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Mapping Global Capital Flows

Working Paper

By Heloisa Marone

Office of Development Studies
United Nations Development Programme
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Note: Not for quotation or circulation. The views expressed in this paper do not necessarily reflect those of UNDP. The author would like to thank Laura Nishikawa for excellent research assistance, especially for the section 4 of this note. Please send comments and suggestions to the following e-mail address: heloisa.marone@undp.org

Introduction and Context

This study attempts to draw a general picture of recent trends in global capital flows. While detailed data is scarce, our analysis suggests that middle and low income countries have become more prominent relative to high income in the global geography of capital flows in recent years. China, Russia, and Brazil are among the middle income countries and Nigeria is among the low income countries some of the drivers for this recent phenomenon.

FDI flows recovered strongly in 2004-2006 period after a 3 year slump. What is novel about global FDI flows in the past three years is the increasing importance of middle and low economies as sources of FDI. While world outflows doubled between 2003 and 2006, outflows from developing countries increased by about 4.5 times. Mergers and acquisitions data indicates dramatic growth in the first half of 2007.

The recent growth in FDI flows to and from developing countries raises a number of questions. First, is the growth in FDI flows from the South a lasting phenomenon? What are the implications of the development of global and transnational production networks initiated by recent M&As? Even if the pace of M&As were to slow down, the effects of cross-border activity brings an opportunity for the private sector in developing economies to tap into new markets, to access new technologies and resources, to spread risks, to reduce costs, and to increase competitiveness. Gains to developing economies may come in the form of lower prices and broader access to quality products and services. The challenge is to see how different sectors and economies can benefit from this new wave of cross-boarder activity.

The note is structured in 4 sections. The first section characterizes global imbalances by identifying the main importers and exporters of capital. Section 2 studies the structure of the main external capital flows, which include FDI and portfolio equity and debt. The increase in the importance of the private sector as a source of external resource flows is presented in section 3. Section 4 presents a brief description of recent movements in FDI flows in general and merger and acquisition activity in particular.

1. Savers, Spenders, Imbalances and Global Patterns of Capital Imports and Exports

The most comprehensive picture of cross-border capital flows comes from the analysis of the current account balance of countries or groups of countries. The situation today at this very broad level of description of capital flows is driven by the large imbalances that exist in the global economy, and results in a somewhat surprising picture. In fact, simple models of capital flows would suggest that if capital flows to where returns to capital are higher – that is, where there are more and better opportunities for investment – then capital flows would go from North to South. However, the situation is almost the exact opposite of this simple model's prediction.

Global imbalances result mainly from US consumption in excess of its domestic savings, with the shortfall being financed by net savings by the rest of the world. In 2006, the US was the largest single importer of capital according to the Global Financial Stability Report (IMF 2007). It alone absorbed 63.7% of total imported capital, followed by Spain (7.4%), and the United Kingdom (4.1%). Turkey was the most important developing country in terms of the global share of imported capital. Among the largest exporter of capital were China and Japan, that together accounted for over one quarter of the world's total saving surplus in 2006 (When aggregating countries by income groups, the data suggests that the US absorbed the equivalent of three times the net saving of middle and low income countries in 2005 (Table 1). Furthermore, middle income countries as a group became net suppliers of saving to the rest of the world after 1999 while high income countries became net recipients of savings – a direct result of the US increasingly larger current account deficit. However US is not alone in that trend, Spain and Italy's contribution to the increase in the total current account deficit of high income countries jumped from around 22.6% in the1997-2001 period to 116% in the 2001-2005 period. Together, the two countries' current account surplus of about USD 34 billion in 1997 dropped to a current account deficit of USD 99.5 billion in 2005.

Figure 1).

Table 1 Current Account Balances by Income Groups, 1997-2005 (in USD billion)

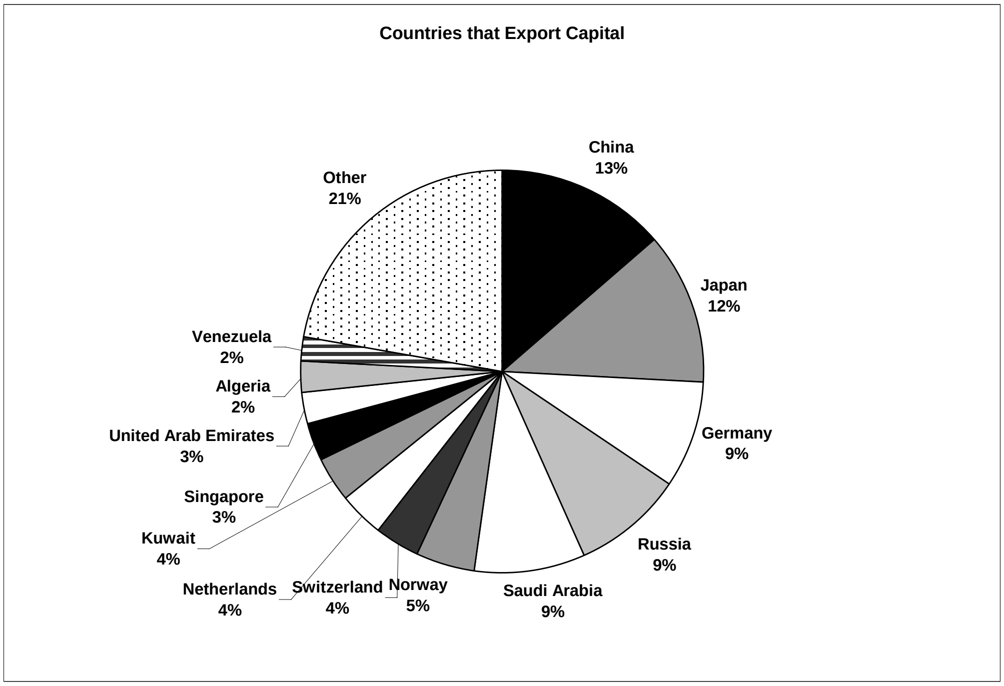
	1997	1998	1999	2000	2001	2002	2003	2004	2005
High Income (38)	**76.7**	**2.6**	**-123.8**	**-243.0**	**-204.7**	**-217.4**	**-194.5**	**-148.9**	**-305.9**
US	-140.7	-214.8	-301.7	-417.3	-384.6	-459.4	-522.1	-640.1	-754.8
Japan	96.8	118.7	114.6	119.7	87.8	112.4	136.2	172.1	165.8
Oil Exporters (5)	10.1	-18.7	16.1	73.7	61.5	53.0	75.5	124.2	192.9
Other (32)	110.5	117.5	47.2	-19.1	30.6	76.6	115.9	194.9	90.3
Upper Middle Income (36)	**-48.6**	**-54.0**	**-11.4**	**19.6**	**15.6**	**14.1**	**26.3**	**33.7**	**93.1**
Lower Middle Income (49)	**-27.2**	**-14.1**	**6.5**	**15.7**	**-8.6**	**31.3**	**56.9**	**78.1**	**154.9**
Low Income (53)	**-14.9**	**-24.9**	**-12.8**	**1.1**	**-0.5**	**6.8**	**8.5**	**9.1**	**3.0**
Unallocated	**14.1**	**90.4**	**141.5**	**206.6**	**198.1**	**165.1**	**102.8**	**28.0**	**54.8**

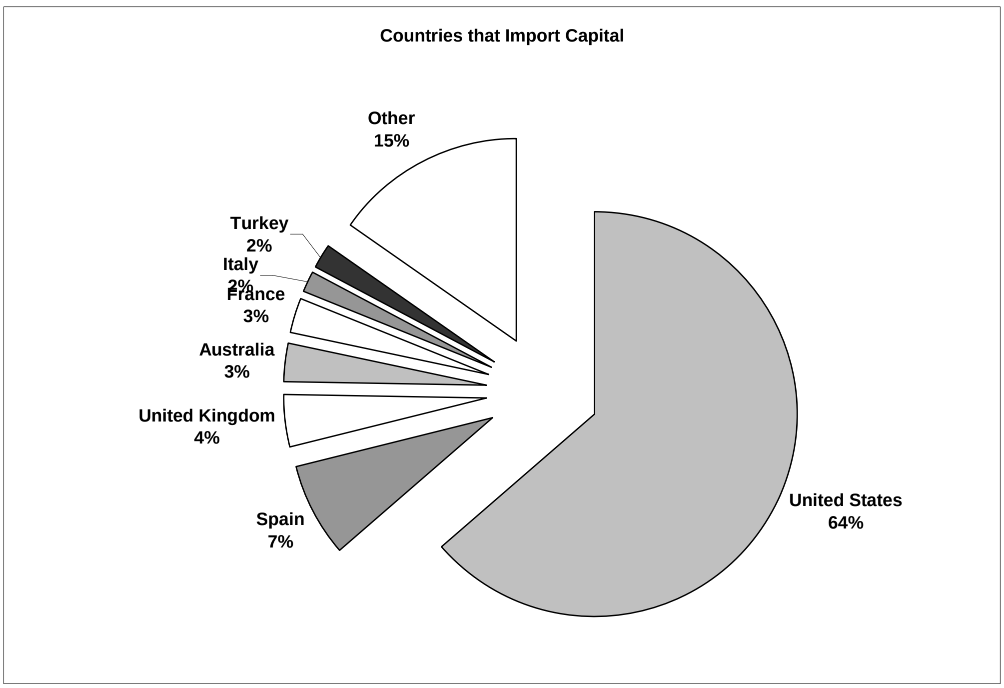
Note: As in Higgins and Klitgaard (2004), we use current account balances to analyze global capital flows. Source: Own aggregation based on data from International Financial Statistics. Data for 2006 is not presented because it is incomplete.

