



INVESTMENT TRENDS MONITOR



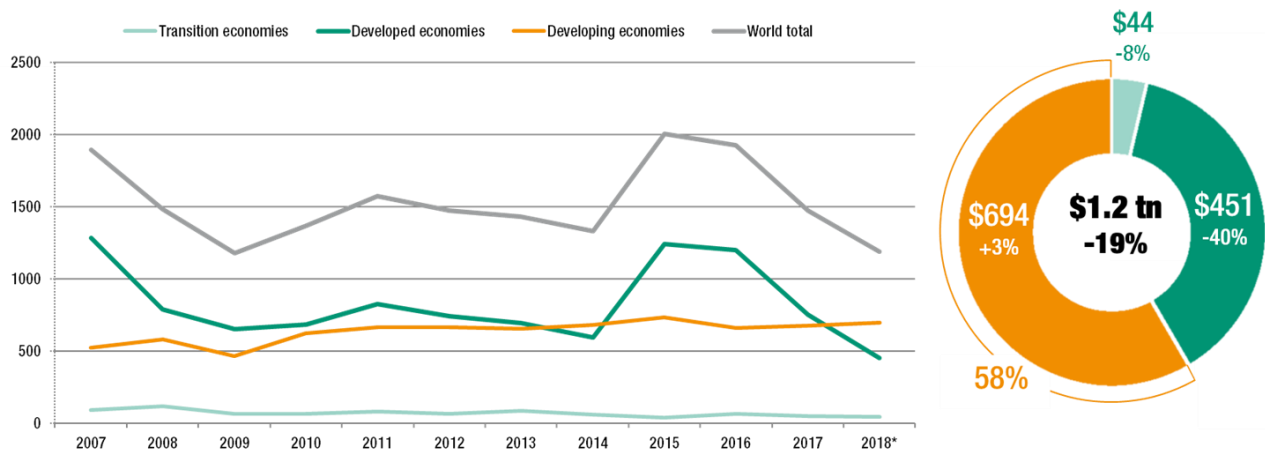
UNITED NATIONS
UNCTAD

GLOBAL FDI FLOWS CONTINUE THEIR SLIDE IN 2018 Rebound expected in 2019, but underlying trend remains weak

H I G H L I G H T S

- Global foreign direct investment (FDI) fell by 19% in 2018, to an estimated US\$1.2 trillion (figure 1), from US\$1.47 trillion in 2017. The third consecutive drop brings FDI flows back to the low point reached after the global financial crisis.
- The decline was concentrated in developed countries where FDI inflows fell by 40% to an estimated US\$451 billion, mainly due to large repatriations of accumulated foreign earnings by United States multinational enterprises (MNEs), following tax reforms. This caused an unprecedented 73% decline in flows to Europe to only US\$100 billion (net of large negative flows in some countries) – a value last seen in the 1990s. A decrease was also reported in the United States (-18%) to US\$226 billion.

Figure 1. FDI inflows: global and by group of economies, 2007–2018*
(Billions of US dollars)

