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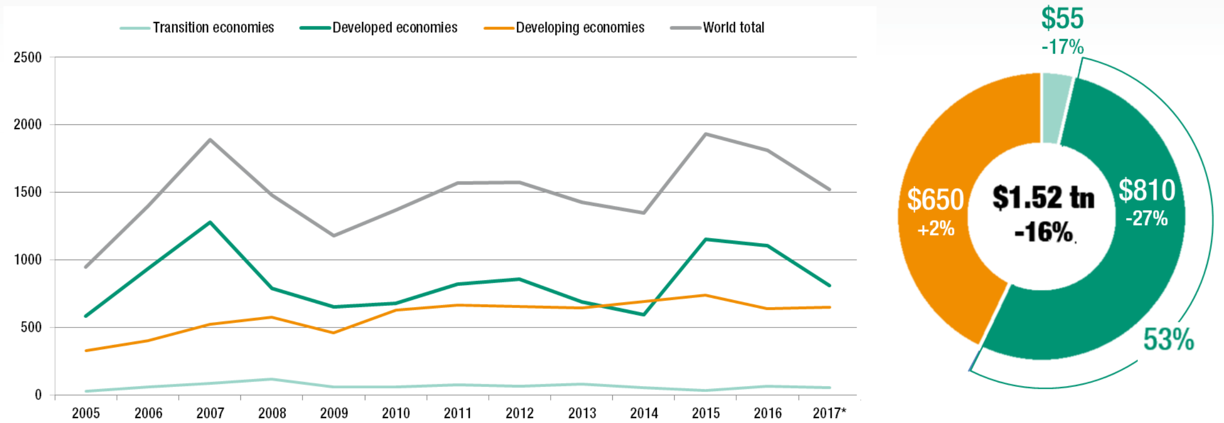
GLOBAL FDI FLOWS SLIPPED FURTHER IN 2017

H I G H L I G H T S

- *Global foreign direct investment (FDI) fell by 16% in 2017, to an estimated US$1.52 trillion (figure 1), from a revised US$1.81 trillion in 2016* – a stark contrast to other macroeconomic variables, such as GDP and trade growth, which saw substantial improvements in 2017.

- *A slump in FDI flows to developed countries (-27%) was the principal factor behind the global decline.* A strong decrease in flows was reported in Europe (-27%) as well as in North America (-33%), mainly due to a return to prior levels of inflows in the United Kingdom and the United States after spikes in 2016. This decline was tempered by an 11% growth in flows to other developed economies, principally Australia.

Figure 1. FDI inflows: global and by group of economies, 2005–2017
(Billions of US dollars)

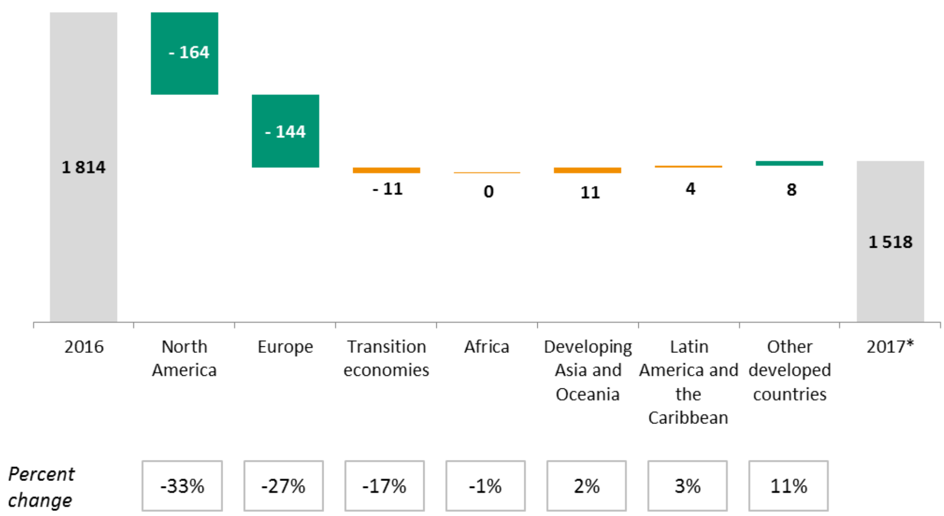


Source: ©UNCTAD.
* Preliminary estimates.
Note: Excluding Caribbean offshore financial centers.

