Foreign Direct Investment Trends and Outlook in Asia and the Pacific
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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 million. 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](image)

*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 greenfield FDI outflows in 2018. Together, intraregional greenfield FDI outflows from China (including Hong Kong, China and Macao, China), Japan and the Republic of Korea doubled from 2017 to 2018, totalling $142 billion and accounting for 66% of all intraregional greenfield FDI outflows. The expansion in intraregional investments from this subregion is mainly due to a significant jump in intraregional greenfield FDI outflows from China. Capital restrictions on outbound investments from mainland China hampered this type of FDI outflow in 2017 and resulted in these flows being halved to $24 billion. They subsequently recovered and grew to $60.7 billion in 2018.

Despite the deceleration in investment in 2017, China remained the largest source of intraregional greenfield investments in both 2017 and 2018, accounting for 28% in 2018. Hong Kong, China was responsible for a further 10% ($23 billion) of intraregional greenfield investments in 2018. As the trade war between the United States and China has shown no signs of abating, it is likely that intraregional outward investments from China will continue to
grow in 2019 and 2020 as domestic Chinese firms become more inclined and able to shift production to neighbouring countries, particularly those in ASEAN. Japan was the second largest source of intraregional investments from the East and North East Asia subregion in 2018, responsible for $37 billion (17%).

Following the East and North East Asia subregion, ASEAN members were the next largest subregional source of intraregional greenfield investments in 2018, contributing 23% of the total. Intraregional greenfield investment from this subregion more than doubled in 2018 to reach $50.3 billion, up from $18.8 billion in 2017. The largest sources of investment from ASEAN were Singapore, Thailand and the Philippines, accounting for 43%, 27% and 15%, respectively, of total intraregional greenfield investment emanating from ASEAN. ASEAN members continued to be the largest destination of ASEAN outward greenfield investments, with Viet Nam, Malaysia and the Philippines (in descending order) receiving the largest shares of these investments.

4. SECTORAL TRENDS IN GREENFIELD FDI

The general trend in sector composition during the past decade 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 announced greenfield investments were directed towards the primary sector, and 42% towards both the manufacturing and services sectors. The primary sector’s share in the overall composition of announced greenfield investments rose by 5% from 2017 to 2018, while the manufacturing sector’s share increased by 1%. These gains offset a 6% decrease in the share of announced greenfield investments in the services sector (figure 6).

![Figure 6. Sector composition of announced greenfield FDI inflows in Asia and the Pacific, 2017 and 2018](image)

*Source: ESCAP calculations based on fDi Intelligence data (accessed October 2019)
Each sector recorded a significant increase in greenfield investments in 2018 compared with 2017. In particular, investment values grew more than twofold in the primary sector, from $18.5 billion to $50.5 billion. Investment in the manufacturing and services sectors expanded even more, with investment more than doubling in the manufacturing sector from $68.5 billion to $133.3 billion, and growing by 65% in the services sector from $81.9 billion to $134.9 billion. A couple of points can be interpreted from these figures. One is that the relative growth of flows into the primary sector does not improve the relatively low value and declining share of that sector in total greenfield investments. Second, and similarly, the 2018 decline in services share does not change the recent trend of services being the most attractive sector in the region for greenfield investors, followed closely by the manufacturing sector.

In terms of individual sectors of economic activity, it is interesting to note that since 2009 the largest recipient of greenfield FDI in the primary sector has been the coal, oil and natural gas sector. In fact, investments in that sector grew from $227 billion during 2009-2013 to $256 billion during 2014-2018. In the context of achieving the Sustainable Development Goals (SDGs), particularly SDG 7 on universal access to affordable and clean energy, and the related dire need for significant increases in renewable and clean energy investments, the trend of increased investments in these sectors is particularly worrisome. A positive development on this front, however, is the significant jump in greenfield investments during the two periods of 2009-2013 and 2014-2018 in renewable energy. In particular, investment in renewable energy expanded from a meagre $52 billion during 2009-2013 to $127 billion during 2014-2018, making it the third-largest recipient of greenfield investment in the latter period.

