CHAPTER I

GLOBAL INVESTMENT PROSPECTS AND TRENDS

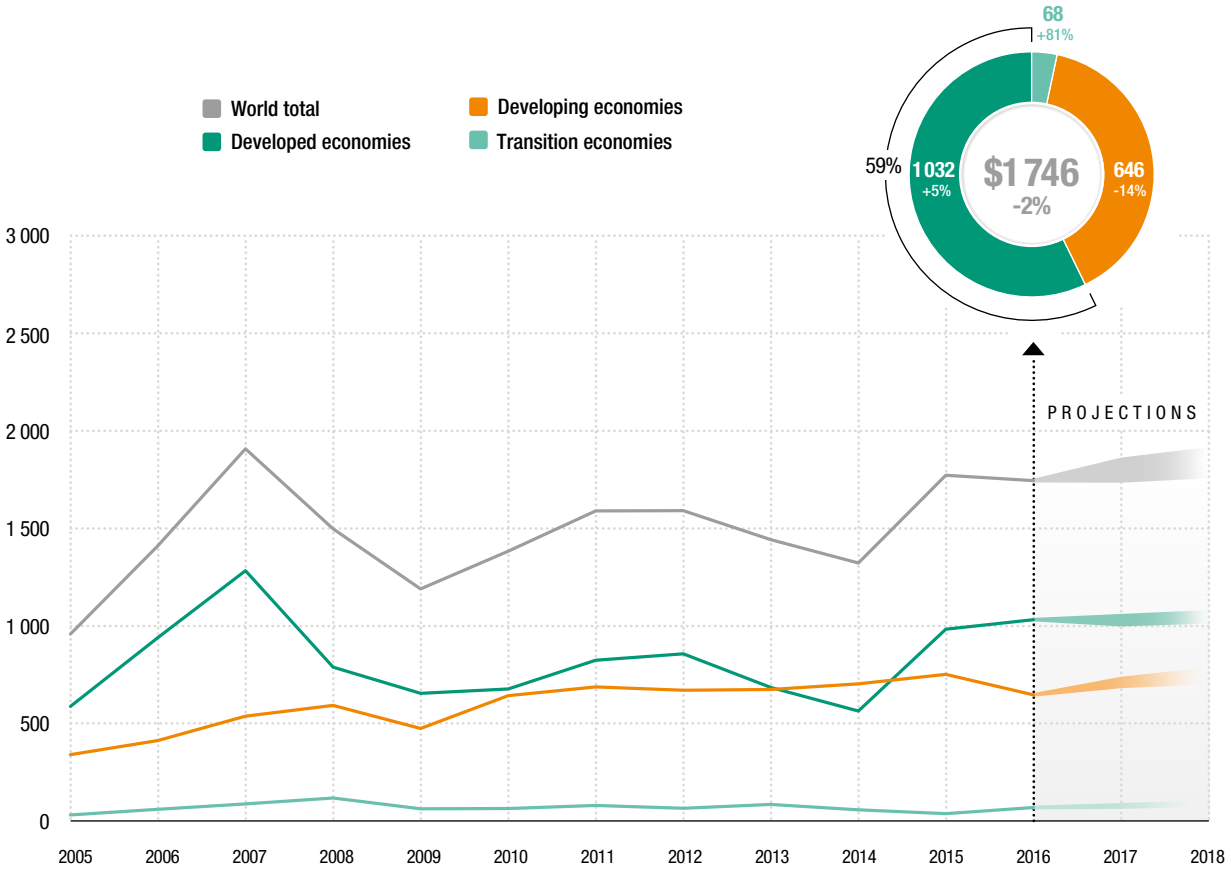
INTRODUCTION

Following a surge in foreign investment in 2015, global FDI flows fell 2 per cent, to $1.75 trillion,[1] amid weak economic growth. A fall in inflows to developing economies was partly offset by modest growth in developed countries and a sizeable increase in transition economies. As a result, developed economies accounted for a growing share of global FDI inflows in 2016, absorbing 59 per cent of the total (figure I.1).

A modest recovery in global FDI flows is forecast for 2017, although flows are expected to remain well below their peak of 2007. A combined upturn of economic growth in major regions and improved corporate profits will boost business confidence, and consequently MNEs' appetite to invest. A cyclical uptick in manufacturing and trade is expected to result in faster growth in developed countries, while a likely strengthening of commodity prices should underpin a recovery in developing economies in 2017. As a result, global FDI flows are expected to increase by about 5 per cent in 2017 to almost $1.8 trillion.

However, elevated geopolitical risks and policy uncertainty for investors could have an impact on the scale and contours of the FDI recovery in 2017.

Figure I.1. **FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018**
(Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

A. PROSPECTS

Global FDI flows are projected to increase by about 5 per cent in 2017, to almost $1.8 trillion. The moderate rise of FDI flows is expected to continue in 2018 to $1.85 trillion – still below the 2007 peak. These expectations are based on current forecasts for a number of macroeconomic indicators and firm-level factors, UNCTAD's survey of MNEs and investment promotion agencies (IPAs) regarding investment prospects, UNCTAD's econometric forecasting model of FDI inflows and preliminary 2017 data for cross-border mergers and acquisitions (M&As) and announced greenfield projects.[2]

1. Overall prospects assessment

The moderate recovery in global FDI flows expected in 2017 reflects accelerating economic growth in all major regions, a strong performance of stock markets and a rebound in world trade volume. The improving macroeconomic outlook has had a direct positive effect on the capacity of MNEs to invest. The 2017 UNCTAD Business Survey indeed indicates renewed optimism about FDI prospects. Unlike in 2016, a majority of executives polled, particularly in developed economies, are confident that the economic upturn will strengthen, bolstering investment in the coming years. The expected increase in FDI inflows in 2017 is already apparent in the values of announced greenfield investments in 2016 and cross-border M&A deals announced in the beginning of 2017.

Nevertheless, elevated geopolitical risks and policy uncertainty could have an impact on the scale and contours of the FDI recovery in 2017. Political developments, such as the United Kingdom's exit from the European Union (EU), moves by the administration in the United States to abandon the Trans-Pacific Partnership and to renegotiate key trade agreements such as the North American Free Trade Agreement (NAFTA), as well as elections in Europe, have all heightened uncertainty. A potential tax reform in the United States could also significantly affect FDI flows, if United States MNEs reduce retained earnings held in their overseas affiliates.

Developing economies are likely to see a 10 per cent increase in inflows in 2017, not yet fully returning to the 2015 level, while flows to developed economies are expected to hold steady. Among regions, FDI prospects vary (table I.1):

- FDI inflows to *Africa* are forecast to increase slightly in 2017, to about $65 billion, in view of modest rises in oil price and a potential increase in non-oil FDI. Announced greenfield FDI projects in 2016 were high in real estate, followed by natural gas, infrastructure, renewable energy, chemicals and automotives. Advances in regional and interregional cooperation, through the signing of economic partnership agreements with the EU by regional economic communities and the negotiations towards the Tripartite Free Trade Agreement should encourage stronger FDI. However, a slump in economic growth could harm investment prospects in 2017.
- FDI inflows to *developing Asia* are expected to increase by 15 per cent in 2017, to $515 billion, as an improved economic outlook in major Asian economies is likely to boost investor confidence. In major recipients such as China, India and Indonesia, renewed policy efforts to attract FDI could contribute to an increase of inflows in 2017.

Table I.1. FDI inflows by group of economies and region, 2014–2016, and projections, 2017 (Billions of dollars and per cent)

Group of economies/region	2014	2015	2016	Projections 2017
World	**1 324**	**1 774**	**1 746**	**1 670 to 1 870**
Developed economies	**563**	**984**	**1 032**	**940 to 1 050**
Europe	272	566	533	560
North America	231	390	425	360
Developing economies	**704**	**752**	**646**	**660 to 740**
Africa	71	61	59	65
Asia	460	524	443	515
Latin America and the Caribbean	170	165	142	130
Transition economies	**57**	**38**	**68**	**75 to 85**
Memorandum: annual growth rate (per cent)				
World	**-8**	**34**	**-2**	**(-4 to 7)**
Developed economies	**-18**	**75**	**5**	**(-9 to 2)**
Europe	-20	108	-6	~5
North America	-15	69	9	~-15
Developing economies	**4**	**7**	**-14**	**(2 to 15)**
Africa	-4	-14	-3	~10
Asia	9	14	-15	~15
Latin America and the Caribbean	-3	-3	-14	~-10
Transition economies	**-33**	**-34**	**81**	**(10 to 25)**

Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

In South and South-East Asia, several countries are expected to further strengthen their position in regional production networks. In West Asia, FDI is expected to remain flat, with the positive effect of recovering oil prices offset by political and geopolitical uncertainty.

- Prospects for FDI in *Latin America and the Caribbean* in 2017 remain muted, as macroeconomic and policy uncertainties persist. Flows are forecast to fall by about 10 per cent, to some $130 billion. Investment in the region's extractive industries will likely be modest as operators continue to hold back on capital expenditures. Investment in the region, especially in Central America, is also likely to be affected by uncertainties about economic policy in the United States.
- FDI flows to *transition economies* are forecast to rise moderately in 2017, to about $80 billion, supported by the bottoming out of the economic downturn, higher oil prices and privatization plans. However, they may be hindered by geopolitical problems.
- FDI flows to *developed countries* are expected to hold steady, at about $1 trillion. Flows to Europe are projected to recover, as the large volume of negative intracompany loans recorded in 2016 is unlikely to be sustained. However, political events may yet derail the FDI recovery. In contrast, FDI flows to North America, which reached an all-time high in 2016, appear to be running out of steam, and MNE executives are likely to take a wait-and-see approach in the face of policy uncertainty.

2. Key factors influencing future FDI flows

Global economic growth is projected to accelerate to 2.7 per cent in the coming year, compared with the postcrisis low of 2.2 per cent in 2016 (table I.2). Growth in developed countries is likely to improve thanks to the expected easing in fiscal policy and a rise in business confidence in the United States, as well as cyclical momentum in Europe and Japan. Emerging and developing economies are also forecast to rebound significantly in 2017, led by growth in China and by a sharp economic expansion in natural-resources-

Table I.2. Real growth rates of GDP and gross fixed capital formation, 2015–2018 (Per cent)

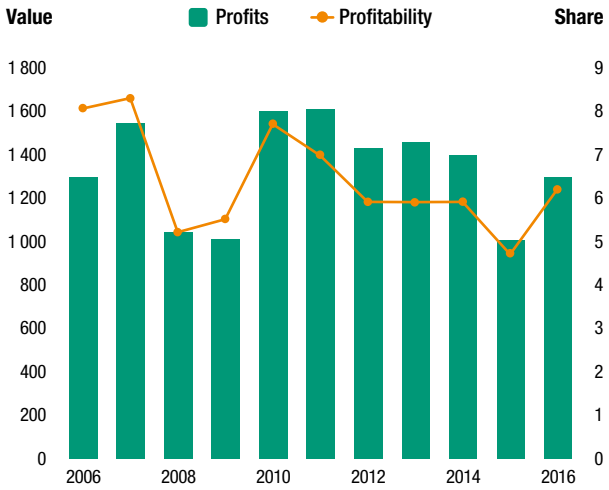
Variable	Region	2015	2016	2017	2018
GDP growth rate	World	2.5	2.2	2.7	2.9
	Developed economies	2.1	1.5	1.7	1.8
	Developing economies	3.8	3.6	4.4	4.7
	Transition economies	-2.8	-0.2	1.4	2.0
GFCF growth rate	World	2.8	1.9	4.3	4.7
	Advanced economies[a]	2.6	1.5	2.8	3.5
	Emerging and developing economies[a]	3.0	2.2	5.4	5.4

Source: ©UNCTAD, based on United Nations (2017) for GDP and IMF (2017) for GFCF.
Note: GFCF = gross fixed capital formation.
[a] IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

exporting countries, as commodity prices are expected to increase, especially for crude oil. Gross fixed capital investment is expected to pick up strongly in emerging and developing economies, but also in advanced economies (see table I.2). Moreover, more buoyant economic activity will help boost world trade, which is forecast to expand by 3.8 per cent in 2017, compared with just 2.3 per cent in 2016.

The improvement in the global macroeconomic outlook and the modest rise in commodity prices had a direct effect on the profits and profitability of multinational enterprises (MNEs). After the slump in 2015, profits of the largest 5,000 MNEs picked up significantly in 2016 (figure I.2). Increased corporate profits, with a consequent increase in stock prices, could boost the value of cross-border M&As. An increase of FDI flows in 2017 as a whole can also be projected from the value of cross-border M&As announced in the first four months of 2017, which stood at about $600 billion (including divestments) – or 35 per cent higher than over the same period in 2016.

Figure I.2. MNEs' profits and profitability, 2006–2016 (Billions of dollars and per cent)



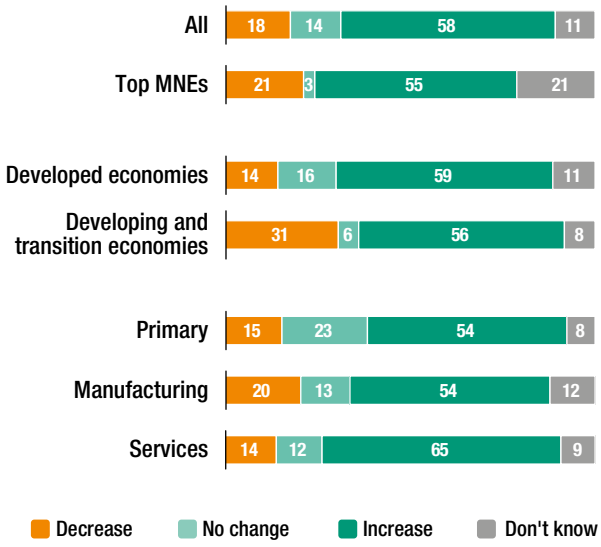
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Rising global interest rates, however, may restrict financing for investment, as interest charges take an increasing bite out of corporate profits. For MNEs from developing and transition regions, this phenomenon could also coincide with a further depreciation of their national currencies, making the servicing of corporate debt denominated in dollars even more expensive.

3. UNCTAD business survey

The outlook for global FDI activity becomes more optimistic. This year's business survey results point to renewed optimism about FDI prospects. Unlike in 2016, a majority of executives, particularly in developed economies, are increasingly confident that the global economic upturn will gather more strength and lead to increased investment in the coming

Figure I.3. **Executives' expectations for global FDI activity, 2017–2019** (Per cent of executives based in each region and sector)



Source: ©UNCTAD, business survey.

years (figure I.3). A significant change in sentiment from last year is evident among corporations active in the primary sector. Having endured a hard downturn in the past two years, natural-resource-based MNEs, especially in the oil industry, seem to have turned the corner, and most executives now expect increased investment over the next two years. Even though renewed confidence is evident across all three sectors, MNEs in services remain the most optimistic, with almost two thirds of executives predicting an increase in cross-border investments. Expectations of executives from the top MNEs are broadly in line with this positive outlook.

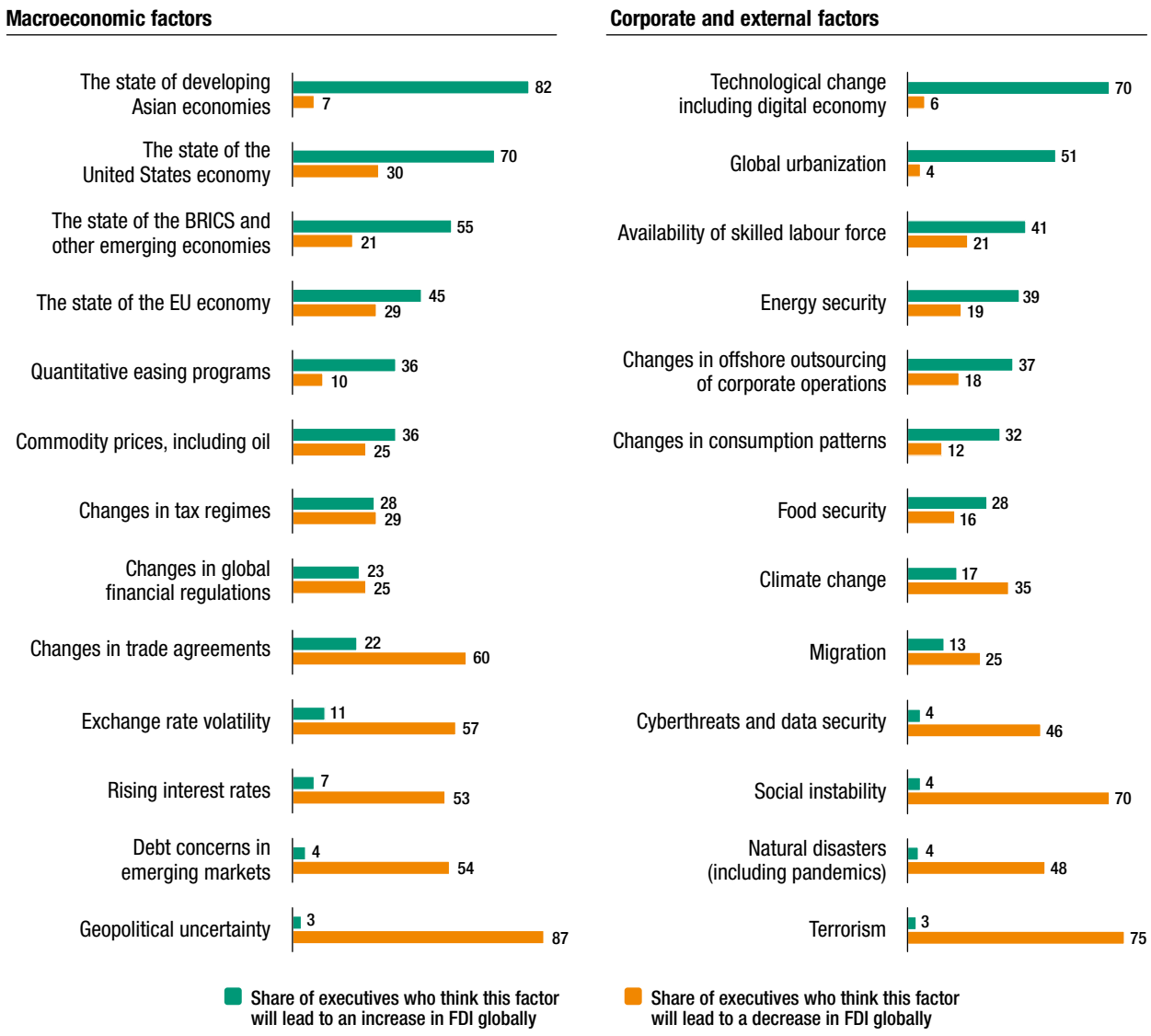
Economic and technological factors underpin the upturn in FDI activity. The economic resilience of developing Asia and emerging economies in general, together with improving growth forecasts for major developed economies, underpin MNEs' optimism (figure I.4). In the survey of top executives carried out in the first months of 2017, the economic situation in developing Asia ranked as the top macroeconomic factor influencing FDI, ahead of the situation in the United States. Among corporate factors, technological change and the digital economy are considered by most respondents as positive factors fostering cross-border investments, although cyber threats and data security are rising concerns among top executives. Similarly, as commodity prices started to recover, they are now considered a positive influence.

