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UNCTAD

Global Investment Trends Monitor

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Second and Third Quarters of 2010

HIGHLIGHTS

- As governments are gradually winding down stimulus packages and in some cases reducing public investment in the face of mounting deficits and debt levels, private investment in the form of foreign direct investment (FDI) does not appear ready to step up to the plate.

Global FDI flows actually declined again in the second quarter of 2010, after four quarters of low-level recovery in the wake of the financial crisis. FDI inflows in the second quarter were down compared to the previous quarter and compared to the same quarter of last year, with UNCTAD's FDI Global Quarterly Index falling from 113 to 85 (table 1).

Early estimates for 2010 based on FDI flows for the first and second quarter, combined with data on greenfield investments and M&A-related flows for the third quarter, now lead to a picture of stagnant FDI activity so far for the year. That would imply that 2010 flows will still be 25 per cent less than the

average pre-crisis levels, and 40 per cent less than those in the peak year of 2007 (fig. 1), even though FDI may increase modestly towards the end of the year.

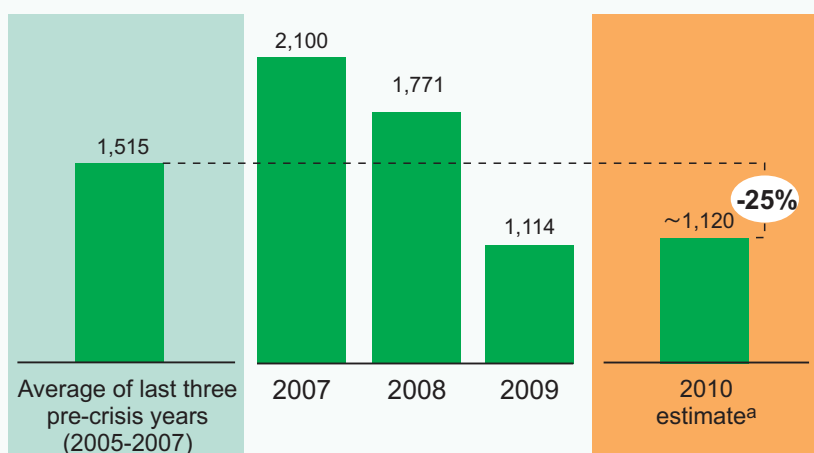
- Transnational corporations (TNCs), reacting to disappointing economic news and turmoil in sovereign debt markets, moved resources invested out of many host countries. This was clearly reflected in a marked decline in intra-company loans, one of the three components of FDI flows, as parent firms withdrew or were paid back loans from their affiliates in order to strengthen their balance sheets at home or elsewhere. Likewise, reinvested earnings tumbled as firms repatriated a larger share of the earnings of their foreign affiliates.

- FDI flows to the United Kingdom and the United States were especially hard hit in the second quarter of 2010. In contrast, flows to the Russian Federation and China increased by 30 per cent and 20 per cent respectively. In the meantime, developing and transition economies, as a whole, experienced smaller decreases in FDI inflows.
- While data from the third quarter for cross-border M&As show a gradual rebounding, greenfield investments declined, suggesting that prospects for a sustained FDI recovery are still uncertain.
- The uncertainty is aggravated by new risk factors that may seriously affect FDI flows, such as currency wars and related escalation of trade protectionism.

Table 1. UNCTAD's FDI Global Quarterly Index
(2005 = 100)

2008 Q1	219.7
2008 Q2	160.0
2008 Q3	145.2
2008 Q4	161.2
2009 Q1	58.2
2009 Q2	101.8
2009 Q3	119.4
2009 Q4	114.2
2010 Q1	112.8
2010 Q2	84.6

Figure 1. Global FDI inflows, various periods
(Billions of US dollars)



Source: UNCTAD FDI database.

^a Based on FDI data for 67 countries for the first and second quarters of 2010, and data on greenfield and M&A investments for the third quarter.

FDI declined during the second quarter of 2009

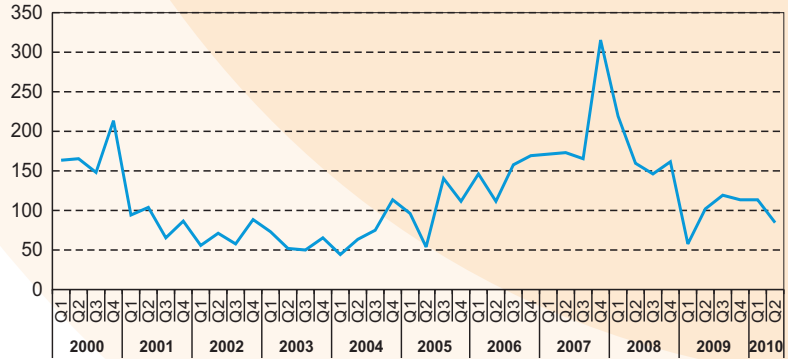
Global FDI flows registered a sharp decline during the second quarter of 2010, after a slight recovery in the second half of 2009, indicating that the expected rebound of FDI flows this year is still fraught with uncertainty (fig. 2). The value of the UNCTAD's FDI Global Quarterly Index¹ declined to 85 in the second quarter, though this was still above the low level recorded in the first quarter of 2009 (58).

