3

Foreign Direct Investment

Trends and Patterns of Foreign Direct Investment in Asia

Despite a downturn in global investment, foreign direct investment in Asia—both inward and outward—weakened only slightly.[13]

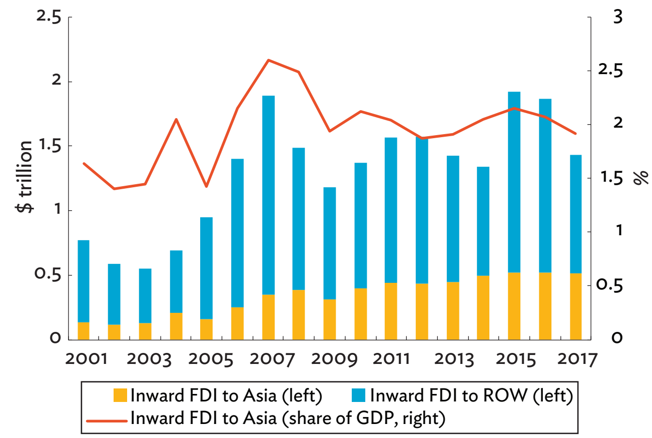
Asia remained the largest recipient of foreign direct investment (FDI) in 2017, attracting 36.2% of global FDI, up from 27.8% in 2016. The People's Republic of China (PRC) remained the top destination. While the region continues to benefit from inward FDI—helping drive economic growth and rising incomes—it has also cemented its position as a major source of FDI, as Asian firms continue to internationalize both within and outside the region. In 2017, Asia's share of global outward FDI increased to 34.1%, up from 33.6% in 2016. Japan reemerged as top Asian investor, followed by the PRC and Hong Kong, China.

Updates on Global Inward FDI to Asia

Global inward FDI fell sharply in 2017; but inward FDI to Asia weakened just 0.5%—to $517.5 billion.

Based on standard balance of payments (BOP) data, global inward FDI in 2017 fell 23.4%—to $1.4 trillion (Figure 3.1). The decline was mainly driven by a reduction in FDI to developed and transition economies, while there was only a modest growth in developing economies. Lower rates of return on FDI, a slowdown

Figure 3.1: Total Inward Foreign Direct Investment



FDI = foreign direct investment.
Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018); and United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

in the expansion of international production, and the uncertain global trade and economic environment may have dampened investments.

Nevertheless, Asia still attracted $517.5 billion in FDI during 2017, just $2.4 billion (0.5%) below the 2016 level. The PRC; Hong Kong, China; Singapore; Australia; and India remained Asia's top FDI recipients (Table 3.1). Indonesia saw an almost sixfold rise in inward FDI—receiving $23.1 billion in 2017, up from $3.9 billion in 2016.

As a share of GDP, however, inward FDI to the region has been on a downward trend since 2007, except for a modest recovery between 2012–2015. It fell to 1.9% of GDP in 2017 (from 2.1% in 2015), slightly higher than the global share of 1.8%. In 2017, inward FDI as a percentage of GDP was the highest in Hong Kong, China (30.6%); Singapore (19.1%); Mongolia (13.1%); Cambodia (12.6%); and Georgia (12.3%).

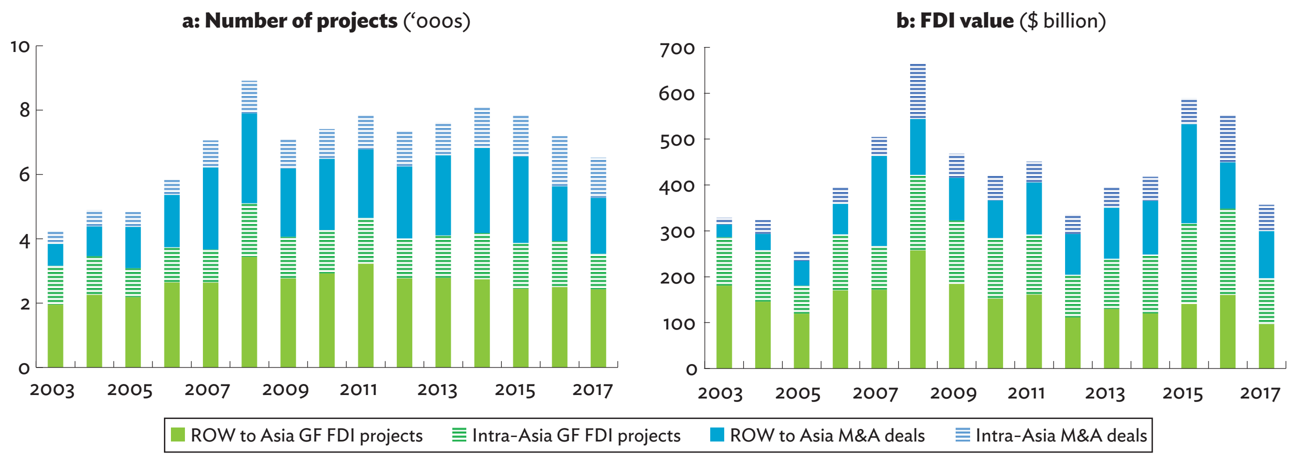
13 Asia refers to the 48 Asia and the Pacific members of the Asian Development Bank (ADB) with available data, which includes Japan and Oceania (Australia and New Zealand) in addition to the developing Asian economies.

Table 3.1: Top 10 Global and Asian Foreign Direct Investment Recipients ($ billion)

Global	2017	2016	2012	Asia	2017	2016	2012
United States	275.4	457.1	199.0	China, People's Republic of	136.3	133.7	121.1
China, People's Republic of	136.3	133.7	121.1	Hong Kong, China	104.3	117.4	70.2
Hong Kong, China	104.3	117.4	70.2	Singapore	62.0	77.5	59.8
Brazil	62.7	58.0	76.1	Australia	46.4	47.8	59.6
Singapore	62.0	77.5	59.8	India	39.9	44.5	24.2
Netherlands	58.0	85.8	25.0	Indonesia	23.1	3.9	19.1
France	49.8	35.2	16.1	Korea, Republic of	17.1	12.1	9.5
Australia	46.4	47.8	59.6	Viet Nam	14.1	12.6	8.4
Switzerland	41.0	48.3	29.5	Japan	10.4	11.4	1.7
India	39.9	44.5	24.2	Malaysia	9.5	11.3	9.2

Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Figure 3.2: Foreign Direct Investment, by Mode of Entry—Asia



FDI = foreign direct investment, GF = greenfield, M&A = merger and acquisition, ROW = rest of the world.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

While standard BOP data only show a modest decline in inward FDI to the region, firm-level investment activity data—which provide information on mode of entry and ultimate investment ownership—show that both mergers and acquisitions (M&As) and "greenfield" FDI in Asia declined abruptly in 2017 (Figure 3.2).[14] The number of greenfield projects and M&As declined 9.3% compared with 2016 levels, while by nominal value inward greenfield FDI declined 43.5% and M&As 21.9%.

The steeper decline of inward FDI based on firm-level investment suggests that some Asian economies may have acted as a conduit for FDI ultimately directed outside the region. For example, Hong Kong, China accounted for 26.2% of the total decrease by nominal value in inward FDI to Asia based on firm-level investment data (Table 3.2). It received $13.9 billion in 2017 (down 78.7% from 2016)—compared with $104.3 billion as recorded by BOP data (which fell just 11.1%).

[14] Investments can either be "greenfield" (building new assets) or by mergers and acquisitions (acquiring existing ones). For more detailed description of the data, see online Annex 1: http://aric.adb.org/pdf/aeir2018_onlineannex1.pdf

Table 3.2: Top Affected Recipients of Foreign Direct Investment in Asia—Greenfield and Mergers and Acquisitions

Destinations	2017 ($ billion)	2016 ($ billion)	y-o-y change (%)	Share in total decline (%)
Hong Kong, China	13.9	65.3	-78.7	26.2
Kazakhstan	7.1	40.6	-82.5	17.1
India	63.0	87.3	-27.9	12.4
Malaysia	8.0	25.7	-68.9	9.0
Viet Nam	22.6	40.2	-43.9	9.0
Indonesia	12.8	27.4	-53.4	7.5
Australia	37.0	45.2	-18.1	4.2
Myanmar	2.8	10.4	-73.0	3.9
Philippines	5.2	11.6	-54.8	3.2
Thailand	7.3	13.1	-44.0	2.9

y-o-y = year-on-year.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Inward FDI—as measured by the number of greenfield projects and M&As—did not decline as steeply (9.3%) as the nominal committed value of investments (35.5%) (Table 3.3). The size of the average greenfield FDI project fell sharply—by 37.2%—with smaller investments in the primary and manufacturing sectors. This indicates that the outlook for greenfield investment may not be as bleak in the future. The average value of M&As fell 14.7%, driven by smaller investments in services.

