DOHA DATELINE
Dr R. Seetharaman

Global FDIs may face 'headwinds'

According to recent UNCTAD Global Investment Trends Monitor, global foreign direct investment (FDI) inflows declined eight per cent in 2014 to an estimated $1.26 trillion. The top five FDI hosts in 2014 were China $128 billion, Hong Kong $111 billion, the US $86 billion, Singapore $81 billion and Brazil $62 billion respectively.

FDI flows to developed countries dropped 14 per cent to $511 billion significantly affected by a large divestment in the United States. Investment flows to the United States fell to an estimated $86 billion. Cross-border M&A sales in US declined from $60 billion in 2013 to just $10 billion in 2014, primarily due to the Verizon-Vodafone deal. FDI flows to the European Union reached an estimated $267 billion. Among the largest economies, the United Kingdom saw its inflows rise to an estimated $61 billion, helped by rising reinvested earnings and cross-border M&As. Inflows to the Netherlands and Luxembourg increased to $42 billion and $36 billion, respectively. Japan continued to perform well, with FDI inflows rising to $10 billion in 2014.

FDI flows to developing economies reached a new high of more than $700 billion, four per cent higher than 2013, with a global share of 56 per cent. At the regional level, flows to developing Asia were up, those to Africa remained flat, while FDI to Latin America declined. The combined inflows to Asia region grew by an estimated 15 per cent to a historical level of around $492 billion in 2014. Inflows to China amounted to an estimated $128 billion, rising by about three per cent from 2013. This was mainly driven by an increase in FDI in the service sector, while FDI to the manufacturing sector fell, particularly from Japan, and especially in industries that are sensitive to rising labour costs. FDI inflows to India surged, increasing by about 26 per cent to an estimated $35 billion, despite macroeconomic uncertainties and financial risks. The maximum growth in FDI was in services sector especially in electricity, gas, water, waste management and information FDI inflows to Hong Kong rose by an estimated 46 per cent to an annual total of about $111 billion. FDI inflows to Singapore rose 27 per cent to an estimated $81 billion.

FDI flows to West Asia are estimated to decrease by around four per cent to $44 billion. FDI remained sluggish in the Gulf Cooperation Council (GCC) countries, even though they have avoided large scale political unrest and enjoyed strong economic growth. FDI is estimated to have also decreased in Turkey to $12.2 billion driven by a significant decrease of flows to the financial sector, while flows aiming at real estate acquisitions registered a strong increase.

FDI inflows to Africa fell three per cent to an estimated $55 billion, largely accounted for by a decrease of FDI into North Africa. FDI into North Africa declined 17 per cent to $12.5 billion, with continued civil unrest in Libya dragging down the region's potential as an FDI host. FDI into Africa was buoyed by increased inflows to Mozambique driven by its potential as one of the world's largest liquefied natural gas exporters.

FDI flows to Latin America are estimated to have decreased by 19 per cent to $153 billion in 2014. This was mainly the consequence of a 26 per cent decline in cross-border M&As and of reduced investment in the extractive industries due to lower commodity prices. In Brazil, despite a significant increase of cross-border M&As by 45 per cent to US$14 billion, FDI flows are estimated down around four per cent to $62 billion affected by a strong fall in flows to the primary sector, while those to manufacturing and services increased. FDI flows to transition economies more than halved reaching $45 billion as regional conflict, sanctions on the Russian Federation, and negative growth prospects deterred foreign investor's from investing in the region.

Global FDI will continue to face headwinds on account of fragility of the world economy, growth tempered by hesitant consumer demand, volatility in currency markets and geopolitical instability which will act as a deterrent for investors. The decline in commodity prices will also lower investments in the oil and gas and other commodity industries. Among developed countries, the increasing divergence in economic growth between the United States and the euro area and Japan will lead to different patterns of FDI. In developing and transition economies, slower growth prospects in some emerging markets and regional conflicts are likely to affect investment negatively.

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

TOP 5
FDI HOSTS IN 2014

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Hong Kong
$111 billion

US
$86 billion

Singapore
$81 billion

Brazil
$62 billion