World Investment Report 2008

Transnational Corporations and the Infrastructure Challenge

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Part I

Record FDI flows in 2007, but set to decline

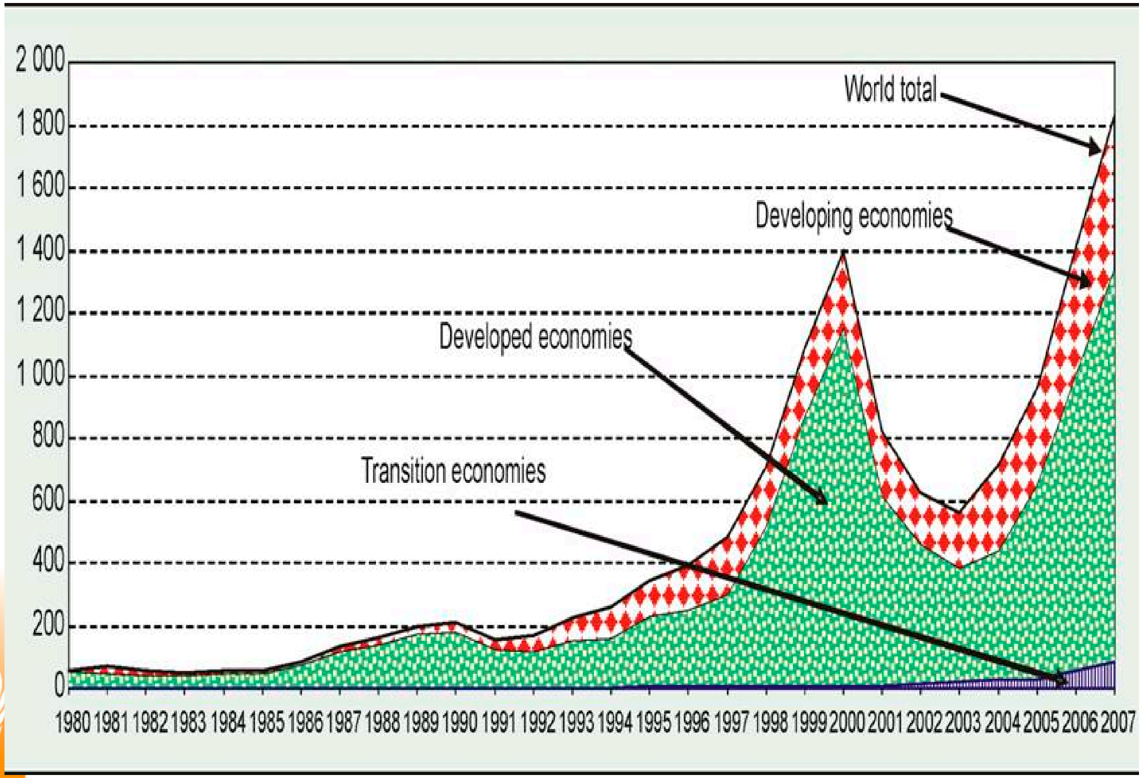
Main messages

- Global FDI flows rose for the fourth consecutive year surpassing the peak of 2000 driven by record values of cross-border M&As.
- Dollar depreciation has inflated to some extent global FDI flows in US dollar term, but flows still point to an increase if denominated in domestic currency.
- Sovereign Wealth Funds (SWFs) are emerging as new actors on the FDI scene.
- The sharp weakening of the dollar helped to stimulate FDI to the United States.
- The global financial crises had a limited impact on FDI flows in 2007, but will begin to bite in 2008.
- FDI flows set to decline in 2008 but will keep a rising trend in the medium term.

Global FDI flows surpassed the peak of 2000, …

FDI inflows, global and by group of economies, 1980-2007

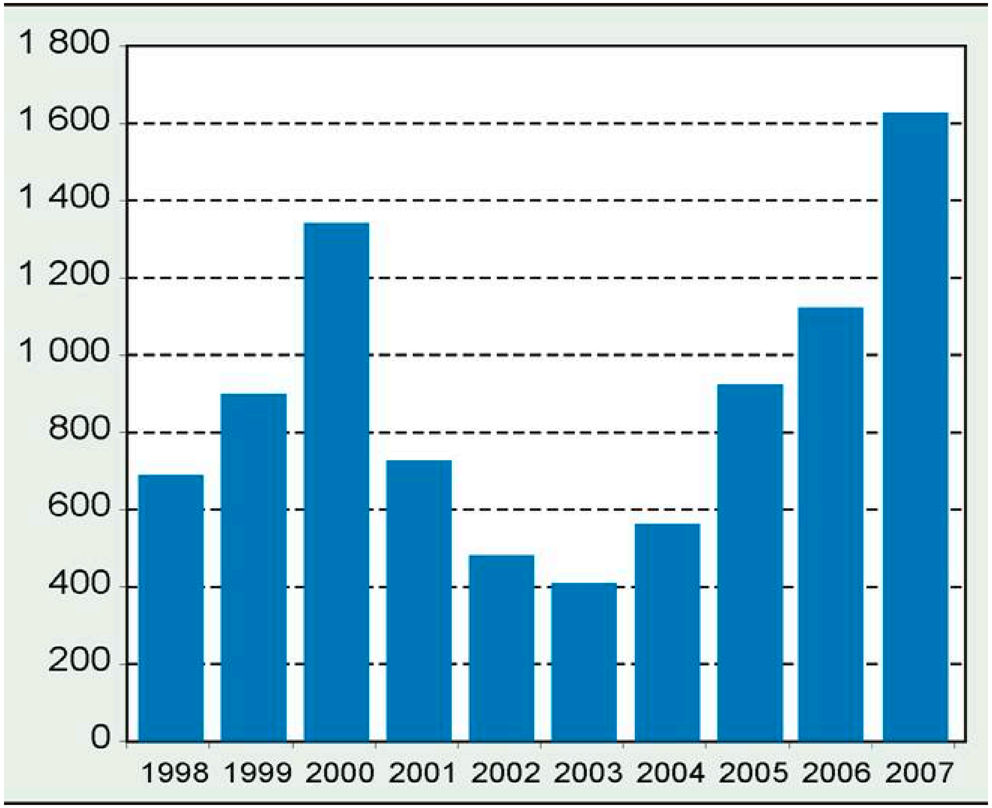
($ billion)



- Global FDI inflows reached a new record level of $1,833 billion
- Inflows to developed countries rose by 33% ($1,248 billion).
- Developing economies recorded a 21% growth rate ($500 billion).
- Inflows to South-East Europe and CIS countries increased by 50% ($86 billion).

… driven by record cross-border M&As …

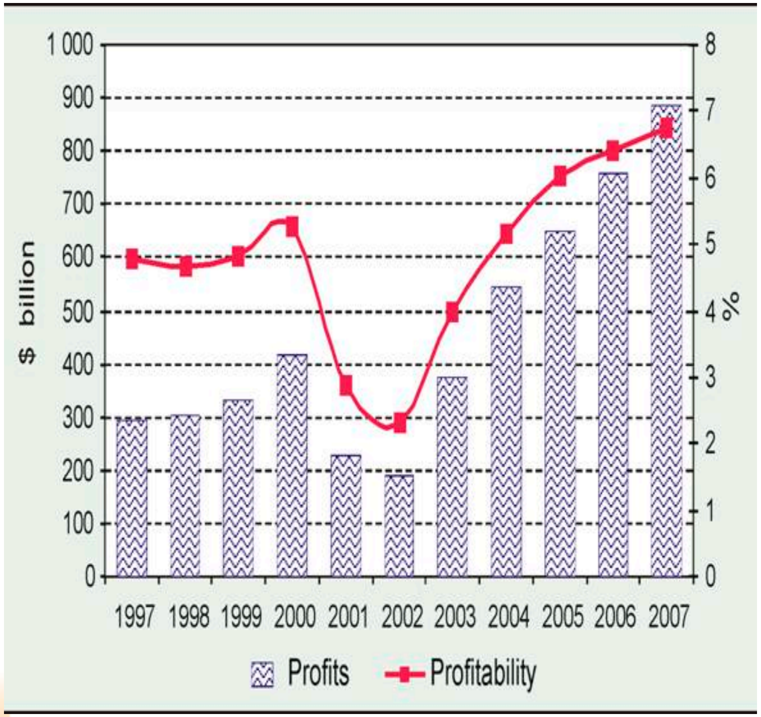
Global cross-border M&As, 1998-2007



- Sustained strong economic growth
- High corporate profits
- Increased competitive pressure
- Relatively favorable financing conditions for debt-financed M&As
- High number of large deals: the acquisition of ABN-AMRO the largest deal in the banking history

