



GLOBAL INVESTMENT TRENDS MONITOR



No.24 6 OCTOBER 2016

EMBARGO
6 OCTOBER 2016, 17:00 GMT
(13:00 New York, 19:00 Geneva)

GLOBAL INVESTMENT PROSPECTS ASSESSMENT 2016–2018

HIGHLIGHTS

- *Global foreign direct investment (FDI) flows are expected to decline by 10–15 per cent in 2016*, reflecting the fragility of the global economy and the persistent weakness of aggregate demand, sluggish growth in some commodity exporting countries, effective policy measures to curb tax inversion deals and a slump in multinational enterprises (MNE) profits in 2015. Over the medium term, global FDI flows are projected to resume growth in 2017 and to surpass \$1.8 trillion in 2018, but they will remain below the pre-crisis peak.
- *FDI prospects remain muted in most regions, although there are some bright spots.* FDI inflows to Africa are likely to return to a growth path as a result of liberalization measures and planned privatizations. Flows to developing Asia are expected to decline in 2016 by about 15 per cent, returning to 2014 levels. Latin America and the Caribbean may see their FDI slow down further in 2016 as challenging macroeconomic conditions persist. After the significant decline recorded in 2015, FDI flows to transition economies are expected to increase modestly in 2016. The recovery of FDI activity in developed economies recorded in 2015 is unlikely to be sustained in 2016.
- *Diverging trends in FDI prospects of some megagroupings.* UNCTAD forecasts that FDI flows to G20 members could decline by 5 to 10 per cent in 2016, falling to \$830–880 billion. FDI flows to APEC members are expected to fall by 15 to 20 per cent to \$760–810 billion, reverting to normal patterns after unusually high expansion in a number of economies in 2015. Flows to BRICS countries could return to growth, increasing by an average of 10 per cent to \$270–290 billion.
- *Overall, expectations about short term FDI flows are best described as mildly pessimistic.* FDI will decline in both developing and developed economies.

This Report, including both data and analysis contained herein, can be cited provided acknowledgement is explicitly given to UNCTAD, together with a reference to the Report. This publication has not been formally edited.



INTRODUCTION

UNCTAD's Global Investment Prospects Assessment (GIPA) is a forecasting system that provides short- and medium-term projections for foreign direct investment (FDI) at the global, regional and industry levels, as well as future investment strategies of multinational enterprises (MNEs).

GIPA is a unique and sophisticated analytical tool and its outputs can empower policymakers worldwide to formulate proactive and targeted policies for promoting and facilitating cross-border investment. Its forward looking perspective on FDI trends is particularly useful at a time when high economic and political uncertainty has become a new normal, and the road to global FDI recovery remains bumpy.

The GIPA was established in 2004 and its outputs have been a regular feature in UNCTAD's annual *World Investment Report*. The outputs of the Prospects Assessment include:

- Three-year forecasts for global FDI flows and flows to developed, developing and transition economies.
- Detailed prospects analyses for geographical regions as well as mega-regional groupings (e.g. G20, APEC, BRICS).
- Insights on sectors and industries and on modes of entry (greenfield and cross-border mergers and acquisitions).
- Listings of top prospective destination economies for FDI and top investor economies.
- Analyses of macroeconomic, policy and business factors influencing future FDI activities.

The GIPA is based on multiple analytical tools:

Surveys of the largest MNEs. The surveys provide perspectives on MNEs' investment outlook as well as on wider FDI trends. Respondent companies are among the largest and most internationalized MNEs as per UNCTAD's transnationality index, a composite index based on foreign assets, foreign employees and foreign sales.

Expert group meetings with investment professionals. Members of the GIPA expert group include consultants and advisers to MNEs and analysts dealing with FDI issues. They provide insights on FDI prospects, expected industry and regional patterns, and MNE intentions concerning the relocation of corporate functions and modes of investment.

Surveys of Investment Promotion Agencies (IPAs). IPAs provide insights into investors' attitudes and activities in their countries gained through their daily contact with foreign investors. The surveys reveal perceptions of the most likely sources of FDI, investor strategies as well as key policy factors, promotion strategies and risks.

Worldwide monitoring of investment policies. UNCTAD's global investment policy database tracks measures affecting cross-border investment, distinguishing liberalization and promotion measures, and restrictions and regulations. The overall picture provides an indication of trends in investment attractiveness and of government intentions relating to the role of foreign investment in

individual economies and regions. The monitor also tracks developments in international investment agreements (including those with FDI market access commitments).

Econometric forecasting. UNCTAD's forecasting model projects annual FDI inflows at the global and regional levels. It uses panel data (incorporating forecasts for economic indicators provided by various international organizations) for almost 100 economies accounting for more than 90 per cent of FDI inflows in their respective regions. The projections are further informed by short-term trends that can be observed in UNCTAD's quarterly FDI index, and by leading indicators such as MNE profitability and indicators with early release dates such as cross-border merger and acquisitions (M&A) deals and announced greenfield investments.

KEY FACTORS INFLUENCING FUTURE FDI

Global FDI inflows are expected to decline by 10–15 per cent in 2016, reflecting the fragility of the global economy, persistent weakness of aggregate demand, effective policy measures to curb tax inversion deals and a slump in MNE profits. Elevated geopolitical risks and regional tensions could further amplify the expected downturn. FDI flows are likely to decline in both developed and developing economies. Over the medium term, global FDI flows are projected to resume growth in 2017 and to surpass \$1.8 trillion in 2018 (table 1).

Table 1.

Projections of FDI flows, by group of economies (Billions of dollars and per cent)

	2013	2014	2015	Projections		
				2016	2017	2018
Global FDI inflows	1 427	1 277	1 762	1 500 to 1 590	1 600 to 1 720	1 730 to 1 880
Developed economies	680	522	963	830 to 870	870 to 930	938 to 998
Developing economies	662	698	765	640 to 675	690 to 735	738 to 818
Transition economies	85	56	35	37 to 47	40 to 55	43 to 56
	Growth rates			Growth rate projections		
<i>Memorandum</i>					Averages	
	2013	2014	2015	2016	2017	2018
Global FDI inflows	- 6	- 11	38	-(10 to 15)	~7	~8
Developed economies	4	- 23	83	-(10 to 14)	~6	~8
Developing economies	1	- 5	9	-(12 to 16)	~8	~9
Transition economies	30	- 33	- 38	+(6 to 34)	~13	~12

Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

The world economy continues to face major headwinds, which are unlikely to ease in the near term. Global GDP is expected to expand by only 2.4 per cent, the same relatively low rate as in 2015 (table



2). A tumultuous start to 2016 in global commodity and financial markets, added to the continuing drop in oil prices, have increased economic risks in many parts of the world. The momentum of growth slowed significantly in some large developed economies towards the end of 2015. In developing economies, sluggish aggregate demand, low commodity prices, mounting fiscal and current account imbalances and policy tightening have further dampened the growth prospects of many commodity-exporting economies. Elevated geopolitical risks, regional tensions and weather-related shocks could further amplify the expected downturn.

