

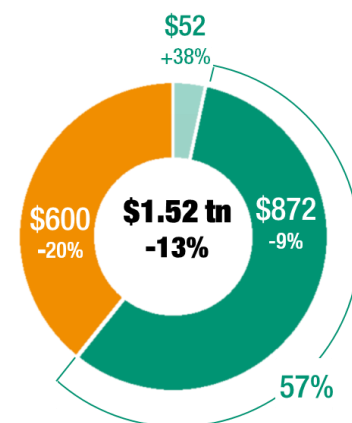
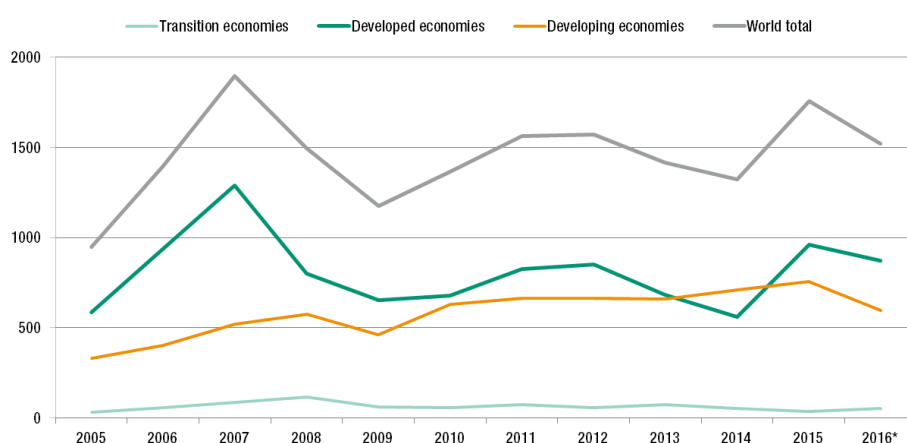
EMBARGO
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GLOBAL FDI FLOWS SLIP IN 2016, MODEST RECOVERY EXPECTED IN 2017

HIGHLIGHTS

- Global FDI flows fell 13% in 2016, reaching an estimated US\$1.52 trillion (figure 1), as global economic growth remained weak and world trade volumes posted anemic gains. This decline was not equally shared across regions, reflecting the heterogeneous impact of the current economic environment on countries worldwide.

Figure 1. FDI inflows: global and by group of economies, 2005–2016
 (Billions of US dollars)



Source: ©UNCTAD.

*Preliminary estimates.

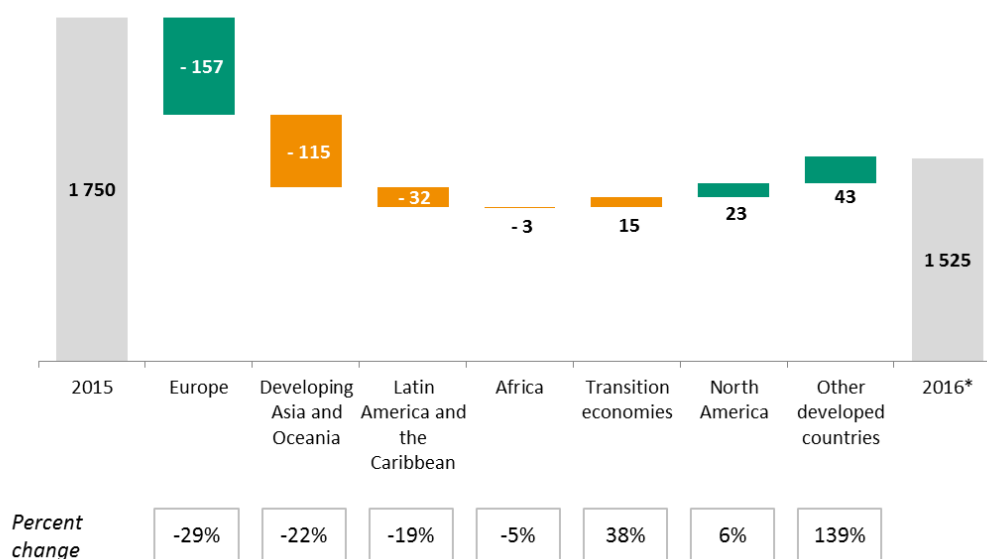
Note: Excluding Caribbean offshore financial centers.