The remainder of the top 10 economic activities receiving the most greenfield investment in the region since 2009 are fairly evenly distributed between the manufacturing and services (figure 7) as would be expected based on the short-term trends in the composition of investments discussed above. Increases in investment were recorded in the following services – real estate, renewable energy and communications – while increases only occurred during the above two periods in the electronic components and semi-conductors manufacturing sectors. Although the remaining manufacturing sectors listed in figure 7 still received the largest values of investment during the two periods, investment in those sectors nonetheless decreased. For example, investment in chemicals declined from $103 billion to $91 billion, while in automotive original equipment manufacturing it decreased from $97 billion to $87 billion between the two periods. In the services sector, only financial services recorded a decline in investment, significantly dropping from $111 billion to $71 billion between the two periods.

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1 The data on sectoral distribution of FDI is based on ESCAP calculations from fDi Intelligence. Accordingly, fDi Intelligence classifies coal, oil and natural gas cumulatively as one sector within the primary sector. The fDi Intelligence sectoral classifications are closely aligned with, but not the same as the North American Industry Classification Scheme. Therefore, for the purposes of this trend analysis, the coal, oil and natural gas sector within the primary sector is described as one sector, although when broken down it may have different components.
5. **SUBREGIONAL INVESTMENT TRENDS**

In 2018, most subregions recorded an increase in FDI inflows, except North and Central Asia. East and North-East Asia remained the leading destination for FDI inflows, attracting around double the amount of South-East Asia, the second largest destination. East and North-East Asia was also responsible for the largest shares of FDI outflows from the Asia-Pacific region in 2018. Figures 8 and 9 illustrate the FDI inflows and outflows respectively for the different subregions in Asia and the Pacific.

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**Figure 7. Top 10 sectors for greenfield FDI, 2009-2018**

![Bar chart showing top 10 sectors for greenfield FDI, 2009-2018.](chart)

*Source: ESCAP calculations based on fDi Intelligence data (accessed October 2019).*
The East and North-East Asia subregion continues to be the leading destination and source of FDI in Asia and the Pacific. The subregion received 48% of total FDI inflows to the region and accounted for 76% of total FDI outflows in 2018. Inflows to the subregion grew by 3% and were largely the result of increased investment flows into China, Hong Kong, China, Macao, China and the Republic of Korea. Outflows, by comparison, declined by 10% in 2018 due to decreased outflows from all countries in the subregion except the Republic of Korea.
China and Hong Kong, China continued to receive the largest FDI inflows to the subregion, absorbing 91% (almost $255 billion of the $282 billion) of FDI inflows that went to the subregion.\(^2\) Despite heightened trade tensions in 2018 with the United States, FDI inflows to China increased. Furthermore, in 2018 more than 60,000 new firms were established by foreign investors in China, representing a 70% increase from the number established in 2017 (UNCTAD, 2019). Much of the growth in inward FDI to China in 2018 came in the second half of the year, and was due to the elimination and/or relaxation of limits to foreign ownership in key manufacturing industries such as automotive, power grids, and ship and aircraft production (UNCTAD, 2019). In descending order, Hong Kong, China, the Republic of Korea, Singapore, the United Kingdom and Germany were the leading sources of increased inward investments into China.

Although trade tensions did not deter overall FDI inflows to China in 2018, declining exports, capital flight and yuan weakness in the first two quarters of 2019 have raised concerns that inward FDI levels to China may decline in 2019. As it takes time for businesses to diversify their capacity outside of China in order to respond to the trade tensions, the longer the trade war between the United States and China continues, the higher the probability that there will be a slowdown in inward FDI as firms become more capable of redirecting their investments outside of China (Anukoonwattaka and Lobo, 2019; ESCAP, 2018).

