CHAPTER II

REGIONAL TRENDS

DEVELOPING ECONOMIES

AFRICA

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
41.8 bn

2017 Decrease
-21.5%

Share in world
2.9%

Morocco
$2.7 bn
+22.9%

Egypt
$7.4 bn
-8.8%

Ethiopia
$3.6 bn
-10.1%

Nigeria
$3.5 bn
-21.3%

Ghana
$3.3 bn
-6.6%

Flows, by range

- Above $3.0 bn
- $2.0 to $2.9 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

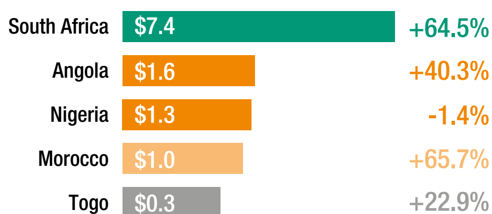
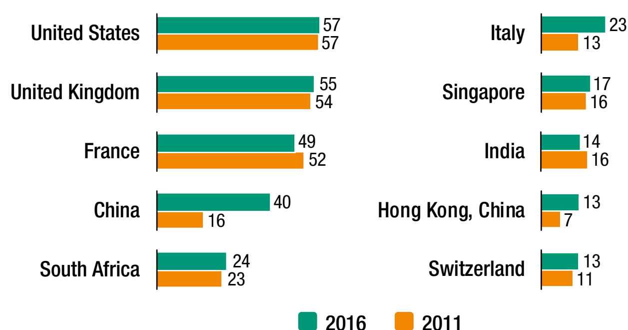


Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

HIGHLIGHTS

- FDI flows were down by more than one-fifth
- Larger commodity-exporting countries declined most
- Commodity uptick and AfCFTA could support a recovery

Figure B. FDI inflows, 2011–2017 (Billions of dollars and per cent)

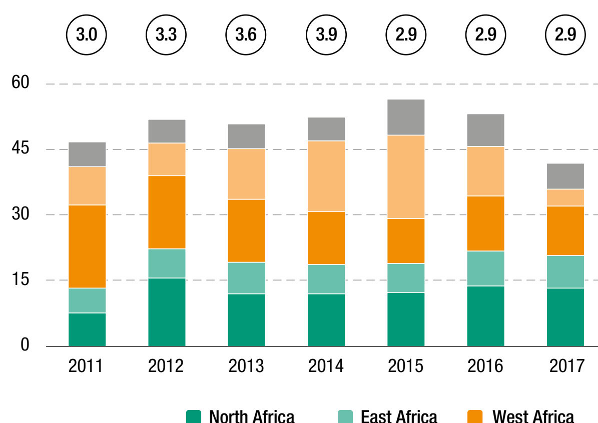
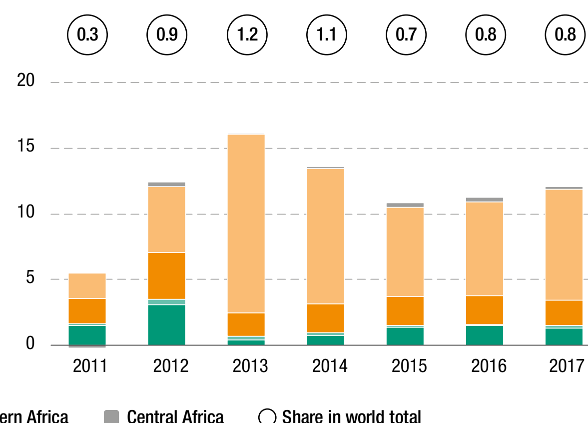


Figure C. FDI outflows, 2011–2017 (Billions of dollars and per cent)



North Africa | East Africa | West Africa | Southern Africa | Central Africa | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
Total	**9 684**	**3 452**	**7 161**	**1 967**
Primary	**52**	**30**	**329**	**2 136**
Mining, quarrying and petroleum	45	30	329	2 136
Manufacturing	**-345**	**284**	**3 667**	**316**
Food, beverages and tobacco	780	9	-35	55
Pharmaceuticals, medicinal chemicals and botanical products	87	2	566	444
Basic metal and metal products	-1 102	244	-	-
Services	**9 977**	**3 137**	**3 165**	**- 485**
Trade	6	80	- 174	383
Information and communication	-39	-373	342	-5 254
Programming and broadcasting activities	-	-	130	-4 527
Financial and insurance activities	512	506	1 927	3 542
Business activities	103	2 699	667	231

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
World	**9 684**	**3 452**	**7 161**	**1 967**
Developed economies	**-2 115**	**1 780**	**6 883**	**556**
European Union	1 016	-7 227	4 221	- 928
Belgium	-	-3 150	-	-
Italy	-	-4 300	-	-55
United States	-3 085	5 674	2 445	1 330
Developing economies	**12 832**	**527**	**172**	**1 410**
Africa	400	796	400	796
Morocco	-	439	375	350
Brazil	-	-798	16	-
China	2 932	1 248	-	-10
India	141	-715	335	494
Transition economies	**-1 135**	**1 125**	**106**	**-**

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Africa as destination 2016	Africa as destination 2017	Africa as investor 2016	Africa as investor 2017
Total	**94 039**	**85 305**	**11 772**	**5 796**
Primary	**3 713**	**10 574**	**-**	**-**
Mining, quarrying and petroleum	3 713	10 574	-	-
Manufacturing	**19 357**	**21 060**	**5 991**	**2 907**
Textiles, clothing and leather	1 077	3 998	46	91
Chemicals and chemical products	5 107	5 644	4 596	1 194
Non-metallic mineral products	1 144	3 036	576	314
Motor vehicles and other transport equipment	2 754	1 506	28	40
Services	**70 969**	**53 671**	**5 782**	**2 889**
Electricity, gas and water	15 601	37 485	156	156
Construction	16 372	6 488	2 542	204
Transport, storage and communications	12 872	3 215	698	452
Business services	22 734	3 063	1 030	829

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Africa as destination 2016	Africa as destination 2017	Africa as investor 2016	Africa as investor 2017
World	**94 039**	**85 305**	**11 772**	**5 796**
Developed economies	**19 945**	**32 398**	**1 411**	**1 961**
European Union	11 864	22 704	1 209	1 658
Italy	4 006	10 383	-	-
United Kingdom	2 395	2 287	444	83
United States	3 640	3 901	55	197
Developing economies	**73 643**	**21 582**	**10 342**	**3 829**
Africa	8 604	1 949	8 604	1 949
South Africa	1 618	841	74	151
China	36 144	8 920	110	224
Saudi Arabia	4 057	3 972	743	6
United Arab Emirates	10 997	2 023	117	163
Transition economies	**452**	**31 324**	**19**	**6**

FDI flows to Africa slumped to $42 billion in 2017, a 21 per cent decline from 2016. Weak oil prices and harmful ongoing macroeconomic effects from the commodity bust saw flows contract in Egypt, Mozambique, the Congo, Nigeria, and Angola. In addition, foreign investment to South Africa continued to underperform. FDI inflows to diversified exporters, including Ethiopia and Morocco, were more resilient. FDI outflows from Africa rebounded by 8 per cent to $12 billion. The beginnings of a commodity price recovery, as well as advances in interregional cooperation through the signing of the African Continental Free Trade Area (AfCFTA) agreement, should encourage stronger FDI flows – to about $50 billion – in 2018, provided the global policy environment remains supportive.

Inflows

Strong diversified investment into Morocco contrasted with declines in FDI to the rest of North Africa – the only subregion yet to surpass its 2007 peak. FDI flows to North Africa were down 4 per cent to $13 billion. FDI into *Morocco* was up 23 per cent to $2.7 billion, thanks to considerable investment into new car technologies (electrical, battery, cameras). By the end of 2017, the Government had confirmed 26 auto industry investments worth $1.45 billion, including a deal with Renault (France) to increase local sourcing of components to 55 per cent. FDI into the country's financial sector also expanded, as banking relations with China deepened. In addition, Uber (United States) expanded operations in both Morocco and Egypt. Despite a decline in FDI of 9 per cent, *Egypt* continued to be the largest recipient in Africa with $7.4 billion. Inflows were supported by a large increase in Chinese investment across light manufacturing industries and wide-ranging economic reforms beginning to pay off: financial liberalization, for instance, fostered more reinvestment of domestic earnings.

FDI flows to *Tunisia* remained flat at $0.9 billion, a 1 per cent decline from 2016. Nonetheless, improved investment incentives following the promulgation of the recent investment law, as well as new legislation on public-private partnerships, supported inflows from Belgium's Windvision into the country's renewable energy industry, as well as FDI in the electronics, software and IT industries from French and regional investors. FDI into *Algeria*, which depends heavily on investment in oil and gas, fell 26 per cent to $1.2 billion, despite the bundle of incentives offered by the country's new investment law. Diversification was supported by FDI from Huawei (China) to help with Houari Boumediene Airport in Algiers and from Samsung (Republic of Korea), which opened its first smartphone assembly plant in the country. Proposed amendments to the energy law could increase foreign participation in the country's oil sector considerably in the future, if successfully implemented.

FDI flows in *the Sudan* remained stable at $1.1 billion. The country is largely reliant on Chinese investment into its oil sector and the reaching of an agreement with *South Sudan* to access its once-productive oil fields. The lifting of United States sanctions on *the Sudan* in 2017 should help increase FDI.

Harmful lingering macroeconomic effects from the commodity bust weighed on FDI to sub-Saharan Africa – even though debt levels, foreign currency shortages and inflation rates appear to be improving. FDI to West Africa fell by 11 per cent to $11.3 billion, due to *Nigeria's* economy remaining largely depressed. FDI to that country fell 21 per cent to $3.5 billion. With domestic demand well below investor expectations, several consumer-facing companies from South Africa exited Nigeria in 2016. A modest recovery in oil production and the general economy in 2017, as well as the introduction of an investor and export window to bid for foreign exchange, should help entice companies to return to Nigeria in the future. At the same time, new technology start-ups in Nigeria, backed by venture capitalists from South Africa and elsewhere, are helping to diversify FDI inflows.

Nigeria has attracted strong market-seeking technology inflows from United States firms, including Uber, Facebook, Emergent Payments and Meltwater Group. Chinese investments in the country consisted of efficiency-seeking manufacturing FDI into the textile, automotive and aerospace industries.

Ghana attracted $3.3 billion in FDI flows (down 7 per cent), on the back of fiscal consolidation and self-imposed reductions in Government investment spending. Until this past year, Ghana's diversified economy had facilitated a continuous increase in its FDI flows since the 2000s. A firm price for gold and ongoing investment from Italy's Eni to develop the large Sankofa gas field could further encourage FDI in 2018. Sankofa produced its first oil in 2017, with Eni having contributed the largest amount of FDI in Ghana's history through its 44 per cent stake in the company. In contrast, FDI into *Côte d'Ivoire,* was up 17 per cent to $675 million, reflecting supportive public investments by the Government and economic diversification. As one of the two fastest-growing economies in Africa (along with Ethiopia), the country has attracted FDI into consumer goods. Heineken (Netherlands) invested $35 million in 2017 to double beer production and compete with Castel (France). Hershey (United States) is set to help the country process more of its cocoa locally, boding well for future investment prospects. FDI into *Senegal* was up 13 per cent to $532 million. Russian producer KAMAZ will invest approximately $60.5 million in the first phase of truck assembly production in the country.

FDI flows to Central Africa decreased by 22 per cent to $5.7 billion. Flows to *the Congo* fell by 67 per cent to $1.2 billion from $3.6 billion in 2016. The deepening economic crisis in the country, volatility in oil FDI and weak FDI in non-oil sectors contributed to the decline. In contrast, the global race for cobalt used in electric car batteries supported a 11 per cent rise of FDI flows into the *Democratic Republic of Congo*, reaching $1.3 billion. Glencore (Switzerland) bought two mining assets for nearly $1 billion, increasing its stake in cobalt and copper mines. Flows rose also in *Equatorial Guinea* (to $304 million from $54 million in 2016) and in *Gabon*, a major oil producer (up 21 per cent to $1.5 billion).

East Africa, the fastest-growing region in Africa, received $7.6 billion in FDI in 2017, a 3 per cent decline from 2016. *Ethiopia* absorbed nearly half of this amount, with $3.6 billion (down 10 per cent), and is now the second largest recipient of FDI in Africa after Egypt, despite its smaller economy (the eighth largest in Africa). Chinese and Turkish firms announced investments in light manufacturing and automotive after Ethiopia lifted the state of emergency in the second half of 2017. United States fashion supplier PVH (Calvin Klein and Tommy Hilfiger); Dubai-based Velocity Apparelz Companies (Levi's, Zara and Under Armour); and China's Jiangsu Sunshine Group (Giorgio Armani and Hugo Boss) all set up their own factories in Ethiopia in 2017. Several of these firms are located in Ethiopia's flagship, Chinese-built, Hawassa Industrial Park.

Kenya saw FDI increase to $672 million, up 71 per cent, due to buoyant domestic demand and inflows into ICT industries. The Kenyan Government provided additional tax incentives to foreign investors. South African ICT investors Naspers, MTN and Intact Software continued to expand into Kenya. United States companies were also prominent tech-oriented investors, with Boeing, Microsoft and Oracle all investing in the country. Significant consumer-facing investments by Diageo (United Kingdom) in beer and Johnson and Johnson (United States) in pharmaceuticals also bolstered FDI into the country. The strong gold price and a diversified productive structure contributed to FDI inflows worth $1.2 billion into the *United Republic of Tanzania*. Facebook and Uber (both United States) expanded into that country while India's Bharti Airtel continued to invest. The country's inflows nonetheless recorded a 14 per cent decline compared with 2016. Foreign telecommunication companies now must list at least a quarter of their equity on the local stock exchange, an effort by the Tanzanian Government to increase domestic ownership.

In addition, a ban on exports of unprocessed minerals may adversely affect the country's foreign mining assets.

In Southern Africa, FDI declined by 66 per cent to $3.8 billion. FDI into *Angola*, Africa's third largest economy, turned negative once again (–$2.3 billion from $4.1 billion in 2016) as foreign affiliates in the country transferred funds abroad through intracompany loans. In addition, oil production declined and macroeconomic fundamentals deteriorated. Tenders for onshore oil blocks were suspended in 2017 but are to be relaunched in 2018 after a new government is appointed. A tender for oil blocks off southern Angola may also be opened in 2018 to offset declines in older fields.

FDI to *South Africa* declined by 41 per cent to $1.3 billion, as the country was beset by an underperforming commodity sector and political uncertainty.[1] Investors from the United States, which remain the largest source of FDI into the country, focused on services industries. The standout project was the investment by DuPont (United States) into a regional drought crop research centre. Automotive FDI also remained significant. General Motors sold its South African plant to Japan's Isuzu, and Beijing Automotive Group Co. announced an $88 million investment in a vehicle manufacturing plant in a joint venture with South Africa's Industrial Development Corporation. European investors, led by Germany and the United Kingdom, remained very active in South Africa, through initiatives such as BMW's retooling of factories. Automotive FDI into South Africa is increasingly developing regional value chains: Lesotho now produces car seats, and Botswana ignition wiring sets, for auto manufacturers in South Africa. FDI into *Mozambique* also contracted severely, down 26 per cent to $2.3 billion, amid austerity and debt defaults. Long-term prospects rely on the country's liquefied natural gas potential being exploited and profits reinvested to advance domestic development. Mozambique's coal sector attracted investor interest from a consortium of Chinese, British and South African firms, but the project is in its early stages.

FDI into *Zambia*, by contrast, increased by 65 per cent, to $1.1 billion, supported by more investment in copper. The Government, which is keen to diversify the economy away from copper, announced the building of a $548 million cement plant in a joint venture between the country's mining investment arm and China's Sinoconst. Israeli Green 2000, already active in seven other African countries, also invested in food production, further contributing to economic diversification.

Geographical sources of FDI to Africa are becoming more diversified. Investors from the United States, the United Kingdom and France still hold the largest direct investment stakes in Africa. Italy has also emerged as a major source of investment, particularly in the energy sector. At the same time, developing-economy investors from China and South Africa, followed by Singapore, India and Hong Kong (China), are among the top 10 investors in Africa. China's FDI stock in the continent reached $40 billion in 2016, as compared with $16 billion in 2011.

