REGIONAL TRENDS IN FDI

CHAPTER II

INTRODUCTION

In 2012, foreign direct investment (FDI) inflows decreased in all three major economic groups – developed, developing and transition economies (table II.1), although at different paces.

In *developed countries*, FDI flows fell by 32 per cent to $561 billion — a level last seen almost ten years ago. The majority of European Union (EU) countries and the United States experienced significant drops in their FDI inflows. FDI flows to *developing economies* remained relatively resilient, declining by only 4 per cent, accounting for 52 per cent of global inflows in 2012. Flows to developing Asia and Latin America and the Caribbean lost some momentum, although they remained at historically high levels. All subregions in developing Asia – East and South-East Asia, South Asia and West Asia – saw their flows decline in 2012, compared with the previous year. Africa was the only major region to enjoy a year-on-year increase in FDI inflows in 2012. FDI flows to *transition economies* declined by 9 per cent.

FDI inflows to the structurally weak, vulnerable and small economies rose further in 2012 from a small base of $56 billion in 2011 to $60 billion, owing to the strong growth of FDI to least developed countries (LDCs) and small island developing States (SIDS) (table II.1). Their share in the world total also rose, to 4.4 per cent from 3.4 per cent in 2011.

Outward FDI from developed economies declined by $274 billion in 2012, accounting for almost all of the fall in global outward FDI. In contrast to the sharp decline of FDI flows from developed countries, FDI flows from developing economies rose by 1 per cent in 2012, amounting to $426 billion. As a result, their share in global outflows reached a record 31 per cent. FDI outflows from Africa almost tripled; flows from Asia and Latin America and the Caribbean remained almost at the 2011 level. Asian countries remained the largest source of FDI, accounting for three quarters of the developing-country group's total. Outward FDI flows from transition economies declined in 2012, owing to the fall of FDI outflows by investors from the Russian Federation – the main home country for outward FDI from the region.

Table II.1. FDI flows, by region, 2010–2012
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
World	**1 409**	**1 652**	**1 351**	**1 505**	**1 678**	**1 391**
Developed economies	696	820	561	1 030	1 183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	28	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies [a]	45	56	60	12	10	10
LDCs	19.0	21.0	26.0	3.0	3.0	5.0
LLDCs	27.0	34.0	35.0	9.3	5.5	3.1
SIDS	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum: percentage share in world FDI flows						
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies [a]	3.2	3.4	4.4	0.8	0.6	0.7
LDCs	1.3	1.3	1.9	0.2	0.2	0.4
LLDCs	1.9	2.1	2.6	0.6	0.3	0.2
SIDS	0.3	0.3	0.5	0.0	0.1	0.1

Source: UNCTAD, FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).
[a] Without double counting.

A. REGIONAL TRENDS

1. Africa

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

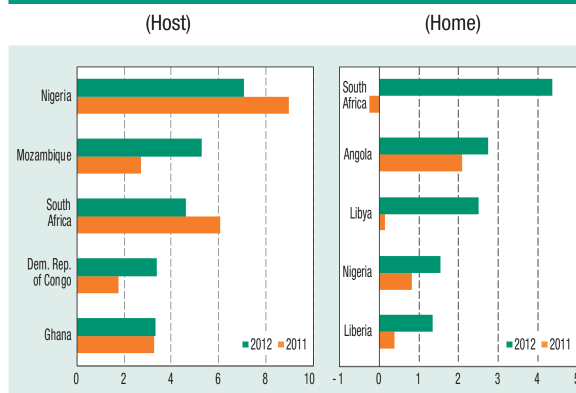


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

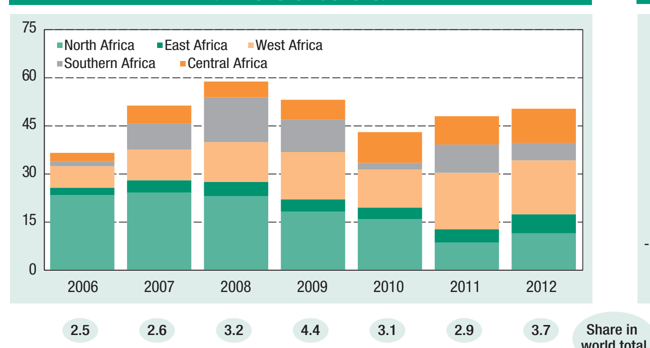
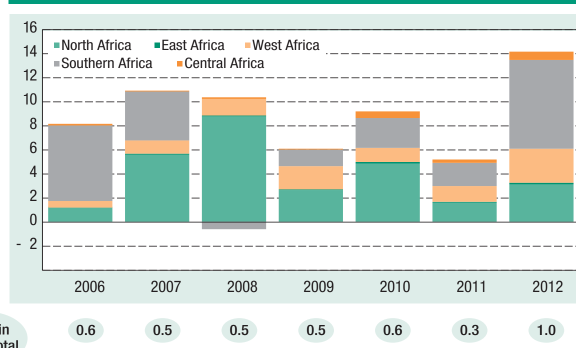


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



	2006	2007	2008	2009	2010	2011	2012
Share in world total (inflows)	2.5	2.6	3.2	4.4	3.1	2.9	3.7
Share in world total (outflows)	0.6	0.5	0.5	0.5	0.6	0.3	1.0

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**8 592**	**-1 195**	**4 378**	**611**
Primary	**2 993**	**-1 127**	**- 5**	**267**
Mining, quarrying and petroleum	2 924	-1 150	- 5	245
Manufacturing	**1 766**	**245**	**4 418**	**1 518**
Food, beverages and tobacco	870	634	15	185
Coke, petroleum products and nuclear fuel	-	-	2 099	-
Chemicals and chemical products	155	59	835	340
Metals and metal products	286	- 437	-	-
Services	**3 833**	**- 313**	**- 35**	**-1 174**
Trade	2 161	-	- 181	-
Transport, storage and communications	489	- 782	- 10	- 16
Finance	1 120	325	198	-1 702
Business services	149	114	37	379

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**8 592**	**- 1 195**	**4 378**	**611**
Developed economies	**4 397**	**- 3 412**	**4 288**	**634**
European Union	2 400	- 1 619	1 986	1 261
United States	1 634	- 144	41	-
Japan	649	-	-	-
Developing economies	**4 163**	**2 049**	**90**	**- 23**
Africa	409	114	409	114
East and South-East Asia	2 986	1 843	- 94	- 386
China	2 441	1 580	- 16	-
South Asia	318	22	- 337	426
West Asia	464	73	87	100
Latin America and the Caribbean	- 14	- 3	24	- 277
Transition economies	**-**	**-**	**-**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Africa as destination		Africa as investors	
	2011	2012	2011	2012
Total	**82 939**	**46 985**	**35 428**	**7 447**
Primary	**22 824**	**7 479**	**4 640**	**445**
Mining, quarrying and petroleum	22 824	7 479	4 640	445
Manufacturing	**31 175**	**20 863**	**23 107**	**4 013**
Food, beverages and tobacco	5 115	2 227	411	438
Coke, petroleum products and nuclear fuel	9 793	5 661	20 742	50
Metals and metal products	5 185	4 469	9	1 144
Motor vehicles and other transport equipment	3 151	2 316	-	-
Services	**28 940**	**18 643**	**7 681**	**2 979**
Electricity, gas and water	10 484	6 401	1 441	60
Transport, storage and communications	5 696	2 940	419	895
Finance	1 426	1 511	916	614
Business services	5 631	1 886	2 282	889

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Africa as destination		Africa as investors	
	2011	2012	2011	2012
World	**82 939**	**46 985**	**35 428**	**7 447**
Developed economies	**39 181**	**17 314**	**18 983**	**1 683**
European Union	23 861	7 882	178	251
United States	6 638	4 831	18 759	1 362
Japan	1 302	726	-	39
Developing economies	**43 033**	**29 604**	**16 445**	**5 764**
Africa	10 749	3 821	10 749	3 821
East and South-East Asia	12 360	4 616	400	166
China	1 953	1 764	334	102
South Asia	11 113	9 315	980	149
West Asia	7 038	11 610	150	1 160
Latin America and the Caribbean	1 774	242	1 167	469
Transition economies	**725**	**67**	**-**	**-**

FDI inflows to Africa grew to $50 billion in 2012, a rise of 5 per cent over the previous year. The overall increase in FDI inflows translated into increased flows to North Africa, Central Africa and East Africa, whereas West Africa and Southern Africa registered declines. FDI from developing countries is increasing. There is a rising interest in FDI by private equity funds in Africa, but the level of investment is still low. FDI oriented to the African consumers is becoming more widespread in manufacturing and services but will remain relatively limited in the near term.

Africa is one of the few regions to enjoy year-on-year growth in FDI inflows since 2010. Investment in exploration and exploitation of natural resources, and high flows from China (tables C and E) both contributed to the current level of inward flows. More generally, the continent's good economic performance – GDP grew at an estimated 5 per cent in 2012 – underpinned the rise in investment, including in manufacturing and services.

Investor confidence appears to have returned to North Africa, as FDI flows rose by 35 per cent to $11.5 billion in 2012 (figure B). Much of the growth was due to a rise in investment in Egypt. Whereas the country experienced a net divestment of $0.5 billion in 2011, it attracted net investment inflows of $2.8 billion in 2012 (table A). Across the subregion, FDI flows also increased to Morocco and Tunisia, but decreased to Algeria and the Sudan.

In contrast, FDI flows to West Africa declined by 5 per cent, to $16.8 billion, to a large extent because of decreasing flows to Nigeria. Weighed down by political insecurity and the weak global economy, that country saw FDI inflows fell from $8.9 billion in 2011 to $7.0 billion in 2012 (figure A). Meanwhile, Liberia and Mauritania both experienced a surge in inward FDI flows. In Mauritania, FDI inflows doubled to $1.2 billion, which can be attributed in part to the expansion in mining operations (copper and gold) by Canada-based First Quantum Minerals and Kinross.

Central Africa attracted $10 billion of FDI in 2012, a surge of 23 per cent on the previous year. Slowing FDI inflows to the Congo were offset by an increase to the Democratic Republic of the Congo, where inward FDI flows jumped from $1.7 billion to $3.3 billion. Some of the flows went towards the expansion of the copper-cobalt Tenke Fungurume mine. Recent natural resource discoveries also contributed to the increase in FDI inflows to East Africa, from $4.6 billion in 2011 to $6.3 billion in 2012. This includes investment in recently discovered gas reserves in the United Republic of Tanzania and oil fields in Uganda (*WIR12*).

FDI flows to Southern Africa plunged from $8.7 billion in 2011 to $5.4 billion in 2012. The decline was mainly due to falling FDI flows to two recipients: Angola and South Africa. Angola registered a third successive year of net divestment, as the contraction in FDI flows widened to -$6.9 billion. The lower FDI flows to South Africa – a drop of 24 per cent to $4.6 billion in 2012 (figure A) – were due to net divestments in the last quarter of the year, which was primarily attributed to a foreign mining company offloading its stake in a South African subsidiary. The decreases in these two countries were partly offset by the near doubling of flows to Mozambique, where the appeal of huge offshore gas deposits helped to attract investor interest to the tune of $5.2 billion.

Transnational corporations (TNCs) from developing countries are increasingly active in Africa, building on a trend in recent years of a higher share of FDI flows coming from emerging markets. Malaysia, South Africa, China and India (in that order) are the largest developing-country sources of FDI in Africa. Malaysia, with an FDI stock of $19 billion in Africa in 2011 (the latest year for which data are available) has investments in all sectors across the continent, including significant FDI in agribusiness and finance. Its agribusiness investments are in both East and West Africa, while FDI in finance is concentrated in Mauritius. South Africa and China are the next largest investors, with $18 billion and $16 billion, respectively, of FDI stock in Africa; their FDI is diversified across all sectors. The bulk of India's $14 billion FDI in Africa is in Mauritius, but greenfield investment project data indicate that the country's investments in landlocked developing countries (LLDCs) in Africa are on the rise.

Outward FDI flows from Africa nearly tripled in 2012, from $5 billion in the previous year to an estimated $14 billion (figure C). South African companies were active in acquiring operations in mining, wholesale

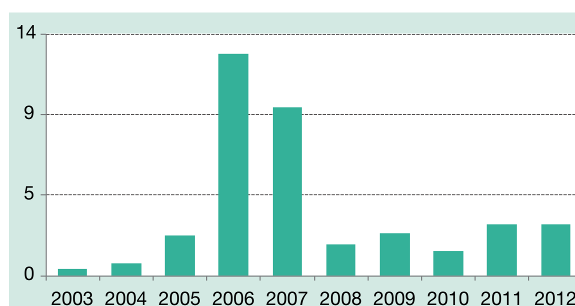
and health-care industries, helping raise outflows from the country to $4.4 billion in 2012. The growth in investment from South Africa, coupled with year-on-year increases in FDI outflows from Angola, resulted in a significant expansion of overseas investment activities from the Southern Africa region. Central Africa, North Africa and West Africa also recorded significant rises in their outflows in 2012, boosted primarily by increases from the Democratic Republic of the Congo, Liberia, Libya and Nigeria (figure A).

Interest in FDI by private equity funds is rising in Africa, but levels are still low. One type of FDI source that has garnered increasing attention in recent years is private equity in Africa. But how do the high expectations surrounding private equity in Africa measure up against actual activity? Cross-border merger and acquisition (M&A) activity, the main mode of private equity investment (figure II.1) suggests that private equity has yet to take off in Africa. High points were reached in 2006 and 2007 but activity since then has levelled off, as the hiatus in FDI by private equity funds (chapter I) has also affected Africa.

Private equity investment in Africa is concentrated in a few countries. South Africa is, by far, the largest recipient of private equity on the continent, accounting for more than half (53 per cent) of total investments in 2011, according to data from Preqin. Egypt, Mauritius and Morocco each had a share of 8 per cent, while Nigeria accounted for 5 per cent. The attractiveness of South Africa is also reflected in the ranking of the biggest private equity deals in Africa, with the country hosting 7 of the 10 largest FDI deals by private equity firms in the period 1996–2012 (table II.2).

The sectoral distribution of private equity in Africa is not as narrow as the geographic spread, with the

Figure II.1. Cross-border M&As by private equity funds in Africa, 2003–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.

Table II.2. The 10 largest FDI deals by private equity firms in Africa, 1996–2012

Year	Value ($ million)	Acquiring company	Home economy	Acquired company	Host economy	Industry of the acquired company
2006	4 802	Shareholders[a]	South Africa	Kumba Iron Ore	South Africa	Iron ores
2007	3 502	Bain Capital LLC	United States	Edgars Consolidated Stores Ltd	South Africa	Retail stores, nec
2006	2 313	Investor group[a]	United Arab Emirates	Tunisie-Telecoms	Tunisia	Telephone communications, except radiotelephone
2007	1 438	Shareholders[a]	South Africa	Mondi Ltd	South Africa	Paper mills
2007	1 410	Abraaj Capital Ltd	United Arab Emirates	Egyptian Fertilizers Co SAE	Egypt	Nitrogenous fertilizers
2009	1 277	Paulson & Co Inc	United States	AngloGold Ashanti Ltd	South Africa	Gold ores
1997	1 261	Investor group[a]	United States	Telkom South Africa(Telkom)	South Africa	Telephone communications, except radiotelephone
2011	1 200	Investor group[a]	Kuwait	Orascom Telecom Tunisie SA	Tunisia	Telephone communications, except radiotelephone
2006	1 000	Lexshell 44 General Trading (Pty) Ltd	United Kingdom	Victoria & Alfred Waterfront (Pty)Ltd	South Africa	Land subdividers and developers, except cemeteries
2007	933	Cleansheet Investments (Proprietary) Ltd	United States	Alexander Forbes Ltd	South Africa	Insurance agents, brokers and service

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (http//www.unctad.org/fdistatistics).
[a] Acquisitions by shareholders or a goup of investors include private equity funds as a partner.

four most popular sectors being business services, information technology, industrial products and telecom, media and communications, according to fund managers. M&A data also highlight the importance of extractive industries. The mining, quarrying and petroleum sector has accounted for nearly 46 per cent of all cross-border M&As in Africa by private equity firms in the past four years. The other major sector has been non-financial services such as infrastructure and communications.[1]

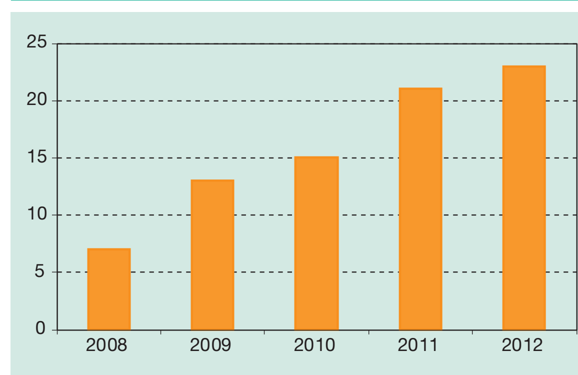
Though FDI by private equity funds is relatively diverse in terms of the industries in which these investors are active, the amount remains small and is geographically concentrated. That said, these funds are likely to become more active in FDI globally and in Africa, as the world economy recovers from its current doldrums. In anticipation, policymakers should pay it due attention, as this investment form can play a role not filled by other types of finance and bring with it benefits such as better management practices and improved corporate governance. Policymakers should similarly be conscious of possible concerns with private equity, such as issues of transparency and the span of investment horizons (*WIR12*: 12).

FDI oriented to the African consumer is becoming more widespread. Investors in Africa are becoming increasingly aware of the positive demographic outlook for the continent. First, the roughly 1 billion population is predicted to swell by a quarter in the next 10 years and more than double by 2050. Second, the urban population is also expected to increase: from 40 per cent in 2010 to 54 per cent in 2050, and with this expansion comes a rising middle class. Third, the share of the population that is 25 years or younger currently stands at about 60 per cent and is projected to remain at that level over the next few decades (UNDESA, 2011). These features, coupled with a positive economic outlook, raise the prospect of an increasingly dynamic African consumer market.

The data show some incipient signs of an investor reorientation towards the burgeoning African consumer market, as some of the most attractive sectors during the past decade have been consumer-related manufacturing and service industries, e.g. financial services; food, beverages and tobacco; and motor vehicles (tables B and D). The move towards FDI in consumer-oriented industries is also shown by greenfield investment projects data (FDI data do not provide detailed industry classification). Current levels are small and geographically concentrated. However, the share of greenfield FDI in these industries as a portion of total greenfield FDI is rising and set to reach roughly one quarter in 2012 (figure II.2).

There is a rising number of success stories of manufacturing FDI in Africa that are not directly related to extractive industries, including in the automotive sector in South Africa, the leather industry in Ethiopia, the garment business in Lesotho and pharmaceuticals across East Africa. It is noteworthy that these cases are not limited to FDI from developed countries – in many cases, foreign investors from developing countries such as Brazil, China, India and Turkey have started to make inroads into Africa's manufacturing sector. Moreover, intra-African investment, albeit comparatively small, tends to go to services and manufacturing – in the latter case, particularly to less technology- and capital-intensive targets.

Figure II.2. Share of consumer-related FDI greenfield projects in total value of FDI greenfield projects in Africa, 2008–2012[a]
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

[a] Consumer-related FDI includes selected industries in manufacturing (food, beverages and tobacco; textiles, clothing and leather; electrical and electronic equipment; motor vehicles and other transport equipment) and services (transport, storage and communication; finance; education; health and social services; community, social and personal services activities).

In terms of geographic distribution, the largest consumer markets in Africa also count among the continent's main FDI destinations for consumer-oriented FDI in manufacturing and services, but foreign investors are not limiting themselves to consumers in these markets only. For instance, telecommunications companies such as South Africa-based MTN and India-based Bharti Airtel are both present in at least 15 African countries. The South Africa–based retailers Shoprite and Massmart (in which United States–based Walmart acquired a majority stake in 2011) have operations in 17 and 12 African markets, respectively.

The expansion of FDI flows in some consumer-oriented industries in Africa and their geographic distribution are indications that the prospect of the greater spending power of African consumers is attracting more foreign investors. Still, it is also clear that any such attraction is at an incipient stage. An important reason is that, for some time to come, investors are primarily targeting high-end consumers, who constitute a very small strata of the population. Projections of consumption growth in Africa for 2011–2016 suggest that 40 per cent of the growth will come from households that earn more than $20,000 a year – a group that represents only 1–2 per cent of all households.[2] From a policy perspective, the challenge for countries is to channel investment into poverty-alleviating sectors, producing goods and services accessible and affordable for the poor, and creating business linkages with domestic SMEs.

2. East and South-East Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

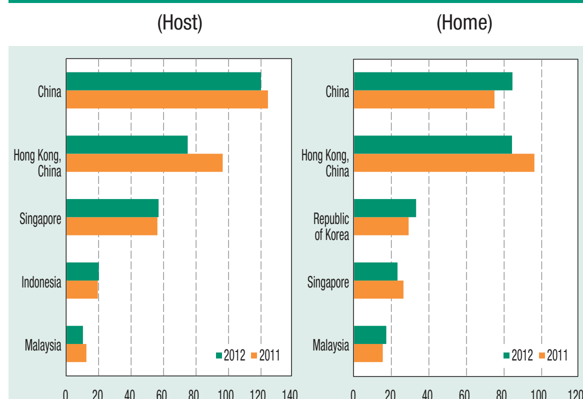


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

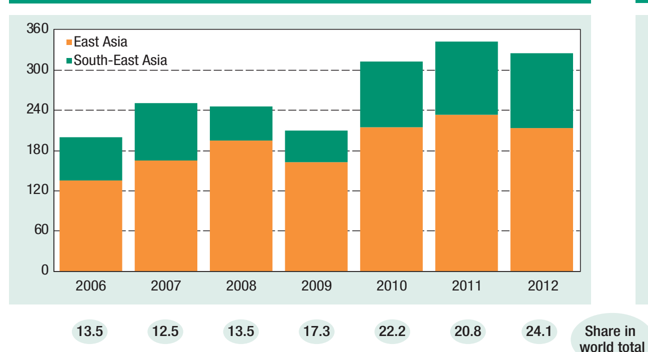
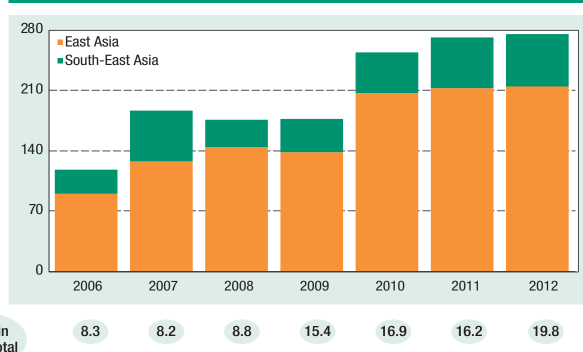


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total

	2006	2007	2008	2009	2010	2011	2012
Inflows	13.5	12.5	13.5	17.3	22.2	20.8	24.1
Outflows	8.3	8.2	8.8	15.4	16.9	16.2	19.8

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**35 513**	**22 550**	**72 458**	**69 357**
Primary	**5 658**	**758**	**21 083**	**10 344**
Mining, quarrying and petroleum	5 224	357	21 431	11 756
Manufacturing	**11 436**	**12 873**	**11 582**	**12 859**
Food, beverages and tobacco	3 462	7 197	1 311	4 948
Metals and metal products	789	281	1 281	2 822
Machinery and equipment	533	1 830	390	1 596
Electrical and electronic equipment	3 407	717	2 306	2 477
Services	**18 419**	**8 919**	**39 793**	**46 153**
Electricity, gas and water	2 539	756	4 017	2 525
Transport, storage and communications	1 697	4 426	- 1 414	4 633
Finance	4 962	721	33 411	38 820
Business services	5 537	2 043	- 432	1 050

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**35 513**	**22 550**	**72 458**	**69 357**
Developed economies	**16 708**	**5 148**	**47 518**	**50 102**
European Union	5 591	2 686	14 773	20 062
United Kingdom	2 796	- 2 958	6 192	15 091
North America	3 865	- 1 584	21 349	15 125
Canada	1 220	- 290	8 968	7 778
United States	2 645	- 1 294	12 381	7 347
Japan	6 516	3 821	738	2 969
Developing economies	**16 428**	**16 427**	**24 206**	**24 198**
Africa	- 94	- 386	2 986	1 843
South, East and South-East Asia	14 596	17 234	11 637	16 570
Latin America and the Caribbean	168	119	9 311	5 324
Transition economies	**1 531**	**-**	**734**	**- 4 944**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	East and South-East Asia as destination		East and South-East Asia as investors	
	2011	2012	2011	2012
Total	**206 049**	**147 608**	**115 133**	**118 476**
Primary	**4 444**	**363**	**5 158**	**3 022**
Mining, quarrying and petroleum	4 444	363	5 158	3 022
Manufacturing	**127 673**	**70 614**	**73 297**	**43 443**
Chemicals and chemical products	25 615	9 886	6 495	10 733
Metals and metal products	16 836	8 902	14 522	6 799
Electrical and electronic equipment	21 768	9 361	11 455	11 468
Motor vehicles and other transport equipment	17 578	17 716	9 022	4 797
Services	**73 932**	**76 632**	**36 678**	**72 011**
Electricity, gas and water	4 567	4 507	7 697	22 813
Construction	7 021	19 652	3 840	29 147
Transport, storage and communications	19 730	13 096	7 653	2 950
Finance	16 651	13 658	5 371	6 074

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	East and South-East Asia as destination		East and South-East Asia as investors	
	2011	2012	2011	2012
World	**206 049**	**147 608**	**115 133**	**118 476**
Developed economies	**133 212**	**99 091**	**16 726**	**43 863**
European Union	58 072	38 248	7 299	18 768
Germany	22 308	12 020	1 129	249
United Kingdom	11 621	8 372	1 175	15 003
United States	32 580	27 628	5 961	21 525
Australia	2 230	1 473	1 410	2 070
Japan	30 416	24 646	533	677
Developing economies	**71 605**	**47 824**	**91 844**	**69 246**
Africa	400	166	12 360	4 616
East and South-East Asia	55 390	43 666	55 390	43 666
South Asia	10 973	2 388	9 197	8 211
Transition economies	**1 232**	**694**	**6 563**	**5 368**

FDI inflows to East and South-East Asia declined by 5 per cent, while outflows from two subregions rose by 1 per cent in 2012. The subregions now account for 24 per cent of the world's total FDI inflows and 20 per cent of outflows. There has been a considerable wave of relocation in manufacturing within the subregions during the past few years, particularly for labour-intensive industries. Meanwhile, both the extractive and the infrastructure industries have received significant foreign capital, driven partly by intraregional investment.

