



2 Cross-Border Investment

Trends and Patterns of Foreign Direct Investment in Asia

Global foreign direct investment continued to slide in 2018.

Global foreign direct investment (FDI) inflows fell for the third consecutive year in 2018, estimated at \$1.3 trillion, a 13.4% contraction from 2017. Tax reforms in the United States (US) in late 2017 led to a repatriation of foreign earnings by US-based multinationals, which consequently affected global FDI as outward investment from the US declined to just –\$63.6 billion from \$300.4 billion in 2017.

Despite the global slowdown, Asia continued as a prime destination, with inward FDI to the region growing 6.3% over 2017, attracting 43.1% of the 2018 global total.¹⁰ A considerable amount of inward FDI to Asia went to the People's Republic of China (PRC) and other financial hubs such as Hong Kong, China and Singapore. The region also continued as a major source of FDI, with 49.4% of global outward FDI originating from Asia. Japan; the PRC; and Hong Kong, China were top investors. While 2019 may show some global recovery, it will likely be modest, as the underlying trend in inward FDI continues to be feeble. In addition, headwinds such as trade tensions may further dampen foreign investment activity.¹¹

Updates on Global Inward FDI to Asia

Asia's inward FDI proved bullish in 2018, despite dipping global trends.

For a third year, total inward FDI slipped (Figure 2.1). Global estimates for 2018 total \$1.3 trillion, a 13.4% contraction from the \$1.5 trillion in 2017. Much of the decline was due to the continued drop in investment to developed economies—particularly those in Europe—and to transition economies. Meanwhile, multinational firms based in the US repatriated funds in 2018 due to the 2017 tax cuts, which had considerable impact on global inward investment.¹²

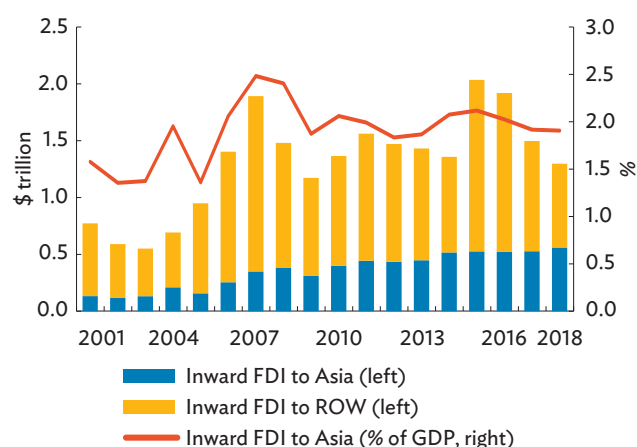
Asia, however, showed resilience amid the declining global inward FDI. Foreign investment to the region picked up in 2018, growing by 6.3% compared with the previous year's 1.1%. This amounted to \$559.7 billion, representing 43.1% of the global inward FDI. As a share of gross domestic product (GDP), estimates for Asia remained broadly stable between 2017 and 2018 at 1.9%. Across economies, Hong Kong, China (31.9%) and Singapore (21.5%) had the highest FDI as a percentage of GDP. Mongolia (16.7%), Cambodia (12.7%), and Maldives (10.4%) were also among the highest.

The PRC and Hong Kong, China emerged as the top destinations in Asia (Table 2.1). The PRC received

¹⁰ Asia refers to the 49 Asia and 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.

¹¹ The World Investment Report excludes the Caribbean financial centers from the total. These include Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, British Virgin Islands, the Cayman Islands, Curaçao, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sint Maarten, and the Turks and Caicos Islands.

¹² The first half of 2018 saw the largest amounts of funds repatriated; however, the amount dropped sharply afterward. Fund repatriation will likely drop further in the future. See Reuters (2018) and Bloomberg (2018).

Figure 2.1: Global Inward FDI by Destination

FDI = foreign direct investment, GDP = gross domestic product, ROW = rest of the world.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Data Portal. <https://data.aseanstats.org/> (accessed July 2019); CEIC; Eurostat. Balance of Payments. <https://ec.europa.eu/eurostat> (accessed July 2019); International Monetary Fund. World Economic Outlook April 2019 database. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx> (accessed April 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

\$139.0 billion (24.8% of total inward FDI to Asia), while Hong Kong, China received \$115.7 billion (20.7%).

Meanwhile, 13.9% of total investment to Asia went to Singapore, followed by 10.8% to Australia. Outside the region, investors flocked to the US, as the country attracted over a third of investment to non-Asian economies.

Firm-level data on greenfield FDI and mergers and acquisitions (M&As) for 2018 show a recovery in global committed investments in Asia, after a slump in 2017 (Figure 2.2b).¹³ Total committed spending and deal value reached \$640.2 billion in 2018, up 70.6% from 2017 estimates. While the majority still originated outside Asia, the intraregional share picked up to 45.3% in 2018 from 42.8% in 2017. The number of projects and deals in Asia rose further in 2018, from 7,500 in 2017 to 8,800 (Figure 2.2a).

Greenfield FDI and M&A deal values from both intraregional and extraregional sources drove the \$265.0 billion increase in 2018, with intraregional activity rebounding by 80.5% and extraregional activity by 63.2%.

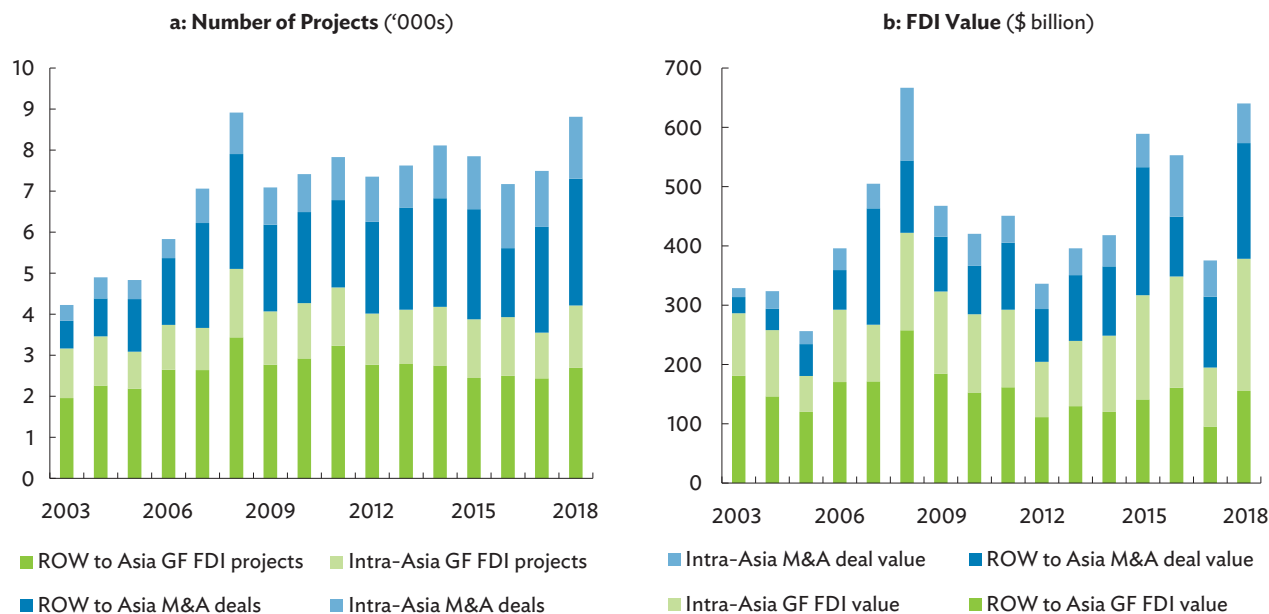
Table 2.1: Top 10 Global and Asian FDI Destinations (\$ billion)

