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INTERNATIONAL MERGERS AND ACQUISITIONS SURGE IN 2011

Michael Gestrin

International M&A investment has shown resilience in the face of recent economic turmoil, including the unfolding sovereign debt crisis in Europe and persistent economic weakness in the United States.

International M&A investment in 2011 reached \$822 billion as at 21 October. If this pace can be sustained, international M&A will top \$1 000 billion by the end of the year, a 32% increase over 2010 (figure 1).

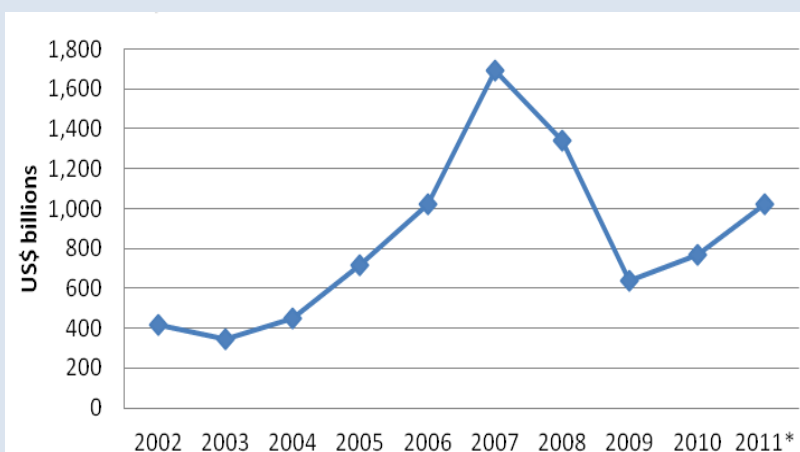
This would match the third highest level ever reached in 2006. Even if M&A activity were to come to a stop in Q4, 2011 levels will still be 7% higher than those reached in 2010.

Most international investment continues to originate from either North America or Western Europe. However, the emerging markets have become important new sources of international investment in recent years.

China (including Hong Kong, China) in particular has become a major international investor, ranking as the fourth largest source of international M&A in 2011, with 7% of the world total (figure 2). In 2010 it ranked second with 10%.

Continued on page 2

Figure 1. International M&A 2002 - 2011*



* Linear projection based on data through 21 October 2011
Source: Data from Dealogic, author's calculations.

INTERNATIONAL M&A SURGE IN 2011 continued...

Illustrating how quickly China has reached this position, less than 3% of international M&A originated from China as recently as 2007. China accounts for a third of international M&A from emerging economies, which accounted for 20% of the global total in 2011.

The United States and the United Kingdom are the top destinations for international M&A, followed by China, Italy, and France, each with 6% of the world total (figure 3). Brazil received \$44 billion in

international M&A, making it the 6th most popular target, while India received \$21 billion (12th place) and Russia \$18 billion (16th place). As a group, the emerging and developing economies received \$182 billion in M&A investment, 22% of the global total in 2011.

In 2011, international M&A continued to be dominated by deals in the financial sector even though the pace is down considerably from 2010 when finance accounted for 28% of all international M&A. For a second year running the oil and gas sector is in second place and

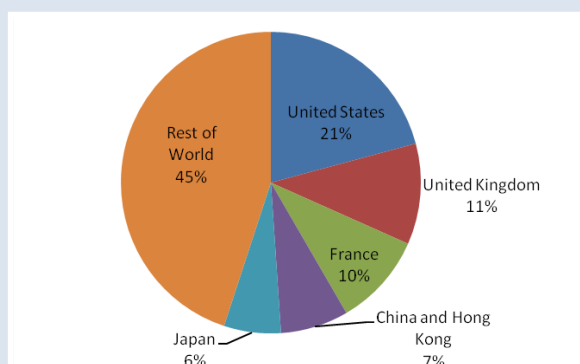
healthcare in third. Both sectors account for 10% of total international M&A.

