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Global Investment Trends Monitor

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Global and Regional Trends of FDI Outflows in 2010

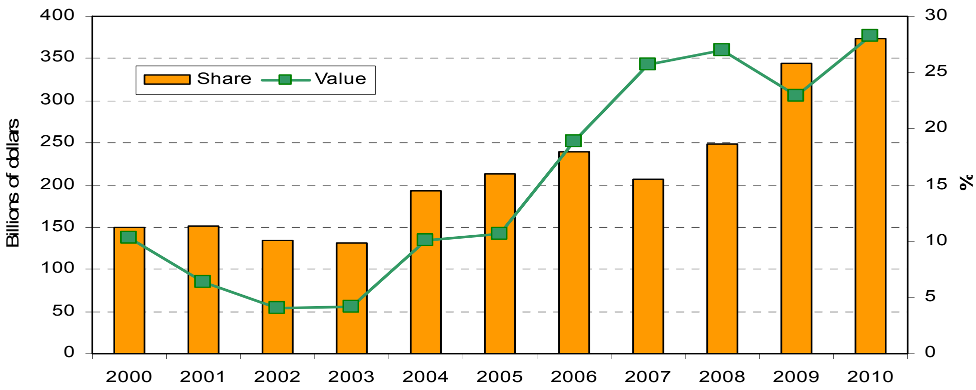
HIGHLIGHTS

Much of the recovery of foreign direct investment (FDI) is likely to be driven by investments from developing and transition economies whose share in world outflows has now reached 28 per cent

- The Global Investment Trend Monitor No. 5 issued in January 2011 showed that global FDI flows (measured by inflows) increased only marginally in 2010 and developing and transition economies, for the first time, accounted for more than half of global FDI inflows. This Monitor looks at outward FDI. It shows that developing and transition economies are also increasingly important investors with their share in global outflows increasing to 28 per cent in 2010, up from 15 per cent in 2007, the year prior to the financial crisis (figure 1).

Figure 1. FDI outflows from developing and transition economies: the value and their share in global FDI outflows, 2000-2010

(Billions of US dollars and per cent)



Source: UNCTAD.

- Global FDI outflows in 2010 increased to more than $1.3 trillion, by 13 per cent, from $1.2 trillion in 2009 although their level remained 40 per cent below the peak of 2007. While the large difference between FDI inflows and outflows is mainly explained by statistical reasons,[1] the clear upward trend as seen in outflows confirms the general observation that FDI bottomed out in 2010.

- A feature of the increased importance of developing and transition economies as investors is that a lion's share of their investments (70 per cent) are directed towards other developing and transition economies compared with developed countries where the share of these economies is only 50 per cent.

- Outward FDI flows rose in all major groups of economies, but at different speeds. FDI flows from developing and transition economies picked up strongly, reflecting the strength of their economies, the dynamism of their transnational corporations (TNCs) and their growing aspiration to compete in new markets. FDI outflows from developed countries grew more modestly, reflecting the subdued investment drive of European TNCs.

- The recovery of FDI outflows in 2010 was driven by higher reinvested earnings, mainly due to strong corporate profits and other investments (mainly intra-company loans), while equity investments remained sluggish.

- Looking at the main modes of entry of TNCs in foreign markets, cross-border mergers and acquisitions (M&As) are still volatile: they increased by 36 per cent in 2010 as a whole; however in the first quarter of 2011 they declined again. In contrast, greenfield investment projects − both new and expansion − are not only larger in value and number than cross-border M&As but also they maintained their upward trend at the beginning of 2011.

Global FDI outflows rose by 13 per cent in 2010, though their level was 40 per cent lower than that in the peak of 2007