FDI inflows to East and South-East Asia fell to $326 billion in 2012 (figure B) – the first decline since 2009 – as a result of drops in major economies such as China, Hong Kong (China), Malaysia and the Republic of Korea. The sluggish global economy, fiscal constraints in Europe, a significant shrinkage in global M&A activities and cautious sentiment in investing by TNCs were among the key reasons for the decline.

The decrease was visible in both cross-border M&As and greenfield investments (tables B–E). In 2012, M&A sales contracted by about 37 per cent to $23 billion, and the value of greenfield investments decreased by 28 per cent – the lowest level recorded in a decade. However, M&A activities undertaken by companies from within the subregions rose by 18 per cent, to $17 billion, contributed mainly by the proactive regional expansion drive of firms from China, Hong Kong (China), Malaysia and Thailand. The strong intraregional M&A activity, nevertheless, could not compensate for the slide in M&As by developed-country firms, which were less than one third the level of 2011.

East Asia experienced an 8 per cent drop in FDI inflows, to $215 billion. China continues to be the leading FDI recipient in the developing world despite a 2 per cent decline in inflows. FDI remained at a high level of $121 billion (figure A),[3] in spite of a strong downward pressure on FDI in manufacturing from rising production costs, weakening export markets and the relocation of foreign firms to lower-income countries. Hong Kong (China), the second largest recipient in East and South-East Asia, saw a 22 per cent decline in FDI inflows, to $75 billion, but the situation has been improving since the end of 2012 as strong capital inflows resumed. FDI inflows to the Republic of Korea dropped slightly, by 3 per cent, to $10 billion, as both equity investments and reinvested earnings decreased. Inflows to Taiwan Province of China turned positive, from -$2 billion in 2011 to $3 billion in 2012. Inflows to Mongolia declined but remained above $4 billion thanks to foreign investment in mining. However, FDI prospects in the sector have become uncertain as a dispute between the Government and a foreign investor looms.

In contrast to East Asia, South-East Asia saw a 2 per cent rise in FDI inflows (to $111 billion), partly because of higher flows (up 1.3 per cent to $57 billion) to Singapore, the subregion's leading FDI host country. Higher inflows to Indonesia and the Philippines also helped, as did the improved FDI levels in low-income countries such as Cambodia, Myanmar and Viet Nam. These countries are the emerging bright spots of the subregion, particularly for labour-intensive FDI and value chain activities. These low-income countries also experienced a rise in investments in the extractive sector and infrastructure, including those under contractual arrangements. Thailand continued to attract higher levels of greenfield projects, particularly in the automotive and electronic industries. Some automotive makers, especially Japanese TNCs, have been strengthening and expanding their operations in Thailand. For instance, Thailand has overtaken China to become Toyota's third largest production base.[4]

TNCs from Japan and elsewhere are increasing their FDI in this subregion because of regional integration, the prospects of the Association of Southeast Asian Nations (ASEAN) economic community and emerging opportunities in low-income countries, such as Myanmar. A number of companies from Europe and the United States have also recently established or are establishing operations in Myanmar. For instance, Hilton is opening a hotel in Yangon under a management contract. Chinese investment in infrastructure has been increasing in countries such as Indonesia and the Lao People's Democratic Republic, providing new dynamism to intraregional FDI in infrastructure in East and South-East Asia.

Prospects for FDI inflows to East and South-East Asia are likely to turn positive, as the performance of key economies in the region improves and investor confidence picks up strength.

Overall, outward FDI from East and South-East Asia rose by 1 per cent, to $275 billion (figure C), against the backdrop of a sharp decline in worldwide FDI outflows. This marks the fourth consecutive year of increasing flows from the region, with its share in global FDI outflows jumping from 9 per cent in 2008 to 20 per cent in 2012, a share similar to that of the EU.

In East Asia, FDI outflows rose by 1 per cent to $214 billion in 2012. Outflows from China continued to grow, reaching a new record of $84 billion. The country is now the world's third largest source of FDI (see chapter I). Chinese companies remained on a fast track of internationalization, investing in a wide range of industries and countries driven by diversified objectives, including market-, efficiency-, natural resources- and strategic assets-seeking motives.[5] FDI outflows from the Republic of Korea rose 14 per cent, to $33 billion, while those from Taiwan Province of China increased slightly to $13 billion. Large investments in high-end segments of the electronics industry in Mainland China were one of the main drivers of rising outward FDI from these two economies.

FDI outflows from South-East Asia increased 3 per cent to $61 billion in 2012. Outflows from Singapore, the leading source of FDI in the subregion, declined by 12 per cent to $23 billion. However, outflows from Malaysia and Thailand rose by 12 per cent and 45 per cent, amounting to $17 billion and $12 billion, respectively. The rise of these two countries as FDI sources was driven mainly by intraregional investments.

Manufacturing is relocating within the region. Rising production costs in China have led to the relocation of manufacturing activities by foreign as well as Chinese TNCs. The phenomenon has been generally contained within the region, though there are some cases of relocation to other regions as well as to home countries of foreign TNCs (see chapter I.B). On the one hand, foreign productive facilities have been relocating inland from the coastal area of China, leading to a boom in FDI inflows to the middle and western areas of the country. Accordingly, the share of FDI inflows to the inland areas in the national total rose from 12 per cent in 2008 to 17 per cent in 2012.[6] On the other hand, some foreign companies have started to relocate their production and assembly facilities to low-income countries in South-East Asia.[7] Until now, more relocation activities have been made to inland China than from China to South-East Asia, but the latter destination has gained strength as production costs in China as a whole have kept rising.[8]

The resulting relocation of productive capacities took place primarily in labour-intensive industries, such as garments and footwear. For instance, some companies from economies within the region, such as Hong Kong (China) and Taiwan Province of China, have relocated from Mainland China to Cambodia, where labour costs are about a third of those in China and productivity is rising towards the level in China. Traditionally important target countries for such relocation are Indonesia and Viet Nam in South-East Asia, as well as Bangladesh in South Asia. A number of large TNCs, including Nike (United States) and Adidas (Germany), have strengthened their contract manufacturing activities in low-cost production locations in South-East Asia. As a result, for instance, the share of Viet Nam in the footwear production of Nike rose from 25 per cent in 2005 to 41 per cent in 2012.[9]

Meanwhile, the manufacturing sector in China has been upgrading as both domestic and foreign investments take place in high-technology industries, such as advanced electronics components. For instance, Samsung has invested in a joint venture producing the latest generation of liquid crystal displays (LCDs) in Suzhou and has announced plans to build a $7 billion facility in Xi'an to produce advanced flash memory. The facility, to be operational at the end of 2013, will become Samsung's second largest memory chip production base – and the company's largest-ever overseas investment. In addition, a greater number of foreign-invested research and development (R&D) centres – which have doubled over the past five years, to about 1,800 at the end of 2012 – demonstrates that FDI has helped China enter into more advanced activities along the value chain.

Extractive industries attract more attention from foreign investors. Over the past few years, foreign participation in extractive industries (including both oil and gas, and metal mining) has helped boost FDI in

certain countries, including Mongolia and Myanmar (table II.3). In some instances, foreign participation in mining has resulted in political controversies, at both national and international levels, which have had significant implications for international investors.

Since Mongolia opened its door to foreign participation in metal mining, the country has seen significant FDI inflows targeting its mining assets, which include coal, copper, gold and uranium. In 2009, the Oyu Tolgoi mine, one of the world's largest untapped deposits of copper and gold, was granted to a joint venture between the Mongolian Government and Turquoise Hill Resources (previously known as Ivanhoe Mines), a Canadian company that is now 51 per cent owned by Rio Tinto (Australia and United Kingdom). The mine started construction in 2010 and is expected to begin production in 2013. However, a dispute has recently emerged between the Mongolian Government and Rio Tinto over this mine, leading to uncertainties about the progress of the construction.[10]

In granting mining licenses, the Government of Mongolia has tried to involve more bidders. As a result, fierce competition was witnessed among international investors for the Tavan Tolgoi coal mine, one of the world's largest coking and thermal coal deposits. Involved in the bidding for the West Tsankhi section of the mine were companies from various countries.

In Myanmar, new investments in extractive industries have taken off. In the oil and gas industry, a number of Western companies are already operating; new players from India, the Republic of Korea, Thailand and Singapore have entered into oil and gas exploration as well and are ready to expand their operations (table II.3).[12] For instance, Total (France) and Chevron (United States) have long held stakes in oil and gas projects, but only after the recent easing of sanctions are the two companies expanding their operations in Myanmar. In metal mining, among others, a joint venture between a local company and Ivanhoe Mines (Canada) started operating a large copper mine in 2004; and later a Chinese investor has become involved instead of the Canadian company. Following the introduction of a new mining law in 2013, investors from China, India, the Philippines, the Russian Federation, Viet Nam and the United

Table II.3. Foreign participation in extractive industries in Mongolia and Myanmar, selected large projects

Project/target company	Industry	Investment ($ million)	Foreign investor	Home economy	Mode of entry (Share)	Year
Mongolia						
Tomortei Mining Co	Metal mining	160	Shougang	China	Greenfield	2005
Boroo Glod Mine	Metal mining	228	Centerra Gold	Canada	Greenfield	2005
Baruunbayan Uranium Project	Metal mining	..	Solomon Resources	Canada	Greenfield	2005
Khangai and Bayankhongor Project	Metal mining	..	Dragon Gold Resources	United Kingdom	Greenfield	2005
Bao Fung Investments Ltd	Metal mining	87	Asia Resources Holdings	Hong Kong, China	M&A (100%)	2009
Mountain Sky Resources	Metal mining	237	Green Global Resources	Hong Kong, China	M&A (100%)	2009
Oyu Tolgoi Mine	Metal mining	..	Ivanhoe Mines	Canada	Greenfield	2009
MRCMGL LLC	Metal mining	20	Alamar Resources Ltd	Australia	M&A (100%)	2011
Ar Zuun Gol & Zuun Gol Coking	Coal mining	35	Hunnu Coal Ltd	Australia	M&A (70%)	2011
Wolf Petroleum Ltd	Oil and gas	42	Strzelecki Metals Ltd	Australia	M&A (100%)	2012
Myanmar						
Blocks AD-2, AD-3 and AD-9	Oil and gas	337	ONGC	India	Greenfield	2007
Block M3 in the Gulf of Martaban	Oil and gas	1 000	PTTEP International	Thailand	Greenfield	2007
Letpadaung Copper Mine	Metal mining	600	Wanbao Mining	China	Greenfield	2008
Chauk Oil Field	Oil and gas	337	Interra Resources	Singapore	Greenfield	2008
Gas Project Block AD-7	Oil and gas	1 700	Daewoo	Korea, Republic of	Greenfield	2009
Dornod Uranium Mine	Metal mining	..	Rosatom	Russian Federation	Greenfield	2009

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database, and various media sources.

States have expressed interest in mining, expanding the number of possible contributors of FDI inflows to extractive industries in Myanmar.

Intraregional investment increases, particularly in infrastructure. The share of intraregional FDI flows has been on the rise, accounting for about 37 per cent and 24 per cent of foreign investment in greenfield projects and cross-border M&As, respectively (tables C and E).

In infrastructure industries, such as transport and telecommunications, intraregional investment has been particularly significant in East and South-East Asia over the past decade (UNCTAD, 2008). Companies headquartered in Hong Kong (China), Malaysia, Singapore and Thailand are major players from emerging economies in those industries (UNCTAD, 2013a). They have increasingly expanded their operations within the region and beyond it. For instance, telecom operators from Thailand and Singapore have actively invested in telecommunications in neighbouring South-East Asian countries, and companies from Malaysia and Singapore have been operating in the transport industry in China.

During the past few years, infrastructure investment from China in South-East Asia has also been on the rise. In the power industry, for instance, China Huadian Corporation, one of the country's five largest electricity generators, is investing $630 million in the first phase of the largest power plant in Bali, Indonesia. In total, Chinese enterprises have invested an estimated $7 billion in infrastructure development in Indonesia. In transport, China has decided to invest $7 billion in domestic railways in the Lao People's Democratic Republic; a 410-km high-speed railway linking Kunming and Vientiane may be operational by 2018. The China–Myanmar railway has started construction as well. A regional network of high-speed railways linking China and Singapore, to be built in the years to come, will contribute significantly to regional integration and economic progress in the area.

3. South Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

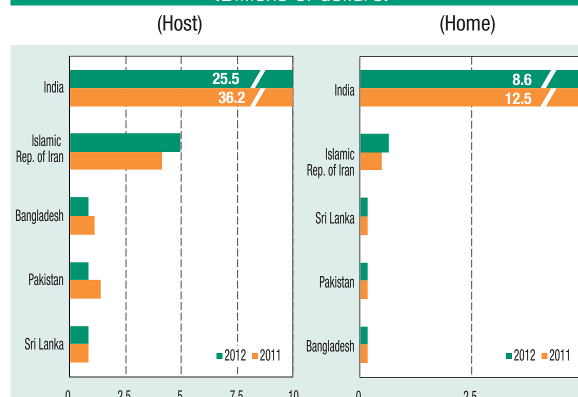


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

	2006	2007	2008	2009	2010	2011	2012
Share in world total	1.9	1.7	3.1	3.5	2.0	2.7	2.5

Figure C. FDI outflows, 2006–2012
(Billions of dollars)

	2006	2007	2008	2009	2010	2011	2012
Share in world total	1.0	0.8	1.1	1.4	1.1	0.8	0.7

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**13 181**	**2 637**	**6 143**	**2 651**
Primary	**8 997**	**130**	**834**	**- 70**
Mining, quarrying and petroleum	8 997	130	834	- 70
Manufacturing	**1 951**	**1 403**	**1 489**	**498**
Chemicals and chemical products	96	102	1 370	293
Metals and metal products	47	124	- 644	116
Electrical and electronic equipment	83	493	288	37
Motor vehicles and other transport equipment	977	197	470	58
Services	**2 233**	**1 104**	**3 820**	**2 223**
Transport, storage and communications	135	- 590	1 954	25
Finance	859	1 408	1 461	659
Business services	418	- 21	101	243
Health and social services	80	145	-	665

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**13 181**	**2 637**	**6 143**	**2 651**
Developed economies	**15 732**	**1 161**	**5 304**	**1 967**
European Union	13 232	618	1 154	435
United Kingdom	13 184	- 782	682	- 172
United States	1 652	405	28	1 531
Australia	14	17	4 082	- 374
Japan	986	966	40	7
Developing economies	**- 2 573**	**1 462**	**1 083**	**683**
Africa	- 337	426	318	22
Mauritius	- 348	82	-	-
South, East and South-East Asia	- 2 373	- 39	585	625
Latin America and the Caribbean	4	-	180	119
Transition economies	**-**	**-**	**- 245**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	South Asia as destination		South Asia as investors	
	2011	2012	2011	2012
Total	**58 669**	**39 525**	**35 627**	**27 714**
Primary	**-**	**165**	**4 165**	**4 602**
Mining, quarrying and petroleum	-	165	4 165	4 602
Manufacturing	**37 813**	**16 333**	**19 469**	**11 367**
Chemicals and chemical products	4 567	1 786	1 370	1 668
Metals and metal products	9 595	3 317	8 287	2 178
Machinery and equipment	3 169	929	140	1 234
Motor vehicles and other transport equipment	11 396	4 248	2 628	2 938
Services	**20 857**	**23 027**	**11 993**	**11 745**
Electricity, gas and water	1 862	6 199	4 463	4 236
Transport, storage and communications	3 815	7 210	345	1 442
Finance	2 552	3 264	1 710	726
Business services	5 890	2 805	3 228	2 046

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	South Asia as destination		South Asia as investors	
	2011	2012	2011	2012
World	**58 669**	**39 525**	**35 627**	**27 714**
Developed economies	**42 036**	**23 579**	**4 529**	**8 592**
European Union	15 990	12 962	2 538	2 889
United States	14 121	5 559	1 497	829
Australia	1 049	23	62	4 576
Japan	8 787	3 147	8	84
Developing economies	**16 244**	**15 694**	**30 274**	**18 742**
Africa	980	149	11 113	9 315
East and South-East Asia	9 197	8 211	10 973	2 388
South Asia	1 910	2 328	1 910	2 328
West Asia	4 093	4 972	5 672	4 100
Latin America and the Caribbean	64	34	606	611
Transition economies	**389**	**252**	**824**	**380**

FDI inflows to South Asia dropped by 24 per cent to $34 billion as the region saw sharp declines in both cross-border M&As and greenfield investments. Meanwhile, outflows declined by 29 per cent, to $9 billion, due to the shrinking value of M&As by Indian companies.

FDI inflows to South Asia declined significantly in 2012 (figure B) because of decreases across a number of major recipient countries, including India, Pakistan and Sri Lanka (figure A). Inflows to the three countries dropped by 29, 36 and 21 per cent, to $26 billion, $847 million and $776 million, respectively. FDI to Bangladesh also decreased, by 13 per cent, to about $1 billion. Nonetheless, this country remained the third largest recipient of FDI in the region, after India and the Islamic Republic of Iran – where FDI increased by 17 per cent, reaching a historical high of $5 billion.

India continued to be the dominant recipient of FDI inflows to South Asia in 2012. However, the Indian economy experienced its slowest growth in a decade, and a high inflation rate increased risks for both domestic and foreign investors. As a result, investor confidence has been affected and FDI inflows to India declined significantly. A number of other factors, however, positively influenced FDI prospects in the country. Inflows to services are likely to grow, thanks to ongoing efforts to further open up key economic sectors, such as retailing (see chapter III).[13] Flows to manufacturing are expected to increase as well, as a number of major investing countries, including Japan and the Republic of Korea, are establishing country- or industry-specific industrial zones in India (box II.1).

A number of countries in the region, including Bangladesh, India, Pakistan and Sri Lanka, have emerged as important players in the manufacturing and export of ready-made garments (RMG). Contract manufacturing has helped boost the productive capacities in the RMG industry in South Asia, linking those countries to the global value chains and markets (see below). In particular, Bangladesh stands out as the sourcing hotspot in the industry by offering the advantages of both low costs and large capacity. However, working conditions and other labour issues are still a major concern, and a number of disastrous accidents recently underscore the daunting challenges facing the booming garment industry in the country.[14]

With regard to mode of entry, South Asia saw a sharp decline in both cross-border M&As and greenfield investments (tables B–E). In 2012, M&A sales dropped by almost four fifths to $2.6 billion. For the first time since 2007, acquirers from developing countries surpassed those from developed countries in the total value of M&A deals undertaken in South Asia (table C). This was mainly due to the expansion of companies from the United Arab Emirates in the region. In the meantime, the total value of recorded greenfield investment projects decreased by about one third to $40 billion, the lowest amount since 2004.

Overall, prospects for FDI inflows to South Asia are improving, mostly owing to an expected rise in investments in India.

FDI outflows from South Asia dropped sharply by 29 per cent in 2012 (figure C). Outflows from India, the region's largest FDI source (figure A), decreased to $8.6 billion (still 93 per cent of the regional total) owing to the shrinking value of cross-border M&As by Indian companies. In comparison with their Chinese counterparts (see section II.2), Indian companies – especially conglomerates – seemed much less active in international M&A markets than in previous years and increasingly focused on their domestic operations (for details, see below).

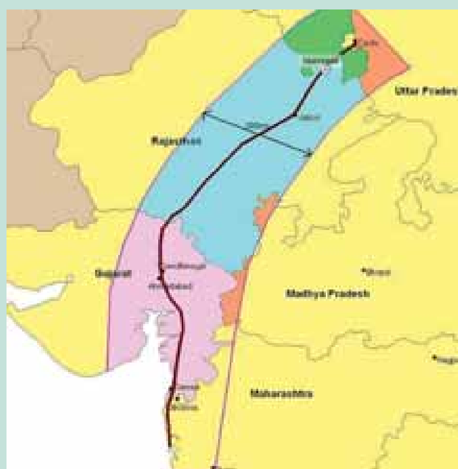
Local firms link to the global value chain in garments. Bangladesh, India, Pakistan and Sri Lanka have become important players in global apparel exports, and the first two rank fourth and fifth globally, after China, the EU and Turkey (WTO, 2010). Their significance has been further enhanced recently. The RMG industry provides good opportunities for export-driven industrialization. Using their locational advantages (e.g. large supply of low-cost labour) as well as government policy supports (e.g. FDI policies encouraging linkages), South Asian countries such as Bangladesh and Sri Lanka have been able to link to the global value chain and build their domestic productive capacities.

The RMG industry emerged in Bangladesh in the late 1970s and has become a key manufacturing industry in the country: its nearly 5,000 factories employ some 3 million workers and account for about three fourths of the country's total exports. FDI has played a central role in the early stage of the industrial development process, but local firms

Box.II.1. Country-specific economic zones in India

The Indian Government has strengthened its efforts to attract FDI by establishing industrial zones for investors from particular countries within the Delhi-Mumbai Industrial Corridor (DMIC) (box figure II.1.1).[a] Leveraging public funds from foreign countries, these bilateral efforts may result in an increasing amount of FDI inflows to industries such as electronics in India in the years to come.

Box figure II.1.1. Delhi-Mumbai Industrial Corridor: the geographical coverage



In February 2013, an agreement was reached between the Governments of India and Japan on the establishment of a special economic zone for Japanese electronics companies within the DMIC, most likely in Neemrana, Rajasthan.[b] It will be India's first industrial park officially established for firms in a single industry, as well as from a particular country. Japan's FDI stock in India is larger than that of the Republic of Korea, but in the electronics industry, Japanese companies have lagged far behind their Korean counterparts in the Indian market.[c] The establishment of the zone may help Japanese electronics companies expand their presence in India and narrow the gap with Korean companies.

In the meantime, the Republic of Korea tried to enhance its first-mover advantages. In March 2013, the Korea Trade-Investment Promotion Agency signed a Memorandum of Understanding with the Rajasthan State Industrial Development and Investment Corporation, setting up an industrial zone in Neemrana dedicated to Korean companies. It is expected to attract considerable FDI flows from the Republic of Korea in the near future.

Furthermore, the Government of India recently invited the Czech Republic to invest in an industrial zone in India. In this case, the targeted industry is automotives, in which the Czech Republic has established a strong competitive position.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

now dominate the industry (Fernandez-Stark et al., 2011). By providing various contract manufacturing services, Bangladesh has been able to export to markets in the EU and the United States. Before 2000, most of the firms were involved in cut, make and trim (CMT) operations; more recently, many have been able to upgrade to original equipment manufacturing, thus being able to capture more value locally.

The RMG industry in Sri Lanka experienced a similar process of industrial emergence catalyzed by FDI. By 2000, however, domestic firms dominated the industry. In recent years, leading local contract manufacturers, such as Brandix and MAS,[15] have started to invest in production facilities in other regions, especially Africa. Starting with CMT production in the 1980s and 1990s, these firms established themselves in original design manufacturing in the 2000s, serving brand owners in developed countries, including Gap, M&S and Nike (Wijayasiri and Dissanayake, 2008; Fernandez-Stark et al., 2011). As "full package" garment suppliers,[16] they

have been particularly competitive in niche markets such as sportswear, swimwear and children's clothing. While the industry moves to higher stages of the value chain, the skills of the local workforce have further supported the internationalization of these firms (Kelegama, 2009).

Indian TNCs become less active in global M&A markets. Indian companies had been active players in the global M&A markets, particularly in the developed world, driven by a variety of motives. Among their 18 cross-border M&A deals with investment values over $1 billion since 2005, 13 were in developed countries, most notably the United States (6 deals), the United Kingdom (3 deals) and Australia (3 deals) (table II.4). These megadeals were mainly in extractive industries (oil and gas, and metal mining), infrastructure industries (telecom and transport) and heavy industries (automotive, chemicals and metal production). Most took place during 2007–2008, and none were recorded in 2012.

Through proactive cross-border M&As, Indian enterprises have achieved important strategic objectives, such as the acquisition of technologies and brands.[17] In the automotive industry, for instance, established brands such as Jaguar and Land Rover are now owned by Tata Group. In information technology (IT)–enabled services, Infosys and Wipro have expanded into new markets and areas of business through both international greenfield investments and M&As.[18] In telecommunications, through the acquisition of Zain's mobile operations in Africa, Bharti Airtel has expanded to mobile markets in 15 African countries and has become the world's fifth largest mobile telecom operator by number of subscribers. In extractive industries, Indian companies have been able to secure access to significant mineral resources worldwide, including through megadeals in countries such as Australia, Indonesia, the Sudan[19] and the Bolivarian Republic of Venezuela.

