PART ONE

FDI TRENDS, POLICIES AND PROSPECTS

CHAPTER I

GLOBAL TRENDS: FDI FLOWS IN DECLINE

The current global financial and economic crisis has had a dampening effect on foreign direct investment (FDI). As a result, FDI flows are expected to fall to $900–$1,200 billion in 2009, though there should be a slow recovery in 2010 and an acceleration in 2011.

In 2008 and early 2009, global FDI flows declined following a period of uninterrupted growth from 2003 to 2007. Meanwhile, the share of developing and transition economies in global FDI flows surged to 43% in 2008.

Shrinking corporate profits and plummeting stock prices have greatly diminished the value of, and scope for, cross-border mergers and acquisitions (M&As) – the main mode of FDI entry in developed countries, and increasingly in developing countries as well. Falling demand for goods and services has caused companies to cut back on their investment plans in general, including abroad – whether through cross-border M&As or greenfield projects. The latter mode of investment began falling only in 2009.

FDI initially began to decline significantly in developed countries, which experienced a 29% fall in their inflows, while flows to developing countries and to the transition economies of South-East Europe (SEE) and the Commonwealth of Independent States (CIS) continued to increase, by 17% and 26% respectively. However, in late 2008 and early 2009, the latter two groups of countries also started to feel the impact of the crisis on their inflows. A number of these economies are expecting a significant fall in FDI inflows throughout 2009.

This chapter examines global trends in FDI flows in 2008 and the first half of 2009, including why and how the financial crisis and the ensuing economic slowdown have affected FDI flows (section A). Section B then examines how the largest transnational corporations (TNCs) are dealing with the global crisis, while section C presents recent developments with respect to FDI by private equity firms and sovereign wealth funds (SWFs). Section D outlines recent policy developments with respect to FDI and policy responses to the crisis. Finally, section E considers the prospects for global FDI flows in the short and medium terms as the world's economies act to restore financial stability and economic growth.

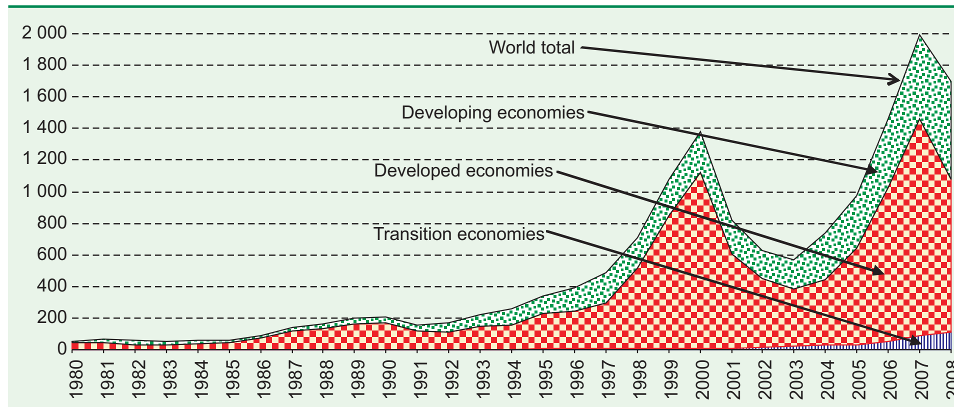
A. The financial crisis, economic downturn and FDI flows

1. Global slowdown in FDI flows, prompted by the crisis[1]

Turmoil in the financial markets and the worldwide economic downturn progressively affected global FDI in 2008 and in the first half of 2009. After uninterrupted growth in FDI activity in the period 2003–2007, global FDI inflows fell by 14% in 2008 to $1,697 billion, from a record high of $1,979 billion in 2007 (figure I.1). While the 2008 level was the second highest in history, FDI flows began gradually declining over the course of that year. In the first half of 2009, FDI flows fell at an accelerated rate.

The pattern of FDI flows has varied by groups of economies. FDI inflows and outflows of developed countries plunged in 2008, with inflows declining by 29%, to $962 billion, and outflows by 17%, to $1,507 billion. FDI flows fell further as the financial crisis entered a tumultuous new phase in

Figure I.1. FDI inflows, global and by groups of economies, 1980–2008
(Billions of dollars)



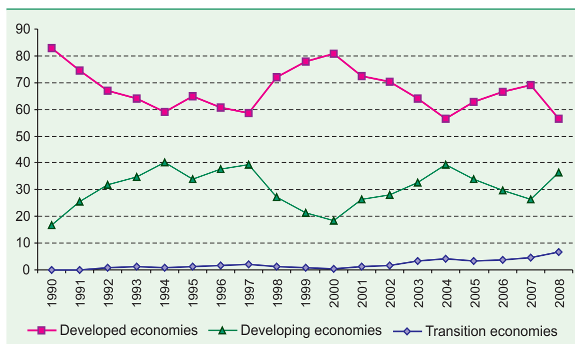
Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD Secretariat estimates.

September 2008 following the collapse of Lehman Brothers (one of the largest financial institutions in the United States), and as major developed economies fell into, or approached, economic recession. In the first half of 2009, developed countries' FDI inflows are estimated to have dropped by another 30–50% compared with the second half of 2008.[2]

In contrast, developing and transition economies saw FDI inflows rise in 2008 to record levels for both, with their shares in global FDI inflows growing to 37% and 7%, respectively, from 27% and 5% in the previous year (figure I.2). The combined share was 43%, close to the record share attained in 1982 and 2004, which demonstrates the increasing importance of these economies as hosts for FDI during the crisis – at least in 2008.

Their inflows, however, started to decline in late 2008 as the economic downturn in major export markets began to seriously affect their economies, and as the risk premiums of their sovereign and corporate debt sharply increased. Thus the downturn in FDI inflows into developing and transition economies began almost one year after it had started in developed countries. This reflects the time lag associated with the initial economic downturn and consequent slump in demand in developed-country markets, which are important destinations for goods produced by developing-country and transition-economy firms.

Figure I.2. Shares of the three major groups of economies in global FDI inflows, 1990–2008
(Per cent)



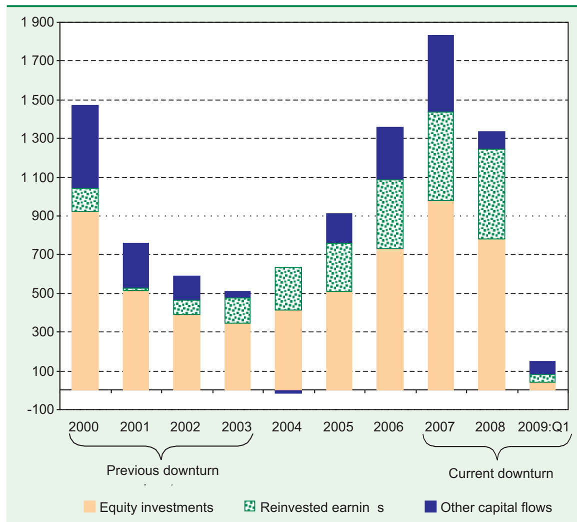
Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD secretariat estimates.

There were declines in all three components of FDI inflows – equity, reinvested earnings and other capital flows (mainly intra-company loans) – in late 2008 and early 2009, particularly in developed countries. Equity investments fell as cross-border M&As declined. Lower profits of foreign affiliates have been driving down reinvested earnings significantly, particularly in 2009. The restructuring of parent companies and their headquarters led, in some cases, to repayments of outstanding loans by foreign affiliates. As a result, net intra-company capital flows from TNCs to their foreign affiliates declined, or turned negative, which depressed FDI flows.

The structure of the fall in FDI flows in the current downturn is similar to that of the previous downturn in 2001 (figure I.3). However, the proportionate decline in equity investments today vis-à-vis reinvested earnings and other capital flows is larger than that registered during the previous downturn. This development is striking, since the larger the proportion of the decline in FDI flows due to a fall in equity investment (as opposed to reinvested earnings and other capital flows), the longer the recovery is likely to take. This is because equity investments are relatively long term and are undertaken for the purpose of funding and expanding production facilities. They therefore require careful consideration by parent firms. Reinvested earnings and intra-company credit flows, on the other hand, are often determined by the short-term liquidity or tax-driven motivations of TNCs, and can recover rapidly, even in response to temporary government measures (e.g. tax incentives).

Although declining, FDI flows to developing countries have proved to be more resilient in 2008 and 2009 than other capital flows, such as portfolio

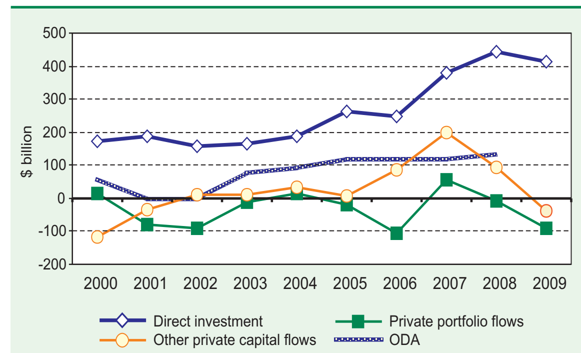
Figure I.3. Global FDI inflows by component, 2000–2009[a]
(Billions of dollars)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD Secretariat estimates.

[a] For 2009, January-March only, based on 46 countries that account for roughly two thirds of global FDI inflows .

Figure I.4. Net capital flows[a] to developing countries, 2000–2009
(Billions of dollars)



Source: IMF, 2008, for net direct investment flows, net private portfolio flows and other private capital flows; and OECD/DAC for official development assistance (ODA).

[a] Data are shown in accordance with the standard balance-of-payments presentation. Thus total net capital flows are equal to the balance on financial account. For example, net FDI flows refer to FDI inflows (or direct investment flows into the reporting economy) less FDI outflows (direct investment flows abroad). Official flows refer to official borrowing.

Note: The IMF's classification of developing countries is used in this figure. It differs from UNCTAD's classification in that it includes new EU member States from Central and Eastern Europe, and excludes high-income countries such as the Republic of Korea and Singapore from developing countries.

investments and bank lending. The main reasons for this is that FDI is more of a long-term nature than other capital flows.

The positive and even relatively high economic growth rates that still prevail in several developing countries (e.g. China, India) are also a countervailing force against low export demand and low commodity prices, which exert a downward pressure on FDI. FDI inflows into developing countries are projected to fall in 2009, but should nevertheless remain relatively high overall, with expected net inflows of about $400 billion (IMF, 2008). In contrast, net flows of both portfolio capital and bank loans to developing countries are expected to turn negative (figure I.4).

Not all companies were similarly affected by the crisis. The fairly long upward trend of the world economy over the past four years or more strengthened the financial and competitive position of many TNCs. The financial crisis and the fall in stock markets also give them the opportunity to tap new markets or to acquire former competitors. In fact, the need for consolidation of the most affected financial institutions, as well as enterprises in other sectors, has encouraged FDI transactions. Examples abound (box I.1).

2. The transmission channels of the crisis

The decline in FDI flows in 2008–2009 reflects, with some time lag (particularly in developing countries), the impact of the financial crisis. The crisis began in the second half of 2007, became more serious in the last quarter of 2008, and led to a slowing down of global economic activity, especially in the major developed economies. Its negative impact on FDI has been twofold: because of reduced access to finance it has affected firms' *capacity* to invest, while their *propensity* to invest has been affected by gloomy economic and market prospects and heightened risk perceptions.

Reduced access to finance. Financial factors have adversely affected TNCs' *capacity* to invest, both internally and externally, as tighter credit conditions and lower corporate profits have curtailed TNCs' financial resources for funding overseas investment projects (as well as domestic ones). At the same time, credit has become less abundant and more expensive. For instance, spreads in corporate bonds soared dramatically in the last few months of 2008, and they still remain at a very high level.[3] Syndicated bank loans, as well as funds for leveraged buyouts (LBOs), also shrank dramatically.[4] This deterioration in the external funding environment makes it more difficult for non-financial companies to invest in foreign operations or to make cross-border M&A deals.

On the other hand, poor earnings of large companies – in a broad range of industries – in Europe, Japan and the United States, as evidenced by declared or projected profits since the fourth quarter of 2008, have reduced these companies' self-financing capabilities.[5] During the course of 2008, the corporate sector came under growing financial pressures. Liquidity for FDI purposes fell as profits

Box I.1. Examples of FDI projects in the form of cross-border M&As and restructuring

- In mining industries, particularly in the oil sector, large companies that earned record profits in 2008 due to high oil prices during the first three quarters of the year, such as ExxonMobil, Total and Shell, are in a position to acquire smaller or more fragile competitors. For instance, Shell bought the Virginia-based natural gas company Enspire Energy in December 2008. In contrast, Rio Tinto, which is in a very difficult financial situation, narrowly escaped a hostile bid by BHP in late 2008, and is still in search of fresh cash to secure its financial position.
- In chemicals, BASF is set to purchase Ciba, but will have to sell some activities to abide by European Union competition rules.
- In the automotive industry, large United States automakers, such as General Motors and Chrysler, have fallen to bankruptcy despite a massive bailout by the United States Government, and they are still fighting for survival. Fiat acquired a stake in the ailing United States car manufacturer Chrysler, while various European and Chinese car makers may buy Volvo from Ford.
- In pharmaceuticals, Sanofi is seeking mid-sized acquisitions to secure new blockbusters and to compensate for the loss of patents and the growing competition from generics. Roche has acquired full ownership of its United States subsidiary Genentech. Pfizer has purchased Wyeth for about $64.5 billion, while Merck has taken control of Schering Plough for 45.9 billion euros.
- In utilities, RWE has acquired the Dutch State-owned utility Essent, for 9.3 billion euros. Enel has increased its share in Endesa from 67% to 92%, but is also going through a period of financial distress, which could pave the way for a further major restructuring. GDF Suez has allied with Iberdrola to bid for the renewal of its nuclear power plant programme through a United Kingdom tender.
- In financial services, Japanese financial companies have recently acquired several crisis-hit United States financial companies (e.g. Nomura Holdings acquired the Asian and European operations of Lehman Brothers and Mitsubishi UFJ Financial Group took a 21% stake in Morgan Stanley). Financial companies established abroad by Icelandic firms were also bought up: Glitnir AB (a branch of Glitnir in Sweden), was acquired by HQ AB (Sweden), and DLG Ltd. and Kaupthing Singer & Friedland Premium Finance Ltd. in the United Kingdom (both of which were owned by Kaupthing Bank), were acquired by DM Plc (United Kingdom) and Close Brothers Group Plc (United Kingdom), respectively, in 2008.

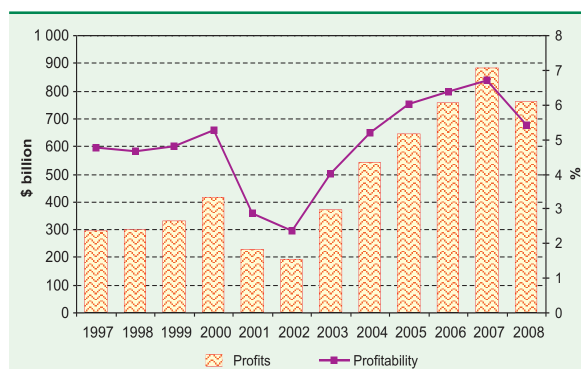
Source: UNCTAD, 2009a.

of TNCs plummeted from the high levels of 2007 (figure I.5). At the same time, a decline of about 50% in stock markets worldwide since January 2007 has reduced TNCs' ability to turn to these markets for financing purposes and for leveraging their M&A activities using stock shares.

The fall in profits has also hit foreign affiliates of TNCs which, as a result, are able to reinvest less from their earnings. While global reinvested earnings of foreign affiliates in 2008 as a whole increased marginally, from $468 billion in 2007 to $487 billion in 2008 (figure I.6), those in the first quarter of 2009 fell by roughly 40% from the same period in 2008, sharply reversing the trend of previous years and contributing further to the downward movement in FDI inflows. As in earlier periods of slow global economic growth, it is expected that the value of reinvested earnings in total FDI inflows will shrink further during the ongoing economic downturn.

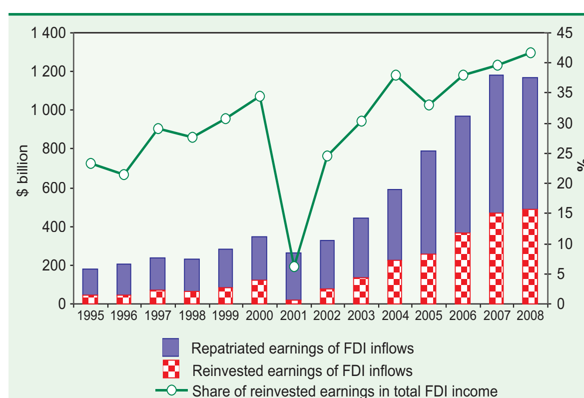
Gloomy market prospects. The depressed evolution of markets (especially in developed countries, which are experiencing the worst recession

Figure I.5. Profitability[a] and profit levels of TNCs, 1997–2008



Source: UNCTAD, based on data from Thomson One Banker.
[a] Profitability is calculated as the ratio of net income to total sales.
Note: This calculation covers 987 TNCs.

Figure I.6. Worldwide income on FDI and reinvested earnings, 1995–2008[a]



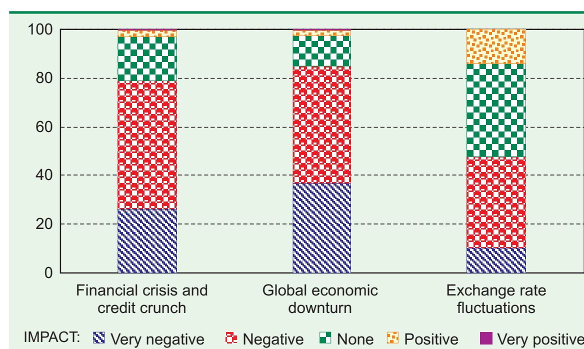
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

since the Second World War) has also reduced firms' *propensity* to invest in further expansion of production capacity, both domestically and internationally. The latest IMF forecasts envisage a decline in world output in 2009, for the first time in 60 years. Total output in developed countries as a whole is expected to contract in 2009 by 3.8%, compared with a 0.8% rise in 2008 – the first such fall in the post-war period – while the growth rate in emerging and developing economies is likely to be lower, though still positive at 1.5%. The Organisation for Economic Co-operation and Development (OECD), the United Nations and the World Bank point to similar negative trends (table I.1).

Risk aversion. Companies' investment plans may also be scaled back due to a high level of perceived risks and uncertainties, in order to develop resilience to possible "worst-case" scenarios of financial and economic conditions. Many confidence indicators have fallen to historic lows – as exemplified, for instance, by the fall in the *Ifo World Economic Climate Index*,[6] the consumer confidence index of the Conference Board (United States) and the *Euro Zone Economic Confidence Index*. A large percentage of companies might implement cost-cutting programmes (including divestments, layoffs, and postponement or cancellation of investment projects) beyond what might be justified by the grim business outlook.

An UNCTAD survey of firms' investment prospects suggests that the investment plans of large TNCs have already been impacted significantly by the ongoing crisis (UNCTAD, 2009b).[7] Of the TNCs responding to the survey, 85% reported that the economic downturn had a "negative" or "very negative" impact on their planned investment expenditures, and 79% and 47% reported "negative" or "very negative" impacts from the financial crisis and volatile exchange rates respectively (figure I.7).

Figure I.7. Impact of various aspects of the crisis on companies' investment plans
(Per cent of responses)



Source: UNCTAD, 2009b.

Table I.1. World economic growth and growth prospects, 2008–2010

Source	Region/economy[a]	GDP (annual growth rate %) 2008	2009	2010
IMF	World	3.1	- 1.4	2.5
	of which:			
	Advanced economies	0.8	- 3.8	0.6
	Developing and emerging economies	6.0	1.5	4.7
World Bank	World	1.9	- 1.7	2.3
	of which:			
	High income countries	0.8	- 2.9	1.6
	Developing countries	5.8	2.1	4.4
United Nations	World	2.5	1.0 (baseline)	..
	of which:			
	Developed economies	1.2	-0.5 (baseline)	..
	Developing economies	5.9	4.6 (baseline)	..
	Transition economies	6.9	4.8 (baseline)	..
OECD	OECD countries	0.8	- 4.1	0.7

Source: IMF, 2009a; World Bank, 2009a; OECD, 2009 and United Nations, 2009.

[a] Each institution uses different classifications.

3. Key features of the FDI downturn and underlying factors

The previous sections noted the overall decline in FDI flows and explained the transmission channels by which the economic and financial crisis has negatively impacted FDI. This section focuses on the key features of the downturn in terms of different FDI modes. It is important to have a good understanding of its causes, as different drivers call for different policy responses by host and home governments.

