FOREIGN DIRECT INVESTMENT SHOWS SIGNS OF RECOVERY FOR ASIA AND THE PACIFIC

A. GLOBAL AND REGIONAL TRENDS

Global foreign direct investment (FDI) showed signs of recovery in 2013 increasing by 9.1% to $1.46 trillion. This followed a weak global economic performance in 2012.

Developing and developed economies experienced similar increases in FDI inflows at 9.5% and 8.9%, respectively. In 2013, for the second year in a row, more than a half of global FDI inflows went to developing economies, amounting to an estimated $886 billion (figure 3.1) which was 61% of the global total. In comparison with the 41.3% fall in FDI inflows to developed economies in 2012, the performance of developed economies was significantly improved, driven by increased intra-company loans and reinvested earnings in addition to an improvement in the tax environment for investment in some European countries. As developed economies are projected to strengthen further but with uneven recovery within the Euro area, the distribution of future FDI flows are expected to revert to a more “traditional” situation in which the majority of flows are to developed economies. Macroeconomic fragility and structural impediments in some emerging markets may also dampen future investment prospects. Nevertheless, FDI inflows to developing economies are projected to remain at a high level.
Developing countries also continued to represent an increasing share of global FDI outflows, reaching a new record of 39.2% of global FDI outflows in 2013 (figure 3.2). This represents a yearly growth of 12%; the increase was mostly led by transnational corporations (TNCs) in the developing Asia-Pacific region.
The Asia-Pacific region has significantly increased its FDI outflows in 2013, proving that the region is an important source of FDI. Despite a small dip in 2012, FDI outflows from the Asia-Pacific region have been increasing continuously since 2009.

FDI outflows from countries in the Asia-Pacific region were more noticeable in 2013, recording an increase of 15.1% increase. Collectively these economies accounted for a 38.3% share of global FDI outflows. Despite a small dip in 2012, FDI outflows from the Asia-Pacific region have been increasing continuously since 2009.

### FIGURE 3.3

**Foreign direct investment inflows, 2011-2013**

(Total inflow and net flow values in millions of United States dollars)

![Graph showing FDI inflows from Africa, Latin America and the Caribbean, and Developing Asia-Pacific for 2011, 2012, and 2013.](image)

Source: ESCAP calculation based UNCTAD (2014).
B. SUBREGIONAL PERFORMANCE

In 2013, the East and North-East Asia experienced the biggest growth of FDI inflows with 36% increase. However, it was the South-East Asia which proved to be the most resilient, with undisrupted growth in FDI inflows since 2009.

FDI inflows to Asia-Pacific developing subregions picked up in 2013 with North and Central Asia experiencing the largest increase (figure 3.4). Inflows to North and Central Asia grew by 36% whereas those to East and North-East Asia, South-East Asia, and South and South-West Asia experienced much smaller increases of 2.3%, 6.7% and 6%, respectively.

East and North-East Asia continued to attract the largest FDI inflows, reaching $221 billion in 2013 and accounting for 44.6% of all inflows to the developing Asia-Pacific subregions.

That success can be attributed to China, which accounted for more than half of the East and North-East Asia subregion’s FDI inflows in 2013.

South-East Asia comprising all ASEAN members and Timor-Leste has experienced undisrupted growth in FDI inflows since 2009. Inflows to the subregion amounted to $125 billion in 2013, accounting for a quarter of the inflows to developing Asia-Pacific economies. Although Singapore dominates inflows to the subregion, attracting over half of total investment, other countries in the subregion exhibited higher growth rates in FDI inflows in 2013. FDI inflows into Malaysia, the Philippines and Thailand all grew at more than 20% compared with Singapore’s 4.3% increase. The resilience of this subregion in terms of attracting steady FDI inflows is linked to the role ASEAN plays as a hub for many preferential trade agreements (PTAs) (ASEAN has a number of “ASEAN+1” agreements with regional economies as well.

