars and per cent)



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

Table A. **Cross-border M&As by industry, 2015–2016** (Millions of dollars)

Sector/industry	Sales		Purchases	
	2015	2016	2015	2016
Total	**10 952**	**17 762**	**4 953**	**686**
Primary	**639**	**1 856**	**3 113**	**-752**
Mining, quarrying and petroleum	632	1 847	1 607	-797
Manufacturing	**8 579**	**7 069**	**3 554**	**3 895**
Food, beverages and tobacco	5 042	1 634	3 551	1 340
Chemicals and chemical products	452	1 490	70	78
Pharmaceuticals, medicinal chemicals and botanical products	13	2 298	18	22
Non-metallic mineral products	2 432	83	-58	1 651
Services	**1 734**	**8 837**	**-1 714**	**-2 456**
Electricity, gas, water and waste management	3 744	7 917	1 141	86
Transportation and storage	682	4 288	12	-
Information and communication	-6 555	535	-7 060	60
Financial and insurance activities	1 115	-4 933	3 797	-1 683

Table B. **Cross-border M&As by region/economy, 2015–2016** (Millions of dollars)

Region/economy	Sales		Purchases	
	2015	2016	2015	2016
World	**10 952**	**17 762**	**4 953**	**686**
Developed economies	**5 210**	**11 155**	**570**	**2 120**
Europe	-6 624	1 445	-4 685	-370
France	-9 172	1 043	-	-
Italy	-866	63	163	-
Spain	824	2 462	366	915
United Kingdom	2 042	-6 343	-	49
Norway	283	2 614	5	-
North America	9 868	5 529	3 649	2 490
Other developed countries	1 966	4 181	1 606	-0.1
Developing economies	**5 182**	**6 696**	**4 383**	**-1 433**
Brazil	-128	-4 712	239	1 199
China	797	7 860	-	17

Table C. **Announced greenfield FDI projects by industry, 2015–2016** (Millions of dollars)

Sector/industry	LAC as destination		LAC as investor	
	2015	2016	2015	2016
Total	**72 071**	**74 416**	**8 363**	**7 988**
Primary	**1 616**	**4 407**	**22**	**18**
Manufacturing	**34 101**	**28 793**	**3 826**	**2 510**
Food, beverages and tobacco	2 895	5 399	1 377	793
Coke, petroleum products and nuclear fuel	7 073	2 113	65	585
Chemicals and chemical products	1 915	4 554	278	64
Non-metallic mineral products	1 447	1 094	1 166	471
Motor vehicles and other transport equipment	11 926	9 434	170	125
Services	**36 355**	**41 217**	**4 514**	**5 460**
Electricity, gas and water	16 234	15 525	441	587
Transport, storage and communications	8 960	9 702	1 798	1 826
Finance	3 456	2 110	640	288
Business services	3 291	7 378	434	776

Table D. **Announced greenfield FDI projects by region/economy, 2015–2016** (Millions of dollars)

Partner region/economy	LAC as destination		LAC as investor	
	2015	2016	2015	2016
World	**72 071**	**74 416**	**8 363**	**7 988**
Developed economies	**58 632**	**58 896**	**1 920**	**1 788**
Europe	28 398	31 948	535	986
Spain	9 708	10 445	155	155
North America	24 208	21 578	1 356	772
Other developed countries	6 026	5 370	29	31
Developing economies	**13 304**	**15 246**	**6 443**	**6 143**
Asia	7 831	9 782	804	658
China	3 691	2 718	165	30
Korea, Republic of	2 546	2 934	60	-
Latin America and the Caribbean	5 266	5 464	5 266	5 464
South America	3 104	3 037	4 151	4 516
Central America	1 937	2 107	769	378

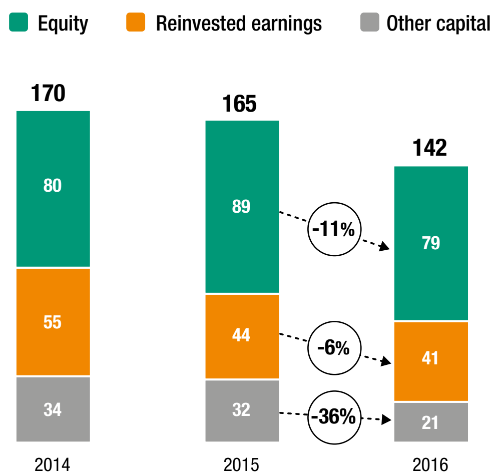
The downward trend in FDI flows to Latin America and the Caribbean accelerated in 2016, with inflows falling 14 per cent to $142 billion, with all subregions registering declines. Economic recession, coupled with weak commodity prices and higher currency volatility, weighed heavily on flows to South America, which declined 14 per cent to $101 billion. In Central America, inflows also contracted (-14 per cent to $38 billion) as gross fixed capital formation and export trade volumes decelerated during the year. FDI flows to the Caribbean, excluding financial centres, likewise dipped (-9 per cent to $3 billion), though with significant variation at the country level. FDI prospects for the region in 2017 remain muted, despite a return to economic growth after two consecutive years of recession, as capital expenditures in South America's key extractive sector are likely to be modest, and policy uncertainty related to proposed measures in the United States could hamper investment in Central America.

Inflows

FDI flows to Latin America and the Caribbean accelerated their decline in 2016, as investment slowed throughout the region. FDI in the region fell 14 per cent to $142 billion, the fifth straight year of decline. The divergence in FDI trends between the north and the south of the region observed in 2015 disappeared in 2016, with inflows falling across subregions. This coincided with a significant slump in economic activity in the region, with real GDP contracting 1.1 per cent, and a slump in gross fixed capital formation.

The composition of the region's FDI inflows underwent a significant shift during the year (figure II.3). Net intracompany lending fell sharply (-36 per cent), especially in South America. This reduction reflects efforts by foreign affiliates to strengthen their balance sheets in a context of economic contraction and weakening national currencies, as well as the impact of recently enacted policy measures (especially tightened anti-tax avoidance measures). Equity flows, the largest component of FDI in the region, fell 11 per cent despite a resurgence in cross-border M&A sales (up 62 per cent to $18 billion). Reinvested earnings, in turn, registered a modest decrease (-6 per cent) as their slide in South America appeared to be bottoming out (with a 3 per cent increase, compared with a 23 per cent reduction in 2015).

Figure II.3. Latin America and the Caribbean: FDI inflows by component, 2014–2016
(Billions of dollars)



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

The decline in FDI flows to South America intensified as the subregion suffered the effects of economic recession and weak commodity prices. FDI flows to South America registered a significant decline in 2016, falling 14 per cent to $101 billion. Economic output in the subregion contracted 3.6 per cent in 2016, compared with a 1.7 per cent decline in 2015. Plunging gross fixed capital formation – which had fallen for nine straight quarters by mid-2016 – and a sharp decline in private consumption battered aggregate demand in the subregion, especially in the largest economies. The continued decline in commodity prices, with the average annual price of crude oil falling 16 per cent and that of the IMF's basket of minerals and metals down 5 per cent, resulted in a significant terms-of-trade shock that undercut gross national income and, in turn, consumption and investment prospects.

Investment activity in Brazil, the subregion's largest economy and the region's principal FDI destination, continued to contract in 2016 as the country's economy remained in recession for the second consecutive year. Gross fixed capital formation fell sharply (-10 per cent), although data suggest that the decline eased during the year, with the year-on-year variation shifting from -17 per cent in the first quarter to -5 per cent by the fourth quarter (the 11th straight quarter of contraction). FDI inflows also retreated, falling 9 per cent to $59 billion.

FDI equity flows to Brazil slid 9 per cent to $45 billion, reflecting a sharp decline of investment in the services sector (-21 per cent to $18 billion). FDI in financial services slipped into net divestment, due largely to the $4.6 billion acquisition by Banco Bradesco SA (Brazil) of a number of the Brazilian assets of HSBC (United Kingdom). Likewise, inflows in electricity and gas services trended downwards, reflecting the $0.8 billion divestment by AES Corp (United States) of some of its Brazilian assets to CPFL Energia SA (Brazil). A sharp decline in intracompany lending to foreign affiliates in Brazil (-39 per cent to $5 billion) also weighed on overall flows.

However, despite the dire economic situation, FDI inflows in some sectors registered significant increases. Equity investment in metallic mineral extraction rose markedly (from $571 million in 2015 to $2 billion in 2016) as the prospects for iron ore prices improved in the second half of the year. Likewise, equity inflows targeting motor vehicle manufacturing rose sharply (by 50 per cent to $6.6 billion), reflecting the sector's improved competitiveness and the continued strength in vehicle exports (24.6 per cent in unit terms, over and above the 24.9 per cent increase of 2015). Finally, equity inflows were also bolstered by the rising value of cross-border M&A sales, which jumped from $2 billion in 2015 to $9 billion, boosted by megadeals involving China Three Gorges Corporation (China) and Statoil ASA (Norway).

FDI flows to Chile and to Peru declined as weak minerals and metals prices crimped investment activity in the mining sector. In Chile, inflows were dragged lower (-29 per cent to $11 billion), largely by slumping mining investment as low copper prices resulted in a number of foreign affiliates recording financial losses during the year, which in turn delayed progress on previously announced projects. In Peru, inflows declined (-17 per cent to $7 billion) as M&A activity in the country cooled (-77 per cent) after booming the previous year. As in Chile, investment in the mining sector in Peru – both domestic and foreign – fell sharply during the year (-44 per cent).[7]

Among South America's principal hydrocarbons exporters – the Plurinational State of Bolivia, Colombia, Ecuador and the Bolivarian Republic of Venezuela – FDI inflows continued to be heavily affected by the fall in spot prices for crude oil in international markets (with the annual average price down 16 per cent on the exceptionally low 2015 average). Flows to the Plurinational State of Bolivia edged lower (-26 per cent to $0.4 billion), in line with a significant contraction in investment in the country's hydrocarbons and mining industries. In neighboring Ecuador, inflows fell sharply (-44 per cent to $0.7 billion), weighed down by economic recession and falling flows to the extractive sector.

In contrast to other oil exporters, Colombia saw FDI flows register a strong increase (16 per cent to $14 billion), boosted by the purchase of a majority stake in Isagen SA – a domestic electricity utility – by Brookfield Asset Management Corp (Canada) in two deals totaling $3 billion. One of these deals involved the sale of the Government's 57.6 per cent stake in Isagen, the proceeds of which will finance public infrastructure investment projects. This offset a further decline in FDI in the oil sector (-14 per cent) and a swing to net divestment in the mining sector. Flows to the Bolivarian Republic of Venezuela also increased (by 11 per cent to $2 billion), though this reflects an uptick in reinvested earnings: foreign affiliates faced increasing difficulties in paying dividends to their parents as the government sought to manage its dwindling international reserves.

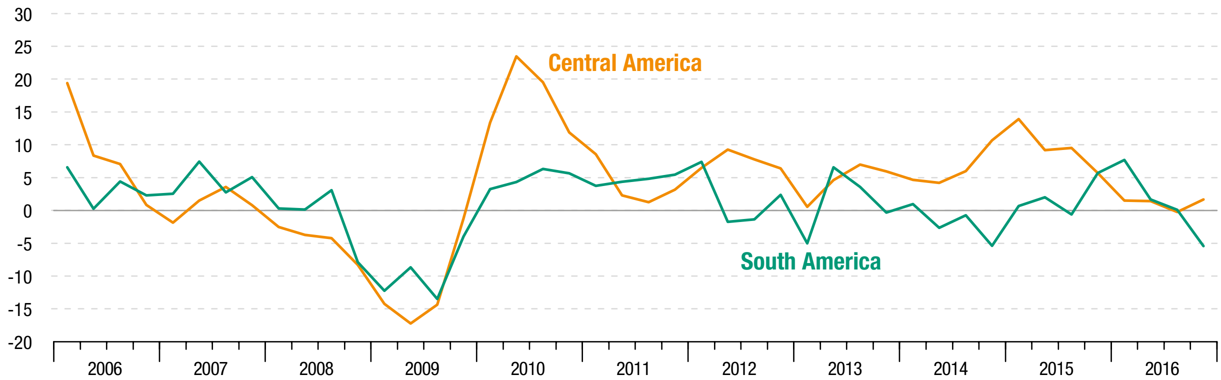
FDI flows to Argentina halved to $6 billion in 2016, largely because of recently adopted policy measures.[8] The lifting of currency controls in December 2015 normalized the payment of dividends by foreign affiliates to their parents abroad, leading to a sharp reduction in reinvested earnings, which fell from $8 billion to $4 billion. Likewise, intracompany lending swung to a position of net repayment (from $2 billion to -$2 billion) as the Government eased controls on the repayment of outstanding debts in foreign currencies for the import of goods and for services rendered by nonresidents. Equity inflows, however, were up sharply (from $1 billion to $4 billion), in line with the surge of announced greenfield projects in the country as a result of the Government's effort to boost investment.

Investment activity ticked downward in Central America as trade headwinds formed. Investment activity cooled substantially during the year as gross fixed capital formation decelerated across the subregion. While economic growth remained relatively robust, bolstered by strong private consumption, export volumes – which are strongly correlated with investment activity – slowed rapidly during the year (figure II.4). Slower trade was largely due to economic conditions in the United States, Central America's largest market. Exports of automobiles from Mexico to the United States fell by 0.8 per cent in value terms in 2016, compared with a rise of 6.3 per cent in the previous year; unsurprisingly, total vehicle sales in the United States registered an anaemic 0.1 per cent increase in unit terms, compared with a 5.8 per cent increase in the previous year.

These macroeconomic trends coincided with a significant decline in FDI flows to Central America (-14 per cent to $38 billion). This was especially apparent in Mexico, where gross fixed capital formation rose just 0.4 per cent (compared with a robust 4.3 per cent in 2015) and FDI inflows retreated 19 per cent to $27 billion. Flows to the services sector contracted sharply, reflecting the impact of the weakening Mexican peso (-17 per cent relative to the dollar) on the value of local earnings when expressed in dollars, as well as a number of major divestments. For example, Wal-Mart (United States) announced that it would sell its Suburbia chain of department stores to El Puerto de Liverpool SAB (Mexico) for $852 million.

Despite the downturn in export volumes, FDI in Mexico's manufacturing sector was remarkably stable, registering little change from the previous year's level of $16 billion, or 61 per cent of total inflows. This was largely due to the $2 billion acquisition of Representaciones e Investigaciones Médicas SA de CV, a pharmaceutical manufacturer, by Teva Pharmaceutical Industries (Israel). Investment in most other manufacturing industries retreated, however.

Figure II.4. Central and South America: Growth of merchandise export volumes, 2006 Q1–2016 Q4
(Per cent)



Source: ©UNCTAD.

FDI in the country's key automotive sector slumped, with inflows in transport equipment manufacturing falling 21.5 per cent, from $6.4 billion in 2015 to $5.1 billion.

Inflows in Costa Rica fell (-6 per cent to $3 billion) in line with the contraction in gross fixed capital formation that began in the second quarter of the year. FDI in the primary sector and in services slowed sharply, reflecting in part a return to the status quo following sizeable one-off investments in 2015. In El Salvador weak investment in the services sector also weighed on overall FDI inflows, which fell 6 per cent to $0.4 billion. FDI flows to Guatemala declined as well (-3 per cent to $1 billion), as a significant reduction in investment in the primary sector (-69 per cent) was not fully offset by higher investment in retail and wholesale trade. In Honduras, a sharp contraction of investment in the country's *maquila* manufacturing sector weighed on overall flows (-17 per cent to $1 billion). FDI flows to Nicaragua likewise trended lower, falling 7 per cent to $0.9 billion.

In contrast to other Central American countries, Panama registered a strong increase in inflows (16 per cent to $5 billion). In particular, equity investment inflows rebounded sharply after having dipped in 2015, rising from just $77 million to $781 million in 2016.

FDI inflows declined in the Caribbean, although with significant variation across countries. Inflows in the Caribbean, excluding financial centres, dipped 9 per cent in 2016, to $3 billion. This was largely the result of a swing to net divestment in Trinidad and Tobago, reflecting the closure of the Point Lisas facility of ArcelorMittal (Luxembourg) and lower reinvestment of earnings in the energy sector. Inflows in Jamaica also fell by 7 per cent to $0.9 billion, as the value of greenfield investments declined. In contrast, investment in the Dominican Republic – the Caribbean's principal recipient of FDI – was up strongly (by 9 per cent to $2 billion), boosted by a rebound in the country's mining sector and by robust tourism and real estate inflows.

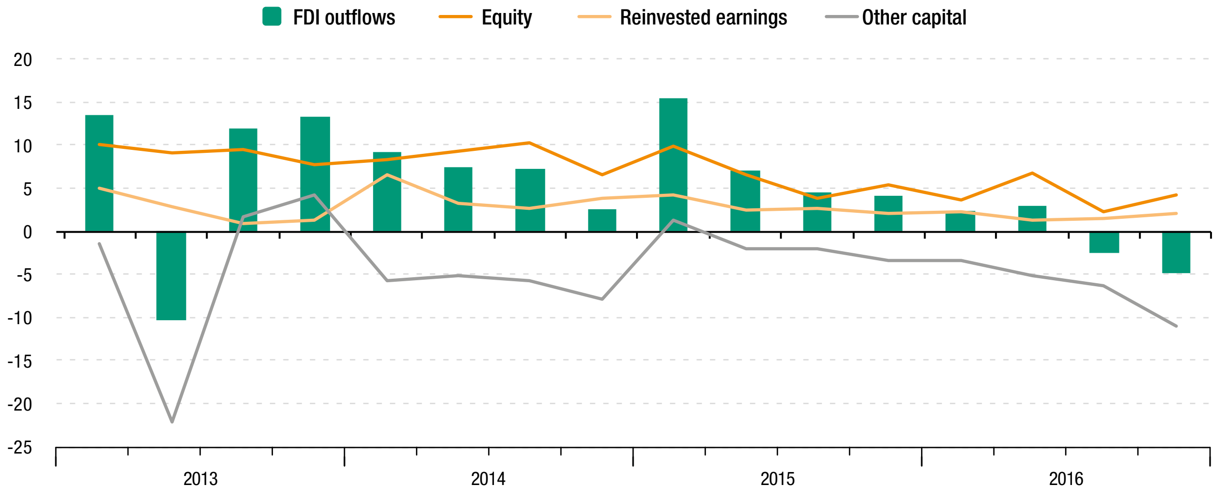
Outflows

Outward investment by Latin American MNEs plunged in 2016, as their foreign affiliates funneled significant financial flows back to their parents. Outward FDI from the region fell by a staggering 98 per cent, to just $751 million. Outflows were strongly affected by swings in intracompany lending (other capital) flows, which fell deeper into negative territory as the year progressed (figure II.5). Strained balance sheets and economic contraction at home prompted many of the region's MNEs to consolidate capital by speeding up the repayment of outstanding liabilities by their foreign affiliates or reducing the supply of debt financing within their corporate group. Other capital flows were also affected by a large increase in reverse investment in debt instruments, as foreign affiliates routed capital raised in corporate debt markets back to their Latin American parents.

