UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

WORLD INVESTMENT REPORT 2011

NON-EQUITY MODES OF INTERNATIONAL PRODUCTION AND DEVELOPMENT

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New York and Geneva, 2011

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UNITED NATIONS PUBLICATION
Sales No. E.11.II.D.2
ISBN 978-92-1-112828-4

Printed in Switzerland

PREFACE

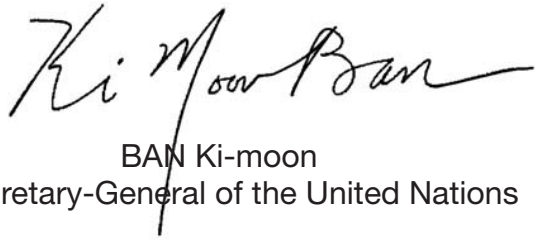
Global foreign direct investment (FDI) has not yet bounced back to pre-crisis levels, though some regions show better recovery than others. The reason is not financing constraints, but perceived risks and regulatory uncertainty in a fragile world economy.

The *World Investment Report 2011* forecasts that, barring any economic shocks, FDI flows will recover to pre-crisis levels over the next two years. The challenge for the development community is to make this anticipated investment have greater impact on our efforts to achieve the Millennium Development Goals.

In 2010 – for the first time – developing economies absorbed close to half of global FDI inflows. They also generated record levels of FDI outflows, much of it directed to other countries in the South. This further demonstrates the growing importance of developing economies to the world economy, and of South-South cooperation and investment for sustainable development.

Increasingly, transnational corporations are engaging with developing and transition economies through a broadening array of production and investment models, such as contract manufacturing and farming, service outsourcing, franchising and licensing. These relatively new phenomena present opportunities for developing and transition economies to deepen their integration into the rapidly evolving global economy, to strengthen the potential of their home-grown productive capacity, and to improve their international competitiveness.

Unlocking the full potential of these new developments will depend on wise policymaking and institution building by governments and international organizations. Entrepreneurs and businesses in developing and transition economies need frameworks in which they can benefit fully from integrated international production and trade. I commend this report, with its wealth of research and analysis, to policymakers and businesses pursuing development success in a fast-changing world.



BAN Ki-moon
Secretary-General of the United Nations

ACKNOWLEDGEMENTS

The *World Investment Report 2011*(*WIR11*) was prepared by a team led by James Zhan. The team members include Richard Bolwijn, Quentin Dupriez, Masataka Fujita, Thomas van Giffen, Michael Hanni, Kalman Kalotay, Joachim Karl, Ralf Krüger, Guoyong Liang, Anthony Miller, Hafiz Mirza, Nicole Moussa, Shin Ohinata, Astrit Sulstarova, Elisabeth Tuerk, Jörg Weber and Kee Hwee Wee. Wolfgang Alschner, Amare Bekele, Federico Di Biasio, Hamed El Kady, Ariel Ivanier, Lizzie Medrano, Cai Mengqi, Abraham Negash, Sergey Ripinski, Claudia Salgado, Christoph Spennemann, Katharina Wortmann and Youngjun Yoo also contributed to the Report.

Peter Buckley served as principal consultant. *WIR11* also benefited from the advice of Ilan Alon, Mark Casson, Lorraine Eden, Pierre Guislain, Justin Lin, Sarianna Lundan, Ted Moran, Rajneesh Narula, Pierre Sauvé and Timothy Sturgeon.

Research and statistical assistance was provided by Bradley Boicourt, Lizanne Martinez and Tadelle Taye as well as interns Hasso Anwer, Hector Dip, Riham Ahmed Marii, Eleni Piteli, John Sasuya and Ninel Seniuk.

Production and dissemination of *WIR11* was supported by Tserenpuntsag Batbold, Elisabeth Anodeau-Mareschal, Séverine Excoffier, Rosalina Goyena, Natalia Meramo-Bachayani, Chantal Rakotondrainibe and Katia Vieu.

The manuscript was edited by Christopher Long and typeset by Laurence Duchemin and Teresita Ventura. Sophie Combette designed the cover.

At various stages of preparation, in particular during the four seminars organized to discuss earlier drafts of the Report, the team benefited from comments and inputs received from Rolf Adlung, Marie-Claude Allard, Yukiko Arai, Rashmi Banga, Diana Barrowclough, Francis Bartels, Sven Behrendt, Jem Bendell, Nathalie Bernasconi, Nils Bhinda, Francesco Ciabuschi, Simon Collier, Denise Dunlap-Hinkler, Kevin Gallagher, Patrick Genin, Simona Gentile-Lüdecke, David Hallam, Geoffrey Hamilton, Fabrice Hatem, Xiaoming He, Toh Mun Heng, Paul Hohnen, Anna Joubin-Bret, Christopher Kip, Pascal Liu, Celso Manangan, Arvind Mayaram, Ronaldo Mota, Jean-François Outreville, Peter Muchlinski, Ram Mudambi, Sam Muradzikwa, Peter Nunnenkamp, Offah Obale, Joost Pauwelyn, Carlo Pietrobelli, Jaya Prakash Pradhan, Hassan Qaqaya, Githa Roelans, Ulla Schwager, Emily Sims, Brian Smart, Jagjit Singh Srai, Brad Stillwell, Roger Strange, Dennis Tachiki, Ana Teresa Tavares-Lehmann, Silke Trumm, Frederico Araujo Turolla, Peter Utting, Kernaghan Webb, Jacques de Werra, Lulu Zhang and Zbigniew Zimny.

Numerous officials of central banks, government agencies, international organizations and non-governmental organizations also contributed to *WIR11*.

The financial support of the Governments of Finland and Sweden is gratefully acknowledged.

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ABBREVIATIONS

ASEAN	Association of South-East Asian Nations
BIT	bilateral investment treaty
BOO	build-own-operate
BOT	build-operate-transfer
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CSR	corporate social responsibility
EAC	East African Community
EMS	electronics manufacturing services
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GFCF	gross fixed capital formation
GHG	green house gas
IIA	international investment agreement
IP	intellectual property
IPA	investment promotion agency
IPO	initial public offering
ISDS	investor–state dispute settlement
IT-BPO	information technology and business process outsourcing
LDC	least developed country
LLDC	landlocked developing country
LNG	liquefied natural gas
M&As	mergers and acquisitions
MFN	most favoured nation
MSI	multi-stakeholder initiative
NEM	non-equity mode
NIE	newly industrializing economies
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPM	process and production method
PPP	public-private partnership
QIA	Qatar Investment Authority
R&D	research and development
ROCE	return on capital employed
RTAs	regional trade agreements
SADC	Southern African Development Community
SEZ	special economic zone
SIDS	small island developing States
SME	small and medium-sized enterprise
SOE	State-owned enterprise
SWF	sovereign wealth fund
TBT	technical barriers to trade
TNC	transnational corporation
TRIMs	trade-related investment measures
TRIPs	trade-related aspects of intellectual property rights
WIPS	*World Investment Prospects Survey*

KEY MESSAGES

FDI TRENDS AND PROSPECTS

Global foreign direct investment (FDI) flows rose moderately to $1.24 trillion in 2010, but were still 15 per cent below their pre-crisis average. This is in contrast to global industrial output and trade, which were back to pre-crisis levels. UNCTAD estimates that global FDI will recover to its pre-crisis level in 2011, increasing to $1.4–1.6 trillion, and approach its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play.

For the first time, developing and transition economies together attracted more than half of global FDI flows. Outward FDI from those economies also reached record highs, with most of their investment directed towards other countries in the South. In contrast, FDI inflows to developed countries continued to decline.

Some of the poorest regions continued to see declines in FDI flows. Flows to Africa, least developed countries, landlocked developing countries and small island developing States all fell, as did flows to South Asia. At the same time, major emerging regions, such as East and South-East Asia and Latin America experienced strong growth in FDI inflows.

International production is expanding, with foreign sales, employment and assets of transnational corporations (TNCs) all increasing. TNCs' production worldwide generated value-added of approximately $16 trillion in 2010, about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than 10 per cent of global GDP and one-third of world exports.

State-owned TNCs are an important emerging source of FDI. There are at least 650 State-owned TNCs, with 8,500 foreign affiliates across the globe. While they represent less than 1 per cent of TNCs, their outward investment accounted for 11 per cent of global FDI in 2010. The ownership and governance of State-owned TNCs have raised concerns in some host countries regarding, among others, the level playing field and national security, with regulatory implications for the international expansion of these companies.

INVESTMENT POLICY TRENDS

Investment liberalization and promotion remained the dominant element of recent investment policies. Nevertheless, the risk of investment protectionism has increased as restrictive investment measures and administrative procedures have accumulated over the past years.

The regime of international investment agreements (IIAs) is at the crossroads. With close to 6,100 treaties, many ongoing negotiations and multiple dispute-settlement mechanisms, it has come close to a point where it is too big and complex to handle for governments and investors alike, yet remains inadequate to cover all possible bilateral investment relationships (which would require a further 14,100 bilateral treaties). The policy discourse about the future orientation of the IIA regime and its development impact is intensifying.

FDI policies interact increasingly with industrial policies, nationally and internationally. The challenge is to manage this interaction so that the two policies work together for development. Striking a balance between building stronger domestic productive capacity on the one hand and avoiding investment and trade protectionism on the other is key, as is enhancing international coordination and cooperation.

The investment policy landscape is influenced more and more by a myriad of voluntary corporate social responsibility (CSR) standards. Governments can maximize development benefits deriving from these standards through appropriate policies, such as harmonizing corporate reporting regulations, providing capacity-building programmes, and integrating CSR standards into international investment regimes.

NON-EQUITY MODES OF INTERNATIONAL PRODUCTION AND DEVELOPMENT

In today's world, policies aimed at improving the integration of developing economies into global value chains must look beyond FDI and trade. Policymakers need to consider non-equity modes (NEMs) of international production, such as contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts, and other types of contractual relationship through which TNCs coordinate the activities of host country firms, without owning a stake in those firms.

Cross-border NEM activity worldwide is significant and particularly important in developing countries. It is estimated to have generated over $2 trillion of sales in 2009. Contract manufacturing and services outsourcing accounted for $1.1–1.3 trillion, franchising $330–350 billion, licensing $340–360 billion, and management contracts around $100 billion. In most cases, NEMs are growing more rapidly than the industries in which they operate.

NEMs can yield significant development benefits. They employ an estimated 14–16 million workers in developing countries. Their value added represents up to 15 per cent of GDP in some economies. Their exports account for 70–80 per cent of global exports in several industries. Overall, NEMs can support long-term industrial development by building productive capacity, including through technology dissemination and domestic enterprise development, and by helping developing countries gain access to global value chains.

NEMs also pose risks for developing countries. Employment in contract manufacturing can be highly cyclical and easily displaced. The value added contribution of NEMs can appear low if assessed in terms of the value captured out of the total global value chain. Concerns exist that TNCs may use NEMs to circumvent social and environmental standards. And to ensure success in long-term industrial development, developing countries need to mitigate the risk of remaining locked into low-value-added activities and becoming overly dependent on TNC-owned technologies and TNC-governed global value chains.

Policy matters. Maximizing development benefits from NEMs requires action in four areas. First, NEM policies need to be embedded in overall national development strategies, aligned with trade, investment and technology policies and addressing dependency risks. Second, governments need to support efforts to build domestic productive capacity to ensure the availability of attractive business partners that can qualify as actors in global value chains. Third, promotion and facilitation of NEMs requires a strong enabling legal and institutional framework, as well as the involvement of investment promotion agencies in attracting TNC partners. Finally, policies need to address the negative consequences and risks posed by NEMs by strengthening the bargaining power of local NEM partners, safeguarding competition, protecting labour rights and the environment.

OVERVIEW

FDI TRENDS AND PROSPECTS

FDI recovery to gain momentum in 2011

Global foreign direct investment (FDI) inflows rose modestly by 5 per cent, to reach $1.24 trillion in 2010. While global industrial output and world trade are already back to their pre-crisis levels, FDI flows in 2010 remained some 15 per cent below their pre-crisis average, and nearly 37 per cent below their 2007 peak.

UNCTAD predicts FDI flows will continue their recovery to reach $1.4–1.6 trillion, or the pre-crisis level, in 2011. They are expected to rise further to $1.7 trillion in 2012 and reach $1.9 trillion in 2013, the peak achieved in 2007. The record cash holdings of TNCs, ongoing corporate and industrial restructuring, rising stock market valuations and gradual exits by States from financial and non-financial firms' shareholdings, built up as supporting measures during the crisis, are creating new investment opportunities for companies across the globe.

However, the post-crisis business environment is still beset by uncertainties. Risk factors such as the unpredictability of global economic governance, a possible widespread sovereign debt crisis and fiscal and financial sector imbalances in some developed countries, as well as rising inflation and signs of overheating in major emerging market economies, may yet derail the FDI recovery.

Emerging economies are the new FDI powerhouses

Developing economies increased further in importance in 2010, both as recipients of FDI and as outward investors. As international production and, recently, international consumption shift to developing and transition economies, TNCs are increasingly investing in both efficiency- and market-seeking projects in those countries. For the first time, they absorbed more than half of global FDI inflows in 2010. Half of the top-20 host economies for FDI in 2010 were developing or transition economies.

FDI outflows from developing and transition economies also increased strongly, by 21 per cent. They now account for 29 per cent of global FDI outflows. In 2010, six developing and transition economies were among the top-20 investors. The dynamism of emerging-market TNCs contrasts with the subdued pace of investment from developed-country TNCs, especially those from Europe. Their outward investment was still only about half of their 2007 peak.

Services FDI subdued, cross-border M&As rebound

Sectoral patterns. The moderate recovery of FDI inflows in 2010 masks major sectoral differences. FDI in services, which accounted for the bulk of the decline in FDI flows due to the crisis, continued on its downward path in 2010. All the main service industries (business services, finance, transport and communications and utilities) fell, although at different speeds. FDI flows in the financial industry experienced one of the sharpest declines. The share of manufacturing rose to almost half of all FDI projects. Within manufacturing, however, investments fell in business-cycle-sensitive industries such as metal and electronics. The chemical industry (including pharmaceuticals) remained resilient through the crisis, while industries such as food, beverages and tobacco, textiles and garments, and automobiles, recovered in 2010. FDI in extractive industries (which did not suffer during the crisis) declined in 2010.

Modes of entry. The value of cross-border M&A deals increased by 36 per cent in 2010, but was still only around one third of the previous peak in 2007. The value of cross-border M&As into developing economies

doubled. Greenfield investments declined in 2010, but registered a significant rise in both value and number during the first five months of 2011.

Components of FDI. Improved economic performance in many parts of the world and increased profits of foreign affiliates lifted reinvested earnings to nearly double their 2009 level. The other two FDI components – equity investment flows and intra-company loans – fell in 2010.

Special funds. Private equity-sponsored FDI started to recover in 2010 and was directed increasingly towards developing and transition economies. However, it was still more than 70 per cent below the peak year of 2007. FDI by sovereign wealth funds (SWFs) dropped to $10 billion in 2010, down from $26.5 billion in 2009. A more benign global economic environment may lead to increased FDI from these special funds in 2011.

International production picks up

Indicators of international production, including foreign sales, employment and assets of TNCs, showed gains in 2010 as economic conditions improved. UNCTAD estimates that sales and value added of foreign affiliates in the world reached $33 trillion and $7 trillion, respectively. They also exported more than $6 trillion, about one-third of global exports. TNCs worldwide, in their operations both at home and abroad, generated value added of approximately $16 trillion in 2010 – about a quarter of total world GDP.

State-owned TNCs in the spotlight

State-owned TNCs are causing concerns in a number of host countries regarding national security, the level playing field for competing firms, and governance and transparency. From the perspective of home countries, there are concerns regarding the openness to investment from their State-owned TNCs. Discussions are underway in some international forums with a view to addressing these issues.

Today there are at least 650 State-owned TNCs, constituting an important emerging source of FDI. Their more than 8,500 foreign affiliates are spread across the globe, bringing them in contact with a large number of host economies. While relatively small in number (less than 1 per cent of all TNCs), their FDI is substantial, reaching roughly 11 per cent of global FDI flows in 2010. Reflecting this, State-owned TNCs made up 19 of the world's 100 largest TNCs.

State-owned TNCs constitute a varied group. Developing and transition economies are home to more than half of these firms (56 per cent), though developed countries continue to maintain a significant number of State-owned TNCs. In contrast to the general view of State-owned TNCs as largely concentrated in the primary sector, they are diversified and have a strong presence in the services sector.

Uneven performance across regions

The rise of FDI to developing countries masks significant regional differences. Some of the poorest regions continued to see declines in FDI flows. Flows to Africa, least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS) continued to fall, as did those to South Asia. At the same time, major emerging regions, such as East and South-East Asia and Latin America, experienced strong growth in FDI inflows.

FDI flows to *Africa* fell by 9 per cent in 2010. At $55 billon, the share of Africa in total global FDI inflows was 4.4 per cent in 2010, down from 5.1 per cent in 2009. FDI to the primary sector, especially in the oil industry, continued to dominate FDI flows to the continent. It accounted for the rise of Ghana as a major host country, as well as for the declines of inflows to Angola and Nigeria. Although the continuing pursuit of natural resources, in particular by Asian TNCs, is likely to sustain FDI flows to sub-Saharan Africa, political uncertainty in North Africa is likely to make 2011 another challenging year for the continent as a whole.

Although there is some evidence that intraregional FDI is beginning to emerge in non-natural resource related industries, intraregional FDI flows in Africa are still limited in terms of volume and industry diversity. Harmonization of Africa's regional trade agreements and inclusion of FDI regimes could help Africa achieve more of its intraregional FDI potential.

Inflows to *East Asia, South-East Asia and South Asia* as a whole rose by 24 per cent in 2010, reaching $300 billion. However, the three subregions experienced very different trends: inflows to ASEAN more than doubled; those to East Asia saw a 17 per cent rise; FDI to South Asia declined by one-fourth.

Inflows to China, the largest recipient of FDI in the developing world, climbed by 11 per cent, to $106 billion. With continuously rising wages and production costs, however, offshoring of labour-intensive manufacturing to the country has slowed down, and FDI inflows continue to shift towards high-tech industries and services. In contrast, some ASEAN member States, such as Indonesia and Viet Nam, have gained ground as low-cost production locations, especially for low-end manufacturing.

The decline of FDI to South Asia reflects a 31 per cent slide in inflows to India and a 14 per cent drop in Pakistan. In India, the setback in attracting FDI was partly due to macroeconomic concerns. At the same time, inflows to Bangladesh, an increasingly important low-cost production location in South Asia, jumped by 30 per cent to $913 million.

FDI outflows from South, East and South-East Asia grew by 20 per cent to about $232 billion in 2010. In recent years, rising FDI outflows from developing Asia demonstrate new and diversified industrial patterns. In extractive industries, new investors have emerged, including conglomerates such as CITIC (China) and Reliance Group (India), and sovereign wealth funds, such as China Investment Corporation and Temasek Holdings (Singapore). Metal companies in the region have been particularly active in ensuring access to overseas mineral assets, such as iron ore and copper. In manufacturing, Asian companies have been actively taking over large companies in the developed world, but face increasing political obstacles. FDI outflows in the services sector have declined, but M&As in such industries as telecommunications have been increasing.

FDI flows to *West Asia* in 2010 continued to be affected by the global economic crisis, falling by 12 per cent, but they are expected to bottom out in 2011. However, concerns about political instability in the region are likely to dampen the recovery.

FDI outflows from West Asia dropped by 51 per cent in 2010. Outward investment from West Asia is mainly driven by government-controlled entities, which have been redirecting some of their national oil surpluses to support their home economies. The economic diversification policies of these countries has been pursued through a dual strategy: investing in other Arab countries to bolster their small domestic economies; and also investing in developed countries to seek strategic assets for the development and diversification of the industrial capabilities back at home. Increasingly this policy has been pursued with a view to creating productive capabilities that are missing at home, such as motor vehicles, alternative energies, electronics and aerospace. This approach differs from that of other countries, which have generally sought to develop a certain level of capacity at home, before engaging in outward direct investment.

FDI flows to *Latin America and the Caribbean* increased by 13 per cent in 2010. The strongest increase was registered in South America, where the growth rate was 56 per cent, with Brazil particularly buoyant. FDI outflows from Latin America and the Caribbean increased by 67 per cent in 2010, mostly due to large cross-border M&A purchases by Brazilian and Mexican TNCs.

Latin America and the Caribbean also witnessed a surge of investments by developing Asian TNCs particularly in resource-seeking projects. In 2010, acquisitions by Asian TNCs jumped to $20 billion, accounting for more than 60 per cent of total FDI to the region. This has raised concerns in some countries in the region about the trade patterns, with South America exporting mostly commodities and importing manufactured goods.

FDI flows to *transition economies* declined slightly in 2010. Flows to the Commonwealth of Independent States (CIS) rose marginally by 0.4 per cent. Foreign investors continue to be attracted to the fast-growing local consumer market, especially in the Russian Federation where flows rose by 13 per cent to $41 billion. In contrast, FDI flows to South-East Europe dropped sharply for the third consecutive year, due partly to sluggish investment from EU countries.

South–East interregional FDI is growing rapidly. TNCs based in transition economies and in developing economies have increasingly ventured into each other's markets. For example, the share of developing host countries in greenfield investment projects by TNCs from transition economies rose to 60 per cent in 2010 (up from only 28 per cent in 2004), while developing-country outward FDI in transition economies increased more than five times over the past decade. Kazakhstan and the Russian Federation are the most important targets of developing-country investors, whereas China and Turkey are the most popular destinations for FDI from transition economies. Such South–East interregional FDI has benefited from outward FDI support from governments through, among others, regional cooperation (e.g. the Shanghai Cooperation Organization) and bilateral partnerships.

FDI flows to the poorest regions continue to fall

In contrast to the FDI boom in developing countries as a whole, FDI inflows to the 48 *LDCs* declined overall by a further 0.6 per cent in 2010 – a matter of grave concern. The distribution of FDI flows among LDCs also remains highly uneven, with over 80 per cent of LDC FDI flows going to resource-rich economies in Africa. However, this picture is distorted by the highly capital-intensive nature of resource projects. Some 40 per cent of investments, by number, were in the form of greenfield projects in the manufacturing sector and 16 per cent in services.

On the occasion of the 2011 Fourth United Nations Conference on the Least Developed Countries, UNCTAD proposed a plan of action for investment in LDCs. The emphasis is on an integrated policy approach to investment, technical capacity-building and enterprise development, with five areas of action: public-private infrastructure development; aid for productive capacity; building on LDC investment opportunities; local business development and access to finance; and regulatory and institutional reform.

Landlocked developing countries (LLDCs) saw their FDI inflows fall by 12 per cent to $23 billion in 2010. These countries are traditionally marginal FDI destinations, and they accounted for only 4 per cent of total FDI flows to the developing world. With intensified South–South economic cooperation and increasing capital flows from emerging markets, prospects for FDI flows to the group may improve.

FDI inflows to *small island developing States (SIDS)* as a whole declined slightly by 1 per cent in 2010, to $4.2 billion. As these countries are particularly vulnerable to the effects of climate change, SIDS are looking to attract investment from TNCs that can make a contribution to climate change adaptation, by mobilizing financial and technological resources, implementing adaptation initiatives, and enhancing local adaptive capacities.

FDI to developed countries remains well below pre-crisis levels

In 2010, FDI inflows in developed countries declined marginally. The pattern of FDI inflows was uneven among subregions. Europe suffered a sharp fall. Declining FDI flows were also registered in Japan. A gloomier economic outlook, austerity measures and possible sovereign debt crisis, as well as regulatory concerns, were among the factors hampering the recovery of FDI flows. Inflows to the United States, however, showed a strong turnaround, with an increase of more than 40 per cent.

In developed countries, the restructuring of the banking industry, driven by regulatory authorities, has resulted in a series of significant divestments of foreign assets. At the same time, it has also generated new FDI as assets changed hands among major players. The global efforts towards the reform of the financial

system and the exit strategy of governments are likely to have a large bearing on FDI flows in the financial industry in coming years.

The downward trend in outward FDI from *developed countries* reversed, with a 10 per cent increase over 2009. However, this took it to only half the level of its 2007 peak. The reversal was largely due to higher M&A values, facilitated by stronger balance sheets of TNCs and historic low rates of debt financing.

INVESTMENT POLICY TRENDS

National policies: mixed messages

More than two-thirds of reported investment policy measures in 2010 were in the area of FDI liberalization and promotion. This was the case for Asia in particular, where a relatively high number of measures eased entry and establishment conditions for foreign investment. Most promotion and facilitation measures were adopted by governments in Africa and Asia. These measures included the streamlining of admission procedures and the opening of new, or the expansion of existing, special economic zones.

On the other hand, almost one-third of all new measures in 2010 fell into the category of investment-related regulation and restrictions, continuing its upward trend since 2003. The recent restrictive measures were mainly in a few industries, in particular natural resource-based industries and financial services. The accumulation of restrictive measures over the past years and their continued upward trend, as well as stricter review procedures for FDI entry, has increased the risk of investment protectionism.

Although numerous countries continue to implement emergency measures or hold considerable assets following bail-out operations, the unwinding of support schemes and liabilities resulting from emergency measures has started. The process advances relatively slowly. As of April 2011, governments are estimated to hold legacy assets and liabilities in financial and non-financial firms valued at over $2 trillion. By far the largest share relates to several hundred firms in the financial sector. All this indicates a potential wave of privatizations in the years to come.

The international investment regime: too much and too little

With a total of 178 new IIAs in 2010 – more than three new treaties per week – the IIA universe reached 6,092 agreements at the end of the year. This trend of treaty expansion is expected to continue in 2011, the first five months of which saw 48 new IIAs, with more than 100 IIAs currently under negotiation. How the FDI-related competence shift from EU member States to the European level will affect the overall IIA regime is still unclear (EU member States currently have more than 1,300 BITs with non-EU countries). At least 25 new treaty-based investor–State dispute settlement cases were initiated in 2010 and 47 decisions rendered, bringing the total of known cases to 390, and those closed to 197. The overwhelming majority of these cases were initiated by investors from developed countries, with developing countries most often on the receiving end. The 2010 awards further tilted the overall balance in favour of the State, with 78 cases won against 59 lost.

As countries continue concluding IIAs, sometimes with novel provisions aimed at rebalancing the rights and obligations between States and firms, and ensuring coherence between IIAs and other public policies, the policy discourse about the future orientation of the IIA regime and how to make IIAs better contribute to sustainable development is intensifying. Nationally, this manifests itself in a growing dialogue among a broad set of investment stakeholders, including civil society, business and parliamentarians. Internationally, inter-governmental debates in UNCTAD's 2010 World Investment Forum, UNCTAD's Investment Commission and the joint OECD-UNCTAD investment meetings serve as examples.

With thousands of treaties, many ongoing negotiations and multiple dispute-settlement mechanisms, today's IIA regime has come close to a point where it is too big and complex to handle for governments and investors alike. Yet it offers protection to only two-thirds of global FDI stock and covers only one-fifth of possible bilateral investment relationships. To provide full coverage a further 14,100 bilateral treaties would be required. This raises questions not only about the efforts needed to complete the global IIA network, but also about the impact of the IIA regime and its effectiveness for promoting and protecting investment, and about how to ensure that IIAs deliver on their development potential.

Intensifying interaction between FDI policies and industrial policies

FDI policies increasingly interact with industrial policies, nationally and internationally. At the *national level*, this interface manifests itself in specific national investment guidelines; the targeting of types of investment or specific categories of foreign investors for industrial development purposes; investment incentives related to certain industries, activities or regions; and investment facilitation in line with industrial development strategies. Countries also use selective FDI restrictions for industrial policy purposes connected to the protection of infant industries, national champions, strategic enterprises or ailing domestic industries in times of crisis.

At the *international level*, industrial policies are supported by FDI promotion through IIAs, in particular when the respective IIA has sector-specific elements. At the same time, IIA provisions can limit regulatory space for industrial policies. To avoid undue policy constraints, a number of flexibility mechanism have been developed in IIAs, such as exclusions and reservations for certain industries, general exceptions or national security exceptions. According to UNCTAD case studies of reservations in IIAs, countries are more inclined to preserve policy space for the services sector, compared to the primary and manufacturing sectors. Within the services sector, most reservations exist in transportation, finance and communication.

The overall challenge is to manage the interaction between FDI policies and industrial policies, so as to make the two policies work for development. There is a need to strike a balance between building stronger domestic productive capacity on the one hand and preventing investment and trade protectionism on the other. Better international coordination can contribute to avoiding "beggar thy neighbour" policies and creating synergies for global cooperation.

CSR standards increasingly influence investment policies

Over the past years, corporate social responsibility (CSR) standards have emerged as a unique dimension of "soft law". These CSR standards typically focus on the operations of TNCs and, as such, are increasingly significant for international investment as efforts to rebalance the rights and obligations of the State and the investor intensify. TNCs in turn, through their foreign investments and global value chains, can influence the social and environmental practices of business worldwide. The current landscape of CSR standards is multilayered, multifaceted, and interconnected. The standards of the United Nations, the ILO and the OECD serve to define and provide guidance on fundamental CSR. In addition there are dozens of international multi-stakeholder initiatives (MSIs), hundreds of industry association initiatives and thousands of individual company codes providing standards for the social and environmental practices of firms at home and abroad.

CSR standards pose a number of systemic challenges. A fundamental challenge affecting most CSR standards is ensuring that companies actually comply with their content. Moreover, there are gaps, overlaps and inconsistencies between standards in terms of global reach, subjects covered, industry focus and uptake among companies. Voluntary CSR standards can complement government regulatory efforts, but they can also undermine, substitute or distract from these. Finally, corporate reporting on performance relative to CSR standards continues to lack standardization and comparability.

Governments can play an important role in creating a coherent policy and institutional framework to address the challenges and opportunities presented by the universe of CSR standards. Policy options for promoting CSR standards include supporting the development of new CSR standards; applying CSR standards to government procurement; building capacity in developing countries to adopt CSR standards; promoting the uptake of CSR reporting and responsible investment; adopting CSR standards as part of regulatory initiatives; strengthening the compliance promotion mechanisms of existing international standards; and factoring CSR standards into IIAs. The various approaches already underway increasingly mix regulatory and voluntary instruments to promote responsible business practices.

While CSR standards generally aim to promote sustainable development goals, in the context of international production care needs to be taken to avoid them becoming barriers to trade and investment. The objective of promoting investment can be rhymed with CSR standards. Discussions on responsible investment are ongoing in the international community; for example, in 2010, G-20 leaders encouraged countries and companies to uphold the Principles for Responsible Agricultural Investment (PRAI) that were developed by UNCTAD, the World Bank, IFAD and FAO, requesting these organizations to develop options for promoting responsible investment in agriculture.

NON-EQUITY MODES OF INTERNATIONAL PRODUCTION AND DEVELOPMENT

International production, today, is no longer exclusively about FDI on the one hand and trade on the other. Non-equity modes (NEMs) of international production are of growing importance, generating over $2 trillion in sales in 2010, much of it in developing countries. NEMs include contract manufacturing, services outsourcing, contract farming, franchising, licensing, management contracts and other types of contractual relationships through which TNCs coordinate activities in their global value chains (GVCs) and influence the management of host-country firms without owning an equity stake in those firms.

From a development perspective, both NEM partnerships and foreign affiliates (i.e. FDI) can enable host countries to integrate into GVCs. A key advantage of NEMs is that they are flexible arrangements with local firms, with a built-in motive for TNCs to invest in the viability of their partners through dissemination of knowledge, technology and skills. This offers host economies considerable potential for long-term industrial capacity building through a number of key channels of development impact such as employment, value added, export generation and technology acquisition. On the other hand, by establishing a local affiliate through FDI, a TNC signals its long-term commitment to a host economy. Attracting FDI is also the better option for economies with limited existing productive capacity.

NEMs may be more appropriate than FDI in sensitive situations. In agriculture, for example, contract farming is more likely to address responsible investment issues – respect for local rights, livelihoods of farmers and sustainable use of resources – than large-scale land acquisition.

For developing country policymakers, the rise of NEMs not only creates new opportunities for productive capacity building and integration into GVCs, there are also new challenges, as each NEM mode comes with its own set of development impacts and policy implications.

The TNC "make or buy" decision and NEMs as the "middle-ground" option

Foremost among the core competencies of a TNC is its ability to coordinate activities within a global value chain. TNCs can decide to conduct such activities in-house (internalization) or they can entrust them to other firms (externalization) – a choice analogous to a "make or buy" decision. Internalization, where it has a cross-border dimension, results in FDI, whereby the international flows of goods, services, information and other assets are intra-firm and under full control of the TNC. Externalization results in either arm's-length trade, where the TNC exercises no control over other firms or, as an intermediate "middle-ground" option,

in non-equity inter-firm arrangements in which contractual agreements and relative bargaining power condition the operations and behaviour of host-country firms. Such "conditioning" can have a material impact on the conduct of the business, requiring the host-country firm to, for example, invest in equipment, change processes, adopt new procedures, improve working conditions, or use specified suppliers.

The ultimate ownership and control configuration of a GVC is the outcome of a set of strategic choices by the TNC. In a typical value chain, a TNC oversees a sequence of activities from procurement of inputs, through manufacturing operations to distribution, sales and aftersales services. In addition, firms undertake activities – such as IT functions or R&D – which support all parts of the value chain.

In a fully integrated company, activities in all these segments of the value chain are carried out in-house (internalized), resulting in FDI if the activity takes place overseas. However, in all segments of the value chain TNCs can opt to externalize activities through various NEM types. For example, instead of establishing a manufacturing affiliate (FDI) in a host country, a TNC can outsource production to a contract manufacturer or permit a local firm to produce under licence.

The TNC's ultimate choice between FDI and NEMs (or trade) in any segment of the value chain is based on its strategy, the relative costs and benefits, the associated risks, and the feasibility of available options. In some parts of the value chain NEMs can be substitutes for FDI, in others the two may be complementary.

NEMs are worth more than $2 trillion, mostly in developing countries

Cross-border NEM activity worldwide is estimated to have generated over $2 trillion of sales in 2010. Of this amount, contract manufacturing and services outsourcing accounted for $1.1–1.3 trillion, franchising for $330–350 billion, licensing for $340–360 billion, and management contracts for around $100 billion.

These estimates are incomplete, including only the most important industries in which each NEM type is prevalent. The total also excludes other non-equity modes such as contract farming and concessions, which are significant in developing countries. For example, contract farming activities by TNCs are spread worldwide, covering over 110 developing and transition economies, spanning a wide range of agricultural commodities and accounting for a high share of output.

There are large variations in relative size. In the automotive industry, contract manufacturing accounts for 30 per cent of global exports of automotive components and a quarter of employment. In contrast, in electronics, contract manufacturing represents a significant share of trade and some three-quarters of employment. In labour-intensive industries such as garments, footwear and toys, contract manufacturing is even more important.

Putting different modes of international production in perspective, cross-border activity related to selected NEMs of $2 trillion compares with exports of foreign affiliates of TNCs of some $6 trillion in 2010. However, NEMs are particularly important in developing countries. In many industries, developing countries account for almost all NEM-related employment and exports, compared with their share in global FDI stocks of 30 per cent and in world trade of less than 40 per cent.

NEMs are also growing rapidly. In most cases, the growth of NEMs outpaces that of the industries in which they operate. This growth is driven by a number of key advantages of NEMs for TNCs: (1) the relatively low upfront capital expenditures required and the limited working capital needed for operation; (2) reduced risk exposure; (3) flexibility in adapting to changes in the business cycle and in demand; and (4) as a basis for externalizing non-core activities that can often be carried out at lower cost by other operators.

NEMs generate significant formal employment in developing countries

UNCTAD estimates that worldwide some 18–21 million workers are directly employed in firms operating under NEM arrangements, most of whom are in contract manufacturing, services outsourcing and franchising

activities. Around 80 per cent of NEM-generated employment is in developing and transition economies. Employment in contract manufacturing and, to a lesser extent, services outsourcing, is predominantly based in developing countries. The same applies in other NEMs, although global figures are not available; in Mozambique, for instance, contract farming has led to some 400,000 smallholders participating in global value chains.

Working conditions in NEMs based on low-cost labour are often a concern, and vary considerably depending on the mode and the legal, social and economic structures of the countries in which NEM firms are operating. The factors that influence working conditions in non-equity modes are the role of governments in defining, communicating and enforcing labour standards and the sourcing practices of TNCs. The social responsibility of TNCs has extended beyond their own legal boundaries and has pushed many to increase their influence over the activities of value chain partners. It is increasingly common for TNCs, in order to manage risks and protect their brand and image, to influence their NEM partners through codes of conduct, to promote international labour standards and good management practices.

An additional concern relates to the relative "footlooseness" of NEMs. The seasonality of industries, fluctuating demand patterns of TNCs, and the ease with which they can shift NEM production to other locations can have a strong impact on working conditions in NEM firms and on stability of employment.

NEMs often make an important contribution to GDP

The impact of NEMs on local value added can be significant. It depends on how NEM arrangements fit into TNC-governed GVCs and, therefore, on how much value is retained in the host economy. It also depends on the potential for linkages with other firms and on their underlying capabilities.

In efficiency seeking NEMs, such as contract manufacturing or services outsourcing, it is possible for value capture in the host economy to be relatively small compared to the overall value creation in a GVC, when the scope for local sourcing is limited and goods are imported, processed and subsequently exported, as is often the case in the electronics industry, for example. Although value captured as a share of final-product sales price may be limited, it can nevertheless represent a significant contribution to the local economy, adding up to 10–15 per cent of GDP in some countries.

Local sourcing and the overall impact on host-country value added increases if the emergence of contract manufacturing leads to a concentration of production and export activities (e.g. in clusters or industrial parks). The greater the number of plants and the more numerous the linkages with TNCs, the greater will be the spillover effects and local value added. In addition, clustering can reduce the risk of TNCs shifting production to other locations by increasing switching costs.

NEMs can generate export gains

NEMs are inextricably linked with international trade, shaping global patterns of trade in many industries. In toys, footwear, garments, and electronics, contract manufacturing represents more than 50 per cent of global trade. NEMs can thus be an important "route-to-market" for countries aiming at export-led growth, and an important initial point of access to TNC governed global value chains, before gradually building independent exporting capabilities. Export gains can be partially offset by higher imports, reducing net export gains, where local value added is limited, especially in early stages of NEM development.

NEMs are an important avenue for technology and skills building

NEMs are in essence a transfer of intellectual property to a host-country firm under the protection of a contract. Licensing involves a TNC granting an NEM partner access to intellectual property, usually with contractual conditions attached, but often with some training or skills transfer. International franchising

transfers a business model, and extensive training and support are normally offered to local partners in order to properly set up the new franchise with wide-ranging implications for technology dissemination.

In some East and South-East Asian economies in particular, but also in Eastern Europe, Latin America and South Asia, technology and skills acquisition and assimilation by NEM companies in electronics, garments, pharmaceuticals, IT-services and business process outsourcing (BPO) have led to their transformation into TNCs and technology leaders in their own right.

Although technology acquisition and assimilation through NEMs is a widespread phenomenon, this is not a foregone conclusion, especially at the level of second and third tier suppliers, where linkages may be insufficient or of low quality. A key factor is the absorptive capacity of local NEM partners, in the form of their existing skills base, the availability of workers that can be trained to learn new skills, and the basic prerequisites to turn acquired skills into new business ventures, including the regulatory framework, the business environment and access to finance. Another important factor is the relative bargaining power of TNCs and local NEM partners. Both factors can be influenced by appropriate policies.

Social and environmental pros and cons of NEMs

Concerns exist that cross-border NEMs in some industries may be a mechanism for TNCs to circumvent high social and environmental standards in their production network. Pressure from the international community has pushed TNCs to take greater responsibility for such standards throughout their global value chains. There is now a significant body of evidence to suggest that TNCs are likely to use more environmentally friendly practices than domestic companies in equivalent activities. The extent to which TNCs guide NEM operations on social and environmental practices depends, first, on their perception of and exposure to legal liability risks (e.g. reparations in the case of environmental damages) and business risks (e.g damage to their brand and lower sales); and, secondly, on the extent to which they can control NEMs. TNCs employ a number of mechanisms to influence NEM partners, including codes of conduct, factory inspections and audits, and third-party certification schemes.

NEMs can help countries integrate in GVCs and build productive capacity

The immediate contributions to employment, to GDP, to exports and to the local technology base that NEMs can bring help to provide the resources, skills and access to global value chains that are prerequisites for long-term industrial capacity building.

A major part of the contribution of NEMs to the build-up of local productive capacity and long-term prospects for industrial development is through the impact on enterprise development, as NEMs require local entrepreneurs and domestic investment. Such domestic investment, and access to local or international financing, is often facilitated by NEMs, either through explicit measures by TNCs providing support to local NEM partners, or through the implicit guarantees stemming from the partnership with a major TNC itself.

While the potential contributions of NEMs to long-term development are clear, concerns are often raised (especially with regard to contract manufacturing and licensing), that countries relying to a significant extent on NEMs for industrial development risk remaining locked-in to low-value-added segments of TNC-governed global value chains and remaining technology dependent. In such cases, developing economies would run a further risk of becoming vulnerable to TNCs shifting productive activity to other locations, as NEMs are more "footloose" than equivalent FDI operations. The related risks of "dependency" and "footlooseness" must be addressed by embedding NEMs in the overall development strategies of countries.

The right policies can help maximize NEM development benefits

Policies are instrumental for countries to maximize development benefits and minimize the risks associated with the integration of domestic firms into NEM networks of TNCs. There are four key challenges for

policymakers: first, how to integrate NEM policies into the overall context of national development strategies; second, how to support the building of domestic productive capacity to ensure the availability of attractive business partners that can qualify as actors in global value chains; third, how to promote and facilitate NEMs; and fourth, how to address negative effects of NEMs.

NEM policies appropriately embedded in industrial development strategies will:

- ensure that efforts to attract NEMs through building domestic productive capacity and through facilitation and promotion initiatives are directed at the right industries, value chains and specific activities or segments within value chains;
- support industrial upgrading in line with a country's development stage, ensuring that firms move to higher value-added stages in the value chain, helping local NEM partners reduce their technology dependency, develop their own brands, or become NEM originators in their own right.

An important element of industrial development strategies that incorporate NEMs are measures to prevent and mitigate impacts deriving from the "footlooseness" of some NEM types, balancing diversification and specialization. Diversification ensures that domestic companies are engaged in multiple NEM activities, both within and across different value chains, and are connected to a broad range of NEM partners. Specialization in particular value chains improves the competitive edge of local NEM partners within those chains and can facilitate, in the longer term, upgrading to segments with greater value capture. In general, measures should aim at maintaining and increasing the attractiveness of the host country for TNCs and improve the "stickiness" of NEMs by building up local mass, clusters of suppliers, and the local technology base. Continuous learning and skills upgrading of domestic entrepreneurs and employees are also important to ensure domestic firms can move to higher value-added activities should foreign companies move "low end" production processes to cheaper locations.

Improving the capacity of locals to engage in NEMs has several policy aspects. Pro-active entrepreneurship policies can strengthen the competitiveness of domestic NEM partners and range from fostering start-ups to promoting business networks. Embedding entrepreneurship knowledge into formal education systems, combined with vocational training and the development of specialized NEM-related skills is also important. A mix of national technology policies can improve local absorptive capacity and create technology clusters and partnerships. Access to finance for domestic NEM partners can be improved through policies reducing borrowing costs and the risks associated with lending to SMEs, or by offering alternatives to traditional bank credits. Facilitation efforts can also include initiatives to support respect for core labour standards and CSR.

Promoting and facilitating NEM arrangements depends, first, on clear and stable rules governing the contractual relationships between NEM partners, including transparency and coherence. This is important, as NEM arrangements are often governed by multiple laws and regulations. Conducive NEM-specific laws (e.g. franchising laws, rules on contract farming) and appropriate intellectual property (IP) protection (particularly relevant for IP-intensive NEMs such as licensing, franchising and often contract manufacturing) can also help. While the current involvement of investment promotion agencies in NEM-specific promotion is still limited, they could expand their remit beyond FDI to promote awareness of NEM opportunities, engage in matchmaking services, and provide incentives to start-ups.

To address any negative impacts of NEMs, it is important to strengthen the bargaining power of local NEM partners vis-à-vis TNCs to ensure that contracts are based on a fair sharing of risks and benefits. The development of industry-specific NEM model contracts or negotiation guidelines can contribute to achieving this objective. If TNCs engaged in NEMs acquire dominant positions, they may be able to abuse their market power to the detriment of their competitors (domestic and foreign) and their own trading partners. Therefore, policies to promote NEMs need to go hand in hand with policies to safeguard competition. Other public interest criteria may require attention as well. Protection of indigenous capacities and traditional

activities, that may be crowded out by a rapid increase in market shares of successful NEMs, is essential.

In the case of contract farming for instance, policies such as these would result in model contracts or guidelines supporting smallholders in negotiations with TNCs; training on sustainable farming methods; provision of appropriate technologies and government-led extension services to improve capacities of contract farmers; and infrastructure development for improving business opportunities for contract farmers in remote areas. If contract farming was given more pride of place in government policies, direct investment in large-scale land acquisitions by TNCs would be less of an issue.

Finally, home-country initiatives and the international community can also play a positive role. Home-country policies that specifically promote overseas NEMs include the expansion of national export insurance schemes and political risk insurance to also cover some types of NEMs. Internationally, while there is no comprehensive legal and policy framework for fostering NEMs and their development contribution, supportive international policies range from relevant WTO agreements and, to a limited extent, IIAs, to soft law initiatives contributing to harmonizing the rules governing the relationship between private NEM parties or guiding them in the crafting of NEM contracts.

* * *

Foreign direct investment is a key component of the world's growth engine. However, the post-crisis recovery in FDI has been slow to take off and is unevenly spread, with especially the poorest countries still in "FDI recession". Many uncertainties still haunt investors in the global economy. National and international policy developments are sending mixed messages to the investment community. And investment policymaking is becoming more complex, with international production evolving and with blurring boundaries between FDI, non-equity modes and trade. The growth of NEMs poses new challenges but also creates new opportunities for the further integration of developing economies into the global economy. The *World Investment Report 2011* aims to help developing-country policymakers and the international development community navigate those challenges and capitalize on the opportunities for their development gains.

Geneva, June 2011

Supachai Panitchpakdi
Secretary-General of the UNCTAD

GLOBAL INVESTMENT TRENDS

CHAPTER I

Global foreign direct investment (FDI) flows rose moderately to $1.24 trillion in 2010, but were still 15 per cent below their pre-crisis average. This is in contrast to global industrial output and trade, which were back to pre-crisis levels. UNCTAD estimates that global FDI will recover to its pre-crisis level in 2011, increasing to $1.4–1.6 trillion, approaching its 2007 peak in 2013. This positive scenario holds, barring any unexpected global economic shocks that may arise from a number of risk factors still in play.

For the first time, developing and transition economies together attracted more than half of global FDI flows. Outward FDI from those economies also reached record highs, with most of their investment directed towards other countries in the South. Furthermore, interregional FDI between developing countries and transition economies has been growing rapidly. In contrast, FDI inflows to developed countries continued to decline.

Some of the poorest regions continued to see declines in FDI flows. Flows to Africa, least developed countries, landlocked developing countries and small island developing States all fell, as did flows to South Asia. At the same time, major emerging regions, such as East and South-East Asia and Latin America, experienced strong growth in FDI inflows.

International production is expanding, with foreign sales, employment and assets of transnational corporations (TNCs) all increasing. TNCs' production worldwide generated value added of approximately $16 trillion in 2010 – about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than one-tenth of global GDP and one-third of world exports.

State-owned TNCs are an important emerging source of FDI. There are some 650 State-owned TNCs, with 8,500 foreign affiliates across the globe. While they represent less than 1 per cent of TNCs worldwide, their outward investment accounted for 11 per cent of global FDI in 2010. The ownership and governance of State-owned TNCs have raised concerns in some host countries regarding, among others, the level playing field and national security, with regulatory implications for the international expansion of these companies.

A. GLOBAL TRENDS AND PROSPECTS: RECOVERY OVER THE HORIZON

1. Overall trends

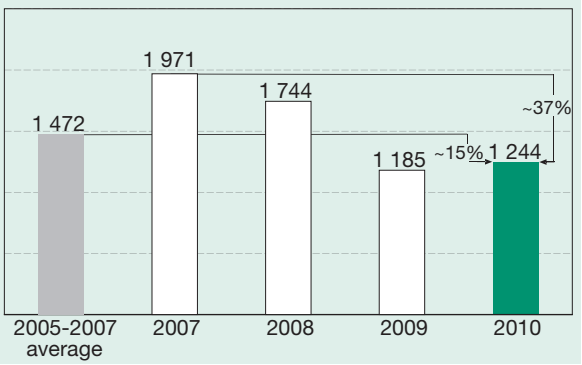
Global FDI flows rose modestly in 2010, but the share of developing and transition economies in both global inflows and outflows reached record highs.

As stimulus packages and other public fiscal policies fade, sustained economic recovery becomes more dependent on private investment. At present, transnational corporations (TNCs) have not yet taken up fully their customary lead role as private investors.

Global foreign direct investment (FDI) inflows rose modestly in 2010, following the large declines of 2008 and 2009. At $1.24 trillion in 2010, they were 5 per cent higher than a year before (figure I.1). This moderate growth was mainly the result of higher flows to developing countries, which together with transition economies – for the first time – absorbed more than half of FDI flows.

While world industrial production and trade are back to their pre-crisis levels, FDI flows in 2010 remained some 15 per cent below their pre-crisis average, and 37 per cent below their 2007 peak (figure I.1).

Figure I.1. Global FDI inflows, average 2005–2007 and 2007 to 2010
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

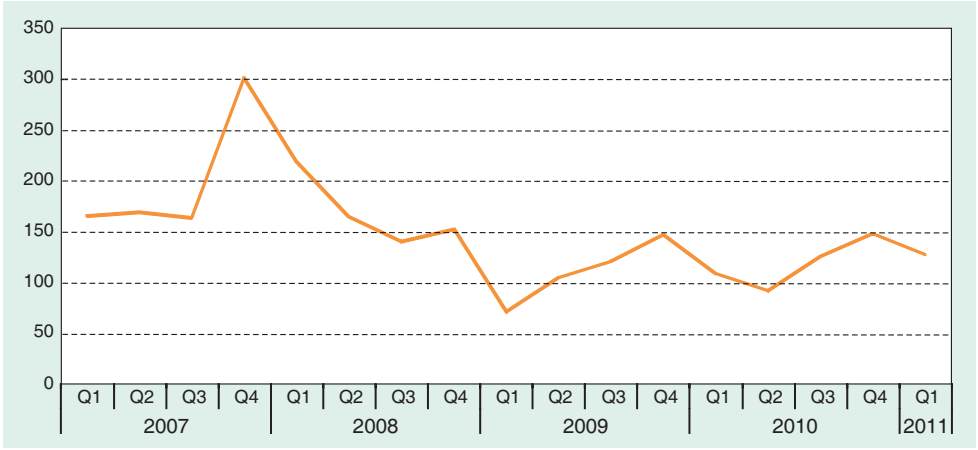
The moderate recovery of FDI flows in 2010 revealed an uneven pattern among components and modes of FDI. Cross-border mergers and acquisitions (M&As) rebounded gradually, yet greenfield projects – which still account for the majority of FDI – fell in number and value. Increased profits of foreign affiliates, especially in developing countries, boosted reinvested earnings – one of the three components of FDI flows – while uncertainties surrounding global currency markets and European sovereign debt resulted in negative intra-company loans and lower levels of equity investment – the other two components of FDI flows. While FDI by private equity firms regained momentum, that from sovereign wealth funds (SWFs) fell considerably in 2010.

FDI inward stock rose by 7 per cent in 2010, reaching $19 trillion, on the back of improved performance of global capital markets, higher profitability, and healthy economic growth in developing countries.

UNCTAD predicts FDI flows will continue their recovery to reach $1.4 –1.6 trillion, or the pre-crisis level, in 2011. In the first quarter of 2011, FDI inflows rose compared to the same period of 2010, although this level was lower than the last quarter of 2010 (figure I.2). They are expected to rise further to $1.7 trillion in 2012 and reach $1.9 trillion in 2013, the peak achieved in 2007. The record cash holdings of TNCs, ongoing corporate and industrial restructuring, rising stock market valuations and gradual exits by States from financial and non-financial firms' shareholdings built up as supporting measures during the crisis, are creating new investment opportunities for companies across the globe.

However, the volatility of the business environment, particularly in developed countries, means that TNCs have remained relatively cautious regarding their investment plans. In addition, risk factors such as unpredictability of global economic governance, a possible widespread sovereign debt crisis and fiscal and financial sector imbalances in some developed countries, rising inflation and apparent signs of overheating in major emerging market economies, among others, might derail FDI recovery.

Figure I.2. UNCTAD's Global FDI Quarterly Index,[a] 2007 Q1–2011 Q1
(Base 100: quarterly average of 2005)



Source: UNCTAD.
[a] The Global FDI Quarterly Index is based on quarterly data of FDI inflows for 87 countries, which together account for roughly 90 per cent of global flows. The index has been calibrated such that the average of quarterly flows in 2005 is equivalent to 100.

a. Current trends

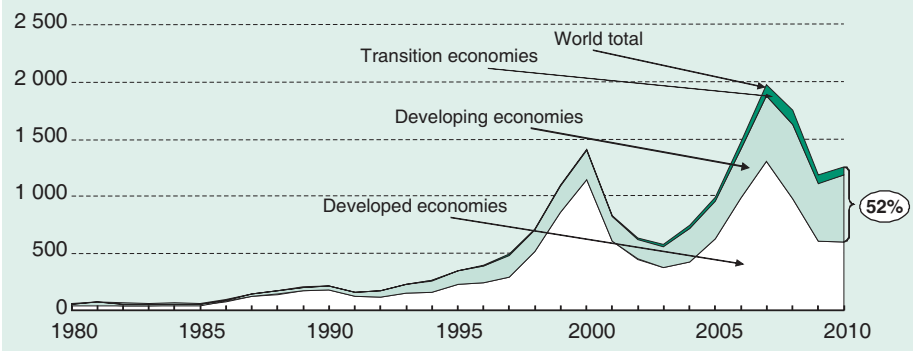
The shift of FDI inflows to developing and transition economies accelerated in 2010: for the first time, they absorbed more than half of global FDI flows.

Global FDI inflows in 2010 reached an estimated $1,244 billion (figure I.1) – a small increase from 2009's level of $1,185 billion. However, there was an uneven pattern between regions and also between subregions. FDI inflows to developed countries and transition economies contracted further in 2010. In contrast, those to developing economies recovered strongly, and together with transition economies – for the first time – surpassed the 50 per cent mark of global FDI flows (figure I.3).

FDI flows to developing economies rose by 12 per cent (to $574 billion) in 2010, thanks to their relatively fast economic recovery, the strength of domestic demand, and burgeoning South–South flows. The value of cross-border M&As into developing economies doubled due to attractive valuations of company assets, strong earnings growth and robust economic fundamentals (such as market growth).

As more international production moves to developing and transition economies, TNCs are increasingly investing in those countries to maintain cost-effectiveness and to remain competitive in the global production networks. This is now mirrored

Figure I.3. FDI inflows, global and by group of economies, 1980–2010
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

by a shift in international consumption, in the wake of which market-seeking FDI is also gaining ground.

This changing pattern of FDI inflows is confirmed also in the global ranking of the largest FDI recipients: in 2010, half of the top 20 host economies were from developing and transition economies, compared to seven in 2009 (figure I.4). In addition, three developing economies ranked among the five largest FDI recipients in the world. While the United States and China maintained their top position, some European countries moved down in the ranking. Indonesia entered the top 20 for the first time.

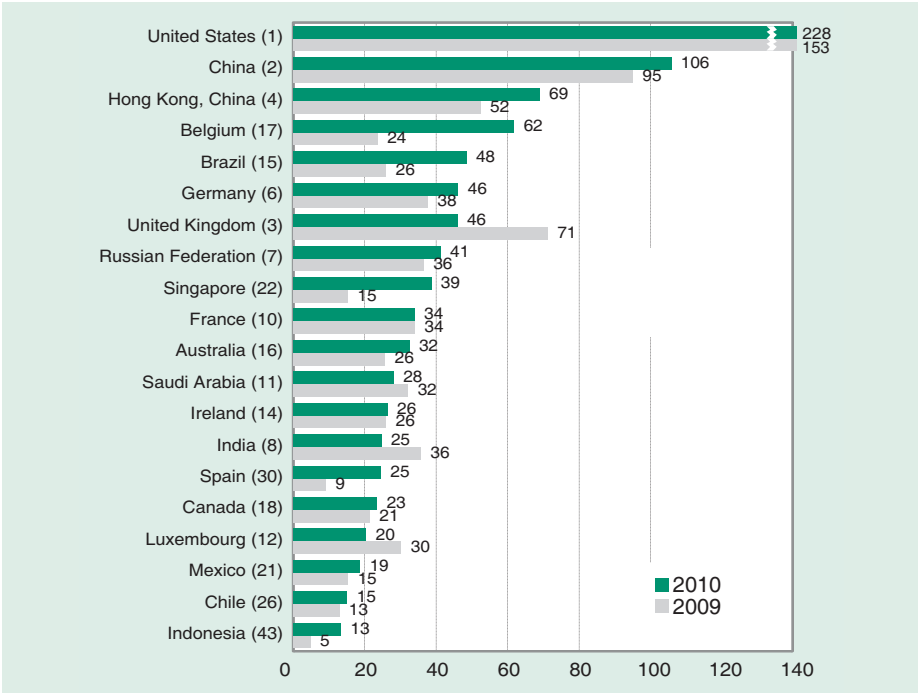
The shift towards developing and transition economies in total FDI inflows was also reflected in a change in the ranking of host countries by UNCTAD's *Inward FDI Performance Index*, which measures the amount of FDI that countries receive relative to the size of their economy (GDP). The index for developed countries as a group is below unity (the point where the country's share in global FDI flows and the country's share in global GDP are equal), and their ranking has fallen in the after-crisis period compared to the pre-crisis period of 2005–2007. In contrast, developing countries increased their performance index in the period 2005–2010, and they all have indices above unity (figure I.5).

Slow growth of FDI flows globally masks diverging trends between and within regions. Some of the poorest regions continued to see declines.

The rise of FDI to developing countries hides significant regional differences. Some of the poorest regions continued to see declines in FDI flows. In addition to least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS) (chapter II), flows to Africa continued to fall, as did those to South Asia. In contrast, major emerging regions, such as East and South-East Asia and Latin America experienced strong growth in FDI inflows (figure I.6).

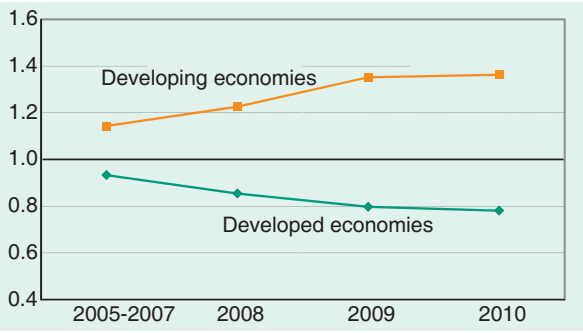
FDI flows to South, East and South-East Asia picked

Figure I.4. Global FDI inflows, top 20 host economies, 2009 and 2010 [a]
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked on the basis of the magnitude of 2010 FDI inflows.
Note: The number in bracket after the name of the country refers to the ranking in 2009. British Virgin Islands, which ranked 12th in 2010, is excluded from the list.

Figure I.5. Inward FDI Performance Index,[a] developed and developing economies, average of 2005–2007 and 2008–2010



Source: UNCTAD, based on data from FDI/TNC database (www/unctad.org/fdistatistics).

[a] The Inward FDI Performance Index is the ratio of a country/region's share in global FDI inflows to its share in global GDP. A value greater than 1 indicates that the country/region receives more FDI than its relative economic size, a value below 1 that it receives less.

Note: A full list of countries ranked by the index is available at www.unctad.org/wir.

up markedly, outperforming other developing regions. Inflows to the region rose by about 24 per cent in 2010, reaching $300 billion, rising especially in South-East Asia and East Asia. Similarly, strong economic growth, spurred by robust domestic and external demand, good macroeconomic fundamentals and higher commodity prices, drove FDI flows to Latin America and the Caribbean to $159 billion. Cross-border M&As in the region rose to $29 billion in 2010, after negative values in 2009. Nearly all the big recipient countries saw inward flows increase, with Brazil the largest destination.

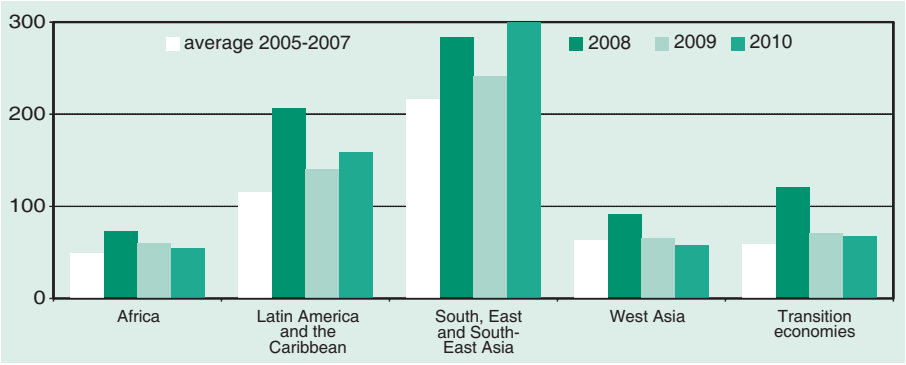
In contrast, inflows to Africa, which peaked in 2008 driven by the resource boom, continued the downward trend which started in 2009. Inflows to South Africa declined to little more than a quarter of those for 2009. North Africa saw its FDI flows fall slightly (by 8 per cent) in 2010; the uprisings which broke out in early 2011 impeded FDI flows in the first quarter of 2011 (see box II.1).

FDI flows to West Asia, at $58 billion decreased, despite the steady economic recovery registered by the economies of the region. Sizeable increases in government spending by oil-rich countries helped bolster their economies, but business conditions in the private sector remained fragile in certain countries.

The transition economies of South-East Europe and the Commonwealth of Independent States (CIS) registered a marginal decrease in FDI inflows in 2010, of roughly 5 per cent, to $68 billion, having fallen by 41 per cent in 2009. FDI flows to South-East Europe continued to decline sharply due to sluggish investment from EU countries – traditionally the dominant source of FDI in the subregion. The CIS economies saw their flows increase by less than 1 per cent despite stronger commodity prices, a faster economic recovery and improving stock markets.

FDI inflows to developed countries contracted moderately in 2010, falling by less than 1 per cent to $602 billion. Europe stood out as the subregion where flows fell most sharply, reflecting uncertainties about the worsening sovereign debt crisis. However,

Figure I.6. FDI inflows to developing and transition economies, by region, average of 2005–2007 and 2008 to 2010
(Billions of dollars)



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

while Italy and the United Kingdom suffered, FDI in some of the region's other major economies fell only slightly (e.g. France) or increased (e.g. Germany). Declining FDI flows were also registered in Japan, where there were a number of large divestments. In contrast, FDI flows to the United States surged by almost 50 per cent largely thanks to a significant recovery in the reinvested earnings of foreign affiliates. However, FDI flows were still at about 75 per of their peak level of 2008.

Outward FDI from developing and transition economies reached a record high, with most of their investment directed towards other economies within these regions.

At $1,323 billion, global FDI outflows in 2010, while increasing over the previous year, are still some 11 per cent below the pre-crisis average, and 39 per cent below the 2007 peak (see box I.1 for differences between FDI inflows and outflows). As in the case of inflows, there was an uneven pattern among regions. FDI flows from developing and transition economies picked up strongly, reflecting the strength of their economies, the dynamism of their TNCs and their growing aspiration to compete in new markets. The downward trend in FDI from developed countries reversed, with an 10 per cent increase over 2009. However, it remained at half the level of its 2007 peak.

Outward FDI from developing and transition economies reached $388 billion in 2010, a 21 per cent increase over 2009 (figure I.7; annex table I.1). Their share in global outflows of 29 per cent was up from 16 per cent in 2007, the year prior to the financial crisis. Behind this general increase there lie significant differences between countries.

Investors from South, East and South-East Asia and Latin America were the major drivers for the

Box I.1. Why are data on global FDI inflows and outflows different?

The discrepancy between reported global inward and outward FDI flows has been significant (box figure I.1.1). This is a major problem for policymakers worldwide, as sound policy analysis and informed policymaking on this issue require reliable, accurate, timely and comparable data (Fujita, 2008).

Box figure I.1.1. The difference between global FDI inflows and outflows, 1999–2010

(Billions of dollars)

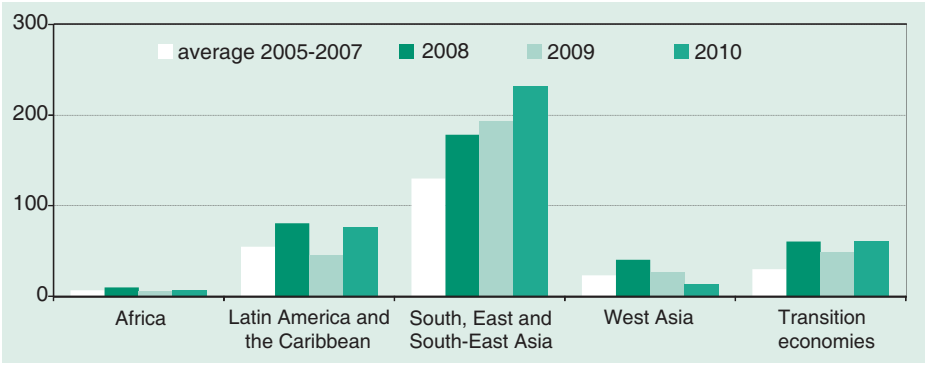
Source: UNCTAD.
Note: Positive value means inflows are higher than outflows, and vice versa.

The discrepancy is due to several reasons. First, there are inconsistencies in the data collection and reporting methods of different countries. Examples include different methods used by host and home countries recording the same transactions, uneven coverage of FDI flows between countries (e.g. treatment of reinvested earnings), and different exchange rates used for recording FDI transactions. Second, the changing nature (e.g. investment through exchange of shares between investors and acquired firms, investment from indirect sources) and the increasing sophistication of FDI-related transactions (that involve not only funds from parent firms, but also government loans and development assistance in the same package) often make it difficult to attribute exact values to FDI. Third, the distinction between FDI transactions with "portfolio-like behaviour" and portfolio investment, including hot money, is blurred. Finally, the accuracy of FDI reporting may itself be a victim of the global crisis, which caused increasing volatility in exchange rates, making an exact correspondence between home- and host-country reporting more uncertain (as differences in the timing of records may coincide with major exchange-rate differences).

This situation calls for a continuous improvement of both FDI-related definitions and data collection, especially in developing countries. As considerable efforts by UNCTAD and other international organizations are underway to harmonize definitions and data collection, it can be expected that the discrepancy between reports on inflows and outflows will narrow over time.

Source: UNCTAD.

Figure I.7. FDI outflows from developing and transition economies, by region, average of 2005–2007 and 2008 to 2010
(Billions of dollars)



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

strong growth in FDI outflows. Outflows from the largest FDI sources – Hong Kong (China) and China – increased by more than $10 billion each, reaching historical highs of $76 billion and $68 billion, respectively. Chinese companies continued their buying spree, actively acquiring overseas assets in a wide range of industries and countries, and overtaking Japanese companies in total outward FDI.

All of the big outward investor countries from Latin America – Brazil, Chile, Colombia and Mexico – bolstered by strong economic growth at home, increased their acquisitions abroad, particularly in developed countries where investment opportunities have arisen in the aftermath of the crisis.

In contrast, outflows from major investors in West Asia fell significantly, due to large-scale divestments and redirection of outward FDI from government-controlled entities to support their home economies weakened by the global financial crisis.

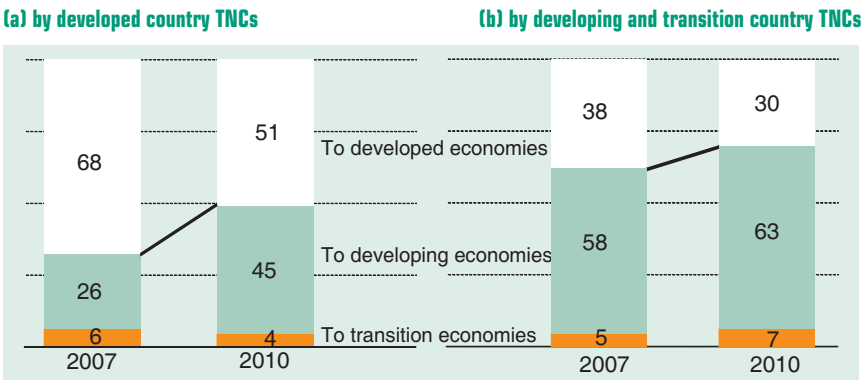
FDI outflows from transition economies grew by 24 per cent, reaching a record $61 billion. Most of the outward FDI projects, as in previous years, were carried out by Russian TNCs, followed by TNCs from Kazakhstan. The quick recovery of natural resource-based companies in transition economies was boosted by strong support by the State,[1] and by recovering commodity prices and higher stock market valuations, easing the cash flow problems these firms had faced in 2009.

Developed countries as a group saw only a limited recovery of their outward FDI. Reflecting their diverging economic situations, trends in FDI outflows differed markedly between countries and regions: outflows from Europe and the United States were up (9.6 and 16 per cent, respectively), while Japanese outward FDI flows dropped further in 2010 (down 25 per cent). The lingering effects of the crisis and subdued prospects in developed countries forced many of their TNCs to invest in emerging markets in an effort to keep their markets and profits: in 2010 almost half of total investment (cross-border M&A and greenfield FDI projects) from developed countries took place in developing and transition economies, compared to only 32 per cent in 2007 (figure I.8).[2]

In 2010, six developing and transition economies were among the top 20 investors (figure I.9). UNCTAD's *World Investment Prospects Survey 2011–2013* (WIPS) confirms that developing and transition economies are becoming important investors, and that this trend is likely to continue in the near future (UNCTAD, forthcoming a).

Many TNCs in developing and transition economies are investing in other emerging markets, where recovery is strong and the economic outlook better. Indeed, in 2010, 70 per cent of FDI projects (cross-border M&A and greenfield FDI projects) from these economies were invested within the same regions (figure I.8). TNCs, especially large State-owned enterprises, from the BRIC countries – Brazil, the

Figure I.8. Distribution of FDI projects,[a] by host region, 2007 and 2010
(Per cent)



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the *Financial Times* Ltd, fDi Markets (www.fDimarkets.com).
[a] Including both cross-border M&As and greenfield FDI projects.

Russian Federation, India and China – have gained ground as important investors in recent years as the result of rapid economic growth in their home countries, abundant financial resources and strong motivations to acquire resources and strategic assets abroad (section C).

In 2010 there were seven mega-deals (over $3 billion) involving developing and transition economies (or 12 per cent of the total) (annex table I.7), compared to only two (or 3 per cent of the total) in 2009. Firms from developing Asia expanded their acquisitions in 2010 beyond their own regions. For example China's outward FDI showed substantial increases in Latin America (chapter II; ECLAC, 2011). Transition-economy firms also increased their purchases in other transition economies in 2010.

b. FDI by sector and industry

In the aftermath of the crisis, FDI in manufacturing bounced back while services sector FDI is still in decline.

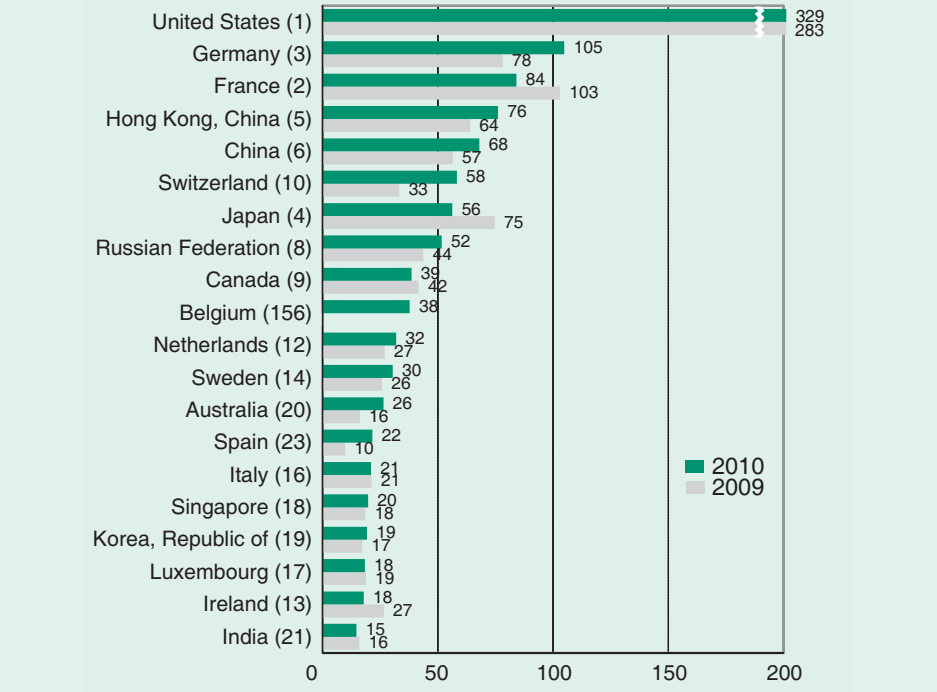
The unchanged level of overall FDI in 2010 also obscures some major sectoral differences. Data on FDI projects (both cross-border M&As and greenfield investment) indicate that the value and share of manufacturing rose, accounting for almost half of the total. The value and share of the primary and services sector declined (figure I.10). Compared with the pre-crisis level (2005–2007), the picture is quite different. While the primary sector has recovered, services are still less than half, and manufacturing is 10 per cent below their pre-crisis levels (annex table I.5).

The value of FDI projects in manufacturing rose by 23 per cent in 2010 compared to 2009, reaching $554 billion. The financial crisis hit a range of manufacturing industries hard, but the shock could eventually prove to be a boon to the sector, as many companies were forced to restructure into more productive and profitable activities – with attendant effects on FDI. In the United States, for example, FDI in manufacturing rose by 62 per cent in 2010, accompanied by a substantial rise in productivity (Bureau of Labor Statistics, 2011).

Within manufacturing, business-cycle sensitive industries such as metal and metal products, electrical and electronics equipment and wood and wood products were hit by the crisis, in terms of sales and profits (annex table I.5). As a result, investment fell in these industries, which suffered from serious overcapacity and wished to use cash to restore their balance sheet. In addition, their prospects for higher demand and market growth remained gloomy, especially in developed countries.

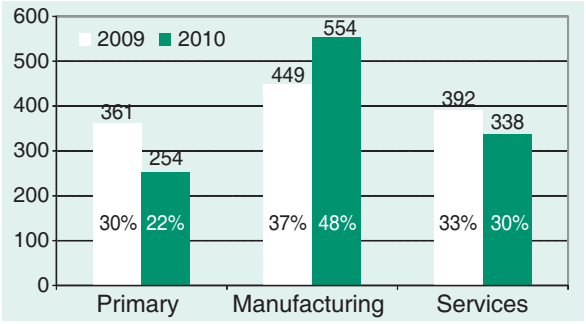
Some manufacturing industries such as chemicals (including pharmaceuticals) remained more resilient to the crisis; while other industries, such as food, beverages and tobacco, textile and garments, and

Figure I.9. Global FDI outflows, top 20 home economies, 2009 and 2010[a]
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).
[a] Ranked on the basis of the magnitude of 2010 FDI outflows.
Note: The number in bracket after the name of the country refers to the ranking in 2009. British Virgin Islands, which ranked 16th in 2010, is excluded from the list.

Figure I.10. Sectoral distribution of FDI projects,[a] 2009–2010
(Billions of dollars and per cent)



Source: UNCTAD.
[a] Comprises cross-border M&As and greenfield investments. The latter refers to the estimated amounts of capital investment.

automobiles, recovered in 2010. The pharmaceutical industry, for example, remained attractive to foreign investment, thanks to the dynamism of its final markets – especially in emerging economies. This rests, first, on the necessity of setting up or acquiring production facilities, as the patent protection for a number of major drugs marketed by global pharmaceutical firms is about to expire, and secondly on the ageing demography of most developed countries. Restructuring continued in 2010, as witnessed by two large deals that took place in the industry.[3] Opportunities for business deals exist due to rapid growth in the number of scientists and pharmaceutical firms in emerging economies, most notably in China and India.

In food, beverages and tobacco the recovery was due to the sustained demand for basic items, especially in developing countries. For many large TNCs in this industry, profits soared in 2010, and a number of large acquisitions were made.[4] In the case of textiles and clothing, the recovery is prompted by a growth in consumer spending, particularly in some emerging countries. Garment production is fairly cost-sensitive, which may prompt accelerated

relocation to countries where there is cheap labour.

FDI in the primary sector decreased in 2010 despite growing demand for raw materials and energy resources, and high commodity prices. FDI projects (including cross-border M&A and greenfield investments) amounted to $254 billion in 2010, raising the share of the primary sector to 22 per cent, up from 14 per cent in the pre-crisis period. Natural resource-based companies with sound financial positions, mainly from developing and transition economies, made some large acquisitions in the primary sector. Examples include the purchase of Repsol (Brazil) by China's Sinopec Group for $7 billion, and the purchase of the Carabobo block in the Bolivarian Republic of Venezuela by a group of investors from India for $4.8 billion (annex table I.7).

The value of FDI projects in the services sector continued to decline sharply in 2010, with respect to both 2009 and the pre-crisis level of activity. All main service industries (business services, finance, transport and communications and utilities) fell, although at different speeds. Business services declined by 8 per cent compared to the pre-crisis level, as TNCs are outsourcing a growing share of their business support functions to external providers, seeking to cut internal costs by externalizing non-core business activities (chapter IV). Transportation and telecommunication services suffered equally in 2010 as the industry's restructuring is more or less completed after the round of large M&A deals before the crisis, particularly in developed countries.

FDI in the financial industry – the epicentre of the current crisis – experienced the sharpest decline, and is expected to remain sluggish in the medium term. Over the past decade, its expansion was instrumental in integrating emerging economies into the global financial system, and it has brought substantial benefits to host countries' financial systems in terms of efficiency and stability. However, it also produced a bubble of unsustainable lending, which had to burst. In the period of post-bubble correction, issues relating to the management of country risk and the assessment of conditions in host-country financial systems play a major role in supporting expansion abroad.

Utilities were also strongly affected by the crisis, as some investors were forced to reduce investment or even divest due to lower demand and accumulated losses.

c. FDI by modes of entry

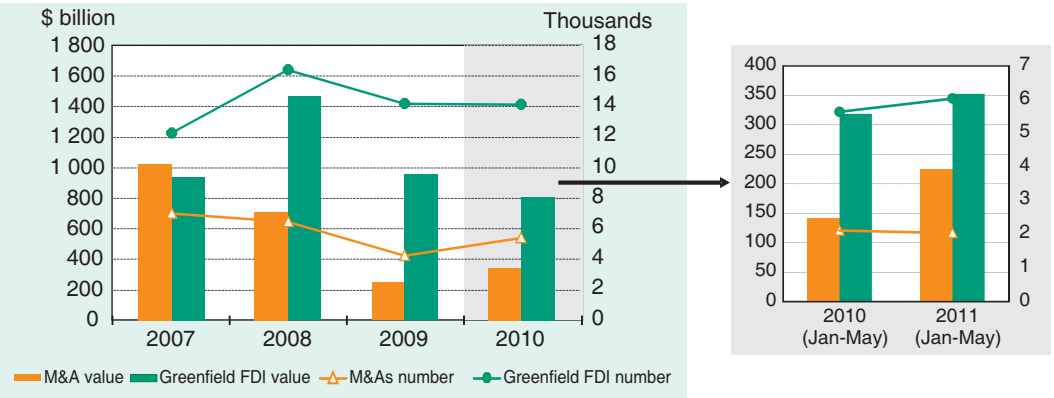
Greenfield investment has become much larger than cross-border M&As. Recovery of FDI flows in 2011 relies on the rise of both greenfield investments and cross-border M&As.

There are diverging trends between the two main modes of FDI entry: M&As and greenfield (new) investment. The value of cross-border M&A deals increased by 36 per cent in 2010, to $339 billion, though it was still roughly one-third of the previous peak in 2007 (figure I.11). Higher stock prices increased the purchasing power of investors to invest abroad, as higher values of corporate assets in 2010 raised the leverage of investors in undertaking M&As by using shares in part-payment. At the same time, the ongoing corporate and industrial restructuring is creating new acquisition opportunities, in particular for cash-rich TNCs, including those from emerging markets. On the other hand, greenfield investment – the other mode of FDI – declined in 2010. Differing trends between cross-border M&As and greenfield FDI are not surprising, as to some extent companies tend to consider the two modes of market entry as alternative options. However, the total project value of greenfield investments has been much higher than that of cross-border M&As since the crisis.

Developing and transition economies tend to host greenfield investment rather than cross-border M&As. More than two-thirds of the total value of greenfield investment is directed to these economies, while only 25 per cent of cross-border M&As are undertaken there. At the same time, investors from these economies are becoming increasingly important players in cross-border M&A markets, which previously were dominated by developed country players.

During the first five months of 2011, both greenfield investments and cross-border M&As registered a significant rise in value (figure I.11; annex tables I.3–6 and I.8). Cross-border M&As rose by 58 per cent, though from a low level, compared with the corresponding period of 2010.

Figure I.11. Value and number of cross-border M&As and greenfield FDI projects, 2007–May 2011



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the *Financial Times* Ltd, fDi Markets (www.fDimarkets.com).

Note: Data for value of greenfield FDI projects refer to estimated amounts of capital investment.

d. FDI by components

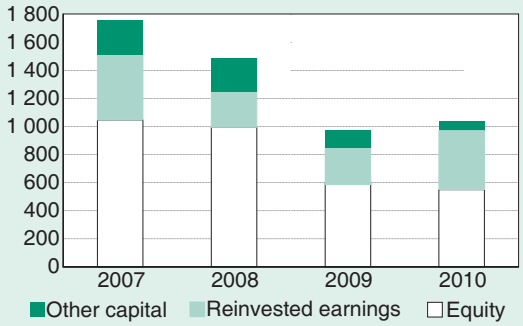
In 2010, reinvested earnings grew fast, while equity capital investment and intra-company loans declined. Cash reserves of foreign affiliates grew substantially.

Stagnant global flows in 2010 were accompanied by diverging trends in the components of FDI inflows (figure I.12). Improved economic performance in many parts of the world, and increased profits of foreign affiliates, lifted reinvested earnings to nearly double their 2009 level (figure I.13). This reflects the general increase in profits globally. For example, the profits to sales ratio of the United States' S&P 500 firms in 2010 improved further, while profits of Japanese firms also rose in 2010. Also in developing countries, operating profits of companies from China and the Republic of Korea rose significantly in 2010.

However, not all reinvested earnings are actually reinvested in productive capacity. They may be put aside to await better investment opportunities in the future, or to finance other activities (box I.2), including those that are speculative (box I.5). About 40 per cent of FDI income was retained as reinvested earnings in host countries in 2010 (figure I.13).

The increase in reinvested earnings compensated for the decline in equity capital flows, which were down slightly despite an up-tick in cross-border M&As. The continuing depressed level of equity investments was still the key factor keeping FDI

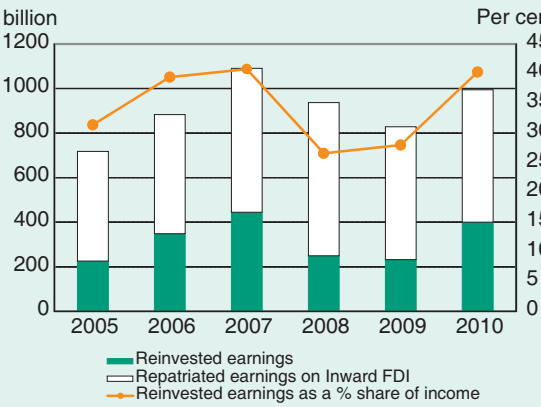
Figure I.12. FDI inflows by component, 2007–2010[a]
(Billions of dollars)



Source: UNCTAD, based on data from FDI/TNC database (www/unctad.org/fdistatistics).

[a] Based on 106 countries that account for 85 per cent of total FDI inflows during the period 2007-2010.

Figure I.13. FDI income, 2005–2010[a]
(Billions of dollars and per cent)



Source: UNCTAD.

[a] Based on 104 countries that account for 81 per cent of total FDI inflows during the period 2005-2010.

Box I.2. FDI flows and the use of funds for investment

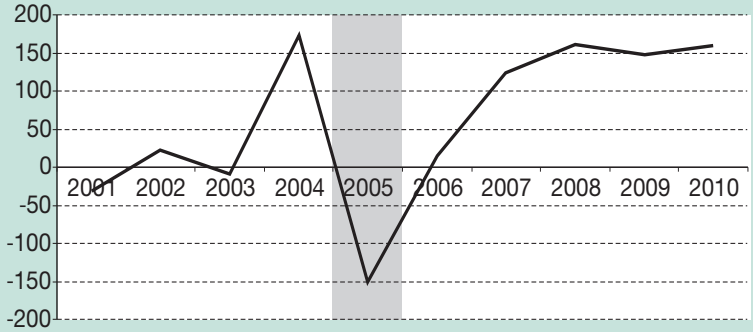
FDI is traditionally broken down into three components: equity capital, intra-company loans, and reinvested earnings of foreign affiliates. These component parts can be considered as sources of funds for investment, additional to funds raised on local and international capital markets. However, the decision by a TNC to finance an investment in productive assets in a host country through an increase in equity capital, a loan, or by using income earned in the host country is driven by a wide range of factors, most of which are beyond the reach of host-country policymakers to influence.

From a policymaker's perspective, it may be more relevant to see how FDI flows are used (use of funds). TNCs can employ FDI (1) for the creation, expansion or improvement of productive assets, generating additional productive capacity, (2) to finance changes in ownership of assets (M&As), or (3) to add to the financial reserves of foreign affiliates. The latter may be motivated by decisions on the level of financial leverage of the firm, by the need to retain cash for planned future investments, by fiscal considerations (e.g. to defer tax liabilities upon repatriation of profits), or by other factors, including opportunistic behaviour on the part of TNCs to profit from changes in exchange rates or local asset-price rises.

The traditional method of analysing FDI by sources of funds tends to overlook the significance of such "parked funds" held in foreign affiliates of TNCs. "Reinvested earnings" consist of income earned by foreign affiliates that is not repatriated to the home country of the parent firm; firms do not necessarily reinvest this income in additional productive capacity. The difference between FDI flows and actual capital expenditures by foreign affiliates represents FDI not immediately employed for the creation of additional productive capacity and, as such, it is a good proxy for the increase in cash reserves in foreign affiliates.

Box figure I.2.1. Estimated value of the "non-used" part of FDI by United States TNCs, 2001–2010

(Billions of dollars)



Source: UNCTAD based on FDI database and Bureau of Economic Analysis.

This proxy indicator for overseas cash reserves of United States firms over the last 10 years shows a peak in 2004, a steep drop in 2005 and an ascent to new heights in 2008 – with estimates for 2009 and 2010 equally high (box figure I.2.1). The 2004 peak and the 2005 trough can be explained by the Homeland Investment Act which provided a tax break on repatriated profits in 2005. Anticipating the tax break, firms hoarded cash in their overseas affiliates in 2004 and brought back several years' worth of retained earnings in 2005 (some $360 billion). For the last three years, levels have been similar to the anomalous 2004 peak, leading to the conclusion that cash reserve levels in foreign affiliates may well exceed what is required for normal operations.

The sensitivity of overseas cash reserves to the tax rate on fund repatriation can also be observed in Japan. A 2009 tax change on the repatriation of foreign earnings is estimated to bring back an additional $40 billion in overseas funds annually (chapter II; *WIR10*).

The implications are significant. Under-employed cash reserves of TNCs represent untapped funds that could be gainfully employed to stimulate the global economy, create jobs and finance development.

Source: UNCTAD.

flows relatively low. It is a source of concern, as among the components of FDI, equity investment compared with reinvested earnings and intra-company loans is the one that is related most directly to TNCs' long-term international investment strategies. Intra-company loans declined also, 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. This was especially true of European TNCs which, facing fears of a sovereign debt crisis spreading in many parts of the euro zone, significantly reduced loans to their affiliates in the United Kingdom and the United States.

Given the fact that foreign affiliates hold a significant amount of retained earnings on their balance sheets (box I.2), unless they are repatriated to their parent firms in home countries, reinvested earnings continue to play an important role in determining the level of investment flows.

e. FDI by special funds: private equity and sovereign wealth funds

Private equity funds

Private equity-sponsored FDI has regained momentum, although it fell short of its pre-crisis level. It is directed more towards developing and transition economies, secondary buyouts and smaller acquisitions.

In 2010, the value of private equity-sponsored cross-border M&As increased by 14 per cent to $122 billion, compared to $107 billion in 2009 after two years of consecutive decline (table I.1).[5] At the same time, the corresponding number of cross-border M&As reached a record high, with 2,050 deals completed.

The factors behind the increase in FDI by private equity funds are largely related to the stabilization of macroeconomic conditions. Also, investors were looking for yields, in a declining interest rate environment. Positive trends were supported by stronger private equity activity in emerging markets (Emerging Markets Private Equity Association, 2011). Thus 31 per cent of FDI by private equity firms, amounting to $38 billion, was directed to developing and transition economies in 2010 (figure I.14), up from 26 per cent in 2009. This rise reflects the increasing interest of private equity firms in developing country firms and venture capital business, which provide better business opportunities than before.

Despite stronger private equity-sponsored cross-border M&As in 2010, their value is still more than 70 per cent lower than the peak level in 2007. The relative contribution of private equity to global FDI continues to decline. The volume share of private equity in total cross-border M&As fell from 19 per cent in 2009 to 17 per cent in 2010 (table I.1). The relative contribution of private equity funds to total FDI contracted by nearly 40 per cent from 2004, its peak year, to 2010.

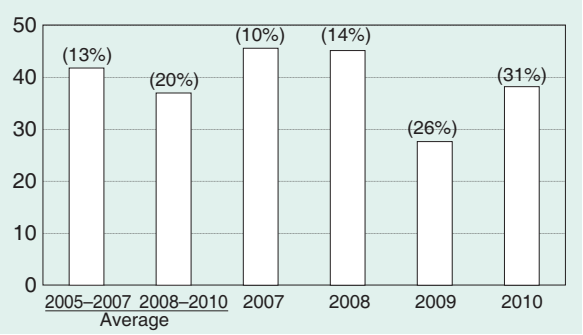
A more benign global economic environment should see fundraising and investment picking up in 2011, also bolstering a more positive outlook for private equity-sponsored FDI. Private equity investors were estimated to have held nearly a trillion dollars of uninvested capital at the beginning of 2010, including reserves for future use, that could result

Table I.1. Cross-border M&As by private equity firms, 1996–May 2011
(Number of deals and value)

Year	Number of deals		Value	
	Number	Share in total (%)	$ billion	Share in total (%)
1996	932	16	42	16
1997	925	14	54	15
1998	1 089	14	79	11
1999	1 285	14	89	10
2000	1 340	13	92	7
2001	1 248	15	88	12
2002	1 248	19	85	18
2003	1 488	22	109	27
2004	1 622	22	157	28
2005	1 736	20	207	22
2006	1 698	18	271	24
2007	1 917	18	457	27
2008	1 785	18	322	25
2009	1 993	25	107	19
2010	2 050	22	122	17
2011	591	17	91	20

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Value is on a gross basis, which is different from other M&A tables based on a net value. The table includes M&As by hedge funds. Private equity firms and hedge funds refer to acquirers as "investors not elsewhere classified". This classification is based on the Thomson Finance database on M&As.

Figure I.14. Cross-border M&As by private equity funds directed to developing and transition economies, 2005–2010
(Billions of dollars and per cent)



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Figures in parenthesis refer to the percentage share in total private equity. Data for 2005–2007 and 2008–2010 are annual averages.

in a surge in volume of cross-border M&As in 2011 (Bain & Co., 2011).

On the supply side, there are now more opportunities. There are two factors. First, companies owned by private equity firms are becoming targets for other private equity firms. The relative performance of these secondary buyouts (i.e. buyouts of private equity invested firms) is only slightly lower than that of primary buyouts: this is because the former can be executed faster than the latter in issuing IPOs (initial public offerings), and because secondary buyouts entail a lower risk profile.[6] Second, private equity firms are now seeking smaller firms, and are engaged in smaller-scale buyouts. This is an area to which private equity firms have not paid much attention in the past, yet one where many attractive firms are to be found.

However, private equity funds continue to face regulations in response to the global financial crisis, partly due to the G-20's commitment to subject all significant financial market actors to appropriate regulation and supervision. For example, the EU Alternative Investment Funds Managers Directive[7] and the United States' Dodd-Frank Wall Street Reform and Consumer Protection Act[8] will affect directly and indirectly the operations of private equity funds and their fund-raising ability, and in consequence their contribution to FDI.

Sovereign wealth funds

SWF-sponsored FDI declined substantially because of severely reduced investment from the Gulf region. However, its long-term potential as a source of investment remains.

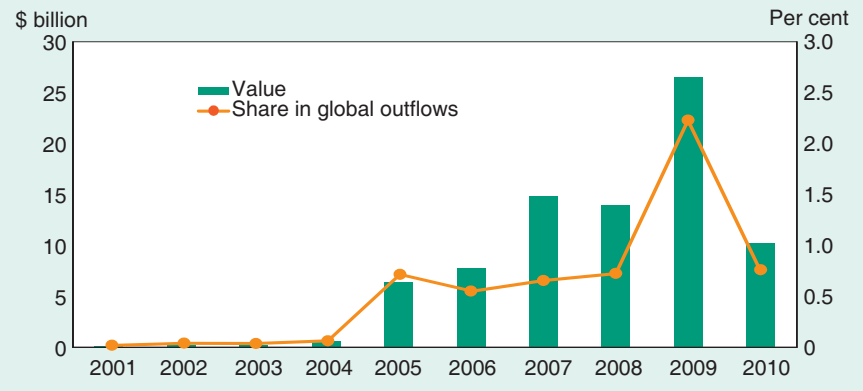
Sovereign wealth funds (SWFs) are special-purpose investment funds or arrangements that are owned by government.[9] At the end of 2009, more than 80 SWFs, with an estimated total of $5.9 trillion in assets, could be identified.[10] In 2010 alone, nearly 20 governments, mostly from emerging economies, considered or decided to establish an SWF.

While funds that invest mainly in debt instruments (e.g. government bonds) were largely unaffected by the global financial crisis, SWFs with considerable equity exposure suffered a dramatic erosion of the value of their investments. By the end of 2009, however, with the recovery of stock markets worldwide, almost all SWFs had been able to recoup their losses from 2008.

In 2010 the positive outlook for most SWFs held firm, supported by the overall recovery in equity markets. However, total SWF-sponsored FDI in 2010 amounted to only $10.0 billion, a significant drop from 2009's $26.5 billion (figure I.15). The largest SWF-sponsored deals included investments in infrastructure, retail, transportation, natural resources and utilities in Australia, Canada, the United Kingdom and the United States (table I.2).

The fall in SWF-sponsored FDI in 2010 is a considerable deviation from the trend of SWFs becoming more active foreign direct investors, that started in 2005. There are two reasons for this slump. First, unlike in earlier years, in 2010 FDI by SWFs based in the Gulf region (e.g. United Arab Emirates) was almost absent (table I.2). Asian and Canadian SWFs were the main investors in 2010. Second, while SWF-sponsored FDI is not necessarily pro-cyclical, the low appetite for direct investments in 2010 can be traced back to the exceptionally uncertain global financial environment of previous years. Because of that uncertainly, in 2010 SWFs directed about one-third of their FDI to acquire shares of, or inject capital into, private equity funds and other funds,[11] rather than investing in acquiring shares issued by industry

Figure I.15. Cross-border M&As by SWFs, 2001–2010
(Million dollars and per cent)



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

Table I.2. Selected large FDI deals by SWFs in 2010

Value ($ million)	Acquiring company	Acquiring nation	Target company	Target nation	Industry of the acquired company
3 090	Canada Pension Plan Investment Board	Canada	Intoll Group	Australia	Finance
2 227	Qatar Holding LLC	Qatar	Harrods	United Kingdom	Retail
1 581	China Investment Corp	China	AES Corp	United States	Electricity, gas and water
881	Canada Pension Plan Investment Board	Canada	407 ETR Concession Co	Canada	Transport, storage and communications
800	China Investment Corp	China	Penn West Energy Trust	Canada	Mining, quarrying and petroleum
576	Ontario Teachers Pension Plan	Canada	Camelot Group PLC	United Kingdom	Community, social and personal service activities
400	Temasek Holdings(Pte)Ltd	Singapore	Odebrecht Oleo & Gas SA	Brazil	Mining, quarrying and petroleum
259	Caisse de Depot & Placement du Quebec	Canada	HDF(UK)Holdings Ltd	United Kingdom	Finance
194	GIC Real Estate Pte Ltd	Singapore	Salta Properties-Industrial Property Portfolio	Australia	Business services
100	Temasek Holdings(Pte)Ltd	Singapore	Platmin Ltd	South Africa	Mining, quarrying and petroleum
91	Canada Pension Plan Investment Board	Canada	Vornado Realty Trust	United States	Business services
43	Oman Investment Fund	Oman	Petrovietnam Insurance Joint Stock Corp	Viet Nam	Finance

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

(e.g. the Canadian Pension Plan Investment Board's investment in Intoll Group, an infrastructure fund, for $3 billion – table I.2).

While expenditure on FDI has declined, the fundamental drivers for stronger SWF-sponsored FDI activity remain robust. Strong commodity prices in 2010 in particular have created a positive funding environment for SWFs, including those that have been actively involved in FDI in previous years. The foreign assets of the Qatar Investment Authority, an active strategic investor, were estimated to grow from $65 billion in 2009 to $90 billion in 2010, and $120 billion in 2011.[12] It has been suggested that the China Investment Corporation, established in 2007 with a mandate to diversify China's foreign exchange holdings, and an active investor in energy, natural resources, and infrastructure-related assets, received $100–200 billion in new funds in 2010.[13]

Other SWFs have seen strong returns in 2010, supporting policy decisions to become more

proactive sponsors of FDI. Since 2009, for example, the Norwegian Government Pension Fund Global, with more than $400 billion under management and owning roughly 1 per cent of the world's equity, is now allowed to own up to 10 per cent of a listed company – the threshold to be considered FDI – making the fund a considerable potential source of FDI.[14] Greater availability of funds, as well as policies that give SWFs more leeway to acquire larger stakes in attractive assets, together with improved in-house fund management capacity, will result in SWFs becoming more visible sources of FDI.

2. Prospects

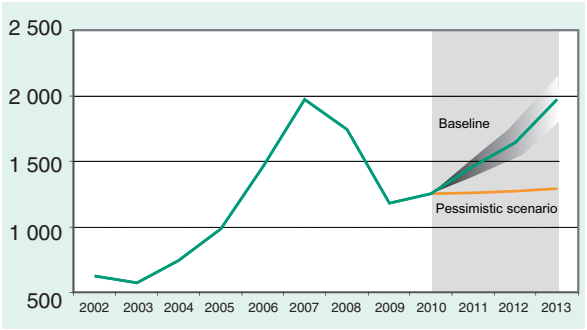
Recovery is underway, but risks and uncertainties remain.

Judging from the data on FDI flows, cross-border M&As and greenfield investment for the first few months of 2011, the recovery of FDI is relatively strong. This trend may well continue into the remaining period of 2011. New investment opportunities await for cash-rich companies in developed and developing countries. Emerging economies, particularly Brazil, China, India and the Russian Federation, have gained ground as sources of FDI in recent years. A recovery in FDI is on the horizon.

However, the business environment remains volatile, and TNCs are likely to remain relatively cautious regarding their investment plans. Consequently, medium-term prospects for FDI flows – which have not really picked up yet after the sharp slump in 2008 and 2009, and which had only a moderate recovery in 2010 – may vary substantially, depending on whether or not the potential risks in the global economy materialize or not.

To illustrate these uncertainties, UNCTAD proposes baseline and pessimistic scenarios for future FDI growth (figure I.16). The former scenario is based on the results of various leading indicators, including UNCTAD's World Investment Prospects Survey 2011—2013 (WIPS) (UNCTAD, forthcoming a), an econometric model of forecasting FDI inflows (box I.3), and data for the first four to five months of 2011 for cross-border M&As and greenfield investment values. Taking these various indicators together, FDI flows could range from $1.4–1.6 trillion in 2011 (with a baseline scenario of $1.52 trillion) — the pre-crisis average of

Figure I.16. Global FDI flows, 2002–2010, and projection for 2011–2013
(Billions of dollars)



Source: UNCTAD.

2005–2007. They are expected to rise further to $1.7 trillion in 2012 and reach $1.9 trillion in 2013, the peak achieved in 2007.

However, there is also a possibility of stagnant FDI flows (pessimistic scenario) if the above–mentioned risks such as the unpredictability of global economic governance, worsening sovereign debt crisis, and fiscal and financial imbalances were to materialize.

After the sharp recession at the end of 2008 and beginning of 2009, the economic environment has improved significantly over the past two years. The recovery in world output growth rests on a number of factors, including stabilization of the financial system, the resilient growth of emerging markets, the stimulus package programmes implemented in various major economies in the world, and the pick-up in final demand in developed countries, following a return to confidence for both households and companies. Recent forecasts suggest that global GDP will grow by 3 per cent in 2011. Moreover, domestic investment, is expected to pick up strongly not only in developing countries but also in advanced economies (table I.3). Take for example the Republic of Korea, where investment expenditure in 2011 is expected to rise by nearly 10 per cent, to a record high.[15]

The improvement in the global macroeconomic outlook has had a direct positive effect on the capacity of TNCs to invest. After two years of slump, profits of TNCs picked up significantly in 2010 (figure I.17), and have continued to rise in 2011: in the first quarter the S&P 500 United States

Box I.3. Forecasting global and regional flows of FDI

Part of UNCTAD's forecast for FDI flows is based on an econometric model, by which not only global but also regional estimations are made possible for 2011–2013. As FDI decisions are a strategic choice by firms choosing among alternative locations, the single country/region model cannot demonstrate how a TNC chooses a particular location over others. Existing studies typically portray FDI as reacting to individual host country/region factors, but fail to capture the impact of factors elsewhere on the other regions that may attract investment to, or divert investment from, the country in question. Consequently, in order to explain and forecast global and regional FDI, factors in all regions must be taken into consideration simultaneously.

UNCTAD's econometric model for FDI uses panel data for the period 1995–2010 from 93 countries, which account for more than 90 per cent of FDI in their own respective regions (Africa, West Asia, South, East and South-East Asia, Latin America and the Caribbean, EU and other developed countries).[a] The variables employed in the model include: market growth of G-20 countries as main home and host countries of global FDI (G-20 growth rate), market size (one year lagged GDP of each individual country), the one-year lagged price of oil to capture natural-resource FDI projects, trade openness (the share of exports plus imports over GDP), and the lagged dependent variable of FDI to capture the effects of FDI in the previous periods (autocorrelation). The regression results are summarized in box table I.3.1.

Based on this model, FDI flows are projected to pick up in 2011 reaching the pre-crisis level mainly due to dynamism in the economic growth of G-20 countries. FDI inflows are expected to reach the peak level of 2007 in 2013 (box table I.3.2).

However, the results of the model are based mainly on economic fundamentals and do not take into account the various risk factors mentioned in the Report. This is due to difficulties in quantifying them.

Source: UNCTAD.

[a] The only exception is Latin America and the Caribbean, where the countries included represent around 70 per cent of FDI inflows. Lower coverage is due to the absence of macroeconomic data for the Caribbean.

Box table I.3.1. Regression results of FDI forecasting model, fixed effects panel regression[a]

Explanatory variable	Coefficients
G20 growth	0.37 (3.87)***
GDP (-1)	0.01 (3.32)***
Openness	0.01 (3.48)***
Oil price (-1)	0.02 (3.9)***
FDI(-1)	0.50 (7.2)***
Constant	-0.63 (-0.58)
R^2	0.81
Observations	1395

Source: UNCTAD estimates, based on UNCTAD (for FDI inflows), IMF (G20 growth, GDP and openness), United Nations (oil price) from the Link project.

[a] The following model $FDI_{jt}=\alpha_o+\alpha_1*G20_t+\alpha_2*GDP_{jt-1}+\alpha_3*Openess_{jt}+\alpha_4*Oil\_price_{jt-1}+\alpha_5*FDI_{jt-1}+\varepsilon_{jt}$ is estimated with fixed effect panel regression using estimated generalized least squares with cross-sections weights. Coefficients computed by using white heteroscedasticity consistent standard errors. Statistical significance at the 1 per cent (***) and 5 per cent (**) levels.

Box table I.3.2. Summary of econometric medium-term baseline scenarios of FDI flows, by groupings
(Billions of dollars)

	Averages				Projections		
	2005-2007	2008-2010	2009	2010	2011	2012	2013
Global FDI flows	1 471 799	1 390 934	1 185 030	1 243 671	1 523 598	1 685 792	1 874 620
Developed countries	967 947	723 284	602 835	601 906	790 183	887 729	1 026 109
Developing countries	444 945	580 716	510 578	573 568	655 800	713 946	749 531
Transition economies	58 907	86 934	71 618	68 197	77 615	84 117	98 980

Source: UNCTAD.