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FIGURE 3.4
Foreign direct investment inflows to Asia-Pacific developing subregions and developed economies, 2011-2013


Note: Due to the small share of inflows to the Pacific subregion, it is not represented in this figure.
as other PTAs between ASEAN members and countries outside the region). Looking ahead, the completion of the two large “mega-regional” PTAs involving some, or all, ASEAN countries, could give further impetus to regional inward investment.3

In North and Central Asia, a 56.7% increase in FDI inflows to the Russian Federation was behind the large growth in inflows experienced by that subregion in 2013. In 2013, inflows to the subregion reached $98 billion, finally surpassing the peak of $94 billion reached prior to the global financial crisis in 2008. Other countries enjoying the positive trend in 2013 included Uzbekistan, Azerbaijan, Georgia and most notably Kyrgyzstan where FDI inflows more than doubled in 2013 to reach $1.9 billion.

FDI inflows to South and South-West Asia amounted to $48 billion in 2013, rising by 6% from the preceding year. Although FDI inflows to Pakistan, Bangladesh and India rose by 52.2%, 23.7% and 16.5%, respectively, lower FDI inflows recorded in Afghanistan (26.6%), the Islamic Republic of Iran (34.6%) and Nepal (19.6%) had a moderating effect on the total inflows to the subregion.

For developed countries in the Asia-Pacific region, the past few years have been challenging. FDI inflows had, by 2011, recovered quite well from the global financial crisis of 2008-2009 reaching $68 billion. However, since then, inflows have been declining, and amounted to only $53 billion in 2013. Australia, accounting for large share of inflows to the Asia-Pacific developed countries, was the main reason for the downturn. During 2011-2013, FDI inflows to Australia dropped by 23.6% from $65 billion to $50 billion, mainly because of the slowing of investment in the natural resources sector.

FDI outflows from the Asia-Pacific region grew by 15.1% in 2013. In East and North-East Asia and South-East Asia the rise was quite moderate; outflows from those two subregions grew by 8.5% and 4.7%, respectively. Outflows from North and Central Asia, on the other hand, nearly doubled due to the large increase in FDI outflows from the Russian Federation.

FDI outflows rose to $95 billion partially driven by the acquisition of TNK-BP by the Russian oil company Rosneft (Neate, 2013). Contrary to this, Indian companies scaled back their investments, which led to FDI outflows from the South and South-West Asian subregion declining by 58.2%. Outflows from the Asia-Pacific region’s developed countries continue to be dominated by Japan, which accounted for 95.1% of outflows.

FDI outflows from ASEAN are relatively low compared with the Asia-Pacific average. Rising by only 4.7% in 2013, they reached $56 billion. Indonesia, Malaysia, the Philippines and Thailand all experienced a decrease in outflows, but Singapore stood out as its FDI outflows doubled to $27 billion.

C. COUNTRY HIGHLIGHTS

1. China

China, an important investment destination and also a source of investment, recorded 15% increase in FDI outflows in 2013, with the support of the Government’s “going global” strategy.

China remained the second-largest recipient of FDI in the world in 2013, following the United States, having $124 billion – 2.3% more than in the previous year (figure 3.5). Although economic growth in China has shown signs of moderation, and despite rising wages making labour-costs more expensive, investor confidence in that country’s economy remains strong. The Ministry of Commerce of China (China, 2014) estimated that, in 2013, a total of 22,773 new enterprises invested in China, mostly from Hong Kong, China as well as Singapore and Japan.

With growth of 15%, Chinese outward FDI proved much more dynamic than inflows in 2013. Outflows have increased significantly since 2005, when Chinese investments amounted to $12 billion. In 2013, the value of investments rose to more than $100 billion. Outward FDI
predominantly takes the form of mergers and acquisitions (M&A), and is increasingly targeting Europe and the United States (China, 2014). In 2013, China was the third-largest source of outbound FDI in the world after the United States and Japan.

