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GLOBAL FDI OUTFLOWS CONTINUED TO RISE IN 2011 DESPITE ECONOMIC UNCERTAINTIES; HOWEVER PROSPECTS REMAIN GUARDED

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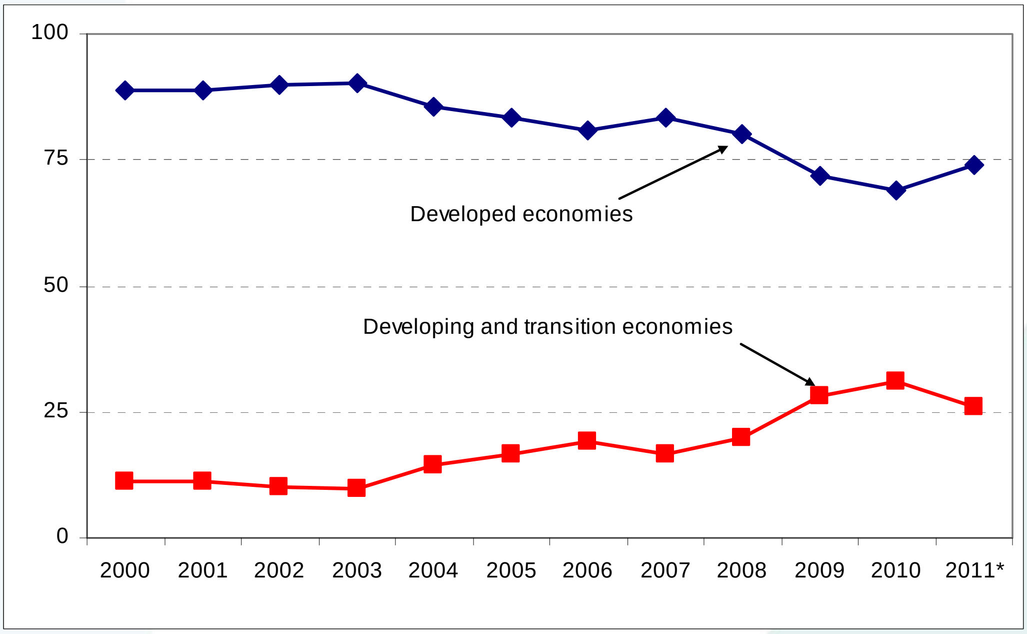
HIGHLIGHTS

- Global foreign direct investment (FDI) outflows rose by 16 per cent in 2011, to an estimated US$1.66 trillion, surpassing the pre-crisis level, but still 25 per cent short of the 2007 peak.
- However, the growth of FDI outflows in 2011 did not translate into an equivalent expansion of productive capacity, as it was due in large part to cross-border acquisitions and increased amounts of cash reserves kept in foreign affiliates rather than the much-needed direct investment in new productive assets through greenfield investment projects or capital expenditures in existing foreign affiliates.
- Outward FDI from developed countries rose by 25 per cent, exceeding US$1.23 trillion, with the European Union (EU), North America and Japan all contributing to the growth. United States TNCs increased cash holdings in their foreign affiliates in the form of reinvested earnings.
- FDI outflows from developing countries fell by 7 per cent mainly due to significant declines in outward FDI from Latin American and the Caribbean and a slow down in growth of investments from developing Asia. As a result, the share of developing and transition economies in global FDI outflows declined from 31 per cent in 2010 to 26 per cent in 2011. Nevertheless, the outward FDI from developing and transition economies remained important, reaching its second highest level recorded.
- Prospects for FDI outflows in 2012 continue to improve since the depth of the crisis, but they remain guarded due to the fragility of the global economic recovery.

Global FDI outflows rose in 2011...

In 2011, global FDI outflows rose by 16 per cent to an estimated US$1,664 billion, up from US$1,429 billion in 2010 (annex 1). Similar to FDI inflows, outflows surpassed their pre-crisis level, but still fell 25 per cent short of their 2007 peak. The rise of FDI outflows in 2011 was mainly driven by growth of outward FDI from developed countries. Outward FDI from developing economies fell by 7 per cent in 2011. As a result, the share of developing and transition economies in global FDI outflows declined from 31 per cent in 2010 to 26 per cent in 2011 (figure 1). Nevertheless, the outward FDI from developing and transition economies remained important, reaching its second highest level recorded.

