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World Investment Report 2013

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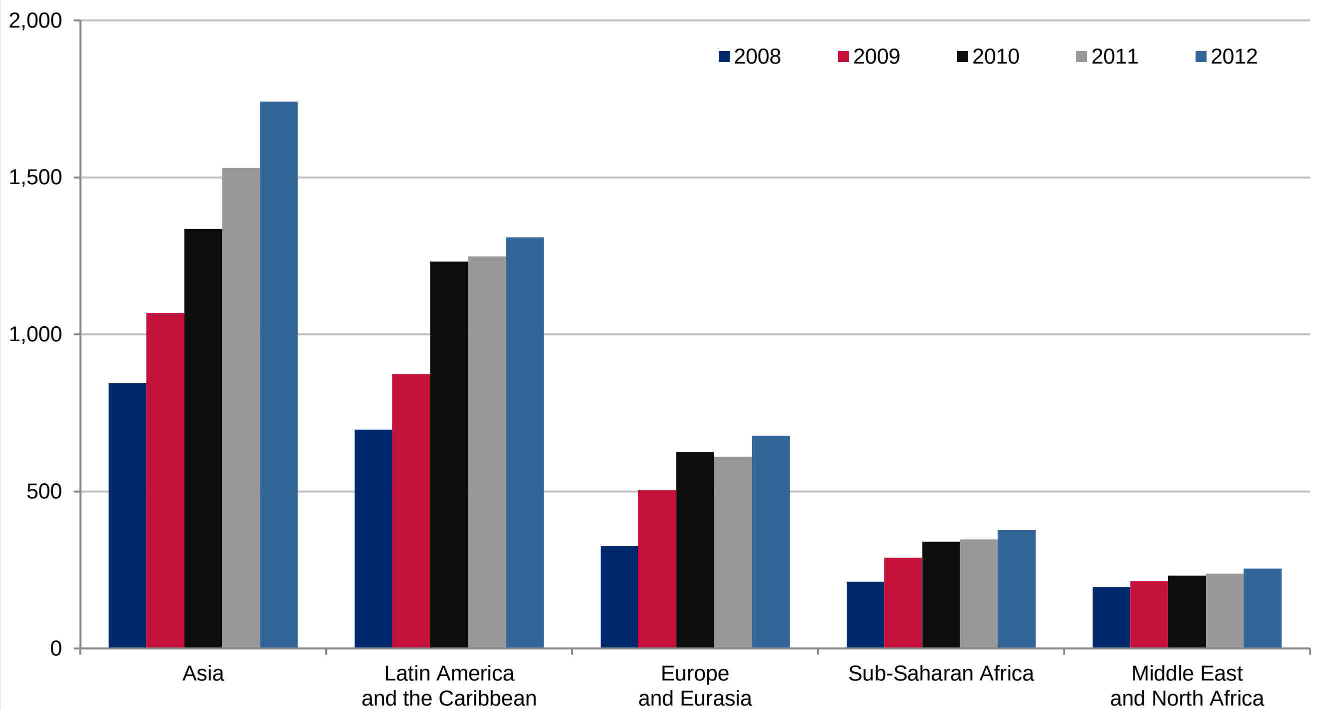
UNCTAD's World Investment Report 2013 notes that global foreign direct investment (FDI) inflows fell 18 percent in 2012, decreasing to $1.35 trillion from $1.5 trillion in 2011. The decline was mainly caused by weak economic growth and policy uncertainty in the major economies. In addition, several transnational corporations (TNCs) redistributed their international investment through restricting of assets, divestment, and relocation. However, with improvements in key macroeconomic indicators, UNCTAD predicts that FDI in 2013 will remain stable with a slight increase to $1.45 trillion. The improvements in economic conditions will boost investors' confidence and will lead TNCs to convert their record levels of cash holdings into new investments.