Global	2018	2017	2013	Asia	2018	2017	2013
United States	251.8	277.3	201.4	China, People's Republic of	139.0	134.1	123.9
China, People's Republic of	139.0	134.1	123.9	Hong Kong, China	115.7	110.7	74.3
Hong Kong, China	115.7	110.7	74.3	Singapore	77.6	75.7	56.7
Singapore	77.6	75.7	56.7	Australia	60.4	42.3	56.8
Netherlands	69.7	58.2	51.1	India	42.3	39.9	28.2
United Kingdom	64.5	101.2	51.7	Indonesia	22.0	20.6	18.8
Brazil	61.2	67.6	59.1	Viet Nam	15.5	14.1	8.9
Australia	60.4	42.3	56.8	Korea, Republic of	14.5	17.9	12.8
Spain	43.6	20.9	37.4	Thailand	10.5	6.5	15.5
India	42.3	39.9	28.2	Japan	9.9	10.4	2.3

FDI = foreign direct investment.

Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

¹³ Data on greenfield FDI are from fDi Markets and cover cross-border investment in new physical projects, as well as expansion of existing projects that results in new jobs and capital investment. Data on M&As are from the Zephyr M&A database and cover completed and confirmed deals in the specified period (calendar year 2018). Deals refer to M&As, while projects refer to greenfield FDI.

Figure 2.2: FDI by Mode of Entry—Asia

FDI = foreign direct investment, GF = greenfield, M&A = mergers and acquisitions, ROW = rest of the world.

Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times, fDi Markets.

The US served as the foremost source of commitments into Asia, accounting for 20.6% of total allocations (Table 2.2). Greenfield investment from the US almost doubled between 2017 and 2018, while US M&A deals rose in value by roughly 50.0%. Other countries outside the region such as the Cayman Islands (7.0% of total), France (5.8%), Germany (5.2%), and the United Kingdom (UK) (4.5%) are also among those that directed the most committed investment in Asia.

Within the region, the PRC emerged as the top source of committed investment to Asia. The country accounted for 12.1% of Asia's inward investment, putting the PRC next to the US as the largest source. Greenfield FDI from the PRC nearly tripled in 2018, driving its overall contribution upward. Other financial giants such as Japan (8.6% of total) and Singapore (5.0%) were also among top Asian investors.

Chief among beneficiaries of investment in the region is the PRC, which received 29.3% of Asia's inward investment (Table 2.3). India and Australia were also popular FDI destinations in 2018. Capital and deal allocations in India accounted for 12.0% of the total,

while those in Australia accounted for 11.7%. Meanwhile, increased commitments in Indonesia, the Philippines, and Malaysia are worth noting. These countries experienced significant growth in inward investment, largely owing to higher greenfield FDI.

FDI in Indonesia almost quadrupled in 2018 due to the \$22.0 billion investment from the PRC—much of which was in the renewable energy sector—\$6.0 billion from the Republic of Korea, and \$3.7 billion from Japan. FDI also more than quadrupled in the Philippines, with an influx of investment from the PRC in the metals industry (\$7.9 billion) and from Thailand in the hotels and tourism industry (\$3.1 billion). In Malaysia, FDI almost tripled, with the Philippines as the largest investor. The country invested \$3.5 billion in Malaysia's coal, oil, and gas sector and \$0.4 billion in the real estate sector.

Increased greenfield project sizes across all sectors and M&A deal sizes in manufacturing and services helped offset the decline in the average M&A deal size in the primary sector (Table 2.4). This resulted in a 45.1% increase in overall project and deal size, from \$50.0 million in 2017 to \$72.6 million in 2018.

Table 2.2: Top Sources of FDI in Asia—Greenfield and M&As

Source	\$ billion			Y-o-Y Change (%)	Share in Total, 2018 (%)
	2018	2017			
United States	132.0	79.5		66.0	20.6
China, People's Republic of	77.3	29.8		159.1	12.1
Japan	55.1	31.3		75.7	8.6
Cayman Islands	44.8	26.6		68.4	7.0
France	37.4	8.0		367.9	5.8
Germany	33.4	16.4		103.8	5.2
Singapore	31.7	29.3		8.3	5.0
Taipei, China	30.9	13.2		133.2	4.8
United Kingdom	28.7	13.9		106.9	4.5
Hong Kong, China	27.5	14.8		86.0	4.3

FDI = foreign direct investment, M&As = mergers and acquisitions, Y-o-Y = year-on-year.

Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

Table 2.3: Top Destinations of FDI in Asia—Greenfield and M&As

Destination	\$ billion			Y-o-Y Change (%)	Share in Total, 2018 (%)
	2018	2017			
China, People's Republic of	187.9	95.7		96.3	29.3
India	77.1	61.9		24.6	12.0
Australia	75.1	47.7		57.5	11.7
Indonesia	42.6	13.0		226.3	6.6
Viet Nam	40.9	22.4		82.5	6.4
Singapore	40.3	34.2		17.8	6.3
Hong Kong, China	26.9	14.0		92.5	4.2
Philippines	22.4	5.0		348.0	3.5
Malaysia	20.4	7.5		170.9	3.2
Japan	19.4	20.8		(7.0)	3.0

() = negative, FDI = foreign direct investment, M&As = mergers and acquisitions, Y-o-Y = year-on-year.

Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

Table 2.4: Average Project and Deal Size—Asia (\$ million)

Period				Greenfield			M&As			Total		
	GF	M&As	Total	MFG	PRI	SRV	MFG	PRI	SRV	MFG	PRI	SRV
2017	54.8	45.7	50.0	77.7	287.9	28.1	52.0	195.2	35.7	67.5	219.0	32.7
2018	89.8	56.9	72.6	127.7	480.8	38.0	67.4	72.4	51.7	103.8	207.1	46.1

GF = greenfield, M&As = mergers and acquisitions, MFG = manufacturing, PRI = primary, SRV = services.

Notes: Average project and deal size equals greenfield project value and M&A deal value in Asia divided by number of projects and deals. Asia refers to the regional members of ADB with available data.

Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

Greenfield FDI in manufacturing nearly doubled between 2017 and 2018, while M&As grew by 66.6% in services, translating into strong FDI activity across most sectors in 2018.

The rise in greenfield FDI in manufacturing, coupled with a similar trend in M&As in services, helped reverse the downturn in 2017 investment (Figure 2.3a). Greenfield FDI in manufacturing increased by \$124.5 billion in 2018, accounting for 67.8% of the \$183.6 billion increase. Likewise, greenfield FDI to the primary sector and services rose, each accounting for roughly 16.0% of the total. Meanwhile, M&A deals in services accounted for 78.4% of the \$82.7 billion increase in the total value of M&A deals, followed by manufacturing, which accounted for over a third of the total increase. High turnout for both sectors cushioned the \$13.3 billion decline in the value of deals in the primary sector (Figure 2.3b).