Some Indian companies, especially conglomerates, have pulled back from large outbound M&A deals in recent years, owing partly to financial constraints. Companies in telecom and transport services that became proactive players in global M&A markets during 2010–2011 have been focusing on domestic operations more recently.[20] As a result, the total value of cross-border M&As undertaken by Indian companies in 2012 dropped by nearly three fifths, to about $2.65 billion.

Table II.4. Largest cross-border M&As by Indian TNCs, 2005–2012

Year	Acquiring company	Target company	Target industry	Target nation	Value ($ million)	Shares (%)
2007	Tata Steel UK Ltd	Corus Group PLC	Steel	United Kingdom	11 791	100
2010	Bharti Airtel Ltd	Zain Africa BV	Telecommunications	Kuwait	10 700	100
2007	AV Aluminum Inc	Novelis Inc	Metal	United States	5 789	100
2010	Investor Group	Republic of Venezuela-Carabobo Block	Oil and gas	Venezuela (Bolivarian Republic of)	4 848	40
2010	Adani Mining Pty Ltd	Linc Energy Ltd	Mining	Australia	2 740	100
2008	Investor Group	Sabiha Gokcen International Airport	Transport	Turkey	2 656	100
2008	Jarpeno Ltd	Imperial Energy Corp PLC	Oil and gas	United Kingdom	2 608	100
2008	Tata Motors Ltd	Jaguar Cars Ltd	Automotives	United States	2 300	100
2011	Mundra Port & Special Economic Zone	Abbot Point Coal Terminal	Transport	Australia	1 951	100
2005	Ratnagiri Gas & Power Pvt Ltd	Dabhol Power Co	Power	United States	1 939	100
2010	Chennai Network Infrastructure Ltd	Aircel Ltd-Mobile Towers	Telecommunications	Malaysia	1 704	100
2007	Essar Steel Holdings Ltd	Algoma Steel Inc	Steel	Canada	1 603	100
2007	Tata Power Co Ltd	Kaltim Prima Coal PT	Mining	Indonesia	1 300	30
2011	GVK Power & Infrastructure Ltd	Hancock Coal Pty Ltd	Mining	Australia	1 260	100
2007	United Spirits Ltd	Whyte & Mackay Ltd	Food and beverages	United Kingdom	1 176	100
2010	Reliance Eagleford Upstream LP	Pioneer Natural Resources Co	Oil and gas	United States	1 145	38
2008	GMR Infrastructure Ltd	InterGen NV	Power	United States	1 107	50
2008	Tata Chemicals Ltd	General Chemical Industrial Products Inc	Chemicals	United States	1 005	100

Source: UNCTAD, FDI-TNC-GVC Information System, cross-border M&A database.

4. West Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

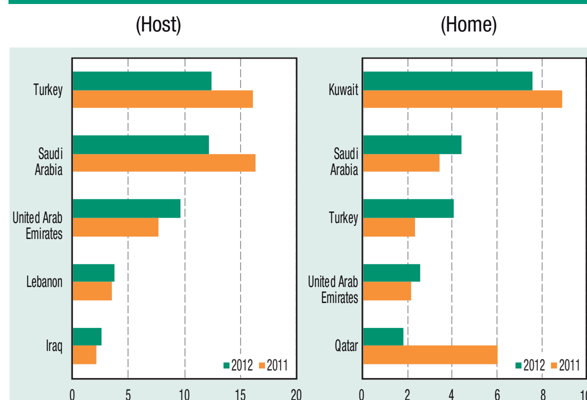


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

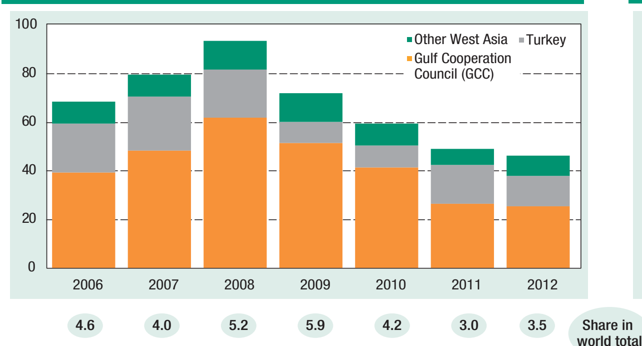


Figure C. FDI outflows, 2006–2012
(Billions of dollars)

	2006	2007	2008	2009	2010	2011	2012
Share in world total (inflows)	4.6	4.0	5.2	5.9	4.2	3.0	3.5
Share in world total (outflows)	1.6	1.5	1.9	1.6	0.9	1.6	1.7

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**11 111**	**4 295**	**6 603**	**7 775**
Primary	**2 730**	**154**	**87**	**43**
Mining, quarrying and petroleum	2 682	154	87	43
Manufacturing	**703**	**2 556**	**969**	**1 702**
Food, beverages and tobacco	30	1 019	213	1 605
Non-metallic mineral products	- 69	137	332	-
Metals and metal products	198	39	22	-
Services	**7 678**	**1 585**	**5 547**	**6 030**
Electricity, gas and water	341	284	190	-
Construction	68	125	- 35	1 126
Transport, storage and communications	338	874	- 2 568	- 651
Finance	6 221	- 298	8 177	5 517
Business services	373	562	314	73

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**11 111**	**4 295**	**6 603**	**7 775**
Developed economies	**9 719**	**- 1 083**	**3 252**	**5 458**
Belgium	- 522	- 3 862	- 587	140
Luxembourg	-	- 10	-	2 388
Spain	5 891	-	5 474	305
United Kingdom	4 622	- 214	- 621	1 318
United States	- 1 566	1 700	- 945	- 244
Developing economies	**1 088**	**543**	**3 234**	**735**
Asia	984	428	2 622	662
India	-	- 83	123	1 060
Malaysia	- 5	116	1 915	60
Transition economies	**5**	**3 862**	**117**	**1 582**
Russian Federation	-	3 862	40	1 582

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	West Asia as destination		West Asia as investors	
	2011	2012	2011	2012
Total	**70 248**	**44 978**	**45 171**	**35 095**
Primary	**915**	**2**	**503**	**37**
Manufacturing	**37 505**	**20 247**	**19 009**	**12 216**
Coke, petroleum products and nuclear fuel	3 618	5 002	7 633	5 768
Chemicals and chemical products	13 877	6 181	3 372	103
Metals and metal products	9 294	2 353	4 122	2 438
Services	**31 827**	**24 729**	**25 659**	**22 842**
Electricity, gas and water	7 598	2 920	2 611	601
Construction	6 620	6 693	12 520	5 284
Hotels and restaurants	4 686	3 809	1 920	3 302
Finance	2 680	2 226	2 357	4 029
Business services	3 259	2 038	901	587
Community, social and personal service activities	912	3 487	729	2 800

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	West Asia as destination		West Asia as investors	
	2011	2012	2011	2012
World	**70 248**	**44 978**	**45 171**	**35 095**
Developed economies	**39 119**	**15 649**	**9 615**	**2 066**
Europe	17 127	9 883	7 443	1 651
North America	18 736	5 099	1 979	342
Other developed countries	3 257	667	193	73
Developing economies	**30 433**	**26 173**	**34 339**	**30 889**
Africa	150	1 160	7 038	11 610
East and South-East Asia	5 930	8 025	3 965	1 247
South Asia	5 672	4 100	4 093	4 972
India	5 455	3 880	1 235	4 105
West Asia	18 503	12 761	18 503	12 761
Latin America and the Caribbean	178	127	699	300
Transition economies	**695**	**3 156**	**1 217**	**2 140**

FDI inflows to West Asia in 2012 have failed once again to recover from the downturn started in 2009, registering their fourth consecutive year of decline. This is due to persistent political uncertainties at the regional level and clouded economic prospects at the global level. State-owned firms in the Gulf Cooperation Council (GCC) countries are taking over delayed projects that were originally planned as joint ventures with foreign firms. Measures undertaken in Saudi Arabia to augment the employment of nationals in the private sector face the challenge of mismatched demand and supply in the private job market.

FDI inflows have failed once again to recover. FDI to West Asia in 2012 registered its fourth consecutive year of decline (figure B), although at a slower rate, decreasing by 4 per cent to $47 billion, half its 2008 level. Growing political uncertainty at the regional level and subdued economic prospects at the global level are holding back foreign investors' propensity and capacity to invest in the region. Significant diminution in FDI inflows was registered in the two main recipient countries – Turkey (-23 per cent to $12.4 billion) and Saudi Arabia (-25 per cent to $12.2 billion) – that accounted for 52 per cent of the region's overall inflows. For the first time since 2006, Saudi Arabia ceded its position as the region's largest recipient country to Turkey.

The FDI fall in Saudi Arabia occurred despite the 6.8 per cent economic growth registered in 2012, boosted by heavy Government spending – on upgrading infrastructure and increasing public sector employment and wages. Looming uncertainties related to social and political tensions, together with the shrinking availability of debt capital from the ailing banking sectors in developed countries, have restricted foreign investors' propensity and capacity to invest, putting the brakes on an FDI recovery.

Declining FDI to Turkey was due to a 70 per cent drop in cross-border M&A sales, which had surged the previous year (annex table I.3). At $12 billion in 2012, inflows to Turkey remained *much lower than their 2007 peak of $22 billion*. Lower global growth and a prolonged fiscal tightening in the EU – Turkey's largest market – have reduced demand for Turkey's exports, affecting export-led FDI such as that in the automobile sector (box II.2).

FDI to GCC countries as a whole remained at almost the same level as in 2011 ($26 billion), registering a slight 0.4 per cent increase, despite the strong decline registered in Saudi Arabia. The latter was offset by significant FDI growth in all other countries within this group. FDI to the United Arab Emirates – West Asia's third largest recipient country – increased 25 per cent, to $10 billion, continuing the recovery initiated in 2010 but remaining below the $14 billion reached in 2007. High public spending by Abu Dhabi and strong performance in Dubai's non-hydrocarbon sectors have helped rebuild foreign appetites for direct investment in the country. Saudi Arabia and the United Arab Emirates alone accounted for 83 per cent of FDI inflows to the GCC economies. FDI to Kuwait more than doubled, reaching $2 billion, boosted by Qatar Telecom's acquisition of additional shares in Kuwait's second mobile operator Wataniya, which raised its stake to 92 per cent. FDI inflows also increased in Bahrain, Oman and Qatar.

FDI to non-GCC countries overall declined by 9 per cent to $21 billion, because of the large drop in FDI to Turkey, which attracted 60 per cent of FDI to this group. However, most countries in this group saw an increase in FDI inflows. This was the case of Lebanon where FDI in 2012 registered positive growth (9 per cent), enhanced by foreign acquisitions in the insurance industry and in services related to real estate. New gas discoveries in Lebanese waters along the northern maritime boundary with Cyprus and Syria offer prospects for the country to attract FDI in oil exploration. About 46 international oil companies prequalified to bid for gas exploration in a licensing round that opened on 2 May 2013. FDI to Iraq was up for the second consecutive year, increasing by 22 per cent to $2.5 billion, attracted by the country's strong economic growth (8.4 per cent), which has been aided by significant increases in Government spending. With its considerable hydrocarbon wealth, large population and massive infrastructure investment needs, Iraq offers a wide range of opportunities for foreign investors. They are progressively investing despite the country's political instability and security challenges. Turkey, Lebanon and Iraq together attracted 90 per cent of FDI to non-GCC countries. FDI to Yemen returned to positive territory ($349 million), encouraged by the improvement in that country's political situation, while FDI to Jordan declined by 5 per cent.

Box II.2. Recession in Europe affects Turkey's automobile sector

After two years of strong recovery – during which low interest rates, easy access to credit and a domestic economic rebound compensated for the weak external demand and drove strong vehicle sales growth in 2010 (26 per cent) and 2011 (8.6 per cent) – Turkey's automotive industry registered a fall in production in 2012 (-9.8 per cent). This resulted from a sharp slowdown in economic activity and tighter credit conditions in addition to a prolonged fiscal tightening in the EU, the industry's largest export market.

The Turkish automotive cluster was developed through alliances with foreign partners, and the country has been included in the global value chain since joining the Customs Union with the EU in 1996. Turkey has been an attractive manufacturing export base for the car industry because of its low wage costs and favourable geographical location, with easy access to Western and Eastern Europe, the Russian Federation, North Africa and the Middle East.

Three manufacturers dominate the sector, accounting for about three quarters of all vehicles made in Turkey. The three are joint ventures between Turkish and major international producers: Tofas-Fiat, Oyak-Renault and Ford Otosan. The sector is highly export-oriented, with exports accounting for 68 per cent of all vehicles produced in the country in 2012 and directed mainly to Europe, which is the target of about three quarters of the total value of vehicle exports.

Given the negative outlook for European demand, which has been affected by drastic fiscal tightening, automotive TNCs in Turkey are starting to focus more on faster-growing emerging markets. Automotive TNCs, in particular Asian companies such as Toyota, Honda and Isuzu (Japan); Hyundai (Korea); and the Chery (China) are increasing or planning to increase their production capacity in Turkey for this purpose. In addition, Ford Otosan is building a third vehicle manufacturing plant in Turkey with a view to increasing exports to the United States market.

Source: UNCTAD, based on TKSB Research, "Turkish Automotive Industry, December 2012", 2013; TKSB Research, "Turkish Automotive Industry December 2012", 2012; Abylkassymova et al. (2011); Economist Intelligence Unit, "Turkey Automotive Report", April 2013; Economist Intelligence Unit, "Japan/Turkey business: Auto firms to increase investments in Turkey", 27 July 2012.

Foreign investors, mainly those from developed countries, are reluctant to engage in the region, especially in large projects. This reluctance is reflected in the significant decrease of greenfield project announcements by foreign companies, more in terms of value (-36 per cent) than quantity (-11 per cent). This reluctance presages negative FDI prospects for the region (see chapter I). The retreat was more accentuated in TNCs from developed countries, whose share in the number of announced projects declined from 67 per cent on average during the period 2003–2011, to 56 per cent in 2012. In value terms, their share slumped from 56 per cent on average in 2003–2011 to 35 per cent in 2012, well below the share of projects announced by developing-country TNCs (57 per cent in 2012). Almost half of the value of the latter's projects is intraregional, and the rest originate mostly from East Asia (mainly Republic of Korea and China) and South Asia (mainly India). Although these announced projects may not all materialize, they nevertheless reflect an ongoing trend: the increasing importance of developing Asian countries as potential investors in West Asia.

Outward FDI from West Asia decreased by 9 per cent to $24 billion in 2012 (figure C), putting a halt to the previous year's recovery. While GCC countries continued to account for most of the region's outward FDI flows, Turkey has emerged as a significant investor, with its outward investment amount growing by 73 per cent to a record $4 billion. This was mainly due to the $2 billion acquisition – by Anadolu Efes (Turkey) – of the Russian and Ukrainian beer businesses of SABMiller.[21]

State-owned firms in GCC countries take the lead on some delayed projects. FDI in GCC countries has been affected since the beginning of the global economic crisis, by the continued retreat of foreign banks – especially European ones – from project financing. Despite the recovery in oil prices in 2010–2011 and the strengthening of GCC economic indicators, foreign bank lending to the GCC on aggregate has declined by 5 per cent between September 2008 and March 2012 (Qatar being the notable exception to the declining trend). Syndicated loans, in which banks club together to provide financing to large corporations, are increasingly

faced with structural challenges because of the continuing retreat of many European banks from the market. In 2011, the regional syndicated loan market contracted by 11 per cent.[22] The pull-back in foreign bank lending partially explains the notable increase in the issuance of domestic sukuks (Islamic bonds) in the GCC in 2012 (IMF, 2012a).

Foreign investors' more cautious approach to large-scale projects has pushed some State-owned firms to move ahead alone on some key projects. This is how some refinery and petrochemical projects progressed in 2012. In Saudi Arabia, for example, the $4.6 billion Jizan refinery project announced in 2004 – originally planned as a joint venture between the State-owned oil company Aramco (40 per cent), with the Saudi private sector and an international oil company each taking a 30 per cent interest – was handed over to Aramco after generating limited interest for ownership participation from TNCs. TNCs are instead contributing to the project through construction contracts to build the refinery, which were awarded to a group of Korean, Japanese and Spanish firms. In Qatar – where all petrochemical projects are joint ventures with multinational energy firms – State-owned Qatar Petroleum chose its own unit over foreign giants as a partner in building and managing a $5.5 billion petrochemical project in Ras Laffan.

But 2012 also witnessed the start of some long-delayed or interrupted joint venture projects with foreign companies, such as the Sadara Chemical Company and the Yanbu refinery, both in Saudi Arabia. The first is a petrochemical megaproject carried out by an equal joint venture that was formed in 2011, after several years of negotiations, between Saudi Aramco and Dow Chemical. The joint venture will build, own and operate a $20 billion integrated chemicals complex (comprising 26 manufacturing units) in Al Jubail Industrial City. The second is a joint venture agreement between Sinopec (China) and Aramco (Saudi Arabia) to complete the construction of the $8.5 billion Yanbu refinery, which was delayed by the exit of ConocoPhillips – the original partner – in 2010.

Saudi Arabia takes measures to augment Saudi employment in the private sector. Faced with a demographic youth bulge and growing unemployment in a context of delicate social and political balance, the Government recently embarked on a new policy of "Saudization", with the introduction of a law known as Nitaqat. This law, announced in May 2011 and phased in between September 2011 and February 2012, is the latest effort in the Government's long-term plan to bolster Saudi employment in the private sector – an agenda that dates from the 1990s. It imposes limits on the number of foreign workers that companies can hire. Non-compliant companies could face a host of restrictions, such as limitations on issuing or renewing visas for expatriate workers, while compliant ones benefit from an expedited hiring process. Expatriate labour – the vast majority of workers in the private sector (90 per cent) – is more attractive for private enterprises than national labour because it is cheaper, more skilled and more flexible.

However, the fundamental challenge facing business in enforcing "Saudization" is the mismatch between national labour demand and supply in the private job market (*WIR12*). The types of jobs experiencing steady growth – such as those in services, construction and trade – are unappealing to nationals, while there is a paucity of suitably qualified graduates for more highly skilled jobs.[23]

5. Latin America and the Caribbean

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

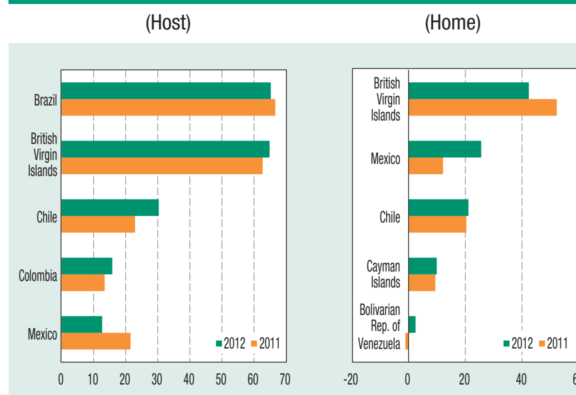


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

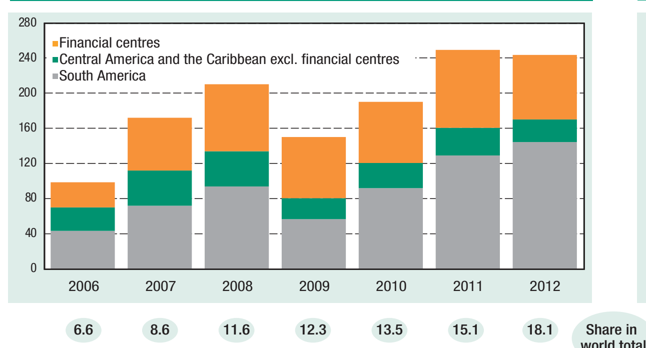
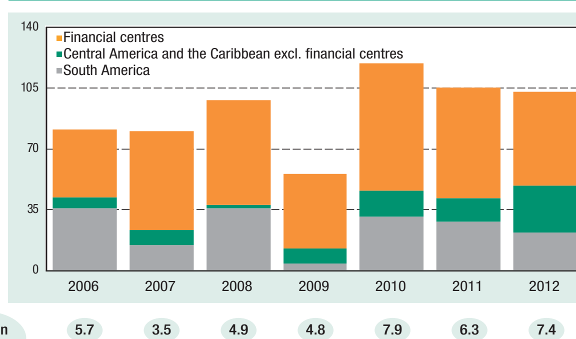


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



	2006	2007	2008	2009	2010	2011	2012
Share in world total (inflows)	6.6	8.6	11.6	12.3	13.5	15.1	18.1
Share in world total (outflows)	5.7	3.5	4.9	4.8	7.9	6.3	7.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales 2011	Sales 2012	Purchases 2011	Purchases 2012
Total	**20 098**	**21 070**	**18 750**	**32 647**
Primary	**6 336**	**- 2 612**	**- 638**	**930**
Mining, quarrying and petroleum	6 027	- 2 942	- 733	930
Manufacturing	**2 905**	**9 566**	**6 691**	**4 188**
Food, beverages and tobacco	7 738	3 029	2 136	236
Chemicals and chemical products	- 4 664	1 643	2 453	771
Metals and metal products	33	4 367	863	1 326
Motor vehicles and other transport equipment	26	-	15	1 301
Services	**10 856**	**14 117**	**12 696**	**27 528**
Trade	1 029	1 224	- 437	3 112
Transport, storage and communications	2 710	4 813	6 123	3 443
Finance	2 522	4 623	5 092	19 607
Business services	1 415	1 585	138	1 089

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales 2011	Sales 2012	Purchases 2011	Purchases 2012
World	**20 098**	**21 070**	**18 750**	**32 647**
Developed economies	**2 686**	**- 674**	**9 858**	**16 426**
Europe	- 3 468	- 11 563	1 652	10 762
North America	- 4 776	9 334	8 191	5 660
Developing economies	**17 015**	**21 405**	**7 563**	**16 370**
Asia	9 638	5 443	189	133
China	9 651	5 400	470	21
Latin America and the Caribbean	7 388	16 240	7 388	16 240
South America	5 307	15 345	3 318	14 449
Chile	- 464	8 961	80	608
Mexico	2 001	- 134	4 113	448
Caribbean	81	1 029	39	23
Transition economies	**319**	**-**	**1 329**	**- 149**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LAC as destination 2011	LAC as destination 2012	LAC as investors 2011	LAC as investors 2012
Total	**138 531**	**65 728**	**20 773**	**9 074**
Primary	**21 481**	**5 297**	**2 300**	**159**
Mining, quarrying and petroleum	21 446	5 297	2 300	159
Manufacturing	**56 949**	**31 104**	**7 666**	**3 396**
Food, beverages and tobacco	8 775	3 467	1 084	592
Metals and metal products	15 233	5 172	1 731	823
Electrical and electronic equipment	2 794	2 797	139	48
Motor vehicles and other transport equipment	15 526	11 932	375	439
Services	**60 101**	**29 327**	**10 807**	**5 519**
Electricity, gas and water	11 989	10 782	156	1 040
Transport, storage and communications	20 643	2 979	3 678	559
Finance	2 978	2 129	1 290	413
Business services	20 570	9 250	5 130	1 945

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	LAC as destination 2011	LAC as destination 2012	LAC as investors 2011	LAC as investors 2012
World	**138 531**	**65 728**	**20 773**	**9 074**
Developed economies	**112 264**	**53 113**	**3 616**	**2 143**
Europe	60 380	25 673	1 474	356
Italy	5 251	8 106	68	-
United Kingdom	17 728	2 024	79	162
North America	39 338	21 441	2 049	1 780
Japan	9 550	3 177	93	-
Developing economies	**25 897**	**12 278**	**17 156**	**6 931**
Asia	10 264	5 638	917	518
Latin America and the Caribbean	14 466	6 171	14 466	6 171
Brazil	1 279	2 693	4 913	1 895
Mexico	8 192	1 259	493	676
Transition economies	**370**	**337**	**-**	**-**

The 2 per cent decline in FDI inflows to Latin America and the Caribbean in 2012 masked a 12 per cent increase in South America. Developed-country TNCs continued selling their assets in the region, increasingly acquired by Latin American TNCs that are also expanding into developed countries. Growing resource-seeking FDI in South America is contributing to the consolidation of an economic development model based on comparative advantages in natural resources. Brazil has taken new industrial policy measures aiming at greater development of its domestic industry and improved technological capabilities, which is encouraging investment by TNCs in industries such as automotives. Nearshoring is on the rise in Mexico, boosted by the rapid growth of labour costs in China and the volatility of rising fuel costs, which have made the shipment of goods across the Pacific less attractive.

South America continued to sustain FDI flows to the region. FDI flows to Latin America and the Caribbean in 2012 maintained almost the same level as in 2011, declining by a slight 2 per cent to $244 billion (figure B). However, this figure hides significant differences in subregional performance, as inward FDI grew significantly in South America (12 per cent to $144 billion) but declined in Central America and the Caribbean (-17 per cent to $99 billion).

The growth of FDI to South America took place despite the slowdown registered in Brazil (-2 per cent to $65 billion) – the subregion's main recipient – after two years of intensive growth. Growth was driven by countries such as Chile (32 per cent to $30 billion), Colombia (18 per cent to $16 billion), Argentina (27 per cent to $13 billion) and Peru (49 per cent to $12 billion), which were South America's main recipient countries after Brazil. A number of factors contributed to the subregion's FDI performance, including the presence of natural resources (such as oil, gas, metals and minerals) and a fast-expanding middle class that attracts market-seeking FDI.

