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INVESTMENT TRENDS MONITOR

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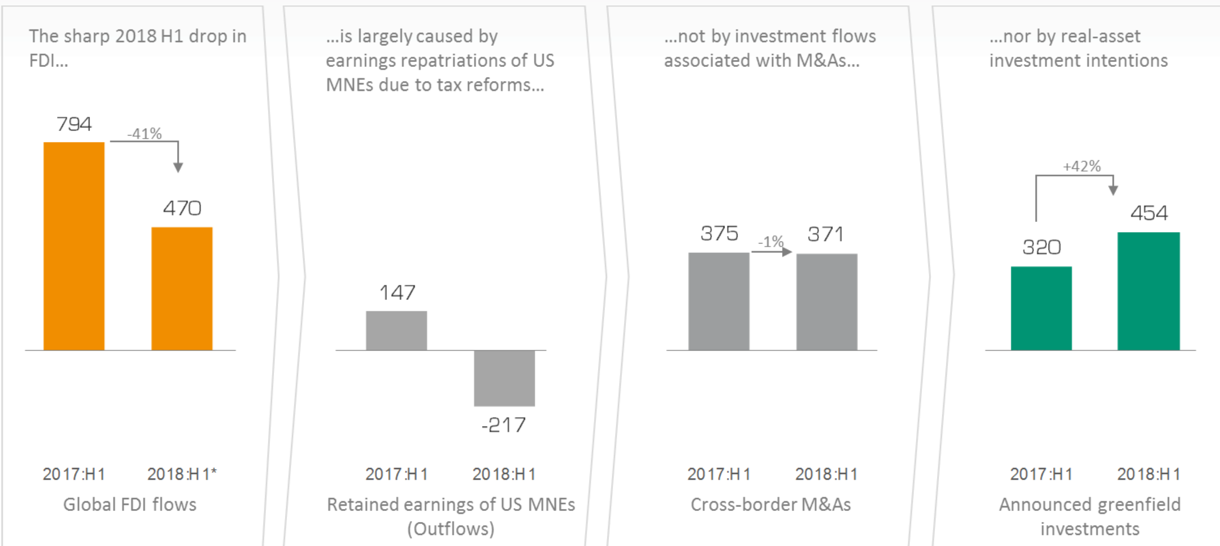
GLOBAL FDI DOWN 41 PER CENT IN H1 2018
DEVELOPING ECONOMIES ATTRACT TWO-THIRDS OF GLOBAL FDI
GREENFIELD INVESTMENT ANNOUNCEMENTS POINT AT IMPROVING PROSPECTS

HIGHLIGHTS

- *Global foreign direct investment (FDI) fell by 41% in the first half of 2018, to an estimated US$470 billion (figure 1), from US$794 billion in the same period in 2017*– mainly due to large repatriations by United States parent companies of accumulated foreign earnings from their affiliates abroad following tax reforms (figure 1).
- *The decline in FDI flows is in contrast with trends in cross-border merger and acquisitions (M&As) and announced greenfield investments.* M&A sales remained flat in the first half of 2018 at US$371. Announced greenfield projects – an indicator of future trends – recovered to US$454 billion, an increase of 42%, from relatively low levels in the same period in 2017.

Figure 1. Investment trends: 2017:H1 and 2018:H1
(Billions of US dollars and per cent)



Source: UNCTAD for FDI data, cross-border M&A database (unctad.org/fdistatistics) for cross-border M&As, information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield investments and the United States Bureau of Economic Analysis for reinvested earnings.
Note: FDI flows exclude Caribbean offshore financial centers; (*) 2018 H1 flows are estimated. The retained earnings, M&A and greenfield pictures provided here are snapshots; there is no direct accounting relationship between the different sets of data.

- *The decline was largely concentrated in developed countries where FDI inflows fell sharply, by 69% to an estimated US$135 billion,* significantly affected by negative inflows in Ireland (-US$81 billion) and Switzerland (-US$77 billion). A strong decrease was also reported in the United States (-73%) to US$46 billion. The greenfield investment recovery largely passed over the developed countries, where the increase was less than 5%.

