INVESTMENT TRENDS MONITOR

UNITED NATIONS
UNCTAD

GLOBAL FDI FLOWS FLAT IN 2019
MODERATE INCREASE EXPECTED IN 2020

EMBARGO
20 JANUARY 2020, 13:00 GMT
(8:00 New York, 14:00 Geneva)

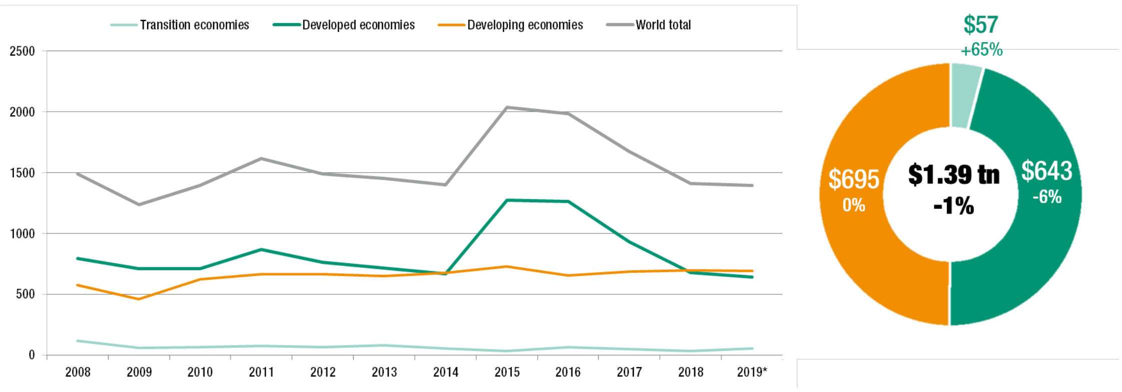
HIGHLIGHTS

- *Global foreign direct investment (FDI) remained flat in 2019, at $1.39 trillion,* a 1% decline from a revised $1.41 trillion in 2018. This is against the backdrop of weaker macroeconomic performance and policy uncertainty for investors, including trade tensions.

- *The underlying FDI trend,* which removes the volatility caused by one-off transactions and intra-firm financial flows, *was up 5%* (in line with projections in the *World Investment Report 2019*) – a marginal change representing a continuation of the stagnation observed over the decade.

- *FDI flows to developed countries remained at a historically low level, decreasing by a further 6%* to an estimated $643 billion. FDI to the European Union (EU) fell by 15% to $305 billion, while flows to the United States remained stable at $251 billion.

Figure 1. FDI inflows: global and by group of economies, 2008–2019*
(Billions of US dollars)



Source: UNCTAD.
* Preliminary estimates.

UNCTAD's FDI data exclude special purpose entities and offshore financial centres (so-called "Phantom FDI")

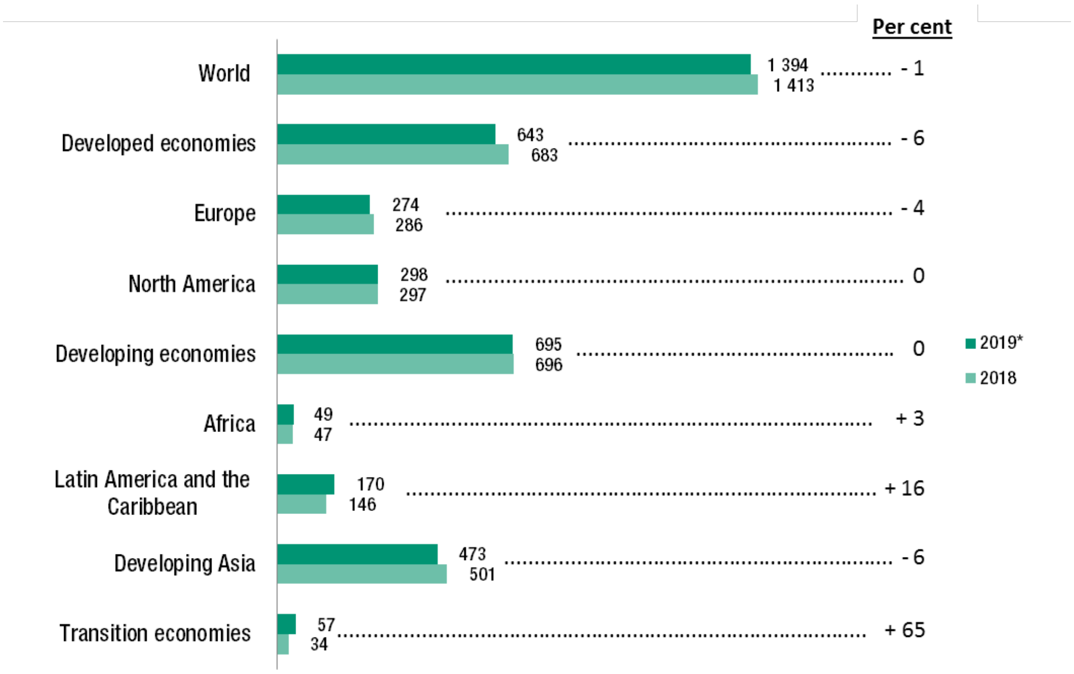
- *Flows to developing economies remained unchanged at an estimated $695 billion*. FDI increased by 16% in Latin America and the Caribbean and 3% in Africa. Despite a decline of 6%, flows to developing Asia continued to account for one-third of global FDI in 2019. Flows to transition economies rose by two thirds to $57 billion.

