FDI inflows to South Asia as well as Europe contract in 2017

FDI inflows, outflows and prospects: Asia

Foreign Direct Investment (FDI) inflows to developing Asia remained stable at USD 476 billion in 2017, thanks to the high-tech sector in China, a rebound in Indonesia, and increases in most ASEAN countries. This was enough to offset declines in other large recipient economies in the region, including Hong Kong (China), Singapore, India and Saudi Arabia. Against the backdrop of a significant decline in worldwide FDI, the region's share in global inflows rose from 25% in 2016 to 33% in 2017. The region regained its position as the largest FDI recipient in the world, ahead of the European Union and North America. FDI outflows from developing Asia dropped by 9% to USD 350 billion in 2017, or 24% of the global total. This was mainly due to a significant decline in outward investment from China, following more than a decade of sustained expansion. In 2018, FDI inflows in the region are expected to remain stagnant.

FDI inflows to developing Asia were characterized by rising inflows in China, most ASEAN member countries and South Korea, and a significant increase in cross-border M&A sales in the region. Total M&A sales rose from USD 48 billion in 2016, to USD 79 billion in 2017. A number of large transactions took place in Hong Kong (China), India and Singapore. The five largest recipients – China, Hong Kong (China), Singapore, India and Indonesia – absorbed four-fifths of FDI inflows to the region. FDI inflows to South Asia contracted by 4% to USD 52 billion, owing to a drop in inflows to India. FDI to India decreased from USD 44 billion in 2016 to USD 40 billion in 2017. Cross-border M&A sales, however, rose from USD 8 billion to USD 23 billion, driven by a few large deals in extractive and technology related industries.

Outflows from South-East Asia and South Asia increased by 41% and 111%, respectively. Those from Singapore, the leading source of FDI in ASEAN, declined by 12% to USD 25 billion. FDI outflows from Thailand, now ASEAN's second largest investing country, expanded by 55% to USD 19 billion, driven by intraregional investments by Thai Multinational Enterprises (MNEs). Outflows from India, the main source of FDI in South Asia, more than doubled to USD 11 billion. India's state-owned oil and gas company, Oil and Natural Gas Corporation (ONGC), has been actively investing in foreign assets in recent years. By the end of 2017, ONGC had 39 projects in 18 countries, producing 285,000 barrels of oil and oil-equivalent gas per day.

Prospects for 2018

FDI inflows to developing Asia are projected to remain stagnant in 2018. Inflows to China could see continued growth, due to recently announced plans to facilitate foreign investment in industries such as automotive and finance, which still have considerable restrictions on the share of foreign ownership. Other sources of growth could be increased intra-regional FDI, including to relatively low-income economies in the grouping, most notably the CLMV (Cambodia, Laos, Myanmar and Vietnam) countries. Investments from ASEAN, China, Japan and South Korea in these countries are likely to continue. In South Asia, inflows are expected to stagnate or decline marginally. In West Asia, the evolution of oil prices, the efforts of oil-rich countries to promote economic diversification, and political and geopolitical uncertainties will shape FDI inflows. After the USA withdrew from the Trans-Pacific Partnership (TPP), the developing Asian partner countries chose to pursue the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This is likely to have a long-term impact on the FDI they receive. Modest growth in FDI outflows from developing Asia is expected in 2018. After a sharp decline in 2017, outflows from China are expected to stabilize or rebound. In particular, outward FDI in infrastructure and manufacturing could grow further, driven by intensified efforts to implement the Belt and Road Initiative.

FDI inflows, outflows and prospects: Europe

FDI flows to developed economies fell by 37% to USD 712 billion. The recovery in FDI over 2015–2016, when annual inflows to developed countries exceeded USD 1 trillion, came to an abrupt end, as inflows to both, Europe and North America, contracted. Large reductions in FDI flows to the United Kingdom, following an exceptionally high value of M&As in 2016, and to the USA, where authorities clamped down on tax inversions, were the major factors behind this sharp decline. Cross-border M&As targeting developed economies, registered a 29% decrease, to USD 569 billion, owing primarily to the completion of fewer megadeals. Divestments by MNEs pursuing debt reduction strategies also resulted in lower net M&As. Diminishing intra-company loans further reduced FDI flows, especially in the USA. In contrast, outflows from developed economies remained similar to the levels observed in 2016. Increases from the USA, due to reinvested earnings, and Japan, where MNEs continued to seek growth abroad, offset an aggregate decline from Europe. FDI to developed economies is projected to increase moderately in 2018.

The rise in the value of announced greenfield projects (up 25% to USD 318 billion), is a positive sign. FDI to France and Germany bounced back in 2017, but overall flows to Europe declined due to a normalization of FDI to the United Kingdom, following a string of megadeals in 2016. FDI inflows grew in 15 of the 32 European economies in 2017, compared with 14 in 2016. Inflows more than doubled in Germany (to USD 35 billion), as cross-border M&As targeting assets in the country, rose to USD 23 billion. FDI flows to France rose 42% (from USD 35 billion to USD 50 billion), mainly due to large M&A deals. Nevertheless, FDI inflows to Europe as a whole, declined by 41% to USD 334 billion, mainly due to a contraction in the United Kingdom. Other European countries that registered large declines in FDI inflows were Belgium, Luxembourg and the Netherlands. Belgium's tax regime had made it advantageous for MNEs to locate capital-intensive operations, most notably treasury centres, in the country, to provide loans to affiliates elsewhere. In recent years, both, outstanding loans and equity stocks, have been declining, suggesting that MNEs are unwinding such financial arrangements. In Europe, combined outflows fell by 21% to USD 418 billion. Outflows from the Netherlands – the largest source country in the sub-region in 2016 – declined by USD 149 billion, to just USD 23 billion. Another large decline was registered in Switzerland, where outflows shrank by USD 87 billion to USD 15 billion. Outflows from the United Kingdom increased from USD 23 billion to USD 100 billion. The value of net M&A purchases by MNEs based in the United Kingdom, rose by about USD 110 billion to USD 128 billion, due to a string of acquisitions in the USA.

Outflows from Germany rose by 60% to USD 82 billion. In recent years, outward FDI from Germany has fluctuated widely, owing to volatile flows of intra-company loans. Outflows of such loans, recorded at USD 27 billion in 2016, turned positive in 2017, to USD 2.1 billion. The rise in reinvested earnings, which more than doubled from 2016, also contributed to the overall increase. France maintained high outflows (USD 58 billion). Net M&A purchases by French MNEs remained solid at USD 28 billion. Like their counterparts in the United Kingdom, French MNEs looked to the USA for their acquisitions. Although acquisitions of all foreign assets (gross purchases) by European MNEs as a whole, declined by 43%, acquisitions of USA assets held steady. As a result, such assets accounted for 61% of acquisitions made by European MNEs in 2017.

Prospects for 2018

Projections based on macroeconomic fundamentals suggest a 15% increase in FDI inflows to Europe and a 5% increase in North America, in 2018. Inflows to developed countries as a group, could rise to about USD 770 billion. M&A deal making, which accelerated in the fourth quarter of 2017, carried that momentum into 2018. Greenfield projects announced in 2017 were valued at USD 318 billion, the highest level since 2009, which, if confirmed, could translate into FDI flows over the next few years. However, current tensions in global trade policymaking create uncertainty, which tends to discourage investment. The repatriations of accumulated profits by USA MNEs, as a result of the tax reform, will also reduce FDI outflows from the USA, with mirror effects on flows in Europe.

Source

UNCTAD World Investment Report 2018