Mining and the utilities and energy sectors have both experienced strong growth in 2011. International M&A deals in mining are up 67%, from \$34 billion in 2010 to \$57 billion in 2011, with over two months remaining in the year. International investment in the utilities and energy sector more than doubled in 2011, growing from \$23 billion in 2010 to \$50 billion in 2011. ■

For further reading on this topic:

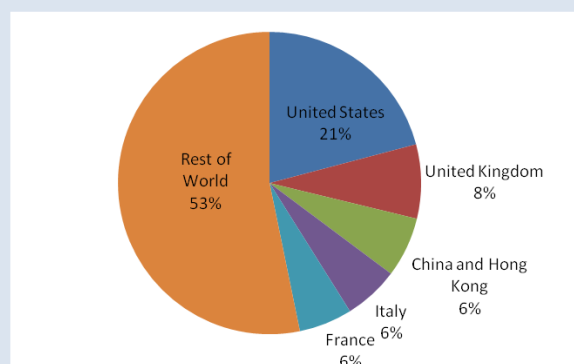
www.oecd.org/daf/investment

Figure 2. Top 5 sources of international M&A in 2011



Source: Data provided by Dealogic, author's calculations

Figure 3. Top 5 destinations of international M&A in 2011



AGRICULTURE

FOREIGN INVESTMENT BOOMING IN AGRICULTURE

Mi-Hyun Bang and Coralie David

Food price hikes in 2008 raised concerns on food security worldwide, leading to a surge in foreign investments in agriculture.

China, Korea, Qatar, Saudi Arabia, and the UAE, are among the substantial investors in agricultural land. In 2009, Korea and UAE respectively signed deals for 690,000 and 400,000 hectares to grow wheat in Sudan. In the Congo, China secured the right to run the world's largest palm oil plantation on 2.8 million hectares to produce biofuel.

Sovereign wealth funds are important players in this area and sometimes invest in farmland with private investors of their home country. For example, Saudi Arabia

established the Saudi Company for Agricultural Investment and Animal Production in 2009 with a capital of \$800 million to invest in agriculture and livestock production companies in partnership with private agribusinesses.

According to the Food and Agriculture Organisation, farmland investments mainly target Africa and South East Asia. While these investment opportunities can benefit recipient countries, they also bring potential risks. The OECD supports investors and host countries in promoting

responsible business conduct through diverse instruments, including:

- The Policy Framework for Investment (PFI), a checklist of issues for creating an attractive investment environment and in enhancing the development benefits of investment to society.
- The Policy Framework for Investment in Agriculture, a sector-specific adaptation of the PFI, which assists governments in their efforts to attract more and better investment in agriculture in support of national development objectives.
- The OECD Guidelines for Multinational Enterprises, far reaching recommendations for responsible business conduct. ■

For further reading on this topic:

www.oecd.org/daf/investment

ANALYSIS

RECENT FDI DATA PAINTS A MIXED PICTURE

Ayse Bertrand and Emilie Kothe

In contrast to the strong performance of international M&A activity in 2011, the most recent FDI statistics for Q2 provide a mixed picture.

Outward FDI from OECD countries declined marginally (1%) while inflows remained unchanged from Q1 (figure 1). The emerging economies continue to show strong FDI performance. Non-OECD members of the G20 experienced 90% growth for outward FDI and 10%

growth for inward FDI in Q2 (excluding Saudi Arabia, which has not yet reported its FDI figures for Q2). Despite the strong performance of major emerging economies, global FDI outflows were down in Q2 by 2%.

Data on FDI and on international M&A provide different measures of international investment trends. International M&A is a narrower measure than FDI. The less positive picture painted by the FDI data suggests that the non-M&A component of FDI, such as reinvested earnings, performed poorly in Q2. ■

For further reading on this topic:

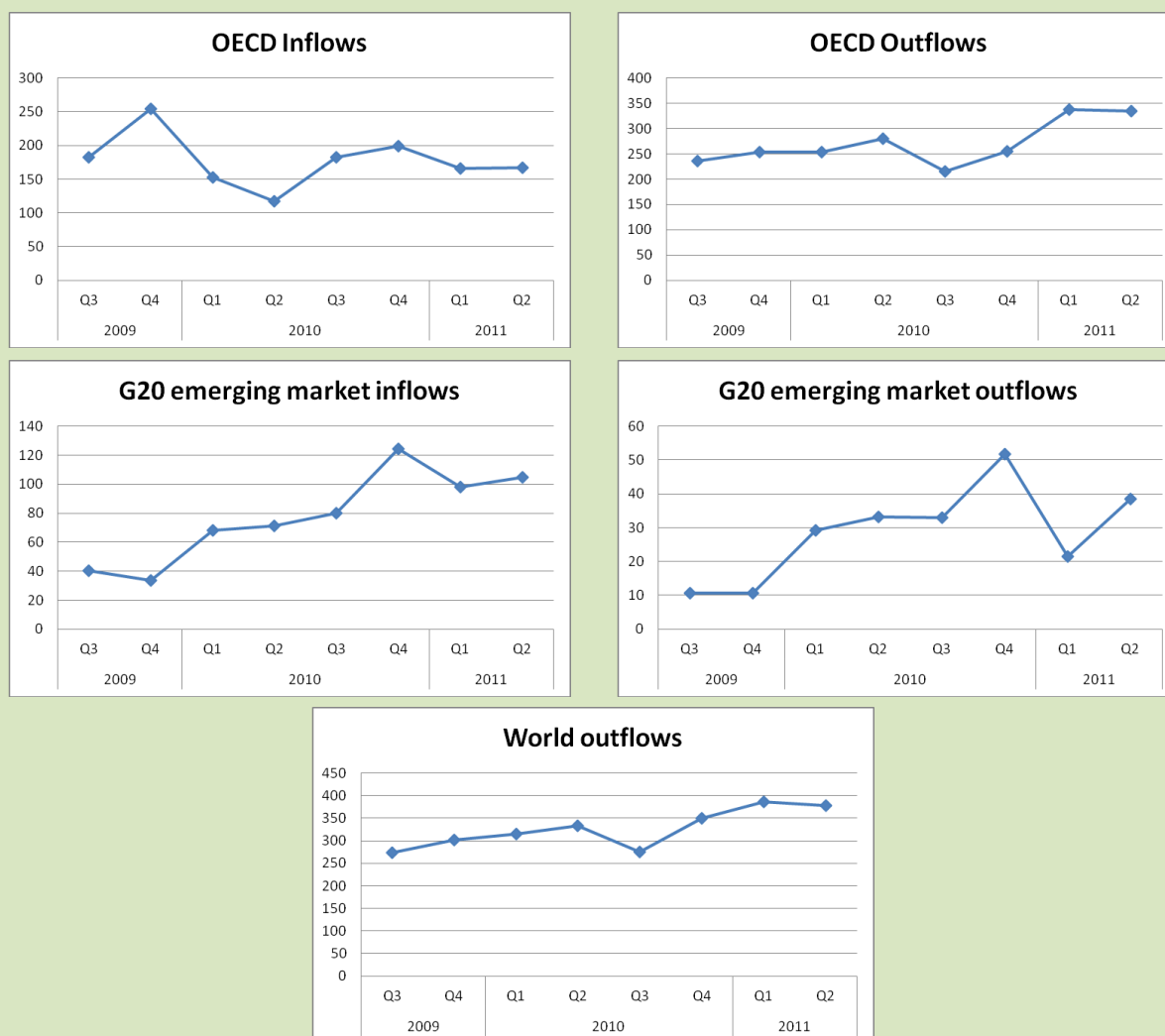
www.oecd.org/daf/investment/statistics

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Figure 1. FDI inflows and outflows



Source: OECD International direct investment database

MIDDLE EAST AND NORTH AFRICA

OECD AND WORLD ECONOMIC FORUM ISSUE JOINT ARAB WORLD COMPETITIVENESS REPORT

Anthony O'Sullivan and Vanessa Vallee

Economic reform must accompany political transition if the root causes of the Arab Spring are to be addressed and jobs created for the 2.8 million young people who enter the labour market every year, according to a joint report released on 22 October by the OECD and World Economic Forum.

The Arab World Competitiveness Report 2011-2012, analyses the region's competitive strengths, and outlines challenges and opportunities. It recommends that government reforms address four priority areas: reducing high levels of unemployment, fostering private sector development, shrinking the excessive weight of the public sector in the economy, and fighting widespread corruption.

While the region achieved a GDP growth rate of 5.2% between 2000 and 2008 (compared to only 2.4% for OECD countries) the global economic crisis and recent events in the region have negatively impacted most economies, outside of a few oil rich states that benefited from rising energy prices. The extent to which countries in the region are able to recover will depend on the speed, design and execution of political transition and economic reforms, as well as on the recovery of the global economy.