Reversing the historical trend, firm-level greenfield FDI to the region declined mainly in manufacturing (by 36.8%), while M&As dropped in services (by 39.4%).

In 2017, greenfield FDI and M&As in both manufacturing and services were below their 5-year averages (Figure 3.3 a, b). Inward greenfield FDI in manufacturing fell 36.8% between 2016 and 2017, while investments through M&As in services also declined sharply (39.4%). Investments in primary sectors favored M&A more than greenfield with the value of M&As in the sector more than doubling in 2017 to $22.6 billion—half of which was the acquisition of Essar Oil in India for $11.3 billion by Petrol Complex Pte Ltd of Singapore.

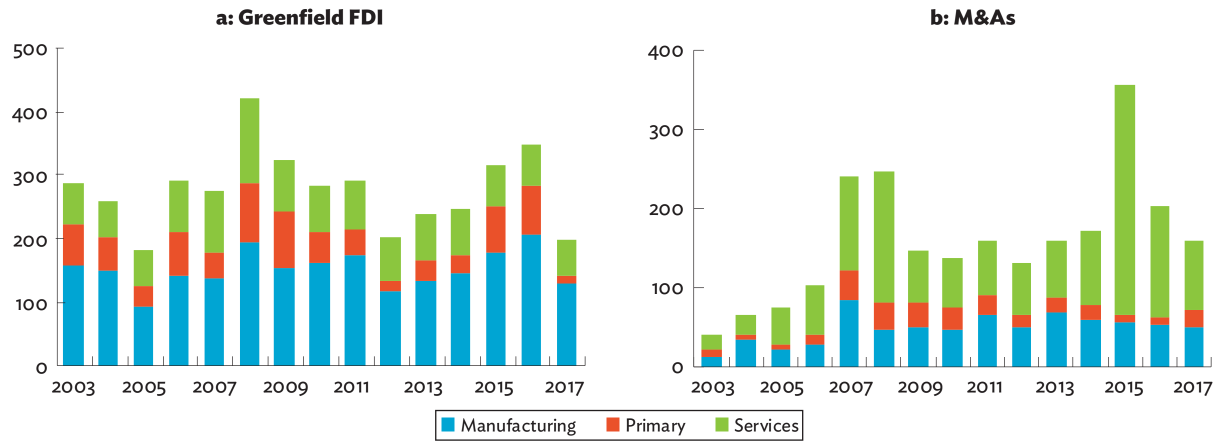
In a departure from previous years, the fall in greenfield and M&As was mainly driven by a 46.2% decline—or $134.5 billion—in intra-Asian projects and deals (Figure 3.4). Intra-Asian greenfield FDI fell to $99.7 billion in 2017 (down from $187.8 billion in 2016) affecting mainly manufacturing, while intra-Asian M&As fell to $57.1 billion in 2017 (from $103.6 billion) mostly in services. While the PRC still remained the top source for intra-Asian investments in 2017, its investments in the region fell sharply (70.2%) in 2017 to $31.0 billion, mainly affecting financial services and real estate. Recipient economies most affected by the drop in intra-Asian greenfield investments were India, Viet Nam, Malaysia, and Australia—due to the decline in FDI from the PRC; Taipei,China; Malaysia; and Singapore. The value of intra-Asian M&As in Hong Kong, China fell $50.5 billion in 2017, also mainly due to the drop in the PRC's investments. On the other hand, inward FDI from the rest of the world declined by a relatively moderate 23.6% mainly due to a reduction in greenfield investments (M&As from the rest of the world in fact increased 1.6%). The United States (US) has historically been the largest investor in the region, but the US FDI to Asia fell 36.6% in 2017. As source economies, the PRC and the US together

Table 3.3: Average Project and Deal Size—Asia ($ million)

				Greenfield			M&A			Total		
Period	**Greenfield**	**M&A**	**Total**	**MFG**	**PRI**	**SRV**	**MFG**	**PRI**	**SRV**	**MFG**	**PRI**	**SRV**
2016	88.6	62.7	76.9	110.2	1008.5	33.3	45.7	52.6	73.3	84.8	410.4	53.1
2017	55.7	53.5	54.7	78.3	275.8	29.5	50.1	198.7	46.2	67.6	221.2	38.0

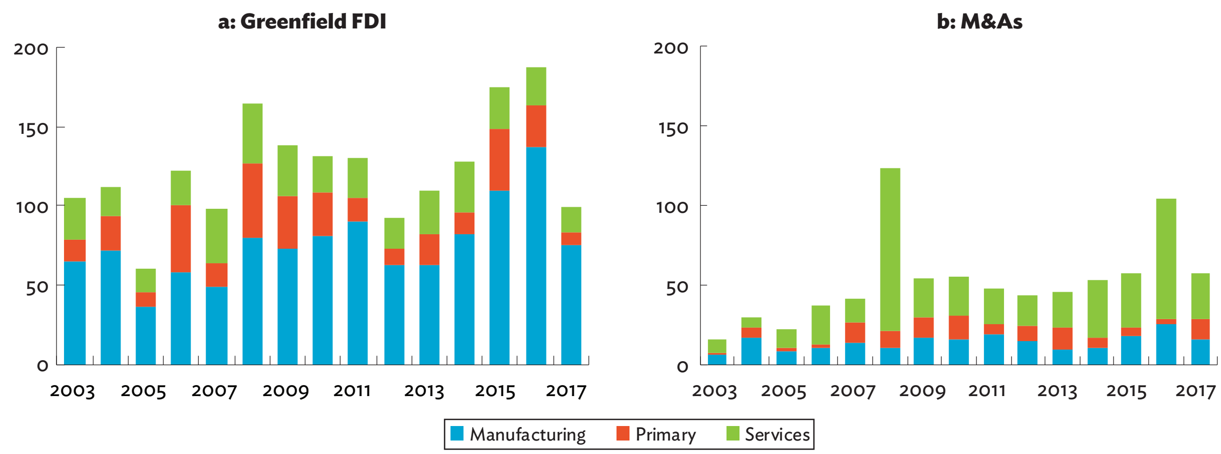
M&A = merger and acquisition, MFG = manufacturing, PRI = primary, SRV = services.
Note: Average project and deal size equals Greenfield project value and M&A deal value in Asia divided by number of projects and deals.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Figure 3.3: Total Inward Foreign Direct Investment to Asia, by Sector ($ billion)



FDI = foreign direct investment, M&A = merger and acquisition.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Figure 3.4 Intra-Asia Foreign Direct Investment, by Sector ($ billion)



FDI = foreign direct investment, M&A = merger and acquisition.
Sources: ADB calculations using data from Financial Times. fDi Markets; and Bureau van Dijk. Zephyr M&A Database (both accessed June 2018).

accounted for 59.2% of the decline in greenfield FDI and M&As to Asia in 2017 (Table 3.4).

The slowdown in inward greenfield FDI is concerning, as many Asian economies historically have leveraged trade-promoting greenfield FDI for widespread job creation, especially in labor-intensive manufacturing (Box 3.1).

While manufacturing remains important, inward FDI to Asia in services has taken on a larger role in recent years (Box 3.2). FDI inflows in services rose to $140.5 billion in 2017 from $85.9 billion in 2003—equivalent to a 3.6% (compounded) annual average growth rate. Services FDI has steadily accounted for around a third of Asia's total inflows since 2012, and the majority of the region's cross-border M&As since 2015.