When aggregating countries by income groups, [1] the data suggests that the US absorbed the equivalent of three times the net saving of middle and low income countries in 2005 (Table 1). Furthermore, middle income countries as a group became net suppliers of saving to the rest of the world after 1999 while high income countries became net recipients of savings – a direct result of the US increasingly larger current account deficit. However US is not alone in that trend, Spain and Italy's contribution to the increase in the total current account deficit of high income countries jumped from around 22.6% in the1997-2001 period to 116% in the 2001-2005 period. Together, the two countries' current account surplus of about USD 34 billion in 1997 dropped to a current account deficit of USD 99.5 billion in 2005.

[1] Classification of countries by level of income follows World Bank's criterion (Appendix 2)

Figure 1 Major Net Exporters and Importers of Capital* in 2006





Source: International Monetary Fund, Global Financial Stability Report 2007, figure 1 pp. 141;*as measured by countries' current account balances (assuming errors and omissions are part of the capital and financial accounts).

Within middle income countries, the main highlights were China, Brazil, and Russia; that together accounted for about 74% of the total increase in the current account surplus of that group between 1997 and 2005. The bulk of this increase occurred between 2001 and 2005 when these three countries accounted for over 95% of the total increase in current account surplus of the middle income group (Table 2).

Turkey is the highlight among the middle income countries of our sample that presented a growing current account deficit. Indeed, the current account deficit in Turkey went up by about 7 times (inflation adjusted), from USD2.8 billion in 1997 to USD 19.9 billion in 2005.

Within low income countries, Nigeria was the main driver for the increase in the current account surplus in that group – its growing surplus (only since 2002) represents more than 110% of the total change in the current account between 1997 and 2005. Without Nigeria, the deficit in the aggregate current account of low income countries deepened in 2004 and 2005 pushed by India and Pakistan.

Table 2 Main Drivers of Change in Current Account Balances within Income Groups, 1997-2005 (in constant USD billion and in percentage)

	1997-2005	1997-2001	2001-2005
High Income (total in USD)	**-352.0**	**-281.3**	**-70.7**
Contributors (in % of total)			
Importers of Capital			
UNITED STATES	146.2%	79.3%	412.5%
SPAIN	20.6%	8.0%	70.9%
ITALY	17.3%	12.6%	35.8%
FRANCE	16.4%	5.4%	60.4%
UNITED KINGDOM	13.3%	10.3%	25.4%
Exporters of Capital			
GERMANY	-35.2%	-3.7%	-160.2%
SAUDI ARABIA	-21.7%	-3.1%	-95.8%
JAPAN	-12.0%	6.6%	-86.0%
SWITZERLAND	-7.6%	1.9%	-45.1%
NORWAY	-8.6%	-5.7%	-20.2%
CANADA	-8.4%	-8.8%	-6.8%
Other (27)	-20.4%	-2.7%	-90.9%
Middle Income (total in USD)	**300.1**	**88.2**	**211.9**
Contributors (in % of total)			
Importers of Capital			
TURKEY	-5.7%	6.9%	-11.0%
SOUTH AFRICA	-1.9%	3.1%	-4.0%
Exporters of Capital			
CHINA,P.R.: MAINLAND	34.0%	-25.8%	58.9%
RUSSIA	24.8%	37.5%	19.6%
BRAZIL	15.1%	11.5%	16.6%
MALAYSIA	8.0%	15.3%	5.0%
VENEZUELA, REP. BOL.	6.2%	-2.4%	9.7%
ARGENTINA	6.0%	10.6%	4.1%
Other (77)	13.5%	43.2%	1.1%
Low Income (total in USD)	**18.7**	**15.6**	**3.1**
Contributors (in % of total)			
NIGERIA	110.8%	11.7%	605.2%
Other (52)	-10.8%	88.3%	-505.2%

Source: Own calculation based on data from International Financial Statistics.

In summary the surge in excess savings (or current account surpluses) appears to have been concentrated in the commodity-producing countries and China.

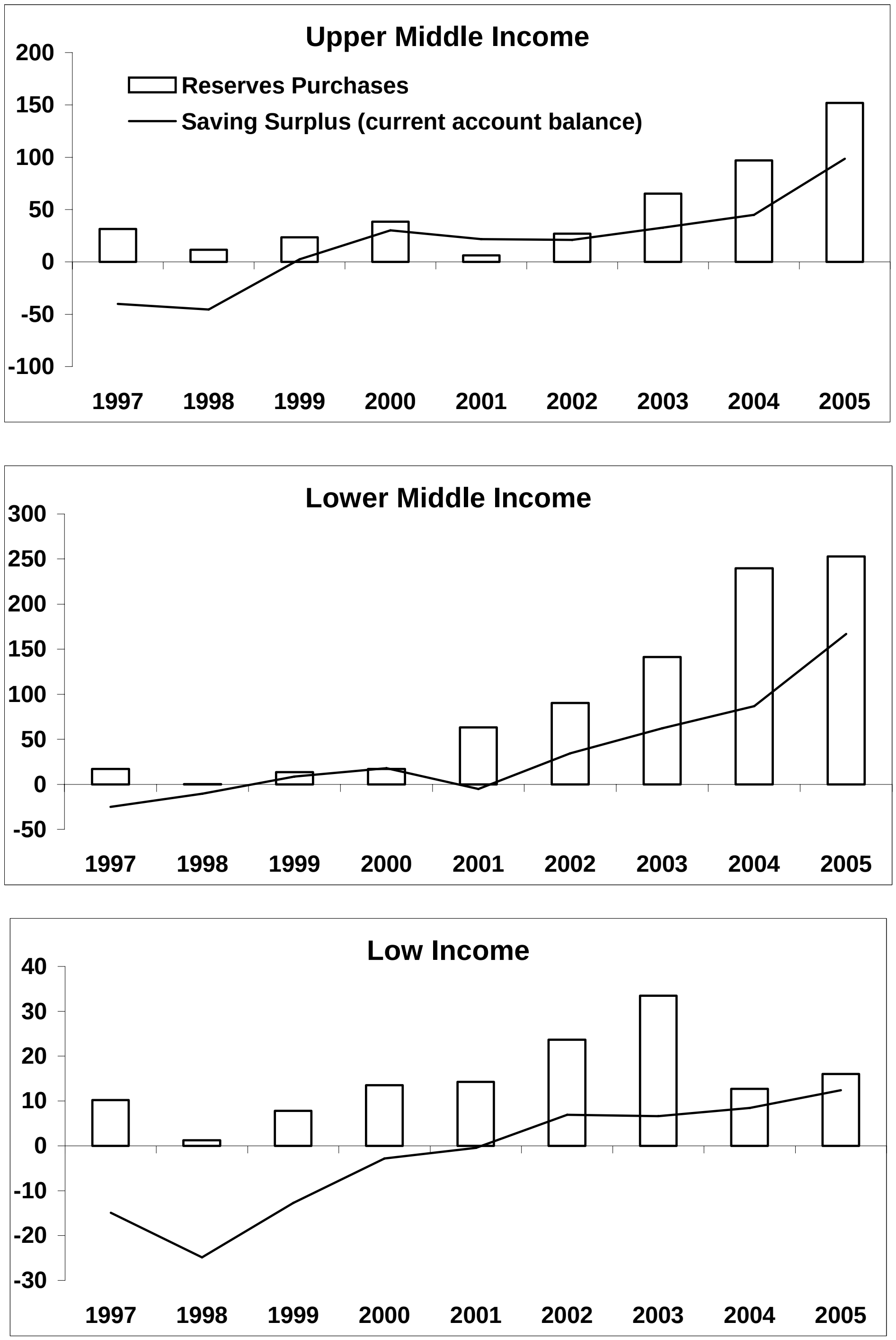
The corresponding net capital outflow of current account surpluses in these countries have been mainly channeled through the public sector. In the period between 2002 and 2005, the aggregate data suggests that private investors chose to direct funds into middle and low income countries despite the saving surplus in the region (Figure 2). Given that reserve purchases exceeded the saving surplus for each low and middle income groups, this suggests that central banks of the countries in these groups were in aggregate channeling the region's saving surplus abroad as well as recycling substantial net inflows of private capital.

Indeed, our analysis suggests that lower middle income countries in particular have been accumulating reserve assets at a higher pace since 2000 (Table 3). China is the highlight among middle income countries.

In 2005, change in reserve assets in China (just over USD207 billion) represented 82% of the total change in reserve assets of the lower middle income group, followed by Ukraine (4.1%) and Romania (2.7%) (Figure 3). Excluding China, other lower middle income countries have also accumulated reserves at accelerating pace since 2002, albeit at a slower rate (Figure 4). Within the upper middle income group, the single largest contributor was Russia whose reserves grew by $45.2 billion and $61.5billion in 2003 and 2004 respectively, compared with an average of $8.6 billion in the preceding period between 1997 and 2002.

The Global Financial Stability Report (IMF 2007) also suggests that the official sector has become a key player in cross-boarder asset allocation and has contributed to the financing of global imbalances. Using a different aggregation criterion, the Global Financial Stability Report (IMF 2007) concludes that emerging market countries are now a net supplier of capital to mature market countries through portfolio debt flows. In particular, this movement of capital between emerging and mature countries is primarily channeled through central banks and sovereign wealth funds. China, for instance, which was also the largest exporter of capital in 2006, is estimated to have held in the end of 2005, around 28% of reserves in US treasuries.