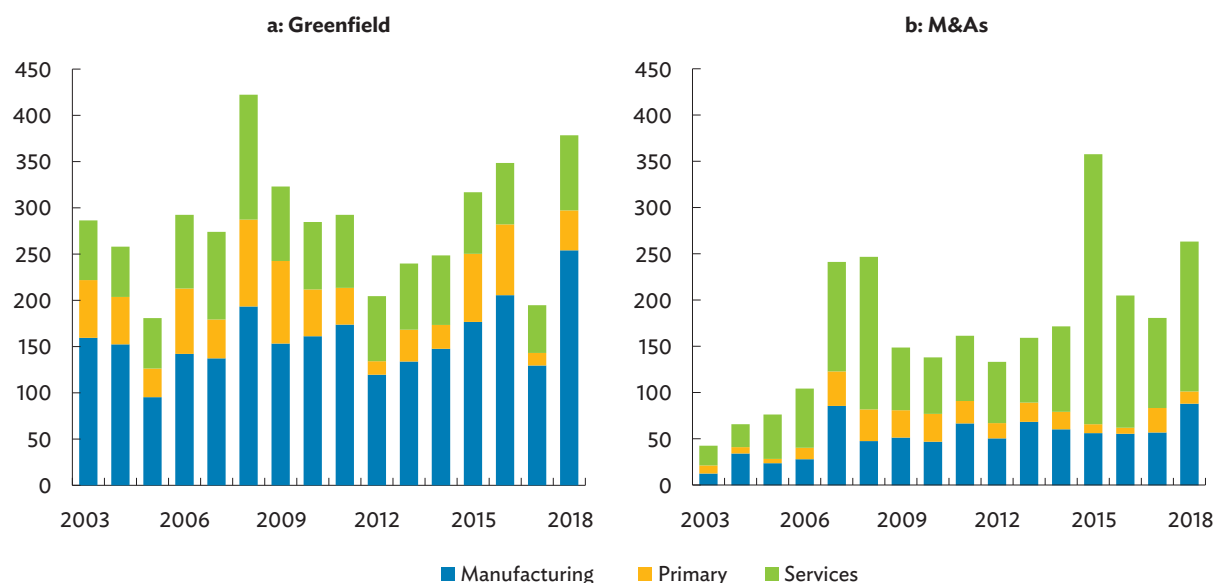
Intraregional activity reinforced these sectoral trends. Much of the increase in intraregional FDI was due to the rise in manufacturing greenfield FDI and M&A deals in services (Figure 2.4a, b). Intraregional greenfield

investment in manufacturing rose by \$82.5 billion, accounting for two-thirds of the \$123.6 billion increase. Much of the higher greenfield FDI in manufacturing came from the PRC (up \$28.1 billion); Japan (\$15.0 billion); Taipei, China (\$9.9 billion); and Singapore (\$9.1 billion). Greenfield FDI to services (\$22.3 billion) and the primary sector (up \$18.8 billion) also rose, but modestly compared with manufacturing. M&A deals in services (up \$16.3 billion) and manufacturing (up \$1.4 billion) offset the sharp decrease in the primary sector (down \$12.1 billion).

Nearly 1 million jobs were committed in Asia in 2018, a new high after a slide in 2017.

The strong influx of greenfield FDI to Asia also revitalized the associated job creation. Jobs created in 2018 due to greenfield investment, both actual and planned, reached 989,293—a 46.8% increase over 2017 levels. Jobs associated with intraregional greenfield FDI reached 562,658, which is a marked improvement from the 308,439 jobs committed in 2017 (Figure 2.5a).

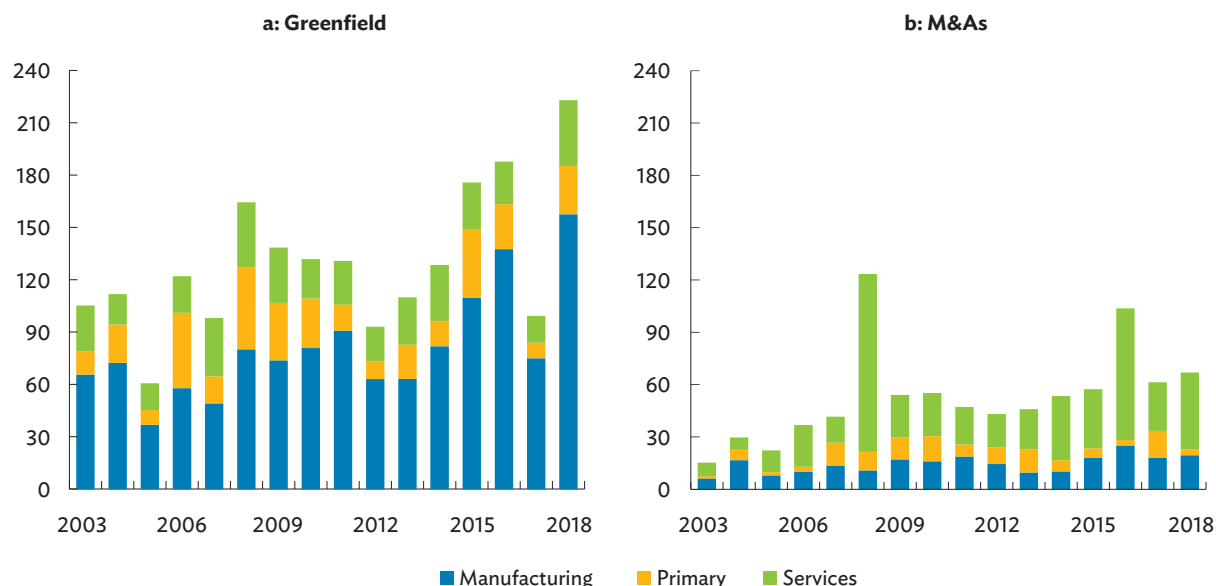
Figure 2.3: Total Inward FDI to Asia by Sector (\$ billion)



FDI = foreign direct investment, M&As = mergers and acquisitions.

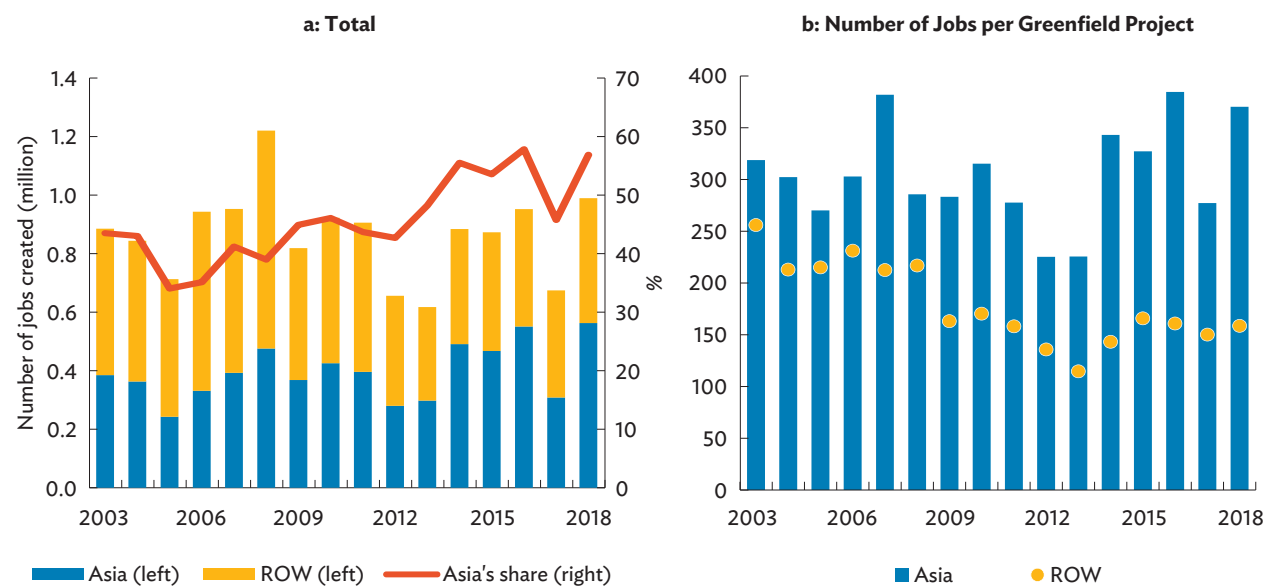
Sources: ADB calculations using data from Financial Times. fDi Markets; and Bureau van Dijk. Zephyr M&A Database.

