UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

PRESS RELEASE

EMBARGO

The contents of this press release and the related Report must not be quoted or summarized in the print, broadcast or electronic media before **26 June 2013, 17:00 GMT**

(1 PM New York, 19:00 Geneva, 22:30 Delhi, 02:00 – 27 June 2013 Tokyo)

UNCTAD/PRESS/PR/2013/20*
Original: English

GLOBAL FOREIGN DIRECT INVESTMENT DECLINED BY 18% IN 2012, ANNUAL REPORT SAYS

Developing countries received majority of investment for first time ever, World Investment Report indicates; flows in 2013 forecast to remain close to 2012 level

Geneva, 26 June 2013 – Global foreign direct investment (FDI) inflows fell by 18 per cent to US$1.35 trillion in 2012. Recovery to more vigorous investment levels will take longer than expected, mostly because of global economic fragility and policy uncertainty, UNCTAD's annual survey of investment trends reports.

The **World Investment Report 2013**[1] subtitled **Global Value Chains: Investment and Trade for Development***,* was released today.

UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion (figure 1). As macroeconomic conditions improve and investors regain confidence in the medium term, transnational corporations (TNCs) may convert their record levels of cash holdings into new investments. FDI flows may then climb to $1.6 trillion in 2014 and $1.8 trillion in 2015. However, the report warns that factors such as structural weaknesses in the global financial system, the possible deterioration of the macroeconomic environment, and significant policy uncertainty in areas crucial for investor confidence might lead to a further decline in FDI flows.

Developing countries took the lead in attracting FDI in 2012. For the first time ever, developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows. The report finds that FDI inflows to developing economies nonetheless declined slightly (by 4 per cent), to $703 billion – the second-highest level recorded. Among developing regions, flows to Asia and to Latin America and the Caribbean remained at historically high levels, but their growth momentum weakened. Africa saw a year-on-year increase in FDI inflows in 2012. FDI is also on the rise in

* **Contacts**: UNCTAD Communications and Information Unit, +41 22 917 58 28, +41 79 502 43 11, unctadpress@unctad.org, http://unctad.org/en/pages/Media.aspx

[1]The Report (Sales No. E.13.II.D.5, ISBN-13: 978-92-1-112868-0) may be obtained from United Nations Publications Sales and Marketing Office at the address mentioned below or from United Nations sales agents throughout the world. Price: US$ 85 (50% discount for residents of developing countries, and 75% discount for residents of least developed countries). Customers may send orders or inquiries to: United Nations Publications Sales and Marketing Office, 300 E 42nd Street, 9th Floor, IN-919J New York, NY 10017, United States. tel.: +1 212 963 8302, fax: +1 212 963 3489, e-mail: publications@un.org, https://unp.un.org.

structurally weak economies – comprising the least developed countries, landlocked developing countries, and small island developing States – the report says.

Developing economies' FDI outflows reached $426 billion, a record 31 per cent of the world total. Flows from developing Asia and Latin America and the Caribbean remained at their 2011 levels. Developing Asia is the largest source of FDI, accounting for three quarters of the developing-country total. In the ranks of the top investors, China has moved up from sixth to third place, after the United States and Japan (figure 2). FDI outflows from Africa almost tripled.

FDI inflows to developed economies declined by 32 per cent to $561 billion – a level last seen almost 10 years ago, the report reveals. At the same time, FDI outflows from developed countries dropped to a level close to the trough of 2009. The uncertain economic outlook led TNCs in developed countries to maintain their wait-and-see approach towards new investments or to divest foreign assets, rather than undertake major international expansion. In 2012, 22 of the 38 developed countries experienced a decline in outward FDI, leading to a fall of 23 per cent to $909 billion.