Table 3.4 Top Sources of Decline of Foreign Direct Investment in Asia—Greenfield and Mergers and Acquisitions

Source	2017 ($ billion)	2016 ($ billion)	y-o-y change (%)	Share in total decline (%)
China, People's Republic of	31.0	103.9	–70.2	37.1
United States	75.1	118.6	–36.6	22.1
United Kingdom	13.7	29.3	–53.2	8.0
Taipei,China	12.2	26.7	–54.2	7.4
Japan	29.6	37.4	–20.9	4.0
Singapore	24.7	30.7	–19.4	3.0
Hong Kong, China	15.8	16.2	–2.3	0.2
Germany	17.0	14.4	17.5	–1.3
Korea, Republic of	23.2	20.6	12.5	–1.3
Cayman Islands	17.6	14.1	24.5	–1.8

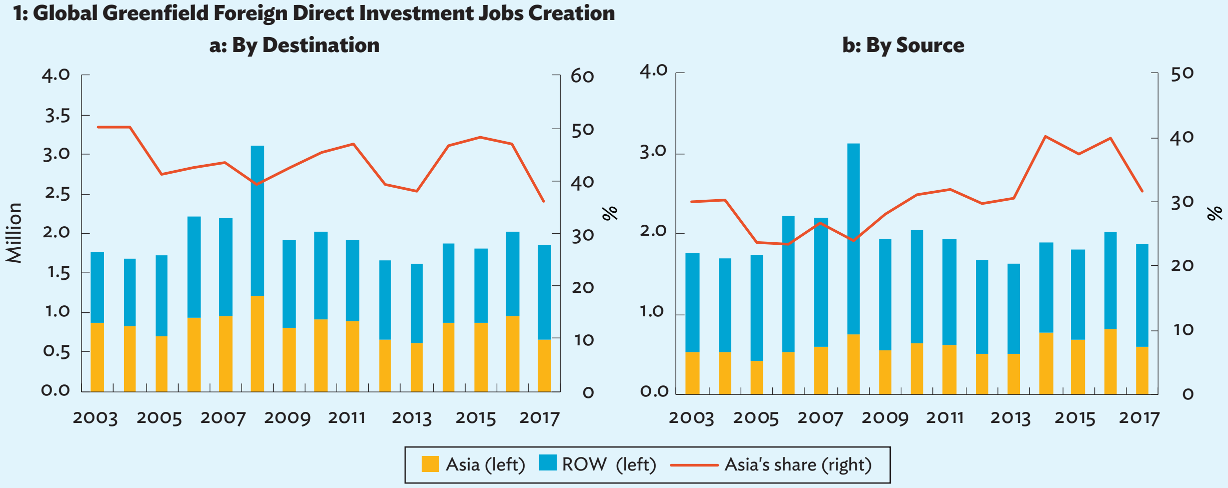
y-o-y = year on year.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Box 3.1: Greenfield Foreign Direct Investment and Job Creation—Emerging Trends

Greenfield foreign direct investment (FDI) creates jobs, facilitates technology transfer, and is better linked to global value chains (ADB 2016). Between 2003 and 2017, greenfield investments created 29.5 million new jobs globally, 43.6% of which were in Asia (box figures 1a, 1b).

Jobs created by greenfield FDI in Asia peaked in 2008 at 1.2 million and have been slowing overall since (box figure 2a). In 2017, for example, Asia's share of global FDI job creation was well below the most recent 5-year average (43.8%). Greenfield investments to Asia fell 43.5% in 2017, accompanied by a 29.9% drop (0.3 million) in the number of jobs created. Of the 667,039 greenfield jobs created in 2017, almost half were in the region's two mammoth economies—the People's Republic of China (PRC) (153,423 or 23.0% of the total) and India (162,541 or 24.4%). Viet Nam (83,744 or 12.6%), the Philippines (37,098 or 5.6%), and Singapore (30,833 or 4.6%) also received substantial numbers. The largest number of greenfield jobs in Asia came from the United States (US) investments (139,296 new jobs), followed by Japan (86,079), and Germany (59,658). Jobs generated by US investments were mostly in software and information technology (IT) services, Japan's in real estate, and Germany's in transportation. But it was real estate that generated the greatest number of jobs overall in 2017 (87,859), followed by software and IT services (64,845), and electronic components (55,513).

1: Global Greenfield Foreign Direct Investment Jobs Creation

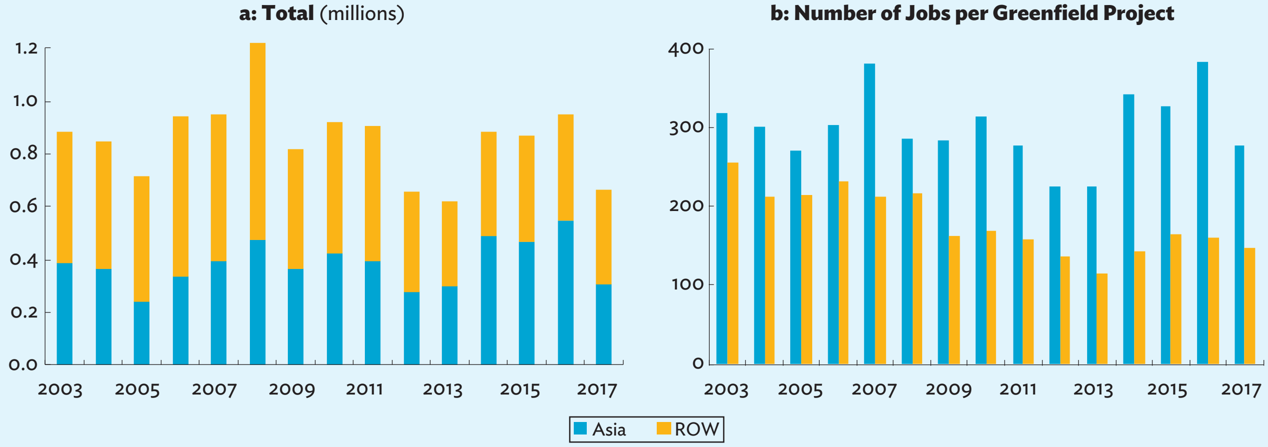


ROW = rest of the world.
Source: ADB calculations using data from Financial Times. fDi Markets (accessed June 2018).

Continued on next page

Box 3.1 *continued*

2: Inward Greenfield Foreign Direct Investment Job Creation in Asia, by Source



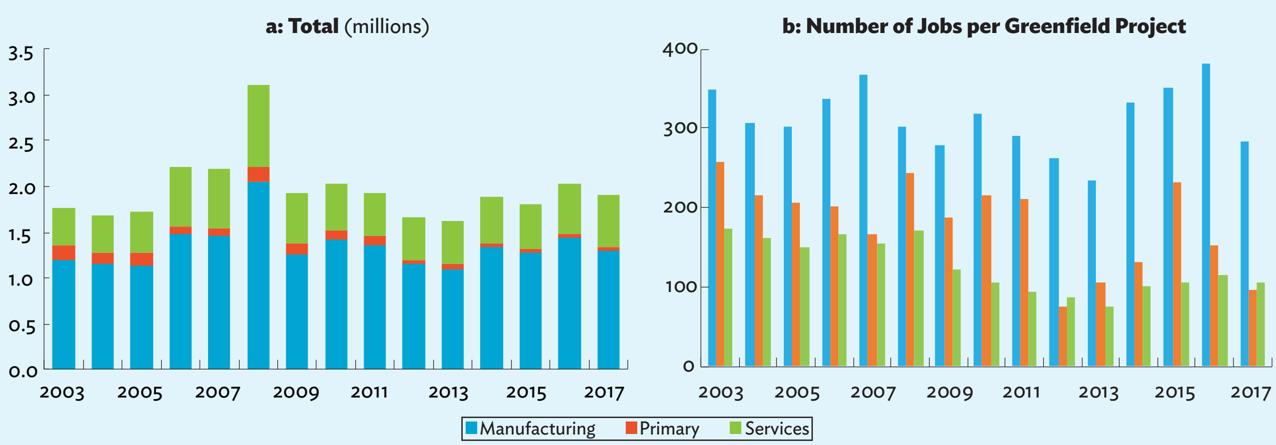
ROW = rest of the world.
Source: ADB calculations using data from Financial Times. fDi Markets (accessed June 2018).

Intraregional investments created almost half (46.2%) the greenfield jobs in 2017—led by Japan (28.0% of intra-Asian greenfield jobs), the PRC (15.0%), and the Republic of Korea (14.2%) with the PRC, Viet Nam, and India collectively receiving 57.4% of total intra-Asian jobs. Intraregional greenfield FDI is also more labor intensive—it creates more jobs per investment project compared with FDI from outside the region. Intraregional investments created 302 jobs per greenfield project in 2003–2017, almost double the average from non-regional investments (178 jobs) (box figure 2b). For example, a Republic of Korea textile company invested in Soc Trang, Viet Nam, creating 8,000 new jobs. An investment in the Philippines by an electronics company based in Taipei,China added 7,500 new jobs.

