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WORLD INVESTMENT REPORT 2013

GLOBAL VALUE CHAINS: INVESTMENT AND TRADE FOR DEVELOPMENT

UNITED NATIONS
New York and Geneva, 2013

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PREFACE

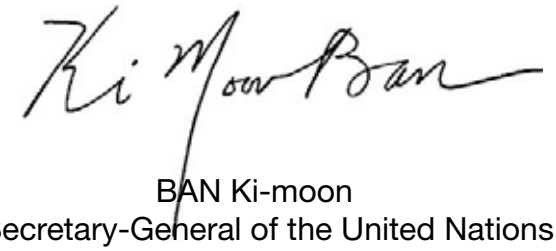
The 2013 *World Investment Report* comes at an important moment. The international community is making a final push to achieve the Millennium Development Goals by the target date of 2015. At the same time, the United Nations is working to forge a vision for the post-2015 development agenda. Credible and objective information on foreign direct investment (FDI) can contribute to success in these twin endeavours.

Global FDI declined in 2012, mainly due to continued macroeconomic fragility and policy uncertainty for investors, and it is forecast to rise only moderately over the next two years.

Yet as this report reveals, the global picture masks a number of major dynamic developments. In 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, with four developing economies ranked among the five largest recipients in the world. Developing countries also generated almost one third of global FDI outflows, continuing an upward trend that looks set to continue.

This year's *World Investment Report* provides an in-depth analysis, strategic development options and practical advice for policymakers and others on how to maximize the benefits and minimize the risks associated with global value chains. This is essential to ensure more inclusive growth and sustainable development.

I commend the *World Investment Report 2013* to the international investment and development community as a source of reflection and inspiration for meeting today's development challenges.



BAN Ki-moon
Secretary-General of the United Nations

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ABBREVIATIONS

ADR	alternative dispute resolution
AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
CETA	Comprehensive Economic and Trade Agreement
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CSR	corporate social responsibility
DCFTA	Deep and Comprehensive Free Trade Agreement
DPP	dispute prevention policy
EPZ	export processing zone
FDI	foreign direct investment
FTA	free trade agreement
GAP	good agricultural practices
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GSP	Generalized System of Preferences
GVC	global value chain
IIA	international investment agreement
IP	intellectual property
IPA	investment promotion agency
IPFSD	Investment Policy Framework for Sustainable Development
IRS	United States Internal Revenue Service
ISDS	investor–State dispute settlement
ISO	International Organization for Standardization
LBO	leveraged buy-out
LDC	least developed countries
LLDC	landlocked developing countries
MFN	most favoured nation
MRIO	multi-region input-output
NAFTA	North American Free Trade Agreement
NAICS	North American Industry Classification System
NEM	non-equity mode
OFC	offshore financial centre
PPP	public-private partnership
PRAI	Principles for Responsible Agricultural Investment
PTA	preferential trade agreement
SEZ	special economic zone
SIC	standard industrial classification
SIDS	small island developing States
SME	small and medium-sized enterprise
SOE	State-owned enterprise
SPE	special purpose entity
SWF	sovereign wealth fund
TNC	transnational corporation
TPO	trade promotion organization
TPP	Trans-Pacific Partnership Agreement
TRIMS	Trade-Related Investment Measures
TTIP	Transatlantic Trade and Investment Partnership
UNCITRAL	United Nations Commission on International Trade Law
WIPS	World Investment Prospects Survey
WTO	World Trade Organization

KEY MESSAGES

Global and regional investment trends

The road to foreign direct investment (FDI) recovery is bumpy. Global FDI fell by 18 per cent to $1.35 trillion in 2012. The recovery will take longer than expected, mostly because of global economic fragility and policy uncertainty. UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion. As investors regain confidence in the medium term, flows are expected to reach levels of $1.6 trillion in 2014 and $1.8 trillion in 2015. However, significant risks to this growth scenario remain.

Developing countries take the lead. In 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows. This is partly because the biggest fall in FDI inflows occurred in developed countries, which now account for only 42 per cent of global flows. Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend.

FDI outflows from developed countries dropped to a level close to the trough of 2009. The uncertain economic outlook led transnational corporations (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 23 per cent overall decline.

Investments through offshore financial centres (OFCs) and special purpose entities (SPEs) remain a concern. Financial flows to OFCs are still close to their peak level of 2007. Although most international efforts to combat tax evasion have focused on OFCs, financial flows through SPEs were almost seven times more important in 2011. The number of countries offering favourable tax conditions for SPEs is also increasing.

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 rates of return on FDI are 7 per cent globally, and higher in both developing (8 per cent) and transition economies (13 per cent) than in developed ones (5 per cent). Nearly one third of global FDI income was retained in host economies, and two thirds were 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.

FDI flows to developing regions witnessed a small overall decline in 2012, but there were some bright spots. *Africa* bucked the trend with a 5 per cent increase in FDI inflows to $50 billion. This growth was driven partly by FDI in extractive industries, but investment in consumer-oriented manufacturing and service industries is also expanding. FDI flows to *developing Asia* fell 7 per cent, to $407 billion, but remained at a high level. Driven by continued intraregional restructuring, lower-income countries such as Cambodia, Myanmar and Viet Nam are bright spots for labour-intensive FDI. In *Latin America and the Caribbean*, FDI inflows decreased 2 per cent to $244 billion due to a decline in Central America and the Caribbean. This decline was masked by an increase of 12 per cent in South America, where FDI inflows were a mix of natural-resource-seeking and market-seeking activity.

FDI is on the rise in structurally weak economies. FDI inflows to *least developed countries* (LDCs) hit a record high, an increase led by developing-country TNCs, especially from India. A modest increase in FDI flows to *landlocked developing countries* (LLDCs) occurred, thanks to rising flows to African and Latin American LLDCs and several economies in Central Asia. FDI flows into *small island developing States* (SIDS) continued to recover for the second consecutive year, driven by investments in natural-resource-rich countries.

FDI flows to developed economies plummeted. In developed countries, FDI inflows fell drastically, by 32 per cent, to $561 billion – a level last seen almost 10 years ago. The majority of developed countries saw

significant drops of FDI inflows, in particular the European Union, which alone accounted for two thirds of the global FDI decline.

Transition economies saw a relatively small decline. A slump in cross-border mergers and acquisitions (M&As) sales caused inward FDI flows to *transition economies* to fall by 9 per cent to $87 billion; $51 billion of this went to the Russian Federation, but a large part of it was "round-tripping".

Investment policy trends

National investment policymaking is increasingly geared towards new development strategies. Most governments are keen to attract and facilitate foreign investment as a means for productive capacity-building and sustainable development. At the same time, numerous countries are reinforcing the regulatory environment for foreign investment, making more use of industrial policies in strategic sectors, tightening screening and monitoring procedures, and closely scrutinizing cross-border M&As. There is an ongoing risk that some of these measures are undertaken for protectionist purposes.

International investment policymaking is in transition. By the end of 2012, the regime of international investment agreements (IIAs) consisted of 3,196 treaties. Today, countries increasingly favour a regional over a bilateral approach to IIA rule making and take into account sustainable development elements. More than 1,300 of today's 2,857 bilateral investment treaties (BITs) will have reached their "anytime termination phase" by the end of 2013, opening a window of opportunity to address inconsistencies and overlaps in the multi-faceted and multi-layered IIA regime, and to strengthen its development dimension.

UNCTAD proposes five broad paths for reforming international investment arbitration. This responds to the debate about the pros and cons of the investment arbitration regime, spurred by an increasing number of cases and persistent concerns about the regime's systemic deficiencies. The five options for reform are: promoting alternative dispute resolution, modifying the existing ISDS system through individual IIAs, limiting investors' access to ISDS, introducing an appeals facility and creating a standing international investment court. Collective efforts at the multilateral level can help develop a consensus on the preferred course of action.

Global value chains: investment and trade for development

Today's global economy is characterized by global value chains (GVCs), in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade.

GVCs lead to a significant amount of double counting in trade – about 28 per cent or $5 trillion of the $19 trillion in global gross exports in 2010 – because intermediates are counted several times in world exports, but should be counted only once as "value added in trade". Patterns of value added trade in GVCs determine the distribution of actual economic gains from trade between individual economies and are shaped to a significant extent by the investment decisions of TNCs. Countries with a greater presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and to generate relatively more domestic value added from trade.

The development contribution of GVCs can be significant. In developing countries, value added trade contributes nearly 30 per cent to countries' GDP on average, as compared with 18 per cent in developed countries. And there is a positive correlation between participation in GVCs and growth rates of GDP per capita. GVCs have a direct economic impact on value added, jobs and income. They can also be an important avenue for developing countries to build productive capacity, including through technology dissemination and skill building, thus opening up opportunities for longer-term industrial upgrading.

However, participation in GVCs also involves risks. The GDP contribution of GVCs can be limited if countries capture only a small share of the value added created in the chain. Also, technology dissemination, skill building and upgrading are not automatic. Developing countries face the risk of remaining locked into relatively low value added activities. In addition, environmental impacts and social effects, including on working conditions, occupational safety and health, and job security, can be negative. The potential "footlooseness" of GVC activities and increased vulnerability to external shocks pose further risks.

Countries need to make a strategic choice to promote or not to promote participation in GVCs. They need to carefully weigh the pros and cons of GVC participation and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. Some countries may decide not to promote it; others may not have a choice. In reality, most are already involved in GVCs to a degree. Promoting GVC participation implies targeting specific GVC segments; i.e. GVC promotion can be selective. Moreover, GVC participation is only one aspect of a country's overall development strategy.

Policy matters to make GVCs work for development. If countries decide to actively promote GVC participation, policymakers should first determine where their countries' trade profiles and industrial capabilities stand and then evaluate realistic GVC development paths for strategic positioning. Gaining access to GVCs and realizing upgrading opportunities requires a structured approach that includes embedding GVCs in industrial development policies (e.g. targeting GVC tasks and activities); enabling GVC growth by creating a conducive environment for trade and investment and by putting in place infrastructural prerequisites; and building productive capacities in local firms and skills in the local workforce. To mitigate the risks involved in GVC participation, these efforts should take place within a strong environmental, social and governance framework, with strengthened regulation and enforcement and capacity-building support to local firms for compliance.

UNCTAD further proposes three specific initiatives:

- *Synergistic trade and investment policies and institutions.* Trade and investment policies often work in silos. In the context of GVCs they can have unintended and counterproductive reciprocal effects. To avoid this, policymakers – where necessary, with the help of international organizations – should carefully review those policy instruments that simultaneously affect investment and trade in GVCs; i.e. trade measures affecting investment and investment measures affecting trade. Furthermore, at the institutional level, the trade and investment links in GVCs call for closer coordination and collaboration between trade and investment promotion agencies.
- *"Regional industrial development compacts".* The relevance of regional value chains underscores the importance of regional cooperation. Regional industrial development compacts could encompass integrated regional trade and investment agreements focusing on liberalization and facilitation, and establishing joint trade and investment promotion mechanisms and institutions. They could also aim to create cross-border industrial clusters through joint financing for GVC-enabling infrastructure and joint productive capacity-building. Establishing such compacts requires working in partnership between governments in the region, between governments and international organizations, and between the public and private sectors.
- *Sustainable export processing zones (EPZs)*. Sustainability is becoming an important factor for attracting GVC activities. EPZs have become significant GVC hubs by offering benefits to TNCs and suppliers in GVCs. They could also offer – in addition to or in lieu of some existing benefits – expanded support services for corporate social responsibility (CSR) efforts to become catalysts for CSR implementation. Policymakers could consider setting up relevant services, including technical assistance for certification and reporting, support on occupational safety and health issues, and recycling or alternative energy facilities, transforming EPZs into centres of excellence for sustainable business. International organizations can help through the establishment of benchmarks, exchanges of best practices and capacity-building programmes.

OVERVIEW

GLOBAL INVESTMENT TRENDS

FDI recovery unravels in 2012

Global foreign direct investment (FDI) fell by 18 per cent to $1.35 trillion in 2012. This sharp decline was in stark contrast to other key economic indicators such as GDP, international trade and employment, which all registered positive growth at the global level. Economic fragility and policy uncertainty in a number of major economies gave rise to caution among investors. Furthermore, many transnational corporations (TNCs) reprofiled their investments overseas, including through restructuring of assets, divestment and relocation. The road to FDI recovery is thus proving bumpy and may take longer than expected.

UNCTAD forecasts FDI in 2013 to remain close to the 2012 level, with an upper range of $1.45 trillion – a level comparable to the pre-crisis average of 2005–2007 (figure 1). As macroeconomic conditions improve and investors regain confidence in the medium term, TNCs may convert their record levels of cash holdings into new investments. FDI flows may then reach the level of $1.6 trillion in 2014 and $1.8 trillion in 2015. However, significant risks to this growth scenario remain. 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 economies surpass developed economies as recipients of FDI

FDI flows to developing economies proved to be much more resilient than flows to developed countries, recording their second highest level – even though they declined slightly (by 4 per cent) to $703 billion in 2012 (table 1). They accounted for a record 52 per cent of global FDI inflows, exceeding flows to developed economies for the first time ever, by $142 billion. The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows: 9 of the 20 largest recipients were developing countries (figure 2). Among regions, flows to developing Asia and Latin America remained at historically high levels, but their growth momentum weakened. Africa saw a year-on-year increase in FDI inflows in 2012 (table 1).

Figure 1. Global FDI flows, 2004–2012, and projections, 2013–2015
(Billions of dollars)

Table 1. FDI flows by region, 2010–2012
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
World	**1 409**	**1 652**	**1 351**	**1 505**	**1 678**	**1 391**
Developed economies	696	820	561	1 030	1 183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	29	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Oceania	3	2	2	1	1	1
Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies	**45**	**56**	**60**	**12**	**10**	**10**
Least developed countries	19	21	26	3.0	3.0	5.0
Landlocked developing countries	27	34	35	9.3	5.5	3.1
Small island developing States	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum: percentage share in world FDI flows						
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies	**3.2**	**3.4**	**4.4**	**0.8**	**0.6**	**0.7**
Least developed countries	1.3	1.3	1.9	0.2	0.2	0.4
Landlocked developing countries	1.9	2.1	2.6	0.6	0.3	0.2
Small island developing States	0.3	0.3	0.5	0.0	0.1	0.1

Developing economies' outflows reached $426 billion, a record 31 per cent of the world total. Despite the global downturn, TNCs from developing countries continued their expansion abroad. Asian countries remained the largest source of FDI, accounting for three quarters of the developing-country total. FDI outflows from Africa tripled while flows from developing Asia and from Latin America and the Caribbean remained at the 2011 level.

The BRICS countries (Brazil, the Russian Federation, India, China and South Africa) continued to be the leading sources of FDI among emerging investor countries. Flows from these five economies rose from $7 billion in 2000 to $145 billion in 2012, accounting for 10 per cent of the world total. Their TNCs are becoming increasingly active, including in Africa. In the ranks of top investors, China moved up from the sixth to the third largest investor in 2012, after the United States and Japan (figure 3).

FDI flows to and from developed countries plummet

FDI inflows to developed economies declined by 32 per cent to $561 billion – a level last seen almost 10 years ago. Both Europe and North America, as groups, saw their inflows fall, as did Australia and New Zealand. The European Union alone accounted for almost two thirds of the global FDI decline. However, inflows to Japan turned positive after two successive years of net divestments.

Outflows from developed economies, which had led the recovery of FDI over 2010–2011, fell by 23 per cent to $909 billion – close to the trough of 2009. Both Europe and North America saw large declines in their outflows, although Japan bucked the trend, keeping its position as the second largest investor country in the world.

Figure 2. Top 20 host economies, 2012
(Billions of dollars)

Internationalization of SOEs and SWFs 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. The majority of the State-owned enterprises (SOEs) that acquired foreign assets in 2012 were from developing countries; many of those acquisitions were motivated by the pursuit of strategic assets (e.g. technology, intellectual property, brand names) and natural resources.

FDI by sovereign wealth funds (SWFs) in 2012 was only $20 billion, though it doubled from the year before. Cumulative FDI by SWFs is estimated at $127 billion, most of it in finance, real estate, construction and utilities. In terms of geographical distribution, more than 70 per cent of SWFs' FDI in 2012 was targeted at developed economies. The combined assets of the 73 recognized SWFs around the world were valued at an estimated $5.3 trillion in 2012 – a huge reservoir to tap for development financing.

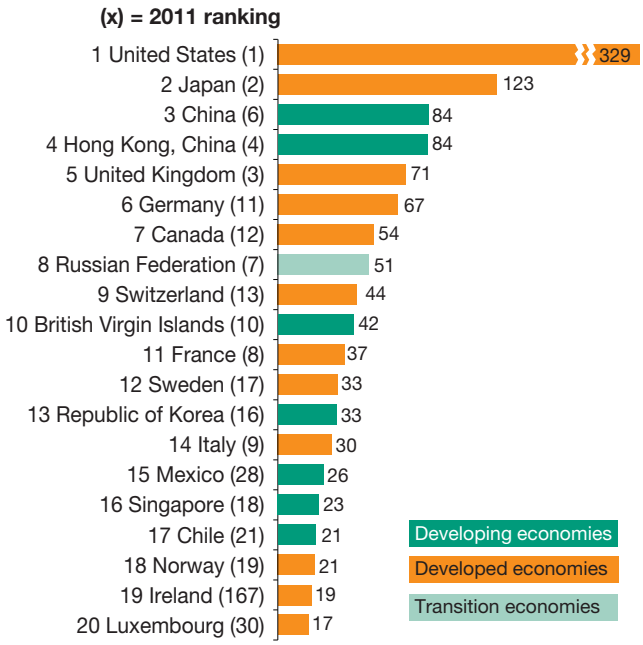
Growing offshore finance FDI raises concerns about tax evasion

Offshore finance mechanisms in FDI include mainly (i) offshore financial centres (OFCs) or tax havens and (ii) special purpose entities (SPEs). SPEs are foreign affiliates that are established for a specific purpose or that have a specific legal structure; they tend to be established in countries that provide specific tax benefits for SPEs. Both OFCs and SPEs are used to channel funds to and from third countries.

Investment in OFCs remains at historically high levels. Flows to OFCs amounted to almost $80 billion in 2012, down $10 billion from 2011, but well above the $15 billion average of the pre-2007 period. OFCs account for an increasing share of global FDI flows, at about 6 per cent.

SPEs play an even larger role relative to FDI flows and stocks in a number of important investor countries, acting as a channel for more than $600 billion of investment flows. Over the past decade, in most economies

Figure 3. Top 20 investor economies, 2012
(Billions of dollars)



that host SPEs, these entities have gained importance in investment flows. In addition, the number of countries offering favourable tax treatment to SPEs is on the increase.

Tax avoidance and transparency in international financial transactions are issues of global concern that require a multilateral approach. To date, international efforts on these issues have focused mostly on OFCs, but SPEs are a far larger phenomenon. Moreover, FDI flows to OFCs remain at high levels. Addressing the growing concerns about tax evasion requires refocusing international efforts. A first step could be establishing a closed list of "benign" uses of SPEs and OFCs. This would help focus any future measures on combating the malign aspects of tax avoidance and lack of transparency.

International production growing at a steady pace

In 2012, the international production of TNCs continued to expand at a steady rate because FDI flows, even at lower levels, add to the 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), increasing by 7.4 per cent from 2011 (table 2). They contributed value added worth $6.6 trillion, up 5.5 per cent, which compares well with global GDP growth of 2.3 per cent. Their employment numbered 72 million, up 5.7 per cent from 2011.

The growth of international production by the top 100 TNCs, which are mostly from developed economies, stagnated in 2012. However, the 100 largest TNCs domiciled in developing and transition economies increased their foreign assets by 20 per cent, continuing the expansion of their international production networks.

Reinvested earnings: a source of financing for long-term investment

Global FDI income increased sharply in 2011, for the second consecutive year, to $1.5 trillion, on a stock of $21 trillion, after declining in both 2008 and 2009 during the depths of the global financial crisis. FDI

Table 2. 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 (per cent)	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 (per cent)	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	16 278
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

income increased for each of the three major groups of economies – developed, developing and transition – with the largest increases taking place in developing and transition economies. The rates of return on FDI are 7 per cent globally, and higher in both developing (8 per cent) and transition economies (13 per cent) than in developed countries (5 per cent). Of total FDI income, about $500 billion was retained in host countries, while $1 trillion was repatriated to home or other countries (representing on average 3.4 per cent of the current account payments). The share of FDI income retained is highest in developing countries; at about 40 per cent it represents an important source of FDI financing. However, not all of this is turned into capital expenditure; the challenge for host governments is how to channel retained earnings into productive investment.

REGIONAL TRENDS IN FDI

Africa: a bright spot for FDI

FDI inflows to Africa rose for the second year running, up 5 per cent to $50 billion, making it one of the few regions that registered year-on-year growth in 2012. FDI outflows from Africa almost tripled in 2012, to $14 billion. TNCs from the South are increasingly active in Africa, building on a trend in recent years of a higher share of FDI flows to the region coming from emerging markets. In terms of FDI stock, Malaysia, South Africa, China and India (in that order) are the largest developing-country investors in Africa.

FDI inflows in 2012 were driven partly by investments in the extractive sector in countries such as the Democratic Republic of the Congo, Mauritania, Mozambique and Uganda. At the same time, there was an increase in FDI in consumer-oriented manufacturing and services, reflecting demographic changes.

Between 2008 and 2012, the share of such industries in the value of greenfield investment projects grew from 7 per cent to 23 per cent of the total.

FDI in and from developing Asia loses growth momentum

FDI flows to developing Asia decreased by 7 per cent to $407 billion in 2012. This decline was reflected across all subregions but was most severe in South Asia, where FDI inflows fell by 24 per cent. China and Hong Kong (China) were the second and third largest FDI recipients worldwide, and Singapore, India and Indonesia were also among the top 20. Driven by continued intraregional restructuring, lower-income countries such as Cambodia, Myanmar, the Philippines and Viet Nam were attractive FDI locations for labour-intensive manufacturing. In West Asia, FDI suffered from a fourth consecutive year of decline. State-owned firms in the Gulf region are taking over delayed projects that were originally planned as joint ventures with foreign firms.

Total outward FDI from the region remained stable at $308 billion, accounting for 22 per cent of global flows (a share similar to that of the European Union). The moderate increase in East and South-East Asia was offset by a 29 per cent decrease in outflows from South Asia. Outflows from China continued to grow, reaching $84 billion in 2012 (a record level), while those from Malaysia and Thailand also increased. In West Asia, Turkey has emerged as a significant investor, with its outward investment growing by 73 per cent in 2012 to a record $4 billion.

FDI growth in South America offset by a decline in Central America and the Caribbean

FDI to Latin America and the Caribbean in 2012 was $244 billion, maintaining the high level reached in 2011. Significant growth in FDI to South America ($144 billion) was offset by a decline in Central America and the Caribbean ($99 billion). The main factors that preserved South America's attractiveness to FDI are its wealth in oil, gas and metal minerals and its rapidly expanding middle class. Flows of FDI into natural resources are significant in some South American countries. FDI in manufacturing (e.g. automotive) is increasing in Brazil, driven by new industrial policy measures. Nearshoring to Mexico is on the rise.

Outward FDI from Latin America and the Caribbean decreased moderately in 2012 to $103 billion. Over half of these outflows originate from OFCs. Cross-border acquisitions by Latin American TNCs jumped 74 per cent to $33 billion, half of which was invested in other developing countries.

FDI flows to and from transition economies fall

Inward FDI flows in transition economies fell by 9 per cent in 2012 to $87 billion. In South-East Europe, FDI flows almost halved, mainly due to a decline in investments from traditional European Union investors suffering economic woes at home. In the Commonwealth of Independent States, including the Russian Federation, FDI flows fell by 7 per cent, but foreign investors continue to be attracted by the region's growing consumer markets and vast natural resources. A large part of FDI in the Russian Federation is due to "round tripping".

Outward FDI flows from transition economies declined by 24 per cent in 2012 to $55 billion. The Russian Federation continued to dominate outward FDI from the region, accounting for 92 per cent of the total. Although TNCs based in natural-resource economies continued their expansion abroad, the largest acquisitions in 2012 were in the financial industry.

A steep fall in FDI in 2012 reverses the recent recovery in developed economies

The sharp decline in inflows reversed the FDI recovery during 2010–2011. Inflows fell in 23 of 38 developed economies in 2012. The 32 per cent nosedive was due to a 41 per cent decline in the European Union and a 26 per cent decline in the United States. Inflows to Australia and New Zealand fell by 13 per cent and 33 per cent, respectively. In contrast, inflows to Japan turned positive after two successive years of net divestment. Also, the United Kingdom saw inflows increase. The overall decline was due to weaker growth prospects and policy uncertainty, especially in Europe, and the cooling off of investment in extractive industries. In addition, intracompany transactions – e.g. intracompany loans, which by their nature tend to fluctuate more – had the effect of reducing flows in 2012. While FDI flows are volatile, the level of capital expenditures is relatively stable.

Outflows from developed countries declined by 23 per cent, with the European Union down 40 per cent and the United States down 17 per cent. This was largely due to divestments and the continued "wait and see" attitude of developed-country TNCs. FDI flows from Japan, however, grew by 14 per cent.

FDI flows to the structurally weak and vulnerable economies rise further in 2012

FDI flows to structurally weak, vulnerable and small economies rose further by 8 per cent to $60 billion in 2012, with particularly rapid growth in FDI to LDCs and small island developing States (SIDS). The share of the group as a whole rose to 4.4 per cent of global FDI.

FDI inflows to *least developed countries* (*LDCs*) grew robustly by 20 per cent and hit a record high of $26 billion, led by strong gains in Cambodia, the Democratic Republic of the Congo, Liberia, Mauritania, Mozambique and Uganda. The concentration of inflows to a few resource-rich LDCs remained high. Financial services continued to attract the largest number of greenfield projects. With greenfield investments from developed countries shrinking almost by half, nearly 60 per cent of greenfield investment in LDCs was from developing economies, led by India.

FDI to *landlocked developing countries* (LLDCs) reached $35 billion, a new high. The "Silk Road" economies of Central Asia attracted about 54 per cent of LLDC FDI inflows. Developing economies became the largest investors in LLDCs, with particular interest by TNCs from West Asia and the Republic of Korea; the latter was the largest single investor in LLDCs last year.

FDI flows into *small island developing States* (SIDS) continued to recover for the second consecutive year, increasing by 10 per cent to $6.2 billion, with two natural-resources-rich countries – Papua New Guinea, and Trinidad and Tobago – explaining much of the rise.

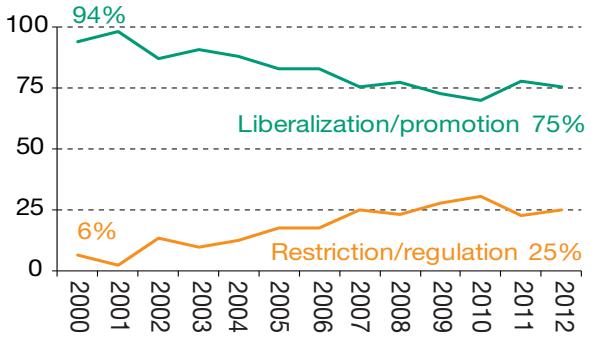
INVESTMENT POLICY TRENDS

Many new investment policies have an industry-specific angle

At least 53 countries and economies around the globe adopted 86 policy measures affecting foreign investment in 2012. The bulk of these measures (75 per cent) related to investment liberalization, facilitation and promotion, targeted to numerous industries, especially in the service sector. Privatization policies were an important component of this move. Other policy measures include the establishment of special economic zones (SEZs).

At the same time, the share of FDI-related regulations and restrictions increased to 25 per cent, confirming a longer-term trend after a temporary reverse development in 2011 (figure 4). Governments made more use of industrial policies, adjusted previous investment liberalization efforts, tightened screening and monitoring procedures, and closely scrutinized cross-border M&As. Restrictive investment policies were applied particularly to strategic industries, such as extractive industries. In general, governments became more selective about the degree of FDI involvement in different industries of their economies.

Figure 4. Changes in national investment policies, 2000–2012
(Per cent)



Screening mechanisms significantly affect cross-border M&As

One important example of how governments have recently become more selective in their admission procedures concerns cross-border M&As. This report analysed 211 of the largest cross-border M&As withdrawn between 2008 and 2012, those with a transaction value of $500 million or more. In most cases M&A plans were aborted for business reasons, but a significant number were also withdrawn because of regulatory concerns, such as competition issues, economic benefit tests and national security screening, or political opposition. These deals had an approximate total gross value of $265 billion. Their share among all withdrawn cross-border M&As stood at about 22 per cent in 2012, with a peak of over 30 per cent in 2010. The main target industry from which M&As were withdrawn for regulatory concerns or political opposition was the extractive industry.

Risk of investment protectionism persists

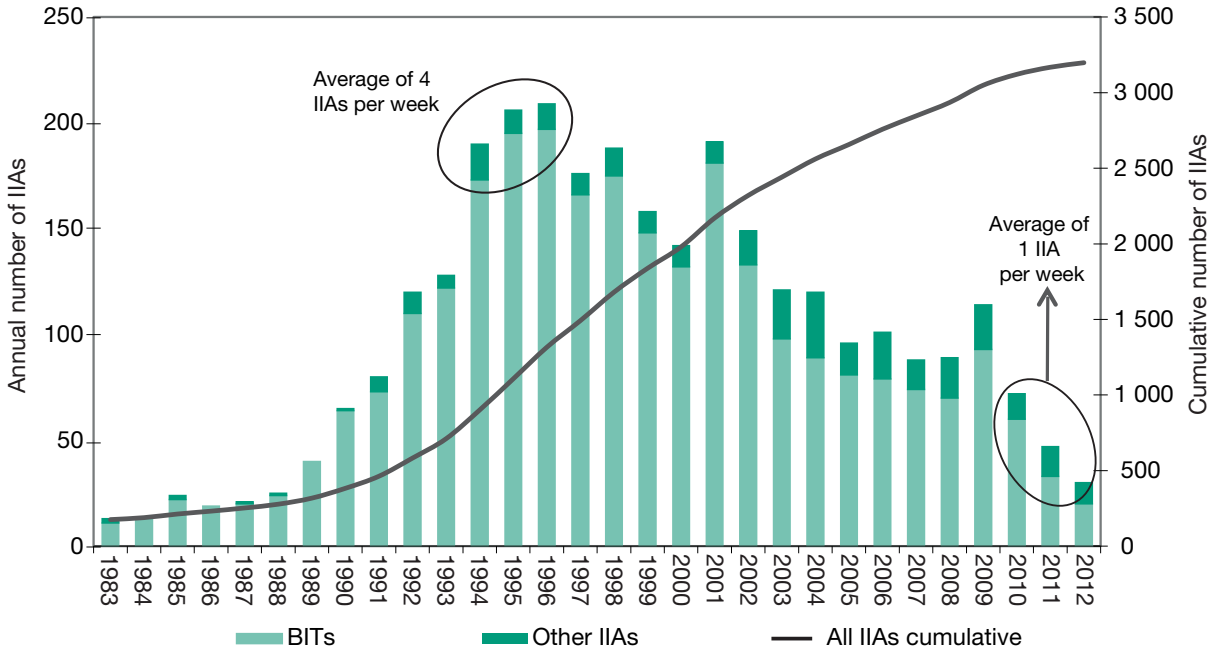
As countries make more use of industrial policies, tighten screening and monitoring procedures, closely scrutinize cross-border M&As and become more restrictive with regard to the degree of FDI involvement in strategic industries, the risk grows that some of these measures are taken for protectionist purposes. With the emergence and rapid expansion of global and regional value chains, protectionist policies can backfire on all actors, domestic and foreign.

In the absence of a commonly recognized definition of "investment protectionism", it is difficult to clearly identify among investment regulations or restrictions those measures that are of a protectionist nature. Efforts should be undertaken at the international level to clarify this term, with a view to establishing a set of criteria for identifying protectionist measures against foreign investment. At the national level, technical assistance by international organizations can help promote quality regulation rather than overregulation. It would also be helpful to consider extending the G-20's commitment to refrain from protectionism – and perhaps also expanding the coverage of monitoring to the world.

The number of newly signed BITs continues to decline

By the end of 2012, the IIA regime consisted of 3,196 agreements, which included 2,857 BITs and 339 "other IIAs", such as integration or cooperation agreements with an investment dimension (figure 5). The year saw the conclusion of 30 IIAs (20 BITs and 10 "other IIAs"). The 20 BITs signed in 2012 represent the lowest annual number of concluded treaties in a quarter century.

Figure 5. Trends in IIAs, 1983–2012



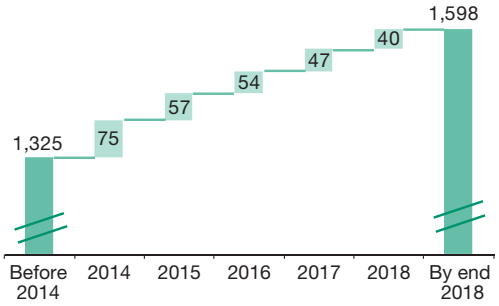
Rise of regionalism brings challenges and opportunities

Investment regionalism is gaining ground: 8 of the 10 "other IIAs" concluded in 2012 were regional ones. Furthermore, this year, at least 110 countries are involved in 22 regional negotiations. Regionalism can provide an opportunity for rationalization. If parties to nine such negotiations (i.e. those where BITs-type provisions are on the agenda) opted to replace their respective BITs with an investment chapter in the regional agreement, this would consolidate today's global BIT network by more than 270 BITs, or close to 10 per cent.

New IIAs tend to include sustainable–development–friendly provisions

IIAs concluded in 2012 show an increased inclination to include sustainable-development-oriented features, including references to the protection of health and safety, labour rights and the environment. These sustainable development features are supplemented by treaty elements that more broadly aim to preserve regulatory space for public policies in general or to minimize exposure to investment litigation in particular. Many of these provisions correspond to policy options featured in UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD).

Figure 6. Cumulative number of BITs that can be terminated or renegotiated



Opportunities for improving the IIA regime

Countries have several avenues for improving the IIA regime, depending on the depth of change they wish to achieve. These include the contracting States' right to clarify the meaning of treaty provisions (e.g. through authoritative interpretations), the revision of IIAs (e.g.

through amendments), the replacement of older IIAs (e.g. through renegotiation), or the termination of IIAs (either unilaterally or by mutual consent). Treaty expiration can support several of the above options. By the end of 2013, more than 1,300 BITs will be at the stage where they could be terminated or renegotiated at any time, creating a window of opportunity to address inconsistencies and overlaps in the multi-faceted and multi-layered IIA regime, and to strengthen its development dimension (figure 6). In taking such actions, countries need to weigh the pros and cons in the context of their investment climate and their overall development strategies.

Investor–State arbitration: highest number of new cases ever

In 2012, 58 new known investor–State dispute settlement (ISDS) cases were initiated. This brings the total number of known cases to 514 and the total number of countries that have responded to one or more ISDS cases to 95. The 58 cases constitute the highest number of known ISDS claims ever filed in one year and confirm foreign investors' increased inclination to resort to investor–State arbitration. In light of the increasing number of ISDS cases and persistent concerns about the ISDS system's deficiencies, the debate about the pros and cons of the ISDS mechanism has gained momentum, especially in those countries and regions where ISDS is on the agenda of IIA negotiations.

Investor–State arbitration: sketching paths towards reform

The functioning of ISDS has revealed systemic deficiencies. Concerns relate to legitimacy, transparency, lack of consistency and erroneous decisions, the system for arbitrator appointment and financial stakes. As a response, UNCTAD has identified five broad paths for reform: promoting alternative dispute resolution, modifying the existing ISDS system through individual IIAs, limiting investors' access to ISDS, introducing an appeals facility and creating a standing international investment court. IIA stakeholders are prompted to assess the current system, weigh the available options and embark on concrete steps for reform. Collective efforts at the multilateral level can help develop a consensus about the preferred course of reform and ways to put it into action.

GLOBAL VALUE CHAINS AND DEVELOPMENT

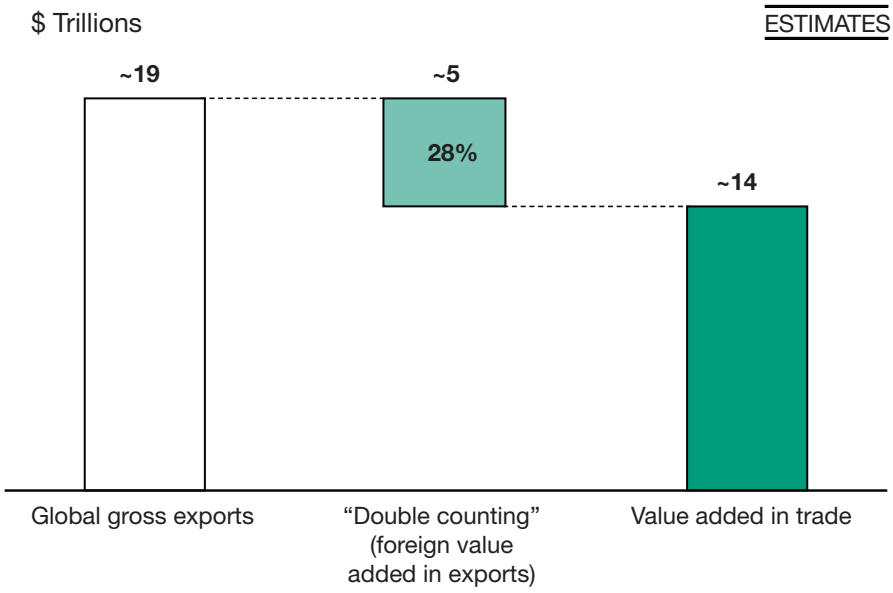
Trade is increasingly driven by global value chains

About 60 per cent of global trade, which today amounts to more than $20 trillion, consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption. The fragmentation of production processes and the international dispersion of tasks and activities within them have led to the emergence of borderless production systems. These can be sequential chains or complex networks, their scope can be global or regional, and they are commonly referred to as global value chains (GVCs).

GVCs lead to a significant amount of double counting in trade, as intermediates are counted several times in world exports but should be counted only once as "value added in trade". Today, some 28 per cent of gross exports consist of value added that is first imported by countries only to be incorporated in products or services that are then exported again. Some $5 trillion of the $19 trillion in global gross exports (in 2010 figures) is double counted (figure 7). Patterns of value added trade in GVCs determine the distribution of actual economic gains from trade to individual economies.

The spread of GVCs is greater in some industries where activities can be more easily separated, such as electronics, automotive or garments, but GVCs increasingly involve activities across all sectors, including services. While the share of services in gross exports worldwide is only about 20 per cent, almost half (46

Figure 7. Value added in global exports, 2010



per cent) of value added in exports is contributed by services-sector activities, as most manufacturing exports require services for their production.

The majority of developing countries are increasingly participating in GVCs. The developing-country share in global value added trade increased from 20 per cent in 1990 to 30 per cent in 2000 to over 40 per cent today. However, many poorer developing countries are still struggling to gain access to GVCs beyond natural resource exports.

Regional value chain links are often more important than global ones, especially in North America, Europe, and East and South-East Asia. In the transition economies, Latin America and Africa, regional value chains are relatively less developed.

GVCs are typically coordinated by TNCs

GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade. Patterns of value added trade in GVCs are shaped to a significant extent by the investment decisions of TNCs. Countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in GVCs and to generate relatively more domestic value added from trade (figure 8).

TNCs coordinate GVCs through complex webs of supplier relationships and various governance modes, from direct ownership of foreign affiliates to contractual relationships (in non-equity modes of international production, or NEMs), to arm's-length dealings. These governance modes and the resulting power structures in GVCs have a significant bearing on the distribution of economic gains from trade in GVCs and on their long-term development implications.

TNC decisions on where to invest and with whom to partner are driven by GVC locational determinants that depend on the GVC segment, task or activity. Locational determinants for GVC segments are often different, and fewer, than those for vertically integrated industries – i.e. the determinants for electronics assembly activities are fewer than those for investment in the electronics industry as a whole. For many GVC segments, there are relatively few "make or break" locational determinants that act as preconditions for countries' access to GVCs.

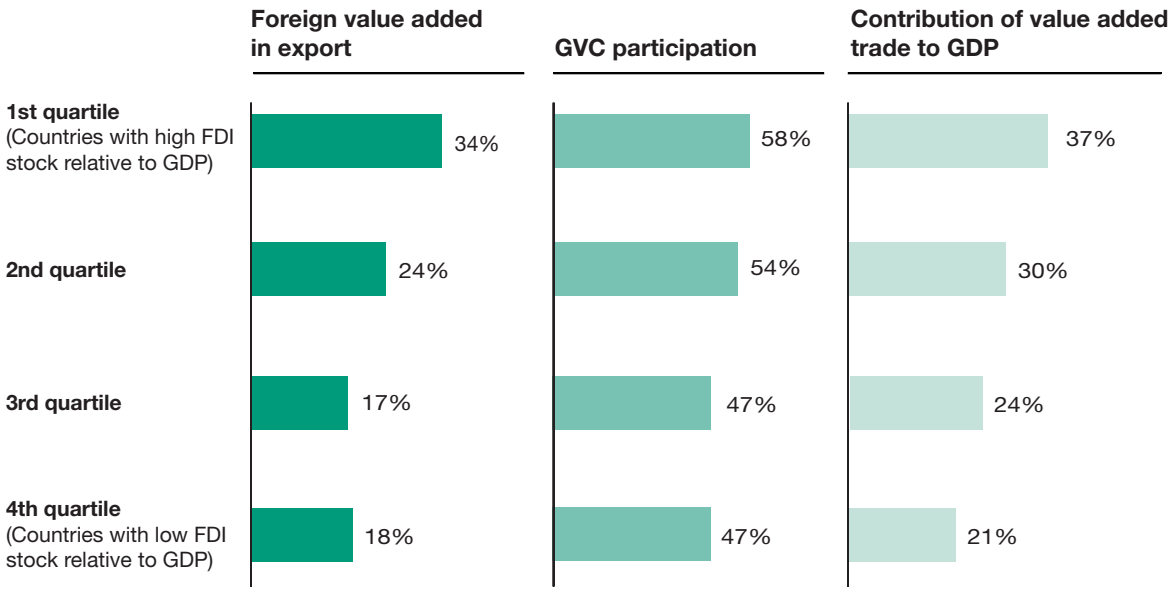
GVCs can make an important contribution to development, but GVC participation is not without risks

GVCs spread value added and employment to more locations, rather than hoarding them only in those locations that are capable of carrying out the most complex tasks. As such, they can accelerate the "catch-up" of developing countries' GDP and income levels and lead to greater convergence between economies. At the global level, that is the essential development contribution of GVCs.

At the country level, domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, value added trade contributes nearly 30 per cent to countries' GDP on average, as compared with 18 per cent for developed countries. There is a positive correlation between participation in GVCs and GDP per capita growth rates. Economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average. Furthermore, GVC participation tends to lead to job creation in developing countries and to higher employment growth, even if GVC participation depends on imported contents in exports.

But the experience of individual economies is more heterogeneous. The value added contribution of GVCs can be relatively small where imported contents of exports are high and where GVC participation is limited to lower-value parts of the chain. Also, a large part of GVC value added in developing economies is generated by affiliates of TNCs, which can lead to relatively low "value capture", e.g. as a result of transfer pricing or income repatriation. However, even where exports are driven by TNCs, the value added contribution of local firms in GVCs is often very significant. And reinvestment of earnings by foreign affiliates is, on average, almost as significant as repatriation.

Figure 8. Key value added trade indicators, by quartile of inward FDI stock relative to GDP, 2010



As to employment gains, pressures on costs from global buyers often mean that GVC-related employment can be insecure and involve poor working conditions, with occupational safety and health a particular concern. Also, stability of employment in GVCs can be low as oscillations in demand are reinforced along value chains and GVC operations of TNCs can be footloose. However, GVCs can serve as a mechanism to transfer international best practices in social and environmental issues, e.g. through the use of CSR standards, although implementation of standards below the first tier of the supply chain remains a challenge.

Longer-term, GVCs can be an important avenue for developing countries to build productive capacity, including through technology dissemination and skill building, opening up opportunities for industrial upgrading. However, the potential long-term development benefits of GVCs are not automatic. GVC participation can cause a degree of dependency on a narrow technology base and on access to TNC-coordinated value chains for limited value added activities.

At the firm level, the opportunities for local firms to increase productivity and upgrade to higher value added activities in GVCs depend on the nature of the GVCs in which they operate, the governance and power relationships in the chain, their absorptive capacities, and the business and institutional environment in the economy. At the country level, successful GVC upgrading paths involve not only growing participation in GVCs but also higher domestic value added creation. At the same time, it involves gradual expansion of participation in GVCs of increasing technological sophistication, moving from resource-based exports to exports of manufactures and services of gradually increasing degrees of complexity.

Countries need to make a strategic choice whether to promote or not to promote GVC participation

Countries need to carefully weigh the pros and cons of GVC participation, and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. Some countries may decide not to promote GVC participation. Others may not have a choice: for the majority of smaller developing economies with limited resource endowments there is often little alternative to development strategies that incorporate a degree of participation in GVCs. The question for those countries is not so much *whether* to participate in GVCs, but *how*. In reality, most are already involved in GVCs one way or another. Promoting GVC participation requires targeting specific GVC segments, i.e. GVC promotion can be selective. Moreover, GVC participation is one aspect of a country's overall development strategy.

Policies matter to make GVCs work for development

If countries decide to actively promote GVC participation, policymakers should first determine where their countries' trade profiles and industrial capabilities stand and evaluate realistic GVC development paths for strategic positioning.

Gaining access to GVCs, benefiting from GVC participation and realizing upgrading opportunities in GVCs requires a structured approach that includes (i) embedding GVCs in overall development strategies and industrial development policies, (ii) enabling GVC growth by creating and maintaining a conducive investment and trade environment, and by providing supportive infrastructure and (iii) building productive capacities in local firms. Mitigating the risks involved in GVC participation calls for (iv) a strong environmental, social and governance framework. And aligning trade and investment policies implies the identification of (v) synergies between the two policy areas and in relevant institutions (table 3).

Embedding GVCs in development strategy. Industrial development policies focused on final goods and services are less effective in a global economy characterized by GVCs:

Table 3. Building a policy framework for GVCs and development

Key elements	Principal policy actions
Embedding GVCs in development strategy	• Incorporating GVCs in industrial development policies • Setting policy objectives along GVC development paths
Enabling participation in GVCs	• Creating and maintaining a conducive environment for trade and investment • Putting in place the infrastructural prerequisites for GVC participation
Building domestic productive capacity	• Supporting enterprise development and enhancing the bargaining power of local firms • Strengthening skills of the workforce
Providing a strong environmental, social and governance framework	• Minimizing risks associated with GVC participation through regulation, and public and private standards • Supporting local enterprise in complying with international standards
Synergizing trade and investment policies and institutions	• Ensuring coherence between trade and investment policies • Synergizing trade and investment promotion and facilitation • Creating "Regional Industrial Development Compacts"

- GVC-related development strategies require more targeted policies focusing on fine-sliced activities in GVCs. They also increase the need for policies dealing with the risk of the middle-income trap, as the fragmentation of industries increases the risk that a country will enter an industry only at its low-value and low-skill level.
- GVCs require a new approach to trade policies in industrial development strategies, because protective trade policies can backfire if imports are crucial for export competitiveness. Trade policies should also be seen in light of the increased importance of regional production networks as GVC-based industrialization relies on stronger ties with the supply base in neighbouring developing economies.
- The need to upgrade in GVCs and move into higher value added activities strengthens the rationale for building partnerships with lead firms for industrial development. At the same time, GVCs call for a regulatory framework to ensure joint economic and social and environmental upgrading to achieve sustainable development gains.
- Finally, GVCs require a more dynamic view of industrial development. Development strategy and industrial development policies should focus on determinants that can be acquired or improved in the short term and selectively invest in creating others for medium- and long-term investment attractiveness, building competitive advantages along GVCs, including through partnerships with business.

For policymakers, a starting point for the incorporation of GVCs in development strategy is an understanding of where their countries and their industrial structures stand in relation to GVCs. That should underpin an evaluation of realistic GVC development paths, exploiting both GVC participation and upgrading opportunities. UNCTAD's GVC Policy Development Tool can help policymakers do this.

Enabling participation in GVCs. Enabling the participation of local firms in GVCs implies creating and maintaining a conducive environment for investment and trade, and putting in place the infrastructural prerequisites for GVC participation. A conducive environment for trade and investment refers to the overall policy environment for business, including trade and investment policies, but also tax, competition policy, labour market regulation, intellectual property, access to land and a range of other policy areas (see UNCTAD's Investment Policy Framework for Sustainable Development, IPFSD, which addresses relevant trade and other policy areas). Trade and investment facilitation is particularly important for GVCs in which goods now cross borders multiple times and where there is a need to build up productive capacity for exports.

Providing reliable physical and "soft" infrastructure (notably logistics and telecommunications) is crucial for attracting GVC activities. Developing good communication and transport links can also contribute to the "stickiness" of GVC operations. As value chains are often regional in nature, international partnerships for infrastructure development can be particularly beneficial.

Building domestic productive capacity. A number of policy areas are important for proactive enterprise development policies in support of GVC participation and upgrading: First, enterprise clustering may enhance overall productivity and performance. Second, linkages development between domestic and foreign firms and inter-institution linkages can provide local SMEs with the necessary externalities to cope with the dual challenges of knowledge creation and internationalization, needed for successful participation in GVCs. Third, domestic capacity-building calls for science and technology support and an effective intellectual property rights framework. Fourth, a range of business development and support services can facilitate capacity-building of SMEs so they can comply with technical standards and increase their understanding of investment and trade rules. Fifth, there is a case for entrepreneurship development policy, including managerial and entrepreneurial training and venture capital support. Sixth, access to finance for SMEs helps to direct development efforts at the upstream end of value chains where they most directly benefit local firms.

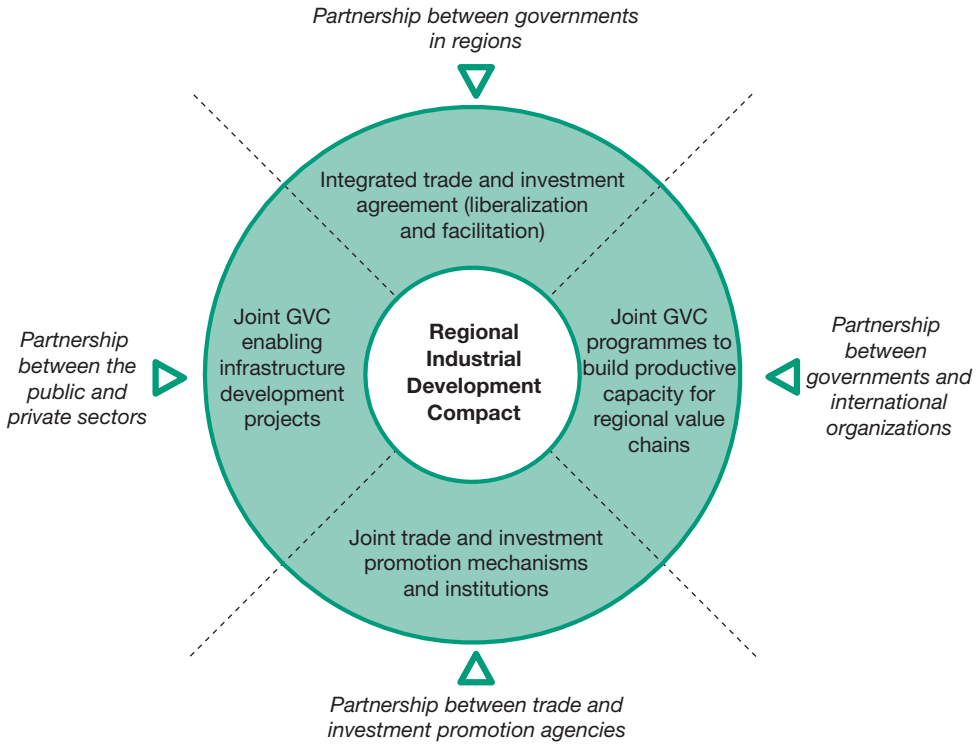
Furthermore, an effective skills development strategy is key to engagement and upgrading in GVCs, and to assist SMEs in meeting the demands of their clients with regard to compliance with certain CSR standards. It can also facilitate any adjustment processes and help displaced workers find new jobs.

Policymakers should also consider options to strengthen the bargaining power of domestic producers vis-à-vis their foreign GVC partners, to help them obtain a fair distribution of rents and risks and to facilitate gaining access to higher value added activities in GVCs (*WIR 11*).

Providing a strong environmental, social and governance framework. A strong environmental, social and governance framework and policies are essential to maximizing the sustainable development impact of GVC activities and minimizing risks. Host countries have to ensure that GVC partners observe international core labour standards. Equally important are the establishment and enforcement of occupational safety, health and environmental standards in GVC production sites, as well as capacity-building for compliance. Buyers of GVC products and their home countries can make an important contribution to safer production by working with suppliers to boost their capacity to comply with host country regulations and international standards, and avoiding suppliers that disrespect such rules.

Suppliers are increasingly under pressure to adapt to CSR policies in order to ensure their continuing role in GVCs. EPZs are an important hub in GVCs and present an opportunity for policymakers to address CSR issues on a manageable scale. Policymakers could consider adopting improved CSR policies, support services and infrastructure in EPZs (e.g. technical assistance for certification and reporting, support on occupational safety and health issues, recycling or alternative energy facilities), transforming them into centres of excellence for sustainable business and making them catalysts for the implementation of CSR. Governments or zone authorities could opt to offer such benefits in addition to or instead of some of the

Figure 9. Regional Industrial Development Compacts for regional value chains



existing benefits offered to firms in EPZs. Benefits for firms could include cost sharing, harmonization of practices, reduced site inspections and others. International organizations can help through the establishment of benchmarks, facilitation of exchanges of best practices, and capacity-building programmes.

A host of other concerns and corporate governance issues should be addressed to minimize risks associated with GVCs. These include transfer pricing, where GVCs have the duplicate effect of increasing the scope for transfer price manipulation and making it harder to combat, to the detriment of raising fiscal revenues for development. In addition, to safeguard industrial development processes, governments should seek to foster resilient supply chains that are prepared for and can withstand shocks, and recover quickly from disruption.

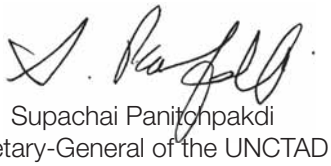
Synergizing trade and investment policies and institutions. As investment and trade are inextricably linked in GVCs, it is crucial to ensure coherence between investment and trade policies. Avoiding inconsistent or even self-defeating approaches requires paying close attention to those policy instruments that may simultaneously affect investment and trade in GVCs, i.e. (i) trade measures affecting investment and (ii) investment measures affecting trade.

At the institutional level, the intense trade and investment links in GVCs call for closer coordination between domestic trade and investment promotion agencies, as well as better targeting of specific segments of GVCs in line with host countries' dynamic locational advantages. A number of objective criteria, based on

a country's GVC participation and positioning, can help determine the most appropriate institutional set-up for trade and investment promotion.

Synergies should be sought also through integrated treatment of international investment and trade agreements. Regional trade and investment agreements are particularly relevant from a value chain perspective, as regional liberalization efforts are shaping regional value chains and the distribution of value added.

In fact, the relevance of regional value chains shows the potential impact of evolving regional trade and investment agreements towards *"Regional Industrial Development Compacts"*. Such Compacts could focus on liberalization and facilitation of trade and investment and establish joint investment promotion mechanisms and institutions. They could extend to other policy areas important for enabling GVC development, such as the harmonization of regulatory standards and consolidation of private standards on environmental, social and governance issues. And they could aim to create cross-border industrial clusters through joint investments in GVC-enabling infrastructure and productive capacity building. Establishing such compacts implies working in partnership – between governments in the region to harmonize trade and investment regulations and jointly promotion trade and investment, between governments and international organizations for technical assistance and capacity-building, and between the public and private sectors for investment in regional value chain infrastructure and productive capacity (figure 9).



Geneva, June 2013

Supachai Panitchpakdi
Secretary-General of the UNCTAD

GLOBAL INVESTMENT TRENDS

CHAPTER I

A. GLOBAL TRENDS: THE FDI RECOVERY FALTERS

1.Current trends

The post-crisis FDI recovery that started in 2010 and 2011 has currently stalled, with global FDI flows falling to below the pre-crisis level. The FDI recovery will now take longer than expected.

Global foreign direct investment (FDI) inflows fell by 18 per cent in 2012, down from a revised $1.65 trillion in 2011 to $1.35 trillion. The strong decline in FDI flows is in stark contrast to other macroeconomic variables, including GDP, trade and employment growth, which all remained in positive territory in 2012 (table I.1).

FDI flows in 2013 are expected to remain close to the 2012 level, with an upper range of $1.45 trillion. 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 reach the level of $1.6 trillion in 2014 and $1.8 trillion in 2015. Nevertheless, significant risks to this scenario persist, including structural weaknesses in the global financial system, weaker growth in the European Union (EU) and significant policy uncertainty in areas crucial for investor confidence.

Table I.1. Growth rates of global GDP, GFCF, trade, employment and FDI, 2008–2014
(Per cent)

Variable	2008	2009	2010	2011	2012	2013[a]	2014[a]
GDP	1.4	-2.1	4.0	2.8	2.3	2.3	3.1
Trade	3.0	-10.3	12.5	5.9	2.6	3.6	5.3
GFCF	2.3	-5.6	5.6	4.8	3.7	5.0	5.7
Employment	1.1	0.5	1.3	1.5	1.3	1.3	1.3
FDI	-9.3	-33.0	15.8	17.3	-18.2	3.6	17.1
Memorandum:							
FDI value (in $ trillions)	1.82	1.22	1.41	1.65	1.35	1.40	1.6

Source: UNCTAD based on United Nations for GDP, IMF for GFCF and Trade, and ILO for employment.
[a] Projections.
Note: GFCF = Gross fixed capital formation.

a. FDI by geographical distribution

(i) FDI inflows

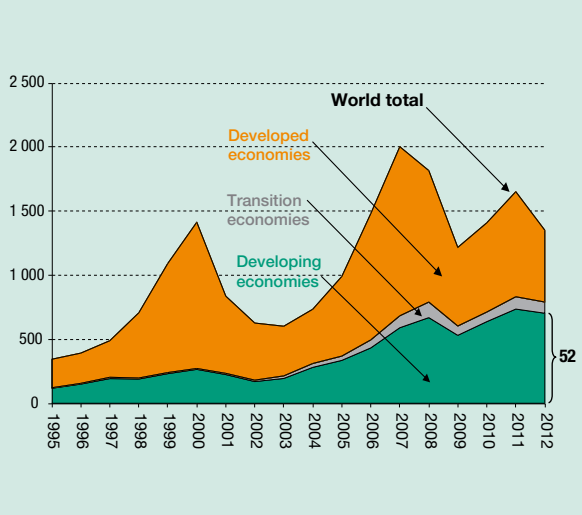
In 2012, for the first time ever, developing economies absorbed more FDI than developed countries, with nine developing economies ranked among the 20 largest recipients in the world.

FDI flows to developing economies remained relatively resilient in 2012, reaching more than $700 billion, the second highest level ever recorded. In contrast, FDI flows to developed countries shrank dramatically to $561 billion, almost one third of their peak value in 2007. Consequently, developing economies absorbed an unprecedented $142 billion more FDI than developed countries. They accounted for a record share of 52 per cent of FDI inflows in 2012 (figure I.1). The global rankings of the largest recipients of FDI also reflect changing patterns of investment flows. For example, four developing economies now rank among the five largest recipients in the world; and among the top 20 recipients, nine are developing economies (figure I.2).

Among *developing regions*, FDI inflows to developing Asia fell by 6.7 per cent as a result of decreases across most subregions and major economies, including China, Hong Kong (China), India, the Republic of Korea, Saudi Arabia and Turkey. However, 2012 inflows to Asia still attained the second highest level recorded, accounting for 58 per cent of FDI flows to developing countries. FDI inflows to the Association of Southeast Asian Nations (ASEAN) went up by 2 per cent as most countries in this group saw their FDI rise. FDI flows to West Asia declined for the fourth consecutive year: with continuing political uncertainty in the region and subdued economic prospects globally, foreign investors were still wary of making further commitments in the region.

FDI to Latin America and the Caribbean maintained the high levels it reached in 2011, decreasing only slightly, by 2.2 per cent in 2012. The high levels

Figure I.1. FDI inflows, global and by group of economies, 1995–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Figure I.2. Top 20 host economies, 2012
(Billions of dollars)

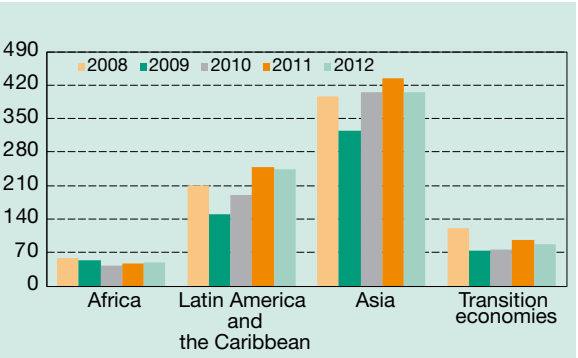
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

of FDI flows to South America were driven mainly by the region's economic buoyancy, attracting a significant number of market-seeking investments, and by the persistent strength of commodity prices. This continued to encourage investments in the extractive industries, particularly in Chile, Peru and Colombia. FDI to Brazil slowed but remained robust, elevating the country to the world's fourth leading investment destination (see figure I.2). FDI flows to Central America decreased, mainly as a result of a decline in flows to Mexico.

Africa was the only region that saw FDI flows rise in 2012 (figure I.3). Flows to North Africa reversed their downward trend, and Egypt saw a rebound in investment from European investors. FDI inflows to sub-Saharan Africa were driven partly by investments in the extractive sector in countries such as the Democratic Republic of the Congo, Mauritania, Mozambique and Uganda. Angola – an important holder of FDI stock in Africa – continued to post divestments in 2012.

In 2012, the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) saw a decline in FDI inflows, driven in large part by the plummeting value of cross-border mergers and acquisitions (M&As). In South-East Europe, FDI flows almost halved as a result of reduced investment from EU countries, the main investors in the subregion. In the CIS, FDI flows fell only slightly as foreign investors continue to be attracted by these countries' fast-growing consumer markets and natural resources. The Russian Federation saw FDI flows decline slightly, while those to Kazakhstan and Ukraine rose modestly.

Figure I.3. FDI inflows, by region, 2008–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

FDI flows declined dramatically to *developed countries* in 2012, falling sharply both in Europe and in the United States. In Europe, Belgium and Germany saw sharp declines in FDI inflows. In Belgium – which, with a drop of more than $100 billion, accounted for much of the fall – FDI flows are often volatile or inflated by the transactions of special purpose entities (SPEs). Germany posted a large decline of FDI from $49 billion in 2011 to $6.6 billion in 2012, owing to large divestments. Taken together, FDI flows to the Southern European countries affected by sovereign debt problems (Greece, Italy, Portugal and Spain) more than halved from 2011. The decline of inflows to the United States is largely explained by the fall in cross-border M&A sales. Despite that fall, the country remained the largest recipient of FDI flows in the world. A few developed countries bucked the trend and saw FDI inflows increase – namely Canada, Ireland, Japan and the United Kingdom – although none of these increases were significant in historic terms. Of note, however, Japan saw positive inflows after two years of net divestments. The return of greater stability and confidence in the Irish economy has revived the activity of TNCs in the country since the crisis.

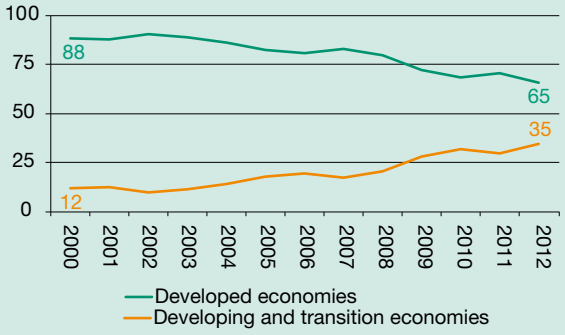
(ii) FDI outflows

Investors from developing economies remained bullish in 2012. In contrast, developed-country TNCs continued their wait-and-see approach or heavily divested their FDI assets.

Global FDI outflows fell by 17 per cent to $1.4 trillion, down from $1.7 trillion in 2011. Developed economies, in particular those in the EU, saw their FDI outflows fall close to the trough of 2009, in part because of uncertainty about the euro. In contrast, investors from developing countries continued their expansion abroad. Together, the share of developing and transition economies in global outflows reached 35 per cent (figure I.4). Among developing and transition economies, the BRICS countries (Brazil, the Russian Federation, India, China and South Africa) continue to be important outward investors (box I.1).

In contrast to the sharp decline of FDI flows from developed countries, FDI flows from *developing economies* rose slightly in 2012, amounting to $426 billion. As a result, their share in global outflows rose to a record 31 per cent. Among developing regions, FDI outflows from Africa nearly tripled, flows from Asia remained unchanged from their 2011 level, and those from Latin America and the Caribbean declined slightly (figure I.5). Asian countries remained the largest source of FDI in developing world, accounting for almost three quarters of the group's total.

Figure I.4. Share of major economic groups in FDI outflows, 2000–2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

The rise in outward FDI flows from Africa in 2012 – to $14 billion – was mainly due to large flows from South Africa in mining, the wholesale sector and health-care products. In 2012, FDI outflows from developing Asia remained close to the record level of 2011, reaching $308 billion. China has been one of the main drivers of outflows from Asia. Flows from the Republic of Korea, Malaysia, Saudi Arabia, Thailand and Turkey rose in 2012. In contrast, companies from Hong Kong (China), India and Singapore saw their investments abroad fall from 2011 levels. Outward FDI from Latin America and the Caribbean declined by 2 per cent in 2012, to some $100 billion. Outflows from Brazil remained restrained by high levels of repayment of intercompany loans by Brazilian affiliates abroad to their parent companies in Brazil. In contrast, Mexico and Chile saw strong increases in their FDI outflows.

Outward FDI flows from *transition economies* declined in 2012, owing to a fall in FDI outflows by Russian investors. Although natural-resource-based TNCs supported by high commodity prices

Box I.1. Rising BRICS FDI, globally and in Africa

The BRICS countries (Brazil, the Russian Federation, India, China and South Africa) have emerged as not only major recipients of FDI but also important outward investors. Their outward FDI rose from $7 billion in 2000 to $145 billion in 2012, or 10 per cent of world flows (up from only 1 per cent in 2000).

Overseas investment by BRICS countries is mainly in search of markets in developed countries or in the context of regional value chains. Over 40 per cent of their outward FDI stock is in developed countries, of which 34 per cent is in the EU (box table I.1.1). Some 43 per cent of outward FDI stock is in neighbouring economies of the BRICS – in Latin America and the Caribbean; transition economies; South Asia; South-East Asia and Africa.

Box table I.1.1. Outward FDI stock from BRICS, by destination region, 2011
(Millions of dollars)

Partner region/economy	Value	Share
World	1 130 238	100
Developed economies	470 625	42
European Union	385 746	34
United States	31 729	3
Japan	1 769	0
Developing economies	557 055	49
Africa	49 165	4
Latin America and the Caribbean	175 410	16
Asia	331 677	29
Transition economies	31 891	3
Memorandum:		
BRICS	28 599	3

Source: UNCTAD FDI-TNC-GVC Information System and data from the IMF, CDIS (Coordinated Direct Investment Survey).
Note: Data for Brazil are based on information from the partner countries.

BRICS countries are becoming significant investors in Africa. Although Africa receives only 4 per cent of BRICS FDI outflows, BRICS countries have joined the ranks of top investing countries in Africa. In 2010, the share of BRICS in FDI inward stock in Africa reached 14 per cent and their share in inflows reached 25 per cent. Their share in the total value of greenfield projects in Africa rose from one fifth in 2003 to almost one quarter in 2012. Most BRICS FDI projects in Africa are in manufacturing and services. Only 26 per cent of the value of projects and 10 per cent of the number of projects are in the primary sector.

Brazilian FDI to Africa has been on the rise in recent years, with public financial institutions playing an important role in bringing the country's investors closer to Africa. Among these, the Brazilian Development Bank (BNDES) deserves special mention as its incentives and disbursements to sub-Saharan Africa have increased strongly over the past decade. It has played a key role in the expansion of Brazilian TNCs into the new African ethanol industry, in countries such as Angola, Ghana and Mozambique.

Chinese FDI stock in Africa stood at $16 billion at the end of 2011. South Africa is the leading recipient of Chinese FDI in the continent, followed by the Sudan, Nigeria, Zambia and Algeria. China has joined the ranks of top investing countries in some least developed countries (LDCs), such as the Sudan and Zambia. In addition to resource-seeking FDI, the rapid industrial upgrading currently taking place in China provides opportunities for these countries to attract FDI in manufacturing.

With $18 billion, *South Africa* was the fifth largest holder of FDI stock in Africa in 2011 and the second largest developing country investor globally after Malaysia. The majority of this outward stock can be attributed to reinvested earnings in the private non-banking sector. The largest share of the country's outward FDI stock in Africa is in Mauritius. One fourth of this stock is also concentrated in Nigeria and in two of South Africa's neighbours, Mozambique and Zimbabwe.

/...

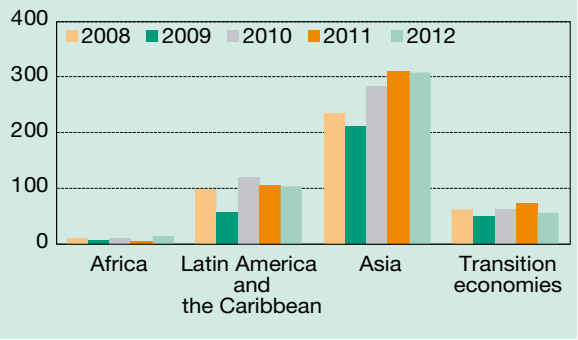
Box I.1. Rising BRICS FDI, globally and in Africa (concluded)

Indian FDI in Africa has traditionally been concentrated in Mauritius, originally because of ethnic links that led to FDI in the garment industry, but more recently because of the country's offshore financial facilities and favourable tax conditions. As a result, the final destinations of recent investments have often been elsewhere. However, Indian TNCs have recently begun investing in other countries in the region, such as Côte d'Ivoire, Ethiopia, Senegal and the Sudan.

The expansion of *Russian* TNCs in Africa is fairly recent but has been rapid, reaching $1 billion in 2011. The arrival of Russian TNCs has been motivated by a desire to enhance raw-material supplies and to expand into new segments of strategic commodities, as well as a desire to access local markets.

Source: UNCTAD.

Figure I.5. FDI outflows, by region, 2008–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Figure I.6. Top 20 investor economies, 2012
(Billions of dollars)

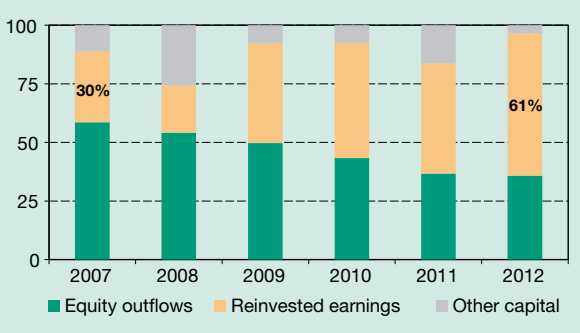
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

continued their expansion abroad, the largest acquisitions in 2012 took place in the financial industry.

The global ranking of the largest FDI investors shows the continuing rise of developing and transition economies (figure I.6). Two developing countries now rank among the five largest foreign investors in the world, and for the first time ever, China was the world's third largest investor, after the United States and Japan.

Outward FDI from *developed countries* fell by more than $274 billion in 2012, which accounted for almost the entire decline in global outflows. Belgium, the United States and the Netherlands saw the largest declines. FDI dropped in 22 of 38 developed economies, including most of the major source countries. The continuing Eurozone crisis appears to have deterred United States investors from investing in Europe, their main target region. European TNCs, mainly in the financial industry, heavily divested their assets abroad. In contrast, Japan kept up the momentum of the previous year to become the second largest source of FDI worldwide. A growing part of outward FDI from developed countries is made up of reinvested earnings, now a record 61 per cent of the total (figure I.7). While this reflects a growing tendency of developed-country TNCs to finance overseas expansion from foreign earnings, it also reflects the tendency of developed-country TNCs to hold large cash reserves in their foreign affiliates in the form of retained earnings.

Figure I.7. FDI outflows by components for 37 selected developed countries,[a] 2007–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

[a] Countries included are Australia, Austria, Belgium, Bermuda, Bulgaria, Canada, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Note: Data for reinvested earnings may be underestimated as they are reported together with equity in some countries.

b. FDI by mode and sector/industry

The deterioration of the global crisis hit FDI in all three sectors. Services displayed higher resilience and gained share at the expense of both the primary and manufacturing sectors.

In 2012 the deterioration of the global economic situation – in particular the deepening of the crisis in the Eurozone and the slowing of growth in the emerging economies – clearly depressed investors' drive to launch cross-border investment initiatives. Generally speaking, the weakening of global demand and the resulting competitive pressure pushed most operators to turn their focus to the solidity of their balance sheet and the preservation of shareholders' returns rather than on investments and growth. This trend involved both greenfield and M&A projects.

In the absence of published FDI data by sector for 2012, this section relies on data on cross-border M&As and on announced greenfield FDI investments[1] (see web annex tables for FDI by sector and industry in 2011). The estimated capital expenditure of announced greenfield projects fell by 33 per cent compared with 2011, reaching $600 billion, the lowest level in the past 10 years (figure I.8). The contraction was even more pronounced in developing economies (-38 per cent), raising additional concerns about the development impact of the downturn.

The value of cross-border M&As declined by 45 per cent, back to levels similar to those of 2009 and 2010 (figure I.8), after the financial crisis had knocked down M&A activity in developed economies.

Compared with the decline in the value of FDI projects, the decline in the number of projects was more moderate (-15 per cent for greenfield projects and -11 per cent for M&A deals). The discrepancy is explained by a significant reduction in the size of projects; specifically, the average investment value decreased by 21 per cent for greenfield projects and 38 per cent for cross-border M&As.

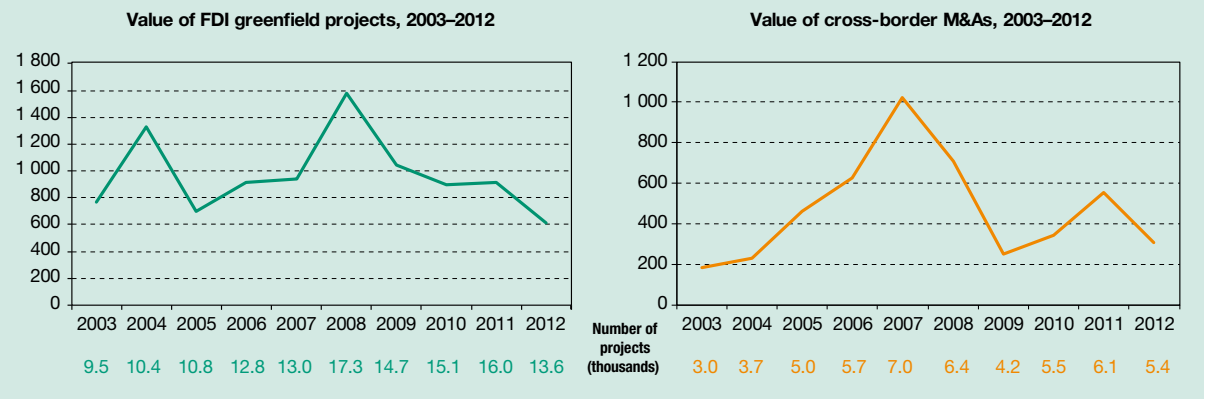
All three sectors were heavily hit by the downturn, although with different intensities (figure I.9).

The *primary sector* was the most heavily hit in relative terms, in both greenfield projects and cross-border M&As. The decline was driven by the downturn in the mining, quarrying and petroleum industry, which represents the bulk of the overall FDI activity in the sector. The contraction was particularly dramatic in developing countries, where the announced value of greenfield projects fell to one fourth of the 2011 value. Similarly, FDI inflows to developing economies generated by cross-border M&A activities plunged from some $25 billion in 2011 to a slightly negative value, revealing a predominant divestment trend by foreign investors in the sector.

Manufacturing was the sector with the largest decrease in FDI project value in absolute terms, originating mainly from a decline in the value of greenfield projects across all three groups of economies – developed, developing and transition economies. The retreat in greenfield project activity is confirmed by a significant decline in the number of such projects, down by 21 per cent globally. By contrast, the decline in the value of cross-border M&As was driven primarily by a decrease in the average deal value, as weak business sentiment – particularly in some developed economies – prevented companies from engaging in large projects.

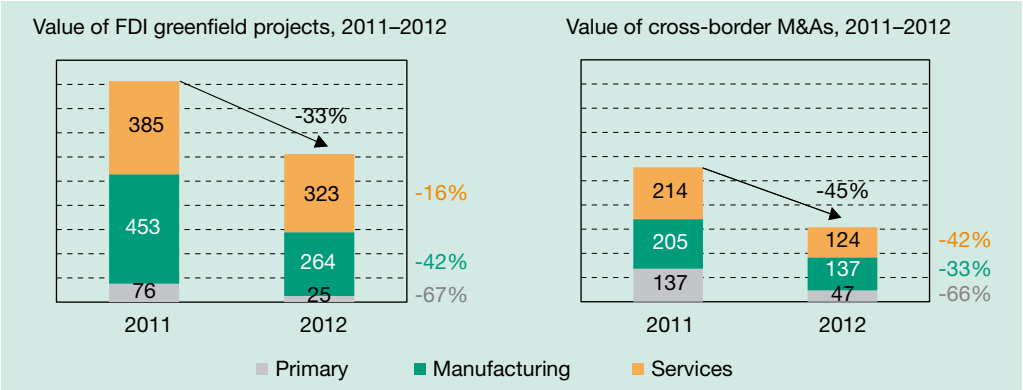
Services turned out to be the sector least affected, despite sharing the overall fall with the primary and

Figure I.8. Historic trend of FDI projects, 2003–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Figure I.9. FDI projects by sector, 2011–2012
(Billions of dollars)

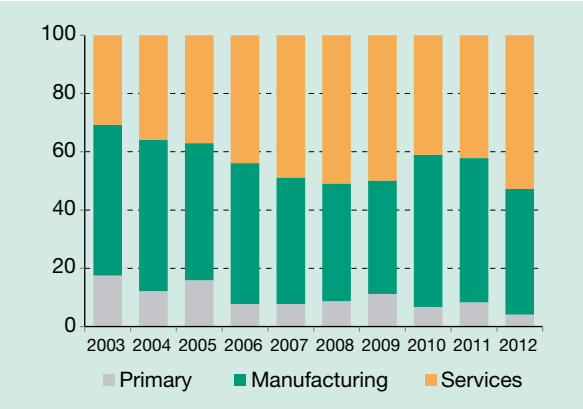


Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

manufacturing sectors. In particular, the relatively limited decrease in the number of greenfield projects (-8 per cent), especially to developing countries (-4 per cent), offers reassurance about the fundamental resilience of highly strategic services industries such as business services, trade, finance and transport. These industries have represented a key FDI growth engine in recent years and also contributed to the creation of a stronger entrepreneurial environment. On the negative side, a significant decrease in the average value of greenfield FDI projects (-16 per cent in developing countries) lowered the level of capital flows considerably. Similar dynamics held for M&A initiatives, where the fall in value was due primarily to the lower propensity of investors to enter high-value deals rather than to a decline in the volume of activity.

The different sectoral performances changed the composition of the value of FDI projects with some remarkable effects, especially for greenfield projects (see figure I.10). In fact, as the global crisis in some key developed countries worsened and spread from the "financial" to the "real" sphere, the manufacturing sector lost ground to the services sector. The long-term trend leading

Figure I.10. Distribution of the value of greenfield investment projects, by sector, 2003–2012
(Per cent)



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

to the dominance of services activity in FDI was reinforced, though its amount declined. Also, growing marginalization trend of the primary sector seems to have picked up, with the sector's share in announced greenfield projects declining to some 4 per cent, corresponding to half of its 2011 share and less than one fourth of its 2003 share.

Although the impact of the crisis was widespread, across the spectrum of productive activities, clear differences became apparent in how individual industries were affected (figure I.11).

Mining, quarrying and petroleum, representing by far the bulk of the primary sector, was heavily hit by falling commodity prices and declining demand. Manufacturing industries that are closely linked upstream to extractive activity were exposed to similar adverse industrial dynamics, resulting in a comparably poor FDI performance. In fact, the three industries in which FDI declined most in 2012 were *mining, quarrying and petroleum* and two manufacturing industries (*metals and metal products* and *coke, petroleum products and nuclear fuel*) that process extractive material. Together, the three industries accounted for almost 50 per cent of the overall decrease in the value of announced greenfield projects (corresponding to some $130 billion).

The FDI contraction was particularly dramatic in developing economies, where the already unstable market environment was further complicated by the changes of the investment climate in some countries rich in natural resources.

On the M&A side, the FDI picture confirms a pessimistic investment outlook for the extractive

Figure I.11. Ten industries with the largest declines in greenfield FDI projects in 2012
(Billions of dollars and per cent)

	Loss in value, 2012 vs 2011		Loss in number of projects, 2012 vs 2011	
	$ billion	Per cent	Number	Per cent
Mining, quarrying and petroleum	51	-67%	76	-46%
Coke, petroleum products and nuclear fuel	46	-69%	71	-49%
Metals and metal products	33	-53%	135	-27%
Electricity, gas and water	26	-28%	116	-30%
Transport, storage and communications	26	-35%	26	-3%
Chemicals and chemical products excl. pharmaceuticals	21	-39%	175	-28%
Motor vehicles and other transport equipment	21	-25%	251	-22%
Electrical and electronic equipment	19	-41%	251	-22%
Business services	15	-21%	94	-3%
Rubber and plastic products	12	-48%	154	-32%
All	302	-33%	2 381	-15%

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

industry, characterized by a prevalence of divestments in developing economies as highlighted by the negative value of M&A flows. Specific examples include the divestments of Anglo American PLC of part of its activities in copper ore mining in Chile, for $2.9 billion, and in other metal ores in South Africa and Zimbabwe, for a total of $0.7 billion. Another example is the sale by BG Group PLC of a majority stake in the Companhia de Gas de São Paulo in Brazil, valued at $1.7 billion.

Other manufacturing industries responded differently to the downturn. Consumer industries, such as *motor vehicles and other transport equipment* and *electrical and electronic equipment*, were among those most affected. Because of their highly cyclical nature, they are more affected by weak global demand than are other manufacturing industries. Two factors contributed to depressed demand: the crisis in the Eurozone and the deceleration of growth in emerging market economies, in particular China and India. As weak demand squeezed industry margins, companies increasingly resorted to investment cuts in an attempt to mop up large overcapacity, restore financial strength and save cash. However, some less cyclical manufacturing activities, such as *food, beverages and tobacco* and *pharmaceuticals*, managed to limit FDI losses.

Industries in the services sector were more resilient than other industries. For example, *business services* and *transport, storage and communication* managed to preserve their volume of projects despite significant reductions in announced investment value owing to the smaller sizes of individual projects. This shows that international companies were still actively seeking opportunities to expand their service activities, especially into developing countries, though with less aggressive investment operations than in 2011. The decrease in *electricity, gas and water* was confined almost entirely to developed economies, where it reflects the declining demand caused by the current crisis. On a positive note, for the first time since the onset of the crisis in 2008 the *construction* industry registered an increase in both the value and the number of FDI projects, raising hopes for a more structural recovery.

c. FDI by selected types of investors

This section focuses on international investment by some important new types of investors. It makes a distinction between State-controlled entities (SCEs), including sovereign wealth funds (SWFs), and State-owned enterprises (SOEs), on the one hand, and private equity funds, on the other. From a development perspective, this distinction is important as the primary motivation for SCEs' international investment decisions may be criteria other than financial return, such as strategic industrial development objectives. In practice this distinction may be less important because governments increasingly favour the use of holding companies as a form of ownership, but may have limited involvement in the running of a firm or affiliate. Moreover, investors of all types are increasingly intertwined as the process of globalization becomes more complex and geographically widespread: for example, SWFs are investors in private equity funds.

(i) Sovereign wealth funds (SWFs)

FDI by sovereign wealth funds in 2012 remained small at $20 billion, though it doubled from the year before.

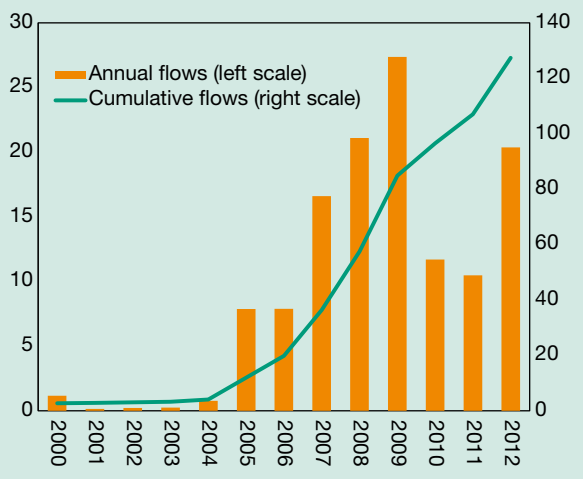
In 2012, SWFs were estimated to have $5.3 trillion worth of assets under management,[2] 80 per cent of which were in the hands of developing economies. In 2012, there were 73 recognized SWFs globally, 60 per cent of which were established in the past decade; and another 21 countries are considering establishing their own SWFs (Santiso, 2012). UNCTAD has highlighted the role that these funds could play in supporting sustainable development outcomes and, in particular, the further potential for their deployment as development-enhancing FDI in developing countries (e.g. UNCTAD, 2011, 2012).

SWF FDI flows doubled in 2012, from $10 billion to over $20 billion, bucking the global trend (figure I.12). Cumulative FDI by SWFs, at $127 billion, nonetheless remains somewhat small as a proportion of total SWF assets under management. However, UNCTAD figures for FDI by SWFs capture only investments in which SWFs are the sole and immediate investors. The data do not include

investments by other entities established by SWFs or those made jointly with other investors. It is likely that total SWF FDI is in fact higher than the figure above suggests.

During the period 2003–2012, cross-border M&As accounted for 89 per cent of SWF FDI, reflecting their position as strategic investment funds, in contrast to the bulk of global FDI, which is invested through greenfield projects. Strategically, the majority of SWF investment through FDI targets the services sector (70 per cent), and in particular finance, real estate, construction and utilities. Finance remains the most popular industry for SWF investment, attracting over $21 billion in cumulative flows over the period 2003–2012 (figure I.13). Following the large jump in investment by SWFs in the utilities industries in 2011 (electricity, gas and water), the trend continued in 2012, with cumulative flows increasing by 26 per cent. A similar story can be seen in real estate, where cumulative flows leapt by 44 per cent between 2011 and 2012. Despite attracting lower levels of FDI in absolute terms, the transport, storage and communications industries experienced a 81 per cent jump in flows from 2011 to 2012, from $6 billion to $11 billion. These trends

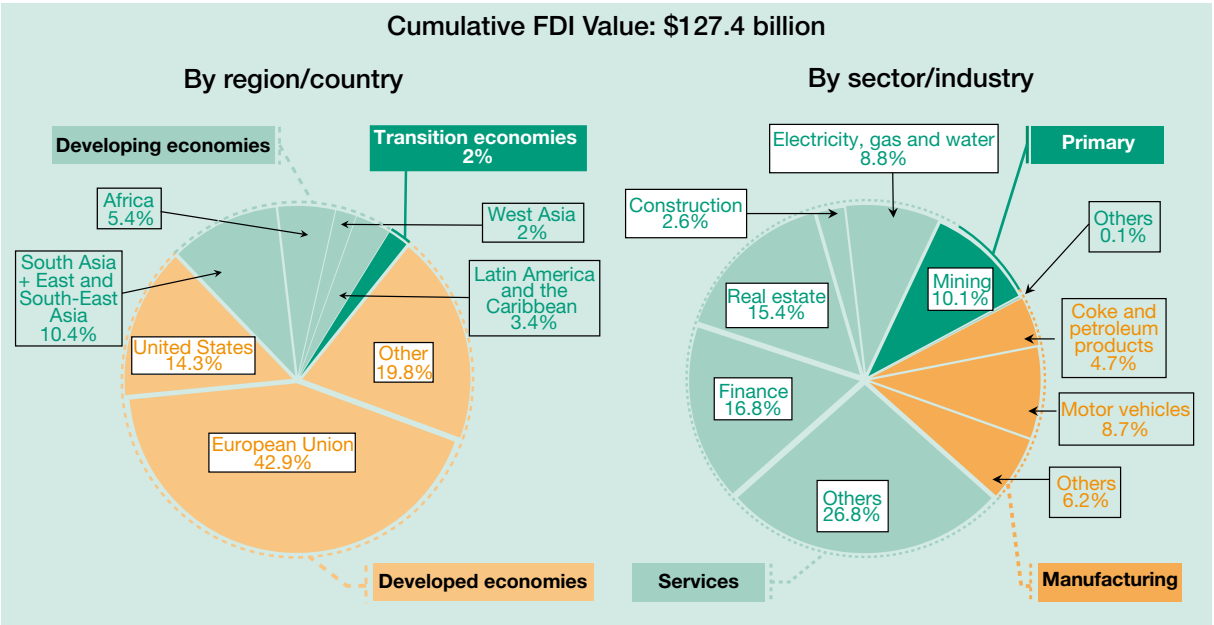
Figure I.12. Annual and cumulative value of FDI by SWFs, 2000–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Note: Data include value of flows for both cross-border M&As and greenfield FDI projects and only investments by SWFs which are the sole and immediate investors. Data do not include investments made by entities established by SWFs or those made jointly with other investors. In 2003–2012, cross-border M&As accounted for 89 per cent of total.

Figure I.13. FDI by SWFs, cumulative value, by region and by sector/industry, 2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

in non-finance sectors may reflect the changing priorities of SWFs in terms of their investment strategies.

With regard to geographical distribution, the majority of SWF FDI is in developed economies, which received more than 70 per cent of inflows in 2012. Of this figure, Europe accounts for nearly two thirds, but the United States experienced a noticeable jump (39 per cent) in inward SWF FDI. Although cumulative SWF FDI to developing and transition countries increased from 2011 to 2012, the share of these countries in global SWF FDI actually fell, from 25 per cent to 23 per cent. This share has been in constant decline since its high of over 30 per cent in 2008, which may suggest changing SWF investment strategies, in terms of the geographical orientation of their FDI.

In the face of the multitude of complex and unpredictable challenges confronting all countries, long-term financial planning and investment (including overseas) provide countries with a necessary form of self-insurance. Some of the strategic concerns that a government may seek to address through a SWF include correcting currency fluctuation and maintaining macroeconomic stability (as in the case of Brazil's SWF); addressing long-term population changes such as aging; hedging against the existential threat of climate change (one of the reasons that the Government of the Maldives established its SWF); and intergenerational equity and preserving current revenues for future generations (e.g. Norway).

Distinct objectives, motives and approaches of individual SWFs may also have a bearing on their investment decisions in terms of sector, asset class and geographical scope, and different SWFs deploy different investment strategies accordingly. Looking ahead, the increase in the number of countries seeking to establish SWFs means that SWF investments, including FDI, are almost certain to increase in the near future. Although several developed countries, including Italy and France, have established SWFs in the past few years, the main home countries of sovereign investment are likely to remain in emerging markets in the global South. However, it is still not clear how SWF investment potential will be realized as it will probably vary by country and fund.

(ii) State-owned enterprises (SOEs)

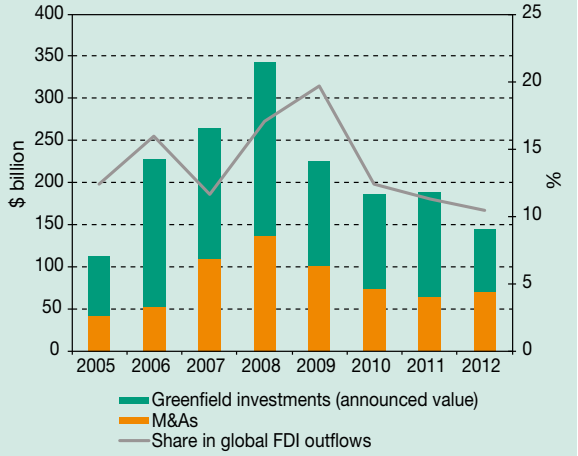
State-owned enterprises slowly continued their international expansion, with the value of their cross-border M&As increasing by 8 per cent in 2012, mostly led by developing country firms in pursuit of strategic assets.

The trend towards liberalization and privatization in the past 30 years has been accompanied by the rising importance of the State in foreign ownership. This is true for SWFs and also for SOEs, which are increasingly internationalizing and becoming leading players in international investment. Although the number of SOEs has been shrinking, their market power has been increasing, in part due to their consolidation into national champions across a range of strategic industries.[3] There are now 18 SOEs among the world's top 100 TNCs. The Chinese State is the largest shareholder in that country's 150 biggest firms, and State companies make up 80 per cent of the stock market value; in the Russian Federation, they account for 62 per cent and in Brazil, 38 per cent. With this increasing market power and financial strength, many SOEs are expanding abroad; indeed, their share of acquisitions in total FDI flows is much greater than the share of SOEs in the total number of TNCs (UNCTAD, 2011).

State-owned TNCs (SO-TNCs) remained important international investors. Their number increased from 659 in 2010 to 845 in 2012, and they account for one tenth of global FDI outflows (figure I.14). Overall, however, FDI by SO-TNCs fell by 23 per cent, from $189 billion to $145 billion.

Looking at FDI projects (including cross-border M&A purchases and greenfield investments), SO-TNCs – unlike SWFs – have historically preferred greenfield investment as their dominant mode of entry. Since 2009, however, the value of greenfield projects has been declining significantly relative to the value of M&As. In 2012, greenfield investment appeared to collapse by a further 40 per cent to $75 billion, or roughly half of all SO-TNC investment. This is in direct contrast to global greenfield investment, which still represents two thirds of all FDI flows despite falling to its lowest level ever in 2012. This trend can be accounted for primarily by SOEs based in developed countries, whose new investments have been seriously affected by the financial crisis.

Figure I.14. Value of FDI projects[a] by SO-TNCs[b] and share in total FDI outflows, 2005–2012
(Billions of dollars and per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database for M&As and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

[a] Includes both greenfield investments and cross-border M&As. The value of the former dataset refers to estimated amounts of capital investment of the project.

[b] Data cover only SO-TNCs where the state has a 50 per cent or more share.

The absolute value of M&As by SO-TNCs increased by 8 per cent from 2011 to 2012, mirroring the overall rise in M&A activity by TNCs from developing countries, where the majority of global SO-TNC M&As originate. This perhaps also reveals the strategic nature of SOE investments abroad, which seek to acquire technology, intellectual property or brand names, as well as natural resources.

SOEs continue to internationalize, as the number of SO-TNCs has increased significantly in the past two years, to 845 in 2012.[4] Their composition is changing. The relative share of developing and transition country SO-TNCs in the total number of SOEs investing abroad also rose, from 53 per cent of all major SOE international investors in 2010 to over 60 per cent in 2012. Notable home countries include Malaysia, India and the Russian Federation, where the number of SOEs investing abroad has more than doubled since 2010.

The distribution of SO-TNC investment by sector and industry has not changed much in the past two years: the vast majority of SOEs investing abroad (about 70 per cent of firms) are in the services sector – in particular, financial services, transportation and communications, and utilities (electricity, gas and water). In 2012, the international investment strategies of developed and developing country SO-TNCS continued to reflect the sectors in which their principal SOEs are involved: the most active SO-TNCs from developed countries tend to be utilities; in developing economies, they are more likely to be involved in extractive industries.

(iii) Private equity funds

Private equity firms engaged in a growing number of M&A deals, though their net FDI fell by 34 per cent.

Although private equity is considered separately in this section, institutional investors, like government-owned pension funds and SWFs, also participate in private equity funds, which makes public-private distinctions less clear cut.

Following the crash in private equity investment after the global economic crisis, there was a small recovery in flows from 2009 to 2011. This recovery appears to have come to an end in 2012, with net private equity FDI falling by 34 per cent, from $77 billion to $51 billion (table I.2). At the same time, divestment of foreign affiliates by private equity funds increased, illustrated by the growing ratio of net to gross deals, which is the largest on record for which data are available (table I.2). However, while the value of deals fell, the net number of deals involving private equity and hedge funds stood at its second highest level (and the gross number at an all-time high), increasing by 22 per cent from 2011. The period of the mega-deal appears over, but the proliferation in the number of deals last year demonstrates that private equity is still viable, despite being constrained by a less favourable credit environment since the global crisis.

Debt-driven private equity deals – leveraged buy-outs (LBOs) – which peaked just before the economic crisis in 2007 will continue to face refinancing problems in 2014. The favourable credit conditions that characterized pre-crisis debt markets helped fuel the increase in private equity, and in particular highly leveraged acquisitions; post-crisis, credit conditions have become less favourable, partly explaining the fall in the value of LBOs.

A look at the sectoral distribution of cross-border M&As by private equity firms shows a preference for

investment in the services sector, with finance and other services accounting for 74 per cent of all private equity investment (figure I.15). Since 2011, mining, quarrying and petroleum has slightly increased its share in the distribution of private equity investment, although food, beverages and tobacco has shrunk to its lowest share at less than 1 per cent of total private equity investment, from almost 10 per cent in 2011.

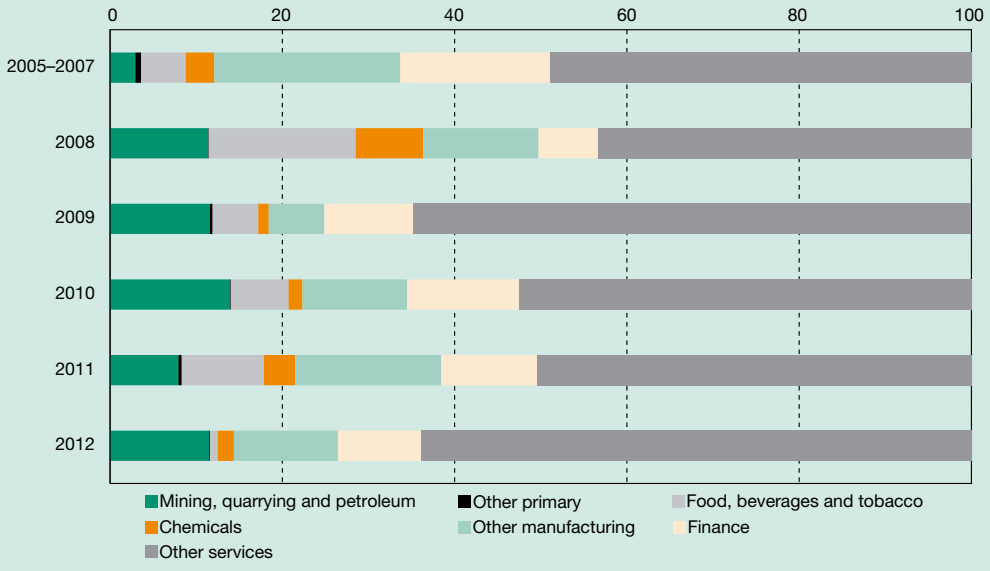
Table I.2. Cross-border M&As by private equity firms, 1996–2012
(Number of deals and value)

	Gross M&As				Net M&As			
	Number of deals		Value		Number of deals		Value	
Year	Number	Share in total (%)	$ billion	Share in total (%)	Number	Share in total (%)	$ billion	Share in total (%)
1996	932	16	42	16	464	13	19	14
1997	925	14	54	15	443	11	18	10
1998	1 089	14	79	11	528	11	38	9
1999	1 285	14	89	10	538	10	40	6
2000	1 340	13	92	7	525	8	45	5
2001	1 248	15	88	12	373	9	42	10
2002	1 248	19	85	18	413	13	28	11
2003	1 488	22	109	27	592	20	53	29
2004	1 622	22	157	28	622	17	76	33
2005	1 737	20	221	24	795	16	121	26
2006	1 698	18	271	24	786	14	128	20
2007	1 918	18	555	33	1 066	15	288	28
2008	1 785	18	322	25	1 080	17	204	29
2009	1 993	25	107	19	1 065	25	58	23
2010	2 103	22	131	18	1 147	21	65	19
2011	2 020	19	153	14	902	15	77	14
2012	2 229	23	182	22	1 104	20	51	16

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

Note: Value on a net basis takes into account divestments by private equity funds. Thus it is calculated as follows: Purchases of companies abroad by private equity funds (-) Sales of foreign affiliates owned by private equity funds. The table includes M&As by hedge and other funds (but not sovereign wealth 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.15. Cross-border M&As by private equity firms, by sector and main industry, 2005–2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

Note: Not adjusted to exclude FDI by SWFs.

d. FDI and offshore finance

Rising FDI in offshore financial centres (or tax havens) and special purpose entities challenges efforts to increase transparency in international financial transactions and reduce tax avoidance. This global issue requires a multilateral approach.

Since the beginning of 2008, driven in large part by increased pressure on public finances as a result of the financial crisis, the international community has renewed and strengthened efforts to reduce tax avoidance and increase transparency in international financial flows. For example, improving tax transparency and promoting information exchange have been key features of deliberations at G-20 summits since their inception. Significant pressure has been put on tax havens by the international community, on individuals and firms by governments, and on multinationals by activist groups to limit their facilitation or use of tax avoidance schemes.

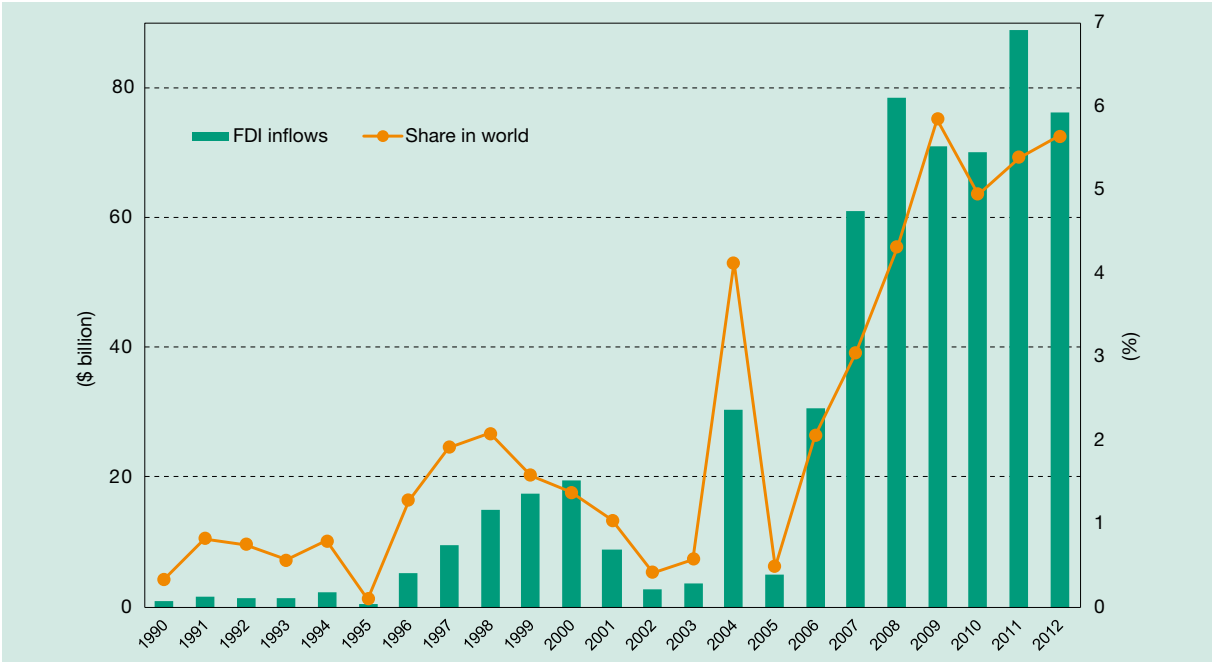
Offshore finance in FDI flows and stocks: macro trends

Offshore finance mechanisms in FDI include mainly (i) offshore financial centres (OFCs) or tax havens[5] *and (ii) special purpose entities (SPEs).* SPEs are foreign affiliates that are established for a specific purpose (e.g. administration, management of foreign exchange risk, facilitation of financing of investment) or a specific structure (e.g. holding companies). They tend to be established in low-tax countries or in countries that provide specific tax benefits for SPEs. They may not conduct any economic activity of their own and have few employees and few non-financial assets. Both OFCs and SPEs are used to channel funds to and from third countries.

Investments to OFCs remain at historically high levels. In 2012 FDI flows to OFCs were almost $80 billion, despite a contraction of about $10 billion (-14 per cent) compared with 2011 (figure I.16).[6] Flows to OFCs have boomed since 2007, following the start of the financial crisis. The average annual FDI inflows to OFCs in the period 2007–2012 were $75 billion, well above the $15 billion average of the pre-2007 period (2000–2006). Tax haven economies now account for a non-negligible and increasing share of global FDI flows, at about 6 per cent.

FDI flows to OFCs do not stay there but are redirected. A significant part of inflows consists

Figure I.16. Value and share of OFCs in global FDI flows, 1990–2012
(Billions of dollars and per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Figure I.17. FDI stock in financial holding companies, selected economies

Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Note: Data for Hong Kong (China) in 2011 refer to investment holdings, real estate and various business activities.

of "round–tripping" FDI to the original source countries. For example, the top three destinations of FDI flows from the Russian Federation – Cyprus, the Netherlands and the British Virgin Islands – coincide with the top three investors in the Russian Federation (see also the discussion in chapter II.A.6). Such flows are more akin to domestic investments disguised as FDI. The bulk of inflows in OFCs consists of FDI in transit that is redirected to other countries.

Financial flows through SPEs in Luxembourg, the Netherlands and Hungary are not counted in UNCTAD's FDI data. However, *relative to FDI flows and stocks, SPEs are playing a large and increasing role in a number of important investor countries* (figure I.17). These entities play a role similar to that of OFCs in that they channel financial flows for investment and redirect them to third countries. Luxembourg and the Netherlands are typical examples of countries that provide favourable tax treatment to SPEs. Over the past decade, in most economies that host SPEs, these entities have gained importance relative to FDI flows and stocks. This phenomenon is also increasingly involving countries where SPEs had historically played a marginal role, such as Portugal and Denmark. There are no data measuring the extent to which investment in SPEs is directed to activities in the host economy versus activities in other countries, but anecdotal evidence indicates that most is reinvested in third countries. For example, Austrian SPEs, which account for one third of inward FDI stock, are used mostly for investments in Central and Eastern Europe.

The decision to locate investments in economies that host SPEs is driven by the tax treatment of SPEs and also by double-taxation treaties. For example, Mauritius, which has concluded a double-taxation treaty with India, has attracted foreign firms – especially those owned by non-resident Indians – that establish holding firms in Mauritius to invest in India. As a conduit for SPE FDI, Mauritius has become one of the largest FDI sources for India.

Although tax considerations are the main driver for the use of OFCs and SPEs, there are other motivations, e.g.:

- They can be used for tax-neutral solutions, for example, for joint venture partners from countries with different tax regimes.
- They can be used for legal neutrality for shareholders dispersed across different jurisdictions.
- They can help firms from countries with weak institutions to set up an international business more easily and to gain access to international capital markets and legal systems.

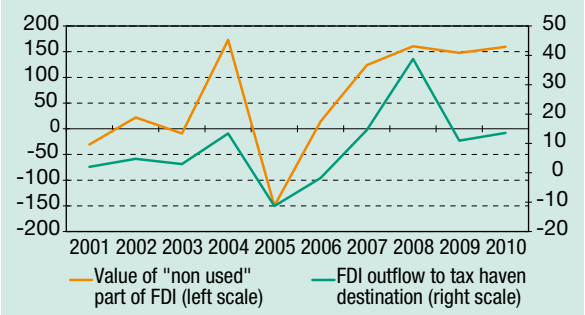
International efforts to reduce tax avoidance and increase transparency, and their effects

Concrete efforts to combat tax avoidance in international financial transactions, mostly promoted by the OECD, have generally focused on OFCs. However, FDI flows to OFCs do not appear to be decreasing, mainly for two reasons:

- *A key driver of funds flowing to OFCs is the level of overseas cash holdings by TNCs* that need to be "parked". In fact, FDI flows into OFCs mirror the estimated levels of retained earnings by TNCs as shown, e.g. by the parallel effect of the 2005 United States Homeland Investment Act both on retained earnings by United States TNCs and on FDI flows to OFCs (figure I.18). Efforts since 2008 to reduce flows to OFCs have coincided with record increases in retained earnings and cash holdings by TNCs.
- *Any effect of initiatives to reduce flows to OFCs from some countries (OECD members) is being offset by the increasing weight of new FDI players in overall global outflows.* FDI flows from the United States to OFCs, for example, decreased by two thirds from $39 billion to $11 billion in 2009, and FDI outflows to OFCs from Japan declined from $23 billion to $13 billion in the same year, but these reductions were compensated by increased flows from emerging outward investors.

But OFCs are only a small part of the problem. Although most international efforts to combat tax evasion have focused on OFCs, flows through SPEs are far more important. Three countries alone – namely Hungary, Luxembourg and the Netherlands – reported more than $600 billion in investment flows to SPEs for 2011 compared with $90 billion of flows to OFCs (figure I.19) (As mentioned above, UNCTAD does not include flows to SPEs in these countries in global FDI flows statistics.) Any change in the use of SPEs, thus, would dwarf variations in OFC flows. And although this section covers only FDI flows and stocks (and not operational data), it is likely that transfer pricing schemes through lower tax jurisdictions not listed as OFCs and without the use of SPEs account for even more tax avoidance.

Figure I.18. Investments in OFCs and retained earnings by United States TNCs, 2001–2010
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics). See also *WIR11*, box.1.2.

Figure I.19. Estimated investment flows to SPEs and OFCs, 2011
(Billions of dollars)

Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

Note: Include only flows to SPEs based in Hungary, Luxembourg and the Netherlands.

The way forward: policy considerations

Possible policy responses are complex, but a number of observations can be made:

- *Tackling OFCs alone is clearly not enough,* and is not addressing the main problem.
- *Engaging emerging new outward FDI players is a must.* An assessment of the role of new outward investors should take into account that their use of OFCs is often not only for tax avoidance but for other potential benefits they cannot obtain in their home economies (e.g. easy company set-up, trade policy advantages, international investment agreements). Also, their relative use of sophisticated alternative tax avoidance mechanisms and SPEs is lower.
- *Tax avoidance and transparency in international financial transactions are global issues that require an intensified multilateral approach.*
- Ultimately, *moves to combat tax avoidance through OFCs and SPEs must go hand in hand with a discussion of corporate tax rate differentials between countries, the application of extraterritorial tax regimes, and the utility of triggering tax liabilities upon repatriation of earnings*. Without parallel action on those fronts, efforts to reduce tax avoidance through OFCs and SPEs remain akin to swimming against the tide. Such a discussion could also include transfer pricing mechanisms beyond OFCs and SPEs, including radical solutions to distribute tax revenues fairly across the operations of TNCs based on real value added produced (e.g. based on a formula including sales, assets and employees, in a unitary approach).
- Policymakers could have a useful discussion on *a list of "acceptable" or "benign" non-tax drivers of use of OFCs (and SPEs).* That would help focus any future measures on combating the malign aspects of tax avoidance and lack of transparency.
- Finally, investment flows to and from OFCs and SPEs requires attention from policymakers, and monitoring such investment flows is important. International organizations recommend that the data-compiling countries collect detailed information on transactions by SPEs and make it available separately from traditional FDI data. However, *data remain scarce and the visibility of sources and destinations of FDI funds is marginal.* Further research will be helpful in improving transparency on the issue.