FDI flows have fallen mainly for the following reasons:

- New investments to expand business abroad, either through cross-border M&As or greenfield projects, are falling; and
- Divestments[8] or other transfers of funds (e.g. repayments of debt, reverse loans)[9] from existing foreign affiliates to their parent firms are exceeding new investments by parent firms.

a. The role of divestments

Since the second or third quarter of 2008, divestments, including repatriated investments, reverse intra-company loans and repayments of debt to parent firms, have exceeded gross FDI flows to several host countries for which data were available. This phenomenon has produced negative inflows in the balance-of-payments statistics of several developed countries (table I.2). For example, in Ireland and the United Kingdom, FDI inflows in the form of other capital (intra-company loans) turned negative in 2008, although for the latter they improved

Table I.2. Selected developed countries with negative FDI inflows, by component, 2007−2009
(Millions of dollars)

FDI inflows by component	2007				2008				2009
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1
Denmark									
Total	2 119	2 094	2 839	2 622	3 652	4 499	2 594	- 178	4 076
Equity	160	4 392	2 781	- 799	77	- 932	4 452	458	158
Reinvested earnings	610	- 591	1 285	595	1 338	1 309	1 257	638	2 089
Other capital	1 349	-1 708	-1 227	2 825	2 237	4 123	-3 115	-1 274	1 830
Ireland									
Total	11 850	-1 077	8 313	5 621	-1 112	-5 251	-6 674	-6 993	1 163
Equity	2 517	-2 991	2 180	-4 307	-2 175	-3 567	-2 662	- 300	-3 081
Reinvested earnings	7 745	7 537	4 753	4 937	7 497	6 574	7 888	4 424	9 069
Other capital	1 588	-5 624	1 380	4 990	-6 434	-8 259	-11 902	-11 117	-4 825
Netherlands									
Total	13 458	9 087	-5 357	101 188	26 635	4 641	79	-34 847	4 950
Equity	1 857	24 444	-1 855	103 824	9 460	788	2 010	-41 538	573
Reinvested earnings	3 353	1 326	2 075	2 824	5 490	2 823	5 205	3 828	5 570
Other capital	8 246	-16 683	-5 579	-5 460	11 685	1 030	-7 138	2 862	-1 194
Norway									
Total	-3 212	3 899	- 658	4 404	-6 814	2 407	-2 514	6 825	172
Equity	-3 693	- 210	684	4 687	-8 334	- 62	228	3 628	-6 465
Reinvested earnings	674	674	674	674	701	701	701	701	701
Other capital	- 193	3 435	-2 015	- 958	820	1 768	-3 442	2 497	5 937
United Kingdom									
Total	27 324	47 864	26 802	94 399	45 560	27 666	-4 531	28 244	63 177
Equity	25 698	50 551	32 411	67 039	41 534	22 279	4 518	22 616	6 299
Reinvested earnings	14 881	11 527	11 277	10 913	11 490	13 463	2 794	1 676	6 002
Other capital	-13 254	-14 214	-16 886	16 448	-7 463	-8 077	-11 843	3 952	50 876
United States									
Total	18 523	85 816	99 100	67 737	57 825	101 995	64 244	92 048	33 312
Equity	19 894	49 442	57 628	28 416	42 203	44 227	53 889	109 864	22 158
Reinvested earnings	19 724	19 374	11 649	-5 953	10 077	27 618	16 101	-2 822	-10 258
Other capital	-21 094	17 000	29 823	45 274	5 545	30 150	-5 745	-14 995	21 412

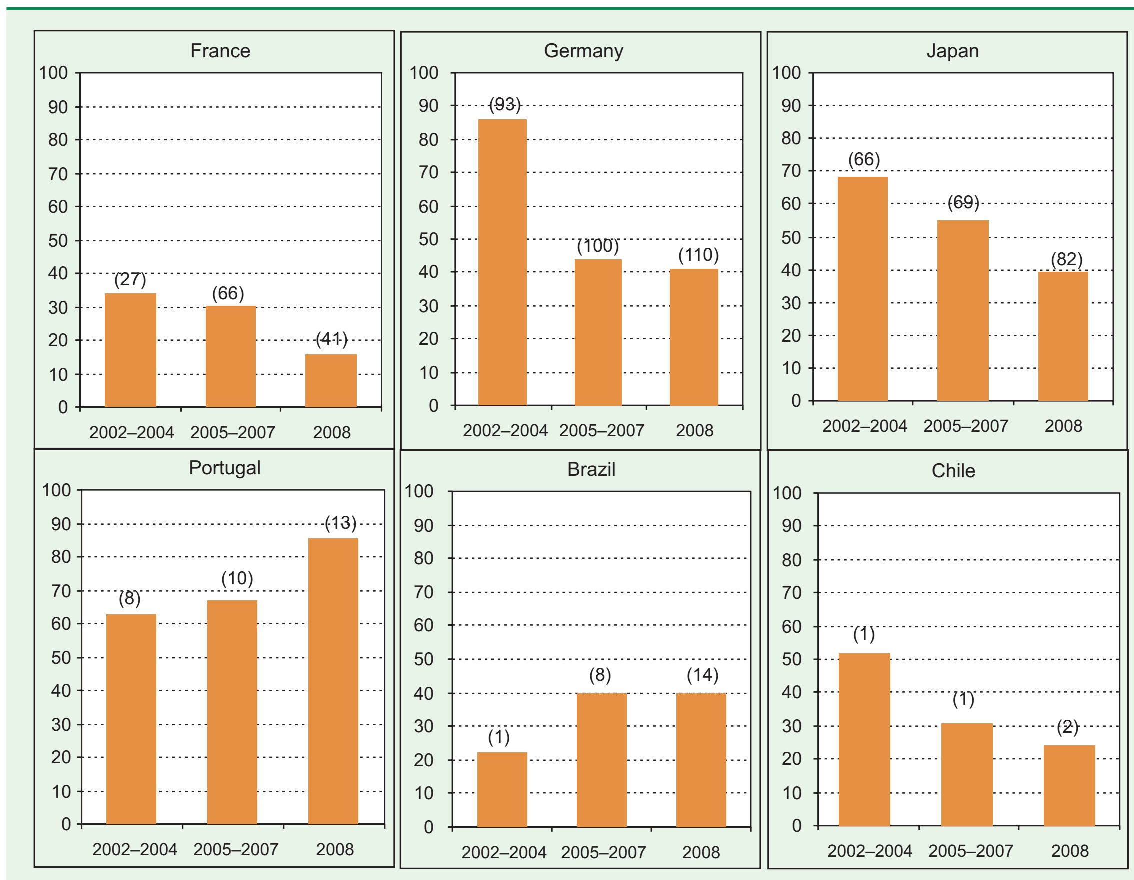
Source: UNCTAD, based on balance of payments statistics in each country.

in the first quarter of 2009. This was because foreign affiliates in these countries increased lending to their parents abroad. In Norway, negative inflows were due to large divestments of equity, a trend that accelerated in early 2009.

Generally, divestments are not uncommon: they affect between one quarter and four fifths of all FDI projects. The fact that the FDI boom during the period 2001–2007 was fuelled primarily by a surge in cross-border M&As, rather than by greenfield investments, suggests that divestments will rise later (Benito, 1997; Chow and Hamilton, 1993). During a recession or economic slowdown, parent firms are also likely to draw on funds available in their foreign affiliates, either in the form of reverse loans (loans provided to parent firms by foreign affiliates) or repayments of debts by foreign affiliates to parent firms. Evidence of the impact of the present crisis on divestments, however, remains scarce. This is due to the fact that, as the crisis deepened in late 2008, its impact on overall annual flows – those for which divestment data are currently more readily available – was limited in 2008. In most countries for which data were available divestments rose in absolute value in 2008 as compared to the 2005–2007 period, but there was not a clear increase in their share of gross FDI outflows (figure I.8). However, quarterly data suggest that the share of divestments began increasing from the fourth quarter of 2008 onwards. For instance, the share of divestments in total FDI outflows in the first quarter of 2009 reached 64% in Japan (from 39% in 2008), 116% in Brazil (from 40%), and 19% in France (from 16%).

Divestment is the result of the interplay of factors external and internal to TNCs. Some of the recent divestments represent the relocation of activities to low-cost production sites in order to cut costs in increasingly competitive world markets, particularly in those markets where economic slowdown due to the current financial and economic crisis has led to lower demand. The relocation to other host countries can be a response to general economic difficulties in the home countries of the investing firms, or it may reflect changes in the strategic positions of units within TNCs' international production systems as they restructure their international operations. Both

Figure I.8. Divestment[a] and its share in gross outward FDI[b] in selected countries, 2002–2008
(Per cent and billions of dollars)



Source: UNCTAD, based on information from Banco do Brasil, Banco Central de Chile, Banque de France, Deutsche Bundesbank, Bank of Japan and Banco de Portugal.

[a] Includes reverse equity investments and reverse loans.

[b] (Net) FDI flows plus divestments.

Note: Figures in parentheses show the value of divestments as a share of total gross investments. For example, in Portugal in 2008, an equivalent of over 80% of total new investments were divested. In other words, only less than 20% of gross investments were finally recorded as net FDI outflows.

factors have been at play during the present crisis, as the deterioration in the external environment has led to reduced investment opportunities and to poorer performance by affiliates of many TNCs.

Divestments can also be spurred by changes in the economic environment, which can affect specific industries. For example in industries associated with the product life-cycle, divestments may occur as a result of a large number of simultaneous exits when the activity reaches maturity, or they may occur if there is a restructuring of an industry, as is currently happening in the automotive, electrical and electronics industries.

Strategic considerations have been behind a large number of divestments undertaken recently. A decision to focus on core business and divest from non-core activities often leads to the closure of operations and their replacement by outsourcing or imports. Divestments also take place when TNCs merge: some operations are eliminated to avoid duplication and to achieve the cost savings that often drive mergers in the first place.[10] In addition, divestments may be driven by the poor economic performance of an individual affiliate – a common occurrence during economic downturns.[11] It then becomes difficult to separate divestments triggered by the crises from other divestments.

In some cases, foreign affiliates are closed down in a host country and part or all of their activities relocated to the home country (box I.2).

The current economic downturn has forced many TNCs to undertake internal restructuring in order to cut costs because of reduced demand or demand growth, and growing competition. In such an environment, retaining existing FDI is no less important for host countries than attracting new FDI. In order for governments to prevent divestment, there is a need to distinguish between divestment and relocation, even though for individual host countries the consequences for FDI inflows are identical.

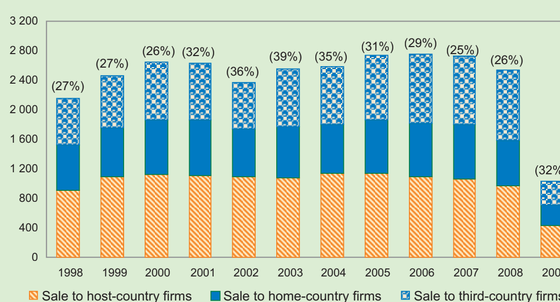
Box I.2. The impact of international restructurings on FDI flows: some puzzling evidence

In the current economic downturn, parent firms are likely to restructure their foreign operations, including through the closure of foreign affiliates, and/or relocation to third countries or back to their home country. However, the way the relocated FDI is reflected in the balance of payments depends on where the relocated FDI goes. Its impact on FDI flows can be positive, negative or nil:

- A positive impact on global FDI flows will result when a company reduces its investment at home to invest abroad, and/or sells a subsidiary in its home country to a foreign company.
- A negative impact on FDI inflows in the host economy, and on global flows, will result if a company reduces its activities abroad to relocate to its home country, and/or if it sells a foreign subsidiary to a domestic company in the host country.
- Finally, if a company decides to dispose of its activities in a foreign country and relocate to another foreign country, or sells a subsidiary abroad to another foreign company, the impact on global FDI flows will be nil.

A foreign affiliate may be sold to a firm based in the host country, the home country or a third country. In 2008, some 2,400, or 26% of the total number of cross-border M&A deals in the world, involved transactions in which foreign affiliates were purchased by other firms. The total number of these cases did not increase from that in 2007, and was even lower than in the previous downturn period of 2001–2003 (box figure I.2.1). However, of these deals in 2008, the number of deals involving the sale of a foreign company to a firm in a third country hit a record high, reaching more than 900. On the other hand, sales to domestic firms, or firms based in the same home country as the divesting company, decreased slightly.

Box figure I.2.1. Sale of foreign affiliates to firms based in host, home or third country, 1998–2009[a]
(Number of deals)



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

[a] Data for 2009 refer to January—June only.

Note: Figures in parentheses show the proportion of deals involving disposal of foreign affiliates to other firms (whether based in a host, home or third country) in the total number of deals.

Source: UNCTAD.

Divestment and relocation call for different policy responses, and the ability of policymakers to influence them also differs. When a country is faced with the closure of foreign affiliates in its economy due to a shift of investment to another, more locationally advantageous country, the major policy challenge for that country is to maintain its relative attractiveness for FDI. This is particularly important for investment that does not have high barriers to exit (i.e. does not involve high sunk costs).

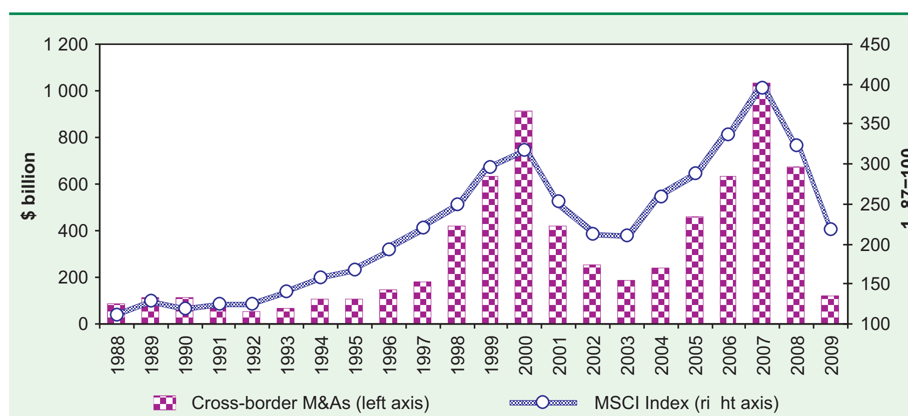
b. Mode of investment

The crisis had different impacts on cross-border M&As and greenfield projects. This suggests that these two modes of entry were adversely affected for different reasons. These differences may have distributional implications for individual host and home countries and industries in terms of the extent of the fall in FDI. To a large extent, in addition to lack of finance, the decline in the value of M&As has been driven by falling stock prices (figure I.9). In 2008, the fall in equity prices alone was equivalent to an $81 billion decline in cross-border M&As, which accounted for 18% of the total decline. On the other hand, the value of greenfield projects, which diminished following a considerable time lag, is likely to have reflected investors' responses to dimmer economic prospects and, to some extent, to financing difficulties.

(i) Large decreases in M&As

Cross-border M&As in general have been strongly affected as a direct consequence of the crisis, with a 35% decline in their value in 2008 compared with 2007. A fall was also recorded for the first half of 2009, to $123 billion (figure I.9). In particular, in 2008 there was a global reduction in the number and value of mega deals (i.e. cross-border M&As valued at more than $1 billion). The number of such deals fell by 21% and their value by 31% (table I.3). The decrease in total cross-border M&As has had a significant impact on FDI flows, as they are strongly correlated with the value of cross-border M&A transactions.

Figure I.9. Value of global cross-border M&As and MSCI World Index, 1988–2009[a]



Source: UNCTAD cross-border M&A database; and Morgan Stanley Capital International, MSCI World Index.

[a] For 2009, January–June only.

Note: The MSCI All Country World Index is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As atJanuary 2009, the MSCI index covered 46 countries: 23 developed and 23 emerging-market economies.

Several factors contributed to the decline. As mentioned earlier, the sharp fall in share prices on developed countries' stock markets – where stock-market indices plunged, on average by more than 40% in 2008 – depressed the value of M&A transactions (annex table B.4). The extent of the fall in share prices was similar in all major developed economies: in the United States, the S&P 500 Index saw a 41% drop, in the euro area the DJ Euro Stoxx 50 fell by 44%, while in Japan the Nikkei fell by 44%.[12] In developed countries, share prices of the financial services industry plummeted by 60% and the value of cross-border M&A purchases by 36%, although the number of cross-border M&As shrank by only 14%.

The financial crisis has also made equity and debt financing of M&A transactions more difficult and expensive. Whereas normally during times of falling corporate profits, companies tend to finance M&A deals with new stock, with the rapidly falling stock markets this is less feasible. Another impact of the crisis has been to reduce the cash financing of M&As, which had been the main method of funding in the boom years prior to 2008. At the same time, the cost of debt financing for cross-border M&As has risen, as bank lending conditions have deteriorated rapidly following tightening credit conditions and rising interest rate premiums for the corporate sector. One outcome of the crisis is that a number of large privatization projects have had to be cancelled (table I.4).[13]

Leveraged buyouts, which generally involve private equity funds or hedge funds, nearly dried up during the course of 2008 (section C), as banks hesitated to take the risk of extending highly leveraged loans to these funds. These funds had been among the main drivers of cross-border M&As during the period 2005–2007. The rising share of bank loans in the financing of M&As by private equity funds aggravated the decline, as private equity firms had less funds to finance M&As and as rolling over short-term debt became more difficult.

In developed countries, the number of mega deals declined from 274 in 2007 to 203 in 2008. In contrast, in developing countries, M&A activity remained strong in 2008, with 41 mega deals concluded, compared with 35 such deals in 2007. In the transition economies the number decreased: 7 in 2008 compared with 10 in 2007.

Table I.3. Cross-border M&As (valued at over $1 billion), 1987–2009 [a]

Year	Number of deals	Percentage of total	Value ($billion)	Percentage of total
1987	19	1.6	39	40.1
1988	24	1.3	53	38.7
1989	31	1.1	68	40.8
1990	48	1.4	84	41.7
1991	13	0.3	32	27.0
1992	12	0.3	24	21.0
1993	18	0.5	38	30.5
1994	36	0.8	73	42.5
1995	44	0.8	97	41.9
1996	48	0.8	100	37.9
1997	73	1.1	146	39.4
1998	111	1.4	409	59.0
1999	137	1.5	578	64.0
2000	207	2.1	999	74.0
2001	137	1.7	451	61.7
2002	105	1.6	266	55.0
2003	78	1.2	184	44.8
2004	111	1.5	291	51.5
2005	182	2.1	569	61.3
2006	215	2.4	711	63.6
2007	319	3.0	1 197	70.4
2008	251	2.6	823	68.3
2009[a]	40	1.2	171	67.2

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

[a] For 2009, January–June only.

Table I.4. Selected cross-border M&As and privatization programmes cancelled or postponed due to the global financial crisis

Acquiring company (country)/privatization	Target company (country)	Value	Industry
Samsung Electronics (Rep. of Korea)	SanDisk (United States)	$5.9 billion	Electronics
Xstrata (United Kingdom and Switzerland)	Lonmin (United States)	$10 billion	Mining
AT&T, Vodafone, Blackstone	Huawei (only mobile handset business operations) (China)	$2 billion	Electronics
Ping An Insurance (China)	Fortis (Belgium)	€ 2.2 billion	Finance
Cancelled or postponed privatization	Punta Colonet (Mexico)	$6 billion	Ports
Cancelled or postponed privatization	Kuwait Airways (Kuwait)	-	Airlines
Cancelled or postponed privatization	La Poste (France)	-	Postal services
Cancelled or postponed privatization	TeliaSonera (Sweden)	-	Telecoms
Cancelled or postponed privatization	Nordea (Sweden)	-	Finance
Cancelled or postponed privatization	Oman Telecommunication Company (25%)	-	Telecoms
Cancelled or postponed privatization	SBAB (Sweden)	-	Finance

Source: UNCTAD, 2009a.

In terms of value, in the first half of 2009 M&A deals fell not only in developed countries, but also in developing and transition economies (figures I.10 a, b and c). In the latter economies, this was partly the result of shrinking exports and lower prices of energy and other natural resources, which made target firms less attractive.

(ii) Downturn in greenfield investments since end 2008

Greenfield investment projects (new investments and expansion of existing facilities) began to feel the impact of the crisis only in the fourth quarter of 2008. The number of such investments actually increased markedly during the first three quarters of that year, reaching over 11,000. It thus almost equalled the total for the whole of 2007[14] (annex tables A.I.1–A.I.2 for country and industry breakdown data, respectively). But from September 2008 onwards there has been a continuous decline in the monthly flow of projects.[15] As with M&As, recent announcements in various industries mention the cancellation or postponement of many projects,[16] the consequences of which will be fully felt in 2009.

4. Uneven impact of the crisis on different regions and sectors

The impact of the crisis on FDI patterns in 2008 has varied by region,

Figure I.10. Value of global cross-border M&As, by quarter, 2006–2009
(Billions of dollars)

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] Net sales on the basis of the region of the immediate acquired company.
[b] South-East Europe and CIS.
Note: Net cross-border M&A sales in a host economy are sales of companies in the host economy to foreign TNCs (excluding sales of foreign affiliates in the host economy). Net cross-border M&A purchases by a home economy are purchases of foreign companies abroad by home-based TNCs (excluding sales of foreign affiliates of home-based TNCs). The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

and by sector/industry. Its impact on FDI also differs from the impact of the dot-com crisis in 2001 (box I.3).

a. Geographical patterns

(i) FDI inflows

FDI inflows to developed countries in 2008 shrank by 29%, to $962 billion, compared with the previous year. This was mostly due to a decline in cross-border M&A sales, which fell by 39% in value after a five-year boom (annex table B.4). In Europe cross-border M&A deals diminished by 56%,[17] and in Japan by 43%. Worldwide mega deals have been particularly badly affected by the crisis: their number fell by 21% in 2008, and their value by 31%. By contrast, the number of greenfield investments in developed countries rose in 2008 to 6,972 from 6,195 in 2007, but fell in the first quarter of 2009 at an annual rate of 16% (annex table A.I.1).

