CHAPTER II

REGIONAL TRENDS

INTRODUCTION

This chapter examines geographical, sectoral and industry patterns of FDI flows and cross-border mergers and acquisitions (M&As) in the six major regions and subregions of the world. Significant changes occurred in all of them in 2008 and the first quarter or half of 2009. The chapter also analyses prospects for FDI flows to and from each region and subregion, taking into consideration the underlying policy developments in each of them.

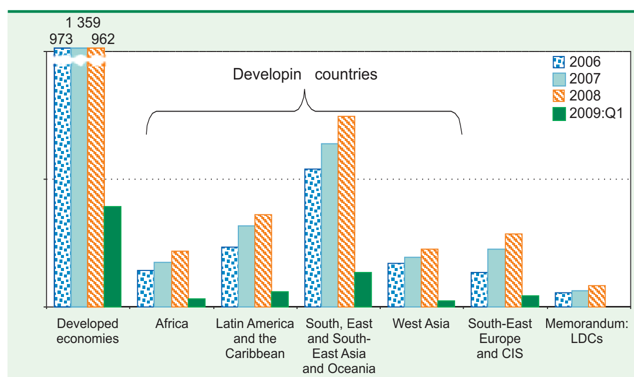
In 2008, inward FDI flows into developed countries declined, while those to developing countries and transition economies continued to increase, though at a slower rate than in 2007 (figure II.1). Despite the financial crisis, developing and transition economies attracted record FDI flows in 2008, as a result, the share of these economies in global FDI inflows increased to 43% – the second highest percentage ever. The least developed countries (LDCs) also saw their share rise to 2%. Among developing regions, South, East, South-East Asia and Oceania, taken together as a region, remained the largest recipient, accounting for almost half of the total inflows of developing economies, while Africa recorded the greatest increase in inward FDI (by 27%).

However, data for FDI inflows in the first quarter of 2009 reveal a different picture: in developing and transition economies in virtually all regions and subregions, they declined dramatically (by more than 40%, on average, from their level in the first quarter of 2008). Meanwhile, developed countries experienced further reductions.

In 2008, FDI outflows fell not only from developed countries, but also from Africa and West Asia. In the first quarter of 2009, there was also a downturn in outward FDI from other subregions such as South, East and South-East Asia. In addition, outflows from Latin America and the Caribbean, as suggested by cross-border M&A data, turned negative as TNCs from the region divested more than they invested during that period (annex table B.4).

Judging from cross-border M&A data by sector and industry (as sectoral/industry data on FDI flows for 2008 were not available), there was a relative decline in the share of services in global inward FDI while the share of the manufacturing sector increased in all regions. The share of the primary sector rose significantly in developed countries, while it fell in developing countries and transition economies (table II.1).

Figure II.1 FDI inflows by region, 2006 to first quarter of 2009
(Billions of dollars)



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

Note: For the first quarter of 2009, FDI inflows for each region were estimated on the basis of available data weighted by their regional share in global FDI inflows for 2008.

Table II.1. Cross-border M&A sales, by sector and by groups of economies, 2007–2009
(Millions of dollars)

Group of economies	2007				2008				2009: first half			
	All industries	Primary	Manu-facturing	Services	All industries	Primary	Manu-facturing	Services	All industries	Primary	Manu-facturing	Services
World	1 031 100	73 299	336 310	621 491	673 214	86 101	302 582	284 531	123 155	10 004	22 698	90 453
Developed economies	903 430	55 806	311 264	536 360	551 847	80 514	261 139	210 194	102 313	8 294	18 967	75 051
Developing economies	96 998	9 268	22 859	64 871	100 862	3 186	38 273	59 403	19 837	1 541	3 371	14 925
South-East Europe and CIS (transition economies)	30 671	8 225	2 187	20 259	20 505	2 401	3 169	14 934	1 005	168	360	477

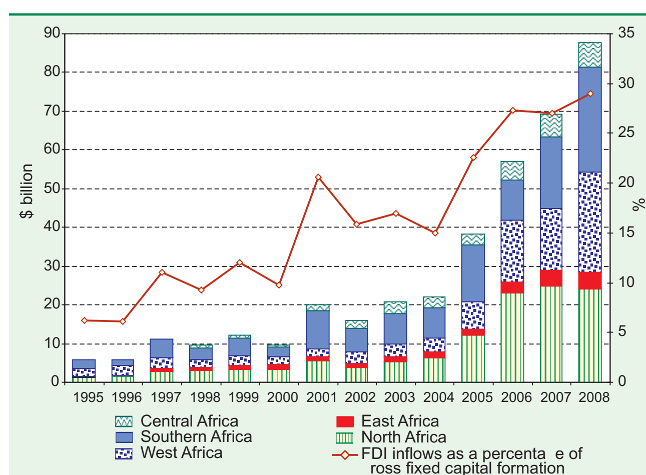
Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

A. Developing countries

1. Africa

In Africa, FDI inflows rose to another record level of $88 billion in 2008 (figure II.2), despite the global financial crisis, resulting in an increase of FDI stock in the region to $511 billion (annex table B.2). Cross-border M&As were an important contributory factor in the increased inflows, more than doubling their level of 2007 (annex table B.4). TNCs, mainly from Europe and to a lesser extent Asia, stepped up M&As of firms in the region in early 2008, particularly in the manufacturing sector. Inflows as a share of Africa's gross fixed capital formation grew to 29% in 2008, from 27% in 2007 (figure II.2). In contrast, divestments by some African firms abroad reduced FDI outflows from the region. A number of policy measures adopted by several African countries continued to make the business environment more conducive to FDI – both inward and outward. However, the sharp decline in commodity prices and the slowdown in global economic growth in the second half of 2008 may signal a possible reversal of the trend towards rising FDI in 2009, breaking the region's six years of consecutive growth in inflows as TNCs cancel or postpone new projects.

Figure II.2. Africa: FDI inflows, by value and as a percentage of gross fixed capital formation, by region, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

a. Geographical trends

i. Inward FDI: flows continued to rise in most subregions

FDI inflows increased in four of the five subregions of Africa in 2008. North Africa attracted 27% of the FDI to the region in 2008, compared with 36% in 2007; and the 47 countries of sub-Saharan Africa attracted 73% in 2008, up from 64% in 2007. The distribution of inflows among the top host countries changed little from the previous year. The six countries of North Africa continued to perform well in terms of inward FDI, while large inflows to Nigeria, Angola and South Africa, plus good performances in Congo, Ghana, Guinea and Madagascar (each receiving more than $1 billion worth of inflows in 2008) boosted overall FDI flows to sub-Saharan Africa. Inflows rose in 29 countries, and fell in the other 24 (annex table B.1). The decline was due to TNCs cancelling or postponing projects as a result of the global financial crisis. The main FDI recipients included many natural-resource producers that have been attracting large shares of the region's inflows in the past few years, as well as new commodity-rich host countries. Developed countries remained the main sources of FDI in the region, although the share of developing countries, especially from Asia, has been increasing over time.

The record rise of FDI inflows to the region in 2008 was partly due to favourable global commodity markets (at least during the first half of the year) and good returns on investment related to the high commodity prices. TNCs, including firms from within the region (sub-section a.ii), took advantage of this situation to expand their regional operations, opening a variety of exploration projects in new locations and injecting large volumes of capital into greenfield projects. They also undertook a record level of cross-border M&As.

Some FDI inflows were in the form of cross-border M&As, which doubled in value in the first half of 2008, before the fall in commodity prices and the onset of the global financial crisis. The total value of cross-border M&A sales in Africa reached its highest level: $21 billion in 2008, compared with $8 billion in 2007 (table II.4). Most of the M&A sales were in the manufacturing sector, and were concentrated in two countries: Egypt and South Africa. For example in Egypt, Lafarge SA (France) concluded a deal to acquire OCI Cement Group for $15 billion though it was not paid fully in that year (table II.2) The other African countries that hosted the top 10 cross-border M&A sales in the region in 2008 were Equatorial Guinea, Ghana, the Democratic Republic of the Congo and Nigeria (table II.2).

In the second half of 2008, liquidity constraints faced by TNCs in many countries led to fewer cross-borders M&As in the region, most of them at significantly lower prices. At the peak of the crisis, cancellations of some cross-border M&A deals and a slowdown in the number of new projects occurred. The total number of announced cross-border deals and greenfield ventures fell significantly in the final months of the year, with some major project cancellations.[1] Data on FDI flows for the first quarter of 2009 indicate a 67% fall from the same period of 2008 (table II.3).

The total number of greenfield FDI projects in the region rose to 820 in 2008, from 381 in 2007 (annex table A.I.1), although in the latter half of the year the number started to decline, partly because of fewer new mining projects.[2] Nevertheless, natural-resource-related projects attracted more FDI in 2008. Many projects that began in the region in the first half of 2008, when global economic prospects looked good, were concentrated in natural-resource exploitation.

Despite the global economic slowdown that took place in the second half of 2008, more African countries, including LDCs (box II.1), registered higher growth in their FDI inflows in 2008 as a whole than in 2007. The ratio of FDI to gross fixed capital formation remained high for many African countries, illustrating the relative importance of FDI in total investment in those economies. However, the ratio has to be seen against a low level of overall investment in the economies. The sustained and slightly larger FDI inflows to Africa in 2008 led to an increase in the region's share of global FDI to 5.2%, as compared with 3.5% in 2007, and raised its FDI stock by 20%.

The main elements in the performances of the subregions are outlined below.

North Africa.[3] Sustained efforts at policy reforms, including privatizations by host countries, and intensified search for natural-resource reserves by TNCs, at least in the first half of 2008, drove FDI inflows to the North African subregion to $24 billion, although this was slightly lower than in 2007. In Algeria, Sudan and Tunisia there was an increase in FDI inflows, which was driven by investments in their oil and gas industries, in addition to privatizations of public companies engaged in the oil industry. On the other hand flows to Egypt, the Libyan Arab Jamahiriya and Morocco declined. As in the past, Egypt remained among the largest recipients in the region, despite falling inflows from $12 billion in 2007 to $9 billion in 2008. In 2008, Edison International (Italy) secured a 40% stake in a mature gas field in Egypt for $1.4 billion, with a commitment to participate in an investment of $1.7 billion in additional exploration and development work. The deal marks the first time that Egypt has opened up to tenders for concession rights in an existing gas field.[4] A combination of lower greenfield FDI and reduced cross-border M&As is likely to lead to a fall in FDI inflows to the subregion in 2009.

West Africa.[5] FDI inflows to the West African subregion increased significantly, to $26 billion in 2008 from $16 billion in 2007. This was mainly the result

Table II.2. Africa: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	15 018	OCI Cement Group	Egypt	Cement, hydraulic	Lafarge SA	France	100
2	5 617	Standard Bank Group Ltd	South Africa	Banks	ICBC	China	20
3	2 200	Devon Energy Corp	Equatorial Guinea	Crude petroleum and natural gas	Undisclosed	Equatorial Guinea	100
4	900	Ghana Telecommunications Co Ltd	Ghana	Radiotelephone communications	Vodafone Group PLC	United Kingdom	70
5	732	DRC Resources Holdings Ltd	Congo, Democratic Republic of	Ferroalloy ores, except vanadium	Central African Mining & Expl	United Kingdom	50
6	700	Alstom SA (Pty) Ltd	South Africa	Power, distribution, and specialty transformers	Investor Group	United Kingdom	100
7	670	Egyptian Container Handling Co	Egypt	Marine cargo handling	Undisclosed	United Arab Emirates	90
8	626	OML 125	Nigeria	Crude petroleum and natural gas	Oando PLC	Nigeria	50
9	513	Lafarge Titan Egypt	Egypt	Cement, hydraulic	Titan Cement Co SA	Greece	50
10	475	Banco de Fomento Angola	Angola	Banks	Unitel SA	Angola	50

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

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company

Table II.3. Africa: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Cape Verde	73	50	46	44	24	-	-	-	-	-
Egypt	3 482	1 985	1 655	2 373	1 211	214	702	700	305	75
Gambia	17	17	15	15	11	..	..	..	..	..
Ghana	132	205	1 361	422	372	2	1	1	1	8
Lesotho	54	53	53	41	43	..	..	..	..	..
Mauritius	60	70	122	126	39	19	15	7	12	6
Seychelles	66	71	168	59	44	2	3	3	2	2
South Africa	5 642	793	2 879	328	1 175	940	360	1 496	-5 113	439
Tunisia	659	714	618	771	304	..	..	..	..	..
Uganda	209	209	211	159	183	..	..	..	..	..
Zimbabwe	15	-	37	-	15	2	2	3	2	-
Total	*10 408*	*4 165*	*7 164*	*4 339*	*3 422*	*1 179*	*1 082*	*2 209*	*-4 792*	*531*

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

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

of an increase in new projects in Nigeria's oil industry, and investments in project upgrades, especially in the mining industry, by existing TNCs in Burkina Faso, Mali and Nigeria. Large cross-border M&As also took place in some other countries of the region. For example, Vodafone Group (United Kingdom) acquired a 70% stake in Ghana Telecommunications Co Ltd. for $900 million.[6] Payments, partly or wholly, for acquisitions of firms prior to 2008, and progressive expansion of projects by TNCs were a major part of the FDI inflows. In Nigeria, a consortium of foreign TNCs (Bg International Ltd, Chevron Nigeria Ltd, and Shell Gas and Power Development) continued their construction of the OK-LNG plant in Olokola Free Trade Zone. Chinese energy company CNOOC Ltd made further payments for a 45% stake in an offshore oilfield in Nigeria, which it had purchased in 2006 for $2.3 billion. Large FDI inflows to the subregion are expected to slow down in 2009, judging by data on cross-border M&As in the first half of 2009.

East Africa.[7] In East Africa, FDI inflows amounted to $4 billion – almost the same as in 2007. This represents 5% of total inflows into Africa, making it the lowest recipient among African subregions. FDI inflows increased in seven countries: Comoros, Djibouti, Madagascar, Mauritius, Seychelles, Uganda and the United Republic of Tanzania. Madagascar, Uganda and the United Republic of Tanzania received large inflows of FDI, particularly through cross-border M&As. These were mainly in expansion projects relating to several natural resource exploitation ventures that were already ongoing, and mostly before the onset of the global financial crisis and deteriorating economic prospects. In 2009, there is likely to be a levelling off or decline in FDI inflows to the subregion.

Central Africa.[8] The Central African subregion attracted almost the same amount of FDI inflows as in 2007 – $6 billion. With a share of 7% of FDI inflows into Africa, the subregion ranked fourth among FDI recipients in 2008. Congo was the leading destination with $2.6 billion. It was followed by Equatorial Guinea, where FDI inflows remained high ($1.3 billion) despite the fact that some TNCs, such as the United Kingdom-based Devon Energy Corporation, divested their interests in the country in 2008 due to disagreements.[9] The financial crisis and dampened global economic prospects are likely to reduce inflows to the subregion in 2009.

Southern Africa.[10] A major recovery of FDI inflows to Angola and South Africa drove FDI inflows to this subregion to their highest level ever: $27 billion in 2008, compared with $19 billion in 2007. Southern Africa accounted for 31% of the inflows to Africa, making it the leading recipient in 2008. As in the past, cross-border M&As were a very important component of these inflows. FDI inflows to South Africa surged, partly as a result of further payments by the State-run Industrial and Commercial Bank of China (ICBC) of $5.6 billion (table II.2) for a 20% stake in Standard Bank. This represents South Africa's biggest FDI deal since independence, beating the tie-up between Barclays and Amalgamated Banks of South Africa (ABSA) in 2005 (in South African rand value). Prospects remain good for further inflows to the subregion, with many countries there set to remain among the top 10 FDI recipients in Africa.

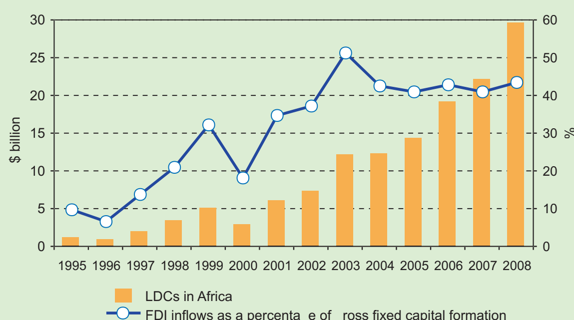
The top 10 recipient countries in Africa accounted for nearly 82% of the total FDI inflows to that region in 2008. They received inflows totalling $71 billion, up from $55 billion in 2007. Policy changes played a role, as did their larger markets and cross-border M&As. Each of the top 10 attracted inflows in excess of $1 billion, and in 4 of them (Angola, Egypt, Nigeria and South Africa), inflows were higher than $9 billion in 2008 (figure II.3). In Nigeria, the largest FDI recipient in Africa in 2007 and 2008, Chinese involvement grew further.

Box II.1. Inward FDI in African LDCs:[a] eight consecutive years of growth

In 2008, FDI inflows to the 33 African LDCs increased throughout the first six months, before a slowdown during the latter part of the year. Nevertheless, for the year as a whole, the group registered a net increase in inflows, from $22 billion in 2007 to $30 billion (box figure II.1.1) – the eighth consecutive year of growth. This latest increase also raised the share of LDCs in Africa's total FDI inflows slightly, to 34% in 2008 as compared with 32% in 2007, although the amount of FDI received by the group remains very low. Most of the inflows took place in the early part of 2008, as TNCs responded to the continued rise in global commodity prices. A large share of the inflows was in the form of greenfield and expansion projects prospecting for reserves of base metals and oil, in addition to some investments in infrastructure development. In infrastructure development, for instance, Eskom of South Africa continued to inject capital into the Grand Inga Dams project in the Democratic Republic of the Congo.

Given their concentration in the extractive industries, FDI inflows to the group were not evenly distributed: they were largely concentrated in a few natural-resource-rich countries. The main recipients among the LDCs of Africa in 2008 included: Angola, Sudan, Madagascar, Guinea, Equatorial Guinea and the Democratic Republic of the Congo, in that order. A large proportion of the inflows to these countries targeted petroleum exploitation and other mining activities. Among the LDCs in Africa, Angola and Sudan were among the top 10 recipients in the region as a whole in 2008. Angola's high FDI inflows were due to an expansion of investment in oil exploration and exploitation activities.

Box figure II.1.1. African LDCs: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

The main sources of FDI to African LDCs have remained the traditional developed-country investors, particularly France, the United Kingdom and the United States. In 2008, in countries such as Madagascar and Uganda, FDI from the developing countries of Asia and Africa, particularly China, grew through cross-border M&As. South African TNCs also expanded their activities in Angola, the Democratic Republic of the Congo, Mozambique and Zambia; many of the South African TNCs, such as Eskom, were engaged in infrastructure development and other service industries.[b]

Only one African LDC (Eritrea) continued to register negative FDI inflows in 2008, unlike its performance in the 1990s. Generally, many African LDCs, particularly those that had been hurt by civil wars, such as Angola and Uganda, are now witnessing a stable political situation. They have also achieved macro-economic stabilization and embarked on deregulation of their economies, as well as privatization, introduction of business facilitation measures, and revised and improved legal frameworks for FDI. In addition, with the slowdown in the global economy, TNCs are rethinking their investment strategies, investing some of their assets in the manufacturing sector which had been neglected for years, mainly to supply local regional markets. This change in strategy was obvious in the surge in cross-border M&A purchases of African manufacturing production units in 2008, including in the LDCs.[c]

Market access initiatives, such as the Generalized System of Preferences (GSP), Everything but Arms (EBA) and the African Growth and Opportunity Act (AGOA), are supposed to help African LDCs attract FDI into the manufacturing sector, even though constraints relating to domestic costs and capacities in many of the countries remain an impediment to exploiting these opportunities adequately. Some investments aimed at taking advantage of preferential market access initiatives (e.g. textile exports to the United States under AGOA, for instance) continued to be withdrawn in 2008 because with the expiration of the Multi-fibre Arrangement in 2005, the costs of production in the host economies outweighed the advantages, while some production locations, in Asia for instance, proved more competitive (UNCTAD, 2008a: 6).[d]

Source: UNCTAD.

[a] The 33 African LDCs are: Angola, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, the United Republic of Tanzania and Zambia (Cape Verde graduated out of LDC status in 2008).

[b] "Eskom considers alternatives", *The Sunday Independent,* 4 January 2008.

[c] The following are examples of cross-border M&As in African LDCs: Sino Union Petroleum & Chemical International (Hong Kong, China) merged with a paints, varnishes, lacquers and allied products company, the Madagascar Energy International (Madagascar); Norfund SA (Norway) acquired a majority stake in a pesticide and agrichemicals company SOPRWA (Rwanda); Dimension Data PLC (South Africa) acquired a majority stake in a pre-packaged software company, Dimension Data PLC (Angola); and Barry Callebaud AG (Switzerland) acquired a chocolate and cocoa products company, Biolands (United Republic of Tanzania).

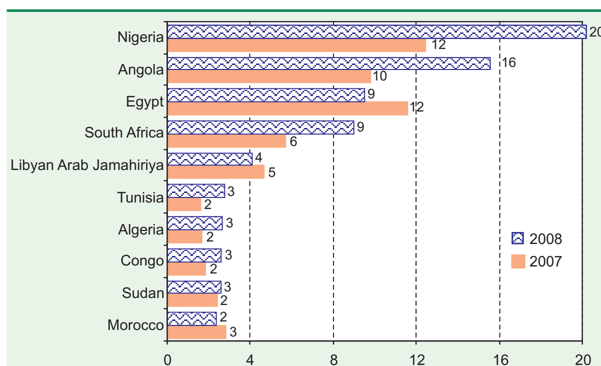
[d] See also "Footloose Industry and Labour Rights", *AfricaFocus Bulletin*, 27 January 2008.

ii. Outward FDI: a few countries dominated

FDI outflows from Africa declined by 12%, to $9 billion in 2008 (figure II.4) mainly due to large divestments by South African TNCs: in 2008, the Rubert family (South Africa) divested its participation in British American Tobaco (BAT) through its controlled affiliates, Richemont and Remgro.[11] The Libyan Arab Jamahiriya accounted for the largest share of the outflows from the region in 2008, with a share of about 63%. As part of efforts to diversify their revenue base through investments in non-commodity industries, Libya Africa Investment Portfolio launched activities abroad in the energy, information and communication technology (ICT) and tourism industries.[12] TNCs from Angola and Egypt were also very active in 2008, as they used FDI as one of the means of competing for global markets, often in the form of acquisitions of major assets abroad.

In 2008, African outward FDI targeted mainly the services sector. This is most visibly reflected in the pattern of cross-border acquisitions by African TNCs, which almost doubled to $6.8 billion in 2008 from $3.8 billion in 2007 (section b). Nigerian TNCs have also expanded their activities in the region: Dangote group (Nigeria) purchased a substantial minority stake in Sephaku Cement (South Africa) for $383 million (table II.5); Altech Stream Holdings (South Africa) acquired a 51% stake in Ugandan Internet service provider Infocom for $85 million, and Sonangol (Angola) invested in several ventures outside Angola, mainly in Portugal, where it acquired a 50% stake in Banco Millennium Angola (BMA), a subsidiary of Portugal's Banco Millennium BCP.

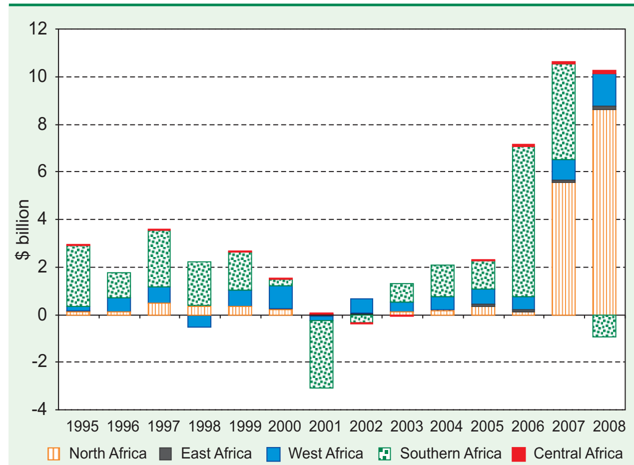
Figure II.3. Africa: top 10 recipients of FDI inflows, 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked by the magnitude of 2008 FDI inflows.

Figure II.4. Africa: FDI outflows, by subregion, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

African TNCs also set a new record of mega cross-border acquisitions concluded in 2008, particularly in the services sector (table II.5). The share of the banking industry was particularly pronounced, though overall outflows slowed down in the second half of the year. A number of intraregional cross-border M&As were also postponed or cancelled in 2008, particularly in the mining industry, as a result of the global financial crisis.

The leading home economies for outward FDI from the region in 2008 were the Libyan Arab Jamahiriya, followed by Angola, Egypt and Guinea. Due to negative flows, South Africa was not among the largest outward investors in Africa in 2008 (annex table B.1). Outward FDI from all of these countries focused primarily on natural resource exploitation and the services sector.

b. Sectoral analysis: FDI focused on manufacturing

The main focus of FDI inflows to the region, particularly in the first half of 2008 – before the spreading of the economic crisis – was on the manufacturing and services sectors, judging by the data on cross-border M&As. The share of manufacturing in cross-border M&As shot up to about 75% of the total, or nearly $16 billion in 2008, from less than $1.4 billion in 2007, largely because of the above-mentioned $15 billion deal in Egypt (table II.2). Although the region, in particular sub-Saharan Africa, has not shown an established upward trend in TNC activity in the manufacturing sector, this rise contrasts with stagnating manufacturing activities in other regions of the world, and partly reflects concerted efforts by African recipient countries to

Table II.4. Africa: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in Africa[b] 2007	2008	2009[a]	Net purchases by African companies worldwide[c] 2007	2008	2009[a]
World	7 906	20 901	3 332	9 914	8 214	186
Developed economies	3 462	13 093	2 780	9 405	7 361	18
Europe	- 658	15 918	1 821	3 727	6 714	38
European Union	-1 336	15 855	1 811	1 363	6 714	38
France	1 547	14 208	1 857	40	4 141	39
Netherlands	-	40	-	70	- 779	-
United Kingdom	-5 301	2 078	- 15	1 097	2 131	- 1
North America	3 965	-2 619	956	6 012	420	- 65
Canada	1 046	51	- 102	5 864	15	- 65
United States	2 919	-2 670	1 058	149	405	- 0
Developing economies	3 923	7 698	536	344	853	168
Africa	22	504	25	22	504	25
Nigeria	-	383	-	280	- 4	-
South Africa	99	81	25	-	386	-
Asia and Oceania	4 056	7 194	577	732	174	143
Kuwait	1 210	- 65	-	-	125	-
United Arab Emirates	1 900	817	180	-	-	-
China	209	5 617	-	-	-	-
South-East Europe and CIS	250	15	-	165	-	-
Russian Federation	250	15	-	165	-	-

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Sales to the region/economy of the ultimate acquiring company.
[c] Purchases in the region/economy of the immediate acquired 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%.

shift towards higher value-added production and services.

Primary sector. In the primary sector, many TNCs in the region held on to their greenfield projects, following the exuberance from the rise in global commodity prices of the past few years, the intensified search for natural resource reserves, and subsequent project profitability in the region. In contrast, both the number and value of cross-border M&As in the sector fell rapidly in 2008: indeed selling off foreign affiliates (divestments) exceeded even new acquisitions (-$2 billion) which were down from about $4 billion in 2007 (table II.6), as commodity prices declined in late 2008. Nevertheless, the primary sector received the lion's share of the FDI inflows to the region, mostly in the form of increased equity investments in greenfield or expansion projects in the first half of 2008, when commodity prices were high and global economic prospects seemed good.

As in the past, African host governments failed to attract or induce much investment in the activities that are crucial for development (see for instance, *WIR07*; Jordan, 2007). In general, downstream activities and diversification efforts related to inflows in the primary sector remain marginal. A major policy challenge for these countries is to reverse this trend.

Manufacturing. In 2008, TNCs shifted their focus to Africa's manufacturing sector, more than doubling the value of their total cross-border M&As to reach their highest level ever – about $16 billion – in sharp contrast to the decline of such deals in the 1990s and their low levels earlier in the 2000s. The bulk of M&A activities were largely confined to non-metallic minerals (table II.2). Some countries, such as Algeria, Nigeria and South Africa, attracted sizeable greenfield FDI (though small by global standards) in other industries such as chemicals and chemical products, textiles, clothing and leather, and transport vehicles and other transport equipment.[13] African TNCs, for their part, made acquisitions abroad of about $1.6 billion in the sector.

