



# INVESTMENT TRENDS MONITOR



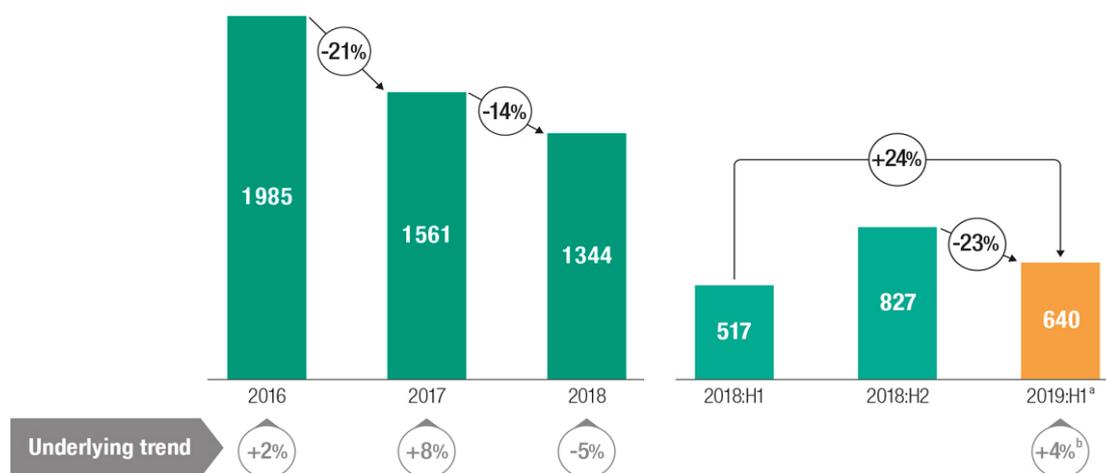
UNITED NATIONS  
UNCTAD

## GLOBAL FDI FLOWS UP 24% IN H1 2019; UNDERLYING TREND UP 4% Effect of US repatriations in developed countries subsiding, developing countries unaffected

### H I G H L I G H T S

- Global foreign direct investment (FDI) flows in the first half of 2019 were 24% higher than in the first half of 2018. However, the underlying FDI trend (removing the effects of one-off transactions and intra-firm financial flows, including repatriations driven by the 2017 US tax reforms) was up only 4%.
- The difference is mostly the result of negative flows in few jurisdictions hosting large stocks of retained earnings of United States multinationals (MNEs). *The 2017 US tax reforms have led to such stocks being wound down significantly* (with repatriations causing a one-time negative effect on flows).
- The percentage increase in FDI in 2019H1, to US\$640 billion, appears sizeable because flows were unusually low in 2018H1, at US\$517 billion. However, they were down by about the same percentage compared to the second half of 2018 and *remained below the average of the past ten years*.

**Figure 1. Global FDI flows and growth rates, 2016-2018 and 2018:H1-2019:H1**  
(Billions of US dollars and per cent)



Source: UNCTAD.

<sup>a</sup> Estimates. <sup>b</sup> Annualized.

Note: Excluding Caribbean offshore financial centers.

- *Developed economies saw FDI reaching US\$269 billion in 2019H1 – almost doubling the anomalously low 2018H1 value.* The bulk of the increase was caused by a return to normal levels of flows to Europe, where the immediate effects of the repatriations appear to have passed, with some notable exceptions.
- *FDI flows to developing economies, largely unaffected by repatriations, remained relatively stable at an estimated US\$342 billion, a decline of 2% compared to 2018H1.* Flows were 2% lower in Africa and developing Asia, and 4% lower in Latin America and the Caribbean. Three of the top 5 largest recipients of FDI in the world were from developing economies.
- *FDI flows to transition economies were up 4% from 2018H1 to an estimated US\$28 billion, due to a slight recovery of flows to the Russian Federation.*
- *Cross-border merger and acquisitions (M&As) were US\$303 billion, 19% lower compared to 2018H1, though they remained high and well above the average of the last ten years.*
- *Prospects for the full year remain in line with earlier projections of a 5-10% increase.* The rebound of flows in developed economies is likely to hold. Developing countries are expected to remain stable, with growth centering on South-East Asia. Weaker global economic activity (with continued downward revisions of forecasts) and ongoing trade tensions form the greatest risk to FDI growth.
- *As reported in WIR18, GVC-related trade – which is largely driven by FDI – is on a downward trend. Foreign value added, a key indicator, has reached its lowest level in 10 years at 28% of global trade, sharply down from a historic peak of 31% in 2008.* New data shows that stagnation in the activity of the global value chains is likely to continue in the coming years.