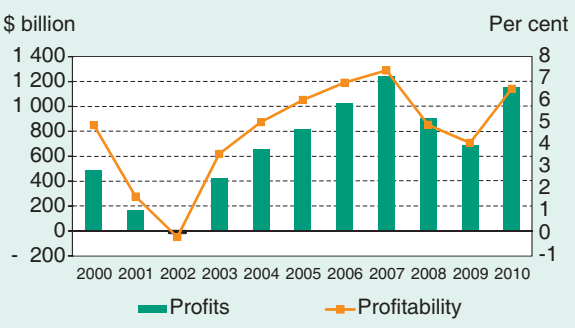
firms increased their profits by 12 per cent over the corresponding period of 2010. For Japan, despite a negative economic growth rate due to the natural disaster, listed firms still achieved profits,[16] and even in the aftermath of the disaster, Japanese firms are vigorously investing abroad (box I.4). Firms now

Table I.3. Real growth rates of GDP and gross fixed capital formation (GFCF), 2010–2012
(Per cent)

Variable	Region	2010	2011	2012
GDP growth rate	World	3.6	3.1	3.5
	Developed economies	1.6	1.3	1.7
	Developing economies	7.1	6.0	6.1
	Transition economies	3.8	4.0	4.2
GFCF growth rate	World	5.9	6.5	7.2
	Advanced economies[a]	2.5	4.2	6.2
	Emerging and developing economies[a]	9.6	8.9	8.2

Source: UNCTAD, based on United Nations, 2011 for GDP and IMF, 2011a for GFCF.
[a] IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

Figure I.17. Profitability [a] and profit levels of TNCs, 1997–2010
(Billions of dollars and per cent)

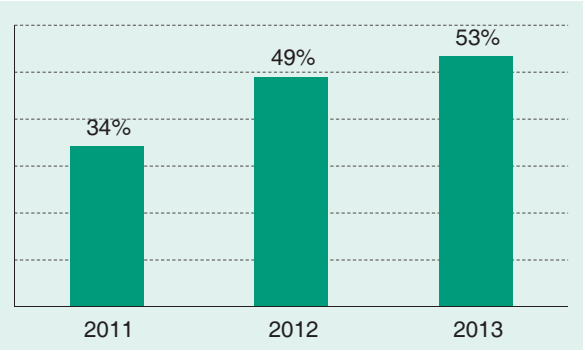


Source: UNCTAD, based on data from Thomson One Banker.
[a] Profitability is calculated as the ratio of net income to total sales.
Note: The number of TNCs covered in this calculation is 2,498.

have record levels of cash holdings. TNCs' sales have also increased significantly as compared to 2009, both globally and for their foreign affiliates (section C).

These improvements at both the macroeconomic and microeconomic levels are reflected in TNCs' opinions about the global investment climate. According to 2011's *World Investment Prospects Survey* (WIPS),[17] TNCs exhibit a growing optimism going towards 2013 (figure I.18). Some 34 per cent of respondents expressed "optimistic" or "very optimistic" views for the global investment environment in 2011, compared to more than half

Figure I.18. Level of optimism of TNCs regarding the investment environment, 2011–2013
(Percentage of responses by TNCs surveyed)



Source: UNCTAD, forthcoming a.

(53 per cent) in 2013. Perhaps more strikingly, the share of TNCs responding that they were "pessimistic" or "very pessimistic" for 2013 fell to 1 per cent.

Responses to the WIPS also suggest strongly the continuing importance of developing and transition economies as destinations for FDI (figure I.19). While the composition of the top five destinations has not changed much in recent years – for example, in 2005 the top five were China, India, United States, Russian Federation, and Brazil – the mix of the second tier of host economies has shifted over time. Reflecting the spread of FDI in developing Asia beyond the top destinations, the rankings of economies such as Indonesia, Viet Nam, and Taiwan Province of China have risen markedly compared to previous surveys. Peru and Chile have likewise improved their position as Latin American destinations, thanks largely to their stable investment climates and strong macroeconomic factors. African countries are conspicuous by their absence from the list of top potential host economies for TNCs.

While improving macro- and microeconomic fundamentals, coupled with rising investor optimism and the strong pull of booming emerging markets, should signal a strong rebound in global FDI flows, risks and uncertainties continue to hamper the realization of new investment opportunities. Such factors include the unpredictability of global governance (financial system, investment regimes,

Box I.4 Effects of the natural disaster on Japanese TNCs and outward FDI

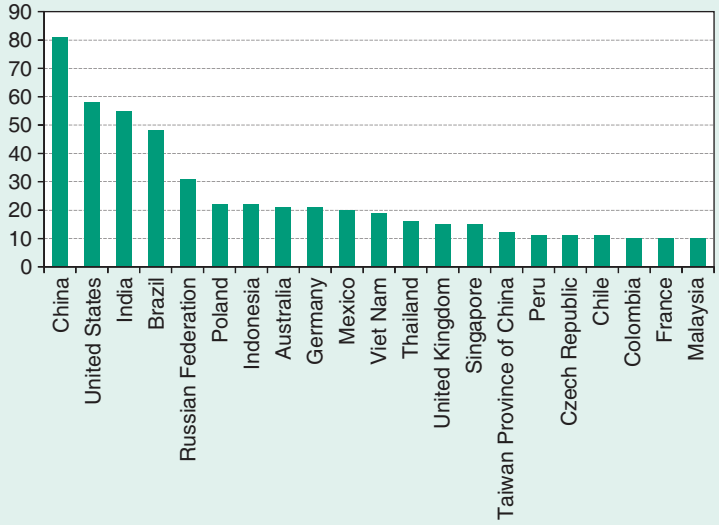
On 11 March 2011, the northern part of Japan experienced a devastating earthquake and tsunami. The region that was most badly affected is home to a number of niche hi-tech companies, all major producers of specialized components (e.g. Renasas Electronics, which controls a 30 per cent share of the global market for microcontrollers). The earthquake itself and the subsequent interruption of power supplies resulted in a severe disruption of supply chains, not only in Japan but internationally. Despite the severity of the damage, by June most of the supply chains had been restored: for example, production at Toyota had recovered to 90 per cent of its pre-earthquake level.

While Japanese firms have shown remarkable resilience, the chain of events has prompted Japanese manufacturers to reconsider their procurement strategies. In a recent survey of Japanese firms by the *Nikkei*,[a] one-quarter of the respondents said that they would increase procurement from abroad, while a further fifth intended to diversify their procurement sources within Japan. The survey indicated that about two-thirds of the firms intended to maintain or increase their level of total investment in the aftermath of this natural disaster.

In the short term, the supply disruption will have reduced the revenues of those foreign affiliates of Japanese TNCs that were affected by supply disruption, and thus their reinvested earning. On the other hand, the temporary loss of revenues might have induced the parent companies of these affiliates to extend intra-company loans. In the medium term, the strategy of diversifying procurement sources could strengthen outward FDI. However, the overall impact of the earthquake on outward FDI from Japan is likely to be limited, especially against the backdrop of buoyant outward FDI through M&A by Japanese firms. Over the long run, Japan will again be a leading investor for outward FDI.

Source: UNCTAD.
[a] Based on a survey of 100 CEOs by the *Nikkei* (29 May 2011).

Figure I.19. Top host economies for FDI in 2011–2013
(Number of times the country is mentioned as a top FDI priority by respondent TNCs)



Source: UNCTAD, forthcoming a.

etc.); the worsening sovereign debt crisis in some developed countries and the resultant fiscal austerity; regional instability; energy price hikes and risks of inflation; volatility of exchange rates; and fears of investment protectionism. Although each can serve as a disincentive to investment in its own right, the prominence of all of these risks at the same time could seriously obstruct FDI globally.

* * *

UNCTAD's WIPS and econometric model projections for FDI flows in the coming years paint a picture of cautious but increasing optimism, with global FDI flows set to increase to between $1.4 and $1.6 trillion in 2011, building upon the modest recovery experienced in 2010. At the high end of that range, FDI flows would be slightly more than the average pre-crisis level, yet would still be below the 2007 peak of $2 trillion. World trade, by contrast, is already back at pre-crisis levels (table I.5).

While the FDI recovery resumes, the worldwide demand for private productive investment is increasing as public investment, which rescued the global economy from a prolonged depression, declines in one country after another. With unsustainably high levels of public debt at both national and sub-national levels in many countries, and with nervous capital markets, governments must now rein in their deficits and let private investment take over the lead role in generating and supporting a sustained recovery.

The FDI recovery in 2010 was slow not because of a lack of funds to invest, or because of a lack of investment opportunities. Responses by TNCs to UNCTAD's WIPS (UNCTAD, forthcoming a) indicate increasing willingness to invest, and clear priority opportunity areas. However, the perception among TNC managers of a number of risks in the global investment climate, including financial instability and the possibility of a rise in investment protectionism, is acting as a brake on renewed capital expenditures.

A number of developed countries, where the need for private investment to take over from dwindling public investment is greatest, are ranked far lower on the investment priority list of TNCs than either the size of their economies or their past FDI performance would seem to warrant. Policymakers from those countries would be well advised to take a lead role among their international peers in continuing to ensure a favourable and stable global investment climate.

B. FDI AS EXTERNAL SOURCES OF FINANCE TO DEVELOPING COUNTRIES

Domestic investment still accounts for the majority of the total investment in developing and transition economies.[18] Foreign investment can only complement this. However, each form of foreign investment plays a distinct and important role in promoting growth and sustainable development, boosting countries' competitiveness, generating employment, and reducing social and income disparities.

Non-FDI flows may work either in association with FDI, or separately from it. As no single type of flow alone can meet investment needs, it is vital to leverage their combinations to maximize their development impact. This section will discuss the development implications of various forms of investment, and the benefits of combining FDI with other sources of external finance, be they private or public.

Foreign investors may finance their activities using a range of instruments in addition to FDI. These have different motivations, behave differently, and consequently have different impacts on development. This makes it necessary to review each instrument and the synergies between them. Differing motivations, characteristics and responses also drive different groups of investors in an enterprise – for instance, private investors (individuals, enterprises, funds etc.) and public investors (e.g. via ODA and other official finance).

The recovery of external capital flows to developing countries is under way, led by FDI. However, caution is needed as to its sustainability, as FDI may be volatile.

There is a sign of continued recovery in capital flows, but caution is needed. Since the first half of 2009, private capital flows to emerging and developing economies have been rebounding, led by FDI, but these remain below their peak of 2007 (table I.4).

However, is the recovery in development finance to developing and transition economies sustainable? The recovery is due to a combination of structural (long-term) and cyclical (short-term) pull and push factors. High expected GDP growth in developing countries is heralding profitable investment opportunities (cyclical pull), while policy frameworks are perceived to be more resilient to future shocks, especially in Asia (structural pull). Developed countries with excess liquidity, thanks to quantitative easing and low interest rates, are motivated to invest in developing countries with relatively higher rates and returns (cyclical push) (Akyuz, 2011; IMF, 2011b).[19] However, there remain concerns about volatility.

First, the capital surge is exposing developing and transition economies to greater instability, putting direct upward pressure on their exchange rates. And the low interest rate environment in developed economies cannot be sustained indefinitely.[20] As a positive sign for emerging and developing economies, FDI has been the main source of inflows during 2009–2010, implying greater stability and a return to confidence for longer-term, productive investment. Less positively, the global recovery may be more fragile, because FDI is relatively less significant this time in developed economies, which are now highly exposed to volatile portfolio and especially other capital elements such as bank loans.

Table I.4. Capital flows to developing countries, 2005–2010
(Billions of dollars)

Type of flows	2005	2006	2007	2008	2009	2010
Total	579	930	1 650	447	656	1 095
FDI	332	435	571	652	507	561
Portfolio investment	154	268	394	-244	93	186
Other investment[a]	94	228	686	39	56	348
Memorandum						
Official grants, excluding technical cooperation	56.9	106.9	76.1	86.4	95	..
Change in reserves	539	647	1 063	774	673	927
Workers' remittances	173	204	245	288	281	297

Source: UNCTAD, based on data from IMF, 2011a (on portfolio, other investment and reserve assets), from UNCTAD (on FDI inflows and workers' remittances) and from the World Bank (on official grants excluding technical cooperation).

[a] Other investments include loans from commercial banks, official loans and trade credits.

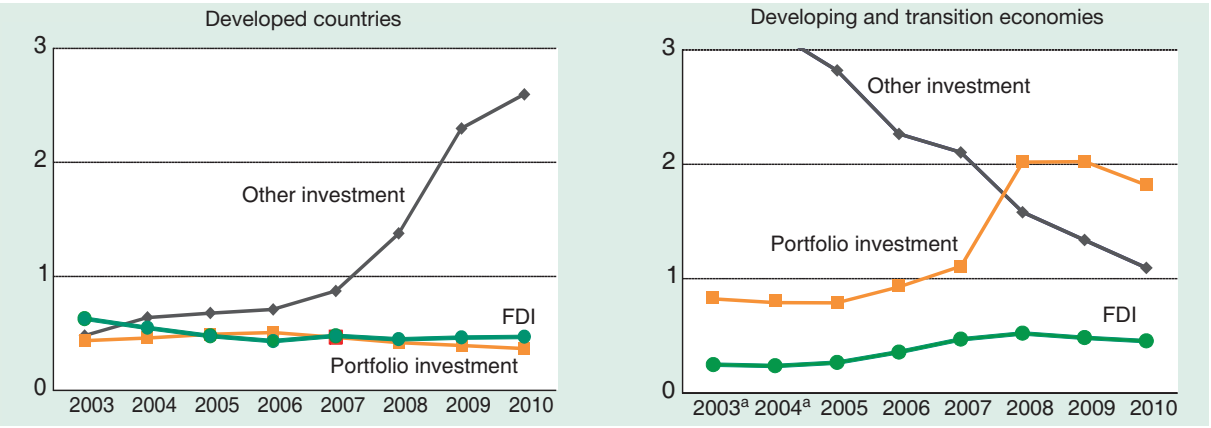
Second, FDI in recent years is gradually becoming more volatile in developing and transition economies, although it remains much less volatile than portfolio and other investments (such as commercial loans and trade credits) (figure I.20). It is argued that this might reflect its changing composition, for example a shift from equity to debt components, which would also make it more sensitive to the changes in United States monetary policy that have triggered previous crises. As a consequence, assumptions about FDI's stability relative to other types of capital should be treated with caution especially for emerging economies (IMF, 2011a), bearing in mind the dramatic rise and fall in FDI inflows to such countries as Brazil ($45 billion in 2008, $26 billion in 2009 and $48 billion in 2010), the Republic of Korea ($8.4 billion in 2008, $7.5 billion in 2009 and $6.9 billion in 2010) and South Africa ($9 billion in 2008, $5.4 billion in 2009 and $1.6 billion in 2010). FDI is also likely to contain some short-term and volatile flows, or "hot money". Stabilization of capital flows now represents an important challenge to many developing countries (box I.5).

Each of the three components of FDI flows (equity investment, reinvested earnings and intra-company loans) has reasons for fluctuation. Intra-company debt generally comes with more flexible terms and conditions than commercial loans, being related more to the decisions of the parent company in order to help its foreign affiliates to expand or cover the running costs during start-up, restructurings, or upswings.[21] Reinvested earnings fluctuate quite significantly, depending on profitability and the level of repatriation from abroad in the form of dividend payments. Although equity investment continues to be the most stable component of FDI, global production chains have changed considerably and it has become much easier for equity to relocate.

Despite the instability of FDI flows in recent years, the fact that net private flows to developing countries remain positive is largely due to FDI: the recovery has not extended yet to all private flows in all regions, and non-FDI flows were negative in many years and regions even during the FDI boom (figure I.21). FDI would therefore appear to be much less volatile than these other private flows (namely private portfolio and private other capital).

All private foreign capital flows – portfolio investment, bank loans and FDI – contribute to development. Thus, the recent crisis, and the nature and inherent fragility of the current upswing, are both matters of concern to developing countries. This makes the role of official development assistance (ODA) very important. ODA is less prone to fluctuations; however, failure by developed countries to meet stipulated objectives has led to deep scepticism about its effectiveness in addressing core development needs of beneficiary countries.

Figure I.20. The volatility of private capital flows, by type, 2003–2010



Source: UNCTAD.
[a] In 2003 and 2004, the value of standard deviation exceeded 3.

Note: The volatility of each type of capital flow is calculated as relative standard deviation for the immediately preceding 10 years. The relative standard deviation of 2010 is based on flows between 2001 and 2010.

Box I.5. FDI and capital controls

Some developing countries are concerned that a surge in capital inflows could exacerbate imbalances and complicate their macroeconomic policies. Against this backdrop, capital controls are back on their policy agenda. The IMF also has now softened its customary stance against capital controls (Ostry et al., 2011), making it easier for some Asian and Latin American countries to introduce measures to restrict short-term, volatile flows, while maintaining the more preferential treatment of long-term capital. In principle, these measures should not affect FDI, as the latter should contain only long-term flows. Reality is more complex, as flows recorded statistically under FDI could encompass some short-term flows.

In 2010, FDI flows rose significantly to some developing countries. In certain cases, the increase of FDI was not necessarily accompanied by investment in fixed assets or cross-border acquisitions. A part of this money might have entered developing host countries for the purpose of short-term capital gains. In countries where FDI inflows exceed considerably the capital expenditures of foreign affiliates, the latter may hold part of the funds received from their parent firms in assets other than immediate investment, for example speculative funds.

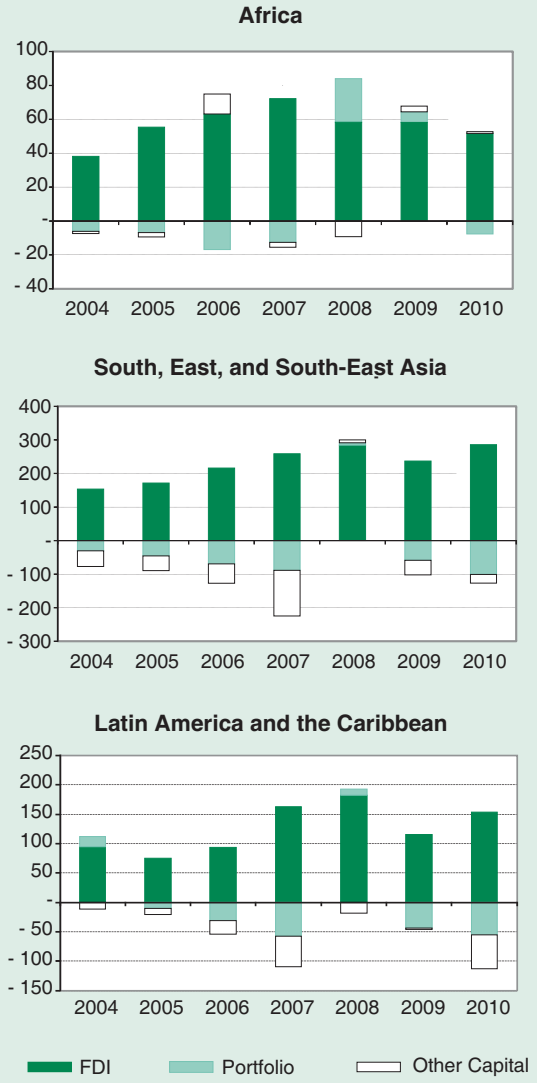
Moreover, short-term speculative flows may be misreported under FDI outflows when they leave the home country, but are not recorded as FDI inflows in host countries as the money transferred is spent instantaneously for speculative purposes, and does not stay long enough in the accounts of foreign affiliates. This kind of money is either reserved for special-purpose entities and financial holding companies, or is invested in real estate and property which may easily be liquidated. Indeed FDI in real estate is rising in many countries, in particular in China (chapter II) and in Latin America – as it at one time was in pre-crisis West Asia. Such misreporting happens because the distinction between long-term capital flows (FDI) and short-term capital flows is increasingly blurred. As a result of the growth of this short-term capital, recently FDI flows have become more volatile than before (figure I.20).

While some speculative short-term private capital flows may have become part of FDI statistics, most continue to be recorded under errors and omissions, as they usually escape being captured in the established items of the balance of payments. In 2009 (the most recent year for which data are available), the value of errors and omissions was equivalent to almost half that of all FDI inflows globally, up from only about 10 per cent in previous years.

As the markets for different types of capital flows are interrelated, the establishment of measures targeting exclusively short-term capital flows is increasingly difficult. Take for example the capital controls introduced in 2009–2010 in the real estate markets of various Asian economies: direct controls to limit the size of flows affected both short- and long-term capital flows (IMF, 2011a).

Source: UNCTAD

Figure I.21. Composition of private capital flows to developing and transition economies, 2004–2010
(Billions of dollars)



Source: UNCTAD, based on data from IMF, 2011a.

C. FURTHER EXPANSION OF INTERNATIONAL PRODUCTION

1. Accelerating internationalization of firms

International production is expanding, with sales, employment and assets of foreign affiliates all increasing (table I.5). UNCTAD estimates that TNCs worldwide, in their operations both at home and abroad, generated value added of approximately $16 trillion in 2010 (figure I.22), accounting for more than a quarter of global GDP. In 2010, foreign affiliates accounted for more than one-tenth of global GDP and one-third of world exports.

International production by TNCs (i.e. value added by foreign affiliates) accounts for around 40 per cent of TNCs' total value added (figure I.22), up from around 35 per cent in 2005. International production networks thus continue to expand, although the rate of growth was slower during the crisis, due to the drop in FDI flows.

This continuing expansion reflects the consistently high rates of return obtained by TNCs on FDI – back up to 7.3 per cent in 2010, after a one-year dip during the crisis (table I.5). Returns are thus back to pre-crisis levels, despite a steady decrease in leverage, as proxied by outward FDI stock over foreign assets. Leverage peaked during the FDI boom years from 2005 to 2007, with the stock (equity) over assets ratio declining from nearly 40 per cent to 25 per cent, but it has since decreased, with the equity/asset ratio climbing up to 36 per cent in 2009 and 2010.

Other indicators of international production also showed positive gains in 2010. Sales of foreign affiliates rose 9.1 per cent, reflecting strong revenues in developing and transition economies. Employment continued to expand, as efficiency-seeking investments expanded during the crisis.

Table I.5. Selected indicators of FDI and international production, 1990–2010

Item	Value at current prices (Billions of dollars)					Annual growth rate or change on return (Per cent)				
	1990	2005–2007 average	2008	2009	2010	1991–1995	1996–2000	2001–2005	2009	2010
FDI inflows	207	1 472	1 744	1 185	1 244	22.5	40.1	5.3	-32.1	4.9
FDI outflows	241	1 487	1 911	1 171	1 323	16.9	36.3	9.1	-38.7	13.1
FDI inward stock	2 081	14 407	15 295	17 950	19 141	9.4	18.8	13.4	17.4	6.6
FDI outward stock	2 094	15 705	15 988	19 197	20 408	11.9	18.3	14.7	20.1	6.3
Income on inward FDI	75	990	1 066	945	1 137	35.1	13.1	32.0	-11.3	20.3
Rate of return on inward FDI [a]	*6.6*	*5.9*	*7.3*	*7.0*	*7.3*	*-0.5*	-	*0.1*	*-0.3*	*0.3*
Income on outward FDI [a]	122	1 083	1 113	1 037	1 251	19.9	10.1	31.3	-6.8	20.6
Rate of return on outward FDI [a]	*7.3*	*6.2*	*7.0*	*6.9*	*7.2*	*-0.4*	-	-	*-0.2*	*0.3*
Cross-border M&As	99	703	707	250	339	49.1	64.0	0.6	-64.7	35.7
Sales of foreign affiliates	5 105	21 293	33 300	30 213[b]	32 960[b]	8.2	7.1	14.9	-9.3	9.1
Value-added (product) of foreign affiliates	1 019	3 570	6 216	6 129[b]	6 636[b]	3.6	7.9	10.9	-1.4	8.3
Total assets of foreign affiliates	4 602	43 324	64 423	53 601[b]	56 998[b]	13.1	19.6	15.5	-16.8	6.3
Exports of foreign affiliates	1 498	5 003	6 599	5 262[c]	6 239[c]	8.6	3.6	14.7	-20.3	18.6
Employment by foreign affiliates (thousands)	21 470	55 001	64 484	66 688[b]	68 218[b]	2.9	11.8	4.1	3.4	2.3
GDP	22 206	50 338	61 147	57 920[d]	62 909[d]	6.0	1.4	9.9	-5.3	8.6
Gross fixed capital formation	5 109	11 208	13 999	12 735	13 940	5.1	1.3	10.7	-9.0	9.5
Royalties and licence fee receipts	29	155	191	187	191	14.6	10.0	13.6	-1.9	1.7
Exports of goods and non-factor services	4 382	15 008	19 794	15 783[d]	18 713[d]	8.1	3.7	14.7	-20.3	18.6

Source: UNCTAD.
[a] Calculated with FDI income for the countries that have the data for both this and FDI stock.
[b] Data for 2009 and 2010 are estimated based on a fixed effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980-2008.
[c] Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994. For 1998–2010, the share of exports of foreign affiliates in world export in 1998 (33.3%) was applied to obtain values.
[d] Based on data from IMF, 2011a.
Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden, and the United States for sales; those from the Czech Republic, France, Israel, Portugal, Slovenia, Sweden, and the United States for value-added (product); those from Austria, Germany, Japan and the United States for assets; those from Czech Republic, Japan, Portugal, Slovenia, Sweden, and the United States for exports; and those from Australia, Austria, Belgium, Canada, Czech Republic, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland, and the United States for employment, on the basis of the shares of those countries in worldwide outward FDI stock.

Underlying this improvement in international production has been an acceleration of the internationalization of TNCs – and, indeed, of the initial internationalization of previously non-TNC firms. Three of the major factors driving this "new" burst of internationalization are: first, the crisis caused firms to rationalize their corporate structure and increase efficiencies wherever possible (including the options to close down or to sell to others), often by relocating business functions to cost-advantageous locations; second, the rapid recovery in emerging market economies, compared to the relatively weak response in developed economies, forced many TNCs to embrace these markets, in an effort to protect profits and generate growth; and the rise of emerging market TNCs including State-owned TNCs.

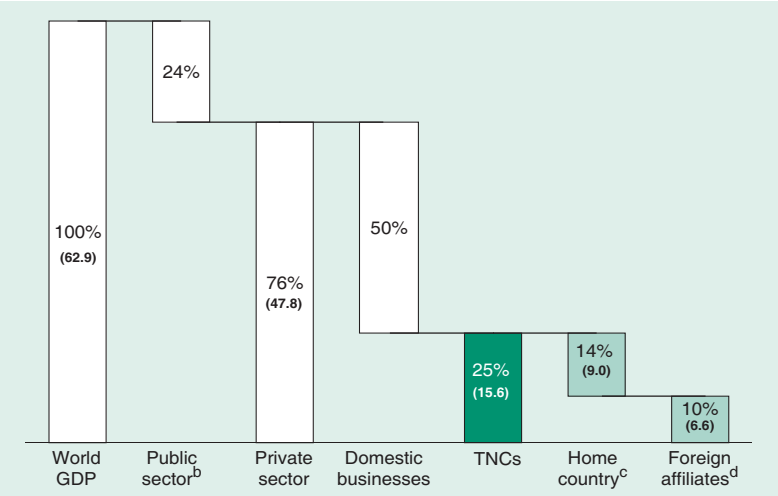
In 2010, foreign activity of the largest non-financial TNCs rebounded, and its share in total activity remained high.

During the economic and financial crisis, many companies embarked on significant layoffs and organizational restructuring in order to remain profitable. For TNCs in developed economies, which make up nearly 80 per cent of the TNCs in the world, and account for some 70 per cent of global FDI outflows, this often meant making cuts in their home economy operations, while moving or opening new facilities abroad to take advantage of specific comparative advantages in those locations. In 2010, foreign activity of the largest non-financial TNCs' rebounded, and its share in total activity remained high. However not all of the largest TNCs increased their internationalization. Financial TNCs, for example, experienced significant difficulties in 2010 (box I.6).

These trends are plainly manifest in the findings of UNCTAD's annual survey of the largest TNCs in the world (table I.6). These firms, predominantly from developed economies, expanded their footprint outside their home countries, registering a continued increase in their foreign assets in 2010. Rising cross-border M&A activity by the largest TNCs, especially targeting strategic firms, has given further momentum to the expansion of foreign assets.[22] Employment and sales also rose both at home and abroad.

The largest TNCs from developing and transition economies experienced subtly differing pressures. Given the tremendous growth registered in many of their home economies, in some cases stoked by significant public stimulus packages, these TNCs struggled to balance responding to growth at home

Figure I.22. TNCs account for one-quarter of world GDP, 2010
(Per cent and trillions of dollars[a])



Source: UNCTAD.
[a] Current prices, current exchange rates.
[b] ISIC L, M, N, Q, X, 92, P (Public administration, Defence, Social security, Health, Sanitation, Community services, Private household employment).
[c] As estimated by the weighted average size of home economies.
[d] Table I.5 in this report.

with long-term internationalization goals and the desire to acquire international brands, technologies, and access to natural resources. Therefore, the share of foreign operations in total activity (i.e. sales and employment) continued to rise (table I.6). These firms continued to expand their balance sheets abroad at a rapid pace, with foreign assets rising 11 per cent in 2009 (the latest year for which data are available) to almost $1 trillion (table I.6).

The rising importance of developing and transition economies

Strong profits of TNCs in emerging markets incentivizes further investments

The crisis drew attention to the importance of developing and transition economies, especially the emerging markets of Brazil, India, China and the Russian Federation (BRICs), as key destinations for both efficiency- and market-seeking investors. Not only are these economies attractive for their lower labour costs, they are also seen increasingly as important markets in their own right. This trend is apparent in both the share of operating profits generated in these economies, and the number of investments targeting them.

Corporate profits, which were slashed by the crisis, have rebounded sharply for many of the largest TNCs in the world (section A). The swift economic recovery of the largest developing economies played an important role in restoring these firms to income growth. In some cases, income from developing and transition economies has grown to account for a significant share of TNCs' operating income. This trend spans industries, with TNCs as varied as Coca-Cola (United States), Holcim (Switzerland), and Toyota Motors (Japan) deriving more than one-third of their operating income from developing economies (figure I.23).

Investment activity by the 100 largest TNCs in the world has now shifted decidedly towards developing and transition economies. Comparing international greenfield projects between 2007–2008 and 2009–2010, the number of projects targeting these economies increased by 23 per cent, compared

Box I.6. Recent trends in internationalization of the largest financial TNCs in the world

Financial TNCs, which accounted for more than 20 per cent of FDI outflows during 2006–2008, have seen their fortunes fluctuate dramatically over recent years. Since the crisis, during which a number were forced into government receivership, they have been stabilizing their situations – as witnessed by the strong rebound in their profits.[a] Nevertheless, the crisis has played havoc with the internationalization programmes of many of the largest financial TNCs. In some cases, firms were forced to consolidate by regulators, or by their new State owners, shifting their focus to domestic markets at the expense of foreign businesses. For example, RBS (United Kingdom), which was saved only by significant government intervention, has sold a number of its foreign assets. Icelandic and Irish banks suffered the same fate. In other cases the crisis hastened previously laid plans, for example Citigroup's (United States) sale of non-retail banking assets in Japan (chapter II).[b]

Given the pressures facing the largest financial TNCs, a slowdown in their internationalization in 2010 was almost inevitable. UNCTAD's measure of the average geographical spread[c] of the 50 largest financial TNCs rose only 1.4 points to 44.9 for the year, compared to 43.5 in 2009. Individual firm performance was mixed, with sharp drops registered by a number of European financial institutions. A number of financial TNCs in the United States also posted declines. Japanese financial TNCs, in contrast, increased their internationalization, making strategic international acquisitions during the crisis.[d]

A new wave of financial industry M&As may materialize in the coming years, but financial TNCs in developed markets may find that their entry into fast-growing developing markets encounters various capital control measures (box I.5). During the crisis, policymakers in many of the largest developing countries, in particular Brazil and China, viewed State-owned financial institutions as important agents of healthy financial markets. Without easy access to the largest and fastest-growing markets, financial TNCs will find it difficult to uphold the long-term rationale for internationalization: balancing the earnings of developed, relatively stable, markets with those of quick-growing, and volatile, developing markets (Schildbach, 2009).

Source: UNCTAD.

[a] "Banking industry posts best quarter of profits since early 2007", *Washington Post*, 25 May 2011.
[b] "Citigroup to sell shares in Japanese brokerage monex", *Bloomberg*, 21 September 2010.
[c] Geographical spread is calculated as the square root of the share of foreign affiliates in total affiliates (the Internationalization Index), multiplied by the number of host economies.
[d] "The big boys are back", *Economist*, 25 September 2008.

Table I.6. Internationalization statistics of the 100 largest non-financial TNCs worldwide and from developing and transition economies
(Billions of dollars, thousands of employees and per cent)

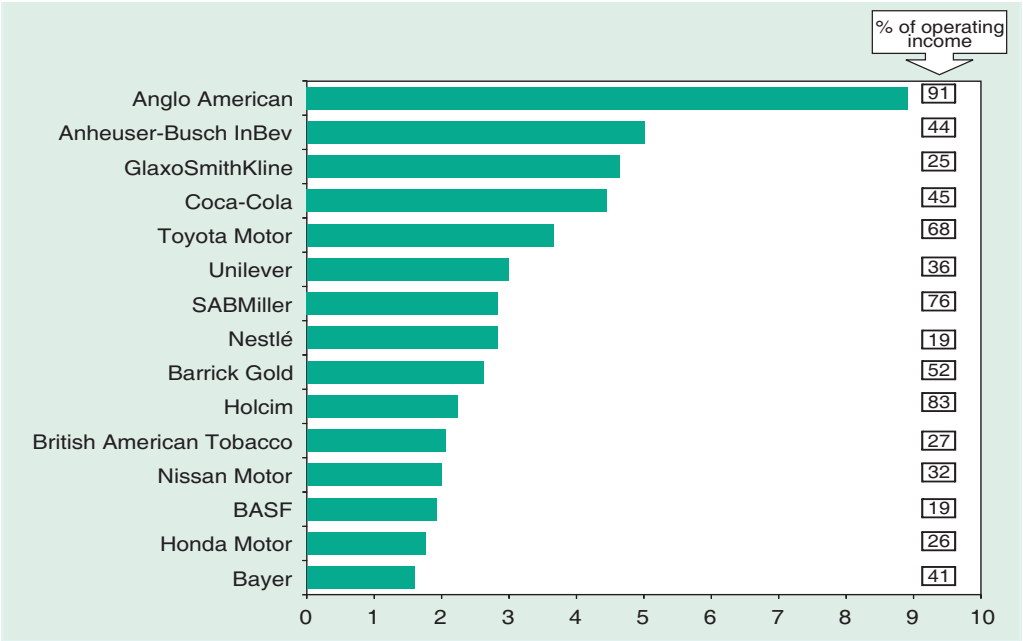
Variable	100 largest TNCs worldwide					100 largest TNCs from developing and transition economies		
	2008	2009	2008–2009 % change	2010[b]	2009–2010 % change	2008	2009	% change
Assets								
Foreign	6 161	7 147	16.0	7 512	5.1	899	997	10.9
Total	10 790	11 543	7.0	12 075	4.6	2 673	3 152	17.9
Foreign as % of total	57	62	4.8 [a]	62	0.3 [a]	34	32	-2.0 [a]
Sales								
Foreign	5 168	4 602	-10.9	5 005	8.8	989	911	-7.9
Total	8 406	6 979	-17.0	7 847	12.4	2 234	1 914	-14.3
Foreign as % of total	61	66	4.5 [a]	64	-2.2 [a]	44	48	3.3 [a]
Employment								
Foreign	9 008	8 568	-4.9	8 726	1.8	2 651	3 399	28.2
Total	15 729	15 144	-3.7	15 489	2.3	6 778	8 259	21.9
Foreign as % of total	57	57	-0.7 [a]	56	-0.2 [a]	39	41	2.0

Source: UNCTAD.
[a] In percentage points.
[b] Preliminary results.
Note: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year to 31 March of the following year. 2010 data are unavailable for the 100 largest TNCs from developing and transition economies due to lengthier reporting deadlines in these economies.

to only a 4 per cent rise in developed economies. While investments in developing Asia have dominated, growing poles of investment are now discernible in Latin America and in Africa (figure I.24).

Metro AG (Germany) is pursuing growth in both developing and transition economies, opening new stores in the Russian Federation (17), China (7), Kazakhstan (4), and Viet Nam (4) during 2010, while

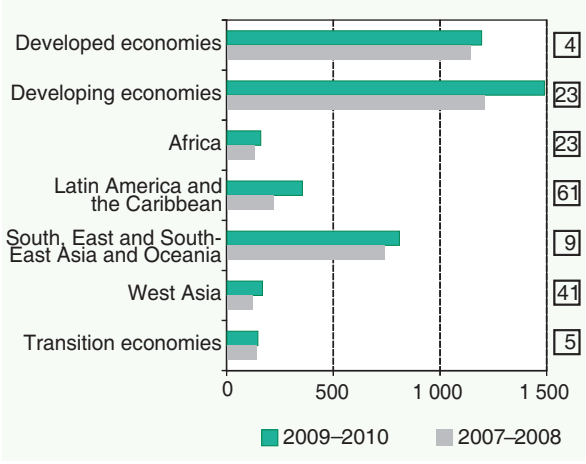
Figure I.23. Operating profits derived from operations in developing and transition economies, selected top 100 TNCs, 2010
(Billions of dollars and share of total operating profits)



Source: UNCTAD.
Note: Regional reporting by TNCs differs, in this case segments that were either completely or mainly located in developing or transition economies were included.

closing stores in developed markets in Europe.[23] General Electric (United States), the world's largest TNC in terms of foreign assets, is also emblematic of this shift, having announced recently that it intends to intensify its focus on emerging markets – which account for 40 per cent of the firm's industrial revenues – in order to reduce costs and increase revenue growth.[24]

Figure I.24. Greenfield investments by the largest 100 TNCs in the world, by host region, 2007–2008 and 2009–2010
(Number of projects and percent change between periods)



Source: UNCTAD.

2. State-owned TNCs

The emergence of State-owned TNCs, especially those from developing economies, as important outward investors, has implications for both home and host economies.

The internationalization of large State-owned enterprises (SOEs) from developing and transition economies constitutes an important component of FDI. State-owned TNCs from developed countries are also extant internationally, albeit not widely recognized. The ownership difference from traditionally private or shareholder-owned TNCs – putatively impacting on their objectives, motives and strategies – has become an issue of intense interest and debate, if not yet of extensive research.

State-owned TNCs are defined as enterprises comprising parent enterprises and their foreign affiliates in which the government has a controlling interest (full, majority, or significant minority), whether or not listed on a stock exchange. Definitions of what constitutes a controlling stake differ, but in this *Report,* control is defined as a stake of 10 per cent or more of the voting power, or where the government is the largest single shareholder. State-owned refers to both national and sub-national governments, such as regions, provinces and cities. Importantly, this definition excludes international investments by SWFs, which have become more visible investors in recent years[25] (see section A.1.e for a review of recent trends in SWF-sponsored FDI), because they are not enterprises and are not necessarily governed by the usual corporate mechanisms. Some illustrative examples of factors determining what constitutes a State-owned TNC – for example, France Telecom, in which the State has a roughly 26 per cent-stake – are included in box I.7.

a. The universe of State-owned TNCs

Relatively small as a group, State-owned TNCs nevertheless rank among the largest TNCs in the world.

In 2010 there were at least 650 State-owned TNCs, with more than 8,500 foreign affiliates, operating around the globe.[26] While this makes them a minority in the universe of all TNCs (see section C.1 for more details), they nevertheless constituted a significant number (19 companies) of the world's 100 largest TNCs of 2010 (also in 2009), and, more especially, of the top 100 TNCs from developing and transition economies of 2009 (28 companies). The largest 15 of these State-owned TNCs, from both developed and developing economies, are a relatively well-known group with recognizable names (table I.7). It is important to note that this enumeration of State-owned TNCs refers only to parent firms, which has the effect of reducing some widespread conglomerates to a single entry. Additionally, a number of the State-owned TNCs are identified such only due to a recent crisis-induced intervention, thus their membership on this list should be considered temporary (General Motors, for example).

Government control of State-owned TNCs spans a spectrum from full control to substantive influence. Roughly 44 per cent of State-owned TNCs are majority-owned by their respective governments (figure I.25). These include companies that are fully

Box I.7. What is a State-owned enterprise: the case of France

In France there is no specific law defining "State-owned" or "State-controlled" enterprises. The economic definition, as given by the French National Institute of Statistics and Economic Studies (INSEE), is as follows: "[a] State-owned enterprise is a company in which the State holds, directly or indirectly, a dominant influence, due to the owning of the property or of a financial participation, by owning either the majority of the capital or the majority of votes attached to the emitted shares." This very broad definition encompasses a large variety of situations and types of company, and should be analysed in terms of "control" rather than mere "ownership". Basically, it is possible to identify four main categories of "State-owned" enterprises falling under the INSEE definition:

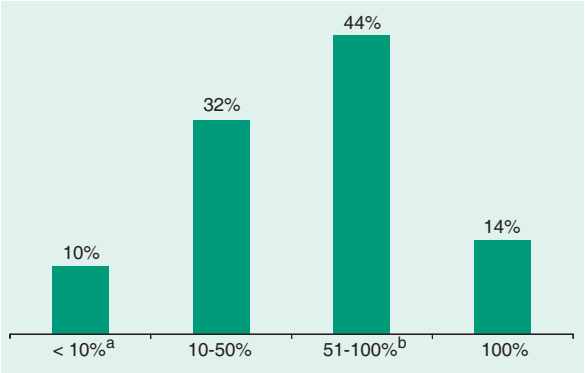
1. Non-listed companies totally owned by the State, the so-called public establishments (Etablissements publics). These firms fill a specific function and may not diversify. Examples include RATP, SNCF, Réseau Ferré de France, Banque de France, etc.
2. Listed companies totally owned by the State.[a] These firms, falling within the legal framework of the "free market", may diversify their activities. The French State's stake may be reduced or eliminated at any time, unless this is prohibited by law in a particular case. Examples include La Poste.
3. Listed companies in which the French State has a stake of more than 50 per cent, allowing it full control of the company's management. Examples include EDF (a former "public establishment"), Aéroport de Paris, and various other large airports and ports in the country.
4. Listed companies in which the French State has a direct or indirect stake of less than 50 per cent. Examples include France Telecom (a former "public establishment", 26 per cent stake) and GDF-Suez (formed through the merger of GDF, a former "public establishment", and Suez, a private firm).

Source: UNCTAD.
[a] This situation is possible when the SOE has to be privatized or become publicly-owned. The State owns 100 per cent of shares before they are sold publicly.

integrated into the State, usually as an extension of a particular ministry, as well as those firms which are publically listed, but in which the State owns more than 50 per cent of the voting shares. For 42 per cent of identified State-owned TNCs, the government had a stake of less than 50 per cent. Of these, 10 per cent had a stake of less than 10 per cent. For these firms the government is often the largest of the minority stakeholders, or holds so-called "golden shares" and therefore exerts a significant or preponderant influence on the composition of the board of directors and the management of the enterprise.

Geographically, 56 per cent of State-owned TNCs worldwide are from developing and transition economies (table I.8). Among these economies, South Africa (54), China (50), Malaysia (45), United Arab Emirates (21) and India (20) are the top five source countries. In developed economies, the majority of State-owned TNCs are located in Europe, especially in Denmark (36), France (32), Finland (21) and Sweden (18). These overall figures, however, belie very different government ownership strategies: for example, South Africa owes its relatively large number of SOEs to investment of public pension funds (through the Public Investment Corporation) in various businesses throughout the domestic economy, resulting in the State taking a stake in a number of firms, though normally a small (less than 15 per cent) stake. State-owned TNCs from China, on the other hand, tend to be more firmly controlled directly by the State, through majority or full-ownership stakes. These numbers

Figure I.25. Ownership structure of State-owned TNCs, 2011
(Per cent of State-owned TNCs by size of government stake)



Source: UNCTAD, based on 653 TNCs.
[a] The State is the largest shareholder or owns golden shares.
[b] Includes those State-owned TNCs where the government stake is unknown, but is assumed to be majority-owned.

Table I.7. The top 30 non-financial State-owned TNCs, ranked by foreign assets, 2009 [a]

(Millions of dollars and number of employees)

Corporation	Home economy	Government stake [b]	Industry [c]	Assets		Sales		Employment		TNI [e] (per cent)
				Foreign	Total	Foreign	Total	Foreign [d]	Total	
Enel SpA	Italy	34.7	Electricity, gas and water	157	231	44	86	43	81	57.2
Volkswagen Group	Germany	20.0	Motor vehicles	156	255	105	146	196	369	61.9
GDF Suez	France	36.4	Utilities (Electricity, gas and water)	146	247	68	111	96	197	56.5
EDF SA	France	84.7	Utilities (Electricity, gas and water)	134	348	40	92	58	169	39.0
Deutsche Telekom AG	Germany	31.7	Telecommunications	113	184	53	90	108	258	54.1
Eni SpA	Italy	30.3	Petroleum expl./ref./distr.	102	169	78	117	40	78	59.2
General Motors Co	United States	32.0	Motor vehicles	76	136	55	105	114	217	53.7
France Telecom SA	France	26.7	Telecommunications	73	133	31	64	64	167	47.0
EADS NV	France	22.4	Aircraft	72	116	54	60	75	120	71.9
Vattenfall AB	Sweden	100	Electricity, gas and water	72	83	22	27	34	40	84.9
Veolia Environnement SA	France	10.7	Utilities (Electricity, gas and water)	52	72	29	48	212	313	66.9
CITIC Group	China	100	Diversified	44	315	11	31	25	125	23.2
Statoil ASA	Norway	67.0	Petroleum expl./ref./distr.	43	97	17	74	11	29	34.4
Deutsche Post AG	Germany	30.5	Transport and storage	39	50	44	67	258	425	68.3
Vale SA	Brazil	5.5 (12 golden shares)	Mining & quarrying	39	102	20	24	13	60	48.2
Petronas - Petroliam Nasional Bhd	Malaysia	100	Petroleum expl./ref./distr.	34	126	28	63	8	41	30.7
TeliaSonera AB	Sweden	37.3	Telecommunications	32	37	10	14	20	29	73.3
Renault SA	France	18.3	Motor vehicles	30	92	29	47	66	121	50.2
Japan Tobacco Inc	Japan	50.0	Food, beverages and tobacco	30	42	29	66	25	50	55.4
Finmeccanica Spa	Italy	30.2	Machinery and equipment	29	44	20	25	32	73	62.7
China Ocean Shipping (Group) Company	China	100	Transport and storage	28	36	18	28	4	72	49.7
Lukoil OAO	Russian Federation	13.4	Petroleum and natural gas	24	79	38	68	22	143	34.0
Singapore Telecommunications Ltd	Singapore	54.4	Telecommunications	23	27	8	12	10	23	64.3
Zain	Kuwait	49.2	Telecommunications	19	20	7	8	12	13	92.1
Qatar Telecom	Qatar	55.0	Telecommunications	18	23	5	7	1	2	78.0
Tata Steel Ltd	India	12.9	Metal and metal products	16	24	16	22	47	81	65.2
Petroleo Brasileiro SA	Brazil	39.8	Petroleum expl./ref./distr.	15	200	29	116	8	77	14.2
Abu Dhabi National Energy Co PJSC	United Arab Emirates	100	Utilities (Electricity, gas and water)	14	25	3	5	3	4	67.2
Petróleos de Venezuela SA	Venezuela, Bolivarian Rep. of	100	Petroleum expl./ref./distr.	12	150	33	75	5	92	19.0
China National Petroleum Corporation	China	100	Petroleum expl./ref./distr.	12	325	5	178	30	1 585	2.7

Source: UNCTAD.

[a] All data are based on the companies' annual reports unless otherwise stated.

[b] Based on most recent data available from Thomson Worldscope (retrieved 31 May 2011).

[c] Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

[d] In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2009.

[e] TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Table I.8. Distribution of State-owned TNCs by home region/economy, 2010

Region/economy	Number	Share
World	653	100
Developed countries	285	43.6
European Union	223	34.2
Denmark	36	5.5
Finland	21	3.2
France	32	4.9
Germany	18	2.8
Poland	17	2.6
Sweden	18	2.8
Others	81	12.4
Other European countries	41	6.3
Norway	27	4.1
Switzerland	11	1.7
Others	3	0.5
United States	3	0.5
Other developed countries	18	2.8
Japan	4	0.6
Others	14	2.1
Developing economies	345	52.8
Africa	82	12.6
South Africa	54	8.3
Others	28	4.3
Latin America and the Caribbean	28	4.3
Brazil	9	1.4
Others	19	2.9
Asia	235	36.0
West Asia	70	10.7
Kuwait	19	2.9
United Arab Emirates	21	3.2
Others	30	4.6
South, East and South-East Asia	165	25.3
China	50	7.7
India	20	3.1
Iran, Islamic Republic of	10	1.5
Malaysia	45	6.9
Singapore	9	1.4
Others	31	4.7
South-East Europe and the CIS	23	3.5
Russian Federation	14	2.1
Others	9	1.4

Source: UNCTAD.
Note: While the number is not exhaustive, major SOE investors are covered.

also are dwarfed, in most cases, by the total number of SOEs in each respective economy. For example, there are some 900 SOEs in France, while in China, State sole-funded enterprises and enterprises with the State as the largest shareholder numbered roughly 154,000 in 2008. This suggests that the number and proportion of SOEs that have become transnational is relatively small.

State-owned TNCs tend to be most active in financial services and industries that are capital-intensive, require monopolistic positions to gain the necessary economies of scale, or are deemed to be of strong strategic interest to the country. Roughly 70 per cent of State-owned TNCs operate in the services sector, led by financial services, which accounts for 19 per cent of all State-owned TNCs, transport, storage and communications (16 per cent) and electricity, gas, and water (10 per cent). Some 22 per cent of State-owned TNCs are in manufacturing industries, mainly automotive and transport equipment (4 per cent of all State-owned TNCs), chemicals and chemical products (3 per cent) and metals and metal products (3 per cent) (table I.9). The remaining 9 per cent are located in the primary sector and are mainly active in extractive industries.

Table I.9. Distribution of State-owned TNCs by sector/industry, 2010

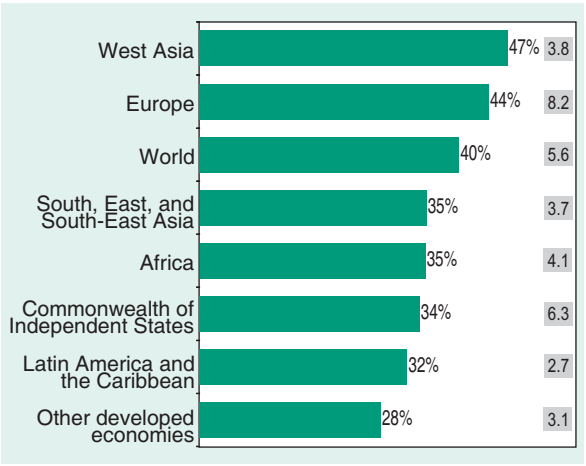
Sector/industry	Number	Share
Total	653	100
Primary	56	8.6
Mining, quarrying and petroleum	48	7.4
Others	8	1.2
Manufacturing	142	21.7
Food, beverages and tobacco	19	2.9
Wood and wood products	12	1.8
Coke, petroleum and nuclear fuel	11	1.7
Chemicals and chemical products	20	3.1
Metals and metal products	20	3.1
Motor vehicles and other transport equipment	27	4.1
Others	33	5.1
Services	455	69.7
Electricity, gas and water	63	9.6
Construction	20	3.1
Trade	42	6.4
Transport, storage and communications	105	16.1
Finance	126	19.3
Holding	27	4.1
Insurance	17	2.6
Rental activities	14	2.1
Business services	18	2.8
Others	23	3.5

Source: UNCTAD.
Note: While the number is not exhaustive, major SOE investors are covered.

The transnationality index (table I.7), and the share of their affiliates located abroad (figure I.26), are each indicative of the internationalization of State-owned TNCs. State-owned TNCs from West Asia show the highest levels of internationalization by the latter measure (the former measure is not available for many developing country State-owned TNCs), with on average 47 per cent of their affiliates being located abroad. Those based in the other major developing regions – Africa, Latin America and the Caribbean, and South, East, and South-East Asia – are less internationalized, with less than half of

their affiliates located in foreign countries. These numbers are, however, very small compared with the internationalization of the world's top 100 TNCs, which on average have roughly 70 per cent of their affiliates abroad, or compared with the largest 100 TNCs from developing countries, which on average have 51 per cent of their affiliates abroad (*WIR08*). The geographical spread of State-owned TNCs' operations appears to be relatively limited: in terms of the number of host economies in which they operate, State-owned TNCs from Europe have a wider footprint (operating in 8.2 foreign economies, on average) compared to their counterparts from developing and transition economies (between 2.7 and 6.3 foreign economies, on average) (figure I.26).

Figure I.26. West Asian State-owned TNCs are more internationalized than others, 2011
(Average internationalization index[a] and average number of host economies)



Source: UNCTAD.
[a] Calculated as the number of foreign affiliates divided by the number of all affiliates.

b. Trends in State-owned TNCs' FDI

Surging FDI by State-owned TNCs, especially those from developing economies, has raised their profile on the global investment scene.

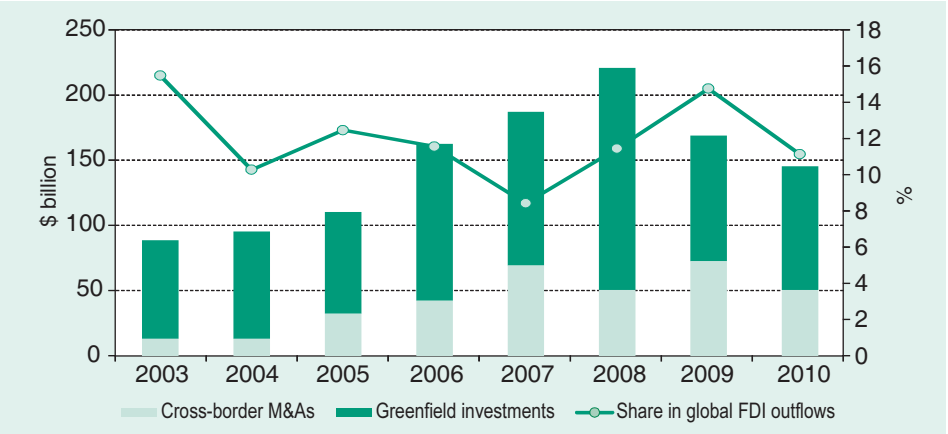
An analysis of FDI projects (including both cross-border M&A purchases and greenfield investments) indicates that State-owned TNCs are active investors around the world.[27] In 2010, their FDI, as measured by the value of these projects, totalled some $146 billion, or roughly 11 per cent of global FDI flows (figure I.27), a higher share than represented by their number in the universe of TNCs (less than one per cent of all TNCs). During 2003–2010, FDI projects by State-owned TNCs made up an average of 32 per cent of total outflows from developing countries. Emblematic of this surge is the number of developing country State-owned TNCs responsible for the largest mega-deals in the past five years (table I.10). Four of the six FDI projects with a value of more than $10 billion (one M&A deal and three greenfield investment projects) were undertaken by developing country State-owned TNCs. While official statistics of the FDI stock controlled by State-owned TNCs do not exist, a rough estimate suggests that in 2010 their share of global outward stock was no less than 6 per cent.[28]

State-owned TNCs as major international investors are a relatively new phenomenon, judging by their cross-border M&A purchases from the early 1980s to 2010. During that period there appear to have been two key phases of activity: first, the period from the early 1980s to the end of the 1990s, when State-owned TNCs from developed countries were more important in FDI flows; and secondly, from the beginning of 2000 onwards, when surging outward FDI by State-owned TNCs from developing economies made up the majority of State-owned TNC FDI flows (figure I.28).

During 2003–2010, a period for which data on both M&As and greenfield investments are available, outward FDI of all State-owned TNCs was tilted towards developing and transition economies (56 per cent of the total) (table I.11). State-owned TNCs from developing and transition economies are significant players in South–South investment flows, investing $458 billion in FDI projects in other developing and transition economies over the period, or slightly more than two-thirds of all FDI projects from those economies ($663 billion). The direction of FDI also differs by mode of investment: in the case of cross-border M&As, two-thirds of such deals conducted by State-owned TNCs worldwide were directed to developed countries; in contrast, developing and transition economies received 68 per cent of total greenfield investment.

Differences by mode of investment and by source also appear in sectoral/industry activity. While

Figure I.27. The value of FDI projects[a] by State-owned TNCs,[b] and its share in total FDI outflows, 2003–2010

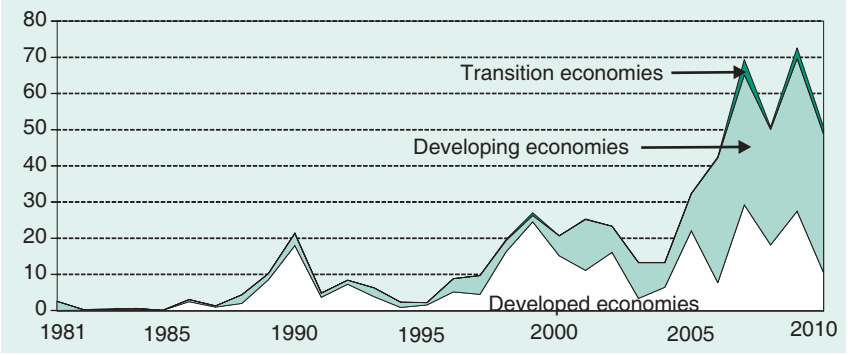


Source: UNCTAD.
[a] Comprises cross-border M&As and greenfield investments. The latter refers to the estimated amounts of capital investment.
[b] Cross-border M&A data refers only to TNCs in which the State has a stake of 50 per cent or more.
Note: The values may be overestimated, as the value of greenfield FDI refers to estimated amount of capital investment of the entire project.

about 40 per cent of State-owned TNCs' FDI projects, in terms of value, are in the primary sector, the shares of manufacturing and services sectors differ somewhat between cross-border M&As and greenfield investments. State-owned TNCs' cross-border M&As between 1981 and 2010 largely targeted extractive industries, utilities, and telecommunications (figure I.29). However, FDI from State-owned TNCs based in developed economies largely focused on utilities (33 per cent of the total), such as electricity, gas and water, and telecommunications (19 per cent); whereas State-owned TNCs from developing and transition economies, in contrast, targeted extractive industries (37 per cent) and telecommunications (20 per cent).

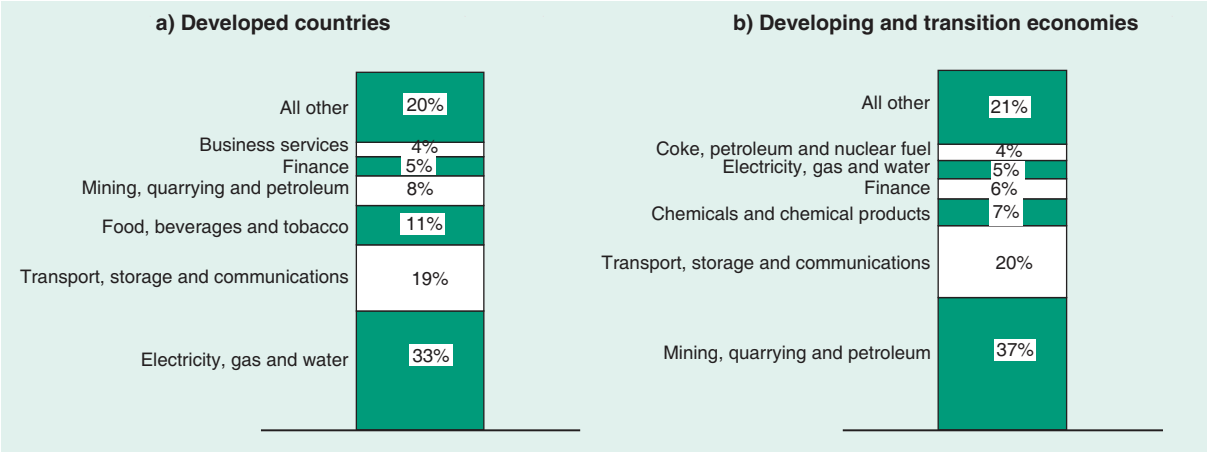
The difference between the patterns of investment by State-owned TNCs from developed as opposed to developing countries reflects, to some extent, the principal actors involved and their differing strategic aims. The most active State-owned TNCs from developed economies are large national utilities, which engage in FDI in order to capitalize on their firm-specific advantages and to generate

Figure I.28. Cross-border M&A purchases by State-owned TNCs,[a] by home region, 1981–2010
(Millions of dollars)



Source: UNCTAD.
[a] Refers only to TNCs in which the State has a stake of 50 per cent or more.

Figure I.29. Cumulative cross-border M&A purchases by State-owned TNCs,[a] by economic grouping of ultimate acquirer and industry of target, 1981–2010
(Per cent)



Source: UNCTAD.
[a] Refers to the TNCs in which the State has a 50 per cent or more stake only.

growth in markets outside their own. In contrast, State-owned TNCs active in extractive industries are more commonly from developing economies. This is largely in keeping with many emerging economies' national goals to secure access to necessary natural resources.

c. Issues related to corporate governance

Corporate governance structures play an important role in determining FDI decisions of State-owned TNCs – raising concerns in host economies.

There is a significant diversity in the behaviour of SOEs around the world, as State-owners differ in their interest and political systems. Even SOEs owned by the same State differ, for instance in their mission, technologies, industry and market context. SOEs may have multiple objectives – for instance, political, social, or cultural, or income redistribution. Many of them were created originally to pursue public policy objectives. These aspects complicate the understanding (in comparison with private companies) of how SOEs operate, the way they are governed and how their relationship with the State plays out.[29]

At a general level, the development of SOEs as TNCs is influenced by the political and economic underpinnings of the country of origin. First, it is important to distinguish between countries where free market policies or interventionism are preponderant. Second, State-owned TNCs' internationalization process may be influenced by the level of development of the country. The less developed a country, it can be argued, the more the State will tend to intervene in SOE management as SOEs become an important tool for the country's development. In some cases the government might hinder FDI by SOEs, as this could reduce their contribution and role (e.g. social, industrial) in the domestic economy; however, in other cases, the State might be willing to support FDI by SOEs as this may help to build economies of scale and/or further develop the competitive position of the firm and that of the home country (e.g. Deng, 2004; Child and Rodrigues, 2005). Third, influencing the possibilities and modalities of SOEs' internationalization are specific government industrial, technological, financial, social and foreign policies.

Thus, it is important to distinguish between cases where the link to the State might either hinder or support SOEs' FDI and performance:

- Government as hindrance to internationalization (e.g. in Italy, where there has been repeated concern about the potential effects of SOEs' internationalization on local unemployment rates).

Table I.10. The 10 largest cross-border M&A purchases and 10 largest greenfield investments by State-owned TNCs, 2006–2010
(Millions of dollars and per cent)

(a) Cross-border M&As

Year	Value ($ million)	Host economy	Acquired company	Industry of acquired company	Ultimate acquiring company	Ultimate home economy	Shares acquired (%)
2009	16 938	United Kingdom	British Energy Group PLC	Electric services	EDF	France	73
2007	14 684	United Kingdom	Gallaher Group PLC	Cigarettes	Japan Tobacco Inc	Japan	100
2007	11 600	United States	GE Plastics	Plastics materials and synthetic resins	SABIC	Saudi Arabia	100
2009	7 157	Switzerland	Addax Petroleum Corp	Crude petroleum and natural gas	Sinopec Group	China	100
2010	7 111	Brazil	Repsol YPF Brasil SA	Crude petroleum and natural gas	Sinopec Group	China	40
2006	6 899	United Kingdom	Peninsular & Oriental Steam Navigation Co	Deep sea foreign transportation of freight	Dubai World	United Arab Emirates	100
2008	6 086	United Kingdom	British Energy Group PLC	Electric services	EDF	France	26
2007	5 483	Italy	FASTWEB SpA	Information retrieval services	Swisscom AG (Swiss Confederation)	Switzerland	82
2009	4 500	United States	Constellation Energy Nuclear Group LLC	Electric services	EDF	France	50
2006	4 388	Hong Kong, China	Hutchison Port Holdings Ltd	Marine cargo handling	PSA Corp Ltd (Ministry of Finance)	Singapore	20

(b) Greenfield investments

Year	Value ($ million)	Host economy	Investing company	Industry of investing company	Home economy
2006	18 725	Pakistan	Emaar Properties PJSC	Real estate	United Arab Emirates
2010	16 000	Australia	Petroliam Nasional Berhad	Coal, oil and natural gas	Malaysia
2007	14 000	Tunisia	Dubai Holding LLC	Real estate	United Arab Emirates
2006	9 000	China	Kuwait Petroleum Corporation	Coal, oil and natural gas	Kuwait
2006	6 000	Turkey	Indian Oil Corporation Ltd	Coal, oil and natural gas	India
2010	5 800	Cuba	China National Petroleum Corporation	Coal, oil and natural gas	China
2010	5 740	Nigeria	China State Construction Engineering Corporation	Coal, oil and natural gas	China
2008	5 000	Morocco	International Petroleum Investment Company PJSC	Coal, oil and natural gas	United Arab Emirates
2010	5 000	Cameroon	GDF Suez SA	Coal, oil and natural gas	France
2008	4 700	United States	AREVA Group	Alternative/renewable energy	France

Source: UNCTAD.

- Government as supporter of internationalization (e.g. China's "Go Global" policy, GCC countries' economic diversification policy (see chapter II.A.3), the Republic of Korea's Overseas Investment Policy Package, and South Africa's outward FDI policies – *WIR06*).
- Government as indifferent to SOE internationalization, but with general support and with greater regard to developmental impact (e.g. Vattenfall (Sweden) in Africa).

In general terms it is argued that the extent to which SOEs are free of, or subject to, government involvement in operational and management matters (including FDI) is critical. Active government participation in SOEs is often regarded as a limit to good economic performance. However, if the degree of autonomy is very high, the SOE could behave just like a private firm, and this may impact on its original mission and public policy role. This situation suggests that although a certain level

Table I.11. Cumulative value of FDI projects[a] by State-owned TNCs[b], by source and target economy, 2003–2010
(Millions of dollars and per cent)

Source economy	Host economy			
(a) By value (millions of dollars)				
	Developed economies	Developing economies	Transition economies	Total
Developed economies	292 109	180 641	45 748	518 498
Developing economies	176 314	394 935	18 826	590 076
Transition economies	28 556	16 916	26 987	72 460
Total	496 979	592 493	91 562	1 181 034
(b) By destination of source economy (per cent)				
	Developed economies	Developing economies	Transition economies	Total
Developed economies	56	35	9	100
Developing economies	30	67	3	100
Transition economies	39	23	37	100
Total	42	50	8	100

Source: UNCTAD.
[a] Comprises cross-border M&As and greenfield investments. The latter refers to the estimated amounts of capital investment.
[b] Cross-border M&A data refers only to TNCs in which the State has a stake of 50 per cent or more.
Note: The value may be overestimated as the value of greenfield FDI refers to estimated amount of capital investment of the entire project.

of State intervention can be good for SOEs' performance, including international diversification, too much State intervention might be detrimental.

The level and mode of FDI by SOEs is also influenced by host country policies that regulate inward FDI. State-owned TNCs might be perceived either favourably or unfavourably, depending on conditions and the attitude of the host country. For example, there are persistent claims of "unfair" competition by State-owned TNCs, as well as concerns about State-owned TNCs as instruments of foreign policy (e.g. Mazzolini, 1980; Mascarenhas, 1989; Anusha and Nandini, 2008; Athreye and Kapur, 2009). Partly in response, host countries – particularly in the developed world – have over the past few years focused attention on developing legal frameworks and processes to provide the necessary instruments for identifying and preventing deemed adverse consequences arising from State-owned TNC investments (e.g. Australia, Canada).

However, there are also countries with more favourable attitudes concerning FDI by foreign SOEs. For instance there are cases in which two States, because they do not yet have established political ties, perceive FDI by their SOEs as a step – among others – towards establishing a closer relationship between them. Examples include the case of Malaysian State-owned TNCs such as Petronas and some African countries, in which investments were often fostered by the Government of Malaysia (*WIR06*). There are also cases in which, because of the already existing strong ties between States, FDI by SOEs is perceived as further strengthening these ties. Their international business operations became part of ODA packages.

Typical potential corporate governance concerns regarding State-owned TNCs are related to their objectives arising from State ownership (which may diverge from the commercial norms), a perceived lower level of transparency, potentially inexperienced boards of directors, and poor relationships with other shareholders and stakeholders.[30] As many SOEs may have no public reporting requirements, and relevant information may only be available to the State, this hinders monitoring, limits accountability and, under some conditions, may create opportunities for corruption.

In light of this situation, the future policy agenda that host governments may wish to deal with revolves around the core differences between State-owned and private TNCs, and focuses on alleviating these concerns:

- National security concerns were particularly prominent when State-owned TNC activity increased in the mid-2000s. It was argued that sometimes their investments would endanger the national security position of any host country. For instance, an acquisition of port management businesses in six major United States seaports in the United States by DP World (UAE) in 2006 came under close scrutiny, because of fears of compromising port security. Political resistance ultimately forced DP World to divest these assets. Explicitly defining and reaching an agreement (between the State and SOE governance) on SOE objectives can help reduce concerns in both host and home countries, clarify management goals, improve performance monitoring, and reduce opportunism.
- Competition concerns may be voiced where foreign investment is deemed a threat to national core industries and "national champi-

ons", but they may also be raised in the context of knowledge and technology transfer issues. A recent controversial case that failed for these reasons concerned a proposed second deal in 2009, in the mining industry, which otherwise would have led to the Aluminum Corporation of China (Chinalco), China's State-owned metals group, purchasing more stake in Rio Tinto (Australia/United Kingdom), a leading global mining company.

- Concerns over governance and social and environmental standards might become more prominent in the future for host countries as investments from State-owned TNCs increase, although such concerns are already being voiced with regard to extractive industries and agriculture. To improve transparency, SOEs are also expected to comply with high standards of accounting and auditing. In reality, less than one-fifth, or 119 firms, of 653 State-owned TNCs in UNCTAD's database subscribe to the United Nations' Global Compact, and only 3 per cent (or 17 firms) use the Global Reporting Initiative (GRI) standards, compared to 60 per cent in both initiatives for the world's top 100 TNCs (UNCTAD, 2011e).[31] The OECD has prepared guidelines regarding provision of an effective legal and regulatory framework (OECD, 2005).

Also, from the perspective of home countries, there are concerns regarding the openness to investment from their State-owned TNCs. Given the current absence of any broader consensus on the future rules of engagement of State-owned TNCs as sources of FDI, it is critical that home and host economies determine and define more clearly the rules and regulations under which State-owned TNCs pursue their investment activities.

This policy agenda determines part of future work in this area. Research should look at how specific government industrial and technological, financial, social and foreign policies influence the possibilities and modalities of SOEs' internationalization. In particular, SOEs' internationalization drivers should be identified and examined, as should be SOEs' FDI impact on key aspects such as employment conditions, technology transfer, market access and environmental issues.

Notes

1 In October–December 2008 the Russian Government provided financial help amounting to $9.78 trillion to the largest Russian companies through the State corporation Bank for Development and Foreign Economic Affairs (Filippov, 2011).

2 Due to unavailability of data on FDI flows (on a balance-of-payments basis) by sector or by country, data on FDI projects (cross-border M&As and greenfield investments) are used in this Report.

3 The acquisition of Solvay Pharmaceuticals (Belgium) by Abbott Laboratories (United States) for $7.6 billion and the takeover of Millipore (United States) by the drug and chemical group Merck (Germany) for $6 billion (annex table I.7).

4 Nestlé, for example, registered a net profit of $34 billion in 2010, while the acquisition of Cadbury (United Kingdom) by Kraft Foods (United States) for $19 billion was the largest deal recorded in 2010 (annex table I.7).

5 Private equity firms are engaged in buying out or acquiring a majority of the existing firms, rather than establishing new companies (greenfield investment).

6 Bain & Company, *Global Private Equity Report 2011*, Boston.

7 Commission of the European Communities, 2009. Directive of the European Parliament and of the Council on Alternative Investment Fund Managers, COM(2009) 207 final, Brussels: European Commission.

8 Public Law 111-202-July 21, 2010, Dodd-Frank Wall Street Reform and Consumer Protection Act.

9 International Working Group of Sovereign Wealth Funds: Generally Accepted Principles and Practices, the Santiago Principles, 8 October 2008.

10 Truman (2011: 11). Note that the size of the SWF universe depends on the qualifying criteria used in the underlying SWF definition. The Monitor Group, for example, includes 33 funds in its Monitor-FEEM SWF Transaction Database. The membership base of the International Working Group for Sovereign Wealth Funds comprises 26 SWFs from 23 countries, managing assets of around $2.3 trillion. The analysis in this report is based on a consolidated universe drawn from these two samples.

11 Some SWFs have acquired large stakes in leading private equity firms, such as the Carlyle Group, Blackstone Group and Apax Partners. A good example for a private equity-SWF investment syndication is the co-ownership of Gatwick Airport by the California Public Employees Retirement System, the Abu Dhabi Investment Authority, the Republic of Korea's National Pension Service, the Australian Future Fund and the private equity firm

Global Infrastructure Partners ("Future fund gets Gatwick go-ahead", *Financial Times*, 20 December 2010).

12 Institute of International Finance, GCC Regional Overview, 29 October 2010.

13 "CIC set for up to $200bn in fresh funds", *Financial Times*, 25 April 2011.

14 Government Pension Fund Global, Annual Report 2009, Oslo: Norges Bank Investment Management, p.22.

15 Based on 600 major companies. *Nikkei*, 12 April 2011.

16 For United States firms, data from Thomson Reuter (*Nikkei*, 10 April 2011) and for Japanese firms, compiled by the *Nikkei* (14 May 2011).

17 This year's survey provides an outlook on future trends in FDI as seen by 205 largest TNCs and 91 IPAs.

18 For detailed discussion on FDI and domestic investment, see UNCTAD, 2010a and 2011a.

19 This is because in home economies, banks are reluctant to lend, as there are concerns about the recovery, heavily indebted consumers have little appetite to borrow or spend, and enterprises facing weak market prospects are discouraged from investing.

20 For example, sudden increases in United States interest rates especially have in the past triggered crises in developing countries, including the debt crisis of the 1980s, and various emerging markets crises of the 1990s.

21 Intra-company loans often have flexible terms and conditions. including low or zero interest rates, and variable grace and maturity periods (Bhinda and Martin, 2009).

22 Examples include a $18.8 billion acquisition of Cadbury (United Kingdom) by Kraft Foods (United States) – the largest M&A deal of the year (annex table I.7).

23 Annual Report 2010, Metro AG.

24 Annual Report 2009, General Electric.

25 TNCs where the State's stake is held by an SWF (e.g. Singapore Telecom – which is majority owned by Temasek, an SWF) are included in the universe of State-owned TNCs.

26 In those cases where it was not possible to fully apply the restriction related to government stakes of less than 10 per cent, the State-owned TNC in question was retained in the count.

27 Due to data limitations, the analysis presented in this section refers to the State-owned TNCs where the State has a 50 per cent or greater stake. This data also excludes FDI projects of SWFs, which are reviewed in section A.1.e.

28 Comparing the cumulative sum of their gross cross-border M&A purchases and greenfield capital expenditures from 2003–2010.

29 A more extensive study on the issue of State-owned TNCs' governance and FDI is ongoing and will be published soon by UNCTAD.

30 At SOE firm-level discussions on governance typically revolve around specific governance decisions, such as who should be appointed as board members and CEO, compensation and incentives for management, amount of reporting and new investments.

31 This 100 TNC list, which is used for the study on CSR (UNCTAD 2011e), includes 14 State-owned TNCs, all of which are signatories to the Global Compact and two use the GRI reporting standard.

REGIONAL INVESTMENT TRENDS

CHAPTER II

The slow recovery of FDI flows in 2010 masked starkly divergent trends among regions: while East and South-East Asia and Latin America experienced strong growth in FDI inflows, those to Africa, South Asia, West Asia, transition and developed countries continued to decline. Inward FDI flows to Africa varied between subregions. In developing Asia, ASEAN and East Asia attracted record amounts of FDI, while in West Asia the impact of the global economic crisis continued to hold back FDI. Latin America and the Caribbean witnessed a surge in cross-border M&As, mainly from developing Asia. In transition economies, the marginal rise of flows to the CIS did not compensate for the sharp drop in South-East Europe. Among developed countries, flows to Europe and Japan declined, overshadowing the increased flows to the United States. All three groups in the structurally weak, vulnerable and small economies – LDCs, LLDCs and SIDS – saw their FDI inflows fall.

Some major developments feature in regional FDI:

- Intraregional FDI in Africa is increasing but has yet to realize its potential.
- FDI outflows from South, East and South-East Asia have been rising rapidly, demonstrating new and diverse industrial patterns.
- State-owned enterprises lead outward FDI from West Asia with a strategy of improving the competitiveness of the home economies.
- Latin America and the Caribbean are witnessing a surge in resource-seeking FDI from developing Asia.
- The investment link between developing and transition economies is gaining momentum, fuelled by the commodity boom and government support within both group of economies.
- The restructuring of the banking industry in developed countries resulted in both significant divestments of foreign assets and the generation of new FDI.
- A new plan of action for LDCs is proposed within an integrated policy framework on investment, technical capacity-building and enterprise development.
- TNC participation has led to significant infrastructure build-up in LLDCs.
- TNCs are contributing to the economic challenges of climate change adaptation in SIDS.

A. REGIONAL TRENDS

1. Africa

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $3.0 billion	Angola, Egypt, Nigeria and Libyan Arab Jamahiriya	..
$2.0 to $2.9 billion	Democratic Republic of the Congo, Congo, Ghana, and Algeria	..
$1.0 to $1.9 billion	Sudan, South Africa, Tunisia, Morocco and Zambia	Libyan Arab Jamahiriya, Egypt and Angola
$0.5 to $0.9 billion	Niger, Madagascar, Namibia, Uganda, Mozambique, Chad, United Republic of Tanzania, Equatorial Guinea and Botswana	Nigeria and Morocco
$0.1 to $0.4 billion	Mauritius, Cameroon, Côte d'Ivoire, Seychelles, Guinea, Liberia, Senegal, Ethiopia, Gabon, Mali, Malawi, Kenya, Somalia, Cape Verde, Benin and Zimbabwe	South Africa, Zambia, Algeria, Senegal and Mauritius
Below $0.1 billion	Swaziland, Central African Republic, Eritrea, Lesotho, Rwanda, Togo, Gambia, Burkina Faso, Sierra Leone, Djibouti, Burundi, Mauritania, Comoros, Guinea-Bissau and São Tomé and Principe.	Gabon, Tunisia, Sudan, Liberia, Kenya, Zimbabwe, Niger, Ghana, Swaziland, Democratic Republic of the Congo, Benin, Seychelles, Sierra Leone, São Tomé and Principe, Mali, Mauritania, Cameroon, Malawi, Mozambique, Côte d'Ivoire, Burkina Faso, Cape Verde, Guinea-Bissau, Namibia, Togo and Botswana

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Africa	**60.2**	**55.0**	**5.6**	**6.6**	**5.1**	**7.6**	**2.7**	**3.2**
North Africa	18.5	16.9	2.5	3.4	1.5	1.1	1.0	1.5
East Africa	3.6	3.7	0.1	0.2	-	0.3	0.2	0.2
West Africa	12.7	11.3	1.5	1.1	- 0.2	0.4	-	-
Southern Africa	20.0	15.1	1.4	1.9	3.9	5.6	1.5	1.5
Central Africa	5.4	8.0	0.1	0.1	-	0.2	-	-

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009-2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Africa	**488.8**	**554.0**	**106.0**	**122.4**	**39.2**	**50.1**	**2.2**	**2.7**
North Africa	190.7	206.1	20.2	23.6	8.7	12.7	0.5	0.7
East Africa	27.5	30.9	0.9	1.1	0.7	0.7	0.1	0.2
West Africa	84.1	95.4	5.7	6.8	12.2	15.3	0.3	0.4
Southern Africa	153.6	182.8	78.2	90.0	14.0	17.2	1.1	1.2
Central Africa	32.9	38.8	1.0	1.0	3.5	4.3	0.1	0.2

Figure A. FDI inflows, 2000–2010

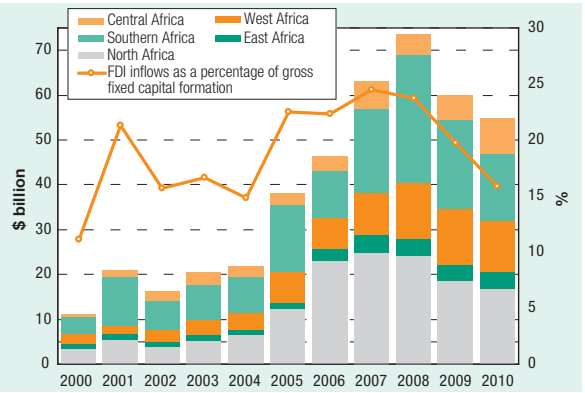


Figure B. FDI outflows, 2000–2010

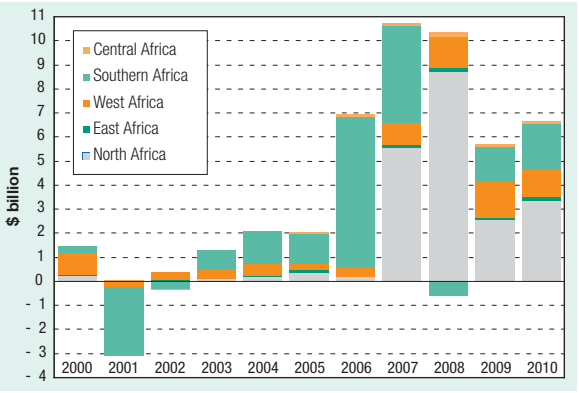


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**5 140**	**7 608**	**2 702**	**3 184**
Primary	2 579	2 149	621	- 81
Mining, quarrying and petroleum	2 579	2 149	621	- 81
Manufacturing	**- 110**	**303**	**138**	**381**
Food, beverages and tobacco	-	263	39	2
Wood and wood products	11	- 1	-	1
Chemicals and chemical products	- 620	5	-	- 38
Non-metallic mineral products	250	-	- 4	416
Metals and metal products	248	32	102	-
Machinery and equipment	-	2	-	-
Electrical and electronic equipment	-	- 9	-	-
Precision instruments	-	10	-	-
Services	**2 672**	**5 157**	**1 942**	**2 885**
Construction	-	-	- 103	-
Trade	-	84	- 1	- 26
Hotels and restaurants	- 117	136	3	-
Transport, storage and communications	3 058	1 912	-	-
Finance	- 295	38	1 643	2 572
Business services	21	3 003	32	340
Health and social services	5	-	-	-
Community, social and personal service activities	0	- 23	369	- 1
Other services	-	6	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**5 140**	**7 608**	**2 702**	**3 184**
Developed economies	**4 328**	**6 355**	**1 378**	**1 336**
European Union	3 159	1 459	782	1 224
United States	1 125	1 927	-	45
Japan	-	3 199	-	-
Developing economies	**797**	**952**	**1 124**	**1 460**
Africa	927	268	927	268
North Africa	324	-	-	54
Sub-Saharan Africa	603	268	927	214
South Africa	597	100	500	- 88
Uganda	-	257	-	-
Zambia	-	-	11	257
Zimbabwe	-	-	62	51
Latin America and the Caribbean	- 70	- 84	395	- 75
South America		-	383	- 75
Caribbean		- 84	12	-
Asia	- 60	768	102	1 267
West Asia		-10 653	-	965
South, East and South-East Asia		11 421	102	302
Oceania	-	-	- 300	-
South-East Europe and the CIS	**-**	**51**	**200**	**388**
Russian Federation	-	16	200	388

Inflows to Africa, which peaked in 2008 amidst the resource boom, continued their downward trend in 2010, although there were significant subregional variations. For the region as a whole, FDI in 2010 stood at $55 billon, 9 per cent down from 2009 (figure A). Other developing regions performed considerably better, leading Africa's share of FDI inflows among developing countries to fall from 12 per cent in 2009 to 10 per cent in 2010.

Inflows to North Africa account for roughly one-third of the total in Africa. These fell for the second year running, although the rate of decline was much reduced and the picture uneven. Indeed, inflows to the Libyan Arab Jamahiriya rose over 40 per cent in 2010, though this rebound seems certain to be short-lived, given the current political situation in the country.

In West Africa, the two largest recipients had contrasting fortunes: inflows increased significantly in Ghana, but not enough to compensate for the large fall in Nigeria to reverse the downward trend of this subregion. In both countries, the major factor was the oil industry. In Nigeria, uncertainty over the Petroleum Industry Bill,[1] which is perceived as unfavourable for TNCs, and the unresolved political problem in the Niger Delta, discouraged foreign investors and, for instance, allegedly led Shell to sell a number of its onshore licences. As for Ghana, the start of major oil production has attracted the interest of TNCs, some of which are seeking an alternative subregional source of oil to Nigeria.

In Southern Africa, inflows fell by 24 per cent. One of the two major recipients in the subregion, South Africa, saw its inflows fall by over 70 per cent to $1.6 billion, a level amounting to one-sixth of the peak recorded in 2008. Inflows to Angola, the region's largest recipient, fell by 15 per cent. Although the decline was large, the inflow levels achieved in 2008 ($16.6 billion) and 2009 ($11.7 billion), when there had been major investments in oil and agriculture, were perhaps not sustainable, considering that inflows to Angola had been just over $5 billion in 2003 when the civil war in the country ended. One of the problems of Angola's oil industry is that its production has exceeded Angola's OPEC quota.

Elsewhere in West and Southern Africa, oil and gas TNCs are divesting their downstream businesses. In April 2010, Shell announced its plan to withdraw from the downstream markets – considered "low-margin" – in 21 African countries. Similarly, BP announced plans to divest from five Southern African countries.

In Central Africa and East Africa, inflows of FDI increased in 2010 to reach $8.0 billion and $3.7 billion, respectively. The inflows to the larger recipients in Central Africa (Chad, Congo, the Democratic Republic of the Congo, Equatorial Guinea and Gabon) were mostly due to oil-related investments. The only significant instance of FDI in non-primary sectors was investment in telecommunications in the Democratic Republic of the Congo. East Africa's increase was modest (2.5 per cent), as inflows to the subregion's largest recipient, Madagascar, fell substantially (19 per cent). FDI to the subregion's two other large recipients, Uganda and the United Republic of Tanzania, have tended to be stable in recent years and held broadly steady in 2010.

The source countries and industry distribution of FDI to Africa can be gauged from the expansion of TNCs' affiliate networks in Africa through cross-border M&As (tables D and E) and greenfield projects. As in previous years, TNCs investing in Africa in 2010 were mostly from developed countries. Among developing countries, China, India and the United Arab Emirates were the main source countries in 2010.

In terms of industry distribution, the primary sector (mainly coal, oil and gas) accounted for 43 per cent, manufacturing for 29 per cent (of which almost half was in the metal industry) and services (mainly communications and real estate) for 28 per cent. One of the largest M&A deals worldwide in 2010 was the acquisition of the telecoms operations of Zain (Kuwait) in 15 African countries (not including those in North Africa) by the Indian mobile operator Bharti Airtel, for $10.7 billion. Although the deal itself did not bring in any net external finance to Africa, the new owner announced that it would invest $1 billion to expand its operations in 2011.[2]

As for the future, inflows to North Africa seem likely to fall significantly, due to the military conflict in the Libyan Arab Jamahiriya and the general political uncertainty hanging over the subregion (box II.1).

It would require a major upturn in sub-Saharan Africa to reverse the downward trend of FDI inflows to the continent. Data on FDI projects (greenfield investments and cross-border M&A deals) for the first few months of 2011 show a 9 per cent rise over the same period of 2010 in Africa as a whole, but this rise was mainly driven by a large investment in Ghana.[3] FDI projects in North Africa fell by half in this period (annex tables I.3 and I.8).

The continuing pursuit of natural resources by Chinese TNCs, and the increasing interest in Africa of Indian TNCs, which also have a significant presence in other sectors, could provide a boost. The nascent oil industry in Ghana perhaps represents the single most important positive prospect. Overall, however, 2011 is likely to be another challenging year for FDI inflows to Africa.

b. Intraregional FDI for development

Intra-African FDI offers a huge potential; subregional organizations can do more to boost these flows.

The extent of intraregional FDI in Africa is limited. Judging from data on FDI projects, intra-regional FDI accounts for only 5 per cent of the total in terms of value and 12 per cent in terms of number (table II.1). The large share accounted for by FDI projects within sub-Saharan Africa suggests that South African investors are playing a large role. The pattern indicates that aside from South Africa, which has an exceptional propensity to invest regionally, intraregional FDI is particularly underdeveloped in Africa.

From a development perspective, the lack of intra-regional FDI is suggestive of a missed opportunity. Geographical proximity and cultural affinity are thought to give regional TNCs an advantage in terms of familiarity with the operational environment and business needs in the host country. From the host country's point of view, developing country TNCs are likely to be in possession of more appropriate technologies – with a greater potential for technology transfer – and better able to address the needs of local consumers, especially the poor (UNCTAD, 2011b).

Indeed, there is some anecdotal evidence of regional FDI bringing positive development impacts to host countries in Africa. For example, investments from foreign farmers have played a role in revitalizing agriculture in Zambia. Mozambique has offered generous incentives to foreign farmers to invest, and other countries have considered similar packages (e.g. Kenya, Nigeria, the United Republic of Tanzania and Uganda).[4]

The scope for joint ventures between domestic and foreign partners in the African context is often constrained by the absence of domestic partners with the required technical and financial capacity. In manufacturing, Coleus Crowns (Uganda) provides a successful example of a joint venture at the intraregional level. It is a joint venture between the Madhvani Group (Uganda) and Coleus Packaging (South Africa), which began production of bottle crowns in 2007. Since then, it has succeeded in establishing itself as a supplier to major TNCs

Table II.1. Intraregional FDI projects[a] in Africa: the value and number of projects and their shares in Africa's totals, cumulative 2003–2010

Total and intraregional FDI	Value		Projects	
	$ billion	% share	Number	% share
All intraregional FDI projects	46	5	570	12
North Africa to North Africa	8	1	65	1
Sub-Saharan Africa to sub-Saharan Africa	35	4	461	10
North Africa to sub-Saharan Africa	2	0.2	43	1
Sub-Saharan Africa to North Africa	0.2	0	1	0
Memorandum				
Total FDI projects in Africa	848	100	4 702	100

Source: UNCTAD.
[a] Including cross-border M&A and greenfield FDI projects.

Box II.1. The Arab Spring and prospects for FDI in North Africa

The Arab Spring led to a blossoming of democratic expression in the subregion, but it has dampened investor confidence in the short term. The available data for the first few months of 2011 indicate that FDI inflows, as shown by greenfield investments and cross-border M&As (annex tables I.3 and I.8) to the subregion declined substantially. For example, there was no record of cross-border M&As in North Africa for the first five months (annex table I.3). It could take months before confidence among investors in those countries is restored.

In Egypt, where greenfield investments fell by 80 per cent in the first four months of 2011 compared to the corresponding period of 2010 (annex table I.8), the most important investor country is the United States, which reportedly accounted for about $9 billion out of $11.1 billion of foreign investment (both FDI and portfolio) in the country. In May 2011, the United States offered loan guarantees of up to $1 billion through the Overseas Private Investment Corporation to finance infrastructure development and boost job creation in Egypt.

It was also reported that some Gulf States had agreed to contribute to a fund worth about $170 million set up by the Government of Egypt to encourage investment. In addition to international support, the Government has approved measures to simplify the procedure for approving new industrial projects and to ease the restrictions on setting up franchises. However, the impact of investment incentives might be limited in the current climate of political transition, and the return of investor confidence is likely to depend on the overall political settlement and the geopolitical situation surrounding the country.

In the long term, democratization should result in better governance and thus lead to a more sustainable growth of economic activities, including FDI.

Source: UNCTAD.

such as Nile Breweries (an affiliate of SABMiller), Pepsi Uganda and Coke Uganda. It also serves the regional markets in Burundi, Rwanda and the Sudan.[5]

In services, some African TNCs in telecommunications and banking have actively engaged in regional expansion. Leading players in the region's telecommunications industry include MTN (South Africa), Orascom (Egypt) and Seacom (Mauritius). In the financial industry, a number of banks based in Nigeria and South Africa have established a regional/subregional presence. Nigerian banks have a reputation of bringing in innovative services to neighbouring countries in West Africa, and many of the leading banks have an extensive presence throughout the region.

In spite of these successful instances, the extent of intraregional FDI is limited. There is a paucity of disaggregate data on the source countries of FDI in Africa, but such data as are available reveal intraregional FDI in Africa to have a skewed and underdeveloped nature. Most of the intraregional flows are attributable to investment from South Africa in neighbouring countries in East and Southern Africa. Countries with high shares of intraregional FDI flows/stock (i.e. Botswana, Malawi, Morocco, Mozambique, Namibia and the United Republic of Tanzania) are those in which investors from South Africa are active, primarily in natural resource-related industry. For South Africa, the importance of Africa in its outward investment has increased over time. The share of Africa in its outward FDI stock rose from 8 per cent in 2005 to 22 per cent in 2009 (table II.2). The dominant role of South Africa is also confirmed by data on the expansion of TNCs' affiliate networks through greenfield projects and M&As.

Given the geographical proximity and cultural affinity, there ought to be potential for diverse intraregional FDI in terms of industry and source country. However, available country-level evidence indicates that the actual picture in this regard is very mixed. For instance, Senegalese FDI in the Gambia is relatively diverse, covering finance, manufacturing, real estate, wholesale and retail. In contrast, outward FDI from Nigeria is concentrated in finance. In the United Republic of Tanzania, FDI from Kenya is diversified into various manufacturing, finance and service activities, while FDI from South Africa has mainly been in mining, although

Table II.2. Intraregional FDI in Africa, various years

Country	Period average / year	Source region ($ million)		Share of Africa in world (%)
		From Africa	From the World	
FDI inflows				
Egypt	2007-2009	162.6	13 882.1	1.2
Ethiopia	1997-1999	0.8	206.4	0.4
	2002-2004	37.3	421.7	8.8
Mauritius	1990-1992	1.8	24.9	7.3
	2007-2009	45.6	348.1	13.1
Morocco	1996-1998	20.3	664.7	3.1
	2006-2008	41.0	3 735.2	1.1
Mozambique	2007-2009	229.1	636.3	36.0
Namibia	1991-1993	78.4	98.0	80.0
	2006-2008	522.7	653.4	80.0
Tunisia	1990-1992	8.4	261.7	3.2
	2007-2009	70.6	2 020.7	3.5
Inward FDI stock				
Botswana	1997	769.7	1 280.2	60.1
	2007	310.0	968.9	32.0
Malawi	2000	103.6	357.7	29.0
	2004	151.5	562.3	26.9
Morocco	2004	236.1	19 883.1	1.2
	2008	303.1	39 388.3	0.8
South Africa	2000	301.1	43 451.0	0.7
	2009	802.4	117 434.1	0.7
United Rep. of Tanzania	1998	924.3	3 352.5	27.6
	2005	2 224.9	5 141.6	43.3
Outward FDI stock		To Africa	To the World	
South Africa	2005	3 017.0	36 826.0	8.2
	2009	15 676.0	72 583.0	21.6

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

the greater value of investment projects in mining obscures the significant number of investment projects in other sectors (Bhinda and Martin, 2009).

The current situation calls for more efforts to encourage FDI at the regional and subregional levels. Various subregional initiatives have been introduced to this end. The Free Trade Area of the Southern African Development Community (SADC)[6] was established with the objective of promoting, among other activities, FDI and domestic investment, by creating a larger single market (Rwelamira and Kaino, 2008). SADC has concluded a Protocol on Finance and Investment, which sets out the legal basis for regional cooperation and harmonization in the area of finance, investment and macro-economic policy. SADC also has a "services protocol", though not yet in force, which would also have implications for FDI. The East African Community (EAC)[7] has discussed the need to promote FDI into the subregion, but there seems to be no well-developed structure in place to promote intra-subregional FDI.

There are also initiatives to promote FDI between the regional groupings, most notably by the Common Market for Eastern and Southern Africa (COMESA) (Fujita, 2009; UNCTAD, 2008a). Its Common Investment Area is aimed at promoting intra-COMESA and international FDI into infrastructure, information technology, telecoms, energy, agriculture, manufacturing and finance.[8]

One major problem with regional groupings in Africa is their great proliferation, resulting in overlaps and inconsistencies. There are around 30 regional trade agreements (RTAs) in Africa, each country typically belonging to several such groupings. Recognizing this, COMESA, EAC, and SADC started a process to enhance integration among their members in 2008 (Brenton et al., 2011). The harmonization of Africa's RTAs, and accelerated and closely coordinated planning with respect to FDI, would help Africa to achieve its full intraregional FDI potential.

2. South, East and South-East Asia

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $50 billion	China and Hong Kong (China)	Hong Kong (China) and China
$10 to $49 billion	Singapore, India and Indonesia	Singapore, Republic of Korea, India, Malaysia and Taiwan Province of China
$1.0 to $9.9 billion	Malaysia, Viet Nam, Republic of Korea, Thailand, Islamic Republic of Iran, Macao (China), Taiwan Province of China, Pakistan, Philippines and Mongolia	Thailand and Indonesia
$0.1 to $0.9 billion	Bangladesh, Cambodia, Myanmar, Brunei Darussalam, Sri Lanka, Lao People's Democratic Republic, Timor-Leste and Maldives	Viet Nam, Philippines and Islamic Republic of Iran
Below $0.1 billion	Afghanistan, Nepal, Democratic People's Republic of Korea and Bhutan	Mongolia, Pakistan, Sri Lanka, Cambodia, Bangladesh, Brunei Darussalam, Lao People's Democratic Republic and Macao (China)

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
South, East and South-East Asia	**241.5**	**299.7**	**193.2**	**231.6**	**34.7**	**32.1**	**40.5**	**93.5**
East Asia	161.1	188.3	142.9	174.3	15.7	16.1	35.9	53.1
South Asia	42.5	32.0	16.4	15.1	6.1	5.6	0.3	26.4
South-East Asia	38.0	79.4	33.8	42.2	12.9	10.4	4.3	14.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
South, East and South-East Asia	**2 565.6**	**3 087.8**	**1 766.1**	**2 115.2**	**190.6**	**232.4**	**99.1**	**116.8**
East Asia	1 599.4	1 888.4	1 365.5	1 586.5	145.6	177.9	90.9	107.6
South Asia	220.0	261.0	83.7	97.2	16.2	17.0	1.5	1.4
South-East Asia	746.3	938.4	317.0	431.5	28.8	37.4	6.7	7.7

Figure A. FDI inflows, 2000–2010

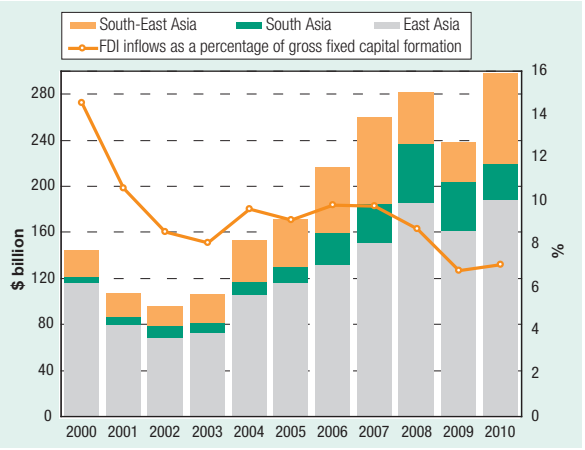


Figure B. FDI outflows, 2000–2010

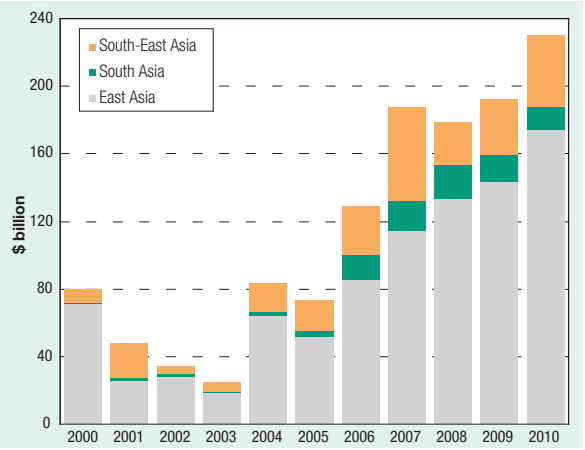


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**34 748**	**32 089**	**40 467**	**93 521**
Primary	1 597	- 428	12 962	23 948
Agriculture, hunting, forestry and fishing	4	180	- 54	72
Mining, quarrying and petroleum	1 593	- 608	13 016	23 875
Manufacturing	**17 084**	**17 806**	**2 798**	**8 812**
Food, beverages and tobacco	3 298	2 896	- 142	4 152
Textiles, clothing and leather	86	367	235	981
Coke, petroleum products and nuclear fuel	2 212	265	-	1 299
Chemicals and chemical products	1 038	5 950	154	1 361
Rubber and plastic products	14	460	35	35
Metals and metal products	- 351	1 557	958	- 557
Machinery and equipment	1 119	300	531	- 127
Electrical and electronic equipment	9 441	918	787	- 499
Motor vehicles and other transport equipment	88	4 201	206	2 000
Services	**16 067**	**14 711**	**24 707**	**60 761**
Electricity, gas and water	2 241	408	7 973	1 048
Trade	2 609	239	2 273	1 765
Hotels and restaurants	- 3	138	262	1 144
Transport, storage and communications	5 758	2 165	-3 639	13 768
Finance	2 839	1 650	17 876	39 271
Business services	2 532	4 837	947	138
Health and social services	- 236	3 330	41	3 101

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**34 748**	**32 089**	**40 467**	**93 521**
Developed economies	**11 320**	**14 936**	**19 966**	**42 661**
European Union	1 031	1 446	2 875	18 594
United States	3 985	5 780	1 014	8 329
Australia	206	910	3 529	9 383
Japan	5 473	4 840	350	625
Developing economies	**23 195**	**16 223**	**18 796**	**50 816**
Africa	102	302	105	11 421
Latin America and the Caribbean	374	- 618	1 018	19 935
South America	-	39	981	19 353
Central America	246	9	-	25
Asia	22 497	16 539	17 649	19 284
West Asia	5 005	-2 143	158	602
South, East and South-East Asia	17 491	18 682	17 491	18 682
China	4 519	7 024	9 333	2 536
Hong Kong, China	7 746	1 790	2 403	8 924
Korea, Republic of	276	3 536	243	- 318
Malaysia	2 637	1 061	323	2 119
Singapore	2 482	3 192	4 940	4 448
South-East Europe and the CIS	**13**	**-**	**1 706**	**44**
Kazakhstan	-	-	1 359	24
Russian Federation	13	-	347	16

In 2010, FDI inflows to South, East and South-East Asia rose 24 per cent, to $300 billion (figure A). However, the performance of major economies within the region varied significantly: inflows to the 10 ASEAN countries more than doubled; those to China and Hong Kong (China) enjoyed double-digit growth; while those to India, the Republic of Korea and Taiwan Province of China declined (table B).

FDI to *ASEAN* surged to $79 billion in 2010, surpassing 2007's previous record of $76 billion. The increase was driven by sharp rises in inflows to Malaysia (537 per cent), Indonesia (173 per cent) and Singapore (153 per cent) (table A; annex table I.1). Proactive policy efforts at the country level contributed to the good performance of the region, and seem likely to continue to do so: in 2010, Cambodia, Indonesia and the Philippines liberalized more industries; Indonesia improved its FDI-related administrative procedures; and the Philippines strengthened the supportive services for public-private partnerships (PPPs) (chapter III).

In Singapore, which accounted for half of ASEAN's FDI, inflows amounted to a historic level of $39 billion in 2010. As a global financial centre and a regional hub of TNC headquarters, the island State has benefited considerably from increasing investment in developing Asia, against a background of rising capital flows to the emerging economies in general in the post-crisis era. Due to rising production costs in China, some ASEAN countries, such as Indonesia and Viet Nam, have gained ground as low-cost production locations, especially for low-end manufacturing.[9] ASEAN LDCs also received increasing inflows, particularly from neighbouring countries like China and Thailand. For instance, the Lao People's Democratic Republic has been successful in attracting foreign investment in infrastructure in recent years; as a result of Chinese investment in an international high-speed rail network, FDI to the country is likely to boom in the coming years (section II.B.2).

FDI to *East Asia* rose to $188 billion, thanks to growing inflows to Hong Kong (China) (32 per cent) and China (11 per cent) (table A). Benefiting greatly from its close economic relationship with mainland China, Hong Kong (China) quickly recovered from the shock of the global financial crisis, and FDI inflows recorded a historic high of $69 billion in 2010. However, inflows to the other two newly industrializing economies, namely the Republic of Korea and Taiwan Province of China, declined by 8 per cent and 11 per cent, respectively.

China continues to experience rising wages and production costs, so the widespread offshoring of low-cost manufacturing to that country has been slowing down and divestments are occuring from the coastal areas. Meanwhile, structural transformation is shifting FDI inflows towards high-technology sectors and services. For instance, FDI in real estate alone accounted for more than 20 per cent of total inflows to China in 2010, and the share was almost 50 per cent in early 2011. Mirroring similar arrangements in some developed countries, China established a joint ministerial committee in 2011 to review the national security implications of certain foreign acquisitions.

FDI to *South Asia* declined to $32 billion, reflecting a 31 per cent slide in inflows to India and a 14 per cent drop in Pakistan, the two largest recipients of FDI in the subcontinent. In India, the setback in attracting FDI was partly due to macroeconomic concerns, such as a high current account deficit and inflation, as well as to delays in the approval of large FDI projects;[10] these factors are hindering the Indian Government's efforts to boost investment, including the planned $1.5 trillion investment in infrastructure between 2007 and 2017. In contrast, inflows to Bangladesh increased by nearly 30 per cent to $913 million; the country is becoming a major low-cost production location in South Asia.

Cross-border M&As in the region declined by about 8 per cent to $32 billion in 2010. M&As in manufacturing rose slightly while they declined by 8 per cent in services. Within manufacturing, the value of deals surged in industries such as chemical products ($6.0 billion), motor vehicles ($4.2 billion) and metal products ($1.6 billion), but dropped in industries such as food and beverages ($2.9 billion) and electronics ($920 million) (table D). Greenfield investment remained stable in 2010, after a significant slowdown due to widespread divestments and project cancellations in 2009 (annex table I.8).