2. Global FDI prospects in 2013–2015

a. General FDI prospects

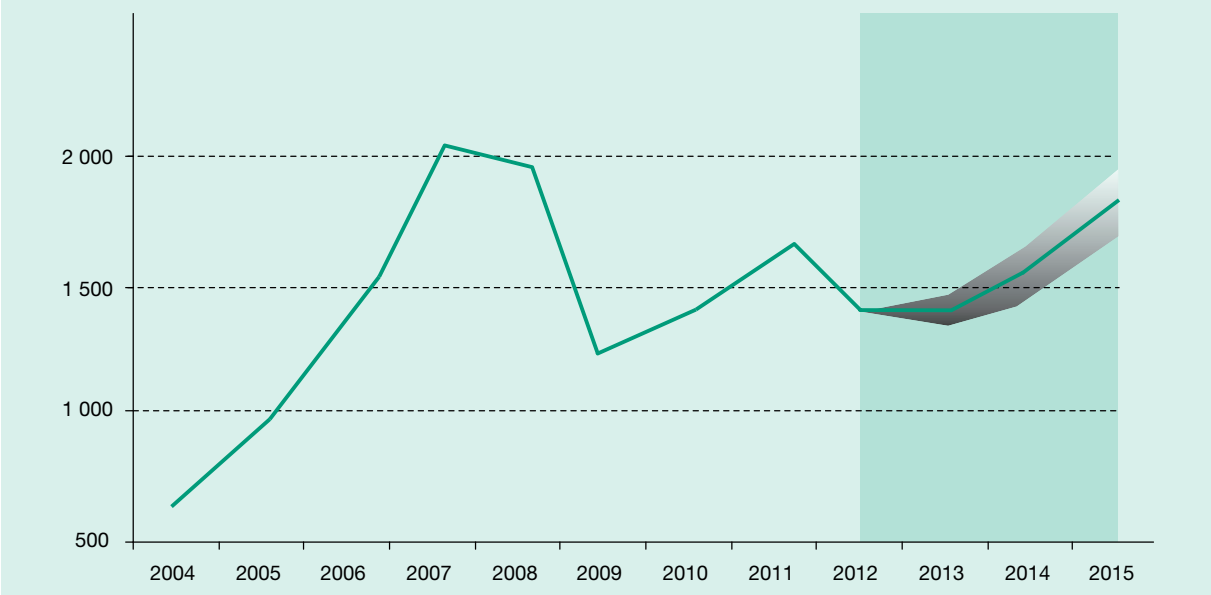
Global FDI flows in 2013 are expected to remain at the 2012 level. As investors regain confidence, flows will rise in 2014–2015. However, significant risks remain.

FDI flows in 2013 are expected to remain close to the 2012 level, with an upper range of $1.45 trillion. As investors regain confidence in the medium term, flows are expected to reach levels of $1.6 trillion in 2014 and $1.8 trillion in 2015 (figure I.20). This scenario is based on various leading indicators, as well as the results of UNCTAD's World Investment Prospects Survey 2013–2015 (WIPS), an econometric model of forecasting FDI inflows (*WIR11*), and data for the first four months of 2013 for cross-border M&As and greenfield investment values.

Responses to this year's WIPS (box I.2) support this scenario. According to this year's WIPS one half of all respondents remain neutral about the global investment outlook for 2013. However, their expectations for 2014 and 2015 improve sharply (figure I.21). When asked about their intended FDI expenditures, half of the respondents forecast an increase over 2012 levels in each of the next three years. Among the factors positively affecting FDI over the next three years, the two mentioned most were the state of the economy in the BRICS and the United States.

Similarly, the econometric model shows that FDI flows in 2013 are projected to remain almost at the same level or increase slightly at best, reaching their pre-crisis level. Several international organizations and research institutes forecast slightly higher FDI in 2013. For example, the IMF's current *World Economic Outlook* estimated a moderate increase in net FDI inflows in emerging economies to $477 billion in 2013 from $446 billion in 2012 (IMF, 2013). Estimates of net FDI inflows from the Institute of

Figure I.20. Global FDI flows, 2004–2012, and projections, 2013–2015
(Billions of dollars)



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

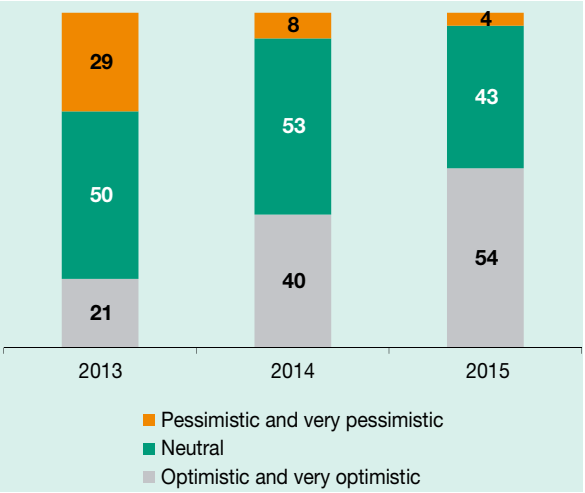
International Finance for 30 emerging economies are $517 billion in 2013 compared with $499 billion in 2012 (IIF, 2013).

Firm-level factors also support the UNCTAD forecast. Annual TNC profits in 2012 were lower than in 2011 but remained at high levels (figure I.22). There is an indication that in the first quarter of 2013, the level of cash holdings of the largest TNCs has been lower than that in the same period last year, as companies are using part of their available cash to acquire companies abroad. Data on greenfield investment and cross-border M&As in the first few months of 2013 have not indicated an upward trend. This may be translated into higher levels of investment in the near future.

However, significant risks to this growth scenario remain. 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.

When asked about the principal factors affecting FDI flows in the medium term, TNCs in the survey put the state of the EU economy at the top of their worries, followed closely by political factors, such as the adoption of austerity policies, the rise of trade protectionism, and sovereign debt concerns.

Figure I.21. TNCs' perception of the global investment climate, 2013–2015
(Percentage of respondents)



Source: UNCTAD survey.
Note: Based on 159 company responses.

Box I.2. World Investment Prospects Survey, 2013–2015: methodology and results

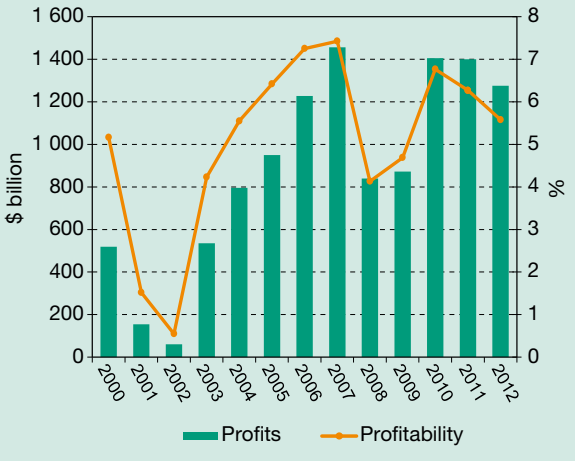
The aim of the WIPS is to provide insights into the medium-term prospects for FDI flows. This year's survey was directed to executives among the largest 5,000 non-financial TNCs and professionals working in 245 national and sub-national investment promotion agencies (IPAs). Questions for TNC executives were designed to capture their views on the global investment climate, their companies' expected changes in FDI expenditures and internationalization levels, and the importance their companies give to various regions and countries. IPAs were asked about their views on the global investment climate and which investor countries and industries were most promising in terms of inward FDI.

This year's survey results are based on 159 and 64 validated responses by TNCs and by IPAs, respectively, collected by e-mail and through a dedicated website between February and April 2013. TNCs in developed economies accounted for 79 per cent of responses, while TNCs from developing and transition countries represented 21 per cent of responses. In terms of sectoral distribution, 66 per cent of respondent TNCs were classified as operating in the manufacturing sector, 27 per cent in the services sector, and 7 per cent in the primary sector. For IPAs, 69 per cent of respondents were located in developing or transition economies and 31 per cent were located in developed economies.

Source: UNCTAD.

A number of countries have also implemented a significant number of policies that regulate or restrict investment, bringing the share of such measures to a recent high, although investment liberalization and promotion remained the dominant feature of national investment policies (chapter III).

Figure I.22. Profitability and profit levels of TNCs, 2000–2012
(Billions of dollars and per cent)



Source: UNCTAD, based on data from Thomson ONE.

Note: The number of TNCs covered in this calculation is 3,039. Profitability is calculated as the ratio of net income to total sales.

b. FDI prospects by sector/industry

FDI expenditures are set to increase, but short-term concerns about the global investment climate are common across industries. Certain manufacturing industries face gloomy short-term prospects.

Reflecting the general trend shown by the WIPS survey, TNCs across all major sectors are cautious about the international investment climate in 2013 but more optimistic in the medium term. Short-term FDI plans vary across sectors and industries, with respondents from some manufacturing industries such as leather, stone, clay and glass products and metals, as well as from transportation services and metal mining indicating falling investments in the short term. In contrast, more than half of the TNCs active in the remaining manufacturing industries and in the trade and other services industries already foresee an increase in their FDI budgets in 2013. By 2015, almost half of TNCs in all sectors expect to see an increase in their FDI expenditures, in line with their rising optimism for the global investment environment.

On the host country side, the view from investment promotion agencies (IPAs) for inward FDI differs by region (figure I.23). IPAs in developed economies anticipate good prospects for FDI in business services, such as computer programming and consultancy. African IPAs expect further investments in the agriculture sector, while Latin American

IPAs emphasize the extractive industry, tourism and services. Asian IPAs refer to prospects in a wider range of industries for inward FDI, including agriculture, oil and gas, food products, construction and transport. Transition economy IPAs have high expectations for the machinery and textiles industries, most probably positioning themselves as major suppliers to Western European TNCs.

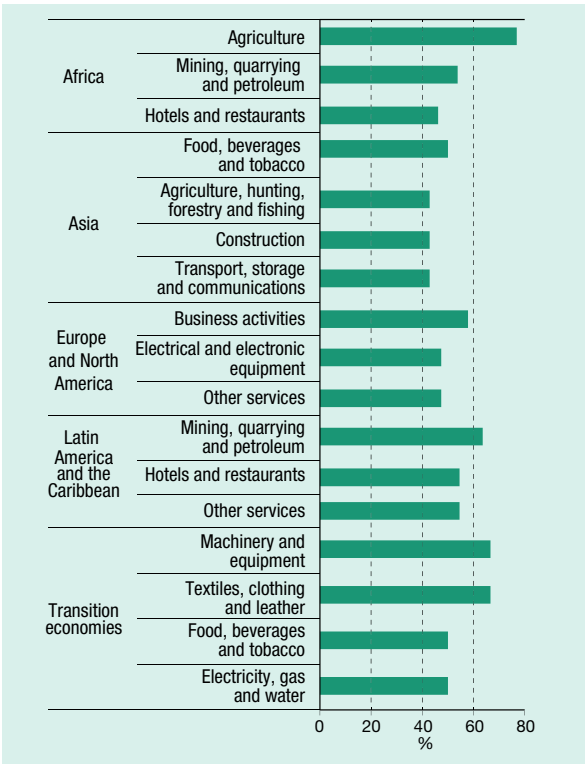
c. FDI prospects by home region

FDI expenditures are set to expand from both developed and developing home countries.

Despite uncertainties for 2013, more than half (57 per cent) of respondents from developing countries and about 40 per cent of those from developed countries forecast an increase in their FDI expenditures over 2012 levels. Differences across the two groups of countries exist, however, when comparing medium-term prospects. In particular, less than 4 per cent of developed-country TNCs expect their FDI budgets to decline in 2015, compared with almost 12 per cent of TNCs from developing countries. A possible trend in the medium term therefore could be a shift back towards developed-country TNCs as main outward investors.

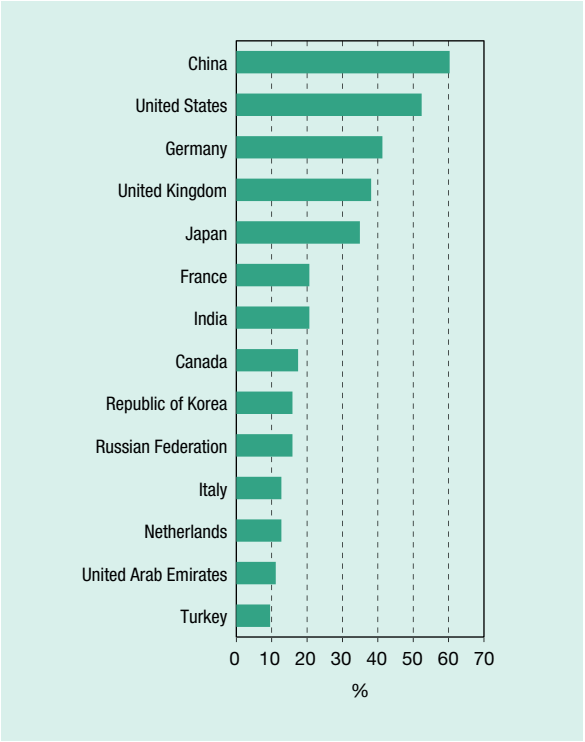
Perhaps anticipating such a prospect, IPAs largely see developed-country TNCs as the most promising sources of FDI in the medium term (figure I.24), although developing economies are becoming more important as investors. Indeed, this year, 60 per cent of IPA respondents ranked China as the most promising source of FDI, thanks largely to the rapid increase of its outward FDI in recent years. The United States, Germany, the United Kingdom, Japan and France ranked as the most promising

Figure I.23. IPAs' selection of most promising industries for attracting FDI in their own country, 2013–2015
(Percentage of IPA respondents)



Source: UNCTAD.
Note: Based on 64 IPA responses. Aggregated by region of responding IPA.

Figure I.24. IPAs' selection of most promising investor economies for FDI in 2013–2015
(Percentage of IPA respondents selecting economy as top source of FDI)



Source: UNCTAD.
Note: Based on 64 IPA responses.

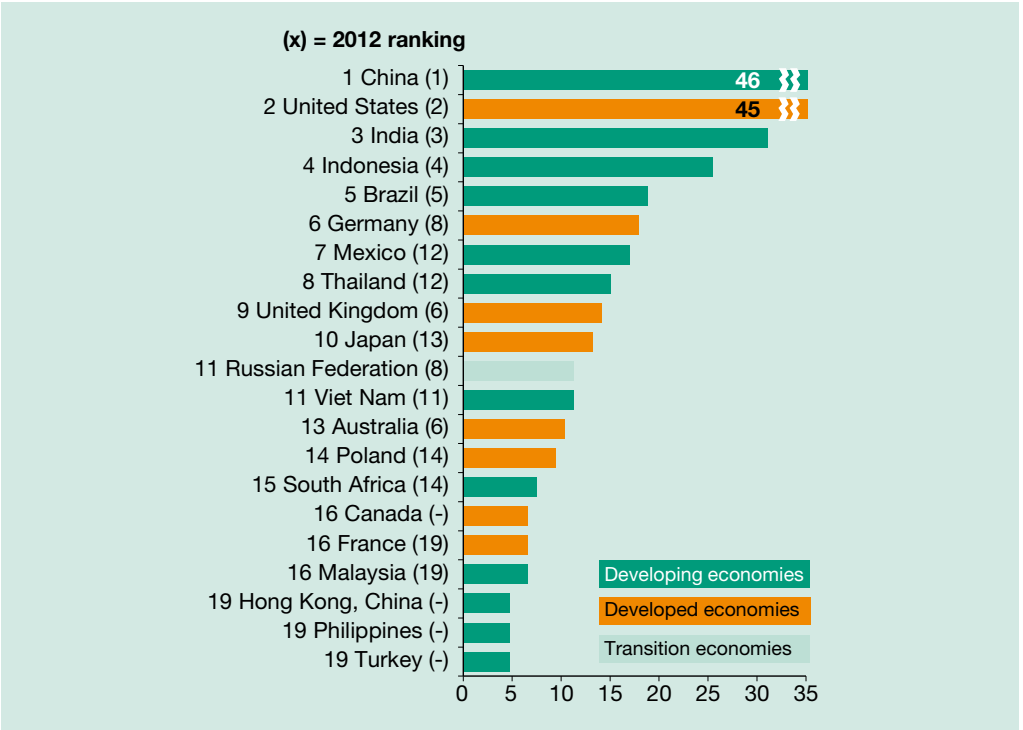
developed-economy investors, underscoring their continuing role in global FDI flows. India, the Republic of Korea, the Russian Federation, the United Arab Emirates and Turkey (for the first time) are also seen as major developing country sources of FDI, while Brazil fell out of the ranking, most likely because of last year's slower outflow activity.

d. FDI prospects by host region

Developing economies will continue to experience strong FDI inflows in the medium term.

For the medium term, IPAs – regardless of location – exhibited rising optimism in terms of FDI inflows, although those in developing and transition economies were most optimistic. This optimism is not unwarranted. TNCs that respond to the survey have increasingly ranked developing host regions as highly important. The ranking of the top five host economies is the same as last year, with China leading the list and cited by 46 per cent of all respondents, followed closely by the United States, cited by 45 per cent. Developing countries make up four of the top five host economies (figure I.25). Six of the top 10 prospective host countries also come from the developing world, with Mexico and Thailand appearing for the first time. Among developed countries, Japan jumped three positions largely because of reconstruction efforts after the 2011 tsunami, and recent expansionary monetary policies have together increased the country's attractiveness for foreign investment in the medium term. At the same time, Australia, the Russian Federation and the United Kingdom slipped down the rankings from last year's survey, while Germany gained two positions.

Figure I.25. TNCs' top prospective host economies for 2013–2015
(Percentage of respondents selecting economy as a top destination)



Source: UNCTAD survey.
Note: Based on 159 company responses.

B. INTERNATIONAL PRODUCTION

1. Overall trends

TNCs' internationalization process grew at a slower pace in 2012, with foreign affiliates' value added and exports rising only moderately.

International production continues to expand, with all indicators of foreign affiliate activity increasing, although at a slower rate than in earlier years (table I.3). Sales rose 7.4 per cent over 2011, continuing their recovery from the lows during the crisis. Employment of foreign affiliates rose by 5.7 per cent, reaching 72 million, while exports of foreign affiliates remained relatively stable in 2012 registering only a small increase of 0.6 per cent. Likewise, value added and assets of foreign affiliates, increased slowly – by 5.5 and 4.3 per cent, respectively, over the previous year. This state of affairs reflects weak economic conditions around the world (section A.1.d). Sluggish economic growth in developed countries affected both developing and transition economies in 2012, through a sharp deceleration in demand from key advanced economies and the end of investment booms in some major emerging market economies.

Global trends in international production are reflected in the internationalization levels of the world's largest TNCs. Data for the top 100 TNCs, mostly from developed economies, show that their internationalization in 2012 slowed. Foreign sales of the largest 100 TNCs in the world declined 2.1 per cent in 2012, while their domestic sales – largely in developed economies – remained stable (table I.4). Likewise, foreign employment and foreign assets stagnated, while their domestic employment and assets increased by 6.8 and 5 per cent, respectively. These data reflect both a change in strategy by the top 100 TNCs that seems to focus more on domestic production and a change in the composition of the top 100 in 2012.

In 2012, some long-established companies significantly reduced their assets (both total and foreign), slipping out of the global top 100 TNC list (e.g. Bayer AG, Nokia OYJ and ThyssenKrupp AG). This enabled some more active corporations from developing and transition economies (e.g. Hon Hai Precision Industries, Vimpelcom Ltd, and América Móvil SAB) to enter the global ranking for the first time.

In fact, data on internationalization indicators for the largest 100 TNCs headquartered in developing and transition economies reveal a strong internationalization effort with steep increases in foreign assets and sales. The foreign assets of TNCs from these economies rose 19.7 per cent in 2011, a rate faster than that of the largest 100 TNCs and almost double the remarkable 11 per cent increase in domestic assets (see table I.4). In 2011, their foreign sales increased by more than a third with respect to the previous year, easily surpassing the growth in domestic sales. The only area where this trend did not hold was in employment, where the growth of domestic jobs slightly outpaced that of foreign jobs in 2011. This trend suggests that while TNCs from developing countries and transition economies are quickly internationalizing their operations, the core of their production process is still based at home.

The importance of the largest TNCs in the universe of TNCs is declining slowly. Their share of all TNCs' foreign assets in 2011 was down to 9.3 per cent, compared with 12 per cent a decade earlier, though their share of foreign affiliates' employment increased marginally from 13.7 per cent in 2001 to 14.4 per cent in 2011. The largest 100 TNCs' share in foreign global sales increased sharply, however, from 13 per cent to 21 per cent over the same time period. The decrease in foreign assets coupled with the increase in foreign sales largely reflects the importance of non-equity modes; i.e. a rising share of foreign production is controlled through contracts rather than direct ownership.

By contrast, the largest 100 TNCs from developing and transition countries are strengthening their position within the TNC universe. Their share in global production is rising: the foreign assets share rose from 0.8 to 1.6 per cent between 2001 and 2011, that of foreign sales went up from 0.9 to 5.9 per cent, and that of foreign employment increased from 1 to 8 per cent during the same period.

Some differences also emerge when comparing M&A deals (figure I.26). The majority of M&A deals by the 100 largest TNCs were conducted in developed economies (just over 300 cross-border

M&A purchases in developed countries against fewer than 100 in developing and transition economies in 2012), while the majority of M&A purchases by developing and transition economies took place in other developing and transition economies (nearly 120 in 2012 against 70 in developed economies). Data suggest that the 100 largest TNCs conduct both vertical and horizontal investments[7] (with variation by year). The 100 largest TNCs from developing and transition economies engage significantly more in vertical investment, both in developed countries (more than 20 vertical purchases against fewer than 10 in 2012) and in developing and transition economies.

Both the largest TNCs and the TNCs from developing and transition economies implement the largest number of greenfield projects in developing and transition economies. In these host economies, TNCs from developing and transition economies tend to establish proportionately more new affiliates than the largest TNCs. By contrast, nearly half of greenfield ventures in developed countries take place through expansion, and the largest TNCs engage more in co-location than the 100 TNCs from developing and transition economies (figure I.27).

Table I.3. Selected indicators of FDI and international production, 1990–2012

	Value at current prices (Billions of dollars)				
Item	**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[a]	75	1 076	1 377	1 500	1 507
Rate of return on inward FDI[b] (per cent)	4	7	6.8	7.2	6.6
Income on outward FDI[a]	122	1 148	1 387	1 548	1 461
Rate of return on outward FDI[b] (per cent)	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[c]	25 980[c]
Value added (product) of foreign affiliates	1 018	4 124	5 735	6 260[c]	6 607[c]
Total assets of foreign affiliates	4 599	43 836	78 631	83 043[c]	86 574[c]
Exports of foreign affiliates	1 498	5 003	6 320	7 436[d]	7 479[d]
Employment by foreign affiliates (thousands)	21 458	51 795	63 043	67 852[c]	71 695[c]
Memorandum:					
GDP	22 206	50 319	63 468	70 221[e]	71 707[e]
Gross fixed capital formation	5 109	11 208	13 940	15 770	16 278
Royalties and licence fee receipts	27	161	215	240	235
Exports of goods and services	4 382	15 008	18 956	22 303[e]	22 432[e]

Source: UNCTAD.

[a] Based on data from 168 countries for income on inward FDI and 136 countries for income on outward FDI in 2012, in both cases representing more than 90 per cent of global inward and outward stocks.
[b] Calculated only for countries with both FDI income and stock data.
[c] Data for 2011 and 2012 are estimated based on a fixed effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2010.
[d] 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 1998–2012, the share of exports of foreign affiliates in world export in 1998 (33.3 per cent) was applied to obtain values.
[e] Data from IMF, World Economic Outlook, April 2013.

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, Cyprus, the Czech Republic, Finland, France, Germany, Greece, Hungary, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, the United Kingdom and the United States for sales; those from Cyprus, the Czech Republic, France, Israel, Japan, Portugal, Romania, Slovenia, Sweden, and the United States for value added (product); those from Austria, Germany, Japan and the United States for assets; and those from Australia, Austria, Belgium, Canada, Cyprus, the Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Norway, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States for employment, on the basis of the shares of those countries in worldwide outward FDI stock.

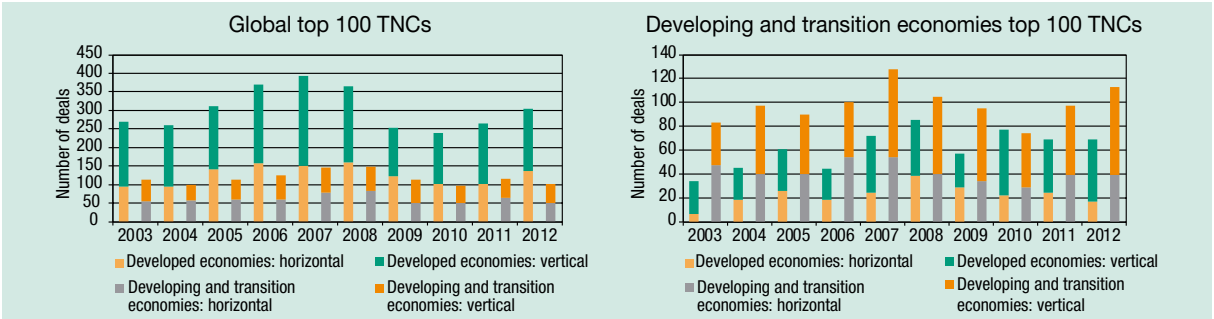
Table I.4. Internationalization statistics of 100 largest non-financial TNCs, worldwide and from developing and transition economies, 2010–2012

Variable	100 largest TNCs worldwide					100 largest TNCs from developing and transition economies		
	2010	2011[a]	2010–2011 % Change	2012[b]	2011–2012 % Change	2010	2011	% Change
Assets (billions of dollars)								
Foreign	7 285	7 634	4.8	7 698	0.8	1 104	1 321	19.7
Domestic	4 654	4 897	5.2	5 143	5.0	3 207	3 561	11.0
Total	11 939	12 531	5.0	12 842	2.5	4 311	4 882	13.2
Foreign as % of total	61	61	-0.1	60	-1.0[c]	26	27	1.5[c]
Sales (billions of dollars)								
Foreign	4 883	5 783	18.4	5 662	-2.1	1 220	1 650	35.3
Domestic	2 841	3 045	7.2	3 065	0.7	1 699	1 831	7.8
Total	7 723	8 827	14.3	8 727	-1.1	2 918	3 481	19.3
Foreign as % of total	63	66	2.3[c]	65	-0.6[c]	42	47	5.6[c]
Employment (thousands)								
Foreign	9 392	9 911	5.5	9 845	-0.7	3 561	3 979	11.7
Domestic	6 742	6 585	-2.3	7 030	6.8	5 483	6 218	13.4
Total	16 134	16 496	2.2	16 875	2.3	9 044	10 197	12.7
Foreign as % of total	58	60	1.9[c]	58	-1.7[c]	39	39	-0.3[c]

Source: UNCTAD.
[a] Revised results.
[b] Preliminary results.
[c] In percentage points.

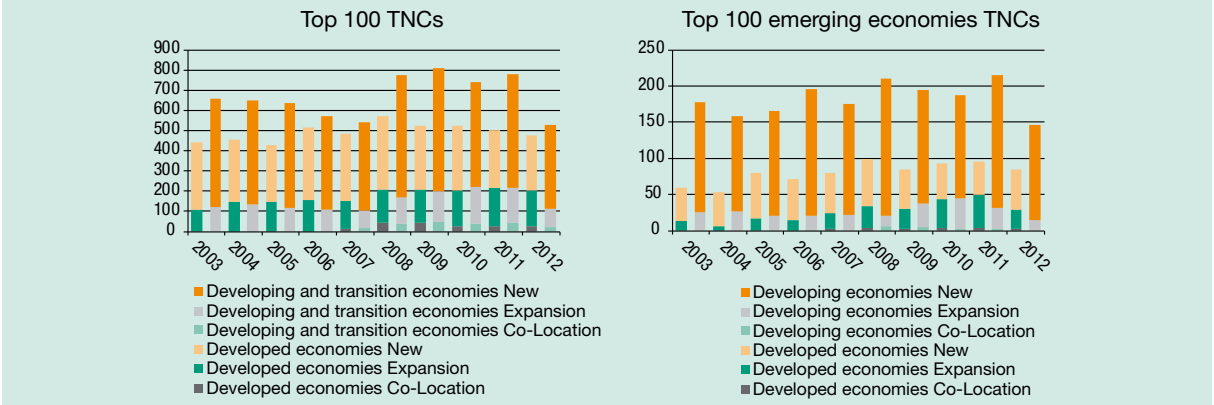
Note: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year to 31 March of the following year. Complete 2012 data for the 100 largest TNCs from developing and transition economies were not available at press time.

Figure I.26. M&A cross-border purchases in developed, developing and transition economies by largest TNCs: number of horizontal vs vertical investments, 2003–2012



Source: UNCTAD.

Figure I.27. Global top 100 TNCs greenfield projects by region and type, 2003–2012
(Number of projects)



Source: UNCTAD.

2. Repositioning: the strategic divestment, relocation and reshoring of foreign operations

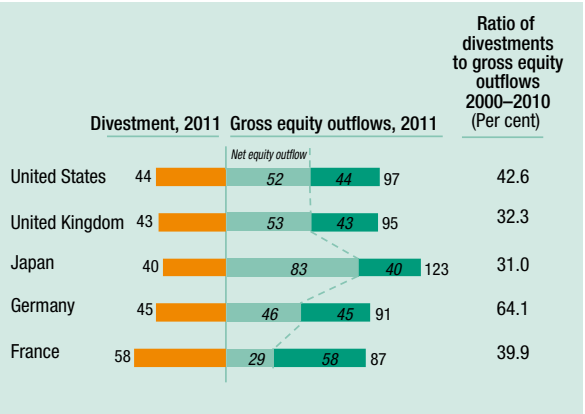
Many TNCs reprofiled their investment overseas through divestment. Reshoring and relocation of foreign affiliates are important elements of corporate divestment strategy.

A decline in global FDI outflows may result from fewer (or smaller) global investment projects and also from divestment decisions by TNCs (box I.3). In some cases, divestment from a location is part of a TNC's repositioning of operations internationally to reflect changing patterns of demand or locational competitiveness. TNCs can relocate either to a third country or to their home country (reshoring). TNCs engage in reshoring of activities when costs associated with offshoring become high or the distance between markets or activities is disadvantageous.[8]

Divestments are a constituent element of TNCs' international strategies, representing an aspect of their positioning of assets and activities in a dynamic global economy. Divestment decisions may involve the complete or partial sale of foreign affiliates by parent firms to local or third-country firms, or reduce equity investment by parent firms in their foreign affiliates, or complete closure of affiliates. Divestment can also be partly or purely financial. Where an operation in a host country is closed, this may be accompanied by the reshoring of operations or activities back to a TNC's home country and/or their relocation from one host country to another.

Although data on divestment are scarce, evidence shows that it is a significant phenomenon. France, Germany, Japan, the United Kingdom and the United States are among the few countries that report statistics on divestment as a part of their FDI dataset. For these countries, the scale of divestment is significant, ranging from one third (Japan) to two thirds of gross equity outflows (France) in 2011. For example, in the United Kingdom, gross equity outflows were $95 billion in 2011, but equity divestment from the country was $43 billion, which means that net equity outflows were only $53 billion (figure I.28). The scale of divestment varies over time, depending on factors such as the business cycle,

Figure I.28. Equity divestment in 2011 and its ratio to gross equity outflows, 2000–2010, from France, Germany, Japan, the United Kingdom and the United States
(Billions of dollars and per cent)



Source: UNCTAD, based on information from the Banque de France; Deutsche Bundesbank, Bank of Japan, United Kingdom Office of National Statistics and United States Bureau of Economic Analysis.

corporate strategies and the business environment. Over the period 2000–2010, for instance, the ratio of equity divestment to gross equity outflows for France was only 39.9 per cent, far lower than the 2011 figure (67 per cent) (see figure I.28).

Repositioning decisions may arise from a major realignment of locational factors. For instance, many United States manufacturing TNCs are reconsidering the location of some international operations because four trends – rising wage costs in developing countries, a weak dollar, technological advances such as 3D printing, and falling energy costs in the economy (arising from the extensive exploitation of shale gas) – are improving the United States' manufacturing competitiveness. As a whole, however, most repositioning decisions are more modest, reflecting the ongoing evolution of the world economy, GVCs and TNC strategies.

If divestment is linked to relocation (to a third country) or reshoring (back to the home country), it is not synonymous with a decline in the number of overseas operations by a TNC. Similarly, under the best circumstances for a host economy, if another company invests in the operation that the TNC is divesting from, divestment may not result in loss of local employment or productive capacity. However, this may not be the case: full closures or

Box I.3. TNCs' strategic repositioning and divestment

TNCs adopt dynamic strategies towards the global configuration of their activities and, for this reason, divestment and new investments go hand in hand. TNCs govern a complex internal system of interlocking value added activities positioned across countries. This system evolves continuously, with expansion in one sector or territory sometimes accompanied by contraction in another. The composition and organization of value added activities by a TNC change continuously to respond to exogenous environmental, technological and social factors, as well as new endogenous strategic priorities. The key forms of strategic positioning are defined below.

Offshoring Offshoring is the process of transferring part or all of the value added activities conducted by a TNC from the home country to another. When it engages in offshoring, the TNC maintains ownership over activities conducted overseas. This differs from offshore outsourcing, which involves purchasing products or services from another firm located overseas.

Divestment Divestment is the process of reverse investment, involving capital withdrawals and reduction in the stock of assets TNCs hold abroad. Divestment can involve either full or partial withdrawals of foreign assets. It is difficult to measure globally because FDI statistics are recorded on a balance-of-payments basis. National statistics do not report the magnitude of divestment explicitly because they record only *net* flows or stocks.

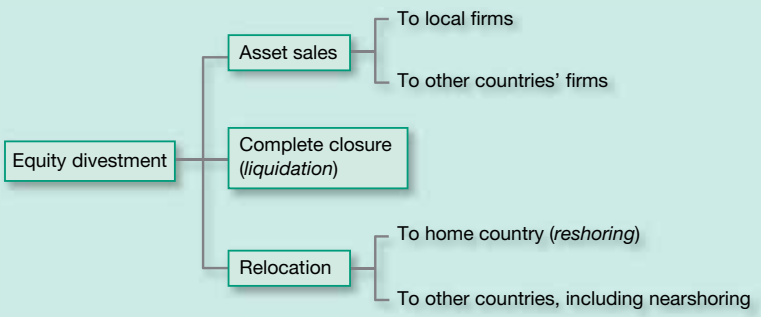
Relocation Relocation is the movement of existing assets, resources and people from one location to another. It can be linked to divestment. TNCs may decide to relocate all or part of value added activities in response to new environmental conditions or to reflect new strategies adopted by the firm. Relocation can take place within a host country, across borders to a new host country or back to the home country of the TNC.

Reshoring Reshoring is the process through which a TNC relocates all or part of value added activities conducted abroad back to the home country of the TNC.

Nearshoring Nearshoring is the process of positioning all or part of the value added activities in a country that is geographically, economically and culturally close to the country of origin of the TNC.

In terms of operational elements, equity divestment involves asset sales, liquidation and relocation (box figure I.3.1).

Box figure I.3.1. Structure of equity divestment



Source: UNCTAD.

scaling down of operations can lead to losses in employment, local incomes, tax receipts, etc. As TNCs continue to give a proportionally greater role to NEMs, as opposed to affiliates in their international production networks, divestment or reshoring may be further intensified. For instance, the impact of reshoring information technology (IT) services away from a host country partner is similar to that of divesting an affiliate, and with less cost for the TNC, which may make such decisions more likely. It is therefore incumbent on host country governments to be aware of TNCs' positioning, divestment and relocation strategies (including reshoring), both in general and in how they are likely to affect the host country.

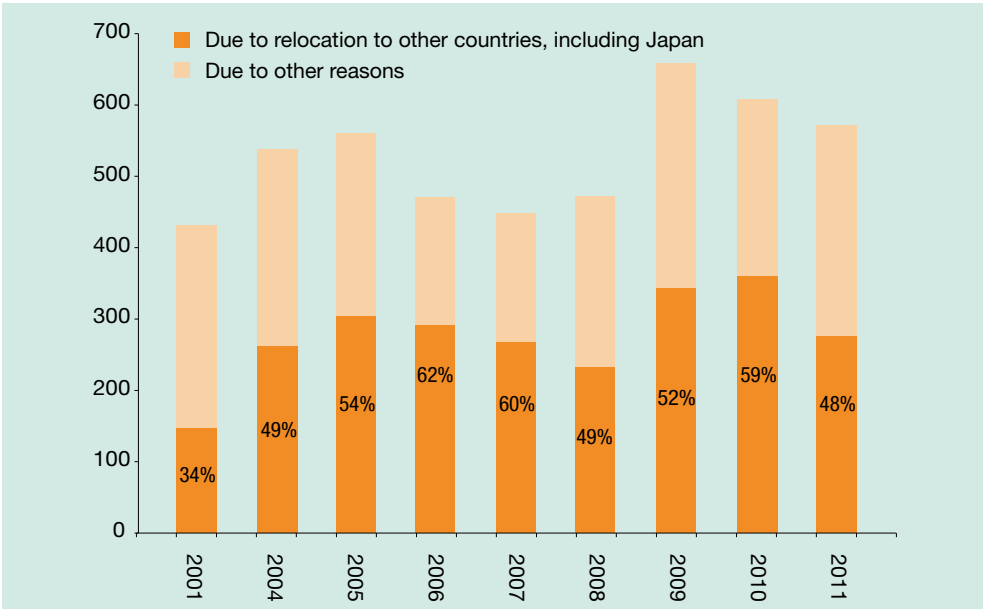
Over the period 2000–2011, divestment was more than 30 per cent of gross equity outflows for Japanese TNCs (see figure I.28). The main reason for affiliates' closures – in those cases where data are available – is their strategic decision to relocate operations to other countries, including reshoring to Japan. Indeed, relocation appears to be a significant feature of Japanese TNCs' positioning and divestment strategies. According to a survey by Japan's Ministry of Economy, Trade and Industry, in 2011 about half of divested affiliates were relocated either back to Japan or other countries (figure I.29). Another survey, by Toyo Keizai, shows that relocation to third countries is rising: in 2011–2012, one quarter of all divested firms were relocated to third countries, compared with one tenth a decade ago. These two surveys reveal that one half of relocated firms are involved in reshoring for Japanese TNCs.

A number of factors can drive divestment decisions. Some relate to changes in global or regional TNC strategies, others to evolving environments in host markets, or to the industry-specific economic environment. (For some examples explaining the recent reshoring of manufacturing operations back to the United States, see table I.5.) Apart from changes in financing operations, TNC strategies that drive divestment include:

- evolving global or regional strategies; for instance to reorganize, restructure and/or downsize with the purpose of raising efficiency through a reconfiguration of international production networks of the TNC;
- changes in market servicing decisions, for instance by moving away from direct production to the use of NEMs; or
- the poor performance of foreign affiliates (a survey of 500 Japanese foreign affiliates involved in divestment strategies in 2011 shows that 15 per cent of them were closed because of poor performance (Japan, METI, 2013)).

Divestment can also occur following changes in host country environments, for instance when significant cost savings can be gained by relocating (such as relocation from higher- to lower-cost countries), or when local operating conditions become unfavourable (including policy shifts or rising competitive pressures). Firms can decide to divest when local competitive pressures are too

Figure I.29. Number of Japanese foreign affiliates closed, 2001 and 2004–2011



Source: UNCTAD, based on data from Japan, Ministry of Economy, Trade and Industry.

high. For instance, the divestment ratio tends to be high in the United States, where foreign affiliates' profitability is low (the rate of return to FDI in 2011 was 4.8 per cent).

Finally, industry- and technology-related factors can drive divestment decisions, which result from dynamic changes occurring through the industry life cycle or industry-level consolidation (as industries mature). High-tech knowledge-based industry segments quickly reach a stage of maturity or require different types of technology. These shifts in technology may lead to divestment decisions.

There are a number of policy implications to draw from the divestment activities of TNCs. For host economies, the key questions are about the type and strategy of investment conducted by TNCs; whether divestment leads to a sale (capital divestment) or a closure (liquidation) of the foreign affiliate; and the reasons behind divestments. Companies may decide to divest because locational advantages offered by the country are no longer favourable. Host governments therefore need to consider how attractive their country is to new investment as much as to existing firms. As countries develop, it can be expected that low value added types of activities will relocate to countries that offer cheaper factors of production. Divestment of certain segments of GVCs, in this case, may reflect the development objectives of host governments. But this should go hand in hand with a shift towards higher value-added types of activities. When a divestment is driven by shrinking opportunities worldwide, often coupled with financial difficulties faced by TNCs, host governments may consider intensifying their aftercare services with a view to retaining FDI in the country.

Research on divestment is in its early stages, in part because data are insufficient. Further research and detailed data on divestment are required because it is a significant phenomenon and entails a number of implications for policymaking.

Table I.5. Selected cases of reshoring of manufacturing operations to the United States, 2010–2013

Company	Reshored from	Comments
ACE Clearwater Enterprises	Hungary, China	The company, a maker of complex formed and welded assemblies for aerospace and energy generation, reshored mainly because of quality control issues.
Altierre Digital Retail	China	The company makes digital displays and signs for retail stores. The reshoring introduced automation processes in order to make labor an insignificant part of overall production costs and demanded skilled workers.
Bison Gear & Engineering Corp.	China	The company's end products, gear motors, are used in products from ice machines to solar panels. Reshoring to make motors in-house enabled the company to respond quickly to changes in demand.
Farouk Systems	Republic of Korea, China	A manufacturer of hair and spa products had various reasons to move operations, from the climate to the international mix of residents to the accessibility of the city. The company realized it could manufacture products in the United States at costs comparable with those abroad.
General Electric Appliances	China	The company manufactures dishwashers, refrigerators and heaters. Labour savings were eaten away by an inability to carry appropriate inventory levels as well as by inconsistent delivery schedules, resulting in overall costs that were 6 per cent higher than in the United States.
LightSaver Technologies	China	The company produces emergency lights for homeowners. It found that manufacturing in the United States was 2 to 5 per cent cheaper after accounting for the time and trouble of producing overseas, although manufacturing alone was 30 per cent cheaper in China.
NCR Corporation	India, China and Hungary	The company returned part of its ATM production to a new manufacturing facility in order to be close to customers and innovate directly on-site with them. It was not seeking the lowest cost manufacturing location but reshoring realize other benefits: decreased time-to-market, improved internal collaboration and lowered current operating costs.
Neutex Advanced Energy Group	China	By reshoring, the company was able to automate LED manufacturing processes, thus cutting workforce numbers and improving quality control. In addition, language barriers were eliminated and the company gained greater control of product delivery.
Offsite Networks	China	Rapid improvements in technology made it more affordable for the company to manufacture locally. This meant that labour costs, which had driven the search for cheaper workers overseas, would be a smaller percentage of total costs. In addition, other costs in China, such as shipping, had been increasing.
Pigtronix	China	A producer of pedals that create electric guitar sound effects discovered that it could not adequately monitor quality at Chinese factories. It also faced an erosion of benefits from having capital tied up in products that spent a week in transit and then piled up in inventory.
SolarWorld	China	A builder of solar panels committed to western labour and environmental standards that were not matched by its Chinese site. Labour accounted for less than 10 per cent of total costs, and close to half of the savings on labour from using Chinese workers was lost to higher shipping costs. The other half, or more, was made up for by the higher labour productivity in the United States.

Source: UNCTAD, based on information from the Reshoring Initiative. Available at http://www.reshorenow.org/resources/library.cfm# and company websites.

C. FDI INCOME AND RATES OF RETURN

FDI income amounted to $1.5 trillion in 2011 (the latest year for which most countries have data), broadly equivalent to the amount of FDI inflows. The rate of return on FDI was 7 per cent in the same year, with higher rates in developing and transition economies than in developed countries. Reinvested earnings accounted for about one third of total inward FDI income and almost the same share of FDI flows during 2005–2011.

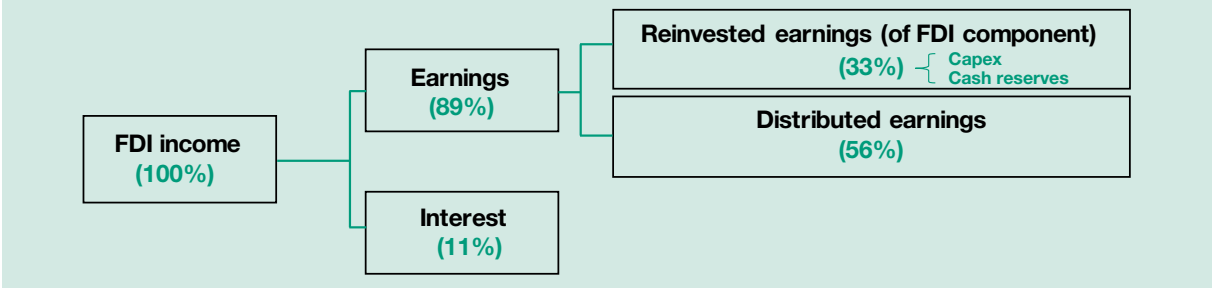
In a globalized economy, for home economies, FDI provides opportunities for TNCs to earn profits on economic activities conducted outside the TNC's home economy. For host economies, FDI income represents the return on direct investment positions that accrues to TNCs acting as direct investors. Part of this income may be used by TNCs as additional sources for their capital expenditures in host economies, and the rest is repatriated to home or other countries. In some cases, these returns from host countries constitute a significant share of the total return to TNC capital.

FDI income consists of earnings (profits) on equity investments in direct investment enterprises (or foreign affiliates) plus interest income on debt between direct investors (or parent firms) and direct investment enterprises, and between fellow enterprises. Earnings constitute a very large share of FDI income (figure I.30). Earnings can be further distinguished between reinvested earnings, which represent a component of FDI flows, and repatriated (distributed) earnings. Reinvested earnings are earnings retained within the host economy. They are composed of capital expenditures (capex) (earnings used to acquire or upgrade physical assets) and cash reserves.

Because of the growth of FDI, FDI income has become an increasingly important component of the balance of payments, contributing significantly to FDI itself, and can play an important role in the overall economy as a source of domestic income or as an income outflow. From a host country perspective, FDI income is one of several benefits that can derive from the activities of TNCs. FDI is a potential source of capital formation, employment, technology transfer and industrial upgrading; thus, short-term income deficits have to be strategically offset against long-term capacity-building. In addition, rates of return on direct investment often exceed returns on other types of investment and vary significantly among regions of the world. Variations in the level of reinvested earnings, repatriated earnings and the rate of return on FDI raise questions about the characteristics of FDI and the impact of tax and other FDI-related policies.

This section addresses some key empirical issues related to recent major trends and salient features of FDI income, mainly from the host country point of view. Subsection 1 reviews trends in FDI income by income component at both global and regional levels. Subsection 2 focuses on rates of return on FDI by region and country. Changes in rates of return during and after the financial crisis are also addressed. Subsection 3 evaluates FDI income in the context of the balance of payments. The last subsection concludes by summarizing the results and discussing some FDI policy implications.

Figure I.30. Structure of FDI income, 2005–2011



Source: UNCTAD.
Note: Figures in parenthesis show the distribution share of total inward FDI income during 2005–2011.

1. Trends in FDI income

a. General trends

Global FDI income was $1.5 trillion, almost equivalent to FDI inflows. It increased for all three groups of economies, with the largest increases in developing and transition host economies.

Global FDI income increased sharply in 2011 for the second consecutive year, after declining in both 2008 and 2009 during the depths of the global financial crisis. FDI income rose to $1.5 trillion in 2011 from $1.4 trillion in 2010, an increase of 9 per cent (figure I.31). FDI income, a component of the balance of payments, accounted for 6.4 per cent of the global current account.

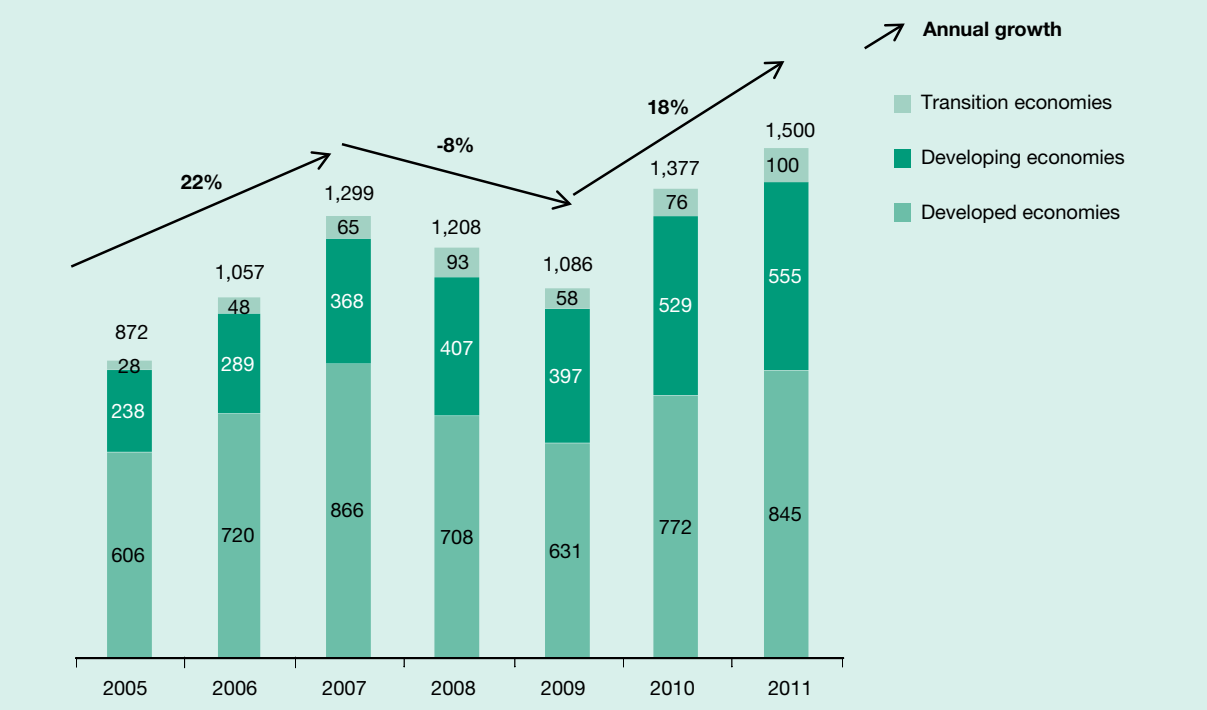
The fall in FDI income in 2008 and 2009 suggests that foreign affiliate operations were severely affected at the outset of the global downturn. This is consistent with sharp declines in the corporate profits in many economies. By 2010, however, global FDI income had surpassed the previous peak reached in 2007. For developed economies, FDI income generated by investing TNCs has not completely recovered to its pre-crisis 2007 level, primarily because of slow growth in the EU that reflects the region's continuing sovereign debt crisis. For developing economies, FDI income declined modestly in 2009 before growing strongly in 2010, especially in East and South-East Asia. For transition economies, FDI income declined sharply in 2009 but rebounded strongly in 2010 and 2011.

b. Rates of return

Globally, FDI rates of return have declined slightly, to less than 6 per cent since 2008, with variation by regions. In 2011, rates of return were highest in developing and transition economies, at 8.4 and 13 per cent, respectively.

Rates of return on FDI[9] or FDI profitability can be compared across regions, by direction of investment, and with other types of cross-border investment. For instance, for the United States, the cross-border portfolio rate of return was 2.7 per cent, while the FDI rate of return was of 4.8 per cent in 2011 – the latest year for which data are almost complete. FDI rates of return can also

Figure I.31. FDI income by region
(Billions of dollars)



Source: UNCTAD based on data from the IMF Balance of Payments database.

be compared with rates of return for investment conducted by locally owned corporations in host economies (on a country-by-country basis). In the United States, the rate of return on inward FDI is lower than that of locally owned entities (for 2011, 4.8 per cent as against 7.5 per cent[10]), but this varies from country to country. There are a number of reasons why rates of return may be different between FDI and locally owned firms in a host economy. They may include firms' characteristics (such as length of operations), possession of intangible assets, transfer pricing and other tax minimization strategies, and relative risk.

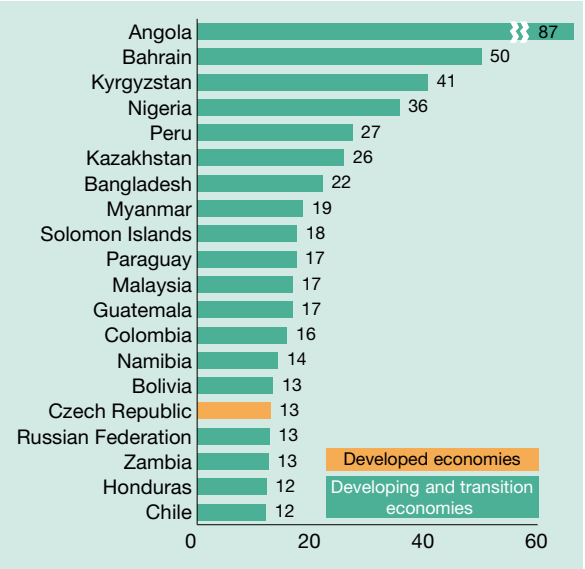
In 2011, the global rate of return on FDI was 7.2 per cent, up slightly from 6.8 per cent in 2010 (table I.6). Rates of return have decreased since 2008 in developed economies. In developing and transition economies, FDI rates of return are higher than those in developed economies, and vary over time and by region. For example, while the global average rate of return on FDI for 2006–2011 was 7.0 per cent, the average inward rate for developed economies was 5.1 per cent. In contrast, the average rates for developing and transition economies were 9.2 per cent and 12.9 per cent, respectively. For instance, in Africa and transition economies, natural resources, extractive and processing industries consistently contribute to higher rates of return. At the individual country level, therefore, many such economies rank high in the list of the top economies with the highest rates of return, and all but one of the 20 economies are developing or transition economies (figure I.32).

Table I.6. Inward FDI rates of return, 2006–2011
(Per cent)

Region	2006	2007	2008	2009	2010	2011
World	**7.3**	**7.2**	**7.7**	**5.9**	**6.8**	**7.2**
Developed economies	**6.3**	**6.1**	**4.6**	**4.0**	**4.6**	**4.8**
Developing economies	**9.7**	**9.8**	**9.7**	**8.7**	**9.0**	**8.4**
Africa	10.0	13.4	15.8	10.8	8.9	9.3
Asia	9.5	9.1	8.9	8.8	9.8	8.8
East and South-East Asia	9.7	9.3	9.1	9.2	10.5	9.2
South Asia	14.2	12.9	10.6	8.6	8.5	8.8
West Asia	3.9	3.8	6.7	5.4	4.9	5.1
Latin America and the Caribbean	10.2	10.3	9.9	7.6	7.1	7.1
Transition economies	**14.5**	**12.0**	**16.5**	**10.7**	**10.8**	**13.0**

Source: UNCTAD, based on data from the IMF Balance of Payments database.

Figure I.32. Top 20 economies with highest inward FDI rates of return, 2011
(Per cent)



Source: UNCTAD, based on data from the IMF Balance of Payments database.

c. Reinvested earnings versus repatriated earnings

One third of inward FDI income is retained within host countries as reinvested earnings that are a major component of global FDI inflows.

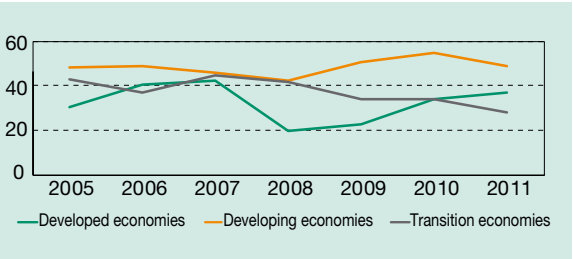
Reinvested earnings are a major component of FDI flows in the financial account of the balance of payments. It is important to note, however, that reinvested earnings can be used by TNCs either to (i) acquire or establish new foreign affiliates or to increase capital expenditures at existing affiliates, or (ii) to retain as cash holdings. In fact, TNC affiliates around the world have accumulated record levels of cash and other short-term assets from their reinvested earnings (section A).

At the global level, in 2011, $499 billion in FDI earnings were reinvested in host countries (table I.7), while $1 trillion were repatriated to home or other countries. The share of reinvested earnings in total

FDI earnings varies over time; it was one third in 2006 and 2007, 20 per cent in 2008 at the onset of the financial crisis, before returning to one third in 2011. Over the 2005–2011 period, the share of reinvested earnings in total FDI earnings averaged 32 per cent. In 2008 reinvested earnings on inward FDI for developed economies fell even more sharply than total earnings (figure I.33).

Since 2009, the share of reinvested earnings is highest in developing countries, reaching 49 per cent in 2011 (figure I.33). This share has declined slowly in transition economies since 2007, perhaps reflecting investor concerns with business prospects in some parts of the region.

Figure I.33. Share of reinvested earnings in FDI earnings, 2005–2011
(Per cent)



Source: UNCTAD, based on data from the IMF Balance of Payments database.

2. Impacts of FDI income on the balance of payments of host countries

FDI income can be retained in the host economy or repatriated. Financial flows related to FDI income have an impact on the current accounts of countries.

In the balance of payments, direct investment income is a component of the broader category of primary income, which includes compensation of employees and other types of investment income. Payments of income on inward FDI reduce the current account surplus or increase the deficit, while diminishing the capital resources available to the host economy.

Reinvestment of earnings (or reinvested earnings) – one of the components of direct investment financial flows – is a major source of FDI inflows, with variation by region and over time. In 2011, at the global level, reinvested earnings accounted for 30 per cent of worldwide FDI of $1.65 trillion. Over the period 2005–2011 reinvested earnings as a share of FDI averaged 23 per cent, with a low of 14 per cent in 2008 as the global financial crisis started, and a high of 32 per cent in 2010.

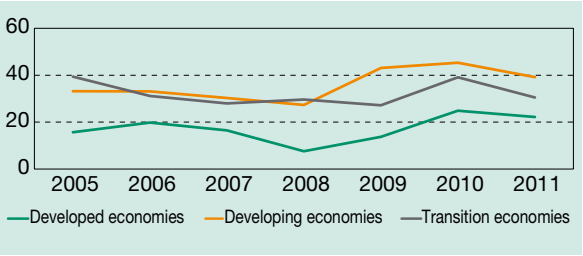
Developed economies were host to almost 50 per cent of global inward FDI flows in 2011, of which 22 per cent was financed through reinvested earnings. Reinvested earnings financed 39 per cent of inward FDI in developing countries in 2011 and 31 per cent in the case of transition economies (figure I.34). Over the period 2005–2011, the

Table I.7. Inward FDI reinvested earnings, 2005–2011
(Billions of dollars)

Region	2005	2006	2007	2008	2009	2010	2011
World	**258**	**378**	**470**	**277**	**291**	**477**	**499**
Developed economies	**161**	**253**	**312**	**109**	**112**	**219**	**260**
Developing economies	**86**	**109**	**131**	**130**	**161**	**235**	**214**
Africa	7	9	13	17	13	15	11
Asia	59	72	85	86	116	189	166
East and South-East Asia	55	65	75	74	105	175	148
South Asia	3	6	8	10	9	12	12
West Asia	1	1	1	2	2	3	5
Latin America and the Caribbean	21	28	32	27	31	30	37
Oceania	0	0	0	0	0	0	0
Transition economies	**11**	**17**	**28**	**37**	**18**	**23**	**25**

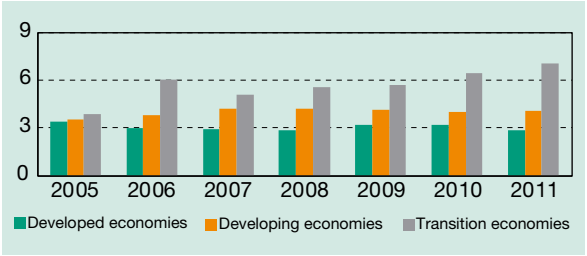
Source: UNCTAD, based on data from the IMF Balance of Payments database.

Figure I.34. Share of inward FDI flows financed through reinvested earnings, by region, 2005–2011
(Per cent)



Source: UNCTAD, based on data from the IMF Balance of Payments database.

Figure I.35. Share of repatriated earnings in current account total payments, by region, 2005–2011
(Per cent)



Source: UNCTAD, based on data from the IMF Balance of Payments database.

average share of reinvested earnings in inward FDI was the highest for developing countries at 36 per cent, followed by transition economies at 32 per cent, while the share for developed economies was at a much lower 17 per cent. (Among developed economies, the share for the EU is lower than that of other countries at 12 per cent.) Differences among regions may reflect differences in rates of return on FDI, tax treatment, the financing requirements of TNCs and the range of financing sources available.

Another means through which FDI income has an impact on the current account in the balance of payments is through repatriated earnings. The share of repatriated earnings in the current account total payments is, on average, about 3.4 per cent (figure I.35). This share is lower for developed economies (repatriated earnings accounted for 2.9 per cent of total payments in 2011), than for developing and transition economies (4.0 per cent and 7.0 per cent, respectively). The share varies significantly by country. For instance, it was relatively high for Kazakhstan (24 per cent), Nigeria (18 per cent), Yemen (17 per cent) and Colombia (13 per cent). Differences result from the different sectoral composition of FDI (repatriated earnings are more common for FDI in extractive industries), differences in tax systems and TNCs' own financial decisions.

3. Policy implications

The magnitude of and trends in income generated by FDI have a number of implications for policymakers:

Policies should be developed and promoted that encourage greater use of foreign affiliates' reinvested earnings for capital expenditures and other activities that support host country economies.

- FDI income is significant, comparable to the annual flows of global FDI. FDI income represents a return on foreign investment which also generates value added in host countries, contributes to GDP, creates jobs and income for workers, and yields fiscal revenues. It is the surplus generated by foreign affiliates after payment of factor costs and taxes.
- The high rates of return on FDI that can be observed in some countries that attract FDI predominantly in extractive industries have at times raised concerns about excessive rents for foreign firms. Although rates of return fluctuate – e.g. they rise and fall with commodity prices – and must be considered case by case, a number of fiscal tools are available to policymakers to ensure that a fair share of rents on resources accrues to the domestic economy (UNCTAD, 2012). Ultimately, from an investor perspective, returns are a compensation for risk. Policymakers need to consider country, industry and project risk factors when assessing rates of return.

- High rates of return, in some cases, coincide with high shares of repatriated earnings in total FDI income. This is partly a function of the industries where this occurs: FDI projects that require high upfront investments in economies that provide relatively little opportunity for follow-up investment in the same industry will see higher shares of repatriated earnings. This has raised concerns in some countries of the potential negative long-term effects of FDI on the balance of payments. The data have shown that in most countries the magnitude of income transfers relative to total current account payment is limited, also due to the export-generating effects of FDI.
- Profits generated by foreign affiliates and repatriated earnings are a more general concern for policymakers, to the extent that they may be perceived as "income leakage" for the domestic economy. Although value added created by foreign affiliates contributes to a country's GDP, the surplus generated by foreign affiliates (after tax) is not part of the country's gross national income. A key policy objective should be to maximize the reinvestment rate in order to keep as much of the rents as possible on FDI in the domestic economy and generate further productive capacity for development.
- Finally, earnings retained in the economy do not automatically translate into capital expenditures. For host countries of FDI, the same measures that promote investment will help maximize the extent to which retained earnings are reinvested. In addition, some countries adopt targeted incentives to facilitate reinvestment.

Notes

[1] Greenfield projects data refer to announced greenfield FDI. The value of greenfield projects indicates the capital expenditure planned by the investor at the time of the announcement. Although these data provide an important indicator of investor feeling about the launch of cross-border expansion investments, they can be substantially different from the official FDI data as reported, as companies can raise capital locally, phase their investments over time and channel their investment through different countries for tax efficiency. In addition, the project may be cancelled or may not start in the year it is announced.

[2] SWF Institute Fund Rankings, updated February 2013. Accessed on 13 March 2013 at www.swfinstitute.org/fund-rankings.

[3] *The Economist,* "The state advances", 6 October 2012.

[4] UNCTAD research suggests that this number is still very small as a proportion of all SOEs (*WIR11*, p. 31).

[5] For the purpose of this report, the countries and territories falling into this group include Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahrain, Barbados, Belize, the British Virgin Islands, the Cayman Islands, the Cook Islands, Dominica, Gibraltar, Grenada, the Isle of Man, Liberia, Liechtenstein, Maldives, the Marshall Islands, Monaco, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Seychelles, Tonga, Turks and Caicos Islands, US Virgin Islands and Vanuatu. Based on OECD, "Towards Global Tax Co-operation".

[6] FDI flows to OFCs are likely to be underestimated as many OFCs do not report FDI data. For example, data on FDI inflows to the British Virgin Islands are collected from home countries that report investments there. This estimation method tends to underestimate the level of flows.

[7] An investment is horizontal if the target company operates in the same industry as the acquiring TNC and thus has the same primary SIC code at the two-digit level. A vertical investment is a purchase of a company operating in another industry.

[8] "Outsourcing and offshoring: Here, there and every where", Special report, *The Economist*, 19 January 2013.

[9] Annual rates of return are measured as annual FDI income for year divided by the average of the end-of-year FDI positions for years t and t-1. For this study, rates of return have been calculated only for those countries that reported both FDI income and positions for a given year. Rates of return by sector are not provided in this report because FDI income data by sector are not readily available for most countries.

[10] Data from United States Department of Commerce.

REGIONAL TRENDS IN FDI

CHAPTER II

INTRODUCTION

In 2012, foreign direct investment (FDI) inflows decreased in all three major economic groups – developed, developing and transition economies (table II.1), although at different paces.

In *developed countries*, FDI flows fell by 32 per cent to $561 billion — a level last seen almost ten years ago. The majority of European Union (EU) countries and the United States experienced significant drops in their FDI inflows. FDI flows to *developing economies* remained relatively resilient, declining by only 4 per cent, accounting for 52 per cent of global inflows in 2012. Flows to developing Asia and Latin America and the Caribbean lost some momentum, although they remained at historically high levels. All subregions in developing Asia – East and South-East Asia, South Asia and West Asia – saw their flows decline in 2012, compared with the previous year. Africa was the only major region to enjoy a year-on-year increase in FDI inflows in 2012. FDI flows to *transition economies* declined by 9 per cent.

FDI inflows to the structurally weak, vulnerable and small economies rose further in 2012 from a small base of $56 billion in 2011 to $60 billion, owing to the strong growth of FDI to least developed countries (LDCs) and small island developing States (SIDS) (table II.1). Their share in the world total also rose, to 4.4 per cent from 3.4 per cent in 2011.

Outward FDI from developed economies declined by $274 billion in 2012, accounting for almost all of the fall in global outward FDI. In contrast to the sharp decline of FDI flows from developed countries, FDI flows from developing economies rose by 1 per cent in 2012, amounting to $426 billion. As a result, their share in global outflows reached a record 31 per cent. FDI outflows from Africa almost tripled; flows from Asia and Latin America and the Caribbean remained almost at the 2011 level. Asian countries remained the largest source of FDI, accounting for three quarters of the developing-country group's total. Outward FDI flows from transition economies declined in 2012, owing to the fall of FDI outflows by investors from the Russian Federation – the main home country for outward FDI from the region.

Table II.1. FDI flows, by region, 2010–2012
(Billions of dollars and per cent)

Region	FDI inflows			FDI outflows		
	2010	2011	2012	2010	2011	2012
World	**1 409**	**1 652**	**1 351**	**1 505**	**1 678**	**1 391**
Developed economies	696	820	561	1 030	1 183	909
Developing economies	637	735	703	413	422	426
Africa	44	48	50	9	5	14
Asia	401	436	407	284	311	308
East and South-East Asia	313	343	326	254	271	275
South Asia	28	44	34	16	13	9
West Asia	59	49	47	13	26	24
Latin America and the Caribbean	190	249	244	119	105	103
Transition economies	75	96	87	62	73	55
Structurally weak, vulnerable and small economies [a]	45	56	60	12	10	10
LDCs	19.0	21.0	26.0	3.0	3.0	5.0
LLDCs	27.0	34.0	35.0	9.3	5.5	3.1
SIDS	4.7	5.6	6.2	0.3	1.8	1.8
Memorandum: percentage share in world FDI flows						
Developed economies	49.4	49.7	41.5	68.4	70.5	65.4
Developing economies	45.2	44.5	52.0	27.5	25.2	30.6
Africa	3.1	2.9	3.7	0.6	0.3	1.0
Asia	28.4	26.4	30.1	18.9	18.5	22.2
East and South-East Asia	22.2	20.8	24.1	16.9	16.2	19.8
South Asia	2.0	2.7	2.5	1.1	0.8	0.7
West Asia	4.2	3.0	3.5	0.9	1.6	1.7
Latin America and the Caribbean	13.5	15.1	18.1	7.9	6.3	7.4
Oceania	0.2	0.1	0.2	0.0	0.1	0.0
Transition economies	5.3	5.8	6.5	4.1	4.3	4.0
Structurally weak, vulnerable and small economies [a]	3.2	3.4	4.4	0.8	0.6	0.7
LDCs	1.3	1.3	1.9	0.2	0.2	0.4
LLDCs	1.9	2.1	2.6	0.6	0.3	0.2
SIDS	0.3	0.3	0.5	0.0	0.1	0.1

Source: UNCTAD, FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).
[a] Without double counting.

A. REGIONAL TRENDS

1. Africa

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

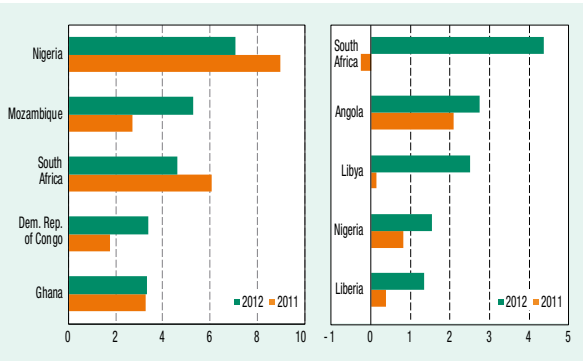
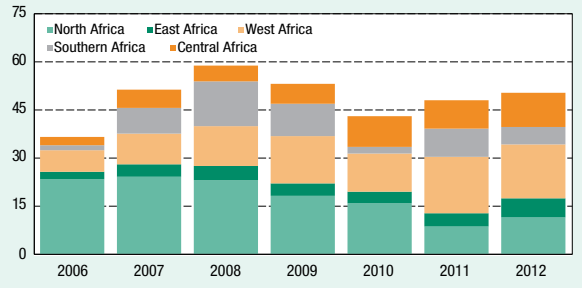
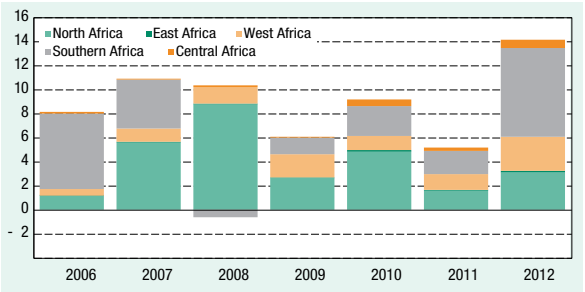


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



2.5 2.6 3.2 4.4 3.1 2.9 3.7 Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



0.6 0.5 0.5 0.5 0.6 0.3 1.0

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**8 592**	**-1 195**	**4 378**	**611**
Primary	**2 993**	**-1 127**	**- 5**	**267**
Mining, quarrying and petroleum	2 924	-1 150	- 5	245
Manufacturing	**1 766**	**245**	**4 418**	**1 518**
Food, beverages and tobacco	870	634	15	185
Coke, petroleum products and nuclear fuel	-	-	2 099	-
Chemicals and chemical products	155	59	835	340
Metals and metal products	286	- 437	-	-
Services	**3 833**	**- 313**	**- 35**	**-1 174**
Trade	2 161	-	- 181	-
Transport, storage and communications	489	- 782	- 10	- 16
Finance	1 120	325	198	-1 702
Business services	149	114	37	379

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**8 592**	**- 1 195**	**4 378**	**611**
Developed economies	**4 397**	**- 3 412**	**4 288**	**634**
European Union	2 400	- 1 619	1 986	1 261
United States	1 634	- 144	41	-
Japan	649	-	-	-
Developing economies	**4 163**	**2 049**	**90**	**- 23**
Africa	409	114	409	114
East and South-East Asia	2 986	1 843	- 94	- 386
China	2 441	1 580	- 16	-
South Asia	318	22	- 337	426
West Asia	464	73	87	100
Latin America and the Caribbean	- 14	- 3	24	- 277
Transition economies	**-**	**-**	**-**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Africa as destination		Africa as investors	
	2011	2012	2011	2012
Total	**82 939**	**46 985**	**35 428**	**7 447**
Primary	**22 824**	**7 479**	**4 640**	**445**
Mining, quarrying and petroleum	22 824	7 479	4 640	445
Manufacturing	**31 175**	**20 863**	**23 107**	**4 013**
Food, beverages and tobacco	5 115	2 227	411	438
Coke, petroleum products and nuclear fuel	9 793	5 661	20 742	50
Metals and metal products	5 185	4 469	9	1 144
Motor vehicles and other transport equipment	3 151	2 316	-	-
Services	**28 940**	**18 643**	**7 681**	**2 979**
Electricity, gas and water	10 484	6 401	1 441	60
Transport, storage and communications	5 696	2 940	419	895
Finance	1 426	1 511	916	614
Business services	5 631	1 886	2 282	889

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Africa as destination		Africa as investors	
	2011	2012	2011	2012
World	**82 939**	**46 985**	**35 428**	**7 447**
Developed economies	**39 181**	**17 314**	**18 983**	**1 683**
European Union	23 861	7 882	178	251
United States	6 638	4 831	18 759	1 362
Japan	1 302	726	-	39
Developing economies	**43 033**	**29 604**	**16 445**	**5 764**
Africa	10 749	3 821	10 749	3 821
East and South-East Asia	12 360	4 616	400	166
China	1 953	1 764	334	102
South Asia	11 113	9 315	980	149
West Asia	7 038	11 610	150	1 160
Latin America and the Caribbean	1 774	242	1 167	469
Transition economies	**725**	**67**	**-**	**-**

FDI inflows to Africa grew to $50 billion in 2012, a rise of 5 per cent over the previous year. The overall increase in FDI inflows translated into increased flows to North Africa, Central Africa and East Africa, whereas West Africa and Southern Africa registered declines. FDI from developing countries is increasing. There is a rising interest in FDI by private equity funds in Africa, but the level of investment is still low. FDI oriented to the African consumers is becoming more widespread in manufacturing and services but will remain relatively limited in the near term.

Africa is one of the few regions to enjoy year-on-year growth in FDI inflows since 2010. Investment in exploration and exploitation of natural resources, and high flows from China (tables C and E) both contributed to the current level of inward flows. More generally, the continent's good economic performance – GDP grew at an estimated 5 per cent in 2012 – underpinned the rise in investment, including in manufacturing and services.

Investor confidence appears to have returned to North Africa, as FDI flows rose by 35 per cent to $11.5 billion in 2012 (figure B). Much of the growth was due to a rise in investment in Egypt. Whereas the country experienced a net divestment of $0.5 billion in 2011, it attracted net investment inflows of $2.8 billion in 2012 (table A). Across the subregion, FDI flows also increased to Morocco and Tunisia, but decreased to Algeria and the Sudan.

In contrast, FDI flows to West Africa declined by 5 per cent, to $16.8 billion, to a large extent because of decreasing flows to Nigeria. Weighed down by political insecurity and the weak global economy, that country saw FDI inflows fell from $8.9 billion in 2011 to $7.0 billion in 2012 (figure A). Meanwhile, Liberia and Mauritania both experienced a surge in inward FDI flows. In Mauritania, FDI inflows doubled to $1.2 billion, which can be attributed in part to the expansion in mining operations (copper and gold) by Canada-based First Quantum Minerals and Kinross.

Central Africa attracted $10 billion of FDI in 2012, a surge of 23 per cent on the previous year. Slowing FDI inflows to the Congo were offset by an increase to the Democratic Republic of the Congo, where inward FDI flows jumped from $1.7 billion to $3.3 billion. Some of the flows went towards the expansion of the copper-cobalt Tenke Fungurume mine. Recent natural resource discoveries also contributed to the increase in FDI inflows to East Africa, from $4.6 billion in 2011 to $6.3 billion in 2012. This includes investment in recently discovered gas reserves in the United Republic of Tanzania and oil fields in Uganda (*WIR12*).

FDI flows to Southern Africa plunged from $8.7 billion in 2011 to $5.4 billion in 2012. The decline was mainly due to falling FDI flows to two recipients: Angola and South Africa. Angola registered a third successive year of net divestment, as the contraction in FDI flows widened to -$6.9 billion. The lower FDI flows to South Africa – a drop of 24 per cent to $4.6 billion in 2012 (figure A) – were due to net divestments in the last quarter of the year, which was primarily attributed to a foreign mining company offloading its stake in a South African subsidiary. The decreases in these two countries were partly offset by the near doubling of flows to Mozambique, where the appeal of huge offshore gas deposits helped to attract investor interest to the tune of $5.2 billion.

Transnational corporations (TNCs) from developing countries are increasingly active in Africa, building on a trend in recent years of a higher share of FDI flows coming from emerging markets. Malaysia, South Africa, China and India (in that order) are the largest developing-country sources of FDI in Africa. Malaysia, with an FDI stock of $19 billion in Africa in 2011 (the latest year for which data are available) has investments in all sectors across the continent, including significant FDI in agribusiness and finance. Its agribusiness investments are in both East and West Africa, while FDI in finance is concentrated in Mauritius. South Africa and China are the next largest investors, with $18 billion and $16 billion, respectively, of FDI stock in Africa; their FDI is diversified across all sectors. The bulk of India's $14 billion FDI in Africa is in Mauritius, but greenfield investment project data indicate that the country's investments in landlocked developing countries (LLDCs) in Africa are on the rise.

Outward FDI flows from Africa nearly tripled in 2012, from $5 billion in the previous year to an estimated $14 billion (figure C). South African companies were active in acquiring operations in mining, wholesale

and health-care industries, helping raise outflows from the country to $4.4 billion in 2012. The growth in investment from South Africa, coupled with year-on-year increases in FDI outflows from Angola, resulted in a significant expansion of overseas investment activities from the Southern Africa region. Central Africa, North Africa and West Africa also recorded significant rises in their outflows in 2012, boosted primarily by increases from the Democratic Republic of the Congo, Liberia, Libya and Nigeria (figure A).

Interest in FDI by private equity funds is rising in Africa, but levels are still low. One type of FDI source that has garnered increasing attention in recent years is private equity in Africa. But how do the high expectations surrounding private equity in Africa measure up against actual activity? Cross-border merger and acquisition (M&A) activity, the main mode of private equity investment (figure II.1) suggests that private equity has yet to take off in Africa. High points were reached in 2006 and 2007 but activity since then has levelled off, as the hiatus in FDI by private equity funds (chapter I) has also affected Africa.

Private equity investment in Africa is concentrated in a few countries. South Africa is, by far, the largest recipient of private equity on the continent, accounting for more than half (53 per cent) of total investments in 2011, according to data from Preqin. Egypt, Mauritius and Morocco each had a share of 8 per cent, while Nigeria accounted for 5 per cent. The attractiveness of South Africa is also reflected in the ranking of the biggest private equity deals in Africa, with the country hosting 7 of the 10 largest FDI deals by private equity firms in the period 1996–2012 (table II.2).

The sectoral distribution of private equity in Africa is not as narrow as the geographic spread, with the

Figure II.1. Cross-border M&As by private equity funds in Africa, 2003–2012
(Billions of dollars)

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database.

Table II.2. The 10 largest FDI deals by private equity firms in Africa, 1996–2012

Year	Value ($ million)	Acquiring company	Home economy	Acquired company	Host economy	Industry of the acquired company
2006	4 802	Shareholders[a]	South Africa	Kumba Iron Ore	South Africa	Iron ores
2007	3 502	Bain Capital LLC	United States	Edgars Consolidated Stores Ltd	South Africa	Retail stores, nec
2006	2 313	Investor group[a]	United Arab Emirates	Tunisie-Telecoms	Tunisia	Telephone communications, except radiotelephone
2007	1 438	Shareholders[a]	South Africa	Mondi Ltd	South Africa	Paper mills
2007	1 410	Abraaj Capital Ltd	United Arab Emirates	Egyptian Fertilizers Co SAE	Egypt	Nitrogenous fertilizers
2009	1 277	Paulson & Co Inc	United States	AngloGold Ashanti Ltd	South Africa	Gold ores
1997	1 261	Investor group[a]	United States	Telkom South Africa(Telkom)	South Africa	Telephone communications, except radiotelephone
2011	1 200	Investor group[a]	Kuwait	Orascom Telecom Tunisie SA	Tunisia	Telephone communications, except radiotelephone
2006	1 000	Lexshell 44 General Trading (Pty) Ltd	United Kingdom	Victoria & Alfred Waterfront (Pty)Ltd	South Africa	Land subdividers and developers, except cemeteries
2007	933	Cleansheet Investments (Proprietary) Ltd	United States	Alexander Forbes Ltd	South Africa	Insurance agents, brokers and service

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (http//www.unctad.org/fdistatistics).
[a] Acquisitions by shareholders or a goup of investors include private equity funds as a partner.

four most popular sectors being business services, information technology, industrial products and telecom, media and communications, according to fund managers. M&A data also highlight the importance of extractive industries. The mining, quarrying and petroleum sector has accounted for nearly 46 per cent of all cross-border M&As in Africa by private equity firms in the past four years. The other major sector has been non-financial services such as infrastructure and communications.[1]

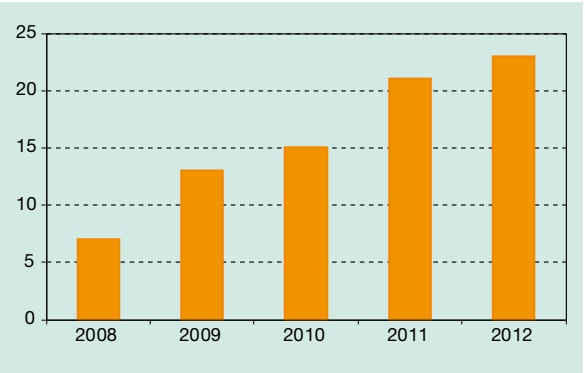
Though FDI by private equity funds is relatively diverse in terms of the industries in which these investors are active, the amount remains small and is geographically concentrated. That said, these funds are likely to become more active in FDI globally and in Africa, as the world economy recovers from its current doldrums. In anticipation, policymakers should pay it due attention, as this investment form can play a role not filled by other types of finance and bring with it benefits such as better management practices and improved corporate governance. Policymakers should similarly be conscious of possible concerns with private equity, such as issues of transparency and the span of investment horizons (*WIR12*: 12).

FDI oriented to the African consumer is becoming more widespread. Investors in Africa are becoming increasingly aware of the positive demographic outlook for the continent. First, the roughly 1 billion population is predicted to swell by a quarter in the next 10 years and more than double by 2050. Second, the urban population is also expected to increase: from 40 per cent in 2010 to 54 per cent in 2050, and with this expansion comes a rising middle class. Third, the share of the population that is 25 years or younger currently stands at about 60 per cent and is projected to remain at that level over the next few decades (UNDESA, 2011). These features, coupled with a positive economic outlook, raise the prospect of an increasingly dynamic African consumer market.

The data show some incipient signs of an investor reorientation towards the burgeoning African consumer market, as some of the most attractive sectors during the past decade have been consumer-related manufacturing and service industries, e.g. financial services; food, beverages and tobacco; and motor vehicles (tables B and D). The move towards FDI in consumer-oriented industries is also shown by greenfield investment projects data (FDI data do not provide detailed industry classification). Current levels are small and geographically concentrated. However, the share of greenfield FDI in these industries as a portion of total greenfield FDI is rising and set to reach roughly one quarter in 2012 (figure II.2).

There is a rising number of success stories of manufacturing FDI in Africa that are not directly related to extractive industries, including in the automotive sector in South Africa, the leather industry in Ethiopia, the garment business in Lesotho and pharmaceuticals across East Africa. It is noteworthy that these cases are not limited to FDI from developed countries – in many cases, foreign investors from developing countries such as Brazil, China, India and Turkey have started to make inroads into Africa's manufacturing sector. Moreover, intra-African investment, albeit comparatively small, tends to go to services and manufacturing – in the latter case, particularly to less technology- and capital-intensive targets.

Figure II.2. Share of consumer-related FDI greenfield projects in total value of FDI greenfield projects in Africa, 2008–2012[a]
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

[a] Consumer-related FDI includes selected industries in manufacturing (food, beverages and tobacco; textiles, clothing and leather; electrical and electronic equipment; motor vehicles and other transport equipment) and services (transport, storage and communication; finance; education; health and social services; community, social and personal services activities).

In terms of geographic distribution, the largest consumer markets in Africa also count among the continent's main FDI destinations for consumer-oriented FDI in manufacturing and services, but foreign investors are not limiting themselves to consumers in these markets only. For instance, telecommunications companies such as South Africa-based MTN and India-based Bharti Airtel are both present in at least 15 African countries. The South Africa–based retailers Shoprite and Massmart (in which United States–based Walmart acquired a majority stake in 2011) have operations in 17 and 12 African markets, respectively.

The expansion of FDI flows in some consumer-oriented industries in Africa and their geographic distribution are indications that the prospect of the greater spending power of African consumers is attracting more foreign investors. Still, it is also clear that any such attraction is at an incipient stage. An important reason is that, for some time to come, investors are primarily targeting high-end consumers, who constitute a very small strata of the population. Projections of consumption growth in Africa for 2011–2016 suggest that 40 per cent of the growth will come from households that earn more than $20,000 a year – a group that represents only 1–2 per cent of all households.[2] From a policy perspective, the challenge for countries is to channel investment into poverty-alleviating sectors, producing goods and services accessible and affordable for the poor, and creating business linkages with domestic SMEs.

2. East and South-East Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

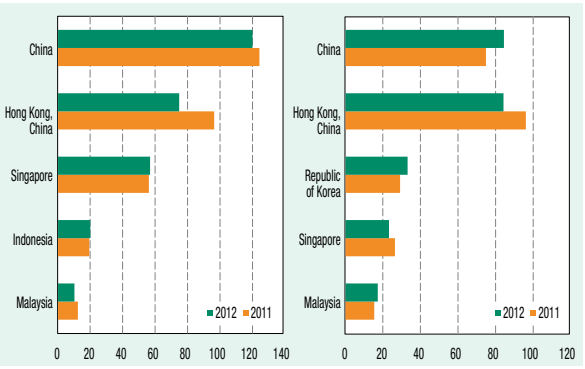
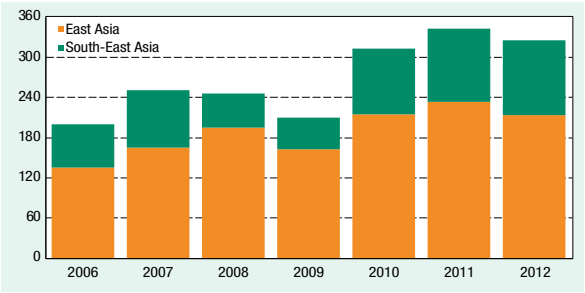


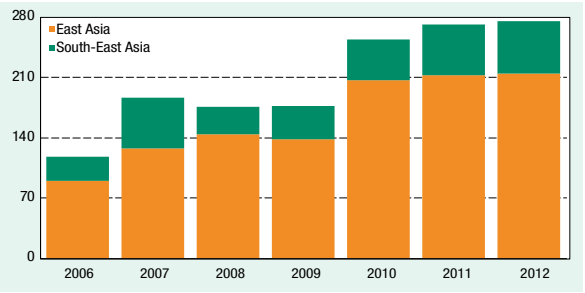
Figure B. FDI inflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012
13.5	12.5	13.5	17.3	22.2	20.8	24.1

Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012
8.3	8.2	8.8	15.4	16.9	16.2	19.8

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**35 513**	**22 550**	**72 458**	**69 357**
Primary	**5 658**	**758**	**21 083**	**10 344**
Mining, quarrying and petroleum	5 224	357	21 431	11 756
Manufacturing	**11 436**	**12 873**	**11 582**	**12 859**
Food, beverages and tobacco	3 462	7 197	1 311	4 948
Metals and metal products	789	281	1 281	2 822
Machinery and equipment	533	1 830	390	1 596
Electrical and electronic equipment	3 407	717	2 306	2 477
Services	**18 419**	**8 919**	**39 793**	**46 153**
Electricity, gas and water	2 539	756	4 017	2 525
Transport, storage and communications	1 697	4 426	- 1 414	4 633
Finance	4 962	721	33 411	38 820
Business services	5 537	2 043	- 432	1 050

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**35 513**	**22 550**	**72 458**	**69 357**
Developed economies	**16 708**	**5 148**	**47 518**	**50 102**
European Union	5 591	2 686	14 773	20 062
United Kingdom	2 796	- 2 958	6 192	15 091
North America	3 865	- 1 584	21 349	15 125
Canada	1 220	- 290	8 968	7 778
United States	2 645	- 1 294	12 381	7 347
Japan	6 516	3 821	738	2 969
Developing economies	**16 428**	**16 427**	**24 206**	**24 198**
Africa	- 94	- 386	2 986	1 843
South, East and South-East Asia	14 596	17 234	11 637	16 570
Latin America and the Caribbean	168	119	9 311	5 324
Transition economies	**1 531**	**-**	**734**	**- 4 944**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	East and South-East Asia as destination		East and South-East Asia as investors	
	2011	2012	2011	2012
Total	**206 049**	**147 608**	**115 133**	**118 476**
Primary	**4 444**	**363**	**5 158**	**3 022**
Mining, quarrying and petroleum	4 444	363	5 158	3 022
Manufacturing	**127 673**	**70 614**	**73 297**	**43 443**
Chemicals and chemical products	25 615	9 886	6 495	10 733
Metals and metal products	16 836	8 902	14 522	6 799
Electrical and electronic equipment	21 768	9 361	11 455	11 468
Motor vehicles and other transport equipment	17 578	17 716	9 022	4 797
Services	**73 932**	**76 632**	**36 678**	**72 011**
Electricity, gas and water	4 567	4 507	7 697	22 813
Construction	7 021	19 652	3 840	29 147
Transport, storage and communications	19 730	13 096	7 653	2 950
Finance	16 651	13 658	5 371	6 074

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	East and South-East Asia as destination		East and South-East Asia as investors	
	2011	2012	2011	2012
World	**206 049**	**147 608**	**115 133**	**118 476**
Developed economies	**133 212**	**99 091**	**16 726**	**43 863**
European Union	58 072	38 248	7 299	18 768
Germany	22 308	12 020	1 129	249
United Kingdom	11 621	8 372	1 175	15 003
United States	32 580	27 628	5 961	21 525
Australia	2 230	1 473	1 410	2 070
Japan	30 416	24 646	533	677
Developing economies	**71 605**	**47 824**	**91 844**	**69 246**
Africa	400	166	12 360	4 616
East and South-East Asia	55 390	43 666	55 390	43 666
South Asia	10 973	2 388	9 197	8 211
Transition economies	**1 232**	**694**	**6 563**	**5 368**

FDI inflows to East and South-East Asia declined by 5 per cent, while outflows from two subregions rose by 1 per cent in 2012. The subregions now account for 24 per cent of the world's total FDI inflows and 20 per cent of outflows. There has been a considerable wave of relocation in manufacturing within the subregions during the past few years, particularly for labour-intensive industries. Meanwhile, both the extractive and the infrastructure industries have received significant foreign capital, driven partly by intraregional investment.

FDI inflows to East and South-East Asia fell to $326 billion in 2012 (figure B) – the first decline since 2009 – as a result of drops in major economies such as China, Hong Kong (China), Malaysia and the Republic of Korea. The sluggish global economy, fiscal constraints in Europe, a significant shrinkage in global M&A activities and cautious sentiment in investing by TNCs were among the key reasons for the decline.

The decrease was visible in both cross-border M&As and greenfield investments (tables B–E). In 2012, M&A sales contracted by about 37 per cent to $23 billion, and the value of greenfield investments decreased by 28 per cent – the lowest level recorded in a decade. However, M&A activities undertaken by companies from within the subregions rose by 18 per cent, to $17 billion, contributed mainly by the proactive regional expansion drive of firms from China, Hong Kong (China), Malaysia and Thailand. The strong intraregional M&A activity, nevertheless, could not compensate for the slide in M&As by developed-country firms, which were less than one third the level of 2011.

East Asia experienced an 8 per cent drop in FDI inflows, to $215 billion. China continues to be the leading FDI recipient in the developing world despite a 2 per cent decline in inflows. FDI remained at a high level of $121 billion (figure A),[3] in spite of a strong downward pressure on FDI in manufacturing from rising production costs, weakening export markets and the relocation of foreign firms to lower-income countries. Hong Kong (China), the second largest recipient in East and South-East Asia, saw a 22 per cent decline in FDI inflows, to $75 billion, but the situation has been improving since the end of 2012 as strong capital inflows resumed. FDI inflows to the Republic of Korea dropped slightly, by 3 per cent, to $10 billion, as both equity investments and reinvested earnings decreased. Inflows to Taiwan Province of China turned positive, from -$2 billion in 2011 to $3 billion in 2012. Inflows to Mongolia declined but remained above $4 billion thanks to foreign investment in mining. However, FDI prospects in the sector have become uncertain as a dispute between the Government and a foreign investor looms.

In contrast to East Asia, South-East Asia saw a 2 per cent rise in FDI inflows (to $111 billion), partly because of higher flows (up 1.3 per cent to $57 billion) to Singapore, the subregion's leading FDI host country. Higher inflows to Indonesia and the Philippines also helped, as did the improved FDI levels in low-income countries such as Cambodia, Myanmar and Viet Nam. These countries are the emerging bright spots of the subregion, particularly for labour-intensive FDI and value chain activities. These low-income countries also experienced a rise in investments in the extractive sector and infrastructure, including those under contractual arrangements. Thailand continued to attract higher levels of greenfield projects, particularly in the automotive and electronic industries. Some automotive makers, especially Japanese TNCs, have been strengthening and expanding their operations in Thailand. For instance, Thailand has overtaken China to become Toyota's third largest production base.[4]

TNCs from Japan and elsewhere are increasing their FDI in this subregion because of regional integration, the prospects of the Association of Southeast Asian Nations (ASEAN) economic community and emerging opportunities in low-income countries, such as Myanmar. A number of companies from Europe and the United States have also recently established or are establishing operations in Myanmar. For instance, Hilton is opening a hotel in Yangon under a management contract. Chinese investment in infrastructure has been increasing in countries such as Indonesia and the Lao People's Democratic Republic, providing new dynamism to intraregional FDI in infrastructure in East and South-East Asia.

Prospects for FDI inflows to East and South-East Asia are likely to turn positive, as the performance of key economies in the region improves and investor confidence picks up strength.

Overall, outward FDI from East and South-East Asia rose by 1 per cent, to $275 billion (figure C), against the backdrop of a sharp decline in worldwide FDI outflows. This marks the fourth consecutive year of increasing flows from the region, with its share in global FDI outflows jumping from 9 per cent in 2008 to 20 per cent in 2012, a share similar to that of the EU.

In East Asia, FDI outflows rose by 1 per cent to $214 billion in 2012. Outflows from China continued to grow, reaching a new record of $84 billion. The country is now the world's third largest source of FDI (see chapter I). Chinese companies remained on a fast track of internationalization, investing in a wide range of industries and countries driven by diversified objectives, including market-, efficiency-, natural resources- and strategic assets-seeking motives.[5] FDI outflows from the Republic of Korea rose 14 per cent, to $33 billion, while those from Taiwan Province of China increased slightly to $13 billion. Large investments in high-end segments of the electronics industry in Mainland China were one of the main drivers of rising outward FDI from these two economies.

FDI outflows from South-East Asia increased 3 per cent to $61 billion in 2012. Outflows from Singapore, the leading source of FDI in the subregion, declined by 12 per cent to $23 billion. However, outflows from Malaysia and Thailand rose by 12 per cent and 45 per cent, amounting to $17 billion and $12 billion, respectively. The rise of these two countries as FDI sources was driven mainly by intraregional investments.

Manufacturing is relocating within the region. Rising production costs in China have led to the relocation of manufacturing activities by foreign as well as Chinese TNCs. The phenomenon has been generally contained within the region, though there are some cases of relocation to other regions as well as to home countries of foreign TNCs (see chapter I.B). On the one hand, foreign productive facilities have been relocating inland from the coastal area of China, leading to a boom in FDI inflows to the middle and western areas of the country. Accordingly, the share of FDI inflows to the inland areas in the national total rose from 12 per cent in 2008 to 17 per cent in 2012.[6] On the other hand, some foreign companies have started to relocate their production and assembly facilities to low-income countries in South-East Asia.[7] Until now, more relocation activities have been made to inland China than from China to South-East Asia, but the latter destination has gained strength as production costs in China as a whole have kept rising.[8]

The resulting relocation of productive capacities took place primarily in labour-intensive industries, such as garments and footwear. For instance, some companies from economies within the region, such as Hong Kong (China) and Taiwan Province of China, have relocated from Mainland China to Cambodia, where labour costs are about a third of those in China and productivity is rising towards the level in China. Traditionally important target countries for such relocation are Indonesia and Viet Nam in South-East Asia, as well as Bangladesh in South Asia. A number of large TNCs, including Nike (United States) and Adidas (Germany), have strengthened their contract manufacturing activities in low-cost production locations in South-East Asia. As a result, for instance, the share of Viet Nam in the footwear production of Nike rose from 25 per cent in 2005 to 41 per cent in 2012.[9]

Meanwhile, the manufacturing sector in China has been upgrading as both domestic and foreign investments take place in high-technology industries, such as advanced electronics components. For instance, Samsung has invested in a joint venture producing the latest generation of liquid crystal displays (LCDs) in Suzhou and has announced plans to build a $7 billion facility in Xi'an to produce advanced flash memory. The facility, to be operational at the end of 2013, will become Samsung's second largest memory chip production base – and the company's largest-ever overseas investment. In addition, a greater number of foreign-invested research and development (R&D) centres – which have doubled over the past five years, to about 1,800 at the end of 2012 – demonstrates that FDI has helped China enter into more advanced activities along the value chain.

Extractive industries attract more attention from foreign investors. Over the past few years, foreign participation in extractive industries (including both oil and gas, and metal mining) has helped boost FDI in

certain countries, including Mongolia and Myanmar (table II.3). In some instances, foreign participation in mining has resulted in political controversies, at both national and international levels, which have had significant implications for international investors.

Since Mongolia opened its door to foreign participation in metal mining, the country has seen significant FDI inflows targeting its mining assets, which include coal, copper, gold and uranium. In 2009, the Oyu Tolgoi mine, one of the world's largest untapped deposits of copper and gold, was granted to a joint venture between the Mongolian Government and Turquoise Hill Resources (previously known as Ivanhoe Mines), a Canadian company that is now 51 per cent owned by Rio Tinto (Australia and United Kingdom). The mine started construction in 2010 and is expected to begin production in 2013. However, a dispute has recently emerged between the Mongolian Government and Rio Tinto over this mine, leading to uncertainties about the progress of the construction.[10]

In granting mining licenses, the Government of Mongolia has tried to involve more bidders. As a result, fierce competition was witnessed among international investors for the Tavan Tolgoi coal mine, one of the world's largest coking and thermal coal deposits. Involved in the bidding for the West Tsankhi section of the mine were companies from various countries.

In Myanmar, new investments in extractive industries have taken off. In the oil and gas industry, a number of Western companies are already operating; new players from India, the Republic of Korea, Thailand and Singapore have entered into oil and gas exploration as well and are ready to expand their operations (table II.3).[12] For instance, Total (France) and Chevron (United States) have long held stakes in oil and gas projects, but only after the recent easing of sanctions are the two companies expanding their operations in Myanmar. In metal mining, among others, a joint venture between a local company and Ivanhoe Mines (Canada) started operating a large copper mine in 2004; and later a Chinese investor has become involved instead of the Canadian company. Following the introduction of a new mining law in 2013, investors from China, India, the Philippines, the Russian Federation, Viet Nam and the United

Table II.3. Foreign participation in extractive industries in Mongolia and Myanmar, selected large projects

Project/target company	Industry	Investment ($ million)	Foreign investor	Home economy	Mode of entry (Share)	Year
Mongolia						
Tomortei Mining Co	Metal mining	160	Shougang	China	Greenfield	2005
Boroo Glod Mine	Metal mining	228	Centerra Gold	Canada	Greenfield	2005
Baruunbayan Uranium Project	Metal mining	..	Solomon Resources	Canada	Greenfield	2005
Khangai and Bayankhongor Project	Metal mining	..	Dragon Gold Resources	United Kingdom	Greenfield	2005
Bao Fung Investments Ltd	Metal mining	87	Asia Resources Holdings	Hong Kong, China	M&A (100%)	2009
Mountain Sky Resources	Metal mining	237	Green Global Resources	Hong Kong, China	M&A (100%)	2009
Oyu Tolgoi Mine	Metal mining	..	Ivanhoe Mines	Canada	Greenfield	2009
MRCMGL LLC	Metal mining	20	Alamar Resources Ltd	Australia	M&A (100%)	2011
Ar Zuun Gol & Zuun Gol Coking	Coal mining	35	Hunnu Coal Ltd	Australia	M&A (70%)	2011
Wolf Petroleum Ltd	Oil and gas	42	Strzelecki Metals Ltd	Australia	M&A (100%)	2012
Myanmar						
Blocks AD-2, AD-3 and AD-9	Oil and gas	337	ONGC	India	Greenfield	2007
Block M3 in the Gulf of Martaban	Oil and gas	1 000	PTTEP International	Thailand	Greenfield	2007
Letpadaung Copper Mine	Metal mining	600	Wanbao Mining	China	Greenfield	2008
Chauk Oil Field	Oil and gas	337	Interra Resources	Singapore	Greenfield	2008
Gas Project Block AD-7	Oil and gas	1 700	Daewoo	Korea, Republic of	Greenfield	2009
Dornod Uranium Mine	Metal mining	..	Rosatom	Russian Federation	Greenfield	2009

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database, and various media sources.

States have expressed interest in mining, expanding the number of possible contributors of FDI inflows to extractive industries in Myanmar.

Intraregional investment increases, particularly in infrastructure. The share of intraregional FDI flows has been on the rise, accounting for about 37 per cent and 24 per cent of foreign investment in greenfield projects and cross-border M&As, respectively (tables C and E).

In infrastructure industries, such as transport and telecommunications, intraregional investment has been particularly significant in East and South-East Asia over the past decade (UNCTAD, 2008). Companies headquartered in Hong Kong (China), Malaysia, Singapore and Thailand are major players from emerging economies in those industries (UNCTAD, 2013a). They have increasingly expanded their operations within the region and beyond it. For instance, telecom operators from Thailand and Singapore have actively invested in telecommunications in neighbouring South-East Asian countries, and companies from Malaysia and Singapore have been operating in the transport industry in China.

During the past few years, infrastructure investment from China in South-East Asia has also been on the rise. In the power industry, for instance, China Huadian Corporation, one of the country's five largest electricity generators, is investing $630 million in the first phase of the largest power plant in Bali, Indonesia. In total, Chinese enterprises have invested an estimated $7 billion in infrastructure development in Indonesia. In transport, China has decided to invest $7 billion in domestic railways in the Lao People's Democratic Republic; a 410-km high-speed railway linking Kunming and Vientiane may be operational by 2018. The China–Myanmar railway has started construction as well. A regional network of high-speed railways linking China and Singapore, to be built in the years to come, will contribute significantly to regional integration and economic progress in the area.

3. South Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

Range	Inflows	Outflows
Above $10 billion	India	..
$1.0 to $9.9 billion	Islamic Republic of Iran	India
$0.1 to $0.9 billion	Bangladesh, Pakistan, Sri Lanka and Maldives	Islamic Republic of Iran
Below $0.1 billion	Afghanistan, Nepal and Bhutan	Sri Lanka, Pakistan and Bangladesh

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

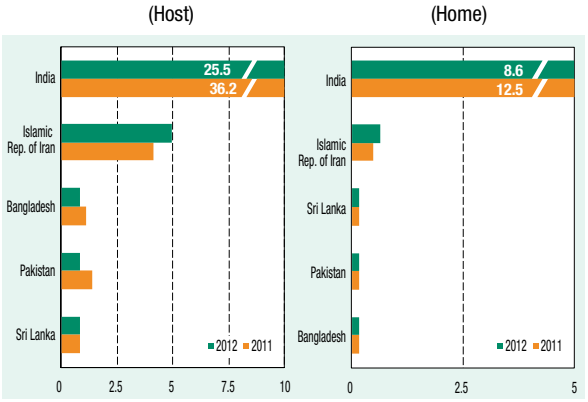
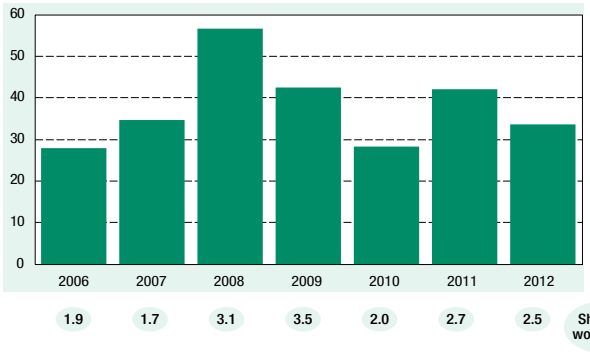
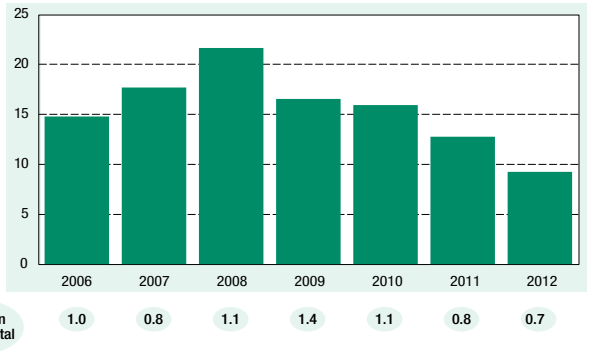


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



Share in world total: 1.9 1.7 3.1 3.5 2.0 2.7 2.5

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total: 1.0 0.8 1.1 1.4 1.1 0.8 0.7

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**13 181**	**2 637**	**6 143**	**2 651**
Primary	**8 997**	**130**	**834**	**- 70**
Mining, quarrying and petroleum	8 997	130	834	- 70
Manufacturing	**1 951**	**1 403**	**1 489**	**498**
Chemicals and chemical products	96	102	1 370	293
Metals and metal products	47	124	- 644	116
Electrical and electronic equipment	83	493	288	37
Motor vehicles and other transport equipment	977	197	470	58
Services	**2 233**	**1 104**	**3 820**	**2 223**
Transport, storage and communications	135	- 590	1 954	25
Finance	859	1 408	1 461	659
Business services	418	- 21	101	243
Health and social services	80	145	-	665

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**13 181**	**2 637**	**6 143**	**2 651**
Developed economies	**15 732**	**1 161**	**5 304**	**1 967**
European Union	13 232	618	1 154	435
United Kingdom	13 184	- 782	682	- 172
United States	1 652	405	28	1 531
Australia	14	17	4 082	- 374
Japan	986	966	40	7
Developing economies	**- 2 573**	**1 462**	**1 083**	**683**
Africa	- 337	426	318	22
Mauritius	- 348	82	-	-
South, East and South-East Asia	- 2 373	- 39	585	625
Latin America and the Caribbean	4	-	180	119
Transition economies	**-**	**-**	**- 245**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	South Asia as destination		South Asia as investors	
	2011	2012	2011	2012
Total	**58 669**	**39 525**	**35 627**	**27 714**
Primary	**-**	**165**	**4 165**	**4 602**
Mining, quarrying and petroleum	-	165	4 165	4 602
Manufacturing	**37 813**	**16 333**	**19 469**	**11 367**
Chemicals and chemical products	4 567	1 786	1 370	1 668
Metals and metal products	9 595	3 317	8 287	2 178
Machinery and equipment	3 169	929	140	1 234
Motor vehicles and other transport equipment	11 396	4 248	2 628	2 938
Services	**20 857**	**23 027**	**11 993**	**11 745**
Electricity, gas and water	1 862	6 199	4 463	4 236
Transport, storage and communications	3 815	7 210	345	1 442
Finance	2 552	3 264	1 710	726
Business services	5 890	2 805	3 228	2 046

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	South Asia as destination		South Asia as investors	
	2011	2012	2011	2012
World	**58 669**	**39 525**	**35 627**	**27 714**
Developed economies	**42 036**	**23 579**	**4 529**	**8 592**
European Union	15 990	12 962	2 538	2 889
United States	14 121	5 559	1 497	829
Australia	1 049	23	62	4 576
Japan	8 787	3 147	8	84
Developing economies	**16 244**	**15 694**	**30 274**	**18 742**
Africa	980	149	11 113	9 315
East and South-East Asia	9 197	8 211	10 973	2 388
South Asia	1 910	2 328	1 910	2 328
West Asia	4 093	4 972	5 672	4 100
Latin America and the Caribbean	64	34	606	611
Transition economies	**389**	**252**	**824**	**380**

FDI inflows to South Asia dropped by 24 per cent to $34 billion as the region saw sharp declines in both cross-border M&As and greenfield investments. Meanwhile, outflows declined by 29 per cent, to $9 billion, due to the shrinking value of M&As by Indian companies.

FDI inflows to South Asia declined significantly in 2012 (figure B) because of decreases across a number of major recipient countries, including India, Pakistan and Sri Lanka (figure A). Inflows to the three countries dropped by 29, 36 and 21 per cent, to $26 billion, $847 million and $776 million, respectively. FDI to Bangladesh also decreased, by 13 per cent, to about $1 billion. Nonetheless, this country remained the third largest recipient of FDI in the region, after India and the Islamic Republic of Iran – where FDI increased by 17 per cent, reaching a historical high of $5 billion.

India continued to be the dominant recipient of FDI inflows to South Asia in 2012. However, the Indian economy experienced its slowest growth in a decade, and a high inflation rate increased risks for both domestic and foreign investors. As a result, investor confidence has been affected and FDI inflows to India declined significantly. A number of other factors, however, positively influenced FDI prospects in the country. Inflows to services are likely to grow, thanks to ongoing efforts to further open up key economic sectors, such as retailing (see chapter III).[13] Flows to manufacturing are expected to increase as well, as a number of major investing countries, including Japan and the Republic of Korea, are establishing country- or industry-specific industrial zones in India (box II.1).

A number of countries in the region, including Bangladesh, India, Pakistan and Sri Lanka, have emerged as important players in the manufacturing and export of ready-made garments (RMG). Contract manufacturing has helped boost the productive capacities in the RMG industry in South Asia, linking those countries to the global value chains and markets (see below). In particular, Bangladesh stands out as the sourcing hotspot in the industry by offering the advantages of both low costs and large capacity. However, working conditions and other labour issues are still a major concern, and a number of disastrous accidents recently underscore the daunting challenges facing the booming garment industry in the country.[14]

With regard to mode of entry, South Asia saw a sharp decline in both cross-border M&As and greenfield investments (tables B–E). In 2012, M&A sales dropped by almost four fifths to $2.6 billion. For the first time since 2007, acquirers from developing countries surpassed those from developed countries in the total value of M&A deals undertaken in South Asia (table C). This was mainly due to the expansion of companies from the United Arab Emirates in the region. In the meantime, the total value of recorded greenfield investment projects decreased by about one third to $40 billion, the lowest amount since 2004.

Overall, prospects for FDI inflows to South Asia are improving, mostly owing to an expected rise in investments in India.

FDI outflows from South Asia dropped sharply by 29 per cent in 2012 (figure C). Outflows from India, the region's largest FDI source (figure A), decreased to $8.6 billion (still 93 per cent of the regional total) owing to the shrinking value of cross-border M&As by Indian companies. In comparison with their Chinese counterparts (see section II.2), Indian companies – especially conglomerates – seemed much less active in international M&A markets than in previous years and increasingly focused on their domestic operations (for details, see below).

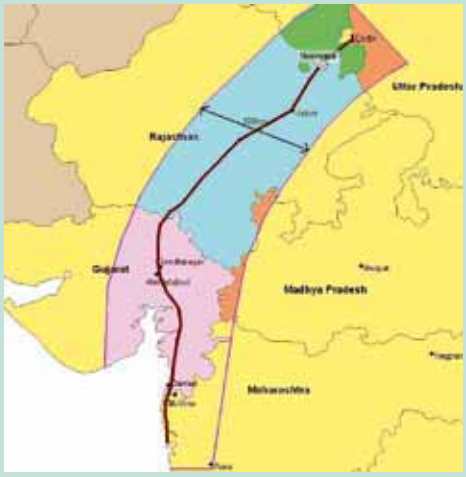
Local firms link to the global value chain in garments. Bangladesh, India, Pakistan and Sri Lanka have become important players in global apparel exports, and the first two rank fourth and fifth globally, after China, the EU and Turkey (WTO, 2010). Their significance has been further enhanced recently. The RMG industry provides good opportunities for export-driven industrialization. Using their locational advantages (e.g. large supply of low-cost labour) as well as government policy supports (e.g. FDI policies encouraging linkages), South Asian countries such as Bangladesh and Sri Lanka have been able to link to the global value chain and build their domestic productive capacities.