Manufacturing remains dominant in terms of both number of greenfield jobs and jobs created per project. The share of manufacturing in jobs created by greenfield FDI has been relatively stable (70.5% in 2003–2017, and 70.3% in 2017), while the share of new jobs in services (26.8% in 2003–2017 and 29.0% in 2017) has increased at the expense of jobs created in the primary sector (2.7% in 2003–2017 and 0.7% in 2017) (box figure 3a). In 2017, an average 283 jobs per greenfield project were generated in manufacturing notably in plastics, semiconductors, and automotive original equipment manufacturers (OEM)—each with at least 500 jobs per project. Services created an average 106—at least 100 per project were added in most service industries including transportation, hotels and tourism, communications, leisure and entertainment, financial, and business services—and primary sector created 96 (box figure 3b).

The distribution of new greenfield jobs is moving toward high-technology manufacturing and services. Since 2010, greenfield jobs have shifted from electronic components, automotive OEM, and business services to mostly real estate and software and IT services. Similarly, the highest new job generation has occurred

3: Inward Greenfield Foreign Direct Investment Job Creation in Asia, by Sector



Source: ADB calculations using data from Financial Times. fDi Markets (accessed June 2018).

Continued on next page

Box 3.1 *continued*

in several medium- to high-technology manufacturing and service industries—including leisure and entertainment, plastics, real estate, software and IT services, space and defense, and transportation industries—each with at least 5% (compounded) annual average growth over 2010–2017.

Despite the recent decline in greenfield job creation, the share of jobs created by greenfield FDI to the total change in formal employment in Asia still increased from 3.1% in 2003 to 4.8% in 2017, driven mostly by investments in manufacturing. Notably, greenfield FDI job creation in manufacturing in 2014–2017 accounted for 81.7% of Asia's overall net manufacturing job creation—up 10.1% from the 2009–2013 average. This is in stark contrast to the 87.7% overall decline in net job creation in manufacturing—a symptom of the so called "jobless growth in manufacturing." This has affected many Asian economies recently due to shifts from labor-intensive to capital-intensive industries and the changing nature of work (for example, the impact of automation) (International Labour Organization 2016). However, in services, jobs created by greenfield FDI grew only 5.0% between these two time periods, below the 9.1% job creation in services overall.

While Asia has benefited immensely from FDI, Asian investors have also been a major contributor to global greenfield job creation. From 2003 to 2017, almost a third (30.3%) of jobs generated by greenfield FDI globally originated from Asia (see box figure 1b), led by investments from Japan (31.6% of all jobs from Asian investments), the PRC (13.5%), and the Republic of Korea (12.0%). Jobs created by Asian greenfield investments were mostly in manufacturing industries, particularly in real estate, automotive OEM, and electronic components. Outside Asia, the US received the largest number of jobs from Asian greenfield investments—predominantly in automotive components, automotive OEM, real estate, and software and IT services. These jobs came largely from Japanese investments (13.9% of all greenfield jobs in the US), the PRC (5.6%), the Republic of Korea (4.1%), and India (4.0%). For example, two investments by Japan's Toyota Motors in the automotive OEM industry created 7,000 jobs and one investment by Mitsui & Co in real estate added another 3,000. Other major beneficiaries of jobs from Asia's greenfield investments outside the region include Mexico, the Russian Federation, and the United Kingdom.

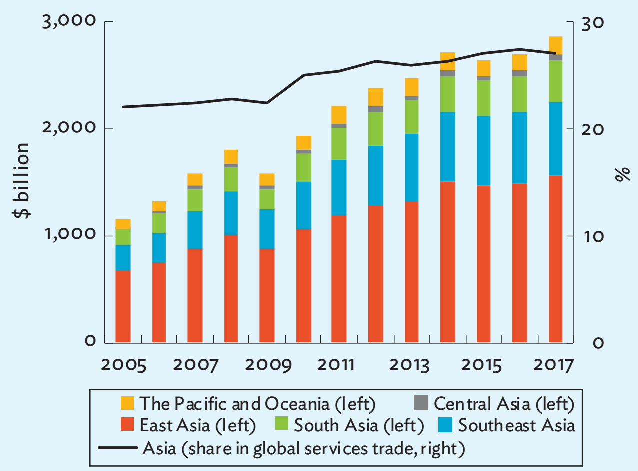
Greenfield FDI creates new jobs in both advanced and developing economies. Creating jobs in manufacturing is critical for poverty reduction. However, the current trade conflict and increasing investment restrictions—along with the changing nature of manufacturing away from labor-intensive activities—has created new challenges. Thus, it is important to continue working toward strengthening investment linkages and policies that attract sustainable and job-creating investments.

Source: ADB staff.

Box 3.2: The Internationalization of Services

Trade in services in Asia has been growing rapidly, especially in recent years. The region's trade in services with the world nearly tripled—from $1.2 trillion in 2005 to $2.9 trillion in 2017 (box figure 1). Asian economies are among the major services traders globally, accounting collectively for about a quarter of global services exports and imports between 2005 and 2017.[a] In general, increasing cross-border investment activity has historically contributed to the internationalization of services. Over the years, the spread of manufacturing firms in search of new markets or export platforms has encouraged the internationalization of home-country service suppliers. More recently—and in the wake of pro-competitive regulatory reforms, privatization, and investment liberalization—a growing share of service firms have pursued their own internalization strategies in more open host-country environments (ADB 2009). With the continued fragmentation of services production in conjunction with the proliferation of production networks in services dependent on information and communication technology (ICT), foreign direct investment (FDI) will increasingly play a key role in the internationalization of services.

1: Services Trade in Asia, by Subregion



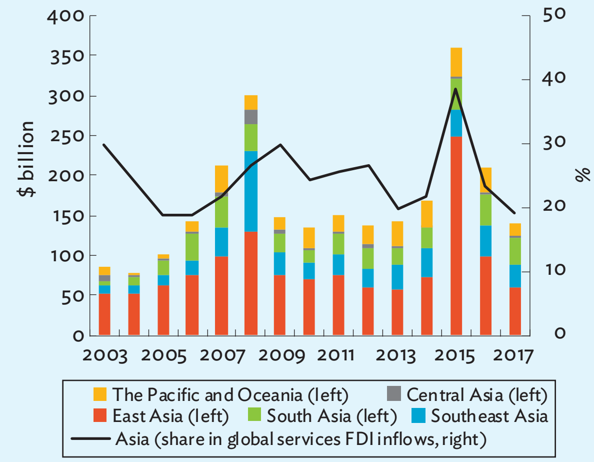
Source: ADB calculations using data from World Trade Organization-United Nations Conference on Trade and Development-International Trade Centre Trade in Services data set. https://www.wto.org/english/res_e/statis_e/daily_update_e/services_annual_dataset.zip (accessed July 2018).

Continued on next page

[a] Within the region, the largest services traders by far have been in East Asia, accounting for 55.2% of Asia's total services trade with the world between 2005 and 2017, with the People's Republic of China (PRC) alone contributing 20.7%.

Box 3.2 *continued*

2: Inward Services Foreign Direct Investment in Asia, by Subregion



FDI = foreign direct investment, M&A = merger and acquisition.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; Financial Times. fDi Markets (both accessed June 2018).