FDI inflows to East Asia should continue to grow in the near future, and those to South Asia are likely to

regain momentum. The competitiveness of South-East Asian countries in low-cost production will be strengthened, and further FDI increases can be expected. Prospects for inflows to the LDCs in the region are promising, thanks to intensified South–South economic cooperation, fortified by surging intraregional FDI. Indeed, countries in the region have made significant progress in their regional economic integration efforts (within Greater China, and between China and ASEAN, for example), which will translate into a more favourable investment climate for intraregional FDI flows.

b. Rising FDI from developing Asia: emerging diversified industrial patterns

Rising FDI outflows from developing Asia display new and diverse patterns in the primary sector, manufacturing and services.

FDI outflows from South, East and South-East Asia rose by 20 per cent to about $230 billion in 2010 (figure B), driven by increased outflows from China, Hong Kong (China), Malaysia, the Republic of Korea, Singapore and Taiwan Province of China. Outflows from the region's two largest FDI sources – Hong Kong (China) and China – increased by more than $10 billion each and reached historic highs of $76 billion and $68 billion, respectively. In 2010, China exceeded Japan for the first time in outward FDI, as well as in GDP. Asian companies actively acquired overseas assets through large deals covering a wide range of industries and countries (annex table I.7). As a result, cross-border M&A purchases surged to nearly $94 billion in 2010, a record level, with China alone accounting for over 30 per cent of the total. M&A purchases by India boomed, while FDI outflows were down by 8 per cent,[11] perhaps reflecting the fact that a few large deals, such as the Bharti Airtel–Zain acquisition, discussed later, were not included in the official statistics.

FDI outflows from the region have been rising rapidly since 2005, with only a modest setback in 2008 due to the global financial crisis (figure B). The region's share in global FDI outflows jumped from below 10 per cent before 2008 to around 17 per cent in the past two years. The rise in FDI outflows has been driven by various corporate motives and strategies, and is a manifestation of new and diversified industrial patterns in recent years.

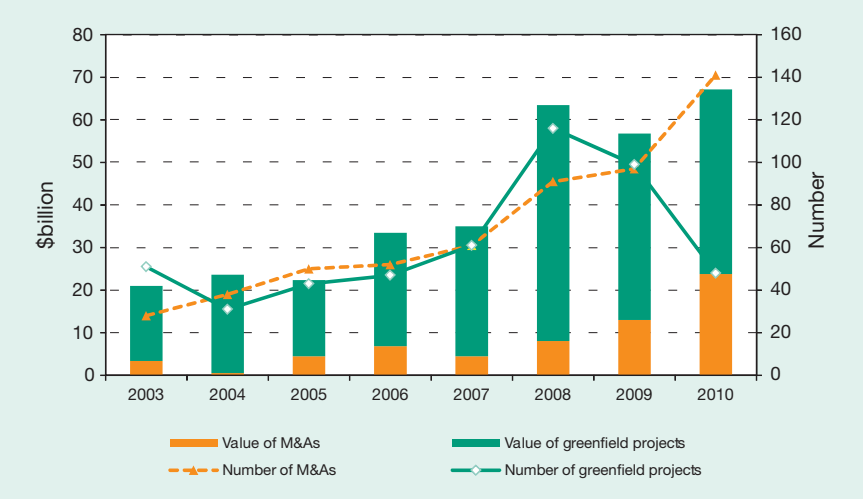
FDI outflows in extractive industries. FDI in extractive industries (including oil and gas, metal mining, as well as other extractive activities) accounts for a significant part of total FDI from South, East and South-East Asia, with China, India, the Republic of Korea and Malaysia being the major investor countries. In terms of FDI stock, the share of extractive industries might seem unimpressive, but their share in FDI outflows from the region has been rising.[12] For example, although Chinese companies have been actively acquiring mineral assets abroad and extractive industries has accounted for well above 20 per cent of FDI outflows from China in recent years, the share of these industries in China's total FDI stock was nevertheless at a modest level of 16 per cent at the end of 2009.

The number and value of recorded greenfield projects show a certain degree of fluctuation, while the number and value of cross-border M&As have kept rising (figure II.1). Due to the capital-intensive nature of projects in extractive industries, although the number of deals is small, the amount of total investment is very large. Indeed, during the period 2003–2010, about 560 cross-border M&As and 500 greenfield projects were recorded in extractive industries, but the total investment was $65 billion and $258 billion (19 per cent and 25 per cent of the total), respectively.

The growth in FDI outflows in extractive industries has been driven by the rising demand for oil and gas and minerals in economies such as China and India, to support their rapid economic growth, industrialization and urbanization, as well as by the need of both governments and companies to guarantee a long-term, stable supply of natural resources against a background of rising commodity prices. Beyond that, a national energy security strategy has further reinforced the motivation of State-owned companies to acquire mineral assets abroad.

The major oil and gas companies and mining companies from the region are traditional natural-resource acquirers (table II.3), but new investors have been emerging, including metal companies, conglomerates, such as CITIC (China) and

Figure II.1. Number and value of extractive industry projects undertaken by firms based in South, East and South-East Asia, 2003–2010



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Reliance Group (India), and sovereign wealth funds, such as China Investment Corporation and Temasek Holdings (Singapore). In particular, metal companies have been increasingly involved in a vertical relationship along the value chain in order to gain access to upstream mineral assets, such as iron ore and copper. For instance, a number of steel companies in the region have invested in overseas iron ore production bases (table II.3); facing rising iron ore prices, they have been actively acquiring mines around the world in order to secure stable supplies.

China's position as a leading investor in extractive industries has been strengthened. The country overtook the United States to become the world's largest energy user in 2010,[13] and Chinese oil companies have continued their buying spree, spending $25 billion on overseas assets, accounting for around one-fifth of all global deal activities.[14] Mining companies from the country spent much less – $4.5 billion – but are catching up, as highlighted by the $6.5 billion bid for Equinox Minerals (Australia and Canada) by Minmetals Corporation. As a result of such investments, China has become the leading foreign investor in Australia.

FDI in extractive industries from developing Asia has targeted resource-rich countries all around the world (table II.3). Major investment locations include mineral-rich Australia and Canada in the developed world, and oil-abundant developing and transition economies, such as Iraq, Sudan and Uzbekistan. Sub-Saharan Africa continues to be a major target, [15] but Latin America and the Caribbean and Oceania (section B.3) have also appeared on the radar screens of Asian resource acquirers.[16]

FDI outflows in manufacturing. Outflows in manufacturing from South, East and South-East Asia have been mainly via greenfield investment. For the region as a whole, manufacturing accounts for about half of accumulated outward FDI through greenfield investment, but less than 15 per cent of the total amount of cross-border M&A purchases. In 2010, the total value of deals in manufacturing was $9 billion, equivalent to about 9 per cent of all M&A purchases.

Major industrial targets of FDI outflows from East and South-East Asia are electronics, metal and metal products, motor vehicles, and chemicals and chemical products (figure II.2). As the global centre of electronics production, the region is also the major source of FDI in the electronics industry. Indeed, this industry accounts for more than one-quarter of both greenfield projects and cross-border M&As in the region, in value terms. The significance of electronics in outward FDI from the region is in line with the international competitiveness of Asian

Table II.3. Major foreign production locations of selected oil and gas, mining and steel companies based in South, East and South-East Asia, 2010

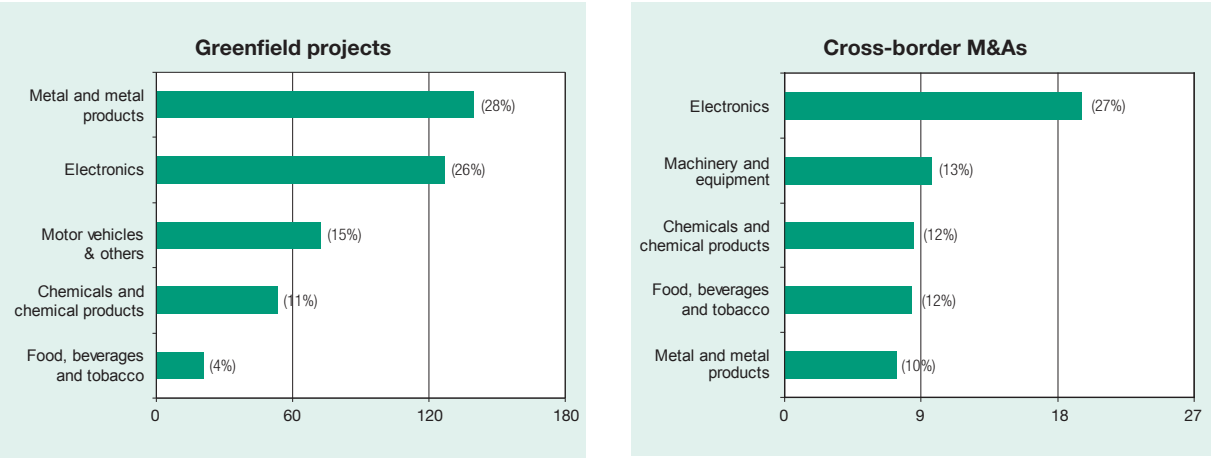
Major foreign production location	Oil and gas companies				Mining companies		Steel companies	
	CNPC (China)	ONGC (India)	KNOC (Republic of Korea)	PETRONAS (Malaysia)	Minmetal (China)	MSC Group (Malaysia)	Sinosteel (China)	Tata Steel (India)
Algeria	X			X				
Australia				X	X	X	X	X
Azerbaijan	X		X					
Cameroon				X			X	
Canada	X		X			X		X
Chad	X			X				
Guinea	X							
Indonesia	X		X	X		X	X	
Iran, Islamic Rep. of	X	X						
Iraq	X	X	X	X				
Kazakhstan	X	X	X					
Libyan Arab Jamahiriya	X	X	X					
Mauritania	X			X				
Myanmar	X	X		X				
Niger	X							
Nigeria	X	X	X					
Oman	X							X
Peru	X		X		X			
Philippines						X	X	
Russian Federation	X	X	X					
Sudan	X	X						
Syrian Arab Republic	X	X						
United States			X		X			X
Thailand	X							X
Uzbekistan	X		X					
Venezuela, Bolivarian Rep. of	X	X	X					
Viet Nam		X	X	X				X

Source: UNCTAD, based on company annual reports and UNCTAD's database on cross-border M&As.

companies in the industry, particularly the contract manufacturers, which have become a dominant force at the production stage of the global electronics value chain (chapter IV). For instance, Hon Hai (Taiwan Province of China) has become the world's largest contract manufacturer, with about $60 billion sales and 1,000,000 employees in 2010.[17] So far its production activities are concentrated in East Asia, most notably China. However, the company is establishing new production locations both within and outside the region, such as in South-East Asia (Malaysia and Viet Nam) and the Czech Republic; it is also considering a multi-billion investment in Brazil. Within China, Hon Hai is aggressively investing in large-scale production bases in inner land areas such as Chongqing, Henan, Sichuan and Shanxi.

As illustrated by the case of electronics, greenfield investment in manufacturing from South, East and South-East Asia is concentrated within the region. Driven by market- and efficiency-seeking motivations, manufacturers from a wide range of industries have been investing mainly in neighbouring countries. However, as the industrial landscape in the world evolves, with rising production costs in some economies in the region and shifting corporate strategies, the pattern of outward FDI from the region has started to change. New production locations outside of the region have emerged. Although the scale of Asian FDI in manufacturing in Africa and Latin America and the Caribbean remains small so far, the potential seems to be large. A new round of industrial restructuring and upgrading is taking place in China, and some

Figure II.2. Outward FDI from South, East and South-East Asia in manufacturing, top 5 industries, cumulative 2003–2010
(Billions of dollars and per cent)



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Figures in parenthesis show the share of the industry in the region's total amount of investment.

low-end, export-oriented manufacturing activities have been shifting from coastal China to low income countries in South-East Asia and also Africa.

In recent years, companies from major economies in the region, including China, India, the Republic of Korea and Singapore, have actively been taking over companies in developed countries, as highlighted by a number of mega-deals (table II.4). For Asian companies eager to tackle global markets, accumulate ownership advantages and enhance international competitiveness, strategic assets-seeking investment through cross-border M&A is a particularly attractive choice. For example, Chinese companies are often attracted by various intangible assets, such as advanced, proprietary technologies, brand names and distribution channels (Buckley et al., 2007). M&A opportunities in developed countries, triggered by industrial restructuring during and after the global financial crisis, and high profitability and abundant bank lending at home, also help boost outward FDI in manufacturing.

Asian companies have been facing political obstacles in undertaking strategic assets-seeking FDI as they become important players in M&A markets in developed countries. This is illustrated by the failed attempts by Huawei Technologies (China) to take over 3Com and 3Leaf in the United States in 2008 and 2010.[18] How to clear such hurdles for Chinese investors became an important issue discussed at the third China-United States Strategic and Economic Dialogue in 2011.

FDI outflows in services. As the major target of international investment by Asian firms, services account for about 70 per cent of accumulated outward FDI through cross-border M&A purchases. In contrast, the share is below 30 per cent for greenfield investment. The main target services for FDI outflows from South, East and South-East Asia are real estate, hotels and tourism, telecommunications, transportation, and financial services (figure II.3).

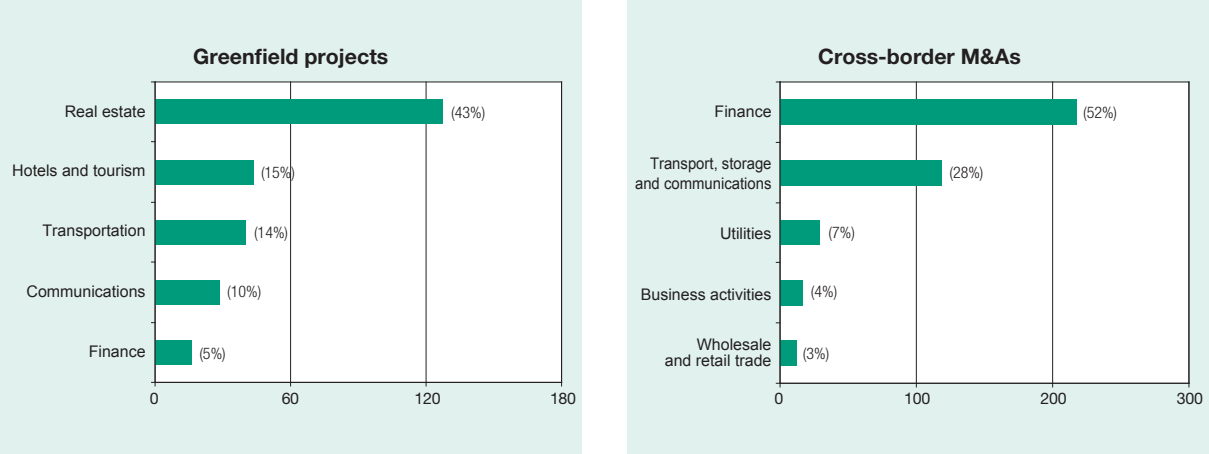
During the past few years, although FDI outflows from the region in the services sector have declined, market-seeking M&As in specific service industries, such as hotels, health services and telecommunications, have been increasing, targeting economies both in and outside the region. In the meantime, FDI outflows in financial services have also rebounded since the global financial crisis. In 2010, the value of deals in finance more than doubled to $39 billion.

Table II.4. Selected M&A mega-deals in manufacturing undertaken by firms from South, East and South-East Asia in developed countries, 2007–2011

Acquiring company	Target company	Industry	Value ($ million)	Year
Tata Steel (India)	Corus Group (United Kingdom)	Steel	11 791	2007
Hindalco Industries (India)	Novelis Inc. (United States)	Aluminium	5 789	2007
Doosan (Republic of Korea)	Ingersoll-Rand Co. (United States)	Construction equipment	4 900	2007
Flextronics (Singapore)	Solectron Corp. (United States)	Electronics	3 675	2007
Tata Motors Ltd. (India)	Jaguar Cars Ltd. (United Kingdom)	Motor vehicles	2 300	2008
China National Agrochemical	Elkem AS (Norway)	Aluminium	2 179	2011
Wanhua Polyurethanes (China)	BorsodChem Zrt (Hungary)	Chemical products	1 701	2011
Essar Steel Holdings (India)	Algoma Steel Inc. (Canada)	Steel	1 603	2007
United Spirits (India)	Whyte & Mackay (United Kingdom)	Food and beverages	1 176	2007
Geely Holding Group (China)	Volvo (Sweden)	Motor vehicles	1 500	2010

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

Figure II.3. Outward FDI from South, East and South-East Asia in the services sector, top 5 industries, cumulative 2003–2010
(Billions of dollars and per cent)



Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Figures in parenthesis show the share of the industry in the region's total amount of investment.

In telecommunications, the total value of deals surged to about $14 billion in 2010. Bharti Airtel (India) alone spent $10.7 billion to buy Zain's (Kuwait) mobile operations in Africa (annex table I.7). Through this aggressive market-seeking deal, Bharti Airtel gained access to mobile markets in 15 African countries and became the world's fifth largest mobile telecom operator, by number of subscribers. The Indian company aims to have 100 million subscribers and $5 billion annual revenue in Africa by 2013, growing from the baseline of 42 million subscribers and $3.6 billion revenue in 2010. However, it faces challenges to streamline its operations across the 15 different countries, and turn around loss-making assets.[19] In the hotel industry, HNA (China) paid $620 million for a 20 per cent stake in NH Hotels (Spain) in May 2011, aiming at market expansion in Europe.[20]

3. West Asia

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $10 billion	Saudi Arabia	..
$5.0 to $9.9 billion	Turkey and Qatar	..
$1.0 to $4.9 billion	Lebanon, United Arab Emirates, Oman, Jordan, Iraq and Syrian Arab Republic	Saudi Arabia, Kuwait, United Arab Emirates, Qatar and Turkey
Below $1.0 billion	Bahrain, Palestinian Territory, Kuwait and Yemen	Lebanon, Bahrain, Oman, Yemen, Iraq, Jordan, Syrian Arab Republic and Palestinian Territory

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
West Asia	**66.0**	**58.2**	**26.3**	**13.0**	**3.5**	**4.6**	**26.8**	**- 15.6**
Gulf Cooperation Council (GCC)	47.1	39.9	23.4	10.5	0.6	2.0	26.6	- 15.5
Turkey	8.4	9.1	1.6	1.8	2.8	2.1	-	-
Other West Asia	10.5	9.3	1.4	0.7	0.1	0.6	0.3	- 0.0

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
West Asia	**487.6**	**575.2**	**151.1**	**161.0**	**19.8**	**21.0**	**6.7**	**6.9**
Gulf Cooperation Council (GCC)	274.9	314.9	119.2	127.0	14.2	14.6	5.7	5.7
Turkey	143.6	181.9	22.3	23.8	2.9	3.0	0.2	0.2
Other West Asia	69.1	78.4	9.5	10.2	2.7	3.3	0.9	1.0

Figure A. FDI inflows, 2000–2010

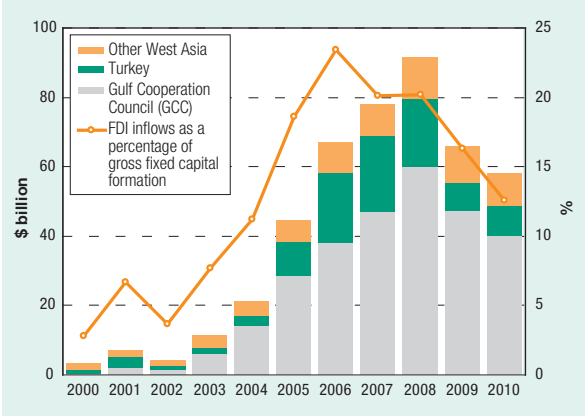


Figure B. FDI outflows, 2000–2010

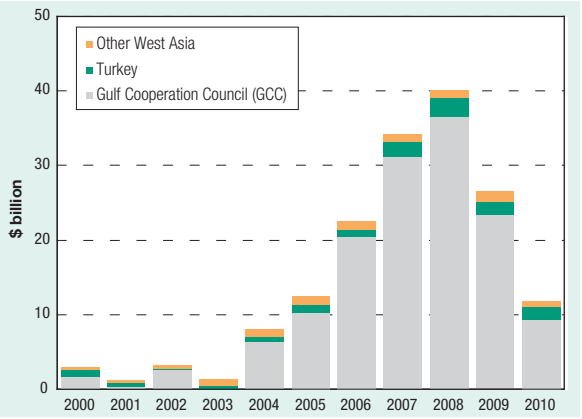


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**3 543**	**4 617**	**26 843**	**-15 560**
Primary	8	170	52	1 484
Mining, quarrying and petroleum	8	170	52	1 484
Manufacturing	**199**	**2 126**	**142**	**8**
Food, beverages and tobacco	91	32	113	-
Textiles, clothing and leather	-	32	-	-
Coke, petroleum products and nuclear fuel	-	1 525	-	-
Chemicals and chemical products	- 56	19	- 4	- 19
Non-metallic mineral products	- 44	-	-	20
Metals and metal products	110	410	33	-
Electrical and electronic equipment	97	107	-	-
Services	**3 336**	**2 321**	**26 648**	**-17 052**
Electricity, gas and water	2 361	- 59	724	400
Construction	78	14	-	-
Trade	85	74	85	12
Hotels and restaurants	-	331	-	- 15
Transport, storage and communications	41	100	1 645	-10 736
Finance	550	1 637	24 510	-1 897
Business services	120	146	297	556
Public administration and defence	-	-	- 612	-5 372
Health and social services	100	112	-	-
Community, social and personal service activities	-	- 38	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**3 543**	**4 617**	**26 843**	**-15 560**
Developed economies	3 174	2 357	21 451	-2 909
European Union	2 457	1 472	16 387	-1 037
United States	349	112	3 012	-2 333
Australia	-	3	1 143	322
Japan	-	343	146	-
Developing economies	358	1 673	5 362	-12 691
Africa	-	965	- 164	-10 653
North Africa	-	965	- 164	47
Sub-Saharan Africa	-	-	-	-10 700
Latin America and the Caribbean	-	-	320	-
Asia	358	708	5 206	-2 038
West Asia	201	105	201	105
Jordan	-	- 15	101	-
Saudi Arabia	114	27	12	66
Turkey	-	-	118	49
South, East and South-East Asia	158	602	5 005	-2 143
Korea, Republic of	-	122	49	-2 234
Singapore	-	2	3 923	- 92
South-East Europe and the CIS	-	21	30	40
Armenia	-	-	30	-
Russian Federation	-	21	-	40

FDI flows to West Asia in 2010 continued to be affected by the global economic crisis. They decreased by 12 per cent to $58 billion (table B and figure A), despite the steady economic recovery registered in 2010 in most of the economies of the region, underpinned by sizeable increases in government spending in oil-rich countries. Private investors however remained cautious. The estimated value of greenfield FDI projects fell in both 2009 (by 42 per cent) and 2010 (by 44 per cent). Cross-border M&A sales – traditionally concentrated mainly in Turkey – whilst increasing by 30 per cent in 2010, remained at a very low level ($4.6 billion), due to the ending of the privatization process in this country.

The fall in FDI inflows in 2010 varied by country. For example, they dropped by 12 per cent in Saudi Arabia, where a number of flagship mega-projects in the petrochemical industry involving joint ventures between the State-owned Saudi Aramco and foreign TNCs saw the withdrawal of foreign partners (ConocoPhillips from the Yanbu project), or were temporarily frozen (such as the Ras Tanura integrated project with Dow Chemical), or failed to attract enough foreign investment, and became domestic operations fully funded by Saudi Aramco (as for example the Jazan refinery). In Qatar, FDI inflows fell by 32 per cent as the last of four LNG Qatargas plants, that had bolstered FDI in 2009, was completed in 2010. In the United Arab Emirates FDI stayed at the same low level as in 2009, when it had plummeted to $4 billion due to the economic crisis. The 8 per cent rise in Turkey mainly resulted from a 40 per cent increase in real estate investment.

FDI inflows are now expected to bottom out, as cross-border M&As have risen fivefold during the first five months of 2011 from the low value registered during the corresponding period of 2010, due to a large acquisition in Turkey,[21] and greenfield investments increased by 9 per cent in the first four months of 2011 over the corresponding period of 2010. However, concerns about the political stability of the region are likely to remain, holding back its recovery, as foreign companies will be reluctant to sink large sums of money into projects until the political outlook becomes clearer.

This uncertainty is likely to affect both inflows and outflows, given the importance of both intra-regional investments and West Asia's investment in North Africa. For example in March 2011, AES (United States) withdrew from bidding for a power plant project in Saudi Arabia. Qatar Electricity Company is evaluating the situation in the Syrian Arab Republic before proceeding with plans to build a plant there. In addition, the telephone company Etisalat (United Arab Emirates) recently cancelled its $12 billion bid for Zain, a Kuwaiti rival, citing unrest as one of the reasons.[22]

Unrest is also affecting outward investment by putting pressure on governments and government-controlled entities to direct more investment into their own economies and to finance higher social spending to pre-empt or respond to popular discontent. Long-term prospects for outward investments are nevertheless positive on the whole, as oil prices prospects suggest that funds available for investment abroad will continue to rise.

b. Outward FDI strategies of West Asian TNCs

State-owned entities from oil-rich countries have led West Asia's outward FDI boom since the early 2000s. Their strategy is driven not only by financial returns, but also by economic and political objectives.

FDI outflows from West Asia declined significantly for the second consecutive year (table B and figure B). They fell by 51 per cent in 2010 due to divestments by West Asian firms. The largest ones included the $10.7 billion sale by Zain Group (Kuwait) of its African operations to Bharti Airtel (India), and the $2.2 billion sale by International Petroleum Investment Company of a 70 per cent stake in Hyundai Oilbank in the Republic of Korea to Hyundai Heavy Industries Co. At the same time, the estimated value of West Asian greenfield projects abroad dropped by 52 per cent.

Outward investment from West Asia is driven mainly by government-controlled entities that have been redirecting part of their investment to support their home economies, weakened by the global financial crisis. In addition, outward investment by the private sector has been affected by the tightening of lending by local banks to the private sector amid the financial crisis.

The decline of outward FDI from West Asia since 2009 came after a period of notable increase that began in 2004, raising outward FDI stock from $25 billion in 2003 to $161 billion in 2010. Gulf Cooperation Council (GCC) countries accounted for 79 per cent of the total, led by the United Arab Emirates and Saudi Arabia which together accounted for 45 per cent of the region's total outward FDI stock (annex table I.2).

A number of factors explain this surge of outward FDI from rich Arab countries. These include the accumulation of considerable surpluses, thanks to the surge in oil prices; low interest rates and high volatility of equity markets, which diverted part of these surpluses from purely financial investment; and the adoption of a policy of economic diversification that includes investing abroad in industries perceived as strategic for the development and diversification of their national economies.

The outward FDI boom was largely driven by State-owned enterprises. These companies accounted for 73 per cent of the amount of cross-border acquisitions by West Asian firms and for 47 per cent of the region's greenfield outward FDI projects during the period 2004–2010. Companies from the United Arab Emirates have been by far the most active investors abroad. Qatar, Saudi Arabia, Bahrain and Kuwait have been other significant outward investors (table II.5).

Targeted regions and sectors. In terms of geographical distribution, developed countries have been the preferred destination of cross-border M&A purchases by West Asian firms, attracting 68 per cent of net purchases during 2004–2010 (table II.6). In contrast, developing and transition economies are by far the main destination of West Asian greenfield FDI abroad: between 2003 and 2010, they attracted 93 per cent of the total, the main destinations being West Asia (31 per cent) and North Africa (29 per cent) (table II.7).

In sectoral terms, 59 per cent of the estimated value of greenfield projects during 2003 and 2010 concerned real estate, located mainly in developing and transition economies (98 per cent), particularly in North Africa and West Asia. Other significant industries in West Asian outward greenfield projects are oil and gas (10 per cent) and hotels and tourism

Table II.5. West Asia: cross-border M&A purchases and greenfield outward FDI projects by ownership type and by home economy, cumulative 2004–2010
(Billions of dollars and per cent)

Home economy	Net cross-border M&A purchases				Greenfield FDI projects[a]			
	State owned[b]	Private owned	Total		State owned[b]	Private owned	Total	
			Value	Per cent			Value	Per cent
Bahrain	0.3	4.0	4.3	3	41.1	35.9	76.9	13
Iraq	-	-	-	-	-	0.1	0.1	-
Jordan	-	0.3	0.3	-	0.2	4.4	4.6	1
Kuwait	-6.5	6.6	0.1	-	18.0	38.0	56.0	10
Lebanon	-	1.1	1.1	1	-	9.7	9.7	2
Oman	0.3	0.8	1.1	1	2.4	1.0	3.4	1
Palestinian territory	-	-	-	-	-	0.3	0.3	-
Qatar	21.8	1.5	23.2	18	24.5	5.2	29.7	5
Saudi Arabia	20.8	9.1	29.9	23	13.2	28.0	41.2	7
Syria	-	-	-	-	-	0.4	0.4	-
Turkey	-	2.7	2.7	2	-	21.8	21.8	4
United Arab Emirates	56.5	8.7	65.2	51	169.6	157.5	327.1	57
Yemen	-	-	-	-	-	0.1	0.1	-
Total	**93.1**	**34.7**	**127.8**	**100**	**268.9**	**302.4**	**571.3**	**100**
Total, per cent	***73***	***27***	***100***	***-***	***47***	***53***	***100***	***-***

Source: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] The value refers to the estimated amounts of capital investment.
[b] Refers to TNCs in which the State has a controlling stake.

(6 per cent). In the case of cross-border M&As, purchases in developed countries have targeted companies that operate mainly in the chemicals, motor vehicle, extractive, transport and hotel industries, in that order (table II.6). In developing countries, the preferred purchase targets have been telecommunications, and electrical and electronic equipment in South, East and South-East Asia.

Table II.6. West Asia: cross-border M&A purchases by region/industry of destination, cumulative 2004–2010
(Millions of dollars and per cent)

Sector / industry	Developed economies			Developing and transition economies			World	
	Total	North America	Europe	Total	West Asia	South, East and South-East Asia	Value	Per cent
Primary, of which	**15 253**	**7 932**	**5 616**	**- 991**	**228**	**-1 922**	**14 261**	**11**
Mining, quarrying and petroleum	14 910	7 932	5 616	- 991	228	-1 922	13 918	11
Secondary, of which	**38 343**	**20 517**	**17 040**	**11 136**	**315**	**9 632**	**49 479**	**39**
Chemicals and chemical products	18 005	13 826	4 178	3 887	- 44	3 128	21 892	17
Motor vehicles and other transport equipment	14 954	1 800	13 154	2 136	82	2 054	17 090	13
Electrical and electronic equipment	3 220	3 216	3	4 070	97	3 972	7 289	6
Tertiary, of which	**32 929**	**10 731**	**21 914**	**31 229**	**19 420**	**13 795**	**64 158**	**50**
Post and communications	3 947	- 13	3 900	16 735	13 380	9 736	20 683	16
Transport	9 479	1 249	8 299	1 092	161	- 40	10 571	8
Business activities	7 209	1 677	5 459	2 377	947	1 515	9 586	7
Hotels and restaurants	8 928	7 349	1 550	580	0	352	9 508	7
Total	**86 525**	**39 180**	**44 571**	**41 374**	**19 963**	**21 505**	**127 899**	**100**
Total, per cent	***68***	***31***	***35***	***32***	***16***	***17***	***100***	**-**

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

Table II.7. West Asia: greenfield outward FDI projects by region/industry of destination, cumulative 2004–2010
(Millions of dollars and per cent)

Sector / industry	Developed economies			Developing and transition economies				World	
	Total	North America	Europe	Total	West Asia	North Africa	South, East and South-East Asia	Value	Per cent
Primary, of which	**3 016**	**38**	**2 177**	**59 698**	**11 018**	**11 948**	**23 073**	**62 713**	**10.7**
Coal, oil and natural gas	2 478	22	1 657	56 773	10 769	11 345	21 497	59 251	10.1
Secondary, of which	**15 921**	**3 158**	**12 314**	**66 308**	**19 819**	**10 922**	**26 349**	**82 229**	**14.0**
Metals	103	10	93	22 112	6 603	6 563	7 551	22 216	3.8
Chemicals	1 342	5	971	14 317	828	292	11 711	15 658	2.7
Non-metallic minerals	1 545	2	1 543	10 162	4 213	505	3 434	11 707	2.0
Food, beverages and tobacco	448	18	430	9 206	5 026	2 054	981	9 655	1.6
Plastics	6 712	88	6 621	633	185	37	288	7 345	1.3
Tertiary, of which	**20 327**	**3 408**	**16 397**	**421 253**	**149 237**	**148 309**	**60 130**	**441 580**	**75.3**
Real estate	6 297	2 272	4 025	338 395	118 449	132 424	40 581	344 692	58.8
Hotels and tourism	6 757	-	6 687	26 219	16 071	3 487	3 582	32 976	5.6
Communications	1 013	105	908	18 934	3 170	3 346	3 938	19 947	3.4
Transportation	3 964	370	3 493	13 942	509	2 311	7 238	17 906	3.1
Leisure and entertainment	580	324	256	11 480	5 444	5 746	223	12 060	2.1
Total	**39 264**	**6 604**	**30 888**	**547 258**	**180 074**	**171 179**	**109 552**	**586 522**	**100**
Total, per cent	***7***	***1***	***5***	***93***	***31***	***29***	***19***	***100***	**-**

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The value refers to the estimated amounts of capital investments.

The most important investors and their strategy. Investors from West Asia have traditionally played a passive role, focusing on liquidity and safety rather than return on investments. However, with access to increasing funding derived from high commodity prices, and with higher levels of managerial skill, they have become increasingly active in direct acquisitions and greenfield FDI projects that entail a long-term relationship and involvement in management.

West Asia's outward investment flows are concentrated in a small number of companies – 10 companies accounted for 83 per cent of cross-border M&A purchases between 2004 and 2010. Of these, only three undertake specific activities (such as petrochemicals, telecom, construction), the others are holding groups or investment companies. Furthermore, the United Arab Emirates is home to half of them. All but two of these companies are owned by or strongly related to the State. Most of them were created in the 2000s (table II.8).

The FDI strategies of these State-owned investors are generally linked to the economic and political objectives of their respective governments. They aim not only at achieving revenue maximization and diversification, but also at building international partnerships and strategic alliances that generally support economic and political objectives. It is also common that the State-owned entities use foreign alliances and partnerships built through outward FDI as a tool to attract FDI and enhance its impact on the host economy. The example of two State-owned entities or SWFs established during the 2000s – the Qatar Investment Authority (QIA) and Mubadala – illustrates this new trend.

Qatar Investment Authority (QIA) has been making a number of high-profile international direct investments in the financial services, automotive, aerospace and construction industries, and in real estate.[23] These include the acquisition of 17 per cent of the voting rights in Volkswagen, which was accompanied by a memorandum of understanding seeking to establish R&D collaboration, testing and training facilities in Doha; the acquisition of the German construction firm Hochtief in 2010, aimed at facilitating the transfer of advanced technology and know-how to Qatar;[24] and the acquisition of an 8 per cent share in the French public works company Vinci in 2009 (becoming the top shareholder after its employees), which reinforced its partnership with this company, and widened the scope of Vinci's activities in Qatar.[25]

Mubadala aims to develop world-leading clusters of expertise in strategically important sectors, and accordingly has created nine business units. Amongst them, Mubadala Aerospace aims at turning Abu Dhabi into a global aerospace hub. Mubadala Industry is pursuing investment and development opportunities in capital, energy and intellectual property-intensive sectors, and Mubadala Information & Communications Technology is creating a portfolio of global ICT assets to develop industry-leading facilities at home and in the region. Other projects include the energy, healthcare, real estate, infrastructure and services sectors. For example, in recent years, Mubadala has acquired stakes in the aircraft manufacturing company Piaggio Aero (Italy), the semiconductor company Advanced Micro Devices (United States) , the provider of technical solutions to airlines SR Technics (United States), the oil and gas company Pearl Energy (Singapore), the car manufacturer Ferrari (Italy), and the global investment firm Carlyle Group (United States). It has also developed joint ventures and funds with notable investors and industry leaders such as Credit Suisse and General Electric. [26]

Given the high levels of their foreign exchange reserves and the relatively small sizes of their respective economies, GCC countries can afford to spend large amounts of foreign currency on overseas investments. It is important, however, that they assess the performance and effectiveness of their strategy of using outward FDI as an instrument for economic development.

The economic diversification policies of GCC countries has been pursued by a dual strategy. In sectors such as construction and real estate, finance, telecommunications, and transport, Gulf countries have developed a certain level of expertise at home that has allowed them to engage in outward direct investment in these fields. This outward FDI has aimed mainly at building a presence in other Arab countries in West Asia and North Africa to compensate for the small size of their domestic economies. Lacking strong proprietary assets, West Asian firms have expanded to neighbouring countries where

they took advantage of their financial capacities and cultural proximity, which contributed to increasing their expertise and improving their competitiveness.

In investing in developed countries and Asian emerging economies, consisting mainly in using M&As, the region has a different strategy to aim at enhancing capabilities in industries existing at home – such as finance, hotels and petrochemicals – but also and increasingly to develop capabilities in industries not actually present at home, such as motor vehicles, aerospace, alternative energies and electronics. This approach differs from that of other countries, which have generally first developed a certain level of capacity at home, before engaging in outward direct investment.

It is generally through the medium of exchanges between parent companies and foreign affiliates – such as transfer of technological knowledge, movement of employees and intra-firm trade – that outward FDI can become a source of improved competitiveness at home. In the absence of a parent company that performs related activities at home, a question is raised about the nature of the channels through which cross-border purchases of enterprises can contribute to the development and diversification of the region's economies.

Table II.8. The top 10 West Asian companies, ranked by the total value of cross-border M&A purchases, cumulative 2004–2010
(Millions of dollars)

Company name	Home country	Cross-border M&A purchases[a]	Activity	Creation date	Ownership	Information about the company
Dubai World	United Arab Emirates	18 282	Holding company	2006	State-owned	Owned by the Government of Dubai. Its mandate is to manage and supervise a portfolio of businesses and projects for the Dubai Government across a wide range of industries.
Qatar Investment Authority (QIA)	Qatar	14 293	SWF	2005	State-owned	Its mandate is to diversify the Qatari national economy.
SABIC	Saudi Arabia	12 411	Petrochemical company	1976	State-owned	Created in 1976, it is 70% State-owned. It produces chemicals, fertilizers, plastics and metals.
International Petroleum Investment Company (IPIC)	United Arab Emirates	12 255	Energy investment fund	1984	State-owned	Owned by the Government of Abu Dhabi with a mandate to invest in the energy sector across the globe.
Dubai Holding	United Arab Emirates	10 754	Holding company	2004	State-owned	99.67% owned by the ruler of Dubai. Its mandate is to consolidate the various large scale infrastructure and investment projects in Dubai that were created over the past five years as well as to identify and execute future major projects.
Arcapita	Bahrain	10 163	Islamic Investment Bank	2005	Private	It acquires controlling interests in foreign companies with the aim of providing investments with strategic and financial support when necessary, and to exit at the right time and price.
TAQA	United Arab Emirates	9 848	Energy investment company	2005	State-owned	51% owned by ADWEA, wholly owned by the Abu Dhabi Government. Its mandate is to own, invest in and/or operate companies engaged in the oil and gas, power generation, water, energy and infrastructure sectors, in addition to making other investments as considered appropriate to meet its objectives.
Mubadala	United Arab Emirates	7 808	Investment Company	2002	State-owned	Owned by the Government of Abu Dhabi. Its mandate is to facilitate the diversification of Abu Dhabi's economy.
STC	Saudi Arabia	5 900	Telecom company	1998	State-owned	70% State-owned. It is Saudi Arabia's largest telecom service provider and the only integrated service provider.
Saudi Oger	Saudi Arabia	4 215	Construction and infrastructure	1978	Private	Founded as a construction company, it covers several activities including telecommunication, real estate development, printing, utilities and IT services.

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Estimated value. Includes only deals involving the acquisition of at least 10 per cent of the shares.

4. Latin America and the Caribbean

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $10 billion	Brazil, British Virgin Islands, Mexico, Chile and Cayman Islands	British Virgin Islands, Mexico and Brazil
$5.0 to $9.9 billion	Peru, Colombia and Argentina	Chile, Cayman Islands and Colombia
$1.0 to $4.9 billion	Panama, Uruguay, Dominican Republic and Costa Rica	Bolivarian Republic of Venezuela and Panama
$0.1 to $0.9 billion	Bahamas, Honduras, Guatemala, Plurinational State of Bolivia, Trinidad and Tobago, Nicaragua, Paraguay, Jamaica, Guyana, Suriname, Ecuador, Aruba, Haiti, Saint Kitts and Nevis, Netherlands Antilles and Antigua and Barbuda	Argentina and Peru
Less than $0.1 billion	Saint Lucia, Belize, Turks and Caicos Islands, Saint Vincent and the Grenadines, Grenada, Cuba, Barbados, El Salvador, Dominica, Anguilla, Montserrat and Bolivarian Republic of Venezuela	Jamaica, Guatemala, Netherlands Antilles, Nicaragua, Ecuador, Costa Rica, Uruguay, Turks and Caicos Islands, Aruba, Barbados, Belize, Honduras, Paraguay, Dominican Republic and Plurinational State of Bolivia

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Latin America and the Caribbean	**141.0**	**159.2**	**45.5**	**76.3**	**- 4.4**	**29.5**	**3.7**	**15.7**
South America	55.3	86.5	4.1	30.3	- 5.3	18.0	3.1	11.7
Central America	20.5	24.6	9.4	16.8	0.2	8.9	3.4	3.3
Caribbean	65.2	48.1	32.1	29.2	0.8	2.6	- 2.8	0.7

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Latin America and the Caribbean	**1 507.7**	**1 722.3**	**664.4**	**732.8**	**77.7**	**91.4**	**7.7**	**8.8**
South America	787.8	899.5	272.4	307.5	63.0	77.7	7.2	7.4
Central America	352.6	407.7	94.5	98.6	12.1	10.9	0.1	0.9
Caribbean	367.3	415.1	297.5	326.7	2.6	2.8	0.5	0.5

Figure A. FDI inflows, 2000–2010

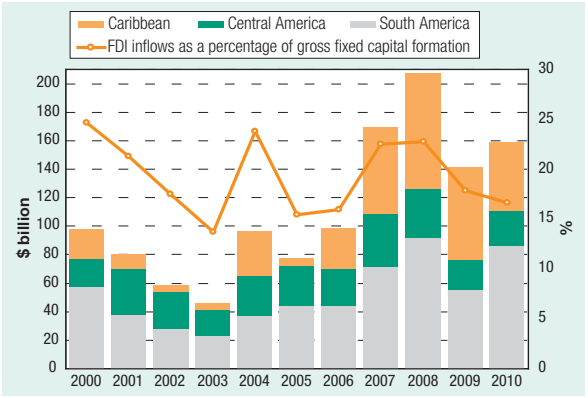


Figure B. FDI outflows, 2000–2010

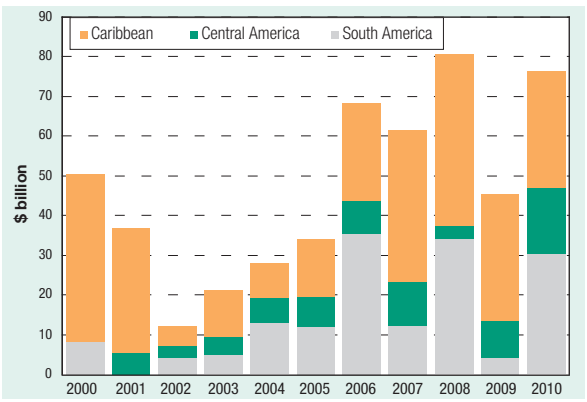


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**-4 358**	**29 481**	**3 740**	**15 710**
Primary	**-2 327**	**11 692**	**4 689**	**2 112**
Agriculture, hunting, forestry and fishing	43	423	- 1	96
Mining, quarrying and petroleum	-2 370	11 269	4 690	2 016
Manufacturing	**-2 768**	**8 092**	**859**	**4 962**
Food, beverages and tobacco	404	6 771	3 224	2 834
Wood and wood products	61	- 115	-	- 130
Coke, petroleum products and nuclear fuel	-	57	- 947	-
Chemicals and chemical products	61	-1 221	63	373
Non-metallic mineral products	125	695	-1 337	990
Metals and metal products	-3 219	82	5	672
Electrical and electronic equipment	- 90	1 742	- 188	-
Motor vehicles and other transport equipment	- 134	72	-	150
Services	**737**	**9 697**	**-1 808**	**8 637**
Electricity, gas and water	-2 642	409	- 103	1 227
Construction	- 12	18	- 12	49
Trade	1 575	1 410	- 14	762
Transport, storage and communications	3 421	2 962	120	164
Finance	-2 353	1 565	-2 113	4 105
Business services	735	2 437	379	1 070
Education	18	503	-	-
Community, social and personal service activities	1	217	-	1 200

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**-4 358**	**29 481**	**3 740**	**15 710**
Developed economies	**-6 815**	**3 581**	**3 475**	**11 544**
European Union	-3 023	946	-1 233	2 534
United States	- 797	- 512	5 603	5 225
Japan	- 89	4 508	561	125
Developing economies	**1 850**	**24 970**	**420**	**4 313**
Africa	395	- 75	- 70	- 84
Latin America and the Caribbean	116	5 015	116	5 015
South America	2 288	4 086	- 62	2 062
Brazil	1 659	386	- 90	257
Colombia	211	3 116	796	182
Central America	16	747	177	2 839
Mexico	16	761	10	193
Caribbean	-2 188	182	2	115
Asia	1 338	19 935	374	- 618
West Asia	320	-	-	-
South, East and South-East Asia	1 018	19 935	374	- 618
China	133	12 915	374	281
Korea, Republic of	893	720	161	-
India	-	5 460	64	- 735
South-East Europe and the CIS	**-**	**- 3**	**- 156**	**- 147**
Russian Federation	-	- 3	- 159	- 156

FDI inflows to Latin America and the Caribbean rose 13 per cent to $159 billion in 2010 (table B), following a 32 per cent decline in 2009. However, they remained below their 2008 level (figure A). The strongest increase was in South America, where FDI rose by 56 per cent to $86 billion, with Brazil alone accounting for 56 per cent of this amount. Inflows to Central America increased by 20 per cent to $25 billion, of which Mexico attracted $19 billion. Those to the Caribbean decreased by 26 per cent, to $48 billion, of which offshore financial centres accounted for 95 per cent.

The FDI rebound in 2010 was due mainly to the strong rise in cross-border M&As. These rose from negative values (because of divestment) in 2009 to $29 billion in 2010 (tables D and E), the highest level since 2000. This shows a renewed interest by foreign firms in the acquisition of Latin American enterprises, after a decade of sluggish cross-border M&A activities in the region. On the other hand, the estimated value of greenfield projects in 2010 increased by 8 per cent – after a 13 per cent decrease in 2009 – sustaining the recovery of FDI inflows from the impact of the global financial crisis.

In an unprecedented surge of investment, developing Asian countries (mostly China and India) became the main acquirers of Latin American and Caribbean firms in 2010 (see section 4.b). Their acquisitions totalled $20 billion or 68 per cent of the total. The share of developed countries was only 12 per cent, and that of Latin America and the Caribbean 17 per cent. In the case of greenfield investment, however, developed countries were responsible for 79 per cent of the total amount of projects in 2010, while Latin America and the Caribbean accounted for 10 per cent and developing Asia for 9 per cent.

The sectoral breakdown in 2010 differs by entry mode. Cross-border M&A predominantly concerned the primary sector (40 per cent of total amount), while greenfield projects were mostly in the manufacturing sector (58 per cent of total estimated amounts), especially the metal industry.

All the main recipient countries, except for Colombia, registered significant increases in FDI inflows in 2010. The highest growth (87 per cent) occurred in Brazil and resulted from the doubling of equity capital, mainly in the primary sector, but also in manufacturing (16 per cent). In Mexico (22 per cent) and Chile (17 per cent), the increases were due to the growth of cross-border M&A sales, while the 58 per cent growth in Argentina stemmed from intra-company loans. The decrease of FDI to Colombia (down 5 per cent) was due mainly to a 32 per cent decrease in FDI into metal mining .

FDI inflows are expected to increase in 2011, due to a jump of FDI inflows to Brazil, the main recipient country, which absorbed 30 per cent of the region's total FDI inflows in 2010. Preliminary data show that in the first four months of 2011, FDI into Brazil amounted to $23 billion, a threefold increase over the corresponding period of 2010. This resulted from a strong increase in both equity capital (an increase of 147 per cent to $18 billion) and intra-company loans (15-fold increase to $5 billion). Greenfield FDI projects into the region also registered a significant increase in the four first months of 2011: their estimated value was 94 per cent above the corresponding period of the previous year.

After plummeting in 2009, FDI outflows from Latin America and the Caribbean increased by 67 per cent to $76 billion in 2010 (table B). Strong increases were registered in the region's two main outward investor countries: Mexico and Brazil. In the latter, outflows jumped from a large negative value in 2009 (–$10 billion) to $11.5 billion in 2010, and they increased by 104 per cent in Mexico.

This rise in outward FDI – the strongest among the world's economic regions – is mainly due to the surge in cross-border M&A purchases, which increased more than fourfold to $15.7 billion (tables D and E). Greenfield projects abroad also increased (23 per cent) in 2010, after declining by 19 per cent in 2009.

The region's TNCs, bolstered by strong economic growth at home, have increased their investments abroad, in particular in developed countries (table E), where investment opportunities have arisen in the aftermath of the crisis. Brazilian companies such as Vale, Gerdau, Camargo Correa, Votorantim, Petrobras and Braskem have made acquisitions in the iron ore, steel, food, cement, chemical, and petroleum-refining industries in developed

countries. Mexican firms such as Grupo Televisa, Sigma Alimentos, Metalsa and Inmobiliaria Carso purchased firms in the United States in industries such as media, food, motor vehicles and services. There have been also some important intraregional acquisitions (table E), the most significant being the $1.9 billion purchase by Grupo Aval (Colombia) of BAC Credomatic, a Panamanian affiliate of General Electric.

While 73 per cent of the region's cross-border M&A purchases were concentrated in developed countries in 2010 (table E), an estimated 75 per cent of outward greenfield projects were located in developing countries. Of these, 78 per cent targeted Latin America and the Caribbean, 13 per cent South, East and South-East Asia, and 5 per cent Africa.

FDI from the region is expected to decrease in 2011, as preliminary data for the first four months of 2011 show high negative values for FDI outflows from Brazil (minus $9 billion). This is the result of a more than sevenfold increase (to $14 billion) in repayment of loans (intra-company loans) from foreign affiliates to their parent company in Brazil. Outflows from Mexico also decreased in 2011, accounting in the first quarter of 2011 for only one-fifth of their value in the same period of 2010.

b. Developing country TNCs' inroads into Latin America

Intraregional FDI gained strength during the 2000s, and investments in resource-seeking activities from developing Asia surged in 2010.

Direct investment by TNCs from developing countries has been on the rise in Latin America and the Caribbean during the 2000s. This follows decades during which TNCs based in developed countries were the most dynamic foreign source of direct investment into the region. This trend is obvious in the region's cross-border M&A market, where the average amount of annual purchases by developing economy-based TNCs increased from $1.3 billion in 1991–2000 to $5.6 billion in 2001–2010, which brought their share in the total from 8 to 43 per cent. TNCs based in Latin America and Asia are the main investors from developing regions.[27]

At the intraregional level, both cross-border M&As and greenfield FDI projects followed a rising trend during the 2000s, reflecting the growing strength of Latin American firms, bolstered by the region's strong economic recovery. Greenfield FDI projects reached an estimated $11.6 billion in 2010 (up from $4.5 billion in 2003), and their share in the total grew from 5 per cent in 2003 to 10 per cent in 2010.

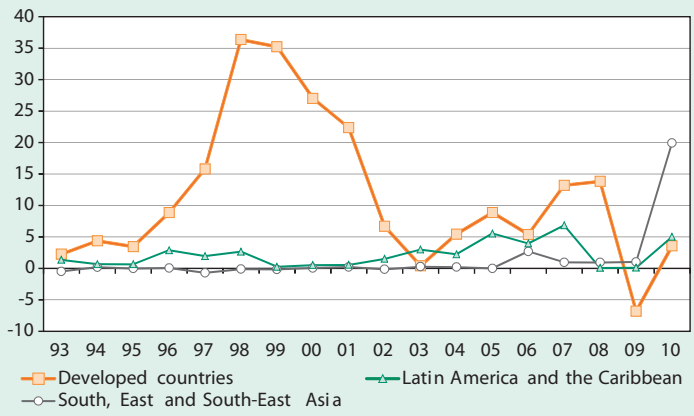
In the case of cross-border M&As, the share of intraregional deals in the total increased considerably from the early 2000s: during the period 1995–2002, Latin American companies were the origin of only 5 per cent of the total amount of cross-border M&A sales in the region; this share rose to 36 per cent during the period 2003–2010 (table II.9). This increase was favoured by a relative retrenchment of developed country-based TNCs (see figure II.4), that resulted from a number of factors, among which were the region's economic stagnation between 1998 and 2003, the rise of regulatory problems with the privatized companies involving investment from developed country TNCs, and the dot com crisis in the 2000s that affected developed country TNCs' financial capacities. The recent global financial crisis had a strong impact on the region's cross-border M&A market, including on intraregional acquisitions that fell to zero in value in 2008 and 2009, though they resumed growth in 2010 (figure II.4).

The surge of developing Asian TNCs in the Latin American and the Caribbean cross-border M&A market in 2010. Firms based in developing Asia had been only marginal investors in the region's cross-border M&A market until 2010, their FDI activity being undertaken mainly through greenfield FDI projects, where their share represented 10 per cent of the region's total during 2003–2010.[28]

In 2010, however, the region's cross-border M&A market witnessed a notable and unprecedented surge of investment by developing Asian TNCs, following their near-inactivity of previous years. Acquisitions by these companies jumped to $20 billion in 2010, accounting for 68 per cent of the total, and more than three times their total accumulated acquisitions in the region over the previous two decades.

Most of these acquisitions were undertaken by Chinese enterprises (44 per cent), and took

Figure II.4. Latin America and the Caribbean: cross-border M&A sales by main acquiring regions, 1993–2010
(Billions of dollars)



Source: UNCTAD, cross-border M&As database (www.unctad.org/fdistatistics).
Note: Africa and South-East Europe and the CIS are not represented in this figure because of the small amounts involved.

Table II.9. Latin America and the Caribbean: cross-border M&As by main acquiring regions and countries and main targeted industries, 2003–2010
(Per cent)

Sector/industry - Investing country	World	Developed economies	Developing economies	Latin America and the Caribbean			Developing Asia		
				Total	Mexico	Brazil	Total	China & Hong Kong (China)	India
Total sectors	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Primary	**18.7**	**-11.4**	**44.4**	**11.1**	**-**	**33.1**	**81.0**	**81.3**	**95.1**
Mining of metal ores	15.4	29.0	4.7	4.7	-	10.4	6.6	5.9	-
Petroleum	1.3	-43.3	37.6	3.7	-	16.0	72.5	74.6	89.3
Manufacturing	**24.3**	**32.6**	**18.0**	**24.7**	**13.4**	**48.3**	**9.2**	**12.4**	**3.8**
Food, beverages and tobacco	14.3	26.8	4.6	7.5	7.0	10.8	1.4	0.8	3.6
Metal and metal products	3.0	3.4	2.8	5.5	-0.3	15.3	0.1	0.1	-
Services	**57.0**	**79.8**	**37.6**	**64.1**	**86.6**	**18.6**	**9.9**	**6.3**	**1.0**
Finance	20.0	37.5	6.3	9.1	-	12.8	2.9	5.1	-
Post and communications	13.4	10.1	16.1	30.8	80.1	-	1.8	-	-
Business activities	10.5	22.0	1.2	0.7	0.1	-	0.5	0.7	0.3
Total sectors, in $billion	**99.6**	**43.9**	**54.0**	**26.8**	**10.1**	**7.6**	**26.6**	**15.9**	**6.8**
Share in total world	***100***	***44***	***54***	***27***	***10***	***8***	***27***	***16***	***7***

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Africa and South-East Europe and the CIS are not shown in this table because of the small amounts.

place in South America in oil and gas and energy activities. Two Chinese oil and gas companies – China Petrochemical Corp. (Sinopec) and CNOOC – made big upstream acquisitions in Argentina and Brazil in 2010 and 2011 that totalled $12.6 billion (annex table I.7). In addition, China's State Grid Corporation acquired seven Brazilian power transmission companies for $1.7 billion. India was also the source of significant resource-seeking acquisitions in the region, especially in the oil and

gas industry in Venezuela and in the sugar cane industry in Brazil.[29]

TNCs from developing Asia accounted for one-tenth of the total estimated value of greenfield FDI projects in the region during 2003–2010, with China and Hong Kong (China) alone the source of 47 per cent of the projects from developing Asian countries. As with their M&A activities, resources were the main attraction, with metals and oil and gas the underlying reason for most of the projects (table II.10).

The strong increase in resource-seeking FDI from developing Asia into South America in 2010–2011 raises concerns by some countries in the region about the trade patterns, with South America exporting mostly commodities and importing manufactured goods.[30]

Table II.10. Greenfield FDI projects by main investing regions and countries and main targeted industries, 2003–2010
(Per cent)

Sector/industry Investing country	World	Developed economies	Developing economies	Latin America and the Caribbean				Developing Asia			
				Total	Brazil	Chile	Mexico	Total	China & Hong Kong (China)	India	Korea, Rep. of
Total sectors	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Primary	**25**	**24**	**28**	**24**	**29**	**12**	**4**	**26**	**23**	**41**	**6**
Coal, oil and natural gas	19	17	24	19	18	10	4	25	23	35	6
Manufacturing	**58**	**58**	**56**	**54**	**68**	**63**	**29**	**60**	**65**	**53**	**91**
Metals	27	27	27	14	25	-	10	36	50	33	37
Motor vehicles and other transport equipment	9	10	8	1	1	-	-	12	11	14	18
Automotive OEM	7	7	7	1	-	-	-	11	11	14	17
Food, beverages and tobacco	5	6	3	6	1	23	6	1	2	-	-
Chemicals and chemical products	4	4	3	4	-	17	3	2	-	5	2
Services	**18**	**18**	**16**	**22**	**4**	**25**	**67**	**14**	**12**	**7**	**3**
Communications	5	6	4	10	-	1	56	1	1	-	1
Business activities	4	4	3	4	-	17	3	2	-	5	2
Transportation	3	3	4	1	2	-	-	7	8	-	-
Total sectors, in $ billion	**708**	**566**	**142**	**55**	**25**	**8**	**6**	**74**	**35**	**13**	**12**
Share in total world	***100***	***80***	***20***	***8***	***4***	***1***	***1***	***10***	***5***	***2***	***2***

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The values refer to estimated amounts of capital investments.

5. South-East Europe and the Commonwealth of Independent States

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $5.0 billion	Russian Federation, Kazakhstan and Ukraine	Russian Federation and Kazakhstan
$1.0 to $4.9 billion	Turkmenistan, Belarus, Serbia and Albania	..
$0.5 to $0.9 billion	Uzbekistan, Montenegro, Croatia, Armenia, Azerbaijan and Georgia	Ukraine
Below $0.5 billion	The FYR of Macedonia, Kyrgyzstan, Republic of Moldova, Bosnia and Herzegovina and Tajikistan	Azerbaijan, Serbia, Bosnia and Herzegovina, Belarus, Montenegro, Armenia, Georgia, Republic of Moldova, the FYR of Macedonia, Albania and Croatia

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
South-East Europe and the CIS	**71.6**	**68.2**	**48.8**	**60.6**	**7.1**	**4.3**	**7.4**	**9.7**
South-East Europe	7.8	4.1	1.4	0.1	0.5	0.3	- 0.2	0.3
CIS	63.8	64.1	47.4	60.5	6.6	4.1	7.6	9.4

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009–2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
South-East Europe and the CIS	**626.6**	**687.8**	**337.7**	**472.9**	**58.7**	**72.3**	**10.8**	**17.4**
South-East Europe	77.3	76.4	11.2	8.8	2.6	2.8	0.1	0.3
CIS	549.4	611.4	326.5	464.1	56.1	69.5	10.7	17.2

Figure A. FDI inflows, 2000–2010

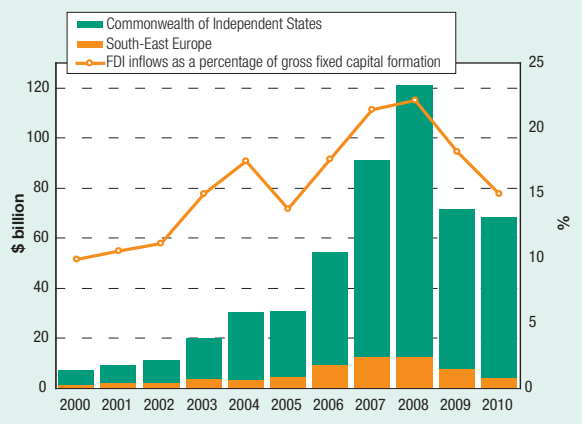


Figure B. FDI outflows, 2000–2010

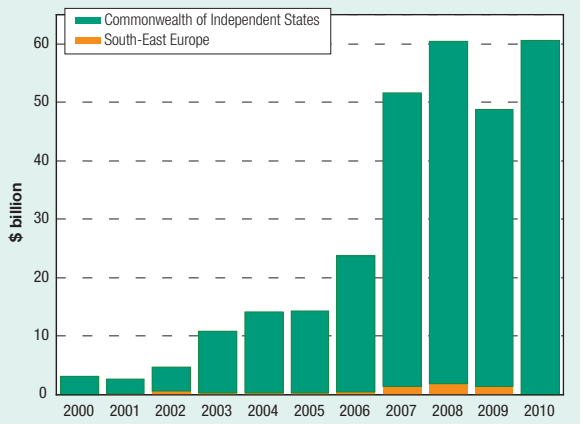


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**7 125**	**4 321**	**7 432**	**9 698**
Primary	5 037	- 85	7 897	1 965
Mining, quarrying and petroleum	5 033	- 85	7 897	1 965
Manufacturing	**522**	**1 857**	**1 032**	**270**
Food, beverages and tobacco	175	1 366	-	325
Wood and wood products	-	51	-	126
Publishing and printing	12	20	-	-
Chemicals and chemical products	52	- 7	-	- 7
Non-metallic mineral products	-	50	-	-
Metals and metal products	7	12	1 015	- 174
Machinery and equipment	7	-	17	-
Electrical and electronic equipment	-	350	-	-
Precision instruments	-	14	-	-
Services	**1 565**	**2 549**	**-1 497**	**7 463**
Electricity, gas and water	259	625	4	-
Construction	3	6	-	519
Trade	716	330	-	13
Hotels and restaurants	-	15	8	-
Transport, storage and communications	111	1 020	-	5 077
Finance	356	543	590	1 248
Business services	120	185	2	7
Public administration and defence	-	-	-2 101	599

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**7 125**	**4 321**	**7 432**	**9 698**
Developed economies	**5 336**	**-3 076**	**7 616**	**3 464**
European Union	4 320	2 202	6 536	1 888
United States	265	119	1 072	205
Japan	174	-	-	-
Developing economies	**1 779**	**325**	**13**	**69**
Africa	200	388	-	51
Latin America and the Caribbean	- 156	- 147	-	- 3
South America	- 78	-	-	- 3
Caribbean	- 82	- 156	-	-
Asia	1 736	84	13	21
West Asia	30	40	-	21
South, East and South-East Asia	1 706	44	13	-
China	3 843	-	5	-
Korea, Republic of	426	20	-	-
India	-	24	8	-
Indonesia	-2 604	-	-	-
South-East Europe and the CIS	**- 197**	**6 166**	**- 197**	**6 166**
South-East Europe	- 167	-	- 157	4
CIS	- 30	6 166	- 40	6 163
Russian Federation	- 30	6 152	-	-
Ukraine	-	15	158	5 519

In 2010, FDI inflows to South-East Europe and the Commonwealth of Independent States (CIS)[31] declined by 5 per cent (to $68 billion), after falling more than 40 per cent in 2009 (figure A and table B).

FDI flows to the CIS rose marginally by less than 1 per cent, thanks to favourable commodity prices, economic recovery and improving stock markets. In the Russian Federation, FDI flows rose by 13 per cent (to $41 billion) (table A). Foreign investors continue to be attracted to the fast-growing local consumer market. The acquisition of the Russian soft drinks brand Wimm-Bill-Dann by PepsiCo for $3.8 billion was seen as a sign of investor confidence in the country. However, some foreign banks, such as Morgan Stanley and Spain's Santander, divested or downsized their operations.[32]

FDI flows to Ukraine increased by 35 per cent, due to better macroeconomic conditions and the revival of cross-border acquisitions by Russian companies. FDI inflows declined in Kazakhstan in 2010, even though it remained the second largest recipient in the subregion.

In contrast to the CIS, FDI flows to South-East Europe fell, for the third consecutive year (by 47 per cent in 2010), partly as a result of the sluggishness of investment from EU countries (traditionally the dominant source of FDI in this subregion). In particular, Greece, which used to be a gateway or conduit for foreign investors into South-East Europe, ceased to be an entry point as its domestic economic crisis worsened. Another reason for the sluggishness of FDI is structural: investors rarely set up export-oriented projects in the subregion, which has been excluded from international production networks – the engine of recovery in 2010. FDI flows to Croatia and Serbia declined sharply in 2010, while Albania saw its FDI rise to more than $1 billion for the first time ever, making it the second-largest FDI recipient country in the subregion after Serbia (table A).

Cross-border M&A sales in the region declined by 39 per cent in 2010 (tables D and E), whereas the value of greenfield projects declined by 4 per cent. A large increase in intraregional M&A purchases – mainly from the Russian Federation – could not compensate for the slump in M&A activity by developed country firms, whose net value (new M&As less divested projects) became negative for the first time ever, due to the divestment by Telenor (Norway) of ZAO Kyivstar GSM (Ukraine) to the Russian firm VimpelCom ($5.5 billion, annex table I.7). Developed countries remained the largest source of greenfield projects in the transition economies (more than two-thirds), despite a continued rise in the share of developing countries.

In both greenfield and M&A projects, the share of manufacturing continued to rise in 2010 at the expense of the primary and services sectors, especially in "non-strategic" industries, which are open to foreign investors (e.g. food and beverages, motors vehicles and chemicals).

Outward FDI flows rose by 24 per cent in 2010 to a record $61 billion (table B), thanks to better cash flows of TNCs located in the region, higher commodity prices, economic recovery and strong support by the State.[33] Most of the outward FDI projects, as in past years, were carried out by Russian TNCs, followed by those from Kazakhstan. Both cross-border M&A purchases and greenfield projects rose in 2010. Transition-economy firms increased their purchases within the region and in developing countries in 2010 (section 5.b). More than 60 per cent – a record share – of greenfield investment projects by transition-economy firms took place in developing countries.

Prospects for inward FDI are positive. FDI inflows are expected to increase in 2011 on the back of a more investor-friendly environment, the anticipated WTO accession of the Russian Federation, and a new round of privatizations in the major host countries of the region (the Russian Federation and Ukraine).[34] Outward FDI is expected to pick up in 2011–2013, due to stronger commodity prices and economic recovery in countries with large natural resources. In the first five months of 2011, the cross-border M&A purchases of the region increased by more than seven times compared with the same period in 2010.

b. East–South interregional FDI: trends and prospects

Bilateral FDI between transition and developing economies is gaining momentum, reflecting the priorities and strategies of their governments.

The landscape of international investment has gained an important new dimension in recent years with the expansion of FDI from developing and transition economies. Rapid economic growth, high commodity prices and liberalization have been feeding a boom in outward investment from these economies. This reached a record level of $388 billion in 2010, representing almost 30 per cent of world outflows (chapter I). Ten years ago, that share was only 11 per cent. Although the bulk of South–South FDI (including the flows to and from transition economies) is intra-regional, TNCs based in developing and transitions economies have increasingly ventured into each other's markets.

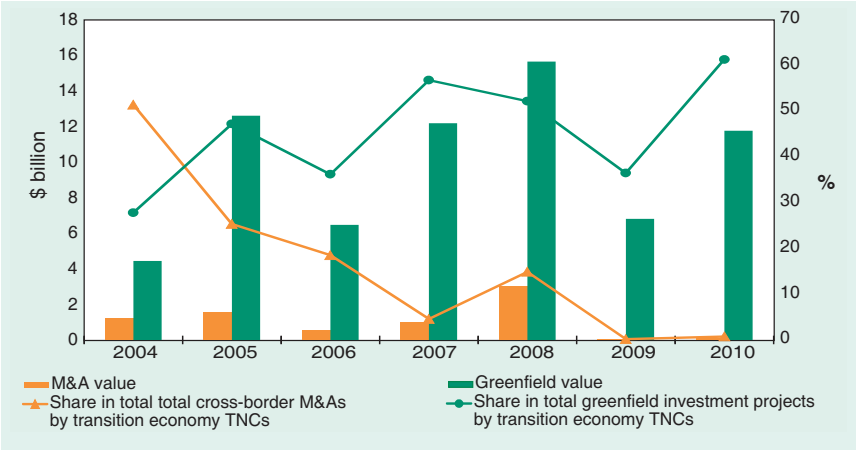
Trends

Bilateral FDI flows between developing and transition economies are relatively small. However, they have grown rapidly during the past decade and this process is expected to continue to gain momentum. Increasingly, transition-economy TNCs are finding their way to Africa, Asia and Latin America and the Caribbean. For example, in 2010, the share of developing countries in greenfield investment projects from transition economies rose to 60 per cent, up from only 30 per cent in 2004 (figure II.5). Similarly, South to East FDI has been on the rise: developing countries' share in transition economies' greenfield investment projects rose from 9 per cent in 2004 to 21 per cent in 2010. Central Asian countries have been increasingly targeted by neighbouring Chinese TNCs (box II.2).

The growing demand for energy in developing countries, especially China and India, has prompted TNCs from these countries to actively pursue joint ventures and other forms of collaboration in resource-rich transition economies. For example, CNPC (China) formed a joint-venture with Rosneft (Russian Federation) to develop oil extraction projects in the Russian Federation and downstream operations in China. In another large project, India's State-owned ONGC Videsh participated in the development of the Sakhalin I oil and gas exploration project.

In contrast to TNCs from developing countries, the main aim of transition-economy TNCs is not simply to ensure the supply of raw materials to their home countries, but rather to expand their control over

Figure II.5. Cross-border M&As and greenfield FDI projects undertaken in developing countries by transition economy TNCs, 2004–2010
(Billions of dollars and as a per cent of total)



Source: UNCTAD.
Note: Data for value of greenfield FDI projects refer to estimated amounts of capital investment.

Box II.2. China's rising investment in Central Asia

China initiated its investment in Central Asia through the signing in April 1996 of general economic and security agreements with the Central Asian economies of Kazakhstan, Kyrgyzstan and Tajikistan. Since then, Chinese investment in the subregion has increased dramatically. Chinese firms built two oil and gas pipelines from Kazakhstan and Turkmenistan to China (inaugurated in 2006 and 2009, respectively), laying the ground for large-scale exploration and development of oil and gas fields. In Turkmenistan, the China National Petroleum Corporation (CNPC) is the only foreign company possessing an onshore contract for oil and gas exploration. In Kazakhstan, the China Investment Corporation bought a 14.5 per cent stake in KazMunaiGas, and CNPC bought a 49 per cent share of Mangistaumunaigaz for $2.6 billion, both in 2009. In the electricity industry, China's Tebian Electric Apparatus is building power transmission lines and substations in Kyrgyzstan and Tajikistan. In an offsetting deal, this company has acquired the right to extract gold, silver, copper and tungsten in the Pamir Mountains of Tajikistan. Another company, XD Group, is modernizing the electricity system in the Uzbek capital, Tashkent.[a] In nuclear energy, CNPC formed a joint venture with Kazakhstan's State-owned Kazatomprom to invest in uranium production in Kazakhstan, and an affiliate of the China Guangdong Nuclear Power Corporation is in a joint venture to develop black-shale uranium in the Navoi Province of Uzbekistan.

Source: UNCTAD.

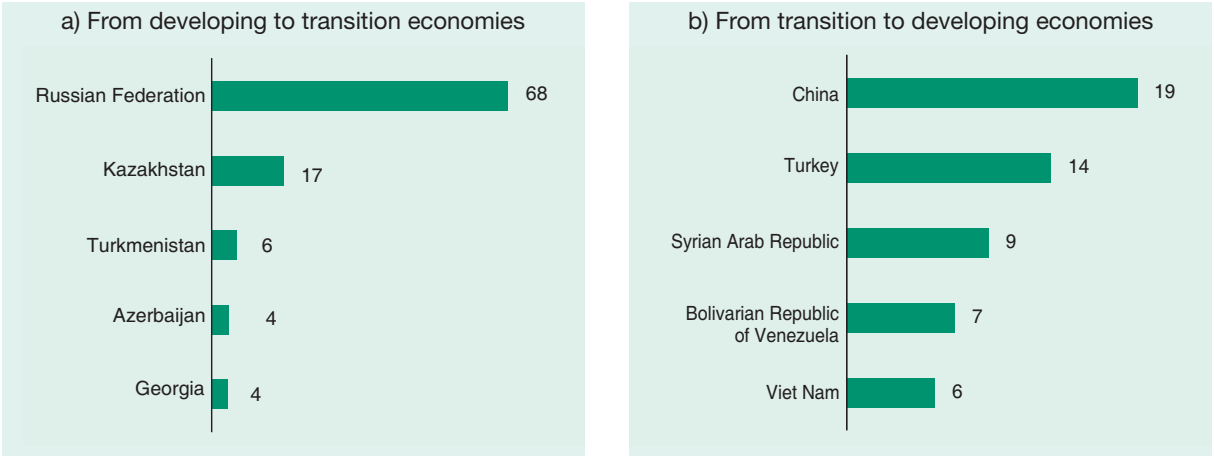
[a] "Chinese-Central Asian Relationship Requires Delicate Balancing Act", *Radio Free Europe*, 4 April 2010.

the value chain of their natural resources, to build sustainable competitive advantages vis-à-vis other firms, and to strengthen their market positions in key developing countries.

East–South investment links are concentrated in a handful of countries. While Kazakhstan and the Russian Federation are the most important targets of developing-country investors, China and Turkey are the most popular destinations for FDI from transition economies (figure II.6). Africa also has attracted important investment flows from the Russian Federation (box II.3).

As for the host country pattern, there is a limited number of home countries in South to East bilateral investments. While the Russian Federation is the dominant transition-economy investor in developing countries, Turkey, China, India and the Republic of Korea are major investors in transition economies. In 2009, more than one-third of Turkey's outward FDI stock was located in

Figure II.6. Top 5 destinations of FDI projects,[a] cumulative 2003–2010
(Billions of dollars)



Source: UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

[a] Including both cross-border M&As and greenfield FDI projects.

Box II.3. Russian TNCs expand into Africa

The expansion of Russian TNCs in Africa is fairly recent. The arrival of these TNCs has been motivated by a desire to enhance raw-material supplies and to expand to new segments of strategic commodities, as well as a desire to access local markets. For example RusAl, the world's largest aluminium producer, has operations in Angola, Guinea, Nigeria and South Africa.

Russian TNCs have acquired certain assets directly, such as South Africa's Highveld Steel and Vanadium (by Evraz group) or Burkina Faso's High River Gold (by Severstal); in other cases they acquired the parent firms of African assets in developed countries. Other forms of investment include joint ventures, such as in the case of Severstal's $2.5 billion iron mining project in Liberia, in collaboration with African Aura Mining (United Kingdom).

Russian banks are also moving into Africa. Vneshtorgbank for instance opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire, while Renaissance Capital owns 25 per cent of the shares in Ecobank, one of the largest Nigerian banks, with branches in 11 other African countries.

In Southern Africa, Russian mining companies are currently involved in developing manganese deposits in the Kalahari Desert (Renova Group, a leading Russian asset management company, has invested up to $1 billion). The largest Russian diamond producer, Alrosa, is building electric power plants in Namibia and a hydroelectric dam in Angola. In the latter case, the project is coupled with a licence to explore for oil and gas.

In North Africa, Gazprom has signed three exploration and production-sharing agreements with the National Oil Corporation (NOC) of the Libyan Arab Jamahiriya. In Egypt, the Government of Russia has signed an agreement on civilian nuclear development, allowing Russian companies to bid for nuclear power plant construction contracts.

Source: UNCTAD.

transition economies; in the cases of China and the Republic of Korea, that share was only 2–3 per cent (figure II.7).

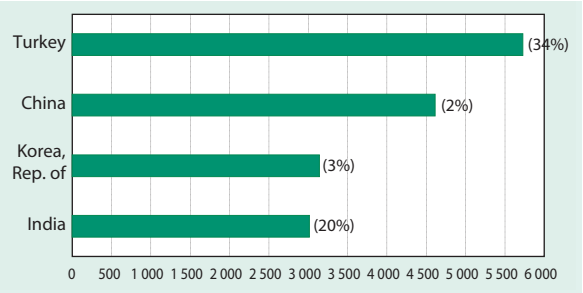
South to East FDI benefited from outward FDI support (e.g. from the Governments of China and India) and from geographical proximity, cultural affinity and historical relationships. TNCs often invest in countries with common cultural and ethnic ties and heritage (e.g. Turkish investment in South-East Europe and Central Asia, Chinese investment in Central Asia), or with which their countries have historical links (e.g. in the case of the Russian–Vietnamese cooperation in coal mining, electricity and natural gas).

As developing-country investors are interested in the fast-growing consumer markets of large transition economies such as Kazakhstan and the Russian Federation, most of the acquisitions took place in the services sector (figure II.8). Examples of market-seeking projects include investments of Chinese companies and companies from West Asia in real estate construction projects in the Russian Federation, and the expansion of the Turkish retail group Migros (part of Koc Group) in this country and Kazakhstan. Investments by Korean firms (e.g. Ssangyong Motor's $480 million production agreement and Hyundai's $400 million new car assembly plant, both in the Russian Federation) are also of this type. The primary sector accounts for almost one-third of FDI projects, and the largest acquisitions took place in this sector.[35] A greater proportion of acquisitions by transition-economy TNCs were made in the primary sector, followed by manufacturing and services, mainly in telecommunications.

Policy response. FDI between developing countries and transition economies often involves large State-owned TNCs, following national strategic objectives. For this reason, integration schemes and regional cooperation encompassing these groups, such as the Shanghai Cooperation Organisation (SCO),[36] play an important role. Other important measures are bilateral partnerships which can underpin cooperation conducive to East–South investment links.[37]

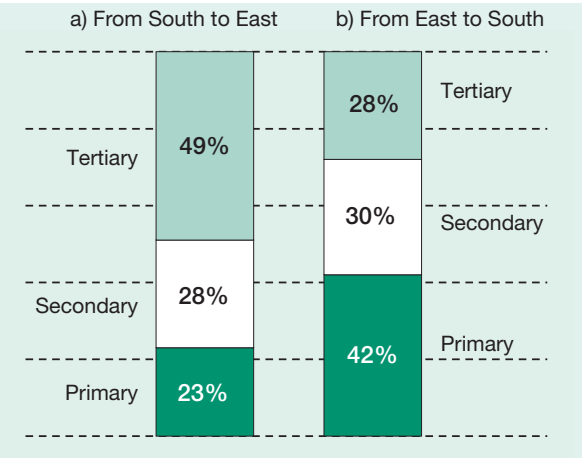
The Silk Road Initiative seeks to enhance regional cooperation between China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The initiative is an important step in establishing networks, encouraging dialogue, bridging cultural divides

Figure II.7. Major developing country investors in transition economies, outward FDI stock in 2009
(Millions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
Note: Figures in parenthesis show the share of transition economies in the country's total outward FDI stock in 2009. Data for India refer to 2005 and are on an approval basis.

Figure II.8. Sectoral distribution of FDI projects,[a] cumulative, 2004–2010
(Per cent of total value)



Source: UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
[a] Including both cross-border M&As and greenfield FDI projects.

and promoting awareness of the potential for cooperation in the investment area between countries of the region.

A growing number of bilateral agreements such as bilateral investment treaties (BITs) and double taxation treaties (DTTs) have been concluded between developing countries and transition economies. As of the end of 2010, 233 BITs had been concluded. Transition economies have signed the largest number of BITs with Asia, followed by Africa and then Latin America. The Russian Federation is the transition country with the largest number of BITs concluded with developing countries (31); among developing countries China has signed BITs with all transition economies (17). By the end of 2010, the number of East–South DTTs had grown to 175.

Prospects. Despite the recent financial crisis, and stricter regulations and conditions governing natural resources projects in the Russian Federation and other transition economies, developing country TNCs have continued to access the natural resources of these economies. In addition, the fast growing consumer market of transition economies and the rise of commodity prices will induce further investment by developing country TNCs in the East. Governments could also consider nurturing long-lasting relationships by focusing on businesses based on comparative advantages and by providing specific mesures to promote investment. For the former, FDI based on technology and other firm-specific advantages is crucial for firms from developing countries and transition economies to increase their investment links.[38] For the latter, for example, in the Russian Federation, the launch of a $10 billion FDI fund to attract foreign investors in the country can be expected to further increase FDI, including from developing countries.

Outward FDI from transition economies, mainly the Russian Federation, is expected in particular to grow fast in the near future. It will include Africa. Some large resource-based firms are seeking to become regional and global players, while some banks are expanding into other countries in the region. State-owned TNCs such as Gazprom can play a major role in that expansion.

6. Developed countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $100 billion	United States	United States and Germany
$50 to $99 billion	Belgium	France, Switzerland and Japan
$10 to $49 billion	Germany, United Kingdom, France, Australia, Ireland, Spain, Canada, Luxembourg and Norway	Canada, Belgium, Netherlands, Sweden, Australia, Spain, Italy, Luxembourg, Ireland, Norway, United Kingdom and Austria
$1 to $9 billion	Poland, Italy, Czech Republic, Austria, Sweden, Israel, Cyprus, Finland, Romania, Iceland, Hungary, Greece, Bulgaria, Estonia, Portugal and Malta	Finland, Israel, Poland, Cyprus, Denmark, Czech Republic, Hungary and Greece
Below $1 billion	Slovenia, Lithuania, New Zealand, Slovakia, Latvia, Bermuda, Gibraltar, Japan, Denmark, Switzerland and Netherlands	Bermuda, New Zealand, Slovakia, Bulgaria, Romania, Slovenia, Estonia, Lithuania, Malta, Latvia, Iceland and Portugal

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Developed economies	**602.8**	**601.9**	**851.0**	**935.2**	**203.5**	**251.7**	**160.8**	**215.7**
European Union	346.5	304.7	370.0	407.3	116.2	113.5	89.7	17.3
Other developed countries	40.7	37.1	92.5	91.9	18.2	33.6	17.6	63.2
Other developed Europe	41.3	8.4	64.2	68.5	17.6	9.8	13.0	16.5
North America	174.3	251.7	324.4	367.5	51.5	94.7	40.5	118.7

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009-2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Developed economies	**12 263.7**	**12 501.6**	**16 171.4**	**16 803.5**	**558.5**	**669.2**	**910.5**	**1 098.2**
European Union	7 296.1	6 890.4	9 080.9	8 933.5	353.8	387.1	439.4	524.9
Other developed countries	762.6	874.2	1 153.1	1 320.2	41.6	55.2	59.6	57.3
Other developed Europe	655.1	724.5	1 012.9	1 090.4	47.9	44.9	61.5	73.4
North America	3 550.0	4 012.5	4 924.4	5 459.5	115.3	182.0	350.0	442.6

Figure A. FDI inflows, 2000–2010

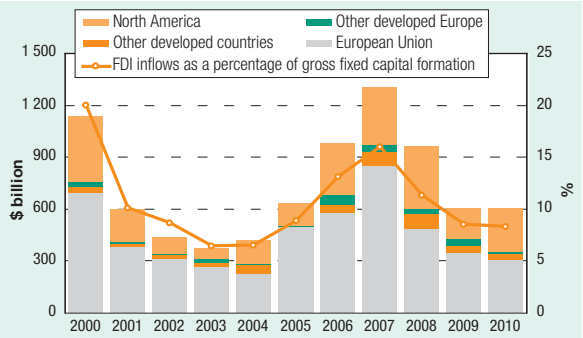


Figure B. FDI outflows, 2000–2010

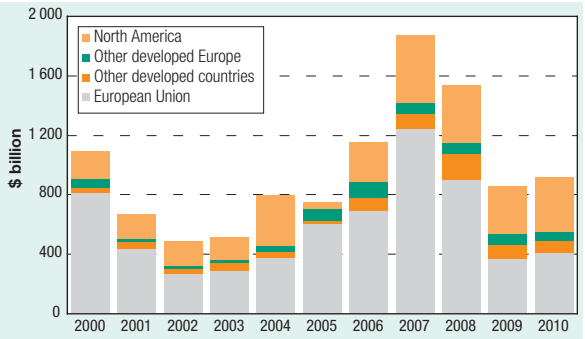


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**203 530**	**251 705**	**160 785**	**215 654**
Primary	41 198	50 945	2 875	23 548
Mining, quarrying and petroleum	40 216	46 107	1 344	23 041
Manufacturing	**61 153**	**98 998**	**32 663**	**105 333**
Food, beverages and tobacco	5 669	27 797	-4 038	27 603
Chemicals and chemical products	32 084	27 496	28 648	41 409
Non-metallic mineral products	- 139	2 436	728	3 050
Metals and metal products	252	- 155	- 680	2 832
Machinery and equipment	1 305	7 619	2 086	5 870
Electrical and electronic equipment	8 315	10 129	1 281	6 902
Precision instruments	3 841	9 303	4 798	7 331
Motor vehicles and other transport equipment	8 546	3 210	- 686	4 488
Services	**101 179**	**101 762**	**125 247**	**86 773**
Electricity, gas and water	59 408	-3 265	39 015	-21 331
Construction	10 254	6 301	-1 641	-2 700
Trade	-1 327	12 331	1 017	7 001
Hotels and restaurants	1 535	4 712	400	- 43
Transport, storage and communications	3 523	7 603	14 062	7 112
Finance	8 434	26 496	60 286	63 832
Business services	13 638	35 025	15 995	24 914
Health and social services	1 254	5 613	- 1	698
Community, social and personal service activities	3 175	4 080	- 291	5 195

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**203 530**	**251 705**	**160 785**	**215 654**
Developed economies	**143 163**	**182 657**	**143 163**	**182 657**
European Union	81 751	9 804	88 575	84 910
France	38 372	2 451	- 342	3 496
Germany	20 372	6 293	1 561	9 665
United Kingdom	-6 307	-7 516	21 678	42 782
United States	18 834	79 091	26 640	66 819
Japan	11 882	18 126	-6 945	3 051
Developing economies	**46 272**	**52 629**	**12 286**	**36 073**
Africa	1 378	1 336	4 328	6 355
Latin America and the Caribbean	3 475	11 544	-6 815	3 581
South America	959	7 561	-6 681	-4 129
Central America	3 169	2 559	16	5 787
Asia	41 417	39 752	14 494	17 294
West Asia	21 451	-2 909	3 174	2 357
South, East and South-East Asia	19 966	42 661	11 320	14 936
China	12 994	9 047	1 418	2 976
India	40	7 949	5 573	7 465
Oceania	2	- 4	280	8 843
South-East Europe and the CIS	**7 616**	**3 464**	**5 336**	**-3 076**
Russian Federation	7 616	2 896	4 487	1 719
Ukraine	-	- 12	- 14	-5 206

In 2010, FDI inflows to developed countries declined marginally. At $602 billion, FDI inflows to the region were only 46 per cent of the peak level in 2007 (figure A).

From a global perspective, the developed countries' share of FDI inflows in the world total fell below 50 per cent for the first time in 2010. A gloomier economic outlook prompted by government austerity measures, looming sovereign debt crises and regulatory concerns were among the factors hampering the recovery of FDI flows in developed countries.

The overall figures, however, mask wide subregional variations among developed countries. In North America, inflows of FDI showed a strong turnaround with a 44 per cent increase over the previous year to $252 billion (table A). In contrast, inflows to Europe were down by 19 per cent. In addition to a 36 per cent fall in the United Kingdom, which has been one of the largest recipients in Europe, large divestments from two of the subregion's small open economies, namely the Netherlands and Switzerland, dragged down the total. Significant divestments also occurred in Japan where growth prospects were perceived to be poor, especially in comparison with emerging economies.

The divergent pace of economic recovery is reflected, to an extent, in the components of inward FDI. In the two large economies leading the recovery of FDI in the grouping, namely Germany and the United States, there was a more robust economic recovery, resulting in strong growth of reinvested earnings, which increased more than threefold compared with the 2009 level in both economies.

In contrast to the declining inflows, FDI outflows from developed countries reversed their downward trend, with a 10 per cent increase over the previous year. FDI from developed countries amounted to $935 billion, still accounting for 71 per cent of the world total (figure B).

TNCs in developed countries accumulated an unprecedented amount of cash on their balance sheets and the rates of debt financing were at a historic low, facilitating their overseas expansion. Furthermore, M&A remained an attractive strategy for firms seeking growth as well as for those seeking cost-cutting through synergy. Although these factors appear to have generated a sizeable recovery of outward FDI from developed countries, the total for the region as a whole was half of its peak in 2007.

By subregion, the recovery of FDI outflows in developed countries was, like inflows, driven by North America. Cross-border M&A deals by United States firms more than tripled, resulting in a 16 per cent increase in total outflows from the United States. Furthermore, the value of reinvested earnings increased by 35 per cent. In addition to the increase in profits, a greater share of profits was reinvested rather than repatriated.[39]

In Europe, despite a 67 per cent fall in cross-border M&A deals by European TNCs, outflows of FDI overall increased by 10 per cent, due largely to the upswing of intra-company loans. For Germany, for example, intra-company loans from its TNCs turned from a negative $25 billion in 2009 to nearly $18 billion in 2010. Similarly, intra-company loans from Swiss TNCs increased from a negative $7 billion in 2009 to $11 billion in 2010.

Cross-border M&A deals by Japanese firms almost doubled, but this was still not enough to compensate for the fall in intra-company loans and reinvested earnings at Japanese affiliates abroad. Japanese TNCs continued to repatriate much of the profits from their affiliates to take advantage of the tax break on dividends introduced in 2009 (*WIR10*).

At the industry level, M&A activities in the natural resource-related industries drew much attention, not least because of the political sensitivity associated with them. For instance, the takeover of Dana Petroleum (United Kingdom) by Korea National Oil Corporation in 2010 was thought to have been the first hostile bid for a developed country-based firm by a State-owned company from an emerging economy.[40] Some proposed mega-deals in the sector, namely the separate bids by BHP Billiton and Sinochem for PotashCorp (Canada), as well as the plan to merge the Australian iron ore operations of BHP Billiton and Rio Tinto, did not materialize, as they failed to address regulatory concerns.

Another active industry in terms of M&As was the pharmaceutical industry. The populations in many developed countries are ageing, and consequently,

the long-term prospects for the healthcare-related industries are regarded as favourable. Furthermore, the patents of a number of top-selling drugs will shortly expire, prompting takeovers of smaller pharmaceutical and biotechnology firms with products and technologies by large international pharmaceutical companies. One of the largest M&A deals in 2010 was the takeover of Millipore (United States) by the drug and chemical group Merck (Germany) (annex table I.7). Other reported deals included the acquisition of Talecris Biotherapeutics (United States) by Grifols (Spain) and of OSI Pharmaceuticals (United States) by Astellas Pharma (Japan). This trend has continued into 2011.

As for the prospect, the comparison of the first several months of 2011 and those of 2010 suggests a more solid recovery of FDI flows in 2011. The value of greenfield projects indicates that outflows will continue their recovery – at a faster rate. The values of greenfield projects from all the subregions in the first four months of 2011 are showing a 20–25 per cent increase over the same period of 2010. Despite suffering from a serious natural disaster, Japan's outward FDI flows are buoyant, in particular through cross-border M&As in 2011. For inflows, the picture is more mixed. Data on greenfield projects show a small overall decline for the region. In contrast, M&A data show a similar pattern to 2010: a robust increase in North America but declines in Europe and Japan. As growth prospects for major economies in the region, including the United States, are uncertain, the return of confidence and a recovery of inward FDI may take longer than was the case after previous FDI downturns.

b. Bailing out of the banking industry and FDI

The restructuring of the banking industry following government bail-outs in Europe and the United States has resulted in both divestment of foreign assets and generation of new FDI.

The financial crisis and the banking industry. Amid the turmoil in the financial markets which followed the failure of Lehman Brothers in September 2008, some of the largest banks in the world sought injections of capital from SWFs, rival banks or governments to shore up their balance sheets. In some cases, the bail-outs by foreign banks and SWFs were large enough to qualify as FDI.[41] The bail-outs by national governments were followed by a restructuring process of those banks, which in some cases resulted in divestments of foreign assets but in others generated new FDI (table II.11).

Over the period from September 2008 to December 2010, divestment of foreign assets by the rescued banks resulted in a net decrease of FDI (i.e. assets abroad sold to a domestic bank in the host country) by about $45 billion. In the same period, the sell-offs of nationalized banks and their assets generated FDI worth about $35 billion.[42]

The restructuring of the banks that were beneficiaries of government rescue – a process which is still ongoing in 2011 – has been driven by concerns over competition in the banking industry and efforts towards the reform of the financial system. The future policy discourse over these issues is likely to have implications for the FDI flows of the financial industry for years to come.

Restructuring and divestment. The bail-outs of the banks left governments holding substantial amounts of equity in the rescued banks. As financial markets around the world recovered some stability in the course of 2009 and 2010, governments began to seek exit from holding major stakes in the banks. In some cases, governments simply sold off their equity holdings through public offerings.[43] In others, banks were required to restructure and to sell off assets while under government control. This process has generated FDI, resulting in further transnationalization of the banking industry, especially in Europe, where the competition policy of the European Commission was the major driving force behind the restructuring.

The concerns of the European Commission were twofold. First, injection of public funds should not give the recipient banks an unfair competitive advantage. Second, consolidation of the industry resulting from acquiring weaker banks should not reduce competition in the industry.

In the United Kingdom, for instance, in 2008 the Government injected £37 billion into its two largest banks, Lloyds Banking Group and the Royal Bank of Scotland, followed by additional support measures in the following year.[44] As the price for the State bail-out, the European Commission required Lloyds to sell at least 600 branches and reduce its

Table II.11. Selected cases of government bail-out of international banks, 2008–2010

Bank	Government	Bail-out, 2008–2010	Implications for FDI flows
Hypo Group Alpe Adria	Austria	€450 million	67% stake worth €3 billion held by Bayerische Landesbank (Germany) written off when nationalized in 2009.
Dexia	Belgium France Luxembourg	€3 billion €3 billion €376 million	20% stake in Credit du Nord (France) sold for €645 million in 2009. 70% stake in Dexia Crediop (Italy) and 85.5% stake in Dexia Banka Slovensko (Slovakia) to be divested by October 2012; 60% stake in Dexia Sabadell (Spain) by December 2013.
Fortis	Belgium/Luxembourg Netherlands	€9.4 billion/€2.5 billion €16.8 billion	Sold to BNP Paribas (France) in 2009 Amlin (United Kingdom) acquiring Fortis Corporate Insurance from the Government of the Netherlands for €350 million in 2009.
KBC Group	Belgium	€7 billion	Investment banking unit, KBC Peel Hunt (United Kingdom), global convertible bonds and Asian equity derivatives businesses, and its reverse mortgage activities in the United States all divested.
Commerzbank	Germany	€18.2 billion	Its Swiss affiliates Dresdner Bank (Switzerland) and Commerzbank (Switzerland) divested in 2009. The following assets divested in 2010: Privatinvest Bank (Austria), Dresdner VPV (Netherlands), Dresdner Van Moer Courtens (Netherlands), and the Belgian affiliate of Commerzbank International (Luxembourg), Commerzbank International Trust Singapore, its United Kingdom affiliates, Channel Islands Holdings and Kleinwort Benson Private Bank, Allianz Dresdner Bauspar AG (ADB) (Austria), Dresdner Bank Monaco. Its affiliate in Germany Montrada GmbH, a card payments processing company, sold to a Dutch firm in 2010.
IKB Deutsche Industriebank	Germany	$3.1 billion	Bailed out through State-owned development bank, KFW. Its 90.8% stake sold to the United States private equity fund Lone Star for $150 million in 2008.
Allied Irish Bank	Ireland	€9.2 billion	22.4% stake in M&T Bank (United States) sold though public offering (agreed in October 2010). Bank Zachodni WBK (Poland) sold to Banco Santander (Spain) for €4 billion (purchase completed in March 2011).
Bank of Ireland	Ireland	€5.5 billion	50% stake in Paul Capital Investments (United States), a private equity fund, and its United States-based foreign currency business sold in 2011.
ING	Netherlands	€10 billion	Swiss private banking unit sold to Julius Baer (Switzerland) for $505 million; 51% equity stakes in ING Australia and ING New Zealand sold to the ANZ Bank (Australia) for €1.1 billion; and Asian Private Banking business sold for $1 billion in 2010. Most of its real estate investment management business around the world sold for $1.1 billion in 2011.
Lloyds TSB/HBOS	United Kingdom	£17 billion	632 branches in the United Kingdom put up for sale in 2011 as agreed with the European Commission. Bank of Western Australia sold for $1.4 billion in 2008.
RBS	United Kingdom	£20 billion	318 branches sold to Santander (Spain) in 2010. RBS WorldPay sold for £2 billion.
Bank of America	United States	$45 billion	Its stake in a Chinese affiliate reduced in 2009 and stake in Mexican affiliate disposed in 2010.
Citigroup	United States	$25 billion	Nikko Cordial Securities (Japan) sold for $5.8 billion and Nikko Asset Management (Japan) for $1.2 billion in 2009. Citi Cards Canada sold for $1 billion in 2009.

Source: UNCTAD, based on media reports, corporate press releases and annual reports.

market share by an agreed percentage by selling some of its operations.[45] Similarly, the Royal Bank of Scotland was told to sell 318 branches, which were subsequently purchased by Santander (Spain) for £1.65 billion. The Spanish bank announced that it would inject £4.46 billion of equity capital to its affiliates in the United Kingdom, although the deal is not expected to be completed until 2012.[46] Furthermore, the Royal Bank of Scotland announced in 2010 an agreement to sell an 80 per cent share in its payment processing business to a consortium of United States private equity funds, Advent International and Bain Capital, for £2 billion.[47]

In the case of the banks in the United Kingdom, some of the required sell-offs took the form of the sale of domestic assets to foreign investors, thus generating inward FDI. For other European banks, it often resulted in divestment of foreign assets, i.e. negative outward FDI. For instance, in return for receiving State support amounting to €18.2 billion over the period 2008–2010, Commerzbank was required by the European Commission to reduce its assets by 45 per cent, including its private bank operations in Belgium, Germany, the Netherlands and the United Kingdom.

The sell-off of foreign assets has not been limited to European Banks. To address regulatory concerns, Bank of America sold part of its equity holdings in China Construction Bank for $7.3 billion in 2009 and its entire 24.9 per cent stake in Grupo Financiero Santander (Mexico) for $2.5 billion in 2010.

A much more complex process of restructuring took place in the aftermath of the bail-out of Fortis (Belgium). In September 2008, the Governments of Belgium, the Netherlands and Luxembourg took the decision to buy 49 per cent stakes in Fortis's respective national arms, jointly injecting €11.2 billion. Subsequently, the Government of the Netherlands renegotiated the bail-out package, to buy all of Fortis's Dutch operation as well as the Dutch operation of ABN Amro, also previously owned by Fortis, for €16.8 billion.

The Belgian part of Fortis, Fortis Bank, was fully nationalized in October 2008. In the following year, an agreement was reached between the Government of Belgium and BNP Paribas (France), whereby France's largest bank took over a 75 per cent stake of Fortis Bank in an all-share exchange transaction. This deal left the Government of Belgium as the largest shareholder of BNP Paribas, with a stake of around 11.7 per cent in the French bank, which became the biggest bank in Europe in terms of deposits. For the Dutch part of the assets, it was reported in June 2009 that Lloyds of London insurer Amlin had agreed to buy Fortis Corporate Insurance for €350 million.

Nationalization of Icelandic banks. One of the most spectacular banking failures during the financial crisis was the collapse of the Icelandic banks. The three largest banks in Iceland, Kaupthing, Landsbanki and Glitnir had to be nationalized in October 2008, and the fourth largest, Straumur, followed suit in March 2009. In the process of subsequent restructuring, unsecured creditors (mostly foreign) agreed to a deal involving a debt-equity swap, as a result of which the foreign creditors took control of the remnants of three of those banks. The Government of Iceland reached an agreement in November 2008 to hand over 95 per cent of Glitnir, renamed Islandsbanki, to creditors, which included RBS and Mitsui-Sumitomo Bank. Similarly, in December 2009, creditors of Kaupthing agreed to take an 87 per cent stake in Arion Bank, the successor to Kaupthing, that took over its healthy assets, as compensation and to inject further capital worth more than $500 million. Finally, an agreement was reached in September 2010 whereby holders of unsecured debt issued by Straumur, including hedge funds Davison Kempner and Varde Partners, assumed 100 per cent ownership of the bank's remaining businesses. The exact equity shares taken over by foreign creditors in those deals are not known, but some of them are likely to have been over 10 per cent, in effect, turning their portfolio investment into FDI.

At the same time, the restructuring of Icelandic banks has resulted in divestment of their foreign assets (e.g. retailers based in the United Kingdom), resulting in negative outward FDI from Iceland, but which, in turn, have generated FDI by private equity groups from a third country (mostly the United States).

Prospects. The process of restructuring is still ongoing. In developed countries, the nationalization of banks is only a temporary measure and the equity held by governments will be sold off. Thus, FDI flows in the banking industry in the coming years are likely to be influenced by the policies of the competition authorities as well as the exit strategies of governments. In the longer term, the global efforts towards reforming the financial system could have important implications. For instance, Basel III, the revised international bank capital and liquidity framework, imposes tougher bank capital requirement rules. Although the implementation of these rules is to be gradually phased in, starting in 2013 up to January 2019, there is some evidence that banks have been reconfiguring their assets, including divestment of their foreign assets, in an effort to strengthen their capital base.

B. Trends in structurally weak, vulnerable and small economies

1. Least developed countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $10.0 billion	..	..
$2.0 to $9.9 billion	Angola and Democratic Republic of the Congo	..
$1.0 to $1.9 billion	Sudan and Zambia	Angola
$0.5 to $0.9 billion	Niger, Bangladesh, Madagascar, Uganda, Mozambique, Cambodia, Chad, Myanmar, United Republic of Tanzania and Equatorial Guinea	..
$0.1 to $0.4 billion	Lao People's Democratic Republic, Guinea, Timor-Leste, Liberia, Solomon Islands, Senegal, Ethiopia, Haiti, Mali, Malawi, Somalia and Benin	Zambia and Senegal
Below $0.1 billion	Afghanistan, Central African Republic, Eritrea, Lesotho, Rwanda, Togo, Nepal, Vanuatu, Gambia, Burkina Faso, Sierra Leone, Djibouti, Burundi, Mauritania, Bhutan, Comoros, Guinea-Bissau, Kiribati, São Tomé and Principe, Samoa, Tuvalu and Yemen	Yemen, Sudan, Liberia, Cambodia, Bangladesh, Niger, Democratic Republic of the Congo, Benin, Lao People's Democratic Republic, Sierra Leone, São Tomé and Principe, Mali, Mauritania, Solomon Islands, Malawi, Vanuatu, Mozambique, Burkina Faso, Kiribati, Guinea-Bissau, Samoa and Togo

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Least developed countries (LDCs)	**26.5**	**26.4**	**0.4**	**1.8**	**- 0.8**	**2.2**	**-**	**0.4**
LDCs: Africa	23.8	23.1	0.3	1.7	- 0.5	2.0	-	0.3
LDCs: Latin America and the Caribbean	-	0.2	-	-	-	0.1	-	-
LDCs: Asia	2.6	2.9	0.1	0.1	- 0.3	0.1	-	-
LDCs: Oceania	0.2	0.3	0.0	0.0	0.0	-	-	0.1

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009-2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Least developed countries (LDCs)	**127.8**	**151.7**	**7.4**	**10.9**	**16.3**	**19.6**	**0.3**	**0.4**
LDCs: Africa	100.2	121.0	6.5	9.9	10.7	13.0	0.3	0.4
LDCs: Latin America and the Caribbean	0.5	0.6	-	-	-	-	-	-
LDCs: Asia	26.2	28.9	0.9	1.0	5.4	6.4	-	-
LDCs: Oceania	0.9	1.2	-	0.1	0.2	0.2	-	-

Figure A. FDI inflows, 2000–2010

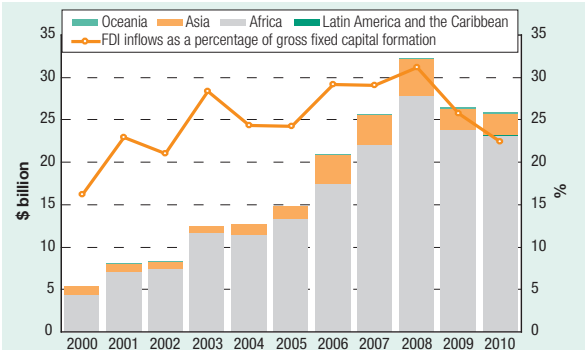


Figure B. FDI outflows, 2000–2010

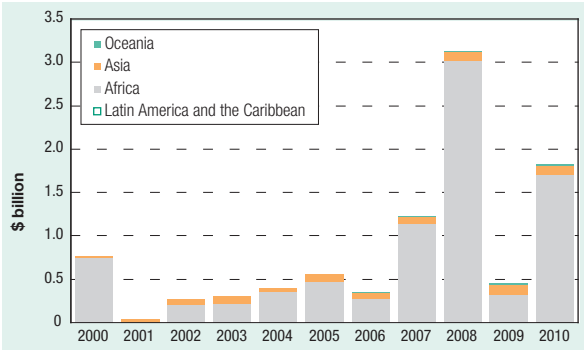


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**- 774**	**2 201**	**16**	**354**
Primary	8	1 094	16	2
Mining, quarrying and petroleum	8	1 094	16	2
Manufacturing	**11**	**94**	**-**	**96**
Food, beverages and tobacco	-	65	-	95
Textiles, clothing and leather	-	10	-	-
Wood and wood products	11	-	-	-
Chemicals and chemical products	-	20	-	-
Metals and metal products	-	-	-	1
Machinery and equipment	-	-	-	-
Electrical and electronic equipment	-	-	-	-
Precision instruments	-	-	-	-
Services	**- 793**	**1 013**	**-**	**257**
Electricity, gas and water	-	110	-	-
Trade	-	-	-	-
Transport, storage and communications	- 346	903	-	-
Finance	- 354	-	-	257
Business services	- 94	-	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**- 774**	**2 201**	**16**	**354**
Developed economies	**-1 156**	**1 655**	**-**	**2**
European Union	-1 160	786	-	1
United States	- 15	1 300	-	-
Australia	-	- 427	-	-
Developing economies	**372**	**511**	**16**	**352**
Africa	354	252	-	257
North Africa	324	-	-	-
Sub-Saharan Africa	30	252	-	257
Uganda	-	257	-	-
Zambia	-	-	-	257
Latin America and the Caribbean	- 5	-	16	95
Panama	-	-	-	95
Asia	23	259	-	-
West Asia	-	- 280	-	-
South, East and South-East Asia	23	539	-	-
South-East Europe and the CIS	**-**	**35**	**-**	**-**
Ukraine	-	35	-	-

FDI inflows to the 48 LDCs declined by a further 0.6 per cent in 2010 to $26 billion, following the 20 per cent fall a year earlier that had interrupted the upwards trend of the previous decade (table B and figure A). Almost two-fifths of the LDCs – in particular Yemen, Mauritania, Burkina Faso, Djibouti, Rwanda, Equatorial Guinea and Sudan – saw their FDI inflows reduced. This unprecedented two-year retreat in FDI inflows to LDCs has taken place against a backdrop of rising commodity prices, a modest recovery in global FDI flows, and a 10 per cent increase in inflows to developing and transition economies.