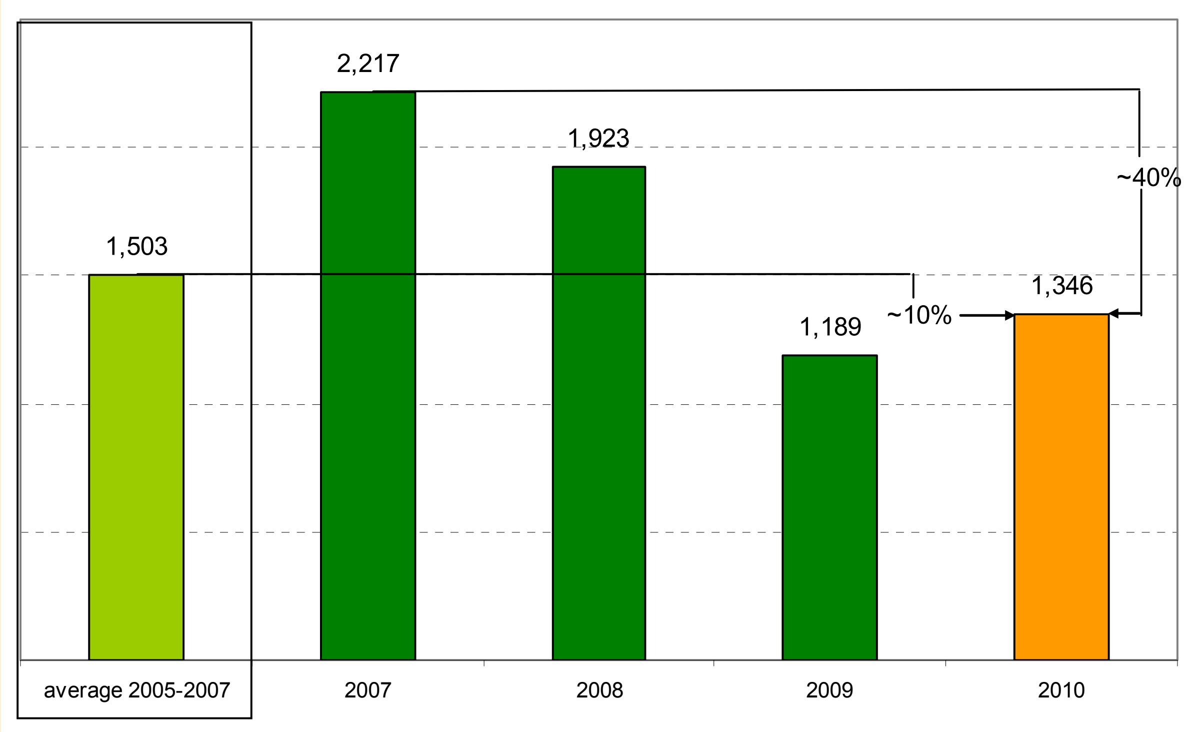
Global FDI outflows rose in 2010 to an estimated $1,346 billion or 13 per cent, compared with $1,189 billion in the previous year (annex 1). Similar to FDI inflows, however, outflows fell short of the peak of 2007 (figure 2).The rise of FDI outflows in 2010 reflected an improvement of corporate profits and the increasing internationalization of TNCs. The financial crisis caused firms to rationalize their corporate structure and increase efficiencies wherever possible, often by relocating business functions to cost-advantageous locations.

As developed countries are still confronting the effects of the crisis, many TNCs in developing and transition economies are investing in other emerging markets, where recovery is strong and the economic outlook better. Indeed, in 2010, 70 per cent of investment by developing and transition economies are directed towards other developing and transition economies compared with developed countries where the share of these economies is about 50 per cent (figure 3).

[1] The difference between global inflows and outflows is the result of various reasons, including different methods of data collection between host and home countries, different data coverage of FDI flows (i.e. treatment of reinvested earnings), and different times used for recording FDI transactions. In addition, the fact that outflows exceed inflows suggests that part of flows recorded as outflows in home countries may not be necessarily recorded as inflows of FDI in host countries.

Figure 2. Global FDI outflows, 2005-2010

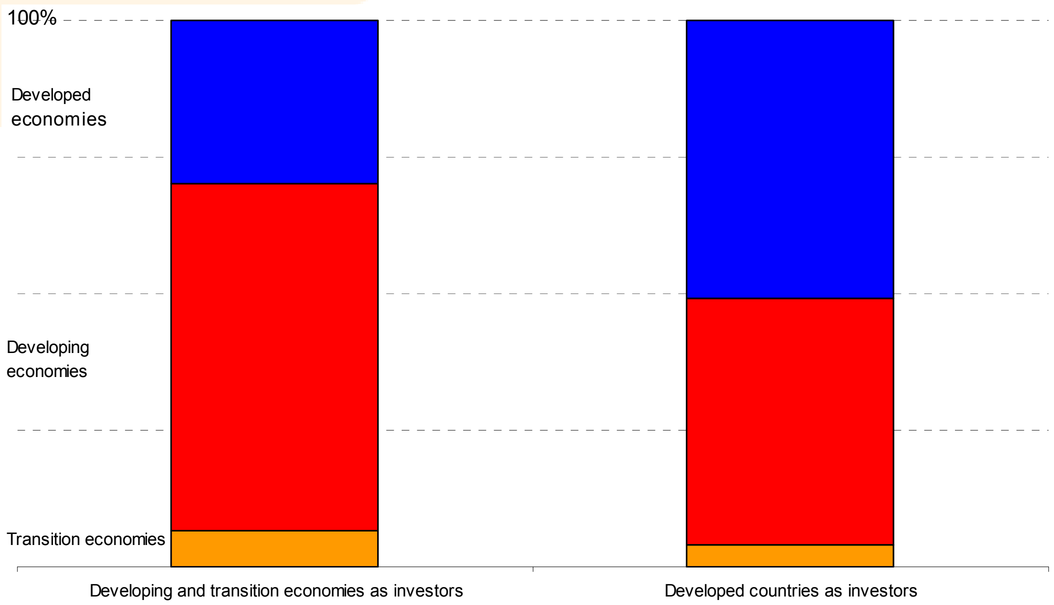
(Billions of US dollars)



