Regional Focus: Emerging Markets Overtake Developed Economies in Global FDI
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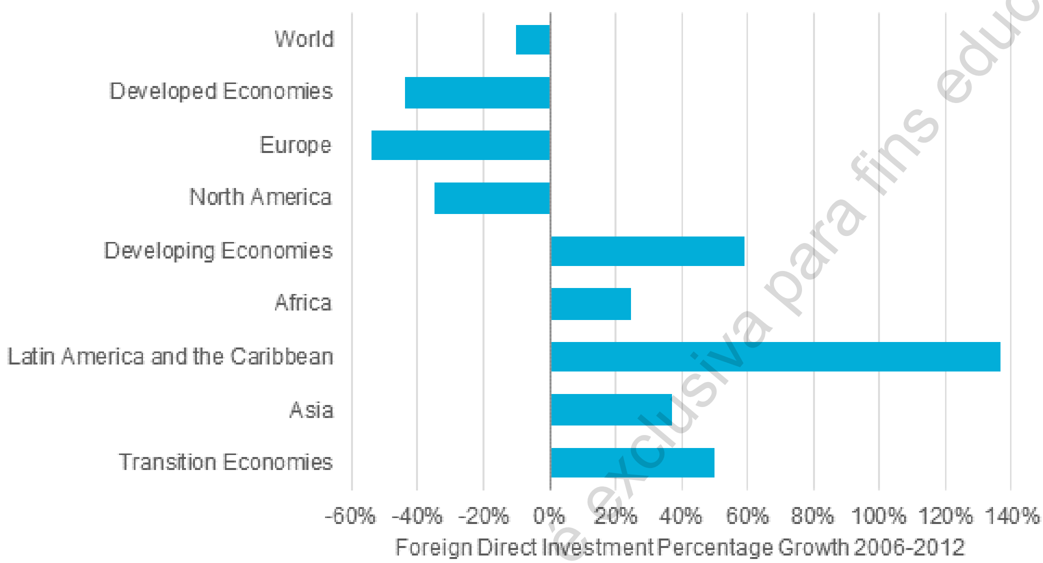
In 2012, UNCTAD estimates show that for the first time ever, foreign direct investment (FDI) inflows were higher in the developing world, than in the developed, though overall global flows declined. As the developed world continues to suffer, key emerging economies such as China and Brazil are enjoying a larger global share of inflows, but are also investing more abroad which is improving business environments, creating stronger job markets and raising living standards across emerging markets.

Chart 1 Foreign Direct Investment Inflow Growth: 2006- 2012



Source: UNCTAD
Note: (1) Statistics for 2012 are preliminary estimates. (2) Geographical groupings are based on UNCTAD definitions.

According to the United Nations Conference on Trade and Development (UNCTAD), FDI inflows to developing economies exceeded those to developed by US$132 billion in 2012, with developed economies suffering from considerable declines in inflows in the year;

In 2012, developing economies in Asia remained the largest recipients of inflows, with China continuing to be the second largest destination of inflows globally, after the USA. However, Latin America saw the largest growth in FDI inflows in the year;

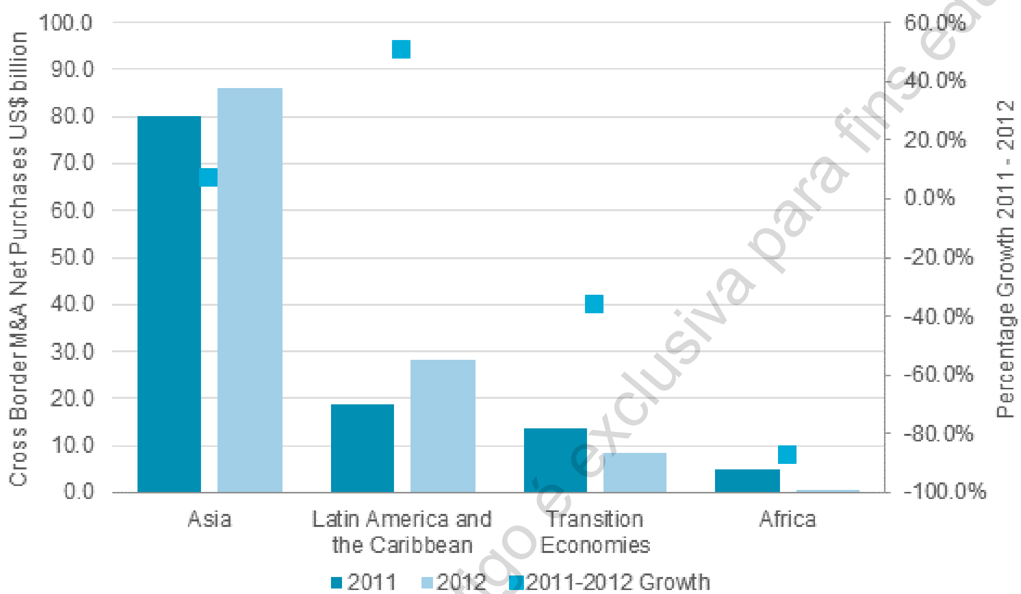
Cross border mergers and acquisition purchases (M&A's) similarly increased significantly in the developing world, while declining in the developed. According to UNCTAD, in 2012, cross border M&A's from developing economies increased by 10.7% in US$ terms, compared to a 56.0% decline in M&A activity in the developed world.