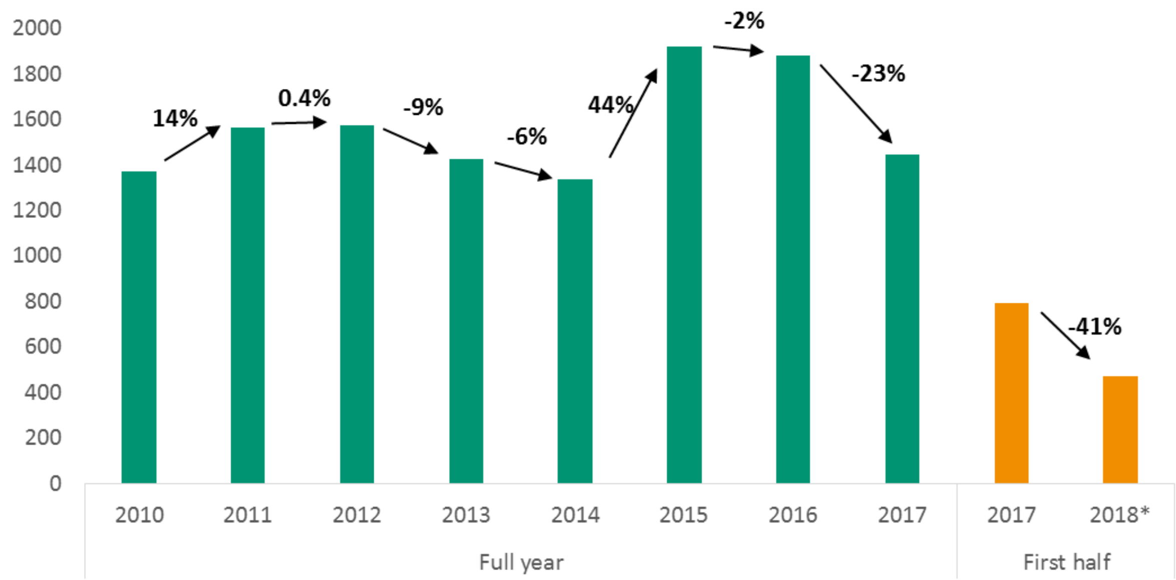
- *FDI to developing economies declined only slightly in the first half of the year, to an estimated US$310 billion, 4% lower than in the first half of 2017.* The share of developing economies in global FDI reached 66%, a record.

- Among developing regions, flows remained almost flat in *Africa* and declined in *developing Asia (-4%)* and in *Latin America and the Caribbean (-6%)*. China was the largest FDI recipient in the world; developing Asia remained the largest host region, accounting for 47% of global FDI in the first half of 2018.

- *FDI to the transition economies declined further in the first half of 2018, by 18% to an estimated US$25 billion,* mainly due to a drop of FDI in natural-resource rich countries of the Commonwealth of Independent States (CIS).

Global FDI flows fell 41% in the first half of 2018 to an estimated US$470 billion down from US$794 billion in the same period in 2017 (figure 2). The sharp decline is in contrast with the trends of cross-border merger and acquisitions (M&As) (-1%) and announced greenfield investments – an indicator of the future trends (+42%).