Outflows

FDI outflows from Africa increased by 8 per cent to $12.1 billion. This largely reflected a significant increase in outward FDI by South African firms (up 64 per cent to $7.4 billion) and Moroccan firms (up 66 per cent to $960 million). Outward FDI by Nigerian firms, in contrast, remained flat at $1.3 billion, focused almost exclusively on Africa. Major African MNEs other than South African firms have, in the last few years, expanded their international footprints both within the region and elsewhere, with extraregional FDI heading to both developed and developing economies.[2]

South African retailers continued to expand into Namibia, and Standard Bank opened several new branches there. The Africa Private Equity Fund of South Africa's Investec made several prominent intra-African acquisitions with other partners, including in SJL Group in Morocco (logistics) and Kamoso, a Botswana-based retailer. Intra-African M&A was largely concentrated in Morocco and Egypt. South Africa's media giant Naspers sold an online auction site, Alegro, for $3.2 billion at the end of 2016, resulting in a large divestment from Poland.

Prospects

FDI inflows to Africa are forecast to increase by about 20 per cent in 2018, to $50 billion. The projection is underpinned by the expectations of a continued modest recovery in commodity prices and macroeconomic fundamentals. In addition, advances in interregional cooperation, through the signing of the African Continental Free Trade Area (AfCFTA) agreement (box II.1), could encourage stronger FDI flows in 2018. Yet Africa's commodity dependence will continue to direct FDI into commodity enclaves, causing FDI to remain cyclical, with fewer spillovers, unless Government policy actively works to foster linkages and diversify inflows.

Foreign-financed infrastructure projects will help boost economic growth and should help generate FDI inflows into the region. The Mombasa–Nairobi section of the standard-gauge railway in Kenya was completed in 2017. The project is being 90 per cent financed by the Exim Bank of China and constructed and operated by China Road and Bridge Corporation. The railway will eventually connect several East African countries. The Addis Ababa–Djibouti Railway was inaugurated on 1 January 2018, administered by a joint venture between Ethiopia (75 per cent stake) and Djibouti (25 per cent stake). Until the end of 2023, all operations on the new railway will be jointly undertaken by two Chinese companies, State-owned China Railway, and privately owned China Civil Engineering Construction. The Ethiopia–Djibouti joint venture will take over operations in 2024, until which time the local staff is being trained with Chinese assistance. Construction began in 2017 on a regional oil pipeline to transport oil produced in landlocked Uganda – by Total E&P (France), Tullow Oil (United Kingdom) and China National Offshore Oil Corporation – to the United Republic of Tanzania for export.

Box II.1. The African Continental Free Trade Area (AfCFTA) and FDI

On 21 March 2018 in Kigali, 44 of the 55 African Union member economies signed the Agreement Establishing the African Continental Free Trade Area (AfCFTA). Notably absent were Nigeria, Africa's most populous country, and South Africa, which only signed onto the Kigali Declaration (which is the document establishing the AfCFTA). If successfully ratified and implemented, it will be the biggest trade agreement since the formation of the World Trade Organization in 1995. Its aim is to create a single market for goods, services and movement of people.

The plan is to establish and negotiate a continental trade protocol in goods which, although in its advanced stages, remains to be completed. The objective is to cut 90 per cent of tariffs from their current average of 6.1 per cent to eventually zero and address the multiplicity of non-tariff barriers, such as poor infrastructure and inefficient border posts, which are often the dominant barrier and cost to trading on the continent. Protocols on intellectual property rights, investment and competition will be added to the umbrella agreement later (see chapter III).

The impact of the AfCFTA on FDI will mainly be on non-commodity-seeking investment. To the extent that the AfCFTA accelerates economic growth and consumer income on the continent, market-seeking FDI will increase. Reductions in the price of goods and services, as well as the integration of product markets, will stimulate both market-seeking FDI and efficiency-seeking FDI for value chains, but only if non-tariff barriers are adequately addressed.

Source: UNCTAD, based on G. Erasmus (2018), "How will the AfCFTA be established and its legal instruments be implemented?", TRALAC.

DEVELOPING ASIA

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
475.8 bn

2017 Increase
+0.1%

Share in world
33.3%

China
$136.3 bn
+2.0%

Hong Kong, China
$104.3 bn
-11.1%

India
$39.9 bn
-10.3%

Singapore
$62.0 bn
-19.9%

Indonesia
$23.1 bn
+488.2%

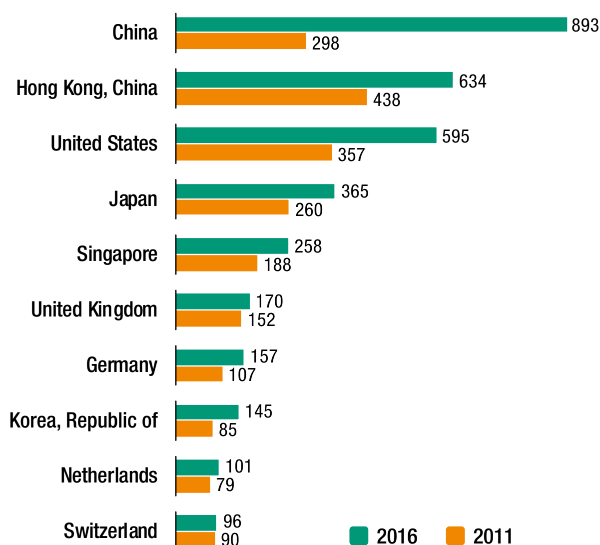
Flows, by range

- Above $50 bn
- $10 to $49 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (Billions of dollars)



Outflows: top 5 home economies
(Billions of dollars and 2017 growth)

Economy	Value	2017 growth
China	$124.6	-36.5%
Hong Kong, China	$82.8	+38.8%
Korea, Republic of	$31.7	+5.7%
Singapore	$24.7	-11.6%
Thailand	$19.3	+55.3%

Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI flows stagnated, but the region regained its position as the largest recipient
- Outward FDI declined due to a significant drop in outflows from China
- Looking ahead, FDI inflows are expected to remain at about the same level

Figure B. FDI inflows, 2011–2017 (Billions of dollars and per cent)

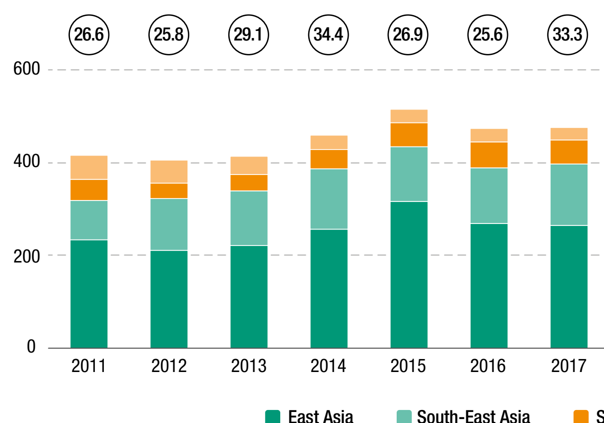
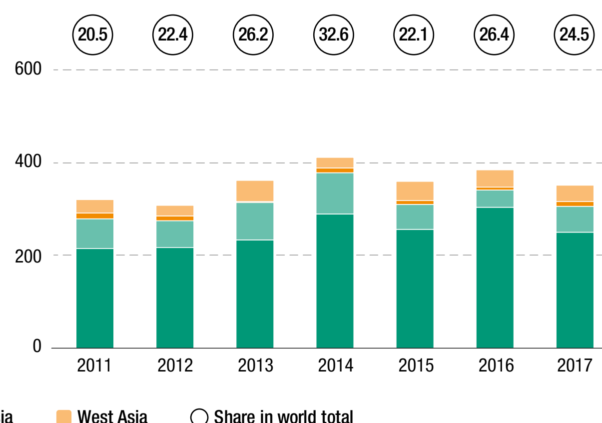


Figure C. FDI outflows, 2011–2017 (Billions of dollars and per cent)



East Asia | South-East Asia | South Asia | West Asia | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**47 699**	**79 363**	**163 822**	**193 789**
Primary	**-1 763**	**18 489**	**13 398**	**4 829**
Mining, quarrying and petroleum	-1 850	17 551	13 293	5 568
Manufacturing	**17 307**	**17 146**	**24 781**	**61 052**
Food, beverages and tobacco	4 781	6 780	3 170	1 794
Chemicals and chemical products	1 298	2 790	3 313	44 816
Computer, electronic, optical products and electrical equipment	4 265	1 851	7 010	8 686
Machinery and equipment	3 420	437	6 210	596
Services	**32 155**	**43 727**	**125 643**	**127 907**
Transportation and storage	5 707	3 876	20 355	9 509
Information and communication	4 375	18 317	511	14 572
Financial and insurance activities	5 590	7 824	67 000	74 082
Business activities	7 200	6 597	11 457	21 374

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**47 699**	**79 363**	**163 822**	**193 789**
Developed economies	**-1 141**	**26 410**	**89 321**	**141 676**
European Union	-5 961	8 100	19 962	40 061
United States	3 087	5 676	44 295	44 825
Japan	2 657	9 562	5 337	1 832
Developing economies	**47 857**	**38 510**	**68 652**	**50 936**
Africa	186	588	12 421	528
Latin America and the Caribbean	543	190	9 111	12 792
Asia	47 119	37 800	47 119	37 800
China	17 828	23 001	16 994	9 872
Hong Kong, China	12 381	8 826	9 810	15 177
Singapore	3 090	1 687	3 798	4 450
Transition economies	**150**	**12 598**	**5 849**	**1 176**

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Developing Asia as destination		Developing Asia as investor	
	2016	2017	2016	2017
Total	**345 532**	**210 540**	**301 857**	**186 027**
Primary	**5 541**	**1 063**	**5 549**	**2 252**
Mining, quarrying and petroleum	5 541	941	5 430	2 131
Manufacturing	**131 806**	**110 006**	**84 628**	**109 163**
Chemicals and chemical products	19 761	17 389	8 232	25 128
Metals and metal products	14 216	7 105	7 462	7 446
Electrical and electronic equipment	33 039	27 696	24 939	30 492
Motor vehicles and other transport equipment	19 728	16 723	9 869	13 570
Services	**208 186**	**99 471**	**211 680**	**74 612**
Electricity, gas and water	63 271	22 646	57 749	21 124
Construction	74 917	24 562	87 317	25 895
Transport, storage and communications	15 429	12 303	21 437	6 319
Business services	21 109	17 547	28 376	9 298

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Developing Asia as destination		Developing Asia as investor	
	2016	2017	2016	2017
World	**345 532**	**210 540**	**301 857**	**186 027**
Developed economies	**164 093**	**113 939**	**46 250**	**57 452**
European Union	71 901	50 277	17 045	14 455
United States	49 556	31 451	12 483	33 341
Japan	27 997	22 972	4 512	2 185
Developing economies	**174 098**	**89 072**	**246 830**	**114 299**
China	43 544	17 529	31 279	23 888
India	9 996	2 453	25 619	6 268
Malaysia	16 833	3 977	13 992	1 921
Korea, Republic of	22 608	22 137	1 219	543
Singapore	19 659	10 553	1 693	4 536
United Arab Emirates	9 564	5 904	4 009	2 788
Transition economies	**7 341**	**7 530**	**8 778**	**14 277**

FDI inflows to developing Asia remained stable at $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 per cent in 2016 to 33 per cent 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 per cent to $350 billion in 2017, or 24 per cent 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.

Inflows

FDI inflows to developing Asia were characterized by rising inflows in China, most ASEAN member countries and the Republic of Korea, and a significant increase in cross-border M&A sales in the region. Total M&A sales rose from $48 billion in 2016 to $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 East Asia were stable at $265 billion, with a decline in Hong Kong (China) but an all-time high in China. FDI flows to *China* increased by 2 per cent to $136 billion in 2017. The rise was supported by a 28 per cent increase in 2017 in the number of foreign affiliates, to more than 35,650. FDI in the country's free trade zones increased, and Government efforts to achieve a better geographical spread of investment led to inflows to central China growing faster than other regions. An increase in high value added investment activities further contributed to the rise; FDI inflows to the high-tech sector (e.g. manufacturing of electronics, medical devices, communications equipment, computers, pharmaceutical products, as well as the digital economy) rose significantly – by 62 per cent – to about $40 billion,[3] accounting for 29 per cent of total inflows. For instance, Samsung Electronics (Republic of Korea) is investing $7.2 billion to expand its production line of NAND flash memory chips in Xi'an; this follows an investment of $10 billion in the first phase of the project, which was completed in 2016. An investor group involving Soft Bank (Japan) and others contributed to a $5.5 billion funding round for Didi Chuxing, a mobile transportation platform.

FDI inflows to *Hong Kong (China)* slowed for the second consecutive year, to $104 billion. The decline (11 per cent) was more moderate than in 2016. Inflows to Hong Kong (China), which serves as a hub for foreign MNEs' regional headquarters, have been considerably affected by the fluctuation of intracompany loans in 2016 and 2017. FDI inflows to the *Republic of Korea* increased by 41 per cent, to $17 billion, primarily because of a significant increase in cross-border M&A sales in the country.

Reversing a continuous decline since 2011, FDI inflows to *Mongolia* improved to $1.5 billion in 2017. Improving commodity prices heavily influence investment in this country. In 2016, it recorded negative FDI inflows (–$4 billion) due to funds transfers through intracompany loans by foreign MNEs in the mining industry. Inflows turned positive in 2017 as the price of metal minerals bottomed out and stabilized. With the macroeconomic situation improving, mineral prices are projected to rise and the expansion of the Oyu Tolgoi mine, FDI inflows to Mongolia could grow further. For example, extractive companies such as Rio Tinto (Australia), Turquoise Hill Resources (Canada) and Erdene Resources (Canada) are expanding their operations in the country.

FDI inflows to South-East Asia rose by about 11 per cent to $134 billion, propelled by an increase in investment in most ASEAN countries and a strong rebound in Indonesia. Intra-ASEAN investment remained strong, accounting for a quarter of total inflows to the grouping. This reflected growing regional investment opportunities, as well as the financial strength of ASEAN-based MNEs and their intensified drive to internationalize (ASEAN Secretariat and UNCTAD, 2017).[4]

Indonesia registered the largest FDI increase in developing Asia as a whole, with inflows rising fivefold to a new record of $23 billion. The scale of the rebound, however, reflects the very low base of $4 billion recorded in 2016, which resulted from large negative equity inflows in late 2016 due to Indonesian companies acquiring foreign-owned assets in Indonesia and the influence of a tax measure that reduced round-tripping investment (ASEAN Secretariat and UNCTAD, 2017). The recovery in 2017 was spread across sectors, with FDI growing in agriculture, manufacturing (automotive and electronics), finance and trade. Significant growth in cross-border M&A sales, propelled by Chinese companies' expansion into the South-East Asian market, also played a role. For example, Alibaba Group acquired PT Tokopedia, one of the top three e-commerce companies in Indonesia, for $1.1 billion. Other Chinese companies, such as Sinochem, also acquired large assets in Indonesia. FDI to *Thailand* rose by 3.7 times on the back of an increase in investment from the European Union and strong inflows from Japan and ASEAN. By contrast, inflows to *Singapore* – the largest FDI recipient in the subregion – declined by 20 per cent to $62 billion, due to a significant fall in foreign investment in the financial sector.

Combined FDI inflows to the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) rose 16 per cent to a new high of $22 billion. In *Viet Nam,* inflows rose to a record level of FDI ($14 billion) aided by a significant rise in investment in utilities (electricity) and real estate activities. Licenses were issued in 2017 for the expansions of some major power plants. They include large projects such as the 1,200 MW Nghi Son 2 Thermal Power Plant, the 1,320 MW Van Phong Thermal Power Plant 1 and the 1,109 MW Nam Dinh 1 Thermal Power Plant. Despite a decline in FDI in manufacturing, the industry remains the largest recipient, with active investment from Japan and the Republic of Korea. Inflows to *Myanmar* also increased significantly – by 45 per cent – to $4 billion, as the country's manufacturing sector attracted large greenfield investments by foreign MNEs, especially from within the region. For instance, Malaysia-based Kian Joo Group, one of the largest can manufacturer and packaging businesses in ASEAN, has started to invest in the Thilawa Special Economic Zone to build a new plant. Foreign investment in telecommunication and real estate also rose significantly in Myanmar. In *Cambodia,* FDI in finance and real estate pushed total inflows up to $3 billion. Only in the *Lao People's Democratic Republic* did inflows decline – slightly, to $800 million.

FDI inflows to South Asia contracted by 4 per cent to $52 billion, owing to a drop in inflows to India. FDI to *India* decreased from $44 billion in 2016 to $40 billion in 2017. Cross-border M&A sales, however, rose from $8 billion to $23 billion driven by a few large deals in extractive and technology related industries. Petrol Complex Pte Ltd (Singapore), owned by Rosneftegaz (Russian Federation) acquired a 49 per cent stake of Essar Oil Ltd, the second largest privately owned Indian oil company, for $13 billion. An investor group including eBay (United States), Microsoft Corporation (United States) and Tencent Holdings (China) acquired a stake in Flipkart Internet for $1.4 billion, and Soft Bank (Japan) acquired a 20 per cent stake in One97 Communications also for $1.4 billion.