- A dip in FDI flows to developed economies (-9% to an estimated US\$872 billion) masked significant variations among countries. FDI flows to Europe fell 29% to an estimated US\$385 billion, with a number of countries experiencing strong volatility in their inflows. This decline was tempered by modest growth in flows to North America (6%) and a sizeable increase in investment in other developed economies, principally Australia and Japan.

- *Slowing economic growth and falling commodities prices weighed on FDI flows to developing economies.* Inflows to these economies fell 20% (to an estimated US\$600 billion), due to significant decreases in Developing Asia and in Latin America and the Caribbean. Nevertheless, developing economies continue to comprise half of the top 10 host economies. There was a widespread downturn in cross-border M&A activity across developing subregions during the year, which fell 44% in terms of value.
- *FDI flows to transition economies rose by 38% to an estimated US\$52 billion.* This largely reflected a large increase in inflows in Kazakhstan as well as a strong uptick in flows to the Russian Federation.
- *The wave of cross-border M&As shows signs of ebbing.* The 13% increase in the value of net sales, which rose to US\$831 billion, pales when compared to the 67% and 68% increases registered in 2014 and 2015.
- *Greenfield FDI project announcements value rose by 5%,* but this was largely due to a handful of very large projects in a few countries. The vast majority of countries, in contrast, registered declines. Of particular concern was a decrease in the value of manufacturing projects.
- *Economic fundamentals point to a potential increase in FDI flows in 2017 by around 10%, but uncertainties abound.* Global economic growth is projected to accelerate, as are global trade volumes. Economic activity in developed countries and among commodities exporting emerging and developing economies should bolster investment activity. However, significant uncertainties about the shape of future economic policy developments could hamper FDI in the short-term.

Global FDI flows fell 13% in 2016, reaching an estimated US\$1.52 trillion, in a context of weak global economic growth and a lacklustre increase in the volume of world trade. Equity investments at the global level were boosted by a 13% increase in the value of cross-border mergers and acquisitions (M&As), which rose to their highest level since 2007, reaching US\$831 billion. The value of greenfield projects announcements reached an estimated US\$810 billion – a 5% rise from the previous year, although this was largely due to a number of very large projects announced in a handful of countries.

Figure 2. Regional contribution to global FDI flows, 2015–2016
(Billions of US dollars)



Source: ©UNCTAD.

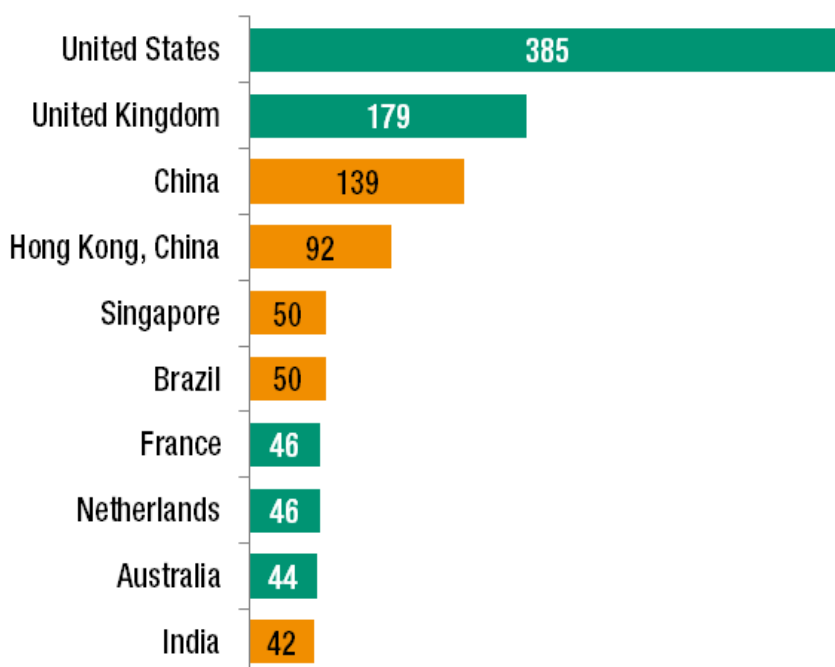
*Preliminary estimates.