Services. In the services sector, the finance industry, in particular, saw continued growth of FDI inflows in 2008. Cross-border M&As in services rose to more than $7 billion, from about $3 billion in 2007, though this was well short of the $14 billion worth of deals in 2006. Small foreign TNCs operating in

Table II.5. Africa: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	4 141	Lafarge SA	France	Cement, hydraulic	NNS Holding	Egypt	13
2	1 906	Tradus PLC	United Kingdom	Catalog and mail-order houses	Naspers Ltd	South Africa	100
3	1 082	M-real Corp	Finland	Paper mills	Sappi Ltd	South Africa	100
4	700	Gateway Telecommunications PLC	United Kingdom	Radiotelephone communications	Telkom SA Ltd	South Africa	100
5	383	Sephaku Cement	South Africa	Cement, hydraulic	Dangote Group	Nigeria	45
6	340	Gavilon Group LLC	United States	Security and commodity services, nec	Orascom Constr Ind SAE	Egypt	20
7	299	National Australia Bank Ltd	Australia	Truck rental and leasing, without drivers	Super Group Ltd	South Africa	100
8	282	Nuffield Hospitals	United Kingdom	General medical and surgical hospitals	Netcare Ltd	South Africa	100
9	276	Datacraft Asia Ltd	Singapore	Computer facilities management services	Dimension Data PLC	South Africa	45
10	153	Strides Latina	Brazil	Pharmaceutical preparations	Aspen Pharmacare Holdings Ltd	South Africa	50

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] From the ultimate home country.
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Table II.6. Africa: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in Africa[b]			Net purchases by African companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
Total	7 906	20 901	3 332	9 914	8 214	186
Primary	3 837	- 2 055	2 430	5 328	- 261	- 36
Mining, quarrying & petroleum	3 837	- 2 055	2 430	5 328	- 261	- 36
Secondary	1 367	15 639	393	810	1 649	82
Wood and wood products	- 1 438	-	-	351	1 082	-
Non-metallic mineral products	831	15 469	145	466	339	-
Metals and metal products	250	104	248	55	7	44
Services	2 702	7 316	509	3 776	6 827	140
Trade	- 396	32	-	- 267	299	-
Transport, storage and communications	335	1 665	644	250	- 156	-
Finance	2 595	5 613	6	1 099	7 168	179
Business services	91	- 157	- 77	122	12	- 39
Health and social services	-	152	5	2 363	282	-

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

[a] For 2009, January–June only.

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

[c] 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%.

the region in geological surveys and related business services also engaged in cross-border M&As.

Economic growth and strategic national reforms have contributed to the wave of expansion of FDI by the region's TNCs in the services sector, particularly in financial services. The main home countries of participating TNCs included Egypt, Kenya, the Libyan Arab Jamahiriya, Nigeria and South Africa. In Nigeria specifically, reforms by the central bank encouraged banking consolidation, which resulted in the rapid expansion of Nigerian banks into other African countries such as Benin, Ghana, Gambia, Côte d'Ivoire, Liberia, Sierra Leone and Togo. In particular, M&As have driven the expansion of Ecobank Transnational International (ETI) (Nigeria) into 24 countries.

c. Policy developments

In 2008, more African governments demonstrated stronger commitment to maintaining a policy environment crucial for attracting stable and increasing FDI inflows, although the region's investment climate still presents a mixed picture. Many African countries have put in place policy incentives to attract more FDI and strengthen institutional support for their regulatory changes, thanks to greater stability and the drive to benefit from surging commodity prices.

Several African countries adopted policy measures that seek to promote private investment, including FDI. Burundi adopted a new investment code which aims to attract foreign investors. Egypt decided to establish various free industrial zones;[14] Kenya privatized a number of utilities. Mauritius enacted competition legislation, introducing restrictions on monopolies and collusion.[15] On the other hand, Zambia introduced a new tax regime which raises the tax rate in the mining industry from 31.7% to 47%.

Policy developments were not limited to unilateral measures. African countries signed 12 new BITs in 2008, bringing the total number of BITs involving African countries to 715 by end 2008. The Libyan Arab Jamahiriya was the most active, with two new BITs signed with Albania and the Russian Federation. As far as DTTs are concerned, African countries concluded eight new agreements in 2008, bringing the total number of DTTs for the region to 467. Again, the most active was the Libyan Arab Jamahiriya, with three new agreements concluded with Belarus, Ukraine and the United Kingdom. Morocco concluded two new agreements with the Islamic Republic of Iran and Latvia.

In terms of other IIAs, the Southern African Customs Union (SACU) and the United States concluded a trade, investment and development cooperative agreement, and the East African Community (EAC) and the United States concluded a Trade and Investment Framework Agreement (TIFA). Both agreements establish an institutional framework between the parties to monitor trade and investment relations. Also the Economic Partnership Agreement (EPA) between Côte d'Ivoire and the European Community (comprising the EU-27) contains a commitment to cooperate on investment-related issues. In addition, the Africa-India Summit resulted in April 2008, *inter alia,* in the conclusion of an Africa-India Framework for Cooperation Agreement, which recognizes the need to foster an environment for mutually beneficial economic development by reinforcing efforts to promote FDI.[16]

At the subregional level, the Economic Community of West Africal States (ECOWAS) adopted three Acts: (i) the Supplementary Act A/SA.3/06/08 Adopting Community Rules on Investment and the Modalities for their implementation within ECOWAS, (ii) the Supplementary Act A/SA.1/06/08 Adopting Community Competition Rules and the Modalities of their Application within ECOWAS, and (iii) the Supplementary Act A/SA.2/06/08 on the establishment and function of the Regional Competition Authority for ECOWAS. These Acts aim to foster the creation of a single economic space within which business and labour can operate, in order to stimulate greater productive efficiency, higher

levels of domestic and foreign investment, increased employment, and growth of intraregional trade and extraregional exports.

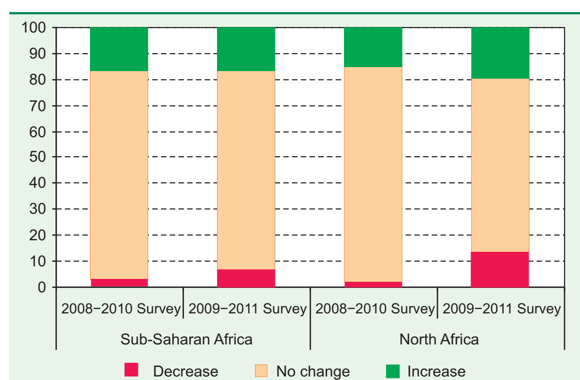
d. Prospects: the global economic slowdown could hurt FDI growth, especially in LDCs

In 2009, Africa is expected to see a break in FDI inflows, after a half decade of consecutive annual growth. The main reasons are the slowdown in the global economy, falling global commodity prices and a worsening of the financial crisis in many developed and fast-growing developing economies. The most seriously affected are likely to be Africa's LDCs, where many new natural-resource exploration and exploitation projects that were started in response to the surge in global commodity prices are being postponed or cancelled. The economic downturn and the drastic drop in oil prices have caused share prices of most energy companies to plunge, forcing many of them to cut capital spending to maintain liquidity. If commodity prices remained low, several smaller oil and natural gas TNCs in the region could become prey to hostile buyers.

The global financial crisis is also expected to push struggling TNCs in the region to reduce FDI activities, as illustrated by a number of recent examples of project postponements or cancellations. Few cross-border M&As in Africa are expected in 2009, and possibly beyond, because of a lack of available credit and investors' current aversion to debt.

The net effect of the global financial crisis and economic downturn is expected to dampen FDI inflows to all the subregions of Africa, except Southern Africa where consolidation of activities in certain industries is expected to lead to more inflows, particularly to South Africa. Judging by data on FDI inflows for the first quarter of 2009 (table II.3) and by cross-border M&As for the first half of 2009 (table II.4), FDI flows for the entire year are likely to fall and continue their downward trend in 2009. UNCTAD's latest *World Investment Prospects Survey* suggests that TNCs may increase their FDI in the region only towards the end of 2011 (figure II.5).

Figure II.5. Africa: comparison of the results of *WIPS 2009−2011* with *WIPS 2008−2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

2. South, East, South-East Asia and Oceania

The global economic and financial crisis spread to South, East and South-East Asia with a moderate time lag, affecting the region's exports as well as economic growth. A sharp fall in external demand has caused exports to plunge, and economic growth has slowed down in many countries in the region. Particularly in the newly industrializing economies (NIEs), GDP started to fall significantly in the fourth quarter of 2008, and a deep recession is inevitable. For the region at large, FDI inflows grew considerably in 2008, although slower than in the previous two years. Nevertheless, the 17% growth rate for the year as a whole does not reflect the current situation in a number of Asian economies, as the crisis started to have an impact on FDI inflows mainly in the last quarter of the year. As a result, the region is facing a downturn in FDI inflows in 2009.

Outward FDI from China flourished in 2008, driving total outflows from the region to $186 billion in 2008. However, due to the negative impact of the global crisis on Asian TNCs, FDI outflows from the region will slow down in 2009, although to a lesser degree than in many other parts of the world.

a. Geographical trends

(i) Inward FDI: divergent trends against the backdrop of crisis

Despite the impact of the global financial and economic crisis on host economies in South, East and South-East Asia and on the major home countries of TNCs investing in the region, total FDI inflows to the region in 2008 still rose by 17%, reaching $300 billion. As many as 14 countries saw a rise in inflows. Part of this increase was due to the growth in cross-border M&As (especially intraregional ones), the net value of which climbed to $51 billion (table II.7 and annex table B.4).

However, FDI inflows started to fall in 2009 in all major host economies, including China, Hong Kong (China) and India (table II.8);[17] and the value of cross-border M&A sales in the region dropped sharply in the first half of 2009, to $16 billion (table II.7). Like other developing regions, South, East and South-East Asia cannot escape the shock of the global financial crisis. In particular, since the region's economies are

heavily dependent on exports, falling external demand has slowed down economic growth since the last quarter of 2008. This in turn is dragging down FDI and does not bode well for short-term FDI prospects in the region.

Inflows to Oceania declined by an estimated 30% to $881 million. FDI data (or estimations) for 2008 show that among the 19 island States in this subregion,[18] only 5 registered FDI growth. During the past few years, growth in FDI flows to a few major FDI recipients in the subregion has been driven by high mineral prices and investments in extractive industries. Thus, the falling commodity prices due to the global financial crisis and economic recession have inevitably slowed down inflows to these economies and weakened FDI prospects.

Table II.7. South, East and South-East Asia: value of cross-border M&A sales and purchases, by region/ economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in South, East and South-East Asia[b]			Net purchases by South, East and South-East Asian companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
World	45 328	50 796	15 857	54 180	68 759	8 654
Developed economies	38 109	26 716	7 316	52 278	44 419	989
Europe	21 870	9 130	1 381	21 850	27 809	1 027
European Union	20 622	10 043	1 369	19 994	24 247	1 024
Netherlands	1 837	17	- 599	569	1 152	-
United Kingdom	12 264	2 912	1 157	15 953	19 144	28
Other developed Europe	1 248	- 913	12	1 856	3 562	3
Norway	7	- 943	-	1 458	3 539	3
North America	8 856	8 295	1 156	17 801	12 598	- 71
Canada	268	172	265	2 287	3 696	128
United States	8 588	8 123	891	15 514	8 902	- 198
Other developed countries	7 384	9 291	4 779	12 627	4 013	32
Australia	1 340	356	185	7 421	5 691	- 111
Japan	5 998	8 941	4 594	2 371	-1 355	142
Developing economies	2 375	22 551	8 240	2 891	24 315	7 574
Africa	218	284	143	571	6 134	64
South Africa	97	13	3	77	5 650	59
Latin America and the Caribbean	787	231	665	932	512	1 019
Asia and Oceania	1 370	22 036	7 432	1 388	17 669	6 491
West Asia	1 308	7 394	793	1 323	2 700	0
Turkey	-	695	-	1 280	2 712	-
United Arab Emirates	582	3 176	- 91	44	- 89	0
South, East and South-East Asia	61	14 953	6 467	61	14 953	6 467
China	-2 712	6 646	834	3 287	311	3 024
Hong Kong, China	-8 012	- 17	1 502	-1 221	4 153	- 106
India	1 999	185	139	-12 316	1 877	14
Malaysia	1 351	6 079	2 659	2 209	1 064	62
Singapore	5 811	506	1 729	2 601	5 668	3 734
South-East Europe and the CIS	132	840	-	- 989	25	92

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

[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired 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%.

FDI inflows to East Asia, South-East Asia and South Asia in 2008 amounted to $187 billion, $60 billion and $51 billion respectively (figure II.6). In 2007, the rate of growth of inflows to the three subregions was quite similar, but in 2008 growth rates varied considerably: 49% in South Asia, 24% in East Asia, and -14% in South-East Asia.

The performance of major economies in the region in attracting FDI also varied significantly. Inflows to the two largest emerging economies, China and India, continued to increase in 2008 (figure II.7). Among the four Asian NIEs, inflows to the Republic of Korea boomed and they continued to grow in Hong Kong (China), but they declined sharply in Singapore and Taiwan Province of China. In Malaysia and Thailand FDI inflows fell slightly. A number of other South-East Asian countries, including Indonesia and Viet Nam, have demonstrated a capacity to maintain growth in FDI, despite the crisis.

One of the striking features of FDI flows to the region during the past few years has been the steadily growing importance of China and India as host economies. With its inflows surging to a historic high ($108 billion) in 2008, China became the third largest FDI recipient country (after the United States and France) in the world. India ranked 10 places behind, but was catching up. And these two largest emerging economies ranked numbers one and three, respectively, as the most preferred FDI locations in UNCTAD's *World Investment Prospects Survey 2009–2011*. Their strong performance, even during the current crisis, has reshaped the landscape of FDI flows to the region as well as to the world at large.

- *China*. The pattern of inflows changed dramatically during the course of the year: from a surge in the first half of 2008 to a sharp decline in the second half. From January to June, the influx of "hot money" was one of the factors that caused inflows to rise sharply;[19] but they slowed down after July, and especially in the fourth quarter, due to the evolving global financial crisis and the deteriorating world economic situation. Rising production costs during the past few years,[20] coupled with shrinking demand from developed countries, have adversely affected many small and medium-sized enterprises (SMEs), including foreign affiliates based in the major manufacturing hubs (especially the Pearl River Delta). Many of them have shut down, sending a huge number of migrant workers back home to rural areas.[21] In terms of the geographic pattern of FDI inflows, there has been a rise of investment in western

Table II.8. South, East and South-East Asia and Oceania: FDI flows of selected economies,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Cambodia	224	272	186	133	87	6	6	6	6	-
China [b]	27 414	24 974	21 986	18 022	21 777	..	..	..	..	..
Hong Kong, China	19 588	14 806	11 097	17 513	11 792	12 381	25 084	6 938	15 518	4 558
India	14 197	11 891	8 782	6 684	6 256	..	..	..	..	..
Indonesia	1 460	2 040	1 921	2 498	3 511	1 730	1 436	1 517	1 217	814
Korea, Republic of [c]	- 674	- 212	1 633	1 454	- 63	4 116	2 702	3 916	2 061	1 132
Lao People's Democratic Republic	72	37	55	64	58	..	..	..	..	..
Malaysia	1 045	5 342	256	1 410	828	1 973	4 448	5 774	1 864	- 130
Pakistan	983	2 104	1 117	1 234	691	5	36	5	- 11	- 6
Papua New Guinea	13	- 51	6	2	359	-	-	-	-	1
Philippines	266	434	555	265	44	- 6	77	102	64	52
Singapore	8 268	3 649	3 561	7 246	3 220	2 656	751	4 012	1 509	1 478
Solomon Islands	15	19	18	23	17	3	3	3	3	3
Taiwan Province of China	597	1 107	989	2 739	263	3 165	2 623	2 174	2 331	980
Thailand	2 959	2 230	2 545	2 357	2 324	541	1 215	186	893	573
Vanuatu	7	9	3	14	5	-	-	- 1	-	-
Total	76 433	68 651	54 709	61 658	51 169	26 570	38 381	24 633	25 454	9 456

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Only those economies were selected for which data were available for the first quarter of 2009 (as of July 2009).
[b] Data exclude the financial industry.
[c] Data are from the Bank of Korea.

China, driven by both proactive government policies and foreign firms' efforts to reduce costs (box II.2). In 2009, while inflows are likely to decline overall, FDI seeking to tap the large Chinese market is expected to remain strong.

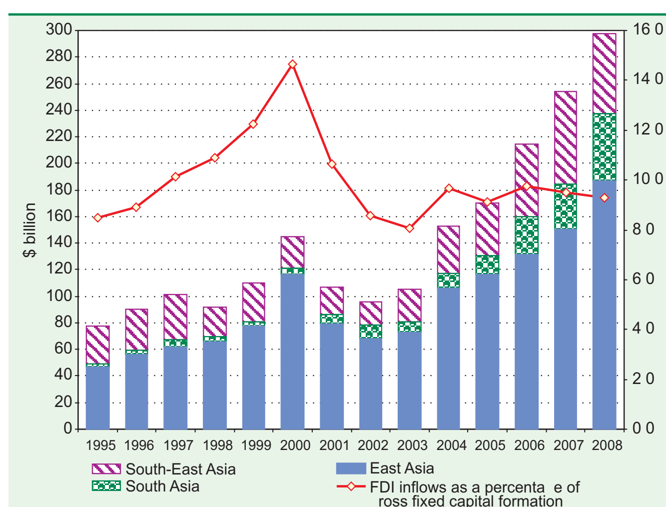
- *India*. In recent years, leading TNCs in many manufacturing and service industries, ranging from steel and automotives to retail (*WIR07*), have speeded up their market entry and expansion in India. Accordingly, FDI flows to the country in 2008 surged, continuing the trend of the previous two years, to reach a record $42 billion. However, as some large TNCs are reconsidering their global expansion plans in response to the global financial crisis and economic recession, their investment projects in India may be affected.[22]

Among the Asian NIEs, Singapore and Taiwan Province of China were hit the hardest by the global financial crisis, with economic growth and FDI inflows declining significantly. On the other hand, the Republic of Korea saw a surge in inflows.

- *Republic of Korea*. Following a continous decline in FDI inflows during the period 2005–2007, to $2.6 billion, FDI resumed growth and surged to $7.6 billion in 2008. Even before the global financial crisis the economic performance of the country had been weakening. The massive debts of its firms and households, and a heavy reliance on exports suggest serious troubles ahead due to the crisis.[23] However, a large stimulus plan by the Government and a weakening won may help the economy maintain positive growth in the coming years and the recovery in FDI may continue.
- *Singapore*. As one of the region's most open economies and its financial and logistics centres, Singapore has been shaken by the global financial crisis, slipping into economic recession. As a result, it saw its FDI inflows drop by 28% in 2008, to $23 billion.

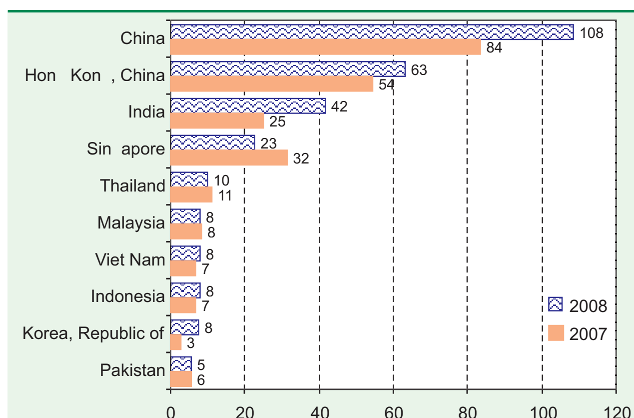
Some countries in South-East Asia saw lower FDI inflows: inflows to Malaysia and Thailand dropped by 4% and 10% respectively. While a number

Figure II.6. South, East and South-East Asia: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

Figure II.7. South, East and South-East Asia: top 10 recipients of FDI inflows,[a] 2007–2008
(Billion of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked by the magnitude of 2008 FDI inflows.

of other countries in the subregion were successful in attracting greater FDI inflows to promote their economic development.

- *Indonesia*. FDI inflows rose by 14% in 2008, reaching around $8 billion. Political stability, buoyant domestic demand and sound economic fundamentals should help boost economic growth and FDI prospects in the country.[24]
- *Viet Nam*. In 2008, FDI inflows to the country totalled a record $8 billion, up nearly 20% from last year, and there has been no sign of a weakening in the first half of 2009. In UNCTAD's *World Investment Prospects Survey 2009–2011*, Viet Nam ranked 11th among the most preferred investment locations for foreign investors in 2009, down from 6th position in the previous survey, perhaps due to high inflation and macroeconomic instability. Nevertheless, the country continues to attract record foreign investments, suggesting that investors are still confident in its long-term growth prospects. Viet Nam is becoming an increasingly attractive location for FDI in labour-intensive manufacturing and other activities. Most of its FDI comes from investors in other developing economies.[25]

Judging from data on cross-border M&A sales in the region, the share of developed countries as source of investment declined in 2008 (table II.7), and the share of investors from within the region itself was rapidly catching up. In other words, intraregional FDI is rising. Indeed 6 of the top 10 cross-border M&A deals concluded in the region were intraregional (table II.9).

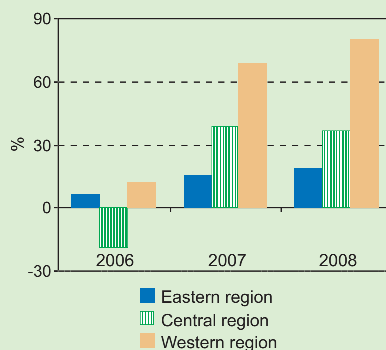
(ii) Outward FDI: strong, but falling

FDI outflows from South, East and South-East Asia rose by 7% to $186 billion (figure II.8). The total value of cross-border M&A purchases by TNCs based in the region was $69 billion in 2008, up by 27% from 2007 (table II.7). M&A purchases had already surpassed M&A sales in 2007 and continued to do so in 2008. In recent years, rising outflows from major economies in the region have been fuelled by their relatively high economic growth, rapid accumulation of foreign currency reserves as a result of trade surpluses,[26] and, more fundamentally, the greater competitiveness of firms based in these economies. Supportive government policies have also played a role, especially in China – the second largest outward investing economy in the region (following Hong

Box II.2. Booming FDI to West China: drivers and determinants

FDI inflows into China have been concentrated in the coastal areas of the country. By the end of 2008, more than four fifths of the accumulated inflows were in the eastern region. However, in recent years, FDI inflows to the central and western regions have boomed, and the growth rates of inflows were much higher than in the eastern region (box figure II.2.1). This reflects a growing interest by TNCs to explore investment opportunities in the inland areas.

Box figure II.2.1. FDI growth rates in the three regions of China, 2006–2008



Source: Ministry of Commerce of China.

FDI inflows into China's central and western regions surged in response to a proactive "Go West" policy introduced by the Central Government a decade ago. This policy aims to promote economic growth of the inland areas in order to reduce income disparity between the coastal and inland areas. Preferential treatment is offered to FDI projects in the economically backward central and western provinces.[a] In addition, rising production costs in the coastal areas have been influencing TNCs' location decisions in favour of inland areas. Moreover, rapid infrastructure development in the central and western regions has significantly reduced transportation and other costs related to production.

Source: UNCTAD.
[a] For instance, foreign invesment projects falling into the *Catalogue of Advantaged Industries for Foreign Investment in the Central-Western Region* (newly amended in 2008) are entitled to preferential tax treatments.

Table II.9. South, East and South-East Asia: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	7 785	China Netcom Group Corp (Hong Kong) Ltd	Hong Kong, China	Radiotelephone communications	China Unicom Ltd.	China	31
2	3 442	Ranbaxy Laboratories Ltd	India	Pharmaceutical preparations	Daiichi Sankyo Co Ltd	Japan	43
3	3 072	Tuas Power Ltd	Singapore	Electric services	Huaneng Group	China	100
4	2 763	Senoko Power Ltd	Singapore	Electric services	Lion Power (2008) Pte Ltd	Japan	100
5	2 474	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	53
6	2 231	Peak Gain International Ltd	China	Land subdividers and developers, except cemeteries	Shanghai Shimao Co Ltd	China	100
7	2 116	Himart Co Ltd	Korea, Republic of	Radio, television, and consumer electronics stores	Eugene Himart Holdings Co Ltd	Korea, Republic of	100
8	2 082	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	45
9	1 869	Homever	Korea, Republic of	Grocery stores	Tesco PLC	United Kingdom	100
10	1 800	Indonesian Satellite Corp PT {Indosat}	Indonesia	Telephone communications, except radiotelephone	Qtel	Qatar	41

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

[a] In the immediate host economy.

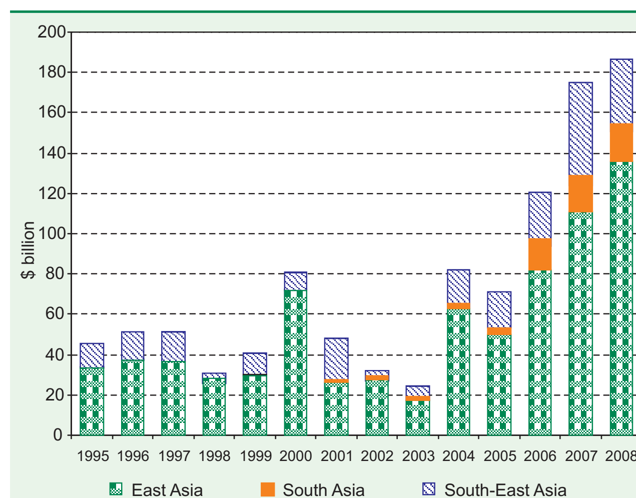
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Kong, China). Since late 2008, the global financial crisis has weakened economic performance and undermined the ability and motivation of many TNCs in the region to invest abroad.[27] As a result, their FDI outflows are set to slow down.

China and India have become important sources of outward investment from the region (figure II.9). Their share in total regional outflows rose from 23% in 2007 to 37% in 2008. Despite the global crisis, FDI from China, in particular, surged, reaching $52 billion in 2008, 132% up from 2007, and its outflows continued to grow in early 2009. The country ranked thirteenth in the world as a source of FDI and third among all developing and transition economies. Many large Chinese TNCs are driven to invest abroad by their need to secure access to natural resources (such as oil, gas and mineral deposits) and created assets (such as technologies, brand names and distribution networks). Moreover, significant exchange-rate fluctuations and falling share prices abroad as a result of the crisis might have created good opportunities for them to buy bargain assets.

In contrast, FDI outflows from other major economies in the region slowed down in 2008. Outflows from all four Asian NIEs declined, by 2% in Hong Kong (China), by 7% in Taiwan Province of China, by 18% in the Republic of Korea, and by a massive 63% in Singapore (with outflows amounting to $60 billion, $10 billion, $13 billion and $9 billion, respectively) (figure II.9). This caused their share in total outward FDI from the region to decline from 64% in 2007 to 49% in 2008. The Asian NIEs have been hit particularly hard by the crisis, and their relative significance in the region's outward FDI is continuing to decline, as suggested by the fall in their cross-border M&A purchases in the first half of 2009.

Figure II.8. South, East and South-East Asia: FDI outflows, by subregion, 1995–2008

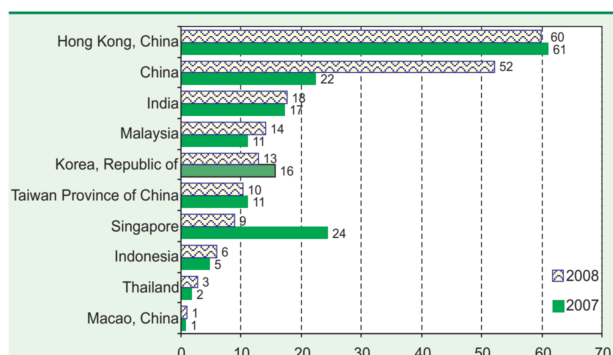


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

The bulk of the South-South flows (excluding those targeting offshore financial centres) from the region are intraregional in nature. Flows within East and South-East Asia are particularly pronounced, and have contributed to the promotion of regional economic integration. Those flows have been on the rise in infrastructure industries.[28] There has also been a rise in FDI to low-income African countries. In 2008, for example, investments from Asian countries in infrastructure projects in sub-Saharan Africa rose significantly. They play a crucial role in the financing of infrastructure in African LDCs, such as Angola and the Democratic Republic of the Congo.