The RMG industry emerged in Bangladesh in the late 1970s and has become a key manufacturing industry in the country: its nearly 5,000 factories employ some 3 million workers and account for about three fourths of the country's total exports. FDI has played a central role in the early stage of the industrial development process, but local firms

Box.II.1. Country-specific economic zones in India

The Indian Government has strengthened its efforts to attract FDI by establishing industrial zones for investors from particular countries within the Delhi-Mumbai Industrial Corridor (DMIC) (box figure II.1.1).[a] Leveraging public funds from foreign countries, these bilateral efforts may result in an increasing amount of FDI inflows to industries such as electronics in India in the years to come.

Box figure II.1.1. Delhi-Mumbai Industrial Corridor: the geographical coverage



In February 2013, an agreement was reached between the Governments of India and Japan on the establishment of a special economic zone for Japanese electronics companies within the DMIC, most likely in Neemrana, Rajasthan.[b] It will be India's first industrial park officially established for firms in a single industry, as well as from a particular country. Japan's FDI stock in India is larger than that of the Republic of Korea, but in the electronics industry, Japanese companies have lagged far behind their Korean counterparts in the Indian market.[c] The establishment of the zone may help Japanese electronics companies expand their presence in India and narrow the gap with Korean companies.

In the meantime, the Republic of Korea tried to enhance its first-mover advantages. In March 2013, the Korea Trade-Investment Promotion Agency signed a Memorandum of Understanding with the Rajasthan State Industrial Development and Investment Corporation, setting up an industrial zone in Neemrana dedicated to Korean companies. It is expected to attract considerable FDI flows from the Republic of Korea in the near future.

Furthermore, the Government of India recently invited the Czech Republic to invest in an industrial zone in India. In this case, the targeted industry is automotives, in which the Czech Republic has established a strong competitive position.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

now dominate the industry (Fernandez-Stark et al., 2011). By providing various contract manufacturing services, Bangladesh has been able to export to markets in the EU and the United States. Before 2000, most of the firms were involved in cut, make and trim (CMT) operations; more recently, many have been able to upgrade to original equipment manufacturing, thus being able to capture more value locally.

The RMG industry in Sri Lanka experienced a similar process of industrial emergence catalyzed by FDI. By 2000, however, domestic firms dominated the industry. In recent years, leading local contract manufacturers, such as Brandix and MAS,[15] have started to invest in production facilities in other regions, especially Africa. Starting with CMT production in the 1980s and 1990s, these firms established themselves in original design manufacturing in the 2000s, serving brand owners in developed countries, including Gap, M&S and Nike (Wijayasiri and Dissanayake, 2008; Fernandez-Stark et al., 2011). As "full package" garment suppliers,[16] they

have been particularly competitive in niche markets such as sportswear, swimwear and children's clothing. While the industry moves to higher stages of the value chain, the skills of the local workforce have further supported the internationalization of these firms (Kelegama, 2009).

Indian TNCs become less active in global M&A markets. Indian companies had been active players in the global M&A markets, particularly in the developed world, driven by a variety of motives. Among their 18 cross-border M&A deals with investment values over $1 billion since 2005, 13 were in developed countries, most notably the United States (6 deals), the United Kingdom (3 deals) and Australia (3 deals) (table II.4). These megadeals were mainly in extractive industries (oil and gas, and metal mining), infrastructure industries (telecom and transport) and heavy industries (automotive, chemicals and metal production). Most took place during 2007–2008, and none were recorded in 2012.

Through proactive cross-border M&As, Indian enterprises have achieved important strategic objectives, such as the acquisition of technologies and brands.[17] In the automotive industry, for instance, established brands such as Jaguar and Land Rover are now owned by Tata Group. In information technology (IT)–enabled services, Infosys and Wipro have expanded into new markets and areas of business through both international greenfield investments and M&As.[18] In telecommunications, through the acquisition of Zain's mobile operations in Africa, Bharti Airtel has expanded to mobile markets in 15 African countries and has become the world's fifth largest mobile telecom operator by number of subscribers. In extractive industries, Indian companies have been able to secure access to significant mineral resources worldwide, including through megadeals in countries such as Australia, Indonesia, the Sudan[19] and the Bolivarian Republic of Venezuela.

Some Indian companies, especially conglomerates, have pulled back from large outbound M&A deals in recent years, owing partly to financial constraints. Companies in telecom and transport services that became proactive players in global M&A markets during 2010–2011 have been focusing on domestic operations more recently.[20] As a result, the total value of cross-border M&As undertaken by Indian companies in 2012 dropped by nearly three fifths, to about $2.65 billion.

Table II.4. Largest cross-border M&As by Indian TNCs, 2005–2012

Year	Acquiring company	Target company	Target industry	Target nation	Value ($ million)	Shares (%)
2007	Tata Steel UK Ltd	Corus Group PLC	Steel	United Kingdom	11 791	100
2010	Bharti Airtel Ltd	Zain Africa BV	Telecommunications	Kuwait	10 700	100
2007	AV Aluminum Inc	Novelis Inc	Metal	United States	5 789	100
2010	Investor Group	Republic of Venezuela-Carabobo Block	Oil and gas	Venezuela (Bolivarian Republic of)	4 848	40
2010	Adani Mining Pty Ltd	Linc Energy Ltd	Mining	Australia	2 740	100
2008	Investor Group	Sabiha Gokcen International Airport	Transport	Turkey	2 656	100
2008	Jarpeno Ltd	Imperial Energy Corp PLC	Oil and gas	United Kingdom	2 608	100
2008	Tata Motors Ltd	Jaguar Cars Ltd	Automotives	United States	2 300	100
2011	Mundra Port & Special Economic Zone	Abbot Point Coal Terminal	Transport	Australia	1 951	100
2005	Ratnagiri Gas & Power Pvt Ltd	Dabhol Power Co	Power	United States	1 939	100
2010	Chennai Network Infrastructure Ltd	Aircel Ltd-Mobile Towers	Telecommunications	Malaysia	1 704	100
2007	Essar Steel Holdings Ltd	Algoma Steel Inc	Steel	Canada	1 603	100
2007	Tata Power Co Ltd	Kaltim Prima Coal PT	Mining	Indonesia	1 300	30
2011	GVK Power & Infrastructure Ltd	Hancock Coal Pty Ltd	Mining	Australia	1 260	100
2007	United Spirits Ltd	Whyte & Mackay Ltd	Food and beverages	United Kingdom	1 176	100
2010	Reliance Eagleford Upstream LP	Pioneer Natural Resources Co	Oil and gas	United States	1 145	38
2008	GMR Infrastructure Ltd	InterGen NV	Power	United States	1 107	50
2008	Tata Chemicals Ltd	General Chemical Industrial Products Inc	Chemicals	United States	1 005	100

Source: UNCTAD, FDI-TNC-GVC Information System, cross-border M&A database.

4. West Asia

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

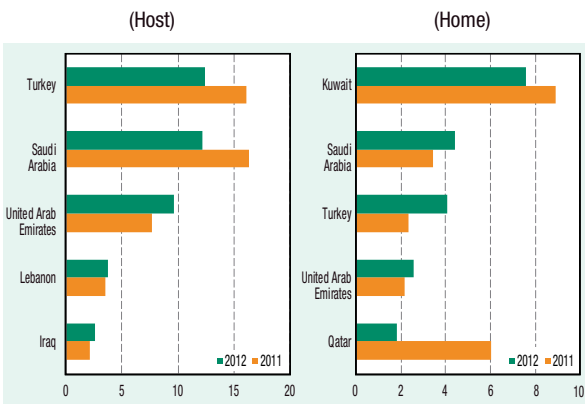
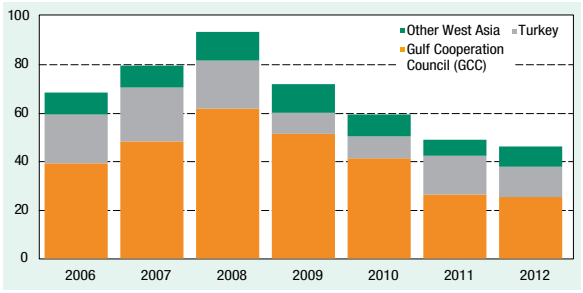


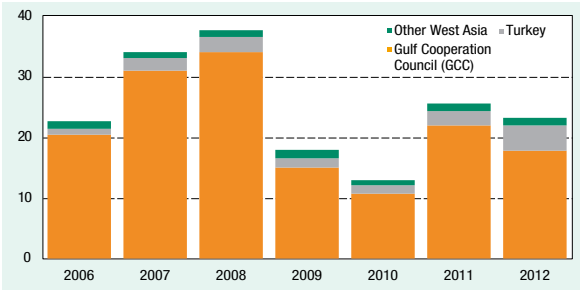
Figure B. FDI inflows, 2006–2012
(Billions of dollars)



4.6	4.0	5.2	5.9	4.2	3.0	3.5

Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



1.6	1.5	1.9	1.6	0.9	1.6	1.7

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**11 111**	**4 295**	**6 603**	**7 775**
Primary	**2 730**	**154**	**87**	**43**
Mining, quarrying and petroleum	2 682	154	87	43
Manufacturing	**703**	**2 556**	**969**	**1 702**
Food, beverages and tobacco	30	1 019	213	1 605
Non-metallic mineral products	- 69	137	332	-
Metals and metal products	198	39	22	-
Services	**7 678**	**1 585**	**5 547**	**6 030**
Electricity, gas and water	341	284	190	-
Construction	68	125	- 35	1 126
Transport, storage and communications	338	874	- 2 568	- 651
Finance	6 221	- 298	8 177	5 517
Business services	373	562	314	73

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**11 111**	**4 295**	**6 603**	**7 775**
Developed economies	**9 719**	**- 1 083**	**3 252**	**5 458**
Belgium	- 522	- 3 862	- 587	140
Luxembourg	-	- 10	-	2 388
Spain	5 891	-	5 474	305
United Kingdom	4 622	- 214	- 621	1 318
United States	- 1 566	1 700	- 945	- 244
Developing economies	**1 088**	**543**	**3 234**	**735**
Asia	984	428	2 622	662
India	-	- 83	123	1 060
Malaysia	- 5	116	1 915	60
Transition economies	**5**	**3 862**	**117**	**1 582**
Russian Federation	-	3 862	40	1 582

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	West Asia as destination		West Asia as investors	
	2011	2012	2012	2012
Total	**70 248**	**44 978**	**45 171**	**35 095**
Primary	**915**	**2**	**503**	**37**
Manufacturing	**37 505**	**20 247**	**19 009**	**12 216**
Coke, petroleum products and nuclear fuel	3 618	5 002	7 633	5 768
Chemicals and chemical products	13 877	6 181	3 372	103
Metals and metal products	9 294	2 353	4 122	2 438
Services	**31 827**	**24 729**	**25 659**	**22 842**
Electricity, gas and water	7 598	2 920	2 611	601
Construction	6 620	6 693	12 520	5 284
Hotels and restaurants	4 686	3 809	1 920	3 302
Finance	2 680	2 226	2 357	4 029
Business services	3 259	2 038	901	587
Community, social and personal service activities	912	3 487	729	2 800

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	West Asia as destination		West Asia as investors	
	2011	2012	2011	2012
World	**70 248**	**44 978**	**45 171**	**35 095**
Developed economies	**39 119**	**15 649**	**9 615**	**2 066**
Europe	17 127	9 883	7 443	1 651
North America	18 736	5 099	1 979	342
Other developed countries	3 257	667	193	73
Developing economies	**30 433**	**26 173**	**34 339**	**30 889**
Africa	150	1 160	7 038	11 610
East and South-East Asia	5 930	8 025	3 965	1 247
South Asia	5 672	4 100	4 093	4 972
India	5 455	3 880	1 235	4 105
West Asia	18 503	12 761	18 503	12 761
Latin America and the Caribbean	178	127	699	300
Transition economies	**695**	**3 156**	**1 217**	**2 140**

FDI inflows to West Asia in 2012 have failed once again to recover from the downturn started in 2009, registering their fourth consecutive year of decline. This is due to persistent political uncertainties at the regional level and clouded economic prospects at the global level. State-owned firms in the Gulf Cooperation Council (GCC) countries are taking over delayed projects that were originally planned as joint ventures with foreign firms. Measures undertaken in Saudi Arabia to augment the employment of nationals in the private sector face the challenge of mismatched demand and supply in the private job market.

FDI inflows have failed once again to recover. FDI to West Asia in 2012 registered its fourth consecutive year of decline (figure B), although at a slower rate, decreasing by 4 per cent to $47 billion, half its 2008 level. Growing political uncertainty at the regional level and subdued economic prospects at the global level are holding back foreign investors' propensity and capacity to invest in the region. Significant diminution in FDI inflows was registered in the two main recipient countries – Turkey (-23 per cent to $12.4 billion) and Saudi Arabia (-25 per cent to $12.2 billion) – that accounted for 52 per cent of the region's overall inflows. For the first time since 2006, Saudi Arabia ceded its position as the region's largest recipient country to Turkey.

The FDI fall in Saudi Arabia occurred despite the 6.8 per cent economic growth registered in 2012, boosted by heavy Government spending – on upgrading infrastructure and increasing public sector employment and wages. Looming uncertainties related to social and political tensions, together with the shrinking availability of debt capital from the ailing banking sectors in developed countries, have restricted foreign investors' propensity and capacity to invest, putting the brakes on an FDI recovery.

Declining FDI to Turkey was due to a 70 per cent drop in cross-border M&A sales, which had surged the previous year (annex table I.3). At $12 billion in 2012, inflows to Turkey remained *much lower than their 2007 peak of $22 billion*. Lower global growth and a prolonged fiscal tightening in the EU – Turkey's largest market – have reduced demand for Turkey's exports, affecting export-led FDI such as that in the automobile sector (box II.2).

FDI to GCC countries as a whole remained at almost the same level as in 2011 ($26 billion), registering a slight 0.4 per cent increase, despite the strong decline registered in Saudi Arabia. The latter was offset by significant FDI growth in all other countries within this group. FDI to the United Arab Emirates – West Asia's third largest recipient country – increased 25 per cent, to $10 billion, continuing the recovery initiated in 2010 but remaining below the $14 billion reached in 2007. High public spending by Abu Dhabi and strong performance in Dubai's non-hydrocarbon sectors have helped rebuild foreign appetites for direct investment in the country. Saudi Arabia and the United Arab Emirates alone accounted for 83 per cent of FDI inflows to the GCC economies. FDI to Kuwait more than doubled, reaching $2 billion, boosted by Qatar Telecom's acquisition of additional shares in Kuwait's second mobile operator Wataniya, which raised its stake to 92 per cent. FDI inflows also increased in Bahrain, Oman and Qatar.

FDI to non-GCC countries overall declined by 9 per cent to $21 billion, because of the large drop in FDI to Turkey, which attracted 60 per cent of FDI to this group. However, most countries in this group saw an increase in FDI inflows. This was the case of Lebanon where FDI in 2012 registered positive growth (9 per cent), enhanced by foreign acquisitions in the insurance industry and in services related to real estate. New gas discoveries in Lebanese waters along the northern maritime boundary with Cyprus and Syria offer prospects for the country to attract FDI in oil exploration. About 46 international oil companies prequalified to bid for gas exploration in a licensing round that opened on 2 May 2013. FDI to Iraq was up for the second consecutive year, increasing by 22 per cent to $2.5 billion, attracted by the country's strong economic growth (8.4 per cent), which has been aided by significant increases in Government spending. With its considerable hydrocarbon wealth, large population and massive infrastructure investment needs, Iraq offers a wide range of opportunities for foreign investors. They are progressively investing despite the country's political instability and security challenges. Turkey, Lebanon and Iraq together attracted 90 per cent of FDI to non-GCC countries. FDI to Yemen returned to positive territory ($349 million), encouraged by the improvement in that country's political situation, while FDI to Jordan declined by 5 per cent.

Box II.2. Recession in Europe affects Turkey's automobile sector

After two years of strong recovery – during which low interest rates, easy access to credit and a domestic economic rebound compensated for the weak external demand and drove strong vehicle sales growth in 2010 (26 per cent) and 2011 (8.6 per cent) – Turkey's automotive industry registered a fall in production in 2012 (-9.8 per cent). This resulted from a sharp slowdown in economic activity and tighter credit conditions in addition to a prolonged fiscal tightening in the EU, the industry's largest export market.

The Turkish automotive cluster was developed through alliances with foreign partners, and the country has been included in the global value chain since joining the Customs Union with the EU in 1996. Turkey has been an attractive manufacturing export base for the car industry because of its low wage costs and favourable geographical location, with easy access to Western and Eastern Europe, the Russian Federation, North Africa and the Middle East.

Three manufacturers dominate the sector, accounting for about three quarters of all vehicles made in Turkey. The three are joint ventures between Turkish and major international producers: Tofas-Fiat, Oyak-Renault and Ford Otosan. The sector is highly export-oriented, with exports accounting for 68 per cent of all vehicles produced in the country in 2012 and directed mainly to Europe, which is the target of about three quarters of the total value of vehicle exports.

Given the negative outlook for European demand, which has been affected by drastic fiscal tightening, automotive TNCs in Turkey are starting to focus more on faster-growing emerging markets. Automotive TNCs, in particular Asian companies such as Toyota, Honda and Isuzu (Japan); Hyundai (Korea); and the Chery (China) are increasing or planning to increase their production capacity in Turkey for this purpose. In addition, Ford Otosan is building a third vehicle manufacturing plant in Turkey with a view to increasing exports to the United States market.

Source: UNCTAD, based on TKSB Research, "Turkish Automotive Industry, December 2012", 2013; TKSB Research, "Turkish Automotive Industry December 2012", 2012; Abylkassymova et al. (2011); Economist Intelligence Unit, "Turkey Automotive Report", April 2013; Economist Intelligence Unit, "Japan/Turkey business: Auto firms to increase investments in Turkey", 27 July 2012.

Foreign investors, mainly those from developed countries, are reluctant to engage in the region, especially in large projects. This reluctance is reflected in the significant decrease of greenfield project announcements by foreign companies, more in terms of value (-36 per cent) than quantity (-11 per cent). This reluctance presages negative FDI prospects for the region (see chapter I). The retreat was more accentuated in TNCs from developed countries, whose share in the number of announced projects declined from 67 per cent on average during the period 2003–2011, to 56 per cent in 2012. In value terms, their share slumped from 56 per cent on average in 2003–2011 to 35 per cent in 2012, well below the share of projects announced by developing-country TNCs (57 per cent in 2012). Almost half of the value of the latter's projects is intraregional, and the rest originate mostly from East Asia (mainly Republic of Korea and China) and South Asia (mainly India). Although these announced projects may not all materialize, they nevertheless reflect an ongoing trend: the increasing importance of developing Asian countries as potential investors in West Asia.

Outward FDI from West Asia decreased by 9 per cent to $24 billion in 2012 (figure C), putting a halt to the previous year's recovery. While GCC countries continued to account for most of the region's outward FDI flows, Turkey has emerged as a significant investor, with its outward investment amount growing by 73 per cent to a record $4 billion. This was mainly due to the $2 billion acquisition – by Anadolu Efes (Turkey) – of the Russian and Ukrainian beer businesses of SABMiller.[21]

State-owned firms in GCC countries take the lead on some delayed projects. FDI in GCC countries has been affected since the beginning of the global economic crisis, by the continued retreat of foreign banks – especially European ones – from project financing. Despite the recovery in oil prices in 2010–2011 and the strengthening of GCC economic indicators, foreign bank lending to the GCC on aggregate has declined by 5 per cent between September 2008 and March 2012 (Qatar being the notable exception to the declining trend). Syndicated loans, in which banks club together to provide financing to large corporations, are increasingly

faced with structural challenges because of the continuing retreat of many European banks from the market. In 2011, the regional syndicated loan market contracted by 11 per cent.[22] The pull-back in foreign bank lending partially explains the notable increase in the issuance of domestic sukuks (Islamic bonds) in the GCC in 2012 (IMF, 2012a).

Foreign investors' more cautious approach to large-scale projects has pushed some State-owned firms to move ahead alone on some key projects. This is how some refinery and petrochemical projects progressed in 2012. In Saudi Arabia, for example, the $4.6 billion Jizan refinery project announced in 2004 – originally planned as a joint venture between the State-owned oil company Aramco (40 per cent), with the Saudi private sector and an international oil company each taking a 30 per cent interest – was handed over to Aramco after generating limited interest for ownership participation from TNCs. TNCs are instead contributing to the project through construction contracts to build the refinery, which were awarded to a group of Korean, Japanese and Spanish firms. In Qatar – where all petrochemical projects are joint ventures with multinational energy firms – State-owned Qatar Petroleum chose its own unit over foreign giants as a partner in building and managing a $5.5 billion petrochemical project in Ras Laffan.

But 2012 also witnessed the start of some long-delayed or interrupted joint venture projects with foreign companies, such as the Sadara Chemical Company and the Yanbu refinery, both in Saudi Arabia. The first is a petrochemical megaproject carried out by an equal joint venture that was formed in 2011, after several years of negotiations, between Saudi Aramco and Dow Chemical. The joint venture will build, own and operate a $20 billion integrated chemicals complex (comprising 26 manufacturing units) in Al Jubail Industrial City. The second is a joint venture agreement between Sinopec (China) and Aramco (Saudi Arabia) to complete the construction of the $8.5 billion Yanbu refinery, which was delayed by the exit of ConocoPhillips – the original partner – in 2010.

Saudi Arabia takes measures to augment Saudi employment in the private sector. Faced with a demographic youth bulge and growing unemployment in a context of delicate social and political balance, the Government recently embarked on a new policy of "Saudization", with the introduction of a law known as Nitaqat. This law, announced in May 2011 and phased in between September 2011 and February 2012, is the latest effort in the Government's long-term plan to bolster Saudi employment in the private sector – an agenda that dates from the 1990s. It imposes limits on the number of foreign workers that companies can hire. Non-compliant companies could face a host of restrictions, such as limitations on issuing or renewing visas for expatriate workers, while compliant ones benefit from an expedited hiring process. Expatriate labour – the vast majority of workers in the private sector (90 per cent) – is more attractive for private enterprises than national labour because it is cheaper, more skilled and more flexible.

However, the fundamental challenge facing business in enforcing "Saudization" is the mismatch between national labour demand and supply in the private job market (*WIR12*). The types of jobs experiencing steady growth – such as those in services, construction and trade – are unappealing to nationals, while there is a paucity of suitably qualified graduates for more highly skilled jobs.[23]

5. Latin America and the Caribbean

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

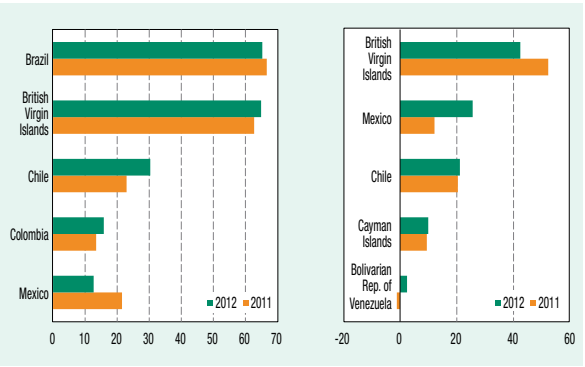
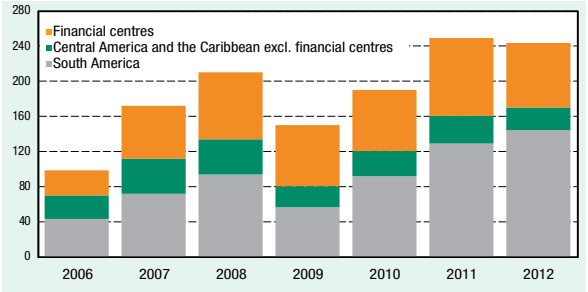
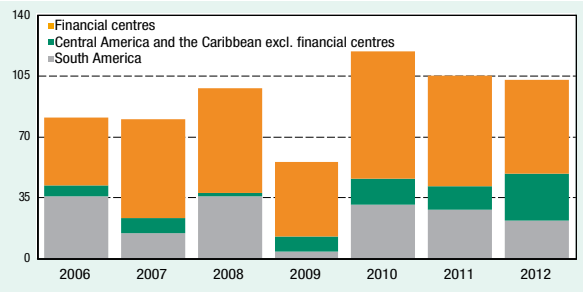


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012	Share in world total
6.6	8.6	11.6	12.3	13.5	15.1	18.1	

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012
5.7	3.5	4.9	4.8	7.9	6.3	7.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**20 098**	**21 070**	**18 750**	**32 647**
Primary	**6 336**	**- 2 612**	**- 638**	**930**
Mining, quarrying and petroleum	6 027	- 2 942	- 733	930
Manufacturing	**2 905**	**9 566**	**6 691**	**4 188**
Food, beverages and tobacco	7 738	3 029	2 136	236
Chemicals and chemical products	- 4 664	1 643	2 453	771
Metals and metal products	33	4 367	863	1 326
Motor vehicles and other transport equipment	26	-	15	1 301
Services	**10 856**	**14 117**	**12 696**	**27 528**
Trade	1 029	1 224	- 437	3 112
Transport, storage and communications	2 710	4 813	6 123	3 443
Finance	2 522	4 623	5 092	19 607
Business services	1 415	1 585	138	1 089

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**20 098**	**21 070**	**18 750**	**32 647**
Developed economies	**2 686**	**- 674**	**9 858**	**16 426**
Europe	- 3 468	- 11 563	1 652	10 762
North America	- 4 776	9 334	8 191	5 660
Developing economies	**17 015**	**21 405**	**7 563**	**16 370**
Asia	9 638	5 443	189	133
China	9 651	5 400	470	21
Latin America and the Caribbean	7 388	16 240	7 388	16 240
South America	5 307	15 345	3 318	14 449
Chile	- 464	8 961	80	608
Mexico	2 001	- 134	4 113	448
Caribbean	81	1 029	39	23
Transition economies	**319**	**-**	**1 329**	**- 149**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LAC as destination		LAC as investors	
	2011	2012	2011	2012
Total	**138 531**	**65 728**	**20 773**	**9 074**
Primary	**21 481**	**5 297**	**2 300**	**159**
Mining, quarrying and petroleum	21 446	5 297	2 300	159
Manufacturing	**56 949**	**31 104**	**7 666**	**3 396**
Food, beverages and tobacco	8 775	3 467	1 084	592
Metals and metal products	15 233	5 172	1 731	823
Electrical and electronic equipment	2 794	2 797	139	48
Motor vehicles and other transport equipment	15 526	11 932	375	439
Services	**60 101**	**29 327**	**10 807**	**5 519**
Electricity, gas and water	11 989	10 782	156	1 040
Transport, storage and communications	20 643	2 979	3 678	559
Finance	2 978	2 129	1 290	413
Business services	20 570	9 250	5 130	1 945

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	LAC as destination		LAC as investors	
	2011	2012	2011	2012
World	**138 531**	**65 728**	**20 773**	**9 074**
Developed economies	**112 264**	**53 113**	**3 616**	**2 143**
Europe	60 380	25 673	1 474	356
Italy	5 251	8 106	68	-
United Kingdom	17 728	2 024	79	162
North America	39 338	21 441	2 049	1 780
Japan	9 550	3 177	93	-
Developing economies	**25 897**	**12 278**	**17 156**	**6 931**
Asia	10 264	5 638	917	518
Latin America and the Caribbean	14 466	6 171	14 466	6 171
Brazil	1 279	2 693	4 913	1 895
Mexico	8 192	1 259	493	676
Transition economies	**370**	**337**	**-**	**-**

The 2 per cent decline in FDI inflows to Latin America and the Caribbean in 2012 masked a 12 per cent increase in South America. Developed-country TNCs continued selling their assets in the region, increasingly acquired by Latin American TNCs that are also expanding into developed countries. Growing resource-seeking FDI in South America is contributing to the consolidation of an economic development model based on comparative advantages in natural resources. Brazil has taken new industrial policy measures aiming at greater development of its domestic industry and improved technological capabilities, which is encouraging investment by TNCs in industries such as automotives. Nearshoring is on the rise in Mexico, boosted by the rapid growth of labour costs in China and the volatility of rising fuel costs, which have made the shipment of goods across the Pacific less attractive.

South America continued to sustain FDI flows to the region. FDI flows to Latin America and the Caribbean in 2012 maintained almost the same level as in 2011, declining by a slight 2 per cent to $244 billion (figure B). However, this figure hides significant differences in subregional performance, as inward FDI grew significantly in South America (12 per cent to $144 billion) but declined in Central America and the Caribbean (-17 per cent to $99 billion).

The growth of FDI to South America took place despite the slowdown registered in Brazil (-2 per cent to $65 billion) – the subregion's main recipient – after two years of intensive growth. Growth was driven by countries such as Chile (32 per cent to $30 billion), Colombia (18 per cent to $16 billion), Argentina (27 per cent to $13 billion) and Peru (49 per cent to $12 billion), which were South America's main recipient countries after Brazil. A number of factors contributed to the subregion's FDI performance, including the presence of natural resources (such as oil, gas, metals and minerals) and a fast-expanding middle class that attracts market-seeking FDI.

Central America and the Caribbean, excluding the offshore financial centres, saw a 20 per cent decrease in FDI inflows to $25 billion (figure B), attributable mainly to a 41 per cent drop in inflows to Mexico. While Mexico remained a key recipient, its share of this group's inward FDI declined to 50 per cent in 2012, from 68 per cent in the previous year. A $4 billion or 25 per cent divestment of interest by the Spanish Banco Santander in its Mexican affiliate contributed to the decline. FDI to the Dominican Republic, the subregion's second main recipient, increased by 59 per cent to $3.6 billion, boosted in part by Ambev's (Belgium) acquisition of Cerveceria Nacional Dominicana, the country's main brewery, for $1 billion.

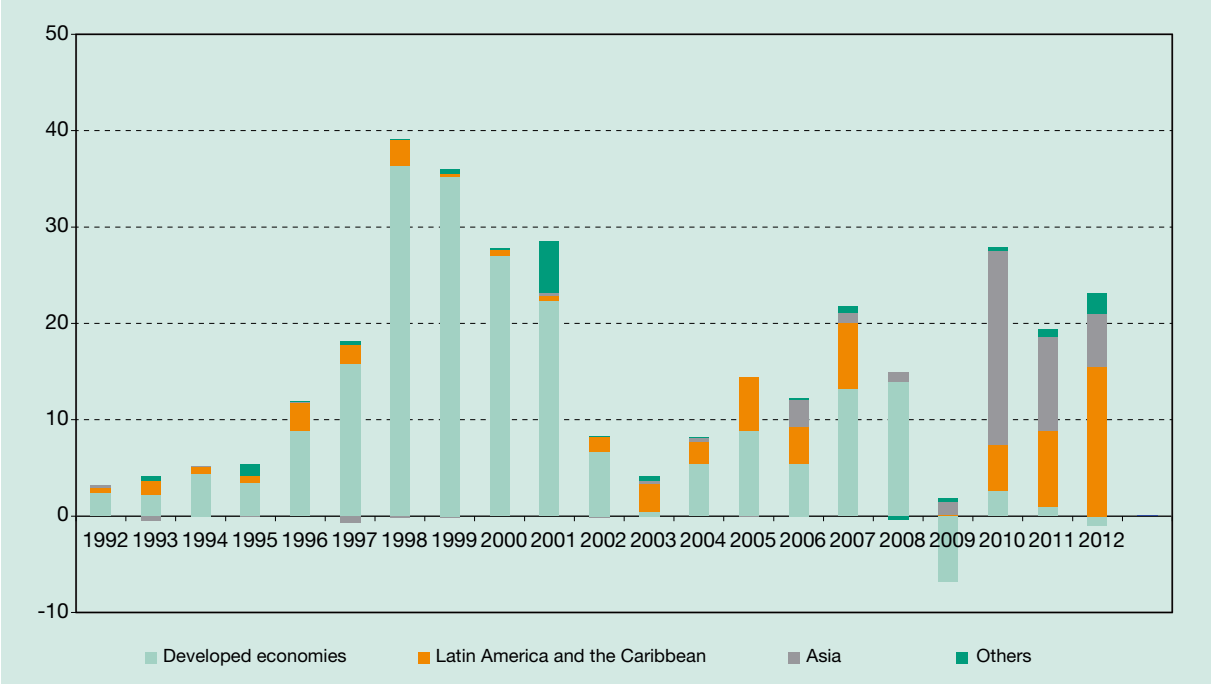
FDI to the offshore financial centres decreased by 16 per cent to $74 billion in 2012 (figure B) but remained at a higher value than before the global financial crisis. This group of countries has become a significant FDI recipient since the beginning of the crisis (*WIR12*). The share of offshore financial centres in the region's total FDI increased from 17 per cent in 2001–2006 to 36 per cent in 2007–2012.

Developed-country TNCs continued retreating from the region. Cross-border M&A sales increased by 5 per cent to $21 billion (tables B and C), with very uneven growth by investor regions. Developing-country TNCs continued to increase their acquisitions in 2012 (up 26 per cent), sustaining a trend that began in 2010. The trend was triggered by acquisitions from TNCs based in developing Asia that mainly targeted oil and gas companies (*WIR11*), joined in 2011 by the surge of acquisitions from intraregional sources. In 2012, strong intraregional acquisitions by Latin American TNCs (from Argentina, Brazil, Chile and Colombia) – which more than doubled from 2011 – helped push up M&A sales in this region, while those by developing Asian TNCs almost halved (figure II.3).

By contrast, developed-country TNCs continued retreating from the region, selling more assets than they acquired in 2012 (table C). This was the case in 2009 as well, when the global economic crisis kick-started the retrenchment of some developed-country TNCs from the region in sectors such as extractive industries, finance, chemicals, and electricity, gas and water distribution.

Latin American TNCs expanding in the region and in developed countries. Outward FDI from Latin America decreased by 2 per cent to $103 billion in 2012 (figure C), with uneven growth among countries. Outflows from offshore financial centres decreased

Figure II.3. Latin America and the Caribbean: cross-border M&A sales by geographical source, 1992–2012
(Billions of dollars)



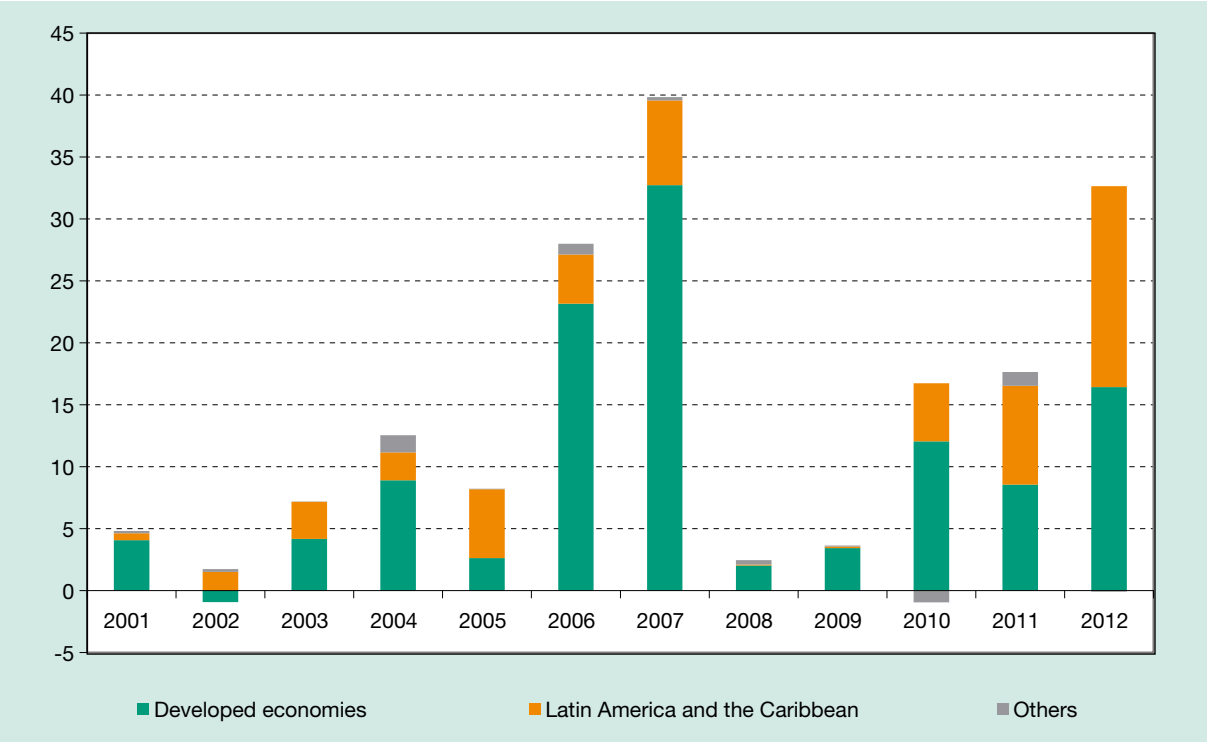
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

by 15 per cent to $54 billion, and those from Brazil remained downscaled to negative values by the high levels of repayment of intercompany loans to parent companies by Brazilian affiliates abroad.[24] By contrast, outflows from Mexico registered a strong increase (111 per cent to $26 billion), and outflows from Chile continued growing in 2012 (4 per cent, to $21 billion) after the jump recorded in 2011 (115 per cent, to $20 billion).

However, outward FDI data do not properly reflect the dynamism of Latin American TNCs' productive activity abroad, as revealed by the 74 per cent increase in their cross-border acquisitions in 2012, which reached $33 billion. This activity was equally shared between acquisitions in developed countries and in Latin America and the Caribbean (table C). Increasing acquisitions abroad by Latin American TNCs is a trend that began in 2006, reached its peak in 2007 and was halted by the global financial crisis before resuming in 2010. Since 2010, Latin American companies have spent a net amount of $67 billion acquiring companies abroad (figure II.4).

Buoyant conditions at home, cash-rich balance sheets and saturated domestic markets encourage Latin American companies to seek new opportunities abroad. That is why companies from Chile, for example, are among the most active purchasers abroad, with the latest examples being the $3.4 billion acquisition of the Brazilian airlines TAM by LAN Chile and acquisitions by the Chilean retailer Cencosud in Colombia and Brazil for more than $3 billion.[25] Opportunities also arise when debt-strapped European companies sell panregional assets to raise cash for home – as was the case, for example, of Banco Santander (Spain), which sold a 95 per cent stake in its Colombian unit to CorpBanca (Chile) for about $1.2 billion. They also arise when such companies focus on core business and markets, as in the case of HSBC, which has been selling non-core assets worldwide to cope with new regulations in the wake of the financial crisis. Among the latest deals announced by HSBC (United Kingdom) is the sale in 2013 of its Panama business to Bancolombia for $2.1 billion. Latin American TNCs also launched

Figure II.4. Latin America and the Caribbean: cross-border M&A purchases by geographical target, 2001–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

into a European expansion, taking advantage of the continent's crisis to buy companies at depressed prices – as exemplified by América Móvil's (Mexico) acquisitions of about a quarter of KPN (the Netherlands) and Telekom Austria for a combined total of $4.5 billion – or to buy companies facing financial problems, as in the $2 billion acquisition of a 40 per cent stake in the cement producer Cimpor (Portugal) by Camargo Correa (Brazil).

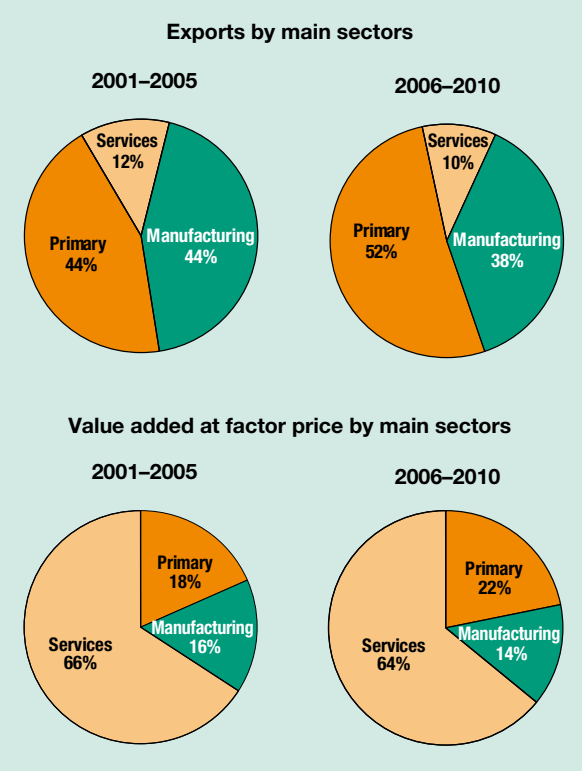
Foreign companies are important actors in the metal mining industry in South America, where they are increasingly focusing on the exploitation of natural resources. Foreign companies play an important role in the metal mining industry in South America, where they have a dominant position in all the metal-mineral-rich countries except Brazil. For example, in Peru they accounted for at least 75 per cent of all metal mining investment in 2011–2012 (Ministerio de Energia y Minas, 2013). In Chile, they accounted for 62 per cent of all investment in large-scale copper and gold mining in 2012 (up from an average share of 53 per cent in 2002–2011), while their share in all copper production increased from 48 per cent in 1991–2001 to 59 per cent in 2002–2012 (Comisión Chilena del Cobre, 2012).

FDI in South America is increasingly focusing on natural resources, mainly the extractive industry, as evidenced by its growing share in FDI: e.g. in Colombia, although the share of the extractive industry in FDI stock was 26 per cent in 2002, this industry attracted 53 per cent of total FDI flows between 2003 and 2012.[26] In Chile its share in FDI stock increased from 27 to 39 per cent between 2006 and 2011, while in Peru, it increased from 14 per cent in 2001 to 27 per cent in 2011. Only Argentina witnessed a decline in the share of the extractive industry in total FDI stock during the second half of the 2000s, from 40 per cent in 2005 to 31 per cent in 2011. The share of the extractive industry in FDI stock further decreased in 2012 after the nationalization of a 51 per cent stake in YPF (*WIR12*). Increases in shares in the extractive industry

in FDI in certain countries in South America[27] are in line with the increasing importance of this industry in exports and value added (figure II.5).

New industrial policy measures in Brazil. Concerned about the growing competition from low-cost manufactures – especially since the beginning of the global economic crisis – Brazil and Argentina have accelerated their shift towards industrial policy, aiming at greater development of their domestic industry and improved technological capabilities (*WIR12*). New measures have been undertaken in Brazil since April 2012, as a second phase of the Plano Brasil Maior.[28] They include a mixture of fiscal incentives for labour-intensive industries, loans to the automotive and IT industries from the Brazilian Development Bank (BNDES) at preferential rates, expansion of export financing programmes and tax relief for Internet broadband access, and measures for stimulating the national industry through Government procurement, where national goods and services will take priority over imported goods.[29] Furthermore, in October 2012, a new automobile incentive programme (Inovar-Auto) was approved to encourage investments in vehicle efficiency, national production, R&D and automotive technology.[30]

Figure II.5. Exports and value added from South America,[a] by sector, 2000–2005 and 2006–2011



Source: ECLAC, CEPALSTAT.
[a]Excludes Argentina and Brazil.

TNCs' investment in the automotive industry in Brazil is boosted by Government policy. The automotive industry – dominated by foreign TNCs – is among the select industries in which the Brazilian Government is focused on stimulating competitiveness and technology upgrading, developing local suppliers and slowing import growth. It has benefited from long-term financing from BNDES that disbursed to the industry (assembly and auto parts) loans worth about $35 billion between 2002 and 2012, or almost 6 per cent of all its loan disbursements in this period. In the first two months of 2013, two foreign car manufacturers – Fiat and Peugeot Citroën – received loan approvals from BNDES for $1.2 billion and $77 million, respectively.[31] The new auto regime (Inovar-Auto), together with BNDES loans to the sector at preferential rates and the continued expansion of Brazil's car market, has encouraged foreign car manufacturers to step up their investment plans[32] and increase FDI in the country. FDI to the automobile industry (assembly and auto parts) jumped from an annual average of $116 million in 2007–2010 to $1.6 billion in 2011–2012.[33]

Nearshoring to Mexico is on the rise. In Mexico, nearshoring – the practice of bringing manufacturing operations closer to a domestic market – is picking up momentum, as more manufacturing companies seek ways to reduce costs and bring products into the United States market more quickly by operating closer to it. This is due to the rapid growth of labour costs in China – the largest offshoring location – and to rising and volatile fuel costs that have made shipping goods across the Pacific less attractive. Currency has been an additional factor, with the yuan's appreciation against the dollar and euro in the past several years. When it comes to nearshoring, Mexico is the most favoured location among manufacturers – more so than the United States itself, although the gap in appeal between the two countries might be narrowing.[34] Companies that have moved some or all of their production in recent years from Asia to Mexico to be closer to the United

States include Emerson (electrical equipment), Meco Corporation (leisure goods), Coach Inc. (premium leather goods) and Axiom (fishing rods).

However, Mexico still lags behind China in terms of location choice for manufacturing. China offers the important advantage of deeper supply chains than Mexico, where international companies have trouble finding local suppliers for parts and packaging. Unlike in China, where the Government identifies "pillar industries" and supports them, smaller companies in Mexico that are eager to start or grow businesses and establish linkages with foreign companies suffer from a lack of affordable access to financing.[35]

Companies are now more likely to diversify their manufacturing presence to serve regional markets, as transportation costs increase and markets become more regionally focused. Mexico will always have the advantage of its proximity to and trade agreement with the United States.

6. Transition economies

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

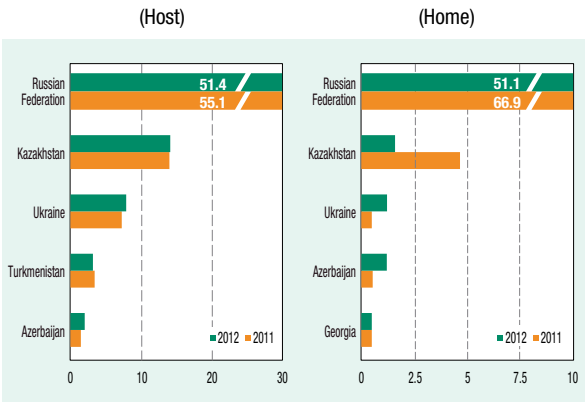
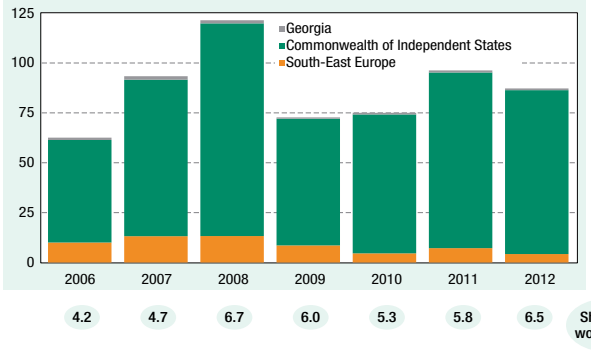
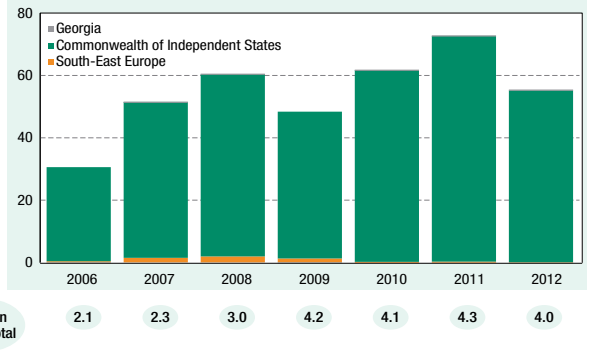


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



Share in world total: 4.2 4.7 6.7 6.0 5.3 5.8 6.5

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total: 2.1 2.3 3.0 4.2 4.1 4.3 4.0

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**32 815**	**- 1 569**	**11 692**	**8 651**
Primary	**17 508**	**- 1 193**	**10 095**	**1 500**
Mining, quarrying and petroleum	17 450	- 1 212	10 046	1 500
Manufacturing	**6 449**	**340**	**- 1 387**	**- 518**
Food, beverages and tobacco	5 306	6	111	-
Chemicals and chemical products	984	368	- 106	-
Metals and metal products	-	5	- 1 401	- 193
Motor vehicles and other transport equipment	-	- 390	-	-
Services	**8 858**	**- 717**	**2 984**	**7 669**
Electricity, gas and water	68	- 451	-	-
Trade	2 664	112	-	20
Transport, storage and communications	5 836	- 65	14	1 313
Finance	198	- 168	2 468	6 314

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**32 815**	**- 1 569**	**11 692**	**8 651**
Developed economies	**22 410**	**1 496**	**1 300**	**4 365**
European Union	9 927	1 013	1 898	4 640
United Kingdom	- 87	- 4 242	86	288
United States	7 032	- 197	- 894	- 283
Other developed countries	317	- 548	-5	-
Developing economies	**1 935**	**- 3 511**	**1 855**	**3 862**
Africa	-	-	-	-
East and South-East Asia	734	- 4 944	1 531	-
South Asia	- 245	-	-	-
West Asia	117	1 582	5	3 862
Latin America and the Caribbean	1 329	- 149	319	-
Transition economies	**8 537**	**424**	**8 537**	**424**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investors	
	2011	2012	2011	2012
Total	**59 546**	**40 529**	**17 991**	**10 042**
Primary	**4 844**	**2 629**	**1 658**	**145**
Mining, quarrying and petroleum	4 844	2 629	1 658	145
Manufacturing	**33 716**	**18 316**	**11 755**	**6 471**
Food, beverages and tobacco	1 259	2 377	220	257
Coke, petroleum products and nuclear fuel	10 134	424	7 801	3 747
Chemicals and chemical products	2 724	5 340	68	186
Motor vehicles and other transport equipment	7 601	4 229	1 358	1 682
Services	**20 986**	**19 585**	**4 578**	**3 426**
Electricity, gas and water	4 945	4 160	740	594
Trade	2 674	2 375	714	252
Transport, storage and communications	4 720	4 390	890	891
Finance	2 907	2 056	1 981	1 171

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investors	
	2011	2012	2011	2012
World	**59 546**	**40 529**	**17 991**	**10 042**
Developed economies	**40 907**	**30 091**	**4 544**	**2 985**
European Union	31 471	21 208	2 264	2 362
Germany	6 215	4 612	136	24
United States	3 550	4 725	2 014	179
Other developed countries	2 232	2 402	138	156
Developing economies	**8 604**	**7 888**	**3 412**	**4 506**
Africa	-	-	725	67
East and South-East Asia	6 563	5 368	1 232	694
South Asia	824	380	389	252
West Asia	1 217	2 140	695	3 156
Latin America and the Caribbean	-	-	370	337
Transition economies	**10 035**	**2 550**	**10 035**	**2 550**

In 2012, inward FDI flows in transition economies fell by 9 per cent to $87 billion, due in part to a slump in cross-border M&A sales. Flows to South-East Europe almost halved, while those to the Commonwealth of Independent States (CIS) remained relatively resilient. FDI flows to the Russian Federation remained at a high level, although a large part of this is accounted for by "round-tripping". As the share of the EU in inward FDI to South-East Europe is high, its economic woes have had particularly negative impacts on investment in this subregion.

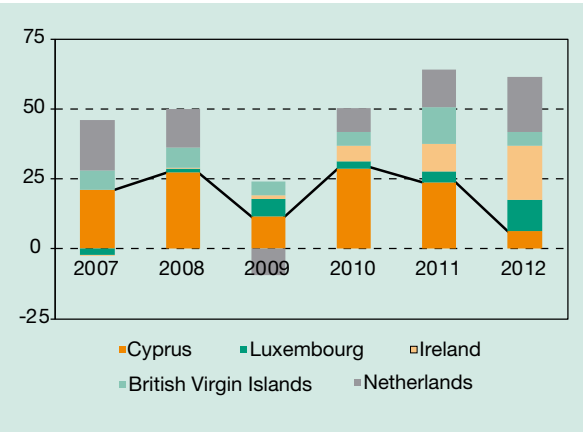
The transition economies of South-East Europe, the CIS and Georgia[36] saw their FDI flows decline in 2012 compared with the previous year (figure B). In South-East Europe, the 41 per cent drop in FDI flows was due primarily to a decline in investments from neighbouring countries, which are the main investors in this subregion. In the CIS, FDI flows fell by only 7 per cent as foreign investors continued to be attracted by that subregion's growing consumer markets and vast natural resources. Inflows remained concentrated in a few economies, with the top three destinations (Russian Federation, Kazakhstan and Ukraine) accounting for 84 per cent of the subregion's total inflows (figure A).

Despite declining by 7 per cent, FDI inflows to the Russian Federation remained high at $51 billion (table A). Foreign investors were motivated by the growing domestic market, as reflected by high reinvestments in the automotive and financial industries. The Russian Federation's accession to the World Trade Organization (WTO) has also had an impact on investors' decision-making for certain projects, such as the acquisition of Global Ports by the Dutch company APM Terminals. Developed economies, mainly EU members, remained the largest sources of inward FDI in the country. Investment flows from offshore financial centres are also significant (see chapter I). A substantial proportion of FDI stock continues to be a return of offshore capital held by Russian residents in various financial hubs around the world (figure II.6). The largest investments in the Russian Federation originate from Russian investors based in Cyprus, taking advantage of that country's financial facilities and favourable tax conditions. However, as the economic situation in Cyprus has recently deteriorated, some Russian investors have begun using other countries as a base for their investments at home. In 2012, Cyprus accounted for only 6 per cent of FDI flows to the Russian Federation, compared with 25 and 28 per cent in 2010 and 2011, respectively (figure II.6).

FDI inflows into *Kazakhstan* rose by 1 per cent, reaching $14 billion – the second highest level ever recorded – owing to its vast natural resources and economic growth. In addition to extractive industries, which accounted for almost one fifth of FDI flows in 2012, financial services attracted 12 per cent of flows. Despite uncertainties surrounding the domestic political situation, *Ukraine* attracted almost $8 billion in FDI inflows, a record. Cyprus accounted for the bulk of those inward flows.

The sluggishness of FDI in transition economies as a whole in 2012 was caused by a slump in cross-border M&A sales, whose net value (new M&As less divested M&As) turned negative for the first time ever. Among the reasons was the large reduction in participation by BG Group Plc (United Kingdom), an integrated natural gas company, in the Karachaganak gas-condensate field in north-west Kazakhstan: the company reduced its participation from 32.5 per cent to 29.25 per cent for a value of $3 billion in favour of KazMunaiGaz, the State-owned oil and gas TNC (see also section II.B.2).[37] Greenfield projects also declined considerably.

Figure II.6. Shares of the five largest investors in FDI inflows to the Russian Federation, 2007–2012
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

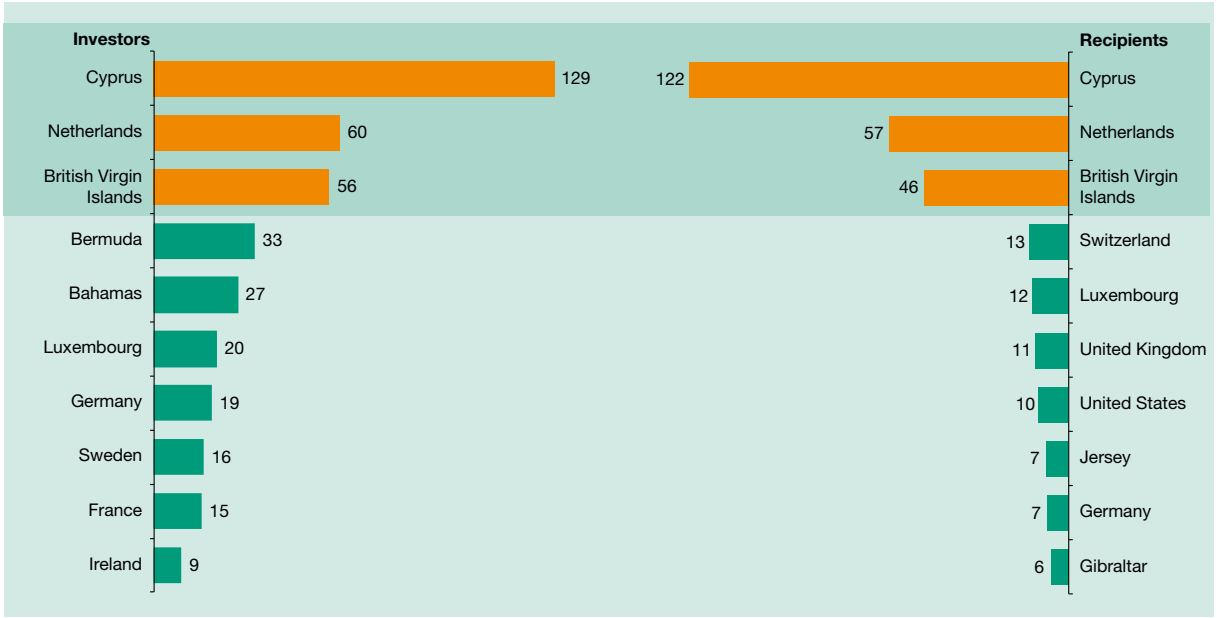
Outward FDI flows from transition economies also declined in 2012. The Russian Federation continued to dominate outward FDI from the region, accounting for 92 per cent of outflows in 2012 (table B). Outflows from Kazakhstan, Ukraine and Azerbaijan exceeded $1 billion (table A). Although TNCs from natural-resource-based economies, supported by high commodity prices, continued their expansion abroad, the largest acquisitions took place in the financial industry. For example, Sberbank – the largest Russian Bank – acquired Turkey's Denizbank for $3.9 billion.

Prospects for inward FDI remain positive in the medium term (see chapter I). FDI inflows are expected to increase moderately in 2013 on the back of an investor-friendly environment and the continuing round of privatizations in the major host countries in the region (the Russian Federation and Ukraine).

A large part of FDI in the Russian Federation is accounted for by "round-tripping". In addition to the usual sources of FDI, a distinctive feature of FDI patterns in the Russian Federation is the phenomenon of "round-tripping", implied by a very high correlation of inward and outward investment flows between the country and financial hubs such as Cyprus and the British Virgin Islands. These two economies are persistently among the major source countries for inward FDI and also the major destination of Russian investments. A closer look at the FDI stock in and from the Russian Federation, for example, reveals that the three largest investors – Cyprus, the Netherlands and the British Virgin Islands – are also the largest recipients of FDI stock, with roughly the same amounts in both directions (figure II.7). Together, they account for about 60 per cent of both inward and outward FDI stock.

Cyprus is the largest investor in and recipient of FDI from the Russian Federation. Russian commodity-based shell companies established in Cyprus send funds to their legal affiliates engaged in oil, mineral and metals exports, often for the purpose of tax minimization (see chapter I). For example, the second largest Russian steel company, Evraz, is owned by offshore companies in Cyprus in which Russian investors have key interests. The fourth largest Russian steel company, NLMK, is also controlled by Fletcher Group Holding from Cyprus (85.5 per cent), which belongs to another Russian investor. In the case of the Netherlands – the

Figure II.7 Russian Federation: top 10 investors and recipients of FDI stock, 2011
(Billions of dollars)



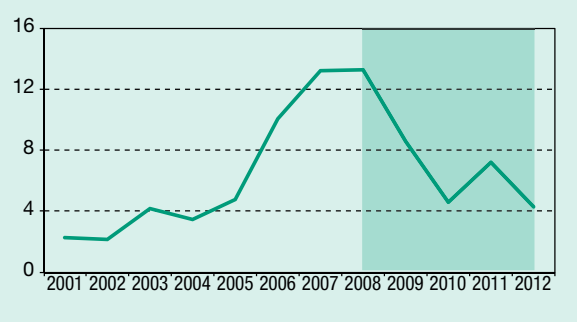
Source: UNCTAD.

second largest investor in the Russian Federation and recipient of Russian FDI stock – some of the investment might be related to Gazprom's financial services affiliate in that country, which channels funds to and from the Russian energy industry.

Double-dip recession in FDI flows to South-East Europe. In contrast to the CIS, FDI flows to *South-East Europe* dropped again in 2012 (figure B), after a temporary recovery in 2011, reaching $4.2 billion – values last seen almost 10 years ago. The decline was due to the sluggishness of investment from EU countries (traditionally the dominant source of FDI in this subregion).

Before the onset of the financial and economic crisis, South-East European countries made significant progress in attracting FDI, resulting in an increase in inflows from $2.1 billion in 2002 to $13.3 billion in 2008 (figure II.8). The surge in FDI to the subregion, especially after 2006, was driven largely by the economic recovery, a better investment climate and the start of association (and accession) negotiations with the EU in 2005. In addition, relatively low labour costs, easy access to European markets and the privatization of the remaining State-owned enterprises gave a boost to FDI flows. Croatia and Albania were the largest recipients of FDI flows in the subregion.

Figure II.8. FDI inflows to South-East Europe, 2001–2012
(Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

This positive trend was reversed in 2009, with FDI inflows falling sharply by 35 per cent in 2009 and 46 per cent in 2010. During this period, many projects were cancelled or postponed. Croatia – the country hit most seriously – saw FDI flows fall from $6 billion in 2008 to $432 million in 2010. TNCs from Austria and the Netherlands, deterred by economic developments and turmoil in sovereign debt markets, moved resources out of Croatia, withdrawing loans from their affiliates in order to strengthen their balance sheets at home. FDI flows also declined significantly in the former Yugoslav Republic of Macedonia. In contrast, Albania bucked the trend, mainly because of its investor-friendly business environment and opportunities opened up by the privatization of State-owned enterprises.

The fragility of FDI flows to South-East Europe was related partly to the large share of inward FDI from the EU, where economic woes have particularly negative knock-on effects for FDI in the subregion. Non-EU large global investors such as the United States, Japan and China are not significant investors in the subregion. The industry composition of inflows to South-East Europe has also worked against it in the current crisis; investment has not been diversified and is concentrated mainly in industries such as finance and retail.

7. Developed countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

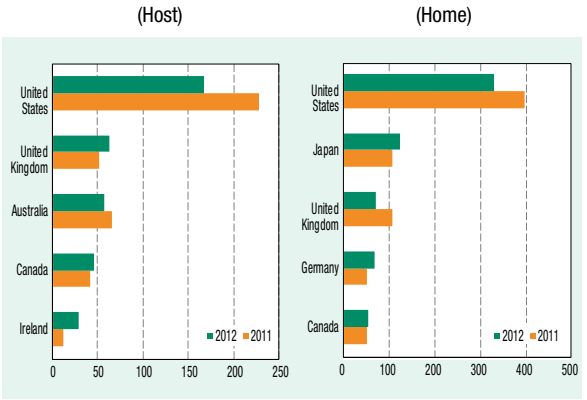
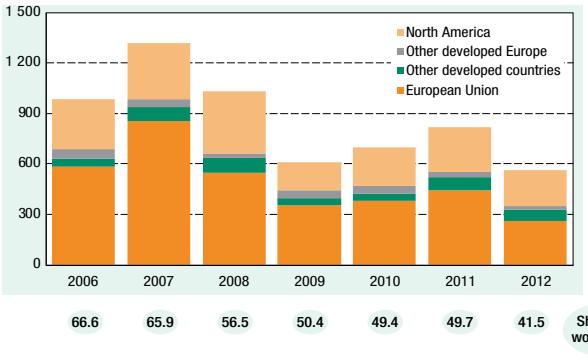
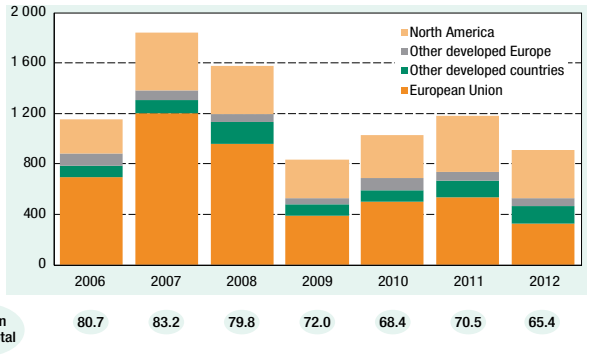


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



66.6 65.9 56.5 50.4 49.4 49.7 41.5 Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



80.7 83.2 79.8 72.0 68.4 70.5 65.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**433 839**	**260 282**	**428 075**	**175 555**
Primary	92 581	50 606	47 973	- 1 700
Mining, quarrying and petroleum	91 692	43 498	47 777	- 1 840
Manufacturing	**179 395**	**109 978**	**201 828**	**122 920**
Food, beverages and tobacco	27 992	20 207	27 804	28 198
Chemicals and chemical products	78 971	30 621	77 747	40 319
Metals and metal products	13 889	13 083	14 137	11 164
Electrical and electronic equipment	22 743	20 608	27 046	16 274
Services	**161 863**	**99 698**	**178 273**	**54 335**
Trade	13 004	12 453	5 622	18 555
Transport, storage and communications	23 682	15 702	21 081	3 283
Finance	22 541	9 564	107 607	26 703
Business services	48 617	32 476	32 942	18 152

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**433 839**	**260 282**	**428 075**	**175 555**
Developed economies	**356 417**	**172 983**	**356 417**	**172 983**
European Union	103 792	10 896	156 671	79 604
United States	131 763	72 042	124 372	49 639
Japan	43 499	30 267	3 779	- 1 733
Other developed countries	77 363	59 778	71 595	45 473
Developing economies	**70 220**	**74 631**	**49 247**	**1 076**
Africa	4 288	634	4 397	- 3 412
East and South-East Asia	47 518	50 102	16 708	5 148
South Asia	5 304	1 967	15 732	1 161
West Asia	3 252	5 458	9 719	- 1 083
Latin America and the Caribbean	9 858	16 426	2 686	- 674
Transition economies	**1 300**	**4 365**	**22 410**	**1 496**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	Developed countries as destination		Developed countries as investors	
	2011	2012	2011	2012
Total	**294 560**	**225 537**	**643 354**	**404 307**
Primary	**18 512**	**9 195**	**57 596**	**16 617**
Mining, quarrying and petroleum	18 431	9 195	57 479	16 717
Manufacturing	**127 712**	**85 659**	**298 069**	**183 174**
Food, beverages and tobacco	6 514	5 593	17 853	15 637
Chemicals and chemical products	11 998	12 744	51 768	25 688
Metals and metal products	6 667	4 973	32 781	16 383
Motor vehicles and other transport equipment	25 470	20 926	69 779	52 401
Services	**148 336**	**130 683**	**287 689**	**204 416**
Electricity, gas and water	53 418	33 458	77 754	39 240
Construction	18 173	24 204	22 300	22 919
Transport, storage & communications	18 112	16 273	58 151	38 563
Business services	24 899	30 657	59 211	49 349

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Developed countries as destination		Developed countries as investors	
	2011	2012	2011	2012
World	**294 560**	**225 537**	**643 354**	**404 307**
Developed economies	**236 532**	**164 206**	**236 532**	**164 206**
European Union	131 971	93 667	148 504	100 377
United States	52 699	38 790	40 519	36 883
Japan	21 231	9 306	5 423	4 279
Other developed countries	30 631	22 442	42 086	22 717
Developing economies	**53 484**	**58 346**	**365 915**	**210 010**
Africa	18 983	1 683	39 181	17 314
East and South-East Asia	16 726	43 863	133 212	99 091
South Asia	4 529	8 592	42 036	23 579
West Asia	9 615	2 066	39 119	15 649
Latin America and the Caribbean	3 616	2 143	112 264	53 113
Transition economies	**4 544**	**2 985**	**40 907**	**30 091**

FDI from and to developed countries nosedived in 2012. Inflows to the group of 38 economies, in aggregate, declined by 32 per cent to $561 billion (figure B); outflows fell by 23 per cent to $909 billion (figure C). At a time of weak growth prospects and policy uncertainty, especially in Europe, many TNCs pursued a strategy of disposing of non-core businesses and assets. The commodity boom, which had driven FDI in resource-rich developed countries in the recent past, began to cool. In addition, intracompany transactions, which tend to be volatile, had the effect of reducing flows in 2012. The prevalence of such intracompany transactions has further weakened the link between the value of FDI and capital formation by foreign affiliates. The most recent experience suggests that the level of capital formation by foreign affiliates is more stable and more resilient to the business cycle than the level of FDI.

By region, inflows to Europe contracted by 42 per cent and to North America by 21 per cent. Inflows to Australia and New Zealand together declined by 14 per cent. Outflows from Europe fell by 37 per cent and from North America by 14 per cent. Outflows from Japan, in contrast, held their momentum, growing by 14 per cent.

The sharp decline in inflows effectively reversed the recovery of FDI over 2010–2011. The share of developed economies in global inflows declined from 50 per cent in 2011 to 42 per cent. Within the group, 23 economies saw a decline in their inflows, including the two largest recipients in 2011, Belgium and the United States (figure A; *WIR12*). The fall in FDI to European countries was particularly marked; it diminished to $276 billion, which was considerably lower than the recent low ($405 billion) in 2009. The EU alone accounted for almost two thirds of the global FDI decline. A number of countries, however, confounded the general downward trends. The United Kingdom saw its inflows extend their recovery, rising by 22 per cent. Inflows to the Czech Republic reached the highest level since 2005, while those to Hungary hit a record high. Ireland has seen a doubling of inflows with a revival of TNC activities.[38] Japan eked out positive, though still relatively small, inflows after two successive years of recording a net divestment.

The decline in FDI outflows from developed countries accounted for almost all the decline in global outflows in 2012. Outflows declined in 22 developed economies, including four of the top five investor countries in 2011 (figure A; *WIR12*). Outflows from the United States, which had been driving the recovery of FDI in developed countries, saw a large decline. Outflows from the European countries were less than one third of their peak ($1.33 trillion) in 2007. Among the countries that bucked the trend were Ireland, Japan and Germany. In the case of Ireland, however, over 70 per cent of its outflows were accounted for by reinvested earnings, suggesting that this recovery was due mostly to the network of affiliates established by foreign TNCs to manage profits in Europe and neighbouring regions.

Divestments reduce cross-border M&As. Given the uncertain economic outlook, many TNCs chose a strategy of consolidating their assets with a view to focusing on core businesses and geographical areas, which resulted in a large number of divestments. In particular, the restructuring of the banking industry, which started in the aftermath of the financial crisis, continued into 2012 and impacted significantly on global FDI flows. Another set of important players in this regard were private equity funds. These funds acquire distressed assets to restructure and sell later on. Thus, cross-border acquisitions by these investment funds generate FDI but are followed by divestment, which has the effect of reducing the value of FDI – as was the case in 2012.

The wave of divestments significantly dented both inflows and outflows of FDI for the *United States* in 2012. The net M&A sales of United States assets (i.e. foreign TNCs acquiring United States firms) declined by $78 billion. The acquisition by United States firms of foreign-owned assets in the United States (i.e. divestment by foreign TNCs) shot up to $71 billion, from $34 billion in 2011. Among the largest divestment deals was the sale by ING Group (the Netherlands) of its affiliate ING Direct USA for $8.9 billion and the spin-off of ADT North America Residential Business by Tyco International (Switzerland) for $8.3 billion.

Net M&A purchases (i.e. United States firms acquiring foreign firms) declined by $57 billion.

Divestment of foreign assets by United States TNCs amounted to $55 billion. Investor funds were often involved in those divestment deals, e.g. the sale of a $3.5 billion stake in the Korea Exchange Bank by Lone Star and the sale valued at $2.4 billion of the Nordic manufacturing supplier Ahlsell by a fund controlled by Goldman Sachs.

Divestment also curtailed the growth of outward FDI from *Japan*, which nevertheless grew by 14 per cent to reach $123 billion in 2012, thus maintaining the country's position as the second largest investor in the world. In net terms, acquisitions of foreign firms by Japanese TNCs decreased from $63 billion to $36 billion, as reflected in the fall of the equity component of FDI (down $21 billion). Contributing to this decline were deals such as the sale by Hitachi of its United States–based hard disk drive business Viviti Technologies, for $4.8 billion and the sale by Nomura of its United Kingdom residential property company Annington Homes for $5.1 billion. The overall increase in outflows was due to a rise in retained earnings and reduced repayment of intracompany loans.

The divestments by United States and Japanese TNCs had repercussions on M&A deals in *Europe*. M&A sales in Europe (firms in European countries acquired by foreign TNCs) were down by $76 billion from 2011. As European TNCs also divested their assets abroad, their net foreign acquisitions declined by more than $140 billion. Divestment was particularly pronounced in the financial industry. European banks continued to shed their non-core – often overseas – assets in order to strengthen their capital base. In addition to the sale of ING Direct USA, ING Group (the Netherlands) sold its Canadian affiliate for $3.2 billion and its insurance businesses in Hong Kong (China), Macao (China) and Thailand for $2.14 billion. Another major European bank, Banco Santander (Spain), reportedly sold assets worth $8 billion across the Americas, including the initial public offering of Grupo Financiero Santander Mexico.

Increased volume and volatility of intracompany transactions in revenues and loans. Along with divestment, another factor explaining the large decline in 2012, particularly in Europe, was the increasing and highly volatile transfer of funds executed by TNCs to manage their retained earnings. One of the countries where such transfers of funds appear to have had a large bearing on FDI flows is Belgium.

Both inflows and outflows of Belgium – the largest European recipient of FDI in 2011 – have been volatile in the recent past. A large part of the decline in Europe in 2012 was attributable to diminished flows in and out of Belgium: inflows decreased from $103 billion in 2011 to -$1.6 billion in 2012, while outflows fell from $82 billion to $15 billion. Intracompany loans from Germany and Luxembourg to Belgium alone, for instance, declined by $56 billion in 2012 compared with the previous year, suggesting the special nature of FDI in the country. The outflows also exhibited a peculiar pattern. Over the two-year period 2011–2012, Belgian TNCs invested $44 billion in Luxembourg in the form of equity and pulled out $41 billion from Luxembourg in the form of "other" capital (intracompany loans). Much of the equity investment in Luxembourg took place in 2011 while "other" capital was taken out mostly in 2012, resulting in a decline of $75 billion in 2012. Another notable decline was the flows of intracompany loans to the United States, which declined from $26 billion in 2011 to $2.9 billion in 2012.[39]

In addition to those of Belgium, FDI flows of Ireland, Luxembourg and the Netherlands accounted for a significant part – and a large one in comparison to the size of their GDP – of the changes in FDI flows in Europe. The reason for the concentration of FDI is twofold. First, these countries offer TNCs a favourable tax regime, especially for locating their cash-pooling facilities. The existence of cash-pooling facilities, in turn, creates the problem of possible double-counting of FDI flows that artificially inflates FDI flows.[40]

The commodity boom slows down. The slowdown of the commodity boom impacted resource-rich developed countries, namely Australia, Canada and the United States, which benefited from increased FDI flows to this sector in recent years. Inflows to Australia declined by 13 per cent. M&A sales in the Australian mining industry, which averaged $16 billion over the period 2008–2011, fell to $11 billion in 2012. Although inflows to Canada rose modestly in 2012, inflows to the energy and mining industry, which had been a major part of inward FDI in Canada, fell from $17 billion in 2011 to $8

billion in 2012. Of the $78 billion fall in M&A sales in the United States, the mining industry accounted for $35 billion. For developed economies as a whole, M&A sales in mining more than halved, from $92 billion in 2011 to $43 billion in 2012, while M&A purchases in the industry declined from $48 billion to a net divestment of -$2 billion. This pattern of FDI flows suggests that FDI driven by the recent commodity boom may have peaked.

FDI in the crisis-hit countries in the Eurozone. Apart from Ireland, the four Eurozone countries that have been most affected by the financial crisis – namely Greece, Italy, Portugal and Spain – showed a generally low level of FDI flows in 2012.[41] Three aspects of recent FDI in those countries are worth highlighting: foreign acquisition of distressed assets, injection of capital to foreign-owned banks, and exit and relocation of firms from the crisis-hit countries.

First, severe economic downturns have created buying opportunities among distressed assets. For example, Italy was a recipient of large inflows of FDI in 2011. There were a number of high-profile M&As such as the acquisitions of Parmalat by Group Lactalis (France) and of Bulgari by LVMH (France) along with the purchase of a string of brand names (e.g. De Tomaso, Ferretti, Coccinelle) by Asian investors. The momentum, however, appears to have petered out in 2012, with M&A sales declining from $15 billion in 2011 to $2 billion in 2012.[42] In Spain, various investment funds were active in the acquisition of Spanish assets. Examples include the sale of wind farms by Actividades de Construcción y Servicios to the United Kingdom–based private equity firm, Bridgepoint Capital (completed in January 2012); the acquisition of USP Hospitales by the United Kingdom–based private equity firm, Doughty Hanson; and the sale of a loan portfolio by Banco Santander to the United States investment management firm, Fortress Investment. Investment funds were involved in nearly half (by value) of cross-border M&A deals entailing sales of Spanish assets in 2012.

The second aspect to highlight is inflows of FDI in the form of injection of capital to banks with a weakened balance sheet. In Greece, for instance, inward FDI more than doubled from 2011 to reach $2.9 billion in 2012. This is explained mostly by injections of capital by parent TNCs to cover losses of their affiliates. The losses at the Greek bank Emporiki had reportedly amounted to €6 billion over the period 2008–2012. In response, the parent company, Crédit Agricole, injected capital worth €2.85 billion, as required by the Greek regulator, before it sold off the unit. Foreign banks such as Barclays, Deutsche Bank and ING are thought to have injected more capital into their Spanish operations to cover for the losses. The exact extent of capital injected in 2012 is not known, but media reports suggested that Barclays, for example, planned to inject €1.3 billion to shore up the capital of its Spanish affiliates.[43]

The third aspect is the withdrawal and relocation of TNCs from the countries that are most severely hit by the debt crisis, namely Greece and Portugal, which had potentially serious repercussions on the tax revenues of those governments. The most notable exit of foreign TNCs was the decision by the French retailer Carrefour to withdraw from Greece in 2012. Although Greece was the second largest market for the retailer, it chose to exit from the loss-making operation, handing the assets to its Greek joint venture partner for a nominal sum.

Leading domestic firms in those two economies are eager to expand abroad, given the poor growth prospects of their domestic markets, but they are constrained by the difficulty in raising financing. Consequently, some of those firms have decided to relocate their headquarters abroad. For instance, Coca-Cola Hellenic, the world's second largest bottler of Coca-Cola, announced its plans to move its headquarters to Switzerland and its primary listing to London.

Such relocation is particularly pertinent to the recent pattern of Portuguese FDI. Outward FDI from Portugal recorded a net divestment of -$7.5 billion in 2010 and then shot up to $15 billion in 2011. It fell back to just $1.9 billion in 2012. This unusually large movement was due mostly to outward FDI to the Netherlands, which swung from -€7.5 billion in 2010 to €8.9 billion in 2011. Portuguese firms' relocation of capital to the Netherlands is likely to have created this peculiar pattern of outward FDI from Portugal. As an example, a case that received much attention was the transfer of the ownership of the Jerónimo Martins group, which operates Pingo Doce, a major supermarket

chain in Portugal. The holding company that had a controlling stake in Jerónimo Martins was relocated to the Netherlands in 2011. Most, if not all of companies in the PSI-20, the main stock exchange index in Portugal, are thought to have a holding company in the Netherlands. As such, the Netherlands has become the largest inward investor in Portugal and the largest destination for Portuguese outward FDI in recent years.

Large jumps in FDI flows among developed economies become the norm, as exemplified by the recent patterns of Portuguese FDI. In the past 20 years, FDI flows of developed countries have been much more volatile than FDI flows of developing economies (figure II.9). At the same time, the components of foreign affiliates' investments that affect host countries' real economy, namely capital expenditures and investments in R&D, turned out to be much more stable over time. The divergence between FDI flows and capital expenditure in developed economies can be explained by several factors, most importantly the use of local financing by foreign affiliates, the relevance of cross-border M&As and the role played by special-purpose entities (SPEs). These considerations suggest that interpreting FDI flows as indicators of real economic activities, particularly in the case of developed countries, requires caution.

In the past two decades, FDI flows in developed countries have been prone to significant volatility. The annual growth rates of FDI inflows to developed countries ranged from -47 per cent in 2001 to 78 per cent in 1998, with a historic trend characterized by large fluctuations. This phenomenon is much more critical for developed than for developing economies: although the FDI dynamics of developed and developing countries are generally aligned, in developed countries individual movements are much more amplified (see figure II.9).

The average fluctuations of developed-country FDI are almost twice those of developing-country FDI, as estimated by the standard deviations of the annual growth rates of FDI flows.[44] At the level of individual countries, the effect is confirmed. The median standard deviation of FDI growth rates for developed countries is in fact higher than that of developing countries.[45]

Notably, capital expenditure (and also investments in R&D), identifiable as the core impact of the foreign investments on the real economy of host countries, displays much lower volatility than FDI flows (figure II.10). Capital expenditure has also exhibited higher resilience to the current crisis. This evidence supports the idea that FDI flows among developed countries have evolved in a way that does not fully reflect activities in the real economy.

Figure II.9. Trends in annual growth rates of FDI inflows, by groups of economies, 1991–2012
(Per cent)

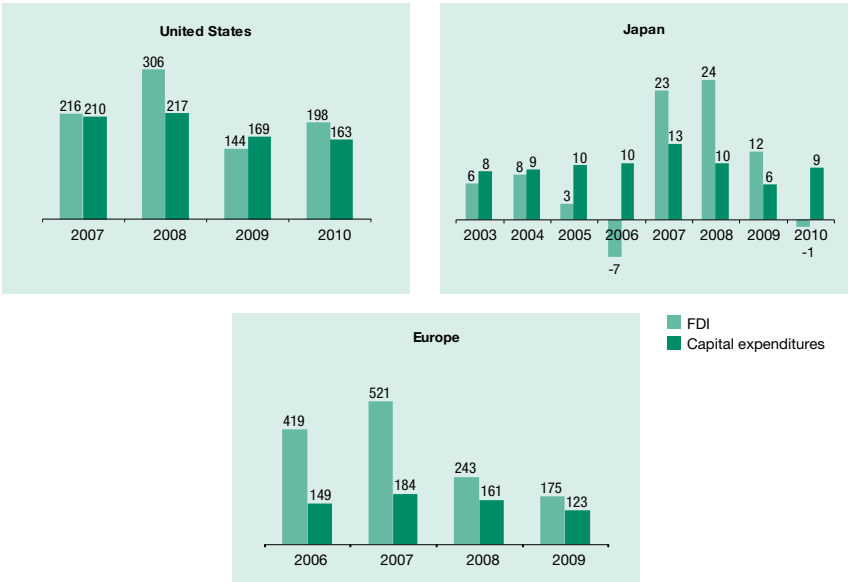
Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

In developed countries, three main factors explain the divergence between what foreign affiliates invest in the host economies and inward FDI: local sources of financing, the impact of cross-border M&As and the role of SPE-favourable countries.

- *Local sources of financing.* Foreign affiliates can borrow from financial institutions in the host economy or issue bonds to local investors.[46]
- *Cross-border M&As.* A large number of cross-border M&A deals are financed by means of FDI.[47] Thus cross-border M&As account for a significant part of FDI flows (see chapter I.B for an overview of FDI flows by mode of entry). However, this part might not translate into capital expenditure or R&D expenditure, as the change of ownership does not imply capital formation.
- *SPE-favourable countries.* A number of European countries, namely Belgium, Ireland, Luxembourg and the Netherlands, hold a disproportionately large stock of FDI (annex table 2). The reason for the high concentration is that many TNCs establish cash pooling facilities in the form of SPEs, because of favourable national tax legislation (see chapter I.A.d). Annual changes of FDI flows to and from those countries have had an important role in FDI flows changes in developed countries in recent years. In 2012, for instance, the fall of FDI flows to and from Belgium and the Netherlands was the main reason for the overall retreat in the FDI flows of developed economies.

Given the depth of the contraction in cross-border direct investment in 2012, it is unlikely that the FDI flows of developed countries will decline much further in 2013. The economic downturn in Europe might create opportunities for buyout firms to acquire undervalued assets. Companies with stressed corporate balance sheets might be under pressure to sell assets at a discount. However, overall, the recovery of FDI flows of developed economies in 2013, if it occurs at all, is likely to be modest.

Figure II.10. Comparison of the trends in FDI inflows and capital expenditures of foreign affiliates in the United States, Japan and Europe, various periods
(Billions of dollars)



Source: UNCTAD; United States Bureau of Economic Analysis; Japanese Ministry of Economy, Trade and Industry; Eurostat.

Note: Capital expenditure for Europe is taken from Eurostat data on gross investment in tangible goods. Europe aggregate data are based on a selection of European countries: Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Latvia, Portugal, Romania, Slovenia, Slovakia, Sweden and the United Kingdom.

B. TRENDS IN STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

1. Least developed countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

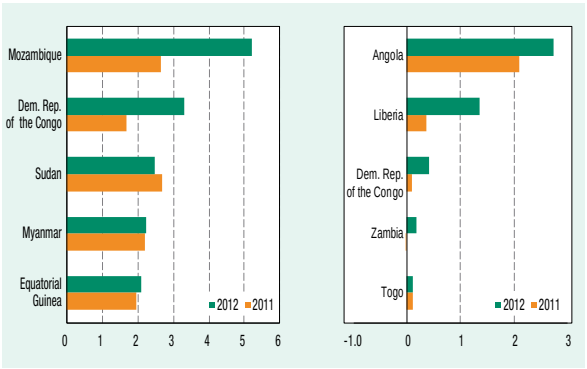
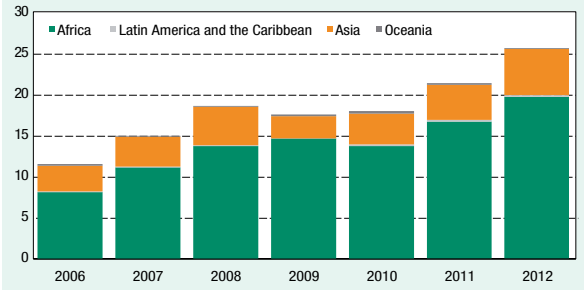
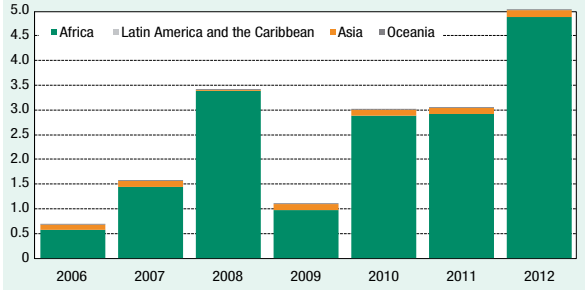


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



Share in world total	2006	2007	2008	2009	2010	2011	2012
	0.8	0.8	1.0	1.4	1.3	1.3	1.9

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total	2006	2007	2008	2009	2010	2011	2012
	0.0	0.1	0.2	0.1	0.2	0.2	0.4

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**501**	**354**	**353**	**- 102**
Primary	**- 191**	**11**	**-**	**-**
Mining, quarrying and petroleum	- 191	11	-	-
Manufacturing	**624**	**342**	**-**	**- 185**
Food, beverages and tobacco	632	351	-	-
Chemicals and chemical products	4	-	-	- 185
Non-metallic mineral products	-	90	-	-
Electrical and electronic equipment	-	-100	-	-
Services	**68**	**2**	**353**	**83**
Electricity, gas and water	-	1	-	-
Trade	6	-	-	-
Transport, storage and communications	50	-	-	-
Finance	11	1	353	83

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**501**	**354**	**353**	**- 102**
Developed economies	**428**	**- 1 217**	**-**	**88**
European Union	180	264	-	88
Canada	- 161	- 1 258		
United States	- 10	- 109	-	-
Australia	53	- 115	-	-
Japan	450	1	-	-
Developing economies	**73**	**1 478**	**353**	**- 190**
Africa	-	90	353	- 190
East and South-East Asia	75	1 574	-	-
South Asia	4	- 90	-	-
Latin America and the Caribbean	- 6	- 3	-	-
Transition economies	**-**	**-**	**-**	**-**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investors	
	2011	2012	2011	2012
Total	**33 654**	**21 824**	**923**	**1 020**
Primary	**11 796**	**4 390**	**-**	**-**
Mining, quarrying and petroleum	11 796	4 390	-	-
Manufacturing	**11 767**	**6 618**	**424**	**97**
Food, beverages and tobacco	1 058	1 053	31	74
Coke, petroleum products and nuclear fuel	5 197	1 970	393	-
Non-metallic mineral products	1 505	1 156	-	-
Metals and metal products	1 205	642	-	-
Services	**10 091**	**10 815**	**499**	**923**
Electricity, gas and water	4 499	3 905	-	-
Transport, storage and communications	1 997	2 234	-	168
Finance	1 572	1 919	426	336
Business services	943	725	26	418

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investors	
	2011	2012	2011	2012
World	**33 654**	**21 824**	**923**	**1 020**
Developed economies	**16 886**	**8 822**	**122**	**32**
European Union	9 510	3 195	33	32
Canada	1 314	569	-	-
United States	3 611	3 251	89	-
Japan	896	1 371	-	-
Developing economies	**16 052**	**12 972**	**802**	**989**
Africa	3 841	2 584	572	419
East and South-East Asia	5 736	4 373	151	227
South Asia	4 219	4 424	70	-
West Asia	568	1 583	8	60
Latin America and the Caribbean	1 637	9	-	282
Transition economies	**716**	**30**	**-**	**-**

FDI inflows to LDCs rose by 20 per cent to $26 billion, while FDI outflows increased by 66 per cent to $5 billion. The majority of FDI in LDCs is from developing countries, especially from Asia, as indicated by greenfield project data, with India increasingly significant by both value and range of industries. Financial services continued attracting the largest number of greenfield projects in LDCs. The relative share of primary-sector investments in LDCs is falling, but the degree of industrial diversification is limited.

FDI inflows to LDCs[48] *hit a record high of $26 billion.* Flows to LDCs grew by 20 per cent to hit a new peak of $26 billion in 2012 (figure B). This growth in FDI inflows from 2011 to 2012[49] was led by strong gains in Cambodia (inflows were up 73 per cent), the Democratic Republic of the Congo (96 per cent), Liberia (167 per cent), Mauritania (105 per cent), Mozambique (96 per cent) and Uganda (93 per cent). At the same time, more than 20 LDCs reported negative growth, although TNC participation through other modes has risen in some cases.[50] The negative growth of FDI was particularly high in Angola (negative inflows more than doubled to -$6.9 billion), Burundi (-82 per cent), Mali (-44 per cent) and the Solomon Islands (-53 per cent)). The share of inflows to LDCs in global inflows increased from 1.3 per cent in 2011 to 1.9 per cent in 2012. However, the concentration of inflows to the top five recipients (table A and figure A) remains high.[51] M&As were small (tables B and C); most FDI inflows in LDCs occurred through greenfield investment (tables D and E). FDI outflows from LDCs grew 66 per cent to $5 billion, though this was concentrated in two countries: Angola (increased by 31 per cent) and Liberia (264 per cent) (figures A and C).

Despite increases in FDI inflows to LDCs, the estimated value of greenfield investment projects in LDCs – which are indicative of trends and are available by geographical and sectoral breakdowns – fell to $22 billion, the lowest level in six years, because of a severe contraction of announced projects in the primary sector and related processing industries (tables D and F). For the first time since 2003, when greenfield projects data were first collected, the value of these projects in LDCs was below actual FDI inflows.[52] By sector, the primary sector attracted 20 per cent of all greenfield investments in LDCs in 2012; the services sector accounted for 50 per cent; and manufacturing made up the remaining 30 percent (table D). Most investments in the services sector are essentially "infrastructural", relating to electricity, gas and water; transport and communications; and financial services (together they accounted for 75 per cent of investment in the sector).

Nearly 60 per cent of greenfield investment in LDCs came from developing economies, and India became the largest single investor. Developing economies, with 59 per cent of the value of greenfield projects, were the largest investors in LDCs in 2012, 80 per cent from Asia and most of the rest from Africa (table E). Sustained investment (over the past decade) has come primarily from nine developing countries: Brazil, China, India, Malaysia, the Republic of Korea, South Africa, Thailand, the United Arab Emirates and Viet Nam.[53]

Companies from India were responsible for 20 per cent of the total value of greenfield projects in LDCs in 2012. The next five largest investing countries were the United States (15 per cent), Japan (6 per cent), the United Kingdom (6 per cent), the Republic of Korea (5 per cent) and China (4 per cent). While the value of India's greenfield projects in 2012 rose by 4 per cent from 2011, the value of China's projects fell, from $2.8 billion to $0.9 billion – although greenfield projects from Hong Kong (China) reached a new high ($0.7 billion in 7 projects), driven by a $0.5 billion real estate project in Mozambique (table II.5). Among African investors, while South Africa's greenfield investment in LDCs fell by two thirds, Nigeria's investment in cement and concrete products held steady, owing to a $0.6 billion project in Senegal (table II.5). At the same time, the number of Kenya's greenfield projects in LDCs more than doubled, and its value of investment rose from $0.2 billion in 2011 to $0.7 billion in 2012, led by two projects in air transport ($168 million each) in Uganda and the United Republic of Tanzania.

India's investments in LDCs are diversified geographically and sectorally. Reflecting the destinations of large-scale projects presented in table II.5, Mozambique was the largest recipient of Indian greenfield investments (45 per cent), followed by Bangladesh (37 per cent) and Madagascar

Table II.5. The 10 largest greenfield projects in LDCs, 2012

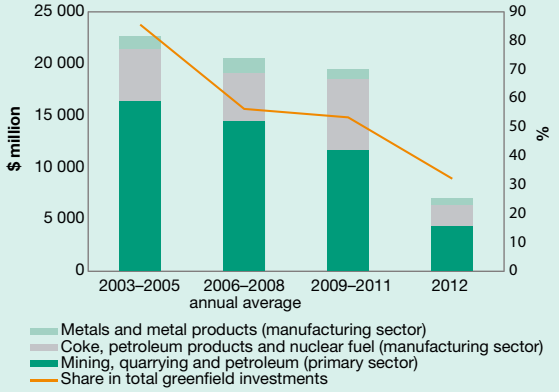
Host economy	Industry	Investing company	Home economy	Estimated investment ($ million)	Estimated jobs created
Angola	Oil and gas extraction	Esso Exploration Angola (Block 15)	United States	2 500	219
Mozambique	Natural, liquefied and compressed gas	Bharat Petroleum	India	1 961	158
Bangladesh	Fossil fuel electric power	NTPC Limited (National Thermal Power)	India	1 500	184
Senegal	Fossil fuel electric power	Korea Electric Power	Republic of Korea	597	73
Senegal	Building and construction materials, cement and concrete products	Dangote Group	Nigeria	596	900
Mozambique	Fossil fuel electric power	Ncondezi Coal	United Kingdom	504	58
Mozambique	Real estate, commercial and institutional building construction	Dingsheng International Investment	Hong Kong, China	500	3 000
Democratic Republic of the Congo	Metals, gold ore and silver ore mining	AngloGold Ashanti	South Africa	455	1 543
Madagascar	Wireless telecommunication carriers	Airtel Madagascar	India	351	97
United Republic of Tanzania	Alternative/renewable energy, wind electric power	Aldwych International	United Kingdom	321	88

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

(8 per cent). In Bangladesh, India has invested in various industries, including automotives, IT, pharmaceuticals, textiles and tyres. In Africa, Indian investors are targeting East and Southern Africa. In addition to extractive and heavy industries, Indian companies are also prominent in pharmaceuticals. For instance, two pharmaceutical projects ($5 million each for sales and marketing support) were recently announced, in Uganda and the United Republic of Tanzania, as were two health-care projects in Uganda and Rwanda.[54] Along with India, a growing number of developing countries have announced health-care investment in LDCs (box II.3).

The relative share of primary-sector investments in LDCs is falling, but the degree of industrial diversification is limited. Over the past decade, the importance of greenfield investments in the primary sector, represented by the mining, quarrying and petroleum industry, has diminished (figure II.11). In consequence, the shares of greenfield projects in the manufacturing and services sectors are gaining ground. However, the manufacturing sector is not very diversified in relative terms. Due to the dependence on extractive activities of resource-based LDCs, the two industries that attracted the largest share of manufacturing greenfield investment in LDCs during 2003–2011 were coke, petroleum products; and metals and metal products. The non-metallic mineral products industry had also made a sizable contribution to the manufacturing sector, driven by large-scale investment in building and construction materials. Despite a substantial fall in the value of greenfield projects in the extractive industries and related processing activities in 2012 (figure II.11), 57 per cent (compared with 67 per cent in 2011) of greenfield investment in the manufacturing sector remained in three industries (namely, coke, petroleum products and nuclear

Figure II.11. Greenfield investments in extractive industries and related processing activities[a] in LDCs, 2003–2012
(Millions of dollars and per cent)



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

[a] The non-metallic mineral products industry, which contains a subindustry called "minerals, other non-metallic mineral products", was excluded because of its insignificant contribution to this industry.

fuel; non-metallic mineral products; and metals and metal products) (table D).

In services, in a similar vein, large-scale projects in fossil fuel generation rely on the primary sector. Even though greenfield projects in finance, transport and communications are growing, the electricity industry has been the dominant source of services-sector investment in LDCs (table D). Moreover, investment in transportation and logistics includes oil pipelines, petroleum bulk stations and terminals, which are support services for the primary sector. While the number and scale of such greenfield projects in LDCs have been small, their immediate and potential contributions are not negligible. For example, the Angola-Zambia Refined Petroleum Multi-Product Project involves Ba Liseli Resources (Zambia) constructing a 1,400-km pipeline and related infrastructure from a refinery in Lobito, Angola, to Lusaka, Zambia.[55] The overall project represents an investment of $2.5 billion, within the framework of a public-private partnership, of which $168 million was announced in 2012 as Zambia's first greenfield project in Angola since 2003.

In financial services, investors from developing economies have been prominent in greenfield projects in retail banking. Financial services continued attracting the largest number of greenfield projects in LDCs, representing 25 per cent of all projects (361) in 2012 and generating 9 per cent of their value. Over the past decade, 86 per cent of all greenfield projects in financial services were directed at retail banking (with 497 projects recorded in 40 LDCs for the period 2003–2012). Angola attracted by far the largest number of retail banking projects (135, of which 76 per cent came from Portugal), followed by Cambodia (56 projects) and Uganda (39 projects). By value, Cambodia attracted the largest amount: $2.3 billion, or 28 per cent of the aggregate value of retail banking investment plans ($8.0 billion), followed by Bangladesh (12 per cent).

With the exception of Angola, where Portuguese banks have had a strong presence, [56] the leading investors in banking and finance in LDCs are from developing economies. During the period 2003–2012, 70 per cent of all projects in retail banking were announced by investors from 39 developing economies (11 of these being LDCs themselves).[57] The developing-country TNC with the biggest investments in LDCs was Maybank (Malaysia). Among African investors, Kenya Commercial Bank was the largest investor in LDCs. It announced a total of $0.3 billion in investments over 2005–2012, with 31 projects in five African LDCs. In 2012, the largest project announced was a $265 million project in retail banking by Dubai Islamic Bank (United Arab Emirates) in South Sudan, which was also the second largest project recorded in LDCs since 2003.

In corporate and investment banking, where the first LDC project from a developing-country investor was recorded in 2008, 55 per cent of the 40 greenfield projects announced in 2003–2012 came from developing economies, representing 68 per cent of the aggregate value ($974 million). Between 2008 and 2011, just four developing economies (China, India, Togo and Viet Nam) announced greenfield

Box II.3. South–South FDI in health care

Although their contribution to overall receipts in LDCs remains relatively low, South–South greenfield projects in health care in LDCs have been on the rise since 2006.[a] In 2012, owing largely to a $0.3 billion project announced by Hamed Medical (Qatar) in Yemen for the construction of general and surgical hospitals, the value of health-care greenfield investments in LDCs hit a record high. In 2006, that value was only 1 per cent of such investments in developing economies;[b] the current share is 17 per cent.

Of 25 health-care projects in LDCs registered in the greenfield database during 2006–2012, a dozen originated from India, contributing one quarter of the aggregate value of health-care investments in LDCs. By value, Qatar's 2012 investment in Yemen made this country the largest investor, contributing 33 per cent of the aggregate health-care investments in LDCs. Other key investors from the South in this sector include Thailand (with $108 million invested in six projects in Cambodia, Ethiopia, the Lao People's Democratic Republic and Nepal), the United Arab Emirates (with $49 million invested in Malawi) and Viet Nam (with $76 million invested in Cambodia).

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Notes appear at the end of this chapter.

investments: 13 projects in 9 LDCs (including 4 African LDCs), and one (in Rwanda) by the Russian Federation. In 2012, eight developing economies joined the ranks of large greenfield investors.[58] As a result, greenfield investment in corporate and investment banking in LDCs reached the highest level ($392 million in 16 projects targeted to 8 African and 5 Asian LDCs).

In sub-Saharan Africa, where a large number of LDCs are present, the credit gap – defined as the level of underfinancing through loans and/or overdrafts from financial institutions – for formal small and medium-sized enterprises (SMEs) is the largest in the world. It is estimated at 300–360 per cent of SMEs' current outstanding credit, compared with 29–35 per cent for SMEs in South Asia (Stein et al., 2010). Given the role played by SMEs in economic development, improving financial infrastructure for underserved SMEs and microenterprises in LDCs is a powerful way to support development. Some LDCs are encouraging investment from foreign banks in support of this process. The recent regulatory change that has taken place in Angola to influence the financial management of oil TNCs operating in that country is an example of such initiatives (box II.4).

Box II.4. Leveraging foreign banks and oil TNCs for domestic finance: case of Angola

Under a new foreign exchange law enforced in October 2012 (with a grace period of 12 months), oil TNCs, which are also the major investors in large-scale liquefied natural gas (LNG) projects in the country, are required to use local banks – including foreign-owned banks operating in Angola – to pay their taxes and make payments to foreign suppliers and subcontractors. The main purpose of the new law is to generate additional liquidity, estimated at $10 billion annually, in the domestic banking system.[a]

Before this law came into force, oil TNCs were allowed to hold revenues from Angolan operations in overseas banks and to transfer foreign currency to the central bank for tax payments, because the domestic banking system was underdeveloped. Enforcement of this new law signals the Government's confidence in the domestic financial system, which has been now developed sufficiently to handle transactions required by TNCs. Considering that Angola has been the recipient of the largest number of greenfield projects in retail banking in LDCs in the past decade, and that more than 40 per cent of commercial banks in the country are foreign owned,[b] the level of development achieved by the Angolan banking system may be credited partly to these foreign banks.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

2. Landlocked developing countries

Table A. Distribution of FDI flows among economies, by range,[a] 2012

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

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

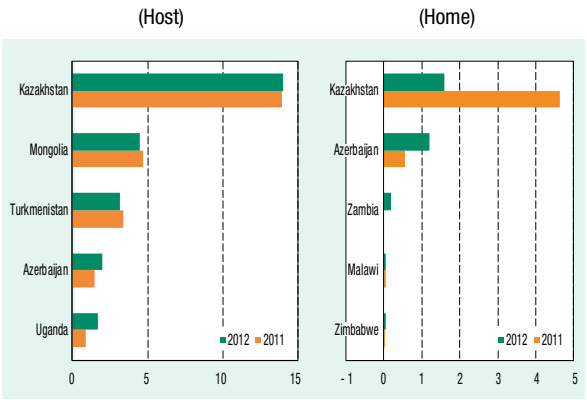
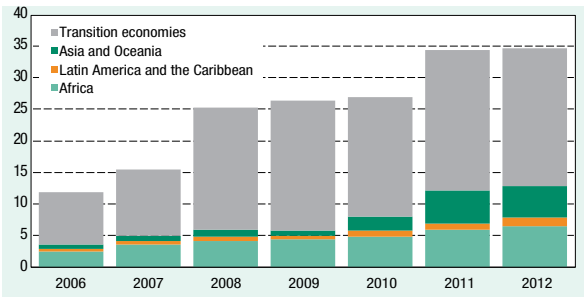


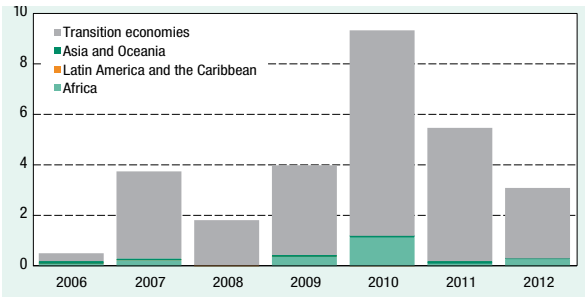
Figure B. FDI inflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012
0.8	0.8	1.4	2.2	1.9	2.1	2.6

Share in world total

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



2006	2007	2008	2009	2010	2011	2012
0.0	0.2	0.1	0.3	0.6	0.3	0.2

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**700**	**- 2 105**	**8 076**	**394**
Primary	**357**	**- 2 612**	**7 921**	**10**
Mining, quarrying and petroleum	312	- 2 614	7 921	10
Manufacturing	**189**	**468**	**-**	**- 183**
Food, beverages and tobacco	163	377	-	-
Textiles, clothing and leather	-	-	-	-
Chemicals and chemical products	10	-	-	- 185
Metals and metal products	33	-	-	2
Services	**154**	**40**	**155**	**566**
Trade	1	-	-	20
Transport, storage and communications	77	-	7	-
Finance	50	7	148	598
Health and social services	27	7	-	-

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**700**	**- 2 105**	**8 076**	**394**
Developed economies	**- 121**	**- 2 342**	**159**	**445**
European Union	258	- 2 342	159	435
United States	- 4	- 22	-	-
Japan	-	-	-	-
Other developed countries	- 375	41	-	10
Developing economies	**879**	**179**	**- 9**	**- 185**
Africa	- 14	94	- 14	- 185
East and South-East Asia	783	235	-	-
South Asia	32	-	-	-
West Asia	77	-	5	-
Latin America and the Caribbean	-	- 150	-	-
Transition economies	**- 59**	**23**	**7 926**	**133**

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	LLDCs as destination		LLDCs as investors	
	2011	2012	2011	2012
Total	**39 438**	**17 931**	**1 137**	**4 011**
Primary	**13 062**	**1 443**	**-**	**-**
Mining, quarrying and petroleum	13 062	1 443	-	-
Manufacturing	**18 226**	**8 931**	**150**	**3 282**
Chemicals and chemical products	1 284	4 781	17	-
Rubber and plastic products	1 324	186	-	-
Metals and metal products	386	1 784	-	-
Motor vehicles and other transport equipment	1 996	940	3	-
Services	**8 150**	**7 558**	**987**	**729**
Electricity, gas and water	1 315	2 300	100	-
Transport, storage and communications	2 467	1 823	5	168
Finance	1 528	1 306	366	240
Business services	2 013	467	39	125

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

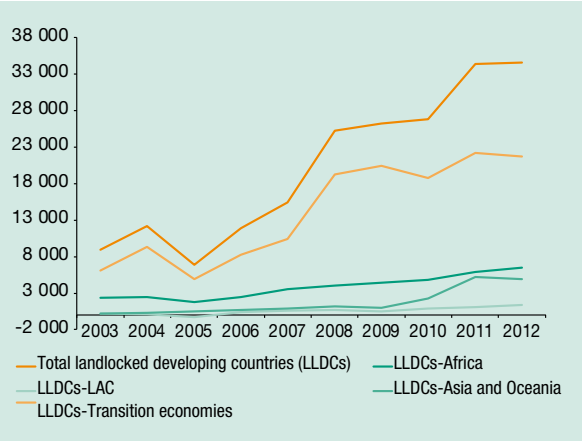
Partner region/economy	LLDCs as destination		LLDCs as investors	
	2011	2012	2011	2012
World	**39 438**	**17 931**	**1 137**	**4 011**
Developed economies	**15 706**	**5 260**	**231**	**178**
European Union	11 832	3 090	221	128
United States	1 117	1 131	10	50
Japan	97	105	-	-
Other developed countries	2 661	934	-	-
Developing economies	**16 253**	**11 853**	**205**	**3 593**
Africa	2 746	679	143	308
East and South-East Asia	7 022	5 561	-	246
South Asia	5 367	3 643	31	-
West Asia	720	1 962	31	3 034
Latin America and the Caribbean	398	10	-	4
Transition economies	**7 479**	**818**	**701**	**240**

FDI flows to the landlocked developing countries (LLDCs) in 2012 bucked global trends by rising 0.6 per cent from $34.4 billion to $34.6 billion. Investment activity was concentrated in the resource-rich countries, particularly the "Silk Road economies", which accounted for 54 per cent of FDI inflows. Developing countries became the largest regional investors in LLDCs as a share of total flows, with particular interest from West Asian economies and the Republic of Korea, the largest investor in LLDCs in 2012. Greater regional cooperation, such as that occurring along the modern Silk Road, the pursuit of alternative infrastructure options and targeted industrial development remain the key policy objectives of LLDCs for overcoming their structural disadvantages and building competitiveness.

Following a trend of continually increasing FDI flows to LLDCs as a whole, since 2005, FDI flows to these countries remained resilient in 2012 (figure II.12).

Looking at the regional trends in FDI inflows since 2003, when the Almaty Programme of Action for LLDCs was established, only African LLDCs had been able to avoid a fall in FDI in the immediate aftermath of the global economic crisis. Last year they continued their upward trajectory, rising 11 per cent from $5.9 billion to $6.5 billion. Despite low levels of FDI inflows to Latin American LLDCs, they also still managed to buck the global downward trend last year and registered an increase of 28 per cent, from $1.1 billion to $1.4 billion. In line with other Latin American economies, their prospects for future FDI growth look promising. Equally encouraging, and despite last year's fall, has been the recent rapid acceleration of FDI flows to South and South-East Asian LLDC economies in recent years, in particular to the Lao Democratic People's Republic, which has the potential to attract further FDI.

Figure II.12. FDI inflows to LLDCs, 2003–2012
(Millions of dollars)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

FDI to LLDCs historically accounts for a small share of global flows (2.6 per cent in 2012), with the natural-resource-rich Silk Road economies (see below) making up the bulk of this investment. There are still vast disparities between the LLDC regions (see figure II.12). Kazakhstan, Mongolia, Turkmenistan and Azerbaijan account for almost 54 per cent of LLDC FDI inflows (figure A). Of this subgroup, Kazakhstan alone accounted for over 40 per cent of these flows in 2012.

Kazakhstan remained dominant in LLDC FDI flows mainly because of the interests of investors in its oil and gas industry. In 2012, the four largest LLDC M&A deals took place in this country, amounting to over $6.5 billion. Three were in the hydrocarbons sector. However, there was also the $3 billion divestment of Karachaganak Petroleum, formerly owned by BG Group Plc (United Kingdom), to NK KazMunaiGaz – Kazakhstan's State energy company. This divestment, the largest deal in the LLDCs last year, gave the State energy company a 10 per cent stake in the Karachaganak oil exploration venture, along with co-owners Chevron Corp., Eni SpA and OAO Lukoil.[59] Other large M&A deals concerned the purchase of an additional 19 per cent stake by Glencore[60] in its Kazakh copper firm, Kazzinc.

The divestment pattern continued in Africa: Zimbabwe produced the largest M&A deal among LLDCs on the continent with the divestment of gold ore producer Unki Mines, owned by Anglo American (United Kingdom), to Zimbabwe's own Investor Group for over $300 million. The second largest deal in Africa was the purchase by Diageo (United Kingdom) of Meta Abo Brewery S.C. (Ethiopia) for $255 million. These and 13 other deals in Africa were among the top 30 M&A deals in all LLDCs.

Despite a fall in M&A activity, the services sector remains buoyant. Overall, M&A activity in the LLDCs remained down relative to 2011 in all sectors except services (table B), which was boosted by the $1.5 billion acquisition of GSM Kazakhstan by TeliaSonera (Sweden). Other large deals in the services sector in the LLDCs include the purchase of Cablevision (Paraguay) for $150 million and a number of food and beverages deals, particularly for brewers.

More than half of M&As in LLDCs made by developing countries. The main foreign investors in LLDCs, through M&As, included Eurasian Natural Resources (United Kingdom) which acquired a 75 per cent stake in Shubarkol Komir, and the deals by Glencore (Switzerland) and TeliaSonera (Sweden). Of the top FDI M&A deals for which data on the transaction value exist, more than half were made by other developing countries. Among these, the purchase by Xinjiang Guanghui (China) of AlgaCapiyGas (Kazahkstan) was by far the largest transaction, at $200 million, followed by the $69 million acquisition of Cimerwa (Rwanda) by Pretoria Portland Cement (South Africa).

