Trends in global outward flows and stocks

In recent years, the main driving force behind the large increase in global FDI has been the exceptional wave of cross-border mergers and acquisitions (M&As). This, in turn, was underpinned by a number of factors, including: the liberalization of trade, investment and capital markets (including the relaxing of controls on M&As across the world); the deregulation and privatization of service industries; and increased competitive pressures stemming from globalization and technological change, thereby increasing the need to achieve economies of scale through overseas expansion. The macroeconomic factors behind this performance include solid economic growth in the major advanced economies and large emerging economies, strong corporate profits, and low interest rates. Throughout, there was ample liquidity available to those companies wanting to invest abroad.

Moreover, the depreciation of the U.S. dollar against the other major currencies has altered the balance between cross-border corporate investors, favouring investment into the United States and other dollar-based economies in recent years. Yet another important development underlying global direct investment has been the emergence of companies based in developing and emerging economies as active outward investors.

Definition of foreign direct investment

Foreign direct investment is defined as a long-term and lasting investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a multinational enterprise (MNE). FDI may be undertaken by individuals as well as business entities. In order to qualify as FDI, the investment must afford the parent enterprise control over its foreign affiliate, i.e. ownership of 10 percent or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

Greenfield investment is outlays for the establishment of a new enterprise or the expansion of an existing enterprise (sometimes called brown field). Mergers and acquisitions arise when a transfer of existing assets from local firms to foreign firms takes place. Intra-company loans or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises, and are not considered as FDI.

FDI stock is the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. For a large number of economies, FDI stocks are estimated by either cumulating FDI flows over a period of time or adding flows to an FDI stock that has been obtained for a particular year from national official sources or the IMF data series on assets and liabilities of direct investment.

Source: UNCTAD