This increasing trend in outward FDI is the result of the “going global” strategy adopted by the Government of China in 2001, under which Chinese firms are encouraged to look for opportunities overseas. This strategy took a further step forward in 2013 with adjustments in the regulatory framework for outward FDI to help Chinese firms be competitive abroad (Sauvant and Chen, 2013). In terms of investment liberalization agreements, China has agreed, as part of the United States-China Strategic Economic Dialogue, to continue negotiations on an investment treaty (United States, 2014).

2. India

Macroeconomic uncertainties and structural constraints in India continue to concern foreign investors. India is experiencing slower economic growth, running a high current account deficit, and enduring high inflation (UNCTAD, 2014). In spite of these worries, FDI inflows grew by 16.5% to $28 billion in 2013 (figure 3.6). However, with reforms there is potential for attracting higher rates of investments (India, 2014a). FDI could help strengthen the economy, provide more decent and productive employment and encourage technological upgrading (ESCAP, 2013).

Elements of the Indian business environment continue to deter foreign investors. For example, India levies a 34% corporate tax rate, substantially higher than in several of its Asian neighbours (Balakrishnan, 2014). Although restrictions on foreign investment in several sectors have been lifted in recent years, many sectors retain equity limits on foreign ownership. For example, FDI in the insurance sector is capped at 26%, while a 49% ceiling is imposed on FDI in the power sector (India, 2014b). While limits on foreign ownership are not unusual in the region, the requirement to find suitable joint venture partners risks hampering FDI inflows.
The retail sector, in particular, has been in the spotlight as a test case for reforms aimed at encouraging foreign investment (ESCAP, 2013). The FDI cap imposed by the Government of India in multi-brand retailing – currently set at 51% – is a major obstacle to the FDI inflows to the sector. In addressing that issue, in 2013 the Government relaxed FDI rules applicable to the sector, reducing the pre-conditions that foreign retailers were required to fulfil. Foreign investors are now waiting for positive signals from the new Government elected in early 2014.

Indian FDI outflows plummeted by 80.2% in 2013, a decline that had continued since the start of the global financial crisis in 2008 (figure 3.6). Indian TNCs invested $1.7 billion overseas in 2013, which is the country’s weakest performance since the start of the current millennium.

3. Japan and the Republic of Korea

Although FDI inflows to Japan experienced a sharp rise of 33%, reaching $2.3 billion in 2013, they remained sluggish; the 2013 figure is less than one tenth of 2008 volumes (Japan Times, 2014). The Government of Japan has strived to stimulate economic growth by fiscal and monetary stimulus and “national strategic economic zones” with loosened regulations in particular industries have been developed to further encourage foreign investments (Soble, 2014, and ESCAP, 2014). In addition, new incentives will be implemented, such as corporate tax breaks, simplified investment procedures and improved assistance to foreign investors. (The Economist, 2014a).

As for FDI outflows, Japan remains the second-largest investor behind the United States, increasing its outward FDI by 10.8% in 2013 to $136 billion. The rise could indicate that Japanese firms are seeking to avoid volatility in the domestic economy by investing overseas.

FDI inflows to the Republic of Korea continued their upward trend. Inflows rose by 28.7% to $12 billion in 2013 (Korea Eximbank, 2014). The United States and China are the largest sources of FDI inflow to the Republic of Korea. Several policies that have recently been put in place may have played a role in boosting inflows (Republic of Korea, 2014): the Telecommunication Business Act and the Investment Promotion Act have

![Figure 3.6: Foreign direct investment inflows and outflows in India, 2004-2013](source: ESCAP calculation based on UNCTADStat and UNCTAD (2014).)
been amended, eliminating several constraints concerning the telecommunications sector and joint investments between subsidiaries of holding companies and foreign investors. In addition, the United States–Republic of Korea free trade agreement that entered into force in 2012 has likely further supported FDI inflows from the United States (Manyin and others, 2013).

4. Russian Federation

While the Russian Federation saw its economic growth dip from 3.4% in 2012 to 1.3% in 2013, in the latter year 2013 foreign investors continued to find the economy an attractive destination (World Bank, 2014a). In 2013, the Russian Federation was the third-most attractive location for foreign investors, behind the United States and China. FDI inflows to the Russian Federation increased by 56.7% in 2013, reaching $79 billion. Although the United States and China are ranked as the top investors, 80% of FDI in the Russian Federation originates from Europe. Accession to WTO in 2012 has likely contributed to the upturn.