The Government of China has implemented several FDI liberalization measures in an effort to keep FDI levels stable despite the trade tensions. While initial reports from the Ministry of Commerce of the Government of China indicate that inward FDI continued to grow by 3.2% in the first eight months of 2019 (Global Times, 2019), initial data on the value of greenfield investments between January and August of 2019 suggest otherwise, as they were significantly below the 2017 levels for the same period. Between January and August 2019, only $40 billion worth of greenfield projects were directed towards China, which is less than half of the $107 billion that China attracted in 2017. Unless several mega investment projects are directed towards China between September and December 2019, it is likely that greenfield investments will remain well below their 2017 levels.

Outflows of FDI from East and North-East Asia decreased by 10% in 2018 from the previous year, to a little less than $397 billion. Despite lower overall outflows from the subregion, it nonetheless was responsible for the largest share (76%) of outward FDI from Asia and the Pacific in 2018. The largest decline in outflows were in China and Japan. In China, outflows decreased by 18% from $158 billion in 2017 to $130 billion in 2018. Declining outflows since 2017 in China have been due to a combination of tighter regulations on outward FDI, narrower access to financing for overseas ventures for Chinese firms, and stricter oversight of Chinese investments in host countries. While overall levels of Chinese outward FDI have declined, flows directed towards ASEAN continued to increase. Furthermore, Chinese investments continued to grow in the Belt and Road Initiative (BRI) participating countries.

Outward FDI from Japan decreased by 11%, from $160 billion in 2017 to $143 billion in 2018, largely as a result of subdued merger and acquisition (M&A) activities in 2018 that cut Japanese outflows to the United States in half. However, Japanese FDI outflows to Asia and the Pacific grew by 31% to reach $49 billion in 2018. ASEAN was the largest destination for Japanese FDI

\(^2\) FDI inflows to Macao, China increased by 197% from 2017 to 2018 ($375 million to $1.1 billion).
outflows in 2018, receiving $25 billion, followed by China ($10 billion), the Republic of Korea ($4.8 billion) and India ($3.2 billion) (UNCTAD, 2019).

FDI outflows from Hong Kong, China only decreased slightly by 2% from $87 billion to $86 billion in 2018.

The Republic of Korea was the only country in the East and North-East Asia subregion to record an increase in outward FDI in 2018. FDI outflows from that country increased by 14%, from $34 billion in 2017 to $38 billion in 2018. This increase was due to sizable foreign investments undertaken by large Korean multinational enterprises (MNEs), including LG, Samsung Electronics, Hyundai and KIA, in digital and frontier technologies (UNCTAD, 2019).

While Japan and the Republic of Korea will continue to be large sources of outflows from the subregion in 2019, it is forecast that the current trade dispute between the two countries will likely hamper bilateral investment between them in 2019 as business confidence wanes.

### 5.2 South-East Asia

FDI inflows to South-East Asia, which includes members of ASEAN as well as Timor-Leste, grew by 3% in 2018 to $149 billion. This is the third consecutive year in which FDI inflows to ASEAN member countries have increased (ASEAN and UNCTAD, 2019). Singapore continued to attract the lion’s share of FDI, receiving $78 billion in inward FDI in 2018 which accounted for 52% of all inward FDI into the subregion. FDI in Singapore grew by 3% in 2018, largely due to a 94% increase in M&As in real estate, energy and finance (UNCTAD, 2019).

Thailand recorded the largest increase in inward FDI in 2018, with investment growing 62% to $10 billion. Increased investment from Japan and Hong Kong, China contributed the most to the increase in inflows to Thailand in 2018. Large increases were also recorded in Cambodia (up 11% to $3 billion) and Brunei Darussalam (up 10% to $504 million) in 2018. Investment also reach a four-year record in Timor-Leste, growing to $48 million in 2018. Intra-ASEAN investment played an important role in pushing up investment levels in the subregion. For example, Singapore contributed more than 50% of FDI inflows to Indonesia. China is also a significant source of investment in ASEAN, with Chinese FDI to the subregion doubling from $7 billion in 2013 to $14 billion in 2018 (UNCTAD, 2019).