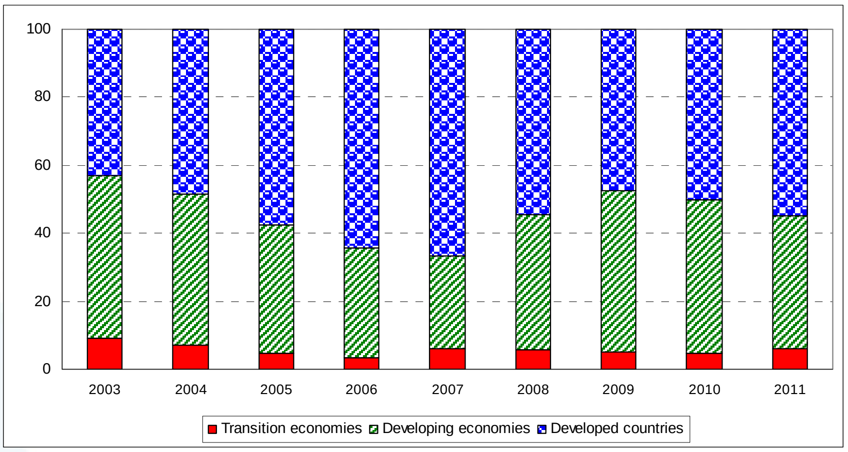
Figure 1. FDI outflow shares by major economic groupings, 2000–2011
(Per cent)



Source: UNCTAD.
* Preliminary estimates.

The growth of FDI outflows in 2011 did not translate into an equivalent expansion of productive capacity, as it was due in large part to cross-border acquisitions and increased amounts of cash reserves kept in foreign affiliates rather than the much-needed direct investment in new productive assets through greenfield investment projects or capital expenditures in existing foreign affiliates. Developed-country TNCs largely made strategic acquisitions to seize on increased opportunities in other developed countries resulting in a higher share of the group in total FDI projects (figure 2). Greenfield projects alone, however, show that developed-country TNCs are continuing to shift capital expenditures to developing and transition economies, for their stronger growth potential.

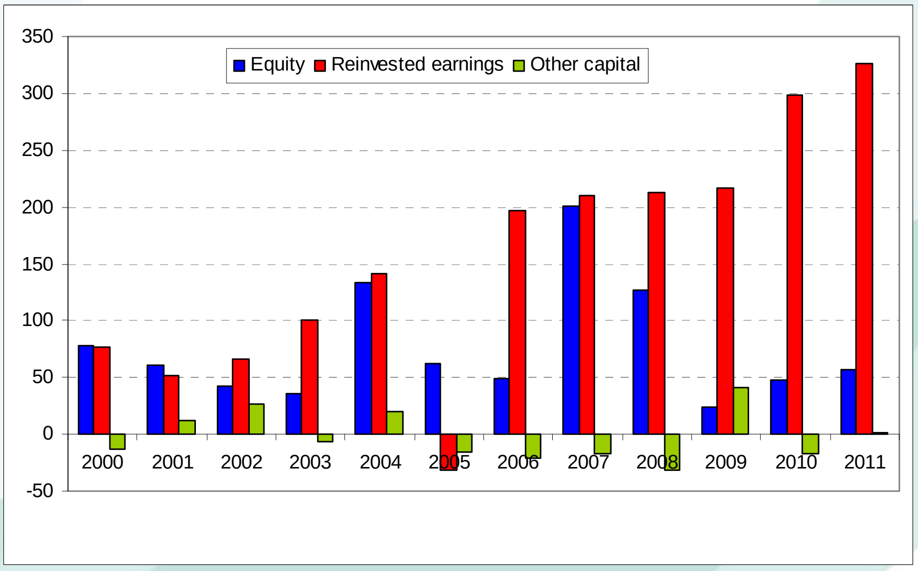
Figure 2. Distribution of FDI projects concluded by developed country TNCs, by host region, 2003–2011
(Per cent)



Source: UNCTAD

Recovery of outward FDI from ***developed countries*** gathered pace in 2011. Outflows exceeded US$1.23 trillion, a level comparable to the pre-crisis average of 2005–2007, with the EU, Japan and North America all contributing to the recovery. Outward FDI from the United States reached US$384 billion, which was well above the pre-crisis average and approaching the peak recorded in 2007. Reinvested earnings of foreign affiliates reached a record US$326 billion in 2011, accounting for 85 per cent of FDI outflows (figure 3). United States TNCs appear to be holding cash abroad in their foreign affiliates, partly in an effort to minimize their tax liabilities at home, but also to fund their foreign operations and finance their foreign investments. An example of the latter is the acquisition of Skype (Luxembourg) by Microsoft (United States) for US$8.5 billion in an all-cash deal financed from its foreign cash holdings.