Inflows to the *Islamic Republic of Iran* increased by nearly 50 per cent to $5 billion. Following the lifting of sanctions in 2015, the country's rich reserves started to attract significant foreign participation in the exploration and production of oil and gas. In July 2017, Total (France), CNPC (China) and the National Iranian Oil Company signed a contract to develop

phase 11 of South Pars, the world's largest gas field. In August, Unit International (Turkey), Zarubezhneft (Russia) and the local Ghadir Investment Holdings agreed jointly to invest $7 billion in three oil fields and a gas field. The Turkish company has also reached an agreement with the Iranian Government to build seven power plants in the country. However, the United States' decision to withdraw from the Iran nuclear deal has led to uncertain prospects for these investment projects.

Pakistan has continued to attract Chinese investment related to the Belt and Road Initiative, with FDI inflows rising from $2.5 billion in 2016 to $2.8 billion in 2017.

FDI to West Asia continued to decline, dropping from $31 billion in 2016 to $26 billion in 2017. Inflows to the region have been almost continuously declining since the peak of $85 billion in 2008. Inflows to *Saudi Arabia* – traditionally the largest FDI recipient in the region – slid by four-fifths to $1.4 billion, due to significant divestments and negative intracompany loans by foreign MNEs. For instance, Shell (United Kingdom–the Netherlands) sold its 50 per cent interest in the petrochemical joint venture company (SADAF) to its partner Saudi Basic Industries Corporation (SABIC) for $820 million. FDI to the country has been contracting since the global financial crisis and, as a result, Saudi Arabia's share in total FDI inflows to West Asia has collapsed from 53 per cent in 2009 to 27 per cent in 2015 and a mere 6 per cent in 2017.

Turkey, the other larger FDI recipient in West Asia, accounted for more than a quarter of total inflows to the subregion during 2007–2015. Since July 2016, however, political instability has had a negative impact on the Turkish economy and on FDI. Leading rating agencies have downgraded Turkey's sovereign credit rating, which has acted as a deterrent both to international borrowing and to foreign investment in the country. FDI inflows continued to decline, to $11 billion, in 2017, following the substantial drop in 2016.

FDI to six countries (Bahrain, Jordan, Lebanon, Oman, Qatar, and the United Arab Emirates) rose but not sufficiently to help the subregion overcome the decline. FDI to the *United Arab Emirates* rose by 8 per cent to $10.4 billion in part due to rising cross-border M&A sales. Inflows to *Jordan* and *Qatar* grew by 7 per cent and 27 per cent, reaching nearly $2 billion and $1 billion, respectively.

Outflows

Outward FDI flows from developing Asia declined by 9 per cent, from $385 billion in 2016 to $350 billion in 2017, due to a reversal in China for the first time since 2003. Despite this decline, the region remained a major source of FDI worldwide, still accounting for nearly one-fourth of global outflows.

Outward FDI from China declined by nearly 36 per cent to an estimated $125 billion. During the last five years it had increased from $88 billion in 2012 to $196 billion in 2016. The decline was the result of policies to clamp down on outward FDI, in reaction to significant capital outflows during 2015–2016. In late 2016, the Chinese Government identified several areas of "irrational investment" and started to curb overseas investments (especially M&As) in certain industries, including real estate, hotels, cinemas, entertainment and sport clubs. Accordingly, outward FDI in these industries shrank by more than four-fifths in 2017.

Overall, *East Asia* experienced a 17 per cent decrease in FDI outflows. The significant drop in China was partially offset by the rise of FDI outflows from Hong Kong (China) – from $60 billion in 2016 to $83 billion in 2017. In addition, outflows from the Republic of Korea rose by 6 per cent to $32 billion, driven by leading MNEs such as Samsung Electronics and LG. East Asian MNEs are investing significantly in lower-income countries in the region, including the CLMV countries. For example, Samsung expanded assembly plants for

products such as smartphones in Viet Nam. In 2017, the company had about 160,000 employees in Viet Nam and exported more than $50 billion worth of goods.[5]

Outflows from *South-East Asia* and *South Asia* increased by 41 per cent and 111 per cent, respectively. Those from Singapore, the leading source of FDI in ASEAN, declined by 12 per cent to $25 billion. FDI outflows from Thailand, now ASEAN's second largest investing country, expanded by 55 per cent to $19 billion, driven by intraregional investments by Thai MNEs. Outflows from India, the main source of FDI in South Asia, more than doubled to $11 billion. India's State-owned oil and gas company ONGC has been actively investing in foreign assets in recent years. After acquiring a 26 per cent stake in Vankorneft (Russian Federation) in 2016, it bought a 15 per cent stake in an offshore field in Namibia from Tullow Oil (founded in Ireland and headquartered in the United Kingdom) in 2017. By the end of 2017, ONGC had 39 projects in 18 countries, producing 285,000 barrels of oil and oil-equivalent gas per day.[6]

FDI outflows from *West Asia* decreased from $37 billion in 2016 to $33 billion in 2017. Expanding outflows (8 per cent to $14 billion) from the United Arab Emirates, the subregion's largest source of FDI in 2017, were not enough to offset declining outward FDI from all other major West Asian economies.

Prospects

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.[7] Other sources of growth could be increased intraregional FDI, including to relatively low-income economies in the grouping, most notably the CLMV countries. Investments from ASEAN, China, Japan and the Republic of 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,[8] and political and geopolitical uncertainties will shape FDI inflows.

After the United States 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) (see chapter III). This is likely to have a long-term impact on 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.

LATIN AMERICA & THE CARIBBEAN

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
151.3 bn

2017 Increase
+8.3%

Share in world
10.6%

Mexico
$29.7 bn
-0.2%

Colombia
$14.5 bn
+4.8%

Peru
$6.8 bn
-1.4%

Brazil
$62.7 bn
+8.1%

Argentina
$11.9 bn
+263.7%

Flows, by range

- Above $10 bn
- $5.0 to $9.9 bn
- $1 to $4.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

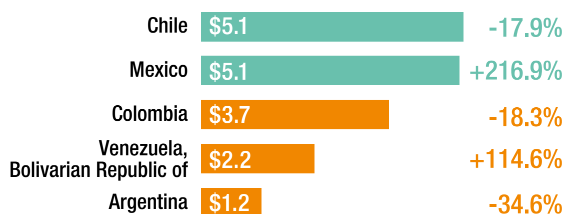
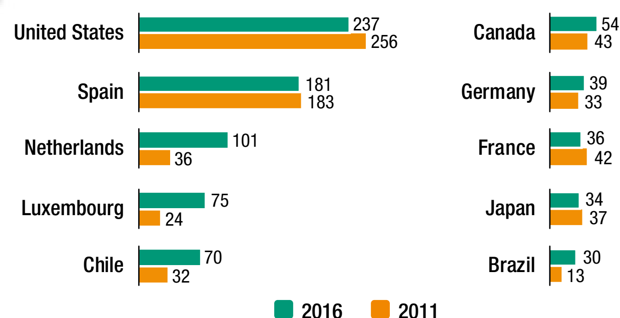


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- FDI to the region rose for the first time in six years
- Outflows rebounded but remained lower than before the commodity slump
- FDI prospects for 2018 remain muted

Figure B. FDI inflows, 2011–2017 (Billions of dollars and per cent)

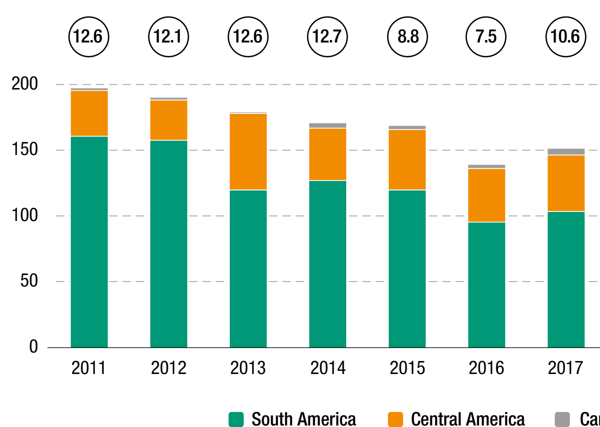
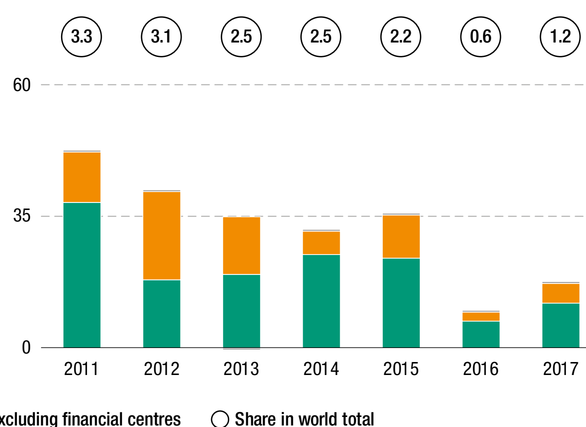


Figure C. FDI outflows, 2011–2017 (Billions of dollars and per cent)



South America | Central America | Caribbean, excluding financial centres | Share in world total

Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**18 099**	**29 535**	**272**	**5 426**
Primary	**1 848**	**1 809**	**-797**	**-2 060**
Mining, quarrying and petroleum	1 839	1 241	-797	-1 487
Manufacturing	**7 527**	**5 207**	**3 895**	**3 390**
Food, beverages and tobacco	2 065	2 923	1 340	3 203
Paper and paper products	1 105	1 271	164	-
Chemicals and chemical products	1490	195	78	1 116
Pharmaceuticals, medicinal chemicals and botanical products	2 298	430	22	-
Basic metal and metal products	227	-	-224	-167
Services	**8 724**	**22 519**	**-2 826**	**4 096**
Electricity, gas, water and waste management	7 917	18 726	86	324
Transportation and storage	4 495	996	-	1 739
Real estate activities	804	1 614	-197	4

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**18 099**	**29 535**	**272**	**5 426**
Developed economies	**11 500**	**14 193**	**1755**	**3 586**
Europe	1 380	5 844	-135	960
France	973	1 278	-	-
Spain	2 462	-416	915	36
United Kingdom	-6 343	-587	49	1 100
North America	5 740	9 154	1 890	2 607
Canada	3 497	6 313	16	2
Developing economies	**6 661**	**15 127**	**-1 483**	**1 701**
Brazil	-4 761	-157	1 199	1 618
Mexico	1 541	1 872	-	-27
China	7 875	12 273	17	-
Korea, Republic of	-	320	-	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LAC as destination		LAC as investor	
	2016	2017	2016	2017
Total	**74 215**	**70 054**	**7 999**	**7 539**
Primary	**4 407**	**4 463**	**18**	**76**
Mining, quarrying and petroleum	4 407	4 463	18	76
Manufacturing	**28 830**	**31 825**	**2 514**	**3 385**
Food, beverages and tobacco	5 399	4 849	793	958
Paper and paper products	148	4 779	1	80
Metals and metal products	2 032	4 511	36	262
Motor vehicles and other transport equipment	9 434	8 605	126	354
Services	**40 979**	**33 766**	**5 467**	**4 078**
Electricity, gas and water	15 525	10 209	587	564
Trade	2 881	3 450	1 252	484
Transport, storage and communications	9 702	11 460	1 826	1 520
Business services	7 103	3 698	738	976

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LAC as destination		LAC as investor	
	2016	2017	2016	2017
World	**74 215**	**70 054**	**7 999**	**7 539**
Developed economies	**58 653**	**57 781**	**1 799**	**2 572**
Europe	31 942	37 210	997	694
Finland	115	4 849	-	-
Spain	10 439	11 201	155	45
United States	17 515	16 497	771	1 765
Developing economies	**15 289**	**12 178**	**6 143**	**4 927**
Brazil	1 643	638	1 104	175
Chile	1 137	905	657	130
China	2 718	3 834	30	33
Korea, Republic of	2 934	1 368	-	74
Mexico	2 055	1 670	157	275
Peru	61	14	305	1 463

FDI flows to Latin America and the Caribbean increased by 8 per cent in 2017 to $151 billion. Lifted by the region's economic recovery, this was the first rise in six years, although inflows remained well below the peak reached in 2011 during the commodity boom. The turnaround was fueled by solid global and domestic demand and rising prices for commodities – especially for soy beans, metals and oil, the region's main exports. Favourable financial conditions also played a role. Although commodities continue to underpin investment in the region, there is now a shift toward infrastructure (utilities and energy, in particular), finance, business services, ICT and some manufacturing. In the manufacturing sector, investment in food industries, and more generally consumer goods, are increasing, prompted by higher consumer spending in key markets such as Brazil, Mexico, Argentina and Colombia. International carmakers are also resuming expansion in the region, attracted by pent-up demand and the prospect of export growth. Outflows from the region bounced back 86 per cent in 2017, to $17.3 billion. Going forward, inflows are expected to stagnate or decline marginally as macroeconomic and policy uncertainties persist.

Inflows

FDI to South America increased by 10 per cent as recessions in two leading economies, Argentina and Brazil, ended. Flows into *Argentina* more than trebled to $11.9 billion on the back of the economic recovery and the introduction of new policies to attract investment and upgrade infrastructure. The German engineering company Siemens, for example, announced plans to spend $5.6 billion on infrastructure, mobility and energy management over four to five years, supported by public funding. Carmakers including Renault-Nissan (France and Japan), PSA (France) and Fiat Chrysler Automobiles (United States and Italy) announced plans to invest in the country, each spending between $300 million and $800 million. Amazon has been reported to be considering investment in a new data centre for the region.[9] The Government is also planning to raise the contribution of renewable energy to the country's electricity supply, and to attract international investors. It has been developing a new legal framework for renewable energy that includes fiscal incentives as well as competitive and transparent market rules. The energy ministry launched an innovative renewable energy bidding program called RenovAr, and the World Bank approved a $480 million guarantee to support private investment in it. In its last round of an energy tender, RenovAr 2 drew 228 offers, which are expected to bring $11 billion in investment in wind, solar, biomass, biogas, small-scale hydroelectric and landfill biogas projects. Prospects are now highly dependent on continued investor confidence.

FDI to *Brazil* increased by 8 per cent to $62.7 billion. Brazil is the largest economy in the region, attracting more than 40 per cent of total flows to Latin America. Nine of the 10 largest acquisitions by foreign companies in the region were in Brazil; seven involved Chinese buyers. Acquisitions involved electricity, oil, infrastructure (gas transmission) and agribusiness companies. For example, the Chinese State-owned MNE State Grid bought, in three separate deals, a majority stake in CPFL Energia SA, a São Paulo-based electric power distributor, for an estimated $4.4 billion. These deals underlie a boom in FDI to the energy sector, which more than tripled to $12.6 billion. Inflows to the transport and storage industries quadrupled to $6.6 billion. In the manufacturing sector, flows to the chemical products and food industries doubled, reaching $3.2 billion and $2.6 billion respectively, and investment in metallurgy increased by 45 per cent to $3.1 billion. These large increases were partly offset by declining flows to the extractive industries (down by about 33 per cent), financial and real estate (down 20–25 per cent) and automotive sectors (–40 per cent). The oil sector, despite attracting declining FDI flows in 2017 (down by 12 per cent to $3.7 billion), is expected to play a key role in the country's economic recovery. In October,

Brazil awarded six of eight blocks on offer in an auction for the rights to pump oil from its offshore "pre-salt" region. Royal Dutch Shell (United Kingdom–Netherlands) won half the blocks, BP Plc (United Kingdom) two and ExxonMobil Corporation (United States) one. The Government expects the oil blocks to generate $30.2 billion in investment from the winning companies and $39.3 billion in royalties and other revenues.[10]

Investment in *Chile* fell to $6.7 billion. A gradual degradation of copper ore grades combined with tense industrial relations and higher labour costs led to stagnant investments into new projects. However, flows are expected to rebound, sustained by recovering copper prices and Government initiatives to reduce barriers to foreign investment in the mining sector. In addition to copper, Chile holds more than half of the world's proven lithium deposits. Lithium is used in making rechargeable batteries and electronic equipment as well as for generating nuclear power. To date, lithium-based products have all been manufactured outside Chile, a trend the Government is trying to reverse by increasing extraction of the metal and incentivizing value addition in the country. New extraction concession agreements require mining companies to sell their lithium production at favourable prices to companies that add value in the country. In March 2017, the Government invited bids to produce lithium-based products, which attracted the interest of mining and engineering companies from all over the world. In March 2018, the Chilean Economic Development Agency (Corfo) named Molymet of Chile, Samsung SDI and Posco of the Republic of Korea, and China's Sichuan Fulin Industrial Group as the successful bidders.[11] The winners secured a steady supply of lithium at a favourable price as part of a deal Corfo made with United States-based supplier Albemarle Corp. Projects selected from the auction should come on line in 2019.