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Global FDI flows in the first half of 2019 reached an estimated US\$640 billion, 24% higher than the anomalously low level of US\$517 billion in the same period in 2018, when tax reforms started a wave of repatriations of overseas retained earnings by US MNEs. Repatriations (about US\$780 billion in 2018 and continuing in 2019) are contributing to a winding down of such retained earnings in the stock of FDI. They will continue to affect FDI flows in a small number of developed countries; developing countries will remain largely unaffected.

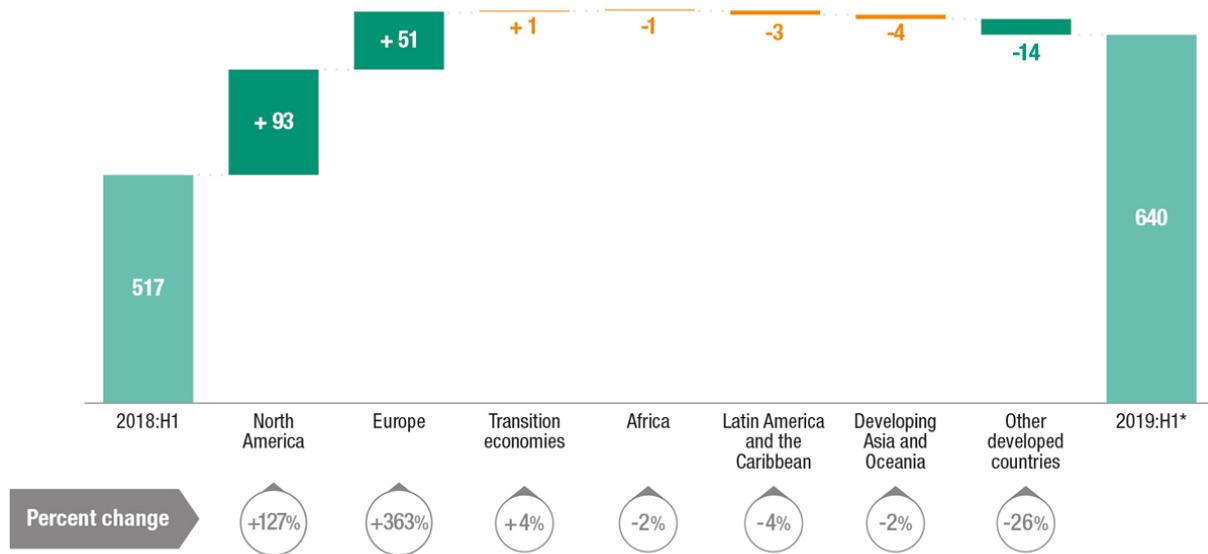
The full effect of repatriations in FDI flow numbers is further mitigated by the fact that the bulk is brought back from stocks in offshore financial centers (OFCs), which are already excluded from UNCTAD's FDI data.

As FDI flows sharply recovered in the second half of 2018, the 2019H1 value represents a decline compared to the previous six-month period. However, net of the effects of conduit flows, one-off transactions and intra-company financial flows, the underlying trend index (developed by UNCTAD to assess real investment trends – see *WIR19*) was up 4% on an annualized basis, only slightly below projections in this year's *World Investment Report*.

