EADS Snapshot on

UNCTAD World Investment Report 2009

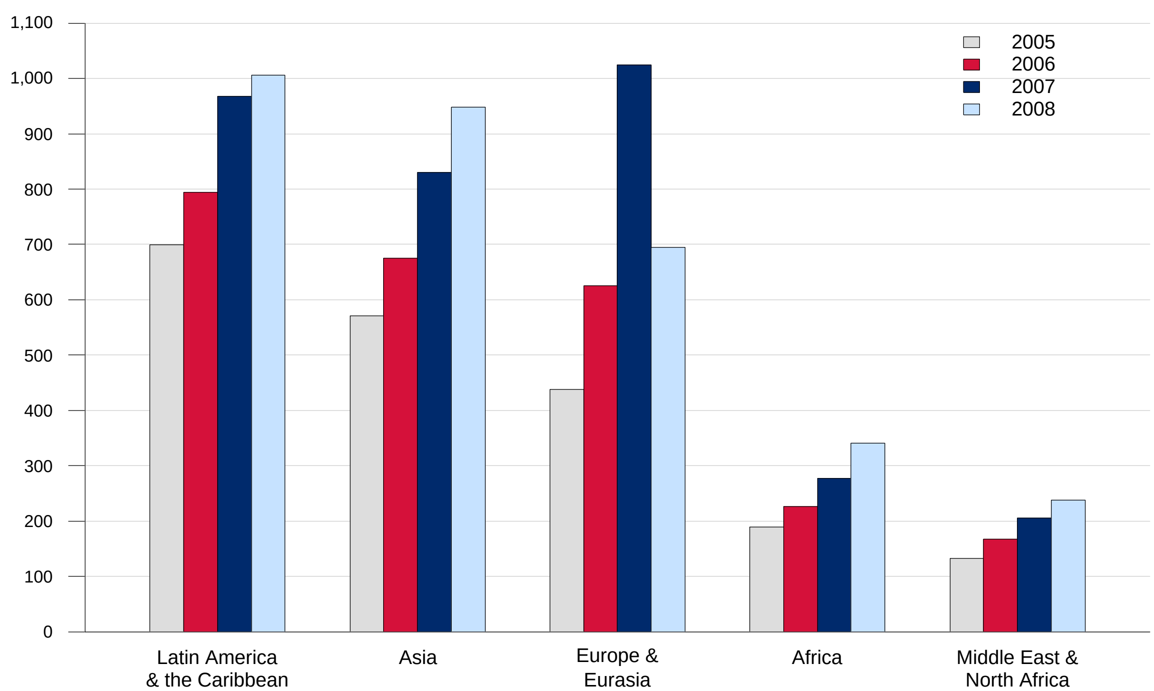
No. 16 April 2010

Introduction

UNCTAD's World Investment Report 2009 (WIR 2009) and its accompanying FDI database explain the nature and magnitude of the decline of FDI in 2008 as a result of the financial crisis. The outlook for FDI, now the largest source of external financing for developing countries, was damaged by the financial crisis in multiple ways. First, the crisis limited credit and caused shorter term borrowing rates to surge. Second, corporate profits shrank, curtailing self-financing options. Additionally, the resulting weakened global demand reduced the scope of many firms' investment plans. The report notes that firms, 'might implement cost-cutting programmes (including divestments, layoffs, and postponement or cancellation of investment projects) beyond what might be justified by the grim business outlook.'

After continuous growth from 2003-2007, global FDI inflows in 2008 dropped 14% to $1,697 billion. In 2008, developed countries suffered a 29% decrease while FDI inflows to developing countries actually increased 17%. WIR 2009 cites developing countries' financial systems being less connected to the hard-hit U.S. and European banking sectors as the primary explanation. Nevertheless, the developing countries did not escape unscathed. Preliminary data indicates that FDI inflows declined on average by 40% in developing and transition economies in the first quarter of 2009. Figure 1 below provides an overview of the levels of inward FDI stock to all countries not classified as high income by the World Bank. Inward FDI stock can be thought of as net cumulative FDI flows. With the exception of Europe and Eurasia, all regions enjoyed rising FDI stock from 2005-2008. Europe and Eurasia's large decline in FDI stock in 2008 is primarily attributed to large FDI outflows from Turkey and Russia.