West Asian economies and the Republic of Korea increase their investment in LLDCs, while flows from the Russian Federation fall. Trends in greenfield investment in the LLDCs are similar to those of M&A activity, with the value of projects declining by almost 55 per cent in 2012 (tables D and E), although the total number of projects dipped by only 26 per cent. At a regional level, it is noteworthy that the majority (66 per cent) of greenfield FDI flows in 2012 came from developing countries – up from 41 per cent in 2011. Although overall greenfield investment from developing countries to LLDCs fell by 27 per cent, at the subregional level investment from West Asia went up by 172 per cent to $2 billion. Investment from India, the largest developing-country greenfield investor in 2011, declined in 2012 as the Republic of Korea became the largest investor in LLDCs globally, with flows of $4.3 billion – an increase of 220 per cent on the previous year. In transition LLDCs, the large increases in investment from the Russian Federation seen in 2011 fell away precipitously in 2012, dropping from $7.2 billion to $720 million.

Despite falls across all sectors generally, a number of individual industries registered increases in greenfield investment. Greenfield FDI in chemicals and chemical products increased from $1.3 billion to $4.8 billion, making it the largest industry for greenfield deals in the manufacturing sector; greenfield investment in metals and metal products also rose significantly, from $386 million in 2011 to $1.8 billion last year. In the services sector, only two main industries registered increases in greenfield investment: FDI in electricity, gas and water rose from $1.3 billion to $2.3 billion in 2012, and FDI in hotels and restaurants saw a large increase albeit from low levels – from $123 million to $652 million.

Silk Road countries in Central Asia saw FDI flows on the rise. FDI inflows to the economies of the Silk Road[61] (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and the Chinese provinces of Gansu, Ningxia A.R., Shanxi and Uygur) have been rising in recent years. Abundant natural resources, such as petroleum and gas, and expanding intraregional and interregional linkages are contributing to attract growing attention from investors.

The Silk Road is by no means a homogenous investment destination. Across the individual economies, there is diversity in sector opportunities, but there are also extensive prospects for combining factors of production across these economies for regional investment opportunities in selected sectors. The region's rich natural resources have helped attract a significant level of extraction and processing activities. Light industries (mostly related to processing), trade and retail, energy and real estate have also brought in foreign investors.

The Silk Road attracted more than $23 billion in FDI in 2012. Driven largely by FDI into Kazakhstan and Turkmenistan, flows to the Silk Road countries had jumped to $13 billion in 2007 and just over $17 billion in 2008, more than five times their level during the period 2000–2005 (table II.6). The characteristics of TNCs investing in the Silk Road economies vary: in Kazakhstan, FDI has been dominated by investors from EU countries and the United States in manufacturing and extractive industries. Chinese and Russian investors have also been active in recent years, especially as the oil and gas sector has expanded. In Turkmenistan, Chinese and Turkish investors have invested mainly in the energy sector. In Uzbekistan, China and the Russian Federation are currently the largest sources of foreign investment, with most foreign investors

Table II.6. FDI inflows to the Silk Road, 2000–2012
(Millions of dollars)

Country/province	average 2000-2005	2006	2007	2008	2009	2010	2011	2012	average 2009-2012
Central Asian countries:	2 979	7 704	13 248	17 063	18 843	17 233	19 474	18 807	18 589
Kazakhstan	2 488	6 278	11 119	14 322	13 243	11 551	13 903	14 022	13 180
Kyrgyzstan	45	182	208	377	189	438	694	372	423
Tajikistan	71	339	360	376	16	- 15	11	160	43
Turkmenistan	262	731	856	1 277	4 553	3 631	3 399	3 159	3 686
Uzbekistan	112	174	705	711	842	1 628	1 467	1 094	1 258
Chinese provinces:	..	1 275	1 510	1 791	1 991	2 276	2 930	3662	2 715
Gansu Prov.	..	100	106	128	150	135	70	100	114
Ningxia A.R.	..	150	80	88	100	81	202	218	150
Shaanxi Prov.	..	925	1 195	1 370	1 511	1 820	2 354	2936	2 155
Xinjiang Uygur	..	100	129	205	230	240	303	408	295
Total	..	8 979	14 758	18 854	20 834	19 508	22 404	22 469	21 304

Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics); and China's Ministry of Commerce.

operating in the oil, gas and telecommunications sectors. Other large foreign investors in Uzbekistan include Malaysian PETRONAS, Swiss-owned Nestlé and British American Tobacco. In Kyrgyzstan, where investment is much smaller, there have been investments by Canadian firms (in mining and petroleum), Chinese firms (in mining), German firms (in agro-industry), and Turkish and Russian firms (in finance). The Silk Road provinces of China received about $3.7 billion of FDI in 2012, an increase of 25 per cent over 2011, with leading TNCs from around the world continuing to expand their presence in the subregion.[62]

Despite the remote geography of Silk Road economies, they enjoy a number of competitive advantages. Some are ranked among the top 10 countries for ease of doing business. Among other possibilities, the Silk Road area has the potential to become a significant supplier of the world's energy needs. For example, Kazakhstan has some of the world's largest oil reserves; Kyrgyzstan and Tajikistan have vast hydropower potential that has barely been tapped; and the Xinjiang Uygur Autonomous Region has the largest reserves of oil, natural gas and coal in China.

Further regional integration and cooperation still seen as key to addressing the structural disadvantages of LLDCs. The structural and geographic disadvantages that affect LLDCs are well known. In LLDCs that are not rich in mineral resources, these challenges are a major obstacle for investors and largely determine the low rates of FDI. Regional integration and cooperation efforts such as the modern Silk Road have therefore been at the heart of strategies to overcome these problems and boost trade and investment.

LLDCs as a group represent a total market of more than 370 million people, although it is not a contiguous market like the EU or other regional groupings. Greater regional integration and the development of larger regional markets will be essential for LLDCs to attract more investment, particularly market-seeking FDI. However, even as members of a regional agreement, LLDCs can still struggle to benefit fully from increased FDI flows. For example, foreign firms may seek market access through investment and production in one member country with the intent to export to other members of the agreement. This case has been observed, for example, in the Southern African Development Community, where South Africa receives the highest share of regional FDI flows – $4.6 billion in 2012. Although other variables will also determine countries' FDI inflows, the weight of large economies in a regional grouping may have an impact on the ability of smaller members to attract FDI (for example, the two LLDCs Zambia and Zimbabwe together received $1.5 billion in FDI in 2012).[63]

In addition to trying to create larger markets, and thereby demand, LLDCs therefore need to use

regional integration and cooperation to strengthen the investment climate and support investment attraction. In this respect, key recommendations for LLDCs include the harmonization of policies, including procedures for the transit of goods, which can have a significant impact on transport times;[64] greater coordination with neighbouring countries to overcome infrastructure problems (e.g. standardization of infrastructure, like rail gauges); better regulation (e.g. of regional supply chains); cooperation on macroeconomic policy problems (such as currency volatility and taxes).

The Almaty Programme of Action for LLDCs also recognizes the importance of integration at the multilateral level and calls for the fast-tracked accession of LLDCs to the WTO, the provision of some kind of enhanced access to all markets (which many would benefit from, as LDCs and under the Generalized System of Preferences) and assistance on trade facilitation. Trade liberalization in itself does not necessarily create a dynamic growth path, but as part of comprehensive policy reforms it may provide incentives for investors and increase the perception of a safer investment climate with a strong rule of law and the protection of property rights, similar to the negotiation of international and bilateral investment agreements.

Alternative infrastructure options and industrial policy are key to building competitiveness. In subregions such as Central Asia, proximity to a port for bulk goods might not be critical if alternative, competitor routes to the sea can be developed along an east-west axis, especially rail or a so-called "Iron Silk Road" (box II.5). Although the bulk of current transport projects in Asia and also in Africa and Latin America are developing highways for road haulage, rail offers some specific advantages over sea transport in terms of its responsiveness in the supply chain because of the regular transportation of smaller volumes of goods over long distances.

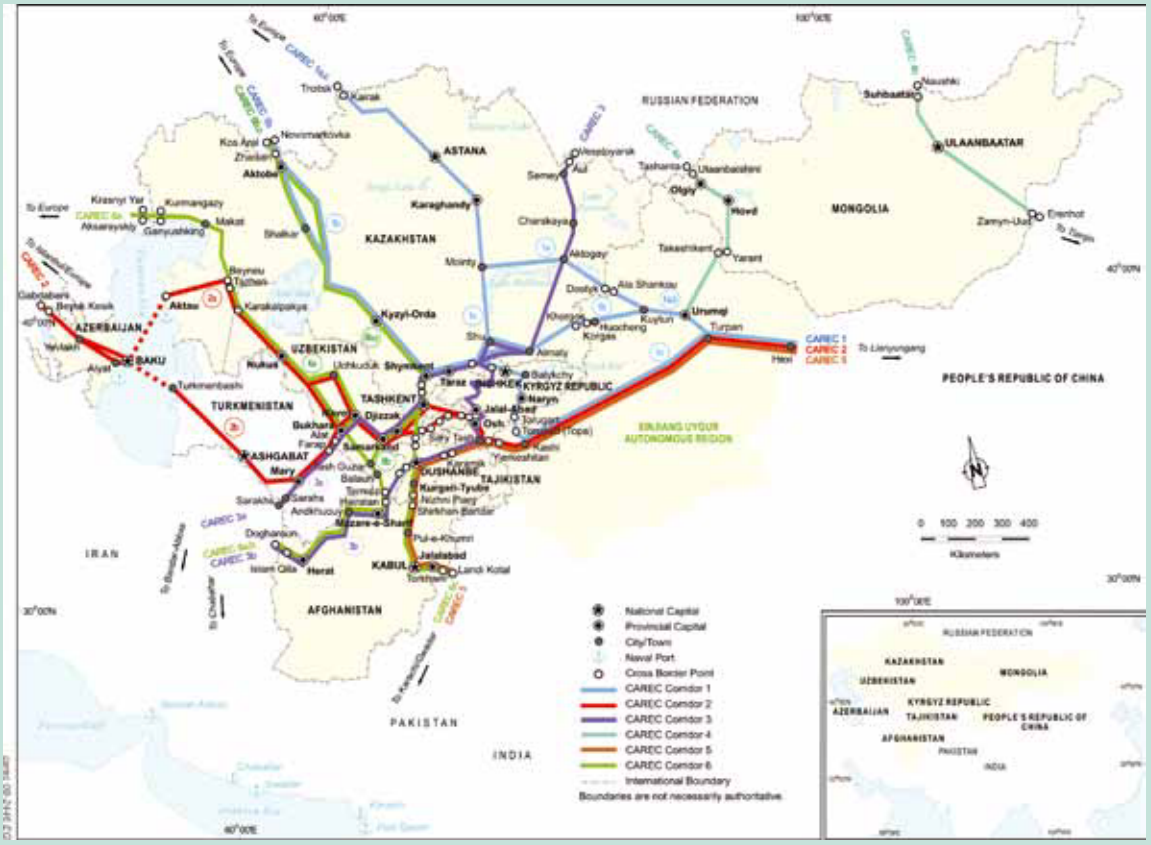
Alternatively, LLDCs can explore ways to link their economies via air and IT-enabled services, based on strong industrial policy and domestic investment in skills and technology. LLDCs could develop industries producing and exporting low-bulk, high-value goods (such as pharmaceuticals, organic agriculture, cut flowers and watches) that can be linked via air routes or services industries that are not sensitive to geography and do not rely on access to the sea. Here, FDI has an active potential role to play: as industrial opportunities and infrastructure are created, FDI to these activities may increase. Government policy could help in attracting FDI at the initial stage of industrial transformation through support to public-private partnerships, concessions, credit and insurance.

In all of these scenarios, it is clear that in order to attract FDI, countries will need a proactive industrial policy and significant public investment in infrastructure, supported by multilateral institutions and also by the private sector. FDI thus can play a large role in the development of infrastructure in LLDCs as well as its operation and maintenance. At the same time, it should be noted that improving the domestic business (investment) environment can have a significant effect on exports and make a country attractive to further investment. Such improvements may have an impact on export competitiveness of a magnitude similar to trade and transport facilitation measures, through for example, simplifying domestic contract enforcement procedures and producing a more integrated approach to trade and business facilitation (Duval and Utoktham, 2009). It is clear that coherence between FDI-related policies and other areas is essential in order to increase FDI flows to LLDC economies.

Box II.5. Land-linked economies

To overcome their geographical disadvantages, LLDCs need to move towards becoming land-linked economies. In part this can be achieved by developing regional markets through greater integration, but more fundamentally it means investing in transport infrastructure and reorienting industrial policy.

Box figure II.5.1. Six Central Asia regional economic cooperation corridors



Source: Asian Development Bank, 2012.

The World Bank and the Asian Development Bank (ADB), through its Central Asian Regional Economic Cooperation programme (box figure II.5.1), have highlighted a number of trade and transport corridors that are instrumental in creating land-linked economies. They incorporate, for example, the aspirations of a number of LLDCs to become pivotal land bridges between regions: (i) Central Asia to Iran and Pakistan via Afghanistan; (ii) China to Europe via Central Asia and Kazakhstan – the so-called new Silk Road, or even Iron Silk Road, after the completion of the rail route via Urumqi in China; (iii) China to Thailand via the Lao People's Democratic Republic; (iv) the Atlantic to Pacific route via the Plurinational State of Bolivia; and (v) China to India via Nepal (Arvis et al., 2011). Nevertheless, the cost of upgrading infrastructure on these routes may prove prohibitive.

Often one of the biggest problems that transport corridors seek to address is the time and money lost in the trans-shipment of goods between borders or modes of transport. Trans-shipment problems also occur between the same modes of transport; for example, due to differences in gauges of rail track in Asia. One solution requires a move towards standardization and greater cooperation between countries, such as the recent agreement on the trans-shipment of goods by Afghani and Pakistani trucks, which permits Afghan trucks to continue all the way to Pakistani ports (Arvis et al., 2011).

Over time, economic development efforts will need to shift from transport corridors to more integrated economic corridors that incorporate new trade and settlement patterns, including corridor town development and corridor value chains (ADB, 2012).

Source: UNCTAD, based on Arvis et al. (2011) and ADB (2012).

3. Small island developing States

Table A. Distribution of FDI flows among economies, by range,[a] 2012

Range	Inflows	Outflows
Above $1 billion	Trinidad and Tobago and Bahamas	Trinidad and Tobago
$500 to $999 million	..	..
$100 to $499 million	Jamaica, Mauritius, Barbados, Maldives, Fiji, Saint Vincent and the Grenadines, Seychelles, Saint Lucia and Saint Kitts and Nevis	Bahamas
$50 to $99 million	Antigua and Barbuda, Cape Verde and Solomon Islands	Mauritius
$1 to $49 million	São Tomé and Principe, Timor-Leste, Marshall Islands, Vanuatu, Grenada, Papua New Guinea, Samoa, Dominica, Comoros, Tonga and Palau	Jamaica, Marshall Islands, Samoa, Seychelles, Saint Lucia, Antigua and Barbuda, Solomon Islands, Grenada, Fiji and Tonga
Below $1 million	Federated States of Micronesia and Kiribati	Vanuatu, São Tomé and Principe, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Dominica, Cape Verde and Barbados

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

Figure A. FDI flows, top 5 host and home economies, 2011–2012
(Billions of dollars)

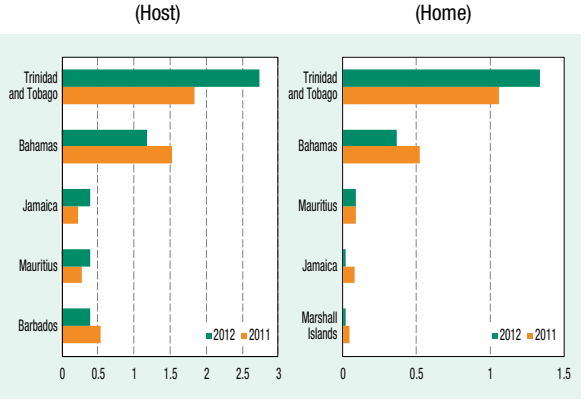
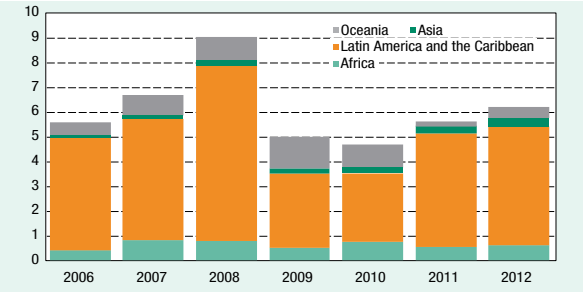
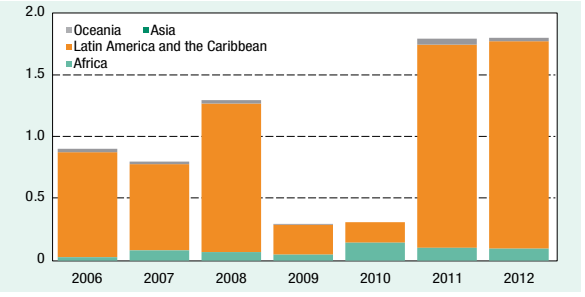


Figure B. FDI inflows, 2006–2012
(Billions of dollars)



Share in world total	2006	2007	2008	2009	2010	2011	2012
	0.4	0.3	0.5	0.4	0.3	0.3	0.5

Figure C. FDI outflows, 2006–2012
(Billions of dollars)



Share in world total	2006	2007	2008	2009	2010	2011	2012
	0.1	0.0	0.1	0.0	0.0	0.1	0.1

Table B. Cross-border M&As by industry, 2011–2012
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2011	2012	2011	2012
Total	**1 223**	**148**	**- 651**	**- 16**
Primary	**938**	**- 10**	**-**	**25**
Mining, quarrying and petroleum	929	- 15	-	-5
Manufacturing	**19**	**-**	**549**	**-**
Food, beverages and tobacco	19	-	-	-
Chemical and chemical products		-	25	-
Non-metallic mineral products	-	-	- 78	-
Metals and metal products	-	-	603	-
Services	**266**	**158**	**- 1 201**	**- 41**
Electricity, gas and water	-	-	-	- 228
Trade	210	20	-	-
Transport, storage and communications	-	13	- 1 409	- 268
Business services	56	-	-	-

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	**1 223**	**148**	**- 651**	**- 16**
Developed economies	**- 992**	**- 42**	**193**	**5**
Europe	216	- 48	-	-
North America	- 995	- 59	193	-
Australia	75	54	-	5
Developing economies	**2 215**	**170**	**- 283**	**- 21**
Africa	-	-	79	20
Latin America and the Caribbean	-	-	-10	330
Caribbean	-	-	- 35	-
Asia	2 215	170	- 351	- 371
China	1 908	-	- 16	-
Transition economies	**-**	**-**	**- 561**	**-**
Russian Federation	-	-	- 561	-

Table D. Greenfield FDI projects by industry, 2011–2012
(Millions of dollars)

Sector/industry	SIDS as destination		SIDS as investors	
	2011	2012	2011	2012
Total	**7 429**	**2 283**	**3 591**	**175**
Primary	**3 000**	**8**	**-**	**-**
Mining, quarrying and petroleum	3 000	8	-	-
Manufacturing	**160**	**1 169**	**78**	**130**
Food, beverages and tobacco	138	24	15	-
Coke, petroleum products and nuclear fuel	-	929	-	-
Services	**4 270**	**1 106**	**3 514**	**45**
Electricity, gas and water	-	156	1 441	-
Construction	1 966	-	-	-
Hotels and restaurants	270	475	2	-
Transport, storage and communications	1 057	116	-	-
Finance	277	201	180	12
Business services	618	92	1 891	33

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	SIDS as destination		SIDS as investors	
	2011	2012	2011	2012
World	**7 429**	**2 283**	**3 591**	**175**
Developed economies	**1 884**	**1 508**	**42**	**26**
Australia	70	1 005	-	-
France	100	54	-	-
United Kingdom	1 056	92	15	19
United States	564	196	20	-
Developing economies	**5 545**	**775**	**3 549**	**149**
India	810	104	-	-
South Africa	4 223	16	19	130
Thailand	206	54	-	-
United Arab Emirates	74	213	-	-
Oceania	134	-	134	-
Transition economies	**-**	**-**	**-**	**-**

FDI flows into small island developing States (SIDS) continued to recover for the second consecutive year, with two natural-resources-rich countries accounting for most of the increase. Besides a strong FDI increase in oil and gas, a slow recovery of the tourism activity that is largely dominated by foreign investors is taking shape, with a diversification towards more visitors from Asia. While some countries promote offshore finance as a way to diversify their economies, others are supporting the information, communication and technology (ICT) industry, which is attracting the interest of foreign investors.

FDI inflows continued recovering. FDI inflows into SIDS pursued their recovery in 2012, registering positive growth for the second consecutive year after the 45 per cent fall registered in 2009. They increased by 10 per cent, to $6.2 billion, mainly as a result of strong increases registered in two natural-resource-rich countries. The first was Trinidad and Tobago, the group's main recipient, which accounted for 41 per cent of the total in 2012, and where FDI inflows increased by 38 per cent. The second was Papua New Guinea, where FDI inflows swung back to positive territory, reaching a modest value of $29 million, up from a high negative amount in 2011 (-$309 million). These two countries together explain 178 per cent of total FDI increase to the SIDS in 2012, suggesting highly uneven growth among countries.

FDI flows to Caribbean SIDS increased by 5 per cent, to $4.8 billion in 2012 (figure B). These countries – which have traditionally attracted the bulk of FDI into SIDS, with an average share of 77 per cent over the period 2001–2011 – maintained their importance as FDI targets (77 per cent in 2012). The significant increase of FDI to Trinidad and Tobago is due to greater reinvested earnings by energy TNCs. Besides important oil and gas wealth in Trinidad and Tobago, the subregion's geographical proximity to, commonly shared language with, and economic dependence on the large North American market are among the factors explaining its attractiveness as an FDI destination compared with the other SIDS countries.

FDI to other SIDS countries – in Africa, Asia and the Pacific – increased by 31 per cent to $1.4 billion, largely due to increases in Papua New Guinea. Of the other relatively big recipients in this subgroup, FDI to Mauritius and the Maldives increased by 32 per cent and 11 per cent to $361 billion and $284 billion, respectively, while that to Fiji and the Seychelles fell (-36 per cent and -21 per cent to $268 billion and $114 billion, respectively).

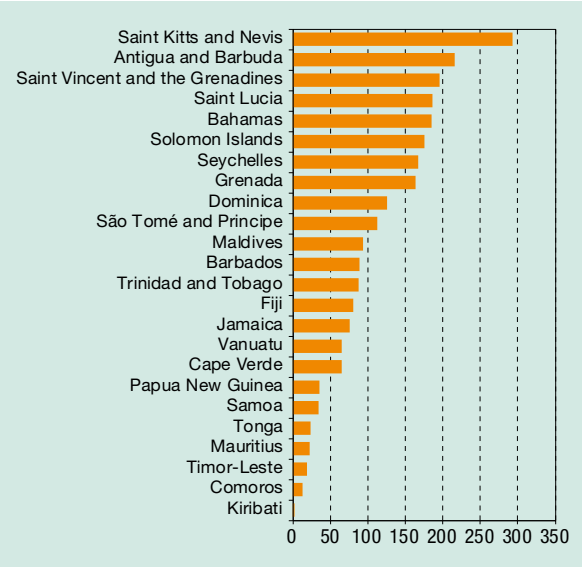
Among African SIDS, Mauritius has diversified from an economy focused on agriculture, tourism and garments towards offshore banking, business outsourcing, luxury real estate and medical tourism. Mauritius offers investors the advantage of an offshore financial centre in the Indian Ocean, with a substantial network of treaties and double-taxation avoidance agreements, making it a gateway for routing funds into Africa and India.[65] In the Seychelles, also, FDI is increasingly focused in the real estate sector, as well as financial and insurance activities.

The Pacific SIDS countries – which attracted 8 percent of all FDI in SIDS in 2012 – are typically different from other members of this group in that they are extremely isolated geographically. The islands are very remote, not only from the nearest continent (except for Papua New Guinea), but also from each other.[66] Their remoteness and small populations are structural obstacles to their competitiveness in general, as well as to their attractiveness to foreign investors. Most FDI inflows to the Pacific SIDS are directed primarily to natural resource exploitation, especially those to Papua New Guinea (oil and gas) and Fiji (gold, bauxite and fishing).

FDI inflows are substantial relative to the size of the economy. In absolute terms, FDI flows may appear small but they are quite substantial relative to the size of most SIDS economies. The ratio of FDI stock to GDP for SIDS was 86 per cent in 2011, with a very wide variation among subgroups and countries. The 10 Caribbean SIDS together had the highest ratio (109 per cent), followed by the 2 Asian SIDS (64 per cent), the 7 (of 12) Pacific SIDS for which data were available (50 per cent), and the 5 African SIDS (39 per cent). The variations are wider by country, ranging from 2 per cent for Kiribati to 292 per cent in Saint Kitts and Nevis (figure II.13).

Although the SIDS economies are highly dependent on FDI, very little is known about the impact of FDI inflows on them, and especially how these impacts interact with the group's structural vulnerabilities.

Figure II.13. Ratio of FDI stock to GDP of small island developing States, 2011
(Per cent)



Source: UNCTAD FDI-TNC-GVC Information System, FDI database; and IMF (for GDP).

FDI outflows are concentrated in two countries. FDI outflows from SIDS increased by 0.5 per cent in 2012 to $1.8 billion, 74 per cent of which corresponded to Trinidad and Tobago, which registered a 26 per cent increase. The Bahamas – the second largest investor abroad, accounting for 20 per cent of the total – saw a 30 per cent decline to $367 million.

Tourism is diversifying towards new markets. Tourism experienced strong growth during 2003–2008 in most of the Caribbean islands, as well as in some other islands, such as in Mauritius, the Seychelles and the Maldives, which led to a construction boom in hotels, resorts and villas, mainly driven by foreign investors. Although the global economic crisis affected FDI in tourism seriously – through reduced tourist numbers, as well as the availability of credit financing for hotel and tourist projects – there have been signs of a limited recovery. In the Caribbean, for example, tourist arrival figures improved in the first half of 2012.[67] However, the strong growth seen in 2003–2008 may not return until demand in markets such as the United Kingdom and the United States solidifies further and/or new demand in other markets rises, and until delayed investment in new hotels and related infrastructure resumes.

Countries such as the Seychelles, which has also experienced a gradual revival in tourism activity, are already diversifying away from developed markets towards visitors from Asia. This is reflected, for instance, in the acquisition of a 40 per cent stake in Air Seychelles for $20 million by Abu Dhabi-based Etihad Airways in 2012.[68] The new management restructured the company's flight routes, terminating flights to Europe in favour of a regionally based strategy, centred on international flights to Mauritius, Johannesburg and Abu Dhabi.

More countries aspire to become offshore financial centres. A large number of SIDS countries have actively marketed themselves as hosts to offshore business as a development tool (see chapter I), which has especially attracted FDI into the finance industry and boosted investments in sectors such as tourism and ICT that directly or indirectly benefit from the expansion of offshore finance. This interest in promoting offshore business reflects a number of factors, including a desire for economic diversification to provide employment opportunities and contribute to fiscal revenue. Other SIDS are also aspiring to become offshore financial centres in the near future; for example, the Maldives, where the economic authorities announced plans to establish an offshore financial centre in 2012, with the aim of generating activity and revenue outside of the tourism industry.

Jamaica continues to promote the ICT industry. Some FDI has recently been directed to the ICT industry in some SIDS countries – most notably Jamaica, where the sector experienced significant growth during the 2000s, spurred by substantial foreign investment in the telecommunications infrastructure. Jamaica is a premier "nearshore" investment location (for North America) and provides a diverse number of informatics services, ranging from basic data entry to multimedia and software development services. The Montego Bay Free Zone has been perceived as particularly conducive to investments in the ICT industry, owing

to the presence of powerful data transfer facilities as well as sophisticated imaging, voice and facsimile services. Following the Government's creation in 2011 of a $20 million loan fund for the expansion of the ICT industry, two United States–based information solutions companies – Convergys Corporation and Aegis Communications Ltd – announced that they would set up call centres in Montego Bay.

FDI into the extractive industry is recovering and prospects are positive. The availability of primary commodities has been an important FDI driver in countries such as Papua New Guinea and Trinidad and Tobago. In Papua New Guinea, a $15.7 billion LNG project, being developed by ExxonMobil (United States), is scheduled to start production in 2014. Once completed, it will significantly increase the country's exports and to provide substantial income to the Government. Although there is a significant opportunity for Papua New Guinea to benefit from the project, worries remain about possible social conflicts arising from adverse environmental impacts and inadequate compensation for landowners. There are also risks that the country could be affected by the so-called Dutch Disease that the Government is trying to address with a newly created sovereign wealth fund (SWF). This comprises a development fund that will receive dividends from the Government's equity participation in the project, and a stabilisation fund that will receive all mining and petroleum revenue, with a spending limit at 4 per cent of GDP in any one year.[69]

Trinidad and Tobago's oil and gas industry remains at the heart of the country's economy; it is in the hands of both private and State-owned companies, with a significant level of foreign participation (box II.6). In recent years, however, the energy sector has seen falling production, limited exploration activity and declining reserves.[70] FDI into the sector – which represented 85 per cent of total inflows during the period 1999–2010[71] – has also declined since 2005; by 2010, it was just over half of the level in 2004. This is partly because of depressed natural gas prices and market prospects for gas, owing to the expansion of shale gas in the United States and elsewhere. The impact of falling oil and gas production, combined with the global economic crisis, has weighed heavily on the country's economic growth, which has been negative or nil since 2009. The Government has addressed these challenges through revisions to the fiscal regime and initiatives to promote upstream and downstream activity in the oil and gas sector. FDI to the sector resumed growth in 2011 and 2012, driven by strong increases in reinvested earnings.[72] This has coincided with the revival of drilling activity, as evidenced by the increased number of exploratory wells, which were up from nothing in October 2010–June 2011 to 73 in October 2011–June 2012 (Government of the Republic of Trinidad and Tobago, 2013).

Box II.6. The importance of FDI in Trinidad and Tobago's oil and gas sector

The energy sector is critical to Trinidad and Tobago's economy. It accounted for 44 per cent of nominal GDP and 83 per cent of merchandise exports in 2010, and 58 per cent of Government revenue in 2010–2011. The sector comprises the exploration and production of crude oil and natural gas (47 per cent of energy sector GDP), petrochemicals (24 per cent), refining (15 per cent) and services (13 per cent). Notwithstanding its central role in the economy, though, the sector employs only 3 per cent of the labour force.

Natural gas production is dominated by three foreign companies (BP, British Gas and EOG Resources Trinidad), which accounted for 95 percent of production in 2010. About 60 per cent of crude oil was produced by private companies, of which almost 80 per cent was accounted for by three foreign companies (BP, REPSOL and BHP Billiton), with the remaining 40 per cent produced by the State-owned oil and gas company, Petrotrin. About half of all crude oil produced in the country is refined locally by Petrotrin, which also refines imported crude oil.

About 60 percent of natural gas output is used for the export of LNG; the rest is for the domestic petrochemical industry and power generation. Atlantic LNG (owned by British Petroleum, British Gas, France's GDF Suez, Spain's Repsol and Trinidad's State-owned NGC) is the sole producer of LNG. It purchases gas from suppliers and processes it into LNG that is exported to other affiliates and operations of its foreign owners.

Source: IMF (2012b).

Notes

1 Data are from Preqin, http://www.preqin.com.

2 McKinsey, 2012, pp. 3–4.

3 According to China's State Administration of Foreign Exchange; however, FDI inflows to China amounted to $254 billion in 2012. The large discrepancy with data from the Ministry of Commerce, which reports FDI data to UNCTAD, reflects differences in the compilation methodology of the two Government agencies.

4 Chris Cooper, "Thailand beating China with Toyota means shipping boom", Bloomberg, 21 February 2013.

5 For instance, in the automotive industry, both State-owned SAIC and privately owned Chery invested in large assembly facilities in Brazil.

6 Source of data: Ministry of Commerce of China.

7 A recent survey of American investors shows that, despite the growing importance of the Chinese market and an overall optimistic view on business prospects in the country, about 15 per cent have relocated or plan to relocate their production out of China, while 13 per cent have been relocating within the country. Covering 420 U.S. companies, the survey was conducted by the Shanghai American Business Council in 2012.

8 In the meantime, the outflow of capital was also caused by the adjustment of firms' foreign exchange management and financial operation in reaction to global economic uncertainties (Zhao, 2012).

9 Source: Nike annual reports from 2005 to 2012.

10 Similar disputes emerged later. In February 2013, for instance, the Government suspended two mining permits for Entree Gold, an explorer partly owned by Rio Tinto by way of Turquoise Hill Resources – signalling a possible deepening in the dispute. (Robb M. Stewart, "Mongolia fuels Oyu Tolgoi dispute by scrapping Entree Gold's permits", Dow Jones, 28 February 2013.)

11 Dan Levin, "In Mongolia, a new, penned-in wealth", *New York Times*, 26 June 2012.

12 Simon Hall, "Energy titans look to Myanmar", *Wall Street Journal*, 7 June 2012.

13 After the opening up of the single-brand segment of the retail industry, significant FDI inflows have been seen in the industry. The change in Government policies on the multiple-brand segment demonstrates that policymaking concerning inward FDI is at a crossroads in India. With the opening up of this segment, more FDI is expected in the retail industry. This demonstrates the Government's efforts to bring in more FDI to the country.

14 More than 700 workers have died in fires in garment factories since 2005, according to labour groups. The collapse of the Rana Plaza complex on 24 April 2013 led to the death of more than 1000 garment workers. (Source: media coverage, including, for instance, Syed Zain Al-Mahmood and Jason Burke, "Bangladesh factory fire puts renewed pressure on clothing firms: Blaze follows collapse of Rana Plaza complex in Dhaka last month which left hundreds dead", *The Guardian*, 9 May 2013.)

15 For instance, with annual sales over $1 billion, MAS has 38 apparel facilities in more than 10 countries and provides employment to more than 55,000 people. Brandix employs more than 40,000 across 38 manufacturing locations in Sri Lanka, India and Bangladesh.

16 A full-package garment supplier carries out all activities in the production of finished garments – including design, fabric purchasing, cutting, sewing, trimming, packaging, etc.

17 This is particularly true for service companies and conglomerates like the Tata Group. As the largest private company in India, Tata Group has operations in automotive, chemicals, communications, food and beverage, information technologies and steel.

18 For instance, Wipro acquired the oil and gas IT services of SAIC (United States) in 2011 and Promax Application Group (Australia) in 2012.

19 Following geopolitical disputes in Sudan and South Sudan, ONGC Videsh has discontinued crude oil production in South Sudan and reduced production in Sudan.

20 Some Indian TNCs seek to concentrate more on domestic markets and consolidate their Indian operations by integrating a series of smaller domestic M&As (BCG, 2013).

21 The deal was an asset swap that gave SABMiller a 24 per cent stake in Anadolu Efes, with the Turkish Anadolu Group preserving a controlling 42.8 per cent share.

22 *Arab News*, "Segments of the GCC financial markets are beginning to develop fraction", 25 January 2012, http://www.arabnews.com/node/404874.

23 See Raghu (2012), and the Economist Intelligence Unit, "Nitaqat employment quotas face backlash", 3 August 2012.

24 Net intercompany loans totalled $10.4 billion in 2012, more than equity capital, which totalled $7.6 billion, pushing total Brazilian FDI outflows to negative values.

25 In 2012, Cencosud acquired the Colombian affiliate of Carrefour (France) for $2.6 billion, and the Prezunic grocery store in Brazil for $495 million.

26 Sectoral FDI stock data are only available until 2002.

27 Argentina and Brazil are excluded because in the case of Argentina, the importance of FDI in natural resources, compared with other sectors, has been decreasing and the sectoral composition of its value added has been the same in 2001–2005 compared with 2006–2010. In the case of Brazil, it is because the extractive industry is dominated by national companies.

28 In August 2011, the Government presented its new industrial, technological and foreign trade policy in the Plano Brasil Maior. Its main purpose is to boost investments, stimulate technological growth and increase the competitiveness of national goods and services, with a view to countering the decline of the industrial sector participation in the country's economy (see *WIR12*).

29 Secretariat of the Federal Revenue of Brazil, "Plano Brasil Maior: Governo lança novas medidas para fortalecer indústria nacional, Folha de pagamento é desonerada para mais onze setores". Available at http://www.receita.fazenda.gov.br/inot/2012/04/05/2012_04_05_11_49_16_693391637.html.

30 It first increases a tax on industrialized products (the IPI) by 30 per cent for all light-duty vehicles and light commercial vehicles. Second, it imposes a series of requirements for automakers to qualify for up to a 30 per cent discount in the IPI. In other words, IPI taxes will remain unchanged for those manufacturers that meet the requirements. The programme is limited to vehicles manufactured between 2013 and 2017, after which IPI rates return to pre-2013 levels unless the decree is modified. See Presidência da República, Casa Civil, Subchefia para Assuntos Jurídicos, DECRETO Nº 7.819, DE 3 DE OUTUBRO DE 2012, http://www.planalto.gov.br/ccivil_03/_ato2011–2014/2012/Decreto/D7819.html.

31 See Chiari Barros and Silvestre Pedro (2012), BNDES Performance per Sector, http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_en/Galerias/Download/Desempenho_setorial_ingles_US$.pdf; BNDES Press Room, "BNDES approves R$ 154 million in financing for Peugeot Citroën Brazil", 5 February 2013, and "BNDES approves R$ 2.4 billion for new Fiat plant in Pernambuco", 4 January 2013.

32 Chinese automakers – Chery and JAC – are building plants, and Hyundai is building two new assembly lines. Other companies have announced plans to build new plants or to expand their existing operations. They include BMW, General Motors, Volkswagen, Fiat and PSA Peugeot Citroen. See Economist Intelligence Unit, "Industry Report, Automotive, Brazil", November 2012.

33 Source: Central Bank of Brazil.

34 According to a 2011 survey, 63 per cent of senior manufacturing executives selected Mexico as the most attractive country for re-

sourcing manufacturing operations closer to the United States, with only 19 per cent citing the United States itself as the best location. However, the margin narrowed to just 15 points in the 2012 survey. See AlixPartners (2012).

35 Dussel Peters (2009); Moreno-Brid et al. (2006); McClatchy, "As China's wages climb, Mexico stands to win new manufacturing business", 10 September 2012; *Financial Times*, "Mexico: China's unlikely challenger", 19 September 2012; Inter-American Dialogue, "Reassessing China-Mexico Competition", 16 September 2011.

36 Georgia is listed separately under transition economies, since it formally ceased to be a member of the CIS in 2009.

37 In Kazakhstan, the natural resource law approved in 2009 allows the Government to change existing contracts unilaterally if they adversely affect the country's economic interests in the oil, metals and minerals industries.

38 According to IDA Ireland, the Government agency responsible for attracting FDI, net job creation by its client TNCs rose from 5,934 in 2011 to 6,570 in 2012, bringing their total employment to 153,785, a level last recorded before the crisis.

39 An investigation by the United States Senate highlighted a certain type of transactions that go through Belgium. According to the Senate report, the United States TNC Hewlett-Packard held most of its cash abroad, which were accumulated profits of its foreign operations. Had it repatriated this cash to the United States, it would have been subjected to taxes in the United States. Therefore, instead of repatriating the funds, its affiliates in Belgium and the Cayman Islands alternately provided short-term loans to the parent company in the United States. As short-term loans are exempted from tax, the parent company had access to the funds continuously without having to pay taxes.

40 As a remedy, the 2008 edition of the OECD Benchmark Definition of FDI recommends that (i) resident SPEs' FDI transactions should be presented separately; and (ii) the directional principle should be extended to cover loans between fellow enterprises. However, the new methodology recommended by OECD has not yet been adopted by many countries. FDI data compiled by UNCTAD exclude FDI flows related to SPEs for countries for which such data are available (see chapter I).The "extended" directional principle has been adopted in only a handful of countries and therefore has not been adopted in UNCTAD FDI statistics.

41 Some signs of recovery are beginning to appear, however. For instance, attracted by a decline in labour costs, a number of auto manufacturers are shifting production to Spain from other parts of Europe. In the case of Nissan, the group is injecting more capital to expand the capacity, creating more jobs. See CNN.com, "Auto industry revs up recovery in Spain", 28 February 2013.

42 There was a degree of popular backlash against such foreign takeovers, which might have contributed to the reduced number of such deals. Some media reports attributed the decision by the Italian bank, UniCredit, to halt its plan to sell its asset management arm, Pioneer Investments, to such popular sentiment.

43 "European banks are facing more pain in Spain", *Wall Street Journal*, 29 June 2012.

44 Estimated standard deviations of annual growth in FDI inflows (1990–2012) of developed countries is 0.34, while for developing countries it is 0.19.

45 The median standard deviation of FDI inflows' annual growth for developed countries is 1.51 and for developing countries is 1.33. Estimation of median standard deviation for developing economies is based on the top 40 developing economies as reflected in 2011 FDI stock.

46 The amount of local financing can be quite significant. According to data from the Japanese Ministry of Economy Trade and Industry in 2007, 70 per cent of short-term borrowing by foreign affiliates in Japan was from local sources. The extent of their reliance on local sources for long-term borrowing was less but still over 50 per cent. Furthermore, over three quarters of corporate bonds issued by foreign affiliates were held by local investors.

47 Funds for M&As may be raised from local sources in the same country as the acquired firm, but data from the United Kingdom suggest that local sources play a relatively small role. Of deals involving United Kingdom TNCs making acquisitions abroad in 2001–2010, 66 per cent were financed by funds paid directly by the parent company and 22 per cent by loans from the parent company; and funds raised locally abroad accounted for only 12 per cent (Office of National Statistics).

48 The number of countries included in this group has increased from 48 to 49 with the addition of South Sudan in December 2012. Accordingly, this group now consists of Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Samoa, São Tomé and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, the Sudan, South Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia. South Sudan is excluded in statistics except for greenfield investments.

49 Because of the upward revisions of 2010–2011 data in some major recipients (e.g. Equatorial Guinea, Mozambique, Myanmar, the Sudan, the United Republic of Tanzania and Uganda), the inflows to LDCs reported in *WIR12* were revised upward from $16.9 billion to $18.8 billion in 2010 and from $15.0 billion to $21.4 billion in 2011.

50 In some LDCs, where growth has been stimulated by industries in which non-equity modes (NEMs) are the prominent form of TNC involvement (*WIR11*), the falls in FDI inflows may have masked the rapid growth in NEMs (e.g. garments in Bangladesh). NEMs in the extractive industries (e.g. production-sharing agreements and concessions) are also common in many natural-resource-rich LDCs (*WIR07*).

51 In 2012, the inflows to the top five recipients accounted for 60 per cent, compared with 52 per cent in 2011 and 60 per cent in 2010.

52 Owing to the data collection method applied to the greenfield projects database, the announced values of projects tend to overestimate the actual investment values, and not all announced projects have been realized.

53 Among transition economies, the Russian Federation has been the largest investor, whose aggregate value of greenfield projects in LDCs exceeds $4 billion for the period 2003–2012, of which of $2.5 billion represents a single mining project in Liberia announced in 2010.

54 Madras Institute of Orthopaedics and Traumatology announced a $40 million construction project in Rwanda, and Apollo Hospitals Group announced a $49 million construction project in Uganda.

55 Reuters, "Zambia firm to build oil pipeline from Angola", 12 April 2012. Available at www.reuters.com/article/2012/04/12/zambia-oil-idAFL6E8FC3T320120412; *Lusaka Times*, "Zambia and Angola sign $2.5bn oil deal", 16 April 2012. Available at www.lusakatimes.com/2012/04/16/zambia-angola-sign-25bn-oil-deal/.

56 In Angola, greenfield investments by Banco BPI (Portugal) (with 68 projects registered in 2004–2012) generated 45 per cent of the total retail banking investments ($285 million) in 2003–2012, followed by two other Portuguese banks, Finibanco (whose 11 projects, announced in 2008, contributed to 17 per cent of Angola's greenfield investments in retail banking) and Banco Comercial Portugues (Millennium BCP) (15 per cent). Yet, as far as the retail banking projects in 2012 are concerned, the dominance of Portuguese banks has faded. Banque du Commerce et Industrie (Mauritania) – with the first

greenfield projects in financial services in LDCs ever recorded by Mauritania – became the largest investor, followed by Standard Bank Group (South Africa).

57 Eleven LDCs registered retail banking projects in other LDCs: Angola (1 project), Cambodia (7), the Democratic Republic of the Congo (1), Ethiopia (6), Mali (6), Mauritania (4), Rwanda (1), Togo (26), the United Republic of Tanzania (6), Uganda (4) and Yemen (1).

58 The eight developing economies are Bangladesh, Hong Kong (China), Kenya, the Philippines, Saudi Arabia, South Africa, Thailand and Yemen.

59 With regard to investment policy, Kazakhstan recently approved a new law establishing the priority right of the State to take part in any new trunk pipeline being built in the country (see chapter III).

60 In February 2013, the main Kazakh SWF bought a 28 per cent stake in the firm, preventing Glencore's total ownership of the company.

61 The term "Silk Road" is tied to images of traders from long ago, but although the romanticism has been replaced by the hard realities that many of its current inhabitants face, the Silk Road is gradually being "reconstructed" to offer a number of potential business opportunities in a region linked by burgeoning infrastructure as well as economic and cultural ties (UNCTAD, 2009).

62 For example, the high-tech centre in Western China, Xi'an, capital city of Shanxi Province, attracted FDI projects by major TNCs, such as new manufacturing facilities for Alstom (France), Bosch (Germany) and Daiwa (Japan), and a research centre for 3M (United States). Other FDI projects in the region included Cola-Cola's investment in a new factory in Xinjiang and new shops built by Metro (Germany) in Ningxia.

63 The Southern African Development Community is negotiating a tripartite free trade area with the East African Community and COMESA (the Common Market for Eastern and Southern Africa). Investment talks are scheduled to form part of the second phase of negotiations (envisaged to commence in the latter half of 2014) which, it is hoped, will boost investment to the area as a whole. For a discussion of investment policies and the growing trend towards regional approaches to investment policymaking, see chapter III.

64 See UNCTAD (2003) and also Limão and Venables (2001). The European Transit System and the TIR (Transports Internationaux Routiers) are the only fully operational transit systems globally. Others that are in place but not fully implemented include the Acuerdo Sobre Transporte Internacional Terestre in Latin America, and the Greater Mekong Subregion Agreement on the Transit of Goods and People in South-East Asia.

65 In Africa, Mauritius signed double-taxation avoidance agreements with Botswana, Congo, Lesotho, Madagascar, Mozambique, Namibia, Rwanda, Senegal, the Seychelles, South Africa, Swaziland, Uganda and Zimbabwe. It has also signed a double-taxation avoidance agreement with India.

66 The average distance to the nearest continent for Pacific islands is more than four to five times that applicable to the average country in the Caribbean or sub-Saharan Africa.

67 Economist Intelligence Unit, "Caribbean economy: Caribbean tourism recovering slowly", 21 August 2012.

68 Etihad Airways also assumed management control of a five-year contract and, in addition, made a fresh capital injection of $25 million.

69 Economist Intelligence Unit, "Bumpy road ahead for PNG LNG project", 26 September 2012.

70 Total natural gas reserves declined from 34.9 trillion cubic feet (tcf) in 2005 to 27.1 tcf in 2010 (equivalent to about nine years of production). Total oil reserves also declined, from 2.7 billion barrels in 2005 to 2.5 billion barrels in 2007 (equivalent to about 14 years of production) (IMF, 2012).

71 Central Bank of Trinidad and Tobago, 2013.

72 FDI increased strongly in 2011 (233 per cent) and 2012 (70 per cent). According to Central Bank estimates, the energy sector received roughly 85 per cent of FDI inflows between January 2011 and September 2012 (Central Bank of Trinidad and Tobago, 2013).

Box II.1

a The DMIC is an infrastructure project as well as an industrial development project, spanning six states. It involves investment of about $90 billion with financial and technical aid from Japan. The project covers about 1,500 km between Delhi and Mumbai.

b An industrial park already exists in Neemrana, with significant Japanese investments in industries such as automotive components.

c See, for instance, Makoto Kojima, "Prospects and challenges for expanding India-Japan economic relations", *IDSA Issue Brief*, 3 October 2011.

Box II.3

a The first ever health-care project in LDCs was recorded by Bumrungrad International (Thailand), for sales and marketing support of general medical and surgical hospitals in Ethiopia at a value of $2.3 million.

b This share remained the same in 2007–2008 but increased to 4 per cent in 2009, when the United Kingdom announced a $49 million construction project in the United Republic of Tanzania and the first Indian health-care projects in LDCs (namely, Bangladesh and Yemen) were recorded. By 2010, seven projects in LDCs accounted for 10 per cent of the health-care greenfield investments in all developing economies. the share increased further to 15 per cent in 2011, led by greenfield projects from India and Thailand.

Box II.4

a Economist Intelligence Unit, "Country Forecast: Angola", October 2012. Available at www.eiu.com.

b Nine of the 22 commercial banks are foreign owned, taking up 40 per cent of assets, loans, deposits and capital in the country (IMF, Country Report No. 12/215, August 2012).

RECENT POLICY DEVELOPMENTS

CHAPTER III

Mobilizing investment to ensure that it contributes to sustainable development and inclusive growth is becoming a priority for all countries. Consequently, investment policymaking is in a transition phase.

Investment policy developments in 2012 show that countries are eager to attract foreign investment but that they have also become more selective. Countries specifically target those investments that generate jobs, deliver concrete contributions to alleviate poverty (e.g. investment in the poor, with the poor and for the poor), or help tackle environmental challenges (*WIR10*). Or they regulate investment with a view to maximizing positive and minimizing negative effects, guided by the recognition that liberalization needs to be accompanied – if not preceded – by a solid regulatory framework. Increasing emphasis on responsible investment and corporate social responsibility (CSR) reinforces the inclination of a new generation of investment policies to place sustainable development and inclusive growth at the heart of efforts to attract and benefit from such investment (*WIR12*). Yet, increasing State intervention also poses a risk that countries will resort to investment protectionism, in tackling economic crises and addressing other challenges.

Civil society and other stakeholders are taking an increasingly active part in the development of investment policies. This is particularly so for international investment policies, where the negotiation of international investment agreements (IIAs) and the growing number of investment arbitrations have gained the attention of parliaments and civil society. Similarly, foreign investors and business are adjusting their business models, emphasizing the contribution that their role as responsible investors entails (*WIR10*).

A. NATIONAL INVESTMENT POLICIES

1. Overall trends

Most countries are keen to attract and facilitate FDI but have become more selective and continue to reinforce their regulatory frameworks.

In 2012, according to UNCTAD's count, at least 53 countries and economies around the globe adopted 86 policy measures affecting foreign investment – an increase in measures of almost 30 per cent compared with the previous year (table III.1). Of these measures, 61 related to investment liberalization, promotion and facilitation to create a more favourable environment for foreign investment, while 20 introduced new restrictions or regulations.

As in previous years, most governments in 2012 were keen to attract and facilitate foreign investment. At the same time, numerous countries reinforced the regulatory environment for foreign investment. The share of new investment regulations and restrictions increased from 22 per cent in 2011 to 25 per cent in 2012, reaffirming a long-term trend after a temporary reverse in 2011 (figure III.1). In the first four months of 2013, this percentage rose to

Table III.1. Changes in national investment policies, 2000–2012
(Number of measures)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of countries that introduced changes	45	51	43	59	80	77	74	49	41	45	57	44	53
Number of regulatory changes	**81**	**97**	**94**	**126**	**166**	**145**	**132**	**80**	**69**	**89**	**112**	**67**	**86**
Liberalization/promotion	75	85	79	114	144	119	107	59	51	61	75	52	61
Restriction/regulation	5	2	12	12	20	25	25	19	16	24	36	15	20
Neutral/indeterminate[a]	1	10	3	0	2	1	0	2	2	4	1	0	5

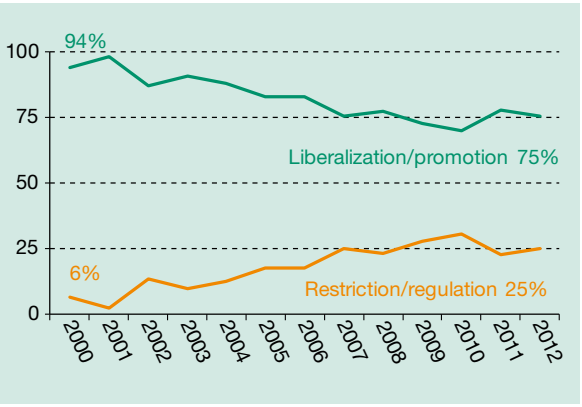
Source: UNCTAD, Investment Policy Monitor database.
[a] In some cases, the expected impact of the policy measure on the investment is undetermined.

38 per cent. The largest share of new restrictions or regulations appeared in developed countries (31 per cent), followed by developing countries (23 per cent) and transition economies (10 per cent). Although relatively small in quantity, investment restrictions and regulations particularly affected strategic industries (see section III.A.2.b).

In light of the persistent economic crisis, countries worldwide pursued FDI *liberalization policies.* These policies covered a broad range of industries, with a particular focus on services (box III.1). Privatization policies, for instance in air transportation and power generation, were an important component of this move.

Numerous countries adopted *investment promotion and facilitation* measures (box III.2). At least 16 countries introduced new investment incentive programs. Others – such as Armenia, Belarus, the Cayman Islands, Pakistan and Uzbekistan – established special economic zones (SEZs), introduced one-stop shops to attract and facilitate foreign investors (e.g. in Costa Rica and Ukraine), or supported outward investments. Several countries reduced corporate taxation rates.

Figure III.1. Changes in national investment policies, 2000–2012
(Per cent)



Source: UNCTAD, Investment Policy Monitor database.

The dominant trend of liberalizing and promoting investment contrasts with the move in several countries towards fostering a regulatory framework for investments in general (box III.3) and FDI more specifically (box III.4).

Box III.1. Examples of investment liberalization and privatization measures, 2012–2013

China raised the ownership ceiling for foreign investors in joint-venture securities firms to 49 per cent from 33 per cent.[a]

India took liberalization measures in several industries, including single- and multi-brand retail trading, power exchanges, broadcasting, civil aviation, foreign-owned non-banking financial companies, as well as in FDI to and from Pakistan.[b] It also raised the foreign ownership ceiling for FDI in asset reconstruction companies from 49 per cent to 74 per cent, subject to certain conditions.[c]

The Emirate of Dubai in the *United Arab Emirates* issued a regulation (Regulation No. 2 of 2012) expanding the area where non-UAE nationals may own real estate. According to this regulation, non-citizens are allowed to acquire a usufruct right (life interest) to property for a period not exceeding 85 years.[d]

Myanmar launched a new foreign investment law allowing 100 per cent foreign capital in businesses given permission by the Investment Commission.[e]

Portugal sold 100 per cent of the shares of ANA-Aeroportos de Portugal – the State-owned company managing Portuguese airports – to the French group Vinci Concessions SAS.[f]

Ukraine adopted a resolution to privatize six regional power companies.[g]

Source: UNCTAD, Investment Policy Monitor database. Additional examples of investment-related policy measures can be found in UNCTAD's *Investment Policy Monitors* published in 2012 and 2013.
Note: Notes appear at the end of this chapter.

Box III.2. Examples of investment promotion and facilitation measures, 2012–2013

China simplified review procedures related to capital flows and currency exchange quotas for foreign enterprises. They only need to register the relevant data with the relevant authorities; for instance, with regard to opening foreign currency accounts or reinvesting foreign exchange reserves.[a]

Costa Rica implemented a business facilitation programme that simplified the registration of companies. All formalities have been concentrated in one place and the time required to register a company has been reduced from nearly 90 days to 20 days or less.[b]

Japan adopted "Emergency Economic Measures for the Revitalization of the Japanese Economy", which, among other steps, facilitate the expansion of Japanese businesses into overseas markets.[c]

Pakistan enacted a Special Economic Zones (SEZs) Act. It allows for the establishment of SEZs anywhere in the country over a minimum area of 50 acres and offers several tax incentives to domestic and foreign investors in such zones.[d]

The Sudan ratified the Investment Act 2013, which offers tax and customs privileges in strategic industries. It also provides for the establishment of special courts to deal with investment-related issues and disputes, and offers guarantees to investors in cases of nationalization or confiscation.[e]

Source: UNCTAD, Investment Policy Monitor database. Additional examples of investment-related policy measures can be found in UNCTAD's *Investment Policy Monitors* published in 2012 and 2013.
Note: Notes appear at the end of this chapter.

Box III.3. Examples of new regulations for domestic and foreign investment, 2012–2013

Argentina established a committee to supervise investments by insurance and reinsurance companies. The measure is part of a Strategic National Insurance Plan, requiring that insurance companies use part of their invested funds for investment in the real economy.[a]

Indonesia introduced new regulations limiting private bank ownership. They restrict, in principle, ownership in new acquisitions of private banks by financial institutions to 40 per cent, by non-financial institutions to 30 per cent and by individual shareholders in conventional banks to 20 per cent.[b]

Kazakhstan approved a law that establishes the priority right of the State to take part in any new trunk pipeline built in the country, with at least a 51 per cent share.[c]

The Philippines released an executive order putting new mining contracts on hold until new legislation that modifies existing revenue-sharing schemes and mechanisms has taken effect. To ensure compliance with environmental standards, the order also requires a review of the performance of existing mining operations.[d]

Source: UNCTAD, Investment Policy Monitor database. Additional examples of investment-related policy measures can be found in UNCTAD's *Investment Policy Monitors* published in 2012 and 2013.
Note: Notes appear at the end of this chapter.

2. Industry-specific investment policies

FDI liberalization and promotion policies predominate in the services industries, while restrictive policies apply particularly in strategic industries.

Most of the investment policy measures undertaken in 2012 related to specific sectors or industries (table III.2). Almost all cross-industry measures were liberalizing and almost all restrictive measures were industry-specific.

a. Services sector

One focus of investment policies was the services sector. As in previous years, FDI liberalization and promotion policies dominated and targeted specific services, including wholesale and retail services and financial services. Between 2003 and 2012, on average approximately 68 per cent of all sector-specific liberalization and promotion policies have related to the service sector. In 2012, this development was most apparent in India, which relaxed FDI regulations in several industries (see box III.1).

Box III.4. Examples of specific FDI regulations and restrictions, 2012–2013

Benin prohibited land ownership by foreign entities, although they are still allowed to enter into long-term leases.[a]

The *Plurinational State of Bolivia* issued a decree that provided for the transfer to the State-owned Empresa Nacional de Electricidad (ENDE) of all the shares of the electricity distribution companies of La Paz (Electropaz) and Light and Power Corporation of Oruro (ELFEO SA), as well as all the shares of the management and investment service companies Business Bolivia SA (Cadeb) and Corporation Service Company (Edeser), all of which were held by Iberbolivia Investment Corporation, belonging to Iberdrola of Spain.[b] It also nationalized Bolivian Airport Services (SABSA), a subsidiary of the Spanish firms Abertis and Aena, which operated the Bolivian airports of El Alto, Cochabamba and Santa Cruz.[c]

The Government of *Canada* has clarified how it applies the Investment Canada Act to investments by foreign State-owned enterprises (SOE). In particular, it announced that it will find the acquisition of control of a Canadian oil-sands business by a foreign SOE to be of net benefit to Canada on an exceptional basis only.[d]

Hungary amended its Constitution to ensure that only citizens can purchase domestic farmland.[e]

Italy established a review mechanism for transactions involving assets of companies operating in the defence or national security sectors, as well as in strategic activities in the energy, transport and communications sectors.[f]

Source: UNCTAD, Investment Policy Monitor database. Additional examples of investment-related policy measures can be found in UNCTAD's *Investment Policy Monitors* published in 2012 and 2013.
Note: Notes appear at the end of this chapter.

b. Strategic industries

Restrictive policies vis-à-vis foreign investors were applied particularly in strategic industries, with a special focus on extractive industries. Almost 40 per cent of all industry-specific regulations and restrictions between 2000 and 2012 were targeted to extractive industries (figure III.2). Other industries frequently exposed to investment-related regulations or restrictions because of their political or economic sensitivity include, for instance, electricity, gas and water supply, and financial services. In addition, all these industries may be subject to non-industry-specific measures, such as limitations on land ownership. The real share of regulatory or restrictive measures that affect strategic or otherwise sensitive industries may therefore be higher (see also section A.3).

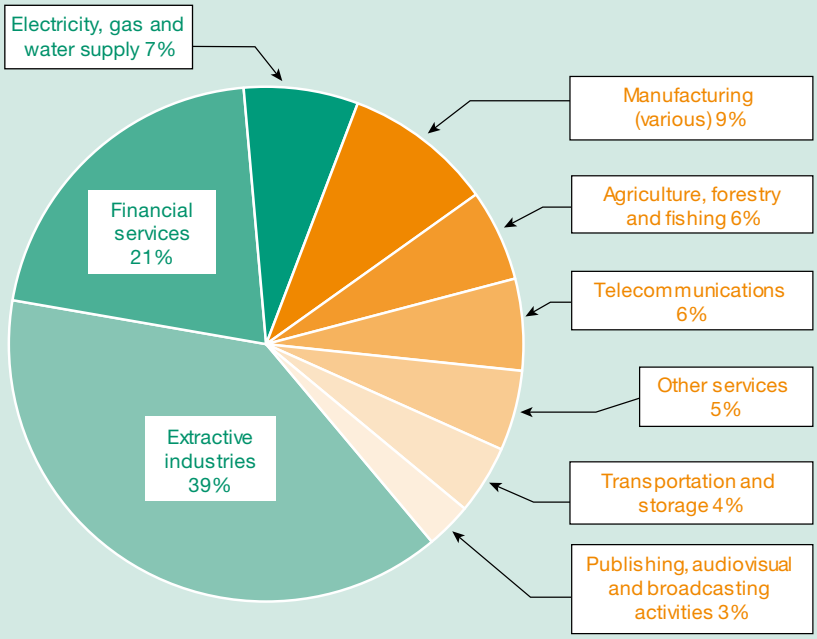
Reasons for FDI regulations in strategic industries are manifold. First, the role of FDI policies in *industrial policies* has changed. In the past, restrictive FDI policies have been applied particularly with a view to promote infant industries or for sociocultural reasons (e.g. land ownership restrictions). This relatively narrow scope has given way to a broader approach, extending nowadays to the protection of national champions, strategic enterprises and critical infrastructure.[1] Second, several countries have tightened their *national security* or *economic benefit* screening procedures for FDI, partially as a reaction to increased investment from State enterprises and sovereign wealth funds and increased FDI in natural resources (both in extractive industries and in agriculture). Third, the

Table III.2. Changes in national investment policies, 2012

Sector/industry	More favourable (%)	Less favourable (%)	Neutral/ indeter-minate (%)	Total number of measures
Total	**74**	**22**	**4**	**120**
Cross-industry	82	8	10	40
Agribusiness	60	40	0	5
Extractive industries	54	46	0	13
Manufacturing	87	13	0	16
Services (total)	70	28	2	46
Electricity, gas and water	50	50	0	10
Transport, storage and communications	85	15	0	13
Financial services	59	33	8	12
Other services	82	18	0	11

Source: UNCTAD, Investment Policy Monitor database.
Note: Because some of the measures can be classified under more than one type, overall totals differ from table III.1.

Figure III.2. Share of industries affected by restritive or regulatory measures, 2000–2012



Source: UNCTAD, Investment Policy Monitor database.

recent *economic and financial crises* may have made governments more responsive to lobbying from industry and civil society to protect the national economy from foreign competition.

3. Screening of cross-border M&As

A considerable number of cross-border M&As have been withdrawn for regulatory or political reasons, in particular during the financial crisis.

Recent years have witnessed an expansion of the role of domestic screening and monitoring mechanisms for inward FDI. While countries remain eager to attract FDI, several have become more selective in their admission procedures. An important case in point: recent policy developments with regard to cross-border M&As.

M&As can bring significant benefits to host countries in terms of transfers of capital, technology and know-how and, especially, increased potential for follow-up investments and business expansions. But M&As can also bring costs, such as a potential downgrading of local capabilities, a weakening of competition or a reduction in employment.[2] FDI policies play an important role in maximizing the benefits and minimizing the costs of cross-border M&As; for instance, through sectoral reservations, ownership regulations, size criteria, competition screening and incentives.[3]

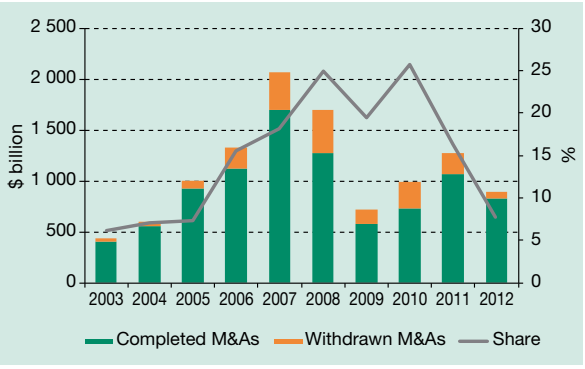
Over the past 10 years, more than 2,000 announced cross-border M&As were withdrawn. These deals represent a total gross value of $1.8 trillion, or on average almost 15 per cent of the total value of cross-border M&As per year (figure III.3).[4] The share of both the number and the value of the withdrawn deals peaked during the financial crisis.

This report analysed 211 of the largest withdrawn cross-border M&As – those with a transaction value of $500 million or more – in the period between 2008 and 2012. Within this group, announced M&As were withdrawn for a variety of reasons (figure III.4).

In most cases, plans were aborted for business considerations; for instance, because the parties could not agree on the financial conditions of the deal or because a third party outbid the potential acquirer (rival bid). Some deals were cancelled because of changes in the general economic conditions (especially in the aftermath of the financial crisis), because of legal disputes related to the planned takeover or because of difficulties in financing the acquisition.

M&As were also withdrawn because of regulatory reasons or political opposition (figure III.4). In some cases, companies did not wait for an official government decision but withdrew their bid upon receiving indications that it would not obtain approval, either for technical reasons or because of perceived general political opposition (e.g. the announced BHP Billiton–Potash Corporation M&A). Sometimes, proposed deals have been revised and then resubmitted to eventually pass the approval procedures in a subsequent round (e.g. the CNOOC–Nexen M&A). In some cases, government interventions may be influenced by a combination of regulatory and political motivations, making it difficult to assess the true motivations for the withdrawal of a deal.[5]

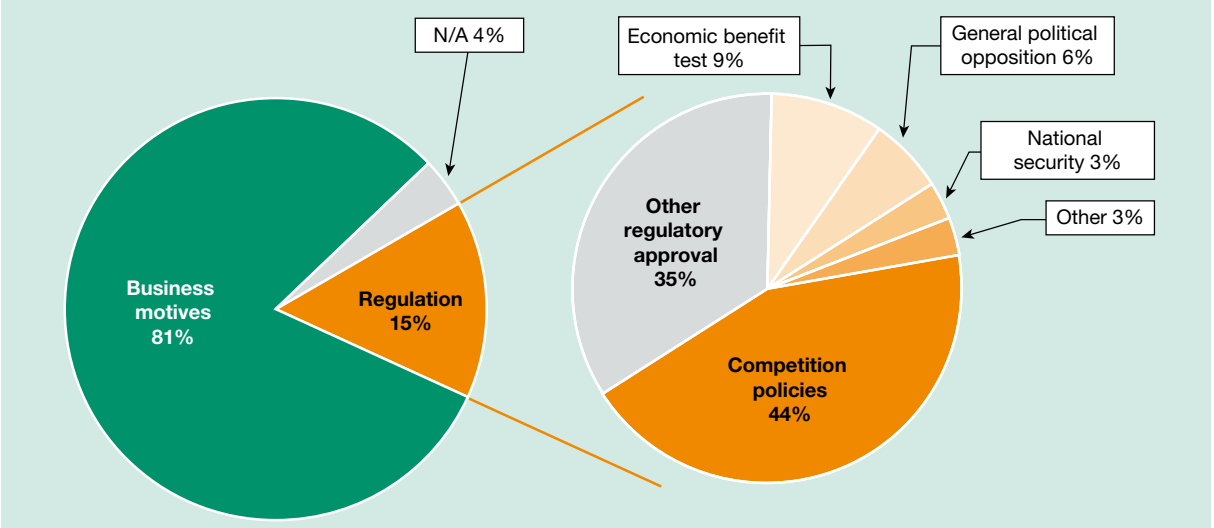
Figure III.3. Gross value of completed and withdrawn cross-border M&As and share of withdrawn M&As, 2003–2012



Source: UNCTAD, based on information from Thomson Reuters database on M&As.

Between 2008 and 2012, M&As withdrawn for regulatory reasons or political opposition had an approximate total gross value of $265 billion (figure III.5).[6] Their share among all withdrawn cross-border M&As stood at about 22 per cent in 2012, with a peak of over 30 per cent in 2010, showing the impact of the financial crisis on governments' regulatory and political stance on cross-border takeovers. Even though the value of withdrawn

Figure III.4. Reasons for withdrawn cross-border M&As, 2008–2012



Source: UNCTAD, based on information from Thomson Reuters database on M&As and various news sources.
Note: Based on number of deals with a value of $500 million or more. The seven separate M&A deals related to the withdrawn Chinalco–Rio Tinto deal are combined here into one.

deals dropped in 2012, their share of all withdrawn cross-border M&As remains relatively high.

The main industry from which M&As were withdrawn during this period was the extractive industry (figure III.6) (e.g. the Chinalco–SouthGobi Resources, BHP Billiton–Potash Corporation, and Chinalco–Rio Tinto M&As). Other key industries targeted include manufacturing, financial services and telecommunications (e.g. the Deutsche Boerse–NYSE Euronext, Singapore Exchange–ASX, and the MTN Group–Bharti Airtel M&As).

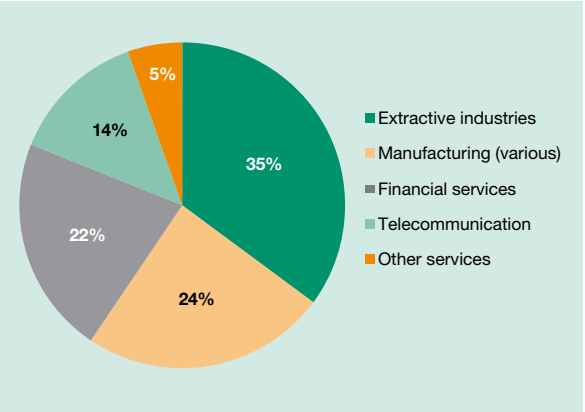
With respect to the countries of the targeted companies, Australia, the United States and Canada constitute the top three – both in number of deals withdrawn and in the value of those deals (table III.3). They are also the top three home countries of companies pursuing deals that were withdrawn because of regulatory reasons or political opposition.

Policy instruments for reviewing and rejecting M&As are manifold. Two basic categories can be distinguished – those applying to M&As irrespective of the nationality of the acquiring company and those applying only to foreign investors (table III.4). The most important example of the first category is competition policy. Competition rules may not only apply to planned M&As in the host country, but extend to M&As in third countries that affect the domestic market (e.g. the Gavilon takeover by Marubeni described in box III.5).[7] Other examples are rules that govern the transferability of shares or the issuance of "golden shares", giving the owner (often the State) voting powers disproportionate to the value of the shares, which can be used to block a hostile takeover, be it domestic or foreign.[8]

Examples of the second category include, in particular, foreign ownership ceilings and domestic screening procedures related to national security considerations, industrial policy objectives or national benefit tests. Countries may also have special screening rules for *individual types of foreign investors*, such as State-owned enterprises, or for *individual investment activities* (e.g. in critical infrastructure). Screening procedures may require a *positive contribution* from the investor to the host economy in order to get the deal approved, or they may require merely that the proposed M&A not have a *negative impact* in the host country.

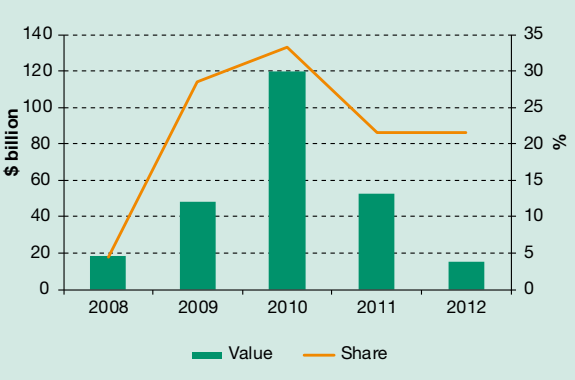
In addition to disapproving M&As, host countries may impose certain conditions before allowing them. This approach is often used in competition policies but may also play a role in other areas; for instance, in the framework of an economic benefits test (box III.5).

Figure III.6. Sectoral distribution of withdrawn cross-border M&As for regulatory reasons or political opposition, 2008–2012



Source: UNCTAD, based on information from Thomson Reuters database on M&As.
Note: Based on number of deals with a value of $500 million or more.

Figure III.5. Gross value of cross-border M&As withdrawn for regulatory reasons or political opposition and their share in the total value of withdrawn cross-border M&As, 2008–2012



Source: UNCTAD, based on information from Thomson Reuters database on M&As.
Note: Based on deals with a value of $500 million or more. In 2010 BHP Billiton withdrew its agreement to merge its Western Australian iron ore assets with the Western Australian iron ore assets of Rio Tinto to form a joint venture in a transaction valued at $58 billion.

Table III.3. Top 10 target and home countries of cross-border M&As withdrawn for regulatory reasons or political opposition, by value, 2008–2012

Rank	Target country			Home country		
	Country/economy	Total value ($ billion)	Number of deals	Country/economy	Total value ($ billion)	Number of deals
1	Australia	87.8	8	Australia	112.9	5
2	United States	54.5	7	United States	47.1	7
3	Canada	43.8	4	China	23.6	5[a]
4	Hungary	15.8	1	Austria	15.8	1
5	South Africa	11.4	1	India	11.4	1
6	India	8.8	1	Germany	10.2	1
7	United Kingdom	6.7	1	South Africa	8.8	1
8	Taiwan Province of China	5.6	3	Singapore	8.3	1
9	Hong Kong, China	4.1	3	France	6.1	1
10	Switzerland	4.0	2	Hong Kong, China	2.2	1

Source: UNCTAD, based on information from Thomson Reuters database on M&As.
Note: Based on deals with a value of $500 million or more.
[a] Combines the seven separate M&A deals related to the withdrawn Chinalco–Rio Tinto deal into one.

There are also *informal* instruments with which a government can hinder unwelcome foreign takeovers. Governments may put political pressure on potential foreign acquirers to prevent an M&A, for instance by indicating that the company will face an unfavourable domestic environment if the deal goes through, or may block an unwelcome foreign takeover by finding a "friendly" domestic buyer (a "white knight"). Another tactic is delay, for instance by establishing new or tightening existing regulatory requirements for the tender or by providing financing only to domestic bidders. Governments may also choose to support the merger of two domestic companies into a new entity that is "too big to be taken over" by foreign firms.[9] By using these informal instruments, governments enter a grey zone where it is difficult to challenge government actions in the courts.

Finally, there are recent examples of "post M&A" government policies aimed at reversing a foreign acquisition. In some cases, host governments nationalized companies after their acquisition by foreign investors; in other cases, governments purchased the foreigners' shares or introduced policies that negatively affected the operating conditions of foreign-owned companies.

Table III.4. Policy instruments affecting cross-border M&As

Applying only to foreign investors	Applying to both foreign and domestic investors
Formal	**Formal**
1. Ownership ceilings	1. Screening competition authority
2. FDI screening - National security - Economic benefit - Other screening (e.g. critical infrastructure)	2. Rules on transferability of shares (e.g. "poison pill", mandatory takeover) 3. "Golden share" options
Informal	
1. Delaying takeover procedures foreign acquisition	
2. Financial support of domestic companies	
3. Promotion of domestic mergers	
4. Political pressure	

Source: UNCTAD.

Box III.5. Examples of cross-border M&As disapproved by governments or approved only under conditions, 2008–2012

In recent years, governments reviewed a considerable number of cross-border M&As for regulatory reasons related to e.g. competition policies, economic benefit tests and national security. Some of the decisions applied to M&As that were planned in third countries, meaning that policies were applied with extraterritorial effect.

Deutsche Boerse–NYSE Euronext (2012)
Regulators in the European Union vetoed the plan by Deutsche Boerse AG and NYSE Euronext to create the world's biggest exchange, after concluding that the merger would hurt competition.[a]

Singapore Exchange–ASX (2011)
The Australian Government rejected a major foreign takeover on national interest grounds for the first time since 2001, when it blocked Royal Dutch Shell's bid for Woodside Petroleum. The Australian Treasurer said the deal would have diminished Australia's economic and regulatory sovereignty, presented material risks and supervisory issues because of ASX's dominance over clearing and settlement, and failed to boost access to capital for Australian businesses.[b]

BHP Billiton–Potash Corporation (2010)
In November 2010, the Minister of Industry rejected BHP Billiton's proposed $38.6 billion acquisition of Potash Corp. as it did not show a "net benefit" to Canada, as required under foreign investment regulations. Although BHP had 30 days to come up with a proposal that would satisfy Ottawa, the company instead chose to withdraw its takeover offer. [c]

PETRONAS–Progress (2012)
The Minister of Industry of Canada approved the acquisition of the Canadian company Progress Energy Resources Corporation by PETRONAS Carigali Canada Ltd. (owned by the national oil and gas company of Malaysia). The Ministry announced that the investment is likely to be of net benefit to Canada after PETRONAS made significant commitments in relation to its governance and commercial orientation as well as to employment and capital investments that demonstrated a long-term commitment to the development of the Canadian economy.[d]

Marubeni–Gavilon (2012)
The Ministry of Commerce of China approved the acquisition of the United States grain supplier Gavilon Group LLC by the Marubeni Corporation of Japan, after imposing significant conditions in the Chinese soyabean market, including that Marubeni and Gavilon continue selling soya to China as separate companies, with different teams and with firewalls between them blocking the exchange of market intelligence.[e]

Rhodes–Del Monte (2011)
The Competition Commission of South Africa approved the acquisition by Rhodes Food Group of the business of its competitor Del Monte Fruits with behavioural conditions that addressed employment issues. Otherwise, the merged entity would have had a negative effect on employment as about 1,000 seasonal employees could have lost their jobs during the next canning season.[f]

Alliant Techsystems–Macdonald Dettwiler (2008)
MacDonald Dettwiler and Associates, a Canadian aerospace, information services and products company, tried to sell its Information Systems and Geospatial Services operations to Alliant Techsystems (United States). The Government of Canada rejected the sale on national security grounds related to the company's Radarsat-2 satellite.[g]

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

4. Risk of investment protectionism

As government regulation, screening and monitoring grow, so does the risk that such measures can hide protectionist aims.

As countries make more use of industrial policies, tighten screening and monitoring procedures, closely scrutinize cross-border M&As and become more restrictive with regard to the degree of FDI involvement in strategic industries, the risk that some of these measures are taken for protectionist purposes grows.[10] With the emergence and rapid expansion of international production networks, protectionist policies can backfire on all actors, domestic and foreign, in such value chains (see also chapter IV).

In the absence of a commonly recognized definition of "investment protectionism", it is difficult to clearly identify measures of a protectionist nature among

investment regulations or restrictions.[11] Countries may have good reasons for restraining foreign investment. Restrictive or selective FDI policies have been recognized as potentially important elements of a development strategy and often are used for specific public policy purposes. National security considerations may also justify FDI restrictions. The problem is that what may be a legitimate reason to restrict investment for one country may not be justifiable in the view of others.

Efforts should be undertaken at the international level to clarify the meaning of "investment protectionism", with a view to establishing a set of criteria for identifying protectionist measures against foreign investment. Fact-finding endeavours could build upon UNCTAD's *Investment Policy Monitor* publications, which regularly report on developments in national and international investment policies, and the biannual UNCTAD-OECD reports on investment measures by G-20 countries.

At the national level, technical assistance can help promote quality regulation rather than overregulation. With regard to FDI policies, this means that a country's specific public policy needs should be the main guidance for the design and scope of restrictions. The non-discrimination principle included in most IIAs provides an additional benchmark for assessing the legitimacy of investment restrictions. It would also be helpful to consider extending the G-20's commitment to refrain from protectionism – and perhaps also expanding the coverage of monitoring to the whole world.

UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) can serve as a point of reference. The IPFSD – which consists of a set of Core Principles for investment policymaking, guidelines for national investment policies and options for the design of IIAs – calls for an open and welcoming investment climate, while recognizing the need of governments to regulate investment for the common good (*WIR12*).

B. INTERNATIONAL INVESTMENT POLICIES

1. Trends in the conclusion of IIAs

a. *Continued decline in treaty-making*

Although the IIA universe continues to expand and numerous negotiations are under way, the annual treaty tally has dropped to an all-time low.

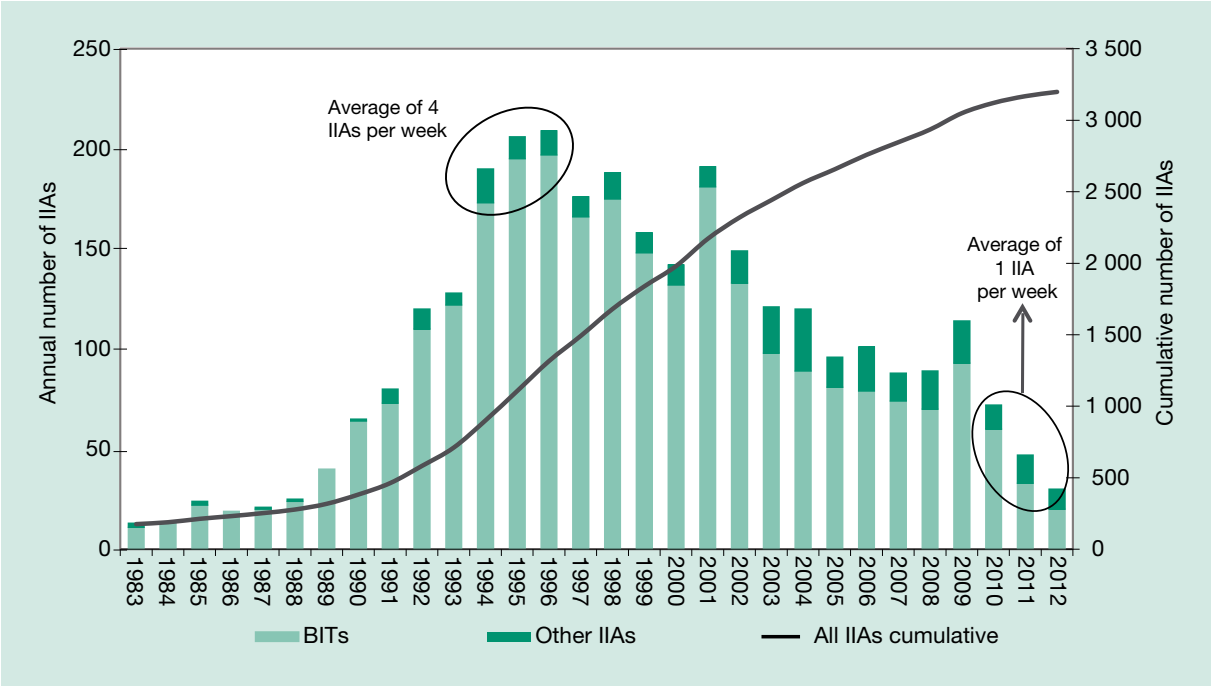
Last year saw the conclusion of 30 IIAs (20 BITs and 10 "other IIAs"[12]), bringing the total to 3,196 (2,857 BITs and 339 "other IIAs") by year-end (see annex table III.1 for a list of each country's total number of BITs and "other IIAs"). BIT-making bottomed out in 2012, with only 20 BITs signed – the lowest annual number in a quarter century.

This slowdown is revealed distinctly in multi-year period comparisons (figure III.7). From 2010 to 2012, on average one IIA was signed per week. This was a quarter of the frequency rate during the peak period in the 1990s, when an average of four treaties were concluded per week.

Of the 10 "other IIAs" concluded in 2012, eight were regional agreements. Whereas BITs largely resemble each other, "other IIAs" differ substantially. The agreements concluded in 2012 can be grouped into three broad categories, as identified in *WIR 2010* (chapter III.B):

- *IIAs with BIT-equivalent provisions.* The Australia–Malaysia Free Trade Agreement (FTA) and the China–Japan–Republic of Korea investment agreement fall in the category of IIAs that contain obligations commonly found in BITs, including substantive standards of investment protection and provisions for investor–State dispute settlement (ISDS).

Figure III.7. Trends in IIAs, 1983–2012



Source: UNCTAD.

- *IIAs with limited investment provisions.* The EU agreements with Peru and Colombia, Iraq, and the Central American States contain limited investment provisions (e.g. pre-establishment national treatment based on a positive-list approach, free movement of capital relating to direct investments). The Chile–Hong Kong (China) FTA also belongs in this category (e.g. national treatment for the establishment of companies, services and service suppliers, including in the financial sector, according to each party's schedule).
- *IIAs with investment cooperation provisions and/or a future negotiating mandate.* The Gulf Cooperation Council (GCC) Framework Agreements with Peru and the United States, the EU–Viet Nam Framework Agreement and the Pacific Alliance Framework Agreement (Chile, Colombia, Mexico and Peru) fall in the third category. These agreements contain general provisions on cooperation in investment matters and/or a mandate for future negotiations on investment.

b. Factoring in sustainable development

New IIAs illustrate the growing tendency of policymakers to craft treaties in line with sustainable development objectives.

A perusal of the content of the 17 IIAs concluded in 2012 for which texts are available shows that they increasingly include sustainable-development-oriented features.[13] Of these IIAs, 12 (including 8 BITs) refer to the protection of health and safety, labour rights, environment or sustainable development in their preamble; 10 (including 6 BITs) have general exceptions – e.g. for the protection of human, animal or plant life or health, or the conservation of exhaustible natural resources;[14] and 7 (including 4 BITs) contain clauses that explicitly recognize that parties should not relax health, safety or environmental standards to attract investment. References to CSR occur less frequently but can be found in the "trade and sustainable development" chapter of the EU–Colombia–Peru FTA and in the preamble of

the China–Japan–Republic of Korea investment agreement (see annex table III.2 for details).

These sustainable development features are supplemented by treaty elements that aim more broadly to preserve regulatory space for public policies in general or to minimize exposure to investment litigation in particular. The analysed agreements include provisions that (i) focus the treaty scope narrowly (e.g. by excluding certain assets from the definition of investment), (ii) clarify obligations (by crafting detailed clauses on fair and equitable treatment or indirect expropriation); (iii) set forth exceptions to the transfer-of-funds obligation or carve-outs for prudential measures; or (iv) carefully regulate access to ISDS (clauses that, e.g. limit treaty provisions that are subject to ISDS, exclude certain policy areas from ISDS, set out a special mechanism for taxation and prudential measures, or restrict the allotted time period within which claims can be submitted). Some agreements leave out umbrella clauses or omit ISDS altogether.

All of the 17 IIAs signed in 2012 for which texts were available included one or more provisions along these lines. Many of these provisions correspond to policy options featured in UNCTAD's Investment Policy Framework for Sustainable Development or IPFSD, set out in chapter IV of *WIR12*.

2. Trends in the negotiation of IIAs

a. Regionalism on the rise

More than 110 countries involved in 22 negotiations.

The importance of regionalism, evident from the fact that 8 of the 10 "other IIAs" concluded in 2012 were regional ones, is also manifest in current negotiations. By 2013 at least 110 countries were involved in 22 negotiations.[15] Regional and inter-regional investment treaty-making involving more than two parties can take different forms – notably, negotiations within a regional grouping, negotiations between a regional bloc and a third country, or negotiations between like-minded countries. Some of the regional investment policy developments are described below.

Asia

On 22 November 2012, ASEAN officially launched negotiations with Australia, China, India, Japan, New Zealand and the Republic of Korea on a Regional Comprehensive Economic Partnership Agreement (RCEP). The RCEP seeks to create a liberal, facilitative and competitive investment environment in the region. Negotiations on investment under the RCEP will cover the four pillars of promotion, protection, facilitation and liberalization, based on its Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership.[16] The RCEP agreement will be open for accession by any ASEAN FTA partner that did not participate in the RCEP negotiations and any other partner country after the conclusion of the RCEP negotiations.

On 20 December 2012, ASEAN and India concluded negotiations on trade in services and on investment. The ASEAN–India Trade in Services and Investment Agreements were negotiated as two stand-alone treaties pursuant to the 2003 Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India. The agreements are expected to complement the already signed FTA in goods.[17]

Latin America

In 2012, Chile, Colombia, Mexico and Peru signed a framework agreement that established the Pacific Alliance as a deep integration area – an initiative launched in 2011.[18] In line with the mandate established therein, negotiations continue for the free movement of goods, services, capital and people and the promotion of investment on the basis of the existing trade and investment frameworks between the parties. The investment negotiations emphasize objectives to attract sustainable investment and address novel elements such as responsible investment and CSR.

Africa

Negotiations towards the creation of a free trade area between the Southern African Development Community, the East African Community and the Common Market for Eastern and Southern Africa (COMESA) picked up momentum in 2012 with the establishment of the Tripartite Trade Negotiation

Forum, the body responsible for technical negotiations and guided by the road map adopted for the negotiations. Investment talks are scheduled as part of the second phase of negotiations, envisaged to commence in the latter half of 2014.[19]

Europe

In Europe, regional treaty-making activity is dominated by the European Union (EU), which negotiates as a bloc with individual countries or other regions.[20] Most of the recently launched negotiations encompass investment protection and liberalization. This is in line with the shift of competence over FDI from Member States to the EU after the entry into force in December 2009 of the Lisbon Treaty (*WIR10*, *WIR11*). Since new EU-wide investment treaties will eventually replace BITs between the EU Member States and third parties, these negotiations will contribute to a consolidation of the IIA regime (see section 2.2).

(i) Recently launched negotiations[21]

On 1 March 2013, the EU and Morocco launched negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA). Morocco is the first Mediterranean country to negotiate a DCFTA with the EU that includes investment. Negotiations with Egypt, Jordan and Tunisia are expected to follow.[22]

On 6 March 2013, FTA negotiations between the EU and Thailand were officially launched. In addition to investment liberalization, negotiations will also cover tariff reduction, non-tariff barriers and other issues, such as services, procurement, intellectual property, regulatory issues, competition and sustainable development.[23]

On 12 March 2013, the European Commission requested Member States' approval to start negotiations towards a Transatlantic Trade and Investment Partnership (TTIP) with the United States.[24] Besides investment, the TTIP is expected to include reciprocal market opening in goods and services and to foster the compatibility of regulatory regimes. With respect to investment, the EU–United States High-Level Working Group on Jobs and Growth has recommended that the future treaty include investment liberalization and protection provisions based on the highest levels of liberalization and protection standards that both sides have negotiated to date.[25] It also recommended "that the two sides explore opportunities to address these important issues, taking into account work done in the Sustainable Development Chapter of EU trade agreements and the Environment and Labor Chapters of U.S. trade agreements".[26]

On 25 March 2013, the EU and Japan officially launched negotiations for an FTA.[27] Both sides aim to conclude an agreement covering the progressive and reciprocal liberalization of trade in goods, services and investment, as well as rules on trade-related issues.[28]

(ii) Ongoing negotiations[29]

The EU is negotiating a Comprehensive Economic and Trade Agreement (CETA) with Canada. The CETA will likely be the first EU agreement to include a substantive investment protection chapter (adopting the post-Lisbon approach).[30]

Following the conclusion of free trade negotiations between the EU and Singapore in December 2012, the two sides are pursuing talks on a stand-alone investment agreement – again, based on the new EU competence under the Lisbon Treaty.[31] The FTA between the EU and India, under negotiation since 2007, is expected to include a substantive investment protection chapter (also following the post-Lisbon approach).[32]

EU negotiations with Armenia, Georgia and the Republic of Moldova are under way and address establishment-related issues, among other elements. In addition, negotiations to strengthen investment-related provisions in existing partnership and cooperation agreements are under way with Azerbaijan, Kazakhstan and China.[33]

Interregional negotiations

In terms of interregional negotiations – i.e. those conducted between numbers of individual countries from two or more geographical regions – discussions on the Trans-Pacific Partnership Agreement (TPP) continued, with the 17th negotiation round concluded in May 2013.[34] As of May 2013, 11 countries were participating in the negotiations – namely Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam.

Japan officially declared its intention to join the TPP negotiations on 13 March 2013, and Thailand has also expressed its interest in joining. The agreement is expected to include a fully fledged investment chapter containing typical standards of investment liberalization and protection.

In North Africa and the Middle East, Arab countries are expected to continue discussions and negotiations on a revised Unified Agreement for the Investment of Arab Capital in the Arab States. A draft text was adopted early in 2013, ensuring free movement of capital and providing national treatment and most-favoured-nation (MFN) status to investments.

Progress in 2013 is also expected in the interregional negotiations between the EU and MERCOSUR (the Mercado Común del Sur), which were first launched in 2000. Those negotiations had stalled for several years, but were relaunched in May 2010 at the EU–LAC Summit in Madrid.[35]

In the context of the World Trade Organization (WTO), a new, informal group of WTO Members, spurred by the WTO Doha Round impasse, is discussing a Trade in Services Agreement. Twenty-two WTO Members, also known as the "Real Good Friends of Services",[36] are participating in the talks.[37] The proposed agreement builds on the WTO General Agreement on Trade in Services (GATS) and targets liberalization commitments beyond those currently prevailing under the GATS.[38] The scheduling of market access obligations is envisaged to follow the format generally used by WTO Members under the GATS, based on a "positive-list approach".[39] In contrast, national treatment commitments are intended to apply across all service sectors, combined with "standstill" and "ratchet" obligations, which may be subject to reservations. Although the new trade in services agreement will address all four modes of trade in services, particular attention is said to be given to mode 3 (commercial presence, akin to investment). Accordingly, some stakeholders explicitly refer to the investment dimension of the current discussions.[40] Negotiating Members hope to eventually multilateralize the results of the negotiations, if a critical mass of WTO Members can be convinced to participate.

As governments continue concluding BITs and "other IIAs" with the support of business and the private sector, other stakeholders are voicing different opinions about the costs and benefits of IIAs, and the optimal future orientation of such agreements (*WIR11*, chapter III). The past 12 months have witnessed numerous expressions of opposition to ongoing IIA negotiations around the globe.

Examples include lawyers based in Australia, New Zealand and the United States urging TPP negotiators to abandon plans to include ISDS;[41] the Citizens Trade Campaign, representing 400 labour, consumer and environmental groups, petitioning the United States Congress about multiple perceived rights-infringing aspects of the TPP and other 21st century agreements;[42] 13 Thai groups, representing environmental and consumer interests, urging to rethink Thailand's position on joining the TPP negotiations;[43] more than 80 civil society organizations from nine countries issuing a statement opposing "excessive corporate rights" in the CETA;[44] a coalition of Indian and European non-government organizations[45] and European parliamentarians[46] opposing the investment chapter of the EU–India FTA; the Hupacasath First Nation challenging in Canadian courts the recently signed Canada–China BIT, alleging that the government had failed to fulfil its constitutional obligation to consult First Nations on this agreement and claiming that it would adversely impact First Nations' rights.[47]

b. Systemic issues arising from regionalism

Although regionalism provides an opportunity to rationalize the IIA regime, the current approach risks adding a layer of complexity.

The current IIA regime is known for its complexity and incoherence, gaps and overlaps. Rising regionalism in international investment policymaking presents a rare opportunity to rationalize the regime and create a more coherent, manageable and development-oriented set of investment policies. In reality, however, regionalism is moving in the opposite direction, effectively leading to a multiplication of treaty layers, making the network of international investment obligations even more complex and prone to overlap and inconsistency.

An analysis of 11 regional IIAs signed between 2006 and 2012 reveals that most treaties do not provide for the phasing out of older BITs. Instead, most treaty provisions governing the relationship between regional agreements and other (investment) treaties allow for the continuing existence of the BITs in parallel with the regional treaty (table III.5).

Regional IIAs use different language to regulate the relationship between prior BITs and the new treaty. Some expressly confirm parties' rights and obligations under BITs, which effectively means that the pre-existing BITs remain in force. This is done, for example, by referring to an annexed list of BITs (e.g. the Consolidated European Free Trade Agreement, or CEFTA) or to all BITs that exist between any parties that are signatories to the regional agreement (e.g. China–Japan–Republic of Korea investment agreement). Some IIAs include a more general provision reaffirming obligations under *any* agreements to which "a Party" is party (e.g. the ASEAN Common Investment Area, as well as agreements between ASEAN and China, and ASEAN and the Republic of Korea).

Another group of regional IIAs includes clauses reaffirming obligations under agreements to which "the Parties" are party (e.g. the ASEAN–Australia–New Zealand FTA, CAFTA, and COMESA). This ambiguous language leaves open the question of whether prior BITs remain in force and will co-exist with the regional IIAs.[48]

A regional agreement can also provide for the replacement of a number of prior IIAs, as is the case with the Central America–Mexico FTA, [49] or they can simply remain silent on this issue. In the latter scenario, the rules of the Vienna Convention on the Law of Treaties[50] on successive treaties that relate to the same subject matter could help to resolve the issue.

The parallel existence of such prior BITs and the more recent regional agreements with investment provisions has systemic implications and poses a number of legal and policy questions. For example, parallelism raises questions about how to deal with possible inconsistencies between the treaties. While some IIAs include specific "conflict rules", stating which treaty prevails in the case of an inconsistency,[51] others do not. In the absence of such a conflict rule, the general rules of international law enshrined in the Vienna Convention on the Law of Treaties (notably, the "lex posterior" rule) apply. Next, parallelism may pose a challenge in the context of ISDS. Parallel IIAs may create situations in which a single government measure could be challenged by the same foreign investor twice, under two formally different legal instruments.

Parallelism is also at the heart of systemic problems of overlap, inconsistency and the concomitant lack of transparency and predictability arising from a multi-faceted, multi-layered IIA regime. It adds yet another layer of obligations and further complicates

Table III.5. Relationship between regional and bilateral IIAs (illustrative)

Regional Agreement	Affected bilateral treaties	Relationship	Relevant article
ASEAN Comprehensive Investment Agreement (2009)	26	Parallel	Article 44
COMESA Common Investment Area (CCIA) (2007)	24	Parallel[a]	Article 32
SADC Protocol on Finance and Investment (2006)	16	Silent	N.A.
Consolidated Central European Free Trade Agreement (CEFTA) (2006)	11	Parallel	Article 30
ASEAN–China Investment Agreement (2009)	10	Parallel	Article 23
Eurasian Economic Community investment agreement (2008)	9	Silent	N.A.
ASEAN–Republic of Korea Investment Agreement (2009)	8	Parallel	Article 1.4
Dominican Republic–Central America–United States FTA (CAFTA) (2004)	4	Parallel[a]	Article 1.3
Central America–Mexico FTA (2011)	4	Replace	Article 21.7
China–Japan–Republic of Korea investment agreement (2012)	3	Parallel	Article 25
ASEAN–Australia–New Zealand FTA (2009)	2	Parallel[a]	Article 2 (of chapter 18)

Source: UNCTAD.
Note: All except CEFTA include substantive and procedural investment protection provisions as commonly found in BITs. (CEFTA contains some BIT-like substantive obligations but no ISDS mechanism.)
[a] The language of the relevant provision leaves room for doubt as to whether it results in the parallel application of prior BITs and the regional IIA.

countries' ability to navigate the complex spaghetti bowl of treaties and pursue a coherent, focused IIA strategy.

Current regional negotiations present an opportunity to consolidate the IIA regime.

Although parallelism appears to be the prevalent approach, current regional IIA negotiations nevertheless present a window of opportunity to consolidate the existing network of BITs. Nine current regional negotiations that have BIT-type provisions on the agenda may potentially overlap with close to 270 BITs, which constitute nearly 10 per cent of the global BIT network (table III.6). The extent to which parties opt to replace *several* existing BITs with an investment chapter in *one* regional agreement could help consolidate the IIA network.

Such an approach is already envisaged in the EU context, where Regulation 1219/2012, adopted in December 2012, sets out a transitional arrangement for BITs between EU Member States and third countries. Article 3 of the Regulation stipulates that "without prejudice to other obligations of the Member States under Union law, bilateral investment agreements notified pursuant to article 2 of this Regulation may be maintained in force, or enter into force, in accordance with the [Treaty on the Functioning of the European Union] and this Regulation, *until a bilateral investment agreement between the Union and the same third country enters into force*." (Italics added.)

3. IIA regime in transition

a. Options to improve the IIA regime

Interpretation, revision, replacement, termination – they all offer opportunities to improve the IIA regime.

Many countries have accumulated a stock of older BITs that were concluded in the 1990s, before the rise of ISDS cases prompted a more cautious approach. The risks exposed by this growing number of disputes, together with countries' desire to harness the sustainable development contribution of foreign investment, has led to the emergence of "new generation" IIAs (*WIR12*). The desire to move towards a more sustainable regime has precipitated a debate about possible ways to reform the IIA regime.

Countries have several avenues for taking preemptive or corrective action, depending on the depth of change they wish to achieve:

Interpretation. As drafters and masters of their treaties, States retain interpretive authority over them. While it is the task of arbitral tribunals to rule on ISDS claims and interpret and apply IIAs to this end, the contracting States retain the power to *clarify* the meaning of treaty provisions through authoritative interpretations – stopping short, however, of attaching a *new* or *different* meaning to treaty provisions that would amount to their amendment.[52] The interpretative statement issued

Table III.6. Regional initiatives under negotiation and existing BITs between the negotiating parties (illustrative)

Regional initiative	Existing BITs between negotiating parties
Inter-Arab investment draft agreement	96
Regional Comprehensive Economic Partnership Agreement (RCEP) between ASEAN and Australia, China, India, Japan, New Zealand and the Republic of Korea	68
Comprehensive Economic and Trade Agreement (CETA)	23
Trans-Pacific Partnership Agreement (TPP)	21
EU–India FTA	20
EU–Morocco Deep and Comprehensive Free Trade Area (DCFTA)	12
EU–Singapore FTA	12
EU–Thailand FTA	8
EU–United States Transatlantic Trade and Investment Partnership (TTIP)	8

Source: UNCTAD.
Note: These nine regional negotiations cover investment protection issues as currently addressed in BITs.

by the NAFTA Free Trade Commission (clarifying among other things the "minimum standard of treatment") is an example of this approach.[53]

Revision. Revision can be pursued through amendments that are used to modify or suppress existing provisions in a treaty or to add new ones. Amendments are employed when the envisaged changes do not affect the overall design and philosophy of the treaty and, usually, are limited in number and length. Amendments require the consent of all contracting parties, often take the form of a protocol to the treaty and typically require domestic ratification. An example is the amendment of 21 BITs by the Czech Republic, following its accession to the EU in May 2004, which was aimed at ensuring consistency between those BITs and EU law with regard to exceptions to the free transfer-of-payments provision.

Replacement. Replacement can be done in two ways. First, a BIT might be replaced with a new one as a result of a renegotiation (i.e. conclusion of a new treaty between the same two parties).[54] Second, one or several BITs can be replaced through the conclusion of a new plurilateral/regional agreement. The latter case leads to the consolidation of the IIA network if *one* new treaty replaces several old ones, entailing a reduction in the overall number of existing treaties. One of the few examples of this second approach is the Central America–Mexico FTA, which provides for the replacement of a number of FTAs; i.e. the FTAs between Mexico and Costa Rica (1994); Mexico and El Salvador, Guatemala and Honduras (2000); and Mexico and Nicaragua (1997) (see section B.2.1).

Termination. A treaty can be terminated unilaterally or by mutual consent. The Vienna Convention allows parties to terminate their agreement by mutual consent at any time.[55] Rules for unilateral treaty termination are typically set out in the BIT itself.[56] Treaty termination may result from a renegotiation (replacing the old BIT with a new one). It can also be done with the intent to relieve respective States of their treaty commitments (eliminating the BIT). Furthermore, a *notice* of termination can be an attempt to bring the other contracting party back to the negotiation table. Countries that have terminated their BITs include the Bolivarian Republic of Venezuela (denouncing its BIT with the Netherlands in 2008), Ecuador (denouncing nine of its BITs in 2008),[57] the Plurinational State of Bolivia (denouncing its BIT with the United States in 2011) and South Africa (denouncing one BIT in 2012). Countries wishing to unilaterally terminate their IIAs – for whatever reason – need to have a clear understanding of the relevant treaty provisions (box III.6), as well as the implications of such actions.

Depending on their IIA strategy (see section E.1. of the IPFSD) and the degree of change they wish to achieve, countries may wish to carefully consider options appropriate to reach their particular policy goals and accordingly adapt tools to implement them. To the extent that contracting parties embark on changes by mutual consent, the range of options is vast and straightforward. The situation becomes more complex, however, if only one party to an IIA wishes to amend, renegotiate or terminate the treaty.

b. Treaty expirations

By the end of 2013, more than 1,300 BITs will have reached their "anytime termination stage".

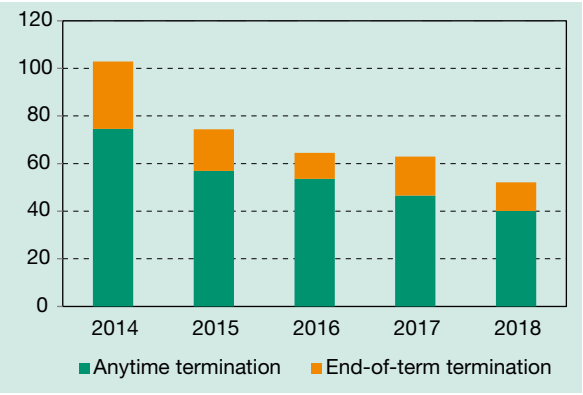
BIT-making activity peaked in the 1990s. Fifteen years on, the inclination to enter into BITs has bottomed out. This has brought the IIA regime to a juncture that provides a window of opportunity to effect systemic improvement.[58] As agreements reach their expiry date, a treaty partner can opt for automatic prolongation of the treaty or notify its wish to revoke a treaty.[59] The latter option gives treaty partners an opportunity to revisit their agreements, with a view to addressing inconsistencies and overlaps in the multi-faceted and multi-layered IIA regime. Moreover, it presents the opportunity to strengthen its development dimension.

In September 2012, South Africa informed the Belgo–Luxembourg Economic Union, through a notice of termination, that it would not renew the existing BIT, which was set to expire in March 2013. South Africa further stated its intent to revoke its BITs with other European partners, as most of these treaties were reaching their time-bound window for

termination which, if not used, would trigger the automatic extension of these agreements for 10 years or more.[60]

The significant number of expired or soon-to-expire BITs creates distinct opportunities for updating and improving the IIA regime. Between 2014 and 2018, at least 350 BITs will reach the end of their initial duration. In 2014 alone, the initial fixed term of 103 BITs will expire (figure III.9). After reaching the end of the initial fixed term, most BITs can be unilaterally terminated at any time by giving notice ("anytime termination"); the minority of BITs – if not terminated at the end of the initial term – are extended for subsequent fixed terms and can be unilaterally terminated only at the end of each subsequent term ("end-of-term termination") (see box III.6).

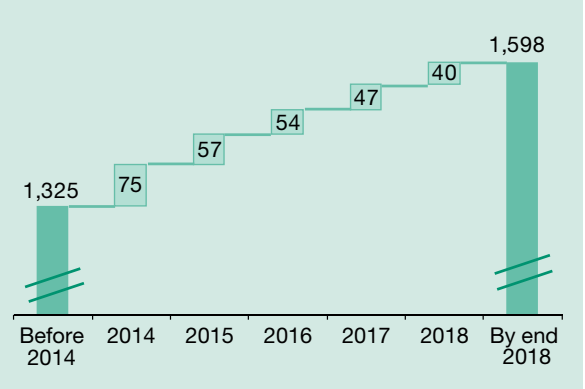
Figure III.8. BITs reaching the end of their initial term, 2014–2018



Source: UNCTAD.
Methodology: Data for BITs in force; derived from an examination of BITs for which texts were available, extrapolated to BITs for which texts were unavailable. Extrapolation parameters were obtained on the basis of a representative sample of more than 300 BITs.

The great majority of BITs set the initial treaty term at 10 years or 15 years, and about 80 per cent of all BITs provide for the "anytime termination" approach after the end of the initial term. Given that a large proportion of the existing BITs were signed in the 1990s and that most of them have reached the end of their initial period, the overall number of BITs that can be terminated by a party at any time is estimated to exceed 1,300 by the end of 2013. This number will continue to grow as BITs with the "anytime termination" option reach their expiry dates (figures III.8 and III.9).

Figure III.9. Cumulative number of BITs that can be terminated or renegotiated at any time



Source: UNCTAD.
Methodology: Data for BITs before 2014 with an "anytime termination" option; based on an examination of a representative sample of more than 300 BITs, extrapolated to the universe of BITs in force after accounting for the initial fixed term of treaty duration.

Using treaty expirations to instigate change in the IIA regime is not a straightforward endeavour. First, there is a need to understand how BIT rules on treaty termination work, so as to identify when opportunities arise and what procedural steps are required (see box III.6).

A second challenge originates from the "survival clause", contained in most BITs, which prevents unilateral termination of the treaty with immediate effect. It prolongs the exposure of the host State to international responsibility by extending the treaty's application for a further period, typically 10 or 15 years.[61]

Third, renegotiation efforts aimed at reducing or rebalancing treaty obligations can be rendered futile by the MFN obligation. If the scope of the MFN clause in the new treaty is not limited, it can result in the unanticipated incorporation of stronger investor rights from IIAs with third countries. Hence, in case of amendments and/or renegotiations that reduce investors's rights, IIA negotiators may wish to formulate MFN provisions that preclude the importation of substantive IIA provisions from other IIAs.[62]

In addition, countries need to analyse the pros and cons of treaty termination and its implication for the overall investment climate and existing investments.

Box III.6. Treaty termination and prolongation clauses

BITs usually specify that they shall remain in force for an initial fixed period, most typically 10 or 15 years. Very few treaties do not set forth such an initial fixed term, providing for indefinite duration from the outset.

BITs that establish an initial term of application typically contain a mechanism for their prolongation. Two approaches are prevalent. The first states that, after the end of the initial fixed term and unless one party opts to terminate, the treaty shall continue to be in force indefinitely. However, each party retains the right to terminate the agreement at any time by giving written notice. The second approach provides that the treaty shall continue to be in force for additional fixed terms (usually equal in length to the initial term, sometimes shorter), in which case the treaty can be terminated only at the end of each fixed period.

The majority of BITs thus fall in one of the two categories: (1) those that can be terminated at any time after the end of an initial fixed term, and (2) those that can be terminated only at the end of each fixed term. These two options may be referred to as "anytime termination" and "end-of-term termination" (see box table III.6.1).

Box table III.6.1. Types of BITs termination clauses

Anytime termination			End-of-term termination
Duration: Initial fixed term; automatic renewal for an indefinite period	**Duration:** Initial fixed term; automatic renewal for further fixed terms	**Duration:** No initial fixed term; indefinite duration from the start	**Duration:** Initial fixed term; automatic renewal for further fixed terms
Termination: (1) At the end of the initial fixed term (2) At any time after the end of the initial fixed term	**Termination:** (1) At the end of the initial fixed term (2) At any time after the end of the initial fixed term	**Termination:** At any time	**Termination:** (1) At the end of the initial fixed term (2) At the end of each subsequent fixed term
Example: Hungary–Thailand BIT (1991)	**Example:** Iceland–Mexico BIT (2005)	**Example:** Armenia–Canada BIT (1997)	**Example:** Azerbaijan–Belgium/Luxembourg BIT (2004)

The "anytime termination" model provides the most flexibility for review as the parties are not tied to a particular date by which they must notify the other party of their wish to terminate the BIT. The "end-of-period" model, in contrast, provides opportunities to terminate the treaty only once every few years. Failure to notify the intention to terminate within a specified notification period (usually either 6 or 12 months prior to the expiry date) will lock the parties into another multi-year period during which the treaty cannot be unilaterally terminated.

Source: UNCTAD.