Outward FDI from South, East and South-East Asia to developed countries has also been

Figure II.9. South, East and South-East Asia: top 10 sources of FDI outflows, 2007–2008[a]
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked by the magnitude of 2008 FDI outflows.

rising as part of efforts by Asian firms to acquire strategic assets abroad. Indeed, an increasing number of large deals undertaken by companies and funds based in the region have been targeting all the three economic sectors in developed counties (section b).

accounts for about half of inflows to China, and more inflows are targeting high-tech industries. However, the country now faces fierce competition from low-income countries in South and South-East Asia in attracting FDI in labour-intensive production. How to tackle the impacts of the "hollowing out" of the production base, while also to upgrade to high-end industries and high-value-added activities has become a challenge for a number of China's coastal provinces, such as Guangdong.

In India in 2008, FDI in industries such as steel continued to increase, including from Western steelmakers, as well as from Chinese metal companies (Minmetals and Xinxing for instance). In the steel industry, Formosa Plastics Corporation (Taiwan Province of China) started to invest in an $8 billion plant in Viet Nam. In the electronics industry, leading companies such as Foxconn (Taiwan Province of China) and Samsung (Republic of Korea) are also investing in several multibillion dollar projects in Viet Nam.[29] All of these investments were through greenfield projects, rather than acquisitions.

b. Sectoral trends

(i) Inward FDI: services and manufacturing continued to be targeted

In 2008, FDI directed towards the services sector in South, East and South-East Asia continued to increase, as also reflected in the rising value of cross-border M&A sales in that sector (table II.10). In the NIEs, a major part of their cross-border M&As continued to be in services, although in late 2008, and particularly in early 2009, they fell sharply in banking. This is because banks and private equity firms based in the United States as well as Europe are not able to invest any more, and have even started to divest due to the difficulties they face at home. In China and India FDI growth was significant in such services as infrastructure and retail. For example, following its global competitors such as Metro AG (Germany), Wal-Mart Stores (United States) opened its first store in India in 2008, and plans to open 15 more over the next few years.

Cross-border M&A sales in the region increased in the manufacturing sector while they declined in the primary sector in 2008. Investment in pharmaceuticals was noteworthy, including two acquisitions of Ranbaxy Laboratories Ltd (India) by Daiichi Sankyo Co Ltd (Japan) for $5 billion. Manufacturing still

Table II.10. South, East and South-East Asia: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

	Net sales of companies in South, East and South-East Asia[b]			Net purchases by South, East and South-East Asian companies worldwide[c]		
Sector/industry	2007	2008	2009[a]	2007	2008	2009[a]
Total	45 328	50 796	15 857	54 180	68 759	8 654
Primary	3 348	823	786	- 28	6 098	384
Mining, quarrying and petroleum	2 566	624	776	2 258	6 104	375
Secondary	13 828	18 936	4 492	16 089	6 569	2 064
Food, beverages and tobacco	1 903	1 661	2 660	- 575	201	16
Textiles, clothing and leather	23	286	13	487	579	374
Chemicals and chemical products	1 600	8 237	176	1 189	228	- 40
Non-metallic mineral products	1 313	1 116	349	60	396	- 13
Metals and metal products	2 308	1 635	- 0	1 727	759	1 455
Machinery and equipment	1 771	875	132	6 162	1 146	45
Electrical and electronic equipment	2 666	1 612	79	5 847	776	68
Motor vehicles and other transport equipment	561	1 703	8	261	2 557	85
Services	28 152	31 037	10 580	38 119	56 092	6 206
Electricity, gas and water	194	7 498	2 357	2 099	3 444	2 484
Construction	- 181	41	47	260	1 360	41
Trade	- 37	1 942	1 242	803	- 109	1 332
Transport, storage and communications	2 286	5 314	4 202	- 11 940	- 238	- 3 342
Finance	15 170	11 640	432	45 990	47 753	5 339
Business services	7 647	3 566	2 111	560	1 196	278

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Net sales in the industry of the acquired company.
[c] 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%.

(ii) Outward FDI: resource-seeking FDI rose

In 2008, cross-border M&A purchases by firms based in South, East and South-East Asia increased significantly in the primary and services sectors, but declined in manufacturing (table II.10). Some of the largest deals targeted the services sector both in the region and in developed countries: investment by Temasek Holdings (Singapore) in Merrill Lynch (United States) is a good example (table II.11). A recent case in manufacturing was the $2.3 billion acquisition of Jaguar Cars Ltd (United Kingdom) by Tata Motors Ltd (India) (table II.11).

In the primary sector, outward FDI in agriculture from East and South-East Asia has been on the rise. In 2008, resource-seeking FDI from the region continued to expand as well. In addition to oil companies, large mining and metal companies from China and India have become more and more aggressive in acquiring overseas assets. For example, in February 2008, in cooperation with Alcoa (United States), Chinalco (China) acquired a 12% stake in Rio Tinto PLC in the United Kingdom, for $14 billion. This deal, China's biggest ever acquisition overseas, gave Chinalco 9% ownership of Rio Tinto (Australia/ United Kingdom) as a whole, making it the largest shareholder. However, in early 2009, a second deal by Chinalco aiming at acquiring Rio Tinto's Australian assets failed.

The global financial crisis may to some extent promote more natural-resource-seeking investments by Asian firms. During the global financial crisis, for example, the slump in share prices of mining companies in Australia, together with the sharp depreciation of its currency, have created good acquisition opportunities for resource-hungry investors from developing Asia. In addition, heavily indebted Western mining companies' need for cash might enable Asian companies to control mining assets. In July 2008, for instance, Sinosteel (China) acquired a 51% stake in Midwest (Australia), an iron ore mining firm, for $1.4 billion.

In financial services, a number of sovereign wealth funds and other financial institutions based in East and South-East Asia started to invest in troubled banks in developed countries in 2007 and 2008. The Asian investors might have seen this as a good opportunity to buy big Western banks that were in urgent need of cash during the credit crunch, and to access developed-country markets for financial services. However, the huge losses in book value suffered by the investors in late 2008 and 2009 highlighted the high risks associated with such investments.

c. Policy developments

The overall trend in Asian countries to change national policies and legislation to become more favourable to FDI led to the further opening up of markets and to a more enabling environment for foreign companies to do business in several countries. Government policy responses to address the financial crisis and its economic aftermath have played an important role in creating favourable conditions for a recovery of economic growth and FDI inflows in the region.

Regarding changes in national legislation more favourable to FDI, India abolished existing FDI ceilings, or at least raised some of them, for certain industries in 2008 and early 2009.[30] In March 2009, China streamlined the procedures for approval of FDI projects in general and holding companies in particular.[31] In April 2009, Malaysia raised foreign equity limits in financial services.[32] In Viet Nam, beginning from September 2008, a newly introduced decree eliminated permits and sub-licence

Table II.11. South, East and South-East Asia: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	14 284	Rio Tinto PLC	United Kingdom	Gold ores	Chinalco	China	12
2	7 785	China Netcom Group Corp (Hong Kong) Ltd	Hong Kong, China	Radiotelephone communications	China Unicom Ltd.	China	31
3	5 617	Standard Bank Group Ltd	South Africa	Banks	ICBC	China	20
4	4 400	Merrill Lynch & Co Inc	United States	Security brokers, dealers, and flotation companies	Temasek Holdings	Singapore	11
5	3 072	Tuas Power Ltd	Singapore	Electricity services	Huaneng Group	China	100
6	2 656	Sabiha Gokcen International Airport	Turkey	Airports and airport terminal services	Investor Group	India	100
7	2 501	Awilco Offshore ASA	Norway	Oil and gas field exploration services	Undisclosed	China	100
8	2 489	Santos Ltd	Australia	Crude petroleum and natural gas	Undisclosed	Malaysia	40
9	2 474	Wing Lung Bank Ltd	Hong Kong, China	Banks	China Merchants Bank Co Ltd	China	53
10	2 300	Jaguar Cars Ltd	United Kingdom	Motor vehicles and passenger car bodies	Tata Motors Ltd	India	100

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

[a] From the ultimate home economies.

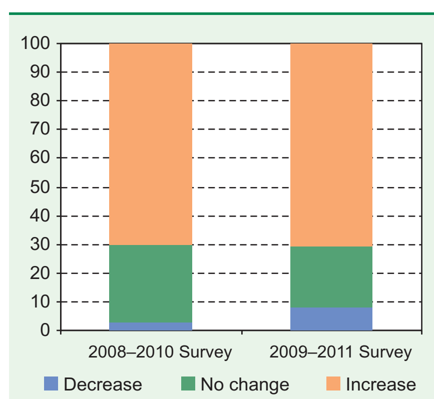
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

requirements imposed by ministries, agencies and local authorities on businesses.[33] In terms of more openness to FDI in R&D, the Republic of Korea now allows foreign institutions to take the lead role in joint research projects between entities based in the country and other countries.[34]

In 2008, several Asian countries also adopted measures with a regulatory effect on FDI. In Indonesia, for example, in March 2008 the Ministry of Communications issued a decree banning foreigners from investing in the construction and ownership of wireless communications towers.[35] China introduced its Anti-monopoly Law (effective as of 1 August 2008) and an enforcement system involving three government agencies. The first rejected M&A case was the $2.4 billion bid by Coca Cola (United States) to acquire Huiyuan, a Chinese fruit juice company.[36]

At the regional level, the Asia Pacific Economic Cooperation (APEC) forum reached agreement in May 2008 on its Investment Facilitation Action Plan 2008–2010, which was designed to encourage investment in the Asia-Pacific region by reducing obstacles to foreign investors. Specifically, the plan contains investment facilitation principles to guide the collective actions of APEC member economies in key areas affecting investment flows.[37] Also, the Heads of State of the Association of Southeast Asian Nations (ASEAN) affirmed their commitment to ensure the free flow of investments and to expand regional cooperation, including among ASEAN countries, plus China, Japan and the Republic of Korea.[38]

Figure II.10. South, East and South-East Asia: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD 2009b.

The countries of the region concluded 19 BITs and 13 DTTs in 2008, bringing the total to 777 and 767, respectively. South, East and South-East Asia continued to be the most active developing region, with 10 new agreements other than BITs and DTTs signed in 2008 (chapter I). Singapore concluded FTAs with the GCC, China and Peru, while China concluded agreements with New Zealand and Peru. ASEAN countries concluded FTAs with Japan, Australia and New Zealand; Viet Nam concluded an FTA with Japan.

d. Prospects: downturn is looming

Due to the heavy reliance of East and South-East Asia on trade, the impact of the current financial crisis on the region's economic performance will be much deeper than was anticipated, and will inevitably have a negative impact on FDI flows in the short to medium term. Weakened FDI activity in the first half of 2009 ended the growth trend of FDI to the region. The duration and depth of the downturn in FDI will depend on a range of factors, including, in particular, the severity and duration of the global recession and the efficiency and effectiveness of national and international policy responses in the region.

FDI inflows into the region that have been driven by both efficiency- and market-seeking motives are being affected. A big fall in demand from developed countries is inevitably causing a fall in efficiency-seeking, export-oriented FDI to the region. In the countries where the confidence of domestic consumers is falling and economic and income growth are sharply slowing down, market-seeking FDI is also decreasing. However, in China and India, such kind of FDI is expected to recover soon. This is partly supported by the view of TNCs in response to the *WIPS 2009–2011* (figure II.10). In China, proactive fiscal policy responses to sustain economic growth, such as the $580 billion stimulus package, as well as the expansionist monetary policy, may help maintain foreign investors' confidence and FDI inflows at relatively high levels.

In terms of outward FDI, as noted above, the ability and motivation of some large TNCs in the region to invest abroad have been weakened significantly by the global financial and economic crisis. On the other hand, companies and funds from a number of Asian economies that are not, or are less, affected by the financial turmoil may maintain an aggressive strategy for overseas investments and become more important actors on the global FDI scene.[39] Furthermore, for many Chinese and Indian companies, in particular, the desire to acquire undervalued assets (such as mineral deposits, technologies, brand names and distribution networks) during the global and financial crisis may boost Asian investments in developed countries.

3. West Asia

FDI inflows into West Asia increased in 2008 for the sixth consecutive year. The increase was largely due to a significant rise of inflows to Saudi Arabia, whereas FDI growth was uneven among the other countries of the region. It was mainly driven by real estate, petrochemicals, refining, construction and trade. Until September 2008, FDI inflows were

still bolstered by the continuous rise in oil prices, robust economic growth and the proliferation of mega development projects. However, seizure in global credit markets has had a severe impact on the financing of development projects, which is likely to cut FDI inflows in 2009. FDI outflows from West Asia fell sharply in 2008, along with the value of net cross-border M&A purchases by West Asian TNCs. After suffering large losses related to the global crisis, outward investors have become more risk averse, and some have turned their spending to their own economies. On the other side, the fall in global equity markets has offered new investment opportunities for cash-rich enterprises and entities, which is likely to positively affect outward prospects for 2009. The policy liberalization trend continued in 2008, with the implementation in a number of countries of new policy measures aimed at encouraging FDI.

a. Geographical trends

(i) Inward FDI: 2008 marked six years of growth

FDI inflows to West Asia increased by 16%, to $90 billion in 2008, marking the sixth consecutive year of increase (figure II.11). The region's share in total FDI flows in the developing world rose to 15% in 2008, compared with a paltry 3% in 2002. Traditionally, FDI inflows in West Asia have been concentrated in Saudi Arabia, Turkey and the United Arab Emirates, particularly since 2003. They accounted for 75% of cumulated inflows during the period 2003–2007, and for 78% in 2008. They were also the top three holders of inward FDI stock, with 70% of West Asia's aggregate FDI stock concentrated in them in 2008.

The increase of FDI inflows in 2008 was largely due to soaring flows to Saudi Arabia, which rose by 57% to $38 billion (figure II.12). The petrochemical and refining industry in that country accounted for most of the growth in inflows, which amounted to $12 billion (a 57% increase over the previous year), and there was a fourfold rise in the real estate sector, where inflows totalled $7.9 billion (SAGIA, 2009). Saudi Arabia attracted 42% of total inflows to the region, consolidating its position as the region's top FDI recipient (figure II.12).

In Turkey, the second largest recipient in the region, inflows declined by 17% to $18 billion, after reaching an exceptionally high level in 2007 due to a number of cross-border M&A mega deals in the financial industry (see *WIR07*). Inflows fell by 3% in the United Arab Emirates to $14 billion, as the global financial crisis in the last quarter of 2008 began to hit Dubai's tourism, real estate and banks.

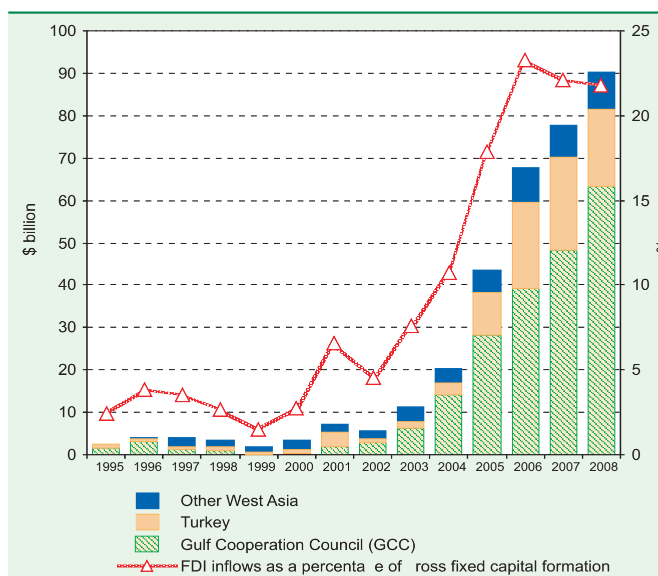
Among the other countries of the region, Qatar saw a sizeable 43% increase in FDI inflows, mainly in liquefied natural gas (LNG), power and water, and telecommunications. In Lebanon, the 32% rise in inflows was mainly driven by real estate. In the Syrian Arab Republic the massive 70% rise in inflows, that reached $2 billion, was attributable to growing business opportunities resulting from that country's increasing economic openness and improving international relations. FDI inflows rose only slightly in Bahrain, Iraq and the Palestinian territory, remained almost at the same level in Jordan, and fell in Kuwait, Oman and Yemen (annex table B.1).

Until September 2008, FDI to West Asia was still bolstered by the continuing rise in oil prices, which formed the basis for robust economic growth. The members of the Gulf Cooperation Council (GCC)[40] have used their abundant oil wealth to launch massive projects in a variety of industries, such as refineries, petrochemicals, electricity, water, telecommunications, real estate, and tourism and leisure. In the process, their reliance on FDI has increased, not so much for its financial contribution, but for the technology, expertise and management it brings with it. High oil prices also contributed to the increase in FDI in countries that are not significant oil exporters in two principal ways: (i) they made funds available for increased intraregional FDI; and (ii) they boosted economic growth through increased aid, investment and workers' remittances from the GCC countries. These factors increased the attractiveness of these countries for FDI.

The sharp fall in oil prices and the steadily worsening outlook for the world economy since the third quarter of 2008 have dampened the optimism that infused the region for the past six years. Countries are now facing the prospect of deficits on their fiscal and current accounts for the first time in over five years, and development projects across the region are being hit hard by the global credit crunch and the changing economic outlook. The number of international banks willing to lend to projects in GCC countries has shrunk sharply: only 12 banks were actively seeking project finance deals there at the end of 2008, down from 45 in 2006.[41] As a result, major oil and gas, industrial and infrastructure projects that have a substantial amount of FDI have been delayed (see box II.3). Countries that are not (or not significant) oil exporters face worsening economic prospects and much lower oil revenues for intraregional FDI.

While FDI inflows to West Asia remained resilient to the global economic and financial crisis in 2008, cross-border M&A sales in the region dropped by 36% to $14.7 billion in 2008. This was due to a 71% fall in net acquisitions by TNCs from developed countries, which plummeted to $4.2 billion. TNCs from developing countries registered a smaller

Figure II.11. West Asia: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



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

decrease in net acquisitions (5%), which totalled $7.5 billion, 62% of which involved West Asian TNCs (table II.12). Most of the net cross-border sales (79%) took place in Turkey where they amounted to $11.6 billion (annex table B.4.), half of which were privatization deals. The fall in cross-border M&A sales accelerated during the first half of 2009, as net sales in that period totalled only $1.4 billion (table II.12).

(ii) Outward FDI: strong decline, especially to developed countries

FDI outflows from West Asia amounted to $34 billion in 2008, down by 30% (figure II.13). They fell the most in Saudi Arabia (from $13.1 billion to $1.1 billion) and in Qatar (from $5.3 billion to $2.4 billion). Outward stocks amounted to $132 billion, with GCC countries accounting for more than 80% of the total. All major investors from the region are GCC countries (figure II.14).

This strong decline in outward FDI is largely explained by the 45% fall in the value of net cross-border M&A purchases by West Asian TNCs, due to a 73% drop in their net purchases (by value) of firms in developed countries.[42] By contrast, West Asia's cross-border acquisitions in developing Asia increased by 63%. As a result, the share of developed countries in the net value of total purchases abroad by West Asian enterprises declined sharply, from 70% in 2007 to 34% in 2008 (table II.12). The GCC countries accounted for 97% of West Asia's cross-border M&A purchases in 2007 and for 93% in 2008 (annex table B.4).[43]

Outward FDI activities have become part of the diversification policy of GCC countries, away from oil- and gas-based economies, with sovereign wealth funds (SWFs), State-owned enterprises (SOEs) and other government-controlled entities playing a key role.

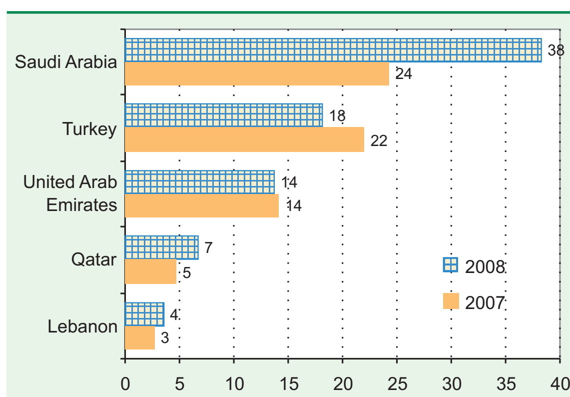
With the global financial crisis and the collapse of global equity markets, most SWFs in the region – as elsewhere – have registered significant losses, estimated at close to 30% of their portfolios (table II.14). This has made them risk averse (box II.4). At the same time, SOEs and government-controlled entities in general (including SWFs) have switched their spending to their own crisis-hit economies. They are thus reducing purchases of foreign assets, and several have even liquidated assets abroad in order to secure funds to bail out their domestic banking systems and capital markets.[44]

However, the exception is GCC members' State-owned telecom companies, which were actively investing abroad in 2008. Saudi Telecom, Zain (Kuwait), and Qatar Telecom (Qtel) each concluded a cross-border M&A mega deal (table II.15), and Omantel (Oman) acquired a 65% stake in Pakistan's WorldCall for $204 million. In addition, a number of GCC States' telecom companies secured licences to operate abroad.[45]

b. Sectoral trends: manufacturing up

Sectoral data for Saudi Arabia and Turkey, which together attracted 63% of total FDI inflows to the region in 2008, show an FDI boom in real estate acquisitions. Inflows to this industry increased by 120%, to $10.9 billion. There was a 28% increase

Figure II.12. West Asia: top 5 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by the magnitude of 2008 FDI inflows.

in the manufacturing sector – mainly oil refining and petrochemicals as well as food and beverages – resulting in total investments of $17.8 billion. On the other hand, the services sector with $20.3 billion worth of inflows registered a 3% decline, and the primary sector saw an even larger decline of 13% with inflows amounting to $4 billion. Within the services sector, FDI increased strongly in construction (104%) and trade (154%), to $3.7 billion and $2.9 billion respectively, while it decreased by 36% in finance to $8.4 billion.[46]

The sectoral breakdown of cross-border M&A net sales in the region shows a halving of net sales in the services sector and their doubling in manufacturing in 2008 (table II.16). The latter is mainly the result of a number of privatization deals that took place in Turkey, which involved the sale, among others, of a refinery for $2 billion and a tobacco company for $1.7 billion.

In the *primary sector,* TNCs have been very active in West Asia, despite restrictions on foreign investment in the upstream segment of the oil and natural gas industry. Moreover, they have remained active even after the fall in oil prices since the second half of 2008. Depending on national regulations, their participation takes the form of either service contracts, production sharing agreements, concessions, or joint ventures with SOEs.

- In *Saudi Arabia*, a number of foreign companies, including the Royal Dutch/Shell Group (United Kingdom/Netherlands), Sinopec (China), Eni (Italy) and Lukoil (Russian Federation) are exploring for gas in the south-east of the country. In addition, all the major international oil/gas design, engineering, and project management companies have a strong presence, and are competing with each other for signing oil and gas service contracts with the State-owned Saudi Aramco. In 2009, J. Ray McDermott (United States), Hyundai Engineering and Construction (Republic of Korea) and Petrofac (United Kingdom) were awarded contracts for development of the offshore Karan gas field and onshore processing facilities.[47]
- In the *United Arab Emirates* in 2009, Adco[48] awarded contracts worth a total of $3.6 billion to Petrofac (United Kingdom), Tecnicas Reunidas (Spain) and CCC Group (Greece), for the expansion of production capacity in three fields.[49]

Box II.3. Reappraisal of some big project deals in GCC countries

West Asia has emerged in recent years as the world's biggest market in project finance, with the private sector (both national and foreign) playing an increasing role. For example, in the first nine months of 2008, nearly $40 billion in project debt was raised for developments in West Asia and North Africa compared with $32 billion in Western Europe and $29 billion in North America. In addition, the project finance debt raised in West Asia and North Africa in the whole of 2006 amounted to over 5% of the region's GDP, compared with less than 0.25% in Western Europe, with Saudi Arabia in the lead.

However, the deepening global financial and economic crisis has dried up project finance, and has also led developers to reappraise projects in light of the new economic outlook. Indeed, falling demand and the worsening outlook for credit markets are affecting project prospects and their financing, especially those that require substantial investments (box table II.3.1).

The collapse of the project finance market and the drying up of financing from international banks has put pressure on governments to mobilize local liquidity through increased direct public funding, additional local equity, or loans from local banks. For example, the Saudi Arabian Government has significantly relaxed its tight monetary policy by cutting both the repurchase rate and reserve requirements for banks. Moreover, in 2009 it awarded two railroad contracts worth some $3.6 billion, financed through the State-owned Public Investment Fund. The first was awarded to a consortia led by local groups, with Chinese minority participation, and the second to China Railway Construction Corporation. Finally, the $2.5 billion Rabigh power project has been resumed with the financial backing of two local institutions, Samba and Al-Rajhi Bank. The Republic of Korea's State-run electricity company, KEPCO, is to develop the project in a consortium with Saudi Arabia's ACWA Power International.

Box table II.3.1. Examples of delayed projects in some GCC countries

Nature of the project	Host country	Investors	Amount ($ billion)
Aluminium smelter	Saudi Arabia	Rio Tinto Alcan (Canada) /Maaden (Saudi Arabia)	10.0
Refinery (Yanbu)	Saudi Arabia	Saudi Aramco (Saudi Arabia) /ConocoPhillips (United States)	10.0
Refinery (Jubail)	Saudi Arabia	Saudi Aramco (Saudi Arabia)/Total (France)	10.0
Water and power (Ras el Zour)	Saudi Arabia	Sumitomo (Japan) /Malakoff (Malaysia)/Al Jomaih (Saudi Arabia)	5.5
Power generation and water desalination (Shuweihat 2)	United Arab Emirates	ADWEA (UAE) (60%) /GDF Suez (France) (40%)	2.0
Worlds of Discovery theme park collection	United Arab Emirates	Nakheel (UAE) /Busch Entertainment (United States)	-
Power and water (Al Dur)	Bahrain	Gulf Investment Corporation (Kuwait)/GDF Suez (France) (50%)	2.2

Source: UNCTAD, based on EIU, *Business Middle East*, 1–15 November 2008, 1–31 December 2008, and 1–15 March 2009*; Middle East Business Intelligence* (MEED), 24 February 2009, 19 March 2009 and 27 March 2009; *Trade Arabia*, 4 March 2009; *Global Water Intelligence*, 9(10), October 2008; and *Project Finance*, November 2006.

Table II.12. West Asia: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in West Asia[b]			Net purchases by West Asian companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
World	22 976	14 677	1 391	37 056	20 498	8 652
Developed economies	14 332	4 179	1 394	25 994	7 030	7 037
Europe	9 783	4 369	1 394	3 525	1 376	1 848
European Union	9 835	3 892	1 258	3 890	1 376	1 595
France	- 647	- 80	408	210	3 714	- 129
Germany	1 840	- 64	-	40	51	951
Netherlands	2 895	244	187	898	- 268	-
Sweden	3 100	-	-	-1 658	-4 109	-
United Kingdom	247	3 593	33	3 352	854	757
North America	4 376	13	-	21 717	5 307	3 904
Canada	-	11	-	5 388	3 989	-
United States	4 376	3	-	16 329	1 318	3 904
Other developed countries	172	- 203	-	752	347	1 285
Australia	32	- 203	-	- 21	335	1 143
Developing economies	7 956	7 532	- 11	10 901	13 178	1 615
Africa	525	115	-	3 485	1 060	513
Egypt	525	125	-	2 372	837	180
Latin America and the Caribbean	-	52	-	-	60	320
Asia	7 431	7 364	- 11	7 416	12 058	782
West Asia	6 108	4 664	- 11	6 108	4 664	- 11
Iraq	-	-	-	-	1 234	-
Kuwait	1 044	2 383	20	3 801	22	- 58
Oman	-	159	-	621	10	28
Qatar	4 087	908	6	-	117	-
Saudi Arabia	68	1 087	- 64	125	26	-
Turkey	-	-	-	833	1 087	-
United Arab Emirates	764	43	28	169	1 020	-
South, East and South-East Asia	1 323	2 700	-	1 308	7 394	793
India	37	2 678	-	9	- 181	-
Indonesia	-	-	-	510	1 816	793
Malaysia	5	76	-	330	1 278	-
Pakistan	-	-	-	- 708	417	-
Singapore	7	- 53	-	1 041	3 301	-
South-East Europe and the CIS	612	2 622	-	161	290	-
Kazakhstan	257	2 050	-	-	-	-

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Sales to the region/economy of the ultimate acquiring company.
[c] Purchases in the region/economy of the immediate acquired 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%.