Additional major trends in global FDI in 2012:

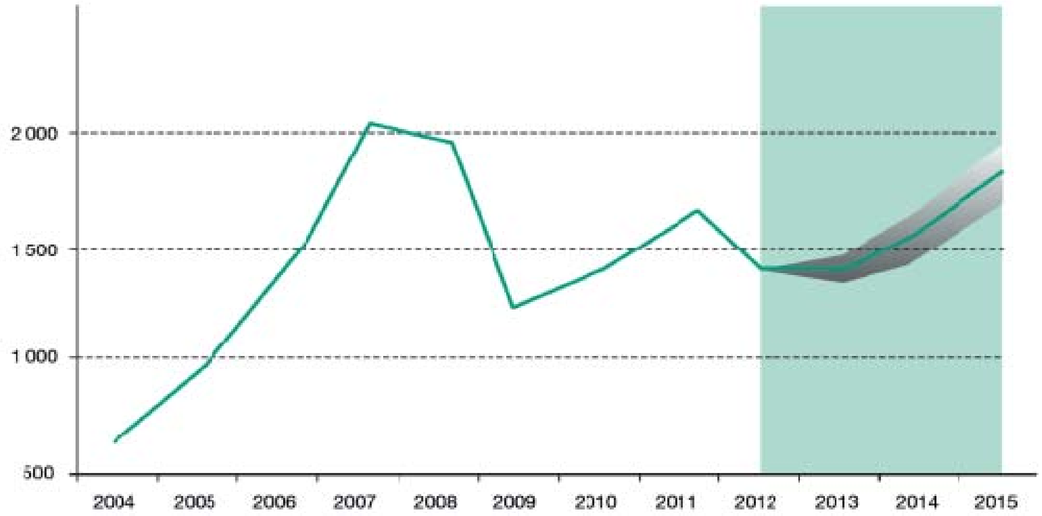
Internationalization of State-owned enterprises and sovereign wealth funds maintains pace. The number of State-owned TNCs increased from 650 in 2010 to 845 in 2012. Their FDI flows amounted to $145 billion, reaching almost 11 per cent of global FDI. FDI by sovereign wealth funds in 2012 was only $20 billion, but it nevertheless doubled compared to the year before. Cumulative FDI from sovereign wealth funds is estimated at $127 billion, most of which was in finance, real estate, construction, and utilities.

Investments through offshore financial centres and special-purpose entities remain a concern. Investments through offshore financial centres (OFCs) and special-purpose entities (SPEs) are at historically high levels. Financial flows to OFCs are still close to the peak reached in 2007. Although most international efforts to combat tax evasion have focused on OFCs, financial flows through SPEs were almost seven times larger in 2011 (figure 3). The number of countries offering favorable tax conditions for SPEs is increasing.

International production is growing at a steady pace. In 2012, TNCs' international production continued to expand at a steady rate because FDI flows, even at lower levels, add to existing FDI stock. FDI stocks rose by 9 per cent in 2012, to $23 trillion. Foreign affiliates of TNCs generated sales worth $26 trillion (of which $7.5 trillion were for exports), an increase of 7.4 per cent over 2011. The affiliates contributed value added worth $6.6 trillion in 2012, up 5.5 per cent, which compares well with global GDP growth of 2.3 per cent. TNC foreign affiliates employed 72 million people in 2012, up 5.7 per cent from 2011 (table 1).

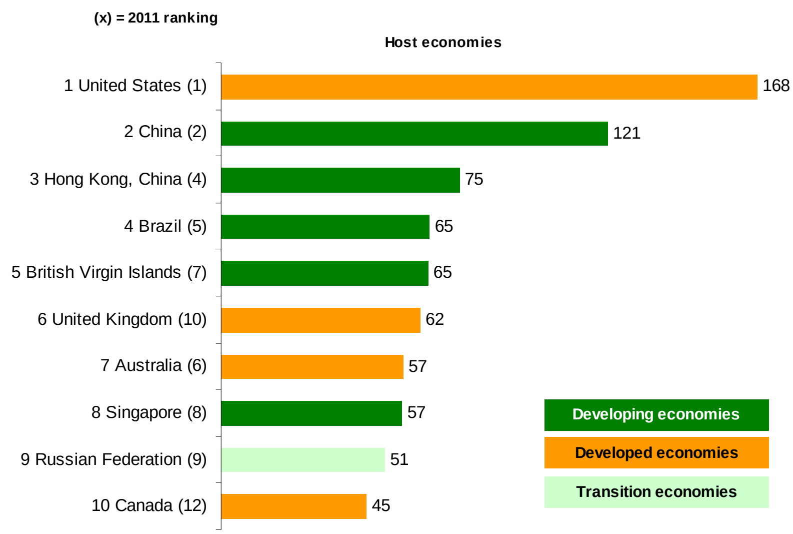
Reinvested earnings can be an important source of finance for long-term investment. FDI income amounted to $1.5 trillion in 2011 on a stock of $21 trillion. The rate of return on FDI is 7 per cent globally, and is higher in both developing economies (8 per cent) and transition economies (13 per cent) than it is in developed countries (5 per cent). Nearly one third of global FDI income was retained in host economies, and two thirds was repatriated (representing on average 3.4 per cent of the current account payments). The share of retained earnings is highest in developing countries; at about 40 per cent of FDI income it represents an important source of financing. However, the report warns that not all of this is turned into capital expenditure, and the challenge for host governments is to channel retained earnings into productive investment.