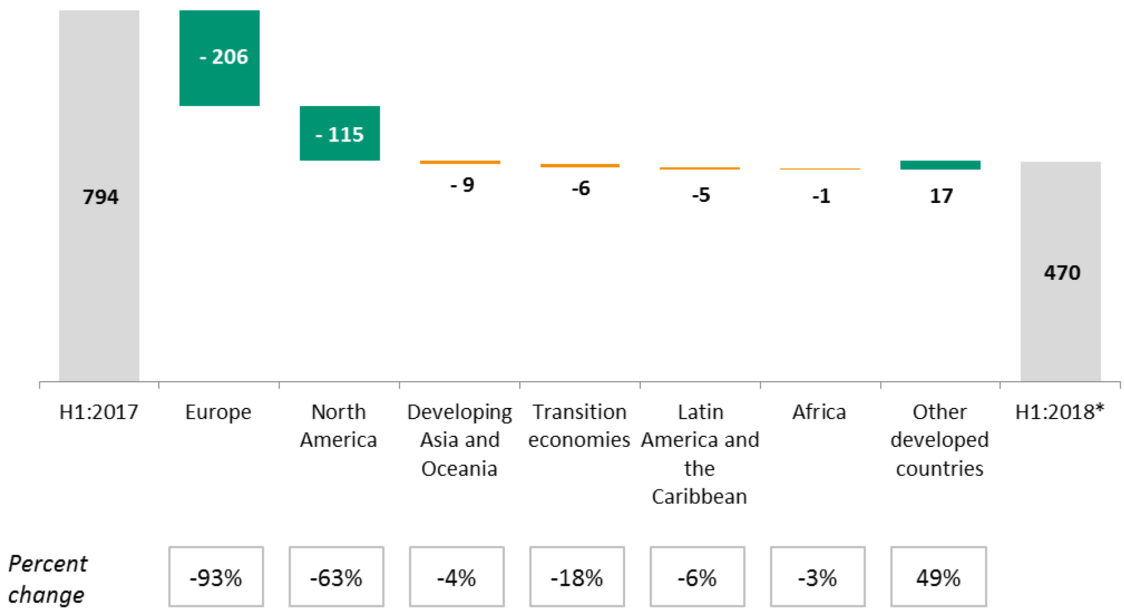
Figure 2. Global FDI flows and growth rates, 2013–2017 and 2017:H1–2018:H1
(Billions of US dollars and per cent)



Source: UNCTAD.
* Estimates.
Note: Excluding Caribbean offshore financial centers.

At the regional level, falling flows to Europe (-93%), North America (-63%) and transition economies (-18%) contributed to the global decline (figure 3). FDI flows increased in other developed economies (49%) and remained relatively stable across developing regions.

Figure 3. Regional contributions to changes in global FDI flows, H1 2017 – H1 2018
(Billions of US dollars)



Source: UNCTAD.
* Estimates.
Note: Excludes Caribbean offshore financial centres.

The decline of FDI flows to Europe was significantly affected by the repatriation of retained earnings by United States multinational enterprises (MNEs) following the corporate income tax reforms introduced at the end of 2017 (see GITM 29, Special Issue on US Tax Reforms). In the first half of 2017, United States outward FDI was worth US$149 billion, with reinvested earnings accounting for US$147 billion. In the first half of 2018, reinvested earnings fell to a net divestment of -US$217 billion.

Such large negative outflows inevitably translate into a fall in global inflows, although the effect is not linear. It is dampened because a significant part of repatriations occurred in offshore financial centres and through special purpose entities (SPEs), excluded from UNCTAD's FDI data. The effect is also asymmetrically spread, with the most significant repatriations reported from Caribbean and SPE countries, while the largest falls in inflows were reported in Switzerland and Ireland, showing the important role of indirect (conduit) investment flows.