In contrast, the majority of respondents see sources of global risks in geopolitical uncertainties, terrorism and social instability. Top executives also closely monitor potential renegotiations of trade agreements and worry about their eventual repercussions. Last year, progress with regional agreements was cited among the top factors supporting FDI; in the most recent survey, the prospects of dismantling or withdrawing from some of these agreements was perceived as a threat to foreign investment by the majority of the respondents. The list of other negative factors mentioned by business leaders includes exchange rate volatility, increasing interest rates and rising debt levels in emerging economies.

FDI spending intentions increase gradually. MNEs' surging confidence translates only partly into 2017 investment plans. Lingering risks and uncertainty have led executives to postpone their outlays to 2018 (figure I.5). Only about 41 per cent of the executives in the corporations surveyed plan to increase their foreign investments in the current year, rising to 50 per cent in 2018 and 53 per cent in 2019. Nevertheless, this represents a clear improvement from last year's dim perspectives across regions and sectors. As usual, MNEs from developing and emerging economies have bolder investment plans, with more than half of executives already planning to increase their investment spending budget in 2018.

Confirming a rather prudent stance in their spending intentions, most executives are not planning to enter new markets but rather seek to consolidate their foreign presence through follow-up investments. Only a minority indicated non-equity partnerships and greenfield investments as preferred modes to access foreign markets. In turn, cross-border M&As are set to gain yet more prominence in the coming years, especially in the services sector and for MNEs from developing and transition economies.

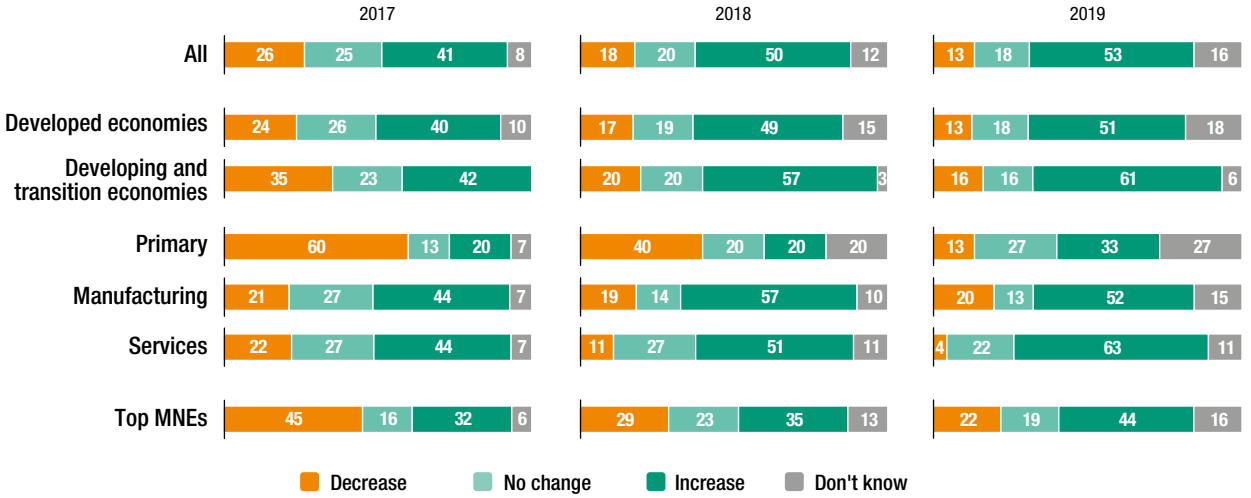
Figure I.4. Factors influencing future global FDI activity (Per cent of all executives)



Source: ©UNCTAD, business survey.

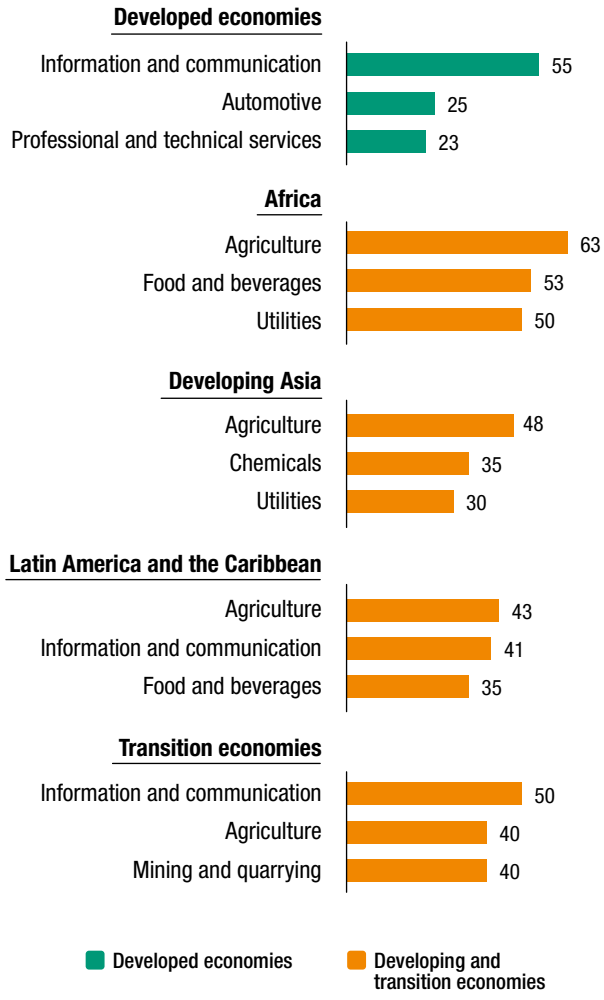
Figure I.5. Executives' global FDI spending intentions, 2017–2019, compared with 2016 levels

(Per cent of executives based in each region and sector)



Source: ©UNCTAD, business survey.

Figure I.6. **IPAs' selection of most promising industries for attracting FDI in their own economy, by region**
(Per cent of IPAs responding)



Source: ©UNCTAD, IPA survey.

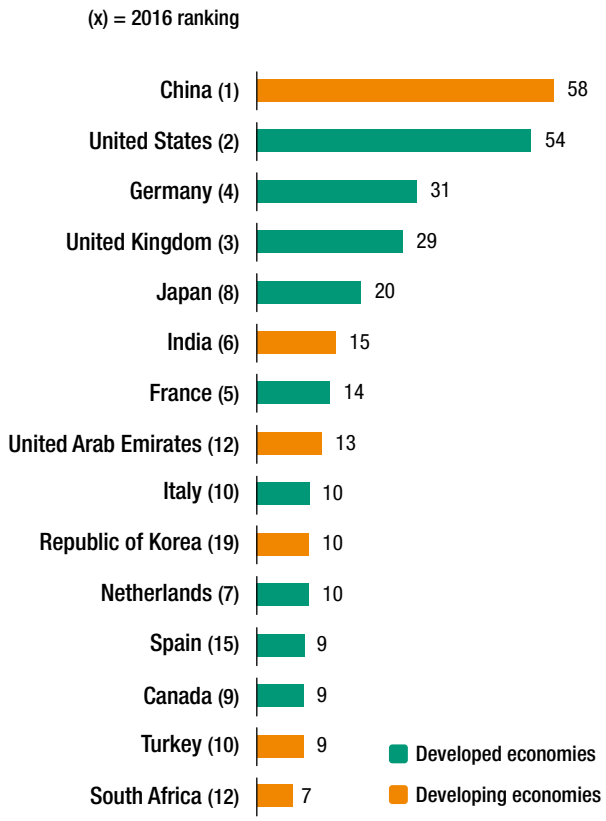
The most attractive industries include services and technology-based activities. The annual parallel survey of IPAs in 2017 provided a ranking of the most promising industries for attracting FDI in their region. This year's results are broadly in line with responses from past years, with IPAs in developed economies focusing on IT and professional services, while those in developing economies all mention agribusiness among the most attractive industries (figure I.6). Information and communication – which includes telecommunication, data processing and software programming – is emerging as an attractive industry in selected developing regions, confirming that the digital economy is growing in importance beyond developed economies.

China and developed countries remain the top prospective investors. This year's list of top prospective investors is in line with the survey findings of previous years. IPAs continue to cite China as the most promising source of FDI, closely followed by the United States, Germany and the United Kingdom (figure I.7). Among developed countries, Japan, Italy and Spain have regained ground in the ranking. Among emerging economies, the United Arab Emirates, the Republic of Korea and Turkey have improved their standings after a temporary setback in the previous year, while South Africa's ranking has declined.

Top prospective destinations are still emerging markets and the United States. The favourite FDI destinations remain the United States, China and India (figure I.8). Top executives maintain their confidence in developing Asia's economic performance and are also forecasting investments in the south-eastern part of the region, with Indonesia, Thailand, the Philippines, Viet Nam and Singapore, in that order, still figuring among the most promising host countries. As for developed countries, investors seem to have responded to the reforms Spain implemented during the global financial crisis: the country has reappeared in the top 15 ranking after many years of absence. Canada also gained ground, while the United Kingdom, possibly owing to uncertainty about Brexit, lost three positions.

Figure I.7. IPAs' selection of most promising home economies for 2017–2019

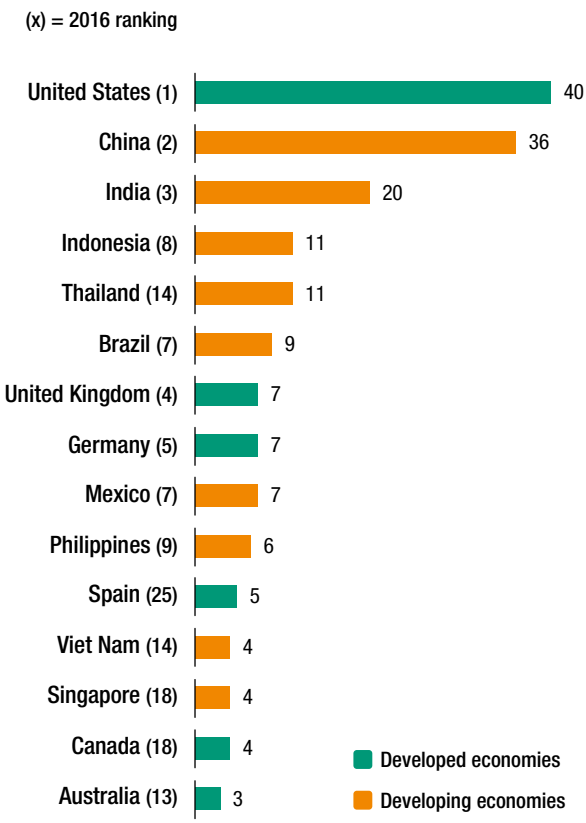
(Per cent of IPAs responding)



Source: ©UNCTAD, IPA survey.

Figure I.8. MNEs' top prospective host economies for 2017–2019

(Per cent of executives responding)



Source: ©UNCTAD, business survey.

B. CURRENT TRENDS

1. FDI by geography

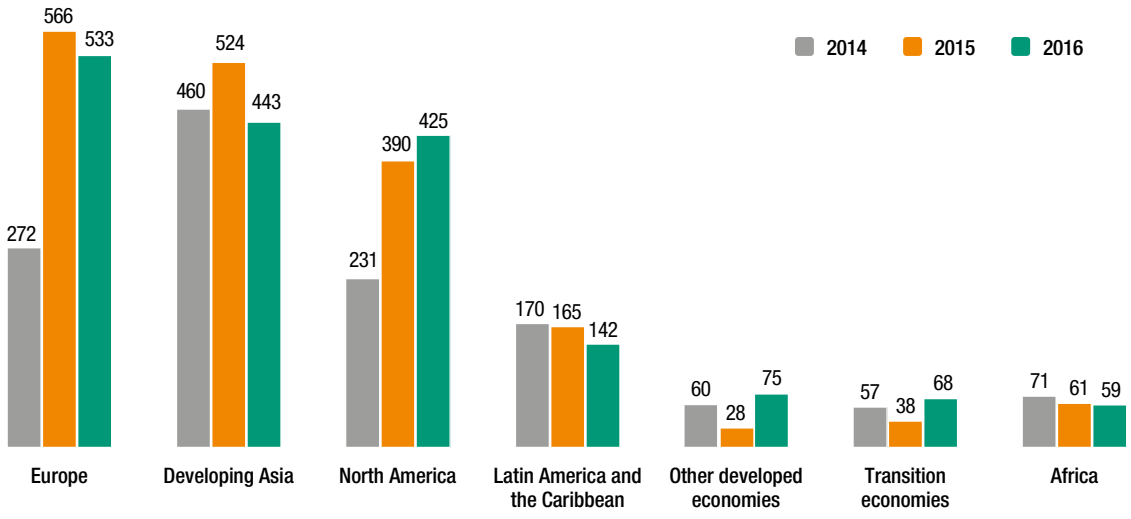
a. FDI inflows

FDI recovery remains bumpy, with diverging trends among regions. In 2016, global FDI flows decreased by 2 per cent to $1,746 billion (see figure I.1). While intracompany loans recorded a fall at the global level in 2016, equity investments were boosted by an 18 per cent increase in the value of cross-border M&As. M&As rose to $869 billion, their highest level since 2007, due to buoyant activity in developed economies. The value of announced greenfield projects also increased – by 7 per cent from 2015 to $828 billion – although this was largely due to a number of very large projects announced in a handful of developing and transition economies.

In 2016, flows to *developed economies* increased further, after significant growth in the previous year. Inflows rose by 5 per cent to $1 trillion. Developed economies' share in global FDI inflows grew to 59 per cent – the highest share since 2007. Modest growth of FDI in North America and a sizeable increase in other developed economies more than compensated for a fall in FDI to Europe (figure I.9). The declining value of announced greenfield projects (-9 per cent to $247 billion) points to some potential weakness in ongoing and future capital expenditures of MNE affiliates in these markets.

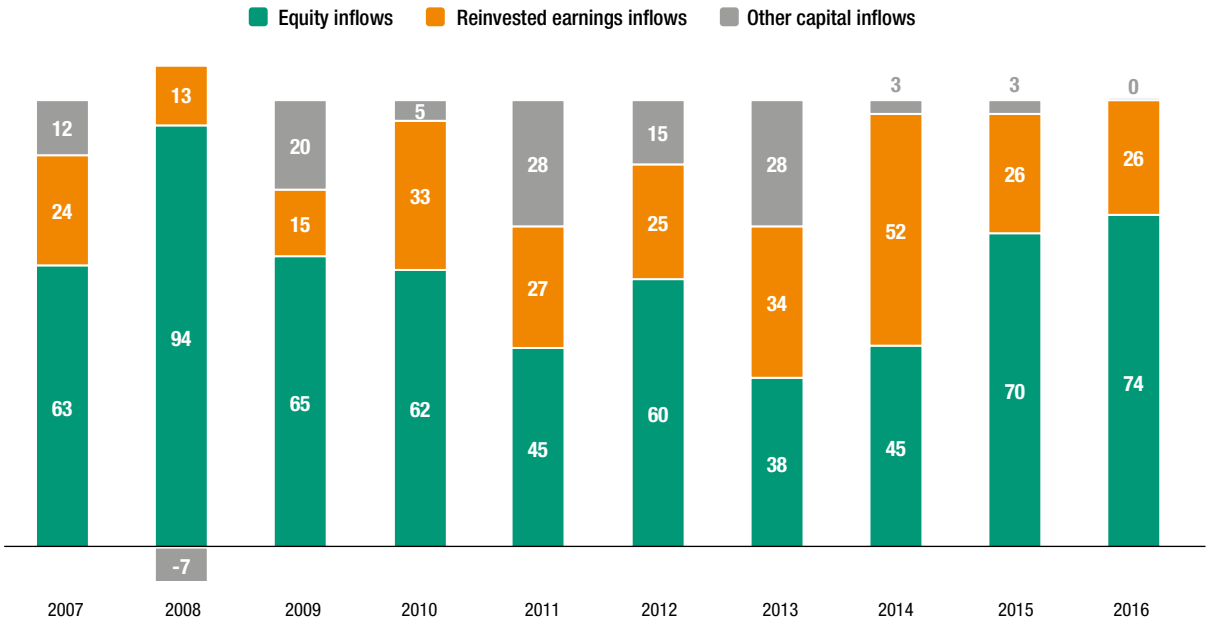
The increase of FDI in developed economies was mainly driven by equity investment flows, which continued to exhibit vigour, albeit with less dynamism than in the previous year. In 2016, the equity component accounted for 74 per cent of FDI flows to developed economies – the largest share since 2008 (figure I.10). Equity flows were driven by cross-border M&As targeting developed countries, which rose to $794 billion – an increase of 24 per cent in value.