Table 2.

Real growth rates of GDP and gross fixed capital formation (GFCF) 2014–2017 (Per cent)

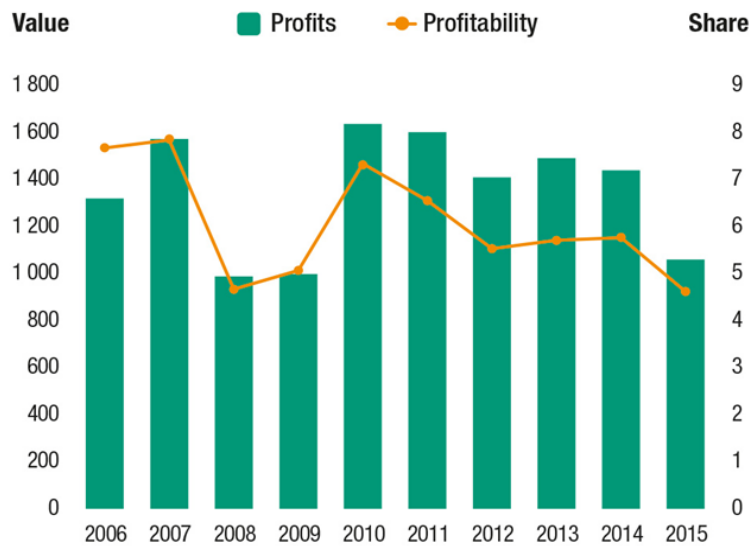
Variable	Region	2014	2015	2016	2017
GDP growth rate	World	2.6	2.4	2.4	2.8
	Developed economies	1.7	1.9	1.8	1.9
	Developing economies	4.4	3.8	3.8	4.4
	Transition economies	0.9	-2.8	-1.2	1.1
GFCF growth rate	World	3.8	2.2	3.2	4.2
	Advanced economies ^a	2.8	2.5	2.5	3.2
	Emerging and developing economies ^a	4.5	2.0	3.8	4.8

Source: ©UNCTAD, based on United Nations (2016) for GDP and IMF (2016) for GFCF.

^a IMF's classifications of advanced, emerging and developing economies are not the same as the United Nations' classifications of developed and developing economies.

The global economic outlook and lower commodity prices has had a direct effect on the profits and profitability of MNEs, especially in extractive industries. After two years of increase, profits of the largest 5,000 MNEs slumped in 2015 to the lowest level since the global economic and financial crisis of 2008–2009 (figure 1).

Figure 1. Profitability and profit levels of MNEs, 2006–2015
 (Billions of dollars and per cent)



Source: ©UNCTAD, based on data from Thomson ONE.

Note: Profitability is calculated as the ratio of net income to total sales.

The value of announced cross-border deals may be less affected than in recent years by purely tax-driven deals, as the United States Treasury Department imposed new measures to rein in corporate inversions in April 2016. The new rules, the Government’s third wave of administrative action against inversions, make it harder for companies to move their tax domiciles out of the United States and then shift profits to low-tax countries. As a result, the \$160 billion merger of pharmaceutical company Pfizer (United States) with Ireland-based Allergan Plc was cancelled.

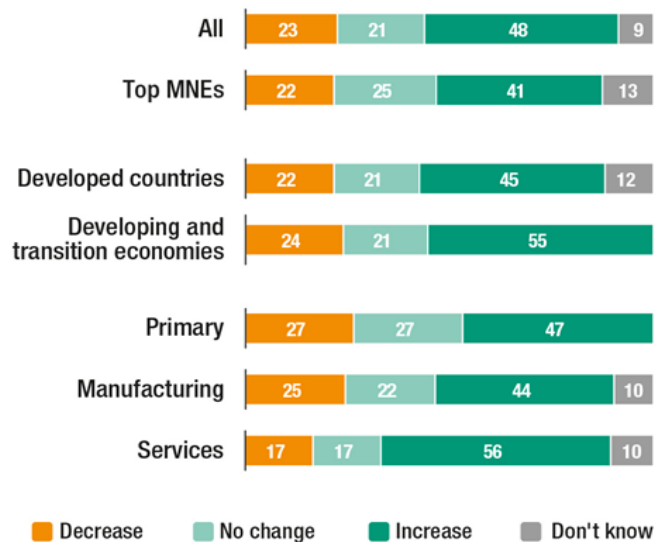
Over the medium term FDI flows are projected to resume growth in 2017 and surpass \$1.8 trillion in 2018, reflecting the projected increase in global growth.

GLOBAL FDI PROSPECTS AND MNE STRATEGIES

a. Global FDI activity outlook

This year's MNE survey results reveal muted overall expectations for FDI prospects over the next three years, with less than half of all MNEs anticipating FDI increases to 2018; moreover, only 40 per cent of executives at top MNEs expect an increase (figure 2).

Figure 2. Executives' expectations for global FDI activity level, 2016–2018
 (Per cent of executives based in each region and sector)