The ongoing trade tensions between the United States and China as well as some more recent regional trade conflicts may affect the flows of investment to and from ASEAN in the near future. A number of reports over the past two years have signalled the fact that foreign and domestic businesses operating in China are developing contingency plans to relocate and reshore production to mitigate the negative impacts of increased tariffs (ESCAP, 2018). ASEAN economies, particularly Indonesia, Malaysia, Thailand and Viet Nam, have regularly been named by businesses as the preferred destination for investment redeployments because of their relative low production costs and ability to accommodate large-scale shifts of production from China.

Indeed, increases in FDI in Indonesia, Thailand, and Viet Nam are partly related to redeployments of investment and production from China (Economist Intelligence Unit, 2019a), and further redeployments are likely to continue in 2019 and 2020 as these countries are taking
legislative measures specifically aimed at attracting such investments. For example, in 2019 Thailand announced a package of incentives, including a 50% corporate tax break, for companies relocating production from China to Thailand (Chan, 2019). Indonesia has announced plans to streamline its FDI regulations and improve the business and investment climate to increase its ability to capitalize on divestments from China (Gorbiano and Fachriansyah, 2019). The three sectors likely to attract the largest redeployments of investment and production to ASEAN in the coming years are information and communications technology, automotive and automotive parts, and apparel and ready-made garments.

Despite the increased investment in most countries of the subregion, declines in inward FDI were also reported in several countries, including (in descending order) the Philippines, Myanmar, Malaysia and the Lao People’s Democratic Republic. The Philippines saw the largest decline, with investment contracting by 26% from just under $9 billion in 2017 to almost $6.5 billion in 2018. This was followed by Myanmar, where investment dropped from $4.3 billion in 2017 to $3.5 billion in 2018, and Malaysia, where investment decreased from $9.3 billion in 2017 to $8 billion in 2018. Inward FDI is expected to recover in 2019 in the Philippines, as an executive order issued in late 2018 to further liberalize investment and remove ownership restrictions comes into effect in 2019. In Malaysia, investment declined for the second consecutive year due to lower investments in the mining and quarrying sector.

While inward FDI to South-East Asia remained robust in 2018, outward FDI from the subregion stagnated and contracted slightly by 2%, mainly due to significant decreases in outflows from Singapore, the Philippines, and Malaysia. Nonetheless, FDI outflows from South-East Asia accounted for 7% of total global FDI outflows and 13% of total FDI outflows from Asia and the Pacific. Outward investment levels largely stagnated in 2018 due to the drop in FDI outflows from Singapore, which in 2018 accounted for 53% of the subregion’s outward investment. In 2018, outflows from Singapore decreased to $37 billion, compared to $44 billion in 2017.

5.3 South and South-West Asia

Inward FDI flows to South and South-West Asia recovered and grew by 5% in 2018, from $63.8 billion in 2017 to $67.1 billion in 2018. India continued to attract the largest share of inward FDI, receiving $42.2 billion in 2018, up 6% from 2017. Growth in inward investment to India was largely due to robust investment in the manufacturing, communication and financial services sector. Cross-border M&A deals grew by 70% in 2018, increasing from $23 billion in 2017 to $33 billion in 2018. (UNCTAD, 2019)

With the exception of the Islamic Republic of Iran and Pakistan, nearly all countries in the subregion reported double digit increases in inward investment in 2018. The largest increases were in Bangladesh, the Maldives, Sri Lanka, Nepal and Turkey. FDI inflows to Bangladesh increased by 68% to reach $3.6 billion as a result of large investments in the utilities and garments sectors. Inward investment grew by 12% in the Maldives to reach $552 million due to large-scale investments in the tourism and construction sectors. Driven by increased investment from China, India and Singapore, FDI in Sri Lanka grew to a record $1.6 billion in 2018, with infrastructure sectors such as port and telecommunications receiving the largest intraregional investments. FDI in Turkey modestly recovered in 2018, reaching $12.9 billion compared with $11.4 billion in 2017, but inflows nonetheless remain well below the 2016 level of $13.7 billion.
A return to political stability in the country in mid-2018 eased investor concerns and encouraged increased inward investments despite deteriorating macroeconomic conditions, such as increasing inflation and a depreciating lira (Economist Intelligence Unit, 2019b).