The liberalization of the service sector has additionally sent a positive signal to foreign investors (Evseev and Wilson, 2012). The country’s advancement in the “Doing Business” ranking, from 111th place in 2012 to 92nd place out of 189 countries in 2013, indicates a reduction in the cost of operating a business in the Russian Federation and an overall upgrading of that country’s business environment (World Bank, 2014b).

In addition, in 2011 the Government of the Russian Federation set up a $10 billion Direct Investment Fund (RDIF) to promote FDI inflows into the country. Following its objective of improving the investment climate and attracting more foreign investors in 2013, the fund established six new partnerships worth nearly $10 billion in various sectors. The largest deal involved Abu Dhabi’s Department of Finance, which announced investments totalling $5 billion in Russian infrastructure projects (Russian Direct Investment Fund, 2014).

However, in 2014, geopolitical tensions and foreign sanctions against the Russian Federation had an impact on the prospects for growth and have seriously dimmed the attractiveness of the country as an investment destination. It is likely that FDI in the Russian Federation from European countries and the United States will be significantly reduced in 2014 (The Economist, 2014b).

5. Selected economies in the Association of Southeast Asian Nations

In the Philippines, inward FDI increased by 20.1% in 2013, reaching almost $4 billion, thus revealing increased confidence in the economic prospects of the country, thanks to a sound economic performance (Bangko Sentral ng Pilipinas, 2014). The manufacturing sector, boosted by the Philippines Development Plan implemented in 2011, accounted for 40% of FDI inflows to the country (National Economic and Development Authority, 2014).

In Thailand, FDI inflows surged in 2013, growing by 20.9% to reach $13 billion. FDI in Thailand has been mainly driven by a rise in M&A activities. In 2013, Thailand was the second-largest target of M&A purchases in South-East Asia, behind Singapore, with concluded sales worth $6 billion. A major deal was the acquisition of the Bank of Ayudhya by the Bank of Tokyo, for $5.3 billion (Tudor-Ackroyd, 2013). Future FDI trends of Thailand remains somewhat uncertain after months of political turmoil came to an end with a military coup in May 2014. Foreign investors could begin to find neighbouring countries more attractive if the long-term political outlook remains uncertain. However, the situation is beginning to look more settled.

In 2013, TNCs invested $9 billion in Viet Nam, 6.4% more than in 2012. Investors were attracted by Viet Nam’s large domestic market, low inflation and the availability of low-cost labour. To further improve its attractiveness, substantial efforts have been made by the Government of Viet Nam to lighten administrative procedures and promote a sound business environment.
FDI inflows into Indonesia decreased slightly, from $19 billion in 2012 to $18 billion in 2013. The major sources of investment were Japan and Singapore (Indonesia Investment Coordinating Board, 2014). Most inflows were directed to the automotive manufacturing, mining, oil and gas sectors. The Government of Indonesia also took steps to increase the appeal of the country to foreign investors. For example, a fiscal package dedicated to the promotion of FDI was implemented in 2013, while several regulations were relaxed, such as FDI caps in the pharmaceutical industry (VN, 2013). Whether Indonesia can sustain FDI inflows depends on how successful the new Government will be in addressing outstanding problems, particularly infrastructural constraints.

D. TRENDS IN GREENFIELD FOREIGN DIRECT INVESTMENT AND MERGERS AND ACQUISITIONS

Greenfield FDI, of crucial importance for economic development, is a significant mode of entry for investors in the Asia-Pacific region. Since 2004, the region has attracted more than $3 trillion in greenfield FDI compared with $1.4 trillion through M&A (figure 3.7).