The delay in recovery of FDI flows to LDCs is a matter of grave concern, as FDI is a major contributor to their capital formation (figure A). This is especially so in African LDCs, where FDI flows were equivalent to as high as 25 per cent of gross fixed capital formation over most of the past decade. In addition, FDI is a key source of technology and management know-how, which are of particular importance for LDCs.

Most investments in 2010 were in the form of greenfield projects, which totalled $37.1 billion in their combined (foreign and domestic) capital expenditures (annex table I.8). There were 288 such projects of a significant size (annex table I.9), which generated a total of 67,400 jobs (UNCTAD, 2011b). The projects were concentrated in the primary and manufacturing sectors, accounting for 44 and 39 per cent of the total, respectively, compared with 17 per cent in services.

Many large FDI projects were in base metals and oil prospecting and exploitation. In Africa, extraction activities account for the majority of inflows, while in Asian LDCs services industries such as telecommunications and electricity have attracted more foreign investment.

In terms of the number of deals, service industries such as financial services, transportation and communications represented the majority of investments, accounting for 48 per cent of the total, followed by manufacturing (36 per cent). The primary sector accounted for just 11 per cent of the deals. FDI in telecommunications is on the rise in African LDCs, while FDI to Asian LDCs is primarily in manufacturing or services such as electricity. Fifty-six per cent of the deals originated from developing and transition economies, rather than developed economies.

FDI via M&As is still limited in LDCs, but their number has nearly doubled over the last decade. In particular, some of the large investments, such as in telecommunications, were through mergers and acquisitions. Cross-border M&A sales turned positive in 2010, amounting to $2.2 billion in 2010 (tables D and E), in contrast to 2008 and 2009, when they were negative.

The *distribution of FDI flows* among LDCs remains highly uneven. The accumulated stock of inward FDI in LDCs now stands at $152 billion. However the 10 countries (Angola, Sudan, Zambia, Myanmar, the United Republic of Tanzania, Equatorial Guinea, Bangladesh, Cambodia, Uganda and Mozambique, in that order) with FDI stocks of more than $5 billion as of 2010, account for two-thirds of the total inward stock. Four mostly natural resources exporting countries – Angola, Equatorial Guinea, Sudan and Zambia – received over half of total FDI into LDCs. This concentration of FDI in a limited number of resource-rich countries continues to increase. The FDI pattern in LDCs is also evident from the expanding presence of the largest TNCs, whose presence in LDCs doubled over the past decade. There was a particularly impressive expansion of global TNCs investing in Mozambique, Malawi, Bangladesh and Uganda. However, some 75 TNCs have pulled out from LDCs during the past decade (UNCTAD, 2011b).

As of 2010, judging by FDI project data (cross-border M&A and greenfield investment projects), European companies accounted for the largest share of FDI flows from developed countries to LDCs, with over 36 per cent of the world total (UNCTAD, 2011b).

Substantial shifts are taking place in world FDI patterns, due to the emergence of FDI from developing economies, which have become major players with respect to international investment, exports and technology flows into LDCs. Currently, the shares of developing and transition economies in LDCs' FDI stock vary from 30 per cent in Malawi to more than 70 per cent in Cambodia, and most countries have seen a considerable increase in their

proportion in recent years. Although starting from a low base, FDI from Brazil, China, India and South Africa, in particular, has become sizeable in many African LDCs.

While such investments focused principally on extractive industries at first, they have become more diversified in recent years in a number of host countries, ranging from manufacturing, to commerce and finance, to agriculture. In addition, investments from the Gulf Cooperation Council (GCC) countries in African LDCs have recently increased in industries such as telecoms, tourism, finance, infrastructure, mining, oil and gas and agriculture. South–South FDI is likely to play an increasing role for LDCs in the future, and holds the potential to boost productivity and significantly affect development patterns in LDCs. It has been less volatile than that from developed countries, and has been more resilient during the recent global economic crisis, partly because it is less dependent on debt financing.

FDI prospects for LDCs remain challenging. Data for the first four months of 2011 on greenfield investment, which is the main mode of investment in LDCs, rather than cross-border M&A, show further decline of 25 per cent (annex table I.8).

The regulatory conditions established in many LDCs are on a par with those in other developing countries, and recent regulatory reforms have made several LDC economies more attractive to FDI. Increased attention has been paid by many LDCs to policy initiatives at the bilateral, regional and multilateral levels in order to enhance international cooperation and/or integration in matters relating to FDI. By the end of 2010, LDCs had concluded a total of 455 BITs and 188 DTTs. On average, LDCs concluded nine BITs and four DTTs per country, compared with 14 BITS and 12 DTTs for all developing countries.

On the partners' side, Germany is the country that has signed most BITs with LDCs (33), followed by Switzerland (26) and China (19). However, there are serious challenges that require renewed policy efforts at the national and international levels if FDI is to effectively contribute to sustainable development in LDCs (see the following section).

b. Enhancing productive capacities through FDI

An ambitious new plan of action for FDI in LDCs to enhance productive capacities is urgently needed.

In preparation for the Fourth United Nations Conference on the Least Developed Countries, held in Istanbul, Turkey, in May 2011, UNCTAD carried out a broad review of FDI trends in LDCs over the past decade since the Brussels Declaration and the Programme of Action for the Least Developed Countries (BPoA), examining the impact of FDI on their economies with a view to proposing a plan of action to enhance its effectiveness (UNCTAD, 2011b). The report focuses on the challenges LDCs face in attracting and benefiting from FDI, and on what can be done to improve the situation in the light of UNCTAD´s long-standing work on FDI in LDCs.

The study found that despite the recent setback, FDI flows to LDCs had grown at an annual rate of 15 per cent during the last decade, raising their share in global FDI flows from less than 1 per cent to over 2 per cent by 2010. Some LDCs have succeeded in diversifying the type of FDI they attract, but over 80 per cent of total FDI flows went to resource-rich economies in Africa, with a weak impact on employment generation, and inflows have stagnated or declined in some countries. In addition, LDCs as a whole still remain at the margin of global value chains, accounting for only 1 per cent of world trade flows (exports plus imports) in industrial goods. Also, the predominance of FDI in natural-resource extraction has reinforced the commodity dependence of LDCs, exacerbating their unbalanced economic structures and vulnerability to external shocks.

The geographic concentration of FDI flows has increased over the past decade, contributing to further divergence in economic performance among LDCs, and regional disparities inside countries remain acute. Most LDCs are still characterized by a dual economy in which a relatively small formal private sector coexists with a large informal segment, which includes subsistence agriculture. FDI linkages with the domestic economy have been hard to establish, and transfers of skills and know-how have been limited.[48]

Technological advances and organizational changes in the global economy and within TNCs are fundamentally altering the way goods and services are produced. Global value chains with a high degree of specialization have become the norm. TNCs are increasingly outsourcing parts of their value chains, in order to increase their efficiency and competitiveness and avail of the lowest worldwide cost options. This in turn requires new approaches and development policies for LDCs. The relevant new paradigm implies a more proactive approach to developing productive capacities, with a better balance between markets and the State, and places production and employment at the heart of policies.

UNCTAD's plan of action for LDCs builds on the reforms and efforts that have been undertaken in recent times, but strives to present new ways of addressing old problems, taking into account the changed circumstances and the lessons of the past decade. The emphasis is on an integrated policy approach to investment, capacity-building and enterprise development. The plan calls for steps to be taken by all key stakeholders involved – governments in LDCs, development partners and home countries of TNCs – and envisages a clear role for the private sector itself. There are five key areas:

- **Public–private initiatives in infrastructure.** Poor physical infrastructure constrains not just FDI, but more generally the development of productive capacities and LDCs' ability to reap the benefits of economic globalization. Successfully addressing the problem calls for strengthened PPP initiatives for infrastructure development and a strong role for private investment.
- **Aid for productive capacity.** Shortfalls in terms of skills and human capital are at least as big a constraint on development in LDCs as poor physical infrastructure. An aid-for-productive-capacity programme focusing on education, training and transfer of skills is called for.
- **Building on investment opportunities.** Efforts need to be redoubled to enable firms of all sizes to capture opportunities in LDCs. Large TNCs frequently bypass investment opportunities in LDCs, where markets are typically small and operating conditions are more challenging. However, LDCs offer significant untapped business opportunities for nimble and innovative investors of a more modest size, as well as potential for high returns on investment.
- **Local business development and access to finance.** The presence of efficient and dynamic local businesses is particularly important for efficiency-seeking foreign investors, which LDCs need to attract on a much larger scale and sustainable basis if they are to integrate into global value chains. New initiatives to support SME development and linkages with TNCs are essential.
- **Regulatory and institutional reform.** LDCs need to launch the next wave of regulatory and institutional reforms to further strengthen the relevant State institutions and their implementation capacities within a partnership-based approach. While significant reforms have been carried out in LDCs in this area in the past 10 years, much remains to be done.

In these five areas of action, there are specific measures to be taken by each stakeholder. These are summarized in table II.12.

Table II.12. Plan of action for investment in LDCs

Actions	Selected measures on the part of…	
	LDC governments	Development partners
Strengthen public-private infrastructure development efforts	• Pursuing a liberalization of infrastructure sectors and stable regulatory frameworks to ensure competitive outcomes and protect the national interest. • Legal and regulatory framework for PPPs, with pipeline of projects and regional coordination.	• LDC infrastructure development fund focused on infrastructure PPPs: risk coverage, direct participation and lending on soft terms. • Technical assistance for regulation and implementation of infrastructure PPPs.
Boost aid for productive capacity	• Increased public investment in technical and vocational training. • Reform of immigration and work permitting procedures.	• Aid-for-productive capacity funds, including support for technical and vocational training and entrepreneurship.
Enable firms of all sizes to capture LDC opportunities	• Proactive targeting of SME FDI and "impact investors". • Proactively promoting of the primary sector with opportunities for fast technological catching-up, e.g. telecom services, renewable energy.	• Risk coverage institutions at the national level to service SME FDI. • Home-country measures to help firms tap into business opportunities in LDCs: IPA–EPA coordination mechanisms, "impact investment" regulatory framework.
Foster local business and ease access to finance	• Credit guarantee schemes for micro, small and medium-sized firms, and strengthened development banks. • Regulatory reform to enable SME access to bank lending and strengthen financial infrastructure. • Simplification of procedures for formal business development.	• Technical support for the development of financial infrastructure and regulatory and institutional environment. • Support for increased lending and credit guarantee schemes for SMEs.
Start the next wave of regulatory and institutional reform	• New reform to put increasing emphasis on aspects of regulations that shape FDI impact and strengthen State institutions, including taxation and competition. • Building on mutually reinforcing interests: avoid command and control regulatory bias, establish systematic consultation mechanisms with investors on draft laws. • Build client-oriented investment institutions. • Strengthened efforts to combat corruption under top to bottom zero-tolerance policy.	• Strengthened technical assistance on key regulatory issues, including taxation and competition. • Systematic institution twinning. • Adoption of home-country measures to support LDCs: tax engineering avoidance, oversight of business practices by TNCs.

Source: UNCTAD, 2011b.

2. Landlocked developing countries

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $1 billion	Kazakhstan, Turkmenistan, Mongolia and Zambia	Kazakhstan
$500 to $999 million	Niger, Uganda, Uzbekistan, Chad, Plurinational State of Bolivia, Armenia, Azerbaijan and Botswana	..
$100 to $499 million	Paraguay, Lao People's Democratic Republic, the FYR of Macedonia, Kyrgyzstan, Republic of Moldova, Ethiopia, Mali, Malawi and Zimbabwe	Zambia and Azerbaijan
$10 to $99 million	Swaziland, Afghanistan, Central African Republic, Lesotho, Tajikistan, Rwanda, Nepal, Burkina Faso, Burundi and Bhutan	Mongolia, Zimbabwe and Niger
Below $10 million	..	Armenia, Swaziland, Lao People's Democratic Republic, Mali, Republic of Moldova, the FYR of Macedonia, Malawi, Burkina Faso, Kyrgyzstan, Paraguay, Botswana and Plurinational State of Bolivia

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Landlocked countries (LLCs)	**26.2**	**23.0**	**3.8**	**8.4**	**1.7**	**0.6**	**-**	**0.5**
Africa	4.2	5.0	0.2	0.3	0.1	0.3	-	0.3
Latin America and the Caribbean	0.6	1.0	-	- 0.1	- 0.1	-	-	-
Asia and Oceania	1.2	2.2	0.1	0.1	0.3	0.2	-	-
Transition economies	20.1	14.8	3.5	8.1	1.4	0.2	-	0.3

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009-2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Landlocked countries (LLCs)	**149.1**	**169.6**	**15.6**	**27.1**	**19.6**	**25.2**	**- 0.2**	**- 0.1**
Africa	29.6	34.0	2.4	4.5	2.9	3.4	0.2	0.2
Latin America and the Caribbean	9.1	10.0	0.3	0.3	1.3	1.5	-	-
Asia and Oceania	6.4	8.6	0.1	0.2	0.2	0.7	-	-
Transition economies	104.0	117.0	12.8	22.2	15.1	19.6	- 0.5	- 0.4

Figure A. FDI inflows, 2000–2010

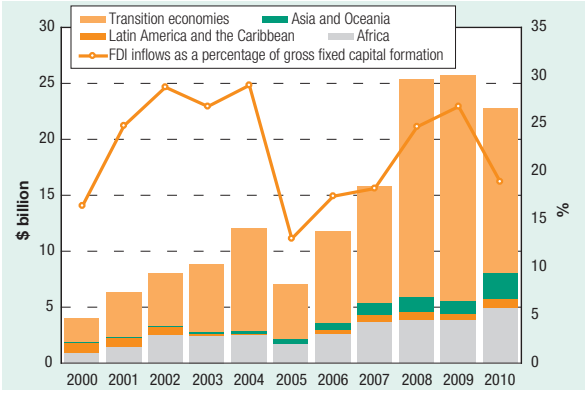


Figure B. FDI outflows, 2000–2010

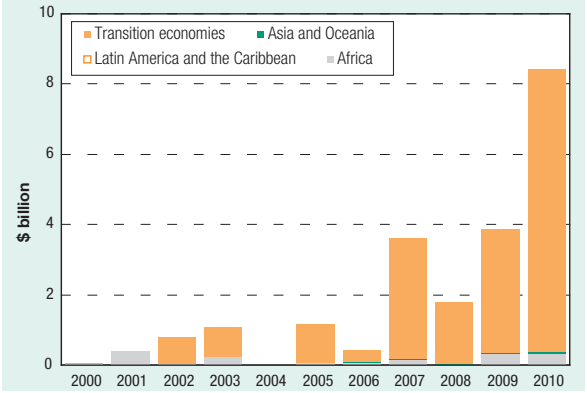


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**1 708**	**639**	**- 8**	**518**
Primary	1 614	45	1 216	123
Mining, quarrying and petroleum	1 614	45	1 216	123
Manufacturing	**25**	**44**	**-**	**-**
Food, beverages and tobacco	-	0	-	-
Wood and wood products	11	-	-	-
Chemicals and chemical products	10	42	-	-
Non-metallic mineral products	-	-	-	-
Metals and metal products	-	-	-	-
Machinery and equipment	4	-	-	-
Electrical and electronic equipment	-	1	-	-
Services	**70**	**551**	**-1 224**	**395**
Electricity, gas and water	- 247	110	-	-
Trade	335	0	-	-
Transport, storage and communications	0	371	-	-
Finance	- 24	69	-	396
Public administration and defence	-	-	-1 224	- 1
Other services	5	-	-	-

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**1 708**	**639**	**- 8**	**518**
Developed economies	**75**	**88**	**-**	**261**
European Union	- 418	89	-	260
United States	- 53	- 17	-	-
Japan	52	- 3	-	-
Developing economies	**1 831**	**550**	**- 8**	**257**
Africa	74	303	-	257
Latin America and the Caribbean	-	-	16	-
British Virgin Islands	-	-	16	-
Asia	1 757	246	- 24	-
West Asia	30	0	-	-
South, East and South-East Asia	1 727	246	- 24	-
China	3 558	46	- 24	-
India	-	80	-	-
Indonesia	-2 604	-	-	-
Thailand	-	110	-	-
South-East Europe and the CIS	**- 198**	**-**	**-**	**-**
Russian Federation	- 198	-	-	-

In 2010, FDI inflows to the 31 landlocked developing countries (LLDCs)[49] declined by 12 per cent to $23 billion (table B and figure A). LLDCs accounted for 3.6 per cent of FDI flows to all developing and transition economies, down from 4.5 per cent in 2009. Inherent geographical disadvantages and structural macroeconomic weaknesses have hampered the overall economic performance of these countries. They also face severe constraints in attracting FDI inflows, including the small size of their economies, weak infrastructure and high transportation costs. However, some of them have made significant progress in attracting FDI inflows over the past decade, as the result of economic reforms, investment liberalization and favourable external economic conditions (*WIR10*).

The five largest recipients of FDI in this special grouping of structurally weak economies were Kazakhstan, Turkmenistan (both in the CIS), Mongolia (East Asia), Zambia (Southern Africa) and Niger (West Africa), with inflows of $10 billion, $2.1 billion, $1.7 billion, $1 billion and $950 million, respectively (table A). Large cross-border M&A deals in LLDCs have been increasingly targeting services (table II.13), while in Zambia, Kazakhstan and Kyrgyzstan, privatization in telecommunications led to significant foreign investment through M&As, including from other developing countries. Large cross-border M&As also took place in financial services.

In the LLDCs, greenfield investments are more significant than cross-border M&As, covering a wider range of industries and business functions. While the largest projects were concentrated in extractive industries (table II.14), a significant amount of investment also took place in manufacturing, including in automotives, chemicals, electronics, food and beverages, and textiles. Some large greenfield projects highlight the success of a number of LLDCs in attracting FDI, thereby enhancing their productive capabilities and generating employment. For instance, Xinxiang Kuroda (China) invested $67 million in a project in the textiles industry in Ethiopia, creating about 1,100 jobs.[50] Similarly, an Indian-funded project in the food industry, also in Ethiopia, is expected to create about 340 jobs. Though not yet reflected in FDI statistics, some projects announced in 2010 will be implemented in the years to come and drive up FDI inflows to countries such as Uganda.

The performance of LLDCs in attracting FDI inflows varies widely (table A). For instance, Mongolia has demonstrated high performance in attracting FDI (up by 171 per cent to $1.7 billion in 2010), but inflows to the country have concentrated in mining industries. In contrast, a number of countries in different regions, such as Ethiopia (Africa), Paraguay (Latin America) and Uzbekistan (Central Asia), have received more diversified FDI inflows. For instance, Uzbekistan attracted greenfield FDI projects in a number of manufacturing industries in 2010, including the automotive industry, building materials, chemicals and consumer electronics (box II.4).

Table II.13. The 10 largest cross-border M&As in LLDCs, 2010

Target company	Country	Acquiring company	Home country	Industry	Value ($ million)	Share (%)
Zambia Telecommunications Co Ltd	Zambia	Libya Africa Investment Portfolio	Libyan Arab Jamahiriya	Telecommunications	257	75
Nam Theun 2 Power Co Ltd	Lao PDR	Investor Group	Thailand	Energy	110	15
TOO Mobile Telecom Service	Kazakhstan	Tele2 AB	Sweden	Telecommunications	77	51
Zimbabwe Alloys Chrome(Pvt)Ltd	Zimbabwe	Metmar Ltd	South Africa	Electrometallurgical products	51	40
Stopanska Banka AD	Macedonia, TFYR	National Bank of Greece SA	Greece	Banks	46	22
OAO Kyrgyztelekom	Kyrgyzstan	Investor Group	Cyprus	Telecommunications	40	78
Rwenzori Tea Investments Ltd	Uganda	McLeod Russel India Ltd	India	Food preparations, nec	30	100
Maamba Collieries Ltd	Zambia	Nava Bharat Ventures Ltd	India	Mining	26	65
AO Danabank	Kazakhstan	Punjab National Bank	India	Banks	24	64
Ovoot Coking Coal Project	Mongolia	Windy Knob Resources Ltd	Australia	Coal mining	8	100

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

Table II.14. The 10 largest greenfield projects in LLDCs, 2010

Investor or project	Industry	Host country	Home country	Investment ($ million)
Rio Tinto Group	Metals	Paraguay	United Kingdom	6 000
Tullow Oil	Coal, oil and natural gas	Uganda	United Kingdom	5 000
Kenol-Kobil Group (KenolKobil)	Coal, oil and natural gas	Uganda	Kenya	1 701
International Petroleum Investment Company	Chemicals	Uzbekistan	United Arab Emirates	1 340
Albatros Energy	Coal, oil and natural gas	Uganda	Mauritius	749
Lukoil	Coal, oil and natural gas	Kazakhstan	Russian Federation	500
Move One	Transportation	Afghanistan	United Arab Emirates	497
Globalstar	Communications	Botswana	United States	470
Dimension Data Holdings (DiData)	Communications	Uganda	South Africa	468
Vale (Companhia Vale do Rio Doce)	Metals	Zambia	Brazil	400

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

Box II.4. Overcoming the disadvantages of being landlocked: experience of Uzbekistan in attracting FDI in manufacturing

Uzbekistan is an LLDC with a GDP of $39 billion and GDP per capita of $1,400 in 2010. FDI to the country has increased since the mid-2000s as a result of a privatization programme.[a] In recent years, the country has attracted some large greenfield projects in manufacturing, with a number of them announced or implemented in 2010 (box table II.4.1).

Box table II.4.1. Selected FDI projects in manufacturing in Uzbekistan, 2010

Investor or project	Industry	Home country	Investment ($ million)
International Petroleum Investment Company	Chemicals	United Arab Emirates	1 340
Omnivest	Pharmaceuticals	Hungary	100
Knauf	Building materials	Germany	50
EMG	Ceramics and glass	Iran, Islamic Republic of	24
CLAAS	Industrial machinery	Germany	20
Erae Cs Ltd	Automotive components	Korea, Republic of	13
LG	Consumer electronics	Korea, Republic of	9

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

In the automotive components industry, for instance, Erae Cs Ltd (Republic of Korea) and Uztosanoat, a local company, established an international joint venture with a total investment of $13 million. The facility will supply 150,000 km of car cables per year to General Motors' new plant in Uzbekistan, starting production in the second half of 2011.[b] In the petrochemicals industry, a $1.34 billion project is being funded from the United Arab Emirates, and a company from Singapore has signed a deal for a joint venture project for polyethylene production.

These large projects illustrate the success of government policies in attracting FDI in manufacturing to Uzbekistan. A favourable investment climate and a sound framework of FDI legislation, which includes guarantees for foreign investors and certain preferences for them, have contributed to this success. It seems that institutional advantages can help LLDCs overcome their geographical disadvantages, and Uzbekistan provides an example in this regard.

Source: UNCTAD.

[a] For instance, the Government privatized more than 600 enterprises each year in 2006 and 2007, and foreign investors purchased 28 companies for $115 million in 2007 alone.

[b] Currently, GM Uzbekistan produces seven models of automotive vehicles in the country. With a total investment of $136 million, the new plant will produce a compact sedan in late 2011.

With intensified South–South economic cooperation and increasing capital flows from emerging markets, prospects for FDI inflows to the grouping of LLDCs are promising, for 2011 and beyond. Indeed, the total amount of investment of recorded greenfield projects jumped by over 40 per cent in the first four months of 2011, compared with the same period of 2010.

b. Leveraging TNC participation in infrastructure development

Under appropriate regulatory frameworks and proactive policies, TNCs can help develop badly needed infrastructure in LLDCs, including through various forms of public-private partnerships.

Infrastructure development is crucial for LLDCs to reduce high transaction (communication and transportation) costs, overcome geographic disadvantages and move onto a path of sustainable development and poverty reduction. To realize the objective of rapid infrastructure build-up, governments need to introduce specific infrastructure development strategies, making use of the private sector and leveraging the potential contribution of TNCs (*WIR08*).

In a number of LLDCs, greenfield investment and other forms of TNC participation have contributed to infrastructure development, in particular in electricity, transport and telecommunications. During 2005–2010, 12 large infrastructure development projects of at least $100 million each with TNC participation were undertaken in seven LLDCs, namely Uganda (three projects), Lao People's Democratic Republic (two projects), the former Yugoslav Republic of Macedonia (two projects) and Afghanistan (two projects), as well as Azerbaijan, Bhutan and Rwanda (one project each) (table II.15).

TNCs have been involved in these infrastructure projects through different modalities, including various forms of PPPs, such as build-operate-transfer (BOT), build-own-operate (BOO), and concession (table II.15). TNCs are often attracted by the growth potential in host developing countries and regions, as well as by business opportunities triggered by new liberalization and deregulation initiatives. Furthermore, PPP arrangements have helped infrastructure TNCs mitigate risks and overcome difficulties in their operations abroad. In some cases, TNCs from different home countries have set up joint ventures for a project. In other cases, TNCs form joint ventures with local partners, such as in the TE–TO Skopje electricity generation project in the former Yugoslav Republic of Macedonia and the Aktau airport terminal project in Kazakhstan.

TNC participation has helped mobilize significant amounts of capital for the development of infrastructure in LLDCs. The projects listed in table II.15 were associated with a total investment of $5.3 billion, and, sometimes, multilateral support was involved, as in the two largest electricity projects in the Lao People's Democratic Republic and Uganda, respectively.[51]

A few LLDCs have been particularly successful in leveraging TNC participation to improve their infrastructure, which is badly needed to bring them on a track of fast and sustainable development. For instance, the Lao People's Democratic Republic and Uganda have successfully implemented a number of large electricity generation and transmission projects with the involvement of TNCs from both developed and developing countries.

The impact on financing and investment varies by industry. Table II.15 shows that TNCs' contributions have been high in electricity generation and mobile telecommunications. Few projects were recorded in water and sanitation, which is in line with the general situation of TNC participation in infrastructure in the developing world (*WIR08*), but a number of large projects for extending transport networks and building transport utilities in LLDCs have brought in substantial financial resources.

For example, in 2005, Rift Valley Railways, a consortium led by Sheltam (South Africa), won a 25-year concession to operate the combined Kenya and Uganda railway system. The company underwent several rounds of restructuring, but has devoted a significant amount of investment to upgrade the century-old transport system and increase the traffic volume. A systematic turnaround strategy was implemented to improve the services and a considerable reduction in rail-related accidents bolstered customers' confidence.

Table II.15. Infrastructure development projects with TNC participation in LLDCs, with investment above $100 million, 2005–2010

Project	Country	Industry	Segment	Investment ($ million)	TNCs involved	Modality	Year
Nam Theun II Hydropower Project	Lao PDR	Energy	Electricity generation	1250	Italian-Thai Development Public Company (Thailand), Electricite de France (France)	BOT	2005
Bujagali Hydro Project	Uganda	Energy	Electricity generation	799	Sithe Global Power (United States), Aga Khan Fund (Switzerland)	BOT	2007
Nam Ngum 2 Hydro Power Plant	Lao PDR	Energy	Electricity generation	760	Ch Karnchang Company Limited (Thailand), Ratchaburi Electricity Generating Holding Plc (Thailand)	BOT	2006
Warid Telecom Uganda Limited	Uganda	Telecom-munications	Various services	481	Abu Dhabi Group (United Arab Emirates), Essar Group (India)	Greenfield	2007
Kenya-Uganda Railways	Uganda	Transport	Railroads	404	Sheltam Rail Company (Pty) Ltd (South Africa), Trans Century Ltd. (Kenya)	Concession	2006
Etisalat Afghanistan	Afghanistan	Telecom-munications	Mobile access	340	Emirates Telecommunications Corporation (Etisalat) (United Arab Emirates)	Greenfield	2006
Azerfon	Azerbaijan	Telecom-munications	Mobile access	300	Extel (United Kingdom), Siemens AG (Germany), Celex Communications (United Kingdom)	Greenfield	2006
Skopje and Ohrid Airports Concession	Macedonia, FYR	Transport	Airports	295	TAV Airports Holding Co. (Turkey)	Concession	2008
TE-TO Skopje	Macedonia, FYR	Energy	Electricity generation	233	Itera Holding Ltd. (Russian Federation), Toplifikacija (Macedonia, FYR), Sintez Group (Russian Federation)	BOO	2007
Dagachhu Hydro Power Project	Bhutan	Energy	Electricity generation	201	Tata Enterprises (India)	BOO	2009
Areeba Afghanistan	Afghanistan	Telecom-munications	Mobile access	133	MTN Group (South Africa)	Greenfield	2005
Millicom Rwanda	Rwanda	Telecom-munications	Mobile access	117	Millicom International (Luxembourg)	Greenfield	2009

Source: UNCTAD, based on World Bank PPI database.

At present the railway system handles less than 6 per cent of cargo passing through the Northern Corridor,[52] and the Governments of Kenya and Uganda plan to build a new railway from the port of Mombasa.[53] The example of the Maputo Corridor, in which TNCs are involved in the development of a transport network for facilitating trade and regional integration, provides useful lessons.[54]

In Asia, proactive national policies and regional integration efforts have brought benefits of infrastructure improvement and associated socio-economic development to LLDCs. For instance, the Lao People's Democratic Republic has introduced a "land-linked" strategy in parallel with regional and subregional infrastructure development schemes, within the frameworks of ASEAN and the Greater Mekong Subregion.[55] The ASEAN Highway Network Project has helped improve road transport in the Lao People's Democratic Republic.[56] Construction of a high-speed railway system linking China and Singapore and passing through the Lao People's Democratic Republic, Thailand and Malaysia will start in 2011. The project will bring a significant amount of foreign investment and advanced technology to related countries, and will play a particularly significant role in infrastructure

development in the Lao People's Democratic Republic.

The cases discussed above show that, in an enabling institutional environment (including a high-quality regulatory framework, an effective risk-mitigation system and proper investment promotion activities), TNCs can be engaged in various types of infrastructure development projects, and their involvement can help mobilize financial resources and increase investment levels in infrastructure industries in LLDCs. In particular, the development of region-wide transport infrastructure is a vital way for those countries to access regional markets and sea ports; and TNCs, particularly those from the South, can play an important role in this regard.

Governments in LLDCs need to develop the capacity to assess the feasibility and suitability of different forms of infrastructure provision – whether public, private or through some forms of PPPs – as well as to identify the potential role of TNCs and to design the framework of specific projects. Capacity-building needs to be strengthened in this regard, and regional collaboration among developing countries should be encouraged.

3. Small island developing States

a. Recent trends

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $1 billion	..	..
$500 to $999 million	Bahamas and Trinidad and Tobago	..
$100 to $499 million	Mauritius, Seychelles, Timor-Leste, Solomon Islands, Jamaica, Maldives, Saint Kitts and Nevis, Fiji, Cape Verde and Antigua and Barbuda	Mauritius
$50 to $99 million	Saint Lucia, Saint Vincent and the Grenadines, Grenada and Barbados	Jamaica
$1 to $49 million	Vanuatu, Dominica, Papua New Guinea, Tonga, Federated States of Micronesia, Comoros, Marshall Islands, Kiribati, São Tomé and Principe, Palau, Samoa and Tuvalu	Seychelles, São Tomé and Principe, Fiji, Solomon Islands, Barbados and Vanuatu
Below $1 million	..	Kiribati, Papua New Guinea, Cape Verde and Samoa

[a] Economies are listed according to the magnitude of their FDI flows.

Table B. FDI inflows and outflows, and cross-border M&A sales and purchases, 2009–2010
(Billions of dollars)

Region	FDI inflows		FDI outflows		Cross-border M&A sales		Cross-border M&A purchases	
	2009	2010	2009	2010	2009	2010	2009	2010
Small island developing states (SIDS)	**4.3**	**4.2**	**-**	**0.2**	**-**	**9.7**	**0.4**	**0.2**
Africa	0.7	0.9	-	0.1	-	0.2	0.2	-
Latin America and the Caribbean	2.7	2.4	-	0.1	-	0.5	-	0.1
Asia	0.2	0.4	-	-	-	-	-	-
Oceania	0.7	0.5	-	-	-	9.0	0.2	0.1

Table C. FDI inward and outward stock, and income on inward and outward FDI, 2009-2010
(Billions of dollars)

Region	FDI inward stock		FDI outward stock		Income on inward FDI		Income on outward FDI	
	2009	2010	2009	2010	2009	2010	2009	2010
Small island developing states (SIDS)	**56.6**	**60.6**	**3.4**	**3.6**	**2.0**	**2.0**	**0.5**	**0.5**
Africa	4.8	5.7	0.6	0.8	0.3	0.2	-	-
Latin America and the Caribbean	46.2	48.3	2.4	2.5	0.9	0.9	0.4	0.5
Asia	0.8	1.2	-	-	-	-	-	-
Oceania	4.8	5.5	0.3	0.3	0.8	0.9	-	-

Figure A. FDI inflows, 2000–2010

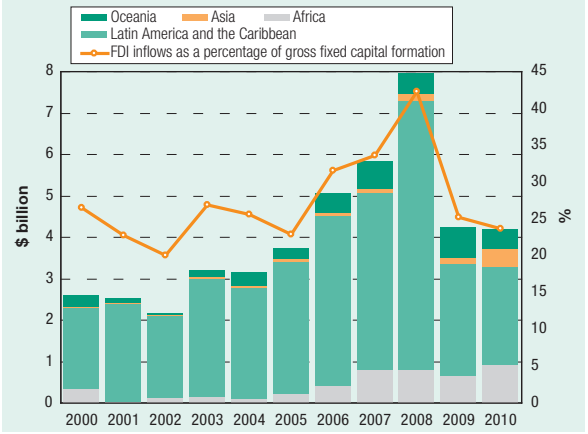


Figure B. FDI outflows, 2000–2010

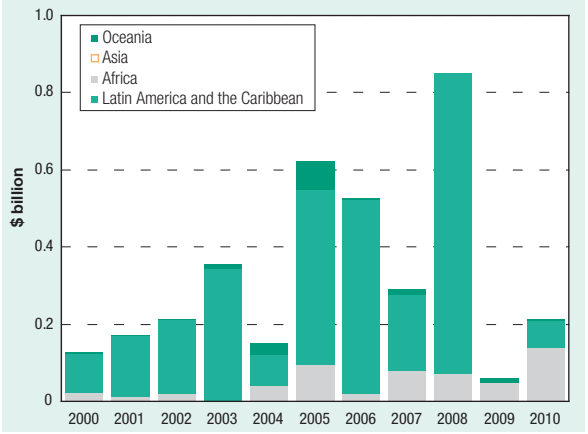


Table D. Cross-border M&As by industry, 2009–2010
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2009	2010	2009	2010
Total	**31**	**9 735**	**393**	**161**
Primary	-	9 037	-	- 11
Mining, quarrying and petroleum	-	9 037	-	- 11
Manufacturing	**-**	**-**	**-**	**95**
Food, beverages and tobacco	-	-	-	95
Chemicals and chemical products	-	-	-	-
Metals and metal products	-	-	-	-
Machinery and equipment	-	-	-	-
Services	**31**	**699**	**393**	**77**
Electricity, gas and water	-	82	6	-
Trade	-	-	-	-
Hotels and restaurants	-	136	-	-
Transport, storage and communications	-	-	-	- 3
Finance	25	480	385	- 23
Business services	-	1	2	3
Health and social services	5	-	-	-
Other services	-	-	-	100

Table E. Cross-border M&As by region/country, 2009–2010
(Millions of dollars)

Region/country	Sales		Purchases	
	2009	2010	2009	2010
World	**31**	**9 735**	**393**	**161**
Developed economies	**- 207**	**9 038**	**31**	**113**
European Union	22	28	- 10	18
United States	- 188	- 175	-	100
Australia	220	8 987	-	- 4
Japan	- 320	-	28	1
Developing economies	**237**	**698**	**361**	**48**
Africa	- 300	-	6	- 88
Latin America and the Caribbean	-	94	-	90
Asia	537	603	355	47
West Asia	320	-	-	-
South, East and South-East Asia	217	603	355	47
China	-	328	-	10
Hong Kong, China	-	- 63	172	-
India	5	163	181	38
Malaysia	192	176	-	- 1
South-East Europe and the CIS	**-**	**-**	**-**	**-**

FDI inflows to small island developing States (SIDS) dropped marginally by less than 1 per cent, to $4.2 billion in 2010 (table B and figure A), following a 47 per cent decline in 2009. The largest five recipients of FDI in this special grouping of structurally weak economies were Bahamas, Trinidad and Tobago (both in the Caribbean), Mauritius, Seychelles (both in East Africa) and Timor-Leste (South-East Asia), with inflows ranging between $977 million and $280 million (table A).

Geographically and culturally diverse, the 29 SIDS[57] nevertheless share similar development challenges: small but rapidly growing populations, low availability of resources, remoteness, susceptibility to natural disasters, and a lack of economies of scale. They also face a number of difficulties in attracting FDI, such as the small size of their economies, a lack of human resources, and high transportation and communication costs. As a result, total inflows to these economies remain at a very low level, accounting for less than 1 per cent of total FDI inflows to the developing world in recent years.

Despite a number of large cross-border M&A deals in industries such as mining and hotels (table II.16), FDI flows to SIDS stagnated in 2010. The $9 billion acquisition of Lihir Gold by Newcrest Mining (Australia) was not reflected in FDI inflows to Papua New Guinea in 2010, as this transaction was between foreign investors, involving a change in foreign ownership only. However, other deals by firms from developing counties may drive inflows to the country to new highs in 2011.

FDI inflows in SIDS have traditionally been concentrated in extractive industries and services, including hotels and tourism, financial services and real estate. In 2010, there were a number of greenfield investments in these industries (table II.17). The Maldives accounted for most of the large projects in hotels and tourism, as well as in other services, while Papua New Guinea hosted a major share of large mining projects. Noteworthy were two investments in manufacturing in Mauritius: one

Table II.16. Selected large cross-border M&As in SIDS, 2010

Target company	Country	Acquiring company	Home country	Industry	Value ($ million)	Shares (%)
Lihir Gold Ltd	Papua New Guinea	Newcrest Mining Ltd	Australia	Gold ore	9 018	100
Garden Plaza Capital SRL	Barbados	Fosun Intl Hldgs Ltd	China	Holding companies	328	100
CTP(PNG)Ltd	Papua New Guinea	Kulim(Malaysia)Bhd	Malaysia	Vegetable oil mills	175	80
Darius Holdings Ltd	Mauritius	Asian Hotels (North) Ltd	India	Hotels	136	53
Digicel Pacific Ltd	Fiji	Digicel Group Ltd	Jamaica	Telecommunications	132	100
Light & Power Holdings Ltd	Barbados	Emera Inc	Canada	Investors	85	38

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

Table II.17. The 10 largest greenfield projects in SIDS, 2010

Investor or project	Industry	Host country	Home country	Investment ($ million)
Eni SpA (Eni)	Coal, oil and natural gas	Timor-Leste	Italy	1 000
InterOil	Coal, oil and natural gas	Papua New Guinea	Australia	550
Daewoo Shipbuilding & Marine Engineering	Coal, oil and natural gas	Papua New Guinea	Korea, Republic of	406
Pruksa Real Estate	Real estate	Maldives	Thailand	373
Allied Gold	Metals	Solomon Islands	Australia	217
Mubadala Development	Hotels and tourism	Maldives	United Arab Emirates	170
Fairmont Raffles Hotels International	Hotels and tourism	Maldives	Canada	170
Shangri-La Hotels and Resorts	Hotels and tourism	Maldives	Hong Kong, China	165
Dubai Holding	Hotels and tourism	Maldives	United Arab Emirates	160
Fairmont Raffles Hotels International	Hotels and tourism	Seychelles	Canada	128

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

undertaken by Pick n Pay (South Africa) in the food industry, and the other by Mango (Spain) in textiles.

FDI inflows were still biased towards relatively large economies and tax havens. In 2010, 62 per cent of the grouping's total FDI inflows targeted the top five recipients noted above (table A), and 38 per cent went into the tax havens;[58] however the latter share might drop as TNCs move less funds to these economies in the future. In relative terms, a number of SIDS performed well in attracting FDI inflows, and resource-rich Papua New Guinea stands out as one of the winners, resulting from booming investment in its extractive industries (box II.5).

Rising greenfield investments and cross-border M&As will drive up FDI inflows to SIDS in 2011. Total investment of recorded greenfield projects had jumped by 90 per cent in the first four months of 2011, compared with the same period of 2010. In the meantime, the value of cross-border M&A purchases rose to over $200 million. Considering the high potential of capital flows from emerging economies, FDI inflows to SIDS seem likely to increase in the years to come.

b. Roles of TNCs in climate change adaptation

Highly vulnerable to the effects of climate change, SIDS are looking to attract TNCs and FDI projects that can contribute to adaptation efforts.

SIDS are perhaps the countries that are most vulnerable to the effects of climate change. A warming of the ocean surface and a rise in sea level around these island economies have been detected, and this is expected to continue (UNFCCC, 2007). The associated adverse impacts pose a serious danger to many aspects of economic development in SIDS.[59] For instance, the tourist industry, which the economies of SIDS particularly depend on, will be strongly affected – the shift of tourism to higher altitudes and latitudes is expected to result in a significant drop in the tourist industry in such SIDS as the Maldives (Morin, 2006).

To avoid the grave danger posed by climate change, aggressive mitigation action by the major green house gas (GHG) emitters is crucial, while SIDS themselves have an urgent need for adaptation activities.[60] For this grouping of structurally vulnerable economies, the cost of inaction would be tremendous.[61] The governments of SIDS are taking various initiatives to incorporate adaptation practices into their economic planning and investment activities. Key industries identified in this process are agriculture, tourism, public health and water infrastructure, while the actors involved range from individuals, governments, local communities and international organizations to the private sector and civil society (AOSIS and UNF, 2008). The SIDS have dedicated their own resources to this critical area, and are calling for action among the international community.

The private sector is a crucial actor in the fight against the negative impacts of global warming in SIDS. In particular, TNCs can play an important role.

First, the participation of and optimal use of TNCs' resources is useful in filling the financial and technological gaps for climate change adaptation in SIDS. Considerable funds are needed to implement climate change adaptation activities (including improving land and water management and introducing new agricultural production technologies) and to enhance the countries' adaptive capacities (including improving education, information and infrastructure). Various multilateral and bilateral sources of funding are available,[62] but they are not of the magnitude needed (AOSIS and UNF, 2008). Evidence shows that TNCs can make a significant contribution through mobilizing resources and undertaking necessary investments, but lack of data prevents a systematic assessment of the extent of the financial and technological contributions of TNCs.

Secondly, foreign affiliates have strengthened host countries' adaptation efforts by undertaking their own adaptation activities as private sector participants, as well as indirectly through demonstration effects. In important industries such as tourism, which accounts for a large share of the economy of many SIDS,[63] TNCs' contribution in dealing with the economic challenges of climate change is considerable (box II.6).

Thirdly, TNC involvement can enhance the adaptive capacities of host countries by improving infrastructure. To respond successfully to the risks of economic disruption, SIDS need infrastructure

Box II.5. Natural resource-seeking FDI in Papua New Guinea: old and new investors

Papua New Guinea is a SIDS with substantial mineral reserves, including gold, copper and nickel, as well as oil and gas. Those natural resources have traditionally attracted significant investment from big companies based in Australia, the United Kingdom and the United States; but in recent years, these companies have been joined by investors from emerging economies.

Companies from developed countries are still the major investors in extractive industries in Papua New Guinea and have been trying to strengthen their positions. In the oil and gas industry, for instance, ExxonMobil and its joint venture partners have invested $14 billion in a liquefied natural gas project, starting from early 2010.[a] In metal mining, the "majors" from the developed world, such as BHP Billiton, Rio Tinto and Xstrata, are the main players in the country. Xstrata, the world's largest copper producer, has invested over $2 billion in Frieda River, a copper mine in Sandaun and East Sepik Provinces in Papua New Guinea in recent years.

Now, mining companies from developing countries, mainly large emerging economies, such as China and India, are investing in a big way. For example, following an agreement signed with the Government of Papua New Guinea in 2005, Metallurgical Construction Group (China) has made significant investments in the country's mining industries, including through the Ramu nickel-cobalt project, in which the Chinese corporation holds 85 per cent of equity. The total investment in the project in 2009 was $1.4 billion.[b]

Source: UNCTAD.
[a] Elizabeth Fry, "Exxon LNG project arranges $14bn in financing", *Financial Times*, 16 December 2009.
[b] E&MJ's Annual Survey of Global Mining Investment, project survey 2010.

systems that are modern and resilient to climate change. There are many interdependencies between the infrastructure industries, all of which are important for adaptive capacities (Royal Academy of Engineering, 2011),[64] but for most SIDS a resilient water industry (including water storage facilities, potable and waste water treatment plants, transmission lines, local distribution systems etc.) is a priority.

A number of projects with TNC participation have contributed to infrastructure development in SIDS, helping to reduce the vulnerability of SIDS to natural disasters and the anticipated rise in sea level. For instance, Berlinwasser (Germany) invested in a water and sewerage project in Mauritius in 2008, raising standards and improving the efficiency and resilience of the water industry in the country.[65] In the Maldives, Hitachi Plant Technologies Group (Japan) acquired a 20 per cent stake in a major water and sewage treatment company in 2010, and helped streamline and update operations by leveraging the company's strengths and know-how.[66] Some TNCs involved in infrastructure industries are also from developing countries, and sometimes they have cooperated with international organizations which provide multilateral support on climate change adaptation as well as related infrastructure development to SIDS.[67]

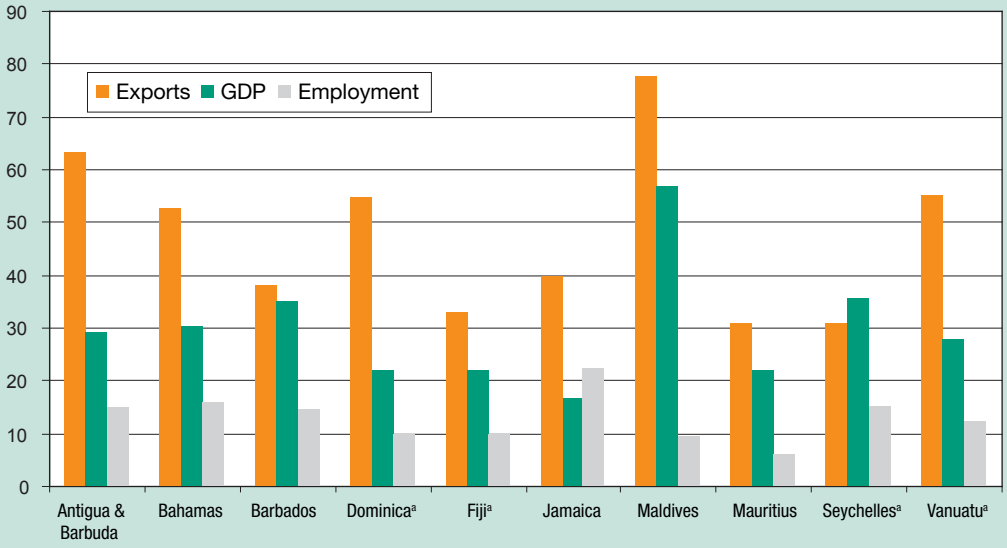
Effective climate change adaptation in SIDS is beyond the scope and capability of any single organization; it should involve partnerships among all relevant entities and stakeholders to achieve scale-up (AOSIS and UNF, 2008). With a proper institutional framework in place, TNCs can participate and play an important role. However, a number of barriers still exist to the private financing of adaptation practices in SIDS, including the lack of local capacities and resources, weak domestic markets and institutions, as well as the lack of interest by international investors. PPPs are needed to overcome these barriers and for a creative leveraging of foreign private resources; capacity-building of host country governments is the crucial first step. In this context, the importance of data collection cannot be overstated, which is fundamental to any further research in the area.

Box II.6. TNCs and climate change adaptation in the tourism industry in SIDS

The tourism industry is a key economic sector for SIDS in terms of income, employment and exports (box figure II.6.1), and is the major target of FDI inflows to these countries. The far-reaching consequences of climate change will affect the industry through increased infrastructure damage,[a] additional emergency preparedness requirements, higher operating expenses (e.g., insurance, back-up water and power systems, and evacuations), and business interruptions. Awareness of the need for climate-change mitigation measures is also changing the way that consumers think about tourism, all of which has significant implications for patterns of consumption and for the kinds of services that are desired or valued most. How to deal with these consequences has become a critical concern for SIDS such as Barbados and Dominica in the Caribbean, and Fiji and Vanuatu in Oceania.

Box figure II.6.1. Share of the hotel and tourism industry in total exports, GDP and employment, selected SIDS, 2007 or latest available year

(Per cent)



Source: UNTCAD.
[a] Share in total employment is estimated.

Foreign and domestic service providers (including hotel chains, tour operators, etc.) are active participants in sector-specific adaption plans for tourism in some SIDS. For example, a project of adaptation to "extreme temperatures and risk of tropical storms" was undertaken by the Caribbean Tourism Organization, the governments of several Caribbean islands, as well as companies in the accommodation industry. Another project of "water impact and adaptation" was conducted by individual accommodation providers and tour operators in Fiji (Becken, 2005). The country receives the highest number of tourists in Oceania, and its major hotels are managed by global TNCs such as Accor, Intercontinental, Radisson, Sheraton, Warwick etc.[b] In this and other cases, a range of technological, managerial and behavioural adaptation measures have been utilized by foreign affiliates to deal with climate change impacts.

Foreign affiliates can also play an indirect role in this regard. UNCTAD research in a number of developing countries found that foreign hotels were typically relatively early adopters of "green" technologies and approaches compared to local hotels and appeared to be able to recover from natural disasters more rapidly (UNCTAD, 2007). For instance, all four of Accor's hotels in Fiji have reached benchmark status for achieving the Green Global certification.[c] A wide range of methodologies and decision tools exist to guide adaptation practices,[d] but none have been specifically applied to the tourism industry (UNWTO, UNEP and WMO, 2008). Therefore, in addition to raising the awareness of adaptation among domestic tourism operators, the adaptation activities conducted by foreign affiliates become important sources of possible "best practice" examples for local firms to learn from and imitate.

Source: UNCTAD.
[a] For instance, in Barbados: 70 per cent of the island's hotels are located within 250 metres of the high water mark and are at a high risk of major structural damage.
[b] Lengefeld, Klaus, "Sustainable tourism and climate change in the Pacific island region", GTZ Sector Project, 2011.
[c] Green Globe is an international environmental accreditation organization for travel and tourism operators.
[d] These include the UNFCCC's Compendium of Decision Tools to Evaluate Strategies for Adaptation to Climate Change, as well as those developed by organizations such as UNDP Adaptation Policy Framework, United States Country Studies Program and United Kingdom Climate Impacts Programme.

Notes

[1] Nigeria's Petroleum Industry Bill (PIB) is aimed at reforming the legal and fiscal arrangements governing the oil industry. It has yet to be passed. Operating companies are concerned about maintaining their tax exemptions. The proposed bill would also require existing joint ventures to become incorporated with the restructured State-owned oil company, impose separate licences for oil and gas, preferential tax treatment for gas, relinquishment of licences for inactive fields and further reallocation of marginal fields to indigenous operators, enhanced environmental reporting, and higher local content mandates especially for professional and managerial staff. "Nigeria: Petroleum Industry Bill – of Senate warning and public agitation", AllAfrica.com, 14 March 2011; Revenue Watch Institute (no date), "The Nigerian Petroleum Industry Bill: key upstream questions for the National Assembly", www.revenuewatch.org.

[2] "Bharti sets USD1bn African budget in 2011", TeleGeography, 25 May 2011. www.telegeography.com.

[3] Hasan International (Hong Kong, China) invested an estimated $4 billion in metals in Ghana in 2011.

[4] "Is Zambia Africa's next breadbasket?", Mail and Guardian Online, 1 October 2010 (www.mg.co.za); "The great trek north", BNet, July 2004 (www.findarticles.com).

[5] "Coleus Crowns: past, present and future", *Madhvani Group Magazine*, 18(1): 25, June 2010.

[6] Members include Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe.

[7] EAC member countries are Burundi, Kenya, Rwanda, Uganda and the United Republic of Tanzania.

[8] The Daily News Egypt, "Member States push for infrastructure investment at COMESA", 13 April 2010 (www.trademarksa.org).

[9] In 2010, for example, Viet Nam surpassed China to become the largest production face for Nike (United States). In 2011, Coach (United States) is planning to shift half of its production activities out of China to neighbouring Asian countries, due to rising labour costs.

[10] Harsh Joshi, "Foreign capital shuns India", *Wall Street Journal*, 7 February 2011.

[11] The decline in FDI outflows from India was due to the depressed level of equity investment by Indian companies. By component, of FDI outflows from India: reinvested earnings remained at the same level of 2009 ($1.1 billion); other capital flows (mainly intra-company loans) increased by 99 per cent in 2010, while equity investments dropped by 40 per cent.

[12] It is difficult to estimate the share of extractive industries in the region's total FDI stock due to lack of data at the country level, but it might be around 15 per cent, which is well above the global average of less than 10 per cent (Web table 24 – www.unctad.org/wir).

[13] *Source*: International Energy Agency.

[14] Sylvia Pfeifer, "Chinese demand for energy pumps up M&A share", *Financial Times*, 7 November 2010.

[15] See e.g. "The Chinese are coming … to Africa", *The Economist*, 22 April 2011.

[16] Attractive mineral resources are, for instance, copper (in Chile and Peru), iron ore (in Brazil) and oil and gas (in Ecuador and Venezuela).

[17] *Source*: company website (www.foxconn.com.cn).

[18] Adam Goldberg and Joshua Galper, "Where Huawei went wrong in America", *Wall Street Journal*, 3 March 2011.

[19] *Source*: *International Business Times* (www.ibtimes.com).

[20] As the target company runs 400 hotels in 25 countries, mainly in Europe, the deal has helped HNA realize its plan of European market expansion.

[21] There was a $3.8 billion acquisition of Turkiye Garanti Bankasi by the Spanish Bank BBVA in March 2011.

[22] "Arab unrest takes toll on foreign investment", *Financial Times*, 30 March 2011.

[23] QIA's cross-border purchases have included investments in the London Stock Exchange, Credit Suisse, Barclays Bank, Volkswagen, the French electrical engineering group Cegelec, the French media and aerospace group Lagardère, Singapore's Raffles Medical Group, the grocery stores Sainsbury (United Kingdom), the Industrial & Commercial Bank of China, the German construction firm Hochtief, and the Brazilian affiliate of Banco Santander.

[24] "Qatar Holding acquires 9.1 per cent stake in German industrial giant Hochtief", Gulfnews.com, 7 December 2010, http://gulfnews.com.

[25] The acquisition was through the swap of a 100 per cent share of the French electrical engineering group Cegelec (wholly owned by QIA) for an 8 per cent share of Vinci (Vinci Press release, 31 August 2009, www.vinci.com).

[26] Mubadala, Annual Report 2009, Abu Dhabi, Mubadala website http://mubadala.ae.

[27] They were the source of 99 per cent of the value of the region's cross-border M&A sales to developing countries in 2001–2010, and 99 per cent of greenfield FDI projects by TNCs from developing countries in 2003–2010. *Source*: UNCTAD, based on UNCTAD cross-border M&A database and information from the Financial Times Ltd, fDI markets (www.fDImarkets.com).

[28] *Source*: UNCTAD, based on information from the Financial Times Ltd, fDI Markets (www.fDImarkets.com).

[29] Shree Renuka Sugars (India) bought out stakes in two Brazilian sugar and ethanol production companies for a total amount of $492 million: 50.34 per cent of Equipav AA, and 100 per cent of Vale Do Ivai.

[30] For example, in 2010, three commodities – iron ore, soya and crude oil – made up 84 per cent of Brazilian exports to China in 2010, while its imports from China were dominated almost entirely by manufactured goods (98 per cent). *Source*: Latin American Economy and Business, April 2011. See also the Economist Intelligence Unit, "Brazil/China economy: rebalancing the relationship", Viewswire, 13 April 2011, and "Chinese investment in Brazil soars", *Financial Times*, 31 January 2011.

[31] Georgia is listed under CIS, although it formally ceased to be a member in 2009.

[32] "Foreign banks are fleeing Russia", *Bloomberg Business Week*, 3 March 2011.

[33] See endnote 1 in Chapter I for this State support.

[34] A government fund is to be set up in the Russian Federation to attract foreign investment and help modernize the economy, sharing risks with foreign investors in projects designed to help modernize the country. "Russia plans $10 billion investment in fund", *Wall Street Journal*, 22 March 2011.

[35] Examples include the acqusitions of OAO Udmurneft (Russia Federation) and OAO MangistauMunaiGaz (Kazakhstan) by two Chinese TNCs for $3.6 trillion and $2.6 trillion, respectively.

[36] Its members include China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan, and Uzbekistan. India, the Islamic Republic of Iran, Mongolia and Pakistan are observer States, and Belarus and Sri Lanka dialogue partners.

[37] Examples include the "Sino-Russian Beijing declaration", guiding the two countries' strategic partnership, and "Russian Federation-India declaration on strategic partnership", signed in 2000.

[38] For example, Tencent, the Chinese company that runs the country's largest social networking and instant messaging service, is seeking to extend its business model overseas, initially through a 10 per cent stake in one of Russia's leading internet companies, Digital Sky Technologies. Yin et al., 2011.

[39] Repatriated earnings by United States TNCs rose from $99 billion in 2009 to $104 billion in 2010, whereas reinvested earnings rose from $219 billion to $296 billion.

[40] This hostile bid received wide media coverage, e.g. "Smooth sailing in rough seas for merger arbitrageurs", FT.com, 6 December 2010.

[41] Examples of bail-outs by rival banks include the $9 billion investment in Morgan Stanley by Mitsubishi UFJ Financial, for 21 per cent of the equity. Though not in the period under study, the most well-known bail-out was that of Merrill Lynch in December 2007, which with additional investments in 2008 amounted to about $6 billion in total.

[42] The calculations are based on the Thomson Reuters M&A data base and media reports.

[43] Examples include the sale of equity in UBS by the Government of Switzerland in 2009 and the sale of equity in Citigroup by the Government of the United States over the course of 2010.

[44] The State bail-out left the Government owning 84 per cent of the Royal Bank of Scotland Group and 43 per cent of the Lloyds Banking Group.

[45] "Too late for an 'unbundling' of Lloyds-HBSO", *Financial Times*, 7 April 2011.

[46] "Santander buys RBS branches, UK spin-off seen", Reuters, 4 August 2010.

[47] "RBS agrees to sell 80.01 per cent interest in Global Merchant Services to a consortium of Advent International and Bain Capital", Press Release of the Royal Bank of Scotland Group, 6 August 2010.

[48] Some efforts, such as UNCTAD's Business Linkages programme, have proved useful, as exemplified by the projects undertaken in four LDCs: Mozambique, Uganda, the United Republic of Tanzania, and Zambia, in 2008–2010.

[49] The countries of this grouping include: Afghanistan, Armenia, Azerbaijan, Bhutan, the Plurinational State of Bolivia, Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, the former Yugoslav Republic of Macedonia, Malawi, Mali, the Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe. Sixteen of the 31 LLDCs are classified as LDCs, and 9 are economies in transition.

[50] China's Xinxiang Kuroda Mingliang Leather Co. opened a $67 million leather factory in Ethiopia on 24 November 2010. The company financed 55 per cent of the project, with the remainder coming from the China-Africa Development Fund (Source: Bloomberg).

[51] In the Nam Theun II Hydropower Project in the Lao People's Democratic Republic, multilateral supports were from IDA (Guarantee/$42 million/2005), IDA (Loan/$20 million/2005), MIGA (Guarantee/$91 million/2005), ADB (Guarantee/$50 million/2005), EIB (Loan/$55 million/2005), ADB (Loan/$70 million/2005), and others (Loan/$131 million/2005). In the Bujagali Hydro Project in Uganda, multilateral supports were from IFC (Loan/$130 million/2007), IDA (Guarantee/$115 million/2007), ADB (Loan/$110 million/2007), EIB (Loan/$130 million/2007), and MIGA (Guarantee/$115 million/2007) (*Source*: World Bank).

[52] The Northern Corridor links Burundi, the Democratic Republic of the Congo, Ethiopia, Kenya, Rwanda, Sudan Uganda, and United Republic of Tanzania.

[53] *Source*: Reuters.

[54] South Africa, Mozambique and other countries in Southern Africa have promoted the establishment of the Maputo Corridor with substantial public and private (including foreign) investment. The corridor is intended to stimulate sustainable growth and development in the area.

[55] The Greater Mekong Subregion comprises Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam, and Yunnan Province in China.

[56] Launched in 1999, the ASEAN Highway Network Project aims to upgrade all designated national routes to Class I standards by 2020. The network consists of 23 designated routes totalling 38,400 km.

[57] The countries of this group include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

[58] According to the OECD, the following SIDS are tax havens: Antigua and Barbuda, Bahamas, Dominica, Grenada, Marshall Islands, Nauru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, and Vanuatu.

[59] The advserse impacts of global warming on SIDS include: increases in extreme weather events, rises in sea level, reductions in water resources, diminished marine resources, displacement of local species, and increased hazards to human health (Alliance of Small Island States (AOSIS) and United Nations Foundation (UNF), 2008; Kelman and West, 2009).

[60] In the context of climate change, mitigation refers to human intervention to reduce the sources or enhance the sinks of greenhouse gases. Examples include using fossil fuels more efficiently for industrial processes and electricity generation, switching to solar energy or wind power, improving the insulation of buildings, and expanding forests and other "sinks" to remove greater amounts of carbon dioxide from the atmosphere. Adaptation refers to the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities (*Source*: UNFCCC).

[61] In the absence of adaptation efforts, the annual costs of climate change impacts in exposed developing countries in general and SIDS in particular are expected to range from several per cent to tens of per cent of GDP (World Bank, 2006).

[62] These sources of funding for adaptation available for SIDS include, for instance, the GEF Trust Fund, the Special Climate Change Trust Fund and the Least Developed Countries Trust Fund (administrated by the UN Global Environment Facility), the Adaptation Fund (administrated by the AF Board under the authority and guidance of CMP), and the Convention on Biological Diversity.

[63] In the Caribbean, the industry accounts for 15 per cent of GDP, 13 per cent of employment, and 15 per cent of total exports; in Oceania the shares are 12 per cent, 12 per cent and 17 per cent, respectively (Nurse, 2009).

[64] The interdependencies in many cases are quite straightforward: energy directly affects all other industries which require power to function; workers in all industries rely on transport to get to work, and can only work if water supplies are maintained; all other industries are reliant on a supply of electricity for energy and on the ICT for communication (Royal Academy of Engineering, 2011).

[65] *Source*: World Bank PPI database.

[66] The company operates water supply and sewerage systems on seven islands, including the island of Malé, where the capital is. Its services are used by 40 per cent of the population of the Maldives (source: hitachi-pt.com).

[67] For example, Digicel (incorporated in Bermuda) has been actively investing in telecommunications in countries such as the Maldives (together with IFC) and Papua New Guinea (together with the Asian Development Bank). An energy and water project with the involvement of the Asian Development Bank has contributed to infrastructure in the Maldives, improving the country's adaptive capability.

RECENT POLICY DEVELOPMENTS

CHAPTER III

Investment liberalization and promotion remained the dominant element of recent investment policies. Nevertheless, the risk of investment protectionism has increased as restrictive investment measures and administrative procedures have accumulated over recent years.

The regime of international investment agreements (IIAs) is at a crossroads. With close to 6,100 treaties, many ongoing negotiations and multiple dispute-settlement mechanisms, it has come close to a point where it is too big and complex to handle for governments and investors alike, yet remains inadequate to cover all possible bilateral investment relationships (which would require a further 14,000 bilateral treaties). The policy discourse about the future orientation of the IIA regime and its development impact is intensifying.

FDI policies interact increasingly with industrial policies, nationally and internationally. The challenge is to manage this interaction so that the two policies work together for development. Striking a balance between building stronger domestic productive capacity on the one hand and avoiding investment and trade protectionism on the other is key, as is enhancing international coordination and cooperation.

The investment policy landscape is influenced more and more by a myriad of voluntary corporate social responsibility (CSR) standards. Governments can maximize development benefits deriving from these standards through appropriate policies, such as harmonizing corporate reporting regulations, providing capacity-building programmes, and integrating CSR standards into international investment regimes.

A. NATIONAL POLICY DEVELOPMENTS

Investment liberalization and promotion have continued to figure prominently on the policy agendas of many countries. At the same time, the trend of recent years towards increased investment regulation has persisted.

In 2010, at least 74 countries around the globe adopted upwards of 149 policy measures affecting foreign investment (table III.1). Of these measures, 101 related to investment liberalization, promotion and facilitation, while 48 introduced new restrictions or regulations relevant to FDI. Compared to 2009, the percentage of more restrictive policy measures increased only slightly, from approximately 30 per cent to 32 per cent. affecting the entry and establishment phase, and promotion and facilitation measures (table III.2). Overall, measures aimed at improving investment conditions continued to outnumber measures introducing new restrictions or regulations, but the margin is diminishing. The numerical difference was particularly large with regard to the entry and establishment category.

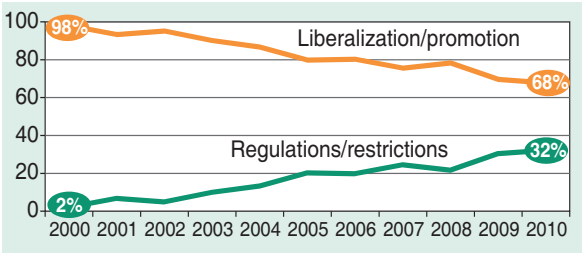
As regards the geographical distribution (table III.2), developing countries were especially active in revising investment policy. Asian countries (including West Asia) were the most active (56

Table III.1. National regulatory changes, 2000–2010
(Number of measures)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of countries that introduced changes	70	71	72	82	103	92	91	58	54	50	74
Number of regulatory changes	150	207	246	242	270	203	177	98	106	102	149
Liberalization/promotion	147	193	234	218	234	162	142	74	83	71	101
Regulations/restrictions	3	14	12	24	36	41	35	24	23	31	48

Source: UNCTAD, Investment Policy Monitor database.

Figure III.1. National Regulatory Changes, 2000–2010
(Per cent)



Source: UNCTAD, Investment Policy Monitor database.

This maintains the long-term trend of investment policy becoming increasingly restrictive, rather than liberalizing (figure III.1). Overall, the percentage of investment liberalization and promotion measures was slightly higher in developing countries and transition economies than in developed countries.

A closer look at the type of policy measures adopted reveals that most related to operational conditions for TNCs, followed by measures measures), followed by Africa (29) and Latin America (25). Asia stands out, with a total of 46 out of 56 measures being more favourable to FDI. Measures from West Asia, for instance, were mainly in the area of liberalization of entry conditions, whereas for South, East and South-East Asia, promotion and facilitation also played an important role. In Africa, governments focused particularly on new promotion and facilitation measures to foster a more favourable investment climate. Due principally to developments in a small number of Latin American countries, this region stands out for the number of policy measures that were less favourable to FDI. These measures involved the strengthening of State control (up to and including nationalization) over natural resources-based industries, including both agribusiness and extractive industries. For developed countries the number of more favourable and less favourable entry measures was equal, while in transition economies these measures mainly related to the introduction of new privatization schemes.

Table III.2. National regulatory changes in 2010, by type of measure and region[a]
(Number of measures)

	Entry and establishment[b]		Operation[c]		Promotion and facilitation[d]
	More favourable to FDI	Less favourable to FDI	More favourable to FDI	Less favourable to FDI	
Total	40	16	34	33	35
Developed countries	6	6	10	6	4
Developing economies	30	10	19	24	27
Africa	4	2	8	4	11
South, East and South-East Asia	12	5	5	5	12
West Asia	10	0	4	0	3
Latin America and the Caribbean	4	3	2	15	1
South-East Europe and the CIS	4	0	5	3	4

Source: UNCTAD, Investment Policy Monitor database.
[a] Since some of the measures can be classified under more than one type, overall totals differ from table III.1.
[b] Entry measures and establishment: measures related to ownership and control or approval and admission conditions for (both inward and outward) FDI and other measures affecting the entry or establishment of TNCs.
[c] Operation: measures related to non-discrimination, nationalization or expropriation, capital transfer, dispute settlement, performance requirements, corporate tax rates and other measures affecting the operating conditions for TNCs.
[d] Promotion and facilitation: measures related to fiscal and financial incentives, procedural measures related to approval and admission, or investment facilitation and other institutional support.

Approximately half of the investment policy measures taken in 2010 related to one or more specific industries. Many different industries were involved, some more than others (in particular, extractive industries and financial services). For most industries, measures in the area of liberalization or promotion of FDI dominated those of a restrictive nature (table III.3). The main exceptions to this were the extractive industries and to a lesser extent agribusiness. These industries were responsible for a large share of the restrictive measures in 2010, including measures such as the introduction of performance requirements and new tax regimes, and the renegotiation of contracts.

Table III.3. National regulatory changes in 2010, by industry
(Per cent)

	Liberalization/ promotion	Regulations/ restrictions
Total	67	33
No specific industry	84	16
Agribusiness	38	62
Extractive industries	7	93
Manufacturing	50	50
Electricity, gas and water	75	25
Financial services	59	41
Other services	61	39

Source: UNCTAD, Investment Policy Monitor database.

1. Investment liberalization and promotion

At least 56 countries adopted new investment liberalization or promotion measures in various industries. The number of these measures increased from 71 in 2009 to 101 in 2010.

Of the 40 new investment liberalization measures implemented in 2010, 25 were specifically taken to liberalize foreign investment, and 15 were of a more general nature improving the overall policy framework for FDI. These measures were most pronounced in Asia and related to a broad range of industries (table III.2 and box III.1). Of the 34 measures improving operational conditions for TNCs, most relate to the lowering of corporate tax rates.

Most of the measures to promote or facilitate foreign investment were taken by countries in Africa and Asia (table III.2). A few categories of facilitation and promotion measures stand out as having been frequently used. These include the streamlining of admission procedures and the opening of new – or the expansion of existing – special economic zones (box III.2).

From a practical point of view, facilitation measures can often be more important for investors than a formal easing of investment restrictions. Informal

Box III.1. Examples of investment liberalization measures in 2010/2011

- *Bhutan* released its "FDI policy 2010", according to which all activities not included in a "negative list" shall be open to FDI. It allowed 100 per cent foreign ownership in certain activities such as education, specialized health services, luxury hotels and resorts, and infrastructure facilities within the services sector.[a]
- *Canada* removed foreign ownership restrictions regarding international submarine cables, earth stations that provide telecommunications services by means of satellites, and satellites.[b]
- *Guatemala* passed a new insurance law that allows foreign insurance companies to establish branches.[c]
- *India* issued a new consolidated FDI policy, which facilitates the expansion of established foreign owned enterprises, allows the conversion of non-cash items into equity (with approval from the government) and permits FDI in certain agricultural activities.[d]
- *Indonesia* has partially liberalized construction services, film and health services, as well as parts of electricity generation.[e]
- *Syrian Arab Republic* issued a law that permits the private sector (both foreign and domestic) to invest in the generation and distribution of electricity.[f]
- *Taiwan Province of China* partially liberalized outward investment to China with regard to a number of activities related to agriculture, manufacturing, services, and infrastructure.[g] It also announced the opening of a large part of its core hi-tech business, including semiconductor manufacturing, to investors from mainland China.[h]
- *Turkey* adopted a law permitting foreign investors to hold up to 50 per cent of the shares in up to two broadcasting companies.[i]

Source: UNCTAD.
[a] Ministry of Economic Affairs, 21 May 2010.
[b] Canada Telecommunications Act amended 12 July 2010, Art. 16 (5).
[c] Decree No. 25-2010, published in the Official Gazette No. 3, 13 August 2010.
[d] Consolidated FDI Policy Circular No.1, 1 April 2011.
[e] Presidential Regulation No. 36, 2010.
[f] Law No. 32, 14 November 2010.
[g] Council for Economic Planning and Development, "Restrictions loosened on investment in China", 9 April 2010.
[h] Investment Commission, "The second phase of opening up the mainland investment in Taiwan Industry Project", 2 March 2011.
[i] Law No. 6112, 3 March 2011.

barriers are regularly cited as major investment hurdles in developing countries. Removing such bottlenecks is also politically less sensitive than investment liberalization. Moreover, the smaller the differences between countries in their formal openness to FDI, the greater the importance of "soft" investment conditions, like a welcoming, competent and efficient administration.

Investment promotion measures have also been taken in the context of industrial policy (section D). Several countries have taken steps to encourage FDI in specific economic activities, such as hi-tech industries or car manufacturing. Promotion measures included fiscal and financial incentives, and the establishment of special economic zones.

2. Investment regulations and restrictions

The rebalancing of investor rights and obligations continued, with a particular focus on the financial sector. Several countries increased the role of the State in natural resources based industries, such as agribusiness and extractive industries.

Notwithstanding the continuing predominance of investment liberalization and promotion, numerous countries have adopted measures to strengthen the regulatory framework for investment, both domestic and foreign. The number of measures restricting or regulating FDI increased from 31 in 2009 to 48 in 2010. This has been the case

Box III.2. Examples of investment promotion measures in 2010/2011

- *Bosnia and Herzegovina* amended its Law on Foreign Direct Investment Policy, simplifying the registration process for foreign investment.[a]
- *Fiji* adopted a one-stop shop policy to enhance processes relating to foreign and local investment applications in the country.[b]
- In the *Republic of Korea*, the Government is offering an improved package of incentives to attract foreign investors into special economic zones. The Government also extended FDI zones for the services sector.[c]
- *Myanmar* passed a "Special Economic Zone Law", which provides incentives for foreign investors in banking and insurance.[d]
- The *Philippines* launched its Public–Private Partnership Centre to facilitate the coordination and monitoring of the PPP programmes and projects.[e]
- The *Russian Federation* created a new special economic zone in the Samar Region with a view to attracting investors particularly in the car-making and related industries.[f] The country also introduced simplified rules for employing highly qualified foreign specialists.[g]

Source: UNCTAD.
[a] Law on the Policy on Foreign Direct Investment, Official Gazette No. 48/10.
[b] Fiji Government Online Portal, "Cabinet approves one stop shop", 18 January 2011.
[c] Ministry of Knowledge Economy, "Free Economic Zone Promotion Plan", 1 September 2010; Ministry of Knowledge Economy, "Modification of the Enforcement Decree on the FDI Act", 5 October 2010.
[d] Special Economic Zone Law No. 8/2011, Official Gazette of the Government of Myanmar, 27 January 2011.
[e] Official Gazette, "PPP center launches 5 PPP projects", 4 March 2011.
[f] Government Resolution No. 621, 12 August 2010.
[g] Federal Law No. 86-FZ, 19 May 2010.

particularly in the financial sector, where several countries tightened existing rules in order to prevent future financial crises. Most of these measures have been taken by G-20 countries, and other members of the Basel Accord. In general, these new financial regulations focus on an increase in bank capital and liquidity requirements, reducing the existing risks in connection with financial institutions that are "too big to fail", and reinforcing oversight.[1] Different opinions exist as to the impact of the new regulations on FDI in the financial sector. Concerns have been expressed about the potential negative impact of the new regulations on existing investments, but regulators argue that the beneficial impact on the macro economy should more than offset the transitional adjustment costs.[2]

More State intervention also became apparent in the natural resources based industry. A number of countries, in particular in Latin America, pursued nationalization policies, with foreign investors being one target. Some nationalizations occurred also in other industries, including financial services. Likewise, a move towards stricter regulations manifested itself in new operational conditions for foreign investors, such as local content requirements. Once again, the extractive industry was particularly affected (box III.3).

Compared to the quantity of nationalizations and new operating conditions for investment, new FDI *entry and establishment restrictions* have been less common (table III.2). In large part, these measures have related to screening and approval regulations (box III.4). No clear pattern emerged according to which certain industries would be specifically liable to new entry restrictions. The latter vary between countries due to individual political sensitivities. A few foreign investments have been rejected on national interest grounds.

The reported nationalizations and sector-specific entry restrictions are part of broader developments in industrial policy, characterized by an extension of protective measures to national champions and strategic industries and by the intrusion of national security concepts into industrial policy

considerations. Together, this raises important questions on how to safeguard adequate policy space for countries to adopt FDI restrictions that they consider necessary, while at the same time avoiding such policies degenerating into investment protectionism (section D).

Although still a minority, overall the number of restrictive investment regulations and administrative practices has accumulated to a significant degree over the past few years. Together with their continued upward trend, as well as stricter review procedures for FDI entry, this poses the risk of potential investment protectionism.

3. Economic stimulus packages and State aid

More than two and a half years after the outbreak of the financial crisis, some countries continue to hold considerable assets following bail-out operations, have substantial outstanding loans to individual firms, or continue emergency support schemes for the financial and non-financial sectors.[3] However, in the financial sector, many countries have ceased to accept applications from financial firms to public assistance schemes. The phasing out of some of these schemes had already started in late 2009, and continued in 2010. Part of this process is due to the expiry of support schemes in the European Union, which included sunset clauses set by the European Commission. The closure of aid schemes also reflects an uneven but often low demand by businesses for this aid, which has been further weakened by the gradual tightening of the conditions of State support by governments (EC, 2011).

The unwinding of support schemes and liabilities resulting from emergency measures has started. So far this process has not overtly discriminated against foreign investors.

With the closure of support schemes to new entrants, the main outstanding issue relates to the unwinding of assets and liabilities that remain on government books as a legacy of the emergency

Box III.3. Examples of new regulatory measures affecting established foreign investors in 2010/2011

- In the *Plurinational State of Bolivia*, the Government nationalized, among others, the country's pension system.[a]
- *Ecuador* passed a new hydrocarbons law. It requires private oil companies to renegotiate their contracts from a production-sharing to a service arrangement.[b] The Government started to take over the oil fields of the Brazilian national oil company Petrobras after renegotiation of its licence failed.[c]
- *Kazakhstan* adopted a Law on State-Owned Property, which regulates the nationalization of private property in cases of threats to national security.[d]
- The *Kyrgyz Republic* nationalized one of the country's largest banks, the foreign-controlled AsiaUniversalBank.[e]
- The *Russian Federation* tightened the rules for foreign automobile producers with assembly plants in Russia. In order for such producers to continue to enjoy duty-free importation of components, they will have to significantly increase the overall volume of production in Russia and achieve a higher level of locally produced parts.[f]
- In the *Bolivarian Republic of Venezuela*, nationalizations affected various industries, including in the area of agriculture and power generation.[g]
- *Zimbabwe* set out the requirements for the implementation of the Indigenization and Economic Empowerment Act and its supporting regulations as they pertain to the mining sector. This 2007 Act made provision for the indigenization of up to 51 per cent of all foreign-owned businesses operating in Zimbabwe.[h]

Source: UNCTAD.

[a] Law No.65, 10 December 2010.
[b] Ley Reformatoria a la Ley de Hidrocarburos y a la Ley de Regimen Tributario Interno, 24 June 2010.
[c] Government press release, 23 November 2010.
[d] Law on State Property, No. 413-IV, of 1 March 2011.
[e] Decree No.56, 7 June 2010.
[f] Ministry of Industry and Commerce, Ministry of Economic Development and Ministry of Finance, Joint Order No.678/1289/184H, 24 December 2010.
[g] Decree No. 7.394, 27 April 2010; Decree No. 7.700, 4 October 2010; Decree No. 7.713, 10 October 2010; Decree No. 7.751, 26 October 2010.
[h] General Notice 114, 25 March 2011.

Box III.4. Examples of entry restrictions for foreign investors in 2010/2011

- *Australia* rejected Singapore Exchange's US$8.3 billion offer to take over Australian Securities Exchange, which it concluded was not in Australia's national interest.[a]
- *Brazil* reinstated restrictions on rural land-ownership for foreigners by modifying the way a law dating back to 1971 is to be interpreted. The reinterpreted law establishes that, on rural land-ownership, Brazilian companies which are majority owned by foreigners are subject to the legal regime applicable to foreign companies.[b]
- The Minister of Industry of *Canada* announced the blocking of the Australian mining company BHP Billiton's US$39 billion takeover of Potash Corp. (a Canadian fertilizer and mining company).[c]

Source: UNCTAD.
[a] Australian Treasury, Foreign Investment Decision, 8 April 2011.
[b] New Interpretation of Law No. 5.709/71, Parecer CGU/AGU No. 01/2008, 23 August 2010.
[c] Ministry of Industry Press Release , 3 November 2010. "Catas dolor sint facia niatur rerendi dit intur sinventendae vel eostis".

measures. So far, this process has advanced relatively slowly, and less than a fifth of the financial firms that received crisis-related support have repaid loans fully, repurchased equity or relinquished public guarantees.

In the non-financial sectors, legacy assets and liabilities are much lower, but the number of companies that benefited from crisis-related government support is much greater. The unwinding of emergency aid to the non-financial sector has also started. For instance, in the automotive industry – one of the main industries at which aid was targeted – companies in Canada, France and the United States have partly repaid loans, and some of the government equity holdings in the companies have been acquired by private investors.

In all, in April 2011, governments were estimated to hold legacy assets and liabilities in financial and non-financial firms valued at over $2 trillion. By far the largest share relates to several hundred firms in the financial sector. This indicates a potential wave of privatizations in years to come.

Since 2009, following a request by G-20 leaders, UNCTAD, the WTO and OECD have monitored trade- and investment-related policy responses to the financial crisis. One of the main objectives is to scrutinize whether and to what extent countries resorted to trade or investment protectionism, as they grappled with the crisis. The five reports published so far by the three international organizations conclude that for the most part, emergency measures as well as unwinding of assets and liabilities did not overtly discriminate against foreign investors (*WIR10*; OECD-UNCTAD, 2010a, b and 2011; WTO-OECD-UNCTAD, 2009 and 2010). For instance, the United States has sold its holdings in financial institutions and an automotive company through auctions executed by private banks and parts of the assets were sold to foreign competitors.[4] Furthermore, a study by the European Commission shows that several EU member States, including Germany, France, and the United Kingdom, considered that emergency schemes for the non-financial sectors implemented in other countries did not harm their companies.[5]

B. THE INTERNATIONAL INVESTMENT REGIME

1. Developments in 2010

As the IIA universe continues to expand, the policy discourse about how to enhance IIAs' contribution to sustainable development is intensifying, at both the national and international levels.

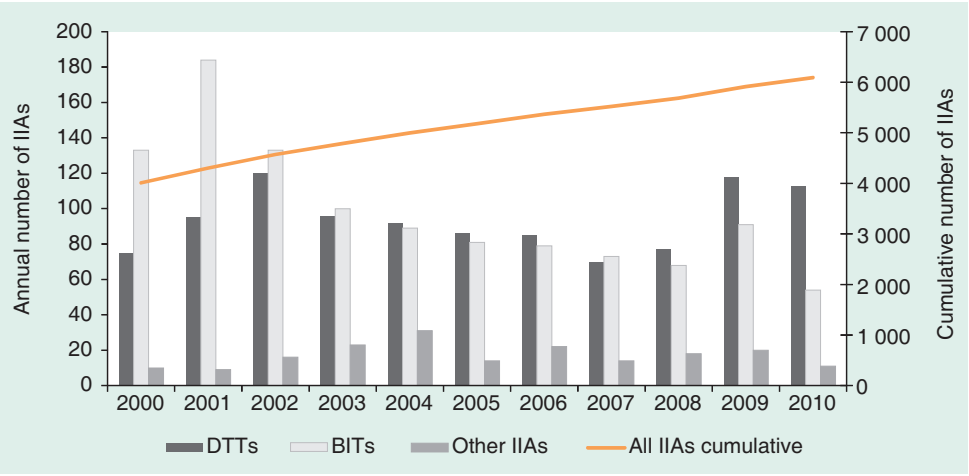
In 2010, a total of 178 new IIAs were concluded (54 bilateral investment treaties (BITs),[6] 113 double taxation treaties (DTTs)[7] and 11 IIAs other than BITs and DTTs ("other IIAs").[8] As a result, at the end of 2010 the IIA universe contained 6,092 agreements, including 2,807 BITs, 2,976 DTTs and 309 "other IIAs" (figure III.2). The trend seen in 2010 of rapid treaty expansion – with more than three treaties concluded every week – is expected to continue in 2011, the first five months of which saw the conclusion of 48 new IIAs (23 BITs, 20 DTTs and five "other IIAs") and more than 100 free trade agreements (FTAs) and other economic agreements with investment provisions currently under negotiation. At the same time, it remains to be seen how the shift of responsibility for FDI from EU member States to the European level will affect the IIA regime (with EU member States being parties to more than 1,300 BITs with third countries) (box III.5).

In terms of total numbers of IIAs, as of May 2011, the United Kingdom is party to 320 IIAs, followed by Germany (304) and France (297). Amongst the developing countries, China tops the list, with 249 IIAs, followed by the Republic of Korea (190) and Turkey (183). The Russian Federation (141) and Croatia (118) rank first among the transition economies.

Twenty of the 54 BITs signed in 2010 were between developing countries and/or transition economies, as were four of the 11 other IIAs, a trend possibly related to developing countries' growing role as outward investors. With respect to "other IIAs", treaties concluded in 2010 continue to fall into the three categories: IIAs including obligations commonly found in BITs (three treaties in 2010);[9] agreements with limited investment-related provisions (five treaties);[10] and IIAs focusing on investment cooperation (three treaties).[11]

Countries continue to conclude IIAs, sometimes with novel provisions aimed at rebalancing the rights and obligations between States and investors and ensuring coherence between IIAs and other public policies. At the same time, the policy discourse about international investment policymaking intensifies at both domestic and international levels, amounting to a period of reflection on the future orientation of the IIA regime to make it work better for sustainable development. Nationally, different investment stakeholders have started to voice their concerns about the costs and

Figure III.2. Trends of BITs, DTTs and "other IIAs", 2000–2010



Source: UNCTAD, based on IIA database.

Box III.5. EU FDI Policymaking

The entry into force in December 2009 of the Lisbon Treaty shifted responsibility in the field of FDI from the member States to the EU (*WIR10*).While European member States continue concluding BITs[a] the shift of responsibility has given rise to a number of substantive and procedural questions about future EU investment policymaking at the international level. In that context, the relevant European institutions and non-governmental investment stakeholders have expressed their views.

While there seems to be agreement among EU institutions on the general orientation of future EU IIAs (i.e. that they should contribute to sustainable and inclusive growth and be guided by the principles and objectives of the Union's external action, notably human rights and sustainable development), differences of opinion have emerged regarding the details (e.g. provisions on scope and definition, the content and formulation of key substantive and procedural protection provisions, and the extent to which IIAs should refer to corporate social responsibility (CSR)).

Opinions differ even more when considering non-governmental investment stakeholders. A number of civil society groups consider IIAs a threat to the public interest, and suggest that it is time for a radically new approach to foreign investment. In contrast, some European industry groups highlight the positive role BITs play in increasing the competitiveness of European industry.

The disagreement is compounded by questions about future development of the EU IIA regime, including how to deal with the selection of future negotiating partners, with ongoing negotiations and with existing EU BITs (both intra- and extra-EU BITs). The outcome of this debate is likely to have a major impact on the global IIA regime. EU member States are among the countries with the largest numbers of BITs (annex table III.1). Moreover, over the last three years, Europe as a whole accounted for approximately 30 per cent of global FDI flows.

The EU debate offers great potential in so far as it allows the putting into practice of lessons learned regarding the design and substance of IIAs and their impact on sustainable development. However, open questions, attendant uncertainties, lack of predictability and stability will all serve to complicate the situation for EU negotiating partners and the IIA regime generally.

Source: UNCTAD.

[a] Thirty of the 54 BITs concluded in 2010 involved an EU member State. Seventeen of the 30 European BITs were renegotiated ones.

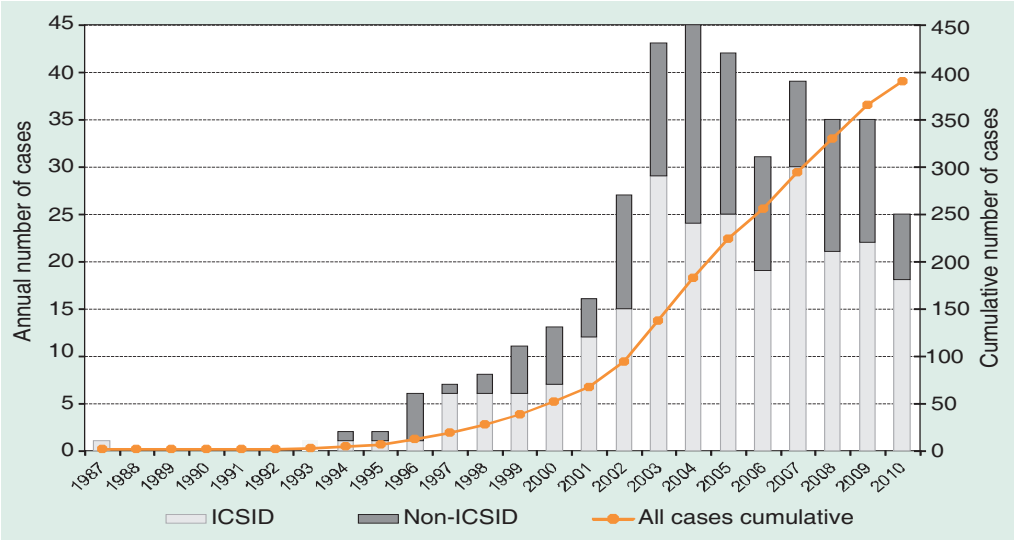
benefits and the future orientation of IIAs, including civil society, business and parliamentarians. While IIAs have traditionally been negotiated by the relevant government ministry, there is now an emerging trend of inter-ministerial or inter-agency coordination. This process is particularly prominent at the European level (box III.5), but is also evident in EU member States and other countries around the globe. To the extent that countries are reviewing their model BITs (*WIR10*), or that IIAs need to undergo domestic ratification processes, the call for increasing transparency and inclusiveness of IIA-related decision-making is gaining additional traction.

Internationally, the discourse was carried forward in forums such as the UNCTAD Investment Commission, the OECD Investment Committee, joint meetings of OECD and UNCTAD, regional conversations co-organized by UNCTAD to improve the investor–State dispute settlement (ISDS) system, and particularly in the UNCTAD World Investment Forum 2010, which involved a broad range of investment stakeholders in the Ministerial Round Table and the IIA Conference 2010.

With respect to ISDS, at least 25 new treaty-based cases were initiated in 2010 – the lowest number filed annually since 2001. This brought the total of known cases filed to 390 by the end of the year (figure III.3).[12] These cases were mainly submitted to the International Centre for Settlement of Investment Disputes (ICSID) (including its Additional Facility), which continued to be the most frequently used international arbitration forum (with 18 new cases). This follows the long-term trend, with the majority of cases accruing under ICSID (245 cases in total).

In 2010, the total number of countries involved in investment treaty arbitrations grew to 83, with Uruguay and Grenada each contesting the first claims directed against them. Fifty-one developing countries, 17 developed countries and 15 economies in transition have been on the responding side of ISDS cases. The overwhelming

Figure III.3. Known investment treaty arbitrations, 1987–2010
(Cumulative and newly instituted cases)



Source: UNCTAD, ISDS database.

majority of the claims were initiated by investors from developed countries. Forty-seven decisions were rendered in 2010, bringing the total number of cases concluded to 197 (UNCTAD, 2011c).[13] Twenty of these decisions were awards, 14 of which were decided in favour of the State, five in favour of the investor, and one award embodied the parties' settlement agreement. This has tilted the overall balance of awards further in favour of the State (with 78 won cases against 59 lost).

2. IIA coverage of investment

Today's IIA regime offers protection to more than two-thirds of global FDI stock, but covers only one-fifth of possible bilateral investment relationships.

The intended purpose of IIAs is to protect and to promote foreign investment. Today, about two-thirds of global FDI stock benefits from post-establishment protection with comprehensive sectoral coverage granted by BITs or "other IIAs".[14] However, this represents only one-fifth of possible bilateral relationships. To provide full coverage another 14,100 bilateral investment treaties would be required (figure III.4).

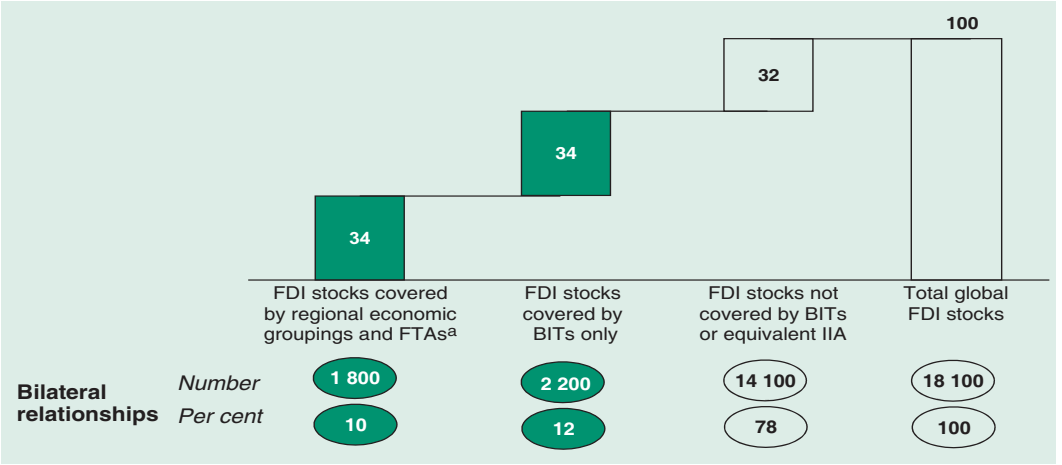
These 14,100 treaties would include, on the one hand, many bilateral relationships with little propensity to invest (i.e. where FDI flows are negligible) or with little propensity to protect (e.g. between OECD member countries). On the other hand, they would also include a few bilateral relationships where substantial FDI stocks exist that are not covered by any existing investment protection agreement (e.g. China and the United States, Brazil and China).

These findings beg a number of questions with regard to the effectiveness of IIAs in terms of generating investment flows and promoting development gains (UNCTAD, 2009b). For example, the existence of considerable FDI stocks in the absence of post-establishment treaty coverage suggests that for some investment relationships, IIAs fall short of being a determining factor for investment.

Furthermore, some of the FDI stock is subject to protection offered by two or more IIAs. In fact, 570 BITs at least partially duplicate the post-establishment protection offered by other agreements. The extent of overlap and risk of contradictory provisions depends on the precise formulation used in BITs and/or "other IIAs" in terms of protection granted and flexibilities offered (*WIR10*). This raises questions about the efficiency of the IIA regime – an issue that is already discussed with regard to the future of EU member States' IIAs (box III.5).

A further 630 BITs overlap with "other IIAs" that contain investment liberalization provisions only

Figure III.4. IIA coverage of bilateral relationships and FDI stocks
(Per cent and number)



Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and UNCTAD database on IIAs.
[a] Includes EU, OIC, UCIAC, LAS, COMESA, SADC, ASEAN, CEFTA, CAFTA, APTA, UMA, Eurasian Economic Community, MERCOSUR,TEP,NAFTA, EFTA, the FTA between GCC-EFTA, as well as FTAs CARICOM, ASEAN, EFTA and GCC with third countries.
Note: FDI stocks are estimated on the basis of treaty-partner shares of world FDI inflows and outflows. 192 UN member countries only.

(e.g. EU partnership, association and cooperation agreements), resulting in a situation where post-establishment protection (offered by BITs) complements pre-establishment protection/ liberalization (offered by "other IIAs"). Whether such comprehensive coverage is desirable is an important question, the answer to which is highly context- and situation-specific, and needs to be assessed against the overall objective of ensuring that IIAs promote investment for sustainable development. Furthermore, investment relationships have to be seen from a dynamic perspective, as the propensities to invest, and hence to protect through IIAs, may change over time (as witnessed by the growing interest of some emerging outward investing countries in IIAs).

C. OTHER INVESTMENT-RELATED POLICY DEVELOPMENTS

Supported by the G-20 Development Agenda, various international initiatives are being developed to promote positive development impacts through private investment.

1. Investment in agriculture

Since the publication of the *World Investment Report 2010*, work has continued on the Principles for Responsible Agricultural Investment (PRAI) that were developed jointly by UNCTAD, the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and the World Bank (*WIR10*). The agricultural sector in low-income countries has been suffering from serious underinvestment for decades. Private investment can contribute to long-term solutions to food security and development, provided that such investment is socially responsible and environmentally sustainable (*WIR09*). The seven principles, once implemented, could contribute to enhancing the positive and reducing the potential negative effects of foreign investment in agricultural production.

The coverage of food security and responsible investment in agriculture by the G-20 Multi-Year Action Plan on Development reflects growing concerns among policymakers regarding access to

food and food prices, the potential negative impacts of speculation and profiteering in commodities and land, and the social and environmental impacts of international investments in agriculture. At the Seoul Summit on 11–12 November 2010, the G-20 leaders encouraged countries and companies to uphold the PRAI and requested UNCTAD, the World Bank, IFAD, FAO and other appropriate international organizations to develop options for promoting responsible investment in agriculture.

2. G-20 Development Agenda

At the Seoul Summit, the G-20 leaders considered the disproportionate effect of the financial crisis on the most vulnerable in the poorest countries, and the slow progress toward achieving the Millennium Development Goals (MDGs).[15] The G-20 leaders committed to work in partnership with other developing countries, low-income countries (LICs) in particular, to help build the capacity to achieve and maintain their economic growth potential in line with the mandate from the G-20's Toronto Summit.[16]

The Seoul Consensus consists of a set of principles and guidelines to achieve the MDGs. The six core principles focus on economic growth, global development partnership, global or regional systemic issues, private sector participation, complementarity, and outcome orientation. In addition, the G-20 leaders identified nine areas, or "key pillars", where action is necessary to resolve the most significant bottlenecks to inclusive, sustainable and resilient growth in developing countries. These areas are: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization, and knowledge-sharing.

The G-20 leaders also endorsed the Multi-Year Action Plan on Development, with deadlines running from 2012 to late 2014. This Plan includes 16 specific and detailed actions on the nine key pillars identified in the Seoul Consensus. Three pillars in the Multi-Year Action Plan on Development are closely related to investment. Under the "Private Investment and Job Creation" pillar, the G-20 leaders emphasized the importance of domestic and foreign private investment as a key source of employment, wealth creation and innovation, which in turn contributes to sustainable development and poverty reduction in developing countries. The leaders committed to support and assist investors, developing countries and key development partners in their work to maximize the economic value-added of private investment. At the G-20's request, UNCTAD, UNDP, ILO, OECD and the World Bank reviewed and developed key quantifiable economic and financial indicators for measuring and maximizing economic value-added and job creation arising from private sector investment in value chains, and developed policy approaches for promoting standards for responsible investment in value chains. G-20 leaders are expected to take further actions based on this work at their future summits in 2011 and 2012.

Under the "Infrastructure" pillar the G-20 leaders looked at gaps in infrastructure, in particular with respect to energy, transport, communications, water and regional infrastructure, that are significant bottlenecks to increasing and maintaining growth in many developing countries. They committed to overcoming obstacles to infrastructure investment, developing project pipelines, improving capacity and facilitating increased finance for infrastructure investment in developing countries, in particular LICs. They requested regional development banks and the World Bank Group to work jointly to prepare action plans to increase public, semi-public and private finance and improve implementation of national and regional infrastructure projects, including in energy, transport, communications and water, in developing countries.

Under the "Food Security" pillar, the G-20 leaders emphasized the need for increased investment and financial support for agricultural development, and encouraged additional contributions by the private sector, the G-20 and other countries to support country-led plans and ensure predictable financing.

3. Political risk insurance

In the past few years, the investment community has been mainly concerned with the financial crisis and its impacts on FDI and the global economy. However, political risk considerations are expected to return to the fore of investors' concerns, both

in the developed and in the developing world. According to the 2010 MIGA-EIU Political Risk Survey, political risk was perceived to be the single most important constraint on investment into developing countries over the medium term. This reflects numerous developments, including a trend towards greater regulation of FDI (section A) and recent political unrest in some parts of the world.

So far, however, these concerns have not yet resulted in greater reliance on political risk insurance. As a consequence of the global economic crisis, the volume of liability underwritten by Berne Union (BU) investment insurers fell by 6 per cent to $137.1 billion from 2008 to 2009. Reflecting the recovery in new business, the volume of liability totalled over $142 billion as of June 2010, an increase of 7.7 per cent in 12 months (MIGA, 2011). The slight pick-up in 2010 results from the modest recovery in FDI during the year.

Political risk insurance evolved in 2010. For example, the Non-Concessional Borrowing Policy (NCBP) was updated to avoid the re-accumulation of external debt in low-income countries that have benefited from the "multilateral" debt relief initiative of 2006. Since April 2010, the NCBP has been successful in attracting an increased number of creditors to adhere to NCBP for promotion of financing of low-income countries (MIGA, 2011).

Finally, political risk insurance has linkages with other areas of investment policymaking. For example, some entities condition the granting of political risk insurance on the existence of an IIA with the host country in question.

D. INTERACTION BETWEEN FDI POLICY AND INDUSTRIAL POLICY

FDI policy increasingly interacts with industrial policy, both at the national and international levels. The challenge is to make the two work together for development, to avoid investment protectionism and to enhance international coordination.

Many governments have opted for more proactive industrial policy in recent years. The reasons for this are manifold and include, for instance, structural change and economic diversification, pressure from international competition, disappointment with the results of laissez-faire policy, the wish to "guide" development, a desire to strengthen and protect national champions, and State intervention in response to various crises. The success of industrial policy in countries such as Brazil, China, India or the Republic of Korea has given further impetus to this development.

FDI policy interacts closely with industrial development strategies. In general, countries promote or restrict foreign investment within this context, depending on the industry in question and on the role they want to assign to FDI in domestic development. Investment promotion policy can be an important means to build productive capacity in developing countries, as TNCs bring capital, technology and know-how into the host country that can be crucial for the development of individual industries. Conversely, countries may choose to restrict FDI because they see a need to protect certain domestic industries – in particular infant or strategic industries – from foreign takeovers or competition. The interaction between FDI policy and industrial policy has both national and international dimensions.

1. Interaction at the national level

The interface between FDI policies and industrial policies is most pronounced in specific national investment guidelines that define the role of FDI in domestic industrial development strategies and identify the policy tools to apply in this context. A number of countries have created such documents that specify to various degrees the extent to which FDI is prohibited, restricted, allowed or encouraged, and what FDI-related policy instruments to apply (e.g. China's "Foreign Investment Industrial Guidance Catalogue" and "Catalogue of Foreign Investment Advantageous Industries in Central

and Western China", India's "Consolidated FDI Policy").[17] Some guidelines specifically address the use of investment promotion instruments (e.g. the Republic of Korea's "FDI Promotion Policy in 2011", the Malaysian Industrial Development Authority's "Invest in Malaysia" policy, and the Thailand Board of Investment's "Investment Promotion Policy for Sustainable Development").[18] These guidelines may also relate to the interpretation of national laws and policies at the sub-national level.

Many countries have policies to target individual companies or specific categories of foreign investors considered capable of making a particularly significant contribution to industrial development, such as hi-tech investments, environmentally friendly projects or labour intensive technologies. Investment promotion agencies (IPAs) have an important supporting role in this context, namely through their matchmaking and aftercare services. These "targeting" policies may be reinforced through linkage programmes, the promotion of industrial clusters, and incubation programmes to maximize spillover effects and other benefits.