The decline in FDI inflows in the second quarter was particularly pronounced in developed countries with declines leading to negative flows in some countries such as the United Kingdom (a decline of \$49 billion; from \$42 billion in the first quarter to -\$7 billion in the second quarter of 2010), Belgium (a decline of \$18 billion; from \$10 billion) and Ireland (a decline of \$7 billion; from \$6 billion) as turmoil in the sovereign debt markets of Europe and lower-than-expected economic growth rates in some countries raised questions about the stability of economic recovery. The United States also saw a decline of \$20 billion; from \$48 billion. Only a handful of developed countries saw their FDI flows increase – the Netherlands (up by \$44 billion), Switzerland (up by \$6 billion) and Norway (up by \$5.5 billion).

Developing and transition economies continued to outperform developed countries in terms of absolute value of FDI inflows, with small decreases in FDI flows to most of the top host countries in the former

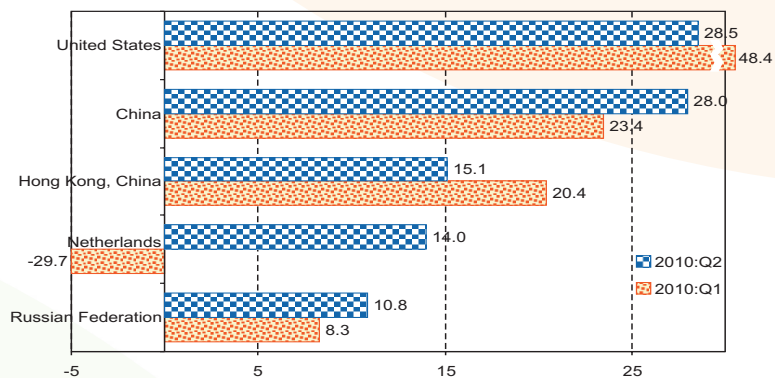
group. China was the second-largest host country for FDI flows in the second quarter, only \$0.5 billion behind the largest recipient (United States). Among the top five FDI recipients globally, three were developing and transition economies (China, Hong Kong (China) and the Russian Federation) (fig. 3)

Figure 2. UNCTAD's Global FDI Quarterly Index, 2000 Q1–2010 Q2
(Base 100: quarterly average of 2005)



Source: UNCTAD.

Figure 3. Global FDI flows: top 5 economies, 2010 Q1–2010 Q2
(Billions of US dollars)



Source: UNCTAD.

The decline was due to reinvested earnings and intra-company loans.

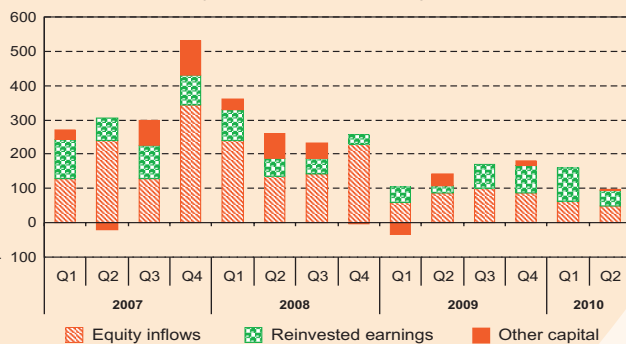
In spite of the rising profits of foreign affiliates, reinvested earnings fell in the second quarter of 2010 as parent companies repatriated a larger share of their profits (fig. 4). Intra-company loans fell sharply too, as parent firms withdrew or were paid

back loans from their affiliates, in particular those in developed host countries, in order to strengthen their balance sheets at home or elsewhere. This was especially true of European TNCs which, after facing fears of a sovereign debt crisis spreading

throughout the eurozone during the quarter, significantly reduced loans to their affiliates in the United Kingdom and the United States, causing FDI inflows to those countries to fall. In the United States, while flows from the EU declined considerably

¹ This index is based on national data on FDI inflows for over 60 major FDI recipients around the world, representing more than 90 per cent of total FDI inflows in 2008. Data on FDI flows to Hungary, Luxembourg and the Netherlands exclude FDI in special purpose entities (SPEs).

Figure 4. Quarterly FDI inflows by components for 36 selected economies,^a 2007 Q1 - 2010 Q2
(Billions of US dollars)



Source: UNCTAD.

