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DEVELOPING AND TRANSITION ECONOMIES ABSORBED MORE THAN 60 PER CENT OF GLOBAL FDI INFLOWS – A RECORD SHARE – IN THE FIRST HALF OF 2013

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HIGHLIGHTS

- Global foreign direct investment (FDI) inflows were an estimated US$745 billion in the first half of 2013; 4% higher than the same period in 2012, with a diverging trend between developing and transition economies, and developed countries.

- In the first half of 2013, flows to developed countries declined. However, this decline was more than offset by a rise in flows to developing and transition economies, which accounted for more than 60% of global FDI flows – a record share.

- In developing and transition economies, the increase was driven by acquisitions in Central America and the Caribbean as well as record inflows into the Russian Federation. Although flows to developing Asia fell slightly, the region continues to absorb more than half of the FDI directed to developing economies as a group, and one quarter of global FDI flows.

- The fall in developed countries is mainly accounted for by declines in the major host countries including the United States, France and Germany. The United Kingdom remains an exception, continuing its upward trend in FDI attraction, and becoming the world's largest recipient of FDI in this period.

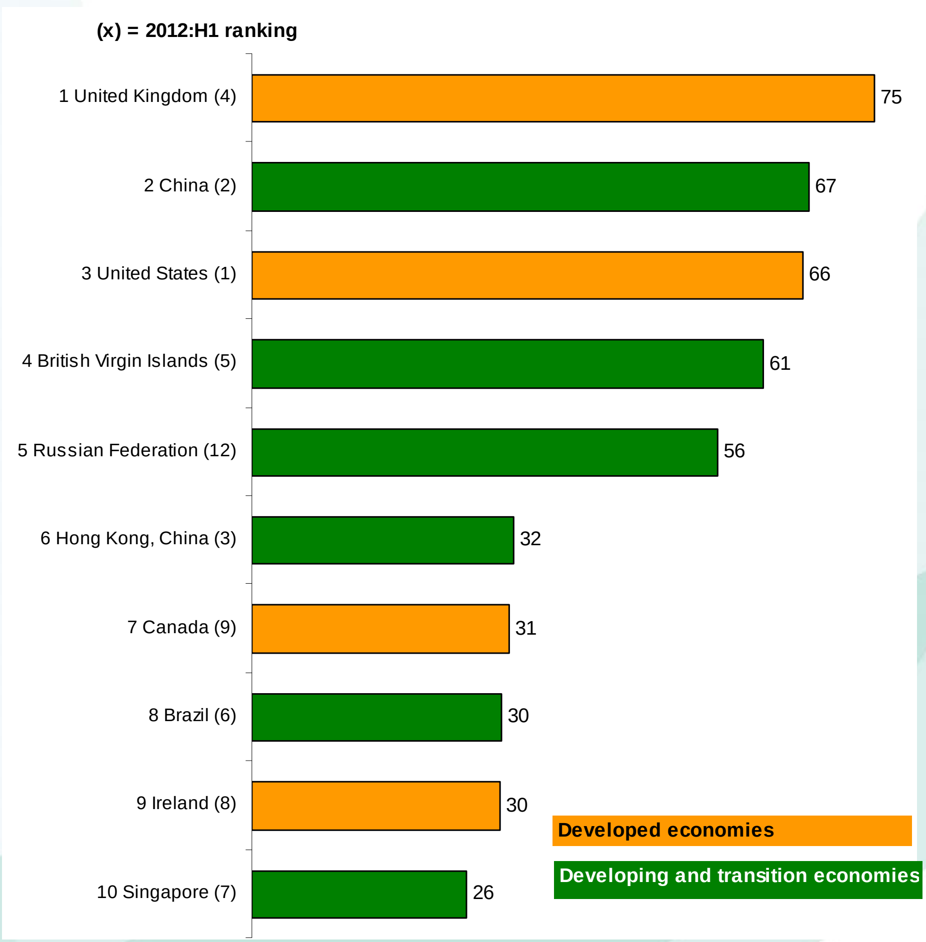
- Cross-border mergers and acquisitions (M&As) and large retained earnings kept in foreign affiliates were a driving force behind the current global FDI growth, rather than investment in new productive assets through greenfield investment projects.