- In *Oman* in 2009, the Ministry of Oil and Gas awarded Epsilon Energy (Canada) the rights to explore for oil and gas in concession block 55. Foreign oil companies are very active in the country's petroleum sector. The main producer, Petroleum Development Oman – a joint venture that includes the Omani Government, Royal Dutch/Shell (United Kingdom/Netherlands), Hunt Oil (United States), Circle Oil (Ireland) and Sinopec (China) – has signed concession agreements in recent years. In addition, Occidental Petroleum (United States), the Mubadala Development Company (United Arab Emirates) and the State-owned Oman Oil Company signed an agreement in November 2008 to develop together four gas fields in Oman.[50]
- In *Bahrain*, the National Oil and Gas Authority (NOGA) has selected a consortium led by Occidental Petroleum (United States) to upgrade facilities and increase production at its Awali oilfield. The two sides signed an initial accord in March 2009, with a final 20-year development and production sharing agreement expected to be concluded later.[51]
- In the *Syrian Arab Republic*, the Royal Dutch/Shell Group and France's Total signed extensions to their production sharing contracts in 2008, while Petrofac (United Kingdom) was awarded two gas development contracts worth almost $1 billion in total.[52]

In the *manufacturing sector*, soaring energy prices have encouraged FDI in downstream oil refining, petrochemicals and natural gas liquefaction in recent years, especially in the GCC countries. While a number of mega refinery and petrochemical projects with foreign participation have been delayed (section a), other projects went ahead. For example construction began of a liquefied natural gas (LNG) plant in Yemen for which Yemen LNG (France/United States/Yemen) obtained $2.8 billion in financing in 2008. A number of cross-border acquisitions took place in Turkey in 2008, including the privatization of a refinery and a tobacco factory (table II.13), and the sale of companies in industries such as steel, cement, plastics, and aluminium.

FDI in *services* has become more prominent in recent years after liberalization and privatization policies in most countries spurred foreign investment in telecoms, banking, power, water and real estate. However, the ongoing economic and financial crisis has also dried up credit in a number of infrastructure mega projects with foreign participation. In addition, investments in residential, commercial and tourism-related real estate projects have been especially hard hit by the crisis, as the lack of liquidity has forced developers to either cancel or suspend many projects.

c. Policy developments

Since the late 1990s, there have been continuous legal reforms towards liberalization in West Asian countries (including regulations governing the status of foreign firms), with the new legal environment becoming more favourable to foreign investors (see *WIR06*, *WIR07* and *WIR08*). Changes have included more liberal entry, fewer performance requirements, more incentives, and more guarantees and protection for investors. The number of activities in which FDI

Table II.13. West Asia: top 10 cross-border M&A sales,[a] 2008

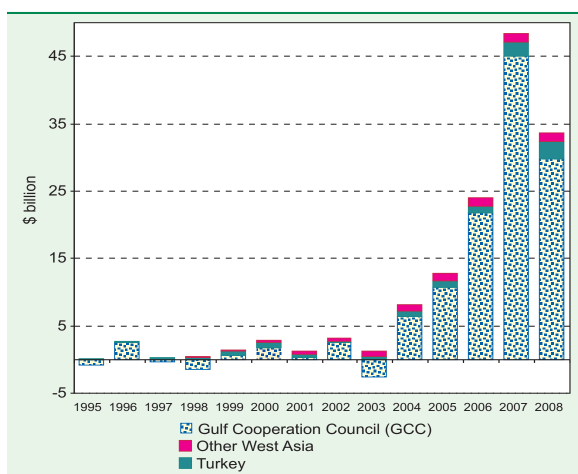
Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	2 850	Oger Telecom	United Arab Emirates	Telephone communications, except radiotelephone	Undisclosed	Saudi Arabia	35
2	2 656	Sabiha Gokcen International Airport	Turkey	Airports and airport terminal services	Investor Group	India	100
3	2 050	Petkim Petrokimya Holding AS {Petkim}	Turkey	Petroleum refining	Investor Group	Kazakhstan	51
4	1 720	Tutun Tutun Mamulleri Tuz ve Alkol Isletmeleri AS	Turkey	Chewing and smoking tobacco and snuff	British American Tobacco PLC	United Kingdom	100
5	1 654	Migros Turk Ticaret AS	Turkey	Grocery stores	Migros Turk Ticaret AS SPV	United Kingdom	51
6	1 200	IRAQNA Company for Mobile Phone Services Ltd	Iraq	Telephone communications, except radiotelephone	Zain Group	Kuwait	100
7	1 080	Turkiye Finans Katilim Bankasi AS	Turkey	Banks	Undisclosed	Saudi Arabia	60
8	877	Eregli Demir Celik Fabrikalari TAS	Turkey	Cold-rolled steel sheet, strip and bars	Arcelor Mittal NV	Luxembourg	11
9	730	Jordan Kuwait Bank	Jordan	Banks	Burgan Bank KSC	Kuwait	44
10	600	United Arab Bank	United Arab Emirates	Banks	Commercial Bank of Qatar QSC	Qatar	40

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

[a] In the immediate host country.

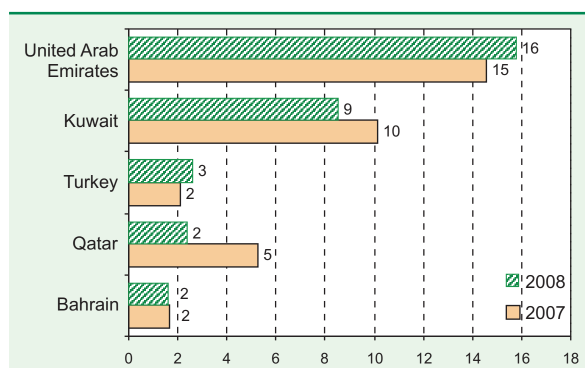
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the utlimate home economy correspond to the acquisition of a foreign affiliate by a national company

Figure II.13. West Asia: FDI outflows, 1995–2008



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

Figure II.14. West Asia: top 5 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



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

[a] Ranked by the magnitude of 2008 FDI outflows.

is barred or restricted has been reduced, especially in the manufacturing sector, but also, increasingly, in natural resources and services.

This liberalization trend continued in 2008, with relevant policy measures implemented in a number of countries. Examples include the following:

In Saudi Arabia, the business visa requirements have been eased and visas can be issued not only through Saudi embassies but also Chambers of Commerce. In order to facilitate foreign investments into Saudi Arabia, the Government set up 2 new one-stop-shop offices and allowed the Saudi Arabian General Investment Authority offices abroad to issue investment licences to foreigners.[53]

In Kuwait, in 2008 the parliament passed a law to cut the rate of tax levied on foreign companies to 15% from 55%, and to abolish capital gains tax on stock market holdings. It also approved the partial privatization of Kuwait Airways Corporation.[54]

In Jordan, in a move towards liberalization of the downstream segment of the petroleum industry, the Government will allocate distribution and retail assets, and associated staff of the Jordan Petroleum Refinery Company (JPRC), to four new companies; and it will proceed with an international tendering process for the privatization of the four companies. Regarding the privatization of the Jordan Post Company, the Council of Ministers approved, on 6 January 2009, the privatization strategy encompassing the tendering of up to 74% of the company's shares, excluding the company's land and real estate, which shall be retained by the Government of Jordan.[55]

In Turkey, the privatization process continued. The overall privatization proceeds of the Turkish Privatization Administration (PA) amounted to $38.2 billion in July 2009, of which $30 billion related to

Table II.14. Estimated gains and losses of Gulf funds
(Billions of dollars)

Agency	Value Dec. 2007	Changes in value: Capital gain/loss	Changes in value: Net inflows	Value Dec. 2008	Gain/loss on Dec. 2007 portfolio (%)
Abu Dhabi Investment Authority (ADIA), Abu Dhabi Investment Council (ADIC)	453	-183	59	328	-40
Qatar Investment Authority (QIA)	262	-94	57	228	-36
Kuwait Investment Authority (KIA)	65	-27	28	58	-41
Saudi Arabian Monetary Agency (SAMA)	385	-46	162	501	-12
Other GCC	116	0	-33	84	0
GCC Total	1282	-350	273	1200	-27
Memorandum					
Norway	371	-111	64	325	-30

Source: Setser and Ziemba, 2009.

the period 2004–July 2009. Furthermore, a revenue of $10.6 billion was generated from privatizations implemented by other government institutions.[56]

In the Syrian Arab Republic, the Government took a number of steps in 2008 to liberalize the exchange-rate regime and to improve the access of investors to financing. The cabinet issued a decree allowing foreign investors to obtain external loans in foreign currency, and to purchase foreign currency from local banks to service those facilities. In a further move, the central bank established a hard currency clearing room, allowing conversions between dollars and euros to be conducted automatically. Finally, the Credit and Monetary Council issued a decree authorizing Syrian banks to lend in foreign currency to licensed investment projects.[57]

Oman and Qatar ended the fixed-line monopoly. Oman awarded a second fixed-line licence

Box II.4. The evolving investment strategies of GCC member States' SWFs

Until the 1990s, West Asian SWFs were largely risk-averse investors abroad, investing primarily in dollar-denominated United States Treasury bill holdings. Their role was mainly to support economic stabilization, particularly in the 1990s when oil prices fell to around $10 per barrel. For example, the Saudi Arabian Monetary Agency, which has been accumulating surplus oil revenues since the 1970s, helped fund expansion in Saudi Arabia throughout the decade of low growth from 1980 to 1990. The Kuwait Investment Authority emerged as the main driver of the country's rebuilding efforts in the aftermath of the first Gulf War.

In the late 1990s, GCC governments decided to reduce their dependence on oil by diversifying their investments. With fewer immediate possibilities at home, their SWFs started investing in relatively riskier assets abroad, such as stocks and real estate. This trend gained strength as oil prices started to rise at the beginning of the 2000s, and grew stronger with increased globalization. With oil prices rising further, the strategies of SWFs sought not just to support economic stability and investment diversification, but also to maximize returns, which drove most of them to undertake riskier investments.

The recent oil price boom also led some SWFs to adopt a new approach, using part of their financial surplus to invest in industries that their governments perceive as particularly relevant for the development and diversification of their national economies. This led the more proactive SWFs to seek greater involvement in managing the companies in which they invested. Recent examples of proactive investors include Mubadala Development Company, Dubai Investment Corp (both United Arab Emirates) and Qatar Investment Authority (QIA). Mubadala, for instance, was created in 2002, and over the past few years it has used its assets to develop a network of international and domestic partnerships in numerous industries, including energy, automotives, aerospace, real estate, health care, technology and infrastructure and services. These are industries that benefit the United Arab Emirates' overall economic development objectives. For example, in acquiring a 5% stake in Ferrari in 2005, it improved the potential for increased tourism in Abu Dhabi in the form of the Ferrari theme park. It has also invested $8 billion in an R&D partnership with General Electric (United States), which in turn has committed to increasing its investments and transfer of technology to the United Arab Emirates.

However, the recent collapse of real estate and equity markets has generated large losses for SWFs (table II.14), but it also offers investment opportunities. It is too early to gauge the impact of the financial crisis on the investment strategies of these funds. Some have helped European and North American banks weather the crisis,[a] but, after sustaining large losses,[b] they have become more cautious in their investments abroad and are switching to investments in support of their local economies. Others are continuing to engage in strategic investments by making smaller scale acquisitions that support their national economic development objectives (see section d).

Source: UNCTAD, based on *Knowledge@Wharton*, 11 March 2009; *Stratfor Global Intelligence*, 25 November 2008; *SWF Radar*, 19 February 2008; EIU, *Business Middle East,* 1-15 January 2008; *Thomson Reuters*, 31 January 2008; and Behrendt, 2009.

[a] For example, Abu Dhabi Investment Authority (United Arab Emirates) injected $7.5 billion into Citigroup (United States) at the beginning of 2008 for a 4.9% stake; Kuwait Investment Authority (Kuwait) acquired a minority stake in Merrill Lynch (United States) for $2 billion; and Qatar Investment Authority (Qatar) invested $500 million in Credit Suisse for a 2% stake.

[b] For example, in late September 2008, KIA admitted to a loss so far of $270 million on a $3 billion investment in Citigroup made in January 2008.

Table II.15. West Asia: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 964	PrimeWest Energy Trust	Canada	Crude petroleum and natural gas	Undisclosed	United Arab Emirates	100
2	3 397	OMX AB	Sweden	Security brokers, dealers, and flotation companies	Undisclosed	United Arab Emirates	69
3	2 964	Cegelec SA	France	Engineering services	Undisclosed	Qatar	100
4	2 850	Oger Telecom	United Arab Emirates	Telephone communications, except radiotelephone	Undisclosed	Saudi Arabia	35
5	1 800	Indonesian Satellite Corp PT	Indonesia	Telephone communications, except radiotelephone	Qtel	Qatar	41
6	1 598	Labroy Marine Ltd	Singapore	Ship building and repairing	Undisclosed	United Arab Emirates	98
7	1 400	280 Park Ave,New York,NY	United States	Operators of nonresidential buildings	SIPCO Ltd	Bahrain	100
8	1 256	JTC Corp-Industrial Property Portfolio	Singapore	Land subdividers and developers, except cemeteries	Arcapita Bank BSC	Bahrain	100
9	1 205	RHB Capital Bhd	Malaysia	Investment advice	Undisclosed	United Arab Emirates	25
10	1 200	IRAQNA Company for Mobile Phone Services Ltd	Iraq	Telephone communications, except radiotelephone	Zain Group	Kuwait	100

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

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

to Nawras (Oman-based affiliate of Qatar Telecom) in November 2008, while Qatar did the same in September 2008 with a consortium including United Kingdom's Vodafone Group.[58]

A one-stop-shop the system for foreign investments was implemented in Yemen. It makes possible the completion of a business start-up at a single location, where the licence and registration services of 14 government agencies (such as immigration, customs, taxation and project registration) are available in one place.[59]

In the area of international investment agreements, West Asian countries concluded 15 new BITs, bringing the total number of BITs for the region to 407 by end 2008. The Syrian Arab Republic was the most active, signing three new BITs with the Czech Republic, India and Romania, followed by Jordan, Qatar, Turkey and Yemen, with two new BITs each.

As far as DTTs are concerned, 12 new agreements were concluded by West Asian countries in 2008, bringing the total number of the region's DTTs to 311 by the end of 2008. The most active was Qatar with four new agreements (Cyprus, Malaysia, the Netherlands and the former Yugoslav Republic of Macedonia), followed by the Syrian Arab Republic with two new DTTs (with Croatia and the Czech Republic).

Regarding IIAs other than BITs and DTTs, Turkey and Chile concluded an FTA that includes investment promotion provisions. Also the GCC and Singapore concluded an FTA, including provisions encouraging the conclusion of BITs between Singapore and GCC countries.

d. Prospects: fall in inflows, but a possible rise in outflows

FDI inflows to West Asia are expected to fall in 2009 as the impacts of the ongoing global economic and financial crisis cause a further drop in international trade and in key revenue sources, as well as a continued tightening of credit markets for

Table II.16. West Asia: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

	Net sales of companies in West Asia[b]			Net purchases by West Asian companies worldwide[c]		
Sector/industry	**2007**	**2008**	**2009[a]**	**2007**	**2008**	**2009[a]**
Total	22 976	14 677	1 391	37 056	20 498	8 652
Primary	144	3	-	5 782	3 486	281
Mining, quarrying and petroleum	140	-	-	5 782	3 486	281
Secondary	2 449	5 224	39	14 999	2 597	45
Food, beverages and tobacco	581	1 720	-	53	876	113
Coke, petroleum and nuclear fuel	-	2 050	-	- 392	-	-
Chemicals and chemical products	781	-	- 59	11 645	48	- 64
Motor vehicles and other transport equipment	-	27	-	2 261	1 607	-
Services	20 383	9 451	1 352	16 274	14 416	8 327
Electricity, gas and water	479	51	1 145	12	240	320
Trade	38	1 861	-	- 1 819	174	- 10
Transport, storage and communications	9 634	2 900	6	3 890	3 651	1 077
Finance	7 803	3 682	20	17 985	8 574	7 197
Business services	810	206	104	- 2 276	2 779	- 257

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

[a] For 2009, January–June only.

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

[c] 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%.

investment projects. Preliminary data show a strong reduction in net cross-border M&A sales in West Asia during the first half of 2009 (table II.12).[60] However, accumulated reserves and brighter prospects for oil prices could have a positive effect on FDI to West Asia in the medium term.

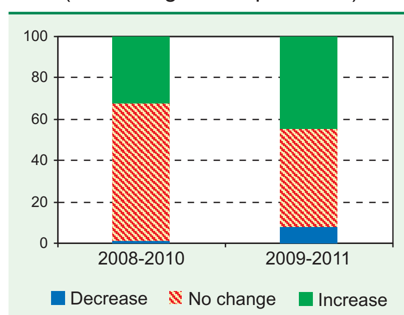
According to UNCTAD's *World Investment Prospects Survey 2009–2011*, FDI prospects in West Asia seem more favourable than those reported in the previous survey. Of the total respondents to the latest survey, 45% expected an increase in FDI during the period 2009–2011 (compared with 32% for the period 2008–2010 of the previous survey), 47% expected no change (compared with 67%), and 8% expected a decline (compared with almost no respondents in the previous survey) (figure II.15).

Outward FDI flows from West Asian countries, largely originating from GCC countries, are expected to increase, as the global economic and financial crisis offers new investment opportunities for cash-rich companies and investment funds. They can take advantage of their relatively strong financial position to buy companies weakened by tight credit markets at discount prices.

Some of them have already begun to make acquisitions that support their national economic development objectives. Particularly active in doing so is the Government of the Abu Dhabi Emirate, which has undertaken a series of acquisitions and/or partnerships through the International Petroleum Investment Company (IPIC),[61] the Mubadala Development Company,[62] the Abu Dhabi National Energy Company (Taqa),[63] and the Abu Dhabi future energy company, Masdar.[64]

In addition, some of them are planning to expand their operations abroad. For example, IPIC (Abu Dhabi) plans to invest not only in the oil and gas sector but also into new areas, increasing its investment stock (including portfolio) to $40 billion within five years. This is double the company's previous 2007 estimates of $20 billion which it was close to reaching at the end of 2008.[65]

Figure II.15. West Asia: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD 2009b.

4. Latin America and the Caribbean

In 2008, FDI inflows to Latin America and the Caribbean (LAC), overall, remained resilient despite the spreading financial crisis and world economic slowdown. However growth rates varied among the different subregions: in South America there was a significant increase in FDI, while Central America and the Caribbean registered a decline. This divergent evolution is due to the differing impacts of the global financial and economic crisis on economies in the two subregions. Natural resources and related activities remained the main attraction for FDI in South America, and they are increasingly becoming a greater FDI target in Central America and the Caribbean. FDI outflows from the region increased, mainly driven by Brazilian TNCs, which offset the strong decline in outflows from Mexico. The shift towards a bigger role of the State in the economies and more restrictive FDI-related policies continued in a number of countries and extended to new activities, some of which related to the financial crisis, such as banking and pension funds.

a. Geographical trends

i. Inward FDI: resilient to the spreading crisis

FDI inflows into Latin America and the Caribbean increased in 2008 by 13%, showing resilience to the spreading financial crisis and world economic slowdown (figure II.16). However, the growth of FDI was uneven among subregions, with a significant increase of 29% in flows to South America, a decline of 6% to Central America and the Caribbean (other than financial centres) and of 7% to the offshore financial centres. In the first quarter of 2009 FDI flows declined by 42% compared to the first quarter of 2008, for a number of Latin American and Caribbean countries (table II.17) while cross-border M&As in the first half of 2009 plummeted to negative values (table II.19).

The strong increase in South America was due to the sharp rise of inflows to the top four recipient countries of the subregion: Brazil (by 30%), Chile (by 33%), Colombia (by 17%) and Argentina (by 37%); together they represented 89% of the subregion's total inflows. *Brazil* alone, with a record $45 billion in investments (figure II.17), accounted for half of the region's total inflows. The rise of FDI to this country resulted from an almost trebling of inflows to the primary sector, mainly due to cross-border M&As in the metals and minerals extractive industry (tables II.18 and II.21). Inter-company loans, which increased by 76% (compared with 15% for equity capital), explain most

of the FDI growth in Brazil. In *Chile,* FDI growth was mainly due to a 223% increase in equity capital, partly boosted by a 117% increase in cross-border M&As (see annex table B.4) which compensated for the 27% decline in reinvested earnings.[66] In *Argentina,* FDI growth can be explained by the increase of 152% in intercompany loans and 51% in equity capital. Strong increases in inflows were also registered in countries such as Bolivia, the Bolivarian Republic of Venezuela, Ecuador, Guyana, Paraguay and Uruguay, but from a lower level. Only Peru and Suriname recorded a decline in inflows, though in the case of Peru, they remained above their 2006 level (annex table B.1).

In Central America and the Caribbean (other than financial centres), the decline in FDI inflows was largely due to a 20% fall in flows to Mexico, which mainly resulted from a halving of inflows to the manufacturing sector (CNIE, 2009). Although Mexico remained the subregion's main recipient in 2008, its share in the subregion's total inflows decreased from 76% in 2007 to 65%, suggesting that FDI growth was uneven among the countries of this subregion. Indeed, FDI inflows soared from $830 million to $3 billion in Trinidad and Tobago, which became the subregion's second largest recipient country due to the $2.2 billion acquisition of RBTT Financial by Royal Bank of Canada. Inflows increased by 83% to $2.9 billion in the Dominican Republic, despite a strong decline in the traditional sectors such as tourism, free zones and real estate, suggesting that the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) might have opened new investment opportunities for foreign firms. In Costa Rica, FDI increased by 7%, to $2 billion. It was driven by strong growth in agriculture, which compensated for declining FDI in all the other activities.[67] Increases were also registered in Belize, Cuba, Guatemala, Honduras and Nicaragua – although from low levels – while El Salvador, Haiti and Jamaica registered declining inflows (annex table B.1).

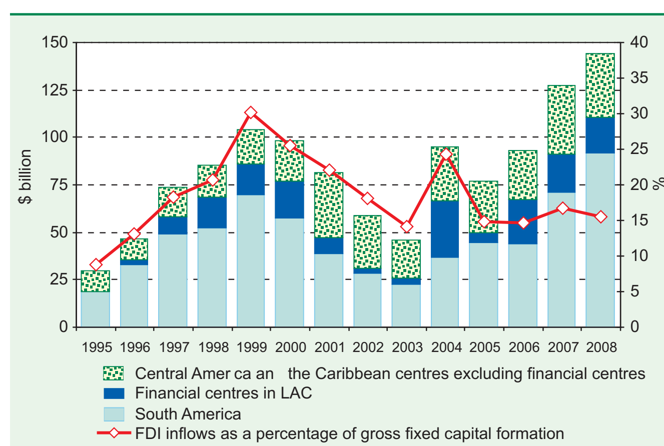
The divergent evolution of FDI inflows to the two main subregions in 2008 is due to the differing impacts of the global financial and economic crisis on their economies. Central American economies, which are strongly dependent on the United States economy, both for their exports and remittances, were directly hit by the slowdown that began in the United States economy in late 2007, and the rapidly deteriorating demand and job market there. South American economies, more reliant on commodity export revenues, were affected by a drop in commodity prices, deteriorating terms of trade and weaker demand in export markets other than the United States, but with a certain time lag. Indeed, until September 2008, South American growth was bolstered by robust domestic and global demand and high prices for commodities such as oil and gas, iron ore, copper, gold, soya beans, of which the subregion is a major exporter. This economic environment continued to attract increasing flows of FDI (mainly resource- and market-seeking) to the subregion.

ii. Outward FDI: sharp rise in outflows from South America

FDI outflows from Latin America and the Caribbean increased in 2008 by 22%, to reach $63 billion (figure II.18). This was due to a strong increase of outflows from South America (131%) that offset the 22% decline of outflows from Central America and the Caribbean. In South America, the strongest increase was registered in Brazil (189%), where outflows amounted to $20 billion as a result of soaring intercompany loans. This suggests that Brazilian parent companies may have transferred capital to their financially distressed affiliates abroad.[68] In contrast, outflows from Mexico plummeted to $0.7 billion from their previous level of $8 billion (figure II.19), as did net cross-border acquisitions by Mexican firms, which posted negative results of -$358 million (annex table B.4). This meant that sales of foreign affiliates of Mexican-based TNCs were higher than the purchases of firms abroad by Mexican-based TNCs.

In 2008, Brazilian enterprises continued to acquire assets abroad in mining and natural-resource-based activities, such as foods and metal and steel (table II.20), which they had started to undertake in 2006. However, the global financial crisis and the fall in commodity prices have revealed the vulnerabilities of these acquiring TNCs. For example, following its

Figure II.16. Latin America and the Caribbean: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008
(Billions of dollars)



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

Table II.17. Latin America and the Caribbean: FDI flows of selected countries, 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Argentina	3 483	2 236	2 221	913	1 685	346	318	498	188	393
Bahamas	159	219	161	160	163	..	..	..	..	..
Bolivia	253	- 33	200	92	104	..	..	..	..	..
Brazil	8 799	7 910	14 145	14 203	5 342	4 453	4 125	6 829	5 050	- 392
Chile	6 505	1 270	4 883	4 130	3 505	1 959	812	2 655	1 466	2 193
Colombia	2 822	2 623	2 606	2 513	2 528	360	444	764	589	1 168
Costa Rica	375	797	459	390	286	1	- 3	1	7	1
Dominican Republic	1 072	507	998	308	637	..	..	..	..	..
El Salvador	292	58	58	376	- 32	160	- 116	31	- 10	- 31
Guatemala	243	220	217	158	180	4	4	4	4	14
Haiti	6	7	7	11	11	..	..	..	..	..
Mexico	5 995	7 085	3 748	5 122	2 663	- 501	631	6	549	2 939
Nicaragua	125	129	203	169	143	..	..	..	..	..
Panama	562	696	614	529	387	..	..	..	..	..
Paraguay	117	37	118	48	49	2	2	2	2	2
Peru	2 822	1 599	903	- 515	1 391	6	91	35	598	5
Uruguay	569	668	526	442	374	2	4	- 4	- 2	- 2
Venezuela, Bolivarian Republic of	637	1 394	- 33	- 282	906	1 068	1 871	747	- 929	80
Total	*34 836*	*27 422*	*32 034*	*28 766*	*20 322*	*7 862*	*8 184*	*11 569*	*7 512*	*6 369*

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

acquisition of the large nickel producer Inco (Canada) in 2007, Brazil's CVRD (mining) has become more exposed to commodity price volatility. In addition, losses from bad currency bets using derivatives have affected Brazilian and Mexican companies after the sharp devaluation of the real and peso against the dollar. In Brazil, the affected companies include TNCs such as Sadia (a food processor), Votorantim (an industrial conglomerate) and Aracruz (a cellulose maker) that have incurred losses of several billion dollars.[69]

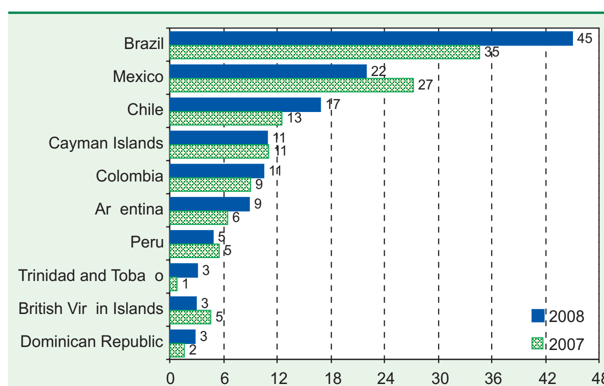
In Mexico, companies such as Cemex, Gruma, Grupo Industrial Saltillo and Comercial Mexicana also reported derivative losses, mostly tied to currency devaluation. In addition to $700 million in losses on derivatives in the third quarter of 2008, Cemex registered a sharp contraction in sales volumes in Spain, the United Kingdom and the United States, as well as a significant increase in the cost of debt and difficulty in refinancing it, not to mention high energy and transportation costs. Moreover, its assets in the Bolivarian Republic of Venezuela were nationalized. The firm also saw a significant decline in its stock price, as well as downgrades from rating agencies.[70]

b. Sectoral analysis: continued interest in natural resources and related activities

Natural resources and related activities continued to be the main attraction for FDI in South America. For example in Brazil, which accounted for about half of inflows to South America in 2008, FDI to the primary sector increased threefold in 2008 and represented 34% of total inward FDI to that country. In the manufacturing sector – which accounted for 35% of total FDI in Brazil – natural-resources-related activities (such as metallurgy, food and beverages, plastics and rubber, refining, metals and non-metallic mineral products) attracted more than 80% of total FDI flows to the sector (Banco Central do Brasil, 2009).