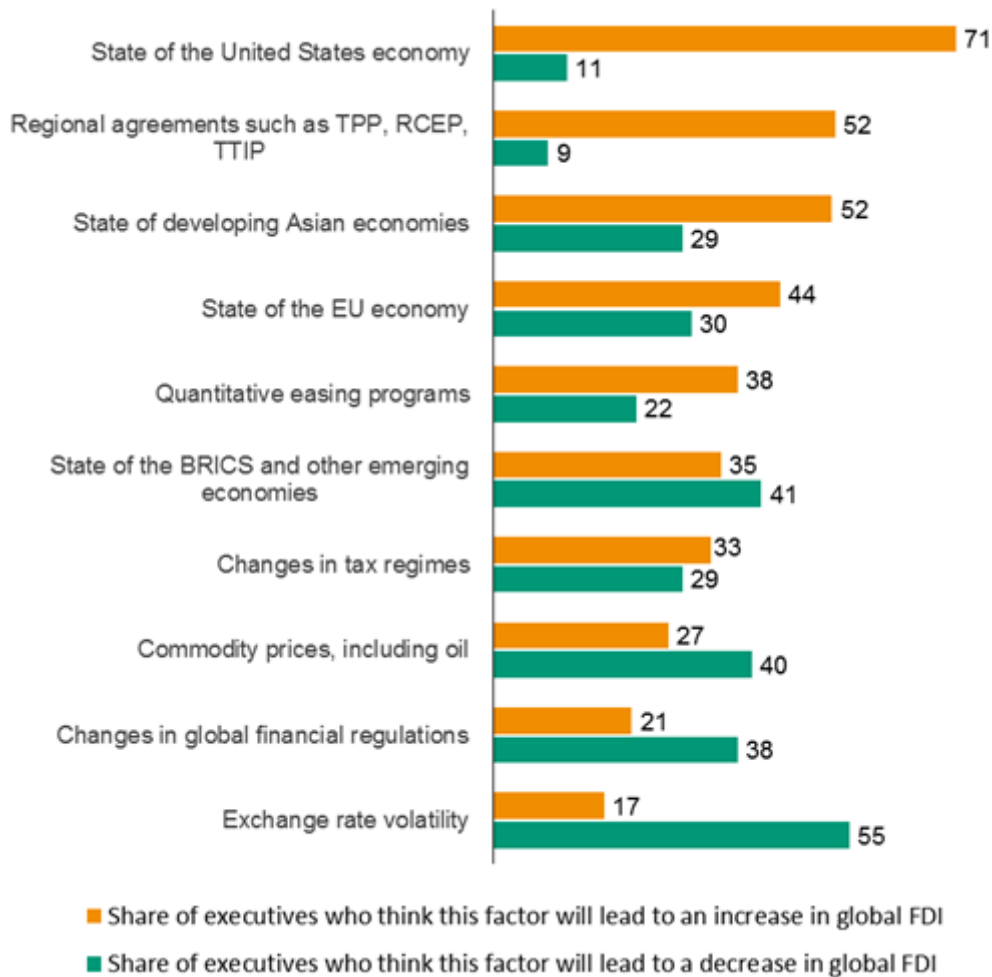


Source: ©UNCTAD business survey.

Note: The top MNEs are the respondents from among the 100 largest non-financial MNEs worldwide, ranked by foreign assets.

Macroeconomic factors, such as exchange rate volatility, lower commodity prices and debt concerns in emerging markets are among the factors cited as influencing future global FDI activity (figure 3). However, there are differences across sectors and between economic groupings. Executives from developing and transition economies are more optimistic than those at MNEs headquartered in developed countries; and not unexpectedly, given the decline in commodity prices, MNEs from the primary sector are more pessimistic than those in the manufacturing and, especially, services sectors (figure 2).

Figure 3. Macroeconomic and policy factors influencing future global activity, 2016–2018 (Per cent of all executives)



Source: ©UNCTAD business survey.

b. Factors influencing global FDI activity

MNE executives do not universally agree on the likely impact – positive or negative – of potential factors on future global FDI activity; in some cases, it is a matter of perceptions (impressions of “the state of the EU economy”, for instance, depend on the origin of the investor, the industry or the motive behind an investment) and in others, categories are complex (e.g. some BRICS are doing better than others). However, executives overwhelmingly considered factors such as the state of the United States economy; agreements such as the Transatlantic Trade and Investment Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TTIP); ongoing technological change and the digital economy; global urbanization; and offshoring as likely to boost FDI between now and 2018 (figures 3 and 4). Clearly, MNEs have their eyes on longer-term

trends such as rising urbanization in developing as well as developed countries (and hence, for instance, potential consumer markets), the digital economy and prospective megagroupings. Geopolitical uncertainty, debt concerns, terrorism and cyberthreats are almost universally considered in a negative light and as likely to dampen FDI activity.

Figure 4. Top 3 corporate and external factors, 2016–2018
 (Per cent of all executives)

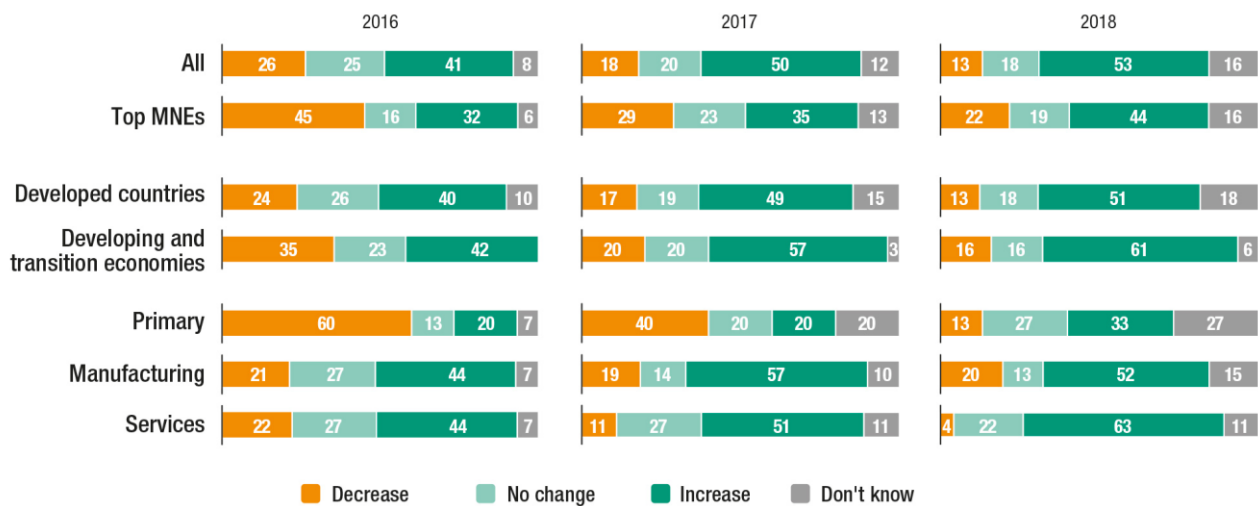


Source: ©UNCTAD business survey.

c. FDI spending intentions

The mix of factors influencing FDI activity, combined with uncertainty in the near term, translates into a mildly gloomy picture for FDI spending over the next three years. Overall about 40 per cent of executives expect their companies to increase FDI spending in 2016, rising to 53 per cent by 2018; while 26 per cent expect a fall this year, declining to 13 per cent by 2018 (figure 5). Top MNEs, which invest the most, are far more pessimistic. Only 32 per cent expect to spend more this year, while 45 per cent expect less FDI spending; and this marked difference with MNEs as a whole persists to 2018.

Figure 5. Executives’ global FDI spending intentions, 2016–2018, with respect to 2015 levels (Per cent of responding executives, based in each region and sector)



Source: ©UNCTAD business survey.