4. Investor–State arbitration: options for reform

a. ISDS cases continue to grow

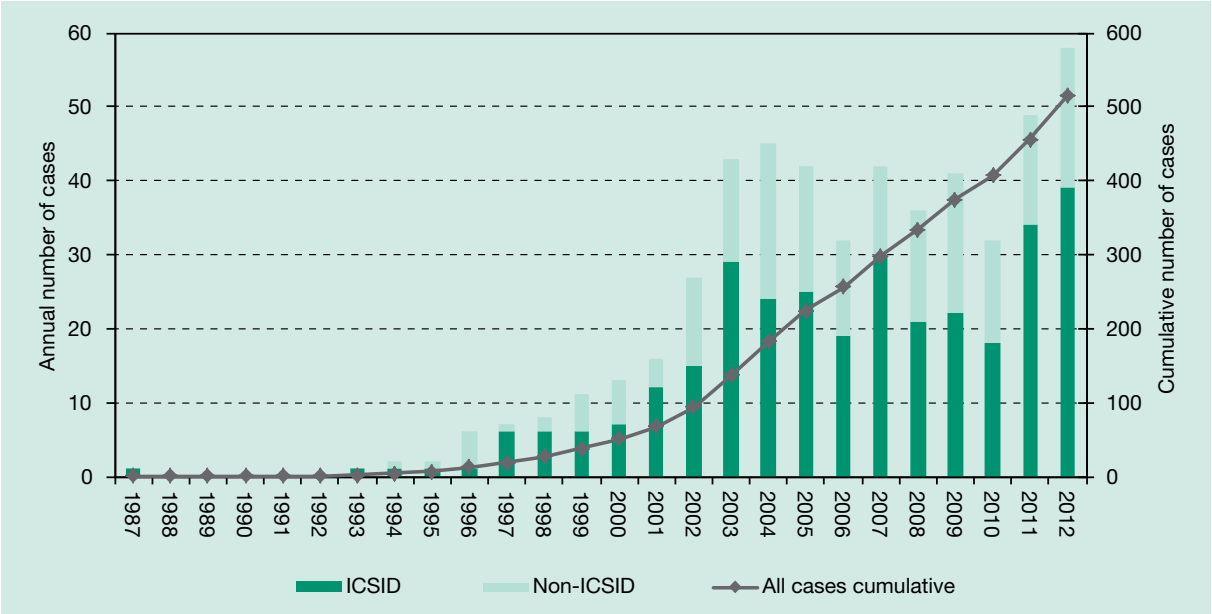
A record number of new ISDS cases were initiated in 2012.

In 2012, 58 new international investor–State claims were initiated.[63] This constitutes the highest number of known ISDS claims ever filed in one year and confirms foreign investors' increased inclination to resort to investor–State arbitration (figure III.10). In 66 per cent of the new cases, respondents were developing or transition economies.

In 2012, foreign investors challenged a broad range of government measures, including changes to domestic regulatory frameworks (with respect to gas, nuclear energy, the marketing of gold, and currency regulations), as well as measures relating to revocation of licences (in the mining, telecommunications and tourism sectors). Investors also took action on the grounds of alleged breaches of investment contracts; alleged irregularities in public tenders; withdrawals of previously granted subsidies (in the solar energy sector); and direct expropriations of investments.

By the end of 2012, the total number of known cases (concluded, pending or discontinued[64]) reached 514, and the total number of countries that have responded to one or more ISDS claims increased to 95. The majority of cases continued

Figure III.10. Known ISDS cases, 1987–2012



Source: UNCTAD.

to accrue under the ICSID Convention and the ICSID Additional Facility Rules (314 cases) and the UNCITRAL Rules (131). Other arbitral venues have been used only rarely.

At least 42 arbitral decisions were issued in 2012, including decisions on objections to a tribunal's jurisdiction, on the merits of the dispute, on compensation and on applications for annulment of an arbitral award.

In 12 of the 17 public decisions addressing the merits of the dispute last year, investors' claims were accepted, at least in part.

Of all cases concluded by the end of 2012, 31 per cent ended in favour of the investor and another 27 per cent were settled.

By the end of 2012, the overall number of concluded cases reached 244. Of these, approximately 42 per cent were decided in favour of the State and 31 per cent in favour of the investor. Approximately 27 per cent were settled.[65]

Last year saw some notable developments, including:

- the highest monetary award in the history of ISDS ($1.77 billion) in *Occidental v. Ecuador*,[66] a case that arose out of that country's unilateral termination of an oil contract; and
- the first treaty-based ISDS proceeding in which an arbitral tribunal affirmed its jurisdiction over a counterclaim that had been lodged by a respondent State against the investor.[67]

b. Mapping five paths for reform

The ISDS mechanism, designed to ensure fairness and neutrality, has in practice raised concerns about its systemic deficiencies.

In light of the increasing number of ISDS cases, the debate about the pros and cons of the ISDS mechanism has gained momentum, especially in those countries where ISDS is on the agenda of IIA negotiations or those that have faced controversial investor claims.

The ISDS mechanism was designed to depoliticize investment disputes and create a forum that would offer investors a fair hearing before an independent, neutral and qualified tribunal. It was seen as a mechanism for rendering final and enforceable decisions through a swift, cheap and flexible process, over which disputing parties would

have considerable control.[68] Given that investor complaints relate to the conduct of sovereign States, taking these disputes out of the domestic sphere of the State concerned provides aggrieved investors with an important guarantee that their claims will be adjudicated in an independent and impartial manner.

However, the actual functioning of ISDS under investment treaties has led to concerns about systemic deficiencies in the regime. These have been well documented in the literature and need only be summarized here:[69]

- *Legitimacy.* It is questionable whether three individuals, appointed on an *ad hoc* basis, can be entrusted with assessing the validity of States' acts, particularly when they involve public policy issues. The pressures on public finances[70] and potential disincentives for public-interest regulation may pose obstacles to countries' sustainable development paths.
- *Transparency.*[71] Even though the transparency of the system has improved since the early 2000s, ISDS proceedings can still be kept fully confidential – if both disputing parties so wish – even in cases where the dispute involves matters of public interest.[72]
- *"Nationality planning"*. Investors may gain access to ISDS procedures using corporate structuring, i.e. by channelling an investment through a company established in an intermediary country with the sole purpose of benefitting from an IIA concluded by that country with the host State.
- *Consistency of arbitral decisions.* Recurring episodes of inconsistent findings by arbitral tribunals have resulted in divergent legal interpretations of identical or similar treaty provisions as well as differences in the assessment of the merits of cases involving the same facts. Inconsistent interpretations have led to uncertainty about the meaning of key treaty obligations and lack of predictability as to how they will be read in future cases.[73]
- *Erroneous decisions.* Substantive mistakes of arbitral tribunals, if they arise, cannot be corrected effectively through existing review mechanisms. In particular, ICSID annulment committees, besides having limited review powers,[74] are individually created for specific disputes and can also disagree among themselves.
- *Arbitrators' independence and impartiality*. An increasing number of challenges to arbitrators may indicate that disputing parties perceive them as biased or predisposed. Particular concerns have arisen from a perceived tendency of each disputing party to appoint individuals sympathetic to their case. Arbitrators' interest in being re-appointed in future cases and their frequent "changing of hats" (serving as arbitrators in some cases and counsel in others) amplify these concerns.[75]
- *Financial stakes.* The high cost of arbitrations can be a concern for both investors (especially small and medium-size enterprises), and States. From the State perspective, even if a government wins the case, the tribunal may refrain from ordering claimant investors to pay the respondents' costs, leaving the average $8 million spent on lawyers and arbitrators as a significant burden on public finances and preventing the use of those funds for other goals.[76]

These challenges have prompted a debate about the challenges and opportunities of ISDS. This discourse has been developing through relevant literature, academic/practitioner conferences and the advocacy work of civil society organizations. It has also been carried forward under the auspices of UNCTAD's Investment Commission and Expert Meetings, its multi-stakeholder World Investment Forum[77] and a series of informal conversations it has organized,[78] as well as the OECD's Freedom-of-Investment Roundtables.[79]

Five broad paths for reform have emerged from these discussions:

1. Promoting alternative dispute resolution
2. Tailoring the existing system through individual IIAs
3. Limiting investors' access to ISDS
4. Introducing an appeals facility
5. Creating a standing international investment court

(i). Promotion of alternative dispute resolution methods

Reform options range from tailored modifications by individual States to systemic change that requires dialogue and cooperation between countries.

This approach advocates for increasing resort to so-called alternative methods of dispute resolution (ADR) and dispute prevention policies (DPPs), both of which have formed part of UNCTAD's technical assistance and advisory services on IIAs. ADR can be either enshrined in IIAs or implemented at the domestic level, without specific references in the IIA.

Compared with arbitration, non-binding ADR methods, such as conciliation and mediation,[80] place less emphasis on legal rights and obligations. They involve a neutral third party whose main objective is not the strict application of the law but finding a solution that would be recognized as fair by the disputing parties. ADR methods can help to save time and money, find a mutually acceptable solution, prevent escalation of the dispute and preserve a workable relationship between the disputing parties. However, there is no guarantee that an ADR procedure will lead to resolution of the dispute; an unsuccessful procedure would simply increase the costs involved. Also, depending on the nature of a State act challenged by an investor (e.g. a law of general application), ADR may not always be acceptable to the government.

An investment ombudsman can help defuse disputes in the early stages.

ADR could go hand in hand with the strengthening of dispute prevention and management policies at the national level. Such policies aim to create effective channels of communication and improve institutional arrangements between investors and respective agencies (e.g. investment aftercare services) and between different ministries dealing with investment issues. An investment ombudsman office or a specifically assigned agency that takes the lead should a conflict with an investor arise, can help resolve investment disputes early on, as well as assess the prospects of, and, if necessary, prepare for international arbitration.[81]

In terms of implementation, this approach is relatively straightforward, and much has already been implemented by some countries. Importantly, given that most ADR and DPP efforts are implemented at the national level, individual countries can also proceed without need for their treaty partners to agree. However, similar to some of the other options mentioned below, ADR and DPPs do not solve key ISDS-related challenges. The most they can do is to reduce the number of full-fledged legal disputes, which would render this reform path a complementary rather than stand-alone avenue for ISDS reform.

(ii). Tailoring the existing system through individual IIAs

This option implies that the main features of the existing system would be preserved and that individual countries would apply "tailored modifications" by modifying selected aspects of the ISDS system in their new IIAs. A number of countries have already embarked on this course of action.[82] Procedural innovations, many of which also appear in UNCTAD's IPFSD, have included:[83]

- *Setting time limits for bringing claims*; e.g. three years from the events giving rise to the claim, in order to limit State exposure and prevent the resurrection of "old" claims;[84]
- *Increasing the contracting parties' role in interpreting the treaty* in order to avoid legal interpretations that go beyond their original intentions; e.g. through providing for binding joint party interpretations, requiring tribunals to refer certain issues for determination by treaty parties and facilitating interventions by the non-disputing contracting parties;[85]
- *Establishing a mechanism for consolidation of related claims*, which can help to deal with the problem of related proceedings, contribute to the uniform application of the law, thereby increasing the coherence and consistency of awards, and help to reduce the cost of proceedings;[86]
- *Providing for more transparency in ISDS*; e.g. granting public access to documents and hearings, and allowing for the participation of interested non-disputing parties such as civil society organizations;[87]

- *Including a mechanism for an early discharge of frivolous* (unmeritorious) *claims* in order to avoid waste of resources on full-length proceedings.[88]

To these, add changes in the wording of IIAs' substantive provisions – introduced by a number of countries – that seek to clarify the agreements' content and reach, thereby enhancing the certainty of the legal norms and reducing the margin of discretion of arbitrators.[89]

Tailored modifications can be made to suit individual countries' concerns, but they also risk neglecting systemic deficiencies.

The approach whereby countries provide focused modifications through their IIAs allows for individually tailored solutions and numerous variations. For example, in their IIAs, specific countries may choose to address those issues and concerns that appear most relevant to them. At the same time, this option cannot address all ISDS-related concerns.

What is more, this approach would require comprehensive training and capacity-building to enhance awareness and understanding of ISDS-related issues.[90] Mechanisms that facilitate high-quality legal assistance to developing countries at an affordable price can also play a role (box III.7).

Implementation of this "tailored modifications" option is fairly straightforward given that only two treaty parties (or several – in case of a plurilateral treaty) need to agree. However, the approach is limited in effectiveness: unless the new treaty is a renegotiation of an old one, the "modifications" are applied only to newly concluded IIAs while some 3,000 "old" ones remain intact. Moreover, one of the key advantages of this approach, namely, that countries can choose *whether* and *which* issues to address, is also one of its key disadvantages, as it turns this reform option into a piecemeal approach that stops short of offering a comprehensive, integrated way forward.

(iii) Limiting investors' access to ISDS

Limiting investors' access to ISDS can help to slow down the proliferation of ISDS proceedings, reduce States' financial liabilities and save resources.

This option narrows the range of situations in which investors may resort to ISDS. This could be done in three ways: (i) by reducing the subject-matter scope for ISDS claims, (ii) by restricting the range of investors who qualify to benefit from the treaty, and (iii) by introducing

Box III.7. Addressing ISDS-related challenges: initiatives from Latin America

On 22 April 2013 during a ministerial-level meeting held in Ecuador, seven Latin American countries (the Plurinational State of Bolivia, Cuba, the Dominican Republic, Ecuador, Nicaragua, Saint Vincent and the Grenadines, and the Bolivarian Republic of Venezuela) adopted a declaration on "Latin American States affected by transnational interests".[a] In the declaration ministers agreed to establish an institutional framework to deal with challenges posed by transnational companies, especially legal claims brought against governments under BITs. The declaration also supports the creation of a regional arbitration centre to settle investment disputes and an international observatory for cooperation on international investment litigation. To that effect, the Dominican Republic, Ecuador and the Bolivarian Republic of Venezuela have agreed to produce a proposal to create such an observatory by July 2013.

This follows various earlier initiatives, undertaken by groups of countries in the region, that were aimed at helping countries find an adequate response to the lack of capacity and resources on one hand, and the overall legitimacy of the ISDS system on the other. As early as 2009, UNCTAD, together with the Academia de Centroamerica, the Organization of American States and the Inter-American Development Bank, was invited to pursue the possibility of establishing an Advisory Facility on International Investment Law and ISDS. This resulted in a series of meetings that addressed technical issues, including what type of services such a facility should offer (e.g. capacity-building for IIA negotiations and implementation, management or prevention of ISDS cases, provision of legal opinions, and legal representation in ISDS cases), what its membership limits could be (open to all countries and organizations or only a limited number of countries) and how it should be financed.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

the requirement to exhaust local remedies before resorting to international arbitration. A far-reaching version of this approach would be to abandon ISDS as a means of dispute resolution altogether and return to State–State arbitration proceedings, as some recent treaties have done.[91]

Some countries have adopted policies of the first kind; e.g. by excluding certain types of claims from the scope of arbitral review.[92] Historically, this approach was used to limit the jurisdiction of arbitral tribunals in a more pronounced way, such as allowing ISDS only with respect to expropriation disputes.[93]

To restrict the range of covered investors, one approach is to include additional requirements in the definition of "investor" and/or to use denial-of-benefits provisions.[94] Among other things, this approach can address concerns arising from "nationality planning" and "treaty shopping" by investors and ensure that they have a genuine link to the putative home State.

Requiring investors to exhaust local remedies, or alternatively, to demonstrate the manifest ineffectiveness or bias of domestic courts, would make ISDS an exceptional remedy of last resort. Although in general international law, the duty to exhaust local remedies is a mandatory prerequisite for gaining access to international judicial forums,[95] most IIAs dispense with this duty.[96] Instead, they allow foreign investors to resort directly to international arbitration without first going through the domestic judicial system. Some see this as an important positive feature and argue that reinstating the requirement to exhaust domestic remedies could undermine the effectiveness of ISDS.

These options for limiting investor access to ISDS can help to slow down the proliferation of ISDS proceedings, reduce States' financial liabilities arising from ISDS awards and save resources. Additional benefits may be derived from these options if they are combined with assistance to strengthen the rule of law and domestic legal and judicial systems. To some extent, however, this approach would be a return to the earlier system, in which investors could lodge claims only in the domestic courts of the host State, negotiate arbitration clauses in specific investor–State contracts or apply for diplomatic protection by their home State.

In terms of implementation – like the options described earlier – this alternative does not require coordinated action by a large number of countries and can be put in practice by parties to individual treaties. Implementation is straightforward for future IIAs; past treaties would require amendments, renegotiation or unilateral termination.[97] Similar to the "tailored modification" option, however, this alternative results in a piecemeal approach towards reform.

(iv) Introducing an appeals facility[98]

Consistent and balanced opinions from an authoritative appeals body would enhance the credibility of the ISDS system.

An appeals facility implies a standing body with a competence to undertake a substantive review of awards rendered by arbitral tribunals. It has been proposed as a means to improve the consistency of case law, correct erroneous decisions of first-level tribunals and enhance the predictability of the law.[99] This option has been contemplated by some countries.[100] If the facility is constituted of permanent members appointed by States from a pool of the most reputable jurists, it has the potential to become an authoritative body capable of delivering consistent – and balanced – opinions, which could rectify some of the legitimacy concerns about the current ISDS regime.[101]

Authoritative pronouncements on points of law by an appeals facility would guide both the disputing parties (when assessing the strength of their respective cases) and arbitrators adjudicating disputes. Even if today's system of first-level tribunals remains intact, concerns would be alleviated through the effective supervision at the appellate level. In sum, an appeals facility would add order and direction to the existing decentralized, non-hierarchical and ad hoc regime.

At the same time, absolute consistency and certainty would not be achievable in a legal system that consists of about 3,000 legal texts; different outcomes may still be warranted by the language of specific applicable treaties. Also, the introduction of an appellate stage would further add to the time and cost of the proceedings, although that could

be controlled by putting in place tight timelines, as has been done for the WTO Appellate Body.[102]

In terms of implementation, for the appeals option to be meaningful, it needs to be supported by a significant number of countries. In addition to an in-principle agreement, a number of important choices would need to be made: Would the facility be limited to the ICSID system or be expanded to other arbitration rules? Who would elect its members and how? How would it be financed?[103] In sum, this reform option is likely to face significant, although not insurmountable, practical challenges.

(v) Creating a standing international investment court

A standing international investment court would be an institutional public good – but can it serve a fragmented universe of thousands of agreements?

This option implies the replacement of the current system of *ad hoc* arbitration tribunals with a standing international investment court. The latter would consist of judges appointed or elected by States on a permanent basis, e.g. for a fixed term. It could also have an appeals chamber.

This approach rests on the theory that a private model of adjudication (i.e. arbitration) is inappropriate for matters that deal with public law.[104] The latter requires objective guarantees of independence and impartiality of judges, which can be provided only by a security of tenure – to insulate the judge from outside interests such as an interest in repeat appointments and in maintaining the arbitration industry. Only a court with tenured judges, the argument goes, would establish a fair system widely regarded to be free of perceived bias.[105]

A standing investment court would be an institutional public good, serving the interests of investors, States and other stakeholders. The court would address most of the problems outlined above: it would go a long way to ensure the legitimacy and transparency of the system, and facilitate consistency and accuracy of decisions, and independence and impartiality of adjudicators.[106]

However, this solution would also be the most difficult to implement as it would require a complete overhaul of the current regime through the coordinated action of a large number of States. Yet, the consensus would not need to be universal. A standing investment court may well start as a plurilateral initiative, with an opt-in mechanism for those States that wish to join.

Finally, it is questionable whether a new court would be fit for a fragmented regime that consists of a huge number of mostly bilateral IIAs. It has been argued that this option would work best in a system with a unified body of applicable law.[107] Nonetheless, even if the current diversity of IIAs is preserved, a standing investment court would likely be much more consistent and coherent in its approach to the interpretation and application of treaty norms, compared with numerous ad hoc tribunals.

Given the numerous challenges arising from the current ISDS regime, it is timely for States to assess the current system, weigh options for reform and then decide upon the most appropriate route.

Among the five options outlined here, some imply individual actions by governments and others require joint action by a significant number of countries. Most of the options would benefit from being accompanied by comprehensive training and capacity-building to enhance awareness and understanding of ISDS-related issues.[108]

Although the collective-action options would go further in addressing the problems, they would face more difficulties in implementation and require agreement between a larger number of States. Collective efforts at the multilateral level can help develop a consensus on the preferred course of reform and ways to put it into action.

An important point to bear in mind is that ISDS is a system of *application* of the law. Therefore, improvements to the ISDS system should go hand in hand with progressive development of substantive international investment law.[109]

* * *

The national policy trends outlined in this chapter give mixed signals to foreign investors. Most countries continue to attract FDI, but ongoing macro economic, systemic and legal reforms, together with the effects of political elections in several countries, also created some regulatory uncertainty. Together with ongoing weakness and

instability in the global economy, this uncertainty has constrained foreign investors' expansion plans. Overall, the investment policymaking is in a transition phase, adjusting previous liberalization policies towards a more balanced approach that gives more weight to sustainable development and other public policy objectives. This is also reflected by policy developments at the international level, where new-generation IIAs and opportunities for reform of the ISDS system are gaining ground.

Notes

1 See also UNCTAD (2011: 105–106).
2 See Lall (2002).
3 See UNCTAD (2000).
4 Data do not include pending deals that may be withdrawn later or withdrawn deals for which no value is available. In some cases, a business or regulatory/political motivation to withdraw a cross-border M&A may affect more than one deal, as recorded in the Thomson Reuters database on M&As.
5 See Dinc and Erel (2012) and Harlé, Ombergt and Cool (2012).
6 Although in some cases regulatory or political motivations for withdrawn M&As have been recorded, in many other deals are aborted for these reasons before they can be recorded as an announced M&A. For this reason, it is safe to assume that in reality more deals would fall in this category and thus that the impact of regulatory reasons and political opposition is in fact bigger (see also Dinc and Erel, 2012 and Heinemann, 2012).
7 The reason is the so-called "effects doctrine" in competition law, allowing for jurisdiction over foreign conduct, as long as the economic effects of the anticompetitive conduct are experienced on the domestic market.
8 See Dinc and Erel (2012: 7–10) and Heinemann (2012: 851).
9 See Dinc and Erel (2012: 7–10).
10 The share of regulations and restrictions in governments' new FDI measures has increased from 6 per cent in 2000 to 25 per cent in 2012 (see figure III.1).
11 See UNCTAD (2012: 101).
12 "Other IIAs" refer to economic agreements, other than BITs, that include investment-related provisions (for example, framework agreements on economic cooperation), investment chapters in economic partnership agreements and FTAs.
13 The analysis is based on the review of 16 IIAs signed in 2012 for which text was available namely, the Albania–Azerbaijan BIT, Australia–Malaysia FTA, Bangladesh–Turkey BIT, Cameroon–Turkey BIT, Canada–China BIT, China–Japan–Republic of Korea Trilateral investment agreement, EU–Central America Association Agreement, EU–Colombia–Peru FTA, EU–Iraq Partnership and Cooperation Agreement (PCA), Former Yugoslav Republic of Macedonia–Kazakhstan BIT, Gabon–Turkey BIT, Iraq–Japan BIT, Japan–Kuwait BIT, Nicaragua–Russian Federation BIT and Pakistan–Turkey BIT. The analysis does not include framework agreements.
14 In two of these, the exceptions are included in a chapter that is not entirely dedicated to investment but applies to it. See the EU–Iraq Partnership and Cooperation Agreement (Article 203) and the EU–Colombia–Peru FTA (Article 167).
15 This includes the 27 EU Member States counted individually.
16 The Guiding Principles were adopted by the economic ministers in Siem Reap, Cambodia in August 2012 and endorsed by the ASEAN leaders at the 21st ASEAN Summit, http://www.asean.org/news/asean-secretariat-news/item/asean-and-fta-partners-launch-the-world-s-biggest-regional-free-trade-deal.
17 Vision Statement, ASEAN–India Summit, New Delhi, India, 20 December 2012, http://www.asean.org/news/asean-statement-communiques/item/vision-statement-asean-india-commemorative-summit. Because the two agreements were awaiting signature at the end of 2012, they are not reported as IIAs concluded in 2012.
18 "Mandatarios suscriben Acuerdo Marco de la Alianza del Pacífico", Presidency of the Republic of Peru Antofagasta, 6 June 2012, http://www.presidencia.gob.pe/mandatarios-suscriben-acuerdo-marco-de-la-alianza-del-pacifico.
19 The first phase of the negotiations, scheduled to conclude in June 2014, will focus on merchandise trade liberalization, infrastructure development and industrial development.
20 This section highlights negotiations involving the EU that were launched in 2013, as well as negotiations that were started earlier and that cover investment protection and liberalization based on the new EU mandate. Negotiations that were started earlier and that do not directly address investment protection (e.g. such as those carried out in the EPA context) are not included in the review.
21 This section covers negotiations that began in 2013. For a comprehensive overview of EU FTAs and other negotiations, see http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf.
22 These negotiations are taking place after the European Commission, in December 2012, received a mandate to upgrade association agreements with its Mediterranean partner countries to include investment protection. See http://trade.ec.europa.eu/doclib/press/index.cfm?id=888.
23 http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/thailand.
24 http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/united-states.
25 "Final Report of the High Level Working Group on Jobs and Growth", 11 February 2013, http://trade.ec.europa.eu/doclib/docs/2013/february/tradoc_150519.pdf.
26 This follows the April 2012 "Statement on Shared Principles for International Investment," which set out a number of principles for investment policymaking, including the need for sustainable-development-friendly elements, (see http://europa.eu/rapid/press-release_IP-12-356_en.htm and *WIR 2012*, chapter III.B) .
27 http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/japan.
28 http://trade.ec.europa.eu/doclib/press/index.cfm?id=881.
29 This section refers to the latest developments in negotiations that were launched before 2013.
30 http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/canada.
31 http://trade.ec.europa.eu/doclib/press/index.cfm?id=855.
32 http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/india.
33 At the EU–China Summit on 14 February 2012, the leaders agreed that "a rich in substance EU–China investment agreement would promote and facilitate investment in both directions" and that "[n]egotiations towards this agreement would include all issues of interest to either side, without prejudice to the final outcome". See http://europa.eu/rapid/press-release_MEMO-12-103_en.htm.
34 Press release, United States Trade Representative, 13 March 2013, http://www.ustr.gov/about-us/press-office/press-releases/2013/march/tpp-negotiations-higher-gear.
35 During a joint EU-MERCOSUR Ministerial Meeting (26 January 2013), the parties stressed the importance of ensuring progress in the next stage of the negotiation and agreed to start their respective internal preparatory work for the exchange of offers, http://trade.ec.europa.eu/doclib/docs/2013/january/

tradoc_150458.pdf. Note that these negotiations currently focus on establishment and do not cover BITs-type protection issues. See http://eeas.europa.eu/mercosur/index_en.htm.

36 The 22 WTO Members in the Real Good Friends group are Australia, Canada, Chile, Colombia, Costa Rica, the EU, Hong Kong (China), Iceland, Israel, Japan, Mexico, New Zealand, Norway, Pakistan, Paraguay, Peru, the Republic of Korea, Singapore, Switzerland, Taiwan Province of China, Turkey, and the United States.

37 Press release, European Commission, 15 February 2013, http://europa.eu/rapid/press-release_MEMO-13-107_en.htm.

38 None of the Real Good Friends will ever match the levels scheduled by Moldova, Kyrgyzstan and some others.

39 Strictly speaking, the GATS does not prescribe any particular scheduling format, whether bottom-up or top-down.

40 News alert, Crowell & Morning, 15 October 2012, http://www.crowell.com/NewsEvents/AlertsNewsletters/all/1379161; Global Services Coalition, Statement on Plurilateral Services Agreement, 19 September 2012, http://www.keidanren.or.jp/en/policy/2012/067.pdf.

41 http://tpplegal.wordpress.com/open-letter.

42 http://www.citizenstrade.org/ctc/p-content/uploads/2013/03/CivilSocietyLetteronFastTrackandTPP_030413.pdf.

43 http://www.bilaterals.org/spip.php?page=print&id_article=22300.

44 http://tradejustice.ca/pdfs/Transatlantic%20Statement%20on%20Investor%20Rights%20in%20CETA.pdf.

45 http://www.globaleverantwortung.at/images/doku/aggv_28092010_finaljointletter_eu_india_fta_forsign.doc.

46 http://www.dewereldmorgen.be/sites/default/files/attachments/2011/01/18/mep_open_letter_final.pdf.

47 http://canadians.org/blog/?p=18925.

48 This lack of clarity arises from the fact that the treaty's reference to "the Parties" could be understood as covering either *all* or *any* of the parties to the regional agreement. The latter interpretation would also include BITs, hence resulting in parallel application; the former interpretation would only include agreements which all of the regional treaty parties have signed, hence excluding bilateral agreements between some – but not all – of the regional agreement's contracting parties.

49 The Central America–Mexico FTA (2011) replaces the FTAs between Mexico and Costa Rica (1994), Mexico and El Salvador, Guatemala and Honduras (2000), and Mexico and Nicaragua (1997).

50 Vienna Convention on the Law of Treaties (1969), http://untreaty.un.org/ilc/texts/instruments/english/conventions/1_1_1969.pdf.

51 The COMESA investment agreement, for example, states in Article 32.3: "In the event of inconsistency between this Agreement and such other agreements between Member States mentioned in paragraph 2 of this Article, this agreement shall prevail to the extent of the inconsistency, except as otherwise provided in this Agreement." Article 2.3 of the ASEAN–Australia–New Zealand FTA enshrines a "soft" approach to inconsistent obligations whereby "In the event of any inconsistency between this Agreement and any other agreement to which two or more Parties are party, such Parties shall immediately consult with a view to finding a mutually satisfactory solution."

52 On various interpretative tools that can be used by States, see UNCTAD, "Interpretation of IIAs: What States Can Do", *IIA Issues Note*, No.3, December 2011.

53 "Notes of Interpretation of Certain NAFTA Chapter 11 Provisions", NAFTA Free Trade Commission, 31 July 2001. Available at http://www.sice.oas.org/tpd/nafta/Commission/CH11understanding_e.asp.

54 As opposed to amendments, renegotiations are used when the parties wish to make extensive modifications to the treaty.

55 Article 54(b) of the Vienna Convention on the Law of Treaties.

56 If not, and if needed, in addition to the rules set out in the treaty, the rules of the Vienna Convention on the Law of Treaties apply.

57 These were BITs with Cuba, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Romania and Uruguay. Subsequently, on 9 March 2013, Ecuador announced its intent to terminate all remaining IIAs and that the legislative assembly would work on the requisite measures to that effect from 15 May 2013 onward. See Declaration by the President of Ecuador Rafael Correa, ENLACE Nro 312 desde Piquiucho - Carchi, published 10 March 2013. Available at http://www.youtube.com/watch?v=CkC5i4gW15E (at 2:37:00).

58 This section is limited to BITs and does not apply to "other IIAs" as the latter raise a different set of issues. Importantly, an investment chapter in a broad economic agreement such as an FTA cannot be terminated separately, without terminating the whole treaty.

59 In accordance with general international law, a treaty may also be terminated by consent of the contracting parties at any time, regardless of whether the treaty has reached the end of its initial fixed term (Article 54(b) of the Vienna Convention on the Law of Treaties).

60 Publication by a spokesman of South Africa's Department of Trade and Industry. Available at http://www.bdlive.co.za/opinion/letters/2012/10/01/letter-critical-issues-ignored.

61 It is an open question whether the survival clause becomes operative only in cases of *unilateral* treaty termination or also applies in situations where the treaty is terminated by mutual consent by the contracting parties. This may depend on the wording of the specific clause and other interpretative factors.

62 This will not automatically solve the issue of those older treaties that were not renegotiated; but it will gradually form a new basis on which negotiators can build a more balanced network.

63 For more details, see UNCTAD, "Latest Developments in Investor-State Dispute Settlement", *IIA Issues Note*, No. 1, March 2013.

64 A case may be discontinued for reasons such as failure to pay the required cost advances to the relevant arbitral institution.

65 A number of arbitral proceedings have been discontinued for reasons other than settlement (e.g. due to the failure to pay the required cost advances to the relevant arbitral institution). The status of some other proceedings is unknown. Such cases have not been counted as "concluded".

66 *Occidental Petroleum Corporation and Occidental Exploration and Production Company v. The Republic of Ecuador*, ICSID Case No. ARB/06/11, Award, 5 October 2012.

67 *Antoine Goetz & Others and S.A. Affinage des Metaux v. Republic of Burundi*, ICSID Case No. ARB/01/2, Award, 21 June 2012, paras. 267–287.

68 For a discussion of the key features of ISDS, see also, "Investor-State Dispute Settlement – a Sequel", UNCTAD Series on Issues in IIAs (forthcoming).

69 See Michael Waibel et al. (eds.), *The Backlash against Investment Arbitration: Perceptions and Reality* (Kluwer Law International, 2010); D. Gaukrodger and K. Gordon, "Investor–State Dispute Settlement: A Scoping Paper for the Investment Policy Community", OECD Working Papers on International Investment, No. 2012/3; P. Eberhardt and C. Olivet, *Profiting from Injustice: How Law Firms, Arbitrators and Financiers are Fuelling an Investment Arbitration Boom* (Corporate Europe Observatory and Transnational Institute, 2012), available at http://corporateeurope.org/sites/default/files/publications/profiting-from-injustice.pdf.

70 Host countries have faced ISDS claims of up to $114 billion (the aggregate amount of compensation sought by the three claimants constituting the majority shareholders of the former Yukos Oil Company in the ongoing arbitration proceedings against the Russian Federation) and awards of up to $1.77 billion (*Occidental Petroleum Corporation and Occidental Exploration and Production Company v. The Republic of Ecuador*, ICSID Case No. ARB/06/11, Award, 5 October 2012).

71 UNCTAD, *Transparency – A Sequel*, Series on Issues in IIAs II. (United Nations, New York and Geneva, 2012).

72 It is indicative that of the 85 cases under the UNCITRAL Arbitration Rules administered by the Permanent Court of Arbitration (PCA), only 18 were public (as of end-2012). *Source*: Permanent Court of Arbitration International Bureau.

73 Sometimes, divergent outcomes can be explained by differences in wording of a specific IIA applicable in a case; however, often they represent differences in the views of individual arbitrators.

74 It is notable that even having identified "manifest errors of law" in an arbitral award, an ICSID annulment committee may find itself unable to annul the award or correct the mistake. See *CMS Gas Transmission Company v. The Republic of Argentina*, ICSID Case No. ARB/01/8, Decision of the ad hoc Committee on the application for annulment, 25 September 2007. Article 52(1) of the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (ICSID Convention) enumerates the following grounds for annulment: (a) improper constitution of the arbitral Tribunal; (b) manifest excess of power by the arbitral Tribunal; (c) corruption of a member of the arbitral Tribunal; (d) serious departure from a fundamental rule of procedure; or (e) absence of a statement of reasons in the arbitral award.

75 For further details, see Gaukrodger and Gordon (2012: 43–51).

76 Lawyers' fees (which may reach $1,000 per hour for partners in large law firms) represent the biggest expenditure: on average, they have been estimated to account for about 82 per cent of the total costs of a case. D. Gaukrodger and K. Gordon, p. 19.

77 http://unctad-worldinvestmentforum.org.

78 During 2010 and 2011, UNCTAD organized seven "Fireside" talks – informal discussions among small groups of experts about possible improvements to the ISDS system.

79 See e.g. OECD, "Government perspectives on investor-state dispute settlement: a progress report", Freedom of Investment Roundtable, 14 December 2012. Available at www.oecd.org/daf/inv/investment-policy/foi.htm.

80 Mediation is an informal and flexible procedure: a mediator's role can vary from shaping a productive process of interaction between the parties to effectively proposing and arranging a workable settlement to the dispute. It is often referred to as "assisted negotiations". Conciliation procedures follow formal rules. At the end of the procedure, conciliators usually draw up terms of an agreement that, in their view, represent a just compromise to a dispute (non-binding to the parties involved). Because of its higher level of formality, some call conciliation a "non-binding arbitration".

81 See further UNCTAD, *Investor–State Disputes: Prevention and Alternatives to Arbitration* (United Nations, New York and Geneva, 2010); UNCTAD, *How to Prevent and Manage Investor-State Disputes: Lessons from Peru*, Best Practice in Investment for Development Series (United Nations, New York and Geneva, 2011).

82 In particular, Canada, Colombia, Mexico, the United States and some others. Reportedly, the European Union is also considering this approach. See N. Bernasconi-Osterwalder, "Analysis of the European Commission's Draft Text on Investor–State Dispute Settlement for EU Agreements", *Investment Treaty News*, 19 July 2012. Available at http://www.iisd.org/itn/2012/07/19/analysis-of-the-european-commissions-draft-text-on-investor-state-dispute-settlement-for-eu-agreements.

83 Policy options for individual ISDS elements are further analysed in UNCTAD, *Investor–State Dispute Settlement: A Sequel* (forthcoming).

84 See e.g. NAFTA Articles 1116(2) and 1117(2); see also Article 15(11) of the China–Japan–Republic of Korea investment agreement.

85 See UNCTAD, *Interpretation of IIAs: What States Can Do*, IIA Issues Note, No.3, December 2011. Two issues merit attention with respect to such authoritative interpretations. First, the borderline between interpretation and amendment can sometimes be blurred; second, if issued during an ongoing proceeding, a joint party interpretation may raise due-process related concerns.

86 See e.g. NAFTA Article 1126; see also Article 26 of the Canada–China BIT.

87 See e.g. Article 28 of the Canada–China BIT; see also NAFTA Article 1137(4) and Annex 1137.4.

88 See e.g. Article 41(5) ICSID Arbitration Rules (2006); Article 28 United States–Uruguay BIT.

89 UNCTAD, *World Investment Report 2010*. Available at http://unctad.org/en/Docs/wir2010_en.pdf. See also UNCTAD's Pink Series Sequels on Scope and Definition, MFN, Expropriation, FET and Transparency. Available at http://investmentpolicyhub.unctad.org/Views/Public/IndexPublications.aspx

90 Such capacity-building activities are being carried out by among others, UNCTAD (together with different partner organizations). Latin American countries, for example, have benefited from UNCTAD's advanced regional training courses on ISDS on an annual basis since 2005.

91 Recent examples of IIAs without ISDS provisions are the Japan–Philippines Economic Partnership Agreement (2006), the Australia–United States FTA (2004) and the Australia–Malaysia FTA (2011). In April 2011, the Australian Government issued a trade policy statement announcing that it would stop including ISDS clauses in its future IIAs as doing so imposes significant constraints on Australia's ability to regulate public policy matters: see Gillard Government Trade Policy Statement: Trading Our Way to More Jobs and Prosperity, April 2011. Available at www.dfat.gov.au/publications/trade/trading-our-way-to-more-jobs-and-prosperity.pdf.

92 For example, claims relating to real estate (Cameroon–Turkey BIT); claims concerning financial institutions (Canada–Jordan BIT); claims relating to establishment and acquisition of investments (Japan–Mexico FTA); claims concerning specific treaty obligations such as national treatment and performance requirements (Malaysia–Pakistan Closer Economic Partnership Agreement); and claims arising out of measures to protect national security interest (India–Malaysia Closer Economic Cooperation Agreement). For further analysis, see UNCTAD, *Investor–State Dispute Settlement: Regulation and Procedures* (New York and Geneva, forthcoming).

93 For example, Chinese BITs concluded in the 1980s and early 1990s (e.g. Albania–China, 1993; Bulgaria–China, 1989) provided investors access to international arbitration only with respect to disputes relating to the amount of compensation following an investment expropriation.

94 Denial of benefits clauses authorize States to deny treaty protection to investors who do not have substantial business activities in their alleged home State and who are owned and/or controlled by nationals or entities of the denying State or of a State who is not a party to the treaty.

95 Douglas, Z. (2009). *The international law of investment claims*. Cambridge: Cambridge University Press.

96 Some IIAs require investors to pursue local remedies in the host State for a certain period of time (e.g. Belgium/Luxembourg–Botswana BIT and Argentina–Republic of Korea BIT). A small number of agreements require the investor to exhaust the host State's administrative remedies before submitting the dispute to arbitration (e.g. China–Côte d'Ivoire BIT).

97 Termination of IIAs is complicated by "survival" clauses that provide for the continued application of treaties, typically for 10 to 15 years after their termination.

98 In 2004, the ICSID Secretariat mooted the idea of an appeals facility, but at that time the idea failed to garner sufficient State support. See ISCID, "Possible Improvements of the Framework for ICSID Arbitration", Discussion paper, 22 October 2004, Part VI, and Annex "Possible Features of an ICSID Appeals Facility". In the eight years that have passed since, the views of many governments may have evolved.

99 For the relevant discussion, see e.g. C. Tams, "An Appealing Option? A Debate about an ICSID Appellate Structure", *Essays in Transnational Economic Law*, No.57, 2006.

[100] Several IIAs concluded by the United States have addressed the potential establishment of a standing body to hear appeals from investor–State arbitrations. The Chile–United States FTA was the first one to establish a "socket" in the agreement into which an appellate mechanism could be inserted should one be established under a separate multilateral agreement (Article 10.19(10)). The Dominican Republic–Central America–United States FTA (CAFTA) (2004) went further, and required the establishment of a negotiating group to develop an appellate body or similar mechanism (Annex 10-F). Notwithstanding these provisions, there has been no announcement of any such negotiations and no text regarding the establishment of any appellate body.

[101] An alternative solution would be a system of preliminary rulings, whereby tribunals in ongoing proceedings would be enabled or required to refer unclear questions of law to a certain central body. This option, even though it does not grant a right of appeal, may help improve consistency in arbitral decision making. See e.g. C. Schreuer, "Preliminary Rulings in Investment Arbitration", in K. Sauvant (ed.), *Appeals Mechanism in International Investment Disputes* (OUP, 2008).

[102] At the WTO, the appeals procedure is limited to 90 days.

[103] Other relevant questions include: Would the appeal be limited to the points of law or also encompass questions of fact? Would it have the power to correct decisions or only a right of remand to the original tribunal? How to ensure the coverage of earlier-concluded IIAs by the new appeals structure?

[104] Because these cases "involve an adjudicative body having the competence to determine, in response to a claim by an individual, the legality of the use of sovereign authority, and to award a remedy for unlawful State conduct." G. Van Harten, "A Case for International Investment Court", Inaugural Conference of the Society for International Economic Law, 16 July 2008, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1153424.

[105] Ibid.

[106] A system where judges are assigned to the case, as opposed to being appointed by the disputing parties, would also save significant resources currently spent on researching arbitrator profiles.

[107] Similarly to the European Court of Human Rights, which adjudicates claims brought under the European Convention for the Protection of Human Rights and Fundamental Freedoms.

[108] Such capacity-building activities are being carried out by, among others, UNCTAD (with different partner organizations). Latin American countries, for example, have benefitted from UNCTAD's advanced regional training courses on ISDS on an annual basis since 2005: see http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/IIA-Technical-Cooperation.aspx.

[109] IPFSD, 2012.

Box III.1

[a] Decree No.86, China Securities Regulatory Commission, 11 October 2012.
[b] Press Notes No. 4, 5, 6, 7 and 8, Ministry of Commerce and Industry, 20 September 2012, Circular No. 41, Reserve Bank of India, 10 October 2012.
[c] Press release, Ministry of Finance, 21 December 2012.
[d] "New areas in Dubai where expats can own property", *Khaleej Times*, 22 June 2012.
[e] Foreign Investment Law (Law No, 21/ 2012), Presidential Office, 2 November 2012. See www.president-office.gov.mm/en/hluttaw/law/2012/11/23/id-1103.
[f] Resolution No. 111-F/2012, *Official Gazette*, 28 December 2012.
[g] "Government adopted a decree on privatization of the fuel and energy complex enterprises", Ukraine government portal, 19 February 2013.

Box III.2

[a] "Simplification of direct investment foreign exchange management to promote trade and investment facilitation", State Administration of Foreign Exchange, 21 November 2012.
[b] Press release, Ministry of Economy, Industry and Commerce, 23 October 2012.
[c] "Emergency Economic Measures for the Revitalization of the Japanese Economy", Cabinet Office, 11 January 2013.
[d] "President Asif Ali Zardari signs Special Economic Zones Bill 2012", Board of Investment, 10 September 2012.
[e] "Cabinet Approves Bill of National Investment for 2013", Ministry of Cabinet Affairs, 3 February 2013.

Box III.3

[a] Resolución Conjunta 620/2012 y 365/2012, Official Gazette, 23 October 2012.
[b] Regulation No. 14/8 / PBI/2012, Bank Indonesia, 13 July 2012.
[c] "Kazakh Law Sets State Control of New Oil Pipelines", Reuters 14 June 2012.
[d] Executive Order No.79-S-2012, Official Gazette, 16 July 2012.

Box III.4

[a] New Land Code (Law No. 2013-1), 14 January 2013.
[b] "Government nationalizes Electropaz, Elfeo and ensures job security and salary workers", Official press release, 29 December 2012.
[c] "Morales Dispone Nacionalización del Paquete Accionario de Sabsa", Official press release, 18 February 2013.
[d] Statement by the Prime Minister of Canada on foreign investment, 7 December 2012.
[e] Act T/9400/7 amending the Fundamental Law, 18 December 2012.
[f] Law 56 of 2012, Official Gazette No. 111, 14 May 2012.

Box III.5

[a] Bloomberg, "Deutsche Boerse-NYSE Takeover Vetoed by European Commission", 1 February 2012. Available at www.bloomberg.com/news/2012-02-01/european-commission-blocks-proposed-deutsche-boerse-nyse-euronext-merger.html (accessed 30 April 2013).
[b] Reuters, "Singapore Exchange ends ASX bid after Australia rebuff", 8 April 2011. Available at www.reuters.com/article/2011/04/08/us-asx-sgx-idUSTRE7370LT20110408 (accessed 30 April 2013).
[c] The Economic Times, "BHP Billiton abandons bid for fertiliser-maker Potash", 15 November 2010. Available at http://articles.economictimes.indiatimes.com/2010-11-15/news/27607057_1_potash-corp-marius-kloppers-saskatchewan (accessed 30 April 2013).
[d] Press release, Ministry of Industry, Canada, 7 December 2012. Available at http://news.gc.ca/web/article-eng.do?nid=711509 (accessed 30 April 2013).
[e] Financial Times, "China clears Marubeni-Gavilon deal", 23 April 2013. Available at www.ft.com/cms/s/0/032f2e7c-ac33-11e2-9e7f-00144feabdc0.html#axzz2Rw2yv1Ly (accessed 30 April 2013).
[f] Competition NEWS, "The Rhodes-Del Monte merger", March 2011. Available at www.compcom.co.za/assets/Uploads/AttachedFiles/MyDocuments/Comp-Comm-Newsletter-38-March-2011.pdf (accessed 6 May 2013).
[g] CBCNews, "Govt. confirms decision to block sale of MDA space division", 9 May 2008. Available at http://www.cbc.ca/news/technology/story/2008/05/09/alliant-sale.html (accessed 30 April 2013).

Box III.7

[a] http://cancilleria.gob.ec/wp-content/uploads/2013/04/22abr_declaracion_transnacionales_eng.pdf.

GLOBAL VALUE CHAINS: INVESTMENT AND TRADE FOR DEVELOPMENT

CHAPTER IV

INTRODUCTION

Global trade and FDI have grown exponentially over the last decade as firms expanded international production networks, trading inputs and outputs between affiliates and partners in GVCs.

About 60 per cent of global trade, which today amounts to more than $20 trillion, consists of trade in *intermediate* goods and services that are incorporated at various stages in the production process of goods and services for final consumption. The fragmentation of production processes and the international dispersion of tasks and activities within them have led to the emergence of borderless production systems – which may be sequential chains or complex networks and which may be global, regional or span only two countries. These systems are commonly referred to as global value chains (GVCs).

GVCs are typically coordinated by transnational corporations (TNCs), with cross-border trade of production inputs and outputs taking place within their networks of affiliates, contractual partners (in non-equity modes of international production, or NEMs; see *WIR11*) and arm's-length suppliers. The phenomenon of international production driven by TNCs engaging in efficiency-seeking FDI is not entirely new – the theme of *WIR93* was integrated international production – however, since around 2000, global trade and FDI have both grown exponentially, significantly outpacing global GDP growth, reflecting the rapid expansion of international production in TNC-coordinated networks.

GVCs lead to a significant amount of *double counting* in global trade. Raw material extracted in one country may be exported first to an affiliate in a second country for processing, then exported again to a manufacturing plant in a third country, which may then export the manufactured product to a fourth for final consumption. The value of the raw material counts only once as a GDP contribution in the original country but is counted several times in world exports.[1]

Recent advances in trade statistics aim to identify the double counting in gross trade figures and show where value is created in global production chains. Figure IV.1 shows a simplified example of *value added trade*.

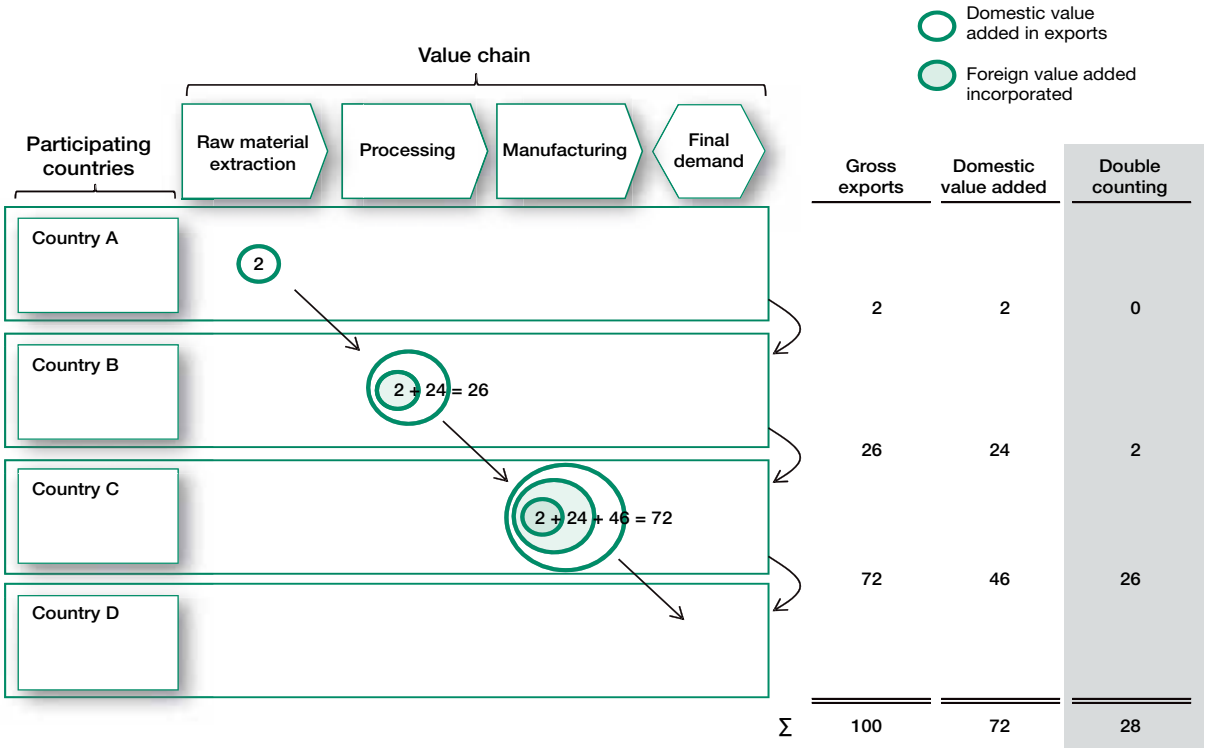
Value added trade statistics can lead to important policy insights on GVCs, trade, investment and development. For *WIR13*, in a collaborative effort with the Eora project,[2] UNCTAD built a value added trade dataset: the UNCTAD-Eora GVC Database (box IV.1).[3] The database will be used in this chapter to assess the patterns, drivers and determinants, development impact and policy implications of value added trade and investment.

GVCs are a concept taken up by different schools of economic theory, development studies and international business disciplines, with each strand of scholars adopting different definitions and boundaries of analysis. Table IV.1 illustrates a number of important contrasts. This chapter will attempt to bring together the various schools of thought, borrowing concepts from different disciplines and adding new cross-disciplinary insights.

UNCTAD's research objectives in this report are to demonstrate how GVCs constitute the nexus between investment and trade, to show the importance of GVCs in today's global economy and especially their weight in developing countries, to provide evidence for the impact of GVC participation in developing countries, and to make concrete recommendations to help policymakers maximize the benefits of GVC participation for economic growth and development while minimizing the associated risks.

To this end, in the remainder of this chapter, Section A describes GVC patterns at the global level and in developing countries specifically, and shows how FDI and TNC activities shape such patterns – based on (and building on) value added trade data. Section B borrows more from other GVC disciplines and international business theory to discuss firm-level drivers of GVC activity and locational determinants, which are important for policymakers in understanding the factors influencing country-level GVC participation. Section C describes the development impacts of GVC participation, including the GDP contribution of GVCs (direct

Figure IV.1. Value added trade: how it works



Source: UNCTAD.

and indirect through business linkages), the employment generation and working conditions in GVCs, the potential for technology dissemination and skill building through GVCs, and the social and environmental impacts of GVCs, as well as the potential contribution of GVCs to upgrading and long-term industrial development. Finally, Section D discusses policy implications, proposing a "GVC policy framework" focusing on the role of GVCs in development strategy, on the synergies between trade and investment policies, on trade and investment promotion, and on mainstreaming sustainable development and inclusive growth in GVC policies.

A. GVCs and patterns of value added trade and investment

1. Value added trade patterns in the global economy

GVCs cause "double counting" in global gross trade figures. This is a growing phenomenon as most countries increasingly participate in GVCs. Only the domestic value added in exports contributes to countries' GDP.

At the global level, the average foreign value added in exports is approximately 28 per cent (figure IV.2). That means, roughly, that about $5 trillion of the $19 trillion in 2010 world exports of goods and services has been contributed by foreign countries for further exports and is thus "double counted" in global trade figures.[4] The remaining $14 trillion is the actual value added contribution of trade to the global economy (or about one fifth of global GDP).

These figures differ significantly by country and by industry, with important policy implications:

- At the *country* level, foreign value added in exports measures the extent to which the GDP contribution of trade is absorbed by other countries upstream in the value chain, or the extent to which a country's exports are

Box IV.1. International efforts to map GVCs and the UNCTAD-Eora GVC Database

The growing importance of GVCs has led to the realization that the way international trade has traditionally been accounted for may no longer be sufficient. A growing body of work aims to net out the "double-counting" effect of GVCs on global trade, determine value added in trade, and map how value added moves between countries along GVCs before final consumption of end-products. Value added in trade can be estimated on the basis of international input-output (I-O) tables that illustrate the economic interactions between countries. To date, several initiatives have sought to compile intercountry I-O tables using different methodologies. A selection of the main initiatives appears in box table IV.1.1.

Box table IV.1.1. Selected initiatives mapping value added in trade

Project	Institution	Data sources	Countries	Industries	Years	Comments
UNCTAD-Eora GVC Database	UNCTAD/Eora	National Supply-Use and I-O tables, and I-O tables from Eurostat, IDE-JETRO and OECD	187	25–500 depending on the country	1990–2010	"Meta" database drawing together many sources and interpolating missing points to provide broad, consistent coverage, even of data-poor countries
Inter-Country-Input-Output model (ICIO)	OECD/WTO	National I-O tables	40	18	2005, 2008, 2009	Based on national I-O tables harmonized by the OECD
Asian International I-O tables	Institute of Developing Economies (IDE-JETRO)	National accounts and firm surveys	10	76	1975,1980, 1985,1990, 1995,2000, 2005	United States-Asia tables also bilateral tables, including China-Japan
Global Trade Analysis Project (GTAP)	Purdue University	Contributions from individual researchers and organizations	129	57	2004, 2007	Unofficial dataset; includes data on areas such as energy volumes, land use, carbon dioxide emissions and international migration
World Input-Output Database (WIOD)	Consortium of 11 institutions, EU funded	National Supply-Use tables	40	35	1995–2009	Based on official National Accounts statistics; uses end-use classification to allocate flows across partner countries

The UNCTAD-Eora GVC Database uses I-O tables to estimate the import-content ratio in exportable products and value added trade. Its value added trade data are derived from the Eora global multi-region input-output (MRIO) table. The Eora MRIO brings together a variety of primary data sources including national I-O tables and main aggregates data from national statistical offices; I-O compendia from Eurostat, IDE (Institute of Developing Economies)–JETRO (Japan External Trade Organization) and OECD; national account data (the UN National Accounts Main Aggregates Database; and the UN National Accounts Official Data); and trade data (the UN Comtrade international trade database and the UN ServiceTrade international trade database). Eora combines these primary data sources into a balanced global MRIO, using interpolation and estimation in some places to provide a contiguous, continuous dataset for the period 1990-2010. The Eora MRIO thus builds on some of the other efforts in the international community. Accompanying every data point in the results provided on the Eora website (www.worldmrio.com) is an estimate of that data point's standard deviation, reflecting the extent to which it was contested, interpolated, or estimated, during the process of assembling the global MRIO from constituent primary data sources. For more details on the Eora database, see the Technical note on the UNCTAD-Eora GVC Database in the database launch report "GVCs and Development", available at http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf (pp. 26-30).

The joint OECD-WTO project (see box table) is recognized as a comprehensive effort to set a common standard for the estimation of value added in trade. Placing significant emphasis on methodology, it necessarily sacrifices some coverage (of countries, industries and time series) for statistical rigor. In contrast, the primary objective of the UNCTAD-Eora GVC Database is extended coverage, to provide a *developing-country perspective*. This explains the choice of the MRIO approach, the key innovation of which is the use of algorithms that allow the use of different data sources and types while minimizing accounting discrepancies, enabling the inclusion of data-poor countries.

Source: UNCTAD.

Table IV.1. Perspectives on GVCs

	International Business "Firm perspective"	Economics "Country perspective"
Defining concepts	• GVCs are defined by *fragmented* supply chains, with internationally dispersed tasks and activities *coordinated* by a lead firm (a TNC).	• GVCs explain how exports may incorporate imported inputs; i.e. how exports include foreign and domestically produced *value added.*
Scope	• GVCs are present predominantly in industries characterized by such supply chains, with typical examples including electronics, automotive and textiles (although the scope is widening to agriculture and food and offshore services, among others).	• GVCs and value added trade, by design and by the necessities of statistical calculation, encompass *all trade*; i.e. all exports and imports are part of a value chain.
Role of investment and trade	• Investment and trade are complementary but alternative modes of international operation for firms; i.e. a firm can access foreign markets or resources by establishing an affiliate or through trade.	• Investment is needed to build export capacity (i.e., it creates the factors of production required to generate value added exports); both investment and value added in exports are GDP contributors.

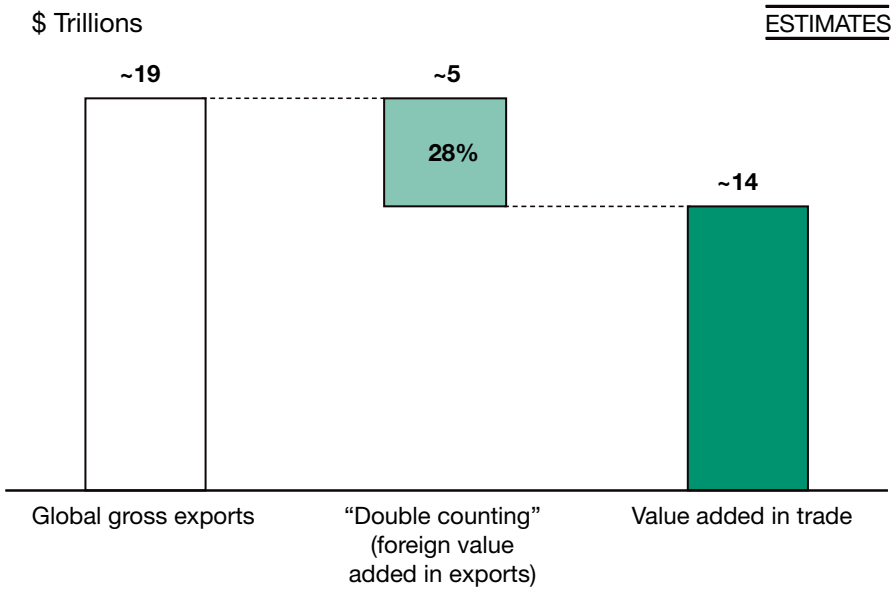
Source: UNCTAD.

dependent on imported content. It is also an indication of the level of vertical specialization of economies: the extent to which economic activities in a country focus on particular tasks and activities in GVCs.

- At the *industry* level, the average foreign value added is a proxy for the extent to which industry value chains are segmented or "fine-sliced" into distinct tasks and activities that generate trade, compounding the double-counting effect. This is important for policymakers in designing, for example, industrial development, trade and investment promotion policies.

Developed countries, as a whole, at 31 per cent have a higher share of foreign value added in exports than the global average (figure IV.3); i.e. the import dependence of exports in those countries appears higher. However, this picture is distorted by the weight in global figures of internal trade within

Figure IV.2. Value added in global trade, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD estimates.

Box IV.2. Understanding value added trade data and indicators

A country's exports can be divided into domestically produced value added and imported (foreign) value added that is incorporated into exported goods and services. Furthermore, exports can go to a foreign market either for final consumption or as intermediate inputs to be exported again to third countries (or back to the original country). The analysis of GVCs takes into account both foreign value added in exports (the *upstream* perspective) and exported value added incorporated in third-country exports (the *downstream* perspective). The most common indicators, which will also be used in this report, are as follows:

1. **Foreign value added** (foreign value added as a share of exports) indicates what part of a country's gross exports consists of inputs that have been produced in other countries. It is the share of the country's exports that is not adding to its GDP.[a]
2. **Domestic value added** is the part of exports created in-country, i.e. the part of exports that contributes to GDP. The sum of foreign and domestic value added equates to gross exports. Domestic value added can be put in relation to other variables:
   a. As a share of GDP, it measures the extent to which trade contributes to the GDP of a country.
   b. As a share of global value added trade (the "slice of the value added trade pie"), it can be compared with a country's share in global gross exports or its share in global GDP.
3. **GVC participation**[b] indicates the share of a country's exports that is part of a multi-stage trade process, by adding to the foreign value added *used* in a country's own exports also the value added *supplied* to other countries' exports. Although the degree to which exports are used by other countries for further export generation may appear less relevant for policymakers, because it does not change the domestic value added contribution of trade, the participation rate is nonetheless a useful indicator of the extent to which a country's exports are integrated in international production networks. It is thus helpful in exploring the trade-investment nexus.

The GVC participation rate corrects the limitation of the foreign and domestic value added indicators in which countries at the beginning of the value chain (e.g. exporters of raw materials) have a low foreign value added content of exports by definition. It gives a more complete picture of the involvement of countries in GVCs, both upstream and downstream.

A country's GVC participation, measured as a share of exports, effectively assesses the *reliance* of exports on GVCs. In this sense, it is also an indicator of how much hypothetical "damage" to GVCs (and global GDP) would occur if a country's exports are blocked or, alternatively, it represents the *vulnerability* of the GVC to shocks in the respective country.

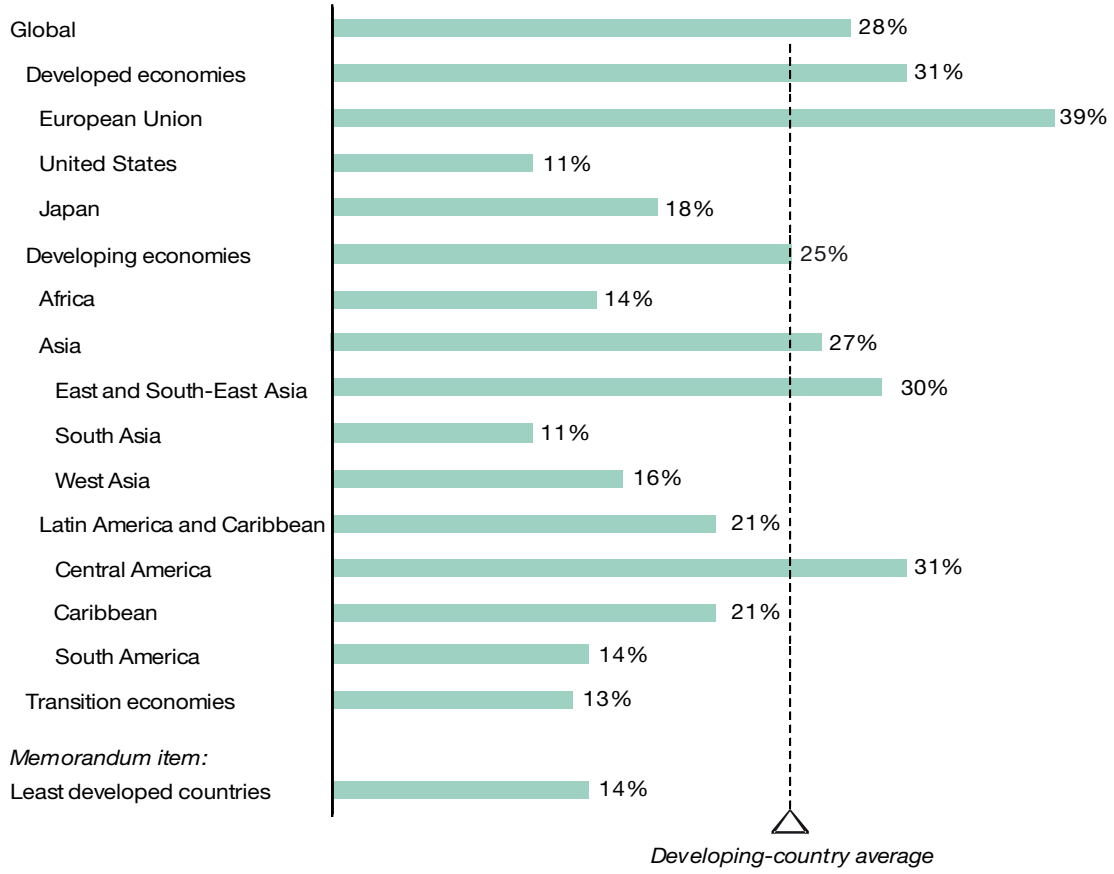
GVC indicators can also be used to assess the extent to which *industries* rely on internationally integrated production networks. Data on value added trade by industry can provide useful indications on comparative advantages and competitiveness of countries, and hence form a basis for development strategies and policies. A number of complex methods have been devised in the literature to measure GVC length.[c] This report will use a simplification device by looking at the degree of double counting in industries, which, conceptually, can serve as a rough proxy for the length of GVCs.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

the highly integrated EU economy, which accounts for some 70 per cent of EU-originated exports. Japan and the United States show significantly lower shares of such "double counting".

Thus, while developing countries (25 per cent) have a lower share of foreign value added than the world average (28 per cent), their foreign value added share is significantly higher than in the United States and Japan – or than in the EU, if only external trade is taken into account. Among developing economies, the highest shares of foreign value added in trade are found in East and South-East Asia and in Central America (including Mexico), where processing industries account for a significant part of exports. Foreign value added in exports is much lower in Africa, West Asia, South America and in the transition economies, where natural resources and commodities exports with little foreign inputs tend to play an important role. The lowest share of foreign value added in exports is found in South Asia, mainly due to the weight of services exports, which also use relatively fewer foreign inputs.

Figure IV.3. Share of foreign value added in exports, by region, 2010



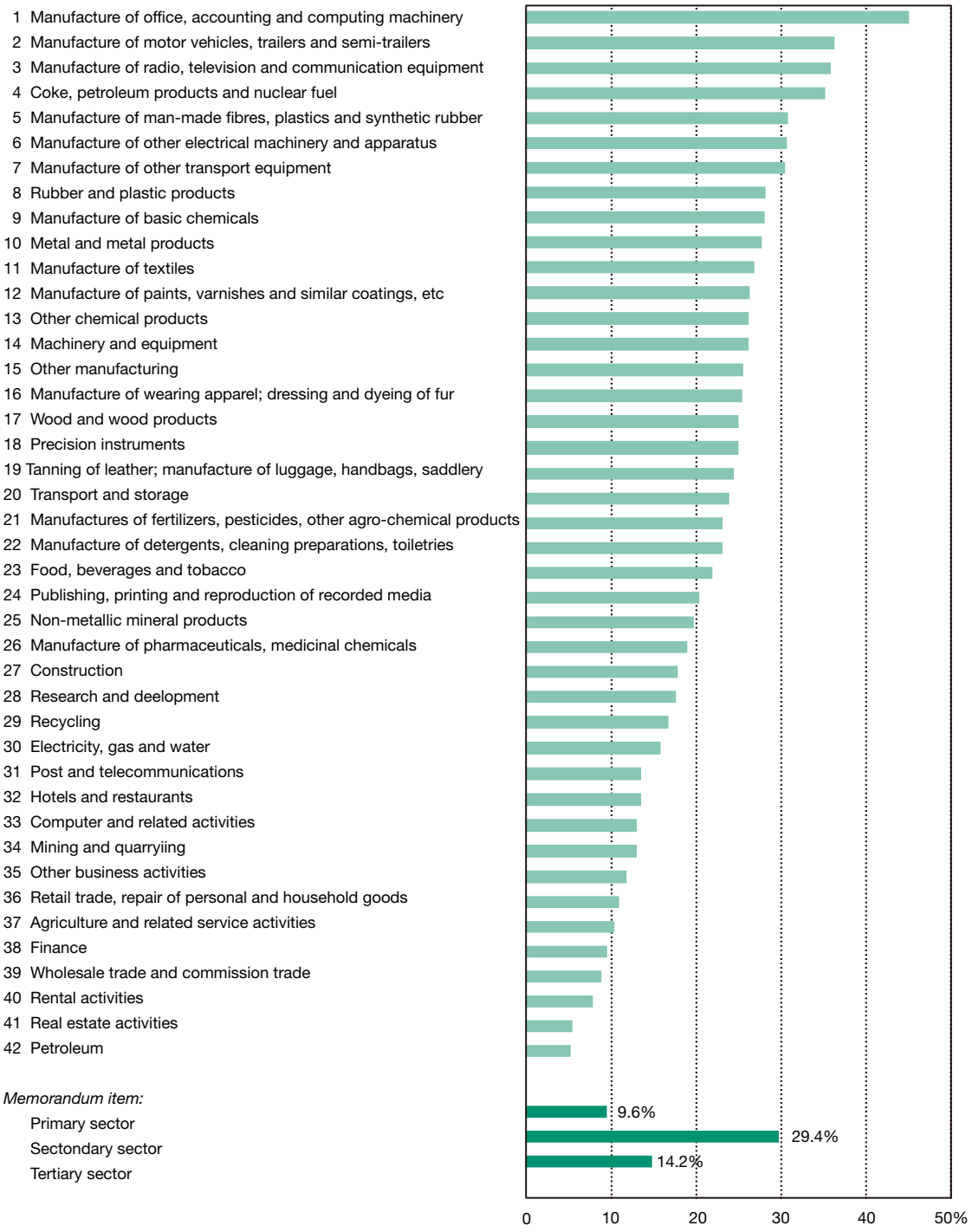
Source: UNCTAD-Eora GVC Database.

The average foreign value added share of exports and the degree of double counting in global exports of an industry provide a rough indication of the extent to which industries rely on internationally integrated production networks, as it proxies the extent to which intermediate goods and services cross borders until final consumption of the industry's output.

Traditionally, a select number of manufacturing industries have been at the forefront of value chain segmentation ("fine-slicing" of value chains) and of associated trends such as outsourcing and offshoring. The electronics and automotive industries, where products can be broken down into discrete components that can be separately produced, easily transported and assembled in low-cost locations, have led the way in shaping GVCs and consequently rank highest by share of foreign value added in trade (figure IV.4). A number of industries that incorporate and process outputs from extractive industries and traded commodities (e.g. petroleum products, plastics, basic chemicals) follow closely behind. The extractive industries themselves naturally rank much lower as they require little imported content of exports apart from some services. Foreign value added in exports is thus not a fully fledged indicator of the GVC complexity of industries; extractive industries are clearly a fundamental "starting point" of many GVCs, not because of their use of foreign value added, but because they constitute value added inputs in many other industries' exports. Similarly, services industries – e.g. business services, finance, utilities – also rank low in terms of imported content of exports as they use fewer intermediate inputs and their involvement in GVCs typically occurs through value added incorporated in exported manufactured goods.

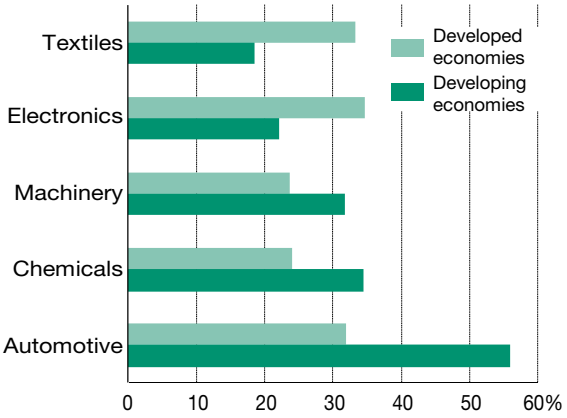
Clearly, GVCs do not equate with industries. A value chain for a given product may incorporate value added produced by many different industries (e.g. manufactured products incorporate value added

Figure IV.4. Share of foreign value added in exports, selected industries, 2010



Source: UNCTAD-Eora GVC Database.
Note: Illustrative list of industries selected based on significance in GVCs, at various levels of industry classification.

Figure IV.5. Share of foreign value added in exports, developed and developing economies, selected industries, 2010



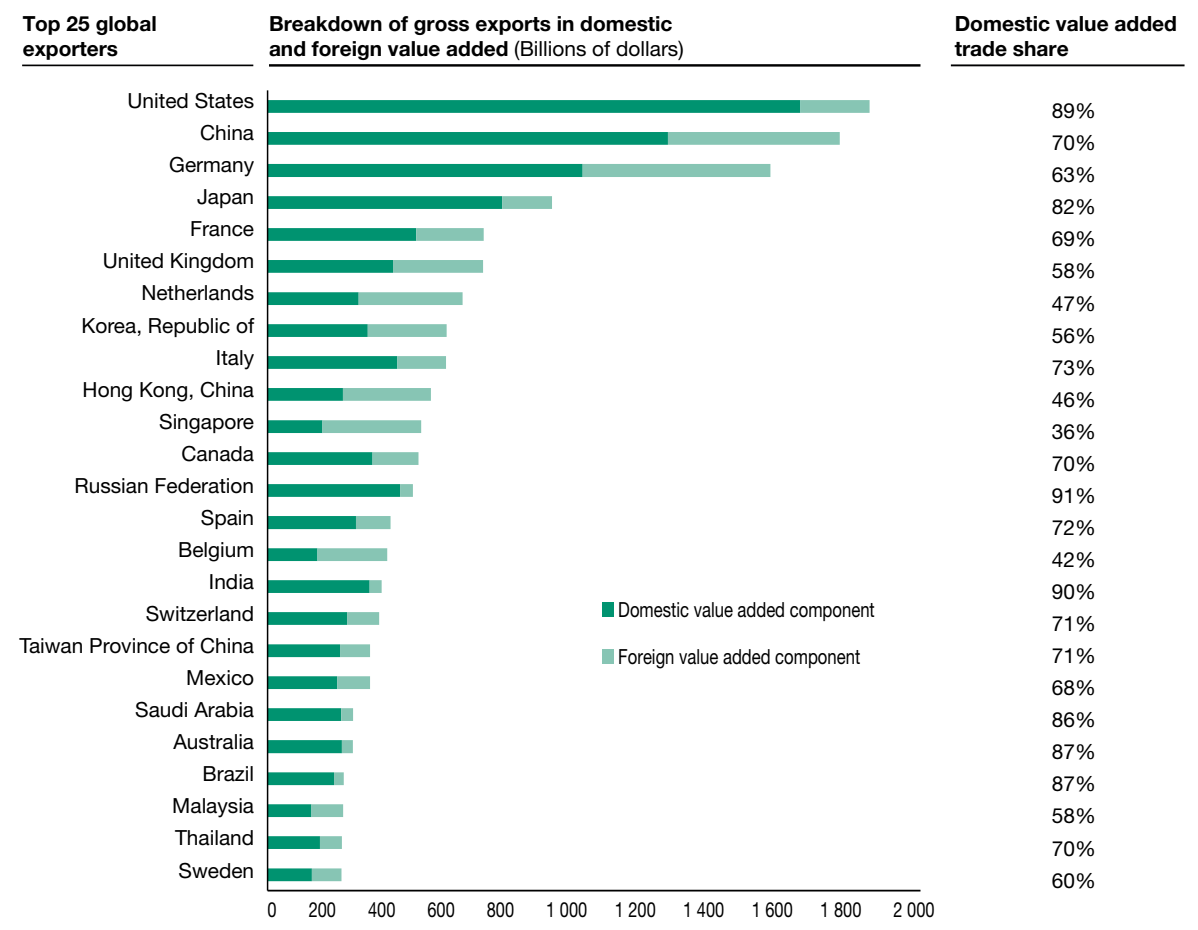
Source: UNCTAD-Eora GVC Database.

from services industries). The global average shares by industry of foreign value added ignore the fact that each industry may be part of and contribute to many different value chains.

Global industry averages also disguise significant differences by country or region (figure IV.5). Foreign value added shares in the textile industry are much higher in developed than in developing countries, confirming that the latter provide much of the semi-finished inputs used by developed-country exporters. Electronics is another industry in which developed countries import a greater share of the value added in their exports. In contrast, in machinery, chemicals and the automotive industry, developing countries tend to use more foreign inputs for the production of their exports.

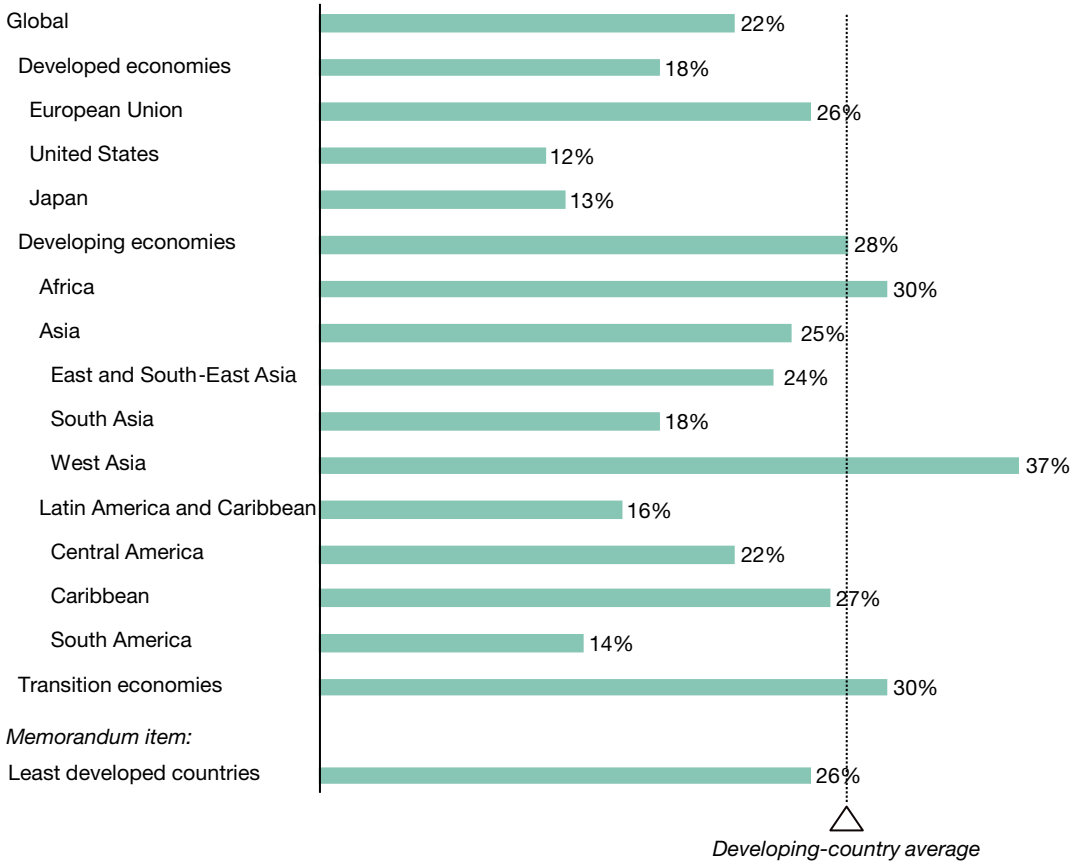
Because exports incorporate foreign produced value added, the share of domestic value added in exports by country can be quite different (figure IV.6).

Figure IV.6. Domestic value added trade shares of the top 25 exporting economies, 2010



Source: UNCTAD-Eora GVC Database.

Figure IV.7. Domestic value added in trade as a share of GDP, by region, 2010



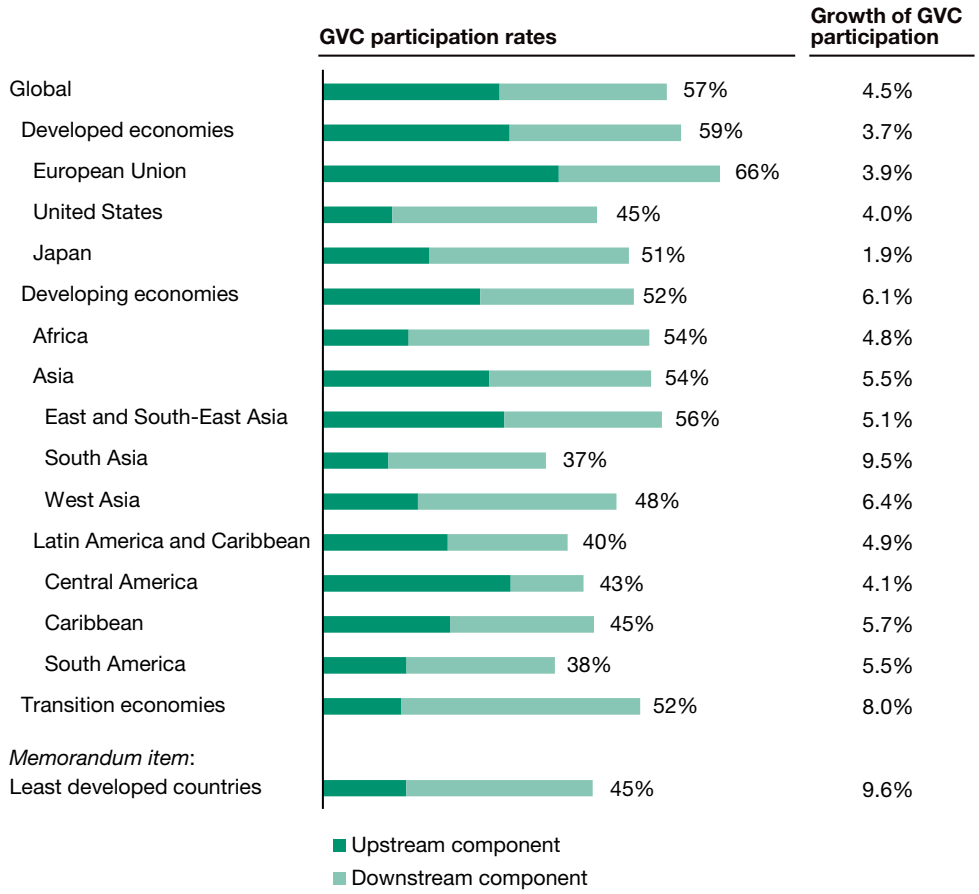
Source: UNCTAD-Eora GVC Database.

Factors that influence the share of domestic value added in exports include:

- *Size of the economy*. Large economies, such as the United States or Japan, tend to have significant internal value chains and to rely less on foreign inputs. There are important exceptions, including China, Germany and the United Kingdom.
- *Composition of exports and position in GVCs*. Countries that have significant shares of natural resources, oil or other commodities in their exports, such as the Russian Federation and Saudi Arabia, tend to have higher shares of domestic value added trade, as such exports are at the "beginning" of GVCs and require few foreign inputs. Countries that have significant services exports such as India also tend to capture relatively more value (although India's exports of natural resources are important as well). In contrast, countries that have significant shares of exports in highly segmented industries (see figure IV.4) may need to import more to generate exports.
- *Economic structure and export model*. Countries with significant shares of entrepôt trade, such as Hong Kong (China), Singapore or the Netherlands, will have higher shares of foreign value added. The same applies for countries with important processing trade sectors.

The combination of these three factors explains most countries' domestic value added shares (net of policy factors which will be explored later). For example, China, on the one hand, is a large economy with an increasingly important internal supply chain. On the other hand, it has a significant share of processing trade and is an important exporter of electronics, the industry with the most complex GVC linkages. As a result, its domestic

Figure IV.8. GVC participation, 2010, and GVC participation growth rates, 2005–2010



Source: UNCTAD-Eora GVC Database.
Note: GVC participation indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added used in a country's exports (upstream perspective) plus the value added supplied to other countries' exports (downstream perspective), divided by total exports. GVC participation growth here is the annual growth of the sum of the upstream and downstream component values (CAGR).

value added share balances at about the global average of 72 per cent.

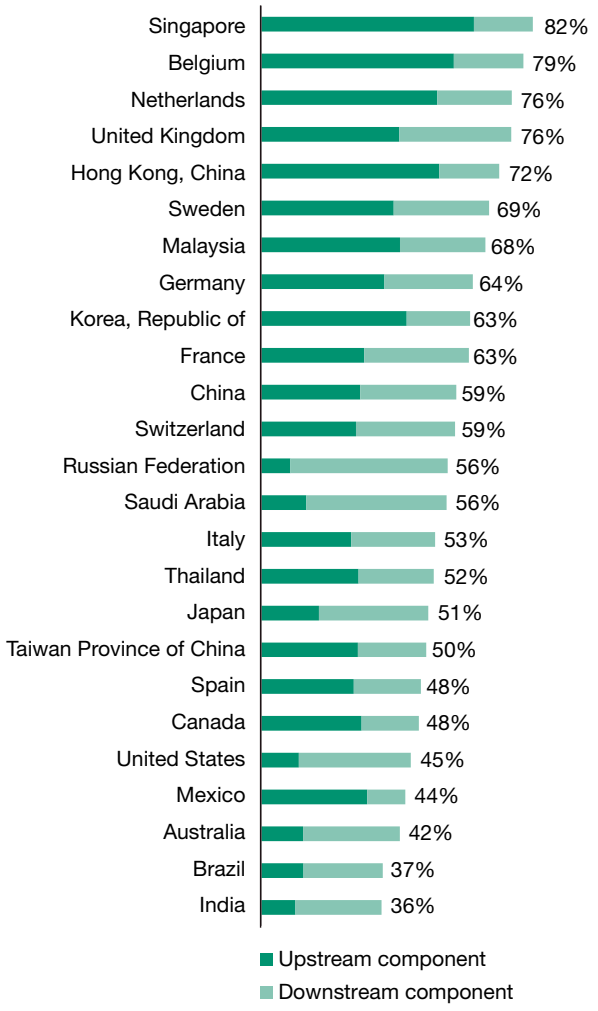
Domestic value added created from trade – the actual contribution of trade to GDP after discounting imported value added – can be significant relative to the size of local economies. While the contribution of trade to global GDP is about one fifth, this share is higher in developing and transition economies (figure IV.7). It is particularly high in Africa, West Asia and the transition economies owing to the relative importance of exports of natural resources there and, in part, to the relatively small size of the local "non-tradables" economy. The contribution of trade to GDP is high also in East and South-East Asia; on this measure, that region rivals the highly integrated European market. This high share not only reflects the export competitiveness of these Asian economies but also their higher share of domestic value added in trade compared with Europe.

The value and share of developing-country exports that depend on GVCs, because of either upstream links (foreign value added in exports) or downstream links (exports that are incorporated in other products and re-exported) are quite significant (figure IV.8). East and South-East Asia remains the region with the highest level of GVC participation, reflecting its primacy as the most important region for export-oriented manufacturing and processing activities. Central America (including Mexico) also has a high participation rate, but whereas it ranked equal with South-East Asia in terms of foreign value added in exports, it has a lower downstream participation rate, reflecting the fact that it exports relatively more

to the United States domestic market rather than for onward exports.

Commodity-exporting regions have a significantly higher GVC participation rate than their foreign value added share would suggest, indicating that much of their exports are processed and their value added incorporated in third-country exports – i.e. they operate at the starting point of GVCs. South Asia remains the lowest ranked region in terms of GVC participation, partly because of exports of natural resources, and because much of the services exports from the region satisfy final demand in importing countries and are not used to produce further exports.

Figure IV.9. GVC participation rate of the top 25 exporting economies, 2010



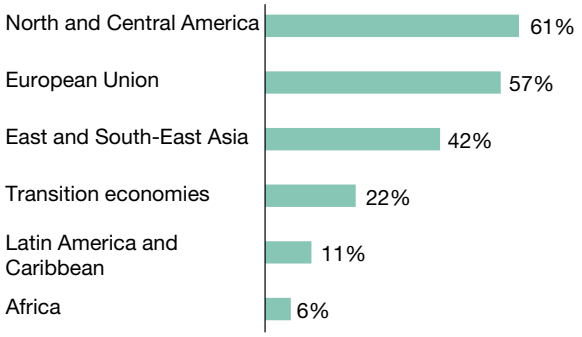
Source: UNCTAD-Eora GVC Database.

However, South Asia is the region with the highest GVC participation growth rate, albeit from a low base. Transition economies also show faster than average growth. Nearly all developing regions outpace the developed world in GVC growth. It should be noted that much of the growth in GVC participation in developing countries, on this measure, must be attributed to downstream use in GVCs of natural resources and raw materials. Although downstream use is the more positive component of participation, in the sense that it contributes to GDP, the lack of parallel growth of the upstream component confirms that many poorer developing countries are still behind in accessing more fragmented GVCs.

As noted above, GVC participation – or the role that individual countries play in international production networks – is driven by many different factors, from size of the economy to industrial structure and level of industrialization, composition of exports and positioning in value chains, policy elements, and others. As a result, countries with very different characteristics may be very similar in the ranking of GVC participation (figure IV.9).

The GVC participation of many countries relates substantially to GVC interactions within their respective regions. Instead of a global reach, most value chains have a distinctive regional character, as shown in figure IV.10. North and Central American value chain links are especially strong, as are intra-European Union ones. The largest extraregional bilateral GVC flows are between Germany and the United States, China and Germany, and Japan and the United States, in that order.

Figure IV.10. Share of intra-regional GVC flows in total GVC participation, selected regions, 2010



Source: UNCTAD-Eora GVC Database.

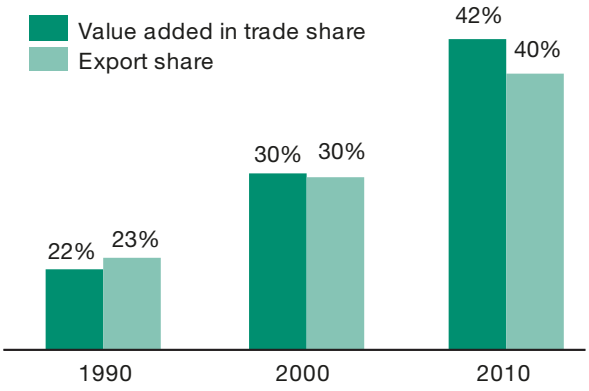
2. Value added trade patterns in the developing world

Developing countries, including the poorest, are increasingly participating in GVCs and gaining domestic value added, although many are starting from a very low base.

The share of global value added trade captured by developing economies is increasing rapidly. It grew from about 20 per cent in 1990, to 30 per cent in 2000, to over 40 per cent in 2010. As a group, developing and transition economies are capturing an increasing share of the global value added trade pie (figure IV.11). As global trade grows, developed economies appear to rely increasingly on imported content for their exports, allowing developing countries to add disproportionately to their domestic value added in exports.

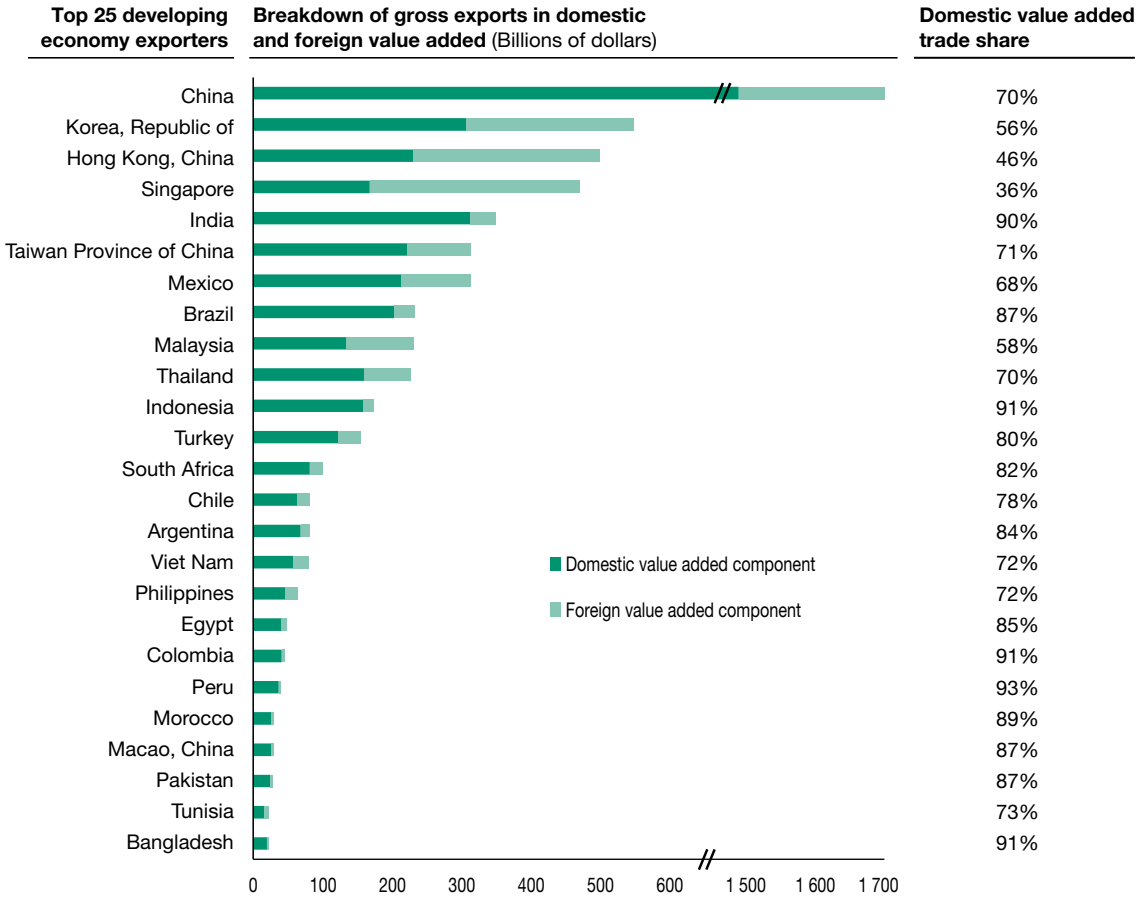
Looking at the domestic value added trade shares for the top 25 developing-economy exporters, excluding predominantly oil-exporting countries (figure IV.12), shows that exporters of natural resources and raw materials that use little foreign value added in exports (such as Chile or Indonesia) obtain a relatively large share of domestic value

Figure IV.11. Share of developing countries in global value added trade and in gross exports, 1990–2010



Source: UNCTAD-Eora GVC Database.

Figure IV.12. Domestic value added trade shares of the top 25 developing economy exporters, 2010

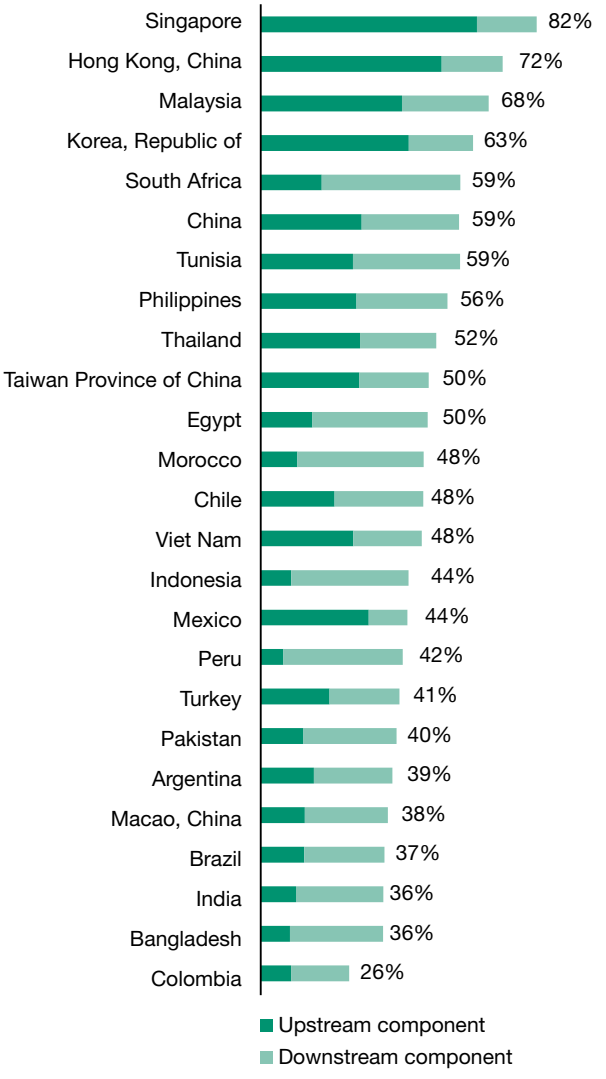


Source: UNCTAD-Eora GVC Database.
Note: Top 25 excludes predominantly oil-exporting countries.

added, as do services exporters such as India. Relatively open developing economies with strong export performances and very high GVC participation (such as the Republic of Korea; Hong Kong, China; Singapore; Malaysia) get a lower value added contribution from trade than their export shares would suggest, although the absolute contribution of value added trade to GDP in these countries is high.

Among the top 25 exporting developing economies there are significant differences in the degree to which their exports are integrated in – or depend on – GVC participation (figure IV.13). The main East and South-East Asian exporters rank highest in GVC participation because they both import a substantial part of their exports (foreign value added) and a significant part of their exports are intermediate goods that are used in third countries' exports. These countries' exports are thus integrated in GVCs both upstream and downstream; in other words, they operate in "the middle" of GVCs. The commodity-exporting group of countries also rates relatively high in GVC participation, but largely because of outsized downstream usage of their export products in third countries' exports.

Figure IV.13. GVC participation rate of the top 25 developing economy exporters, 2010



Source: UNCTAD-Eora GVC Database.
Note: Top 25 excludes predominantly oil-exporting countries.

Some of the larger emerging markets, such as India, Brazil, Argentina and Turkey, have relatively low GVC participation rates. These countries may have lower upstream participation levels, both because of the nature of their exports (natural resources and services exports tend to have less need for imported content or foreign value added) and because larger economies display a greater degree of self-sufficiency in production for exports. They may also have lower downstream participation levels because of a focus on exports of so-called final-demand goods and services, i.e. those not used as intermediates in exports to third countries.

3. FDI and the role of TNCs in shaping GVCs

TNCs are involved in 80 per cent of global trade. They shape value added trade patterns through intra-firm, NEM and arm's-length transactions.

Investment and trade are inextricably intertwined. Much of trade in natural resources is driven by large cross-border investments in extractive industries by globally operating TNCs. Market-seeking foreign direct investment (FDI) by TNCs also generates trade, often shifting arm's-length trade to intra-firm trade. Efficiency-seeking FDI, through which firms seek to locate discrete parts of their production processes in low-cost locations, is particularly associated with GVCs; it increases the amount of trade taking place within the international production networks of TNCs and contributes to the "double counting" in global trade flows discussed in this report.

FDI generally precedes increases in exports. FDI is thus an increasingly important driver of trade flows worldwide. This is confirmed by evidence at the firm level. Only a very small fraction of the universe of

firms in most economies engages in international trade, and trading activity tends to be highly concentrated. In the EU, the top 10 per cent of exporting firms typically accounts for 70 to 80 per cent of export volumes, while this figure rises to 96 per cent of total exports for the United States, where about 2,200 firms (the top 1 per cent of exporters, most of which are TNC parent companies or foreign affiliates) account for more than 80 per cent of total trade. The international production networks shaped by TNC parent companies and affiliates account for a large share of most countries' trade.[5]

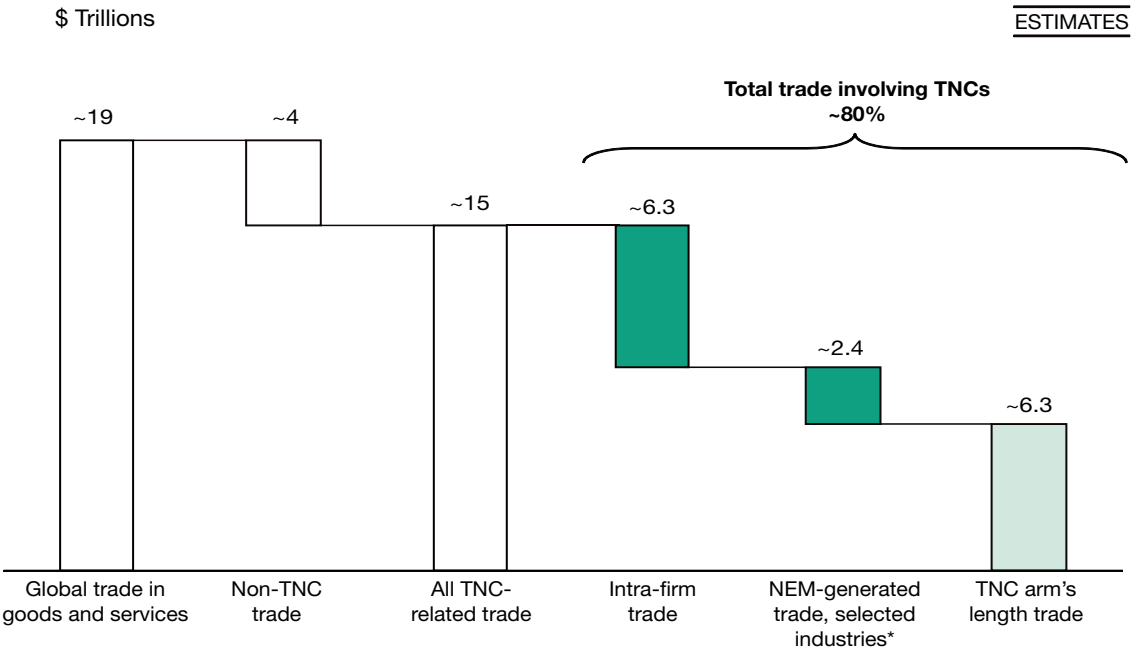
On the basis of these macro-indicators of international production and firm-level evidence, UNCTAD estimates that about 80 per cent of global trade (in terms of gross exports) is linked to the international production networks of TNCs, either as intra-firm trade, through NEMs (which include, among others, contract manufacturing, licensing, and franchising), or through arm's-length transactions involving at least one TNC (figure IV.14 and box IV.3).

The international production networks of TNCs, within which most trade takes place, are heavily geared towards providing those value added inputs required to generate trade. For example, GVCs make extensive use of services: while the share of services in gross exports worldwide is only about 20 per cent, almost half (46 per cent) of value added in exports is contributed by service-sector activities, as most manufacturing exports require services for their production. This provides a parallel with global FDI stock, two thirds of which is allocated to services activities (figure IV.15).[6] This picture is essentially the same for developed and developing countries.

The involvement of TNCs in generating value added trade is strongly implied by the statistical relationship between FDI stock in countries and their GVC participation rates (figure IV.16). The correlation is strongly positive and increasingly so over time, especially in the poorest countries, indicating that FDI may be an important avenue for developing countries to gain access to GVCs and increase their participation.

Ranking countries by the ratio of FDI stock over GDP and grouping them in quartiles (figure IV.17) shows that the group of countries with the most FDI relative to the size of their economies tend to have three characteristics:

Figure IV.14. Global gross trade (exports of goods and services), by type of TNC involvement, 2010



Source: UNCTAD estimates (see box IV.3).
Note: * Including contract manufacturing in electronics, automotive components, pharmaceuticals, garments, footwear, toys; and IT services and business process outsourcing (see *WIR11*). TNC arm's length trade may include other NEM trade.

Box IV.3. Estimating trade within the international production networks of TNCs

The estimates for trade taking place with the international production networks of TNCs shown in figure IV.14 are based on evidence about investment-trade links of individual countries and regions:[a]

- In the United States, in 2010, affiliates of foreign TNCs accounted for 20 per cent of exports and 28 per cent of imports of goods, while TNCs based in the United States accounted for 45 per cent of exports and 39 per cent of imports. Thus some two thirds of both exports and imports of goods can be considered to be within the international production networks of TNCs.
- In Europe, also in 2010, French TNCs accounted for some 31 per cent of goods exports and 24 per cent of imports, while foreign affiliates in France accounted for 34 per cent and 38 per cent, respectively. Thus some 64 per cent of total French exports and 62 per cent of total French imports of goods in 2009 can be considered to be within the international production networks of TNCs. Similar scattered evidence exists for other EU countries.
- In Japan, TNCs based there accounted for 85 per cent of exports of goods and services, while foreign affiliates contributed a further 8 per cent. Thus 93 per cent of total Japanese exports of goods and services are linked to TNCs.
- In China, foreign affiliates accounted for some 50 per cent of exports and 48 per cent of imports in 2012. Adding the trade activities of Chinese TNCs – although they are perhaps not as large as the share of their French or United States counterparts given the lower (but growing) share of Chinese outward FDI – would lead to estimates of trade within international production networks in excess of the United States share.
- In developing countries as a group, it is likely that the share of trade within the production networks of TNCs is higher, for two reasons: (i) the productivity curve of firms is steeper than in developed countries, meaning that trade is likely to be even more concentrated in a small number of large exporters and importers with above-average productivity, i.e. predominantly TNCs and their affiliates; (ii) the share of extractive industries in their exports (at about 25 per cent) is significantly higher than the world average (about 17 per cent) and the extraction and trade of natural resources generally involves TNCs.

A significant share of this trade is intra-firm trade, the international flows of goods and services between parent companies and their affiliates or among these affiliates, as opposed to arm's-length trade between unrelated parties (inter-firm trade). For example, the share of exports by United States affiliates abroad directed to other affiliated firms, including parent firms, remained high at about 60 per cent over the past decade. Similarly, nearly half of the exports of goods by foreign affiliates located in the United States are shipped to the foreign parent group and as much as 70 per cent of their imports arrive from the foreign parent group. Japanese TNCs export 40 per cent of their goods and services to their own affiliates abroad. Although further evidence on intra-firm trade is patchy, the general consensus is that intra-firm trade accounts on average for about 30 per cent of a country's exports, with large variations across countries.

These explanations focus for the most part on merchandise trade. There is evidence that TNC involvement in services trade, with a growing share of intra-firm trade in services (e.g. corporate functions, financial services), is even higher. Where it does not occur in the form of intra-firm trade, services trade often takes place in NEM relationships (information technology and business process outsourcing, call centres, etc.). NEMs as a whole (including contract manufacturing activities) are estimated to be worth over $2 trillion (see *WIR11*).

Arm's-length trade by TNCs (exports to and imports from unrelated parties in data from the OECD's Activity of Multinational Enterprises database) is estimated to be worth about $6 trillion, the residual. Non-TNC-related trade includes all transactions between firms that have only domestic operations, anonymous transactions on commodity exchanges, etc.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

- Higher foreign value added in their exports (foreign affiliates of TNCs producing for exports tend to use value added produced by other parts of the TNC production network);
- Higher GVC participation (foreign affiliates of TNCs not only use foreign inputs in their production, but also supply to other parts of the TNC network for further exports); and

- A higher relative share in global value trade compared with their share in global exports.

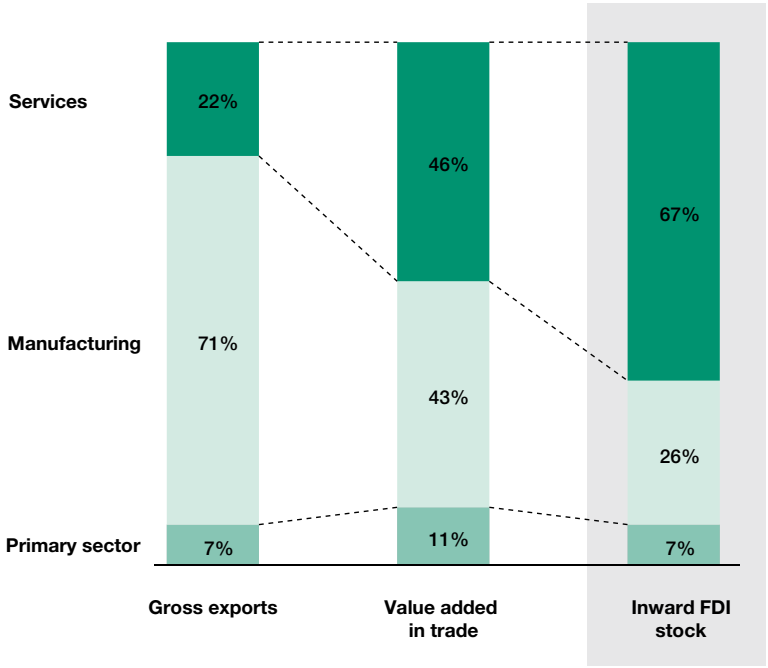
While the link between FDI and TNC activities, on the one hand, and value added trade patterns, on the other, can thus be established *at the macro level*, determining how TNCs and their networks of affiliates and contractual partners shape value added trade patterns through *firm-level evidence* remains challenging. Information on TNC ownership structures and financial figures is fragmented, and transactions between co-affiliates within the same group are typically not reported. For a given country-industry combination, by matching TNC network structures with industry value added inputs and outputs, it is possible to derive intra-firm sourcing and supply propensities (see box IV.4 for methodological details and data sources).

The Thai automotive industry provides a clear example of the pivotal role of TNCs in shaping patterns of value added trade and domestic value creation (table IV.2). It is one of the fastest growing industries in Thailand, accounting for about $34 billion in gross output. Some 80 per cent of production is exported. The domestic value added share is about 25 per cent of the export value. Of that 25 per cent of domestic value added, only 60 per cent is produced by firms in the automotive industry, and 40 per cent is contributed by firms in supplier industries, including services (further detail on such local linkages in section C).

More than half of the gross output of the industry is produced by a relatively small group of foreign affiliates of TNCs: 52 foreign affiliates, part of 35 business groups or TNC networks – corresponding to 4 per cent of the total number of companies registered (some 1,300) – produce 56 per cent of total output. To a large extent, these foreign affiliates also drive the upstream and downstream linkages of the industry in Thailand.

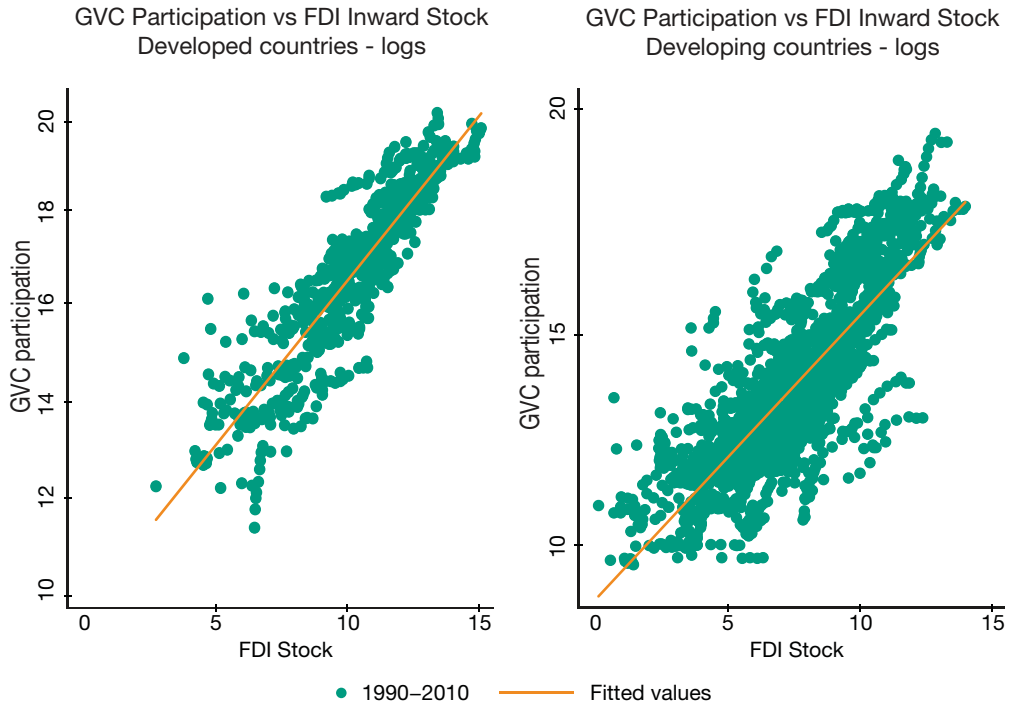
The total TNC network of the 52 foreign affiliates in Thailand comprises some 6,000 co-affiliates located in 61 countries around the world (the sum of affiliates of all 35 business groups). About 27 per cent of the foreign value added used by individual affiliates in Thailand (of the 75 per cent of foreign value added in exports) is sourced intra-firm from within their own TNC networks or business groups. On the downstream side, an estimated 65 per cent of foreign affiliate exports is absorbed by firms within their own network. Downstream linkages are more concentrated, with potential intra-firm export connections limited to some 850 co-affiliates.