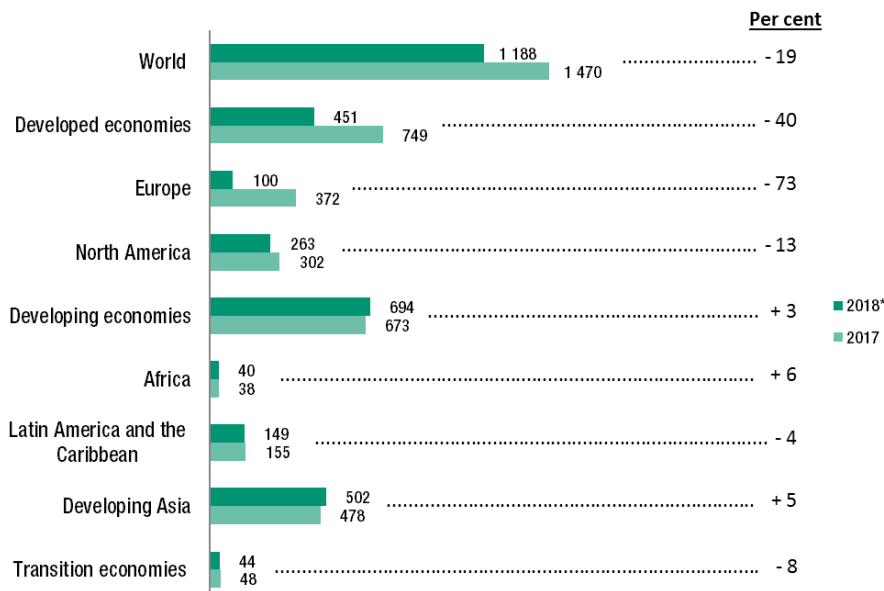


Source: UNCTAD.
* Preliminary estimates.

- *In contrast, FDI to developing economies remained resilient, with an increase of 3% to US\$694 billion. The share of developing economies in global FDI reached 58%. Half of the top 10 host economies are developing economies.*
- *Among developing regions, flows increased by 5% in developing Asia and 6% in Africa (although growth there was concentrated in very few countries) but declined in Latin America and the Caribbean (-4%). East and South-East Asia was the largest host region, accounting for one-third of global FDI in 2018 and almost all of the growth in FDI to developing economies. FDI to the transition economies declined by 8% to US\$44 billion.*
- *The largely tax-reform-driven nature of the decline in global FDI is evident from the fact that investment project values increased. *Cross-border merger and acquisitions (M&As) rose by 19% to US\$822 billion.**
- *Looking ahead, a rebound is likely in 2019 but the underlying trend remains weak. On the positive side, greenfield project announcements – an indicator of future trends – increased by 29%, albeit from relatively low levels in 2017. Also, as repatriations abated in the third quarter of 2018, developed country inflows will revert to normal levels. However, increased risks are emerging from recent downward revisions in growth forecasts, policy factors including trade tensions and uncertainty about the global policy environment for investment, and the possibility of structurally lower reinvested earnings by United States MNEs.*

Global FDI flows¹ fell by 19% in 2018, reaching an estimated US\$1.2 trillion, down from a revised US\$1.47 trillion in 2017, with the decline mainly concentrated in developed economies (figure 2). The sharp decline in FDI, due to large repatriations of retained earnings by United States MNEs following the corporate income tax reforms introduced at the end of 2017 (see *GITM29*), was in contrast with the trends in cross-border M&As (+19%) and announced greenfield investments (+29%).

Figure 2. FDI inflows by region, 2017 and 2018*
(Billions of US dollars)



Source: UNCTAD.

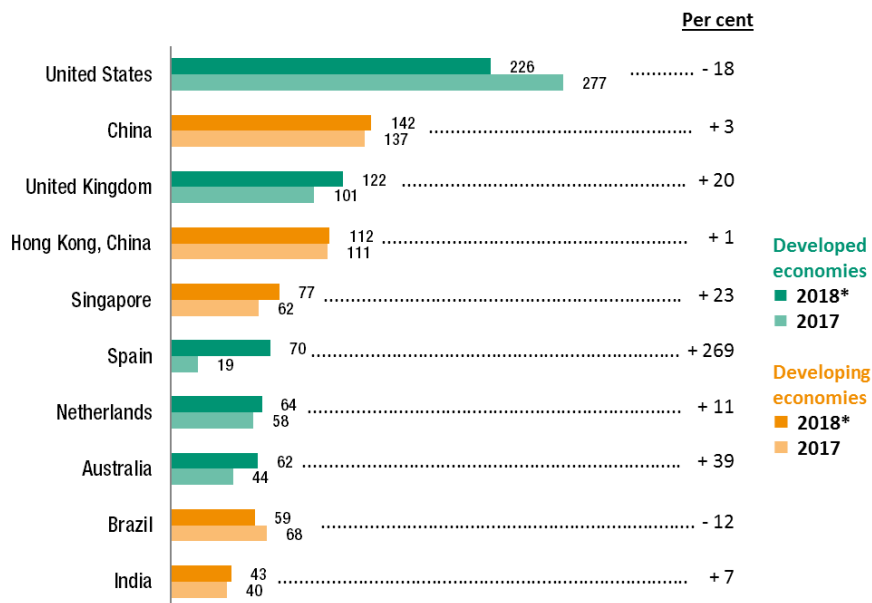
* Preliminary estimates.