"Competitiveness-enhancing reforms are needed to fulfill aspirations of the Arab citizens and to address the key priority faced by the region, which is to create gainful and sustainable employment for the population", said Robert Greenhill, Chief Business Officer at the World Economic Forum.

The report recommends:

- Fostering the development of the private sector, in particular, through the creation of business environments conducive to enterprise development, healthy competition and entrepreneurship
- Increasing social and economic inclusion by expanding opportunities through targeted labour and educated policies: the region needs to generate more and better jobs, especially for women, the young and the educated
- Improving governance, transparency, accountability and the participation of civil society and the private sector to help tackle corruption, create a level playing field and foster a culture of integrity in MENA countries. ■

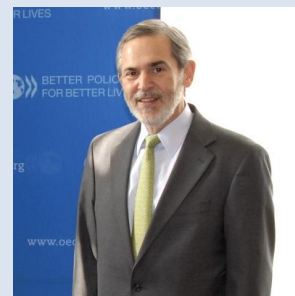
For further information, visit:

www.oecd.org/mena/investment

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"Governments must respond by focusing first and foremost on generating jobs in the private sector and tackling corruption. We are working to help them do just that."

Richard Boucher
OECD Deputy Secretary-General

MENA countries active at the OECD

As part of their efforts to improve their investment climate, **Tunisia** and **Jordan** are expected to adhere to the OECD Declaration and Decisions on International Investment and Multinational Enterprises, including the National Treatment Instrument and the Guidelines for Multinational Enterprises.

Egypt and **Morocco** are already adherents to the Declaration.

LATIN AMERICA AND THE CARIBBEAN

CHINA'S INVESTMENT IN LATIN AMERICA TAKES OFF

Michael Gestrin

In just two years China has emerged as one of the main sources of international investment in Latin America and the Caribbean (LAC).

In 2010 Chinese companies accounted for 15% of total international M&A investment into LAC, matching the share of Spain and just behind the United States, which accounted for 16%.

On current trend, international investment into LAC, including Chinese investment, will fall slightly in 2011. However, the

current trend would also see China take sole possession of second place in terms of its share of total inward investment into LAC at 12%. In the 8 years prior to China's emergence as a major investor in LAC, it accounted on average for only 1% of the region's annual international investment (figure 1).

In addition to catching up with and surpassing most of Latin America's key traditional sources of international investment, China has also been more active in the region than other emerging economies. Among these, only Brazil has at times been a significant source of cross-border investment in Latin America, accounting for 6% of total international M&A investment in 2009 (but only accounting for 1% in 2010 and 2% in 2011).

In terms of the sectoral distribution of Chinese M&A investment into Latin America, 82% of this has been in energy, 8% in metal and steel, and 7% in mining over the period 2001-2011 (year to date) (figure 2). ■

Figure 1. China's rise as an investor in Latin America

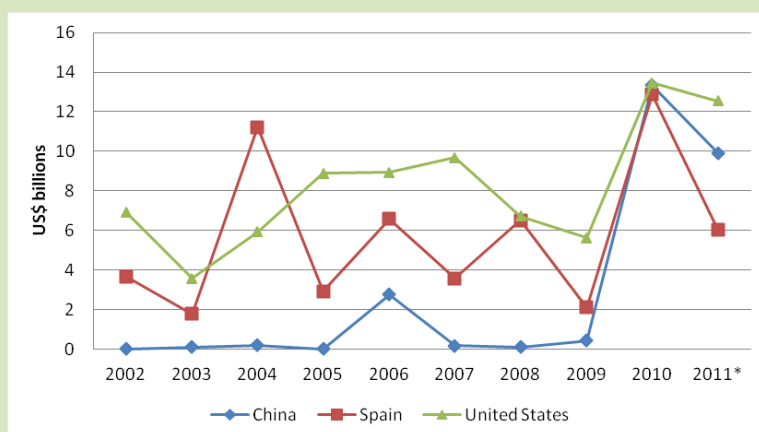
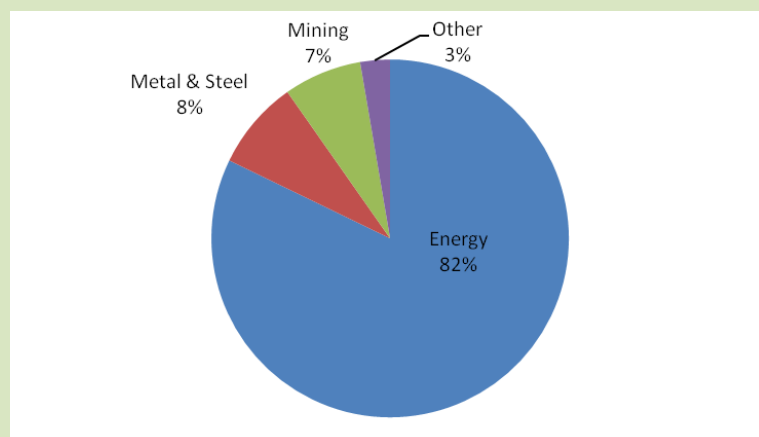