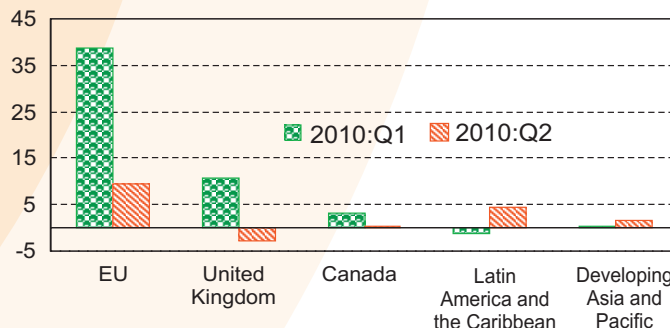
Note: The economies included are those of Argentina, Australia, Belgium, Bulgaria, Chile, Denmark, Estonia, France, Germany, Hong Kong (China), Hungary, India, Ireland, Israel, Japan, Kazakhstan, Latvia, Lithuania, Mexico, the Netherlands, New Zealand, Norway, Panama, the Philippines, Poland, Portugal, the Republic of Moldova, the Russian Federation, Slovakia, Sweden, Switzerland, Taiwan Province of China, Uganda, the United Kingdom, the United States, and the Bolivarian Republic of Venezuela..

in the second quarter, those from developing regions rose (fig. 5).

The value of cross-border M&As remained subdued in the second quarter of 2010 at \$73 billion, though the number of deals continued to rise (fig. 6). Preliminary data for the third quarter, however, show a 27% increase in the value of activity over the previous quarter. The number of deals in the third quarter fell but remained higher than the overall average for 2009. Generally speaking, the trends in cross-border M&As reflect overall improvements in business sentiments.

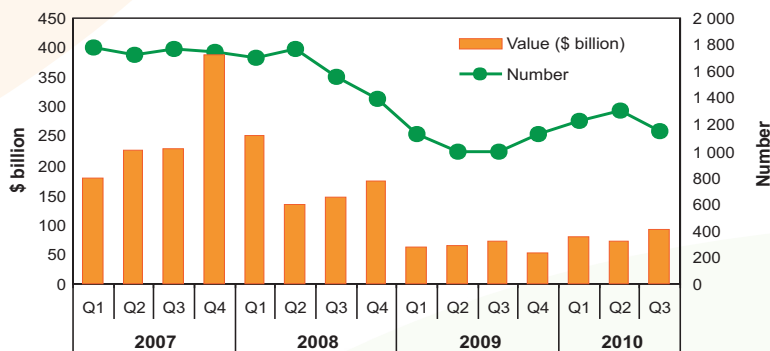
Greenfield investments – the other mode of FDI, as opposed to M&As – rose in both number and value terms in the second quarter of 2010, but in the third quarter, their value declined, although the number remained almost the same (fig. 7). A strong growth of projects in developing and transition economies accounted for much of the increase in the second quarter, but this was not enough to compensate for the loss in developed countries in the third quarter. Overall, compared with the previous year, the number of greenfield projects in 2010 has shown little change so far (fig. 7).

Figure 5. FDI flows to the United States by investing country, 2010 Q1 - 2010 Q2
(Billions of US dollars)



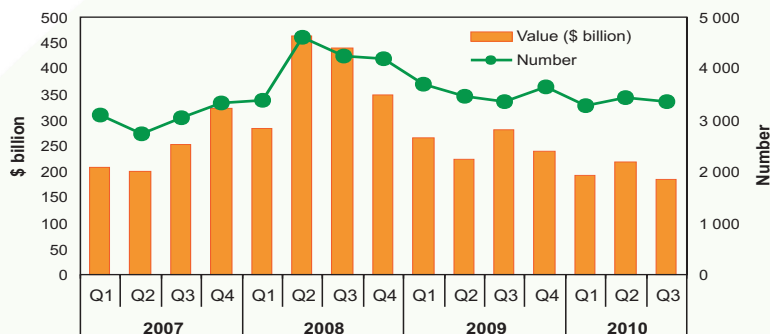
Source: UNCTAD, based on data from the United States Department of Commerce.

Figure 6. Value and number of global cross-border M&A sales, 2007 Q1 - 2010 Q3
(Billions of dollars and number of deals)



Source: UNCTAD.

Figure 7. Value and number of greenfield FDI projects, 2007 Q1 - 2010 Q3^a
(Billions of US dollars)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

^a The data for September 2010 are estimated.

Note: Data for value refer to estimated amounts of total capital investment – not necessarily to FDI alone.