Central America and the Caribbean, excluding the offshore financial centres, saw a 20 per cent decrease in FDI inflows to $25 billion (figure B), attributable mainly to a 41 per cent drop in inflows to Mexico. While Mexico remained a key recipient, its share of this group's inward FDI declined to 50 per cent in 2012, from 68 per cent in the previous year. A $4 billion or 25 per cent divestment of interest by the Spanish Banco Santander in its Mexican affiliate contributed to the decline. FDI to the Dominican Republic, the subregion's second main recipient, increased by 59 per cent to $3.6 billion, boosted in part by Ambev's (Belgium) acquisition of Cerveceria Nacional Dominicana, the country's main brewery, for $1 billion.

FDI to the offshore financial centres decreased by 16 per cent to $74 billion in 2012 (figure B) but remained at a higher value than before the global financial crisis. This group of countries has become a significant FDI recipient since the beginning of the crisis (*WIR12*). The share of offshore financial centres in the region's total FDI increased from 17 per cent in 2001–2006 to 36 per cent in 2007–2012.

Developed-country TNCs continued retreating from the region. Cross-border M&A sales increased by 5 per cent to $21 billion (tables B and C), with very uneven growth by investor regions. Developing-country TNCs continued to increase their acquisitions in 2012 (up 26 per cent), sustaining a trend that began in 2010. The trend was triggered by acquisitions from TNCs based in developing Asia that mainly targeted oil and gas companies (*WIR11*), joined in 2011 by the surge of acquisitions from intraregional sources. In 2012, strong intraregional acquisitions by Latin American TNCs (from Argentina, Brazil, Chile and Colombia) – which more than doubled from 2011 – helped push up M&A sales in this region, while those by developing Asian TNCs almost halved (figure II.3).

By contrast, developed-country TNCs continued retreating from the region, selling more assets than they acquired in 2012 (table C). This was the case in 2009 as well, when the global economic crisis kick-started the retrenchment of some developed-country TNCs from the region in sectors such as extractive industries, finance, chemicals, and electricity, gas and water distribution.

Latin American TNCs expanding in the region and in developed countries. Outward FDI from Latin America decreased by 2 per cent to $103 billion in 2012 (figure C), with uneven growth among countries. Outflows from offshore financial centres decreased

Figure II.3. Latin America and the Caribbean: cross-border M&A sales by geographical source, 1992–2012
(Billions of dollars)

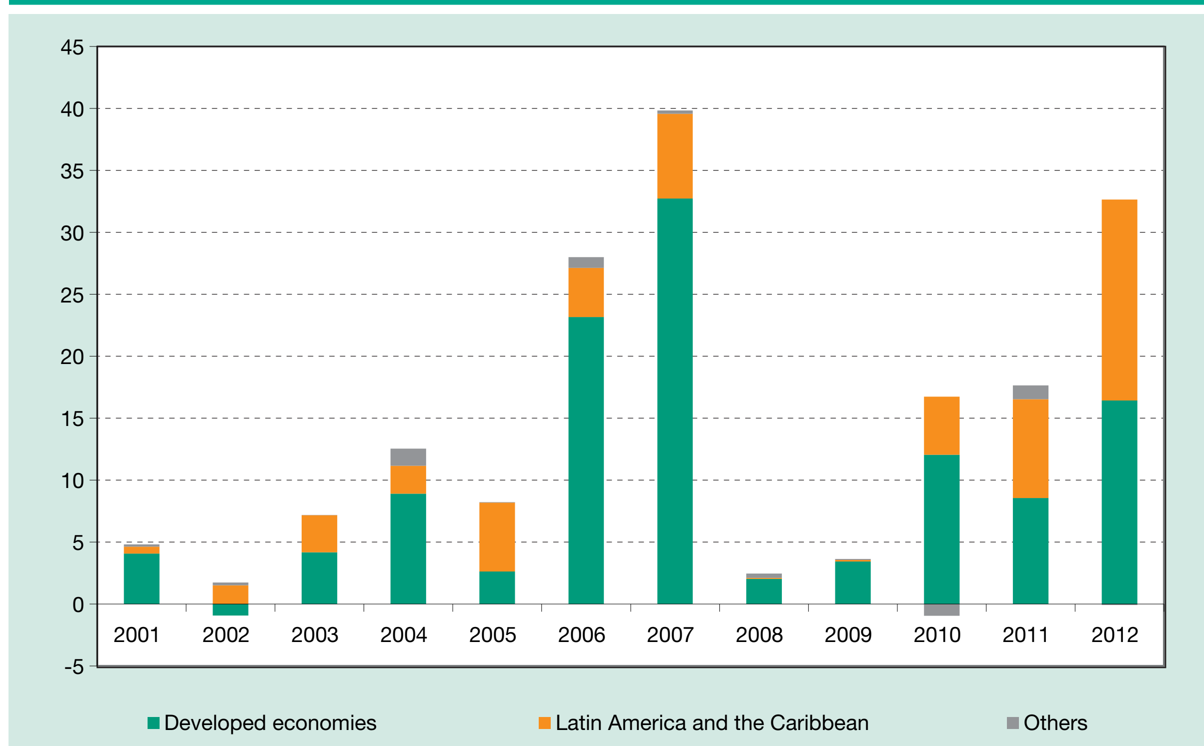
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

by 15 per cent to $54 billion, and those from Brazil remained downscaled to negative values by the high levels of repayment of intercompany loans to parent companies by Brazilian affiliates abroad.[24] By contrast, outflows from Mexico registered a strong increase (111 per cent to $26 billion), and outflows from Chile continued growing in 2012 (4 per cent, to $21 billion) after the jump recorded in 2011 (115 per cent, to $20 billion).

However, outward FDI data do not properly reflect the dynamism of Latin American TNCs' productive activity abroad, as revealed by the 74 per cent increase in their cross-border acquisitions in 2012, which reached $33 billion. This activity was equally shared between acquisitions in developed countries and in Latin America and the Caribbean (table C). Increasing acquisitions abroad by Latin American TNCs is a trend that began in 2006, reached its peak in 2007 and was halted by the global financial crisis before resuming in 2010. Since 2010, Latin American companies have spent a net amount of $67 billion acquiring companies abroad (figure II.4).

Buoyant conditions at home, cash-rich balance sheets and saturated domestic markets encourage Latin American companies to seek new opportunities abroad. That is why companies from Chile, for example, are among the most active purchasers abroad, with the latest examples being the $3.4 billion acquisition of the Brazilian airlines TAM by LAN Chile and acquisitions by the Chilean retailer Cencosud in Colombia and Brazil for more than $3 billion.[25] Opportunities also arise when debt-strapped European companies sell panregional assets to raise cash for home – as was the case, for example, of Banco Santander (Spain), which sold a 95 per cent stake in its Colombian unit to CorpBanca (Chile) for about $1.2 billion. They also arise when such companies focus on core business and markets, as in the case of HSBC, which has been selling non-core assets worldwide to cope with new regulations in the wake of the financial crisis. Among the latest deals announced by HSBC (United Kingdom) is the sale in 2013 of its Panama business to Bancolombia for $2.1 billion. Latin American TNCs also launched

Figure II.4. Latin America and the Caribbean: cross-border M&A purchases by geographical target, 2001–2012
(Billions of dollars)



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

into a European expansion, taking advantage of the continent's crisis to buy companies at depressed prices – as exemplified by América Móvil's (Mexico) acquisitions of about a quarter of KPN (the Netherlands) and Telekom Austria for a combined total of $4.5 billion – or to buy companies facing financial problems, as in the $2 billion acquisition of a 40 per cent stake in the cement producer Cimpor (Portugal) by Camargo Correa (Brazil).

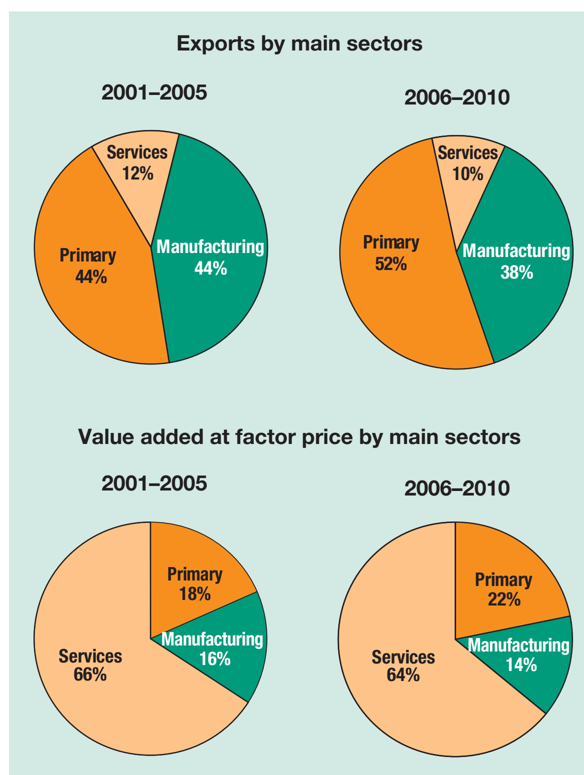
Foreign companies are important actors in the metal mining industry in South America, where they are increasingly focusing on the exploitation of natural resources. Foreign companies play an important role in the metal mining industry in South America, where they have a dominant position in all the metal-mineral-rich countries except Brazil. For example, in Peru they accounted for at least 75 per cent of all metal mining investment in 2011–2012 (Ministerio de Energia y Minas, 2013). In Chile, they accounted for 62 per cent of all investment in large-scale copper and gold mining in 2012 (up from an average share of 53 per cent in 2002–2011), while their share in all copper production increased from 48 per cent in 1991–2001 to 59 per cent in 2002–2012 (Comisión Chilena del Cobre, 2012).

FDI in South America is increasingly focusing on natural resources, mainly the extractive industry, as evidenced by its growing share in FDI: e.g. in Colombia, although the share of the extractive industry in FDI stock was 26 per cent in 2002, this industry attracted 53 per cent of total FDI flows between 2003 and 2012.[26] In Chile its share in FDI stock increased from 27 to 39 per cent between 2006 and 2011, while in Peru, it increased from 14 per cent in 2001 to 27 per cent in 2011. Only Argentina witnessed a decline in the share of the extractive industry in total FDI stock during the second half of the 2000s, from 40 per cent in 2005 to 31 per cent in 2011. The share of the extractive industry in FDI stock further decreased in 2012 after the nationalization of a 51 per cent stake in YPF (*WIR12*). Increases in shares in the extractive industry

in FDI in certain countries in South America[27] are in line with the increasing importance of this industry in exports and value added (figure II.5).

New industrial policy measures in Brazil. Concerned about the growing competition from low-cost manufactures – especially since the beginning of the global economic crisis – Brazil and Argentina have accelerated their shift towards industrial policy, aiming at greater development of their domestic industry and improved technological capabilities (*WIR12*). New measures have been undertaken in Brazil since April 2012, as a second phase of the Plano Brasil Maior.[28] They include a mixture of fiscal incentives for labour-intensive industries, loans to the automotive and IT industries from the Brazilian Development Bank (BNDES) at preferential rates, expansion of export financing programmes and tax relief for Internet broadband access, and measures for stimulating the national industry through Government procurement, where national goods and services will take priority over imported goods.[29] Furthermore, in October 2012, a new automobile incentive programme (Inovar-Auto) was approved to encourage investments in vehicle efficiency, national production, R&D and automotive technology.[30]

Figure II.5. Exports and value added from South America,[a] by sector, 2000–2005 and 2006–2011



Source: ECLAC, CEPALSTAT.
[a]Excludes Argentina and Brazil.

TNCs' investment in the automotive industry in Brazil is boosted by Government policy. The automotive industry – dominated by foreign TNCs – is among the select industries in which the Brazilian Government is focused on stimulating competitiveness and technology upgrading, developing local suppliers and slowing import growth. It has benefited from long-term financing from BNDES that disbursed to the industry (assembly and auto parts) loans worth about $35 billion between 2002 and 2012, or almost 6 per cent of all its loan disbursements in this period. In the first two months of 2013, two foreign car manufacturers – Fiat and Peugeot Citroën – received loan approvals from BNDES for $1.2 billion and $77 million, respectively.[31] The new auto regime (Inovar-Auto), together with BNDES loans to the sector at preferential rates and the continued expansion of Brazil's car market, has encouraged foreign car manufacturers to step up their investment plans[32] and increase FDI in the country. FDI to the automobile industry (assembly and auto parts) jumped from an annual average of $116 million in 2007–2010 to $1.6 billion in 2011–2012.[33]

Nearshoring to Mexico is on the rise. In Mexico, nearshoring – the practice of bringing manufacturing operations closer to a domestic market – is picking up momentum, as more manufacturing companies seek ways to reduce costs and bring products into the United States market more quickly by operating closer to it. This is due to the rapid growth of labour costs in China – the largest offshoring location – and to rising and volatile fuel costs that have made shipping goods across the Pacific less attractive. Currency has been an additional factor, with the yuan's appreciation against the dollar and euro in the past several years. When it comes to nearshoring, Mexico is the most favoured location among manufacturers – more so than the United States itself, although the gap in appeal between the two countries might be narrowing.[34] Companies that have moved some or all of their production in recent years from Asia to Mexico to be closer to the United

States include Emerson (electrical equipment), Meco Corporation (leisure goods), Coach Inc. (premium leather goods) and Axiom (fishing rods).

However, Mexico still lags behind China in terms of location choice for manufacturing. China offers the important advantage of deeper supply chains than Mexico, where international companies have trouble finding local suppliers for parts and packaging. Unlike in China, where the Government identifies "pillar industries" and supports them, smaller companies in Mexico that are eager to start or grow businesses and establish linkages with foreign companies suffer from a lack of affordable access to financing.[35]

Companies are now more likely to diversify their manufacturing presence to serve regional markets, as transportation costs increase and markets become more regionally focused. Mexico will always have the advantage of its proximity to and trade agreement with the United States.

6. Transition economies

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

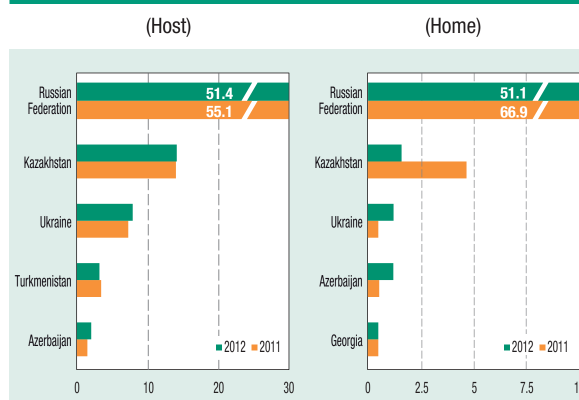


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

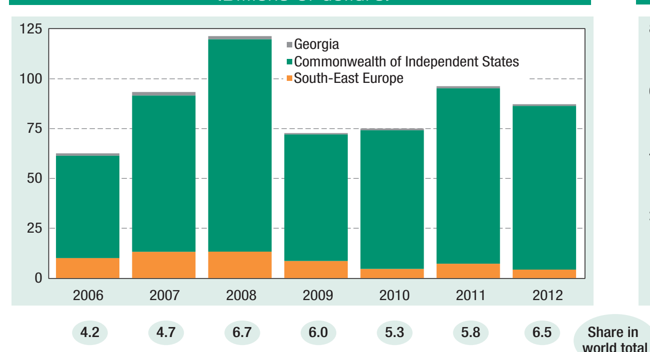
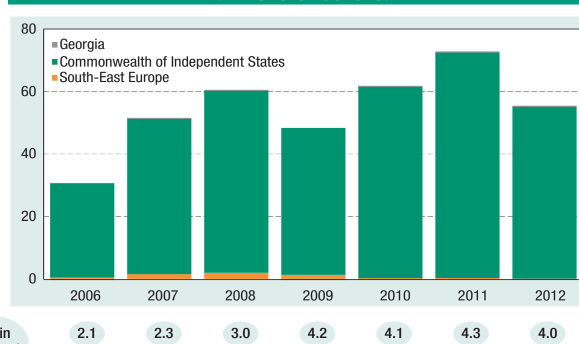


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total

	2006	2007	2008	2009	2010	2011	2012
Inflows	4.2	4.7	6.7	6.0	5.3	5.8	6.5
Outflows	2.1	2.3	3.0	4.2	4.1	4.3	4.0

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**32 815**	**- 1 569**	**11 692**	**8 651**
Primary	**17 508**	**- 1 193**	**10 095**	**1 500**
Mining, quarrying and petroleum	17 450	- 1 212	10 046	1 500
Manufacturing	**6 449**	**340**	**- 1 387**	**- 518**
Food, beverages and tobacco	5 306	6	111	-
Chemicals and chemical products	984	368	- 106	-
Metals and metal products	-	5	- 1 401	- 193
Motor vehicles and other transport equipment	-	- 390	-	-
Services	**8 858**	**- 717**	**2 984**	**7 669**
Electricity, gas and water	68	- 451	-	-
Trade	2 664	112	-	20
Transport, storage and communications	5 836	- 65	14	1 313
Finance	198	- 168	2 468	6 314

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**32 815**	**- 1 569**	**11 692**	**8 651**
Developed economies	**22 410**	**1 496**	**1 300**	**4 365**
European Union	9 927	1 013	1 898	4 640
United Kingdom	- 87	- 4 242	86	288
United States	7 032	- 197	- 894	- 283
Other developed countries	317	- 548	-5	-
Developing economies	**1 935**	**- 3 511**	**1 855**	**3 862**
Africa	-	-	-	-
East and South-East Asia	734	- 4 944	1 531	-
South Asia	- 245	-	-	-
West Asia	117	1 582	5	3 862
Latin America and the Caribbean	1 329	- 149	319	-
Transition economies	**8 537**	**424**	**8 537**	**424**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investors	
	2011	2012	2011	2012
Total	**59 546**	**40 529**	**17 991**	**10 042**
Primary	**4 844**	**2 629**	**1 658**	**145**
Mining, quarrying and petroleum	4 844	2 629	1 658	145
Manufacturing	**33 716**	**18 316**	**11 755**	**6 471**
Food, beverages and tobacco	1 259	2 377	220	257
Coke, petroleum products and nuclear fuel	10 134	424	7 801	3 747
Chemicals and chemical products	2 724	5 340	68	186
Motor vehicles and other transport equipment	7 601	4 229	1 358	1 682
Services	**20 986**	**19 585**	**4 578**	**3 426**
Electricity, gas and water	4 945	4 160	740	594
Trade	2 674	2 375	714	252
Transport, storage and communications	4 720	4 390	890	891
Finance	2 907	2 056	1 981	1 171

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investors	
	2011	2012	2011	2012
World	**59 546**	**40 529**	**17 991**	**10 042**
Developed economies	**40 907**	**30 091**	**4 544**	**2 985**
European Union	31 471	21 208	2 264	2 362
Germany	6 215	4 612	136	24
United States	3 550	4 725	2 014	179
Other developed countries	2 232	2 402	138	156
Developing economies	**8 604**	**7 888**	**3 412**	**4 506**
Africa	-	-	725	67
East and South-East Asia	6 563	5 368	1 232	694
South Asia	824	380	389	252
West Asia	1 217	2 140	695	3 156
Latin America and the Caribbean	-	-	370	337
Transition economies	**10 035**	**2 550**	**10 035**	**2 550**

In 2012, inward FDI flows in transition economies fell by 9 per cent to $87 billion, due in part to a slump in cross-border M&A sales. Flows to South-East Europe almost halved, while those to the Commonwealth of Independent States (CIS) remained relatively resilient. FDI flows to the Russian Federation remained at a high level, although a large part of this is accounted for by "round-tripping". As the share of the EU in inward FDI to South-East Europe is high, its economic woes have had particularly negative impacts on investment in this subregion.

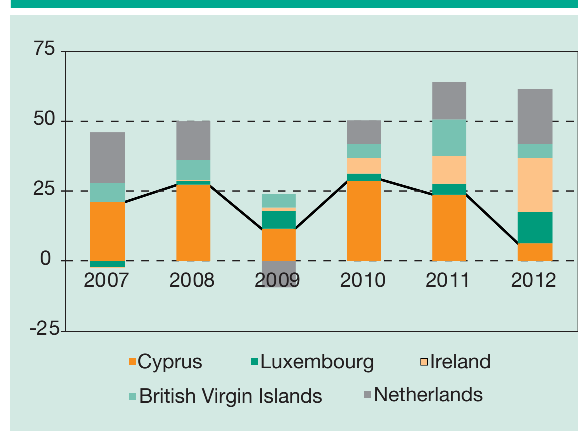
The transition economies of South-East Europe, the CIS and Georgia[36] saw their FDI flows decline in 2012 compared with the previous year (figure B). In South-East Europe, the 41 per cent drop in FDI flows was due primarily to a decline in investments from neighbouring countries, which are the main investors in this subregion. In the CIS, FDI flows fell by only 7 per cent as foreign investors continued to be attracted by that subregion's growing consumer markets and vast natural resources. Inflows remained concentrated in a few economies, with the top three destinations (Russian Federation, Kazakhstan and Ukraine) accounting for 84 per cent of the subregion's total inflows (figure A).

Despite declining by 7 per cent, FDI inflows to the Russian Federation remained high at $51 billion (table A). Foreign investors were motivated by the growing domestic market, as reflected by high reinvestments in the automotive and financial industries. The Russian Federation's accession to the World Trade Organization (WTO) has also had an impact on investors' decision-making for certain projects, such as the acquisition of Global Ports by the Dutch company APM Terminals. Developed economies, mainly EU members, remained the largest sources of inward FDI in the country. Investment flows from offshore financial centres are also significant (see chapter I). A substantial proportion of FDI stock continues to be a return of offshore capital held by Russian residents in various financial hubs around the world (figure II.6). The largest investments in the Russian Federation originate from Russian investors based in Cyprus, taking advantage of that country's financial facilities and favourable tax conditions. However, as the economic situation in Cyprus has recently deteriorated, some Russian investors have begun using other countries as a base for their investments at home. In 2012, Cyprus accounted for only 6 per cent of FDI flows to the Russian Federation, compared with 25 and 28 per cent in 2010 and 2011, respectively (figure II.6).

FDI inflows into *Kazakhstan* rose by 1 per cent, reaching $14 billion – the second highest level ever recorded – owing to its vast natural resources and economic growth. In addition to extractive industries, which accounted for almost one fifth of FDI flows in 2012, financial services attracted 12 per cent of flows. Despite uncertainties surrounding the domestic political situation, *Ukraine* attracted almost $8 billion in FDI inflows, a record. Cyprus accounted for the bulk of those inward flows.

The sluggishness of FDI in transition economies as a whole in 2012 was caused by a slump in cross-border M&A sales, whose net value (new M&As less divested M&As) turned negative for the first time ever. Among the reasons was the large reduction in participation by BG Group Plc (United Kingdom), an integrated natural gas company, in the Karachaganak gas-condensate field in north-west Kazakhstan: the company reduced its participation from 32.5 per cent to 29.25 per cent for a value of $3 billion in favour of KazMunaiGaz, the State-owned oil and gas TNC (see also section II.B.2).[37] Greenfield projects also declined considerably.

Figure II.6. Shares of the five largest investors in FDI inflows to the Russian Federation, 2007–2012
(Per cent)



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

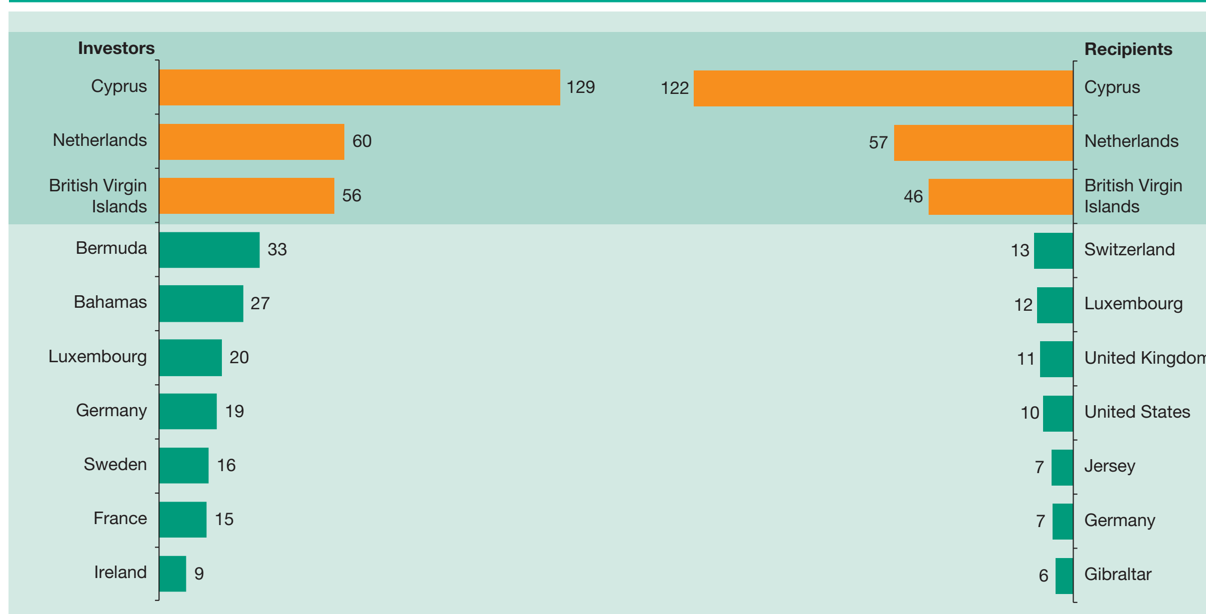
Outward FDI flows from transition economies also declined in 2012. The Russian Federation continued to dominate outward FDI from the region, accounting for 92 per cent of outflows in 2012 (table B). Outflows from Kazakhstan, Ukraine and Azerbaijan exceeded $1 billion (table A). Although TNCs from natural-resource-based economies, supported by high commodity prices, continued their expansion abroad, the largest acquisitions took place in the financial industry. For example, Sberbank – the largest Russian Bank – acquired Turkey's Denizbank for $3.9 billion.