¹ This GITM is based on FDI inflows for 157 economies for which data are available for at least part of 2018, as of 16 January 2019. These countries account for 98% of global FDI flows. Annual figures are estimated based on available partial-year data, in most cases up to the third quarter of 2018. The proportion of inflows from these economies in total inflows to their respective region in 2017 is used to extrapolate 2018 regional and global data. Quarterly FDI data are based on the directional principle. For a few countries data following the asset/liability principle was used for estimation. UNCTAD's FDI data exclude special purpose entities (SPEs) and offshore financial centres in the Caribbean.

By region, falling flows to Europe (-73%) and North America (-13%) contributed most to the global decline. FDI flows increased by 5% in developing Asia and by 6% in Africa.

As a result of these regional differences, the share of developing economies increased to an estimated 58% of the world total. Half of the top 10 host economies continue to be developing economies (figure 3). Despite the decline, the United States remained the largest recipient of FDI, attracting an estimated US\$226 billion in inflows, followed by China with flows of US\$142 billion and the United Kingdom with US\$122 billion.

Figure 3. FDI inflows: top 10 host economies, 2017 and 2018*
(Billions of US dollars)



Source: UNCTAD.

* Preliminary estimates.

FDI flows to developed economies lowest since 2004

FDI flows to developed countries declined by 40% (table 1). Inflows to Europe fell by almost three quarters to only US\$100 billion (with a number of countries registering sizeable negative inflows) and those to the United States by almost one fifth. At an estimated US\$451 billion, inflows to developed countries were at the lowest level since 2004, well below the troughs in 2009 (at US\$652 billion) and 2014 (at US\$595 billion). While M&A deal making remained active, rising by 23% in value terms, it was not enough to compensate for the negative outward FDI from the United States (repatriations of retained earnings) caused by tax reforms.

Prior to 2018, United States FDI outflows were almost entirely accounted for by reinvested earnings. United States MNEs refrained from bringing home overseas earnings to avoid tax liabilities. The reforms that came into effect in January 2018 reduced those liabilities and United States MNEs duly began repatriating accumulated overseas profits. In the first two quarters of 2018, reinvested earnings by United States MNEs were -US\$200 billion, compared to US\$168 billion in the same period in 2017, a net effect of US\$367 billion. These negative flows resulted in declines in global FDI flows, especially in Europe. (The full extent of repatriations is likely to have been substantially larger; the effect on global FDI flows is mitigated by the fact that a large part of repatriations came from offshore entities and jurisdictions that are excluded from UNCTAD's FDI statistics.) Although reinvested earnings in the third quarter reverted to a positive value (US\$42 billion), the effect may persist longer as there is no time limit on the tax advantage and profits repatriated so far are still relatively small compared with the total accumulated profits overseas of United States MNEs. Furthermore, the removal of the provisions triggering tax liabilities upon repatriation may lead to structurally lower reinvested earnings by United States MNEs in the future.