During the past decade, greenfield FDI peaked in 2008 at $518 billion. However, the growth of greenfield FDI declined notably since then, reaching a low of $222 billion in 2013, as a result of the persistent economic slowdown in developed countries. Comparing 2013 with the peak year in 2008, outflows from the United States and the United Kingdom of Great Britain and Northern Ireland to the Asia-Pacific region declined by more than 50% while outflows from Germany and Japan fell by more than 30%. These countries were the top four greenfield investors during 2004-2013.

M&A is gaining higher importance as a mode of entry for investors in the Asia-Pacific region. On the other hand, greenfield FDI has decreased by 43% between 2011 and 2013.

FIGURE 3.7
Greenfield foreign direct investment and merger and acquisition inflows to the Asia-Pacific region, 2004-2013

Source: ESCAP calculation based on fDi Intelligence and Thomson Reuters.
At the same time, M&A is gaining in importance as a mode of entry for investors in the Asia-Pacific region, although historically it has not been as significant as greenfield FDI. During the last decade, FDI inflows to the Asia-Pacific region through M&A doubled from $66 billion in 2004 to $130 billion in 2013.

However, FDI inflows to the Asia-Pacific region through M&A stagnated in 2013, when they registered a slight decline of 3.6%. However, going against the overall trend, China and Thailand both attracted a record value of deals in 2013, when China reached a total of $25 billion while Thailand recorded slightly more than $6 billion. In the same year, Myanmar recorded its three first M&A deals ever. A breakdown of the Asia-Pacific region into developing and developed countries reveals that developing economies are following a different trajectory to that of developed economies. Whereas FDI inflows through M&A to developed economies in the Asia-Pacific region declined by 38.6% in 2013, inflows to the developing Asia-Pacific economies increased by 18.4%.

There are significant differences in the industries targeted by greenfield and M&A FDI. Greenfield FDI tends to be spread over multiple industries, each accounting for a small share of the total (figure 3.8). From 2004 to 2013, the top industry of coal, oil and natural gas accounted for a 16.3% share of total greenfield FDI in the Asia-Pacific region, while the second-largest industry, real estate, only accounted for a 8.7% share (figure 3.8). On the other hand, M&A activity was more clearly focused on a few key sectors. Most M&A activity from 2004 to 2013 took place in the financial industry, followed by consumer products and energy and power (figure 3.9). The top seven industries accounted for 82% of total M&A.

**FIGURE 3.8**
Greenfield foreign direct investment inflows in the Asia-Pacific region, by industry, 2004-2013

Source: fDi Intelligence.
E. INTRAREGIONAL FOREIGN DIRECT INVESTMENT TRENDS IN THE ASIA-PACIFIC REGION

1. Intraregional greenfield foreign direct investment

(a) Inflows

Intraregional investors are increasingly replacing traditional big investors from European countries and the United States.

Intraregional greenfield FDI in the Asia-Pacific region continues to be significant, totalling $336 billion during 2011-2013. However, between 2011 and 2013, intraregional greenfield FDI inflows to the region dropped by 43%. This downward trend was visible in all major destination economies. China remained the largest destination for intraregional greenfield FDI with a total of $100 billion in FDI inflows during 2011-2013. ASEAN as a group, however, was not far behind having $99 billion in greenfield FDI from Asia-Pacific sources outside ASEAN during the same period.

(b) Outflows

The only economies showing a substantial increase in intraregional greenfield FDI inflows during 2011-2013 were Japan and Myanmar. Greenfield FDI inflows to Japan more than tripled during this period, reaching more than $3.3 billion. FDI in Japan mainly originated from the Republic of Korea and Singapore. Japan’s interest in alternative and renewable energy was sparked by the Fukushima Daiichi nuclear accident, after the 2011 Tohoku earthquake and tsunami. As a likely result, during 2011-2013, greenfield FDI in alternative and renewable energy was quite high, totalling $820 million, second only to greenfield FDI in real estate at $840 million. Greenfield FDI inflows to Myanmar rose from a meagre $500 million to slightly more than $12 billion, but this was due mainly to a single $9.9 billion project by Mitsubishi Corporation from Japan for building a fossil fuel power station in the Dawei special economic zone.