Note: Excludes Caribbean offshore financial centres. Percent changes are calculated for each region relative to 2015.

At the regional level, falling flows to Europe (-29%), Developing Asia and Oceania (-22%), Latin America and the Caribbean (-19%) and Africa (-5%) reduced the global total (figure 2). In contrast, FDI flows rebounded among transition economies (38%) and more than doubled in other developed economies, thanks to a strong recover of investment in Australia and Japan. There was also continued growth – if less dynamic than in the previous year – of inflows in North America (6%).

As a result of these regional differences, the share of developed economies in world FDI flows as a whole is estimated to have risen further, reaching 57% of the total. Nevertheless, developing economies continue to comprise half of the top 10 host economies (figure 3). The United States remained the largest recipient of FDI, attracting an estimated US\$385 billion in inflows, followed by the United Kingdom with flows of US\$179 billion, vaulting up from 12th position in 2015. China remained in third position with a record inflow of US\$139 billion.

Figure 3. Estimated FDI inflows: top 10 host economies, 2016
(Billions of US dollars)



Source: ©UNCTAD.

Note: FDI estimations in this Trends Monitor are based primarily on quarterly FDI data derived from the (extended) directional principle, though there are some countries for which the asset/liability data are used for estimation.

A dip in FDI flows to developed economies masks significant variations among countries

FDI flows to developed economies fell (-9% to an estimated US\$872 billion) (table 1) from their high level recorded in 2015. Despite this decline, equity investment flows continued to exhibit vigour as cross-border M&As targeting the region registered an increase in value terms (21% to US\$779 billion), albeit with less dynamism than in the previous year. Significant shifts in inter-company lending across the region weighed on flows. The falling value of announced greenfield projects (-12% to US\$243 billion) points to some potential weakness in ongoing and future capital expenditures of affiliates of multinational enterprises (MNEs) in these markets.



The overall trend for developed economies was conditioned by FDI dynamics in Europe, where inflows experienced a significant fall of 29% to an estimated US\$385 billion. During 2016, a number of European countries experienced strong volatility in FDI flows compared to the previous year. Inflows in Ireland fell, with a net divestment of an estimated US\$1.2 billion after totaling US\$188 billion the previous year, as some foreign affiliates in the country decreased their loan liabilities to their parents. Inward flows also fell in Switzerland (from US\$70 billion to an estimated -US\$6 billion), Belgium (from US\$21 billion to an estimated -US\$19 billion) and the Netherlands (from US\$73 billion to US\$46 billion).

At the same time, flows into the United Kingdom rose almost six times from US\$33 billion to US\$179 billion, boosted by a surge of cross-border M&A megadeals targeting the country. These deals included the US\$101 billion acquisition of SABMiller PLC (United Kingdom) by Anheuser-Busch Inbev (Belgium) and the US\$32 billion purchase of ARM Holdings (United Kingdom) by SoftBank Group (Japan). There was also an increase in flows to France (from US\$40 billion to an estimated US\$46 billion) as the drawdown in reinvested earnings registered in previous years subsided. In Sweden, sharply higher reinvested earnings as well as an uptick in equity investment – due largely to the acquisition of Meda AB by Mylan NV (United States) for US\$7.2 billion – boosted FDI inflows, which rose from US\$6 billion to US\$25 billion.