Figure I.9. FDI inflows by region, 2014–2016 (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.10. Developed economies: FDI inflows by component, 2007–2016 (Per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

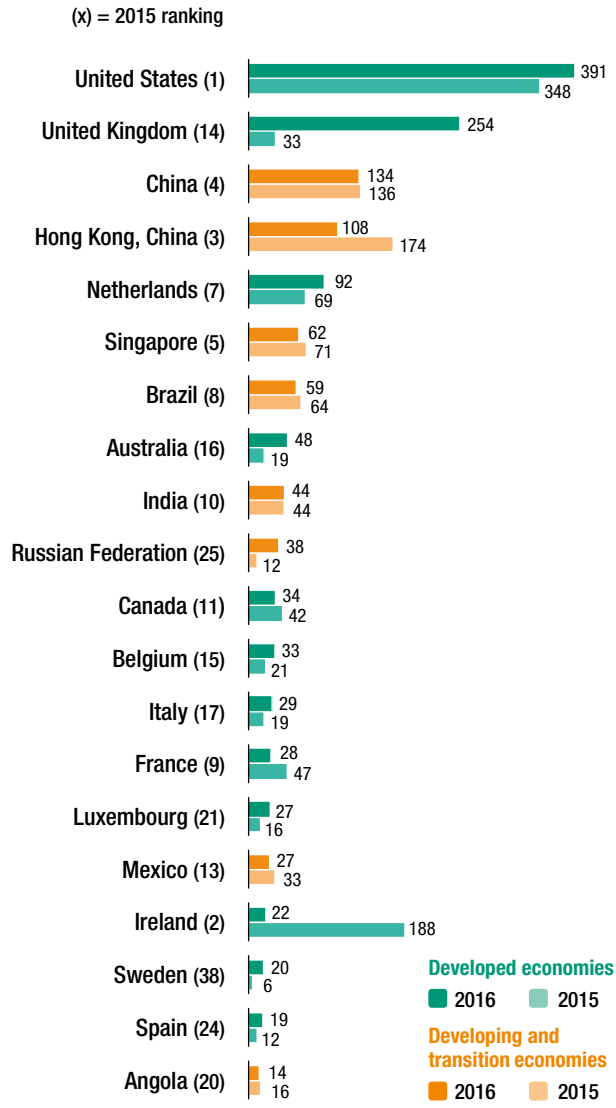
Large deals included the $101 billion acquisition of SABMiller PLC (United Kingdom) by Anheuser-Busch Inbev (Belgium), the $39 billion purchase of the generic drugs unit of Allergan PLC (United States) by Teva Pharmaceutical Industries Ltd (Israel) and the acquisition of ARM Holdings (United Kingdom) by SoftBank Group (Japan) for $32 billion (annex table 5).

Developing economies, in contrast, lost ground in 2016. Weak commodity prices and slowing economic growth weighed on foreign investment inflows, which fell by 14 per cent to $646 billion – a level last observed in 2010. Cross-border M&A activity suffered a widespread downturn across developing regions during the year, falling by 18 per cent in aggregate value. In contrast, the value of announced greenfield projects rose by 12 per cent to $516 billion, pulled by the announcement of a few very large investments in a small number of countries, while the majority of countries recorded declines. In developing Asia, the decline in inflows (-15 per cent to $443 billion) was relatively widespread, with every major subregion registering reductions, except South Asia. Economic recession in Latin America and the Caribbean, coupled with weak commodity prices for the region's principal exports, factored heavily in the decline in FDI flows to the region (down 14 per cent to $142 billion) (see figure I.9). Flows to Africa also registered a decline (-3 per cent to $59 billion), with the region suffering external vulnerabilities similar to those in Latin America.

FDI to *transition economies* enjoyed a robust upswing of 81 per cent to $68 billion, reversing the trend observed over the last two years. The increase is principally attributed to investments associated with the privatization of State-owned assets in the Russian Federation and mining exploration activities in Kazakhstan.

Developing and transition economies accounted for 6 of the top 10 host economies (figure I.11). The United States remained the largest recipient of FDI, attracting $391 billion in inflows, followed by the United Kingdom with $254 billion, vaulting from its 14th position in 2015 on the back of large cross-border M&A deals. China was in third position with inflows of $134 billion – a 1 per cent decrease from the previous year.

Figure I.11. **FDI inflows, top 20 host economies, 2015 and 2016** (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

b. FDI as a key source of finance for developing economies

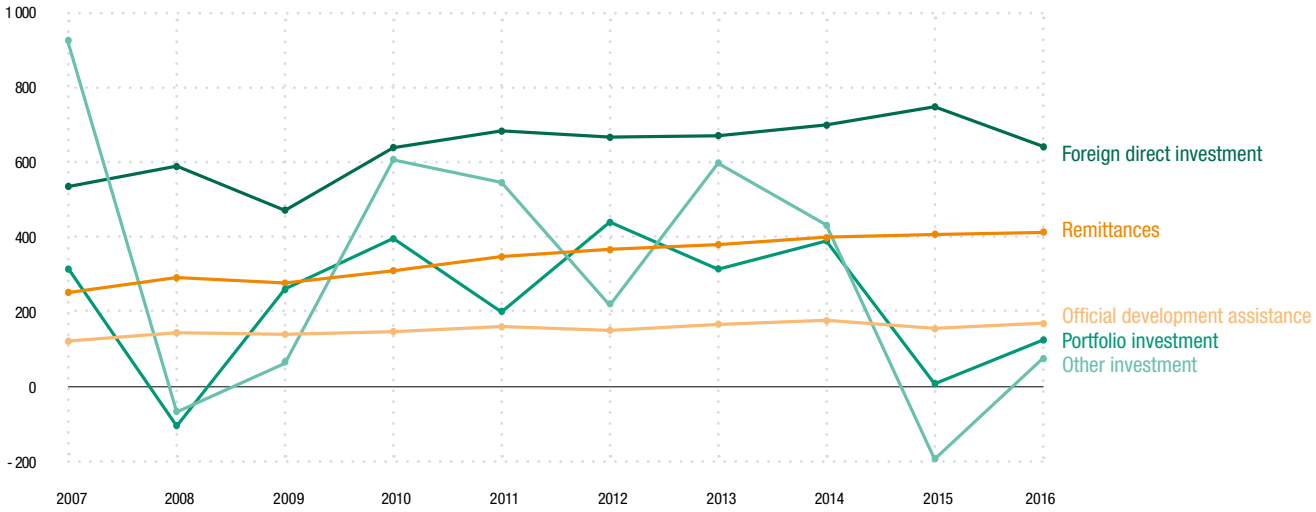
Global external financial flows to developing economies were estimated at $1.4 trillion in 2016, down from more than $2 trillion in 2010. These external resources include private capital flows – FDI, foreign portfolio and other investments (chiefly bank lending) – as well as other financial flows such as official development assistance (ODA) and international remittances. Over the past decade, their evolution has reflected the pace of GDP growth in both developed and developing economies as well as financial liberalization, but also the devastating effects of the global financial and economic crisis of 2008–2009. These external financial flows, combined, have proved to be unstable during and in the aftermath of the crisis, although with large variations between individual components.

FDI flows have remained the largest and one of the least volatile of all external financial flows to developing economies (figure I.12). Their relative stability during and after the crisis can be explained by the fact that some of the factors that reinforce the volatility of foreign portfolio and other investments, such as their short-term cyclical nature and sensitivity to short-term developments, are less present in FDI. However, FDI seems to fluctuate more than ODA and remittances, even though the latter two are not fully immune to adverse developments in the global economy. Moreover, ODA and remittances have remained smaller in volume than FDI. The protracted weakness of global economic growth has made the mobilization of external resources, which are a critical complement to domestic revenue, increasingly difficult.

International private capital flows have suffered from the fragility of the non-FDI components. Both portfolio and other investment turned negative in 2008, in the middle of the crisis, and again in 2015, owing to uncertainties in the world economy. Although these flows recovered in 2016, the aggregate data mask major differences among regions: total private capital flows (FDI, portfolio and other flows combined) to East and South Asia were markedly negative, while other developing regions recorded slightly positive flows. These developments confirm the high volatility of portfolio and other investments, making them in their current forms a rather unreliable source of finance for developing economies, despite the potential suggested by the sheer volume of assets that institutional investors hold (estimated at $78 trillion).

External financial flows are not only fragile but also fall short of the amount of investment required to achieve the Sustainable Development Goals (SDGs) by 2030. UNCTAD has estimated that, in developing economies, the annual shortfall in domestic and international resources to meet the SDG targets stands at $2.5 trillion (*WIR14*). The approach suggested by UNCTAD to fill that gap requires efforts to increase financing from all sources, including the external public and private funds.

Figure I.12. External sources of finance for developing economies, 2007–2016 (Billions of dollars)



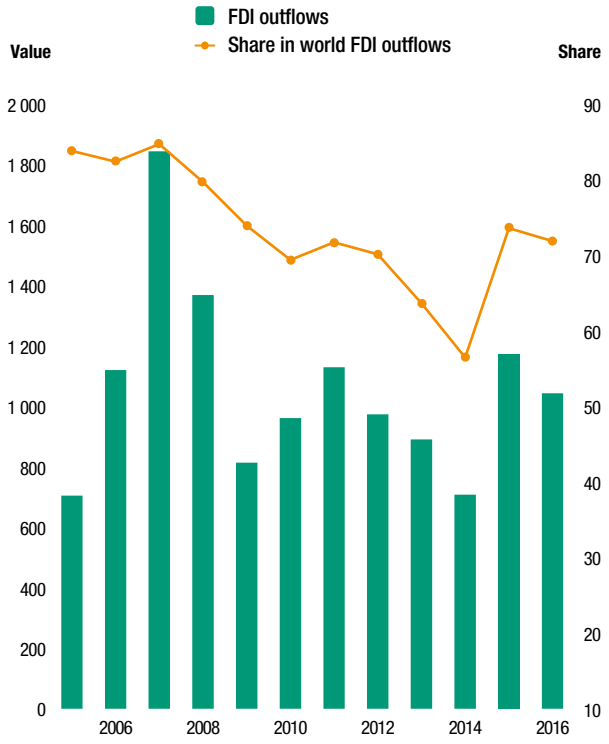
Source: ©UNCTAD, based on data from IMF (for portfolio and other investment), from the UNCTAD FDI/MNE database (for FDI inflows), from the Organization for Economic Cooperation and Development (for ODA) and from the World Bank (for remittances).
Note: Other investment includes loans among non-affiliated enterprises.

c. FDI outflows

MNEs from developed countries maintained their share of outward FDI in 2016, despite a decline in their investment activity. The flow of outward investment from *developed economies* declined in 2016, falling 11 per cent to $1 trillion. Nevertheless, their share in global outward FDI flows held roughly stable – dipping to 72 per cent from 74 per cent in 2015 – as outflows from developing economies slipped 1 per cent to $383 billion and those from transition economies contracted 22 per cent to $25 billion (figure I.13). These overall trends belie significant shifts in outward investment across and within regions in a global economic climate characterized by slow growth, weak trade dynamics and low commodity prices.

Investment by *European* MNEs, which had surged in 2015, retreated significantly in 2016, falling 23 per cent to $515 billion. This was driven by sharp reductions in outflows in Ireland (down 73 per cent to $45 billion), Switzerland (down 71 per cent to $31 billion) and Germany (down 63 per cent to $35 billion). While the prolonged slump in corporate profits in Europe crimped investment, it provided renewed impetus to some corporations to seek transformative deals providing access to

Figure I.13. Developed economies: FDI outflows and their share in world outflows, 2005–2016 (Billions of dollars and per cent)



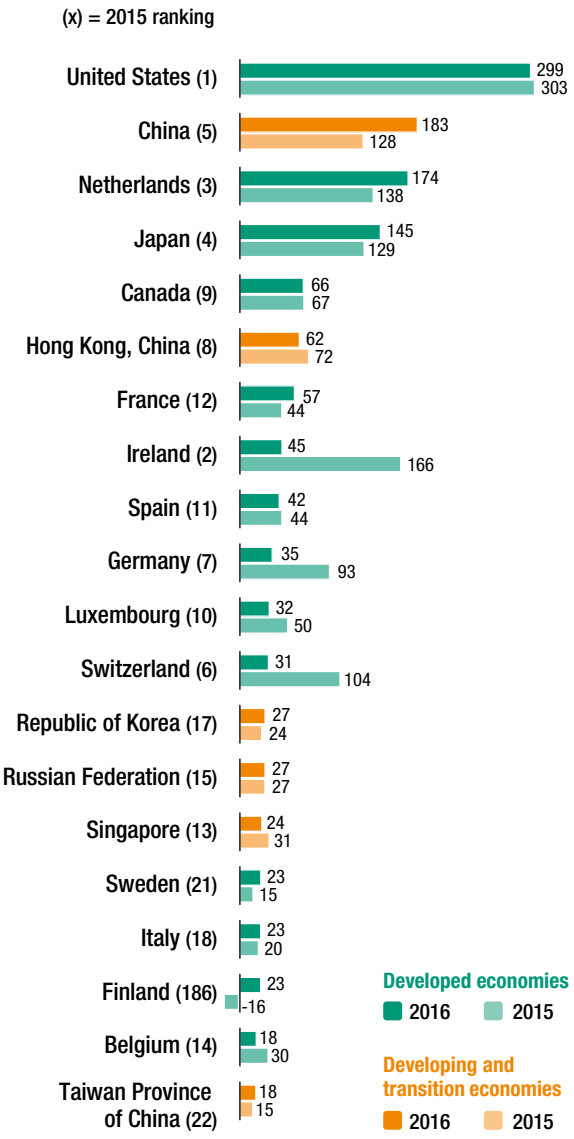
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

new markets and to generate cost savings. As a result, the value of cross-border M&As concluded by the continent's MNEs continued to increase, rising 40 per cent to $435 billion.

The year was marked by the conclusion of a number of extraordinary megadeals carried out by European firms, including the Anheuser-Busch Inbev – SABMiller deal as well as the $69 billion purchase of BG Group PLC (United Kingdom) by Royal Dutch Shell PLC (Netherlands). Nevertheless, discounting these deals, the net value of cross-border M&A purchases by European MNEs would have fallen 15 per cent, which in turn further weighed on overall outward FDI flows.

Investment by *North American* MNEs held roughly steady in 2016, despite a significant reduction in the value of their cross-border M&A purchases. The United States remained the world's largest outward-investing country, although flows declined marginally (-1 per cent) to $299 billion (figure I.14). Net purchases through cross-border M&As by MNEs, in contrast, fell sharply (-39 per cent to $78 billion), reflecting in part a slowdown in tax inversion deals. FDI outflows from Canada posted a similar decline (-1 per cent to $66 billion), despite the value of Canadian MNEs' acquisitions abroad falling 33 per cent to $57 billion.

Figure I.14. FDI outflows, top 20 home economies, 2015 and 2016 (Billions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

A relatively small number of megadeals bolstered FDI flows by MNEs from *other developed countries*, which rose 20 per cent to $164 billion. The ARM – SoftBank deal lifted outflows from Japan (13 per cent to $145 billion). Investment by Israeli MNEs increased 26 per cent to $13 billion, thanks in part to a series of acquisitions by Teva Pharmaceutical Industries. Outflows from other developed countries were also boosted by a significant swing from net divestment to net investment by Australian MNEs (from -$2 billion in 2015 to $6 billion) in 2016.

The year was marked by significant variation in outward investment by MNEs from *developing and transition economies.* Chinese outward FDI surged, rising 44 per cent to $183 billion, propelling the country to the position of second largest home country for FDI for the first time (see figure I.14). This coincided with the country becoming a net outward direct investor during the year. Chinese MNEs invested abroad to gain access to new markets and to acquire assets that generated revenue streams in foreign currencies. The rise in outward investment by Chinese MNEs was not without controversy, as a number of deals were scrutinized by policymakers both in China and abroad (chapter III).

Outward investment by African MNEs rose slightly (1 per cent to $18 billion), largely reflecting a rise in outflows in Angola (35 per cent to $11 billion) that more than offset a sharp reduction in flows from South Africa (-41 per cent to $3 billion). In contrast, outward investment by MNEs from Latin America and the Caribbean collapsed (-98 per cent

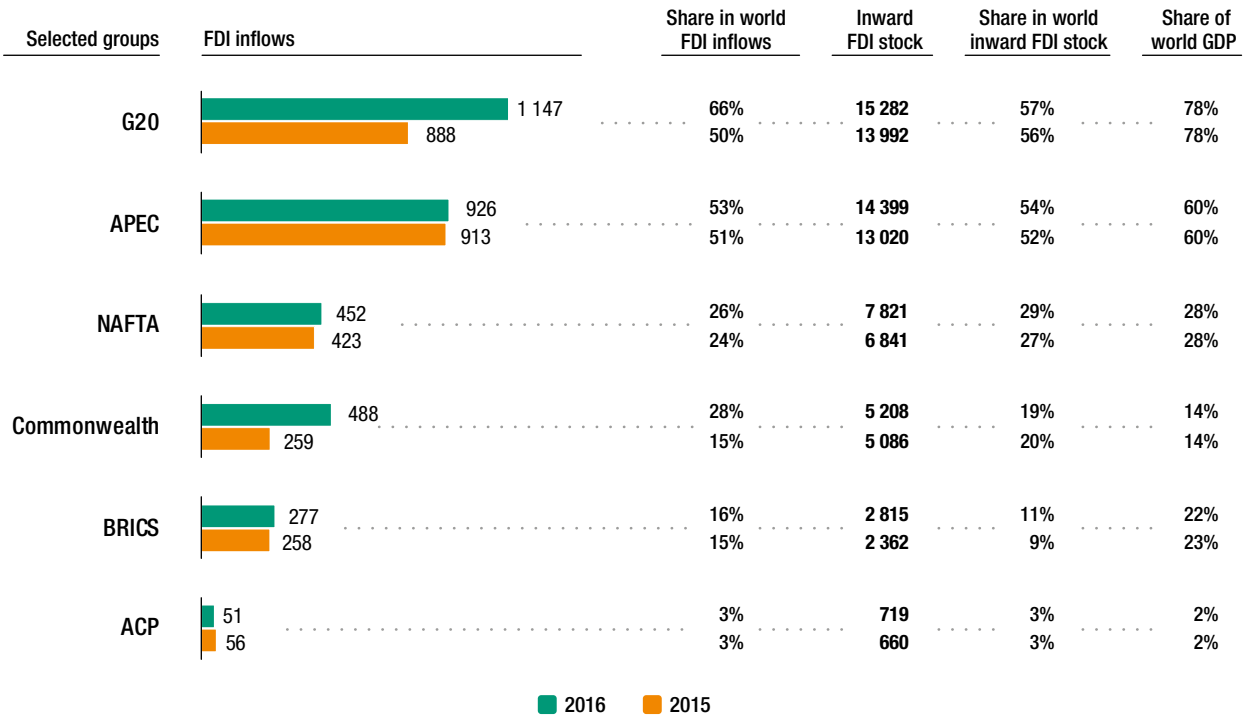
to $751 million), falling to its lowest point since 1988, as outflows from Brazil and Mexico both swung to net divestment of foreign assets. FDI outflows from the *transition economies* registered a 22 per cent decline, falling to $25 billion, as intracompany loans by MNEs from Kazakhstan turned negative.