A new FDI boom remains a distant prospect

The rebound in cross-border M&As registered in the first three quarters gives credence to the expectation that FDI flows may slightly improve during the third and last quarters of 2010. Indeed, the second and third quarters already saw a doubling in the number of megadeals compared to the same period in 2009 with developing and transition economies hosting more than one third of those deals (table 2). Thus, overall, as estimated by UNCTAD in the *World Investment*

Report 2010, global FDI flows in 2010 will remain stable or rise moderately led by M&As. However, this assessment is fraught by the vulnerabilities of the global financial system and by new risk factors such as currency wars and related trade protectionism.

The second quarter's sharp contraction showed the continued fragility of FDI inflows. Reinvested earnings, which are a more stable component of FDI flows, dropped notably in the quarter, even as

corporate profits continued to rise. This suggests that as the international financial system is continuing to struggle, TNCs are being forced to strengthen their balance sheets by recalling financial resources from their affiliates abroad. Renewed efforts may be required to improve the functioning of global credit markets and to promote stronger economic growth in developed countries and a full recovery in FDI may well be hampered until this happens.

Table 2. Cross-border M&A deals with a value of over \$3 billion, first three quarters of 2010

Value (\$ million)	Acquired company	Industry of the acquired company	Host economy	(Ultimate) acquiring company	(Ultimate) economy
First quarter					
7 603	Solvay Pharmaceuticals SA	Pharmaceutical preparations	Belgium	Abbott Laboratories	United States
5 195	Unity Media GmbH	Cable and other pay television services	Germany	Liberty Media Corp	United States
4 469	Egyptian Co for Mobile Services	Radiotelephone communications	Egypt	France Telecom SA	France
4 000	Liberty Global Inc- Subsidiaries	Cable and other pay television services	United States	KDDI Corp	Japan
3 700	Kraft Foods Inc-North American Pizza Business	Frozen specialties, nec	United States	Nestle SA	Switzerland
3 363	Springer Science+ Business Media Deutschland GmbH	Books: publishing, or publishing & printing	Germany	Group of investors	Guernsey
Second quarter					
18 769	Cadbury PLC	Candy and other confectionery products	United Kingdom	Kraft Foods Inc	United States
10 700	Zain Africa BV	Radiotelephone communications	Nigeria	Bharti Airtel Ltd	India
8 496	T-Mobile(UK)Ltd	Radiotelephone communications	United Kingdom	France Telecom SA	France
7 325	Fomento Economico Mexicano SAB de CV-Beer Operations	Malt beverages	Mexico	Group of investors	Netherlands
5 516	ZAO Kyivstar GSM	Radiotelephone communications	Ukraine	Vimpelkom	Russian Federation
4 848	Carabobo Block	Crude petroleum and natural gas	Bolivarian Republic of Venezuela	Group of investors	India
4 031	OSI Pharmaceuticals Inc	Pharmaceutical preparations	United States	Astellas Pharma Inc	Japan
3 800	Bunge Participacoes e Investimentos SA	Soybean oil mills	Brazil	Vale SA	Brazil
3 426	Tandberg ASA	Radio & TV broadcasting & communications equipment	Norway	Cisco Systems Inc	United States
3 160	Tommy Hilfiger Corp	Men's shirts and nightwear	Netherlands	Phillips-Van Heusen Corp	United States
Third quarter					
9 743	Brasilcel NV	Radiotelephone communications	Brazil	Telefonica SA	Spain
9 018	Lihir Gold Ltd	Gold ores	Papua New Guinea	Newcrest Mining Ltd	Australia
6 127	Millipore Corp	Laboratory analytical instruments	United States	Merck KGaA	Germany
5 959	Sybase Inc	Prepackaged Software	United States	SAP AG	Germany
4 931	Ratiopharm International GmbH	Pharmaceutical preparations	Germany	Teva Pharm Inds Ltd	Israel
4 380	Tomkins PLC	Mechanical power transmission equipment, nec	United Kingdom	Onex Corp	Canada
4 052	AXA SA-Life Assurance Business, UK	Life insurance	United Kingdom	Resolution Ltd	Guernsey
3 717	Valeant Pharmaceuticals International Inc	Pharmaceutical preparations	United States	Valeant Pharmaceuticals	Canada
3 713	Piramal Healthcare Ltd- Healthcare Solutions Business	Pharmaceutical preparations	India	Abbott Laboratories	United States
3 330	Interactive Data Corp	Information retrieval services	United States	Interactive Data Corp SPV	United States
3 164	Arrow Energy Ltd	Crude petroleum and natural gas	Australia	Royal Dutch Shell PLC	Netherlands
3 100	BP PLC-Permian Basin Assets	Crude petroleum and natural gas	United States	Apache Corp	United States

Source: UNCTAD.

The next issue of the UNCTAD Global Investment Trends Monitor is planned for release in mid-January 2011.