Half-year trends at the regional level show that FDI in North America almost doubled and flows to Europe rebounded sharply, with an almost five-fold increase after the collapse in 2018H1. Flows remained relatively stable across developing regions and transition economies (figure 2).

Despite the increase of flows to developed economies, developing economies continued to account for the largest share (54%) in world totals. Three of the top 5 hosts are developing economies. The United States remained the largest recipient of FDI with US\$143 billion in inflows, followed by China (US\$73 billion) and Singapore (US\$54 billion) (figure 3).

**Figure 2. Regional contribution to changes in global FDI flows, 2018:H1–2019:H1**  
(Billions of US dollars)

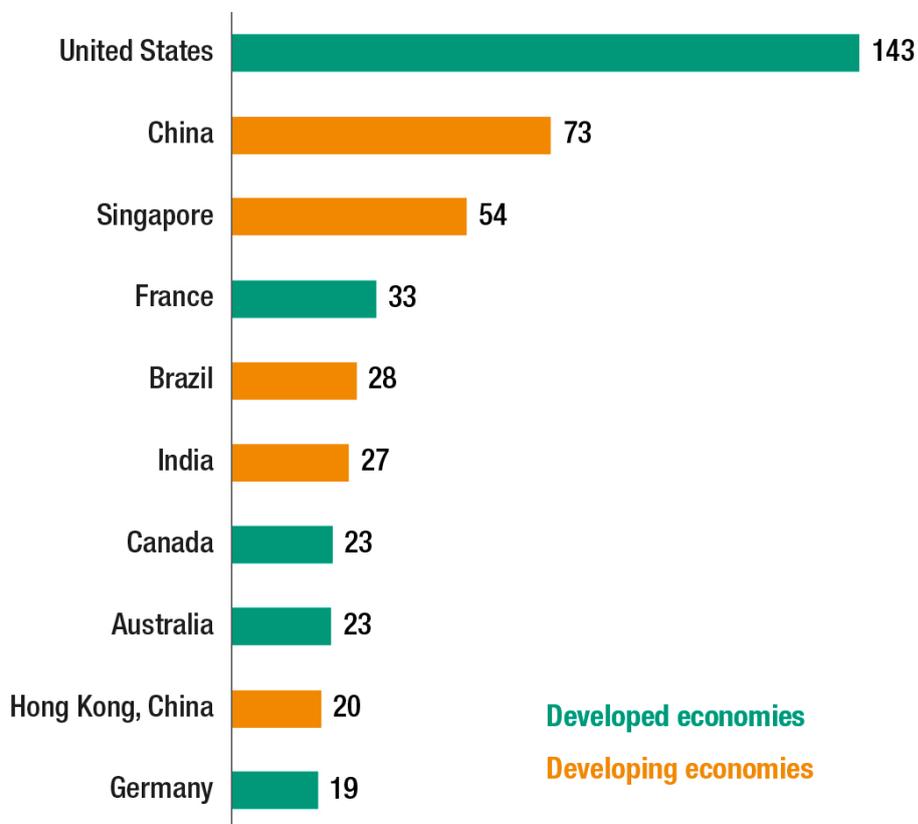


Source: UNCTAD.

\* Preliminary estimates.

Note: Excludes Caribbean offshore financial centres. Percent changes are calculated for each region relative to 2018.

**Figure 3. FDI inflows: top 10 host economies, first half of 2019**  
(Billions of US dollars)



Source: UNCTAD.

Note: FDI data in this Trends Monitor are based on quarterly FDI data derived from the (extended) directional principle. For a few countries data following the asset/liability principle was used for estimation.

## FDI flows to developed economies rebound but remain relatively low

FDI flows to developed economies were US\$269 billion in 2019H1, almost doubling from 2018H1 when they amounted to only US\$139 billion. FDI to both Europe and North America rose substantially. Nevertheless, FDI to developed economies remained low compared to historical levels; FDI to developed economies in the first half of the year averaged more than US\$400 billion over the five-year period before last year's collapse.

