

ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2019/2020

Foreign Direct Investment Trends and Outlook in Asia and the Pacific





*The shaded areas of the map indicate ESCAP members and associate members.**

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FOREIGN DIRECT INVESTMENT TRENDS AND OUTLOOK IN ASIA AND THE PACIFIC

Highlights:

- Global foreign direct investment (FDI) flows declined for the third consecutive year in 2018, dropping 13% from 2017 levels to \$1.3 trillion. The largest declines were in developed economies and economies in transition. Inward flows to developing economies, however, grew by 2% in 2018.
- Among developing economies, the Asia-Pacific region received the largest share of global FDI inflows, attracting 45% in 2018. Developing countries in the region attracted 40% of global FDI inflows, which converts into 88% of total Asia-Pacific region inflows
- Global outflows declined by 29% to \$1 trillion in 2018. The largest declines in outflows were from developed economies, whose outflows dropped by 40% to \$558 billion. While outflows from Asia and the Pacific decreased by 8% to \$522.3 billion in 2018, the region nonetheless markedly increased its share of global FDI outflows from 40% in 2017 to 52% in 2018.
- The significance of intraregional greenfield FDI flows has continued to increase in Asia and the Pacific. During the past decade, the share of intraregional greenfield inflows increased from 40% in 2009 to 53% in 2018.
- Members of the Association of Southeast Asian Nations (ASEAN) have attracted the largest share of intraregional greenfield investments, receiving \$100 billion or 47% of all intraregional greenfield investments in 2018. The single largest recipient of intraregional flows in the overall Asia-Pacific region, however, was China, which received \$37.7 billion or 18% of intraregional investments.
- The East and North-East Asia subregion was the largest source of intraregional greenfield FDI outflows in 2018, followed by the ASEAN subregion. East and North-East Asia accounted for 66% of all intraregional greenfield FDI outflows, while ASEAN was responsible for 23%
- During the past decade, the general trend in sector composition in the Asia-Pacific region has been a declining share of greenfield inward FDI in the primary sector, a stable amount directed towards the manufacturing sector, and a growing share in the services sector. In 2018, 16% of greenfield investments were directed towards the primary sector, 42% towards manufacturing and 42% towards the services sector.
- The Asia-Pacific region is expected to remain a significant destination and source of FDI in 2019 and 2020. However, sluggish growth in greenfield investment may hamper the ability of the region to attract the same levels of investment in 2019, while a decline in investment flows in 2020 is expected if the uncertainty related to international trade continues and companies continue to consolidate their value chains. Therefore, investment prospects for the region remain subdued and tied to unfolding risks of ongoing global political and economic disturbances, such as Brexit, the United States-China trade war, growing protectionist sentiments and a retreat from multilateralism across the world, and civil unrest in Hong Kong, China.