Fig. 1. FDI Inward Stock by Region, Billions $US, 2005-2008



USAID-Assisted Countries' Ability to Attract FDI

The following regional analysis excludes countries receiving under $2 million in USAID assistance in Fiscal Year 2008. It also excludes countries with relatively large extractive industries-either petroleum or mining-relative to their exports since these industries can sometimes distort the regional FDI picture.[1] By excluding them, we gain a clearer picture of which USAID-assisted countries with a more diversified export base are succeeding in attracting FDI. See page 5 for more information on data sources used and how countries were excluded.

Despite the negative effects of the financial crisis, FDI inflows to all regions, with the exception of the Middle East, rose in 2008. However, data for FDI inflows from the first quarter of 2009 prove that developing nations were not immune from the effects of the crisis, with all regions showing sharp declines compared to the same period in 2008.

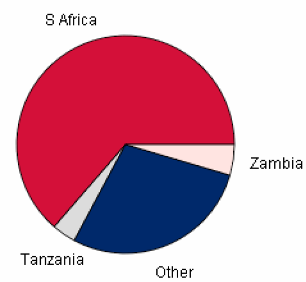
Africa

Twenty-seven African countries received $20.5 billion in FDI inflows in 2008, up 29% from $15.9 billion in 2007. The WIR 2009 report attributes the FDI surge to high commodity prices in the first half of 2008. South Africa performed well in terms of total FDI inflows as well as FDI inflows per capita, while Djibouti attracted high levels of FDI in per capita and percentage of GDP terms (see Table 1).

Table 1. Top FDI inflows recipients, 2008

Millions $US	$ per capita	% GDP
South Africa [9,009]	Djibouti [462]	Djibouti [23.8%]
Ghana [2,120]	Namibia [357]	Liberia [16.9%]
Madagascar [1,477]	South Africa [185]	Madagascar [15.6%]

Fig. 2. Share of FDI inwards stock, 2008



The WIR 2009 report recognizes that the continent's main FDI destinations continued to be natural resource producers and adds, 'In general, downstream activities and diversification efforts... remain marginal.' South Africa continues to attract the lion's share of FDI, having accumulated nearly 64% of the region's inward stock. No other country possessed more than 5% of the total inward stock in 2008 (see Figure 2).

The WIR 2009 report highlights several notable 2008 FDI agreements. In Ghana, Vodafone Group (UK) acquired a 70% share of Ghana Telecommunications Co Ltd. for $900 million. South African FDI rose dramatically, partly due to further installments in the $5.6 billion purchase by a Chinese state-run bank of a 20% stake in Standard Bank.

Although FDI surged in 2008, data for the first quarter of 2009 reveals a 71% year-on-year decline in South Africa, Uganda, Ghana, and Zimbabwe. The global slowdown coupled with depressed commodity prices will continue to take a toll on African FDI and UNCTAD's World Investment Prospects Survey predicts that transnational corporations will only begin to increase their FDI towards the end of 2011.

Asia

Eighteen Asian countries absorbed $178.4 billion in FDI inflows in 2008, a 32% increase from $135.6 billion in 2007. China and India continue to dominate the region's FDI inflows. China is now the world's third largest FDI destination, behind the U.S. and France. Not coincidentally, China and India are ranked first and third, respectively, as most preferred FDI locations in UNCTAD's World Investment Prospects Survey 2009-2011.

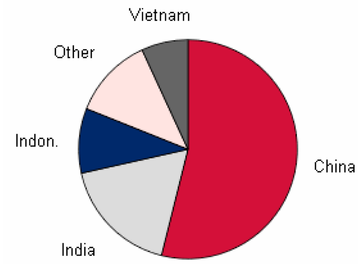
[1]Natural resource exports reliant countries excluded from analysis are Angola, Azerbaijan, Guinea, Iraq, Kazakhstan, Mongolia, Nigeria, Sudan, Venezuela, and Yemen.

Vietnam attracted high levels of FDI inflows in per capita and percentage of GDP terms (see Table 2 below). Its inflows surged 20% to $8 billion, with early data from the first half of 2009 showing no signs of slowdown. The report notes Vietnam has become a desirable location for labor-intensive manufacturing. In November 2008, a Taiwanese firm announced its plans to invest up to $15 billion in a central Vietnam petrochemical complex.