Figure 2 Balance Payments Flows in Medium and Low Income Countries (in USD Billion)



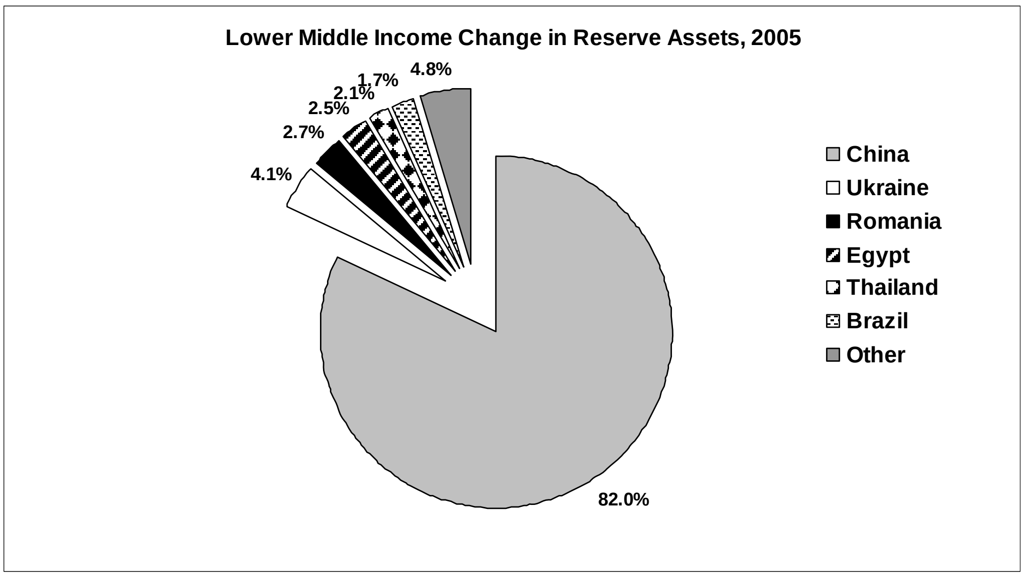
Source: Own aggregation based on data from International Financial Statistics.

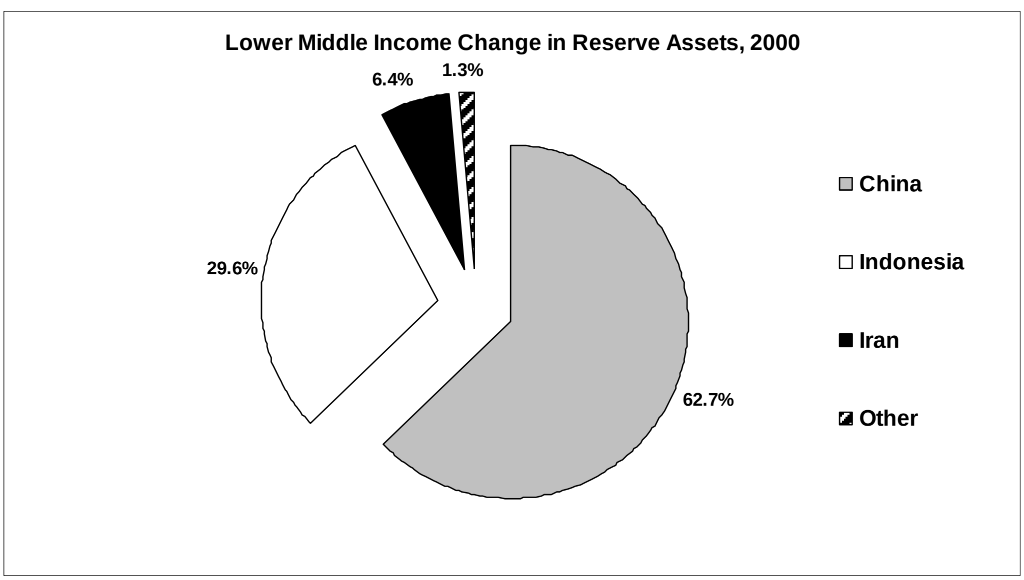
Table 3 Change in Reserves by Income Groups (in USD Billion)

Reserves by Income Groups (in USD Billion)	1997	1998	1999	2000	2001	2002	2003	2004	2005
High	-31.3	-16.6	-82.6	-91.9	-41.6	-81.0	-202.0	-206.6	-21.5
Upper Middle	-31.4	-11.7	-23.4	-38.4	-6.3	-26.8	-65.3	-97.1	-152.0
Lower Middle	-17.1	-0.1	-13.7	-17.1	-63.2	-90.2	-141.3	-239.8	-252.8
Low	-10.2	-1.3	-7.8	-13.5	-14.2	-23.7	-33.5	-12.7	-16.0

Note: Countries are aggregated in income groups following table A.30 of the Global Development Finance 2006's classification (see Appendix 1).
Source: Own aggregation based on data from International Financial Statistics.

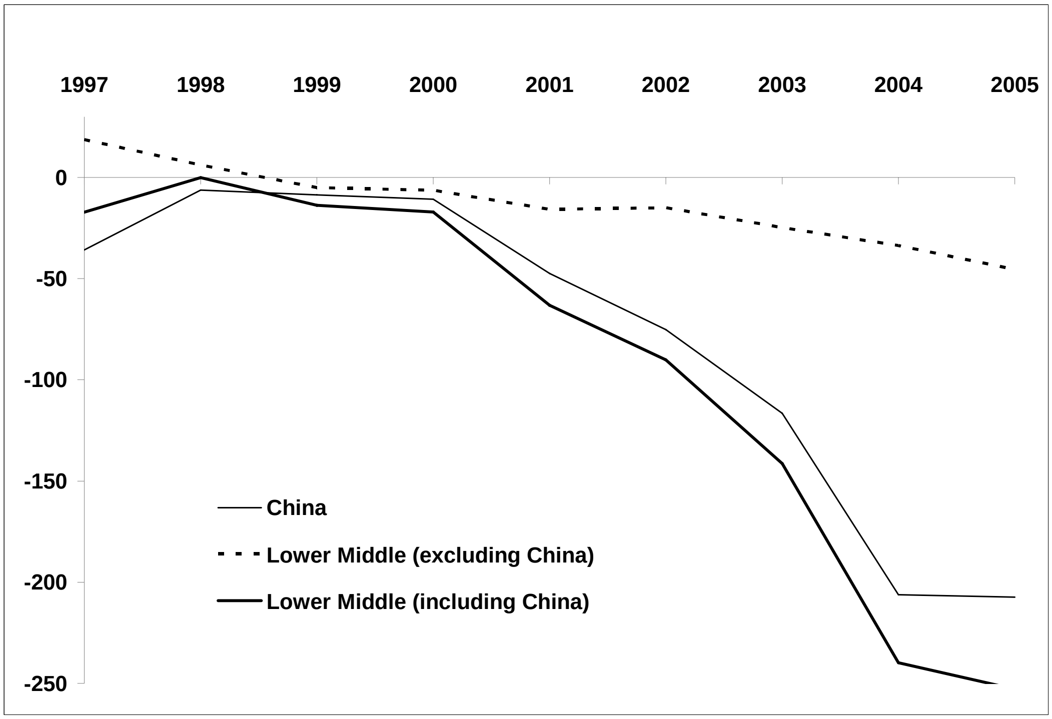
Figure 3 Change in Reserve Assets for Lower Middle Income Countries, 2000 and 2005 (share in %)





Source: Own aggregation based on data from International Financial Statistics.

Figure 4. Change in Reserve Assets for Lower Middle Income Countries, 1997-2005 (in USD billion)



Source: Own calculation based on data from International Financial Statistics.

2. Analysis of the Main External Capital Flows Structure[2]

Gross Capital Flows (measured by the sum of FDI, portfolio equity and debt, and other investments, therefore not including change in reserves) more than doubled between 2000 and 2005 for all income categories. Gross capital flows levels in 2005 were the highest since 1997 for all income categories. The jump was the largest for the countries in the high income group – where the gross capital flows reached USD13.2 trillion, almost three times the 1997 level[3] (Table 4).

Table 4 Main Categories of Gross Capital Flows* by Income Groups (in USD Billion)

Gross Capital Flows by Income Groups (USD Billion)	1997	1998	1999	2000	2001	2002	2003	2004	2005
High	4,664.3	4,756.3	7,181.8	8,065.9	5,800.8	5,608.2	7,400.2	10,674.1	13,191.0
Upper Middle	254.0	200.6	257.5	217.2	206.6	207.1	263.4	399.0	464.2
Lower Middle	263.5	280.3	236.2	270.1	230.0	217.0	237.6	317.8	481.5
Low	41.8	38.4	37.4	41.8	39.3	45.7	62.3	58.5	89.1

Note: * Foreign direct investment, portfolio investment (debt and equity) and other investments; Countries are aggregated in income groups following table A.30 of the Global Development Finance 2006's classification (see Appendix 1).
Source: Own aggregation based on data from International Financial Statistics.