Table 1. FDI inflows, cross-border M&As and announced greenfield projects, by region, 2015–2016
(Billions of US dollars)

Region	FDI inflows			Cross-border M&As			Announced greenfield project values		
	2015	2016 ^a	Growth rate (%)	2015	2016	Growth rate (%)	2015	2016 ^a	Growth rate (%)
World	1 750	1 525	-13	735	831	13	769	810	5
Developed economies	963	872	-9	642	779	21	276	243	-12
European Union	475	389	-18	268	359	34	161	139	-14
North America	391	414	6	318	365	15	85	68	-19
Developing economies	749	600	-20	83	47	-44	455	540	19
Africa	54	51	-5	20	10	-53	68	103	52
Latin America and the Caribbean	166	135	-19	11	3	-71	73	75	3
Developing Asia	527	413	-22	50	34	-32	314	361	15
Transition economies	38	52	38	10	5	-52	38	28	-26

Source: ©UNCTAD.

^a Preliminary estimates.

Note: World FDI inflows are projected on the basis of 158 economies for which data are available for part of 2016 or full year estimate, as of 23 January 2017. Annual figures are estimated based on available partial-year data, in most cases up to the third quarter of 2016. The proportion of inflows from these economies in total inflows to their respective region or subregion in 2015 is used to extrapolate 2016 regional data. Data exclude the financial centres in the Caribbean.

FDI flows to North America increased modestly (6% to US\$414 billion), despite a 15% increase in the value of cross-border M&As in the region. Inflows in Canada retreated (from US\$43 billion to an estimated US\$29 billion), as M&A sales and greenfield projects in the country tumbled. Flows to the United States grew by 11% (from US\$348 billion to an estimated US\$385 billion), bolstered by strong equity investment inflows as cross-border M&As in the country rose 17% in value – led by a number of megadeals. Counted among these deals were the US\$39 billion acquisition of the generic drugs unit of Allergan PLC (United States) by Teva Pharmaceutical Industries Ltd (Israel) and the US\$31 billion purchase of Baxalta Inc (United States) by Shire PLC (Ireland).

Among other developed countries there was a sharp rise in FDI activity (139% to US\$73 billion), thanks to strong flows to Australia and Japan. In Australia FDI inflows more than doubled, reaching US\$44 billion on the back of strong equity investment activity and a significant increase in lending to foreign affiliates in the country from their foreign parents. In Japan there was a swing from net divestment in 2015 to positive inflows in 2016 (from -US\$2 billion to US\$16 billion) largely due to an upturn in cross-border M&As targeting the country, which rose sharply from US\$3 billion to US\$20 billion.



Flows to developing economies weaken, led by a decline in Developing Asia and Latin America

Slowing economic growth and falling commodities prices weighed on FDI flows to developing economies in 2016. Inflows to these economies fell 20% (to an estimated US\$600 billion) in the year, because of significant falls in Developing Asia and in Latin America and the Caribbean (table 1). There was a widespread downturn in cross-border M&A activity across developing subregions during the year, which fell 44% in terms of aggregate value. In contrast, the value of announced greenfield projects rose 19% to reach US\$540 billion, but this was largely due to the announcement of a few very large investments in a small number of countries, as the majority of countries recorded falls.

In *Developing Asia* the decline in inflows (-22% to an estimated US\$413 billion) was relatively widespread, with every major subregion registering double digit reductions. Nevertheless, in absolute terms the majority of the decline in flows to the region was centered in Hong Kong (China) – down from US\$175 billion to an estimated US\$92 billion – returning to the levels prevailing before the spike in 2015. FDI inflows in Thailand, Turkey and Singapore also fell sharply in absolute terms. Flows to India fell by 5% to an estimated US\$42 billion, but nevertheless ranked among the top ten largest FDI recipient economies. In contrast, foreign investment in mainland China remained robust rising by 2.3% to a new record of about US\$139 billion. There was a rebound in flows to the Republic of Korea, at US\$9.4 billion, up from their relatively low level of US\$4 billion in 2015. FDI to Pakistan also rose significantly (82% to an estimated US\$1.6 billion) as a result of rising Chinese investment in infrastructure.