Source: UNCTAD FDI database.

Figure 3. Distribution of FDI projects[a] concluded by developed and developing and transition-country TNCs, by host region, 2010

(Per cent)



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

[a] Including both cross-border M&As and greenfield FDI projects

Developed countries: moderate recovery

FDI outflows from developed countries for 2010 rose to $970 billion, an increase of 10 per cent over the previous year. This is only half of the peak level recorded in 2007, however. Limited recovery was made possible by an unprecedented amount of cash on TNCs' balance sheets and historically low rates of debt financing. Reflecting the divergences of economic situations in the major economies of the developed world, trends in FDI outflows differed markedly across countries and subregions, and also in their three components – equity investment, reinvested earnings and other capital flows (mainly intra-company loans).

Outflows from Europe were slightly up despite a 67 per cent fall in cross-border M&A deals carried out by European TNCs. In some countries, outflows were mostly driven by a revival of intra-company financing to affiliates located abroad (for example, for Germany and Switzerland, there was a dramatic swing of intra-company loans, from -$24 billion and -$7 billion, respectively, in 2009, to nearly $19 billion and $12 billion in 2010). In contrast, outflows from the United Kingdom, traditionally one of the largest investor countries, continued to suffer in 2010, reaching a level last seen in 1993, as parent firms withdrew or were paid back loans from their affiliates in order to strengthen their balance sheets at home.

Outflows from the United States rose significantly (by 31 per cent) in 2010, mainly due to higher equity investments abroad (cross-border M&A deals by United States firms more than doubled in 2010) and reinvested earnings. Japanese outward FDI dropped by 24 per cent as declining intra-company loans and reinvested earnings overwhelmed a near doubling of cross-border M&As.

Developing countries: a strong recovery has started

After a temporary setback in 2009, FDI flows from developing countries returned to their previous upward trend. They reached an estimated $316 billion in 2010, 23 per cent more than in 2009. However, they showed an uneven pattern among regions. A strong rebound of outward FDI flows from Latin America and the Caribbean and developing Asia more than offset the decline of outflows from Africa and West Asia.

FDI flows from **Africa** declined further in 2010. UNCTAD estimates its value at $4 billion, barely one per cent of the developing economies' total, down from $4.5 billion in 2009. Outflows from the two major outward investors, the Libyan Arab Jamahiriya and South Africa, which together accounted for more than half of the regional total in 2009, fell significantly. On the positive side, outflows from Egypt more than doubled, to $1.2 billion.

Outward FDI from **South, East and South-East Asia** rose by more than 20 per cent in 2010, particularly from Hong Kong (China), China, the Republic of Korea, Taiwan Province of China and Malaysia (table 2). Outflows from the region's two largest FDI sources – Hong Kong (China) and China – rose by more than $10 billion each, reaching historical highs of $76 billion and $68 billion (estimated), respectively. Chinese companies continued to be on a buying spree, actively acquiring overseas assets in a wide range of industries and countries. Cross-border M&A purchases by companies from the region as a whole surged to nearly $94 billion in 2010. The value of deals increased in all three − primary, manufacturing and services − sectors, particularly in oil and gas in the primary sector, finance and telecommunications among services, as well as food and beverage, motor vehicles and chemical products in manufacturing.

FDI outflows from **West Asia** dropped to near zero in 2010. This is due on one hand to large-scale divestments by West Asian firms from their enterprises abroad. The largest divestment deals included the $10.7 billion sale by Zain Group (Kuwait) of its African operations to Bharti Airtel (India), and the $2.2 billion sale by International Petroleum Investment Company (Abu Dhabi's sovereign wealth fund) of a 70 per cent stake in Hyundai Oilbank in the Republic of Korea. On the other hand in 2010, West Asian greenfield projects abroad – mainly targeting developing countries – dropped by 52 per cent in value. Government-controlled entities – West Asia's main outward investors – have been redirecting part of their oil surplus to support their home country weakened by the global financial crisis. This is expected to continue as Governments vowed to finance higher social spending to pre-empt or respond to popular discontent.