Equity outflows continued to decline (-35 per cent) and remained well below the levels registered in 2013 and 2014. Unsurprisingly, cross-border M&A activity was exceptionally weak, with the value of net purchases by the region's MNEs plummeting 86 per cent to $0.7 billion – a precipitous fall from the high of $31 billion in 2012. Reinvested earnings also weakened significantly (-39 per cent), reflecting the lower profits on investments in the region, especially in the extractive sector.

Investment from Brazil fell from $3 billion to a net divestment of $12 billion. Reverse investment debt flows, which appear as a negative figure in FDI statistics when expressed on a directional basis, nearly doubled to $20 billion. This increase was driven in large part by the $10 billion raised in international debt capital markets by Petrobras (Brazil) through its wholly owned affiliate Petrobras Global Finance BV (Netherlands). Outflows were also hampered by an increase in the net divestment of foreign assets through cross-border M&As by Brazilian MNEs during the year.

Figure II.5. **FDI outflows from Latin America and the Caribbean, by component, 2013 Q1–2016 Q4**
(Billions of dollars)



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

In Mexico, FDI outflows swung from $11 billion in 2015 to a net divestment of $0.8 billion, due primarily to the plummeting of other capital flows (largely intracompany debt) from $1.6 billion in 2015 to a negative $6 billion. Equity outflows also slumped, despite a near doubling in the value of cross-border M&As concluded by the country's MNEs (98 per cent to $4 billion). Likewise, FDI from Chile – the region's largest outward investor in 2016 – dipped significantly (-49 per cent to $6 billion), owing to a sharp decline in net intracompany lending outflows (-78 per cent).

Prospects

Prospects for FDI in Latin America and the Caribbean remain muted in 2017. After suffering a significant contraction, the region's economy is projected to return to weak growth. Rising commodity prices might improve the terms of trade of the region's major commodities exporters, principally South American countries, which is likely to bolster private consumption as well as public finances.

Nevertheless, as challenging macroeconomic conditions persist, FDI flows to the region are forecast to retreat a further 10 per cent to some $130 billion in 2017. This is already apparent in the relatively weak increase in the value of greenfield investment projects announced in the region in 2016 (3 per cent), which contrasted sharply with those registered in other developing regions (Asia: 8 per cent; Africa: 40 per cent). In particular, investment in the region's extractive sector is likely to remain modest – greenfield FDI project announcements for the sector in 2016 were only $4 billion – as operators continue to strengthen their balance sheets and restructure their capital expenditure plans.

FDI to the region will also be affected by significant uncertainties over the direction of economic policymaking in the United States. Central America is particularly vulnerable to recently proposed tax and trade policies. Reflecting these concerns, private sector analysts in Mexico surveyed by the Central Bank in 2017 foresee a nearly 20 per cent decrease in investment flows to that country this year.[9]

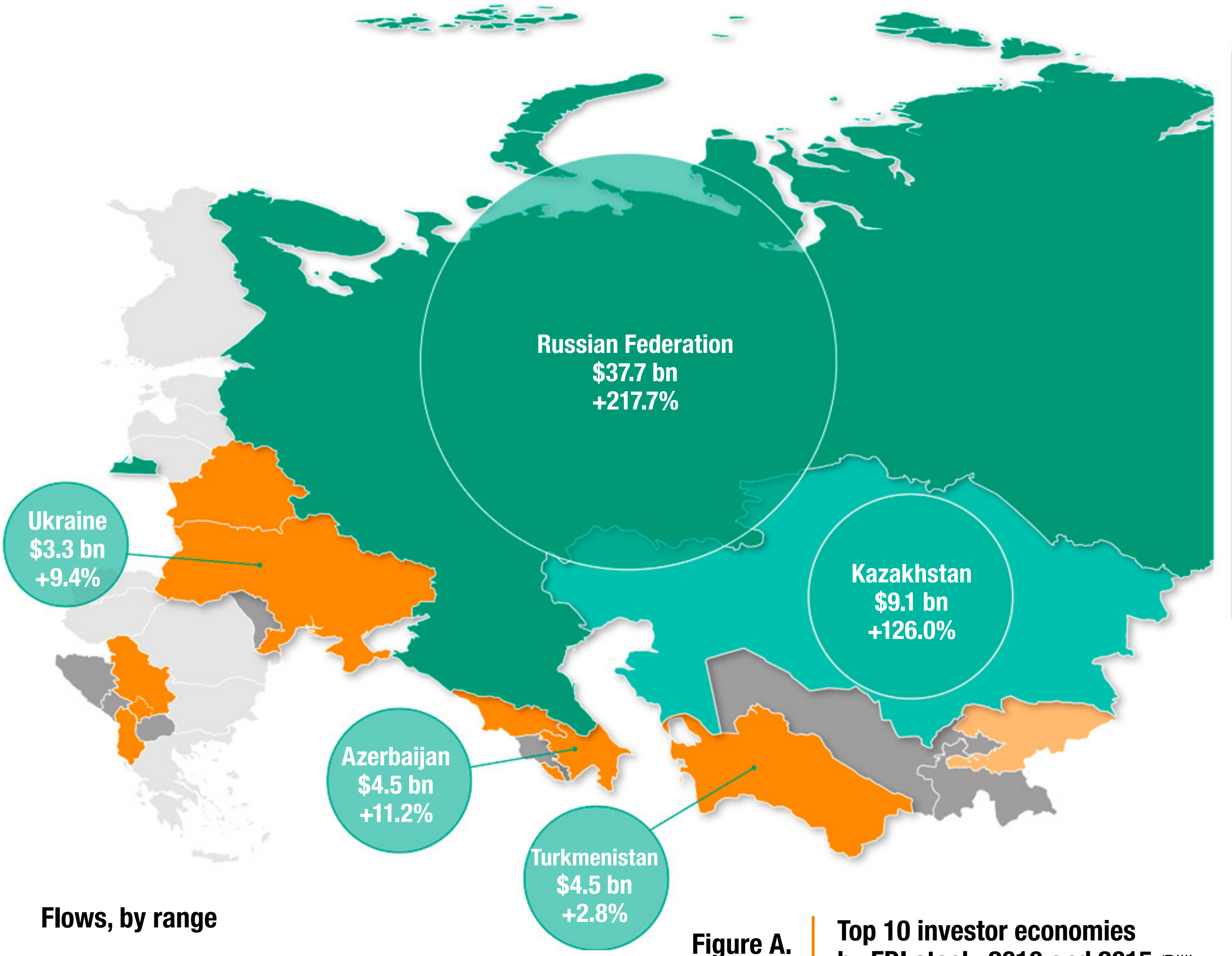
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
68.0 bn

2016 Increase
+81.1%

Share in world
3.9%



Flows, by range

- Above $10.0 bn
- $5.0 to $9.9 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
2016 % change

Outflows: top 5 home economies
(Billions of dollars and 2016 growth)

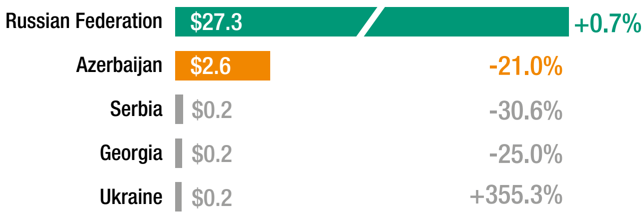
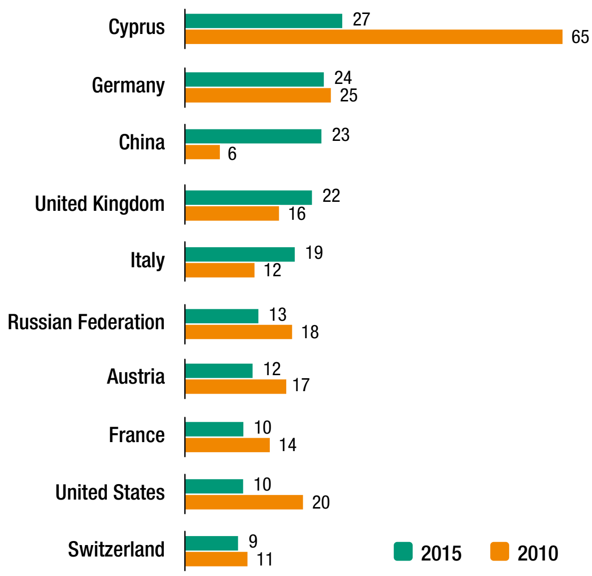


Figure A. **Top 10 investor economies by FDI stock, 2010 and 2015** (Billions of dollars)



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 rebounded strongly**
- **Outflows fell to their lowest level since 2005**
- **Prospects for inward FDI are moderately optimistic**

Figure B. **FDI inflows, 2010–2016**
(Billions of dollars and per cent)

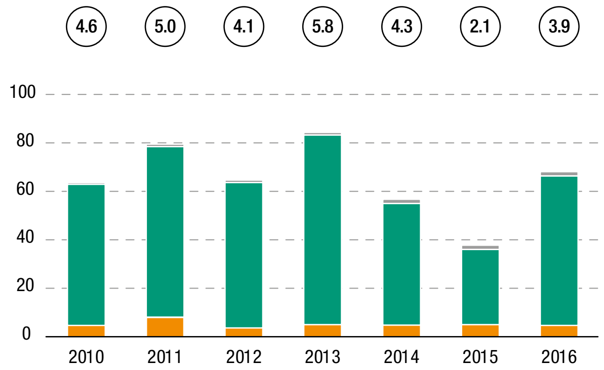
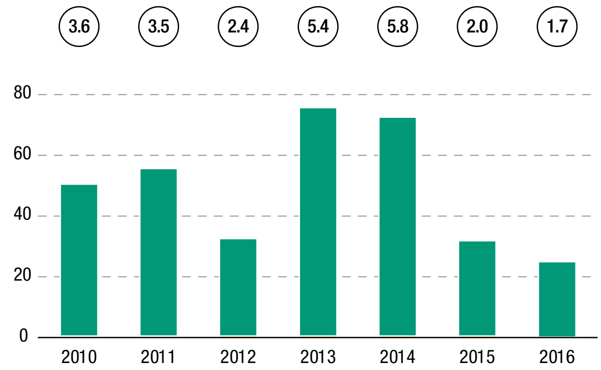


Figure C. **FDI outflows, 2010–2016**
(Billions of dollars and per cent)



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

Table A. **Cross-border M&As by industry, 2015–2016** (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**10 000**	**5 014**	**4 501**	**-809**
Primary	**7 911**	**5 551**	**3 864**	**165**
Mining, quarrying and petroleum	7 907	5 577	3 863	205
Manufacturing	**-351**	**310**	**-304**	**-276**
Coke and refined petroleum products	-300	-	- 300	-
Pharmaceuticals, medicinal chemicals and botanical products	98	158	-	-
Basic metal and metal products	5	104	- 4	-299
Motor vehicles and other transport equipment	-171	-	-	-
Services	**2 440**	**-846**	**941**	**-698**
Electricity, gas, water and waste management	244	83	281	-
Transportation and storage	383	189	3	-
Financial and insurance activities	150	-776	1 376	85
Business activities	1 201	-65	-750	288

Table B. **Cross-border M&As by region/economy, 2015–2016** (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**10 000**	**5 014**	**4 501**	**-809**
Developed economies	**6 551**	**-1 156**	**6 557**	**393**
European Union	6 374	-992	5 723	393
Cyprus	831	-945	7	252
Germany	-2	-98	300	288
United Kingdom	5 780	201	5 384	23
Developing economies	**4 642**	**5 955**	**-749**	**-1 284**
China	1 344	214	-	150
India	-	5 520	-	-
Malaysia	2 250	177	-	-
South Africa	1 200	100	-	-
Transition economies	**-1 307**	**82**	**-1 307**	**82**
Russian Federation	-1 283	205	93	-23

Table C. **Announced greenfield FDI projects by industry, 2015–2016** (Millions of dollars)

Sector/industry	Transition economies as destination 2015	Transition economies as destination 2016	Transition economies as investor 2015	Transition economies as investor 2016
Total	**38 196**	**64 844**	**11 416**	**10 412**
Primary	**1 638**	**37 682**	**44**	**850**
Mining, quarrying and petroleum	1 638	37 562	44	850
Manufacturing	**23 796**	**16 014**	**5 642**	**4 836**
Food, beverages and tobacco	7 049	3 774	168	118
Coke and refined petroleum products	5 714	2 152	3 812	2 939
Metals and metal products	2 749	1 346	155	12
Motor vehicles and other transport equipment	1 495	2 121	622	1 050
Services	**12 763**	**11 148**	**5 730**	**4 726**
Electricity, gas and water	1 464	1 950	962	2 800
Construction	6 489	3 366	-	64
Trade	792	1 485	115	133
Transport, storage and communications	2 052	2 102	3 677	440

Table D. **Announced greenfield FDI projects by region/economy, 2015–2016** (Millions of dollars)

Partner region/economy	Transition economies as destination 2015	Transition economies as destination 2016	Transition economies as investor 2015	Transition economies as investor 2016
World	**38 196**	**64 844**	**11 416**	**10 412**
Developed economies	**13 969**	**54 349**	**2 214**	**698**
European Union	11 454	13 325	1 950	576
Germany	1 975	2 908	110	11
United Kingdom	1 481	2 946	106	46
United States	959	39 284	159	115
Developing economies	**20 098**	**8 848**	**5 073**	**8 067**
China	5 113	4 335	838	132
Iran, Islamic Republic of	121	1 083	750	410
Thailand	230	1 060	6	-
Turkey	641	1 341	2	23
Transition economies	**4 130**	**1 647**	**4 130**	**1 647**
Russian Federation	3 550	615	185	169

In 2016, FDI flows to transition economies bounced back to $68 billion, after a steep decline in the previous two years. The two main subregions experienced divergent trends. On the one hand, in the Commonwealth of Independent States (CIS) and Georgia, FDI inflows almost doubled, owing to an exceptional rise in flows to Kazakhstan, as well as a strong increase in flows to the Russian Federation. In South-East Europe, on the other hand, FDI recorded a decrease of 5 per cent, due to fewer investments in the manufacturing sector. Geographical sources of FDI for transition economies have been in part shifting towards developing economies, especially China. Outward FDI from transition economies declined by 22 per cent to $25 billion in 2016. Outflows from the Russian Federation, accounting for the bulk of the region's total, increased marginally to $27.3 billion, despite reduced access to international capital markets, while outflows from Kazakhstan turned negative. FDI flows to transition economies are expected to rise moderately in 2017, underpinned by privatizations and measures seeking to improve the business environment in various countries; geopolitical challenges, however, might continue to weigh on the region's prospects.

Inflows

FDI to transition economies recovered in 2016 on the back of strong flows to Kazakhstan and to the Russian Federation. Inflows surged by 81 per cent to $68 billion – the region's third largest volume in the 2010s, although still below the record level of $118 billion in 2008. The FDI performance of transition subgroups diverged again, however: flows to the CIS and Georgia almost doubled to $63 billion, while in South-East Europe, inflows retreated slightly to $4.6 billion.

The Russian Federation saw its FDI inflows more than triple from the previous year, to $38 billion, as the economy started to recover after the contraction in GDP in 2015 and as export performance improved in both oil and non-oil products, in part reflecting some stabilization in oil prices. Nevertheless, FDI flows were still only half of their 2008 record of $76 billion and 29 per cent below the $53 billion recorded in 2013, hampered by trade restrictions that partner countries and Russian authorities have been enacting against each other since 2014. Equity flows rebounded from a negative $400 million in 2015 to a positive $19 billion, mainly related to privatization of State-owned assets. A surge of reinvested earnings by established investors – rising from $11 billion to $18 billion in 2016 – also supported FDI inflows in 2016. Intracompany loans remained small – $1 billion – and declined slightly from the previous year (-9 per cent).

Investments in the Russian Federation by MNEs from developing economies increased in 2016. The Government sold a 19.5 per cent stake in the State-owned oil company Rosneft for $11 billion to a consortium led by Glencore (Switzerland) and the Qatari sovereign wealth fund. Indian companies also acquired assets being privatized in the oil and gas sector: Vankor India – a joint venture of Oil India Ltd, Bharat Petroleum Corp and Indian Oil Corp Ltd, headquartered in Singapore – acquired 24 per cent, and ONGC Videsh Ltd (India) an additional 15 per cent, of Vankorneft, ultimately owned by the Russian State-owned Rosneftegaz, for $2 billion and $1.3 billion, respectively. At the same time, the Russian Federation attracted greenfield projects from new sources, such as the Charoen Pokphand Group (Thailand) and the TH Group (Viet Nam) in dairy production.[10]

FDI inflows to Kazakhstan – the largest of the nine landlocked CIS countries and the most attractive to investors – more than doubled, to $9 billion, due mostly to an increase in mining exploration activities and interest from new investors. In a new megaproject, an international consortium[11] started investing in the extension of the life of the giant Tengiz oil field. The project, which could span a decade of work, is expected to cost up to $36.8 billion and to produce new oil by 2022. This project underscores that foreign investors continue

Box II.3.	Non-traditional investors in Kazakhstan

In 2016, Kazakhstan attracted FDI from non-traditional investors, especially from China. Chinese State-owned oil firm Sinopec, which has been present in the country for more than a decade, increased its stakes largely by acquiring the local assets owned by the Russian oil company Lukoil for $1.1 billion, accentuating the shift in the exploitation of Kazakh resources towards non-traditional sources of investment. FDI from India rose sharply, with Bharat Heavy Electricals' investment in gas turbine generators at the Tengiz complex and its joint venture with Samruk Energy in the Kazakh power sector. Niroo Transfo (Islamic Republic of Iran) formed a joint venture with a local partner to build a transformer oil plant in Shymkent for about $1 billion.

Investment in the oil and gas and mining industries still accounted for the majority of Kazakhstan's total FDI inflows in 2016; however, the Government has been pushing for its commodity-based industries to expand towards more value added activities. For instance, a partnership between China's MCC Baosteel and the Eurasian Resources Group, a Kazakh mining group in which the State holds a 40 per cent stake, is developing a $1.2 billion plant designed to increase the processing of local iron ore.

Source: ©UNCTAD.

to favour the country's hydrocarbon and mineral reserves when it comes to FDI, although recent interest from Chinese, Indian and Iranian investors has focused on downstream manufacturing, too (box II.3). In addition to established investors' expansion of existing activities, interest from these new investors drove equity investments upwards. In addition, reinvested earnings amounted to almost $5 billion – the second largest volume recorded so far.