In Central America and the Caribbean too, FDI continued to increase in natural-resource-related activities in 2008, in contrast to the decline in total FDI flows to the subregion. For example in Mexico, which accounted for 65% of FDI flows to the subregion in 2008, foreign investments in non-oil extractive industries increased more than threefold in 2008, to reach an unprecedented level of $4.2 billion. While FDI in these industries was almost nil

Figure II.17. Latin America and the Caribbean: top 10 recipient of FDI inflows,[a] 2007–2008
(Billion of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by the magnitude of 2008 FDI inflows.

Table II.18. Latin America and the Caribbean: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 493	IronX Mineracao SA	Brazil	Iron ores	Anglo American PLC	United Kingdom	64
2	3 120	Nacionale Minerios SA	Brazil	Iron ores	Investor Group	Japan	40
3	2 235	RBTT Financial Holdings Ltd	Trinidad and Tobago	Banks	Royal Bank of Canada	Canada	100
4	2 235	YPF SA	Argentina	Crude petroleum and natural gas	Enrique Eskenazi	Argentina	15
5	2 223	Grupo Financiero Inbursa SA de CV	Mexico	Investment offices, nec	La Caixa	Spain	20
6	1 647	ArcelorMittal Inox Brasil SA	Brazil	Steel works, blast furnaces, and rolling mills	Arcelor Mittal NV	Luxembourg	40
7	1 515	YPF SA	Argentina	Crude petroleum and natural gas	Enrique Eskenazi	Argentina	10
8	1 500	ING Seguros SA de CV	Mexico	Life insurance	AXA SA	France	100
9	1 310	Antofagasta PLC	Chile	Copper ores	Marubeni Corp	Japan	30
10	1 287	Sociedad Austral de Electricidad SA	Chile	Electric services	Investor Group	Canada	100

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

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Table II.19. Latin America and the Caribbean: value of cross-border M&A sales and purchases, by region/ economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in Latin America and the Caribbean[b]			Net purchases by Latin American and Caribbean companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
World	20 554	15 231	- 748	38 514	2 584	- 721
Developed economies	14 243	14 119	-1 442	32 130	1 998	- 643
Europe	11 042	6 917	-1 669	4 287	2 139	-3 363
European Union	10 250	7 092	-1 113	3 699	1 595	-3 363
France	866	3 368	- 728	- 23	-	5
Germany	292	164	- 3	4	1 012	-
United Kingdom	1 760	1 986	- 930	2 734	21	-3 121
North America	1 371	2 975	483	12 237	-1 838	2 688
Canada	3 408	4 356	280	2 364	34	162
United States	-2 037	-1 381	203	9 873	-1 872	2 526
Other developed countries	1 830	4 227	- 256	15 606	1 697	32
Australia	59	19	- 3	14 992	184	2
Japan	1 175	4 430	- 262	615	1 513	30
Developing economies	6 274	918	703	6 384	454	- 37
Africa	- 410	175	-	- 155	-	- 66
Latin America and the Caribbean	5 752	170	- 636	5 752	170	- 636
Argentina	625	265	- 98	576	217	850
Brazil	1 995	506	1 529	1 371	863	- 93
Chile	466	- 102	130	220	- 624	- 233
Venezuela	-	- 896	- 7	100	-	-1 970
Central America	1 116	- 479	-	- 424	135	10
Mexico	2 558	- 185	-	270	101	-
Panama	-1 582	- 294	-	-	35	10
Asia	932	572	1 339	787	283	665
China	64	- 33	133	113	- 15	-
Hong Kong, China	232	490	12	561	- 291	- 300
Korea, Republic of	-	125	893	-	112	161
Singapore	356	- 1	-	- 61	215	-

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

[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired 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%.

before 2007, its share increased to 7% in 2007 and reached 23% in 2008 (CNIE, 2009).

Primary sector

The metal mining extractive industry attracted large amounts of FDI in 2008, along with soaring cross-border M&As. Indeed, net cross-border M&A sales in mining and quarrying increased more than eightfold to reach $9 billion (table II.21), mostly targeting Brazil (table II.18). In contrast, cross-border M&A sales in the oil and gas industry fell to negative values in 2008 and the first half of 2009, indicating divestments by foreign firms (table II.21).

But TNCs were active in greenfield investments both in oil and gas, and in metal and mineral projects. In oil and gas, foreign firms have been very active in exploration activities, especially in Brazil, Colombia and Peru. In Brazil, State-owned Petrobras announced major offshore deepwater discoveries in a number of fields located very deep below the seafloor (in the "pre-salt" area), including those in which the company already has partnerships with foreign TNCs.[71] Although very expensive to exploit, these discoveries have created considerable optimism, not only in the newly discovered fields but also in neighbouring areas, where a number of TNCs have concessions. Some TNCs have already announced significant investment plans, such as the BG Group (United Kingdom), which in January 2009 confirmed investment plans of up to $5 billion over the four-year period to 2012 for development of Brazil's offshore "pre-salt" oil and gas fields.[72]

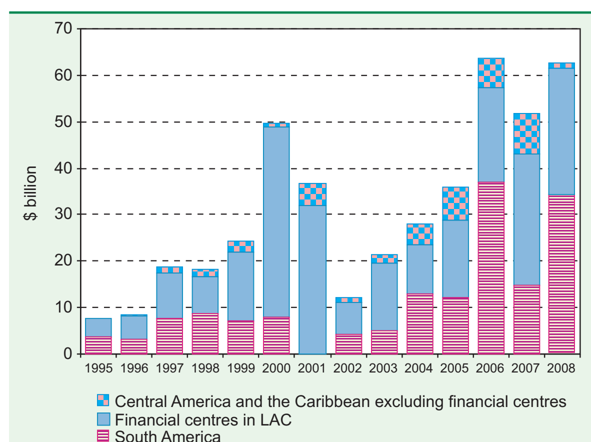
TNCs were also active in metal mining exploration and development projects. In Peru for example, where more than 250 foreign mining companies have been established since 1990, investments in the non-oil mining sector totalled

$1.6 billion in 2008, most of it undertaken by foreign companies (Peru, Ministerio de Energía y Minas, 2009). This excludes investments in exploration, which amounted to $475 million in 2007. In addition, there were three mining projects by foreign companies, totalling more than $4 billion, which were at the feasibility study stage, and another two projects worth $2.1 billion each have also been confirmed. However, there is widespread dissatisfaction among local communities where major mining and energy projects are located (section c).

While South American countries have attracted most of the FDI in the primary sector, the traditional targets of resource-seeking, export-oriented FDI in the region, an increasing share is being directed to Central American countries. This is a trend that has developed since the latest commodity price boom. In Mexico, for example, Goldcorp of Canada has made a large new investment of close to $2.2 billion in various mining projects, including the $1.5 billion Peñasquito project that is expected to reach completion by mid-2009. In addition, Jinchuan Group of China is expected to invest $612 million to develop a large copper-zinc deposit acquired from Tyler Resources (Canada) in January 2008 (Business Monitor, 2008). In the Dominican Republic, Barrick Gold (United States) plans to spend $3 billion on the reopening of the formerly State-owned Pueblo Viejo gold mine. Exploration in oil and gas by foreign firms is also taking place in Cuba, Guyana and Nicaragua.[73]

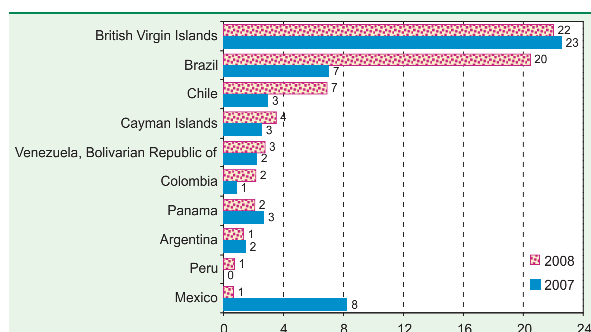
However, slackening world demand for commodities and tightening loan conditions since the second half of 2008 have led to investment cuts and/or delays in some cases. For example, BHP Billiton (Australia) has delayed work on a $6.7 billion expansion plan at its Escondida copper mine in Chile.[74]

Figure II.18. Latin America and the Caribbean: FDI outflows, by subregion, 1995–2008



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

Figure II.19. Latin America and the Caribbean: top 10 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by the magnitude of 2008 FDI outflows.

Manufacturing sector

FDI inflows to the manufacturing sector in Latin America and the Caribbean declined in 2008. This was due to a sharp drop in flows to Central America and the Caribbean, where foreign-owned export-oriented manufacturing activities are closely tied to the United States economic cycle. In South America, FDI inflows to manufacturing activities are mostly concentrated in Brazil, and more oriented to the internal market and to export destinations other than the United States, so that they more or less maintained their previous level. For example, while in Mexico inflows to the manufacturing sector decreased by 37% in 2008, in Brazil they remained at the same level as in 2007 (at around $16 billion), and double that of 2006 (Banco Central do Brazil, 2009: and CNIE, 2009).

The export factories established in Central America and the Caribbean have been particularly hard hit by the dramatic deterioration of macroeconomic conditions in the United States, which constitutes by far their main export destination. In Mexico, for example, 25% of Ciudad Juarez's 330 plants have temporarily laid off 40,000 employees. In Tijuana, 25,000 jobs were lost before December 2008. Auto-parts maker Delphi, which has 50 plants in Mexico, laid off workers in the first quarter of 2008, and General Motors and Chrysler announced their intentions to reduce production at several plants in Mexico to cut costs and inventories (La Botz, 2009). In other Central American countries there were factory closures in the *maquila* textile industry, and sharp drops in exports and employment. In Nicaragua, for example, employment in the industry fell from around 85,000 workers in 2007 to 65,000 in 2008. The fall accelerated dramatically in 2009: in the month of January alone, the export volume of textiles fell by 35% in Guatemala, 28% in Costa Rica, 27% in El Salvador, 16% in Honduras and 8% in Nicaragua.[75]

Table II.20. Latin America and the Caribbean: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	1 749	Quanex Corp	United States	Steel works, blast furnaces, and rolling mills	Gerdau SA	Brazil	100
2	1 386	Shinsei Bank Ltd	Japan	Banks	Investor Group	Cayman Islands	23
3	944	LWB Refractories GmbH	Germany	Brick and structural clay tile	Magnesita Refratarios SA	Brazil	100
4	565	Smithfield Beef Group Inc	United States	Beef cattle, except feedlots	J&F Participacoes SA	Brazil	100
5	537	OC Oerlikon Corp AG	Switzerland	Semiconductors and related devices	Columbus Trust Co Ltd	Bahamas	11
6	474	Mineracao Taboca SA	Brazil	Miscellaneous metal ores, nec	Cia de Minas Buenaventura SAA	Peru	100
7	455	Sementes Selecta	Brazil	Soybeans	Grupo Los Grobo SA	Argentina	90
8	425	Inalca SpA	Italy	Sausages and other prepared meat products	J&F Participacoes SA	Brazil	50
9	380	Refrigerantes Minas Gerais Ltd[a]	Brazil	Bottled & canned soft drinks & carbonated waters	Coca-Cola FEMSA SA CV	Mexico	100
10	295	US Zinc Corp	United States	Secondary nonferrous metals	Grupo Votorantim	Brazil	100

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

[a] From the ultimate home economy.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

In South America, FDI in the manufacturing sector remained buoyant in 2008 and mostly targeted natural-resource-related activities. In Brazil, metallurgy, food and beverages, petroleum refining, plastics and rubber, and chemical products continued to attract significant FDI, totalling around $13 billion, almost the same amount as in 2007. In Uruguay, the construction by Ence (Spain) of the second of two very large pulp mills was the major driver of FDI growth in 2008. In Peru, implementation of a free trade agreement with the United States boosted FDI in the ethanol industry. Maple Energy (United States) has built a $220 million ethanol facility and Brazilian companies are also interested in investing in the industry, although their plans may be disrupted by the credit crisis.[76]

Table II.21. Latin America and the Caribbean: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]

(Millions of dollars)

	Net sales of companies in Latin America and the Caribbean[b]			Net purchases by Latin American and Caribbean companies worldwide[c]		
Sector/industry	2007	2008	2009 [a]	2007	2008	2009 [a]
Total	20 554	15 231	- 748	38 514	2 584	- 721
Primary	1 734	5 173	- 1 675	3 984	1 880	2 262
Agriculture, hunting, forestry and fisheries	278	849	43	-	1 610	-
Mining, quarrying and petroleum	1 456	4 324	- 1 718	3 984	270	2 262
Mining and quarrying	1 001	8 665	309	3 866	137	2 335
Petroleum	454	-4 341	-2 027	118	134	- 72
Secondary	5 212	- 1 540	- 1 553	24 111	2 830	204
Food, beverages and tobacco	1 219	- 539	-	1 654	583	2 502
Chemicals and chemical products	702	- 1 182	29	759	172	9
Non-metallic mineral products	57	-	373	14 437	913	- 65
Metals and metal products	2 357	194	- 1 960	7 313	740	- 1 960
Services	13 609	11 598	2 480	10 419	- 2 126	- 3 187
Trade	1 716	944	1 267	935	134	- 3 106
Transport, storage and communications	3 381	1 350	545	1 749	- 1 849	120
Finance	4 878	7 243	- 36	7 674	1 172	- 207
Business services	2 506	1 785	607	- 196	- 1 731	-

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

[a] For 2009, January–June only.

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

[c] 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%.

The automobile industry – another important FDI recipient both in Brazil and Argentina – went from boom to bust in a matter of months. Having registered a record-breaking performance since 2003, and strong sales growth during the first nine months of 2008, car manufacturers (almost exclusively foreign investors) were still announcing ambitious investment plans as late as September 2008.[77] However, the global financial crisis and deteriorating local and external demand took their toll at the end of the year. In December alone, production fell year-on-year by over 51% in Brazil and 47% in Argentina. Brazilian automakers reported 1,900 layoffs in January – the third straight month of layoffs. This scenario seems to be changing in Brazil due to the Government's fast action in reducing the IPI, a direct tax on industrialized products. The industry recorded an average growth of 6.1% between January and May.[78]

Services sector

In the financial industry, the worsening of the financial crisis has led some international financial institutions to focus on domestic markets in their home countries, and to shed some of their operations abroad, while others are taking the opportunity to expand through acquisitions at a time when the prices of bank

assets are low. For example, the insurance firm American International Group, Inc (AIG) (United States) is reportedly selling its consumer finance businesses in Latin America, and HSBC (United Kingdom) is to close branches and move out of retail banking in Nicaragua and to sell its 18.7% interest in Mexican micro-lender Financiera Independencia. On the other hand, as mentioned above, Royal Bank of Canada acquired RBTT financial holding (Trinidad and Tobago) for $2.2 billion, and the Spanish bank Santander continued to expand its activities in Brazil with the $650 million acquisition in 2008 of Torre Sao Paolo, an owner and operator of office buildings. It also signed an agreement in March 2009 for the purchase of 50% of Brazilian insurer, Real Tokio Marine Vida e Previdencia, for $285 million.[79]

At the same time, in Brazil, the financial crisis has triggered the expansion of domestic banks (either private or State-owned) which had little direct exposure to derivatives markets and other toxic assets, and had learned from the lessons of previous crises and boom-and-bust cycles. These banks have led a wave of consolidations starting with the creation in November 2008 of the Itau Unibanco Banco Multiplo SA through the acquisition of Unibanco by Banco Itaú for 23 billion real. The new entity has become the largest financial institution in the country, and one of the major banks in Latin America. However, this may not be for long, as State-controlled Banco do Brasil, backed by the Government (section c), has been making a series of acquisitions in a move to regain the leadership position in a strategic sector of the economy at a time of global financial crisis.[80]

In retail, the global financial and economic crisis has forced some retailers to reduce their expansion plans, while it has represented opportunities for others to get bigger. For instance, Chilean retailers that were undergoing a period of expansion in Latin America at the time of the crisis began to postpone or cancel foreign investment plans or sell some of their assets abroad: Ripley decided to postpone its plans to invest an estimated $400 million in Mexico during 2009. In January 2009, Wal-Mart Stores (United States) paid $2.8 billion for a 58.2% controlling stake in D&S, Chile's largest grocer. Wal-Mart has not been hurt by the crisis, and has even continued to grow, increasing its income by 5.2% in 2008. Its strategy of low prices and its financial strength seem to have given it a competitive advantage in a time of crisis. The company announced that in 2009 it would open stores in Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Chile and Puerto Rico.[81]

In the tourism industry, dominated in the Caribbean countries by foreign investors, the global credit crunch and declining demand have had a severe impact on projects. Several airlines have announced substantial cuts to their existing timetables or halted flights to the region completely. Luxury real estate and tourism resort activities have fallen victim to tougher credit terms and growing risk aversion. For example, the Cap Cana project in the Dominican Republic, the Caribbean's largest resort development, laid off hundreds of workers and suspended construction due to financing problems. The scarcity of funding also paralysed the construction of a hotel in the Turks and Caicos Islands for the Ritz-Carlton hotel chain (United States).[82]

c. Policy developments

FDI-related policies in parts of Latin America and the Caribbean have moved towards more State control, a trend that had already been observed in previous years (see *WIR08*, *WIR07*, *WIR06*). This is not only due to dissatisfaction with the outcome of the economic reforms implemented during the 1990s, in which privatization and FDI promotion were core policy tools; it is also because of the commodity price boom, which led governments to review incentives given to resource-oriented FDI and reduced their dependence on external finance by improving their current-account balances. The policy trend towards more State control has been most visible in oil and natural gas, where a number of measures have been implemented.

For example, in Bolivia, after the nationalization of the country's largest telephone company Entel (Telecom Italy) in May 2008 (see *WIR08*), the Government went on to complete the nationalization of the Bolivian oil and natural gas industry.[83] Until May 2009, the following companies had been nationalized: Andina, Chaco, Transredes, YPFB Refinación, CLHB and Air BP S.A.[84] In addition, voters approved a new constitution that reaffirms the Central Government's ownership and control over Bolivia's natural resources, and also gives Bolivian investment priority over foreign investment.

In Ecuador, a new constitution was approved in September 2008, which stipulates, *inter alia*, that foreign investment is complementary to national investment, and that FDI has to be oriented to the needs and priorities defined in the National Development Plan and in the development plans of the decentralized autonomous governments. A policy shift towards increasing taxes on windfall profits on oil has generated frictions with some foreign companies. For example, in March 2009 the Government began to seize crude oil produced by Perenco (France) to cover the company's contested tax debts after the latter refused to abide by the 2007 decree that raised the levy on windfall oil revenues to 99% (see *WIR08*). The resulting dispute between Perenco and Ecuador is still far from being resolved.[85] At the same time,

a mining law was approved in early 2009, which, although providing for more State revenue and control over mining, also opens the door to foreign investment and large-scale mining projects.

In the Bolivarian Republic of Venezuela, the Government has continued its nationalization policy. In the course of the nationalization of its Venezuelan cement plants, Cemex (Mexico) sought ICSID arbitration after the Government rejected its demand for $1.3 billion in compensation in October 2008.[86] Also in 2008, the Venezuelan National Assembly adopted a Liquid Fuel Internal Market Reorganization Organic Law,[87] which under certain conditions reserves for the State the intermediation in the supply of liquid fuels between the State-owned company PDVSA and its affiliates and gasoline stations. Following this legislation, the national oil company Petróleos de Venezuela S.A. (PDVSA) took over the operations run by the gas company Exterran (United States).

In Peru, protests by Amazonian native groups led to the suspension of recent decrees by Congress.[88] The questioned decrees aimed at facilitating the exploration and exploitation of the Amazon and other natural-resource-rich areas by foreign investors.

In Mexico, after several years of national debate on the pros and cons of opening up the oil sector (nationalized since the 1930s) to private investors, Congress passed a reform of the energy sector in 2008 which aims to change the way in which the State-owned oil enterprise PEMEX operates. It allows PEMEX to enter into performance-based service contracts with private oil companies, but specifically prohibits shared production and risk contracts with the private sector.

In November 2008, the Brazilian President decreed a change to Brazil's telecommunications law aimed at allowing fixed-line telecom providers to operate in more than one region of the country. This will permit Oi Participações (Brazil) to buy Brasil Telecom, the country's third largest fixed-line carrier, and will enable the new company to compete with foreign players that dominate the market, namely Telefonica (Spain) and America Movil (Mexico).

Several measures were adopted in the region in response to the global financial crisis, which also have an effect on FDI. For example, in Argentina, the State resumed control over assets held by private pension funds after the Senate approved a law converting the private pension system into a public one in November 2008.[89] The Government of Brazil issued a decree that allows the State-controlled Banco do Brasil to buy stakes in privately owned banks, a move aimed at permitting the bank to regain its leadership position in a strategic sector of the economy in the midst of the global financial crisis.[90] Also, taxes imposed on foreign investors for financial market transactions and for their liquidation of foreign currency loans were eliminated in October 2008.[91] The Government of the Bolivarian Republic of Venezuela took over Stanford Bank (United States) to protect depositors and prevent contagion in the Venezuelan banking system. The Bank was later sold to the local Banco Nacional de Crédito.[92]

Countries of Latin America and the Caribbean concluded six new BITs and eight DTTs in 2008, bringing the total number of BITs and DTTs for the region to 483 and 327, respectively. Mexico was the most active in both treaties. Peru signed three new comprehensive FTAs with Canada, China and Singapore. Chile concluded FTAs with Australia and Turkey, while Colombia concluded agreements with Canada and the members of the European Free Trade Association. The CARIFORUM States concluded the Economic Partnership Agreement with the European Community, which addresses the progressive, reciprocal and asymmetric liberalization of investment. Honduras joined the Bolivarian Alternative for the Americas (ALBA).[93] In June 2009, Ecuador also joined ALBA, and in July 2009, Ecuador's President decreed the withdrawal from the Convention of the International Centre for Settlement of Investment Disputes (ICSID Convention), which will take effect on 7 January 2010.

d. Prospects: gloomy in the short term, improving in the medium term

The drop in international trade and tightened credit markets for investment as a result of the global economic and financial crisis has dimmed the short-term prospects for FDI to Latin America and the Caribbean. In 2009, the GDP growth rate in Latin America is expected to average around -2%. Central America is expected to suffer from the most severe recession, with a fall of 6% in GDP growth due to an estimated 7% drop in Mexican GDP, while the growth rate in South America and the Caribbean is expected to be close to zero (IMF, 2009a).

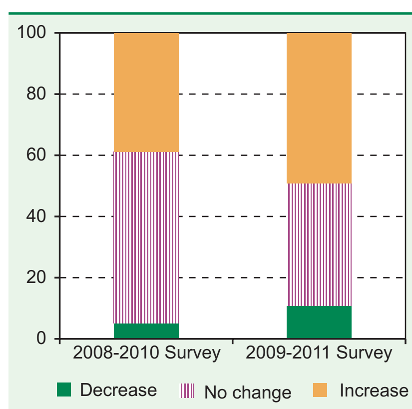
Preliminary cross-border M&A data for the first half of 2009 show net sales of Latin American and Caribbean firms plummeting to negative values. This means that the amount of divestment (i.e. sales of foreign affiliates to domestic firms) was higher than that of the sales of domestic firms to foreign TNCs. It accentuates the trend of the declining share of cross-border M&A sales in inward FDI in the region that began in the early 2000s *(WIR07* and *WIR06*). Cross-border M&A sales of Latin American firms to developed countries were the most affected (table II.19).

However, positive trends in commodity prices could have a favourable impact on medium-term prospects for natural-resource-related FDI, mainly

concentrated in South America but increasingly also targeting Central America and the Caribbean.

According to UNCTAD's *World Investment Prospects Survey 2009–2011*, FDI prospects in Latin America and the Caribbean are likely to be more favourable than those indicated in the previous survey. Of the total respondents to the latest survey, 53% expected to increase their FDI for the period 2009–2011 (compared with 39% in the previous survey), 39% expected no change (compared with 56% in the previous survey), and 8% expected a decrease (compared with 5% in the previous survey) (figure II.20).

Figure II.20. Latin America and the Caribbean: comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

Outward FDI flows from Latin America and the Caribbean are expected to fall in 2009, as preliminary data for selected countries for which data were available show a 19% decline during the first quarter of 2009 compared to the first quarter of 2008 (table II.17).

Medium-term prospects for outward FDI from the region depend on world economic growth prospects, which affect sales and revenues generated abroad, and on the capacity of Latin American TNCs – especially those from Brazil and Mexico – to overcome their financial problems stemming from the global economic and financial crisis (see section a).

B. South-East Europe and the CIS[94]

1. Geographical trends

In 2008, inward FDI flows in South-East Europe and the Commonwealth of Independent States (CIS) reached a new record high, despite the global financial and economic crisis and armed conflicts within and between countries in certain parts of the region. The growth rate of inflows was high, especially in the first half of 2008. However, with the crisis deeply affecting several countries by late 2008, initial hopes that the region would prove relatively immune to the global turmoil evaporated. Judging from data on cross-border M&As, which have become an important mode of FDI in the region, FDI inflows started to slow down in the second half of 2008, and were showing signs of a sharp decline in the first half of 2009.

In South-East Europe most of the FDI inflows continued to be driven by privatization of the remaining State-owned enterprises (SOEs) in 2008. In the CIS, on the other hand, inward FDI was motivated by a desire to gain access to large and growing local consumer markets, such as those of the Russian Federation and Ukraine, and to benefit from business opportunities arising from the liberalization of selected industries. TNCs from EU countries accounted for the bulk of both greenfield projects and cross-border M&A purchases in the region, while there was also an increase in intraregional investments. Outward FDI flows, dominated yet again by Russian TNCs, maintained their upward trend in spite of some divestments that took place in the second half of 2008.

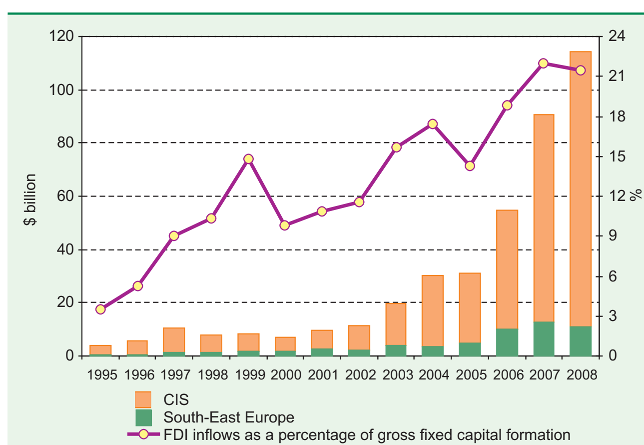
Governments in natural-resource-rich economies continued to increase their control over strategic primary industries, while policy changes in South-East Europe were related to seeking closer association with the EU. The reduction of economic growth in the region, resulting from tight credit markets and lower domestic demand, coupled with recession in the main FDI partners and a collapse in commodity prices, have dampened the prospects for inward and outward FDI in 2009 and beyond.

a. *Inward FDI: the upward trend continued*

In 2008, despite the financial and economic crisis, FDI inflows into South-East Europe and the CIS reached $114 billion, up by 26%. This marked the eighth consecutive year of growth and represented a 13-fold increase over flows of 10 years ago. As domestic investment grew almost as fast as FDI, the ratio of inward FDI to gross fixed capital formation decreased only marginally, from 22% in 2007 to 21% in 2008 (figure II.21).

As in previous years, inflows in 2008 remained unevenly distributed, with three large countries (the Russian Federation, Kazakhstan, and Ukraine, in that order) accounting for 84% of the region's total. Inflows rose in 13 countries and fell in 5 countries (annex table B.1). Despite a worldwide credit crunch and high volatility in capital markets, the number of cross-border M&A transactions increased by 13% in 2008, driven by medium-sized deals,[95] while

Figure II.21. South-East Europe and CIS: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1. and B.3.

their *value* fell by 33% (annex tables B.4 and B.5). Although inward FDI in 2008 as a whole increased due to robust growth in the first half of the year, the second half of 2008 saw a slowdown, and even a decline of inflows in some of the region's economies. The decline accelerated in the first quarter of 2009, as there was a 46% fall of inward FDI flows compared to the same period of 2008 (table II.22).