Figure 2.4: Intra-Asia FDI by Sector (\$ billion)



FDI = foreign direct investment, M&As = mergers and acquisitions.
 Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

Figure 2.5: Inward Greenfield FDI Job Creation in Asia by Source



FDI = foreign direct investment, ROW = rest of the world.
 Source: ADB calculations using data from Financial Times. fDi Markets.

In 2018, each greenfield project generated more jobs (Figure 2.5b). The average number of jobs created per project increased to 235 overall compared with 190 in 2017. Projects from intraregional sources generated more

jobs on average, with 370 jobs per project in 2018. In turn, Asian countries are also among top sources of total greenfield jobs in Asia (Table 2.5). Greenfield investment from Japan had 123,687 jobs committed in 2018,

Table 2.5: Top Sources of Job Creation in Asia—Greenfield FDI

Destination	Number of Jobs Created ('000)		Y-o-Y Change (%)	Share in Total, 2018 (%)
	2018	2017		
United States	174.2	142.1	22.6	17.6
Japan	123.7	84.0	47.2	12.5
China, People's Republic of	108.1	47.3	128.5	10.9
Singapore	88.5	27.7	219.3	8.9
Hong Kong, China	65.0	22.7	187.0	6.6
Republic of Korea	62.1	43.0	44.5	6.3
Germany	58.2	59.2	(1.6)	5.9
Taipei,China	42.2	42.7	(1.1)	4.3
United Kingdom	38.5	31.7	21.3	3.9
France	24.3	23.7	2.6	2.5

(-) = negative, FDI = foreign direct investment, Y-o-Y = year-on-year.

Source: ADB calculations using data from Financial Times. fDi Markets.

Table 2.6: Top Destinations of Job Creation in Asia—Greenfield FDI

Destination	Number of Jobs Created ('000)		Y-o-Y Change (%)	Share in total, 2018 (%)
	2018	2017		
India	266.2	169.4	57.1	26.9
China, People's Republic of	235.9	154.3	52.9	23.8
Viet Nam	105.2	81.2	29.6	10.6
Philippines	53.5	37.4	43.2	5.4
Indonesia	38.0	20.3	87.6	3.8
Thailand	35.1	26.6	31.7	3.5
Singapore	32.0	30.5	4.7	3.2
Australia	31.1	24.5	27.0	3.1
Malaysia	29.9	23.4	27.8	3.0
Japan	26.7	19.2	39.1	2.7

FDI = foreign direct investment, Y-o-Y = year-on-year.

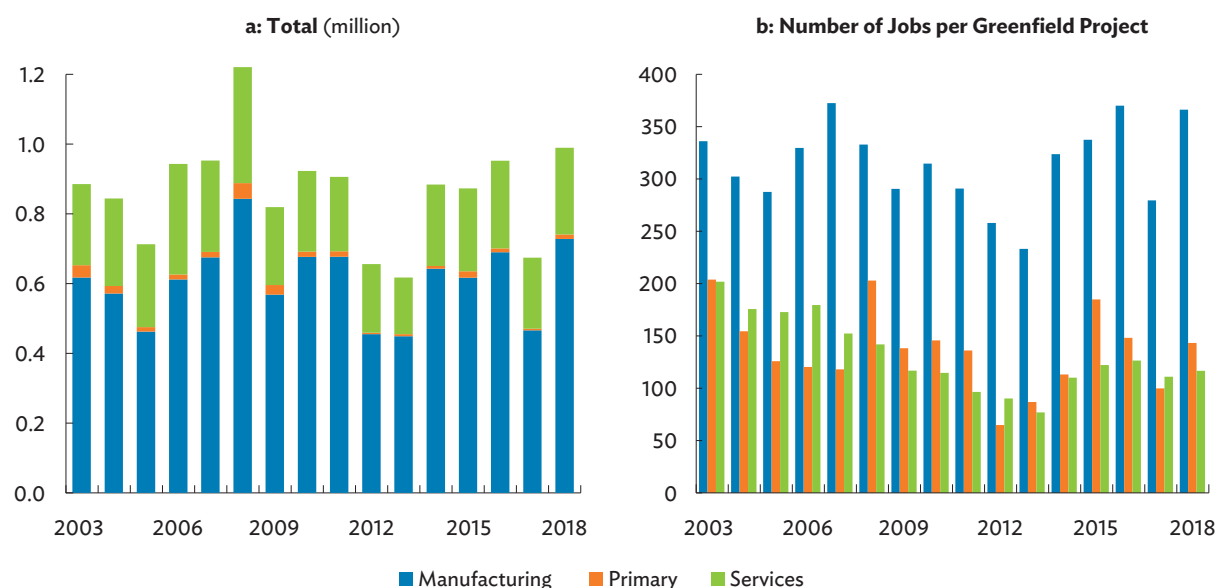
Source: ADB calculations using data from Financial Times. fDi Markets.

followed by investment from the PRC (108,132 jobs); Singapore (88,529); Hong Kong, China (65,007); the Republic of Korea (62,140); and Taipei,China (42,213). Investment from the US generated the most in 2018, with 174,249 jobs. Other top extraregional sources were Germany (58,230), the UK (38,516), and France (24,300).

India and the PRC gained many new jobs in 2018, as committed jobs in those countries accounted for 50.8% of

the total jobs created in Asia (Table 2.6). Southeast Asia also benefited from the high job creation. Together, jobs in Viet Nam, the Philippines, Indonesia, Thailand, Singapore, and Malaysia accounted for 29.7% of jobs created in Asia.

Job creation rebounded across all sectors, with much of the new jobs in manufacturing (Figure 2.6a). New manufacturing jobs reached 727,763, accounting for 73.6% of total for 2018. Greenfield FDI in services generated 248,649 jobs, a 22.0% increase from 2017.

Figure 2.6: Inward Greenfield FDI Job Creation in Asia by Sector

FDI = foreign direct investment.

Source: ADB calculations using data from Financial Times. fDi Markets.

Though the primary sector had the smallest share, job creation in the sector nearly tripled in 2018 from 4,688 to 12,881. Investment projects in manufacturing also continued to be the most job intensive, averaging 366 jobs per project, well above those in the primary sector (143 jobs) and services (117 jobs) (Figure 2.6b).

Updates on Regional Trends

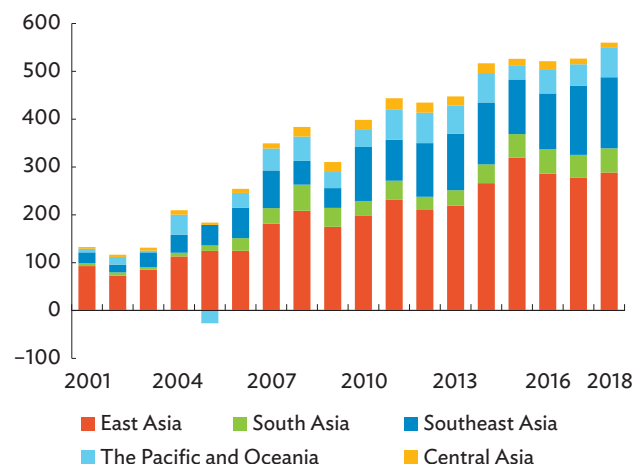
Global and intraregional investors continue to invest largely in East Asia. Over half of the world's investment to Asia, as well as that of intraregional investment, headed toward the subregion.