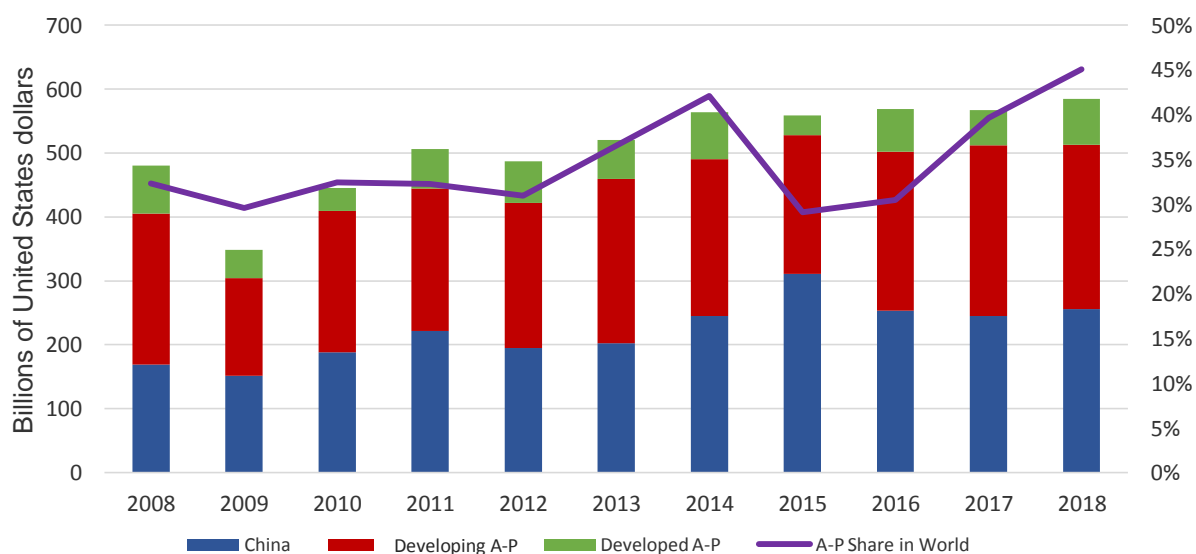
1. GLOBAL AND REGIONAL INWARD FOREIGN DIRECT INVESTMENT TRENDS

Global FDI flows declined for the third consecutive year in 2018, dropping 13% from 2017 levels to \$1.3 trillion (UNCTAD, 2019). Large-scale foreign earning repatriations from multinational enterprises (MNEs) headquartered in the United States along with geopolitical risks, trade tensions and concerns about shifts towards more protectionist policies globally were the largest contributors to the downward trend in global FDI flows. Other factors included the continued upsurge in e-commerce businesses with less physical assets engaging in FDI and a continual decline in the rates of return on FDI which has lowered investors' appetites for new investments abroad.

The largest declines were in developed and economies in transition, with flows declining 27% from 2017 levels. In contrast, inward flows to developing economies grew by 2% to reach \$706 billion in 2018. The combination of declining flows to developed economies and modestly growing flows to developing economies resulted in a significant change in global FDI patterns in which the share of inward FDI captured by developing economies increased to 54% in 2018 compared to 47% in the previous year.

Among the regions worldwide, Asia and the Pacific received the largest share of FDI inflows, attracting 45% of global FDI inflows in 2018 compared with 39% in 2017 (figure 1). This was a consequence of inward FDI to this region, that recovered from a 2% contraction in 2017 to a moderate growth of 3% to reach \$585 billion in 2018. Developing countries in the region attracted 40% of global FDI inflows and 88% of total Asia-Pacific inflows.

Figure 1. FDI Inflows to Asia and the Pacific and their global share, 2008-2018



Source: ESCAP calculations based on UNCTAD (2019).

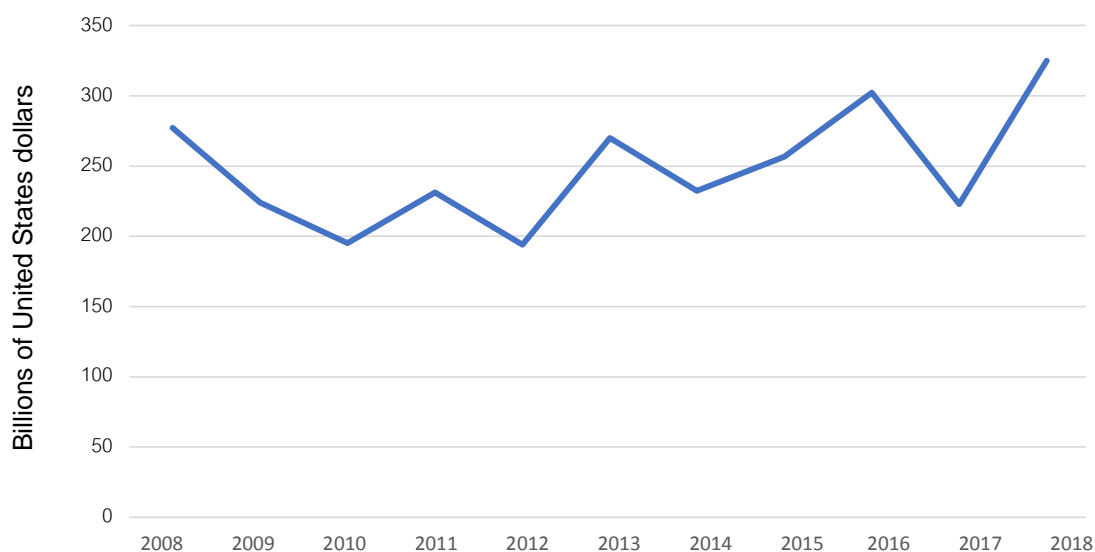
Note: China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China.