Latin American and the Caribbean was the subregion with the strongest increase of outward FDI flows in 2010 mainly due to the surge in cross-border M&As purchases. The region's TNCs, bolstered by strong economic growth at home, have increased their acquisitions abroad, particularly in developed countries where investment opportunities have arisen in the aftermath of the crisis. Brazilian companies such as Vale, Gerdau, Camargo Correa, Votorantim, Petrobras, and Braskem have undertaken acquisitions in the iron ore, steel, food, cement, chemical, and petroleum refining industries in developed countries. Mexican firms such as Grupo Televisa, Sigma Alimentos, Metalsa and Inmobiliaria Carso purchased firms in the United States in the industries such as media, food, motor vehicles and services.

All the big investor countries - Brazil, Chile, Colombia and Mexico - registered increases in both their outward FDI flows and cross-border M&As purchases. The most noticeable case was Brazil where FDI outflows jumped from high negative value in 2009 (-$10 billion) to $11.5 billion in 2010, largely due to the nearly five fold increase of the equity capital component of its outward investments.

Transition economies: growing again

After a short-lived setback in 2009, FDI flows from the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) grew by 24 per cent, reaching an estimated all-time record of $61 billion. Most of the outward FDI projects, as in the past years, were carried out by Russian TNCs, followed by those from Kazakhstan. The quick recovery of natural-resource-based companies in transition economies was helped by strong support by the State, and got a boost from recovering commodity prices and higher stock market valuations, easing the cash flow problems these firms were facing in 2009. Transition-economy firms increased their purchases in developing and transition economies in 2010. Examples include the acquisition by Vimpelcom (Russian Federation) of ZAO Kyivstar GSM (Ukraine) for $5.5 billion (annex 2).

Diverging trends in outward FDI components and modes of entry

Data on FDI outflows of 44 countries (mainly developed countries) show that both reinvested earnings and other capital flows (mainly intra-company loans) increased by 45 per cent in 2010, while equity investments dropped by 11 per cent (figure 4). The level of reinvested earnings was still below the peak of 2007, but their share in total FDI nevertheless exceeded 50 per cent. The continuing depressed level of equity investments was still the key factor that kept FDI flows relatively low. It is a source of concern as among the components of FDI, equity investment compared with reinvested earnings and intra-company loans, is the most directly related to TNCs' long-term international investment strategies. This type of investment directly involves acquisition or establishment of foreign affiliates. Therefore its low level demonstrates that the FDI recovery starting in 2010 remains fragile.