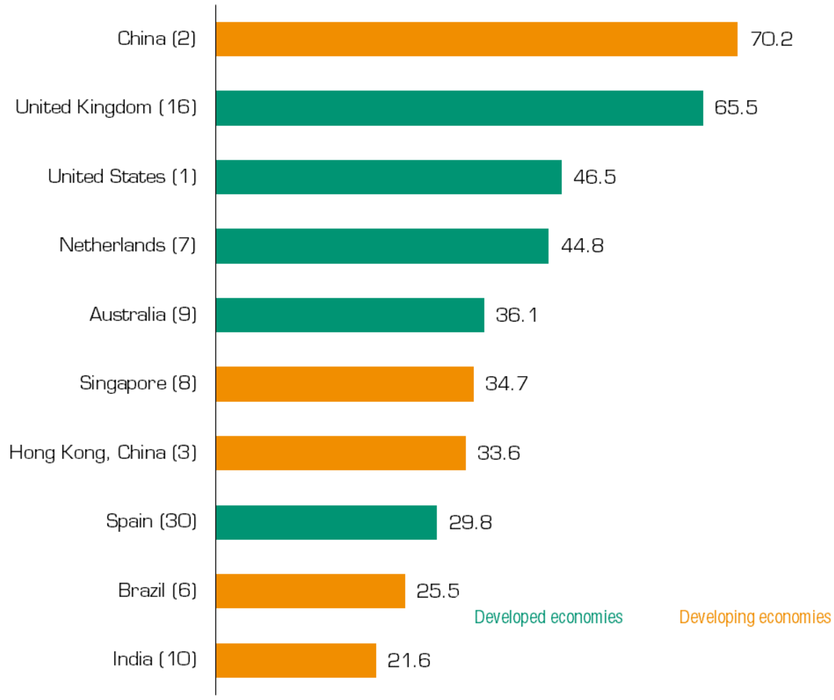
Compared to the first half of 2017, United States FDI outflows to Europe fell by US$136 billion to a net divestment of -US$49 billion in the same period in 2018. Much of the decline was accounted for by outflows to the Netherlands (down US$63 billion), Ireland (down US$33 billion) and Switzerland (down US$31 billion). Outside Europe, United States FDI flows to "Other Western Hemisphere" including offshore financial centres in the Caribbean fell by US$163 billion. In Asia, United States FDI to Singapore fell by US$34 billion. (Total FDI inflows to some of these economies, such as the Netherlands and Singapore, increased despite the divestments of United States MNEs.)

Repatriations of accumulated foreign earnings were not the only explanation for the drop in global investment flows. Inflows to the United States also fell sharply, despite the potential stimulus effect that the tax reforms are expected to have on investments there by foreign MNEs (see GITM 29). Uncertainty about the implementation details of the reforms, combined with uncertainty about trade relations and about more stringent investment screening procedures could all be contributing factors.

Uncertainty caused by tensions in global trade relations may also have affected other regions that show negative growth in FDI. However, the stable value of global cross-border M&As and the significant increase in greenfield project announcements (the latter, although they have little or no impact on FDI in the same year, are an indicator of the willingness of firms to invest in productive assets) suggest that the drop in global FDI flows is mostly due to financial considerations (intra-firm financial flows).

As a result of the diverging regional FDI trends, the share of developing economies in global FDI flows increased to a record 66%. Half of the top 10 host economies continue to be developing economies. China became the largest recipient of FDI, attracting an estimated US$70 billion in inflows in the first half of the year, followed by the United Kingdom – where FDI recovered from low 2017 levels, lifting inflows to US$66 billion with a surge in intra-firm loans – and the United States (US$46 billion) (figure 4).

Figure 4. Estimated FDI inflows: top 10 host economies, first half of 2018
(Billions of US dollars)



Source: UNCTAD.
Note: FDI estimations 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 into *developing Asia* declined by 4% to US$220 billion in the first half of 2018, compared with the same period in 2017. This was driven mostly by a 16% decline in flows to East Asia. China, with an increase of 6%, emerged as the largest global FDI recipient (US$70 billion). Flows to Hong Kong (China) contracted to US$34 billion – about half the level it received in the first half of 2017.

Flows to South-East Asia and South Asia rose by 18% to US$73 billion and 13% to US$25 billion, respectively. The rise in FDI in South-East Asia was driven by Singapore (US$35 billion – despite profit repatriations reported by United States MNEs), Indonesia (US$9 billion) and Thailand (US$7 billion). In South Asia, India attracted US$22 billion of FDI flows, contributing to the subregion's 13% rise in FDI in the first half of the year. FDI flows to West Asia fell by 21% to US$5.1 billion, caused by a 5% fall in Turkey and divestments from Qatar totaling over US$1 billion.

Net cross-border M&As targeting developing Asia in the first half of 2018 were at about the same level as in the first half of 2017 (US$41 billion), supported by 12 mega deals exceeding US$1 billion. Major M&A transactions were concluded in Singapore with over US$18 billion, led by deals in the services sector, and the United Arab

Emirates with nearly US$6 billion, in the oil and gas industry. The three biggest deals were Global Logistic Properties (Singapore, US$11.5 billion), Equis Energy Developments (Singapore; US$5 billion), Avolon Holdings Ltd (Hong Kong, China; US$2.4 billion).