FDI inflows also increased in Ukraine – by 9 per cent to $3.3 billion – largely due to the recapitalization of foreign-owned banks. Greenfield investment, in contrast, has been limited in a business environment characterized by slow reforms as well as regulatory and tax problems. In addition to traditional investors, the country is also attracting FDI from China: for instance, China Western Power Industrial announced a $189 million project in renewable energy production. Inflows also rose moderately in landlocked Turkmenistan, by 3 per cent to $4.5 billion, as Daewoo International (Republic of Korea) began the construction of an iron manufacturing plant, dealing with such key aspects as engineering, procurement, construction, operation and management, and work started on the expansion of the Galkynysh gas field, attracting various investors, including CNPC from China. In Azerbaijan, inflows – mostly concentrated in oil and gas – rose by 11 per cent to $4.5 billion. In Georgia, a country relying on various types of FDI (e.g. transportation infrastructure, tourism, finances), inflows rose by 5 per cent to $1.7 billion, recovering from the drop of 2015. In contrast, FDI flows to Belarus, Kyrgyzstan, the Republic of Moldova and Tajikistan all fell in 2016.

In South-East Europe, FDI flows declined slightly to $4.6 billion. FDI increased substantially in the former Yugoslav Republic of Macedonia and Albania but decreased in Montenegro and Serbia. Flows to the former Yugoslav Republic of Macedonia grew by 65 per cent as Hystead Ltd (United Kingdom) bought Skopje City Mall, a shopping centre operator, for $100 million. Albania, another growing recipient of FDI, is attracting both traditional and new investors. Interest from Chinese investors is mounting, through both FDI and other forms of involvement.12 Chinese firms have shown interest in road construction projects, acquiring access to natural resources (Geo-Jade Petroleum bought controlling rights in two Albanian oil fields for $442 million), and obtaining the concession for Tirana International Airport. In Serbia, even though overall FDI inflows fell in 2016, the interest of Chinese investors is also on the rise: for example, State-owned Hebei Iron & Steel Group Co Ltd acquired Serbian State-owned Zelezara Smederovo for $52 million.

Geographical sources of FDI in transition economies are shifting. Between 2010 and 2015, the FDI stock held by Chinese MNEs in the region increased by almost four times, from $6 billion to $23 billion, making China the third largest investor (figure A). By contrast, FDI stock held by other major source countries – except the United Kingdom and Italy – declined, owing to falling exchange rates and political challenges in the Russian Federation, the region's largest host country. Russian MNEs' outward FDI stock in the region fell from $18 billion to $13 billion, and investments held by MNEs from the United States halved, from $20 billion to $10 billion. FDI stock held by Cyprus – a traditional centre for transhipped and round-tripping FDI, and the largest investor in the region – also contracted, by 58 per cent, in the face of its economic difficulties (especially the 2012–2013 financial crisis), combined with the possible impact of a Russian anti-offshoring law adopted at the end of 2014.

Outflows

FDI outflows from the transition economies declined to $25 billion in 2016. The marginal expansion from $27.1 billion to $27.3 billion recorded in the Russian Federation was offset by a decline in the rest of the region, from $5.1 billion to -$2.1 billion, due to negative FDI outflows from Kazakh firms (-$5.4 billion), especially through reverse intracompany loans (-$6.5 billion). The net M&A purchases of MNEs from the region turned negative in 2016: for instance, Viva Telecom Bulgaria EAD acquired Bulgarian Telecommunications Co AD, a Sofia-based wired telecommunications carrier, from the Russian State-owned Bank VTB, for $354 million. Notwithstanding the general trend in the region's outward FDI, some Russian firms continued their foreign expansion. For example, Polymetal acquired Orion Minerals, a gold mine operator in Kazakhstan, for $180 million; retailer Lenta acquired the K-Ruoka supermarket chain in Finland for $177 million; and Lukoil started the construction of a gas processing complex in Kandym, in southwestern Uzbekistan, originally announced in 2015 – one of the major greenfield projects undertaken by Russian firms in the CIS. Most of the outward FDI stock of the Russian Federation continued to be registered in Cyprus, the Netherlands and the British Virgin Islands, in that order, accounting for more than two thirds of the total at the end of 2015 (the last year for which complete information was available), followed by developed countries such as Austria, Switzerland and Germany, in that order, accounting for almost 17 per cent of the outward stock. CIS countries together attracted only 2.5 per cent of Russian outward FDI, mostly concentrated in Kazakhstan and Ukraine, both accounting for 0.9 per cent. Russian firms targeted emerging markets moderately: Turkey accounted for 2.1 per cent of the outward stock and China for only 0.1 per cent.

Main challenges for outward-investing Russian firms include not only getting access to finance, but also finding new targets for expansion. Although projects in emerging economies do not offer the same access to cutting-edge technologies as in traditional advanced countries, Russian firms are increasingly active in these new markets. Russian outward investment has traditionally been concentrated in natural resources. By the end of 2016, the accumulated value of Russian MNEs' projects in oil and gas around the globe, including all forms of engagement (FDI and non-equity), was thought to exceed $6 billion. Some Russian firms are also involved in downstream projects, such as RT-Global Resources and the construction of the Karachi–Lahore gas pipeline in Pakistan, which is part of a $2 billion build-operate-transfer project to be completed by 2020. In addition, transportation projects include a $2.5 billion railway line on the island of Kalimantan in Indonesia, constructed by State-owned Russian Railways, to be completed by 2019.

Prospects

The prospects for FDI in transition economies are moderately optimistic for 2017 and beyond. In 2016, setting aside the huge Tengiz project, which is to be realized over a long period, the value of new announced greenfield projects remained somewhat subdued, reflecting uncertainties in the world economy as well as in the region. A few major projects were nonetheless announced in the food, coal and automotive production industries, as well as in construction and transport. Jackco Technology Group (United States), for instance, announced a synthetic liquid fuel project in Uzbekistan valued at more than $1 billion, and a German affiliate of Sumitomo (Japan) producing electronic wire harnesses announced the construction of a $457 million factory in one of the free economic zones of the Republic of Moldova. New projects were initiated from traditional home countries such as France, Germany, the United Kingdom and the United States, but also from new investors, especially China and Turkey.

The prospects for FDI in the Russian Federation remain subdued. In principle, its import substitution strategies could open possibilities for new FDI; however, those strategies are promoting locally owned producers. Other CIS countries, in contrast, are less affected by trade restrictions, but they suffer from the indirect consequences of the slow or negative growth of the Russian economy, due to their close business links with the Russian Federation. FDI flows to Ukraine, the country most affected by conflict, are unlikely to pick up in the short term. Even though industries such as agribusiness and information technology offer good potential, the perceived risk of investing in the country remains high.

Privatization, if realized, could bolster FDI in various countries in the region. A new Russian programme of privatization over 2017–2019[13] was announced in 2016, offering stakes in large firms such as bank VTB, shipping company Sovcomflot, the Novorossiysk Commercial Seaport and diamond producer Alrosa. Ukraine also restarted its privatization programme in 2016; in the framework of that programme, assets in the chemicals and energy industry could attract foreign investors. Continued privatization could also enhance FDI in South-East Europe, where regional cooperation plans to attract investment were also initiated under the umbrella of the Central European Free Trade Area.

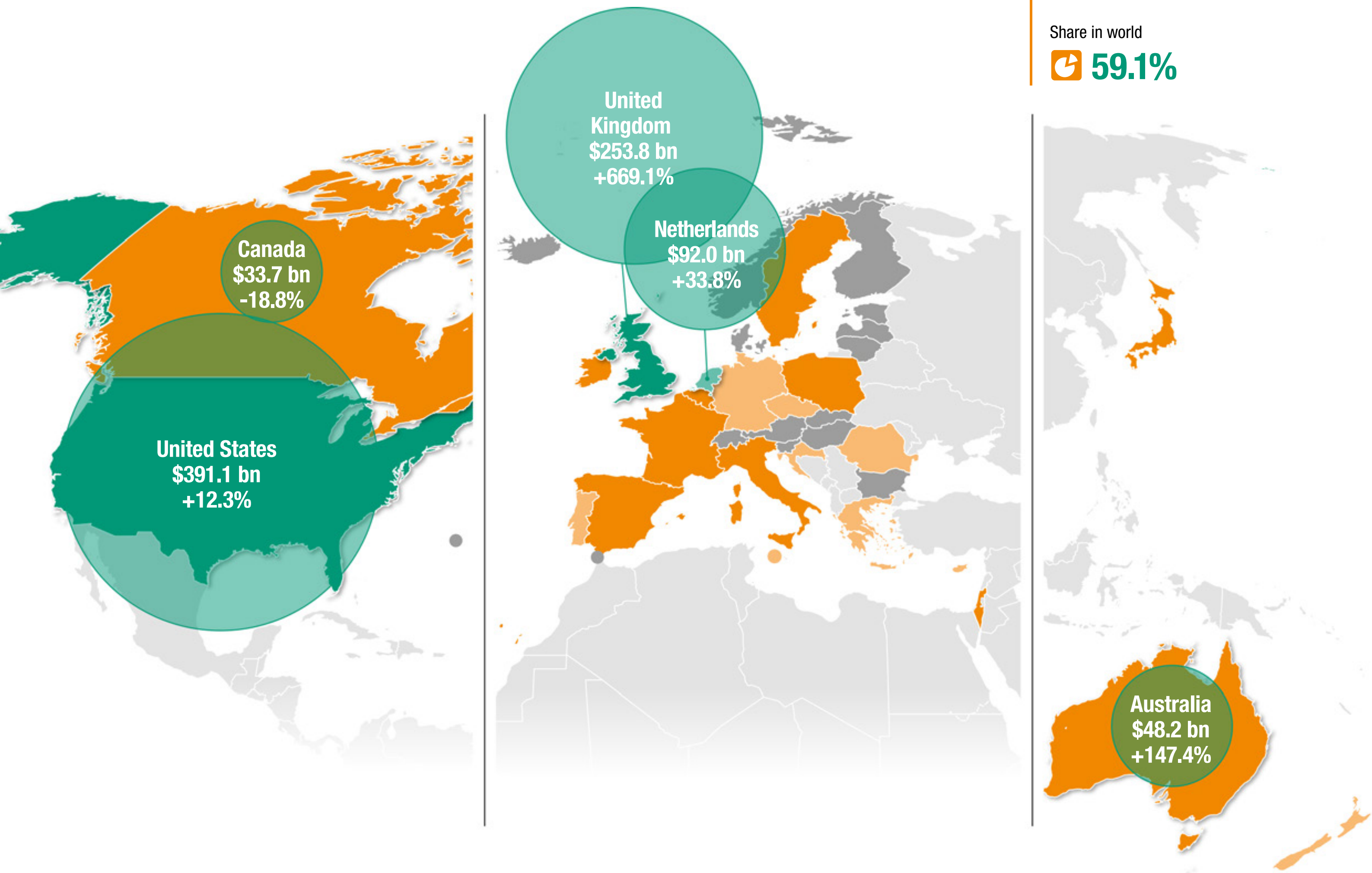
DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
1 032.4 bn

2016 Increase
+4.9%

Share in world
59.1%



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
2016 % change

Outflows: top 5 home economies

(Billions of dollars and 2016 growth)

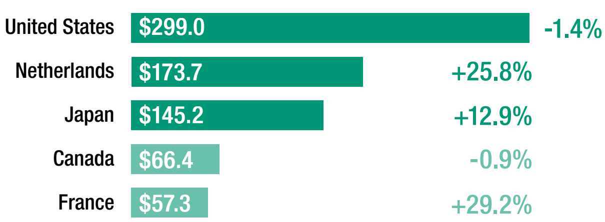
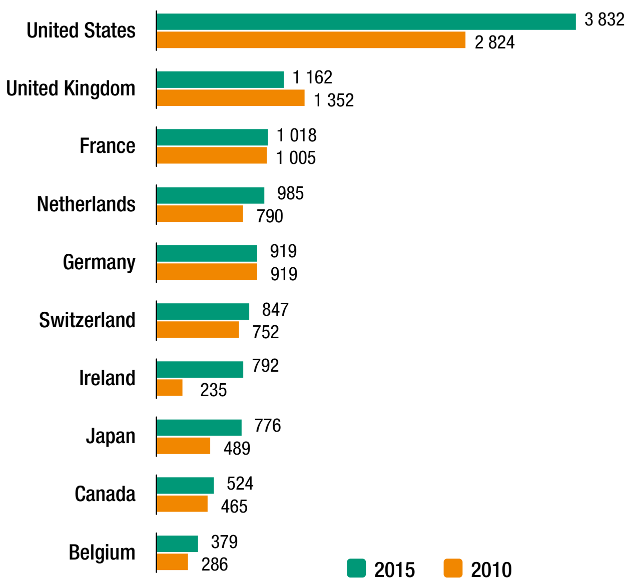


Figure A. Top 10 investor economies by FDI stock, 2010 and 2015 (Billions of dollars)



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

- M&A megadeals helped sustain inflows
- Diminishing intracompany loans brought down outflows from Europe
- Developed countries will struggle to maintain the recovery in 2017

Figure B. FDI inflows, 2010–2016 (Billions of dollars and per cent)

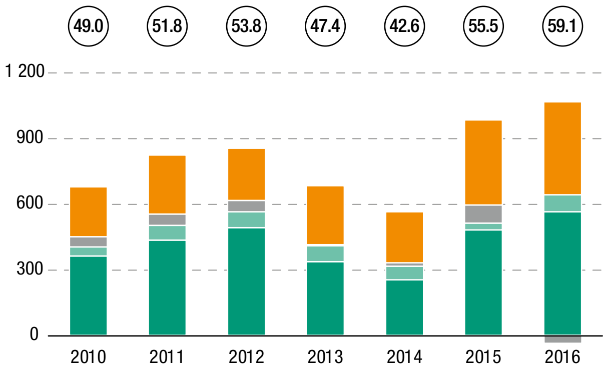
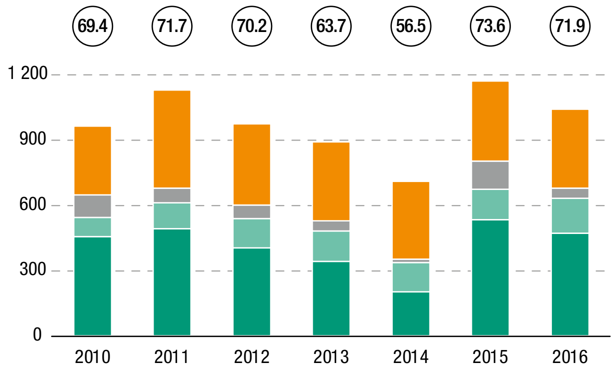


Figure C. FDI outflows, 2010–2016 (Billions of dollars and per cent)



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

Table A. Cross-border M&As by industry, 2015–2016 (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**640 762**	**794 317**	**587 455**	**707 528**
Primary	18 287	77 253	-11 891	-3 963
Manufacturing	360 133	378 662	361 640	364 354
Food, beverages and tobacco	16 637	130 395	21 944	116 349
Coke and refined petroleum products	369	-119	8 462	67 403
Chemicals and chemical products	47 685	32 092	20 276	36 479
Pharmaceuticals, medicinal chemicals and botanical products	114 259	92 635	145 734	102 950
Computer, electronic, optical products and electrical equipment	25 387	69 911	34 114	23 826
Services	262 342	338 402	237 706	347 136
Electricity, gas, water and waste management	11 010	53 274	-5 002	34 427
Trade	19 436	51 277	2 233	15 272
Financial and insurance activities	78 606	92 302	169 949	181 847
Business activities	71 647	62 361	21 301	40 355

Table B. Cross-border M&As by region/economy, 2015–2016 (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**640 762**	**794 317**	**587 455**	**707 528**
Developed economies	543 079	695 913	543 079	695 913
Europe	295 988	437 846	258 665	353 508
North America	197 606	127 817	278 100	314 302
Other developed countries	49 485	130 250	6 314	28 103
Developing economies	80 876	87 174	37 825	12 771
Africa	-165	5 792	22 357	-2 199
Asia	80 470	79 387	10 642	3 812
China	33 708	59 447	3 232	-4 438
India	604	3 299	73	5 686
Latin America and the Caribbean	570	2 120	5 210	11 155
Oceania	-	-125	-385	3
Transition economies	6 557	393	6 551	-1 156

Table C. Announced greenfield FDI projects by industry, 2015–2016 (Millions of dollars)

Sector/industry	Developed countries as destination 2015	Developed countries as destination 2016	Developed countries as investor 2015	Developed countries as investor 2016
Total	**272 716**	**247 082**	**497 763**	**496 036**
Primary	7 908	2 412	31 571	47 910
Manufacturing	116 764	96 257	215 690	194 962
Textiles, clothing and leather	20 064	18 016	24 252	22 440
Chemicals and chemical products	18 709	12 226	30 679	29 769
Electrical and electronic equipment	8 757	7 896	24 084	18 534
Motor vehicles and other transport equipment	28 880	21 083	50 791	44 252
Services	148 044	148 413	250 502	253 164
Electricity, gas and water	28 642	31 541	71 584	66 869
Construction	28 609	30 441	37 375	35 506
Trade	12 352	14 866	18 690	20 667
Transport, storage and communications	15 025	15 032	29 575	30 800
Business services	46 539	42 447	61 728	64 396

Table D. Announced greenfield FDI projects by region/economy, 2015–2016 (Millions of dollars)

Partner region/economy	Developed countries as destination 2015	Developed countries as destination 2016	Developed countries as investor 2015	Developed countries as investor 2016
World	**272 716**	**247 082**	**497 763**	**496 036**
Developed economies	236 708	197 914	236 708	197 914
Europe	146 440	123 574	142 994	126 628
North America	60 230	53 162	73 208	54 340
Other developed countries	30 038	21 178	20 506	16 946
Developing economies	33 794	48 470	247 087	243 773
Africa	756	1 378	37 412	19 979
East and South-East Asia	19 822	35 757	92 409	94 122
South Asia	7 156	6 714	42 648	47 483
West Asia	4 021	2 833	15 574	23 157
Latin America and the Caribbean	1 920	1 788	58 632	58 896
Oceania	118	-	413	137
Transition economies	2 214	698	13 969	54 349

FDI flows to developed economies rose by 5 per cent, exceeding the $1 trillion mark for the first time since 2007. In Europe, record M&A sales were offset by a slump in intracompany loans, resulting in a 6 per cent contraction of inflows. Despite the Brexit vote, inflows to the United Kingdom rose to an unprecedented level, owing to the completions of cross-border M&A megadeals. Inflows to developed countries in North America and the Asia-Pacific expanded except in Canada. Inflows to the United States hit an all-time high, boosted by M&As. FDI outflows from developed countries declined by 11 per cent to $1 trillion. Major investor economies in Europe saw their outflows diminish to a fraction of their level in 2015. Outflows from North America held steady while those from developed countries in the Asia-Pacific bounced back to reach their highest level since 2008. A generally positive economic outlook should pave the way for a continued recovery in FDI flows in developed countries in 2017, although much hinges on regulatory approval of M&A megadeals. Uncertainties about future economic policies, however, could hamper FDI flows.