In Europe, the repatriations had major impacts on a few important host countries for United States MNEs, such as Ireland and Switzerland (which registered negative inflows of -US\$121 billion and -US\$141 billion, respectively). Completions of M&A megadeals resulted nevertheless in higher flows to the United Kingdom (up 20% to US\$122 billion), the Netherlands (up 11% to US\$64 billion) and Spain (where inflows tripled to US\$70 billion). Notable megadeals with a significant impact on FDI numbers included the acquisition of Sky (United Kingdom) by Comcast (United States) for US\$40 billion, the acquisition of Spanish highway operator Albetris by a consortium comprising Atlantia (Italy), ACS (Spain) and Hochtief (Germany) for US\$23 billion. Cross-border M&As in the Netherlands more than doubled from US\$15 billion to US\$39 billion. The estimate for FDI flows to Germany shows a decline (-59% to US\$12 billion), but it does not yet take into account FDI flows that will result from the merger between the chemical group Linde (Germany) and Praxair (United States). Cross-border M&A sales of French assets halved to US\$20 billion, lowering FDI flows to the country (down 42% to US\$28.9 billion).

Table 1. FDI inflows, cross-border M&As and announced greenfield projects, by region, 2017–2018
(Billions of US dollars)

Region	FDI inflows			Cross-border M&As			Announced greenfield project values		
	2017	2018 ^a	Growth rate (%)	2017	2018	Growth rate (%)	2017	2018 ^a	Growth rate (%)
World	1 470	1 188	-19	694	822	19	701	906	29
Developed economies	749	451	-40	569	698	23	299	313	5
Europe	372	100	-73	223	371	66	171	190	11
North America	302	263	-13	299	240	-20	98	93	-5
Developing economies	673	694	3	112	122	9	367	539	47
Africa	38	40	6	4	2	-49	85	69	-19
Latin America and the Caribbean	155	149	-4	30	39	32	70	80	15
Developing Asia	478	502	5	79	82	3	212	390	84
Transition economies	48	44	-8	13	2	-85	35	55	55

Source: UNCTAD.

^a Preliminary estimate.

In addition to negative outflows, FDI inflows to the United States also declined by 18%, mainly because assets in the United States featured less prominently among M&A megadeals completed in 2018. Acquisitions of United States assets accounted for 12 of the 20 largest deals completed in 2016 and 2017, but only six in 2018, including a divestment. Net M&A sales of United States assets declined by a third to US\$201 billion. Those in Canada increased from a net divestment in 2017 to US\$38 billion.

FDI flows to other developed countries rose by 17% to US\$88 billion. Completions of cross-border M&A deals in Australia and Japan contributed to an increase in FDI flows by 39% to US\$61.5 billion and 18% to US\$12.4 billion, respectively.

FDI flows to developing economies remained resilient

FDI flows to developing economies increased by 3% (to an estimated US\$694 billion). However, the increase was very unevenly spread, with almost all the growth concentrated in East and South-East Asia. Developing Asia as a whole and Africa registered modest increases (+5% and +6%, respectively), while Latin America fell (-4%). There was a 9% increase in cross-border M&A value across developing regions during the year (from US\$112 billion to US\$122 billion). Encouragingly, the value of announced greenfield projects rose strongly by 47% to reach an estimated US\$539 billion, again mainly due to a near doubling of values in developing Asia.

FDI flows to *developing Asia* rose by 5% to an estimated US\$502 billion. The region, already the largest recipient of FDI flows in the world, also showed the highest value of greenfield project announcements. In *East Asia*, China, the largest developing-economy FDI recipient, attracted an estimated US\$142 billion, an increase of 3%, including a rise in investment in manufacturing. Flows to Hong Kong (China), the region's second largest host economy, were stable at US\$112 billion, with most going into the services sector.

The main FDI growth engine is *South-East Asia*, where inflows rose (+11%) for the third consecutive year to a new record level (US\$145 billion). Much of the region's FDI growth in 2018 was driven by a rise in investment in Singapore to US\$77 billion, due largely to a 94% increase in cross-border M&A activities. But other major

recipients in the region also continued to attract sizeable FDI inflows. Investment in Indonesia (US\$21 billion) – the largest economy in the region – stayed close to the record level in 2017, and flows to Thailand rose by more than 60% to US\$11 billion. South-East Asia also accounted for much of the global growth in greenfield investment activity, which doubled to \$140 billion in 2018.