Based on standard balance of payments data, FDI to Asia increased by \$33.1 billion in 2018 to \$559.7 billion, from \$526.6 billion in 2017. Developing Asia hosted \$488.0 billion, 3.5% higher than 2017. Meanwhile, FDI to developed Asia grew by 29.7% to \$71.7 billion in 2018, reversing the 16.7% decline in 2017. East Asia continues to host over 50.0% of global FDI to Asia, largely due to investment in the PRC and Hong Kong, China

(Figure 2.7). Southeast Asia also attracted a fair amount of investment, with four countries from the region (Singapore, Indonesia, Viet Nam, and Thailand) among the top 10 Asian destinations for global FDI.

Investment rebounded in almost all subregions, particularly in East Asia and the Pacific and Oceania. Total FDI to East Asia increased by \$10.3 billion to \$288.2 billion in 2018, with the increase originating mainly outside the region. The UK, the US, and Germany were the top sources of higher investment. A 42.9% increase in Australia's inward FDI was behind the recovery in investment to the Pacific and Oceania. Increased investment from Canada, the PRC, and Germany helped buoy FDI to the subregion.

Inward FDI also increased in Southeast Asia (up \$4.5 billion) and South Asia (up \$3.4 billion) in 2018. Thailand (up \$4.0 billion) and Singapore (up \$1.9 billion) largely benefited from increased investment. Luxembourg; Japan; and Hong Kong, China had the largest increases in FDI to Southeast Asia in 2018. In South Asia, India (up \$2.4 billion) and Bangladesh (up \$1.5 billion) received most of the increased investment,

Figure 2.7: Global Inward FDI to Asia by Destination Subregion (\$ billion)

FDI = foreign direct investment.

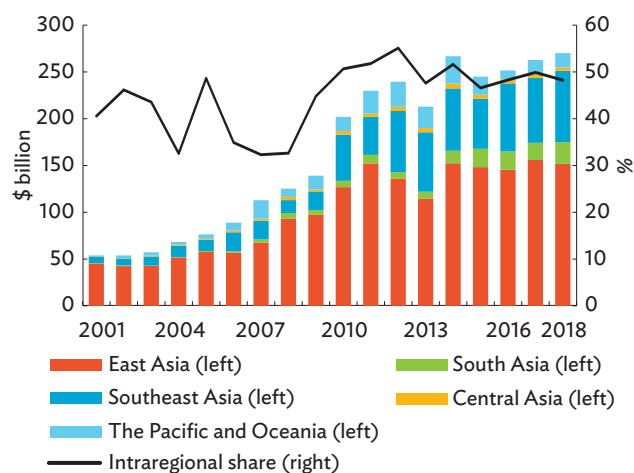
Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Data Portal. <https://data.aseanstats.org/> (accessed July 2019); CEIC; Eurostat. Balance of Payments. <https://ec.europa.eu/eurostat> (accessed July 2019); International Monetary Fund. World Economic Outlook April 2019 database. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx> (accessed April 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

with increased FDI to the subregion originating primarily from Asian countries such as Singapore, Japan, and the Republic of Korea.

Meanwhile, global investment to Central Asia continued to decline in 2018, from \$12.0 billion in 2017 to \$9.5 billion in 2018. Azerbaijan (down \$1.5 billion) and Kazakhstan (down \$0.9 billion) were most affected by the fall.

Asia's intraregional linkages continued to grow in 2018 (Figure 2.8). Intraregional FDI rose 2.8% from \$262.7 billion in 2017 to \$270.1 billion in 2018—a 48.2% share of inward FDI to Asia. Intraregional investors continued to favor East Asia, with 56.2% of intraregional investment heading toward the subregion. Asian investors also favored Southeast Asia, with the subregion attracting 28.2% of intraregional investment.

Investment grew across most subregions, particularly in South Asia. Asian FDI to South Asia grew by 26.9% in

Figure 2.8: Intraregional FDI 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 Data Portal. <https://data.aseanstats.org/> (accessed July 2019); CEIC; Eurostat. Balance of Payments. <https://ec.europa.eu/eurostat> (accessed July 2019); International Monetary Fund. World Economic Outlook April 2019 database. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx> (accessed April 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

2018, reversing a 2017 decline. FDI to Southeast Asia from Asian countries also increased in 2018 by 9.9%. Meanwhile, Asia's FDI to East Asia contracted by 2.6%.

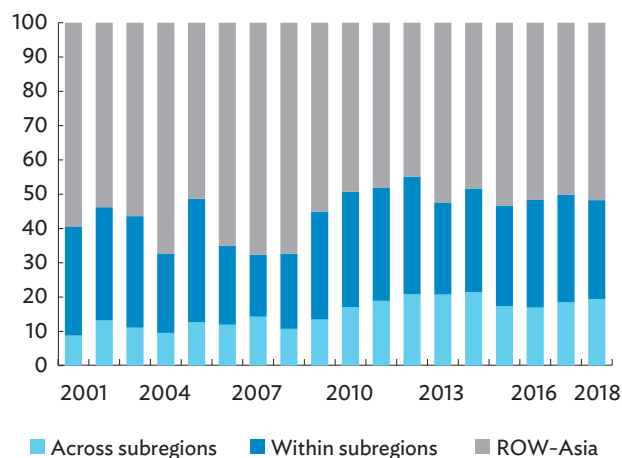
Firm-level data also show a recovery in intraregional greenfield and M&A commitments, with 2018 estimates reaching \$289.9 billion from \$160.6 billion in 2017. While intraregional deal values increased by 9.3% in 2018 from \$61.2 billion in 2017, the bulk of the increase was due to increased intraregional greenfield FDI. This more than doubled in 2018, from \$99.4 in 2017 to \$223.0 billion.

The PRC continued to be an active investor and an attractive destination of FDI (Box 2.1). The country was both the largest investor and largest recipient of intraregional greenfield investment in 2018. The country invested \$58.1 billion in Asia in 2018, the largest in Indonesian renewable energy. The PRC's Sinohydro Corporation committed \$17.8 billion to an Indonesian project in April 2018, with 1,029 new jobs expected.

The PRC received \$48.0 billion in Asian greenfield investment. Taipei,China was the largest investor in the PRC, with \$12.0 billion in committed capital expenditures. Electronics manufacturer Foxconn allotted \$9.0 billion for PRC semiconductors, making it the largest source of greenfield FDI from Taipei,China to the PRC.

Intraregional share has remained stable since 2010 and has fluctuated around 50.0% over the past 9 years (Figure 2.9). Intraregional activity relies in large part on investment within subregions. In 2018, 28.8% of total inward FDI to Asia was intra-subregional investment. However, investment across subregions has regained traction since 2015, with the share of inter-subregional investment increasing to 19.4% in 2018.