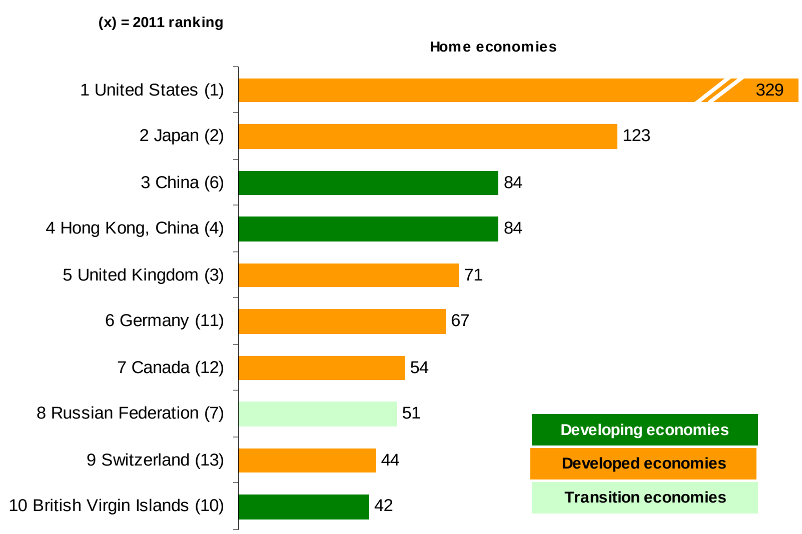
Figure 1: Global FDI flows, 2004–2012, and projections, 2013–2015
(billions of US dollars)



Source: UNCTAD. World Investment Report 2013.

Figure 2: Top 10 host and investor economies, 2012
(billions of US dollars)





Source: UNCTAD. World Investment Report 2013.

Figure 3: Estimated investment flows to SPEs[a] and OFCs, 2011
(billions of US dollars)

Source: UNCTAD. World Investment Report 2013.
a: Only includes flows to SPEs based in Hungary, Luxembourg and the Netherlands. UNCTAD does not include flows to SPEs in these countries in global FDI flows statistics.

Table 1 – Selected indicators of FDI and international production, 1990-2012

Item	Value at current prices (Billions of dollars)				
	1990	**2005–2007 pre-crisis average**	**2010**	**2011**	**2012**
FDI inflows	207	1 491	1 409	1 652	1 351
FDI outflows	241	1 534	1 505	1 678	1 391
FDI inward stock	2 078	14 706	20 380	20 873	22 813
FDI outward stock	2 091	15 895	21 130	21 442	23 593
Income on inward FDI	75	1 076	1 377	1 500	1 507
Rate of return on inward FDI	*4*	*7*	*6.8*	*7.2*	*6.6*
Income on outward FDI	122	1 148	1 387	1 548	1 461
Rate of return on outward FDI	*6*	*7*	*6.6*	*7.2*	*6.2*
Cross-border M&As	99	703	344	555	308
Sales of foreign affiliates	5 102	19 579	22 574	24 198	25 980
Value-added (product) of foreign affiliates	1 018	4 124	5 735	6 260	6 607
Total assets of foreign affiliates	4 599	43 836	78 631	83 043	86 574
Exports of foreign affiliates	1 498	5 003	6 320	7 436	7 479
Employment by foreign affiliates (thousands)	21 458	51 795	63 043	67 852	71 695
Memorandum:					
GDP	22 206	50 319	63 468	70 221	71 707
Gross fixed capital formation	5 109	11 208	13 940	15 770	16278
Royalties and licence fee receipts	27	161	215	240	235
Exports of goods and services	4 382	15 008	18 956	22 303	22 432

Source: UNCTAD, World Investment Report 2013.

*** ** ***