- Trends in selected economies:
  - FDI in the United Kingdom down 6% as Brexit unfolds.
  - Hong Kong, China divestments cause a 48% FDI decline among turbulence.
  - Singapore up 42% in a buoyant ASEAN region.
  - Zero-growth of flows to both the United States and China.
  - Brazil up 26% at the start of a privatization programme.
  - German inflows triple as MNEs extend loans to foreign affiliates in a year of slow growth.

- *Looking ahead, UNCTAD expects FDI flows to rise marginally in 2020* on the back of further modest growth of the world economy. Corporate profits are expected to remain high and signs of waning trade tensions emerge. However, the decrease of announced greenfield projects by 22% – an indicator of future trends, high geopolitical risks and concerns about a further shift towards protectionist policies temper expectations.

Global FDI flows[1] remained flat in 2019, at an estimated $1.39 trillion, down 1% from a revised $1.41 trillion in 2018. Flows declined in Europe and developing Asia, remained unchanged in North America and increased in Africa, Latin America and the Caribbean and transition economies (figure 2). The impact of the 2017 US tax reform which reduced US outward FDI flows and global FDI in 2018 appear to have diminished in 2019.

Figure 2. FDI inflows by region, 2018 and 2019*
(Billions of US dollars)

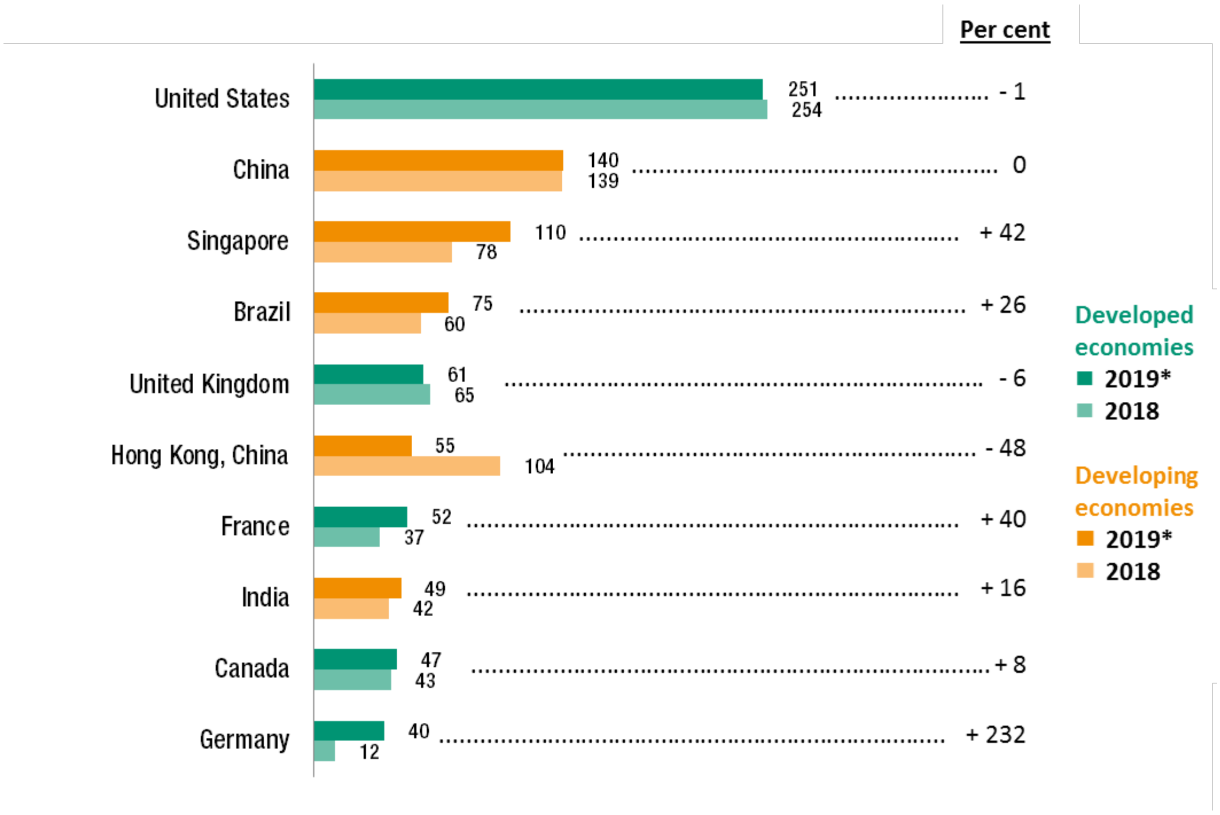


Source: UNCTAD.
* Preliminary estimates.

[1] This GITM is based on FDI inflows for 150 economies for which data are available for at least part of 2019, as of 17 January 2020. 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 2019. The proportion of inflows from these economies in total inflows to their respective region in 2018 is used to extrapolate 2019 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.

Developing economies continue to absorb more than half of global FDI flows and half of the top 10 largest recipients of FDI fall in this category (figure 3). The United States remained the largest recipient of FDI, attracting $251 billion in inflows, followed by China with flows of $140 billion and Singapore with $110 billion.

Figure 3. FDI inflows: top 10 host economies, 2018 and 2019*
(Billions of US dollars)



Source: UNCTAD.
* Preliminary estimates.

Significant variations among developed economies