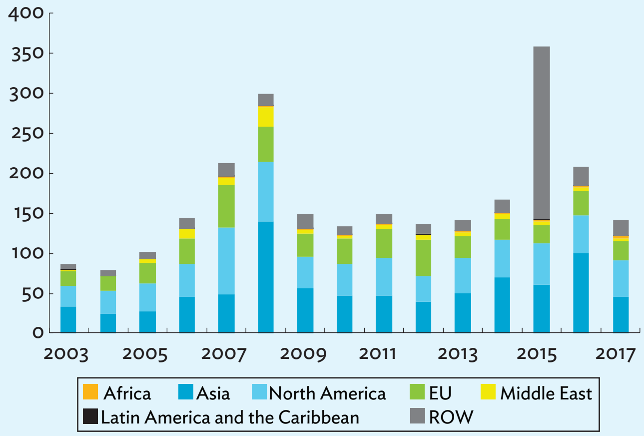
Globally, services FDI is rising. Based on firm-level investment data (see Footnote 14), global FDI inflows in services more than doubled—from $288.8 billion in 2003 to $736.5 billion in 2017. Asia is among the largest FDI destinations for services, attracting $2.5 trillion (or almost 25%) of global services FDI between 2003 and 2017. Services have also become an increasingly important FDI segment, accounting for nearly 40% ($140.5 billion) of Asia's total inward FDI in 2017, up from 26.1% ($85.9 billion) in 2003 (box figure 2). By far, cross-border mergers and acquisitions (M&As) are the more important mode of FDI entry for services (see Figure 3.2) accounting for 61.5% of total inward services industries investment in 2017 (up from 24.9% in 2003). Within the region, most FDI inflows in services went to East Asia, with $1.3 trillion (51.2%) of cumulative greenfield and M&As in 2003–2017, followed by Southeast Asia ($457.4 billion, 18.2%), South Asia ($389.3 billion, 15.5%), and the Pacific and Oceania ($319.7 billion, 12.7%). While Central Asia has attracted the least ($57.2 billion or 2.3% of Asia's total inward FDI), services FDI inflows to the subregion increased 5.1% in 2017—while services FDI fell in other Asian subregions. In 2017, the People's Republic of China (PRC); India; Singapore; Australia; and Hong Kong, China remained the top recipients of services FDI in Asia, both in terms of global and intraregional flows (Annex Table 3a.1).

About a third of Asia's FDI flows in services during 2003–2017 was intraregional (box figure 3), mainly through M&As, and in communications, financial, real estate, and transportation services. In particular, the PRC (19.3% of total intraregional); Japan (15.2%); Singapore (14.9%); Hong Kong, China (12.7%); and Australia (12.1%) were the major service sector investors within the region. North America (especially the United States) was the second-largest investor in the region, accounting for 27.2%; followed by the European Union (EU) (especially the United Kingdom) at 18.6%. North America's FDI in services to Asia was primarily in communications, financial, and software and information and technology (IT) services, again mostly through M&As. However, EU service sector investments were focused on communications, financial, and transportation services, predominantly through greenfield investments.

By industry, services inflows in financial (30.5%), communications (15.4%), real estate (10.9%), transportation (10.5%), and business (10.4%) accounted for the bulk of the $2.5 trillion total inward investment in services to Asia between 2003 and 2017—mainly through M&As, with the exception of transportation services which received mostly greenfield (Annex Table 3a.2). In 2017, the bulk (83.4%) of Asia's total FDI inflows in services were in business, communications, financial, software and IT, and transportation services. In addition to these, hotels and tourism services attract a significant proportion of intraregional services FDI. In 2017, software and IT services, healthcare, personal services, and other services in the automotive industry more than doubled from their average inflows in 2003–2009. The significant growth in these service industries was mainly driven by high-value M&A deals from within the region and North America.

By and large, as Asia's regional production networks become more sophisticated and capital-intensive, the region is shifting to more advanced and technology-based production. This can be seen as FDI flows increase in industries enabled by ICT and other advanced industries. For example, financial services, business services, healthcare, and alternative/renewable energy each grew at least 7% in 2015–2017, compared with their average levels in 2003–2014. Across many Asian economies,

3: Inward Services Foreign Direct Investment in Asia, by Source
($ billion)



EU = European Union, M&A = merger and acquisition, ROW = rest of the world.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database and Financial Times. fDi Markets (both accessed June 2018).

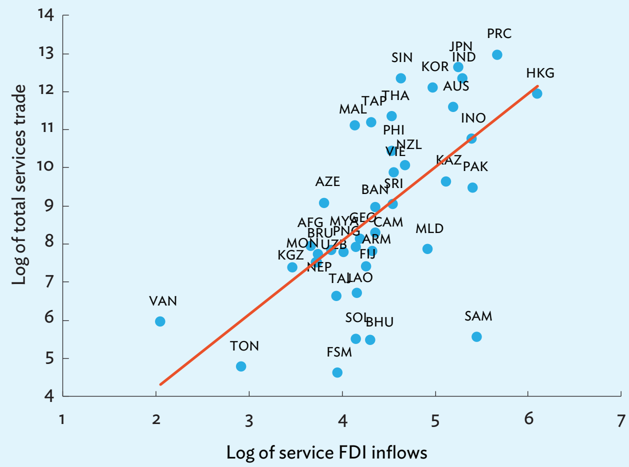
Continued on next page

Box 3.2 *continued*

regulatory reforms in services, the rise in FDI inflows to knowledge-based sectors, and increased public investment in ICT infrastructure are creating an enabling environment for these industries to thrive.

Services contribute significantly to gross domestic product and job creation (ADB 2017). They provide the inputs needed for economies to thrive. Developing countries can benefit from increased services exports as their services industries expand, producing higher growth, more jobs, and greater foreign exchange earnings. Services imports—or the entry of foreign service providers—can also bring about greater competition, international best practices, better skills and technologies, and investment capital. Given that services FDI is associated with the growth and tradability of services (box figure 4), it is important that economies in the region continue to attract services investment. However, significant barriers to services investment remain—survey data show Asian firms in the services are primarily constrained by practices of the informal sector (14.2%), political instability (12.9%), high taxes (12.2%), and access to finance (11.6%).[b] Similarly, institutional quality and the business environment—in turn determined by government policies and regulations—are the most important drivers of FDI in Asia, particularly for M&As and services (ADB 2016). Thus, continued investment liberalization, domestic regulatory reform, improving the quality of institutions and the business environment, and advancing regional integration can help foster sustainable FDI inflows to the region, particularly in services.

4: Total Services Foreign Direct Investment Inflows and Aggregate Services Trade (average 2005–2017)



AFG = Afghanistan; ARM = Armenia; AUS = Australia; AZE = Azerbaijan; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; FDI = foreign direct investment; FIJ = Fiji; FSM = Federated States of Micronesia; GEO = Georgia; HKG = Hong Kong, China; IND = India; INO = Indonesia; JPN = Japan; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KOR = Republic of Korea; LAO = Lao People's Democratic Republic; MAL = Malaysia; MLD = Maldives; MON = Mongolia; MYA= Myanmar; NEP = Nepal; NZL = New Zealand; PAK = Pakistan; PHI = Philippines; PNG = Papua New Guinea; PRC = People's Republic of China; SAM = Samoa; SIN = Singapore; SOL = Solomon Islands; SRI = Sri Lanka; TAJ = Tajikistan; TAP = Taipei,China; THA = Thailand; TON = Tonga; UZB = Uzbekistan; VAN = Vanuatu; VIE = Viet Nam.

Sources: ADB calculations using data from Financial Times. fDi Markets; and Bureau van Dijk. Zephyr M&A Database (both accessed June 2018); and World Trade Organization-United Nations Conference on Trade and Development-International Trade Centre Trade in Services data set. https://www.wto.org/english/res_e/statis_e/daily_update_e/services_annual_dataset.zip (accessed July 2018).

[b] World Bank. Enterprise Surveys (accessed August 2018).

Source: ADB staff.

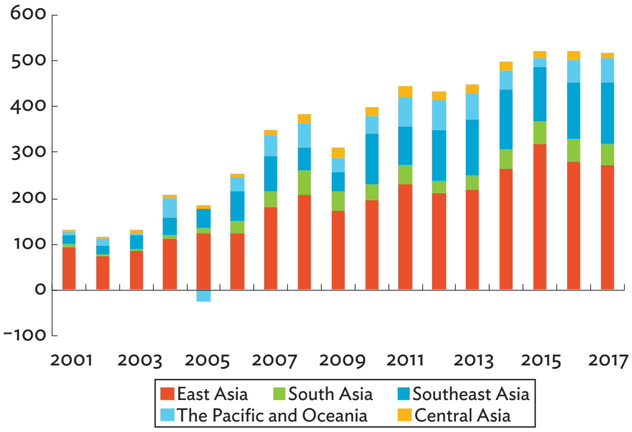
Update on Regional Trends

Inward FDI across Asia's subregions fell except for Southeast Asia.

BOP data show inward FDI to Asia moderated slightly to $517.5 billion in 2017 compared with $519.9 billion in 2016. More than half of Asia's inward FDI went to East Asia, while Southeast Asia accounted for 26.1% (Figure 3.5). South Asia and Central Asia each received 9.0% of total inward FDI to Asia, while the share of the Pacific and Oceania remained below 3.0%.