The value of greenfield FDI projects announced in the first half of 2018 in Asia was at an all-time high. This was due to a surge in greenfield project announcements in South-East Asia, propelled by rising investment activity in Indonesia (US$28 billion), Viet Nam (US$18 billion) and the Philippines (US$12 billion). For the rest of Asia, greenfield investment in the first half of 2018 mostly rebounded from a relatively low level in 2017. Despite trade tensions, China attracted the highest value of announced greenfield projects (US$41 billion) in the first half of 2018.

In *Latin America and the Caribbean* FDI flows decreased by 6% in the first half of 2018 compared to the same period in 2017. Uncertainties associated with election years in the major economies of the region were partly offset by higher commodities prices. In South America, the biggest drop of inflows was in Brazil (-22%). In spite of currency turbulence, flows to Argentina appeared resilient, but were buoyed by a single big deal in the media industry where Telecom Argentina (ultimately owned by US-based Fintech Advisory Inc) bought Cablevision SA for almost US$6 billion. FDI to Chile, Peru and Colombia all increased significantly (up 158%, 43%, and 15%) spurred by higher copper and oil prices.

Flows to Central America contracted by 6%. FDI flows to Mexico declined by 6% while they fell by 13% in Panama and stagnated in Costa Rica. In Mexico, the first half of the year was marked by elections and by trade negotiations with the United States and Canada on a revised North American Free Trade Agreement. The impact on investment of the new agreement (USMCA), which erodes some of Mexico's competitive advantages, in particular in the car industry, will be felt more in the second half of 2018 and in the coming years.

In Panama, slower economic growth following tense labor relations and high energy costs negatively affected flows in the first half of the year. New investments from China, the Middle East and India could materialize in the coming months as a result of foreign policy initiatives seeking to augment the country's role as a global hub. In the Caribbean, excluding financial centers, flows declined by 20%, hit by reduced investment flows via the PetroCaribe oil scheme – a preferential oil initiative – as a consequence of Venezuela's economic troubles.

In Africa, the slowdown in FDI continued from 2017 into the first half of 2018 (3% reduction, remaining close to an estimated US$18 billion total for the region). Among sub-regions, only Southern Africa saw a significant increase in FDI (up 40%). The substantial increase was driven to a large extent by South Africa (US$3.4 billion in the first half of 2018 compared to $1.1 billion in the first half of 2017), which is seeing a return to earlier levels of investment after a steep slowdown in the preceding years. A relatively significant decline was registered in resource-dominant Western Africa, with a 17% reduction in FDI in the first half of this year (from US$5.2 billion to an estimated US$4.3 billion). Egypt remained the largest FDI recipient on the continent with an estimated increase of 24% compared to the first half of 2017.

The volatile global economic environment and mixed commodity price trends are important factors behind weakened FDI to Africa. Also, the expected growth in FDI inflows to Africa due to advances in regional integration has yet to materialize; the African Continental Free Trade Agreement, once in operation, may trigger new investor interest in the continent.

In the *transition economies* of South-East Europe, the Commonwealth of Independent States and Georgia, FDI inflows in the first half of 2018 declined by 18%, to US$25 billion, compared with the same period of the previous year. Flows to the Russian Federation declined by 19%, to US$15 billion. Inflows to the South-East European subregion bucked the negative trend; they increased by 30% in the first half of 2018, to US$3.3 billion, with gains observed in the former Yugoslav Republic of Macedonia, Albania and Serbia, in that order.

The value of announced greenfield investment in the region doubled, from $12 billion in the first half of 2017 to US$24 billion in the first half of 2018, with US$4.5 billion in South-East Europe and US$10 in the Russian Federation. This could indicate that the bottom of the FDI depression has been reached in the region.

The next regular issue of UNCTAD's Investment Trends Monitor will be released in mid-January 2019.

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