- *FDI to developing economies remained stable, at an estimated US$653 billion, 2% more than the previous year.* Flows rose marginally in developing Asia and Latin America and the Caribbean, and remained flat in Africa. Developing Asia regained its position as the largest FDI recipient region in the world, followed by the European Union and North America.
- *FDI to the transition economies declined by 17% to an estimated US$55 billion,* mainly due to a drop in the Russian Federation and lacklustre inflows across most of the Commonwealth of Independent States (CIS).
- *After three years of growth, cross-border merger and acquisitions (M&As) declined in 2017.* Their growth already slowed in 2016; in 2017, they contracted by 23%, to US$666 billion. However, this still represented the third highest level since 2007.
- *Preliminary data on the value of announced greenfield FDI projects show a decline of 32% to US$571 billion (-17% in number of projects), their lowest level since 2003.* If confirmed, the drop in greenfield project announcements would be a negative indicator for the longer term. Of particular concern is the near halving of the value of project announcements in developing economies, although the fall in project numbers was limited to 23%.
- *Higher economic growth projections, trade volumes and commodity prices would normally point to a potential increase in global FDI in 2018.* However, elevated geopolitical risks and policy uncertainty could have an impact on the scale and contours of any FDI recovery in 2018. In addition, tax reforms in the United States are likely to significantly affect investment decisions by United States MNEs, with consequences for global investment patterns.

Global FDI flows fell 16% in 2017, reaching an estimated US$1.52 trillion, down from a revised US$1.81 trillion in 2016, with the decline mainly concentrated in developed economies. Equity investments at the global level fell by almost 40% mainly due to a 23% decrease in the value of cross-border M&As. The value of announced greenfield investment projects reached an estimated US$571 billion – a 32% decrease from the previous year.

Figure 2. Regional contribution to changes in global FDI flows, 2016–2017
(Billions of US dollars)

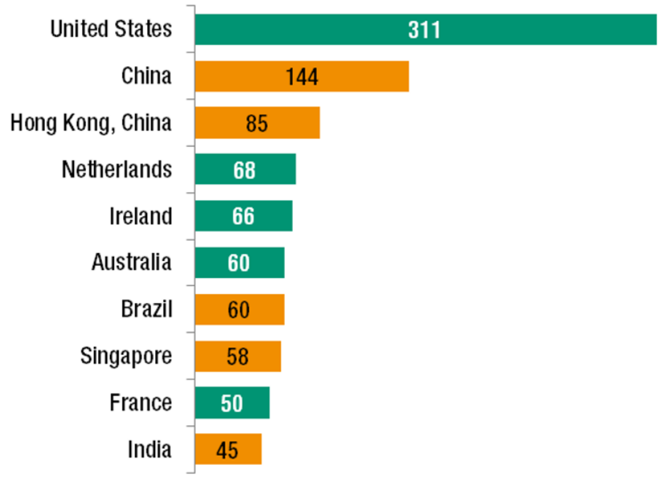


Source: ©UNCTAD.
* Preliminary estimates.
Note: Excludes Caribbean offshore financial centres. Percent changes are calculated for each region relative to 2016.

At the regional level, falling flows to North America (-33%), Europe (-27%) and transition economies (-17%) contributed to the global decline (figure 2). FDI flows increased in other developed economies (11%) due to a strong recovery of investment in Australia. They remained stable across developing regions.

As a result of these regional differences, the share of developed economies in world FDI flows as a whole decreased to an estimated 53% of the world total. Half of the top 10 host economies continue to be developing economies (figure 3). The United States remained the largest recipient of FDI, attracting an estimated US$311 billion in inflows, followed by China with record inflows of US$144 billion, despite an apparent slowdown in the first half of 2017.

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



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

FDI flows to developed economies fell by one fourth

FDI flows to developed economies fell by 27% to an estimated US$810 billion (table 1). The significant drops in FDI flows to the United Kingdom and the United States – the major factors behind the overall decline – can largely be explained, in the United Kingdom, by the absence of a few large megadeals that caused an anomalous peak in 2016 and, in the United States, by sharply reduced inflows from a number of offshore financial centres. Cross-border M&As in developed countries registered a 30% decrease (to US$553 billion) in 2017, with fewer of the major transactions that shaped global investment patterns in 2015 and 2016. In contrast, the value of announced greenfield projects was up 11% to US$282 billion, which points to a potential rebound in capital expenditures in productive assets, as macroeconomic conditions continue to improve.