In *Peru*, flows remained stable at $6.8 billion. After starting the year with a downturn and weak FDI, the country's economy recovered in the last months, thanks to rebounding commodities prices in mining, growing export volumes, and higher public and private spending. The Government reacted to the commodity-led downturn by strengthening the local regulatory framework and institutions such as the national investment promotion agency, ProInversion, and by launching a sweeping Public-Private Partnerships (PPP) programme to boost infrastructure investment. In 2017, ProInversion signed some PPPs, including a $95 million project for the development of a waterway network in the Amazonian region with a consortium led by Chinese-owned Sinohydro and a $278.4 million transmission line, awarded to the Colombian utility company ISA. Between 2018 and 2020, the agency hopes to create a pipeline of more than $20 billion worth of projects, with transport accounting for two-thirds of the total investment, water and irrigation 11 per cent, mining another 10 per cent, health 6 per cent and the remainder dedicated to energy, property development, telecommunication and education.[12]

Investment in *Colombia* increased by 5 per cent to $14.5 billion, supported by the year-end recovery in oil prices, infrastructure investment and rising domestic demand. Flows to the oil sector increased 45 per cent to $3.5 billion, while FDI in transport, storage and telecommunication more than doubled, to a similar amount. Flows to the manufacturing sector increased by 23 per cent to $2.3 billion. The *Bolivarian Republic of Venezuela* experienced net divestment of –$68 million. In the face of a severe economic, humanitarian and social crisis, many MNEs (including General Mills, General Motors and Kimberly-Clark from the United States) left the country, selling their assets on the cheap or abandoning them outright. However, about 150 MNEs still maintain a presence in the economy, awaiting an upturn. They halted or scaled back production and furloughed workers, however, while continuing to provide them with a minimum income and in many cases with meals.[13]

FDI in Central America grew by 2 per cent to $42 billion, sustained by strong economic growth in Costa Rica. In *Costa Rica* (up 18 per cent to $3 billion), investors continued to target the pharmaceutical and medical devices manufacturing industries, with big MNEs

(including Pfizer (United States), AstraZeneca (United Kingdom), Merck & Co (United States) and the Roche Group (Switzerland)) expanding their operations in the country. Last year, investments going to free trade areas in Costa Rica (where most large MNEs are based) accounted for almost half of all flows to the country ($1.4 billion) and were more than three times the amount received five years ago. Although less prominent, inflows into the tourism industry more than trebled, to $440 million. In *El Salvador,* FDI doubled to $792 million, a record high. Most of the increase was accounted for by higher retained earnings.

Inflows to *Mexico* remained stable at $29.7 billion. Despite uncertainty about the outcome of the renegotiation of the North American Free Trade Agreement, flows remained remarkably unchanged. Foreign investment into the traditionally strong automotive industry reached a new high with $7 billion (up 32 per cent). Similarly, flows to construction and transport and to telecommunication almost doubled (to $3 billion and $3.2 billion, respectively), and investments into the trade industry grew by 65 per cent. By contrast, extractive, utilities (power and water) and manufacturing industries in general saw declining flows. Flows to the energy sector should pick up in the next few years, as foreign companies announced investments in renewable energy projects for a record amount of nearly $5 billion in 2017. This is in response to the Government's efforts to change its oil-heavy power mix; the country has set clean energy targets and holds regular auctions for large-scale renewable energy and gas power projects. Last year's auction winners included Spanish developer X-Elio, French independent power producer Neoen, Chinese-Canadian module maker Canadian Solar, French energy giant Engie, Italian power utility Enel Spa and a Chinese-Japanese consortium formed by Mitsui and Trina Solar.

Flows to *Panama*, the second largest economy in Central America, were up 2 per cent to $5.3 billion, lured by the canal expansion and the country's position as a logistics hub and financial centre. Although the actual works to expand the canal had been completed by 2017, they spurred investment in other infrastructure, particularly ports. Enel Spa of Italy also announced five greenfield projects in alternative energy production.

FDI in the Caribbean subregion grew to $5 billion, driven by growing flows to the Dominican Republic. Flows to the *Dominican Republic*, the biggest recipient in the Caribbean, grew by 48 per cent to $3.6 billion, bolstered by booming investment into trade activities (which more than doubled to $1.4 billion) and positive flows to telecommunication and energy industries. Investment in free trade zones has been slowly picking up (up 18 per cent in 2017) but remain relatively small at $263 million. In contrast, the usually predominant tourism industry attracted lower flows (down 11 per cent to $704 million). FDI to *Haiti* trebled to a historical record of $375 million. Although still limited, this could be a turning point, heralding more investment in the country. China announced plans to invest $30 billion in developing Haiti's infrastructure, including power plants, sanitation works, water systems, railways, affordable housing and marketplaces. In 2017, Port-au-Prince, the capital, formally accepted the project's initial phase, which will begin with an investment of almost $5 billion in the city, in partnership with Haitian companies.

Outflows

Outward flows rose by 86 per cent to $17.3 billion, as Latin American MNEs resumed their international investment activity. Yet, outflows remained significantly lower than before the commodity price slump. Mexican MNEs' deals have pushed the country's outflows to more than $5 billion. Outflows from Chile and Colombia – the region's largest outward investors in 2016 – declined by 18 per cent each in 2017, at $5.1 billion and $3.7 billion respectively, as equity outflows dried up. In 2017, investment from Brazil was still negative at about –$1.4 billion. Although Brazilian foreign affiliates significantly

reduced the amount of intracompany loans flowing to parent companies, equity outflows also declined and total FDI outflows remained negative. At the same time, the spate of withdrawals from neighbouring countries by corporations involved in corruption scandals in recent years seems to be ebbing.

Among the biggest outward deals for the region are Grupo Mexico's acquisition of Florida East Coast Railway Co. (United States), a railroad operator, for $2.1 billion; Mexican Grupo Lala SAB de CV's acquisition of a 92 per cent interest in Vigor Alimentos SA, a São Paulo-based producer and wholesaler of dairy products for $1.6 billion; and the acquisition by Brazilian Natura Cosmeticos of the cosmetics company The Body Shop (United Kingdom) for $1.1 billion. About half the number of purchases and announced greenfield projects were intraregional, affirming the importance of regional ties in the location of Latin America MNE operations. These percentages increase significantly for industries in which the presence of local MNEs is more concentrated. For example, in the telecommunication industry – dominated by América Móvil (Mexico) – 84 per cent of projects announced in the past three years targeted countries within the region. Similarly, Latin American retailers and food and beverage producers are rooting firmly in the region, with about 60 per cent of announced projects being intraregional.

Prospects

Investment flows to and from the region are expected to stagnate or decline marginally, to some $140 billion. Economic growth in the region is set to remain tepid, challenged by many downside risks, including economic and policy uncertainty associated with upcoming elections in some of the largest economies (i.e. Colombia, Mexico and Brazil), and possible negative spillovers from international financial market disruptions. Tightening monetary conditions in developed economies could prompt debt concerns and strains on exchange rates.

Many economies of the region are looking to diversify commercial ties with trade partners and to deepen regional integration. After the United States withdrew from the Trans-Pacific Partnership (TPP), Chile, Mexico and Peru each opted to pursue the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In April 2018, Mexico and the EU concluded negotiations to modernize their 1997 Economic Partnership Agreement, while negotiations of a trade agreement between the four founding members of Mercosur (Argentina, Brazil, Paraguay and Uruguay) and the EU are ongoing (see chapter III). Furthermore, the two trade blocs of Mercosur and the Pacific Alliance are discussing a possible merger. These developments are likely to have a long-term impact on FDI in the region.

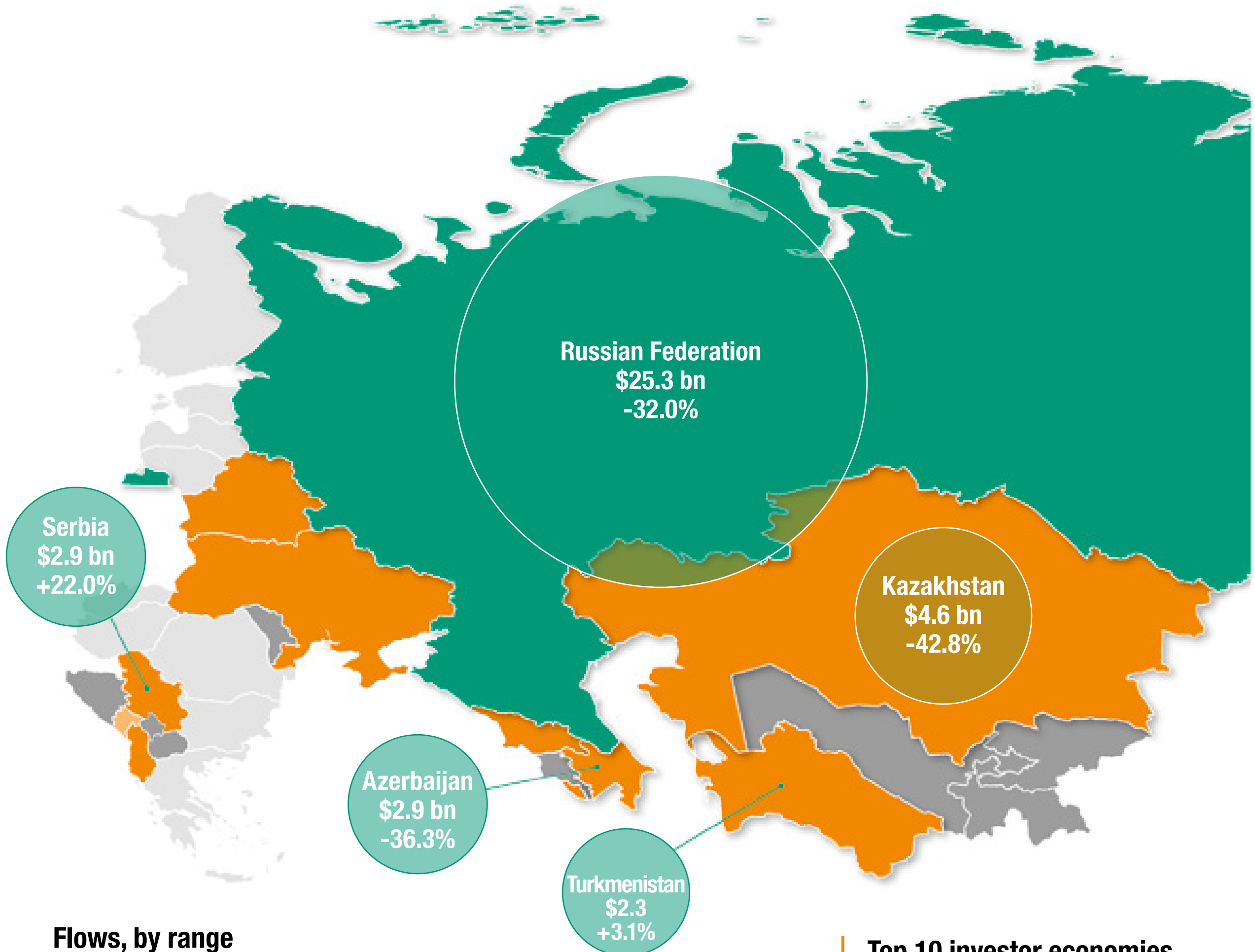
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
46.8 bn

2017 Decrease
-27.1%

Share in world
3.3%



Flows, by range

- Above $10.0 bn
- $5.0 to $9.9 bn
- $1.0 to $4.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies
(Billions of dollars and 2017 growth)

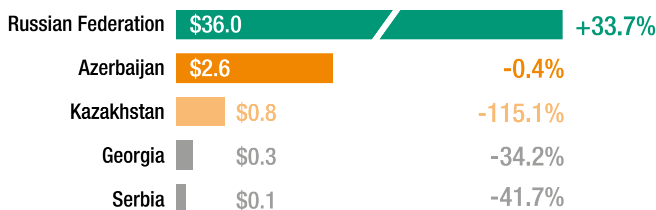
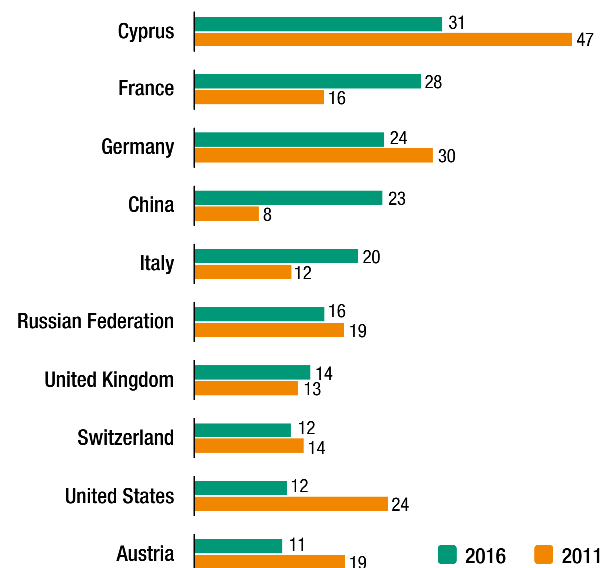


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- **FDI flows declined to the second-lowest level since 2005**
- **Outflows recovered following the 2014–2016 recession**
- **Prospects are moderately optimistic, with potential for manufacturing FDI**

Figure B. **FDI inflows, 2011–2017** (Billions of dollars and per cent)

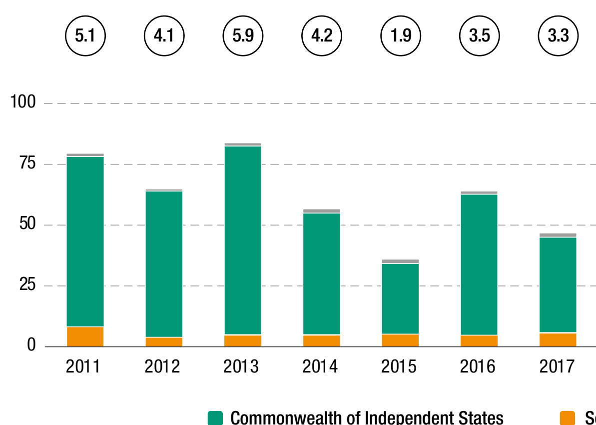
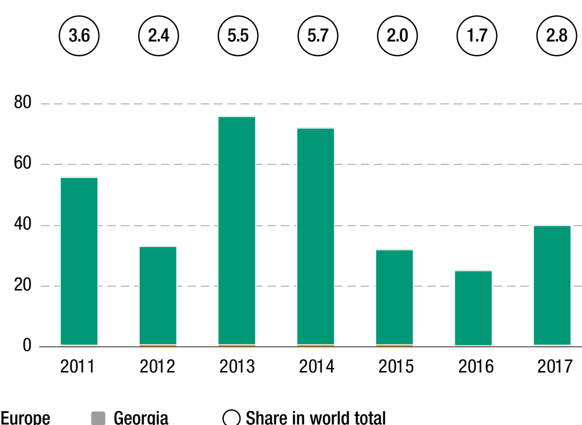


Figure C. **FDI outflows, 2011–2017** (Billions of dollars and per cent)



Commonwealth of Independent States   South-East Europe   Georgia   Share in world total

Table A. **Net cross-border M&As by industry, 2016–2017** (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**5 018**	**12 703**	**-809**	**13 948**
Primary	**5 602**	**13 235**	**164**	**13 989**
Mining, quarrying and petroleum	5 628	13 235	205	14 032
Manufacturing	**263**	**104**	**-276**	**4**
Food, beverages and tobacco	-23	48	-	-
Basic metal and metal products	104	54	-299	-55
Services	**-847**	**-635**	**-698**	**-44**
Electricity, gas, water and waste management	83	-124	-	-
Construction	-209	11	64	-
Trade	-163	46	-1 135	-
Transportation and storage	360	344	-	-
Financial and insurance activities	-751	-118	85	161
Real estate activities	-7	-826	-	2

Table B. **Net cross-border M&As by region/economy, 2016–2017** (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**5 018**	**12 703**	**-809**	**13 948**
Developed economies	**-1 204**	**11 143**	**393**	**143**
European Union	-1 065	496	393	163
Austria	16	970	-	-
Cyprus	-851	-571	252	132
United Kingdom	231	194	23	-
Switzerland	-167	10 788	-	-
Developing economies	**5 955**	**1 316**	**-1284**	**13 721**
China	214	1 152	150	9
India	5 520	-6	-	12 589
Korea, Republic of	7	27	-	-
Transition economies	**82**	**84**	**82**	**84**
Russian Federation	205	-24	-23	-

Table C. **Announced greenfield FDI projects by industry, 2016–2017** (Millions of dollars)