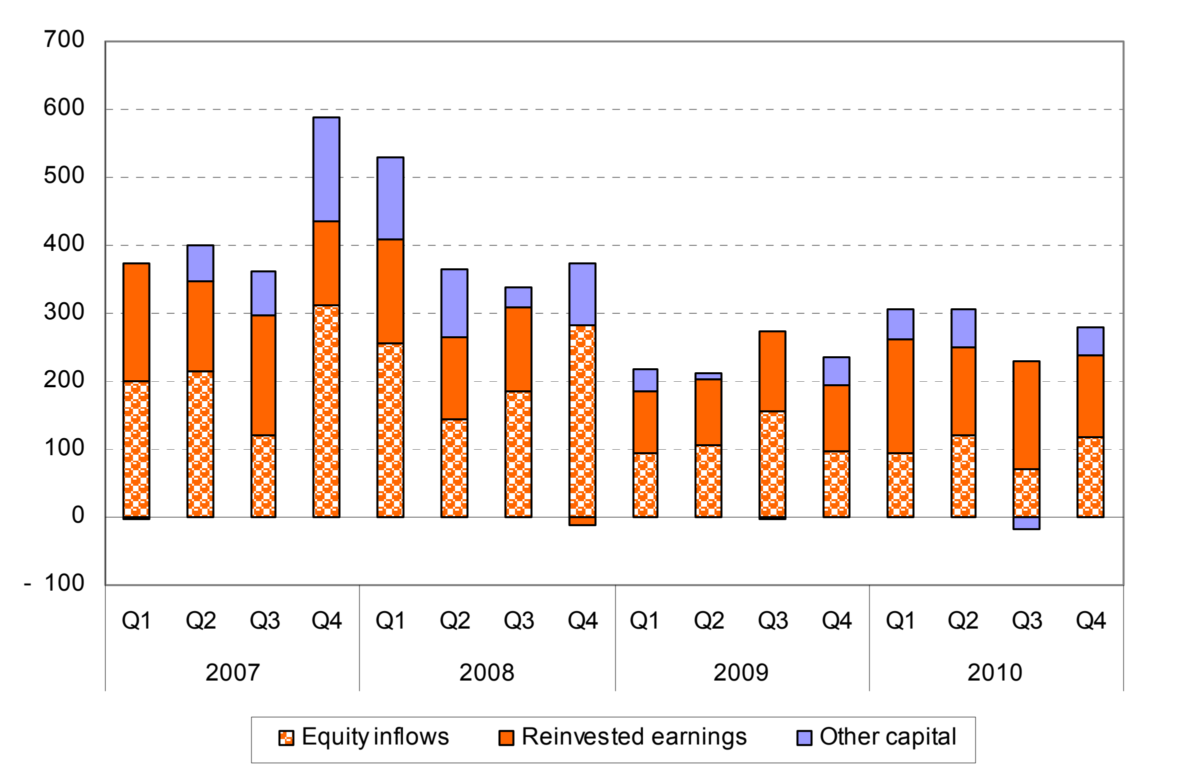
Cross-border M&As continued to react more quickly to changing economic conditions. They jumped by 36 per cent in 2010 (figure 5), reflecting both the growing value of assets on the stock market and the increased financial capability of potential buyers to carry out such operations. Nevertheless, they declined again in the first quarter of 2011 as confidence was undermined by factors such as the impending tightening of fiscal policy, regional conflicts and the sovereign debt crises of some European countries. Greenfield investments registered a rise in both value and number during the first quarter of 2011, and continue to account for the bulk of FDI projects (figure 5).

Improving outward FDI prospects for 2011

With the global economic recovery gaining strength, rising stock market valuations and rebounding corporate profits of TNCs, UNCTAD expects FDI outflows to continue rising in 2011. Ongoing corporate and industrial restructuring and a new wave of privatization in some countries with empty state coffers in the wake of the financial crisis are creating new investment opportunities for cash-rich companies in developed and developing countries. Emerging economies, particularly Brazil, China, India and the Russian Federation have gained ground as sources of FDI in recent years. Outflows from these economies are expected to continue to grow in 2011, as the result of rapid economic growth, abundant financial resources and strong motives of firms to acquire mineral resources and strategic assets abroad.

Figure 4. Quarterly FDI outflows by components for 44 selected economies, 2007 Q1- 2010 Q4

(Billions of US dollars)