Figure IV.15. Sector composition of global gross exports, value added trade, and FDI stock, 2010



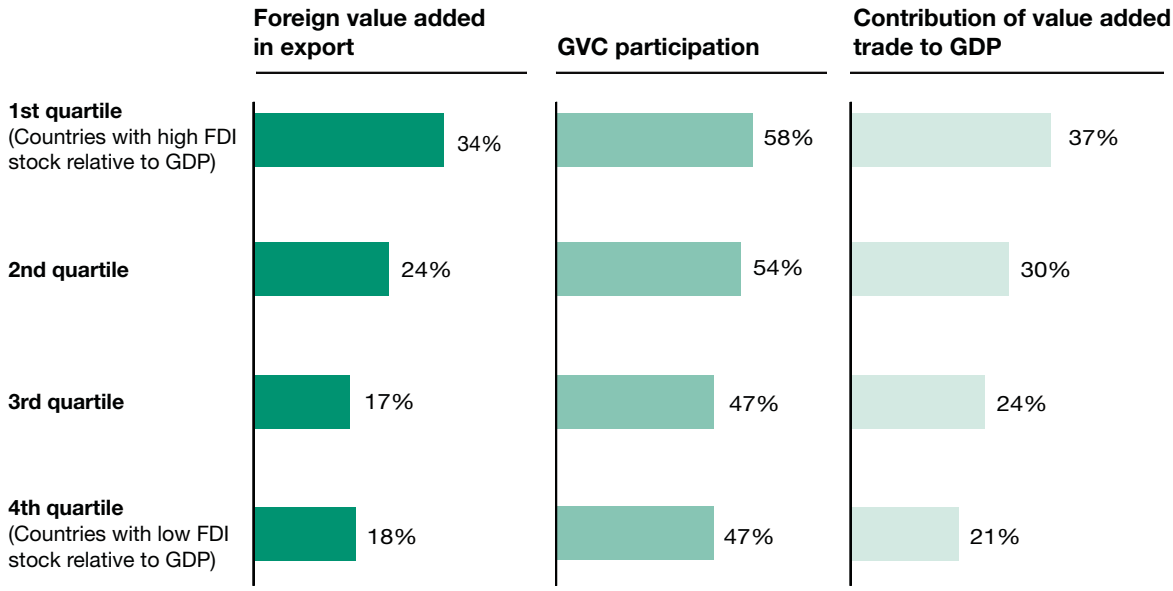
Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database.

Figure IV.16. Correlation between levels of inward FDI stock and GVC participation



Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database, UNCTAD analysis.
Note: Data for 187 countries over 20 years. The regression of the annual GVC participation growth on the annual FDI inward (stock) growth yields a positive and significant correlation (at the 5 per cent level) both for developed and developing countries (R^2 = 0.77 and 0.44, respectively). The correlation remains significant considering the two time periods 1990 - 2000 and 2001 - 2010 separately. Regressions use lagged (one year) inward FDI (stock) growth rates and include year fixed effects to account for unobserved heterogeneity.

Figure IV.17. Key value added trade indicators, by quartile of inward FDI stock relative to GDP, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database, UNCTAD analysis.
Note: Data for 180 countries, ranked by inward FDI stock relative to GDP and grouped in quartiles; data reported are median values for each quartile.

Table IV.2. Role of TNCs in shaping value added trade in the Thai automotive industry

Indicators	Values	Example affiliates and co-affiliates
Automotive industry production in Thailand		
Gross output	~$34 billion	
Export share in gross output	78%	
Domestic value added share in exports	25%	
Share of domestic value added contributed by industries other than automotive in Thailand	40%	
Number of foreign affiliates of TNCs	52	
Number of business groups (TNC networks) to which these foreign affiliates belong	35	• Mitsubishi: Tri Petch Isuzu Sales Co. Ltd. • Honda: Thai Honda Manufacturing Co. Ltd. • BMW Manufacturing Co. Ltd.
Foreign affiliates as share of total number of firms	4%	
Upstream: foreign value added used by the automotive industry in Thailand (imports)		
Foreign value added share in exports	75%	
Number of potential intra-firm supplier links	~6,000	• Mitsubishi: NHK Manufacturing, Malaysia (electronic components) • Honda: Kyusyu TS Co.,Ltd., Japan (plastics) • BMW: SGL Carbon Fibers Limited, UK (chemicals)
Number of countries in which these intra-firm suppliers are based	61	
Estimated share of foreign value added sourced intra-firm (intra-firm import propensity)	27%	
Downstream: exports from the automotive industry in Thailand		
Number of potential intra-firm client links	850	• Mitsubishi: Guangzhou Intex Auto Parts Co., China (automotive parts) • Honda Trading de México, SA, Mexico (wholesale) • BMW Brilliance Automotive Ltd., China (wholesale)
Number of countries in which these intra-firm clients are based	57	
Estimated share of intra-firm exports (intra-firm export propensity)	65%	

Source: UNCTAD analysis, based on the UNCTAD-Eora GVC Database and the Business Group Database.

Box IV.4. Assessing value added trade patterns at the firm level

Determining how TNCs and their networks of foreign affiliates and contractual partners shape patterns of value added trade is challenging, as information on TNC ownership structures and financial data is fragmented, and transactions between affiliates within the same group are typically not reported. In order to fill this gap, UNCTAD has linked the UNCTAD-Eora GVC Database with firm-level ownership and financial data from a business group database[a] (based on the Orbis ownership database), which allows the mapping of some 50,000 international business groups with nearly 500,000 affiliates worldwide. The database contains key information on TNC activity by country and industry (as classified by the six-digit NAICS standard system), e.g. the number of foreign affiliates, revenues, value added, and number of employees.

Linking value added trade data and business group connections yields an index of the propensity for foreign affiliates to source foreign value added from co-affiliates within their own business group networks, and to provide value added inputs to other parts of their networks. These propensity indices (upstream and downstream) can be used to estimate the relevance of intra-firm trade linkages in TNC-governed GVCs (in the absence of data on actual shipments between affiliates in TNC networks), for a given industry in a given economy.

The methodology includes the following steps:

1. Retrieve sources of production inputs and destinations for production outputs from value added trade data.
2. Match patterns of inputs and outputs (patterns of value added trade) with business group ownership structures. Any overlap between value added trade flows and the web of co-affiliates is considered a potential intra-firm trade connection. (If trade flows do not find a correspondence in the network, these connections are considered to be arm's-length.)
3. Assign weights to the resulting potential trade-ownership linkages based on a production function derived from national I-O tables.
4. Estimate upstream and downstream intra-firm trade propensities at business group level. (The sum of the weights assigned to all intra-firm trade linkages.)
5. Project propensities at the industry level, by applying to the propensities for individual affiliates weights based on (i) cost of goods sold for the upstream side and (ii) revenues for the downstream side.

/…

Box IV.4. Assessing value added trade patterns at the firm level (concluded)

The methodology has a number of limitations. The first is the underlying assumption that any ownership connection in business groups that matches with a value added trade link translates into an intra-firm trade link; i.e. all inputs sourced from a country in which a co-affiliate is present (and carries out the matching economic activity) are assumed to be sourced from that co-affiliate. This assumption is validated by earlier studies that found that 80 per cent of company transactions with countries in which an affiliate is present are intra-firm transactions.[b] The second limitation relates to the assumption that all firms in the industry share the same production function. As a consequence, the method cannot discriminate the foreign input share between foreign affiliate and domestic firms. Foreign affiliates can be assumed to have higher foreign value added than domestic firms.

Despite these limitations, and the fact that the current method can treat only one industry/country combination at a time, this approach – one of the first systematic (not based on case studies) analyses of the role of TNCs in GVCs – can provide insights into how TNC group structures shape patterns of value added trade.

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

B. GVC governance and locational determinants

TNC's decisions on where to locate and with whom to partner are decisions on where to invest and from where to trade. These decisions drive patterns of value added in GVCs.

In the period immediately after the Second World War, an international political economy grounded in concepts of national independence, self-sufficiency and import substitution led to international trade essentially being conducted between autonomous enterprises, with TNC activity mostly in the form of "multi-domestic", host-country-oriented affiliates. This began to change in the late 1960s and 1970s, with the initial footfalls of offshore production by Japanese, European and United States manufacturing TNCs in South-East Asia, pursuing cost-cutting strategies in the wake of recession and competitive pressures in their home (and later global) markets. Subsequent decades have inexorably built on the dynamic of these incipient GVCs, with technological progress (e.g. modern information and communication technology, international quality standards), political factors (e.g. liberalization and privatization policies, China's emergence as a global manufacturing base) and investor strategies (e.g. fine-slicing of operations and offshoring of every segment or subsegment of their value chains, a greater use of cross-border non-equity modes) jointly – and interconnectedly – leading to the *trade-investment nexus* of today.

As seen in the previous section, trade within the ambit of TNCs in this nexus includes, first, cross-border intra-company trade; second, trade governed by contracts between TNCs and their NEM partners; and finally, cross-border inter-company arm's-length transactions in which TNCs are either supplied with inputs by independent companies or, in turn, supply them (or serve final consumer markets). TNCs simultaneously make decisions on whether to conduct operations internally or externally (i.e. outsource them to other firms either through contracts or markets) *and* determine if they should be located in their home country or geographically dispersed.

Because such decisions directly impact on investment, production, and value added creation and retention in host countries, this section looks, first, at how TNCs manage their GVCs, including trade flows and, second, at which factors are key locational determinants at each segment or stage within a GVC. TNCs' orchestration and coordination of their GVCs, can significantly affect the strategies of national governments and local firms. For instance, inasmuch as TNCs relocate *segments* of their value chains (or activities within them) to new host countries, countries keen to attract FDI or other forms of TNC participation must formulate their investment promotion policies in line with segment-specific determinants in order to focus their resources more effectively.

Box IV.5. GVC governance: systems, processes and tools

A significant part of TNCs' capabilities or assets in today's GVCs are related to *how* they *manage, control and coordinate* their global networks. Consequently, TNCs design their corporate structures, management processes, functional services and associated procedures and tools to govern GVCs with a number of aims in mind:

- First, the transmission of goals and requirements related to products, processes and activities — along with relevant technologies, skills, technical specifications, etc. – to affiliates, contract partners and independent firms (for arm's-length transactions);
- Second, to maintain and enhance, as much as possible, their power balance over these same firms; and
- Third, to maximize their appropriation of the total value added in the GVC.

In order to manage GVCs and meet their overall aims, TNCs have evolved and reconfigured their corporate services and support processes. They have become full-fledged international infrastructures for the management of far-flung activities, encompassing affiliates, NEMs and arm's-length transaction networks. This infrastructure is adapted by each and every TNC, as appropriate. Differences in industry drivers and dynamics, as well as TNC strategic responses to these, lead to a variety of GVC patterns – so their governance also necessarily varies considerably.

Which particular corporate service or process is outsourced depends on whether it is "core" (i.e. crucial for competitive advantage) or not, the value of doing so (e.g. can external institutions better train a TNC's NEM partners, or indeed its own affiliates), the costs, the availability of suitable NEM partners and other locational determinants. In terms of "core" infrastructure, usually the vision, control and supervisory functions are retained at the TNC headquarters (although they can, in principle, be positioned in different global locations), while supply chain management and support functions can be separated into core and non-core elements, depending on the circumstances of the TNC and its GVC. For instance, distribution and logistics are increasingly seen by TNCs as non-core and outsourced, often to globally integrated logistics TNCs that specialize in offering such services. DHL (Germany), for example, is such a logistics TNC and provides support to major TNCs in different global locations with logistical and supply chain solutions.

Supply chain management strategy is at the heart of TNC's coordination of their GVCs. Of course, the structures of supply chain strategies vary on the basis of contextual factors e.g. demand variation, product life-cycles and managerial objectives.[a] Whether elements of supply chain management are located in the home country, set up in critical international locations for global management purposes, designed to favour a strategy of regional value chains or fully farmed out to partner firms at the host country level depends on the specifics of a GVC. For instance, IBM (United States) has moved from a structure defined by regional divisions in the 1960s and 1970s (with product sales in 150 countries), through a globally integrated firm in the 1980s and 1990s, to one in which "supply chain management analytics" within a network structure are at the heart of how it operates today. Along the way, it has integrated over 30 supply chains into one and focuses particular attention on areas such as risk management, visibility, cost containment and sustainability. This process, supported by ICT-based services has improved coordination, reduced costs and boosted profitability.[b]

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

1. GVC governance: the orchestration of fragmented and internationally dispersed operations

TNCs manage GVCs through complex webs of supplier relationships and various governance modes. Different governance modes have different development implications.

TNCs are increasingly able to fine-slice activities and operations in their value chains, and place them in the most cost-effective location, domestically and globally (*WIR11*). This situation presents companies with a potentially highly fragmented organizational architecture or GVC configuration. It might include multiple operations, activities and tasks; numerous affiliates (FDI), contractual partner firms (NEMs) and arm's-length transactions, each of these modes on their own or in combination; and, finally, a geographical dispersion of GVC segments, activities and modes of governance. Ultimately, effective GVC governance requires absolute attention to communication, information flows and logistics across the global TNC network.

Such expansive GVCs, in which TNCs must simultaneously manage complex, fragmented, geographically dispersed production processes and flows in trade and investment, have to be

organized, orchestrated and coordinated in line with companies' strategic objectives (see box IV.5). GVCs can be large and complex, and they extend far beyond manufacturing. For instance, even the relatively simple GVC of Starbuck's (United States), based on one service (the sale of coffee), requires the management of a value chain that spans all continents; directly employs 150,000 people; sources coffee from thousands of traders, agents and contract farmers across the developing world; manufactures coffee in over 30 plants, mostly in alliance with partner firms, usually close to final market; distributes the coffee to retail outlets through over 50 major central and regional warehouses and distribution centres; and operates some 17,000 retail stores in over 50 countries across the globe.[7] This GVC has to be efficient and profitable, while following strict product/service standards for quality. It is supported by a large array of services, including those connected to supply chain management and human resources management/development, both within the firm itself and in relation to suppliers and other partners. The trade flows involved are immense, including the movement of agricultural goods, manufactured produce, and technical and managerial services.

The decision on whether a company opts for FDI, NEMs or arm's-length transactions (or a combination of these), as governance modes in its GVC is dictated by elements such as transaction costs, power relations and the risks inherent in externalization *(WIR11)*. Scholars focusing on *global value chain analysis* as an organizing conceptual framework, argue that the *complexity of this knowledge*, whether it can be easily *codified for transmission* and the *capabilities of suppliers or partner firms* have implications for the particular governance mode chosen to manage a GVC (or part of one). This, in turn, requires TNCs to develop and utilize capabilities most appropriate to the mode, i.e. FDI, arm's-length transactions or NEMs.[8]

(i) Foreign Direct Investment (FDI)

In the case of FDI, a TNC has to be able to effectively coordinate and integrate affiliate activities. In GVCs where knowledge flows are complex, but not easy to codify (they may be tacit or not easily separable because of the co-specialization of assets), and if the capabilities of potential partners or arm's-length suppliers are low, then internalization of operations through FDI is the governance mode most likely to prevail.Managing these activities within a company is itself complex and involves considerable costs, and TNCs have developed complex strategic corporate support infrastructures to manage their operations, i.e. "HQ functions" such as human resources, accounting and operations management. These further enhance a company's ability to organize, coordinate and manage globally dispersed affiliates operating in a range of segments along its GVC. In the GVC literature, this mode is commonly referred to as "hierarchy" and is applied in the case of cross-border vertical integration along different sectors of a value chain.[9]

(ii) Arm's-length transactions

TNCs' reliance on *arm's-length* transactions internationally requires a capacity to source from or service a fully independent company at a distance. This mode of governance is most suitable for standardized products for which it is possible to exchange information on a good or service – prices, specifications (maybe based on international standards), quality assurance – between buyers and suppliers in a simple way. This market mode of GVC governance is a significant feature in some GVCs and requires relatively simple coordination capabilities, namely the ability to source (procurement) and service at a distance, as well as procedures for monitoring compliance.

(iii) Non-equity modes (NEMs)

TNCs use NEMs for governance in GVCs when the complexity of the buyer-seller relationship leads to increased coordination costs and transactional interdependence. The use of NEMs within TNC GVC networks is today highly developed (*WIR11*), but the mechanisms for coordinating them vary. This variety can be captured by treating these mechanisms as subcategories of NEMs (or NEM modes of governance). In the GVC literature there are three principal types of NEM: captive, modular and relational. A particular NEM supplier is not tied to any one of these modes; depending on its capabilities, it could potentially operate in each of them simultaneously with different TNCs.

In the case of *captive NEMs*, a TNC responds to the limited capabilities of potential suppliers or partners by providing clear, codified instructions for tasks

to be carried out and providing, where necessary, support for the suppliers so that they can develop their competences. This facilitates the building up of a supplier base (often in the form of key suppliers) in order to deliver inputs into a lead TNC's GVC, but given the high power imbalance the suppliers are effectively captive to the lead company. TNCs nevertheless recognize that the development of local capabilities is crucial for their long-term goals. Thus TNCs such as IKEA assist their global network of suppliers through their trading sales offices, which act as the primary interface with local firms, including monitoring them through regular and frequent on-site visits. These offices provide technological support to local suppliers in order to help them improve their operational and innovative capabilities.[10] The low level of independence enjoyed by captive NEMs makes them comparable to tightly controlled affiliates in vertically integrated FDI operations, so the control mechanisms are similar; i.e. the organization and coordination of suppliers and partners, including managing knowledge transfers and monitoring quality.

Modular NEMs have emerged as a strategy to minimize the costs of orchestrating GVCs and to increase the ease of choosing and switching between suppliers. This form of governance is seen extensively in the electronics industry. The combination of highly competent first-tier suppliers and the standardization of product specifications means that the TNC can source customized products without having to engage in complex transactions with suppliers. The NEM partner works with the TNC to provide a customized product, but it will supply many other companies and can be substituted by other suppliers without undue difficulty.

Relational NEMs result from a mutual dependence between TNCs and partner firms. They arise when collaborations between TNCs and other firms rely on the communication of tacit knowledge and

Table IV.3. Types of GVC governance: lead-firm perspective

Governance types	Key characteristics of TNC-supplier relationship	Typical examples	Explicit TNC coordination
FDI (ownership)	• Complex transactions • Information on product or process specifications proprietary, or not easy to codify and transmit • Lead firm may require full managerial control for risk management	• Products with high intellectual property content, high quality risks, high brand value	High
NEMs:			
- Captive	• Relatively simple transactions • Lead firm tends to have significant buying power • Lead firm exercises significant control over production	• Tiered supplier structures in the automotive industry	Medium-high
- Relational	• Complex transactions • Information on product or process specifications not easy to codify and transmit • Working in partnership	• Relationships between suppliers and buyers of retailers or major apparel brands	Medium
- Modular	• Complex transactions • Information on product specifications easily transmitted • Lead firm prefers coordination partner/ supplier management firm	• Turnkey supplier relationships in electronics industries	Medium-low
Trade (market)	• Relatively simple transactions • Information on product specifications easily transmitted • Price as central governance mechanism	• Commodities and commoditized products	Low

Source: UNCTAD, based on Gereffi, G., J. Humphrey and T. J. Sturgeon (2005) "The governance of global value chains", *Review of International Political Economy*, 12:78-104.

Table IV.4. Types of GVC governance: supplier perspective

Governance types	Key implications for suppliers	Key GVC development implications
FDI (ownership)	• Supplier is fully vertically integrated and under full managerial control	• Fastest and often only approach to gaining ownership advantages required for GVC access • Business linkages required to widen the scope of technology and knowledge transfer
NEMs:		
- Captive	• Relatively small suppliers; high degree of power asymmetry • High degree of monitoring and control by lead firm • Knowledge sharing focuses on efficiency gains	• Can generate relatively high degree of dependency on few TNCs that may have low switching costs • Knowledge transfer takes place (due to mutual benefits) but limited in scope
- Relational	• Degree of mutual dependence between partners • Frequent interactions and knowledge exchange between partners • Supplier more likely to produce differentiated products	• Degree of knowledge transfer and learning relatively high • More stable demand due to higher switching costs for lead firms
- Modular	• Lower degree of dependence on lead-firms; suppliers tend to operate in more than one GVC • Limited transaction-specific investments (e.g. generic machinery that can be used for more than one client)	• Substantial scope for linkages • Relatively high volume of information flowing across firm linkages
Trade (market)	• No formal cooperation between partners • Low switching costs for customers	• Full exposure to market forces • Learning options limited to trade channels

Source: UNCTAD, based on Gereffi, Humphrey and Sturgeon, 2005 (ibid.).

the sharing of key competences between them. The contractual arrangements that support such relational governance need to reflect the exchange of tacit knowledge and the difficulties of judging the effort put into the business by the partners. For this reason, arrangements such as joint ventures are typical of relational governance.

These modes or types of GVC governance, summarized in table IV.3, have significant implications for suppliers and host country governments as well (table IV.4).

2. Locational determinants of GVC activities

For many GVC segments, tasks and activities, there are relatively few "make or break" locational determinants that act as preconditions for countries' access to GVCs.

In addition to deciding *how* to orchestrate GVC activities, TNCs must decide *where* to locate the value added activities (or segments) comprised in a value chain. Various factors determine a TNC's choice of host country locations, including economic characteristics (e.g. market size, growth potential, infrastructure, labour availability and skills), the policy framework (e.g. rules governing investment behaviour, trade agreements and the intellectual property regime) and business facilitation policies (e.g. costs of doing business and investment incentives).

The "classical" locational determinants for investment (*WIR98*) have changed over time, as new industries, types of players and GVC modes have come to the fore, and as value chain activities have become increasingly fine-sliced. In particular, the relative importance of specific determinants differs depending on the mode of governance employed by the TNC and the segment or subsegment of the GVC in question. Locational determinants of TNC activity are increasingly specific to GVC segments and GVC modes. By way of illustration, table IV.5 provides an indicative, non-exhaustive list of the key locational determinants for different segments of a generic GVC.

Table IV.5. Key locational determinants for GVC tasks and activities, selected examples

GVC segment or stage	Economic determinants	Policy determinants and business facilitation
All stages		
	• Economic, political, social stability • Suitability of characteristics of available labour force (cost, skill level, language proficiency, education, science and technology competences) • Distance and access to market or next stage in value chain • Availability and quality of transport and logistics infrastructure (for goods exports) • Presence and capabilities of locally based firms	• Trade restrictions and promotions • Investment policy • Stable commercial law and contract enforcement regimes • General business facilitation (e.g. cost of doing business, hassle costs) • Business facilitation to support foreign affiliates (e.g. investment promotion, aftercare, provision of social amenities) • Business facilitation to support local firms (e.g. local enterprise development, schemes to upgrade quality, productivity, capabilities of local firms, start-up incentives, support for standards of working conditions and corporate social responsibility (CSR) in local firms)
Knowledge creation stage		
Innovation and R&D	• National innovation system • Suitability and characteristics of available labour force (cost, education, science and technology competences) • Presence of research clusters	• Government R&D policy • Intellectual property regime • Policies towards sale of intellectual property (IP) by local firms ("pure" in-licensing of technology) • Laws governing contract research and licensing contracts • Investment incentives • Science and technology parks
Design and branding	• Location-specific consumer preferences (for local/regional-market oriented goods and services) • Suitability and characteristics of available labour force (cost, education, marketing competences) • Design, creativity clusters	• IP regime • Policies towards sale of IP by local firms ("pure" in-licensing of brands, trademarks, etc.) • Investment incentives • Design centres and institutional support
Main operational stages		
Raw materials and agricultural inputs	• Availability of natural resources, including relevant raw materials, agricultural (land, water) • Availability and quality of utility services (electricity, water) • Low-cost labour • Presence and capabilities of locally based producers of raw material inputs	• Environmental policy • Trade restrictions and promotions, Generalized System of Preferences (GSP) and other Preferential Trade Agreements (PTAs) • Policies pertaining to foreign ownership, lease and exploitation/operations of natural resources, including land • Land tenure system, approaches to traditional rights to land, other resources • Privatization policies • Laws governing contract farming • Customs and border procedures
Manufactured goods, including parts and subassemblies	• Basic infrastructure and utility availability and costs (energy, water, telecommunications) • Industrial clusters • Suitability and characteristics of available labour force (cost, skill level)	• Trade restrictions and promotions, GSP and other PTAs • Customs and border procedures and trade facilitation • Policy supporting skills development • Laws governing contract manufacturing • Customs and border procedures • Industrial parks and export processing zones (EPZs) • Investment promotion, including one-stop shops, image-building exercises and facilitation services • Schemes to develop and upgrade capabilities of local firms

/...

Table IV.5. Key locational determinants for GVC tasks and activities, selected examples

Distribution and support services		
Distribution and logistics	• Availability and quality of transport and logistics infrastructure • Availability, quality and cost of inputs (transport, communications, energy) • Networks of locally based distribution and logistics companies in relevant industries (e.g. wholesaling, storage, distribution, etc.)	• Policies pertaining to foreign ownership, lease and operations in "strategic" industries • Infrastructure development policies • Customs and border procedures • Regional infrastructure connectivity and corridors
Services (e.g. HQ, IT, human resources, legal, auditing)	• Availability and quality of telecom infrastructure and services • Low-cost labour • Suitability and characteristics of available labour force (cost, language proficiency, education)	• Services trade restrictions and promotions • Policy supporting skills development through education, science and technology competences • Tax policy • Confidentiality and data protection laws • Laws governing services outsourcing contracts • Schemes to develop and upgrade capabilities of local firms • "Liveability" of location (especially for expatriate senior staff)

Source: UNCTAD.

Many locational determinants are relevant irrespective of the specific value segment. A stable economic, political and social environment and robust commercial law and contract regimes are important preconditions for all GVC stages. Similarly, business facilitation measures aimed at reducing "hassle" costs or supporting foreign affiliates or local firms. Trade and investment policies are, at a general level, pertinent for all value chain segments, although specific measures may have more influence over one or another segment.

For most GVC segments, however, there are some specific locational determinants which are particularly significant for TNC activity. For instance, at the knowledge creation stage (which includes innovation, research and development (R&D), design and branding), the existence of an appropriate intellectual property regime and the availability of educated, but relatively low-cost, labour are key determinants (table IV.5).

The locational determinants of the main operational segment of a GVC depend principally on the nature of the product or service created. In manufacturing, for example, the choice of location depends on the availability of relatively low-cost skilled/unskilled labour, the quality of the logistics infrastructure, distance to final markets and the availability of inputs. FDI is conditioned particularly by the strength of local competition or joint venture partners, as well as the availability of industrial parks, whereas the decision to operate through NEMs is swayed by the capabilities of locally based firms and the laws governing contract manufacturing. For raw material and agriculture, the principal determinants are the existence of natural resources, the capacity of infrastructure to support their extraction and transport and the panoply of policies governing their utilization and consumption. In services, the specific characteristics of the labour force (language skills and education, as supported by policy initiatives) are important, as is the reliability of telecommunications infrastructure.

The locational determinants of GVCs as a whole are necessarily different from those affecting individual segments, tasks or activities, whether coordinated through FDI, NEMs or at arm's length. As shown in table IV.5, although some locational determinants are important to all stages of TNCs' value chains, as well as all modes of governance, most GVC segments or activities have only a few "make or break" determinants.

Governments are thus in a position to selectively target GVCs and GVC segments in line with their endowments and development objectives. For example, in the case of services outsourcing, governments might first aim to attract call centres

Box IV.6. Locational determinants: high-tech manufacturing in Malaysia

The Malaysian Investment Development Authority (MIDA) has sought to leverage Malaysia's assets and capabilities in contract manufacturing by strengthening its locational determinants to provide the requisite created assets to become a global outsourcing hub for high-tech manufacturing value chains. A further objective is to upgrade the breadth of its participation in key manufacturing value chains, i.e. to "manage the entire process (from product conception to serial production), including logistics, warehousing, packaging, testing and certification." In working towards this goal, the MIDA has sought to identify key strengths and weaknesses, and the areas in which Malaysia needs to improve on its attractiveness as a destination for FDI and NEMs (box table IV.6.1).

The Malaysian Government recognizes that a number of areas need to be strengthened in order to have the appropriate locational determinants to attract FDI and NEM activity. Through this strategy, Malaysia aims to build further on its existing competitive position as an outsourcing destination for TNCs in the electronics, automotive, machinery manufacturing, and oil and gas industries, as well as leverage these strengths to also become a key player in the aerospace, medical, defense and photovoltaic industries.

Box table IV.6.1. High-tech manufacturing strengths and weaknesses as identified by MIDA

Strengths	Weaknesses
• Consistent quality and on-time delivery • Competitive cost of high technology products • Language skills • Trainable and educated workforce • Strong government support: financial and operational • IP protection, laws and regulations • Investor protection, rule of law • Ease of doing business • Developed infrastructure, transport and logistics	• Inadequate R&D and design investment • Lack of mid-level technical expertise • Fragmented industry – lack of collaboration between firms • Lack of high-end component manufacturing companies

Source: UNCTAD.

(considered the entry-level activity in the industry) by focusing on a number of key determinants – for instance low-cost labour with basic skills, telecommunications infrastructure and data protection laws – and then pursue a move to business process outsourcing, which requires more specific and higher skills and a concerted industrial policy effort. If as a part of this industrial policy, capable local companies emerge, then this improves the likelihood of TNCs pursuing NEM partnerships, as opposed to FDI.

National governments increasingly recognize the importance of locational determinants and how policy actions can influence the attractiveness of their country as a destination for TNC activities in specific segments of a value chain. More and more countries are now considering how to position and promote themselves as locations for GVC activities, either in a segment or part of the chain or the entire chain. Some countries initially have limited assets with which to pursue strategies to encourage TNCs to locate segments of a chain in their economy (e.g. the "cut, make and trim" value chain in the garments industry in Cambodia), while others are able to pursue a more sophisticated approach, by building on existing strengths to target desired value chains, segments and activities.

Malaysia is a case in point. The Malaysian Investment Development Authority (MIDA) has developed a sophisticated strategy that aims to leverage its existing locational strengths, in particular in contract manufacturing, to target similar segments in a more diverse range of value chains and segments. In particular, it has identified locational strengths and weaknesses in pursuing its strategy of encouraging the establishment of high-technology manufacturing value chain segments and activities in the country chain (box IV.6).

C. Development implications of GVCs

GVCs can make a contribution to development through direct GDP and employment gains and by providing opportunities for industrial upgrading, but these benefits are not automatic and there are risks involved in GVC participation.

GVCs are an expression of globalization. They spread economic activities across a broader range of countries. As such, they can accelerate the catch-up of developing countries' GDP and income levels and lead to greater convergence between economies. At the global level, that is the essential development contribution of GVCs.

At the level of individual developing economies, the experience is obviously much more heterogeneous. This section explores the role that GVCs play in the development process of countries. As firms within countries gain access to value chains, this affects their value added creation, employment generation and potential for learning and productivity growth. GVCs can also affect the social configuration of countries and the environment. Not all these effects are necessarily positive. Lead firms in GVCs – TNCs – tend to control higher value added activities (from innovation and technological activities to branding and new product development), while other firms (often operating under contractual arrangements in developing countries) engaged in routine assembly tasks or services within GVCs may earn less, have fewer opportunities to grow and be more vulnerable to business cycles. A summary of the main areas of development impact of GVCs appears in table IV.6.

The potential impact of GVC participation for host countries' economic growth and development depends on two main factors.

- The first is the nature of the GVC itself. Is it the type of chain that presents potential for learning and upgrading? Will it enable capabilities to be acquired by firms that can be applied to the production of other products or services? In the garments industry, Mexican firms have been able to acquire new skills and functions, becoming full-package suppliers,[11] while it seems very difficult for firms in sub-Saharan Africa supplying garments under the African Growth and Opportunity Act programme to move beyond cut, make and trim.
- The second factor is the business and institutional environment in the host economy. Is there an environment conducive to firm-level learning and have investments been made in technical management skills? Are firms willing to invest in developing new skills, improving their capabilities and searching for new market opportunities? Local firms' capabilities and competences determine their ability to gain access to cross-border value chains, and to be able to learn, benefit from and upgrade within GVCs. Government policies can facilitate this process.

Although *indicators* of the development impact of GVCs are well established – for example, UNCTAD developed and tested a set of GVC impact indicators in partnership with the G-20[12] – the *measurement* of GVC impact on host countries is difficult, not least because of the multiplicity of actors involved in the GVC (*directly* in terms of the value chain modularity encompassing integrated firms, retailers, lead firms, suppliers, subcontractors, or *indirectly* in the rest of the economy) and the spatial scope of value chains (not just globally but within countries, at the local, subregional or country level). A novel contribution of the section is that UNCTAD combines empirical evidence drawn primarily from the UNCTAD-Eora GVC Database, with case study evidence drawn from UNCTAD field work on GVCs in developing countries, together with existing knowledge from the vast literature and case studies produced by scholars in pertinent fields, including economics, international business, development studies and sociology, reflecting the multidisciplinary nature of the topic.

1. Local value capture

Value capture in GVCs depends on the use of imported contents, on the role of foreign affiliates in value added creation and on TNC policies with regard to income repatriation and transfer pricing.

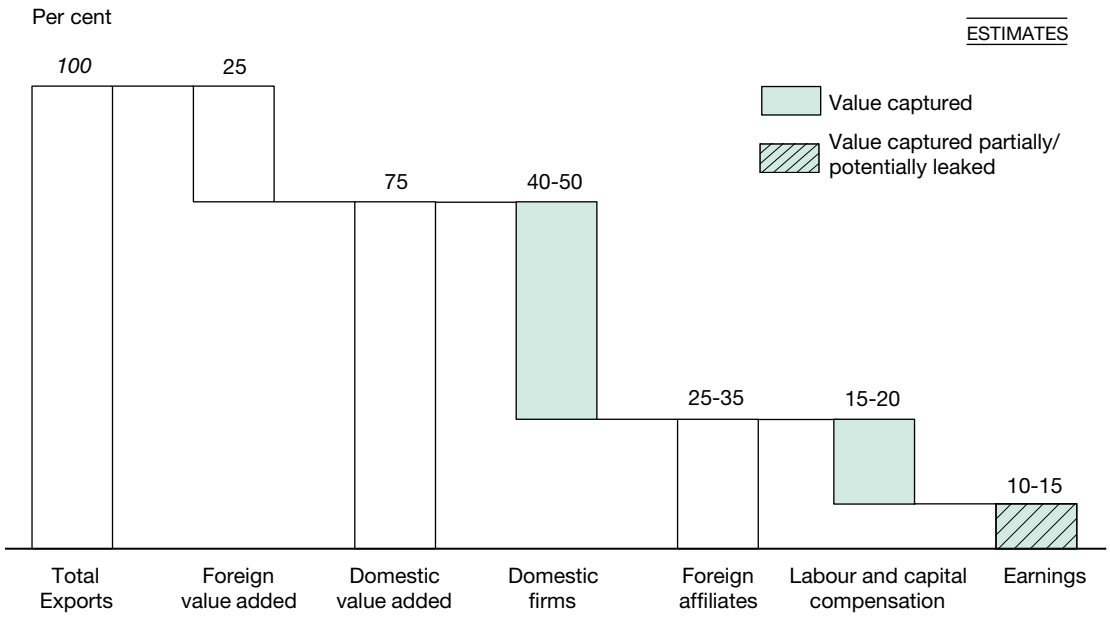
Production for exports directly generates value added and contributes to GDP. However, as shown in Section A, local value added contributions and income generation in GVCs can be limited through the use of foreign value added in exports. In developing countries, on average,

Table IV.6. Development impact of GVCs: highlights of findings

Impact areas	Highlights of findings
Local value capture	• GVC participation can generate value added in domestic economies and can contribute to faster GDP growth. • Concerns exist that the value added contribution of GVCs is often limited where imported contents of exports are high and where GVC participation is limited to a small or lower value part of the overall GVC or end-product. • TNCs and their affiliates can provide opportunities for local firms to participate in GVCs, generating additional value added through local sourcing, often through non-equity relationships. • A large part of GVC value added in developing economies is generated by affiliates of TNCs. This raises concerns that value can be leaked, e.g. through transfer price manipulation. Also, part of the earnings of affiliates will be repatriated, with possible effects on the balance of payments, although evidence shows that these effects are limited in most cases.
Job creation, income generation and employment quality	• GVC participation tends to lead to job creation in developing countries and to higher employment growth, even if GVC participation depends on imported contents in exports; GVC participation tends to have, with variations by country and industry, a positive effect on the employment of women. • GVC participation can lead to increases in both skilled and unskilled employment; skill levels vary with the value added of activities. • Pressures on costs from global buyers mean that GVC-related employment can be insecure and involve poor working conditions. • Stability of employment in GVCs can be relatively low as oscillations in demand are reinforced along value chains, although firm relationships in GVCs can also enhance continuity of demand and employment.
Technology dissemination and skills building	• Knowledge transfer from TNCs to local firms operating in GVCs depends on knowledge complexity and codifiability, on the nature of inter-firm relationships and value chain governance, and on absorptive capacities. • GVCs can also act as barriers to learning for local firms, or limit learning opportunities to few firms. Local firms may also remain locked into low-technology (and low value added) activities.
Social and environmental impacts	• GVCs can serve as a mechanism for transferring international best practices in social and environmental efforts, e.g. through the use of CSR standards. Implementation of standards below the first tier of the supply chain remains a challenge. • Working conditions and compliance with applicable standards in firms supplying to GVCs have been a source of concern where they are based on low-cost labour in countries with relatively weak regulatory environments. Impacts on working conditions can be positive within TNCs or their key contractors, where they operate harmonized human resource practices, use regular workers , comply with applicable CSR standards and mitigate risks associated with cyclical changes in demand. • GVCs cause environmental impacts (such as greenhouse gas emissions) of demand in one country to be distributed across many other countries. Lead firms in GVCs are making efforts to help supplier firms reduce environmental impacts.
Upgrading and building long-term productive capabilities	• GVCs can offer longer-term development opportunities if local firms manage to increase productivity and upgrade to activities with higher value added in GVCs. • Some forms of GVC participation can cause long-term dependency on a narrow technology base and on access to TNC-governed value chains for activities with limited value added. • The capacity of local firms to avoid such dependency and the potential for them to upgrade depends on the value chain in which they are engaged, the nature of inter-firm relationships, absorptive capacities and framework conditions in the local business environment. • At the country level, successful GVC upgrading paths involve not only growing participation in GVCs but also the creation of higher domestic value added and the gradual expansion of participation in GVCs of increasing technological sophistication.

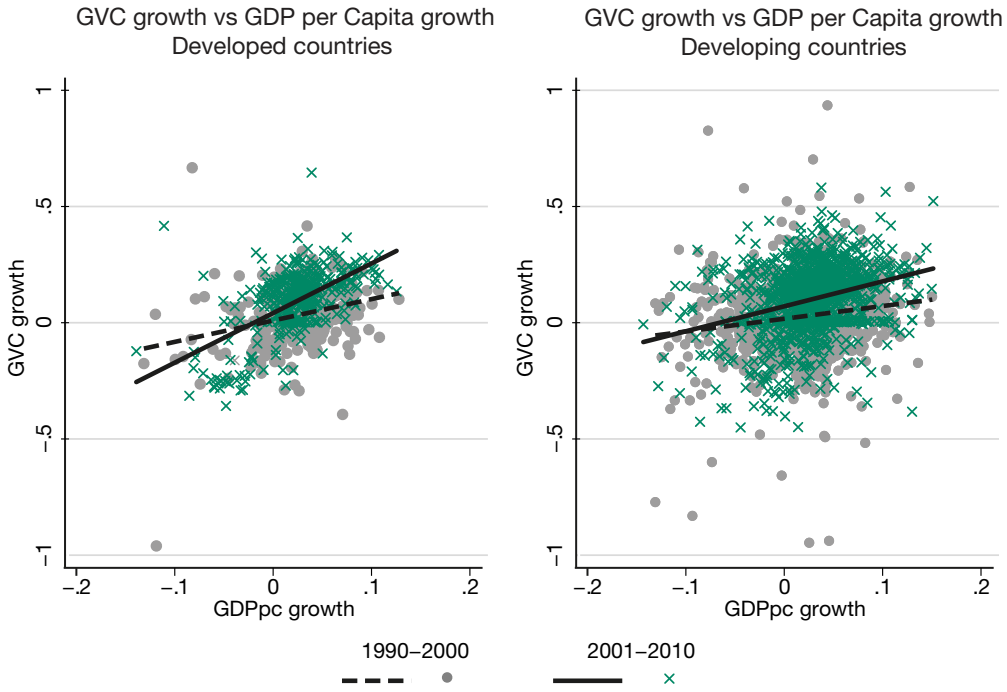
Source: UNCTAD.

Figure IV.18. Value capture in GVCs: value added trade shares by component, developing country average



Source: UNCTAD estimates based on the UNCTAD-Eora GVC Database and the Business Group Database (see box IV.4).

Figure IV.19. Correlation between growth in GVC participation and GDP per capita



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.

Note: The regression of the annual real GDP per capita growth on the annual GVC participation growth yields a positive and significant correlation (at the 5 per cent level) both for developed and developing countries (R^2 = 0.43 and 0.30, respectively). The correlation remains significant considering the two time periods 1990 - 2000 and 2001 - 2010 separately. To avoid picking-up a compositional effect resulting from the correlation between a country's domestic value added (affecting the GVC participation) and its per capita GDP, all regressions use lagged (one year) GVC participation growth rates. Regressions include country and year fixed effects to account for unobserved heterogeneity.

foreign value added in exports is about 25 per cent (see figure IV.18). However, not all domestic value added is preserved for the domestic economy. In most developing countries, the share of domestic value added in the exports produced by foreign affiliates rather than domestic firms is very high – UNCTAD estimates this share to revolve around 40 per cent on average in developing countries, with significant variations (leading to a range estimate of foreign affiliate domestic value added in exports of 25–35 per cent). The lion's share of the value added produced by foreign affiliates is still preserved for the domestic economy, through compensation for factors of production, in particular labour and capital (and levies on production net of subsidies). However, the operating surplus component of value added produced by foreign affiliates – on average some 40 per cent in developing countries – can have multiple destinations. It can pay for corporate income taxes in the local economy, it can be reinvested in the local economy or it can be repatriated to the home country of the parent TNC. Furthermore, where the value added produced by foreign affiliates is exported to parent firms or other affiliates within the TNC network, the overall size of the earnings component of value added depends on intra-firm transfer pricing decisions by the TNC.

These key considerations – (a) domestic value added share, (b) value added produced by domestic firms, (c) foreign affiliate value added preserved for the local economy, and (d) transfer pricing – largely determine the actual value captured from GVCs by participating countries and will be examined further in this section.

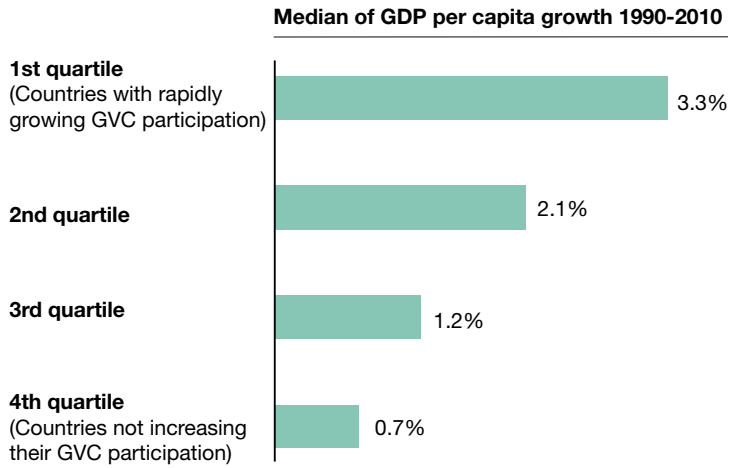
a. GVC contribution to GDP and growth

GVCs can contribute to domestic value added creation even where participation requires higher imported content of exports. GVC participation is positively correlated with GDP per capita growth.

Experience over the past 20 years shows that, as countries increase their participation in GVCs, their growth rates tend to increase as well. A statistical analysis correlating GVC participation and per capita GDP growth rates shows a significant and positive relationship, for both developed and developing economies (figure IV.19).

Although this statistical analysis, despite the strong correlation, cannot show direct causality, increased GVC participation tends to go hand in hand with faster GDP per capita growth (figure IV.20). The 30 developing economies with the highest GVC participation growth rates in the 20-year period from 1990 to 2010 (first quartile) show a median rate of GDP per capita growth in the same period of 3.3 per cent, compared with 0.7 per cent for the bottom 30 countries.

Figure IV. 20. GDP per capita growth rates by quartile of growth in GVC participation, developing economies only, 1990–2010



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.
Note: Data for 120 countries, ranked by GVC participation growth and grouped in quartiles; growth rates reported are median values for each quartile.

Because not all exports constitute domestically produced value added, the share of domestic value added in trade for a given country can be quite different from its share in global exports. Looking at the relative value added contribution from trade for the top 25 developing country exporters (excluding predominantly oil exporters), in the countries with low shares of global value added trade relative to their global export shares, exports contribute on average about 30 per cent to GDP. In contrast, in the countries with high shares of global value added trade relative to their export shares, exports contribute on average less than 20 per cent to GDP. This result shows that focusing on increasing the domestic value added share in exports

is not always the most effective policy objective. Entering dynamic value chains even if doing so implies a relatively modest domestic value added share may yield better results (see discussion in section IV.5.b).

A country's share of domestic value added in trade can also be compared with its share in global GDP – another relative measure of value added trade performance. The absolute contribution of value added trade to some economies can be significant, even when the share of domestic value added in exports is low (this is the case for selected countries in East and South-East Asia). In this case, GVC participation is achieved, maintained and consolidated by using imported intermediary goods and services. Such a strategy may be particularly important for small economies that may not be in a position to provide domestic inputs across the entire value chain for any industry.

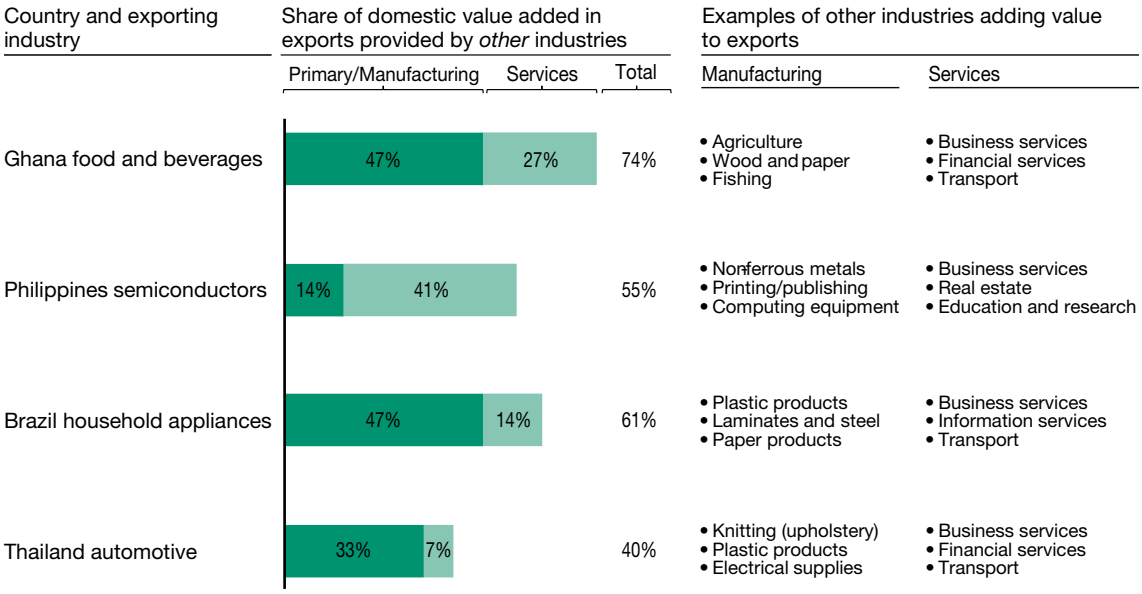
b. Domestic value added in trade and business linkages

Within countries participating in GVCs, the domestic value added content of exports is produced not only by the exporting firms themselves, but also by other firms involved in the supply chain through backward linkages. Such suppliers may operate within the same industry or in other industries, including services. Thus, the domestic value added incorporated in exports can be broken down into value added provided by the exporting industry and value added contributed by other activities, which can be considered a rough proxy for the scope of business linkages (although linkages between exporting firms, often TNC affiliates, and local firms may also occur within the same industry, where component suppliers may have the same industry classification).

The potential for business linkages – connecting local firms to GVCs by linking them to lead firms and affiliates operating in their countries – can be high both in manufacturing and in services.

Figure IV.21 shows a breakdown of domestic value added in exports for four country-industry cases – the Thai automotive industry, the Brazilian household appliances industry, the Philippine semiconductor industry and the Ghanaian food and beverages industry. The total share of domestic value added in exports varies between these countries and industries. It is high for Brazilian household appliances (86 per cent) and Ghanaian food and beverages (73 per cent). By contrast, the share is less than half for the Philippine semiconductor industry (44 per cent) and the Thai automotive industry (48 per cent).

Figure IV.21. Origin of domestic value added in exports: the scope for linkages, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.

Table IV.7. Examples of financing schemes offered by lead firms in business linkages programmes

Types of schemes	Examples
Own financing institutions	• Anglo American's Anglo Zimele • Grupo Martins' Tribanco • ECOM Supplier Finance
Capitalization of external (often joint) funds	• The $15 million Supplier Finance Facility of BP and IFC in Azerbaijan • The Aspire SME-financing facilities of GroFin and the Shell Foundation, together with local banks in Africa • Starbucks' investment in Root Capital to provide financing for small-scale coffee suppliers in Central America
Links with microfinance institutions	• Pepsico and BASIX in India
Non-traditional collateral	• Barclays accepts grain stocks as collateral in Zambia • Barclay accepts purchasing agreements as guarantees to BL suppliers in Uganda • Spar supermarkets in South Africa accept special advance payments to their small suppliers
Links with commercial banks	• Chevron's partnerships with Kazakh banks BankTuranAlem and KazKommertzBank • Votorantim Papel e Celulose helps eucalyptus farmers access credit from Banco Real in Brazil • Mundo Verde refers suppliers to Caixa Econômica Federal and Banco do Nordeste in Brazil
Develop financial literacy	• Anglo Zimele incorporates financial literacy into its Small Business Start-Up Fund's lending requirements • Real Microcrédito credit agents provide financial education along with other skills development programmes • IPAE-Empretec in Peru, jointly with UNCTAD, offers accounting and financial management courses • Empretec Jordan-BDC offers financial literacy and special programmes for female entrepreneurs

Source: Jenkins, B., A. Akhalkatsi, B. Roberts and A. Gardiner (2007) "Business Linkages: Lessons, Opportunities, and Challenges", IFC, International Business Leaders Forum, and the Kennedy School of Government, Harvard University.

The findings confirm that key exporting firms in these industries provide opportunities for local firms to participate in GVCs, generating additional value added through local sourcing within and across industries.[13] In the selected cases, between one fifth and one third of domestic value added originates from within the industry of the export (39 per cent of the domestic value added in exports for the Brazilian household appliances originates from within the industry – i.e. within the producing firm itself or from suppliers within the same industry – whereas this share in Ghana is 26 per cent). The scope of linkages with suppliers across sectors is highest in the Brazilian household appliances (61 per cent of domestic value added in export). In this industry, suppliers produce a variety of steel (semi-fabricates, laminates, bars and tubes), plastic or paper products, and the services sector accounts for 14 per cent of value added (providing business services, finance and insurance, information services and freight transport).

In some cases the value added of indirect exports – or supplier firms contributing domestic value added to exporters – remains predominantly with other TNCs located in host economies. For instance, the automotive industry, where lead firms develop close and complex relationships with suppliers, is characterized by mega-suppliers that can co-locate and co-produce with their customers on a global scale, taking prime responsibility for selecting and coordinating lower-tier suppliers. As a result, domestic value added may occur predominantly among TNCs. Evidence of TNC dominance in specific industry segments was found mostly among first-tier suppliers in the automotive industry,[14] e.g. in the Czech Republic and in Colombia. TNCs can also dominate the value capture along a single product value chain, as in the well-known case of the iPod cross-border value chain.[15]

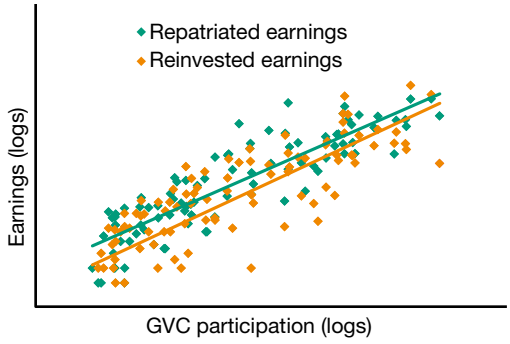
TNC lead firms can provide support to local firms in developing countries to strengthen linkages in

their mutual interest. Table IV.7 presents examples of lead firms that have developed schemes to facilitate suppliers' access to finance. Corporations and financial institutions can accept different forms of collateral when suppliers are part of a value chain. Suppliers in a value chain can present a joint investment plan with a lead firm. Other measures may involve making lending to small and medium-sized enterprises (SMEs) viable for financial institutions.

Not all local firms have the ability or potential to take part in GVCs. Smaller local firms may have fewer opportunities to become part of GVCs because of limited resources, and asymmetric information and bargaining power. Smallholders in the agriculture sector have limited access to information concerning market trends, and how product prices, royalties and dividends are calculated, which puts them at a disadvantage to large-scale producers in accessing GVCs. These disadvantages may be overcome, partly, when smallholders enhance their CSR, gain legitimacy in local markets or create niche products.

Within individual industries and sectors, linkages with firms locally vary over time (the more mature the industry is, the higher the potential share of local goods and services) and depend upon global competition (i.e. potential access to competitively priced and quality supplies elsewhere).[16]

Figure IV.22. GVC participation, repatriated and reinvested earnings, 2010



Source: IMF Balance of Payments database and UNCTAD calculations.

Note: Data are for 2010 for all reporting countries, excluding top and bottom deciles ranked by repatriated earnings share in total FDI income. Repatriated earnings correspond to debit entry for current account item. All data are natural logarithms of absolute values.

c. Foreign affiliates and value added retention for the local economy

There is a strong correlation between countries' GVC participation and both repatriation and reinvestment of earnings. The net effect on countries' balance of payments is mostly marginal.

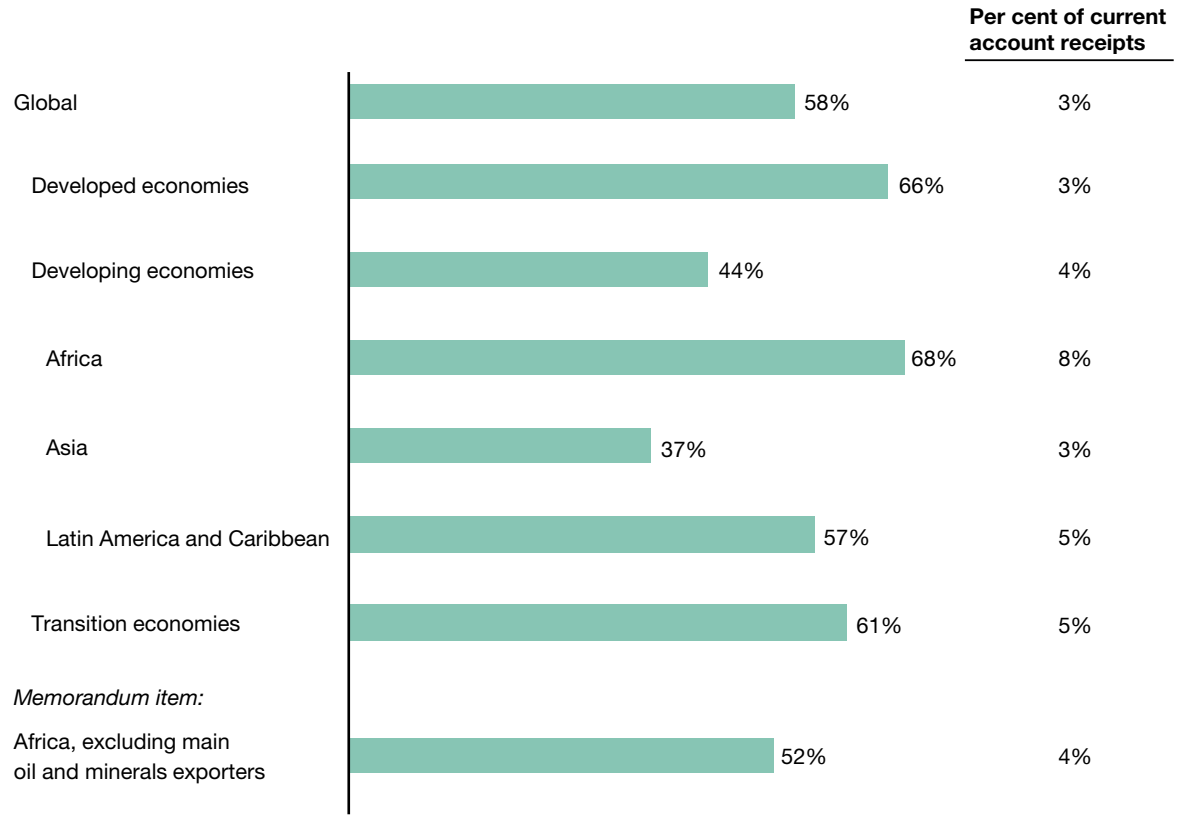
Given that key exporters and their suppliers in GVCs are often TNCs, there are concerns that value added created by foreign affiliates in developing countries does not confer the same benefits as value added created by local firms. This is because foreign affiliates may repatriate the earnings component of value added. Although overall domestic value added trade in developing economies in 2010 was more than 20 times higher than total repatriated FDI income from developing countries, the situation for individual countries may be more nuanced.

There is indeed a strong positive relationship between repatriated profits from a host country and its participation in GVCs. This is a corollary of the fact that GVC participation is driven by TNC activities. Increased TNC activity equally results in increased reinvested earnings (figure IV.22). GVC participation can thus induce further productive investment in the host economy.

Globally in 2010, about 60 per cent of total FDI income on equity was repatriated (figure IV.23). To some extent, the share may vary according to the type of GVC involvement of foreign affiliates in host countries and the value chain segments in which they operate. Income on market-seeking FDI at the end of value chains appears to be less likely to be reinvested. Foreign affiliates in countries involved in the middle of GVCs, in both manufacturing and services activities, may be more likely to invest further in production facilities, expanding efficiency-seeking FDI. Investment in extractive industries embodies a short value chain with high upfront investments and a higher propensity to repatriate. For example, although reinvestment rates appear low in aggregate for Africa, once the main oil and minerals exporters are removed from the sample, reinvestment rates are broadly in line with the global average.

The overall level of GVC participation of countries does not appear to significantly influence countries'

Figure IV.23. Repatriated earnings as a share of total FDI equity income, by region, 2010



Source: IMF Balance of Payments database and UNCTAD calculations.
Note: Data are for 2010 for all reporting countries. Repatriated earnings correspond to the debit entry for current account item "*dividends and withdrawals from income of quasi-corporates*".

reinvested and repatriated earnings ratios. The median repatriated earnings share for the top quartile of developing countries ranked by GVC participation rate is 50 per cent; for the bottom quartile, it is 52 per cent.

Finally, the overall current account effect of repatriated earnings is very low, at an average of 4 per cent of total current account receipts in developing countries, and rarely exceeding 8 per cent. In most cases, negative income effects from repatriated earnings are marginal in comparison to the positive current account effects of higher net export generation in GVCs.

d. GVCs and transfer pricing

Transfer pricing is the setting of prices for products and services that are traded between related parties. Where firms share equity ownership, opportunities exist to maximize joint profits by manipulating the prices of products moving between them, i.e. through transfer price manipulation.

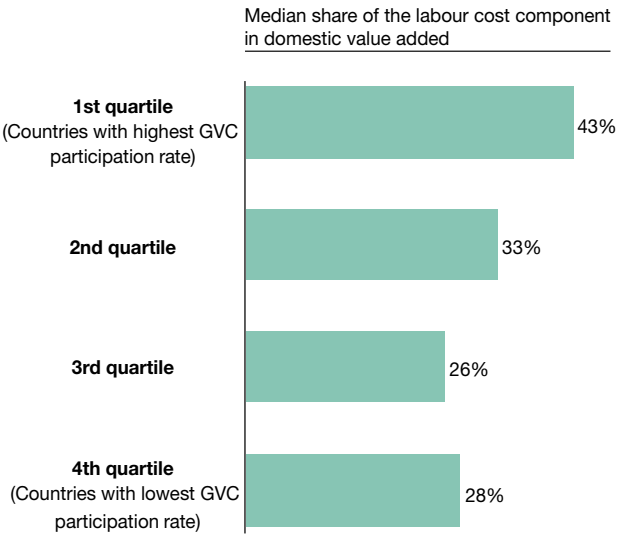
Where TNCs view government policies as a cost (e.g. trade and corporate income taxes, foreign exchange controls) or opportunity (e.g. export subsidies), transfer price manipulation provides a method by which TNCs can cut their costs and take advantage of opportunities. Such trade mispricing, however, can lower the effectiveness of host country policies, significantly weaken the national tax base and deprive national governments of their fair share in global value added.[17] In order to discourage this behaviour, governments have adopted the OECD's arm's-length standard, requiring TNCs to set transfer prices based on what independent enterprises would have done under the same or similar facts and circumstances.

Transfer price manipulation is highly relevant in the context of GVCs, for two main reasons:

- *GVCs and value added trade have significantly widened the scope for transfer price manipulation by TNCs*. GVCs enable TNCs to fine-slice their international production networks, locating each value adding activity in its lowest-cost location on a regional or global basis. The greater fragmentation of international production increases cross-border trade in intermediate goods (i.e. raw materials, parts, components and semi-finished goods), and generates a rising share of foreign value added in world exports. Fine-slicing value adding activities increases the length and variety of GVCs, providing more cross-border opportunities for transfer price manipulation of goods and services by TNCs.
- *The importance of services in GVCs make transfer price manipulation harder to combat*. Almost half of value added in exports comes from service-related activities, which is more than twice the share of services in worldwide gross exports. Whereas price comparisons with external markets may be possible for intra-firm transactions in the agriculture and manufacturing sectors (i.e. there may be enough inter-firm transactions to apply the arm's-length standard), this is less likely to be the case for intra-firm transactions in services (e.g. front and back office functions) and intangibles (e.g. patents and licenses) where comparable arm's-length prices are less likely to exist.

Transfer price manipulation may actually influence the distribution of value added in GVCs. The development contribution of exports rests in the domestic value added generated from trade. To the extent that domestic value added is created by foreign affiliates of TNCs – a high share, in the case of many developing countries – the profit component of value added (about 40 per cent in developing countries on average) may be affected by transfer price manipulation, potentially "leaking" value added and associated fiscal revenues and reducing value capture from GVCs.

Figure IV.24. GVC participation and the labour component of domestic value added, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD analysis
Note: Data for 187 countries ranked according to the 2010 GVC participation rate and grouped in quartiles; the reported share of the labour cost component of the domestic value added is the median value of the quartile.

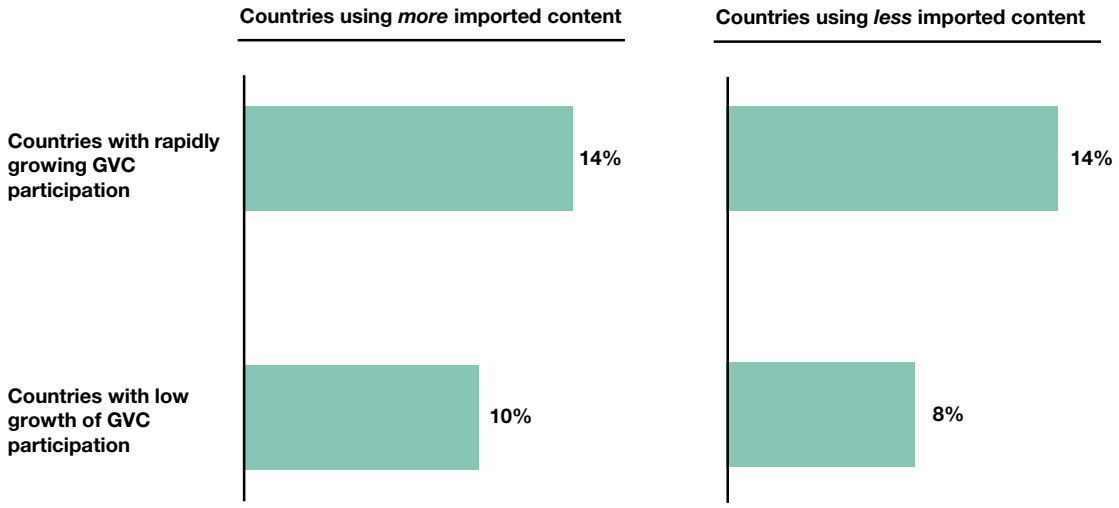
2. Job creation, income generation and employment quality

a. GVC participation, job creation and income generation

GVC participation tends to lead to higher domestic employment generation from exports and faster employment growth, even if it implies a higher imported content of exports.

Overall, employment increases with trade, but the employment effects of trade and participation in GVCs are highly variable. First, some industries are more labour-intensive than others: exports of garments or agricultural products are more labour-intensive than exports of minerals. Second, even within the same industries, some product lines are more labour-intensive than others: cultivation of fruit and vegetables is more labour-intensive than growing cereal crops. Third, the size and composition of the labour force involved in generating exports depends on the position of countries within GVCs: countries specializing in high value added activities have a higher demand for high-skilled employees and higher wages. One analysis of the computer hard disk industry in the 1990s estimated that the United States had 20 per cent of the worldwide labour force in this industry and accounted for 40 per cent of the global wage bill, while South-East Asia had 40 per cent of the labour but only 13 per cent of the wage bill.[18]

Figure IV.25. Growth of the labour component of domestic value added in exports, by level of GVC participation growth and foreign value added



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.
Note: Data for 187 countries. "Countries with rapidly growing GVC participation" refers to the 50% of countries with the highest 2000-2010 GVC participation growth rate. "Countries using more imported content" refers to the 50% of countries with the highest foreign value added share in exports in 2010.

GVCs tend to generate employment. The labour cost component of domestic value added in exports – a proxy for the employment generation potential of exports – increases with higher GVC participation (see figure IV.24). The median share of labour reaches 43 per cent for countries within the highest quartile of GVC participation, against a share of 28 per cent for countries that participate least in GVCs. Further, from 2000 to 2010, the countries that experienced high growth in GVC participation saw the labour component of exports rise faster (at 14 per cent) than countries with low growth in GVC participation (9 per cent) (see figure IV.25). This effect holds irrespective of whether GVC participation occurs in conjunction with high foreign value added in exports. In other words, even when countries' participation in GVCs depends on higher imported content that reduces the share of domestic value added, the growth of the overall labour component of exports is higher than in cases where countries are less involved in GVCs.

The employment rate of women has been rising in export-oriented industries (such as apparel, footwear, food processing and electronics assembly), services (such as business services outsourcing, including call centres) and agriculture – although the impact of GVCs on female employment in agriculture varies considerably with the type of production and gender divisions of labour in different countries. The relative dynamism of female employment growth tends to decrease as countries move up the value chain.[19]

b. GVCs and the quality of employment

Jobs created by GVCs vary in quality. Workers can face low pay, tough working conditions, and insecurity as GVC jobs are more exposed to the vagaries of international demand and competition.

As a result of the rise of global production capabilities and the growth of export-oriented industries in many developing countries, combined with intensifying global competition due to the entry of major new producers and exporters (located largely in Asia), TNCs face significant pressure to reduce costs and increase productivity in their GVCs (also referred to as "global factories"). In turn, this is putting considerable pressure on both wages and working conditions. Especially in labour-intensive sectors (such as textiles and garments) where global buyers can exercise bargaining power to reduce costs,

Table IV.8. Examples of workforce development initiatives

Private sector workforce initiatives	• Intra-firm on- and off-the job training programmes (includes corporate training centres) • Inter-firm training programmes (lead exporters training suppliers) • Specialized training companies providing training services to lead exporters and suppliers • Private specialized colleges, vocational schools, universities • Private employers association (e.g. Turkish Textile Employers' Association)
Sectoral initiatives	• Tourism: UNWTO training programmes in the Tourism Sector, Association of Community-Based Tourism (ACTUAR in Costa Rica) • Agriculture: Kenya Horticulture Practical Training Centre • Textile and Garment Associations (e.g. Garment Manufacturers Association Cambodia; Turkish Clothing Manufacturers Association; Bangladesh BIFT Sweater Manufacturing Training Centre, etc.)
Public-private collaboration	• Public-private training partnerships: selected examples include - Skills Development Centres Malaysia - CORFO – Chile fruit and vegetables industry "Plan Fruticola" involving a partnership between Universidad de Chile and Instituo Nacional de Investigación Agropecuaria - Professional qualifications authority (e.g. Mesleki Yeterliki Kurumu Resmi for Turkish textiles and apparel) - "Buenas Practicas Agricolas" in Chile (training programme coordinated by the government, private sectors and other stakeholders in agriculture) • Government incentives for investment in training by private firms • ILO Better Work Programme: for instance, in Lesotho, it works with the Industry Employers Association, the Textile Exporters Association and five major international buyers: Gap Inc., Jones New York, Levi Strauss & Co., Primark and Walmart

Source: UNCTAD, based on various country and industry cases (Gereffi, G., K. Fernandez-Stark and P. Psilos (2011) "Skills for upgrading: Workforce Development and Global Value Chains in Developing Countries", Durham: Center on Globalization, Governance & Competitiveness, Duke University.).

this pressure often results in lower wages, although there are substantial variations between countries and across sectors within countries.[20]

Various initiatives aim to develop workforce skills, which enables producers to enhance productivity, meet industry and global standards, and align skills with demand needs (see table IV.8 for examples of workforce development initiatives). In the horticulture industry, labour training is needed to meet food safety and health standards. Such training may even be provided to the temporary workforce.[21] In tourism, the type of training varies along the value chain, from hospitality training (hotel cuisine, food preparation, wait services, housekeeping and reception) to tour operator training, language training[22] and soft skills training (such as communication skills, customer services and time management).

Despite such initiatives, some employment in GVCs provides insecure incomes and job prospects for workers. Participating countries face a number of potential employment-related risks:

- Pressures on costs from global buyers mean that GVC-related employment can be insecure and involve poor working conditions. While some core workers for key suppliers gain most in terms of pay and benefits, companies supplying global buyers frequently reduce costs by employing temporary or casual workers in their plants and outsourcing work to subcontractors where working conditions are considerably poorer.[23]
- Some GVC activities are footloose, and relocation can lead to a decline in local employment.[24] TNCs have more options for switching production between countries than most domestic firms. For the simplest tasks in the value chain and where the domestic value added component is low, the costs of relocation tend to be lower. Equally, global buyers that use NEMs to source products from local suppliers (domestic- or foreign-owned) can switch orders from one country to another. The increasing use of global intermediaries that actively seek out and choose between low-

cost locations for order fulfilment increases this pressure. Conversely, the more production is embedded in the local economy and the more the local supplier base has been built up, the greater the costs of switching locations.

- Export-oriented employment in general is more subject to fluctuations in global demand and supply, and therefore influenced by factors occurring far from where employment takes place. GVC-related jobs can be lost in case of demand fluctuation and economic crisis.[25] Fluctuation in demand can be seasonal (as in the fashion industry), resulting from weather conditions (in the food industry), or caused by economic downturns and crisis. Temporary workers are more at risk of losing their job, but permanent workers can be affected too.
- For subcontractors at the end of the value chain, which are often used as "pop-up" suppliers to provide additional capacity, these fluctuations in demand are particularly harmful as they are the marginal producers whose output is most likely to be cut. This effect is further exacerbated by lags between demand fluctuations and order fluctuations, resulting in greater variation upstream in the supply chain with negative consequences on suppliers in developing countries, a phenomenon referred to as the "bullwhip effect".[26]

3. Technology dissemination and skills building

a. Technology dissemination and learning under different GVC governance structures

The governance structure of GVCs affects the scope for and methods of knowledge transfer to developing-country firms operating in GVCs.

Business relations and governance structures in value chains are determined by the complexity of information and knowledge transfer required to sustain transactions, the codifiability of information and knowledge, and the ease with which it can be transferred, as well as by firms' capabilities and competence (Section B). The types of governance structures in GVCs are thus an indication of the potential for technology and skills transfer between various actors in the chain, and related learning mechanisms (see table IV.9).

When operating through *pure market transactions*, suppliers learn from the demands placed upon them by buyers and from feedback about their performance. Learning by exporting can be an effective way for companies to acquire capabilities, but it requires investment by these companies so that they can respond to the challenges that they encounter. Firms can even benefit from learning by importing. In Uganda, firms learned through the process of importing pharmaceuticals to start activities in packaging, assembly and original equipment manufacturing.[27] In this case, imports of products provided an initial impetus for domestic economic activity.

Other forms of GVC governance structure are more conducive to learning. *Value chain modularity* occurs when it is possible to codify specifications for complex products. In this case, turnkey suppliers have sufficient competences to engage in full-package activities.[28] Although this reduces the need for buyers to engage in inter-firm technology transfer, local suppliers learn through the need to comply with firm or industry standards, and technology transfer is embodied in standards, codes and technical definitions.

By contrast, in *relational value chains*, specifications cannot be codified, transactions are complex, and the capabilities of the suppliers are high. In this case, suppliers possess complementary competences of interest to buyers, and tacit knowledge must be exchanged between buyers and sellers. Both buyers and suppliers benefit from mutual learning, predominantly arising from face-to-face interactions.

In *captive value chains*, complexity and the ability to codify specifications are high, but suppliers do not possess the needed competences. This encourages technology transfer from buyers but can lead to transactional dependencies, with suppliers locked into supply relationships. For example, TNCs may establish very structured supplier development programmes in which local partners receive training and transfers of technology. These are designed to increase the capabilities of the local supply base. In order to protect their investments in these suppliers, companies may ensure a high degree of

Table IV.9. Learning mechanisms within GVCs

Governance type	Technology/knowledge-related determinants of governance types			Predominant learning mechanisms
	Complexity of transactions	Codification of transactions	Competence of suppliers	
FDI (ownership hierarchy)	High	Low	Low	• Imitation • Turnover of skilled managers and workers • Training by foreign leader/owner • Knowledge spillovers
NEMs:				
- Modular	High	High	High	• Learning through pressure to accomplish international standards • Transfer of knowledge embodied in standards, codes, technical definitions
- Relational	High	Low	High	• Mutual learning from face-to-face interactions
- Captive	High	High	Low	• Learning through deliberate knowledge transfer from lead firms; confined to a narrow range of tasks – e.g. simple assembly
Trade (market)	Low	High	High	• Learning from exporting or importing • Imitation

Source: Adapted from Pietrobelli, C. and R. Rabellotti (2011) "Global Value Chains Meet Innovation Systems: Are There Learning Opportunities for Developing Countries?", *World Development*, 39:1261-9.

transactional dependence, making the suppliers "captive". In the Vietnamese software industry, IBM has developed a programme called "PartnerWorld" to integrate its suppliers into its GVC. The Vietnamese partners provide IBM software services and solutions to their own clients, which include banks, enterprises and the Government; other partners distribute hardware including servers.[29] In some cases, training is conducted in conjunction with external bodies, such as the collaboration between TNCs with local or national governments in the Penang Development Centre in Malaysia. Development agents may also try to promote such linkages, as seen in the case of the Projeto Vinculos in Brazil, with involvement from the United Nations.

Under the *hierarchy* governance type (FDI), or *vertical integration*, the lead firm takes direct ownership of the operations and engages in intra-firm trade. This structure takes place when suppliers lack competences; where they are small and dependent on larger, dominant buyers that exert high levels of monitoring and control and where transactions are easy to codify. TNCs' technology transfer occurs within and across firms in a variety of ways.[30] The internal configuration of TNCs facilitates intra-firm knowledge transfer, predominantly from headquarters to local subsidiaries. Local subsidiaries also increasingly engage in R&D activities and build their own competences. This means that TNCs engage in intra-firm trade as well as inherent technology and skills transfer; these occur within the firm across borders and benefit both headquarters and affiliates. These unique ownership advantages distinguish TNC affiliates from other local firms in host economies, and subsequent technology spillovers are enhanced. Although the degree of horizontal and vertical spillovers varies by country and industry, FDI impact does tend to be positive, especially in developing countries.

Knowledge transfer effects tend to be more positive when TNCs act directly as lead firms within the value chain, as opposed to supply chain management firms (to whom TNCs may outsource part of the burden of coordination of GVCs) or global buyers (e.g. for retailers).[31] When global buyers have operations in the host country, technology and skills transfer do occur more efficiently. However, compared with global buyers and supply chain management firms, TNCs are generally more inclined to initiate supplier development programmes in developing countries. This is illustrated in the automotive industry with

AB Volvo and its suppliers across Asia and Latin America, as well as with IKEA in the home-furnishing industry.

b. Learning in GVCs: challenges and pitfalls

Learning in GVCs is not automatic. It depends on numerous factors, including local absorptive capacities. Skills transfers to lower tier suppliers are often limited

There are caveats to knowledge transfer:[32] (i) learning is *not costless* (access to external knowledge means that local firms use resources to identify, absorb and utilize knowledge);[33] (ii) not all knowledge is *useful* (the knowledge imparted by global buyers is specific to the products bought and may not be useful for the local firm in developing its own product lines and competences); (iii) even for lead firms there are *risks involved in knowledge sharing* (especially if the knowledge recipient possesses the resources and competences to become a competitor);[34] and (iv) transfer is not automatic (to facilitate transfer, mechanisms must be put in place in both the transferor and the recipient).

Local firms' competences and absorptive capacity affect technology and skills transfer within GVCs. For local firms to develop, they need to engage in internal investment in equipment, organizational arrangements and people. Local firms can then either try to penetrate markets in which their global buyers do not operate (with the proviso that entering new markets requires additional capabilities that local firms may not have) or move into functions which their global buyers are willing to relinquish. The first case was illustrated by electronic contract manufacturers from Taiwan Province of China, including Acer, which applied knowledge learned from one part of its production to supply customers in other markets.

A number of actions can be adopted by local firms to enhance the potential for and assimilation of knowledge transfer.[35] One is to operate across value chains. Another is linked to strategies to raise local firms' bargaining power (e.g. diversification of buyers, proactive internal technology development to expand their product portfolio). Collective actions by local producers in developing countries can also facilitate knowledge transfer and absorption. This can take place in industry clusters, where SMEs combine knowledge and technical resources to improve their export potential or facilitate adoption of standards.

For developing countries, the development of lower-tier suppliers is critical, not all suppliers have similar access to technology.[36] In the automotive sector, *tier 1 suppliers* are typically dominated by a small number of foreign TNCs, particularly so since the emergence of global mega-suppliers that meet the needs of their customers across many countries has undermined the position of mostly domestically oriented local companies. Domestic suppliers tend to be numerous in *tier 2 and tier 3*. However, the highly concentrated structure of the industry means there is little room for knowledge transfer to lower-tier suppliers (which operate predominantly through market transactions). In Mexico, very few, if any, of the SMEs in the second and third tiers have been able to leverage their links to GVCs as springboards for their own internationalization. Market pressures and the introduction of international standards do encourage suppliers to improve both product and processes when they first join GVCs, but the use of modularization (driving suppliers to produce standardized components) limits access for the lower-tier suppliers to the new information, knowledge and activities of assemblers and top-tier suppliers.[37]

4. Social and environmental impacts

TNC CSR programmes have had some successes, but their ability to mitigate negative social and environmental impacts in GVCs is limited and must be complemented by public policies.

The social impact of GVCs has been mixed. Positive impacts have been achieved through strengthened formal job opportunities and poverty reduction along with the dissemination of environmental management systems and cleaner technology. However, the downward pricing pressure found in many GVCs has led to significant negative social and environmental impacts. Addressing these issues at the firm level throughout a GVC is a key challenge of CSR initiatives. TNC CSR programmes have had some successes, but their limited ability to influence practices must be complemented by public policies.

a. CSR challenges in GVCs

Implementing good CSR practices throughout a GVC is challenging. Reaching beyond first-tier suppliers remains difficult. And from a supplier perspective, compliance efforts can be costly.

For many years, TNCs have been working, primarily at the first-tier level, to promote improved social and environmental impacts, but the nature of GVCs makes this work complicated and its uneven success is due at least in part to differences in GVC structures. TNC efforts beyond the first-tier level of suppliers are especially fraught with challenges and require public policy assistance and collective action within multi-stakeholder initiatives. The 2013 Rana Plaza disaster in Bangladesh demonstrates that TNC CSR programmes alone are not sufficient to address the challenges faced; public sector and multi-stakeholder support for suppliers is key to improving social and environmental impacts.

Buyer-driven GVCs are typically focused on reduced sourcing costs, and in many labour-intensive industries this means significant downward pressure on labour costs. Some suppliers are achieving reduced labour costs through violations of national and international labour standards and human rights laws. Practices such as forced labour, child labour, failure to pay minimum wage and illegal overtime work are typical challenges in a number of industries. In addition to downward pressure on wages, the drive for reduced costs often results in significant occupational safety and health violations. Common examples in factories include inadequate or non-existent fire safety features, leading to a number of well-publicized deaths in factory fires, and poor ventilation systems leading to chemical exposures and "dust disease" illnesses (pneumoconioses) that the ILO characterizes as a "hidden epidemic".[38]

Similarly, downward pricing pressure has created economic incentives for violating environmental regulations and industry best practices, leading to the increased release of disease-causing pollutants and climate-change-related emissions. Cutting costs by engaging in negative social and environmental practices is a particularly acute trend in developing countries, which often lack the regulatory infrastructure to ensure compliance with their laws and/or have lower social and environmental standards in place as a result of the competitive pressures of GVCs.

For more than a decade, large global companies, whether they be TNCs with operations in many countries or global buyers working through NEMs, have faced increasing pressures to take responsibility for these social and environmental challenges in the value chain. These pressures are particularly strong in sectors such as food, electronics and garments, where consumers can perceive a direct relationship between the products they buy and the conditions under which those products are produced.

Companies have responded to these pressures by adopting a range of standards and codes of conduct. In most companies, these codes are supported by specific staff with responsibility for the code's implementation and complemented by CSR management systems (including supplier oversight programmes) and corporate reporting. Despite the advancement of CSR management practices in recent years, addressing social and environmental problems in value chains remains a challenge.

The international instruments of the United Nations (e.g. ILO Core Labour Standards, the UN Guiding Principles on Business and Human Rights) represent a global consensus on CSR and are commonly cited by TNCs in their company codes of conduct.[39] While there is strong consensus on the normative dimension of what *should* be done, the practical implementation of CSR standards is the key challenge, especially in the context of complex GVCs and when working with suppliers beyond the first tier.

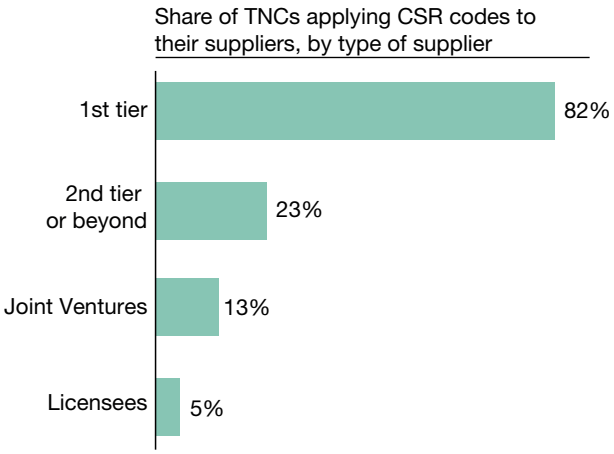
The impact of supplier codes of conduct on GVC members is not uniform; rather, most of it is concentrated on first-tier suppliers. At this level, TNCs in many industries have more influence and are engaged in a number of monitoring activities. Some companies require their suppliers to undergo an audit before the first contract is established and then expect their suppliers to be monitored every three to four years. In other industries, suppliers can be inspected as frequently as every six months.

Generally, the audit process involves an inspection of the factory site, interviews with management and workers (individually and in groups) and an analysis of company files and records, such as time sheets, wage records and employment contracts. The time required to complete an audit can vary between half a day and six days, depending on the size of the supplier.

These CSR programmes can have a beneficial impact at the level of tier-one suppliers, improving some aspects of their social and environmental practices. They do not, of course, solve all problems at the tier-one level, where TNCs still face many challenges implementing their codes. Such programmes, however, can also place a burden on suppliers who are often the subject of frequent (sometimes weekly) inspections from multiple customers. And there is little investment in capacity building and training for suppliers, especially SME suppliers, to improve their social and environmental practices.

Beyond first-tier suppliers, the challenge of influencing the CSR practices of value chain members becomes increasingly difficult. Companies are beginning to apply their CSR codes to members of the value chain beyond first-tier suppliers (figure IV.26). However, the influence of TNCs at these lower levels of the value chain is typically very weak.

Figure IV.26. Application of CSR codes beyond tier-one suppliers



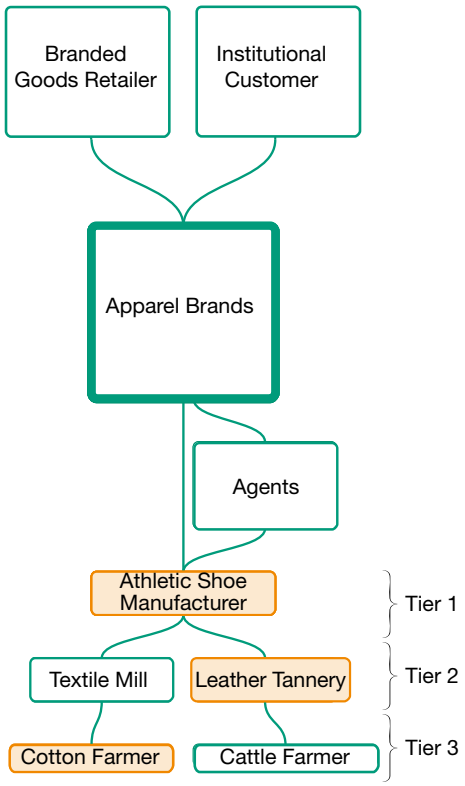
Source: UNCTAD (2012), "Corporate Social Responsibility in Global Value Chains".
Note: Based on study of 100 TNC CSR codes. Indicates what value chain member the company says its code applies to.

One of the key factors in determining the potential usefulness of company CSR codes is the power of the TNC relative to other members of the value chain, and the proximity of the TNC to those members in terms of direct and indirect dealings. Power differentials between members of a GVC can differ vastly across industries, and sometimes even across specific product categories within an industry. Within apparel, for example, lead firms in some product categories (such as athletic shoes) maintain significant power in relation to their first-tier suppliers, while in other product categories (such as t-shirts) TNCs have much less power over their suppliers.[40] A significant factor influencing power differentials is the level of concentration at different levels in a GVC, as indicated by the market share that any one buyer or supplier maintains for a given product. TNCs will typically, but not always, have the most influence in value chains where they are a part of a highly concentrated set of buyers dealing with a large number of suppliers at the tier-one level (e.g. the branded athletic shoe market). Their power is much reduced when they are part of a large group of potential buyers (e.g. the t-shirt market). Influence is also significantly reduced as TNCs attempt to reach deeper into their GVCs. To influence the social and environmental practices of suppliers at the second or third tier, TNCs will typically need to form industry associations, join multi-stakeholder initiatives and/or rely on public policy solutions (figure IV.27).

Watchdog organizations, such as non-governmental organizations and trade unions, and strong national laws help to develop an institutional framework in which corporate behaviour can be adequately monitored and violations can be tracked and corrected. An immediate impact of the Rana Plaza disaster in Bangladesh, for example, was a public policy shift allowing the formation of labour unions without prior consent by the employer. The strengthening of watchdog organizations, including trade unions, can have a positive impact on CSR issues by shedding light on violations and empowering workers to self-regulate the industries in which they work. These impacts can be further strengthened through a vibrant civil society network, including open dialogue and opportunities for press publications on all issues surrounding corporate environmental, social and governance practices.

Figure IV.27. TNC influence on CSR practices in the athletic shoes GVC

Orange indicates areas that have come under scrutiny for CSR issues. Size of box indicates relative power in the GVC.



Source: UNCTAD.
Note: Tier 1: Use of company codes and inspections; Tier 2 and 3: Use of industry associations and multi-stakeholder initiatives (e.g. Better Leather Initiative, Better Cotton Initiative).

b. Offshoring emissions: GVCs as a transfer mechanism of environmental impact

Offshoring of emissions will remain a challenge even with best practice environmental management systems. Deliberations on global emissions reduction must take into account the effect of GVCs.

Trade and GVCs are the mechanism through which the emission impact of final demand is shifted around the globe. Manufacturing for exports was responsible for 8.4 billion tons of carbon dioxide in 2010, or 27 per cent of global carbon dioxide emissions (roughly in line with the share of gross exports in GDP of 30 per cent in 2010). As developing countries continue to engage in export-oriented industrialization, they tend to have a higher share of emissions caused by final demand in other countries (i.e. trade- or GVC-related emissions) as compared with developed countries (figure IV.28). Only 8 per cent of total carbon dioxide emissions produced in developed countries were used to satisfy final demand in developing countries, whereas more than double that proportion (17 per cent) of emissions produced in developing countries served final demand in the developed economies. Africa and the least developed countries account for small fractions of global emissions (4 per cent and 1 per cent respectively), but relatively large shares of those emissions are transferred through GVCs to satisfy demand elsewhere.

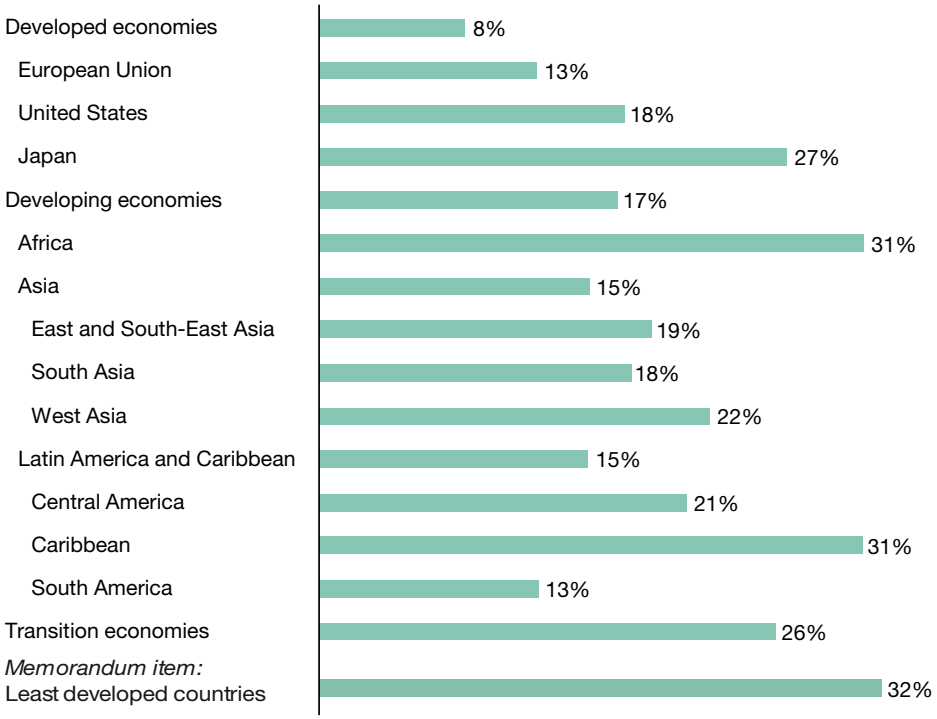
This offshoring of emissions facilitated by GVCs can have a significant impact on a country's ability to achieve its national environmental goals, as well as its ability to meet internationally negotiated emissions reductions targets. Deliberations on global emissions reduction must take into account this offshoring effect when considering national emissions targets.

Engaging in GVCs, even when firms employ environmental best practices, will typically lead to a shifting of the burden of emissions reduction to developing countries, which often have the least capacity to address it. The situation can be further exacerbated by the energy sources used in different countries: shifting energy-intensive manufacturing from a country with low-carbon energy sources (e.g. nuclear, hydro, solar) to a country with high-carbon energy sources (e.g. coal) can lead to higher overall emissions even when all manufacturing processes remain the same. Addressing the issue of emissions offshoring can involve greater coordination between investment promotion and export promotion authorities, on the one hand, and environmental protection authorities, on the other, as well as coordination with the energy production strategy for the country.

5. Upgrading and industrial development

The previous sections have demonstrated that participation in GVCs can yield *direct* economic benefits to developing countries such as the value added contribution to GDP, job creation and export generation. A number of mechanisms have been addressed through which participation in GVCs can improve the *longer-term* development prospects

Figure IV.28. Share of total emissions that are "imported" through GVCs, by region, 2010



Source: UNCTAD analysis, based on information from the Eora MRIO database.
Note: The UNCTAD-Eora GVC Database has its origins in the Eora MRIO (multi-regional input-output) database which was conceived as a means to track the true carbon footprint of countries and other economic agents.

GVCs can offer longer-term development opportunities – in addition to direct economic impacts – if local firms manage to increase productivity and upgrade to higher value added activities in GVCs.

of countries, in particular the potential for technology dissemination and skill building, which can help firms (i) improve their productivity in GVCs and (ii) enter or expand into higher value added activities in GVCs. Both are essential ingredients of industrial upgrading.

a. Upgrading dynamically at the firm level

(i) GVCs and firm productivity

Firm-level evidence shows that participation in GVCs is linked to firm *productivity*. Compared with non-exporters (or non-importers), firms that engage in international activities show significantly higher productivity levels. Similarly, firms that engage in GVCs with NEMs have productivity levels that are lower than those of TNCs, which have activities in more than one country. Internationalization is therefore closely linked to productivity levels of firms (figure IV.29).

Firm-level productivity and country competitiveness go hand in hand. It is firms with high productivity levels that are behind countries' participation in GVCs, and it is the further improvement of these firms' productivity that is, to a great extent, behind countries' success in upgrading.

Firms can enhance capabilities in GVCs through product, process, functional and chain upgrading. Upgrading is a function of GVC structure and governance, lead and local firm characteristics, and host country context.

(ii) Types of firm upgrading

Local firms can enhance their competences in GVCs through four main channels, namely products, processes, functional areas and inter-chain interactions.[41]

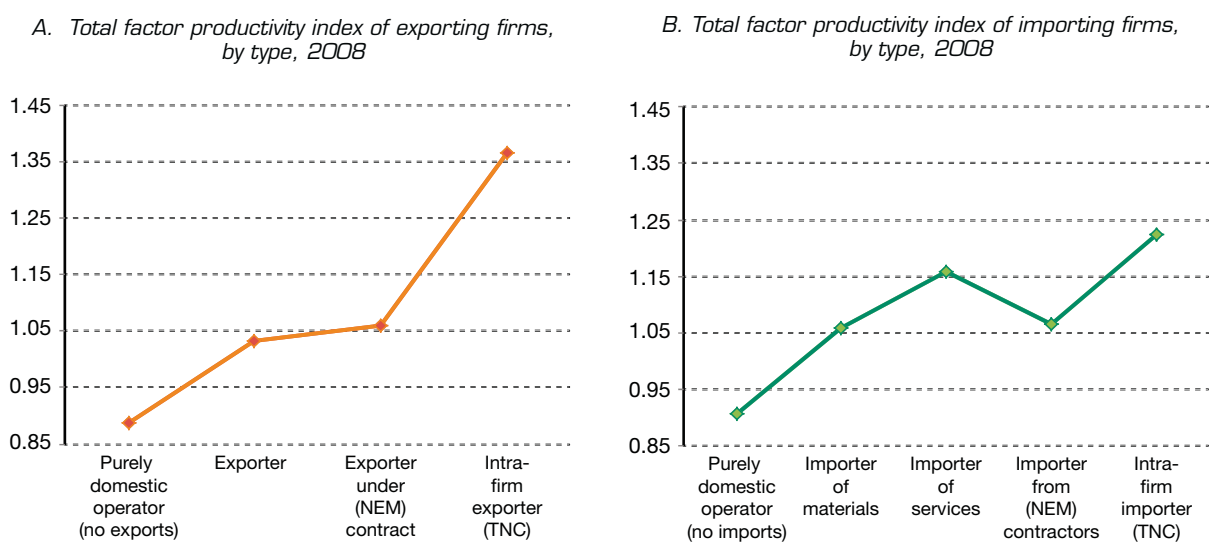
- *Product upgrading*. Firms can upgrade by moving into more sophisticated product lines

(which can be defined in terms of increased unit values). For instance, in the tourism value chain, firms can upgrade within the hotel segment by offering higher-quality hotels or by adding niches such as ecological or medical tourism.

- *Process upgrading*. Firms can upgrade processes by transforming inputs into outputs more efficiently through superior technology or reorganized production systems. Increased efficiency includes processes within the firm as well as processes that enhance links in the chain (e.g. more frequent, smaller and on-time deliveries). The dissemination of business practices and standards among firms serving GVCs can be triggered by lead firms or market pressures. For example, to meet higher standards in agricultural produce, many TNCs encourage adoption of "GAP" (good agricultural practice) among their suppliers in developing countries, offering them training and technical assistance in field care, post-harvest practices, storage and transportation.
- *Functional upgrading*. Firms can acquire new functions in the chain, such as moving from production to design or marketing, to increase the overall skill content of activities. For instance, in the global apparel value chain, functional upgrading would involve a move from cut, make and trim forms of offshore contracts to a model where the firm offers a wider range of production capacities and services to buyers (such as limited design, warehousing and embellishment), to ODM (own design manufacturers) where firms carry out all parts of the production process including design, to OBM (own brand manufacturers) where firms engage in R&D, design and marketing functions.
- *Chain upgrading*. Firms apply the competence acquired in a particular function of a chain to a new industry. For example, firms in the apparel industry may shift into other value chains such as automotive (e.g. providing seat covers) or technical textiles for non-apparel uses. In the case of the Indian offshore services value chain, local firms became involved in software development in the 1990s (and still are today), before developing competences in business process and knowledge process outsourcing in the early 2000s.

The route to upgrading is unique to individual industries and countries. Various types of upgrading can take place simultaneously. In tourism,[42] for example, upgrading paths and policies have included (i) pro-FDI policies to attract international

Figure IV.29. Firm participation in GVCs and productivity



Source: UNCTAD analysis, based on EFIGE; Altomonte, C., T. Aquilante and G. Ottaviano (2012) "The Triggers of Competitiveness: The EFIGE Cross-Country Report", Bruegel Blueprint Series, Vol. XVII.
Note: Reference productivity index for the sample set to 1.00.

hotel chains and coordination between global tour operators and local incoming agents (in Viet Nam and Costa Rica, agents upgraded to serve as regional tour operators as well as in-country tour coordinators), (ii) IT utilization (the Viet Nam National Administration of Tourism focused attention on developing a web presence for the country), and (iii) diversification of product offerings (such as eco-tourism in South India).

Recent evidence suggests that through upgrading, local firms can also create new chains. Through its internationalization and with incentives from the Brazilian Government, Foxconn now assembles iPhones in Brazil. The location of a lead firm in this large emerging country is expected to not only increase consumer electronics manufacturing but also generate demand for locally made components (although, for the moment, many of the components are still shipped from Asia).

(iii) Factors driving firm-level upgrading

A number of factors influence the potential for local firm upgrading through GVCs, including the nature, structure and governance of GVCs and their lead firms' characteristics, as well as host country and local firm characteristics (see table IV.10).

In terms of structure and governance, a GVC that involves too many intermediaries limits the potential for local firms to learn from lead firms. Some governance mechanisms, particularly the modular or relational forms of business relationships, lead to enhanced firm-level upgrading. And lead firms have an incentive to encourage product and process upgrading but may raise entry barriers through brand names, technology or R&D, which can mean functional upgrading is more difficult to achieve.

Focusing on host country and firm-level characteristics, it is clear that physical infrastructure (ports, roads, power, telecommunications), knowledge infrastructure (universities, technology parks, etc.) and business infrastructure (EPZs, clusters, agglomerations, etc.) increase the upgrading potential of local firms. The quality, quantity and cost of appropriate factors of production (labour, capital, natural resources) facilitate upgrading. Local firm competences and absorptive capacity determine upgrading potential. And the value chain position (e.g. first-, second- or third-tier supplier), and power relations within the value chain mean that local firms have varying access to lead-firm technology and knowledge and related upgrading potential.

The nature of GVCs means that *authority* and *power relationships* are key to explaining learning by local producers. In addition, there are *sector-specific differences* in the ways firms can learn. In *buyer-driven GVCs*, buyers tend to intervene directly in local firm processes. In *producer-driven GVCs*, especially in the case of complex product systems, the potential for technological upgrading is high, first because suppliers tend to already possess technological capabilities, and second because purchasers provide incentives to upgrade. However, the potential for upgrading is higher for first-tier suppliers than for second- and third-tier suppliers.

For local firms, operating in multiple value chains, including TNC-independent chains, can act as an impetus for upgrading. First, when local firms operate in value chains that are not dominated by global buyers or TNCs, such as national or regional chains, they often need to develop their own competences across a variety of functional activities (without the fear of competing with their key customers).[43] Second, once local firms have acquired the competence to develop and sell products under their own names within their own markets, they are in a position to start exporting these under their own brands and designs to export markets.[44] Third, when a number of local firms in an industry or cluster develop such a range of competences, their effects may subsequently spill over to other local firms.

The origin of lead firms can result in varying benefits.[45] The Zambian copper mining sector provides a good ground to compare various lead firms in GVCs. North American, European and South African buyers have aligned their supply chain practices to global practices that are increasingly dominant in the mining sector, characterized by emphasis on quality, lead times and trust as key market requirements, with support and cooperative practices for suppliers to improve their management and technological competences. Chinese buyers are considered result-oriented buyers, but their

Table IV.10. Factors influencing firm-level upgrading potential in GVCs

Driving force	Factors	Description
Lead firms and GVC structure and governance	Fragmentation and configuration	• Spatial scale (within and across borders), number of stages of the value chain, number and types of key actors involved (lead firms, intermediaries, suppliers)
	Governance mechanism	• Governance in terms of market, modular, relational, captive and hierarchy and its implication in terms of the type of relationship between lead and local firms
	Technology level	• Levels of technology in various segments of the value chain within an industry
	Dynamic changes	• Speed with which global competition changes (global strategic rivalry, threats of new entrants) and changes in the GVC structure and governance
	Entry barriers	• Number of existing competitors at various stages of the value chain, type of entry barriers such as brand names, technology or R&D
	Bargaining power	• Degree of power held by the lead firms in terms of decisions over suppliers and guidance in activities performed by key suppliers
	Organizational convergence	• Harmonization of key activities and standards across various locations (such as human resources and environmental practices, inter-firm cooperation), supplier auditing and monitoring practices
Host country and firm-level characteristics	Infrastructure	• Physical infrastructure (ports, roads, power, telecommunications), business infrastructure (EPZ, SEZs, Industrial Zones)
	Key resources	• Availability, quality and cost of key resources (labour, capital, natural resources)
	Supply conditions	• Availability, quality and cost of supplies locally, technological competence of local suppliers
	Market conditions	• Local (and regional) market size, growth, consumer preferences
	Knowledge environment	• Macro-innovatory, entrepreneurial and educational capacity environment
	Degree of specialisation	• Country's past, current and future specialization in specific GVC segments, tasks and activities
	Geographic position	• Size and potential of regional markets, membership of a regional integration agreement facilitating inter-country division of labour,
	Firm resources	• Local firm's own resources, capabilities and degree of absorptive capacity
	Value chain position and involvement	• Position of the firm (1st, 2nd or 3rd tier supplier), including bargaining power, and number, type and geographic spread of value chains the firm is involved in.
	Competitive dynamics	• Local (regional or global) strategic rivalry, threats of new entrants, threats of substitutes

Source: UNCTAD.

supply chain is governed more at arm's length. Indian buyers are more price-driven, but by adopting low entry barriers and low performance requirements, they ensure high levels of competition in the supply chain. Different supply chain practices have been found to affect upgrading efforts of local suppliers in different ways.

Local firms often have to enhance their competences as a result of country, industry or firm standards related to the production and processing of various products.[46] Firm-specific standards are driven by organizations that reflect the interests of the corporate sector (i.e. ISO 9000 quality procedures or ISO 14000 environmental standards). Once lead firms implement these quality standards, there is often a cascade effect, as numerous suppliers need to follow suit and adopt similar procedures. Implementation of such procedures can improve processes among a wide range of companies involved in the value chain.

Agglomeration and clustering facilitate economic benefits from GVC participation. Local firms have a greater chance of capturing the benefits of GVC participation when they are located in clusters because of *collective efficiency*[47] resulting from geographical proximity and increased potential for business interactions and learning.

(iv) Upgrading risks

Local firms may find themselves *locked into* low value added activities despite having successfully gone through product and process upgrading, because functional upgrading is more difficult to achieve. This can result from a number of factors, namely prevailing business *practices of lead firms*,[48] global *competitive dynamics* of value chains and *local firms acting inefficiently* by maximizing short-term profits at the cost of long-term efficiency, as well as the *routines of contractors* involved in the value chain.[49]

Access to various functions may be more contentious if local producers start engaging in activities conducted by the lead firms.[50] In such cases, power relations may limit knowledge flows within the chain. Local firms become tied into relationships that prevent functional upgrading, especially when they depend on powerful buyers for large orders. This is illustrated in the Sinos Valley shoe cluster in southern Brazil. In the 1960s, new buyers from the United States drove a change in the configuration of the cluster from numerous small producers to larger producers that could deliver larger volumes of standardized products. This affected power relations within the cluster. Process standards and product quality rose, as local firms gained access to international markets. The early 1990s saw the rise of rival Chinese producers and downward price pressure. Despite this competition, large producers in the Sinos Valley were reluctant to move up to areas of design and marketing for fear of consequences from the cluster's main buyers, which represented nearly 40 per cent of the total cluster exports. It became apparent that the Brazilian producers achieved high production standards but lagged behind in terms of innovative design. These competences were instead developed by firms targeting the local Brazilian market or regional Latin American export markets.

Other risks associated with upgrading relate to the *impact* of the upgrading process. Economic upgrading can have detrimental social impacts.[51] This can take place, for instance, when greater process efficiency leads to an increased use of casual labour. In a few cases (as in the agro-food sector of some countries), process improvements have been accompanied by weak pro-poor, environmental and gender outcomes.

Rising standards in an industry can also create barriers to entry into the value chain for local firms.[52] In the horticultural industry, new supplier countries often start in export markets where standards are less stringent. To upgrade, e.g. from production to packing, suppliers must first understand the market (especially when buyer-driven), invest in new technologies (for instance, to meet high hygiene standards in packhouse operations, they need to set up on-site laboratories for product and staff health tests), and have access to a local packaging industry that can supply appropriate containers. Where a good local packing supply industry does not exist, value loss can occur initially as producers shop their products to neighbouring countries for repackaging before final exports.

b. Upgrading at the country level and GVC development paths

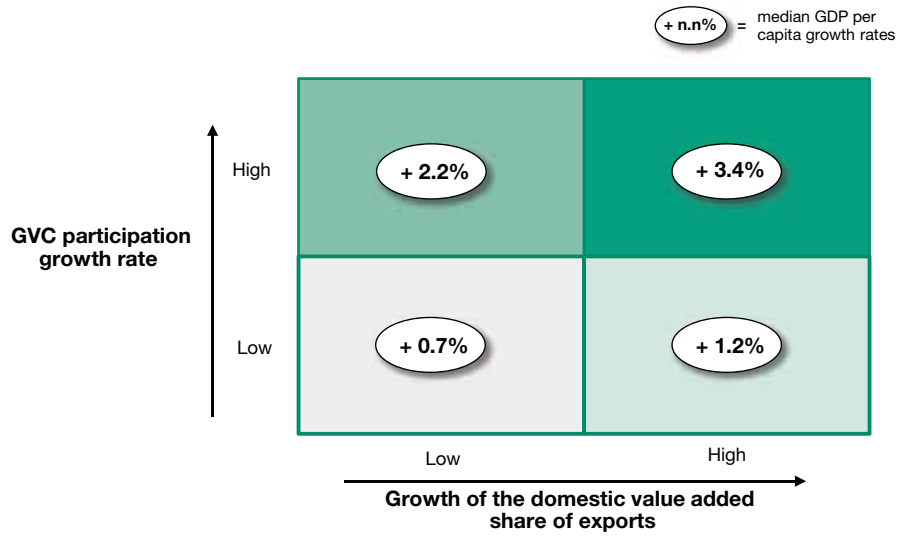
(i) Participation in GVCs and domestic value added creation

Most developing countries have increased their participation in GVCs over the past 20 years, usually at the cost of a higher share of foreign value added in exports. The optimal policy outcome is higher GVC participation and higher domestic value added creation.

When firms enter or expand into *higher value added activities* in GVCs, they create more domestic value added from trade for the country in which they are based. This is not automatic. Participation in GVCs often implies entering more fragmented value chains that are, by definition, characterized by a higher use of foreign value added inputs. At the entry level, the share of domestic value added in exports thus tends to decrease initially when countries increase GVC participation, although the absolute value of the contribution of exports to GDP is likely to increase.

This conceptual trade-off between GVC participation and domestic value added creation from trade is shown in figure IV.30. At the country level, as seen in section A, GVC participation

Figure IV.30 GDP per capita growth rates for countries with high/low growth in GVC participation, and high/low growth in domestic value added share, 1990–2010



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.
Note: Data for 125 developing countries, ranked by growth in GVC participation and domestic value added share; high includes the top two quartiles of both rankings, low includes the bottom two; GDP per capita growth rates reported are median values for each quadrant.

depends on both upstream and downstream links in the value chain. Countries increase their GVC participation both by increasing imported content of exports (foreign value added in exports) and by generating more value added through goods and services for intermediate use in the exports of third countries. Naturally, the latter mechanism yields the positive results for the domestic economy, as it implies growing domestic value added in exports.

In fact, both the right hand quadrants in figure IV.30 – countries that reduce their reliance on foreign value added in exports – indicate higher GDP per capita growth results than the left hand quadrants. Examples of countries that have achieved such results include China, Chile, the Philippines, Thailand and Morocco.

Interestingly, both the top quadrants in the matrix – countries with faster GVC growth rates – have significantly higher GDP per capita growth rates than the bottom quadrants. This suggests that even those countries that rely more on foreign value added in exports, on average, may be better off if it results in higher GVC participation. Countries with high GVC participation growth rates include Indonesia, Malaysia, Viet Nam, Bangladesh, Mexico and Turkey.

Clearly the optimal policy outcome is depicted in the top right hand quadrant, where countries increase GVC participation through growth in the domestic value added in exports. Examples of countries in the top right quadrant include China, Indonesia, Thailand and Peru. While increasing foreign value added content in exports may be a short-term trade-off for policymakers, in the longer term the creation of domestic productive capacity yields the better results.

Although the matrix is a simplification of reality that cannot capture all the dynamics of development, the different outcomes in each of the combinations of GVC participation and domestic value added creation suggest that there may be a set of distinct "GVC development paths" or evolutionary lines in countries' patterns of participation in GVCs.

Figure IV.31, based on an analysis of value added trade patterns of 125 developing countries over 20 years, shows the frequency of the various directions in which countries tend to move in terms of participation and domestic value added creation. The implicit trade-off between participation and domestic value added share is confirmed by the high frequency of moves towards higher GVC

participation at the cost of domestic value added share.

GVC development paths are not one-off moves along the participation and upgrading dimensions, they are a *sequence* of moves. The most commonly observed sequential moves can be grouped into a number of prototypes. For most countries (some 65 per cent), increasing participation in GVCs over the past 20 years has implied a reduction in domestic value added share, with the increase in GVC trade significantly outweighing the decline in value added share such that the result in terms of absolute contribution to GDP was positive. Some countries (about 15 per cent) have managed – often after initial rapid increases in GVC participation – to regain domestic value added share, mostly by upgrading within the GVCs in which they gained strong positions and by expanding into higher-value chains.