- UNCTAD estimates that 2013 FDI flows will remain close to the 2012 level, despite some improvements in macroeconomic conditions in developed economies. In addition to risks related to the Euro area and the so-called "fiscal cliff" in the United States, the transition to a slower growth pattern in some emerging markets and weaker consumer demand in developed countries might have a negative impact on FDI flows this year. Looking further ahead, UNCTAD forecasts that global FDI flows are poised to increase in 2014.

In the first half of 2013, global FDI reached an estimated US$745 billion, up from US$718 billion in first half of 2012. Inflows to developed economies continued to decline, while those to developing and transition economies rose again.

Only a few countries saw large increases in their FDI flows, some of them linked with two large and complex deals that took place in this period: the US$46 billion Glencore-Xstrata merger and the US$55 billion British Petroleum (BP)-Rosneft transactions. As a result of these two deals, the Russian Federation, the United Kingdom and the British Virgin Islands saw large increases in their flows as compared to the same period in 2012. With the United States, Switzerland, Netherlands, France, Sweden and Germany suffering large declines, the United Kingdom and China now lead the global ranking of the world's largest recipients of FDI in this period (figure 1).

Figure 1. Global FDI inflows: top 10 host economies, 2013:H1
(Billions of US dollars)



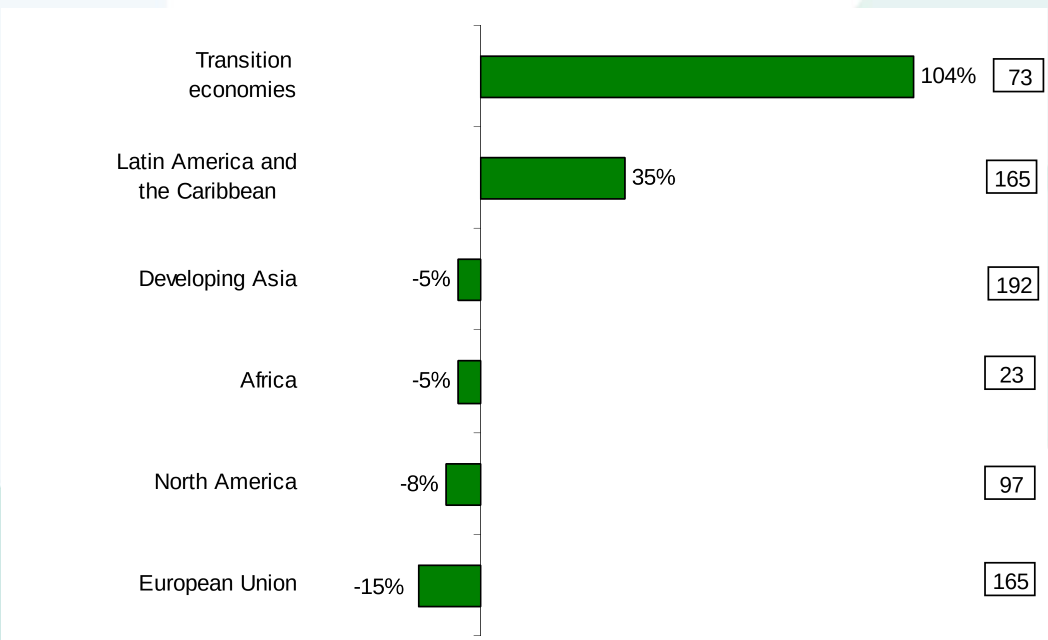
Source: UNCTAD.
Abbreviation: H1– first half of the year.

FDI growth has returned in developing economies

Flows to *developing economies* increased by 9% mainly driven by investments in Central America and the Caribbean, while developing Asia and Africa saw their flows decline slightly (figure 2).