The low level of FDI in 2018 was mainly due to two factors: repatriations of accumulated overseas earnings by US MNEs (mostly affecting Europe) and a low level of cross-border M&As being concluded in the United States. The effect of the former eased in 2019H1, but the latter persisted.

The scale of negative flows to several economies known to host financial functions of US MNEs diminished. Inflows to Ireland and Switzerland were -US\$6 billion and -US\$37 billion, respectively, in 2019H1, compared to -US\$70 billion and -US\$51 billion in 2018H1. Repatriations continued, but at a lower rate.

Net M&A sales in Europe maintained the same level as in 2018H1. In the United States, cross-border M&A sales continued to decline, falling by 16 per cent from 2018H1 to US\$94 billion, despite buoyant domestic M&As.

## Developing economies continue to account for more than half of global FDI flows

Developing economies saw their FDI flows decline by 2% from 2019H1 to 2018H1. This deceleration occurred in all subregions – developing Asia (-2%), Africa (-2%) and Latin America and the Caribbean (-4%).

FDI flows into *developing Asia* were US\$240 billion. The overall decline was driven mostly by a 21% decline in flows to East Asia. FDI flows into Hong Kong (China), the second largest host economy in East Asia, dropped by more than 50% to US\$20 billion. This was due to divestments totaling US\$10 billion in the second quarter of 2019. FDI flows to China, the second largest FDI host globally, increased by 4% despite ongoing trade tensions.

South-East Asia remains the region's growth engine; FDI rose to US\$93 billion, a 29% increase from 2018H1. The growth was driven by several economies, including Indonesia, Malaysia, Singapore and Viet Nam, with significant new inflows into manufacturing sectors. In South Asia, FDI was also robust – rising by 14% to US\$32 billion. India was the main driver, with an increase of more than 20% in investments (to US\$27 billion), mostly in information technology related industries. In Bangladesh, FDI grew by almost 50% to US\$2 billion, with most investment going into infrastructure related projects from investors in China.

FDI flows to West Asia in 2019H1 were US\$13 billion, a 9% fall from 2018H1. Despite a relatively more diversified FDI profile, inflows to Turkey dropped by more than 10% to US\$4.6 billion. Inflows to most countries in the subregion also declined. However, Saudi Arabia saw a stable increase of about 10% to US\$2.3 billion, due to substantive investments in the chemical industry. Most countries in West Asia continued to receive investments in oil and gas related industries.

FDI in *Latin America and the Caribbean* decreased to an estimated US\$79 billion in 2019H1, a 4% fall from 2018H1, against the backdrop of slowing economic growth. In South America, flows remained stable at US\$53 billion with decreases in Brazil and Argentina offset by growing flows in Chile, Peru and Colombia. Brazil registered a decrease of inflows of more than 10% to US\$28 billion, despite the introduction of new rules to ease sales of state-owned subsidiaries. In the coming months, divestments of state companies are expected to gain pace, potentially attracting new FDI. In Argentina, a deepening currency crisis combined with political uncertainty led to sharply falling inflows to an estimated US\$3.6 billion. FDI to Chile, Peru and Colombia increased significantly, supported by new public investments in infrastructure (Peru, Chile, Colombia), inflows into mining (Peru and Chile), and efforts to improve investment climates (Chile, Colombia).

Flows to Central America were an estimated US\$24 billion in 2019H1, a 10% decline from 2018H1. FDI to Mexico declined by more than 15% to US\$18 billion against the backdrop of investor uncertainty over domestic policymaking and the pending ratification of the new trade agreement USMCA by the United States. In contrast, flows to Panama and Costa Rica, the other two main destinations in Central America, grew to US\$3.2 and US\$1.1 billion, respectively. In the Caribbean, excluding financial centres, flows grew by 4% to an estimated US\$1.6 billion, led by growing investments in the Dominican Republic.