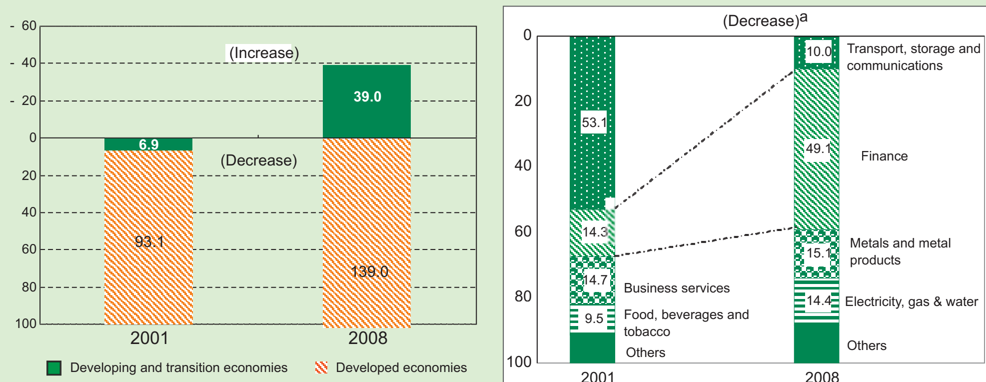
In 2008, FDI inflows into *developing countries* were less affected than those into developed countries. In the first half of 2008 developing countries seemed better able to weather the global financial crisis, as their financial systems were less closely interlinked with the hard-hit banking systems of the United States and Europe. Their economic growth remained robust, supported by rising commodity prices. FDI inflows into developing countries therefore increased in 2008, but at 17% this was a lower rate than in previous years. FDI inflows increased considerably in Africa (+27%) and in Latin America and the Caribbean (+13%), continuing the upward trend of the preceding years for both regions. Economic growth slowed down in 2008 in both regions, but less forcefully down than developed countries and, to a lesser extent, the developing countries of Asia. In 2008, there were some large cross-border M&A deals in Africa, especially in the construction industry, as illustrated by the acquisition of OCI Cement Group of Egypt by Lafarge SA (France) for $15 billion – one of the biggest M&A transactions that year (annex table A.I.3). Asia, the developing region that received the largest amount of FDI, saw a rise in inflows of 17% in 2008. However, the experience of the different subregions and economies in this region varied greatly. In South Asia, FDI inflows continued to grow considerably, rising by 49%, whereas they decreased in South-East Asia (-14%). In early 2009,

Box I.3. Downturn in FDI: comparison with the previous reversal

In the 2001 dot-com crisis, the first to be hit by the decline in FDI inflows was Germany, followed by (in order of magnitude) the United States, the United Kingdom, Canada and Hong Kong (China). In contrast, in 2008, the five countries with the largest declines were the Netherlands, the United Kingdom, Canada, Belgium and Ireland, in that order.

With regard to industries, in the 2001 downturn, telecommunications experienced the largest fall in FDI, whereas in the current downturn, finance has been the hardest hit (box figure I.3.1). These and other differences by country and industry reflect the contrasting sources and origins of the previous and current downturns.

Box figure I.3.1. Comparison of falling FDI in 2001 and 2008
(Per cent)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

[a] Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). 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. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Source: UNCTAD.

the overall picture for developing countries changed significantly, as discussed later.

In developing countries, M&A activity remained strong in 2008, with 41 mega deals concluded – six more than in 2007. In Africa and Asia, TNCs expanded their M&A transactions, which contributed to their overall rise by 13% in 2008. In the first half of 2009, however, Asia and other developing regions saw a sharp decline in exports and tumbling prices of energy and other natural resources, and their M&A transactions also fell sharply.

FDI inflows to the transition economies of South-East Europe and the CIS maintained their upward trend in 2008 to reach a new record high. This was despite the financial crisis, the sharp downturn in oil and gas prices in the second half of 2008 and regional conflicts. As in previous years, foreign investors remained eager to access the fast-growing local consumer markets of the region. FDI flows to the natural resources sector of the Russian Federation also increased. Despite stricter regulations, foreign investors continued to invest in natural-resource projects. Indeed, the Russian Federation was the target of four mega M&A deals in 2008. In 2009, however, FDI inflows into transition economies began to fall.

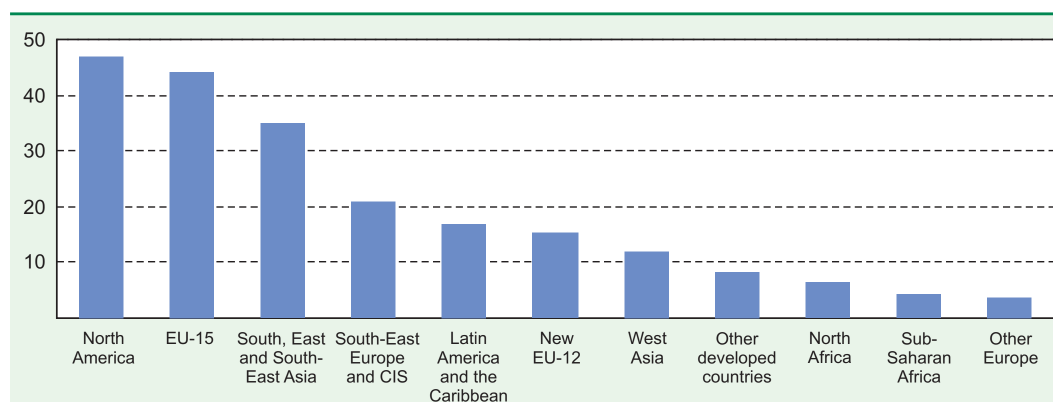
The *World Investment Prospects Survey 2009–2011* (WIPS) conducted by UNCTAD also shows that the developed economies of North America and the EU-15 – which still host the largest proportion of world FDI flows and stocks – have so far been the hardest hit by reductions in TNCs' investment plans (figure I.11). Roughly 47% of respondents reported that their investment plans in North America (the United States and Canada) have been cut due to the crisis, and another 44% indicated the same for the EU-15. WIPS also shows that among developing host regions, the subregions of East and South-East Asia are the most adversely affected by the crisis (35% of respondents), though to a lesser degree than developed countries (figure I.11).

Judging from preliminary data for the first quarter of 2009, FDI took a nosedive in all three groups of economies: developed, developing and transition (figure I.12). For the 96 countries for which quarterly data on FDI inflows were available up to June 2009 (which account for roughly 91% of global inflows), FDI inflows in the first quarter of 2009 were down by 44% as compared to the same period of 2008, and 70 countries recorded a decline. While in both developed and transition economies FDI flows fell gradually over 2008 and the first quarter of 2009, in developing countries – following the slight increase registered in 2008 – a fall was observed in the first quarter of 2009 (figure I.12). Indeed, FDI flows to the countries for which data were available for the first quarter of 2009 are on a clear downward trend. For example, China recorded a 21% decline in inflows during this period compared to the same period in 2008, and flows to Brazil and Pakistan were down by 39% and 30% respectively.

Regarding structurally weak and vulnerable economies such as the least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS), in addition to ODA, FDI has been an important source of funding over the past two decades for many of them (UNCTAD, 2003c, 2006e). In line with general trends in FDI flows to developing countries, those to the structurally weak and vulnerable economies rose by 43% in 2008, to $61 billion. Their share in total FDI flows to developing and transition economies also rose, from 7% to 8%.

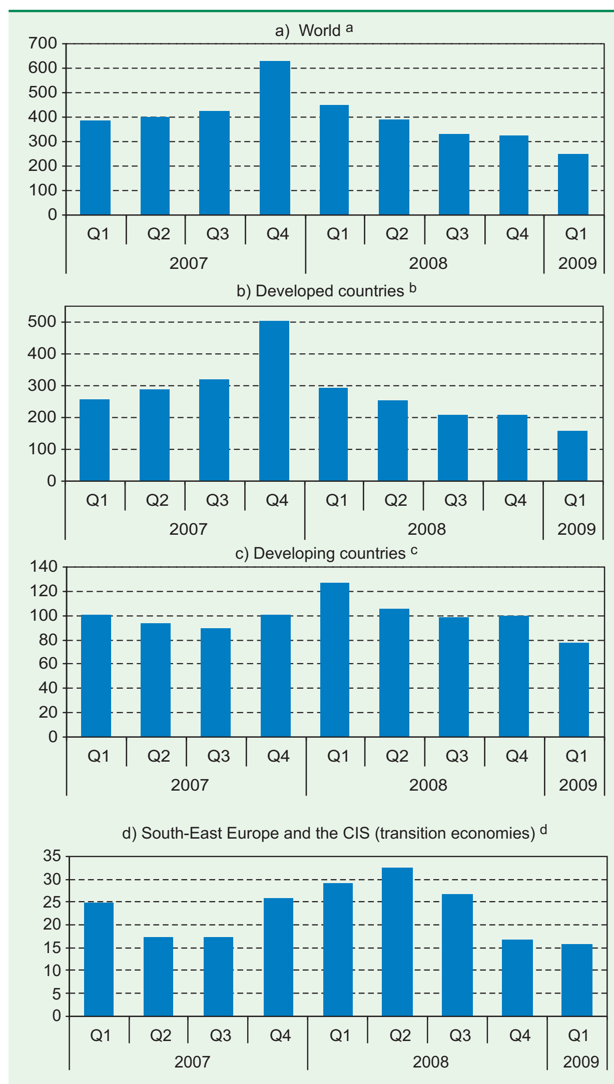
However, because these countries rely heavily on exports of a narrow range of commodities (and tourism in the case of SIDS), the global financial and economic crisis is beginning to have a strong impact on their economies in 2009 and has reduced demand for their exports. Preliminary data on FDI flows to these economies for the first quarter of 2009 indicate that the financial turmoil could have an adverse

Figure I.11. Percentage of TNCs planning to cut investments in different regions owing to the crisis
(% of respondents)



Source: UNCTAD, 2009b.

Figure I.12. FDI inflows, by quarter, 2007–2009
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Total for 96 countries accounting for 91 % of world inflows in 2007–2008.
[b] Total for 35 countries accounting for almost all of developed country inflows in 2007–2008.
[c] Total for 49 countries accounting for 74 % of developing country inflows in 2007–2008.
[d] Total for 12 countries accounting for 95 % of South-East Europe and CIS (transition economies) inflows in 2007–2008.

impact on the sustainability of those flows. For example, in the first quarter of 2009 there was a 15% year-on-year decline in FDI inflows into LDCs.

The three groups of economies showed similar growth rates of FDI inflows in 2008: 29% in 49 LDCs, 32% in 29 SIDS and 54% in 31 LLDCs. Those flows continue to focus on a few countries in each group: Angola and Sudan among LDCs, Madagascar among SIDS, and Kazakhstan among LLDCs. Angola, for example, accounted for about half of FDI inflows to all LDCs. Furthermore, their FDI inflows mainly target natural resource exploitation, a form of investment that generally does not lend itself to broad-based and sustainable economic growth.

As the major investors in these economies are from developing countries, their declining FDI in 2009 (figure I.13) poses a particular challenge, accentuated by reduced financial flows from both official and other private sources during the crisis. Moreover, since these economies will face stiffer competition from other developing countries in attracting investments, they risk being further marginalized in global FDI. These economies may wish to target FDI in industries that are less prone to cyclical fluctuations, such as agriculture-related industries including food and beverages, as part of a diversification strategy.

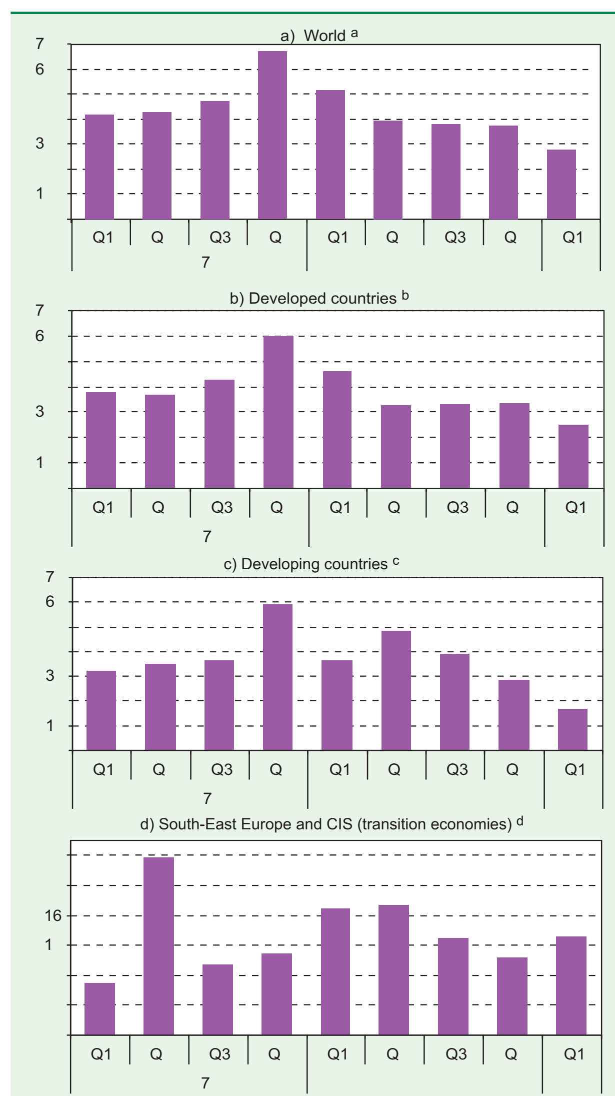
(ii) FDI outflows

Outflows of FDI from developed countries as a group declined in 2008, but with some notable exceptions, as discussed later. While such flows increased substantially to a record level in 2007, the financial crisis and the economic recession in many developed countries reduced the capacity of, and propensity for, TNCs to invest abroad in both 2008 and early 2009.

FDI outflows from the United States fell, although reinvested earnings (one of the three components of FDI) of United States TNCs' foreign affiliates were strong in 2008. FDI outflows from the euro area also declined, as did those from the United Kingdom, where TNCs cut their investments abroad by 60% in 2008, reflecting their deteriorating financing capabilities. Only Japanese TNCs were able to increase their FDI outflows significantly, a feature which continued into early 2009. Japanese companies have been increasing their foreign acquisitions, taking advantage of the price cuts of target firms caused by the global financial crisis and economic slowdown. The Japanese corporate sector is still in a relatively strong position in terms of cash and a healthy debt-to-equity ratio. The value of cross-border M&As by Japanese companies in 2008 reached $54 billion – a record level. These large cross-border investments have brought Japan back into the group of countries with the largest outflows of FDI.

FDI outflows from developing countries rose by 3% in 2008, but began to decline in the first half of 2009. Asian economies, especially China, continued to dominate as FDI sources. Meanwhile, TNCs from some West Asian countries, along with SWFs from this subregion, continued to invest abroad (section C). As a result, the share of developing countries in global outward FDI, and in FDI to both developed and LDCs has increased. Developing-country TNCs now account for a larger share of outward FDI

Figure I.13. FDI outflows, by quarter, 2007–2009
(Billions of dollars)



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

[a] Total for 79 countries accounting for 93% of world outflows in 2007–2008.

[b] Total for 35 countries accounting for almost all of developed country outflows in 2007–2008.

[c] Total for 34 countries accounting for 54% of developing country outflows in 2007–2008.

[d] Total for 10 countries accounting for 99% of South-East Europe and CIS (transition economies) outflows in 2007–2008.

than ever before − 16% of global FDI outflows in 2008, compared with 13% in 2007 (annex table B.1). FDI outflows from transition economies grew considerably in 2008, accounting for 3% of the world total (annex table B.1), and they remained stable in the first quarter of 2009 (figure I.13).

Overall, global FDI outflows for the first quarter of 2009 fell by 46% over the same period of 2008 for 79 countries (accounting for about 93% of global FDI outflows) for which such data were available. The majority of these countries (56 out of 79 countries), including major investors such as France, Germany, Japan and the United States experienced a decline in FDI outflows in the first quarter of 2009 (figure I.13).

b. Sectoral and industrial patterns of FDI

Both inflows and outflows of FDI in 2008 exhibited some marked differences by sector (primary, manufacturing and services) and by industry. While FDI activity in most industries declined substantially in 2008, there were a few exceptions, notably in the primary sector and in the food, beverages and tobacco industry, where FDI transactions increased. In the absence of data on FDI broken down by sector/industry for 2008 (annex tables A.I.4 – A.I.7 for 2009), data on cross-border M&As with that breakdown are examined as indicative of overall trends. Overall, there was a decline in M&A activity in both manufacturing and services, but with a relative shift to non-financial services, and to food, beverages and tobacco. The value of M&As in the primary sector rose both in absolute terms and as a share of total M&As. In 2008, of 26 industries in the classification of data on M&As, there were only 9 that generated higher investments via cross-border M&As than in the previous year, and only 13 in which investors concluded a higher value of such M&As (table I.5). This is consistent with the earlier observation that the overall value of cross-border M&As fell. It suggests that firms, regardless of the industries in which they operate, are more selective in choosing the activities in which they invest during a downturn. Food-related industries were the most active in terms of purchases of foreign companies, and among the most active in terms of M&A sales (table I.5).

In 2008, the value of cross-border M&As in the primary sector increased by 17%. Rising prices of oil and other commodities in the first half of 2008 triggered a further increase in the value of cross-border M&A investments in the mining, quarrying and petroleum industry group, to $83 billion (table 1.5). The increase in FDI in the primary sector was also reflected in the growing number of greenfield investments, which reached 1,022 in 2008 compared with 611 in 2007 (annex table A.I.2).

In manufacturing – which accounts for nearly one third of estimated world inward FDI stocks – the value of cross-border M&A sales fell by 10% in 2008. The decline was very uneven by industry. Textiles and clothing, rubber and plastic products, as well as metals and metal products, saw an average fall of 80%, while in industries, such as machinery and equipment, the decrease was much less dramatic. In contrast, cross-border M&A sales in the food, beverages and tobacco industry rose considerably, to $112 billion – a 125% increase (table 1.5). Several large TNCs

Table I.5. Industries with a rise in cross-border M&As in 2008
(Millions of dollars)

Industry	2007	2008	Increases
Net sales [a]			
Agriculture, hunting, forestry and fisheries	2 421	2 963	542
Mining, quarrying and petroleum	70 878	83 137	12 260
Food, beverages and tobacco	49 902	112 093	62 191
Coke, petroleum and nuclear fuel	2 663	3 086	424
Motor vehicles and other transport equipment	3 048	11 940	8 892
Precision instruments	- 17 036	23 028	40 063
Business services	100 359	102 628	2 269
Public administration and defense	29	30	1
Other services	2 216	4 767	2 551
Net purchases [b]			
Agriculture, hunting, forestry and fisheries	- 1 880	5 302	7 182
Food, beverages and tobacco	30 794	77 406	46 612
Textiles, clothing and leather	- 2 361	416	2 777
Publishing and printing	- 6 308	9 535	15 843
Rubber and plastic products	- 1 588	206	1 793
Non-metallic mineral products	15 334	22 198	6 864
Motor vehicles and other transport equipment	533	12 081	11 547
Precision instruments	- 9 823	7 817	17 640
Hotels and restaurants	- 11 617	- 12	11 605
Trade	- 3 460	1 674	5 134
Business services	10 421	23 976	13 555
Community, social and personal service activities	- 9 066	- 4 206	4 860
Other services	- 2 560	2 914	5 474

Source: Annex table B.6.

[a] Net sales in the industry of the acquired company.

[b] Net purchases by the industry of the acquiring company.

Note: Net cross-border M&A sales in a host economy are sales of companies in the host economies to foreign TNCs (excluding sales of foreign affiliates in the host economy). 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. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

took the opportunity to improve their competitive position in foreign markets. Four mega deals of more than $10 billion each drove the increase in the value of cross-border M&As in this industry. Stichting Interbrew (Belgium) acquired Anheuser Busch, a United States brewery, for $52 billion, and British Imperial Tobacco bought Altadis, a Spanish cigarette company, for $18 billion (annex table A.I.3).

In the services sector – which accounts for around three fifths of world FDI stock – cross-border M&A deals declined by 54% in 2008. Most of the larger services were hit to a similar extent, with the exception of business services, where such deals grew by 2%. In financial services, the value of cross-border M&As declined by 73% in 2008. Nevertheless, there were several large cross-border acquisitions in the North American and European banking sectors. Very low stock prices offered the chance to step into markets that had formerly been difficult to enter. In Europe there were two very large M&A transactions involving intra-European targets and acquirers. The banking operations of Belgian/Dutch bank Fortis SA/NV were acquired by BNP Paribas, and Banca Antonveneta, an Italian affiliate of Banco Santander SA, was bought by the Italian BMPS for $13.2 billion. In the United States, several large banks that were on the brink of collapse were acquired by other United States institutions, supported by government funding. Foreign banks took the opportunity to acquire equity stakes in several large banks in the United States. Toronto Dominion Bank (Canada) and the Japanese Mitsubishi UFJ Financial Group increased their holdings in the United States Commerce Bancorp (for $8.6 billion) and in Morgan Stanley (for $7.8 billion) respectively. Japanese banks, with relatively abundant funds at home, are gradually returning to the international banking scene as major investors. This is similar to the 1980s, but with a greater focus on international banking services for non-Japanese clients, which is a departure from their strategies of the 1980s.

B. How the largest TNCs are coping with the global crisis[18]

Today there are some 82,000 TNCs worldwide, with 810,000 foreign affiliates in the world (annex table A.I.8). These companies play a major and growing role in the world economy. For instance, exports by foreign affiliates of TNCs are estimated to account for about one third of total world exports of goods and services. And the number of people employed by them worldwide, which has increased about fourfold since 1982, amounted to about 77 million in 2008 (table I.6) – more than double the total labour force of a country like Germany.

The largest TNCs contribute to a significant proportion of total international production by all TNCs, both in developed and developing economies. Over the three-year period 2006–2008, on average, the 100 largest non-financial TNCs[19] accounted for 9%, 16% and 11%, respectively, of the estimated foreign assets, sales and employment of all TNCs in the world (table I.6). They also accounted for about 4% of world GDP, a share which has remained relatively stable since 2000.[20] This section analyses the major trends and recent developments with respect to the largest TNCs, and examines the impacts of the ongoing financial and economic crisis on these firms and their international activities.