After a slight decline in 2012, FDI flows to *Latin America and the Caribbean* jumped by 35% in the first half of this year to US$165 billion. This increase is explained by the strong growth in FDI flows to Central America (109%) and to the Caribbean (82%), while flows to South America declined by 8%. This is in contrast to the last three years when South America was the main driver of FDI flows to the region. Belgian Brewer Anhauser Busch's US$18 billion acquisition of a 44.46% share of Grupo Modelo explains most of Mexico's as well as Central America’s increase in FDI. And the rise in flows to the Caribbean is attributed to the BP-Rosneft deal, since one of the owners of TNK-BP (Russian Federation) was based in the British Virgin Islands. The decline of FDI inflows to South America resulted mainly from the almost 50% slump registered in Chile, South America’s second largest recipient in 2012: the country saw equity divestment in the mining sector and lower reinvested earnings by foreign mining companies as a result of decreasing commodity prices. FDI flows to Brazil remained stable at US$30 billion, despite a 22% decline in the flow of equity capital resulting from declines in both cross-border M&As and greenfield investments; this was compensated for by intra-company loans which more than doubled. FDI to Colombia increased by 6%, driven by investment in the mining and manufacturing sectors, while Peru registered a strong 27% rise, becoming South America’s third largest FDI recipient after Brazil and Colombia, and surpassing Chile for the first time ever.

Figure 2. The growth rate and the amount of FDI inflows, by group of economies 2012:H1–2013:H1
(% and billions of US dollars)



Source: UNCTAD.

Note: Developing Asia includes East Asia, South-East Asia, South Asia and West Asia.

In *developing Asia*, the recovery of FDI inflows was weak, which was partly due to a slowdown in economic growth and macroeconomic uncertainty, as well as slow demand in consumer markets in many investor countries. In the first half of 2013, total inflows to the region as a whole amounted to US$192 billion, 5% lower than for the same period in 2012. At the sub-regional level only South Asia avoided a decline in flows. FDI to East Asia declined by 4% to US$105 billion, while flows to South-East Asia dropped by 5% to US$50 billion. Based on current assessments, it appears that the rapid growth of FDI inflows to the Association of Southeast Asian Nations (ASEAN) over the past three years – from US$48 billion in 2009 to US$111 billion in 2012 – has temporarily stalled. An increase in flows to the South Asian Association for Regional Cooperation (SAARC) is accounted for mainly by the rise in flows to India. Inflows to China – the second largest recipient in the world – resumed their growth after a slight drop in late 2012, thanks to increasing FDI in services, such as real estate and distribution trade. Together with rising flows to the Republic of Korea, this helped offset to some extent the fall in FDI to a number of the region's major recipients, such as Hong Kong (China), Singapore and Thailand (see annex table). In *West Asia* FDI flows dropped by 19% in the first half of 2013, compared to the first half of 2012, continuing the downward trend that began in 2009. Two main reasons explain this: first, the regional political instability continues to discourage foreign investors; second, there was almost absence of large deals in Turkey, a major destination for FDI in this sub-region, where cross-border M&As have fallen by as much as 82%.

FDI flows to *Africa* decreased by 5% in the first half of 2013, compared to the same period in 2012. Two of the continent's five sub-regions – North Africa and Southern Africa – recorded positive growth rates. Flows to Algeria and Morocco rose, and FDI inflows to South Africa resumed their growth. In Sub-Saharan Africa, Nigeria attracted inflows of US$2.6 billion, in the first six months of the year - less than half last year's record US$7 billion. However, Nigeria's inflows are expected to rise sharply on the back of recent efforts to attract industrial and manufacturing investments and its market growth prospects: Nissan, for example, recently announced significant investments in the car industry in the country. Similarly, flows to Ghana were slightly lower than last year but future prospects look positive: Mahindra, a large Indian automotive manufacturer, is looking to set up a vehicle-assembly plant in partnership with a local Ghanaian firm, raising hopes for a diversification of investments away from the oil and mining sectors.