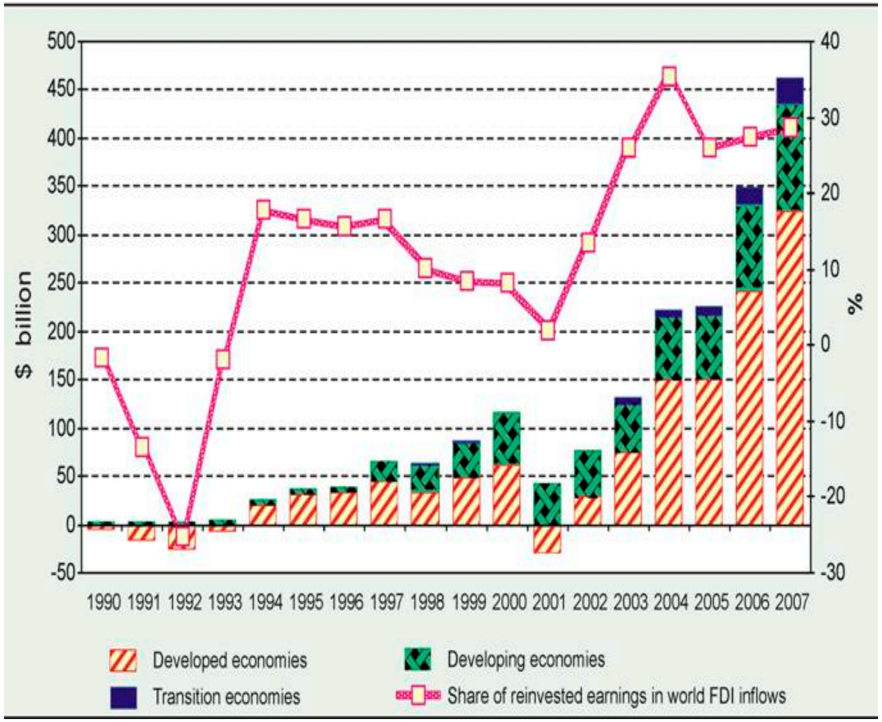
… increased corporate profits and reinvested earnings.

Profitability and profit levels of 989 TNCs, 1997–2007



- **Increased corporate profits of the parents firms**

Reinvested earnings of TNCs in the world: value and share in total FDI inflows, 1990-2007



- **Increasing reinvested earnings of foreign affiliates, especially in developing countries**

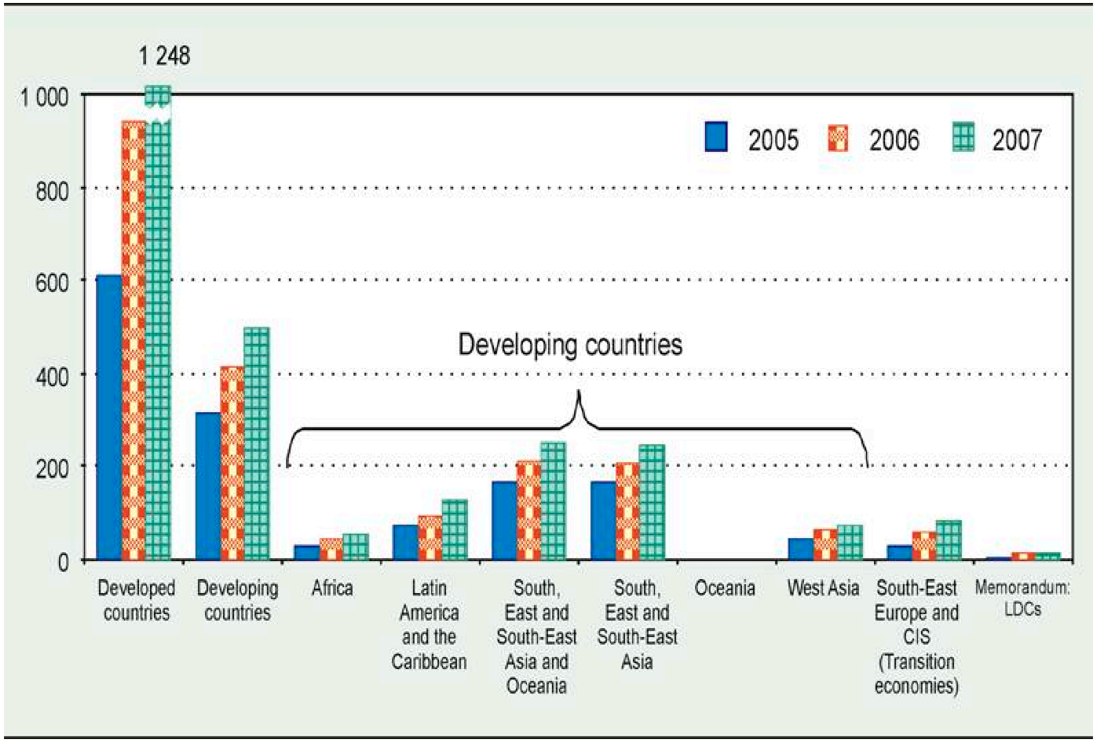
Growth of FDI inflows was widespread in 2007, …

In developing regions:

- **FDI inflows in Africa rose to a historical high of $53 billion**
- **The FDI inflows to South, East and South-East Asia: maintained upward trend.**
- **Oil-rich states and Turkey accounted for most of the FDI increase to West Asia.**
- **Inward FDI increase to Latin America (36%) was mainly driven by greenfield investments.**

FDI inflows by region, 2005, 2006 and 2007

($ billion)

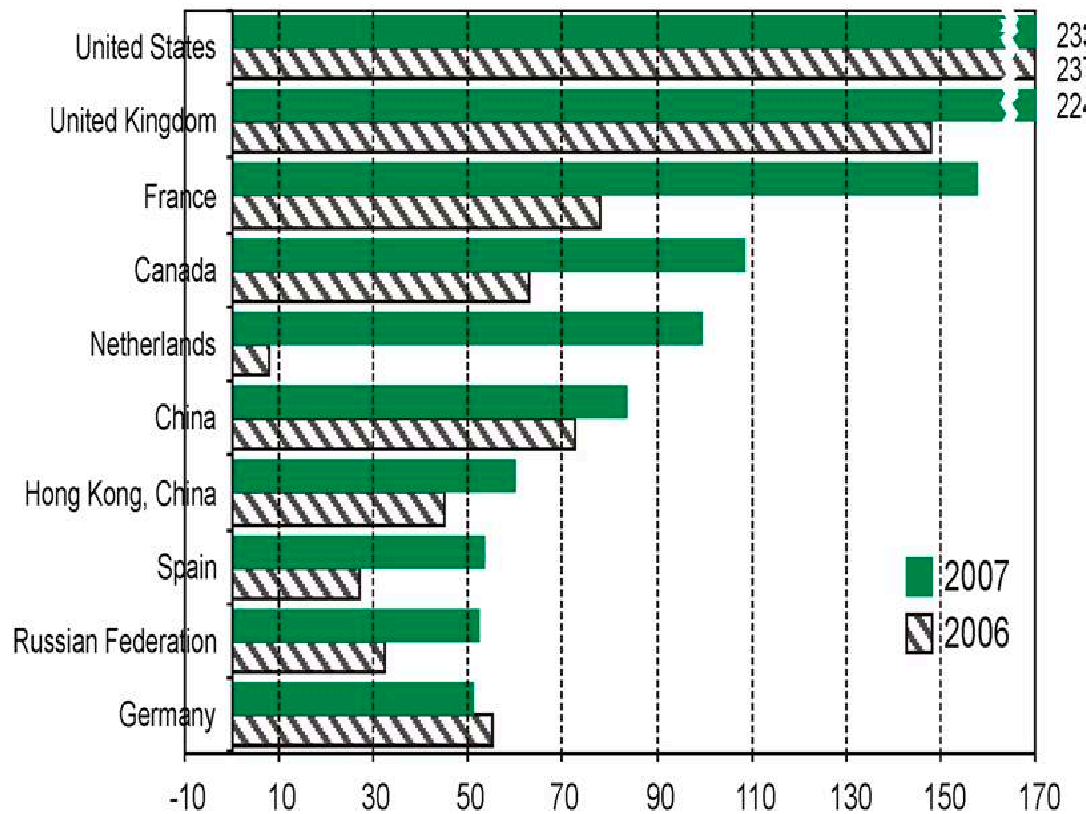


… with some changes in top 10 recipients of FDI inflows in 2007 …

- United States, United Kingdom and France were the largest recipient of FDI flows as in 2006.
- Canada, for the first time, the fourth world largest FDI recipient.
- China lowered its ranking compared to 2006 and 2005.
- In 2007, Russian Federation entered the top 10 recipients of FDI inflows for the first time ever.