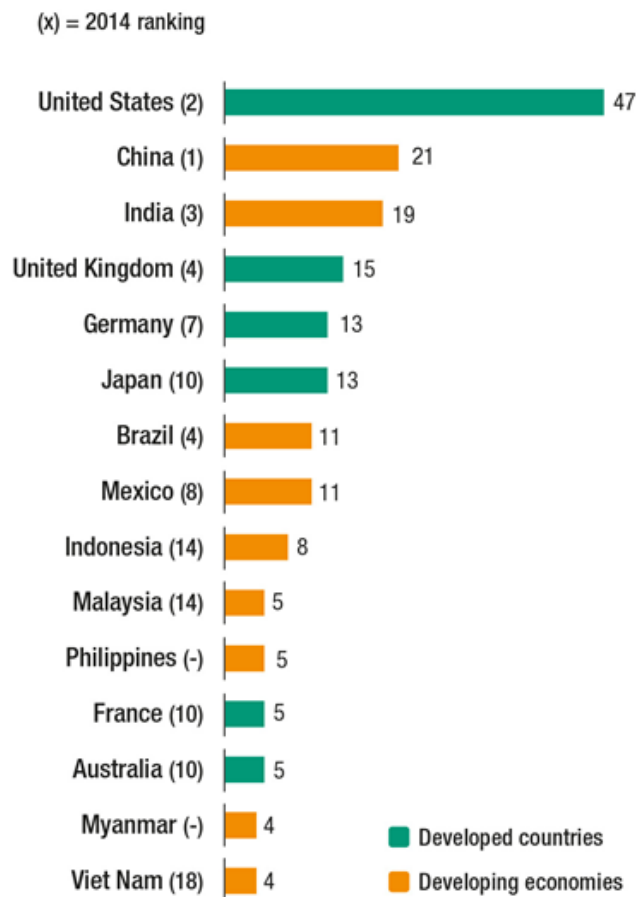
While developing- and transition-economy MNEs are more optimistic than those from developed countries overall (figure 2), a bigger proportion are expecting to spend less (35 to 24 per cent) in 2016 (figure 5). This reflects the difficult investment environment currently faced by MNEs from emerging economies. The biggest difference in spending, however, is between different sectors. Sixty per cent of MNEs in the primary sector – mainly oil, gas and mining – anticipate lower FDI expenditures this year, with only a fifth expecting an increase. This compares with MNEs in manufacturing and services, where a little over 20 per cent expect a fall and over 40 per cent an increase in both sectors. Moreover, the slump in prices and activity in the primary sector is expected to persist. By 2018 still only 33 per cent of MNEs in the primary sector expect to be spending more. The equivalent proportion for MNEs in manufacturing and services is much higher, at 52 and 63 per cent respectively.

d. Most attractive global FDI locations

MNEs’ three top prospective host countries – China, India and the United States – remain unchanged in this year’s survey compared with recent years, though the order has changed since last year (figure 6). However, lower down in the ranking there has been some change. In particular Hong Kong (China) and Singapore do not rank in the top 14, while the Philippines and Myanmar have entered the list. Eight of the top prospective host countries are developing economies in Asia and in Latin America and the Caribbean, which reflects the longer-term prospects of these two regions. Interestingly, the list does not include major destinations of inward investment in 2015 (and recent years), including Belgium, Canada, Ireland, Luxembourg and the Netherlands (as well as Hong Kong (China) and Singapore).

Figure 6.

MNEs' top prospective host economies for 2016–2018
 (Per cent of executives responding)



Source: ©UNCTAD business survey.

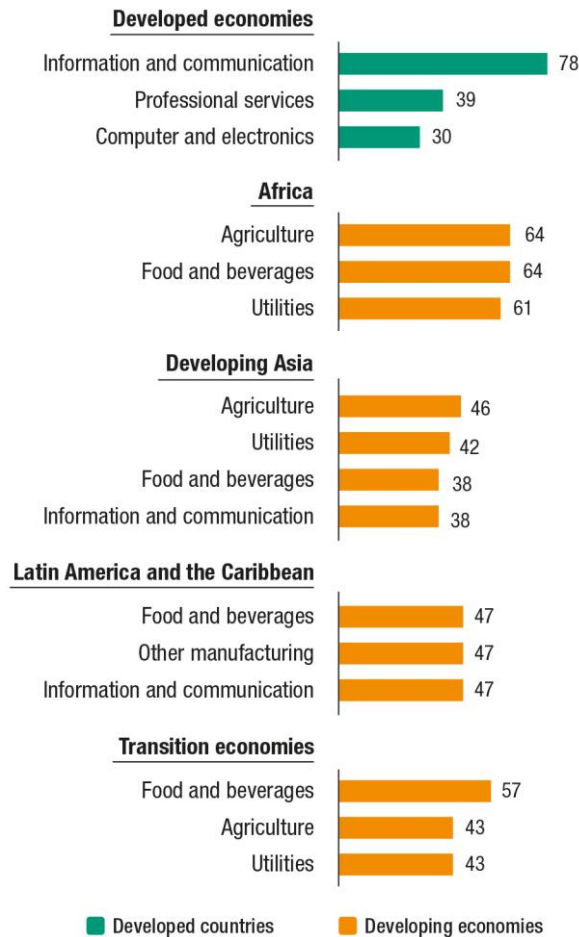
e. FDI prospects by industry

IPAs surveyed this year identified the most promising industries for attracting FDI to their country. There are differences between regions and – mirroring the MNE survey – extractive industries do not appear among the most promising in any region. Information and communication is identified as one of the top most promising industries in three regions – developed countries, developing Asia and Latin America and the Caribbean (figure 7).

The industries regarded as most promising by IPAs in each region reflect the regional level of development, economic endowments and specialization. Thus, in addition to information and communication, IPAs in developed countries also select professional services and computers and

electronics as being among the most promising for attracting FDI, while for developing and transition regions, industries most commonly chosen by IPAs are agriculture, food and beverages, and utilities.

Figure 7. IPAs' selection of most promising industries for attracting FDI in their own economy, by region (Per cent of IPAs responding)



Source: ©UNCTAD business survey.