Figure 3. FDI outflows from the United States, by components, 2000–2011
(Billions of US dollars)



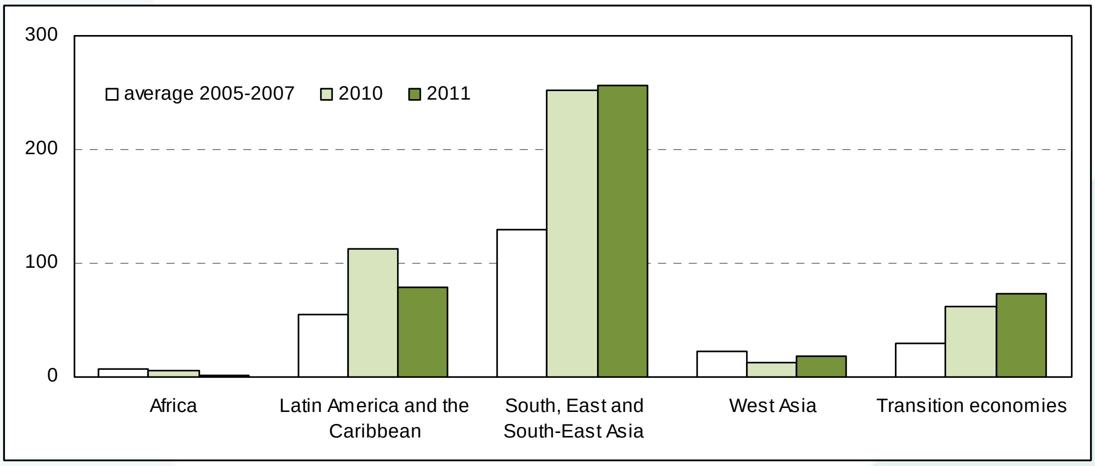
Source: UNCTAD.

Rising outward FDI from the EU was driven by FDI from Italy and the United Kingdom, from which outflows doubled and trebled, respectively. Corporate restructuring appears to have been the primary driver of cross-border M&A deals by European TNCs. The jump in Japanese outward FDI may have been helped by the appreciation of the Japanese yen, which increased the purchasing power of the country's TNCs in making foreign acquisitions (for example the acquisition of Nycomed (Switzerland) by the Japanese pharmaceutical company, Takeda, for US$13.7 billion).

The growth in FDI outflows from ***developing economies*** seen in the past several years appeared to lose some momentum in 2011 due to significant declines in outward FDI from Latin American and the Caribbean and a slow down in the growth of investments from developing Asia (figure 4). In the former case, a healthy level of equity investments abroad was undercut by a large negative swing in intra-company loans as foreign affiliates of some Latin American TNCs provided or repaid loans to their home country parent firms, possibly driven by opportunities to profit from interest rate differentials. However, some regions such as West Asia bucked the trend by increasing their outward FDI.

FDI from *African* countries fell in 2011 to an estimated US$2.1 billion, compared with US$5 billion in 2010. The declines in outflows from Egypt and Libya, traditionally important outward investors of the region, weighed heavily in the fall in total outward FDI. Furthermore, divestment by TNCs from South Africa, another major outward investor, also pulled down the total (examples include the divestment of the Franklin supermarket chain in Australia by the retail group Pick n Pay Stores).

Figure 4. FDI outflows from developing and transition economies, by region, average 2005-2007, 2010 and 2011
(Billions of US dollars)



Source: UNCTAD.