Prospects for inward FDI remain positive in the medium term (see chapter I). FDI inflows are expected to increase moderately in 2013 on the back of an investor-friendly environment and the continuing round of privatizations in the major host countries in the region (the Russian Federation and Ukraine).

A large part of FDI in the Russian Federation is accounted for by "round-tripping". In addition to the usual sources of FDI, a distinctive feature of FDI patterns in the Russian Federation is the phenomenon of "round-tripping", implied by a very high correlation of inward and outward investment flows between the country and financial hubs such as Cyprus and the British Virgin Islands. These two economies are persistently among the major source countries for inward FDI and also the major destination of Russian investments. A closer look at the FDI stock in and from the Russian Federation, for example, reveals that the three largest investors – Cyprus, the Netherlands and the British Virgin Islands – are also the largest recipients of FDI stock, with roughly the same amounts in both directions (figure II.7). Together, they account for about 60 per cent of both inward and outward FDI stock.

Cyprus is the largest investor in and recipient of FDI from the Russian Federation. Russian commodity-based shell companies established in Cyprus send funds to their legal affiliates engaged in oil, mineral and metals exports, often for the purpose of tax minimization (see chapter I). For example, the second largest Russian steel company, Evraz, is owned by offshore companies in Cyprus in which Russian investors have key interests. The fourth largest Russian steel company, NLMK, is also controlled by Fletcher Group Holding from Cyprus (85.5 per cent), which belongs to another Russian investor. In the case of the Netherlands – the

Figure II.7 Russian Federation: top 10 investors and recipients of FDI stock, 2011
(Billions of dollars)



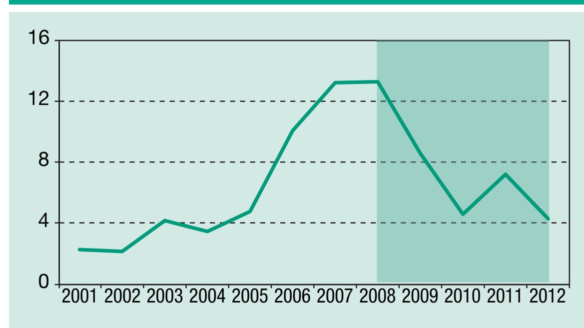
Source: UNCTAD.

second largest investor in the Russian Federation and recipient of Russian FDI stock – some of the investment might be related to Gazprom's financial services affiliate in that country, which channels funds to and from the Russian energy industry.

Double-dip recession in FDI flows to South-East Europe. In contrast to the CIS, FDI flows to *South-East Europe* dropped again in 2012 (figure B), after a temporary recovery in 2011, reaching $4.2 billion – values last seen almost 10 years ago. The decline was due to the sluggishness of investment from EU countries (traditionally the dominant source of FDI in this subregion).

Before the onset of the financial and economic crisis, South-East European countries made significant progress in attracting FDI, resulting in an increase in inflows from $2.1 billion in 2002 to $13.3 billion in 2008 (figure II.8). The surge in FDI to the subregion, especially after 2006, was driven largely by the economic recovery, a better investment climate and the start of association (and accession) negotiations with the EU in 2005. In addition, relatively low labour costs, easy access to European markets and the privatization of the remaining State-owned enterprises gave a boost to FDI flows. Croatia and Albania were the largest recipients of FDI flows in the subregion.

Figure II.8. FDI inflows to South-East Europe, 2001–2012
(Billions of dollars)



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

This positive trend was reversed in 2009, with FDI inflows falling sharply by 35 per cent in 2009 and 46 per cent in 2010. During this period, many projects were cancelled or postponed. Croatia – the country hit most seriously – saw FDI flows fall from $6 billion in 2008 to $432 million in 2010. TNCs from Austria and the Netherlands, deterred by economic developments and turmoil in sovereign debt markets, moved resources out of Croatia, withdrawing loans from their affiliates in order to strengthen their balance sheets at home. FDI flows also declined significantly in the former Yugoslav Republic of Macedonia. In contrast, Albania bucked the trend, mainly because of its investor-friendly business environment and opportunities opened up by the privatization of State-owned enterprises.

The fragility of FDI flows to South-East Europe was related partly to the large share of inward FDI from the EU, where economic woes have particularly negative knock-on effects for FDI in the subregion. Non-EU large global investors such as the United States, Japan and China are not significant investors in the subregion. The industry composition of inflows to South-East Europe has also worked against it in the current crisis; investment has not been diversified and is concentrated mainly in industries such as finance and retail.

7. Developed countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

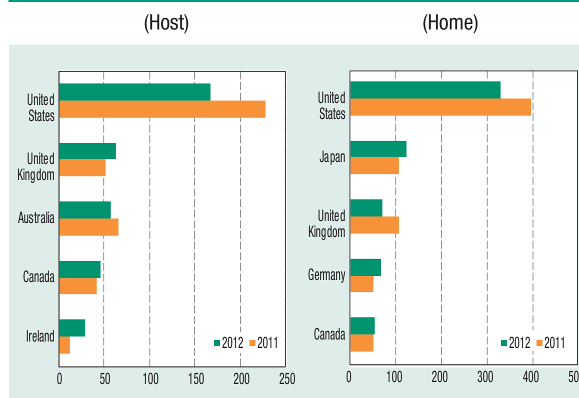
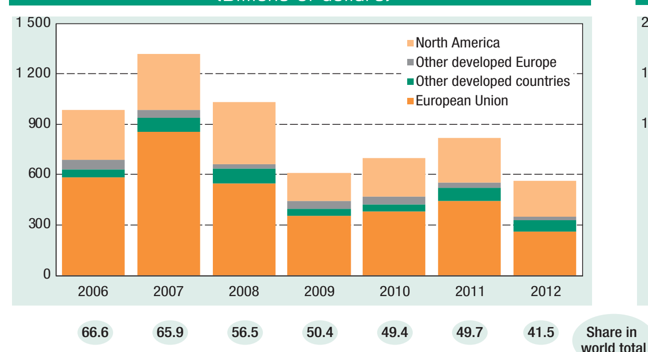


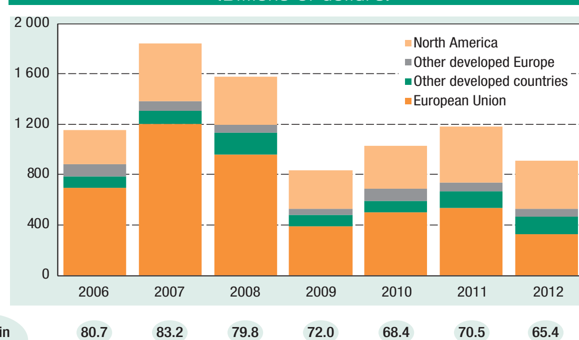
Figure B. FDI inflows, 2006–2012
(Billions of dollars)



66.6 65.9 56.5 50.4 49.4 49.7 41.5

Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



80.7 83.2 79.8 72.0 68.4 70.5 65.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**433 839**	**260 282**	**428 075**	**175 555**
Primary	92 581	50 606	47 973	- 1 700
Mining, quarrying and petroleum	91 692	43 498	47 777	- 1 840
Manufacturing	**179 395**	**109 978**	**201 828**	**122 920**
Food, beverages and tobacco	27 992	20 207	27 804	28 198
Chemicals and chemical products	78 971	30 621	77 747	40 319
Metals and metal products	13 889	13 083	14 137	11 164
Electrical and electronic equipment	22 743	20 608	27 046	16 274
Services	**161 863**	**99 698**	**178 273**	**54 335**
Trade	13 004	12 453	5 622	18 555
Transport, storage and communications	23 682	15 702	21 081	3 283
Finance	22 541	9 564	107 607	26 703
Business services	48 617	32 476	32 942	18 152

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**433 839**	**260 282**	**428 075**	**175 555**
Developed economies	**356 417**	**172 983**	**356 417**	**172 983**
European Union	103 792	10 896	156 671	79 604
United States	131 763	72 042	124 372	49 639
Japan	43 499	30 267	3 779	- 1 733
Other developed countries	77 363	59 778	71 595	45 473
Developing economies	**70 220**	**74 631**	**49 247**	**1 076**
Africa	4 288	634	4 397	- 3 412
East and South-East Asia	47 518	50 102	16 708	5 148
South Asia	5 304	1 967	15 732	1 161
West Asia	3 252	5 458	9 719	- 1 083
Latin America and the Caribbean	9 858	16 426	2 686	- 674
Transition economies	**1 300**	**4 365**	**22 410**	**1 496**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investors	
	2011	2012	2011	2012
Total	**294 560**	**225 537**	**643 354**	**404 307**
Primary	**18 512**	**9 195**	**57 596**	**16 617**
Mining, quarrying and petroleum	18 431	9 195	57 479	16 717
Manufacturing	**127 712**	**85 659**	**298 069**	**183 174**
Food, beverages and tobacco	6 514	5 593	17 853	15 637
Chemicals and chemical products	11 998	12 744	51 768	25 688
Metals and metal products	6 667	4 973	32 781	16 383
Motor vehicles and other transport equipment	25 470	20 926	69 779	52 401
Services	**148 336**	**130 683**	**287 689**	**204 416**
Electricity, gas and water	53 418	33 458	77 754	39 240
Construction	18 173	24 204	22 300	22 919
Transport, storage & communications	18 112	16 273	58 151	38 563
Business services	24 899	30 657	59 211	49 349

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investors	
	2011	2012	2011	2012
World	**294 560**	**225 537**	**643 354**	**404 307**
Developed economies	**236 532**	**164 206**	**236 532**	**164 206**
European Union	131 971	93 667	148 504	100 377
United States	52 699	38 790	40 519	36 883
Japan	21 231	9 306	5 423	4 279
Other developed countries	30 631	22 442	42 086	22 717
Developing economies	**53 484**	**58 346**	**365 915**	**210 010**
Africa	18 983	1 683	39 181	17 314
East and South-East Asia	16 726	43 863	133 212	99 091
South Asia	4 529	8 592	42 036	23 579
West Asia	9 615	2 066	39 119	15 649
Latin America and the Caribbean	3 616	2 143	112 264	53 113
Transition economies	**4 544**	**2 985**	**40 907**	**30 091**

FDI from and to developed countries nosedived in 2012. Inflows to the group of 38 economies, in aggregate, declined by 32 per cent to $561 billion (figure B); outflows fell by 23 per cent to $909 billion (figure C). At a time of weak growth prospects and policy uncertainty, especially in Europe, many TNCs pursued a strategy of disposing of non-core businesses and assets. The commodity boom, which had driven FDI in resource-rich developed countries in the recent past, began to cool. In addition, intracompany transactions, which tend to be volatile, had the effect of reducing flows in 2012. The prevalence of such intracompany transactions has further weakened the link between the value of FDI and capital formation by foreign affiliates. The most recent experience suggests that the level of capital formation by foreign affiliates is more stable and more resilient to the business cycle than the level of FDI.

By region, inflows to Europe contracted by 42 per cent and to North America by 21 per cent. Inflows to Australia and New Zealand together declined by 14 per cent. Outflows from Europe fell by 37 per cent and from North America by 14 per cent. Outflows from Japan, in contrast, held their momentum, growing by 14 per cent.

The sharp decline in inflows effectively reversed the recovery of FDI over 2010–2011. The share of developed economies in global inflows declined from 50 per cent in 2011 to 42 per cent. Within the group, 23 economies saw a decline in their inflows, including the two largest recipients in 2011, Belgium and the United States (figure A; *WIR12*). The fall in FDI to European countries was particularly marked; it diminished to $276 billion, which was considerably lower than the recent low ($405 billion) in 2009. The EU alone accounted for almost two thirds of the global FDI decline. A number of countries, however, confounded the general downward trends. The United Kingdom saw its inflows extend their recovery, rising by 22 per cent. Inflows to the Czech Republic reached the highest level since 2005, while those to Hungary hit a record high. Ireland has seen a doubling of inflows with a revival of TNC activities.[38] Japan eked out positive, though still relatively small, inflows after two successive years of recording a net divestment.

The decline in FDI outflows from developed countries accounted for almost all the decline in global outflows in 2012. Outflows declined in 22 developed economies, including four of the top five investor countries in 2011 (figure A; *WIR12*). Outflows from the United States, which had been driving the recovery of FDI in developed countries, saw a large decline. Outflows from the European countries were less than one third of their peak ($1.33 trillion) in 2007. Among the countries that bucked the trend were Ireland, Japan and Germany. In the case of Ireland, however, over 70 per cent of its outflows were accounted for by reinvested earnings, suggesting that this recovery was due mostly to the network of affiliates established by foreign TNCs to manage profits in Europe and neighbouring regions.

Divestments reduce cross-border M&As. Given the uncertain economic outlook, many TNCs chose a strategy of consolidating their assets with a view to focusing on core businesses and geographical areas, which resulted in a large number of divestments. In particular, the restructuring of the banking industry, which started in the aftermath of the financial crisis, continued into 2012 and impacted significantly on global FDI flows. Another set of important players in this regard were private equity funds. These funds acquire distressed assets to restructure and sell later on. Thus, cross-border acquisitions by these investment funds generate FDI but are followed by divestment, which has the effect of reducing the value of FDI – as was the case in 2012.

The wave of divestments significantly dented both inflows and outflows of FDI for the *United States* in 2012. The net M&A sales of United States assets (i.e. foreign TNCs acquiring United States firms) declined by $78 billion. The acquisition by United States firms of foreign-owned assets in the United States (i.e. divestment by foreign TNCs) shot up to $71 billion, from $34 billion in 2011. Among the largest divestment deals was the sale by ING Group (the Netherlands) of its affiliate ING Direct USA for $8.9 billion and the spin-off of ADT North America Residential Business by Tyco International (Switzerland) for $8.3 billion.

Net M&A purchases (i.e. United States firms acquiring foreign firms) declined by $57 billion.

Divestment of foreign assets by United States TNCs amounted to $55 billion. Investor funds were often involved in those divestment deals, e.g. the sale of a $3.5 billion stake in the Korea Exchange Bank by Lone Star and the sale valued at $2.4 billion of the Nordic manufacturing supplier Ahlsell by a fund controlled by Goldman Sachs.

Divestment also curtailed the growth of outward FDI from *Japan*, which nevertheless grew by 14 per cent to reach $123 billion in 2012, thus maintaining the country's position as the second largest investor in the world. In net terms, acquisitions of foreign firms by Japanese TNCs decreased from $63 billion to $36 billion, as reflected in the fall of the equity component of FDI (down $21 billion). Contributing to this decline were deals such as the sale by Hitachi of its United States–based hard disk drive business Viviti Technologies, for $4.8 billion and the sale by Nomura of its United Kingdom residential property company Annington Homes for $5.1 billion. The overall increase in outflows was due to a rise in retained earnings and reduced repayment of intracompany loans.

The divestments by United States and Japanese TNCs had repercussions on M&A deals in *Europe*. M&A sales in Europe (firms in European countries acquired by foreign TNCs) were down by $76 billion from 2011. As European TNCs also divested their assets abroad, their net foreign acquisitions declined by more than $140 billion. Divestment was particularly pronounced in the financial industry. European banks continued to shed their non-core – often overseas – assets in order to strengthen their capital base. In addition to the sale of ING Direct USA, ING Group (the Netherlands) sold its Canadian affiliate for $3.2 billion and its insurance businesses in Hong Kong (China), Macao (China) and Thailand for $2.14 billion. Another major European bank, Banco Santander (Spain), reportedly sold assets worth $8 billion across the Americas, including the initial public offering of Grupo Financiero Santander Mexico.

Increased volume and volatility of intracompany transactions in revenues and loans. Along with divestment, another factor explaining the large decline in 2012, particularly in Europe, was the increasing and highly volatile transfer of funds executed by TNCs to manage their retained earnings. One of the countries where such transfers of funds appear to have had a large bearing on FDI flows is Belgium.

Both inflows and outflows of Belgium – the largest European recipient of FDI in 2011 – have been volatile in the recent past. A large part of the decline in Europe in 2012 was attributable to diminished flows in and out of Belgium: inflows decreased from $103 billion in 2011 to -$1.6 billion in 2012, while outflows fell from $82 billion to $15 billion. Intracompany loans from Germany and Luxembourg to Belgium alone, for instance, declined by $56 billion in 2012 compared with the previous year, suggesting the special nature of FDI in the country. The outflows also exhibited a peculiar pattern. Over the two-year period 2011–2012, Belgian TNCs invested $44 billion in Luxembourg in the form of equity and pulled out $41 billion from Luxembourg in the form of "other" capital (intracompany loans). Much of the equity investment in Luxembourg took place in 2011 while "other" capital was taken out mostly in 2012, resulting in a decline of $75 billion in 2012. Another notable decline was the flows of intracompany loans to the United States, which declined from $26 billion in 2011 to $2.9 billion in 2012.[39]

In addition to those of Belgium, FDI flows of Ireland, Luxembourg and the Netherlands accounted for a significant part – and a large one in comparison to the size of their GDP – of the changes in FDI flows in Europe. The reason for the concentration of FDI is twofold. First, these countries offer TNCs a favourable tax regime, especially for locating their cash-pooling facilities. The existence of cash-pooling facilities, in turn, creates the problem of possible double-counting of FDI flows that artificially inflates FDI flows.[40]

The commodity boom slows down. The slowdown of the commodity boom impacted resource-rich developed countries, namely Australia, Canada and the United States, which benefited from increased FDI flows to this sector in recent years. Inflows to Australia declined by 13 per cent. M&A sales in the Australian mining industry, which averaged $16 billion over the period 2008–2011, fell to $11 billion in 2012. Although inflows to Canada rose modestly in 2012, inflows to the energy and mining industry, which had been a major part of inward FDI in Canada, fell from $17 billion in 2011 to $8

billion in 2012. Of the $78 billion fall in M&A sales in the United States, the mining industry accounted for $35 billion. For developed economies as a whole, M&A sales in mining more than halved, from $92 billion in 2011 to $43 billion in 2012, while M&A purchases in the industry declined from $48 billion to a net divestment of -$2 billion. This pattern of FDI flows suggests that FDI driven by the recent commodity boom may have peaked.

FDI in the crisis-hit countries in the Eurozone. Apart from Ireland, the four Eurozone countries that have been most affected by the financial crisis – namely Greece, Italy, Portugal and Spain – showed a generally low level of FDI flows in 2012.[41] Three aspects of recent FDI in those countries are worth highlighting: foreign acquisition of distressed assets, injection of capital to foreign-owned banks, and exit and relocation of firms from the crisis-hit countries.

First, severe economic downturns have created buying opportunities among distressed assets. For example, Italy was a recipient of large inflows of FDI in 2011. There were a number of high-profile M&As such as the acquisitions of Parmalat by Group Lactalis (France) and of Bulgari by LVMH (France) along with the purchase of a string of brand names (e.g. De Tomaso, Ferretti, Coccinelle) by Asian investors. The momentum, however, appears to have petered out in 2012, with M&A sales declining from $15 billion in 2011 to $2 billion in 2012.[42] In Spain, various investment funds were active in the acquisition of Spanish assets. Examples include the sale of wind farms by Actividades de Construcción y Servicios to the United Kingdom–based private equity firm, Bridgepoint Capital (completed in January 2012); the acquisition of USP Hospitales by the United Kingdom–based private equity firm, Doughty Hanson; and the sale of a loan portfolio by Banco Santander to the United States investment management firm, Fortress Investment. Investment funds were involved in nearly half (by value) of cross-border M&A deals entailing sales of Spanish assets in 2012.

The second aspect to highlight is inflows of FDI in the form of injection of capital to banks with a weakened balance sheet. In Greece, for instance, inward FDI more than doubled from 2011 to reach $2.9 billion in 2012. This is explained mostly by injections of capital by parent TNCs to cover losses of their affiliates. The losses at the Greek bank Emporiki had reportedly amounted to €6 billion over the period 2008–2012. In response, the parent company, Crédit Agricole, injected capital worth €2.85 billion, as required by the Greek regulator, before it sold off the unit. Foreign banks such as Barclays, Deutsche Bank and ING are thought to have injected more capital into their Spanish operations to cover for the losses. The exact extent of capital injected in 2012 is not known, but media reports suggested that Barclays, for example, planned to inject €1.3 billion to shore up the capital of its Spanish affiliates.[43]

The third aspect is the withdrawal and relocation of TNCs from the countries that are most severely hit by the debt crisis, namely Greece and Portugal, which had potentially serious repercussions on the tax revenues of those governments. The most notable exit of foreign TNCs was the decision by the French retailer Carrefour to withdraw from Greece in 2012. Although Greece was the second largest market for the retailer, it chose to exit from the loss-making operation, handing the assets to its Greek joint venture partner for a nominal sum.

Leading domestic firms in those two economies are eager to expand abroad, given the poor growth prospects of their domestic markets, but they are constrained by the difficulty in raising financing. Consequently, some of those firms have decided to relocate their headquarters abroad. For instance, Coca-Cola Hellenic, the world's second largest bottler of Coca-Cola, announced its plans to move its headquarters to Switzerland and its primary listing to London.

Such relocation is particularly pertinent to the recent pattern of Portuguese FDI. Outward FDI from Portugal recorded a net divestment of -$7.5 billion in 2010 and then shot up to $15 billion in 2011. It fell back to just $1.9 billion in 2012. This unusually large movement was due mostly to outward FDI to the Netherlands, which swung from -€7.5 billion in 2010 to €8.9 billion in 2011. Portuguese firms' relocation of capital to the Netherlands is likely to have created this peculiar pattern of outward FDI from Portugal. As an example, a case that received much attention was the transfer of the ownership of the Jerónimo Martins group, which operates Pingo Doce, a major supermarket

chain in Portugal. The holding company that had a controlling stake in Jerónimo Martins was relocated to the Netherlands in 2011. Most, if not all of companies in the PSI-20, the main stock exchange index in Portugal, are thought to have a holding company in the Netherlands. As such, the Netherlands has become the largest inward investor in Portugal and the largest destination for Portuguese outward FDI in recent years.

Large jumps in FDI flows among developed economies become the norm, as exemplified by the recent patterns of Portuguese FDI. In the past 20 years, FDI flows of developed countries have been much more volatile than FDI flows of developing economies (figure II.9). At the same time, the components of foreign affiliates' investments that affect host countries' real economy, namely capital expenditures and investments in R&D, turned out to be much more stable over time. The divergence between FDI flows and capital expenditure in developed economies can be explained by several factors, most importantly the use of local financing by foreign affiliates, the relevance of cross-border M&As and the role played by special-purpose entities (SPEs). These considerations suggest that interpreting FDI flows as indicators of real economic activities, particularly in the case of developed countries, requires caution.

In the past two decades, FDI flows in developed countries have been prone to significant volatility. The annual growth rates of FDI inflows to developed countries ranged from -47 per cent in 2001 to 78 per cent in 1998, with a historic trend characterized by large fluctuations. This phenomenon is much more critical for developed than for developing economies: although the FDI dynamics of developed and developing countries are generally aligned, in developed countries individual movements are much more amplified (see figure II.9).

The average fluctuations of developed-country FDI are almost twice those of developing-country FDI, as estimated by the standard deviations of the annual growth rates of FDI flows.[44] At the level of individual countries, the effect is confirmed. The median standard deviation of FDI growth rates for developed countries is in fact higher than that of developing countries.[45]

Notably, capital expenditure (and also investments in R&D), identifiable as the core impact of the foreign investments on the real economy of host countries, displays much lower volatility than FDI flows (figure II.10). Capital expenditure has also exhibited higher resilience to the current crisis. This evidence supports the idea that FDI flows among developed countries have evolved in a way that does not fully reflect activities in the real economy.

Figure II.9. Trends in annual growth rates of FDI inflows, by groups of economies, 1991–2012
(Per cent)

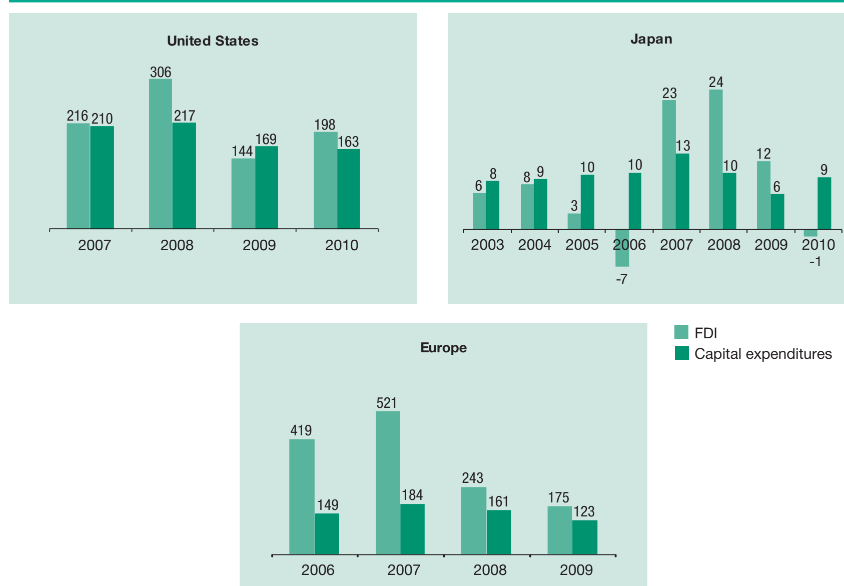
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

In developed countries, three main factors explain the divergence between what foreign affiliates invest in the host economies and inward FDI: local sources of financing, the impact of cross-border M&As and the role of SPE-favourable countries.