Table 2. Top FDI inflows recipients, 2008

Millions $US	$ per capita	% GDP
China (P.R.C.) [108,312]	Turkmenistan [170]	Vietnam [9.0%]
India [41,554]	Vietnam [93]	Tajikistan [7.3%]
Vietnam [8,050]	China (P.R.C.) [81]	Cambodia [7.2%]

Fig. 3. Share of FDI inwards stock, 2008



The WIR 2009 also commends Indonesia for increasing FDI inflows despite the financial crisis. Political stability, resilient domestic demand and sound macroeconomic fundamentals helped Indonesian FDI rise 14% to $8 billion and provide a solid framework for future FDI prospects. Despite certain bright spots, UNCTAD expects decreased FDI inflows in the short to medium term due to the region's heavy reliance on exports. The data corroborates this point, as first quarter 2009 FDI inflows to selected Asian countries were down 27% year-on-year.

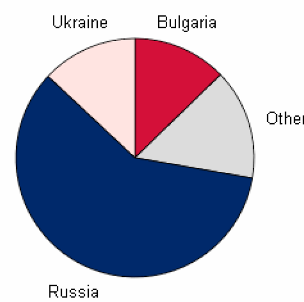
Europe and Eurasia

The Europe and Eurasia region received $102.3 billion in FDI inflows in 2008, a 21% increase from the year prior. However, inflows were heavily concentrated, with Russia, Ukraine, and Bulgaria accounting for nearly 90% of the region's inflows (see Table 3). Like FDI inflows, FDI stock is nearly as concentrated with the same 3 countries making up 85% of regional stock (see Figure 4). Bulgaria and Montenegro stand out for their FDI totals measured as a percentage of GDP and per capita.

Table 3. Top FDI inflows recipients, 2008

Millions $US	$ per capita	% GDP
Russia [70,320]	Montenegro [1,385]	Montenegro [19.4%]
Ukraine [10,693]	Bulgaria [1,267]	Bulgaria [18.4%]
Bulgaria [9,205]	Russia [500]	Georgia [12.2%]

Fig. 4. Share of FDI inwards stock, 2008



The WIR 2009 report generalizes that recent FDI to South East Europe has been driven by the selling of state-owned enterprises. Conversely, inflows to several former Soviet countries originates from foreign firms' desire to access large and growing consumer markets in addition to opportunities from newly liberalized industries. Russia, the world's fourth largest electricity producer, restructured and divested largely from the electricity generation industry, allowing several European transnational corporations to make inroads. Nevertheless, the bulk of Russian FDI continued to focus on oil and gas extraction and refining. However, the report notes that investor confidence in Russia may be waning with commodity prices retreating from 2008 highs and political tensions with developed nations remaining high after the Georgian conflict. The report also highlights Albania's FDI surging 45% due to the privatization of large State-owned companies and business environment improvements. Regional FDI slowed in the second half of 2008 and preliminary data for the first quarter of 2009 indicates a 50% year-on-year contraction. FDI flows are expected to remain depressed in the near-term due to the near-exhaustion of privatization opportunities in South East Europe. The medium term outlook for investment is rosier, however, with UNCTAD's World Investment Prospects Survey 2009-2011 revealing respondents are more optimistic than in the 2008-2010 edition.

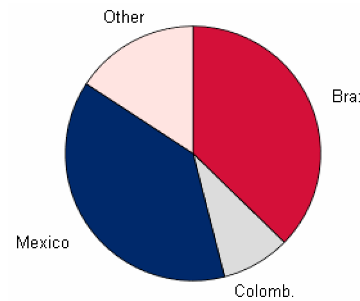
Latin America and the Caribbean

Eighteen USAID-assisted LAC countries received $95.6 billion in FDI inflows in 2008, a 10% increase from 2007. The UNCTAD report points out that Central America and the Caribbean economies were more adversely affected by the financial crisis than South America due to the former's reliance on U.S. exports and remittances. Once again, Brazil and Mexico lead the region in total inflows, but when measured as a percentage of GDP and per capita, Panama also stands out (see Table 4). In terms of FDI stock, Brazil, Mexico, and Colombia possess 84% of the region's total, with no other country reaching 5% (see Figure 5).