Inflows to the region's largest economy, *the Russian Federation*, increased again in 2008 (figure II.22), driven mainly by large investments in the liberalized power generation industry, as well as in the automotive and real estate industries. The bulk of FDI in the country continued to be in natural-resource-related projects (extraction, as well as oil and gas refining), though a substantial amount of natural-resource-based FDI is financed from round-tripped Russian capital (box II.5).

However, in the second half of 2008, conflict with Georgia and tensions with certain developed countries, combined with concerns about the business environment and weaker economic performance, reduced investor confidence in the Russian Federation.[96] While all these factors were largely disregarded when oil prices were in triple digits, with the price at a third of that level, the extractive industry is looking less attractive in terms of the risk-reward ratio.

In *Kazakhstan,* FDI inflows grew to $14.5 billion in 2008, up from $11 billion in 2007, driven by additional investments in three main oil and gas projects (Kashagan, Tengiz and Karachaganak), as well as in geological exploration activities by foreign investors in major deposits of uranium, gold, zinc and copper. In contrast, in 2008, the net cross-border M&A sales of Kazakhstan firms turned negative (with more divestments than investments) in the wake of the global economic crisis, as potential buyers struggled to raise funds. FDI flows to *Ukraine* maintained their upward trend and exceeded $10 billion, owing mainly to large investments in the banking and steel industries: the two largest deals in 2008 were the acquisition of OJSC Ukrsotsbank by Unicredit (Italy) and the acquisitions of Sukhaya Balka GOK by Evraz group (Russian Federation), both for around $2.2 billion (table II.23).

In *Croatia*, the fourth largest recipient of inflows in the region in 2008, almost half of inward FDI went to financial services. Other notable cases of large inflows were *Serbia*, with inflows amounting to $3 billion, *Belarus*, which received more than $2 billion mainly, as a result of its liberalization of the financial services industry, and Armenia, which saw a 71% surge of FDI flows resulting in more than $1 billion.

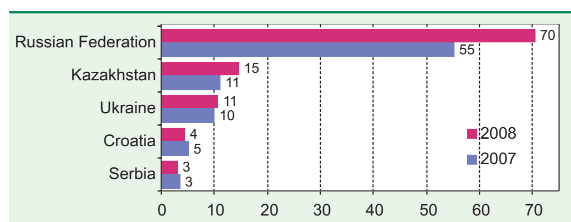
Table II.22. South-East Europe and CIS: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Albania	155	188	267	331	161	34	13	31	15	2
Belarus	907	308	809	135	971	3	1	3	3	3
Bosnia and Herzegovina	118	209	382	294	40	-	-	-	-	-
Georgia	538	605	135	286	125	7	-	34	1	-
Kazakhstan	2 690	3 476	4 299	4 078	2 539	874	252	1 542	1 143	296
Kyrgyzstan	75	64	54	39	- 9	..	..	..	..	..
Moldova, Republic of	129	191	259	134	49	2	6	30	- 5	- 2
Montenegro	244	292	221	183	144	38	30	28	13	15
Russian Federation	20 537	22 679	16 799	10 305	9 993	15 818	16 342	11 174	9 056	12 892
Serbia	1 255	1 071	331	338	828	29	57	128	62	2
The FYR of Macedonia	172	201	133	93	71	..	..	..	..	..
Ukraine	2 596	3 762	3 401	934	957	166	671	77	96	16
Total	*29 416*	*33 047*	*27 089*	*17 149*	*15 869*	*16 970*	*17 372*	*13 048*	*10 383*	*13 225*

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

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

Figure II.22. South-East Europe and CIS: top 5 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by magnitude of 2008 FDI inflows.

In nine countries of the region, FDI inflows still remained below $1 billion, but in certain economies such as *Albania*, they increased by 45% in 2008 due to the privatization of large State-owned companies and improvements in the business environment. On the other hand, in *Bosnia and Herzegovina*, the lumpiness of privatization-related FDI, with exceptionally large transactions in 2006 and 2007 but few in 2008, led to a lower level of inflows in 2008. After two consecutive years of negative inflows, FDI to *Azerbaijan* turned positive, although it was very small in value.

Developed countries, mainly EU members, continued to account for the bulk of FDI in the region in 2008, although there was a slight increase of intraregional greenfield FDI projects.[97] The share of the EU in cross-border M&As fell from 85% to 83% in 2008 and in greenfield projects from 60% in 2007 to 57%. Companies from developing countries also undertook some greenfield FDI projects.[98] Finland became the leading source of investment through cross-border M&As in South-East Europe and the CIS, when its power utility firm, Fortum, acquired a controlling stake in the Russian regional power-generating company TGK-10 for $3.2 billion (box II.6). It was followed by Italy, reflecting the acquisitions in Ukraine by two major banks, Unicredit and Intesa San Paolo, and purchases of Enel in the Russian power-generating industry. The share of transition economies as buyers in cross-border M&As in the region remained the same in 2008 as in 2007, at 12% (table II.24).

b. Outward FDI: more moderate growth

In 2008, FDI outflows from the region maintained their upward trend, reaching $58 billion (figure II.23). However, as with inflows, trends in outflows differed between the first and second halves of 2008: in the first half, abundant liquidity, a drive to enter new markets and access to raw materials continued to spur outward FDI; in the second half, divestments or freezing of acquisitions characterized the FDI activities of TNCs from the region. Outward FDI flows were dominated by Russian TNCs, although TNCs from Kazakhstan also invested large amounts abroad.

Outward FDI from the Russian Federation reached a new high in 2008 ($52 billion) (annex table B.1), making that country again the second leading source of FDI among developing and transition economies, after Hong Kong (China). With a slowdown in foreign demand for their products, Russian TNCs shifted their strategies from expanding markets for their products abroad (through securing access to downstream activities along value chains) to gaining access to technological innovations and

Box II.5. Who are the real investors in the Russian Federation?

A closer look at FDI in the Russian Federation reveals that a substantial proportion of inflows was in reality a return of offshore capital held by Russian residents in Europe and various financial hubs around the world (box table II.5.1). For example, nearly half of inward FDI in 2008 was invested in oil production and exploration, according to statistics reported by the central bank, though no new major acquisitions or large investments by foreign firms in the Russian oil industry were reported to have taken place. Since a large share of inflows in 2008 originated in the Netherlands, it is likely that it was mainly Gazprom's financial services affiliate in that country which was channelling money back into the Russian energy industry. In addition, special purpose entities in Cyprus and the British Virgin Islands also appear to have been involved in such investments.

Box table.II.5.1. Sources of FDI flows to the Russian Federation, 2007–2008
(Million of dollars)

Economy	2007	2008[a]
World	47 853	52 173
Austria	324	387
Bahamas	354	-1 003
Bermuda	8 369	7 492
British Virgin Islands	- 392	2 178
Cyprus	12 061	18 336
Finland	980	1 574
France	414	419
Germany	7 695	2 446
Gibraltar	873	641
Italy	780	955
Luxembourg	-2 309	- 123
Netherlands	9 384	8 773
Norway	1 302	244
Seychelles	- 441	59
Sweden	529	500
United Kingdom	3 266	3 657
United States	1 498	2 003
CIS	131	9

Source: The central bank of the Russian Federation.
[a] Only first three quarters.
Note: The data cover only non-banking corporations.

Source UNCTAD.

advanced marketing and management know-how. Indeed in the first half of 2008, Russian oil and gas TNCs continued market-seeking acquisitions of processing entities, distribution networks and storage and transportation facilities across Europe and the United States. For example, Gazprom concluded an agreement with Austrian OMV for the purchase of 50% of the largest Central European gas distribution terminal and storage facility in January 2008, and Lukoil acquired a 49% stake in the Priolo oil refinery of ERG (Italy) for $2.1 billion (table II.25) – the first ever deal of a firm from the Russian Federation in such activities in Western Europe. Russian TNCs in iron and steel also continued to increase investments in developed countries. For instance, the Evraz Group acquired a Swedish steel and pipe tube company in Canada for $4 billion and OAO SeverStal purchased two steel companies in North America for a total of $1.9 billion (table II.25), while the major Russian mobile phone operators consolidated their position in other CIS countries (e.g. Vimpel-Communications OJSC raised its stake in a wireless telecommunication services provider in Kazakhstan from 50% to 75%).

The situation changed in the second part of 2008 when outward FDI from the region declined significantly. The lack of external financing due to shrinking market capitalization arising from falling commodity prices, and the high indebtedness of some Russian TNCs, in particular the country's major natural-resource companies and industrial corporations such as Norilsk Nickel, affected those companies' capacities to invest. The fall in outward FDI took place either through divestments, through cancelling acquisitions abroad or through the freezing of acquisitions that were in the process (for example, Basic Element ceded its 10% stake in the construction major Hochtief (Germany), and its 20% stake in the car parts major Magna (Canada) both acquired in 2007).

2. Sectoral trends: manufacturing attracted market-seeking FDI

To a large extent, the sectoral and industrial patterns of cross-border M&A sales and purchases are indicative of the patterns of FDI flows to and from South-East Europe and the CIS, as the bulk of FDI in and from the region takes place through privatizations and acquisitions of existing private firms. In 2008, cross-border M&A sales of firms in the manufacturing sector increased further, while those in the primary and services sectors fell significantly after reaching exceptionally high values in 2007 (table II.26). On the other hand, cross-border M&A purchases increased in the manufacturing sector, marked a pause in the primary sector and decreased in the services sector.

Primary sector. In 2008, FDI inflows in the primary sector were much lower than in 2007, judging from data on cross-border M&A sales of companies in the region. One of the main reasons for this decline was increasing host-country restrictions on investment in oil and gas. In the first half of that year, high commodity prices gave significant leverage to host-country governments when dealing with foreign oil and gas companies operating in the region. However, strategic investors still saw value in investing in the primary sector, and their technological know-how in developing oil and gas reserves was welcomed in the exploitation of vast and complex oil and gas fields. In 2008, various companies from developing countries invested in Kazakhstan and Uzbekistan. For example Malaysia's Petronas signed a production sharing agreement with the Government of Uzbekistan for three oil fields in the northern region of Ustyurt.

Manufacturing. Market opportunities, as well as improvements in some aspects of the business environment, resulted in a sharp increase in cross-border M&A sales of firms in the region's manufacturing industries that are not deemed

Table II.23. South-East Europe and CIS: top 10 cross-border M&A sales,[a] 2008

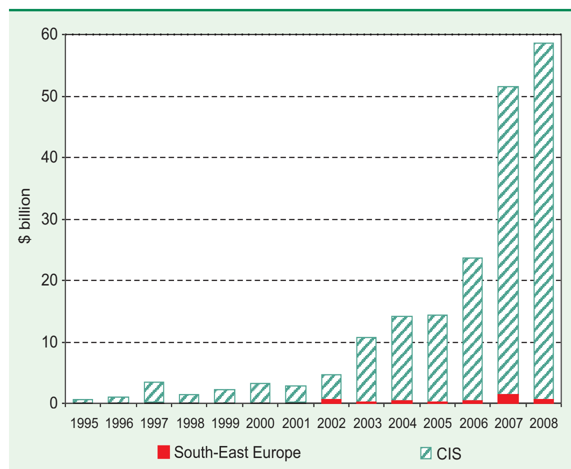
Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	3 188	Territorial Generation Co	Russian Federation	Electric services	Fortum Oyj	Finland	76
2	2 231	OJSC Ukrsotsbank	Ukraine	Banks	Unicredito Italiano SpA	Italy	94
3	2 189	Sukhaya Balka GOK	Ukraine	Iron ores	Evraz Group SA	Russian Federation	99
4	1 481	AES Corp-Ekibastuz	Kazakhstan	Electric services	Kazakhmys PLC	United Kingdom	100
5	1 448	JSC The Fifth Power Generation Co	Russian Federation	Electric services	Enel SpA	Italy	23
6	1 166	OAO Avtovaz	Russian Federation	Motor vehicles and passenger car bodies	Renault SA	France	25
7	1 165	Insurance Co RESO-Garantia	Russian Federation	Life insurance	AXA SA	France	37
8	746	JSC Pravex-Bank	Ukraine	Banks	Intesa SanPaolo SpA	Italy	100
9	745	Expobank Commercial Bank	Russian Federation	Banks	Barclays PLC	United Kingdom	100
10	720	Berezovskaya Mine JSC	Russian Federation	Bituminous coal and lignite surface mining	Arcelor Mittal NV	Luxembourg	98

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

[a] In the immediate host country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

Figure II.23. South-East Europe and CIS: FDI outflows, 1995–2008
(Billions of dollars)



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

"strategic". The relatively large domestic markets of Kazakhstan, the Russian Federation and Ukraine attracted new investors. Cross-border M&A sales in the region increased almost 50% in 2008 mainly in beverages and the motor vehicles industry. For example in the Russian Federation, Renault (France) increased its equity share from 25% to 50%-plus-one in OAO Avtovaz for $1.2 billion. In addition, in that country there were some large transactions in the food, beverages and tobacco industry: PepsiCo (United States) purchased a 75% stake in Lebedyansky, the country's largest juice producer, for $1.4 billion. This was the biggest deal in juice production in the Russian Federation, so far, and the largest foreign acquisition by PepsiCo worldwide (*WIR08*).

Services. Although in the first half of 2008, M&A sales in the services sector of the region more than doubled, compared to the first half of 2007, a very low level of acquisitions in the second half reduced total M&A sales for the year by 26%. Half of the acquisitions in 2008 took place in the banking industry, reflecting European banks' increasing interest in growth opportunities outside their traditional markets.[99] Foreign investors also invested some $5.4 billion in the Russian energy generation and distribution industry in 2008, seizing opportunities resulting from its reorganization (whereby the national monopoly was broken down into regional providers and the latter were partly privatized).

3. Policy developments

In 2008, the bulk of policy changes in South-East Europe and the CIS were more favourable for foreign investors. Some countries continued to liberalize FDI regulations in certain industries. The most salient case was the liberalization of electricity generation in the Russian Federation – one of that country's major liberalizing reforms of recent years – which resulted in the participation of a large number of foreign firms (box II.6). Additionally, Belarus opened up certain industries (banking, retail and telecommunications)[100] to partial foreign participation. In the Ukraine a new

Box II.6. Liberalization of electricity generation in the Russian Federation: Opportunities for FDI

The Russian Federation is the world's fourth largest producer of electricity, behind the United States, China and Japan. Its generation capacity is based on a broad range of energy sources, such as thermal, hydropower, coal, natural gas and nuclear power. The Government has recognized the need for structural reform to enable the industry to meet the growing demand for electric power and to attract the investment needed to modernize and expand production capacities (Tumminia, 2007). Until 2007, electricity generation was dominated by State-owned Unified Energy Systems (RAO UES), which owned various assets along the electricity value chain (i.e. power plants, vertically integrated energy companies, the federal high voltage transmission grid and the energy dispatch system). Unlike other large Russian TNCs, RAO UES sold almost all its output to the domestic market, and had no export earnings to set against the cost of the domestic subsidies it provided (Thomson, 2004).

In 2008, the reorganization of the power generation industry was completed, and the unbundling of RAO UES was carried out. The reform involved the lifting of the company's quasi-monopoly and the divestment of stakes in 72 vertically integrated affiliates, each of which has a regional monopoly on electricity generation and distribution. Through a subsequent process of consolidation, these entities were transformed into six wholesale generation companies (WGCs) and 14 territorial generation companies (TGCs). This restructuring and sales of assets have provided opportunities for foreign investors to enter the industry. A number of the stakes in WGCs and TGCs have already been acquired by various European TNCs such as Fortum (Finland), Enel (Italy), E.ON (Germany), CEZ (Czech Republic), RWE (Germany) and EDF (France).[a]

While it is clear that the implementation of the restructuring plan creates new opportunities, the Russian electricity market continues to be highly regulated with respect to transmission, distribution and tariff policies, with a prominent role for the State.

Source: UNCTAD based on "Russian power reform: five years on" Power Engineering International, April 2008.

[a] In 2008, Fortum (Finland) purchased a controlling stake in TGC-10 and RWE (Germany) bought a majority share in TGC-12, while EDF (France) has entered into a partnership with the Russian bidder TransNeftServis-S to acquire OGC-1, one of RAO UES' most valuable assets.

Table II.24. South-East Europe and CIS: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in South-East Europe and the CIS[b]			Net purchases by South-East Europe and the CIS's companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
World	30 671	20 505	1 005	21 728	20 648	3 534
Developed economies	27 675	17 196	761	17 074	14 673	3 401
Europe	26 974	17 196	680	5 175	5 720	2 333
European Union	26 205	17 070	776	4 972	5 404	2 333
Finland	-	4 782	-	816	112	-
France	2 085	2 336	-	- 11	-	-
Italy	9 595	4 272	250	263	2 098	-
United Kingdom	1 007	3 074	33	485	1 642	482
North America	619	11	75	11 900	7 941	1 068
Canada	42	- 22	-	8 547	5 278	-
United States	577	33	75	3 353	2 663	1 068
Developing economies	- 663	448	50	994	3 478	-
Africa	165	-	-	250	15	-
Latin America and the Caribbean	-	133	- 42	-	1	-
Asia	- 828	315	92	744	3 462	-
West Asia	161	290	-	612	2 622	-
Turkey	161	-	-	612	2 622	-
South, East and South-East Asia	- 989	25	92	132	840	-
South-East Europe and the CIS	3 659	2 497	133	3 659	2 497	133
Kazakhstan	365	-	-	- 980	217	-
Russian Federation	2 417	2 510	165	-	-	-
Ukraine	25	-	-	353	2 237	158

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Sales to the region/economy of the ultimate acquiring company.
[c] Purchases in the region/economy of the immediate acquired 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%.

law on joint stock companies was approved[101] and in Georgia, the Government took various steps towards simplifying the tax system and making it easier to start a business.[102]

Some governments in the natural-resource-rich countries of the CIS continued to strengthen their control over their natural resources in order to increase their share of windfall income. For instance, the new law on foreign investment in strategic industries approved in the Russian Federation in May 2008 expanded the number of strategic industries to 42 (*WIR08*: 227).

The financial crisis that erupted in the second half of 2008 led some governments in the region to take measures to help sustain the profitability of companies suffering from the economic slowdown. In the Russian Federation, for example, as part of the economic stimulus package, the Government cut corporate profit taxes to 20% from 24% in 2009.[103]

Countries of the South-East European subregion continued to strengthen their ties with the EU. Among them, Croatia was negotiating its membership agreement, while Albania's Stabilization and Association Agreement entered into force on 1 April 2009.[104]

In addition to 19 new BITs (chapter I) countries of the region concluded as many as 25 DTTs – the highest number of DTTs per region. In terms of other IIAs, Bosnia and Herzegovina concluded an Interim Agreement on Trade and Trade-related Matters with the EU, which includes a commitment to refrain from restrictive measures concerning the free transfer of funds related to investment.

4. Prospects: slowdown expected

The results of UNCTAD's *World Investment Prospects Survey 2009–2011* suggest a decline in FDI inflows to large economies in the CIS, such as the Russian Federation, Kazakhstan and Ukraine, in the near future. Preliminary data for FDI flows in the first quarter of 2009 and cross-border M&As for the

Table II.25. South-East Europe and CIS: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	4 025	IPSCO Inc	Canada	Steel pipe and tubes	Evraz Group SA	Russian Federation	100
2	2 189	Sukhaya Balka GOK	Ukraine	Iron ores	Evraz Group SA	Russian Federation	99
3	2 098	ERG Raffinerie Mediterranee SpA	Italy	Crude petroleum and natural gas	OAO LUKOIL Holdings	Russian Federation	49
4	2 050	Petkim Petrokimya Holding AS	Turkey	Petroleum refining	Investor Group	Kazakhstan	51
5	1 524	Oriel Resources PLC	United Kingdom	Ferro-alloy ores, except vanadium	OAO Mechel	Russian Federation	100
6	1 200	IPSCO Tubulars Inc	United States	Steel pipe and tubes	TMK	Russian Federation	100
7	1 115	Penfold Capital Acquisition Corp	Canada	Investors, nec	OAO SeverStal	Russian Federation	95
8	1 009	Consolidated Minerals Ltd	Australia	Ferro-alloy ores, except vanadium	Palmary Enterprises Ltd	Ukraine	88
9	940	Formata Holding BV	Netherlands	Grocery stores	Pyaterochka Holding	Russian Federation	100
10	810	Sparrows Point LLC	United States	Cold-rolled steel sheet, strip and bars	OAO SeverStal	Russian Federation	100

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] From the ultimate home country.
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Table II.26. South-East Europe and CIS: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in South-East Europe and the CIS[b]			Net purchases by South-East Europe and the CIS's companies worldwide[c]		
	2007	2008	2009[a]	2007	2008	2009[a]
Total	30 671	20 505	1 005	21 728	20 648	3 534
Primary	8 225	2 401	168	3 779	3 464	2 333
Mining, quarrying and petroleum	7 823	2 399	168	3 779	3 464	2 333
Secondary	2 187	3 169	360	9 841	12 031	1 068
Food, beverages and tobacco	571	1 329	102	-	2	-
Metals and metal products	51	297	7	9 748	11 818	1 068
Motor vehicles and other transport equipment	-	1 177	250	-	11	-
Services	20 259	14 934	477	8 108	5 153	133
Electricity, gas and water	9 833	5 349	-	-	- 50	-
Transport, storage and communications	1 033	972	- 35	1 723	799	- 32
Finance	8 939	7 583	377	4 171	3 438	162
Business services	639	395	75	394	46	2

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

[a] For 2009, January-June only.

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

[c] 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%.

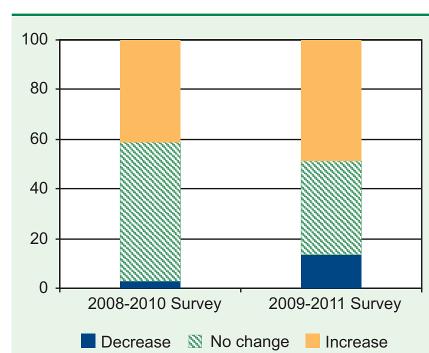
first half of 2009 support this finding (table II.22 and table II.24).

The economic and financial crisis, coupled with the near-exhaustion of major privatization opportunities in various South-East European countries, is likely to cause a decline in FDI flows to the subregion. The significant slowdown of economic growth worldwide during the course of 2008 and its expected continuation in 2009 (IMF, 2009a), along with the fall in commodity prices and deterioration of external demand for the main export commodities of the transition economies, could significantly affect FDI inflows into natural-resource-abundant countries (e.g. Ukraine, which exports around 80% of its processed metal). Moreover, the financial and economic crisis could affect FDI inflows considerably in some countries hit by the crisis (such as Ukraine), due principally to high risk aversion by foreign investors. Some countries of the region (for example Belarus) are seeking to attract buyers for their big State-owned industrial enterprises in the hope that this will relieve pressures on their budgets, but this is proving difficult in the current depressed global investment climate.

The medium-term outlook for inward FDI in South-East Europe and the CIS is better than the short-term prospects. For instance, according to UNCTAD's *World Investment Prospects Survey 2009-2011,* the outlook for investment in the region should be better in 2009–2011 than in 2008–2010 (figure II.24). In some countries such as Ukraine, this relative optimism about investment prospects can be explained by the fact that certain sales of large-scale State assets are expected to be completed in the coming years, such as the privatizations of the State-owned fixed-line telecommunications monopoly, Ukrtelecom, and of the large chemicals producer, Odessa Portside Plant. As the financial crisis has left the Russian Federation unable to invest in the development of its oil and natural gas assets, some foreign companies such as Shell, are being invited again to invest in projects such as Sakhalin 3 and 4.[105]

Outward FDI from the region is expected to slow down in 2009. However some Russian TNCs with large cash reserves, but which are new to foreign expansion, expanded in early 2009 despite the financial crisis. For example, Surgutneftgaz bought 21.2% shares in the National Hungarian Oil Company, MOL, from the Austrian National Oil Company OMV for $1.4 billion, marking the first major acquisition abroad by that Russian company. As for future outward FDI beyond 2009, it is notable that, according to PricewaterhouseCoopers' *12th Annual Global CEO Survey* (2009), Russian business leaders are more optimistic about their business prospects than their foreign counterparts: 30 Russian CEOs surveyed expressed confidence that revenue would increase in the coming years.

Figure II.24. South-East Europe and CIS: Comparison of the results of *WIPS 2009–2011* with *WIPS 2008–2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

C. Developed countries

1. Geographical trends

After reaching a historical peak in 2007, FDI flows to and from developed countries fell sharply in 2008: inflows fell by 29%, to $962 billion, and outflows by 17%, to $1,507 billion. The decline was widespread, as the financial crisis and the accelerating economic downturn seriously affected all major economies of the world in 2008. Firms cut their investments at home and abroad significantly. Cross-border M&As – the main mode of FDI entry, and the principal drivers of the FDI boom during the period 2003–2007 – plunged. Falling profits and financial pressures led to a decline in reinvested earnings and a rechanneling of loans from foreign affiliates to the headquarters of TNCs, which depressed net FDI outflows.

As most developed countries fell into deep recession, FDI flows continued to decline in the first half of 2009, with a significant reduction in cross-border M&As. A recovery in FDI flows will depend crucially on future developments in the world economy and the financial system. Until financial markets regain systemic stability and major economies recover, FDI will remain sluggish due to financing difficulties as well as poor markets and dim profit prospects for TNCs. The results of UNCTAD's latest *World Investment Prospects Survey* (UNCTAD, 2009b) point to a further decline in FDI activity in 2009 and 2010, and a small recovery in 2011.

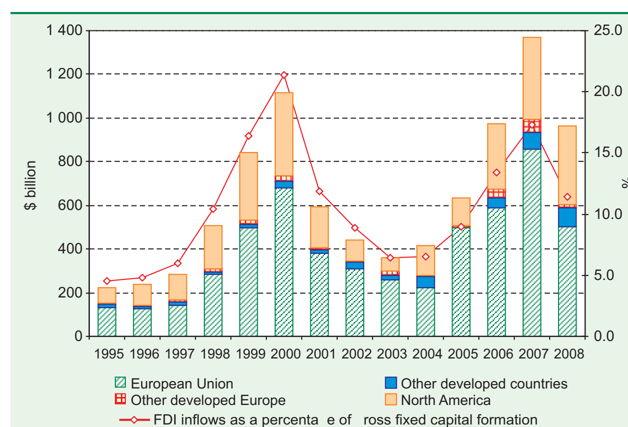
a. Inward FDI: strong decline as the financial and economic crisis unfolds

FDI inflows to developed countries fell sharply in 2008, to reach $962 billion (figure II.25). Out of 38 developed countries, 23 experienced a decline in FDI inflows (annex table B.1). All major host countries except the United States received lower FDI flows.

In 2008, FDI inflows into *North America* decreased by 5%, to $361 billion (figure II.25). Despite turbulence in financial markets, which originated in the United States and led to the sharpest downturn of its economy in decades, the *United States* retained its position as the largest FDI recipient, both among developed countries (figure II.26) and worldwide (annex table B.1). FDI flows to the United States amounted to $316 billion, up by 17%. The rise was due to a 61% increase in equity capital inflows amounting to $250 billion. The flows targeted mainly manufacturing and finance and the largest sources were the Netherlands, the United Kingdom, Japan and Switzerland in that order. The rise in FDI is in sharp contrast to the dramatic fall in other capital flows (including portfolio flows and bank lending) to the United States. Several high-value cross-border acquisitions of United States firms contributed to the strong increase in the equity capital stock of foreign TNCs. Eight of the 20 largest inward M&A transactions worldwide, each valued at more than $7 billion, involved United States firms (annex table A.I.3). Among others, a Belgian investor acquired the United States brewery Anheuser-Busch Cos Inc for $52 billion, the Swiss firm Novartis bought Alcon Inc for $10.5 billion, and the British company Cadbury paid $10.3 for Dr. Pepper Snapple Group Inc. Therefore the largest recipient of equity capital investments was the manufacturing industry. While foreign equity investments in this sector increased by 10% to $99 billion, they increased more than sixfold in financial services, amounting to $85 billion. Reinvested earnings of foreign affiliates in the United States rose by 14% in 2008. Intra-company debt flows contributed to the increase in FDI inflows in the first half of 2008, but declined as the growing financial needs of foreign TNCs led to a re-channelling of financial resources from their affiliates in the United States to their headquarters in their home countries in the second half of 2008.