Inflows

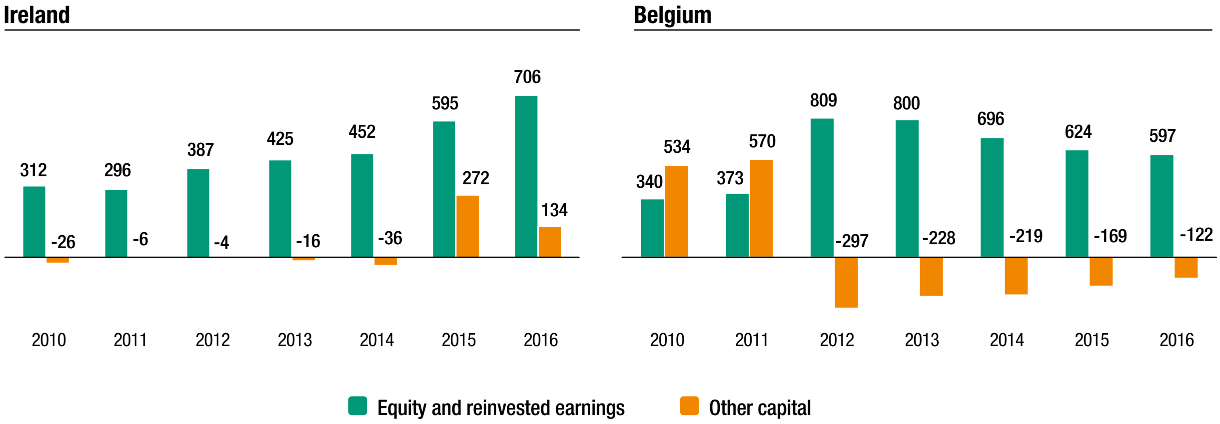
FDI flows to Europe were subdued in 2016, despite megadeals in the United Kingdom. Inflows declined in 19 of the 32 European economies, resulting in a 6 per cent fall in aggregate inflows, to $533 billion. Two opposite trends contributed to this pattern: the completions of cross-border M&A megadeals, which add to the equity component of FDI, and significant declines in intracompany loans.

The value of completed M&A deals targeting assets in Europe shot up to $377 billion, its highest level since 2007. Many of the largest of these assets were based in the United Kingdom, where FDI inflows rose from $33 billion in 2015 to $254 billion in 2016. Three of the four largest deals in the world completed in 2016 were foreign acquisitions of companies based in the United Kingdom: the purchases of the beverage company SABMiller by Anheuser-Busch (Belgium), the oil and gas company BG Group by Shell (the Netherlands) and the semiconductor technology company ARM by SoftBank (Japan).

Inflows to other major recipients of FDI in Europe continued to be influenced by large fluctuations in intracompany loans, which diminished substantially in 2016. FDI to Ireland – the largest recipient in Europe in 2015, with inflows worth $188 billion – fell to $22 billion in 2016. Intracompany loans worth a negative $124 billion were responsible for most of this decline. Intracompany loans also declined by $16 billion in France and $14 billion in Germany. On the positive side, rising intracompany loans (up $14 billion) pushed inflows to the Netherlands to $92 billion, making it the second largest recipient in Europe. Flows to Switzerland – the third largest recipient economy in Europe in 2015 – turned negative (-$26 billion), underscoring the volatile nature of FDI flows to economies with concentrations of corporate headquarters and treasury functions.

FDI stock data shed light on the role intracompany loans play in the FDI flows of those economies. For instance, FDI stock in the form of intracompany loans in Ireland had been negative and limited in absolute value before leaping to $272 billion in 2015 (figure II.6). The huge expansion was attributed to reconfigurations of MNEs' corporate structures, but the decline in 2016 suggests that it was a transitional development in the process of reconfigurations; if this is the case, intracompany loans could decline further in the coming years. In Belgium, inward FDI stock data show that foreign affiliates in the country collectively had outstanding loans worth $122 billion in net terms to their parent companies or to other affiliates of those parents outside Belgium. It is possible, however, that intracompany loans will play a lesser role in the coming years in Belgium, too. The negative stock of intracompany loans in the country has been steadily diminishing after peaking in 2012 at -$297 billion.

Figure II.6. **Ireland and Belgium: Inward FDI stock by component, 2010–2016** (Billions of dollars)



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

In Sweden inflows rose sharply, to $20 billion. The acquisition of the pharmaceutical company Meda by Mylan (United States) and increases in reinvested earnings were the main contributing factors. In the four other Nordic countries, M&A sales declined, resulting in FDI inflows falling or remaining low. In particular, inflows to Norway turned into a net divestment of -$5.5 billion. In the Baltic states, inflows to Latvia and Lithuania fell, with the latter recording a net divestment of -$208 million. In Estonia, although M&A sales were negative, inflows bounced back to $870 million (box II.4).

In the Central and East European member countries of the EU, inflows generally stabilized or bounced back in 2016, after contracting sharply in 2015. However, the dollar value of FDI inflows to Poland – the largest recipient in this group – fell further, due to the falling exchange rate and a series of divestment deals (box II.4). Inflows to Hungary still recorded a net divestment, although smaller than in 2015 at -$5.3 billion, thanks to recovering intracompany loans. Inflows to the Czech Republic substantially recovered, as the large negative intracompany loans responsible for the decline of FDI in 2015 turned positive.

In developed countries around the Mediterranean, inflows increased in 2016. In Spain, inflows recovered to $19 billion, and FDI to Italy grew by 50 per cent to $29 billion. FDI flows to Greece almost trebled, to $3.1 billion, as foreign financial MNEs acquired assets in the country.

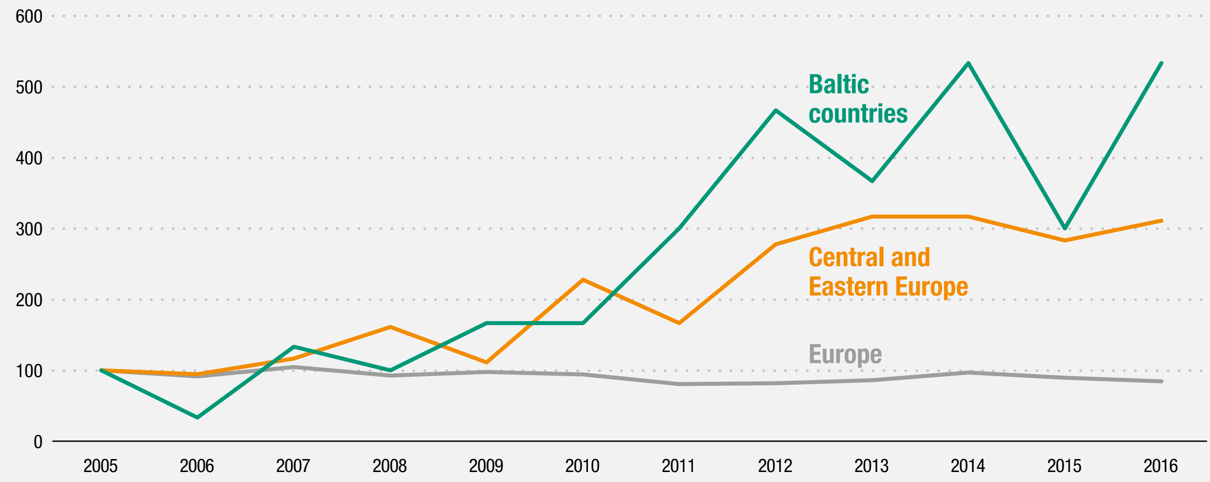
The origin of FDI in European countries can be gauged from M&A deals. Two thirds of these transactions originated from MNEs based in other European countries, with Belgium and the Netherlands being the largest investors owing to the mega-acquisitions by Anheuser-Busch and Shell. The third largest buyer of European assets was the United States, followed by Japan.

Brexit is likely to have a limited impact on FDI until the terms of the departure become clear. Cross-border investment data up to 2016 show few discernible effects of the Brexit vote. The widely held expectation before the referendum in June 2016 that the United Kingdom would vote to remain in the EU might explain the lack of impact so far. Moreover, transactions that took place in 2016 are the result of decisions that predate the referendum. Many of the M&A deals completed in 2016 were announced in 2015 or earlier. Any potential change in FDI plans caused by Brexit would take a few years to translate into actual flows.

Box II.4. Divestments in Central and Eastern Europe and the Baltic countries

In Europe, the number of divestments – M&A deals in which MNEs sell their stakes in foreign affiliates to domestic investors in the host country – has gradually declined, from 554 in 2005 to 469 in 2016. However, in some areas divestments appear to be on the rise, with 16 such deals recorded in the Baltic countries and 56 in the Central and East European countries in 2016. The actual impact of divestments on FDI flows depends on the size of such deals, but the upward trend since 2010 is clear (box figure II.4.1).

Box figure II.4.1. Divestment deals in Central and Eastern Europe and the Baltics, 2005–2016
(Indexed, 2005 = 100)



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

Government policy has been driving divestment in some cases. In Hungary and Poland, for instance, the Governments are pursuing a policy to increase domestic ownership in the banking industry, which in practice involves State-owned enterprises. In Hungary, the Government called for 60 per cent or more of its banking industry to be brought under domestic control.[a] In 2014, it acquired MKB Bank from BayernLB (Germany) for $74 million. In Poland, this policy – sometimes dubbed “re-polonization” – was introduced after the global financial crisis. For instance, in 2016 State-owned Alior Bank acquired the Polish assets of GE Capital (United States), with a combined value of $678 million. UniCredit (Italy) announced in December 2016 an agreement to sell its controlling stake in Bank Pekao, Poland’s second largest bank, for $2.5 billion to a consortium comprising the State-controlled insurance company PZU and the State-owned Polish Development Fund. From the investor’s side, the exits of GE Capital and UniCredit came about after reviews of their business portfolios prompted by the 2008 financial crisis. In other cases, such as Nordea (Sweden) selling its affiliate PKO Bank Polski in 2014, regulatory changes were thought to be the main factors behind the exit. State involvement in these two countries is likely to extend to other industries. In Hungary, State-owned enterprises have been acquiring assets in utilities and the media. In Poland, a policy to restrict foreign ownership of the media is under discussion.

State-owned enterprises have also played a role in divestments in the Czech Republic, such as the acquisition of the domestic water-supply system operator Vodarna Plzen by the State-owned Mesto Plzen. However, in this country, as in the Baltic countries, it is domestic investment funds that are active in acquiring assets divested by foreign MNEs.

Source: ©UNCTAD.
[a] “Hungary’s Orban sees two-thirds of banks in domestic hands”, Reuters, 14 November 2014.

Perhaps more important, the largest companies based in the United Kingdom are global MNEs. Thus, any acquisition of these companies reflects changes in asset ownership and revenue streams around the world, which are not necessarily influenced by the policy environment in the United Kingdom or Europe. Looking at the major deals completed in 2016, for instance, the main attractions of BG Group for Shell were its natural gas assets, most notably in Australia and Brazil. Similarly, Europe accounts for just 16 per cent of SABMiller’s revenues.[14] ARM, which licenses semiconductor technologies that are widely used in smartphones and whose major clients include Apple and Samsung, is unlikely to see its revenues affected by Brexit.

Brexit is more likely to affect sectors that take advantage of "passporting rights",[15] most notably financial services, as well as those whose operations in the United Kingdom form part of European value chains, such as the automotive industry. Evidence so far is mixed. A number of financial institutions have announced that they are relocating functions that are currently in London to continental Europe.[16] However, preliminary data for greenfield projects announced in 2016 show that the United Kingdom continues to attract the lion's share of investments in financial services in the EU, seemingly unaffected by the Brexit vote.

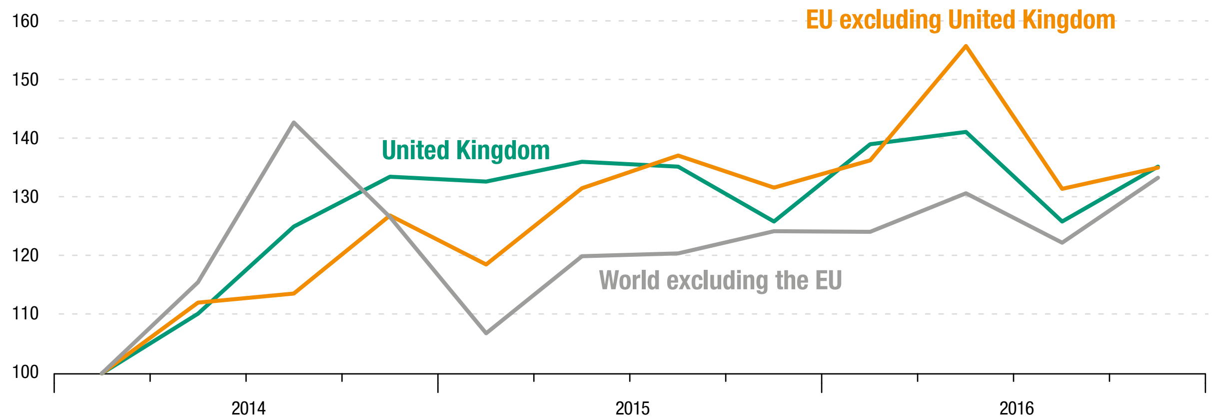
In the automotive industry, Brexit was thought to be a factor behind the decision by GM (United States) to sell its European affiliates Opel and Vauxhall, which was announced in March 2017. In addition, Nissan announced in February 2017 that it would review its investment strategy once the Brexit terms were settled. In contrast, in March 2017 Toyota announced a $296 million investment to upgrade its car plant in the United Kingdom.

The United Kingdom has been a preferred location for non-European MNEs' regional headquarters, which makes the modalities of free movement of people within the EU after Brexit particularly important. The United Kingdom's share of headquarters projects by non-EU investors appears to have declined in the second half of 2016,[17] but it is still too early to conclude whether this is a long-term trend.

The number of M&A deals announced in the United Kingdom did slump after the Brexit vote. Yet this mirrors a trend observed elsewhere, suggesting that the vote was not the sole factor (figure II.7). Comparing the first and the second halves of 2016, the decline in the number of M&A deals in the latter was greater in the rest of the EU (down 9 per cent) than in the United Kingdom (down 7 per cent), suggesting that the vote created political uncertainty for Europe as a whole.

If M&As targeting global MNEs based in the United Kingdom continue to dominate future investment inflows to the country, then Brexit should not have much impact on FDI to the United Kingdom. But FDI could still suffer from the relocation of financial institutions to continental Europe or from missing out on opportunities to host production facilities that target the EU market, once the terms of the departure became clearer.

Figure II.7. **Announced cross-border M&A deals targeting the United Kingdom, the EU and the rest of the world, 2014 Q1–2016 Q4** (Indexed, 2014 Q1 = 100)



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

FDI inflows to North America continued to grow, exceeding $400 billion for the first time. A 12 per cent increase in inflows to the United States more than made up for a decline in Canada, bringing the total to $425 billion. At $391 billion, inflows to the United States were at a record high, accounting for a quarter of global FDI inflows. Canada saw its inflows decline for the third successive year to $34 billion, partly due to a depreciation of the currency.

In the United States, over half of FDI inflows were in manufacturing and about one fifth in finance and insurance. Within manufacturing, pharmaceuticals continued to be a major investment target. The two largest acquisitions of United States assets were the takeover of Allergan's generic drug business by Teva (Israel) for $39 billion and the purchase of the pharmaceutical manufacturer Baxalta by Shire (Ireland) for $31 billion. Europe generated 67 per cent of inflows to the United States. Other developed countries, such as Canada (14 per cent) and Japan (9 per cent), were also major sources. The geographical distribution of MNEs that acquired assets in the United States largely mirrors that of FDI inflows. However, the role of MNEs from developing economies has become more visible, with a share in M&A sales of 13 per cent. With $29 billion acquisitions in 2016 – a record level – China accounted for 8 per cent of cross-border M&A sales in the country.

In recent years, tax inversion deals had a large impact on FDI flows to the United States. Nine tax inversion deals with a combined value of $66 billion were completed in 2016 (compared with eight deals worth $63 billion in 2015), including the $23 billion reverse takeover of Johnson Controls (United States) by Tyco International (Ireland). The apparent continuation of tax inversion does not necessarily mean that regulatory measures are not having any impact. All the tax inversion deals completed in 2016 had been announced before the United States Treasury Department introduced the third wave of rules against tax inversions in April 2016. The proposed $160 billion merger between Pfizer and Allergan was cancelled in part because of the new rules.

In Canada, FDI to the mining and energy industries, which was primarily responsible for the decline in previous years, bounced back to $5 billion – still a fraction of the peak in 2013 of $21 billion. This recovery was not enough to offset declines in other industries, in particular those related to investment in holding companies. By source country, the decline was mostly due to FDI from the United States, where 60 per cent of inflows to Canada originated.

FDI inflows rose in all three developed countries in Asia-Pacific. Inflows to Japan reached $11 billion, the highest level since 2009. A major contributing factor was the granting of the concession to operate two airports in Kansai to a consortium led by the French airport operator VINCI Airports. A high-profile M&A deal was the takeover of the ailing Japanese electronics group Sharp by Foxconn (Taiwan Province of China). Although electric and electronics manufacturers had already been shedding assets to more competitive Asian rivals, Sharp's rescue is the largest of such acquisitions to date. Inflows to Australia doubled to $48 billion, reversing the slump in 2016. A range of services industries attracted foreign investors, boosting M&A sales to $13 billion. Similarly, New Zealand reversed its negative inflows in 2015 to a positive $2.3 billion in 2016. A steady expansion of the economy – and especially reinvested earnings – is likely to have helped the recovery.

Outflows

Diminishing intracompany loans depressed outflows from Europe. FDI outflows from Europe declined by 23 per cent to $515 billion. However, M&A purchases by European MNEs rose for the third successive year, reaching the highest level since 2007. The discrepancy suggests that negative intracompany loans were the main factor behind the downturn in European FDI outflows. Outflows from Ireland, the largest outward investor in Europe in 2015, contracted by $122 billion to $45 billion. Outflows from other major investor countries such as Germany and Luxembourg also declined substantially; in all cases, negative intracompany loans were the major factor in reducing the outflows. In the case of Germany, its M&A purchases also turned negative, primarily due to Deutsche Telekom's divestment of its stake in the mobile telecommunication operator EE (United Kingdom) for $19 billion. Switzerland saw its outflows decline by $73 billion, owing mostly to the equity component turning from $57 billion in 2015 to a negative value. However, M&A data do not show a comparable magnitude of divestments, suggesting that corporate reconfigurations were behind this decline.