FDI to *South Asia* rebounded from a dip in 2017 to about US\$56 billion (+8%), due to a 7% rise in inflows in India (US\$43 billion) and record flows to Bangladesh (US\$3 billion) and Sri Lanka (US\$2 billion). The record level of cross-border M&A sales (US\$33 billion) in India contributed to the FDI rise in 2018, as Walmart (United States) acquired a stake in the e-commerce Flipkart Group for US\$18 billion and Vodafone (United Kingdom) merged its Indian assets with the mobile business of Idea Cellular for US\$12 billion.

In *West Asia*, FDI flows were flat at US\$26 billion. Turkey attracted the largest share of FDI flows (about US\$11 billion, a similar level to the previous year), representing 40% of the total. FDI in Saudi Arabia moved up from a 14-year low recorded in 2017, more than doubling to US\$3 billion, but this is still less than one-tenth of the peak in 2008. FDI in Iraq registered further divestments exceeding -US\$4 billion in 2018.

FDI flows to *Latin America and the Caribbean* (an estimated US\$149 billion) were 4% lower than in 2017, against the backdrop of slow economic recovery in the region. In *South America*, FDI declined by an estimated 6% due to lower flows to Brazil and Colombia. The challenging economic situation and the uncertainty prior to the election may have deterred foreign investors in Brazil, the region's principal recipient, where FDI flows declined by 12% to US\$59 billion. In Colombia an economic slow-down weakened investor confidence, with flows falling by 21% to US\$11 billion. Despite currency turbulence, flows to Argentina appeared resilient. Inflows were buoyed by a mega deal in the media industry where Telecom Argentina (ultimately owned by United States-based Fintech Advisory Inc) bought Cablevision SA for almost US\$6 billion, and by a number of smaller sales. Flows into Chile and Peru rose by 31% and 23%, respectively, sustained by higher copper prices and by increased greenfield project announcements and cross-border M&As sales in mining and services industries.

In *Central America* flows were stable, increasing by 3% compared to 2017. Mexico received US\$32 billion, a similar level to the previous year, as foreign investors were reassured by the signing of the revised North American Free Trade Agreement (now USMCA). Flows to Panama bounced to almost US\$6 billion boosted by record high M&A deals. In Costa Rica, public protests and slower economic activity in the second half of the year may have contributed to a decrease of inflows by 22%.

In the *Caribbean*, excluding offshore financial centers, flows declined by 24% driven by falling flows to its largest FDI recipient, the Dominican Republic, despite strong economic growth in 2018; the fall mainly reflected a normalization after M&A-driven record FDI inflows in 2017.

Africa registered a 6% increase in FDI inflows in 2018 (US\$40 billion, up from a revised US\$38 billion in 2017), but the growth was concentrated in few economies, and the aimed for shift from the natural resources dominated FDI profile of the continent towards a more balanced sectoral distribution was only partially visible, in that the relatively diversified economies, such as Egypt and South Africa, saw more stable and increasing FDI inflows. Egypt, with an increase of 7% from US\$7.4 billion to US\$7.9 billion, was the biggest recipient of FDI in Africa in 2018, with investments in real estate, food processing, oil and gas exploration, and renewable energy. South Africa, which had seen a steep fall in FDI inflows since 2014, registered a strong recovery in 2018, with inflows amounting to US\$7.1 billion in 2018 compared to US\$1.3 billion in 2017, driven by large investments in mining, petroleum refining, food processing, information and communication technologies, and renewable energy. In contrast, flows to the two largest oil producers of the continent, Nigeria (-36% to US\$2.2 billion) and Angola (-US\$5.1 billion in 2018) were low, with a decline and a net divestment, respectively.