FDI flows to developed economies fell by 6% to an estimated $643 billion from their revised $683 billion in 2018. FDI remained at a historically low-level, at half of their peak in 2007. Equity investment flows exhibit sluggishness. Cross-border M&As targeting the region registered a sharp decrease in value (40% to $411 billion). The falling value of announced greenfield projects (-12% to $329 billion) also points to weakness in (planned) capital expenditures of affiliates of multinational enterprises (MNEs) in these markets.

The trend for developed economies was conditioned by FDI dynamics in the *European Union*, where inflows declined by 15% to an estimated $305 billion. During 2019, a number of EU countries experienced strong volatility in FDI flows compared to the previous year. FDI to the Netherlands fell by 98% (from $114 billion to $1.9 billion), in part due to a large divestment (a $36 billion IPO of a foreign affiliate of Nasper (South Africa)). In contrast, flows to Ireland rose to $37 billion from -$28 billion in 2018, mainly due to the largest cross-border deal recorded in 2019 (Takeda Pharmaceutical Co Ltd of Japan acquired the share capital of Shire PLC for $61 billion).

Flows to the United Kingdom declined by 6% to an estimated $61 billion, mainly due to a lack of large deals targeting the country. The value of cross-border M&As halved in 2019 from the high level of 2018. Inflows to Spain declined from $45 billion to $6 billion, partly due to debt restructuring in foreign affiliates. In contrast, FDI flows to France and Germany rose to $52 billion and $40 billion respectively, from $37 billion and $12 billion in 2018, mainly due to an increase in intra-company loans to foreign affiliates.

Table 1.FDI inflows, cross-border M&As and announced greenfield projects, by region, 2018–2019[a]
(Billions of US dollars)

Region	FDI inflows			Cross-border M&As			Announced greenfield project values		
	2018	2019[a]	*Growth rate (%)*	2018	2019	*Growth rate (%)*	2018	2019[a]	*Growth rate (%)*
World	**1 413**	**1 394**	***-1***	**816**	**490**	***-40***	**999**	**784**	***-22***
Developed economies	**683**	**643**	***-6***	**689**	**411**	***-40***	**375**	**329**	***-12***
European Union	357	305	*-15*	362	158	*-56*	203	182	*-10*
North America	297	298	*0*	224	180	*-19*	123	109	*-11*
Developing economies	**696**	**695**	***0***	**124**	**77**	***-38***	**573**	**411**	***-28***
Africa	47	49	*3*	2	5	*238*	76	62	*-19*
Latin America and the Caribbean	146	170	*16*	39	22	*-44*	78	103	*32*
Developing Asia	501	473	*-6*	84	49	*-41*	418	246	*-41*
Transition economies	**34**	**57**	***65***	**3**	**1**	***-46***	**51**	**44**	***-14***

Source: UNCTAD.
[a] Preliminary estimate.