Outward FDI from the Netherlands expanded to $174 billion, propelled by the Shell – BG Group acquisition, making the country the largest investor country in Europe. M&A deals, including the takeover of Airgas (United States) by Air Liquide for $11 billion, resulted in outflows from France rising by 29 per cent to $57 billion. Outflows from the United Kingdom recovered by $70 billion but remained negative for the third successive year at -$13 billion, due to negative intracompany loans.

Overall outflows from North America were stable at $365 billion, but those to developing regions declined. Outflows from the United States and Canada declined marginally to $299 billion and $66 billion, respectively. Reinvested earnings worth $280 billion continued to dominate FDI outflows from the United States. Most of the United States' outflows were invested in Europe, which absorbed 71 per cent of the total, with the United Kingdom and the Netherlands taking up 16 per cent each. Outside Europe, Canada and Singapore were the largest recipients, each with 6 per cent of the total. United States FDI to developing regions declined. Outflows to developing Asia fell by 12 per cent and those to Latin America and the Caribbean[18] by 60 per cent. Flows to Africa turned from $0.1 billion in 2015 to -$1.3 billion in 2016.

Acquisitions in Europe lifted FDI from Japan. Outflows from Japan rose by 13 per cent to $145 billion in 2016. Three quarters of outflows went to developed economies, with Europe taking the largest share (37 per cent), followed by North America (35 per cent). The large increase in Japan's FDI to Europe was due to the Softbank-ARM deal. Japanese FDI to China bounced back to $9 billion, recovering almost all the ground lost in 2015. Large negative flows to Singapore (-$19 billion) were mostly due to divestments in the finance and insurance industry. Negative flows to Liberia and Mauritius, also in the finance and insurance industry, pulled Japanese FDI to Africa down to a negative value in 2016.

Prospects

Political uncertainty clouds a generally positive economic outlook. FDI flows to developed countries are expected to hold steady, at about $1 trillion. Flows to Europe are projected to recover as the large volume of negative intracompany loans in 2016 is unlikely to be sustained. In contrast, FDI flows to North America, which reached an all-time high in 2016, appear to be running out of steam and MNE executives are likely to take a wait-and-see approach in the face of policy uncertainty

As in 2016, M&A megadeals are likely to heavily influence FDI flows to developed countries in 2017. Cross-border M&A deals announced in 2016 were worth $1.1 trillion, substantially down from $1.4 trillion in 2015. Both the number and the value of cross-border M&A deals in developed countries were significantly down in the first quarter of 2017. Likewise, the value of greenfield projects in developed countries announced in 2016 was down 9 per cent compared with 2015. Although the general economic outlook is positive, as economic growth in most developed economies is expected to accelerate gradually over the period 2017–2018, rising interest rates, political uncertainty and regulatory hurdles in major developed countries could dampen M&As in 2017. Even if deal-making does recover, megadeals tend to take time to complete and may not add to FDI flows in 2017. As of March 2017, about a quarter of deals announced in 2016 – half of the total value – were pending approval, including the five largest deals, which were worth a combined $217 billion (table II.2). Without the completion of those deals, FDI flows would struggle to recover.

Besides large acquisitions, tax reform in the United States could potentially affect FDI flows significantly. If the United States introduces a change in corporate taxation rules that would reduce tax liabilities on overseas earnings of United States MNEs, it is likely that these MNEs would repatriate accumulated overseas earnings and create negative FDI outflows. In the short run, however, if United States MNEs anticipate such a change in the near future, they may delay such repatriation, which would boost reinvested earnings. The course of interest rates could also affect the decisions of United States MNEs in this regard. To avoid incurring tax liabilities, some United States MNEs have been issuing debt to finance dividend payments and share buybacks, rather than repatriating accumulated foreign earnings. A rise in interest rates in the United States would make the issuance of bonds relatively more expensive and would thus encourage the repatriation of profits.

Intracompany loans remain an unpredictable factor in 2017 and beyond. Some intracompany loans are thought to be motivated by corporate strategies to minimize tax liabilities. If regulatory measures to curb tax avoidance are beginning to close various loopholes exploited by MNEs, the use of such intracompany transactions could diminish.

Table II.2. The largest cross-border M&A deals targeting developed countries announced in 2016

Target company	Target country	Acquiring company	Acquiring country	Transaction value (Billions of dollars)	Status
Monsanto	United States	Bayer	Germany	57	Pending
Reynolds American	United States	British American Tobacco	United Kingdom	49	Pending
Syngenta	Switzerland	China National Chemical	China	44	Pending
Linde	Germany	Praxair	United States	35	Pending
Baker Hughes	United States	GE Oil and Gas	United Kingdom	32	Pending
ARM Holdings	United Kingdom	SoftBank Group	Japan	32	Completed
Actelion Pharmaceuticals	Switzerland	Johnson & Johnson	United States	30	Pending
Spectra Energy	United States	Enbridge	Canada	28	Completed
Johnson Controls	United States	Ty International	Ireland	23	Completed
Sky	United Kingdom	21st Century Fox	United States	15	Pending

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

STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

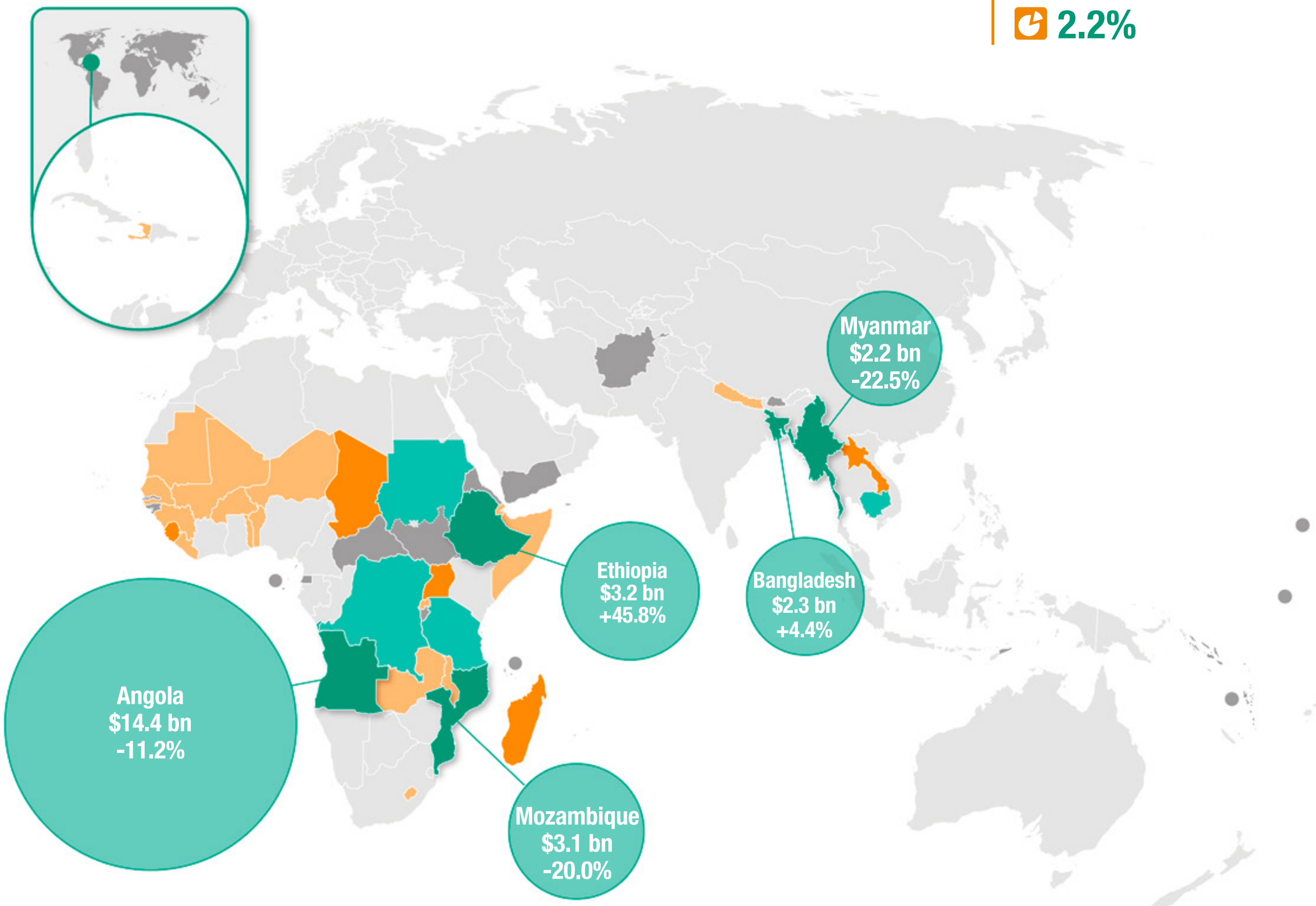
LEAST DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
$ 37.9 bn

2016 Decrease
-12.8%

Share in world
2.2%



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
2016 % change

Outflows: top 5 home economies

(Billions of dollars and 2016 growth)

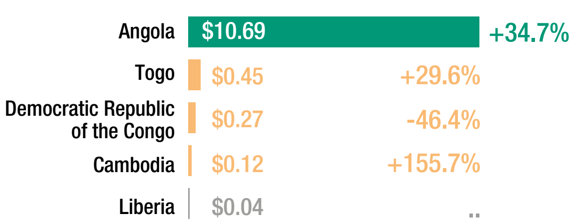
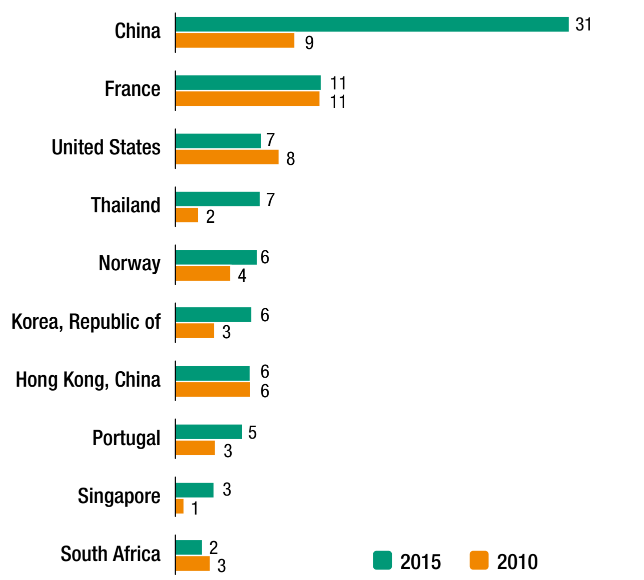


Figure A. Top 10 investor economies by FDI stock, 2010 and 2015 (Billions of dollars)



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

- After a high in 2015, FDI flows contracted
- China remained the largest home economy investing in LDCs
- Investments related to oil and gas will continue to drive overall FDI flows

Figure B. FDI inflows, 2000–2016 (Billions of dollars and per cent)

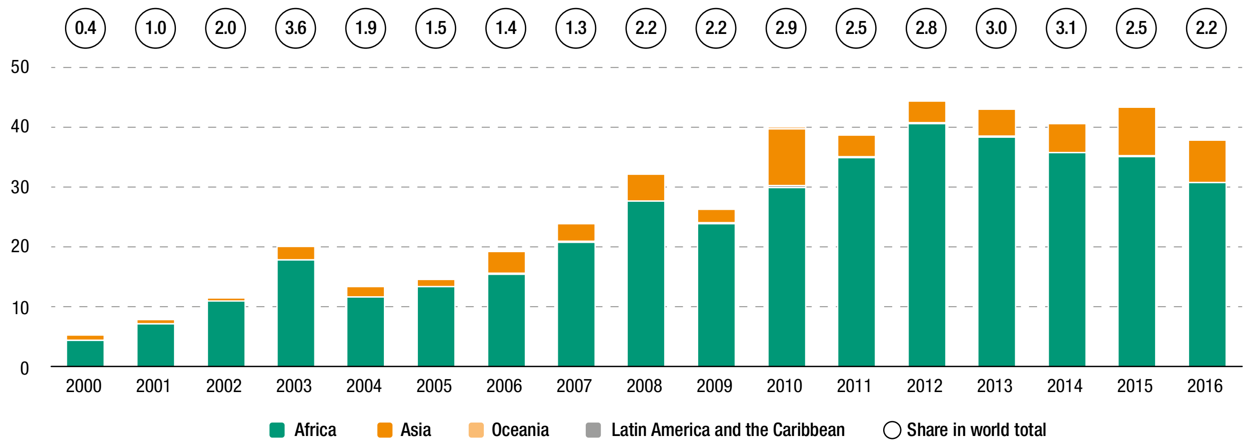


Table A. Cross-border M&As by industry, 2015–2016 (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**1 059**	**780**	**13**	**11**
Primary	**2**	**5**	**-**	**2**
Mining, quarrying and petroleum	2	5	-	2
Manufacturing	**674**	**591**	**-**	**-**
Food, beverages and tobacco	590	509	-	-
Textiles, clothing and leather	-	66	-	-
Basic metal and metal products	38	0.1	-	-
Rubber and plastics products	-	15	-	-
Services	**383**	**184**	**13**	**9**
Trade	1	5	-	-
Accommodation and food service activities	302	37	-	-
Financial and insurance activities	62	116	13	9
Business activities	-	25	-	-

Table B. Cross-border M&As by region/economy, 2015–2016 (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**1 059**	**780**	**13**	**11**
Developed economies	**884**	**-2 568**	**0.2**	**9**
Australia	294	-3	-	9
Canada	-447	1	0.2	-
Japan	1 007	510	-	-
Sweden	-67	-335	-	-
United States	37	-2 749	-	-
Developing economies	**175**	**3 348**	**13**	**2**
Africa	71	2	13	2
Asia	103	3 346	-	-
China	28	2 848	-	-
Kuwait	-	95	-	-
Malaysia	4	335	-	-

Table C. Announced greenfield FDI projects by industry, 2015–2016 (Millions of dollars)

Sector/industry	LDCs as destination 2015	LDCs as destination 2016	LDCs as investor 2015	LDCs as investor 2016
Total	**46 084**	**44 334**	**775**	**1 577**
Primary	**6 338**	**559**	**-**	**-**
Mining, quarrying and petroleum	6 338	559	-	-
Manufacturing	**7 689**	**11 675**	**31**	**194**
Coke, petroleum products and nuclear fuel	147	2 199	-	20
Chemicals and chemical products	1 059	4 613	31	62
Metals and metal products	289	1 524	-	-
Services	**32 057**	**32 099**	**744**	**1 383**
Electricity, gas and water	12 549	13 561	-	-
Construction	12 294	6 559	283	282
Transport, storage and communications	3 267	7 866	8	517
Finance	1 483	1 248	375	84
Business services	1 328	1 434	27	20

Table D. Announced greenfield FDI projects by region/economy, 2015–2016 (Millions of dollars)

Partner region/economy	LDCs as destination 2015	LDCs as destination 2016	LDCs as investor 2015	LDCs as investor 2016
World	**46 084**	**44 334**	**775**	**1 577**
Developed economies	**18 094**	**9 050**	**111**	**302**
European Union	8 861	2 032	111	296
Japan	4 102	2 532	-	6
United States	3 005	3 397	-	-
Developing economies	**27 793**	**35 284**	**657**	**1 198**
Africa	4 855	6 453	168	465
Morocco	18	4 163	-	-
Asia	22 592	28 830	490	734
China	2 750	14 041	162	-
India	2 011	3 439	-	427
Malaysia	799	3 388	1	71
Thailand	8 626	2 334	283	70

After a high of $44 billion in 2015, FDI inflows to the 48 LDCs contracted by 13 per cent to $38 billion. Higher manufacturing and infrastructure FDI in selected LDCs – Ethiopia, Bangladesh and Cambodia – was not enough to offset lower foreign investment in leading commodity-rich LDCs and Asian LDCs. Official development assistance (ODA) tends to dominate external financial flows to LDCs, including FDI flows. The dip in FDI flows in 2016 made them fall behind remittances, too. China remained the largest investor in the group, far ahead of France and the United States. Although the sectoral distribution of announced greenfield FDI projects in LDCs underscores the potential for more investment in the manufacturing and services sectors, investments related to oil and gas will continue to drive overall FDI flows into LDCs for the foreseeable future. Growing regional integration fosters a positive outlook for FDI in Asian LDCs.

Inflows

Aggregate FDI flows to African LDCs and Haiti fell by 12 per cent to $31 billion. FDI flows to Angola, the second largest oil producer in Africa, declined for the second consecutive year to $14 billion (-11 per cent) from a record of $17 billion posted in 2014. Nevertheless, it remained by far the largest FDI host in LDCs, absorbing nearly 40 per cent of total foreign investment flows to the group. Foreign investors reduced their reinvested earnings to a nine-year low of $1 billion (-46 per cent). Although equity investment declined by 6 per cent to $13 billion – from a record of $14 billion in 2015 – it remained higher than the annual average of $10 billion recorded in 2011–2013. FDI flows to the Sudan, another oil-related economy, fell to $1 billion (-38 per cent), as compared with a peak of over $2 billion in 2012. Although South Sudan recorded negative flows in 2016, it attracted investments into coffee farms, thereby positioning coffee beans as its primary non-oil export.

Facing challenging macroeconomic conditions and a deteriorating business climate, Mozambique saw its FDI inflows fall for the third consecutive year to a six-year low of $3 billion (-20 per cent from 2015). With the finalization of agreements on a large natural gas project between the Government and foreign investors taking longer than expected, the surge in FDI in auxiliary infrastructure came to a temporary halt in 2016. In the United Republic of Tanzania, which is also expected to become a new producer of natural gas in the future, FDI slipped for the third consecutive year, to $1.4 billion (-15 per cent), amid uncertainty about FDI policies and tax rules.

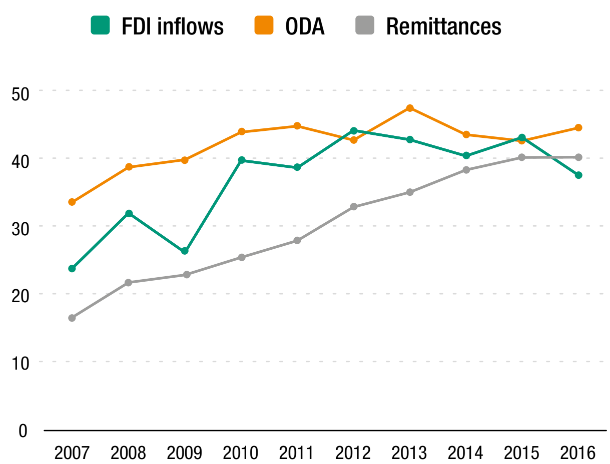
Two leading mineral exporters – the Democratic Republic of the Congo and Zambia – also saw their FDI shrink further in the face of low commodity prices. In the former, despite growing interest from Chinese firms, FDI fell for the fourth consecutive year to $1 billion (-28 per cent), significantly below its 2012 peak of more than $3 billion. In Zambia, FDI slumped to $469 million (-70 per cent) – about a fifth of its peak of $2.1 billion, posted in 2013. Low commodity prices and uncertainty about mining tax policy amendments could be the main reasons why foreign investors put on hold projects in the country's mining sector,[19] although some positive prospects cropped up in non-mining sectors.[20]

In contrast, thanks to investments in infrastructure and manufacturing, Ethiopia again posted strong growth in FDI (up 46 per cent to $3 billion) and became the second largest LDC host economy, up from the fifth position in 2015. The largest cross-border M&A sale of the year ($510 million) was also recorded in the country, with Japan Tobacco acquiring a local cigarette manufacturing facility. Ethiopia attracted new FDI in manufacturing, which could create opportunities for local SMEs to link to global supply chains. Although China was one of the major sources of FDI, foreign investors from other economies have started investing more in Ethiopia's agro-processing, hotels and resorts, as well as in its manufacturing activities.