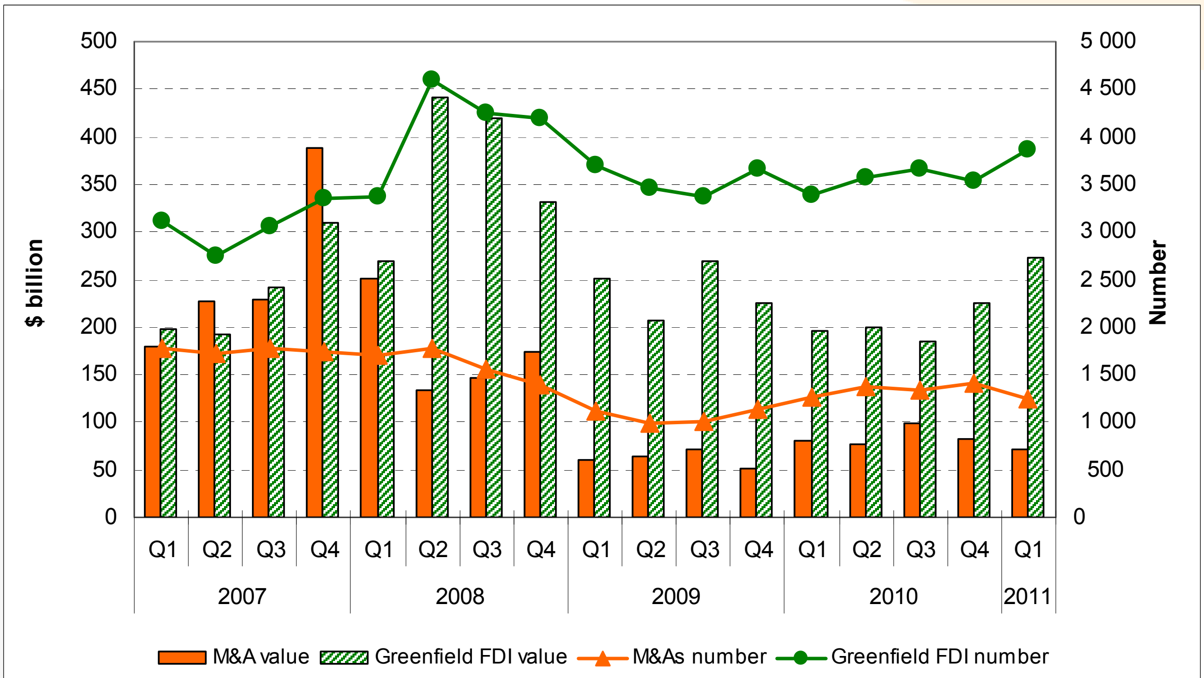


Source: UNCTAD.

Note: Economies included are: Armenia, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Hong Kong (China), Hungary, India, Indonesia, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, The FYR of Macedonia, Malta, Montenegro, Namibia, Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Republic of Korea, Republic of Moldova, Russian Federation, Slovakia, Sweden, Switzerland, Taiwan Province of China, United Kingdom, United States and the Bolivarian Republic of Venezuela.

Figure 5. Value and number of outward cross-border M&As and greenfield FDI projects, 2007 Q1 - 2011 Q1

(Billion of US dollars and number of deals)



Source: UNCTAD.

Note: Data for value of greenfield FDI projects refer to estimated amounts of capital investment.

Annex 1. FDI outflows and cross-border M&As, by region and major economy, 2009–2010

(Billions of US dollars)

Region / economy	FDI outflows 2009	FDI outflows 2010 [a]	FDI outflows Growth rate (%)	Net cross-border M&As[b] 2009	Net cross-border M&As[b] 2010	Net cross-border M&As[b] Growth rate (%)
World	**1 188.7**	**1 346.2**	***13.2***	**249.7**	**338.8**	***35.7***
Developed economies	**882.3**	**969.5**	***9.9***	**160.8**	**215.7**	***34.1***
Europe	503.5	516.7	*2.6*	102.7	33.8	*-67.1*
European Union	433.6	450.0	*3.8*	89.7	17.3	*-80.7*
Austria	6.5	10.8	*67.4*	3.3	1.7	*-50.6*
Belgium	- 17.0	31.1	..	- 9.6	- 0.2	..
France	147.2	122.9	*-16.5*	41.6	7.2	*-82.8*
Germany	78.2	104.9	*34.1*	24.3	7.1	*-70.6*
Ireland	23.9	16.2	*-32.2*	- 0.5	2.5	..
Italy	39.2	23.1	*-41.0*	17.5	- 5.3	..
Luxembourg	18.7	18.3	*-2.3*	3.4	3.0	*-11.4*
Netherlands	26.9	31.9	*18.5*	- 3.3	14.3	..