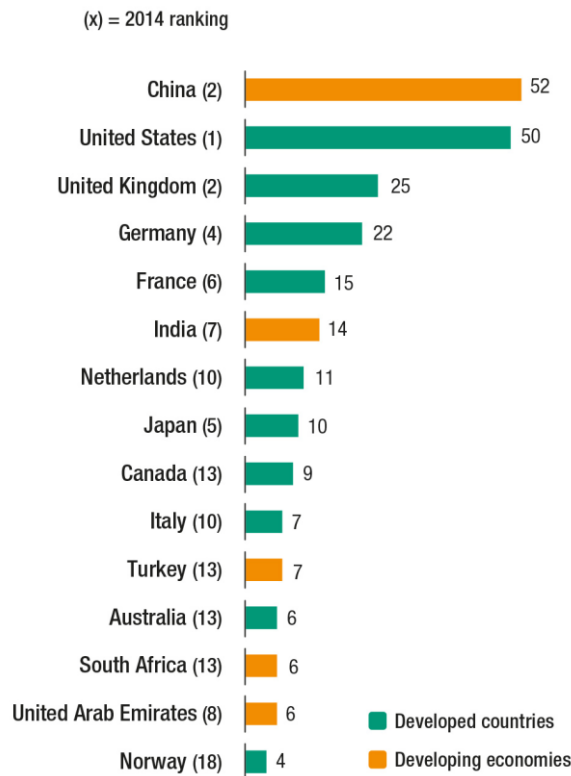
For a large, middle-income region such as Latin America and the Caribbean, it is not surprising that food and beverages are deemed a promising industry; but the selection of “other manufacturing” by local IPAs, which includes everything from jewelry to medical equipment, indicates that there is a degree of niche specialization in the region. Developing Asia includes a very large number of countries, with vastly different endowments, from least developed countries to highly advanced economies. The most promising industries in this region reflect this diversity: agriculture, utilities, food and beverages and information and communication.

f. Predicted sources of FDI

The most promising sources of investment, from the perspective of IPAs, is little changed from previous years. Compared with 2015 India has moved up, as has Canada, while Japan has moved down and Spain has dropped out of the list. A number of potential investors, especially from developing economies, are perhaps magnified in terms of expectations, compared with their actual investments (figure 8), but this probably reflects IPAs awareness of South–South and regional proximity and trends.

Thus, three quarters of African agencies have identified China as their most promising investor, despite its slowing economy and decreasing demand for oil and minerals. Similarly, increased investment by India and Turkey (including in transition economies and landlocked countries in both cases) has been observed; and although South Africa is investing less than in the past, it remains a big source in Southern Africa.

Figure 8. IPAs' selection of most promising home economies for 2016–2018
 (Per cent of IPA respondents selecting economy as a top source of FDI)



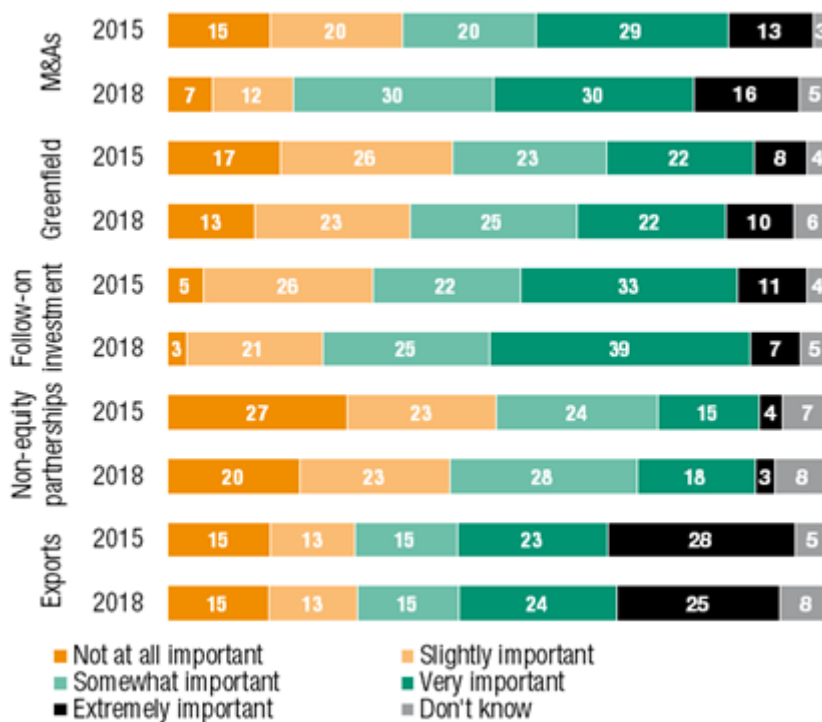
Source: ©UNCTAD business survey.

g. MNE strategies: mode of entry

Consistent with their internationalization intentions, executives indicated that cross border deals and exports will continue to be the preferred ways to enter foreign markets in the next few years (figure 9). This year's results suggest that companies are more concerned with consolidating their position and completing their initial investments rather than engaging in new greenfield investment; 44 per cent of respondents considered follow - on investments very or extremely important in 2015, rising to 46 per cent by 2018. In comparison only 30 per cent of MNEs considered greenfield investment very or extremely important in 2015. As in the past years, non-equity modes (NEMs) is the least preferred way to expand abroad in 2015, and are considered very important only by about a fifth of all executives with little increases over the years.

Figure 9.

MNE strategies: mode of entry
(Per cent of respondents)



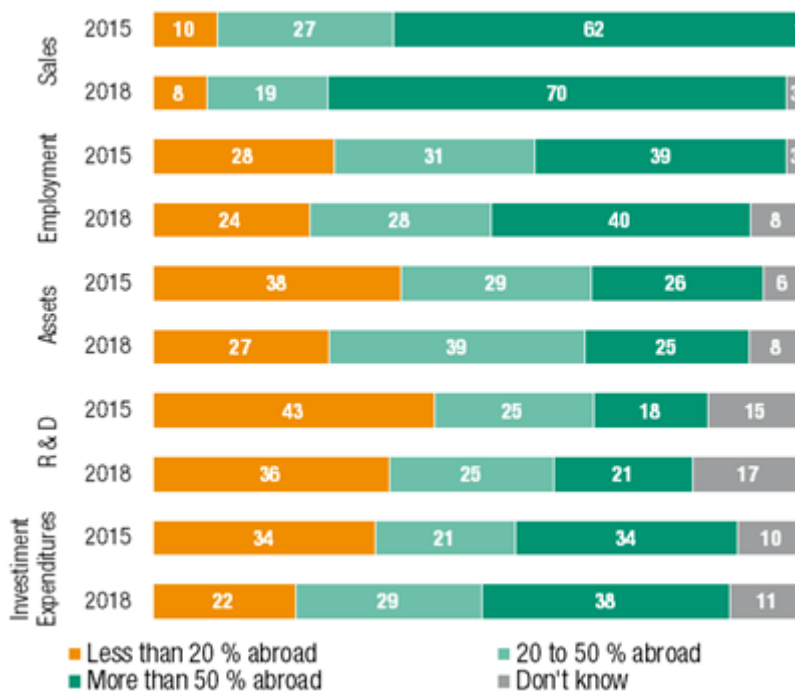
Source: ©UNCTAD business survey.

h. MNE internationalization trends

In spite of lower investment intentions, MNEs show a continued desire to internationalize their operations (figure 10). This is especially true for foreign sales where the share of respondents expecting the foreign revenues of their company to account for more than half of total sales is expected to jump from about 62 per cent of all respondents in 2015 to 70 per cent in 2018. Companies that are at

the initial stage of their internationalization process in 2015 are the most dynamic indicating bold internationalization plans for the next three years. For example, about 10 per cent of companies that have less than 20 per cent of assets abroad in 2015 plan to increase their foreign assets to a share between 20 and 50 per cent of their total assets by 2018. Similarly, almost 12 per cent of those MNEs that last year invested less than 20 per cent abroad intend to significantly increase their foreign expenditures; some even by more than 50 per cent. The internationalization intentions of employment and Research and Development (R&D) have the most stable outlook. However, research and development activities, while still maintaining their main location in headquarters, are still showing increasing internationalization intentions by MNEs with the proportion of companies predicting more than 50 per cent of R&D taking place abroad increasing from 18 per cent in 2015 to 21 per cent in 2018.