FDI flows to Europe declined from US$541 billion in 2016 to an estimated US$397 billion. Much of the drop is explained by lower inflows to the United Kingdom (-90%). In 2016, inflows to United Kingdom had amounted to US$196 billion, boosted by three cross-border M&A megadeals. Inward flows also fell in Belgium (from US$30 billion to an estimated -US$3 billion), Spain (from US$20 billion to an estimated -US$2.5 billion) and the Netherlands (from US$86 billion to US$68 billion).

Despite the overall decline, a generally positive economic outlook meant that FDI inflows grew in 19 of the 32 European economies, compared with just 14 economies in 2016. FDI inflows more than trebled in Germany (from US$10 billion to an estimated US$35 billion), mostly due to intra-company loans. FDI flows to France rose 77% (from US$28 billion to an estimated US$50 billion), mainly due to large M&A deals such as the acquisition of the animal health business of Sanofi by Boehringer Ingelheim (Germany) for US$12.6 billion. In Switzerland, despite a few large acquisitions, such as that of Syngenta by China National Chemical for US$41.8 billion, inflows saw a decline (from a revised US$48 billion to an estimated US$28 billion).

Table 1. FDI inflows, cross-border M&As and announced greenfield projects, by region, 2016–2017
(Billions of US dollars)

Region	FDI inflows			Cross-border M&As			Announced greenfield project values		
	2016	2017[a]	*Growth rate (%)*	2016	2017[a]	*Growth rate (%)*	2016	2017[a]	*Growth rate (%)*
World	**1 814**	**1 518**	***-16***	**869**	**666**	***-23***	**834**	**571**	***-32***
Developed economies	**1 109**	**810**	***-27***	**794**	**553**	***-30***	**254**	**282**	***11***
European Union	500	370	*-26*	363	127	*-65*	148	146	*-1*
North America	494	330	*-33*	372	295	*-21*	69	105	*53*
Developing economies	**638**	**653**	***2***	**69**	**100**	***44***	**515**	**261**	***-49***
Africa	50	49	*-1*	10	3	*-64*	94	41	*-57*
Latin America and the Caribbean	139	143	*3*	18	24	*34*	74	61	*-17*
Developing Asia	448	459	*2*	42	73	*74*	347	158	*-54*
Transition economies	**67**	**55**	***-17***	**5**	**13**	***157***	**65**	**28**	***-56***

Source: ©UNCTAD.
[a] Preliminary estimates.
Note: World FDI inflows are projected on the basis of 159 economies for which data are available for at least part of 2017, as of 18 January 2017. Annual figures are estimated based on available partial-year data, in most cases up to the third quarter of 2017. The proportion of inflows from these economies in total inflows to their respective region or subregion in 2016 is used to extrapolate 2017 regional (and global) data. Data exclude the offshore financial centres in the Caribbean.

Inflows to North America fell by one third to an estimated US$330 billion, partly due to falling cross-border M&As in both Canada and the United States. Inflows to the United States from Bermuda, Ireland, Luxemburg and Switzerland also fell sharply in 2017. In Asia-Pacific, the upward trend in flows to Australia continued, with FDI reaching an estimated US$60 billion; flows to Japan and New Zealand lost ground in 2017.

Developing Asia regained its position as the largest FDI host region

Despite improving economic growth and rising commodity prices FDI flows to developing economies barely budged in 2017. Inflows rose by 2% (to an estimated US$653 billion), due to modest increases in developing Asia and in Latin America and the Caribbean (table 1). There was a 44% increase in cross-border M&A value in across developing subregions during the year (from US$69 billion to US$100 billion). In contrast, the value of announced greenfield projects fell 49% to reach US$261 billion, with the majority of countries recording sharp declines.

Estimated FDI flows to *developing Asia* amounted to US$459 billion in 2017, about 2% up from 2016. The region regained its position as the largest FDI recipient region in the world. Against the backdrop of a decline in worldwide FDI, its share in global inflows rose from 25% in 2016 to 30% in 2017. The largest three recipient Asian economies were China, Hong Kong (China) and Singapore, in that order. Their estimated FDI inflows were US$144 billion, US$85 billion and US$58 billion, respectively. With reported inflows (which do not reflect data on divestments) reaching an all-time high, China continued to be the largest FDI recipient among developing countries and the second largest in the world, behind the United States. FDI inflows to ASEAN rose by one third to US$130 billion. Indonesia accounted for a major part of this increase, as inflows to the country grew nearly six fold to US$22 billion.