Figure 2.9: Regional FDI Share—Asia (%)



FDI = foreign direct investment, ROW = rest of the world.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Data Portal. <https://data.aseanstats.org/> (accessed July 2019); CEIC; Eurostat. Balance of Payments. <https://ec.europa.eu/eurostat> (accessed July 2019); International Monetary Fund. World Economic Outlook April 2019 database. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx> (accessed April 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

Box 2.1: Trends of Foreign Direct Investment in the People’s Republic of China

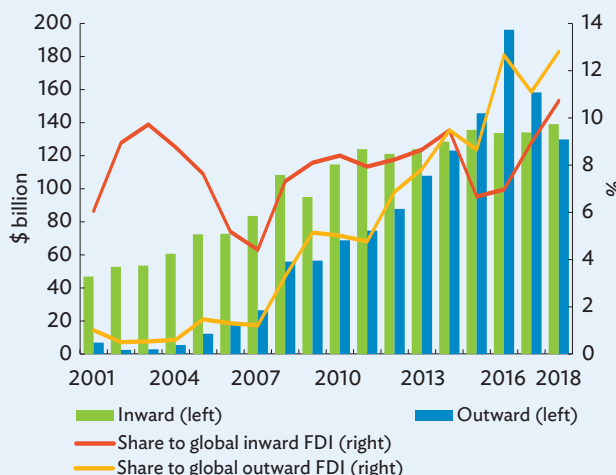
The People’s Republic of China (PRC) has been an attractive destination and a formidable source of foreign direct investment (FDI), with its high economic growth over recent decades. According to standard balance of payments data, its share of global and Asian investment continued to increase between 2001 and 2018. In fact, the PRC accounted for more than 10% of the world’s inward or outward investment in 2018, while accounting for roughly 25% of Asia’s outward FDI (Box Figure 1).

Investment to the PRC tripled between 2001 and 2018, reaching \$139.0 billion. The PRC’s investment appetite increased much faster over the years, reaching a peak in 2016 of \$196.1 billion. Since 2016, however, the country’s outward investment has moderated.

FDI Flows in the PRC

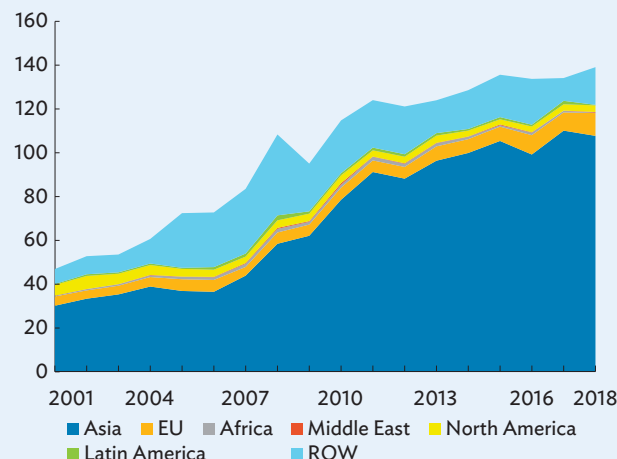
Asia has continuously been the largest source of FDI to the PRC, with over half of the country’s FDI coming from within the region (Box Figure 2). Since 2013, roughly 75% of the PRC’s inward FDI was from Asian investors, with the intraregional share peaking at 82.1% in 2017. Hong Kong, China has consistently been the top investor in the PRC, with its average share over 66% of Asia’s FDI

1: Inward and Outward FDI—People’s Republic of China



FDI = foreign direct investment.

Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

Box 2.1: Trends of Foreign Direct Investment in the People's Republic of China (continued)**2: Inward FDI by Source Region—People's Republic of China** (\$ billion)

EU = European Union, FDI = foreign direct investment, ROW = rest of the world.

Note: FDI is based on balance of payments definition.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Data Portal. <https://data.aseanstats.org/> (accessed July 2019); CEIC; Eurostat. Balance of Payments. <https://ec.europa.eu/eurostat> (accessed July 2019); International Monetary Fund. World Economic Outlook April 2019 database. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx> (accessed April 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

to the PRC. In 2018, Hong Kong, China accounted for 83.5% (or \$89.9 billion) of Asia's investment in the PRC. Singapore is a distant second (\$5.2 billion), followed by the Republic of Korea (\$4.7 billion), Japan (\$3.8 billion), and Samoa (\$1.6 billion).

Outside Asia, the British Virgin Islands (\$4.7 billion), the Cayman Islands (\$4.1 billion), and Germany (\$3.7 billion) were among the top sources of FDI to the PRC. FDI from the United States (US) increased to \$2.7 billion in 2018 from \$2.6 billion in 2017, despite growing trade tensions. However, the 1.5% growth was well below the increases in preceding years (14.2% in 2016 and 11.0% in 2017).

Outward FDI— People's Republic of China (\$ million, % share of total in parentheses)

Destination	2010–2016 Annual Average	2017	2018
Central Asia	1,213.9 (1.3)	4,309.8 (2.5)	6,180.1 (3.9)
East Asia	12,368.7 (12.8)	4,304.5 (2.5)	18,954.1 (12.1)
South Asia	6,660.9 (6.9)	6,872.8 (4.0)	6,502.2 (4.2)
Southeast Asia	12,701.2 (13.1)	9,183.9 (5.3)	41,702.5 (26.6)
The Pacific and Oceania	3,853.9 (4.0)	5,165.0 (3.0)	3,969.4 (2.5)
Rest of the World	60,024.5 (62.0)	142,101.8 (82.6)	79,282.6 (50.6)

FDI = foreign direct investment.

Note: Outward FDI includes greenfield FDI and mergers and acquisitions.

Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets.

Source: ADB staff.

Greenfield FDI and M&As in the PRC

Based on firm-level data, approximately 40.0% of the greenfield FDI in 2018 went to automotive original equipment manufacturers (OEM) and chemicals, with about 20.0% apiece. Capital expenditure from US-based Tesla Motors was the largest contributor in the PRC's automotive OEM sector, with \$5.2 billion in investment during May and July 2018. German company BASF directed \$10.3 billion in the chemicals sector. The PRC also benefited from capital from Taipei, China's Foxconn, which invested \$9.0 billion in semiconductors, as well as from Hong Kong, China's Hongkong Land Holdings, which invested approximately \$3 billion in real estate.

Mergers and acquisitions (M&As) in the PRC also increased in 2018. Over half the 2018 amount went to communications, which garnered \$42.2 billion in M&A deals. Many of these were in data processing, hosting, and related services, the largest of which was a stake gained by the US-based Carlyle Group LP in the Ant Financial Services group (\$14.0 billion). Alibaba's holding company based in the Cayman Islands also contributed to the PRC communications sector when it acquired Shanghai Lazhasi Information Technology Co., LTD for \$5.4 billion and increased its capital in Ant Financial Services Group by \$5.0 billion.

A considerable amount of the PRC's outward greenfield investment went to alternative and renewable energy. The largest project—and overall from the PRC—was Sinohydro Corporation's \$17.8 billion investment in Indonesia in April 2018. The PRC also invested in metals, the largest two in the Philippines. Hesteel Group invested \$4.4 billion in December 2018, while a project from the Panhua Group generated \$3.5 billion in June 2018.

In 2018, the PRC's outward FDI was redirected considerably within the region, as East Asia and Southeast Asia benefited the most with the PRC investment almost quadrupling in amount (Box Table). Southeast Asia accounted for more than a quarter of total PRC outward investment, and East Asia more than a tenth. The PRC's investment outside the region fell to \$79 billion in 2018 from \$142 billion in 2017.