Figure 2. Chinese M&A in Latin America by sector 2001 - 2011



* Linear projection based on data through 21 October 2011
Source: Data from Dealogic, author's calculations.

For further information, visit:

www.oecd.org/daf/investment/lac

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JUST RELEASED

UKRAINE INVESTMENT POLICY REVIEW



Based on the OECD Policy Framework for Investment, the 2011 Review shows that Ukraine has made progress in developing a legal framework for attracting foreign direct investment, but implementation problems continue to affect domestic and foreign investors alike and have prevented the country from mobilising private investment commensurate with its economic potential and investment needs.

For more information, visit:

www.oecd.org/daf/investment/countryreviews

FDI REGULATORY RESTRICTIVENESS INDEX

KOREA EMERGES AS THE BIGGEST REFORMER OF FDI RESTRICTIONS SINCE 1997

Stephen Thomsen

Korea has been the biggest reformer of its restrictions on foreign direct investment (FDI) since 1997, based on a sample of 42 countries.

In 1997, Korea ranked second after China in terms FDI regulatory restrictiveness but by 2010 it had moved to tenth place. Based on the OECD FDI Regulatory Restrictiveness Index which measures statutory restrictions on both the establishment and operations of foreign firms based on a scale of 0 (open) to 1 (closed), Korea's score fell from 0.532 in 1997 to 0.143 in 2010. Korea's reforms were accelerated by the Asian financial crisis in 1997, but the process was already underway in the mid-1990s at the time of accession to the OECD.

While Korea's reform experience is particularly noteworthy in terms of its speed and depth, almost all countries are moving towards a more open regulatory environment for foreign investors. Korea

was followed in terms of improvements in the FDI Index score by China and Turkey. Non-OECD countries, which tend to have more restrictions on FDI than OECD members, are slowly converging on the policy stance of OECD countries in terms of FDI restrictions, but even OECD members with relatively few statutory restrictions on FDI continue to engage in further reforms. Within Europe, reforms have been particularly rapid among the newest EU members.

Only two countries in the sample increased slightly their restrictions on FDI over the period – in the case of Argentina, from a very low base. In Israel, the small increase in the score resulted from the opening of a sector to private investment which introduced at

the same time some discrimination against foreign participants. State ownership is not part of the Index.

The FDI Index only looks at statutory restrictions which discriminate against foreign investors and is only one part of the picture of the overall investment climate. Countries with fewer statutory restrictions on FDI tend to receive more investment relative to the size of their economy. Governments striving to remove red tape and other obstacles to doing business need also to consider the many ways in which their policies might discriminate against foreign investors. The latest data confirm the recovery of FDI activity in 2010 for the first time since the beginning of the global financial crisis in 2008. ■