Figure 10. Internationalization trends, 2015 and 2018
(Per cent of respondents)



Source: ©UNCTAD business survey.



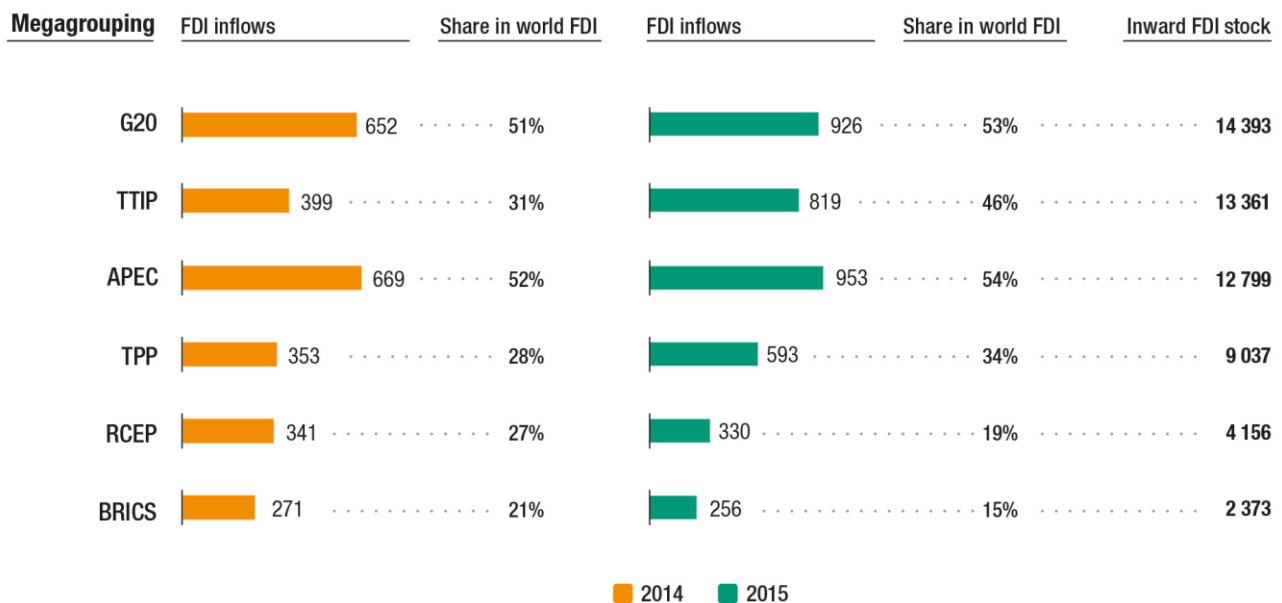
FDI PROSPECTS IN MEGAGROUPINGS

Megagroupings such as the G20, the TTIP, Asia-Pacific Economic Cooperation (APEC), the TPP, the RCEP and the BRICS account for a significant share of global FDI (figure 11).

The economic collaboration in megagroupings is raising expectations of higher future FDI flows into these groups from intra-regional and extra-regional sources. The prospect of a large regional market, liberalization, removal of tariff barriers and complementarity of locational advantages are expected to encourage companies from inside and outside each grouping to establish a stronger presence. Megagroupings are expected to increase opportunities for market-seeking, resource-seeking and efficiency-seeking FDI and to lead to an evolving investment environment that will influence greater intra-economic group value chain activity. However, as inflows to megagroupings are currently highly concentrated, their short-term FDI prospects will continue to be influenced by few large economies.

Figure 11.

FDI inflows in selected megagroupings, 2014 and 2015
(Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Note: In descending order of 2015 inward FDI stock. G20 = includes only the 19 member countries (excludes the European Union); TTIP = Transatlantic Trade and Investment Partnership (under negotiation); APEC = Asia-Pacific Economic Cooperation; TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership (under negotiation); BRICS = Brazil, Russian Federation, India, China and South Africa.



a. G20

The G20¹ members generated over three quarters of global GDP and attracted half of global world FDI flows in 2015. Some 58 per cent of global FDI stock is invested in the G20 (\$14.4 trillion) (figure 11) and they are home to more than 95 per cent of the Fortune Global 500 companies. Overall FDI flows to the group increased by 42 per cent in 2015, with foreign investment increasing in most members.

However, the recovery of FDI inflows to G20 members is unlikely to be sustained in 2016. UNCTAD forecast that FDI inflows could decline by 5 to 10 per cent in 2016, falling to \$830–880 billion. The decline of FDI flows reflects the fragility of G20 advanced economies, volatility of global financial markets, weak aggregate demand and a deceleration in some large G20 emerging market economies.

Data on announced greenfield investment projects also support the expected decline. For instance, the number and value of announced greenfield investment projects in the G20 in the first quarter of 2016 were almost 20 per cent lower than the same period in 2015.

Uncertainty over the United Kingdom's exit from the EU is expected to weigh heavily on FDI inflows to European G20 members and beyond. G20 economies in which natural resources play a predominant role are likely to see further negative impact on FDI flows.

b. APEC

In 2015, APEC² was the largest recipient of global FDI flows among megagroupings, attracting 54 per cent of the total (figure 11), which was roughly in line with its share of world GDP. These economies held about \$12.8 trillion FDI stock, in 2015. FDI flows to APEC jumped by 42 per cent to \$953 billion in 2015.

In 2016, FDI inflows are expected to decline by 15 to 20 per cent to \$760–810 billion. While the current global and regional economic slowdown will hinder FDI growth in APEC members, the decline owes also to a reversion to normal patterns after some unusually high expansions in two major host APEC members, the United States and Hong Kong (China). The rise of flows in both economies in 2015 was due in part to corporate reconfigurations which involved large values in the financial account of the balance of payments but little movement in actual resources.

Furthermore, the low level of commodity prices, especially crude oil and metals and minerals is expected to impact future FDI flows to a number of APEC natural-resource-based economies. Flows will continue to be impacted not only by reductions in MNE's planned capital expenditures in response to declining prices, but also by a sharp reduction in reinvested earnings as profit margins shrank.