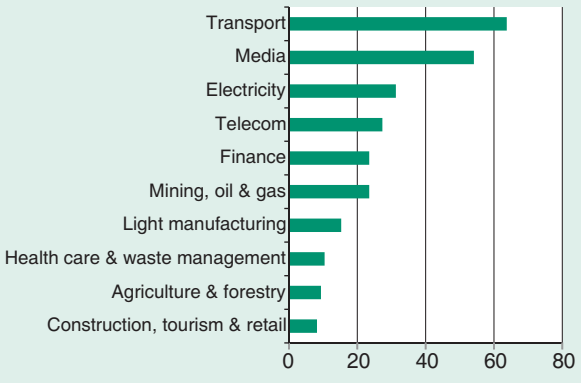
Industrial policy strategies often emerge with more general fiscal or financial incentive programmes. Investment incentives are subject to requirements related to development in certain industries, or regions, or with regard to specific development goals, such as export promotion, job creation, technology transfer and upgrading. Investment incentives are also used to help developing industries where as yet there is no sufficiently large market (e.g. renewables).

Industrial policy can further be supported by specific investment promotion and facilitation measures for FDI in particular industries, in line with their development strategies. The establishment of special economic zones and incubators, such as "hi-tech zones" (e.g. the "Electronic City" in Bangalore, India),[19] "IT corridors" (e.g. the "Taipei Technology Corridor")[20] or "renewables zones" (e.g. "Masdar City" in Abu Dhabi),[21] which aim at improving the "hard" and "soft" infrastructure of the host country, are cases in point.[22]

Industrial policy may also be pursued through selective FDI restrictions. In the past, restrictive FDI policy has been applied particularly with a view to promoting infant industries, or for socio-cultural reasons (e.g. land ownership restrictions). Nowadays, this relatively narrow policy scope has given way to a broader approach, under which numerous countries have strengthened their FDI-related policy instruments, in particular with regard to approval and screening procedures, and where the beneficiaries of government protection also include national champions, strategic enterprises and critical infrastructure. Moreover, governments may see a need to protect ailing domestic industries and companies at times of financial crisis or to discourage or restrict outward foreign investment in order to keep employment "at home". Increasingly, industrial policy considerations to justify FDI restrictions have become blurred with other policies to protect national security, thus further enlarging the scope of State intervention vis-à-vis foreign investors.

The economic importance of such policies is huge. For instance, policies to protect national champions and strategic enterprises usually cover core industries such as natural resources, energy, telecommunications, financial services and the transport sector (OECD, 2009). Figure III.5 provides an indication of which industries are most often affected by certain foreign ownership limitations. Restrictions mainly apply to transport and media, with more than half of the countries limiting foreign investment in these industries, often allowing only minority ownership.[23]

Figure III.5. Share of countries with industry-specific restrictions on foreign ownership, by industry, 2010
(Per cent)



Source: UNCTAD, based on World Bank, 2010.

2. Interaction at the international level

The interaction between international investment policy and industrial policy is characterized by the dual nature of IIAs, potentially both supporting and constraining industrial policy.

With respect to their potential to support industrial policy, IIAs are expected to encourage foreign investment through their functions of (i) protecting and liberalizing investment (e.g. by easing entry or by offering national treatment); (ii) improving the overall investment policy framework; and/or (iii) enlarging markets to serve (UNCTAD, 2009c). In addition, some IIAs include specific promotion-oriented provisions (UNCTAD, 2008b).[24] However, as most IIAs apply on a cross-cutting basis, potential foreign investment enhancing effects would occur for all industries.

On the other hand, IIAs also have the potential to constrain investment-related industrial policy. Provisions that deserve most attention in this context include, among others, IIA rules regarding (i) the entry of foreign investors (e.g. potentially precluding countries from restricting foreign investment at the entry level); (ii) national treatment (e.g. potentially precluding countries from granting subsidies exclusively to domestically owned enterprises);[25] and/or (iii) performance requirements (e.g. potentially constraining policies aimed at generating certain local linkages or ensuring positive spill-overs from foreign investment). A potentially constraining impact may also arise from investment-related provisions in international trade agreements, such as the WTO's Agreement on Trade-Related Investment Measures[26] and the Agreement on Subsidies and Countervailing Measures (box III.6).[27] The actual extent of constraints posed by IIA obligations is hard to anticipate in the abstract, and will depend on the industry, policy and IIA clause at issue.

To avoid creating undue policy constraints, a number of flexibility mechanisms have been developed in some IIAs (*WIR10*), taking, amongst others, the form of exceptions/exclusions to the treaty or of country-specific lists of reservations. Those particularly relevant for industrial policy include:

- Excluding certain industries, such as aviation, fisheries, maritime matters, financial services or cultural industries;
- Excluding certain policies, such as taxation, subsidies, government procurement, or agricultural policies;[28] and/or
- Including general or national security exceptions, which increasingly become relevant in the context of industrial policy (UNCTAD, 2009b).

Certain sectors and industries stand out as ones to which policymakers give particular attention when seeking to preserve space for industrial policy. For example, as revealed by UNCTAD case studies on investment reservations (figure III.6), countries are generally reluctant to accept far-reaching international commitments in the services sector, a trend that has remained broadly unchanged over recent decades.[29] Beyond specific industrial policy considerations a number of other aspects might also come within this context, notably: (i) the generally higher level of regulation (e.g. as a result of the greater scope for market failure in network services); (ii) greater political sensitivities (e.g. regarding the role of private – and foreign – providers in essential services sectors such as education, health and environmental services, including water distribution); (iii) national security concerns (e.g. with respect to strategic services); and (iv) the high level of State ownership (chapter I, section C.2) or governmental scrutiny (e.g. in sectors where monopolistic or oligopolistic market structures prevail) (UNCTAD, 2005, 2006).

Within the services sector, policymakers are inclined to preserve policy space particularly with regard to transportation, finance (e.g. banking and insurance), business/professional services and communication (e.g. postal, courier, telecom and audiovisual services) (figure III.7).[30] While the rationale for doing so may be different in each of the industries (e.g. (i) issues related to cabotage in the case of transport; (ii) issues regarding the integrity and stability of the sector in the case of financial services; and (iii) issues regarding the need to guarantee the supply of public services in the telecommunications sector), the quest for State ownership may also be relevant.

Box III.6. WTO TRIMS Agreement

The WTO Agreement on Trade-related Investment Measures (TRIMs Agreement) precludes WTO members from adopting certain goods-related performance requirements, such as requirements to use predetermined amounts of locally produced inputs.[a] The TRIMS Agreement therefore directly touches upon measures that traditionally fall within the realm of industrial policy. Moreover, the fact that the TRIMs Agreement applies to both foreign and domestic producers of goods, including agriculture-related goods, and that its list of prohibited measures is indicative rather than exhaustive, may suggest that the Agreement's actual reach may be considerable.

However, it has to be noted that the TRIMs Agreement acknowledges that all exceptions under GATT 1994 shall apply, as appropriate, to its provisions.[b] The Agreement also provides for a temporary exception for developing countries to maintain flexibility in their tariff structure enabling them to grant the tariff protection required for the establishment of a particular industry.[c] Furthermore, TRIMS applies to goods-related policies only and hence does not apply to WTO Members' services-related policies (e.g. local services requirements).

The TRIMS Agreement establishes transparency requirements[d] and an institutional setting, the TRIMs Committee, for discussion and consultation. Several debates in the TRIMs Committee have touched on industrial policies, including China's policies in the automobile and steel sectors[e] or Indonesia's policies in the telecommunications, the mineral/coal and mining sectors.[f]

Prohibitions on performance requirements can also be found in IIAs. A crucial difference, between these IIAs and TRIMs lies in the scope of application: IIAs are typically *narrower* than TRIMs, in so far as they do not restrain governments from regulating domestic investors; they may be *deeper* than TRIMs in so far as they sometimes add additional requirements ("TRIMs +") (e.g. performance requirements for services or intellectual property rights) or do not have TRIMs-type exceptions.

Source: UNCTAD.

[a] TRIMS prohibits trade-related investment measures that are inconsistent with the GATT's provisions on national treatment (Article III of GATT 1994) and quantitative restrictions (Article XI of GATT 1994).

[b] Article 3 of the TRIMs Agreement. "General Exceptions" are contained in Article XX of GATT 1994.

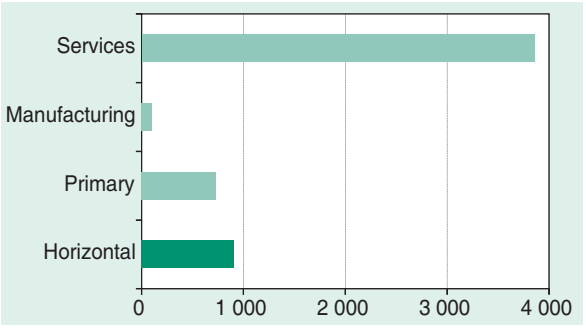
[c] Article 4 of the TRIMS Agreement, and Article XVIII of GATT 1994.

[d] Article 6.2 of the TRIMS Agreement requires each Member to notify the publications in which TRIMs may be found, including those applied by regional and local governments and authorities within their territories.

[e] E.g. the so-called "2+2" regulation, which stipulates that foreign investors cannot set up more than two Sino-foreign joint ventures for the production of passenger cars, and two for commercial vehicles. See G/TRIMS/M/27 and 29, and G/TRIMS/W/55.

[f] E.g. requirements to "prioritize" the utilization of local manpower and domestic goods and services in the mineral and coal mining sectors and to carry out processing and refining of the mining product inside the country. See G/TRIMS/W/70, G/TRIMS/W/71 and G/TRIMS/W/74.

Figure III.6. Investment-related reservations in IIAs, across sectors
(Number of reservations)



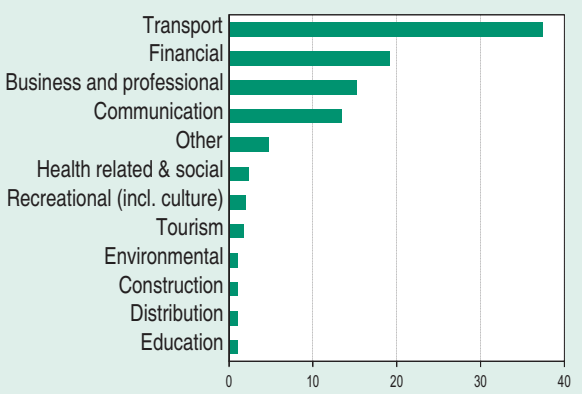
Source: UNCTAD, based on IIA database and UNCTAD (2005, 2006). Based on a survey of 16 IIAs.

Sometimes, policy space is preserved for specific aspects of investment policy that are closely related to industrial policy. Issues related to subsidies, the nationality of ships, public utilities, State-owned enterprises or land ownership serve as examples.

The salient features characterizing the interaction between FDI policies and industrial policy at the international level correspond to what can be observed at the national level. At both levels, the services sector is much more affected by foreign ownership limitations, compared to manufacturing or primary (e.g. agriculture and forestry) sectors. Moreover, as indicated by figures III.5 (national policies) and III.7 (international policies), the services industries where countries are comparatively more

inclined to preserve regulatory space are similar at the national and international levels. On balance, this suggests that countries aim to consciously manage the interaction between investment and industrial policy, with a view to ensuring coherence at both the national and international levels.

Figure III.7. Investment-related reservations in IIAs, across services industries
(Share of reservations)



Source: UNCTAD, based on IIA database and UNCTAD (2005, 2006). Based on a survey of 16 IIAs.

3. Challenges for policymakers

These different kinds of interaction between FDI policy and industrial policy raise a number of important challenges for policymakers to make the two policies work together for development.

a. "Picking the winner"

One of the strongest criticisms of industrial policy relates to the difficulty in identifying the "right" industries for promotion ("picking the winner"). This difficulty relates not only to picking "winning industries", but also to picking "winning firms"; the risk of wasting valuable and scarce resources if support is provided to "losers"; the risk of distorting market mechanisms to the long-term detriment of the economy; and the risk of succumbing to the pressure of lobbying .

Industrial policy can be successful if governments are able to identify those industries or activities which possess existing or latent comparative advantages, and which will thereby benefit from new opportunities arising in a multi-polar growth world (Lin, 2011). Export-generating choices do not always have the greatest impact on employment and value added; domestic industries, including services, even in developing economies, often account for more than half of value added. Policy tools are needed (a checklist of indicators against which to assess domestic potential), together with institutional mechanisms reducing the risk of governments making the "wrong" choice. Some first suggestions have already been made in this regard (Rodrik, 2004; Lin and Monga, 2010; Lin, 2011). Successful strategies to pick winners also include a readiness to let losers go. Sometimes even the most obvious choices for industrial priorities, seemingly sure winners, will not work out in today's uncertain economic environment.

b. Nurturing the selected industries

The interaction between FDI policies and industrial policy also implies designing the "right" investment promotion instruments. Horizontal policies are the basis, aiming at improving the hard and soft infrastructure of the host country. What is actually needed depends on the type of business activity to be developed, the technology and skills required for it, and the form of TNC involvement (FDI vs. non-equity modes).[31] In countries with poor infrastructure and business environments that are perceived as unfriendly, special investment incentives may be needed to help overcoming barriers to entry. Such incentives may also be required with regard to emerging industries for which a market does not yet exist (e.g renewable energy) or where there is a "first mover" problem, because innovation is a risky process (Lin, 2011).

By focusing on increasing industrial productivity, industrial policy can contribute to strengthening international competiveness. This underlines the need for close coordination between industrial policy, FDI policy and technology-related policy, so that they are coherent and mutually reinforcing. The dynamic nature of industrial development calls for regular review and adaptation of existing policy instruments. A case in point is recent changes in the international production networks of TNCs, resulting in a stronger emphasis on non-equity modes of international production (chapter IV).

c. Safeguarding policy space

Managing the interaction between international investment policy and industrial policy implies striking a balance between liberalizing and protecting FDI, while preserving space for the dynamics of industrial policy. This challenge extends to identifying industries and existing/potential future domestic policies, for which flexibilities are most needed; identifying IIA provisions that are particularly likely to impact on industrial policy; and recognising that industrial policy is likely to change over time.

The latter is important in light of the so-called "lock-in" effect, implying that once a commitment is made to open an industry to foreign investment, host countries are bound by it as long as the IIA remains in force.[32] The problem is further exacerbated if pre-establishment treaties contain "rollback" commitments with regard to remaining FDI restrictions, or so-called "ratchet clauses" according to which regulatory changes towards further liberalization are automatically reflected in a country's commitments under the IIA (UNCTAD, 2006). In response, some selected IIAs establish a procedure for IIA signatories to modify or withdraw commitments in their schedules.[33] In sum, carefully crafting IIA obligations in conjunction with exceptions and reservations can go a long way to concluding IIAs that are conducive to countries' industrial policy objectives.

d. Avoiding investment protectionism

The inclusion of elements of investment restrictions within industrial policy has given rise to concerns about investment protectionism. These concerns have grown in the light of the recent financial crisis, as countries may be tempted to protect their domestic industries, to the detriment of foreign competitors.[34]

Achieving a balance between the sovereign right to regulate an industry, and the need to avoid investment protectionism, remains a major policy challenge. It is complicated by the fact that there is no internationally recognized definition of "investment protectionism". Clarifying the term would require distinguishing between justified and unjustified reasons to restrict FDI. The motivations for FDI restrictions are manifold and include, for instance, sovereignty or national security concerns, strategic considerations, socio-cultural reasons, prudential policies in financial industries, competition policy, infant industry protection or reciprocity policies. In each case, countries may have very different perceptions of whether and under what conditions such reasons are legitimate.

One initiative to monitor investment protectionism has been taken by the G-20 (section A.3). Since September 2009, following a request from the G-20 London and Pittsburgh Summits, UNCTAD and the OECD have regularly published joint reports on G-20 Investment Measures.[35] Efforts to establish criteria for assessing whether investment restrictions are justified have been undertaken in the context of policy measures relating to national security reasons (OECD, 2009).

e. Improving international coordination

As more and more countries adopt forms of industrial policy, competition and conflict are bound to intensify and to become more complex. To avoid a global race to the bottom in regulatory standards, or a race to the top in incentives, and to avoid the return of protectionist tendencies, better international coordination is called for (Zhan, 2011). At the global level, such "coordination" is presently essentially limited to the control of certain forms of subsidies in the framework of the WTO Agreement on Subsidies and Countervailing Measures.

Better international coordination of industrial policy can also create important synergies through economies of scale, avoiding "beggar thy neighbour" policies, and strengthening the position of participating countries. Cross-border industrial cooperation can also present solutions in cases where the size, costs and risks of an industrial project are too big for one country alone to implement it. Efforts in this regard have materialized at the regional level, in particular the EU, where the example of the creation of the Airbus industry in the 1970s comes to mind. Other regions, such as ASEAN,[36] ECOWAS[37] and the Members of the Gulf Cooperation Council,[38] also have developed

joint industrial development strategies. Regional industrial policy is further reinforced when there is a common FDI regime among the participants.

* * *

In conclusion, interaction between FDI policies and industrial policies is increasing, nationally and internationally. Development stages and related strategies differ between countries, and there can be no "one size fits all" solution in dealing with this interaction. The policy challenges are numerous, with some of them being relevant only at the domestic level, while others call for international attention.

E. CORPORATE SOCIAL RESPONSIBILITY

The investment policy landscape increasingly includes a combination of voluntary and regulatory initiatives to promote corporate social responsibility standards.

A further important investment policy development in recent years has been the emergence of corporate social responsibility (CSR) standards.[39] Such standards can be contained in binding "hard law" instruments, such as national laws and regulations, or in voluntary non-binding "soft law" instruments. At present, international CSR standards are almost uniformly voluntary in nature and so exist as a unique dimension of "soft law". This emergence of CSR has been further reinforced in the post-crisis era, as efforts to rebalance the rights and obligations of the State and the investor have intensified (*WIR10*). CSR standards, though applicable to all types of enterprises, are increasingly significant for international investment, as they typically focus on the operations of TNCs which, through their foreign investments and global value chains, can influence the social and environmental practices of businesses worldwide. Governments can consider a number of practical measures to apply these standards to their investment and enterprise governance mechanisms, with a view to maximizing the development impact of corporate activities.

1. Taking stock of existing CSR standards

Over recent years, CSR standards have expanded in both number and form.[40] While it would be difficult to provide an exhaustive account of every such standard and initiative, the universe of CSR standards can be categorized according to the organization that created them: i) intergovernmental organization standards, derived from universal principles as recognized in international declarations and agreements (three major sets of standards exist); ii) multi-stakeholder initiative (MSI) standards (dozens); iii) industry association codes (hundreds); and iv) individual company codes (thousands). This has resulted in a complex, multi-layered, multifaceted and interconnected universe of standards.

a. Intergovernmental organization standards

Universal principles as recognized by international declarations and agreements are the source of the most prominent and authoritative CSR standards. The three main sources of these international instruments are the United Nations, the ILO and the OECD. Three of the leading standards in this category are:

- United Nations declarations and instruments: one of the most prominent examples is the UN Global Compact: launched in 2000, this is an initiative of the UN Secretary General's office to translate the most relevant UN declarations into 10 guiding principles for enterprises (box III.7).
- ILO conventions and declarations:[41] there are 188 ILO conventions, the most relevant for TNC operations being the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy ("MNE Declaration") (first adopted in 1977, latest revision in 2006)

and the Declaration on Fundamental Principles and Rights at Work (1998) (also known as "Fundamental Labour Standards").

- The OECD Guidelines on Multinational Enterprises ("OECD Guidelines") (first edition 1976; latest revision 2011). The 42 adhering governments are fewer in number than the signatories of UN and ILO conventions, but they include large developed economies whose corporations accounted for 70 per cent of FDI in 2010 (chapter I, section A.1).

The standards of the UN and its specialized agencies, including the ILO, along with the Guidelines of the OECD, cover the fundamental issues of CSR. In each of the categories of standards reviewed below, it is common to find references to these major intergovernmental organization standards. In addition to the three most commonly noted standards above, there is a large number of relevant intergovernmental organization standards and conventions emanating from the UN (and its specialized agencies, including the ILO) and the OECD.

b. Multi-stakeholder initiative standards

Multi-stakeholder initiatives (MSIs) are "cross-sectoral partnerships created with a rule-setting purpose, to design and steward standards for the regulation of market and non-market actors" (Litovsky et al., 2007). These partnerships contain a mix of civil society, business, labour, consumers and other stakeholders. MSI standards most often address non-product-related process and production methods (PPM), i.e. issues related to how a product is produced, such as the environmental or social aspects of certain production methods. Although MSI standards are mostly developed by civil society and business actors, they often make reference to the normative frameworks of international soft law instruments (annex table III.2).

A unique MSI is the International Organization for Standardization (ISO), a non-governmental organization whose members are national standard-setting bodies. ISO standards are widely recognized by international institutions (e.g. the WTO) and national governments. In 2010, ISO launched the ISO 26000 standard "Guidance on Social Responsibility", which serves as a significant reference point for defining the terms of "social responsibility".[42]

c. Industry association codes and individual company codes

An industry-specific code typically involves the adoption of a code jointly developed by the leading companies within an industry, to address social and/or environmental aspects of supply chains and

Box III.7. The 10 principles of the UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: www.unglobalcompact.org.

international operations (annex table III.3). There are thousands of individual company codes in existence, and they are especially common among large TNCs: more than three-quarters of large TNCs from both developed and developing countries have policies on social and environmental issues (UNCTAD, 2008c, 2011e). About half of TNC codes that apply to value chains make reference to one or more intergovernmental organization standards (UNCTAD, forthcoming b).

❊ ❊ ❊

The universe of voluntary CSR standards consists of a multitude of standards, each differing in terms of source, functions, addressees, and interrelationships, and each yielding influence and impacting on development in different ways. The proliferation of these standards has resulted in a number of systemic challenges related to standard-setting and standard implementation.

2. Challenges with existing standards: key issues

a. Gaps, overlaps and inconsistencies

Gaps between standards exist in terms of subjects covered and industry focus. The OECD Guidelines cover a broad range of responsible business practice, from human rights to taxation. However, they are negotiated by a more limited number of member States, compared to UN and ILO instruments. The ILO MNE Declaration focuses more specifically on employment practices and human rights, but applies to a larger group of member States that are directly addressed, alongside employers, workers and TNCs, to observe the MNE Declaration (OECD-ILO, 2008). Subject matter gaps exist among MSIs, as many standards focus either on the environment or on social issues, but not often to the same extent on both.

An emerging trend among MSIs is the inclusion of social issues within environmental standards.[43] Subject matter gaps can also include standards that focus on specific outcomes (e.g. minimum wage compliance) versus standards that focus on "process rights" (e.g. labour rights). Gaps also exist in industry focus, with not all industries (or parts of the value chain) being the subject of a standard. While the absence of a standard may reflect a gap that has yet to be filled,[44] it can also represent either an area that does not necessarily require a standard, or where a standard is not considered the most appropriate way to address existing problems.

Gaps also exist in uptake among companies: as uptake is driven by the concerns of consumers, media, and investors, CSR standards are primarily adopted by those companies that are most exposed to such concerns (Utting, 2002). While the adoption of standards by large TNCs can create a cascade effect that pushes sustainability across the value chain, this does not necessarily have a uniform impact on all members. Indeed there may be a tendency for some standards to favour concentration at different levels and to crowd out small enterprises and producers (Reed, Utting and Mukherjee-Reed, 2011). Nevertheless, as leading firms adopt and implement CSR standards, they set a benchmark for best practice against which other firms are measured.

Among individual company standards, there can be both a high degree of overlap in the issues covered (e.g. labour practices, environment, human rights, bribery), and a high degree of inconsistency in detailed operational guidelines. As most companies refer to major intergovernmental organization standards for key issues, this reduces inconsistencies in the general subjects covered, but since many intergovernmental organization standards lack detailed micro-level operational guidance, companies are left to innovate these details themselves. The resulting inconsistencies mean that suppliers can be faced with differing requirements, adding complexity and higher compliance costs. The rise of industry-specific standards can help to alleviate this situation.

In some industries, more than one MSI or industry association standard exists. This can cause confusion among companies, often leading them to opt for multiple certifications to ensure that all relevant issues have been addressed. MSIs are increasingly working together towards alignment between standards that address the same subject or the same industry.[45]

b. Inclusiveness in standard-setting

The credibility of a standard is linked to the inclusion of a sufficiently broad range of stakeholders in the standard-setting process. Company codes and industry association codes are often challenged as being less credible because of the limited involvement of outside stakeholders. The intergovernmental organizations are perceived as authoritative standard-setters because they reflect international consensus. The popularity of MSI standards is due largely to their inclusive cross-sectoral process. Addressing the challenge of inclusiveness also means addressing the often limited participation of developing country stakeholders in CSR standard-setting processes, which arises out of resource constraints.

c. Relationship between voluntary CSR standards and national legislation

Voluntary CSR standards can complement government regulatory efforts; however, where they are promoted as a substitute for labour, social and environmental protection legislation, or where CSR standards are not based on national or international rules, then these voluntary standards can potentially undermine, substitute or distract from governmental regulatory efforts. Critics of voluntary standards have pointed out, for example, the contrast in the United States between legally required safety inspections of the Trans-Alaska Pipeline, and voluntary commitments from companies to ensure the safety of feeder pipelines; they note that the oil company BP only discovered severe problems with its feeder pipelines after it was required by the United States Government to undertake inspections, following a spill of over a quarter of a million barrels of oil (Reich, 2007).

d. Reporting and transparency

Despite tremendous growth in CSR reporting in recent years among TNCs of developed and developing countries, such reporting continues to lack uniformity, standardization and comparability. A number of initiatives promote a standardized CSR reporting framework, including UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)[46] and several MSIs (e.g. the Global Reporting Initiative (GRI), the Carbon Disclosure Standards Board, and the International Integrated Reporting Committee). While uptake of such frameworks among companies is growing rapidly, it nevertheless remains relatively low[47] and even among companies adopting a voluntary CSR reporting framework, implementation of the framework can be selective and incomplete.

The reporting of MSIs and industry associations also raises transparency issues that make it difficult for stakeholders to evaluate and compare the performance of different initiatives. Some initiatives, however, have started to implement reporting programmes: the Fair Labour Association publishes an annual report and discloses information about the progress made by the companies that have adopted its standard. Some MSIs (e.g. Fair Wear Association) have created a reporting framework for companies adopting their standards.

e. Compliance and market impact

A critical challenge is to ensure that companies voluntarily adopting a standard actually comply with the standard. Failure to demonstrate compliance can lower the standard's credibility and market impact.[48] The compliance promotion mechanisms embodied in existing CSR standards range from none, to reporting requirements and redress mechanisms, to proactive mechanisms such as audits, factory inspections, etc. (table III.4). The major intergovernmental organization standards contain compliance mechanisms, including the UN Global Compact (the "integrity measures" and the "communication on progress"), the ILO MNE Declaration (the "interpretation procedure"), and the OECD Guidelines ("the specific instance procedures" and the system of "National Contact Points"). MSI standards and industry association standards often have certification or accreditation programmes which typically include inspections/audits, corrective action programmes, reporting and consumer labelling schemes. To enhance credibility, many MSIs have separated their standards-setting process from the certification process, relying increasingly on professionalized third parties for the

monitoring and auditing processes.[49] The dynamic nature of the field of CSR standards also includes significant practices of "ratcheting-up" compliance mechanisms over time, e.g. adding new standards, tightening up inspection procedures, adding complaints procedures.

While compliance promotion mechanisms can be an integral part of a standard, they can also be associated to a standard by third parties. As noted above, many intergovernmental organization standards are key references for some of the certifiable standards of the MSI. In this way, company compliance with "soft law" intergovernmental organization standards can be driven by other CSR standards with proactive compliance mechanisms.

A challenge associated with certification schemes and audits is that they may impose a higher burden on companies, and thus lead to lower rates of adoption of the standard, and reduced market impact. Conversely, a lack of compliance mechanisms can lead to high rates of voluntary adoption of the standard, but low, unclear and/or immeasurable rates of implementation. However, a number of MSI and industry association codes employ proactive compliance mechanisms and are nonetheless having a significant impact, with some influencing more than half of the global market for the industry in question (table III.5).

Table III.4. Compliance mechanisms of selected international CSR standards

Source of standard	Proactive mechanisms (audits, inspections)	Reporting requirements/ redress mechanisms	No formal compliance mechanisms
Inter-governmental Organization	-	• UN Global Compact • OECD Guidelines • ILO Tripartite Declaration	-
Multi-stakeholder/ NGO	• ISO14000 • MSC • FSC • FLA RSPO • SA8000 • 4C Assoc.	-	• ISO 26000 • GRI
Company/ Industry association	• C.A.F.E. Practices • Leather Working Group • BSCI • International Council of Toy Industries	-	• EICC • Pharmaceutical Industry Principles for Responsible Supply Chain Management

Source: UNCTAD.

With global market shares ranging between 5 and 10 per cent for some standards (such as the Marine Stewardship Council (MSC) and the Forest Stewardship Council (FSC)), the "proof of concept" phase has been passed; the challenge now is how to achieve widespread uptake of these standards. This is particularly so in highly fragmented industries, where adoption by many companies would be required to cover a large market share. In less fragmented industries, even individual company codes can have a significant impact (table III.5).

f. Concerns about possible trade and investment barriers

There are unresolved questions about whether social and environmental standards, especially non-product-related PPM standards, could potentially become barriers to trade and investment. It is not clear under WTO rules whether non-product PPM standards are covered by the WTO's Technical Barriers to Trade (TBT) agreement or other WTO agreements (e.g. sanitary and phytosanitary measures; Agreement on Government Procurement). Outside of the TBT agreement, there was the "shrimp-turtle" case from the late 1990s, where environmental regulations in the United States led to an import ban for shrimp-exporting countries that did not use turtle-safe harvesting practices (which had already been introduced by the United States fishing industry on the basis of consumer demands).[50]

Similarly, it is possible for CSR standards to create barriers to (inward and outward) investment for companies that are unable to meet the requirements of the standards. In Guatemala, for example, forestry companies without FSC certification are prohibited from operating within the Mayan Biosphere reserve (FSC, 2009), and in Denmark, only companies meeting the Government's CSR standard qualify for outward investment assistance. In both cases, the challenge is to distinguish where the use of a standard constitutes a legitimate application, and where it constitutes an abuse of protectionist intent. For example, the use of CSR standards can become a form of protectionism if they are applied in a discriminatory way, differentiating between companies by national origin. It is important therefore to monitor the application of CSR standards and to

identify discriminatory practices where they arise.

Voluntary CSR standards may be less susceptible to challenge through WTO trade agreements, and less prone to questions of investment protectionism, since there is no requirement that firms must follow them. For example, a voluntary standard pertaining to organic foods gives firms the option of using the approach adopted in the standard, but does not require that firms use this standard as a condition of market entry. In this way, voluntary CSR standards may be less problematic than mandatory requirements, in terms of achieving public policy objectives (Webb and Morrison, 2004). That said, voluntary standards alone can create a risk of neglect and indifference on the part of firms. The balance between mandatory

Table III.5. Impact of selected MSI and industry association CSR standards and individual company codes

Standard	Compliance mechanisms		Market impact
	Certification/ Audits	Public reporting	
Multi-stakeholder initiative standards			
Forest Stewardship Council (1993)	Yes	Annual Report, Audit Results	Covers 11% of global forests used for productive activities
ISO14001 (1996)	Yes	Annual Report	As of December 2009, 223,149 organizations in 159 countries are certified to ISO 14000
SA8000 (1997)	Yes	Annual Report	Over 1.4 million workers are employed in over 2,400 SA8000 certified facilities in 65 countries, across 66 industrial sectors
Marine Stewardship Council (1997)	Yes	Annual Report, Audit Results	Covers 6% of global landed fish
Fair Labor Association (1998)	Yes	Annual Report, Audit Results	Covers 75% of the athletic footwear industry
Fair Wear Foundation (1999)	Yes	Annual Report Audit Results	FWF affiliates in 2009 sourced from a total of 1,153 factories, with an estimated total of 300,000 workers (growth rate of 60% in the last 3 years)
UTZ CERTIFIED (1999)	Yes	Annual Report	Covers 5% of global coffee production
4C Association (2004)	Yes	Annual Report with performance data of member companies	Covers 30% of global coffee production
Roundtable on Sustainable Palm Oil (2004)	Yes	Audit Results	Covers 8% of global palm oil production
Industry association codes			
Business Social Compliance Initiative (BSCI) Code of Conduct (2002)	Yes	Annual Report	11,200 suppliers audited according to the BSCI code of conduct and 4,000 suppliers trained in 9 different countries
International Council of Toy Industries (ICTI) Code of Conduct (2004)	Yes	Biennial Report	75% of the global toy business is committed to only source from suppliers certified by ICTI in the future
Leather Working Group Principles (2005)	Yes	No	The working group covers 10% of the global leather production
Individual company codes			
Nike Supplier code of conduct	Yes	Yes	31% of the global market for athletic footwear; through its supplier code of conduct Nike influences the conditions of more than 800,000 employees in 700 factories in 45 countries
Adidas Supplier code of conduct	Yes	Yes	22% of the global market for athletic footwear; through its supplier code of conduct Adidas influences the conditions of more than 775,000 employees in 1,200 factories in 65 countries

Source: UNCTAD, based on data from MSI, industry associations, companies and FAO.

and voluntary standards is delicate, but legitimate restrictions based on objective criteria of necessity and proportionality are permitted under trade and investment agreements.[51] Equally, the State's right to regulate may create legitimate restrictions on investors and their investments in the interests of public policy and economic development.[52] Thus the challenge is to maintain an appropriate balance between mandatory and voluntary standards.

3. Policy options

Governments can play an important role in creating a coherent policy and institutional framework to address the challenges and opportunities presented by the universe of CSR standards. In this regard, some governments are beginning to apply CSR standards to the architecture of corporate governance and international trade and investment. This approach aims to promote best practice in corporate compliance with national laws and international agreements in order to maximize the sustainable development impact of TNCs. A number of policy options follow.

a. Supporting CSR standards development

Governments can encourage and support the development of CSR standards, including through the provision of material support, technical expertise, and mobilizing the participation of relevant stakeholders (Vermeulen et al., 2010). For example, the 4C Association is a sustainability standard for the coffee industry, initiated by the Government of Germany and implemented by the German development agency. With support from the Government of Switzerland and other public and private sector representatives, the 4C Association has become an influential industry standard.

Governments can support the development of national certifiable management system standards (MSSs). This approach provides enterprises with a certifiable standard to distinguish themselves in the area of CSR. Recent years have seen the creation of a number of national CSR MSSs, including standards in Brazil and Mexico in 2004, Portugal in 2008, Spain in 2009, and the Netherlands and Denmark in 2010. In some cases these national MSSs are based on or aligned with ISO standards. As national CSR MSSs proliferate, there may be increased interest in an international CSR MSS.[53]

b. Applying CSR to public procurement policy

Governments can consider applying CSR standards to their purchasing policies, to promote good business practices on more environmentally friendly products, while being careful to avoid discriminatory practices that would be a form of protectionism. The Government of China, for instance, maintains a "green list" of environmentally friendly products which should be given preferential treatment in public procurement.[54] The Government of Germany has made a commitment to purchase only wood and wood products that are verified as coming from legal and sustainable sources, and accepts the FSC certification as verification of this. The Netherlands also has a sustainable procurement policy; the Government of Switzerland is in the process of developing such a scheme; and the Government of the United Kingdom has laid out a strategy ("Government Sustainable Procurement Action Plan") and has already committed to source fish for its public institutions (e.g. schools) exclusively from MSC-certified suppliers. While applying CSR standards to procurement policies can help promote the uptake of such standards by companies, it can also negatively affect the competitive position, and hence operations, of companies – especially those from poorer countries – that have limited capacity to adhere to such standards.

c. Building capacity

One factor that can lead to low uptake of standards is a lack of knowledge, skills and capabilities at various stages of a value chain. Thus, implementation of standards often requires a capacity-building component. This is part of creating "shared responsibility" within a value chain (which involves TNCs providing assistance to suppliers), as opposed to what critics call "off-loading responsibility" (wherein the compliance burden falls solely on developing country suppliers that may have little capacity for meeting CSR standards).

Developing country governments wishing to promote standards in their countries can partner with donor States to deliver capacity-building initiatives and technical assistance to local industry and regulatory bodies. A project between the Government of Bolivia and USAID, for example, promotes FSC certification in the Bolivian forestry industry. This has included capacity-building for companies that are willing to be certified, and assistance linking certified companies with export markets. As a result of this programme, Bolivia now has the largest area of FSC-certified tropical forest in the world (FSC, 2009). In Gambia, the Ministry of Fisheries works in partnership with USAID to obtain MSC certification for the country's fisheries (USAID, 2010). Governments can further strengthen CSR capacity-building by engaging in the exchange of best practice at international forums, such as UNCTAD.

d. Promoting CSR disclosure and responsible investment

To enhance transparency and comparability of CSR practices, a number of stock exchanges – especially in emerging markets – have employed stock exchange listing rules to promote the uptake of CSR reporting to facilitate responsible investment practices (Responsible Research, 2010). In close cooperation with national policymakers, the Malaysian stock exchange, for example, has made CSR reporting mandatory for all listed companies, and the Shanghai Stock Exchange in China has published the Shanghai Environmental Disclosure Guidelines, with which listed companies are urged to comply.[55]

An alternative to developing a national CSR reporting framework is to adopt an existing framework developed by an international initiative. The Johannesburg Stock Exchange in South Africa, for example, requires companies to use the GRI guidelines in preparing sustainability reports. Using a common framework like this can promote international comparability between reports. Policymakers interested in promoting an internationally harmonized approach to CSR reporting and encouraging responsible investment, including in the area of "impact investing" (box III.8), can work together through forums such as UNCTAD's ISAR working group[56] and/or the Sustainable Stock Exchanges initiative.[57]

e. Moving from soft law to hard law

Governments can consider adopting some of the existing CSR standards as part of regulatory initiatives, turning hitherto voluntary standards (soft law) into mandatory requirements (hard law). For example, organic food standards originated in most countries as voluntary standards from civil society or industry associations, but today are usually regulated under national legislation.[58] This model allows governments to use the dynamic space of voluntary standards as a laboratory for future government regulations.

Another option is a mixed "public–private regulatory regime", wherein regulatory initiatives ensure compliance with standards developed by civil society and/or the private sector. In Sweden, for example, State-owned enterprises are required to prepare reports using the GRI standard. In Guatemala, the Government has made FSC certification mandatory for forestry firms operating in the Mayan Biosphere reserve. This approach can be useful for preserving the dynamism and aspirational nature of many multi-stakeholder standard-setting processes, while adding uniformity of implementation through regulation.

f. Strengthening compliance promotion mechanisms among intergovernmental organization standards

Governments could consider further strengthening the compliance promotion mechanisms of existing intergovernmental organization standards. As noted above, many intergovernmental organization standards already have some compliance promotion mechanisms in place. These organizations periodically review the efficacy of such instruments, including their redress mechanisms. In the case of the UN Global Compact, for example, the UN Joint Inspections Unit recently recommended that the UN "reinforce the implementation of the Integrity Measures and accountability in implementing the ten principles" (UN JIU, 2010).

g. Applying CSR to investment and trade promotion and enterprise development

Governments could play an active role in promoting socially and environmentally sustainable inward and outward investment, while avoiding discriminatory practices that would be a form of protectionism. Governments can consider offering incentives for investments in sustainable industries (e.g. renewable energy) or for compliance with CSR standards. For example, the Brazilian National Economic Development Bank has introduced a code of ethics, based on intergovernmental organization standards, to which all of its clients must adhere. Similarly, the Government of Denmark requires companies receiving financial support from the Danish Industrialization Fund for Developing Countries (IFU) to comply with IFU's CSR policy. Some governments are also providing incentives through preferential trade agreements. For instance, the European Union has complemented its General System of Preferences (GSP) with the "GSP Plus" scheme, which offers additional tariff reductions for developing countries that have ratified and implemented 27 key international conventions related to CSR practices (e.g. the ILO Core Conventions).[59] Care has to be taken, however, to ensure that those countries that do not a priori fulfil the criteria receive the required technical assistance in order to do so, and hence may benefit from such initiatives, in line with their overall development priorities and strategies.

h. Introducing CSR into the international investment regime

Governments can also consider introducing CSR into the international investment regime. While CSR-specific clauses do not currently feature prominently in IIAs, a small but growing number of agreements,

Box III.8. Impact investing: achieving competitive financial returns while maximizing social and environmental impact

Over time, responsible investment has become a multitrillion dollar industry. Responsible investing has various themes. It can be focused on negative screens that prohibit investment in firms that manufacture or promote certain products and services. It can also be focused on shareholder advocacy and positive environmental, social and governance (ESG) screens, to target investment in particular companies. "Impact investing" takes this a step further. It is the explicit incorporation of social, environmental and developmental objectives into the fabric of business and financial models. It is based on the fundamental belief that it is possible for investors to achieve competitive financial returns and social change simultaneously.

The potential range of impact investment opportunities remains largely unknown. Analysts estimate that impact investments could reach between $500 billion and several trillions over the next decade. To illustrate the magnitude of opportunities in impact investing, a few examples are given below.

To address climate change, the International Energy Agency estimates that $1.3 trillion in investment will be required to halve greenhouse gas emissions from the energy sector by 2050. Another $41 trillion is needed by 2030 to modernize infrastructure systems worldwide. Water infrastructure, at $23 trillion, is the largest portion of this investment. McGraw Hill Construction estimates that the green building market will more than double worldwide to between $96 and $140 billion by 2013. Further, according to the World Resources Institute, the 4 billion people with annual incomes below $3,000 constitute a $5 trillion global consumer market. Moreover, the 1.4 billion people with per capita incomes between $3,000 and $20,000 represent an even larger $12.5 trillion market globally.

Despite the enormous potential of impact investing, there are critical gaps in understanding the market conditions necessary for success, together with inadequate policy and regulatory frameworks, and limited knowledge of financial models that sufficiently incorporate environmental, social and developmental factors into valuations and alpha forecasts.

Through its "20ii – Investing with Impact" initiative, the United States Department of State will work with UNCTAD, the OECD, and other institutions to address these gaps and galvanize sources of private capital to tackle high priority social and environmental challenges.

Source: Contributed by the United States Department of State, in collaboration with Harvard University's Initiative for Responsible Investment.

especially recent FTAs with investment chapters, include such provisions. While this process has its origins in the mid-1990s,[60] specific references to CSR started appearing more recently. Today, three Canadian FTAs with investment provisions[61] refer to CSR in the preamble and contain substantive provisions. For example, Article 816 of the Canada-Colombia FTA, the earliest of these references, states that:

> "each Party should encourage enterprises operating within its territory or subject to its jurisdiction to voluntarily incorporate internationally recognized standards of corporate social responsibility in their internal policies, such as statements of principle that have been endorsed or are supported by the Parties. These principles address issues such as labour, the environment, human rights, community relations and anti-corruption. The Parties remind those enterprises of the importance of incorporating such corporate social responsibility standards in their internal policies."

In addition, the preambles of the European Free Trade Association's 2009 FTA with Albania and 2010 FTA with Peru refer to CSR-related issues.[62] While BITs by EU member States do not include CSR clauses, the European Parliament has called for the inclusion of a CSR clause in every future FTA investment chapter concluded by the EU.[63]

Finally, a few countries have included innovative CSR provisions in their model agreements, referring to specific corporate contributions, such as human capital formation, local capacity-building, employment creation, training and transfer of technology.[64] However, the implementation of CSR provisions in "real" IIAs remains to be seen.

While it is difficult to assess their impact on conditions "on the ground", such clauses nevertheless serve to flag the importance of CSR in investor–State relations, which may also influence the interpretation of IIA clauses by tribunals in investor–State dispute settlement cases, and create linkages between IIAs and international CSR standards. Again, care has to be taken to ensure that increasing consideration of CSR does not open the door to justifying policy interventions with undue protectionist purposes.

* * *

Governments have a range of policy options for promoting CSR. Pioneering examples in both developing and developed countries suggest that it is time to mainstream CSR into national policies and international trade and investment regimes, while devising mechanisms for addressing unintended consequences and preventing possible protectionist abuses. While there are a number of policy implications, the various approaches already underway are increasingly taking the form of a combination of regulatory and voluntary instruments that work together to promote responsible business practices. Two critical components of this mix will be improved CSR reporting by companies (to better inform future policy development), and strengthened capacity-building programmes (to assist developing country enterprises to meet international best practice in this area).

Notes

1 The Basel III rules were issued by the Basel Committee on 16 December 2010. A gradual schedule for the implementation of these rules will start in 2013 and should be fully phased in by January 2019. At the Seoul Summit in November 2010, G-20 leaders endorsed these and other recommendations to strengthen financial stability.

2 Bank for International Settlements (2010) "Basel III rules text and results of the quantitative impact study issued by the Basel Committee". Available at: www.bis.org.

3 For further information see the UNCTAD-OECD Fifth Report on G-20 Investment Measures (2011).

4 E.g. British bank Bradford & Bingley was sold to a Spanish bank, United States automaker GM, then majority-controlled by the United States Government, sold its Swedish subsidiary Saab to a Dutch/Austrian company, and United States Government co-owned Chrysler was partly sold to Italian automaker Fiat.

5 The European Commission conducted this consultation using a "Questionnaire on the application of the Temporary Framework", from 18 March 2010 to 26 April 2010.

6 Twenty of the 2010 BITs were renegotiated, including seven by the Czech Republic, in an effort to bring its IIAs into conformity with EU law.

7 This includes DTTs on "income" and "income and capital".

8 This includes, e.g., free trade agreements (FTAs), economic partnership agreements (EPAs) or framework agreements.

9 The first category of "other IIAs" is those that contain substantive investment provisions, such as national treatment, most favoured nation (MFN) treatment, fair and equitable treatment (FET), protection in case of expropriation, transfer of funds and investor–State dispute settlement (ISDS) (*WIR10*).

10 The second category focuses more on granting market access to foreign investors than on protecting investments once they are made (*WIR10*).

11 The third category of IIAs are agreements dealing with investment cooperation (*WIR10*).

12 Since most arbitration forums do not maintain a public registry of claims, the total number of actual treaty-based cases could be higher. UNCTAD, 2011c and UNCTAD's database on investor–State dispute settlement cases (available at www.unctad.org/iia).

13 This includes 20 awards, five decisions on liability, 11 decisions on jurisdiction, and 11 other decisions.

14 This includes all post-establishment IIAs, including those that are only signed but not yet ratified. Treaties that offer post-establishment national treatment only, but no other typical protection provisions such as those on expropriation or ISDS (e.g. some of the EU treaties), are excluded. If individual treaty exclusions and reservations are taken into consideration a more nuanced picture would emerge. Multilateral investment-protection related agreements such as the TRIMs, and sector-specific agreements such as the Energy Charter Treaty are excluded, as well as DTTs.

15 See "The G-20 Seoul Summit Declaration" and "Annexes", 11–12 November 2010.

16 At the Toronto summit on 26–27 June 2010, the G-20 leaders had agreed that "Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all."

17 For China, see http://works.bepress.com and www.chinalawinsight.com; for India see http://mapsofindia.com, http://business.mapsofindia.com and www.indianground.com.

18 For the Republic of Korea, see Foreign Investment Committee, "FDI Promotion Policy in 2011", endorsed and published on 31 January 2011. For Malaysia see www.mida.gov.my; for Thailand, see www.boi.go.th.

19 Other examples are the University of the Philippines Science Technology Park – joint venture between the university and private sector to establish an incubation centre for hi-tech projects, the "Technology Park Malaysia" – centre for research and development for knowledge-based industries, and Shenzhen Economic Zone.

20 Other examples include the "Ontario Technology Corridor" and the "Illinois Research & Development Corridor".

21 Examples are the "Aurora Pacific Economic Zone" in the Philippines to utilize wind power and solar cells for energy and fresh water springs for potable water, and the "Saemangeum Gunsan Free Economic Zone" in the Republic of Korea.

22 Examples of "hard" infrastructure are power, transport, telecommunication systems, health facilities and test bed facilities for R&D. "Soft" infrastructure includes the financial system and regulation, the education system, the legal framework, social networks, values and other intangible structures in an economy.

23 The World Bank IAB 2010 report surveyed sectors with restricted entry for foreign investors for 87 countries, including 14 developed countries, 57 developing countries and 16 transition economies. The number of countries with data for specific sectors is: health care 86, telecoms 84, electricity 83, transport 80 and for all other industries 85 countries. Finance is a combination of banking and insurance from the original WB report and the share represents those countries that allow only less than full ownership for at least one of these sectors.

24 E.g. institutional mechanisms, financial or fiscal incentives.

25 The actual impact of the national treatment clause depends on its specific formulation, notably whether it contains the qualification of only applying to investments/investors "in like circumstances".

26 For example, by requiring the use of local services or mandating technology transfer.

27 For example, the SCM Agreement disciplines the use of certain subsidies (e.g. by prohibiting subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods).

28 Some of the provisions refer explicitly to the industrial-policy related objectives of the subsidy in question, such as training or employing workers, or providing a service, locating production, constructing/expanding particular facilities, or carrying out research and development in a particular territory.

29 Case studies were conducted for 16 IIAs, including the OECD National Treatment Instrument (1991), NAFTA (1992), G3 (1994), Mercosur (1994), Canada-Chile FTA (1996), draft OECD Multilateral Agreement on Investment (1998, but never concluded), Andean Community (2001) and the Chile-United States FTA (2003), CAFTA (2004), Panama-Singapore FTA (2005), United States-Uruguay BIT (2005), Canada-Peru BIT (2006), Rwanda-United States BIT (2007), Japan-Peru BIT (2009), Japan-Uzbekistan BIT (2009) and Japan-India FTA (2011). For further details on the eight earlier IIAs see UNCTAD, 2006.

30 Of interest is also the social services sector, where reservations have, over time, become

more frequent. An increasing consciousness of the pros and cons of submitting social services to international obligations, and experiences with ISDS touching upon essential services or social considerations, might have contributed to this development.

31 See also chapter IV.

32 The risks of the lock-in effect are particularly pronounced with regard to liberalization commitments based on a "top-down/negative list" approach. See UNCTAD, 2006.

33 For example, the WTO's General Agreement on Trade in Services (GATS), and the draft Norwegian model BIT (2007).

34 See the WTO-OECD-UNCTAD Reports on G-20 Investment Measures (WTO-OECD-UNCTAD, 2009 and 2010; OECD-UNCTAD 2010a, 2010b and 2011).

35 Ibid.

36 ASEAN Secretariat (2003), "What is AICo?", available at www.asean.org/6402.htm.

37 ECOWAS (2010) "West African Common Industrial Policy (WACIP)".

38 Gulf Cooperation Council (2000) "Unified Industrial Developments Strategy for the Arab States of the Gulf Cooperation Council".

39 The text in this section is based partially on UNCTAD's contribution to a recent G-20 document on "Promoting standards for responsible investment in value chains", which also benefited from comments by UNDP, ILO, OECD and the World Bank, and the Governments of Germany and Saudi Arabia. See report to the G-20 High-Level Development Working Group, June 2011.

40 Among others, the governments of the G-8 and the G-20 have taken a strong interest in CSR standards in recent years, focusing on promoting dissemination, adoption and compliance. See G-8 Leaders Declaration: Responsible Leadership for a Sustainable Future, 2009 (para. 53) and G-20 Multi-Year Action Plan on Development, 2010 (page 5).

41 The ILO is a specialized agency of the UN. It is unique among UN agencies in that it has a "tripartite" governance structure, involving representatives of governments, employers and employees.

42 See www.iso.org/iso/social_responsibility.

43 For example the Forest Stewardship Council (FSC).

44 There are a number of standards still emerging in new areas, e.g. sustainable meat production and conflict minerals.

45 The 4C Association and the Rainforest Alliance for example have created a translation mechanism between each other's standards, such that Rainforest Alliance certificate-holders can now apply for the 4C Licence without having to go through the entire 4C Verification Process.

46 See www.unctad.org/isar for more information.

47 The most popular and comprehensive CSR reporting framework is that of the GRI, which in 2010 was used by approximately 1,800 corporations.

48 Impact assessment of CSR standards is critically important. While various efforts are underway (e.g. the Committee on Sustainability Assessment), there is no consensus approach. UNCTAD currently uses an industry-level analysis examining factors such as the market share of the companies using the standard or the number of enterprises or workers influenced by the standard.

49 For example ISO, MSC, FSC and UTZ, among others, use third party certification.

50 WTO cases No. 58 and 61.

51 See GATT 1994, e.g. GATS 1994 Art.XIV, Canada model BIT Art.10.

52 See further *WIR03*.

53 Note that ISO 2600 is not an MSS, rather it is a guidance standard, and not intended for certification.

54 See Ministry of Finance and State Environmental Protection Agency: Implementation Guidance on Public Procurement Based on Environmentally Labeled Products. www.ccgp.gov.cn (Chinese language).

55 See www.world-exchanges.org.

56 For more information, see www.unctad.org/isar.

57 For more information, see www.unpri.org.

58 EU policy on organic farming: http://ec.europa.eu/agriculture.

59 See www.europa-eu-un.org.

60 See references to environmental and labour considerations (e.g. NAFTA preamble) and a recognition that it is inappropriate to encourage investment by relaxing domestic health, safety or environmental measures (e.g. NAFTA investment chapter).

61 These are Canada's FTAs with Colombia (2008), Peru (2009), and Panama (2010).

62 There are references to responsible corporate conduct and ILO Conventions in the former, and references to good corporate governance, corporate governance standards of the United Nations Global Compact and relevant ILO Conventions in the latter.

63 On 6 April 2011, the European Parliament adopted its Resolution on the future European international investment policy, INI/2010/2203.

64 For example, in Art. 12, Ghana's model BIT (2008) states that foreign investors "shall to the extent possible, encourage human capital formation, local capacity building through close cooperation with the local community, create employment opportunities and facilitate training opportunities for employees, and the transfer of technology". See also Art. 11, Botswana's model BIT (2008).

NON-EQUITY MODES OF INTERNATIONAL PRODUCTION AND DEVELOPMENT

CHAPTER IV

In today's world, policies aimed at improving the integration of developing economies into global value chains must look beyond FDI and trade. Policymakers need to consider non-equity modes (NEMs) of international production, such as contract manufacturing, services outsourcing, contract farming, franchising, licensing and management contracts.

Cross-border NEM activity worldwide is significant and particularly important in developing economies. It is estimated to have generated over $2 trillion of sales in 2010. Contract manufacturing and services outsourcing accounted for $1.1–1.3 trillion, franchising $330–350 billion, licensing $340–360 billion, and management contracts around $100 billion. In most cases, NEMs are growing more rapidly than the industries in which they operate.

NEMs can yield significant development benefits. They employ an estimated 14–16 million workers in developing countries. Their value added represents up to 15 per cent of GDP in some economies. Their exports account for 70–80 per cent of global exports in several industries. Overall, NEMs can enhance productive capacities in developing economies through their integration into global value chains.

NEMs also pose risks for developing countries. Employment in contract manufacturing can be highly cyclical and easily displaced. The value added contribution of NEMs can appear low in terms of the value captured out of the total global value chain. Concerns exist that TNCs may use NEMs to circumvent social and environmental standards. Developing countries need to mitigate the risk of remaining locked into low-value-added activities.

Policy matters. Maximizing development benefits from NEMs requires action in four areas. First, NEM policies need to be embedded in overall national development strategies. Second, governments need to support efforts to build domestic productive capacity. Third, promotion and facilitation of NEMs requires a strong enabling legal and institutional framework, as well as the involvement of investment promotion agencies in attracting TNC partners. Finally, policies need to address the negative consequences and risks posed by NEMs by strengthening the bargaining power of local NEM partners, ensuring fair competition, and protecting labour rights and the environment.

A. THE GROWING COMPLEXITY OF GLOBAL VALUE CHAINS AND TNC GOVERNANCE

In the past, TNCs primarily built their international production networks through FDI (equity holdings), creating an internalized system of affiliates in host countries owned and managed by the parent firm.

Over time, TNCs have also externalized activities throughout their global value chains. They have built interdependent networks of operations involving both their affiliates and partner firms in home and host countries. Depending on their overall objectives and strategy, the industry in which they operate, and the specific circumstances of individual markets, TNCs increasingly control and coordinate the operations of independent or, rather, loosely dependent partner firms, through various mechanisms. These mechanisms or levers of control range from partial ownership or joint ventures, through various contractual forms, to control based on bargaining power arising from TNCs' strategic assets such as technology, market access and standards. Such mechanisms are not mutually exclusive and they can be as much complements as substitutes to FDI. In this chapter, we refer to these TNC networks as global value chains (GVCs).

WIR11 focuses on "non-equity modes" of TNC international production (NEMs) as alternative forms of governance of TNC-controlled global value chains. NEMs include, for example, contract manufacturing, services outsourcing, contract farming, franchising and licensing, as well as other types of contractual relationship through which TNCs coordinate and control the activities of partner firms in host countries.

From a policy perspective, to pursue the integration of developing economies into global value chains it is no longer enough to focus on attracting FDI and TNC affiliates on the one hand, or to promote arm's-length trade on the other. Policymakers need to consider a myriad of alternative networked forms of TNC operations, each of which comes with its own set of development impacts and policy implications.

1. TNC value chains and governance choices

TNCs manage global value chains through internalization (ownership) and externalization (including NEMs). NEMs and FDI can be substitutes or complements, with the choice based on relative costs, benefits and associated risks.

Foremost among the core competencies of a TNC is its ability to control and coordinate activities within a global value chain. TNCs, like all firms, can decide to conduct such activities in-house (*internalization*) or they can entrust them to other firms (*externalization*) – a choice analogous to a "make or buy" decision. Internalization, where there is a cross-border dimension, results in FDI, whereby the international flows of goods, services, information and other assets are intra-firm and under the full control of the TNC. Externalization results either in trade, where the TNC exercises no control over other firms, or in non-equity inter-firm arrangements in which contractual agreements condition the operations and behaviour of host-country partner firms.

The choice between internalization and externalization is typically based on the relative costs and benefits, the associated risks, and the feasibility of each option (Buckley and Casson, 1976; 2001). Internalization of cross-border activities brings with it the costs of running complex, multi-plant, multi-currency operations, which tend to increase the greater the social, cultural and political differences between locations. It also implies internalizing the full extent of risk associated with the activity, including capital exposure and business uncertainty. Finally, it assumes that the technical capability, skills and know-how required to perform the activity are either present in the firm, or not prohibitively expensive or time-consuming to acquire.

Balanced against the costs of internalization are the obvious advantages of retaining full control of value-chain activities. To start with, TNCs will want to maximize "value capture" – externalization clearly

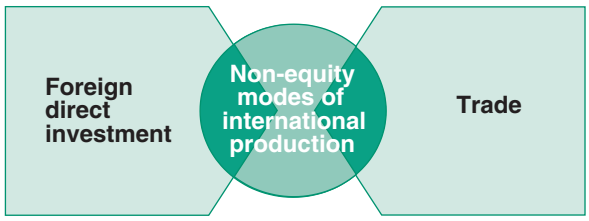
implies giving up part of the profits generated along the chain. Secondly, internalization avoids the transaction costs associated with finding suitable third parties and then stipulating contractual arrangements that tend to become more complex the greater the perceived risks associated with loss of control over parts of the value chain and over assets and valuable intellectual property (IP). Finally, internalization also eliminates the costs of managing relationships with NEM partners on a continuous basis, including flows of knowledge, goods and services; communication and information flows; and monitoring and control of compliance with contractual obligations.

Externalization has a number of intrinsic advantages. These include shifting of certain costs and risks to third parties, as well as gaining rapid access to the assets and resources third parties may bring to the partnership. These can be "hard" assets, such as plants and equipment, access to low-cost resources, technological capability and know-how, or often equally important "soft" assets, such as networks and relationships in host countries. Externalization allows the TNC to establish a more effective internal division of labour, freeing scarce resources to be used in other segments of its value chain – in other words, it allows a focus on "core business". Externalization is clearly more feasible if the knowledge and intellectual property required to conduct the activity are transferable, i.e. not tacit and to some extent standardized or codified.

From the TNC's perspective, the terms of contracts underpinning non-equity relationships are aimed at minimizing the cost of externalization and at protecting the assets, technology and IP exchanged. Non-contractual levers of control can also play a role in minimizing costs and risks to the TNC – the superior bargaining power of the TNC will alleviate concerns related to giving up a measure of control over part of its value chain. The degree of control given up by the TNC, the costs and associated risks of externalization, and the type of contractual and non-contractual levers which come into play, vary by mode, context and relative bargaining power of TNCs and NEM partners (see below in section A.2).

In building their international production networks, TNCs therefore have to decide not only on a location, but also on the mode of control and coordination of international operations. In the classic economic model describing this decision-making process, the ownership-location-internalization (OLI) model (Dunning, 1980),[2] the choice of mode in host countries is between ownership (FDI) and arm's-length trade or licensing. Non-equity modes of international production represent an evolution of this model; they allow TNCs to enter a "middle ground" (figure IV.1) in their GVC governance by externalizing activities while still maintaining a level of control, i.e. improving the trade-off between the advantages and the costs of externalization (Hennart, 2009). The choice is thus no longer between control through ownership (FDI) or no control (trade), but between a range of modes in which control is exercised in various configurations and to various degrees. Thus, in the case of wholly owned host country affiliates, control is defined purely by ownership; in the case of NEMs, control is exercised through contracts and bargaining power (table IV.1). Equity joint ventures are a special case in which TNCs' control flows from a mix of equity and non-equity governance.

Figure IV.1. Non-equity modalities: A middle ground between FDI and trade



Source: UNCTAD.

The ultimate ownership and control configuration of a GVC is thus the outcome of a set of strategic choices by the TNC. The type of non-equity modes that are available or appropriate along GVCs varies by value chain segment. Figure IV.2 shows that NEMs are not specific to any particular part of the value chain or type of activity – TNCs are generally prepared to externalize any activity that is not fundamental to competitive advantage in their market or industry and that can be carried out at lower cost or more effectively by third parties (including overseas), when the risks associated with externalization are limited or can be contained. Activities that are knowledge-intensive or high value added are not precluded. While certain patterns of

Table IV.1. Different modes of TNC governance in global value chains

Types of governance	Translation to modes of international operation	OLI-model		
		Ownership advantages	Locational advantages	Internalization advantages
Control through ownership	FDI, direct participation in host-country firms	√	√	√
Contractual levers of control	Contractual agreement conditions the behaviour of a host-country firm	√	√	-
Control based on bargaining power	Host-country firm dependence on access to TNC strategic assets and the TNC network conditions its behaviour	√	√	-
No control	Arm's-length market transactions, trade	√	-	-

Source: UNCTAD, adapted from Dunning (1980).

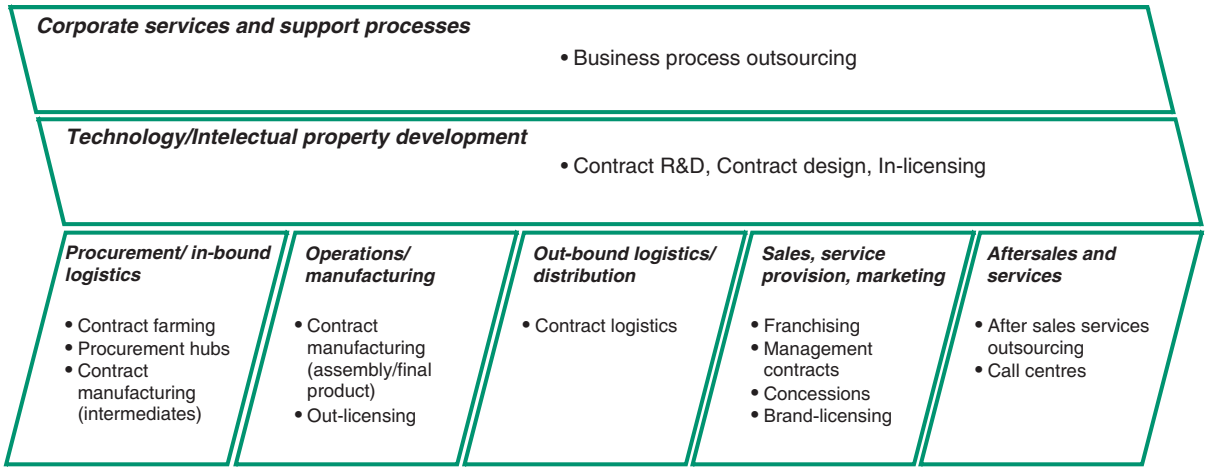
NEM activity have emerged in different industries, it is useful to view the propensity of any given segment of a value chain to be externalized as entirely specific to the industry or the individual TNC.

In some parts of the value chain NEMs and FDI may be substitutes, while in others the two may be complementary. Substitution occurs where a TNC has a choice between different modes and makes a cost-benefit trade-off, for example where a firm has the option of either building a plant to produce and supply products to an overseas market, or alternatively licensing the required technology and IP to a local manufacturer. It may also occur where the industry structure predetermines the outcome of the trade-off. For example in the electronics industry, in most cases construction of a fully owned new components or assembly plant by a design- or brand-owner no longer makes economic sense in the presence of large and sophisticated global contract manufacturing firms.

Complementarity is a characteristic of TNC coordinated international production systems, which encompass a web of owned affiliates and third-party NEM relationships; both modes of operation are an integral part of the chain of global value creation. Moreover, complementarity may exist at the same stage in the value chain, where for example directly owned retail outlets coexist with franchise outlets, or where foreign affiliates are established to manage and facilitate NEM relationships (e.g. a commercial, procurement or logistics entity to support multiple contract manufacturing relationships in the same overseas market).

The composition of a TNC-governed GVC, and its ownership and control configuration, are dynamic. The partners in NEM relationships evolve over time. In some industries, NEM partner firms have grown into TNCs in their own right, not unusually expanding their NEM operations to new production bases or

Figure IV.2. Selected NEM-types along the value chain



Source: UNCTAD, based on Porter's classic value chain representation (Porter, 1985).

markets through FDI. Examples include Foxconn (Taiwan Province of China) (contract manufacturing) and Arcos Dorados (Argentina) (franchising). The mix of FDI and NEMs within GVCs can also shift as technologies and standards change. The evolution of TNC strategies in transition economies, broadly from FDI to franchising after the region opened up to international investors, is a case in point (box IV.1).

2. Defining features of NEMs

NEMs are contractual relationships between TNCs and partner firms, without equity involvement. Bargaining power represents an additional lever with which TNCs influence their partners, and the sources of this power vary by mode.

A cross-border non-equity mode of TNC operation[3] arises when a TNC externalizes part of its operations to a host-country-based partner firm in which it has no ownership stake, while maintaining a level of control over the operation by contractually specifying the way it is to be conducted. Specifications may relate to, for example, the design and quality of the product or service to be delivered, the process and standards of production, or the business model that the partner firm must adhere to. In distinction to purely arm's-length transactions, they have a *material impact on the conduct of the business,* requiring the host-country partner firm to, for example, make capital expenditure, change processes, adopt new procedures, improve working conditions, use specified suppliers, and so forth.

Thus the defining feature of cross-border NEMs, as a form of governance of a TNC's global value chain, is *control over a host-country business entity by means other than equity holdings*, although each type of NEM has its own particularities.[4] A parallel can be drawn with FDI. The defining feature of FDI, to distinguish it from other forms of investment, is a significant level of control (a minimum equity stake of 10 per cent in host-country business entities) and a long-term interest in the host-country operation. This issue of a long-term interest also arises in the case of NEMs, as partner firms become an integral part of the TNC's GVC and their performance is an integral part of the TNC's overall competitiveness.

The various forms of NEM, summarized in table IV.2, can also be compared to FDI in terms of their motivation. Some, such as contract farming, are resource-seeking; some are efficiency-seeking (contract manufacturing, outsourcing); and some are market-seeking (brand licensing, franchising). Furthermore, some types of NEM

Box IV.1. The evolution of retail franchising in transition economies

One of the main economic challenges of transition economies in the early transition period was the reconstruction of the services sector. Retail services in particular needed modernization, as the distribution networks created for the centrally planned system had become unsustainable. Transition economies relied heavily on foreign investors for capital, technology and know-how in logistics, network development and marketing.

International retailers entered the market almost exclusively through equity investments (FDI). The share of retail in the inward FDI stock of transition economies was between 5 and 7 per cent in the late 1990s, compared with less than 1 per cent in the rest of the world. For TNCs, FDI, including the acquisition of privatized firms, was the fastest way to enter the region. Moreover, the underdeveloped business environment and a lack of appropriate partners often precluded non-equity forms of operation (franchising).

Gradually, as the transition economies advance, foreign operators are increasingly opting to develop their retail networks through franchising. Their foreign affiliates, including purchasing and marketing organizations, logistics networks and warehouses, often serve as a basis for building franchising operations. In addition, through their local operations they have built local capabilities and skills, both by bringing in expatriate staff and by training local personnel.

Thus with the evolution of the local market, retail TNCs are shifting their operations from FDI to franchising, though many maintain an FDI presence. For example, in 2011, in the Russian Federation there were 305 foreign franchise systems out of 595, compared to only 33 in 1996. The number of franchisee outlets linked to foreign franchisors had risen to 3,446, up from only 440 in 1996.

Source: UNCTAD, based on data provided by the East European Franchise Association.

Table IV.2. Definitions of selected types of cross-border NEMs

NEM type	Definition
Contract manufacturing Services outsourcing[a]	Contractual relationships whereby an international firm contracts out to a host-country firm production, service or processing elements of its GVC (extending even to aspects of product development). All go under the general rubric of "outsourcing". Services outsourcing commonly entails the externalization of support processes including IT, business and knowledge functions.
Contract farming	Contractual relationship between an international buyer and (associations of) host-country farmers (including through intermediaries), which establishes conditions for the farming and marketing of agricultural products. See also *WIR09*.
Licensing	Contractual relationship in which an international firm (licensor) grants to a host country firm (licensee) the right to use an intellectual property (e.g. copyrights, trade marks, patents, industrial design rights, trade secrets) in exchange for payment (a royalty). Licensing can take various forms, including brand licensing, product licensing and process licensing. In-licensing refers to a company acquiring a licence from another firm; out-licensing entails sale of intellectual property to other firms. See also *WIR05*.
Franchising	Contractual relationship in which an international firm (franchisor) permits a host country firm (franchisee) to run a business modelled on the system developed by the franchisor in exchange for a fee or a mark-up on goods or services supplied by the franchisor. Franchising includes international master franchising, with a single equity owner of all outlets in a market, and unit franchising, with individual entrepreneurs owning one or more outlets.
Management contracts	Contractual relationship under which operational control of an asset in a host country is vested to an international firm, the contractor, which manages the asset in return for a fee.
Concessions	Contractual relationship under which operational control of an asset in a host country is vested to an international firm, the concessionaire. The firm manages the asset in return for an entitlement to (part of) the proceeds generated by the asset. Concessions are normally complex agreements, such as build-own-transfer (BOT) arrangements, which might include elements of investment by the TNC or ownership of the asset for a period. Legally they can be structured in many ways, including as public–private partnerships (PPPs). See also *WIR07* and *WIR08*.
Strategic alliances Contractual joint ventures	Contractual relationship between two or more firms to pursue a joint business objective. Partners may provide the alliance with products, distribution channels, manufacturing capability, capital equipment, knowledge, expertise, or intellectual property. Strategic alliances involve intellectual property transfer, specialization, shared expenses and risk. Contracts set forth terms, obligations, and liabilities of the parties but do not entail the creation of a new legal entity.

Source: UNCTAD.

[a] The generic terms "subcontracting" and "OEM" will be avoided in this report as they are used in a number of different ways in the literature and business.

are similar to FDI in that they entail a "package" of assets, resources, technology and know-how to be put in the care of host-country firms, as in the case of contract manufacturing, outsourcing, franchising and concessions. Other NEM types are more "narrow asset transfers", as in the case of licensing, management contracts, or some sub-types of franchising such as distributorships or agencies. This report focuses on NEMs where the relationship between TNCs and partner firms is relatively simple – essentially the first five types of NEM in table IV.2, from contract manufacturing to management contracts – to enable a relatively unambiguous analysis based around GVCs, facilitating assessment of impact and policy issues. Strategic alliances, concessions and contractual joint ventures are complex NEM forms, with less clear-cut scope and implications meriting separate treatment. (Concessions in extractive industries and infrastructure, respectively, were dealt with in *WIR07* and *WIR08*.)

The defining features of NEMs – coordination and control of *independent firms* through contractual and non-contractual means, with a *material impact on the conduct of their business* – in some instances blur the rigid distinction between FDI, NEMs and trade. In some industries such as electronics, contract manufacturers are very large operators

and TNCs in their own right. For example, Inventec (Taiwan Province of China) designs, builds and internationally distributes electronics products for lead TNCs such as Apple (United States), Fujitsu-Siemens (Japan), and Lenovo (China); and it does this from production affiliates in countries such as Malaysia, Czech Republic and Mexico.

NEMs are therefore inextricably linked with international trade and FDI, shaping global patterns of trade in many sectors. In industry segments such as automotive components, consumer electronics, garments, hotels and IT and business process services, contract manufacturing and services outsourcing represent a very large share of total trade. NEMs are thus a major "route-to-market" for countries aiming at export-led growth, and a major point of access to TNC global value chains.

TNC governance, control and coordination of host-country operations through NEMs can be indirect. In contract farming, the numbers of individual suppliers are so great that arrangements with TNCs are made by intermediaries. For example, in 2008 Olam (Singapore) sourced 17 agricultural commodities from approximately 200,000 suppliers in 60 countries (most of them developing countries). Similarly, in 2008 food manufacturer Nestlé (Switzerland) had more than 600,000 contract farmers in over 80 developing and transition economies as direct suppliers of various agricultural commodities (*WIR09*). Contractual relationships between a TNC and host-country farmers can be channelled through associations of farmers, cooperatives or other intermediaries, which then establish conditions for the production of farm products. In the garments industry, large intermediaries such as Li & Fung (Hong Kong, China) arrange production in dozens of countries for branded clothing companies such as Gap (United States) via its long-standing relationship with independent contractors. Similarly, in franchising, extended networks of business outlets are often governed through a master franchisee that contracts rights for an entire market (a country or region) in which it manages relationships with individual unit franchisees.

The *means of control* and the sources of bargaining power in NEM relationships vary by type. Partnerships are seldom equal, with power relationships depending on a range of factors which vary by NEM-type and industry, and include the capabilities and other assets possessed by TNCs and partner firms. In each NEM-type contractual levers of control are complemented with elements of soft bargaining power that strengthen TNCs' governance of GVCs (table IV.3).

At the same time, partner companies in host countries possess or can develop "countervailing power", often with the support of their government. Sources of such countervailing power on the part of NEM partners include specialized knowledge (including patents and other intellectual property), advanced productive capabilities (e.g. the ability to scale operations quickly), access to key assets or resources (including human resources) or know-how related to the local market of the NEM partner. This countervailing power can also be exercised in a number of ways, including in negotiations defining the terms of a contract.

Ultimately, it is the TNC which orchestrates the value chain. Thus, the most important source of TNC bargaining power, outweighing any countervailing forces that a host-country NEM may put forward, is its role as the coordinator of the GVC itself. This has implications for both partner firms and developing countries. The TNC's governance of its integrated international production network and of the web of loosely dependent entities that make it up allows it to regulate access to the network and to set the conditions. Thus the segmentation or "fine-slicing" of value chains into ever more numerous and discrete activities that can be carried out by partner firms in any location plays into the hands of TNCs. It also makes them important interlocutors for policymakers aiming to stimulate the development of specific economic activities in specific locations, independent of whether such development is driven by FDI or domestic partners' investment.

Table IV.3. TNCs' contractual levers and sources of bargaining power

Modes	Contractual levers of TNC control over host-country firms[a]	Sources of TNC bargaining power
Contract manufacturing Services outsourcing Contract farming	• Specifications for design, process, product or service, and quality • Commercial terms and capital expenditure obligations/assurances • Supply guarantees and restrictions on side-selling • Obligations to purchase specific inputs (e.g. seeds, fertilizer) • Obligations regarding the TNC's CSR practices	• Access to the TNC internal market, guaranteed sales • Access to TNC know-how, supplies of inputs, logistics network • Existence of many potential contract suppliers
Licensing	• Obligations placed on the licensee restricting or conditioning the use of the intellectual property	• Access to know-how, intellectual property • Access to the TNC internal market where part of a subcontracting arrangement • Existence of many competing licensees
Franchising	• Obligations placed on the franchisee conditioning the use of the intellectual property and the running of the business (e.g. use of the supply network, choice of suppliers, service levels, capital expenditure, CSR)	• Access to the TNC supply and business support network • Market strength of established brand names • Existence of alternative choices of franchisees
Management contracts	• Obligations regarding the state and maintenance of the asset and future investments (capital expenditure obligations/assurances)	• Access to TNC managerial competencies and know-how, supply network, and intellectual property

Source: UNCTAD.
[a] Contractual arrangements also include obligations on the part of TNCs.

B. THE SCALE AND SCOPE OF CROSS-BORDER NEMs

NEMs are an important part of TNC-governed GVCs, and are growing rapidly. NEM activity is becoming ever more widespread geographically, though there are significant variations by mode and industry.

To assess the extent to which TNCs govern global value chains it is no longer sufficient to consider equity ownership (FDI) alone as a control mechanism. However, analysing non-equity modes is complex, because the web of directly owned, partially owned, contract-based and arm's-length forms of international operation of TNCs is tangled, and some of the distinctions between the different modes are blurred. Moreover, the relationship between FDI, NEMs and trade is also intertwined in many GVCs.

In electronics contract manufacturing, for example, most of the top players, primarily from developing economies, have become TNCs in their own right. From the perspective of developing host countries, the activities of such firms are equivalent to FDI, even if their productive capacity is employed to serve other TNCs. However, their NEM identity is vital information for policymakers – all the more so because such operations generate significant amounts of trade. Including the activities of such contract manufacturers in the measurement of non-equity modes of internationalization risks some "double-counting" between FDI and NEMs. Nevertheless, their inclusion in this section is essential in order to understand the nature and extent of value chain governance by individual TNCs.

Measuring the scale and scope of cross-border NEMs is crucial to our understanding of the overall development of world trade and investment. Recognizing the complexity of NEMs and their interconnections with other aspects of TNC operations, the aim here is to establish a baseline to evaluate NEMs in a number of dimensions (box IV.2 describes the methodology used for the analysis and calculations). The overall methodology

Box IV.2. Methodological note

Measurement of NEM activity is difficult, given the lack of national and international statistics that cover NEM-specific transactions. In order to provide some sense of the scale and scope of NEM activity worldwide, and specifically cross-border activities, UNCTAD employed a three-step methodology to establish estimates for *WIR11*.

First, the prevalence of various forms of NEMs was mapped across industries. For example, contract manufacturing is most prevalent in industries such as electronics, automotive parts, garments, footwear etc. Where possible, overall NEM activity, measured by sales or exports, was gathered for all industry/mode combinations:

- In some cases (contract manufacturing in electronics, automotive components, and pharmaceuticals; services outsourcing; franchising; and management contracts in hotels) estimates of global activity were obtained from recognized industry analysts, industry associations or consultancy firms. These estimates were then refined by analysing the major players in each market and adjusting total NEM sales by an appropriate internationalization ratio to derive cross-border sales.
- In cases where NEM estimates do not exist in any form (contract manufacturing in garments, footwear, and toys) cross-border sales were estimated by taking world exports of those goods, subtracting re-exports, and applying an estimate of the share of exports related to the given mode/industry combination based on industry interviews and industry reports.

Second, value added related to cross-border NEM sales was estimated in most cases by applying the ratio of value added (calculated as the sum of pre-tax income, personnel costs, and amortization/depreciation) to sales generated from a sample of representative companies in each industry. For franchising, the data were obtained through national franchise associations.

Third, employment estimates, both total and in developing and transition economies, were also derived for each mode/industry combination:

- In cases where the players in a given industry/mode combination are highly concentrated (contract manufacturing: electronics, automotive components, and pharmaceuticals; and management contracts in hotels), the estimate of cross-border employment was constructed by taking the sum of their employment and inflating it by their share in the global NEM market for their industry/mode and applying an internationalization ratio. Estimates of employment in developing and transition economies were derived by applying the share of assets or employment in these economies for the largest players to the total employment estimate.
- In cases where the concentration of players is low (contract manufacturing: garments, footwear, and toys) total employment was estimated by using industrial data from UNIDO to determine worldwide employment in a given industry (2007 data, or latest available year) and applying industry-specific ratios related to the share of production destined for export and an estimate of the share of exports related to the given mode/industry combination. Estimates of employment in developing and transition economies were derived by applying the ratio of worldwide employment located in these economies to the total employment estimate.
- Data for franchising and IT services and business process outsourcing were obtained from national associations and from industry reports. For franchising, an internationalization ratio (share of franchising activity carried out by foreigners) was applied to estimate cross-border NEM employment. For IT services and business process outsourcing, industry reports provided the necessary cross-border related employment. Estimates of employment in developing and transition economies were constructed using information from the same sources.

The data on major players used to derive estimates are included in annex tables IV.1–7.

Source: UNCTAD.

estimates a minimal size for NEMs, but the actual level is likely to be somewhat higher.

The various contractual forms included in our discussion – contract manufacturing, services outsourcing, contract farming, licensing, franchising and management contracts – are commonly also employed between firms within the same country. This report focuses only on those NEM activities that cross borders. Linkages between foreign affiliates and local firms that take the form of NEM contracts[5] are, for the most part, excluded from the data presented here.

The usage of NEMs in firm internationalization is common across many industries and in every segment of GVCs. This ubiquity creates difficulties for analysis of the phenomenon, given the general lack of relevant statistics. The report limits its analysis to a number of industries in which NEMs

are especially important; and in some cases, to particular stages of a GVC, for similar reasons.[6] Finally, firms sometimes simulate internal markets, in which their affiliates compete with each other or with outside suppliers for contracts. Because of this, contractual types such as licensing, contract manufacturing and management contracts are also commonly used within a TNC, i.e. between different legal entities of the same parent company. However, such intra-firm arrangements are excluded from the scope of cross-border NEMs in this report, as by definition they cannot be considered "non-equity"; and also because including them would again result in double-counting with FDI.

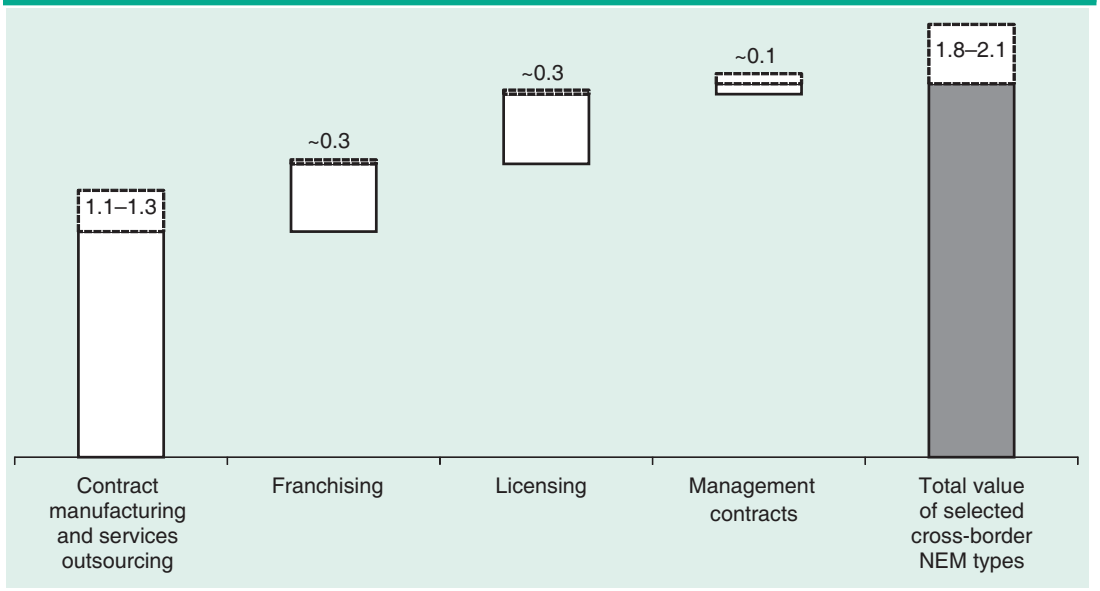
1. The overall size and growth of cross-border NEMs

Cross-border NEMs are worth at least $2 trillion in sales globally, much of it in developing countries. In most cases, NEMs are growing more rapidly than the industries in which they operate.

Cross-border NEM activity worldwide is estimated to have generated about $2 trillion of sales in 2010 in selected modes. Of this amount, contract manufacturing and services outsourcing accounted for about $1 trillion, franchising for $330–350 billion, licensing for $340–360 billion, and management contracts for some $100 billion (figure IV.3). These estimates are incomplete, including only the most important industries in which each NEM type is prevalent. The total also excludes other NEMs – principally contract farming – for which reliable data are not available. Other non-equity forms such as strategic alliances and concessions are not in the scope of this report, as explained in section IV.A.[7]

Contract manufacturing and services outsourcing as a whole clearly top the list on all major indicators, including total sales generated, value added, exports, worldwide employment and employment in developing countries as indicated by selected industries (table IV.4). Nevertheless, other NEM types are often significant on individual quantitative indicators (e.g. franchising, for employment generation in developing countries) or in terms of qualitative impacts (section D). Looking at major indicators by NEM type also hides significant differences by industry. Sales, value added and employment in more technology-intensive industries such as electronics, automotive components and pharmaceuticals, where contract manufacturing is concentrated in a number of major international

Figure IV.3. Estimated worldwide sales by type of NEM, 2010
(Trillions of dollars)



Source: UNCTAD estimates.
Note: See box IV.2 for the methodology used. The dotted area depicts the range estimates for each item. These figures include additional estimates not covered in table IV.4 for contract manufacturing (sporting goods, white goods, textiles, and electronics components) and management contracts (infrastructure services).

Table IV.4. Key figures of cross-border NEMs, selected industries, 2010[a]
(Billions of dollars and millions of employees)

	Estimated NEM-related worldwide			
	Sales	Value added	Employment	Employment in developing economies
Contract manufacturing - selected technology/capital intensive industries				
Electronics	230–240	20–25	1.4–1.7	1.3–1.5
Automotive components	200–220	60–70	1.1–1.4	0.3–0.4
Pharmaceuticals	20–30	5–10	0.1–0.2	0.05–0.1
Contract manufacturing - selected labour intensive industries				
Garments	200–205	40–45	6.5–7.0	6.0–6.5
Footwear	50–55	10–15	1.7–2.0	1.6–1.8
Toys	10–15	2–3	0.4–0.5	0.4–0.5
Services outsourcing				
IT services and business process outsourcing [b]	90–100	50–60	3.0–3.5	2.0–2.5
Franchising				
Retail, hotel, restaurant, and catering, business and other services	330–350	130–150	3.8–4.2	2.3–2.5
Management contracts - selected industry				
Hotels	15–20	5–10	0.3–0.4	0.1–0.15
	Estimated NEM-related worldwide			
	Fees	Associated sales	Associated value added	
Licensing				
Cross-industry	17–18	340–360	90–110	

Source: UNCTAD estimates.
[a] Data for 2010 or latest available year.
[b] For data reliability reasons this estimate only reflects pure cross-border sales and is therefore an underestimate of NEM activity in this industry.
Note: See box IV.2 for the methodology used. All figures are cross-border, inter-firm NEM only.

operators, are different from those in traditional labour-intensive industries such as garments, footwear and toys, which are characterized by large numbers of smaller producers, at best aggregated under international operators specializing in GVC coordination. Equally, grouping businesses as diverse as retail, quick-service restaurants and business services under the single banner of franchising undoubtedly hides wide variations in value added and employment.

There are large variations in relative size. In the automotive industry, contract manufacturing accounts for 30 per cent of global exports of automotive components and a quarter of employment. In contrast, in electronics, contract manufacturing represents a much larger share of trade and employment. In labour-intensive industries such as garments, footwear and toys, contract manufacturing is even more important.

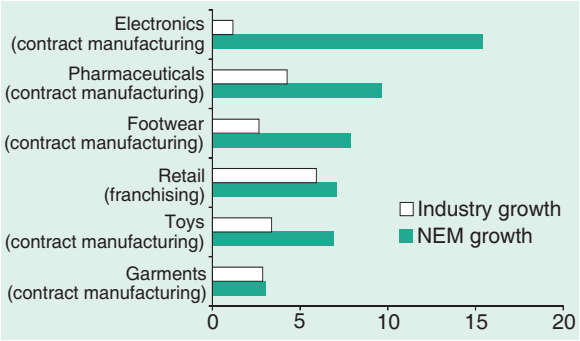
Putting different modes of international production in perspective, cross-border activity related to selected NEMs of $2 trillion compares with exports of foreign affiliates of TNCs of some $6 trillion in 2010. However, NEMs are particularly important in developing countries, which in many industries account for almost all NEM-related employment and exports, compared with the developing country share in global FDI stocks of 30 per cent and in world trade of less than 40 per cent. NEMs are also growing rapidly. In most cases, the growth of NEMs outpaces that of the industries in which they operate (figure IV.4).

2. Trends and indicators by type of NEM

a. Contract manufacturing and services outsourcing

Contract manufacturing and services outsourcing relationships across borders are extensive. They knit together the widely dispersed activities of many of the largest TNCs in the world. The bulk of integrated international manufacturing occurs within

Figure IV.4. Comparative growth rates of NEMs' sales, selected industries, 2005-2010
(Per cent)



Source: UNCTAD estimates.
Note: Global industry growth estimates based on industry market research from Ibisworld (garments and footwear) and Datamonitor (all others). Estimates for NEM growth are based on data for the 10 largest contract manufacturers in each industry, except for franchising in retail, which is based on data available for 24 countries.

Contract manufacturing/ services outsourcing, franchising and licensing are among the largest NEMs in terms of sales and employment. Other NEMs – such as contract farming and management contracts – are significant in various ways.

the confines of TNCs' global operations, manifesting itself through significant levels of intra-firm trade. Contract manufacturing with third parties, however, has grown rapidly in the past decade as TNCs move towards network forms of operation. Globally, UNCTAD estimates that the market for contract manufacturing and services outsourcing combined was in the range of $1.1–1.3 trillion in 2010 (figure IV.3).

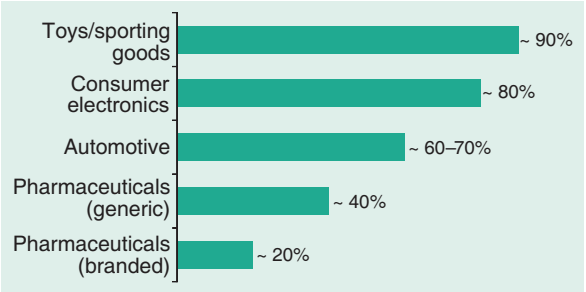
The use of contract manufacturing varies considerably across industries (figure IV.5). For instance, the toys and sporting goods, electronics and automotive industry are major users of contract manufacturing, outsourcing more than 50 per cent of production by cost of goods sold. Contract manufacturing, in industries such as pharmaceuticals, on the other hand, is relatively new and is still small measured as a percentage of cost of goods sold.

The nature and origin of NEM players, the geographical dispersion of NEM operations and their scale and industrial concentration differ by industry. For example, whereas contract manufacturers in electronics and IT-BPO services (information technology and business process outsourcing) are major TNCs in their own right, with large-scale operations in a relatively small number of locations worldwide, those in industries such as garments and footwear are relatively small firms in low-cost locations with a very wide geographical dispersion (tables IV.5 and IV.6).

In technology and capital-intensive industries a small number of NEMs – often TNCs – dominate. In automotive components, pharmaceuticals and IT-BPO, companies from developed countries are the largest contract manufacturers, while in electronics and semiconductors the situation is more mixed, but with developing country companies the more significant (tables IV.5 and IV.6). In the case of labour-intensive industries such as garments, footwear and toys, however, a number of developing country TNCs act as intermediaries or agents between lead TNCs and NEMs, managing the manufacturing part of the GVC. Many of these intermediaries, such as Li & Fung Ltd (Hong Kong, China), have evolved from NEM roots.

The examination of contract manufacturing in electronics, garments and IT-BPO that follows is illustrative of the various patterns of evolution, activity and geographic dispersal, which depend on the nature of industries and other conditions.

Figure IV.5. Use of contract manufacturing by selected industries, estimated share of cost of goods sold



Source: Polastro (2009).

Contract manufacturing in the *electronics industry* evolved early. Offshoring up to the mid-1980s took the form of manufacturing FDI, as TNCs took advantage of cheaper, relatively skilled labour[8] in host countries to process and assemble intermediate goods for shipping back to their home economies. In the latter part of the

1980s, a number of electronics companies started shedding manufacturing operations to concentrate on R&D, product design and brand management. The manufacturing was taken up by electronics manufacturing services (EMS) companies, including Celestica, Flextronics and Foxconn. Some of these emerged from existing suppliers, especially those based in Taiwan Province of China (e.g. Foxconn); others were spinoffs,[9] such as Celestica from IBM (McKendrick, Doner and Haggard, 2000; Sturgeon and Kawakami, 2010).

A small number of contract manufacturers now dominate the industry, with the largest 10 by sales accounting for some two-thirds of the EMS activity. They produce for all major brands in the industry, from Dell and Hewlett-Packard in computing to Apple, Sony and Philips in consumer electronics (annex table IV.1), with overall sales in electronics contract manufacturing amounting to $230–240 billion in 2010 (table IV.4).

All but three of the top 10 players in electronics contract manufacturing are headquartered in developing East Asia – the bulk of manufacturing production in the industry is centred on East and South-East Asia, particularly China. During the last decade, however, contract manufacturing firms in the industry have accelerated their spread to other regions, often by purchasing manufacturing facilities from lead TNCs. This has made them into large TNCs in their own right. Today, they own and run hundreds of facilities in developing economies that lie beyond their region of origin, including Brazil, India, Mexico and Turkey (annex table IV.1). In addition to these large global NEM firms, there are many smaller contract manufacturers in the industry, both established and emerging, in

Table IV.5. Major developing economy players in contract manufacturing and services outsourcing, 2009
(Billions of dollars and thousands of employees)

Company name	Sales	Employment	Company name	Sales	Employment
Electronics			**Garments**		
Foxconn/Hon Hai (Taiwan Province of China)	59.3	611	Youngor Group Co. Ltd (China)	1.8	47
Flextronics (Singapore)	30.9	160	Luen Thai (Hong Kong, China)	0.8	20
Quanta (Taiwan Province of China)	25.4	65	Makalot Industrial (Taiwan Province of China)	0.4	21
Compal (Taiwan Province of China)	20.4	58	Tristate (Hong Kong, China)	0.4	15
Wistron (Taiwan Province of China)	13.9	39	High Fashion International (Hong Kong, China)	0.3	12
Automotive components			**Footwear**		
LG Chem (Republic of Korea)	13.1	8	Pou Chen (Taiwan Province of China)	6.5	333
Hyundai Mobis (Republic of Korea)	11.2	6	Stella International (Taiwan Province of China)	1.0	50
Mando (Republic of Korea)	2.1	4	Feng Tay (Taiwan Province of China)	0.8	68
Nemak (Mexico)	1.9	15	Symphony (Hong Kong, China)	0.2	14
Randon (Brazil)	1.4	10	Kingmaker Footwear (Hong Kong, China)	0.2	12
Pharmaceuticals			**Toys**		
Piramal Healthcare (India)	0.7	7	Kader (Hong Kong, China)	0.2	20
Jubilant Life Sciences (India)	0.7	6	Herald (Hong Kong, China)	0.2	8
Divi's Laboratories (India)	0.2	1	Lerado Group (Hong Kong, China)	0.2	5
Dishman Pharmaceuticals (India)	0.2	1	Dream International (Hong Kong, China)	0.1	9
Hikal (India)	0.1	1	Matrix (Hong Kong, China)	0.1	9
Semiconductors			**IT-BPO**		
TSMC (Taiwan Province of China)	9.2	26	Tata Consultancy Services (India)	5.2	160
UMC (Taiwan Province of China)	2.9	13	Wipro (India)	4.2	108
Chartered Semiconductor (Singapore)	1.5	4	China Communications Services (China)	2.7	127
SMIC (China)	1.1	10	Sonda (Chile)	0.9	9
Dongbu HiTek (Republic of Korea)	0.4	3	HCL Technologies (India)	0.8	54

Source: UNCTAD
Note: Data refer, where possible, to sales and employment associated with cross-border NEM activities.

Table IV.6. Top 10 players in contract manufacturing and services outsourcing, selected industries, 2009
(Billions of dollars and thousands of employees)

Company name	Sales	Employment	Company name	Sales	Employment
Electronics					
Foxconn/Hon Hai (Taiwan Province of China)	59.3	611	Inventec (Taiwan Province of China)	13.5	30
Flextronics (Singapore)	30.9	160	Jabil (United States)	13.4	61
Quanta (Taiwan Province of China)	25.4	65	TPV Technology (Hong Kong, China)	8.0	24
Compal (Taiwan Province of China)	20.4	58	Celestica (Canada)	6.5	35
Wistron (Taiwan Province of China)	13.9	39	Sanmina-SCI (United States)	5.2	32
Automotive components					
Denso (Japan)	32.0	120	LG Chem (Republic of Korea)	13.1	13
Robert Bosch (Germany)	25.6	271	Faurecia (France)	13.0	58
Aisin Seiki (Japan)	22.1	74	Johnson Controls (United States)	12.8	130
Continental (Germany)	18.7	148	Delphi (United States)	11.8	147
Magna International (Canada)	17.4	96	ZF Friedrichshafen (Germany)	11.7	60
Pharmaceuticals					
Catalent Pharma Solutions (United States)	1.6	9	Jubilant Life Sciences (India)	0.7	6
Lonza Group (Switzerland)	1.3	4	NIPRO Corp. (Japan)	0.6	10
Boehringer Ingelheim (Germany)	1.1	6	Patheon (Canada)	0.5	4
Royal DSM (Netherlands)	1.0	4	Fareva (France)	0.4	5
Piramal Healthcare (India)	0.7	7	Haupt Pharma (Germany)	0.4	2
Semiconductors					
TSMC (Taiwan Province of China)	9.2	26	Dongbu HiTek (Republic of Korea)	0.4	3
UMC (Taiwan Province of China)	2.9	13	VIC (Taiwan Province of China)	0.4	3
Chartered Semiconductor (Singapore)	1.5	4	TowerJazz (Israel)	0.3	2
Globalfoundries (United States)	1.1	10	Samsung Electronics (Republic of Korea)	0.3	..
SMIC (China)	1.1	10	IBM Microelectronics (United States)	0.3	..
IT-BPO					
International Business Machines (United States)	38.2	190	NTT Data Corp. (Japan)	8.9	35
Hewlett-Packard (United States)	34.9	140	Computer Sciences Corporation (United States)	6.5	45
Fujitsu (Japan)	27.1	18	Cap Gemini (France)	6.1	109
Xerox (United States)	9.6	46	Dell (United States)	5.6	43
Accenture (Ireland)	9.2	204	Logica (United Kingdom)	5.5	39

Source: UNCTAD, based on annex tables IV.1, 2, 3, 5 and 7.
Note: Data refer, where possible, to sales and employment associated with cross-border NEM activities.

locations around the world which are important players in local value chains. These firms lack the global footprint of the top players and their close interaction with major lead TNCs in the electronics industry; instead many act as second- and third-tier suppliers to the large NEM players in the industry.

The *garment and footwear industries* have a long history of contract manufacturing, especially by companies located in developing countries. Although there are large-scale developing country firms involved in contract manufacturing, such as Gama Tek (Turkey) or Alok Industries (India), generally speaking contract manufacturing is a highly competitive industry typified by vast numbers of small suppliers servicing a limited number of international brands and retailers. Examples of the larger brands include Adidas (Germany), Christian Dior (France), and Nike (United States) (annex table IV.4); retailers include mass merchandisers such as Walmart (United States) and Marks and Spencer's (United Kingdom), and speciality retailers including Gap (United States) and H&M (Sweden).

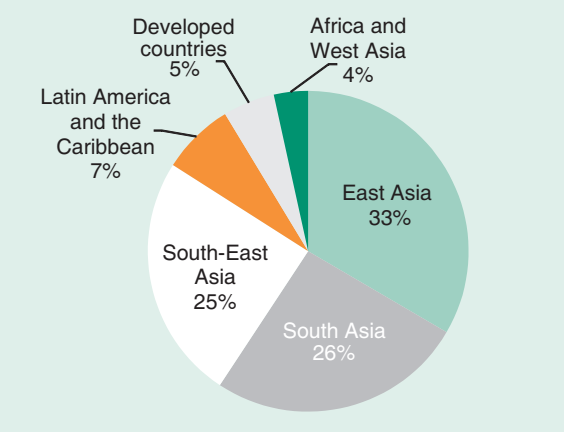
Contracts are often managed through agents or intermediate players (mostly from East Asia),

formerly contract manufacturers, which have evolved into providers of "value chain management services", taking on board more and more elements of the value chain (e.g. design and outsourcing), and sometimes shedding their original manufacturing operations. This happened in the case of Li & Fung Ltd, which has 80 offices globally (many in developed countries, to work with and secure orders from major brand owners) and 12,000 suppliers under contract manufacturing arrangements in 40 developing economies. Some of the suppliers within such arrangements are themselves TNCs, for instance Hong Kong and Indonesian manufacturers with affiliates in (neighbouring) countries with lower labour costs such as Cambodia, Lao People's Democratic Republic or Lesotho (Gereffi and Frederick, 2010; McNamara, 2008).

The size of the market in contract manufacturing of garments, by sales, is some $200–205 billion (table IV.4), with production occurring in widely dispersed locations in Africa, Asia and Latin America. The location of factories used by Gap Inc (United States) is a good reflection of this spread (figure IV.6).

Beyond the manufacturing elements of TNCs' value chains, increasing fine-slicing of business functions, including corporate and support activities (e.g. back-office functions or customer services), has fuelled a surge in the outsourcing of services.

Figure IV.6. Location of factories used by Gap Inc, 2009



Source: UNCTAD, based on company report.

Services outsourcing began as an "onshore" activity in information technology in the 1990s, but rapidly shifted to offshore markets, especially in developing and transition economies. The facility to separate location of production and related services arising from the information and communication technology (ICT) revolution hastened the extension of services outsourcing and offshoring to a range of business processes and other knowledge processes such as market research, business intelligence and R&D (Gereffi and Fernadez-Starck, 2010).

UNCTAD estimates that the global scale of services outsourcing exports, mostly IT-BPO, was around $90–100 billion in 2009 (table IV.4). This may be a considerable underestimate, with other valuations ranging up to $380 billion or more,[11] although the higher figures often include elements such as services outsourcing by TNC affiliates. Because of its development out of ICT and knowledge activities, the industry is dominated by major developed country players such as Accenture (Ireland), Cap Gemini (France), Hewlett-Packard (United States), IBM (United States), and NTT Data (Japan) (table IV.6). The largest developing country firms providing services under contract to overseas clients are from India, including Tata Consultancy Services, Infosys Technologies and Wipro, with others dispersed from China to Chile (table IV.5).

The top developing country locations for outsourcing services (managed both by major developed country players and by local firms) are still in Asia. Three countries, India, the Philippines and China, accounted for around 65 per cent[12] of global export revenues related to IT-BPO services in 2009, partly because of locational advantages, such as specific language and IT skills, the low cost of labour, and ICT infrastructure. However, the industry is expanding to countries such as Argentina, Brazil, Chile, the Czech Republic, Egypt, Morocco and South Africa (AT Kearney, 2011; annex table IV.5). Unlike contract manufacturing, services outsourcing is tied to cities as locations, because of the need for knowledge workers and ready connectivity. A number of new city locations for services outsourcing are coming to the fore (table IV.7).

Table IV.7. Locations for global services outsourcing: top 10 established and emerging cities, 2010

Top 10 established cities	Top 10 emerging cities
Bangalore (India)	Krakow (Poland)
Mumbai (India)	Beijing (China)
Delhi (India)	Buenos Aires (Argentina)
Manila (Philippines)	Cairo (Egypt)
Chennai (India)	Sao Paolo (Brazil)
Hyderabad (India)	Ho Chi Minh City (Viet Nam)
Dublin (Ireland)	Dalian (China)
Pune (India)	Shenzhen (China)
Cebu City (Philippines)	Curitiba (Brazil)
Shanghai (China)	Colombo (Sri Lanka)

Source: Global Services, Destination Compendium 2010. Available at www.globalservicesmedia.com.
Note: The ranking of the cities is based on a range of quantitative and qualitative factors such as the number and quality of IT engineers and other skilled labour, the business environment, connectivity and infrastructure support, risk profiles and quality of life.

b. Franchising

Worldwide sales of franchised enterprises reached nearly $2.5 trillion in 2010 (table IV.8), of which the value of cross-border franchising was around $330–350 billion (table IV.4). The share of international franchising varies significantly by country. In most developed markets domestic franchising accounts for 80–90 per cent of the total, but franchising has reached maturity in some major emerging markets as well. In Brazil, for example, foreign franchise chains represent only around 10 per cent of the total, all of the top 10 chains being domestic franchises. However, initial growth of franchising in developing markets is often driven by international franchise operators. In most African markets, except for South Africa, international franchisors account for 80 per cent or more of the total, and in emerging markets such as Mexico, the Russian Federation and Turkey, the rate is still between 30 and 40 per cent.

The franchising formula is found in different sectors, and takes different forms. The most important franchising sectors are retail (including high-street retailing as well as grocery), restaurants (often quick-service restaurants), hotels, business services, as well as a diverse range of other services sectors, from education to personal care services. In developed countries the share of higher value added services tends to be higher; in the United States, for example, business and personal services account for 37 per cent of the total franchising sector. By contrast, in developing countries, micro-franchising (mostly one-person businesses) and lower value added services are more common. For example, in South Africa the most important franchising sector is quick-service restaurants, with a share of almost 25 per cent of franchised systems, followed by retail (also a limited value added sector) with 22 per cent. Similarly, in India the leading sector is retail, with a share of 32 per cent, followed by quick-service restaurants with 16 per cent.