In 2016, as in the previous year, reinvested earnings accounted for roughly half of FDI outflows from developed-country MNEs. Intracompany loans turned negative, as foreign affiliates reduced their liabilities with their parents. The structure of outward investment flows of MNEs from developing economies was largely dominated by reinvested earnings – whose share rose from 45 per cent to 66 per cent. The share of new equity investments in outflows attributed to MNEs from developing economies rose (from 43 per cent to 47 per cent) – in line with increasing cross-border acquisitions, principally by Chinese MNEs.

d. FDI by selected groups

FDI flows to and from large economic groups such as the G20 and Asia Pacific Economic Cooperation (APEC), continued to dominate the global FDI landscape in 2016 (figure I.15). These groups accounted for more than 50 per cent of global FDI inflows and outflows. Inflows to most groups (G20, APEC, NAFTA and BRICS) and country associations, such as the Commonwealth of Nations, rose for various economic and corporate reasons (chapter II). Corporate reconfiguration, economic growth and improved business sentiments contributed to the rise in these groups. The share of the largest groups in world FDI inflows (G20 and APEC) remained proportionately small relative to their weight in the global economy.

Figure I.15. FDI in selected groups, 2015 and 2016 (Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Note: G20 = includes only the 19 member countries (excluding the European Union); APEC = Asia-Pacific Economic Cooperation; NAFTA = North American Free Trade Agreement, Commonwealth = The Commonwealth of Nations; BRICS = Brazil, the Russian Federation, India, China and South Africa; ACP = African, Caribbean and Pacific Group of States. Ranked in descending order of 2016 inward FDI flows.

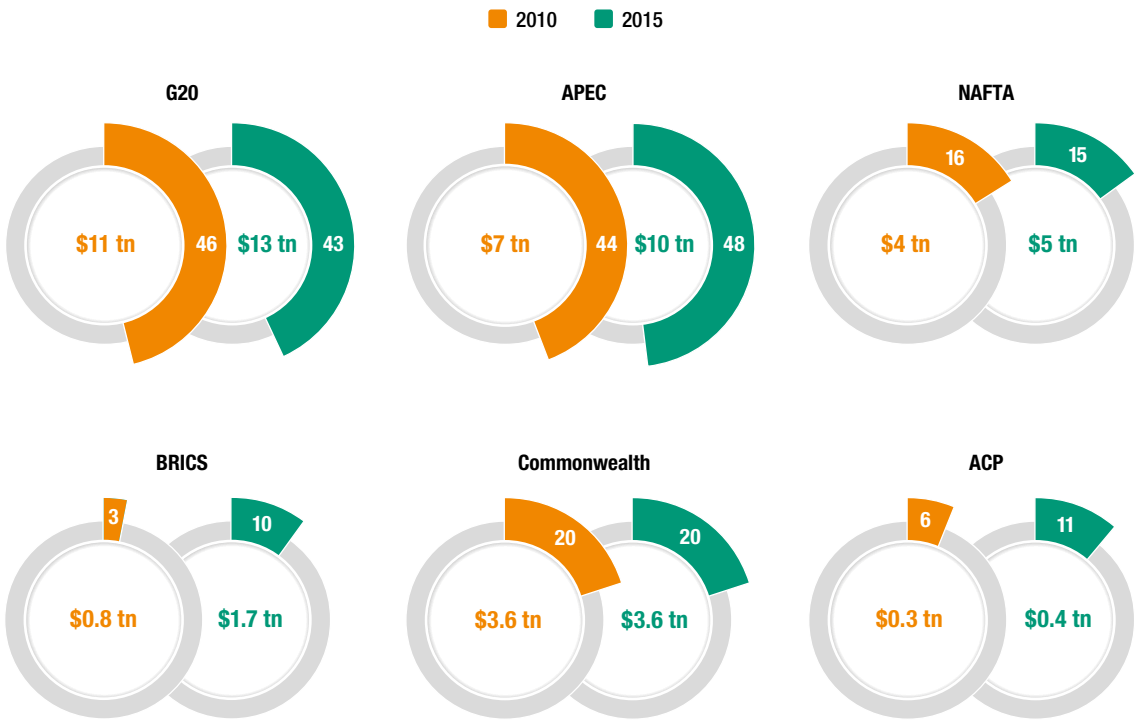
Inward FDI stock exceeded outward stock in the Commonwealth, BRICS and ACP members, while the G20, APEC and NAFTA members continued to be significant capital exporters. The former groups are predominantly developing economies and are net recipients of FDI inflows, while the latter consist of comparatively more developed countries and emerging economies with increasing numbers of MNEs. Companies in the G20, APEC and NAFTA remained active investors. With the exception of NAFTA, outward FDI flows from all selected groups rose in 2016. Intragroup connectivity through FDI remained strong in the G20 and APEC, and growing in BRICS and ACP (figure I.16). In most groups, M&A activity significantly contributes to intragroup connectivity (table I.3).

G20

FDI flows to the G20[3] rose by 29 per cent to more than $1.1 trillion – the highest level since the establishment of the group in 1999. The significant rise was due to high and sharply increasing levels of inflows to the United Kingdom, the United States, Australia and the Russian Federation (chapter II), which resulted mainly from strong cross-border M&A sales, greenfield activities and corporate reconfiguration transactions in some partner economies. Despite the record level, the group's share of global FDI inflows did not match its relative economic weight in 2016 (see figure I.15).

The G20 remained the largest recipient and source of global FDI among all existing and prospective economic groups. It continued to hold the largest share of global inward FDI stock (57 per cent). It has also consistently been a net exporter of FDI, and its outward FDI stock continued to rise in 2016. The rapid expansion of investment between the transatlantic members of the G20 and from BRICS countries contributed to the strength of outflows from the group.

Figure I.16. Selected groups: Intragroup investment, 2010 and 2015 (Trillions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Based on outward FDI stock.

Table I.3. Intragroup cross-border M&As: Value and share of the total, 2014–2016 (Billions of dollars and per cent)

Selected groups	Intragroup M&As			Intragroup share in total M&As		
	2014	2015	2016	2014	2015	2016
G20	81	276	299	39	61	76
APEC	204	173	173	63	45	50
BRICS	2	3	22	5	6	22
NAFTA	42	57	56	31	26	40
Commonwealth	20	22	6	..	14	6
ACP	4	0.2	0.01	56	6	0.2

Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Cross-border M&A activities in the G20 rose from $532 billion in 2015 to $737 billion in 2016, by far the largest increase among all these groups. Cross-border M&A sales increased in all three economic sectors, with significant rises recorded in oil and gas, beverages and electronics, as well as in electricity, wholesale trade, finance, information and communication. Economic growth, market potential, corporate factors, favorable share valuations and the maturity of the M&A environment in selected G20 countries supported active cross-border M&A sales. The rise in the number of megadeals exceeding $5 billion in the second half of 2016 also pushed up cross-border M&A sales.

Active transatlantic and intra-BRICS corporate activities supported strong intra-G20 investments, with cross-border M&As among the members rising by 8 per cent to $299 billion. Intragroup activities remained significant, accounting for 76 per cent of all cross-border M&A purchases by group members (table I.3). High-value intra-G20 M&As, such as the ARM – SoftBank deal, as well as TransCanada's (Canada) acquisition of Columbia Pipeline (United States) for $13 billion and Air Liquide's (France) acquisition of Airgas (United States) for $11 billion, contributed to a record level of cross-border M&A sales.

APEC

Despite contributing 60 per cent of global GDP, APEC[4] held only 54 per cent of global inward FDI stock and received 53 per cent of FDI inflows in 2016. FDI flows to APEC rose to $926 billion, from $913 billion in 2015. FDI to the 21 members of APEC remained highly concentrated, with five economies (United States, China, Hong Kong (China), Singapore and Australia) absorbing 80 per cent of inflows in 2016.

APEC is a major source of global investment. Its share of world outward stock rose from 47 per cent in 2010 to 55 per cent in 2016. FDI outflows from APEC rose by 4 per cent last year, from $841 billion in 2015 to $876 billion.

Intra-APEC investment remained a significant source of FDI for the group. Intra-APEC M&As rose from 45 per cent of all the groups' transactions in 2015 to 50 per cent last year (table I.3), contributing to a growing interconnection of firms and investments among group members. Intra-APEC investment is expected to grow further, with CEOs of MNEs headquartered in APEC considering further investments in the region in 2017 (PwC, 2016).

The group remained a major target for cross-border M&As, which rose by 14 per cent to $444 billion last year. Transactions were focused on the pharmaceutical, finance, chemical, electricity, transportation and storage industries.

APEC is home to 67 per cent of the companies listed in the Fortune Global 500. Companies in APEC acquired $345 billion in assets globally in 2016, down from $386 billion in 2015. A drop in the number of megadeals contributed to the decline. Acquisitions by APEC companies took place mainly in finance, electricity, telecommunication, electronics and pharmaceuticals.

NAFTA

FDI flows to the NAFTA group[5] rose by 7 per cent, from $423 billion in 2015 to $452 billion in 2016, mainly driven by the 12 per cent rise in inflows to the United States (chapter II). Since 2010, inward FDI stock in the group has risen by 63 per cent, to $7.8 trillion last year. The group received about the same share of world FDI flows as its global economic size (see figure I.15). As with the other economic groups, FDI flows in NAFTA are highly concentrated: about 90 per cent inflows and more than 80 per cent of inward FDI stock in 2016 was in the United States. The lion's share of FDI in NAFTA came from the European Union and Japan. However, the United States is the dominant source of FDI to Mexico and Canada.

NAFTA is a significant source of FDI globally and is home to 30 per cent of the world's largest 500 companies. The group contributed 25 per cent of global outflows in 2016. Intra-NAFTA investment accounts for only 15 per cent of the total outward FDI stock of the group (see figure I.16), a share that has remained stable for the past five years.

An eventual renegotiation of the NAFTA treaty is likely to affect the FDI landscape. Changes in the treaty may have implications for the magnitude and composition of flows not only in NAFTA, but also in other groups, such as the G20 and APEC, in which NAFTA members are partner countries. A renegotiation is likely to affect corporate investment, production decisions and supply chain development in the group, and a possible relocation of industries back to the United States would affect FDI within and outside NAFTA. To what extent the FDI environment would change, however, will depend on the nature and scope of changes to the treaty – investment provisions, rules of origin and tariff rate arrangements – which remain unclear.

MNEs' investment and production decisions in NAFTA in industries such as automotive and electronics could be affected. In addition, non-United States companies may seek to strengthen their presence in the United States to serve the local market. Major United States automotive manufacturers in early 2017 have been urged to build plants domestically. Some automotive companies such as Ford, Fiat Chrysler and Volkswagen plan to expand or further invest in their United States operations.

BRICS

BRICS – the economic group comprising Brazil, the Russian Federation, India, China and South Africa – accounted for 22 per cent of global GDP but received only 11 per cent of global inward FDI stock in 2016. FDI flows to the five BRICS countries last year rose by 7 per cent to $277 billion. The increase in inflows to the Russian Federation, India and South Africa more than compensated for the decline of FDI to Brazil and China. Cross-border M&A sales declined from $44 billion in 2015 to $37 billion in 2016. However, greenfield investment increased by 1 per cent, with transactions concentrated in the manufacture of foods, chemicals, electricals and electronics, motor vehicles, infrastructure services (electricity, information, telecommunication) and business activities.

FDI inflows to BRICS exceeded the group's outflows. However, investments from BRICS are on the rise. Outflows rose by 21 per cent in 2016, pushing the group's outward stock to $2.1 trillion – or over 8 per cent of the world total in 2016, up from 5 per cent in 2010.

BRICS-based companies and countries are increasingly active investors in the global arena and are contributing to shaping the South-South FDI landscape. The group is home to 24 per cent of the world's 500 largest companies. BRICS companies are also emerging players in the global M&A landscape. They acquired $100 billion worth of assets globally in 2016, compared with only $37 billion in cross-border M&A sales. The lion's share of M&A purchases by BRICS countries were in the G20.

Intra-BRICS investment continued to be small but rising. Intra-BRICS investments accounted for some 10 per cent of the group's outward stock in 2015, up from just 3 per cent in 2010 (see figure I.16). MNEs from BRICS have been showing greater interest in investment within the group in recent years. More Indian companies are making or announcing investments in other BRICS countries. Chinese MNEs also made investments in other BRICS partners in 2016. For instance, Beijing Automobile International Corporation is building an $823 million assembly facility in South Africa to produce motor vehicles for the local and regional markets. In India, China's CRRC Corporation invested in a joint-venture plant worth $63 million to produce rail transportation equipment, and Huawei Technologies plans to start manufacturing smartphones in the country. Other Chinese MNEs such as Alibaba, Xiaomi and Didi Chuxing also invested in India in 2015 and 2016. Intra-BRICS M&A activities surged from $3 billion in 2015 to $22 billion in 2016 (table I.3).

BRICS countries are active in various South-South economic initiatives such as China's One Belt One Road initiative[6] (box I.1). These initiatives create a framework for increasing economic cooperation among members, including in FDI.

Box I.1. FDI flows along the One Belt One Road initiative

In 2013, China introduced an initiative to jointly build the Silk Road Economic Belt and the 21st Century Maritime Silk Road (jointly referred to as "One Belt One Road"). More than 60 countries in various regions and economic groupings are located along the Belt and Road, with a combined inward FDI stock of nearly $6 trillion and outward FDI stock above $3 trillion. More than 50 agreements have been signed between China and its partners, covering six major international economic corridors.

Stretching from China to Europe, One Belt One Road is by no means a homogenous investment destination. However, investment dynamism has built up rapidly over the past two years, as more and more financial resources are mobilized, including FDI. A number of countries located along the major economic corridors have started to attract a significant amount of FDI flows from China as a result of their active participation in the initiative.

In **Central Asia**, a core region along the Silk Road Economic Belt, the implementation of the initiative is generating more FDI from China in industries other than natural resources and helping diversify the economies of various host countries. Chinese companies already own a large part of the FDI stock in extractive industries in countries such as Kazakhstan and Turkmenistan. The ongoing planning of new Chinese investments in the region, however, has focused on building infrastructure facilities and enhancing industrial capacities. In addition, agriculture and related businesses are targeted. For example, Chinese companies are in negotiation with local partners to invest $1.9 billion in Kazakh agriculture, including one project that would relocate tomato processing plants from China.

South Asia is benefiting from a number of projects being implemented along the China-Pakistan Economic Corridor. This has resulted in a large amount of foreign investment in infrastructure industries, especially electricity generation and transport. For instance, Power Construction Corporation (China) and Al-Mirqab Capital (Qatar) have started to jointly invest in a power plant at Port Qasim, the second largest port in Pakistan. In addition, the State Power Investment Corporation (China) and the local Hub Power Company have initiated the construction of a $2 billion coal-fired plant.

As a proactive participant in **North Africa**, Egypt has signed a memorandum of understanding with China, which includes $15 billion in Chinese investment, related to Egypt's involvement in the initiative. It is undertaking a number of cooperative projects under the One Belt One Road framework, including the establishment of an economic area in the Suez Canal Zone and investments in maritime and land transport facilities.

Source: ©UNCTAD.

The Commonwealth

The Commonwealth of 52 countries[7] is a net recipient of global FDI flows. The group received proportionately more global FDI in relation to its 14 per cent share of the world GDP in 2016 (see figure I.15). Most investment into the group is concentrated in five member countries (the United Kingdom, Singapore, Canada, Australia and India, in that order), accounting for 80 per cent of FDI stock in the Commonwealth. Flows to the group rose by 88 per cent – from $259 billion in 2015 to $488 billion last year. The United States, the Netherlands, Japan, Germany and France, in that order, held nearly 50 per cent of the $5.2 billion FDI stock in the group. The Commonwealth is also an important source of FDI and is home to 11 per cent of the 500 world's largest companies. The group accounted for 17 per cent of global outward stock in 2016, down from 20 per cent in 2010, reflecting declining or low FDI outflows in recent years. The Commonwealth recorded a $12 billion divestment in 2014, largely a result of companies from the United Kingdom selling off assets overseas worth $148 billion that year (*WIR14*). Yet in 2016, outflows from the group surged by 92 per cent to $100 billion, mainly owning to a significant rise in FDI flows from Australia (chapter II). Five countries (United Kingdom, Canada, Singapore, Australia and South Africa, in that order) accounted for 88 per cent of outward FDI stock from the Commonwealth.

Intragroup investments remained steady at 20 per cent of outward FDI stock in 2015 (see figure I.16). The share of intra-Commonwealth investments has not changed in the past six years. The United Kingdom, Singapore, Canada and India are major sources of intragroup investment.

ACP

FDI flows to the ACP[8] declined from $56 billion in 2015 to $51 billion in 2016. The group is a net recipient of FDI flows and absorbed a slightly larger share of global FDI – measured in stock – than the 2 per cent of global GDP it produced in 2016 (see figure I.15). However, FDI flows to this group of 79 developing economies are concentrated: the top 10 recipients[9] accounted for 65 per cent of FDI inward stock in 2016. The Pacific subgroup received the smaller share of inflows.

Outward FDI from the ACP remains relatively small, both compared with inward FDI and in terms of global share. Outward FDI stock rose from $117 billion in 2010 to $254 billion in 2016, or from 0.6 per cent of global outward FDI stock in 2010 to just 1 per cent in 2016. Outward FDI stock from the group is even more concentrated than the investment received: four countries alone (South Africa, Angola, Nigeria and the Cook Islands) accounted for 89 per cent, suggesting that most countries in the ACP do not yet have the capacity or a sufficient pool of private companies to invest abroad.

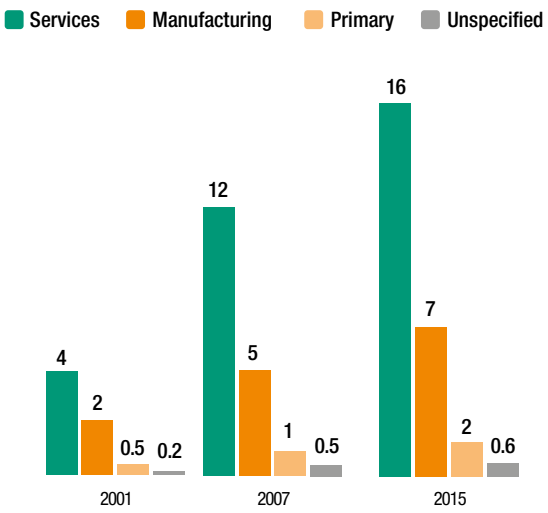
Intra-ACP investment is low but increasing. Some 11 per cent of outward FDI stock in 2015 was intra-ACP, compared with only 6 per cent in 2010.