Nevertheless, FDI flows to some other APEC members are expected to increase moderately in 2016. According to the survey of the largest MNEs, a number of APEC members are among prospective top destinations, and some of them have improved on the ranking compared with previous years (figure 6).



c. BRICS

The five BRICS countries are home to 41 per cent of the world population and account for 23 per cent of world GDP between them but received 15 per cent of global FDI flows in 2015. They held \$2.4 trillion FDI stock in 2015 – 9 per cent of the world total. In 2015, FDI flows to BRICS³ countries declined by 6 per cent in 2015, to \$256 billion, as increasing investment to China and India could not fully compensate for the decline in FDI flows in the other countries in the group.

In 2016, FDI inflows to BRICS countries could return to a growth path, increasing by an average of 10 per cent to \$270–290 billion. This bounce-back is already becoming visible in the first months of 2016. For example, during the first five months of 2016, FDI inflows to China amounted to \$54.2 billion, 4 per cent higher than that in the same period of 2015. The increase was mainly driven by rising inflows to high-tech services. India continues to take steps to open up its economy to foreign investors, and this is expected to foster FDI. The momentum created by the huge increase in announced greenfield investments, including in manufacturing, is likely to carry through into realized FDI in 2016 and beyond. Moreover, greenfield investment announcements for the first quarter of 2016 also imply that prospects for inward FDI are good, with sustained interest in India from foreign investors. After the slump of FDI flows in the Russian Federation in 2014 and 2015, flows are also likely to increase as the country has announced large privatization plans, which if realized, will open new avenues for foreign investment. In contrast, FDI flows in the two remaining BRICS economies are expected to slip further, as challenging macroeconomic conditions persist.





REGIONAL FDI PROSPECTS

a. Africa

FDI inflows to Africa could return to a growth path in 2016, increasing by an average of 6 per cent to \$55–60 billion. This bounce-back is already becoming visible in announced greenfield projects in Africa. In the first quarter of 2016, their value was \$29 billion, 25 per cent higher than the same period in 2015. The biggest rise in prospective investments are in North African economies such as Egypt and Morocco, but a more optimistic scenario also prevails more widely, for example in Mozambique, Ethiopia, Rwanda and the United Republic of Tanzania.

Depressed conditions in oil and gas and in mining continue to weigh significantly on GDP growth and investment across Africa. The rise in FDI inflows, judging by 2015 announcements, will mostly occur in services (electricity, gas and water, construction, and transport primarily), followed by manufacturing industries, such as food and beverages and motor vehicles. MNEs are indeed showing great interest in the African auto industry, with announced greenfield capital expenditure into the industry amounting to \$3.1 billion in 2015. Investment into Africa's auto industry is driven by industrial policies in countries such as Morocco, growing urban consumer markets, improved infrastructure, and favourable trade agreements. Major automotive firms are expected to continue to expand into Africa: PSA Peugeot-Citroen and Renault (France) and Ford (United States) have all announced investments in Morocco; Volkswagen and BMW (Germany) in South Africa; Honda (Japan) in Nigeria; Toyota (Japan) in Kenya; and Nissan (Japan) in Egypt.

To reduce the vulnerability of Africa to commodity price developments, countries are reviewing policies to support FDI into the manufacturing sector. East Africa has already become more attractive in this sector as a source and investment location, especially in light manufacturing. MNEs are therefore investing across Africa for market-seeking and efficiency-seeking reasons. Proximity can be beneficial, so Bahrain, France, Italy, the United Arab Emirates and the United Kingdom remain prominent as investors; but closeness to major markets in Europe and West Asia is also attracting export-oriented investors from East, South and South-East Asia, which are focusing on locations in North and East Africa such as Ethiopia.

Liberalization of investment regimes and privatization of State-owned commodity assets should also provide a boost to inflows. In Algeria, for example, Sonatrach SPA, the State-owned oil and gas company, intends to sell its interest in 20 oil and gas fields located in the country. Similarly, in Zambia, the Government is bundling State-owned businesses into a holding company and trying to attract foreign buyers. Other liberalization measures include the removal of further restrictions on foreign investments in most African countries. Kenya has moved to abolish restrictions on foreign shareholding in listed companies as competition for capital heats up among Africa's top capital markets. The move comes just a year after the United Republic of Tanzania lifted a 60 per cent restriction on foreign ownership of listed companies, permitting full foreign control.



b. Developing Asia

Hindered by the current global and regional economic slowdown, FDI inflows to Asia are expected to decline in 2016 by about 15 per cent, reverting to their 2014 level. Data on cross-border M&A sales and announced greenfield investment projects support the expected decline. For instance, cross-border M&As in the region announced in the first quarter of 2016 were \$5 billion, only 40 per cent of the same period in 2015. In addition, the number of greenfield projects announced in 2015 was 5 per cent lower than in 2014. There are indications that intraregional investments are rising: 53 per cent of announced greenfield projects in developing Asia by value in 2015 were intraregional, especially from China, India, the Republic of Korea and Singapore. Among the most important industries driving this intraregional development are infrastructure and electronics. The rise of investments from Singapore to India exemplify this trend.

FDI flows to some Asian economies such as China, India, Myanmar and Viet Nam are likely to see a moderate increase in inflows in 2016. During the first four months of 2016, FDI inflows in non-financial sectors in China amounted to \$45 billion, 5 per cent up from the same period in 2015. In India, the large increase of announced greenfield investments in manufacturing industries may provide further impetus to FDI into the country. Viet Nam is expected to continue strengthening its position in regional production networks in industries such as electronics, while Myanmar is likely to receive increasing levels of FDI inflows in infrastructure, labour-intensive manufacturing and extractive industries. Announced greenfield projects in Myanmar totalled \$11 billion in 2015 and \$2 billion in the first quarter of 2016, pointing to sustained FDI inflows in the near future.

In addition, on the basis of greenfield announcements in 2015, a number of other economies may perform better, including Bhutan, the Islamic Republic of Iran and Pakistan.

c. Latin America and the Caribbean

UNCTAD forecasts that FDI inflows in Latin America and the Caribbean could decline by 10 per cent in 2016, falling to \$140–160 billion. Macroeconomic conditions will remain challenging, with the region projected to slip further into recession in 2016. Weak domestic demand led by softening private consumption, coupled with the potential for further currency depreciation, will weigh on investment in domestic manufacturing as well as in the services sector. A further decline in the prices of the region's principal export commodities will likely serve to delay investment projects in the extractive industry as well as crimp reinvested earnings.

