Alexander Pakhomov

The Global FDI Market in 2012

As demonstrated by preliminary data released by the United Nations Conference on Trade and Development (UNCTAD), in 2012, global foreign direct investment (FDI) inflows declined by 18.3% - to as low as $ 1.3 trillion, which is practically the same as the level recorded over the crisis period. This situation has arisen as a result of turbulences across the world economy and the uncertainty of prospects for strategic investors[1].

A sharp drop in the inflows of foreign direct investment turned out to be an unexpected phenomenon for the *UNCTAD's experts, who only a year ago had predicted a moderate growth of cross-border FDI flows (FDI Inflows) – approximately to $ 1.6 trillion.* However, as early as the first half-year of 2012, due both to the low rate of the world economy's development and the persisting financial troubles in the Eurozone countries, the volumes of FDI in the world shrank by 8.4%, and the rate of decline further accelerated towards the year's end. Such a situation contrasts noticeably with the rates of growth displayed by the behavior of the other macroindices of the world economy's development (see *Table 1*).

Thus, the volumes of global gross product, world trade and employment had returned to their pre-crisis levels as early as 2010, while that of gross investment in fixed assets – in 2011. At the same time, the inflows of FDI in 2012 remained at a level of approximately 11% below their pre-crisis per annum average – $ 1,472bn in 2005–2007, and nearly 41% below their record high *($ 2,217bn) registered in* 2007[2].

As a result, among all the sectors of the world economy, it is the investment activity that was hit hardest by the *crisis, and it is* the developed countries (where, last year, the level of FDI inflows dropped to their ten-year low) that experienced the most visible downfall. This is a clear indication of the sensitivity and vulnerability of the processes of global capital movement to the effects of a crisis – they need more time for recovery and reestablishment of the initial *status quo* than does any other sphere of the global economy.

Table 1

The Growth Rates of Some of the World Economy Indices in 2008–2014 (%)

Index	2008	2009	2010	2011	2012*	2013**	2014**
Global gross product	1.4	-2.1	4.0	2.7	2.3	2.4	3.1
International trade	3.0	-10.4	12.6	5.8	3.2	4.5	5.8
Gross investment in fixed assets	2.3	-5.6	5.3	4.8	4.6	5.3	6.0
Employment	1.1	0.4	1.4	1.5	1.3	1.3	1.3
FDI	-9.5	-33.0	14.1	16.2	-18.3	7.7	17.1
Total FDI inflow (trillion USD)	1.81	1.21	1.38	1.60	1.31	1.4	1.6

** Estimate. ** Forecast.*
Source: UNCTAD Global Investment Trends Monitor, Geneva, No 11, 23 January 2013, p. 2.

[1] See UNCTAD Global Investment Trends Monitor, Geneva, No 11, 23 January 2013, 8 p. The final data as to the cross-border flows of FDI will be published in the *UNCTAD's next* World Investment Report in July 2013.
[2] World Investment Report 2011. Chapter IV *Non-equity Modes of International Production and Development*. UNCTAD, 2011, New York and Geneva, p. 2.

At the same time, the short-term forecasts published by the UNCTAD's experts are rather optimistic – they expect that the overall situation in the world economy is going to improve (see *Table 1*)[3]. Thus, it is expected that, in 2013 and 2014, the global FDI flows will increase to $ 1.4bn and 1.6bn respectively – provided, however, that no new macroeconomic upheavals occur over that period[4].

However, a negative scenario is also possible. According to the pessimistic forecast of the World Bank (an unresolved debt crisis spreading into several EU member countries), the decline in the Eurozone in 2013–2014 may be observed at the level of 7.9% and 5.2%, and the slowdown in the world economy – at 1.7% and 0.5% respectively, while oil prices will drop by 25%[5]. If such a scenario becomes a reality, global capital flows (being the most sensitive segment of the world economy) will be shrinking.

An analysis of the situation with regard to the worldwide investment process that emerged after the crisis has made it possible to identify the new trends and phenomena that became visible during the pre-crisis period of 2005–2007[6].

In 2010, for the first time in the nearly half-century history of UNCTAD statistics, in response to the redistribution of the declining FDI flows, the share of the developed countries in the group of FDI recipients decreased to less than one-half, which represents a certain psychological threshold. In 2012, the decline of FDI in the developed economies amounted to 32.1%, that in the developing economies – to only 3.2%, and in the transitional economies[7] – to 13.1%. As a result, in 2012 the share in the global FDI inflow of the developing economies (first of all, in Asia) exceeded 52%, and that of the transitional economies amounted to about 6% [8].

Besides, it is necessary to point out a number of other factors shaping the current phase of the global processes taking place in the investment sphere, as well as the mechanisms of their functioning. The annual dynamics of cross-border mergers and acquisitions (M&A) and international greenfield projects, the principal methods of capital investment, is highly volatile and displays multi-vectored trends of growth in different groups of countries across the globe.

In 2012, the total value of cross-border M&A dropped by 41% to its record low since 2009, largely due to the declining activity of businesses in the developed countries. The volume of cross-border transactions carried out by the developing economies, on the contrary, hit their record high of $ 115bn, or 37% of all the purchases in that sphere. The value of greenfield

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[3] UNCTAD Global Investment Trends Monitor, Geneva, No 11, 23 January 2013, p. 5.

[4] World Investment Report 2012. *Towards a New Generation of Investment Policies*, UNCTAD, NY & Geneva, 2012, Overview, p. 4.

[5] *Kommersant*, 15 August 2012; *Vedomosti*, 24 January 2013.

[6] For more details on the post-crisis trends in the world capital movement, see: Pakhomov A. A. *Eksport priamykh investitsii iz Rossii: ocherki teorii i praktiki.* [Export of Direct Investment from Russia: Essays on Theory and Practice]. Ye. T. Gaidar Institute for Economic Policy, *Delo*, 368 p.