Over the past 15 years, the largest TNCs have undergone a steady process of internationalization. Also there has been a progressive increase in the proportion of companies operating in the services sector, and of firms based in developing countries. These largest TNCs are presently being strongly affected by the ongoing economic and financial

Table I.6. Selected indicators of FDI and international production, 1982–2008

Item	Value at current prices (Billions of dollars)				Annual growth rate (Per cent)							
	1982	1990	2007	2008	1986–1990	1991–1995	1996–2000	2004	2005	2006	2007	2008
FDI inflows	58	207	1 979	1 697	23.6	22.1	39.4	30.0	32.4	50.1	35.4	-14.2
FDI outflows	27	239	2 147	1 858	25.9	16.5	35.6	65.0	-5.4	58.9	53.7	-13.5
FDI inward stock	790	1 942	15 660	14 909	15.1	8.6	16.0	17.7	4.6	23.4	26.2	-4.8
FDI outward stock	579	1 786	16 227	16 206	18.1	10.6	16.9	16.8	5.1	22.2	25.3	-0.1
Income on inward FDI	44	74	1 182	1 171	10.2	35.3	13.3	33.4	32.8	23.3	21.9	-0.9
Income on outward FDI	46	120	1 252	1 273	18.7	20.2	10.3	42.3	28.4	18.4	18.5	1.7
Cross-border M&As [a]	..	112	1 031	673	32.0[b]	15.7	62.9	28.4	91.1	38.1	62.1	-34.7
Sales of foreign affiliates	2 530	6 026	31 764[c]	30 311[c]	19.7	8.8	8.1	26.8	5.4[c]	18.9[c]	23.6[c]	-4.6[c]
Gross product of foreign affiliates	623	1 477	6 295[d]	6 020[d]	17.4	6.8	6.9	13.4	12.9[d]	21.6[d]	20.1[d]	-4.4[d]
Total assets of foreign affiliates	2 036	5 938	73 457[e]	69 771[e]	18.1	13.7	18.9	4.8	20.5[e]	23.9[e]	20.8[e]	-5.0[e]
Exports of foreign affiliates	635	1 498	5 775[f]	6 664[f]	22.2	8.6	3.6	21.3[f]	13.8[f]	15.0[f]	16.3[f]	15.4[f]
Employment by foreign affiliates (thousands)	19 864	24 476	80 396[g]	77 386[g]	5.5	5.5	9.7	12.2	8.5[g]	11.4[g]	25.4[g]	-3.7[g]
GDP (in current prices)	11 963	22 121	55 114	60 780[h]	9.5	5.9	1.3	12.6	8.4	8.2	12.5	10.3
Gross fixed capital formation	2 795	5 099	12 399	13 824	10.0	5.4	1.1	15.4	11.8	10.9	13.8	11.5
Royalties and licence fee receipts	9	29	163	177	21.1	14.6	8.1	23.7	10.6	9.1	16.1	8.6
Exports of goods and non-factor services	2 395	4 414	17 321	19 990	11.6	7.9	3.7	21.3	13.8	15.0	16.3	15.4

Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi statistics), UNCTAD, *GlobStat*, and IMF, *International Financial Statistics*, June 2009.

[a] Data are available only from 1987 onwards.

[b] 1987–1990 only.

[c] Data for 2007 and 2008 are based on the following regression result of sales against inward FDI stock (in $ million) for the period 1980–2006: sales=1 471.6211+1.9343* inward FDI stock.

[d] Data for 2007 and 2008 are based on the following regression result of gross product against inward FDI stock (in $ million) for the period 1982-2006: gross product=566.7633+0.3658* inward FDI stock.

[e] Data for 2007 and 2008 are based on the following regression result of assets against inward FDI stock (in $ million) for the period 1980–2006: assets= -3 387.7138+4.9069* inward FDI stock.

[f] Data for 1995–1997 are based on the following regression result of exports of foreign affiliates against inward FDI stock (in $ million) for the period 1982-1994: exports=139.1489+0.6413*FDI inward stock. For 1998–2008, the share of exports of foreign affiliates in world export in 1998 (33.3 %) was applied to obtain the values.

[g] Based on the following regression result of employment (in thousands) against inward FDI stock (in $ million) for the period 1980–2006: employment=17 642.5861+4.0071* inward FDI stock.

[h] Based on data from IMF, *World Economic Outlook*, April 2009.

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from Austria, Canada, the Czech Republic, Finland, France, Germany, Italy, Japan, Luxembourg, Portugal, Sweden and the United States for sales; those from the Czech Republic, Portugal, Sweden and the United States for gross product; those from Austria, Germany, Japan and the United States for assets; those from Austria, the Czech Republic, Japan, Portugal, Sweden and the United States for exports; and those from Austria, Germany, Japan, Switzerland and the United States for employment, on the basis of the shares of those countries in worldwide outward FDI stock.

crisis, both at company and industry levels, as evidenced by declining profits, divestments and layoffs, restructurings and some bankruptcies. According to preliminary estimates, the increase in their overall degree of internationalization seems to have slowed down markedly in 2008. However, an UNCTAD survey (UNCTAD, 2009b) shows that, despite a temporary setback in their investment plans in the short term, large TNCs expect to continue to internationalize and increase their FDI expenditures in the medium term, with a growing focus on emerging markets (see section E).

In addition to the 100 largest TNCs worldwide, two other important categories of top-ranking firms are considered in this section: (i) the top non-financial TNCs from developing countries, which have grown in relative importance over the past few years (subsection 2); and (ii) the top financial TNCs, which are presently going through a major restructuring process triggered by the devastating impacts of the crisis (subsection 3). In addition, non-listed companies (mainly government- or family-owned), which are not necessarily included in the traditional UNCTAD list of the largest TNCs due to paucity of data, but which also play an important role in international production, are considered in box I.4.

1. The 100 largest non-financial TNCs[21]

a. A slowdown of internationalization in 2008

Data on the world's 100 largest TNCs (annex tables A.I.9 and A.I.10) show a recent slowdown in their rate of internationalization. While their Transnationality Index (TNI)[22] continued to increase in 2007 (figure I.14), due especially to the rapid growth of foreign sales (table I.7), this did not happen in 2008. Preliminary estimates for 2008[23] show that the ratio of both foreign assets and sales to total assets and sales did not increase compared to 2007, while

Table I.7. Snapshot of the 100 largest TNCs worldwide, 2006–2007/2008

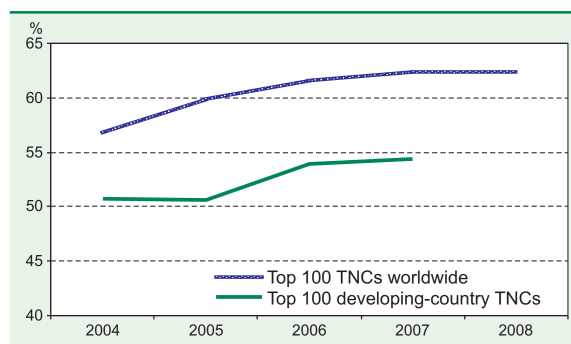
Variable	2006	2007	2006–2007 % change	2008	2007–2008 % change
Assets ($ billion)					
Foreign	5 245	6 116	16.6	6 094	-0.4
Total	9 239	10 702	15.8	10 687	-0.1
Foreign as % of total	57	57	0.4[a]	57	-0.1 [a]
Sales ($ billion)					
Foreign	4 078	4 936	21.0	5 208	5.5
Total	7 088	8 078	14.0	8 518	5.5
Foreign as % of total	58	61	3.6[a]	61	0.0 [a]
Employment (thousands)					
Foreign	8 582	8 440	-1.66	8 898	5.4
Total	15 388	14 870	-3.4	15 302	2.9
Foreign as % of total	56	57	0.98[a]	58	1.4 [a]

Source: UNCTAD/ Erasmus University database.

[a] In percentage points.

Note: 2007 and 2008 data represent companies from the 2007 top 100 TNCs list. Projected 2008 data are based on the rates of change observed in 90 of the top 100 TNCs with 2008 data, applied to 2007 totals. A top 100 list for 2008 will appear in WIR 2010.

Figure I.14. Average TNI for the 100 largest TNCs worldwide and from developing countries, 2004–2008



Source: UNCTAD.

Note: Average TNI in 2008 is based on the percentage change between 2007 and 2008 of the average TNI values for 90 of the top 100 TNCs worldwide in 2007.

foreign employment increased only slightly more than total employment (table I.7). Consequently, the overall TNI in 2008 remained almost at a standstill for the largest TNCs for which data were available (table I.7 and figure I.14).

The analysis of TNI by industry and home region is limited to 2007, as non-availability of data for some TNCs (e.g. Japanese TNCs) for 2008 causes a bias in certain industries and regions. The presence of companies from the services sector in the list of the top 100 has continued to increase: from 14 in 1991 to 24 in 1998 and finally to 26 in 2007.[24] Many of them operate in telecommunications and utilities. However, the majority of the 100 largest TNCs still belong to the manufacturing sector (table I.8). No agricultural company presently features among the list of top TNCs, although no less than nine companies in the top 100 list belong to the food, beverages and tobacco industries.

The largest TNCs in the various industries display very different levels of internationalization. For instance, the TNI for the top companies in the pharmaceuticals, telecommunications and food and beverages industries is higher than that for companies in motor vehicles, petroleum or utilities (table I.8).[25]

The 2007 data also confirm the trend towards a growing role of companies from developing countries. In particular, the number of firms in the top 100 list from developing economies has increased significantly, from none in 1993 to six in 2006 and seven in 2007. In 2007, three of them were from the Republic of Korea, and one each from China, Hong Kong (China), Malaysia and Mexico.

The degree of internationalization of companies among the top 100 varies widely by country: for instance, the value of the TNI in 2007 was above the

Table I.8. TNI values for the 100 largest TNCs worldwide and from developing countries, by selected industries, 2007

Industry	Top 100 TNCs		Top 100 TNCs from developing countries	
	2007	TNI [a]	2007	TNI [a]
Motor vehicles	13	56.0	3	39.3
Petroleum expl./ref./distr.	10	56.2	9	24.0
Electrical & electronic equipment	9	57.7	19	59.9
Food & beverages & tobacco	9	68.1	7	60.5
Pharmaceuticals	9	63.6	1	50.4
Utilities (electricity, gas and water)	8	55.5	2	41.6
Telecommunications	8	70.3	7	47.7
All industries	**100**	**62.4**	**100**	**54.4**

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Note: Due to differing reporting periods of the top TNCs, comparable industry data for 2008 are not yet available.

Table I.9. TNI values for the top 100 largest TNCs worldwide, by selected countries, 2006−2007

Region/economy	Average TNI [a]		Number of TNCs
	2006	2007	2007
EU-27	64.2	66.4	57
of which:			
France	63.8	63.6	14
Germany	54.8	56.5	13
United Kingdom	72.8	74.1	15
Japan	52.1	53.9	10
United States	57.8	57.1	20
World	61.6	62.4	100

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Note: Due to differing reporting periods of the top 100 TNCs, comparable regional data for 2008 are not yet available.

Box I.4. The top non-listed companies

The 150 largest non-listed companies employed upwards of 13 million people worldwide in 2006,[a] a figure lower but comparable to the total of the largest 150 listed companies that are responsible for 19 million jobs. Lack of data, however, makes it difficult to assess precisely the level of internationalization and the dynamics of non-listed companies, as they tend to disclose only a very limited amount of information.

By sector, State-owned oil and gas companies play an important role among the top non-listed companies. Saudi Aramco was the largest non-listed company worldwide. With $781 billion in assets in 2007, it is substantially bigger than the largest listed TNC in the same industry, ExxonMobil. There are also some significant private equity firms among the top unlisted firms. Due to many acquisitions in the United States and Europe, their assets increased substantially during the 2006–2008 period**.** The top non-listed private equity firms were Kohlberg Kravis Roberts and the Carlyle Group.[b]

By country of origin, many of the largest non-listed TNCs are Asian State-owned companies, operating mainly in the oil, gas and utilities sector. In major fast-growing emerging economies, such as China, non-listed companies tend to play an even more important role than in developed countries. For instance, in 2005, the import and export volume of China's non-listed companies accounted for 16% of the country's total trade.[c]

Information about the internationalization of non-listed companies is scarce. This is particularly true for State-owned oil and gas companies, which probably have most of their assets concentrated in the home country. However, the few private companies for which data were available already seem to have a large presence abroad. Examples are firms such as Mars, GMAC Financial Services, Murdock Holding Companies or Glencore, each of which are present in more than 40 countries.

The financial crisis did not leave private companies unaffected. In the financial sector, for example, GMAC, a global financial company with major business activities in mortgage and auto lending obtained the official status of a bank holding company which made it eligible for State help. The United States Government acquired a 35.4% stake in GMAC after providing $12.5 billion in aid in December 2008.[d]

Not all non-public financial companies have suffered from adverse impacts of the crisis. One of the few beneficiaries is the German Sparkassen-Finanzgruppe. Its conservative strategies compared to those of other banks attracted large amounts of new capital transferred to it by clients who began to fear for the safety of their savings in other financial institutions that were suffering heavy losses. Non-listed oil and gas TNCs have been affected by the economic crisis in much the same way as their listed counterparts. However, some – mainly State-owned – oil and gas TNCs are weathering the crisis in different ways. For example, in March 2009 Kuwait Petroleum Corporation announced nearly $80 billion in new investments for the coming five years.[e] Pemex (Mexico), on the other hand, is suffering from a weakening currency that is hurting its ability to maintain its capital expenditures at their current levels.[f] The company recently asked the Mexican Government to make up the difference. Since many non-listed oil and gas companies are State-owned, they are under added pressure to help finance their countries' budgets. This may undermine their ability to finance investments in the short term.[g]

Source: UNCTAD.

a "Hidden value: how unlisted companies are eclipsing the public equity market", *Financial Times,* 15 December 2006.
b Six of the top 30 companies in the *Financial Times*' list of non-public companies are private equity firms.
c *People's Daily online* (11 February 2006), China.
d http://blog.taragana.com/n/gmac-financial-services-prices-45-billion-debt-offering-71458/.
e http://www.arabianoilandgas.com/article-5115-kuwait_petroleum_corp_reveals_80bn_plans.
f http://www.reuters.com/article/usDollarRpt/idUSN2649419020090526.
g "National oil groups' shares hit harder by downturn", *Financial Times,* 26 February 2009.

world average for TNCs from the United Kingdom, and below average for TNCs from Germany, Japan and the United States (table I.9).

The list of top 100 TNCs prepared by UNCTAD for the *World Investment Reports (WIRs)* contains, for statistical reasons, mainly listed companies, as their data are publicly available. Therefore it largely ignores the many non-listed companies (mainly State- or family-owned) that constitute an important proportion of the corporate sector in many countries. If these TNCs were taken into account, a number of non-listed companies would feature among the top 100 TNCs, both worldwide[26] and from developing countries (box I.4).

b. The impact of the global crisis on the top 100 TNCs

The ongoing economic and financial crisis, which erupted in the latter half of 2007, has resulted in a period of major turbulence for the world's top 100 TNCs. While their activities continued to grow during the first half of 2008, albeit moderately, they experienced setbacks towards the end of that year. Particularly affected were industries that are sensitive to the business cycle, such as automotive and transport equipment, electronic equipment, intermediate goods and mining. The downturn became worse during the first months of 2009. By then, other industries, such as food and beverages, utilities and telecommunication

services, also began to feel the adverse effects of the crisis, though to a lesser extent. Confronted by declining profits and growing overcapacities, many TNCs announced major cost-cutting programmes, including layoffs, divestments, and a reduction of investment expenditures. In some of the most affected industries, such as automotives, the crisis also triggered a wave of major restructurings (as mentioned in section A above).

Activity indicators for the top 100 TNCs show that the impact of the crisis was only marginal in 2008 as a whole (annex tables A.I.9-A.I.10). Their total sales increased from their 2007 sales figures by 12% in current dollar terms, representing additional revenue of about $901 billion, and their total employment also rose by 4%.[27] A handful of TNCs in the automotive industry (especially General Motors, Chrysler, Toyota, Nissan and Honda), which had already faced a depressed market even before the crisis began, recorded declining sales in 2008.

There are three major reasons for these apparently paradoxical results. First, the financial crisis, which deepened in September 2008, started affecting the activities of the largest TNCs only from the last quarter of 2008, thus limiting the apparent impact on activity indicators for the year as a whole (figure I.15). For instance, despite a sharp fall in demand for commodities (and subsequently in prices) at the end of 2008, many oil and even some mining companies, such as Total, ExxonMobil and BHP Billiton, outperformed the previous year's results in terms of sales and profits for the whole year because of favourable market conditions in the first three quarters of 2008.

Second, in many industries such as utilities, food and beverages and business services, the market remained relatively stable until the end of the year. For instance, sales for the fourth quarter of 2008 by E.ON, InBev and Vivendi Universal were higher than those observed for the same period in 2007.

Third, the largest TNCs continued to acquire other companies, with direct consequences for the apparent growth in volume of their activity. In 2008, they undertook 21 major cross-border M&A purchases valued at more than $3 billion (annex table A.I.3).

However, what did turn negative was their net income, which declined by 27% overall.[28] There were a number of causes of this downturn. First, as a direct consequence of the financial crisis, the cost of borrowing increased in the last months of 2008. The spread on corporate bonds, for instance, reached a historic high at the end of 2008.[29]

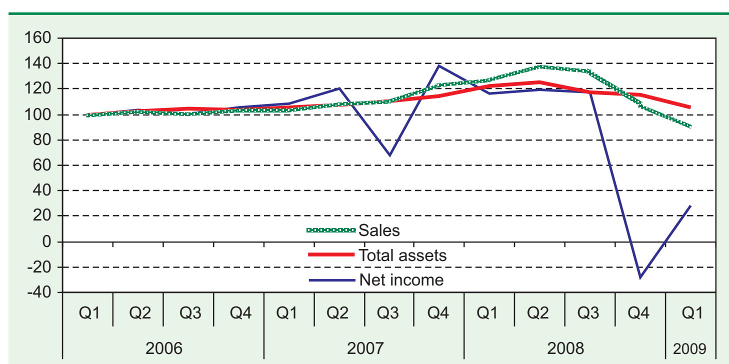
Second, companies' results reflected heavy losses in the value of their assets and real estate property as a result of falling stock markets and real estate markets.[30] At the end of 2008, the value of the total assets of the largest TNCs was 0.9% lower than the previous year.[31] Provisions were also made to cover the costs of cost-cutting plans, especially with respect to layoffs (see below). Thus, some companies, such as Cemex, Dow Chemical, Rio Tinto, Alcoa and Xtrata, which in the past had implemented very ambitious development plans – especially through M&As – were suddenly confronted with high levels and costs of debt, lower asset values and a slowdown in their markets and revenues.

Third, for some of the largest TNCs, which had already experienced a slowdown of activity before the crisis erupted, yearly profits declined significantly in 2008, turning into heavy losses for a number of them. Those particularly hard hit were many automobile companies such as Ford, General Motors, Nissan and Toyota.

Fourth, some companies – especially those directly involved in processing commodities into manufactured goods – were faced with higher prices of inputs, which they were unable to pass on in their selling prices due to tightening market conditions. This resulted in a squeeze on margins, and therefore on profits.

Negative consequences of the economic and financial crisis on the largest TNCs' activities and their financial results have continued to unfold and deepen, particularly from the beginning of 2009. This is especially true for TNCs engaged in commodities, intermediate goods and automotives. For instance, sales in the first quarter of 2009, as compared to the same period last year, were down by 49.3% for ArcelorMittal, 49% for Royal Dutch/Shell, 47% for General Motors, 47% for Chevron, and 46% for ExxonMobil.[32]

Figure I.15. Quarterly evolution of sales, total assets, and net income for selected TNCs among the 100 largest, 2006–2009
(Index: 100 = 2006 1st quarter)



Source: UNCTAD, based on Bloomberg.

Note: Based on data for 62 of the top 100 TNCs that reported quarterly data for the entire period.

In order to improve their balance sheets and arrest their deteriorating profits, TNCs have been extensively curtailing expenditures and taking steps to reduce their debt.

This is being done through three major channels:

- Large cuts in operating expenditures, especially through layoffs. Plans for large job cuts have been announced by many of the top 100 TNCs since September 2008.[33]
- Scaling down investment programmes. Many planned acquisitions or greenfield projects of the top TNCs have been cancelled, reduced or postponed due to the combined impact of a setback in market expectations and reduced internal and external financial resources.[34]
- Divestments of some corporate units and assets. These operations are meant not only to curtail operating costs, but also to generate cash in order to reduce debt ratios, and/or simply beef up available cash that had diminished due to faltering sales. This has led, in particular, to a rising number of sales of non-strategic affiliates.[35]

Another consequence of the crisis is an acceleration of industry restructurings due to two main factors. First, some companies suffering from an already fragile financial situation before the crisis might be affected by the current turmoil to the point that they go bankrupt or have no other choice than to be acquired to survive. Others might become vulnerable to such hostile bids due to the presently low market value of their stocks. Such companies as Chrysler or Endesa have already changed owners (table I.10). Others (e.g. Volvo among others) might also go through major changes in ownership in the coming months.

Table I.10. Examples of recent restructurings by some of the 100 largest non-financial TNCs

Daimler Chrysler AG	A de-merger took place in May 2007 between Daimler and Chrysler. The latter was then sold to a consortium of United States investors led by the investment fund, Cerberus. After filing for bankruptcy in April 2009, Chrysler's capital was restructured. Major owners will be the United Auto Workers (a trade union) and the Italian auto maker Fiat. The United States Federal Government and the Governments of Canada and its Province of Ontario will also own some stakes.
Suez	Suez merged with GDF (France) in July 2008. Total foreign assets of the two companies amounted to more than $110 billion in 2007, placing the new group 12th among the largest non-financial TNCs.
General Motors	GM filed for bankruptcy in June 2009. According to the rescue plan, it will be owned 60% by the United States Federal Government, 17% by the United Auto Workers, and 12% by the Governments of Canada and Ontario Province.
Endesa	In February 2009, the Italian group Enel, which already owned 67% of Endesa, acquired an additional 25% share in Endesa from the Spanish construction company Acciona.