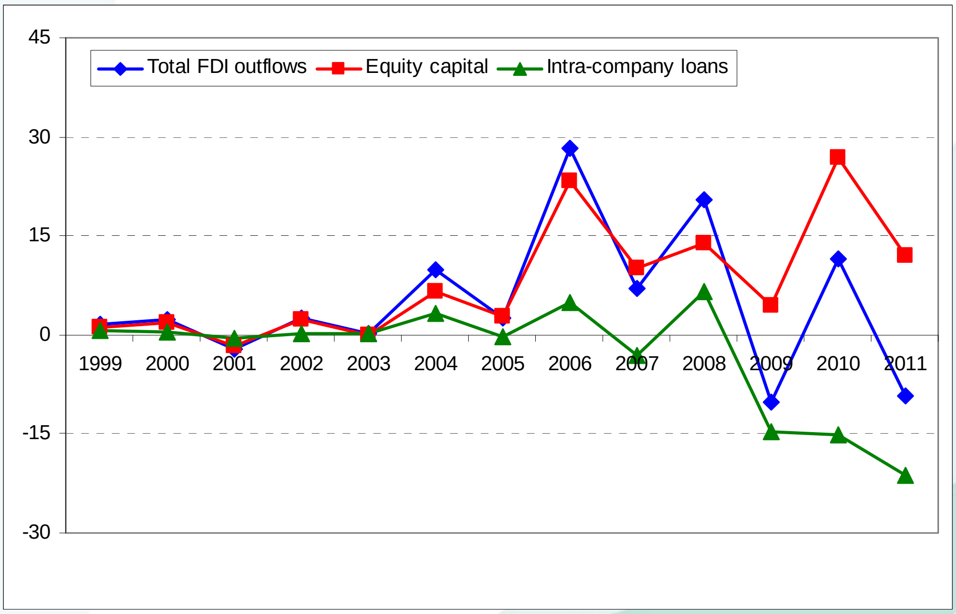
FDI outflows from *developing Asia* (excluding West Asia) continued to grow in 2011, but only marginally after a significant increase in the previous year. Outward FDI from East Asia decreased, and that from South Asia remained stagnant while that from South-East Asia rose markedly. FDI from Hong Kong (China), the region's largest source of FDI, declined by 14% to US$82 billion, although it boomed in the last quarter of the year. FDI outflows from China reached US$68 billion, more or less the same level of 2010. Chinese firms have been active in a number of European countries, such as Germany, where they have become a leading source of greenfield investments. Outflows from India, the dominant source of FDI in South Asia, remained almost the same level of 2010, at US$15 billion. In contrast, outflows from Singapore, the leading source of FDI in South-East Asia, registered a 19 per cent growth, reaching US$25 billion. TNCs from developing Asian economies continued to go global, acquiring overseas assets. Their cross-border M&A activities demonstrated diverging trends in the developed and developing worlds in 2011 – total purchases in the former increased by 19% to US$51 billion, while those in the latter declined by 55% to US$23 billion. Greenfield FDI by Asian TNCs in 2011 remained at a similar level of the previous year in both of these regions.

West Asia witnessed a rebound of outward FDI, with flows rising by 41 per cent to US$18 billion in 2011, after reaching a five-year low in 2010. This is also reflected by a 19 per cent increase in the region's greenfield FDI projects abroad and the return of cross-border M&A purchases to positive values, after registering negative amounts in 2010. The strong rise registered in oil prices since the end of 2010 increased the availability of funds for outward FDI from a number of oil rich countries – the region's main outward investors. Outflows from Bahrain, Kuwait, Qatar and the United Arab Emirates increased, while those from Saudi Arabia decreased, though they remained at a relatively high level in 2011.

In addition, outflows from Turkey registered a 68 per cent increase, rising to a record US$2.5 billion, a level they had reached in 2008 with a strong location shift in its investments from developed and transition economies to developing countries, particularly North Africa, West Asia and the Islamic Republic of Iran. Turkish enterprises showed renewed interest in some least developed countries (LDCs), with greenfield projects announced in Rwanda and Yemen.

Outward FDI flows from *Latin America and the Caribbean* have become highly volatile in the aftermath of the global financial crisis. They decreased by 29 per cent in 2011, after a strong 82 per cent increase in 2010, which followed a large decline in 2009 (-39 per cent). This high volatility is due in part to the importance of the region’s offshore financial centres (which accounted for four-fifths of the region's outflows in 2011). A surge in the repayment of loans by Brazilian affiliates abroad to their parent companies in Brazil pushed intra-company loans to a record negative US$21 billion in 2011, largely offsetting equity investment abroad, and driving total Brazilian FDI outflows to -US$9 billion (figure 5). This could be explained in part by the search of corporate treasurers for ways to park their capital in Brazil’s high-interest-rate environment without having to pay the tax on foreign capital (from which repayment of intra-company loans are exempted). Latin American companies did, however, continue developing their productive activities abroad, as reflected by the 18 per cent increase of their cross-border M&A purchases, and the relative stability (a slight decrease of 5 per cent) in the estimated amount of their greenfield projects abroad.