Most large global franchising operators (franchisors) originate in developed countries, whether they are

Table IV.8. Franchise systems[a] in the world, 2010

Region/economy	Franchise systems	Number of outlets (Thousands)	Sales ($ billion)	Employees (Thousands)	Cross-border (Per cent) [b]
World	**30 000**	**2 640**	**2 480**	**19 940**	**15**
Developed economies	**12 200**	**1 310**	**2 210**	**12 400**	**10**
Europe	7 700	370	340	2 830	20
Japan	1 200	230	250	2 500	5
United States	2 500	630	1 480	6 250	5
Developing/transition economies	**17 400**	**1 330**	**270**	**7 540**	**30**
Africa	1 600	40	30	550	70
Latin America and the Caribbean	3 800	190	70	1 810	20
Asia	11 200	1 070	170	4 810	25
South-East Europe and the CIS	800	30	5	370	50

Source: UNCTAD estimates, based on a joint UNCTAD/World Franchise Council survey of national franchise associations.
[a] A franchise system consists of all the franchised units and units managed by the franchisor itself that operate under the same banner and business format, for example the McDonald's franchise system.
[b] Refers to the share of cross-border outlets in the total number of outlets.

international retailers expanding through franchise networks, luxury brands expanding internationally on the high street, in shopping malls and at airports, or restaurants transplanting their successful formulas to new markets as consumers develop an "international taste". The top 15 global franchisors by number of outlets are all United States firms, apart from one company each from Japan, Canada and the United Kingdom (annex table IV.6). Most of these 15 firms are fast-food chains such as McDonald's (United States) and Pizza Hut (United States). The remaining companies out of this group are essentially convenience stores or hotels, including 7-Eleven (Japan) and InterContinental (United Kingdom).

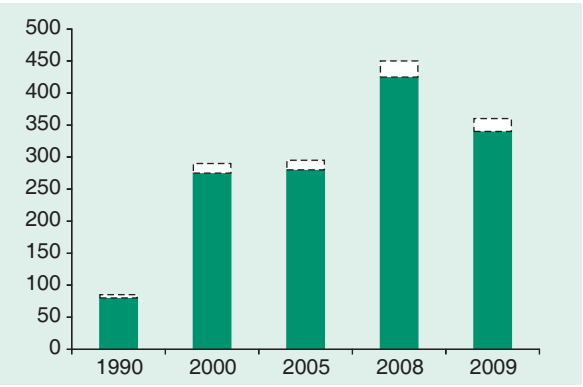
Global franchise chains are frequently widely dispersed, with many franchisees in developing countries. For example, KFC (United States) has franchisees in about 110 countries globally, of which some 75 are developing economies; the equivalent numbers for Holiday Inn are over 100 and 80. The choice of location is driven by market size, which is reflected in the top franchising country locations.

c. Licensing

International licensing spans a wide range of industries and activities, touching on nearly every step of many industries' global value chains. UNCTAD estimates that cross-border NEM-related licensing resulted in sales of $340–360 billion in 2010 (figure IV.7). NEM-related licensing has grown steadily since 1990, registering a steady 10 per cent average annual growth rate as measured by estimated sales up to 2008, although there was a decline in 2009 because of the financial and economic crisis.

Balance of payments statistics suggest that licensing activity directed at developing markets increased markedly in the past decade, though developed economies continue to dominate. Global royalty payments are indicative of licences received (and hence the location of NEM partners to TNCs) and, on this basis, developing and transition economies now pay out roughly a quarter of global royalty fees (table IV.9). The geographical dispersal of licensees (based on royalty payments) is wide, although South, East,

Figure IV.7. Estimated sales related to cross-border inter-firm licensing, various years
(Billions of dollars)



Source: UNCTAD estimates.
Note: The dotted area depicts the range estimates for each year. Data from the United States were used to calculate the amount of cross-border inter-firm licensing associated with industrial processes and trade marks. This number was scaled-up to the world total by using the share of the United States in world licensing receipts.

Table IV.9. Royalties and licence payments by selected developing and transition economies, 2005, 2008, 2009
(Billions of dollars)

Region/economy	2005	2008	2009
World	**143.4**	**204.2**	**197.4**
Developed economies	**113.1**	**153.5**	**149.2**
Developing and transition economies	**30.3**	**50.7**	**48.2**
Africa	**1.6**	**2.5**	**2.5**
South Africa	1.1	1.7	1.6
Egypt	0.2	0.3	0.3
Nigeria	0.1	0.2	0.2
Latin America and the Caribbean	**3.3**	**6.5**	**6.1**
Brazil	1.4	2.7	2.5
Argentina	0.7	1.5	1.5
Mexico	0.1	0.6	0.5
Chile	0.3	0.5	0.5
Asia and Oceania	**23.1**	**35.8**	**34.4**
West Asia	**0.5**	**1.1**	**1.0**
Turkey	0.4	0.7	0.6
Iraq	0.0	0.4	0.3
South, East and South-East Asia	**22.7**	**34.7**	**33.5**
Singapore	9.3	12.5	11.6
China	5.3	10.3	11.1
Taiwan Province of China	1.8	3.0	3.4
Thailand	1.7	2.6	2.3
India	0.7	1.5	1.9
South-East Europe and the CIS	**2.3**	**5.9**	**5.2**
Russian Federation	1.6	4.6	4.1
Ukraine	0.4	0.8	0.6
Croatia	0.2	0.3	0.2

Source: UNCTAD, based on IMF's balance-of-payment statistics.

and South-East Asia comprised nearly 70 per cent of the total from developing and transition economies in 2009, followed by Latin America and the Caribbean, South-East Europe and the CIS, Africa, and West Asia. Within each region there is a high concentration of licensing activity in a few countries, e.g. South Africa and Egypt in Africa; Brazil and Argentina in Latin America; and Turkey in West Asia. This is slightly less the case for East, South and South-East Asia, with Singapore, China and Taiwan Province of China most involved as licensing partners.

d. Other modalities

In addition to contract manufacturing, services outsourcing, franchising and licensing, discussed above, there are many other NEMs – such as management contracts and contract farming – for which overall scale is difficult to estimate (reliable data are often unavailable), but which are nevertheless large and important from a development perspective. In the case of cross-border management contracts, UNCTAD estimates sales of $100 billion (figure IV.3) in an eclectic range of industries from hotels (box IV.3) to infrastructure services, such as electricity and water distribution. The management contract element in infrastructure is often a sub-element of a more complex agreement.

Although there is no available figure for the overall scale of cross-border contract farming, a key NEM in terms of development impact (section D), it is widespread. TNCs utilize contract farming in over 110 developing and transition economies, and this involves a large range of agricultural commodities. This NEM is a significant feature of many TNC GVCs, including food and beverages, biofuels and retail (supermarkets). Contract farming plays an important role in underpinning agricultural production and related activities (*WIR09*):

- In Brazil about 75 per cent of poultry and 35 per cent of soya bean production are sourced through contract farming.
- In Kenya, about 60 per cent of tea and sugar – and nearly all of cut flower exports – are produced through contract farming arrangements.
- In Mozambique a majority of the 400,000 contract farmers are smallholders.
- In Viet Nam some 90 per cent of cotton and fresh milk, 50 per cent of tea and 40 per cent of rice are sourced through this mode.
- In Zambia 100 per cent of cotton and paprika are produced through contract farming.

Box IV.3. The use of management contracts in the hotel industry

The international hotel industry is a good example of how TNCs vary their use of internationalization modes depending on circumstances. Historically, hotel chains have favoured franchising as a mode of expansion, both domestically and internationally. Hotel groups largely stick to franchising in more mature markets, while they have a stronger preference for management contracts (and ownership, i.e. FDI) in developing markets. They also exhibit a preference for management contract when it comes to luxury and upscale hotels – categories with a larger share in hotel group portfolios in developing markets, compared to mature markets.

Globally, eight of the 10 largest hotel groups use management contracts. The average share of management contracts in the global branded market (by number of rooms) is around 28 per cent (24 per cent for the top 10 groups). Among the top 10 groups Hyatt makes the most use of this mode (53 per cent share in rooms), and Marriot accounts for the highest amount of sales associated with management contracts ($8.9 billion). These chains combined have 41 per cent of their operations abroad. The resulting share of management contracts in sales abroad by the top 10 groups provides an estimate of $16 billion; and by branded hotels of $19 billion. UNCTAD estimates that cross-border management contracts employ 233,000 people in the top 10 chains and 353,000 for the entire branded market. These figures most likely understate the employment impact in developing countries, as employment intensity in those markets is much higher due to low labour costs and more services provided in-house (box table IV.3.1; MKG Hospitality, 2011).

Box table IV.3.1. Top 10 hotel groups, 2010

Group	Home economy	Number of rooms	Estimated hotel system sales	Estimated hotel system employment	Internation-alization (Per cent)	Franchising (Per cent)	Management contracts (MC) (Per cent)	Total sales MC	International employment MC
IHG InterContinental Hotels Group	United Kingdom	647 161	18 700	335 000	90	74	25	4 701	75 786
Marriot International	United States	618 104	19 691	300 000	20	53	45	8 860	27 00
Wyndham Hotel Group	United States	612 735	7 169	315 970	25	96	1	47	519
Hilton Hotel Corp.	United States	587 813	18 757	303 118	17	69	26	4 885	13 082
Accor	France	507 306	10 083	261 603	75	24	22	2 208	42 728
Choice Hotel International, Inc.	United States	495 145	6 538	145 000	15	100	-	-	-
Starwood Hotel & Resorts Worlwide	United States	308 736	12 260	159 206	43	39	52	6 323	35 353
Best Western International	United States	308 477	6 931	145 000	39	100	-	-	-
Carlson Hotels Worldwide	United States	159 756	4 844	160 000	55	65	21	1 017	18 541
Hyatt Hotels Corp.	United States	127 507	5 124	130 000	30	16	53	2 716	20 376
Total top 10 hotel groups	**-**	**4 372 740**	**110 101**	**2 254 898**	**41**	**68**	**22**	**30 760**	**233 488**

Source: UNCTAD estimates, based on company and consultancy reports.

Note: Sales are the gross sales of the global hotel system, including sales generated by franchised and managed hotels. The share of management contracts is the proportion of rooms in hotels under management contracts to the total number of rooms.

Source: UNCTAD.

C. DRIVERS AND DETERMINANTS OF NEMs

1. Driving forces behind the growing importance of NEMs

NEMs are driven by a number of factors, including their relatively lower upfront capital requirements, reduced risk exposure and greater flexibility in adapting to change, allowing TNCs to leverage their core competencies.

The use of non-equity modes in international production by TNCs has increased rapidly over the last decade. The growth of NEMs has outpaced the growth of FDI, the traditional means of overseas expansion for TNCs. They have also expanded faster than the average in those sectors in which NEMs are most prevalent (section IV.B). The rapid growth of NEMs as a means of internationalization can be explained by both firms' strategic choices and a number of enabling factors.

The choice on the part of firms to expand overseas through the use of NEMs is based on a number of key advantages they possess (table IV.10). Overall, these advantages, without nuancing them by type of NEM, are: (1) the relatively lower upfront capital expenditure and working capital needed for operation; (2) related to this, the reduced risk exposure; (3) greater flexibility in adapting to changes in the business cycle and in demand; and (4) the externalization of non-core activities that can be carried out at lower cost or more effectively by other operators.

These core advantages of NEMs for firms indicate that the growth of NEMs as a means of internationalization is likely to persist. The ever-present attention of shareholders on return on capital employed (ROCE),[13] the need for firms to de-leverage in the post-crisis world, and greater risk-aversion all increase the relative attractiveness of NEMs, as these modes require less capital. The greater awareness of the need to anticipate shocks in the business cycle makes the flexibility that contract manufacturers provide in changing production levels, or the shifting of market risks to partners through licensing or franchising, more important. In industries such as hotels, franchising and management contracts allow for much faster expansion of the brand than would be feasible when owning all properties. Finally, across industries the trend to focus on core competencies, externalizing parts of the value chain not considered central to other operations, will if anything accelerate, given the drive to ensure maximum efficiency along the value chain to serve emerging markets demanding low-cost versions of mature-market products and services.

There are also disadvantages and risks associated with NEMs. To start with, the externalization of any part of the value chain through the use of an NEM will cause a firm to capture less of the total value created in the chain. In addition, natural and structural market imperfections and resulting

Table IV.10. NEMs: key advantages and drivers of growth

Advantages of NEMs for TNCs	Drivers of the continuing growth of NEMs
Low upfront investment outlays and working capital	• Increasing focus on return on capital employed (ROCE) and need to de-leverage • Ever greater levels of capital expenditure required for expansion of production and entering new markets
Limited risk exposure	• Increasing market and political risk-aversion • Limitation of legal liability
Flexibility	• Increasing awareness of the need to anticipate cyclical shocks
Leveraging of core competencies	• Increasing value-chain segmentation, combined with improving knowledge codification, prevalence of industry standards and improving IP regimes as enabling factors • Growing availability of sophisticated NEM partners in emerging markets capable of providing core (e.g. design facilities) and non-core activities efficiently and effectively

Source: UNCTAD.

transaction costs can make NEMs less attractive. This is balanced by the relative profitability of other segments of the value chain and by potential cost advantages that can be obtained through the externalization of activities (e.g. to low-cost providers and locations). Risks associated with NEMs stem from a lower degree of control over processes, with potential implications for quality and service levels (e.g. on-time delivery), and over technology, skills, or other forms of intellectual property transferred to a partner. The purpose of the contract establishing the NEM partnership is to address precisely these disadvantages and risks, from the TNC's perpective, setting out the parameters for the sharing of value and profits, and including clauses to mitigate the risks for both parties.

In addition to the trends pushing TNCs towards a greater use of NEMs, a number of enabling factors are facilitating their growth. The increasing fragmentation of production processes between locations, growing sophistication in codification of knowledge and prevalence of industry standards, improving intellectual property protection regimes worldwide, and growing capabilities and increasing availability of credible and technologically sophisticated partner firms in new markets are all contributing to NEM growth.

Due to the inherent advantages of NEMs and the factors enabling their development, TNCs appear to be increasingly choosing NEMs rather than FDI as a means of internationalization. However, TNCs make a deliberate choice between the two options only in some cases; frequently the use of NEMs is either opportunistic or is determined by a firm's business model, or by industry- and country-specific factors.

Where the use of NEMs is optional for TNCs, the choice between ownership and partnership is analogous to a "make or buy" decision (as discussed in section IV.A). For example, a pharmaceutical firm can either build its own plant to serve an overseas market, or grant a licence to a local manufacturer to do so, as in the case of GlaxoSmithKline's licensing of the drug Seretide to Hanmi in the Republic of Korea (Avafia, Berger and Hartzenberg, 2006; Berger et al., 2010). NEMs and FDI operations can also be developed in parallel. Many retailers operate both directly owned and franchised stores in the same markets. For example, Carrefour operates most of its hypermarkets and larger supermarkets as directly owned stores, and uses franchising for some of its convenience stores in both developed countries (e.g. France, Italy) and emerging markets (e.g. Brazil)

In many cases a TNC's business model or plan may predispose it to use a particular mode. In the case of franchising, while the choice of using FDI remains, a business model that is built around the exploitation of intellectual property or product development core competencies leads some brand owners, such as Benetton, to use exclusively franchising for distribution in both domestic and foreign markets (Reid, 2008). In pharmaceuticals, the trend to outsource production stages along the pharmaceutical value chain in their home markets is leading TNCs to adopt the same lean model globally. For example, as part of Pfizer's outsourcing strategy, the company manages approximately 150 contract manufacturers around the world. A number of developing country companies, such as Laboratorios Phoenix (Argentina) have benefited from this process.[14] In contract manufacturing, in some industries such as automotives or electronics where the model is mature and contract manufacturers have themselves grown into large TNCs with strong competencies and cost advantages, it would be almost unthinkable for brand owners to invest in their own intermediate manufacturing facilities. For example, Denso (Japan), in automotive parts, and Foxconn (Taiwan Province of China), an electronics contract manufacturer, have huge operations in many locations, as well as considerable investment in research (section D.4; Cattaneo, Gereffi and Staritz, 2010).

Industry and host economy factors can also necessitate the use of NEMs. The competitive advantages possessed by local businesses may make entry into a market through FDI unfeasible or a losing proposition. In a more extreme case, prohibitive restrictions on FDI as an entry mode into a host economy may foster greater use of NEMs by TNCs. For example, the cap on foreign ownership and restriction on retailing business in the Indian food retail sector has kept out or limited the nature of market entry by large international

retailers such as Walmart[15] that exclusively operate fully owned stores; but the same policy has created an opportunity for Spar International (Germany), an international retail franchisor, to expand its network in the huge and expanding Indian consumer market (Ravichandran, Jayakumar and Samad, 2008). Restrictions on land ownership by foreign firms in India have also, in part, led to the use of contract farming by TNCs in order to secure supplies for the local or global value chains (Barrett et al., 2010).

Clearly the opposite is also possible: firm-, industry- or host country-specific factors may preclude the use of NEMs and dictate the choice of FDI in entering foreign markets. A TNC may have a business model and cost structure based on maximizing internal value added, or be dependent on full control over marketing or retail mix (product and price), which cannot be achieved in external structures. At the industry level, in highly knowledge-intensive sectors, and in those industries where knowledge still tends to be tacit and difficult to transfer to third parties, developing NEMs may not be feasible. And at the country level, where countries lack credible and capable local partners, or where local partners do not have access to capital, FDI may be the only feasible entry option.

Firms' preferences, enabling factors, and factors that predetermine the use of a particular mode of internationalization will play out in different ways to drive the growth of different non-equity modes across industries. Table IV.11 summarizes the main drivers of growth for each mode.

2. Factors that make countries attractive NEM locations

NEM locational determinants consist of the policy framework, economic conditions and business facilitation. Such determinants are context- and mode-specific.

The factors that make countries attractive locations for NEM operations are in many respects the same as for FDI operations. These factors, or locational determinants, are usually analysed for FDI in a standard framework (*WIR98*; *WIR10*) that encompasses a country's policies, business facilitation, and its general economic environment (table IV.12).

A stable policy environment conducive to business, including well-developed competition policy, trade and fiscal rules, is equally relevant for NEM operations as for direct invested operations. A number of FDI-specific locational determinants, such as rules regarding entry and operations, standards of treatment of foreign affiliates, and adherence to international agreements on FDI, are relevant only to the extent that TNCs aiming to enter a foreign market through the use of a non-equity mode may

Table IV.11. Selected mode-specific drivers of international NEM growth

Mode	Drivers of growth
Contract manufacturing Services outsourcing	• Increasing fragmentation of production processes between locations • Easier codification and sharing of knowledge and increasing prevalence of industry standards • Improving intellectual property protection regimes • Growing presence of large and sophisticated potential partners
Licensing	• Strengthening intellectual property regimes • Increasing availability of sophisticated partners in emerging markets
Franchising	• Large emerging consumer markets moving from traditional to modern retail and services, leading to: - growth of demand exceeding the capacity of TNCs to expand through directly owned business networks - increasing "pull" of potential franchisors by willing entrepreneurs in rapidly growing emerging markets • Market saturation and high levels of competition in home countries
Management contracts	• Increasing number of passive property investors • Market saturation and high levels of competition in home countries
Contract farming	• Increasingly volatile commodity prices pushing TNCs to seek stable sources of supplies and predictability of costs • Rising concerns in many countries regarding foreign ownership of agricultural land

Source: UNCTAD.

Table IV.12. Locational determinants and relevance for FDI and NEMs

Relevant for FDI and NEMs	More relevant for FDI	More relevant for NEMs
Policy framework		
• Economic, political and social stability • Competition policy • Trade policy • Tax policy	• Rules regarding entry and operations • Standards of treatment of foreign affiliates • International investment agreements • Privatization policy	• Stable general commercial and contract law • Specific laws governing NEM contractual forms (e.g. recognizing licensing, franchising contracts) • Intellectual property protection
Business facilitation		
• Reduction of hassle costs (e.g. cost of doing business)	• Investment promotion • Investment incentives • Provision of after-care • Provision of social amenities (e.g. quality of life)	• Facilitation efforts aimed at: - upgrading of technological, quality, productivity standards of local firms - enterprise development, increasing local entrepreneurial drive, business facilitation - subsidies, fiscal incentives for start-ups - information provision, awareness-building on NEM opportunities with local groups - supporting minimum standards of working conditions and CSR in local firms
Economic determinants		
• Infrastructure • Market size and per capita income • Market growth • Access to regional and global markets • Country-specific consumer preferences • Access to raw materials • Access to low-cost labour • Access to skilled labour • Relative cost and productivitity of resources/assets • Other input costs (e.g. transport, communications, energy)	• Access to strategic assets: - created assets (e.g. technology, intellectual property) - strategic infrastructure	• Presence of credible local entrepreneurs and business partners • Access to local capital

Source: UNCTAD.

have to establish a "foothold" operation to support the NEM business. Such a foothold can range from a minimal commercial presence, for example a purchasing and quality control organization to support outsourced manufacturing, or a marketing and customer service presence to support a licensed consumer business, to significant logistical support operations as in the case of franchisors of retail or quick-service restaurant businesses which need to provide supplies to franchised outlets. FDI-specific policies are also relevant where TNCs operate a mixed model, developing for example franchised outlets next to directly owned outlets, as in the case of McDonald's in China, or where the NEM is combined with a limited equity stake held by the TNC, as in the case of the Jordanian pharmaceuticals company, JPM, which licenses technology to five ventures in Algeria, Egypt, Eritrea, Mozambique and Tunisia in which it also holds equity stakes. JPM's role in these ventures is primarily one of technical oversight, given the relatively low capacities of the local partners (UNCTAD, WHO and ICTSD, forthcoming).

In addition to the policy-related locational determinants considered standard for FDI, there are a number of factors specifically favouring the development of NEMs in host countries. These include a stable commercial and contract law, as NEMs are essentially a contract-based form of TNC engagement in a host economy; the specific laws that may govern NEMs in the country, such as laws recognizing and setting parameters for NEM contractual forms (e.g. franchising, contract farming); and the IP regime (see also section E.2).

Business facilitation, the second set of determinants, is equally important for the attraction of NEMs as for FDI. Some FDI-specific business facilitation

efforts are clearly less relevant, unless promotion activities and incentives are applicable more widely, for example where investment promotion agencies engage in matchmaking between foreign franchisors and local aspiring franchisees (about a quarter of IPAs do so, according to this year's IPA survey (section E.3). However, in addition to the business facilitation efforts considered standard for FDI, a number of measures are relevant for the development of NEMs.

Initiatives to upgrade technological, quality, or productivity standards of local firms, or to support minimum standards of working conditions and CSR, can all increase the pool of potential local NEM partners capable of engaging with TNCs (section E.2). For example, the Government of Malaysia introduced franchising-specific legislation, and undertook other measures which facilitated entry into the local economy by TNCs. Through various agencies it offers financial support to those setting up franchising businesses.[16] In the case of services outsourcing, the Government of the Philippines contributed to strengthening the development of the call centre industry.[17] The Government of Brazil has also provided incentives and institutional support to develop this industry.[18]

The economic determinants of the attractiveness of a country for NEM and FDI operations, the third area of determinants, again are very similar. For example, the size and growth of the market and the access to regional markets are equally important for NEM forms such as franchising or out-licensing as for their directly invested equivalents. The provision of basic infrastructure and the costs of transport, energy and communications are important for all businesses, although an adverse local infrastructure environment may be less of a deterrent for local entrepreneurs setting up a business to engage in an NEM relationship than for a foreign investor. The only economic locational determinant that is likely to be less relevant for NEMs is access to local strategic assets, which TNCs will aim to own outright.

The types of economic determinants that are especially relevant to NEMs include the presence of credible and capable local entrepreneurs and business partners and access to capital for local businesses (section E.2). Most NEMs, unlike FDI, generally require strong and sometimes sophisticated local partners that can shoulder risks transferred to them. For example, in the case of contract farming, farmer associations and

Table IV.13. Main locational determinants by type of NEM

Mode	Most relevant locational determinants
Contract manufacturing Services outsourcing	• Open trade policy, access (or preferential access) to international markets • Access to cheap labour (both unskilled and skilled); favourable relative costs and productivity of local resources • Strong intellectual property regime • Facilitation initiatives aimed at upgrading local technological capabilities
Licensing	• Strong intellectual property regime • Availability of skilled local labour • Stable commercial law and contract enforcement regime • Facilitation initiatives aimed at upgrading local technological capabilities • Market size and growth
Franchising	• Stable commercial law and contract enforcement regime • Availability of capable local entrepreneurs and access to local finance • Market size and growth • Business facilitation aimed at local entrepreneurial development and start-up incentives
Management contracts	• Stable commercial law and contract enforcement regime • Underperforming locally owned assets
Contract farming	• Access to agricultural and related resources (i.e. land, water) • Stable political and economic environment • Open trade policy, access (or preferential access) to international markets • Transport and storage infrastructure • Market size and growth (for local value chains)

Source: UNCTAD.

cooperatives offer a degree of sophistication and certainty to TNCs which do not prevail in contracts with individual farmers (*WIR09;* Barrett et al., 2010). Access to capital for local firms is crucial, insofar as NEMs imply the development of a locally financed business, even if the very contractual engagement of the local partner in the NEM relationship generally works as a facilitator of access to finance with local banks or other financiers.

The relative importance of locational determinants varies by non-equity mode and industry. While all determinants contribute to the overall attractiveness of a country for any form of NEM, certain determinants are fundamental for the development of specific modes. The most relevant locational determinants for each mode are summarized in table IV.13.

The choice between FDI and NEMs, insofar as it is a choice, is clearly one for firms to make. However, differences between the locational determinants of the two types of internationalization show that developing countries can influence that choice. Where host countries' efforts to become more attractive for foreign investors can be politically difficult or economically costly, as in the case of adhering to international investment agreements or providing tax incentives, the cost of improving locational determinants for NEMs can be lower.

D. DEVELOPMENT IMPLICATIONS OF NEMs

The development implications of NEMs vary according to the NEM type, the sector or industry and the value chain segments in which they take place. Individual contractual arrangements can also play a role, as do country-specific conditions and policy influences.

NEMs bring to a host country a package of tangible and intangible assets. The analytical framework for the assessment of their development impact is similar to that for FDI – it looks at employment, value added, exports, technology dissemination and social and environmental impacts, among others (table IV.14). In each of these areas NEMs can bring a number of benefits to a developing host country which, combined, can make a positive contribution to its long-term industrial development by supporting the build-up of productive capacity and improving access to international markets (Narula and Dunning, 2010).

Not all of the benefits that NEMs can bring are automatic; the extent to which they materialize will depend on the capabilities of local firms and on the balance of power between them and partner TNCs, as well as on the general policy framework in host countries. In addition, there are a number of concerns and risks associated with NEMs which need to be addressed, including substandard working conditions in some NEM facilities, a lack of employment stability, and prolonged reliance on low value added activities or technological dependence on foreign firms.

1. Employment and working conditions

NEMs can make a significant contribution to employment, but concerns remain about working conditions and stability of employment.

UNCTAD estimates that worldwide, some 18 to 21 million workers are directly employed in firms operating under NEM partnership arrangements in selected industries and value chain segments (section B). Most of the jobs created are in contract manufacturing, services outsourcing and franchising activities (figure IV.8). Around 80 per cent of NEM-generated employment is in developing and transition economies; especially in contract manufacturing and, to a lesser extent, services outsourcing. Beyond this, there is significant direct employment in other NEMs or industries, such as contract farming, as well as considerable indirect employment. The jobs created are both skilled and unskilled, depending on industry factors.

Contract manufacturing comprises two types of industry: "hi-tech" or technology-intensive industries such as electronics, semiconductors, auto components, pharmaceuticals; and "low-tech" or labour-intensive ones like garments, footwear and

Table IV.14. Main development impacts of NEMs

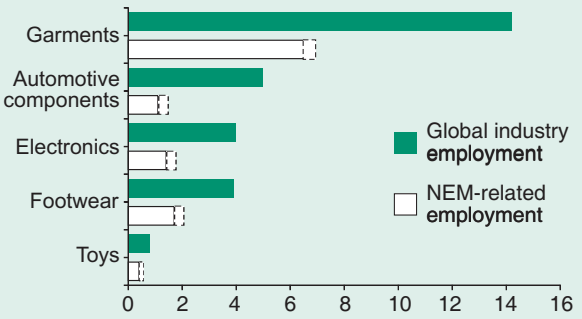
Impact category	Highlights of findings
Employment generation and working conditions	• NEMs have significant job-creation potential: especially contract manufacturing, services outsourcing and franchising account for large shares of total employment in countries where they are prevalent • Working conditions have been a source of concern in the case of contract manufacturing based on low-cost labour in a number of countries with relatively weak regulatory environments • Stability of employment is a concern, principally in the case of contract manufacturing and outsourcing, as contract-based work is more susceptible to economic cycles
Local value added and linkages	• NEMs can generate significant direct value added, making an important contribution to GDP in developing countries where individual modes achieve scale • Concerns exist that contract manufacturing value added is often limited where contracted processes are only a small part of the overall value chain or end-product • NEMs can also generate additional value added through local sourcing, sometimes through "second-tier" non-equity relationships
Export generation	• NEMs imply access to TNCs' international networks for local NEM partners; in the case of those modes relying on foreign markets (e.g. contract manufacturing, outsourcing, management contracts in tourism) this leads to significant export generation and to more stable export sales • In the case of contract manufacturing this is partly counterbalanced by increased imports of goods for processing • In the case of market-seeking NEMs (e.g. franchising, brand-licensing, management contracts) NEMs can lead to increased imports
Technology and skills transfer	• NEM relationships are in essence a form of intellectual property transfer to a local NEM partner, protected by the contract • NEM forms such as franchising, licensing, management contracts, involve transfer of technology, business model and/or skills and are often accompanied by training of local staff and management • In contract manufacturing, local partners engaging in NEM relationships have been shown to gain in productivity, particularly in the electronics industry • NEM partners can evolve into important technology developers in their own right (e.g. in contract manufacturing and services outsourcing) • They can also remain locked into low-technology activities • NEMs, by their nature, foster local entrepreneurship; positive effects on entrepreneurship skills development are especially marked in franchising
Social and environmental impacts	• NEMs can serve as a mechanism to transfer international best social and environmental practices • They equally raise concerns that they may serve as mechanisms for TNCs to circumvent such practices
Long-term industrial capacity building	• Through the sum of the above impacts, NEMs can support or accelerate the development of modern local productive capacities in developing countries • In particular, NEMs encourage domestic enterprise development and domestic investment in productive assets and integration of such domestic economic activity into global value chains • Concerns need to be addressed especially in issues such as long-term dependency on foreign sources of technology; over-reliance on TNC-governed GVCs for limited-value-added activities; and "footlooseness".

Source: UNCTAD.

toys. Among the first group of industries, activity is largely dominated by a relatively small group of major players with a worldwide employment footprint. In the electronics and semiconductor industries, the largest of these firms, mostly from developing economies, have a centre of gravity in East and South-East Asia, with a global web of factories in emerging economies in Latin America, Eastern Europe and elsewhere (table IV.6). Foxconn, a subsidiary of Hon Hai (Taiwan Province of China) and one of the largest electronics manufacturing services firms in the world, has nearly a million employees in China alone, making it one of the single largest employers in the country.[19]

Contract manufacturing in the second group of industries is characterized by wide geographical dispersion. In garments, footwear and toys, roughly 90 per cent of NEM-related employment is located in developing and transition economies, including LDCs. For some of these countries, NEM-related activities generate significant employment. Contract manufacturing for major brands such as Nike (United States) and Hugo Boss (Germany), in particular, is an important generator of employment

Figure IV.8. Estimated global employment in contract manufacturing, selected industries, 2010
(Millions of employees)



Source: UNCTAD estimates.
Note: See box IV.2 for the methodology used. The dotted area depicts the range estimate for each item.

across the developing world (box IV.4). For example, there are about 376,000 workers in the Cambodian garments sector, where the vast bulk of production is carried out under contract manufacturing arrangements. In Sri Lanka, the garments industry employs some 400,000 people, many working under similar contractual arrangements.

In *services outsourcing* the employment impact is also large in India, the Philippines and a few other developing economies. For instance, IT-BPO is one of the largest contributors to a number of economies in terms of GDP, exports and employment. By 2009, in India the sector had created some 2.2 million direct jobs and indirectly impacted the lives of about 8 million people;[20] in Chile, the outsourcing services industry in 2008 employed 20,000 people;[21] and in the Philippines, another stronghold of the industry, total employment was some 525,000 people in 2010.[22]

Contract farming is linked to very large numbers of jobs for smallholder farmers; its employment and poverty reduction implications are generally viewed positively. The overall number of contract farmers is uncertain but individual projects can have several hundred thousand participant farmers at a time. For instance, the PTP Group, a joint venture between Asia Timber Products (Singapore) and the local government in Leshan, China, involves the participation of 400,000 forestry workers in fibreboard production (*WIR09*: 144). Similarly, Nestlé (Switzerland) is working with more than 550,000 farmers around the globe supplying it with commodities for its food and beverage businesses.[23] In Mozambique, some 400,000 contract farmers are participating in GVCs.[24] On a smaller scale, but nevertheless significant for the countries and GVC segment involved, the Coca-Cola/SABMiller value chain involved 3,741 workers in Zambia and 4,244 in El Salvador in 2008, mostly in contract farming

Box IV.4. Employment impact in developing countries of NEMs in garment and footwear production

The employment impact of contract manufacturing in low technology-intensive industries such as garments and footwear is significant in developing economies. Most major brand companies such as Nike, Adidas, H&M, Gap, Puma, Collective Brands and Hugo Boss use extensive networks of contract manufacturers based in different developing economies to produce their brand products. For instance, all of Nike's footwear is produced by contract suppliers outside of the United States – some 600 factories in 33 countries, including Argentina, Brazil, Cambodia, China, El Salvador, India, Indonesia, Mexico, Sri Lanka, Thailand, Turkey and Viet Nam – which involves over 800,000 workers. Similarly, Puma has contract manufacturing arrangements with some 350 factories, a majority of which are in developing economies, involving 300,000 workers. Thus, unlike electronics contract manufacturing, which is relatively concentrated in East Asia, contract manufacturing in garments and footwear is far more dispersed, especially in poor countries.

In some developing economies foreign contract manufacturers constitute the bulk of the contract manufacturing activity. The rapid growth of the garment industry in countries such as Bangladesh, Cambodia, China and Viet Nam owes much to the participation of foreign contract manufacturing firms producing locally for international clients, at least initially (UNIDO, 2009; McNamara, 2008). In the case of Cambodia, 95 per cent of exports in the industry are by foreign firms, mostly developing economy TNCs from China, Hong Kong (China), Indonesia, Malaysia, the Republic of Korea, Singapore and Taiwan Province of China. These companies employed around 300,000 people in 2009, accounting for nearly 50 per cent of Cambodia's manufacturing employment.

Source: UNCTAD.

arrangements (SABMiller, Coca-Cola and Oxfam, 2010).

International franchising is also a significant contributor to employment in host countries, where the formula is widely used. The number of franchising businesses, mostly micro- and small enterprises, in developing countries is growing rapidly and franchising in some countries is considered an important tool for unemployment reduction due to its potential to create both formal entrepreneurial employment and dependent employment in small business outlets. For example, in Brazil around 780,000 people were employed in franchised businesses in 2010 (just under 1 per cent of the total workforce) (Rocha, Borini and Spers, 2010; UNCTAD–WFC survey), while in South Africa, franchised businesses employed 460,000 people in 2010, almost 2.5 per cent of the total labour force,[25] and in Malaysia, franchising businesses employ more than 200,000 people, or some 1.7 per cent of the workforce.

Management contracts in some industries can also have a sizeable employment impact in host countries. The potential of the hotel industry to create jobs is one of the reasons that many developing-country governments are aiming to grow the industry. The global branded hotel market has an estimated employment of 3.5 million people, of which roughly 400,000 jobs are attributable to operations run under management contracts abroad (box IV.3). International hotels often offer a higher service level (requiring more staff per room) than local hotels (Fontanier and van Wijk, 2010). Research in six developing countries has shown that foreign-owned accommodation has a staff-to-guest ratio of 8:1, compared to the 1:1 or 1:2 ratio reported for domestically owned accommodation (UNCTAD, 2007). International hotel groups are currently expanding their reach, particularly in Asia. In China, for instance, the InterContinental Hotel Group has an expansion plan to double its current complement of 150 hotels over the next five years. This expansion plan will be mostly carried out using management contracts, creating an additional 90,000 jobs – on top of the current 40,000 employees in China.[26] International hotel chains operating through management contracts or franchising in host countries are a powerful pull factor in complementary activities employing low-skilled workers, such as laundry, cleaning and security (in addition to higher-skilled areas such as surveillance and IT services) in developing countries (Lamminmaki, 2005; UNCTAD, 2007: 81; MKG Hospitality, 2011).

The employment impact of NEMs is even more significant when *indirect employment* is taken into account, through linkages with local firms, as in the case of IT-BPO in India above, or contract farming in Kenya (box IV.10). In terms of backward linkages, sources of indirect employment include workers employed by subsequent tiers of contractors (for instance in contract manufacturing), providing services or parts and components to NEM partner firms. In addition, employment is created by providers of ancillary services. For instance, in franchising in the retail sector, further employment is created by local service providers to the NEM operations, such as logistics companies, advertising firms, interior design companies, local suppliers of raw materials and local packaging companies. Similarly, licensing of host country firms in the pharmaceutical industry creates employment opportunities in other parts of the local value chain, such as in pharmaceutical R&D or product distribution.

The factors that influence working conditions in non-equity modes are the type of mode and the industry, the sourcing practices of lead firms, and the role of governments in defining, communicating and enforcing labour standards.

NEMs such as franchising, licensing and management contracts are frequently perceived as enhancing employment conditions in host countries, often due to relatively strong management control or oversight from international partners, although franchising businesses are not immune to bad working conditions.[27] In an UNCTAD-World Franchise Council survey of franchising associations, which represent the interests of franchisors and franchisees, 64 per cent of franchising associations around the world state that employees in foreign chains enjoy at least the same working conditions as prevailing in local host-country chains; while 30 per cent declare that franchisees and their employees have better working conditions in foreign chains compared to local competitors.

NEMs that are focused on reducing production costs, such as contract manufacturing or services outsourcing, are more often criticised for weak employment conditions, including the violation of national and international labour rights. In order to keep costs down and remain competitive and attractive as partners for lead TNCs, NEM firms can take measures that impinge on workers' rights and freedoms – low wages and benefits, excessive overtime, job instability[28] and poor health and safety practices (Milberg and Amengual, 2008). In some extreme cases, heavy criticism in the media and by activists and consumer organizations has forced international firms to intervene and to work with their local NEM partners in order to improve working conditions (box IV.5).

While contract manufacturing, contract farming and similar modes can employ large numbers of workers, the very nature of cost-sensitive production can be problematic because TNCs can shift to other locations with even lower operating costs. This "footloose" nature of some NEMs can have severe consequences for workers, NEM partners and industries in host economies. For instance, in 2000 the garment industry in Lesotho employed over 45,000 workers and accounted for 77 per cent of the country's exports, chiefly produced by contract manufacturers from Taiwan Province of China under the Africa Growth and Opportunity Act (AGOA), which gave privileged access to the United States market. After 2003, however, as quotas on garment imports to the United States from large, low-cost locations such as China and India were removed ,the industry in Lesotho was devastated. Many factories were closed and thousands of jobs lost (McNamara, 2008).

Jobs in labour-intensive NEMs are highly sensitive to the business cycle in GVCs, and can be shed quickly at times of economic downturn. One example is the electronics cluster in Guadalajara which, although an example of successful value chain upgrading, also illustrates the highly volatile nature of certain types of employment created through NEMs. Box IV.6 illustrates, however, that it is possible for NEMs to manage demanding customers, seasonality and other sources of volatility, for example through diversifying the customer base.

Over the last two decades, however, the relationship between core firms and their NEM partners has started to change. Campaigns by civil society, NGOs and media have begun a process assigning social and environmental responsibilities in supply chains back to lead firms. In 2009 for example, one of Nike's NEM partners in Honduras closed two of its factories, leaving 1,800 workers unemployed and without the legally mandated severance payments they were due. With the help

Box IV.5. Labour conditions in Foxconn's Chinese operations – concerns and corporate responses

Foxconn, a subsidiary of Hon Hai Precision Industry Co Ltd (Taiwan Province of China), is the world's largest contract manufacturer in the electronics industry. In common with many other contract manufactures, Foxconn has been involved in several controversies concerning working conditions. Reports on Foxconn's Chinese operations have in the past identified facility-specific issues on wages and benefits, work intensity, occupational health and safety, working hours, management quality, employee breaks, grievance mechanisms, treatment of student workers, and dining and living conditions.

A number of Foxconn's customers, including Apple, Dell and HP, have responded to these concerns by carrying out an independent investigation and subsequently by working with Foxconn senior management on corrective actions towards higher international labour standards. The action plan consists of several steps to improve working conditions in factories, including the introduction of new salary standards that reduce pressure for overtime as a personal necessity for employees, the relocation of some manufacturing operations closer to migrant workers' hometowns (thereby maintaining social structures and support systems), and helping employees to integrate better into the community to promote a positive work-life balance and create a more extensive support network. Despite these positive actions, a recent report by a Hong Kong (China)-based NGO (SACOM) argues that labour rights abuses persist at some of Foxconn's facilities in China.[a]

Source: UNCTAD.

[a] "Foxconn and Apple fail to fulfill promises: predicaments of workers after the suicides", SACOM website at http://sacom.hk.

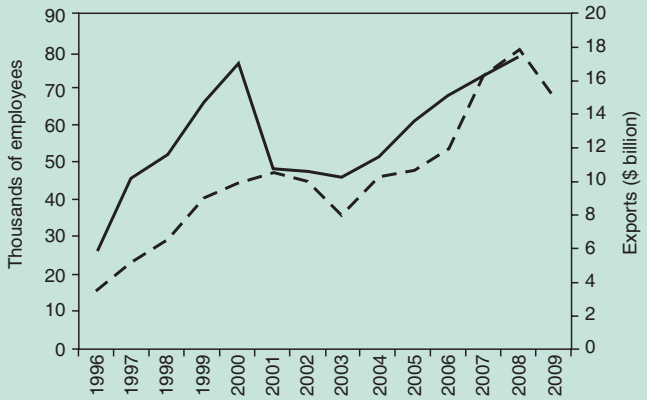
of "The Workers' Rights Consortium" NGO, civil society groups initiated intense public campaigns until Nike agreed to take over the supplier's full obligations (severance payment, nine months of medical care and job training for laid-off workers). This "public relations liability" has extended the social responsibility of TNCs beyond their actual legal boundaries and compelled them to increase their influence over the activities of their value chain partners.

It is increasingly common for TNCs, in order to manage risks and protect their brand and image, to control their NEM partners through codes of conduct, to promote international labour standards and good management practices. Although most codes are developed individually by companies,

Box IV.6. Cyclical employment in contract manufacturing in Guadalajara

Guadalajara, the capital of Jalisco State in south-west Mexico, is home to an electronics cluster deeply embedded in GVCs. Until 2001, when the technology bubble burst, Guadalajara's factories competed directly with those in China in the production of high-volume, price-sensitive items such as mobile phone handsets and notebook computers. During 1994–2000, when large contract manufacturers such as Flextronics, Jabil Circuit and Solectron, all established facilities in Guadalajara, the value of electronics exports from Jalisco State increased at an average rate of 35 per cent per year. In contrast, during 2000–2005, the average annual export growth rate was reduced to near zero, with falling exports in two consecutive years (box figure IV.6.1).

Box figure IV.6.1. Volatility in contract manufacturing employment in Guadalajara, 1996–2009



Source: Cadelec, 2010.

With the downturn in the business cycle, the decline in output and employment after 2001 was precipitous. Total hi-tech employment peaked in Jalisco State at more than 76,000 in 2000, and after 2001 dropped by 40 per cent to less than 46,000; in some plants, employment fell by up to 60 per cent. Some contract manufacturers with facilities both in Guadalajara and in other locations shifted high-volume work to lower-cost plants in China. High variations in employment, as in the case of electronics in Guadalajara, are a general feature of the Mexican maquiladora industries. Employment volatility in such Mexican plants was found to be twice that of United States facilities in the same industry. The close economic ties between the two countries, resulting in a "synchronization" of business cycles, had some observers speaking of the United States exporting a portion of its employment fluctuations over the business cycle to Mexico (Bergin, Feenstra and Hanson, 2008; Blecker and Esquivel, 2010).

However, to increase the utilization of facilities in Guadalajara, contract manufacturers found new partners in retail outlets in the United States, and started to produce lower-volume goods, often on a direct-ship, rapid replenishment basis. Examples of such electronics products include low- and mid-range computer servers, electronic fish finders for use in recreational boating and alarm systems for homes and businesses. Very few of the products made in Guadalajara in 2000 are still made there today. Contract manufacturers and workers have had to adapt to more complex production and supply processes. New logistics functions have been added to ship small lots directly to retailers for distribution, and materials management, testing, and quality assurance processes have been upgraded to accommodate the increased product variety. Over time, the industrial upgrading that took place has led to a gradual recovery to previous levels of employment and exports.

Source: Sturgeon and Dussel-Peters, 2006; Cadelec, 2010.

they are commonly based on international principles such as ILO labour standards, the UN Universal Declaration of Human Rights, or the OECD Guidelines on Multinational Enterprises (chapter III). In combination with individual company codes, many TNCs also adopt third party standards, such SA8000 (for labour practices) or ISO14001 (for environmental management). Currently there are over 2,600 facilities certified to SA8000 across 65 industries,[29] and more than 200,000 ISO 14001 certificates have been issued in more than 150 countries.[30] These certifiable third-party standards assure TNCs that their suppliers meet certain basic standards, and help developing country enterprises to differentiate themselves when seeking international business partners (Riisgard and Hammer, 2010).

NEM firms in most industries need to commit to the terms set forth in a code before entering into business relationships with lead firms. Thus, for many NEM partners the adherence to internationally recognized labour standards is part of their contractual obligations. In this way, core firms themselves are emerging as a regulator of sorts, issuing process guidelines covering a range of social and environmental practices. To ensure that the code of conduct is implemented and followed by their partners, core firms engage in compliance monitoring, which often includes management audits and on-site factory inspections. For instance, H&M has an inspectorate in South Asia which investigates the working conditions in the approximately 40 clothing factories in India and Sri Lanka with which the company works. In 2010 they carried out 251 visits, about half of which were unannounced.[31]

Although questions remain about TNCs' motives vis-à-vis CSR in global value chains (Starmanns, 2010), it can be observed that lead firms that have worked with codes over a longer period of time have introduced a systematic approach to supplier monitoring and rating. Accordingly, they integrate the outcomes of the inspections into their purchasing decisions, rewarding those NEM partners that comply with the standards, or at least show strong commitment to meeting them. However, it has also become evident over the past decade, that many companies are reluctant to drop a supplier for failure to meet the conditions of the code. Instead, NEM partners typically have to implement corrective action plans to rectify critical issues identified during the audits. To support their NEM partners in their efforts to meet compliance with the code, lead firms offer special supplier development programmes for social and environmental issues. In this way, codes are being used as a basis for capacity-building programmes aimed at transferring specific management know-how to developing country enterprises.

2. Local value added

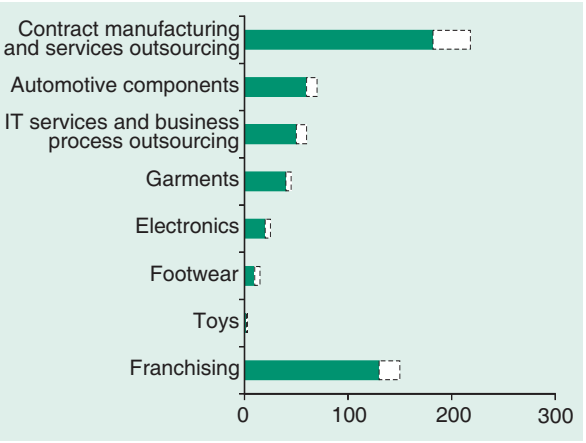
NEMs can generate significant value added in the host economy – including through second-tier linkages – even when their share of value created in the global value chain is limited.

The direct impact of NEMs on local value added can be significant; however, the scale of additional indirect value creation depends greatly on the nature of the particular NEM, the structure of the TNC's GVC and the underlying capabilities of other local firms. UNCTAD estimates that the direct value added impact of cross-border NEMs is roughly $400–500 billion dollars a year (table IV.4). Of this amount, contract manufacturing and services outsourcing are the largest single contributor, accounting for more than $200 billion (figure IV.9).

Among those industries with significant contract manufacturing activity, automotive OEM components and garments generate the largest share of value added. Electronics contract manufacturing, footwear, and toys are manifestly smaller, due in part to industry size – footwear and toys are smaller markets – and the nature of the manufacturing being contracted – much of the activity covered in electronics is related to final assembly of goods. Cross-border franchising, which includes a spectrum of discrete activities, accounts for roughly $150 billion of value added worldwide.

The real significance of NEM-related value added stems from its importance within a particular country's economic context. While global NEM value added accounts for less than 1 per cent of global GDP, in some developing countries it

Figure IV.9. Estimated global value added in contract manufacturing, services outsourcing and franchising, selected industries, 2010
(Billions of dollars)



Source: UNCTAD estimates.

Note: See box IV.2 for the methodology used. The dotted area depicts the range estimate for each item.

represents a significant share of economic activity. For example, in the Philippines, IT-BPO activities accounted for 4.8 per cent of GDP and generated $9 billion export revenues in 2010.[32] India's auto components industry, working mostly under contracting arrangements, contributes about 2.3 per cent to the country's GDP and is expected to generate $30 billion in revenues in fiscal year 2010–11.[33]

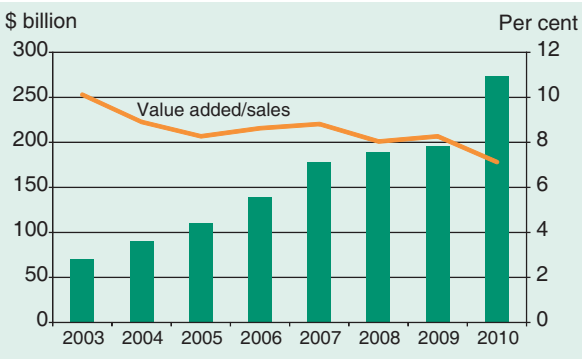
This value added activity, however, is often only a small part of the value generated within the GVC of any particular product. For efficiency-seeking NEMs, such as contract manufacturing, services outsourcing and contract farming, value capture in the host economy can be small, depending crucially on the nature of a NEM's integration into lead TNCs' GVC and the balance of power between the two. If the NEM partner's role is confined to processing inputs from one step in a TNCs' value chain to be passed onto the next, the scope for local sourcing, and thus for additional indirect value generation, is relatively limited as goods are imported, processed, and subsequently exported. On the other hand, greater autonomy has the potential to generate substantial indirect local value added, as NEM partners can make greater use of local suppliers, retaining value in the host economy.

Electronics contract manufacturing provides a clear example of the interplay of these forces. The explosive growth of this mode in the industry has stemmed largely from lead firms wanting to outsource the lowest value added activities of their internal processes. Combined with their significant bargaining power over their NEM partners, lead firms' logic in using contract manufacturing often squeezes local capture of value added. This has led to a steady fall in the generation of value added by their NEM partners, who face ever-smaller margins (figure IV.10).

For instance, in the case of the iPhone that Foxconn (Taiwan Province of China) assembles on behalf of Apple (United States), only a small share of the unit value added is captured by the company's Chinese factories. Much of the remaining global value added is accounted for by Japanese, Korean and other international suppliers pre-selected by Apple, as part of the firm's globally integrated value chain, as well as by Apple and its vendors (box IV.7). Importantly, the low value captured by the NEM partner in this example reflects the *industry* (and the balance of power within it), rather than the country location of production. For example, in a similar case – the Nokia N95 Smartphone – the value added in manufacturing was determined to be 2.1 per cent of the total, whether the phone is produced in Finland or China, though production methods and factor inputs might differ (Ali-Yrkkö et al., 2011).

Local NEM partners are not, however, necessarily locked into a low local value added trap. Many electronics contract manufacturers are quickly evolving to provide additional services to their clients in higher value-generating activities in other segments of the value chain. In some cases, former contract manufacturers have created their own brands and are now competing with lead TNCs in the global consumer electronics market (Sturgeon and Kawakami, 2010). One argument in favour of developing countries undertaking low value added NEM activities is that the apparently unfavourable balance in value capture for local NEM firms is the initial price they pay for access to TNCs' knowledge assets and long-term capability development (Moran, 2011).

Figure IV.10. Total sales and value added as per cent of sales for top electronics contract manufacturers, 2003–2010
(Billions of dollars and per cent)



Source: UNCTAD.
Note: Value added is calculated as the sum of pre-tax income, personnel costs (wages), and amortization/depreciation. Value added as per cent of sales based on data from six of the top 10 major companies in this segment (Hon Hai, Compal Electronics, Inventec, Quanta Computer, Wistron Corp, and TPV Technology).

Beyond contract manufacturing, value added in predominantly market-seeking NEMs such as franchising, management contracts and licensing essentially remains in the host economy – apart from the fees and royalties involved. In the hotel industry, for instance, operations linked to a TNC were found to source no less locally than host country competitors (UNCTAD, 2007).

The extent and nature of backward linkages by NEMs and their concomitant additional local value capture vary by mode, industry and host country, depending on the capabilities of local firms. The use of local inputs, and the overall impact on host country value added, increase if the emergence of contract manufacturing leads to a concentration of production and export activities in clusters (e.g. industrial parks). The greater the number of plants and the more numerous the linkages with TNC buyers, the greater are the spillover effects and local value added, as seen in the Republic of Korea in the 1980s and 1990s, Malaysia in the 1990s and 2000s. In addition, cluster policies can reduce the risk of TNCs shifting production to other locations because of the benefits they gain from cooperation with firms in such agglomerations.

The extent of local sourcing is also governed by contractual agreements between NEM partners. For example, adherence to specified quality standards is a common feature in licensing, contract manufacturing and franchising agreements, which can limit sourcing in host economies if local suppliers do not meet the required quality levels. Nevertheless, franchise operations can create significant local linkages. McDonald's (United States), for example, often builds up a domestic food value chain to supply its stores. Once a supplier and McDonald's have agreed on standards and quality guarantees along the food chain, contracts and local value creation tend to be long-term.[34]

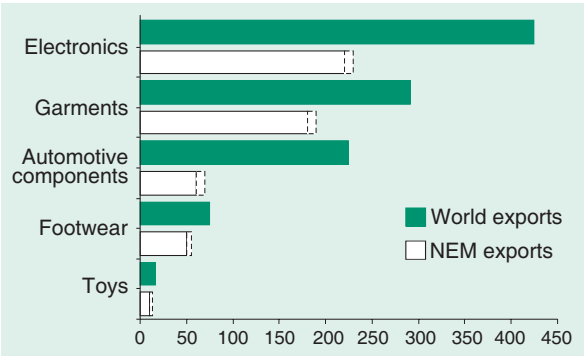
3. Export generation

NEMs generate export gains – the extent of which is context and mode-specific.

NEMs shape global patterns of trade in many industries. In toys, footwear, garments and electronics, contract manufacturing and services outsourcing represent more than 50 per cent of global trade (figure IV.11).

Modes such as contract manufacturing, business-process outsourcing and contract farming, by their nature create substantial exports and foreign exchange earnings. As industries associated with these modes often show significant clustering effects, this can lead to high shares of individual industries in a country's or region's exports: for

Figure IV.11. World and NEM-related exports, selected industries, 2010
(Billions of dollars)

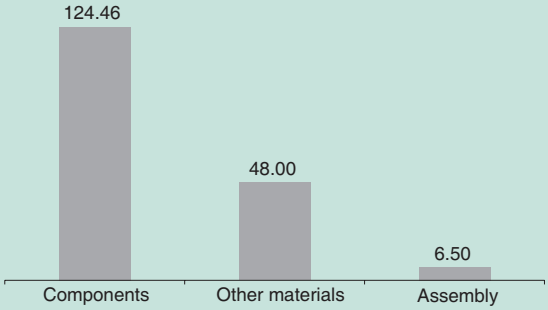


Source: UNCTAD estimates.
Note: See box IV.2 for methodology used. The dotted area depicts the range estimate for each item.

Box IV.7. Value capture can be limited: iPhone production in China

The relative value added captured by contract manufacturers in developing countries, compared to the total value created in the overall global value chain and expressed in currency units of the final destination market (or as a percentage of the final product sales price), can appear very limited. This is illustrated by the well-known case of the Apple iPhone, for which it is estimated that only $6.50 of the $179 production cost (retail price, $500 in the US market) is captured by Foxconn (Taiwan Province of China), the company's NEM partner in China (box figure IV.7.1). The share captured by domestic Chinese companies is even less, limited to packaging and local services. This is, in part, because iPhones are assembled from components made mostly in other countries, such as the United States, Japan, Germany and the Republic of Korea.

Box figure IV.7.1. Breakdown of the production costs of the iPhone, 2010
(Dollars per unit)



Source: UNCTAD, based on Xing and Detert, 2010.

Note: The remaining $321 of the $500 retail price is accounted for by Apple and other companies' returns to R&D, design, distribution and retailing etc.

instance, toys made up $12.9 billion, i.e. more than half, of Guangdong province's (China) exports in 2010.[35] In Bangladesh and Cambodia the garment industry accounted for some 70–80 per cent of total national exports in 2008–2009.[36] In India, textiles and apparel exports were $22 billion, i.e. 12.5 per cent of total exports, in fiscal year 2009, and were expected to grow fast.[37] Looking beyond individual industries, the goods for processing trade, the shipping of intermediate goods for assembly or further processing (and thus a good proxy in international statistics for trends in contract manufacturing), has exploded during the past decade. In China, the gross value of such exported goods reached $655 billion in 2009, up from roughly $138 billion in 2000 (IMF, BoP database).[38]

IT-BPO and contract farming also underline the significant export generation of efficiency-seeking NEMs. During 2005–2009 average IT-BPO exports from India, amounting to two-thirds of the country's total IT-BPO industry revenues, were equivalent to 14 per cent of India's total exports. Similarly, exports of cut flowers (produced under contract) from Ethiopia, Kenya and Zimbabwe accounted for more than 8, 9 and 14 per cent of the respective countries' total merchandise exports in 2009.[39]

In NEMs that are primarily oriented towards the host country market – such as franchising, licensing and management contracts – export gains are clearly more limited, but not absent. In the global hotel industry, with almost all international operations run either as a franchise or under a management contract, global chains give hotel-owners access to new customer groups, in particular international tourists and business travellers. In the upper segments of the hotel market in particular, the high proportion of international guests is an important feature.[40]

In licensing, constraints on exporting activity can be built into contractual agreement between the TNC and host country licensees, especially in terms of geographical delimitation of the sales activities of the NEM partner. For example, the South African pharmaceutical company Aspen Pharmacare is limited in its exports of patented anti-retroviral (ARV) drugs under the terms of its licensing agreements

with GlaxoSmithKline and Boehringer Ingelheim (Berger, 2006; Amuasi, 2009: 14).

Net export generation may differ appreciably by mode and industry. Franchising in retail goods, for instance, normally creates few exports, but imports can rise in the case of branded goods retailing. In the case of management contracts in hotels, the influx of international tourists constitutes a rise in services exports and normally the associated imports are low. Similarly, modes such as contract manufacturing and contract farming lead to net export gains, although these can be limited where the import of intermediate goods or services accounts for a significant part of the value, as in the case of the iPhone (box IV.7). The impact on export generation is higher in the case of other contracting modes, such as services outsourcing.

As an alternative route to international market access, international franchising can be an avenue for brands from developing countries to grow internationally (including as master franchisees for lead TNCs) with little need for high up-front investments. In the case of Brazil, for example, 68 home-grown brands – about 5 per cent of the total national franchised networks – have internationalized and expanded to some 50 countries around the world through franchising as a mode of entry (Rocha, Borini and Spers, 2010). Similarly, franchised businesses based in South Africa have opened outlets in neighbouring countries across Southern Africa (figure IV.12)

4. Technology and skills acquisition by NEMs

NEMs can diffuse technology and skills to local partners. The extent of technology uptake depends on local absorptive capacities.

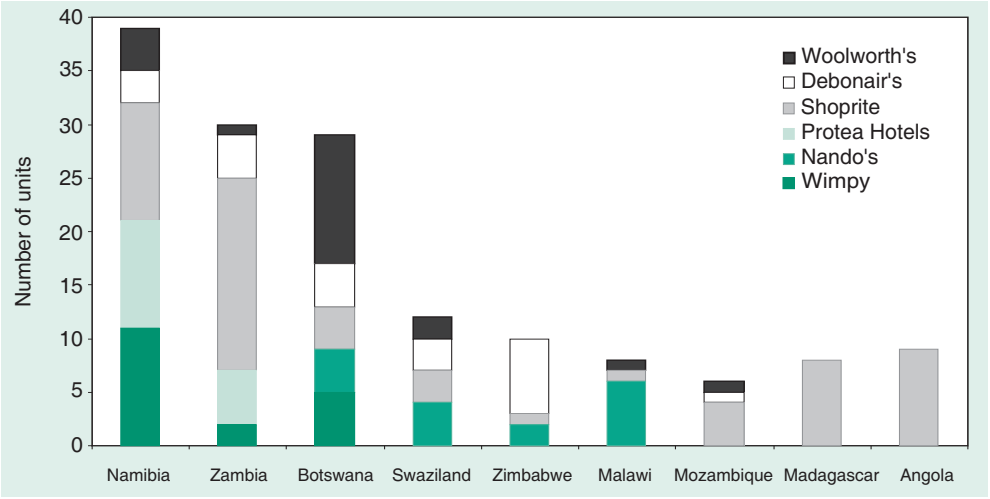
Technology encompasses a range of hard and soft elements, often in combination, e.g. intellectual property (including patents, blueprints, manuals etc.); machinery and other capital equipment; production and organisational knowledge and skills (including quality standards and norms); managerial, engineering and other skills (including tacit ones); business models; and even – potentially – corporate culture and values. The extent and combination of technology and skills received by NEM partners differ.

Licensing involves a TNC granting an NEM partner access to intellectual property – usually with some contractual conditions – and with or without training or skills transfer. A good example is MAN B&W Diesel (MBD), a Danish subsidiary of MAN AG (Germany), which has been licensing marine engine technology primarily – with some training – to shipbuilders in Asia (Japan, the Republic of Korea and China account for 92 per cent of production). Such narrow technology transfers, with limited interaction between the TNC and partners, imply that in licensing, the NEM company normally must already possess significant capabilities and absorptive capacities, in order to assimilate and utilize the knowledge received. Since the 1960s, companies in Asia and Latin America, especially in Argentina, Brazil and the Republic of Korea, have been active in pursuing such strategies (acquiring and absorbing narrow, specific technologies), primarily because of their existing industrial base, in sectors such as automobiles, electronics, pharmaceuticals and shipbuilding[41] (Kim, 2003; Mudambi, Schrunder and Mongar, 2004; Pyndt and Pedersen, 2006; UNCTAD, WHO and ICTSD, forthcoming).

In contrast, in the case of international franchising, which transfers a business model, extensive training and support are normally offered to local partners in order to properly set up the new franchise, with wide-ranging implications for technology dissemination. In addition to professional skills – which are industry-specific – the training and support given usually include general managerial competencies, e.g. financial, marketing and management knowledge to let entrepreneurs manage the new business efficiently (i.e. elements in creating absorptive capacity). For example, the 7-Eleven franchise system provides not only structural support (store equipment), but also field consultants who regularly meet with franchisees in order to help them maximize store performance and profitability. Also, prior to the establishment of a 7-Eleven store, the TNC provides training to facilitate the start-up of the new business and provides ongoing in-store and computer-based assistance to help the franchisee in developing their business.[42]

Some TNC hotel groups, apart from providing internal training programmes, contribute to initiatives

Figure IV.12. Regional spread of selected South African franchise chains, 2010



Source: UNCTAD, adapted from Beck, Deelder and Miller (2010).

to build capacity in the sector. One example is the current expansion of the InterContinental Group in China. The company has launched the IHG Academy, a public partnership that provides hospitality job training in local communities. The Academy has 23 partners located in 10 cities, training 5,000 students per year. Other examples include Best Western's establishment of a Centre for Hotel Management and Training in India and the creation of the Hospitality Training Campus in UAE, to address the needs of the international hospitality and tourism industry (Intercontinental Hotel Group, 2010).

TNCs exist primarily because they possess intellectual property, or other forms of knowledge; it is therefore normally in their interest to create or seek barriers to make acquisition of this knowledge by other firms more difficult. Nevertheless, for host countries, NEMs can be an important interface for acquisition and diffusion of knowledge from lead TNCs – in a similar fashion to JVs and affiliate-supplier linkages. This is because NEMs are a part of TNCs' global value chains; it is in TNCs' interest to disseminate technology – including building local absorptive capacities – to their partners, at least to a degree (UNCTAD, 2010c).[43] A good example of how a TNC may do this is provided by IKEA's relationship with its developing country suppliers in the home furnishing industry. IKEA has a policy of working long-term with its suppliers, but without "lock-in" (i.e. NEM partners can continue to supply other customers). The relationship with suppliers is managed by dedicated regional trade sales offices (TSOs) which ensure that necessary technology and skills are provided, either through the TSO, staff despatched from the parent office or external expertise (consultants, international manufacturers) (Ivarsson and Alvstam, 2010a; 2010b).

Technology acquisition and assimilation by NEM firms, whether in processes, products or along the value chain, are therefore not infrequent and are consistent with the role that these firms play in value chains (UNCTAD, 2010c; Morrison, Pietrobelli and Rabellotti, 2008). Most relevant research on this issue has been conducted on contract manufacturing and services outsourcing. In some East and South-East Asian economies in particular, but also in Eastern Europe, Latin America and South Asia, technology and skills acquisition and assimilation by NEM companies in electronics, garments, pharmaceuticals and IT-BPO services – among others – has led to their evolution into TNCs and technology leaders in their own right (*WIR06*; section B).[44]

A good example of a company which has become a significant TNC and technology leader by being

(and continuing as) an NEM is Hon Hai (Taiwan Province of China) – holding company to Foxconn – which was the 13th largest recipient of patents[45] granted in the United States in 2010.[46] With 1,438 patents (up from about 500 in 2000), Hon Hai is one of only four developing country companies in the top 50 assignees of United States patents in 2010;[47] and the number is not far off the 1,490 received by LG Electronics (Republic of Korea). Hon Hai is following in the footsteps of other Taiwanese companies such as Acer and AsusTek, in moving from a pure contract manufacturer to becoming a brand. All these companies made this transition on the basis of deep expertise established over time in product definition and design.[48]

Although technology acquisition and assimilation through NEMs is a widespread phenomenon, it is not a foregone conclusion, especially at the level of second- and third-tier suppliers, where linkages may be insufficient or of low quality, or the absorptive capacity of suppliers low. The Taiwan Province of China notebook computer production network in China, for instance has not yet resulted in significant upgrading by small local suppliers (Yang, 2010).

Overall, a number of factors affect technology and knowledge acquisition and assimilation by NEMs. Among the most important of these are (1) the industry, (2) local absorptive capacities, and (3) NEM strategies. With respect to *the industry*, key determinants are the industry's structure, GVC and learning opportunities. For example, in "low-tech" industries such as garments, footwear and furniture, most opportunities for technological/skill upgrading are inherent in product design (controlled by brands) and production methods (capital goods and inputs, generally purchasable from manufacturers independent of the brands). As most technology is embodied in capital goods, this means that there are few barriers to technology upgrading, apart from the cost of the equipment.[49]

On the other hand, in industries such as automotives and components, technology assimilation requires mastery of complex products, processes or systems. This makes technology and assimilation more difficult for new players on the scene, and explains the dominance of developed country TNCs in such industries.

How NEMs fare despite these constraints depends greatly on *absorptive capacity* (Giuliani, Pietrobelli and Rabellotti, 2005). For example, although the Philippines is successful in various services outsourcing GVCs, the recent financial and economic crisis that created a competitive impulse for upgrading such industries also showed that local NEMs may lack the necessary capabilities to do so, including services requiring "creative" work, such as animation (Tschang and Goldstein, 2010). In the Philippine animation industry, the local NEMs' combination of high wages, limited skills sets and fragile markets led TNCs such as Warner Brothers to move their contracts to other countries such as India and China. Even in the case of IKEA, mentioned earlier, only a small proportion of its suppliers improve their innovative capabilities (albeit all suppliers achieve better operational capacity and about half are able to absorb adaptive technologies) (Ivarsson and Alvstam, 2010a). To benefit fully from technology and skills available through particular NEM arrangements, it is therefore important for local firms to develop their absorptive capacities.

Strategies of NEM partners also matter. For example, it is possible for companies to engage in "deep niche" specialization, whereby they become technologically advanced in particular components on a mass scale and realize profits through cost reductions. For instance, Bharat Forge (India) is now the world's second largest producer of forgings for car engines and chassis components. Its customers include most major automobile companies and it has affiliates in China, Germany, Sweden and the United Kingdom.

Finally, NEM partners can adopt strategies in their dealings with TNCs to improve their bargaining power and technology acquisition and upgrading. A very common strategy which pays dividends is customer diversification leading to cross-chain learning (i.e. NEM companies benefit from knowledge gained from a number of TNCs). For example Acer and AsusTek (both Taiwan Province of China) achieved their success in notebooks through leveraging knowledge gained from supply chains of many TNC customers. They were able to innovate on the basis of the wider technological base thus gained, through an entrepreneurial pioneering of new niches. For instance this led to AsusTek –

followed by Acer and others – subverting Intel's product roadmap by expanding its target market for netbooks to include customers in the developed world (Intel's vision had only encompassed sales of the devices to developing countries, hence their lower cost) (Sturgeon and Kawakami, 2010; Shih et al., 2008).

IKEA actually encourages such cross-chain learning, despite the risks, because it improves their supplier capabilities (Ivarsson and Alvstam, 2010c). Another example, from a low-tech industry, is that of the Brazilian furniture and footwear industries. Research shows that companies which have serviced multiple value chains in NEM relationships in this industry (rather than operating as affiliates under a single TNC network), including creating brands for domestic and regional customers, are able to use the learning in design, marketing and branding to interact more effectively as they gradually gain the capacities to sell direct to final customers. Operating in multiple value chains appears to improve NEMs' options for upgrading (Navas-Aleman, 2011).

5. Social and environmental impacts

NEMs can serve as a means to transfer international best social and environmental practices, but they may also allow TNCs to circumvent such practices.

Many socio-cultural and political issues arise from TNC involvement in developing countries, including a range of externalities such as changing consumption patterns and cultural values. In the case of NEM operations, to the extent that the TNC is not directly involved, some of these issues are weaker in scope, but they remain in essence.

For instance, franchising can influence local socio-cultural norms by contributing to the growth of consumerism, increasing the use of imported inputs, and the development and strengthening of commercial values and standards (Freund and Martin, 2008; Grünhagen, Witte and Pryor, 2010). In this context, although there are many economic benefits arising from modern retail franchise networks,[50] there is often a tension between the elements of "modernization" – some brought about through NEM activities – and the essence of traditional identity.[51] The entry of "fast food" restaurants offering accessible non-traditional fare has met with some resistance in countries such as China, India and Mexico (Alon, 2004).

At the same time, some governments have become adept at using NEMs to address and overcome important social issues in their countries. Franchising, for example, is an effective system of localizing the operations of a foreign company, by integrating its business model into a population of entrepreneurs who will then have ownership interests in the business and who can cater to national development goals. With this in mind, the Government of South Africa has officially promoted franchising, for instance when issuing a mobile phone licence to Vodacom in the 1990s with specific requirements that involved providing services to the poor, who either had limited or no access to phone lines. Vodacom subsequently set up a system of franchised "Telecom Kiosks", often consisting of renovated shipping containers with some installed phones linked to the mobile network.[52]

The use of micro-franchising as a distribution channel to the poor or low-income segments of a market is common in developing countries, with telecom services a widespread example, e.g. in Ghana, India, Indonesia, Senegal or Thailand; while in some countries like Bangladesh and Peru a similar franchising model is used to broaden internet access (Falch and Anyimadu, 2003; ITU, 2010: 22–23). In Malaysia, Bank Rakyat together with Perbadanan Nasional Bhd (PNS), an agency under the Ministry of Entrepreneur and Cooperative Development, has allocated $4 million to a loan scheme to back the Women Franchise Programme and the Graduate Franchise Programme. Other examples include the sale of household products to the poor, e.g. for Unilever in India through its Project Shakti.[53] In a similar vein, the Government of Liberia uses TNCs and their supply chains to support job creation for young people, including in the agriculture and forestry sectors (Arai, Cissé and Sock, 2010).

TNCs and NEMs can also take social-cultural initiatives, while at the same time addressing their needs. It is possible for NEMs, such as hotel chains entering markets through franchising and contract

management, to diversify their local capability programmes to support wider goals than their immediate skill needs (though the two can be interrelated). An example of such an approach in Thailand involves major international chains (InterContinental Hotels Group (United Kingdom), Marriott International (United States), Fairmont Hotels and Resorts (Canada), Four Seasons Hotels & Resorts (Canada), Hyatt Hotel Corporation (United States), Hilton Worldwide (United States), Starwood Hotels and Resorts Worldwide (United States), NH Hotels (Spain)) in establishing and sustaining "the international tourism partnership youth career service".[54] This has developed into a strong, private–public cooperation, focusing on poverty alleviation and youth employability.

NEMs, like all industry, inevitably have environmental impacts – mostly similar in type to FDI. Contract farming can have serious impacts, among others through soil erosion and biodiversity loss (*WIR09*: 155–157). The specific environmental impacts of contract farming activities depend on contingent factors, including the specific crop or activity undertaken, production technologies, the scale of operations, and host-country and international rules and regulations on the environment. An important factor is the technical support or encouragement provided to the NEM by the TNC, which can be controversial, e.g. in terms of inputs and production methods to support the farming of genetically modified crops (box IV.8).

There is a significant body of evidence to suggest that TNCs are likely to use more environmentally friendly practices than domestic companies in equivalent activities. Applying a uniform environmental standard across all global operations is normally less costly than taking advantage of laxer environmental regulations in some locations. The extent to which TNCs guide NEM operations to the same effect depends, first, on their perception of and exposure to legal liability risks (e.g. reparations in the case of environmental damages) and business risks (e.g. damage to their brand and lower sales). Second, it depends on the extent to which they can control NEMs.

TNCs employ a number of mechanisms to influence NEM partners, including codes of conduct, factory inspections/audits, and third party certification schemes. Ultimately the level of influence a TNC has over its NEM partners is determined by a range of factors, including how fragmented or concentrated the industry is at the level of the NEM partner, which determines how much choice the TNC has in selecting the partner.

In the cases of franchising and management contracts, NEMs for which the TNC's brand is a key driver, environmental reporting is of high importance. For example, seven of the 10 largest hotel groups worldwide (all extensively involved in franchising and/or management contracts) provide extensive information on their global policies to promote environmental responsibility, including reductions in waste, water use and electricity consumption, as well as their carbon footprint, in their annual and CSR reports. In this respect, training of personnel and recycling facilities are two of the most commonly adopted measures to tackle environmental challenges and encourage an ecological conscience. Some, such as InterContinental Hotels Group PLC and Marriot International are pioneering the construction of sustainable hotels and buildings using renewable resources, thereby contributing to the diffusion of more environmentally friendly practices.

6. Long-term industrial capacity-building

NEMs can enhance productive capacities in developing countries through their integration into global value chains, but there are also concerns related to long-term dependency, limited value added and "footlooseness".

NEM activity in developing host countries can make immediate contributions to employment, to GDP, to exports, to linkages and to the local technology base. In doing so, NEMs also help to provide the resources, skills and access to global value chains that are prerequisites for long-term industrial capacity building. The long-term industrial development impact of NEMs filters through each of the impact types discussed in previous sections:

- The *employment* generated by NEM activities contributes to the build-up of a formalized workforce, with the potential to obtain skills

Box IV.8. Managing the environmental impact of contract farming

In the cut flower industry, operations by TNCs and their contract farming schemes have often been criticized for negative environmental impacts due to their high water consumption leading to water depletion, and due to the fact that many producers are far from their customers, thus creating significant impact from transport activities. In response, farms working with TNCs have introduced environmentally sustainable practices, such as geothermal steam and integrated pest management systems (Wee and Arnold, 2009). For similar reasons, since the late 1990s, the banana industry in Latin America (where contract farming is also common) has progressively seen the adoption of environment-friendly farming techniques in plantations. Organic planting technologies introduced through foreign firms' networks have boosted value creation and led to higher incomes for farmers (Liu, 2009).

Despite these recent efforts for sustainable farming, TNCs have been consistently criticized for their environmental impact through contract farming. One positive result of these criticisms seems to be the fact that TNCs are increasingly embracing environmental certification for produce in their GVCs, to protect their corporate image and to manage risks. (In some cases, environmentally friendly methods also contribute to reducing cost, through lower inputs and recycling.) Regular environmental and social inspections are performed to guarantee that contract farmers conform to good agricultural practices (GAPs), sustainable environmental standards and good working conditions for their employees. Compliance is implemented through codes of practice and certification by industry associations.

Source: UNCTAD, based on *WIR09*: 155–157.

that can be transferred to the wider economy, as workers change jobs. Skills include technical, managerial and professional skills, as well as values and experience of business culture. The extent to which the labour force is flexible and can afford to look for new opportunities (i.e. is not forced for subsistence reasons to stay in occupations where working conditions limit possibilities to seek improvement) is an important aspect of the potential of NEMs to contribute to longer-term development.

- The *local value added* generated by NEMs may be limited in the early stages of development of an economy, where NEM activities may be confined to low value added and low-tech segments of global value chains. In the longer term there are opportunities through NEMs to grow a country's presence in such limited value chain segments to a "dominant" international position to maximize development potential, to extend its presence to adjacent segments of the value chain, or to enter other value chains that may depend on similar skills, resources and endowments.
- NEMs are a major "route-to-market" for countries aiming at export-led growth, and a major point of access to TNC global value chains. While initially NEMs in countries in the early stages of development may be the only point of access, local firms can grow into independent exporters and gain independent access to global value chains, often by gradually moving to serve more than one TNC network.
- Long-term industrial capacity building implies the gradual upgrading of local technological capabilities and the pursuit of a degree of technological independence. The path to such independence is, for example, often from third-party factories in the early stages of development, to contract manufacturing activities for multiple TNC value chains at a later stage, to design and own brand development (including for domestic or regional markets) (box IV.9).
- Even the impact of NEMs on social and environmental standards can have a bearing on long-term sustainable industrial development, insofar as industrial upgrading, moving up to higher value added segments of global value chains, is conditioned increasingly by extended corporate social responsibility demands placed on all actors in the chain by lead TNCs.

A major part of the contribution of NEMs to the build-up of local productive capacity and long-term prospects for industrial development is through impact on enterprise development as, in contrast to

Box IV.9. From contract manufacturing to building brands – the Chinese white goods sector

Chinese manufacturers are key players in the white-goods household appliance sector globally; over 50 per cent of Chinese production is destined for overseas markets.

Few Chinese players are operating internationally with their own brands. Nevertheless, several contract manufacturers, active in international supply in mass product categories such as refrigerators, washing machines, microwaves, air-conditioners or domestic cooling fans, have progressively moved into design and secondary innovation. For example, Hisense develops multiple product variants each year that exhibit innovative design. Many of these manufacturers entered the market barely a decade ago, but have migrated from pure outsourced third-party factories to independent contract manufacturers.

Internationally, the high levels of exports still largely compete on the basis of cost advantages in contract manufacturing arrangements, based on large consignment orders, for both manufacturers and large retail chains. For a particular product category, these operations are often heavily clustered in a particular town or city; microwave-oven production for example is dominated by the manufacturers Galanz and Midea, who between them represent some two-thirds of global production volumes, and are both based in Shunde. Their supplier base is located within a two-hour road transport network, facilitating rapid response and low cost.

Price competition is fierce both in the domestic market and in consignment-based international contract production, where manufacturers have routinely accepted single-digit profit margins. A number of producing firms are now aiming to establish independent footholds in overseas markets to improve these margins. Manufacturers, including Hisense, Midea and Haier, are now producing designs that are increasingly producer-branded. This will also help them in the domestic market, as domestic consumers are becoming increasingly brand aware.

Source: UNCTAD, based on case studies by the Institute for Manufacturing, University of Cambridge.

FDI, local entrepreneurs and domestic investment are intrinsic to NEMs. Such domestic investment, and access to local or international financing, is often facilitated for NEMs, either through explicit measures by TNCs providing support to local NEM partners such as supplier capacity-building initiatives or financing guarantees, or through the implicit assurance stemming from the partnership with a major TNC itself or from the contract setting out terms and conditions obtained by the local partner. There can also be indirect impacts on capital formation.[55]

For example, in the case of franchising, access to a proven business model facilitates access to commercial credit for start-up capital requirements for local micro- and small entrepreneurs. The reduced risk associated with a "tried and tested" business model, and in some cases explicit guarantees offered by TNC franchisors, ease negotiations with banks. Contract farming also tends to increase local investment in agriculture by giving farmers a guaranteed fixed income against which they can borrow money from local financial institutions (*WIR09*). In the case of other NEM types, such as contract manufacturing, UNCTAD has included such practices into its roster of good practices in business linkages (*WIR04*).

* * *

The potential contributions of NEMs as catalysts for long-term development are clear and typified by economies such as India, Kenya and Taiwan Province of China (box IV.10). However, concerns are often raised (especially with regard to contract manufacturing and licensing) that countries relying to a significant extent on NEMs for industrial development risk remaining locked into low value added segments of TNC-governed global value chains and cannot reduce their technology dependency. In such cases, developing economies would run a further risk of becoming vulnerable to TNCs shifting productive activity to other locations, as NEMs are more "footloose" than equivalent FDI operations.

The related risks of "dependency" and "footlooseness" must be addressed through policies touching on each of the impact areas discussed above, but above all they must be addressed by embedding NEMs in the overall development strategies of countries.

Box IV.10. NEMs as catalysts for capacity-building and development

Contract manufacturing in Taiwan Province of China

Taiwan Province of China has successfully transformed into an industrial power through contract manufacturing, especially in electronics. This strategy was pursued after the Second World War because the economy possessed an educated labour force, a developed infrastructure and a large number of entrepreneurial SMEs in manufacturing and other industries. The Government built on this by providing a strong policy influence and institutional support aimed at fostering local capabilities, including establishing links with foreign TNCs. In the case of electronics, the State-owned Electronics Research and Services Organization, National Chiao Tung University and National Development Fund have played a significant role in the development of the industry. Local firms and the economy have upgraded their capacities over time, moving from the production of goods using simple technologies, through more capital and technology intensive processes, to – increasingly – innovation. Over a period, this strategy has produced many local world-class electronics companies such as Acer, BenQ, Asus, Quanta, Foxconn, many of which are now TNCs. The process has also led to a formidable industrial cluster, on which the economy continues to build, e.g. through a move to semiconductors. Both Taiwan Semiconductor Manufacturing Company (TSMC) and United Mircoelectronics Corporation (UMC), two leading global semiconductor producers, owe much to the Government for their existence.

Services outsourcing in India

India is today a world-leading destination for IT-BPO and offshoring activities. The industry accounted for about 6.4 per cent of the country's GDP, about 26 per cent of export revenues, and over two million jobs in 2011. The success of the industry in India owes much to the existence of significant IT companies, such as Tata Consultancy Services, most with existing links with TNCs in the United Kingdom and North America, when IT-BPO services offshoring began to accelerate in the 1990s. Indian NEMs were able to take advantage of a large low-cost labour force with English language and technology skills, as well as the strong policy and institutional support from the Government and the industry's organization. Indian firms' existing scale and links with local industrial groups meant that they had the absorptive capabilities to acquire, assimilate and develop technology and skills from their relationship with TNC partners. Many of them have become TNCs themselves. The rapid growth of the services outsourcing industry has improved India's competitiveness and the overall investment environment. The IT-BPO industry has evolved over the past two decades and is a significant support or infrastructure industry for the Indian economy. It provides skilled, IT-savvy employees and entrepreneurs who are now playing a significant role in other industries (e.g. telecommunications) – all of which has fostered economic diversification.

Contract farming in Kenya

Contract farming has helped Kenya emerge as a major agriculture exporter and helped to modernize the processes utilized by its local farmers. This is exemplified by the country's floriculture industry, which produces cut flowers for foreign auction centres and retailers. A combination of active government support, favourable agro-climatic condition, availability of low-cost farm workers and the role of foreign-owned farms have contributed to Kenya's floriculture development. Through out-grower arrangements, small cut flower farms in Kenya produce and sell their flowers to larger local Kenyan or foreign companies, which control, grade, bunch and export the flowers to auction centres in the Netherlands. Local and foreign-owned farms also produce cut flowers under contract for customers, including major supermarkets, in other developed countries. Kenya's cut flowers industry has grown rapidly at 18.6 per cent CAGR between 2000 and 2009, and employs a significant number of people with some 2 million or about 7 per cent of the population relying on the industry for their livelihood; the industry contributes to poverty alleviation and rural employment and development. Technology acquisition, quality control and improved infrastructure play a role in modernizing Kenya's farming sector and furthering the competitiveness of the agriculture industry. In addition, the introduction of a business culture with a stress on quality and reliability develops capacities among workers and entrepreneurs beyond agriculture, and is a force for diversification of the economy.

Source: UNCTAD.

E. POLICIES RELATED TO NON-EQUITY MODES OF INTERNATIONAL PRODUCTION

Maximizing the development benefits of NEMs requires embedding them into overall development strategies, building domestic NEM-related productive capacity, NEM-specific promotion, and policies to mitigate negative effects.

Appropriate policies are necessary if countries are to maximize the development benefits from the integration of domestic firms into NEM networks of TNCs. There are four key challenges for policymakers. First, how to integrate NEM policies into the overall context of national development strategy; second, how to support the building of domestic productive capacity to ensure the availability of attractive business partners that can qualify as actors in global value chains; third, how to promote and facilitate NEMs; and fourth, how to address negative consequences related to NEMs (table IV.15).

1. Embedding NEM policies in development strategies

Many countries are increasingly opting for more proactive industrial development policies, in particular since the recent global economic crisis. These policies interact increasingly with the national and international policy frameworks for FDI (see chapter III) and trade. Given the importance of NEMs in global value chains and in developing country economies, there is a case for industrial development policies to embrace NEMs as an additional means to achieving development objectives.

Embedding NEM policies in overall development strategies requires their integration into industrial development strategies, ensuring coherence with trade, investment and technology policies, and mitigating dependency risks.

Analogous to the common policy challenge in industrial policy of "picking winners", successful government strategies towards using NEMs to galvanize capacity-building reflect the economy's natural and created endowments, its industrial structure and the capabilities of local enterprises. These strategies should build on concrete opportunities to integrate local players into specific activities or segments of global value chains, such as existing linkages with international production networks and existing export markets. Because of the evolutionary nature of GVCs, initial success in one "GVC niche" can breed additional outsourcing and induce rapid growth (Whittaker et al., 2010).

NEM policies within industrial development strategies that aim at industrial upgrading support firms in moving up to higher stages in the value

Table IV.15. Maximizing development benefits from NEMs

Policy areas	Key actions
Embedding NEM policies in overall development strategies	• Integrating NEM policies into industrial development strategies • Ensuring coherence with trade, investment, and technology policies • Mitigating dependency risks and supporting upgrading efforts
Building domestic productive capacity	• Developing entrepreneurship • Improving education • Providing access to finance • Enhancing technological capacities
Facilitating and promoting NEMs	• Setting up an enabling legal framework • Promoting NEMs through IPAs • Securing home-country support measures • Making international policies conducive to NEMs
Addressing negative effects	• Strengthening the bargaining power of domestic firms • Safeguarding competition • Protecting labour rights and the environment

Source: UNCTAD.

chain, reducing their technology dependency, developing their own brands, or becoming NEM originators in their own right. Policies can support businesses to extend their operations into adjacent activities and segments of the value chain to maximize value added and job creation (see below).

Most importantly, embedding NEMs into comprehensive industrial development strategies can help address the risks arising from dependency on a limited range of technologies, market segments or TNC partners.

In the short term, the implications of "footlooseness" can be mitigated by improving the "stickiness" of NEMs, with a view to retaining existing TNC engagements with domestic NEM partners. Policymakers can maintain – and possibly even increase – domestic NEM partners' attractiveness by building sufficient local mass and clusters of secondary suppliers, by nurturing existing NEM relationships or by improving the overall NEM climate (e.g. improving soft and hard infrastructure).

As part of the longer-term strategy, countries can reduce dependency risks by balancing specialization and diversification. Policies that foster specialization can improve NEM partners' competitive edge within a value chain, allowing them ultimately to move towards segments with greater value capture, or even to become "NEM originators" themselves. This is of particular importance in situations where countries' development paths, and related structural changes, result in a reduction of their low labour cost competitiveness. Diversification, in turn, can help mitigate dependency risks by ensuring that domestic companies are engaged in many different activities, both within and across different value chains, and connected to a broad range of NEM partners.

These strategies can be complemented by labour and social policies aimed at cushioning adjustment costs and smoothing adjustment processes. Bridging support, while local industry builds capacity in other activities to fill gaps or finds alternative international NEM partners, can help address social and other challenges arising.

On a more permanent basis, periodic review by host countries of their international competitiveness as NEM destinations, involving close monitoring of key indicators concerning labour and other cost factors, is critical. Competitiveness based only on cheap labour can easily vanish as the economy develops. Continuous learning and skills upgrading of domestic entrepreneurs and employees are necessary preconditions for domestic firms to qualify as attractive business partners for higher value added activities, when foreign companies move relatively "low-end" economic activities and production processes to cheaper locations. People-embodied technology ultimately is the most effective anchor for TNCs.

2. Domestic productive capacity-building

Effective policies to attract and benefit from NEMs require the promotion of local business partners with good entrepreneurial and technological capabilities, and sufficient access to finance.

NEM-related development strategies can only be successful if enterprises in developing countries qualify as potential NEM partners of TNCs. Several policies related to productive capacity-building are important in this context:

- *Entrepreneurship policy*, to develop local entrepreneurs capable of partnering international NEMs and taking advantage of them.
- *Education policy*, to improve the entrepreneurial, technological and managerial skills of the local labour force, including vocational training, so as to be able to engage in NEMs.
- *Technology policy* to support local technological uptake and upgrading so as to enable local firms to capture more value added in NEM relationships.
- Policies geared towards *easing access to finance.*

a. Entrepreneurship policy

Proactive entrepreneurship policies consist of measures to raise awareness of entrepreneurship as a career option and to support individuals who are willing to assume the risks of engaging in business activities. Awareness is also necessary to promote an entrepreneurial culture among a country's population. Building on this, support for start-ups and commercialization is fundamental at the early level of business development, including in the NEM context. Business "incubators" are a useful government tool to assist producers that engage, for instance, in contract manufacturing. Most incubators are linked to or sponsored by government institutions, universities or industry associations. Governments can also support the creation of business networks and linkages to assist new entrepreneurs in their interaction with established companies and facilitate access to resources and clients. Finally, supportive administrative regulations can help entrepreneurs to turn new ideas into business products and firms, including through simplification of administrative steps and the provision of specific information through government websites and portals.

b. Education

Education plays a fundamental role in developing entrepreneurial attitudes, technological and managerial skills and behaviours relevant for NEMs. Key in this respect is to embed entrepreneurship knowledge (including financial literacy and business strategy for start-ups) into the formal educational system at all levels, including schools, universities and private sector bodies. This can be supported by reaching out to the business community and integrating it into the learning process, e.g. by offering practical training and internships in companies.

Vocational training and the development of specialized skills can be a key policy to enhance the capacity of local companies to engage in NEMs (box IV.11). It prepares trainees for jobs involving manual or practical activities, which are non-academic and related to a specific trade or occupation. An example is education programmes for local farmers to increase their productivity and to enhance sustainable methods of agricultural production (*WIR09*). Depending on the educational systems of countries, vocational training can be set up at the secondary or post-secondary level, and can also interact with apprenticeship systems. To promote the development of specialized skills, entrepreneurship centres can be established that serve as hubs to coordinate activities across business and educational institutions. These centres can also focus on the coordination of after-school programmes or activities in community centres.

c. Enhancing technological capacities

National technology policies play a vital role in the development of local capacities for technology-related NEMs. This requires a combination of policies geared towards developing technology clusters, encouraging acquisition and dissemination of technology and skills through improved local absorptive capacity, and protecting intellectual property rights. In a broader sense, it also encompasses policies to disseminate information on international business standards expected from local NEM partners of TNCs, such as quality standards, automation processes and prevailing ITC systems.

Box IV.11. Educational reforms in Viet Nam promote entrepreneurship

In Viet Nam, the Government has supported higher education vocational training schools through its Ministry of Education and Training (MOET). Recently, MOET has supported various initiatives to improve the knowledge base of the population. A new education law was passed in 2005 and a plan was formulated by MOET to implement a National Policy Framework for development of a profession-oriented education system, to convert most existing universities into professional higher education institutions. The system will make it possible to connect the curricula with the ever-changing educational and training needs of the industrial sector, the service sector and respective labour markets.

Source: UNCTAD, based on Pham Truong Hoang, "Industrial Human Resource Development in Vietnam in the New Stage of Industrialization" Vietnam Development Forum, available at: www.vdf.org.vn.

Generating and disseminating technologies are both vital activities for the development of local capacities in technology-related NEMs. Disseminating technology can foster technological upgrading and hence facilitate the involvement of domestic producers in global value chains. The promotion of partnerships between SMEs and organizations overseas, for the dissemination of key technology, products, processes or management practices, can be useful. The provision of technologies, for instance in the form of new seeds and pesticides, can support local farmers in contract farming (*WIR09*). Policies aimed at generating technology can strengthen the technological base and attractiveness of domestic NEM partners. For example, technology clusters that promote R&D in a particular industry can help generate technology by bringing together technology firms, suppliers and research institutes.

Recent years have witnessed some successful initiatives by governments to stimulate not only the involvement of national producers in global value chains, but also to foster their upgrading through technological innovation. For instance, through a combination of targeted incentives and the establishment of centres of excellence, both Egypt[56] and the Philippines[57] have promoted technological upgrading among local contractors with a focus on improving the competitiveness of call centres and business processing operations. Both countries built their strategies on existing capacities and comparative advantages and policies supported the creation of linkages with the wider business community. In the long run these kind of initiatives may also allow the domestic NEM contractor to become an NEM originator in its own right. Technology-related policies are also crucial to avoid local firms being limited to low value-added activities within NEM relationships; upgrading helps host countries to capture higher economic rents within the value chain. Specific policies include supporting training and capacity-building via skill development and business development service programmes, establishing logistic technology centres as demonstration and testing facilities, facilitating technological upgrading and promoting partnerships.

Appropriate protection and enforcement of IP rights is a precondition for IP holders to disclose their technology to licensees in developing countries, especially in areas involving R&D-intensive, but at the same time easily imitateable technologies, such as pharmaceuticals (UNCTAD, 2010b). Hence, IP protection plays an important role in the NEM context. It can also be a means of encouraging R&D by local NEM partner firms. A new UNCTAD study of developing country cases in the automotive components, software and audiovisual industries emphasizes the relevance and mutual dependence of technological upgrading and the protection of intellectual property rights (UNCTAD, 2010b). SMEs are more likely to invest resources in R&D and technological upgrading if their innovations are protected against piracy.

d. Access to finance

Access to finance is a key concern for SME entrepreneurs in general, and it can be a particular constraint when engaging in NEMs. Government policies aimed at promoting credit for SMEs can take the form of tax breaks, subsidies and government loan guarantees,[58] or of alternatives to traditional bank credit, e.g. the formation of venture capital funds to assist start-ups.

Policies can be instituted to address the circumstances of SMEs involved in NEMs with foreign companies. For example, in order to reduce the commercial risks faced by contract manufacturers, governments can create a legal framework for “factoring”, where a firm can sell its accounts receivable (i.e. invoices) to a third party in exchange for money with which to finance current expenditure.[59] Also, governments can promote finance for licensing and franchising through official institutions that provide special windows for this type of activity, or encourage their formation within existing private institutions (box IV.12). The establishment of agricultural development banks can particularly focus on serving the financial needs of local farmers and small holders (*WIR09*).

Box IV.12. Providing access to finance for SMEs engaging in franchising activities

In the Philippines, the Philippine Franchise Association (PFA), Small Business Guarantee and Finance Corporation (SBGFC), the Development Bank of the Philippines (DBP) and the Export Industry Bank (EIB) launched franchise financing facility windows specifically for franchisors and franchisees. Additionally, SBGFC provides credit through the banking system to finance the requirements of small and medium enterprises, including franchises, in various productive sectors such as manufacturing, agribusiness and service.

Source: UNCTAD, based on information from the Philippine Franchise Association and Small Business Guarantee and Finance Corporation.

3. Facilitation and promotion of NEMs

Facilitating and promoting NEMs requires an enabling legal framework, strengthened promotion policies, securing home-country support and harnessing international policies.

a. Setting up an enabling legal framework

NEMs are based on contractual relationships. The laws and regulations governing these contracts are therefore an important NEM determinant, and can constitute either an incentive or an obstacle for this kind of business cooperation.[60] According to investment promotion agencies (IPAs) from developing countries and economies in transition, weak contract laws and cumbersome administrative rules on business start-ups are perceived as the main regulatory obstacles by TNCs. This is particularly the case for contract manufacturing and management contracts.

NEMs would be facilitated by a clear and stable regulatory framework. NEM parties need to know what domestic rules govern their contract, the extent to which these regulations constrain their contractual discretion, whether and to what extent they have the right to chose the law of a third (neutral) country to apply to the contract, the consequences of a breach of contract, what procedures apply in the event of a dispute, in particular whether they can opt for international arbitration instead of domestic court proceedings, and how a judicial decision or arbitration award can be enforced.

Identifying the applicable laws and regulations is complicated by the fact that most countries do not have specific rules for individual NEM types, such as contract manufacturing, contract farming or franchising, but apply general contract laws, together with other legislation that may be relevant in the specific context. Many law areas may come into play, such as regulations on intellectual property (e.g. for licensing or franchising), competition, consumer protection, employment and environmental protection. Under these circumstances, ensuring transparency and coherence of the legal framework becomes particularly important.

An additional task to improve the legal framework for NEMs is to promote the simplification of administrative steps needed to set up new businesses. For example, "one-stop shop" initiatives that concentrate registration procedures in a single agency can reduce the time needed to set up a company, and also reduce costs. Communication campaigns that provide information on existing regulations through media and websites can also contribute to business facilitation.

b. The role of investment promotion agencies

UNCTAD's latest survey of IPAs indicates that at present they are only modestly involved in attracting NEMs, with most of their attention to date devoted to contract manufacturing (table IV.16). This is the case for almost all regions; only agencies in Asia seem to give more attention to franchising.

A review of existing NEM-specific promotion activities, implemented either by IPAs or by other government institutions, reveals variations between different NEM modes: (i) fiscal and financial subsidies

Table IV.16. Share of IPAs actively involved in the promotion of NEMs, 2011
(Percentage of respondents)

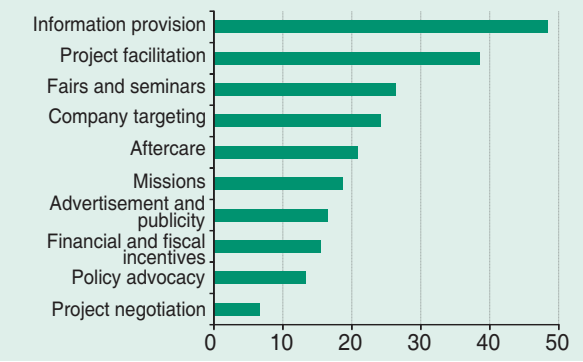
Mode	Current promotion	Expected importance in the future	Main industries
Strategic alliances, Contractual joint ventures	54	60	Across the board
Contract manufacturing	40	49	Textiles and apparel, electrical and electronic equipment and business services
Franchising	26	43	Hotels and restaurants and retail and wholesale trade
Management contracts	24	36	Hotels and restaurants
Contract farming	20	32	Agriculture, hunting, forestry and fishing
Licensing	19	31	Pharmaceuticals

Source: UNCTAD, forthcoming c.

are mainly used for contract manufacturing; (ii) promoting local entrepreneurship is, in particular, linked to franchising; (iii) technological upgrading is mostly mentioned in connection with contract manufacturing; while (iv) matchmaking plays an important role across the board.

Beyond assisting domestic NEM partners, IPAs can play an important role in promoting the use of NEMs to TNCs. Figure IV.13 indicates that, in general, IPAs involve themselves mainly with information provision and project facilitation in this respect. For instance, investment fairs play an import role in the promotion of franchising opportunities. Involvement in project negotiations mainly occurs in the case of management contracts. Investor targeting, investment missions and the provision of incentives are more common in the case of contract manufacturing.

Figure IV.13. Use of IPA policy tools for NEMs, 2011
(Percentage of respondents)



Source: UNCTAD, forthcoming c.

c. Home-country policies

There are examples of TNC home countries promoting specific forms of NEM, in particular franchising. For example, the Australian Trade Commission (AUSTRADE) provides a number of services to Australian franchisors abroad, including coordinating missions around international events, undertaking market research, business partner searches and individual market visit programmes.[61] The United States Exim Bank offers long-term financing in emerging markets to United States franchisors involved in international franchising (Richter, 2009). In Malaysia, export promotion activities for the franchise industry by the Malaysia External Trade Development Corporation (MATRADE) include participation in international fairs and organizing special marketing missions in conjunction with franchise exhibitions.[62]

National export insurance schemes as well as political risk insurance for FDI can be extended to NEMs. For example, the United States Exim Bank can provide insurance for franchising related to export activities.[63] Official development aid can be used to fund supplier development programmes in host countries (*WIR01*) and can include technical assistance aimed at domestic capacity-building for NEMs.

d. International policies

While there is no comprehensive international legal and policy framework for fostering NEMs and their development implications, a number of different international treaties and policies merit attention.

The role of IIAs in protecting – and hence promoting – NEMs and NEM-related investments is not straightforward. IIAs are not designed to cover NEM arrangements, which do not involve an (equity) investment and hence miss the element that typically triggers IIA application.[64] Moreover, the type of protection offered by IIAs (i.e. protection against government interference or conduct) might not correspond to what is mostly required by NEM partners. However, certain NEM components can be considered part of an investment package, under the broad or asset-based definition of "investment" in IIAs (e.g. a trade mark or patents), particularly when TNCs have both FDI and NEMs in the same host country. In such cases, IIAs could have some application.

However, there are other international treaties that may impact – directly or indirectly – on NEMs, including for example, the WTO General Agreement on Trade in Services (GATS) (e.g. by reducing barriers to trade in services, and hence to a certain extent facilitating business process outsourcing or cross-border franchising in, for example, hotel, restaurant, or distribution services). NEMs relying on intellectual property may benefit from IP rules at national, regional and multilateral levels. Also relevant are other non-binding guidelines and recommendations in specific areas such as licensing, technology transfer and innovation.

Regional integration agreements can foster NEMs by encouraging harmonization and institution-building and helping establish regionally integrated production networks and value chains. Of relevance also is the World Bank's Multilateral Investment Guarantee Agency (MIGA), which, from November 2010, may provide political risk insurance also for activities other than FDI, including management contracts, services, franchising and licensing agreements.[65]

Some international "soft law" instruments can promote NEMs by harmonizing the rules governing the contractual relationship between private NEM parties, or by guiding private NEM parties in the crafting of the NEM contract. For example, (i) the Model International Franchising Contract, issued by the International Chamber of Commerce (ICC) provides franchisors and franchisees with drafting suggestions; and (ii) the 1998 UNIDROIT Guide to International Master Franchising Arrangements (in its 2007 revision) comprehensively examines and explains master franchise arrangements.

Some of these international initiatives also aim at addressing potential negative effects of NEMs. For example, in terms of strengthening the bargaining power of domestic NEM partners, the 2002 Model Franchise Disclosure Law developed by the International Institute for the Unification of Private Law (UNIDROIT) addresses pre-contractual disclosure on the part of the franchisor, and the ICC Model Contract explicitly aims at striking a balance between the interests of the franchisor and franchisee. As regards potential anti-competitive effects, international competition policies remain patchy.[66] International environmental law, international labour standards, and soft law initiatives, including CSR, all play a part in ensuring that NEMs deliver tangible development benefits without detrimental side-effects.

4. Addressing potential negative effects of NEMs

Addressing negative effects of NEMs requires strengthening the bargaining power of local firms, safeguarding competition, and protecting labour rights and the environment.

a. Strengthening the bargaining power of domestic firms

Negotiating a NEM contract with a foreign TNC can be a challenge for firms in developing countries, where local entrepreneurs will often be in a weaker position, have little or no experience or knowledge of NEMs, and sometimes do not fully understand the implications of concluding a deal. The local firm's negotiation position might further be weakened by the fact that TNCs often use standard contract forms with local foreign partners, leaving little room for individual bargaining. Strengthening the negotiating power of domestic firms can be an important means to achieving a fair sharing of risk between the contracting parties, and to preventing the contract from confining the local company to low value-added activities.

Box IV.13. Pre-contractual requirements in franchising

The most common obligation on the franchisor is to provide pre-contractual disclosure of all relevant information, allowing the prospective franchisee to enter the contract with full knowledge of the facts. How much information needs to be disclosed, and how long in advance, depends on the country. Some countries have set a detailed list with required information (e.g. China, France, Japan, Mexico, United States) while for others this is based on general principles (e.g. United Kingdom) or is derived from case law (e.g. Germany). The most common requirements include information on the franchisor's business experience, past or pending litigation, financial statements, franchise fees and the existing network of franchisees. Other information may include operational details, including the franchisor's involvement in supervision or training of the franchisee. How long in advance these documents need to be disclosed varies, e.g. from seven days in Singapore to 14 in Australia, Canada or the United States, or 30 days in China or Mexico.

Franchising regulation may also include other obligations for the franchisor. For instance, the United States requires the franchise offering to be registered with the state. In China, the franchisor must fulfil the "2+1" requirement, that is the franchisor must have owned at least two stores that carry out the franchised business for more than one year, although these do not necessarily need to be in China. In France, the franchisor needs to have run a similar business in a manner and for a time necessary to be considered a success. In other countries similar requirements are not part of the legal framework itself, but are set out in a franchise code of ethics (e.g. in Germany and the United Kingdom).