Developing Asia's higher FDI inflows were mainly the result of a sharp increase in the value of cross-border M&A sales, from US$42 billion in 2016 to US$73 billion in 2017. This mainly reflected the cross-border M&A activities of foreign companies in Hong Kong (China), India and Singapore. In particular, the value of cross-border M&A sales in India grew sharply, increasing from US$8 billion to US$22 billion, driven by a small number of large deals, especially the acquisition of a 49% stake of Essar Oil Ltd, the second largest privately-owned Indian oil company, by Petrol Complex Pte Ltd (Singapore), owned by Rosneftegaz (Russia Federation).

FDI flows to *Latin America and the Caribbean* were 3% higher than in 2016 (an estimated US$143 billion), the first rise in five years, but still 25% below the level reached in 2012, at the peak of the commodity boom. Economic growth in the region resumed modestly in 2017 after two years of contraction, and investors have started looking for opportunities again, particularly in Brazil. Nine of the ten largest acquisitions by foreign companies in the region were in Brazil, and seven involved a Chinese buyer. This pushed up FDI flows to Brazil by 4% (from US$58 billion to an estimated US$60 billion). Mexico, the second largest economy in the region, received US$29 billion, a similar level to the previous year. Flows to Central America and the Caribbean (excluding offshore financial centres) were also stable, with notable growth in Costa Rica (15%). Flows into Chile, Colombia and Peru continued to decline (by 44%, 1% and 20%, respectively). In these three economies FDI flows were very dependent on the extractive industries, and last year's rise in commodity prices was not enough to stop the decline in investments that started three years ago.

FDI flows to *Africa* registered a marginal decline (-1% to an estimated US$49 billion). Harmful macroeconomic effects of the commodity bust were still being felt in some countries, although commodity prices have started to rise again. FDI fell in Nigeria (-24% to an estimated US$3.4 billion) and Angola (-20% to an estimated US$3.3 billion) amidst austerity measures. Egypt also saw FDI flows contract (-14% to an estimated US$6.9 billion). In turn, FDI increased into Central Africa's commodity-rich economies of the Congo (20% to an estimated US$2.4 billion) and the Democratic Republic of the Congo (29% to an estimated US$1.6 billion). South Africa had a notable recovery in FDI (43% to an estimated US$3.2 billion), although flows still remained low by historical standards. Ethiopia saw record FDI inflows (up 14% to an estimated US$3.7 billion), with increasing investments in the agricultural, manufacturing and health sectors.

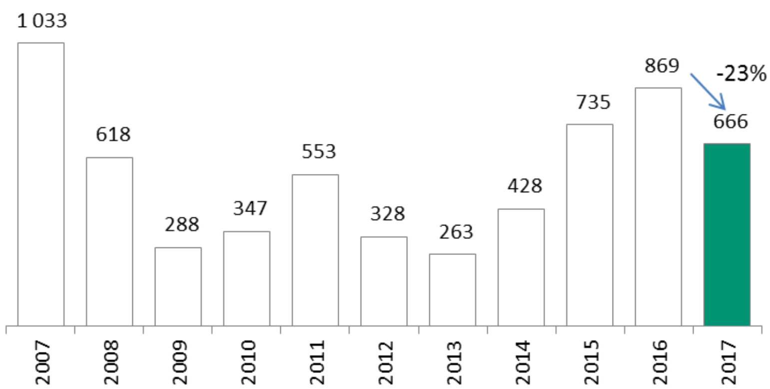
After a vigorous recovery in 2016, FDI flows to *transition economies* declined by 17% in 2017, to an estimated US$55 billion, their lowest level since 2005. The two main subregions experienced divergent trends again: in South-East Europe, inflows grew by 16%, to an estimated US$5 billion, after a decline in 2016. In turn, flows to the CIS and Georgia contracted by 20%, to an estimated US$50 billion. FDI declined in major recipient countries in the region: by 17% to US$31 billion in the Russian Federation, by 29% to US$6 billion in Kazakhstan, by 29% to US$3 billion in Azerbaijan, and by 25% to US$2.5 billion in Ukraine. In contrast, the expansion of FDI was widespread in South-East Europe, including in the largest recipient country of the sub-region, Serbia, where the rate of growth was 24% (to an estimated US$2.9 billion).