Figure 5. Brazil: FDI outflows: total, equity capital and intra-company loans, 1999–2011
(Billions of US dollars)



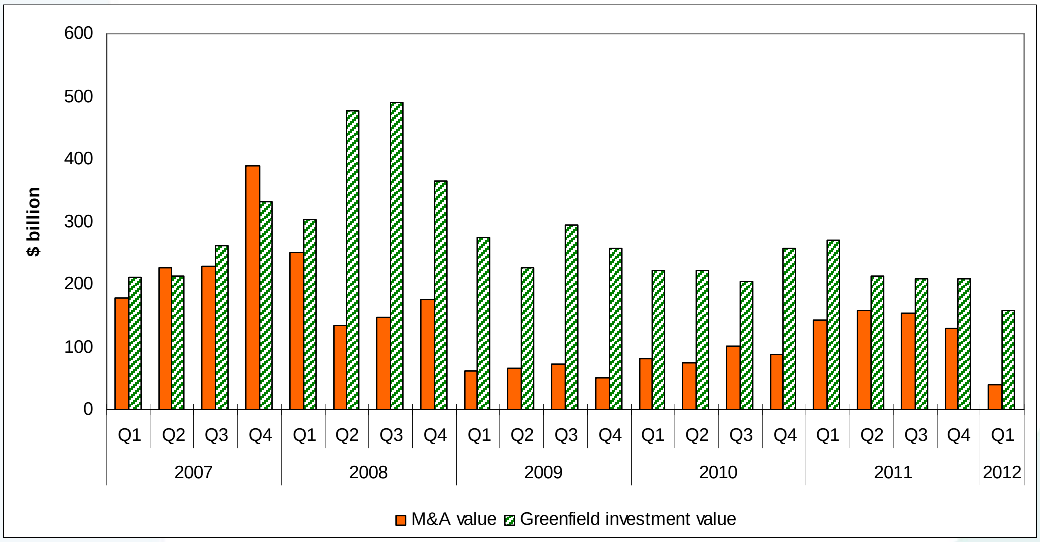
Source: UNCTAD.

FDI outflows from the ***transition economies*** of South-East Europe and the Commonwealth of Independent States (CIS) grew by 19 per cent, reaching an estimated all-time record of US$73 billion. Natural-resource-based TNCs in transition economies (mainly in the Russian Federation), supported by high-level commodity prices and higher stock market valuations, continued their expansion in emerging markets rich in natural resources (e.g. TNK-BP entered the Brazilian oil industry in 2011 with a US$1 billion acquisition of a 45% stake in 21 oil blocks located in the Solimoes Basin). Sberbank – the largest Russian bank and the third largest European bank in terms of market capitalization – has been pursuing acquisitions abroad (e.g. in 2011 the bank completed the acquisition of Volksbank’s (Austria) affiliates in eight countries). Russian technology-based firms have been busy making acquisitions in developed-country markets (e.g. the acquisitions of 10% of Twitter (United States) by Sky Technology).

...driven by cross-border M&As...

Cross-border M&A purchases were sharply up in 2011 (figure 6), rising by 70 per cent to reach US$585 billion (annex I). Developed-country TNCs generated the majority of this increase, especially those from the EU and Japan, with their purchases rising 79 per cent, to US$401 billion. Purchases by TNCs from developing regions, in contrast, registered only a 6 per cent increase, largely due to a slowdown in cross-border purchases by Indian and Brazilian TNCs.

Figure 6. Value of cross-border M&A purchases and greenfield investment projects 2007 Q1 – 2012 Q1[a]
(Billions of US dollars)



Source. UNCTAD.
[a] Data for the first quarter of 2012 are preliminary.

On the other hand, greenfield investment projects abroad by TNCs declined in value terms in 2011, though only marginally (-0.2 per cent). This decline reflects a retreat from projects in various countries and regions. However, TNCs from developing economies as a group generated more greenfield projects in 2011 than in 2010 (a 1.4 per cent increase), mostly due to greater activity by West Asian TNCs. In addition, TNCs from Indonesia, Mexico, Saudi Arabia and South Africa more than doubled the value of their greenfield projects.