Poland	5.2	4.7	*-9.9*	0.1	0.3	*149.7*
Spain	9.7	22.3	*128.7*	- 1.3	1.9	..
Sweden	25.8	30.1	*16.6*	9.0	- 0.1	..
United Kingdom	44.4	24.8	*-44.1*	- 3.5	- 4.1	..
Norway	34.4	8.7	*-74.7*	0.6	- 4.1	..
Switzerland	33.3	58.3	*75.2*	7.4	10.2	*37.9*
Canada	38.8	36.9	*-5.0*	16.7	32.3	*93.4*
United States	248.1	325.5	*31.2*	23.8	86.3	*263.4*
Australia	16.1	24.8	*53.5*	- 3.0	15.3	..
Japan	74.7	56.7	*-24.1*	17.4	31.0	*77.8*
Developing economies	**257.6**	**316.1**	*22.7*	**74.0**	**96.9**	***31.1***
Africa	4.5	4.0	*-11.3*	2.7	3.2	*17.9*
Egypt	0.6	1.2	*105.8*	0.1	1.1	*1331.8*
South Africa	1.2	0.5	*-60.9*	1.5	1.5	*-0.2*
Latin America and the Caribbean	47.6	83.9	*76.4*	3.7	15.7	*320.1*
Brazil	- 10.1	11.5	..	2.5	7.8	*210.1*
Chile	8.1	8.7	*8.5*	0.1	0.5	*892.1*
Colombia	3.1	6.5	*110.6*	0.2	3.2	*1420.9*
Venezuela, Bolivarian Republic of	1.8	2.4	*30.3*	-	-	..
Mexico	7.6	12.7	*67.1*	3.2	3.3	*1.8*
Asia and Oceania	205.5	228.1	*11.0*	67.5	78.1	*15.6*
West Asia	19.0	- 0.2	..	26.8	-15.6	..
Saudi Arabia	2.2	2.0	*-8.7*	0.1	0.4	*247.2*
Turkey	1.6	1.8	*14.6*	-	-	..
South, East and South-East Asia	186.4	228.2	*22.4*	40.5	93.5	*131.1*
China	56.5	68.0	*20.3*	21.5	29.2	*35.9*
Hong Kong, China	64.0	76.1	*18.9*	7.5	14.5	*93.7*
Korea, Republic of	10.6	19.2	*81.9*	7.0	9.9	*42.6*
Taiwan Province of China	5.9	11.1	*89.6*	0.6	- 0.5	..
India	15.9	13.2	*-17.3*	0.3	26.4	*8978.5*
Malaysia	8.0	13.2	*64.7*	3.3	2.3	*-29.6*
Singapore	18.5	19.7	*6.9*	2.8	7.9	*184.2*
Thailand	3.8	2.7	*-29.2*	0.9	2.9	*228.3*
South-East Europe and the CIS	**48.7**	**60.6**	*24.3*	**7.4**	**9.7**	***30.5***
Kazakhstan	3.1	7.8	*150.3*	-	0.3	..
Russian Federation	43.7	51.7	*18.4*	7.6	9.1	*19.5*