(b) Outflows

Japan remained the top source of intraregional greenfield FDI with a share of 30% of total...
Intraregional greenfield outflows. During 2011-2013, outflows from Japan to the Asia-Pacific region reached more than $100 billion, followed by the Republic of Korea and China. However, outflows from the latter two countries steadily declined during 2011-2013, resulting in a cumulative total of around $35 billion from each country.

The Asia-Pacific region witnessed diversified intraregional greenfield FDI flows during 2011-2013, away from natural resource-heavy industries to more knowledge-based industries and services. During that period, intraregional greenfield FDI inflows to most of the top industries declined, including the top industry of coal, oil and natural gas. Compared with the three-year period from 2005 to 2007 running up until the global financial crisis, the share of coal, oil and natural gas in total intraregional FDI dropped from 24.1% to only 13.7% (figure 3.10). The share of the metals industry decreased less notably – from 11.4% to 8.7% – whereas the share of electronic components remained stable. On the other hand, real estate and financial services attracted a larger share of greenfield FDI inflows to the region, with the share of real estate rising from 8.7% to 10.6% and that of financial services from 5.3% to 6.9%.

This trend, together with the increase in the share of other industries receiving FDI, indicates that investors have been diversifying their investments and are investing in a broader range of industries. Some of the biggest gainers have been health care, pharmaceuticals and biotechnology, reflecting the increase in the ageing population and higher demand for health-care products. Building and construction,
consumer products and business services have also largely benefitted. Despite these increases, however, the amounts invested in these industries still remained small compared with the top industries.

2. Intraregional mergers and acquisitions

(a) Inflows

M&A activity among the Asian economies remained quite intensive during 2011-2013 (table 3.1). During that period, intraregional FDI inflows through M&A accounted for 40% of total FDI inflows through M&A in the Asia-Pacific region. Companies in the East and North-East Asian and South-East Asian subregions were the main sources of intraregional FDI flows. Twenty-three per cent of intraregional FDI inflows through M&A during 2011-2013 targeted the financial sector ($28.3 billion), followed by materials and real estate, accounting for 18% and 13%, respectively, of intraregional inward FDI through M&A.

In China, companies from Hong Kong, China, and ASEAN are replacing acquiring companies from Europe and the United States. During 2011-2013, 71.5% of M&A deals in China were concluded with investors from the Asia-Pacific region, with the total deal value reaching $41 billion. In terms of the number of deals, close to half were concluded with Asian investors. This indicates that the deals concluded in China by companies from other parts of the Asia-Pacific region tend to be of higher value than those concluded by companies from outside the region. Intraregional M&A investments in China were mostly in the financial sector, with more than $4.7 billion invested. In addition, companies in the real estate and consumer goods sectors were popular M&A targets, accounting for 21.6% and 12% of intraregional inflows, respectively.

Trends in Hong Kong, China have been quite similar, with the territory receiving 66% of its FDI inflows through M&A from the Asia-Pacific region. China accounted for a half of these intraregional inflows and Singapore for one fifth. During 2011-2013, of the total $19 billion intraregional FDI inflows through M&A to Hong Kong, China almost one third was into the financial sector, followed by the real estate sector (20.7%), and consumer goods and services (16.2%).

In the Republic of Korea, intraregional FDI inflows through M&A also played a significant role. During 2011-2013, intraregional FDI inflows through M&A totalled $4 billion, which amounted to 45.1% of total FDI inflows through M&A to the country, and targeted the financial sector, real estate and materials.

In the case of Japan, one fifth of total FDI inflows through M&A came from the Asia-Pacific region, driven mainly by China and the Republic of Korea, amounting to $7.6 billion during 2011-2013. The most attractive sectors in Japan were the real estate, industry and high technology, which together accounting for almost three quarters of the intraregional inflows.