Despite the stable growth in inflows to the Asia-Pacific region, they were not evenly distributed. China and Hong Kong, China remained the largest FDI recipients in 2018, together receiving 44% (\$254.7 billion) of total FDI inflows to the region, up 1 percentage point from 2017. Other economies, such as Cambodia, Thailand, Turkey and Viet Nam also attracted comparatively more FDI in 2018.

The value of announced greenfield FDI projects in Asia and the Pacific, which is an indicator of future FDI trends, also recovered in 2018 and grew by 86% to reach \$407 billion, up from \$219 billion in 2017 (figure 2). Strong growth in announced greenfield projects in the region is likely due to low borrowing costs and the strong liquidity position of the region (UNCTAD, 2019) as well as strong economic growth forecasts for developing Asia in 2019.

China was the largest recipient of greenfield FDI inflows in 2018, with the value of announced greenfield projects growing from \$51 billion in 2017 to \$107 billion in 2018. Following China (in descending order), India, Indonesia, Viet Nam and the Philippines received the largest values of greenfield FDI inflows. In general, the value of greenfield FDI inflows to ASEAN members more than doubled between 2017 and 2018, jumping from \$65 billion to \$135 billion. The increase in greenfield investment to ASEAN was related both to more favourable investment policies in several countries in the grouping as well as redeployments of investments related to the ongoing trade tensions between the United States and China (Anukoonwattaka and Lobo, 2019; ESCAP, 2018).

Figure 2. Announced greenfield FDI inflows to the Asia-Pacific region, 2008-2018



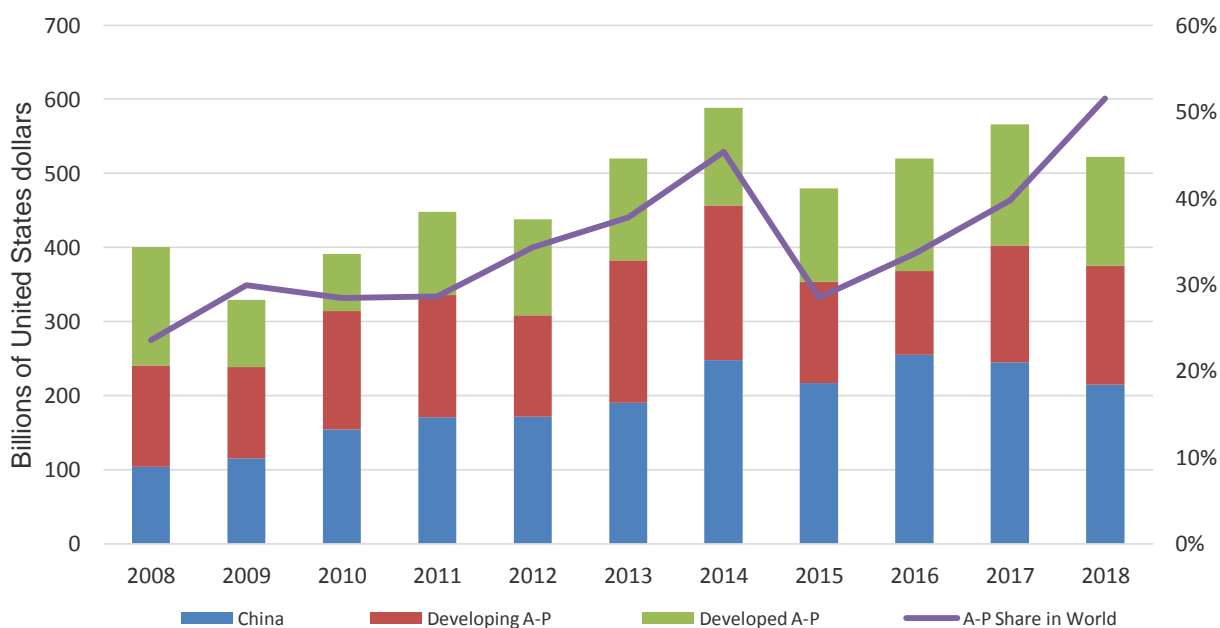
Source: ESCAP calculations based on fDi Intelligence data (accessed September 2019).