- *Local sources of financing.* Foreign affiliates can borrow from financial institutions in the host economy or issue bonds to local investors.[46]
- *Cross-border M&As.* A large number of cross-border M&A deals are financed by means of FDI.[47] Thus cross-border M&As account for a significant part of FDI flows (see chapter I.B for an overview of FDI flows by mode of entry). However, this part might not translate into capital expenditure or R&D expenditure, as the change of ownership does not imply capital formation.
- *SPE-favourable countries.* A number of European countries, namely Belgium, Ireland, Luxembourg and the Netherlands, hold a disproportionately large stock of FDI (annex table 2). The reason for the high concentration is that many TNCs establish cash pooling facilities in the form of SPEs, because of favourable national tax legislation (see chapter I.A.d). Annual changes of FDI flows to and from those countries have had an important role in FDI flows changes in developed countries in recent years. In 2012, for instance, the fall of FDI flows to and from Belgium and the Netherlands was the main reason for the overall retreat in the FDI flows of developed economies.

Given the depth of the contraction in cross-border direct investment in 2012, it is unlikely that the FDI flows of developed countries will decline much further in 2013. The economic downturn in Europe might create opportunities for buyout firms to acquire undervalued assets. Companies with stressed corporate balance sheets might be under pressure to sell assets at a discount. However, overall, the recovery of FDI flows of developed economies in 2013, if it occurs at all, is likely to be modest.

Figure II.10. Comparison of the trends in FDI inflows and capital expenditures of foreign affiliates in the United States, Japan and Europe, various periods
(Billions of dollars)



Source: UNCTAD; United States Bureau of Economic Analysis; Japanese Ministry of Economy, Trade and Industry; Eurostat.

Note: Capital expenditure for Europe is taken from Eurostat data on gross investment in tangible goods. Europe aggregate data are based on a selection of European countries: Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Latvia, Portugal, Romania, Slovenia, Slovakia, Sweden and the United Kingdom.

B. TRENDS IN STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

1. Least developed countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

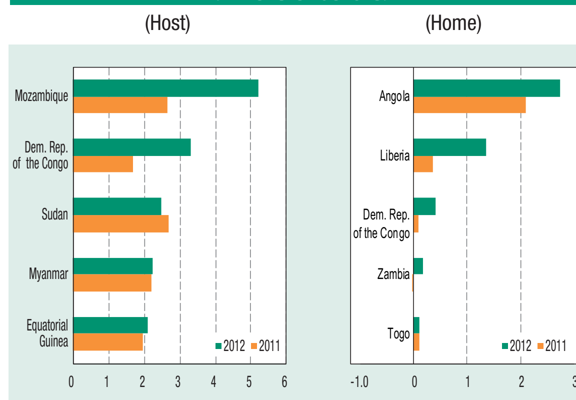


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

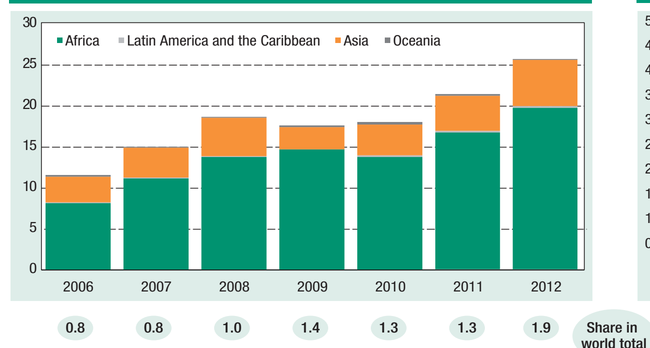
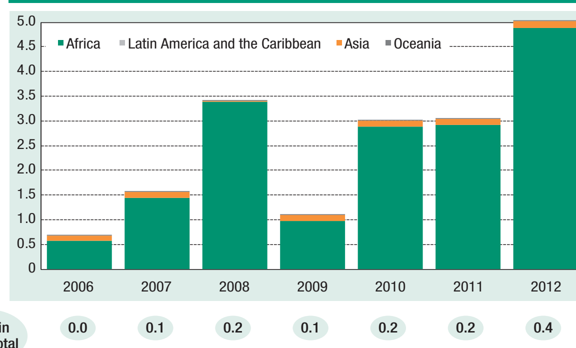


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total	2006	2007	2008	2009	2010	2011	2012
Inflows	0.8	0.8	1.0	1.4	1.3	1.3	1.9
Outflows	0.0	0.1	0.2	0.1	0.2	0.2	0.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**501**	**354**	**353**	**- 102**
Primary	**- 191**	**11**	**-**	**-**
Mining, quarrying and petroleum	- 191	11	-	-
Manufacturing	**624**	**342**	**-**	**- 185**
Food, beverages and tobacco	632	351	-	-
Chemicals and chemical products	4	-	-	- 185
Non-metallic mineral products	-	90	-	-
Electrical and electronic equipment	-	-100	-	-
Services	**68**	**2**	**353**	**83**
Electricity, gas and water	-	1	-	-
Trade	6	-	-	-
Transport, storage and communications	50	-	-	-
Finance	11	1	353	83

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**501**	**354**	**353**	**- 102**
Developed economies	**428**	**- 1 217**	**-**	**88**
European Union	180	264	-	88
Canada	- 161	- 1 258		
United States	- 10	- 109	-	-
Australia	53	- 115	-	-
Japan	450	1	-	-
Developing economies	**73**	**1 478**	**353**	**- 190**
Africa	-	90	353	- 190
East and South-East Asia	75	1 574	-	-
South Asia	4	- 90	-	-
Latin America and the Caribbean	- 6	- 3	-	-
Transition economies	**-**	**-**	**-**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investors	
	2011	2012	2011	2012
Total	**33 654**	**21 824**	**923**	**1 020**
Primary	**11 796**	**4 390**	**-**	**-**
Mining, quarrying and petroleum	11 796	4 390	-	-
Manufacturing	**11 767**	**6 618**	**424**	**97**
Food, beverages and tobacco	1 058	1 053	31	74
Coke, petroleum products and nuclear fuel	5 197	1 970	393	-
Non-metallic mineral products	1 505	1 156	-	-
Metals and metal products	1 205	642	-	-
Services	**10 091**	**10 815**	**499**	**923**
Electricity, gas and water	4 499	3 905	-	-
Transport, storage and communications	1 997	2 234	-	168
Finance	1 572	1 919	426	336
Business services	943	725	26	418

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investors	
	2011	2012	2011	2012
World	**33 654**	**21 824**	**923**	**1 020**
Developed economies	**16 886**	**8 822**	**122**	**32**
European Union	9 510	3 195	33	32
Canada	1 314	569	-	-
United States	3 611	3 251	89	-
Japan	896	1 371	-	-
Developing economies	**16 052**	**12 972**	**802**	**989**
Africa	3 841	2 584	572	419
East and South-East Asia	5 736	4 373	151	227
South Asia	4 219	4 424	70	-
West Asia	568	1 583	8	60
Latin America and the Caribbean	1 637	9	-	282
Transition economies	**716**	**30**	**-**	**-**

FDI inflows to LDCs rose by 20 per cent to $26 billion, while FDI outflows increased by 66 per cent to $5 billion. The majority of FDI in LDCs is from developing countries, especially from Asia, as indicated by greenfield project data, with India increasingly significant by both value and range of industries. Financial services continued attracting the largest number of greenfield projects in LDCs. The relative share of primary-sector investments in LDCs is falling, but the degree of industrial diversification is limited.

FDI inflows to LDCs[48] hit a record high of $26 billion. Flows to LDCs grew by 20 per cent to hit a new peak of $26 billion in 2012 (figure B). This growth in FDI inflows from 2011 to 2012[49] was led by strong gains in Cambodia (inflows were up 73 per cent), the Democratic Republic of the Congo (96 per cent), Liberia (167 per cent), Mauritania (105 per cent), Mozambique (96 per cent) and Uganda (93 per cent). At the same time, more than 20 LDCs reported negative growth, although TNC participation through other modes has risen in some cases.[50] The negative growth of FDI was particularly high in Angola (negative inflows more than doubled to -$6.9 billion), Burundi (-82 per cent), Mali (-44 per cent) and the Solomon Islands (-53 per cent)). The share of inflows to LDCs in global inflows increased from 1.3 per cent in 2011 to 1.9 per cent in 2012. However, the concentration of inflows to the top five recipients (table A and figure A) remains high.[51] M&As were small (tables B and C); most FDI inflows in LDCs occurred through greenfield investment (tables D and E). FDI outflows from LDCs grew 66 per cent to $5 billion, though this was concentrated in two countries: Angola (increased by 31 per cent) and Liberia (264 per cent) (figures A and C).

Despite increases in FDI inflows to LDCs, the estimated value of greenfield investment projects in LDCs – which are indicative of trends and are available by geographical and sectoral breakdowns – fell to $22 billion, the lowest level in six years, because of a severe contraction of announced projects in the primary sector and related processing industries (tables D and F). For the first time since 2003, when greenfield projects data were first collected, the value of these projects in LDCs was below actual FDI inflows.[52] By sector, the primary sector attracted 20 per cent of all greenfield investments in LDCs in 2012; the services sector accounted for 50 per cent; and manufacturing made up the remaining 30 percent (table D). Most investments in the services sector are essentially "infrastructural", relating to electricity, gas and water; transport and communications; and financial services (together they accounted for 75 per cent of investment in the sector).

Nearly 60 per cent of greenfield investment in LDCs came from developing economies, and India became the largest single investor. Developing economies, with 59 per cent of the value of greenfield projects, were the largest investors in LDCs in 2012, 80 per cent from Asia and most of the rest from Africa (table E). Sustained investment (over the past decade) has come primarily from nine developing countries: Brazil, China, India, Malaysia, the Republic of Korea, South Africa, Thailand, the United Arab Emirates and Viet Nam.[53]

Companies from India were responsible for 20 per cent of the total value of greenfield projects in LDCs in 2012. The next five largest investing countries were the United States (15 per cent), Japan (6 per cent), the United Kingdom (6 per cent), the Republic of Korea (5 per cent) and China (4 per cent). While the value of India's greenfield projects in 2012 rose by 4 per cent from 2011, the value of China's projects fell, from $2.8 billion to $0.9 billion – although greenfield projects from Hong Kong (China) reached a new high ($0.7 billion in 7 projects), driven by a $0.5 billion real estate project in Mozambique (table II.5). Among African investors, while South Africa's greenfield investment in LDCs fell by two thirds, Nigeria's investment in cement and concrete products held steady, owing to a $0.6 billion project in Senegal (table II.5). At the same time, the number of Kenya's greenfield projects in LDCs more than doubled, and its value of investment rose from $0.2 billion in 2011 to $0.7 billion in 2012, led by two projects in air transport ($168 million each) in Uganda and the United Republic of Tanzania.

India's investments in LDCs are diversified geographically and sectorally. Reflecting the destinations of large-scale projects presented in table II.5, Mozambique was the largest recipient of Indian greenfield investments (45 per cent), followed by Bangladesh (37 per cent) and Madagascar

Table II.5. The 10 largest greenfield projects in LDCs, 2012

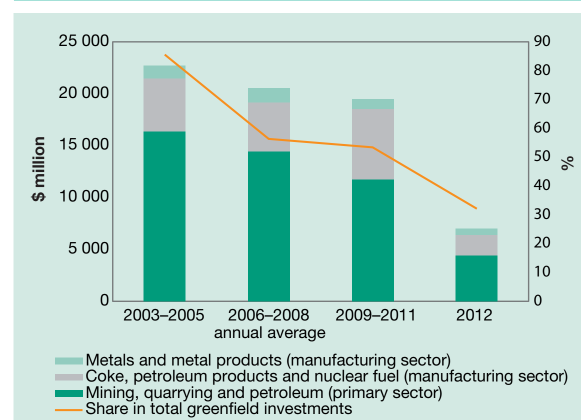
Host economy	Industry	Investing company	Home economy	Estimated investment ($ million)	Estimated jobs created
Angola	Oil and gas extraction	Esso Exploration Angola (Block 15)	United States	2 500	219
Mozambique	Natural, liquefied and compressed gas	Bharat Petroleum	India	1 961	158
Bangladesh	Fossil fuel electric power	NTPC Limited (National Thermal Power)	India	1 500	184
Senegal	Fossil fuel electric power	Korea Electric Power	Republic of Korea	597	73
Senegal	Building and construction materials, cement and concrete products	Dangote Group	Nigeria	596	900
Mozambique	Fossil fuel electric power	Ncondezi Coal	United Kingdom	504	58
Mozambique	Real estate, commercial and institutional building construction	Dingsheng International Investment	Hong Kong, China	500	3 000
Democratic Republic of the Congo	Metals, gold ore and silver ore mining	AngloGold Ashanti	South Africa	455	1 543
Madagascar	Wireless telecommunication carriers	Airtel Madagascar	India	351	97
United Republic of Tanzania	Alternative/renewable energy, wind electric power	Aldwych International	United Kingdom	321	88

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

(8 per cent). In Bangladesh, India has invested in various industries, including automotives, IT, pharmaceuticals, textiles and tyres. In Africa, Indian investors are targeting East and Southern Africa. In addition to extractive and heavy industries, Indian companies are also prominent in pharmaceuticals. For instance, two pharmaceutical projects ($5 million each for sales and marketing support) were recently announced, in Uganda and the United Republic of Tanzania, as were two health-care projects in Uganda and Rwanda.[54] Along with India, a growing number of developing countries have announced health-care investment in LDCs (box II.3).

The relative share of primary-sector investments in LDCs is falling, but the degree of industrial diversification is limited. Over the past decade, the importance of greenfield investments in the primary sector, represented by the mining, quarrying and petroleum industry, has diminished (figure II.11). In consequence, the shares of greenfield projects in the manufacturing and services sectors are gaining ground. However, the manufacturing sector is not very diversified in relative terms. Due to the dependence on extractive activities of resource-based LDCs, the two industries that attracted the largest share of manufacturing greenfield investment in LDCs during 2003–2011 were coke, petroleum products; and metals and metal products. The non-metallic mineral products industry had also made a sizable contribution to the manufacturing sector, driven by large-scale investment in building and construction materials. Despite a substantial fall in the value of greenfield projects in the extractive industries and related processing activities in 2012 (figure II.11), 57 per cent (compared with 67 per cent in 2011) of greenfield investment in the manufacturing sector remained in three industries (namely, coke, petroleum products and nuclear

Figure II.11. Greenfield investments in extractive industries and related processing activities[a] in LDCs, 2003–2012
(Millions of dollars and per cent)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] The non-metallic mineral products industry, which contains a subindustry called “minerals, other non-metallic mineral products”, was excluded because of its insignificant contribution to this industry.

fuel; non-metallic mineral products; and metals and metal products) (table D).

In services, in a similar vein, large-scale projects in fossil fuel generation rely on the primary sector. Even though greenfield projects in finance, transport and communications are growing, the electricity industry has been the dominant source of services-sector investment in LDCs (table D). Moreover, investment in transportation and logistics includes oil pipelines, petroleum bulk stations and terminals, which are support services for the primary sector. While the number and scale of such greenfield projects in LDCs have been small, their immediate and potential contributions are not negligible. For example, the Angola-Zambia Refined Petroleum Multi-Product Project involves Ba Liseli Resources (Zambia) constructing a 1,400-km pipeline and related infrastructure from a refinery in Lobito, Angola, to Lusaka, Zambia.[55] The overall project represents an investment of $2.5 billion, within the framework of a public-private partnership, of which $168 million was announced in 2012 as Zambia's first greenfield project in Angola since 2003.

In financial services, investors from developing economies have been prominent in greenfield projects in retail banking. Financial services continued attracting the largest number of greenfield projects in LDCs, representing 25 per cent of all projects (361) in 2012 and generating 9 per cent of their value. Over the past decade, 86 per cent of all greenfield projects in financial services were directed at retail banking (with 497 projects recorded in 40 LDCs for the period 2003–2012). Angola attracted by far the largest number of retail banking projects (135, of which 76 per cent came from Portugal), followed by Cambodia (56 projects) and Uganda (39 projects). By value, Cambodia attracted the largest amount: $2.3 billion, or 28 per cent of the aggregate value of retail banking investment plans ($8.0 billion), followed by Bangladesh (12 per cent).

With the exception of Angola, where Portuguese banks have had a strong presence, [56] the leading investors in banking and finance in LDCs are from developing economies. During the period 2003–2012, 70 per cent of all projects in retail banking were announced by investors from 39 developing economies (11 of these being LDCs themselves).[57] The developing-country TNC with the biggest investments in LDCs was Maybank (Malaysia). Among African investors, Kenya Commercial Bank was the largest investor in LDCs. It announced a total of $0.3 billion in investments over 2005–2012, with 31 projects in five African LDCs. In 2012, the largest project announced was a $265 million project in retail banking by Dubai Islamic Bank (United Arab Emirates) in South Sudan, which was also the second largest project recorded in LDCs since 2003.

In corporate and investment banking, where the first LDC project from a developing-country investor was recorded in 2008, 55 per cent of the 40 greenfield projects announced in 2003–2012 came from developing economies, representing 68 per cent of the aggregate value ($974 million). Between 2008 and 2011, just four developing economies (China, India, Togo and Viet Nam) announced greenfield

Box II.3. South–South FDI in health care

Although their contribution to overall receipts in LDCs remains relatively low, South–South greenfield projects in health care in LDCs have been on the rise since 2006.[a] In 2012, owing largely to a $0.3 billion project announced by Hamed Medical (Qatar) in Yemen for the construction of general and surgical hospitals, the value of health-care greenfield investments in LDCs hit a record high. In 2006, that value was only 1 per cent of such investments in developing economies;[b] the current share is 17 per cent.

Of 25 health-care projects in LDCs registered in the greenfield database during 2006–2012, a dozen originated from India, contributing one quarter of the aggregate value of health-care investments in LDCs. By value, Qatar's 2012 investment in Yemen made this country the largest investor, contributing 33 per cent of the aggregate health-care investments in LDCs. Other key investors from the South in this sector include Thailand (with $108 million invested in six projects in Cambodia, Ethiopia, the Lao People's Democratic Republic and Nepal), the United Arab Emirates (with $49 million invested in Malawi) and Viet Nam (with $76 million invested in Cambodia).

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Notes appear at the end of this chapter.

investments: 13 projects in 9 LDCs (including 4 African LDCs), and one (in Rwanda) by the Russian Federation. In 2012, eight developing economies joined the ranks of large greenfield investors.[58] As a result, greenfield investment in corporate and investment banking in LDCs reached the highest level ($392 million in 16 projects targeted to 8 African and 5 Asian LDCs).

In sub-Saharan Africa, where a large number of LDCs are present, the credit gap – defined as the level of underfinancing through loans and/or overdrafts from financial institutions – for formal small and medium-sized enterprises (SMEs) is the largest in the world. It is estimated at 300–360 per cent of SMEs' current outstanding credit, compared with 29–35 per cent for SMEs in South Asia (Stein et al., 2010). Given the role played by SMEs in economic development, improving financial infrastructure for underserved SMEs and microenterprises in LDCs is a powerful way to support development. Some LDCs are encouraging investment from foreign banks in support of this process. The recent regulatory change that has taken place in Angola to influence the financial management of oil TNCs operating in that country is an example of such initiatives (box II.4).

Box II.4. Leveraging foreign banks and oil TNCs for domestic finance: case of Angola

Under a new foreign exchange law enforced in October 2012 (with a grace period of 12 months), oil TNCs, which are also the major investors in large-scale liquefied natural gas (LNG) projects in the country, are required to use local banks – including foreign-owned banks operating in Angola – to pay their taxes and make payments to foreign suppliers and subcontractors. The main purpose of the new law is to generate additional liquidity, estimated at $10 billion annually, in the domestic banking system.[a]

Before this law came into force, oil TNCs were allowed to hold revenues from Angolan operations in overseas banks and to transfer foreign currency to the central bank for tax payments, because the domestic banking system was underdeveloped. Enforcement of this new law signals the Government's confidence in the domestic financial system, which has been now developed sufficiently to handle transactions required by TNCs. Considering that Angola has been the recipient of the largest number of greenfield projects in retail banking in LDCs in the past decade, and that more than 40 per cent of commercial banks in the country are foreign owned,[b] the level of development achieved by the Angolan banking system may be credited partly to these foreign banks.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

2. Landlocked developing countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

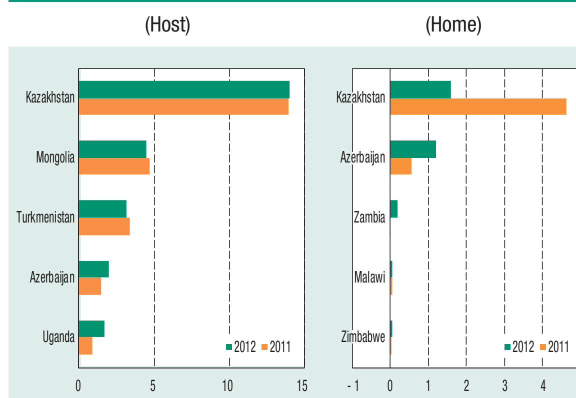


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

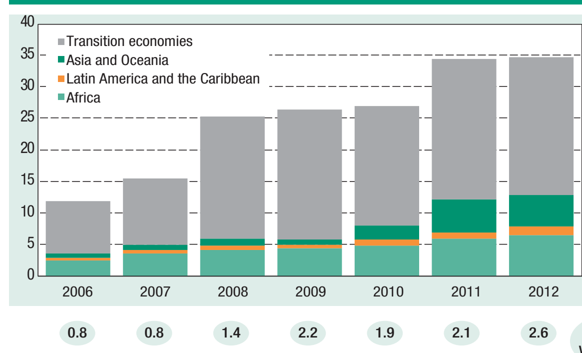


Figure C. FDI outflows, 2006–2012
(Billions of dollars)

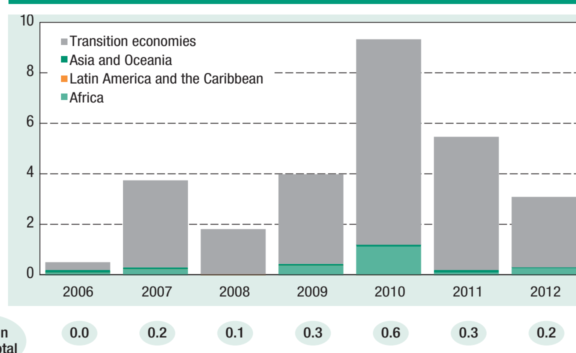


Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**700**	**- 2 105**	**8 076**	**394**
Primary	**357**	**- 2 612**	**7 921**	**10**
Mining, quarrying and petroleum	312	- 2 614	7 921	10
Manufacturing	**189**	**468**	**-**	**- 183**
Food, beverages and tobacco	163	377	-	-
Textiles, clothing and leather	-	-	-	-
Chemicals and chemical products	10	-	-	- 185
Metals and metal products	33	-	-	2
Services	**154**	**40**	**155**	**566**
Trade	1	-	-	20
Transport, storage and communications	77	-	7	-
Finance	50	7	148	598
Health and social services	27	7	-	-

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**700**	**- 2 105**	**8 076**	**394**
Developed economies	**- 121**	**- 2 342**	**159**	**445**
European Union	258	- 2 342	159	435
United States	- 4	- 22	-	-
Japan	-	-	-	-
Other developed countries	- 375	41	-	10
Developing economies	**879**	**179**	**- 9**	**- 185**
Africa	- 14	94	- 14	- 185
East and South-East Asia	783	235	-	-
South Asia	32	-	-	-
West Asia	77	-	5	-
Latin America and the Caribbean	-	- 150	-	-
Transition economies	**- 59**	**23**	**7 926**	**133**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LLDCs as destination		LLDCs as investors	
	2011	2012	2011	2012
Total	**39 438**	**17 931**	**1 137**	**4 011**
Primary	**13 062**	**1 443**	**-**	**-**
Mining, quarrying and petroleum	13 062	1 443	-	-
Manufacturing	**18 226**	**8 931**	**150**	**3 282**
Chemicals and chemical products	1 284	4 781	17	-
Rubber and plastic products	1 324	186	-	-
Metals and metal products	386	1 784	-	-
Motor vehicles and other transport equipment	1 996	940	3	-
Services	**8 150**	**7 558**	**987**	**729**
Electricity, gas and water	1 315	2 300	100	-
Transport, storage and communications	2 467	1 823	5	168
Finance	1 528	1 306	366	240
Business services	2 013	467	39	125

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

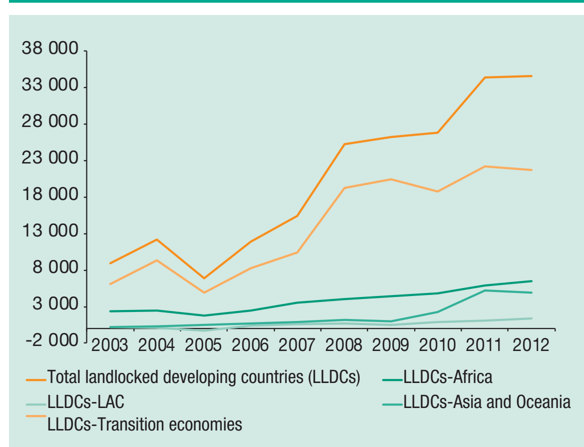
Partner region/economy	LLDCs as destination		LLDCs as investors	
	2011	2012	2011	2012
World	**39 438**	**17 931**	**1 137**	**4 011**
Developed economies	**15 706**	**5 260**	**231**	**178**
European Union	11 832	3 090	221	128
United States	1 117	1 131	10	50
Japan	97	105	-	-
Other developed countries	2 661	934	-	-
Developing economies	**16 253**	**11 853**	**205**	**3 593**
Africa	2 746	679	143	308
East and South-East Asia	7 022	5 561	-	246
South Asia	5 367	3 643	31	-
West Asia	720	1 962	31	3 034
Latin America and the Caribbean	398	10	-	4
Transition economies	**7 479**	**818**	**701**	**240**

FDI flows to the landlocked developing countries (LLDCs) in 2012 bucked global trends by rising 0.6 per cent from $34.4 billion to $34.6 billion. Investment activity was concentrated in the resource-rich countries, particularly the "Silk Road economies", which accounted for 54 per cent of FDI inflows. Developing countries became the largest regional investors in LLDCs as a share of total flows, with particular interest from West Asian economies and the Republic of Korea, the largest investor in LLDCs in 2012. Greater regional cooperation, such as that occurring along the modern Silk Road, the pursuit of alternative infrastructure options and targeted industrial development remain the key policy objectives of LLDCs for overcoming their structural disadvantages and building competitiveness.