FDI inward stock, the amount of FDI inflows accrued over time, has rebounded since the 2008 financial crisis. All regions experienced an increase in inward FDI stock, with Asia (13.8 percent increase) and Eastern Europe (10.9 percent increase) leading the surge. The rise of inward stock in Asia was driven by lower-income countries (Cambodia, Myanmar, and Vietnam) that serve as bright spots for labor intensive FDI. In Latin America the growth of FDI inflows resulted from a mix of natural resource seeking (Chile, Peru, and Columbia), strength of commodity prices (Brazil), and market-seeking activity. FDI inflows to Sub-Saharan Africa were driven by investments in the extractive sector (Democratic Republic of Congo, Mauritania, Mozambique, and Uganda), private equity funds, and manufacturing and services industries.

FDI Inward Stock by Region, 2008–2012 (in billions of USD)



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FDI in USAID-Assisted Countries

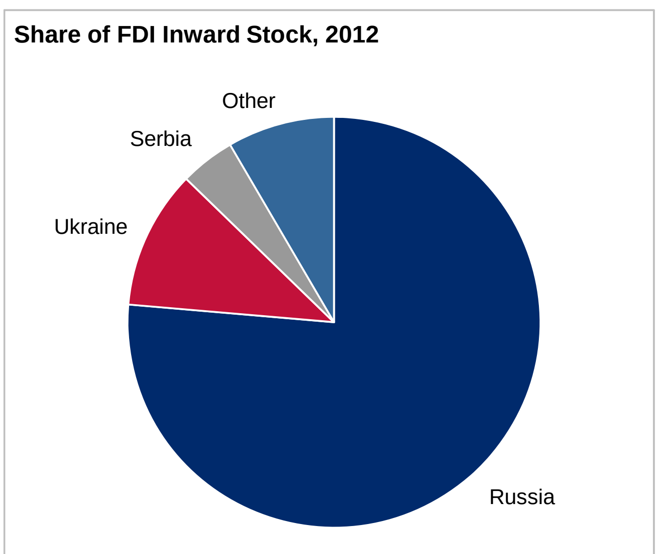
The following regional analysis examines countries receiving $2 million or more in USAID assistance in fiscal year 2011. We focus on the attractiveness of a country's investment environment. Countries with large extractive industries, either petroleum or mining based, are excluded since these factors can overwhelm the policy environment. By excluding these countries, we get a better picture of how the policy environment influences FDI distribution among the regions and countries USAID assists. Please see the section "About This Analysis" (page 7) for more information on data sources used and how countries were excluded from the analysis.

In 2012, USAID regions had mixed results following the sluggish economic recovery. The Middle East and North Africa (54 percent increase) and Sub-Saharan Africa (21 percent increase) were the only two regions that experienced higher FDI inflows than in 2011. In Europe and Eurasia (12 percent decrease), Asia (5 percent decrease), and Latin America and the Caribbean (2 percent decrease), FDI inflows plummeted in 2012.

Europe and Eurasia

Europe and Eurasia experienced the biggest loss FDI flows compared to other regions. The eleven countries in the Europe and Eurasia region received $65.2 billion in FDI inflows in 2012, a 12 percent decrease from $73.9 billion in 2011. Three countries, led by Bosnia and Herzegovina, Montenegro, and Ukraine, enjoyed an increased inflow in FDI.

Despite a 7 percent decrease from 2011, Russia remained the largest recipient of FDI inflows, attracting $51.4 billion in 2012. Foreign investors were attracted by Russia's growing domestic market and growing investments in the automotive and financial industries. Russia's accession to the World Trade Organization has had a positive impact on investors' decisions to invest in certain projects, for example the acquisition of Global Ports by the Dutch company APM Terminals. After Montenegro, Albania was the second largest recipient of FDI inflows as a percent of GDP despite a slight decrease in FDI inflows. UNCTAD notes that Albania's friendly business environment, open economy, and privatization of state-owned enterprises have helped FDI flows in 2012. Ukraine maintained the second highest stock of FDI in the region despite uncertainties surrounding the domestic political situation. The country garnered $7.8 billion in FDI in 2012, an increase of 9 percent from $7.2 billion in 2011.