2. GLOBAL AND REGIONAL OUTWARD FOREIGN DIRECT INVESTMENT TRENDS

Global outflows declined by 29% in 2018 from a peak of \$1.42 trillion in 2017. The largest declines were from developed economies, whose outflows dropped 40% from \$925 million in 2017 to \$558 million in 2018. A combination of investment intentions and the continued effects of large-scale repatriations from multinationals from the United States in 2017 were responsible for this dip in 2018. Outflows from developing economies decreased more moderately by 10%, from \$461 million in 2017 to \$417 million in 2018.

Overall FDI outflows from the Asia-Pacific region declined by 8% to \$522.3 billion in 2018. Nonetheless, the region remained a significant source of worldwide outward FDI. Illustrating this, the region's share in global FDI outflows actually increased to 52% in 2018 compared with 40% in 2017 (figure 3).

Figure 3. Outward FDI flows from Asia and the Pacific and their global share, 2008-2017



Source: ESCAP calculations based on UNCTAD (2019).

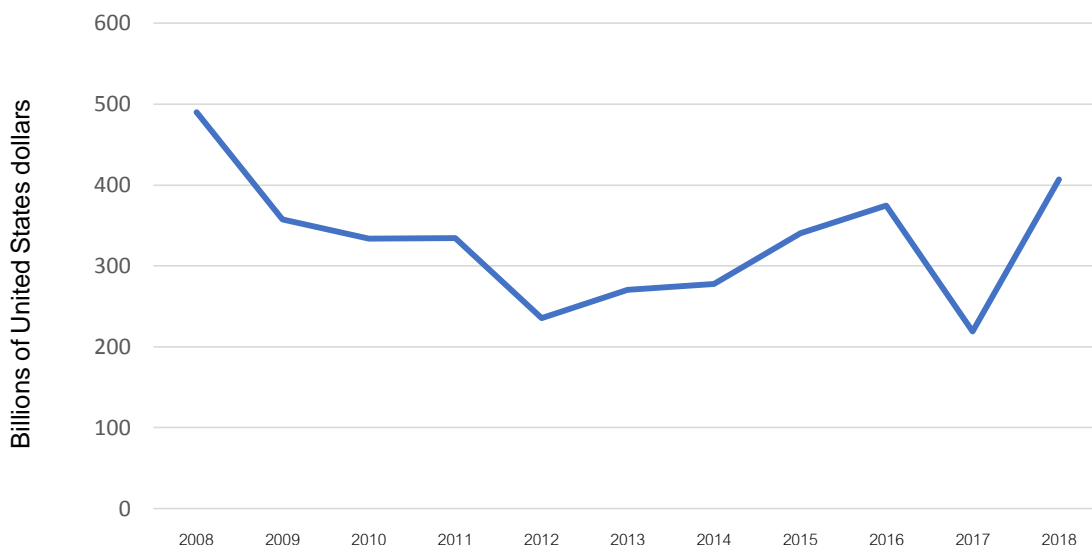
Note: China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China.

China was the largest source of outward FDI from Asia and the Pacific in 2018; consequently, a 18% drop in outflows from China in 2018 was reflected in the whole region's fall in outward FDI. FDI outflows from both South-East Asia, and North and Central Asia also declined slightly by 2% and 1%, respectively, while outflows from South and South-West Asia and the Pacific grew by 5% and 19%, respectively. Increased outflows from South and South-West Asia were mainly due to a significant expansion in outward investment from Turkey, while increases in outward

investment from Australia and New Zealand were responsible for the growth in outward flows from the Pacific.

The value of announced greenfield projects from Asia-Pacific countries recovered globally in 2018, growing 31% from \$223 billion in 2017 to \$325 billion in 2018 (figure 4). The largest source of greenfield projects in the region was, unsurprisingly, China which was responsible for \$92 billion of global greenfield outflows, followed by Japan, Hong Kong, China, and Singapore. The largest recipients of Chinese greenfield investments were (in descending order) Indonesia, the Philippines, the United States, Hong Kong, China, and Kazakhstan. Indonesia received the largest value of investment, topping at \$22 billion in 2018, while the Philippines received \$9 billion, followed by the United States at \$6 billion, Hong Kong, China at \$4 billion and Kazakhstan at \$4 billion.