Following a trend of continually increasing FDI flows to LLDCs as a whole, since 2005, FDI flows to these countries remained resilient in 2012 (figure II.12).

Looking at the regional trends in FDI inflows since 2003, when the Almaty Programme of Action for LLDCs was established, only African LLDCs had been able to avoid a fall in FDI in the immediate aftermath of the global economic crisis. Last year they continued their upward trajectory, rising 11 per cent from $5.9 billion to $6.5 billion. Despite low levels of FDI inflows to Latin American LLDCs, they also still managed to buck the global downward trend last year and registered an increase of 28 per cent, from $1.1 billion to $1.4 billion. In line with other Latin American economies, their prospects for future FDI growth look promising. Equally encouraging, and despite last year's fall, has been the recent rapid acceleration of FDI flows to South and South-East Asian LLDC economies in recent years, in particular to the Lao Democratic People's Republic, which has the potential to attract further FDI.

Figure II.12. FDI inflows to LLDCs, 2003–2012
(Millions of dollars)



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

FDI to LLDCs historically accounts for a small share of global flows (2.6 per cent in 2012), with the natural-resource-rich Silk Road economies (see below) making up the bulk of this investment. There are still vast disparities between the LLDC regions (see figure II.12). Kazakhstan, Mongolia, Turkmenistan and Azerbaijan account for almost 54 per cent of LLDC FDI inflows (figure A). Of this subgroup, Kazakhstan alone accounted for over 40 per cent of these flows in 2012.

Kazakhstan remained dominant in LLDC FDI flows mainly because of the interests of investors in its oil and gas industry. In 2012, the four largest LLDC M&A deals took place in this country, amounting to over $6.5 billion. Three were in the hydrocarbons sector. However, there was also the $3 billion divestment of Karachaganak Petroleum, formerly owned by BG Group Plc (United Kingdom), to NK KazMunaiGaz – Kazakhstan's State energy company. This divestment, the largest deal in the LLDCs last year, gave the State energy company a 10 per cent stake in the Karachaganak oil exploration venture, along with co-owners Chevron Corp., Eni SpA and OAO Lukoil.[59] Other large M&A deals concerned the purchase of an additional 19 per cent stake by Glencore[60] in its Kazakh copper firm, Kazzinc.

The divestment pattern continued in Africa: Zimbabwe produced the largest M&A deal among LLDCs on the continent with the divestment of gold ore producer Unki Mines, owned by Anglo American (United Kingdom), to Zimbabwe's own Investor Group for over $300 million. The second largest deal in Africa was the purchase by Diageo (United Kingdom) of Meta Abo Brewery S.C. (Ethiopia) for $255 million. These and 13 other deals in Africa were among the top 30 M&A deals in all LLDCs.

Despite a fall in M&A activity, the services sector remains buoyant. Overall, M&A activity in the LLDCs remained down relative to 2011 in all sectors except services (table B), which was boosted by the $1.5 billion acquisition of GSM Kazakhstan by TeliaSonera (Sweden). Other large deals in the services sector in the LLDCs include the purchase of Cablevision (Paraguay) for $150 million and a number of food and beverages deals, particularly for brewers.

More than half of M&As in LLDCs made by developing countries. The main foreign investors in LLDCs, through M&As, included Eurasian Natural Resources (United Kingdom) which acquired a 75 per cent stake in Shubarkol Komir, and the deals by Glencore (Switzerland) and TeliaSonera (Sweden). Of the top FDI M&A deals for which data on the transaction value exist, more than half were made by other developing countries. Among these, the purchase by Xinjiang Guanghui (China) of AlgaCapiyGas (Kazahkstan) was by far the largest transaction, at $200 million, followed by the $69 million acquisition of Cimerwa (Rwanda) by Pretoria Portland Cement (South Africa).

West Asian economies and the Republic of Korea increase their investment in LLDCs, while flows from the Russian Federation fall. Trends in greenfield investment in the LLDCs are similar to those of M&A activity, with the value of projects declining by almost 55 per cent in 2012 (tables D and E), although the total number of projects dipped by only 26 per cent. At a regional level, it is noteworthy that the majority (66 per cent) of greenfield FDI flows in 2012 came from developing countries – up from 41 per cent in 2011. Although overall greenfield investment from developing countries to LLDCs fell by 27 per cent, at the subregional level investment from West Asia went up by 172 per cent to $2 billion. Investment from India, the largest developing-country greenfield investor in 2011, declined in 2012 as the Republic of Korea became the largest investor in LLDCs globally, with flows of $4.3 billion – an increase of 220 per cent on the previous year. In transition LLDCs, the large increases in investment from the Russian Federation seen in 2011 fell away precipitously in 2012, dropping from $7.2 billion to $720 million.

Despite falls across all sectors generally, a number of individual industries registered increases in greenfield investment. Greenfield FDI in chemicals and chemical products increased from $1.3 billion to $4.8 billion, making it the largest industry for greenfield deals in the manufacturing sector; greenfield investment in metals and metal products also rose significantly, from $386 million in 2011 to $1.8 billion last year. In the services sector, only two main industries registered increases in greenfield investment: FDI in electricity, gas and water rose from $1.3 billion to $2.3 billion in 2012, and FDI in hotels and restaurants saw a large increase albeit from low levels – from $123 million to $652 million.

Silk Road countries in Central Asia saw FDI flows on the rise. FDI inflows to the economies of the Silk Road[61] (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and the Chinese provinces of Gansu, Ningxia A.R., Shanxi and Uygur) have been rising in recent years. Abundant natural resources, such as petroleum and gas, and expanding intraregional and interregional linkages are contributing to attract growing attention from investors.

The Silk Road is by no means a homogenous investment destination. Across the individual economies, there is diversity in sector opportunities, but there are also extensive prospects for combining factors of production across these economies for regional investment opportunities in selected sectors. The region's rich natural resources have helped attract a significant level of extraction and processing activities. Light industries (mostly related to processing), trade and retail, energy and real estate have also brought in foreign investors.

The Silk Road attracted more than $23 billion in FDI in 2012. Driven largely by FDI into Kazakhstan and Turkmenistan, flows to the Silk Road countries had jumped to $13 billion in 2007 and just over $17 billion in 2008, more than five times their level during the period 2000–2005 (table II.6). The characteristics of TNCs investing in the Silk Road economies vary: in Kazakhstan, FDI has been dominated by investors from EU countries and the United States in manufacturing and extractive industries. Chinese and Russian investors have also been active in recent years, especially as the oil and gas sector has expanded. In Turkmenistan, Chinese and Turkish investors have invested mainly in the energy sector. In Uzbekistan, China and the Russian Federation are currently the largest sources of foreign investment, with most foreign investors

Table II.6. FDI inflows to the Silk Road, 2000–2012
(Millions of dollars)

Country/province	average 2000-2005	2006	2007	2008	2009	2010	2011	2012	average 2009-2012
Central Asian countries:	2 979	7 704	13 248	17 063	18 843	17 233	19 474	18 807	18 589
Kazakhstan	2 488	6 278	11 119	14 322	13 243	11 551	13 903	14 022	13 180
Kyrgyzstan	45	182	208	377	189	438	694	372	423
Tajikistan	71	339	360	376	16	- 15	11	160	43
Turkmenistan	262	731	856	1 277	4 553	3 631	3 399	3 159	3 686
Uzbekistan	112	174	705	711	842	1 628	1 467	1 094	1 258
Chinese provinces:	..	1 275	1 510	1 791	1 991	2 276	2 930	3662	2 715
Gansu Prov.	..	100	106	128	150	135	70	100	114
Ningxia A.R.	..	150	80	88	100	81	202	218	150
Shaanxi Prov.	..	925	1 195	1 370	1 511	1 820	2 354	2936	2 155
Xinjiang Uygur	..	100	129	205	230	240	303	408	295
Total	..	8 979	14 758	18 854	20 834	19 508	22 404	22 469	21 304

Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics); and China's Ministry of Commerce.

operating in the oil, gas and telecommunications sectors. Other large foreign investors in Uzbekistan include Malaysian PETRONAS, Swiss-owned Nestlé and British American Tobacco. In Kyrgyzstan, where investment is much smaller, there have been investments by Canadian firms (in mining and petroleum), Chinese firms (in mining), German firms (in agro-industry), and Turkish and Russian firms (in finance). The Silk Road provinces of China received about $3.7 billion of FDI in 2012, an increase of 25 per cent over 2011, with leading TNCs from around the world continuing to expand their presence in the subregion.[62]

Despite the remote geography of Silk Road economies, they enjoy a number of competitive advantages. Some are ranked among the top 10 countries for ease of doing business. Among other possibilities, the Silk Road area has the potential to become a significant supplier of the world's energy needs. For example, Kazakhstan has some of the world's largest oil reserves; Kyrgyzstan and Tajikistan have vast hydropower potential that has barely been tapped; and the Xinjiang Uygur Autonomous Region has the largest reserves of oil, natural gas and coal in China.

Further regional integration and cooperation still seen as key to addressing the structural disadvantages of LLDCs. The structural and geographic disadvantages that affect LLDCs are well known. In LLDCs that are not rich in mineral resources, these challenges are a major obstacle for investors and largely determine the low rates of FDI. Regional integration and cooperation efforts such as the modern Silk Road have therefore been at the heart of strategies to overcome these problems and boost trade and investment.

LLDCs as a group represent a total market of more than 370 million people, although it is not a contiguous market like the EU or other regional groupings. Greater regional integration and the development of larger regional markets will be essential for LLDCs to attract more investment, particularly market-seeking FDI. However, even as members of a regional agreement, LLDCs can still struggle to benefit fully from increased FDI flows. For example, foreign firms may seek market access through investment and production in one member country with the intent to export to other members of the agreement. This case has been observed, for example, in the Southern African Development Community, where South Africa receives the highest share of regional FDI flows – $4.6 billion in 2012. Although other variables will also determine countries' FDI inflows, the weight of large economies in a regional grouping may have an impact on the ability of smaller members to attract FDI (for example, the two LLDCs Zambia and Zimbabwe together received $1.5 billion in FDI in 2012).[63]

In addition to trying to create larger markets, and thereby demand, LLDCs therefore need to use

regional integration and cooperation to strengthen the investment climate and support investment attraction. In this respect, key recommendations for LLDCs include the harmonization of policies, including procedures for the transit of goods, which can have a significant impact on transport times;[64] greater coordination with neighbouring countries to overcome infrastructure problems (e.g. standardization of infrastructure, like rail gauges); better regulation (e.g. of regional supply chains); cooperation on macroeconomic policy problems (such as currency volatility and taxes).

The Almaty Programme of Action for LLDCs also recognizes the importance of integration at the multilateral level and calls for the fast-tracked accession of LLDCs to the WTO, the provision of some kind of enhanced access to all markets (which many would benefit from, as LDCs and under the Generalized System of Preferences) and assistance on trade facilitation. Trade liberalization in itself does not necessarily create a dynamic growth path, but as part of comprehensive policy reforms it may provide incentives for investors and increase the perception of a safer investment climate with a strong rule of law and the protection of property rights, similar to the negotiation of international and bilateral investment agreements.

Alternative infrastructure options and industrial policy are key to building competitiveness. In subregions such as Central Asia, proximity to a port for bulk goods might not be critical if alternative, competitor routes to the sea can be developed along an east-west axis, especially rail or a so-called "Iron Silk Road" (box II.5). Although the bulk of current transport projects in Asia and also in Africa and Latin America are developing highways for road haulage, rail offers some specific advantages over sea transport in terms of its responsiveness in the supply chain because of the regular transportation of smaller volumes of goods over long distances.

Alternatively, LLDCs can explore ways to link their economies via air and IT-enabled services, based on strong industrial policy and domestic investment in skills and technology. LLDCs could develop industries producing and exporting low-bulk, high-value goods (such as pharmaceuticals, organic agriculture, cut flowers and watches) that can be linked via air routes or services industries that are not sensitive to geography and do not rely on access to the sea. Here, FDI has an active potential role to play: as industrial opportunities and infrastructure are created, FDI to these activities may increase. Government policy could help in attracting FDI at the initial stage of industrial transformation through support to public-private partnerships, concessions, credit and insurance.

In all of these scenarios, it is clear that in order to attract FDI, countries will need a proactive industrial policy and significant public investment in infrastructure, supported by multilateral institutions and also by the private sector. FDI thus can play a large role in the development of infrastructure in LLDCs as well as its operation and maintenance. At the same time, it should be noted that improving the domestic business (investment) environment can have a significant effect on exports and make a country attractive to further investment. Such improvements may have an impact on export competitiveness of a magnitude similar to trade and transport facilitation measures, through for example, simplifying domestic contract enforcement procedures and producing a more integrated approach to trade and business facilitation (Duval and Utoktham, 2009). It is clear that coherence between FDI-related policies and other areas is essential in order to increase FDI flows to LLDC economies.

Box II.5. Land-linked economies

To overcome their geographical disadvantages, LLDCs need to move towards becoming land-linked economies. In part this can be achieved by developing regional markets through greater integration, but more fundamentally it means investing in transport infrastructure and reorienting industrial policy.

Box figure II.5.1. Six Central Asia regional economic cooperation corridors

Source: Asian Development Bank, 2012.

The World Bank and the Asian Development Bank (ADB), through its Central Asian Regional Economic Cooperation programme (box figure II.5.1), have highlighted a number of trade and transport corridors that are instrumental in creating land-linked economies. They incorporate, for example, the aspirations of a number of LLDCs to become pivotal land bridges between regions: (i) Central Asia to Iran and Pakistan via Afghanistan; (ii) China to Europe via Central Asia and Kazakhstan – the so-called new Silk Road, or even Iron Silk Road, after the completion of the rail route via Urumqi in China; (iii) China to Thailand via the Lao People's Democratic Republic; (iv) the Atlantic to Pacific route via the Plurinational State of Bolivia; and (v) China to India via Nepal (Arvis et al., 2011). Nevertheless, the cost of upgrading infrastructure on these routes may prove prohibitive.

Often one of the biggest problems that transport corridors seek to address is the time and money lost in the trans-shipment of goods between borders or modes of transport. Trans-shipment problems also occur between the same modes of transport; for example, due to differences in gauges of rail track in Asia. One solution requires a move towards standardization and greater cooperation between countries, such as the recent agreement on the trans-shipment of goods by Afghani and Pakistani trucks, which permits Afghan trucks to continue all the way to Pakistani ports (Arvis et al., 2011).

Over time, economic development efforts will need to shift from transport corridors to more integrated economic corridors that incorporate new trade and settlement patterns, including corridor town development and corridor value chains (ADB, 2012).

Source: UNCTAD, based on Arvis et al. (2011) and ADB (2012).

3. Small island developing States

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

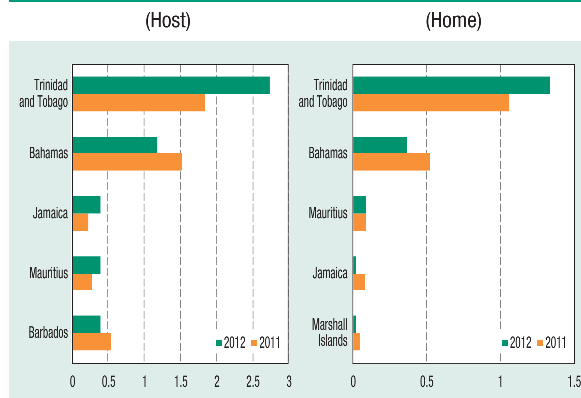


Figure B. FDI inflows, 2006–2012
(Billions of dollars)

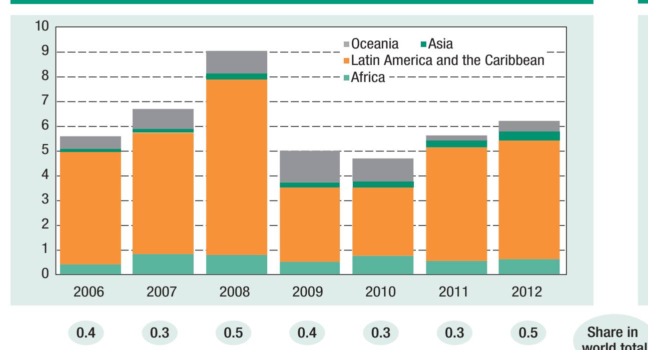
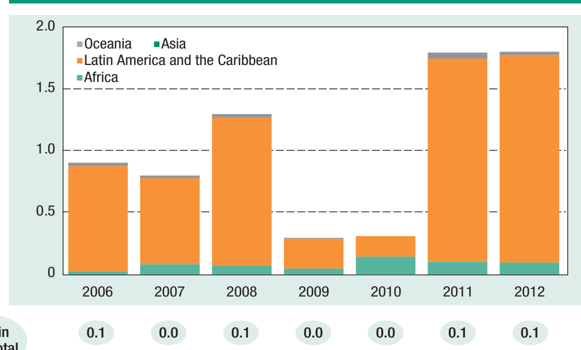


Figure C. FDI outflows, 2006–2012
(Billions of dollars)



	2006	2007	2008	2009	2010	2011	2012
Share in world total (inflows)	0.4	0.3	0.5	0.4	0.3	0.3	0.5
Share in world total (outflows)	0.1	0.0	0.1	0.0	0.0	0.1	0.1

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**1 223**	**148**	**- 651**	**- 16**
Primary	**938**	**- 10**	**-**	**25**
Mining, quarrying and petroleum	929	- 15	-	-5
Manufacturing	**19**	**-**	**549**	**-**
Food, beverages and tobacco	19	-	-	-
Chemical and chemical products		-	25	-
Non-metallic mineral products	-	-	- 78	-
Metals and metal products	-	-	603	-
Services	**266**	**158**	**- 1 201**	**- 41**
Electricity, gas and water	-	-	-	- 228
Trade	210	20	-	-
Transport, storage and communications	-	13	- 1 409	- 268
Business services	56	-	-	-

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**1 223**	**148**	**- 651**	**- 16**
Developed economies	**- 992**	**- 42**	**193**	**5**
Europe	216	- 48	-	-
North America	- 995	- 59	193	-
Australia	75	54	-	5
Developing economies	**2 215**	**170**	**- 283**	**- 21**
Africa	-	-	79	20
Latin America and the Caribbean	-	-	-10	330
Caribbean	-	-	- 35	-
Asia	2 215	170	- 351	- 371
China	1 908	-	- 16	-
Transition economies	**-**	**-**	**- 561**	**-**
Russian Federation	-	-	- 561	-

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investors	
	2011	2012	2011	2012
Total	**7 429**	**2 283**	**3 591**	**175**
Primary	**3 000**	**8**	**-**	**-**
Mining, quarrying and petroleum	3 000	8	-	-
Manufacturing	**160**	**1 169**	**78**	**130**
Food, beverages and tobacco	138	24	15	-
Coke, petroleum products and nuclear fuel	-	929	-	-
Services	**4 270**	**1 106**	**3 514**	**45**
Electricity, gas and water	-	156	1 441	-
Construction	1 966	-	-	-
Hotels and restaurants	270	475	2	-
Transport, storage and communications	1 057	116	-	-
Finance	277	201	180	12
Business services	618	92	1 891	33

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investors	
	2011	2012	2011	2012
World	**7 429**	**2 283**	**3 591**	**175**
Developed economies	**1 884**	**1 508**	**42**	**26**
Australia	70	1 005	-	-
France	100	54	-	-
United Kingdom	1 056	92	15	19
United States	564	196	20	-
Developing economies	**5 545**	**775**	**3 549**	**149**
India	810	104	-	-
South Africa	4 223	16	19	130
Thailand	206	54	-	-
United Arab Emirates	74	213	-	-
Oceania	134	-	134	-
Transition economies	**-**	**-**	**-**	**-**

FDI flows into small island developing States (SIDS) continued to recover for the second consecutive year, with two natural-resources-rich countries accounting for most of the increase. Besides a strong FDI increase in oil and gas, a slow recovery of the tourism activity that is largely dominated by foreign investors is taking shape, with a diversification towards more visitors from Asia. While some countries promote offshore finance as a way to diversify their economies, others are supporting the information, communication and technology (ICT) industry, which is attracting the interest of foreign investors.

FDI inflows continued recovering. FDI inflows into SIDS pursued their recovery in 2012, registering positive growth for the second consecutive year after the 45 per cent fall registered in 2009. They increased by 10 per cent, to $6.2 billion, mainly as a result of strong increases registered in two natural-resource-rich countries. The first was Trinidad and Tobago, the group's main recipient, which accounted for 41 per cent of the total in 2012, and where FDI inflows increased by 38 per cent. The second was Papua New Guinea, where FDI inflows swung back to positive territory, reaching a modest value of $29 million, up from a high negative amount in 2011 (-$309 million). These two countries together explain 178 per cent of total FDI increase to the SIDS in 2012, suggesting highly uneven growth among countries.

FDI flows to Caribbean SIDS increased by 5 per cent, to $4.8 billion in 2012 (figure B). These countries – which have traditionally attracted the bulk of FDI into SIDS, with an average share of 77 per cent over the period 2001–2011 – maintained their importance as FDI targets (77 per cent in 2012). The significant increase of FDI to Trinidad and Tobago is due to greater reinvested earnings by energy TNCs. Besides important oil and gas wealth in Trinidad and Tobago, the subregion's geographical proximity to, commonly shared language with, and economic dependence on the large North American market are among the factors explaining its attractiveness as an FDI destination compared with the other SIDS countries.

FDI to other SIDS countries – in Africa, Asia and the Pacific – increased by 31 per cent to $1.4 billion, largely due to increases in Papua New Guinea. Of the other relatively big recipients in this subgroup, FDI to Mauritius and the Maldives increased by 32 per cent and 11 per cent to $361 billion and $284 billion, respectively, while that to Fiji and the Seychelles fell (-36 per cent and -21 per cent to $268 billion and $114 billion, respectively).

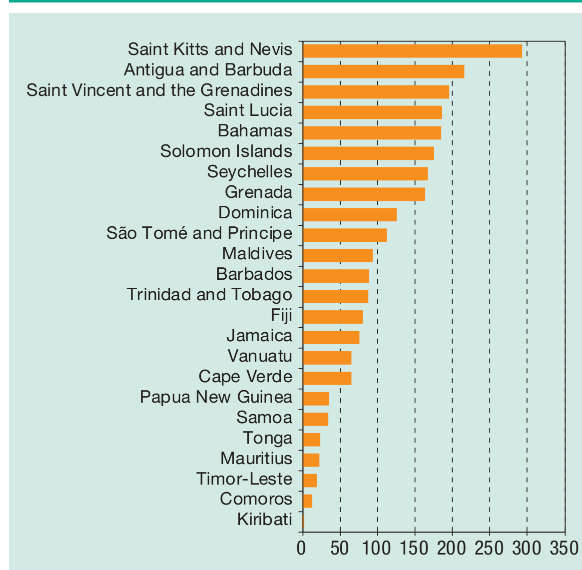
Among African SIDS, Mauritius has diversified from an economy focused on agriculture, tourism and garments towards offshore banking, business outsourcing, luxury real estate and medical tourism. Mauritius offers investors the advantage of an offshore financial centre in the Indian Ocean, with a substantial network of treaties and double-taxation avoidance agreements, making it a gateway for routing funds into Africa and India.[65] In the Seychelles, also, FDI is increasingly focused in the real estate sector, as well as financial and insurance activities.