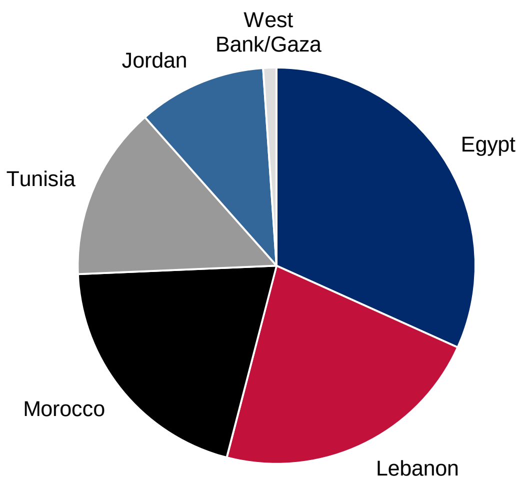
Top FDI Inflow Recipients, 2012	
Country	**Inflow**
Total inflows (in millions of USD)	
Russia	51,416
Ukraine	7,833
Belarus	1,442
Inflows per capita (in USD)	
Montenegro	927
Russia	361
Albania	319
Inflows as a percentage of GDP	
Montenegro	14.2
Albania	7.5
Georgia	5.4

Middle East and North Africa

Middle Eastern and North African (MENA) countries received $13 billion in FDI inflows in 2012, an increase of 54 percent from $8.4 billion in 2011. The MENA region had the highest percent increase in FDI inflows from 2011 compared to other regions but it still the smallest FDI recipient region, receiving 3 percent of all FDI inflows. With the exception of Jordan, all MENA countries showed an increase in FDI inflows. The conflict in Syria continues to weigh negatively on investment prospects for Jordan, and helped divert some construction-related investments from the Gulf region due to its unstable neighboring country.

Investors' confidence appears to have returned to North Africa, as FDI increased in Egypt, Morocco, and Tunisia. Egypt still maintained the highest stock FDI increase, caused by a rebound in investment from European investors. Investment from the EU is expected to increase in North African countries. The EU and Morocco are negotiating for a Deep and Comprehensive Free Trade Agreement (DCFTA). Morocco is the first North African country to negotiate a DCFTA with the EU that includes investment. Negotiations with Egypt, Jordan, and Tunisia are expected to follow.

Share of FDI Inward Stock, 2012



Top FDI Inflow Recipients, 2012

Country	Inflow
Total inflows (in millions of USD)	
Lebanon	3,787
Morocco	2,836
Egypt	2,798
Inflows per capita (in USD)	
Lebanon	915
Jordan	216
Tunisia	179
Inflows as a percentage of GDP	
Lebanon	9.2
Jordan	4.5
Tunisia	4.2

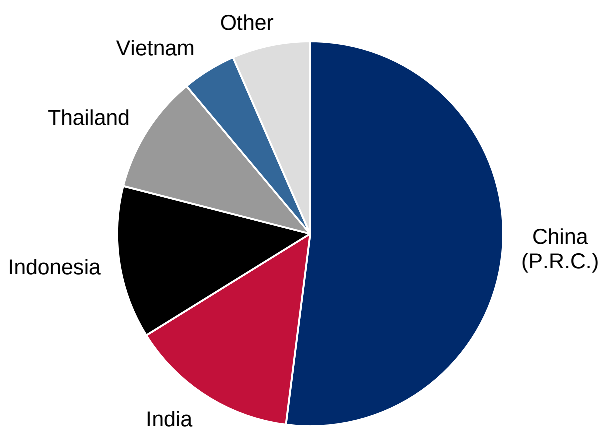
For the second year in a row, Lebanon remained the top recipient of FDI inflows and in terms of FDI per capita and as a percentage of GDP. The increase in FDI was enhanced by foreign acquisitions in the insurance industry, real estate services and new gas discoveries in Lebanese waters that will attract FDI in oil exploration. About 46 international oil companies prequalified to bid for gas exploration in a licensing round that opened on May 2, 2013.