Figure 4. Announced greenfield FDI outflows in the Asia-Pacific region, 2008-2018



Source: ESCAP calculations based on fDi Intelligence data (accessed October 2019).

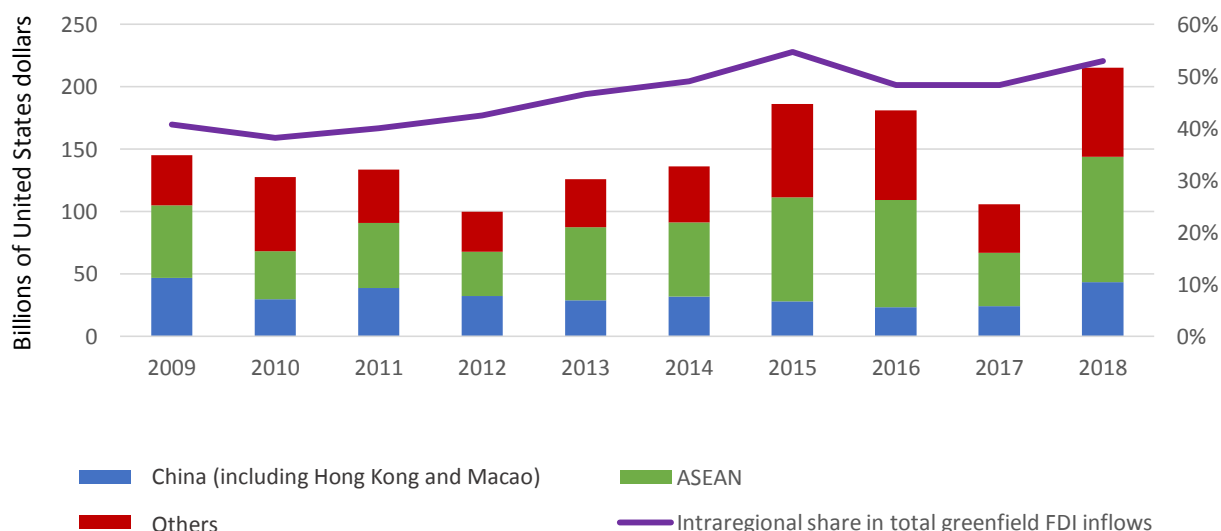
3. INTRAREGIONAL GREENFIELD FDI

Since 2009, intraregional greenfield FDI inflows within Asia and the Pacific have continuously made up a larger portion of total greenfield FDI inflows to the region. In particular, intraregional greenfield FDI inflows grew from 40% of total greenfield FDI inflows to the region in 2009 to 49% in 2014, before rising to 53% in 2018 (figure 5). During 2011-2015, intraregional shares averaged 44%, compared with 51% during 2015-2018.

ASEAN members continued to attract the largest share of intraregional greenfield investments, receiving \$100 billion (47%) of all intraregional greenfield investments. Within ASEAN, Indonesia, Malaysia and Viet Nam attracted the largest flows of intraregional greenfield

investments in 2018. The single largest recipient of intraregional flows in the overall Asia-Pacific region, however, was China, which received \$37.7 billion (18%) of intraregional investments; investments from Hong Kong, China accounted for \$9.6 billion (26%) of these investments. Japan, Singapore, and the Republic Korea were the largest sources of greenfield investment in China in 2018 other than Hong Kong, China, with Japan investing \$8.3 billion, Singapore – \$7.6 billion, and the Republic of Korea – \$6.9 billion. Investments by these economies may further help the proactive efforts of the Government of China to support the upgrading of domestic companies to middle- and high-range manufacturing.

Figure 5. Destinations of intraregional greenfield FDI inflows and share of total greenfield FDI inflows to Asia and the Pacific region, 2009-2018



Source: ESCAP calculations based on fDi Intelligence data (accessed October 2019).

The East and North-East Asia subregion continued to be the largest source of intraregional

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