A number of countries have, over the past 20 years, not seen a significant increase in the relative contribution of GVCs to their economies. This group includes countries that may have started out on a path towards higher GVC participation but dropped back to below the starting point, as well as countries that maintained the role of GVCs in their economies at a low level or decreased it.

Figure IV.31. Frequency of moves along dimensions of GVC participation and domestic value added creation, developing economies, 1990–2010, five year intervals

Type of Move				
GVC integration	DVA creation	Direction of move	Number of cases	%
+	−	↖	216	43%
+	=	↑	46	9%
+	+	↗	46	9%
=	+	→	51	10%
−	+	↘	35	7%
Others			106	21%
Total			500	100%

Source: UNCTAD-Eora GVC Database, UNCTAD analysis.

Each of the prototypes of GVC development paths tends to show a predominant pattern of trade and investment:

- When developing countries increase participation in GVCs, they have tended to see increases in imports of intermediate goods, components and services increase, as well as in the importance of processing exports. In many countries – as in Bangladesh, Costa Rica, Mexico, and Viet Nam – this pattern has coincided with an influx of processing FDI or the establishment of NEM relationships (e.g. contract manufacturing) with TNCs.
- Some developing countries that have managed to increase domestic value added in GVCs, after achieving a significant level of GVC participation, have succeeded in increasing exports of higher value added products and services or in capturing a greater share of value chains (covering more segments). In many countries, including China, Malaysia, the Philippines and Singapore, such export-upgrading patterns have combined with an influx of FDI in adjacent value chain segments and higher-technology activities. A few countries, including Thailand, have experienced very rapid development of domestic productive capacity for exports that compete successfully at relatively high value added levels. In these cases, FDI has often acted as a catalyst for trade integration and domestic productive capacity building.
- A number of countries that have not seen a significant increase in the relative contribution of GVCs to their economies have seen exports remain predominantly within sectors and industries that have domestic productive capacity (with limited need for imported content). This does not mean in all cases that these countries have remained entirely isolated from GVCs. In a few cases, FDI inflows have been aimed at producing intermediate goods and services for export products, substituting imports. These patterns of trade and FDI preserve domestic value added in trade, but at the cost of more rapid growth in GVC participation.

(ii) Upgrading and industrial development

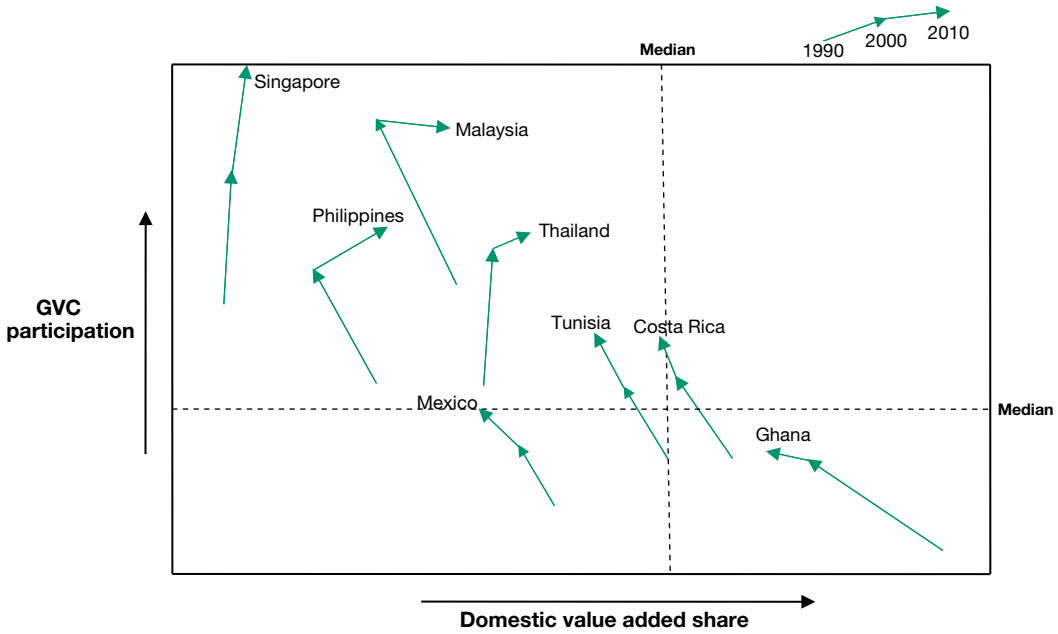
Any analysis of GVC development paths at the country level risks overlooking the fact that countries may have moved along the dimensions of GVC participation and domestic value added creation in different ways. They may rely on different industries and GVC segments, which they may have grown by different means – including through FDI, NEMs or domestic enterprise development. The overall GVC development path of countries is an average of the development paths of many industry and GVC activities, which may have followed different paths.

Moreover, domestic value added creation should not be equated with upgrading. Upgrading may be one (important) factor behind increasing domestic value added. But even countries with decreasing shares of domestic value added in exports may well be on an upgrading path, if they increasingly participate in GVCs that create higher overall value, or engage in GVC tasks and activities at higher levels of technological sophistication that generate more value in absolute terms but at the same time depend on increasing foreign content in exports.

Figure IV.33 shows a number of examples of countries participating in GVCs at different levels of sophistication, from resource-based exports to low-, medium- and high-tech manufacturing exports, to exports of knowledge-based services. Upgrading paths for these countries could include process, product or functional *upgrading within* each of the categories of technological sophistication, or *diversifying* and expanding into higher-level categories.

Upgrading and industrial development can come from improving productivity and expanding the range of tasks and activities within, e.g. resource-based GVCs, where countries move from exporting commodities to processing raw materials. It can mean moving to adjacent categories of increasing technological sophistication and value added, such as moving into medium-technology manufacturing after learning and building productive capacities through low-tech manufacturing activities. Or it can mean jumping into categories several levels

Figure IV.32. GVC Development Paths: country examples



Source: UNCTAD-Eora GVC Database, UNCTAD analysis.

up the technology ladder, often using skills related to existing exports, such as engineering skills employed in resource-based activities that can be exported as knowledge-based engineering services.

A number of examples illustrate how some countries have succeeded in upgrading through investment in GVCs. China has successfully expanded into ever more high-tech export-oriented activities (figure IV.34). Knowledge-based services exports from China also increased eight-fold between 2000 and 2010 (although the total value of these exports is dwarfed by exports of goods). The basis for the export growth from China, and for the expansion of productive capacity in higher-technology GVCs, can be found initially in the influx of foreign investment and the establishment of contract-based links (NEMs) with TNCs, but the growth of capacity of domestic firms has kept pace.

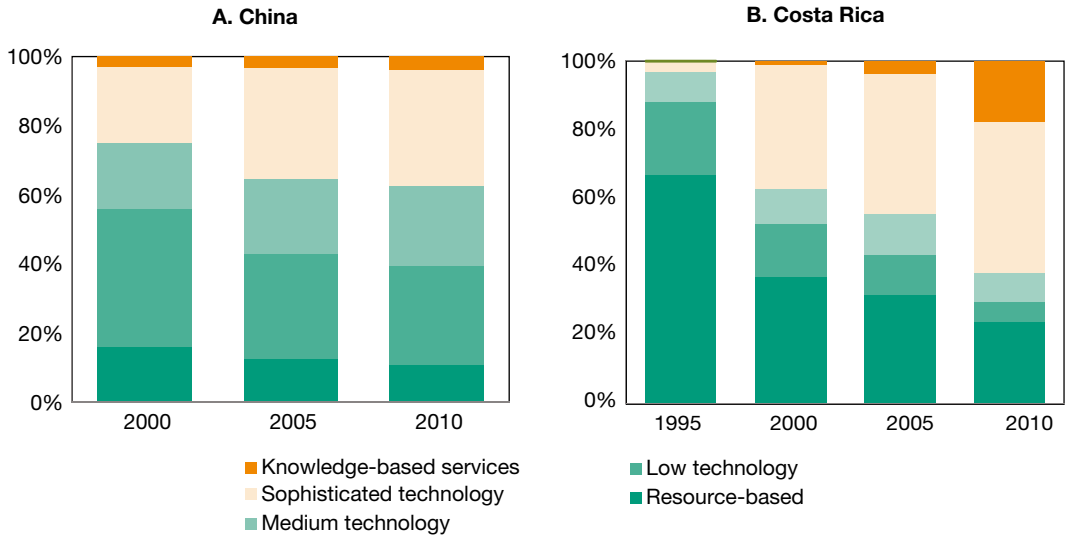
In Costa Rica, a large initial foreign direct investment project (by Intel in 1996) resulted in a jump in high-tech exports, from a starting point of predominantly resource-based exports (figure IV.34). Subsequently, the attraction of further investment by services outsourcing firms, benefiting from spillovers from the high-tech segment, has led to an expansion of knowledge-based services exports.

Figure IV.33. Examples of countries participating in GVCs at different levels of technological sophistication and value added, 2010

Country	Exports by level of technological sophistication				
	Resource-based	Low-tech manufacturing	Mid-level manufacturing	Sophisticated manufacturing	Knowledge-based services
Brazil	60%	5%	15%	5%	10%
China	10%	25%	20%	30%	5%
Costa Rica	20%	5%	5%	35%	15%
India	35%	15%	10%	5%	25%
Lesotho	30%	60%	0%	5%	0%
Malaysia	30%	10%	15%	30%	5%
Russian Federation	75%	5%	10%	0%	5%
Singapore	20%	5%	15%	35%	15%
South Africa	55%	5%	25%	0%	5%

Source: UNCTAD analysis, based on Globstat.
Note: Product categories are based on Lall's classification of technology-intensity. Knowledge-based service exports include insurance, financial services, computer and information services, royalties and license fees, and other business services. See Lall, S. (2000) "The Technological Structure and Performance of Developing Country Manufactured Exports, 1985-1998", *QEH Working Paper Series*, Queen Elizabeth House, University of Oxford. Other, non-knowledge-based services are excluded from calculations, hence percentages do not sum to 100. Resource-based products is the sum of commodities and natural resource-based manufacturers.

Figure IV.34. Exports by category of technological sophistication



Source: UNCTAD analysis, based on Globstat.
Note: For method and source, see figure IV.33.

* * *

This section has demonstrated that participation in GVCs can bring benefits for developing countries, including direct contributions to value added and GDP, job creation and income generation. However, capturing the value of GVCs is not a given, and the social and environmental consequences of GVC participation can be significant.

The section has also shown that GVC participation can bring long-term development benefits in the form of upgrading opportunities and industrial development options. However, relatively few developing countries have made significant inroads into increasing domestic value added share and upgrading, and the build-up of technological capabilities and productive capacity through GVCs is not automatic. *Policies matter* to maximize the development contributions of GVCs and minimize the risks involved.

D. Policy implications of GVCs

Countries can make a strategic choice whether or not to actively promote GVC participation. However, the key question for most is how to incorporate GVCs in development strategy.

As shown in the preceding sections, participation in GVCs can generate considerable economic development benefits but also involve risks. The potential social and environmental consequences of GVCs, and the experience of some countries with limited local value capture from GVCs, have led many developing-country policymakers to ask the legitimate question; are active promotion of GVCs and GVC-led development strategies the only available options or are there alternatives?

Active promotion of GVCs and GVC-led development strategies imply the encouragement and provision of support to economic activities aimed at generating exports in fragmented and geographically dispersed industry value chains, based on a narrower set of endowments and competitive advantages. And they imply active policies to encourage learning from GVC activities in which a country is present, to support the process of upgrading towards higher value added activities and diversifying into higher value added chains.

The alternative, by implication, is an industrial development strategy aimed at building domestic productive capacity, including for exports, in all stages of production (extending to the substitution of imported content of exports) to develop a vertically integrated industry that remains relatively independent from the key actors of GVCs for its learning and upgrading processes.

As seen in the previous sections, almost all countries have increased their GVC participation over the past two decades, but a significant group (about 20 per cent) has not seen a relevant increase in GVC growth relative to the size of their economies. Some countries, those with either significant resource-based exports, or sufficient growth potential based on domestic demand, or a combination of both size and resource factors, have seen economic performance in line with the most successful GVC-led-growth countries.

It thus appears that countries can make a strategic choice whether to promote or not to promote GVC participation. To do so, they need to carefully weigh the pros and cons of GVC participation, and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. It should be noted that promoting GVC participation implies targeting specific GVC segments, i.e. GVC promotion is often selective by nature. Moreover, promotion of GVC participation is only one aspect of country's overall development strategy.

However, for the majority of smaller developing economies with limited resource endowments there is often little alternative to development strategies that incorporate a degree of participation in GVCs. The question for those countries is not *whether* to participate in GVCs, but *how*.

To help answer that question, a number of key policy challenges can be distilled from the findings presented in the previous sections on patterns of value added trade and investment, drivers and locational determinants for GVC activities, and the development impact of GVCs:

- Most developing countries are increasingly participating in GVCs, but many are still at an early stage of GVC development. An encouraging aspect of GVCs is that the prerequisites for the development of activities within value chains, and the determinants of investment in such activities, are generally fewer than the prerequisites for industries as a whole. Nevertheless, a key challenge for policymakers remains *how to gain access and connect local firms to GVCs*.
- GVC links in developing countries can play an important role in developing economies, in particular by contributing to GDP, employment and growth. The scope for these potential contributions depends on the configuration and governance of GVCs and on the economic context in GVC participant countries (including productive capacities and firm capabilities). The policy challenge is thus *how to maximize the development benefits from GVC participation*.

- In the longer term, GVCs can support the build-up of productive capacity, including through technology dissemination and skill building, and bring opportunities for industrial upgrading and increasing domestic value added in trade. However, the potential development benefits of GVCs – in particular technology dissemination, skill building and upgrading – are not automatic. Developing countries can remain locked into low value added activities. A strategic policy challenge is *how to ensure that opportunities to upgrade in GVCs are realized*.
- There are other risks and potential downsides to GVC participation, including negative effects on working conditions and job security, as well as social and environmental impacts. The question is *how to mitigate the risks involved in GVC participation*.
- Countries' participation and role in GVCs and their value added trade patterns are often shaped by TNCs' decisions on where to invest and with whom to partner. The challenge for policymakers is thus *how to align and synergize trade and investment policies* in a world in which the two are inextricably intertwined.

Gaining access to GVCs, benefiting from GVC participation and realizing upgrading opportunities in GVCs requires a structured approach that includes (i) embedding GVCs in overall development strategies and industrial development policies, (ii) enabling GVC growth by maintaining a conducive investment environment and by putting in place infrastructural prerequisites, and (iii) building productive capacities in local firms. Mitigating the risks involved in GVC participation requires (iv) a strong environmental, social and governance framework. And aligning trade and investment policies implies the identification of (v) synergies between the two policy areas and in relevant institutions. These key elements of a policy framework for GVCs and development are summarized in table IV.11 and provide the structure of the remainder of this section.

Table IV.11. Building a policy framework for GVCs and development

Key elements	Principal policy actions
Embedding GVCs in development strategy	• Incorporating GVCs in industrial development policies • Setting policy objectives along GVC development paths
Enabling participation in GVCs	• Creating and maintaining a conducive environment for trade and investment • Putting in place the infrastructural prerequisites for GVC participation
Building domestic productive capacity	• Supporting enterprise development and enhancing the bargaining power of local firms • Strengthening skills of the workforce
Providing a strong environmental, social and governance framework	• Minimizing risks associated with GVC participation through regulation, and public and private standards • Supporting local enterprise in complying with international standards
Synergizing trade and investment policies and institutions	• Ensuring coherence between trade and investment policies • Synergizing trade and investment promotion and facilitation • Creating "Regional Industrial Development Compacts"

Source: UNCTAD.

1. Embedding GVCs in development strategy

GVCs imply a new role for trade and investment in industrial development strategies, which should be based on countries' starting points and growth opportunities along GVC development paths.

In most developing countries, economic development requires not just increased productivity of the existing industrial structure but also a change in the structure of production (e.g. diversifying from a resource-based economy into manufacturing and services), involving industrial transformation and higher value-added activity. As production is increasingly organized within GVCs, development is likely to occur within such chains. Economic upgrading in GVCs – moving into higher value added functions within chains and into more technologically sophisticated value chains – is thus an important channel of development and industrialization.

Industrial policies focused on final goods and services are less effective in a global economy characterized by GVCs.[53] GVCs require a new approach to industrial development, one based on new markets, new products and new skills. Policymakers must understand the key elements of a GVC-based approach to industrial development:[54]

- *GVCs require more finely targeted policies*. GVC-based industrial development policies require a shift away from traditional industrial policies aimed at developing production capacity for final goods and services. Improvements in competitiveness do not necessarily arise from the development of integrated industries, but from upgrading to higher value tasks within industries. Measures aimed at encouraging the development of a vertically integrated industry can be an inefficient use of scarce resources.
- *GVCs increase the need for policies dealing with the risk of the middle-income trap*. The fragmentation of industries increases the risk of "thin" industrialization, where a country enters an industry, but only in its low-value and low-skill aspects, such as assembly of electronics products or call centres in the services sector, without the ability to upgrade (see Section C). Although countries can also get stuck producing low value added final goods, in GVCs the risk of getting stuck in low-value added tasks and activities is arguably greater.
- *GVCs require a new approach to trade policies in industrial development strategies*. Protective trade policies can backfire in the context of GVCs if imports are crucial for exports, and non-tariff barriers to a country's imports can have a negative impact on its export competitiveness. To the extent that intermediate goods and services produced abroad are necessary for the production of a country's own exports, GVC participation requires easy and cheap access to such imports, especially on a regional basis and in a South-South context, as imports for export production involve a high degree of regional trade (see Section A).
- *GVCs increase the importance of regional production networks*. The rationale for regional integration is no longer just market expansion; it is now also based on the organization of GVCs. For developing countries, whereas export-oriented industrial policies were typically focused on exports to advanced economies, GVC-based industrialization relies on stronger ties with the supply base in neighbouring developing economies. As an industrialization strategy, GVC-based industrial development (unlike export orientation) can thus also be utilized to promote upgrading for regional markets.
- *GVCs strengthen the rationale for governments to seek mutually beneficial partnerships with lead firms for industrial development*. Upgrading in GVCs and moving into higher value added activities involves raising productivity and skills and the introduction of new technologies, which requires connecting closely with lead firms. At the same time, while traditional trade policy was based on the assumption that industry value added accrued to the domestic economy, value capture in GVCs depends on power relationships in the chain. In this respect, competition policies take on a crucial role in surveying such power relationships and preventing or sanctioning anti-competitive behaviours by lead firms as countries increase GVC participation.

- *GVCs require institutional support for social and environmental upgrading*. Active intervention is needed for industrial upgrading within GVCs to translate into sustainable social gains, including employment and wage growth and improved labour and environmental standards. As highlighted in Section C, industrial upgrading does not always necessarily bring social upgrading. Joint economic and social upgrading can be facilitated by multi-stakeholder initiatives and linkages between firms, workers and small-scale producers.
- *GVCs require a more dynamic view of industrial development*. The location of tasks and activities within GVCs is determined by dynamic factors – including relative labour productivity and cost, as well as other determinants – and as such can shift around the international production networks of TNCs (they can be footloose), causing disruption in industrial upgrading processes and negative social impacts. On the one hand, industrial policies and trade and investment strategies can include measures to improve stickiness, e.g. by building partnerships with investors and creating GVC clusters (focusing on complementary tasks in GVCs, rather than generic industrial clusters), including regional GVC clusters through regional government partnerships (cross-border industrial cooperation). On the other, industrial policies should aim to develop long-term competitive advantages along GVCs by selectively investing in building and improving investment determinants (e.g. skill development, access to finance, trade facilitation) for higher value-added activities and by building partnerships with investors for co-creation of markets, co-development of skills, co-establishment of clusters, co-nurturing of new value chains (e.g. green GVCs).

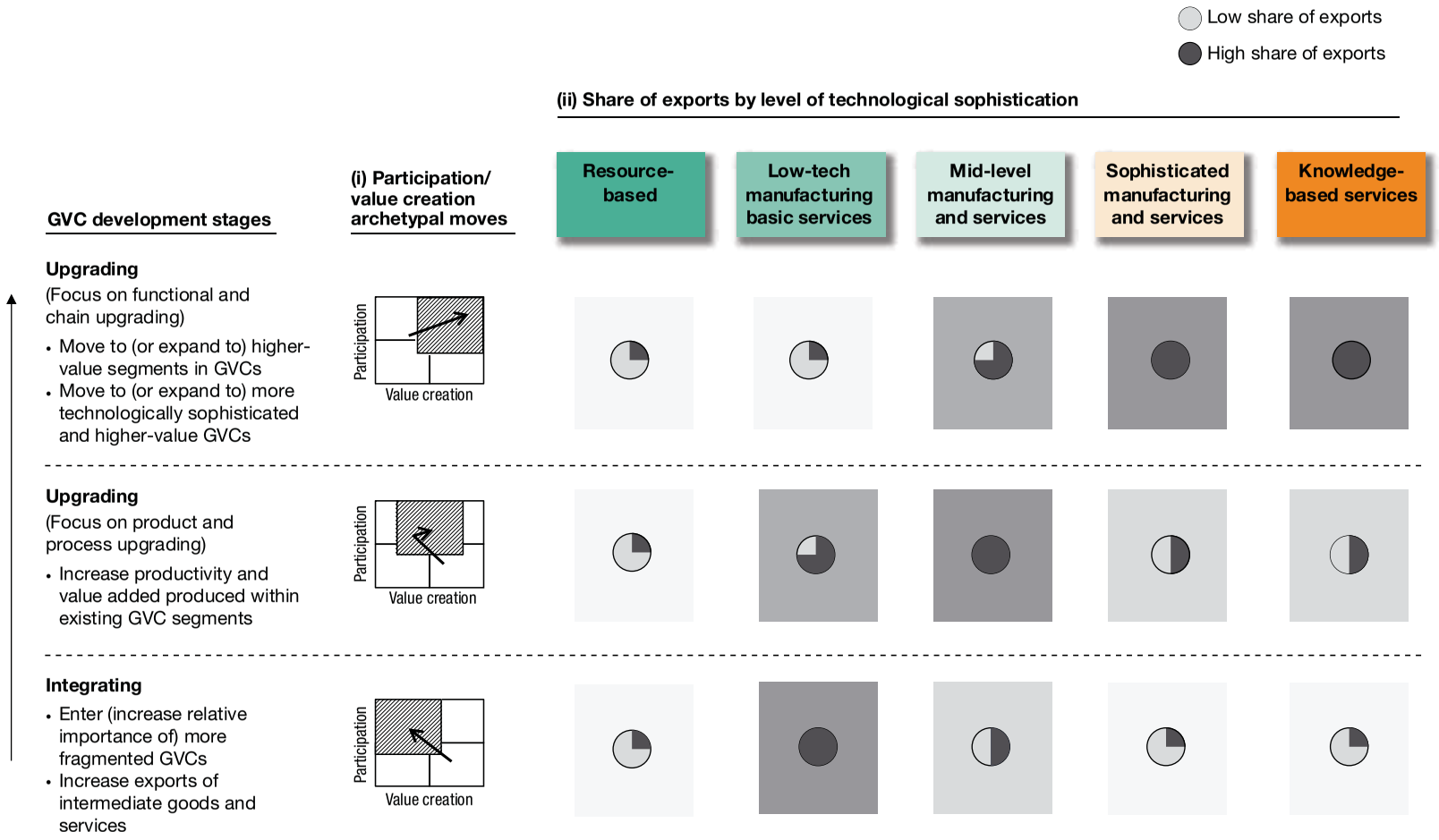
A starting point for the incorporation of GVCs in development strategy is an understanding of countries' current positioning in GVCs. Two key variables determining countries' positioning are (i) the level of participation of domestic economic activity in GVCs and domestic value creation (see the matrix in the previous section) and (ii) the existing presence and strengths of the economy in GVCs of different degrees of technological sophistication and value, from resource-based activities to low-, medium- and high-tech activities, to knowledge-based activities positioned at the high-value ends of chains, e.g. design, innovation, R&D, marketing and branding.

These two variables (i) and (ii), discussed empirically in section C, are mapped in figure IV.35, which offers a tool for policymakers to assess their economy's position along GVC development paths. A country's position can be plotted by looking at the distribution of its exports by level of sophistication, at the imported contents of exports and at domestic value added created. From the starting point, policymakers can set objectives for growth along GVC development paths for *strategic positioning*.

For countries with a resource-based economy, GVC development typically implies increasing GVC participation through diversification into more fragmented value chains and increased exports of intermediate goods and services, often starting with manufacturing exports at the lower end of technological sophistication, on the basis of low-cost labour. This pattern mostly results in increased GVC participation and a lower share of domestic value added in exports (but higher absolute levels of domestic value added creation). Alternatively, GVC development for resource-based economies can occur by attracting investment in processing activities, increasing domestic value added, where advantages from proximity to resources outweigh economies of scale.

Upgrading mostly implies, first, upgrading products and processes, increasing productivity and value added creation within existing GVC segments and activities, before functional and chain upgrading opportunities materialize, allowing countries to move into GVCs at higher levels of technological sophistication. Moving into more sophisticated and fragmented GVCs often implies higher foreign content in exports. Paradoxically, upgrading may often result in a lower domestic value added share in exports, especially in early stages of GVC participation. Subsequently, upgrading opportunities will aim to increase domestic value added share – although more important than the domestic value added *share* is the *absolute* GDP contribution of GVCs (see section A).

Figure IV.35. Assessing a country's position along GVC development paths



Source: UNCTAD analysis.
Note: The "moons" refer to the level of GVC participation in the different industries grouped by level of technological sophistication. As countries access GVCs and engage in product/process upgrading and functional/chain upgrading, they will increase their participation in more sophisticated GVCs, relative to other GVCs.

As seen in Section C, countries can simultaneously develop in GVCs at different levels of technological sophistication. This may occur where they can exploit capabilities honed in lower-level GVCs or GVC segments to expand into higher levels. Or it can occur where the facilitating factors and conditions for GVC development at different levels are in place, either built gradually based on GVC participation at lower levels or helped by active policy intervention (figure IV.36).

These facilitating factors and conditions are akin to determinants of foreign and domestic investment in GVC activities. As seen in Section B, the prerequisites for the development of activities, and the determinants of investment in such activities, are different (and fewer) compared with those for industries as a whole. Development strategy and industrial policy should focus on determinants that can be acquired or improved in the short term and selectively invest in building others for medium- and long-term investment attractiveness.

In identifying the potential for accessing and upgrading GVCs, policymakers should be aware of a number of considerations:

- Priorities for GVC development – in terms of growing GVC segments and activities, and in terms of building facilitating factors and conditions – should be based on both *existing and future domestic factor endowments and prerequisites* for successful progression along GVC development paths.
- Upgrading can become a necessity for countries. For example, in the case of China, economic development and increasing per capita incomes are pushing up wages, causing the country to no longer be competitive in the less sophisticated sectors (e.g. garments), even though it has many advantages of agglomeration and infrastructure. Similar paths of forced upgrading as a result of success were seen in Japan and the Republic of Korea.
- The domestic value added impact of GVC growth opportunities at higher levels of sophistication, and the wider effects on the economy, may not always be positive. At times, participation at higher levels of sophistication may imply capturing a smaller share of value created, generating less employment and exposing the economy to greater competitive risk. Strengthening participation at existing levels or even *"strategic downgrading"* can be a viable option.
- Upgrading options have consequences that extend beyond economic development impacts. Social consequences and the participation of the poor differ at each level. Employment creation and poverty alleviation effects may well be stronger at lower levels of technological sophistication and GVC participation. Policymakers must consider options congruous with their *overall inclusive and sustainable development strategies*.

2. Enabling participation in GVCs

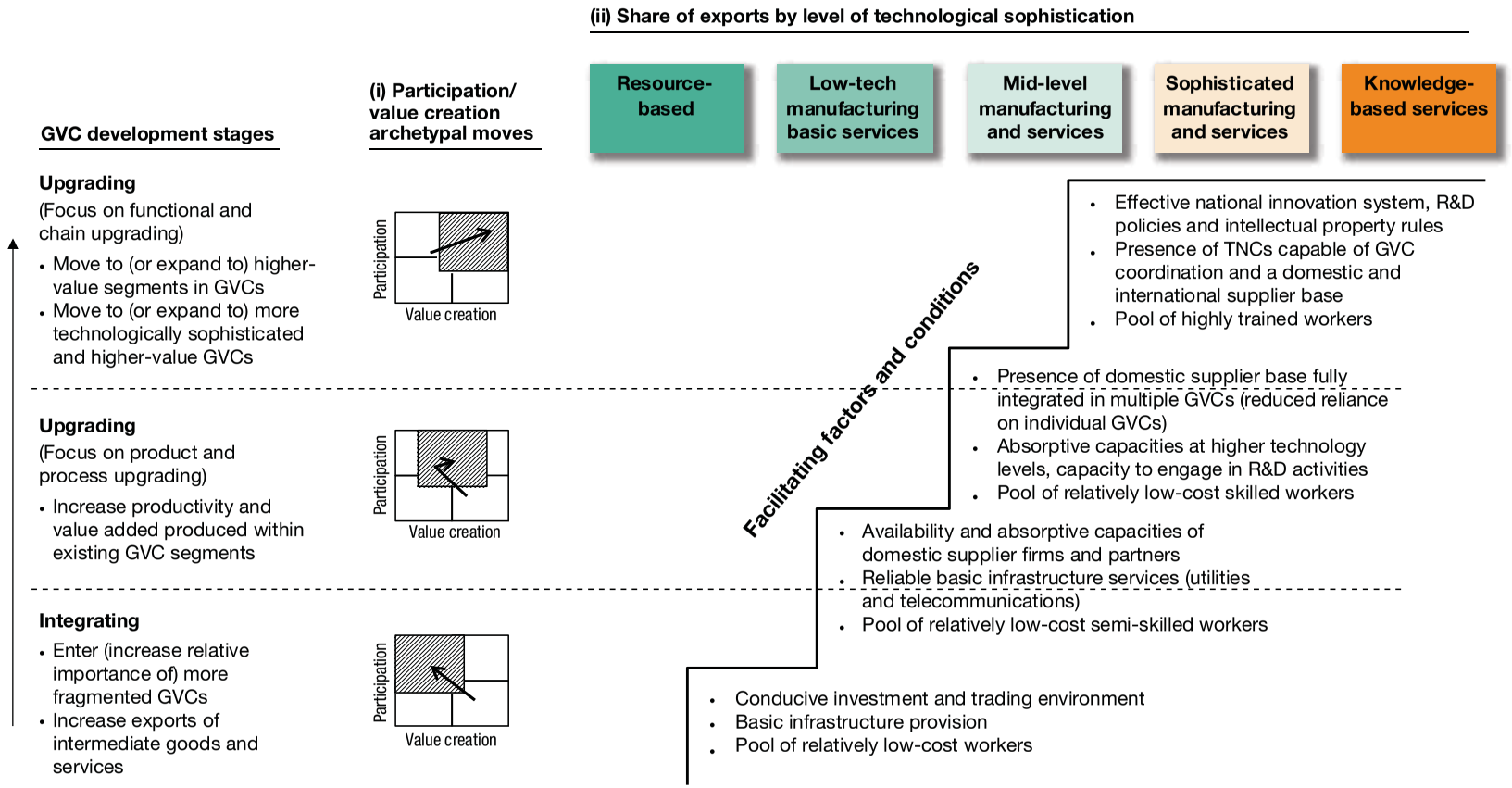
Enabling GVC participation implies facilitating investment and trade and building infrastructural prerequisites.

Enabling the participation of local firms in GVCs primarily implies creating and maintaining an environment conducive to investment and trade, and putting in place the infrastructural prerequisites for GVC participation, in line with the locational determinants of GVCs for relevant value chain segments (see Section B).

A conducive environment for trade and investment refers first and foremost to the overall policy environment for business, including trade and investment policies, but also tax, competition policy, labour market regulation, intellectual property rights, access to land and a range of other policy areas (see UNCTAD's Investment Policy Framework for Sustainable Development, or IPFSD, which addresses relevant trade and other policy areas).

For example, competition policies take on a crucial role as countries increase GVC participation. Value capture for the domestic economy in GVCs is often determined by power relationships in GVCs. Such relationships may involve contractual arrangements between independent operators in GVCs which can restrict competition. Examples are the fixing of purchase or selling prices or other trading conditions, the territorial distribution of markets or sources of supply and the application of different conditions to equivalent transactions with different

Figure IV.36. Factors and conditions that facilitate climbing the GVC development ladder



Source: UNCTAD analysis.

trading parties. Competition policies can play a crucial role in preventing or sanctioning such anti-competitive behaviours. GVCs thus require enhanced competition-law enforcement.

Beyond the general policy framework for trade and investment, trade facilitation specifically is key to the creation of a conducive environment for trade and investment. The international community aims to make progress on the trade facilitation agenda in a new WTO agreement. The importance of trade-facilitating measures, such as fast, efficient port and customs procedures, has risen exponentially with the growth of GVCs in which goods now cross borders multiple times, first as inputs and ultimately as final products. The WTO estimates that the cost of trading across borders amounts to some $2 trillion, two thirds of which is a result of border and customs procedures, and notes that the gain in global trade from smoother border procedures could be higher than the gain from tariff reduction. UNCTAD has provided active assistance to developing countries on trade facilitation and on border and customs procedures since the early 1980s, through various capacity-building programmes including ASYCUDA, the automated system for customs data, which is now used in over 90 countries.[55]

Trade facilitation measures are usually uncontroversial, not coming at the expense of firms, political constituents or other policy imperatives. The benefits of trade facilitation measures tend to have a positive ripple effect on the economy, as imports and exports are less costly and flow more freely across borders in GVCs. Comprehensive trade facilitation reform is more effective than isolated or piecemeal measures. The most beneficial areas for reforms tend to be reducing or eliminating the "procedural obstacles" to trade, such as harmonising and simplifying documents, streamlining procedures, automating processes, ensuring the availability of trade-related information and providing advance rulings on customs matters.[56]

Investment facilitation measures can be equally important for building up productive capacity for exports. The most important facilitation measures relate to entry and establishment processes, e.g. procedures for the start-up of foreign-invested businesses, registration and licensing procedures, and access to industrial land, as well as procedures for the hiring of key personnel (including foreign workers) and the payment of taxes.[57] UNCTAD's work in investment facilitation includes assistance to investment authorities and investment promotion agencies (IPAs), as well as the e-Regulation programme – deployed in 27 countries – which helps governments (including subnational administrations) to simplify procedures for investors and businesses, and to automate procedures where possible.[58]

Providing reliable *infrastructure* (e.g. roads, ports, airports, telecommunications, broadband connectivity) is crucial for attracting GVC activities. Improvements in technology and decreasing data transmission costs can facilitate the sourcing of services, in particular, "knowledge work" such as data entry, research and development or remotely supplied consultancy services. Energy and transportation costs are an issue in particular for those countries that are connected to GVCs over longer distances. Developing good communication and transport links can also contribute to the "stickiness" of GVC operations.

Methods that governments have employed to improve infrastructure in support of local GVC development include public-private partnerships (PPPs) in infrastructure – such as roads, telecommunication, office buildings and the establishment of industrial clusters. Such GVC-targeted PPP initiatives can help firms, including SMEs, to better connect to GVCs and increase the attractiveness of domestic suppliers.[59] In particular the establishment of industrial parks for GVC activities – with good communication and transport links – can be instrumental, including at the regional level. As value chains are often regional in nature, international partnerships for infrastructure development can be particularly beneficial. Governments can usefully promote inter-agency cooperation for export and investment promotion in regional partnerships, including through the redefinition of export processing zones (EPZs) to satisfy the needs of regional value chains. *Regional development banks* can also play a role, bolstering investment-export links in those sectors that are strategic for the enhancement of value added in

regional value chains. By pooling risks, regional groups of developing economies can improve their terms of access to donor funding, leveraged technical assistance and global capital markets.[60]

Building the infrastructural prerequisites to enable GVC participation and building productive capacity (the subject of the next section), are the two key elements of the WTO initiative *Aid for Trade*. Aid for Trade is aimed at lowering the cost of trade, thereby raising a recipient country's export competitiveness. The majority of infrastructure support under Aid for Trade relates to improvements in ports, railroads and roads, although some of the aid in this category involves utilities and communication infrastructure. Aid for productive capacity is more varied and includes training programmes, machinery and equipment, support for cooperatives and other forms. Aid for Trade can therefore represent an important vehicle for the international community to help developing countries access GVCs. To do so, a priority area should be trade facilitation, as the implementation of reforms, such as customs reforms, can be very costly for developing countries.

To help countries to increase GVC participation and reap the benefits of GVCs for long-term development, Aid for Trade could also be better targeted to ensure that the benefits accrue to intended recipients (see box IV.7). In addition, the programme could adopt a wider set of objectives in addition to boosting trade, including diversifying trade, increasing participation in GVCs, reducing the price of imported inputs and moving to higher value-added segments in GVCs. Doing that would imply not just addressing barriers to trade, but explicitly addressing investment issues, as well as a broader range of barriers to GVC participation, focusing on, e.g. improving the business environment, strengthening the services sector, supporting adherence to standards in production, increasing the legal security of investment, fostering innovation and enabling companies to find new markets and new buyers.

3. Building domestic productive capacity

GVC participation requires the prior build-up of a minimum level of productive capacity in order to step on the first rung of the GVC development ladder. Subsequently, the sequence of economic roles in GVCs involves an expanding set of capabilities that developing countries must aim to attain in pursuing an upgrading trajectory in diverse industries, by developing the capabilities of local enterprise and of the local workforce.[61]

Proactive enterprise development policies and a strategy for workforce and skills development are key to improving the chances of successful upgrading in GVCs.

A number of focus areas are key for proactive enterprise development policies in support of GVC participation and upgrading:

- *Enterprise clustering*. Enterprise agglomeration may determine "collective efficiency" that in turn enhances the productivity and overall performance of clustered firms. It is particularly relevant for SMEs in developing countries, which often participate in clusters and value chains at the same time, with the local and global dimensions operating simultaneously. Both offer opportunities to foster competitiveness via learning and upgrading.
- *Linkages development*. Domestic and international inter-firm and inter-institution linkages can provide local SMEs with the necessary externalities to cope with the dual challenge of knowledge creation and internationalization, needed for successful participation in value chains as first, second or third-tier suppliers.
- *Science and technology support and an effective IP rights framework*. Technical support organizations in standards, metrology, quality, testing, R&D, productivity and SME extension are increasingly needed to complete and improve the technology systems with which firms operate and grow. Appropriate levels of IP protection can help give lead firms confidence in employing advanced technologies in GVC relations, and provide incentives for local firms to develop or adapt their own technologies.
- *Business development services*. A range of services can facilitate GVC-related trade and investment, and generate spillover effects. Such services might include business development services centres (BDSCs) and capacity-building facilities to help local firms

Box IV.7. Targeting Aid for Trade at the upstream part of GVCs

A key concern related to Aid for Trade, stemming from the rise of GVCs, is that gains resulting from lower trade costs may mostly flow downstream – that is, to TNC lead firms in GVCs – rather than to supplier firms in developing countries and to their workers and communities.

In general, the economic gains from GVCs are not distributed equally along the chain. The ability of local firms and workers to capture value depends to a significant extent on power relationships in the chain. TNCs with a multitude of potential supply sources will be in a strong position to dictate contractual terms with suppliers. Also, the greater the depth of the supply chain, the greater the capacity of TNCs to exploit the segmentation of labour markets, such that non-organized workers, among which women, seasonal workers or homeworkers can be paid less. The benefits from Aid for Trade may thus largely accrue to lead firms in a chain and not to the workers, small producers and local communities that are the intended beneficiaries.

Aid can enter a value chain at different points. A port improvement will lower transport costs at the border, affecting mostly the link between a first-tier supplier and a lead firm. Aid to build a refrigerated warehouse for a local agricultural cooperative or to train garment workers enters the value chain at or near the bottom of the chain. Other forms of aid may enter at other points in the chain: a road linking a rural region to an international trade hub, for example, may strengthen the link between small suppliers and a first-tier supplier. Because few of the benefits of aid travel down the supply chain, if the goal of Aid for Trade is to benefit those at the bottom, it needs to be targeted at that point of the chain.

Aid might be targeted more directly at workers in one of two ways. The first is by improving their productivity by investing in training or providing technology. Such measures will increase the overall economic efficiency of the chain, leaving more of the benefits at lower ends in the chain. The second is by empowering workers and small producers in relationship with buyers further up the chain, e.g. by facilitating collective action, supporting the establishment of agricultural cooperatives or associations of female garment workers. Such interventions might not increase the overall economic efficiency of the value chain, but they do have the potential to alter the allocations of gains within the chain.

Source: UNCTAD, based on Mayer, F. and W. Milberg (2013), "Aid for Trade in a World of Global Value Chains: Chain Power", working paper, Sanford School of Public Policy, Duke University.

meet technical standards and improve their understanding of international trade rules and practices.

- *Entrepreneurship promotion*. Entrepreneurial development policies aim to support existing entrepreneurs and encourage new enterprise creation, thereby supporting development. University and public research institute spin-offs, incubator programmes and other forms of clustering; managerial and entrepreneurial training; and venture capital support are some of the tools of entrepreneurship development policy. A detailed discussion on all the elements of entrepreneurship development policies can be found in UNCTAD's Entrepreneurship Policy Framework.[62]
- *Access to finance for SMEs*. Inclusive finance initiatives and programmes to increase access to finance for micro, small and medium-sized enterprises are fundamental mechanisms for supporting the development of domestic productive capacity and directing development efforts at the upstream end of value chains where they most directly benefit local firms, small producers and workers.

Enterprise development and workforce skills development go hand in hand. Without sufficient investment in skills, technological progress and involvement of local firms in GVCs may not translate into productivity growth, and countries can no longer compete in an increasingly knowledge-based global economy. An effective skills strategy is key to engagement and upgrading in GVCs and to the necessary adjustment:

- Skills strategies in GVCs should be based on a thorough understanding of the economy's position in GVCs and the most likely trajectory of upgrading, which will determine skill requirements.
- GVC skill strategies should recognize the rising importance of training to comply with product

and process standards and internationally recognized certifications.

- International partnerships are more important in GVC skill strategies because lead firms act as gatekeepers to enforce skill requirements and product quality.

In addition, as discussed in Section C, GVC participation and upgrading processes imply economic adjustments. Skill strategies should facilitate this adjustment process and help displaced workers find new jobs. Social policies and a well-functioning labour market, including re-employment and vocational training programmes, can also help this process.

A broad package of labour and product market reforms is more likely to deliver larger overall gains in job creation and labour market performance than piecemeal reforms. Several countries have recently announced or implemented reforms to tackle labour market duality – a risk in GVCs, as discussed in Section C – by reducing the gap in employment protection between permanent and temporary workers. Such reforms, accompanied by re-employment programmes and adequate safety nets, promote labour adaptability and facilitate the adjustment of the labour market to the dynamics of GVCs.

Finally, success in both enterprise and workforce development is influenced by power relationships in GVCs. Policymakers should consider options to strengthen the bargaining power of domestic producers relative to their foreign GVC partners, to help them obtain a fair distribution of rents and to facilitate their access to higher value added activities in GVCs. There are several ways to strengthen the bargaining position of local firms in GVCs. First, supporting collective bargaining, including the formation of domestic producer associations, can help to create a better counterweight to the negotiating power of TNCs. Second, host countries can develop specific laws and regulations for individual GVC activities, such as contract farming. Third, governments can offer training courses on bargaining or provide model contracts, covering the economic aspects of GVC participation (e.g. distribution of business risks), financial considerations (e.g. taxation) and legal elements (implications of the contract) (*WIR11*).

4. Providing a strong environmental, social and governance framework

a. *Social, environmental and safety and health issues*

Addressing social, safety and environmental risks associated with GVCs requires effective regulation, social dialogue and an active civil society.

Strong social and environmental policies to minimize risks associated with GVCs are essential to maximizing the sustainable development impact of GVC activities, creating better jobs and improving environmental practices while also promoting the stable business and investment climate required for GVC development.

At a minimum – and in line with the United Nations Guiding Principles on Business and Human Rights – host countries have an obligation to protect the human rights. They also need to ensure that GVC partners respect international core labour standards as embodied in ILO Conventions. Equally important are the establishment and enforcement of occupational safety and health standards in GVC production sites (such as safe construction standards and fire protection) alongside strong environmental protection standards. Lead firms in GVCs, TNCs and their home countries can make an important contribution to safer production by working with suppliers to boost their capacity to comply with host country regulations and international standards, strengthening the capacity of watchdog organizations such as trade unions and civil society groups, and avoiding suppliers that persistently fail to work towards full compliance with such regulations and standards.

In the medium and long run, upgrading strategies of developing countries that involve a move towards more value added GVC activities and services are likely to contribute to raising living standards in host countries over time, including an improvement of social and environmental conditions. In the short run, regulatory measures must address urgent safety and health issues – such as those found in the wake of the recent Rana Plaza tragedy in Bangladesh. That instance led the Government of Bangladesh to change laws to allow garment workers to form trade unions without prior permission from factory

owners, and to announce a plan to raise the minimum wage for garment workers.

In addition to adopting and enforcing domestic laws, government procurement policies that require compliance with international core labour and human rights standards in GVCs can further foster such compliance among TNCs and their suppliers. Governments can also promote the use of multi-stakeholder industry-specific standards such as those developed by the Marine Stewardship Council or Forest Stewardship Council. Governments may wish to incorporate some aspects of successful voluntary multi-stakeholder standards into regulatory initiatives in order to scale up compliance.

When designing and enhancing their domestic policy framework related to socially and environmentally sustainable GVC activities, host countries can derive guidance from various international principles and standards. They cover social, human rights, health, economic and environmental risks associated with GVCs (table IV.12).[63] More international coordination in the promotion and implementation of these standards would help to alleviate the "first mover" problem, as countries may hesitate to move forward unilaterally out of fear of losing a perceived GVC-related competitive advantage. Even without such international coordination, host countries are increasingly realizing that a social and environmental framework in line with international standards enhances international competitiveness because consumers pay increasing attention to production conditions in developing countries. Similarly, companies engaged in GVC activities have an interest in showing compliance with higher standards for commercial and reputational reasons.[64]

In many industries, SMEs must often comply with CSR standards imposed by TNCs as a condition of entry into GVCs (*WIR12*). However, enterprise development programmes in most countries do not provide any form of capacity-building to assist SMEs in meeting these standards. Meanwhile, in some GVCs, as many as half of all potential suppliers can be rejected because of CSR concerns. The capacity constraints SMEs (in particular developing-country SMEs) face in meeting these private sector CSR codes can present a significant competitive challenge. Promoting capacity-building through existing enterprise development programmes can help SMEs to better meet the demands of their clients, while improving their overall contribution to sustainable development.

Dozens of industry-specific multi-stakeholder initiatives are currently influencing sustainability practices throughout GVCs (*WIR11*). These include such initiatives as the Fair Labour Association in the apparel industry, and the International Cocoa Initiative in the cocoa/chocolate industry. Each of these initiatives provides practical, market-tested approaches to promoting sustainable business practices throughout a GVC, typically affecting multiple members in the chain.

Policymakers can enhance the sustainable development benefits of GVCs by promoting the adoption and further development of such sector-specific initiatives. In some countries, governments require certification to one or more of the standards promoted by these sustainability initiatives as a condition for investment in certain sectors or for government procurement. This can be a useful policy approach that promotes wider adoption of a standard, while allowing for the flexible and dynamic development of a multi-stakeholder-driven process. Governments can also participate in the development of such standards by contributing directly as stakeholders, or by hosting or otherwise providing material support to the process that develops the standard. Ultimately, governments should note that CSR programmes will not be sufficient to meet all of the social and environmental challenges found in complex GVCs – public policy solutions will be required to complement private sector and multi-stakeholder initiatives.

b. Transforming EPZs into centres of excellence for sustainable business

TNCs around the world are increasingly demanding that their products be produced in line with international social and environmental standards. Suppliers are under pressure to adapt to CSR policies in order to ensure their continuing role in GVCs (*WIR12*). As EPZs are an important hub in GVCs, policy makers could consider adopting improved CSR *policies*, *support services* and *infrastructure* in EPZs, transforming them into

Table IV.12. Examples of international standards for responsible investment in GVCs

International principles or initiatives
• Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework ("Ruggie Principles")
• ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
• OECD Convention on Combating Bribery of Foreign Public Officials
• United Nations Global Compact
• OECD Guidelines for Multinational Enterprises
• Principles for Responsible Agricultural Investment (PRAI) (UNCTAD, FAO, IFA, World Bank)
• OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
• ISO 26000 Guidance Standard on Social Responsibility

Source: UNCTAD (based on *WIR11*) and the report to the G-20 on "Promoting Standards for Responsible Investment in Value Chains" produced by an inter-agency working group led by UNCTAD.

Sustainability is an important factor in the attraction of GVC activities. EPZs could adopt improved CSR policies, support services and infrastructure, evolving into centres of excellence for sustainable business.

centres of excellence for sustainable business. That would be a significant shift away from previous practices: EPZs have long been criticized by intergovernmental organizations, non-governmental organizations, academia, and the private sector for their poor labour, environmental and health and safety practices.

Around the world there are thousands of EPZs, which have long been a popular policy tool to attract export-oriented FDI. EPZs employ over 66 million people worldwide[65] and play an important role in global value chains, providing a vehicle for efficiency-seeking FDI and a mechanism for host countries to develop light manufacturing skills and a competitive industrial labour force. To the extent that they are governmental or quasi-governmental entities, EPZs have an obligation to protect the human rights of their workers and promote environmental best practices. Adding sustainable development services also makes good business sense: with increasing scrutiny into the social and environmental conditions in GVCs, creating infrastructure and services to promote sustainable business practices will enhance EPZs' ability to attract and retain investment. The competitive landscape for EPZs is changing because of the WTO's *Agreement on Subsidies and Countervailing Measures* which may limit financial incentives for investing in EPZs in the future. Thus investment promotion policymakers may wish to expand the portfolio of services and infrastructure that EPZs offer. Providing the sustainable development services demanded by TNCs is one way of doing this.

Sustainable development support services and infrastructure would bring a number of potential benefits to firms in EPZs. The costs of such services would be shared, leading to economies of scale. Centralized services would lead to standardization and harmonization of practices. The number of on-site inspections, often a key issue in suppliers' CSR compliance efforts (see *WIR12*), could be reduced. And public oversight might bring further benefits, including in terms of positive "branding" of zones.

A survey of 100 EPZs conducted by UNCTAD in 2013 shows that, today, most provide very limited sustainability related services, if any.[66] However, a handful of pioneering EPZs offer services across multiple areas of sustainability.

Responsible labour practices. Some EPZs provide assistance with labour issues to companies operating within their zone, ranging from policy (informing about national labour regulations including minimum wages and working hours), to support services (e.g. an on-site labour and human

resources bureau that assists in resolving labour disputes), to infrastructure (e.g. labour inspectors). The majority only state the legal obligations of employers towards their employees. Some EPZs maintain clear policies on labour practices, including minimum wage standards, regulations on working hours, and trade unions. In most cases these stated labour standards conform to local and national laws, however, in a few cases these standards are higher. Very few EPZs explicitly indicate the availability of services to assist companies in implementation, although some indicate that labour inspectors are present within the EPZ. The ZONAMERICA, in Uruguay, provides management assistance services through skills training for employees as well as training on business ethics.

Environmental sustainability. Sustainability policies can include standards concerning land, air, and water pollution, waste, noise and the use of energy. Some zones have relatively well developed environmental reporting requirements under which companies are required to report their anticipated amounts of wastes, pollutants, and even the decibel level of noise that is expected to be produced. This is the case in approximately half of the zones in Turkey, two of the three zones in South Africa, several in India, the United Arab Emirates, and Morocco, and to a degree in zones in Argentina and China. In addition to policies, some EPZs provide support services and infrastructure to assist companies and ensure standards are complied with. Most common is the availability of hazardous waste management systems, including methods for how waste should be disposed of properly, which can be found in EPZs in, for example, Argentina, Saudi Arabia, South Africa, the Republic of Korea and Turkey. Only a few EPZs provide recycling services (South Africa, Saudi Arabia, Uruguay, and two in the Republic of Korea and Turkey). To complement standard energy services, a few EPZs offer alternative low-carbon energy services to the companies operating within their zone, including EPZs in Saudi Arabia, South Africa, the Republic of Korea and Turkey. Some EPZs located in China's "low carbon cities" provide a broad package of environmental sustainability services including the development of alternative sources of energy, enhanced waste management systems, grey water recycling and waste recycling systems. In addition, several EPZs around the world have been certified to the ISO 14001 environmental management system standard, including locations in China and India. The EPZ authority of Kenya has launched a strategic plan to achieve ISO 14001 certification for all of its zones.

Health and safety. Very few EPZs have stated policies and regulations on employee occupational safety and health (OSH) and few, if any, EPZs provide services to assist companies in developing improved OSH practices. A notable exception is the ZONAMERICA, which offers labour risk prevention programs. Elsewhere, support is generally limited to infrastructure. Medical clinics or on site medical personnel are available in approximately half of all EPZs, offering assistance during medical emergencies as well as routine medical exams. The majority of EPZs offer firefighting services for all factories within the EPZ. Nearly all EPZs include 24 hour surveillance and security.

Good governance: combating corruption. Very few EPZs offer any services to assist companies in combating corruption. One EPZ from South Africa has a clear no tolerance policy for corruption, and offers contact phone numbers for companies to raise complaints. However, the service is not explicitly geared towards corruption-related complaints. Very few EPZs make note of any structured system for curbing corruption, or advertise systems in place to assist companies.

Policymakers should consider broadening the availability of sustainable development related policies, services and infrastructure in EPZs to assist companies in meeting stakeholder demands for improved CSR practices and meeting the expectations of TNC CSR policies and standards. This should also strengthen the State's ability to promote environmental best practices and meet its obligation to protect the human rights of workers. EPZs pursuing this path should also improve their reporting to better communicate the sustainable development services available for companies operating within zones.

International organizations can assist countries in transforming EPZs through the establishment of benchmarks, exchanges of best practices, and capacity-building programmes to assist the

management of EPZs and other relevant zones. UNCTAD could provide this assistance, working together with other UN bodies such as the High Commissioner for Human Rights, UNEP and the ILO, international organizations such as the World Bank, and relevant bodies such as the World Economic Processing Zones Association (WEPZA) and the World Association of Investment Promotion Agencies (WAIPA).

c. Other concerns and good governance issues in GVCs

Improving the corporate governance of GVCs encompasses a range of issues, including addressing transfer price manipulation. As discussed in Section C, GVCs have expanded the scope for transfer price manipulation and made it more difficult to detect. Governments of both developed and large emerging economies such as India and China, in particular, have been very responsive to such trends, strengthening their regulatory frameworks for transfer pricing and assessing more tax fines and penalties for noncompliance with the arm's-length standard. This has created the potential for increased litigation between TNCs and tax authorities worldwide (box IV.8).

Greater international cooperation on transfer pricing issues is needed if host countries are to reap the tax benefits that come from participation in GVC networks. More use of advance pricing agreements between TNCs and national tax authorities – through which they agree on an appropriate transfer pricing method for transactions over a period of time – is one important means to create more predictability in the taxation of GVC-related operations. Also, international cooperation to reduce the complexity of national taxation rules and price computing methods can be instrumental in improving the governance of GVCs. For example, a group of countries are now working on new United Nations transfer pricing guidelines designed specifically for developing-country governments.

Finally, development strategies with regard to GVCs should seek to foster a resilient supply chain that is prepared for and can more readily withstand shocks, and recover quickly from disruption. Governments can put in place policies to mitigate systemic vulnerability as well as policies to promote speedier trade resumption. Coordination with the international community and foreign stakeholders that have key supply chain roles and responsibilities can also enhance GVC security. To this end, countries may seek to develop and implement global standards, strengthen early detection systems, interdiction, and information sharing capabilities, and promote end-to-end supply chain security efforts (box IV.9).

Box IV.8. Examples of transfer pricing litigation

In the *United States*, software maker Veritas (later bought by Symantec) set up a cost-sharing arrangement and transferred its European market rights and pre-existing intangibles to a wholly owned Irish affiliate in return for a lump-sum buy-in payment of $118 million by the affiliate in 2000. In 2009, the United States tax revenue agency (the IRS) filed a claim against Veritas, arguing the Irish affiliate had underpaid for the buy-in rights. Using an income-based method to estimate the net present value of the transferred intangibles, the IRS set the arm's-length price as $1.675 billion and claimed over $1 billion in taxes, penalties and interest. The Tax Court found the IRS's allocation to be unreasonable, and found in favour of Symantec.[a]

In *India*, a special bench of the Income Tax Appellate Tribunal ruled in favour of the tax department that advertising, marketing and promotional expenses of TNCs incurred by Indian subsidiaries to promote the brand and trademarks will be taxable in India. It also upheld the usage of the Bright Line test, which uses the expenses incurred by comparable companies to decide arm's-length pricing. The ruling came on an appeal by LG Electronics, but 14 other Indian arms of TNCs also argued as "interveners" against a decision of a transfer pricing officer. Pepsi Foods, Maruti Suzuki, Glaxosmithkline, Goodyear India, Bausch & Lomb, Amadeus, Canon, Fujifilm, Star India, Sony, Haier Telecom, Haier Appliances, LVMH Watch and Jewellery, and Daikin Industries also faced transfer pricing adjustments on excessive advertising, marketing and promotional expense.[b]

Source: UNCTAD.
Note: Notes appear at the end of this chapter.

Box IV.9. The United States National Strategy for Global Supply Chain Security

Through the National Strategy for Global Supply Chain Security, the United States Government articulates its policy to strengthen the global supply chain in order to protect the welfare and interests of the American people and secure the country's economic prosperity. The strategy includes two goals:

Goal 1: Promote the efficient and secure movement of goods – to promote the timely, efficient flow of legitimate commerce while protecting and securing the supply chain from exploitation, and reducing its vulnerability to disruption. To achieve this goal, the Government will enhance the integrity of goods as they move through the global supply chain. It will also understand and resolve threats early in the process, and strengthen the security of physical infrastructures, conveyances and information assets, while seeking to maximize trade through modernizing supply chain infrastructures and processes.

Goal 2: Foster a resilient supply chain – to foster a global supply chain system that is prepared for, and can withstand, evolving threats and hazards and can recover rapidly from disruptions. To achieve this, the Government will prioritize efforts to mitigate systemic vulnerabilities and refine plans to reconstitute the flow of commerce after disruptions.

The approach is informed by two guiding principles:

"Galvanize Action" – Integrate and spur efforts across the Government, as well as with state, local, tribal and territorial governments, the private sector and the international community; and

"Manage Supply Chain Risk" – Identify, assess and prioritize efforts to manage risk by using layered defences, and adapting the security posture according to the changing security and operational environment.

Source: The White House, National Strategy for Global Supply Chain Security. Available at http://www.whitehouse.gov (accessed 18 March 2013).

5. Synergizing trade and investment policies and institutions

a. Ensuring coherence between trade and investment policies

Investment policies affect trade in GVCs, and trade policies affect investment in GVCs. Policymakers need to make sure their measures work in the same direction.

Since investment and trade are inextricably linked in GVCs, it is crucial to ensure coherence between investment and trade policies. Inconsistent policies weaken the effectiveness of GVC-related policies and can ultimately be self-defeating. For example, import restrictions or tariff escalation on intermediate inputs discourage export-oriented investment in GVCs and can hurt a country's export competitiveness. Similarly, FDI restrictions in industries where foreign capital or skills are needed for the development of productive capacity can hinder access to GVCs and, hence, value added exports.

Avoiding inconsistent investment and trade policies requires paying close attention to those policy instruments that simultaneously affect investment and trade in GVCs, i.e. (i) trade measures affecting investment (TMAIs) and (ii) investment measures affecting trade (IMATs). Tables IV.13 and IV.14 illustrate the potential reciprocal effects between trade and investment measures.

(i) Trade measures affecting investment include various types of measures affecting market access conditions, market access development preferences, and export promotion devices, among others (table IV.13).

TMAIs can help capture and increase the benefits associated with GVCs. For example, rules of origin can be designed in ways that encourage greater local value added production and sourcing, thus strengthening linkages between domestic suppliers and TNCs. Export performance requirements have in the past played a crucial role in stimulating TNCs to reorient their patterns of international sourcing to include a given host country site within the parent firms' regional or global networks. Because most of these measures apply to *specific* goods or products – and not to trade in general – they can be designed in such a manner as to apply to individual activities or tasks within GVCs (e.g. the supply of specific inputs for the production process or GVC) or individual industries (e.g. car manufacturing). This allows host countries to use TMAIs for GVC-enhancing industrial development purposes.

Table IV.13. Potential effects of trade policy measures in GVCs

Trade policy measure	Potential investment-related effect (illustrative)
• Import tariffs, tariff escalation • Non-tariff barriers: regulatory standards (e.g. technical barriers to trade and sanitary and phytosanitary measures)	• Negative effect on export-oriented investment in operations that rely on imported content that is subject to the measure • Positive effect on market-seeking or import substitution investment (barrier-hopping)
• Trade facilitation (applying to both imports and exports) • Export promotion (e.g. export finance, credit guarantees, trade fairs)	• Positive effect on export-oriented investment by reducing the cost of multiple border crossings on both the import and export sides and through expedited exports (of particular relevance in time-sensitive GVCs) • Positive effect on market-seeking investment that benefits from facilitated (and cheaper) imports
• Preferential or free trade agreements (including rules of origin and sector-specific agreements)	• Positive effect on investment that benefits from easier (and cheaper) trade between member countries, strengthening regional value chains • Positive effect on market-seeking investment through economies of scale from serving a bigger market • Consolidation effect on investment (primarily through mergers and acquisitions) as a result of reconfiguration of GVCs in member countries
• Market access development preferences (e.g. GSP, EBA, AGOA)	• Positive effect on foreign investment in preference-recipient countries targeting exports to preference-giving countries
• Trade remedies (e.g. anti-dumping, safeguards and countervailing duties)[67]	• Negative effect on export-oriented investment in the country affected by the measure (and on existing export-oriented investors who made investment decisions prior to the measure's enactment)

Source: UNCTAD.

(ii) Investment measures affecting trade comprise a wide variety of policy instruments that apply to the activities of foreign investors in the host country. Broadly, they include entry and establishment rules, trade-related operational measures, production requirements and knowledge-related requirements, as well as promotion and facilitation measures (table IV.14).

IMATs can also be used for industrial development purposes related to GVCs, and their application can be tailor-made for specific sectors, industries or activities. Applied in the right context, they may help domestic suppliers connect to GVCs and upgrade their capacities. An important distinction needs to be made between mandatory performance requirements and those that are linked to the granting of an advantage to investors. While the former may constitute a disincentive for firms in selecting a host country for the location of GVC activities, foreign investors may accept certain performance requirements linked to fiscal or financial incentives.

WTO rules and some investment agreements limit countries' policy discretion to impose performance requirements. The WTO Agreement on Trade-Related Investment Measures (TRIMS), and its corollary in numerous preferential trade and investment agreements, specifically prohibits the application of trade restrictions that are incompatible with the obligation to provide national treatment or that constitute quantitative restrictions (e.g. the imposition of local content requirements, export controls, and trade balancing restrictions). Non-member countries are not bound by these disciplines (unless they are signatories to a free trade or regional trade agreement that contains restrictions on performance requirements). A number of WTO member countries would like to review the TRIMS agreement and its existing prohibitions with the objective of affording greater policy space.

Several international agreements concluded in the aftermath of the Uruguay Round have taken additional steps to curtail policy space linked to

Table IV.14. Potential effects of investment policy measures in GVCs

Investment policy measure	Potential trade-related effects (illustrative)
• Investment promotion, in particular for export-oriented FDI, including financial incentives; fiscal incentives; other incentives (e.g. subsidized infrastructure, market preferences and regulatory concessions in special economic zones (SEZs))	• Positive effect on exports, possibly with higher imported content, and at risk of distortive effects • Negative effect on export competitiveness where they result in an increase in costs of production once incentives are phased out
• Investment facilitation (e.g. reduced registration and licensing procedures, access to land)	• Positive effect on exports, possibly with higher imported content, where facilitation helps attract export-oriented (i.e. efficiency-seeking) investment
• Entry and establishment restrictions	• Negative effect on exports where restrictions discourage export-oriented investment • Negative effect on export competitiveness where restrictions discourage investors that produce critical inputs (intermediates) used by other firms (domestic or foreign) in the country for exports
• Joint venture requirements	• Negative effect on export competitiveness in the absence of a competent local joint venture partner • Positive long-run effect on export competitiveness of domestic firms and on domestic value added
• Export performance requirements • Trade balancing requirements *	• Positive immediate effect on exports, possibly with higher imported content, but with a risk of distortive effects • Negative effect on exports where requirements discourage export-oriented investors (or increase costs of production)
• Local employment requirements and restrictions on hiring key foreign personnel • Training, transfer of technology and R&D requirements • WTO TRIMs: Local content requirements *	• Positive long-run effects on export competitiveness of domestic firms, domestic value added, and upgrading potential • Negative effect on exports where requirements discourage export-oriented investors • Negative effect on export competitiveness where requirements result in an increase in costs of production

Source: UNCTAD.
* These measures as applied to trade in goods are prohibited for WTO member states.

performance requirements (so-called "TRIMs plus" provisions). This includes prohibitions on performance requirements in services or concerning trade in goods that are not covered by the WTO TRIMS Agreement. Whether countries should accept such additional reductions in policy space depends on their individual development strategies.

It should be noted that the actual effects of TMAIs and IMATs are more complex, and they are necessarily context (i.e. country- and sector-) specific. Also, individual measures do not act independently, such that different combinations of policy measures may generate different policy effects. Furthermore, these measures have other potential effects beyond trade and investment and therefore need to be viewed from a broader development impact perspective.

At the international level, GVCs are governed by both trade and investment agreements. Despite the close relationship between trade and investment, international law has largely developed separately in each policy area. While trade is primarily covered by WTO rules, foreign investment is subject to close to 3,200 IIAs. Other types of trade and/or investment treaties at the bilateral, regional, sectoral and plurilateral levels have added a multitude of layers, making both regimes highly complex (chapter III). Each body of law pursues its

own set of objectives and imposes different kinds of obligations on contracting parties. Policymakers thus need to be aware of potential interactions and overlaps between international investment and trade law with a view to promoting policy synergies and avoiding inconsistencies.

Given the close link between trade and investment in GVCs, limitations of policy space in trade arrangements may indirectly impact on investment policies, and vice versa. There is a risk that countries' trade policies will be challenged under investment agreements, and that some aspects of their investment policies will be scrutinized under WTO rules or free and preferential trade agreements. For instance, most international investment agreements (IIAs) prohibit discrimination in respect of all economic activities associated with an investment, including its trade operations. Both the national treatment and the most-favoured-nation provisions in IIAs may therefore result in trade issues being adjudicated by investment arbitration tribunals. The fact that some WTO agreements (the WTO TRIMS Agreement and the General Agreement on Trade in Services) also deal with investment-related issues leaves room for raising such matters in trade disputes. Thus, when adopting trade (or investment) measures for GVCs, policymakers cannot limit themselves to verifying that such measures are in accordance with international trade (or investment) law. To be on the safe side, they also need to check whether trade measures could unduly interfere with IIAs, and investment measures with WTO rules or with the trade rules found in preferential trade agreements.

b. Synergizing trade and investment promotion and facilitation

In a world of GVCs, IPAs and TPOs should coordinate their activities closely. A country's GVC position and objectives should guide the institutional set-up for trade and investment promotion.

Ever intensifying trade and investment links in GVCs call for closer coordination between domestic trade and investment promotion agencies, as well as better targeting at specific segments of GVCs in line with host countries' dynamic locational advantages. The need for coordination is leading many policymakers in charge of Investment Promotion Agencies (IPAs) and trade promotion organizations (TPOs) to consider merging the two.

Combining different, although apparently related functions of trade and investment promotion in a single organization has both advantages and disadvantages. Commonly considered advantages include strategic benefits and cost savings potential.

- Strategic benefits:
  - Potential for greater policy coherence
  - Potential for enhanced continuity in service delivery for export-oriented investors
  - Common ground for policy advocacy in national competitiveness
- Cost savings:
  - Shared support services (IT, human resources, accounting, legal services,

Table IV.15. Key operational differences between IPAs and TPOs

	Trade promotion	Investment promotion
Clients	• In-country exporters (SMEs)	• Overseas TNCs
Targeting	• Purchasing director	• CEO, CFO, COO
Cycle	• Purchase (routine decisions)	• Strategic decision (years)
Business information	• Country production and exporters	• Investment climate and cost of operations
Staff skills	• Sales and marketing	• Location consultant
Performance indicators	• Exports, jobs	• FDI projects, jobs
Support	• Full support from local industry	• Partial support - pressure by local industry fearing competition

Source: UNCTAD (2009), based on "Promoting Investment and Trade: Practices and Issues", Investment Advisory Series, Series A, number 4.

public relations, research) and shared office accommodation
- Synergies in overseas promotion, branding and representation

However, joint trade and investment promotion does not result in automatic synergies or savings. From an operational perspective, the arguments for separate trade and investment promotion organizations remain compelling (table IV.15).

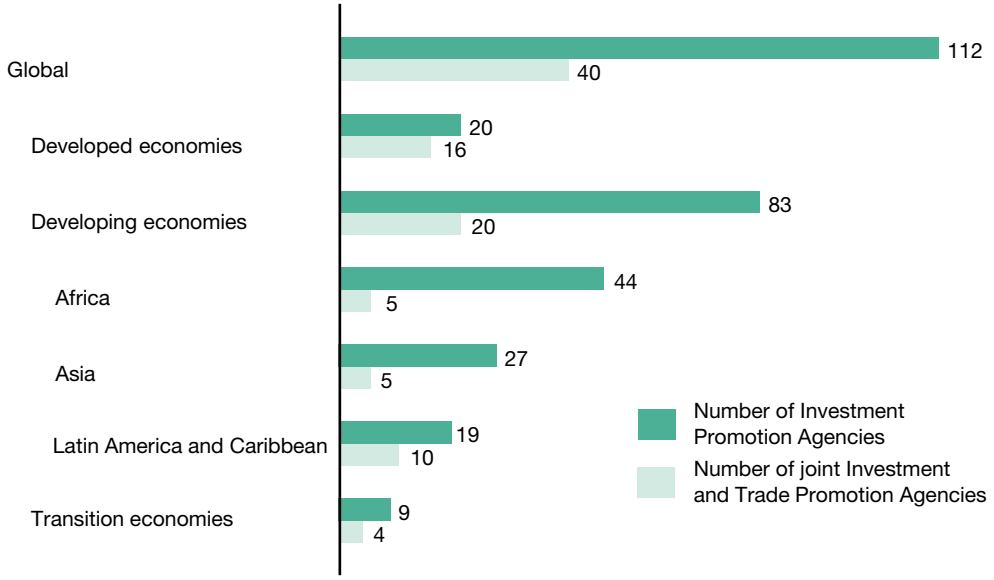
Over the years, the balance of advantages and disadvantages of joint trade and investment promotion, has resulted in as many agency mandate splits (e.g. Chile, Costa Rica and Ireland) as mergers (e.g. Germany, New Zealand, Sweden and the United Kingdom). The number of joint agencies has thus tended to remain relatively stable over time: from 34 per cent in 2002, stabilizing at about 25 per cent between 2008 and 2012. Interestingly, the share of joint agencies is significantly higher in developed countries (43 per cent).

From a strategic perspective, the growing importance of GVCs and the concomitant nexus between investment and trade it entails may well be changing the cost-benefit equation of joint investment and trade promotion. GVCs add to the potential strategic synergies that can be achieved through joint promotion, including relationship management with foreign investors and afterservices to promote and safeguard intra-firm exports, promoting investment with the objective to increase export capacities, engaging in matchmaking with investors to support exporting NEMs and targeting investment to reduce the import content of exports, thereby increasing domestic value added.

A number of objective criteria, based on a country's GVC participation and positioning, can help determine the most appropriate institutional set-up for trade and investment promotion:

- If a country depends significantly on the influx of foreign capital, skills and technologies for the build-up of export capacities, it may be a more effective use of resources to engage in joint trade and investment promotion in order to focus on attracting export-oriented FDI and projects contributing to the growth of productive capacities.
- If a country's existing exports are driven to a large extent by TNC foreign affiliates, it is likely that much of those exports will go to other parts of the parent firm's network. Rather than lobbying such firms to increase purchases from their own affiliates (export promotion), it may

Figure IV.37. Overview of institutional set-up of trade and investment promotion



Source: UNCTAD (2013), "Optimizing government services: a case for joint investment and trade promotion?", *IPA Observer*, No. 1.

be more effective to target them for further investment and to expand local production and exports of foreign affiliates (investment promotion).

- When domestic exporters are mostly engaged in NEMs, i.e. participating in GVCs (which can also be proxied by characteristics of exports, e.g. high shares of intermediate manufactures or services), a large share of exports will most likely go to other parts of a TNC network, with "pre-defined" or captive markets, making separate export promotion less effective.
- If the import content of a country's exports is high, those exports are already fully participating in GVCs. Rather than promoting such exports separately, it may be preferable to focus efforts on FDI attraction to increase the domestic value added of exports.

Overall, there is no "one size fits all" solution, as the pros and cons of joint agencies significantly depend on country-specific circumstances.

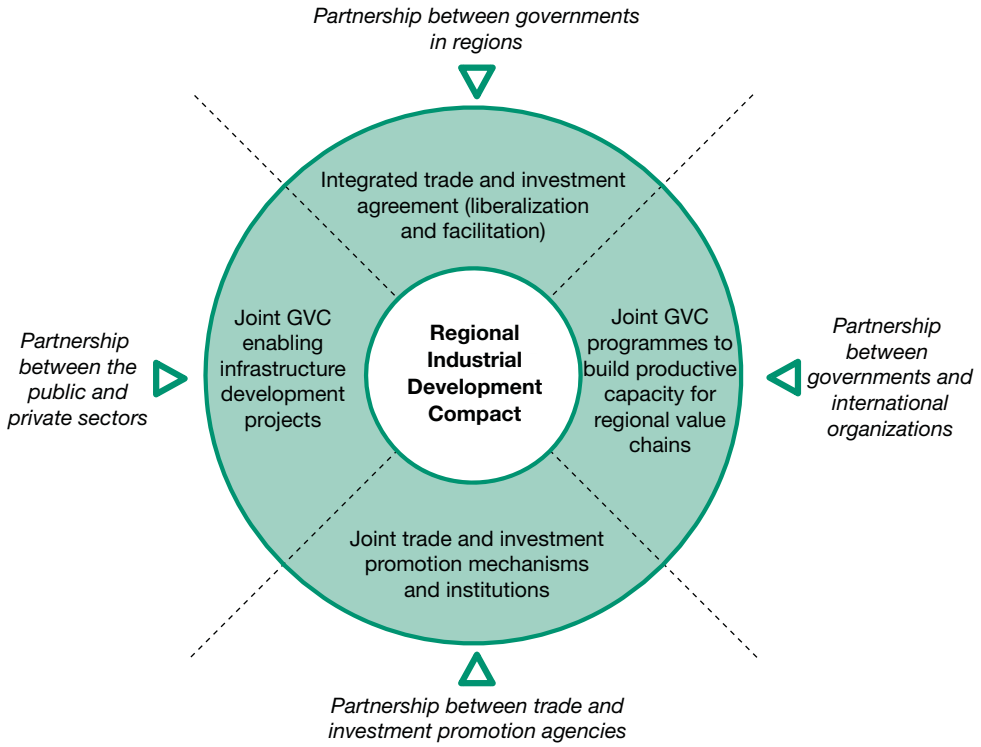
c. Regional industrial development compacts

The relevance of regional value chains underscores the importance of regional cooperation. Regional trade and investment agreements could evolve into industrial development compacts.

As seen in section A, regional production networks are important in GVCs. GVC-based industrial development benefits from strong ties with supply bases and markets in neighbouring economies. A key area where policymakers should seek to create synergies between trade and investment policies and institutions is thus in regional cooperation efforts.

Regional trade and investment agreements could evolve towards *"regional industrial development compacts."* Such compacts could focus on liberalization and facilitation of trade and investment and establish joint investment promotion mechanisms and institutions. An important challenge would be to reorient investment and

Figure IV.38. Regional industrial development compacts for regional value chains



Source: UNCTAD.

export promotion strategies from a focus on isolated activities as suppliers of GVCs to the needs of emerging regional markets.

Regional industrial development compacts could include in their scope all policy areas important for enabling GVC development, such as the harmonization, mutual recognition or approximation of regulatory standards and the consolidation of private standards on environmental, social and governance issues. And they could take steps in crucial policy areas such as the free movement of workers (the issue of migration and visas is crucial in value chains, which require people to be able to travel easily between countries to visit suppliers or work for periods in local operations to provide technical assistance) and services liberalization (particularly logistics and transportation), as regional value chains require intensified regional cooperation on a wider front.

Regional industrial development compacts could aim to create cross-border industrial clusters through joint investments in GVC-enabling infrastructure and productive capacity building. Establishing such compacts implies working in partnership, between governments of the region to harmonize trade and investment regulations, between investment and trade promotion agencies for joint promotion efforts, between governments and international organizations for technical assistance and capacity-building, and between the public and private sector for investment in regional value chain infrastructure and productive capacity (figure IV.38).

Concluding remarks: GVC policy development – towards a sound strategic framework

GVC policy development should begin with the strategic positioning of countries along GVCs, based on an assessment of the current position in GVCs and opportunities for growth.

This chapter has shown that GVCs are now a pervasive phenomenon in the global economy. Most countries are increasingly participating in GVCs, to different degrees and at various stages and levels in the chains.

GVCs and patterns of value added trade are shaped to a significant extent by TNCs – from mining TNCs to manufacturing or retail TNCs. Successful participation in GVCs for countries thus often hinges on the extent to which they can attract investment or the extent to which local firms manage to interact with TNC lead firms.

GVCs can bring a number of economic development benefits. They lead to direct economic impacts, in terms of value added, employment, income and exports. They can also contribute to longer-term economic development through technology and skills dissemination and industrial upgrading. However, none of these benefits are automatic, and countries can remain stuck in low-value activities, unable to upgrade and capture more value for economic development. In addition, GVC participation can exert negative social and environmental effects, including on wages and working conditions, on safety and health issues for workers, on the community, on emissions and others.

An important question facing policymakers is whether or not to actively promote GVC participation and adopt a GVC-led development strategy. For many countries, however, the question is less *whether* to promote GVC participation, but rather *how* to gain access to GVCs, maximize the benefits from participation, minimize the risks and upgrade in GVCs.

The policy section of this chapter has set out the main policy challenges stemming from the rise of GVCs and outlined a new GVC-based approach to industrial development policies with new roles for trade and investment policies. Key elements of the approach – the GVC Policy Framework – include (i) embedding GVCs in a country's overall development strategy, (ii) enabling participation in GVCs, (iii) building domestic productive capacity, (iv) providing a strong environmental, social and governance framework, and (v) synergizing trade and investment policies and institutions.

The starting point for strategy development is a clear understanding of the starting premise. Policymakers designing a GVC development

Table IV.16. GVC policy development: a tool for policymakers

Areas *(see also table IV.11)*	Key questions
Embedding GVCs in development strategy	
Position on GVC development paths *(see also figure IV.36)*	• What are the main exporting industries, and the main export products and services of the country? • Which industries are more export focused, or more focused on the domestic market? • What are the main import products and services of the country? • To what extent do imports consist of intermediate products or services? • To what extent do imports consist of raw materials? • Which industries require most imports of intermediates? • Which industries produce most export value added (exports minus imported content)? • To what extent do exports consist of the (non-processed) natural resources of the country? • How much value is added to the country's own natural resources before exports? • To what extent do exports consist of intermediate goods and services? • Which industries are more engaged in supplying intermediates exports rather than final goods? • Which third countries are most important in the country's GVC links, upstream and downstream? • Are most GVC trade links within the region or beyond?
GVC growth opportunities	• Which imported intermediates are produced through activities also present in-country? • What processing activities of exported natural resources could feasibly be carried in-country (before exports)? • What other value adding activities could be done on exported intermediates that currently occur in export markets? • What other industries (that do not yet feature in the country's exports) typically use the same value adding activities as the ones present? • What other activities could be developed in-country because their use of capital, technology and skills is similar to the ones present? • Which industries and activities provide the greatest marginal impact for each additional dollar of value added exports?
Enabling participation in GVCs	
Policy environment for trade and investment	• How would the country rate the general business climate and policy environment for investment? How does the policy environment compare against the UNCTAD IPFSD? • How easy is it to trade with the country? – Time to export and import – Cost to export and import – Procedures and documents to export and import • Are there any activities or plans concerning trade facilitation? • How easy is it to invest in the country? – Ease of establishment, access to industrial land – Treatment of investors and protection of intellectual property rights • Are there any activities or plans concerning business facilitation (e.g. UNCTAD's eRegulations programme)?
Infrastructure	• What are the main infrastructure bottlenecks for the growth of exports (physical infrastructure, utilities, telecom)? • What physical infrastructure bottlenecks hamper the development of productive capacity for exports at different links in the value chain: e.g. – At the border (international road links, ports) – Inland (road and rail links to regions) – Industrial facilities (industrial zones, business parks) – Logistics facilities (warehouses, refrigerated warehouses, etc.) • What infrastructure bottlenecks hamper imports?
Building domestic productive capacity	
Domestic productive capacity	• For each exporting industry, what are the primary value adding activities taking place in the country? • Which value adding activities contribute more to the GDP and employment contribution of exports? • Which value adding activities contribute most to the growth of exports? • Which value adding activities require most capital investment, technology and skills? • Which exporting industries and activities generate more value added for other domestic industries (spillovers)? • What are the main technology and skills bottlenecks for the growth of exports? • What investments are required to build the productive capacity needed to realize the opportunities identified? Where could the investment come from? • Does the country have a strategy for entrepreneurship development (e.g. UNCTAD's Entrepreneurship Policy Framework)?

/...

Table IV.16. GVC policy development: a tool for policymakers (concluded)

TNC involvement	• What is the involvement of TNCs in the country's economy and in each industry? • What is the involvement of TNCs in producing exports? • How much of the country's imports are brought in by TNCs? • To what extent do TNC imports consist of raw materials? And of intermediate materials? • To what extent are TNC imports of intermediate materials used in production for the domestic market or for exports? • Is the imported content of exports higher for TNC exports than for exports by domestic firms? • To what extent do TNCs present in the country rely on intra-firm trade, upstream and downstream?
Providing a strong environmental, social and governance framework	
Regulation, public and private standards	• What are the main "headline" social and environmental issues for the industries and GVCs in which the country is primarily engaged? • What is the social and environmental record of TNCs/lead firms and country suppliers with regard to these headline issues? • How strong are environmental regulations? • Has the country signed and ratified international environmental treaties? • What percentage of companies is certified to ISO 14001? • How strong are social regulations? • Has the country signed and ratified all of the core labour conventions of the ILO? • Do workers have the right to organize and form independent trade unions? • What percentage of workers is covered by collective bargaining agreements? • How strong are occupational safety and health regulations? • Are adequate resources available for enforcement of occupational safety and health regulations, e.g. skilled inspectors for on-site visits? • How many companies (TNCs/lead firms and local suppliers) are certified to multi-stakeholder or sector-specific multi-stakeholder standards, such as the Marine Stewardship Council or Forest Stewardship Council standards? • Does the country have a national standard to certify third-party auditors engaged in social auditing? • Does the country have a mandatory national standard for sustainability reporting? If not, does the country have a voluntary standard and what percentage of companies report to it?
SME compliance support	• To what extent does the country engage in capacity-building for SMEs on social and environmental management? Public sector programmes? • To what extent do TNCs/lead firms offer capacity-building for SMEs on social and environmental management?
Synergizing trade and investment policies and institutions	
Trade policy	• What are the current import tariff levels for different goods and services? • What non-tariff barriers exist in the country that could discourage GVC activities? • Have any sectors been affected by trade remedies (e.g. anti-dumping, safeguards and countervailing duties); do they require re-evaluating export-oriented growth strategies? • Have any export promotion instruments been set up (e.g. export finance, credit guarantees)? • To what extent are the country's exports hindered by trade barriers and trade remedies in importing countries?
Investment policy	• What industries face foreign investment restrictions, and what role do these industries play in exporting and importing in GVCs? • Are there screening/review procedures set up for investments and in what industries? To what extent do they affect GVCs? • Are there any performance requirements in place and in what industries? Do they hamper trade in GVCs? • What incentives policies have been set up, including EPZs, that could benefit GVC operations?
International commitments and constraints	• Is the country a WTO member? • How many preferential trade agreements has the country signed, and with which partners? • How many IIAs has the country signed, and with which partners? • Does the country pursue regional integration? • What market access development preferences (e.g. GSP, EBA) is the country eligible for?
Trade and investment institutions	• To what extent do trade and investment authorities coordinate their activities? • Does the country have joint or separate trade and investment promotion organizations? Has the importance of coordination been assessed, on the basis of: – dependence on foreign capital, skills and technologies for the build-up of export capacities? – extent to which exports are driven by TNC foreign affiliates? – extent to which domestic exporters are engaged in NEMs, i.e. participating in GVCs? – import content of exports?

Source: UNCTAD.

strategy should have the clearest possible picture of where their economy stands in relation to each of the elements of the GVC Policy Framework outlined in this chapter, to inform their strategic positioning based on factor endowments, dynamic capabilities and broader development vision.

Table IV.16 provides a tool to help policymakers assess their economy's current positioning in GVCs, the opportunities for growth, the strengths and weaknesses in enabling factors and productive capabilities for GVC participation, the social, environmental and governance framework, and the trade and investment policy context. The table does so by asking a series of questions, the answers to which should paint a clearer picture of GVC strengths, weaknesses, opportunities and threats. Some questions can be answered through empirical metrics, others can only be answered in a qualitative manner. The list is by no means exhaustive; it is meant only to guide the assessment process.

The tool can be read in concomitance with the earlier figure IV.36, which plots a GVC development path along the axes of increasing levels of technological sophistication on the one hand, and increasing levels of GVC participation and value creation on the other. Policymakers should aim to determine where their economy stands, where it can go and how it can get there.

Notes

1 In reality the GVC structure is not necessarily characterized by a linear sequencing of value added activities ("snake" configuration): it can be structured around one or more assembly hubs with parts entering from different production sites ("spider" configuration). However, this difference, while important from a conceptual perspective, does not affect the analytical treatment of value added data and double counting effects. See Baldwin, R. and A. Venables (2010) "Spiders and snakes: offshoring and agglomeration in the global economy", *NBER Working Papers*, No. 16611, National Bureau of Economic Research, Inc.

2 The Eora project, originally funded by the Australian Research Council, based at the University of Sydney and comprising an international team of researchers, developed the so-called "world multi-region input-output database" that is the basis for the generation of the value added trade estimates in the GVC Database discussed in this chapter. For details, see http://www.worldmrio.com/.

3 The UNCTAD-Eora GVC Database was launched earlier in 2013 in a WIR13 Preview Report available at http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf.

4 Equating foreign value added with the double counting in global trade figures is a simplification. Some further double counting takes place within domestic value added, as exported value added can re-enter countries to be incorporated in further exports, and so forth. Such circular double counting can be significant in some countries and some industries, but is marginal in most.

5 These findings are consistent across all countries surveyed by the economic analysis over the recent years. See Bernard, A. B. et al. (2007) "Firms in International Trade", *NBER Working Papers No.* 13054, NBER, Inc. Also see Ottaviano, G. and T. Mayer (2007) "Happy few: the internationalisation of European firms. New facts based on firm-level evidence". Open Access publications from Sciences Po, hdl: 2441/10147, Sciences Po.

6 FDI stock in services is still more than 35 per cent of the total if only non-financial sector FDI is considered (although financial sector FDI is not only a value chain in its own right but also provides crucial services to other GVCs).

7 See Cooke, J. A. (2010) "From bean to cup: How Starbucks transformed its supply chain", *Supply Chain Quarterly*, Quarter 4.

8 Gereffi, G., J. Humphrey and T. Sturgeon (2005) "The governance of global value chains", *Review of International Political Economy*, 12: 78-104.

9 Horizontal diversification of a segment or subsegment of a value chain is also important but less well covered in the GVC literature. In the case of FDI, this commonly involves affiliates that replicate TNC segments in host economies (with no or little cross-segment vertical linkages), e.g. in manufacturing, extractive or services operations aimed at equivalent markets in host countries. Horizontal diversification can also be considered to apply to host country operations by lead TNCs which are essentially NEMs to other organizations.

10 Ivarsson, I. and C. G. Alvstam (2010) "Supplier Upgrading in the Home-furnishing Value Chain: An Empirical Study of IKEA's Sourcing in China and South East Asia", *World Development*, 38: 1575-87.

11 Bair, J. and Gereffi, G. (2002) "NAFTA and the Apparel Commodity Chain: Corporate Strategies, Interfirm Networks, and Industrial Upgrading", in G. Gereffi, D. Spener, and J. Bair (eds.), *Free Trade and Uneven Development: The North American Apparel Industry after NAFTA*. (Philadelphia, Temple University Press: 23–50.)

12 An Inter-Agency Working Group coordinated by UNCTAD supported the G-20 in *developing key indicators for measuring and maximizing the economic and employment impact of private sector investment in value chains*. Key indicators comprise (i) economic value added (with value added and gross fixed capital formation, exports, number of business entities, fiscal revenues), (ii) job creation (total employment, employment by category, wages), and (iii) sustainable development (social impact, environmental impact, development impact). For a full presentation, visit http://unctad.org/en/Pages/DIAE/G-20/measuring-impact-of-investment.aspx.

13 Variation in backward linkages was also highlighted in a recent study of 809 TNC affiliates across Eastern Europe (Croatia, Slovenia, Poland, Romania and the former East Germany) in manufacturing industries. About 48 per cent of inputs were bought from domestic suppliers (both foreign and locally owned). The highest share was found in East Germany and the lowest for Romania. The share of local suppliers was highest (55 per cent) in the medium- to low-tech industries.

See Giroud, A., B. Jindra and P. Marek (2012) "Heterogeneous FDI in Transition Economies - A Novel Approach to Assess the Developmental Impact of Backward Linkages", *World Development*, 40:2206.

14 Rugraff, E. (2010) "Foreign direct investment and supplier-oriented upgrading in the Czech motor vehicle industry", *Regional Studies*, 44. This study showed that Czech-owned companies represent half of 173 first-tier suppliers in the automotive industry but account for only one fifth of the employees. Also see UNCTAD (2010) "Integrating Developing Countries' SMEs into Global Value Chains". It contains the example of the Colombian automobile industry, where 60 per cent of value added originates from car assembly which is performed by lead firms (TNC-led). By contrast, SMEs only account for less than 40 per cent of the total value.

15 Dedrick, J., K. L. Kraemer and G. Linden (2009) "Who profits from innovation in global value chains? A study of the iPod and notebook PCs", *Industrial and Corporate Change*, 19:81-116. The authors apply a product-level approach to identify the financial value embedded in products and show how it is distributed across multiple participants in the supply chain across borders, from design and branding to component manufacturing to assembly to distribution and sales.

16 For evidence on and examples of linkages in sub-Saharan Africa, see Morris, M., et al. (2012). "One thing leads to another – Commodities, linkages and industrial development", *Resources Policy*, 37:408-16.

17 See UNCTAD 1999. *Transfer Pricing: UNCTAD Series on Issues in International Investment Agreements.* Geneva and New York. United Nations.

18 Gourevitch, P., R. Bohn, and D. McKendrick (1997) *Who Is Us?: the Nationality of Production in the Hard Disk Drive Industry*, Report 97-01. La Jolla, CA: The Information Storage Industry Center, University of California. Available at http://isic.ucsd.edu/papers/whoisus.shtml.

19 Tejani, S. (2011) "The gender dimension of special economic zones", in *Special Economic Zones: Progress, Emerging Challenges, and Future Directions*. Washington D.C: The World Bank; Braunstein, E. (2012) "Neoliberal Development Macroeconomics. A Consideration of its Gendered Employment Effects", *UNRISD Research Paper* 2012–1, Geneva: United Nations; Staritz, C. and J. G. Reis (2013) *Global Value Chains, Economic Upgrading, and Gender*. Case Studies of the horticulture, Tourism and Call Center Industries. Washington, D.C.: The World Bank.; Tejani, S. and W. Milberg (2010) *Global defeminization? Industrial upgrading, occupational segmentation and manufacturing employment in Middle-Income countries*. New York: Schwartz Centre for Economic Policy Analysis; Aguayo-Tellez, E. (2011) The Impact of Trade Liberalization Policies and FDI on Gender Inequality: A Literature Review. Washington, D.C.: World Bank.

20 The few cross-country and cross-industry studies available in this area highlight notable differences in impact and find that (i) employment growth is not linked with comparable growth in real wages, and even in some case it is linked to declines in wages; (ii) upgrading in terms of real wages varies by country. Downgrading in terms of real wages is not uncommon. See, e.g., Milberg, W. and D. Winkler (2013) *Outsourcing Economics: Global Value Chains in Capitalist Development*. New York: Cambridge University Press; and Bernhardt, T. and W. Milberg (2011) "Does economic upgrading generate social upgrading? Insights from the Horticulture, Apparel, Mobile Phones and Tourism Sectors", *Capturing the Gains Working Paper*, No. 2011/07.

21 This is illustrated by the example of Chile's National Labour Skills Certification System. See Fernandez-Stark, K., S. Frederick and G. Gereffi (2011) "The apparel global value chain: economic upgrading and workforce development", *Center on Globalization, Governance & Competitiveness*, Duke University, November 2011.

22 As an example, in Costa Rica, the Instituto Nacional de Aprendizaje offered 25,000 scholarships in 2007 for English-language training, while the Asociación Costarricense de Profesionales de Turismo provides members with access to Mandarin Chinese, French and Italian classes. See Christian, M., K. Fernandez-Stark, G. Ahmed and G. Gereffi (2011) "The Tourism Global Value Chain: Economic Upgrading and Workforce Development", in *Skills for Upgrading: Workforce Development and Global Value Chains in Developing Countries*, Durham: Duke University, Center on Globalization, Governance and Competitiveness.

23 Bair, J. and G. Gereffi (2003) "Upgrading, uneven development, and jobs in the North American apparel industry", *Global Networks*, 3:143–69; Barrientos, S., G. Gereffi and A. Rossi (2012) "Economic and social upgrading in global production networks: A new paradigm for a changing world", *International Labour Review*, 150:319-40. See also Barrientos, S., G. Gereffi and A. Rossi (2011) "Labour Chains: Analysing the Role of Labour Contractors in Global Production Networks", *International Labour Review*, Volume 150, Issue 3-4, pages 319–340, December 2011.

24 Henderson, J., P. Dicken, M. Hess, N. Coe and H. W. Yeung (2002) "Global production networks and the analysis of economic development", *Review of International Political Economy*, 9:436-64; also Rugraff (ibid.).

25 Trade in intermediate goods is more volatile than trade in either capital or consumption goods, suggesting that recessions and economic crises affect material, parts and component shipments more than final goods (see Sturgeon, T. J. and O. Memedovic (2011) "Mapping Global Value Chains: Intermediate Goods Trade and Structural Change in the World Economy". Vienna: UNIDO). With regard to the effect of economic crises, in the clothing industry, as a result of the 2008 crisis it is estimated that millions of jobs were lost globally because of slower demand in Europe and the United States. The number of job losses amounted to between 11 and 15 million in the first quarter of 2010, with the highest losses experienced in China (10 million), India (1 million), Pakistan (200,000), Indonesia (100,000), Mexico (80,000), Cambodia (75,000) and Viet Nam (30,000). See Staritz, C. (2011) "Making the Cut? Low-Income Countries and the Global Clothing Value Chain in a Post-Quota and Post-Crisis World". Washington, D. C.: The World Bank.

26 Arnold, C. E. (2010) "Where the Low Road and the High Road Meet: Flexible Employment in Global Value Chains", *Journal of Contemporary Asia*, 40:612. The study notes that larger producers use sub-contractors to mediate the instability of international contracts, passing on uncertainty to smaller firms and their workforces.

27 Haakonsson, S. J. (2009) "Learning by importing in global value chains: upgrading and South-South strategies in the Ugandan pharmaceutical industry", *Development Southern Africa*, 26:499-516.

28 Gereffi, G. and O. Memedovic (2003) "The Global Apparel Value Chain: What prospects for upgrading by developing countries?". Vienna, Austria: UNIDO.

29 UNCTAD (2010) "Integrating Developing Countries' SMEs into Global Value Chains".

30 Dunning, J. and S. Lundan (2008) *Multinational Enterprises and the Global Economy*, Second Edition. Cheltenham: Edward Elgar Publishing Ltd.; Cantwell, J. and R. Mudambi (2005) "MNE competence-creating subsidiary mandates", *Strategic Management Journal*, 26 (12): 1109-1128; for a review of vertical spillovers, see Havranek, T. and Z. Irsova (2011) "Estimating vertical spillovers from FDI: Why results vary and what the true effect is", *Journal of International Economics*, 85(2): 234–244.

31 Ivarsson, I. and C. G. Alvstam (2009) "Local Technology Linkages and Supplier Upgrading in Global Value Chains: The Case of Swedish Engineering TNCs in Emerging Markets", *Competition and Change*, 13:368–88; Ivarsson, I. and C. G. Alvstam, 2010 (ibid.). Furthermore, a study of 1,385 firms in Thailand shows that the presence of global buyers in the local market reduces behavioural uncertainty and increases the

likelihood of success in the selection of partners, leading to knowledge-intensive value chain agreements (Saliola, F. and A. Zanfei (2009) "Multinational firms, global value chains and the organization of knowledge transfer", *Research Policy*, 38:369).

32 Zanfei, A. (2012) "Effects, Not Externalities", *The European Journal of Development Research*, 24:8-14; Pietrobelli, C. and R. Rabellotti (ibid.); Kaplinsky, R. (2010) *The role of standards in global value chains*. Washington, D.C.: The World Bank; Narula, R. and N. Driffield (2012) "Does FDI Cause Development? The Ambiguity of the Evidence and Why it Matters", *The European Journal of Development Research*, 24:1–7.

33 Bell, M. and M. Albu (1999) "Knowledge Systems and Technological Dynamism in Industrial Clusters in Developing Countries", *World Development* 27.9: 1715–34.

34 Sturgeon, T. J. and J. Lee (2004) *Industry Co-Evolution: A Comparison of Taiwan and North America's Electronics Contract Manufacturers*. ITEC Research Paper Series 04-03, Kyoto: Doshisha University. Available at http://itec.doshisha-u.jp/03_publication/01_workingpaper/2004/ITECRPS0403.pdf.

35 Ivarsson, I. and C. G. Alvstam, 2010 (ibid.); Navas-Alemán, L. (2011) "The Impact of Operating in Multiple Value Chains for Upgrading: The Case of the Brazilian Furniture and Footwear Industries", *World Development*, 39:1386-97. A good analysis is made in the case of the South African furniture and timber firms in an effort to comply with environmental certification (Morris, M. and N. Dunne (2004) "Driving environmental certification: its impact on the furniture and timber products value chain in South Africa", *Geoforum*, 35:251–66.).

36 Gereffi, G., J. Humphrey and T. J. Sturgeon, 2005 (ibid.); Giuliani, E., C. Pietrobelli and R. Rabellotti (2005) "Upgrading in Global Value Chains: Lessons from Latin American Clusters", *World Development*, 33:549-73.; Humphrey, J. and O. Memedovic (2003) "The Global Automotive Industry Value Chain: What Prospects for Upgrading by Developing Countries", UNIDO *Sectorial Studies Series*, Working Paper. Vienna: UNIDO; Gentile-Lüdecke, S. and A. Giroud (2012) "Knowledge Transfer from TNCs and Upgrading of Domestic Firms: The Polish Automotive Sector", *World Development*, 40(4): 796–807.

37 Humphrey, J. (2003) "Globalisation and Supply Chain Networks: The Auto Industry in Brazil and India", *Global Networks* 3.2: 121–41.

38 ILO (2013) Presentation on the World Day for Safety and Health at Work, 28 April. http://www.ilo.org.

39 UNCTAD (2012) "Corporate Social Responsibility in Global Value Chains", p. 8.

40 UNCTAD (2013), "Corporate Social Responsibility: a Value Chain Specific Approach", forthcoming.

41 Humphrey, J. and H. Schmitz (2002) "How does insertion in global value chains affect upgrading in industrial clusters?", *Regional Studies*, 36:1017-27; Gereffi, G., et al., 2001 (ibid.).

42 Christian, M. et al. (2011) (ibid.).

43 This is well illustrated by the two Mexican footwear clusters of Guadalajara and León. They operate in chains dominated by United States buyers as well as in the domestic market. While United States buyers control design and product development for products sold in the United States market, local buyers and producers co-operate and share competences domestically for provision of products within the Mexican market (Giuliani, E. et al., 2005 (ibid.)).

44 In the Brazilian furniture and footwear industries, producers operating in multiple chains (as opposed to those solely exporting) have a higher propensity to engage in functional upgrading (as well as product and process upgrading) – because they use the domestic or regional markets to learn how to design and market their products, before exporting them under their *own* brands and designs to the United States market (Navas-Alemàn, L., 2011 (ibid.)).

45 Fessehaie, J. (2012) "What determines the breadth and depth of Zambia's backward linkages to copper mining? The role of public policy and value chain dynamics", *Resources Policy*, 37:443–51.

46 Kaplinsky, R, et al., 2011 (ibid.); van Dijk, M. P. and J. Trienekens (2012) *Global Value Chains - Linking Local Producers from Developing Countries to International Markets*. Amsterdam University Press, p. 210.

47 Giuliani, E. et al., 2005 (ibid.).

48 Humphrey, J. and H. Schmitz, 2002 (ibid.); Guiliani, E. et al., 2005 (ibid.).

49 Hanlin, R. and C. Hanlin (2012) "The view from below: 'lock-in' and local procurement in the African gold mining sector", *Resources Policy*, 37:468–74.

50 Humphrey, J. and H. Schmitz, 2002 (ibid.) suggest that in the case of garment production, local producers will not face obstacles when moving from assembly of imported inputs to increased local production and sources. However, a move up to design and sale of own branded merchandise is less likely to be facilitated by global buyers.

51 Bernhardt, T. and W. Milberg, 2011 (ibid.); Whittaker, D. H., T. Zhu, T. J. Sturgeon, M. H. Tsai and T. Okita (2010) "Compressed development", *Studies in Comparative International Development*, 45:439-67.; Barrientos, S. et al., 2008 (ibid.); Milberg, W. and D. Winkler, 2011 (ibid.); Rossi, A.(2011) "Economic and social upgrading in global production networks: the case of the garment industry in Morocco", Doctoral thesis, University of Sussex.

52 Fernandez-Stark, K. et al., 2011 (ibid.).

53 Baldwin, R. (2011) "Trade And Industrialisation After Globalisation's 2nd Unbundling: How Building And Joining A Supply Chain Are Different And Why It Matters", *NBER Working Papers*, No. 17716. This paper was one of the first to make the argument that GVCs have transformed the nature of industrialisation and called for more research.

54 Based on W. Milberg, X. Jiang, and G. Gereffi (forthcoming), *Industrial Policy in the Era of Vertically Specialized Industrialization.*

55 See www.asycuda.org.

56 UNCTAD (2009) "Non-tariff measures: Evidence from Selected Developing Countries and Future Research Agenda". On the potential impact of automated processes, see also UNCTAD's 2011 Information Economy Report "ICTs as an Enabler for Private Sector Development".

57 See UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) for a complete discussion. Available at http://investmentpolicyhub.unctad.org.

58 See www.eRegulations.org.

59 See van Dijk M. and J. Trienekens, 2012 (ibid.).

60 See UNCTAD (2012) "Report of the Multi-year Expert Meeting on International Cooperation: South–South Cooperation and Regional Integration" on its fourth session (Geneva, 24–25 October). Available at http://unctad.org/meetings/en/SessionalDocuments/ciimem2d12_en.pdf.

61 Gereffi, G. (2009), "Chains for Change: Third Max Havelaar Lectures", Rotterdam School of Management, p. 52. Available at http://www.maxhavelaarlecture.org.

62 Available at http://unctad.org/en/Pages/DIAE/Entrepreneurship.

63 See UNCTAD (2011) "Promoting standards for responsible investment in value chains", September. Available at www.unctad.org/csr.

64 Gereffi, G. et al., (2009) (ibid.).

65 Milberg, W. and M. Amengual (2008) "Economic development and working conditions in export processing zones: A survey of trends". Geneva: ILO.

66 UNCTAD (2013) "Transforming Export Processing Zones into Centres for Excellence for Sustainable Development" forthcoming. This research was focused on government run industrial parks, even when these are termed differently in different markets (e.g. 'special economic zones', etc.). To evaluate the role of sustainable development services within EPZs a sample of 100 EPZs from around the world was

surveyed. Following an initial focus on developing countries of the G20 the research was broadened to search for best practices from additional countries around the world.

67 Classified as contingent trade-protective measures in UNCTAD's 2012 Classification of NTMs, available at www.unctad.org.

Box IV.2

a This variable is related to an active literature on measuring vertical specialization, with the first indicator calculated being the value of imported inputs in the overall (gross) exports of a country. The refinement to this indicator of vertical specialization corrects for the fact that the value of (gross) imports used by country A to produce exports (as retrieved from "standard" I-O tables) in reality might incorporate the domestic value added of country A that has been used as an input by country B, from which country A then sources, allowing instead only for the foreign value added of country B to enter in the calculation of country A's inputs nets out this effect. See Hummels, D., J. Ishii and K.-M. Yi (2001) "The nature and growth of vertical specialization in world trade", *Journal of International Economics* 54(1): 75–96; and Johnson, R.C. and G. Noguera (2012) "Accounting for intermediates: Production sharing and trade in value-added", *Journal of International Economics* 86(2), 224–236.

b This indicator was first introduced in Koopman, R., W. Powers, Z. Wang and S.-J. Wei (2011) "Give credit to where credit is due: tracing value added in global production chains", *NBER Working Papers Series,* No. 16426, September 2010, revised September 2011.

c See Fally, T. (2011) "On the Fragmentation of Production in the US", University of Colorado-Boulder, July.

Box IV. 3

a Estimates are based on data from the United States Bureau of Economic Affairs ("U.S. Affiliates of Foreign Companies and U.S. Multinational Companies", 2012); China Ministry of Commerce; OECD; IDE-JETRO. Data for Europe from Altomonte, C., F. Di Mauro, G. Ottaviano, A. Rungi, and V. Vicard (2012) "Global Value Chains during the Great Trade Collapse: A Bullwhip Effect?", *ECB Working Paper Series,* No. 1412.

Box IV. 4

a As constructed by Altomonte, C. and A. Rungi (2013) "Business Groups as Hierarchies of Firms: Determinants of Vertical Integration and Performance", Working Papers 2013.33, Fondazione Eni Enrico Mattei. This dataset uses a definition of control as established in international standards for multinational corporations, where control is assumed if (directly or indirectly, e.g. via another controlled affiliate) the parent exceeds the majority (50.01 per cent) of voting rights (i.e. majority ownership) of the affiliate and can thus be considered as the Ultimate Beneficial Owner.

b Altomonte, C. et al., 2012 (ibid.)

Box IV. 5

a See Engel. B (2011) "10 best practices you should be doing now", *Supply Chain Quarterly,* Quarter 1. Perez, D. (2013) "Supply chain strategies: Which one hits the mark?", *Supply Chain Quarterly*, Quarter 1.

b See Cooke, J. A. (2012) "From many to one: IBM's unified supply chain", *Supply Chain Quarterly*, Quarter 4.

Box IV. 8

a See Reuters, "Factbox: Major U.S. Tax Court transfer pricing cases", 17 June 2012. Available at http://www.reuters.com (accessed 10 January 2013).

b See http://www.tax-news.com/news/IndianTribunal_Reaches_Key_Transfer_Pricing_Decision (accessed on 25 May 2013).