The ten largest FDI host economies in the world

($ billion)

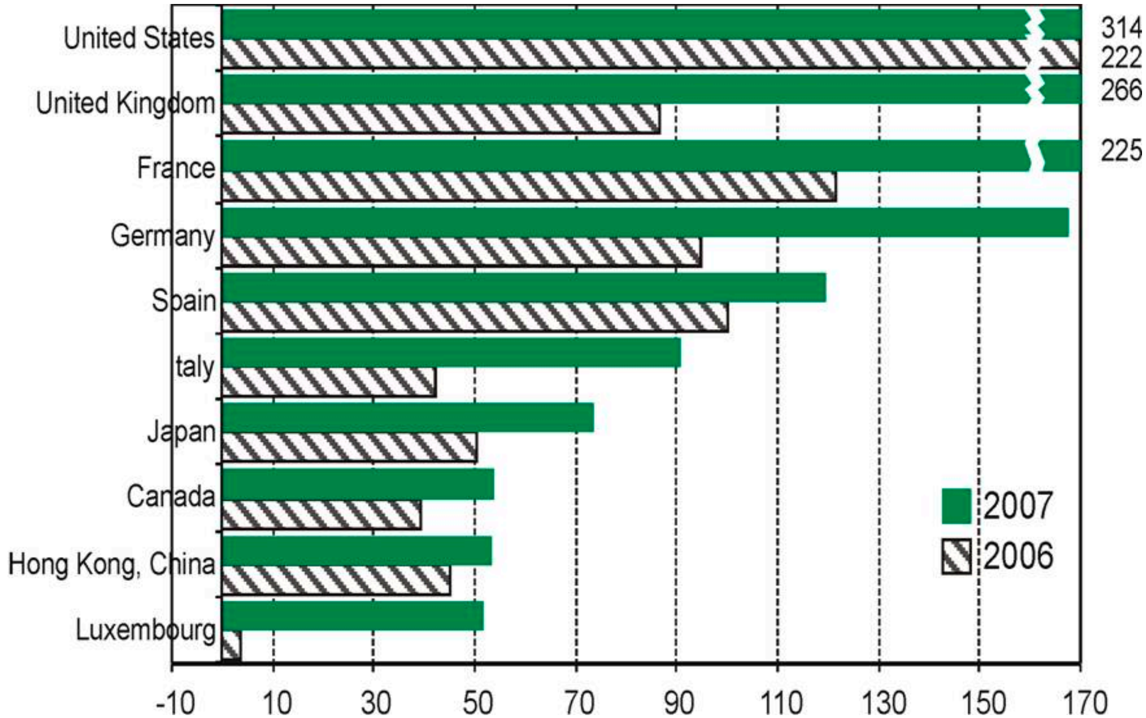


… and largest 10 sources of FDI outflows.

- **United States continue to be the largest investor.**
- **FDI outflows from EU more than doubled with 6 EU countries in the top 10 investors.**
- **Hong Kong (China) ranked within top ten investors as in 2006.**
- **Russian Federation 13th ($46 bill) and China 19th ($22 bill) in the world.**

The ten largest FDI home economies in the world

($ billion)



To some extent, however, dollar depreciation has inflated global FDI flows.

Growth rates of FDI flows denominated in dollar and in local currencies, 2006–2007

(Per cent)

Host economy	Growth rate of FDI flows denominated in dollars		Growth rate of FDI flows denominated in local currencies [a]	
	2006	2007	2006	2007
World	47.2	29.9	45.5	23.1
Developed economies	53.9	32.6	52.3	24.7
EU	12.8	43.0	11.5	31.6
Developing economies	30.5	21.0	28.9	17.0
Africa	55.3	15.8	53.4	14.1
Latin America	21.6	36.0	18.5	30.6
Asia	29.9	17.0	28.9	13.1
South-East Europe and CIS	84.6	50.3	78.9	42.2

- **The average growth rate of global FDI flows would be 23% in 2006–2007 -- 7% lower than when FDI flows are denominated in United States dollars**
- **The difference was particularly pronounced in:**
  - **the euro zone (the dollar hit a record low against the euro).**
  - **South-East Asia (Malaysian ringgit or Thai baht appreciated considerably with respect to the dollar).**

While FDI by private equity funds, set a record level in 2007, is on a decline, …

Cross border M&As by private equity funds

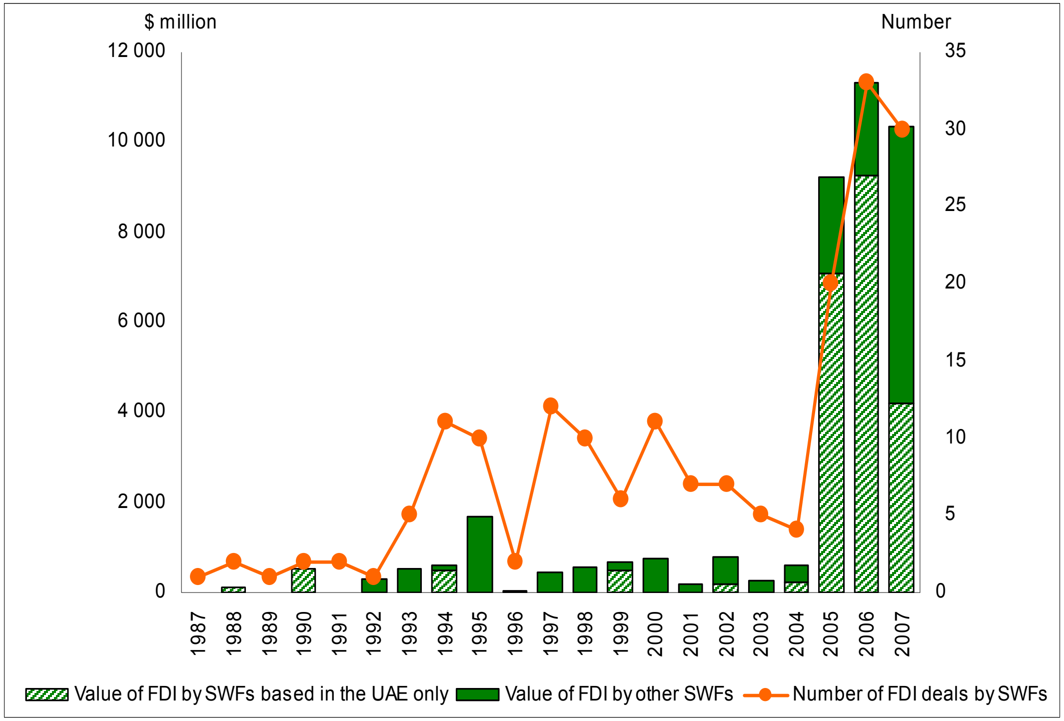
	Number of deals		Value	
Year	Number	Share in total (%)	$ billion	Share in total (%)
1999	1 147	12.7	86.9	9.6
2000	1 208	12.0	91.6	6.8
2001	1 125	13.9	87.8	12.0
2002	1 126	17.2	84.7	17.5
2003	1 296	19.6	109.9	26.7
2004	1 613	22.2	173.7	30.7
2005	1 707	19.9	211.0	22.7
2006	1 649	18.2	282.6	25.3
2007	1 813	17.9	461.0	28.2
Q1	*441*	*17.1*	*75.1*	*26.2*
Q2	*520*	*19.7*	*181.8*	*38.5*
Q3	*417*	*16.6*	*115.4*	*30.8*
Q4	*435*	*18.0*	*88.8*	*17.6*
2008 [a]	718	16.4	193.9	31.2
Q1	*338*	*16.8*	*131.5*	*37.4*
Q2	*330*	*16.0*	*62.4*	*23.2*

- **Cross-border M&A activity of such funds almost double in 2007**
- **Private equity investors are buying larger, and also publicly listed companies**
- **In the first half of 2008 leveraged buyout transactions are slowing down**
- **Doubts of their sustainability in FDI activity**

… Sovereign Wealth Fund (SWF) are emerging as new actors on the FDI scene.