After a strong increase in the preceding two years, FDI inflows into *Canada* plummeted in 2008, from $108 billion in 2007 to $45 billion. This was mainly due to the end of the boom in natural-resources that had led to a wave of high-value cross-border investments in the Canadian mining and natural-resource industries in 2006 and 2007. In 2008, foreign investors continued to invest in those industries – about half of foreign investments in Canada being in the energy and metallic minerals sector – but the number of mega deals (valued at

Figure II.25. Developed countries: FDI inflows, by value and as a percentage of gross fixed capital formation, 1995–2008



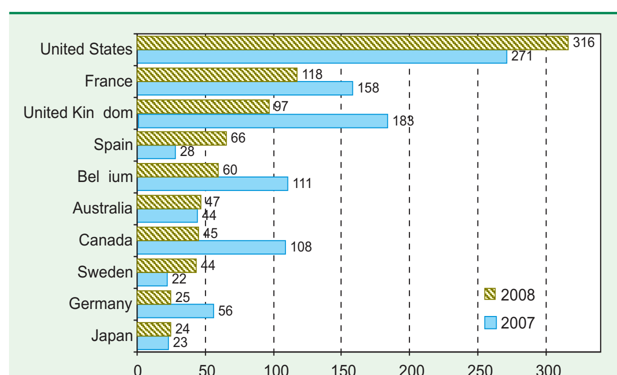
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

more than $1 billion) declined sharply. This caused the value of cross-border M&A inflows to drop to $35 billion in 2008 (a 65% decrease from the level of 2007). The leading sources of Canada's FDI inflows were the United States and European countries.

FDI flows into the *EU-27* countries fell by 40% in 2008, to a total of $503 billion. The financial crisis and the economic downturn were responsible for the decline in inward FDI in the majority of these countries. In 2008, seven of the ten largest cross-border M&As worldwide took place in the EU (annex table A.I.3), of which four were intra-EU transactions. Cross-border bank mergers played an important role, as the process of consolidation in the European financial services industry continued.[106] In the first quarter of 2009, FDI activity in most of EU countries was down compared to the first quarter of 2008 (table II.27).

Inward FDI flows to the 15 countries of the *European Monetary Union* (EMU) (or the euro zone) declined in 2008 by 48%, to $287 billion. A large share of inflows to EMU-member countries consisted of intra-EMU FDI.[107] Ten of the 15 EMU countries recorded a significant decline in FDI inflows in 2008. In *France*, FDI inflows fell by 26%, from a record level of $158 billion in 2007 to $118 billion, which was nevertheless still a high level. Indeed, France ranked second among FDI recipients worldwide in 2008 (figure II.26), with inflows spread across a wide range of sectors. The overall decline in FDI inflows was mainly due to cutbacks in lending by TNCs to their foreign affiliates located in France. These intra-company loans fell by 35% to $68 billion. Equity capital inflows fell by 32% while reinvested earnings of foreign affiliates in France rose by 23%. *Belgium* saw its FDI inflows plunge by 46% to $60 billion in 2008. Flows to Belgium are very volatile due to the presence of special purpose entities and corporate headquarters (*WIR03*, box. II.11). FDI inflows into *Germany* also fell sharply, by 56%, to only $25 billion. As a result, Germany's ranking among the top developed-country recipients of FDI fell from seventh place in 2007 to ninth in 2008 (figure II.26). A fall in the net equity capital component of FDI inflows by 59% (to $18 billion) – the lowest level for Germany since the 1990s – contributed to most of the decline in FDI inflows. This was largely due to the sharply shrinking investments of foreign private equity funds. Their leveraged buyouts (LBOs) in Germany fell by $12 billion to $1.5 billion in 2008 (Deutsche Bundesbank 2009: 30). In addition, intra-company loans to foreign affiliates in Germany dried up.

Figure II.26. Developed countries: top 10 recipients of FDI inflows,[a] 2007–2008
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked by magnitude of 2008 FDI inflows.

Among the other EMU-15 host countries *Austria*, *Italy* and the *Netherlands* also recorded a decline in FDI inflows. The Netherlands hosts large holding and financing TNCs that contribute to volatile FDI flows, especially in the form of intra-company loans. Inward FDI in the Netherlands in 2008 turned negative (-$3.5 billion) compared with $118 billion in 2007. Part of this dramatic fall can be attributed to one-off divestment deals. Thus, while FDI inflows in 2007 had been extraordinarily high due to two large takeovers,[108] in 2008, one of the three banks that took over ABN-AMRO withdrew from it (i.e. assets of ABN-AMRO were sold) and the Government took over the stake that Fortis Belgium owned in Fortis Netherlands. Together, these two withdrawals reduced the 2008 figure by some €30 billion. FDI inflows in Italy fell sharply, from $40 billion to $17 billion. The large cross-border acquisition of an Italian energy supplier (Endesa Italia by the German E.ON for $14.3 billion) was more than offset by divestments by foreign investors in the banking industry (Banca Monte dei Paschi di Siena SpA (Italy) acquired Banca Antonveneta SpA from Santander Central Hispano SA (SC) for $13.2 billion).

FDI inflows to *Finland* and *Ireland* turned negative in 2008. Ireland was seriously hit by the financial crisis. Foreign investors withdrew a massive $38 billion worth of intra-company loans from the country, and reduced their equity investments by $9 billion. This caused FDI inflows to turn negative, falling by $45 billion: from an inflow of $25 billion in 2007 to minus $20 billion in 2008.

Bucking the general downward trend of FDI inflows in 2008, five of the EMU-15 countries (Spain, Luxembourg, Greece, Portugal and Slovenia) recorded an increase in FDI inflows. Inward FDI to *Spain* more than doubled, to $66 billion, driven by several high-value cross-border M&As, such as the $18 billion acquisition of the Spanish Cigarette producer Altadis by British Imperial Tobacco. This consistent rise in inflows raised its stock of FDI to $635 billion – the sixth highest of all developed countries. FDI inflows into *Luxembourg,* which were negative in 2007, turned positive and reached $3 billion. FDI inflows also increased in *Greece*

(by 166% to $5.1 billion), *Slovenia* (by 26% to $1.8 billion) and *Portugal* (by 16% to $3.5 billion).

Trends in inward FDI flows to the three EU-15 countries that do not participate in the EMU were uneven in 2008. In *Sweden* inward FDI rose by 98% to $44 billion, driven by an increase in cross-border M&As (e.g. the acquisition of the Swedish Vin & Sprit AB by the French Pernod Ricard for $8.9 billion). However, privatization – a magnet for recent FDI flows to Sweden – is losing momentum due to the global economic downturn, which is likely to affect the country's inflows in 2009. In the *United Kingdom,* FDI inflows halved in 2008 to $97 billion, and the country lost its position as the largest FDI recipient in Europe to France. The fall in inflows was mainly due to equity investments, which fell in value from $161 billion in 2007 to $91 billion in 2008 – the lowest value since 2005.[109] Reinvested earnings of foreign affiliates in the United Kingdom amounted to $31 billion (37% lower than in 2007), and intra-company loans of foreign TNCs to their affiliates in the United Kingdom turned negative (-$24 billion), reducing net FDI inflows to this country (chapter I). Despite the decline in inflows in the form of cross-border M&As, the United Kingdom recorded several high-value transactions by foreign TNCs: Woodbridge (Canada) acquired Reuters Group (United Kingdom) for $17.6 billion, Akzo Nobel (Netherlands) bought Imperial Chemical Industries for $16.3 billion and L'Arche Green NV (Netherlands) bought Scottish & Newcastle Plc. for $14.9 billion (table II.28).

Inward FDI of the *nine*[110] *new EU member countries* (those that joined the EU in 2004 and 2007) that did not participate in the EMU fell by 9% in 2008, to $65 billion. This was a much smaller rate of decline than that of inflows into the EU-15 countries. Inward FDI flows to the group in 2008 were unevenly distributed: the *Czech Republic*, *Hungary, Romania* and *Slovakia* saw an increase in inflows that was more than offset by the decrease in flows to the other five countries, *Bulgaria*, *Estonia*, *Latvia*, *Lithuania* and *Poland*. Four countries together accounted for the lion's share (77%) of the group's total inflows: *Poland* ($16.5 billion), *Romania* ($13.3 billion), the *Czech Republic* ($10.7 billion) and *Bulgaria* ($9.2 billion). As many companies scaled back or suspended their expansion plans due to the global financial crisis, FDI inflows into Poland and Bulgaria declined considerably in 2008, but in the Czech Republic and Hungary they did not change significantly, despite increasing macroeconomic problems in both countries. For many years the automotive industry has been the key driver of strong FDI inflows to the new EU member countries, but the decline in euro-area car sales that began in the last quarter of 2008 has revealed the region's vulnerability on account of its heavy reliance on the industry.

In *Japan,* inward FDI flows maintained their upward trend in 2008, reaching $24 billion, with more than two thirds concentrated in the services sector. Inflows were not much affected by the current crisis, except for a few cases of divestments by foreign firms and a decline of FDI in real estate. However, in comparison to its potential, the second largest economy in the world, with its large trade and financial market ties with the rest of the world, still has a low inward FDI stock. Large divestments in 2009 due to weakened activities by foreign finance companies (e.g. selling of the Japanese affiliates of AIG, the largest United States insurance company) will further reduce FDI inflows in the finance industry, which is the largest FDI recipient industry in Japan.

Table II.27. Developed countries: FDI flows of selected countries,[a] 2008–2009, by quarter
(Millions of dollars)

Country	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Developed countries	292 494	252 280	205 920	207 271	157 435	462 188	328 009	328 888	337 086	248 386
European Union	193 819	123 008	111 411	71 357	109 556	305 227	193 447	193 944	166 628	176 684
France	28 207	41 206	38 629	9 469	9 243	62 322	72 150	56 657	28 917	44 345
Germany	8 740	6 020	4 548	5 692	2 550	64 597	50 259	13 504	29 761	17 898
Ireland	-1 112	-5 251	-6 674	-6 993	1 129	1 994	902	6 555	4 050	1 185
Luxembourg	4 247	-3 076	2 597	- 757	5 699	-16 407	-12 125	3 221	375	4 073
Netherlands	26 635	4 641	79	-34 847	4 950	47 365	-15 252	-2 457	27 914	11 155
United Kingdom	45 560	27 666	-4 531	28 244	63 177	45 560	44 435	31 661	12 364	59 945
Other developed Europe	-2 173	8 643	-1 489	9 747	5 483	14 191	15 535	38 333	39 368	12 373
Iceland	- 262	-1 216	505	-1 619	- 10	-1 816	477	- 709	-4 933	- 245
Switzerland	4 902	7 452	520	4 541	5 321	16 022	10 711	28 725	30 838	8 409
North America	73 463	107 211	79 793	100 358	33 543	120 130	112 997	80 819	75 517	28 918
United States	57 825	101 995	64 244	92 048	33 312	92 164	101 833	55 819	61 980	25 022
Other developed countries	27 386	13 417	16 205	25 808	8 854	22 639	6 030	15 792	55 574	30 412
Australia	13 035	3 949	10 156	19 634	4 118	-9 309	-12 412	-8 089	-6 128	11 959
Japan	10 339	6 408	1 744	5 934	2 347	29 828	18 141	21 887	58 164	17 196

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

[a] Only those countries were selected for which data were available for the first quarter of 2009 (as of July 2009).

The lumpiness of FDI in *Switzerland*, with an exceptional number of acquisitions of large Swiss companies in 2006 and 2007, but few in 2008, led to a lower level of inflows ($17 billion) to that country in 2008. Moreover, foreign TNCs withdrew loans from their affiliates in Switzerland, thereby reducing flows through intra-firm lending. Reinvested earnings also declined, although they contributed the most to inward FDI. In addition, divestments further reduced FDI inflows. Inflows to *Australia* remained almost the same level, while those to *New Zealand* declined.

In 2008, the value of cross-border M&A sales of developed-country firms fell by 39% to $552 billion, roughly their 2006 level (table II.29), as the financial crisis and economic downturn exerted a dampening effect on cross-border M&A activity. The number of such M&A deals fell by 13%, to 4,481. Data for the first half of 2009 show a continuing downward trend: the number of high-value M&A deals fell sharply during the first semester, as banks were hesitant to finance such transactions in the prevailing climate of high and rising risk (chapter I). In 2008, strategic investors dominated cross-border M&A activity, whereas private equity funds and other collective investment funds lost importance. Around 84% of cross-border M&As in developed countries were concluded by firms from other developed countries. The share of developing countries' cross-border acquisitions in developed countries declined marginally and the acquisitions were uneven across major regions and countries. In comparison to 2007, TNCs from Latin America and Asia considerably reduced their cross-border M&As in developed countries. Chinese and Russian TNCs were by far the largest investors from developing countries and transition economies. Chinese acquisitions of developed-country firms totalled $25 billion – 23 times their 2007 level. The increasing cross-border M&As from the Russian Federation and China fuelled the ongoing debate about investments by SWFs and State-owned enterprises in developed countries, and provoked a variety of policy reactions.

b. Outward FDI: moderate but a widespread decline

In 2008, outward FDI from developed countries fell by 17% to $1,507 billion (figure II.27). Outflows exceeded inflows by $544 billion, so that, as in previous years, developed countries retained their position as the largest net outward investor group. The decline in FDI outflows of developed countries was widespread, with 24 out of 37 countries registering a fall (annex table B.1). In 2009, a further drop in FDI flows is expected, as the continuing financial crisis and the accelerating economic downturn in all major regions of the world have a negative impact on the investment plans of developed-country TNCs.

Among the largest FDI source countries, only *Japan, Switzerland, Canada* and the *Netherlands* saw a rise in their FDI outflows in 2008. *Japan's* TNCs, awash with cash until mid-2008,[111] increased their FDI outflows by 74% to $128 billion. As in 2007, Japanese outward FDI reached a new record high due to a strong increase in cross-border equity investments. Japanese outward FDI was spread wide across major economies in the world and a range of industries. The majority of investments have been undertaken by firms oriented toward the domestic market, but they are now seeking foreign markets. An appreciating yen encouraged further FDI in 2008. However, this trend is being reversed in 2009, as Japanese TNCs' rapidly declining sales and profits are affecting their investment expenditures, both domestic and foreign.[112] FDI outflows from *Switzerland* grew by 74%, reaching $86 billion in 2008. This mainly reflects an increase in equity investments by banks in their affiliates abroad, but also a rise in investments by Swiss holding companies abroad. *Canada's* FDI outflows increased by 30% to $78 billion –

Table II.28. Developed countries: top 10 cross-border M&A sales,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	52 178	Anheuser-Busch Cos Inc	United States	Malt beverages	Stichting Interbrew SA	Belgium	100
2	23 137	Fortis Bank Nederland(Holding) NV	Belgium/Netherlands	Banks	Government of the Netherlands	Netherlands	100
3	17 873	Altadis SA	Spain	Cigarettes	Imperial Tobacco Group PLC	United Kingdom	100
4	17 628	Reuters Group PLC	United Kingdom	News syndicates	Woodbridge Co Ltd	Canada	100
5	16 258	Imperial Chemical Industries PLC	United Kingdom	Paints, varnishes, lacquers, & allied products	Akzo Nobel NV	Netherlands	100
6	16 000	Intelsat Ltd	Bermuda	Communications services, nec	Serafina Holdings Ltd	United Kingdom	76
7	14 900	Scottish & Newcastle PLC	United Kingdom	Malt beverages	L'Arche Green NV	Netherlands	100
8	14 342	Endesa Italia	Italy	Electric services	E ON AG	Germany	80
9	14 284	Rio Tinto PLC	United Kingdom	Gold ores	Chinalco	China	12
10	13 212	Banca Antonveneta SpA	Italy	Banks	BMPS	Italy	100

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

[a] In the immediate host economy.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

the country's highest annual outflow ever. Around two thirds of the FDI outflows originated from the financial sector of the Canadian economy, and was similar to the average of the last three years. On a geographical basis, the bulk of FDI flows (around 60%) were directed to the United States. Canadian investors preferred to inject new funds into existing foreign affiliates via reinvested earnings and intra-company loans, rather than acquiring or establishing new firms.

The *United States* maintained its position as the largest outward investor in 2008 (figure II.28). Outward FDI of that country's TNCs declined by 18% – from a record level of $378 billion in 2007 to $312 billion in 2008. As in 2007, reinvested earnings of foreign affiliates of the United States TNCs were strong. At $231 billion, they were the major element fuelling cross-border outward investments by United States TNCs. In addition, United States' companies raised their cross-border equity capital investments by $90 billion with negative intra-company loans. Three of the top 20 cross-border M&A transactions worldwide, each valued at over $8 billion, were undertaken by United States TNCs (annex table A.I.3). In 2009, the decline in the outward FDI of the United States is likely to accelerate, as profits of foreign affiliates are expected to decline due to recession in most of the main host countries.

EU outward FDI fell to $837 billion in 2008, representing a sharp decline of 30%. As a result, the EU countries' share in total outward FDI from developed countries dropped to 56% from 66% in 2007. The *United Kingdom* lost its position as the largest source country of FDI in Europe, as that country's TNCs cut their new investments abroad to $111 billion, compared to $275 billion the previous year. A large fall in equity investments and net divestments in the form of intra-company loans contributed the most to the decline.[113] The largest share of FDI from the United Kingdom targets the United States, particularly its financial service – which was the industry the most seriously affected by the financial and economic crisis. In 2008, *France* ranked first among countries in Europe in terms of outward FDI, with investments amounting to $220 billion – slightly lower than in 2007. In contrast outward FDI of the other larger economies in Western Europe (*Germany, Italy* and *Spain*), hit by the deteriorating economic climate and the turmoil in the financial markets, fell considerably by 13%, 52% and 20% respectively.

The nine *new EU members* that are not members of EMU accounted for 1% of the outward FDI of EU countries, and their FDI outflows declined by 30% in 2008.[114] Growing financial needs of the parent companies led to shrinking cross-border equity investments and a withdrawal of intra-company loans abroad.

2. Sectoral trends: robust FDI growth in the primary sector

Judging from data on cross-border M&As, while FDI inflows in the manufacturing and services sectors of developed countries declined substantially

Table II.29. Developed countries: value of cross-border M&A sales and purchases, by region/economy, 2007–2009[a]
(Millions of dollars)

Region/economy	Net sales of companies in developed countries[b]			Net purchases by developed countries' companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
World	903 430	551 847	102 313	841 999	539 598	99 936
Developed economies	743 949	464 828	89 146	743 949	464 828	89 146
Europe	500 453	280 016	76 370	515 503	197 191	66 907
European Union	473 025	248 873	73 909	489 091	180 484	59 509
Belgium	6 518	30 279	124	898	2 307	11 027
France	73 175	35 592	29 039	27 423	-3 397	280
Germany	48 820	54 966	4 885	42 445	27 243	- 188
Italy	48 277	16 968	17 257	21 526	-5 740	1 301
Netherlands	-8 007	51 828	- 752	160 646	-9 389	9 974
Spain	34 935	-12 644	3 321	50 821	29 381	14 932
Sweden	27 827	7 461	12 660	5 226	20 915	821
United Kingdom	211 989	38 116	3 833	146 833	100 713	15 671
Other developed Europe	27 428	31 143	2 461	26 413	16 707	7 398
Switzerland	10 461	25 128	2 543	19 412	5 641	6 530
North America	207 125	107 878	7 545	190 966	230 325	15 703
Canada	41 780	39 680	5 053	75 613	21 010	927
United States	165 345	68 198	2 492	115 353	209 315	14 775
Other developed countries	36 372	76 933	5 231	37 480	37 312	6 537
Australia	41 587	17 856	213	21 730	26 000	5 866
Japan	23 043	40 686	4 416	12 350	8 847	-1 400
Developing economies	119 807	60 868	7 402	70 375	57 574	10 028
Africa	9 405	7 361	18	3 462	13 093	2 780
Egypt	908	4 488	-	- 813	15 058	1 407
South Africa	8 542	2 782	18	3 784	348	1 496
Latin America and the Caribbean	32 130	1 998	- 643	14 243	14 119	-1 442
Brazil	8 790	4 685	66	4 849	7 211	479
Asia and Oceania	78 272	51 509	8 027	52 670	30 362	8 690
West Asia	25 994	7 030	7 037	14 332	4 179	1 394
Turkey	606	618	-	13 162	5 165	1 332
China	1 078	24 632	591	3 763	4 672	- 31
Hong Kong, China	-1 501	-1 714	-1 086	5 161	4 558	392
India	26 559	8 850	76	16 383	7 602	3 206
Singapore	17 682	6 174	159	3 663	4 164	106
South-East Europe and the CIS	17 074	14 673	3 401	27 675	17 196	761
Russian Federation	15 443	13 727	3 401	22 550	13 352	778

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

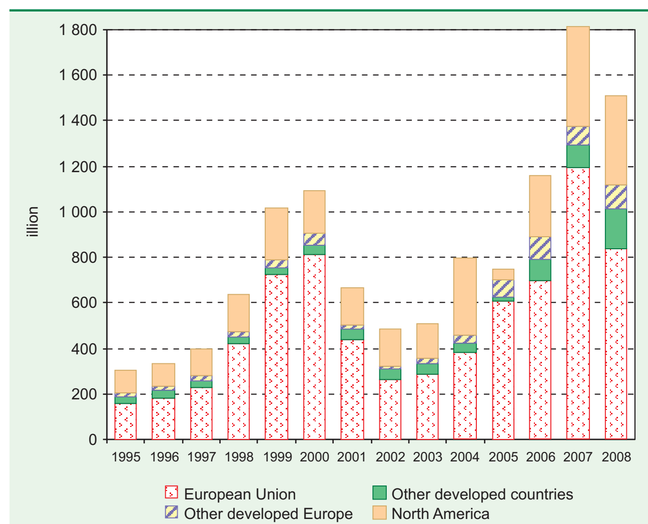
[a] For 2009, January–June only.

[b] Sales to the region/economy of the ultimate acquiring company.

[c] Purchases in the region/economy of the immediate acquired 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%.

Figure II.27. Developed countries: FDI outflows, by sub-group, 1995–2008



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

in 2008, foreign investments in the primary sector experienced robust growth (table II.31). On the other hand, FDI outflows declined in the primary sector and services and increased in manufacturing.

In the *primary sector*, cross-border M&A sales in developed countries increased by 44%. In the mining and quarrying industries, the consolidation process, which had been driven by the boom in natural resources, continued in 2008 and the first half of 2009. Mining and quarrying TNCs from developed countries invested heavily in the sector through cross-border M&As, including in other developed countries, in order to strengthen their position against competitors. In addition, large companies from developing countries (notably from China) undertook cross-border M&As to acquire substantial stakes in developed-country firms in the primary sector.

In the *manufacturing sector,* cross-border M&A sales of companies in developed countries declined by 16%, while cross-border M&A purchases by developed-country TNCs increased by 63%. Nearly all industries suffered from falling investments, with the exception of food, beverages and tobacco, in which cross-border M&A sales more than doubled, driven by several large-scale investments. The industry profited from the expectation that it would suffer much less in the economic crisis than other industries. Among the 20 largest cross-border M&As in 2008, five were in the food, beverages and tobacco industry (annex table A.I.3). This trend is continuing in 2009, with a $3.6 billion bid by Agrium (Canada) to acquire CF industries (United States).

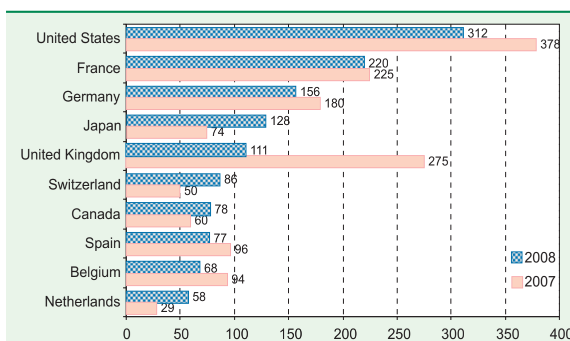
In the *services sector,* both cross-border M&A sales and purchases of developed countries declined substantially, by 61% and 53% respectively. Services, which remain the sector with the largest FDI activity in developed countries, accounting for 38% of cross-border M&A sales, suffered most from the financial crisis and the economic downturn. Cross-border M&As fell in almost all services. In financial services M&A activity that had soared in previous years, driven by several mega deals, shrank dramatically by around 84%. Among the larger industries, business services partially withstood the sharp downward trend.

3. Policy developments

In 2008, the national and international policy environments for FDI in developed countries were influenced by the continuing debate on cross-border investments by sovereign wealth funds (SWFs). Furthermore, several countries adopted legislation concerning the review of foreign investment on national security grounds. In addition, some countries took measures to further improve investment conditions.

SWFs have been criticized mainly on the grounds of lack of transparency. Moreover, the fear that they may be pursuing political rather than purely economic goals led to reactions in several developed countries. In principle, it was acknowledged that the rise of SWFs should not lead to new barriers to international capital flows. The European Commission, in February 2008, urged a common European approach to SWFs that should strike a balance between addressing concerns about SWFs and maintaining the benefits of open capital markets. Fears of possible discriminatory measures towards SWFs led to the establishment of the International Working Group of Sovereign Wealth Funds (IWG) in May 2008, which agreed on Generally Accepted Principles and Practices (GAPP) – the so-called Santiago Principles (chapter I). The GAPP seek to ensure that SWFs bring economic

Figure II.28. Developed countries: top 10 sources of FDI outflows,[a] 2007–2008
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2008 FDI outflows.

Table II.30. Developed countries: top 10 cross-border M&A purchases,[a] 2008

Rank	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
1	52 178	Anheuser-Busch Cos Inc	United States	Malt beverages	Stichting Interbrew SA	Belgium	100
2	17 873	Altadis SA	Spain	Cigarettes	Imperial Tobacco Group PLC	United Kingdom	100
3	17 628	Reuters Group PLC	United Kingdom	News syndicates	Woodbridge Co Ltd	Canada	100
4	16 258	Imperial Chemical Industries PLC	United Kingdom	Paints, varnishes, lacquers, & allied products	Akzo Nobel NV	Netherlands	100
5	16 000	Intelsat Ltd	Bermuda	Communications services, nec	Serafina Holdings Ltd	United Kingdom	76
6	15 018	OCI Cement Group	Egypt	Cement, hydraulic	Lafarge SA	France	100
7	14 900	Scottish & Newcastle PLC	United Kingdom	Malt beverages	L'Arche Green NV	Netherlands	100
8	14 342	Endesa Italia	Italy	Electric services	E ON AG	Germany	80
9	10 547	Alcon Inc	United States	Ophthalmic goods	Novartis AG	Switzerland	25
10	8 888	Vin & Sprit AB	Sweden	Wines, brandy, and brandy spirits	Pernod Ricard SA	France	100

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

[a] From the ultimate home country.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10%. Deals where the host economy is the same as the ultimate home economy correspond to the acquisition of a foreign affiliate by a national company.

and financial benefits to home countries, recipient countries and the financial system.[115] Emphasis is placed on transparency. The GAPP state that "the policy purpose of the SWF should be clearly defined and publicly disclosed." And they call for increased cooperation between the domestic authorities and the SWF if a potential investment is likely to have broader macroeconomic implications. Furthermore, they state that SWFs should establish a clear and effective division of roles and responsibilities to improve accountability with the objective of ensuring a high degree of independence of their managing boards from possible policy interventions.

Several countries have adopted or amended regulations to review foreign investment on national security grounds (Marchick and Slaughter, 2008: 2). In the United States, the CFIUS (Committee on Foreign Investments in the United States), an inter-agency committee, is authorized to review transactions that could result in control of a United States business by a foreign person ("covered transactions"), in order to determine the effect of such transactions on the country's national security. The CFIUS process has been subjected to significant reforms over the past several years. The latest has been the revision of the CFIUS regulations in November 2008, and publication of guidance on CFIUS's national security considerations in December 2008.[116] The number of national security-related cases investigated increased to 23 in 2008 from 6 in 2007.[117] In April 2009, Germany adopted an amendment to its Foreign Trade and Payments Act and its implementing regulations. According to the amendment, the Federal Ministry of Economics and Technology has the right to initiate a review of foreign investments, and can exceptionally prohibit transactions that threaten to impair public security or public order. The screening is applicable to investors from outside the EU and the European Free Trade Association that seek to acquire 25% or more voting rights of a German company. It is not limited to specific sectors or a certain size of the target enterprise. Also Canada amended its Investment Canada Act in March 2009, which authorizes the Government to review investments that impair or threaten to impair national security and, if necessary, take appropriate action. At the same time, the reform also aimed at liberalizing the review process by raising the general review threshold from $312 million for 2009 to $1 billion for 2010, by eliminating lower review thresholds in identified areas (i.e. transportation services, financial services and uranium production) and by requiring the Minister to justify any decisions to disallow an investment.[118]

In November 2008, France announced the establishment of a new public fund which will be run by the French Government and the Caisse des Dépôts et Consignations, a public entity under the supervision of the parliament. It would provide capital injections to strategic industries as well as small and medium-sized enterprises with a high development potential.