Economic recession in *Latin America and the Caribbean*, coupled with weak commodities prices for the region's principal exports, factored heavily in the decline in FDI flows to the region (down 19% to US\$135 billion). In South America there were sizable falls in Brazil (from US\$65 billion to an estimated US\$50 billion) and Chile (from US\$16 billion to an estimated US\$11 billion). In Central America, despite its relatively stronger economic performance, flows also fell led by a 20% reduction in Mexico (from US\$33 billion to US\$26 billion).

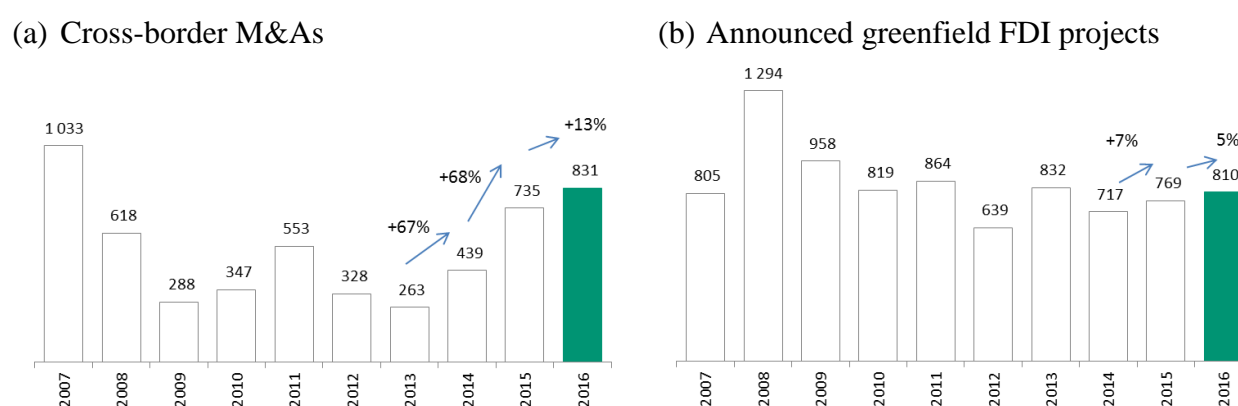
FDI flows to *Africa* also registered a decline (-5% to US\$51 billion), with the region sharing similar external vulnerabilities with Latin America. The low level of commodity prices continues to have an impact on resource-seeking FDI. Flows to Angola more than halved after surging in 2015. Mozambique saw its FDI fall 11%, but the level was still significant at an estimated US\$3 billion. However, there was some uptick in flows to parts of Africa, centred on traditional FDI recipients such as Egypt (from US\$6.9 billion to US\$7.5 billion) and Nigeria (from US\$3.1 billion to US\$4 billion). Similarly South Africa saw a 38% increase in FDI inflows, though they remained at a relatively low level of US\$2.4 billion

FDI flows to *transition economies* rose by 38% to an estimated US\$52 billion. This largely reflected a doubling of inflows in Kazakhstan (from US\$4 billion to US\$8.1 billion) as well as a 62% uptick in flows to the Russian Federation (from US\$12 billion to an estimated US\$19 billion). In Kazakhstan rising FDI flows were associated with a strong increase in mining exploration activities. In the Russian Federation the increase is principally attributed to investments associated with the privatization of state-owned assets: the government sold a 19.5% stake in the state-owned oil company Rosneft in a deal worth around US\$11 billion to a consortium led by Glencore (Switzerland) and the Qatari sovereign wealth fund.