The Pacific SIDS countries – which attracted 8 percent of all FDI in SIDS in 2012 – are typically different from other members of this group in that they are extremely isolated geographically. The islands are very remote, not only from the nearest continent (except for Papua New Guinea), but also from each other.[66] Their remoteness and small populations are structural obstacles to their competitiveness in general, as well as to their attractiveness to foreign investors. Most FDI inflows to the Pacific SIDS are directed primarily to natural resource exploitation, especially those to Papua New Guinea (oil and gas) and Fiji (gold, bauxite and fishing).

FDI inflows are substantial relative to the size of the economy. In absolute terms, FDI flows may appear small but they are quite substantial relative to the size of most SIDS economies. The ratio of FDI stock to GDP for SIDS was 86 per cent in 2011, with a very wide variation among subgroups and countries. The 10 Caribbean SIDS together had the highest ratio (109 per cent), followed by the 2 Asian SIDS (64 per cent), the 7 (of 12) Pacific SIDS for which data were available (50 per cent), and the 5 African SIDS (39 per cent). The variations are wider by country, ranging from 2 per cent for Kiribati to 292 per cent in Saint Kitts and Nevis (figure II.13).

Although the SIDS economies are highly dependent on FDI, very little is known about the impact of FDI inflows on them, and especially how these impacts interact with the group's structural vulnerabilities.

Figure II.13. Ratio of FDI stock to GDP of small island developing States, 2011
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database; and IMF (for GDP).

FDI outflows are concentrated in two countries. FDI outflows from SIDS increased by 0.5 per cent in 2012 to $1.8 billion, 74 per cent of which corresponded to Trinidad and Tobago, which registered a 26 per cent increase. The Bahamas – the second largest investor abroad, accounting for 20 per cent of the total – saw a 30 per cent decline to $367 million.

Tourism is diversifying towards new markets. Tourism experienced strong growth during 2003–2008 in most of the Caribbean islands, as well as in some other islands, such as in Mauritius, the Seychelles and the Maldives, which led to a construction boom in hotels, resorts and villas, mainly driven by foreign investors. Although the global economic crisis affected FDI in tourism seriously – through reduced tourist numbers, as well as the availability of credit financing for hotel and tourist projects – there have been signs of a limited recovery. In the Caribbean, for example, tourist arrival figures improved in the first half of 2012.[67] However, the strong growth seen in 2003–2008 may not return until demand in markets such as the United Kingdom and the United States solidifies further and/or new demand in other markets rises, and until delayed investment in new hotels and related infrastructure resumes.

Countries such as the Seychelles, which has also experienced a gradual revival in tourism activity, are already diversifying away from developed markets towards visitors from Asia. This is reflected, for instance, in the acquisition of a 40 per cent stake in Air Seychelles for $20 million by Abu Dhabi-based Etihad Airways in 2012.[68] The new management restructured the company's flight routes, terminating flights to Europe in favour of a regionally based strategy, centred on international flights to Mauritius, Johannesburg and Abu Dhabi.

More countries aspire to become offshore financial centres. A large number of SIDS countries have actively marketed themselves as hosts to offshore business as a development tool (see chapter I), which has especially attracted FDI into the finance industry and boosted investments in sectors such as tourism and ICT that directly or indirectly benefit from the expansion of offshore finance. This interest in promoting offshore business reflects a number of factors, including a desire for economic diversification to provide employment opportunities and contribute to fiscal revenue. Other SIDS are also aspiring to become offshore financial centres in the near future; for example, the Maldives, where the economic authorities announced plans to establish an offshore financial centre in 2012, with the aim of generating activity and revenue outside of the tourism industry.

Jamaica continues to promote the ICT industry. Some FDI has recently been directed to the ICT industry in some SIDS countries – most notably Jamaica, where the sector experienced significant growth during the 2000s, spurred by substantial foreign investment in the telecommunications infrastructure. Jamaica is a premier "nearshore" investment location (for North America) and provides a diverse number of informatics services, ranging from basic data entry to multimedia and software development services. The Montego Bay Free Zone has been perceived as particularly conducive to investments in the ICT industry, owing

to the presence of powerful data transfer facilities as well as sophisticated imaging, voice and facsimile services. Following the Government's creation in 2011 of a $20 million loan fund for the expansion of the ICT industry, two United States–based information solutions companies – Convergys Corporation and Aegis Communications Ltd – announced that they would set up call centres in Montego Bay.

FDI into the extractive industry is recovering and prospects are positive. The availability of primary commodities has been an important FDI driver in countries such as Papua New Guinea and Trinidad and Tobago. In Papua New Guinea, a $15.7 billion LNG project, being developed by ExxonMobil (United States), is scheduled to start production in 2014. Once completed, it will significantly increase the country's exports and to provide substantial income to the Government. Although there is a significant opportunity for Papua New Guinea to benefit from the project, worries remain about possible social conflicts arising from adverse environmental impacts and inadequate compensation for landowners. There are also risks that the country could be affected by the so-called Dutch Disease that the Government is trying to address with a newly created sovereign wealth fund (SWF). This comprises a development fund that will receive dividends from the Government's equity participation in the project, and a stabilisation fund that will receive all mining and petroleum revenue, with a spending limit at 4 per cent of GDP in any one year.[69]

Trinidad and Tobago's oil and gas industry remains at the heart of the country's economy; it is in the hands of both private and State-owned companies, with a significant level of foreign participation (box II.6). In recent years, however, the energy sector has seen falling production, limited exploration activity and declining reserves.[70] FDI into the sector – which represented 85 per cent of total inflows during the period 1999–2010[71] – has also declined since 2005; by 2010, it was just over half of the level in 2004. This is partly because of depressed natural gas prices and market prospects for gas, owing to the expansion of shale gas in the United States and elsewhere. The impact of falling oil and gas production, combined with the global economic crisis, has weighed heavily on the country's economic growth, which has been negative or nil since 2009. The Government has addressed these challenges through revisions to the fiscal regime and initiatives to promote upstream and downstream activity in the oil and gas sector. FDI to the sector resumed growth in 2011 and 2012, driven by strong increases in reinvested earnings.[72] This has coincided with the revival of drilling activity, as evidenced by the increased number of exploratory wells, which were up from nothing in October 2010–June 2011 to 73 in October 2011–June 2012 (Government of the Republic of Trinidad and Tobago, 2013).

Box II.6. The importance of FDI in Trinidad and Tobago's oil and gas sector

The energy sector is critical to Trinidad and Tobago's economy. It accounted for 44 per cent of nominal GDP and 83 per cent of merchandise exports in 2010, and 58 per cent of Government revenue in 2010–2011. The sector comprises the exploration and production of crude oil and natural gas (47 per cent of energy sector GDP), petrochemicals (24 per cent), refining (15 per cent) and services (13 per cent). Notwithstanding its central role in the economy, though, the sector employs only 3 per cent of the labour force.

Natural gas production is dominated by three foreign companies (BP, British Gas and EOG Resources Trinidad), which accounted for 95 percent of production in 2010. About 60 per cent of crude oil was produced by private companies, of which almost 80 per cent was accounted for by three foreign companies (BP, REPSOL and BHP Billiton), with the remaining 40 per cent produced by the State-owned oil and gas company, Petrotrin. About half of all crude oil produced in the country is refined locally by Petrotrin, which also refines imported crude oil.

About 60 percent of natural gas output is used for the export of LNG; the rest is for the domestic petrochemical industry and power generation. Atlantic LNG (owned by British Petroleum, British Gas, France's GDF Suez, Spain's Repsol and Trinidad's State-owned NGC) is the sole producer of LNG. It purchases gas from suppliers and processes it into LNG that is exported to other affiliates and operations of its foreign owners.

Source: IMF (2012b).

Notes

[1] Data are from Preqin, http://www.preqin.com.

[2] McKinsey, 2012, pp. 3–4.

[3] According to China's State Administration of Foreign Exchange; however, FDI inflows to China amounted to $254 billion in 2012. The large discrepancy with data from the Ministry of Commerce, which reports FDI data to UNCTAD, reflects differences in the compilation methodology of the two Government agencies.

[4] Chris Cooper, "Thailand beating China with Toyota means shipping boom", Bloomberg, 21 February 2013.

[5] For instance, in the automotive industry, both State-owned SAIC and privately owned Chery invested in large assembly facilities in Brazil.

[6] Source of data: Ministry of Commerce of China.

[7] A recent survey of American investors shows that, despite the growing importance of the Chinese market and an overall optimistic view on business prospects in the country, about 15 per cent have relocated or plan to relocate their production out of China, while 13 per cent have been relocating within the country. Covering 420 U.S. companies, the survey was conducted by the Shanghai American Business Council in 2012.

[8] In the meantime, the outflow of capital was also caused by the adjustment of firms' foreign exchange management and financial operation in reaction to global economic uncertainties (Zhao, 2012).

[9] Source: Nike annual reports from 2005 to 2012.

[10] Similar disputes emerged later. In February 2013, for instance, the Government suspended two mining permits for Entree Gold, an explorer partly owned by Rio Tinto by way of Turquoise Hill Resources – signalling a possible deepening in the dispute. (Robb M. Stewart, "Mongolia fuels Oyu Tolgoi dispute by scrapping Entree Gold's permits", Dow Jones, 28 February 2013.)

[11] Dan Levin, "In Mongolia, a new, penned-in wealth", *New York Times*, 26 June 2012.

[12] Simon Hall, "Energy titans look to Myanmar", *Wall Street Journal*, 7 June 2012.

[13] After the opening up of the single-brand segment of the retail industry, significant FDI inflows have been seen in the industry. The change in Government policies on the multiple-brand segment demonstrates that policymaking concerning inward FDI is at a crossroads in India. With the opening up of this segment, more FDI is expected in the retail industry. This demonstrates the Government's efforts to bring in more FDI to the country.

[14] More than 700 workers have died in fires in garment factories since 2005, according to labour groups. The collapse of the Rana Plaza complex on 24 April 2013 led to the death of more than 1000 garment workers. (Source: media coverage, including, for instance, Syed Zain Al-Mahmood and Jason Burke, "Bangladesh factory fire puts renewed pressure on clothing firms: Blaze follows collapse of Rana Plaza complex in Dhaka last month which left hundreds dead", *The Guardian*, 9 May 2013.)

[15] For instance, with annual sales over $1 billion, MAS has 38 apparel facilities in more than 10 countries and provides employment to more than 55,000 people. Brandix employs more than 40,000 across 38 manufacturing locations in Sri Lanka, India and Bangladesh.

[16] A full-package garment supplier carries out all activities in the production of finished garments – including design, fabric purchasing, cutting, sewing, trimming, packaging, etc.

[17] This is particularly true for service companies and conglomerates like the Tata Group. As the largest private company in India, Tata Group has operations in automotive, chemicals, communications, food and beverage, information technologies and steel.

[18] For instance, Wipro acquired the oil and gas IT services of SAIC (United States) in 2011 and Promax Application Group (Australia) in 2012.

[19] Following geopolitical disputes in Sudan and South Sudan, ONGC Videsh has discontinued crude oil production in South Sudan and reduced production in Sudan.

[20] Some Indian TNCs seek to concentrate more on domestic markets and consolidate their Indian operations by integrating a series of smaller domestic M&As (BCG, 2013).

[21] The deal was an asset swap that gave SABMiller a 24 per cent stake in Anadolu Efes, with the Turkish Anadolu Group preserving a controlling 42.8 per cent share.

[22] *Arab News*, "Segments of the GCC financial markets are beginning to develop fraction", 25 January 2012, http://www.arabnews.com/node/404874.

[23] See Raghu (2012), and the Economist Intelligence Unit, "Nitaqat employment quotas face backlash", 3 August 2012.

[24] Net intercompany loans totalled $10.4 billion in 2012, more than equity capital, which totalled $7.6 billion, pushing total Brazilian FDI outflows to negative values.

[25] In 2012, Cencosud acquired the Colombian affiliate of Carrefour (France) for $2.6 billion, and the Prezunic grocery store in Brazil for $495 million.

[26] Sectoral FDI stock data are only available until 2002.

[27] Argentina and Brazil are excluded because in the case of Argentina, the importance of FDI in natural resources, compared with other sectors, has been decreasing and the sectoral composition of its value added has been the same in 2001–2005 compared with 2006–2010. In the case of Brazil, it is because the extractive industry is dominated by national companies.

[28] In August 2011, the Government presented its new industrial, technological and foreign trade policy in the Plano Brasil Maior. Its main purpose is to boost investments, stimulate technological growth and increase the competitiveness of national goods and services, with a view to countering the decline of the industrial sector participation in the country's economy (see *WIR12*).

[29] Secretariat of the Federal Revenue of Brazil, "Plano Brasil Maior: Governo lança novas medidas para fortalecer indústria nacional, Folha de pagamento é desonerada para mais onze setores". Available at http://www.receita.fazenda.gov.br/inot/2012/04/05/2012_04_05_11_49_16_693391637.html.

[30] It first increases a tax on industrialized products (the IPI) by 30 per cent for all light-duty vehicles and light commercial vehicles. Second, it imposes a series of requirements for automakers to qualify for up to a 30 per cent discount in the IPI. In other words, IPI taxes will remain unchanged for those manufacturers that meet the requirements. The programme is limited to vehicles manufactured between 2013 and 2017, after which IPI rates return to pre-2013 levels unless the decree is modified. See Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, DECRETO Nº 7.819, DE 3 DE OUTUBRO DE 2012, http://www.planalto.gov.br/ccivil_03/_ato2011–2014/2012/Decreto/D7819.html.

[31] See Chiari Barros and Silvestre Pedro (2012), BNDES Performance per Sector, http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_en/Galerias/Download/Desempenho_setorial_ingles_US$.pdf; BNDES Press Room, "BNDES approves R$ 154 million in financing for Peugeot Citroën Brazil", 5 February 2013, and "BNDES approves R$ 2.4 billion for new Fiat plant in Pernambuco", 4 January 2013.

[32] Chinese automakers – Chery and JAC – are building plants, and Hyundai is building two new assembly lines. Other companies have announced plans to build new plants or to expand their existing operations. They include BMW, General Motors, Volkswagen, Fiat and PSA Peugeot Citroen. See Economist Intelligence Unit, "Industry Report, Automotive, Brazil", November 2012.

[33] Source: Central Bank of Brazil.

[34] According to a 2011 survey, 63 per cent of senior manufacturing executives selected Mexico as the most attractive country for re-

sourcing manufacturing operations closer to the United States, with only 19 per cent citing the United States itself as the best location. However, the margin narrowed to just 15 points in the 2012 survey. See AlixPartners (2012).

35 Dussel Peters (2009); Moreno-Brid et al. (2006); McClatchy, "As China's wages climb, Mexico stands to win new manufacturing business", 10 September 2012; *Financial Times*, "Mexico: China's unlikely challenger", 19 September 2012; Inter-American Dialogue, "Reassessing China-Mexico Competition", 16 September 2011.

36 Georgia is listed separately under transition economies, since it formally ceased to be a member of the CIS in 2009.

37 In Kazakhstan, the natural resource law approved in 2009 allows the Government to change existing contracts unilaterally if they adversely affect the country's economic interests in the oil, metals and minerals industries.

38 According to IDA Ireland, the Government agency responsible for attracting FDI, net job creation by its client TNCs rose from 5,934 in 2011 to 6,570 in 2012, bringing their total employment to 153,785, a level last recorded before the crisis.

39 An investigation by the United States Senate highlighted a certain type of transactions that go through Belgium. According to the Senate report, the United States TNC Hewlett-Packard held most of its cash abroad, which were accumulated profits of its foreign operations. Had it repatriated this cash to the United States, it would have been subjected to taxes in the United States. Therefore, instead of repatriating the funds, its affiliates in Belgium and the Cayman Islands alternately provided short-term loans to the parent company in the United States. As short-term loans are exempted from tax, the parent company had access to the funds continuously without having to pay taxes.

40 As a remedy, the 2008 edition of the OECD Benchmark Definition of FDI recommends that (i) resident SPEs' FDI transactions should be presented separately; and (ii) the directional principle should be extended to cover loans between fellow enterprises. However, the new methodology recommended by OECD has not yet been adopted by many countries. FDI data compiled by UNCTAD exclude FDI flows related to SPEs for countries for which such data are available (see chapter I).The "extended" directional principle has been adopted in only a handful of countries and therefore has not been adopted in UNCTAD FDI statistics.

41 Some signs of recovery are beginning to appear, however. For instance, attracted by a decline in labour costs, a number of auto manufacturers are shifting production to Spain from other parts of Europe. In the case of Nissan, the group is injecting more capital to expand the capacity, creating more jobs. See CNN.com, "Auto industry revs up recovery in Spain", 28 February 2013.

42 There was a degree of popular backlash against such foreign takeovers, which might have contributed to the reduced number of such deals. Some media reports attributed the decision by the Italian bank, UniCredit, to halt its plan to sell its asset management arm, Pioneer Investments, to such popular sentiment.

43 "European banks are facing more pain in Spain", *Wall Street Journal*, 29 June 2012.

44 Estimated standard deviations of annual growth in FDI inflows (1990–2012) of developed countries is 0.34, while for developing countries it is 0.19.

45 The median standard deviation of FDI inflows' annual growth for developed countries is 1.51 and for developing countries is 1.33. Estimation of median standard deviation for developing economies is based on the top 40 developing economies as reflected in 2011 FDI stock.

46 The amount of local financing can be quite significant. According to data from the Japanese Ministry of Economy Trade and Industry in 2007, 70 per cent of short-term borrowing by foreign affiliates in Japan was from local sources. The extent of their reliance on local sources for long-term borrowing was less but still over 50 per cent. Furthermore, over three quarters of corporate bonds issued by foreign affiliates were held by local investors.

47 Funds for M&As may be raised from local sources in the same country as the acquired firm, but data from the United Kingdom suggest that local sources play a relatively small role. Of deals involving United Kingdom TNCs making acquisitions abroad in 2001–2010, 66 per cent were financed by funds paid directly by the parent company and 22 per cent by loans from the parent company; and funds raised locally abroad accounted for only 12 per cent (Office of National Statistics).

48 The number of countries included in this group has increased from 48 to 49 with the addition of South Sudan in December 2012. Accordingly, this group now consists of Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Samoa, São Tomé and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, the Sudan, South Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia. South Sudan is excluded in statistics except for greenfield investments.

49 Because of the upward revisions of 2010–2011 data in some major recipients (e.g. Equatorial Guinea, Mozambique, Myanmar, the Sudan, the United Republic of Tanzania and Uganda), the inflows to LDCs reported in *WIR12* were revised upward from $16.9 billion to $18.8 billion in 2010 and from $15.0 billion to $21.4 billion in 2011.

50 In some LDCs, where growth has been stimulated by industries in which non-equity modes (NEMs) are the prominent form of TNC involvement (*WIR11*), the falls in FDI inflows may have masked the rapid growth in NEMs (e.g. garments in Bangladesh). NEMs in the extractive industries (e.g. production-sharing agreements and concessions) are also common in many natural-resource-rich LDCs (*WIR07*).

51 In 2012, the inflows to the top five recipients accounted for 60 per cent, compared with 52 per cent in 2011 and 60 per cent in 2010.

52 Owing to the data collection method applied to the greenfield projects database, the announced values of projects tend to overestimate the actual investment values, and not all announced projects have been realized.

53 Among transition economies, the Russian Federation has been the largest investor, whose aggregate value of greenfield projects in LDCs exceeds $4 billion for the period 2003–2012, of which of $2.5 billion represents a single mining project in Liberia announced in 2010.

54 Madras Institute of Orthopaedics and Traumatology announced a $40 million construction project in Rwanda, and Apollo Hospitals Group announced a $49 million construction project in Uganda.

55 Reuters, "Zambia firm to build oil pipeline from Angola", 12 April 2012. Available at www.reuters.com/article/2012/04/12/zambia-oil-idAFL6E8FC3T320120412; *Lusaka Times*, "Zambia and Angola sign $2.5bn oil deal", 16 April 2012. Available at www.lusakatimes.com/2012/04/16/zambia-angola-sign-25bn-oil-deal/.

56 In Angola, greenfield investments by Banco BPI (Portugal) (with 68 projects registered in 2004–2012) generated 45 per cent of the total retail banking investments ($285 million) in 2003–2012, followed by two other Portuguese banks, Finibanco (whose 11 projects, announced in 2008, contributed to 17 per cent of Angola's greenfield investments in retail banking) and Banco Comercial Portugues (Millennium BCP) (15 per cent). Yet, as far as the retail banking projects in 2012 are concerned, the dominance of Portuguese banks has faded. Banque du Commerce et Industrie (Mauritania) – with the first

greenfield projects in financial services in LDCs ever recorded by Mauritania – became the largest investor, followed by Standard Bank Group (South Africa).

[57] Eleven LDCs registered retail banking projects in other LDCs: Angola (1 project), Cambodia (7), the Democratic Republic of the Congo (1), Ethiopia (6), Mali (6), Mauritania (4), Rwanda (1), Togo (26), the United Republic of Tanzania (6), Uganda (4) and Yemen (1).

[58] The eight developing economies are Bangladesh, Hong Kong (China), Kenya, the Philippines, Saudi Arabia, South Africa, Thailand and Yemen.

[59] With regard to investment policy, Kazakhstan recently approved a new law establishing the priority right of the State to take part in any new trunk pipeline being built in the country (see chapter III).

[60] In February 2013, the main Kazakh SWF bought a 28 per cent stake in the firm, preventing Glencore's total ownership of the company.

[61] The term "Silk Road" is tied to images of traders from long ago, but although the romanticism has been replaced by the hard realities that many of its current inhabitants face, the Silk Road is gradually being "reconstructed" to offer a number of potential business opportunities in a region linked by burgeoning infrastructure as well as economic and cultural ties (UNCTAD, 2009).

[62] For example, the high-tech centre in Western China, Xi'an, capital city of Shanxi Province, attracted FDI projects by major TNCs, such as new manufacturing facilities for Alstom (France), Bosch (Germany) and Daiwa (Japan), and a research centre for 3M (United States). Other FDI projects in the region included Cola-Cola's investment in a new factory in Xinjiang and new shops built by Metro (Germany) in Ningxia.

[63] The Southern African Development Community is negotiating a tripartite free trade area with the East African Community and COMESA (the Common Market for Eastern and Southern Africa). Investment talks are scheduled to form part of the second phase of negotiations (envisaged to commence in the latter half of 2014) which, it is hoped, will boost investment to the area as a whole. For a discussion of investment policies and the growing trend towards regional approaches to investment policymaking, see chapter III.

[64] See UNCTAD (2003) and also Limão and Venables (2001). The European Transit System and the TIR (Transports Internationaux Routiers) are the only fully operational transit systems globally. Others that are in place but not fully implemented include the Acuerdo Sobre Transporte Internacional Terestre in Latin America, and the Greater Mekong Subregion Agreement on the Transit of Goods and People in South-East Asia.

[65] In Africa, Mauritius signed double-taxation avoidance agreements with Botswana, Congo, Lesotho, Madagascar, Mozambique, Namibia, Rwanda, Senegal, the Seychelles, South Africa, Swaziland, Uganda and Zimbabwe. It has also signed a double-taxation avoidance agreement with India.

[66] The average distance to the nearest continent for Pacific islands is more than four to five times that applicable to the average country in the Caribbean or sub-Saharan Africa.

[67] Economist Intelligence Unit, "Caribbean economy: Caribbean tourism recovering slowly", 21 August 2012.

[68] Etihad Airways also assumed management control of a five-year contract and, in addition, made a fresh capital injection of $25 million.

[69] Economist Intelligence Unit, "Bumpy road ahead for PNG LNG project", 26 September 2012.

[70] Total natural gas reserves declined from 34.9 trillion cubic feet (tcf) in 2005 to 27.1 tcf in 2010 (equivalent to about nine years of production). Total oil reserves also declined, from 2.7 billion barrels in 2005 to 2.5 billion barrels in 2007 (equivalent to about 14 years of production) (IMF, 2012).

[71] Central Bank of Trinidad and Tobago, 2013.

[72] FDI increased strongly in 2011 (233 per cent) and 2012 (70 per cent). According to Central Bank estimates, the energy sector received roughly 85 per cent of FDI inflows between January 2011 and September 2012 (Central Bank of Trinidad and Tobago, 2013).

Box II.1

[a] The DMIC is an infrastructure project as well as an industrial development project, spanning six states. It involves investment of about $90 billion with financial and technical aid from Japan. The project covers about 1,500 km between Delhi and Mumbai.

[b] An industrial park already exists in Neemrana, with significant Japanese investments in industries such as automotive components.

[c] See, for instance, Makoto Kojima, "Prospects and challenges for expanding India-Japan economic relations", *IDSA Issue Brief*, 3 October 2011.

Box II.3

[a] The first ever health-care project in LDCs was recorded by Bumrungrad International (Thailand), for sales and marketing support of general medical and surgical hospitals in Ethiopia at a value of $2.3 million.

[b] This share remained the same in 2007–2008 but increased to 4 per cent in 2009, when the United Kingdom announced a $49 million construction project in the United Republic of Tanzania and the first Indian health-care projects in LDCs (namely, Bangladesh and Yemen) were recorded. By 2010, seven projects in LDCs accounted for 10 per cent of the health-care greenfield investments in all developing economies. the share increased further to 15 per cent in 2011, led by greenfield projects from India and Thailand.

Box II.4

[a] Economist Intelligence Unit, "Country Forecast: Angola", October 2012. Available at www.eiu.com.

[b] Nine of the 22 commercial banks are foreign owned, taking up 40 per cent of assets, loans, deposits and capital in the country (IMF, Country Report No. 12/215, August 2012).