Sector/industry	Transition economies as destination		Transition economies as investor	
	2016	2017	2016	2017
Total	**64 860**	**35 424**	**10 410**	**42 613**
Primary	**37 682**	**654**	**850**	**7**
Mining, quarrying and petroleum	37 562	654	850	7
Manufacturing	**16 028**	**23 498**	**4 828**	**9 916**
Food, beverages and tobacco	3 774	3 584	111	324
Coke and refined petroleum products	2 152	2 373	2 939	7 863
Chemicals and chemical products	1 082	4 982	107	116
Motor vehicles and other transport equipment	2 121	3 833	1 050	964
Services	**11 150**	**11 271**	**4 731**	**32 691**
Electricity, gas and water	1 949	1 567	2 800	31 138
Construction	3 370	4 109	65	21
Trade	1 501	2 609	133	100
Transport, storage and communications	2 102	1 248	440	533

Table D. **Announced greenfield FDI projects by region/economy, 2016–2017** (Millions of dollars)

Partner region/economy	Transition economies as destination		Transition economies as investor	
	2016	2017	2016	2017
World	**64 860**	**35 424**	**10 410**	**42 613**
Developed economies	**54 360**	**18 855**	**696**	**1 418**
European Union	13 329	13 304	574	1 328
France	2 016	1 894	17	19
Germany	2 908	1 713	13	88
United States	39 284	3 289	115	24
Developing economies	**8 853**	**14 323**	**8 067**	**38 948**
China	4 335	9 165	132	1 057
Korea, Republic of	105	1 425	38	7
Turkey	1 346	873	23	3 029
United Arab Emirates	224	961	117	48
Transition economies	**1 647**	**2 247**	**1 647**	**2 247**
Russian Federation	615	1 832	169	99

Following the global trend in 2017, FDI flows to the transition economies of South-East Europe and the Commonwealth of Independent States (CIS) declined by 27 per cent, to $47 billion, the second lowest level since 2005. Most of the decline was due to sluggish FDI flows to four major recipient economies of the Commonwealth of Independent States: the Russian Federation, Kazakhstan, Azerbaijan and Ukraine. In contrast, Georgia, Montenegro and Serbia posted significant gains; however, these were insufficient to compensate for the losses registered in the larger, natural resource-based economies in the group. The geographical distribution of flows remained highly concentrated: of the 18 transition economies, the top 5 (the Russian Federation, Kazakhstan, Azerbaijan, Serbia and Turkmenistan), received 81 per cent of all FDI to the group. Outflows rebounded by 59 per cent to $40 billion, due to significant greenfield investments and a few large acquisitions by MNEs based in the Russian Federation. Prospects are moderately positive, bolstered by firmer commodity prices and higher macroeconomic growth.

Inflows

FDI to South-East Europe recovered by 20 per cent, to $5.5 billion, after the decline in 2016. Inward FDI was lifted by robust GDP growth, support for private sector job creation and growing cooperation with the EU. In *Serbia*, the largest economy of the subregion, foreign investment grew by 22 per cent, to $2.9 billion. However, much of that was through reinvested earnings in and intracompany loans to foreign affiliates. Equity investment in new projects declined from $505 million in 2016 to $281 million in 2017, accounting for less than 10 per cent of FDI inflows. Important equity inflows resulted from the acquisition of Zelezara Smederovo by Chinese State-owned Hebei Iron & Steel for more than $50 million.

Inflows to the smallest economy of the subregion, *Montenegro*, more than doubled, to $546 million. The number of cross-border M&A deals in this small economy remained limited (the largest deal was the acquisition by Özata Shipyard (Turkey) of a majority stake in the State-owned Adriatic Shipyard Bijela for $2 million). Italy was the largest source country of inward FDI, mostly in the form of loans to affiliates. Sources of investment also included the transition economies of Azerbaijan and the Russian Federation, whose companies invested mostly in real estate.

In *Bosnia and Herzegovina,* FDI inflows grew by 40 per cent, from $303 million to $425 million, due to a doubling of reinvested earnings (from $109 million to $221 million). FDI flows to Albania increased marginally (2 per cent) in 2017, to $1.1 billion, their second highest level ever, with energy and mining attracting the lion's share. As two major energy projects (the Trans-Atlantic Pipeline and the Devolli hydropower plant) neared completion, established foreign investors began expanding their presence in renewable energy projects (including Austrian Verbund Company's participation in the Ashta hydropower plant and Turkish Ayen Enerji's investment in the Pocem hydropower project). Although the bulk of inflows came from developed countries in Europe in 2017, Chinese firms also began to invest, in banking, aviation and tourism. The amount of Chinese investment may grow further once Pacific Construction of China starts work on the "Blue Corridor" (the Adriatic–Ionian Motorway).

Flows to the CIS and Georgia contracted by 31 per cent, to $41 billion, after their rebound in 2016. GDP growth remained subdued in the CIS, with the recovery following the 2014–2015 recession still modest. Policy uncertainty remained high, linked in part to geopolitical concerns. As a result, flows declined, especially to the *Russian Federation* (by 32 per cent, to $25.3 billion). Equity investment in new projects declined by almost half,

to $8.8 billion. Natural resources continued to dominate inward FDI in the country. Mining and quarrying accounted for more than 30 per cent of inward FDI flows, followed by trade (20 per cent) and finance (11 per cent). In manufacturing, only the share of metallurgy and food and beverages exceeded 6 per cent. More than 60 per cent of inflows came from Europe, with Cyprus accounting for 25 per cent and Luxembourg 14 per cent, indicating the relative importance of transhipped FDI.[14] Sources of FDI appear to be diversifying, with new investors including select Asian economies (Singapore and Hong Kong, China), each with 7 per cent). The Russian Federation registered one M&A megadeal – the sale of a 19.5 per cent stake in State-owned oil and gas company Rosneft to a consortium of Glencore (Switzerland) and the Qatar Investment Authority for an estimated $11 billion, originally reported in 2016 but not finalized until 2017. The second largest deal was the acquisition of a 20 per cent stake in the Rosneft affiliate Verkhnechonskneftegaz by Beijing Gas Group of China for an estimated $1 billion.

FDI also declined in other large CIS recipient economies. Investment into Azerbaijan slumped by 36 per cent, to $2.9 billion, related to a continued downturn in the natural resource cycle of the country. Inflows continued to be concentrated in the oil and gas sector, accounting for 73 per cent of the total. Following a large investment announced in 2016, flows to *Kazakhstan* shrank by 43 per cent, to $4.6 billion, in 2017. Oil and gas accounted for 46 per cent of inflows, followed by metallurgy (22 per cent). The value of cross-border acquisitions was modest; among the most notable transactions was Russian Polymetal increasing its stake in the Aktogai Mys gold mine from 25 to 50 per cent ($1.6 million). FDI flows to *Ukraine* contracted by 33 per cent, to $2.2 billion, in the face of policy and political uncertainty. Equity capital in new projects declined by 57 per cent, to $1.5 billion.

China is becoming an important source of inward FDI in transition economies. Its FDI stock held in the region increased from $8 billion in 2011 to $23 billion in 2016, making it the fourth largest source country.

Outflows

In 2017, FDI outflows from economies in transition recovered by 59 per cent, to $40 billion, after being dragged down by the recession in 2014–2016. However, this level remains 47 per cent below the high recorded in 2013 ($76 billion). A handful of economies still account for most FDI outflows: the Russian Federation alone is responsible for 90 per cent of the regional total. The country's outflows rose by 34 per cent, to $36 billion, on the back of large M&A transactions. The second largest home economy, Azerbaijan, maintained the same level of outward FDI in 2017 ($2.6 billion, or 6 per cent of the regional total), while in Kazakhstan, outflows recovered from a negative $5.2 billion in 2016 (largely due to negative intracompany loans) to $787 million (2 per cent of the regional total). FDI outflows from other transition economies were relatively small. The combined FDI from the five South-East European economies amounted to $224 million.

The net cross-border M&A purchases of transition-economy MNEs rebounded from –$809 million in 2016 to almost $14 billion in 2017, due to two large transactions. Russian Rosneft acquired a 49 per cent share in Essar Oil in India for close to $13 billion (through its Singapore affiliate, Petrol Complex). In Egypt, the same Russian company acquired a 30 per cent stake in the offshore Zohr gas field from the Italian firm Eni for $1.1 billion. These two acquisitions pushed the value of the region's total up, despite the net decline in the number of transactions, from 24 in 2016 to 14 in 2017. Of these transactions, six took place in the financial industry and four in extractive industries, including oil and gas.

Greenfield projects were the engines of the recovery of outward FDI and indicate a potential for further growth. In Egypt, the Russian State-owned nuclear energy company Rosatom started a nuclear plant mega-investment of $30 billion, to be carried out over several years. The first reactor of the Dabaa plant is projected to come on line in 2020. In Turkey, the State Oil Company of the Azerbaijan Republic started petrochemical investments with an estimated value of $3 billion. In Iraq, Russian GazpromNeft opened the Badra gas plant in 2017. In Nigeria, Rosatom started the construction of a nuclear plant and an adjacent research centre. In China, Belarusian Autoworks created a joint venture with Chinese Sangjian to construct a heavy-duty truck facility. In Uzbekistan, Lukoil (Russian Federation) launched a gas extraction and processing facility in Gissar.

Prospects

Prospect for 2018 are moderately optimistic. FDI inflows to the region are expected to rise to about $55 billion, supported by better prospects for natural resource prices and improving macroeconomic stability in various key economies of the region (including the Russian Federation). The value of announced greenfield projects – an indicator of investor intentions – reached $35 billion in 2017.

In the medium term, the firmness and structural diversification of announced greenfield projects could lead to a rise in manufacturing FDI, given the region's human resources assets (particularly trained engineering personnel) and technological expertise. Increasing investment in transition economies by MNEs from developing countries also signals further geographical diversification of FDI sources going forward. However, these prospects hinge on policy and political factors.

DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
712.4 bn

2017 Decrease
-37.1%

Share in world
49.8%

Netherlands
$58.0 bn
-32.4%

Switzerland
$41.0 bn
-15.2%

France
$49.8 bn
+41.6%

United States
$275.4 bn
-39.8%

Australia
$46.4 bn
-2.9%

Flows, by range

- Above $100 bn
- $50 to $99 bn
- $10 to $49 bn
- $1 to $9 bn
- Below $1 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

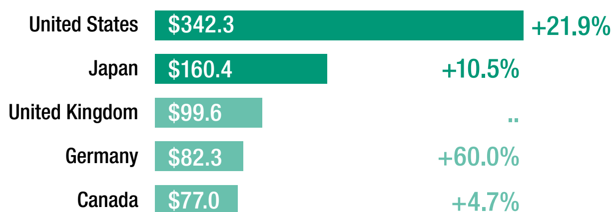
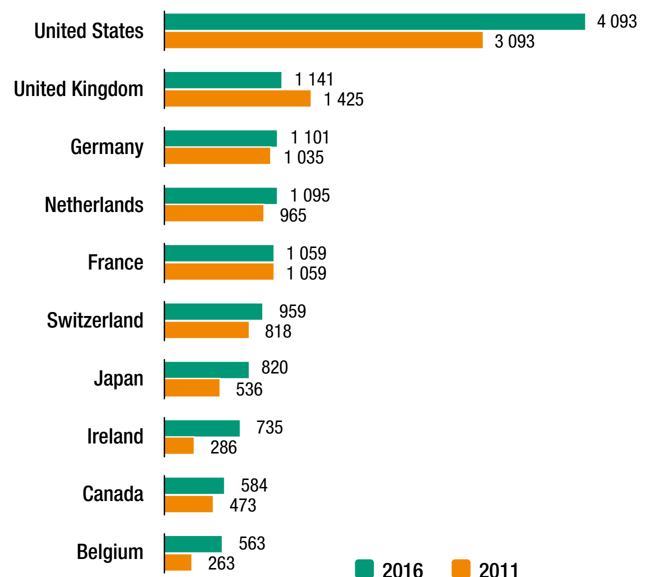


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

HIGHLIGHTS

- FDI flows were lower, mostly due to fewer megadeals and intrafirm financial flows
- Short-term outlook is positive, with higher greenfield announcements
- Tax reforms and trade tensions significantly affect prospects for 2018

Figure B. FDI inflows, 2011–2017
(Billions of dollars and per cent)

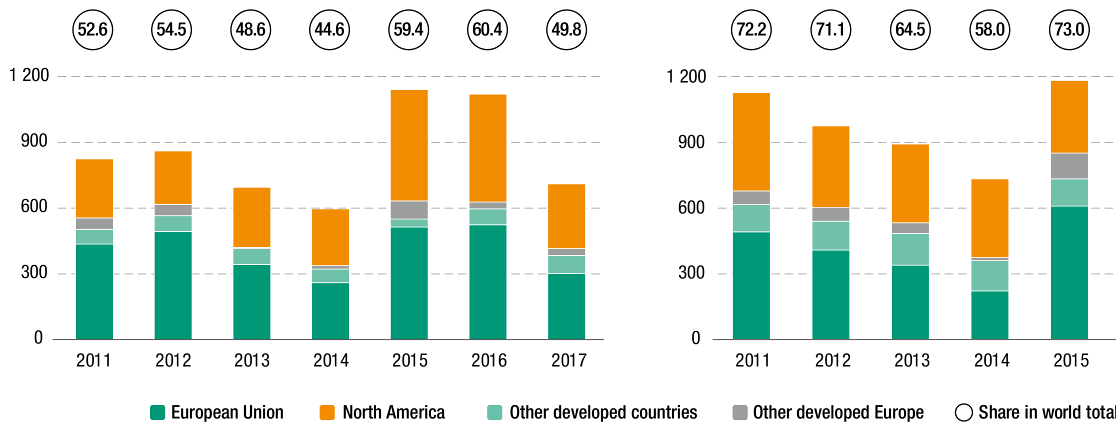


Figure C. FDI outflows, 2011–2017
(Billions of dollars and per cent)

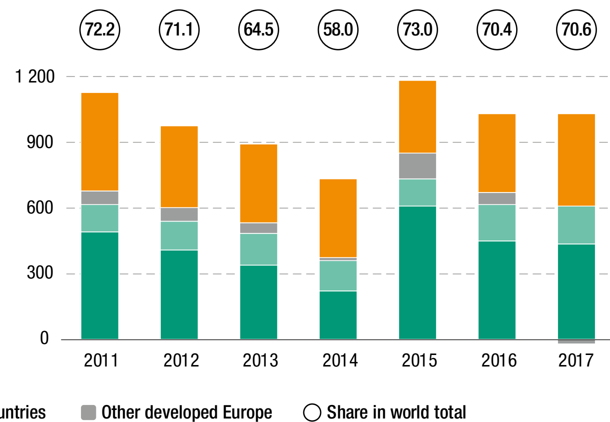


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
Total	**806 398**	**568 909**	**703 781**	**463 956**
Primary	77 223	-9 082	-3 771	-21 068
Manufacturing	381 131	304 070	366 176	206 077
Food, beverages and tobacco	130 438	78 005	116 995	70 186
Chemicals and chemical products	32 102	62 291	36 727	28 327
Pharmaceuticals, medicinal chemicals and botanical products	92 646	69 428	102 949	15 531
Computer, electronic, optical products and electrical equipment	70 716	23 678	24 826	34 981
Machinery and equipment	28 120	51 146	9 131	52 775
Services	348 045	273 921	341 376	278 947
Electricity, gas, water and waste management	53 435	30 800	34 103	-3 764
Transportation and storage	35 607	17 412	25 232	41 685
Financial and insurance activities	96 669	50 304	184 416	152 932
Business activities	66 814	96 877	43 144	40 637

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
World	**806 398**	**568 909**	**703 781**	**463 956**
Developed economies	696 738	410 246	696 738	410 246
Europe	441 968	176 491	351 458	136 638
North America	131 293	165 869	316 621	238 099
Other developed countries	123 476	67 887	28 659	35 510
Developing economies	97 833	146 008	8 247	42 567
Africa	6 883	556	-2 115	1 780
Latin America and the Caribbean	1 755	3 586	11 500	14 193
Asia and Oceania	89 196	141 866	-1 138	26 595
China	70 483	93 201	-6 105	-1 752
Korea, Republic of	2 341	11 403	99	5 752
Singapore	2 400	10 753	560	5 170
Transition economies	393	143	-1 204	11 143

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	Developed countries as destination 2016	Developed countries as destination 2017	Developed countries as investor 2016	Developed countries as investor 2017
Total	**254 187**	**318 406**	**501 218**	**478 359**
Primary	2 446	3 996	47 371	18 415
Manufacturing	99 300	151 314	197 404	212 357
Textiles, clothing and leather	18 162	16 127	22 617	20 643
Chemicals and chemical products	12 813	32 060	30 361	34 738
Electrical and electronic equipment	8 161	21 669	18 574	21 746
Motor vehicles and other transport equipment	21 586	31 817	44 561	47 555
Services	152 441	163 096	256 443	247 587
Electricity, gas and water	32 287	23 404	67 613	42 330
Construction	30 314	26 292	35 371	35 475
Trade	15 823	20 967	21 622	27 860
Transport, storage and communications	15 498	12 954	31 220	32 356
Business services	44 096	54 950	65 390	68 721

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	Developed countries as destination 2016	Developed countries as destination 2017	Developed countries as investor 2016	Developed countries as investor 2017
World	**254 187**	**318 406**	**501 218**	**478 359**
Developed economies	204 031	255 003	204 031	255 003
Europe	127 061	150 934	131 859	160 778
North America	55 627	72 810	54 370	70 537
Other developed countries	21 343	31 259	17 802	23 687
Developing economies	49 460	61 985	242 827	204 501
Africa	1 411	1 961	19 945	32 398
East and South-East Asia	36 604	35 810	94 060	76 881
South Asia	6 759	5 986	46 873	23 479
West Asia	2 887	15 655	23 159	13 579
Latin America and the Caribbean	1 799	2 572	58 653	57 781
Oceania	-	0.4	137	383
Transition economies	696	1 418	54 360	18 855

FDI flows to developed economies fell by 37 per cent to $712 billion. The recovery in FDI over 2015–2016, when annual inflows to developed countries exceeded $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 United States, 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 per cent decrease, to $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 intracompany loans further reduced FDI flows, especially in the United States. In contrast, outflows from developed economies remained similar to the levels observed in 2016. Increases from the United States, 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 per cent to $318 billion) is a positive sign.