FDI flows to *Africa* in 2019H1 were an estimated US\$23 billion, a 2% decline compared to 2018H1. Subdued global economic growth, persistent trade tensions and political instability in a few countries on the continent are acting as dampeners for investment in Africa in 2019, despite the recent coming into force of the AfCFTA agreement. In terms of sub-regional groupings, East, West and Southern Africa registered upticks, while North and Central Africa had lower inflows compared to 2018H1. Egypt continues to be the largest recipient of FDI on the continent, attracting US\$3.6 billion in 2019H1; a significant number of new investment deals have been announced. FDI flows to Nigeria – the largest economy in Africa, picked up significantly, possibly driven by reforms in regulations for oil and gas companies, including lowering mandatory public ownership requirements.

FDI flows to South Africa dropped from US\$4 billion in 2018H1 to US\$2.6 billion in 2019H1. However, indications of several large deals in the third quarter could put the country on track towards higher FDI flows for 2019 as whole. Ethiopia also experienced a moderate slowdown in FDI in the first half of this year with inflows amounting to US\$1.2 billion, a decline of about 20% compared to 2018H1. In contrast, inflows increased by almost 75% in Uganda to nearly US\$1 billion on account of increased Chinese investment as well as some progress in the development of the country's oilfields. Mozambique and Zambia also experienced rising inflows in 2019H1, with investments in oil and gas and copper fields, respectively.

In the *transition economies* of South-East Europe, the Commonwealth of Independent States (CIS) and Georgia, FDI flows picked up slightly to an estimated US\$28 billion, a 4% rise compared to 2018H1. Flows to the Russian Federation, by far the largest economy of the region, recovered by 12%, to US\$16 billion. The value of cross-border M&A deals targeting the country rose from previous sluggish levels, due to large transactions in the mineral resources and internet services industries. The steady increase of flows to Serbia, the second largest recipient of the region, continued in 2019H1, with flows rising by 20%, to US\$2 billion.

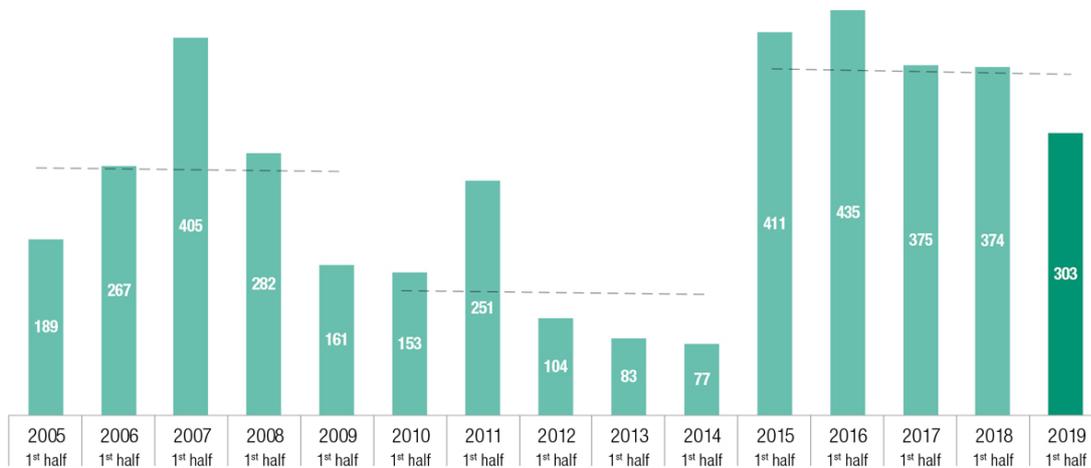
## Cross-border M&As declined but remain at a high level

Cross-border M&As dropped to US\$303 billion in 2019H1, a 19% decrease from 2018H1. Nevertheless, they remained relatively high. The average level of M&As – with net cross-border M&A values adding directly to FDI flows – over the last five years has been significantly higher than that in the previous ten years (figure 4), as MNEs continue to take advantage of low borrowing costs.