- The amount invested by SWF in FDI is small relative to their total assets (0.2% in 2007).
- 79% of total amount invested in FDI took place in the last three years.
- Three quarters of FDI by SWF has been in developed countries.
- Investments were concentrated mainly in business services.
- Due to some negative public sentiments international organizations are establishing principles and guidelines relating to FDI by SWF.

FDI flows by sovereign wealth funds, 1987–2007



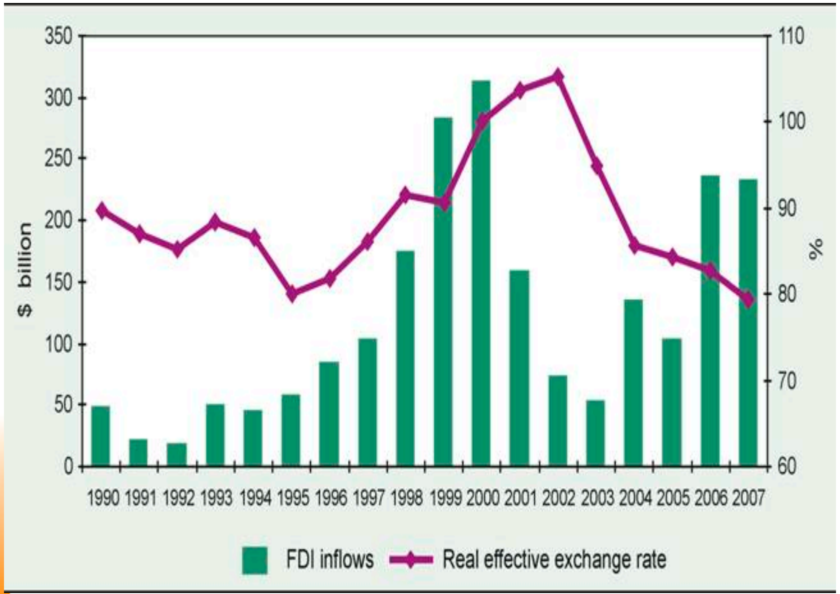
Twenty selected large FDI cases by SWFs, 1995–2007

Year	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Acquiring SWF or entity established by SWFs	Home economy	Acquired share (%)
2005	2 359	Kuokwang Petrochemical Co Ltd	Taiwan Province of China	Industrial organic chemicals, nec	International Petroleum Investment Co (IPIC)	United Arab Emirates	20
2006	2 313	Tunisie-Telecoms	Tunisia	Telephone communications, except radiotelephone	Investment Corporation of Dubai	United Arab Emirates	35
2005	1 691	Borealis A/S	Denmark	Plastics materials and synthetic resins	Abu Dhabi Investment Authority	United Arab Emirates	50
2005	1 495	Tussauds Group Ltd	United Kingdom	Amusement and recreation services	Dubai International Capital LLC	United Arab Emirates	100
2006	1 270	Travelodge Hotels Ltd	United Kingdom	Hotels and motels	Dubai International Capital LLC	United Arab Emirates	100
2006	1 241	Doncasters PLC	United Kingdom	Aircraft parts,equipment	Dubai International Capital LLC	United Arab Emirates	100
2005	1 222	CSX World Terminals LLC	United States	Marine cargo handling	Dubai Ports International	United Arab Emirates	100
2006	1 200	280 Park Ave,New York,NY	United States	Operators of non-residential buildings	Istithmar PJSC	United Arab Emirates	100
2007	1 160	Mauser AG	Germany	Plastic foam products	Dubai International Capital LLC	United Arab Emirates	100
1995	1 135	Mediaset SpA(Fininvest)	Italy	Television broadcasting stations	Investor group	Saudi Arabia	18
2006	1 030	Merry Hill	United Kingdom	Operators of non-residential buildings	Queensland Investment Corp	Australia	50
2007	954	Chapterhouse Holdings Ltd	United Kingdom	Real estate investment trusts	GIC Real Estate Pte Ltd	Singapore	100
2007	942	Barneys New York Inc	United States	Men’s and boys’ clothing and accessory stores	Istithmar PJSC	United Arab Emirates	100
2007	862	Hawks Town Corp	Japan	Department stores	Government of Singapore Investment Corp Pte Ltd (GIC)	Singapore	100
2007	821	Capital Shopping Centres PLC	United Kingdom	Operators of non-residential buildings	GIC Real Estate Pte Ltd	Singapore	40
2007	621	Bank Muscat	Oman	Banks	Dubai Financial LLC	United Arab Emirates	15
2007	612	WestQuay Shopping Center	United Kingdom	Operators of non-residential buildings	GIC Real Estate Pte Ltd	Singapore	50
2007	596	Westfield Parramatta	Australia	Operators of non-residential buildings	GIC Real Estate Pte Ltd	Singapore	50
2005	594	Bluewater Shopping Centre	United Kingdom	Operators of non-residential buildings	GIC Real Estate Pte Ltd	Singapore	18
2006	594	Adelphi	United Kingdom	Operators of non-residential buildings	Istithmar PJSC	United Arab Emirates	100

Global financial and monetary developments are affecting FDI

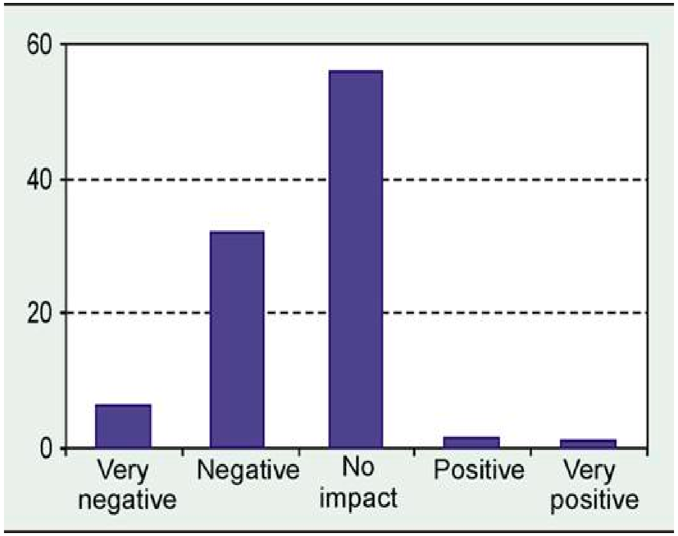
- **The sharp weakening of the dollar helped to stimulate FDI to the United State**

FDI inflows and the real effective exchange rate of the United States dollar, 1980-2007



- **Limited impact of global financial crises on FDI flows in 2007, but will begin to bite in 2008**

Impact of financial instability on FDI flows 2008-2010: Result from the UNCTAD survey



Most policy changes continue to favor FDI, but restrictions also come to play.

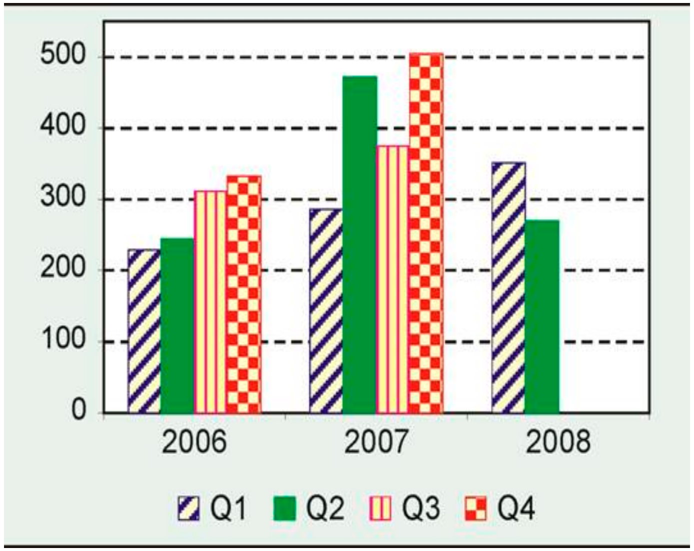
Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of countries that introduced changes	43	56	49	63	66	76	60	65	70	71	72	82	103	92	91	58
Number of regulatory changes	77	100	110	112	114	150	145	139	150	207	246	242	270	203	177	98
More favourable	77	99	108	106	98	134	136	130	147	193	234	218	234	162	142	74
Less favourable	0	1	2	6	16	16	9	9	3	14	12	24	36	41	35	24

- **98 policy changes were introduced, 74 of which were favorable to FDI**
- **New measures to attract FDI were adopted such as:**
  - **establishment of special economic zones**
  - **lowering of corporate income tax (e.g. Iceland, Colombia, Bulgaria)**
  - **new promotional measures (e.g. Invest in America initiative)**
- **As in 2006, some restrictions on extractive industries such as:**
  - **new sectorial or ownership restrictions (Bolivia, Brazil, Ecuador, Venezuela, Kazakhstan)**
  - **stricter regulations related to national security (United States, Russian Federation, Germany)**