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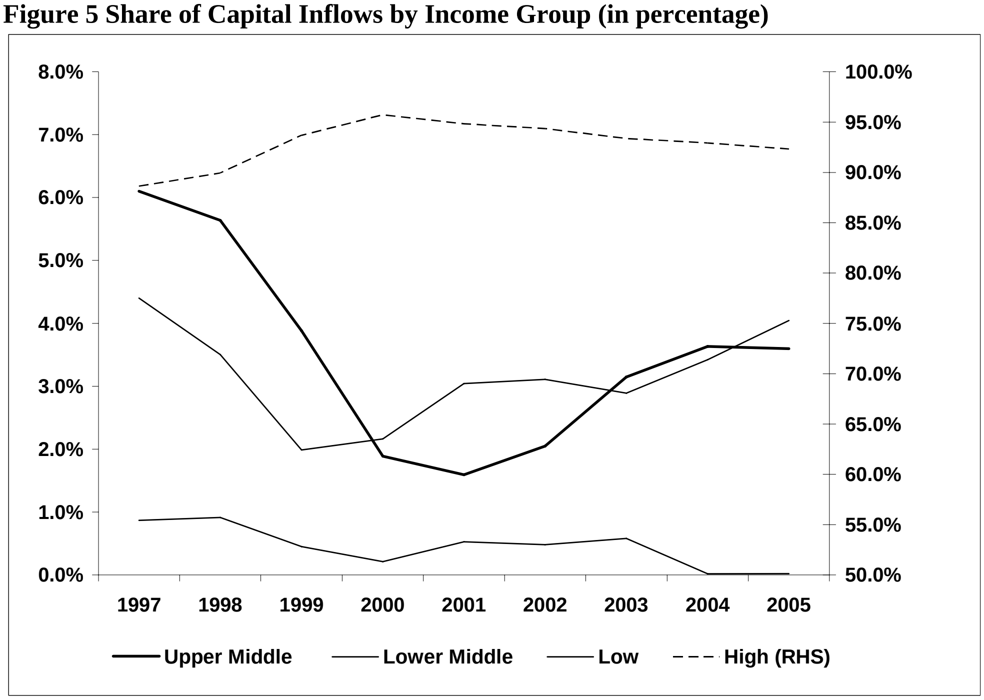
[2] Offshore countries are mostly excluded from this analysis because of missing data (see Appendix 2). Main capital flows are foreign direct investment, portfolio investment (debt and equity) and other investments.
[3] When adjusted by US inflation, 2005 levels are 2.3 times the 1997 levels.

The share of capital inflows by income group suggests that the high income group is the single largest recipient of capital inflows (around 92% of the total) but this share has dropped 2.5 percentage points since the peak in 2000. While middle income countries' share represents about 7.6% of capital inflows in 2005, this share almost doubled since 2000. Low income groups on the other hand, are losing space in the inflows distribution (Figure 5).

In 2005, high income countries were still the largest source of capital. Capital outflows from high income countries represented about 95% of total capital outflows. Middle income countries were responsible for about 4.7% of total, which is almost two times as large a share as it was in 2000 (Figure 6). The conciliation of both outflows and inflows data by income suggests that middle income countries became more important both as a source, as well as a destination of capital flows. Net capital flows further suggests that middle income countries became more important as net capital recipients (Table 5). However, there are large differences across countries within the middle income group. For instance, in 2005, almost half of outflows from middle income countries came from China (29.3%) and Russia (18.24%). Similarly, about half of inflows going to middle income countries went to China (27.6%), Russia (11.4%), Turkey (8.7%), and Mexico (5%).

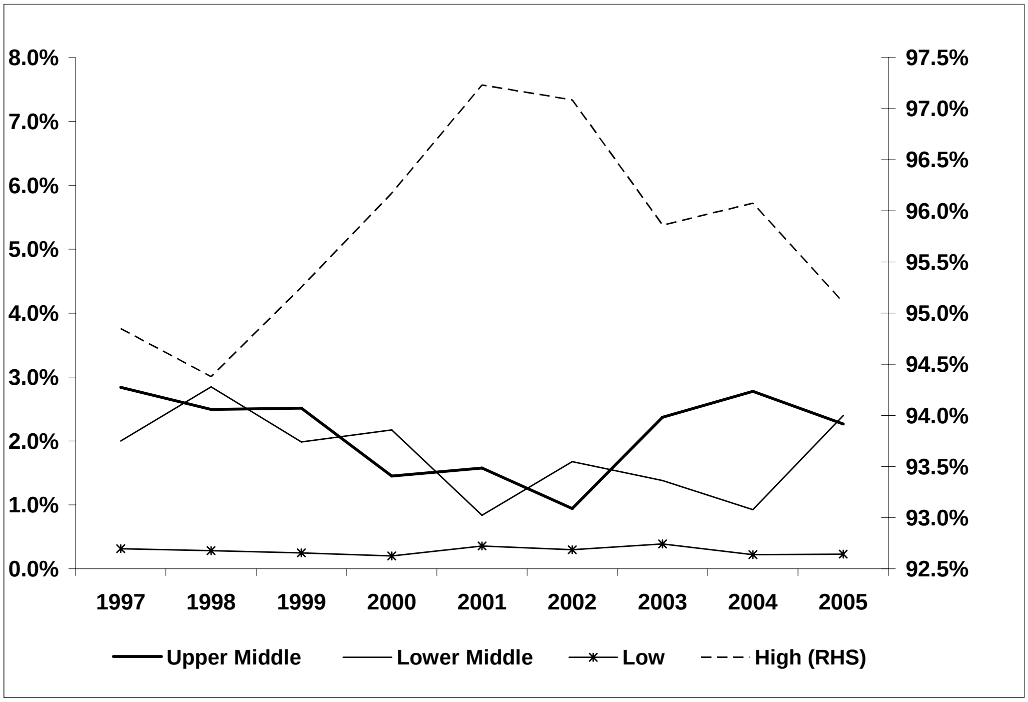
Since 2003, there appears to have been a shift in the type of flows going in and out of middle income countries. While foreign direct investment continue to show a robust growth, other items like portfolio debt and equity investment as well as other investments (including bank loans, deposits, currency and trade credits) soared between 2003 and 2005 when compared to the last 10 years both for inflows as well as outflows (Figure 7 and Figure 8).

Figure 5 Share of Capital Inflows by Income Group (in percentage)



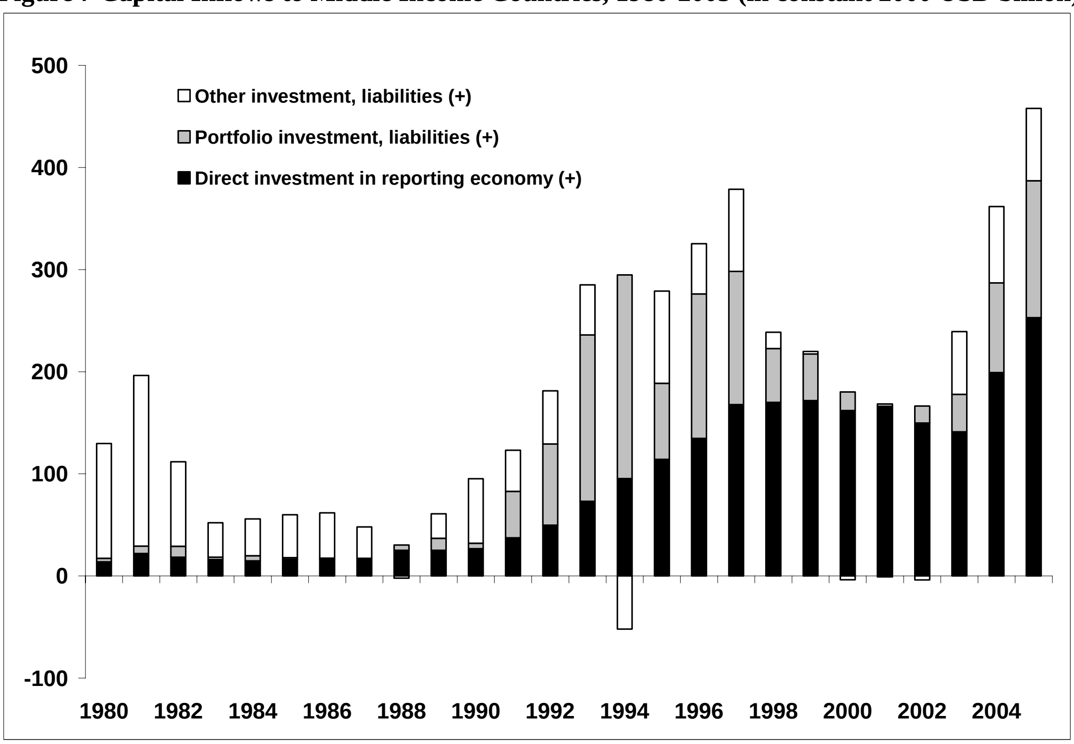
Source: Own calculation based on data from International Financial Statistics.

