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GLOBAL INVESTMENT PROSPECTS

Global investment is seeing a modest recovery, with projections for 2017 cautiously optimistic. Higher economic growth expectations across major regions, a resumption of growth in trade and a recovery in corporate profits could support a small increase in foreign direct investment (FDI). Global flows are forecast to increase to almost $1.8 trillion in 2017, continuing to $1.85 trillion in 2018. Policy uncertainty and geopolitical risks could hamper the recovery, and tax policy changes could significantly affect cross-border investment.

FDI prospects are moderately positive in most regions, except Latin America and the Caribbean. Developing economies as a group are expected to gain about 10 %. This includes a sizeable increase in developing Asia, where an improved outlook in major economies is likely to boost investor confidence. FDI to Africa is also expected to increase, with a modest projected rise in oil prices and advances in regional integration. In contrast, prospects for FDI in Latin America and the Caribbean are muted, with an uncertain macroeconomic and policy outlook. Flows to transition economies are likely to recover further after their economies bottomed out in 2016. Flows to developed economies are expected to hold steady in 2017.

After a strong rise in 2015, global FDI flows lost growth momentum in 2016, showing that the road to recovery remains bumpy. FDI inflows decreased by 2 % to $1.75 trillion, amid weak economic growth and significant policy risks, as perceived by multinational enterprises.

FDI remains the largest and most constant external source of finance for developing economies – compared with portfolio investments, remittances and official development assistance. But inflows were down across all developing regions:

- FDI flows to developing Asia contracted by 15 % to $443 billion in 2016. This first decline in five years was relatively widespread, with double-digit drops in most subregions except South Asia.
- FDI flows to Africa continued to slide, reaching $59 billion, down 3 % from 2015, mostly reflecting low commodity prices.

- The downward trend in FDI flows to Latin America and the Caribbean accelerated, with inflows falling 14 % to $142 billion, owing to continued economic recession, weak commodity prices and pressures on exports.
- FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 13 %, to $38 billion. Similarly, those to small island developing States declined by 6 %, to $3.5 billion. Landlocked developing countries saw stable FDI, at $24 billion.

Flows to developed economies increased further, after significant growth in the previous year. Inflows rose by 5 % to $1 trillion. A fall in FDI in Europe was more than compensated by modest growth in North America and a sizeable increase in other developed economies. Developed economies' share in global FDI inflows grew to 59%.

Investment policymaking is getting more complex, more divergent and more uncertain. Sustainable development considerations make investment policies more challenging and multifaceted. Policymaking is also becoming more divergent, reflecting the variety of approaches with which societies and governments respond to the effects of globalization. This, together with more government interventions, has also reduced the predictability of investment policies for investors. A rules-based investment regime that is credible, has broad international support and aims at sustainability and inclusiveness can help reduce uncertainty and improve the stability of investment relations.

References

1. World Investment Report 2017. UNCTAD.