Source: UNCTAD.

Second, and conversely, companies less affected than others by the crisis, and having substantial cash reserves, could seize takeover opportunities triggered by the crisis to increase their market share or critical mass.[36] Some large TNCs have undertaken major acquisitions (e.g. Enel, Suez, Roche and Fiat).

Consequently, the crisis might accelerate underlying trends towards restructuring and concentration in many industries. This is likely to have major consequences for the size and ranking of the top 100 TNCs. Regarding their internationalization level, these opposing factors seem to have balanced each other, as the average TNI of the top TNCs remained practically unchanged between 2007 and 2008 (figure I.14).

However, it should be emphasized that the impact of the crisis on the largest TNCs has differed widely by industry and country, and even by individual firm. On the one hand, firms in many business-cycle-sensitive industries such as automotive and other transport materials, construction, electrical and electronic equipment, and intermediate goods, as well as those in the financial sector, have been among the worst hit by the crisis. On the other hand, those in some less cyclical industries, with more stable demand patterns, have been less affected. For example, among the 100 largest TNCs, many in oil and gas (ExxonMobil, Chevron, British Petroleum, Royal Dutch Shell, GDF Suez, Total), in food, beverages and tobacco (Nestlé, SAB-Miller, Coca-Cola, Kraft Foods, British American Tobacco), in telecommunication services (Deutsche Telekom, TeliaSonera), in utilities (Endesa, RWE, EDF) and in pharmaceuticals (Roche, AstraZeneca, Johnson & Johnson), as well as in consumer goods (Unilever, LVMH) and retailing (Wal-Mart) continued to register large profits, and some even growing profits, in 2008.

2. The top 100 TNCs from developing economies

a. A growing role in the world economy

Reflecting the overall strengthening of emerging economies, the relative size of the top TNCs from developing countries, compared to their counterparts from developed countries, has grown rapidly over the past 15 years. This trend continued in 2007, when the assets of the 100 largest TNCs

Table I.11. Snapshot of the 100 largest TNCs from developing economies, 2006–2007

Variable	2006	2007	% Change
Assets ($ billion)			
Foreign	571	767	34.3
Total	1 694	2 186	29.0
Foreign as % of total	34	35	1.4[a]
Sales ($ billion)			
Foreign	605	737	21.8
Total	1 304	1 617	24.0
Foreign as % of total	46	46	-0.8[a]
Employment (thousands)			
Foreign	2 151	2 638	22.6
Total	5 246	6 082	15.9
Foreign as % of total	41	43	2.4[a]

Source: UNCTAD/ Erasmus University database.

[a] In percentage points.

Note: Due to differing reporting periods, an insufficient number of TNCs from the developing list have reported 2008 data to present a 2007–2008 comparison.

from developing countries rose by 29% from their level in 2006, while those of the top 100 TNCs worldwide increased by only 16% (table I.11). As a result, while the total assets and employment of the top 100 non-financial companies from developing countries amounted to only 18% and 34% of assets and employment, respectively, of the top 100 non-financial TNCs worldwide in 2006, these figures rose within just one year to 20% and 41% respectively.

This dynamism of TNCs from developing countries is largely due to the appearance of new players. Over the past 10 years, the composition of the list of top 50 TNCs from developing economies has changed considerably: only 20 of those present in the *WIR99* list are in the *WIR09* list, while 30 new companies have appeared.

As noted above (section B.1), seven companies from developing economies already rank among the top 100 TNCs, as against none in 1993. With foreign assets of $83 billion in 2007, Hutchison Whampoa (Hong Kong, China) remained in the lead among the top 100 developing-economy TNCs, accounting for almost 11% of their total foreign assets. It was followed by Cemex (Mexico), LG Corp (Republic of Korea), Samsung Electronics (Republic of Korea), Petronas (Malaysia), Hyundai Motor (Republic of Korea) and CITIC (China) (annex table A.I.11).

The internationalization of the 100 largest TNCs based in developing economies, as measured by their TNI, remains substantially lower than that of the world's 100 largest TNCs (figure I.14): 54% as against 62% in 2007. However, the gap between the two has been noticeably reduced since 1993, due to the rapid internationalization of the largest firms from the developing world.

In terms of the nationality of firms, Asia remains by far the major home region, even increasing its lead over time. Hong Kong (China) and Taiwan Province of China dominate both the 2007 and 2008 lists. Singapore and China have maintained their rankings with 11 companies each. Other important home countries are South Africa (9), Malaysia (6), the Republic of Korea and Mexico (5 each).[37] Companies from East Asia are, on average, more internationalized than others (table I.12).

An analysis by industry shows a very diverse pattern of activities. Companies from the electrical/ electronic and computer industries still dominate the 2007 list of the 100 largest TNCs from developing countries, with 19 entries. They are followed by TNCs in petroleum industries (9), telecoms (7), food and beverages (7), and transport and storage (6). There are also a larger number of diversified TNCs (12), a figure much higher than for the 100 largest TNCs worldwide (5).

Table I.12. TNI values for the 100 largest TNCs from developing countries, by region, 2007

Region	Average TNI [a]	
	TNI	Number of TNCs
Africa (South Africa)	47.6	9
South-East Asia	49.9	19
South Asia	47.4	2
East Asia	59.2	57
West Asia	56.1	4
Latin America and the Caribbean	40.9	9
Total	**54.4**	**100**

Source: UNCTAD/Erasmus University database.

[a] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

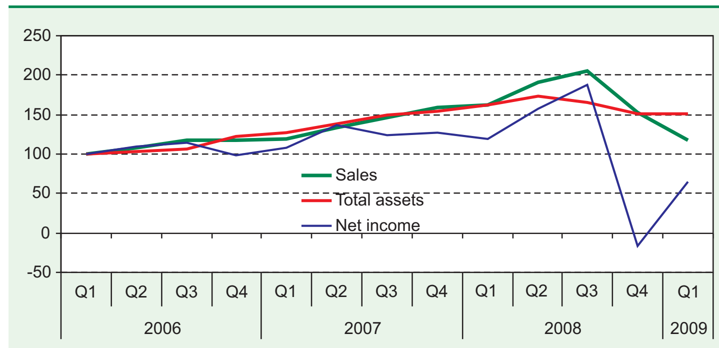
Note: Due to differing reporting periods, an insufficient number of TNCs in the developing-country list have reported 2008 data to enable a 2007–2008 comparison.

The degree of internationalization of the top developing-country TNCs varies widely by industry. For instance, the average TNI for developing countries' largest TNCs in the electrical and electronics and computer industries is slightly higher than that of their counterparts worldwide, while in telecommunications, petroleum and motor vehicles it is much lower.

b. The impact of the global crisis on developing-country TNCs

The decline in exports to developed countries since the last quarter of 2008, as a direct consequence of the crisis, has had a considerable impact on the largest TNCs from developing countries. Their sales began to fall markedly from that period, and their profits for the whole year fell by 28.9% (figure I.16).[38] But many of them also benefited from growth in their domestic markets, especially in Asia, despite a slowdown. Those with abundant cash at their disposal may take advantage of the present low prices of assets

Figure I.16. Quarterly evolution of sales, total assets, and net income for selected TNCs among the 100 largest from developing countries, 2006–2009
(Index: 100 = 2006 1st quarter)



Source: UNCTAD, based on Bloomberg.

Note: Based on data from 28 of the top 100 developing-country TNCs that reported quarterly data for the entire period.

to make new acquisitions in order to strengthen their presence in developed-country markets and foster their technological capabilities.

However, the situation varies widely by activity and company. Companies in the petroleum and gas industries saw their revenues shrink in 2008, as many commodity prices fell from their previous highs. However, these companies are still undertaking investments in order to acquire new sources of energy. Chinese energy TNCs, for example, are taking advantage of low asset prices by continuing to seek acquisitions abroad.

Producers of metals and metal products posted sharp declines in sales in early 2009. For example, the Brazilian company, Metalurgica Gerdau SA, reported significantly lower sales, production and profits in early 2009, and has postponed previously announced investment plans. But there are also a handful of companies that are reporting better results and prospects: for example, Gold Fields Limited (South Africa), supported by high global demand for gold, reported favourable prospects.

Electrical and electronics manufacturers are also facing a decline in demand, mainly in their western markets. Some of them are carrying out aggressive innovation and technology diversification strategies that might alleviate the consequences of this downturn. For example, Quanta Computer (Taiwan Province of China) has announced a major investment in touchscreen technology, which is used extensively in the growing smart-phone market worldwide. Furthermore, as the largest notebook manufacturer contracted by Acer Inc (Taiwan Province of China), it expects to benefit from Acer's sales forecast for continued growth. Lenovo (China) has decided to focus on China, with its large domestic market, as well as on other emerging markets, while attempting to stabilize its high-end markets overseas.

In telecommunications, the situation seems better. Companies such as Qatar Telecom, América Móvil (Mexico) and Zain (Kuwait) have posted good results, and even significant growth in sales. All of them are aiming to expand their international presence. Some diversified groups, especially those well positioned in East Asia and China, have demonstrated quite a resilience to the present economic downturn. For example, Hutchison Whampoa saw its revenue rise 8% in 2008 to more than $30 billion, although its profits fell by 42%. Despite a more cautious expansion strategy, it is still examining potential new investments, especially land and property deals in China, in addition to some in its home economy. On the other hand, firms such as Capitaland Limited, a Singaporean real estate company, has cancelled its planned building of 12 malls in China.

3. The top 50 financial TNCs

As the effects of the current financial and economic crisis continue to ripple throughout the global economy, the world's largest financial TNCs find themselves in an unusual state of flux. The collapse of the subprime mortgage market in the United States and subsequent credit writedowns of more than $1 trillion laid bare a number of serious systemic problems within the international financial system. Most notably, by revealing the lack of transparency in the true valuation of a number of financial institutions' assets, this series of writedowns precipitated a severe erosion of confidence that threatened to undermine the stability of the system. While the situation has improved marginally in 2009, the potential for additional shocks remains high. Recent estimates suggest that total write-downs on United States-originated assets may amount to $2.7 trillion globally, with additional write-downs of $1.3 trillion on other assets due to the economic downturn, putting a further strain on both banks and governments (IMF, 2009b). In this tumultuous environment, the health of the world's largest financial TNCs and their prospects for further internationalization will continue to be tested.

a. Internationalization of the top 50 financial TNCs in 2008

Even though battered by the events of 2007 and 2008, many of the largest financial TNCs ended the

year at a high point in terms of internationalization. Measured by UNCTAD's Geographical Spread Index (GSI), Citigroup (United States) had the largest geographical spread among the financial TNCs in 2008, even after suffering severe setbacks and becoming partially State-owned. European financial groups continue to dominate the top 50 list, with 36 entries, propelled higher in the rankings because of their ownership of affiliates in many countries. This is partly due to the continent's open markets and the euro zone. North American financial TNCs – with 11 entries – were decimated by the events of the past year. This might result in a future decrease in their overall internationalization, with large groups such as Citigroup facing the possibility of being broken up into smaller companies. Financial TNCs in Japan and China, which have significant assets and could benefit from the crisis, continue to show lower levels of internationalization than their developed-country peers. Mitsubishi UFJ Financial Group (Japan) was once again the most internationalized Asian bank, ranking 38th (annex table A.I.12).

b. The impact of the global crisis on the top 50 financial TNCs

While there was a lull in mid-2008, after the near collapse and subsequent rescue of both Northern Rock (United Kingdom) and Bear Stearns (United States), the effects of tightening credit markets and continued asset write-downs abruptly accentuated the crisis in September 2008. During that month, and in the months that followed, some of the largest financial TNCs in the world collapsed, and were either bailed out by their governments, or, in the case of Lehman Brothers (United States), allowed to fail, with far-reaching consequences. Among other institutions which failed, or were nationalized or bailed out at that time, were American International Group (United States), Fortis (Belgium), and Dexia (Belgium). Prominent Wall Street banks, such as Merrill Lynch (United States, which was sold to Bank of America), Goldman Sachs (United States) and Morgan Stanley (United States) did not fail, but ceased to operate as investment banks, opting instead to convert to commercial banks.

There were a number of bank failures in some other countries as well. For example, by October 2008, most of Iceland's financial sector fell into government hands. In 2009, government rescue programmes had been implemented in many developed countries to bolster, and in some cases take control of, their respective financial sectors. In the United States, the Troubled Asset Relief Program (TARP) allowed the Government to inject, initially, $125 billion worth of capital into the country's largest banks, which were among the largest financial TNCs in the world. Subsequent capital injections resulted in the Government becoming the largest single shareholder in a number of banks, including Citigroup. European governments were also active in providing capital. For example, Crédit Agricole, BNP Paribas and Société Générale all received capital from the French Government.

As the economic situation continued to deteriorate globally, financial TNCs saw their profits fall and were forced to take strong action to maintain their companies as ongoing concerns. Large layoffs were planned by several of the largest financial TNCs, along with announcements of divestments of foreign operations or liquidations of equity positions throughout the year. By early 2009, several of the largest financial TNCs in the world had sold, or were in the process of selling, large equity positions around the globe: Royal Bank of Scotland (United Kingdom) sold its entire stake in Bank of China (China) for roughly $2.3 billion; UBS (Switzerland) sold 3.4 billion shares of Bank of China, valued at $900 million; Bank of America reduced its position in China Construction Bank by selling a $7.3 billion block of shares; and Allianz (Germany) and American Express (United States) jointly announced the sale of $1.9 billion of shares in Industrial and Commercial Bank of China (China).[39] Divestments were also becoming a frequent occurrence by early 2009. Citigroup sold its Japanese trust banking unit to Mitsubishi UFJ Financial Group (Japan) for about 25 billion yen ($282 million). However, the expected dissolution of American International Group, among other failed or nationalized TNCs, failed to materialize by mid-2009. This has created the potential for several acquisition targets to come onto the market later in the year and in 2010. To improve their operating budgets, many large transnational financial institutions began employee retrenchments at home and abroad. Goldman Sachs, Deutsche Bank, Morgan Stanley, Citigroup, Nomura, UBS and Credit Suisse all announced layoffs in their overseas operations.[40]

M&As, though difficult to finance in this environment, did not cease. They continued mainly for two motives: survival and strategic gain. Though not strictly FDI related, Merrill Lynch, which faced potential collapse, found it expedient to be acquired by Bank of America in the United States, marking its exit from future lists of top 50 financial TNCs. Santander (Spain) made several strategic acquisitions during 2008, such as Alliance & Leicester (United Kingdom) and Bradford & Bingley (United Kingdom). Santander also acquired the outstanding shares of Sovereign Bancorp (United States) that it did not already hold, thus gaining its first retail presence in the United States. Nomura (Japan) and Barclays (United Kingdom) both picked assets from the stricken Lehman Brothers and thus extended their

operations. Mitsubishi UFJ Financial Group (Japan) took a 21% stake in United States investment bank Morgan Stanley.

4. Conclusion

Faced with the worst global recession in decades, the world's largest TNCs are struggling in 2009. The sharp fall in profits registered by many of them in 2008 was only a harbinger of the many difficulties they are now facing. As global demand continues to weaken, and threatens to remain depressed throughout 2009, many of the largest TNCs will find their revenues falling beyond what they had anticipated a year ago. This will have a strong impact on their propensities and capabilities to invest abroad. And, given the global dimensions of the current economic situation, this applies to all TNCs in nearly every region of the world and in nearly every industry.

However, the current economic crisis should not be seen only as a negative force for the largest TNCs, both financial and non-financial. It also creates an opportunity for them to expand into additional markets at a relatively low cost. Many of the largest TNCs could promote their internationalization strategies with the aim of maximizing efficiencies across markets and geographies. Moreover, in the current situation, TNCs from developing economies could gain strength if they manage to successfully nurture domestic and foreign demand for their products. Their strong growth so far, as a result of the internal dynamics of their home-country markets, could gather momentum if demand for their products in the wider global market picks up when conditions improve.

C. FDI by special funds

1. Declining FDI by private equity funds

FDI by private equity funds and other collective investment funds has also been adversely affected by the financial crisis. Cross-border M&As by these funds fell to $291 billion in 2008, or by 38% from the peak of $470 billion in 2007 (table I.13). The number of transactions went down by 9%, to 1,721. The sharp drop in the value of cross-border M&As by private and collective investment funds was associated with a strong decline in large-scale investments (table I.13). In 2009 this trend has even accentuated: in the first half of 2009, both the value and number of these deals further declined, by 78% and 17% respectively.

Cross-border M&As by private equity and hedge funds were hit harder by the financial market crisis than those by other investors. While their share in the total value of all cross-border M&As for the year declined slightly from 28% in 2007 to 24% in 2008, it fell dramatically in the fourth quarter of 2008 to only 11%. This trend continued well into the first half of 2009 (table I.13). The main catalyst for this sharp decline was that the financing of LBOs – which contributed most to the dynamic growth of cross-border M&As by these funds in previous years (*WIR08*: 20) – nearly dried up in the second half of 2008. This was largely due to the increasing risk consciousness of financial institutions in Europe and North America, which caused them to halt loans for large and highly leveraged M&A buyout transactions. In addition, even though private equity funds were able to raise $554 billion in 2008 as a whole,[41] (making it their second strongest fund-raising year), their fund-raising in the second half of that year dropped by 40%, compared to that in the first half (Private Equity Intelligence, 2009:8).

The relative importance of private equity funds and other collective investment funds is likely to be

Table I.13. Cross-border M&A purchases by private equity firms and hedge funds, 1996–2009
(Number of deals and value)

Year	Number of deals		Value	
	Number	Share in total cross-border M&As (%)	$ billion	Share in total cross-border M&As (%)
1996	715	12.2	44.0	16.6
1997	782	11.6	55.4	14.9
1998	906	11.3	77.9	11.2
1999	1 147	12.7	86.9	9.6
2000	1 208	12.0	91.6	6.8
2001	1 125	13.9	87.8	12.0
2002	1 126	17.2	84.7	17.5
2003	1 296	19.6	109.9	26.7
2004	1 626	22.0	173.2	30.5
2005	1 724	19.5	205.8	22.1
2006	1 693	17.7	285.5	25.4
2007	1 890	17.6	469.9	27.6
Q1	*451*	*16.7*	*73.3*	*25.3*
Q2	*520*	*19.2*	*183.2*	*37.8*
Q3	*439*	*16.6*	*115.6*	*29.5*
Q4	*480*	*18.1*	*97.7*	*18.3*
2008	1 721	17.7	291.0	24.1
Q1	*440*	*17.1*	*127.1*	*35.5*
Q2	*414*	*16.3*	*69.9*	*23.6*
Q3	*446*	*18.3*	*60.4*	*24.3*
Q4	*421*	*19.2*	*33.5*	*11.1*
2009	711	21.7	43.6	17.2
Q1	*362*	*20.5*	*34.9*	*23.1*
Q2	*349*	*23.3*	*8.7*	*9.6*

Source: UNCTAD cross-border M&As database.
Note: Private equity firms and hedge funds refer to acquirers whose industry falls in the category "investors not elsewhere classified". This classification is based on the Thomson Finance database on M&As. Data show gross cross-border M&As purchases of companies by private equity firms and hedge funds (i.e. without subtracting cross-border sales of companies owned by private equity firms and hedge funds).

negligible as long as the financial crisis continues. Several large LBOs collapsed in the latter half of 2008 and 2009,[42] and it is expected that a large number of private equity firms will succumb to the crisis. The surviving firms may therefore concentrate increasingly on smaller transactions in small and medium-sized enterprises (SMEs). For instance, the average value of cross-border M&As in 2008 was less than $200 million, 32% lower than in the previous year. In the last quarter of 2008, it was only $80 million (table I.13). Private equity firms are also looking for more deals in infrastructure and energy-related industries, which are benefiting from economic stimulus packages initiated by various governments. Because of their sheer size, such transactions often take the form of joint deals with private or public companies. Distressed debt financing and special parts of private equity are also growing. These trends combined suggest that these funds are not targeting large companies as much as before, which may depress the total value of their cross-border M&As well into the future.

2. FDI by sovereign wealth funds on the rise despite the crisis

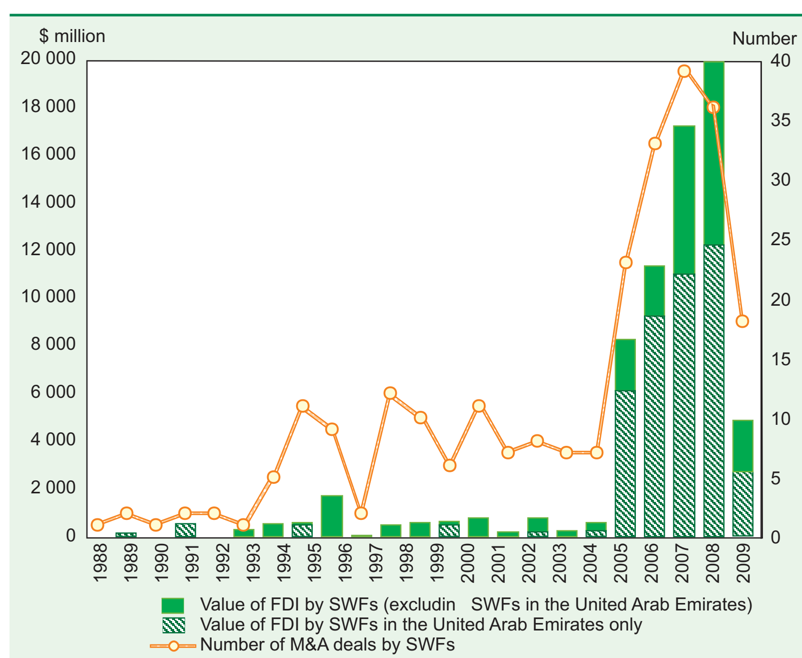
SWFs, which are relatively new investors, registered a record $20 billion in FDI in 2008, a rise of 16% over the previous year (figure I.17). Their assets under management at the end of the year totalled $3.9 trillion, despite the fall in oil prices. Since 2005, SWFs have embarked on a conspicuous quest to participate in FDI or cross-border M&As. Indeed, fuelled by higher export surpluses in merchandise trade, and rising incomes from the export of oil and other natural resources, they have generated rapidly growing foreign-exchange reserves for their home countries. Several SWFs have also started to diversify their asset portfolios by investing in equity capital abroad, including FDI (*WIR08*: 20ff.; IWG, 2008a). This increase bucked the downward trend in global FDI as a whole. However, during the course of the calendar year 2008, the sharp economic downturn in developed countries and the worldwide slump in stock prices led to large losses in SWFs' investments and depressed the pace of growth of their cross-border M&A investments.