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Annex table 1. FDI flows, by region and economy, 2007-2012
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
World	2 002 695	1 816 398	1 216 475	1 408 537	1 651 511	1 350 926	2 272 049	2 005 332	1 149 776	1 504 928	1 678 035	1 390 956
Developed economies	1 319 893	1 026 531	613 436	696 418	820 008	560 718	1 890 420	1 600 707	828 006	1 029 837	1 183 089	909 383
Europe	906 531	571 797	404 791	429 230	472 852	275 580	1 329 455	1 043 564	429 790	598 007	609 201	384 973
European Union	859 118	545 325	359 000	379 444	441 557	258 514	1 257 890	982 036	381 955	497 801	536 499	323 131
Austria	31 154	6 858	9 303	840	11 378	6 315	39 025	29 452	10 006	9 994	24 782	16 648
Belgium	93 429	193 950	60 963	85 676	103 280	- 1 614	80 127	221 023	7 525	43 894	82 492	14 668
Bulgaria	12 389	9 855	3 385	1 525	1 827	1 899	282	765	- 95	230	161	227
Cyprus	2 226	1 414	3 472	766	1 372	849	1 240	2 717	383	679	846	- 1 929
Czech Republic	10 444	6 451	2 927	6 141	2 318	10 592	1 620	4 323	949	1 167	- 327	1 341
Denmark	11 812	1 824	3 917	- 11 540	12 685	2 883	20 574	13 240	6 305	- 107	13 299	7 596
Estonia	2 717	1 731	1 840	1 599	257	1 470	1 747	1 114	1 547	142	- 1 458	886
Finland	12 451	- 1 144	718	7 359	2 668	- 1 806	7 203	9 297	5 681	10 167	4 878	4 533
France	96 221	64 184	24 219	33 627	38 547	25 093	164 310	155 047	107 130	64 575	59 553	37 197
Germany	80 208	8 109	22 460	57 428	48 937	6 565	170 617	72 758	69 643	121 525	52 168	66 926
Greece	2 111	4 499	2 436	330	1 143	2 945	5 246	2 418	2 055	1 558	1 772	- 39
Hungary	3 951	6 325	1 995	2 163	5 757	13 469	3 621	2 234	1 883	1 135	4 693	10 578
Ireland	24 707	- 16 453	25 715	42 804	11 467	29 318	21 146	18 949	26 616	22 348	- 4 290	18 966
Italy	43 849	- 10 835	20 077	9 178	34 324	9 625	96 231	67 000	21 275	32 655	53 629	30 397
Latvia	2 322	1 261	94	380	1 466	988	369	243	- 62	19	62	190
Lithuania	2 015	1 965	- 14	800	1 448	835	597	336	198	- 6	55	402
Luxembourg	- 28 260	16 853	19 946	34 753	22 166	27 878	73 350	14 809	1 522	21 435	9 169	17 273
Malta	762	794	372	980	413	157	7	297	65	87	20	- 89
Netherlands	119 383	4 549	38 610	- 7 366	17 179	- 244	55 606	68 334	34 471	68 332	40 900	- 3 509
Poland	23 561	14 839	12 932	13 876	18 911	3 356	5 405	4 414	4 699	7 226	7 211	- 894
Portugal	3 063	4 665	2 706	2 646	11 150	8 916	5 493	2 741	816	- 7 493	14 905	1 915
Romania	9 921	13 909	4 844	2 940	2 523	2 242	279	274	- 88	- 20	- 33	42
Slovakia	4 017	4 868	- 6	1 770	2 143	2 826	673	550	904	946	490	- 73
Slovenia	1 514	1 947	- 653	359	999	145	1 802	1 468	260	- 211	112	- 94
Spain	64 264	76 993	10 407	39 873	26 816	27 750	137 052	74 717	13 070	37 844	36 578	- 4 869
Sweden	28 846	36 888	10 033	- 64	9 246	13 711	38 841	30 363	25 908	20 178	28 158	33 428
United Kingdom	200 039	89 026	76 301	50 604	51 137	62 351	325 426	183 153	39 287	39 502	106 673	71 415
Other developed Europe	47 414	26 471	45 791	49 785	31 296	17 066	71 564	61 528	47 835	100 206	72 702	61 842
Gibraltar	165[a]	159[a]	172[a]	165[a]	166[a]	168[a]	-	-	-	-	-	-
Iceland	6 825	917	86	246	1 108	511	10 109	- 4 209	2 292	- 2 357	23	- 3 318
Norway	7 988	10 251	16 641	16 824	18 205	12 775	10 436	20 404	19 165	23 274	25 362	20 847
Switzerland	32 435	15 144	28 891	32 550	11 817	3 613	51 020	45 333	26 378	79 290	47 316	44 313
North America	332 772	367 919	166 304	226 991	268 323	212 995	458 145	387 573	306 556	339 122	446 505	382 808
Canada	116 820	61 553	22 700	29 086	41 386	45 375	64 627	79 277	39 601	34 723	49 849	53 939
United States	215 952	306 366	143 604	197 905	226 937	167 620	393 518	308 296	266 955	304 399	396 656	328 869
Other developed countries	80 590	86 815	42 342	40 197	78 833	72 143	102 820	169 571	91 660	92 707	127 383	141 602
Australia	45 535	47 010	26 701	35 242	65 297	56 959	16 857	33 618	16 233	27 271	14 285	16 141
Bermuda	617	172	- 71	249	- 109	128	105	323	11	- 14	- 337	222
Israel	8 798	10 875	4 607	5 510	11 081	10 414	8 605	7 210	1 751	8 656	3 309	3 178
Japan	22 550	24 426	11 939	- 1 251	- 1 755	1 731	73 548	128 019	74 699	56 263	107 601	122 551
New Zealand	3 090	4 334	- 834	448	4 320	2 911	3 706	401	- 1 035	530	2 525	- 489
Developing economies	589 430	668 439	530 289	637 063	735 212	702 826	330 033	344 034	273 401	413 220	422 067	426 082
Africa	51 274	58 894	52 964	43 582	47 598	50 041	11 081	10 080	6 281	9 311	5 376	14 296
North Africa	23 936	23 114	18 224	15 709	8 496	11 502	5 560	8 752	2 588	4 847	1 582	3 134
Algeria	1 662	2 593	2 746	2 264	2 571	1 484	295	318	215	220	534	- 41
Egypt	11 578	9 495	6 712	6 386	- 483	2 798	665	1 920	571	1 176	626	211
Libya	3 850	3 180	3 310	1 909	-	-	3 947	5 888	1 165	2 722	131	2 509
Morocco	2 805	2 487	1 952	1 574	2 568	2 836	622	485	470	589	179	361
Sudan	2 426	2 601	1 816	2 064	2 692	2 466[a]	11	98	89	66[a]	84[a]	80
Tunisia	1 616	2 759	1 688	1 513	1 148	1 918	20	42	77	74	28	13
Other Africa	27 337	35 780	34 741	27 873	39 102	38 539	5 522	1 328	3 693	4 464	3 793	11 162
West Africa	9 554	12 479	14 709	11 977	17 705	16 817	1 274	1 704	2 119	1 292	1 472	3 026
Benin	255	170	134	177	161	159	- 6	- 4	31	- 18	60	- 63
Burkina Faso	344	106	101	35	42	40	0	- 0	8	- 4	1	1
Cape Verde	190	209	119	112	93	71	0	0	- 0	0	1	- 1
Côte d' Ivoire	427	446	377	339	286	478	-	-	- 9	25	15	26
Gambia	76	70	40	37	36	79[a]	-	-	-	-	-	-
Ghana	855	1 220	2 897	2 527	3 248	3 295	-	8	7	-	25	1
Guinea	386	382	141	101	956	744[a]	-	126	-	-	1	3
Guinea-Bissau	19	5	17	33	25	16	- 0	- 1	- 0	6	1	1
Liberia	132	284	218	450	508	1 354	363	382	364	369	372	1 354
Mali	73	180	748	406	556	310	7	1	- 1	7	4	4
Mauritania	139	343	- 3	131	589	1 204[a]	4[a]	4[a]	4[a]	4[a]	4[a]	4
Niger	129	340	791	940	1 066	793	8	24	59	- 60	9	7
Nigeria	6 087	8 249	8 650	6 099	8 915	7 029	875	1 058	1 542	923	824	1 539

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Annex table 1. FDI flows, by region and economy, 2007-2012 (continued)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Saint Helena	0	-	-	-	-	-	-	-	-	-	-	-
Senegal	297	398	320	266	338	338	25	126	77	2	47	47
Sierra Leone	95	53	110	238	715	740[a]	- 1	- 5	- 0	- 0	-	-
Togo	49	24	49	86	171	166	- 1	- 16	37	37	106	103
Central Africa	5 639	5 022	6 028	9 389	8 120	9 999	81	149	53	590	323	699
Burundi	1	4	0	1	3	1	0	1	-	-	-	-
Cameroon	189	21	740	538	243[a]	507[a]	- 8	- 2	- 69	503	144[a]	193
Central African Republic	57	117	42	62	37	71	-	-	-	-	-	-
Chad	- 322[a]	466[a]	376[a]	313[a]	282[a]	323[a]	-	-	-	-	-	-
Congo	2 275	2 526[a]	1 862[a]	2 211[a]	3 056[a]	2 758[a]	-	-	-	-	-	-
Congo, Democratic Republic of	1 808	1 727	664	2 939	1 687	3 312	14	54	35	7	91	421
Equatorial Guinea	1 243	- 794	1 636	2 734[a]	1 975[a]	2 115[a]	-	-	-	-	-	-
Gabon	269	773[a]	573[a]	499[a]	696[a]	702[a]	59[a]	96[a]	87[a]	81[a]	88[a]	85
Rwanda	82	103	119	42	106	160	13	-	-	-	-	-
São Tomé and Principe	36	79	16	51	35	50[a]	3	0	0	0	0	1
East Africa	4 027	4 358	3 875	4 460	4 555	6 324	112	109	89	132	106	109
Comoros	8	5	14	8	23	17[a]	-	-	-	-	-	-
Djibouti	195	229	100	27	78	100	-	-	-	-	-	-
Eritrea	7[a]	39[a]	91[a]	91[a]	39[a]	74[a]	-	-	-	-	-	-
Ethiopia	222	109	221	288	627	970[a]	-	-	-	-	-	-
Kenya	729	96	115	178	335	259	36	44	46	2	9	16
Madagascar	773	1 169	1 066	808	810	895[a]	-	-	-	-	-	-
Mauritius	339	383	248	430	273	361	58	52	37	129	89	89
Mayotte	-	-	-	-	-	-	-	-	-	-	-	-
Seychelles	239	130	118	160	144	114	18	13	5	6	8	4
Somalia	141[a]	87[a]	108[a]	112[a]	102[a]	107[a]	-	-	-	-	-	-
Uganda	792	729	842	544	894	1 721	-	-	-	- 4	-	-
United Republic of Tanzania	582	1 383	953	1 813	1 229	1 706	-	-	-	-	-	-
Southern Africa	8 117	13 921	10 129	2 047	8 722	5 400	4 055	- 634	1 432	2 449	1 893	7 328
Angola	- 893	1 679	2 205	- 3 227	- 3 024	- 6 898	912	2 570	7	1 340	2 093	2 741
Botswana	495	521	129	- 6	414	293	51	- 91	6	1	- 11	- 10
Lesotho	106	112	100	114	132	172	- 2	- 2	- 2	- 2	- 4	- 37
Malawi	124	195	49	97	129	129	14	19	- 1	42	50	50
Mozambique	427	592	893	1 018	2 663	5 218	- 0	- 0	- 3	1	- 3	- 9
Namibia	733	720	522	793	816	357	3	5	- 3	5	5	- 5
South Africa	5 695	9 006	5 365	1 228	6 004	4 572	2 966	- 3 134	1 151	- 76	- 257	4 369
Swaziland	37	106	66	136	93	90	23	- 8	7	- 1	9	6
Zambia	1 324	939	695	1 729	1 108	1 066	86	-	270	1 095	- 2	177
Zimbabwe	69	52	105	166	387	400	3	8	-	43	14	46
Asia	364 899	396 152	324 688	400 687	436 150	406 770	238 544	235 090	211 525	283 972	310 612	308 159
East and South-East Asia	250 744	245 997	210 332	312 502	342 862	326 140	186 772	175 763	177 127	254 191	271 476	275 000
East Asia	165 104	195 454	162 523	214 604	233 818	214 804	127 132	143 509	137 783	206 777	212 519	214 408
China	83 521	108 312	95 000	114 734	123 985	121 080	26 510	55 910	56 530	68 811	74 654	84 220
Hong Kong, China	62 110	67 035	54 274	82 708	96 125	74 584	67 872	57 099	57 940	98 414	95 885	83 985
Korea, Democratic People's Republic of	67[a]	44[a]	2[a]	38[a]	56[a]	79[a]	-	-	-	-	-	-
Korea, Republic of	8 961	11 195	8 961	10 110	10 247	9 904	21 607	20 289	17 392	28 357	28 999	32 978
Macao, China	2 305	2 591	858	2 831	647	1 500[a]	23	- 83	- 11	- 441	120	150
Mongolia	373	845	624	1 691	4 715	4 452	13	6	54	62	94	44
Taiwan Province of China	7 769	5 432	2 805	2 492	- 1 957	3 205	11 107	10 287	5 877	11 574	12 766	13 031
South-East Asia	85 640	50 543	47 810	97 898	109 044	111 336	59 640	32 255	39 345	47 414	58 957	60 592
Brunei Darussalam	260	330	371	626	1 208	850[a]	- 7	16	9	6	10	8
Cambodia	867	815	539	783	902	1 557	1	20	19	21	29	31
Indonesia	6 928	9 318	4 877	13 771	19 241	19 853	4 675	5 900	2 249	2 664	7 713	5 423
Lao People's Democratic Republic	324	228	190	279	301	294	37[a]	- 75[a]	1[a]	- 1[a]	0[a]	- 21
Malaysia	8 595	7 172	1 453	9 060	12 198	10 074	11 314	14 965	7 784	13 399	15 249	17 115
Myanmar	710	863	973	1 285	2 200	2 243	-	-	-	-	-	-
Philippines	2 916	1 544	1 963	1 298	1 816	2 797	3 536	259	359	616	539	1 845
Singapore	46 972	12 200	24 939	53 623	55 923	56 651	36 897	6 812	24 051	25 341	26 249	23 080
Thailand	11 359	8 455	4 854	9 147	7 779	8 607	3 003	4 057	4 172	4 467	8 217	11 911
Timor-Leste	9	40	50	29	47	42[a]	-	-	-	-	-	-
Viet Nam	6 700	9 579	7 600	8 000	7 430	8 368	184	300	700	900	950	1 200
South Asia	34 545	56 608	42 438	28 726	44 231	33 511	17 709	21 647	16 507	16 383	12 952	9 219
Afghanistan	189	94	76	211	83	94	-	-	-	-	-	-
Bangladesh	666	1 086	700	913	1 136	990[a]	21	9	29	15	13	53
Bhutan	3	7	18	26	10	16[a]	-	-	-	-	-	-
India	25 350	47 139	35 657	21 125	36 190	25 543	17 234	21 147	16 031	15 933	12 456	8 583
Iran, Islamic Republic of	2 005	1 909	3 048	3 648	4 150	4 870	302[a]	380[a]	356[a]	346[a]	360[a]	430

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Annex table 1. FDI flows, by region and economy, 2007-2012 (continued)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Maldives	132	181	158	216	256	284	-	-	-	-	-	-
Nepal	6	1	39	87	95	92	-	-	-	-	-	-
Pakistan	5 590	5 438	2 338	2 022	1 327	847	98	49	71	47	62	73
Sri Lanka	603	752	404	478	981	776[a]	55	62	20	43	60	80
West Asia	79 609	93 546	71 919	59 459	49 058	47 119	34 063	37 680	17 890	13 398	26 184	23 941
Bahrain	1 756	1 794	257	156	781	891	1 669	1 620	- 1 791	334	894	922
Iraq	972	1 856	1 598	1 396	2 082	2 549[a]	8	34	72	125	366	549
Jordan	2 622	2 826	2 413	1 651	1 474	1 403	48	13	72	28	31	5
Kuwait	111	- 6	1 114	456	855	1 851	9 778	8 858	8 584	1 530	8 896	7 562
Lebanon	3 376	4 333	4 804	4 280	3 485	3 787[a]	848	987	1 126	487	754	611
Oman	3 332	2 952	1 485	1 243	739	1 514	- 36	585	109	1 498	1 220	1 371
Palestinian Territory	28	52	301	180	214	244	- 8	- 8	- 15	77	- 37	- 2
Qatar	4 700	3 779	8 125	4 670	- 87	327	5 160	3 658	3 215	1 863	6 027	1 840
Saudi Arabia	24 319	39 456	36 458	29 233	16 308	12 182	- 135	3 498	2 177	3 907	3 430	4 402
Syrian Arab Republic	1 242	1 467	2 570	1 469	-	-	2	2	-	-	-	-
Turkey	22 047	19 760	8 663	9 036	16 047	12 419	2 106	2 549	1 553	1 464	2 349	4 073
United Arab Emirates	14 187	13 724	4 003	5 500	7 679	9 602	14 568	15 820	2 723	2 015	2 178	2 536
Yemen	917	1 555	129	189	- 518	349	54[a]	66[a]	66[a]	70[a]	77[a]	71
Latin America and the Caribbean	171 929	210 679	150 150	189 855	249 432	243 861	80 257	97 773	55 512	119 236	105 154	103 045
South and Central America	110 479	128 981	77 908	119 834	159 330	166 136	26 571	39 080	13 845	46 493	41 893	49 072
South America	71 672	93 384	56 719	92 134	129 423	144 402	14 538	35 863	3 920	30 948	27 993	21 533
Argentina	6 473	9 726	4 017	7 848	9 882	12 551	1 504	1 391	712	965	1 488	1 089
Bolivia, Plurinational State of	366	513	423	643	859	1 060	4	5	- 3	- 29	-	-
Brazil	34 585	45 058	25 949	48 506	66 660	65 272	7 067	20 457	- 10 084	11 588	- 1 029	- 2 821
Chile	12 572	15 518	12 887	15 373	22 931	30 323	4 852	9 151	7 233	9 461	20 373	21 090
Colombia	9 049	10 596	7 137	6 758	13 438	15 823	913	2 486	3 348	6 842	8 280	- 248
Ecuador	194	1 057	306	163	639	587	- 7[a]	41[a]	43[a]	143[a]	- 81[a]	17
Falkland Islands (Malvinas)	-	-	-	-	-	-	-	-	-	-	-	-
Guyana	152	168	208	270	215[a]	231[a]	-	-	-	-	-	-
Paraguay	202	209	95	228	215	320[a]	7	8	8	- 4	-	-
Peru	5 491	6 924	6 431	8 455	8 233	12 240	66	736	411	266	113	- 57
Suriname	- 247	- 231	- 93	- 248	70	70	-	-	-	-	- 3	1
Uruguay	1 329	2 106	1 529	2 289	2 505	2 710	89	- 11	16	- 60	- 7	2
Venezuela, Bolivarian Republic of	1 505	1 741	- 2 169	1 849	3 778	3 216	43	1 598	2 236	1 776	- 1 141	2 460
Central America	38 808	35 597	21 188	27 700	29 907	21 733	12 033	3 217	9 925	15 546	13 900	27 540
Belize	150	180	113	100	99	198	7	10	4	3	5	2
Costa Rica	1 896	2 078	1 347	1 466	2 156	2 265	263	6	7	25	58	426
El Salvador	1 551	903	366	117	386	516	- 95	- 80	-	-	-	-
Guatemala	745	754	600	806	1 026	1 207	25	16	26	24	17	39
Honduras	928	1 006	509	969	1 014	1 059	1	- 1	4	- 1	18	6
Mexico	31 380	27 853	16 561	21 372	21 504	12 659	8 256	1 157	8 464	15 045	12 139	25 597
Nicaragua	382	626	434	508	968	810	-	-	-	-	-	-
Panama	1 777	2 196	1 259	2 363	2 755	3 020	3 575[a]	2 108[a]	1 419[a]	451[a]	1 664[a]	1 469
Caribbean	61 450	81 699	72 243	70 021	90 102	77 725	53 686	58 693	41 668	72 742	63 261	53 972
Anguilla	120	101	44	11	38	18	1	2	0	0	0	-
Antigua and Barbuda	341	161	85	101	68	74	2	2	4	5	3	3
Aruba	- 474	15	- 32	158	468	- 140	40	3	1	3	3	3
Bahamas	1 623	1 512	873	1 148	1 533	1 094	459	410	216	149	524	367
Barbados	476	464	247	290	532	356[a]	82	- 6	- 56	- 54	- 29	- 46
British Virgin Islands	31 764[a]	51 722[a]	46 503[a]	49 058[a]	62 725[a]	64 896[a]	43 668[a]	44 118[a]	35 143[a]	58 717[a]	52 233[a]	42 394
Cayman Islands	23 218[a]	19 634[a]	20 426[a]	15 875[a]	19 836[a]	4 234[a]	9 303[a]	13 377[a]	6 311[a]	13 857[a]	9 436[a]	9 938
Curaçao	106	147	55	89	69	94	- 7	- 1	5	15	- 30	- 14
Dominica	48	57	43	25	14	20	7	0	1	1	0	0
Dominican Republic	1 667	2 870	2 165	1 896	2 275	3 610	- 17	- 19	- 32	- 23	- 25	- 27
Grenada	172	141	104	64	45	33	16	6	1	3	3	2
Haiti	75	30	38	150	181	179	-	-	-	-	-	-
Jamaica	867	1 437	541	228	218	362	115	76	61	58	75	17
Montserrat	7	13	3	4	2	3	0	0	0	0	0	0
Netherlands Antilles[b]	-	-	-	-	-	-	-	-	-	-	-	-
Saint Kitts and Nevis	141	184	136	119	112	101	6	6	5	3	2	0
Saint Lucia	277	166	152	127	116	113	6	5	6	5	4	3
Saint Vincent and the Grenadines	121	159	111	97	86	126	2	0	1	0	0	0
Sint Maarten	72	86	40	33	- 48	26	4	16	1	3	1	- 2
Trinidad and Tobago	830	2 801	709	549	1 831	2 527	0	700	-	-	1 060	1 332
Oceania	1 329	2 713	2 486	2 939	2 032	2 154	151	1 090	84	701	925	582
Cook Islands	3[a]	-	- 6[a]	-	-	-	103[a]	963[a]	13[a]	540[a]	809[a]	454
Fiji	376	354	142	355	417	268	- 6	- 8	3	6	1	2
French Polynesia	58	14	22	115	123	87[a]	14	30	8	89	28	42
Kiribati	1	3	3	- 7	- 2	- 2[a]	0	1	- 1	- 0	-	-

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Annex table 1. FDI flows, by region and economy, 2007-2012 (concluded)
(Millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Marshall Islands	189[a]	422[a]	555[a]	275[a]	- 142[a]	38[a]	7[a]	29[a]	- 7[a]	- 15[a]	41[a]	13
Micronesia, Federated States of	17[a]	- 5[a]	1[a]	1[a]	1[a]	1[a]	-	-	-	-	-	-
Nauru	3[a]	1[a]	1[a]	-	-	-	-	-	-	-	-	-
New Caledonia	417	1 746	1 182	1 863	1 702	1 588[a]	7	64	58	76	40	58
Niue	-	-	-	-	-	-	4[a]	4[a]	- 0[a]	-	- 1[a]	-
Palau	4[a]	6[a]	1[a]	7[a]	6[a]	5[a]	-	0[a]	-	-	-	-
Papua New Guinea	96	- 30	423	29	- 309	29[a]	8	- 0	4	0	1	-
Samoa	7	49	10	1	12	22	-	-	1	-	1	9
Solomon Islands	64	95	120	238	146	69	12	4	3	2	4	3
Tonga	29	4	- 0	7	19	7[a]	2	2	0	2	1	1
Vanuatu	57	44	32	41	58	38	1	1	1	1	1	1
Transition economies	93 371	121 429	72 750	75 056	96 290	87 382	51 596	60 591	48 369	61 872	72 880	55 491
South-East Europe	13 187	13 257	8 577	4 592	7 202	4 235	1 500	1 955	1 297	205	282	53
Albania	659	974	996	1 051	1 036	957	24	81	36	6	42	23
Bosnia and Herzegovina	1 818	1 025	149	324	380	633	65	39	- 95	78	2	36
Croatia	5 041	6 220	3 339	432	1 502	1 251	295	1 421	1 233	- 146	30	- 99
Serbia	3 439	2 955	1 959	1 329	2 709	352	947	283	52	189	170	54
Montenegro	934	960	1 527	760	558	610	157	108	46	29	17	27
The FYR of Macedonia	693	586	201	212	468	135	- 1	- 14	11	2	- 0	- 8
CIS	78 434	106 608	63 514	69 650	88 040	82 281	50 020	58 489	47 090	61 532	72 451	55 174
Armenia	699	935	778	570	525	489	- 2	10	53	8	78	16
Azerbaijan	- 4 749	14	473	563	1 467	2 005	286	556	326	232	554	1 194
Belarus	1 807	2 188	1 877	1 393	4 002	1 442	15	31	102	51	126	99
Kazakhstan	11 119	14 322	13 243	11 551	13 903	14 022	3 153	1 204	3 159	7 885	4 630	1 582
Kyrgyzstan	208	377	189	438	694	372	- 1	- 0	- 0	0	0	- 0
Moldova, Republic of	541	711	145	197	281	159	17	16	7	4	21	20
Russian Federation	56 996	74 783	36 583	43 168	55 084	51 416	45 879	55 663	43 281	52 616	66 851	51 058
Tajikistan	360	376	16	16	11	290[a]	-	-	-	-	-	-
Turkmenistan	856[a]	1 277[a]	4 553[a]	3 631[a]	3 399[a]	3 159[a]	-	-	-	-	-	-
Ukraine	9 891	10 913	4 816	6 495	7 207	7 833	673	1 010	162	736	192	1 206
Uzbekistan	705[a]	711[a]	842[a]	1 628[a]	1 467[a]	1 094[a]	-	-	-	-	-	-
Georgia	1 750	1 564	659	814	1 048	866	76	147	- 19	135	147	263
Memorandum												
Least developed countries (LDCs)[c]	15 029	18 834	17 586	18 751	21 443	25 703	1 575	3 405	1 095	2 999	3 038	5 030
Landlocked developing countries (LLDCs)[d]	15 427	25 284	26 287	26 836	34 369	34 592	3 715	1 667	3 962	9 279	5 447	3 071
Small island developing states (SIDS)[e]	6 691	9 051	5 011	4 699	5 636	6 217	799	1 293	287	301	1 789	1 799

Source: UNCTAD, FDI-TNC-GVC Information System, FDI 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 the 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, South Sudan, 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, South Sudan, 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 2. FDI stock, by region and economy, 1990, 2000, 2012
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2012	1990	2000	2012
World	2 078 267	7 511 311	22 812 680	2 091 496	8 025 834	23 592 739
Developed economies	1 563 939	5 679 001	14 220 303	1 946 832	7 099 240	18 672 623
Europe	808 866	2 468 223	8 676 610	885 707	3 775 476	11 192 494
European Union	761 821	2 350 014	7 805 297	808 660	3 508 626	9 836 857
Austria	10 972	31 165	158 109[a]	4 747	24 821	215 364[a]
Belgium	-	-	1 010 967	-	-	1 037 782
Belgium and Luxembourg	58 388	195 219	-	40 636	179 773	-
Bulgaria	112	2 704	49 871	124	67	1 867
Cyprus	..[a,b]	2 846[a]	20 962	8	557[a]	7 120
Czech Republic	1 363	21 644	136 442	0	738	15 176
Denmark	9 192	73 574	147 672[a]	7 342	73 100	229 470[a]
Estonia	-	2 645	18 826	-	259	5 791
Finland	5 132	24 273	89 992	11 227	52 109	142 313
France	97 814	390 953	1 094 961	112 441	925 925	1 496 795
Germany	111 231	271 613	716 344[a]	151 581	541 866	1 547 185[a]
Greece	5 681	14 113	37 801	2 882	6 094	43 728
Hungary	570	22 870	103 557	159	1 280	34 741
Ireland	37 989	127 089	298 088	14 942	27 925	357 626
Italy	59 998	122 533	356 887	60 184	169 957	565 085
Latvia	-	2 084	13 254	-	23	1 104
Lithuania	-	2 334	15 796	-	29	2 521
Luxembourg	-	-	121 621	-	-	171 468
Malta	465	2 263	15 811[a]	0	193	1 526[a]
Netherlands	68 701	243 733	572 986	105 088	305 461	975 552
Poland	109	34 227	230 604	95	1 018	57 525
Portugal	10 571	32 043	117 161	900	19 794	71 261
Romania	0	6 953	74 171	66	136	1 417
Slovakia	282	6 970	55 816	0	555	4 413
Slovenia	1 643	2 893	15 526	560	768	7 796
Spain	65 916	156 348	634 539	15 652	129 194	627 212
Sweden	12 636	93 791	376 181	50 720	123 618	406 851
United Kingdom	203 905	463 134	1 321 352	229 307	923 367	1 808 167
Other developed Europe	47 045	118 209	871 313	77 047	266 850	1 355 637
Gibraltar	263[a]	642[a]	2 236[a]	-	-	-
Iceland	147	497	12 378	75	663	10 178
Norway	12 391	30 265	191 103[a]	10 884	34 026	216 083[a]
Switzerland	34 245	86 804	665 596	66 087	232 161	1 129 376
North America	652 444	2 995 951	4 568 948	816 569	2 931 653	5 906 169
Canada	112 843	212 716	636 972	84 807	237 639	715 053
United States	539 601	2 783 235	3 931 976	731 762	2 694 014	5 191 116
Other developed countries	102 629	214 827	974 744	244 556	392 111	1 573 959
Australia	80 364	118 858	610 517	37 505	95 979	424 450
Bermuda	-	265[a]	1 494	-	108[a]	784
Israel	4 476	20 426	75 944	1 188	9 091	74 746
Japan	9 850	50 322	205 361	201 441	278 442	1 054 928
New Zealand	7 938	24 957	81 429	4 422	8 491	19 052
Developing economies	514 319	1 771 481	7 744 523	144 664	905 229	4 459 356
Africa	60 675	153 742	629 632	20 229	43 851	144 735
North Africa	23 962	45 590	227 186	1 836	3 199	30 402
Algeria	1 561[a]	3 379[a]	23 264[a]	183[a]	205[a]	2 133[a]
Egypt	11 043[a]	19 955	75 410	163[a]	655	6 285
Libya	678[a]	471	16 334	1 321[a]	1 903	19 255
Morocco	3 011[a]	8 842[a]	48 176[a]	155[a]	402[a]	2 423[a]
Sudan	55[a]	1 398[a]	30 368[a]	-	-	-
Tunisia	7 615	11 545	33 634	15	33	306
Other Africa	36 712	108 153	402 446	18 393	40 652	114 333
West Africa	14 013	33 010	130 945	2 202	6 376	14 230
Benin	..[a,b]	213	912	2[a]	11	13
Burkina Faso	39[a]	28	431	4[a]	0	9
Cape Verde	4[a]	192[a]	1 298	-	-	- 2
Côte d'Ivoire	975[a]	2 483	7 653	6[a]	9	72
Gambia	157	216	782[a]	-	-	-
Ghana	319[a]	1 554[a]	16 622	-	-	109
Guinea	69[a]	263[a]	3 416[a]	-	7[a]	143[a]
Guinea-Bissau	8[a]	38[a]	102	-	-	6
Liberia	2 732[a]	3 247[a]	7 221	846[a]	2 188[a]	5 699
Mali	229[a]	132	2 786	22[a]	1	26
Mauritania	59[a]	146[a]	4 155[a]	3[a]	4[a]	39[a]
Niger	286[a]	45	4 049	54[a]	1	25
Nigeria	8 539[a]	23 786[a]	76 369	1 219[a]	4 144[a]	7 407

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Annex table 2. FDI stock, by region and economy, 1990, 2000, 2012 (continued)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2012	1990	2000	2012
Senegal	258[a]	295	2 346	47[a]	22	353
Sierra Leone	243[a]	284[a]	1 913[a]	-	-	-
Togo	268[a]	87	892	-	- 10	331
Central Africa	3 808	5 732	54 424	372	681	2 716
Burundi	30[a]	47[a]	9[a]	0[a]	2[a]	1[a]
Cameroon	1 044[a]	1 600[a]	5 238[a]	150[a]	254[a]	1 015[a]
Central African Republic	95[a]	104[a]	619	18[a]	43[a]	43[a]
Chad	250[a]	576[a]	4 200[a]	37[a]	70[a]	70[a]
Congo	575[a]	1 889[a]	21 012[a]	-	-	-
Congo, Democratic Republic of	546[a]	617	4 488	-	34[a]	736[a]
Equatorial Guinea	25[a]	1 060[a]	13 503[a]	0[a]	..[a,b]	3[a]
Gabon	1 208[a]	..[a,b]	4 269[a]	167[a]	280[a]	836[a]
Rwanda	33[a]	55	743	-	-	13[a]
São Tomé and Principe	0[a]	11[a]	344[a]	-	-	-
East Africa	1 701	7 202	41 177	165	387	1 262
Comoros	17[a]	21[a]	100[a]	-	-	-
Djibouti	13[a]	40	1 056	-	-	-
Eritrea	-	337[a]	779[a]	-	-	-
Ethiopia	124[a]	941[a]	5 803[a]	-	-	-
Kenya	668[a]	932[a]	2 876[a]	99[a]	115[a]	316[a]
Madagascar	107[a]	141	5 809[a]	1[a]	10[a]	6[a]
Mauritius	168[a]	683[a]	2 944[a]	1[a]	132[a]	681[a]
Seychelles	213	515	1 859[a]	64	130	259[a]
Somalia	..[a,b]	4[a]	776[a]	-	-	-
Uganda	6[a]	807	8 191	-	-	-
United Republic of Tanzania	388[a]	2 781	10 984	-	-	-
Southern Africa	17 191	62 209	175 900	15 653	33 208	96 125
Angola	1 024[a]	7 978[a]	1 937	1[a]	2[a]	9 877
Botswana	1 309	1 827	1 318	447	517	585
Lesotho	83[a]	330	839[a]	0[a]	2	15[a]
Malawi	228[a]	358	1 167	-	..[b]	72
Mozambique	25	1 249	12 632	2	1	15
Namibia	2 047	1 276	3 491	80	45	47
South Africa	9 207	43 451	138 964[a]	15 004	32 325	82 367[a]
Swaziland	336	536	958	38	87	85[a]
Zambia	2 655[a]	3 966[a]	11 994	-	-	2 706
Zimbabwe	277[a]	1 238[a]	2 601[a]	80[a]	234[a]	356[a]
Asia	340 270	1 108 173	4 779 316	67 010	653 364	3 159 803
East and South-East Asia	302 281	1 009 804	3 812 439	58 504	636 451	2 839 459
East Asia	240 645	752 559	2 492 960	49 032	551 714	2 243 384
China	20 691[a]	193 348	832 882[a]	4 455[a]	27 768[a]	509 001[a]
Hong Kong, China	201 653[a]	491 923	1 422 375	11 920[a]	435 791	1 309 849
Korea, Democratic People's Republic of	572[a]	1 044[a]	1 610[a]	-	-	-
Korea, Republic of	5 186	43 740	147 230	2 301[a]	21 500	196 410
Macao, China	2 809[a]	2 801[a]	16 353[a]	-	-	822[a]
Mongolia	0[a]	182[a]	13 151	-	-	1 210
Taiwan Province of China	9 735[a]	19 521	59 359[a]	30 356[a]	66 655	226 093[a]
South-East Asia	61 636	257 244	1 319 479	9 471	84 736	596 075
Brunei Darussalam	33[a]	3 868	13 302[a]	0[a]	512	699[a]
Cambodia	38[a]	1 580	8 413	0[a]	193	423
Indonesia	8 732[a]	25 060[a]	205 656[a]	86[a]	6 940[a]	11 627[a]
Lao People's Democratic Republic	13[a]	588[a]	2 483[a]	1[a]	20[a]	- 9[a]
Malaysia	10 318	52 747[a]	132 400	753	15 878[a]	120 396
Myanmar	281[a]	3 211	11 910[a]	-	-	-
Philippines	3 268[a]	13 762[a]	31 027[a]	405[a]	1 032[a]	8 953[a]
Singapore	30 468	110 570	682 396[a]	7 808	56 755	401 426[a]
Thailand	8 242	31 118	159 125[a]	418	3 406	52 561[a]
Timor-Leste	-	-	237[a]	-	-	-
Viet Nam	243[a]	14 739[a]	72 530[a]	-	-	-
South Asia	6 795	29 834	306 660	422	2 949	123 715
Afghanistan	12[a]	17[a]	1 569[a]	-	-	-
Bangladesh	477[a]	2 162	7 156[a]	45[a]	69	159[a]
Bhutan	2[a]	4[a]	23[a]	-	-	-
India	1 657[a]	16 339	226 345	124[a]	1 733	118 167
Iran, Islamic Republic of	2 039[a]	2 597[a]	37 313	-	572[a]	3 345[a]
Maldives	25[a]	128[a]	1 655[a]	-	-	-
Nepal	12[a]	72[a]	440[a]	-	-	-
Pakistan	1 892[a]	6 919	25 395	245[a]	489	1 524
Sri Lanka	679[a]	1 596	6 765[a]	8[a]	86	520[a]

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Annex table 2. FDI stock, by region and economy, 1990, 2000, 2012 (continued)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2012	1990	2000	2012
West Asia	31 194	68 535	660 217	8 084	13 964	196 628
Bahrain	552	5 906	16 826	719	1 752	9 699
Iraq	..[a,b]	..[a,b]	12 616[a]	-	-	1 547[a]
Jordan	1 368[a]	3 135	24 775	158[a]	44	509
Kuwait	37[a]	608[a]	12 767	3 662[a]	1 428[a]	24 501
Lebanon	53[a]	14 233	52 885[a]	43[a]	352	8 197[a]
Oman	1 723[a]	2 577[a]	17 240	-	-	5 387
Palestinian Territory	-	647[a]	2 572[a]	-	..[a,b]	191[a]
Qatar	63[a]	1 912	30 804[a]	-	74	20 413[a]
Saudi Arabia	15 193[a]	17 577	199 032[a]	2 328[a]	5 285[a]	34 360[a]
Syrian Arab Republic	154[a]	1 244	9 939[a]	4[a]	107[a]	421[a]
Turkey	11 150[a]	18 812	181 066	1 150[a]	3 668	30 471
United Arab Emirates	751[a]	1 069[a]	95 008	14[a]	1 938[a]	60 274
Yemen	180[a]	843	4 688[a]	5[a]	12[a]	660[a]
Latin America and the Caribbean	111 373	507 346	2 310 630	57 357	207 747	1 150 092
South and Central America	103 311	428 931	1 687 384	55 726	117 626	598 149
South America	74 815	308 951	1 290 092	49 346	96 045	420 453
Argentina	9 085[a]	67 601	110 704	6 057[a]	21 141	32 914
Bolivia, Plurinational State of	1 026	5 188	8 809	7[a]	29	8[a]
Brazil	37 143	122 250	702 208	41 044[a]	51 946	232 848
Chile	16 107[a]	45 753	206 594	154[a]	11 154	97 141
Colombia	3 500	11 157	111 924	402	2 989	31 633
Ecuador	1 626	6 337	13 079	18[a]	251[a]	480[a]
Falkland Islands (Malvinas)	0[a]	58[a]	75[a]	-	-	-
Guyana	45[a]	756[a]	2 335[a]	-	1[a]	2[a]
Paraguay	418[a]	1 221	3 936	134[a]	214	238
Peru	1 330	11 062	63 448	122	505	3 986
Uruguay	671[a]	2 088	17 900[a]	186[a]	138	334[a]
Venezuela, Bolivarian Republic of	3 865	35 480	49 079	1 221	7 676	20 870
Central America	28 496	119 980	397 292	6 381	21 580	177 696
Belize	89[a]	301	1 660	20[a]	43	170
Costa Rica	1 324[a]	2 709	18 713	44[a]	86	1 570
El Salvador	212	1 973	8 635	56[a]	104	6
Guatemala	1 734	3 420	8 914	0	93	438
Honduras	293	1 392	9 024	-	-	81
Mexico	22 424	101 996	314 968[a]	2 672[a]	8 273	137 684[a]
Nicaragua	145[a]	1 414	6 476	-	-	-
Panama	2 275[a]	6 775[a]	28 903[a]	3 588[a]	12 981[a]	37 747[a]
Caribbean	8 062	78 415	623 245	1 630	90 121	551 943
Anguilla	11[a]	231[a]	1 024[a]	-	5[a]	31[a]
Antigua and Barbuda	290[a]	619[a]	2 514[a]	-	5[a]	98[a]
Aruba	145[a]	1 161	4 124	-	675	685
Bahamas	586[a]	3 278[a]	16 065[a]	-	452[a]	3 428[a]
Barbados	171	308	4 100[a]	23	41	886[a]
British Virgin Islands	126[a]	32 093[a]	362 891[a]	875[a]	67 132[a]	433 588[a]
Cayman Islands	1 749[a]	25 585[a]	164 699[a]	648[a]	20 788[a]	108 030[a]
Curaçao	-	-	690	-	-	75
Dominica	66[a]	275[a]	644[a]	-	3[a]	33[a]
Dominican Republic	572	1 673	24 728[a]	-	-	-
Grenada	70[a]	348[a]	1 351[a]	-	2[a]	50[a]
Haiti	149[a]	95	963	0[a]	2[a]	2[a]
Jamaica	790[a]	3 317[a]	11 581	42[a]	709[a]	397
Montserrat	40[a]	83[a]	131[a]	-	0[a]	1[a]
Netherlands Antilles[c]	408[a]	277	-	21[a]	6	-
Saint Kitts and Nevis	160[a]	487[a]	1 810[a]	-	3[a]	53[a]
Saint Lucia	316[a]	807[a]	2 391[a]	-	4[a]	60[a]
Saint Vincent and the Grenadines	48[a]	499[a]	1 526[a]	-	0[a]	5[a]
Sint Maarten	-	-	234[a]	-	-	7[a]
Trinidad and Tobago	2 365[a]	7 280[a]	21 782[a]	21[a]	293[a]	4 512[a]
Oceania	2 001	2 220	24 945	68	267	4 727
Cook Islands	1[a]	218[a]	2 171[a]	-	..[a,b]	3 293[a]
Fiji	284	356	3 264	25[a]	39	50
French Polynesia	69[a]	139[a]	653[a]	-	-	266[a]
Kiribati	-	-	2[a]	-	-	2[a]
Marshall Islands	1[a]	218[a]	2 171[a]	-	..[a,b]	145[a]
Nauru	..[a,b]	..[a,b]	..[a,b]	18[a]	22[a]	22[a]
New Caledonia	70[a]	67[a]	9 613[a]	-	-	-
Niue	-	6[a]	..[a,b]	-	10[a]	22[a]
Palau	2[a]	4[a]	34[a]	-	-	-

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Annex table 2. FDI stock, by region and economy, 1990, 2000, 2012 (concluded)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2012	1990	2000	2012
Papua New Guinea	1 582	935	4 596[a]	26[a]	210[a]	226[a]
Samoa	9[a]	77	260	-	-	21
Solomon Islands	-	106[a]	1 401	-	-	655
Tonga	1[a]	15[a]	110[a]	-	-	-
Vanuatu	-	61[a]	576	-	-	24
Transition economies	9	60 829	847 854	0	21 366	460 760
South-East Europe	0	5 682	82 785	0	840	7 877
Albania	-	247	4 885[a]	0	-	206[a]
Bosnia and Herzegovina	-	1 083[a]	7 771[a]	-	-	286[a]
Croatia	0	2 796	31 609	0	824	4 506
Serbia	-	1 017[a]	25 451	-	-	2 204
Montenegro	-	-	4 882[a]	-	-	414[a]
The FYR of Macedonia	0	540	4 959	-	16	105
CIS	9	54 375	754 453	0	20 408	451 688
Armenia	9[a]	513	5 063	-	0	169
Azerbaijan	-	3 735	11 118[a]	-	1	7 517[a]
Belarus	0	1 306	14 426	0	24	403
Kazakhstan	-	10 078	106 920	-	16	20 979
Kyrgyzstan	-	432	2 758	-	33	2
Moldova, Republic of	-	449	3 339	-	23	108
Russian Federation	-	32 204	508 890[a]	-	20 141	413 159[a]
Tajikistan	0	136	1 282[a]	-	-	-
Turkmenistan	-	949[a]	19 999[a]	-	-	-
Ukraine	0	3 875	72 804	0	170	9 351
Uzbekistan	-	698[a]	7 855[a]	-	-	-
Georgia	0	771	10 615	-	118	1 195
Memorandum						
Least developed countries (LDCs)[d]	11 051	36 631	185 463	1 089	2 678	22 138
Landlocked developing countries (LLDCs)[e]	7 471	35 792	239 409	844	1 305	34 334
Small island developing states (SIDS)[f]	7 136	20 511	84 597	220	2 033	11 606

Source: UNCTAD, FDI-TNC-GVC Information System, FDI 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 the 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, South Sudan, 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, South Sudan, Swaziland, Republic of 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 3. Value of cross-border M&As, by region/economy of seller/purchaser, 2006–2012
(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
World	625 320	1 022 725	706 543	249 732	344 029	555 173	308 055	625 320	1 022 725	706 543	249 732	344 029	555 173	308 055
Developed economies	527 152	891 896	581 394	203 530	257 152	433 839	260 282	497 324	841 714	568 041	160 785	223 726	428 075	175 555
Europe	350 740	559 082	273 301	133 871	124 973	213 442	137 930	300 382	568 988	358 981	102 709	41 943	168 379	24 917
European Union	333 337	527 718	251 169	116 226	115 974	185 299	122 309	260 680	537 890	306 734	89 694	25 960	137 124	- 1 470
Austria	1 145	9 661	1 327	1 797	432	7 002	1 687	6 985	4 720	3 049	3 345	1 523	3 702	1 835
Belgium	1 794	961	2 491	12 089	9 444	3 945	1 790	3 640	8 258	30 146	- 9 638	222	8 820	- 1 362
Bulgaria	807	971	227	151	24	- 96	31	-	5	7	2	19	-	-
Cyprus	294	1 343	- 909	52	680	780	51	1 274	775	1 725	1 395	- 39	4 048	5 019
Czech Republic	1 154	107	5 169	2 669	- 457	842	32	812	846	34	1 608	14	26	474
Denmark	11 235	5 761	6 095	1 651	1 448	7 921	3 604	2 078	3 226	2 841	3 198	- 3 427	- 21	674
Estonia	3	- 57	110	28	3	239	58	179	-	4	- 0	4	- 1	1
Finland	1 321	8 313	1 153	508	324	973	1 950	2 169	- 1 128	13 179	653	391	3 355	4 164
France	19 423	28 207	4 590	724	3 837	23 161	11 985	41 030	78 451	56 806	41 565	6 117	33 982	- 5 221
Germany	41 388	44 091	31 911	12 790	8 507	13 386	7 726	16 427	58 795	61 340	24 313	6 848	4 706	15 453
Greece	7 309	723	6 903	477	- 819	1 205	35	5 238	1 495	2 697	386	520	- 148	- 1 561
Hungary	2 337	721	1 559	1 853	213	1 714	96	1 522	1	41	0	799	17	- 7
Ireland	2 731	811	2 892	1 712	2 127	1 934	12 096	10 176	6 677	3 693	- 526	5 101	- 5 649	774
Italy	25 760	23 630	- 2 377	1 109	6 329	15 095	2 156	6 887	55 880	21 358	17 505	- 6 193	3 902	- 1 680
Latvia	11	47	195	109	72	1	1	-	4	3	- 30	40	- 3	-
Lithuania	97	35	98	20	462	386	39	-	30	31	-	4	4	- 3
Luxembourg	35 005	7 339	- 3 570	444	5 446	9 504	6 461	15 539	22 631	8 109	3 382	431	1 119	- 6 321
Malta	517	- 86	-	13	315	-	96	115	-	- 25	-	235	- 16	25
Netherlands	25 560	162 770	- 8 156	17 988	4 113	14 076	17 051	51 304	- 3 268	53 668	- 3 273	20 112	- 4 253	- 2 937
Poland	773	728	966	776	1 063	10 098	815	194	128	432	117	292	511	3 399
Portugal	537	1 715	- 1 279	504	2 208	911	8 334	644	4 023	1 164	1 236	- 8 965	1 642	- 4 741
Romania	5 324	1 926	993	314	148	88	125	-	-	4	7	24	-	-
Slovakia	194	50	136	13	-	0	15	- 142	-	-	-	-	- 18	- 30
Slovenia	15	57	418	-	332	51	330	29	74	320	251	- 50	- 10	-
Spain	7 951	51 686	33 708	32 173	8 669	17 738	5 252	71 481	40 893	- 14 654	- 1 278	1 367	14 644	- 1 280
Sweden	15 228	4 563	18 770	1 098	221	7 626	4 638	3 199	32 390	6 108	9 024	796	- 3 353	794
United Kingdom	125 421	171 646	147 748	25 164	60 833	46 720	35 852	19 900	222 984	54 653	- 3 546	- 227	70 120	- 8 941
Other developed Europe	17 403	31 363	22 132	17 645	8 999	28 143	15 621	39 702	31 099	52 247	13 015	15 983	31 255	26 387
Andorra	1 174	-	-	-	-	-	12	-	-	-	-	-	166	-
Faeroe Islands	-	-	0	-	85	-	-	-	-	-	-	-	-	13
Gibraltar	-	50	212	-	-	-	19	404	116	1	253	8	1 757	23
Guernsey	-	31	17	260	171	25	1 294	1 424	1 144	556	4 001	8 246	- 1 230	1 968
Iceland	39	- 227	-	-	14	-	-	2 171	4 664	737	- 317	- 221	- 446	- 2 547
Isle of Man	-	221	35	66	157	- 217	55	990	720	319	136	850	- 736	- 162
Jersey	254	816	251	414	81	88	133	96	814	- 829	844	1 244	5 197	3 564
Liechtenstein	-	-	-	-	-	-	-	154	270	-	1	-	-	3 753
Monaco	-	437	-	-	-	30	-	- 13	-	-	100	100	16	-
Norway	4 289	7 831	14 997	1 630	7 171	8 574	5 474	9 465	10 641	6 102	611	- 3 940	5 822	3 522
Switzerland	11 647	22 206	6 620	15 275	1 321	19 644	8 635	25 010	12 729	45 362	7 385	9 696	20 708	16 254
North America	165 591	265 866	262 698	51 475	97 914	176 541	95 438	138 576	226 646	114 314	40 477	118 147	174 661	119 359
Canada	37 841	100 888	35 253	11 389	14 917	32 666	29 325	20 848	46 751	44 141	16 718	30 794	38 086	39 474
United States	127 750	164 978	227 445	40 085	82 996	143 876	66 113	117 729	179 895	70 173	23 760	87 353	136 574	79 885
Other developed countries	10 821	66 948	45 395	18 185	34 265	43 855	26 913	58 366	46 080	94 747	17 598	63 636	85 035	31 279
Australia	10 508	44 222	33 530	22 206	26 866	34 603	23 087	31 949	43 439	18 454	- 2 981	15 851	6 395	- 5 102
Bermuda	1 083	1 424	850	820	- 405	121	905	503	- 40 691	4 507	3 248	5 701	2 360	2 734
Israel	8 061	684	1 363	803	1 147	3 663	942	9 747	8 408	11 316	167	5 863	8 525	- 2 132
Japan	- 11 683	16 538	9 251	- 5 771	6 895	4 672	1 282	16 966	30 346	56 379	17 440	31 183	62 692	35 666
New Zealand	2 853	4 081	401	126	- 238	797	697	- 799	4 578	4 092	- 275	5 037	5 063	113
Developing economies	89 163	100 381	104 812	39 077	82 378	88 519	49 342	114 922	144 830	105 849	73 975	98 149	108 296	113 055
Africa	11 181	8 076	21 193	5 140	8 072	8 592	- 1 195	15 913	9 891	8 216	2 702	3 309	4 378	611
North Africa	6 773	2 182	16 283	1 475	1 141	1 353	- 388	5 633	1 401	4 665	1 004	1 471	17	85
Algeria	18	-	82	-	-	-	-	-	- 47	-	-	-	-	-
Egypt	2 976	1 713	15 895	993	195	609	- 705	5 633	1 448	4 613	76	1 092	-	- 16
Libya	1	200	307	145	91	20	-	-	-	51	601	377	-	-
Morocco	133	269	- 125	333	846	274	296	-	-	-	324	-	17	101
Sudan	1 332	-	-	-	-	450	-	-	-	-	-	-	-	-
Tunisia	2 313	-	122	4	9	-	21	-	-	-	3	2	-	-
Other Africa	4 408	5 894	4 910	3 665	6 931	7 240	- 807	10 279	8 490	3 551	1 697	1 838	4 361	525
Angola	1	-	- 475	- 471	1 300	-	-	-	- 60	-	-	-	-	69
Botswana	57	1	-	50	-	6	7	-	-	3	-	-	- 14	10
Burkina Faso	289	-	20	-	-	-	1	-	-	-	-	-	-	-
Cameroon	-	-	1	-	-	0	-	-	-	-	-	-	-	-
Cape Verde	-	-	4	-	-	-	-	-	-	-	-	-	-	-
Congo	20	-	435	-	-	-	7	-	-	-	-	-	-	-
Congo, Democratic Republic of	-	-	-	5	175	-	-	-	- 45	-	-	-	-	19
Côte d'Ivoire	-	-	-	-	-	-	0	-	-	-	-	-	-	-
Equatorial Guinea	-	-	- 2 200	-	-	-	-	-	-	-	-	-	-	-
Eritrea	-	-	-	-	12	- 254	- 54	-	-	-	-	-	-	-
Ethiopia	-	-	-	-	-	146	366	-	-	-	-	-	-	-
Gabon	-	82	-	-	-	-	-	-	- 16	-	-	-	-	-
Ghana	3	122	900	0	-	- 3	-	-	-	-	-	1	-	-
Guinea	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Kenya	2	396	-	-	9	19	86	-	-	18	-	-	- 3	-
Liberia	-	-	-	-	587	-	-	-	-	-	-	-	-	-
Madagascar	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Malawi	-	5	-	0	0	-	-	-	-	-	-	-	-	-

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Annex table 3. Value of cross-border M&As, by region/economy of seller/purchaser, 2006–2012 (continued)
(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Mali	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Mauritania	-	375	-	-	-	-	-	-	-	-	-	-	-	-
Mauritius	268	-	26	27	203	6	13	232	89	206	191	- 50	- 173	- 432
Mozambique	34	2	-	-	35	27	3	-	-	-	-	-	-	-
Namibia	181	2	15	59	104	40	15	-	-	-	-	-	-	-
Niger	-	-	-	-	-	-	-	-	-	-	-	-	-	- 185
Nigeria	4 883	490	- 597	- 241	664	539	- 159	-	-	418	-	-	1	40
Rwanda	-	-	6	-	-	-	69	-	-	-	-	-	-	-
Senegal	-	-	-	-	- 457	-	-	-	-	-	-	-	-	-
Seychelles	-	89	49	-	19	-	-	-	0	66	-	5	- 78	189
Sierra Leone	-	31	40	-	13	52	-	-	-	-	-	-	-	-
South Africa	- 1 336	4 301	6 676	4 215	3 934	6 632	- 879	10 046	8 541	2 817	1 491	1 600	4 276	821
Swaziland	-	-	-	-	-	-	-	-	-	-	-	6	-	-
Togo	-	-	-	-	-	-	-	-	-	20	-	-	353	- 5
Uganda	-	-	1	-	-	-	-	-	-	-	-	257	-	-
United Republic of Tanzania	-	-	-	2	60	0	18	-	-	-	-	18	-	-
Zambia	4	-	1	11	272	-	6	-	25	-	16	2	-	-
Zimbabwe	-	0	7	6	-	27	- 305	1	- 44	1	-	-	-	-
Asia	65 250	71 423	68 909	38 291	36 873	59 805	29 483	70 792	94 469	94 398	67 310	79 013	85 203	79 782
East and South-East Asia	34 936	43 451	39 968	28 654	26 417	35 513	22 550	28 696	25 270	58 810	40 176	67 609	72 458	69 357
East Asia	25 456	23 390	17 226	15 741	16 972	14 448	12 171	21 163	- 667	39 888	35 851	53 879	54 272	52 833
China	11 298	9 332	5 375	10 898	6 306	11 839	9 995	12 090	- 2 282	37 941	21 490	29 578	36 554	37 111
Hong Kong, China	9 106	7 102	8 707	3 028	12 182	2 177	2 787	8 003	- 7 980	- 1 048	7 461	14 806	12 952	8 016
Korea, Republic of	- 161	46	1 194	1 956	- 2 012	2 526	- 1 648	1 057	8 646	3 882	6 951	9 949	4 520	5 508
Macao, China	413	133	593	- 57	33	34	30	-	-	0	- 580	52	-	10
Mongolia	2	7	-	344	65	88	82	-	-	106	- 24	-	-	-
Taiwan Province of China	4 798	6 770	1 356	- 429	399	- 2 216	925	14	949	- 993	552	- 506	247	2 189
South-East Asia	9 480	20 061	22 743	12 913	9 445	21 065	10 379	7 533	25 936	18 922	4 325	13 730	18 185	16 523
Brunei Darussalam	0	0	-	3	-	-	-	112	-	-	10	-	-	-
Cambodia	9	6	30	- 336	5	50	- 100	-	-	-	-	-	0	-
Indonesia	388	1 706	2 070	1 332	1 672	6 826	483	- 85	826	913	- 2 590	256	409	315
Lao People's Democratic Republic	-	-	-	-	110	6	-	-	-	-	-	-	-	-
Malaysia	2 509	6 976	2 781	354	3 443	4 570	721	2 664	3 654	9 751	3 277	2 432	4 138	9 292
Myanmar	-	- 1	-	- 0	-	-	-	- 1 010	-	-	-	-	-	-
Philippines	- 134	1 165	2 621	1 291	- 270	2 586	411	190	- 2 514	- 174	- 7	19	479	683
Singapore	2 908	7 426	14 240	9 693	3 941	4 947	8 028	5 566	23 916	6 992	2 762	8 233	8 163	770
Thailand	3 771	2 372	142	346	443	954	- 72	88	54	1 416	872	2 731	4 996	5 460
Viet Nam	29	412	859	230	101	1 126	908	8	-	25	-	59	-	3
South Asia	7 883	5 371	12 654	6 094	5 569	13 181	2 637	6 745	29 096	13 488	291	26 682	6 143	2 651
Bangladesh	330	4	-	9	10	-	-	-	-	-	-	1	-	-
India	4 424	4 405	10 427	6 049	5 550	12 886	2 474	6 715	29 083	13 482	291	26 698	6 137	2 650
Iran, Islamic Republic of	-	-	695	-	-	-	16	-	-	-	-	-	-	-
Maldives	-	-	3	-	-	-	-	-	-	-	-	- 3	-	-
Nepal	- 15	-	13	-	-	4	-	-	-	-	-	-	-	-
Pakistan	3 139	956	1 147	-	- 0	247	-	30	-	-	-	- 13	-	-
Sri Lanka	4	6	370	36	9	44	148	-	12	6	-	-	6	1
West Asia	22 431	22 602	16 287	3 543	4 887	11 111	4 295	35 350	40 103	22 099	26 843	- 15 278	6 603	7 775
Bahrain	- 410	190	178	-	452	30	-	4 275	1 002	4 497	323	- 3 362	- 2 695	527
Iraq	-	-	34	-	-	717	224	-	33	-	-	-	-	- 14
Jordan	750	440	773	108	- 103	181	22	4	45	322	-	- 34	37	- 2
Kuwait	13	3 963	496	- 55	463	16	377	1 345	1 416	2 147	124	- 10 810	2 033	376
Lebanon	5 948	- 153	108	-	642	-	317	716	210	- 233	283	0	836	80
Oman	1	621	10	-	386	-	- 714	5	79	601	893	- 529	222	354
Qatar	-	-	124	298	13	28	92	127	5 160	6 029	10 266	590	- 790	4 614
Saudi Arabia	21	125	102	42	164	653	1 029	5 405	15 780	1 442	121	706	107	201
Syrian Arab Republic	-	-	-	-	41	-	-	-	-	-	-	-	-	-
Turkey	15 340	16 415	13 238	2 849	2 053	8 930	2 690	356	767	1 313	-	- 38	908	2 012
United Arab Emirates	53	856	1 225	300	756	556	216	23 117	15 611	5 983	14 831	- 1 803	5 944	- 373
Yemen	716	144	-	-	20	-	44	-	-	-	-	-	-	-
Latin America and the Caribbean	12 768	20 648	15 452	- 4 358	28 414	20 098	21 070	28 064	40 195	2 466	3 740	15 831	18 750	32 647
South America	4 503	13 697	8 121	- 5 342	17 045	15 578	18 571	19 923	13 152	4 765	3 104	12 900	10 321	23 305
Argentina	344	877	- 3 283	111	3 458	- 268	430	160	569	274	- 77	499	102	2 799
Bolivia, Plurinational State of	- 39	- 77	24	-	- 18	-	1	-	-	-	-	-	-	2
Brazil	2 637	6 539	7 568	- 1 369	8 857	15 119	16 359	18 629	10 785	5 243	2 501	8 465	5 541	7 427
Chile	447	1 480	3 234	829	353	514	- 113	431	466	- 88	55	642	628	9 764
Colombia	1 319	4 303	- 57	- 1 633	- 1 255	- 1 216	1 978	697	1 384	16	211	3 210	5 094	3 007
Ecuador	21	29	0	6	357	167	140	-	-	0	-	-	40	-
Guyana	-	3	1	1	-	3	-	-	-	-	-	-	0	3
Paraguay	-	10	4	- 60	- 1	0	-	-	-	-	-	-	-	-
Peru	53	1 135	293	38	687	512	- 67	6	195	679	416	77	171	319
Suriname	-	-	-	-	-	-	3	-	-	-	-	-	-	-
Uruguay	164	157	8	3	448	747	89	-	-	-	-	7	13	0
Venezuela, Bolivarian Republic of	- 443	- 760	329	- 3 268	4 158	-	- 249	-	- 248	- 1 358	- 2	-	- 1 268	- 16
Central America	2 898	4 889	2 899	153	8 854	1 319	571	3 699	17 452	- 1 053	3 434	2 909	4 736	6 214
Belize	-	-	0	-	1	-	60	4	- 43	-	2	-	-	-
Costa Rica	294	- 34	405	-	5	17	120	97	642	-	-	-	-	354
El Salvador	173	835	-	30	43	103	- 1	370	-	-	-	-	-	12
Guatemala	- 2	5	145	-	650	100	- 216	317	140	-	-	-	-	-
Honduras	-	140	-	-	1	23	-	-	-	-	-	-	-	-

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Annex table 3. Value of cross-border M&As, by region/economy of seller/purchaser, 2006–2012 (concluded)
(Millions of dollars)

Region / economy	Net sales[a]							Net purchases[b]						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Mexico	874	3 717	2 304	104	7 990	1 231	330	2 750	18 226	- 463	3 247	2 892	4 274	5 830
Nicaragua	2	-	-	- 1	-	71	0	-	-	-	-	-	-	-
Panama	1 557	226	44	20	164	- 226	278	160	- 1 512	- 591	185	17	462	18
Caribbean	5 367	2 061	4 432	832	2 516	3 201	1 928	4 442	9 592	- 1 245	- 2 799	22	3 693	3 127
Anguilla	-	-	-	-	-	-	-	- 1	-	30	-	- 10	3	-
Antigua and Barbuda	85	1	-	-	-	-	-	-	-	-	-	-	-	-
Aruba	468	-	-	-	-	-	-	-	-	-	-	-	-	-
Bahamas	3 027	-	41	-	82	212	145	- 411	2 693	537	11	112	- 350	228
Barbados	999	1	207	-	328	-	-	-	3	3	-	-	-	-
British Virgin Islands	19	559	980	242	432	631	9	2 900	5 017	- 1 635	- 1 579	- 774	1 476	2 028
Cayman Islands	49	-	969	-	84	- 112	130	1 563	2 047	2 079	- 1 237	743	1 175	909
Dominican Republic	427	42	-	0	1	39	1 264	-	93	- 25	-	31	-	-
Haiti	-	-	-	1	59	-	-	-	-	-	-	-	-	-
Jamaica	67	595	-	-	-	9	-	158	3	13	28	1	-	-
Netherlands Antilles[c]	10	-	-	2	19	235	276	350	-	-	- 30	- 156	52	- 158
Puerto Rico	216	862	-	587	1 037	1 214	88	- 216	- 261	- 2 454	§	77	202	120
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	- 0	-	-
Trinidad and Tobago	-	-	2 236	-	-	973	16	97	- 2	207	- 10	-	- 15	-
Turks and Caicos Islands	-	-	-	-	-	-	-	0	-	-	-	-	-	-
US Virgin Islands	-	-	-	-	473	-	-	-	-	-	4	-	1 150	-
Oceania	- 36	234	- 742	4	9 019	23	- 15	154	275	770	224	- 4	- 35	15
American Samoa	-	-	-	-	-	-	11	-	-	-	-	-	-	- 29
Cook Islands	-	-	-	-	-	-	-	-	-	-	50	-	-	-
Fiji	-	12	2	-	1	-	-	-	-	-	-	-	-	-
French Polynesia	-	-	-	-	-	-	-	-	-	-	1	-	-	44
Guam	72	-	-	-	-	-	-	-	-	-	-	-	-	-
Marshall Islands	-	45	-	-	-	-	-	-	-	-	0	-	- 35	-
Nauru	-	-	-	-	-	-	-	-	-	-	172	-	-	-
New Caledonia	- 100	-	-	-	-	-	-	-	-	-	-	-	-	-
Norfolk Island	-	-	-	-	-	-	-	90	-	-	-	-	-	0
Papua New Guinea	7	160	- 758	0	9 018	5	- 26	-	275	1 051	-	- 4	-	-
Samoa	- 18	3	13	-	-	-	-	64	-	- 324	-	-	-	-
Solomon Islands	-	14	-	-	-	19	-	-	-	-	-	-	-	-
Tuvalu	-	-	-	-	-	-	-	-	-	43	-	-	-	-
Vanuatu	3	-	-	4	-	-	-	-	-	-	-	-	-	-
Transition economies	9 005	30 448	20 337	7 125	4 499	32 815	- 1 569	2 940	21 729	20 167	7 432	5 693	11 692	8 651
South-East Europe	3 942	2 192	767	529	266	1 460	84	- 2 092	1 039	- 4	- 167	325	51	2
Albania	41	164	3	146	-	-	-	-	-	-	-	-	-	-
Bosnia and Herzegovina	79	1 022	2	8	-	-	1	-	-	-	-	-	-	1
Croatia	2 530	674	204	-	201	92	81	3	-	2	8	325	-	-
Montenegro	7	0	-	362	-	-	-	-	4	-	-	-	-	-
Serbia	582	280	501	10	19	1 340	2	- 1 898	860	- 7	- 174	-	51	1
Serbia and Montenegro	419	-	-	3	-	-	-	-	-	-	-	-	-	-
The FYR of Macedonia	280	53	57	-	46	27	-	-	-	-	-	-	-	-
Yugoslavia (former)	5	-	-	-	-	-	-	- 198	175	-	-	-	-	-
CIS	4 949	28 203	19 466	6 581	4 203	31 356	- 1 654	5 032	20 691	20 171	7 599	5 368	11 453	8 649
Armenia	-	423	204	30	-	26	23	-	-	-	-	-	-	0
Azerbaijan	-	-	2	-	0	-	-	-	-	519	-	-	2	598
Belarus	-	2 500	16	-	649	10	-	-	-	-	-	-	-	-
Kazakhstan	- 1 751	727	- 242	1 322	101	293	- 2 350	1 503	1 833	2 047	-	1 462	8 088	- 32
Kyrgyzstan	-	179	-	-	44	72	- 5	-	-	-	-	-	-	-
Moldova, Republic of	10	24	4	-	-	- 9	-	-	-	-	-	-	-	-
Russian Federation	6 319	22 529	13 507	5 079	3 085	29 550	245	3 507	18 598	16 634	7 599	3 866	3 260	7 807
Tajikistan	-	5	-	-	-	14	-	-	-	-	-	-	-	-
Ukraine	261	1 816	5 933	147	322	1 400	434	23	260	972	-	40	103	276
Uzbekistan	110	-	42	4	1	-	-	-	-	-	-	-	-	-
Georgia	115	53	104	14	30	-	1	-	-	-	-	- 0	188	-
Unspecified	-	-	-	-	-	-	-	10 134	14 452	12 486	7 540	16 461	7 110	10 795
Memorandum														
Least developed countries (LDCs)[d]	2 688	584	- 2 552	- 774	2 201	501	354	- 946	- 80	- 261	16	277	353	- 102
Landlocked developing countries[e]	- 1 052	1 357	144	1 708	621	700	- 2 105	1 504	1 814	2 676	- 8	1 727	8 076	394
Small island developing states (SIDS)[f]	4 438	920	1 824	31	9 650	1 223	148	141	3 061	1 803	393	60	- 651	- 16

Source: UNCTAD FDI-TNC-GVC Information System, 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, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, São Tomé and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[e] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, 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, South Sudan, Swaziland, the Republic of Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[f] Small island developing countries include: Antigua and Barbuda, the Bahamas, Barbados, Cape Verde, the 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, 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 per cent.

Annex table 4. Value of cross-border M&As, by sector/industry, 2006–2012
(Millions of dollars)

Sector/industry	Net sales[a]							Net purchases[b]						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
Total	625 320	1 022 725	706 543	249 732	344 029	555 173	308 055	625 320	1 022 725	706 543	249 732	344 029	555 173	308 055
Primary	43 093	74 013	90 201	48 092	76 475	136 808	46 691	32 650	95 021	53 131	29 097	61 717	79 429	11 314
Agriculture, hunting, forestry and fisheries	- 152	2 422	2 898	1 033	5 576	1 808	7 886	2 856	887	4 240	1 476	514	- 8	- 1 251
Mining, quarrying and petroleum	43 245	71 591	87 303	47 059	70 899	135 000	38 805	29 794	94 134	48 891	27 622	61 203	79 437	12 564
Manufacturing	212 998	336 584	326 114	76 080	131 843	204 624	136 960	163 847	218 661	244 667	37 632	121 031	225 591	143 166
Food, beverages and tobacco	6 736	49 950	131 855	9 636	37 911	45 452	32 446	3 124	36 280	54 667	- 804	33 964	31 590	35 171
Textiles, clothing and leather	1 799	8 494	2 112	410	976	2 130	3 761	809	- 1 220	- 189	537	3 708	2 691	2 477
Wood and wood products	1 922	5 568	3 166	821	- 248	2 406	4 636	1 660	4 728	- 251	536	8 457	3 685	3 555
Publishing and printing	24 386	5 543	4 658	66	4 977	1 866	8	7 783	843	8 228	- 130	519	3 119	4 164
Coke, petroleum products and nuclear fuel	2 005	2 663	3 086	2 214	2 584	- 704	- 120	5 429	7 691	- 3 244	- 1 096	- 6 967	- 1 930	- 3 770
Chemicals and chemical products	48 035	116 736	73 563	32 559	31 774	76 616	33 822	35 192	89 397	71 293	28 861	43 987	88 908	43 287
Rubber and plastic products	6 577	7 281	1 200	15	5 974	2 341	2 078	5 409	658	- 235	- 197	169	1 369	566
Non-metallic mineral products	6 166	37 800	28 944	118	3 575	1 522	2 323	6 370	16 613	23 053	- 260	4 766	1 332	755
Metals and metal products	46 312	69 740	14 215	- 2 953	2 668	7 082	11 537	47 613	44 241	20 695	1 433	2 777	19 811	9 798
Machinery and equipment	17 664	20 108	15 060	2 431	7 933	14 865	15 091	14 890	- 37 504	7 868	2 635	6 027	14 539	12 447
Electrical and electronic equipment	35 305	24 483	14 151	17 763	13 592	27 392	21 874	27 908	33 644	32 401	1 880	6 096	29 928	18 838
Precision instruments	7 064	- 17 184	23 059	4 105	12 121	11 343	6 701	9 118	19 339	19 176	4 428	10 180	17 098	10 233
Motor vehicles and other transport equipment	7 475	3 099	11 608	8 753	7 437	5 370	2 440	- 2 031	3 795	10 254	- 480	6 808	10 946	4 898
Other manufacturing	1 552	2 305	- 565	141	570	6 945	362	574	158	951	290	539	2 505	746
Services	369 228	612 128	290 228	125 561	135 711	213 741	124 404	428 822	709 043	408 746	183 003	161 282	250 154	153 575
Electricity, gas and water	1 402	103 005	48 969	61 627	- 1 577	26 227	14 102	- 18 197	50 150	25 270	47 613	- 18 352	14 248	337
Construction	9 955	12 994	2 452	10 391	7 034	1 857	861	3 372	10 222	- 5 220	- 1 704	- 1 361	- 1 506	2 597
Trade	11 512	41 307	17 458	3 658	14 042	20 991	14 041	4 241	7 422	19 766	3 360	8 410	6 643	21 629
Hotels and restaurants	14 476	9 438	3 499	1 422	5 367	4 220	1 613	- 164	- 8 357	3 702	673	988	684	- 1 848
Transport, storage and communications	113 915	66 328	34 325	15 912	15 345	34 888	24 390	87 466	45 574	48 088	12 187	14 629	25 179	12 030
Finance	107 951	249 314	73 630	9 535	31 285	38 425	16 174	316 920	548 901	311 409	110 555	126 066	165 490	106 729
Business services	80 978	102 231	100 701	17 167	45 591	56 416	36 464	47 087	50 893	57 088	17 652	27 104	33 066	21 059
Public administration and defense	- 111	29	30	110	63	604	- 97	- 15 477	- 17 058	- 46 337	- 8 202	- 1 293	- 159	- 2 271
Education	- 429	860	1 048	559	1 676	857	524	122	42	155	51	111	386	317
Health and social services	10 624	8 140	2 222	1 123	9 238	3 391	5 388	506	9 493	- 176	40	3 824	656	890
Community, social and personal service activities	17 060	15 625	1 002	3 434	5 566	6 935	11 574	1 798	9 263	- 5 270	87	7 009	1 430	- 47
Other services	1 896	2 856	4 893	624	2 080	18 929	- 630	1 148	2 497	270	692	- 5 853	4 037	- 7 847

Source: UNCTAD FDI-TNC-GVC Information System, 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 per cent.

Annex table 5. Cross-border M&A deals worth over $3 billion completed in 2012

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	12.9	International Power PLC	United Kingdom	Electric services	Electrabel SA	Belgium	Electric services	41
2	11.9	Pfizer Nutrition	United States	Dry, condensed, and evaporated dairy products	Nestle SA	Switzerland	Chocolate and cocoa products	100
3	11.5	Cooper Industries PLC	Ireland	Current-carrying wiring devices	Eaton Corp	United States	Fluid power cylinders and actuators	100
4	8.9	ING Direct USA	United States	Functions related to depository banking, nec	Capital One Financial Corp	United States	National commercial banks	100
5	8.3	Tyco International Ltd	United States	Security systems services	Shareholders	United States	Investors, nec	100
6	6.7	Alliance Boots GmbH	Switzerland	Drug stores and proprietary stores	Walgreen Co	United States	Drug stores and proprietary stores	45
7	6.6	Cequel Communications LLC	United States	Cable and other pay television services	Investor Group	Canada	Investors, nec	100
8	6.1	Viterra Inc	Canada	Crop harvesting, primarily by machine	Glencore International PLC	Switzerland	Metals service centers and offices	100
9	6.0	Actavis Group	Switzerland	Pharmaceutical preparations	Watson Pharmaceuticals Inc	United States	Pharmaceutical preparations	100
10	5.6	Ageas NV	Netherlands	Life insurance	Ageas SA/NV	Belgium	Life insurance	100
11	5.6	BP PLC	United States	Oil and gas field exploration services	Plains Exploration & Production Co	United States	Crude petroleum and natural gas	100
12	5.4	Progress Energy Resources Corp	Canada	Crude petroleum and natural gas	Petronas Carigali Canada Ltd	Canada	Crude petroleum and natural gas	100
13	5.2	De Beers SA	Luxembourg	Miscellaneous nonmetallic minerals, except fuels	Anglo American PLC	United Kingdom	Gold ores	40
14	5.2	OAO "MegaFon"	Russian Federation	Radiotelephone communications	Investor Group	Cyprus	Investors, nec	25
15	5.1	Annington Homes Ltd	United Kingdom	Operators of apartment buildings	Terra Firma Capital Partners Ltd	United Kingdom	Investors, nec	100
16	5.0	NDS Group Ltd	United Kingdom	Prepackaged Software	Cisco Systems Inc	United States	Computer peripheral equipment, nec	100
17	5.0	Exxon Mobil	Japan	Petroleum and petroleum products wholesalers, nec	TonenGeneral Sekiyu KK	Japan	Petroleum refining	99
18	4.9	Tyco Flow Control	United States	Industrial valves	Pentair Inc	United States	Service industry machines, nec	100
19	4.8	Viviti Technologies Ltd	United States	Computer storage devices	Western Digital Corp	United States	Computer storage devices	100
20	4.8	Petrogal Brasil Ltda	Brazil	Crude petroleum and natural gas	Sinopec International Petroleum Exploration & Production Corp	China	Investors, nec	30
21	4.5	Ariba Inc	United States	Prepackaged Software	SAP America Inc	United States	Prepackaged Software	100
22	4.3	Asia Pacific Breweries Ltd	Singapore	Malt beverages	Heineken International BV	Netherlands	Malt beverages	40
23	4.1	Open Grid Europe GmbH	Germany	Natural gas transmission	Investor Group	Canada	Investors, nec	100
24	3.9	Thomas & Betts Corp	United States	Current-carrying wiring devices	ABB Ltd	Switzerland	Switchgear,switchboard equip	100
25	3.9	Denizbank AS	Turkey	Banks	OAO "Sberbank Rossii"	Russian Federation	Banks	100
26	3.8	VimpelCom Ltd	Netherlands	Radiotelephone communications	Altimo Cooperatief UA	Netherlands	Investors, nec	16
27	3.7	Inoxum AG	Germany	Steel works, blast furnaces, and rolling mills	Outokumpu Oyj	Finland	Steel works, blast furnaces, and rolling mills	100
28	3.7	Goodman Global Group Inc	United States	Heating equipment	Daikin Industries Ltd	Japan	Refrigeration and heating equipment	100
29	3.7	Lincare Holdings Inc	United States	Home health care services	Linde AG	Germany	Industrial gases	100
30	3.7	SuccessFactors Inc	United States	Prepackaged Software	SAP America Inc	United States	Prepackaged Software	100
31	3.5	Starbev Management Services	Czech Republic	Malt beverages	Molson Coors Brewing Co	United States	Malt beverages	100
32	3.5	Energias de Portugal SA	Portugal	Electric services	China Three Gorges International (Europe) SA	Luxembourg	Investors, nec	21
33	3.5	Korea Exchange Bank	Korea, Republic of	Banks	Hana Financial Group Inc	Korea, Republic of	Banks	51
34	3.5	RBC Bank	United States	National commercial banks	PNC Financial Services Group Inc	United States	National commercial banks	100
35	3.5	Milton Roy Co	United States	Measuring and dispensing pumps	Hamilton Sundstrand Corp SPV	United Kingdom	Investment offices, nec	100
36	3.4	TAM SA	Brazil	Air transportation, scheduled	LAN Airlines SA	Chile	Air transportation, scheduled	100
37	3.4	Koninklijke KPN NV	Netherlands	Telephone communications, except radiotelephone	AMOV Europa BV	Netherlands	Investment offices, nec	23
38	3.3	Quadra FNX Mining Ltd	Canada	Copper ores	KGHM Polska Miedz SA	Poland	Copper ores	100
39	3.3	Roy Hill Holdings Pty Ltd	Australia	Iron ores	Investor Group	Korea, Republic of	Investors, nec	25
40	3.3	OAO "Telekominvest"	Russian Federation	Radiotelephone communications	AF Telecom Holding	Cyprus	Investors, nec	26
41	3.2	Forsakrings AB Skandia	Sweden	Life insurance	Livforsakrings AB Skandia	Sweden	Life insurance	100
42	3.2	JPLSPE Empreendimentos e Participacoes SA	Brazil	Hospital and medical service plans	UnitedHealth Group Inc	United States	Hospital and medical service plans	86
43	3.2	ING Bank of Canada	Canada	Banks	Bank of Nova Scotia	Canada	Security brokers, dealers, and flotation companies	100
44	3.1	Logica PLC	United Kingdom	Prepackaged Software	CGI Holdings Europe Ltd	United Kingdom	Investors, nec	100
45	3.1	Medicis Pharmaceutical Corp	United States	Pharmaceutical preparations	Valeant Pharmaceuticals International Inc	Canada	Pharmaceutical preparations	100
46	3.0	MGN Gas Networks(UK)Ltd	United Kingdom	Natural gas transmission	Investor Group	Hong Kong, China	Investors, nec	100
47	3.0	Karachaganak Petroleum Operating BV	Kazakhstan	Crude petroleum and natural gas	AO Natsionalnaya Kompaniya "KazMunaiGaz"	Kazakhstan	Crude petroleum and natural gas	10

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

[a] The economy wher ethe immediate acquired/immediate acquiring compnay is located.

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 6. Value of greenfield FDI projects, by source/destination, 2006–2012
(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
	By source							By destination						
World	910 601	943 950	1 582 134	1 041 927	901 152	913 828	612 155	910 601	943 950	1 582 134	1 041 927	901 152	913 828	612 155
Developed countries	658 289	662 006	1 118 178	749 530	641 353	643 354	404 307	331 020	320 810	462 741	318 200	301 090	294 560	225 537
Europe	370 912	430 235	651 104	452 067	387 271	361 926	224 284	227 933	230 679	338 580	200 112	169 504	173 498	129 606
European Union	342 134	390 319	600 407	418 898	355 494	334 108	207 933	224 048	224 928	328 669	194 062	162 855	169 645	126 467
Austria	18 330	14 783	24 293	10 057	9 309	8 307	4 458	2 096	3 144	3 028	1 717	2 289	4 134	1 579
Belgium	3 854	7 332	14 360	8 872	5 736	5 912	3 685	4 936	10 346	10 797	3 796	6 067	3 351	2 635
Bulgaria	84	81	286	30	147	121	81	19 326	7 695	11 422	4 780	4 780	5 300	2 756
Cyprus	368	393	249	856	543	4 379	1 562	390	465	629	249	720	385	204
Czech Republic	1 599	5 158	4 615	1 729	2 298	2 109	2 184	7 644	7 491	5 684	4 575	7 733	4 909	2 706
Denmark	4 575	7 327	14 861	10 172	4 521	8 150	6 629	1 697	2 001	1 968	2 195	457	794	850
Estonia	1 131	2 654	556	188	1 088	352	182	954	840	1 481	1 260	947	883	997
Finland	9 831	13 189	11 071	3 628	4 351	5 878	4 776	1 797	1 269	2 415	1 208	1 698	2 223	1 016
France	50 275	57 531	92 471	65 976	52 028	49 563	27 272	18 436	19 367	24 114	11 367	9 104	10 515	7 017
Germany	74 440	79 114	104 663	75 703	71 923	71 319	49 479	15 509	18 562	36 871	19 976	17 081	17 854	8 477
Greece	2 309	1 700	4 416	1 802	1 300	1 450	1 573	1 706	5 096	5 278	2 090	1 123	2 377	1 553
Hungary	1 067	2 914	4 956	3 389	431	1 245	1 055	8 784	9 550	9 031	3 739	7 541	3 213	2 502
Ireland	9 655	7 728	18 768	14 322	5 743	4 696	5 641	6 575	4 679	8 215	4 932	4 453	6 973	5 022
Italy	16 338	23 086	43 827	29 799	23 628	23 269	21 387	11 710	11 760	14 511	10 501	11 365	5 692	4 013
Latvia	1 001	284	660	761	821	279	75	3 209	717	2 550	828	965	717	1 042
Lithuania	3 387	303	723	305	252	158	640	1 306	1 485	1 518	1 232	1 558	7 285	1 222
Luxembourg	11 847	11 466	14 029	10 837	7 398	9 418	5 699	228	695	431	759	731	290	270
Malta	7	68	212	773	12	566	68	852	299	395	467	300	174	269
Netherlands	34 144	25 810	40 875	32 805	19 565	17 602	9 149	4 942	5 840	9 438	9 459	10 966	5 604	4 026
Poland	1 292	3 052	2 726	1 246	2 238	833	1 408	15 651	22 767	34 074	14 085	11 437	12 490	11 533
Portugal	1 816	4 522	11 159	7 180	5 015	2 120	2 035	4 381	7 198	7 763	4 932	2 665	1 732	1 102
Romania	152	108	4 257	131	708	129	127	19 139	21 942	31 458	15 019	7 764	16 156	9 888
Slovakia	296	474	135	393	1 314	277	356	11 557	5 485	3 350	5 382	4 239	5 664	1 420
Slovenia	1 811	683	1 658	586	536	346	335	657	1 037	612	282	748	692	469
Spain	21 752	32 198	48 452	41 694	40 333	29 352	17 379	21 153	23 529	31 572	15 984	16 371	11 386	11 367
Sweden	12 159	11 875	21 448	15 502	14 925	13 819	5 694	7 037	4 372	2 930	2 827	2 364	3 160	1 354
United Kingdom	58 613	76 486	114 683	80 163	79 329	72 459	35 005	32 377	27 293	67 135	50 423	27 389	35 689	41 177
Other developed Europe	28 778	39 916	50 697	33 169	31 777	27 818	16 351	3 885	5 751	9 911	6 050	6 649	3 853	3 139
Iceland	3 980	1 545	568	123	633	433	39	186	53	1 077	-	705	203	136
Liechtenstein	101	74	110	136	111	133	92	-	131	8	-	9	-	-
Norway	4 437	10 792	12 061	10 619	5 433	6 660	3 404	915	794	3 200	2 334	2 243	830	583
Switzerland	20 256	27 499	37 930	22 227	25 407	20 326	12 700	2 747	4 703	5 391	3 654	3 655	2 698	2 382
North America	173 568	156 166	317 911	203 053	166 591	185 329	121 746	54 160	56 906	79 928	85 957	82 067	99 981	71 190
Canada	15 351	16 651	50 513	30 930	20 006	28 507	18 940	15 507	8 630	15 763	14 084	18 951	27 256	8 422
United States	158 217	139 514	267 398	172 123	146 585	156 822	102 806	38 653	48 277	64 164	71 873	63 116	72 725	62 768
Other developed countries	113 808	75 605	149 164	94 410	87 492	96 098	58 277	48 927	33 225	44 233	32 131	49 519	21 082	24 741
Australia	17 168	17 191	31 952	18 421	12 441	14 486	10 449	39 143	22 814	30 062	19 990	41 246	12 248	16 488
Bermuda	1 166	3 937	3 440	8 108	1 573	1 198	844	23	15	-	1	165	6	14
Greenland	-	214	35	-	-	-	-	-	-	-	-	457	-	-
Israel	10 250	4 347	14 526	2 755	6 655	3 408	2 754	914	457	853	3 333	856	696	1 692
Japan	84 553	49 378	98 600	64 123	65 962	75 922	42 725	7 085	7 768	11 287	8 240	6 407	6 165	5 235
New Zealand	671	537	611	1 004	860	1 085	1 504	1 762	2 171	2 030	568	388	1 967	1 312
Developing economies	232 156	257 314	432 298	273 131	238 178	252 483	197 806	529 356	542 680	994 787	665 340	544 258	559 722	346 088
Africa	7 347	8 664	16 487	15 386	16 689	35 428	7 447	85 564	92 685	223 645	95 274	88 946	82 939	46 985
North Africa	3 799	4 439	7 109	2 396	3 295	746	2 735	50 554	53 701	107 057	41 499	26 542	13 750	15 673
Algeria	30	60	2 522	16	-	130	200	10 020	12 571	21 507	2 380	1 716	1 204	2 370
Egypt	3 534	3 680	3 498	1 828	3 190	76	2 523	11 677	13 480	20 456	20 678	14 161	6 247	10 205
Libya	-	-	-	19	-	-	-	20 992	4 061	23 056	1 689	1 858	49	98
Morocco	81	50	619	393	58	87	12	5 514	5 113	18 925	6 189	4 217	4 354	1 125
South Sudan	-	-	-	-	-	-	-	578	19	1 181	54	139	235	382
Sudan	9	42	-	-	-	432	-	639	-	1 612	2 025	2 440	58	66
Tunisia	144	609	471	140	47	21	-	1 132	18 458	20 321	8 484	2 010	1 602	1 426
Other Africa	3 548	4 225	9 377	12 990	13 394	34 682	4 712	35 011	38 984	116 588	53 774	62 405	69 189	31 312
Angola	-	39	78	15	494	-	362	2 676	8 138	11 204	5 542	1 148	312	3 031
Benin	-	-	-	-	-	-	-	-	-	9	-	14	46	17
Botswana	108	-	-	11	9	138	70	909	344	2 220	349	660	492	148
Burkina Faso	-	-	-	-	-	-	-	-	9	281	272	479	165	1
Burundi	-	-	-	-	-	-	12	-	-	19	47	25	41	19
Cameroon	-	-	-	19	-	-	-	799	2 460	351	1 155	5 289	4 272	566
Cape Verde	-	-	-	-	-	-	-	-	9	128	-	38	62	-
Central African Republic	-	-	-	-	-	-	-	-	361	-	-	-	-	59
Chad	-	-	-	-	-	-	-	-	-	1 819	402	-	135	101
Comoros	-	-	-	-	-	-	-	-	9	9	-	-	7	138
Congo	-	-	-	-	-	-	-	-	198	9	1 281	-	37	119
Congo, Democratic Republic of	-	-	161	-	7	-	-	1 880	1 238	3 294	43	1 238	2 242	517
Côte d' Ivoire	9	-	13	10	19	-	48	359	71	372	131	261	937	1 038
Djibouti	-	-	-	-	-	-	-	521	5	1 555	1 245	1 255	-	25
Equatorial Guinea	-	-	-	-	-	-	-	110	-	6	3 119	9	1 881	2
Eritrea	-	-	3	-	-	-	-	30	-	-	-	-	-	-
Ethiopia	-	-	18	12	-	-	54	1 508	2 389	762	321	290	630	441
Gabon	-	-	-	-	-	9	-	1 727	328	5 118	927	1 231	219	267
Gambia	-	-	-	-	-	-	-	83	9	31	31	405	26	200
Ghana	-	-	-	7	15	51	51	1 240	129	4 918	7 059	2 661	6 431	1 319
Guinea	-	-	-	-	-	-	-	304	-	-	61	1 411	548	33
Guinea-Bissau	-	-	-	-	-	-	-	-	361	-	19	-	-	-

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Annex table 6. Value of greenfield FDI projects, by source/destination, 2006–2012 (continued)
(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
	By source							By destination						
Kenya	82	198	616	314	3 920	421	835	174	332	549	3 716	1 382	2 855	988
Lesotho	-	-	-	-	-	-	-	-	51	16	28	51	710	10
Liberia	-	-	-	-	-	-	-	-	-	2 600	821	4 591	287	53
Madagascar	27	-	-	-	-	-	-	246	3 335	1 325	365	-	140	363
Malawi	-	-	9	9	-	-	2	-	-	19	713	314	454	24
Mali	-	-	19	10	19	9	-	399	-	172	59	13	0	794
Mauritania	-	-	-	-	-	-	9	579	37	272	-	59	279	361
Mauritius	-	38	307	1 809	2 642	3 287	149	15	481	317	147	71	1 749	142
Mozambique	-	-	-	-	-	-	59	637	2 100	12 100	1 539	3 278	9 971	3 456
Namibia	23	-	23	-	-	-	18	32	473	1 907	1 519	390	832	777
Niger	-	-	-	-	-	-	-	1	-	3 319	-	100	277	-
Nigeria	465	190	2 517	659	1 020	1 046	723	11 074	4 213	36 134	7 978	14 080	4 543	4 142
Reunion	-	-	-	-	-	-	-	13	-	-	-	-	-	-
Rwanda	-	-	-	26	-	-	19	-	283	252	312	1 839	779	110
São Tomé and Principe	-	-	-	-	-	-	-	-	2	351	-	-	-	-
Senegal	-	-	-	-	-	10	8	1 262	3 008	1 281	548	883	69	1 238
Seychelles	-	-	-	-	-	-	-	-	1 425	130	1	121	9	43
Sierra Leone	-	-	-	-	-	-	-	280	-	73	260	230	212	119
Somalia	-	-	-	-	-	-	-	351	-	361	-	59	-	44
South Africa	2 834	3 693	4 841	9 820	5 146	29 469	2 082	5 085	5 247	13 533	7 695	6 819	12 413	4 571
Swaziland	-	-	-	-	-	-	-	-	-	23	12	-	646	7
Togo	-	49	94	142	34	214	19	323	351	146	26	-	-	411
Uganda	-	9	40	28	9	-	-	373	291	3 057	2 147	8 505	2 476	569
United Republic of Tanzania	-	9	9	57	49	27	24	294	317	2 492	623	1 077	3 806	1 137
Zambia	-	-	-	9	-	-	168	1 596	422	3 076	2 375	1 376	2 366	840
Zimbabwe	-	-	629	34	10	-	-	133	557	979	889	754	5 834	3 074
Asia	215 064	235 131	392 100	239 783	199 738	195 931	181 285	377 555	378 625	619 265	447 345	332 917	334 965	232 111
East and South-East Asia	92 053	142 728	168 043	126 896	143 088	115 133	118 476	208 426	264 209	338 093	264 779	212 668	206 049	147 608
East Asia	65 095	95 299	114 596	86 457	106 884	86 154	79 535	143 634	134 634	155 649	135 605	118 130	119 965	93 125
China	17 490	32 765	51 477	26 496	32 892	40 148	19 052	127 284	110 398	130 518	116 828	97 243	100 676	73 833
Hong Kong, China	12 390	19 814	16 986	17 468	8 238	13 036	12 034	5 168	4 742	7 164	9 073	8 217	7 127	7 950
Korea, Democratic People's Republic of	-	-	-	-	-	-	-	236	560	533	228	-	59	-
Korea, Republic of	24 935	25 928	34 753	30 619	37 457	20 846	38 724	7 314	9 108	11 828	4 583	3 601	7 087	6 279
Macao, China	-	-	2	-	-	-	-	126	4 899	909	310	282	430	2 382
Mongolia	-	-	-	-	150	-	-	216	448	330	302	1 608	183	122
Taiwan Province of China	10 280	16 792	11 377	11 875	28 147	12 124	9 726	3 291	4 477	4 367	4 280	7 179	4 403	2 558
South-East Asia	26 958	47 430	53 447	40 438	36 203	28 979	38 941	64 792	129 575	182 444	129 174	94 538	86 083	54 483
Brunei Darussalam	-	-	77	-	-	2	-	-	722	435	470	156	5 969	77
Cambodia	-	-	51	149	-	-	-	1 240	261	3 581	3 895	1 759	2 365	1 625
Indonesia	800	1 824	393	1 043	415	5 037	734	14 351	20 512	41 929	31 271	13 740	24 152	16 764
Lao People's Democratic Republic	-	-	192	-	-	-	-	567	1 371	1 151	2 118	335	980	589
Malaysia	5 806	26 806	19 988	14 904	21 319	4 140	18 422	5 242	10 318	24 057	13 753	15 541	13 694	6 827
Myanmar	-	20	-	-	-	84	-	299	1 378	1 434	1 889	449	712	1 920
Philippines	367	1 541	563	1 410	1 790	324	629	5 322	19 509	15 800	9 719	4 645	2 902	4 263
Singapore	12 125	13 432	21 444	12 985	8 631	13 308	16 537	14 160	24 944	13 995	12 940	16 992	20 554	9 838
Thailand	3 092	3 159	7 936	8 298	3 128	4 443	2 413	5 592	7 427	15 122	7 678	8 641	4 121	6 203
Timor-Leste	-	-	-	-	-	-	-	-	-	-	-	1 000	-	116
Viet Nam	4 768	647	2 804	1 651	920	1 643	205	18 018	43 133	64 942	45 442	31 280	10 634	6 259
South Asia	33 949	31 856	43 644	30 196	21 115	35 627	27 714	84 812	58 632	96 044	77 147	62 919	58 669	39 525
Afghanistan	5	-	-	-	-	8	6	36	6	269	2 978	634	305	245
Bangladesh	56	-	72	37	103	109	144	703	53	860	645	2 720	490	2 361
Bhutan	-	-	-	-	-	-	-	74	-	-	135	83	86	39
India	31 636	25 649	40 792	24 308	20 250	34 655	24 884	76 798	44 445	79 090	57 170	51 977	48 921	30 947
Iran, Islamic Republic of	889	6 137	1 531	5 743	535	515	1 578	1 100	8 217	6 911	9 133	3 034	1 812	-
Maldives	-	-	-	-	-	-	-	1 029	206	462	453	2 162	1 012	329
Nepal	-	-	2	-	6	31	125	110	3	740	295	340	128	-
Pakistan	130	40	1 220	42	153	227	106	4 086	5 049	6 390	3 955	1 255	2 399	4 315
Sri Lanka	1 234	29	27	66	68	82	871	875	652	1 323	2 383	714	3 517	1 290
West Asia	89 061	60 547	180 414	82 691	35 535	45 171	35 095	84 317	55 785	185 128	105 419	57 329	70 248	44 978
Bahrain	21 934	8 995	20 987	14 740	1 070	912	1 145	5 911	820	8 050	2 036	1 997	3 931	3 535
Iraq	-	42	-	20	-	48	-	8 334	474	23 982	12 849	5 486	10 597	976
Jordan	164	244	2 627	1 650	591	52	1 037	4 770	1 250	12 882	2 506	2 824	3 250	1 713
Kuwait	17 519	2 936	16 108	4 585	2 850	4 502	1 331	1 922	373	2 256	987	673	494	1 051
Lebanon	5 493	596	6 706	639	246	301	393	2 060	428	1 292	1 772	1 336	531	201
Oman	-	87	84	3 110	39	165	101	3 209	1 794	10 954	5 608	4 255	8 043	4 970
Palestinian Territory	300	-	-	-	-	-	15	76	52	1 050	16	15	-	-
Qatar	1 682	972	10 072	13 663	2 891	13 044	8 749	5 395	1 368	19 021	21 519	5 434	4 362	2 172
Saudi Arabia	5 717	2 089	13 980	6 105	1 441	5 027	2 389	20 205	14 630	42 318	14 860	10 339	15 766	8 390
Syrian Arab Republic	-	-	326	59	-	193	0	2 535	1 854	6 052	3 379	2 165	1 315	10
Turkey	1 941	2 399	4 464	4 068	4 031	4 975	3 216	14 242	14 655	17 120	23 859	8 917	10 323	9 540
United Arab Emirates	34 312	42 187	105 010	34 053	22 374	15 954	16 711	15 327	17 740	36 218	15 067	12 869	11 623	12 053
Yemen	-	-	49	-	2	-	9	332	347	3 933	961	1 019	11	366
Latin America and the Caribbean	9 128	13 519	23 636	17 942	21 736	20 773	9 074	65 652	67 137	145 581	120 542	120 116	138 531	65 728
South America	7 103	9 906	20 896	14 540	18 692	10 517	6 555	42 334	43 214	97 209	83 909	92 510	104 518	50 010
Argentina	918	625	470	1 118	1 284	905	1 369	4 665	6 402	7 193	9 217	7 112	12 000	6 004
Bolivia, Plurinational State of	-	-	-	-	-	-	-	2 444	1 449	789	1 947	797	305	10
Brazil	3 632	5 772	15 773	10 236	10 413	4 613	3 186	15 459	18 976	48 278	40 304	44 010	62 950	26 373
Chile	476	2 239	855	1 758	2 564	1 578	1 013	3 375	3 093	9 360	12 888	8 374	13 814	10 233
Colombia	53	139	500	102	3 390	1 020	884	2 458	3 982	9 781	2 945	10 614	8 616	2 848

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Annex table 6. Value of greenfield FDI projects, by source/destination, 2006–2012 (concluded)
(Millions of dollars)

Partner region/economy	World as destination							World as source						
	2006	2007	2008	2009	2010	2011	2012	2006	2007	2008	2009	2010	2011	2012
	By source							By destination						
Ecuador	34	89	67	330	166	60	38	1 065	518	511	348	132	648	603
Guyana	-	-	-	-	-	-	-	412	10	1 000	12	160	15	302
Paraguay	-	-	-	-	-	-	-	-	607	378	83	3 873	108	287
Peru	8	315	17	108	25	380	12	6 908	2 974	11 259	14 331	11 956	4 074	2 184
Suriname	-	-	-	-	-	-	-	-	-	101	-	-	384	34
Uruguay	-	25	3	49	3	5	-	2 413	2 910	4 381	504	750	1 030	720
Venezuela, Bolivarian Republic of	1 983	701	3 211	840	847	1 956	53	3 135	2 293	4 179	1 331	4 732	574	413
Central America	1 757	2 880	1 196	2 459	2 869	9 820	2 196	19 231	21 405	41 333	32 910	19 895	25 567	13 289
Belize	-	-	-	-	-	5	-	-	-	-	3	5	-	43
Costa Rica	-	95	6	45	63	11	1	796	2 157	582	2 427	1 981	3 364	476
El Salvador	-	102	-	281	147	20	-	765	356	562	716	276	462	4
Guatemala	-	79	58	131	86	125	43	67	979	905	1 330	963	209	53
Honduras	57	61	-	-	-	-	-	59	951	1 089	126	226	551	43
Mexico	1 682	2 444	990	1 923	2 101	9 498	2 147	16 863	13 652	34 896	25 040	14 679	18 694	11 838
Nicaragua	-	54	67	-	251	-	-	163	62	185	877	280	274	135
Panama	18	47	75	80	220	161	5	518	3 249	3 114	2 391	1 485	2 013	697
Caribbean	267	733	1 544	944	175	436	323	4 088	2 519	7 039	3 723	7 712	8 445	2 429
Antigua and Barbuda	-	-	-	-	-	-	-	-	-	82	-	-	-	-
Aruba	-	-	-	-	-	-	-	-	-	64	-	6	25	70
Bahamas	5	19	18	42	-	2	7	-	18	61	5	64	333	24
Barbados	-	2	-	-	5	26	19	-	-	-	29	137	303	16
Cayman Islands	57	166	554	853	52	243	297	66	36	326	104	253	349	351
Cuba	-	-	77	-	-	21	-	450	127	2 703	1 015	6 067	465	223
Dominican Republic	-	498	-	30	25	-	-	827	749	2 044	1 399	330	5 143	584
Grenada	-	-	-	-	-	-	-	-	3	-	-	5	5	-
Guadeloupe	-	-	-	-	-	-	-	25	-	267	-	-	25	-
Haiti	-	-	-	-	9	-	-	164	-	2	110	59	376	2
Jamaica	205	2	889	17	33	127	-	369	29	317	41	23	491	27
Martinique	-	-	-	-	13	-	-	25	35	-	6	-	-	23
Puerto Rico	-	20	6	4	36	18	-	621	713	739	716	570	752	926
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	-	-	64
Saint Lucia	-	-	-	-	-	-	-	-	12	-	3	144	64	-
Trinidad and Tobago	1	26	-	-	3	-	-	1 542	797	372	296	22	114	119
Turks and Caicos Islands	-	-	-	-	-	-	-	-	-	64	-	34	-	-
Oceania	618	-	76	20	16	351	-	584	4 234	6 296	2 179	2 279	3 287	1 265
Fiji	-	-	-	2	8	-	-	228	206	117	339	-	179	41
French Polynesia	-	-	-	10	-	-	-	-	-	-	-	108	-	-
Micronesia, Federated States of	18	-	-	-	-	-	-	98	-	-	-	-	-	156
New Caledonia	-	-	-	-	-	202	-	-	3 800	3 200	22	-	8	-
Papua New Guinea	-	-	73	-	8	149	-	259	228	2 438	1 786	1 944	3 050	1 068
Samoa	600	-	2	-	-	-	-	-	-	500	-	-	-	-
Solomon Islands	-	-	-	8	-	-	-	-	-	42	32	228	51	-
Transition economies	20 157	24 630	31 658	19 267	21 621	17 991	10 042	50 225	80 460	124 606	58 388	55 805	59 546	40 529
South-East Europe	486	2 940	3 920	472	1 556	307	256	8 662	14 294	21 362	8 178	7 638	9 260	8 708
Albania	-	-	-	-	105	-	-	2 346	4 454	3 505	124	68	525	288
Bosnia and Herzegovina	-	-	7	-	16	2	8	643	2 623	1 993	1 368	283	1 253	1 287
Croatia	314	2 909	3 261	146	1 071	105	174	600	1 795	3 194	1 707	2 397	1 798	1 141
Montenegro	-	-	-	-	7	-	-	344	1 794	851	120	380	436	355
Serbia	173	31	651	314	356	150	74	3 270	3 131	9 197	4 095	4 040	4 292	4 459
The FYR of Macedonia	-	-	-	12	1	49	-	1 460	497	2 622	763	470	956	1 179
CIS	19 670	21 690	27 657	18 746	20 009	17 509	9 501	40 584	64 832	100 429	45 811	47 149	48 306	31 397
Armenia	2	-	51	-	9	83	171	366	2 134	690	1 003	265	805	434
Azerbaijan	75	4 307	1 223	3 779	580	435	3 246	953	1 999	2 921	1 939	711	1 289	1 573
Belarus	157	76	1 323	391	2 091	127	91	923	487	2 477	1 134	1 888	1 268	787
Kazakhstan	230	109	411	706	636	383	138	4 176	4 251	20 344	1 949	2 536	7 816	1 191
Kyrgyzstan	-	-	60	30	-	-	-	81	3 362	539	50	-	358	83
Moldova, Republic of	-	-	557	-	-	0	-	130	162	163	488	301	320	118
Russian Federation	16 134	15 357	21 295	13 055	15 476	15 527	4 900	28 194	42 858	60 308	31 268	34 519	22 795	18 537
Tajikistan	-	-	82	10	-	-	-	43	327	226	570	3	1 076	669
Turkmenistan	-	-	-	-	-	-	-	11	1 051	3 974	1 433	458	1 926	8
Ukraine	3 073	1 842	2 656	776	1 218	954	954	4 972	7 185	7 686	4 561	4 061	3 094	3 192
Uzbekistan	-	-	-	-	-	-	0	734	1 016	1 101	1 418	2 408	7 560	4 806
Georgia	-	-	82	49	56	174	285	980	1 334	2 816	4 398	1 017	1 980	424
Memorandum														
Least developed countries (LDCs)[a]	697	168	798	502	732	923	1 020	18 194	26 152	65 204	36 054	39 854	33 654	21 824
Landlocked developing countries(LLDCs)[b]	420	4 425	3 290	4 675	1 429	1 137	4 011	16 899	23 410	53 430	25 449	29 366	39 438	17 931
Small island developing states (SIDS)[c]	829	87	1 290	1 877	2 698	3 591	175	3 539	3 425	5 325	3 132	5 957	7 429	2 283

Source: UNCTAD FDI-TNC-GVC Information System, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, São Tomé and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[b] Landlocked developing countries include: Afghanistan, Armenia, Azerbaijan, Bhutan, 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, South Sudan, Swaziland, the Republic of Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

[c] Small island developing countries include: Antigua and Barbuda, the Bahamas, Barbados, Cape Verde, the 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, São Tomé and Principe, Seychelles, Solomon Islands, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu.

Note: Data refer to estimated amounts of capital investment.

Annex table III.1. Selected aspects of IIAs signed in 2012

	Policy Objectives																								
Select aspects of IIAs commonly found in IIAs, in order of appearance	Sustainable development enhancing features	Focus on investments conducive to development	Preserve the right to regulate in the public interest	Avoid over-exposure to litigation	Stimulate responsible business practices	Pakistan–Turkey BIT	Nicaragua–Russian Federation BIT	Morocco–Viet Nam BIT	Japan–Kuwait BIT	Iraq–Japan BIT	Gabon–Turkey BIT	The FYR of Macedonia–Kazakhstan BIT	EU–Columbia–Peru FTA	EU–Central America Association Agreement	EU–Iraq Partnership and Cooperation Agreement	Chile–Hong Kong, China FTA	China–Republic of Korea–Japan TIA	Canada–China BIT	Cameroon–Turkey BIT	Bangladesh–Turkey BIT	Australia–Malaysia FTA	Albania–Azerbaijan BIT
References to the protection of health and safety, labour rights, environment or sustainable development in the treaty preamble	X	X	X		X	X			X	X	X		X	X	X	X	X	X	X	X		X
Refined definition of investment (exclusion of portfolio investment, sovereign debt obligations, or claims to money arising solely from commercial contracts)		X		X		X	X					X		X	X				X		X	
A carve-out for prudential measures in the financial services sector			X	X					X	X			X	X		X	X	X				
Fair and equitable standard equated to the minimum standard of treatment of aliens under customary international law			X	X		X		X			X							X	X	X	X	
Clarification of what does and does not constitute an indirect expropriation			X	X		X					X						X	X	X	X	X	
Detailed exceptions from the free-transfer-of-funds obligation, including balance-of-payments difficulties and/or enforcement of national laws			X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Omission of the so-called “umbrella” clause				X		X	X	X			X	X	X	X	X			X	X	X	X	X
General exceptions, e.g. for the protection of human, animal or plant life or health; or the conservation of exhaustible natural resources	X		X	X		X			X		X		X	X	X	X		X	X	X	X	
Explicit recognition that parties should not relax health, safety or environmental standards to attract investment	X	X			X				X	X			X	X		X	X	X		X		
Promotion of Corporate Social Responsibility standards by incorporating a separate provision into the IIA or as a general reference in the treaty preamble	X												X				X					
Limiting access to ISDS (e.g. limiting treaty provisions subject to ISDS, excluding policy areas from ISDS, granting consent to arbitration on a case-by-case basis, limiting the time period to submit claims, no ISDS mechanism)			X	X		X			X	X	X		X	X	X	X	X	X	X	X	X	X

Source: UNCTAD.
Note: This table is based on those 17 IIAs concluded in 2012, for which a text was available. The table does not include three “framework agreements” (GCC–Peru, GCC–United States and EU–Viet Nam), for which texts are available but which do not include substantive investment provisions.

Annex table III.2. List of IIAs at end 2012[a]

	BITs	Other IIAs[b]	Total
Afghanistan	3	3	6
Albania	43	6	49
Algeria	47	6	53
Angola	8	7	15
Anguilla	-	1	1
Antigua and Barbuda	2	10	12
Argentina	58	16	74
Armenia	38	2	40
Aruba	-	1	1
Australia	23	18	41
Austria	64	65	129
Azerbaijan	45	3	48
Bahamas	1	7	8
Bahrain	30	14	44
Bangladesh	29	4	33
Barbados	10	10	20
Belarus	59	3	62
Belgium [c]	93	65	158
Belize	7	9	16
Benin	14	6	20
Bermuda	-	1	1
Bhutan	-	2	2
Bolivia, Plurinational State of	19	14	33
Bosnia and Herzegovina	39	4	43
Botswana	8	6	14
Brazil	14	17	31
British Virgin Islands	-	1	1
Brunei Darussalam	8	19	27
Bulgaria	68	63	131
Burkina Faso	14	7	21
Burundi	7	8	15
Cambodia	21	16	37
Cameroon	15	5	20
Canada	31	21	52
Cape Verde	9	5	14
Cayman islands	-	2	2
Central African Republic	4	4	8
Chad	14	4	18
Chile	51	28	79
China	128	17	145
Colombia	7	19	26
Comoros	6	8	14
Congo	12	5	17
Congo, Democratic Republic of	15	8	23
Cook Islands	-	2	2
Costa Rica	21	14	35
Côte d' Ivoire	10	6	16
Croatia	58	5	63
Cuba	58	3	61
Cyprus	27	62	89
Czech Republic	79	65	144
Denmark	55	65	120
Djibouti	8	9	17

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Annex table III.2. List of IIAs at end 2012[a] (continued)

	BITs	Other IIAs[b]	Total
Dominica	2	10	12
Dominican Republic	15	6	21
Ecuador	18	11	29
Egypt	100	15	115
El Salvador	22	10	32
Equatorial Guinea	8	4	12
Eritrea	4	4	8
Estonia	27	64	91
Ethiopia	29	5	34
Fiji	-	3	3
Finland	71	65	136
France	102	65	167
Gabon	13	6	19
Gambia	13	6	19
Georgia	31	4	35
Germany	136	65	201
Ghana	26	6	32
Greece	43	65	108
Grenada	2	9	11
Guatemala	17	12	29
Guinea	19	6	25
Guinea-Bissau	2	7	9
Guyana	8	10	18
Haiti	7	4	11
Honduras	11	10	21
Hong Kong, China	15	5	20
Hungary	58	65	123
Iceland	9	32	41
India	83	14	97
Indonesia	63	17	80
Iran, Islamic Republic of	61	1	62
Iraq	7	7	14
Ireland	-	65	65
Israel	37	5	42
Italy	93	65	158
Jamaica	17	10	27
Japan	19	21	40
Jordan	53	10	63
Kazakhstan	42	5	47
Kenya	12	8	20
Kiribati	-	2	2
Korea, Democratic People's Republic of	24	-	24
Korea, Republic of	90	17	107
Kuwait	61	15	76
Kyrgyzstan	29	5	34
Lao People's Democratic Republic	23	14	37
Latvia	44	63	107
Lebanon	50	8	58
Lesotho	3	7	10
Liberia	4	6	10
Libya	32	10	42
Liechtenstein	-	26	26
Lithuania	52	63	115

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Annex table III.2. List of IIAs at end 2012[a] (continued)

	BITs	Other IIAs[b]	Total
Luxembourg [c]	93	65	158
Macao, China	2	2	4
Madagascar	9	8	17
Malawi	6	8	14
Malaysia	67	23	90
Maldives	-	3	3
Mali	17	7	24
Malta	22	62	84
Mauritania	19	5	24
Mauritius	36	9	45
Mexico	28	20	48
Moldova, Republic of	39	2	41
Monaco	1	-	1
Mongolia	43	3	46
Montenegro	17	3	20
Montserrat	-	5	5
Morocco	62	7	69
Mozambique	24	6	30
Myanmar	6	12	18
Namibia	13	6	19
Nauru	-	2	2
Nepal	6	3	9
Netherlands	96	65	161
New Caledonia	-	1	1
New Zealand	5	15	20
Nicaragua	18	11	29
Niger	5	7	12
Nigeria	22	6	28
Norway	15	30	45
Oman	34	13	47
Pakistan	46	7	53
Palestinian Territory	3	6	9
Panama	23	9	32
Papua New Guinea	6	4	10
Paraguay	24	15	39
Peru	32	30	62
Philippines	35	16	51
Poland	62	65	127
Portugal	55	65	120
Qatar	49	13	62
Romania	82	64	146
Russian Federation	71	4	75
Rwanda	6	8	14
Saint Kitts and Nevis	-	10	10
Saint Lucia	2	10	12
Saint Vincent and the Grenadines	2	10	12
Samoa	-	2	2
San Marino	8	-	8
São Tomé and Principe	1	3	4
Saudi Arabia	22	14	36
Senegal	24	7	31
Serbia	49	3	52
Seychelles	7	8	15

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Annex table III.2. List of IIAs at end 2012[a] (concluded)

	BITs	Other IIAs[b]	Total
Sierra Leone	3	6	9
Singapore	41	29	70
Slovakia	54	65	119
Slovenia	38	63	101
Solomon Islands	-	2	2
Somalia	2	6	8
South Africa	46	9	55
Spain	84	65	149
Sri Lanka	28	5	33
Sudan	27	11	38
Suriname	3	7	10
Swaziland	5	9	14
Sweden	69	65	134
Switzerland	118	32	150
Syrian Arab Republic	41	6	47
Taiwan Province of China	23	4	27
Tajikistan	32	5	37
Thailand	39	23	62
The FYR of Macedonia	37	5	42
Timor-Leste	3	-	3
Togo	4	6	10
Tonga	1	2	3
Trinidad and Tobago	12	10	22
Tunisia	54	9	63
Turkey	84	21	105
Turkmenistan	24	5	29
Tuvalu	-	2	2
Uganda	15	9	24
Ukraine	67	5	72
United Arab Emirates	40	13	53
United Kingdom	104	65	169
United Republic of Tanzania	16	7	23
United States	46	64	110
Uruguay	30	17	47
Uzbekistan	49	4	53
Vanuatu	2	2	4
Venezuela, Bolivarian Republic of	28	7	35
Viet Nam	60	21	81
Yemen	37	7	44
Zambia	12	9	21
Zimbabwe	30	9	39

Source: UNCTAD, IIA database.

[a] Note that the numbers of BITs and "other IIAs" in this table do not add up to the total number of BITs and "other IIAs" as stated in the text, because 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 WIR12

[b] These numbers include agreements concluded by economies as members of a regional integration organization.

[c] BITs concluded by the Belgo-Luxembourg Economic Union.

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