Inward FDI to the Islamic Republic of Iran contracted by 31% to $3.4 billion as a result of new sanctions by the United States in 2018. The countries that continue to invest in the Islamic Republic of Iran in descending order of the value of investments included Italy, China, Germany, Malaysia, India and Cyprus. Pakistan also registered a significant decrease in inward FDI, down 27% to $2.4 billion due to the completion of parts of the BRI-linked China-Pakistan Economic Corridor and a domestic balance-of-payments crisis which has hampered investment (UNCTAD, 2019). Investment is expected to further decline in the coming years as many of the remaining BRI projects along the Corridor are expected to be completed.

FDI outflows from South and South-West Asia increased for the third consecutive year, modestly growing from $14.1 billion in 2017 to reach $14.8 billion in 2018. However, this mild increase in outward FDI was due solely to a 37% increase in outflows from Turkey totalling $3.6 billion, because all other countries recorded a decrease in outward investment, with the largest drops in outflows coming from (descending order) Pakistan, Bangladesh and Afghanistan. India accounted for the largest share of outward investment from the subregion (74%) with outward FDI remaining stable at $11 billion in 2018.

5.4 North and Central Asia

In 2018, FDI in the North and Central Asia continued to decline sharply for the third consecutive year, dropping by 40% to reach $22.8 billion. Most countries in the subregion, except for Armenia, Tajikistan and Uzbekistan, recorded double digit declines in inward investment levels. FDI in most of those economies is concentrated in commodities, especially fossil fuels; as a result, it is highly exposed to cyclical risks. In particular, falling commodity prices have had a negative impact on FDI in the subregion. Geopolitical concerns and sluggish GDP growth hampered investment in the Russian Federation in 2018 (UNCTAD, 2019) and FDI in the country dropped by 49% to $13.3 billion. Low commodity prices and large-scale divestments in non-commodity sectors were responsible for an 18% contraction in FDI in Kazakhstan. In 2018, $3.8 billion worth of divestments were reported in Kazakhstan; the largest publicly announced divestments were from Telia (Sweden) and Turkcell (Turkey) in the telephone services sector (UNCTAD, 2019).

Meanwhile, FDI in Uzbekistan increased to a record level of $412 million, up 322% in 2018. Gradual investment liberalization was responsible for the significant rise in investment in 2018; while the Russian Federation has been a source of FDI in the country for several years, the steady opening of the investment environment also encouraged more investment from China, India, the Republic of Korea and Turkey in 2018 (UNCTAD, 2018).

North and Central Asia contributed 7% of the total outflows of FDI from the Asia-Pacific region in 2018, making it the third-largest subregion for outward investment. Outward FDI from the subregion declined by a little less than $1 billion to $37.5 billion in 2018. As with inward FDI, most countries in the subregion recorded a dip in outflows in 2018. However, outflows from Georgia and the Russian Federation increased by 26% and 7%, respectively. The Russian Federation is the largest contributor of investment from North and Central Asia; reinvested
earnings combined with intracompany loans were primarily responsible for the 7% increase in outward FDI from the subregion in 2018, reaching $36.4 billion (UNCTAD, 2019). Much of the outward FDI from the Russian Federation is associated with a select group of Russian MNEs, including Lukoil, Gazprom and Rosneft, among others.

5.5 The Pacific

FDI in the Pacific subregion increased for the third consecutive year, rising 38% to $63.5 billion in 2018. As in previous years, Australia received the bulk (95%) of this investment. Investment in Australia grew by 43% in 2018 to $60.4 billion. The Cook Islands also recorded a 432% increase in inward FDI, growing from $1 million in 2017 to $5 million in 2018. Nonetheless, with the exception of Australia, the Cook Islands, New Caledonia, Samoa and Vanuatu, all other countries in the subregion recorded decreases in inward FDI.