2. FDI by sector, industry and mode of entry

Led by industries such as finance, business activities, trade and telecommunication, services continue to make up the lion's share of foreign investment, accounting for two thirds of global FDI stock. Different modes of entry demonstrated different industrial patterns. Cross-border M&As in 2016 included large deals in food and beverages, oil and gas, electronics, utilities and trading activities. Very large announced projects in a small number of countries resulted in a moderate increase in overall greenfield investments, overshadowing an otherwise widespread decline worldwide; of particular concern was the decreasing value of new manufacturing projects.

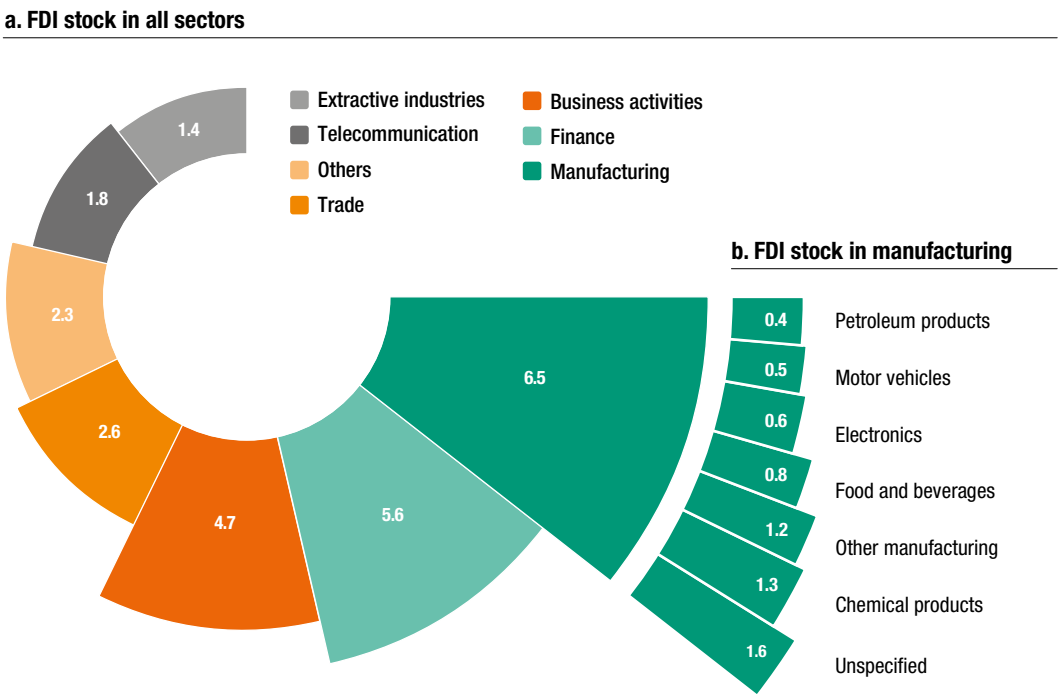
By 2015, the latest year for which data are available, about two thirds of global FDI stock was concentrated in the services sector, in line with its share in the world economy. Manufacturing and the primary sector accounted for 26 per cent and 6 per cent, respectively. The long-term shift toward services has plateaued since the outbreak of the global financial crisis (figure I.17). In addition, the high share of services in the data on global FDI stock provides an inflated picture of the actual importance of the sector (box I.2). A large part of global FDI in services is in business activities, including functions carried out by holding companies and regional headquarters that are allocated to services by default, even though parent companies might operate in the primary or manufacturing sector.

Figure I.17. **Estimated global inward FDI stock by sector, 2001, 2007 and 2015** (Trillions of dollars)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.18. **Estimated global inward FDI stock by major industry, 2015** (Billions of dollars)



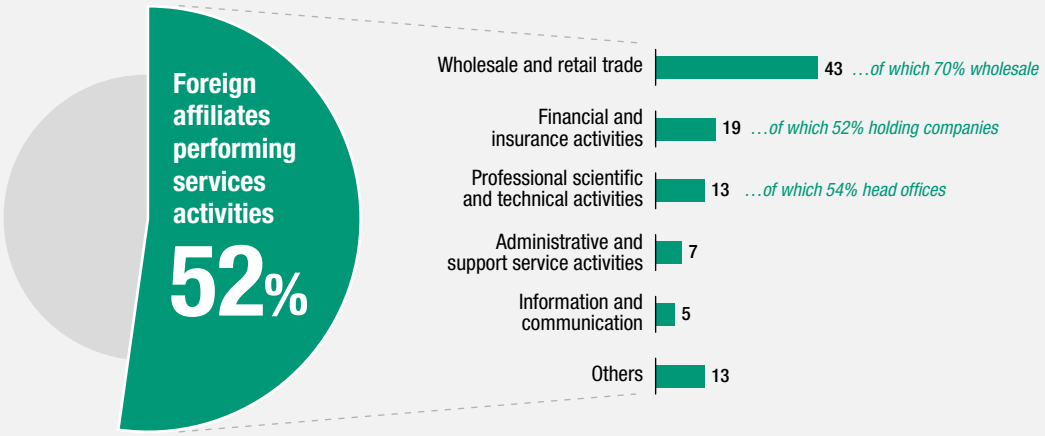
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Box I.2. The overstatement of services FDI

The sectoral breakdown of global FDI stock, as reported in the *WIR*, suggests that about two thirds of FDI is in the services sector. However, the data provide an inflated picture of the actual cross-border investment activity taking place in services industries. In fact, FDI in services could be overstated by more than a third.

One of the main reasons for the excessive allocation of FDI stock to services is that industry classifications in reported FDI data are based on the economic activity of foreign affiliates, rather than the industry of the multinational enterprise to which they belong. Many affiliates of manufacturing MNEs perform services-like activities, including regional headquarter functions, back-office functions, financial holdings, procurement or logistics hubs, distribution or after-sales services, and research and development. Examining a sample of more than 15,000 foreign affiliates of the largest primary sector and manufacturing MNEs, more than half are classified in the services sector (box figure I.2.1).

Box figure I.2.1. Foreign affiliates of primary and manufacturing MNEs performing activities classified as services, 2016 (Per cent)



Source: ©UNCTAD.

The exaggerated allocation of FDI stock to the services sector is further exacerbated by the fact that affiliates performing services functions within MNEs often act as aggregators of asset value within corporate groups. A significant proportion of global FDI stock in financial services and management activities is reported by a small number of economies that act as hub locations for the regional headquarters of MNEs. For example, the majority of global FDI stock in management activities is reported by Hong Kong (China) – making it the second largest host of FDI stock in the world, after the United States.

The largest industries within the services sector are finance and business activities, which together account for 62 per cent of the total global FDI stock in services. Yet, the highest greenfield values are consistently recorded in such sectors as utilities and telecommunication. Clearly, finance is not just banking and insurance, as it is generally thought of, but consists in large part of the financial holding companies of MNEs in other sectors. Similarly, business activities are not just professional services firms, but also (and predominantly) the overseas administrative offices of MNEs.

Data on cross-border M&As and announced greenfield investments show significantly lower shares of FDI in services. On average about 40–50 per cent of greenfield investment announcements and cross-border M&As are labelled as projects in services, a more realistic share.

This is not to say that sectoral FDI data are wrong. From the perspective of host countries, foreign investment that does not add to productive capacity in the primary sector or in manufacturing must fall by default in the services category. However, a more detailed look at the composition of services FDI shows that commonly used estimates of the share of services in FDI tend to provide an inflated impression of the real importance of the services sector in cross-border investment.

Source: ©UNCTAD, based on UNCTAD (forthcoming).

Among services industries, the largest recipients of inward FDI stock were finance, business activities, trade and telecommunication (figure I.18.a). Within the manufacturing sector, five major industries, namely chemical products, food and beverages, electronics, motor vehicles and petroleum products, accounted for more than 70 per cent of all FDI stock in specified manufacturing activities (figure I.18.b). These industries have been subject to major waves

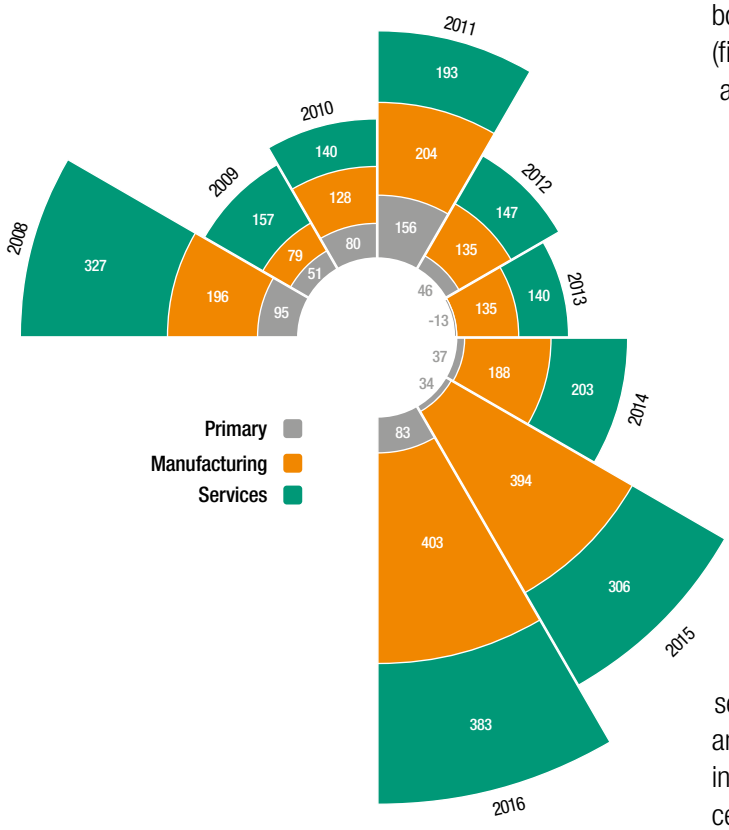
of international relocation and production offshoring over the past decades, driven by both market- and efficiency-seeking MNEs. Within the primary sector, FDI in extractive industries, including oil and gas and metal mining, dominates, while investment stock in agriculture remains low.

Low commodity prices have significantly affected FDI inflows to the primary sector over the last few years (*WIR16*), which is weighing on the share of the primary sector in FDI stock, especially in Africa, Latin America and West Asia. Extractive industries play a prominent role in these developing regions' economies, and they account for 20 to 30 per cent of their FDI stock. In 2016, cross-border M&As in extractive industries picked up thanks to a surge in oil and gas (figure I.19.a), driven by the acquisition of BG Group PLC (United Kingdom) by Royal Dutch Shell PLC (Netherlands) – the second largest cross-border M&A deal of the year. The amount of announced greenfield investment increased significantly as well (figure I.19.b).

Figure I.19. **Cross-border M&As and announced greenfield projects in extractive industries, value and share in all industries, 2009–2016** (Billions of dollars and per cent)

Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and information from Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield projects.

Figure I.20. **Value of cross-border M&A sales by sector, 2008–2016** (Billions of dollars)

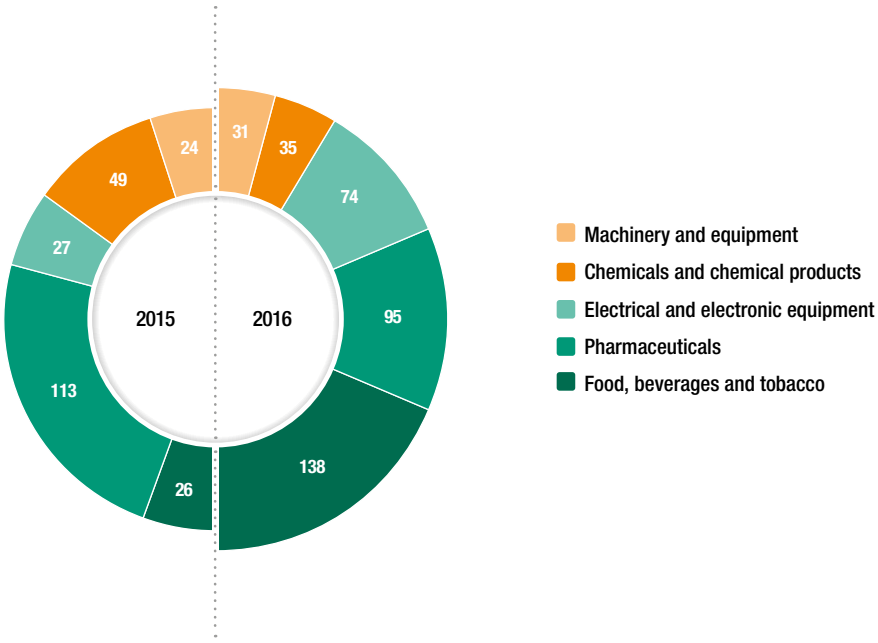


Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

The total value of cross-border M&A sales rose by about 18 per cent to $869 billion, the highest level since the outbreak of the global financial crisis. Cross-border M&A sales picked up across all three sectors (figure I.20), but particularly in major industries such as electronics, food and beverages, oil and gas, trading activities and utilities. For the second year in a row, manufacturing dominated in terms of the value of deals, boosted by a few megadeals, such as the Anheuser-Busch Inbev – SABMiller deal (see annex table 5).

In manufacturing, the total value and breakdown of cross-border M&As have changed significantly over the past few years. Electrical and electronic equipment registered a significant increase, as did food, beverages and tobacco, mostly due to the large acquisition of SABMiller PLC. In contrast, M&As in pharmaceuticals – where tax inversion deals slowed – and chemical products dropped (figure I.21). In the services sectors, transportation and storage, entertainment and recreation, and construction have led a surge in cross-border M&As, with growth rates of 34 per cent, 71 per cent and 116 per cent, respectively.

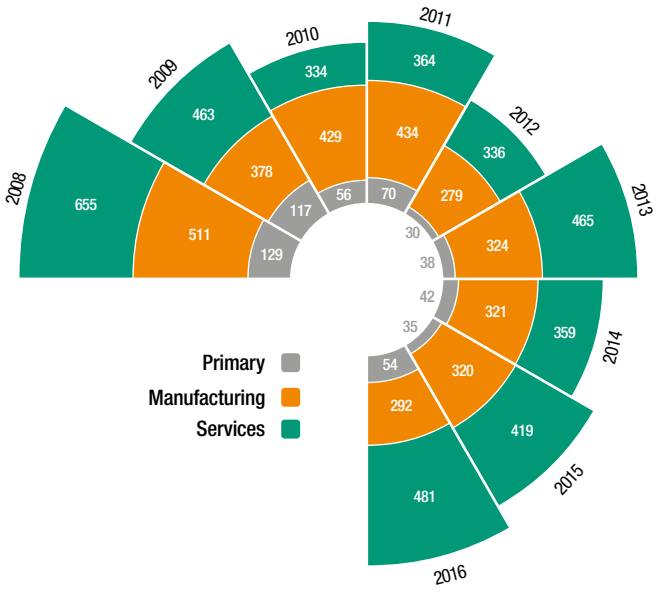
Figure I.21. **Value of cross-border M&As in manufacturing industries, 2015 and 2016** (Billions of dollars)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

In contrast to the rapidly rising value of cross-border M&As over the 2014–2016 period, the value of announced greenfield investments increased only modestly (figure I.22), suggesting a relatively slow pace of international production expansion by MNEs. In 2016, the value of greenfield FDI announcements increased by 7 per cent to $828 billion, pulled by some very large announced investments in a small number of countries while the rest of the world experienced a widespread slump. At the sectoral level, all manufacturing industries recorded a decline, with the total amount of greenfield FDI announced in the sector down by about 9 per cent to $292 billion. Announced foreign investments in the primary sector, in contrast, increased to $54 billion, pushed by some large announcements, such as the Tengiz project in Kazakhstan (section II.B). Greenfield FDI in services registered an increase as well, rising by 15 per cent to $481 billion, driven by a concentrated surge in construction investment in a small number of countries.

Figure I.22. Value of announced greenfield projects by sector, 2008–2016
(Billions of dollars)



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

C. INTERNATIONAL PRODUCTION

International production continues to expand. Sales and value added of MNEs' foreign affiliates rose in 2016 by 4.2 per cent and 3.6 per cent, respectively. Employment of foreign affiliates reached 82 million (table I.4). The rate of return on inward FDI of foreign affiliates in host economies continued to decline, falling from 6.2 per cent in 2015 to 6 per cent in 2016.

International production by foreign affiliates of MNEs is expanding at a slower rate. The average annual growth rates over the last five years of foreign affiliate sales (7.3 per cent), value added (4.9 per cent) and employment (4.9 per cent) were all lower than in the equivalent period before 2010 (at 9.7 per cent, 10.7 per cent and 7.6 per cent, respectively). The deceleration in international production is a contributing factor behind slower trade expansion.

Table I.4. Selected indicators of FDI and international production, 2016 and selected years

Item	Value at current prices (Billions of dollars)				
	1990	2005–2007 (pre-crisis average)	2014	2015	2016
FDI inflows	205	1 426	1 324	1 774	1 746
FDI outflows	244	1 459	1 253	1 594	1 452
FDI inward stock	2 197	14 496	25 108	25 191	26 728
FDI outward stock	2 254	15 184	24 686	24 925	26 160
Income on inward FDI[a]	82	1 025	1 632	1 480	1 511
Rate of return on inward FDI[b]	*4.4*	*7.3*	*6.9*	*6.2*	*6.0*
Income on outward FDI[a]	128	1 101	1 533	1 382	1 376
Rate of return on outward FDI[b]	*5.9*	*7.5*	*6.4*	*5.7*	*5.5*
Cross-border M&As	98	729	428	735	869
Sales of foreign affiliates	5 097	19 973	33 476	36 069[c]	37 570[c]
Value added (product) of foreign affiliates	1 073	4 636	7 355	8 068[c]	8 355[c]
Total assets of foreign affiliates	4 595	41 140	104 931	108 621[c]	112 833[c]
Exports of foreign affiliates	1 444	4 976	7 854[d]	6 974[d]	6 812[d]
Employment by foreign affiliates (thousands)	21 438	49 478	75 565	79 817[c]	82 140[c]
Memorandum					
GDP[e]	23 464	52 331	78 501	74 178	75 259
Gross fixed capital formation[e]	5 797	12 431	19 410	18 533	18 451
Royalties and licence fee receipts	29	172	330	326	328
Exports of goods and services[e]	4 424	14 952	23 563	20 921	20 437

Source: ©UNCTAD.