The wave of cross-border M&As shows signs of ebbing, while greenfield announcements hint at stagnant capital expenditures by MNEs

Cross-border M&A activity remained substantial in 2016, reaching a new post-2007 high, but showed signs of slowing during the course of the year (figure 4). The 13% increase in the value of net sales, which rose to US\$831 billion, pales when compared to the 67% and 68% increases registered in 2014 and 2015. Nevertheless, sales in Europe also grew at markedly slower rates compared with those of previous years. The volume of cross-border M&As in developing and transition economies fell sharply in value terms (-44% and -52%, respectively), leaving their share in the global total at just 6%, compared with an average of 19% for the 2006–2015 period.

Figure 4. Value of cross-border M&As and announced greenfield investment projects, 2007–2016^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 2016 are preliminary.

Note: Excludes Caribbean offshore financial centres.

The value of greenfield FDI project announcements rose by 5% in 2016 at US\$810 billion. However, apart from a handful of very large investments in a small number of countries, there was a widespread decline worldwide. At the sectoral level there was a decrease in the value of manufacturing projects (-9% to US\$291 billion) across all industries. Announced investments in the primary sector also plummeted (-46% to US\$19 billion) reflecting the difficult financial constraints that many extractive MNEs currently face. Only services registered an increase (21% to US\$501 billion), reflecting a surge in construction investment (69% to US\$144 billion) mostly in a number of countries.

Fundamentals support a rise in FDI flows in 2017, but uncertainties abound

Looking ahead, economic fundamentals are supportive of a potential rebound in FDI flows in 2017. Global economic growth is projected to accelerate in the coming year, reaching 3.4% compared to the post-crisis low of 3.1% in 2016. Growth in developed countries is expected to improve, including in the United States through fiscal stimulus. Emerging and developing economies are also forecast to rebound significantly in 2017, led by a sharp rise in growth in natural resources exporting countries as commodities prices are expected to increase, especially for crude oil. Moreover, greater economic activity will help boost world trade volumes, which are forecast to expand by 3.8% in 2017 compared to just 2.3% in 2016. In this context, investment activity may also quicken. UNCTAD projects that global FDI flows will increase by around 10% over the year.



Nevertheless, there are significant uncertainties that could have a material impact on the scale and contours of any FDI recovery in 2017. The "normalization" of monetary policy in the United States – after nearly a decade of historically low interest rates – could result in a significant shift in composition of capital flows, with implications for exchange rates and financial systems throughout the world and especially for developing economies. Rising cost of capital may hinder investment by MNEs which have taken on significant levels of corporate debt in recent years. There is also substantial uncertainty about the shape of economic policies in the near-future, especially in developed economies, which may serve to dampen FDI. Political developments such as the decision by the United Kingdom to exit the European Union (Brexit), announcements by the incoming administration in the United States to renegotiate key trade agreements such as NAFTA and to leave the TPP, as well as recent and upcoming elections in Europe have all heightened these uncertainties. For emerging and developing economies, a protracted period of developed-country investor uncertainty could serve to undermine the upswing in investment flows to their countries.

A key concern for policymakers continues to be how to reactivate productive investment in their economies to generate employment and spur advances in productivity. Despite the acceleration in economic activity, the ILO estimates that global employment growth will continue to decelerate in 2017, falling to 1.1%. To take full advantage of the improving global economic environment countries must make boosting domestic and foreign investment key policy priorities. Within the ambit of foreign investment, in recent years FDI flows have largely been shaped by cross-border M&As that have not necessarily resulted in a concomitant increase in gross fixed capital formation. Investment promotion activities to attract greenfield projects could pay significant dividends, especially considering that the value of greenfield announcements globally, while an imprecise indicator, suggest that the capital expenditure levels of foreign affiliates remain well below their 2008 peak. To that end countries may consider bringing their investment policies in line with UNCTAD's Investment Policy Framework for Sustainable Development with the objective of making investment work for sustainable development and inclusive growth.

FDI recovery continues along a bumpy road. Particularly of concern is the sharp drop-off in announcements of manufacturing investment projects, which play such an important role in generating badly needed productivity improvements in developing economies.





The next issue of UNCTAD's Global Investment Trends Monitor will be released in mid-April 2017.

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