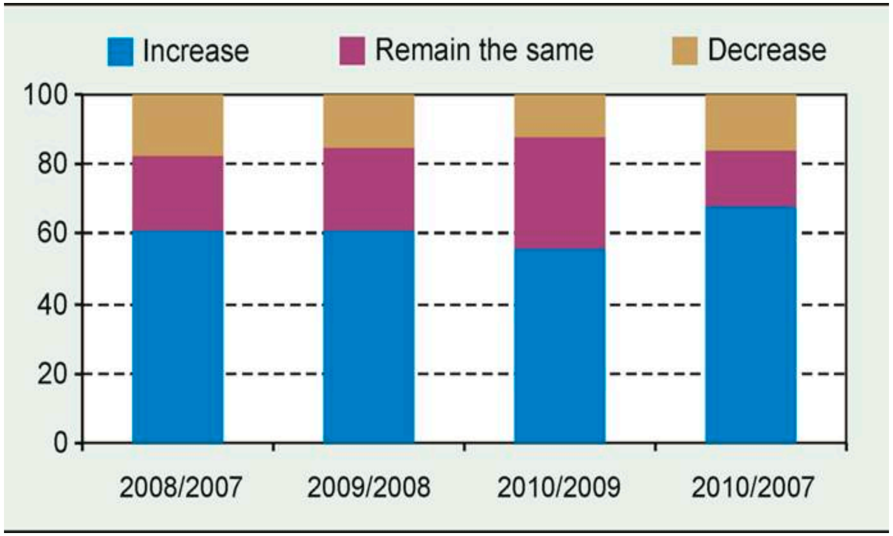
Prospects:

FDI flows set to decline in 2008, but a rising trend in the medium term

Value of cross-border M&As, 2006-2008, by quarter



Prospects for global FDI flows over the next three years: UNCTAD survey



- **A slowdown in economic growth as a result of financial and credit crises;**
- **Corporate profits are declining;**
- **Annualized global FDI flows for 2008 are estimated to be some $1,600 billion, about 10% lower than in 2007 (based on 75 countries);**
- **Cross-border M&As for the first half of 2008 fell 29% compared to the second half of 2007;**
- **However, FDI flows to developing countries in 2008 are resilient. FDI in natural resources is expected to pick up further. FDI flows in the medium term are promising.**

Part 2

Transnational Corporations and the Infrastructure Challenge

Main Messages I

- Investment in infrastructure is essential for developing countries' economic growth and the living standards of the population
- There is a large gap between infrastructure needs and available capital and capabilities in developing countries: TNCs, among others, can help bridge this gap.
- Since 1990 there has been a huge rise in FDI and other types of investment in infrastructure, both globally and in developing countries
- The universe of infrastructure TNCs has grown rapidly since 1990, including significant numbers of developing country TNCs

Main Messages II

- The impact of TNC participation on infrastructure industries in developing countries has been mixed. The improvements are greatest in telecommunications and transportation; but the gains are less clear cut in electricity and water, with concerns about universal access
- Developing host country Governments are increasingly open to infrastructure TNCs, but barriers exist to further participation
- Leveraging further TNC participation in infrastructure in host countries has implications for national policies and institutions
- Development partners can help in terms of infrastructure funding, capacity building and other ways.

The infrastructure industries covered in the World Investment Report 2008

- The Report covers economic infrastructure industries which underpin the functioning of social and production activities, in particular:
  - electricity
  - telecommunications,
  - water and sewage, and
  - transport (airports, roads, railways and seaports)

- Social infrastructure (e.g. hospitals and schools) is not covered in this report

NOTE: A distinction is made in the report between infrastructure industries per se and broader, related activities (e.g. shipping relies on services offered by seaports).

Why investment in infrastructure is important

- **Efficient infrastructure services are crucial for developing countries' competitiveness and economic growth**
  - **Good quality infrastructure is essential for international trade and integration into the world economy**
- **Access to affordable infrastructure services, such as electricity and drinking water, is an important determinant of the living standards of a country's population**
  - **The development of infrastructure helps to eliminate poverty and attain the UN Millennium Development Goals**
- **Low-income countries face huge infrastructure investment needs but lack the necessary capacity domestically to meet them**
- **There is a large gap between infrastructure investment needs and the availability of necessary capital and other resources**

Largest TNCs in Infrastructure 2006* Companies from developing economies (in green) now key players

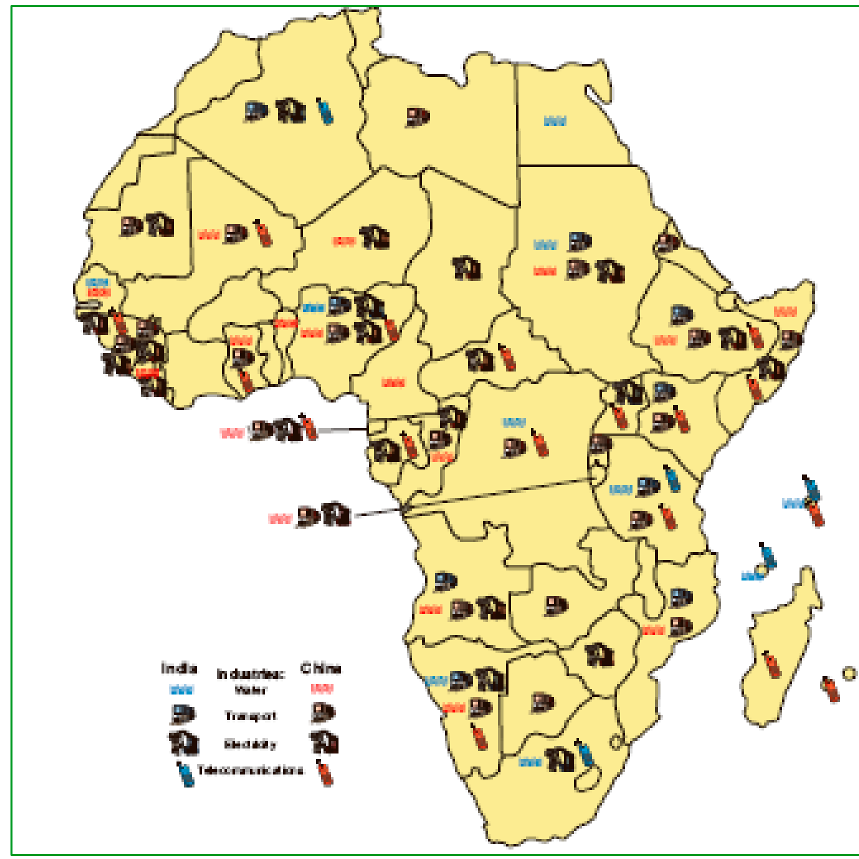
Rank	Electricity	Natural gas	Telecommunications	Transport	Water and sewage	More than one infrastructure industry
1	Electricité de France	Gaz de France	Vodafone Group	Grupo Ferrovial	Veolia Environnement	Suez
2	E.On	Spectra Energy Corp.	Telefónica	Abertis	Grupo Agbar	**Hutchison Whampoa**
3	Endesa	Centrica	Deutsche Telekom	AP Moller-Maersk	Waste Management Inc	RWE Group
4	Vattenfall	Gas Natural	France Télécom	**DP World**	Shanks Group	Bouygues
5	National Grid	Transcanada Corp.	Vivendi Inc	**China Ocean Shipping**	Waste Services Inc	**YTL Power**
6	AES Corp.	Enbridge Inc	Liberty Global Inc	Canadian National Railways Co.	Stericycle Inc	Babcock & Brown Infrastructure
7	Fortum	Sempra Energy	TeliaSonera	Skanska	**Hyflux Limited**	**Enka Insaat ve Sanayi**
8	Duke Energy Corp.	El Paso Corp.	**SingTel**	**PSA International**	Clean Harbors Inc	**NWS Holdings**
9	EDP Energias de Portugal	Hunting Plc	Telenor	Hochtief	..	..
10	International Power Plc	Williams Companies	Nortel Networks	Vinci	..	..
11	**CLP Holdings**	**Hong Kong & China Gas Co.**	KPN	Macquarie Airports	..	..
12	Iberdrola	Distrigaz 'D'	BT Group	Deutsche Bahn	..	..
13	Unión Fenosa	Canadian Utilities Ltd.	Verizon Communications	**Orient Overseas International**	..	..
14	PPL Corp.	Iwatani International Corp.	SES	Grupo ACS	..	..
15	Atel - Aare Tessin	..	Telecom Italia	Obrascon Huarte Lain	..	..
16	Public Service Enterprise Group	..	**América Móvil**	Kansas City Southern	..	..
17	**Keppel Corp.**	..	**Mobile Telecommunications Co.**	Canadian Pacific Railway	..	..
18	Cofide-CIR Group	..	TDC A/S	First Group	..	..
19	Edison International	..	Portugal Telecom	BBA Aviation	..	..
20	Enel	..	Tele2	**China Communications Construction Co.**	..	..