The increases in Egypt and South Africa pushed up flows to North Africa (from US\$13.4 billion in 2017 to US\$13.9 billion in 2018) and Southern Africa (from -US\$1 billion to US\$4.5 billion), respectively. West Africa, Central Africa and East Africa experienced -20%, -6% and -14% decreases compared to the preceding year. In West Africa, Ghana (US\$3.3 billion) overtook Nigeria as the largest recipient of FDI in 2018. However, Nigeria reported a few significant greenfield project announcements in the oil and gas and chemical sectors, which could lead to a recovery in 2019. Ethiopia, despite a 24% fall in investment to US\$3.1 billion, maintained its top rank in East Africa, with investments in petroleum refining, mineral extraction, real estate, manufacturing and renewable energy.

Progress towards the implementation of the Continental Free Trade Agreement, diversification in greenfield projects targeting the manufacturing sector, and the stabilization of commodity prices indicate that FDI in Africa

could potentially grow at a higher pace in 2019, despite the downward adjustment of global economic growth forecasts.

FDI inflows in the *transition economies* of South-East Europe and the Commonwealth of Independent States (CIS) declined for a second consecutive year, by 8% in 2018, to about US\$44 billion. This was the second lowest level registered since 2006. Inflows to South-East Europe registered relatively strong growth (+14% to US\$6.3 billion), with increases in most economies of the region. In the CIS and Georgia, in contrast, inflows fell by 11% to US\$37.3 billion, mainly due to a 14% decline in the Russian Federation.

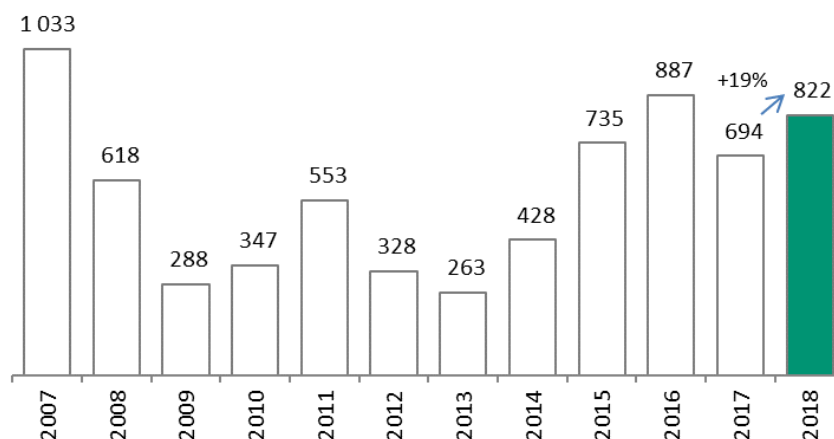
Cross-border M&As in transition economies fell to US\$2 billion, the lowest value for more than a decade, except for the net divestment year of 2013. M&A sales in the Russian Federation dropped by 82%; Japan Tobacco's acquisition of Donskoy Tabak (for US\$1.7 billion) was the only large transaction registered in the country, which accounts for the bulk of the region's total.

In contrast, greenfield project announcements, an indicator of future investor intentions, increased by 54% to US\$55 billion. Greenfield commitments rose in practically all countries of the region. They more than doubled (to US\$10 billion) in South-East Europe and rose by almost half (to US\$45 billion) in the CIS and Georgia. This indicates potential for a rise in new FDI projects in 2019 and beyond.

Cross-border M&As up

Cross-border M&As increased by 19% in 2017, reaching their third highest level since 2007 (figure 4) as MNEs continued to take advantage of low borrowing costs and strong liquidity positions. The freeing up of retained earnings of United States MNEs may have contributed as well; one third of total M&A deals were carried out by United States MNEs, double the previous year. Net M&A sales rose to US\$822 billion, spurred on by acquisitions in services (+35%, to US\$462 billion) and in the primary sector (+65%, to US\$40 billion). In particular, sales of assets related to financial and insurance activities and crude oil and natural gas activities rose sharply. Cross-border M&As in manufacturing remained at a similar level (-2%, US\$320 billion).