Outward investment from the Pacific also increased for the third consecutive year, growing by 19% to reach $3.8 billion. As with inward FDI, Australia accounts for the largest share of outward investment from the subregion, totalling 95% ($3.6 billion) in 2018. The remaining outward investment from the subregion largely came from New Zealand, Samoa and Vanuatu. Outward FDI from New Zealand grew to $404 million in 2018. In Samoa, outward FDI increased by 27% to $9 million in 2018, while in Vanuatu it increased by 10% to $1.2 million. Overall, most countries in the subregion recorded contractions in outward FDI levels (UNCTAD, 2019).

6. FDI PROSPECTS

The Asia-Pacific region is expected to remain a significant destination and source of FDI in 2019. However, sluggish growth in greenfield investment may hamper the ability of the region to attract the same levels of investment in 2019 as it did in 2018; a decline in FDI inflows is expected for 2020, in the absence of a resolution to the trade wars and persistence of other global and regional uncertainties, thus increasing the chances of a global recession. In particular, initial data on announced greenfield project values from the first nine months of 2019 for the region as a whole suggest that a decline in this type of investments can be expected in 2019 and will most likely continue into 2020. This is significant, as announced greenfield investments are an indicator of future FDI trends. Project values of announced greenfield investments in the region between January and August 2019 totalled $158 billion, while intraregional announced greenfield investments during the same period reached $64 billion. Both of these figures are much less than the $406 billion in total greenfield investments and $215 billion in intraregional investments recorded in 2018.

Unless several mega investment projects are announced in the last four months of 2019, it is unlikely that greenfield investments will reach the same levels as in 2018. The deceleration of growth in all major and emerging economies and darkening outlook for trade growth in 2019 are, however, likely to stymie businesses from making productivity-enhancing investments globally and well into 2020 (WTO, 2019). Therefore, investment prospects for the region remain subdued and tied to unfolding risks of ongoing global political and economic disturbances, such

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3 Illustrating this, in October 2019 the WTO sharply cut its forecasts for global trade growth in 2019 from 2.6% to 1.2%. Trade tensions and slowing global growth are the main factors responsible for the downgrade (WTO, 2019).
as Brexit, the United States-China trade war, growing protectionist sentiments and a retreat from multilateralism across the world, and the civil unrest in Hong Kong, China.

Investment flows to China are expected to slow in 2019 and again in 2020. Although initial reports from China’s Ministry of Commerce indicate that FDI grew in the first eight months of 2019, greenfield investment values between January and August 2019 indicate otherwise and are more than half as low as the total for 2018. During the first nine months of 2019, China attracted nearly $40 billion in greenfield investments, of which $8.3 billion was from intraregional sources. In comparison, in 2018, China attracted $107 billion in greenfield investments, of which $37.7 billion was from intraregional sources. However, while relaxed limitations on foreign investment may help to keep overall FDI levels stable, escalating trade tensions globally and in the region will likely hamper greenfield investments in 2019 and 2020.

The impact of the civil unrest in Hong Kong, China on investment prospects is of concern for the territory, mainland China and the region as a whole. The protests, which started in July 2019 and are ongoing, have stirred business confidence, and initial reports suggest they may lead to a dip in GDP and even to a recession. The severity of the impact on the economy and on investment in particular will, of course, be dependent on the duration of the unrest. However, an economic and investment slowdown in Hong Kong, China is also likely to reverberate throughout the Asia-Pacific region. Hong Kong, China not only acts as a gateway for much of the investment that goes into mainland China, it is also a major source of intraregional investment. Therefore, the emerging risks posed by the situation in Hong Kong, China for investment is likely to have a significant impact on FDI levels in the region as a whole in 2019 and 2020.

Another ongoing development that may affect the investment outlook for the East and North-East Asian subregion is the unfolding trade dispute between Japan and the Republic of Korea. The most immediate impact of escalating trade tensions between those two countries will be lower bilateral investment; however, if business confidence continues to wane it may lead more broadly to subdued investment prospects for both inward and outward FDI to and from both countries in both 2019 and 2020.