Figure 6 Share of Capital Outflows by Income Groups (in percentage)



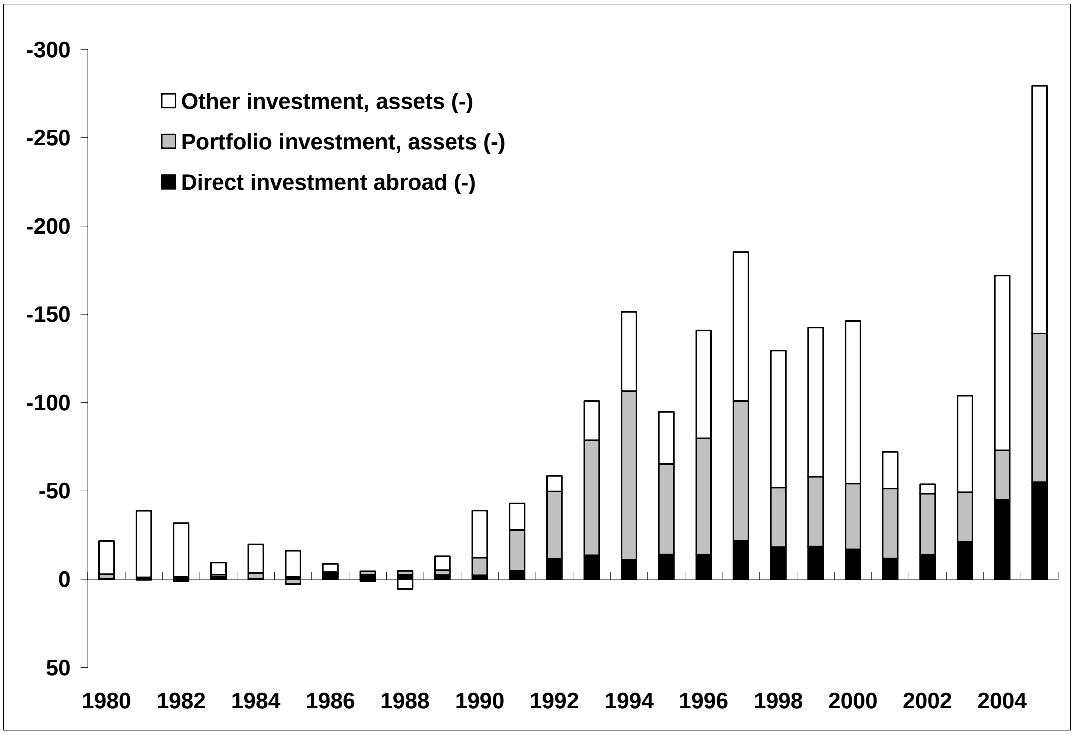
Source: Own calculation based on data from International Financial Statistics.

Figure 7 Capital Inflows to Middle Income Countries, 1980-2005 (in constant 2000 USD billion)



Source: Own computation based on data from IMF WEO Database.

Figure 8 Capital Outflows from Middle Income Countries, 1980-2005 (in constant 2000 USD billion)



Source: Own computation based on data from IMF WEO Database.

Table 5 Main Categories of Net Capital Flows* by Income Groups (in USD Billion)

Net Capital Flows (USD Billion)	1997	1998	1999	2000	2001	2002	2003	2004	2005
High	-2.5	-78.3	86.9	411.8	218.7	352.4	469.5	235.8	332.5
Upper Middle	89.4	62.6	46.0	25.3	5.2	31.2	41.9	57.2	104.1
Lower Middle	65.6	13.3	3.0	9.4	65.5	42.3	62.6	136.6	126.4
Low	14.8	12.5	6.6	1.4	5.9	5.8	9.3	-9.8	-13.1

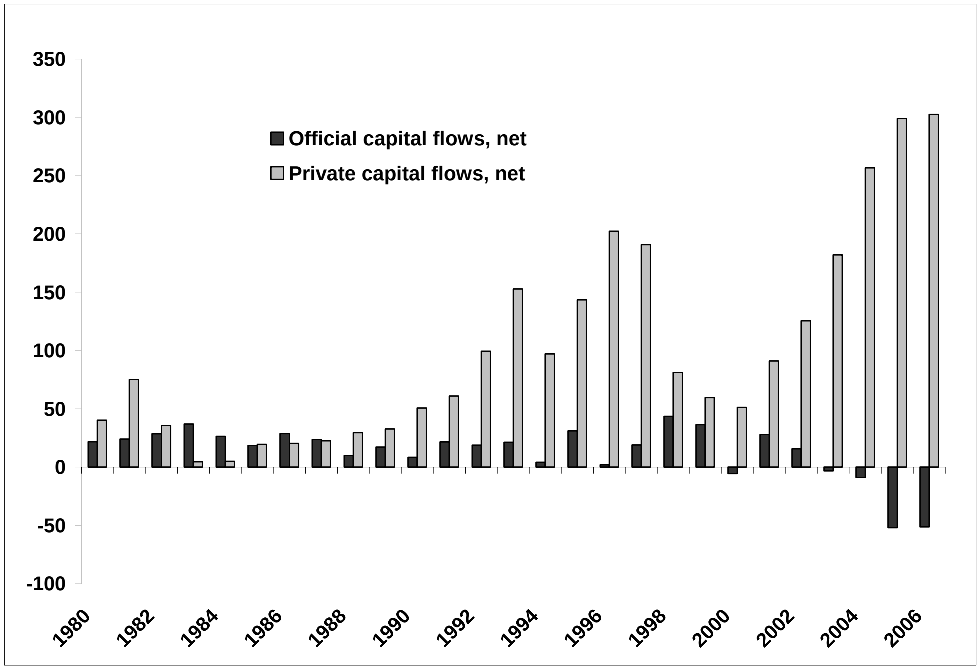
Note: * Foreign direct investment, portfolio investment (debt and equity) and other investments; Countries are aggregated in income groups following table A.30 of the Global Development Finance 2006's classification (see Appendix 1).
Source: Own aggregation based on data from International Financial Statistics.

3. Net Private versus Public External Capital Flows

Central banks of net saving countries are not the only players in global capital markets. In fact, the private sector has become an increasingly important player as a source of capital for developing countries. In 2005 private net flows to developing countries reached over $298 billion and in 2006 net private flows increased to $302.5 billion. In 2005 and 2006, net official flows (excluding grants) were negative for the first time in the last two decades and a half. Indeed in 2005 and 2006, net official flows were more than 50 billion negative after having dropped consistently since 2001 (Figure 9,
Figure 10, and Figure 11).

Note how in the 1980s net official and private flows for all developing countries were approximately equal – in the last 16 years, and especially more recently, developing countries as a whole have relied almost entirely on net private flows. For low income countries, however, net official flows remained positive until 2005 – but the dominance of official over private flows into this group of countries that was prevalent up to the mid 2002 has not been observed recently (Figure 11).

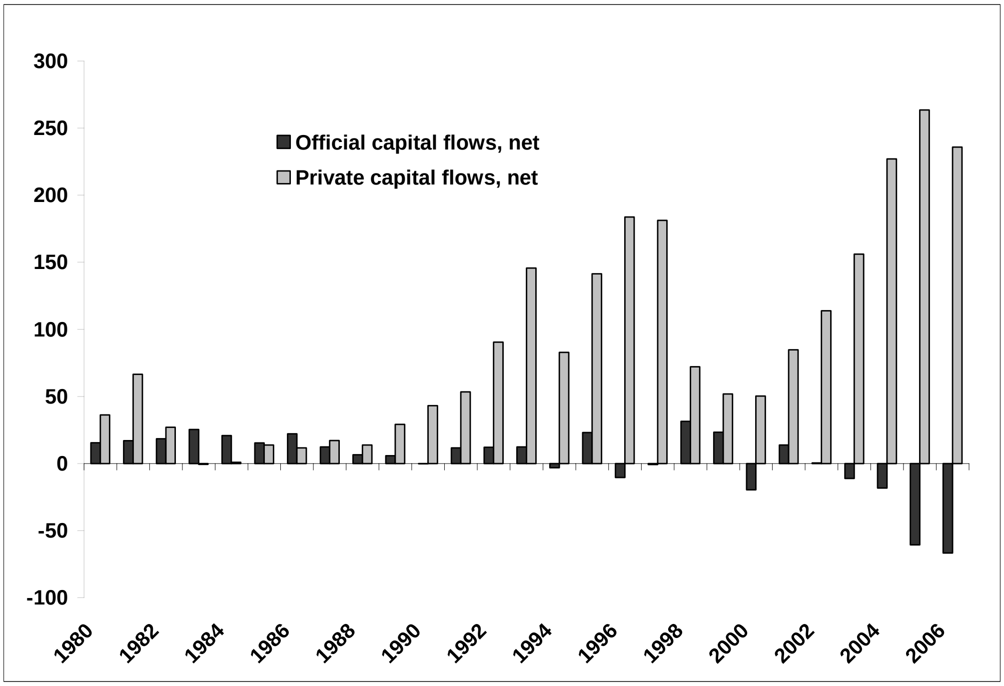
Figure 9 Net Official and Private Flows for all Developing Countries (in USD Billion)



Note: Private flows include net foreign direct investment, net private portfolio flows, and net other investment flows (which may include some official flows due to data limitations).
Net official flows exclude grants.
Countries are aggregated in income groups following World Bank criterion (see Appendix 1).
Source: Own aggregation based on data from IMF WEO database.