[7] According to the UNCTAD's classification, the group of countries with transitional economy in 2012 consisted of 18 countries: all the member states of the CIS and former Yugoslavia (with the exception of Slovania – a member of the EU), and also Albania. This classification is applied for statistical and analytical purposes, but by no means always reflects the specific phase of economic development of each given country. World Investment Report 2012. *Towards a New Generation of Investment Policies*, UNCTAD, NY & Geneva, 2012, p. ii.

[8] In this connection, the aggregate amount of foreign direct investment in the economies of the new participants in the global movement of capital (the BRICs) was $ 262.8bn, or 20.1% of the world's total FDI inflow (in 2011 - $ 281.0bn, or 17.5% respectively).

projects has been on the decline for four years in a row, and in в 2012 it fell by 34%. At the same time, greenfields take up 2/3 of global investment.

The biggest mega-deals are: the acquisition, by the Malaysian corporation *Petronas*, of *Progress Energy Resources Corp* (Canada) for $ 5.4bn; the purchase, by Chinese *Sinopec Group*, of Brazilian company *Petrogal Brasil Ltd* for $ 4.8bn; and the purchase, by *China Three Gorges Corp*, of the Portuguese company *Energias de Portugal SA* for $ 3.5bn. In spite of the rising activity of Latin American cross-border corporations, Asiatic investors still account for approximately 75% of all the acquisitions made by businesses from developing economies.

The mechanisms of global capital movement have become more complex: primary FDI sources underwent a transformation (being now dominated by reinvested incomes instead of capital stock), the role of non-traditional forms of capital investment is increasing, and so on. Besides, some new investment policy methods have emerged that no longer have a direct financial component – for example, 'Non-Equity Modes of International Production and Development'[9].

The geographical origins of FDI have also changed: the traditional capital flows from the developed economies (North) into developing (South) and transitional ones (East) gave way to some new sustainable FDI flows along South-North, or even South-East routes.

The current phase is also characterized by an increasing role of governments in shaping the national and international investment policies – which can be regarded as a form of response to the imperfections of the market and competition mechanisms, which indirectly contributes to the increasing prominence of the political factor in the regulation of global investment flows.

In the UNCTAD's World Investment Report 2012 *Towards a New Generation of Investment Policies* (published in July 2012) it is noted that a broader development policy agenda is emerging in the world that has inclusive and sustainable development goals, implying attraction of FDI and ensuring that it yields tangible benefits. Such an approach will require that government should set and accomplish complex tasks at national and international levels[10].

All these trends have altered the nature and direction of global investment flows, including the market for loan and entrepreneurial capital. The financial and economic effects of the recent crisis acted as a catalyst of these changes. Such trends are further enhances by the increasing multi-polarity of the *world economy and its major actors.*

Probably, the crisis followed by recession caused some irreversible changes in the relative positions held by the existing groups of countries on world financial markets, including the loan capital market (issuance of loans, credits etc.) and the entrepreneurial capital market (investment in the material sector and services), which had previously been dominated by a limited number of developed economies. *Thus, new centers (or poles) of powere are emerging not only in the international financial system, but also in the world economy as a whole.*

[9] See World Investment Report 2011. Non-Equity Modes of International Production and Development, UNCTAD, NY & Geneva, 2011, 253 p.

[10] La CNUCED propose un cadre pour les politiques d'investissement au service du développement durable, Rapport sur l'investissement dans le monde 2012 de la CNUCED, Communique de presse, Genève, 5 July 2012, p.2.

Table 2

Leading Countries – FDI Recipients across the World in 2012 (bn USD)

No	Country	Volume	2012 against 2011 (%)
1.	USA	146.7	-35.3
2.	China	119.7	-3.4
3.	Brazil	65.3	-2.0
4.	UK	62.5	22.2
5.	France	58.9	43.8
6.	Singapore	54.4	-15.1
7.	Australia	48.5	-26.3
8.	Canada	47.2	14.0
9.	Russia	44.1	-16.6
10.	Irelandя	39.1	245.1

Source: UNCTAD Global Investment Trends Monitor, Geneva, No 11, 23 January 2013, p. 2.

In the list of leading FDI recipients (see *Table 2*), Russia rose from 8th place in 2011 to 9th place in 2012, with her relative share in the world FDI inflow volume increasing from 3.3% to 3.4%. However, in this connection it should be remembered that, traditionally, approximately a half of that FDI inflow consists of Russian 'repatriated' capital – including the flows from offshore jurisdictions[11].

At the same time, as estimated by the RF Ministry of Economic Development, the minimum volume of foreign direct investment required for Russia's national economy's modernization should amount to $ 75bn per annum, or twice as much as that of the current FDI inflow into this country[12]. This circumstance points to the existence of some systemic problems that are preventing Russia from being an attractive target for foreign investment, which have to do with the structural disproportions in the national economy, and Russia's unfavorable business climate and inadequate institutional environment.

[11] According to the RF Central Bank's preliminary estimates, the volume of FDI inflow in Russia's non-banking sector amounts to $ 38.9bn. See *Otsenka platezhnogo balansa Rossiiskoi Federatsii za 2012 god (analitichaskoe predstavlenie – po metodologii RPB 6)* [An Estimation of the Balance of Payments of the Russian Federation for 2012 (An Analytical Presentation - Based on the Balance of Payments Methodology 6)].

[12] Beliakov S. *Seichas sistema motiviruet biznes neformal'no reshat' svoi voprosy*. [At Present, the System Creates Incentives for Businesses to Settle Their Problems Informally]. Kommersant-Dengi [Kommersant Money], No 44, 5 November 2012, P.16.