Inward FDI to all Asia subregions declined in 2017—except in Southeast Asia where it grew 12.1%. The subregion attracted $135.2 billion in 2017, $14.5 billion more than 2016. Investment grew throughout much of the subregion. In Indonesia, inflows rose nearly sixfold to $23.1 billion, primarily driven by high value M&A deals in manufacturing, especially in food and tobacco and metals industries. The $1 billion acquisition of Indonesia's Karyadibya Mahardhika Pt by Japan Tobacco Inc, and a $505.7 million deal between FIC Properties Sdn Bhd of Malaysia and Indonesia's Eagle High Plantation Tbk Pt were two prominent deals. FDI inflows to Myanmar, the Philippines, Thailand, and Viet Nam also rose by

Figure 3.5: Global Inward Foreign Direct Investment in Asia, by Subregion ($ billion)



Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018); United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

44.9% . PRC companies are increasing their presence in the Association of Southeast Asian Nations (ASEAN) markets—mainly through M&As, such as the $1.1 billion acquisition of Indonesia's PT Tokopedia by the Alibaba Group (UNCTAD 2018).

In 2017, the largest drop in inward FDI by subregion was to Central Asia, decreasing 31.0% to $12.2 billion—mainly due to the 42.8% contraction in FDI to Kazakhstan. Nonetheless, 37.8% of the subregion's inward FDI still went to Kazakhstan ($4.6 billion), 23.4% to Azerbaijan ($2.9 billion), and 18.9% to Turkmenistan ($2.3 billion). Among the top sources of FDI to Central Asia were the PRC, the Netherlands, and the United Kingdom (UK).

Inward FDI to East Asia dropped by 2.4%—to $272.9 billion. FDI to Hong Kong, China declined $13.1 billion, while inflows to the PRC, the Republic of Korea, and Mongolia increased. The $781 million greenfield investment by Singapore's Poh Group for an electricity project and a $200 million deal between the US mining company Milost Global Inc helped Mongolia's inward FDI rise to $1.5 billion.

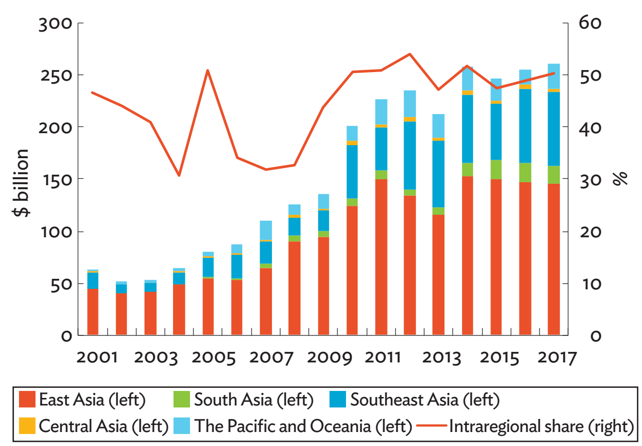
Inward FDI to South Asia dropped by 7.5% (or by $3.8 billion) to $47 billion, mainly due to lower inflows to India. Still, 85.0% of FDI to the region went to India. The largest increase was in Sri Lanka, which drew $1.4 billion of inward FDI—a 53.3% increase over 2016. A PRC state-owned firm, China Merchants Port, accounted for most of the increase, investing in Sri Lanka's southern Hambantota Port.

The Pacific and Oceania attracted $50.2 billion in FDI, down from $51.0 billion in 2016, with 92.4% going to Australia, 7.1% to New Zealand, and the remainder to Pacific developing member countries. Inward FDI to the Cook Islands, Timor-Leste, Tonga, and Vanuatu all increased more than 10.0% between 2016 and 2017. Papua New Guinea's inward FDI recovered somewhat in 2017, but net FDI remained negative.

Despite the slowdown, intraregional FDI continued to strengthen by both absolute value and as a share of total inward FDI.

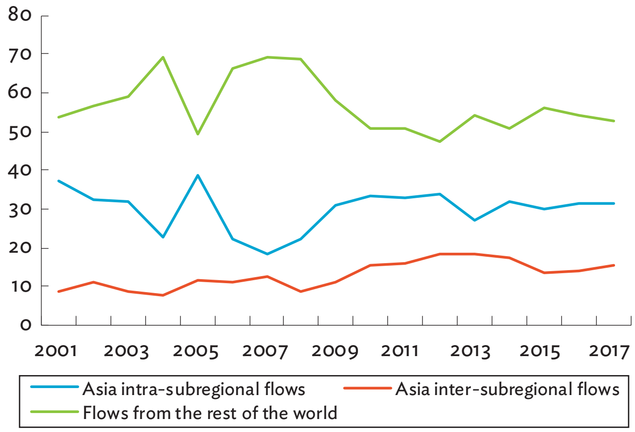
Intraregional FDI in Asia rose slightly in 2017, rising to $260.0 billion from $254.7 billion. The intraregional share of inward FDI in 2017 also inched upward—to 50.2% from 49.0% (Figure 3.6). East Asia received 56.1% of the intraregional flows, while 27.2% went to Southeast Asia. While most intraregional FDI occurs within subregions, inter-subregional investment has also been gradually strengthening over time—from 9.2% in 2003 to 18.9% in 2017 (Figure 3.7).

Figure 3.6: Intraregional Foreign Direct Investment Inflows—Asia



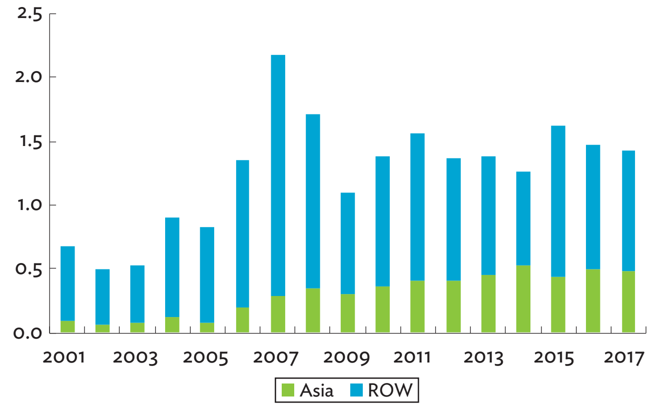
FDI = foreign direct investment.
Note: Based on balance of payments data. Due to limited availability of bilateral FDI data, missing values were imputed with gravity model estimates.
Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018); Eurostat. Balance of Payments. http://ec.europa.eu/eurostat/web/balance-of-payments/data/database (accessed June 2018); United Nations Conference on Trade and Development. Bilateral FDI Statistics. http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx (accessed June 2018) and World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Figure 3.7: Foreign Direct Investment Shares in Asia—Intra-subregional, Inter-subregional, and Rest of the World (%)



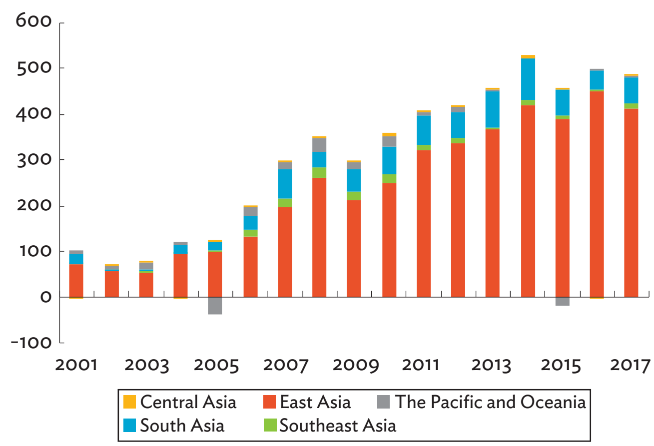
Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018); Eurostat. Balance of Payments. http://ec.europa.eu/eurostat/web/balance-of-payments/data/database (accessed June 2018); United Nations Conference on Trade and Development. Bilateral FDI Statistics. http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx (accessed June 2018) and World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Figure 3.8: Global Outward Foreign Direct Investment, by Source ($ trillion)



ROW = rest of the world.
Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Figure 3.9: Asia's Outward Foreign Direct Investment, by Source ($ billion)



Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Outward Foreign Direct Investment

Global outward FDI decreased 2.9% in 2017, primarily due to a drop in FDI from developed economies; outward investment from Asia weakened only 1.4%.