From 2011 to 2013, ASEAN members attracted $22.5 billion of FDI in the form of M&A from other Asian countries outside ASEAN, representing close to one third of all FDI inflows through M&A to ASEAN. Japanese companies were involved in 51.6% of intraregional FDI inflows through M&A to ASEAN, while enterprises from Hong Kong, China accounted for 21.6%. The most attractive economies in ASEAN for FDI through M&A were Singapore and Thailand, both of which attracted $6.7 billion from Asia-Pacific firms outside ASEAN. Even low-income economies took part in the intraregional dynamic; all M&A in Cambodia, the Lao Peoples’ Democratic Republic and Myanmar involved companies from the Asia-Pacific region. Popular industries among investors in ASEAN were the financial, materials, and energy and power. The telecommunications sector attracted the most investments in low-income economies. For higher-income economies, the financial sector was the main driver for intraregional flows.

By far the largest destination for intraregional FDI through M&A from the region during 2011-2013 was Australia, with intraregional M&A deals totalling more than $45 billion, representing 39.1% of total inward M&A activities in the Asia-
Pacific region. The main sources of M&A in Australia were China (almost $15 billion), Japan ($9 billion) and Hong Kong, China (almost $7 billion). Investors mainly focused on materials, and energy and power.

The Russian Federation and India, the two “giants” of the North and Central Asian and South and South-West Asian subregions, attracted fewer intraregional investors. During 2011-2013, Russian intraregional FDI inflows through M&A reached $4.2 billion, accounted for only 8.2% of total FDI inflows through M&A. Similarly, in India, intraregional FDI through M&A accounted for only 11.3% of total FDI inflows through M&A in the Asia-Pacific region, just short of $5 billion.

(b) Outflows

With regard to FDI outflows through M&A, China was the biggest contributor to intraregional M&A activities in the Asia-Pacific region during 2011-2013. With the conclusion of deals valued at close to $35 billion, China accounted for one fifth of intraregional FDI outflows through M&A within the Asia-Pacific region. During 2011-2013, one half of Chinese outward FDI through M&A comprised purchases of Australian firms. The main industries targeted by Chinese TNCs were the materials, energy and power, and financial sectors.

Hong Kong, China as well as Japan and ASEAN were substantial sources of investment through M&A, with each investing more than $30 billion in other Asia-Pacific economies. Intraregional purchases by companies in Hong Kong, China represented 26.1% of total FDI outflows from

<table>
<thead>
<tr>
<th>Top destinations</th>
<th>Total deal value (Billions of United States dollars)</th>
<th>Top sources</th>
<th>Total deal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>45 783</td>
<td>China</td>
<td>34 992</td>
</tr>
<tr>
<td>China</td>
<td>40 941</td>
<td>Hong Kong, China</td>
<td>34 980</td>
</tr>
<tr>
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<td>22 544</td>
<td>Japan</td>
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<tr>
<td>Japan</td>
<td>7 628</td>
<td>Republic of Korea</td>
<td>8 670</td>
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</tbody>
</table>

Source: Thomson Reuters.

CONCLUSION

In 2013, global FDI showed signs of recovery, recording $1.46 trillion, following a weak year in 2012. Developing economies, in particular, continued to share an increased portion of global FDI as well as attract more than a half of global FDI inflows.

The Asia-Pacific region experienced a 6.6% increase in FDI inflows, which was lower than the 9.1% increase in global FDI. Although the Asia-Pacific region remained attractive to investors,
who accounted for 37.8% of total global FDI, it did not reach the level of high growth seen in the past or compared with other fast-growing regions such as Latin America.

Whether the number and the size of investments to the Asia-Pacific region are reaching their saturation point, or only forming a temporary trend, is not certain. In any case, some changes are being noticed, including (a) the trend of traditional big players either showing stagnated or slow levels of expansion, and (b) more foreign investors being attracted by small players resulting in diversified investments.

FDI inflows varied greatly among different subregions and economies. Among the subregions, East and North-East Asia experienced the biggest growth of FDI inflows, attracting 36% more inflows compared with 2012. However, South-East Asia proved to be the most resilient, having experiencing undisrupted growth in FDI inflows since 2009.