Following a record high in 2015, FDI into LDCs in Asia and Oceania also retreated, by 14 per cent to $7 billion. FDI in both Myanmar and the Lao People's Democratic Republic declined after buoyant performances in 2015. In the former, delays in implementing large-scale projects and policy uncertainty over coal-fired power projects appeared to curb its FDI flows (-22 per cent to $2.2 billion) in 2016, which nonetheless remained much higher than in 2014 ($946 million). Yet the country continued to attract greenfield projects in industries such as transport, telecommunication and garments. Myanmar's first operational special economic zone, in Thilawa, successfully attracted export-oriented manufacturing FDI while securing foreign capital to advance infrastructure developments (e.g. a power plant, industrial water supply and a waste disposal facility). In the Lao People's Democratic Republic, too, flows declined (-20 per cent to $890 million) but were more than 20 per cent higher than in 2014. The country continues to attract projects from other ASEAN members in electricity, construction and financial services.

Despite this retreat, two manufacturing exporters performed well. Bangladesh became the fourth largest FDI host among LDCs with a record $2.3 billion in inflows (+4 per cent). Thanks to new, large-scale electricity projects (table II.3), the total value of announced greenfield projects soared to $6.4 billion in 2016, more than three times greater than the annual average of $2.0 billion in 2013–2015. Following a slight dip in 2015, FDI into Cambodia hit a record of $1.9 billion (+13 per cent), bolstered by projects in electricity, construction and non-garment manufacturing from China, Japan and other ASEAN members.

Figure II.8. **LDCs: FDI inflows, ODA and remittances, 2007–2016**
(Billions of dollars)



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

ODA and remittances have become the main sources of external finance for LDCs, ahead of FDI. In LDCs, unlike in the full group of developing economies, ODA has been the largest source of finance in most years (figure II.8), although it has been growing more slowly than FDI and remittances. The dominance of ODA is related to the fact that various LDCs are major ODA recipients: in 2015, Afghanistan was the second largest recipient of ODA in the world, Ethiopia was the fourth largest and the Democratic Republic of the Congo the seventh largest.[21] Moreover, some LDCs rely heavily on ODA for financing their basic development needs: the 10 countries with the highest ratios of ODA to gross national income in 2015 were registered in LDCs, with Liberia (62 per cent), the Central African Republic (32 per cent), Somalia (23 per cent) and Sierra Leone (22 per cent) topping the global list. Despite the key role of ODA, however, robust FDI performance in 2007–2010 narrowed the gap substantially, and the volume of FDI flows even surpassed ODA in 2012 and 2015. Reduced FDI flows reversed this trend in 2016. Growth in remittances is particularly fast in LDCs compared with other developing economies. As a consequence, remittances caught up with FDI flows in 2016. As with FDI, the geographical distribution of remittances is uneven. Nearly 40 per cent of aggregated remittances to LDCs in the last five years (2012–2016) went to Bangladesh, and more than 15 per cent to Nepal.

Six developing economies feature among the top 10 countries investing in LDCs. MNEs from developing Asia, led by China, have been actively expanding into LDCs, and their significance is growing in manufacturing and services. At the end of 2015, Chinese

FDI stock in LDCs was almost three times more than the next largest investor's (figure A). From 2010 to 2015, its stock in LDCs more than tripled. Although more than half of Chinese FDI to LDCs was held in commodity-rich African countries, three ASEAN LDCs – the Lao People's Democratic Republic (close to $5 billion, up nearly six times from 2010), Myanmar (more than $4 billion, up more than two times from 2010) and Cambodia (close to $4 billion, up by more than three times from 2010) – remained the largest single recipients of Chinese investment in the group. Chinese investors have played a major role in other LDCs, such as Ethiopia, where they have focused on garment and leather production. Chinese investors also dominate announced greenfield projects in 2016 (table D). Estimated capital spending by Chinese MNEs skyrocketed from an annual average of $2 billion in 2013–2015 to over $14 billion in 2016.

In addition to China, other developing economies have emerged as prominent investors in LDCs. Driven by investments in the ASEAN LDCs, Thailand's FDI stock more than tripled between 2010 and 2015 and is now almost equivalent to that of the United States. The Republic of Korea almost doubled its FDI stock in LDCs during the same period, especially in Myanmar and Madagascar.

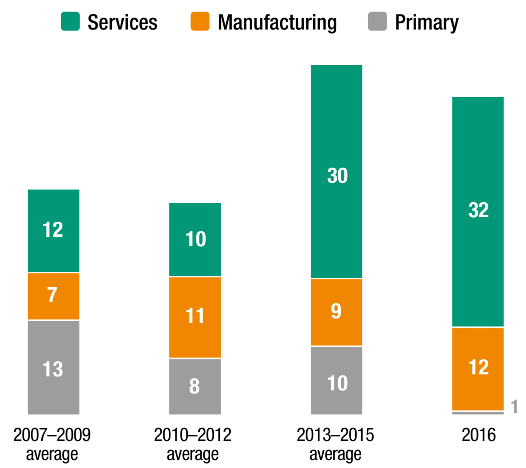
Among the commodity-based LDCs, South-South FDI can play a major role in diversification. For example, the Sudan has attracted non-hydrocarbon projects from Egypt (in total exceeding $1.2 billion) in manufacturing (pharmaceuticals and cement) and electricity, as well as a $150 million telecommunication project from Bahrain. Somalia has received sizeable investments in telecommunication (e.g. $150 million from Mauritius in 2013, another $150 million from Djibouti in 2014 and $300 million from Oman in 2016) and logistics ($442 from the United Arab Emirates in 2016).

Prospects

FDI to LDCs is expected to recover in 2017. Foreign investors are bullish about the LDCs' potential in manufacturing and services, although oil and gas will continue to dominate FDI in the near future. Long-term trends in announced greenfield FDI projects suggest that foreign investors are increasingly interested in LDCs' services sector (figure II.9), particularly electricity (including alternative and renewable energy), construction, transport, storage and communications (table C). In the manufacturing sector, greenfield projects announced in recent years highlight investment opportunities in food and tobacco; building and construction materials; and textiles, clothing and leather.

South-based investors continue to show a keen interest in LDCs. In Ethiopia, for instance, a $3.7 billion fertilizer plant project from Morocco (table II.3) signalled this LDC's potential to attract large-scale manufacturing projects in non-garment industries.

Figure II.9. LDCs: Value of announced greenfield FDI projects by sector, 2007–2016
(Billions of dollars)



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

Despite this potential for diversification, large-scale FDI projects in African LDCs continue to focus on extractive and related industries and to dominate aggregated FDI flows to LDCs. Examples include petroleum refineries; natural, liquefied and compressed gas production;

and, to some extent, metal and metal products in the manufacturing sector (table C). In the services sector, growth in transport and storage is due to large-scale projects in oil or natural gas pipelines (table II.3) and terminals. Furthermore, foreign investors are expected to capitalize on new oil and gas reserves discovered in Mozambique, Senegal, Uganda and the United Republic of Tanzania. For example, in the United Republic of Tanzania, where the annual average FDI flows stood at $1.5 billion in 2014–2016, the national investment promotion agency expects the country's $30 billion liquefied natural gas project, together with a $10 billion port project and a $7 billion railway upgrade, to boost the country's FDI by at least $2 billion a year.

Regional integration could also contribute to higher FDI flows to LDCs. For example, the establishment of the ASEAN Economic Community has boosted already positive investor perceptions of the group's LDC economies (ASEAN-UNCTAD, 2016). As a result, foreign investments from China, Japan and other ASEAN economies (e.g. Malaysia, Thailand, Viet Nam) into the ASEAN LDCs are expected to grow further (table D). Intraregional FDI, especially from China and India, is likely to grow in Bangladesh and Nepal as well, facilitated from India by shared membership in the South Asian Association for Regional Cooperation and from China by bilateral agreements.

Table II.3. LDCs: 10 largest greenfield projects announced in 2016

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Mozambique	Pipeline transportation of natural gas	China National Petroleum	China	4 000
Ethiopia	Pesticide, fertilisers and other agricultural chemicals	Office Cherifien des Phosphates	Morocco	3 700
Bangladesh	Fossil fuel electric power	Tenaga Nasional	Malaysia	2 500
Myanmar	Fossil fuel electric power	Union Resources & Engineering	China	2 431
Myanmar	Fossil fuel electric power	APR Energy	United States	2 431
Cambodia	Industrial building construction	Tianrui Group	China	2 000
Bangladesh	Fossil fuel electric power	China General Technology Group	China	1 560
Myanmar	Wireless telecommunication carriers	Viettel	Viet Nam	1 500
Bangladesh	Natural, liquefied and compressed gas	Reliance ADA	India	1 048
United Republic of Tanzania	Fossil fuel electric power	KOYO Corporation	Japan	1 000

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

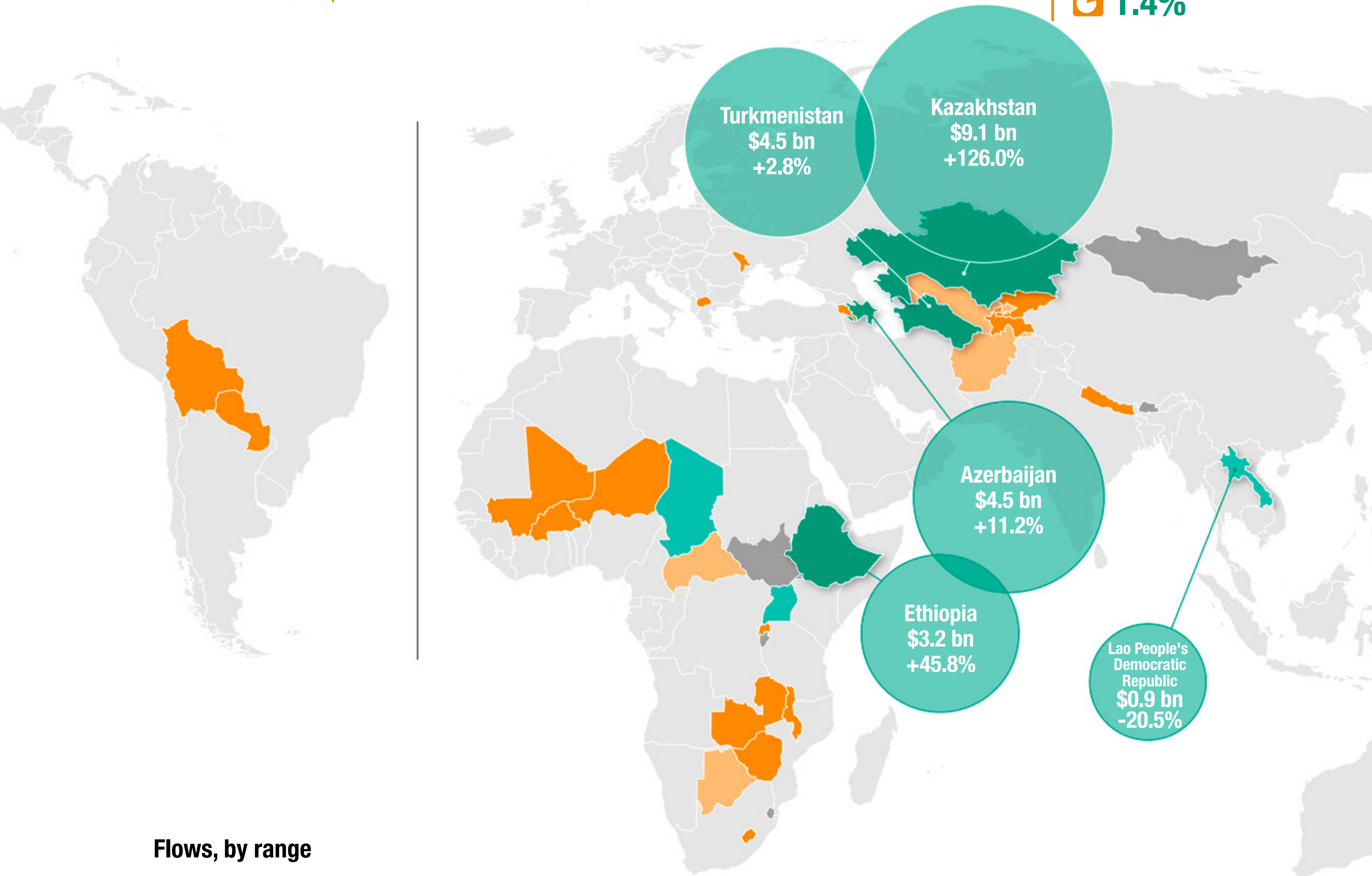
LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
24.3 bn

2016 Decrease
-2.2%

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
2016 % change

Outflows: top 5 home economies
(Billions of dollars and 2016 growth)

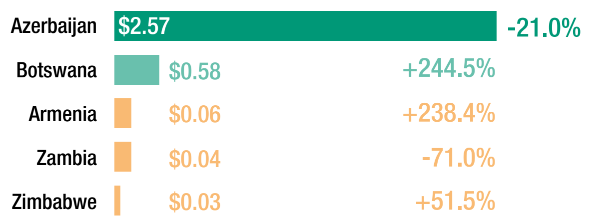
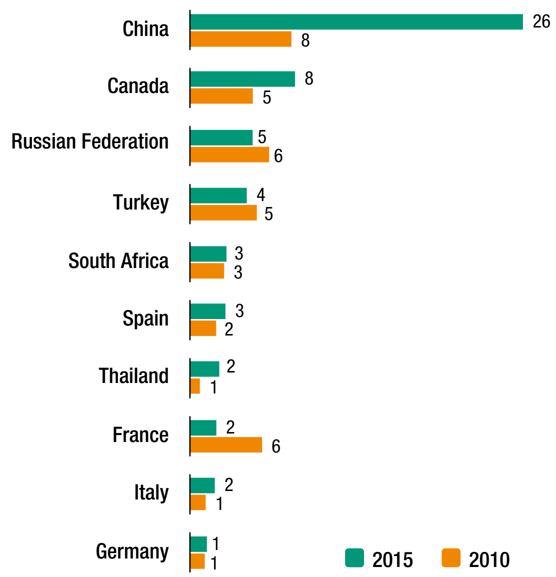


Figure A. **Top 10 investor economies by FDI stock, 2010 and 2015** (Billions of dollars)



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

- Flows to landlocked developing countries stabilized
- The rise of investors from the South continues
- FDI prospects warrant cautious optimism

Figure B. | **FDI inflows, 2000–2016** (Billions of dollars and per cent)

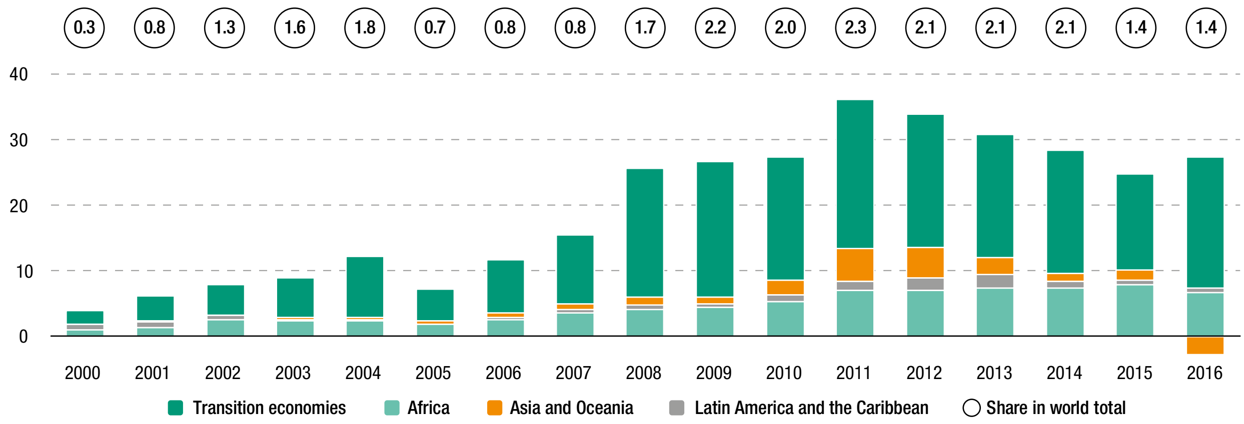


Table A. **Cross-border M&As by industry, 2015–2016** (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**2 712**	**507**	**-459**	**138**
Primary	**2 290**	**7**	**-1 304**	**-41**
Mining, quarrying and petroleum	2 290	7	-1 305	-
Manufacturing	**94**	**510**	**-**	**-**
Food, beverages and tobacco	45	510	-	-
Basic metal and metal products	38	-	-	-
Services	**327**	**-10**	**845**	**179**
Electricity, gas, water and waste management	180	2	-	-
Trade	40	18	-	-
Transportation and storage	15	16	3	-
Financial and insurance activities	48	-12	818	124
Business activities	0.3	6	24	-
Public administration and social security	36	-	-	-

Table B. **Cross-border M&As by region/economy, 2015–2016** (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**2 712**	**507**	**-459**	**138**
Developed economies	**507**	**-122**	**848**	**161**
United Kingdom	-23	14	-	-
United States	216	-	-	-
Japan	-	510	848	-
Developing economies	**3 329**	**508**	**-1 308**	**0.3**
China	1 149	10	-	-
Malaysia	2 250	511	-	-
South Africa	18	54	-10	-
Thailand	1	64	-	-
Turkey	10	25	-1 305	0.3
Transition economies	**-1 214**	**105**	**1**	**-23**
Russian Federation	-1 214	205	1	-23

Table C. **Announced greenfield FDI projects by industry, 2015–2016** (Millions of dollars)

Sector/industry	LLDCs as destination 2015	LLDCs as destination 2016	LLDCs as investor 2015	LLDCs as investor 2016
Total	**31 374**	**57 180**	**883**	**2 340**
Primary	**8 672**	**37 606**	**-**	**-**
Mining, quarrying and petroleum	8 672	37 606	-	-
Manufacturing	**14 380**	**11 784**	**110**	**360**
Food, beverages and tobacco	394	1 791	61	110
Coke and refined petroleum products	7 567	2 106	-	66
Chemicals and chemical products	766	4 785	31	-
Services	**8 321**	**7 790**	**774**	**1 980**
Electricity, gas and water	2 485	2 637	22	-
Construction	2 253	2 000	283	282
Transport, storage and communications	1 376	903	197	549
Finance	617	638	78	22
Business services	837	964	55	14

Table D. **Announced greenfield FDI projects by region/economy, 2015–2016** (Millions of dollars)

Partner region/economy	LLDCs as destination 2015	LLDCs as destination 2016	LLDCs as investor 2015	LLDCs as investor 2016
World	**31 374**	**57 180**	**883**	**2 340**
Developed economies	**16 257**	**42 656**	**71**	**300**
European Union	13 728	2 666	60	295
United Kingdom	7 602	747	6	-
United States	627	38 221	11	5
Japan	496	1 245	-	-
Developing economies	**11 477**	**13 991**	**712**	**1 163**
China	4 463	4 025	12	14
Egypt	41	880	-	-
Iran, Islamic Republic of	121	1 083	-	178
Morocco	-	4 123	-	-
Thailand	1 675	956	283	-
Transition economies	**3 640**	**533**	**101**	**877**

After a major fall in 2015, FDI flows to the 32 landlocked developing countries (LLDCs) declined marginally, by 2 per cent, to $24 billion in 2016. LLDCs continue to play a marginal role on the global FDI scene, accounting for less than 2 per cent of world inflows. The dynamics of FDI inflows diverged across regions and host economies. FDI grew in transition economies, especially in Kazakhstan, and inflows rose for a fourth consecutive year in Ethiopia, whereas flows to Mongolia turned negative. Although FDI to LLDCs continues to focus on natural resources, investment is shifting towards economic activities such as infrastructure and manufacturing, helping to mitigate these countries' geographical disadvantage. Investors from developing economies, particularly China, continue to account for an increasing share of FDI to LLDCs. FDI prospects warrant cautious optimism. Continued recovery still hinges on the evolution of commodity prices and political issues that could weigh on future FDI.