A slump in cross-border M&As

Cross-border M&A value contracted by 23% in 2017, reaching US$666 billion (figure 4). The decline was driven by a slump of 30% (to US$553 billion) in developed economies, while the value of cross-border M&As in developing economies increased by 44% (to US$100 billion) in 2017 after a sharp fall in 2016. In Europe, cross-border M&A activity remained sluggish compared to other developed regions, with the notable exception of Switzerland. The number of mega deals exceeding US$3 billion declined from 76 in 2015 to 70 in 2016 and 63 in 2017. The value of cross-border M&A sales was particularly weak in natural resources where a number of divestments took place. It also slowed down in manufacturing and, to a lesser extent, in services. In 2017, services accounted for more than 60% of the sales value.

Although the value of cross-border M&As at the global level is higher than the value of announced greenfield projects, the number of greenfield projects is still about twice that of cross-border M&As.

Figure 4. Value of cross-border M&As, 2007–2017
(Billions of US dollars)



Source: ©UNCTAD.
Note: Excludes Caribbean offshore financial centres.

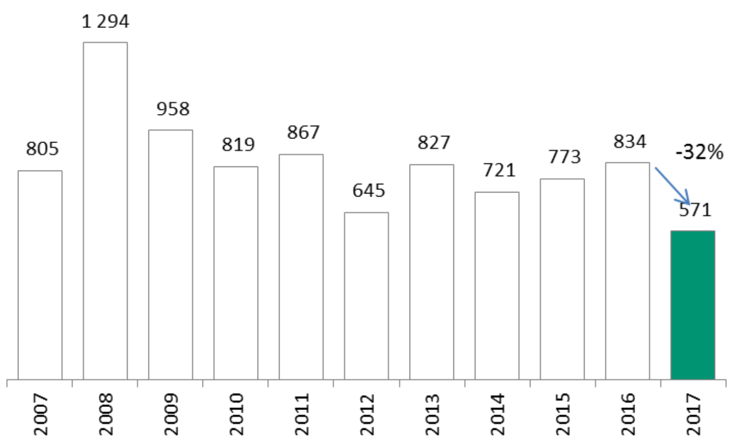
Fundamentals support a rise in FDI flows in 2018, but uncertainties abound

Based on macroeconomic fundamentals, including the accelerating growth of the world economy, global FDI flows are expected to bounce back in 2018, to almost $1.8 trillion. A synchronized upturn of economic growth in major economies, the gradual recovery in commodity prices, and improved profit prospects in various sectors could boost business confidence, and thus MNEs' appetite to invest. In 2018, global GDP growth is projected to edge up to 3.1% after a much stronger than expected 2017. GDP growth is expected in all developed economies, including the United States and the European Union. Some emerging economies will also perform well, with India taking the lead among emerging economies. World trade is also projected to expand at a faster rate, above 3%, although uncertainties still exist. Intra-Asian trade and North American imports are expected to remain strong. The improving macroeconomic outlook will have a direct positive effect on the capacity of MNEs to invest.

Nevertheless, elevated geopolitical risks and policy uncertainty could have an impact on the scale and contours of the FDI recovery in 2018. The possibility that protectionist rhetoric translates into trade restrictive actions, a worrying rise in global geopolitical tensions, and a rising economic toll from natural disasters may have an impact on FDI flows.

Preliminary data on the value of announced greenfield FDI projects show a decline of 32% to US$571 billion (-17% in number of projects), their lowest level since 2003 (figure 5). Project greenfield announcements were particularly sluggish in developing economies (-49% to US$261 billion), where the decline was widespread, across all regions. In contrast, their value increased moderately in developed countries (11%, to US$282 billion).

Figure 5. Value of announced greenfield investment projects, 2007–2017[a]
(Billions of US dollars)



Source: ©UNCTAD, based on cross-border M&A database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.
[a] Data for announced greenfield investment for 2017 are preliminary.
Note: Excludes Caribbean offshore financial centres.

In addition, tax reforms in the United States are likely to significantly affect investment decisions by United States MNEs, with consequences for global investment patterns. This will be the subject of a special issue of the Global Investment Trends Monitor.

The next regular issue of UNCTAD's Investment Trends Monitor will be released in mid-April 2018.

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