Based on BOP data, global outward FDI in 2017 fell 2.9% (Figure 3.8). Outward FDI from developed economies dropped 3.1%—to $1.0 trillion. Asia's outward FDI moderated 1.4%—to $487.9 billion. Of Asia's total, 84.2% by value came from East Asia, 11.3% from Southeast Asia, and 2.4% from South Asia (Figure 3.9).

Based on firm-level investment activity data, Asia's combined greenfield and M&A outward FDI in 2017 fell to $475.6 billion—59.3% via M&As. Over two-thirds of greenfield and M&A outward FDI from Asia was directed outside the region, primarily to the US (27.7% of Asia's FDI to outside the region), Switzerland (14.2%), the UK (10.1%), the Cayman Islands (4.7%), and Germany (4.4%).

Asia's outward greenfield investments remain concentrated in manufacturing, while outward M&As continue to shift to services. The region's greenfield and M&A outward FDI declined across all sectors, with primary sector investments experiencing the greatest contraction, especially through greenfield. The largest industry for Asian outward FDI in 2017 was chemicals (13.0% of the total, or $61.6 billion), which increased more than fivefold, mostly through M&As. The second-largest was coal, oil, and natural gas (8.6% or $41.1 billion), followed by real estate (7.3% or $34.7 billion) and financial services (7.1% or $33.7 billion).

Table 3.5: Top 10 Global and Asian Sources of Foreign Direct Investment ($ billion)

Global	2017	2016	2012	Asia	2017	2016	2012
United States	342.3	280.7	318.2	Japan	160.4	145.2	122.5
Japan	160.4	145.2	122.5	PRC	124.6	196.1	87.8
PRC	124.6	196.1	87.8	Hong Kong, China	82.8	59.7	83.4
United Kingdom	99.6	-22.5	20.7	Korea, Republic of	31.7	30.0	30.6
Hong Kong, China	82.8	59.7	83.4	Singapore	24.7	27.9	20.1
Germany	82.3	51.5	62.2	Thailand	19.3	12.4	10.5
Canada	77.0	73.6	55.9	Taipei,China	11.4	17.9	13.1
British Virgin Islands	70.8	36.7	54.0	India	11.3	5.1	8.5
France	58.1	63.2	35.4	Malaysia	5.8	8.0	17.1
Luxembourg	41.2	44.4	89.8	Australia	4.9	2.3	7.9

PRC = People's Republic of China.
Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

Real estate—the top recipient in 2016—became a less favored target industry for Asian outward FDI.

Japan was Asia's largest outward investor in 2017, and the second-largest globally—up from third in 2016 (Table 3.5). Japanese outward FDI totaled $160.4 billion with 30.6% invested within the region. While financial services was the top recipient industry, the majority of Japanese outward M&As and greenfield investments went to manufacturing. Japanese firms were very active in infusing capital in the region. For example, Japan Tobacco Inc acquired Karyadibya Mahardhika Pt of Indonesia for $1.0 billion, Mitsui Sumitomo Insurance Co Ltd bought a 97.7% ($1.6 billion) stake in Singapore's First Capital Insurance Ltd, and Sumitomo Group built a $2.6 billion coal-fired power plant in Viet Nam. However, the largest outward investment from Japan was by the Asahi Group—through its UK-based Asahi Breweries Ltd Europe—buying Plzensky Prazdroj AS brewery in the Czech Republic for $7.8 billion.

The PRC's outward FDI slowed in 2017 to $124.6 billion, 36.5% below the 2016 level. Firm-level investment data show 88.1% of the drop in the PRC's outward FDI was through greenfield investments, primarily in Egypt, Malaysia, India, and Algeria—mostly in real estate and transportation. The value of the PRC's M&As in Hong Kong, China and the US fell markedly in 2017, possibly due to tightened restrictions on outbound acquisitions.[15] The sharp decline in the PRC's outbound investments was a reversal from the surge in 2016. In 2017, the PRC's outward M&As fell by 5.8% and greenfield investments by 50.9%. The recent trade and investment friction with the US also does not bode well for the near term prospect. Over the years, the US was consistently a top destination for PRC investments (peaking at $27.0 billion in 2016) only to plunge by more than 40% in 2017, mainly in consumer products, consumer electronics and real estate.[16]

While the deepening trade conflict and increasing investment restrictions could slow the PRC's outward FDI to the US, the drop could be offset by increasing the PRC's investments in other destinations. For instance, despite the 70% fall in the PRC's FDI to Asia in 2017, some Asian economies saw a significant increase

[15] Since November 2016, the PRC has tightened scrutiny of outward FDI from companies in the PRC. On 18 August 2017, the National Development Reform Commission (NDRC), Ministry of Commerce, People's Bank of China, and the Ministry of Foreign Affairs formalized the approval process of outward FDI transactions by issuing the *Opinions on Further Guiding and Regulating Outbound Investment.* On 26 December 2017, the NDRC issued Order No. 11, which promulgates the *Administrative Measures for Overseas Investment by Enterprises.* It became effective 1 March 2018.

[16] Similarly, global outbound investments by the US grew at a meager 1.1% to $383.3 billion in 2017. While M&As were 19.2% higher than the previous year, greenfield investments were 26.3% lower. Moreover, while the US investments increased in other parts of the world especially in Africa and Europe, it significantly dropped in Asia at 36.6% (around $43 billion less than the level in 2016), largely owing to the decline in overall investment outflows to major Asian recipient economies including Australia, India, the Republic of Korea, and Singapore—coal, oil, and natural gas accounting for the majority of the fall followed by financial services and transportation. While overall US outward FDI to the PRC increased by 57.8%, greenfield investments fell by 17.6%. The sudden and significant slowdown of US outward investment possibly reflect the impact of its tax reforms (UNCTAD 2018) and escalating and broadening protectionist stance.

in industries such as medical devices, chemicals, metals, and transportation. Kazakhstan, Singapore, Pakistan, the Philippines, the Republic of Korea, New Zealand, and Georgia all at least doubled 2016 investments from the PRC. Moreover, the PRC's FDI outside Asia in fact increased by 7.1%, mainly in chemicals, transportation and industrial machinery and equipment. European economies—such as Switzerland, the UK, Germany, the Netherlands, Italy, Portugal, Sweden, and Serbia—accounted for most of this growth. Some Latin American and Caribbean and African economies also received significantly higher amounts of FDI from the PRC—for example, Nigeria, Kenya, Argentina, Zambia, Chile, and Colombia all saw a more than threefold increase.

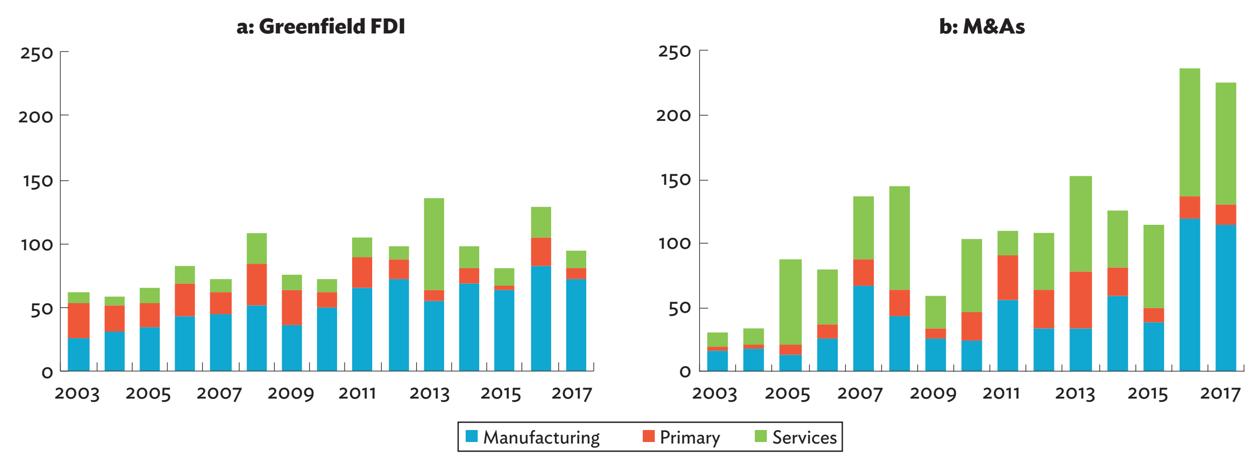
Three newly industrialized economies—Hong Kong, China; the Republic of Korea; and Singapore—had combined outward investments of $139.2 billion, up 18.4% since 2016. While inward FDI to Hong Kong, China fell markedly in 2017, outward FDI increased by more than $23.1 billion, primarily from deals such as the $3.0 billion acquisition of Australia's Alinta Energy by Chow Tai Fook Enterprises Ltd.

