Developing Asia's FDI appeal

Area remains largest host region for global inflows in 2013 with $406b; China 2nd worldwide

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THE US FEDERAL RESERVE had begun its tapering measures and concerns of exchange rate depreciation and stock market declines remain in emerging markets, however not as severe as in the summer of 2013. In the summer of 2013, the shift in market expectations towards an earlier tapering of quantitative easing in the United States caused some volatility for international investments. The impact was large in some emerging markets, which suffered real exchange rate depreciation, stock market declines and a withdrawal of capital. However, in contrast to foreign portfolio flows that declined dramatically in the second and third quarter of 2013, foreign direct investment, or FDI, flows were relatively less volatile.

According to a recent report from the United Nations Conference on Trade and Development, or UNCTAD, global FDI inflows rose by 11 per cent in 2013 to an estimated $1.46 trillion.FDI flows to developed countries increased to $576 billion, however it remained well below half of global inflows at 39 per cent. FDI flows to the US in 2013 was at $159 billion and failed to reverse their decline, contrary to other signs of economic recovery over the past year. FDI inflows to Japan rose by 61 per cent to $2.8 billion. The aggregate inflows to the European Union in recent years were largely accounted for by flows to Belgium, Ireland, the Netherlands and Luxembourg.

FDI flows to developing economies reached a new high of $759 billion and constituted 52 per cent of global FDI inflows in 2013. FDI flows to Latin America and the Caribbean increased by 18 per cent in 2013 and reached an estimated $294 billion. While in previous years FDI growth to the region was largely driven by South America, in 2013 Central America and the Caribbean were the main recipients of FDI growth. Decreasing commodity prices seem to have brought a stop to the boom in FDI in this industry, especially in countries such as Chile and Peru. Brazil was the largest recipient of FDI in the sub-region.

Developing Asia, with its flows in 2013 at a level similar to 2012, remained the largest host region in the world. Total inflows to developing Asia, comprising of East Asia, South Asia, South-east Asia and West Asia as a whole amounted to an estimated $406 billion in 2013. The performance of sub-regions continues to diverge, with three per cent growth in FDI in South Asia to $33 billion, two per cent growth in FDI in South-east Asia to $116 billion, one per cent growth in FDI in East Asia to $219 billion and 20 per cent drop in FDI in West Asia to $38 billion.

Evening rush-hour traffic in Shanghai. FDI inflow to China was around $127 billion in 2013. — *AFP*

The inflows to China was at an estimated $127 billion and ranked second in the world. India experienced a 17 per cent growth in FDI flows, to $28 billion, despite unexpected capital outflows in the middle of the year. FDI growth slowed in the Association of Southeast Asian Nations, as inflows to Singapore stagnated at $56 billion. West Asia dropped by 20 per cent to $38 billion in 2013. West Asia's two main recipients, Saudi Arabia and Turkey, registered significant FDI declines of 19 per cent to $9.9 billion and 15 per cent to $11 billion, respectively.

FDI inflows to Africa rose by 6.8 per cent to an estimated $56.3 billion in 2013. This was due to the strong performance of Southern African countries, including South Africa and Mozambique, which experienced record inflows of more than $10 billion and $7 billion, respectively. Persistent political and social tensions continued to subdue flows to North Africa, where only Morocco registered solid growth of 24 per cent to $3.5 billion. There are indications that investors are ready to return to the region, with many big cross-border deals targeting Egypt.

Transition economies experienced a significant 45 per cent rise in FDI inflows, reaching an estimated $126 billion. FDI inflows to the Russian Federation jumped by 83 per cent to $94 billion making it the world's third largest recipient of FDI.

The UNCTAD forecasts that FDI flows will rise gradually in 2014 and 2015 to $1.6 trillion and $1.8 trillion, respectively, as global economic growth gains momentum which may prompt investors to turn their cash holdings into new investments. However, uneven levels of growth, fragility and unpredictability in a number of economies, and risks related to the tapering of quantitative easing could dampen FDI recovery.

The writer is the group chief executive officer of Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.