Inflows

FDI to LLDCs stabilized in 2016 but still remained marginal. After a major fall in 2015, the group's flows retreated by only 2 per cent, to $24 billion. LLDCs continue to play a marginal role on the global FDI scene, accounting for less than 2 per cent of world inflows, although this share is higher than their share in world GDP (1 per cent). FDI dynamics varied across the group. FDI rebounded in landlocked transition economies thanks to buoyant FDI in Kazakhstan, Armenia, and the former Yugoslav Republic of Macedonia, although in the latter two, it surged from a low base. In all other regions, FDI inflows declined. In Africa, the continued upward trend in Ethiopia was more than offset by major declines in Botswana and Zambia. A slump of FDI flows was recorded in Asian LLDCs as well, due to negative inflows in Mongolia. FDI to the two Latin American LLDCs also fell, as moderate gains in Paraguay could not compensate for the decline of FDI in the Plurinational State of Bolivia. FDI to LLDCs shares similarities – small volume, volatility, dependence on commodities in various countries – with FDI to LDCs. This is to a large degree due to a significant overlap between the two groups (17 of the 32 LLDCs are LDCs), particularly in Africa and Asia.

In the 16 African LLDCs, FDI inflows fell by 14 per cent to $7 billion in 2016. This is low even compared with total FDI into Africa, reflecting the fact that LLDCs are often the poorest and most disadvantaged economies in the region. Among African LLDCs, Ethiopia was by far the most dynamic and largest FDI recipient (accounting for almost half of the total inflows of LLDCs in Africa), thanks to improvements in infrastructure and advances in industrialization. Inflows to Ethiopia have been rising constantly since 2012, even when FDI declined in many other LLDCs. Small countries such as Burkina Faso and the Central African Republic also registered high FDI growth in 2016, but from very low levels in 2015. Rwanda also experienced a rise in inflows by 8 per cent, to $410 million.

The heterogeneous group of five Asian LLDCs (Afghanistan, Bhutan, the Lao People's Democratic Republic, Mongolia and Nepal) recorded negative inflows in 2016 (-$3 billion). The Lao People's Democratic Republic remained by far the largest recipient of FDI in this group, although inflows declined by 20 per cent to about $900 million. Inflows to Mongolia turned negative (-$4 billion) in the face of negative intracompany loans, which were a result of various factors, including policy and judiciary uncertainty, low commodity prices and profit taking from mature projects.

The two Latin American LLDCs (the Plurinational State of Bolivia and Paraguay) attracted less than $700 million in FDI in 2016 – a 16 per cent decline from the previous year. In the Plurinational State of Bolivia the decline came about in part as foreign investment in oil and gas and in mining contracted.

The nine landlocked transition economies continued to be the largest recipients of inward FDI in the group, attracting a record $20 billion in 2016 – more than four fifths of total FDI to LLDCs – an increase of 35 per cent over the previous year. FDI increased in all three traditional top recipient countries (Azerbaijan, Kazakhstan and Turkmenistan), which account now for about 90 per cent of the inflows to landlocked transition countries. In Kazakhstan, FDI more than doubled to $9 billion, on the back of projects in oil and gas and in mining. Similarly, in Azerbaijan, where inflows grew by 11 per cent to $4.5 billion, foreign investors remained focused on oil and gas (such as the ACG and Shah Deniz II fields), as well as on refining and petrochemicals, followed by transportation, storage and construction. In Turkmenistan, where FDI grew marginally, to $4.5 billion, the bulk of inflows continue to target natural-gas-related activities such as the expansion of the Galkynysh gas field. Nevertheless, in both Kazakhstan (box II.3) and Turkmenistan, in addition to the traditional focus on hydrocarbons, foreign investors also showed interest in manufacturing plants.

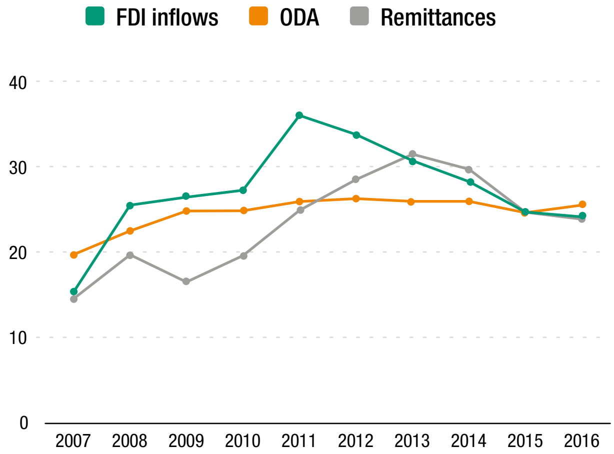
Despite the persistent weight of natural resources in FDI to LLDCs, diversification of inflows is advancing, especially in economies that have recently attracted sizeable FDI, such as Ethiopia. Cross-border M&As and greenfield announcement data for 2016 indeed indicate that the share of natural-resource-based projects is declining. A shift towards manufacturing can be detected, especially in food, beverages and tobacco for M&As and in chemicals for announced greenfield projects.

In infrastructure development, investor interest goes beyond pure FDI deals and embraces other forms of involvement, especially public-private partnerships (PPPs). Indeed, PPPs are dominated by non-equity modalities such as concession deals, although they can include some elements of FDI. Some of the LLDCs have been especially active in PPPs since the early 2010s.[22] For example, the Lao People's Democratic Republic carried out 17 hydropower projects on this model between 2011 and 2015, for a total value of $8 billion, including the Sinhohydro Nam Ou 1-7 megaproject. Another LLDC, Nepal, attracted more than $1.6 billion over the same period in 14 smaller projects, including the $350 million Kathmandu–Kulekhani Hetauda Tunnel Highway. In Zambia, four medium-sized projects worth $2.7 billion were developed using PPPs, including the Maamba coal-fired power plant. Armenia, too, relied on a PPP to develop a hydropower project worth $250 million (Vorotan). In the first half of 2016, Uganda started two new projects in hydropower and one in solar electricity generation, each worth about $15 million. In Central Asia, the construction of the Ashgabat International Airport (Turkmenistan) by Turkey's Polimeks Construction, completed in 2016, was one of the largest transport contract projects in recent years.[23] In some cases, LLDCs cooperate with each other: the CASA 1000 project, for instance, involves linking the hydropower capacities of Kyrgyzstan and Tajikistan with the net importing countries of Afghanistan and Pakistan. Some projects, such as the Turkmenistan–Afghanistan–Tajikistan Railway, are currently in the feasibility study phase.[24]

FDI has become the most important component of development finance for LLDCs. FDI flows have been a major source of finance for LLDCs, occasionally overtaking both remittances and ODA (figure II.10). This aggregate pattern of external finance in LLDCs is somewhat similar to the overall situation of developing economies (see chapter I) – and dissimilar to that of LDCs – in that FDI flows are typically larger than ODA and remittances, although in LLDCs, remittances and ODA come closer to FDI in absolute volumes than in developing economies. This in turn contrasts with the pattern in LDCs, where ODA dominates, followed by remittances and then FDI. There are also major variations between individual countries in terms of using different sources of finance. Remittances have been a crucial source of external capital flows in some small LLDCs, notably Armenia, Kyrgyzstan, the Republic of Moldova, Nepal and Tajikistan. Economic crises in source countries and exchange rate fluctuations in major recipient economies, however, have weighed on remittances, which have been declining since 2014. In turn, ODA continued to be a relatively large and more stable source of flows. Moreover, ODA has been more widely distributed among LLDCs than FDI flows, and its role in government budget support has often been critical for the provision of essential services and infrastructure.

The rise of South-South FDI to LLDC continues unabated. In recent years, an upswing has been recorded in investment to LLDCs from other developing economies, including China, South Africa and Turkey (figure A). In 2015 again (the latest year for which complete data were available), MNEs from developing economies, especially from Asia (including, in addition to the traditional top ones, Thailand) and from countries in transition (especially the Russian Federation) accounted for the bulk of the inward FDI stock in LLDCs. In terms of stock, China has widened its lead as the number one investor in these countries.

Figure II.10. **LLDCs: FDI inflows, ODA and remittances, 2007–2016**
(Billions of dollars)



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

The rise of South-South FDI in LLDCs reflects recognition of these countries' strategic value. The One Belt One Road initiative (box I.1), for instance, which covers Mongolia and all the transition-economy LLDCs (except the former Yugoslav Republic of Macedonia), is a cooperation initiative that capitalizes on that strategic importance through FDI and other mechanisms of collaboration. This is a zone in which MNEs from various emerging economies (including China, India, the Russian Federation and Turkey) have shown keen interest, for the purpose of accessing not just natural resources, but infrastructure links, too.

Prospects

FDI prospects in LLDCs warrant cautious optimism. Renewed interest by investors has so far bolstered the oil and gas industry mainly, building on expectations of higher international prices. However, some interest is discernible in manufacturing, offering some hope for diversification. Diversification into manufacturing takes time, however, and LLDCs continue to rely on natural resources. Therefore, FDI prospects are still heavily influenced by the commodity price recovery. The strong performance of announced greenfield projects in 2016 gives reason for optimism in the near future, although the largest projects (in Kazakhstan and Ethiopia) are expected to be carried out over the longer run.

LLDCs can contribute to attracting FDI by establishing reliable and transparent regulatory environments. Continued FDI growth also hinges on political issues, heavily weighing on the success of cooperation with neighbouring countries, especially transit countries. Regional integration initiatives can provide a framework of cooperation deeper than bilateral agreements. Examples of progress with regional integration affecting LLDCs positively include the Eurasian Union in Central Asia, the Central European Free Trade Agreement for South-East European LLDCs, ASEAN cooperation for the Lao People's Democratic Republic and African integration schemes for Ethiopia, Rwanda and Uganda.

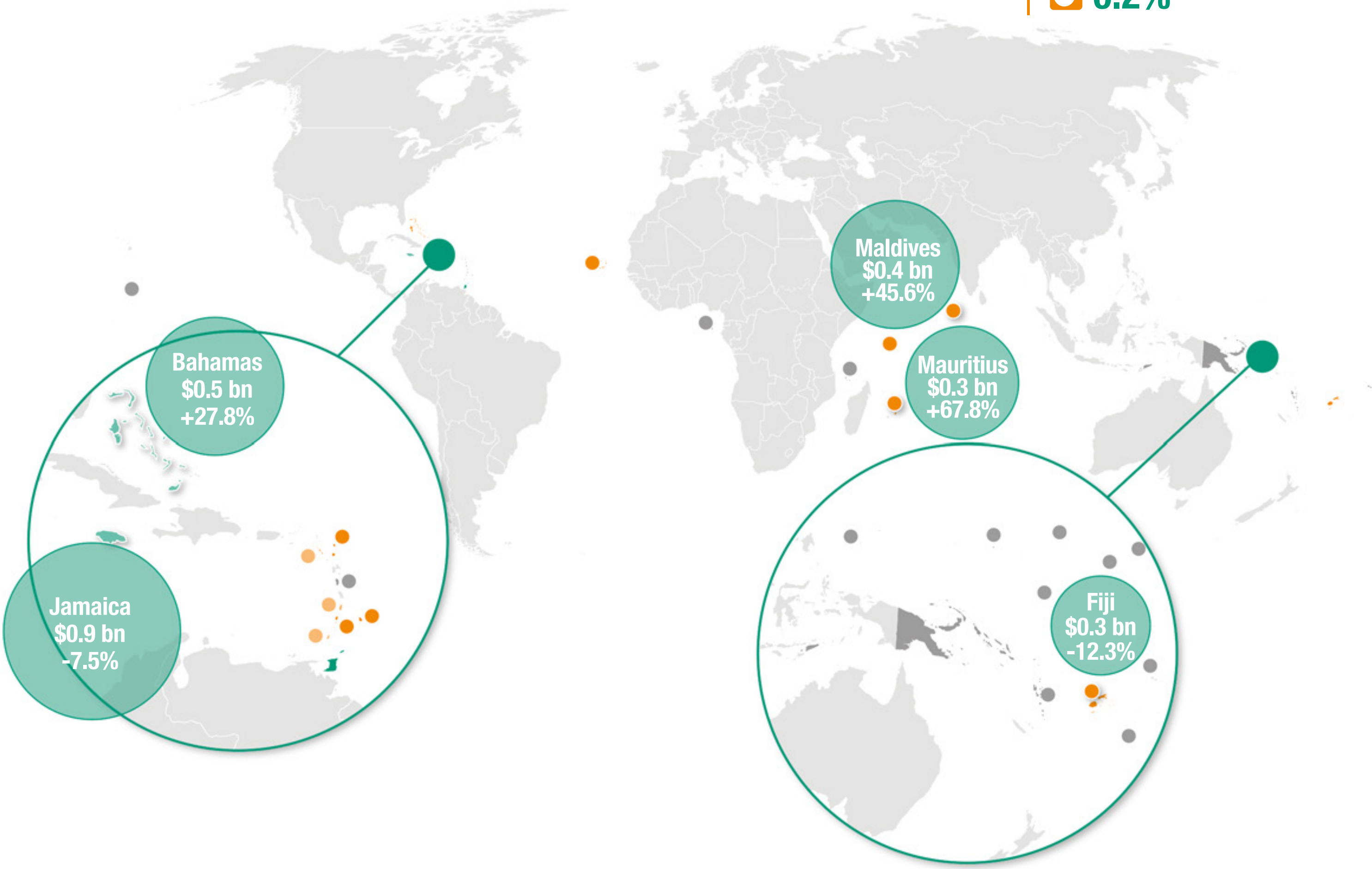
SMALL ISLAND DEVELOPING STATES

FDI flows, top 5 host economies, 2016 (Value and change)

2016 Inflows
3.5 bn

2016 Decrease
-6.2%

Share in world
0.2%



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
2016 % change

Outflows: top 5 home economies
(Millions of dollars and 2016 growth)

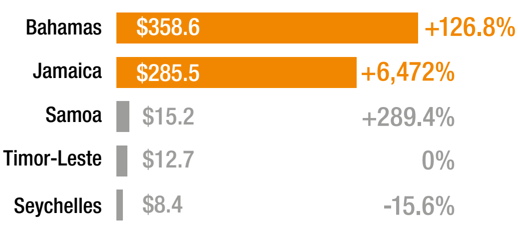
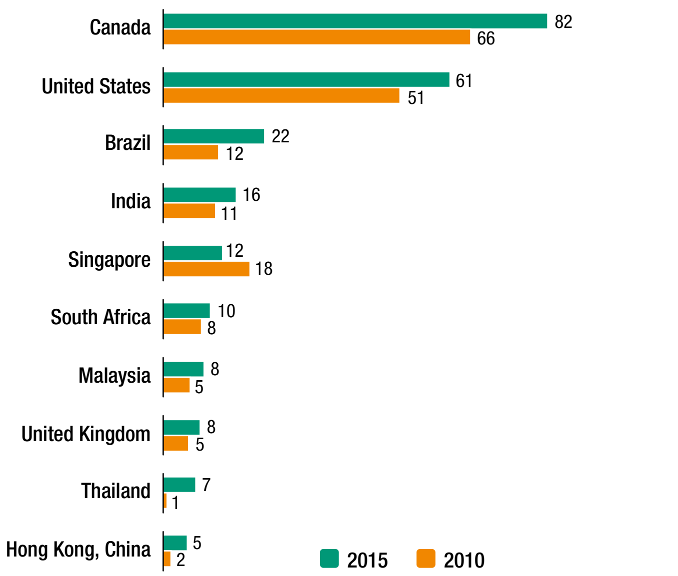


Figure A. Top 10 investor economies by FDI stock, 2010 and 2015 (Billions of dollars)



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 shrank for the second consecutive year
- Some SIDS received more diversified FDI
- Prospects for attracting FDI remain dim

Figure B. FDI inflows, 2000–2016 (Billions of dollars and per cent)