Several developed countries have changed tax policies and other incentives to promote domestic and foreign investment. In Switzerland, a referendum approved the reform of the corporate tax, which will reduce the double taxation of dividends.[119] In Australia, various provisions were introduced to encourage foreign investment. For instance, it relaxed the review process of foreign investment in residential real estate.[120]

In Japan, the Government introduced various measures in 2008 and 2009 aimed at encouraging inward investments, as well as improving Japan's capital markets. Foreign investors satisfying certain requirements who invest in foreign private equity funds are eligible as of April 2009 for tax exemptions on capital gains that they made at the time when foreign private equity firms sold shares of their acquired Japanese firms. The Government has also

Table II.31. Developed countries: value of cross-border M&A sales and purchases, by sector/industry, 2007–2009[a]
(Millions of dollars)

Sector/industry	Net sales of companies in developed countries[b]			Net purchases by developed countries' companies worldwide[c]		
	2007	2008	2009 [a]	2007	2008	2009 [a]
Total	903 430	551 847	102 313	841 999	539 598	99 936
Primary	55 806	80 514	8 294	80 890	33 519	- 3 343
Mining, quarrying and petroleum	54 895	78 604	7 823	80 483	29 826	- 3 448
Secondary	311 264	261 139	18 967	128 754	209 539	14 465
Food, beverages and tobacco	45 629	107 922	1 623	29 662	75 743	1 624
Chemicals and chemical products	111 800	66 611	9 440	80 988	59 943	8 815
Non-metallic mineral products	34 933	11 926	- 460	372	20 553	74
Metals and metal products	64 488	9 877	291	- 1 872	3 660	- 236
Machinery and equipment	17 704	13 236	184	2 945	5 788	207
Electrical and electronic equipment	21 894	10 537	5 628	34 370	23 786	561
Precision instruments	- 17 165	22 980	1 996	- 9 868	7 140	2 777
Services	536 360	210 194	75 051	632 143	296 497	88 814
Electricity, gas and water	91 681	34 998	48 990	41 405	13 978	26 725
Hotels and restaurants	8 188	3 155	539	- 11 652	636	233
Trade	42 335	10 847	- 2 890	- 3 113	191	1 990
Transport, storage and communications	53 862	20 766	2 067	28 011	- 7 117	7 747
Finance	214 827	33 794	21 358	567 124	270 740	54 455
Business services	88 666	96 833	3 963	11 817	21 631	- 1 049

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).
[a] For 2009, January–June only.
[b] Net sales in the industry of the acquired company.
[c] 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%.

introduced a tax reduction for repatriated foreign income by Japanese TNCs to stimulate domestic investment in Japan. Concerning outward FDI, the Japan Bank for International Cooperation can now extend loans to Japanese firms that invest in other developed countries so as to reduce the impact of the credit crunch due to the financial crisis in those countries. Previously it could only extend loans to just those investing in developing countries.

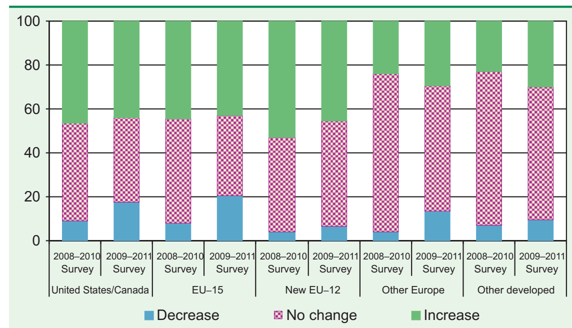
At the international level, developed countries concluded 38 new BITs, most of which were with developing countries (26 BITs). As far as DTTs are concerned, 63 new agreements were concluded by developed countries in 2008, bringing their total number of DTTs to 2,148. In terms of IIAs (other than BITs and DTTs) involving developed countries, 15 agreements were concluded in 2008 (for example the FTAs between Canada and Colombia, Canada and Peru, China and New Zealand, and ASEAN and Japan).

4. Prospects: FDI flows expected to fall further

The short-term prospects for FDI flows to and from developed countries have deteriorated sharply. In 2009, developed countries fell into the severest economic and financial crisis in several decades. An end of the economic downturn and a recovery of developed economies are not foreseeable in the near future. The real GDP of developed countries as a group is expected to decline by 3% in 2009, with the real GDP of the United States forecast to decline by 2.5%, of the EU by 3% and of Japan by 2% (IMF, 2009a). In addition, access to bank financing of cross-border M&As remains difficult. Several bank lending surveys point in this direction (ECB, 2009). Banks have tightened credit standards, and risk premiums have risen considerably. Private equity funds and other collective investment funds that were important drivers of the previous M&A boom have been seriously hurt by the crisis. Financing for large leveraged buyouts is hard to find. As a result, TNCs are cutting back their investment plans. For example, while in 2008 Japanese TNCs were very active abroad, as noted, their FDI is expected to fall by as much as 33% in fiscal year 2009 (ending March 2010), and this fall will be mostly in developed countries, ranging between 40% for EU countries and 44% for the United States; China, on the other hand, is expected to see only a small decline in Japanese FDI, of 3%.[121] FDI flows, both outward and inward, could fall by 30–50% in 2009.

In UNCTAD's *World Investment Prospects Survey 2009-2011,* respondent firms indicated a decline in planned investments in the medium term, in all sub-groups of developed countries except "other Europe" and "other developed countries" (figure II.29). Almost 42% of European investors indicated they would reconsider the way they propose to expand their international operations and FDI activity in 2009. Non-cash mergers and consolidation are likely to be the preferred modes, as companies seek to survive the financial turmoil by optimizing assets and combining with competitors to cut costs (Ernst & Young, 2009). In the *12th Annual Global CEO Survey* (2009) by PricewaterhouseCoopers, pessimism prevails across all geographic regions, business sectors and levels of economic development: nearly 70 per cent of CEOs mentioned that they would delay planned investments due to higher financing costs.

Figure II.29. Developed countries: comparison of the results of *WIPS 2009−2011* with *WIPS 2008−2010*
(Percentage of respondents)



Source: UNCTAD, 2009b.

Notes

1 For example, two of the world's largest mining groups, Anglo American and Rio Tinto, with major operations in African countries, have announced sizeable cutbacks in planned capital spending in 2009 – a move that is bound to have adverse repercussions in Africa. Anglo is halving its budget to $4.5 billion, while Rio Tinto is cutting spending by $5 billion (EIU, "Sub-Saharan Africa industry: multinationals cut back", *Viewswire*, 19 January 2009, at: www.eiu.com). Norilsk Nickel (Russian Federation) will also seek to divest its assets in Australia, Botswana and South Africa, and will halve its total investment programme to $1.2 billion. The firm is said to be considering all options, including a possible merger with another metals producer, because of the difficult international environment (EIU, "Sub-Saharan Africa industry: Norilsk Nickel pulling out of market", *Viewswire*, 5 February 2009, at www.eiu.com).

2 Data on greenfield projects in this chapter are from fDi Markets, fDi Intelligence (www.fDimarkets.com).

3 Countries in the subregion are: Algeria, Egypt, the Libyan Arab Jamahiriya, Morocco, Sudan and Tunisia.

4 "Egypt industry: Edison secures 40% stake in mature gas field", *EIU Viewswire,* 15 January 2008.

5 Countries in the subregion are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

6 Other investments included the following: in Côte d'Ivoire, Energy Allied International, WCW International (United States) and the Ivorian State-owned oil company, Petroci, began construction of a crude oil refining and storage facility for $1.4 billion. Cape Verde performed exceptionally well, after a 28.5% stake in the State-owned Empresa Nacional de Combustíveis (Enacol), was offered on the country's stock exchange, Bolsa de Valores de Cabo Verde (BVC). In addition, a Spanish consortium, Bucan, is investing $308 million in tourism infrastructure for construction of luxury hotels.

7 Countries in the subregion are: Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Mayotte, Reunion, Seychelles, Somalia, Uganda and the United Republic of Tanzania.

8 Countries in the subregion are: Burundi, Cameroon, Central African Republic, Chad, Congo, the Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda and Sao Tome and Principe.

9 See: "Equatorialguinean govt buys oil assets", *AfrolNews,* 3 June 2008 (www.afrol.com).

10 Countries in the subregion are: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

11 Richemont, the jewellery company, sold its 19.4% stake in BAT in 2008 and distributed to the owner, while Remgro spinned off 10.7% of its holding of BAT. ("UK tobacco: Richemont to spin off BAT stake", *Financial Times*, 8 August 2008).

12 Libyan African Investment Portfolio, owned by the Government of the Libyan Arab Jamahiriya, has a number of successful FDI operations across Africa ("Libya invades energy, ICT and tourism sectors", at http://www.eastandard.net/InsidePage.php?id=1143990200&cid=4) *The Standard,* 14 July 2008).

13 For example, one of Algeria's largest gas-based industrial projects, entailing the construction of a fertilizer complex in Arzew in the west of the country, is being carried out by Sorfert, owned by Orascom Construction Industries (OCI) of Egypt (51%) and by Algeria's national oil and gas corporation, Sonatrach (49%) ("Arzew fertiliser complex project achieves financial close", *EIU-Viewswire,* 23 July 2008).

14 Egypt State Information Service available at www.sis.gov.eg.

15 Communication from the Permanent Mission of Mauritius in Geneva, Switzerland, and http://supremecourt.intnet.mu/Entry/dyn/GuestGetDoc.Asp?Doc_Idx=8292881&Mode=Html&Search=No.

16 India-Africa, Forum Summit 2008, New Delhi, 8–9 April 2008 (for details, see: http://www.africa-union.org).

17 FDI inflows declined by 21% in China, 40% in Hong Kong (China) and 56% in India for the first quarter of 2009 compared to the corresponding period of 2008.

18 Among the 19 States, 15 of them have data (or estimates) on FDI inflows in 2008. They are: Cook Islands, Fiji, French Polynesia, Kiribati, Marshall Islands, the Federated States of Micronesia, Nauru, New Caledonia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

19 Between January and June 2008, FDI inflows into the non-financial sector in China rose by 45.6%, to reach $52.4 billion. However, inward FDI in the form of "hot money" (speculative capital driven by the expectation of further appreciation of the renminbi) in the first half of 2008 showed signs of slowing by the last quarter (Mure Cickie, "China sees slowdown in 'hot money' flow", *Financial Times*, 14 October 2008).

20 During the past few years, in the coastal regions of China, production costs have increased due to higher wages, tighter labour regulations and a stronger yuan, which makes those regions less competitive than before in the production of low-end goods such as textiles and garments. This trend has been interrupted by the impact of the global financial crisis.

21 By January 2009, 15% of China's 130 million migrant workers had lost their jobs and quit coastal manufacturing centres ("Downturn has sent 20m rural Chinese home", *Financial Times*, 3 February 2009).

22 For example, ArcelorMittal may cut some components of its eight-year global expansion programme, and other planned projects may be postponed, such as plans for two new steel plants in India with a total investment of $20 billion. (Peter Marsh, "Mittal reviews $35bn growth plans", *Financial Times*, 23 October 2008).

23 See, for example, "Asian economies: sitting on the dock of a bay", *The Economist*, 22 November 2008; "Troubled tigers", *The Economist*, 31 January 2009; "Unlucky numbers", *Financial Times*, 10 February 2009.

24 Arijit Ghosh, "BRIC should include Indonesia, Morgan Stanley says", 15 June 2009 (www.bloomberg.com).

[25] The three largest cases of FDI in Viet Nam in 2008 involved two steel firms and one oil refinery. Companies from Malaysia, Taiwan Province of China and Kuwait, respectively, were involved. In addition, in November 2008, Formosa Plastics (Taiwan Province of China) announced its intention to invest up to $15 billion in a large-scale petrochemical complex in central Viet Nam.

[26] The economies in South, East and South-East Asia had total foreign exchange reserves of about $3 trillion by end 2008 and early 2009. (UNCTAD secretariat calculations based on data from central banks). Part of these reserves were invested abroad through direct investment by SWFs. They have also facilitated outward investment by State-owned and privately owned firms through the reduction or elimination of regulatory controls on FDI and/or easier access to foreign exchange.

[27] For example, Hutchison Whampoa (Hong Kong, China), the largest TNC in both the region and the developing world as a whole, and a leading conglomerate in global infrastructure industries (*WIR08*), announced that it would suspend all new investments in its global operations (www. dwnews.com).

[28] For example, in the electricity industry, State Grid (China) won a bid for operating the national transmission network in the Philippines for 25 years. In roads, TNCs from South-East Asia have been participating on a build-operate-transfer (BOT) basis in various expressway projects in China, which connect some remote and economically backward areas to the country's expressway network. For example, MTD (Malaysia) is investing in, and will operate a highway linking Yangshuo and Luzhai in Guangxi Province. This and other investments have been taking place as part of China's "Go West" strategy (box II.2).

[29] See: "Taiwan's Foxconn hunkers down in Vietnam" (http://www.thanhniennews.com/).

[30] For example, India allows FDI up to 100% for publication of facsimile editions of foreign newspapers, and allows FDI up to 26% with prior approval of the Government for publication of Indian editions of foreign magazines dealing with news and current affairs (Ministry of Commerce and Industry, Department of Industrial Policy and Promotion Press Note n°1, 2009).

[31] Circular of the Ministry of Commerce on Delegation of the Authority to Examine and Approve the Establishment of Investment Companies by Foreign Investors and Circular of the Ministry of Commerce on Further Improving Examination and Approval of Foreign Investment.

[32] On 27 April 2009, the Prime Minister of Malaysia announced a package of measures to liberalize financial services, including raising the foreign equity limits in investment in Islamic banks and insurance and Takaful firms from 49% to 70% (Official website of the Prime Minister's Office of Malaysia, www.pmo.gov.my).

[33] Decree Providing Detailed Guidelines for Implementation of a Number of Articles of the Law on Enterprises (see, for example, www.itpc.gov.vn).

[34] "Foreign firms allowed to lead R&D projects", 22 May 2008, *Investment News*, Investment Korea (www. investkorea.org).

[35] Regulation No. 02/PER/M.KOMINFO/3/2008.

[36] See: http://fldj.mofcom.gov.cn/aarticle/ztxx/200903/20090306108494.html.

[37] APEC, "APEC Peru 2008: Outcomes" (www.apec.org).

[38] Press statement on the global economic and financial crisis, Cha-am, Thailand, 1 March 2009, available at: www.aseansec.org/22323.htm.

[39] Temasek (Singapore), for instance, is targeting more Asian financial companies which are undervalued due to the financial turmoil. (See: "Temasek to target more Asian investments", *Financial Times*, 6 October 2008).

[40] The GCC is a regional grouping consisting of six Gulf countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[41] EIU, *Business Middle East*, 1–15 November 2008; and *MEED*, "Gulf project finance market collapses", 26 September 2008.

[42] This drop in cross-border M&A value occurred despite a 17% increase in the number of deals, reflecting the fall in stock values.

[43] Based on UNCTAD cross-border M&As database (www. unctad.org/fdistatistics).

[44] See: Knowledge@Wharton.com, 11 March 2009; and EIU, *Business Middle East*, February 16–17, 2009.

[45] For example, Saudi Telecom gained ownership of a 26% stake in Kuwait's third mobile phone licence, and was awarded the third mobile phone licence in Bahrain. The United Arab Emirates' Etisalat was awarded the third mobile phone licence in the Islamic Republic of Iran, and plans to invest around $1 billion in the construction of its network.

[46] SAGIA (2009) and Undersecretariat of Treasury, Republic of Turkey Prime Ministry, at: www.treasury.gov.tr.

[47] EIU, *Business Middle East*, 1–15 April 2008, London, and J. Ray Mcdermott, *Press Release*, 10 March 2009, www.jraymcdermott.com.

[48] Adco is the onshore arm of the Abu Dhabi National Oil Company (ADNOC). ADNOC, which is entirely owned by the Government of Abu Dhabi, has a 60% share in Adco, with the remaining equity held by BP, Shell, ExxonMobil, Total and Partex.

[49] Alexander's *Gas & Oil Connections*, 14 (3), 5 March 2009, www.gasandoil.com/goc/company/cnm90993.htm.

[50] EIU, *Business Middle East*, 16–28 February 2009.

[51] *Arabian Business.com*, 16 March 2009, at: www.arabianbusiness.com.

[52] EIU, *Business Middle East*, 1–15 October 2008.

[53] Communication from Saudi Arabian General Investment Authority.

[54] EIU, *Business Middle East,* 16-31 January 2008.

[55] Website of the Executive Privatization Commision, (www.epc.gov.jo)

[56] Permanent Mission of Turkey to WTO

[57] EIU, *Business Middle East*, 1-15 February 2008, 1-15 March 2008.

[58] Websites of Supreme Council of Information & Communication Technology of Qatar (www.ict.gov.qa) and Telecom Regulatory Authority of Oman (www.tra.gov.om)

[59] Website of General Investment Authority (www.giay.org)

[60] Preliminary FDI data for the first quarter of 2009 were available only for Turkey and Jordan by July 2009. Together, they accounted for 22% of total inflows to the region in 2008, but FDI inflows decreased by 54% in the first quarter of 2009 compared to the first quarter of 2008.

[61] IPIC's outward acquisition activities in 2009 included a 17.6% stake for around $1 billion in Oil Search Ltd. (Australia), which operates all of the oil and gas producing fields in Papua New Guinea; a 70% stake in a German industrial services company, Man Ferrostaal; a 71% stake in the energy investment company, Aabar Investments Co., for which it paid $1.63 billion; a 100% stake in NOVA Chemicals (Canada), the total value of

which (including assumption of NOVA Chemicals' net debt obligations) is approximately $2.3 billion; and a 32.5% stake in the Spanish energy company Cepsa.

[62] Mubadala's outward FDI activities consisted of a number of partnerships aimed at strengthening the United Arab Emirate's position in the global aviation, aerospace and technology industries. Partnerships have been established in particular with the following: Finmeccanica, the Italian aerospace company, to manufacture aerospace composite components for civil aircraft; the European Aeronautic Defence and Space Company, EADS, to build a new aerostructure composites plant; and GE, in a broad range of initiatives, including commercial finance, clean energy R&D, aviation and corporate learning.

[63] Taqa took a 50% stake in the Caribbean operations of Japan's Marubeni Corporation in 2009.

[64] Masdar purchased a stake in WinWinD of Finland (which specializes in the production of wind turbines). It also formed a joint venture with Spain's Sener Group de Ingenieria (Torresol Energy) to work on the design and construction of concentrated solar power plants, and it has started work on the construction of a $230 million solar photovoltaic plant in Germany.

[65] In 2007, IPIC announced plans to increase its investment portfolio to $20 billion from $11 billion over five years. But the company's Managing Director said it had already reached $14 billion in 2007 and it was close to reaching $20 billion at the end of 2008 (Gulfnews.com, 12 September 2008, at http://www.gulfnews.com/Business/Investment/10244404.html).

[66] Banco Central do Brasil, Balanço de pagamentos, at: www.bcb.gov.br; Banco Central de Chile, Balanza de pagos de Chile, at: www.bcentral.cl; and INDEC (Argentina), 2009.

[67] Banco Central de la Republica Dominicana, www.bancentral.gov.do; and Mideplan (Costa Rica): www.mideplan.go.cr.

[68] The strong increase in inter-company loans resulted from a 112% increase in claims on affiliated enterprises of Brazilian TNCs and a 35% decrease in liabilities to affiliated enterprises (Banco Central do Brasil, Balanço de pagamentos, at: www.bcb.gov.br).

[69] These companies made overoptimistic bets on their country's currency: they were holding foreign-currency-denominated debt and purchasing foreign exchange rate derivatives (basically betting on the future value of their national currency against the dollar) (EIU, *Business Latina America*, 24 November 2008; and *Latin Finance,* 1 November 2008).

[70] *Jamaica Observer*, 11 February 2009.

[71] These fields are equivalent to 41% of the pre-salt area, 60% of which belongs to Petrobras.

[72] See EIU, *Business Latin America*, 19 January 2009; *Gazeta Mercantil*, 13 February 2009; and *Offshore Magazine*, Volume 68, Issue 7, July 2008.

[73] See EIU, *Business Latin America*, 11 February 2008, 12 May 2008, 24 November 2008, and 16 February 2009.

[74] Mineweb, 9 June 2009, at: http://www.mineweb.com/mineweb/view/mineweb/en/page36?oid=84557&sn=Detail.

[75] *El Universal*, 19 January 2009; *Nacion.com*, 24 March 2009; and *Business Latin America*, 12 January 2009 and 2 February 2009.

[76] See *América Economía*, 21 October 2008; and *Inter-American Dialogue's*, 23–27 June 2008, at: www.iamericas.org/news/energy/LEA080626.pdf.

[77] For example, Toyota announced in September 2008 that it would set up its second car plant in Brazil to produce some 150,000 small-size passenger cars per year by 2011 (EIU, *Business Latin America*, 8 September 2008), and Hyundai Motor announced also in September that it would build its first South American auto plant in Brazil as part of its drive to go global (*The Economic Times*, 19 September 2008).

[78] See ANFAVEA, at: www.anfavea.com.br; ADEFA, at: www.adefa.com.ar; EIU, *Business Latin America*, 24 November 2008 and 16 February 2009; and *Valor Economico*, "Incentivos puxam a lenta recuperação da indústria", 6 May 2009.

[79] See EIU, *Business Latin America*, 2 February 2009 and 29 September 2008; and Eldiariomontanes.es, 10 March 2009.

[80] Banco do Brasil acquired several State-owned banks from various states of the country: Santa Catarina (in the southern region), Piauí (northeast), and São Paulo, the country's wealthiest state, which agreed to sell a majority stake in Nossa Caixa for $2.3 billion. It then bought half of Banco Votorantim, a private Brazilian bank, in January 2009 for which it will pay $1.3 billion (EIU, *Business Latin America*, 16 March 2009)

[81] *Bloomberg.com*, 23 January 2009; and Universia Knowledge@Wharton, 10 December 2008 and 25 March 2009.

[82] EIU, *Business Latin America*, 24 November 2008, and 15 December 2008.

[83] This process was initiated by Supreme Decree No. 28701 ("Héroes del Chaco"), which regulates the full recuperation of all oil and natural gas resources by the State.

[84] Ministerio de Hidrocarburos & Energía, Boletín Informativo No. 2, Año 1, 2009.

[85] In May 2009, an ICSID tribunal, pursuant to Perenco's application for provisional measures, provisionally prohibited the disposal of the seized oil production, *Perenco Ecuador Ltd. v. Republic of Ecuador and Petroecuador* (ICSID Case No. ARB/08/6, Decision on Provisional Measures, 8 May 2009).

[86] *CEMEX Caracas Investments B.V. and CEMEX Caracas II Investments B.V. v. Bolivarian Republic of Venezuela* (ICSID Case No. ARB/08/15).

[87] The Law was published in the Official Gazette No. 39.019, 18 September 2008.

[88] Ley No. 29376, 10 June 2009, at www.congreso.gob.pe.

[89] Sistema Integrado Provisional Argentino, Ley 26425, 20 November 2008, at: www.infoleg.gov.ar.

[90] Medida Provisória No. 443, 21 October 2008, converted into Law No. 11.908/2009, at: http://www010.dataprev.gov.br/sislex/paginas/45/2008/443.htm.

[91] Decreto No. 6.613, 22 October 2008, and: "Lula assina decreto zerando alícuota do IOF", Agencia Brasil, at: www.agenciabrasil.gov.br.

[92] "Vendido Stanford Bank a Banco Nacional de Crédito", Nota de Prensa, 8 May 2009, *Ministerio del Poder Popular para Economía y Finanzas*, at: www.mf.gov.ve.

[93] ALBA was established in 2004 and aims at social, political, and economic integration between the countries of Latin America and the Caribbean (see *WIR06*).

[94] In this report, Georgia is still treated as part of the CIS, since its effective separation from the CIS took place in August 2009.

[95] Medium-sized M&A transactions are deals valued at between $30 million and $300 million (PricewaterhouseCoopers, 2008).

[96] As a result, there was a net capital outflow (of direct and portfolio investment) of $100 billion as TNCs operating in the country scaled back their capital expenditures.

[97] For example in Armenia, nearly two thirds of the total

FDI inflows in 2008 came from the Russian Federation, mainly in the energy, telecommunications and transport industries (EIU, 2009).

[98] For example in 2008, there was a large announced project by an investor based in the United Arab Emirates to set up an oil refinery and petrochemical complex worth $4.5 billion in the Chelyabinsk Oblast of the Russian Federation

[99] In addition to the previously mentioned acquisition of Ukrsotsbank in Ukraine by Unicredit (Italy), Barclays (United Kingdom) acquired Moscow-based Expobank for $745 million, and Commerzbank AG (Germany) acquired Kiev-based Bank Forum for $600 million.

[100] Some of the liberalization measures in the financial services industry included dropping the requirement for a mandatory deposit, and an increase in the level of authorized foreign capital in domestic banks from 25% to 50% (European Bank for Reconstruction and Development, "Recent legal developments in transition countries", 2008, at http://www.ebrd.com/country/sector/law/new/transition.pdf).

[101] European Bank for Reconstruction and Development, "Recent legal developments in transition countries", 2008 at http://www.ebrd.com/country/sector/law/new/transition.pdf.

[102] "Implementation of the European Neighbourhood Policy in 2008: Progress Report Georgia", at http://ec.europa.eu/world/enp/pdf/progress2009/sec09_513_en.pdf.

[103] At http://www.premier.gov.ru/eng/anticrisis/.

[104] European Commission, at http://ec.europa.eu/enlargement/press_corner/whatsnew/accession-negotiations_en.htm.

[105] "Putin welcomes Shell to offshore projects", *Financial Times*, 28 June 2009

[106] European Central Bank, 2008. The consolidation process in the European banking sector is driven by the growing role of institutional investors (notably mutual funds, pension funds and insurance companies) as shareholders in European banks.

[107] FDI inflows from third countries into the euro area declined sharply in 2008, to only €50 billion compared to €365 billion in 2007 (*ECB Monthly Bulletin*, March 2009: S64).

[108] One was the acquisition of Dutch bank ABN-AMRO by a consortium of three foreign banks for more than €60 billion, and the other was the takeover of Nutricia, a baby-food company, by the French Danone for €12 billion.

[109] United Kingdom, Office for National Statistics, 2009: 5.

[110] Slovenia joined the EMU in January 2007, while Cyprus and Malta joined it in January 2008.

[111] However, the profitability of Japanese TNCs has been deteriorating drastically in 2009 with a more than 30% decline in profits.

[112] According to Nikkei (8 June 2009), investment expenditures fell by 5.6% in fiscal year 2008 (ending March 2009), and are projected to fall by another 15.9% in fiscal year 2009 (ending March 2010).

[113] However, the United Kindom was the home for the second largest acquisition made by developed-country firms (table II.30)

[114] However, some companies such as CEZ (Czech Republic) continued to expand and consolidate their position in South-East European markets. In 2008, CEZ finalized an agreement with the Government of Albania for the acquisition of a 76% stake in the State-owned electricity distribution company OSSH for $131 million.

[115] The 24 principles cover: (i) the legal framework, objectives and coordination with macroeconomic policies, (ii) the institutional and governance structure, and (iii) the investment and risk-management framework of SWFs (IWG, 2008).

[116] United States Treasury Department: http://www.treas.gov/offices/international-affairs/cfius/

[117] United States Treasury Department: http://www.ustreas.gov/offices/international-affairs/cfius/docs/Covered-Transactions_2006-2008.pdf

[118] Investment Canada Act: http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk50926.html.

[119] Swiss Confederation: http://www.admin.ch/ch/d/as/2008/2893.pdf (accessed on 22 July 2009)

[120] Foreign Investment Review Board Australia: www.firb.gov.au/content/policy.asp (accessed on 21 July 2009).

[121] *Nikkei*, 6 June 2009.