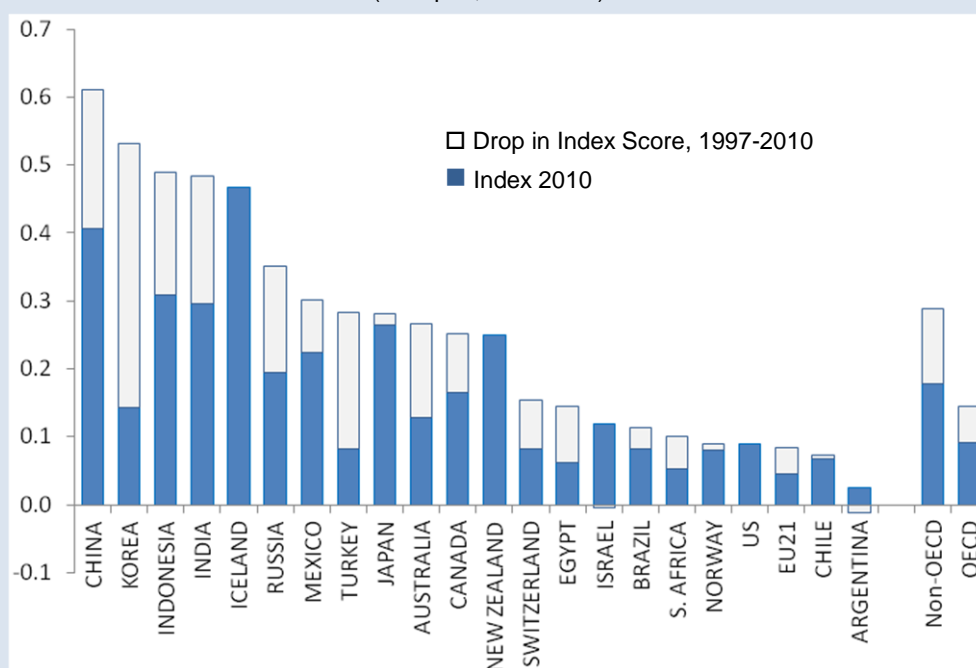
Regulatory restrictiveness scores for all countries can be found at:

www.oecd.org/investment/index

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Figure 1. Change in FDI regulatory restrictiveness, 1997-2010
(0 = open, 1 = closed)



Source: OECD FDI Regulatory Restrictiveness Index (www.oecd.org/investment/index)

AFRICA

ZAMBIA EMBARKS ON AMBITIOUS PROGRAMME TO IMPROVE INVESTMENT CLIMATE

Mike Pfister

Following a self-assessment of its investment climate in partnership with the OECD, the Zambian government is looking to further reform its investment policies, improve its tax code, and strengthen its capacity to manage public-private partnerships (PPPs).

While Zambia has made significant progress in strengthening its investment climate, it is committed to addressing remaining challenges. Priority areas for reform include simplifying and improving co-ordination of investment policy measures and enhancing the government's capacity to develop PPPs in infrastructure.

This review makes Zambia the first sub-Saharan African country to self-assess its investment policies against the OECD's Policy Framework for Investment. It took

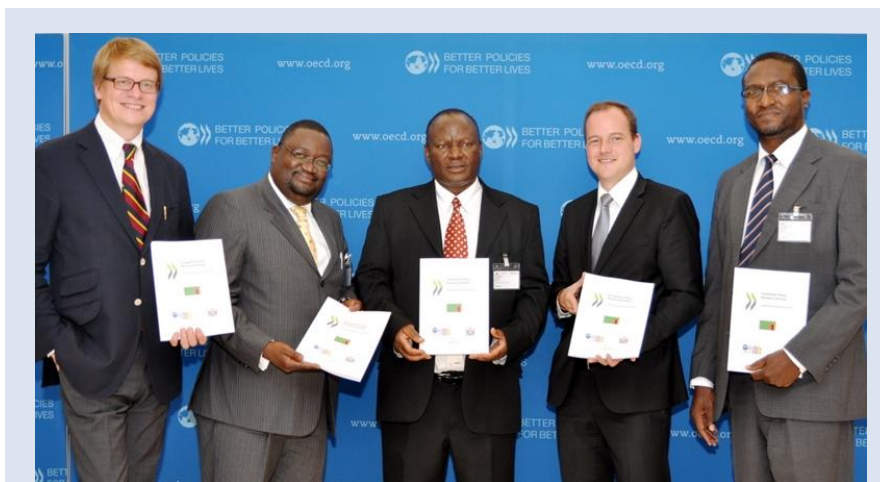
place against a backdrop of growing co-operation between African governments and the OECD. Burkina Faso has completed an assessment of its investment policies for agriculture, and investment policy reviews of Botswana, Mozambique and Tanzania will be completed by mid-2012. ■

Investment in Africa:

www.oecd.org/daf/investment/africa

Policy Framework for Investment:

www.oecd.org/daf/investment/pfi



The Zambia review was presented at the OECD on 12 September 2011 by a high-level delegation from Zambia headed by the Permanent Secretary of the Ministry of Commerce, Trade and Industry, the Director General of the Zambia Development Agency, and the Ambassador of Zambia to France.