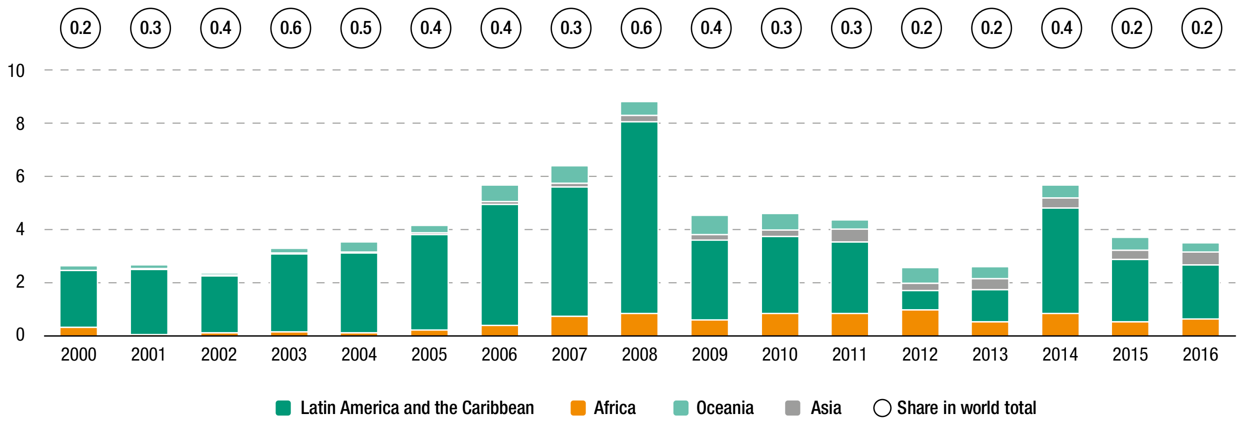


Table A. Cross-border M&As by industry, 2015–2016 (Millions of dollars)

Sector/industry	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
Total	**2 332**	**83**	**2 285**	**108**
Primary	**103**	**3**	**-**	**-**
Mining, quarrying and petroleum	103	3	-	-
Manufacturing	**1 708**	**22**	**-**	**-**
Food, beverages and tobacco	1 708	-	-	-
Chemicals and chemical products	-	22	-	-
Services	**521**	**58**	**2 285**	**108**
Accommodation and food service activities	-	23	-	-
Transportation and storage	155	-	-	-
Financial and insurance activities	355	4	1 543	-8
Business activities	-	31	808	99
Human health and social work activities	-	-	-66	16
Arts, entertainment and recreation	11	-	-	-

Table B. Cross-border M&As by region/economy, 2015–2016 (Millions of dollars)

Region/economy	Sales 2015	Sales 2016	Purchases 2015	Purchases 2016
World	**2 332**	**83**	**2 285**	**108**
Developed economies	**-773**	**-5**	**800**	**210**
Australia	-71	15	-	-
Canada	-300	-8	54	-
United Kingdom	-1 183	-12	220	47
United States	-	0.02	292	24
Developing economies	**3 105**	**378**	**1 485**	**-108**
Africa	-	4	6	100
Latin America and the Caribbean	11	-	-	-417
Asia	2 931	375	1 409	209
China	710	299	653	-41
India	-	-	683	249
Transition economies	**-**	**-299**	**-**	**6**

Table C. Announced greenfield FDI projects by industry, 2015–2016 (Millions of dollars)

Sector/industry	SIDS as destination 2015	SIDS as destination 2016	SIDS as investor 2015	SIDS as investor 2016
Total	**3 643**	**1 868**	**3 043**	**505**
Primary	**-**	**-**	**-**	**-**
Manufacturing	**506**	**145**	**19**	**13**
Food, beverages and tobacco	57	52	-	-
Coke, petroleum products and nuclear fuel	-	31	-	-
Chemicals and chemical products	88	35	-	13
Metals and metal products	200	-	-	-
Services	**3 137**	**1 724**	**3 024**	**492**
Electricity, gas and water	148	367	-	-
Hotels and restaurants	1 942	308	-	-
Transport, storage and communications	105	251	1 347	15
Finance	79	168	205	30
Business services	572	592	1 472	417

Table D. Announced greenfield FDI projects by region/economy, 2015–2016 (Millions of dollars)

Partner region/economy	SIDS as destination 2015	SIDS as destination 2016	SIDS as investor 2015	SIDS as investor 2016
World	**3 643**	**1 868**	**3 043**	**505**
Developed economies	**2 693**	**524**	**125**	**73**
European Union	672	307	119	73
United States	1 359	192	-	-
Developing economies	**950**	**1 344**	**2 911**	**432**
Africa	26	273	2 586	70
South Africa	15	262	168	15
Latin America and the Caribbean	221	454	221	320
Jamaica	221	454	-	-
Asia	703	588	104	13
China	203	11	81	-
Korea, Republic of	10	272	-	-
India	7	204	16	-

FDI flows to the 29 SIDS economies shrank further in 2016 to $3.5 billion. While FDI in some leading FDI host economies (the Bahamas, Maldives and Mauritius) bounced back, the majority saw their fragile FDI diminish. A handful of SIDS continue to dominate aggregate FDI inflows, with the five largest recipients accounting for 70 per cent of the group's total. Some, such as Jamaica and Mauritius, have had some success in attracting more diversified FDI projects. FDI flows and remittances have nonetheless been the major sources of development finance. Developing economies account for 7 of the top 10 investors in SIDS, even though Canada and the United States lead by a wide margin. Prospects for attracting more FDI remain dim. A stagnation of foreign investments, particularly from developed economies, amplifies the importance of South-based investors.

Inflows

Despite recoveries in some leading host economies, fragile FDI inflows to SIDS shrank for the second consecutive year. Although flows into the 10 Caribbean economies in the group slipped to $2 billion (-13 per cent), they still absorbed almost 60 per cent of total inflows to the 29 SIDS members. The largest recipient economy in this region was Jamaica, followed by the Bahamas and Barbados. The third largest host economy in 2015, Trinidad and Tobago, saw it FDI flows turn negative.

After a high of $925 million in 2015, FDI inflows to Jamaica retreated to $856 million (-7 per cent), as new investments in tourism and infrastructure slowed down. In mining, Jiuquan Iron and Steel (China) acquired a bauxite mining company for $299 million from a Russian investor. This is an important project, though this cross-border M&A sale did not generate additional FDI flows to Jamaica during the year. The growth momentum was not lost, as the level of 2016 FDI flows was 47 per cent higher than in 2014.

In the Bahamas, FDI flows bounced back by 28 per cent to $522 million, as FDI in construction picked up. Yet the volume remained less than one third of its previous peaks ($1.6 billion in 2014 and $1.5 billion in 2011). FDI flows into Barbados also rebounded from $69 million in 2015 to $228 million in 2016, though they are still less than half of the $559 billion posted in 2014.

After posting positive flows in 2014–2015, the highly volatile FDI to fuel-exporting Trinidad and Tobago reversed to -$60 million. Unlike in previous years (when divestments took place in coke and refined petroleum products in 2011–2015 or in extraction of crude petroleum and natural gas in 2012–2014), the aggregated divestments registered in 2016 in chemicals and chemical products, as well as in transport and storage, exceeded the gains made in financial and insurance activities.

FDI flows to the five African SIDS recovered to $654 million (+18 per cent) but remained below the peak of $860 million recorded in 2014. Thanks to a comeback of luxury real estate projects (nearly three quarters of total flows) and increased investments in financial services and insurance, FDI in Mauritius, the largest FDI host among SIDS in Africa, rebounded from 2015 to $349 million (+68 per cent) but still fell short of the levels attained in 2014 ($418 million) and 2012 ($589 million). While FDI flows to Cabo Verde also picked up modestly (+3 per cent to $119 million), those to Seychelles contracted for the second year to a 10-year low of $155 million (-20 per cent).

FDI flows to the 14 SIDS in Asia and Oceania – nearly half of all SIDS – fell by 4 per cent to $807 million. Driven by infrastructure and resort developments, FDI in Maldives, the largest FDI host among SIDS in this region, reached a record high of $448 million (+46 per cent). Announced greenfield projects suggest a growth in investments from Sri Lanka in tourism and financial services. FDI flows into Fiji, in contrast, shrank further to a three-year low of $270 million (-12 per cent). In commodity-based Papua New Guinea, highly volatile FDI flows dipped into a divestment of $40 million, reflecting policy uncertainties in implementing large-scale mining and natural-gas projects.

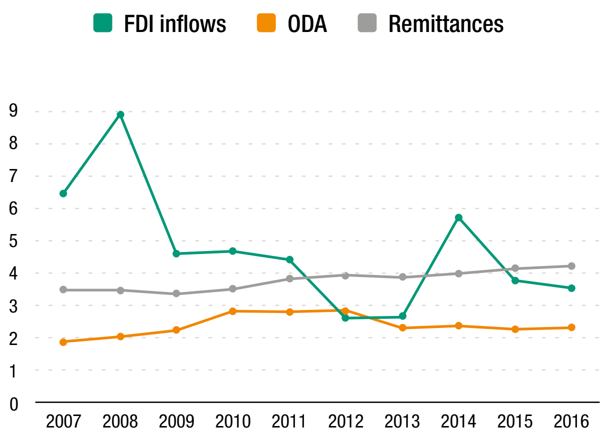
The top five FDI recipients in 2016 – Jamaica, the Bahamas, Maldives, Mauritius and Fiji, in that order – accounted for 70 per cent of total FDI received by all SIDS. This share exceeds 90 per cent when another five SIDS – Barbados, the Seychelles, Antigua and Barbuda, Cabo Verde, and Saint Vincent and the Grenadines – are counted. Although FDI flows in SIDS remain insignificant in global terms (0.2 per cent), as well as compared with the total of all developing economies (0.5 per cent), SIDS depend heavily on foreign investment: inward FDI stock represents over 80 per cent of their GDP, compared with about 30 per cent in all developing economies.

Some SIDS rely on foreign investors to help diversify their economic activity. For example, to accelerate diversification away from oil and gas, Trinidad and Tobago, where investments in the industry represent more than 80 per cent of total inward FDI stock, is seeking to attract foreign investors to expand an international financial centre and develop trade facilitation infrastructure (e.g. a commercial port, a maritime and shipbuilding complex, industrial parks, special economic zones).[25] Mauritius, after successfully diversifying its economy away from sugar into textiles and tourism, is relying on FDI in luxury real estate, offshore banking, business services outsourcing and medical tourism to further expand economic activities.[26]

Analysis of announced greenfield FDI projects in 16 island economies, including 7 SIDS, confirms a relatively strong correlation between the level of economic diversification and the number of FDI projects. Among the seven SIDS with registered projects, Jamaica was the most successful in attracting diversified FDI.[27] Jamaica's leading position is also confirmed by the sectoral distribution of its FDI stock and the cumulative value of announced greenfield projects. Furthermore, Jamaica has attracted the majority of infrastructure PPPs in energy and transport in SIDS. During the 2011–2015 period, just nine infrastructure PPPs – five in energy and two in transport – were developed in SIDS economies, of which five (three energy projects and both transport projects) were implemented in Jamaica, for a total value of $1.2 billion. A 30-year concession for the Kingston Container Terminal (providing port and harbour operation services) was awarded to CMA CGM (France) in April 2015. The French MNE assumed control of the facility from the Port Authority of Jamaica in July 2016; capital spending for the first phase of port expansion is estimated at $259 million over six years.

FDI flows to SIDS and remittances have been the most important sources of development finance. Volatility is a prominent feature in FDI flows to all SIDS, compared with remittances and especially with ODA (figure II.11). Despite their relative instability, in the last three years (2014–2016), FDI flows slightly exceeded remittances, with an annual average of $4.3 billion as compared with $4.1 billion. The importance of FDI relative to the other two sources, however, varies significantly by region (*WIR15*), given the highly skewed distributions of not only FDI, but also ODA and remittances among SIDS: the bulk of FDI was absorbed by the Caribbean SIDS, and nearly 60 per cent of remittances flowed

Figure II.11. **SIDS: FDI inflows, ODA and remittances, 2007–2016**
(Billions of dollars)



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

to Jamaica alone. SIDS in Asia and Oceania, by contrast, accounted for 75 per cent of ODA to the grouping.

Seven of the top 10 investors in SIDS are developing economies. Although Canada and the United States are by far the largest investors, their FDI stock remains heavily concentrated in two Caribbean SIDS: the Bahamas and Barbados. All developing economies except Singapore increased their FDI stock in SIDS between 2010 and 2015 (figure A). Most FDI from Brazil to SIDS, which grew by more than 80 per cent between 2010 and 2015, is also held in the Bahamas and Barbados. For India and the rest of the developing economies, in contrast, FDI stock in SIDS remains concentrated in Mauritius. Among home countries, China ranked only 11th, but its FDI in SIDS grew almost six times, to 4.8 billion, between 2010 and 2015. More than three quarters of China's FDI to SIDS is held in three economies: Papua New Guinea (more than 40 per cent), Mauritius, and Trinidad and Tobago.

Prospects

Prospects for attracting more FDI for sustainable development remain dim. A sharp fall in the value of announced greenfield projects from 2015 to 2016 (tables B and C) underscores the continuing challenge for SIDS of securing FDI. The greenfield projects announced during 2016 suggest that electricity generation (including alternative and renewable energy) and business activities (including wired telecommunication carriers) will drive FDI in the services sector. Although commodity-based SIDS have attracted no large-scale greenfield project in the primary sector for the last three years, both Papua New Guinea and Trinidad and Tobago remain attractive to foreign investors expanding into their extractive industries; they are also attracting modest investments in electricity, telecommunication (table II.4) and hotel construction (table II.5 in *WIR16*).

Owing to the absence of sizeable projects announced by North American MNEs (table D), the share of capital spending plans attributed to developing economies in greenfield FDI projects swelled to 72 per cent (from the 2013–2015 average of 43 per cent). The five largest greenfield projects announced during the year were all attributed to South-based investors, including Jamaica (table II.4). The role played by South-South FDI in SIDS, therefore, is likely to grow.

Table II.4. SIDS: 10 largest greenfield projects announced in 2016

Host economy	Industry segment	Parent company	Home economy	Estimated capital expenditure (Millions of dollars)
Trinidad and Tobago	Wired telecommunication carriers	Digicel	Jamaica	305
Papua New Guinea	Hydroelectric power	Korea Electric Power	Republic of Korea	272
Mauritius	Warehousing and storage	XtraSpace	South Africa	197
Jamaica	Business support services	Hinduja Group	India	104
Maldives	Accommodation	Mfar Holdings	India	100
Jamaica	Biomass power	Benchmark Renewable Energy	United States	95
Barbados	Wired telecommunication carriers	Digicel	Jamaica	84
Cabo Verde	Accommodation	Riu Hotels & Resorts	Spain	83
Maldives	Retail banking	Commercial Bank of Ceylon	Sri Lanka	65
Saint Lucia	Accommodation	Sandals Resorts	Jamaica	65

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

The scope for, and scale of, South-South cooperation in FDI will grow. In response to the UNCTAD IPA survey, 12 of the 14 national IPAs in SIDS listed China as one of their most promising sources of FDI over the period 2017–2019, even though China was not even ranked among the top 10 investors in SIDS in 2015 (figure A). Yet, that country's increasing importance has been reported in some SIDS. For example, in Fiji, China is the largest source of foreign investments, contributing more than 40 per cent of FDI stock.[28] In Mauritius, China has become the second largest source of FDI after France. The $3.5 billion resort project waiting for revitalization in the Bahamas involves not only a Chinese construction company as the general contractor but also the Export-Import Bank of China as a financial partner for $2.4 billion and an equity partner of $150 million.[29]

China is not the only developing country from the South ramping up its presence in a greater number of SIDS. For example, in Seychelles, an international airport expansion project (with an estimated cost of $150 million) is expected to be implemented by a State-owned enterprise from the United Arab Emirates, and 40 per cent of this SIDS's national airline is owned by an Abu Dhabi-based airline. In Maldives, the traditional development partners are India and the EU; however, South-South cooperation involving China and Saudi Arabia is on the rise, upgrading critical transport infrastructure to boost tourism revenues.

NOTES

[1] The Chinese definition of FIEs covers a broad range of foreign affiliates, including equity joint ventures, cooperative joint ventures, wholly owned foreign enterprises and foreign-invested companies limited by shares.

[2] Ministry of Commerce of China.

[3] Ja-young, Y., "One-shot act to take effect", *The Korean Times*, 11 August 2016.

[4] Myanmar Investment Commission.

[5] Desai, T., "India-Mauritius tax treaty: An end and a new beginning", *Forbes India*, 7 June 2016.

[6] Board of Investments, Department of Trade and Industry, the Philippines.

[7] Peru, Ministry of Energy and Mines, Reporte Anual, *Boletín Estadístico del Subsector Minero*, 2016.

[8] National Institute of Statistics of Argentina (INDEC), "Cuentas internacionales, Balanza de Pagos, Cuarto trimestre de 2016", *Informes Técnicos* 1 (54).

[9] Dirección General de Inversión Extranjera de México, "Inversión Extranjera en México y en el Mundo: Carpeta de Información Estadística", 2017.

[10] Business opportunities in dairy production have arisen as the Government banned imports of dairy products from the European Union, traditionally the main source of supply.

[11] Consisting of Chevron (United States, 50 per cent), ExxonMobil (United States, 25 per cent), KazMunaiGas (Kazakhstan, 20 per cent) and LukArco (Russian Federation, 5 per cent).

[12] See "Albania Becomes Latest China Magnet", *Forbes*, 13 June 2016.

[13] "Russian government enacts 2017-2019 state assets privatization plan", TASS Russian News Agency, 2 February 2017.

[14] The calculation is based on the group's net producer revenues reported in the 2016 Annual Report of SABMiller plc.

[15] Passporting refers to the right of a firm authorized in the European Economic Area (EEA) to carry on permitted business activities in any other EEA State without needing further authorization in each country. See, for example, the explanation by the Bank of England (www.bankofengland.co.uk/pra/Pages/authorisations/passporting).

[16] "Banks begin moving thousands of jobs out of Britain", CNN Money, 19 January 2017; "US bankers hatch two-stage Brexit plan for City", FT.com, 19 January 2017.

[17] The data do not distinguish between headquarters serving the domestic market and those covering the EU market.

[18] Calculation is based on United States outflows to "South and Central America" in the United States Bureau of Economic Analysis database.

[19] See "Zambia – S&P affirms rating, warns of thinning capital base", *Zimbabwe Independent*, 2 March 2017.

[20] See "ZDA gets $1.8bn investment pledges", *Zambia Daily Mail*, 21 July 2016.

[21] For those data, see the OECD ODA database: www.oecd.org/statistics/datalab/oda-recipient-sector.htm.

[22] Data on PPP projects have been extracted from the World Bank PPI database, unless otherwise indicated.

[23] See "Ashgabat International Airport, Turkmenistan 2016", Polimeks website.

[24] See "The Turkmenistan-Afghanistan-Tajikistan Railway", *The Diplomat*, 9 December 2016.

[25] IMF, "Trinidad and Tobago", country report, no. 16/204, June 2016.

[26] "Mauritius sees 2016 foreign investment flows up over 40 pct", CNBC Africa, 7 December 2016.

[27] The other six SIDS were the Bahamas, Fiji, Maldives, Mauritius, Papua New Guinea and Trinidad and Tobago.

[28] "China leads investment in Fiji", Fiji Broadcasting Corporation, 26 July 2016.

[29] "China construction says developers mismanaged finances, design of $3.5 Billion Baha Mar Resort", *Forbes*, 7 July 2015.