In terms of FDI outflows, the Asia-Pacific region experienced a significant increase of 15.1% in 2013. The subregion accounted for 38.3% of share of the global FDI outflows, thus gaining greater importance as investors. There were some key players, such as China and the Russian Federation, which contributed to the stiff increase.

In Asia and the Pacific, China is undoubtedly one of the most important players in the region, not only as an investment destination but also as a source of investment. China continuously increased its FDI outflows during the past decade and shows no sign of stopping, with the government strategy of “going global” encouraging the trend ever further. Japan also played a major role recording a 33% increase in 2013. However, not all economies experienced positive trends. India, for example, is still suffering from macroeconomic uncertainties and an unfavourable business environments that are discouraging investors. Its FDI plummeted in 2013, following a continuous decline since 2008.

Varied performances in FDI in different subregions and economies are the result of a combination of several factors. One is government policies that encourage or hinder foreign investments. As seen from the examples of several economies, government policies played an important role.

Another trend identified is that while the traditional big players in the Asia-Pacific region still continue to lead the way, small players are increasing their importance as FDI destinations. This is leading to more diverse Asia-Pacific FDI inflows and outflows.

The significance of the roles played by greenfield FDI and M&A is also changing. Traditionally, for the Asia-Pacific region, the greenfield FDI was a significant mode of entry for investors. However, since 2008 a decline has been noticed; on the other hand, M&A is gaining in importance.

Between 2011 and 2013, intraregional greenfield FDI inflows in the region dropped by 43% with the downward trend visible in major destination countries, due to the effect of the economic crisis in 2012.

Intraregional FDI will not be immune to global macroeconomic factors such as global economic slowdown, political tensions and a global credit crunch. However, there are indications that the role of intraregional FDI activities remains significant.

First, intraregional FDI investors are increasingly replacing investors from European countries and the United States – which were traditionally the top investors in the Asia-Pacific region. As stated above, popular investment destinations that recorded significant amounts of M&A deals with investors from the Asia-Pacific region included, for example, China (71.5%), Hong Kong, China (66%), and the Republic of Korea, (45.1%).

Second, intraregional FDI investors are investing in a broader range of industries, away from natural resource heavy industries to more knowledge-based industries and services. Investments increased in industries such as health care, pharmaceuticals and biotechnology, construction, consumer products and business services.
Third, the share of FDI inflows through M&A to the Asia-Pacific in overall intraregional FDI inflows has increased. Although global FDI inflows through M&A to the Asia-Pacific region decreased in 2012 and 2013, intraregional FDI inflows through M&A have remained substantial at a total of $153.8 billion, accounting for almost one third of total FDI inflows through M&A to the Asia-Pacific region.

Fourth, a number of mega-treaties involving FDI are currently under negotiation in the region; these treaties will provide a solid basis for more open trade and investment, thus improving future economic prospects in the region. These factors are expected to contribute to increased levels of intraregional FDI activities in the foreseeable future.

ENDNOTES

1 All FDI data are from UNCTADStat, except for greenfield FDI data which are from fDi Intelligence, and data on mergers and acquisitions which are from Thomson Reuters.


3 These are the Trans-Pacific Partnership Agreement (TPPA) and Regional Economic Comprehensive Partnership (RCEP) which are discussed in chapter 6 of this Report.

4 The concerns remain, especially from local small-scale producers, with ensuring equal opportunities to be a part of production value chain effectively to increase their share of profit.

5 The data on greenfield FDI are provided by fDi Intelligence, which track greenfield FDI project announcements on a global basis. The data are based on information available at the time of the project announcement and, therefore, differ from official FDI flows that are often based on balance of payments statistics. Discrepancies may arise from the timing of the investment as the database does not take any phasing of the investment into account. In addition, fDi Intelligence uses its own estimates of capital investment if those data have not been given in the announcement. Additionally, some of the announced investment capital may be raised locally, meaning that only a part of the capital invested may manifest itself as actual FDI flows.

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