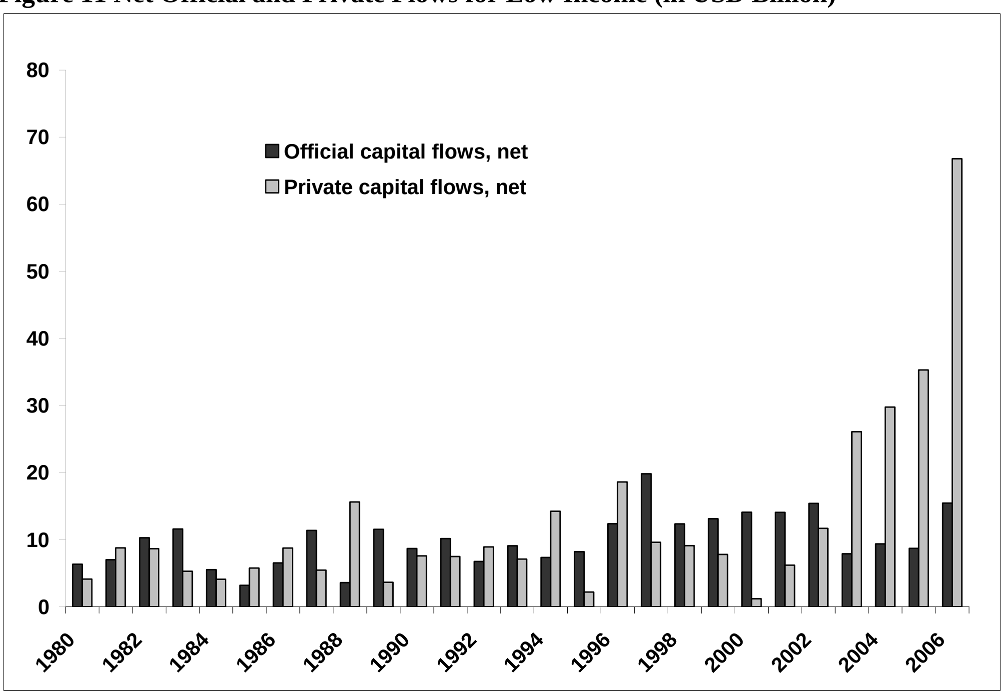
Strong equity performance is likely to explain great part of the increase of the value of private resource flows as suggested by the underlying drivers of this surge. From 2003-2005, the main driver was foreign direct investment, explaining 56% of the total change, followed by portfolio investment, which tripled from 2003-2005 and explained 25% of the total change (Figure 12).

Figure 10 Net Official and Private Flows for Middle Income (in USD Billion)



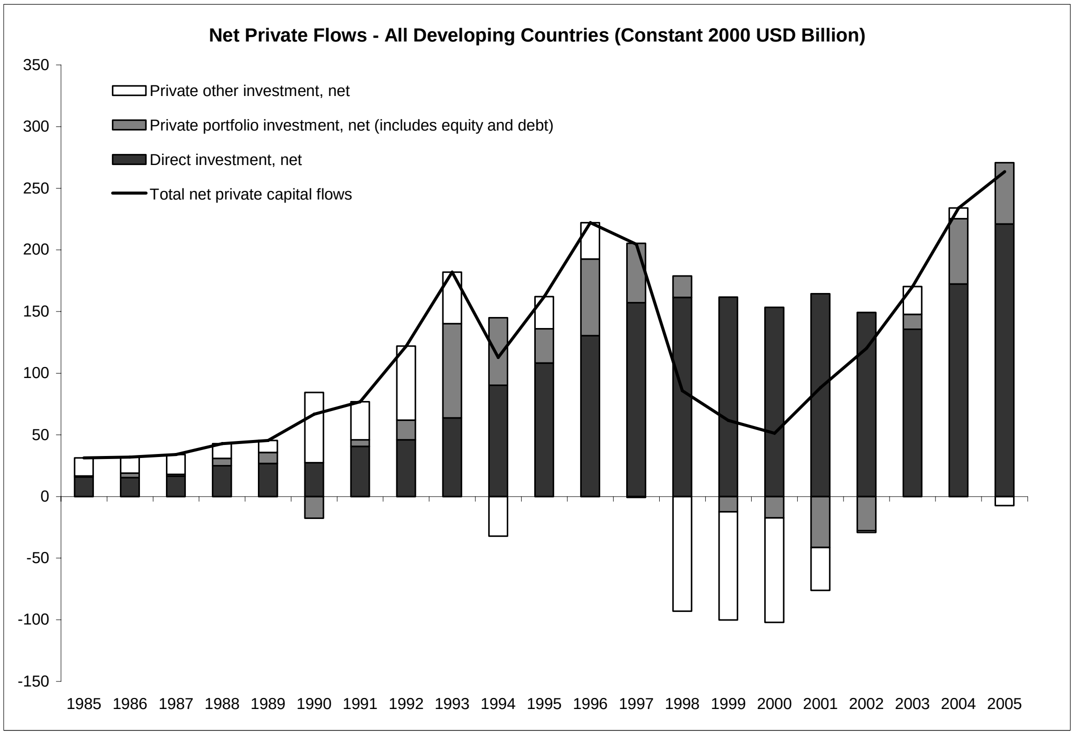
Note: Official flows are net of reserves.
Source: Own aggregation based on data from IMF WEO database.

Figure 11 Net Official and Private Flows for Low Income (in USD Billion)



Note: Official flows are net of reserves; it does not include grants.
Source: Own computation based on data from IMF WEO database.

Figure 12 Net Private Flows – All Developing Countries (constant 2000 USD Billion)



Source: Own computation based on IMF WEO data.

4. Foreign Direct Investment and Merger and Acquisitions[4]

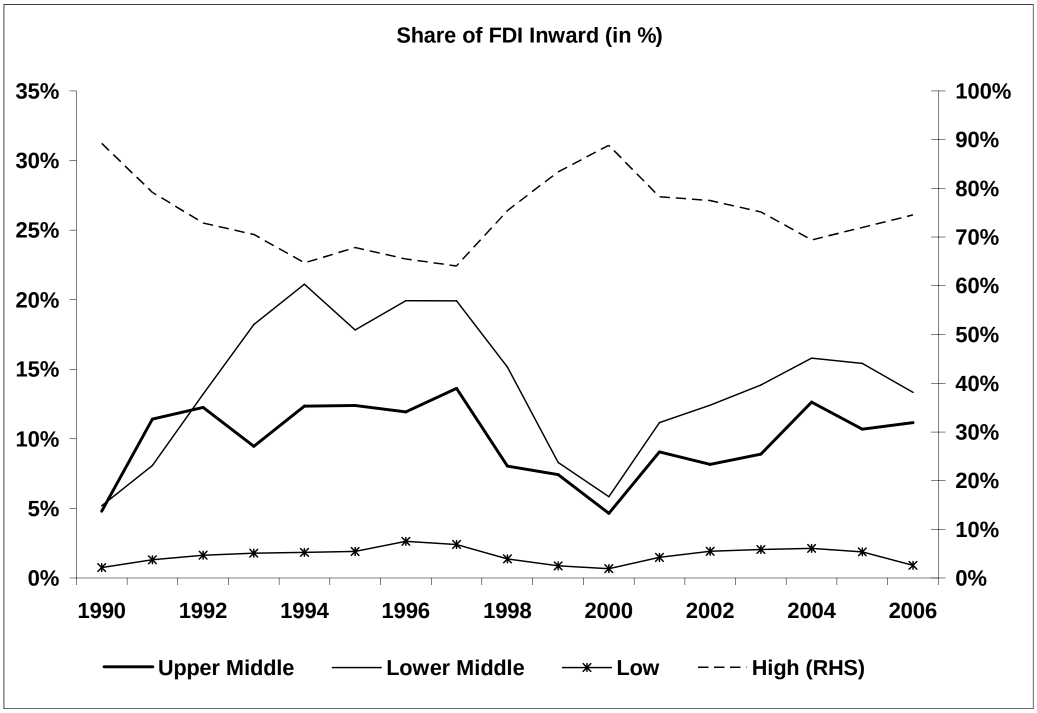
According to the World Investment Report of 2006, inflows of foreign direct investment (FDI) rose by 29% in 2005 to reach USD 916 billion after having already increased by 27% in the previous year. FDI to developing countries, in particular, has risen to an unprecedented USD 283 billion in 2005. However, developing countries' share of world inflows (currently around 25%) has still not reached the highs observed in the late 1990s when over one third of FDI flows went to developing countries (IFS data, see Figure 13).

What is novel about global FDI flows in the past three years is the increasing importance of middle and low income economies as sources of FDI. Negligible or small until the mid-1980s, outflows from these economies are estimated to have totaled over USD112 billion in 2006, corresponding to some 8.5% of the world total.[5] Although high income countries remain the leading sources of such outflows, with over 91% of world FDI stocks still held by high income countries in 2006, outflows from low and middle income countries have been growing at a rapid and increasing rate (Figure 14). While world outflows went up 1.45 times between 2003 and 2005, outflows from developing countries more than doubled. Preliminary balance of payment data from the IMF suggests that outward FDI from middle and low income countries may have grown by a further 78% in

[4] Unless otherwise mentioned, data on M&A comes from our own compilation of data from Thomson OneBanker – see Appendix for definitions.
[5] IFS Data