FDI flows to *North America* remained flat at $298 billion. Flows to the United States decreased by only 1% to an estimated $251 billion. While investment in the United States from Canada and the EU declined by 24% and 6% respectively, there was increase of investment from Japan and Australia. Germany, Japan and the Netherlands were the largest investors in the United States. In Canada, flows increased by 8% to $47 billion mainly due to intra-company loans.

FDI flows to other developed countries fell by 30% to $70 billion. The decline of cross-border M&A sales in Australia contributed to the decrease of FDI inflows by 42% to $39 billion. Flows to Israel declined also, by 28% to an estimated $15 billion, while FDI to Japan rose moderately by 9% to $11 billion.

FDI flows to developing economies remained stable

FDI flows to developing economies remained stable at an estimated $695 billion. Latin America and the Caribbean saw an increase of 16%, with growth concentrated in South America. Africa continued to register a modest rise (+3%) while flows to developing Asia fell by 6%.

FDI flows into *developing Asia* reached an estimated $473 billion in 2019. The overall decline was driven mostly by a 21% drop in investment in *East Asia*. Investment to Hong Kong, China almost halved to $55 billion as divestments continued through the year. Flows to the Republic of Korea also saw a decline of 46% to $7.8 billion, attributed to trade tensions and investment policy changes. Inflows to China remained stable at $140 billion.

South-East Asia continued to be the region's growth engine; FDI rose to an estimated $177 billion, a 19% increase from 2018. Singapore, the biggest FDI host country in the region, continued to grow in 2019 – by 42% to $110 billion, driven by deals in the information and communication sector. Investments into Indonesia rose 12% to $24 billion with significant flows going into wholesale and retail trade (including the digital economy) and manufacturing.

South Asia recorded a 10% increase in FDI to $60 billion. The growth was driven by India, with a 16% increase in inflows to an estimated $49 billion. The majority went into services industries, including information technology. Inflows into Bangladesh and Pakistan declined by 6% and 20%, respectively, to $3.4 billion and $1.9 billion.

In *West Asia*, FDI flows declined by 16% to an estimated $25 billion, from $30 billion in 2018. Flows to Turkey cooled off from $13 billion in 2018 to $8.3 billion due to economic headwinds. Investment in Saudi Arabia increased by 9% to an estimated $4.6 billion with some deals outside the oil and gas sector. For example, the largest M&A deal in the country was in metals, with Tronox Ltd (United States) acquiring part of National Titanium (Saudi Arabia) for $2.2 billion.

FDI to *Latin America and the Caribbean* increased by 16% in 2019, reaching an estimated $170 billion. In South America, flows grew by 20% to an estimated $119 billion, with decreases in Argentina and Ecuador offset by growing flows to Brazil, Chile, Peru and Colombia. Brazil registered a 26% increase to $75 billion, partly driven by the country's privatization program launched in July as part of the administration's efforts to jumpstart the economy. The first of these privatizations involved a gas distribution company – Transportadora Associada de Gas – bought by a consortium of investors led by Engie (France) for almost $8.7 billion. In 2020, divestments of subsidiaries of State companies are expected to gain pace; the privatization of large companies like Electrobras, Latin America's largest power utility, and Telebras is likely to attract further FDI. Preliminary data on announced greenfield investments in the country support this outlook with the value of projects more than doubling compared to 2018, especially in the renewable energy and the automotive industries. In Argentina, a deepening currency crisis and the application of restrictive measures on international operations have led to a halving of inflows (to $6.3 billion). FDI to Chile, Peru and Colombia all increased significantly, supported by economic growth above the regional average and new public investments into infrastructure and mining (Peru and Chile). Social unrest and political turmoil late in 2019 dampen expectations for inflows in 2020.

Flows to *Central America* grew by 4% to an estimated $46 billion. FDI to Mexico increased by 3% to an estimated $35 billion; the new trade agreement USMCA lifted expectations for easier economic relations. Flows to Panama and Costa Rica, the two other main destinations in the region, grew to $6.5 and $2.3 billion respectively. In Panama, most of the increase can be attributed to increased intra-company loans. In Costa Rica more than half of flows went into the free trade zones.