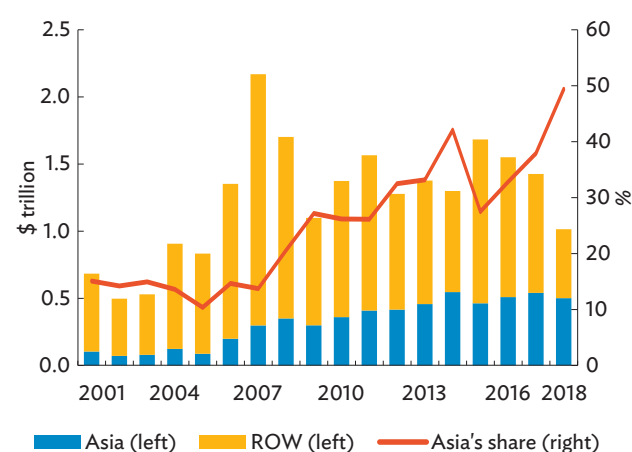
Outward Foreign Direct Investment

Global outward FDI contracted in 2018, mainly due to lower investment from developed countries.

In 2018, outward FDI from developed countries totaled \$558.4 billion—a 39.6% decline from 2017 estimates (Figure 2.10). This drove the share of FDI from developed countries down from 62.1% in 2017 to 55.1% of global outward FDI, its lowest thus far. The US, which was the top source of global FDI in 2017, took a back seat in 2018 in favor of repatriated funds of foreign multinationals due to the tax overhaul, leading to a negative \$63.6 billion in 2018, a reversal from its \$300.4 billion outward investment in 2017. Consequently, global outward FDI from the world declined by 28.9% in 2018 to \$1.0 trillion from \$1.4 trillion in 2017.

Asia's investment to the world declined by 7.4% in 2018 to \$500.6 billion. Higher outward investment from other Asian countries was not enough to offset the decline in outward FDI from powerhouses such as the PRC (–\$28.5 billion), Japan (–\$17.3 billion), and Singapore (–\$6.6 billion).

Figure 2.10: Global Outward FDI by Source



FDI = foreign direct investment, ROW = rest of the world.

Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

Over the years, Asia has cemented its status as a major source of global investment. Asia's share in global outward FDI rose to 49.4% in 2018, its highest thus far. Both Japan and the PRC overtook countries outside the region as top sources of outward FDI (Table 2.7). In 2018, Japan invested \$143.2 billion globally, while the PRC invested \$129.8 billion. France (\$102.4 billion); Hong Kong, China (\$85.2 billion); and Germany

Table 2.7: Top 10 Sources of Global and Asian FDI (\$ billion)

	Global				Asia			
	2018		2017		2018		2017	
Japan	143.2	United States	300.4	Japan	143.2	Japan	160.4	
PRC	129.8	Japan	160.4	PRC	129.8	PRC	158.3	
France	102.4	PRC	158.3	Hong Kong, China	85.2	Hong Kong, China	86.7	
Hong Kong, China	85.2	United Kingdom	117.5	Korea, Republic of	38.9	Singapore	43.7	
Germany	77.1	Germany	91.8	Singapore	37.1	Korea, Republic of	34.1	
Netherlands	59.0	Hong Kong, China	86.7	Taipei, China	18.0	Thailand	17.1	
British Virgin Islands	56.0	Canada	79.8	Thailand	17.7	Taipei, China	11.6	
Canada	50.5	British Virgin Islands	54.7	India	11.0	India	11.1	
United Kingdom	49.9	Singapore	43.7	Indonesia	8.1	Malaysia	5.6	
Cayman Islands	40.4	France	41.3	Malaysia	5.3	Australia	3.3	

FDI = foreign direct investment, PRC = People's Republic of China.

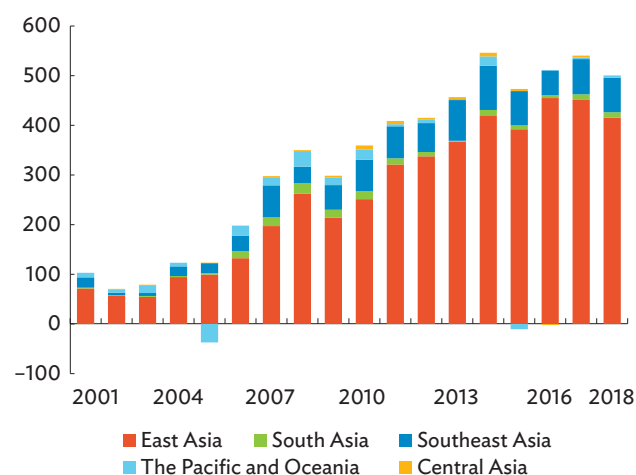
Source: ADB calculations using data from United Nations Conference on Trade and Development. World Investment Report 2018 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

(\$77.1 billion) were also among the top five sources of global investment. In Asia, the Republic of Korea (\$38.9 billion) and Singapore (\$37.1 billion) were among the top.

Despite the 8.0% contraction in 2018, East Asia continued as the largest source of FDI from Asia (Figure 2.11). Investment from the subregion accounted for 82.9% of Asia's outward FDI. Apart from consistently large investment from Japan; the PRC; Hong Kong, China; and the Republic of Korea, investment from Taipei, China grew by 56.0% from \$11.6 billion in 2017 to \$18.0 billion in 2018.

Southeast Asia remains the second-largest source, with a 13.9% share. Increased investment from Thailand, Indonesia—whose global investment nearly quadrupled between 2017 and 2018—and Viet Nam helped cushion contractions from Singapore and Malaysia. This resulted in a moderate 1.7% decline. Global outward investment also declined from South Asia (down 2.4%) and Central Asia (down 73.2%). Meanwhile, investment from the Pacific and Oceania grew 19.3% in 2018, mostly due to increased investment from Australia (up 9.5%) and a positive reversal in New Zealand's investment.

Figure 2.11: Asia's Outward FDI by Source (\$ billion)



FDI = foreign direct investment.

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 2019).

Combined greenfield and M&A FDI from Asia to the rest of the world dipped in 2018 in contrast to inward FDI (Figure 2.12). Though Asia's outward greenfield FDI increased by \$21.4 billion, this was not enough to offset a \$75.5 billion decline in M&As, due mostly to a fall in manufacturing M&As (–\$67.3 billion). Overall, FDI activity based on firm-level data slid by \$54.0 billion in 2018. FDI from Asia declined largely in destinations outside the region, particularly Switzerland (–\$43.8 billion), the US (–\$28.8 billion), the UK (–\$12.2 billion), and Czech Republic (–\$10.5 billion).

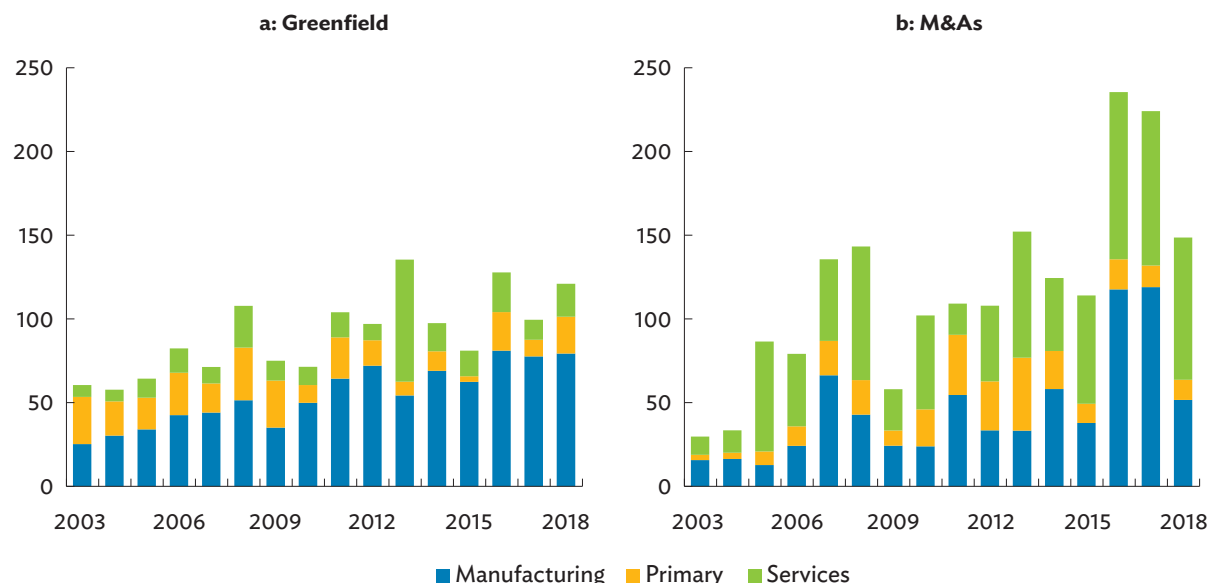
Asia's extraregional greenfield investment is primarily in manufacturing, with a 65.6% share in 2018 (Figure 2.12). However, recent years have seen a relatively gradual increase in the share of the primary sector and services. In 2018, 18.2% of Asia's extraregional greenfield FDI was directed toward projects in the primary sector, while 16.3% went into services. The majority of Asia's M&As outside the region were in services. In 2018, the sector's share reached 57.2%. Manufacturing M&As followed at 34.7%.