FDI to *transition economies* in South-East Europe, the Commonwealth of Independent States (CIS) and Georgia more than doubled in the first half of 2013 compared with the same period in 2012, reaching US$73 billion. FDI inflows to the Russian Federation soared, mainly due to transactions involving BP (United Kingdom) and Rosneft (Russia Federation).

FDI flows to developed countries remained subdued, but are expected to pick up

Inflows to *developed economies* remained subdued in the first half of 2013. Although some economies are showing signs of recovery, the increases are mostly a reflection of the particularly low level of inflows in 2012.

Inflows to *Europe* in the first half of 2013 were down by 20% compared with the same period in 2012. However, if compared with the second half of 2012 FDI flows to Europe increased but from a very low level. Substantial recoveries in FDI appear to be under way in the United Kingdom and Spain: inflows to the United Kingdom picked up strongly, mainly as a result of the significant rise in equity investment from the reincorporation of Glencore-Xstrata in the United Kingdom. In Spain, lower labour costs are considered an important factor to attract the interest of manufacturing transnational corporations (TNCs).

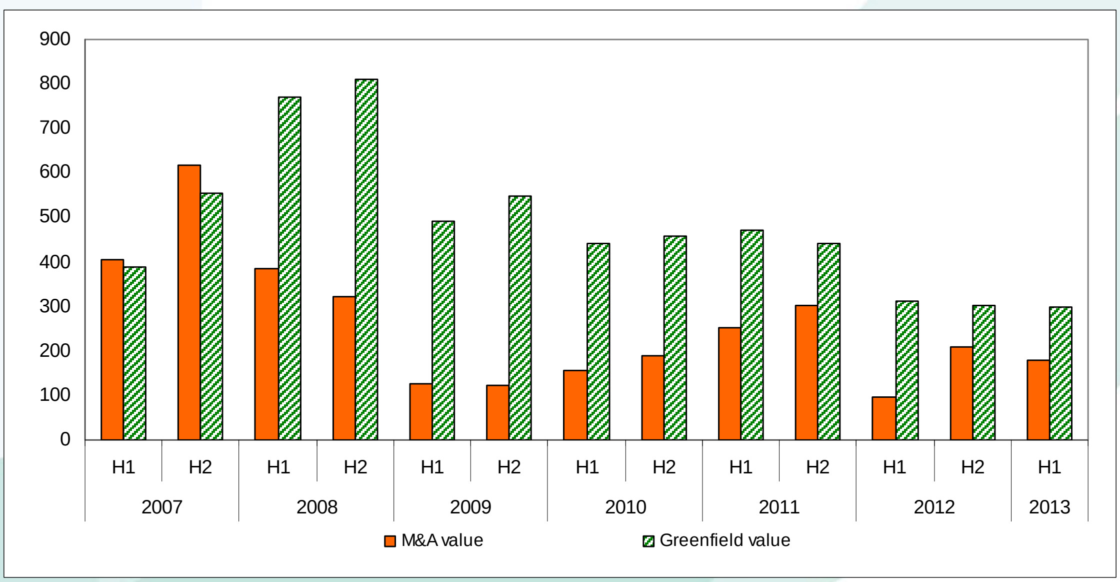
Acquisitions by Asian investors helped sustain the level of inflows to *North America*. The largest deals included the takeover of the Canadian upstream oil and gas company, Nexen, by CNOOC (China) for US$19 billion; Japanese telecommunications group, Softbank, acquiring Sprint Nextel, the third largest wireless network operator in the United States, for US$21.6 billion; and Shuanghui's acquisition of the pork producer Smithfield for US$4.8 billion, which is the largest Chinese takeover of a United States company to date. In *Asia-Pacific*, Australia's inflows stayed at a similar level to the same period in 2012. Inflows to Japan remained at a low level, but the period of net divestments from the country appears to be over.