In the *Caribbean* (excluding offshore financial centres), inflows grew by 49% to an estimated $4.2 billion led by growing investments in the Dominican Republic where FDI reached an estimated $2.7 billion and in Trinidad and Tobago where inflows turned positive to an estimated $600 million.

FDI flows to *Africa* amounted to an estimated $49 billion – an increase of 3%. Persistent global economic uncertainty and the slow pace of reforms seeking to address structural productivity bottlenecks in many economies continue to hamper investment in the continent. Egypt remained the largest FDI recipient in Africa with a 5% increase in inflows to $8.5 billion. The country's efforts to implement economic reforms have resulted in strengthened investor confidence. While FDI to the country was still driven by the oil and gas sector, major investments in the non-oil economy emerged, notably in telecommunications, real estate and tourism. Despite the increase in Egypt, FDI to North Africa declined by 11% to $14 billion, due to a significant (45%) slowdown in flows to Morocco ($2 billion from $3.6 billion in 2018).

In contrast, FDI to *Southern Africa* increased by 37% to $5.5 billion mainly due to the slowdown in net divestment from Angola. South Africa consolidated last year's recovery with inflows remaining almost constant at a little more than $5 billion. In addition to intra-company transfers by existing investors, investment to the country was led by M&A deals in business services and petroleum refining. FDI flows to *East Africa* remained steady totaling $8.8 billion. Flows to Ethiopia, Africa's fastest growing economy, slowed down by a quarter to $2.5 billion. China was the largest investor in Ethiopia in 2019, accounting for 60% of newly approved FDI projects. Inflows to Uganda increased by almost 50% to $2 billion due to the continuation of the development of major oil fields and an international oil pipeline. Flows to *West Africa* increased by 17% to an estimated $11 billion as investment surged in Nigeria by 71% to $3.4 billion. FDI to the continent's largest economy was buoyed by resource seeking inflows in the oil and gas sector. However, the development of a $600 million steel plant in Nigeria's Kaduna state offers some evidence of investment diversification, a long-standing policy objective. FDI to *Central Africa* rose by 6% to $9.3 billion, with the resource-oriented profile of investment persisting.

After two years of low inflows, FDI to the *transition economies* started a rebound in 2019, growing by 65%, to an estimated $57 billion. The pick-up was driven partly by an expectation of higher economic growth in the region in 2020 and more stable prices for natural resources. In the Russian Federation, inflows more than doubled to $33 billion. Both equity investment and reinvested earnings rose substantially as investors' confidence increased. As a result of the doubling of FDI into the Russian Federation, the inflows of the Commonwealth of Independent States (CIS) and Georgia reached $49 billion, 82% up from 2018. Flows to South-East Europe remained unchanged at $7.4 billion. Flows to Serbia grew by 6%, to $4.4 billion. In contrast with buoyant FDI inflows, the cross-border M&A sales of transition economies fell by 46%, to $1.4 billion only, their lowest level since 2015.

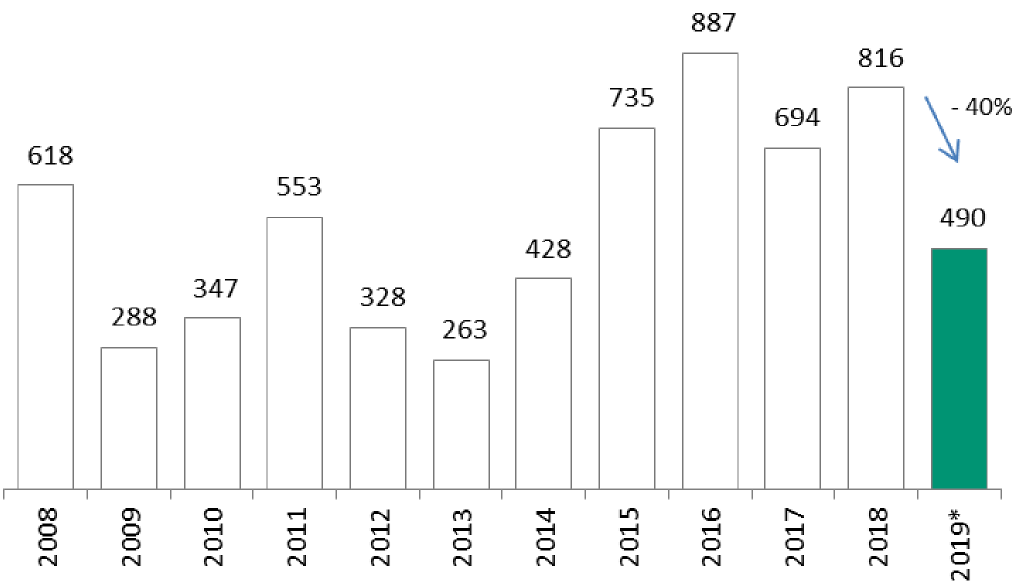
FDI prospects for transition economies in 2020 remain subdued, as suggested by the decline in the value of announced greenfield projects in 2019 which dropped by 14%, to $44 billion. In addition, uncertainties remain high in terms of the policy environment for FDI in various key economies of the region, including the Russian Federation.