The value of announced greenfield projects dropped 17 per cent from 2014, to \$73 billion, led by an 86 per cent decline in the extractive sector in 2015. This largely accords with the capital expenditure plans of the region's major State-owned oil companies – Petrobras (Brazil), Ecopetrol (Colombia) and Pemex (Mexico) – which also foresee a sharp reduction in their investment outlays in the medium term. Lower project announcement values were also registered in the services sector, due principally to a significant pullback in transportation and communications as well as in retail and wholesale trade.

Preliminary data for the first quarter of 2016 suggest that greenfield investments will continue to be weak, with the number of projects falling 19 per cent and their value sliding 18 per cent, compared

with the same period in the previous year. M&A activity in the first part of 2016 was also well below the quarterly average in previous years.

These trends notwithstanding, a number of factors point to an uptick in FDI inflows. For example, national currency depreciation may motivate the acquisition of assets in the region. Cross-border M&As in the first quarter of 2016 were up sharply (80 per cent), thanks to higher net sales in Brazil, Chile and Colombia, though the comparison is somewhat skewed by what was an extremely weak first quarter in 2015.

d. Transition economies

After the slump in 2015, FDI flows to transition economies are expected to increase in the range of \$37–47 billion in 2016, barring any further escalation of geopolitical conflicts in the region. In South-East Europe, the EU integration process and increasing regional cooperation will likely support FDI inflows. In the Commonwealth of Independent States (CIS), FDI is expected to increase, as some companies with hefty debt burdens and reduced access to the international capital market are forced to sell equity stakes; for example, Rosneft, the largest Russian oil producer, decided to sell 29.9 per cent of its Taas-Yuriakh subsidiary, which operates one of the largest oil and gas fields in eastern Siberia, to a consortium of three Indian companies: Oil India, Indian Oil and Bharat PetroResources. Furthermore, several countries, including Kazakhstan, the Russian Federation and Uzbekistan, have announced large privatization plans in response to ballooning current account deficits and depleted foreign exchange reserves, resulting from the depreciation of their currencies and low energy prices.

Box 1.

The revival of privatization plans in CIS countries

The deepening economic crisis has galvanized policymakers to revive or accelerate privatization plans in some CIS countries. At the end of 2015, the Government of Kazakhstan announced the largest privatization of State-owned companies since the country became independent in 1991. Large industrial companies including the oil and gas group KazMunaiGas (KMG), Kazakhtelecom (the main telecommunication operator), Kazakhstan Temir Zholy (the national railway), Kazatomprom (the nuclear holding company) and Samruk Energy (an energy business), are set to sell equity stakes to foreign investors ahead of planned stock market listings. With State assets accounting for 40 per cent of Kazakhstan's GDP, privatization is expected to attract foreign investment. Also included among 60 companies planned for privatization are the Government's 40 per cent stake in Eurasian Resources Group (the miner formerly known as ENRC), Air Astana (the flag carrier part-owned by BAE), Astana airport, the Caspian Sea port of Aktau and smaller groups such as a sanatorium in Almaty and the operator of an international free trade zone by the Chinese border. In November 2015, Uzbekistan also announced plans to privatize 68 large companies – including Kizilkumcement, the country's biggest cement maker, chemical producer Ferganaazot and electronics plant Foton – to attract strategic investors who can bring new technology and capital equipment, and introduce modern production methods and competitive products. Initially, foreign investors will be able to buy only minority stakes, which will nonetheless give them priority rights to buy out the firms completely in the future. In the same vein, the Russian Government announce in 2016 new privatization measures of significant State-owned companies, including 50 per cent of the oil firm Bashneft, as well as a 10.9 per cent stake in both the diamond miner Alrosa and VTB bank.



e. Developed countries

The recovery of FDI in developed countries is unlikely to be sustained in 2016. UNCTAD forecasts indicate that FDI flows to developed countries will be in the range of \$830–880 billion, with the median falling by 11 per cent.

The third wave of administrative action against tax inversions by the United States Treasury Department in 2016 should make it harder for companies to move their tax domiciles out of the United States and shift profits to low-tax countries. For instance, the \$160 billion merger of drug maker Pfizer (United States) with Ireland-based Allergan was dropped in April 2016.

Although announced greenfield investment projects in developed countries in 2015 were up across many industries and from a range of source countries, especially Europe, cross-border M&A data on deals announced over the period January–April 2016 probably provide a better indication of prospects for 2016 as a whole. In this period, \$292 billion worth of M&A deals targeting assets in developed countries were announced; compared with the year before, cross-border M&A deals made a much slower start. In the same period in 2015, the value of announced deals amounted to \$423 billion. The decline would have been much more pronounced had it not been for a flurry of deals announced by Chinese MNEs which were worth \$93 billion, representing 32 per cent of the total. The largest announced deal was the proposed takeover of the agribusiness MNE Syngenta (Switzerland) by ChemChina (China) for \$44 billion. Agribusiness might see further consolidation with the German pharmaceutical MNE Bayer launching a \$62 billion bid for Monsanto (United States) in May 2016.

In addition to announced deals, the transactions completed in the first four months of 2016 provide some pointers. In Europe, M&As will be boosted by Royal Dutch Shell (Netherlands/United Kingdom) takeover of the gas exploration and production company BG Group (United Kingdom) for \$69 billion. However, the subdued 2015 level of M&A sales in telecommunications in Europe might decline further in 2016. The merger of two mobile operators in the United Kingdom, BT and EE, resulted in divestments of stakes in EE by Orange (France) and Deutsche Telecom (Germany) amounting to –\$19 billion. By contrast, foreign investors may make substantial inroads into Japan in 2016, with high-profile deals such as the acquisition of the electronics group Sharp and a concession to operate airports in Kansai.



CONCLUDING REMARKS

The GIPA survey results and global leading economic indicators show that FDI flows are likely to decline in 2016. However, over the medium term FDI flows are projected to resume growth in 2017 and surpass \$1.8 trillion in 2018, reflecting the projected increase in global growth.

Overall, expectations for short term FDI prospects are best described as cautiously pessimistic. FDI will decline in both developing and developed countries. The recent "Brexit" vote in the United Kingdom is likely to further amplify uncertainty on FDI flows.

Notes:

- ¹ Member economies are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union.
- ² Consists of 21 Pacific Rim economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan Province of China, Thailand, the United States and Viet Nam.
- ³ Brazil, the Russian Federation, India, China and South Africa.



For the latest investment trends and policy developments,
please visit the website of the
UNCTAD's Division on Investment and Enterprise
www.unctad.org/diae

For further information, please contact:

Mr James X. Zhan

Director

Investment and Enterprise Division

UNCTAD

Tel. +41 22 917 17 81

Email: diaeinfo@unctad.org

**Readers are encouraged to use the data in this publication
for non-commercial purposes, provided acknowledgement is explicitly
given to UNCTAD, together with the reference to this publication.**