Investment prospects for South-East Asia are positive, with investment levels likely to expand in 2019 and into 2020 as countries continue to introduce investment liberalization measures and as a few of the countries in the subregion benefit from trade war-related investment diversions. Increases in FDI in Indonesia, Thailand, and Viet Nam in 2018 were already partly related to such redeployments of investment and production from China, and further redeployments are likely to be seen in 2019 and 2020 as these countries take legislative measures aimed specifically at attracting such investments. However, the prospects are better for Viet Nam as a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The three sectors likely to attract the largest redeployments of investment and production are information and communications technology, automotive and automotive parts, and apparel and ready-made garments.

Investment prospects in South and South-West Asia in 2019 and 2020 will largely be determined by expectations for India. Although India saw a two-fold increase in greenfield investments from 2017 to 2018, initial data suggest that subdued levels of greenfield investments can be expected for 2019, with the value of projects in the first nine months totalling $23 billion as business disillusion sets in with the overall pace of economic reform.
While the threat of a prolonged conflict between India and Pakistan, particularly the suspension of trade ties between the two countries after recent events in Kashmir, are likely to have only a minor effect on bilateral investments as they are minimal, it may nonetheless further slowdown FDI inflows from other countries.

Investment in North and Central Asia is also expected to decelerate with further sharp declines in commodity prices already reported in 2019. Investment levels in developing countries of the Pacific will continue to be weak and are linked to a few sparse capital-intensive projects.

The Asia-Pacific region will continue to be a significant source of outward FDI, with outward flows remaining high in 2019 and 2020. Outward investment from the subregions of East and North-East Asia and South-East Asia are expected to remain stable and make up the largest share of outward investment from the region in 2019 and 2020. Continued efforts to expand bilateral cooperation under the BRI are likely to result in increased levels of outward FDI from China in 2019 and 2020, especially so if sustainability concerns expressed by some countries on the BRI are adequately addressed. Finally, it is expected that a large percentage of these outflows will be intraregional, following the general trend of increased intraregional investment since 2009.

In conclusion, it can be observed from the data provided in this brief that the investment landscape in Asia and the Pacific is changing in several important and related ways. First, the available data underscore the increasingly uncertain dynamics of investment flows to the region. This uncertainty is highly intertwined with global political and economic developments, including trade tensions between the United States and China. They are also linked to companies in China and other developing economies in the region moving up the value chain, which has led to increased outsourcing of manufacturing processes to lower-cost economies in the region. Second, and related, the data highlight the fact that Asian and Pacific countries continue to grow not only as destinations but also as sources of FDI, both within the region and globally. Third, greenfield FDI, although still predominantly present in the manufacturing sector, is shifting more and more towards the services sector, which may offer more opportunities for value chain-linked sustainable FDI.

Navigating this changing and uncertain investment landscape while also maximizing the potential for FDI to contribute to sustainable development in Asia and the Pacific requires swift and coherent action from policymakers across the region to ensure that investments deliver sustainable benefits. Doing so depends critically on the ability of Governments in the region to (a) assess and evaluate the sustainability characteristics of FDI and (b) implement the appropriate investment policy and regulatory frameworks. To this end, ESCAP is developing country-specific FDI sustainability indicators and has already developed a Handbook on FDI Policies (ESCAP, 2017) to support its member States in promoting and attracting sustainable FDI. It is hoped that policymakers in the Asia-Pacific region will utilize these resources to harness investment flows that generate the maximum sustainable development benefits for the region.
References


For more information and knowledge on trade and investment trends in Asia and the Pacific, please visit: https://www.unescap.org/our-work/trade-investment-innovation
The Asia-Pacific Trade and Investment Trends are prepared by the Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific. They provide annual updates and forecasts of trends and developments in: (a) intra- and inter-regional trade in goods and services; (b) foreign direct investment; (c) trade policy and facilitation measures, including relevant regional trade integration initiatives; as means of implementation of the Sustainable Development Goals. It is freely available on the ESCAP website: www.unescap.org/our-work/trade-investment-innovation.