Asia

Seventeen Asian countries received a total of $194.6 billion in FDI inflows in 2012, a decrease of 5 percent from 2011's $205.4 billion. Asia is still the largest FDI recipient region, receiving 46.4 percent of all FDI inflows to USAID countries. Although FDI to the region decreased, performance varied between countries as nearly half of the countries experienced a rise in FDI.

China continues to be the most favored FDI destination, despite the slight decrease in FDI inflows caused by the downward pressure in the manufacturing industry. The industry is facing rising production costs, weakening export markets, and the relocation of foreign firms to lower income countries. For example, Thailand has overtaken China as Toyota's third largest production base. On the other hand, China is attracting a greater number of foreign-invested research and development centers, which doubled in the last five years.

Share of FDI Inward Stock, 2012



Top FDI Inflow Recipients, 2012

Country	Inflow
Total inflows (in millions of USD)	
China (P.R.C.)	121,080
India	25,543
Indonesia	19,853
Inflows per capita (in USD)	
Thailand	128
Cambodia	104
Vietnam	91
Inflows as a percentage of GDP	
Cambodia	10.9
Vietnam	6.1
Kyrgyzstan	5.7

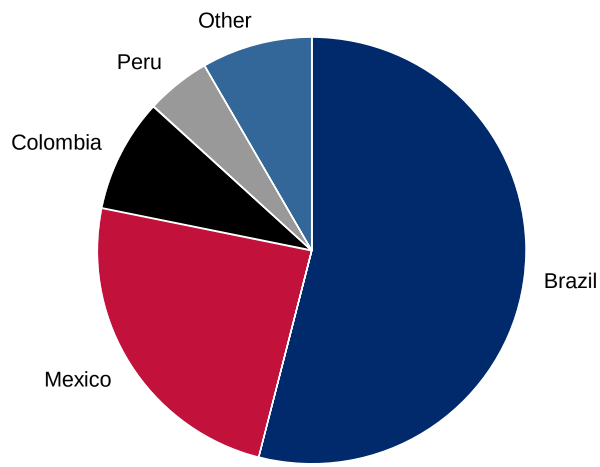
Cambodia and Vietnam received a high level of FDI inflows as a percentage of GDP in 2012, caused by the increase of labor intensive FDI in the extractive sector and infrastructure industry. Thailand continues to receive the highest FDI inflows per capita in the region by attracting higher levels of Greenfield projects, mainly in the electronic and automotive industries. UNCTAD notes that automotive makers, such as Japanese TNCs, have been strengthening and expanding in Thailand.

FDI inflow to India decreased by 29 percent in 2012 caused by slow economic growth and high inflation that affected investors' confidence. However, UNCTAD predicts that inflows to the service sector and manufacturing industry are likely to increase. India recently established country and industry specific industrial zones.

Latin America and the Caribbean

The fifteen Latin American countries received $117.1 billion in FDI inflows in 2012, a decrease of 2 percent from $119.1 billion in 2011, with an increase in inflows to South America and decreases in Central America and the Caribbean. South America continues to attract investment due to its growing domestic markets (middle class), relatively high growth rates, and natural resource endowments (such as oil, gas, metals, and minerals). In spite of a slight decrease, Latin America is till the second biggest recipient of FDI inflows after Asia.

Share of FDI Inward Stock, 2012



Top FDI Inflow Recipients, 2012

Country	Inflow
Total inflows (in millions of USD)	
Brazil	65,272
Colombia	15,823
Mexico	12,659
Inflows per capita (in USD)	
Costa Rica	489
Peru	414
Dominican Republic	358
Inflows as a percentage of GDP	
Guyana	8.3
Nicaragua	7.7
Peru	6.2