* Ranked by foreign assets.

The Universe of Infrastructure TNCs is Changing

- Rising number of private and state-owned TNCs
- Rising role of TNCs from the South
  - Especially in ports and telecommunications
  - Significant in LDCs
  - Sometimes complementary infrastructure and extractive industries investments
- Rise of new financiers in infrastructure industries:
  - Private equity firms
  - Sovereign wealth funds

Chinese and Indian investments in infrastructure in Africa, up to April 2008

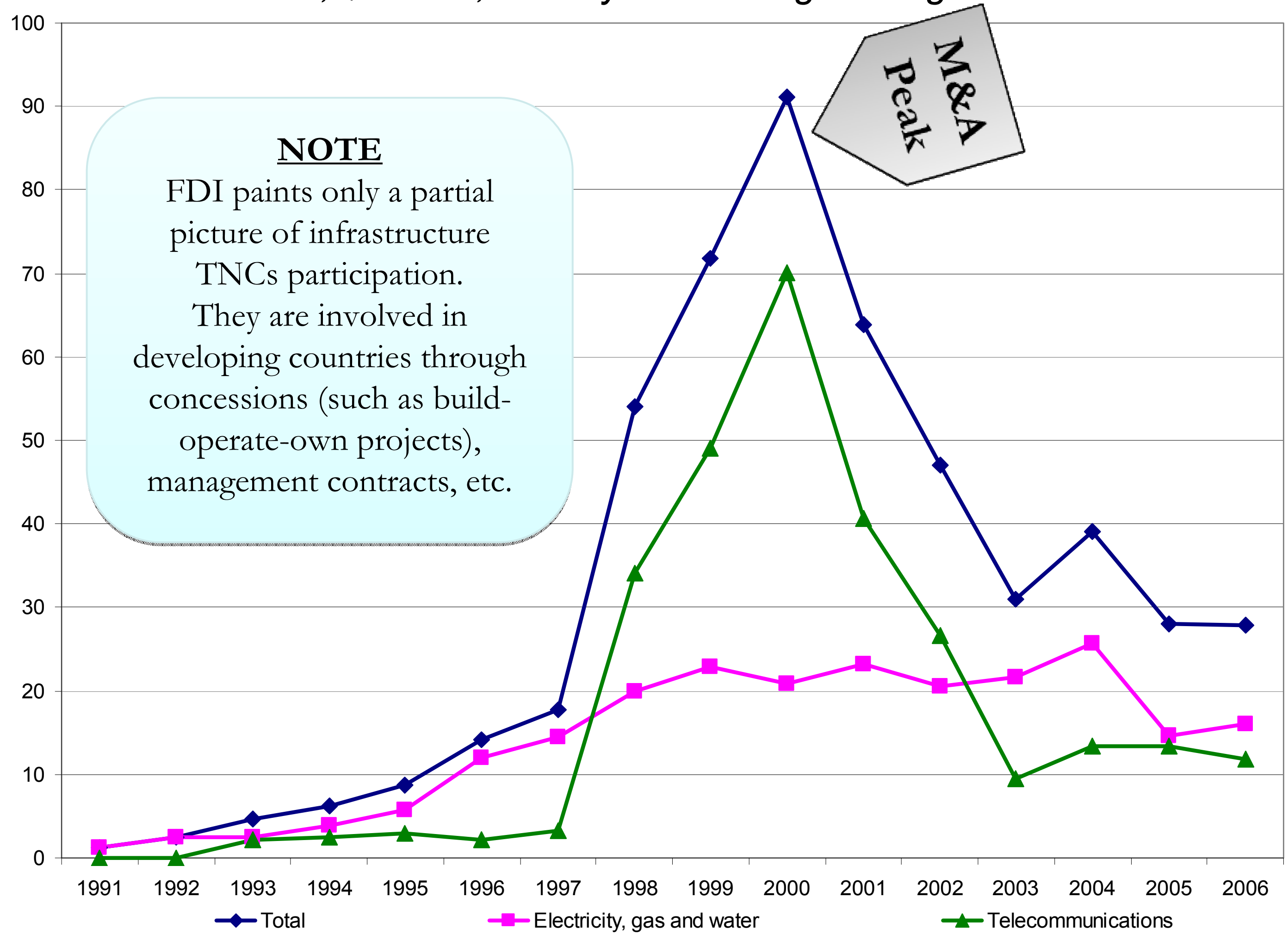


Competitive or ownership advantages of infrastructure TNCs

- Infrastructure TNCs rely less on proprietary technology than other TNCs (e.g. in the manufacturing sector)
- Specialist expertise or capabilities possessed by infrastructure TNCs include:
  - network design and operation
  - engineering skills
  - environmental know-how
  - project management capabilities
  - and tacit, hands-on skills
- Specialized business models and financial process
- Competitive advantages differ by industry, company origin etc. e.g.:
  - TNCs from developed countries retain a competitive edge in water and electricity
  - In ports and telecommunications, developing-country TNCs already compete head-on with global leaders

The rise of FDI in infrastructure industries, with fluctuations in telecommunications driven by M&As

FDI inflows in electricity, gas and water, and in telecommunications, 1991-2006, $ billion, three-year moving averages

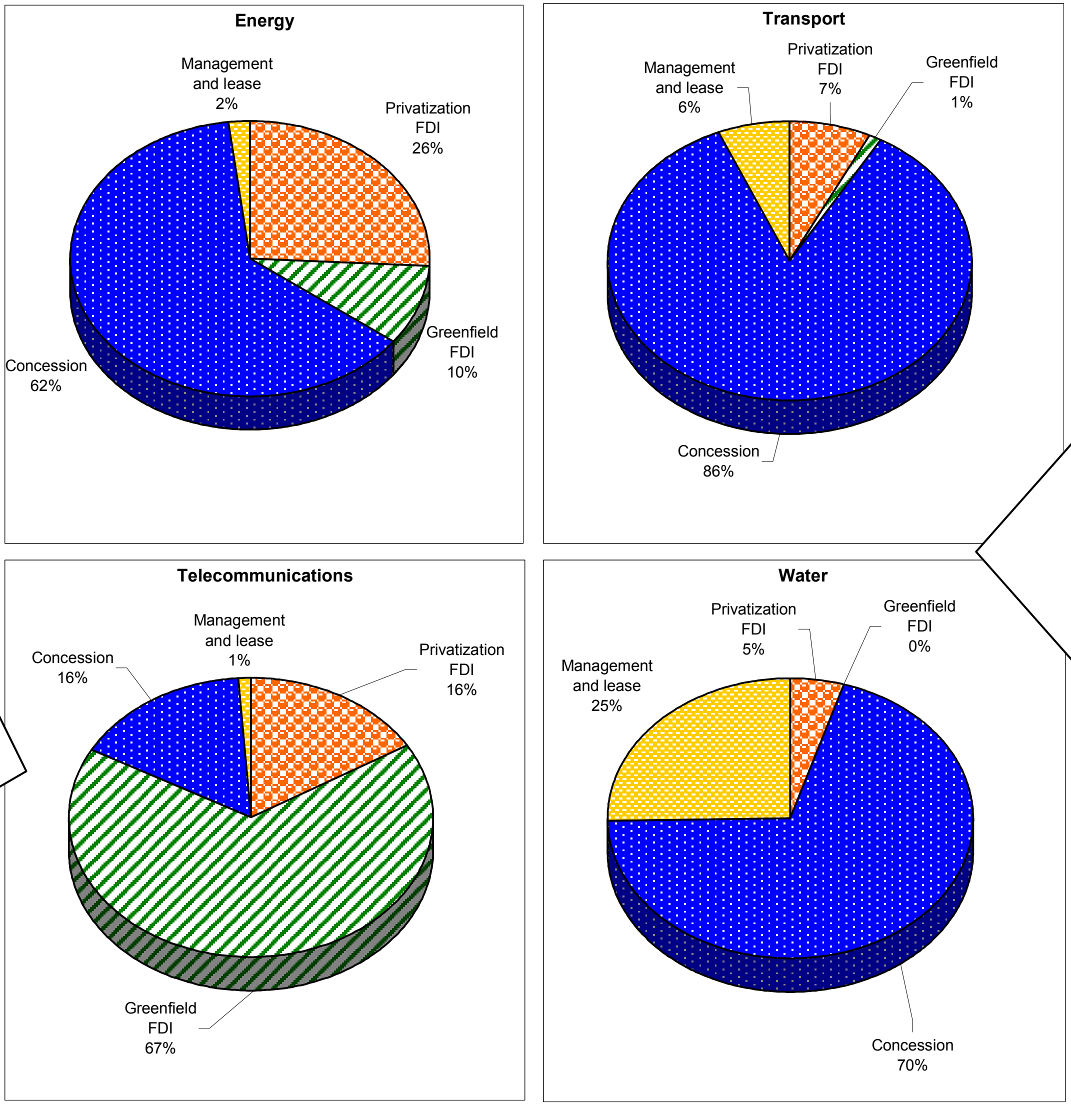


NOTE

FDI paints only a partial picture of infrastructure TNCs participation. They are involved in developing countries through concessions (such as build-operate-own projects), management contracts, etc.