Cumulative cross-border M&A investments by SWFs over the past two decades totalled $65 billion by the end of 2008, of which $57 billion was invested only in the past four years. Although this level of investment is still low compared with the total volume of these funds' assets (accounting for just 1.7% of assets), FDI is a much larger component of these funds than in the past.

FDI by SWFs has been largely concentrated in developed countries, which as a group have received nearly three quarters of SWFs' total FDI outflows over the past two decades. The United Kingdom, the United States and Canada, in that order, have been the most preferred destinations. In 2008 alone, SWFs invested large amounts of equity capital in the United States and Sweden through cross-border M&As: $4.8 billion and $4.6 billion respectively. For instance, Temasek (Singapore) acquired an 11% stake in Merrill Lynch (United States) for $4.4 billion, and Dubai International Financial Centre (DIFC) acquired a 69% stake in OMX AB, a Swedish financial markets group.[43]

In terms of sectoral distribution, SWFs' investments have been highly concentrated in financial and business services. During 1987–2008, financial services accounted for 26% (by value) of SWFs' total cross-border M&As, and business services for 15% (figure I.18). The largest investments were made by SWFs of the United Arab Emirates and by

Figure I.17. FDI[a] by sovereign wealth funds, 1987–2009[b]



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

[a] Cross-border M&As only; greenfield investments by sovereign wealth funds (SWFs) are assumed to be extremely limited. Data show gross cross-border M&A purchases of companies by SWFs (i.e. without subtracting cross-border sales of companies owned by SWFs).

[b] For 2009, preliminary data for January-June only. Transaction values for some deals were not available.

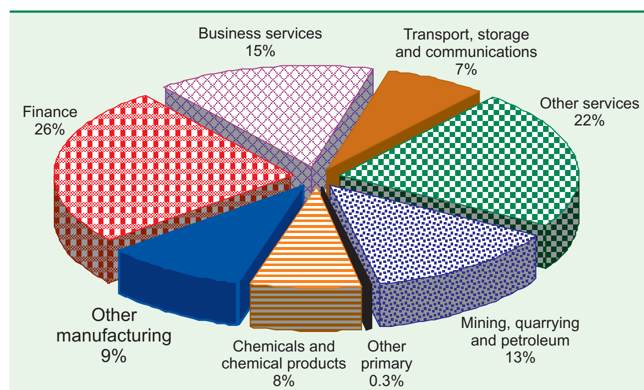
Singapore's Temasek. This pattern of investments has led to an increased concentration of risk (Deutsche Bank Research, 2008: 8). For example, investments in the financial sector contributed the most to the massive losses that SWFs had to bear in 2008, and provoked criticism in the home countries of the funds (e.g. China).[44] Compared with the services sector, the shares of the manufacturing and primary sectors were very low: 17% and 14% respectively. However, in 2008, SWFs extended their investments abroad in mining, quarrying and petroleum industries. Thus the share of these industries rose to over one fifth of SWFs' total FDI flows in 2008, making them the second largest recipients after financial services (at 51%).

In 2008, SWFs (with some exceptions, such as the Qatar Investment Authority) reacted to the financial crisis by pulling out of financial services, which nevertheless remains the largest recipient industry. This was a departure from their earlier focus, typified by capital injections into United States and European global banks, which ended up causing them to suffer heavy losses in 2008. While SWFs do not necessarily need to raise funds, and tend to have long time horizons in their investments, the financial crisis has started to affect their home economies. A number of them are withdrawing their investments in anticipation of further reductions in the value of their investments, and some of them are re-routing their funds for use in their domestic economies to restore investor confidence. Meanwhile, some host countries have attempted to prevent foreign takeovers by SWFs in certain industries for reasons of economic security (*WIR08*).

In recent years, growing investments by SWFs in developed countries have provoked mixed reactions in those host countries. On the one hand, the entry of SWFs has been welcomed, as they have helped to ease the capital shortages of their target firms. In particular, the large-scale investments of several SWFs in the North American and European financial sectors contributed, for a while, to the stabilization of their banking systems (*WIR08*). Most of these investments were portfolio investments, as SWFs only acquired minority stakes of less than 10%. In several cases of larger investments, SWFs did not acquire even voting rights. On the other hand, SWFs' investments have also provoked harsh policy reactions in many developed host countries, and a tightening of investment rules (*WIR08*: 25–26). One outcome has been that investing countries and host countries have responded to growing protectionist sentiments by combining their efforts to develop guidelines for an investor-friendly framework, including requiring greater transparency of investments by SWFs (box I.5).

Prospects for further increases in cross-border M&As by SWFs in 2009 have deteriorated dramatically. As noted above, the asset portfolios of these funds have lost considerable value since the onset of the financial market crisis. According to some estimates, the total value of their assets may have fallen by 25–30% in 2008.[45] The steady flow of foreign exchange reserves that were channelled into the funds by home governments and central banks has slowed since the second half of 2008 due to the falling prices of oil and other natural resources and to shrinking export surpluses. Many emerging-market and transition economies have lost substantial amounts of foreign-exchange reserves since 2008. In response, SWFs are starting to invest more in their home-country domestic markets – either directly or indirectly – to support their banking industries, to boost expenditures by their firms, and, in some cases, to avoid foreign takeovers of some domestic firms.

Figure I.18. Cumulative FDI[a] by SWFs, by main target sectors and top five target industries, 1987–2008



Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] Cross-border M&As only; greenfield investments by SWFs are assumed to be negligible.

3. FDI by private equity funds and sovereign wealth funds compared

Private equity funds and SWFs gained a significant share in cross-border FDI during the previous M&A boom in 2003–2007. Both funds drew widespread attention in international financial markets, which focused on their investment behaviour and the effects of their investments on host countries. Discussion on these issues led to some political disputes. The crisis in financial markets has seriously affected both funds, initially private equity funds, followed with some time lag by SWFs. It is useful for policymakers to have a good understanding of these funds' role in FDI transactions and the differences between them in terms of their investment patterns and performance.

Private equity funds invest in venture capital, growth capital, distressed capital, and

Box I.5. Guidelines on cross-border investments by SWFs

Increased FDI by SWFs in developed countries has raised concerns about the possible detrimental effects of investments by the funds. The main point of criticism is that many of the investing SWFs that are domiciled in China, the Russian Federation and the West Asian countries lack a reasonable degree of transparency and accountability (Truman, 2007a).[a] This perceived lack of transparency, and the fear that SWFs could be pursuing political rather than economic goals, has provoked reactions from recipient countries.

In principle, the rise of FDI by SWFs should not precipitate the erection of new barriers to international capital flows and to FDI. This view has been reiterated in various declarations within developed-country forums. In October 2007, the Group of Eight (G-8) declared that "SWFs are increasingly important participants in the international financial system and our economies can benefit from openness to SWF investment flows" (Group of Eight, 2007). In February 2008, the European Commission urged a common European approach to SWFs that should strike the right balance between addressing concerns about SWFs and maintaining the benefits of open capital markets (Commission of the European Communities, 2008). Yet, at least 11 developed countries have approved, or are seriously planning, new rules to restrict certain types of FDI, or to expand government oversight of cross-border investments (Marchick and Slaughter, 2008: 2).

Countries that own SWFs have responded to these criticisms and to the policy reactions of recipient countries by taking steps themselves. The fear of further discriminatory measures being applied, that were already under way, led to the establishment of the International Working Group of Sovereign Wealth Funds (IWG) on 1 May 2008. With the help of the International Monetary Fund (IMF), which facilitated and coordinated their work, IWG members agreed on Generally Accepted Principles and Practices (GAPP) – the so-called Santiago Principles – in October 2008. The GAPP seeks to ensure that SWFs bring economic and financial benefits to home countries, recipient countries and the international financial system (IWG, 2008b). These principles represent a collaborative effort by SWFs from developed, developing and transition economies to establish a comprehensive framework for providing a clearer understanding of their operations. Voluntary adoption by all members would signal a strong commitment to the GAPP, enhance the stabilizing role that SWFs can play in financial markets and help maintain the free flow of cross-border investments. The EU and the OECD have reacted very positively to the Santiago Principles (Almunia, 2008; OECD, 2008a).

In June 2008 the ministers of OECD countries stated that recipient countries should not erect new protectionist barriers to foreign investments, and that they should not discriminate between investors. Accordingly, the OECD and its member countries adopted a declaration expressing their commitment to preserve and expand an open international investment environment for SWFs. In this context, they also endorsed guidelines, developed under the auspices of the OECD Investment Committee, to ensure that investment measures to safeguard national security are not a form of disguised protectionism (OECD, 2008b).

Source: UNCTAD.

[a] Truman (2007b) and the Sovereign Wealth Fund Institute (2009) have developed indices that measure the transparency of SWFs.

buyouts, among other forms. In recent years, cross-border M&As by private equity funds and other collective investment funds have extended across all sectors, and originated mainly in North America and Europe. While there is little doubt that venture capital financing may spur economic growth by providing capital to firms that otherwise would have only limited possibilities to raise capital or loans, the effects of private equity investments in the form of LBOs are not clear. Some contend that LBOs can improve economic welfare by increasing efficiency and productivity (United States, GAO, 2008); but other studies have found that the performance of private equity funds, as reported by industry associations and previous research, has been overstated (Phalippou and Gottschalg, 2009). The collapse of cross-border LBOs by private equity funds in the second half of 2008 depressed the performance of those funds in 2009, seriously affecting their fund-raising capabilities. This, combined with the hesitant lending policy of the financial sector, will further depress cross-border M&As by private equity funds and other collective investment funds in the near future.

SWFs have some similarities with private equity funds, but there are also large differences in their investment behaviour and the financing of FDI. There are over 50 such funds in more than 40 countries, but "there is no such thing as an average SWF".[46] Some funds are new (e.g. China Investment Corporation, established in 2007), while others are very old (e.g. Kuwait Investment Authority, founded in 1953). Some SWFs are very big (e.g. Abu Dhabi Investment Authority, with assets of more than $500 billion), and others are very small in size (e.g. Sao Tome and Principe, with assets of $20 million). Some are passive investors, while others are active investors (e.g. Singapore's Temasek Holdings). Their growth has reflected rising oil and non-oil commodity prices and the fast growing current-account surpluses of their home countries. During 2008, like other large asset funds, SWFs were hit by the financial market crisis, the value of their assets falling by nearly 30%.[47]

Despite the sharp decline in their assets, their more hesitant investment strategy since the second half of 2008, and in some cases a tendency to increase investments at home (Federal Reserve Bank of San Francisco, 2009: 4), SWFs could undertake more cross-border FDI in the near future. Worldwide, SWFs have more readily available financing for investment at their disposal than private equity funds. Unlike private equity funds, they are not under pressure to produce high short-term returns, they do not need co-financing by bank loans, and their investment horizon is longer than that of private equity funds and other collective investment funds.

The effects of SWFs on acquired firms are difficult to assess for a number of reasons. First their FDI is relatively recent. Second, their investments have not produced an above-average yield by spurring the efficiency of the firms they have acquired in the short term, since most of the acquired firms were in financial distress at the time of the investment or acquisition. In the long run, however, the performance of these firms is not certain; it depends on the quality of governance by SWFs and on various ancillary costs, including those of monitoring the operation and management of the target firms (Chhaochharia and Laeven, 2008; Fotak, Bortolotti and Megginson, 2008).

D. NEW DEVELOPMENTS IN FDI POLICIES

1. Developments at the national level

UNCTAD's 2008 survey of Changes to National Laws and Regulations related to FDI indicates that 110 new FDI-related measures were introduced by a total of 55 countries (table I.14). Of these, 85 measures were more favourable to FDI. Compared to the previous year, the percentage of less favourable measures for FDI has remained unchanged and stands at 23 per cent (table I.14).

From a regional perspective, South, East and South-East Asia and Oceania had the highest share of regulatory changes (25 per cent), followed by developed countries (20 per cent) (figure I.19). In all regions, the number of changes more favourable to FDI clearly exceeded those that were less favourable. They accounted for 75 per cent of the 16 measures adopted in Africa, 79 per cent of the 28 measures adopted in South, East and South-East Asia and Oceania, 80 per cent of the 15 measures adopted in the Commonwealth of Independent States (CIS), 91 per cent of the 22 measures in the developed countries, 55 per cent of the 20 measures adopted in Latin America, and 89 per cent of the 9 measures taken in West Asia and the SEE countries combined.

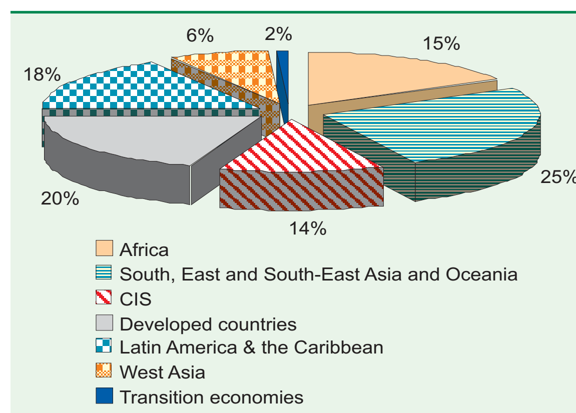
Out of the 110 new measures adopted during the review period, 33% introduced more favourable entry regulations, and another 44% of all measures improved the treatment or operations. Only 13% and 10% were less favourable in entry and treatment or operations, respectively (figure I.20).

a. Major policy trends

Investment liberalization continued during the review period in numerous countries. Several countries lowered existing obstacles to foreign investment, thereby continuing the trend of more openness towards FDI. Measures in this regard included raising FDI ceilings or the level of the general review threshold. In other cases, the acquisition of residential real estate by foreign investors was eased (chapter II). As in previous years, the trend towards lowering taxes on foreign investments (identified in *WIR08*) continued in the review period.

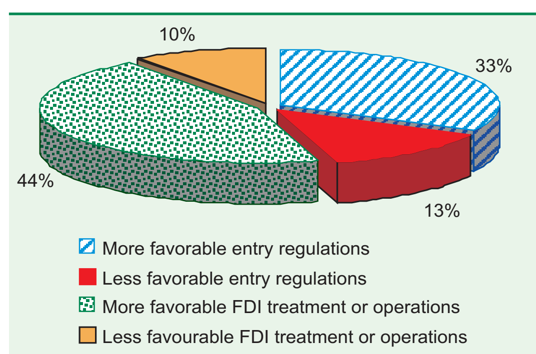
At the same time, various countries took new steps to regulate FDI. The trend of scrutinizing foreign investments for national security reasons continued in

Figure I.19. Regional distribution of FDI-related measures in 2008



Source: UNCTAD.

Figure I.20. Nature of FDI-related measures in 2008



Source: UNCTAD.

Table I.14. National regulatory changes, 1992–2008

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58	55
Number of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98	110
More favourable	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74	85
Less favourable	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24	25

Source: UNCTAD database on national laws and regulations.

several countries. Some countries in Latin America took further steps to nationalize strategic industries, particularly extractive industries (chapter II).

b. Policies introduced in response to the financial crisis and their potential impact on FDI

So far, the current financial and economic crisis has had no major impact on FDI policies per se. Although numerous countries have adopted FDI-related legislation since the beginning of the crisis, it is difficult to determine whether and to what extent these measures were taken in response to the crisis. Also, while some new legislation is likely to have a positive effect on FDI flows, other regulations might produce the opposite result. Moreover, the crisis has had a considerable psychological effect inasmuch as it has triggered large public support for a stronger role of the State in the economy in numerous countries. It cannot be ruled out that State involvement will continue beyond the actual crisis, with longer term effects on FDI policies in the future (UNCTAD, 2009a).

(i) National policy measures

Many countries have adopted bailout programmes and individual rescue packages to support ailing companies, particularly those in the financial sector. Numerous countries – both developed and developing – have adopted economic stimulus packages, including public investment programmes, cuts in taxes and interest rates, and provision of low-interest loans. These measures may have a positive effect on inward FDI, provided they are designed and implemented in a non-discriminatory manner and open to participation by foreign investors.

Fears have been expressed that these government actions could result in investment protectionism by favouring domestic over foreign investors, or by introducing obstacles to outward investment in order to keep capital at home. There are no signs yet of a general trend towards more restrictive FDI policies in response to the crisis. However, some protectionist tendencies have emerged, as some countries have begun to discriminate against foreign investors and/or products in a "hidden" way using gaps in international regulations. Examples of "covert" protectionism include favouring products with high "domestic" content in government procurement – particularly in huge public infrastructure projects, de facto preventing banks from lending for foreign operations, invoking "national security" exceptions that stretch the definition of national security, or moving protectionist barriers to sub-national levels that are outside the scope of the application of international obligations (e.g. in procurement issues).

Looking to the future, a crucial question is which FDI policies host countries will apply once the global economy begins to recover. The expected exit of public funds from flagship industries is likely to provide a boost to private investment, including FDI. This could possibly trigger a new wave of economic nationalism to protect "national champions" from foreign takeovers.

(ii) Policy implications for developing countries

One major challenge for developing countries is to be able to continue to attract FDI during the crisis, especially investment that serves their long-term development goals and enhances competitiveness. Retaining existing investment is particularly important, since TNCs in financial difficulty may consider closing foreign affiliates or transferring them to other locations. Some developing countries, especially the more rapidly emerging countries, also need to consider the impact of the crisis and the evolving policy environment on their outward investment flows. Such flows have become an increasingly important aspect of their development strategies. In particular, divestment strategies of companies in financial difficulty in developed countries offer an opportunity for developing-country firms to purchase such foreign companies at an attractive price, and to acquire crucial technology, brands and other assets (UNCTAD, 2009a).[48]

2. Developments at the international level

During 2008, the network of IIAs continued to expand, although the number of bilateral investment treaties (BITs) concluded in 2008 (59) was lower than

in 2007 (65). The number of newly concluded double taxation treaties (DTTs) (75) and other international agreements with investment provisions (16) exceeds those concluded in 2007 (69 and 13, respectively). Moreover, the first six months of 2009 already saw the conclusion of 25 BITs and 6 other IIAs – a development that further strengthens and expands the current international investment regime. This also points to a continued reliance – in spite of the ongoing global economic and financial crisis – on the conclusion of IIAs as a means to promote foreign investment.

In parallel to the sustained expansion of the IIA regime, the number of investor-State disputes has also continued to increase. With numerous awards on key substantive issues, investor-State tribunals have contributed substantially to the increasing body of international investment law.

a. Bilateral investment treaties

In 2008, 59 new BITs were concluded. Developing countries were involved in 46, and developed countries in 38 new BITs. The total number of BITs rose to 2,676 at the end of 2008 (figure I.21).

In terms of regions, countries from developing Asia and the Oceania led, with the conclusion of a total of 31 BITs in 2008, half of which were with developed countries. Compared with 2007, the number of BITs Asian countries concluded with Latin American partners rose to 4. Overall, countries in the Asia-Oceania region are now party to 41% of all BITs.

African countries signed 12 new BITs in 2008, 8 of which were concluded with developed countries in Europe; Spain alone accounted for 3 of these. With a total of 715 BITs, African countries are now party to 27% of all BITs. The transition economies of South-East Europe (SEE) and the CIS signed 19 BITs, 11 of them with developed countries (all of them European partners). These transition economies are now party to 613 BITs, which account for 23% of all BITs. Latin America and the Caribbean, with 8 new BITs in 2008, followed at a slower pace. This region is now party to 483 BITs, or 18% of all BITs.

The number of BITs *between developing countries* also continued to grow. Of the 59 new BITs signed during the year, 13 were among developing countries. This points to the continuing importance of South-South cooperation on investment issues. At present 26% of all BITs are South-South treaties (figure I.22).

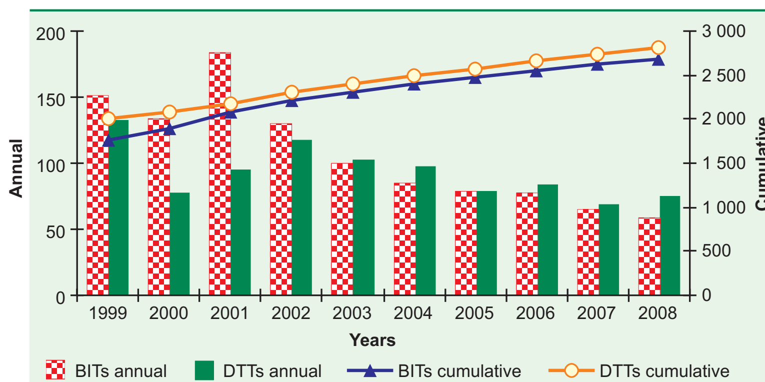
Three other notable developments shaped the evolution of the BITs network in 2008. One relates to the *termination of BITs*, a process involving mutual agreement between the signatory countries. Until the end of 2008, six BITs were terminated, and others are in the process of termination. For example, in 2008, the Czech Republic initiated the process for termination of 23 BITs which it had concluded with individual EU countries. One reason for the termination of BITs between EU member countries is to eliminate overlapping rules governing intra-EU investment flows. The current overlaps between BITs and EU law are due to the fact that, at the time of signature of the BITs in question, European rules for intra-EU investment did not apply between EU members and those countries that only later became EU members. Similarly, the termination might be related to the conclusion of a free trade agreement (FTA) that includes investment rules between the same treaty partners (e.g. the 2004 FTA between Morocco and the United States).