India, Thailand, and Australia also saw large increases in outward FDI in 2017, with India and Australia doubling 2016 levels and Thailand rising by more than half. India's Tata Motors Ltd, for example, invested $1 billion in Faraday & Future Inc, a US automobile manufacturing company. Firms in India have also made substantial indirect investments as ultimate owners. For example, Intas Pharmaceuticals Ltd invested $739.1 million in Actavis Ireland Ltd, through the UK-based Accord Healthcare Ltd. Overall, India's outward greenfield and M&A investments remain mostly directed to economies outside Asia—especially the US (about a quarter of the total in 2017)—into manufacturing (such as pharmaceuticals) as well as services such as software and information technology. By comparison, Thailand's outward greenfield and M&A investments were largely intraregional (87.5%) and mostly in manufacturing, including building and construction materials and alternative or renewable energy. For instance, Thailand's Siam City Cement PCL acquired a 65.0% stake in Holcim Co Ltd of Viet Nam, worth $535.9 million. Australia's outward FDI also more than doubled in 2017 after declining in 2013–2015, mainly driven by a robust increase in cross-border M&As in the primary (such as minerals) and financial service sectors.

Despite an uncertain global economic policy environment, Asia's continued rise as an outward investor is an encouraging sign for further strengthening of intraregional FDI.

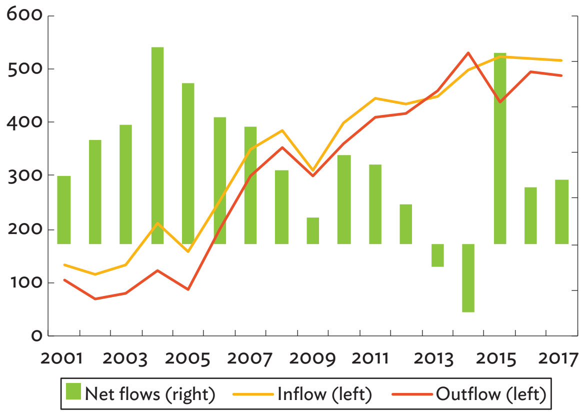
At the firm level, combined greenfield and M&A outward FDI surpassed inward FDI in 2016 by $101.0 billion. The gap widened in 2017 to $118.9 billion. Positive net investments also went to the rest of the world, mostly through M&As and mostly in services and manufacturing (Figure 3.10). In 2017, there was $225.1 billion in outward extraregional Asian M&As. The PRC was the largest source, accounting for 48.1%, with the majority going to developed economies such as Switzerland, the UK, the

Figure 3.10: Asian Outward Foreign Direct Investment to the Rest of the World, by Sector ($ billion)



FDI = foreign direct investment, M&A = merger and acquisition.
Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Figure 3.11: Total Foreign Direct Investment Flows—Asia ($ billion)



Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018); United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

US, Germany, and the Cayman Islands. For greenfield FDI to the rest of the world, the largest Asian sources were the PRC, India, and Japan.

Based on BOP figures, Asia has by and large retained positive net FDI flows since 2001 (Figure 3.11). The region receives the most global FDI, while at the same time being home to some of the biggest investors in the world. The trade conflict between the US and PRC may alter and divert investment patterns. But the prognosis for the region's trade and investment linkages—especially intraregional—remains good. Asia's growing share of global inward FDI, as it attracts more investment in services and higher technology manufacturing—along with Asian multinationals increasingly investing within the region—bodes well for the region's capacity to create good jobs and advance opportunities for more inclusive growth.

References

ADB. 2017. Aid for Trade in Asia and the Pacific: Promoting Connectivity for Inclusive Development. Manila

———. 2016. *Asian Economic Integration Report 2016: What Drives Foreign Direct Investments in Asia and the Pacific?* Manila.

———. 2009. *Trade and Investment in Services: An ADB–ITD Training Module for the Greater Mekong Subregion.* Manila.

Association of Southeast Asian Nations Secretariat. ASEANstats Database. https://www.aseanstats.org/ (accessed July 2018).

Eurostat. Balance of Payments. http://ec.europa.eu/eurostat/web/balance-of-payments/data/database (accessed June 2018).

International Labour Organization. 2016. *World Employment and Social Outlook: Trends 2016*. Geneva.

———. ILOSTAT. http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jspx?MBI_ID=33 (accessed August 2018).

International Monetary Fund. World Economic Outlook April 2018 Database. https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/download.aspx (accessed July 2018).

———. Bilateral FDI Statistics. http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx (accessed June 2018).

———. World Investment Report 2018 Statistical Annex Tables. http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx (accessed June 2018).

United Nations Conference on Trade and Development (UNCTAD). 2018. *World Investment Report 2018: Investment and New Industrial Policies.* Geneva.

World Bank. Doing Business Database. http://www.doingbusiness.org/ (accessed June 2018).

———. World Development Indicators. http://databank.worldbank.org/data/source/world-development-indicators# (accessed June 2018).

———. Worldwide Governance Indicators. http://info.worldbank.org/governance/wgi/#home (accessed June 2018).

World Trade Organization-United Nations Conference on Trade and Development-International Trade Centre Trade in Services Data set. https://www.wto.org/english/res_e/statis_e/daily_update_e/services_annual_dataset.zip (accessed July 2018).

Annex 3a: Top Destinations and Recipient Industries of Foreign Direct Investment in Services

Table 3a.1: Top 10 Asian Destination Economies of Foreign Direct Investment in Services ($ billion)

Total					Intra-Asia				
	2003–2009	2010–2015	2016	2017		2003–2009	2010–2015	2016	2017
China, People's Republic of	44.2	38.7	27.6	35.9	China, People's Republic of	16.4	13.6	8.0	8.7
India	20.4	21.4	33.1	29.8	India	2.8	5.6	7.7	8.0
Singapore	6.3	9.7	14.4	13.7	Singapore	3.0	3.3	4.9	7.2
Australia	12.4	22.2	24.7	13.5	Australia	2.0	5.4	6.1	3.0
Hong Kong, China	14.2	41.6	59.4	11.5	Hong Kong, China	8.2	5.7	52.1	3.0
Japan	11.5	10.5	3.8	6.7	Malaysia	0.7	1.7	2.7	1.8
Viet Nam	6.4	4.4	2.2	3.7	Thailand	0.9	2.1	2.6	1.7
Korea, Republic of	5.3	4.9	6.2	3.4	Viet Nam	2.8	2.6	1.1	1.6
Malaysia	2.3	3.5	3.8	3.2	Korea, Republic of	0.5	1.0	0.3	1.4
Thailand	2.2	2.8	3.6	2.7	Pakistan	0.7	0.3	0.0	1.3

Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).

Table 3a.2: Top Foreign Direct Investment Recipient Industries in the Services Sector in Asia ($ billion)

Total					Intra-Asia				
	2003–2009	2010–2015	2016	2017		2003–2009	2010–2015	2016	2017
Communications	23.9	23.6	44.2	32.1	Financial Services	20.0	18.3	60.4	11.7
Financial Services	52.2	48.7	79.8	28.7	Communications	9.2	8.4	11.4	8.5
Transportation	15.8	19.3	18.3	19.2	Business Services	1.7	3.3	8.3	7.2
Software and IT services	9.5	12.6	19.1	19.0	Transportation	5.7	4.3	3.6	6.6
Business Services	8.5	26.3	24.5	18.2	Software and IT services	1.6	1.9	6.8	5.4
Hotels and Tourism	13.4	7.0	6.3	6.5	Hotels and Tourism	5.2	3.0	2.7	1.7
Leisure and Entertainment	2.9	2.2	5.0	3.9	Healthcare	0.4	1.5	1.1	0.8
Healthcare	1.5	3.1	3.5	3.1	Warehousing and Storage	3.1	3.5	2.7	0.7
Warehousing and Storage	6.6	6.1	3.9	2.8	Real Estate	5.6	5.8	0.1	0.7
Beverages	0.0	0.0	0.3	2.7	Other Business Services	0.6	1.3	0.9	0.6
All services	153.2	181.3	208.8	140.5	All services	53.6	52.2	99.7	44.8

Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed June 2018).