Inflows

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 $35 billion), as cross-border M&As targeting assets in the country rose to $23 billion. FDI flows to *France* rose 42 per cent (from $35 billion to $50 billion), mainly due to large M&A deals such as the acquisition of Sanofi's animal health business by Boehringer Ingelheim (Germany). Nevertheless, FDI inflows to Europe as a whole declined by 41 per cent to $334 billion, mainly due to a contraction in the United Kingdom.

Cross-border M&As in the *United Kingdom* had been exceptionally large in 2016, at $255 billion (compared with an average of $45 billion over 2011–2015). The four largest deals alone had a combined value of $224 billion (table II.1). In contrast, the largest deals in 2017 were much smaller in value, and a greater share of transactions were changes of ownership between foreign investors (with no net effect on FDI) or divestments (which result in negative FDI). As a result, inflows to the United Kingdom declined by 92 per cent to $15 billion.[15]

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. At the end of 2017, foreign affiliates in Belgium had a stock of outstanding intracompany loans to their parent group's affiliates outside Belgium worth –$88 billion in net aggregate terms, compared with a peak of –$297 billion in 2012. Equity divestment continued in 2017, but intracompany loans also slumped (from $46 billion in 2016 to $20 billion in 2017), resulting in declining FDI inflows.

Intra-European cross-border M&As declined from $230 billion in 2016 to $25 billion in 2017. Net sales of European assets to Japanese MNEs declined from $38 billion to $17 billion. Net M&A sales to Chinese MNEs were worth $66 billion, although the acquisition of Syngenta by China National Chemical accounted for two-thirds of that value.

Diminishing intracompany loans and fewer corporate reconfigurations shrank United States inflows. Inflows to North America fell by 39 per cent to an estimated

$300 billion, partly due to falling cross-border M&As in both *Canada* (down $22 billion) and the *United States* (down $54 billion). The resulting net divestment in Canada was a result of the partial sale of oil sands assets by major oil and gas MNEs to domestic counterparts. A prolonged period of low oil prices has prompted global oil MNEs to adjust asset profiles, and Canadian oil and gas companies to seek economies of scale. ConocoPhillips (United States) sold its stake in the Foster Creek Christina Lake oil sands partnership to its Canadian joint-venture partner Cenovus Energy. Shell sold most of its stake in the Athabasca oil sands project to Canadian Natural Resources. Both ConocoPhillips and Shell implemented divestment programmes to reduce debt.

Divestment was also a factor in the 40 per cent decline of FDI inflows to the United States. M&A deals resulting in divestments rose substantially in 2017 (up 65 per cent to $49 billion), made up of relatively small transactions in diverse industries. Motives behind the divestments varied. Debt reduction was a consideration in a number of transactions, including the sale by Medtronic (Ireland) of its medical supplies business to Cardinal Health for $6.1 billion and the sale by Reckitt Benckiser (United Kingdom) of its food business to McCormick for $4.2 billion.

Tax inversion deals, which had boosted M&A sales in recent years, dried up. In response to the wave of corporate inversion deals over 2011–2015, the United States Government tightened regulations through successive announcements of new rules in September 2014, November 2015 and April 2016. In 2015, there were eight such deals, worth $63 billion (*WIR15*), and in 2016, there were seven, worth $56 billion (*WIR16*). In 2017, such deals withered to only one, worth $28 billion. The announcement in April 2016 specifically targeted "earnings stripping" through intracompany lending.[16] Intracompany loans to the United States, which amounted to $117 billion in 2016, collapsed to $-7 billion in 2017, contributing to the decline in FDI to the United States.

FDI flows to developed economies in Asia-Pacific held steady, in contrast to the global trends. Flows to *Australia*, which had more than doubled in 2016, maintained their high level, at $46 billion. M&A sales remained sluggish (down 21 per cent to $11 billion), in part because MNEs based in the United Kingdom continued to dispose of their assets in Australia, resulting in an overall net divestment for the sixth successive year. Rio Tinto (United Kingdom), for example, completed at least $7.7 billion worth of divestments over 2013–2017, including assets in Australia.[17] FDI flows to *Japan* exceeded $10 billion for the second year running, as European manufacturing MNEs compensated for divestments by European services MNEs. France was the largest direct investor country.

Outflows

Aggregate outflows from developed countries remained close to the level observed in 2016. The reduction in the number of megadeals meant that net M&A purchases declined by 34 per cent. Increased reinvested earnings by United States MNEs partly offset this decline.

In Europe, combined outflows fell by 21 per cent to $418 billion. Outflows from the *Netherlands* – the largest source country in the subregion in 2016 – declined by $149 billion to just $23 billion. M&A purchases, which had totaled an exceptional $120 billion in 2016, turned into a net divestment of –$8.3 billion. As a result, the country's equity outflows fell from $132 billion to a net divestment of –$5.2 billion. Another large decline was registered in *Switzerland*, where outflows shrank by $87 billion to –$15 billion.

Outflows from the United Kingdom increased from –$23 billion to $100 billion. The value of net M&A purchases by MNEs based in the United Kingdom rose by about $110 billion to $128 billion, due to a string of acquisitions in the United States, such as British American

Tobacco's purchase of the remaining shares in Reynolds American for $49 billion and the $17 billion acquisition of Mead Johnson Nutrition by Reckitt Benckiser. Reinvested earnings also recovered (to $29 billion).

Outflows from Germany rose by 60 per cent to $82 billion. In recent years, outward FDI from Germany has fluctuated widely, owing to volatile flows of intracompany loans. Outflows of such loans, recorded at –$27 billon in 2016, turned positive in 2017, to $2.1 billion. The rise in reinvested earnings, which more than doubled from 2016, also contributed to the overall increase. France maintained high outflows ($58 billion). Net M&A purchases by French MNEs remained solid at $28 billion. Like their counterparts in the United Kingdom, French MNEs looked to the United States for their acquisitions, which included transactions such as the merger of WhiteWave Foods with Danone in a deal worth $10 billion. Although acquisitions of all foreign assets (gross purchases) by European MNEs as a whole declined by 43 per cent, acquisitions of United States assets held steady. As a result, such assets accounted for 61 per cent of acquisitions made by European MNEs in 2017.

Outflows from North America rose by 18 per cent. Of United States outflows worth $342 billion, reinvested earnings accounted for $324 billion. Reinvested earnings in the fourth quarter of 2017 were 78 per cent higher than during the same period in 2016. As the prospect of tax reform became more certain towards the end of 2017, United States MNEs postponed the repatriation of overseas earnings, analogous to the peak in reinvested earnings registered in 2004 in anticipation of the 2005 Homeland Investment Act. Luxembourg, the Netherlands, Singapore and the Caribbean subregion together received 38 per cent of United States outflows. In contrast, United States outflows to Central and South America contracted by more than a third to $6.1 billion, while those to Africa declined further from a net divestment of –$0.5 billion to –$1.7 billion. FDI outflows to Asia from the United States increased by a third, to $46 billion, owing primarily to investment in Hong Kong (China) and Singapore.

In Asia-Pacific, outflows from Japan expanded to $160 billion. The increase is chiefly explained by the recovery in flows to Asian countries (excluding West and Central Asia), to $36 billion, following the decline in 2016 resulting from a large divestment from Singapore. The United States remained the largest recipient of Japanese FDI, followed by the United Kingdom. Japanese FDI to Latin America and the Caribbean amounted to $4 billion. Japanese FDI to Africa was $1.8 billion.

Prospects

Projections based on macroeconomic fundamentals suggest a 15 per cent increase in FDI inflows to Europe and a 5 per cent increase in North America in 2018. Inflows to developed countries as a group could rise to about $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 $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 United States MNEs as a result of the tax reform will also reduce FDI outflows from the United States, with mirror effects on flows in Europe.

STRUCTURALLY WEAK, VULNERABLE AND SMALL ECONOMIES

LEAST DEVELOPED COUNTRIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
25.5 bn

2017 Decrease
-17.1%

Share in world
1.8%

Myanmar
$4.3 bn
+45.2%

Cambodia
$2.8 bn
+12.5%

Ethiopia
$3.6 bn
-10.1%

Bangladesh
$2.2 bn
-7.8%

Mozambique
$2.3 bn
-25.9%

Flows, by range

- Above $2.0 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- $0.1 to $0.4 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

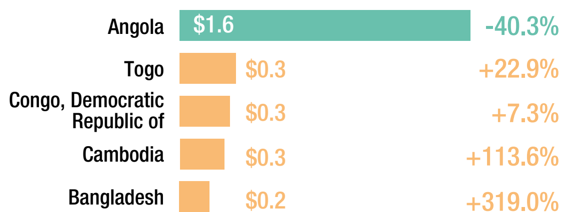
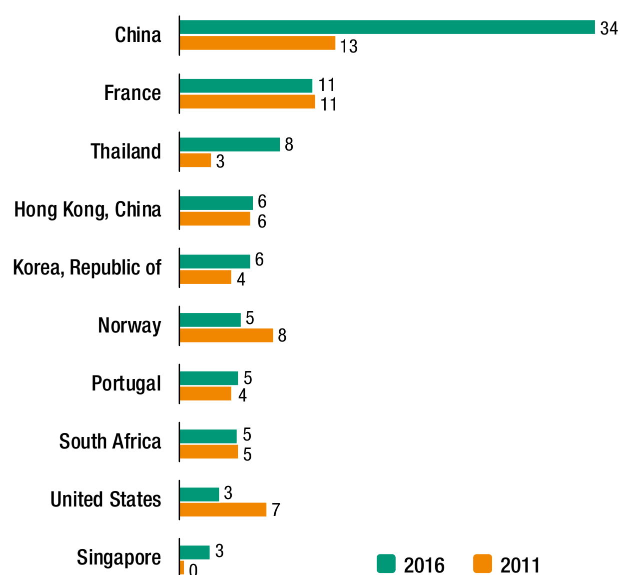


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- FDI flows to the group declined for the second consecutive year
- Asian LDCs registered growth
- The slump in greenfield project announcements weakens FDI prospects

Figure B. FDI inflows, 2000–2017 (Billions of dollars and per cent)

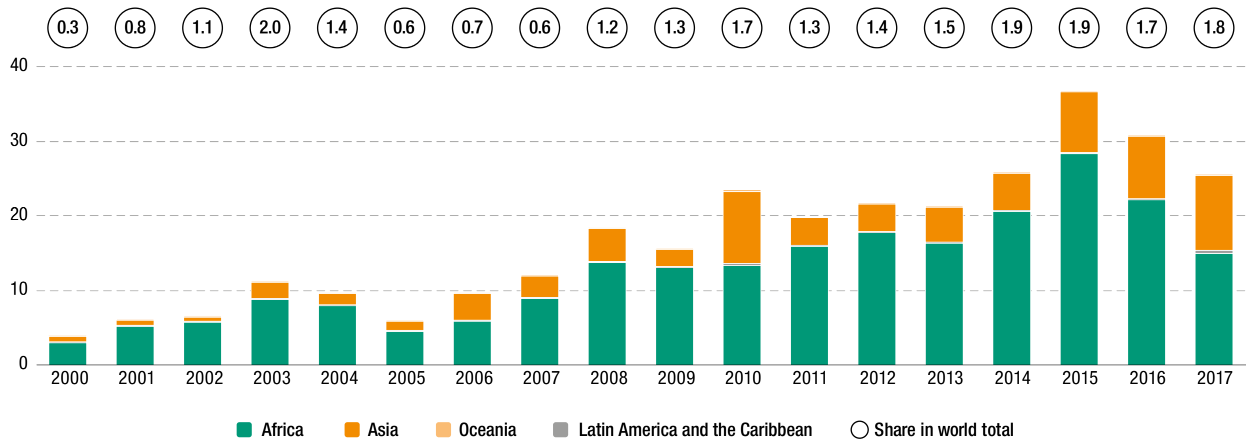


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2016	2017	2016	2017
Total	**998**	**327**	**9**	**9**
Primary	**5**	**13**	**-**	**-**
Mining of metal ores	3	13	-	-
Manufacturing	**588**	**11**	**-**	**-30**
Food, beverages and tobacco	506	10	-	-
Machinery and equipment	-	-	-	-30
Services	**405**	**304**	**9**	**39**
Electricity, gas, steam and air conditioning supply	-	48	-	-
Trade	5	18	-	-
Transportation and storage	-	- 1	-	-
Information and communication	0.1	-	-	1
Financial and insurance activities	337	234	9	38
Administrative and support service activities	-	5	-	-

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales		Purchases	
	2016	2017	2016	2017
World	**998**	**327**	**9**	**9**
Developed economies	**-2 485**	**-233**	**9**	**2**
Australia	- 3	114	9	-
Canada	0.1	430	-	2
Italy	-	-2 800	-	-
Japan	510	952	-	-
Switzerland	-	493	-	-
United States	-2 749	1 613	-	-
Developing economies	**3 483**	**560**	**-**	**6**
Brazil	-	-798	-	-
China	2 848	1 243	-	-
Singapore	45	256	-	-
South Africa	2	-91	-	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LDCs as destination		LDCs as investor	
	2016	2017	2016	2017
Total	**44 315**	**25 270**	**1 577**	**797**
Primary	**559**	**2 302**	**-**	**-**
Mining, quarrying and petroleum	559	2 302	-	-
Manufacturing	**11 682**	**12 534**	**194**	**91**
Textiles, clothing and leather	968	1 656	16	-
Coke, petroleum products and nuclear fuel	2 199	1 699	20	-
Chemicals and chemical products	4 613	4 690	62	56
Non-metallic mineral products	427	2 286	-	-
Services	**32 075**	**10 435**	**1 383**	**706**
Electricity, gas and water	13 561	1 599	-	-
Construction	6 559	3 384	282	-
Transport, storage and communications	7 860	3 157	517	61
Finance	1 248	1 000	84	300

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LDCs as destination		LDCs as investor	
	2016	2017	2016	2017
World	**44 315**	**25 270**	**1 577**	**797**
Developed economies	**9 050**	**13 484**	**302**	**7**
Denmark	72	2 133	-	-
Norway	24	2 010	-	-
United Kingdom	103	1 542	-	-
United States	3 397	2 424	-	-
Developing economies	**35 265**	**11 591**	**1 198**	**771**
Africa	6 453	816	465	257
Asia	28 812	10 689	734	334
China	14 041	3 668	-	81
India	3 439	633	427	197
Malaysia	3 388	375	71	56
Thailand	2 334	995	70	-

FDI flows to the LDCs declined by 17 per cent to $26 billion, or 4 per cent of inflows to all developing economies. Led by Myanmar and Cambodia, Asian and Oceanian LDCs registered robust FDI growth. However, aggregate FDI flows to African LDCs and Haiti sank by 31 per cent, with major contractions in Angola and Mozambique. Cross-border M&A sales made little difference to FDI inflows to LDCs, since major deals in mining, quarrying and petroleum represented changes of foreign owners. The value of greenfield FDI projects announced in 2017 plummeted by 43 per cent to a four-year low, as foreign investors, mostly from developing economies, scaled down their capital spending plans, especially in the services sector, targeting Bangladesh, Cambodia and Myanmar. This weakens FDI prospects for the leading Asian LDCs. Over the medium term, prospects in LDCs depend on the implementation of large infrastructure projects in the pipeline. FDI in Africa is expected to increase.