A second development relates to the *denunciation of BITs*, which is a unilateral act of withdrawal from an agreement. The denunciation of 11 BITs occurred in 2008. Ecuador denounced nine BITs, mainly with neighbouring Latin American countries. The other denounced BITs are the one between El Salvador and Nicaragua and the one between the Bolivarian Republic of Venezuela and the Netherlands. Among the reasons likely to motivate such a development could be a general reluctance towards BITs, questions about the effects that BITs have on a country's economic development, as well as the objective of ensuring compatibility between IIAs and domestic investment laws, including – as in the case of Ecuador and Bolivia – the country's constitution.[49]

A third development relates to the *renegotiation of BITs* – the continuation of an earlier trend, though on a smaller scale. In 2008, eight BITs were renegotiated. Again, the Czech Republic was particularly active: it concluded five protocols on amendments to its original BITs, a process reported as renegotiation of BITs. These renegotiations are based on Article 307 of the EC Treaty and aim at bringing the country's BITs into conformity with EU law.[50] Notably, in March 2009, the European Court of Justice (ECJ) ruled against two EU members (Austria and Sweden), because of their failure to adopt appropriate measures to eliminate incompatibilities between BITs entered into with third countries prior to accession of the member States to the EU and the EC Treaty.[51]

With the completed renegotiation of eight EU BITs,[52] the number of renegotiated BITs had reached a total of 132. While this is a continuation of an earlier trend on a lower scale, the fact that numerous renegotiations are ongoing, suggests an acceleration of this trend in the future. It remains to be seen, whether, in this context, countries will take renegotiations as an opportunity to re-balance some of the agreements, going beyond issues related to compatibility with

Figure I.21. Number of BITs and DTTs concluded, annual and cumulative, 1999–2008



Source: UNCTAD (www.unctad.org/iia).

EU law. Such a tendency has already emerged with respect to the introduction of new model BITs, and might be strengthened in light of the current global financial and economic crisis (see section 2.e).

With respect to a possible increase in investment protectionism in response to the financial crisis, IIAs have a role to play in ensuring predictability, stability and transparency of national investment regimes. Policymakers should also consider strengthening the investment promotion dimension of IIAs through effective and operational provisions. Investment insurance and other home-country measures encouraging outward investment are cases in point where continued international cooperation can be useful.

b. Double taxation treaties

In 2008, 75 new DTTs were concluded, bringing the total to 2,805 (figure I.21). Developed countries were parties to 63 of these new DTTs, and 18 of them were concluded between developed countries only. Ireland and the Netherlands were the most active, each concluding six DTTs in 2008. Developing countries as a group were involved in 39 of the new DTTs, led by Qatar and Viet Nam with 4 DTTs each. Five of the DTTs signed in 2008 were among developing countries only, amounting to 16% of all DTTs concluded in 2008. Those between developed and developing countries still account for the largest share: 38% of all the DTTs (figure I.23).

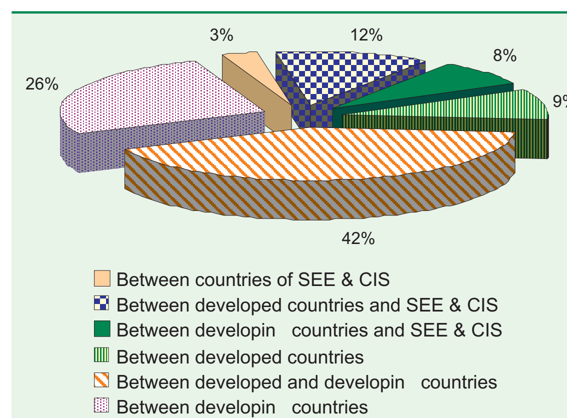
c. International investment agreements other than BITs and DTTs[53]

In 2008, 16 international agreements with investment provisions were concluded, bringing the total number of such agreements to 273 by the end of 2008 (figure I.24). Most of them were free trade agreements (FTA), establishing binding obligations on the contracting parties with regard to investment liberalization and protection. The scope of the investment chapters in the new FTAs is comparable to provisions found in BITs, including provisions for investor-State dispute settlement.

Canada and Singapore were the most active, concluding three new FTAs each with investment provisions. China, the members of the European Free Trade Association (EFTA),[54] Colombia, Peru and the United States concluded two new agreements each. Significant examples include the FTAs concluded by Canada with Colombia and Peru, which contain substantive chapters covering investment liberalization and protection. At the same time, the European Community (EC) concluded an Economic Partnership Agreement (EPA) with 15 CARIFORUM States, involving a total of 42 countries[55] and setting out important rules for investment liberalization.

In Asia, countries continued to conclude a number of FTAs; China concluded two agreements with New Zealand and Singapore. While the China-New Zealand FTA includes a full investment protection chapter, the FTA with Singapore incorporates the provisions of the China-ASEAN investment agreement upon its conclusion. The Association of Southeast Asian Nations (ASEAN) signed an agreement with Japan, which includes general investment cooperation provisions. The FTA also establishes a Sub-Committee on Investment to discuss and negotiate more substantive investment provisions. Furthermore the Gulf Cooperation Council (GCC) concluded its first comprehensive FTA with Singapore and individual GCC member

Figure I.22. Distribution of BITs concluded at end-2008, by country group
(Per cent)

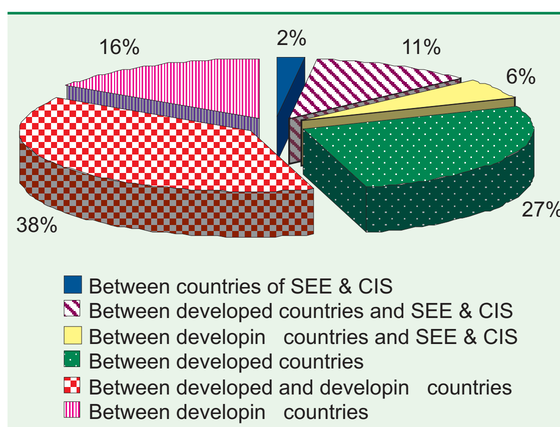


Source: UNCTAD (www.unctad.org/iia).

countries. The parties agreed that investment issues will be dealt with through BITs between Singapore and individual GCC member countries.

In Africa, countries relied on regional integration organizations to negotiate FTAs and framework agreements. The United States concluded a Trade and Investment Framework Agreement (TIFA) with the East African Community (EAC) and a Trade and Investment Cooperative Agreement with the Southern African Customs Union (SACU). These agreements establish an institutional framework to monitor trade and investment relations between the parties and to consider ways to promote investment (see annex table A.I.13).

Figure I.23. Distribution of DTTs concluded at end-2008, by country group
(Per cent)



Source: UNCTAD (www.unctad.org/iia).

d. Investor-State dispute settlement

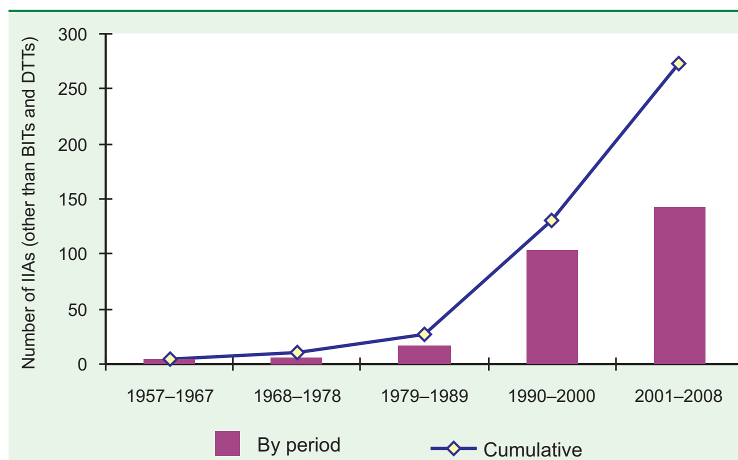
In parallel with the expanding IIA regime, the number of investor-State disputes has remained relatively high. The cumulative number of known treaty-based cases had reached 317 by end 2008 (figure I.25).[56] In 2008, at least 30 new treaty-based investor-State dispute cases were filed, 21 of them with the International Centre for Settlement of Investment Disputes (ICSID). While this was lower than in 2007, when 35 new cases were filed, it is nonetheless considerably higher than those filed before 2002. Since ICSID is the only arbitration facility to maintain a public registry, the actual number of treaty-based cases is likely to be higher.

The rise in disputes continues to affect many countries. In fact, at least 77 governments – 47 in developing countries, 17 in developed countries and 13 in transition economies – were involved in investment treaty arbitration by the end of 2008. Argentina still tops the list with 48 claims lodged against it, two of which were brought in 2008. Mexico is second, with 18 known claims, followed by the Czech Republic (15) and Ecuador (14). Countries with a relatively large number of new known cases in 2008 included: Ecuador (4), Ukraine (4) and Georgia (3). Three countries faced arbitration for the first time in 2008: Gabon, Senegal and Uzbekistan.

As many as 92% of known claims (317) were initiated by investors from developed countries, whereas by the end of 2008, there were 20 cases filed by investors from developing countries and 9 from transition economies. Of the 96 cases concluded by end 2008, 51 were decided in favour of the State, and 45 in favour of the investor, although four of these cases are still pending before an ICSID annulment committee. At the same time, 48 cases were discontinued following settlement, 142 cases were still pending and for 31 cases the status was unknown.

The large majority of cases were initiated on the grounds of violating a BIT provision. The BIT between Argentina and the United States leads with 18 claims, followed by the BIT between Ecuador and the United States and that between the Republic of Moldova and the Russian Federation, with nine claims each. With regard to regional and plurilateral international investment agreements, the North American Free Trade Agreement (NAFTA) alone was used in 48 claims while the Energy Charter Treaty (ECT) was used for at least 20 claims.[57] The Central American Free Trade Agreement (CAFTA) has been used in at least two claims since its entry into force. This shows that investors are increasingly using investment chapters of free trade agreements (FTAs) for filing claims against host States.

Figure I.24. Number of IIAs concluded at end-2008, cumulative and per period



Source: UNCTAD (www.unctad.org/iia).

e. International investment agreements and the financial crisis

The financial crisis raises a series of novel issues for IIA negotiators. On the one hand, IIAs could serve as a tool to counter declining FDI inflows or the risk of investment protectionism. On the other hand, there are concerns that governments may be constrained by IIAs in implementing emergency measures in response to the crisis. Finally, the emerging consensus on the need for more global regulation of the financial sector raises the issue of how to ensure coherence between the international financial system and the international investment regime. These issues are discussed in this subsection.

(i) Investment protectionism and IIAs

To some extent, IIAs can serve as a bulwark against the risk of investment protectionism. IIA provisions on non-discrimination, for example, prohibit contracting parties from favouring domestic over foreign investors. Provided that the non-discrimination clause extends to the pre-establishment phase, it may also protect foreign investors against unjustified entry restrictions. Effective safeguards against such potentially protectionist behaviour are particularly important for emerging economies that are increasingly investing abroad through their State-owned enterprises and SWFs.

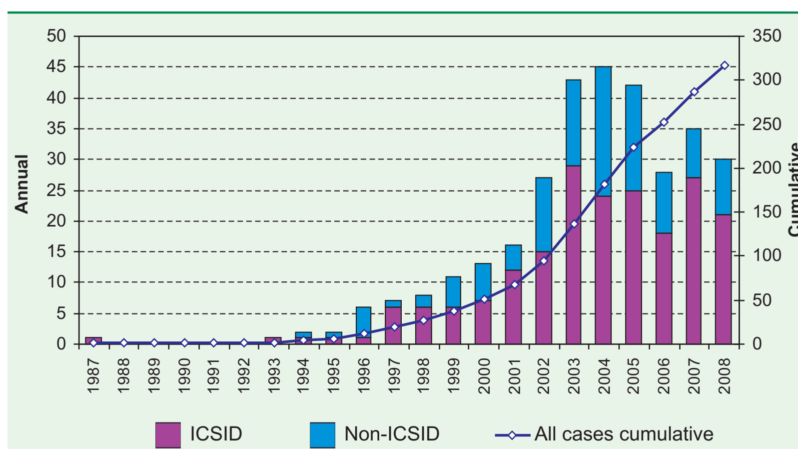
However, IIAs are less effective in preventing restrictions on outward FDI, because they generally lack legally binding rules in this area. The question therefore arises as to whether IIA negotiators would want future IIAs to offer protection against governments' restrictions on outward FDI.

At the international level, various initiatives have been taken to avoid recourse to investment protectionism. At the Group of Twenty (G-20) Summit on Financial Markets and the World Economy, held in Washington, D.C., on 14 November 2008, leaders renewed their political commitment to an open global economy. Their declaration stated that "within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports."[58] This commitment was reaffirmed at the G-20 Summit in London, held on 2 April 2009, where leaders committed to "minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector."[59] They further pledged: "We will not retreat into financial protectionism, particularly [through] measures that constrain worldwide capital flows, especially to developing countries."[60] UNCTAD, in collaboration with other relevant organizations, regularly monitors policy developments in the area of FDI (box I.6).

(ii) Emergency measures in response to the crisis

The financial crisis also highlights the relevance of national security exceptions in IIAs. In the context of Argentina's financial crisis in the early 2000s, several arbitration awards confirmed that the scope of "essential security" exceptions is not necessarily limited to military threats, but may also cover emergency measures taken in times of major economic crises.[61] Tribunals disagreed, however, on the degree of severity of an economic crisis that would justify invocation of the national security exception. Questions also remain about whether or not such a clause is self-judging,[62] and whether a national security exception extends to the protection of strategic industries.

Figure I.25. Known investment treaty arbitrations, cumulative and newly instituted cases, 1987–end 2008



Source: UNCTAD (www.unctad.org/iia).

(iii) Regulation of the financial system and IIA provisions

The financial crisis has given rise to calls for stricter regulation of international financial markets. As more State intervention might undermine investor rights, questions arise about how to ensure coherence between the international financial system and the IIA universe. This encompasses three main issues.

The first relates to the definition of "investment" in

Box I.6. Investment policy developments in G-20 countries

An UNCTAD review of national and international investment policy developments taken by G-20 member States (including the member countries of the EU[a]), shows that in response to the crisis, these countries have mostly refrained from taking policy measures that are restrictive towards foreign inward and domestic outward investment (UNCTAD, 2009c). In fact, a substantial number of the policy changes surveyed were in the direction of facilitating investment.

UNCTAD found that 39 of the 42 countries surveyed undertook 167 policy measures in the investment area (in the period between October 2008 and June 2009). Forty (24%) specifically addressed foreign investment and 127 (76%) were part of the general legal framework that also applies to foreign investments. Among the measures specific to foreign investment, 8 countries took measures concerning the entry of foreign investors (15 measures altogether). Five countries undertook measures aimed at facilitating investment flows (9 measures), and 7 enacted laws and regulations that concern the operation of foreign affiliates (7 measures). Three countries changed their relevant tax laws (9 measures). There were a few policy measures that restricted private (including foreign) participation in certain highly sensitive sectors, or introduced new criteria and tests, such as a national security test for investments that raise national security concerns.

Among the measures related to investment, 11 countries enacted laws and regulations that concern the general legal framework for the operation of companies, including foreign affiliates (17 measures). Furthermore, 7 countries adopted new taxation measures (7 measures) and 33 enacted State aid measures and/or stimulus packages in response to the crisis (98 measures).

Investment policy developments also occurred at the international level, where G-20 member countries concluded 27 BITs, 36 DTTs and 11 other IIAs between October 2008 and June 2009.

Overall, recent policy developments paint a comforting picture. However, economic stimulus packages could give rise to "covert" protectionism (i.e. using gaps in international regulations to discriminate against foreign investors and products). Furthermore, protectionist pressures could still arise from the spreading of the crisis to less-affected economic sectors and countries, and a new wave of economic nationalism could occur in the aftermath of the crisis, when the exit of the State from bailed out flagship industries might lead to the protection of "national champions" from foreign takeovers (UNCTAD, 2009c).

This UNCTAD review is intended to contribute to a joint effort by WTO, UNCTAD, OECD and IMF to respond to the 2 April 2009 G-20 Leaders' request for quarterly reporting on their adherence to an open trade and investment regime and avoidance of a retreat into protectionism. The summit called upon international bodies to monitor and report publicly on G-20 members' adherence to this pledge.

Source: UNCTAD, 2009c.

[a] The European Union is the 20th member of the G-20, represented by the rotating Council presidency and the European Central Bank.

IIAs. Since most IIAs include portfolio investment in their definition, they cover a vast number of financial products that potentially could become the target of State regulation. Recent IIAs between some countries have shown a trend towards narrowing the scope of the term "investment". This has been achieved, for instance, through (i) a negative list that excludes specific kinds of capital commitments from the definition of investment,[63] or (ii) limiting the term "investment" to cover only assets that contribute to economic development in the host country.[64] Both approaches could potentially exclude purely speculative forms of short-term portfolio transactions from the definition of investment.

Second, national bailouts and rescue packages in response to the crisis have sometimes resulted in the partial or total nationalization of domestic financial institutions. If foreign investors hold shares in these companies, they may be entitled to compensation under the expropriation provisions of IIAs. In addition, foreign investors might have the possibility to challenge stricter State control over the financial sector "as regulatory takings" in the context of investor-State disputes. This risk may give new momentum to discussions about the possible need to clarify the relationship between "normal" regulatory activities of a country and regulatory actions for which investors have to be compensated.[65]

A third set of issues relates to the specificities of financial sector regulation. IIA negotiators wishing to emphasize the rights of financial regulators could clarify in the agreement that contracting parties are not prevented from adopting or maintaining measures for prudential reasons. Such "prudential carve-out provisions" have already been included in a number of IIAs.[66] Another consideration relates to dispute settlement. Recognizing the special nature of investment disputes involving financial matters, some IIAs grant financial authorities a stronger role in the conduct of such proceedings.[67]

E. Prospects

As a result of the worst global recession in a generation, FDI appears set to continue falling in the short term. TNCs seem hesitant – or unable – to maintain their FDI expenditures at former levels in at least 2009 and 2010. According to IMF forecasts, world GDP is set to fall by more than 1% in 2009, aggravating the difficulties already faced by many

companies (IMF, 2009a). Mirroring this trend, the profits of many TNCs are falling at double-digit rates.[68] This has resulted in a climate of widespread pessimism among business executives worldwide. PricewaterhouseCoopers' *12th Annual Global CEO Survey Report*, released in January 2009 (PwC, 2009), showed a dramatic fall in respondents' confidence as compared to the year before. Only 34% of the CEOs were optimistic about their growth prospects for the three years ahead – the lowest level since the survey was started in 2003.

In this environment, it is not surprising that the prospects for FDI in 2009 and beyond, as revealed by UNCTAD's *World Investment Prospects Survey 2009–2011* (WIPS), have been adversely affected by the economic and financial crisis. As with other studies, the UNCTAD survey found that business executives are very apprehensive about the short-term evolution of their business environment. Roughly 90% of them declared being pessimistic or very pessimistic about 2009. They also expressed concern for their own company, albeit to a lesser extent. However, they seemed less negative about prospects in the medium term. Some 45% of them reported being "optimistic" or "very optimistic" about the global business environment in 2011, as compared to 10% for 2010 and nil for 2009.

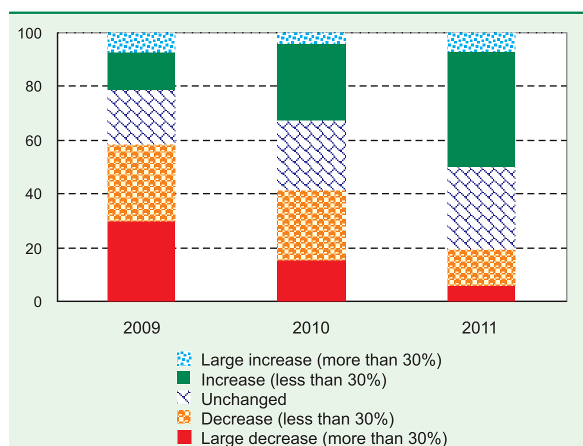
Among the looming global risks that could potentially affect TNCs' FDI plans for the next three years, respondents to WIPS considered three as especially threatening: a deepening of the global economic downturn, an increase in financial instability, and a rise in protectionism involving a change in foreign investment regimes.

These economic prospects and negative sentiments imply that there will most likely be a continued decline in FDI in the short term. According to *WIPS*, big TNCs clearly plan to reduce their FDI expenditures in 2009. About 58% of respondents mentioned that they intended to reduce their FDI abroad in 2009, with nearly one third expecting a large decrease (more than 30%) from 2008 levels (figure I.26). This appears to be largely confirmed by data on FDI flows for the first quarter of 2009 as noted above (section A.4). If this trend continues, world FDI flows could amount to only $900–$1,200 billion in 2009 (figure I.27).

Nevertheless, responses to the survey also suggest that a progressive rebound of FDI could be expected by 2011. The exit of government funds from ailing industries that were poured during the crisis will possibly trigger a new wave of cross-border M&As. It also appears that TNCs intend to continue internationalizing, and that they are generally more optimistic about the medium term outlook for the global economy. With this in mind, there should be a slow recovery in FDI in 2010, before gaining momentum in 2011 (figure I.27). Half of the respondents to the UNCTAD survey forecast that their FDI expenditures in 2011 will be higher than their 2008 level, against only 33% in 2010 and 22% in 2009. The level of FDI inflows in 2010 would be 20–30% lower than the level of 2008, to reach an estimated $1.1–1.4 trillion, and only in 2011 would the level be almost the same as that in 2008, to reach an estimated $1.5–1.8 trillion (figure I.27).