Forms of TNC involvement vary by industry (commitments in developing and transition economies, 1996–2006)

Commitments in 1996–2006, %

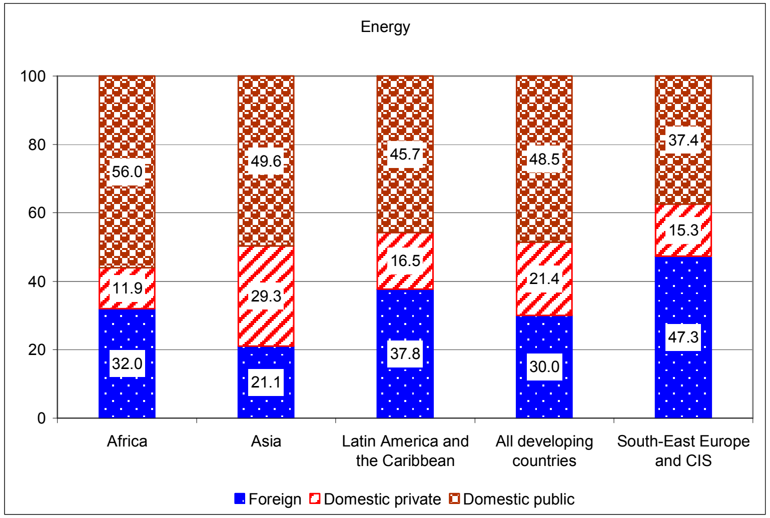


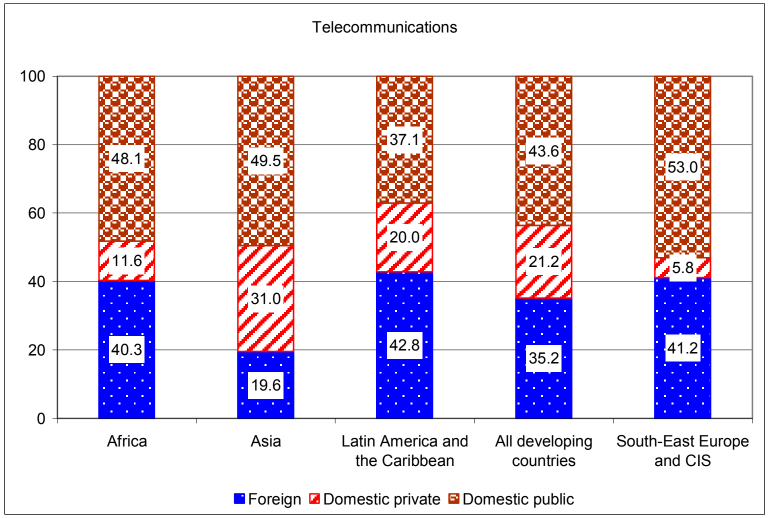
FDI is common in telecommunications

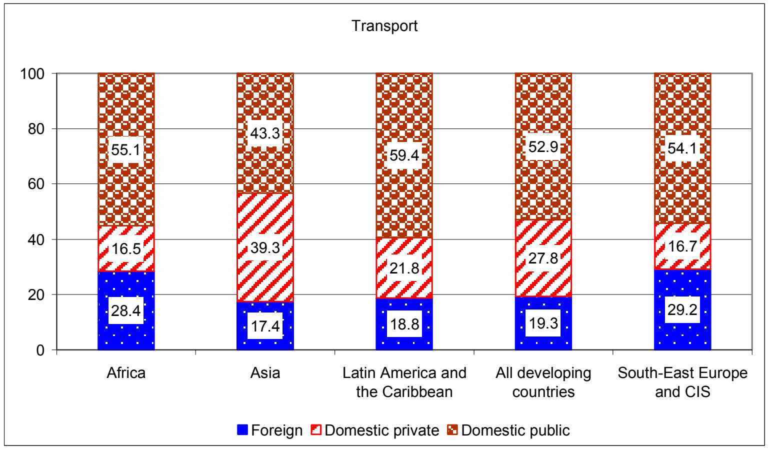
Concessions are more common in other industries

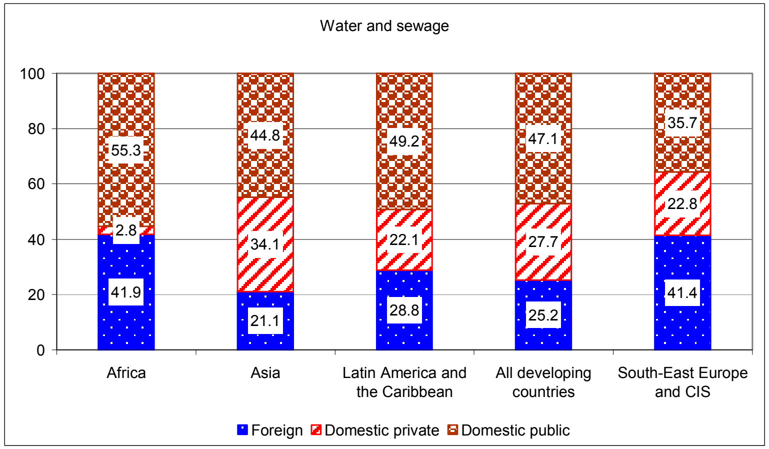
Share of foreign investors in infrastructure industries of developing and transition economies varies