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 MNEs from Australia, Austria, Belgium, Canada, the Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden and the United States for sales; those from the Czech Republic, France, Israel, Japan, Portugal, Slovenia, Sweden and the United States for value added (product); those from Austria, Germany, Japan and the United States for assets; those from the Czech Republic, Japan, Portugal, Slovenia, Sweden and the United States for exports; and those from Australia, Austria, Belgium, Canada, the Czech Republic, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland and the United States for employment, on the basis of three-year average shares of those countries in worldwide outward FDI stock.

[a] Based on data from 174 countries for income on inward FDI and 143 countries for income on outward FDI in 2014, 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 2015 and 2016 are estimated based on a fixed-effects panel regression of each variable against outward stock and a lagged dependent variable for the period 1980–2014.

[d] For 1998–2016, the share of exports of foreign affiliates in world exports in 1998 (33.3 per cent) was applied to obtain values. Data for 1995–1997 are based on a linear regression of exports of foreign affiliates against inward FDI stock for the period 1982–1994.

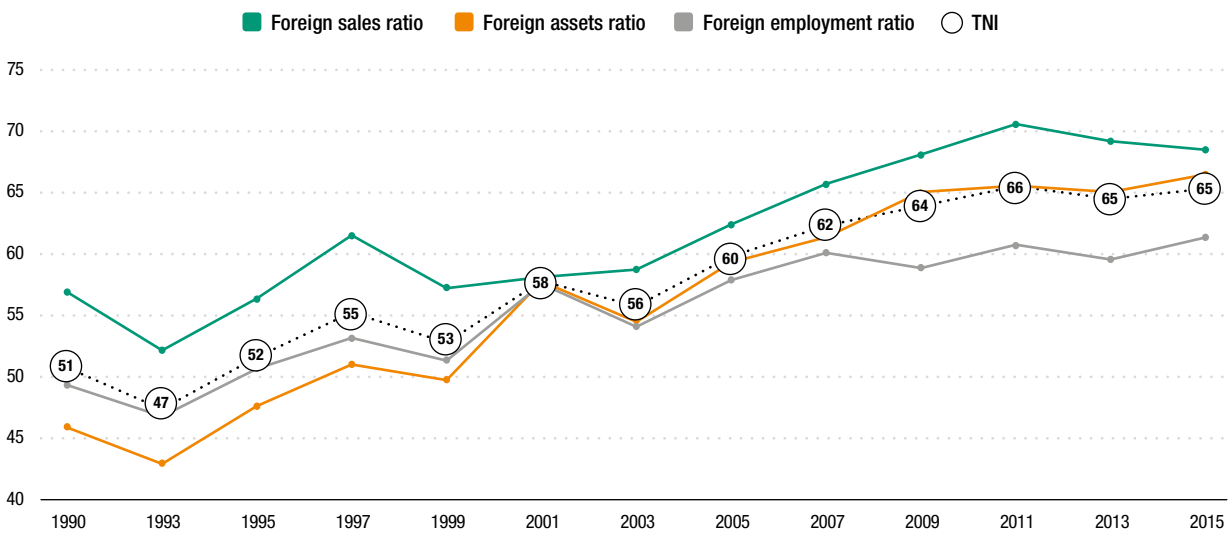
[e] Data from IMF (2017).

1. Internationalization trends of top MNEs

The internationalization of top MNEs has happened in waves. Globalization and, in particular, the integration of capital markets accelerated after the beginning of the 1990s, driven by the growing foreign operations of MNEs. This foreign expansion was uneven and interrupted by crises, however. As expressed by the Transnationality Index (TNI), the internationalization of the top 100 companies (which are ranked by their foreign assets) has paralleled world FDI flows. There have been two main phases of expansion: between 1993 and 1997, and between 2003 and 2010. Since then, the internationalization index has been relatively stable – pushed up by waves of consolidation in some sectors, on the one hand, and dampened by slowing economic growth and international trade on the other. Although the two expansion phases were both characterized by a high number of M&A deals and new greenfield projects, the underlying rationale behind MNEs' internationalization changed over the years. The focus has gradually shifted from resources- and efficiency-seeking to market- and strategic asset-seeking FDI, the latter especially for MNEs in emerging markets. The shifting internationalization strategies of MNEs influence the aggregated internationalization trends of the top 100 MNEs: the components of the TNI have followed increasingly diverging paths, the sectoral composition of the top 100 MNEs has changed and the contribution of MNEs from developing and transition economies has grown considerably.

The contribution of assets in the aggregate TNI has been rising steadily, as the foreign employment ratio plateaus (figure I.23). Foreign sales, which are the easiest, and most likely the initial, mode that companies use to internationalize, have been driving the aggregate measure of MNEs' internationalization. By contrast, foreign assets lagged for most of the first decade in the TNI. Only after 1998 did top global companies start investing heavily in foreign assets, pushing their foreign assets ratio – the average share of foreign assets in total assets – well above 50 per cent, which in turn increasingly contributed to the TNI. In contrast, the foreign employment ratio – the share of employees in foreign affiliates in MNEs' total workforce – closely followed the TNI until 2006, when it stabilized at about 60 per cent, even as the Index continued to rise. In general, TNI trends are influenced by a range of MNE-specific factors. For example, the falling foreign employment ratio

Figure I.23. Internationalization trends in top 100 MNEs, 1990–2015 (Per cent)



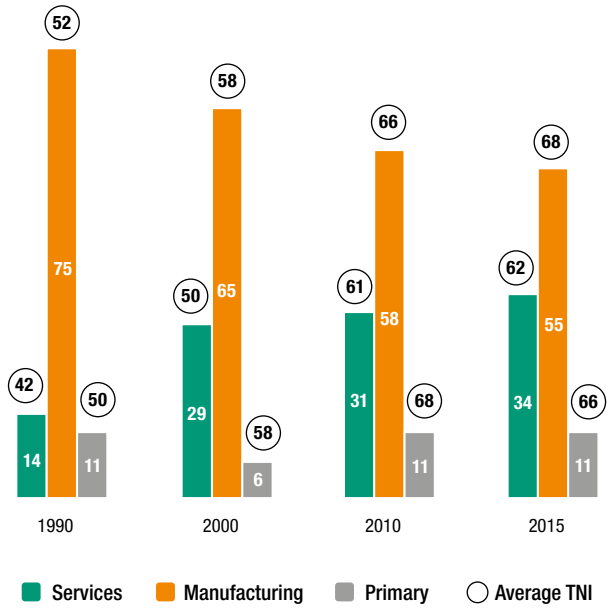
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: TNI = Transnationality Index. The index is calculated as the unweighted average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

can be explained by MNEs' shifting strategies (less focused on resources and efficiency) the increasing automation of manufacturing, rising wages in emerging economies and international policies. Other factors affect the aggregate TNI as well, such as the reliance on non-equity modes, progressive digitalization (chapter IV) and the growing presence of developing-economy MNEs in the ranking of the top global MNEs. For example, in the electronics industry, the slump in the early 2000s resulted in a new round of outsourcing deals, led by Ericsson (Sweden) and Alcatel (France) in Europe, as well as HP and IBM in the United States. As a consequence, these MNEs' foreign assets and employment drastically declined, and the industry gradually disappeared from the ranking of the top 100 MNEs, even though their international sales remain significant.

The weight of the services sector has grown considerably: It is now covered by almost one third of the top global 100 MNEs. The changing composition of the top 100 list reflects global economic structural trends, such as the growing importance of services in modern economies and the increasing internationalization of this sector, sustained by information and communication technology (ICT), internet services and deregulation (figure I.24). Traditionally, services have been slower to internationalize, facing many natural and regulatory barriers to trade and FDI. For example, the utilities industry has a TNI about five percentage points lower than the top 100 average; however, its representation on the list has more than doubled in the last 10 years. The rapid internationalization of this industry is explained by the deregulation of markets once dominated by domestic State-owned enterprises, the increasing trend towards public-private partnerships and the emergence of new independent producers.

Data processing, which is at the core of the digital economy (chapter IV and *WIR16*), is another services industry whose representation among the top 100 MNEs is sharply increasing. The rapid international expansion of these companies, despite their asset-light nature, has been fuelled by rising global consumer demand for their high-tech products and services, and by the relative ease of expanding their sales abroad. The internet and ICT have enabled and facilitated the internationalization of production for these companies; however, for their core operations, these companies typically rely on a highly skilled labour force based in their domestic economy. Their foreign sales ratio is typically higher than the average for the top 100 MNE, while their foreign employment is lower – further affecting the global TNI.

Figure I.24. Sectoral composition of top 100 MNEs, selected years
(Number of companies and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: TNI = Transnationality Index. The index is calculated as the unweighted average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

The presence of MNEs from developing and transition economies among the top 100 MNEs has continued to expand over the years, with 9 such companies in the 2016 ranking. Moreover, at least 15 such companies figure among the next 50 global MNEs. This reflects the strong economic growth in their home countries and regions relative to developed economies, coupled with the liberalization of FDI regimes, governance reforms, deregulation and the general adoption of market-oriented policies. The increasing relevance of MNEs from emerging economies is reflected in the rising share of outward FDI originating from these economies

as well as the growing weight of MNEs from this group in the global aggregate TNI. In general, these companies tend to have large domestic markets and domestic workforces and therefore have a dampening influence on the TNI.

It is noteworthy that a few large MNEs originating from developing economies have relocated their headquarters to developed countries. Examples include Anglo American (United Kingdom), formed in 1999 through the merger of Anglo American Corporation of South Africa and Minorco (Luxembourg); SABMiller (United Kingdom), created from SAB (South Africa) and Miller Brewing Company (United States), which merged in 2016 with Anheuser-Busch InBev NV (Belgium); and Vimpelcom (Netherlands) – now Veon Ltd – founded in 1992 in the Russian Federation, which relocated its headquarters to Amsterdam at the end of 2010.

In general, the very rapid internationalization of MNEs from emerging markets follows a dual path. They expand simultaneously in other developing countries and in developed economies. These firms invest in other emerging markets when driven by market-seeking and resource-seeking motives (Kedia, Gaffney and Clampit, 2012; Malik and Agarwal, 2012), while investing in developed markets for knowledge-seeking (access to brands, new technology, research and development, and managerial and operational expertise) or market-seeking reasons in mature businesses (targeting a price-sensitive segment in a low-tech industry) (Belussi, Rudello and Savarese, 2016). In many cases they tend to retain most of the productive operations domestically, especially in low-tech industries.

In 2016, the overall internationalization of top 100 MNEs remained relatively stable, with only the foreign assets ratio increasing marginally (table I.5). The positive impact of two mega-mergers (Royal Dutch Shell – BG Group and Anheuser-Busch InBev NV – SABMiller) was offset by European energy producers' financial difficulties, which resulted

Table I.5. Internationalization statistics of the 100 largest non-financial MNEs worldwide and from developing and transition economies
(Billions of dollars, thousands of employees and per cent)

Variable	100 largest MNEs worldwide					100 largest MNEs from developing and transition economies		
	2014[a]	2015[a]	2014–2015 % change	2016[b]	2015–2016 % change	2014[a]	2015	% change
Assets								
Foreign	8 424	8 014	-4.9	8 268	3.2	1 699	1 717	1.0
Domestic	4 821	4 877	1.2	4 985	2.2	4 217	4 249	0.7
Total	13 245	12 891	-2.7	13 252	2.8	5 916	5 966	0.8
Foreign as % of total	64	62	-1.4[c]	62	0.4[c]	29	29	0.1[c]
Sales								
Foreign	6 060	4 856	-19.9	4 764	-1.9	2 135	1 769	-17.2
Domestic	3 036	2 756	-9.2	2 700	-2.0	2 161	2 011	-7.0
Total	9 096	7 612	-16.3	7 464	-1.9	4 296	3 780	-12.0
Foreign as % of total	67	64	-2.8[c]	64	0.0[c]	50	47	-2.9[c]
Employment								
Foreign	9 589	9 305	-3.0	9 330	0.3	4 168	3 954	-5.1
Domestic	6 518	6 969	6.9	6 993	0.4	7 390	8 090	9.5
Total	16 107	16 273	1.0	16 323	0.3	11 558	12 044	4.2
Foreign as % of total	60	57	-2.4[c]	57	0.0[c]	36	33	-3.2[c]

Source: ©UNCTAD.
Note: From 2009 onwards, data refer to fiscal year results reported between 1 April of the base year 31 March of the following year. Complete 2016 data for the 100 largest MNEs from developing and transition economies are not yet available.
[a] Revised results.
[b] Preliminary results.
[c] In percentage points.

in a retreat in their foreign operations. In contrast, three companies from the digital economy joined the ranking, confirming a trend observed over the past few years: Amazon and Intel (both United States) and Broadcom (Singapore). In 2015, the internationalization of MNEs from developing and transition economies retreated, owing to low commodity prices. This is particularly evident for foreign sales and for MNEs from commodity-exporting countries such as Brazil and the Russian Federation.

The share of the services sector, particularly in the digital economy, and of emerging economies is set to continue rising in the next years. New technologies affect not only the composition of the top global 100 MNEs but also the operations of individual firms. It is, however, more difficult to gauge the impact of the new economy on more traditional manufacturing industries such as automotive or extractives, which continue to be the focus of the majority of MNEs on the list. For many consumer goods, proximity of production sites to local markets remains a necessity for cultural, business or political reasons.

2. State-owned MNEs

Despite the negative impact of the financial and economic crises of 2008–2009 on their activities, State-owned MNEs (SO-MNEs) continue to play a major role in the world economy. UNCTAD identified close to 1,500 SO-MNEs, with more than 86,000 foreign affiliates operating around the globe. These companies represent close to 1.5 per cent of the universe of MNEs and close to 10 per cent of all affiliates. Their total number is small, yet 15 of the top 100 non-financial MNEs and 41 of the top 100 MNEs from developing and transition economies are State-owned. More than half of SO-MNEs are headquartered in developing economies, and the EU is home to almost one third of them. Some countries, such as China, Malaysia, South Africa and the Russian Federation, have a particularly large number of SO-MNEs.

The internationalization of State-owned enterprises from a wide range of countries constitutes an important component of FDI. While the majority of SO-MNEs are headquartered in developing and transition economies, several developed countries are also home to a significant number of such firms, sometimes listed among the largest MNEs

Box I.3. UNCTAD's database of SO-MNEs: How firms were selected

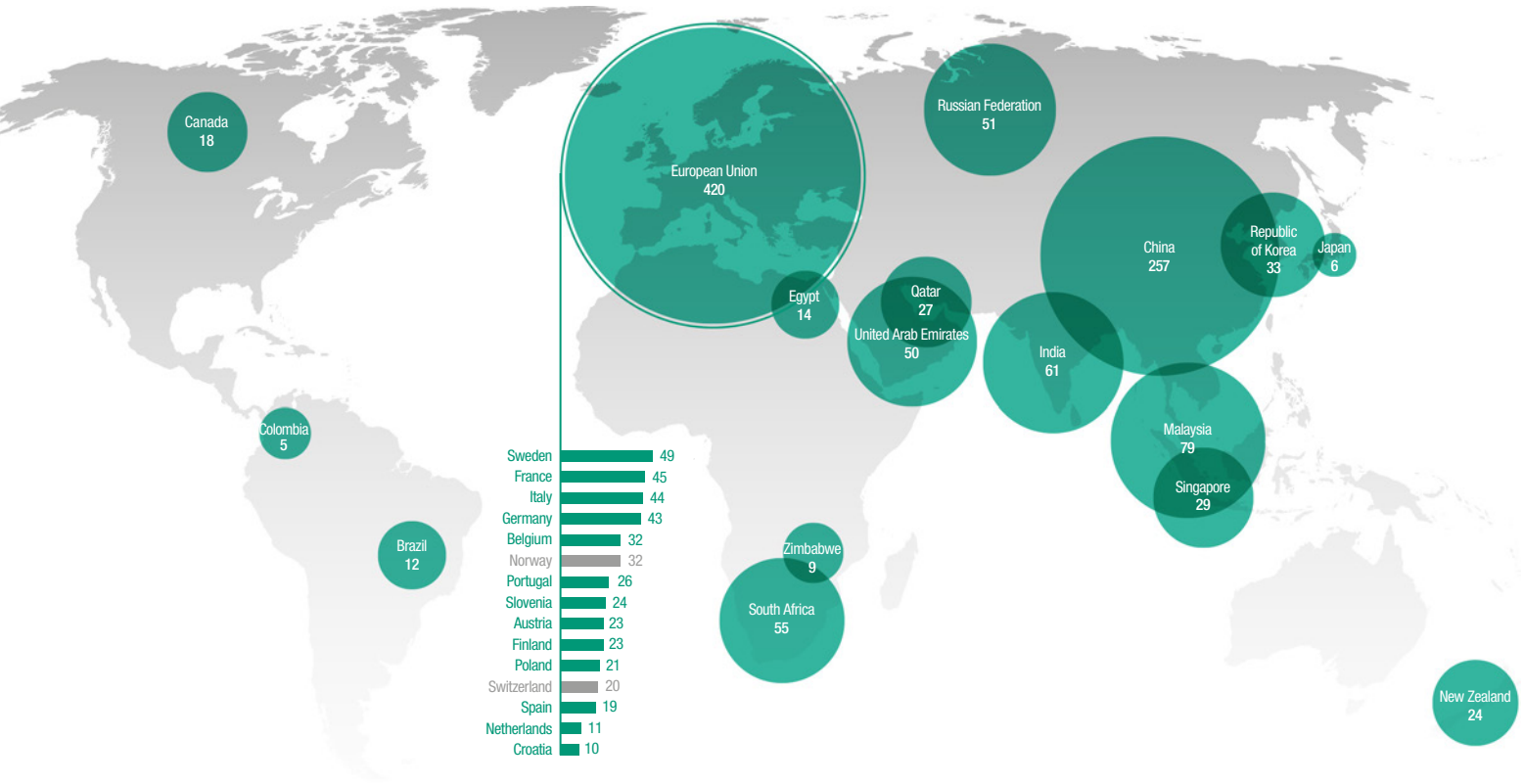
The analysis presented in this section of the *WIR* uses information available from UNCTAD's newly constructed database on SO-MNEs. The database, which covers close to 1,500 firms, contains information about State ownership shares, assets, sales, employment and the geographical distribution of foreign affiliates. The selection of companies is based on a common definition of what SO-MNEs are, taking into consideration both the share of public ownership and the amount of investment abroad.