Cross-border M&As almost halved

Cross-border M&As decreased by 40% in 2019 to $490 billion – the lowest level since 2014 (figure 4). Slowed down by sluggish Eurozone growth and Brexit, European M&A sales halved to $190 billion. Deals targeting United States companies remained significant – accounting for 31% of total M&As. The fall in global cross-border M&As sales was deepest in the services sector (-56% to $207 billion), followed by manufacturing (-19%, to $249 billion) and primary sector (-14%, to $34 billion). In particular, sales of assets related to financial and insurance activities and chemicals fell sharply. The decline in M&A values was driven also by a lower number of megadeals. In 2019, there were 30 megadeals above $5 billion compared to 39 in 2018.

The decline of cross-border M&As in 2019 (-40%) was much stronger than the 14% decrease in total M&A activity (including domestic deals) worldwide, continuing the trend of the last few years of relative impopularity of cross-border expansions and consolidations through deals.

Figure 4. Value of cross-border M&As, 2008–2019
(Billions of US dollars)



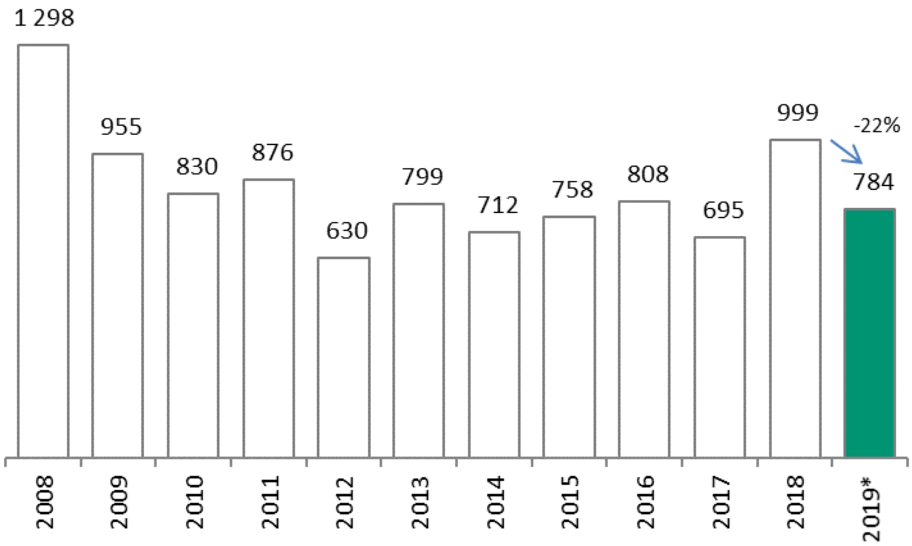
Source: UNCTAD, cross-border M&A database (unctad.org/fdistatistics).

Looking ahead: growth with significant risks

FDI flows are still expected to rise moderately in 2020, as current projections show the global economy to improve somewhat from its weakest performance since the global financial crisis in 2009. GDP growth, gross fixed capital formation and trade are projected to rise, both at the global level and, especially, in several large emerging markets. Such an improvement in macroeconomic conditions could prompt MNEs to resume investments in productive assets, given also their easy access to cheap money, the fact that corporate profits are expected to remain solid in 2020, and hopes for waning trade tensions between the United States and China.

However, significant risks persist, including high debt accumulation among emerging and developing economies, geopolitical risks and concerns about a further shift towards protectionist policies. In addition, in 2019, greenfield project announcements (figure 5) – an indicator of future trends – have slowed down.

Figure 5. Value of announced greenfield investment projects, 2008–2019*
(Billions of US dollars)



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

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

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