Inflows

Inward FDI flows to the 33 African LDCs[18] and Haiti contracted by 31 per cent to $15.4 billion. Ranked by the volume of FDI inflows in 2017, among the top FDI host LDCs in this region were Myanmar, Ethiopia, Mozambique, the Democratic Republic of the Congo, the United Republic of Tanzania, and Zambia. They attracted about 60 per cent of aggregate FDI flows to these LDCs. Among them, only two – the *Democratic Republic of the Congo* (+11 per cent) and *Zambia* (+65 per cent) – posted a gain, thanks to the recovery in mining MNE activities and manufacturing investments from China. Yet their FDI flows in 2017 were about half of their peaks in 2012–2013. Even though two-thirds of LDCs in the region attracted more inward FDI than the previous year, the contractions in Angola and in three of the top five host economies were severe. The losses in these four LDCs from 2016 to 2017 amounted to $7.7 billion, accounting for almost all the aggregate loss registered in the region.

In *Ethiopia*, FDI growth decelerated (–10 per cent to $3.6 billion) after posting a record in 2016, but remained strong, almost $1 billion higher than the level posted in 2015. Depressed FDI in Mozambique (–26 per cent to $2.3 billion) and the United Republic of Tanzania (–14 per cent to $1.2 billion) diminished further. In *Mozambique*, in the face of serious macroeconomic challenges, the recovery of MNE operations in mining alone was not enough to turn around FDI flows across sectors. In the *United Republic of Tanzania*, foreign investors held back their investments because of policy changes in tax administration and mining royalty. In *Angola*, FDI flows fluctuated significantly from $4.1 billion in 2016 to –$2.3 billion in 2017, as energy MNEs transferred funds abroad through intracompany loans. High inflation and foreign currency shortages deterred MNE operations.

FDI inflows to the 13 LDCs in Asia and Oceania grew by 20 per cent to $10.2 billion, in contrast to the stabilized FDI in the region. Two ASEAN LDCs – Myanmar and Cambodia – continued attracting the lion's share of aggregate FDI flows to the region. In *Myanmar*, FDI flows reached a six-year high of $4.3 billion, driven by strong investments in telecommunication and real and industrial estate development. The expansion of the Thilawa Special Economic Zone (SEZ) and companies that started operations during 2017 (e.g. Nissan-Tan Chong Motor) also contributed to the rise in inflows by an estimated $0.4 billion.

FDI flows to *Cambodia* rose by 12 per cent to a record high of $2.8 billion, thanks to strong investments in banking and telecommunication. FDI in non-textile manufacturing, such as beverages and cement products, also contributed to the growth. Albeit from a low base, FDI in *Nepal* almost doubled to a record high of $198 million, driven by Chinese

investments in infrastructure, cement products and mining. The introduction of new policies has contributed to improving this country's investment climate since the devastating 2015 earthquake.

In the *Lao People's Democratic Republic*, with a slowdown of Chinese investments, FDI declined for a second year (-18 per cent to $813 million) after reaching a record in 2015. Although China remains the largest home economy, investors from other ASEAN members, led by Thailand and Viet Nam, are increasingly present (ASEAN Secretariat and UNCTAD 2017). Following record levels in 2016, FDI flows to *Bangladesh* also slowed, to $2.2 billion (–8 per cent), as investment in energy and telecommunication levelled off. Progress in major public-financed infrastructure development has been slow.

In cross-border M&A sales, the major deals in resource-rich African LDCs represented changes of foreign owners and made little impact on FDI flows to LDCs. The net sales value in 2017 was at a four-year low, reflecting higher divestments by EU investors than the previous year and lower investments by developed-economy investors. *Mozambique* attracted four deals, totalling $3.6 billion. The largest cross-border deal in LDCs ($2.8 billion) was the United States-based ExxonMobil's acquisition of a 35.7 per cent stake in ENI East Africa, a Maputo-based gas exploration and production company, from Eni (Italy). In mining, a Japanese general trading firm, Mitsui, which also participates in an LNG project, invested a total of $0.8 billion to acquire partial stakes in coal mining and auxiliary transportation projects from Vale (Brazil). Accordingly, the sales of assets by Vale to Mitsui pulled down the total net sales value to developing economies by $0.8 billion.

Other major sales in mining were registered in the *Democratic Republic of the Congo.* As in 2016,[19] Chinese investors participated actively in the country's mining sector. In 2017, Bohai Harvest RST Shanghai Equity Investment Fund Management (China) acquired a 30 per cent stake in a metal ore mine operator, TF Holdings, a unit of Freeport-McMoRan DRC Holdings, from Lundin Mining (Canada) in a cash payment of $1.2 billion. Separately, another Chinese company, Wanbao Mining, invested $56 million to acquire a 61 per cent stake in a gold ore mine operator from Managem (Morocco). Despite these transactions, total Chinese investments in cross-border M&A sales in LDCs halved in 2017. Glencore (Switzerland) increased its stake in this LDC by investing a total of $922 million in a copper and nickel ore mine operator, Mutanda Mining from Gibraltar-based Fleurette Properties, and another copper and cobalt mining company, Katanga Mining.

Prospects

FDI to LDCs could see a recovery, pulled by the expected increase of FDI in Africa. African LDCs stand to benefit from the African Continental Free Trade Area (AfCFTA) and its stimulus for FDI flows to the region. Driven by ASEAN-based MNEs, the outlook for FDI in ASEAN LDCs is positive. However, announced greenfield FDI projects – a key indicator of future investment activity – plummeted in 2017 by 43 per cent to a four-year low. MNEs, mostly from developing Asian economies, scaled down their capital spending plans in electricity, construction and telecommunication, which had propelled announced greenfield FDI in Bangladesh, Cambodia and Myanmar in 2016. This weakens prospects for the leading Asian LDCs. Over the medium term, therefore, prospects depend on the extent of implementation of capital-intensive projects in the pipeline. Although the relative importance of announced greenfield FDI projects in the primary sector has been declining over the decade, investment activities by energy and mining MNEs in African LDCs will continue generating volatility in overall FDI flows to the 47 LDCs.

LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
22.7 bn

2017 Increase
+2.6%

Share in world
1.6%

Turkmenistan
$2.3 bn
+3.1%

Kazakhstan
$4.6 bn
-42.8%

Mongolia
$1.5 bn
-136.0%

Azerbaijan
$2.9 bn
-36.3%

Ethiopia
$3.6 bn
-10.1%

Flows, by range

- Above $1 bn
- $0.5 to $0.9 bn
- $0.1 to $0.5 bn
- $10 to $99 mn
- Below $10 mn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies
(Billions of dollars and 2017 growth)

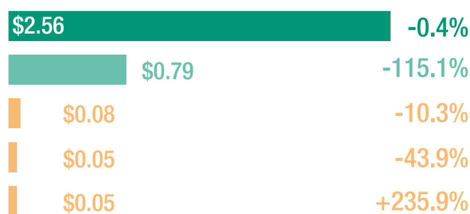
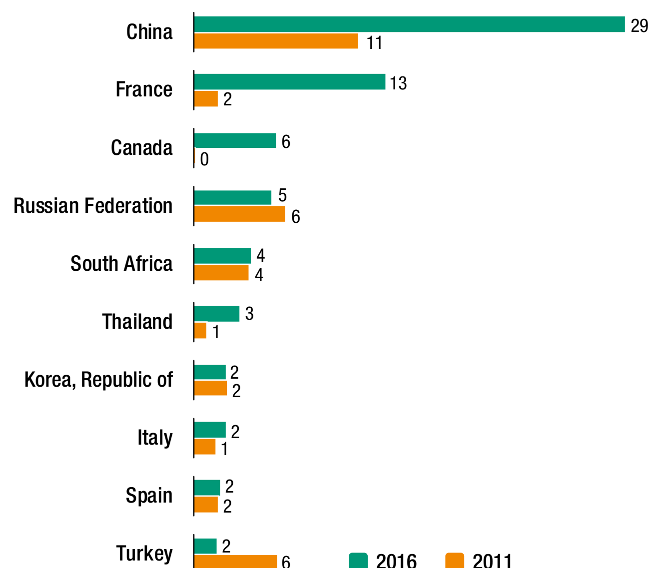


Figure A. **Top 10 investor economies by FDI stock, 2011 and 2016** (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined. Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- Flows recovered marginally after five consecutive years of decline
- FDI rose in all subgroups except landlocked transition economies
- Recovery of flows is expected to continue, despite uncertainty and fragility

Figure B. | FDI inflows, 2000–2017 (Billions of dollars and per cent)

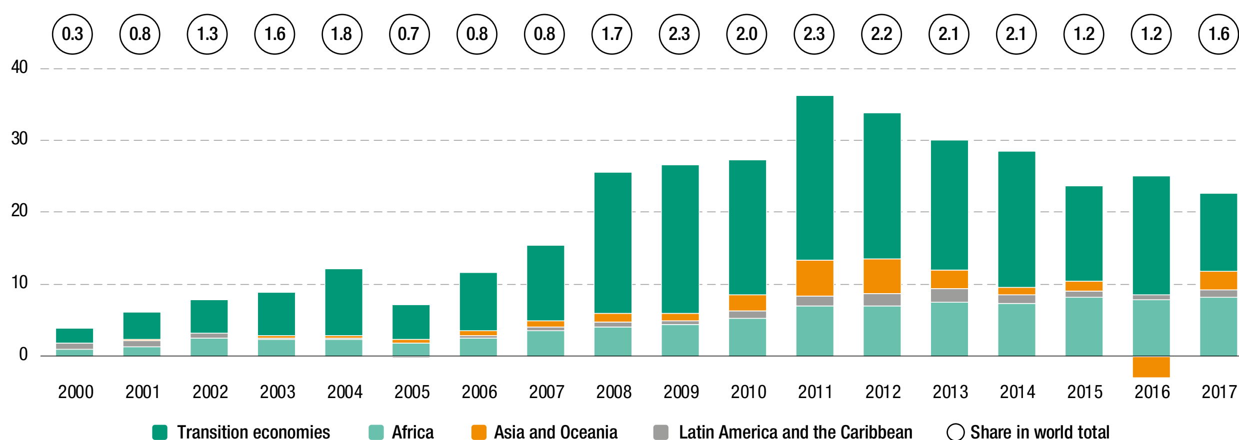


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
Total	**590**	**15**	**138**	**1**
Primary	**7**	**5**	**-41**	**-2**
Mining, quarrying and petroleum	7	5	-	-2
Manufacturing	**507**	**-**	**-**	**-**
Food, beverages and tobacco	507	-	-	-
Services	**77**	**10**	**179**	**3**
Electricity, gas, water and waste management	2	-	-	-
Construction	-	0.1	55	-
Trade	18	-	-	7
Transportation and storage	16	11	-	-
Information and communication	-40	-	-	-
Financial and insurance activities	74	- 1	124	-4
Business activities	6	-	-	-

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
World	**590**	**15**	**138**	**1**
Developed economies	**-39**	**8**	**161**	**2**
Australia	-17	158	-	-
Canada	-50	467	-	2
Japan	510	88	-	-
United States	-	124	-	-
Developing economies	**508**	**-2**	**0.3**	**1**
China	10	-45	-	-
Korea, Republic of	7	-	-	-
Malaysia	511	-	-	-
Turkey	25	-	0.3	-
Transition economies	**105**	**-1**	**-23**	**-2**
Russian Federation	205	1	-23	-

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	LLDCs as destination 2016	LLDCs as destination 2017	LLDCs as investor 2016	LLDCs as investor 2017
Total	**57 180**	**17 198**	**2 340**	**4 402**
Primary	**37 606**	**1 388**	**-**	**-**
Mining, quarrying and petroleum	37 606	1 388	-	-
Manufacturing	**11 790**	**10 652**	**360**	**3 747**
Food, beverages and tobacco	1 791	1 083	110	11
Textiles, clothing and leather	871	1 687	-	-
Coke and refined petroleum products	2 106	1 061	66	3 625
Chemicals and chemical products	4 785	4 358	-	31
Non-metallic mineral products	508	968	178	72
Metals and metal products	1 056	843	-	-
Services	**7 783**	**5 159**	**1 980**	**655**
Electricity, gas and water	2 637	2 496	-	-
Construction	2 000	666	282	49

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	LLDCs as destination 2016	LLDCs as destination 2017	LLDCs as investor 2016	LLDCs as investor 2017
World	**57 180**	**17 198**	**2 340**	**4 402**
Developed economies	**42 656**	**5 882**	**300**	**668**
European Union	2 666	4 593	295	668
United Kingdom	747	2 160	-	-
United States	38 221	925	5	-
Developing economies	**13 991**	**9 907**	**1 163**	**3 514**
China	4 025	5 408	14	142
United Arab Emirates	93	1 017	15	28
Singapore	80	938	-	-
Malaysia	42	594	-	-
India	143	434	427	99
Transition economies	**533**	**1 409**	**877**	**220**
Russian Federation	375	1 339	169	21

After five consecutive years of decline (2011–2016), FDI flows to the 32 landlocked developing countries (LLDCs) rose by 3 per cent in 2017, to $23 billion. This modest increase still left total flows to LLDCs – the majority of which (17) are also LDCs – almost 40 per cent below the peak of 2011. All LLDC subgroups by region, except for transition economies, registered gains. In 2017, LLDCs' share of total global flows was 1.6 per cent, up from a historical low of 1.2 per cent in 2016. However, flows remain concentrated in a few LLDCs, with the top five hosts (Kazakhstan, Ethiopia, Azerbaijan, Turkmenistan and Mongolia) accounting for 66 per cent of total flows to the group.

Inflows

FDI flows to the 16 African LLDCs increased by 4 per cent, to $8.2 billion. As a result, LLDCs' share of total flows to the continent, while still modest, rose from 15 per cent in 2016 to 20 per cent. Flows grew robustly to Botswana, Burkina Faso, the Central African Republic, Uganda and Zambia. In contrast, FDI declined in Mali, Swaziland and Zimbabwe, where political uncertainty dampened investment prospects. The growth of FDI also came to a halt in Ethiopia but remained at high levels. In 2017, Zambia became the second largest African LLDC host of FDI. Production expanded in the Konkola Copper Mines, an affiliate of the Indian–United Kingdom conglomerate Vedanta Resources, and Sinoconst (China) started the construction of a cement plant in Ndola. The Continental Free Trade Agreement (box II.1) could give impetus to foreign investment in African LLDCs, provided that appropriate measures are implemented to facilitate trade and transit of goods through seaports.

FDI in the five landlocked Asian countries recovered from –$3 billion to +$2.6 billion. Flows to Mongolia rebounded to $1.5 billion from a net flow of –$4.2 billion the previous year caused by negative intracompany loans, and FDI picked up in Nepal, although from a low level. Neighbouring China and India were the main sources of new investments in manufacturing and services. Inflows to the Lao People's Democratic Republic dropped by 18 per cent to $0.8 billion, despite the commencement of large projects in electricity and services. LLDCs' share of total flows to developing Asia rose from –0.6 per cent in 2016 to 0.5 per cent in 2017, still a marginal participation. The marginal recovery of investment flows to LLDCs mirrored the regional trend.

In the two Latin American LLDCs, FDI inflows grew by 65 per cent, to $1.1 billion. This compares with a modest rise of 8 per cent, to $151 billion, in Latin America and the Caribbean as a whole. Most of the rise is due to a 116 per cent increase of flows to the Plurinational State of Bolivia, which received $725 million. This was spurred in part by investment in sales, marketing and support operations in transport (by Thales Group of France) and in ICT (by Huawei of China). A major cross-border M&A deal in mining, which saw New Pacific Investment of Canada increase its share in the silver ore mine operator Empresa Minera Alcira, also contributed to the spike in FDI.

The nine landlocked transition economies saw FDI inflows decline by 35 per cent to $11 billion in 2017. This drop was even sharper than the one experienced in the economies in transition as a whole (–27 per cent, to $47 billion). Flows to two of the three large and heavily oil- and gas-based economies contracted: by 36 per cent in Azerbaijan (to $2.9 billion) and 43 per cent in Kazakhstan (to $4.6 billion). However, they rebounded slightly in Turkmenistan (by 3 per cent, to $2.3 billion). In the rest of the group, flows remained small and contracted by 41 per cent, from $1.8 billion to $1 billion. The Belt and Road Initiative has yet to make its impact felt on Central Asian LLDCs, as investment activity in these economies lacked new infrastructure projects as targets in 2017.