SO-MNEs are defined here as separate legal entities established or acquired by governments to engage in commercial activities, including FDI operations, by way of having affiliates abroad or engaging in non-equity modes. An additional criterion is that a government entity should either own at least 10 per cent of the capital, be the largest shareholder or benefit from a "golden share" – a type of share that gives special voting rights and the ability to block key strategic decisions, especially takeovers by other shareholders.[a] Subnational entities in federal countries with significant State functions (e.g. German Laender, or Republics as federal subjects in the Russian Federation, or States in the United States) and municipalities are considered State owners.

Source: ©UNCTAD.

[a] The definition of SO-MNEs used in this report was established in *WIR11* (p. 28). This edition of the *WIR* adds more precision to that definition. It is in line with the definition of Blundell-Wignall and Wehinger (2011, p. 107), which is that SO-MNEs "are entities (separate from public administration) that have a commercial activity where the government has a controlling interest (full, majority or significant minority) whether listed or not on the stock exchange. The rationale is often industrial/regional policy and/or the supply of public goods (often in utilities and infrastructure – such as energy, transport and telecommunications) … SOE's are not pools of investable capital as such, but they may finance investments via their earnings, fiscal appropriations from the government, or from debt markets at a (possibly) distorted low cost of capital. In some sense, there is greater scope for financially less-constrained investment, and with strategic objectives very much in mind."

Figure I.25. SO-MNEs: Distribution by major home economy, 2017 (Number of companies)



Source: ©UNCTAD, SO-MNE database (www.unctad.org/fdistatistics).
Note: Grey bars indicate European countries that are not members of the EU.

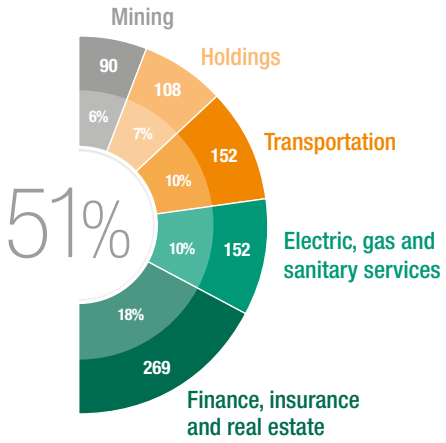
of the world. The impact of State or private ownership on MNEs and their objectives, motives and strategies has become the subject of intense interest and debate, and of a growing body of research (*WIR11*).

SO-MNEs are present in many countries. In 2017, there were close to 1,500, with more than 86,000 foreign affiliates operating worldwide (box I.3). A particularly large number of SO-MNEs (more than 400) are headquartered in the EU. State ownership in some cases, especially in the financial sector, results from rescue operations after the 2008–2009 financial crisis.

More than half of SO-MNEs are headquartered in developing economies, while close to two fifths are in developed countries, especially EU member countries; the rest are in transition economies. Some countries are home to a particularly large number of SO-MNEs (figure I.25). Among them, 18 per cent are headquartered in China, where they are instrumental in the country's outward FDI expansion strategy. China is followed by Malaysia (5 per cent), India (4 per cent), South Africa (4 per cent) and the Russian Federation (3 per cent). SO-MNEs are typically large and play major roles in key economic activities in their home countries.

The sectoral distribution of SO-MNEs is more heavily focused on financial services and natural resources than that of other MNEs. Measured by the main activities of their corporate headquarters, over half of SO-MNEs are concentrated in five industries: finance, insurance and real estate; utilities (especially electricity provision); transport services; holdings; and mining (figure I.26). Holdings is a miscellaneous category, covering either diversified conglomerates or headquarters of companies that in substance operate

Figure I.26. **SO-MNEs: Distribution by major sector or industry, 2017**
(Number of countries and per cent)



Source: ©UNCTAD, SO-MNE database (www.unctad.org/fdistatistics).
Note: Industry classification for companies follows the United States Standard Industrial Classification.

in other industries. As a result, although the inclusion of the holdings category may somewhat overestimate the share, the bulk of SO-MNEs (more than 1,000 firms, or close to 70 per cent of the total) are registered in services activities. The rest are in manufacturing (23 per cent) and the primary sector (8 per cent). The sectoral and industry distribution reflects the priorities of State owners, who wish to control more directly key resources and key infrastructure networks.

SO-MNEs account for 15 per cent of the 100 largest MNEs. Measuring the role of SO-MNEs in the world economy by number alone could significantly underestimate their importance. SO-MNEs tend to be much bigger than privately owned MNEs. Although SO-MNEs continue to remain a small minority – only 1.5 per cent – of all MNEs, their share of the world's 100 largest non-financial MNEs in 2015 was 10 times higher (15 per cent). And in developing and transition economies, SO-MNEs account for more than 40 of the top 100 non-financial MNEs.

The country and industry composition of the largest non-financial SO-MNEs differs from that of the 100 largest MNEs globally (table I.6). Developing-country firms account for almost one third (8) of the 25 largest SO-MNEs, of which 4 are from China – the second most important home country, behind France (6 SO-MNEs). Natural resources and infrastructure activities dominate: mining, quarrying and petroleum is represented by five firms, followed by electricity, gas and water (four), motor vehicles (three), petroleum refining (three) and telecommunication (three). Of these, only motor vehicles belong to non-resource-based manufacturing. There are also important size variations among the top 25, with the largest SO-MNE having eight times more foreign and total assets than the smallest of this group. Ranked by foreign assets, the car manufacturer Volkswagen AG (Germany) is the largest non-financial SO-MNE, followed by the utility company Enel (Italy), the oil company Eni (Italy) and Deutsche Telekom (Germany). The foreign assets of these four SO-MNEs exceeded $100 billion in 2016.

In financial services, the number one industry for SO-MNEs (see figure I.26), firms tend to be very large. Among the 25 largest ranked by total assets,[10] 18 are larger than the top non-financial SO-MNE (Volkswagen AG). This is due to the fact that financial firms work with a higher ratio of assets to sales than other firms. Among the 10 largest financial SO-MNEs, 7 are from China, including the top one (Industrial & Commercial Bank of China) (table I.7). Among the 25 largest, 16 are spread among developed economies such as Germany, Japan and the United Kingdom, and large emerging economies such as India, the Republic of Korea and the Russian Federation. Commercial banking is by far the most frequently reported activity of these SO-MNEs (15 firms).

SO-MNEs locate the majority of their foreign affiliates in developed countries, especially the EU. In 2017, of the more than 86,000 foreign affiliates, the EU was host to close to 33,000 (38 per cent). By individual host countries, the highest numbers were registered in the United States (close to 9,000), the United Kingdom (close to 8,000) and Germany (close to 5,000) (figure I.27). The geographical distribution of foreign affiliates reflects the corporate strategies of SO-MNEs, focusing on the largest consumer markets for their services (especially finances, utilities and transportation).

Table I.6. The top non-financial SO-MNEs, ranked by foreign assets, 2016 (Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment		TNI
Foreign assets	TNI	Corporation	Home economy	Industry	State ownership (%)	Foreign	Total	Foreign	Total	Foreign	Total	(%)
1	7	Volkswagen Group	Germany	Motor vehicles	20.0	197 254	431 888	192 093	240 366	346 715	626 715	60.3
2	12	Enel SpA	Italy	Electricity, gas and water	23.6	111 240	164 010	37 622	75 898	30 124	62 080	55.3
3	10	Eni SpA	Italy	Petroleum refining and related industries	25.8	106 408	131 280	35 510	61 690	12 626	33 536	58.8
4	8	Deutsche Telekom AG	Germany	Telecommunications	17.4	102 176	156 514	53 588	80 866	106 972	218 341	60.2
5	23	EDF SA	France	Electricity, gas and water	84.6	84 508	296 869	17 923	78 773	25 142	154 808	22.5
6	13	Engie	France	Electricity, gas and water	32.0	77 809	167 070	46 125	73 724	80 439	153 090	53.9
7	22	China National Offshore Oil Corp (CNOOC)	China	Mining, quarrying and petroleum	100.0	66 673	179 228[a]	17 761	67 789[a]	8 979	110 200[a]	23.8
8	4	Airbus Group NV	France	Aircraft	11.1[b]	66 490	117 142	50 010	73 660	85 819	133 782	62.9
9	15	Orange SA	France	Telecommunications	13.5	62 623	99 787	24 283	45 268	58 399	155 202	51.3
10	21	Nippon Telegraph & Telephone Corp	Japan	Telecommunications	32.4	59 580	187 251	13 749	96 218	77 000	241 450	26.0
11	20	Statoil ASA	Norway	Petroleum refining and related industries	67.0	58 995	104 530	10 190	45 688	2 505	20 539	30.3
12	2	Renault SA	France	Motor vehicles	15.0	49 381	107 624	43 451	56 691	100 473	124 849	67.7
13	18	Petronas - Petroliam Nasional Bhd	Malaysia	Mining, quarrying and petroleum	60.6	47 912	139 868[a]	46 459	63 322[a]	10 630	53 149[a]	42.5
14	17	China COSCO Shipping Corp Ltd	China	Transport and storage	100.0	43 076	55 642[a]	15 104	22 965[a]	5 114	82 708[a]	49.8
15	16	Vale SA	Brazil	Mining, quarrying and petroleum	Golden shares	37 413	99 157	25 123	27 161	15 527	73 062	50.5
16	24	China Minmetals Corp	China	Metals and metal products	100.0	35 165	107 933[a]	16 221	68 413[a]	15 082	240 000[a]	20.9
17	11	Inpex Corp	Japan	Mining, quarrying and petroleum	19.0	32 434	38 898	3 859	8 417	1 567	3 449	58.2
18	3	Deutsche Post AG	Germany	Transport and storage	24.9	29 820	40 366	43 615	63 430	297 036	508 036	67.0
19	5	Japan Tobacco Inc	Japan	Tobacco	33.4	28 130	40 527	11 742	20 371	26 100	44 667	61.8
20	1	OMV AG	Austria	Petroleum refining and related industries	31.5	27 542	33 848	15 905	21 308	19 113	22 544	80.3
21	14	Sabic - Saudi Basic Industries Corp	Saudi Arabia	Chemicals and allied products	70.0	22 870	87 525	26 141	39 490	25 391	40 000	51.9
22	25	China State Construction Engineering Corp Ltd (CSCEC)	China	Construction	100.0	25 472	165 740	9 717	140 099	37 112	241 474	12.6
23	9	Vattenfall AB	Sweden	Electricity, gas and water	100.0	24 430	45 161	11 846	17 833	11 251	19 935	59.0
24	6	PSA Peugeot Citroen	France	Motor vehicles	13.7	23 934	47 595	45 401	59 774	97 411	170 156	61.2
25	19	Oil and Natural Gas Corp Ltd	India	Mining, quarrying and petroleum	68.9	23 921	53 765	1 889	20 084	15 095	33 927	32.8

Source: ©UNCTAD.

Note: TNI is calculated as the unweighted average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

[a] 2015.

[b] The share of the French Government. The German Government also owns 11.1 per cent and the Spanish Government 4.2 per cent.

Table I.7. The top financial SO-MNEs, ranked by total assets, 2015 (Millions of dollars and number of employees)

Ranking	Corporation	Home economy	Industry[a]	State ownership (%)	Assets	Sales	Employment
1	The Industrial & Commercial Bank of China (ICBC)	China	Commercial banks	34.6	3 421 363	103 301	466 346
2	China Construction Bank Corporation JSC	China	Commercial banks	57.0	2 826 695	93 834	369 183
3	Agricultural Bank of China Ltd	China	Commercial banks	40.0	2 740 721	82 086	503 082
4	Japan Post Holding Co Ltd	Japan	Insurance carriers	80.5	2 592 090	126 587	250 876
5	Bank of China Ltd	China	Commercial banks	64.0	2 590 402	73 052	310 042
6	Bank of Communications Co Ltd	China	Commercial banks	26.5	1 102 266	29 281	89 269
7	The Royal Bank of Scotland Group Plc	United Kingdom	Bank holding	71.9	982 507	15 648	77 000
8	China Merchants Bank Co Ltd	China	Commercial banks	26.8[b]	843 407	31 120	76 192
9	Shanghai Pudong Development Bank	China	Commercial banks	20.0	777 070	22 576	48 427
10	Ping An Insurance (Group) Company of China Ltd	China	Insurance carriers	32.2	734 061	59 464	300 000[b]
11	Commerzbank AG	Germany	Commercial banks	15.0[b]	506 442[c]	9 907[c]	49 941[c]
12	Banco do Brasil SA	Brazil	Commercial banks	65.6[b]	498 506[c]	34 288[c]	109 191
13	China Life Insurance (Group) Co Ltd	China	Insurance carriers	100.0	466 453	70 412	98 823
14	State Bank of India	India	Commercial banks	61.2	447 877	19 616	207 739
15	CNP Assurances	France	Insurance carriers	40.9	428 656	34 577	5 000[b]
16	Sberbank of Russia OAO	Russian Federation	Savings institutions	52.3	418 229[c]	28 772[c]	325 075[c]
17	ABN AMRO Group NV	Netherlands	Commercial banks	70.1[b]	415 823[c]	8 587[c]	110 000[b]
18	Life Insurance Corporation of India	India	Insurance carriers	100.0	330 767	40 168	114 773
19	DnB ASA	Norway	Bank holding	34.0	307 796[c]	6 052[c]	11 459[c]
20	Landesbank Baden-Wuerttemberg	Germany	Credit agencies	25.0[b]	254 772	3 181	11 120
21	Woori Bank	Republic of Korea	Commercial banks	51.1	248 920	8 350	15 000[b]
22	Dexia SA	Belgium	Bank holding	50.0[b]	224 282[c]	532[c]	1 148[c]
23	VTB Bank PJSC	Russian Federation	Commercial banks	47.2	207 487[c]	9 728[c]	94 966[c]
24	Industrial Bank of Korea	Republic of Korea	Commercial banks	51.8	204 557	4 712	53 000[b]
25	Qatar National Bank	Qatar	Commercial banks	50.0	197 718[c]	6 342[c]	27 300[b]

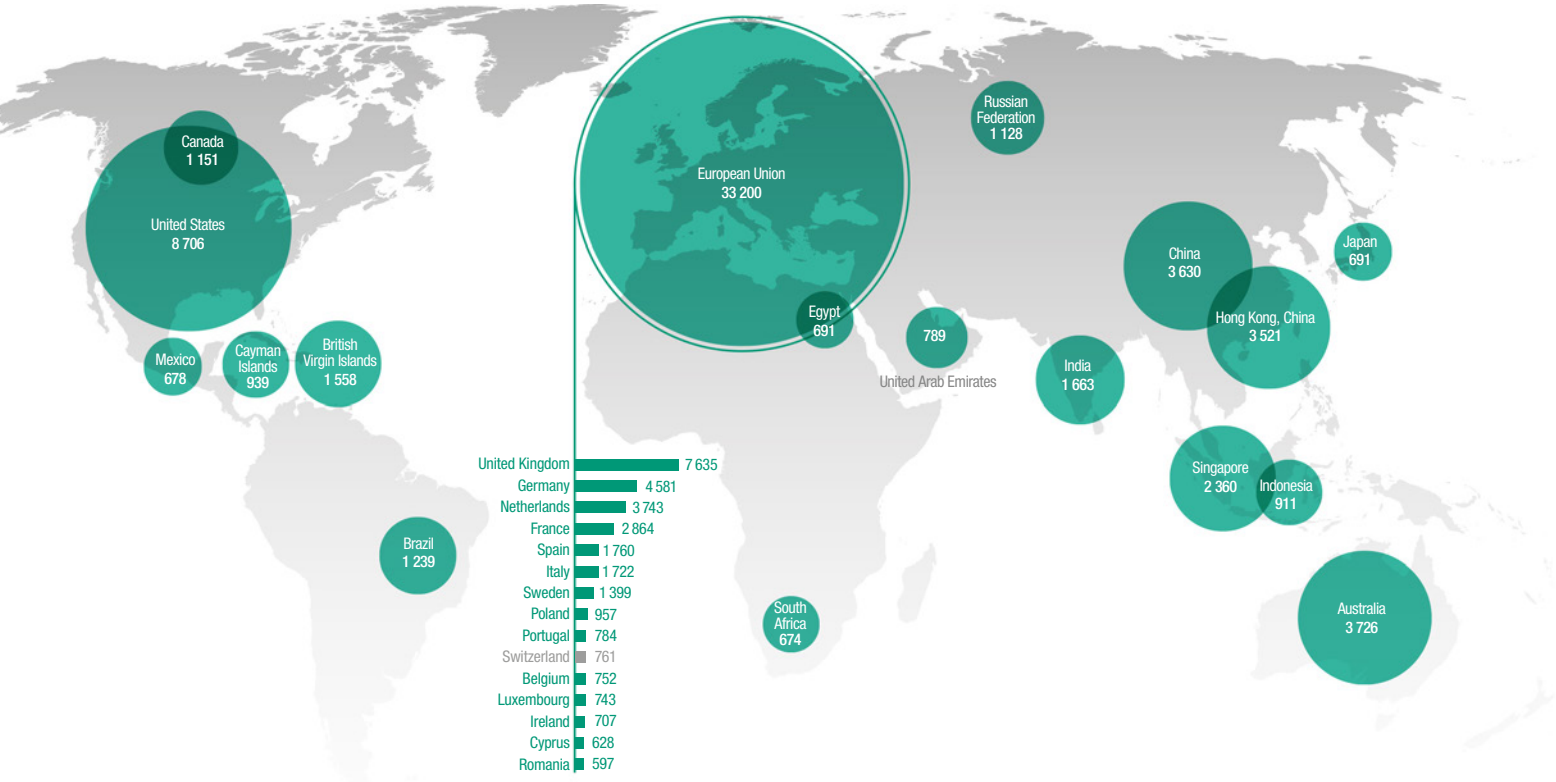
Source: ©UNCTAD.

