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Emerging economies attract greater share of foreign investment – UN report

17 January 2011 – Foreign direct investment (FDI) to developing and transition economies rose last year, while investment flows to developed countries declined, the United Nations agency tasked with promoting trade said in an update on global investment trends released today.

Developing and transition economies accounted for more than half of global flows, the UN Conference on Trade and Development (UNCTAD) reported, noting that there was a strong rebound in FDI to developing Asian economies and Latin America, while Europe stood out as the region where flows fell the most sharply.

Global inflows of FDI rose marginally by 1 per cent from $1,114 billion in 2009 to almost $1,122 billion in 2010, according to UNCTAD's Global Investment Trends Monitor (GITM).

According to the report, FDI flows are expected to improve this year, but a number of risk factors remain in place.

Stagnant global flows in 2010 were accompanied by diverging trends in the components of FDI. While the increased profits of foreign affiliates, especially in developing countries, boosted reinvested earnings, the uncertainties surrounding global currency markets and European sovereign debt resulted in negative intra-company loans and lower equity investments, the GITM notes.

Last year's FDI quarterly fluctuations, as reported in previous monitors, indicate that the worldwide FDI recovery is still unsteady, although after an unexpectedly weak second quarter, global FDI flows registered an increase in the third quarter of 2010.

Preliminary data for the fourth 2010 quarter suggests that global FDI flows continue to struggle to establish a sustainable growth path, according to UNCTAD, which pointed out that investment flows in that period are likely to be flat, or slightly down, compared to the third quarter.

While reinvested earnings will be helped by higher corporate profits, weak equity capital flows – from cross-border mergers and acquisitions and greenfield (new) investments – will continue to keep FDI flows in a holding pattern during that quarter.

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