

FOREIGN DIRECT INVESTMENT SURGED AGAIN IN 2006

Global flows of foreign direct investment (FDI) reached their second highest level ever in 2006, reaching \$1.2 trillion. According to new UNCTAD estimates, significant growth was recorded in FDI inflows to developed, developing as well as transition economies. The United States attracted the largest capital inflows, followed by the United Kingdom and France. Record levels were in Africa, Asia and in South-East Europe and the CIS.

The United States at the top

FDI flows to *developed countries* in 2006 rose by 48% to reach \$800 billion (table 1). This corresponds to a doubling of the inflows in 2004. The United States recovered its position as the largest single host country for FDI in the world, overtaking the United Kingdom, to which FDI also grew in 2006. The 25 countries of the European Union (EU) together accounted for about 45% of total FDI inflows in 2006. For Japan, on the other hand, divestments outpaced new investments, resulting in negative inflows for the first time since 1989.

FDI surged to oil-rich African countries

In *Africa*, FDI inflows surged to a new record level of \$38 billion, mainly as a result of large investments in oil-rich economies. High prices and buoyant global demand for oil and other minerals attracted investment not only from developed countries but from developing countries as well. The FDI boom was further fuelled by cross-border M&As, which tripled in the first half of 2006 over those in the same period in 2005. But inflows remain highly concentrated, and most low-income countries that are less well endowed with natural resources continue to receive little FDI.

Levelling off in Latin America

Inflows to *Latin America and the Caribbean* slowed down somewhat in 2006. Mexico and Brazil, in that order, remained the largest recipient countries with stable inflows in Mexico and increasing by 6% in Brazil. Chile saw a 48% rise in FDI inflows mainly as a result of larger reinvested earnings in the mining industry. FDI flows to Colombia and Argentina fell by 52% and 30% respectively, as cross-border M&A activity shrank. In the Andean countries, changes in the policy stance towards more control by the State and bigger government revenues in extractive industries (e.g. in Bolivia, Ecuador and Venezuela) may

have a chilling effect on investors. Moreover, high commodity prices and resulting improvements in the current-account balance have led some local currencies to appreciate, making FDI in export-oriented manufacturing less attractive.

Asia's position as a top target for FDI in developing world is reinforced

FDI flows to *Asia and Oceania* maintained their upward trend, reaching a new high of \$230 billion - up 15% from 2005. Thus, the share of this region in total FDI to developing countries rose from 59% to 63%. China and Hong Kong (China) remain the leading destinations, followed closely by Singapore with some \$32 billion of inflows - an unprecedented level. India also saw record inflows. The inflows to the Republic of Korea have been revised upwards since the release of UNCTAD's estimates, as FDI of almost \$2 billion was noted for the first 11 months of 2006. In *West Asia*, Turkey and oil-rich Gulf States continued to attract most of the inflows, mostly targeted at energy-related manufacturing and services.

Further rise in FDI from the South

Outward FDI continued to gain momentum from some developing countries, confirming the trend observed in the *World Investment Report 2006*. In developing Asia, China consolidated its position as an important source of FDI, and India's overseas investments almost doubled from 2005.

Uncertain prospects

While strong economic growth in the world economy may facilitate continued high FDI flows, several risks are looming. Current-account imbalances have widened further in some developed countries; energy prices have stayed at a high level; and a possible tightening of financial market conditions cannot be excluded. These factors make future FDI prospects uncertain.

Source: UNCTAD.

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Table 1. FDI inflows, by host region and major host economy, 2004-2006

(Billions of dollars)

Host region/economy	2004	2005	2006 a	Growth rate (%)
World	710.8	916.3	1 230.4	34.3
Developed economies	396.1	542.3	800.7	47.7
Europe	217.7	433.6	589.8	36.0
European Union	213.7	421.9	549.0	30.1
<i>EU-15</i>	<i>185.2</i>	<i>387.9</i>	<i>510.7</i>	<i>31.7</i>
France	31.4	63.6	88.4	39.0
Germany	- 15.1	32.7	8.1	- 75.1
Italy	16.8	20.0	30.0	50.2
United Kingdom	56.2	164.5	169.8	3.2
<i>New 10 EU member states</i>	<i>28.5</i>	<i>34.0</i>	<i>38.4</i>	<i>12.8</i>
Czech Republic	5.0	11.0	5.4	- 50.8
Hungary	4.7	6.7	6.2	- 7.3
Poland	12.9	7.7	16.2	109.9
United States	122.4	99.4	177.3	78.2
Japan	7.8	2.8	- 8.2	- 395.5
Developing economies	275.0	334.3	367.7	10.0
Africa	17.2	30.7	38.8	26.5
Egypt	2.2	5.4	5.3	- 1.9
Morocco	1.1	2.9	1.4	- 51.2
Nigeria	2.1	3.4	5.4	60.0
South Africa	0.8	6.4	3.7	- 42.7
Latin America and the Caribbean	100.5	103.7	99.0	- 4.5
Argentina	4.3	4.7	3.3	- 29.5
Brazil	18.1	15.1	14.8	- 2.0
Chile	7.2	6.7	9.9	48.4
Colombia	3.1	10.2	4.9	- 52.0
Mexico	18.7	18.1	16.5	- 8.6
Asia and Oceania	157.3	200.0	229.9	15.0
West Asia	18.6	34.5	43.3	25.5
Turkey	2.8	9.7	17.1	76.3
South, East and South-East Asia	138.0	165.1	186.7	13.1
China	60.6	72.4	70.0	- 3.3
Hong Kong, China	34.0	35.9	41.4	15.4
India	5.5	6.6	9.5	44.4
Indonesia	1.9	5.3	2.0	- 62.9
Korea, Republic of	7.7	7.2	0.5 b	- 92.6
Malaysia	4.6	4.0	3.9	- 1.6
Singapore	14.8	20.1	31.9	58.8
Thailand	1.4	3.7	7.9	114.7
South-East Europe and the CIS	39.6	39.7	62.0	56.2
Russian Federation	15.4	14.6	28.4	94.6
Romania	6.5	6.4	8.6	34.1
Kazakhstan	4.1	1.7	6.5	275.5

Source: UNCTAD.

^a Preliminary estimates.

^b This figure is likely an underestimation. Information recently released by the Bank of Korea showed an FDI inflow of \$1.9 billion for the first 11 months of 2006.

Note: World FDI inflows are projected on the basis of 76 economies for which data are available for part of 2006, as of 12 October 2006. Data are estimated by annualizing their available data, in most cases the first two quarters of 2006. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2005 is used to extrapolate the 2006 data.

This **UNCTAD Investment Brief** draws on the press release UNCTAD/PRESS/PR/2007/001

For more data on FDI and TNC activities visit <http://stats.unctad.org/fdi>.