[a] Industry classification for companies follows the United States Standard Industrial Classification.

[b] Estimate.

[c] Data refer to 2016.

Figure I.27. Foreign affiliates of SO-MNEs: Distribution by major host economy, 2017 (Number of affiliates)

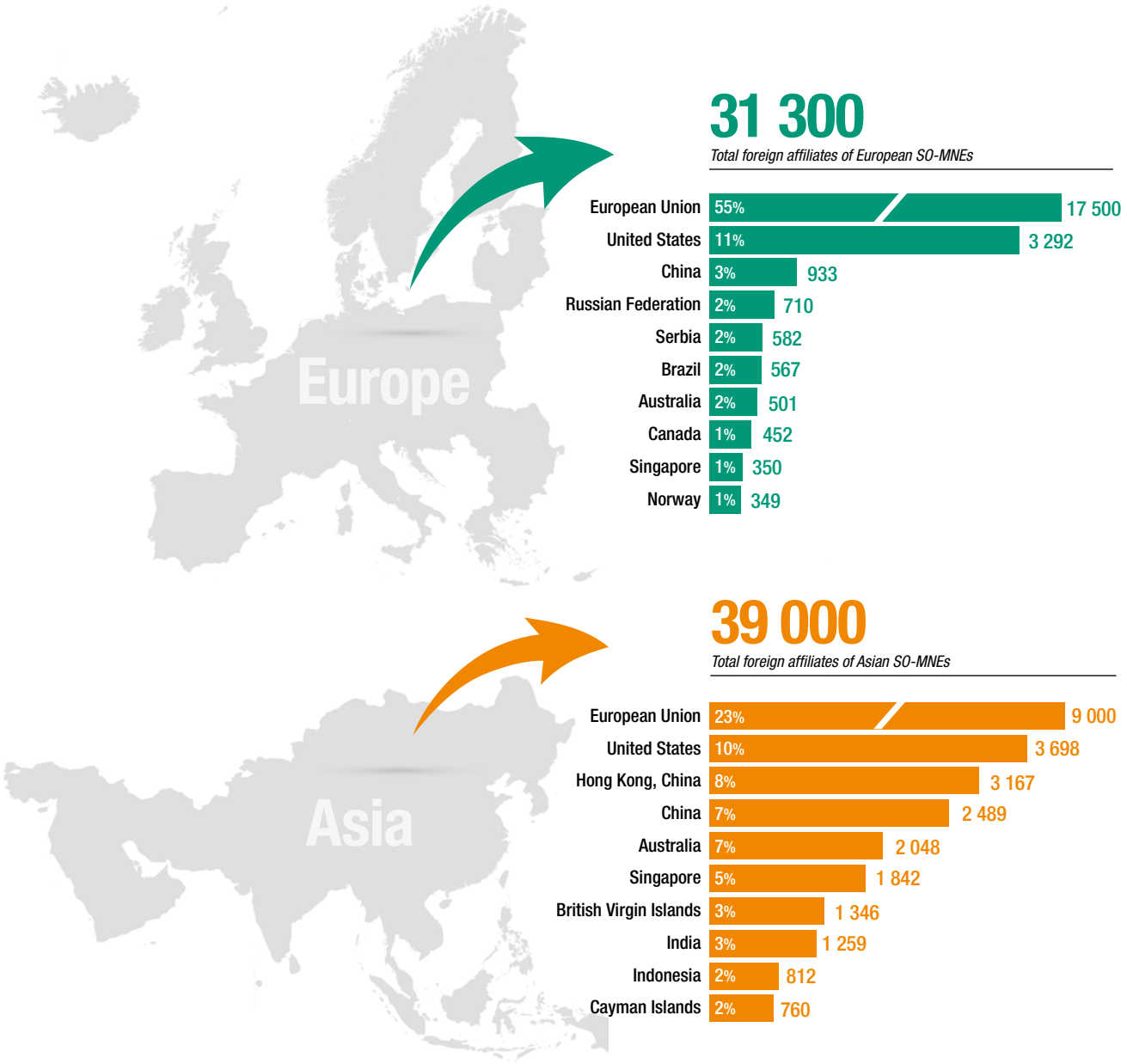


Source: ©UNCTAD, SO-MNE database (www.unctad.org/fdistatistics).
Note: Grey bars indicate European countries that are not members of the EU.

The geographical preferences of SO-MNEs headquartered in Asia and Europe – two of the key continents for SO-MNE parents – are only partly similar (figure I.28). SO-MNEs from both continents focus heavily on the EU market, followed by the United States and a few emerging economies. There are however some differences: Asian SO-MNEs target Hong Kong (China), China and Singapore, while European SO-MNEs target China more frequently. It is also notable that more than half of the foreign affiliates of European SO-MNEs are located in the EU, while the share of foreign affiliates of Asian SO-MNEs located in Asia is about a quarter. In other words, European SO-MNEs show a very high degree of regionalization, whereas Asian SO-MNEs appear to be more globalized.

Government shareholding in SO-MNEs spans from full control to golden shares, with a clear preference given to majority ownership. Full control (100 per cent ownership) is the most favoured type. Of the firms for which exact data were available, over a third were fully owned by their respective governments, and another 29 per cent were controlled through majority ownership (figure I.29). In other words, governments enjoy majority control in close to two thirds of all SO-MNEs. The SO-MNEs in this group are typically either fully integrated into the State, usually as an extension of a particular ministry, or publicly listed, but with the State owning more than 50 per cent of the voting shares. When the government owns between 25 and 50 per cent of SO-MNEs (21 per cent of cases), it is still typically the largest single shareholder and has significant influence over the composition of the board of directors and corporate strategies. In 16 per cent of cases, the State has a minority stake of less than 25 per cent, including golden shares. In those cases, the State is still represented on the board of directors, but its participation in the management of the enterprise is usually more selective, focusing on key strategic decisions.

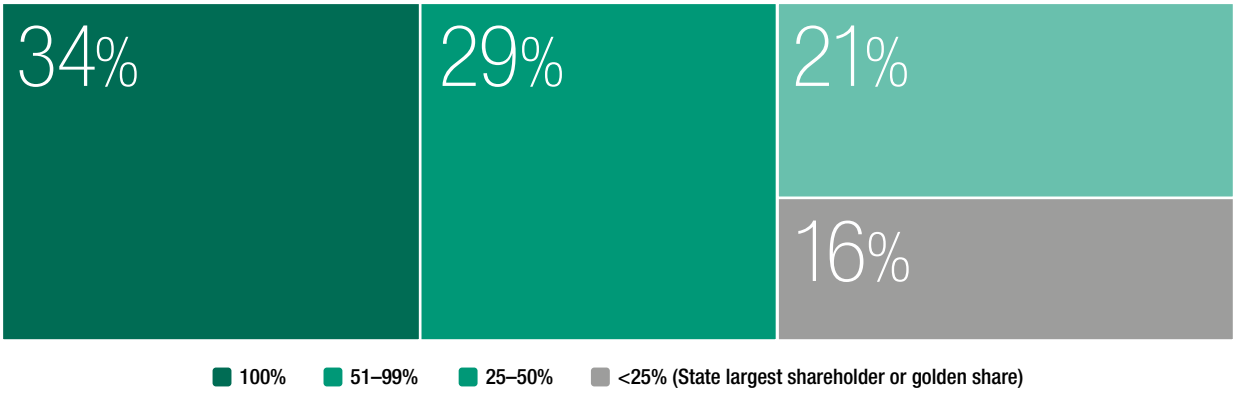
Figure I.28. **Top 10 host economies of foreign affiliates of Asian and European SO-MNEs, 2017**
(Number of affiliates and per cent)



Source: ©UNCTAD, SO-MNE database (www.unctad.org/fdistatistics).
Note: For a list of economies included in Asia and Europe see the annex tables.

The degree to which governments influence the decisions of SO-MNEs does not depend only on percentage ownership, but also on foreign expansion strategy. The political and economic environment in home countries – for instance, the degree of free market policies or interventionism – influences the relationship between States and their MNEs. The home country's level of development also influences the internationalization of SO-MNEs, with the probability of State intervention higher in less developed countries: in some cases, the government might discourage FDI by its SO-MNEs, as this could reduce their contribution (e.g. social, industrial) to the domestic economy; in other cases, the State might be ready to support FDI to help build economies of scale and further enhance the competitive position of its MNEs and that of the home country (*WIR11*).

Figure I.29. **SO-MNEs: Ownership structure, 2015** (Per cent)



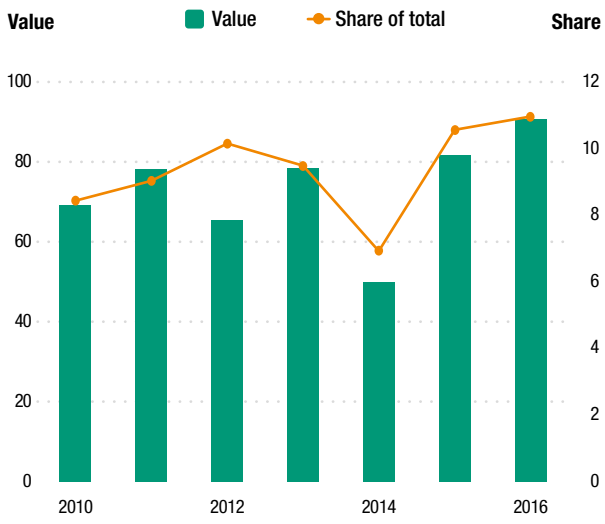
Source: ©UNCTAD, SO-MNE database (www.unctad.org/fdistatistics).

Three main stances have been identified when it comes to the foreign expansion of SO-MNEs (*WIR11*): (i) The government as hindrance to internationalization (e.g. in Italy, where there has been repeated concern about the potential effects of SO-MNEs' internationalization on local unemployment rates); (ii) the government as supporter of internationalization (e.g. China's "Go Global" policy); and (iii) the government as indifferent to SO-MNE internationalization, but providing guidance on the developmental impact of outward FDI (e.g. Vattenfall (Sweden) in Africa). Besides these three main models, a fourth has re-emerged during and after the crisis of 2008–2009, namely the bailing out of failing firms, especially in the financial sector. In this case, the government acts as a bankruptcy manager: its aim is not to control the firm for the long term as a strategic priority, but to save it from oblivion and to divest once the company's finances have improved (as in the case of General Motors, from which the United States Government divested at the end of 2015).

Home-country governments have created their SO-MNEs for specific purposes: they needed them to implement development priorities, such as dealing with market failures or non-economic considerations in public policies, as well as controlling natural monopolies or strategic resources. In turn, both home- and host-country governments are aware that the existence and activities of SO-MNEs raise particular policy issues related to their ownership, such as concerns about national security, competition, governance, social and environmental standards, the impact on host-country development and industrial policies, and the transparency of SO-MNE transactions (*WIR11*).

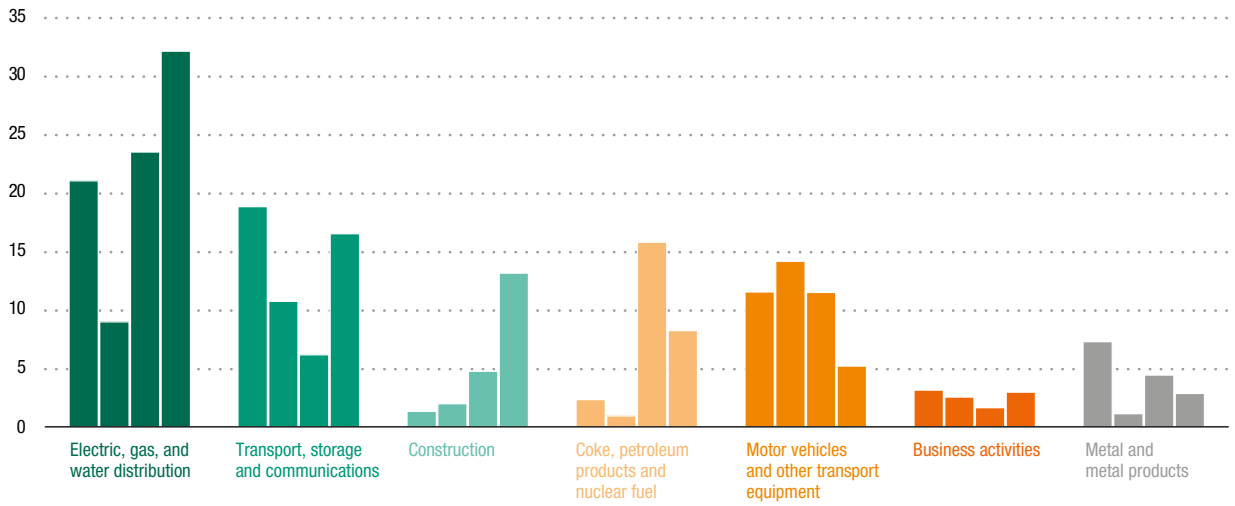
The value of announced greenfield projects by SO-MNEs is large and rising. Over the period 2010–2016, the total value of their announced projects reached $514 billion, well over 9 per cent of the world total. This share is more than six times higher than the share of State-owned firms among MNEs.

Figure I.30. **Announced greenfield FDI projects by SO-MNEs, value and share of total, 2010–2016** (Billions of dollars and per cent)



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

Figure I.31. **Value of announced greenfield FDI projects by SO-MNEs, by sector and industry, 2013–2016**
(Billions of dollars)



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

The value of these announcements fluctuated between 2010 and 2014 but increased significantly in 2015 and 2016 (figure I.30). In 2016, the value reached $91 billion, or 11 per cent of the world total, up from 8 per cent in 2010. These projects announced the creation of the equivalent of more than 100,000 jobs per year, with a record of 120,000 in 2016. In other words, the projects announced by SO-MNEs tended to be particularly big and important for host countries. These projects targeted a wide range of countries: in 2016 alone, more than 500 projects were announced in 64 developing, 28 developed and 9 transition economies.

SO-MNEs focus most of their greenfield projects in three industries: utilities, automotive and transportation. These three together accounted for close to 60 per cent of the cumulative value of announced projects over 2010–2016. The dynamism of these three industries varied over time: The value of announced greenfield projects in electric, gas, and water distribution increased, reaching $32 billion in 2016 (figure I.31). Projects announced in transport, storage and communications fluctuated more, and grew more slowly, to $17 billion. The value of projects in motor vehicles and other transport equipment had declined to $5 billion in 2016. By 2016, the value of announced projects in construction and in coke, petroleum products and nuclear fuel exceeded the value of greenfield projects announced in the automotive industry.

SO-MNEs are also involved in major cross-border M&A purchases, as they seek to improve their international competitive position or reach their international strategic objectives. As these are mostly one-off transactions, they do not follow a clear-cut trend. Nevertheless, between 2010 and 2016, SO-MNEs carried out major transactions for the reorganization of their respective industries, especially in telecommunication, electricity and transport services, such as France Telecom's (now Orange) purchase of T-Mobile's United Kingdom assets in 2010 (for more than $8 billion) and Vattenfall's (Sweden) acquisition of Noun NV in the Netherlands in 2011 (for close to $5 billion).

NOTES

[1] FDI data may differ from one *WIR* issue to another as data are continually revised, updated and corrected by the responsible authorities, such as central banks and statistical offices, that provide FDI data to UNCTAD.

[2] The value of announced greenfield projects indicates the capital expenditure planned by the investor at the time of the announcement. Data can differ substantially from the official FDI data as companies can raise capital locally and phase their investments over time, and a project may be canceled or may not start in the year when it is announced.

[3] Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.

[4] Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan Province of China, Thailand, the United States and Viet Nam.

[5] Canada, Mexico and the United States.

[6] Afghanistan, Albania, Armenia, Azerbaijan, Bahrain, Bangladesh, Belarus, Bhutan, Bosnia and Herzegovina, Brunei Darussalam, Bulgaria, Cambodia, China, Croatia, the Czech Republic, Egypt, Estonia, Georgia, Hungary, India, Indonesia, Iraq, the Islamic Republic of Iran, Israel, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, the Lao People's Democratic Republic, Latvia, Lebanon, Lithuania, Malaysia, Maldives, Mongolia, Montenegro, Myanmar, Nepal, Oman, Pakistan, State of Palestine, the Philippines, Poland, Qatar, the Republic of Moldova, Romania, the Russian Federation, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Sri Lanka, the Syrian Arab Republic, Tajikistan, the former Yugoslav Republic of Macedonia, Thailand, Timor-Leste, Turkey, Turkmenistan, Ukraine, the United Arab Emirates, Uzbekistan, Viet Nam and Yemen.

[7] Antigua and Barbuda, Australia, Bahamas, Bangladesh, Barbados, Belize, Botswana, Brunei Darussalam, Cameroon, Canada, Cyprus, Dominica, Fiji, Ghana, Grenada, Guyana, India, Jamaica, Kenya, Kiribati, Lesotho, Malawi, Malaysia, Maldives, Malta, Mauritius, Mozambique, Namibia, Nauru, New Zealand, Nigeria, Pakistan, Papua New Guinea, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Seychelles, Sierra Leone, Singapore, Solomon Islands, South Africa, Sri Lanka, Swaziland, Tonga, Trinidad and Tobago, Tuvalu, Uganda, the United Kingdom, the United Republic of Tanzania, Vanuatu and Zambia.

[8] Angola, Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, the Comoros, the Congo, the Democratic Republic of the Congo, Cook Islands, Côte d' Ivoire, Cuba, Djibouti, Dominica, the Dominican Republic, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, the Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, the Marshall Islands, Mauritania, Mauritius, the Federated States of Micronesia, Mozambique, Namibia, Nauru, the Niger, Nigeria, Niue, Palau, Papua New Guinea, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, the Sudan, Suriname, Swaziland, Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Zambia and Zimbabwe.

[9] South Africa, Nigeria, Angola, the Dominican Republic, Mozambique, Ghana, the Congo, the Sudan, the Democratic Republic of the Congo and the United Republic of Tanzania, in that order.

[10] This list does not include development banks and other development finance institutions because their main profile is in non-commercial activities. For methodological reasons (the counting of foreign assets is different and the value of foreign assets cannot be compared with other MNEs), SO-MNEs from the financial sector are ranked separately and by the value of total assets.