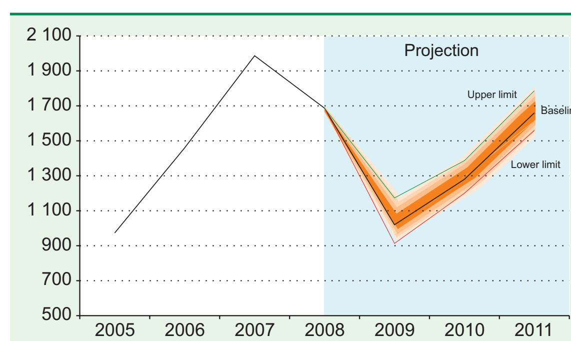
However, these general trends belie sentiments that vary widely by home region of TNCs. The "decrease-then-rebound" pattern in TNCs' investment plans for 2009–2011 appears to be uniform across all

Figure I.26. Changes in respondent companies' FDI expenditure plans as compared to 2008
(Per cent of responses)



Source. UNCTAD, 2009b.

Figure I.27. Global FDI flows, 2005–2008, and projections for 2009–2011



Source. UNCTAD estimates, based on the results of *WIPS*.
Note: Estimates for 2009, 2010 and 2011 are based on the results of WIPS, taking into account data on the first quarter of 2009 for FDI flows and the first half of 2009 for cross-border M&As for the 2009 estimates. For example, for 2010, total FDI inflows in 2008 were split into five groups corresponding to the share of respondents' forecast for 2010 (grouped by large increase, increase, no change, decrease and large decrease (figure I.26)). Next, FDI inflows of each group in 2010 were calculated by applying the average of respondents' forecasts of their investments for their group. Finally, the results were added up to a single forecast value for 2010. The same methodology was applied for 2009 and 2011. In addition to the baseline scenario, two less likely scenarios: 25% upper and lower ranges to the respondents' forecasts average of their investments for their group are included in the figure.

home regions, but European TNCs, which already witnessed a strong pullback in outward FDI in 2008, seemed slightly less optimistic than average. In contrast, TNCs from developing countries, whose FDI outflows were relatively resilient in 2008, showed greater optimism about the coming three years than companies from other regions. Japanese TNCs, after posting a very strong year in 2008, did not show much appetite for further increasing their FDI until 2011. North American TNCs, on the other hand, seemed quite eager to resume FDI expenditure after a setback in 2008 and, most probably, in 2009.

Viewed by industry, FDI prospects also seem to vary. Companies in business-cycle-sensitive industries that have been severely affected by the crisis, such as automotives, metals and chemicals, were among those expressing the most negative views concerning their FDI prospects. On the other hand, some activities that are less dependent upon business cycles and more on stable demand, such as agri-food and many services, or those supplying markets with quick growth prospects in the medium term, such as pharmaceuticals, seem to have been less affected by the crisis, and more optimistic about future FDI prospects.

In terms of the countries that attract FDI the most, results from *WIPS* were largely in line with the results of previous years, and with surveys carried out by other organizations. The list of the 15 most favoured investment locations continues to be topped by China, followed by the United States, India, Brazil and the Russian Federation. This mirrors, by and large, the results of a survey conducted by Ernst & Young (2009), which found China, India, the Russian Federation and Brazil among the six most attractive regions for the coming three years. A survey of Japanese manufacturing TNCs conducted by the Japan Bank for International Cooperation (JBIC, 2009) also found China, followed by India, the Russian Federation and Brazil, as the most promising countries over the coming three years. According to *WIPS,* TNCs are mainly interested in these countries due to the long-term potential growth of their markets and, to a lesser extent, availability of cheap labour.

In conclusion, the outlook for global FDI seems quite grim in the short term due to the impact of the ongoing economic and financial crisis. However, a strong commitment by the largest TNCs to expanding their operations abroad, as well as their relative optimism for the medium-term evolution of their business environment, leaves open the possibility for a rebound in FDI by 2011.

Notes

1 This subsection documents overall trends in worldwide FDI inflows and outflows in 2008 and the first half of 2009 as indicated by balance-of-payments data, supplemented by data on cross-border M&As and greenfield projects, and examines why FDI flows have fallen.

2 This estimate is based on FDI flow data for the first quarter of 2009 (figures I.12 and I.13) and cross-border M&A data for the first half of 2009 (annex table B.4–B.6).

3 Bond spreads continued to be maintained at an unsustainable level in mid-2009 (“Corporate bond, swaps spreads ‘Unsustainable’ Barclays says”, *Bloomberg*, 21 May 2009).

4 According to Dealogic, syndicated loans in the world fell by half in 2008 and were less than half of what they were in the same period in 2008, reaching $620 billion in the first five months of 2009. Syndicated loans for leveraged buyouts (LBOs) were particularly badly affected, declining more than 60% in 2008.

5 For example, losses of S&P 500 companies amounted to $182 billion in the fourth quarter of 2008, the first negative figure since 1935. More than a quarter of these companies published losses for the entire year 2008. In Europe the 310 companies of the DJ Stoxx 600 lost 2.2 billion euros during the fourth quarter of 2008, as against $75.1 billion in profits in the same period a year earlier. Almost one third (90) of the companies are expected to publish negative results for the whole year 2008 (*Les Echos*, 18 March 2009). Similarly, 541 Japanese manufacturing companies listed on stock markets are projected to register a reduction of more than 20% in their profits in 2008 (*Nikkei*, 2 November 2008).

6 The *Ifo World Economic Climate Index*, published quarterly by the German Ifo Institute for Economic Research since 1987, fell to its lowest historic level in March 2009, though it rose in the second quarter for the first time since 2007.

7 The survey, entitled *World Investment Prospects Survey* (WIPS), provides an outlook on future trends in FDI by the largest TNCs. The 2009–2011 survey is the most recent in a series of similar surveys that have been carried out regularly by UNCTAD since 1995, as part of the background work for its annual *World Investment Reports*.

8 Divestment is the partial or complete dismantling of ownership relationships across national borders, either as a result of a strategic decision concerning the geographic scope of the TNC’s value added activities (i.e. the concentration of resources at national, regional or global levels), or a change in a foreign servicing mode (e.g. from local production to exports or licensing), or a complete withdrawal from a host country.

9 FDI statistics on a balance-of-payments basis are reported net, and are generally unable to indicate the magnitude of divestments.

10 Indeed, according to a survey of 384 Japanese affiliates in 2006, some 62% of them were closed due to internal factors such as restructuring and redeployment of resources (Japan, METI, 2008: 199–200).

11 A divestment may also be made, quite independently of an economic downturn, when a TNC decides to change its mode of servicing a foreign market (e.g. from FDI to export or licensing). As a result of the internal restructuring that follows, some foreign affiliates may lose their synergies with the rest of the TNC, and although they might be profitable on their own, their existence no longer fits in with the strategic direction of the TNC as a whole. Such developments very often lead to divestments. There can also be forced divestment, which is the seizure of foreign-owned property through nationalization, expropriation or confiscation.

12 ECB, *Monthly Bulletin*, June 2009.

13 The following are some examples of cancellations due to the global financial crisis: the Swedish Government has halted its $26 billion privatization programme, two years before its scheduled completion (*The Local*, 30 January 2009); the French Government is postponing privatization of the State-owned company, La Poste (*Financial Times*, 4 November 2008); in Mexico, the Government has pushed back the bidding deadline for Punta Colonet, a $6 billion port project (*La Jornada*, 24 June 2009). In Kuwait, the privatization of Kuwait Airways Corporation might be postponed (Kuwait News Agency, 23 October 2008). The Greek Government may have trouble meeting its 2009 privatization goals in the current economic climate, adding pressure to an economy already burdened by high debt levels (Reuters, 16 February 2009).

14 Unlike the data for cross-border M&As and FDI flows and stocks used in this report, data for greenfield investment projects are on an announcement basis, and not on an actual or implementation basis.

[15] Data from fDi Markets, fDi Intelligence (www.fdimarkets.com).

[16] For example, Hutchison Whampoa (Hong Kong, China), the largest TNC from the developing world and a leading conglomerate in infrastructure industries globally (*WIR08*), announced in 2008 that it would suspend all new investments in its global operations.

[17] In the Netherlands and the United Kingdom, cross-border M&A sales fell by $170 billion and $45 billion respectively, in 2008, as both those countries had fewer mega deals of a magnitude that had pushed up the value of total M&A transactions in 2007. This reduction in both countries was responsible for 61% of the decline in the value of M&A transactions in developed countries in 2008 and for most of it in Europe.

[18] Following the practice of previous *WIRs*, the section on the largest TNCs analyses data two years before the reference year. Thus, for example, *WIR08* analysed data for 2006. However, *WIR09* seeks to analyse data for both 2007 and 2008, in the light of the exceptional and dramatic changes caused by the financial crisis.

[19] "Top" or "largest" TNCs in the discussion in section B.1 refer only to non-financial TNCs.

[20] This calculation is based on the size of the TNCs, measured by the share of their value added (e.g. the sum of salaries and benefits, depreciation and amortization, and pre-tax income) in a country's GDP.

[21] While the ranking used in UNCTAD's list of the largest TNCs is based on foreign assets, ranking the companies by foreign sales or by foreign employment would give a different picture. If ranked by sales, petroleum TNCs would occupy the top four positions in the list, and three automobile manufacturers would be in the top 10. Ranking the companies by foreign employment gives yet another picture, with two retail companies and two electrical and electronic equipment companies in the top five positions.

[22] The degree of international involvement of firms can be analysed from a number of perspectives: their operations, stakeholders and the spatial organization of management. Given the range of perspectives and dimensions that can be considered for each, the degree of transnationality of a TNC cannot be fully captured by a single, synthetic measure. UNCTAD's Transnationality Index (TNI) was introduced in 1995 as a response to the academic debate on the ways to measure transnationality. It is a composite of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment. The conceptual framework underlying this index helps assess the degree to which the activities and interests of companies are embedded in their home country and abroad.

[23] Data for TNI in 2008 were calculated only for the 90 companies of the 2007 list of largest TNCs for which data on foreign components (i.e. foreign sales, employment and assets) were available at end June 2009.

[24] This number would rise to 28 if two companies classified as "diversified" in this list, but operating mainly in the services sector (Vivendi and Hutchinson Whampoa), were also taken into account.

[25] However, within the same industry, internationalization levels may vary considerably. For instance, in the motor vehicles industry, Honda's TNI reaches 82.3%, while it is only 27.9% for Hyundai.

[26] Some non-listed companies for which information on international sales, employment and assets were available are also included in the list of largest TNCs from developing countries, for example Petroliam Nasional Berhad (Petronas).

[27] Based on 2007 and 2008 data from Bloomberg for 94 TNCs.

[28] BHP Billiton reported a 57% plunge in profits for the second half of 2008. Profits of Xstrata fell by 35% in 2008, as rising costs eroded earnings. Hitachi lost 8 billion yen in 2008, with especially bad results in its semiconductors business. Hyundai, the fifth largest car manufacturer in the world, announced a fall of 14% in its 2008 profits, and Toyota reported a loss of 2.9 billion euros in 2008. PSA lost 400 million euros in 2008 (*Source*: UNCTAD, based on various press accounts).

[29] In the United States, the spread of AAA corporate bonds over Treasury peaked to more than 1,000 points at the end of 2008, and was still at around 600 points in April 2009, compared with less than 200 points at the beginning of 2007 (IMF, 2009c: 2).

[30] Many companies in the oil and mining industries, in particular, have written off the value of their inventories and assets as the result of a sharp fall in demand and prices.

[31] Based on 2007 and 2008 data for 94 TNCs from Bloomberg. The data differ from those in table I.7 owing to the different number of companies covered.

[32] Results based on Bloomberg in United States dollars.

[33] These plans included, among others, 20,000 job cuts at Nissan, 19,000 at Anglo-American, 16,000 at Sony, 15,000 at Alcoa, 11,600 at United Technologies, 10,000 at GSK, 8,300 at Pfizer, 7,400 at Astra Zeneca, 7,000 at Hitachi, 6,400 at HP, 6,000 at BHP Billiton, 6,000 at Philips Electronics, 6,000 at Renault, 5,000 at IBM, 4,800 at Honda, 3,500 at Azko Nobel, 3,300 at Holcim and 3,000 at Daimler. As part of its rescue plan, General Motors may close 14 factories worldwide, involving several thousand job cuts. Other large TNCs, not listed among the top 100, also announced planned job cuts: 20,000 at Caterpillar, 20,000 at NEC, 15,000 at Panasonic, 12,000 at ATT, 11,000 at PSA, 10,000 at Pionnier, 10,000 at Boeing, 9,000 at Dell, 6,000 at Intel and 5,000 at Microsoft, among others. (*Source*: UNCTAD, based on various press accounts).

[34] France Telecom, for example, although still holding large amounts of cash and keeping debt under control, will stick to a low-risk strategy in its new three-year business plan, with no major acquisitions planned. Hutchison Whampoa has bought back $5 billion of its debt to reduce interest payments, and has announced a very conservative investment strategy. Anglo American will slash its capital expenditures by more than half in 2009, to $4.5 billion. Statoil is to cut spending on exploration for new sources of oil and gas by about 13% in 2009 as oil prices fall, and it will take advantage of the potential cost savings made possible from its merger in 2007 with Norsk Hydro. Other large TNCs, such as E.ON, Veolia, Lafarge, Saint-Gobain, WPP, Metro and ThyssenKrupp, have also announced cost-cutting measures and a reduction in their investment plans. (*Source*: UNCTAD, based on various press accounts).

[35] Cemex, for example, announced that it plans to cut costs by $900 million and sell assets in Austria, Australia, Hungary and other locations to ease high indebtedness. Rio Tinto, hit by the global fall in commodity markets and saddled with $39 billion in debt, is searching for fresh cash. It is trying to sell assets, such as the recent sale of potash assets to the Brazilian company, Vale, and the failed attempt to sell $15 billion in assets to the Chinese company, Chinalco. Dow Chemicals might divest $4 billon worth of assets in 2009 (*Source*: UNCTAD, based on various press accounts).

[36] Among the cash-rich companies and institutions, there are two types that might play a particularly active role in triggering a structural change in the balance of power between economies: new TNCs from emerging economies and SWFs from, among others, oil-exporting countries. In the coming months, these two categories could take part in major takeover operations involving ailing TNCs in developed countries (UNCTAD, 2009a).

[37] In 2007, 16 new companies appeared in the list of top 100 TNCs from developing economies. Among them, five were from Hong Kong (China), and two each were from China, Taiwan Province of China and Kuwait. Four new companies entered the top 50: Tata Steel Ltd. (India), Zain (Kuwait), Wilmar International Ltd (Singapore) and Qatar Telekom (Qatar).

[38] Based on 2007 and 2008 data from Bloomberg for 28 TNCs.

[39] http://www.usatoday.com/money/industries/banking/2009-05-14-bank-america-china-stock_N.htm and http://www.ft.com/cms/s/0/14ee5830-33b1-11de-88cd-00144feabdc0.html

[40] http://www.businessweek.com/globalbiz/content/nov2008/gb20081124_461696.htm; http://www.independent.co.uk/news/business/news/nomura-and-credit-suisse-to-lay-off-1650-staff-in-london-1052790.html.

[41] IFSL (International Financial Services London) estimated this at $700 billion in 2008. The same institute estimated that hedge funds raised $1.7 trillion, although these funds are devoted mainly to portfolio investments and are seldom used for FDI.

[42] Standard & Poors estimates that about 100 European companies with a rating of BB+ or worse are not able to fulfil their debt obligations in 2009 (*Source*: "LBO-Firmen droht Massensterben", *Financial Times Deutschland*, 14 April 2009).

[43] OMX AB was bought by Nasdaq in February 2008, shortly after an investment by DIFC.

[44] For example, Zhang Hongli, vice-executive president of the China Investment Corp, said that “as far as possible we will refrain from making investments” (quoted in “China SWF to slow investment”, *The Straits Times*, 6 January 2009).

[45] “Sovereign wealth funds lose their gloss”, *Financial Times*, 28 February 2009.

[46] “The rise of state capitalism”, *The Economist*, 18 September 2008.

[47] *Financial Times*, 28 February 2009, op. cit.

[48] For instance, it has been reported that two Chinese car manufacturers, Chery and Geely, are interested in buying Volvo from Ford. Mahindra & Mahindra, an Indian producer of utility vehicles, is in the running to buy LDV, an ailing British truck manufacturer. Vale, Brazil’s mining giant, recently picked up a clutch of assets from Rio Tinto, its debt-ridden Anglo-Australian rival (*The Economist*, 28 March 2009: 18).

[49] See Articles 255 ff of the “Nueva Constitución Política del Estado” (October 2008) of the Plurinational State of Bolivia. In Ecuador, Article 416 of the 2008 Constitution promotes a new international trade and investment system, based on, among others, justice, solidarity and complementarity. Article 422 stipulates that the State cannot enter into contracts or join such international instruments which result in the transfer of its sovereign jurisdiction over contractual or commercial disputes between the State and natural or private juridical person to international arbitration authorities. Similar considerations are also addressed by Ecuador’s Inter-institutional Consultative Committee, which is mandated to evaluate the impact of existing IIAs and to design a new model BIT that is in conformity with domestic investment laws, as well as to develop policy recommendations aimed at promoting development through FDI (Resolution No. 290 of the Council of International Trade and Investment, available at: http://www.mmrree.gov.ec/mre/documentos/novedades/boletines/boletines%20promocion/2005/resolucion_290_comexi.pdf).

[50] Communications with the Government of the Czech Republic through e-mails dated, 2 November 2008; and 15 May 2009.

[51] ECJ Cases C-205/06; C-249/06, March 2009.

[52] This figure includes the five protocols concluded by the Czech Republic.

[53] Examples of such agreements include closer economic partnership agreements, regional economic integration agreements or framework agreements on economic cooperation.

[54] Including Iceland, Liechtenstein, Norway and Switzerland.

[55] The 15 CARIFORUM States are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago.

[56] This number does not include cases that are exclusively based on investment contracts (State contracts) and cases where a party has so far only signalled its intention to submit a claim to arbitration (notice of intent), but has not yet commenced the arbitration.

[57] Members of the ECT are the EU and its member states, most SEE and CIS countries, and Japan.

[58] Paragraph 13 of the Declaration of Summit on Financial Markets and the World Economy.

[59] Paragraph 22 of the Leader’s Statement, London Summit of the Group of Twenty, 2 April 2009.

[60] Ibid.

[61] The relevant cases are: *CMS Gas Transmission Company v. The Argentine Republic*, ICSID Case No. ARB/01/08, Award of 12 May 2005; *LG&E Energy Corp./LG&E Capital Corp./LG&E International Inc. v. The Republic of Argentine*, ICSID Case No. ARB/02/1, Award of 3 October 2006; *Enron Corporation Ponderosa Assets L.P. v. The Argentine Republic*, ICSID Case No. ARB/01/03, Award of 22 May 2007; *Sempra Energy International v. The Argentine Republic*, ICSID Case No. ARB/02/16, Award of 28 September 2007; *Continental Casualty Company v. The Argentine Republic*, ICSID Case No. ARB/03/9A, Award of 5 September 2008.

[62] Meaning that either country has the right to decide on its own terms whether a particular event falls within the scope of the clause.

[63] For example, as far as debts are concerned, the 2004 United States model BIT includes a footnote explaining that “[s]ome forms of debt, such as bonds, debentures, and long-term notes, are more likely to have the characteristics of an investment, while other forms of debt, such as claims to payment that are immediately due and result from the sale of goods or services, are less likely to have such characteristics.” In a similar vein, a footnote could clarify that certain forms of capital commitments do not generally constitute an investment.

[64] This approach is based on some recent ICSID awards, in which tribunals have interpreted Article 25 of the ICSID Convention as establishing the jurisdiction of the Centre only with regard to investments contributing to economic development in the host country. See, for example, the ICSID cases *SGS (Switzerland) v Pakistan*, decision on jurisdiction, para 133 and footnote 153; and the *Salini (Italy) v Morocco* decision at para 52.

[65] For instance, the BIT between the United States and Uruguay (2005) observes in an annex: “Except in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety and the environment, do not constitute indirect expropriations.”

[66] A case in point is the 2004 Canadian model Foreign Investment Promotion and Protection Agreement (FIPA) (article 10). It stipulates, *inter alia*, that “[n]othing in this Agreement shall be construed to prevent a Party from adopting or maintaining reasonable measures for prudential reasons, such as (a) the protection of investors, depositors, financial market participants, policy-holders, policy-claimants, or persons to whom a fiduciary duty is owed by a financial institution.” Prudential carve-outs are also a standard feature of international trade agreements covering trade and commercial presence in financial services.

[67] An example is the 2004 United States model BIT which allows the BIT parties to participate jointly and directly in the decision-making process of the tribunal in order to ensure that the necessary financial expertise is taken into account. For this reason, Article 20(3) of the 2004 model creates special procedures applicable to disputes involving either of the two financial services exceptions in the United States model BIT. Where the host country invokes either exception in investor-State arbitration, it shall, within 120 days of the submission of the claim to arbitration, transmit to the “competent financial authorities” of both BIT parties, and to the tribunal, a written request for a joint determination on the issue of the extent to which either exception is a valid defence. The competent financial authorities shall attempt in good faith to make the determination. Any such determination shall be binding on the tribunal. The model BIT also calls for arrangements to ensure that the arbitrators have expertise or experience in financial services.

[68] *S&P Index Service*, 1st Quarter 2009.