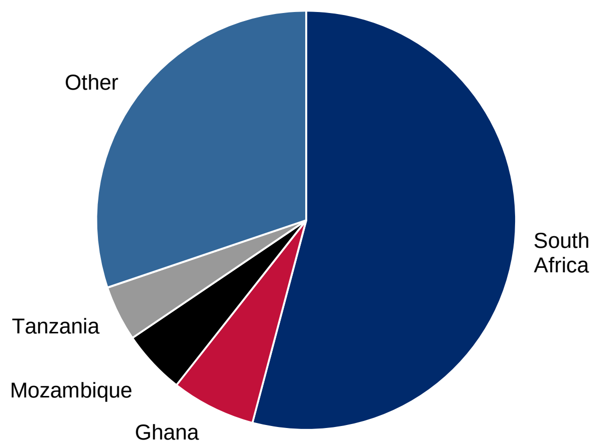
Brazil remained the largest recipient of FDI inflows in the region, attracting $65.3 billion in 2012, a 2 percent decrease from 2011. Brazil has a new industrial policy to develop its domestic industry, improve its technological capabilities, and improve industrial investment. As an example, UNCTAD mentions that the Brazilian government is focusing on boosting investment in the automotive industry by stimulating competitiveness and technology upgrading, developing local suppliers, and slowing import growth.

Mexico inward FDI declined by 41 percent in 2012 to $13 billion. The decrease is caused by 25 percent divestment of interest by the Spanish Banco Santander. However, UNCTAD foresees an increase in investment caused by nearshoring, which is the practice of bringing manufacturing operations closer to a domestic market. The nearshoring is caused by the fast growth of labor costs in China, volatility of fuel costs used for shipment of goods, and the yuan's appreciation against the dollar and euro. Some of the companies that have already moved some or all of their production from Asia to Mexico to be closer to the United States market include Emerson (electrical equipment), Meco Corporation (leisure goods), Coach Inc. (premium leather goods), and Axiom (fishing rods).

Sub-Saharan Africa

Twenty nine Sub-Saharan African countries received $30 billion in FDI inflows in 2012, an increase of 21 percent from 2011's $25 billion. Regional FDI was buoyed by FDI flows to Central Africa (Central African Republic, Congo (Kinshasa), and Rwanda) and East Africa, whereas West Africa (Ghana, Niger, and Burkina Faso) and Southern Africa (South Africa) registered declines. UNCTAD notes that Sub-Saharan Africa is one of the few regions that still enjoys an increase in the flow of FDI since 2010, the result of exploitation of natural resources, high flows of Chinese investment (manufacturing and services), and good regional economic performance.

Share of FDI Inward Stock, 2012



Top FDI Inflow Recipients, 2012

Country	Inflow
Total inflows (in millions of USD)	
Mozambique	5,218
South Africa	4,572
Congo (Kinshasa)	3,312
Inflows per capita (in USD)	
Mauritania	358.5
Liberia	348.3
Mozambique	221.9
Inflows as a percentage of GDP	
Liberia	7.8
Mozambique	3.6
Mauritania	2.9

Mauritania became the largest FDI recipient per capita in the region and the third in FDI inflows as a percent of GDP. A big share of the growth is attributed to investment in the extractive sector and expansion in mining operations (copper and gold) by Canada-based First Quantum Minerals and Kinross.

Mozambique has replaced South Africa as the most favored FDI destination, by receiving $5.2 billion in FDI inflows in 2012, an increase of 96 percent from $2.7 billion in 2011. UNCTAD notes that the surge is caused by Indian and Chinese investment in offshore gas deposits, Greenfield, and real estate sectors. South Africa received $4.6 billion in FDI inflows in 2012, a decrease of 24 percent from 2011's $ 60 billion. UNCTAD notes that the net divestments accrued in the last quarter of 2012, which was primarily attributed to a foreign mining company offloading its stake in a South African subsidiary.

About This Analysis

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 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 (http://gbk.eads.usaidallnet.gov/).

Countries with less than $2 million in USAID economic assistance in fiscal year 2011 were dropped. Next, those whose natural resource exports were greater than 80 percent of total exports were dropped. The following SITC 2 digit categories were 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

For questions or more information, please contact the author, Georges Fadel, at gfadel@devtechsys.com.

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/query/do?_program=/eads/esdb/source&source=FDI. 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.