Figure 4. Value of cross-border M&As, 2007–2018
(Billions of US dollars)



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

The surge in M&A values was driven by an increase in the size of deals. In 2018, the average deal size was US\$128 million, an increase of almost 30% from 2017 and only slightly below the record average value reached in 2016 (US\$134 million). The number of mega deals exceeding US\$3 billion increased from 63 in 2017 to 80 in 2018. Mega deals were concentrated in a few industries, including media, chemicals, and telecommunications.

Developed economies were the main target of the upswing in cross-border M&As. Net sales in Europe rose 66% to US\$371 billion, driven by strong increases in the United Kingdom, Germany and the Netherlands, on the back

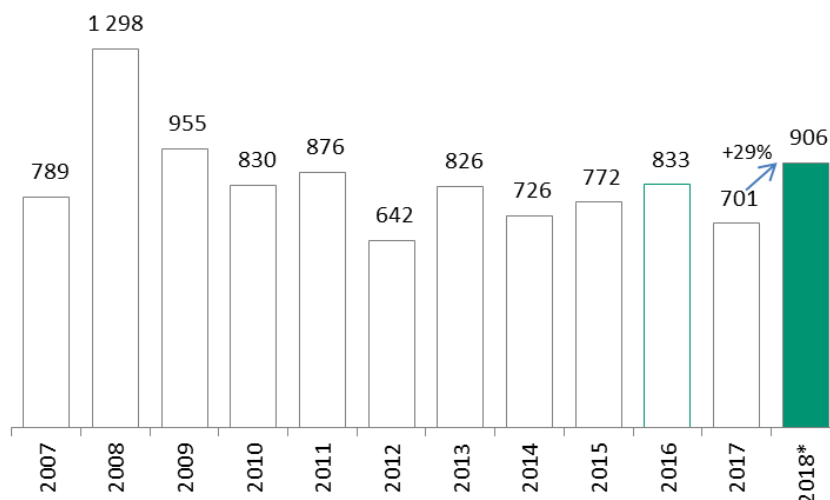
of a few large deals and corporate reconfigurations. The value of cross-border M&A sales in developing economies rose moderately in 2018 by 9% to US\$122 billion, or 15% of the global total, reflecting the fact that FDI in developing countries is predominantly greenfield and expansion driven.

Looking ahead: rebound expected, but underlying trend remains weak

Prospects for FDI in 2019 are mainly driven by a likely rebound from anomalously low 2018 levels in developed regions. As the initial flood of earnings repatriations of United States MNEs abates, the developed economies that experienced the largest drops in inflows are likely to see a rebound to “average” levels of inflows, which would imply large upward swings in countries that normally make up a significant part of global FDI flows.

Project announcements also appear to bode well for new investments in 2019. Announced greenfield projects increased significantly in 2018 (+29%) – albeit from relatively low levels in 2017 (figure 5). However, the increase is almost entirely in developing regions and very unevenly spread, with the most significant rises in East and South-East Asia.

Figure 5. Value of announced greenfield investment projects, 2007–2018^a
(Billions of US dollars)



Source: UNCTAD, based on the information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

* Preliminary estimate

Balancing these positive indicators for global investment prospects, a number of risk factors temper expectations. First is the deteriorating macro-economic backdrop. According to the most recent forecasts, the outlook for the global economy is darkening. Global financing conditions are tightening, industrial production in major economies is readying to downshift, trade tensions could intensify, and some emerging market economies are vulnerable to financial market stress.

Beyond the immediate impact of economic headwinds, the underlying trend for global FDI – net of annual fluctuations driven by one-off factors such as tax reforms, megadeals, and volatile financial flows included in FDI – remains weak. The underlying FDI trend has shown anemic growth since the global financial crisis and has been on a downward trajectory since 2013. Key drivers of the negative trend include policy factors and a return of protectionist tendencies, the impact of the digital economy and the resulting shift towards intangibles in international production, and a significant decline over the last five years in returns on foreign direct investment. Medium term prospects for FDI will continue to be affected by these structural factors.



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