Diverging trends in FDI modes of entry

The small rise in FDI flows in the first half of 2013 was accompanied by diverging trends in the modes of entry (M&A and greenfield investments). A pick-up in activity of cross-border M&As is signalling the long awaited return of confidence by investors. Cross-border M&As doubled to US$179 billion due to large strategic deals, such as BP-Rosneft and Glencore-Xstrata. While European TNCs have been slow to consolidate in Europe, they have bought into emerging markets ((for example Unilever (United Kingdom) buying Hindustan Unilever Ltd (India) for over US$3.5 billion). Developing economies – in particular China and Singapore – experienced a surge of cross-border sales.

Greenfield investment remained at a similar level to 2012, dropping by only 4% (figure 3). Among major groupings, developing economies saw their greenfield investment up by 13% while developed and transition economies declined by 28% and 25% respectively.

Figure 3. The value of cross-border M&A sales and of greenfield investment projects, 2007 H1 – 2013 H2
(Billions of US dollars)



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

FDI flows in 2013 will remain close to 2012 levels, but are poised to increase in 2014

UNCTAD estimates that FDI flows for 2013 will remain close to the 2012 level. Risks related to the Euro area, the transition to a slower growth pattern of some emerging markets, the so-called "fiscal cliff" in the United States and weaker consumer demand in developed countries could all potentially have an impact on FDI flows.

Looking further ahead to 2014, macroeconomic indicators, such as rising industrial production in recent months in many developed economies, point to an improving climate for FDI in which TNCs might convert some of their record cash holdings into new investments. The United States economy is making progress towards sustainable growth; consumer confidence is returning in Japan; and there are some recent improvements in Europe. All of these factors could provide a basis for some positive developments in FDI to developed economies. In contrast, the growth momentum in many developing economies has weakened due mainly to a loss of domestic activity momentum and the possible potential impact of the removal of monetary policy measures such as quantitative easing.

Annex table 1. FDI inflows, cross-border M&As and greenfield projects, by region and major economy, 2012H1–2013H1

(Billions of US dollars)