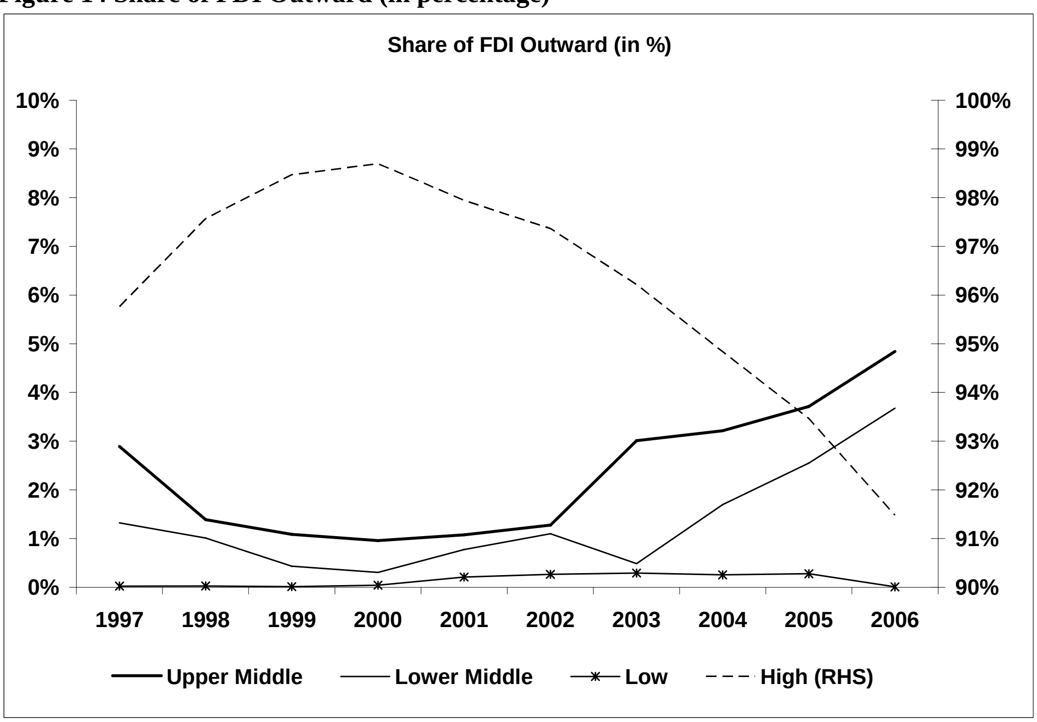
2006 and mergers and acquisitions data indicates dramatic growth in the first half of 2007.

Figure 13 Share of FDI Inward (in %)



Source: Own computation based on data from International Financial Statistics.

Figure 14 Share of FDI Outward (in percentage)



Source: Own computation based on data from International Financial Statistics.

According to the World Investment Report of 2006, the number of mergers and acquisitions rose worldwide in 2004 and 2005 while the number of Greenfield investment projects declined, indicating that cross-border merger and acquisition (M&A) activity was the prime driver of FDI growth. Therefore, while comprehensive data on other types of FDI are not available, data on cross-border M&A (from Thomson OneBanker) can reveal some general trends in the composition of the recent growth in FDI.

However, these figures should be interpreted with caution for several reasons. First, M&A data will naturally understate flows to the least developed economies because existing firms may not be readily available or sufficiently developed and Greenfield investment may be the only option. Second, determining the nationality of many multinational enterprises is difficult (for a discussion, see Goldstein 2007). Some developing country multinational companies (MNCs) register in high income countries to acquire superior access to capital markets, while others locate in offshore tax havens and then invest back home to gain preferential status where foreign investment is encouraged (so-called "round-tripping"). Furthermore, many purchases from high income countries are undertaken through a firm's local or regional subsidiaries, potentially inflating the apparent flows from the south. Our data from 2005 shows that if we exclude cases where the ultimate parent of the acquirer is located in a high income country, the total value of "South-South" cross-border purchases drops by 58%. Therefore, we define the source country to be that of the acquirer's ultimate parent company.

Analysis of the Thomson data shows significant changes to the global composition of cross-border mergers and acquisitions. Purchases from middle and low income countries more than tripled between 2004 and 2006 (Table 6) and their share of world purchases increased 1.7 times to 8.4% despite concurrent strong growth in purchases from high income countries.

Table 6 Distribution of cross-border M&As by group of economies, 2004- 2006 (in constant 2000 USD Billion and % of total)

		Group of Economies				
		High Income		Middle and Low Income		Total
Total Purchases	2004	364.3	*95.1%*	18.8	*4.9%*	383.1
	2005	650.9	*93.6%*	44.4	*6.4%*	695.3
	2006	699.5	*91.6%*	64.5	*8.4%*	764.0
Total Sales	2004	328.9	*85.9%*	54.2	*14.1%*	383.1
	2005	594.6	*85.5%*	100.7	*14.5%*	695.3
	2006	643.3	*84.2%*	120.7	*15.8%*	764.0

Source: Constructed from Thomson OneBanker M&A database.

While outflows from middle income countries may still be small in global terms (around 8% of total), they achieve much higher importance when we consider only inflows to low and middle income countries. Enterprises from middle and low income countries are far more likely than their high income counterparts to invest in lower income countries. In 2006, these South-South M&As accounted for over 20% of sales from middle and low income countries, compared with only 7% five years earlier. Furthermore, South-South M&As accounted for over 75% of the year's increase in cross-border sales. Although data is limited, rough estimates suggest that Chinese and Indian FDI flows to Sub-Saharan Africa now exceed investment from OECD countries in the region (Goldstein et al 2006).

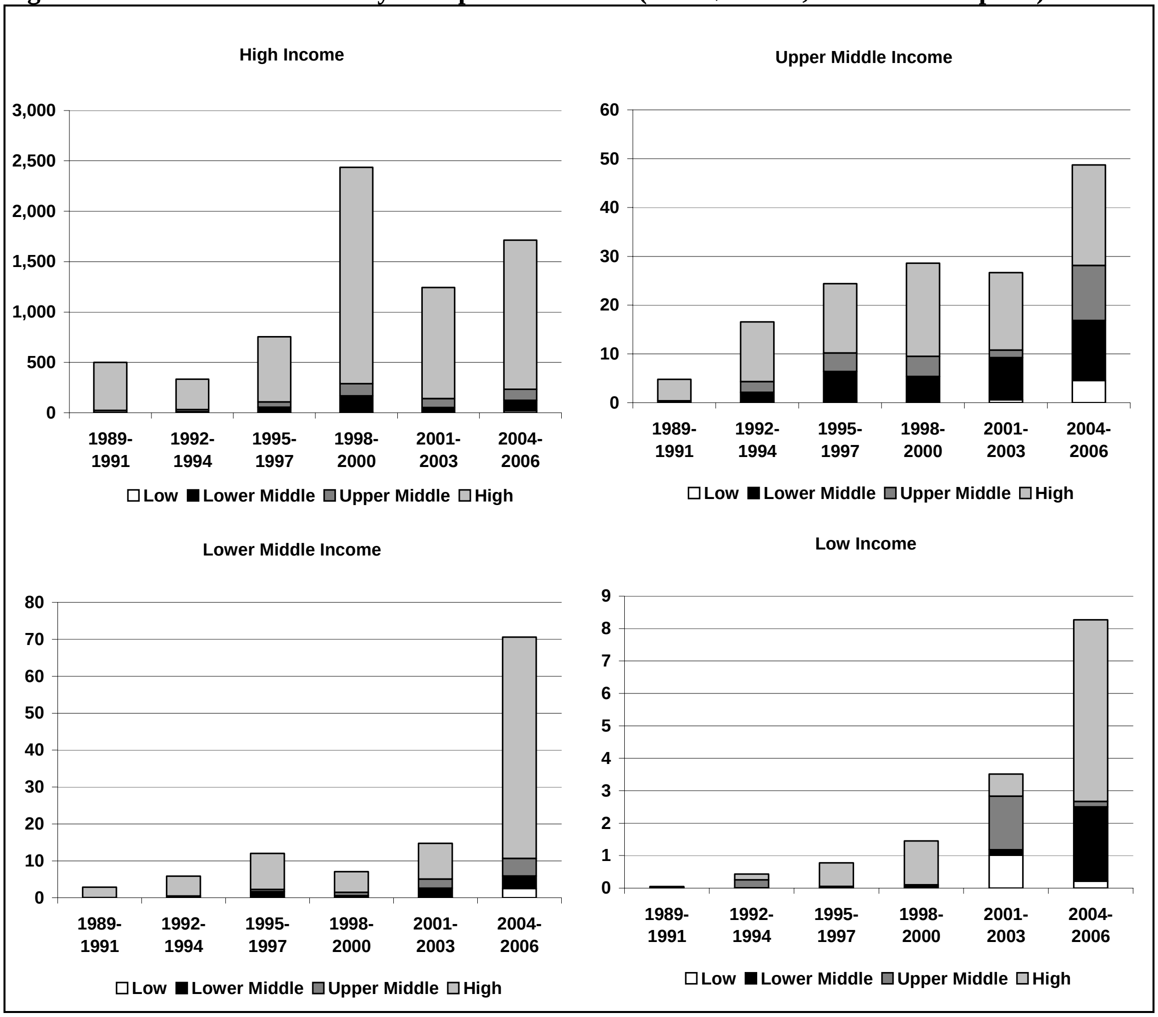
Despite much publicity regarding Chinese and Indian investment in low income countries, upper middle income countries are currently the most prone to invest in other middle and low income countries. While upper middle income purchases have risen across all income categories, the share of purchases targeting middle and low income countries has increased dramatically in the past decade (Figure 15). Since 2004, more than half of upper middle income cross-border purchases have been located in other middle and low income countries. This trend is driven by a growing list of countries engaged in outward investment, led by Mexico, Russia and Malaysia but including a number of other countries in Eastern Europe and Latin America.