Source: UNCTAD.

[a] Preliminary estimates by UNCTAD.

[b] Net cross-border M&A purchases by a home economy are purchases of companies abroad by home-based TNCs excluding sales of foreign affiliates of home-based TNCs, while table 3 includes all cross-border M&A deals.

Note: World FDI outflows are projected on the basis of 117 economies for which data are available for full year or part of 2010, as of 13 April 2011. Data are estimated by annualizing their available data, in most cases three quarters of 2010. The proportion of outflows from these economies in total outflows to their respective region or subregion in 2009 is used to extrapolate 2010 regional data.

Annex 2. Cross-border M&A deals with a value of over $3 billion in 2010 and in the first quarter of 2011

Value ($ million)	Acquired company	Industry of the acquired company	Host economy	Ultimate acquiring company	Ultimate acquiring economy
2001 full year					
18 769	Cadbury PLC	Candy and other confectionery products	United Kingdom	Kraft Foods Inc	United States
10 700	Zain Africa BV	Radiotelephone communications	Nigeria	Bharti Airtel Ltd	India
9 743	Brasilcel NV	Radiotelephone communications	Brazil	Telefonica SA	Spain
9 056	EDF Energy PLC-UK Power Distribution Business	Electric services	United Kingdom	Group of Investors	Hong Kong, China
9 018	Lihir Gold Ltd	Gold ores	Papua New Guinea	Newcrest Mining Ltd	Australia
8 496	T-Mobile(UK)Ltd	Radiotelephone communications	United Kingdom	France Telecom SA	France
7 625	E.ON US LLC	Natural gas distribution	United States	PPL Corp	United States
7 603	Solvay Pharmaceuticals SA	Pharmaceutical preparations	Belgium	Abbott Laboratories	United States
7 325	Fomento Economico Mexicano SAB de CV-Beer Operations	Malt beverages	Mexico	Group of Investors	Netherlands
7 111	Repsol YPF Brasil SA	Crude petroleum and natural gas	Brazil	Sinopec Group	China
6 127	Millipore Corp	Laboratory analytical instruments	United States	Merck KGaA	Germany
5 959	Sybase Inc	Prepackaged Software	United States	SAP AG	Germany
5 516	ZAO Kyivstar GSM	Radiotelephone communications	Ukraine	Vimpelkom	Russian Federation
5 195	Unity Media GmbH	Cable and other pay television services	Germany	Liberty Media Corp	United States
4 931	Ratiopharm International GmbH	Pharmaceutical preparations	Germany	Teva Pharm Inds Ltd	Israel
4 848	Republic of Venezuela-Carabobo Block	Crude petroleum and natural gas	Venezuela	Group of Investors	India
4 700	East Resources Inc	Crude petroleum and natural gas	United States	Royal Dutch Shell PLC	Netherlands
4 517	Pactiv Corp	Plastics foam products	United States	Rank Group Ltd	New Zealand
4 469	Egyptian Co for Mobile Services	Radiotelephone communications	Egypt	France Telecom SA	France
4 380	Tomkins PLC	Mechanical power transmission equipment, nec	United Kingdom	Onex Corp	Canada
4 110	Denway Motors Ltd	Motor vehicle parts and accessories	Hong Kong, China	GAIG	China
4 052	AXA SA-Life Assurance Business,UK	Life insurance	United Kingdom	Resolution Ltd	Guernsey
4 031	OSI Pharmaceuticals Inc	Pharmaceutical preparations	United States	Astellas Pharma Inc	Japan
4 000	Liberty Global Inc- Subsidiaries	Cable and other pay television services	United States	KDDI Corp	Japan
3 800	Bunge Participacoes e Investimentos SA	Soybean oil mills	Brazil	Vale SA	Brazil
3 713	Piramal Healthcare Ltd- Healthcare Solutions Business	Pharmaceutical preparations	India	Abbott Laboratories	United States
3 700	Kraft Foods Inc-North American Pizza Business	Frozen specialties, nec	United States	Nestle SA	Switzerland
3 679	Abertis Infraestructuras SA	Highway and street construction	Spain	CVC Capital Partners Ltd	United Kingdom
3 426	Tandberg ASA	Radio & TV broadcasting & communications equipment	Norway	Cisco Systems Inc	United States
3 397	HS1 Ltd	Railroads, line-haul operating	United Kingdom	Group of Investors	Canada
3 374	Andean Resources Ltd	Gold ores	United States	Goldcorp Inc	Canada
3 363	Springer Science+Business Media Deutschland GmbH	Books: publishing, or publishing & printing	Germany	Group of Investors	Guernsey
3 330	Interactive Data Corp	Information retrieval services	United States	Interactive Data Corp SPV	United States
3 270	General Growth Properties Inc	Real estate investment trusts	United States	Brookfield Asset Mgmt Inc	Canada
3 269	Sunrise Communications AG	Radiotelephone communications	Switzerland	CVC Capital Partners Ltd	Luxembourg
3 250	BP PLC-Western Canadian Upstream Gas Assets	Crude petroleum and natural gas	Canada	Apache Corp	United States
3 164	Arrow Energy Ltd	Crude petroleum and natural gas	Australia	Royal Dutch Shell PLC	Netherlands
3 160	Tommy Hilfiger Corp	Men's shirts and nightwear	Netherlands	Phillips-Van Heusen Corp	United States
3 119	Dimension Data Holdings PLC	Computer integrated systems design	South Africa	Nippon Telegraph & Telephone	Japan
3 100	Bridas Corp	Crude petroleum and natural gas	Argentina	CNOOC	China
3 100	BP PLC-Permian Basin Assets	Crude petroleum and natural gas	United States	Apache Corp	United States
3 090	Intoll Group	Investment offices, nec	Australia	Canada Pension Plan	Canada
3 019	RBS WorldPay	Functions related to depository banking, nec	United Kingdom	Group of Investors	United States
First quarter 2011					
25 056	GDF Suez Energy Europe & International	Natural gas transmission	Belgium	International Power PLC	United Kingdom
7 057	AXA Asia Pacific Holdings Ltd	Life insurance	Australia	AMP Ltd	Australia
6 300	Chrysler Financial Corp	Personal credit institutions	United States	Toronto-Dominion Bank	Canada
6 041	AXA Asia Pacific Holdings Ltd	Life insurance	Australia	AMP Ltd	Australia
5 629	Bank Zachodni WBK SA	Banks	Poland	Banco Santander SA	Spain
5 000	Vodafone Essar Ltd	Radiotelephone communications	India	Vodafone Group PLC	United Kingdom
4 948	Vale SA-Aluminum Operations	Iron ores	Brazil	Norsk Hydro ASA	Norway
4 800	AIG Star Life Insurance Co Ltd	Life insurance	Japan	Prudential Financial Inc	United States
4 546	Porsche Holding GmbH	Automobiles and other motor vehicles	Austria	Porsche Automobil Holding SE	Germany
3 895	Baldor Electric Co	Motors and generators	United States	ABB Ltd	Switzerland
3 832	Turkiye Garanti Bankasi AS	Banks	Turkey	BBVA	Spain
3 800	Universal Studios Holding III Corp	Television broadcasting stations	United States	GE	United States
3 800	OAO "Vimm-Bill'-Dann Produkty Pitaniya"	Fluid milk	Russian Federation	PepsiCo Inc	United States
3 549	EMI Group PLC	Services allied to motion picture production	United Kingdom	Citigroup Inc	United States

Source: UNCTAD.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-October 2011. Final data for 2010 will appear in the World Investment Report 2011, scheduled to be released on 26 July 2011. Final

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