...outward FDI prospects for 2012 remain guarded

The prospects for global FDI outflows continue to improve since the depth of the crisis. Recent events including the relative easing of the sovereign debt crisis in Europe, due to a massive injection of liquidity into the financial system and Greece's managed debt rescheduling, and a nascent recovery in the United States are suggestive of improvements in FDI flows.

However, the fragility of recovery in Europe and the harsh fiscal austerity adopted by the continent's governments may yet hamper an FDI upturn. Preliminary responses to this year's *World Investment Prospects Survey* (WIPS) by UNCTAD reflect these macroeconomic trends, with firms revealing that they are generally less optimistic for 2012 than before. Recent data also give reason for caution when judging FDI prospects for 2012. Greenfield projects fell sharply in value terms in the first quarter of 2012, as compared to the previous year (figure 6). Cross-border M&As were also sluggish in the first quarter of 2012 (figure 6), with announcements remaining at the low levels. The *WIPS* survey is slightly more optimistic for medium term prospects in 2013 and 2014.

Annex 1. FDI outflows, cross-border M&As and greenfield projects, by region and major economy, 2010–2011

(Billions of US dollars)

Region / economy	FDI outflows 2010 [a]	FDI outflows 2011 [b]	FDI outflows Growth rate (%)	Cross-border M&As purchases[c] 2010	Cross-border M&As purchases[c] 2011	Cross-border M&As purchases[c] Growth rate (%)	Greenfield projects (values) 2010	Greenfield projects (values) 2011	Greenfield projects (values) Growth rate (%)
World	**1 428.6**	**1 664.2**	***16.5***	**344.0**	**584.9**	***70.0***	**904.7**	**902.8**	***-0.2***
Developed economies	**984.5**	**1 234.5**	***25.4***	**223.7**	**400.9**	***79.2***	**643.7**	**642.1**	***-0.2***
Europe	**525.1**	**664.4**	***26.5***	**41.9**	**145.5**	***247.0***	**390.0**	**357.7**	***-8.3***
European Union	**450.5**	**575.9**	***27.8***	**26.0**	**117.0**	***350.9***	**358.4**	**331.2**	***-7.6***
Austria	7.7	30.2	*290.1*	1.5	3.6	*138.2*	9.3	8.1	*-12.5*
Belgium	48.8	70.3	*43.9*	0.2	7.8	*3387.5*	5.7	5.9	*3.4*
Denmark	3.2	23.6	*642.7*	- 3.4	0.3	..	4.6	8.3	*78.1*
France	84.1	106.6	*26.7*	6.1	31.8	*419.9*	52.9	49.7	*-6.1*
Germany	104.9	50.5	*-51.8*	6.8	4.8	*-29.9*	71.9	70.8	*-1.5*
Ireland	17.8	- 1.6	..	5.1	- 6.0	..	5.7	4.6	*-18.7*
Italy	32.6	67.7	*107.4*	- 6.2	4.2	..	23.5	23.1	*-1.8*
Luxembourg	15.1	11.7	*-22.5*	0.4	- 20.8	..	0.8	0.3	*-66.0*
Netherlands	50.0	22.4	*-55.2*	20.1	19.8	*-1.8*	20.6	17.4	*-15.4*
Poland	5.5	5.2	*-5.2*	0.3	0.5	*75.0*	2.7	0.9	*-65.2*
Spain	21.6	36.4	*68.4*	1.4	11.6	*747.1*	40.5	29.2	*-27.8*
Sweden	18.7	28.0	*50.3*	0.8	- 4.0	..	14.9	13.4	*-10.5*
United Kingdom	31.0	103.0	*232.3*	- 0.2	53.9	..	80.5	71.8	*-10.7*
Norway	12.2	18.7	*53.6*	- 3.9	1.4	..	5.4	6.6	*21.4*
Switzerland	64.8	69.9	*7.9*	9.7	17.5	*80.1*	25.4	19.5	*-23.2*
Canada	38.6	45.5	*18.0*	30.8	40.2	*30.6*	20.0	31.7	*58.6*
United States	328.9	383.8	*16.7*	87.4	130.2	*49.1*	146.4	157.8	*7.7*
Australia	26.4	17.3	*-34.5*	15.9	6.9	*-56.7*	12.4	14.6	*17.2*