Investment from upper middle income countries has been concentrated in services and raw materials. A major recent driver has been the telecommunications sector, where middle income firms have a distinct competitive advantage in rapidly growing emerging markets including closer cultural and linguistic proximity, superior local knowledge and experience operating in more difficult political and economic environments. Further research is needed to better understand in what ways this investment differs from investment from high income countries in terms of performance and host country effects

The incredible growth in the value of investment from lower middle income countries, on the other hand, can be attributed mainly to purchases in high income countries (Figure 15). Lower middle income cross-border activity in 2005-2006 was driven by Chinese purchases in energy and Brazilian purchases in raw materials, in addition to Egyptian firm Orascom Telecom's USD16 billion takeover of Wind Italy in May 2005. The average size of purchases by lower middle income countries more than quadrupled from USD98 million in 2003 to USD404 million in 2006 (constant prices), far surpassing the world average of USD192 million per deal.

The recent growth in FDI flows to and from developing countries raises a number of questions. First, is the growth in FDI flows from the South a lasting phenomenon? In the case of China, some possible triggers are the boom in commodity prices, the effect of China's entry into the World Trade Organization, and the availability of cheap credit supply by China's bank, currently awash with liquidity; all of which could be possibly imply that the upswing in M&A activity is temporary. However the development of global and transnational production networks initiated by these M&As are unlikely to go away, suggesting that even if the pace of M&As were to slow down, the effects of cross-border activity brings an opportunity for the private sector in developing economies to tap into new markets, to access new technologies and resources, to spread risks, to reduce costs, and to increase competitiveness. Gains to developing economies may come in the form of lower prices and broader access to quality products and services. The challenge is to see how different sectors and economies can benefit from this new wave of cross-boarder activity.

Figure 15 Cross Border M&As by Group of Economies (in US$ billion, 2000 constant price)



Source: Own calculation based on data from Thomson OneBanker M&A database.

Appendix 1- Country Classification[6]

Table A.30 Classification of countries by region and level of income

		Sub-Saharan Africa		Asia		Europe and Central Asia		Middle East and North Africa		
Income group	Subgroup	East and Southern Africa	West Africa	East Asia and Pacific	South Asia	Eastern Europe and Central Asia	Rest of Europe	Middle East	North Africa	Americas
Low-income countries		Burundi Comoros Congo, Dem. Rep. of Eritrea Ethiopia Kenya Lesotho Madagascar Malawi Mozambique Rwanda Somalia Sudan Tanzania Uganda Zambia Zimbabwe	Benin Burkina Faso Cameroon Central African Republic Chad Congo, Rep. of Côte d'Ivoire Gambia, The Ghana Guinea Guinea-Bissau Liberia Mali Mauritania Niger Nigeria São Tomé and Principe Senegal Sierra Leone Togo	Cambodia Korea, Dem. People's Rep. of Lao PDR Mongolia Myanmar Papua New Guinea Solomon Islands Timor-Leste Vietnam	Afghanistan Bangladesh Bhutan India Nepal Pakistan	Kyrgyz Republic Moldova Tajikistan Uzbekistan		Yemen, Rep. of		Haiti Nicaragua
Middle-income countries	*Lower*	Angola Namibia Swaziland	Cape Verde	China Fiji Indonesia Kiribati Marshall Islands Micronesia, Fed. Sts. of Philippines Samoa Thailand Tonga Vanuatu	Maldives Sri Lanka	Albania Armenia Azerbaijan Belarus Bosnia and Herzegovina Bulgaria Georgia Kazakhstan Macedonia, FYR[a] Romania Serbia and Montenegro Turkmenistan Ukraine		Iran, Islamic Rep. of Iraq Jordan Syrian Arab Rep. West Bank and Gaza	Algeria Djibouti Egypt, Arab Rep. of Morocco Tunisia	Bolivia Brazil Colombia Cuba Dominican Republic Ecuador El Salvador Guatemala Guyana Honduras Jamaica Paraguay Peru Suriname
	Upper	Botswana Mauritius Mayotte Seychelles South Africa	Equatorial Guinea Gabon	American Samoa Malaysia N. Mariana Islands Palau		Croatia Czech Republic Estonia Hungary Latvia Lithuania Poland Russian Federation Slovak Republic	Turkey	Lebanon Oman	Libya	Antigua and Barbuda Argentina Barbados Belize Chile Costa Rica Dominica Grenada Mexico Panama St. Kitts and Nevis St. Lucia St. Vincent Trinidad and Tobago Uruguay Venezuela, R. B. de

(continued)

[6] Source: Global Development Finance 2006, Statistical Appendix, Table A.30.

Table A.30 (continued)

		Sub-Saharan Africa		Asia		Europe and Central Asia		Middle East and North Africa		
Income group	Subgroup	East and Southern Africa	West Africa	East Asia and Pacific	South Asia	Eastern Europe and Central Asia	Rest of Europe	Middle East	North Africa	Americas
High-income countries	OECD			Australia Japan Korea, Rep. New Zealand			Austria Belgium Denmark Finland France[b] Germany Greece Iceland Ireland Italy Luxembourg Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom			Canada United States
	Non-OECD			Brunei French Polynesia Guam Hong Kong, China[c] Macao, China[d] New Caledonia Singapore Taiwan, China		Slovenia	Andorra Channel Islands Cyprus Faeroe Islands Greenland Isle of Man Liechtenstein Monaco San Marino	Bahrain Israel Kuwait Qatar Saudi Arabia United Arab Emirates	Malta	Aruba Bahamas, The Bermuda Cayman Islands Netherlands Antilles Puerto Rico Virgin Islands (U.S.)
Total	209	25	23	36	8	27	28	14	7	41

Source: World Bank data.
Note: For operational and analytical purposes, the World Bank's main criterion for classifying economies is gross national income (GNI) per capita. Every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. Other analytical groups, based on geographic regions and levels of external debt, are also used. Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status. This table classifies all World Bank member economies, and all other economies with populations of more than 30,000. Economies are divided among income groups according to 2004 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, $825 or less; lower middle income, $826–3,255; upper middle income, $3,256–10,065; and high income, $10,066 or more.
a. Former Yugoslav Republic of Macedonia.
b. The French overseas departments French Guiana, Guadeloupe, Martinique, and Réunion are included in France.
c. On 1 July 1997 China resumed its exercise of sovereignty over Hong Kong.
d. On 20 December 1999 China resumed its exercise of sovereignty over Macao.

Balance of payment data is not available for the following countries in the International Financial Statistic database:

- **Low-income countries**: Congo, Dem. Rep. of ; Korea, Dem. People's Rep. of ; Bhutan; Uzbekistan
- **Lower-middle income countries**: Marshall Islands; Micronesia, Fed. Sts. of; Serbia and Montenegro; Iraq; Cuba
- **Upper-middle income countries:** American Samoa; N. Mariana Islands; Palau; Mayotte
- **High income countries**: Brunei; French Polynesia; Guam; New Caledonia; Taiwan, China; Andorra; Channel Islands; Faeroe Islands; Greenland; Isle of Man; Liechtenstein; Monaco; San Marino; United Arab Emirates; Bermuda; Cayman Islands; Porto Rico; Virgin Islands (U.S.).

Appendix 3- Definitions

For Tables and Figures that use International Financial Statistics as the source

Foreign Direct Investment is the sum of Direct Investment Abroad and Direct Investment in Reporting Econ., n.i.e. They represent the flows of direct investment capital out of the reporting economy and those into the reporting economy, respectively. Direct investment includes equity capital, reinvested earnings, other capital and financial derivatives associated with various intercompany transactions between affiliated enterprises. Excluded are flows of direct investment capital into the reporting economy for exceptional financing, such as debt-for-equity swaps. Direct investment abroad is usually shown with a negative figure, reflecting an increase in net outward investment by residents, with a corresponding net payment inflow into the reporting economy.

Portfolio Investments (Assets and Liabilities) include transactions with nonresidents in financial securities of any maturity (such as corporate securities, bonds, notes, and money market instruments) other than those included in direct investment, exceptional financing, and reserve assets.

Other Investment (Assets and Liabilities) include all financial transactions not covered in direct investment, portfolio investment, financial derivatives, or reserve assets. Major categories are transactions in currency and deposits, loans, and trade credits.

Reserve Assets consists of external assets readily available to and controlled by monetary authorities primarily for direct financing of payment imbalances and for indirect regulating of the magnitude of such imbalances through exchange market intervention. Reserve assets comprise monetary gold, special drawing rights, reserve position in the Fund, foreign reserve assets (consisting of currency and deposits and securities), and other claims.

For Tables and Figures that use Global Development Finance as the source

Aggregate net resource flows are the sum of net resource flows on long-term debt (excluding IMF) plus net direct foreign investment, portfolio equity flows and official grants (excluding technical cooperation). Net flows (or net lending or net disbursements) are disbursements minus principal repayments.

Official net resource flows are the sum of official net flows on long-term debt to official creditors (excluding IMF) plus official grants (excluding technical cooperation). Net flows (or net lending or net disbursements) are disbursements minus principal repayments.

Private net resource flows are the sum of net flows on debt to private creditors (PPG and PNG) plus net direct foreign investment and portfolio equity flows. Net flows (or net lending or net disbursements) are disbursements minus principal repayments.

For Tables and Figures that use Thomson OneBanker as a source

Mergers and Acquisitions include all completed cross-border deals where 1) the value of the deal and the country of origin of both acquirer and target are known; and 2) the deal meets the equity condition of FDI, i.e. the percent of shares owned by the acquirer upon completion is greater than or equal to 10%. This excludes acquisitions by investors where the country of origin is unknown. The date refers to the date completed rather than the date announced, and the value is reported in constant 2000 USD.

Source country is the country of the ultimate parent of the acquiring firm.

Target country is the country of the firm acquired, regardless of whether the ultimate parent is located in a different country.

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