Commitments in 1996–2006, %









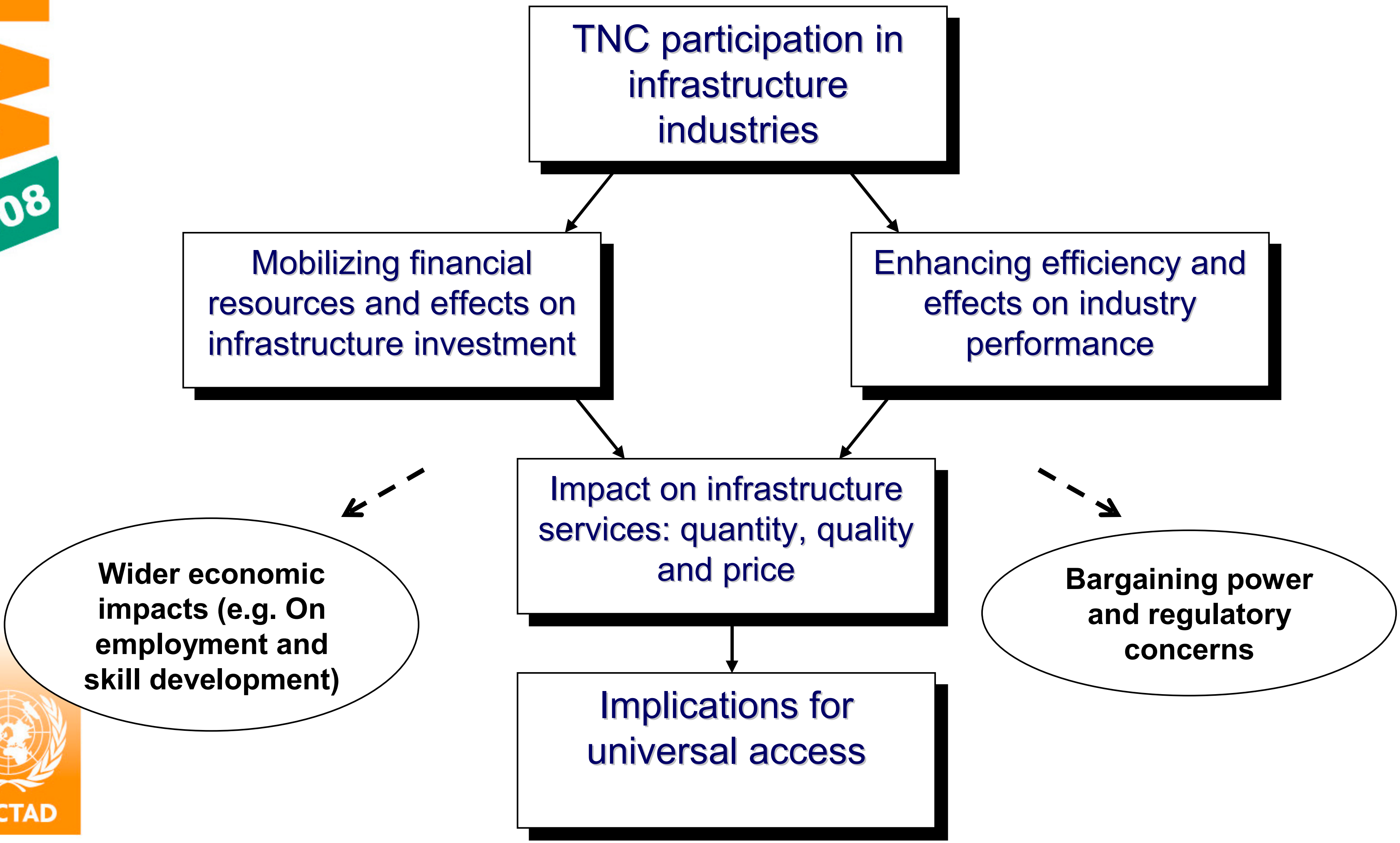
Source: UNCTAD, *World Investment Report 2008, Transnational Corporations and the Infrastructure Challenge*.

What might TNCs offer developing countries?

- **Capital injections**
  - Infrastructure projects are often capital-intensive
  - Financial constraints are a key barrier for developing countries' investment in infrastructure
    - E.g. In *sub-Saharan Africa*, some $40 billion of investment per year in new and existing infrastructure through 2015 is required, but only $16.5 billion is likely to be forthcoming. Further private/TNC participation can help bridge the gap.
  - BUT TNCs complement (not replace) other sources of finance.
    - In the 1990s, expectations from TNCs were often overly optimistic, leading to reduced public investment and a major shortfall in overall investment in infrastructure in a number of developing countries.
- **Technology and knowledge/know-how**
  - Many infrastructure projects are technologically and organizationally challenging
  - TNCs may bring both hard and soft technology

…but the scope for TNC involvement varies by industry and region

Infrastructure TNCs impact on developing countries in a number of ways



Barriers for Low-Income Countries to Attract TNC Involvement

- TNCs require adequate returns on their investments
- Commercial and non-commercial risks
- Small local markets (investment in infrastructure is normally market orientated)
- Competition with other regions
  - Growing demand in both developed and large emerging economies
- Lack of domestic capacity to manage projects with private sector participation and secure development gains
- In particular LDCs do not attract a lot of investment from infrastructure TNCs
  - LDCs had less than 1% of world FDI stocks in infrastructure in 2006
  - …only 5% of world FDI inflows in infrastructure in 2006…
  - …and 5% of the total foreign commitments in infrastructure in developing and transition economies over the period 1996-2006.

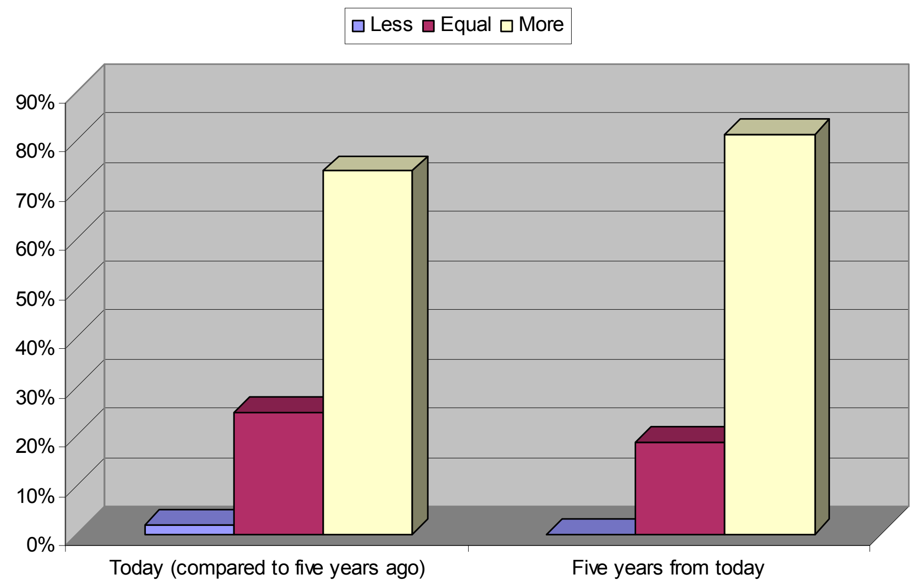
There is increased openness of Governments to infrastructure TNCs

with some exceptions

- More countries open to TNC involvement…
- …but rising concerns related to the strategic nature of some types of infrastructure
- Many investment promotion agencies (IPAs) target TNCs in infrastructure:
    - Electricity generation, Internet services and airports most targeted
    - Electricity distribution and transmission least targeted.
- TNCs from the South new source to target

Degree to which IPAs give attention to infrastructure industries

(Share of responses)



Source: UNCTAD-WAIPA Survey of IPAs 2008.

Leveraging TNC Participation
Policy Challenges and Options

Host country national policies and institutions

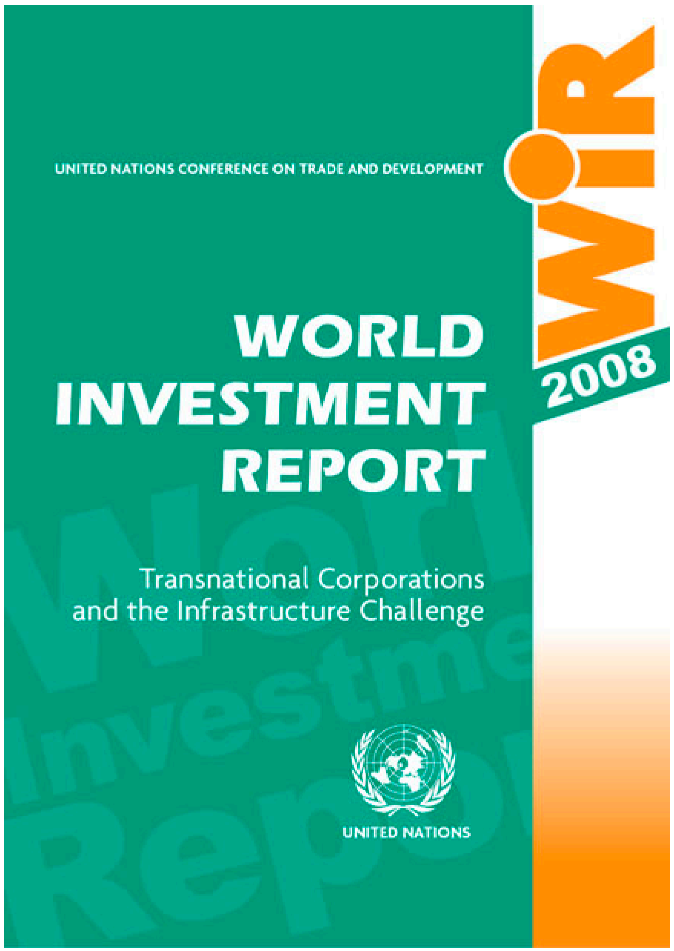
- Creating strong, transparent and accountable institutional and regulatory frameworks
- Sequencing of reform
- Assessing options and negotiating with TNCs
- Building necessary capabilities to deal with public-private partnerships

Involving TNCs in infrastructure places more, rather than less, responsibility on public officials.

Development partner policies

- ODA to infrastructure
  - Better use of available funds
  - Readiness to take risk
- More capacity-building
  - Evaluating options
  - Negotiations with TNCs
  - Role for the UN?
- Risk-mitigation targeted to low-income countries
- Support to regional projects
- Keep all options open

Thank You!



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