Net cross-border M&A sales in LLDCs continued to fall, plummeting from $590 million in 2016 to $15 million in 2017, with few attractive targets available for acquisition aside from natural resources. The oil and gas downturn that persisted in 2017 weighed heavily on the M&A deal flow. Divestment by investors from Europe and developing countries was barely offset by new transactions from North America. The sectoral spread also crimped, with no M&A activity in manufacturing, although some deals were concluded in transportation and storage services.

Prospects

FDI to LLDCs could recover further in 2018, but uncertainty and fragility remain. FDI in the 32 LLDCs could grow on the back of dynamic South–South FDI and the potential for more manufacturing FDI. Uncertainty stems from the fact that the value of announced greenfield projects, the main indicator for future projects, declined in 2017, if the one-off impact of the 2016 megadeal in Kazakhstan is disregarded. The value of announced greenfield projects fell to a modest $17 billion. Most of the LLDC economies remain vulnerable to adverse external factors when attempting to attract FDI for development. Their investment potential is strongly tied to developments in neighbouring countries through which their exports and imports transit. FDI flows to LLDCs in general could benefit significantly from regional integration projects, especially in Africa and the CIS, and from initiatives seeking to improve transit capacity and connectivity.

SMALL ISLAND DEVELOPING STATES

FDI flows, top 5 host economies, 2017 (Value and change)

2017 Inflows
4.1 bn

2017 Increase
+3.5%

Share in world
0.3%

Bahamas
$0.9 bn
-1.6%

Jamaica
$0.9 bn
-4.3%

Maldives
$0.5 bn
+13.3%

Mauritius
$0.3 bn
-16.2%

Fiji
$0.3 bn
+6.8%

Flows, by range

- Above $1 bn
- $500 to $999 mn
- $100 to $499 mn
- $50 to $99 mn
- Below $50 mn

Top 5 host economies

Economy
$ Value of inflows
2017 % change

Outflows: top 5 home economies

(Millions of dollars and 2017 growth)

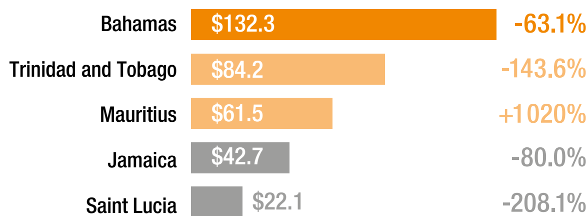


Figure A. Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)

Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.Dotted line in Jammu and Kashmir represents approximately the Line of Control agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

HIGHLIGHTS

- Fragile growth in inward FDI flows continued
- China was an important source for capital-intensive projects in some SIDS
- Greenfield announcements were down, and highly concentrated in a few SIDS

Figure B. | FDI inflows, 2000–2017 (Billions of dollars and per cent)

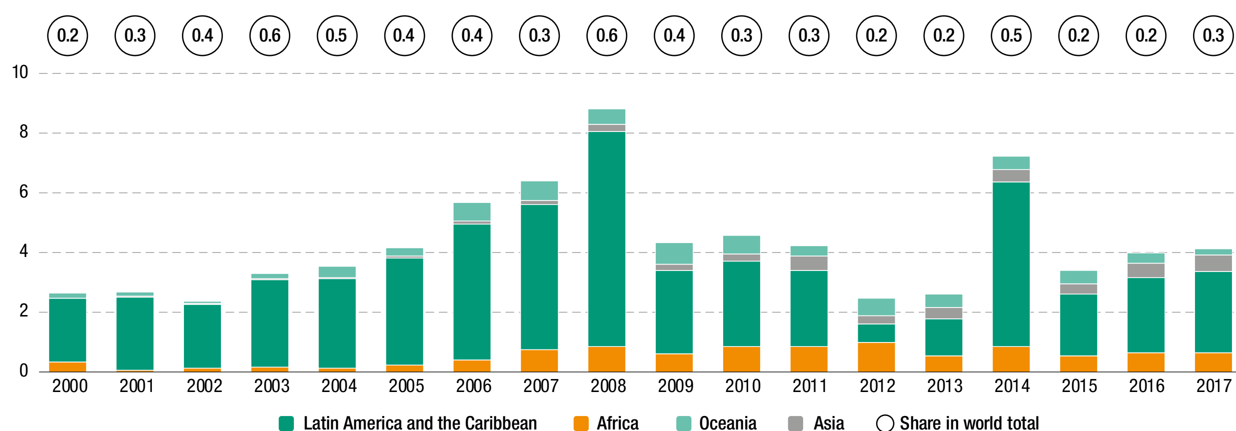


Table A. Net cross-border M&As by industry, 2016–2017 (Millions of dollars)

Sector/industry	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
Total	**83**	**2 615**	**460**	**4 127**
Primary	**3**	**144**	**-**	**2 314**
Extraction of crude petroleum and natural gas	-	-	-	158
Mining of metal ores	3	144	-	2 156
Manufacturing	**22**	**100**	**-**	**-30**
Chemicals and chemical products	22	-	-	-
Non-metallic mineral products	-	100	-	-
Machinery and equipment	-	-	-	-30
Services	**58**	**2 371**	**460**	**1 843**
Accommodation and food service activities	23	45	-	-
Activities auxiliary to financial service and insurance activities	4	4	-8	2 016
Real estate activities	31	2 322	451	120
Human health and social work activities	-	-	16	-293

Table B. Net cross-border M&As by region/economy, 2016–2017 (Millions of dollars)

Region/economy	Sales 2016	Sales 2017	Purchases 2016	Purchases 2017
World	**83**	**2 615**	**460**	**4 127**
Developed economies	**-5**	**2 652**	**562**	**198**
European Union	-12	334	539	25
Other developed Europe	-	2 293	-	-
Other developed countries	15	25	-	175
Developing economies	**379**	**-38**	**- 108**	**3 928**
Africa	4	28	100	-
Latin America and the Caribbean	-	140	- 417	-
Asia	375	-206	209	3 928
China	299	-25	-41	-
Hong Kong, China	1	-181	-	- 1
India	-	-300	249	3 925
Singapore	31	300	-	-38

Table C. Announced greenfield FDI projects by industry, 2016–2017 (Millions of dollars)

Sector/industry	SIDS as destination 2016	SIDS as destination 2017	SIDS as investor 2016	SIDS as investor 2017
Total	**1 868**	**1 988**	**505**	**832**
Primary	**-**	**-**	**-**	**-**
Manufacturing	**145**	**245**	**13**	**-**
Metals and metal products	-	220	-	-
Services	**1 724**	**1 742**	**492**	**832**
Electricity, gas and water	367	262	-	-
Construction	-	296	-	-
Trade	29	48	29	-
Hotels and restaurants	308	812	-	-
Transport, storage and communications	251	107	15	62
Finance	168	15	30	107
Business services	592	136	417	662
Community, social and personal service activities	-	67	-	-

Table D. Announced greenfield FDI projects by region/economy, 2016–2017 (Millions of dollars)

Partner region/economy	SIDS as destination 2016	SIDS as destination 2017	SIDS as investor 2016	SIDS as investor 2017
World	**1 868**	**1 988**	**505**	**832**
Developed economies	**524**	**977**	**73**	**124**
Netherlands	-	99	-	-
Spain	195	253	-	-
United States	192	521	-	-
Developing economies	**1 344**	**1 010**	**432**	**708**
Africa	273	11	70	11
Latin America and the Caribbean	454	23	320	662
Asia and Oceania	617	976	42	35
China	11	229	-	-
Hong Kong, China	-	365	-	35
Thailand	5	183	-	-
Viet Nam	-	107	-	-

Inward FDI in SIDS rose for a second year to $4.1 billion, led by 9 per cent growth in the Caribbean SIDS. Major gains came from tourism in Barbados and energy in Trinidad and Tobago. FDI in other regions, however, shrank, largely owing to an accelerated divestment in Papua New Guinea. Although China is not yet in the top 10 FDI home economies for SIDS, it has become an important source for financing capital-intensive projects in some SIDS. The stagnating volumes of greenfield FDI projects announced in 2016–2017 underscore a persisting challenge for SIDS to attract and sustain FDI. Services will continue to dominate, but FDI flows to the sector are slowing down.

Inflows

FDI in the 10 Caribbean SIDS increased by 9 per cent to $2.7 billion, in contrast to a 7 per cent reduction in all economies in the region. Although FDI flows to the majority of SIDS in this region shrank, the strong gains posted by Barbados (+25 per cent to $286 million), Saint Kitts and Nevis (+50 per cent to $127 million), and Trinidad and Tobago (from -$17 million in 2016 to $179 million in 2017) pushed this region's aggregate FDI flows to a three-year high. This was also helped by the resilient FDI flows into the Bahamas (–2 per cent to $928 million) and Jamaica (–4 per cent to $888 million). In the services-based economies of Barbados and of Saint Kitts and Nevis, tourism-related construction projects were the major driver. In energy-based Trinidad and Tobago, a decline in negative reinvested earnings in oil and gas activities contributed to the rebound (Central Bank of Trinidad and Tobago, 2018). Two projects by BP Plc (United Kingdom) began operation.

Despite the slowdown in the two largest FDI host SIDS in the region, the Bahamas and Jamaica, foreign investors remained active. In the Bahamas, where FDI dipped in 2017, after a 131 per cent rebound from 2015 to 2016, the opening of a megaresort project, Baha Mar, created nearly 4,000 jobs.[20] Jamaica, where FDI fell for the second year after the record high in 2015, continued attracting diversified FDI activities. The $299 million acquisition of a bauxite mining company, Alpart, owned by Jiuquan Iron and Steel (JISCO) in 2016 (*WIR17*), resulted in an additional investment of $160 million for expansion in 2017 and a strong uptick in Jamaica's alumina production (Bank of Jamaica, 2017).

FDI in the five SIDS in Africa fell by 2 per cent to $643 million, with a 16 per cent contraction in Mauritius. FDI flows to the largest FDI host in the region, Mauritius ($293 million), declined due to the slowdown in integrated resort and property development projects. Investment from China, which surged nearly sixfold from 2015 to 2016, halved from 2016 to 2017.[21] In contrast, FDI in Seychelles, the second largest FDI host SIDS in this region, rebounded to $192 million (+24 per cent), led by new tourism projects and reinvestments by operational foreign investors in tourism, telecommunication, manufacturing and fishing (Central Bank of Seychelles, 2017).

FDI flows to the 13 SIDS in Asia and Oceania shrank by 8 per cent to $744 million, as divestment in Papua New Guinea accelerated from –$40 million in 2016 to –$200 million in 2017. Owing to policy uncertainties and a persistently weak investment environment, including foreign exchange controls (ADB, 2017), commodity-based Papua New Guinea struggles to sustain FDI flows. Some mining investments were put on hold.[22] The majority of SIDS in the region attracted more FDI flows than the previous year; the two largest FDI host SIDS in the region saw sizeable increases, Maldives (+13 per cent) to $517 million and Fiji (+7 per cent) to $299 million. Maldives continued setting new records, driven by large-scale tourism projects. In 2017, more than 20 resort establishments opened, and two dozen more projects are scheduled to be completed during 2018. In connection to the tourism-related construction projects, FDI in wholesale trading rose, with more foreign investors in construction trade. Already-established projects also reinvested strongly.

Although China does not appear among the top 10 home economies for FDI in SIDS, it has become an important source for financing capital-intensive infrastructure projects in some SIDS. In Jamaica, for instance, Gansu Province of China, the owner of Alpart through JISCO, has agreed to provide financial support to develop a $6 billion industrial park. In Fiji, China has financed multiple infrastructure projects (including the construction of two bridges for $15 million), and a $0.5 billion hotel resort project is scheduled to start in 2018 in partnership with Guangdong Province of China. In Vanuatu, Chinese concessional loans have also financed multiple public infrastructure projects, such as a 1,000-seat convention centre and the upgrading of Luganville wharf.

Prospects

FDI flows into SIDS will remain fragile. Greenfield FDI projects announced in 2016–2017 stagnated ($1.9 billion in 36 projects in 2016 and $2.0 billion in 36 projects in 2017), well below levels observed in 2014 and 2015. This underscores a persisting challenge for SIDS to attract new and more FDI in volume. In the Caribbean, policy developments in renewable energy are expected to facilitate implementation of FDI projects in the pipeline and attract more in the coming years. Given the highly concentrated distribution of announced projects and infrastructure PPPs, however, only few SIDS are likely to see significant FDI growth going forward.

For example, among the Caribbean SIDS, Jamaica, which hosts larger infrastructure PPPs involving MNEs,[23] continued attracting the highest value of announced greenfield projects in 2017. In Saint Lucia, where FDI flows stabilized around $90 million in 2013–2017, capital spending plans announced in hotel and real estate projects in 2017 exceeded $500 million. In Africa, Mauritius attracted the majority of services FDI projects. In Oceania, Fiji attracted diversified projects, ranging from a hotel construction project by Hilton World Wide (United States) to a $40 million upgrading investment in China-owned Vatukoula Gold Mines and a $10 million expansion by Douglas Pharmaceuticals (Australia). Despite the depressed inward FDI flows to Papua New Guinea, this country's resource potential remains attractive for MNEs; the short-term outlook is positive, driven by a surge in investment from Malaysia in hospitality and catering to prepare for hosting the APEC 2018 Summit.

NOTES

[1] The value of announced greenfield projects indicates the capital expenditure planned by the investor at the time of the announcement. Data can differ substantially from the official FDI data as companies can raise capital locally and phase their investments over time, and a project may be canceled or may not start in the year when it is announced.

[2] Ibeh, K. I. N. (2018), "Why do African multinationals invest outside their home region? Should they?" Transnational Corporations, 25(1): 43–72.

[3] Ministry of Commerce of China.

[4] For instance, a review of 100 major ASEAN companies demonstrates their presence in multiple ASEAN countries and the expansion of their regional footprint (ASEAN secretariat and UNCTAD, 2017).

[5] Remarks of Shim Won Hwan, general manager of Samsung Electronics (Viet Nam) (https://vietnam.vnanet.vn).

[6] "ONGC Videsh Vankorneft acquires 15% stake in Namibia's offshore block", Sputnik International (https://sputniknews.com).

[7] See e.g. the Report on the Work of the Government delivered by Premier Li Keqiang at the First Session of the 13th National People's Congress of the People's Republic of China on March 5, 2018, and the speech delivered by President Xi Jinping at the opening of the Boao Forum for Asia on April 10, 2018.

[8] Including, for instance, the United Arab Emirates' Vision 2021 and Saudi Arabia's Vision 2030.

[9] Bloomberg, "Amazon is said to pit Argentina versus Chile in data-center race", 10 January 2018.

[10] Fair Observer, "Latin America 2018: Why Commodities Are Still King", 14 January 2018.

[11] Lithium News, "Chilean, Korean, Chinese companies to invest in lithium products in Chile", 12 March 2018. www.indmin.com/Lithium-LatestNews.html.

[12] FDI Markets, "Peru turns the page", December 2017/January2018.

[13] Reuters, "Awaiting better days, multinationals keep Venezuelan units alive - barely", 6 October 2017.

[14] To this list of financial centres as sources of FDI is to be added the Bahamas (19 per cent of inflows), Bermuda (5 per cent) and the British Virgin Islands (4 per cent).

[15] "Change of foreign ownership" type deals accounted for 8 per cent of all deals in 2016 but 42 per cent in 2017. Divestment deals accounted for 7 per cent in 2016, but 12 per cent in 2017.

[16] United States Department of the Treasury, "Fact Sheet: Treasury Issues Inversion Regulations and Proposed Earnings Stripping Regulations", 4 April 2016.

[17] "Rio Tinto agrees sale of Coal & Allied". Rio Tinto media release, 24 January 2017.

[18] With the graduation of Equatorial Guinea from the LDC category in June 2017, the number of African LDCs has become 33. The total number of LDCs, therefore, stands at 47.

[19] Two Chinese manufacturers announced new investment plans exceeding $420 million in metal products. In a cross-border M&A sale, Freeport-McMoRan (United States) sold its stake in Freeport-McMoRan DRC Holdings to China Molybdenum for $2.8 billion (WIR17).

[20] IMF, "The Bahamas: Staff Concluding Statement of the 2018 Article IV Mission", 28 March 2018, www.imf.org.

[21] Based on the provisional data available from the Bank of Mauritius, "Gross Direct Investment Flows for calendar year 2017 (Provisional)", www.bom.mu.

[22] EIU Country Report: Papua New Guinea, February 2018.

[23] In the Old Harbour Combined Cycle Power Station project ($330 million), Korea East-West Power (Republic of Korea) and Marubeni (Japan) hold a 25 per cent interest each. A $60 million solar power (build, own, and operate) project is owned by Neoen (Australia) and Rekamniar (United Kingdom) and financed by the USAID Clean Energy Finance Facility for the Caribbean and Central America (http://ppi.worldbank.org/ppinew/snapshots/country/jamaica).