	FDI inflows				Cross-border M&As			Greenfield project values		
Region / economy	2012[a] H1	2012[a] H2	2013[b] H1	*Growth rate (%)*	2012 H1	2013 H1	*Growth rate (%)*	2012 H1	2013 H1	*Growth rate (%)*
World	**717.6**	**592.2**	**744.9**	***3.8***	**97.6**	**179.3**	***83.8***	**310.7**	**297.7**	***-4.2***
Developed economies	**331.5**	**194.1**	**291.0**	***-12.2***	**72.7**	**90.4**	***24.3***	**112.7**	**81.4**	***-27.8***
Europe	**202.0**	**49.8**	**161.1**	***-20.2***	**39.6**	**43.4**	***9.6***	**61.8**	**49.7**	***-19.6***
European Union	**193.6**	**42.8**	**165.3**	***-14.6***	**36.0**	**38.1**	***5.9***	**60.1**	**48.0**	***-20.1***
Belgium	10.0	- 46.7	10.5	***5.5***	0.6	2.2	*294.0*	1.5	1.3	*-14.1*
Czech Republic	4.6	6.0	4.0	***-13.3***	0.1	0.0	*-95.3*	1.0	1.3	*23.6*
France	16.2	8.8	4.3	***-73.3***	5.8	2.3	*-60.1*	4.3	2.6	*-39.9*
Germany	10.4	- 3.6	0.9	***-91.1***	- 1.0	5.1	..	5.2	3.5	*-34.0*
Ireland	22.2	16.1	29.7	***34.1***	- 0.1	0.3	..	3.5	1.3	*-61.4*
Italy	5.4	10.7	3.5	***-34.5***	- 0.9	2.0	..	2.6	1.5	*-44.0*
Luxembourg	21.1	- 17.3	11.7	***-44.5***	0.1	0.0	..	0.0	0.3	*766.1*
Netherlands	17.2	- 4.9	3.0	***-82.5***	4.2	4.5	*6.1*	2.7	1.7	*-35.2*
Spain	10.6	16.6	20.0	***87.9***	1.4	0.2	*-88.0*	5.4	5.9	*9.4*
Sweden	14.9	1.1	3.4	***-76.9***	3.0	- 3.9	..	0.8	0.6	*-22.9*
United Kingdom	39.9	22.5	74.9	***87.7***	10.4	18.3	*76.2*	13.2	10.5	*-20.7*
Other developed Europe	**8.4**	**6.9**	**- 4.2**	**..**	**3.6**	**5.3**	***46.3***	**1.8**	**1.7**	***-3.2***
Norway	- 1.9	14.7	2.6	**..**	2.6	3.0	*14.8*	0.1	0.6	*416.1*
Switzerland	9.7	- 8.3	- 7.0	**..**	1.0	2.3	*130.9*	1.5	0.9	*-40.1*
North America	**105.9**	**97.8**	**97.2**	***-8.2***	**21.9**	**35.2**	***60.7***	**39.8**	**23.2**	***-41.8***
Canada	21.5	21.6	31.0	***43.9***	15.1	21.8	*44.2*	5.2	3.8	*-27.2*
United States	84.4	76.2	66.3	***-21.5***	6.8	13.5	*97.3*	34.6	19.3	*-44.0*
Other developed countries	**23.5**	**46.6**	**32.6**	***38.6***	**11.2**	**11.7**	***4.9***	**11.0**	**8.5**	***-23.1***
Australia	19.2	37.4	21.8	***13.6***	11.1	5.5	*-50.3*	6.4	4.8	*-26.0*
Israel	6.1	3.4	8.2	***35.3***	1.3	1.9	*38.4*	0.9	0.3	*-63.8*
Japan	- 3.2	5.0	2.3	**..**	- 1.8	0.7	..	3.2	3.1	*-1.7*
Developing economies	**350.6**	**346.8**	**381.4**	***8.8***	**26.9**	**59.3**	***120.8***	**177.8**	**201.1**	***13.1***
Africa	**24.6**	**25.7**	**23.3**	***-5.3***	**0.5**	**1.6**	***211.3***	**21.7**	**28.1**	***29.5***
Algeria	0.7	0.8	0.9	***18.6***	0.0	0.0	..	0.2	4.1	*2102.5*
Egypt	3.4	0.3	2.7	***-21.5***	- 0.7	0.1	..	2.5	1.9	*-23.6*
Morocco	1.5	1.3	2.0	***32.2***	0.3	1.0	*223.4*	0.9	1.5	*63.7*
Tunisia	0.6	1.1	0.5	***-11.3***	0.0	0.0	..	1.1	0.1	*-93.0*
Ghana	1.7	1.6	1.5	***-11.5***	0.0	0.0	..	0.6	1.2	*100.8*
Nigeria	2.6	4.6	2.6	***1.0***	0.2	0.1	*-64.1*	3.7	1.5	*-60.3*
South Africa	2.1	2.5	3.3	***54.2***	0.2	0.3	*41.9*	2.4	2.0	*-17.7*
Latin America and the Caribb	**122.4**	**126.8**	**165.2**	***34.9***	**15.2**	**27.3**	***79.4***	**37.7**	**88.2**	***134.0***
South America	**68.2**	**75.7**	**62.7**	***-8.1***	**12.8**	**8.8**	***-31.5***	**29.0**	**31.6**	***9.1***