Japan	56.3	115.6	*105.5*	31.2	62.7	*101.0*	65.9	75.0	*13.8*
Developing economies	**382.5**	**356.5**	***-6.8***	**98.1**	**103.6**	***5.6***	**239.5**	**242.7**	***1.4***
Africa	**5.0**	**2.1**	***-58.2***	**3.3**	**4.8**	***45.4***	**16.6**	**16.5**	***-0.7***
Algeria	0.2	0.0	*-91.0*	0.0	0.0	..	0.0	0.1	..
Egypt	1.2	0.6	*-46.8*	1.1	0.0	..	3.2	0.1	*-97.6*
South Africa	- 0.1	- 0.5	..	1.6	4.3	*165.8*	5.1	10.6	*106.6*
Latin America and the Caribbean	**112.2**	**79.4**	***-29.3***	**15.8**	**18.7**	***17.9***	**21.8**	**20.8**	***-4.6***
Brazil	11.5	- 9.3	..	8.5	5.5	*-34.6*	10.4	4.6	*-56.1*
Chile	8.7	7.3	*-16.6*	0.6	1.1	*68.7*	2.6	1.6	*-39.2*
Colombia	6.5	8.3	*27.5*	3.2	4.3	*34.4*	3.4	1.1	*-66.9*
Mexico	14.3	9.6	*-32.8*	2.9	4.4	*51.8*	2.1	9.4	*348.8*
Asia and Oceania	**265.2**	**275.0**	***3.7***	**79.0**	**80.1**	***1.4***	**201.1**	**205.4**	***2.2***
West Asia	**12.8**	**18.1**	***41.1***	**- 15.3**	**6.1**	**..**	**37.2**	**44.2**	***18.8***
Saudi Arabia	3.9	3.5	*-11.0*	0.7	0.0	..	1.4	5.0	*248.8*
Turkey	1.5	2.5	*68.3*	0.0	0.9	..	4.0	4.9	*22.5*
East Asia	**193.6**	**182.1**	***-5.9***	**53.9**	**50.4**	***-6.5***	**106.9**	**96.9**	***-9.3***
China	68.0	67.6	*-0.6*	29.6	34.4	*16.2*	32.9	39.7	*20.8*
Hong Kong, China	95.4	81.6	*-14.4*	14.8	11.3	*-23.7*	8.2	13.0	*58.1*
Korea, Republic of	19.2	20.4	*5.9*	9.9	4.1	*-58.7*	37.5	32.3	*-13.9*
Taiwan Province of China	11.2	12.8	*14.3*	- 0.5	0.6	..	28.1	11.9	*-57.7*
South Asia	**15.1**	**15.2**	***1.0***	**26.7**	**6.1**	***-77.2***	**20.8**	**35.6**	***71.3***
India	14.6	14.8	*0.9*	26.7	6.1	*-77.3*	19.9	34.6	*73.9*
South-East Asia	**43.7**	**59.5**	***36.2***	**13.7**	**17.6**	***27.9***	**36.2**	**28.4**	***-21.6***
Indonesia	2.7	7.7	*189.8*	0.3	0.4	*75.6*	0.4	5.0	*1113.9*
Malaysia	13.3	14.8	*10.8*	2.4	3.9	*60.7*	21.3	4.1	*-80.6*
Singapore	21.2	25.3	*19.0*	8.2	7.7	*-6.0*	8.6	12.8	*48.8*
Thailand	5.1	10.8	*110.8*	2.7	5.0	*82.9*	3.1	4.4	*40.2*
Transition economies	**61.6**	**73.1**	***18.7***	**5.7**	**13.5**	***137.3***	**21.6**	**18.0**	***-16.7***
Russian Federation	52.5	67.3	*28.1*	3.9	5.1	*31.5*	15.5	15.5	*0.3*

Source: UNCTAD.

[a] Revised

[b] Preliminary estimates.

[c] Defined as net cross-border M&A purchases by a home economy, that is, purchases of companies abroad by home-based TNCs excluding sales of foreign affiliates of home-based TNCs.

Note: World FDI outflows are projected on the basis of 102 economies for which data are available for the full year or part of 2011, as of 3 April 2012. Data are estimated by annualizing their available data, in most cases for the first three quarters of 2011. The proportion of outflows from these economies in total outflows from their respective region or subregion in 2010 is used to extrapolate 2011 regional data.

The next issue of UNCTAD's *Global Investment Trends Monitor* will be released in mid-October 2012. Final data for 2011 will appear in the World Investment Report 2012, scheduled to be released on 5 July 2012.

The next issue of UNCTAD's Investment Policy Monitor will be released in May 2012.

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