Cross-border M&A sales in developed countries fell by more than 10% in 2019H1 to US\$269 billion, and they halved in developing economies to US\$33 billion. Net sales in the EU declined by 5% to US\$123 billion with the acquisition of Shire PLC (Ireland) by Takeda (Japan) for US\$60 billion accounting for half of sales. Deal activity in North America fell by 10% to US\$11 billion. Net cross-border M&As in developing Asia were US\$18 billion, a 60% decline from 2018H1, driven mostly by the decline in Hong Kong (China), and China. Most M&As in developing Asia during this period were in energy and services related to land development and finance and most M&A deals were made with intraregional acquirers.

In 2019H1, M&A sales remained stable in the primary sector, at US\$28 billion. They declined in manufacturing (-2%, to US\$156 billion) and in the services sector (-36% to US\$119 billion). Sales of assets in financial and insurance activities and utilities declined sharply.

**Figure 4. Value of cross-border M&As, 2005:H1–2019:H1**  
(Billions of US dollars)



Source: UNCTAD, cross-border M&A database ([unctad.org/fdistatistics](http://unctad.org/fdistatistics)).

## FDI flows are poised to increase modestly in 2019, but risks remain

The preliminary FDI data for 2019H1 is in line with the earlier expectation for a modest recovery of FDI in 2019. The main factor driving up expectations continues to be the rebound from low levels of FDI in developed countries in 2018. Following the subsiding of repatriations of foreign earnings of United States multinationals, developed-country inflows are likely to revert to prior levels, as confirmed in 2019H1.

Nevertheless, there are significant uncertainties that could impact the scale and contours of FDI in 2019 and 2020. Over the past year, global economic growth has fallen, and growth forecasts continue to be revised downwards. Among developed economies, the weakening has been broad based, affecting major economies (the United States and especially the euro area). The slowdown in activity has also been pronounced across emerging market and developing economies, including Brazil, China, India, Mexico, and the Russian Federation. In addition, geopolitical risks, trade tensions and concerns about a shift towards more protectionist policies have further weakened business confidence.

## GVCs at a challenging juncture

Echoing widespread concern of a slowdown in global economic integration, new evidence from the UNCTAD-Eora GVC database (October 2019) confirms the downward trend of GVC-related trade, as measured by the share of foreign value added (FVA) in global exports, that was first reported in the *World Investment Report 2018* (figure 5).

After rising sharply throughout the 90s and 2000s, the FVA share has taken a negative turn after the global financial crisis. Despite a rebound in the immediate aftermath, it never re-gained pre-crisis levels. On the contrary, since 2012, the GVC indicator has further declined, to about 28% of global trade in 2015, 3 percentage points lower than the peak in 2008.

There is little doubt that this reversal in the historic trend, initially triggered by the global financial crisis, is now more reflective of fundamental dynamics affecting globalization. However, it is difficult to anticipate whether the near future will see a stabilization of GVCs or a further contraction. UNCTAD-Eora nowcasting projects a stable trend of GVCs for the years 2016 to 2019, with the FVA share levelling off at 28% of global trade. It will be important to confirm this scenario when more recent data become available. A forthcoming 2019 version of the UNCTAD-Eora GVC database will include GVC indicators based on actual data for 2016, while an update to 2017 will be released in the first semester of 2020.

**Figure 5. Foreign value added as a share of global trade, 1990 – 2019\***  
(Per Cent)



Source: UNCTAD-Eora GVC database, October 2019 (<https://worldmrio.com/unctadgvc/>).

\* Analysis from 1990 to 2015 is based on the GVC elaboration of actual data from Eora Multi-Region Input-Output tables (MRIOs). From 2016 to 2019, GVC indicators are nowcasted. A new update of the UNCTAD-Eora GVC database is to be released before the end of 2019, including 2016 actual data (with nowcasts for the years 2017 to 2019). The elaboration of the GVC indicators from Eora MRIOs as well as the nowcasting procedure are described in a forthcoming paper in the *Transnational Corporations Journal* (Casella et al, December 2019).



The next regular issue of UNCTAD's Investment Trends Monitor will be released in mid-January 2020.



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