Table 4. Top FDI inflows recipients, 2008

Millions $US	$ per capita	% GDP
Brazil [45,058]	Panama [726]	Guyana [15.4%]
Mexico [21,950]	Costa Rica [482]	Panama [10.4%]
Colombia [10,564]	Dominican Rep. [303]	Nicaragua [9.8%]

Fig. 5. Share of FDI inwards stock, 2008



Despite significant reductions in FDI to traditional sectors such as tourism, free zones, and real estate, inflows to the Dominican Republic surged 83% to $2.9 billion. UNCTAD suggests this may demonstrate the positive impact of the Dominican Republic-Central American Free Trade Agreement. Several Central American countries suffered painful drops in exports and employment as a result of factory closures in the maquila textile industry. In January 2009, textile export volumes fell 35% in Guatemala, 28% in Costa Rica, 27% in El Salvador, 16% in Honduras, and 8% in Nicaragua. Preliminary data for the first quarter of 2009 reveal FDI inflows falling 43% to selected LAC countries year-on-year.

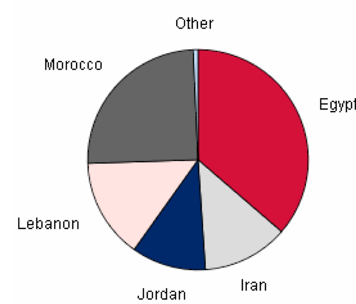
Middle East and North Africa

The six Middle East countries receiving at least $2 million in USAID funding in FY2008 received $19.0 billion in FDI inflows in 2008, a 9% decrease from 2007. The Middle East is the only region analyzed where FDI inflows declined in 2008. Egypt and Lebanon are the region's main recipients, while Jordan also performs well when FDI is measured in percentage of GDP and per capita terms. Egypt and Morocco account for over 60% of the region's FDI stock, although 3 other countries have at least a 10% share (see Figure 6).

Table 5. Top FDI inflows recipients, 2008

Millions $US	$ per capita	% GDP
Egypt [9,495]	Lebanon [908]	Lebanon [12.3%]
Lebanon [3,606]	Jordan [315]	Jordan [9.2%]
Morocco [2,388]	Egypt [116]	Egypt [5.8%]

Fig. 6. Share of FDI inwards stock, 2008



The WIR 2009 report highlights several large acquisitions of Egyptian firms by Western European companies in the construction and gas industries. UNCTAD attributes the majority of the 32% rise in FDI inflows to Lebanon in 2008 to real estate investments. The report also brings to light several pro-FDI policies that have been implemented recently. Officials in Jordan announced plans to privatize four companies in the downstream segment of the petroleum industry as well as the Jordan Post Company. Elsewhere, Egypt announced the establishment of various free industrial zones to entice investors. Nevertheless, UNCTAD expects FDI inflows to the region to decline, as lower trade volumes and tighter credit markets hamper potential FDI.

About the data and countries excluded
FDI figures are from the UNCTAD FDI database. UN COMTRADE is the source for aggregate exports and exports at the 2 digit SITC level to help determine natural resource-reliant countries to exclude. In addition, World Bank, World Development Indicators were used to obtain the fuel and ores and metals exports as a percentage of merchandise exports for those countries missing UN COMTRADE export data. GDP data are from IMF, World Economic Outlook Database. Data for population and are from the U.S. Bureau of Census, International Database and World Bank, World Development Indicators. Lastly, data on USAID economic assistance are retrieved from the U.S. Overseas Loans and Grants annual publication for Congress and is available at http://gbk.eads.usaidallnet.gov/. Countries with less than $2 million in USAID economic assistance in Fiscal Year 2008 were dropped. Next, those where natural resource exports are greater than 80% of total exports were dropped. The following SITC level 2 categories were those selected to represent natural resource exports. -28 Metalliferous Ores and Metal Scrap -32 Coal, Coke and Briquettes -33 Petroleum, Petroleum Products and Related Materials -34 Gas, Natural and Manufactured -68 Nonferrous Metals -97 Gold, Nonmonetary (Excluding Gold Ores and Concentrates)

Additional information
To access the entire UNCTAD FDI dataset and other sources mentioned above, visit the Economic and Social Database (ESDB) at http://esdb.eads.usaidallnet.gov/. The ESDB website offers related datasets from the IMF, World Bank, and other sources. Through the ESDB website you can also access trade and investment country profiles, generate customized tables and graphs, and utilize a wide array of analytic tools including the Financial Sector Analysis Tool.