From left to right: Kimmo Sinivuori, Chair of the OECD Advisory Group on Investment and Development, Dr. Buleti Nsemukila, Permanent Secretary of the Zambian Ministry of Commerce, Trade and Industry, HE Andrew Mulenga, Ambassador of the Republic of Zambia to France, Mike Pfister, OECD Investment Division, Andrew Chipwende, Director General of the Zambia Development Agency.

Burkina Faso

A new investment framework for agriculture

Burkina Faso has conducted a review of all its texts and regulations related to investment in agriculture in order to help develop an integrated policy framework. The final version of the review will be available in November 2011.

The government undertook this review in collaboration with the Sahel and West Africa Club and the NEPAD-OECD Africa Investment Initiative, using the draft Policy Framework for Investment in Agriculture.

NEPAD-OECD Africa

Investment Initiative:

www.oecd.org/daf/investment/africa

Who invests in Africa?

India ranked as the largest source of M&A investment in Africa in 2010, accounting for \$12 billion. This represented 40% of all M&A investment received by the continent.

CALENDAR OF EVENTS

NOVEMBER



7 NOVEMBER 2011
PARIS, FRANCE

OECD workshop: Catalysing investment in low-carbon and climate-resilient growth

This workshop will bring together leaders from business and government to exchange experience on how domestic climate and investment policies interact to catalyse movement of private capital towards low-carbon and climate-resilient development in different country contexts.

For further information visit: www.oecd.org/env/cc/financing



16 NOVEMBER 2011
GENEVA, SWITZERLAND

UNCTAD-ILO-OECD Roundtable on Corporate social responsibility in global value chains

This informal round-table meeting will examine the current trends in CSR and supply chains, the role of international organisations, and the co-ordination of CSR initiatives between the different stake-holders. This event represents follow-up to the work of the G20 High-Level Development Working Group on the Multi-Year Action Plan on Development.

For further information contact: michael.gestrin@oecd.org

DECEMBER

Global Forum on International Investment IX



6 DECEMBER 2011
PARIS, FRANCE

The new policy frontiers of investment globalisation

The 9th Global Forum will focus on:

- The new geography of international business, in particular the rise of the emerging economies as important new sources of international investment;
- Recent investment trends and developments in Africa, MENA, Latin America, and Asia;
- The growing role of governments as sources of international investment;
- The rapid increase of international investment in agriculture, the only major sector that has not historically been associated with investment-driven globalisation since the early 1990s.

For further information visit: www.oecd.org/investment/gfii

INVESTMENT PROTECTIONISM

G20 COUNTRIES HONOUR PLEDGE TO RESIST INVESTMENT PROTECTIONISM



In their sixth report to the G20, the OECD and UNCTAD found that, between 29 April 2011 and 6 October 2011, G20 members have honoured their pledges not to retreat into investment protectionism. Most of the investment policy measures taken during the reporting period represent moves eliminating restrictions on international investment and improving transparency.

G20 members have discontinued almost all support measures introduced during the global economic crisis. However, the recent resurgence of turbulence in financial markets and weakening growth prospects could create pressure for new government measures to support companies. At a time when the global economy urgently needs a boost from private investment to generate growth and jobs, short-term crisis management will need to be coordinated with efforts to boost long-term productive investment.

In a joint message to G20 leaders, the heads of the OECD, UNCTAD and the WTO urged “G-20 governments to remain united in their efforts to strengthen multilateral co-operation to find global solutions to the current economic difficulties and risks. The forthcoming G-20 Summit in Cannes and the 8th WTO Ministerial Conference in December could send a strong signal about the need to keep markets open, resist protectionism, and preserve and strengthen the global trading system so that it continues performing this vital function in the future.” ■

To read this report, visit:

www.oecd.org/daf/investment/g20

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Integrity in practice

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