Source: UNCTAD, based on Getting the Deal Through – Franchise 2011, available at www.franchise.org.

One means of backing domestic firms in their negotiations is through the imposition by the host country of mandatory requirements on NEM counterparts. The respective issue is then no longer a bargaining chip between the negotiators. Such mandatory rules exist particularly for franchising and contract farming. For instance, numerous countries have franchising regulations, establishing certain pre-contractual requirements for the franchisor vis-à-vis the franchisee (box IV.13).

Specific laws on contract farming have been adopted in a few countries, including India, Thailand, and Viet Nam. The provisions address, inter alia, the establishment of a special register or a notification procedure for contract farming agreements, special regulations on leasing of land by enterprises and land property rights of farmers, compensation in case of contract breach, and rules relating to force majeure. Another key aspect relates to special dispute settlement mechanisms, e.g. facilitating access to justice for farmers and ensuring that decisions are final, binding and enforceable (*WIR09*). With such provisions in place, NEMs may be more appropriate than FDI in sensitive situations, since contract farming is more likely to address responsible investment issues – respect for local rights, livelihoods of farmers and sustainable use of resources – than large-scale land acquisition.

Local entrepreneurs can also benefit greatly from advice on how to negotiate a NEM contract. This includes economic aspects (distribution of business risks), financial considerations (e.g. taxation) and legal elements (implications of the contract). In most cases it is not the lack of an adequate legal framework, but the lack of carefully drafted contracts, that lies at the root of subsequent problems and failures. Governments can play a role, for instance, by developing and publishing negotiating guidelines, checklists of issues to be considered in negotiations, codes of conduct, model contracts (including for contract farming) or benchmark prices for the respective product or service. Promoting a "contract culture", i.e. a better understanding of the merits of entering into formal contracts, is also vital. Finally, supporting collective bargaining, including the formation of domestic producer associations, can help to create a better counterweight to TNCs' negotiating power.

b. Addressing competition concerns

NEMs, like FDI, can have serious implications for competition in the host countries. Specific

contractual provisions in NEMs, such as exclusive dealing obligations, territorial constraints, and resale price maintenance, frequently raise competition concerns. They are considered as per se anti-competitive in many competition law regimes. If TNCs engaged in NEMs acquire dominant positions, they may be able to abuse their market power to the detriment of their competitors (domestic and foreign) and their own trading partners. Therefore, policies to promote NEMs need to go hand in hand with policies to safeguard competition (*WIR97*).

Competition-related considerations may go beyond the enforcement of the "rules of the game" to ensure that enterprises do not undertake restrictive business practices. Other public interest criteria may require attention as well. Protection of indigenous capacities and traditional activities that may be crowded out by a rapid increase in market shares of successful NEMs, may be relevant, particularly in market-seeking forms of NEMs, such as franchising.

c. Labour issues and environmental protection

Concerns about labour malpractices and environmental damage related to NEM require government and industry efforts to ensure that internationally recognized labour rights are respected, and environmental protection is in place.

One crucial policy issue is to ensure respect for labour standards, as embodied in ILO conventions. This not only requires translating these standards into domestic law, but also effective control by the host-country authorities that domestic NEM firms respect these standards.

Another critical issue is the protection of domestic stakeholders in case of a termination of the NEM relationship by the TNC. Ensuring "responsible divestment" is not only an issue of contractual relationships and relevant host-country regulatory and legal farmeworks (including social adjustment policies) but also a social responsibility dimension on the part of the TNCs involved.

The causing of environmental harm by NEM operations raises the issue of legal liability. While the domestic NEM firm bears direct responsibility as owner and operator of the plant, there is the issue of whether liability could be extended to the TNC, in the event that the latter controls or strongly influences many of the processes within the NEM.

These labour and environmental issues are also addressed in TNCs' voluntary CSR standards. Governments can play an important role in creating a coherent policy and institutional framework to address the challenges and opportunities presented by the universe of CSR standards. As explained in chapter III, various approaches are already underway that increasingly mix regulatory and voluntary instruments to promote responsible business practices.

There is also a role for policies to build the capacity of local NEM firms to meet the labour and environmental standards expected by TNCs. As TNC CSR codes and other CSR standards proliferate to include international value chains, domestic NEM partners are increasingly expected to meet international standards of labour practice and environmental protection. The potential for legal liability and brand damage discourages TNCs from engaging in NEMs with partners having poor labour or environmental records. Many TNCs will conduct audits and factory inspections of NEM partners, and will disengage from business with partners that consistently fail to meet the TNC's code of conduct. Developing country governments can consider partnering with donor states, international organizations, civil society specialists and industry associations to deliver practical management training and technical assistance to domestic firms in these areas.

* * *

Maximizing the development contribution of NEMs requires an integrated policy approach, combining a wide range of different policy tools and instruments, with particular attention given to overall industrial policy objectives, investment, trade and technology policies.

What kind of policies fit best is situation- and context-specific, depending among others on, (i) a country's level of economic and technological development, (ii) its actual and latent NEM-potential, and (iii) its broader development and industrial policy

strategies.

All of this is taking place in a dynamic context, where the rise and fall of competitive NEM-related industries around the globe requires a continuing reassessment and adjustment of a particular country's overall development strategy and policy instruments.

Enhanced coordination between different policymakers and institutions, as well as building on first-hand private sector experience, with a view to fostering synergies, is crucial in this context.

Notes

1 Strictly speaking, alternative forms of TNC overseas operations are not new; some forms, such as licensing and management contracts, were commonly used in past eras (Jones, 2010; Wilkins and Schröter, 1998).

2 The OLI model explains why some firms choose to expand overseas and others do not (ownership advantages), why firms choose specific locations (location advantages), and why they choose to "make" rather than "buy" (internalization advantages).

3 NEMs can be both domestic and international/cross-border in scope. In *WIR11* all reference to NEMs will be to cross-border arrangements.

4 For example, in management contracts and concessions the TNCs are technically the NEMs because they offer technology and expertise to local partners, including governments in the case of infrastructure and extractive industries. However, this leads to *control* over a host country business entity without ownership.

5 These linkages between affiliates and local NEMs may also include second- and third-tier suppliers that are in some way dependent on or controlled by the TNC principal.

6 For instance, in contract manufacturing, the report focuses on the final stage of production. In electronics this is associated with the final assembly of a consumer electronic good, typified by large electronics manufacturing services firms like Hon Hai (Taiwan Province of China) and Flextronics (Singapore). Seen from this perspective, NEM firms dominate world trade associated with final consumer electronics goods. However, within the context of the entire electronics supply there are many other players.

7 Assigning a sales-equivalent value to some of these forms is conceptually difficult (e.g. concessions are generally measured as investment values). There is also a paucity of reliable data.

8 Much of this labour was trained by affiliates, especially in South-East Asia, thereby creating assets which were later taken up by contract manufacturers.

9 Such strategies remain very much a part of the dynamics of the industry.

10 See the company website at: www.lifunggroup.com/eng/businesses/sourcing.php (accessed 9 June 2011). The company's business is largely in garments and footwear.

11 Based on information from Nasscom, XMG Global, IDC and Gartner.

12 Estimates of the global share of these countries in the industry range as high as 78 per cent. See XMG Global report cited in "World's outsourcing revenue worth $373 billion", by Eileen Yu, ZDNet Asia, 23 September 2009; available at: www.zdnetasia.com.

13 There remain doubts about how persistent higher returns might be. For example, in the case of franchising, Alon, Drtina and Gilbert (2007) found no sustainable profit advantage for franchise networks over non-franchise networks.

14 Pfizer decreased its own plants by almost 50 per cent (to 46 plants) from 2003 to 2008. Key considerations for outsourcing decisions include the ability to supply, capacity flexibility, cost competitiveness, and technology, while ensuring supply chain integrity/reliability, product quality, and regulatory compliance. Information from Pfizer website www.pfizer.com.

15 See "Why Wal-Mart's First India Store Isn't a Wal-Mart", *Time*, 15 May 2009; available at: www.time.com and "Walmart: India Fact Sheet", February 2011; available at: http://walmartstores.com.

16 See Franchise Malaysia, "Government to the fore", available at www.ifranchisemalaysia.com.

17 This included an English skill enhancement programme for which funding was granted to support language training of individuals; and other initiatives such as tax incentives and concessions. See "Philippines call center industry enjoy the strong Government support", available at: www.piton-global/resource16.html.

18 For instance, it has taken initiatives to improve human resources quality and has encouraged innovations to strengthen the development of the industry. Expenses on staff training and on development, including research and development can be deducted against income tax at 200 per cent and 160 per cent to 200 per cent, respectively. A 50 per cent excise tax deduction is provided for purchase of equipment for research and development. Companies established in technological parks will be exempted from property taxes and will receive discounts on service taxes. See Brasscom, "Brazil IT-BPO Book: 2008–2009", (brazilexportati.files.wordpress.com) and Brasscom "Government Support", (www.brasscom.org).

19 See "Foxconn to hire more workers in China", BBC News, 19 August 2010; available at: www.bbc.co.uk.

20 See NASSCOM, India (2010), "Impact of the IT-BPO industry in India: a decade in review", available at: www.nasscom.in.

21 See "Chilean global services industry", IDC Study for CORFO, 2009, available at: www.investchile.com.

22 See "IT-BPO Road Map 2011-2016" (www.bpap.org) and "IT-BPO road map 2011-2016: driving to global leadership".

23 Information provided by Nestlé.

24 See "Contract farming offers fresh hope for Africa's declining agriculture", East Africa Policy Brief, No. 2, 2007 (www.worldagroforestry.org).

25 *The Franchise Factor. Franchise directions, franchising consulting and trainings*, by Bendeta Gordon (2008). Available at: www.franchize.co.za.

26 "IHG invests in China's future hospitality talent with three new IHG academies", 31 May 2011; IHG website at: www.ihgplc.com; and "IHG in Greater China - IHG Greater China Facts Sheet", IHG website.

27 Fast food chains including McDonald's, Taco Bell and Burger King have been criticized for underpayment to contracted tomato suppliers (contract farmers). In 2005 Florida tomato suppliers won their first wage rise since the 1970s after Taco Bell's decision to end a consumer boycott by paying an extra cent per pound of tomatoes. Actions continue towards ensuring better conditions for contracted tomato suppliers (Schlosser, Eric (2007) "Penny foolish", *New York Times*, 29 November).

28 For instance, in order to gain greater flexibility in responding to the sourcing requirements of TNCs' contract manufacturers, services outsourcing firms and contract farmers increasingly hire short-term workers or outsource human resources to "temp agencies" (Barrientos, 2007; van Liemt, 2007).

29 Data as of 31 March 2011: www.saasaccreditation.org/certfacilitieslist.htm.

30 ISO (2010) *ISO Survey for 2009*.

31 Interview with Linda Johansson, head of inspections for H&M India; http://somo.nl. The company applied a methodology for obtaining bona fide responses from workers.

32 See "Philippine IT-BPO road map 2016: driving to global leadership", Everest Global and Outsource2Philippines; available at: www.ncc.gov.ph.

33 See "Auto parts cost strike JVs for technology, consolidation looms", *The Economic Times*, 23 May 2011, available at: http://articles.economictimes.com.

34 Carl J. Kosnar, "Global economic development through the utilization of the franchising system", www.kosnar.com.

35 Total exports from Guangdong province amounted to $22.2 billion, while total Chinese exports amounted to $1,577.9 billion (Ministry of Commerce PRC). Toy exports from Guangdong province held a share of 58 per cent of total Chinese toy exports (Chinese Toy Association).

36 See "Bangladesh ranks fourth in global apparel exports", *The Daily Star*, 25 July 2010.

37 This is expected to grow to $37 billion by 2011. Increasingly, companies such as Marks and Spencer, Haggar Clothing, Little Label, Boules Trading Company, Castle, Quest Apparel, Wal-Mart, JC Penny, Nautica, Docker and Target are sourcing textiles and apparels from India. See "Textiles and apparel", IBEF, November 2010; www.ibef.org.

38 A share of goods for processing trade is due to intra-firm trade between affiliates or between parents and affiliates of the same TNC.

39 Calculated from UN Comtrade data.

40 "Segments", IHG website at: www.ihgplc.com. This access is created by international chains' brand reputation, international quality standards, centralized marketing and customer loyalty programmes, and in particular their global booking systems. In addition, they are able to negotiate directly with tour operators, large travel agencies and large companies and other organizations, thus generating preferred access to otherwise unreachable customer segments.

41 In fact, partly because licensees can possess significant absorptive capacity, there are risks for TNCs. In the case of MBD its largest customer, Hyundai Heavy Industries, with 26 per cent of MBD's licensing deals, is now competing with it for market shares based on its own proprietary diesel engine (Pyndt and Pedersen, 2006).

42 7-Eleven, Inc. – Web Corporate Communication 2011. Available at: www.franchise.7-eleven.com.

43 For example, cooperatives and other associations in contract farming arrangements, albeit ostensibly tipping the balance of power against TNCs, are generally regarded favourably by the latter.

44 Examples of such companies include Acer and HTC (both consumer electronics, Taiwan Province of China), Integrated Microelectronics Inc. (the Philippines), LG and DA Corporation (electronics, Republic of Korea), Piramal Health Care (India), Sonda (IT-BPO, Chile), Trinunggal Komara (garments, Indonesia), Varitronix (electronic displays, Hong Kong (China)) and Yue Yuen (footwear, Taiwan Province of China) (*WIR06*).

45 Other electronic contract manufacturers, especially Taiwanese, are also being granted an increasing number of patents – e.g. Inventec and Quanta – but the numbers they are assigned are a long way behind Hon Hai.

46 "IFI CLAIMS announces top global companies ranked by 2010 U.S. patents"; available at: www.ificlaims.com.

47 The other three are from the Republic of Korea.

48 Acer and AsusTek spun off their contract manufacturing arms as "Wistron" and "Pegatron" respectively.

49 However, there is also a significant market in renovated machinery (Rasiah, 2009).

50 Important local industries for wealth and job creation such as construction and real estate benefit from the growth of commercial and shopping centres based on the expansion of franchise networks.

51 In this framework, conflicts arise because of concern that foreign brands and products alter local consumers' preferences or habits (i.e. losing touch with host-country culture and traditions) (Grünhagen, Witte and Pryor, 2010).

52 See, for instance, Magleby (2007).

53 Project Shakti was launched by Hindustan Lever (Unilever's business in India) in 2000 to distribute its soaps and shampoos, by the end of 2009 employing some 45,000 "Shakti entrepreneurs". See www.unilever.com.

54 Source: www.tourismpartnership.org.

55 This can occur through "crowding out" (where NEMs out-compete local firms which do not enjoy the advantages of transfers of knowledge and skills from TNCs), or its obverse, "crowding in".

56 In Egypt, a new Ministry for Communication and Information Technology (MCIT) was established and assigned the mandate to upgrade the national telecommunication system to enhance Egypt's position on global value chains. See the national strategy of Egypt's Ministry for Communication and Information Technology (MCIT), available at: www.mcit.gov.eg.

57 In the Philippines, the government not only offered tax benefits for the relocation of business processing operations by foreign companies, but it also established centres of excellence to support the training of its labour force. The industrial policy authorities also supported the creation of linkages through an "Industry Cluster" approach to enhance industrial competitiveness, promote investments in the countryside and develop micro, small, and medium-sized enterprises. See the Philippines' Department of Trade and Industry: www.dti.gov.ph/dti.

58 The record of active credit support is mixed. While on the one hand subsidized finance does increase access to credit for SMEs, it does so at the risk of lower profitability and non-performance of borrowers (UNCTAD, 2001).

59 Because factoring relies less on collateral, it can assist access to finance for producers who are less creditworthy than their clients (often TNCs). It can also be particularly attractive in financial systems with weak commercial laws and enforcement (Klapper, 2006).

60 UNCTAD conducted a survey of 238 IPAs on their role in attracting NEMs. A total of 91 questionnaires were completed, representing an overall response rate of 38 per cent. Respondents included 27 IPAs from developed countries, 54 from developing countries and 10 from economies in transition (UNCTAD, forthcoming c).

61 See "Franchising overview" on the Austrade website available at: www.austrade.gov.au.

62 See a list of export promotion activities related to franchise at MATRADE's website, available at: www.matrade.gov.my.

63 Richter, John (2009) "Ex-Im Bank: a valuable partner for ifa members seeking to export", *Franchising World*, October; available at: www.franchise.org.

64 For a discussion of the criteria for determining a "covered investment" and the role of development considerations in this context, see UNCTAD (2011 d).

65 See MIGA's website: www.miga.org.

66 While there is no international legally binding competition instrument, a series of non-binding instruments offer recommendations on the design of domestic competition laws (e.g. the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices or the UNCTAD Model Law on Competition). In terms of regional initiatives, European competition law stands out as supranational law directly applicably in EU Member States, but competition rules also exist in RTAs (UNCTAD, 2000).

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ANNEX TABLES

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Annex table I.1. FDI flows, by region and economy, 2005–2010
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
World	982 593	1 461 863	1 970 940	1 744 101	1 185 030	1 243 671	882 132	1 405 389	2 174 803	1 910 509	1 170 527	1 323 337
Developed economies	619 134	977 888	1 306 818	965 113	602 835	601 906	745 679	1 154 983	1 829 044	1 541 232	850 975	935 190
Europe	503 730	635 832	895 753	514 975	387 825	313 100	686 671	792 652	1 274 118	983 284	434 171	475 763
European Union	496 075	581 719	850 528	487 968	346 531	304 689	606 515	690 030	1 199 325	906 199	370 016	407 251
Austria	10 784	7 933	31 154	6 858	7 011	6 613	11 145	13 670	39 025	29 452	7 381	10 854
Belgium	34 370	58 893	93 429	142 041	23 595	61 714	32 658	50 685	80 127	164 314	- 21 667	37 735
Bulgaria	3 920	7 805	12 389	9 855	3 351	2 170	310	177	282	755	- 119	238
Cyprus	1 186	1 864	2 234	4 050	5 725	4 860	558	902	1 245	4 142	5 052	4 220
Czech Republic	11 653	5 463	10 444	6 451	2 927	6 781	- 19	1 468	1 620	4 323	949	1 702
Denmark	12 871	2 691	11 812	2 216	2 966	- 1 814	16 193	8 206	20 574	14 142	6 865	3 183
Estonia	2 869	1 797	2 725	1 731	1 838	1 539	691	1 107	1 746	1 114	1 549	133
Finland	4 750	7 652	12 451	- 1 035	- 4	4 314	4 223	4 805	7 203	9 297	3 831	8 385
France	84 949	71 848	96 221	64 184	34 027	33 905	114 978	110 673	164 310	155 047	102 949	84 112
Germany	47 439	55 626	80 208	4 218	37 627	46 134	75 893	118 701	170 617	77 142	78 200	104 857
Greece	623	5 355	2 111	4 499	2 436	2 188	1 468	4 045	5 246	2 418	2 055	1 269
Hungary	7 709	6 818	3 951	7 384	2 045	2 377	2 179	3 877	3 621	3 111	2 699	1 546
Ireland	- 31 689	- 5 542	24 707	- 16 453	25 960	26 330	14 313	15 324	21 146	18 949	26 616	17 802
Italy	19 975	39 239	40 202	- 10 845	20 073	9 498	41 826	42 068	90 778	67 002	21 271	21 005
Latvia	707	1 663	2 322	1 261	94	349	128	170	369	243	- 62	16
Lithuania	1 028	1 817	2 015	2 045	172	629	346	291	597	336	217	128
Luxembourg	6 564	31 843	- 28 260	9 785	30 196	20 350	9 932	7 747	73 350	10 171	18 726	18 293
Malta	676	1 840	1 006	845	760	1 041	- 21	30	14	305	134	87
Netherlands	39 046	13 976	119 383	3 577	34 514	- 16 141	123 071	71 174	55 608	67 485	26 927	31 904
Poland	10 293	19 603	23 561	14 839	13 698	9 681	3 406	8 864	5 405	4 414	5 219	4 701
Portugal	3 930	10 902	3 055	4 665	2 706	1 452	2 111	7 139	5 490	2 741	816	- 8 608
Romania	6 483	11 367	9 921	13 910	4 847	3 573	- 31	423	279	277	- 86	193
Slovakia	2 429	4 693	3 581	4 687	- 50	526	150	511	600	530	432	328
Slovenia	588	644	1 514	1 947	- 582	834	641	862	1 802	1 390	167	151
Spain	25 020	30 802	64 264	76 993	9 135	24 547	41 829	104 248	137 052	74 717	9 737	21 598
Sweden	11 896	28 941	27 737	36 771	10 322	5 328	27 706	26 593	38 836	31 326	25 778	30 399
United Kingdom	176 006	156 186	196 390	91 489	71 140	45 908	80 833	86 271	272 384	161 056	44 381	11 020
Other developed Europe	7 655	54 113	45 225	27 006	41 294	8 411	80 156	102 622	74 793	77 085	64 155	68 512
Gibraltar	122 [a]	137 [a]	165 [a]	159 [a]	172 [a]	165 [a]	-	-	-	-	-	-
Iceland	3 071	3 843	6 824	917	83	2 950	7 072	5 473	10 186	- 4 209	2 281	- 1 935
Norway	5 413	6 415	5 800	10 781	14 074	11 857	21 966	21 326	13 588	25 990	28 623	12 195
Switzerland	- 951	43 718	32 435	15 149	26 964	- 6 561	51 118	75 824	51 020	55 305	33 251	58 253
North America	130 465	297 430	330 604	363 543	174 298	251 662	42 907	270 434	451 244	388 090	324 351	367 490
Canada	25 692	60 294	114 652	57 177	21 406	23 413	27 538	46 214	57 726	79 794	41 665	38 585
United States	104 773	237 136	215 952	306 366	152 892	228 249	15 369	224 220	393 518	308 296	282 686	328 905
Other developed countries	- 15 060	44 626	80 460	86 595	40 712	37 144	16 101	91 897	103 682	169 858	92 454	91 937
Australia	- 24 246	31 050	45 397	46 843	25 716	32 472	- 31 137	25 409	16 786	33 604	16 160	26 431
Bermuda	44	261	577	- 146	- 88	210	31	579	1 040	563	208	693
Israel	4 818	15 296	8 798	10 875	4 438	5 152	2 946	15 462	8 604	7 210	1 695	7 960
Japan	2 775	- 6 507	22 550	24 426	11 939	- 1 251	45 781	50 264	73 548	128 019	74 699	56 263
New Zealand	1 548	4 526	3 138	4 598	- 1 293	561	- 1 521	182	3 703	462	- 308	589
Developing economies	332 343	429 459	573 032	658 002	510 578	573 568	122 143	226 683	294 177	308 891	270 750	327 564
Africa	38 160	46 259	63 132	73 413	60 167	55 040	1 968	6 943	10 719	9 750	5 627	6 636
North Africa	12 236	23 143	24 775	24 045	18 468	16 926	287	134	5 545	8 751	2 543	3 384
Algeria	1 081	1 795	1 662	2 594	2 761	2 291	- 20	35	295	318	215	226
Egypt	5 376	10 043	11 578	9 495	6 712	6 386	92	148	665	1 920	571	1 176
Libyan Arab Jamahiriya	1 038	2 013	4 689	4 111	2 674	3 833 [a]	128	- 534	3 933	5 888	1 165	1 282 [a]
Morocco	1 654	2 449	2 805	2 487	1 952	1 304 [a]	75	445	622	485	470	576 [a]
Sudan	2 305	3 534	2 426	2 601	2 682 [a]	1 600 [a]	-	7	11	98	45 [a]	51 [a]
Tunisia	783	3 308	1 616	2 758	1 688	1 513	13	33	20	42	77	74
Other Africa	25 924	23 116	38 357	49 367	41 699	38 114	1 681	6 809	5 173	999	3 084	3 252
West Africa	7 126	6 976	9 522	12 718	12 662	11 323	289	342	977	1 341	1 504	1 120
Benin	53	53	255	171	135	111	- 0	- 2	- 6	- 4	31	7
Burkina Faso	34	34	344	137 [a]	171 [a]	37 [a]	- 0	1	0	0 [a]	1 [a]	0 [a]
Cape Verde	82	131	190	209	119	111	-	-	0	- 0	0	0
Côte d' Ivoire	312 [a]	319 [a]	427 [a]	446 [a]	381 [a]	418 [a]	52 [a]	- 27 [a]	- 0 [a]	8 [a]	- 7 [a]	0 [a]
Gambia	45	71	76	70	47	37 [a]	-	-	-	-	-	-
Ghana	145	636	855	1 220	1 685	2 527	-	-	-	9	7	8
Guinea	105	125	386	382	141	303 [a]	-	-	-	126 [a]	- [a]	- [a]
Guinea-Bissau	8	17	19	6	14 [a]	9 [a]	1	0	- 0	0	0	0 [a]
Liberia	83	108	132	395	218	248 [a]	255	47	65	119	- 93	30 [a]
Mali	225	82	65	180 [a]	109 [a]	148 [a]	- 1	1	7	3 [a]	4 [a]	5 [a]
Mauritania	814	106	138	338	- 38	14 [a]	2	5	4	4	4	4 [a]
Niger	30	51	129	566	739	947 [a]	- 4	- 1	8 [a]	24 [a]	10 [a]	14 [a]
Nigeria	4 978	4 898	6 087	8 249	8 650	6 099	15	322	875	1 058	1 542	923
Saint Helena	0	0	0	-	-	-	-	-	-	-	-	-
Senegal	52	210	273 [a]	272 [a]	208 [a]	237 [a]	- 8	10	25 [a]	9 [a]	15 [a]	154 [a]
Sierra Leone	83	59	97	53 [a]	33 [a]	36 [a]	- 8	-	-	-	-	5 [a]
Togo	77	77	49	24 [a]	50 [a]	41 [a]	- 15	- 14	- 1	- 16 [a]	- 10 [a]	- 31 [a]
Central Africa	2 675	3 051	5 985	4 395	5 400	7 959	84	127	87	159	117	94
Burundi	1	0	1 [a]	14 [a]	10 [a]	14 [a]	-	-	0	-	-	-
Cameroon	225	309	284	270	337	425 [a]	- 9	- 1	- 2	2 [a]	- 9 [a]	2 [a]
Central African Republic	32	35	57	117	42	72 [a]	-	-	-	-	-	-
Chad	- 99	- 279	- 69	234	462	781 [a]	-	-	-	-	-	-

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Annex table I.1. FDI flows, by region and economy, 2005–2010 (continued)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
Congo	1 475	1 925	2 275	2 483[a]	2 083[a]	2 816[a]	-	-	-	-	-	-
Congo, Democratic Republic of	-	256	1 808	1 727	664	2 939	13	18	14	54	35	7
Equatorial Guinea	769	470	1 243	- 794	1 636	695[a]	-	-	-	-	-	-
Gabon	242	268	269	209[a]	33[a]	170[a]	65[a]	106[a]	59[a]	96[a]	87[a]	81[a]
Rwanda	14	31	82	103	119	42	-	-	13	-	-	-
São Tomé and Principe	16	38	35	33[a]	14[a]	3[a]	15	3	3	7[a]	4[a]	5[a]
East Africa	1 424	2 588	4 085	3 667	3 638	3 728	91	42	112	109	89	153
Comoros	1	1	8[a]	8[a]	9[a]	9[a]	-	-	-	-	-	-
Djibouti	22	108	195	229	100	27	-	-	-	-	-	-
Eritrea	- 1	0	- 0	- 0	0	56[a]	-	-	-	-	-	-
Ethiopia	265	545	222	109	221[a]	184[a]	-	-	-	-	-	-
Kenya	21	51	729	96	141	133[a]	10	24	36	44	46	18[a]
Madagascar	86	295	773	1 169	1 066	860	-	-	-	-	-	-
Mauritius	42	105	339	383	257	430	48	10	58	52	37	129
Mayotte	5	0	-	-	-	-	-	-	-	-	-	-
Seychelles	86	146	239	179	275	369[a]	33	8	18	13	5	6[a]
Somalia	24[a]	96[a]	141[a]	87[a]	108[a]	112[a]	-	-	-	-	-	-
Uganda	380	644	792	729	816	848	-	-	-	-	-	-
United Republic of Tanzania	494	597	647	679	645	700[a]	-	-	-	-	-	-
Southern Africa	14 699	10 501	18 764	28 588	19 999	15 105	1 218	6 298	3 998	- 610	1 373	1 885
Angola	6 794	9 064	9 796	16 581	11 672	9 942	221	194	912	2 570	8	1 163[a]
Botswana	279	486	495	528	579[a]	529[a]	56	50	51	- 91	- 65[a]	- 38[a]
Lesotho	57	89	97	56	48	55	-	-	-	-	-	-
Malawi	52	72	92	9	60[a]	140[a]	1	1	1	25	1[a]	1[a]
Mozambique	108	154	427	592	893	789	0	0	- 0	- 0	- 3	1
Namibia	348	387	733	720	516	858	- 13	- 12	3	5	- 3	- 4
South Africa	6 647	- 527	5 695	9 006	5 365	1 553	930	6 063	2 966	- 3 134	1 151	450
Swaziland	- 46	121	37	106	66	93[a]	21	1	- 23	8	- 7	8[a]
Zambia	357	616	1 324	939	695	1 041	-	-	86	-	270	289
Zimbabwe	103	40	69	52	105	105	1	0	3	8	20	15
Latin America and the Caribbean	78 082	98 459	169 514	206 733	140 997	159 171	33 999	68 129	61 731	80 580	45 544	76 273
South and Central America	72 198	69 833	108 701	126 163	75 772	111 103	19 645	43 603	23 412	37 374	13 471	47 062
South America	44 266	43 916	71 546	92 134	55 287	86 481	11 898	35 449	12 247	34 161	4 066	30 294
Argentina	5 265	5 537	6 473	9 726	4 017	6 337	1 311	2 439	1 504	1 391	712	964
Bolivia, Plurinational State of	- 288	281	366	513	423	622	3	0	7	4	- 3	- 58
Brazil	15 066	18 822	34 585	45 058	25 949	48 438	2 517	28 202	7 067	20 457	- 10 084	11 519
Chile	6 984	7 298	12 534	15 150	12 874	15 095	2 183	2 172	2 573	8 041	8 061	8 744
Colombia	10 252	6 656	9 049	10 596	7 137	6 760	4 662	1 098	913	2 254	3 088	6 504
Ecuador	493	271	194	1 006	319	164	10	8	- 8	8	36	12
Falkland Islands (Malvinas)	-	- 0	-	-	-	-	-	-	-	-	-	-
Guyana	77	102	152	178	144[a]	188[a]	-	-	-	-	-	-
Paraguay	54	173	185	320	209	419	6	7	7	8	8	- 4
Peru	2 579	3 467	5 491	6 924	5 576	7 328	-	-	66	736	398	215
Suriname	348	323	179	209	151	180[a]	-	-	-	-	-	-
Uruguay	847	1 493	1 329	2 106	1 593	2 355	36	- 1	89	- 11	16	9
Venezuela, Bolivarian Republic of	2 589	- 508	1 008	349	- 3 105	- 1 404	1 170	1 524	30	1 273	1 834	2 390
Central America	27 932	25 916	37 155	34 029	20 485	24 622	7 747	8 154	11 164	3 213	9 405	16 768
Belize	127	109	143	170	109	97	1	1	1	3	0	1
Costa Rica	861	1 469	1 896	2 078	1 347	1 413	- 43	98	263	6	7	9
El Salvador	511	241	1 551	903	366	78	- 113	26	- 95	- 80	-	-
Guatemala	508	592	745	754	600	687	38	40	25	16	26	24
Honduras	600	669	928	1 006	523	797	- 1	1	1	- 1	1	- 1
Mexico	24 122	20 052	29 734	26 295	15 334	18 679	6 474	5 758	8 256	1 157	7 019	14 345
Nicaragua	241	287	382	626	434	508	18	21	9	16	15	14
Panama	962	2 498	1 777	2 196	1 773	2 363	1 372	2 209	2 704	2 095	2 336	2 377
Caribbean	5 884	28 626	60 813	80 570	65 226	48 068	14 354	24 526	38 320	43 207	32 073	29 211
Anguilla	117	142	119	99	46	25	-	-	-	-	-	-
Antigua and Barbuda	221	359	338	174	118	105	0	-	-	-	-	-
Aruba	101	565	- 127	200	73	161	- 9	- 13	30	3	1	4
Bahamas	912	1 159	1 164	1 103	657	977	-	-	-	-	-	-
Barbados	128	245	338	267	160	80[a]	9	44	82	3	- 80	2[a]
British Virgin Islands	- 9 090[a]	7 549[a]	31 443[a]	51 742[a]	42 100[a]	30 526[a]	6 380[a]	15 698[a]	29 339[a]	29 121[a]	25 742[a]	20 598[a]
Cayman Islands	10 221[a]	14 963[a]	22 969[a]	18 749[a]	17 878[a]	12 894[a]	7 451[a]	8 333[a]	8 769[a]	13 333[a]	6 379[a]	8 539[a]
Cuba	16[a]	26[a]	64[a]	24[a]	24[a]	86[a]	- 2[a]	- 2[a]	-	-	-	-
Dominica	19	26	40	57	41	31	-	-	-	-	-	-
Dominican Republic	1 123	1 085	1 667	2 870	2 165	1 626	21	- 61	- 17	- 19	- 32	- 23
Grenada	70	90	152	142	103	89	-	-	-	-	-	-
Haiti	26	160	75	30	38	150	-	-	-	-	-	-
Jamaica	682	882	867	1 437	541	201[a]	101	85	115	76	61	67[a]
Montserrat	1	4	7	13	3	2	-	-	-	-	-	-
Netherlands Antilles[b]	42	- 22	234	266	117	138	65	57	- 3	- 15	- 7	17
Puerto Rico	36	-	-	-	-	-	-	-	-	-	-	-

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Annex table I.1. FDI flows, by region and economy, 2005–2010 (continued)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
Saint Kitts and Nevis	93	110	134	178	104	141	-	-	-	-	-	-
Saint Lucia	78	234	272	161	146	99	-	-	-	-	-	-
Saint Vincent and the Grenadines	40	109	131	159	106	92	-	-	-	-	-	-
Trinidad and Tobago	940	883	830	2 801	709	549	341	370	0	700	-	-
Turks and Caicos Islands	108[a]	58[a]	97[a]	99[a]	95[a]	97[a]	- 3[a]	14[a]	5[a]	6[a]	9[a]	7[a]
Asia and Oceania	216 101	284 741	340 387	377 857	309 414	359 357	86 176	151 611	221 727	218 560	219 579	244 656
Asia	215 834	283 463	339 252	375 665	307 527	357 846	86 051	151 566	221 688	218 436	219 500	244 585
West Asia	44 498	67 112	78 211	91 564	65 993	58 193	12 452	22 570	34 175	40 180	26 309	12 999
Bahrain	1 049	2 915	1 756	1 794	257	156	1 135	980	1 669	1 620	- 1 791	334
Iraq	515	383	972	1 856	1 452	1 426	89	305	8	34	116	52
Jordan	1 984	3 544	2 622	2 829	2 430	1 704	163	- 138	48	13	72	28
Kuwait	234	121	112	- 6	1 114	81	5 142	8 211	9 784	9 091	8 636	2 069
Lebanon	3 321	3 132	3 376	4 333	4 804	4 955	715	875	848	987	1 126	574
Oman	1 538	1 588	3 431	2 528	1 471	2 045	234	263	70	481	66	317
Palestinian Territory	47	19	28	52	265	115[a]	13	125	- 8	- 8	- 15	- 11[a]
Qatar	2 500[a]	3 500[a]	4 700[a]	3 779	8 125	5 534[a]	352[a]	127[a]	5 160[a]	6 029[a]	11 584[a]	1 863[a]
Saudi Arabia	12 097	17 140	22 821	38 151	32 100	28 105	- 350	- 39	- 135	3 498	2 177	3 907
Syrian Arab Republic	583	659	1 242	1 467	1 434	1 381[a]	80	- 11	2	2	- 3	0[a]
Turkey	10 031	20 185	22 047	19 504	8 411	9 071	1 064	924	2 106	2 549	1 553	1 780
United Arab Emirates	10 900	12 806	14 187	13 724	4 003	3 948	3 750	10 892	14 568	15 820	2 723	2 015
Yemen	- 302	1 121	917	1 555	129	- 329[a]	65[a]	56[a]	54[a]	66[a]	66[a]	70[a]
South, East and South-East Asia	171 337	216 351	261 041	284 100	241 534	299 653	73 599	128 997	187 513	178 256	193 191	231 585
East Asia	116 189	131 829	151 004	185 253	161 096	188 291	51 907	85 402	114 391	133 173	142 941	174 283
China	72 406	72 715	83 521	108 312	95 000	105 735	12 261	21 160	22 469	52 150	56 530	68 000[a]
Hong Kong, China	33 625	45 060	54 341	59 621	52 394	68 904	27 196	44 979	61 081	50 581	63 991	76 077
Korea, Democratic People's Republic of	50[a]	- 105[a]	67[a]	44[a]	2[a]	38[a]	-	-	-	-	-	-
Korea, Republic of	7 055	4 881	2 628	8 409	7 501	6 873	6 359	11 175	19 720	20 251	17 197	19 230
Macao, China	1 240	1 608	2 305	2 591	2 770	2 558[a]	60	636	3	- 102	- 708	- 269[a]
Mongolia	188	245	373	845	624	1 691	2	54	13	6	54	62
Taiwan Province of China	1 625	7 424	7 769	5 432	2 805	2 492	6 028	7 399	11 107	10 287	5 877	11 183
South Asia	14 411	27 821	34 297	51 901	42 458	31 954	3 524	14 812	17 709	19 897	16 405	15 079
Afghanistan	271	238	243	300	185	76	-	-	-	-	-	-
Bangladesh	845	792	666	1 086	700	913	3	4	21	9	29	15
Bhutan	9	6	78	28	15	12	-	-	-	-	-	-
India	7 622	20 328	25 350	42 546	35 649	24 640	2 985	14 285	17 234	19 397	15 929	14 626
Iran, Islamic Republic of	3 136	1 647	1 670	1 615	3 016	3 617	452	386	302	380	356	346
Maldives	53	64	91	135	112	164	-	-	-	-	-	-
Nepal	2	- 7	6	1	39	39[a]	-	-	-	-	-	-
Pakistan	2 201	4 273	5 590	5 438	2 338	2 016	45	109	98	49	71	46
Sri Lanka	272	480	603	752	404	478	38	29	55	62	20	46
South-East Asia	40 737	56 701	75 740	46 947	37 981	79 408	18 169	28 782	55 413	25 185	33 845	42 223
Brunei Darussalam	289	434	260	239	370	496[a]	15	17	- 7[a]	16[a]	9[a]	6[a]
Cambodia	381	483	867	815	539	783	11	12	5	24	18	17
Indonesia	8 336	4 914	6 928	9 318	4 877	13 304	3 065	2 726	4 675	5 900	2 249	2 664
Lao People's Democratic Republic	28	187	324	228	319	350[a]	- 0	39	1	- 75	1	6
Malaysia	4 065	6 060	8 595	7 172	1 430	9 103	3 076	6 021	11 314	14 965	7 930	13 329
Myanmar	236	428	715	976	579	756[a]	-	-	-	-	-	-
Philippines	1 854	2 921	2 916	1 544	1 963	1 713	189	103	3 536	259	359	487
Singapore	15 460	29 348	37 033	8 588	15 279	38 638	11 218	18 809	32 702	- 256	18 464	19 739
Thailand	8 067	9 517	11 355	8 448	4 976	5 813	529	970	3 003	4 053	4 116	5 122
Timor-Leste	1[a]	8	9	40	50	280	-	-	-	-	-	-
Viet Nam	2 021	2 400	6 739	9 579	7 600	8 173[a]	65	85	184	300[a]	700[a]	853[a]
Oceania	267	1 278	1 134	2 192	1 887	1 511	124	45	39	125	79	71
Cook Islands	1	3	- 0	1[a]	1[a]	1[a]	0	0	-	-	-	-
Fiji	160	370	376	354	114	129[a]	10	1	- 6	- 8	3	3[a]
French Polynesia	8[a]	31[a]	58	14	10	26[a]	16[a]	10[a]	14[a]	30[a]	8[a]	16[a]
Kiribati	5	1	1	3	3	4	0	0	0	1	0	0
Marshall Islands	7[a]	6[a]	12[a]	6[a]	8[a]	9[a]	54[a]	- 8[a]	-	-	-	-
Micronesia, Federated States of	0[a]	1[a]	17[a]	6[a]	8[a]	10[a]	-	-	-	-	-	-
Nauru	1[a]	- 0[a]	1[a]	1[a]	1[a]	1[a]	-	-	-	-	-	-
New Caledonia	- 7	749	417	1 673	1 146	1 003[a]	31	31	7	93	58[a]	49[a]
Niue	- 1	-	-	-	-	-	1[a]	- 2[a]	4[a]	2[a]	- 0[a]	-
Palau	1[a]	1[a]	3[a]	2[a]	2[a]	2[a]	- 2	-	-	-	-	-
Papua New Guinea	34	- 7	96	- 30	423	29	6	1	8	0	4	0
Samoa	- 4	3	3	17	1	2	2	2	- 0	0	- 0	0
Solomon Islands	19	34	64	95	120	238	0	7	10	4	3	2
Tokelau	0	-	-	-	-	-	-	-	-	-	-	-
Tonga	17	10	28	6	15	16[a]	5	2	2	2	2	-
Tuvalu	- 0[a]	5[a]	0[a]	2[a]	2[a]	2[a]	-	-	-	-	-	-
Vanuatu	28	72	57	44	32	39	1	1	1	1	1	1
Wallis and Futuna Islands	-	0[a]	1[a]	1[a]	1[a]	1[a]	-	-	-	-	-	-

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Annex table I.1. FDI flows, by region and economy, 2005-2010 (concluded)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
South-East Europe and the CIS	31 116	54 516	91 090	120 986	71 618	68 197	14 310	23 723	51 581	60 386	48 802	60 584
South-East Europe	4 877	9 875	12 837	12 601	7 824	4 125	273	395	1 448	1 896	1 371	52
Albania	264	325	656	988	979	1 097	4	11	28	81	36	- 12
Bosnia and Herzegovina	613	766	2 080	932	246	63	0	4	28	13	- 9	47
Croatia	1 825	3 473	5 035	6 179	2 911	583	239	259	289	1 425	1 235	- 203
Montenegro	501	622	934	960	1 527	760	4	33	157	108	46	29
Serbia	1 577	4 256	3 439	2 955	1 959	1 329	22	88	947	283	52	189
The FYR of Macedonia	96	433	693	586	201	293	3	0	- 1	- 14	11	2
CIS	26 239	44 642	78 252	108 385	63 794	64 072	14 037	23 328	50 134	58 490	47 432	60 532
Armenia	239	453	699	935	778	577	7	3	- 2	10	53	8
Azerbaijan	1 680	- 584	- 4 749	14	473	563	1 221	705	286	556	326	232
Belarus	305	354	1 805	2 180	1 886	1 350	2	3	15	31	102	43
Georgia	453	1 170	1 750	1 564	658	549	- 89	- 16	76	70	- 1	6
Kazakhstan	1 971	6 278	11 119	14 322	13 771	9 961	- 146	- 385	3 153	1 204	3 118	7 806
Kyrgyzstan	43	182	209	377	190	234	0[a]	0[a]	- 0[a]	0[a]	- 0[a]	0[a]
Moldova, Republic of	191	240	534	713	128	199	- 0	- 1	17	16	7	4
Russian Federation	12 886	29 701	55 073	75 002	36 500	41 194	12 767	23 151	45 916	55 594	43 665	51 697
Tajikistan	54	339	360	376	16	45[a]	-	-	-	-	-	-
Turkmenistan	418	731	856	1 277	3 867[a]	2 083[a]	-	-	-	-	-	-
Ukraine	7 808	5 604	9 891	10 913	4 816	6 495	275	- 133	673	1 010	162	736
Uzbekistan	192	174	705	711	711[a]	822[a]	-	-	-	-	-	-
Memorandum												
Least developed countries (LDCs)[c]	14 831	20 888	26 083	33 030	26 538	26 390	555	393	1 234	3 049	441	1 819
Landlocked developing countries (LLDCs)[d]	6 832	11 935	15 736	25 420	26 190	23 022	1 169	476	3 627	1 693	3 809	8 352
Small island developing states (SIDS)[e]	3 728	5 083	5 833	7 968	4 250	4 210	623	526	291	851	42	215

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

[a] Estimates.

[b] This economy dissolved on 10 October 2010.

[c] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[d] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Republic of Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[e] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Annex table I.2. FDI stock, by region and economy, 1990, 2000, 2010
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2010	1990	2000	2010
World	2 081 299	7 445 637	19 140 603	2 094 169	7 962 170	20 408 257
Developed economies	1 563 969	5 653 192	12 501 569	1 948 644	7 083 477	16 803 536
Europe	808 896	2 440 473	7 614 844	887 519	3 759 713	10 023 881
European Union	761 851	2 322 264	6 890 387	810 472	3 492 863	8 933 485
Austria	10 972	31 165	154 999	4 747	24 821	169 697
Belgium and Luxembourg	58 388	195 219	-	40 636	179 773	-
Belgium	..	..	670 013	..	..	736 725
Bulgaria	112	2 704	47 971	124	34	1 486
Cyprus	..[a,b]	2 846	29 530	8	557	20 600
Czech Republic	1 363	21 644	129 893	..	738	15 523
Denmark	9 192	73 574	139 205[a]	7 342	73 100	194 948[a]
Estonia	..	2 645	16 438	..	259	5 779
Finland	5 132	24 273	82 706	11 227	52 109	130 617
France	97 814	390 953	1 008 378	112 441	925 925	1 523 046
Germany	111 231	271 613	674 217[a]	151 581	541 866	1 421 332[a]
Greece	5 681	14 113	33 559	2 882	6 094	37 876
Hungary	570	22 870	91 933	159	1 280	20 685
Ireland	37 989	127 089	247 097	14 942	27 925	348 737
Italy	59 998	121 170	337 401	60 184	180 275	475 598
Latvia	..	2 084	10 838	..	23	833
Lithuania	..	2 334	13 449	..	29	2 092
Luxembourg	..	..	114 691[a]	..	..	137 575[a]
Malta	465	2 385	9 866[a]	..	203	1 528[a]
Netherlands	68 731	243 733	589 825	106 900	305 461	890 222
Poland	109	34 227	193 141	95	1 018	36 839
Portugal	10 571	32 043	110 241	900	19 794	64 253
Romania	0	6 953	70 012	66	136	1 486
Slovakia	282	4 762	50 678	..	379	2 830
Slovenia	1 643	2 893	15 022	560	768	7 603
Spain	65 916	156 348	614 473	15 652	129 194	660 160
Sweden	12 636	93 995	348 667	50 720	123 256	336 086
United Kingdom	203 905	438 631	1 086 143	229 307	897 845	1 689 330
Other developed Europe	47 045	118 209	724 457	77 047	266 850	1 090 396
Gibraltar	263[a]	642[a]	1 903[a]	-	-	-
Iceland	147	497	11 771	75	663	10 504
Norway	12 391	30 265	171 833[a]	10 884	34 026	170 481[a]
Switzerland	34 245	86 804	538 950	66 087	232 161	909 411
North America	652 444	2 995 951	4 012 516	816 569	2 931 653	5 459 459
Canada	112 843	212 716	561 111	84 807	237 639	616 134
United States	539 601	2 783 235	3 451 405	731 762	2 694 014	4 843 325
Other developed countries	102 629	216 769	874 209	244 556	392 111	1 320 196
Australia	80 364	118 858	508 123	37 505	95 979	402 249
Bermuda	-	265[a]	3 266[a]	-	108[a]	2 932[a]
Israel	4 476	22 367	77 810	1 188	9 091	66 299
Japan	9 850	50 322	214 880	201 441	278 442	831 074
New Zealand	7 938	24 957	70 129	4 422	8 491	17 642
Developing economies	517 322	1 731 604	5 951 203	145 525	857 354	3 131 845
Africa	60 675	154 268	553 972	20 229	44 224	122 429
North Africa	23 962	45 728	206 067	1 836	3 281	23 562
Algeria	1 561	3 537	19 498	183	249	1 814
Egypt	11 043	19 955	73 095[a]	163	655	5 447[a]
Libyan Arab Jamahiriya	678	451	19 342[a]	1 321	1 942	13 269[a]
Morocco	3 011	8 842	42 023[a]	155	402	2 745[a]
Sudan	55	1 398	20 743[a]	-	-	-
Tunisia	7 615	11 545	31 367	15	33	286
Other Africa	36 712	108 540	347 905	18 393	40 942	98 867
West Africa	14 013	33 401	95 396	2 202	6 699	6 793
Benin	..[a,b]	213	849	2	11	63[a]
Burkina Faso	39[a]	28[a]	905[a]	4[a]	0[a]	11[a]
Cape Verde	4[a]	192[a]	1 140	-	-	1
Côte d' Ivoire	975[a]	2 483	6 641[a]	6	9	23[a]
Gambia	157[a]	216[a]	675[a]	-	-	-
Ghana	319[a]	1 605[a]	9 098[a]	-	-	-
Guinea	69[a]	263[a]	1 917[a]	..	7[a]	139[a]
Guinea-Bissau	8[a]	38[a]	190[a]	-	-	3[a]
Liberia	2 732[a]	3 247[a]	4 888[a]	846[a]	2 255[a]	960[a]
Mali	229[a]	132[a]	1 234[a]	22[a]	22[a]	62[a]
Mauritania	59[a]	146[a]	2 155[a]	3[a]	4[a]	27[a]
Niger	286[a]	45[a]	2 310[a]	54[a]	117[a]	171[a]
Nigeria	8 539[a]	23 786[a]	60 327[a]	1 219[a]	4 144[a]	5 041[a]
Senegal	258[a]	295[a]	1 615[a]	47[a]	117[a]	364[a]
Sierra Leone	243[a]	284[a]	495[a]	-	-	-
Togo	268[a]	427[a]	955[a]	-	13[a]	..[a,b]

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Annex table I.2. FDI stock, by region and economy, 1990, 2000, 2010 (continued)

(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2010	1990	2000	2010
Central Africa	3 808	5 733	38 835	372	648	1 039
Burundi	30[a]	47[a]	86[a]	0[a]	2[a]	2[a]
Cameroon	1 044[a]	1 600[a]	4 828[a]	150[a]	254[a]	245[a]
Central African Republic	95[a]	104[a]	369[a]	18[a]	43[a]	43[a]
Chad	250[a]	576[a]	4 168[a]	37[a]	70[a]	70[a]
Congo	575[a]	1 889[a]	15 983[a]	-	-	-
Congo, Democratic Republic of	546[a]	617	3 994	-	-	-
Equatorial Guinea	25[a]	1 060[a]	7 374[a]	0[a]	..[a,b]	3[a]
Gabon	1 208[a]	..[a,b]	1 438[a]	167[a]	280[a]	663[a]
Rwanda	33[a]	55	435	-	-	13
São Tomé and Principe	0[a]	11[a]	163[a]	-	-	-
East Africa	1 701	7 199	30 913	165	387	1 063
Comoros	17[a]	21[a]	58[a]	-	-	-
Djibouti	13[a]	40	878	-	-	-
Eritrea	..[a]	337[a]	438[a]	-	-	-
Ethiopia	124[a]	941[a]	4 102[a]	-	-	-
Kenya	668[a]	931[a]	2 262[a]	99[a]	115[a]	306[a]
Madagascar	107[a]	141	4 452	1[a]	10[a]	6[a]
Mauritius	168[a]	683[a]	2 319[a]	1[a]	132[a]	504[a]
Seychelles	213[a]	515	2 017	64[a]	130	247
Somalia	..[a,b]	4[a]	566[a]	-	-	-
Uganda	6[a]	807	5 853	-	-	-
United Republic of Tanzania	388	2 778	7 966	-	-	-
Southern Africa	17 191	62 208	182 762	15 653	33 208	89 971
Angola	1 024	7 978	25 028[a]	1	2	4 672[a]
Botswana	1 309	1 827	1 299	447	517	448
Lesotho	83	330	1 129[a]	0	2	2[a]
Malawi	228	358	961[a]	-	..[a,b]	24[a]
Mozambique	25	1 249	5 489	2	1	3
Namibia	2 047	1 276	5 290	80	45	57
South Africa	9 207	43 451	132 396[a]	15 004	32 325	81 127[a]
Swaziland	336[a]	536[a]	902[a]	38[a]	87[a]	60[a]
Zambia	2 655[a]	3 966[a]	8 515[a]	-	-	3 290[a]
Zimbabwe	277[a]	1 238[a]	1 754[a]	80	234	288
Latin America and the Caribbean	111 377	502 012	1 722 278	57 645	204 515	732 781
South and Central America	103 311	424 209	1 307 203	56 014	115 170	406 071
South America	74 815	309 055	899 541	49 346	96 041	307 495
Argentina	9 085	67 601	86 685	6 057	21 141	29 841
Bolivia, Plurinational State of	1 026	5 188	6 869	7	29	21
Brazil	37 143	122 250	472 579	41 044	51 946	180 949
Chile	16 107	45 753	139 538	154	11 154	49 838
Colombia	3 500	11 157	82 420	402	2 989	22 772
Ecuador	1 626	6 337	11 815	18[a]	247[a]	324[a]
Falkland Islands (Malvinas)	0[a]	58[a]	75[a]	-	-	-
Guyana	45[a]	756[a]	1 754[a]	-	1[a]	2[a]
Paraguay	418	1 325	3 105	134	214	238
Peru	1 330	11 062	41 849	122	505	3 319
Uruguay	671	2 088	14 830	186	138	304
Venezuela, Bolivarian Republic of	3 865	35 480	38 022	1 221	7 676	19 889
Central America	28 496	115 154	407 662	6 668	19 129	98 576
Belize	89	301	1 243	20	43	51
Costa Rica	1 324	2 709	13 500	44	86	88
El Salvador	212	1 973	7 760	56	104	7
Guatemala	1 734	3 420	6 399	..	93	382
Honduras	293	1 392	25 870	-	-	168
Mexico	22 424	97 170	327 249[a]	2 672	8 273	66 152[a]
Nicaragua	145	1 414	4 698	-	22[a]	169[a]
Panama	2 275	6 775	20 945	3 876	10 507[a]	31 559[a]
Caribbean	8 066	77 803	415 074	1 630	89 345	326 710
Anguilla	11[a]	231[a]	978[a]	-	-	-
Antigua and Barbuda	290[a]	619[a]	2 401[a]	-	-	-
Aruba	145	760	2 284	-	374	366
Bahamas	586[a]	2 988[a]	9 062[a]	-	-	-
Barbados	171[a]	308[a]	1 706[a]	23[a]	41[a]	98[a]
British Virgin Islands	126[a]	32 093[a]	212 034[a]	875[a]	67 132[a]	239 252[a]
Cayman Islands	1 749[a]	25 585[a]	133 967[a]	648[a]	20 788[a]	84 478[a]
Cuba	2[a]	74[a]	317[a]	-	-	-
Dominica	66[a]	275[a]	590[a]	-	-	-
Dominican Republic	572[a]	1 673[a]	14 731[a]	-	-	-
Grenada	70[a]	348[a]	1 268[a]	-	-	-
Haiti	149[a]	95[a]	603[a]	..	2[a]	2[a]
Jamaica	790[a]	3 317[a]	10 829[a]	42[a]	709[a]	288[a]
Montserrat	40[a]	83[a]	118[a]	-	-	-

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Annex table I.2. FDI stock, by region and economy, 1990, 2000, 2010 (continued)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2010	1990	2000	2010
Netherlands Antilles[c]	408[a]	277[a]	1 222[a]	21[a]	6[a]	106[a]
Saint Kitts and Nevis	160[a]	487[a]	1 560[a]	-	-	-
Saint Lucia	316[a]	807[a]	2 110[a]	-	-	-
Saint Vincent and the Grenadines	48[a]	499[a]	1 312[a]	-	-	-
Trinidad and Tobago	2 365[a]	7 280[a]	17 424[a]	21[a]	293[a]	2 119[a]
Turks and Caicos Islands	2[a]	4[a]	557[a]	-	-	-
Asia and Oceania	345 270	1 075 324	3 674 953	67 651	608 615	2 276 635
Asia	342 937	1 072 694	3 662 985	67 600	608 366	2 276 194
West Asia	31 194	60 465	575 214	8 674	16 564	161 029
Bahrain	552	5 906	15 154	719	1 752	7 883
Iraq	..[a,b]	..[a,b]	6 487[a]	-	-	-
Jordan	1 368	3 135	20 406	158	44	483
Kuwait	37	608	6 514	3 662	1 677	18 676
Lebanon	53	4 988	37 040	43	586	7 150
Oman	1 723[a]	2 577[a]	15 196	590[a]	611[a]	2 228
Palestinian Territory	-	932[a]	1 551[a]	-	809[a]	1 644[a]
Qatar	63[a]	1 912[a]	31 428[a]	..	74[a]	25 712[a]
Saudi Arabia	15 193	17 577	170 450	2 328	5 285	16 960
Syrian Arab Republic	154[a]	1 244[a]	8 715[a]	4[a]	107[a]	418[a]
Turkey	11 150	19 209	181 901	1 150	3 668	23 802
United Arab Emirates	751[a]	1 069[a]	76 175[a]	14[a]	1 938[a]	55 560[a]
Yemen	180[a]	1 336[a]	4 196[a]	5[a]	12[a]	513[a]
South, East and South-East Asia	311 743	1 012 229	3 087 772	58 927	591 801	2 115 165
East Asia	240 645	716 103	1 888 390	49 032	504 301	1 586 468
China	20 691[a]	193 348	578 818[a]	4 455[a]	27 768[a]	297 600[a]
Hong Kong, China	201 653[a]	455 469	1 097 620	11 920	388 380	948 494
Korea, Democratic People's Republic of	572[a]	1 044[a]	1 475[a]	-	-	-
Korea, Republic of	5 186	43 738	127 047	2 301	21 497	138 984
Macao, China	2 809[a]	2 801	14 631[a]	-	-	..[a,b]
Mongolia	0[a]	182[a]	4 512[a]	-	-	191[a]
Taiwan Province of China	9 735[a]	19 521	64 288	30 356	66 655	201 228
South Asia	6 795	29 834	260 980	422	2 949	97 168
Afghanistan	12[a]	17[a]	1 625[a]	-	-	-
Bangladesh	477	2 162	6 072	45	69	100
Bhutan	2[a]	4[a]	160[a]	-	-	-
India	1 657	16 339	197 939	124	1 733	92 407
Iran, Islamic Republic of	2 039[a]	2 597[a]	27 600[a]	..	572[a]	2 555[a]
Maldives	25[a]	128[a]	876[a]	-	-	-
Nepal	12[a]	72[a]	205[a]	-	-	-
Pakistan	1 892	6 919	21 494	245	489	1 727
Sri Lanka	679	1 596	5 008	8	86	380
South-East Asia	64 303	266 291	938 401	9 472	84 551	431 529
Brunei Darussalam	33[a]	3 867[a]	11 225[a]	0[a]	512[a]	681[a]
Cambodia	38	1 580	5 958	..	193	343
Indonesia	8 732[a]	25 060[a]	121 527[a]	86	6 940[a]	1 703[a]
Lao People's Democratic Republic	13[a]	588[a]	2 088[a]	1	26	..[a,b]
Malaysia	10 318	52 747	101 339	753	15 878	96 758
Myanmar	281[a]	3 211[a]	8 273[a]	-	-	-
Philippines	4 528[a]	18 156[a]	24 893[a]	406[a]	2 044[a]	6 582[a]
Singapore	30 468	110 570	469 871[a]	7 808	56 755	300 010[a]
Thailand	8 242	29 915	127 257[a]	418	2 203	25 454[a]
Timor-Leste	-	-	342	-	-	-
Viet Nam	1 650[a]	20 596[a]	65 628[a]	-	-	-
Oceania	2 333	2 630	11 967	51	249	441
Cook Islands	14[a]	34[a]	41[a]	-	-	-
Fiji	284[a]	356	2 256[a]	25[a]	39	41[a]
French Polynesia	69[a]	139[a]	342[a]	-	-	122[a]
Kiribati	-[a]	-[a]	20[a]	-	-	4[a]
New Caledonia	70[a]	67[a]	5 354[a]	-	-	-
Niue	-[a]	0[a]	7[a]	-	-	-
Palau	-[a]	97[a]	129[a]	-	-	-
Papua New Guinea	1 582[a]	935[a]	1 745[a]	26[a]	210[a]	225[a]
Samoa	9	53	51[a]	-	-	1[a]
Solomon Islands	-[a]	106[a]	654	-	-	27
Tokelau	-[a]	0[a]	1[a]	-	-	-
Tonga	1[a]	15[a]	115[a]	-	-	-
Tuvalu	-[a]	..[a,b]	35[a]	-	-	-
Vanuatu	-[a]	61[a]	450	-	-	21

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Annex table I.2. FDI stock, by region and economy, 1990, 2000, 2010 (concluded)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2010	1990	2000	2010
South-East Europe and the CIS	..	60 841	687 832	..	21 339	472 876
South-East Europe	..	5 682	76 414	..	840	8 775
Albania	..	247	4 355[a]	..	..	145[a]
Bosnia and Herzegovina	..	1 083	7 152[a]	..	..	82[a]
Croatia	..	2 796	34 374	..	824	4 154
Serbia	..	1 017	20 584	..	..	3 928
Montenegro	..	..	5 456	..	..	375
The FYR of Macedonia	..	540	4 493[a]	..	16	91[a]
CIS	..	55 159	611 418	..	20 499	464 101
Armenia	9[a]	513	4 206[a]	..	0	85[a]
Azerbaijan	..	3 735	9 593	..	1	5 790
Belarus	..	1 306	9 940	..	24	205
Georgia	..	784	7 821	..	92	155
Kazakhstan	..	10 078	81 352	..	16	16 176
Kyrgyzstan	..	432	974	..	33	1
Moldova, Republic of	..	449	2 837	..	23	68
Russian Federation	..	32 204	423 150[a]	..	20 141	433 655[a]
Tajikistan	..	136[a]	915[a]	..	..	..
Turkmenistan	..	949[a]	8 186[a]	..	..	..
Ukraine	..	3 875	57 985	..	170	7 966
Uzbekistan	..	698	4 460[a]	..	..	-
Memorandum						
Least developed countries (LDCs)[d]	11 051	37 437	151 689	1 089	2 974	10 865
Landlocked developing countries (LLDCs)[e]	7 471	35 896	169 599	844	1 448	27 144
Small island developing states (SIDS)[f]	7 166	20 102	60 634	202	1 555	3 576

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

[a] Estimates.

[b] Negative stock value. However, this value is included in the regional and global total.

[c] This economy dissolved on 10 October 2010.

[d] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[e] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[f] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Annex table I.3. Value of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011

(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
World	462 253	625 320	1 022 725	706 543	249 732	338 839	224 163	462 253	625 320	1 022 725	706 543	249 732	338 839	224 163
Developed economies	403 731	527 152	891 896	581 394	203 530	251 705	189 614	359 551	497 324	841 714	568 041	160 785	215 654	135 369
Europe	316 891	350 740	559 082	273 301	133 871	123 354	56 764	233 937	300 382	568 988	358 981	102 709	33 825	63 981
European Union	304 740	333 337	527 718	251 169	116 226	113 539	47 314	210 111	260 680	537 890	306 734	89 694	17 328	48 869
Austria	1 713	1 145	9 661	1 327	1 797	432	6 584	3 871	6 985	4 720	3 049	3 345	1 653	1 275
Belgium	4 277	1 794	961	2 491	12 089	9 406	799	4 067	3 640	8 258	30 146	- 9 638	- 238	- 176
Bulgaria	2 551	807	971	227	151	24	- 234	-	-	5	7	2	9	-
Cyprus	24	294	1 343	- 909	52	684	400	52	1 274	775	1 725	1 395	- 12	- 2 560
Czech Republic	6 196	1 154	107	5 169	2 669	- 457	468	579	812	846	34	1 608	- 17	- 552
Denmark	12 093	11 235	5 761	6 095	1 651	1 448	- 1 181	11 921	2 078	3 226	2 841	3 198	- 3 519	- 1 066
Estonia	82	3	- 57	110	28	3	92	16	179	-	4	- 0	4	-
Finland	2 923	1 321	8 313	1 153	508	324	- 42	2 720	2 169	- 1 128	13 179	653	391	1 014
France	25 172	19 423	28 207	4 590	724	3 785	4 162	58 255	41 030	78 451	56 806	41 565	7 157	- 7 468
Germany	47 501	41 388	44 091	31 911	12 790	10 893	1 668	4 677	16 427	58 795	61 340	24 313	7 138	1 310
Greece	872	7 309	723	6 903	477	- 1 185	621	1 159	5 238	1 495	2 697	386	518	0
Hungary	2 470	2 337	721	1 559	1 853	213	1 707	415	1 522	1	41	0	465	17
Ireland	725	2 731	811	2 892	1 712	2 127	674	3 375	10 176	6 677	3 693	- 526	2 505	- 5 247
Italy	40 445	25 760	23 630	- 2 377	1 109	6 762	3 018	23 565	6 887	55 880	21 358	17 505	- 5 336	672
Latvia	9	11	47	195	109	72	-	-	-	4	3	- 30	40	-
Lithuania	61	97	35	98	20	462	- 10	-	-	30	31	-	-	-
Luxembourg	7 989	35 005	7 339	- 3 570	444	2 083	-	6 847	15 539	22 631	8 109	3 382	2 998	- 21 147
Malta	12	517	- 86	-	13	315	-	-	115	-	- 25	-	235	-
Netherlands	21 326	25 560	162 770	- 8 156	17 988	4 002	2 176	3 140	51 304	- 3 268	53 668	- 3 273	14 252	23 065
Poland	1 487	773	728	966	776	1 042	2 958	586	194	128	432	117	292	310
Portugal	1 648	537	1 715	- 1 279	504	2 208	984	- 1 612	644	4 023	1 164	1 236	- 8 885	2 426
Romania	1 851	5 324	1 926	993	314	148	11	-	-	-	4	7	24	-
Slovakia	117	194	50	136	13	-	-	493	- 142	-	-	-	-	- 18
Slovenia	148	15	57	418	-	332	-	47	29	74	320	251	- 50	-
Spain	21 217	7 951	51 686	33 708	32 173	8 669	5 961	24 162	71 481	40 893	- 14 654	- 1 278	1 898	10 954
Sweden	7 892	15 228	4 563	18 770	1 098	1 439	2 711	11 606	3 199	32 390	6 108	9 024	- 128	- 4 668
United Kingdom	93 940	125 421	171 646	147 748	25 164	58 309	13 788	50 170	19 900	222 984	54 653	- 3 546	- 4 068	50 724
Other developed Europe	12 150	17 403	31 363	22 132	17 645	9 816	9 451	23 826	39 702	31 099	52 247	13 015	16 496	15 112
Andorra	- 433	1 174	-	-	-	-	-	-	-	-	-	-	-	136
Faeroe Islands	-	-	-	0	-	85	-	-	-	-	-	-	-	-
Gibraltar	4	-	50	212	-	-	-	13	404	116	1	253	-	1 757
Guernsey	-	-	31	17	260	427	-	667	1 424	1 144	556	4 001	8 425	2 333
Iceland	12	39	- 227	-	-	14	-	3 714	2 171	4 664	737	- 317	- 221	- 881
Isle of Man	606	-	221	35	66	157	129	489	990	720	319	136	858	- 325
Jersey	32	254	816	251	414	52	-	- 1 561	96	814	- 829	844	1 234	81
Liechtenstein	-	-	-	-	-	-	-	-	154	270	-	1	-	-
Monaco	-	-	437	-	-	-	-	- 455	- 13	-	-	100	100	0
Norway	4 568	4 289	7 831	14 997	1 630	7 171	6 318	6 994	9 465	10 641	6 102	611	- 4 084	3 016
Switzerland	7 361	11 647	22 206	6 620	15 275	1 910	3 004	13 966	25 010	12 729	45 362	7 385	10 184	8 994
North America	79 865	165 591	265 866	262 698	51 475	94 737	136 322	94 088	138 576	226 646	114 314	40 477	118 670	57 873
Canada	12 464	37 841	100 888	35 253	11 389	14 470	19 516	8 000	20 848	46 751	44 141	16 718	32 328	14 313
United States	67 401	127 750	164 978	227 445	40 085	80 267	116 806	86 088	117 729	179 895	70 173	23 760	86 342	43 560
Other developed countries	6 975	10 821	66 948	45 395	18 185	33 613	- 3 472	31 525	58 366	46 080	94 747	17 598	63 159	13 515
Australia	2 070	10 508	44 222	33 530	22 206	26 530	- 5 871	26 602	31 949	43 439	18 454	- 2 981	15 323	3 987
Bermuda	1 613	1 083	1 424	850	820	- 405	-	400	503	- 40 691	4 507	3 248	5 330	- 2 045
Israel	1 223	8 061	684	1 363	803	1 024	406	403	9 747	8 408	11 316	167	6 453	835
Japan	662	- 11 683	16 538	9 251	- 5 771	6 675	1 469	5 012	16 966	30 346	56 379	17 440	31 016	9 506
New Zealand	1 407	2 853	4 081	401	126	- 211	524	- 892	- 799	4 578	4 092	- 275	5 037	1 232
Developing economies	63 801	89 163	100 381	104 812	39 077	82 813	25 473	68 680	114 922	144 830	105 849	73 975	96 947	25 395
Africa	8 685	11 181	8 076	21 193	5 140	7 608	454	14 494	15 913	9 891	8 216	2 702	3 184	3 316
North Africa	3 351	6 773	2 182	16 283	1 475	1 141	-	12 892	5 633	1 401	4 665	1 004	1 470	-
Algeria	-	18	-	82	-	-	-	-	-	- 47	-	-	-	-
Egypt	1 478	2 976	1 713	15 895	993	195	-	12 892	5 633	1 448	4 613	76	1 091	-
Libyan Arab Jamahiriya	-	1	200	307	145	91	-	-	-	-	51	601	377	-
Morocco	1 438	133	269	- 125	333	846	-	-	-	-	-	324	-	-
Sudan	390	1 332	-	-	-	-	-	-	-	-	-	-	-	-
Tunisia	46	2 313	-	122	4	9	-	-	-	-	-	3	2	-
Other Africa	5 334	4 408	5 894	4 910	3 665	6 467	454	1 603	10 279	8 490	3 551	1 697	1 714	3 316
Angola	175	1	-	- 475	- 471	1 300	-	-	-	- 60	-	-	-	-
Botswana	-	57	1	-	50	-	14	88	-	-	3	-	-	-
Burkina Faso	-	289	-	20	-	-	-	-	-	-	-	-	-	-
Cameroon	-	-	-	1	-	-	0.2	-	-	-	-	-	-	-
Cape Verde	-	-	-	4	-	-	-	-	-	-	-	-	-	-

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Annex table I.3. Value of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (continued)

(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Congo	13	20	-	435	-	-	-	-	-	-	-	-	-	-
Congo, Democratic Republic of	-	-	-	-	5	175	-	-	-	- 45	-	-	-	-
Equatorial Guinea	-	-	-	- 2 200	-	-	-	-	-	-	-	-	-	-
Eritrea	-	-	-	-	-	12	-	-	-	-	-	-	-	-
Ethiopia	-	-	-	-	-	-	- 18	-	-	-	-	-	-	-
Gabon	-	-	82	-	-	-	-	-	-	- 16	-	-	-	-
Ghana	-	3	122	900	-	-	-	-	-	-	-	-	1	-
Guinea	0.1	2	-	-	-	-	-	-	-	-	-	-	-	-
Kenya	32	2	396	-	-	-	18	12	-	-	18	-	-	-
Liberia	-	-	-	-	-	587	-	-	-	-	-	-	-	-
Madagascar	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Malawi	-	-	5	-	0.5	0.1	-	-	-	-	-	-	-	-
Mali	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Mauritania	-	-	375	-	-	-	-	-	-	-	-	-	-	-
Mauritius	- 25	268	-	26	27	203	1	- 265	232	89	206	191	- 50	-
Mozambique	-	34	2	-	-	35	21	-	-	-	-	-	-	-
Namibia	7	181	2	15	59	8	40	-	-	-	-	-	-	-
Nigeria	25	4 883	490	- 597	- 241	296	119	-	-	-	418	-	-	-
Rwanda	-	-	-	6	-	-	-	-	-	-	-	-	-	-
Senegal	-	-	-	-	-	- 457	-	22	-	-	-	-	-	-
Seychelles	-	-	89	49	-	19	-	115	-	0	66	-	11	0
Sierra Leone	-	-	31	40	-	13	-	-	-	-	-	-	-	-
South Africa	5 092	- 1 336	4 301	6 676	4 215	3 943	232	1 604	10 046	8 541	2 817	1 491	1 488	3 316
Swaziland	-	-	-	-	-	-	-	-	-	-	-	-	6	-
Togo	-	-	-	-	-	-	-	-	-	-	20	-	-	-
Uganda	-	-	-	1	-	-	-	-	-	-	-	-	257	-
United Republic of Tanzania	-	-	-	-	2	60	-	-	-	-	-	-	-	-
Zambia	8	4	-	1	11	272	-	29	-	25	-	16	2	-
Zimbabwe	7	-	-	7	6	-	27	- 0	1	- 44	1	-	-	-
Latin America and the Caribbean	14 563	12 768	20 648	15 452	- 4 358	29 481	9 024	10 013	28 064	40 195	2 466	3 740	15 710	5 979
South America	8 427	4 503	13 697	8 121	- 5 342	18 026	8 240	2 513	19 923	13 152	4 765	3 104	11 686	2 592
Argentina	358	344	877	- 3 283	111	3 457	- 1 079	- 173	160	569	274	- 77	92	200
Bolivia, Plurinational State of	-	- 39	- 77	24	-	0	-	-	-	-	-	-	-	-
Brazil	2 993	2 637	6 539	7 568	- 1 369	8 874	11 006	2 505	18 629	10 785	5 243	2 501	7 757	3 384
Chile	- 779	447	1 480	3 234	829	1 642	- 131	- 80	431	466	- 88	55	544	244
Colombia	5 775	1 319	4 303	- 57	- 1 633	- 1 594	- 2 029	258	697	1 384	16	211	3 210	315
Ecuador	-	21	29	0	6	356	72	-	-	-	0	-	-	2
Guyana	-	-	3	1	1	-	3	-	-	-	-	-	-	-
Paraguay	-	-	10	4	- 60	- 1	-	-	-	-	-	-	-	-
Peru	55	53	1 135	293	38	684	329	3	6	195	679	416	77	34
Uruguay	0	164	157	8	3	448	70	-	-	-	-	-	7	13
Venezuela, Bolivarian Republic of	26	- 443	- 760	329	- 3 268	4 158	-	-	-	- 248	- 1 358	- 2	-	- 1 600
Central America	3 903	2 898	4 889	2 899	153	8 854	166	3 140	3 699	17 452	- 1 053	3 434	3 324	3 899
Belize	-	-	-	0.4	-	1	-	-	4	- 43	-	2	-	-
Costa Rica	59	294	- 34	405	-	5	-	-	97	642	-	-	-	-
El Salvador	441	173	835	-	30	43	103	15	370	-	-	-	-	-
Guatemala	10	- 2	5	145	-	650	-	1	317	140	-	-	-	-
Honduras	-	-	140	-	-	1	-	-	-	-	-	-	-	-
Mexico	2 899	874	3 717	2 304	104	7 990	9	3 036	2 750	18 226	- 463	3 247	3 306	3 453
Nicaragua	-	2	-	-	- 1	-	4	-	-	-	-	-	-	-
Panama	493	1 557	226	44	20	164	50	88	160	- 1 512	- 591	185	17	446
Caribbean	2 232	5 367	2 061	4 432	832	2 601	619	4 359	4 442	9 592	- 1 245	- 2 799	701	- 512
Anguilla	-	-	-	-	-	-	-	71	- 1	-	30	-	- 10	-
Antigua and Barbuda	160	85	1	-	-	-	-	-	-	-	-	-	-	-
Aruba	1	468	-	-	-	-	-	-	-	-	-	-	-	-
Bahamas	-	3 027	-	41	-	82	212	- 146	- 411	2 693	537	11	112	-
Barbados	-	999	1	207	-	413	-	166	-	3	3	-	-	-
British Virgin Islands	524	19	559	980	242	432	275	2 086	2 900	5 017	- 1 635	- 1 579	- 700	2 264
Cayman Islands	449	49	-	969	-	84	92	1 800	1 563	2 047	2 079	- 1 237	759	- 3 929
Dominican Republic	-	427	42	-	0.4	1	39	-	-	93	- 25	-	31	-
Haiti	-	-	-	-	1	59	-	-	-	-	-	-	-	-
Jamaica	- 0.2	67	595	-	-	-	-	1	158	3	13	28	1	-
Netherlands Antilles[c]	43	10	-	-	2	19	-	- 20	350	-	-	- 30	- 156	3
Puerto Rico	1 085	216	862	-	587	1 037	1	512	- 216	- 261	- 2 454	13	665	-
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	-	- 0.3	-

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Annex table I.3. Value of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (continued)

(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Trinidad and Tobago	- 30	-	-	2 236	-	-	-	- 129	97	- 2	207	- 10	-	-
US Virgin Islands	-	-	-	-	-	473	-	21	-	-	-	4	-	1 150
Asia	40 537	65 250	71 423	68 909	38 291	36 706	15 991	44 023	70 792	94 469	94 398	67 310	77 962	16 100
West Asia	13 358	22 431	22 602	16 287	3 543	4 617	3 969	19 983	35 350	40 103	22 099	26 843	- 15 560	- 2 487
Bahrain	85	- 410	190	178	-	452	-	4 514	4 275	1 002	4 497	323	- 3 319	- 1 810
Iraq	-	-	-	34	-	-	-	-	-	33	-	-	-	-
Jordan	89	750	440	773	108	- 103	-	-	4	45	322	-	- 34	-
Kuwait	-	13	3 963	496	- 55	473	3	725	1 345	1 416	2 147	124	- 10 810	1 097
Lebanon	236	5 948	- 153	108	-	642	-	103	716	210	- 233	283	0.3	142
Oman	116	1	621	10	-	386	-	6	5	79	601	893	- 529	172
Qatar	-	-	-	124	298	13	-	352	127	5 160	6 029	10 266	865	- 1 200
Saudi Arabia	-	21	125	102	42	264	216	6 603	5 405	15 780	1 442	121	422	- 129
Syrian Arab Republic	-	-	-	-	-	41	-	-	-	-	-	-	-	-
Turkey	12 771	15 340	16 415	13 238	2 849	2 053	3 574	199	356	767	1 313	-	2	538
United Arab Emirates	61	53	856	1 225	300	376	176	7 481	23 117	15 611	5 983	14 831	- 2 157	- 1 297
Yemen	-	716	144	-	-	20	-	-	-	-	-	-	-	-
South, East and South-East Asia	27 179	42 819	48 822	52 622	34 748	32 089	12 022	24 041	35 441	54 365	72 298	40 467	93 521	18 587
East Asia	20 998	25 456	23 390	17 226	15 741	16 144	3 097	12 597	21 163	- 667	39 888	35 851	53 089	- 7 070
China	7 207	11 298	9 332	5 375	10 898	5 965	2 825	3 653	12 090	- 2 282	37 941	21 490	29 201	13 476
Hong Kong, China	5 449	9 106	7 102	8 707	3 028	12 024	264	8 195	8 003	- 7 980	- 1 048	7 461	14 455	- 1 325
Korea, Republic of	5 165	- 161	46	1 194	1 956	- 2 169	- 64	194	1 057	8 646	3 882	6 951	9 915	1 863
Macao, China	67	413	133	593	- 57	33	34	0	-	-	0	- 580	52	-
Mongolia	-	2	7	-	344	65	55	-	-	-	106	- 24	-	-
Taiwan Province of China	3 110	4 798	6 770	1 356	- 429	227	- 17	554	14	949	- 993	552	- 533	316
South Asia	738	7 883	5 371	12 654	6 094	5 556	1 170	1 877	6 745	29 096	13 488	291	26 434	- 2 005
Bangladesh	-	330	4	-	9	10	-	-	-	-	-	-	1	-
Iran, Islamic Republic of	-	-	-	695	-	-	-	-	-	-	-	-	-	-
India	526	4 424	4 405	10 427	6 049	5 537	886	1 877	6 715	29 083	13 482	291	26 421	74
Maldives	-	-	-	3	-	-	-	-	-	-	-	-	- 3	-
Nepal	-	- 15	-	13	-	-	-	-	-	-	-	-	-	-
Pakistan	207	3 139	956	1 147	-	- 0	247	-	30	-	-	-	15	-
Sri Lanka	5	4	6	370	36	9	36	-	-	12	6	-	-	-
South-East Asia	5 443	9 480	20 061	22 743	12 913	10 389	7 755	9 567	7 533	25 936	18 922	4 325	13 998	- 1 167
Brunei Darussalam	-	0	0	-	3	-	-	-	112	-	-	10	-	-
Cambodia	-	9	6	30	- 336	5	-	-	-	-	-	-	-	0
Indonesia	6 171	388	1 706	2 070	1 332	1 667	4 496	290	- 85	826	913	- 2 590	893	74
Lao People's Democratic Republic	-	-	-	-	-	110	5	-	-	-	-	-	-	-
Malaysia	1 141	2 509	6 976	2 781	354	3 441	734	1 946	2 664	3 654	9 751	3 277	2 306	858
Myanmar	-	-	- 1	-	- 0	-	-	-	- 1 010	-	-	-	-	-
Philippines	- 5 180	- 134	1 165	2 621	1 291	30	661	1 829	190	- 2 514	- 174	- 7	25	30
Singapore	3 933	2 908	7 426	14 240	9 693	4 578	1 162	5 706	5 566	23 916	6 992	2 762	7 851	2 139
Thailand	- 632	3 771	2 372	142	346	457	388	- 203	88	54	1 416	872	2 864	1 083
Viet Nam	10	29	412	859	230	101	308	-	8	-	25	-	59	-
Oceania	16	- 36	234	- 742	4	9 019	4	150	154	275	770	224	91	-
Cook Islands	-	-	-	-	-	-	-	-	-	-	-	50	-	-
Fiji	1	-	12	2	-	1	-	-	-	-	-	-	-	-
French Polynesia	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Guam	-	72	-	-	-	-	-	150	-	-	-	-	-	-
Marshall Islands	-	-	45	-	-	-	-	-	-	-	-	0.3	-	-
Nauru	-	-	-	-	-	-	-	- 3	-	-	-	172	-	-
New Caledonia	-	- 100	-	-	-	-	-	3	-	-	-	-	-	-
Niue	6	-	-	-	-	-	-	-	-	-	-	-	-	-
Papua New Guinea	9	7	160	- 758	0	9 018	4	-	-	275	1 051	-	- 4	-
Samoa	-	- 18	3	13	-	-	-	-	64	-	- 324	-	95	-
Solomon Islands	-	-	14	-	-	-	-	-	-	-	-	-	-	-
Tuvalu	-	-	-	-	-	-	-	-	-	-	43	-	-	-
Vanuatu	-	3	-	-	4	-	-	-	-	-	-	-	-	-
South-East Europe and the CIS	- 5 279	9 005	30 448	20 337	7 125	4 321	9 076	6 188	2 940	21 729	20 167	7 432	9 698	2 352
South-East Europe	955	3 942	2 192	767	529	266	97	- 654	- 2 092	1 039	- 4	- 167	325	-
Albania	7	41	164	3	146	-	-	-	-	-	-	-	-	-
Bosnia and Herzegovina	21	79	1 022	2	8	-	-	-	-	-	-	-	-	-
Croatia	360	2 530	674	204	-	201	84	- 125	3	-	2	8	325	-

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Annex table I.3. Value of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (concluded)

(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Montenegro	-	7	0.1	-	362	-	-	-	-	4	-	-	-	-
Serbia	-	582	280	501	10	19	13	-	- 1 898	860	- 7	- 174	-	-
Serbia and Montenegro	549	419	-	-	3	-	-	-	-	-	-	-	-	-
The FYR of Macedonia	0	280	53	57	-	46	-	-	-	-	-	-	-	-
Yugoslavia (former)	17	5	-	-	-	-	-	- 529	- 198	175	-	-	-	-
CIS	- 6 234	5 064	28 256	19 570	6 596	4 056	8 979	6 842	5 032	20 691	20 171	7 599	9 373	2 352
Armenia	4	-	423	204	30	-	26	-	-	-	-	-	-	-
Azerbaijan	-	-	-	2	-	0.2	-	-	-	-	519	-	-	-
Belarus	4	-	2 500	16	-	649	-	-	-	-	-	-	-	-
Georgia	232	115	53	104	14	30	-	-	-	-	-	-	- 0	- 10
Kazakhstan	1 474	- 1 751	727	- 242	1 322	101	137	430	1 503	1 833	2 047	-	254	-
Kyrgyzstan	155	-	179	-	-	44	-	-	-	-	-	-	-	-
Moldova, Republic of	-	10	24	4	-	-	- 9	-	-	-	-	-	-	-
Russian Federation	- 14 547	6 319	22 529	13 507	5 079	2 907	7 502	6 029	3 507	18 598	16 634	7 599	9 082	2 346
Tajikistan	12	-	5	-	-	-	-	-	-	-	-	-	-	-
Turkmenistan	47	-	-	-	-	-	-	-	-	-	-	-	-	-
Ukraine	6 386	261	1 816	5 933	147	322	1 324	383	23	260	972	-	37	16
Uzbekistan	-	110	-	42	4	1	-	-	-	-	-	-	-	-
Unspecified	-	-	-	-	-	-	-	24 613	10 134	11 981	12 486	7 528	16 192	61 046
Memorandum														
Least developed countries (LDCs)[d]	573	2 688	584	- 2 552	- 774	2 201	8	51	- 946	- 80	- 261	16	354	-
Landlocked developing countries (LLDCs)[e]	1 707	- 1 052	1 357	144	1 708	639	237	546	1 504	1 814	2 676	- 8	518	-
Small island developing states (SIDS)[f]	115	4 438	920	1 824	31	9 735	217	- 263	141	3 061	1 803	393	161	-

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

[a] Net sales by the region/economy of the immediate acquired company.

[b] Net purchases by region/economy of the ultimate acquiring company.

[c] This economy dissolved on 10 October 2010.

[d] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[e] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[f] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Note: Cross-border M&A sales and purchases are calculated on a net basis as follows: Net cross-border M&A sales in a host economy = Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy; net cross-border M&A purchases by a home economy = Purchases of companies abroad by home-based TNCs (-) 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%.

Annex table I.4. Number of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011
(Number of deals)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
World	5 004	5 747	7 018	6 425	4 239	5 405	2 036	5 004	5 747	7 018	6 425	4 239	5 405	2 036
Developed economies	3 805	4 326	5 187	4 603	2 920	3 638	1 420	3 741	4 446	5 443	4 732	2 666	3 644	1 484
Europe	2 271	2 531	2 955	2 619	1 476	1 944	804	2 109	2 519	3 117	2 853	1 522	1 989	737
European Union	2 108	2 354	2 717	2 419	1 344	1 780	718	1 828	2 216	2 782	2 548	1 328	1 723	662
Austria	57	44	48	30	19	31	11	62	77	104	75	42	36	13
Belgium	64	87	81	86	50	77	22	49	63	77	61	15	21	13
Bulgaria	29	29	30	28	14	4	-	1	2	2	6	3	1	2
Cyprus	-	5	17	32	22	23	13	3	23	21	46	160	273	53
Czech Republic	31	53	54	72	29	26	13	7	14	12	10	6	9	3
Denmark	90	90	89	75	39	85	22	112	85	82	102	43	43	9
Estonia	13	10	13	19	5	8	6	3	8	10	4	-	3	4
Finland	53	68	91	52	25	37	18	56	66	66	109	32	58	26
France	222	224	232	178	101	155	56	253	265	404	381	191	219	87
Germany	374	426	434	337	169	185	108	226	229	264	286	196	147	82
Greece	9	11	9	13	15	- 1	1	13	20	17	27	7	1	2
Hungary	20	46	27	26	8	20	4	8	13	14	10	5	2	-
Ireland	42	49	76	62	41	36	13	48	94	128	82	32	33	17
Italy	118	111	140	150	85	113	55	52	59	121	119	45	55	15
Latvia	14	10	17	14	4	15	4	1	1	4	- 1	-	4	-
Lithuania	14	18	17	18	4	7	- 1	3	2	2	7	2	4	1
Luxembourg	11	12	20	10	10	12	4	26	39	42	53	34	33	17
Malta	3	3	2	-	4	2	2	1	1	1	1	4	4	1
Netherlands	126	88	163	116	74	107	54	91	146	173	221	104	165	53
Poland	44	49	55	43	48	62	20	15	8	30	28	3	21	5
Portugal	37	29	32	11	15	8	7	10	16	25	36	20	18	2
Romania	41	44	48	38	18	17	8	-	1	- 1	7	3	6	-
Slovakia	13	12	15	14	6	7	1	2	2	1	7	2	5	-
Slovenia	5	7	8	6	2	3	-	6	7	6	4	4	5	- 1
Spain	81	148	162	193	147	150	54	82	109	156	106	50	54	13
Sweden	115	144	148	164	73	117	42	154	185	207	161	94	167	69
United Kingdom	482	537	689	632	317	474	181	544	681	814	600	231	336	176
Other developed Europe	163	177	238	200	132	164	86	281	303	335	305	194	266	75
Andorra	- 1	1	-	-	-	-	-	-	1	-	1	1	2	2
Faeroe Islands	1	-	-	1	-	1	-	-	-	1	-	-	1	-
Gibraltar	2	1	2	1	- 1	-	-	1	3	3	1	3	-	3
Guernsey	-	2	6	3	6	6	-	5	14	21	20	11	32	-
Iceland	5	3	1	-	-	3	-	47	50	38	4	- 11	- 15	- 2
Isle of Man	7	4	3	4	3	4	1	11	14	25	5	3	14	- 1
Jersey	3	3	7	6	4	5	-	4	18	28	13	8	17	5
Liechtenstein	-	2	1	-	-	1	-	-	1	1	1	3	-	-
Monaco	1	-	4	1	-	2	1	- 1	- 1	-	2	2	2	1
Norway	78	81	93	86	53	87	40	82	84	93	84	41	53	14
Switzerland	67	80	121	98	66	55	44	131	119	125	174	133	160	53
North America	1 200	1 380	1 717	1 491	1 013	1 228	487	1 234	1 458	1 667	1 436	888	1 301	578
Canada	252	324	420	374	303	344	130	337	395	426	351	306	422	196
United States	948	1 056	1 297	1 117	710	884	357	897	1 063	1 241	1 085	582	879	382
Other developed countries	334	415	515	493	431	466	129	398	469	659	443	256	354	169
Australia	180	229	252	306	283	305	87	209	246	363	153	58	107	52
Bermuda	6	8	7	8	5	8	-	11	8	28	31	9	2	8
Israel	25	35	31	30	16	22	6	38	49	59	42	22	34	11
Japan	44	57	106	99	85	98	16	126	137	161	185	160	192	90
New Zealand	79	86	119	50	42	33	20	14	28	48	32	7	19	8
Developing economies	1 062	1 219	1 552	1 501	975	1 290	501	765	839	1 047	1 011	746	1 061	360
Africa	72	107	116	106	58	75	44	54	53	60	47	56	60	13
North Africa	21	25	20	23	15	14	4	6	16	11	8	14	13	1
Algeria	2	5	2	4	1	-	-	-	1	- 1	-	-	1	-
Egypt	11	14	9	11	3	9	3	4	14	8	6	5	8	1
Libyan Arab Jamahiriya	2	1	1	1	2	2	-	1	-	2	1	3	3	-
Morocco	- 1	1	4	2	7	-	1	1	1	2	1	3	-	-
Sudan	3	2	1	1	-	-	-	-	-	-	-	-	-	-
Tunisia	4	2	3	4	2	3	-	-	-	-	-	3	1	-
Other Africa	51	82	96	83	43	61	40	48	37	49	39	42	47	12
Angola	1	2	1	-	-	1	-	-	-	- 1	-	-	-	-
Benin	-	-	-	-	-	-	1	-	-	-	-	-	-	-
Botswana	1	1	4	1	1	1	2	1	- 1	-	3	1	1	-

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Annex table I.4. Number of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (continued)

(Number of deals)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Burkina Faso	-	1	-	2	-	1	-	-	-	-	-	-	-	-
Burundi	-	1	-	1	-	-	-	-	-	-	-	-	-	-
Cameroon	1	1	-	2	-	- 1	1	-	-	-	-	-	-	-
Cape Verde	1	-	-	1	-	-	-	-	-	-	-	-	-	-
Congo	1	4	-	1	1	1	-	-	-	-	-	-	-	-
Congo, Democratic Republic of	-	-	2	-	2	1	-	-	-	- 2	-	-	-	-
Equatorial Guinea	-	-	-	- 1	-	-	-	-	-	-	-	-	-	-
Gabon	-	1	3	2	-	-	-	-	-	- 1	-	-	-	-
Ghana	1	2	5	3	2	-	-	-	-	-	-	-	1	-
Guinea	1	1	-	-	-	-	-	-	-	-	-	-	-	-
Kenya	3	2	2	5	-	1	3	2	4	4	3	1	2	1
Liberia	-	1	-	-	-	3	-	-	-	-	-	-	-	-
Madagascar	-	3	-	1	-	-	-	-	-	-	-	-	-	-
Malawi	-	-	2	-	1	1	-	-	-	-	-	-	-	-
Mali	-	2	1	-	-	-	-	-	-	-	-	-	-	-
Mauritania	-	-	1	-	-	-	-	-	-	-	-	-	-	-
Mauritius	3	4	2	5	5	9	3	14	12	6	6	10	5	1
Mozambique	-	5	2	-	-	4	2	-	-	-	-	-	- 1	-
Namibia	2	2	7	2	3	1	1	-	-	-	-	1	-	-
Nigeria	2	5	1	-	- 2	2	4	2	- 1	1	4	1	-	-
Reunion	-	-	-	1	-	1	-	-	-	-	-	-	-	-
Rwanda	-	1	3	2	-	-	-	-	-	-	-	-	-	-
Senegal	1	-	1	1	-	- 1	-	1	-	-	-	-	-	-
Seychelles	-	-	2	1	-	1	-	3	-	2	- 1	- 1	3	2
Sierra Leone	-	-	1	3	-	1	-	-	-	-	-	-	-	-
South Africa	24	34	41	37	22	27	23	26	22	38	22	29	33	7
Swaziland	1	-	2	-	-	-	-	-	-	-	-	-	1	-
Togo	-	-	-	-	-	-	-	- 1	-	-	2	-	-	-
Uganda	2	2	5	3	1	1	1	-	-	1	-	-	1	-
United Republic of Tanzania	-	4	2	2	3	1	-	-	-	-	-	-	-	-
Zambia	3	3	-	5	2	4	-	1	1	1	-	1	1	-
Zimbabwe	2	-	5	2	2	-	-	- 1	2	-	-	-	-	-
Latin America and the Caribbean	147	250	425	378	221	400	161	80	132	174	146	116	192	68
South America	77	135	265	266	130	250	116	24	39	67	63	37	92	39
Argentina	5	40	43	44	11	41	20	-	3	- 1	3	-	5	6
Bolivia, Plurinational State of	1	-	2	2	-	- 1	-	-	-	1	-	1	-	-
Brazil	37	54	126	116	44	112	43	15	20	35	50	19	36	15
Chile	9	14	20	31	29	21	11	3	7	13	1	3	23	5
Colombia	13	13	26	30	22	36	19	3	4	16	2	8	14	6
Ecuador	1	6	9	2	7	8	3	-	1	-	1	-	-	1
Guyana	-	1	1	1	1	1	4	-	-	-	-	-	-	-
Paraguay	-	-	2	5	- 1	2	1	-	-	-	-	1	-	-
Peru	3	8	30	28	24	28	9	-	2	1	6	4	13	5
Suriname	-	-	1	-	-	-	1	-	-	-	-	-	-	-
Uruguay	2	-	6	4	3	6	3	2	-	-	-	-	1	2
Venezuela, Bolivarian Republic of	5	- 1	- 1	3	- 10	- 4	2	-	2	2	-	1	-	- 1
Central America	37	79	97	64	39	86	27	27	42	38	19	34	37	18
Belize	-	-	-	1	1	1	-	- 2	1	- 1	1	5	11	- 1
Costa Rica	3	2	2	7	3	4	1	2	3	3	2	- 1	-	2
El Salvador	4	4	5	-	3	5	1	1	13	-	-	-	-	-
Guatemala	2	-	3	4	2	2	-	5	9	3	1	3	-	-
Honduras	1	1	2	-	-	1	-	-	-	-	-	-	-	-
Mexico	23	67	75	46	26	59	18	17	14	28	16	22	20	17
Nicaragua	1	2	1	-	- 1	4	3	-	-	-	-	-	-	-
Panama	3	3	9	6	5	10	4	4	2	5	- 1	5	6	-
Caribbean	33	36	63	48	52	64	18	29	51	69	64	45	63	11
Anguilla	-	-	-	-	-	-	-	2	-	-	1	-	- 1	-
Antigua and Barbuda	6	1	1	-	-	-	-	1	2	-	2	- 1	-	-
Aruba	1	3	-	-	-	-	-	-	-	-	-	-	-	-
Bahamas	1	-	2	4	1	4	2	1	1	1	4	2	-	-
Barbados	-	1	2	-	-	2	-	6	3	9	4	1	- 1	- 1
British Virgin Islands	10	8	20	25	39	42	11	3	9	19	20	21	39	10
Cayman Islands	4	4	5	12	3	3	3	5	19	35	37	17	14	- 2
Cuba	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Dominican Republic	-	2	6	1	3	2	1	-	1	1	- 1	-	5	-

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Annex table I.4. Number of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (continued)

(Number of deals)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Haiti	-	2	-	-	1	2	-	-	-	-	-	-	-	-
Jamaica	1	3	13	1	-	-	-	3	6	4	-	6	1	-
Netherlands Antilles[c]	5	5	1	-	3	2	-	-	3	-	-	- 1	2	4
Puerto Rico	4	6	9	1	-	5	1	7	5	-	- 4	-	6	- 1
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	-	- 1	-
Saint Lucia	1	-	1	-	-	-	-	-	-	-	-	-	-	-
Trinidad and Tobago	1	1	1	2	2	-	-	1	-	- 1	1	- 3	- 2	- 1
US Virgin Islands	- 1	-	1	-	-	2	-	1	1	-	-	2	-	2
Asia	832	854	999	1 011	693	808	295	630	649	809	813	565	808	278
West Asia	57	86	116	138	77	101	37	66	91	129	166	73	60	30
Bahrain	3	2	6	9	3	3	-	8	14	15	28	3	9	2
Iraq	4	-	-	2	2	-	1	-	-	1	-	-	-	-
Jordan	4	9	4	8	12	4	3	3	4	3	2	1	- 1	-
Kuwait	-	1	4	14	2	13	2	11	6	19	23	7	6	7
Lebanon	3	2	- 1	2	-	3	-	2	2	3	1	5	6	3
Oman	1	2	9	2	2	2	1	1	4	2	7	5	7	1
Qatar	-	-	2	2	2	-	-	4	1	8	19	9	6	- 1
Saudi Arabia	1	5	10	12	8	11	5	8	14	10	13	3	8	2
Syrian Arab Republic	-	-	-	-	2	2	-	-	-	-	-	-	-	-
Turkey	29	51	63	60	31	44	12	7	4	12	5	4	3	5
United Arab Emirates	12	13	18	27	13	18	13	22	42	56	68	36	15	11
Yemen	-	1	1	-	-	1	-	-	-	-	-	-	1	-
South, East and South-East Asia	775	768	883	873	616	707	258	564	558	680	647	492	748	248
East Asia	408	396	430	403	279	325	98	190	190	226	252	266	345	- 49
China	217	224	232	236	142	146	52	45	38	61	69	97	148	47
Hong Kong, China	138	119	144	93	67	105	22	117	118	116	110	88	117	45
Korea, Democratic People's Republic of	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Korea, Republic of	25	17	19	37	59	45	12	17	30	39	50	57	55	25
Macao, China	7	6	5	-	-	1	1	1	1	-	1	- 1	2	-
Mongolia	1	1	3	2	5	8	6	-	-	-	1	-	-	-
Taiwan Province of China	20	28	27	35	6	20	5	10	3	10	21	25	23	11
South Asia	101	139	159	158	112	122	46	99	137	176	166	57	142	- 15
Bangladesh	1	1	1	1	1	2	-	-	-	-	-	-	3	-
Iran, Islamic Republic of	-	-	-	3	-	-	-	-	-	-	-	-	-	-
India	94	130	147	136	104	115	39	98	134	175	163	56	139	44
Maldives	1	-	-	2	-	1	-	-	-	-	-	-	- 1	-
Nepal	-	- 1	-	1	-	-	1	-	-	-	-	-	-	-
Pakistan	5	7	7	10	- 1	- 1	3	-	1	-	1	1	-	-
Sri Lanka	-	2	4	5	8	5	3	-	2	2	2	-	1	-
South-East Asia	266	233	294	312	225	260	114	275	231	278	229	169	261	- 49
Brunei Darussalam	-	5	2	-	2	2	-	-	1	-	-	2	1	-
Cambodia	2	3	3	1	2	1	1	-	-	-	-	-	-	1
Indonesia	30	24	40	54	35	60	29	5	1	5	11	9	13	7
Malaysia	92	67	91	80	75	59	19	120	117	123	113	63	86	16
Myanmar	-	-	- 1	-	- 1	-	-	-	- 1	-	-	-	-	-
Philippines	13	5	11	18	3	12	7	8	2	10	9	4	4	2
Singapore	96	91	103	89	62	76	36	134	100	129	78	74	134	40
Thailand	29	36	31	41	12	18	7	10	9	11	17	16	21	10
Viet Nam	2	2	14	30	35	31	14	- 2	2	-	1	1	3	-
Oceania	11	8	12	6	3	7	1	1	5	4	5	9	1	1
American Samoa	-	-	-	-	-	1	-	-	-	-	-	-	-	-
Cook Islands	-	-	-	-	-	-	-	-	-	-	-	2	-	-
Fiji	3	1	1	3	-	1	-	-	-	- 1	1	-	-	-
French Polynesia	-	1	1	-	- 1	-	-	-	2	1	-	2	-	-
Guam	-	2	-	-	-	-	-	1	-	-	-	-	-	-
Marshall Islands	-	-	1	-	1	1	-	-	-	1	-	3	-	-
New Caledonia	1	- 1	-	-	-	-	-	1	1	-	-	-	1	-
Northern Mariana Islands	1	-	1	-	-	1	-	-	-	-	-	-	-	-
Papua New Guinea	4	3	3	1	1	3	1	-	-	2	2	1	- 1	-
Samoa	-	1	3	1	1	-	-	-	1	-	1	-	1	1
Solomon Islands	-	-	1	-	-	-	-	-	-	-	-	-	-	-
Tonga	-	-	1	1	-	-	-	-	-	-	-	-	-	-
Tuvalu	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Vanuatu	-	1	-	-	1	-	-	-	-	-	-	-	-	-

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Annex table I.4. Number of cross-border M&As, by region/economy of seller/purchaser, 2005–May 2011 (concluded)

(Number of deals)

Region / economy	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
South-East Europe and the CIS	137	202	279	321	343	477	115	51	62	102	123	70	83	31
South-East Europe	30	39	73	46	17	18	10	- 9	- 2	9	4	-	3	-
Albania	1	1	4	6	2	-	-	-	-	-	-	-	-	-
Bosnia and Herzegovina	6	9	8	4	2	1	-	-	-	-	1	-	1	-
Croatia	7	8	18	12	2	11	5	1	2	6	3	1	1	1
Montenegro	-	1	2	-	3	1	-	-	-	1	-	-	-	-
Serbia	-	4	21	20	7	4	4	-	4	2	-	- 1	1	- 1
Serbia and Montenegro	14	10	-	2	1	-	-	-	-	-	-	-	-	-
The FYR of Macedonia	1	5	20	2	-	1	1	-	-	-	-	-	-	-
Yugoslavia (former)	1	1	-	-	-	-	-	- 10	- 8	-	-	-	-	-
CIS	107	163	206	275	326	459	105	60	64	93	119	70	80	31
Armenia	3	2	5	4	3	-	3	-	-	-	-	-	-	-
Azerbaijan	-	-	1	3	2	3	-	-	-	-	-	1	-	-
Belarus	1	1	7	4	-	10	3	-	1	1	-	-	1	-
Georgia	5	7	9	4	- 1	3	-	-	-	1	-	-	- 1	-
Kazakhstan	6	2	9	6	12	12	2	9	4	11	6	- 1	1	-
Kyrgyzstan	3	2	5	-	1	3	2	-	-	-	-	-	-	-
Moldova, Republic of	1	5	2	6	-	-	2	-	-	-	1	-	-	-
Russian Federation	66	101	118	181	185	343	73	45	54	70	108	65	75	27
Tajikistan	1	-	3	-	-	-	-	-	-	-	-	-	-	-
Turkmenistan	2	-	1	-	-	-	-	-	-	-	-	-	-	-
Ukraine	19	37	43	63	122	84	20	6	4	10	4	5	4	4
Uzbekistan	-	6	3	4	2	1	-	-	1	-	-	-	-	-
Unspecified	-	-	-	-	1	-	-	444	399	425	554	752	608	160
Memorandum														
Least developed countries (LDCs)[d]	17	36	31	23	14	25	6	2	-	- 2	4	-	5	-
Landlocked developing countries (LLDCs)[e]	30	33	79	50	31	38	21	11	7	13	11	3	4	-
Small island developing states (SIDS)[f]	22	16	34	22	12	22	6	27	25	23	21	19	4	- 2

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

[a] Net sales by the region/economy of the immediate acquired company.

[b] Net purchases by region/economy of the ultimate acquiring company.