Argentina	7.6	4.7	5.1	***-33.1***	0.1	0.0	*-83.6*	3.8	1.6	*-59.5*
Brazil	29.7	35.5	30.0	***1.0***	11.3	4.7	*-58.0*	15.2	12.2	*-19.5*
Chile	12.7	17.6	6.8	***-46.5***	0.3	1.3	*294.3*	6.1	3.6	*-41.6*
Colombia	7.9	7.8	8.3	***5.5***	1.3	2.5	*91.0*	1.9	7.2	*281.5*
Peru	5.4	6.8	6.9	***26.6***	- 0.2	- 0.1	..	0.9	3.4	*264.0*
Central America	**13.9**	**10.7**	**29.0**	***108.9***	**1.0**	**17.5**	***1728.3***	**8.2**	**51.0**	***521.1***
Mexico	9.2	6.2	23.8	***158.1***	1.0	17.2	*1696.4*	7.5	8.2	*9.6*
Caribbean	**40.4**	**40.5**	**73.5**	***82.1***	**1.4**	**1.0**	***-27.2***	**0.5**	**5.6**	***1035.4***
British Virgin Islands	33.6	31.3	61.5	***82.7***	0.0	0.0	..	0.0	0.0	..
Cayman Islands	2.2	5.5	7.3	***224.9***	0.1	0.0	*-75.4*	0.1	0.0	..
Asia	**202.5**	**193.2**	**192.2**	***-5.1***	**11.2**	**30.5**	***172.6***	**118.1**	**84.7**	***-28.3***
West Asia	**25.2**	**22.0**	**20.4**	***-19.1***	**2.2**	**0.9**	***-58.0***	**19.6**	**20.9**	***6.6***
Jordan	0.8	0.7	1.0	***30.2***	0.0	0.0	..	1.3	1.3	*-3.9*
Saudi Arabia	6.2	6.0	5.8	***-6.5***	0.0	0.0	*-37.5*	4.9	1.4	*-71.1*
Turkey	8.2	4.3	4.9	***-39.6***	2.3	0.4	*-81.9*	2.5	1.8	*-28.5*
South, East and South-Ea	**177.3**	**171.2**	**171.8**	***-3.1***	**9.0**	**29.6**	***229.4***	**98.5**	**63.8**	***-35.2***
East Asia	**109.5**	**95.9**	**105.1**	***-4.0***	**4.3**	**15.8**	***270.1***	**45.8**	**29.2**	***-36.2***
China	59.1	52.6	67.0	***13.4***	5.0	16.7	*236.8*	34.4	24.2	*-29.8*
Hong Kong, China	40.8	33.8	31.5	***-22.6***	1.3	- 1.9	..	3.7	2.5	*-31.5*
Korea, Republic of	4.6	5.3	7.6	***63.4***	- 2.3	0.4	..	4.3	1.5	*-64.7*
South Asia	**15.0**	**19.2**	**16.3**	***8.8***	**1.1**	**1.8**	***66.1***	**23.6**	**10.2**	***-56.7***
India	10.1	15.2	13.6	***34.7***	1.1	1.8	*65.7*	17.2	8.8	*-48.7*
Iran, Islamic Republic of	2.9	2.0	0.5	***-80.9***	0.0	0.0	..	0.0	0.1	..
South-East Asia	**52.8**	**56.1**	**50.4**	***-4.6***	**3.6**	**12.0**	***231.1***	**29.1**	**24.3**	***-16.3***
Indonesia	7.8	11.6	8.3	***6.8***	0.6	0.5	*-15.9*	10.4	4.8	*-53.8*
Malaysia	5.2	4.9	5.9	***14.4***	0.2	- 1.5	..	3.2	2.9	*-9.9*
Philippines	2.0	0.8	2.2	***10.9***	0.3	0.6	*85.4*	2.1	1.6	*-21.8*
Singapore	28.1	28.6	25.9	***-7.9***	1.8	10.4	*487.5*	5.2	4.0	*-22.5*
Thailand	4.2	3.1	1.9	***-53.5***	0.0	0.7	..	2.7	3.1	*15.2*
Viet Nam	3.8	4.6	3.9	***3.0***	0.7	1.2	*66.0*	3.9	4.5	*16.6*
South-East Europe and the CIS	**35.5**	**51.3**	**72.5**	***104.1***	**- 2.0**	**15.6**	**..**	**20.2**	**15.2**	***-24.7***
Russian Federation	17.2	34.2	56.0	***225.1***	0.0	15.6	..	8.3	6.2	*-25.8*

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

[a] The sum of the semi-annual data in 2012 do not necessarily add up to the annual data reported in the World Investment Report 2013 due to revision of data.

[b] Preliminary estimates.

Note: Global FDI inflows are estimated on the basis of 127 economies for which data are available for first and second quarters of 2013.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-January 2014.

The next issue of UNCTAD's Investment Policy Monitor will be released in mid-November 2013.

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