Implications

Continued industrialisation in Asia Pacific and Latin America has been the central driver of developing world investment. The unrelenting growth in these regions is increasing their pool of resources for investment; this capital is increasingly turning outward, to invest in other growing regions of the world.

Inflows accrue significant benefits to host economies in the developing world; however, the impact of a rise in FDI outflows from developing economies tends to be equally important, but with a delayed effect. Technological development, stronger operational efficiency, cheaper production and better management will result, supporting more productive industries in these countries; however, these benefits take several years to manifest in new investment projects. Already, multinational businesses from developing economies are able to compete at a global level; with knock-on benefits on their home countries; including cheaper consumer goods and higher demand for employment. The emerging economies hosting FDI similarly benefit from increased investment in their economies, supporting employment within the country and fostering consumer markets;

Chart 2 Cross Border Merger and Acquisition Net Purchases by Developing Region: 2011 – 2012



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China, through its myriad sovereign wealth funds and investment bodies, has pushed outward FDI significantly since 2007; FDI outward flows from China represented 20.8% of the total emerging and developing economies stock in 2011 (last date available). Outward FDI stocks, the total outstanding value of foreign investment of the emerging economies increased by 36.5% in real terms between 2007 and 2011, while China increased its stock by 182%;

Given the prominence of Asia Pacific countries in developing world FDI, so called "south-south" investment – investment between developing economies - has tended to focus on one area. Investment in extractive industries, including mining and quarrying has dominated emerging market investment, supporting high inflows into Africa and Latin America. UNCTAD has estimated FDI inflows into Africa increased by 5.5% in US$ terms in 2012, while Latin America and the Caribbean enjoyed an increase of 7.2% as a result of this trend;

An increase in developing world activity in cross border M&A purchases – essentially buying or merging with firms in different countries – is estimated to be growing most rapidly in the Latin American economies, where these activities increased by 50.9% in US$ terms in 2012. This is in large part due to resilient consumer markets and abundant natural resources, which have buoyed the region's economies. In particular M&A activity in Argentina and Chile is estimated to have increased rapidly in 2012, where growth was 2647% and 802% in US$ terms respectively.

Prospects

As the developed world continues to struggle with systemic economic problems, the rising flows of developing world FDI is helping to prop up international investment. It is however important to note that FDI outflows remain dominated by the developed world; in 2011 (last date available) FDI outflows from the emerging markets made up just 19.3% of the total, in US$ terms.

In the short term - 2013 and 2014 - prospects for FDI growth across the world remain weak. By 2014 UNCTAD forecasts expect FDI inflows globally to reach the same level they were in 2011, remaining well below the peak of 2007, at just US$1.6 trillion. Europe continues to be blighted by financial and structural issues, subduing investment flows across the world. However, the developing regions are expected to maintain positive growth, thanks to higher resilience and less integration with the developed world;

In the face of poor global economic performance, persistent growth in areas of the developing world is supporting investment flows. The increasing willingness of developing economies to invest in long-term infrastructure projects, as well as more standard FDI routes provides another facet to the FDI landscape. This is expected to be particularly important for low income regions of the world, where infrastructure funding is key, such as sub-Saharan Africa.

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