[c] This economy dissolved on 10 October 2010.

[d] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[e] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[f] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Note: Cross-border M&A sales and purchases are calculated on a net basis as follows: Net cross-border M&A sales in a host economy = Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy; net cross-border M&A purchases by a home economy = Purchases of companies abroad by home-based TNCs (-) 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%.

Annex table I.5. Cross-border M&As, by sector/industry, 2005–May 2011
(Millions of dollars)

Sector/industry	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Total	462 253	625 320	1 022 725	706 543	249 732	338 839	224 163	462 253	625 320	1 022 725	706 543	249 732	338 839	224 163
Primary	17 145	43 093	74 013	90 201	48 092	73 461	45 096	2 816	32 650	95 021	53 131	29 097	52 971	38 525
Agriculture, hunting, forestry and fisheries	7 499	- 152	2 422	2 898	1 033	5 441	1 813	85	2 856	887	4 240	1 476	675	183
Mining, quarrying and petroleum	9 647	43 245	71 591	87 303	47 059	68 019	43 283	2 731	29 794	94 134	48 891	27 622	52 296	38 342
Manufacturing	147 527	212 998	336 584	326 114	76 080	129 183	62 688	118 804	163 847	218 661	244 667	37 632	119 862	79 220
Food, beverages and tobacco	37 047	6 736	49 950	131 855	9 636	39 125	5 393	17 763	3 124	36 280	54 667	- 804	35 011	7 710
Textiles, clothing and leather	1 818	1 799	8 494	2 112	410	962	356	3 266	809	- 1 220	- 189	537	4 320	458
Wood and wood products	333	1 922	5 568	3 166	821	- 462	291	- 524	1 660	4 728	- 251	536	8 112	220
Publishing and printing	4 933	24 386	5 543	4 658	66	4 977	87	3 882	7 783	843	8 228	- 130	570	769
Coke, petroleum and nuclear fuel	- 77	2 005	2 663	3 086	2 214	2 584	- 605	820	5 429	7 691	- 3 244	- 1 096	- 5 477	255
Chemicals and chemical products	31 709	48 035	116 736	73 563	32 559	32 243	35 781	29 069	35 192	89 397	71 293	28 861	43 080	37 869
Rubber and plastic products	2 639	6 577	7 281	1 200	15	5 987	322	684	5 409	658	- 235	- 197	183	388
Non-metallic mineral products	11 281	6 166	37 800	28 944	118	3 151	- 115	17 534	6 370	16 613	23 053	- 260	4 352	161
Metals and metal products	20 371	46 312	69 740	14 215	- 2 953	1 938	3 302	15 255	47 613	44 241	20 695	1 433	2 773	2 604
Machinery and equipment	1 467	17 664	20 108	15 060	2 431	7 922	3 360	6 421	14 890	- 37 504	7 868	2 635	5 800	2 994
Electrical and electronic equipment	11 938	35 305	24 483	14 151	17 763	13 237	9 439	8 305	27 908	33 644	32 401	1 880	6 404	11 748
Precision instruments	11 339	7 064	- 17 184	23 059	4 105	9 465	1 665	9 102	9 118	19 339	19 176	4 428	7 397	4 923
Motor vehicles and other transport equipment	8 524	7 475	3 099	11 608	8 753	7 484	2 621	5 827	- 2 031	3 795	10 254	- 480	6 638	6 783
Other manufacturing	4 205	1 552	2 305	- 565	141	570	792	1 400	574	158	951	290	701	2 337
Services	297 581	369 228	612 128	290 228	125 561	136 196	116 379	340 634	428 822	709 043	408 746	183 003	166 007	106 418
Electricity, gas and water	40 158	1 402	103 005	48 969	61 627	- 1 881	2 856	25 274	- 18 197	50 150	25 270	47 613	- 18 656	1 561
Construction	4 319	9 955	12 994	2 452	10 391	7 035	- 714	3 683	3 372	10 222	- 5 220	- 1 704	- 2 113	- 3 088
Trade	15 946	11 512	41 307	17 458	3 658	14 468	8 472	406	4 241	7 422	19 766	3 360	9 526	- 185
Hotels and restaurants	3 273	14 476	9 438	3 499	1 422	5 411	489	- 779	- 164	- 8 357	3 702	673	1 045	527
Transport, storage and communications	75 783	113 915	66 328	34 325	15 912	15 762	15 715	49 802	87 466	45 574	48 088	12 187	15 386	33 943
Finance	53 912	107 951	249 314	73 630	9 535	31 929	67 434	224 103	316 920	548 901	311 409	110 555	125 669	65 811
Business services	84 366	80 978	102 231	100 701	17 167	45 634	15 107	42 487	47 087	50 893	57 088	17 652	27 025	10 050
Public administration and defense	324	- 111	29	30	110	63	14	- 9 201	- 15 477	- 17 058	- 46 337	- 8 202	- 4 422	- 1 663
Education	1 474	- 429	860	1 048	559	1 931	27	1 112	122	42	155	51	111	5
Health and social services	2 293	10 624	8 140	2 222	1 123	9 056	- 4 198	- 2 247	506	9 493	- 176	40	3 799	225
Community, social and personal service activities	15 627	17 060	15 625	1 002	3 434	4 739	4 827	5 524	1 798	9 263	- 5 270	87	6 604	- 1 714
Other services	105	1 896	2 856	4 893	624	2 050	6 349	471	1 148	2 497	270	692	2 033	945

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

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

[b] Net purchases by the industry of the acquiring company.

Note: Cross-border M&A sales and purchases are calculated on a net basis as follows: Net Cross-border M&As sales by sector/industry = Sales of companies in the industry of the acquired company to foreign TNCs (-) Sales of foreign affiliates in the industry of the acquired company; net cross-border M&A purchases by sector/industry = Purchases of companies abroad by home-based TNCs, in the industry of the acquiring company (-) Sales of foreign affiliates of home-based TNCs, in the industry of the acquiring company. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Annex table I.6. Number of cross-border M&As, by sector/industry, 2005–May 2011
(Number of deals)

Sector/industry	Net sales[a]							Net purchases[b]						
	2005	2006	2007	2008	2009	2010	2011 (Jan-May)	2005	2006	2007	2008	2009	2010	2011 (Jan-May)
Total	5 004	5 747	7 018	6 425	4 239	5 405	2 036	5 004	5 747	7 018	6 425	4 239	5 405	2 036
Primary	265	413	485	486	433	600	264	199	288	350	296	221	344	174
Agriculture, hunting, forestry and fisheries	38	39	64	59	63	70	25	24	34	35	40	28	42	14
Mining, quarrying and petroleum	227	374	421	427	370	530	239	175	254	315	256	193	302	160
Manufacturing	1 522	1 688	1 993	1 976	1 153	1 485	544	1 367	1 523	1 872	1 850	909	1 286	524
Food, beverages and tobacco	158	130	213	220	109	167	71	147	110	237	180	71	119	45
Textiles, clothing and leather	41	62	56	64	39	49	15	20	39	36	22	26	42	17
Wood and wood products	40	75	78	49	26	46	21	25	37	58	52	10	33	14
Publishing and printing	96	97	90	60	37	34	21	105	110	100	72	20	38	28
Coke, petroleum and nuclear fuel	9	21	14	20	16	17	4	9	10	16	11	4	9	-
Chemicals and chemical products	321	275	325	316	225	307	110	252	231	266	323	191	269	102
Rubber and plastic products	38	55	66	63	35	53	7	51	49	60	41	25	33	12
Non-metallic mineral products	76	91	130	91	22	42	10	79	102	110	92	16	24	6
Metals and metal products	146	155	218	199	95	123	51	133	162	205	224	87	139	54
Machinery and equipment	160	187	228	265	134	175	63	124	166	195	247	127	160	63
Electrical and electronic equipment	167	257	266	309	203	199	74	162	254	255	259	144	179	92
Precision instruments	148	152	155	184	109	140	45	140	159	164	203	91	120	55
Motor vehicles and other transport equipment	78	84	86	95	74	86	31	77	49	122	88	60	78	23
Other manufacturing	44	47	68	41	29	47	21	43	45	48	36	37	43	13
Services	3 217	3 646	4 539	3 962	2 653	3 320	1 228	3 438	3 936	4 796	4 279	3 109	3 775	1 338
Electricity, gas and water	97	110	135	159	130	166	57	61	75	92	155	98	70	47
Construction	99	118	149	114	96	129	34	44	55	83	73	48	56	16
Trade	441	425	588	590	324	445	180	276	354	374	352	198	264	124
Hotels and restaurants	49	101	134	123	77	115	28	14	24	56	60	26	40	17
Transport, storage and communications	351	352	436	343	211	288	98	285	304	346	260	169	214	84
Finance	484	531	712	563	458	557	187	1 492	1 661	2 121	1 887	1 728	1 923	553
Business services	1 402	1 651	1 972	1 681	1 109	1 320	533	1 188	1 331	1 545	1 305	816	1 006	425
Public administration and defense	10	7	10	8	13	2	4	- 81	- 84	- 77	- 72	- 86	1	- 7
Education	22	22	19	43	30	26	12	22	12	12	22	15	18	7
Health and social services	85	85	124	95	59	110	34	35	39	69	52	22	68	26
Community, social and personal service activities	149	178	197	177	116	110	45	75	111	123	127	50	76	41
Other services	28	66	63	66	30	52	16	27	54	52	58	25	39	5

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

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

[b] Net purchases by the industry of the acquiring company.

Note: Cross-border M&A sales and purchases are calculated on a net basis as follows: Net Cross-border M&As sales by sector/industry = Sales of companies in the industry of the acquired company to foreign TNCs (-) Sales of foreign affiliates in the industry of the acquired company; net cross-border M&A purchases by sector/industry = Purchases of companies abroad by home-based TNCs, in the industry of the acquiring company (-) Sales of foreign affiliates of home-based TNCs, in the industry of the acquiring company. The data cover only those deals that involved an acquisition of an equity stake of more than 10%.

Annex table I.7. Cross-border M&A deals worth over $3 billion completed in 2010

Rank	Value ($ billion)	Acquired company	Host economy[a]	Industry of the acquired company	Acquiring company	Home economy[a]	Industry of the acquiring company	Shares acquired
1	18.8	Cadbury PLC	United Kingdom	Candy and other confectionery products	Kraft Foods Inc	United States	Food preparations, nec	100
2	10.7	Zain Africa BV	Nigeria	Radiotelephone communications	Bharti Airtel Ltd	India	Telephone communications, except radiotelephone	100
3	9.7	Brasilcel NV	Brazil	Radiotelephone communications	Telefônica SA	Spain	Telephone communications, except radiotelephone	50
4	9.1	EDF Energy PLC	United Kingdom	Electric services	Investor Group	Hong Kong, China	Investors, nec	100
5	9.0	Lihir Gold Ltd	Papua New Guinea	Gold ores	Newcrest Mining Ltd	Australia	Gold ores	100
6	8.5	T-Mobile(UK)Ltd	United Kingdom	Radiotelephone communications	Orange PLC	United Kingdom	Radiotelephone communications	100
7	7.6	E.ON US LLC	United States	Natural gas distribution	PPL Corp	United States	Electric services	100
8	7.6	Solvay Pharmaceuticals SA	Belgium	Pharmaceutical preparations	Abbott Laboratories	United States	Pharmaceutical preparations	100
9	7.3	Fomento Economico Mexicano SAB de CV	Mexico	Malt beverages	Investor Group	Netherlands	Investors, nec	100
10	7.1	Repsol YPF Brasil SA	Brazil	Crude petroleum and natural gas	China Petrochemical Corporation{Sinopec Group}	China	Crude petroleum and natural gas	40
11	6.1	Millipore Corp	United States	Laboratory analytical instruments	Merck KGaA	Germany	Pharmaceutical preparations	100
12	6.0	Sybase Inc	United States	Prepackaged Software	Sheffield Acquisition Corp	United States	Prepackaged Software	100
13	5.5	ZAO "Kyivstar GSM"	Ukraine	Radiotelephone communications	OAO "Vympel-Kommunikatsii" {Vimpelkom}	Russian Federation	Radiotelephone communications	100
14	5.2	Unitymedia GmbH	Germany	Cable and other pay television services	Liberty Media Corp	United States	Cable and other pay television services	100
15	4.9	Ratiopharm International GmbH	Germany	Pharmaceutical preparations	Teva Pharmaceutical Industries Ltd	Israel	Pharmaceutical preparations	100
16	4.8	Republic of Venezuela-Carabobo Block	Venezuela, Bolivarian Rep. of	Crude petroleum and natural gas	Investor Group	India	Investors, nec	40
17	4.7	East Resources Inc	United States	Crude petroleum and natural gas	Royal Dutch Shell PLC	Netherlands	Crude petroleum and natural gas	100
18	4.5	Pactiv Corp	United States	Plastics foam products	Reynolds Group Holdings Ltd	New Zealand	Converted paper and paperboard products, nec	100
19	4.5	Egyptian Co for Mobile Services	Egypt	Radiotelephone communications	Orange Participations SA	France	Telephone communications, except radiotelephone	51
20	4.4	Tomkins PLC	United Kingdom	Mechanical power transmission equipment, nec	Pinafore Acquisitions Ltd	Canada	Investment offices, nec	100
21	4.1	Denway Motors Ltd	Hong Kong, China	Motor vehicle parts and accessories	China Lounge Investments Ltd	Hong Kong, China	Investors, nec	62
22	4.1	AXA SA-Life Assurance Business,UK	United Kingdom	Life insurance	Friends Provident Holdings(UK) Ltd{FPH}	United Kingdom	Life insurance	100
23	4.0	OSI Pharmaceuticals Inc	United States	Pharmaceutical preparations	Ruby Acquisition Inc	United States	Pharmaceutical preparations	100
24	4.0	Liberty Global Inc	United States	Cable and other pay television services	KDDI Corp	Japan	Telephone communications, except radiotelephone	100
25	3.8	Bunge Participacoes e Investimentos SA	Brazil	Soybean oil mills	Vale SA	Brazil	Iron ores	100
26	3.7	Piramal Healthcare Ltd	India	Pharmaceutical preparations	Abbott Laboratories	United States	Pharmaceutical preparations	100
27	3.7	Kraft Foods Inc	United States	Frozen specialties, nec	Nestlé SA	Switzerland	Chocolate and cocoa products	100
28	3.7	Abertis Infraestructuras SA	Spain	Highway and street construction	Trebol Holdings Sarl	Spain	Investment offices, nec	26
29	3.4	Tandberg ASA	Norway	Radio & TV broadcasting & communications equipment	Cisco Systems Inc	United States	Computer peripheral equipment, nec	100
30	3.4	HS1 Ltd	United Kingdom	Railroads, line-haul operating	Investor group	Canada	Investors, nec	100
31	3.4	Andean Resources Ltd	United States	Gold ores	Goldcorp Inc	Canada	Gold ores	100
32	3.4	Springer Science+Business Media Deutschland GmbH	Germany	Books: publishing, or publishing & printing	Investor group	Guernsey	Investors, nec	100
33	3.3	Interactive Data Corp	United States	Information retrieval services	Interactive Data Corp SPV	United States	Investment offices, nec	100
34	3.3	General Growth Properties Inc	United States	Real estate investment trusts	Brookfield Asset Management Inc	Canada	Management investment offices, open-end	36
35	3.3	Sunrise Communications AG	Switzerland	Radiotelephone communications	CVC Capital Partners Ltd	Luxembourg	Investors, nec	100
36	3.3	BP PLC	Canada	Crude petroleum and natural gas	Apache Corp	United States	Crude petroleum and natural gas	100
37	3.2	Arrow Energy Ltd	Australia	Crude petroleum and natural gas	CS CSG(Australia)Pty Ltd	Australia	Crude petroleum and natural gas	100
38	3.2	Tommy Hilfiger Corp	Netherlands	Men's shirts and nightwear	Phillips-Van Heusen Corp	United States	Men's shirts and nightwear	100
39	3.1	Dimension Data Holdings PLC	South Africa	Computer integrated systems design	Nippon Telegraph & Telephone Corp	Japan	Telephone communications, except radiotelephone	100
40	3.1	Bridas Corp	Argentina	Crude petroleum and natural gas	CNOOC Ltd	China	Crude petroleum and natural gas	50
41	3.1	BP PLC-Permian Basin Assets	United States	Crude petroleum and natural gas	Apache Corp	United States	Crude petroleum and natural gas	100
42	3.1	Intoll Group	Australia	Investment offices, nec	Canada Pension Plan Investment Board	Canada	Investment advice	100
43	3.0	RBS WorldPay	United Kingdom	Functions related to depository banking, nec	Investor group	United States	Investors, nec	80

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

[a] Immediate country.

Note: As long as the ultimate host economy is different from the ultimate home economy, M&A deals that were undertaken within the same economy are still considered cross-border M&As.

Annex table I.8. Value of greenfield FDI projects, by source/destination, 2005–April 2011
(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
World	709 764	884 087	940 100	1 461 783	952 200	806 969	295 867	709 764	884 087	940 100	1 461 783	952 200	806 969	295 867
Developed countries	530 218	598 448	650 301	1 027 741	685 086	569 081	203 876	225 107	286 272	298 350	462 450	305 231	263 509	74 017
Europe	269 658	352 000	413 499	586 118	411 360	343 026	125 589	148 751	213 079	212 965	314 699	191 644	148 924	49 018
European Union	252 532	325 512	375 229	537 991	383 270	317 370	119 723	145 730	210 078	208 204	307 195	186 381	143 123	47 329
Austria	8 407	21 207	14 112	22 632	10 106	7 443	1 909	3 681	1 861	2 861	2 864	1 547	1 889	697
Belgium	2 766	3 048	5 951	13 731	8 407	4 890	1 177	4 101	3 879	9 568	10 634	3 540	4 554	557
Bulgaria	98	55	74	161	9	77	3	3 703	16 995	6 857	9 495	4 257	4 515	2 154
Cyprus	282	356	396	242	725	239	4 207	89	220	180	428	185	440	43
Czech Republic	784	1 356	4 926	4 110	1 487	2 001	329	4 815	6 887	6 799	4 516	3 805	5 473	1 759
Denmark	8 795	4 621	6 561	13 249	8 840	4 013	2 751	1 751	1 641	2 004	1 975	2 206	341	173
Estonia	632	959	2 448	403	94	1 245	1 062	1 898	698	764	1 371	1 144	996	297
Finland	8 674	9 555	13 159	9 294	3 385	4 292	2 938	1 274	1 455	1 083	2 252	956	1 475	699
France	31 432	46 102	53 171	83 660	64 849	46 893	12 311	10 321	16 104	17 572	22 201	11 201	8 516	2 585
Germany	58 853	69 942	73 012	92 741	67 727	66 161	22 565	13 188	17 884	18 514	35 163	19 750	13 748	5 854
Greece	1 006	2 107	1 600	5 406	1 670	1 332	392	680	1 669	4 195	4 704	1 748	1 035	888
Hungary	2 396	563	2 691	4 997	3 304	508	649	7 702	8 321	9 384	7 661	4 095	7 349	1 176
Ireland	4 267	8 937	8 321	17 252	14 871	5 055	823	9 397	6 687	3 903	8 176	4 776	4 436	2 492
Italy	15 549	15 372	24 187	41 024	28 440	21 469	7 164	7 536	9 939	9 790	14 112	12 121	10 084	1 815
Latvia	176	768	155	418	575	725	5	1 470	3 066	616	2 409	594	974	884
Lithuania	960	3 071	305	669	292	267	-	1 129	967	1 164	1 225	1 104	1 558	513
Luxembourg	2 016	11 046	10 959	11 565	8 366	4 772	3 426	30	204	654	182	619	356	152
Malta	67	4	36	164	622	14	9	89	870	287	383	197	261	29
Netherlands	27 928	35 230	25 148	32 483	29 299	18 488	6 677	4 105	4 879	5 288	9 131	8 721	9 826	1 156
Poland	644	864	2 809	2 459	1 042	2 334	512	13 771	15 014	21 530	32 766	13 557	9 999	3 131
Portugal	1 065	1 015	4 161	10 506	6 641	4 785	336	791	4 065	10 649	7 164	4 958	2 582	740
Romania	80	54	90	3 991	62	713	-	10 704	19 038	21 519	33 613	15 379	7 958	5 204
Slovakia	-	346	486	297	400	1 571	130	9 021	11 258	5 732	3 331	5 416	3 760	2 808
Slovenia	749	3 039	600	1 638	661	545	90	380	616	927	822	193	776	49
Spain	10 586	24 941	35 838	41 876	38 928	36 335	16 132	9 974	17 516	19 397	27 726	13 729	14 833	3 255
Sweden	9 624	10 777	10 920	20 974	14 007	13 354	4 496	7 244	6 797	4 068	2 498	2 714	1 836	1 009
United Kingdom	54 697	50 176	73 112	102 049	68 461	67 849	29 630	16 888	31 548	22 898	60 395	47 869	23 556	7 212
Other developed Europe	17 125	26 488	38 270	48 128	28 090	25 656	5 866	3 021	3 001	4 762	7 505	5 263	5 800	1 689
Iceland	358	4 118	1 291	786	518	584	169	2	180	52	84	-	706	-
Liechtenstein	79	40	24	88	74	35	27	15	-	94	2	-	16	-
Norway	6 585	3 847	13 930	12 521	8 722	3 707	1 563	1 756	628	594	3 125	2 260	2 169	433
Switzerland	10 103	18 482	23 024	34 733	18 776	21 330	4 107	1 248	2 194	4 022	4 294	3 003	2 909	1 256
North America	192 441	167 743	142 970	306 426	182 289	148 127	50 793	58 059	52 959	55 733	107 896	87 961	71 524	19 347
Canada	40 661	13 772	13 745	76 871	29 039	16 135	6 740	21 501	14 623	7 767	17 594	16 043	14 397	3 626
United States	151 779	153 971	129 225	229 556	153 250	131 992	44 053	36 558	38 337	47 966	90 302	71 919	57 127	15 720
Other developed countries	68 120	78 706	93 832	135 197	91 438	77 929	27 494	18 297	20 233	29 652	39 855	25 626	43 061	5 652
Australia	14 322	18 988	17 597	29 919	16 156	9 049	4 111	6 847	3 815	20 937	27 362	15 200	37 107	3 774
Bermuda	928	807	763	3 521	5 156	1 424	378	-	4	17	-	1	13	7
Greenland	24	-	183	37	-	-	-	365	-	-	-	-	475	-
Israel	2 961	10 825	4 262	15 598	2 575	6 720	1 837	4 798	833	439	860	3 268	813	200
Japan	49 789	47 509	70 548	85 561	66 652	60 033	21 058	5 338	13 741	6 318	9 804	6 692	4 523	562
New Zealand	96	577	480	560	899	703	111	949	1 840	1 941	1 829	464	130	1 109
Developing economies	152 844	267 768	268 353	404 054	248 451	218 697	87 154	421 460	540 760	559 778	883 917	593 041	491 622	200 740
Africa	4 588	6 684	8 039	15 587	14 866	14 602	7 131	90 290	101 510	93 210	212 811	96 933	84 078	27 417
North Africa	2 257	4 047	4 150	7 019	2 216	3 211	5	42 208	67 453	53 452	100 174	37 708	25 407	4 414
Algeria	-	15	10	2 504	34	-	-	15 226	9 708	13 281	21 418	1 597	1 806	621
Egypt	2 109	3 844	3 651	3 541	1 810	3 138	5	13 689	27 349	13 003	13 363	18 213	13 827	704
Libyan Arab Jamahiriya	21	-	-	-	18	-	-	5 696	20 920	4 170	22 872	1 677	1 762	3
Morocco	96	60	26	560	237	27	-	4 300	5 201	4 842	17 855	5 760	3 516	2 300
Sudan	-	9	7	-	-	-	-	1 715	1 154	18	2 709	1 978	2 430	61
Tunisia	32	120	455	414	117	46	-	1 582	3 122	18 138	21 957	8 483	2 066	726
Other Africa	2 330	2 637	3 889	8 569	12 650	11 392	7 125	48 082	34 057	39 757	112 637	59 224	58 671	23 002
Angola	-	-	24	48	-	493	-	583	2 549	7 585	11 170	13 691	1 101	116
Benin	-	-	-	-	-	-	-	-	-	-	9	-	-	-
Botswana	-	108	-	-	10	9	26	217	866	310	2 089	308	728	497
Burkina Faso	-	-	-	-	-	-	-	488	-	9	252	234	447	25
Cameroon	9	-	-	-	18	-	-	900	728	2 460	344	1 054	5 275	1 296
Cape Verde	-	-	-	-	-	-	-	-	-	9	128	-	37	-
Congo	-	-	-	-	-	-	-	-	-	223	-	1 226	-	-
Congo, Democratic Republic of	-	-	-	169	-	-	-	2 158	1 427	1 042	3 316	41	695	869
Côte d' Ivoire	28	9	-	12	18	18	-	764	405	59	309	94	213	-
Djibouti	-	-	-	-	-	-	-	300	528	5	1 723	1 295	1 387	-
Equatorial Guinea	-	-	-	-	-	-	-	-	85	-	6	2 887	1	1 600

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Annex table I.8. Value of greenfield FDI projects, by source/destination, 2005–April 2011 (continued)

(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
Eritrea	-	-	-	3	-	-	-	969	5	-	-	-	-	-
Ethiopia	-	-	-	24	3	-	-	20	1 507	2 499	703	310	276	269
Gabon	-	-	-	-	-	-	-	2 088	1 727	333	4 232	913	1 062	151
Gambia	-	-	-	-	-	-	-	400	83	9	21	21	537	-
Ghana	-	-	-	-	8	15	7	5 431	1 030	124	4 808	6 570	2 658	5 193
Guinea	-	-	-	-	-	-	-	96	249	-	-	56	1 400	234
Guinea-Bissau	-	-	-	-	-	-	-	-	-	409	-	18	-	-
Kenya	24	42	18	590	216	3 517	121	546	81	354	437	3 708	1 549	1 766
Lesotho	-	-	-	-	-	-	-	-	-	46	17	22	41	509
Liberia	-	-	-	-	-	-	-	909	-	-	2 600	820	4 319	3
Madagascar	-	27	-	-	-	-	-	336	246	3 331	1 273	474	-	-
Mali	-	-	-	-	-	-	-	598	372	-	174	47	5	0
Mauritania	-	-	-	-	-	-	-	1 107	542	37	242	-	211	237
Mauritius	2	-	36	314	2 392	1 028	2 357	80	3	538	294	58	54	503
Mozambique	-	-	-	-	-	-	-	-	595	2 103	11 607	1 557	3 192	1 208
Namibia	-	2	-	2	-	-	-	868	65	443	1 791	1 448	393	513
Niger	-	-	-	-	-	-	-	-	1	-	3 087	-	100	234
Nigeria	16	524	184	2 168	177	1 254	775	21 051	11 053	4 172	35 722	6 722	12 492	750
Reunion	-	-	-	-	-	-	-	-	13	-	-	-	-	-
Rwanda	-	-	-	-	1	-	-	11	-	273	253	313	1 717	83
São Tomé and Principe	-	-	-	-	-	-	-	9	-	2	-	-	-	-
Senegal	-	-	-	-	-	-	-	13	1 243	2 979	1 296	328	927	5
Seychelles	-	-	-	-	-	-	-	57	-	1 421	137	1	128	-
Sierra Leone	-	-	-	-	-	-	-	727	247	-	68	-	230	-
Somalia	-	-	-	-	-	-	-	-	400	-	409	-	52	-
South Africa	2 212	1 926	3 589	4 452	9 608	4 953	3 830	3 467	4 947	5 148	11 873	7 509	5 891	1 042
Swaziland	-	-	-	-	-	-	-	94	-	-	14	3	-	468
United Republic of Tanzania	-	-	-	9	32	49	-	1 520	263	315	2 090	726	994	990
Togo	9	-	29	64	104	36	9	-	421	400	-	1	-	-
Uganda	30	-	9	37	28	9	-	67	325	289	2 941	2 306	8 339	2 024
Zambia	-	-	-	-	9	-	-	2 148	1 926	410	4 613	2 358	1 228	947
Zimbabwe	-	-	-	667	15	10	-	60	127	2 022	965	903	682	1 449
Latin America and the Caribbean	5 358	7 961	12 074	20 023	16 164	19 946	9 838	65 433	64 461	63 847	125 406	109 094	118 195	58 257
South America	4 198	5 834	8 823	17 675	12 991	16 791	4 412	50 505	42 621	38 235	82 557	74 696	91 932	46 893
Argentina	33	811	447	370	573	1 434	781	3 537	10 389	5 489	6 700	7 593	7 100	3 494
Bolivia, Plurinational State of	-	-	-	-	-	-	-	343	2 588	1 448	637	1 780	668	191
Brazil	3 224	3 523	5 383	14 803	9 693	8 755	1 029	20 487	10 578	16 720	35 952	36 866	43 184	28 714
Chile	723	318	1 928	371	1 453	2 207	362	4 919	4 244	2 891	8 951	11 325	8 077	8 421
Colombia	-	35	84	541	54	3 362	33	1 719	2 043	3 080	8 836	2 280	8 835	2 903
Ecuador	10	9	31	24	213	75	-	2 822	1 058	515	313	325	64	269
Guyana	-	-	-	-	-	-	-	422	311	10	1 000	12	7	-
Paraguay	-	-	-	-	-	-	-	5	-	607	175	38	6 304	12
Peru	20	33	267	16	88	135	34	4 852	6 593	2 540	10 693	13 324	11 599	2 016
Suriname	-	-	-	-	-	-	-	-	-	-	95	-	-	-
Uruguay	-	-	25	2	48	2	3	490	1 756	2 648	4 299	352	308	474
Venezuela, Bolivarian Republic of	189	1 105	659	1 549	870	821	2 172	10 908	3 060	2 288	4 906	801	5 787	400
Central America	443	1 711	2 625	919	2 369	2 988	5 273	9 737	17 825	23 172	37 716	31 036	19 052	9 646
Costa Rica	2	-	81	3	48	62	11	467	358	1 274	339	2 354	1 767	606
El Salvador	-	-	103	-	308	150	-	86	630	249	375	727	304	131
Guatemala	9	-	40	21	46	62	-	278	14	880	469	1 170	877	95
Honduras	11	54	61	-	-	-	-	227	34	897	934	83	172	437
Mexico	421	1 656	2 296	842	1 919	2 578	5 250	7 651	16 199	17 767	32 517	23 761	14 462	7 478
Nicaragua	-	-	29	19	-	66	-	64	114	96	154	849	272	10
Panama	-	-	16	35	49	71	12	964	476	2 010	2 928	2 089	1 197	889
Caribbean	717	416	626	1 429	804	167	152	5 192	4 016	2 439	5 134	3 362	7 210	1 718
Aruba	-	-	-	-	-	-	-	285	-	-	64	-	7	22
Bahamas	390	5	1	11	7	-	-	55	-	16	48	3	-	21
Barbados	-	-	2	-	-	4	22	-	-	-	-	27	130	-
Cayman Islands	290	205	74	495	744	72	119	42	11	3	30	32	124	9
Cuba	-	-	-	32	-	-	-	847	450	127	1 180	842	6 048	377
Dominican Republic	10	-	498	-	30	22	-	1 122	807	709	2 098	1 255	145	690
Guadeloupe	-	-	-	-	-	-	-	-	25	-	267	-	-	22
Haiti	-	-	-	-	-	2	-	9	139	-	1	136	59	241

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Annex table I.8. Value of greenfield FDI projects, by source/destination, 2005–April 2011 (continued)

(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
Jamaica	-	205	7	887	19	30	-	260	368	32	281	17	23	186
Martinique	-	-	-	-	-	12	-	-	25	17	-	6	-	-
Puerto Rico	-	-	17	4	3	22	11	425	672	857	715	746	496	86
Saint Lucia	17	-	-	-	-	-	-	-	-	12	-	1	144	64
Trinidad and Tobago	9	1	28	-	-	3	-	2 140	1 518	666	320	299	23	-
Asia	142 898	252 513	248 239	368 400	217 413	184 143	70 135	265 726	374 346	398 579	540 948	385 457	288 227	111 962
West Asia	58 434	134 275	77 928	176 092	73 776	35 705	10 688	77 075	79 088	67 236	159 371	92 944	51 978	19 553
Bahrain	8 522	20 416	8 937	20 877	14 526	1 085	129	2 410	5 700	742	8 670	1 932	1 739	1 870
Iraq	82	-	48	-	20	-	33	1 489	5 249	456	20 110	3 447	2 766	1 024
Jordan	136	194	258	2 618	860	535	4	2 034	4 478	1 223	12 346	2 426	2 074	887
Kuwait	9 407	17 426	4 567	16 181	4 554	2 837	2 188	595	1 799	384	2 216	1 500	688	65
Lebanon	891	5 406	549	2 393	54	199	20	1 118	2 056	431	1 441	2 116	1 779	406
Oman	-	-	95	91	3 177	39	-	2 958	3 216	2 349	13 792	6 266	4 226	1 105
Palestinian Territory	-	300	-	-	-	-	-	-	88	6	1 050	4	18	-
Qatar	293	1 440	1 883	9 763	13 302	2 925	1 757	11 694	3 977	1 109	19 009	21 848	6 030	2 573
Saudi Arabia	6 378	5 922	2 191	13 863	5 951	1 315	1 015	6 234	19 537	26 821	21 187	14 776	9 741	3 755
Syrian Arab Republic	-	-	-	364	48	-	-	18 370	2 628	3 434	6 236	3 207	1 919	676
Turkey	3 830	1 876	2 038	4 367	3 671	3 551	2 629	4 316	12 996	13 330	15 063	21 311	9 114	2 155
United Arab Emirates	28 897	81 296	57 365	105 523	27 613	23 217	2 913	23 715	17 057	16 762	34 241	13 160	10 835	5 016
Yemen	-	-	-	54	-	1	-	2 144	308	190	4 010	952	1 049	22
South, East and South-East Asia	84 463	118 237	170 311	192 308	143 637	148 438	59 447	188 651	295 258	331 343	381 576	292 512	236 249	92 409
East Asia	52 273	60 206	94 376	105 888	81 460	96 524	39 749	99 422	128 068	140 398	130 813	108 662	99 781	34 759
China	9 689	15 433	29 923	49 029	28 202	29 178	9 834	83 691	114 024	95 115	111 582	94 555	84 579	31 561
Hong Kong, China	6 680	12 048	18 972	15 313	15 274	7 837	8 194	2 831	3 147	2 442	3 899	6 327	4 999	1 106
Korea, Democratic People's Republic of	-	-	-	-	-	-	-	-	175	338	509	173	-	56
Korea, Republic of	24 205	23 093	27 082	31 143	26 764	35 178	19 177	8 175	7 625	8 525	10 252	3 829	2 674	1 228
Macao, China	-	-	-	1	-	-	-	324	70	4 719	556	354	108	3
Mongolia	-	-	-	-	-	150	-	1 225	176	350	243	288	1 033	1
Taiwan Province of China	11 700	9 632	18 400	10 403	11 220	24 181	2 544	3 178	2 852	28 909	3 770	3 137	6 388	805
South Asia	12 667	33 914	30 034	38 442	25 953	17 961	7 045	43 986	110 957	64 396	90 380	67 492	54 404	30 248
Afghanistan	135	-	-	-	-	-	25	128	31	6	180	2 957	537	2
Bangladesh	208	20	-	14	24	50	-	1 942	511	169	510	574	2 447	93
Bhutan	-	-	-	-	-	-	-	-	32	-	-	100	15	-
India	11 232	28 192	23 928	35 666	20 651	17 314	6 400	27 224	86 738	51 564	74 335	50 022	45 358	28 538
Iran, Islamic Republic of	264	860	6 076	1 643	5 197	503	518	1 205	977	8 284	7 798	8 807	2 532	6
Maldives	-	-	-	-	-	-	-	-	847	170	179	347	1 441	177
Nepal	-	-	-	6	-	4	31	-	3	3	392	259	303	48
Pakistan	351	83	22	1 087	16	54	20	13 237	21 270	3 600	5 901	2 744	1 055	852
Sri Lanka	477	4 760	7	26	65	36	52	249	547	602	1 085	1 682	716	531
South-East Asia	19 523	24 117	45 901	47 978	36 224	33 953	12 652	45 243	56 233	126 549	160 384	116 358	82 065	27 402
Brunei Darussalam	4	-	-	66	-	-	1	25	-	706	393	578	148	-
Cambodia	-	-	-	41	37	-	-	206	1 103	139	2 701	2 978	865	523
Indonesia	4 554	633	1 659	390	1 039	400	4 927	12 747	12 467	18 266	36 731	27 317	11 659	8 863
Lao People's Democratic Republic	-	-	-	157	-	-	-	527	563	1 359	1 169	1 965	235	78
Malaysia	6 481	4 996	25 314	18 121	13 544	20 566	521	4 091	4 497	9 912	20 168	12 088	12 750	4 403
Myanmar	-	-	20	-	-	-	-	-	227	1 403	1 241	1 890	372	15
Philippines	238	242	1 310	344	1 111	1 538	11	4 368	4 954	19 755	16 057	10 400	4 380	1 528
Singapore	6 861	11 105	14 141	18 127	11 216	7 683	3 840	5 825	11 767	22 939	10 478	9 596	13 603	6 533
Thailand	975	2 366	2 881	7 951	7 898	3 193	2 230	6 048	4 291	7 173	12 369	7 036	7 696	1 157
Timor-Leste	-	-	-	-	-	-	-	10	-	-	-	-	1 000	-
Viet Nam	410	4 774	576	2 782	1 379	573	1 122	11 395	16 365	44 897	59 075	42 510	29 358	4 301
Oceania	-	611	-	43	9	6	51	11	443	4 142	4 751	1 558	1 122	3 104
Fiji	-	-	-	-	1	3	-	-	173	169	77	372	-	53
Micronesia, Federated States of	-	11	-	-	-	-	-	-	66	-	-	-	-	-
New Caledonia	-	-	-	-	-	-	-	7	-	3 800	3 200	16	-	-
Papua New Guinea	-	-	-	41	-	3	51	3	204	173	967	1 144	904	3 000
South-East Europe and the CIS	26 702	17 871	21 446	29 988	18 663	19 190	4 837	63 197	57 056	81 972	115 416	53 928	51 838	21 111
South-East Europe	464	306	2 734	1 961	545	1 432	53	5 506	9 327	13 553	19 160	6 852	7 043	3 521
Albania	-	-	-	-	-	105	-	559	2 254	4 398	3 268	85	38	115
Bosnia and Herzegovina	48	-	-	-	-	15	3	2 212	289	2 507	1 836	1 238	222	648

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Annex table I.8. Value of greenfield FDI projects, by source/destination, 2005–April 2011 (concluded)

(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
Croatia	416	224	2 703	1 269	130	981	3	1 034	514	1 712	3 836	1 325	2 263	164
Montenegro	-	-	-	-	-	7	-	-	407	1 769	732	120	267	3
Serbia	-	83	31	692	405	322	43	912	2 996	2 668	6 975	3 274	3 794	2 447
The FYR of Macedonia	-	-	-	-	10	1	5	788	2 867	499	2 514	809	458	144
CIS	26 238	17 565	18 712	28 026	18 118	17 758	4 784	57 691	47 729	68 419	96 256	47 077	44 796	17 590
Armenia	34	2	-	9	-	9	-	334	194	2 440	258	726	188	20
Azerbaijan	260	14	4 230	988	3 584	512	77	1 282	817	1 762	2 348	1 452	373	364
Belarus	33	35	53	1 715	525	1 991	62	828	753	376	2 255	1 781	1 724	403
Georgia	-	-	-	47	30	35	18	886	455	998	1 905	4 105	718	23
Kazakhstan	237	70	13	97	523	429	-	3 705	3 437	4 196	19 489	1 504	2 034	3 464
Kyrgyzstan	2	-	-	7	15	-	-	538	63	3 440	534	10	-	101
Moldova, Republic of	-	-	-	522	-	-	-	430	76	50	138	425	320	38
Russian Federation	25 404	14 812	13 221	22 211	11 951	13 617	4 563	40 819	37 031	46 459	58 453	30 198	33 355	9 224
Tajikistan	-	-	-	31	5	-	-	952	9	269	185	483	1	1 042
Turkmenistan	-	-	-	-	-	-	-	2	-	834	3 463	1 370	348	407
Ukraine	267	2 632	1 195	2 400	1 487	1 166	64	7 015	4 306	6 751	6 740	4 123	3 320	819
Uzbekistan	-	-	-	-	-	-	-	900	590	843	488	900	2 415	1 685
Memorandum														
Least developed countries (LDCs)[a]	383	656	90	638	255	645	65	19 141	17 083	25 427	62 915	42 524	37 037	10 510
Landlocked developing countries (LLDCs)[b]	699	194	4 252	2 553	4 212	1 132	164	14 862	16 569	24 363	48 933	23 071	29 103	14 126
Small island developing states (SIDS)[c]	419	822	73	1 255	2 426	1 070	2 431	2 622	3 178	3 207	3 013	2 297	4 104	4 055

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

[a] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[b] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[c] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Note: Data refer to estimated amount of capital investment.

Annex table I.9. Number of greenfield FDI projects, by source/destination, 2005–April 2011

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
World	10 560	12 277	12 245	16 422	14 192	14 142	4 874	10 560	12 277	12 245	16 422	14 192	14 142	4 874
Developed countries	9 057	10 291	10 356	13 474	11 651	11 574	4 022	5 145	6 163	6 355	7 526	6 618	6 766	2 216
Europe	4 920	5 860	6 344	8 027	7 147	6 872	2 295	4 074	4 888	4 912	5 802	4 633	4 418	1 400
European Union	4 586	5 426	5 896	7 331	6 583	6 316	2 127	3 975	4 756	4 725	5 578	4 466	4 265	1 344
Austria	220	263	252	281	201	214	51	104	90	109	111	74	82	30
Belgium	125	142	191	209	141	141	39	163	126	210	183	104	96	35
Bulgaria	6	6	7	12	4	11	2	134	286	150	146	101	122	28
Cyprus	5	22	8	10	18	23	11	5	15	7	18	10	17	2
Czech Republic	22	41	32	53	12	34	11	151	179	149	145	113	183	67
Denmark	152	142	136	179	208	138	36	78	68	67	66	36	31	12
Estonia	25	44	39	26	13	11	6	63	55	32	44	25	27	8
Finland	185	190	183	203	133	130	49	35	44	38	38	24	33	16
France	649	688	912	1 060	984	812	254	492	588	570	697	414	373	93
Germany	1 026	1 262	1 278	1 464	1 320	1 362	444	285	372	456	727	692	454	143
Greece	39	54	61	74	28	27	9	28	29	38	48	40	29	12
Hungary	12	19	30	30	21	15	13	205	243	218	154	110	150	55
Ireland	76	94	98	132	146	136	39	192	146	116	184	175	187	71
Italy	322	288	335	519	444	399	135	138	149	178	232	172	186	55
Latvia	11	24	15	18	9	17	2	84	110	33	52	28	23	9
Lithuania	54	66	13	18	12	15	-	75	59	45	47	35	42	4
Luxembourg	26	29	94	83	64	64	36	2	14	26	17	15	28	6
Malta	3	3	3	3	3	3	1	9	12	9	9	15	15	7
Netherlands	238	351	309	453	406	376	134	112	138	131	174	160	144	54
Poland	28	38	40	45	39	38	9	272	336	343	376	225	307	89
Portugal	21	26	37	88	47	57	12	30	56	82	82	57	51	11
Romania	13	13	13	26	13	13	-	260	375	371	360	204	218	73
Slovakia	-	4	2	9	2	10	2	118	117	101	85	57	93	35
Slovenia	41	49	27	31	20	23	5	20	25	23	23	12	24	4
Spain	183	232	461	622	623	609	214	171	304	452	577	391	384	115
Sweden	272	285	294	334	326	335	117	106	122	86	87	98	67	20
United Kingdom	832	1 051	1 026	1 349	1 346	1 303	496	643	698	685	896	1 079	899	290
Other developed Europe	334	434	448	696	564	556	168	99	132	187	224	167	153	56
Iceland	17	30	27	25	9	11	8	1	5	1	2	-	4	-
Liechtenstein	4	3	3	7	3	6	3	1	-	2	1	-	2	-
Norway	90	102	71	113	109	93	38	20	22	25	45	31	29	8
Switzerland	223	299	347	551	443	446	119	77	105	159	176	136	118	48
North America	3 126	3 278	3 037	3 894	3 340	3 439	1 309	790	927	1 036	1 206	1 516	1 788	649
Canada	419	243	259	331	326	299	137	207	179	168	218	260	318	108
United States	2 707	3 035	2 778	3 563	3 014	3 140	1 172	583	748	868	988	1 256	1 470	541
Other developed countries	1 011	1 153	975	1 553	1 164	1 263	418	281	348	407	518	469	560	167
Australia	145	159	154	208	164	172	70	115	135	178	240	254	322	100
Bermuda	22	52	33	64	62	57	9	-	2	4	-	1	2	1
Greenland	1	-	1	1	-	-	-	2	-	-	-	-	2	-
Israel	55	108	66	120	74	84	30	23	34	21	42	21	29	18
Japan	775	808	702	1 131	827	915	296	122	149	179	203	163	179	34
New Zealand	13	26	19	29	37	35	13	19	28	25	33	30	26	14
Developing economies	1 321	1 779	1 700	2 650	2 297	2 302	781	4 509	5 337	5 110	7 728	6 731	6 470	2 379
Africa	70	87	64	199	173	151	60	463	448	388	852	692	630	232
North Africa	24	28	18	45	40	34	1	209	200	195	364	262	219	69
Algeria	-	1	2	3	2	-	-	45	50	33	73	32	20	7
Egypt	13	17	9	23	14	25	1	47	51	54	85	103	73	10
Libyan Arab Jamahiriya	1	-	-	-	2	-	-	15	11	20	40	17	17	1
Morocco	4	5	3	5	14	4	-	59	46	58	93	48	52	30
Sudan	-	1	1	-	-	-	-	10	15	2	13	12	9	6
Tunisia	6	4	3	14	8	5	-	33	27	28	60	50	48	15
Other Africa	46	59	46	154	133	117	59	254	248	193	488	430	411	163
Angola	-	-	2	4	-	4	-	18	15	10	35	33	34	7
Benin	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Botswana	-	4	-	-	2	1	2	6	4	6	17	13	7	6
Burkina Faso	-	-	-	-	-	-	-	3	-	1	2	1	3	1
Cameroon	1	-	-	-	2	-	-	1	1	1	3	8	2	4
Cape Verde	-	-	-	-	-	-	-	-	-	1	1	-	4	-
Congo	-	-	-	-	-	-	-	-	-	1	-	3	-	-
Congo, Democratic Republic of	-	-	-	2	-	-	-	10	8	5	15	5	8	7
Côte d' Ivoire	3	1	-	2	2	2	-	2	2	2	5	8	9	-
Djibouti	-	-	-	-	-	-	-	1	2	1	3	2	3	-
Equatorial Guinea	-	-	-	-	-	-	-	-	3	-	1	2	1	1
Eritrea	-	-	-	1	-	-	-	4	1	-	-	-	-	-
Ethiopia	-	-	-	2	1	-	-	1	3	10	10	8	8	5
Gabon	-	-	-	-	-	-	-	4	3	3	5	3	4	1
Gambia	-	-	-	-	-	-	-	1	2	1	3	3	3	-
Ghana	-	-	-	-	1	2	2	17	16	4	20	22	23	11
Guinea	-	-	-	-	-	-	-	3	3	-	-	2	3	1
Guinea-Bissau	-	-	-	-	-	-	-	-	-	2	-	2	-	-

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Annex table I.9. Number of greenfield FDI projects, by source/destination, 2005–April 2011 (continued)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
Kenya	4	3	2	26	26	17	10	13	12	8	19	29	35	19
Lesotho	-	-	-	-	-	-	-	-	-	1	1	1	1	2
Liberia	-	-	-	-	-	-	-	2	-	-	1	5	6	1
Madagascar	-	2	-	-	-	-	-	4	3	3	4	3	-	-
Mali	-	-	-	-	-	-	-	3	3	-	2	1	3	1
Mauritania	-	-	-	-	-	-	-	3	4	2	1	-	5	2
Mauritius	1	-	2	5	8	8	8	5	1	4	14	5	5	2
Mozambique	-	-	-	-	-	-	-	-	5	5	23	10	16	5
Namibia	-	1	-	1	-	-	-	7	6	5	14	8	6	3
Niger	-	-	-	-	-	-	-	-	1	-	2	-	1	1
Nigeria	3	7	6	27	21	13	7	38	25	20	47	40	33	13
Reunion	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Rwanda	-	-	-	-	1	-	-	2	-	8	13	26	6	3
São Tomé and Principe	-	-	-	-	-	-	-	1	-	1	-	-	-	-
Senegal	-	-	-	-	-	-	-	3	5	4	9	10	8	2
Seychelles	-	-	-	-	-	-	-	3	-	3	2	1	1	-
Sierra Leone	-	-	-	-	-	-	-	2	2	-	5	-	2	-
Somalia	-	-	-	-	-	-	-	-	1	-	2	-	1	-
South Africa	32	41	29	65	50	61	29	62	76	59	120	109	95	41
Swaziland	-	-	-	-	-	-	-	2	-	-	3	1	-	1
United Republic of Tanzania	-	-	-	1	2	3	-	11	7	6	17	11	23	7
Togo	1	-	4	7	9	3	1	-	1	1	-	1	-	-
Uganda	1	-	1	3	3	1	-	6	15	7	41	16	21	2
Zambia	-	-	-	-	1	-	-	14	14	5	17	15	13	10
Zimbabwe	-	-	-	7	3	2	-	2	3	2	5	13	13	3
Latin America and the Caribbean	86	128	226	219	230	273	92	568	588	820	1 169	1 229	1 180	524
South America	66	91	146	168	156	173	61	368	339	457	648	687	753	350
Argentina	2	16	27	15	21	22	7	42	52	112	123	114	116	56
Bolivia, Plurinational State of	-	-	-	-	-	-	-	2	9	4	3	14	6	2
Brazil	34	40	66	102	63	72	35	169	152	154	254	276	348	163
Chile	15	15	26	24	37	50	11	39	39	30	70	112	58	34
Colombia	-	2	9	13	6	12	2	46	32	77	78	61	106	51
Ecuador	1	1	3	2	12	5	-	4	5	8	10	6	7	5
Guyana	-	-	-	-	-	-	-	3	3	1	1	1	2	-
Paraguay	-	-	-	-	-	-	-	2	-	2	4	3	8	1
Peru	3	2	6	3	5	5	1	29	23	37	64	76	59	22
Suriname	-	-	-	-	-	-	-	-	-	-	2	-	-	-
Uruguay	-	-	1	1	2	1	1	7	8	21	16	8	21	10
Venezuela, Bolivarian Republic of	11	15	8	8	10	6	4	25	16	11	23	16	22	6
Central America	13	21	61	38	59	81	24	165	213	323	453	487	365	150
Costa Rica	1	-	7	2	5	5	2	12	20	39	19	68	43	14
El Salvador	-	-	2	-	5	2	-	4	5	7	11	19	13	8
Guatemala	1	-	2	4	7	5	-	1	2	16	17	18	11	3
Honduras	1	2	2	-	-	-	-	3	2	11	10	7	9	5
Mexico	10	19	43	26	35	52	19	136	177	217	355	320	238	100
Nicaragua	-	-	2	2	-	7	-	1	3	6	7	7	10	2
Panama	-	-	3	4	7	10	3	8	4	27	34	47	40	18
Caribbean	7	16	19	13	15	19	7	35	36	40	68	55	62	24
Aruba	-	-	-	-	-	-	-	1	-	-	1	-	1	2
Bahamas	1	1	2	1	1	-	-	2	-	1	3	2	-	2
Barbados	-	-	1	-	-	1	2	-	-	-	-	1	2	-
Cayman Islands	3	10	6	5	8	7	4	1	2	2	6	4	6	1
Cuba	-	-	-	1	-	-	-	5	1	2	7	12	8	3
Dominican Republic	1	-	3	-	2	2	-	8	9	8	16	13	10	5
Guadeloupe	-	-	-	-	-	-	-	-	1	-	1	-	-	2
Haiti	-	-	-	-	-	1	-	1	2	-	1	2	1	2
Jamaica	-	4	1	5	2	4	-	2	2	2	5	3	2	2
Martinique	-	-	-	-	-	1	-	-	1	2	-	1	-	-
Puerto Rico	-	-	4	1	2	2	1	8	13	18	20	15	26	4
Saint Lucia	1	-	-	-	-	-	-	-	-	1	-	1	2	1
Trinidad and Tobago	1	1	2	-	-	1	-	6	5	4	5	1	2	-
Asia	1 165	1 562	1 410	2 229	1 890	1 876	628	3 476	4 297	3 899	5 695	4 801	4 653	1 619
West Asia	232	423	297	582	437	414	118	498	699	588	1 106	1 016	914	339
Bahrain	3	9	11	34	32	13	4	27	49	34	68	70	56	26
Iraq	1	-	1	-	1	-	2	8	4	2	18	16	46	10
Jordan	6	12	6	14	13	9	2	24	32	20	34	26	47	9
Kuwait	15	46	28	77	39	29	14	10	21	9	30	28	32	7
Lebanon	11	16	6	11	4	14	2	11	18	11	9	27	32	11
Oman	-	-	4	6	3	4	-	13	37	16	55	42	38	25
Palestinian Territory	-	1	-	-	-	-	-	-	5	1	2	1	1	-
Qatar	9	20	10	50	22	18	18	23	44	31	82	85	64	28

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Annex table I.9. Number of greenfield FDI projects, by source/destination, 2005–April 2011 (concluded)

Partner region/economy	World as destination							World as source						
	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)	2005	2006	2007	2008	2009	2010	2011 (Jan-Apr)
	By source							By destination						
Saudi Arabia	20	58	54	56	32	28	8	58	94	54	108	140	116	38
Syrian Arab Republic	-	-	-	2	1	-	-	24	16	16	29	19	21	8
Turkey	65	51	32	62	61	87	21	68	86	97	171	156	146	47
United Arab Emirates	102	210	145	266	229	211	47	229	290	293	490	401	309	128
Yemen	-	-	-	4	-	1	-	3	3	4	10	5	6	2
South, East and South-East Asia	933	1 139	1 113	1 647	1 453	1 462	510	2 978	3 598	3 311	4 589	3 785	3 739	1 280
East Asia	514	586	643	844	820	806	267	1 589	1 734	1 526	1 972	1 638	1 721	563
China	141	129	207	261	330	267	85	1 257	1 407	1 218	1 548	1 167	1 301	424
Hong Kong, China	99	119	116	170	134	121	52	126	160	150	224	275	209	70
Korea, Democratic People's Republic of	-	-	-	-	-	-	-	-	2	4	4	1	-	1
Korea, Republic of	186	217	198	256	222	241	80	119	88	72	88	97	112	32
Macao, China	-	-	-	1	-	-	-	9	6	13	14	9	7	1
Mongolia	-	-	-	-	-	1	-	8	3	6	7	3	8	1
Taiwan Province of China	88	121	122	156	134	176	50	70	68	63	87	86	84	34
South Asia	214	315	226	380	294	372	157	691	1 056	764	1 072	850	857	357
Afghanistan	1	-	-	-	-	-	2	5	3	1	2	6	9	1
Bangladesh	4	3	-	3	2	6	-	7	12	5	13	17	30	6
Bhutan	-	-	-	-	-	-	-	-	2	-	-	2	2	-
India	191	297	215	358	267	339	148	591	984	695	972	745	747	329
Iran, Islamic Republic of	7	7	7	9	16	13	2	10	9	17	20	15	11	1
Maldives	-	-	-	-	-	-	-	-	5	2	4	3	8	2
Nepal	-	-	-	1	-	3	2	-	2	1	11	4	4	2
Pakistan	6	4	3	6	5	8	2	66	28	28	28	35	20	6
Sri Lanka	5	4	1	3	4	3	1	12	11	15	22	23	26	10
South-East Asia	205	238	244	423	339	284	86	698	808	1 021	1 545	1 297	1 161	360
Brunei Darussalam	2	-	-	1	-	-	1	4	-	6	4	8	4	-
Cambodia	-	-	-	1	7	-	-	6	5	8	35	31	34	13
Indonesia	9	5	9	5	10	14	2	76	98	82	136	118	124	46
Lao People's Democratic Republic	-	-	-	2	-	-	-	8	8	11	21	15	12	3
Malaysia	73	71	73	135	114	75	18	92	125	172	214	158	187	51
Myanmar	-	-	1	-	-	-	-	-	2	3	6	5	5	2
Philippines	6	9	25	19	14	23	2	66	62	97	143	119	96	24
Singapore	84	100	92	177	119	106	28	156	197	254	304	311	321	121
Thailand	19	36	29	47	51	38	25	120	112	123	331	276	209	40
Timor-Leste	-	-	-	-	-	-	-	1	-	-	-	-	1	-
Viet Nam	12	17	15	36	24	28	10	169	199	265	351	256	168	60
Oceania	-	2	-	3	4	2	1	2	4	3	12	9	7	4
Fiji	-	-	-	-	1	1	-	-	1	1	3	2	-	2
Micronesia, Federated States of	-	1	-	-	-	-	-	-	1	-	-	-	-	-
New Caledonia	-	-	-	-	-	-	-	1	-	1	1	1	-	-
Papua New Guinea	-	-	-	2	-	1	1	1	2	1	6	5	5	1
South-East Europe and the CIS	182	207	189	298	244	266	71	906	777	780	1 168	843	906	279
South-East Europe	8	14	9	31	21	32	5	148	140	156	231	136	175	61
Albania	-	-	-	-	-	1	-	13	11	8	16	7	6	3
Bosnia and Herzegovina	2	-	-	-	-	2	2	26	17	23	25	20	20	9
Croatia	6	7	7	16	8	13	1	45	39	32	40	30	42	11
The FYR of Macedonia	-	-	-	-	4	2	1	11	27	9	22	18	14	3
Montenegro	-	-	-	-	-	1	-	-	3	5	14	1	11	1
Serbia	-	7	2	15	9	13	1	53	43	79	114	60	82	34
CIS	174	193	180	267	223	234	66	758	637	624	937	707	731	218
Armenia	2	1	-	3	-	2	-	12	8	8	20	20	9	2
Azerbaijan	4	2	10	21	20	15	6	20	14	17	43	44	24	6
Belarus	2	7	14	8	9	19	6	11	19	19	28	26	39	9
Georgia	-	-	-	2	3	3	1	11	19	20	40	29	30	4
Kazakhstan	12	5	2	7	10	9	-	29	25	33	62	46	32	21
Kyrgyzstan	1	-	-	1	1	-	-	3	3	4	7	2	-	2
Moldova, Republic of	-	-	-	1	-	-	-	13	6	12	6	9	11	4
Russian Federation	139	154	133	192	151	160	46	512	396	383	573	403	451	135
Tajikistan	-	-	-	3	2	-	-	6	2	4	4	6	1	3
Turkmenistan	-	-	-	-	-	-	-	1	-	5	11	10	7	2
Ukraine	14	24	21	29	27	26	7	126	128	108	125	92	113	22
Uzbekistan	-	-	-	-	-	-	-	14	17	11	18	20	14	8
Memorandum														
Least developed countries (LDCs)[a]	7	7	9	33	29	22	5	133	152	109	327	267	288	97
Landlocked developing countries (LLDCs)[b]	21	12	13	52	49	36	13	173	172	169	358	327	242	97
Small island developing states (SIDS)[c]	4	8	8	14	14	16	11	22	17	21	48	25	34	13

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

[a] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[b] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, The FYR of Macedonia, Malawi, Mali, Republic of Moldova, Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Republic of Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[c] Small island developing countries include: Antigua and Barbuda, Bahamas, Barbados, Cape Verde, Comoros, Dominica, Fiji, Grenada, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Annex table III.1. List of IIAs, as of end-May 2011[a]

	Economies and territories	BITs	DTTs	Other IIAs[b]	Total
1	Afghanistan	3	1	2	6
2	Albania	40	30	5	75
3	Algeria	46	31	6	83
4	Angola	8	-	7	15
5	Anguilla	0	4	1	5
6	Antigua and Barbuda	2	6	7	15
7	Argentina	58	41	16	115
8	Armenia	36	39	2	77
9	Aruba	-	6	-	6
10	Australia	23	66	16	105
11	Austria	64	94	63	221
12	Azerbaijan	40	37	2	79
13	Bahamas	-	1	-	1
14	Bahrain	30	26	12	68
15	Bangladesh	29	27	3	59
16	Barbados	10	22	3	35
17	Belarus	58	43	2	103
18	Belgium[c]	93	106	63	262
19	Belize	8	6	9	23
20	Benin	14	2	5	21
21	Bermuda	-	6	1	7
22	Bolivia, Plurinational State of	22	8	14	44
23	Bosnia and Herzegovina	38	12	4	54
24	Botswana	9	7	6	22
25	Brazil	14	38	17	69
26	British Virgin Islands	-	11	1	12
27	Brunei Darussalam	8	8	17	33
28	Bulgaria	68	68	61	197
29	Burkina Faso	14	2	6	22
30	Burundi	7	-	8	15
31	Cambodia	21	-	16	37
32	Cameroon	14	4	4	22
33	Canada	28	108	22	158
34	Cape Verde	9	1	2	12
35	Cayman Islands	-	5	1	6
36	Central African Republic	4	1	5	10
37	Chad	14	-	5	19
38	Chile	51	26	25	102
39	China	127	107	15	249
40	Colombia	6	7	17	30
41	Comoros	6	1	8	15
42	Congo	12	3	5	20
43	Congo, Democratic Republic of	14	3	8	25
44	Cook Islands	-	1	2	3
45	Costa Rica	20	4	15	39
46	Côte d' Ivoire	10	20	6	36
47	Croatia	58	55	5	118
48	Cuba	58	12	3	73
49	Cyprus	27	43	60	129
50	Czech Republic	78	77	63	218
51	Denmark	55	116	63	234
52	Djibouti	7	-	9	16
53	Dominica	2	7	10	19
54	Dominican Republic	15	1	6	22
55	Ecuador	18	9	11	38
56	Egypt	100	49	15	164
57	El Salvador	22	2	10	34
58	Equatorial Guinea	7	-	4	11
59	Eritrea	4	-	4	8
60	Estonia	27	50	63	140
61	Ethiopia	29	9	5	43
62	Fiji	-	8	3	11
63	Finland	71	94	63	228
64	France	101	133	63	297
65	Gabon	12	5	6	23
66	Gambia	13	6	5	24
67	Georgia	29	35	5	69
68	Germany	136	105	63	304
69	Ghana	26	8	5	39

Annex table III.1. List of IIAs, as of end-May 2011[a] (continued)

	Economies and territories	BITs	DTTs	Other IIAs[b]	Total
70	Greece	43	52	63	158
71	Grenada	2	3	9	14
72	Guatemala	17	-	11	28
73	Guinea	19	1	9	29
74	Guinea-Bissau	2	-	6	8
75	Guyana	8	4	10	22
76	Haiti	5	-	4	9
77	Honduras	11	1	10	22
78	Hong Kong, China	15	29	3	47
79	Hungary	58	69	63	190
80	Iceland	9	35	28	72
81	India	81	80	14	175
82	Indonesia	62	60	17	139
83	Iran, Islamic Republic of	60	37	1	98
84	Iraq	4	1	6	11
85	Ireland	1	71	63	135
86	Israel	37	52	4	93
87	Italy	94	96	63	253
88	Jamaica	16	12	10	38
89	Japan	16	75	20	111
90	Jordan	52	22	10	84
91	Kazakhstan	42	40	4	86
92	Kenya	11	13	8	32
93	Kiribati	-	5	2	7
94	Korea, Democratic People's Rep. of	24	10	-	34
95	Korea, Republic of	90	85	15	190
96	Kuwait	58	49	13	120
97	Kyrgyzstan	28	16	1	45
98	Lao People's Democratic Republic	23	5	14	42
99	Latvia	45	51	61	157
100	Lebanon	50	33	8	91
101	Lesotho	3	3	7	13
102	Liberia	4	4	5	13
103	Libyan Arab Jamahiriya	32	12	10	54
104	Liechtenstein	-	6	23	29
105	Lithuania	52	48	63	163
106	Luxembourg[c]	-	70	63	133
107	Macao, China	2	7	2	11
108	Madagascar	9	2	8	19
109	Malawi	6	9	8	23
110	Malaysia	67	82	22	171
111	Mali	17	2	9	28
112	Malta	22	60	60	142
113	Mauritania	19	2	7	28
114	Mauritius	36	43	7	86
115	Mexico	28	49	17	94
116	Moldova, Republic of	39	46	3	88
117	Monaco	1	6	-	7
118	Mongolia	43	31	3	77
119	Montenegro	16	3	2	21
120	Montserrat	-	6	5	11
121	Morocco	61	49	7	117
122	Mozambique	24	4	6	34
123	Myanmar	6	7	12	25
124	Namibia	13	8	4	25
125	Nepal	5	7	3	15
126	Netherlands	98	131	63	292
127	New Caledonia	-	1	1	2
128	New Zealand	5	50	14	69
129	Nicaragua	17	-	11	28
130	Niger	5	1	6	12
131	Nigeria	22	15	5	42
132	Norway	15	110	27	152
133	Oman	33	28	9	70
134	Pakistan	47	59	6	112
135	Palestinian Territory	2	-	5	7
136	Panama	22	14	9	45
137	Papua New Guinea	6	7	4	17
138	Paraguay	24	5	15	44

Annex table III.1. List of IIAs, as of end-May 2011[a] (concluded)

	Economies and territories	BITs	DTTs	Other IIAs[b]	Total
139	Peru	32	8	22	62
140	Philippines	35	40	16	91
141	Poland	62	90	63	215
142	Portugal	53	66	63	182
143	Qatar	45	37	11	93
144	Romania	82	74	61	217
145	Russian Federation	69	68	4	141
146	Rwanda	6	2	9	17
147	Saint Kitts and Nevis	-	8	10	18
148	Saint Lucia	2	4	5	11
149	Saint Vincent and the Grenadines	2	5	10	17
150	Samoa	-	3	2	5
151	San Marino	6	13	-	19
152	São Tomé and Principe	1	-	-	1
153	Saudi Arabia	22	23	12	57
154	Senegal	24	14	6	44
155	Serbia	46	53	2	101
156	Seychelles	7	14	8	29
157	Sierra Leone	3	4	5	12
158	Singapore	41	81	29	151
159	Slovakia	53	63	63	179
160	Slovenia	37	42	63	142
161	Solomon Islands	-	3	2	5
162	Somalia	2	-	6	8
163	South Africa	46	67	9	122
164	Spain	76	96	63	235
165	Sri Lanka	27	38	5	70
166	Sudan	28	11	11	50
167	Suriname	3	1	7	11
168	Swaziland	5	6	9	20
169	Sweden	70	109	63	242
170	Switzerland	118	118	26	262
171	Syrian Arab Republic	41	33	6	80
172	Taiwan, Province of China	23	19	5	47
173	Tajikistan	31	16	3	50
174	Thailand	39	62	23	124
175	The FYR of Macedonia	36	37	5	76
176	Timor-Leste	2	-	1	3
177	Togo	4	2	5	11
178	Tonga	1	-	2	3
179	Trinidad and Tobago	12	17	10	39
180	Tunisia	54	47	9	110
181	Turkey	82	82	19	183
182	Turkmenistan	23	12	3	38
183	Tuvalu	-	4	2	6
184	Uganda	15	12	9	36
185	Ukraine	66	46	5	117
186	United Arab Emirates	38	48	11	97
187	United Kingdom	104	153	63	320
188	United Republic of Tanzania	15	10	7	32
189	United States	47	155	65	267
190	Uruguay	30	11	17	58
191	Uzbekistan	49	35	3	87
192	Vanuatu	2	-	2	4
193	Venezuela, Bolivarian Republic of	28	28	6	62
194	Viet Nam	58	52	19	129
195	Yemen	37	9	7	53
196	Zambia	12	21	9	42
197	Zimbabwe	31	14	9	54

Source: UNCTAD, based on IIA database.

[a] This includes not only agreements that are signed and entered into force, but also agreements where negotiations are only concluded. Note that the numbers of BITs and DTTs in this table do not add up to the total number of BITs and DTTs as stated in the text, since some economies/territories have concluded agreements with entities that are not listed in this table. Note also that because of ongoing reporting by member States and the resulting retroactive adjustments to the UNCTAD database the data differ from those reported in the *WIR10*.

[b] These numbers include agreements concluded by economies as members of a regional integration organization.

[c] BITs concluded by the Belgo-Luxembourg Economic Union.

Annex table III.2. Selected MSI standards
(Standards referenced and subjects covered in code)

Multi-stakeholder initiatives	Standard	Universal principles referenced in the standards	Topics addressed
4C Association	4C code of conduct	• UN Universal Declaration of Human Rights • UN Convention against Transnational Organized Crime • ILO Fundamental Labour Standards • OECD Guidelines for Multinational Enterprises	Human rights Labour practices Environment
Bonsucro	Bonsucro Standard	• UN Declaration on Rights of Indigenous People • ILO Fundamental Labour Standards	Human rights Labour practices Environment
CERES	CERES Principles	• None specifically	Environment
Clean Clothes Campaign	Code of Labour Practices for the Apparel Industry Including Sportswear	• ILO Fundamental Labour Standards	Human rights Labour practices
Ethical Trading Initiative (ETI)	ETI Base Code	• ILO Fundamental Labour Standards	Human rights Labour practices
Fair Labour Association	Fair Labor Association Workplace Code of Conduct	• ILO Fundamental Labour Standards	Human rights Labour practices
Fair Wear Foundation	Fair Wear Code of Conduct	• ILO Fundamental Labour Standards • Universal Declaration of Human Rights	Human rights Labour practices
Forest Stewardship Council (FSC)	FSC Principles and Criteria	• ILO Fundamental Labour Standards	Labour wwpractices Environment
GoodWeave	GoodWeave code of conduct	• ILO Fundamental Labour Standards	Human rights Labour practices
Global Reporting Initiative (GRI)	Global Reporting Initiative Sustainability Reporting Guidelines	• UN Universal Declaration of Human Rights • UN Framework Convention on Climate Change • UN Convention on the Elimination of All Forms of Discrimination against Women • ILO Fundamental Labour Standards	Human rights Labour practices Environment Bribery
Green-e Energy	Greene Climate Standard	• UN Framework Convention on Climate Change	Environment
International Federation of Organic Agriculture Movements (IFOSM)	IFOAM Standard (Currently under development)	• UN Charter of Rights for Children ILO Conventions relating to Labour Welfare	Human rights Labour practices Environment
ISO	ISO14000	• None specifically	Environment
	ISO 26000	• The major international standards relevant for CSR are referenced in ISO 26000	Human rights Labour practices Environment Bribery
Marine Stewardship Council (MSC)	MSC environmental standard for sustainable fishing	• The Code of Conduct for Responsible Fishing (UN FAO)	Environment
Roundtable on Sustainable Biofuels (RSB)	RSB Principles & Criteria	• None specifically	Human rights Labour practices Environment
Roundtable on Sustainable Palm Oil (RSPO)	RSPO Principles and Criteria for Sustainable Palm Oil Production (RSPO P & C)	• UN Declaration on the Rights of Indigenous Peoples • UN Convention on Biological Diversity • ILO Fundamental Labour Standards • ILO Convention on Indigenous and Tribal Peoples	Human rights Labour practices Environment
Social Accountability International	SA8000	• UN Universal Declaration of Human Rights • UN Convention on the Elimination of All Forms of Discrimination Against Women • UN Convention on the Rights of the Child • ILO Fundamental Labour Standards	Human rights Labour practices

Annex table III.2. Selected MSI standards (concluded)
(Standards referenced and subjects covered in code)

Multi-stakeholder initiatives	Standard	Universal principles referenced in the standards	Topics addressed
Sustainable Agriculture Network (SAN) /Rainforest Alliance	SAN Standards	• UN Universal Declaration of Human Rights • UN Children´s Rights Convention • ILO Fundamental Labour Standards	Human rights Labour practices Environment
Transparency International	Transparency International Business Principles for Countering Bribery	• None specifically	Bribery
UTZ CERTIFIED	UTZ CERTIFIED Code of Conduct	• ILO Fundamental Labour Standards	Human rights Labour practices Environment
Voluntary Principles on Security and Human Rights	Voluntary Principles on Security and Human Rights	• UN Universal Declaration of Human Rights • UN Code of Conduct for Law Enforcement Official • UN Basic Principles on the Use of Force and Firearms by Law enforcement Officials	Human rights
Workers Rights Consortium	Workers Rights Consortium Code of Conduct	• ILO Fundamental Labour Standards • Other ILO Conventions	Human rights Labour practices
Worldwide Responsible Accredited Production (WRAP)	WRAP Code of conduct	• ILO Fundamental Labour Standards	Human rights Labour practices

Source: UNCTAD.

Annex table III.3. Selected industry association codes
(Subjects covered and intergovernmental organization standards referenced)

Industry association	Standard [code]	Intergovernmental organization standards referenced	Topics addressed
Business Social Compliance Initiative (BSCI)	BSCI Code of conduct	• UN Universal Declaration of Human Rights • UN Global Compact • ILO Fundamental Human Rights Conventions • OECD Guidelines for Multinational Enterprises	Human rights Labour practices Environment Bribery
Caux Round Table	Caux Round Table Principles for Business	• None specifically	Human rights Labour practices Environment Bribery
Confederation of European Paper Industries (CEPI)	CEPI Code of Conduct	• None specifically	Environment
Electronic Industry Citizenship Coalition	Electronic Industry Code of Conduct	• UN Universal Declaration of Human Rights • UN Global Compact • UN Convention Against Corruption • ILO Fundamental Human Rights Conventions • OECD Guidelines for Multinational Enterprises	Human rights Labour practices Environment Bribery
Equator Principles	Equator Principles	• ILO Fundamental Labour Standards	Human rights Labour practices Environment
Forética	Norma SGE 21	• UN Universal Declaration of Human Rights • UN Global Compact • Tripartite Declaration on Multinational Businesses and Social Policy • Other ILO Conventions • OECD Guidelines for Multinational Enterprises	Human rights Labour practices Environment Bribery
International Chamber of Commerce	ICC Business Charter for Sustainable Development	• None specifically	Environment
	ICC Rules of Conduct to Compact Extortion and Bribery	• UN Convention Against Corruption • UN Global Compact • OECD Convention on Combating Bribery of Foreign Public Officials	Bribery
International Council of Toy Industries (ICTI)	International Council of Toy Industries (ICTI) CARE Code of conduct	• ILO Fundamental Labour Standards	Human rights Labour practices
International Hydropower Association (IHA)	IHA sustainability Guidelines	• None specifically	Environment
International Mining and Metals Council (IMMC)	Principles for Sustainable Development Performance	• UN Global Compact • Rio Declaration • Other ILO Conventions • OECD Guidelines for Multinational Enterprises • OECD Convention on Combating Bribery of Foreign Public Officials	Human rights Labour practices Environment Bribery
Petroleum Industry (IPIECA)	Guidelines for Reporting Greenhouse Gas Emissions	• None specifically	Environment
Responsible Care (Chemical industry)	The Responsible Global Charter	• UN Global Compact	Labour practices Environment
World Economic Forum Partnering Against Corruption Initiative (PACI)	The PACI Principles for Countering Bribery	• UN Global Compact • OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions • OECD Guidelines for Multinational Enterprises	Bribery
World Cocoa Foundation	Sustainability Principles	• None specifically	Human rights Labour practices Environment
World Federation Sporting Foods Industry (WFSFI)	WFSFI Code of Conduct	• ILO Fundamental Labour Standards	Human rights Labour practices

Source: UNCTAD, based on data from individual initiatives.

Annex table IV.1. Top 10 contract manufacturers in electronics, ranked by revenues, 2009[a]

Company	Home economy	Revenues ($ billion)	Selected major clients	Global employment	Major overseas production bases	Other relevant information
Foxconn/ Hon Hai	Taiwan Province of China	59.3	Apple Inc, Hewlett-Packard, Dell, Nokia, Sony Ericsson, Samsung, Microsoft, Acer, Intel, Samsung, Cisco, Nintendo, Amazon	611 000	China, Malaysia, Viet Nam, Czech Republic	Manufacturing operations in many countries. About 20 factories in China.
Flextronics	Singapore	30.9	Alcatel-Lucent, Cisco, Dell, Sony Ericsson, Hewlett-Packard, Huawei, Lenovo, Microsoft, Eastman Kodak, Western Digital, Research in Motion, Motorola	160 000	Brazil, China, Hungary, Malaysia, Mexico, Poland, Ukraine, India	Manufacturing facilities in 30 countries covering the Americas, Europe and Asia.
Quanta	Taiwan Province of China	25.4	Apple Inc, Compaq, Dell, Hewlett-Packard, Fujitsu, LG, Siemens AG, Sony, Gateway, Cisco, Lenovo, Siemens AG, Sharp Corporation, Panasonic, Research in Motion, Gericom, Toshiba	64 719	China, United States, Germany	Manufactuirng operations in the Americas, Asia and Europe. A number of factories are in China.
Compal	Taiwan Province of China	20.4	Acer Inc, Dell, Toshiba, Hewlett-Packard, Fujitsu-Siemens, Lenovo	58 025	China, Viet Nam, Poland, Brazil, United States	Have a number of factories in China.
Wistron	Taiwan Province of China	13.9	Acer, Sony, Dell, Microsoft, Lenovo, FSC, Hewlett-Packard	39 239	China, Philippines, Czech Republic, Mexico	Wistron has R&D centres in China and the Netherlands.
Inventec	Taiwan Province of China	13.5	Apple Inc, Acer, Hewlett-Packard, Toshiba, Fujitsu-Siemens, Lenovo	29 646	China, Republic of Korea, United States, Mexico, United Kingdom, Czech Republic, Malaysia	R&D facilities in the United States, United Kingdom and Japan. Software and service outsourcing centres in China.
Jabil	United States	13.4	Apple Inc, Hewlett-Packard, Cisco, IBM, Echostar, NetApp, Pace, Research in Motion, General Electric	61 000	Brazil, Mexico, Austria, United Kingdom, Germany, France, Hungary, China, Malaysia, Singapore, Viet Nam	59 manufacturing and design facilities in over 20 countries covering the Americas, Europe and Asia.
TPV Technology	Hong Kong, China	8.0	Dell, Hewlett-Packard, IBM, Mitsubishi Electric	24 479	Mainly in China. Also in Poland, Brazil and Mexico	Also sell PC monitors under its various own brands such as AOC and Topview. 2009 revenues of PC monitors was made up of 31% own brand manufacturing (OBM) and 69% original design manufacturing (ODM), while LDC TV was 12% OBM and 88% ODM.
Celestica	Canada	6.5	Cisco, Hitachi, IBM, Research in Motion	35 000	China, Malaysia, Singapore, Thailand, Mexico, United States, Czech Republic, Ireland, Romania, United Kingdom	20 manufacturing and design facilities world wide. Celestica has a regional technology centre in Thailand and a global design services facility based in Taiwan Province of China.
Sanmina-SCI	United States	5.2	IBM, Lenovo, Hewlett-Packard, Cisco, Dell, Nokia, Caterpillar	31 698	Mexico, Brazil, Hungary, Malaysia, Singapore, China, Indonesia, Thailand	Manufactures products in 18 countries.
Total of the top 10	..	196.5	..	..	..	..

Source: UNCTAD, based on data from Bloomberg and company annual reports.

[a] These companies are commonly referred to as "electronic manufacturing services"(EMS) providers.

Annex table IV.2. Top 10 auto parts contract manufacturers, ranked by revenues, 2009

Company	Home economy	Total global automotive parts sales ($ billion)	Selected major clients	Employees[c]	Other relevant information[c]
Denso Corp	Japan	32[a]	General Motors, Chrysler, BMW, Mercedes Benz, Toyota, Honda, Isuzu, Subaru, Mazda, Hino, Mitsubishi, Hyundai, Kia, Deer & Co, Caterpillar, Suzuki, Cummins, CNH. In 2008, Toyota accounted for 30% of Denso's sales.	120 000	Operates in 33 countries with 34 overseas subsidiaries in the Americas, Europe (34) and Asia-Oceania (48). About 42% of sales in fiscal year 2009-2010 were generated outside Japan, with 15% in the Americas, Europe (12%) and Asia-Pacific (15%). About 76% of the sales in Japan were with third party customers, in the Americas (99%), Europe (98%) and Asia-Pacific (93%).
Robert Bosch	Germany	25.6	About 76% of the sales revenues were generated outside Germany.	270 687 with 41% in Germany, Europe (26%), Americas (12%), Asia-Pacific and other countries (21%).	The company has 300 subsidiaries and regional companies in 60 countries.
Aisin Seiki	Japan	22.1	In addition to Toyota, other major customers include Volkswagen, Suzuki, Ford, Mitsubishi, General Motors, Mazda, Daewoo, Nissan and Hyundai.	74 447	Has 154 subsidiaries, of which 71 domestic and 83 overseas. Major production bases include Thailand, China and the United States (with many factories). Other major manufacturing centres: United Kingdom, Belgium, Czech Republic, Turkey, Indonesia, India, Brazil, Mexico and Canada. About 25% of sales in 2009-2010 were outside of Japan.
Continental	Germany	18.7	Volkswagen, Daimler, Ford, Volvo, Iveco, BMW, Toyota, Honda, Renault, General Motors, Koegel, Freightliner Trucks.	148 228 with 33% in Germany, Europe (33%), NAFTA (14%) and Asia (15%).	Operates in 46 countries and consists of automotive and rubber groups. About 99% of the sales are to external customers. This includes for the chassis and safety division, powertrain, interior, and passenger and light truck tires. Sales in 2009 were concentrated in Europe (34% of global sales), 29% in Germany, 17% in NAFTA and 14% in Asia. It has 18 factories in China alone.
Magna International	Canada	17.4	General Motors, Ford, BMW, Fiat/ Chrysler, VW, Daimler.	96 000 mainly in Europe, United States, Mexico and Canada in that order.	Has 256 manufacturing operations in 26 countries covering five continents with the following manufacturing/ assembling facilities in: United States (49), Mexico (29), China (15), India (5), Brazil (5), Argentina (4), Republic of Korea (4), South Africa (2), Thailand (1).
LG Chem	Republic of Korea	13.1[b]	General Motors, Hyundai Motor, Volvo, Ford and Renault.	13 000	The company has a global network of 25 business locations in 15 countries. About 81% of the company's total revenues in 2008 were from the petrochemical sector and 19% from information, electronic materials and batteries. China is the largest host country in terms of revenues. In 2008, China accounted for 64.4% of the overseas sales. Most of its overseas manufacturing facilities are concentrated in China (9 locations). It has manufacturing facilities in India, Viet Nam, Taiwan Province of China and Poland. It has 2 R&D centres in the United States.
Faurecia	France	13	PSA Peugeot-Citroën contributed 20% of the 2009 sales. Other major customers include VW Group, Ford, Renault/ Nissan, BMW, GM, Daimler, Toyota, Chrysler-Fiat.	58 414	Part of the Peugeot group. It has a network of 200 production sites in 32 countries. Most of the overseas production plants are in the United States, Spain, Germany, China. Faurecia has plants in Mexico, Brazil, Argentina, United Kingdom, Portugal, Sweden, Poland, Czech Republic and India. It has 33 R&D centers across the world with significant presence in Europe and the United States. Other overseas R&D facilities are in China, India and Brazil.
Johnson Controls	United States	12.8[a]	In FY 2010, the company's largest customers were Ford Motor Company, General Motors (GM), Daimler, Chrysler. For FY 2009, the geographical sales distribution were United States (39%), Germany (10%), Mexico (3%), other European countries (26%), and the rest of the world (22%).	130000	The company has 175 manufacturing/assembly plants in 27 countries.
Delphi Holding	United States	11.8	General Motors, Ford and other automotive manufacturers. Customers are mainly the tier 1 auto suppliers. About 21% of the revenues were from GM and affiliates, and 79% with other customers.	146 600	The company has operations in 32 countries.
ZF Friedrichshafen	Germany	11.7	Among the major customers include: Alfa Romeo, BMW, DKW, Fahr, Ford, Krupp Titan, Lotus, Mercedes Benz, Peugeot, Porsche.	59 771	ZF Group has 117 production companies in 26 countries and eight main development locations. ZF operations cover 5 continents: Europe, North America, South America, Asia-Pacific and Middle East & Afica. Of the 117 production companies, 31 were in Germany, China (19), United States (10), France (7), Brazil (5), India (5), South Africa (5), Mexico (4), Slovakia (3), United Kingdom (3) and Italy (3).
Total of the top 10	..	178.2	..	..	..

Source: UNCTAD, based on Bloomberg, annual reports of companies, and Automotive News: "Top 100 Global Suppliers", 14 June 2010.

[a] Fiscal year. [b] Estimate. [c] 2010.

Note: These figures do not include after-market sales and unrelated sales of the respective companies.

Annex table IV.3. Top 10 pharmaceutical contract manufacturers, ranked by revenues, 2009[a]

Company[b]	Home economy	Contract mfg revenue ($ million)	Selected major clients	Global employment	Major overseas production bases
Catalent Pharma Solutions, Inc.	United States	1 640	Most of the top 50 pharmaceutical companies, including Pfizer, Merck, Novartis, GlaxoSmithKline, Bayer, Amgen, Roche and AstraZeneca. Top 20 customers account for 55% of revenues.	9 200	The company has 20 facilities worldwide covering 5 continents.
Lonza Group AG	Switzerland	1 310	KaloBios Pharmaceuticals Inc, Genentech, Enobia, Athera.	8 386	United States, Spain, Belgium, Denmark, Germany, Switzerland, United Kingdom, Czech Republic, China, and Singapore. Has R&D facilities in India, Japan and France.
Boehringer Ingelheim Verwaltungs GmbH	Germany	1 096	MorphoSys, Elan, Amgen & Wyeth Pharmaceuticals, Bayer Schering Pharma Ag, Genentech, Genzyme Corp, GlaxoSmithKline, InterMune, MedImmune, Merck, Nycomed Danmark.	6 200	Production sites in North and South America, Europe and Asia. Production facilities for contract manufacturing are in Austria, United States, Italy, Spain, Indonesia, Brazil and Greece.
Royal DSM	Netherlands	1 006	Novacta Biosystems Ltd, APT Pharmaceuticals Inc, GlycoMimetics Inc, Genzyme Pharmaceuticals, MorphoSys, NicOx.	4 374	Has faclities in United States, China, India, Austria and other European countries.
Piramal Healthcare Ltd	India	735	Major customers from 50 top pharma companies. Asia revenues are mainly generated in India. However, share of revenues from outside India is growing. About 28% of the total revenues are from contract manufacturing.	7 311	Production facilities in Canada and the United Kingdom include also process & pharma development. In China operation limited to material sourcing.
Jubilant Life Sciences (formerly known as Jubilant Organosys Limited)	India	710	Clients include Amgen, AstraZeneca, Duke Medicine, Endo Pharmaceuticals, GlaxoSmithKline, Guerbet.	5 950	The company has production facilities in the United States and Canada.
NIPRO Corporation	Japan	625	..	9 939	In the area of pharmaceutical, has facilities in Brazil, United States, Thailand, China and India. About 33% of the company's revenues is from contract pharmaceutical operations.
Patheon Inc.	Canada	530	Has about 300 customers worldwide. Of which: 19 of the world's 20 largest pharmaceutical companies, 6 of the world's 10 largest biotechnology companies and 5 of the world's 10 largest speciality pharmaceutical companies.	4 000	Also operates in 14 locations with development and manufacturing facilities in the United States, United Kingdom, France and Italy.
Fareva Holding	France	418	Has many pharmaceutical company customers including some of the largest ones and Omega Pharma.	5 000	Has facilities in a number of countries, including Germany, Italy, Switzerland, United Kingdom, Italy and Turkey. It has a R&D facility in Germany.
Haupt Pharma AG	Germany	348	Has over 200 international pharmaceutical companies including some of the major global ones.	2 000	Italy, France and Japan.
Total of the top 10	..	8 418	..	..	..

Source: UNCTAD, based on Bloomberg, company's annual reports and information.

[a] Only includes revenues from contract manufacturing activities.

[b] Evonik (Degussa) is a significant contract manufacturer and specific information on the company is not available.

Annex table IV.4. Use of contract manufacturing by major garment and footwear brand owners, selected indicators, 2009

Brand firm	Home economy	Total sales	Number of supplier countries	Number of suppliers	Number of supplier factories	Number of supplier workers	Major production bases/ other information
Christian Dior (includes LVMH)	France	25 459	..	..	..	..	The use of subcontractors for fashion and leather goods operations represented about 43% of the cost of sales of Christian Dior in 2010. About 70% of Christian Dior's production are supplied from Europe (France, Italy and Spain), Asia ~20%, North America ~5%, and Others ~5%.
Nike	United States	19 083	46	..	..	600 823 026 (490 670 in North Asia, 256 385 in South Asia, 51 604 in the Americas and 24 367 in EMEA[a]).	All footwear is produced by contract suppliers outside of the United States. In FY 2010, contract factories in Viet Nam, China, Indonesia, Thailand and India manufactured approximately 37%, 34%, 23%, 2% and 1% of total NIKE Brand footwear, respectively. NIKE also has contract manufacturing agreements with independent factories in Argentina, Brazil, India and Mexico to produce footwear for sale primarily within those countries. Almost all of NIKE Brand apparel is manufactured outside of the United States by independent contract manufacturers located in 33 countries such as in China, Thailand, Indonesia, Malaysia, Viet Nam, Sri Lanka, Turkey, Cambodia, El Salvador, Mexico and Taiwan Province of China.
Adidas Group	Germany	14 894	69	..	1 230	..	Adidas is serviced by multiple suppliers in many locations. Most of the suppliers are in Asia in countries such as China, India, Indonesia, Thailand and Viet Nam.
H&M Hennes & Mauritz AB	Sweden	14 507	30	675	1 693	..	H&M is serviced by multiple suppliers in many different locations. The brand firm works with some 675 contract suppliers in about 30 countries, mainly in Asia and Europe. About 660 factories in East and Southeast Asia, 580 in the EMEA region and over 400 in South Asia produced for H&M.
The Gap Inc	United States	14 197	..	..	728	..	Like other brand firms, Gap uses contract manufacturing extensively. It has multiple contract suppliers based in different low cost producing countries. Gap's contract factories include South Asia (188 factories), China (186), Southeast Asia (180), North Asia (57), Mexico, Central America & the Caribbean (39), North Africa & Middle East (20), Europe (20), United States and Canada (18), South America (14) and Sub-Saharan Africa (5).
Inditex SA	Spain	13 336	..	1237	..	308 508 (for factories part of the "cluster"): 161 080 Bangladesh, 43 275 Turkey, 14 264 Portugal, 36 804 Morocco, 53 085 India.	Some 599 suppliers in Europe, 480 in Asia, 94 in Africa and 51 in Americas produced for Inditex.
VF	United States	7 143	60	..	1500+	..	In 2010, about 66% of goods of VF were manufactured by outsourcing with 51% of suppliers from Asia, North America (18%), Central and South America (16%), Europe (12%) and Africa(3%).
Polo Ralph Lauren	United States	5 019	..	400+	..	..	In FY 2010, less than 2%, by dollar volume, of the brand firm's products were produced in the United States, and over 98%, by dollar volume, were produced outside the United States, primarily in Asia, Europe and South America.
Puma Rudolf Dassler Sport	Germany	3 530	45	..	351 (292 in developing and transition economies, 100 in China, 30 in Turkey, and 22 in Viet Nam).	300 000 in audited facilities (including tier 2 and 3 suppliers).	A majority of Puma's contract suppliers are in Asia. China and Viet Nam are the main procurement sources in addition to Indonesia, Cambodia and Bangladesh. Regional procurement continues to play an important role, in particular for South America. As a consequence, the procurement volume increased considerably in Brazil and Argentina.
The Jones Group	United States	3 327	..	..	..	..	Apparel sold by Jones Group is produced in accordance with the firm's design, specification and production schedules through an extensive network of independent factories located throughout the world, primarily in Asia, with additional production located in the Middle East and Africa. Nearly all the apparel products were manufactured outside North America during 2010. Jones Group has long-term mutually satisfactory business relationships with many of its contractors and agents but do not have long-term written agreements with any of them.
Collective Brands Inc	United States	3 308	..	..	101	..	Nearly 85% of the cost of footwear of Collective Brands in 2009 were supplied by contract factories in China. The firm is diversifying its manufacturing base not only between countries but also within China in order to reduce costs. In 2010, the firm sourced 13% of footwear from Viet Nam and the remaining 3% from different countries including Brazil, India, Indonesia and Thailand. Products are manufactured to meet the firm's specifications and standards.
American Eagle Outfitters Inc	United States	2 991	20+	..	450+	..	The brand firm does not own or operate any manufacturing facilities. Its branded products are produced by third-party contract manufacturers located in more than 20 countries.
Abercrombie & Fitch Company	United States	2 929	28	191	..	..	During FY 2010, this brand firm purchased merchandise from approximately 191 vendors in different parts of the world; primarily in Asia and Central and South America. The firm did not source more than 5% of its merchandise from any single factory or supplier during FY 2010.
Benetton	Italy	2 925	..	..	..	..	Benetton has a network of contract suppliers in different countries. It outsource production to suppliers in various countries, including China, India, Thailand and Turkey. Three main areas of sourcing for Benetton are: China coordinated from Hong Kong (China); South East Asia (Thailand, Cambodia, Lao PDR, Viet Nam, Indonesia) coordinated from Bangkok; India (coordinated from Bangalore). As of December 2010, the sourced products of Benetton including those under contract manufacturing represented approximately 50% of its total production.
Onward Holdings	Japan	2 668	..	..	..	..	Onward does not own any factories. Its key suppliers are overseas partners (90% of manufacturing is done outside Japan, of which 70-80% is done in China).
Phillips Van Heusen	United States	2 399	55	..	1 014	..	Most of the brand firm's dress shirts and all of its sportswear are sourced and manufactured in the Far East, the Indian subcontinent, the Middle East, the Caribbean and Central America. Its footwear is sourced and manufactured through third party suppliers principally in the Far East, Europe, South America and the Caribbean.
Hugo Boss	Germany	2 241	..	~300	..	..	Hugo Boss has its own production facilities and outsourced a significant portion of its production requirement to third-party suppliers. About 76% of the full product line is produced by independent suppliers for Hugo Boss. About 51% of its production are produced in Eastern Europe, 27% in Asia, 11% Western Europe, 9% North Africa and 2% Americas.
Total of the selected major brand owners	..	139 956	..	..	..	..	..

Source: UNCTAD, based on Fair Labour Association, "2009 Annual Report", June 2010 (www.FairLabor.org) and company's reports.

[a] Europe, the Middle East and Africa (EMEA).

Annex table IV.5. Top 15 outsourcing IT-BPO service providers, ranked by revenues, 2009

Company	Home economy	IT-BPO Revenue ($ Million)	Global employment	Major service centres
International Business Machines Corporation[a]	United States	38 201	426,751, of which 190,000 in global business services. About 100,000 staff work in IBM's delivery centres in India where most are involved in BPO services.	IBM has over 50 IT-BPO related service centres in more than 40 countries, with most of them located in developing economies.
Hewlett-Packard Company[a]	United States	34 935	324,600 of which 139,500 in IT-BPO in over 50 countries. In 2007, about 30% of HP Services' global work force was based in India.	Key service centres are in the United States, India and the United Kingdom. HP has services locations in more than 50 countries. It has 7 global business centres located in India, China, Singapore, Mexico, Costa Rica and Spain.
Fujitsu Ltd	Japan	27 071	172,438 of which 18,000 are in Fujitsu Services. It's subsidiary, TDS, has about 1,200 employees in IT-BPO services.	Fujitsu has a network of 91 data centers and outsourcing services in 16 countries worldwide, including United Kingdom, Finland, Australia, China, Singapore, the Philippines and India.
Xerox Corporation[a]	United States	9 637	136,500, of which 46,000 are in services.	The global service centres are located in various parts of the world, including India, Mexico, the Philippines, Jamaica, Ghana, Brazil, Guatemala, Chile, Argentina, Spain, Poland and Ireland.
Accenture[a]	Ireland	9 179	204,000, majority in technology services and outsourcing activities.	Accenture has a global delivery network of more than 50 centres located in different parts of the world. It operates in the Americas, Europe, Middle East and Africa.
NTT Data Corporation	Japan	8 925	231,315, of which 34,543 is in System Integration and IT services. Emerio, a subsidiary, employs 1,400 people in 14 global bases.	NTT locations include the United States, the United Kingdom and also many developing countries such as China, India, Singapore and the Phlippines.
Computer Sciences Corporation (CSC)	United States	6 451	94,000, of which 45,000 in managed services sector.	CSC has services centres globally including in India, China, South Asia, Eastern Europe, Australia, Singapore and Viet Nam.
Capgemini[a]	France	6 071	108,698. It has more than 20,000 outsourcing service workforce in India alone.	Capgemini has presence in over 36 countries. It has outsourcing centres in India, Romania, Viet Nam, Australia and other locations.
Dell	United States	5 622	96,000, of which 43, 000 in services. Dell Services Applications and BPO activities include more than 15,000 employees globally.[b]	Dell International Services has a number of operations in India, Europe, Latin America, Canada and the Philippines.
Logica[a]	United Kingdom	5 459	38,963 (5,750 in offshore sites).	Logica has service operations in more than 35 countries with outsourced service delivery in India, Philippines, Morocco, Malaysia and Eastern European countries.
Tata Consultancy Services	India	5 164	396,517, of which 143,000 Tata Consultancy Services.	TCS has achieved scale in Latin American markets, as well as Eastern Europe, Middle-East, Africa and the Asia Pacific region.
Atos Origin[a]	France	5 011	49,036, of which 41,324 in Managed Services, Medical BPO, Systems Integration.	Four key offshore locations for Managed Services: India, Malaysia, Morocco and Poland.
Wipro	India	4 189	108,071, out of which 22,000 in BPO activities.	Wipro has service facilities in the United States, France, Germany, Australia, Netherlands, Japan, Sweden and the United Kingdom. It has presence also in Malaysia, Viet Nam, Indonesia, Philippines, Poland, Brazil and China.
EMC Corporation	United States	3 875	48,500	It has presence in many countries, including China and Singapore.
Unisys Corporation	United States	2 754	22,900, of which 17,000 experienced services professionals.	It has significant operations in different parts of the world including the United States, the United Kingdom, Australia and Canada. In developing countries, its presence in India and China is notable.
Total	..	172 554	..	..

Sources: UNCTAD, based on data from International Association of Outsourcing Professionals, "Global Outsourcing 100: 2010" for ranking of top 15 IT-BPO service providers; Bloomberg; respective companies' annual reports and information; Outsourcing Alert (http://www.outsourcing-alert.com/2010/); and research papers by consultancy firms.

[a] 2010 data.

[b] See "Vaswani to lead Dell Services" applications and BPO arm", *Business Standard*, 6 April 2011.

Annex table IV.6. Top 15 global franchise chains, ranked by revenues, 2009

Franchise Brand	Parent company	Home economy	World-wide sales in 2009 ($ million)	Total units	Domestic units	International units	Internationali-zation degree (Per cent)	Number of countries covered (world-wide)	Number of developing and transition economies covered
McDonald's	McDonald's Corporation	United States	70 693	31 967	13 918	18 049	56	117	77
7-Eleven	Seven and i Hol-dings Co. Ltd.	Japan	53 700	35 603	6 378	29 225	82	15	9
KFC	Yum! Brands, Inc	United States	17 800	12 459	5 166	7 293	59	109	>75
Subway	Doctor's Associates, Inc.	United States	12 900	30 257	21 881	8 376	28	98	>60
Burger King	Burger King Holdings, Inc.	United States	12 789	11 925	7 534	4 391	37	76	>60
Ace Hardware	Ace Hardware Corp.	United States	12 500	4 630	4 410	220	5	70	34
Pizza Hut	Yum! Brands, Inc	United States	10 400	11 068	6 119	4 949	45	95	>90
Circle K Stores	Alimentation Couche-Tard Inc.	Canada	9 148	7 077	3 324	3 753	53	8	6
Wendy's	Wendy's/Arby's Group	United States	9 000	6 630	5 905	725	11	47	35
Marriott Hotels, Resorts & Suites	Marriott International	United States	8 539	531	348	183	34	72	57
Hilton Hotels & Resorts	Hilton Worldwide	United States	7 700	526	253	273	52	76	>40
RE/MAX	RE/MAX, LLC	United States	7 500	6 552	3 745	2 807	43	98	>75
Taco Bell	Yum! Brands, Inc	United States	7 000	5 345	5 142	203	4	21	10
Blockbuster	Blockbuster, Inc	United States	6 200	7 405	4 585	2 820	38	21	12
Holiday Inn Hotels & Resorts	InterContinental Hotels Group	United Kingdom	5 840	1 353	920	433	32	100 (all brands)	>80
Total of the top 15	..	..	251 709	..	..	..	..	..	..

Source: UNCTAD, based on Franchise Times, "Top 200 Franchise Systems", October 2010; Franchise Direct, "Top 100 Global Franchises 2010" (http:www.franchisedirect.com/top100globalfranchises/rankings/?year=2010) and company's annual reports.

Annex table IV.7. Top 10 global semiconductor foundry contract manufacturers, ranked by revenues, 2009

Company	Home economy	Revenue ($ Million)	Selected clients	Global employment	Major production bases	Market share (Per cent)	Other relevant information
Taiwan Semiconductor Manufacturing Company (TSMC)	Taiwan Province of China	9 246	TSMC serves more than 400 customers worldwide, which include Applied Micro Circuits Corporation, Qualcomm, Altera, Broadcom, Conexant, Marvell, Nvidia, LSI Logic, Intel, Xilinx, AMD, Apple and Texas Instruments.	26 390	Taiwan Province of China, United States, China, Singapore	46	TSMC is a significant outsource manufacturer for advanced IC producers. It is the world's largest pure play semiconductor foundry. Like many other foundries, TSMC does not design, manufacture or market semiconductor products under its own brand name.
United Microelectronics Corporation (UMC)	Taiwan Province of China	2857	The major customers of UMC include Qualcomm, Texas Instruments, Infineon, STMicroelectronics, Sony, Agilent Technologies and leading fabless design companies, such as Xilinx, Broadcom, MediaTek, Realtek and Novatek.	13 051	Taiwan Province of China, Singapore, Japan	14	UMC purchased a majority of silicon wafers from a few suppliers. In 2010, four suppliers; Shin-Etsu Handotai Corporation, Siltronic AG, MEMC Corporation and Sumco Group (including Sumco Corporation and Formosa Sumco Technology Corporation) were the major suppliers. In 2010, the top 10 customers accounted for 63.2% of the net operating revenues. More than 62% of revenues in 2008–2010 came from overseas customers outside of the economy.
Chartered Semiconductor[a]	Singapore	1 542	Motorola, National Semiconductor, Qualcomm, Texas Instruments.	3 500	Singapore	8	Although all its production/fabrication facilities are in Singapore, the company has a business presence in 11 countries in 2009.
GlobalFoundries[b]	United States	1 101	With Chartered Semiconductor, GlobalFoundries has more than 150 customers, which include many of the world's largest semiconductor companies. Some of its customers include ST Microelectronics, ARM, AMD, Broadcom and Qualcomm.	10 000	Fabrication facilities are located in the United States, Germany and Singapore.	5	GlobalFoundries was formerly part of AMD and has only started operations in March 2009. With the acquisition of Chartered Semiconductor in late 2009, GlobalFoundries' revenues and market share are expected to surge in 2010. It is also engaged in collaborative R&D with Freescale, IBM, Infineon, NEC, Samsung and Toshiba.
Semiconductor Manufacturing International Corporation (SMIC)	China	1 071	About 69% of the revenues are outside China (with 56% from North America and 13% from Taiwan Province of China).	10 307	All its production facilities are based in China.	5	The company has marketing offices in the United States, Europe and Japan, and a representative office in Hong Kong (China).
Dongbu HiTek	Republic of Korea	440	Analog Devices, Sanken, Silicon Mitus	3 360	It has two fabs in the Republic of Korea	2	The company has two fabrication facilities and both are in Republic of Korea. It has a sales and R&D networks in Taiwan Province of China, Japan, United States, France and Italy.
Vanguard International Semiconductor (VIS)	Taiwan Province of China	394	TSMC account for nearly 30% of its revenues. Another major customer is Winbond Electronics Corporation.	3 236	Taiwan Province of China	2	VIS started as a subcontractor to TSMC. The top 10 of its major customers accounted for more than 80% of the company's revenues.
TowerJazz	Israel	309	Include semiconductor companies such as Atheros Communications, Conexant, Fairchild Semiconductor, International Rectifier, Ikanos, Intersil, Marvell Technology Group, National Semiconductor, Freescale Semiconductor, On Semiconductor, Panavision, Toshiba, Vishay - Siliconix, Texas Instruments, VIA Technologies and Zoran Corporation.	1 600	Israel, United States	2	Jazz Semiconductor was acquired by Tower Semiconductor in 2008. The new company's name is TowerJazz. Through manufacturing partnerhsip with strategic alliances TowerJazz has accessed to production facilities in China.
IBM Microelectronics	United States	285	..	..	United States	1	..
Samsung Electronics	Republic of Korea	290	Customers include Dell, Ixys, Qualcomm, Xilinx and Apple.	39 900	Republic of Korea and the United States	1	It has 15 fabrication facilities, 10 test and assembly facilities, 5 R&D pilot lines. Semiconductor fabs are located mainly in Republic of Korea and United States. IC assembly plants are located in Republic of Korea and China. Semiconductor R&D facilities in United States, China, Japan, Russia, India and Israel.
Total of the top 10	..	14 678	..	-	..	73	..

Source: UNCTAD, based on Gartner, "Market Share: Semiconductor Foundry, Worldwide, 2009", April 2010, Bloomberg and company's information and reports.

[a] In 2009, the company was acquired by Advanced Technology Investment Company (Abu Dhabi).

[b] Globalfoundries was formerly part of AMD. Sales are from AMD annual report "foundry services".

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