Higher intraregional deal and project values in 2018 (up \$129.4 billion to \$289.9 billion) cushioned the decline in extraregional ones, resulting in an increase in overall outward greenfield investment and M&As (up \$74.8 billion to \$559.0 billion). In turn, jobs due to greenfield FDI from Asia recovered in 2018 (Figure 2.13). Actual and planned jobs created by Asian greenfield FDI reached 848,840. This surpassed the 2016 level of 810,315.

The majority of the jobs created were due to intraregional investment (66.3% or 562,658), with jobs generated in the PRC (125,514), India (117,656), and Viet Nam (76,439) accounting for over half of intraregional new jobs. Outside the region, the US emerged on top with 55,363 jobs generated from Asia's greenfield FDI, followed by the Russian Federation (22,822), the UK (19,928), and Mexico (17,477).

Greenfield FDI from Asia's strong economies—such as the PRC, Japan, and Singapore—generated the most jobs in 2018. Over 57.0% of total jobs generated by Asian greenfield FDI came from those countries, with the PRC accounting for 207,816 jobs; Japan, 181,706 jobs; and Singapore, 101,869 jobs.

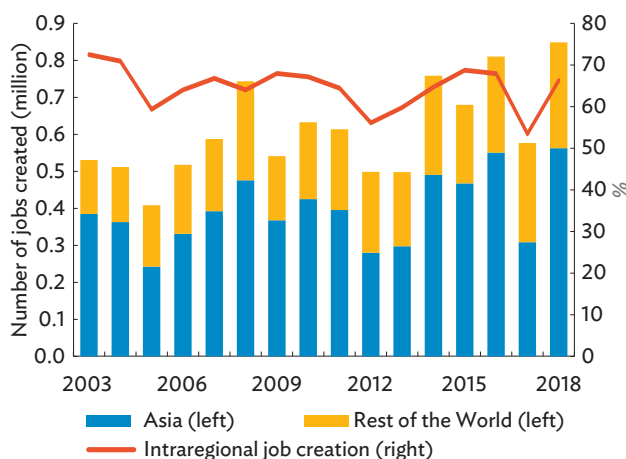
Figure 2.12: Asia’s Outward FDI to the Rest of the World by Sector (\$ billion)



FDI = foreign direct investment, M&A = mergers and acquisitions.

Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

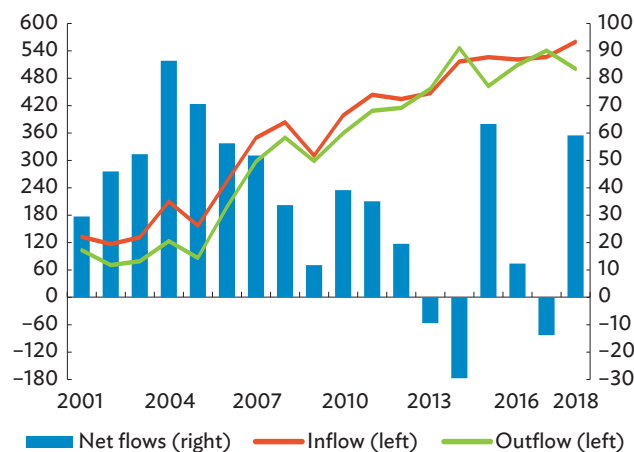
Figure 2.13: Jobs Created by Asian Greenfield FDI by Destination



FDI = foreign direct investment.

Source: ADB calculations using data from Financial Times. fDi Markets.

Figure 2.14: Total FDI Flows—Asia (\$ billion)



FDI = foreign direct investment.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database. <https://www.aseanstats.org/> (accessed July 2019); and United Nations Conference on Trade and Development. World Investment Report 2019 Statistical Annex Tables. <http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx> (accessed June 2019).

After first turning negative in 2013, Asia’s net FDI flows have generally fluctuated between positive and negative (Figure 2.14). Larger investment came to Asia in 2015 and 2016, while 2017 saw higher outward than inward

investment. In 2018, a dip in Asia’s outward investment and an increase in inward FDI resulted in positive net investment flows.

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Table A12.b: Outbound Visitor Share—Asia, 2017 (% of total outbound visitors)

Origin	Destination				
	Asia	of which PRC	EU	US	ROW
Central Asia	56.1	1.3	0.9	0.2	42.8
Armenia	64.2	0.3	1.3	0.6	34.0
Azerbaijan	35.0	0.3	0.7	0.2	64.1
Georgia	17.7	0.3	2.6	0.1	79.6
Kazakhstan	55.2	2.5	0.9	0.3	43.6
Kyrgyz Republic	76.7	1.5	0.1	0.1	23.1
Tajikistan	70.5	1.6	0.1	0.1	29.3
Turkmenistan	30.3	2.5	0.4	0.2	69.1
Uzbekistan	86.2	0.9	0.4	0.2	13.2
East Asia	74.9	35.2	5.8	3.6	15.7
China, People's Republic of	61.1		8.2	3.2	27.6
Hong Kong, China	92.5	85.6	0.3	0.2	7.0
Japan	59.2	11.6	14.9	15.6	10.3
Korea, Republic of	71.9	12.7	8.9	7.7	11.5
Mongolia	82.4	74.5	0.1	0.5	17.0
Taipei, China	84.4	32.8	4.7	2.7	8.3
South Asia	49.2	5.4	8.0	6.3	36.4
Afghanistan	18.2	1.3	1.1	0.2	80.5
Bangladesh	85.5	2.8	0.5	1.0	13.0
Bhutan	96.2	1.4	1.1	1.1	1.7
India	48.6	6.2	12.7	9.7	28.9
Maldives	94.3	3.0	0.2	0.1	5.3
Nepal	86.8	24.6	0.7	5.9	6.6
Pakistan	12.5	3.3	3.1	2.4	82.0
Sri Lanka	85.3	6.9	1.3	2.5	10.8
Southeast Asia	92.5	24.5	1.3	1.0	5.2
Brunei Darussalam	99.4	0.4	0.0	0.1	0.5
Cambodia	98.5	4.7	0.1	0.4	1.1
Indonesia	79.9	6.2	1.6	1.0	17.5
Lao PDR	99.9	30.4	0.1	0.0	0.1
Malaysia	91.1	9.8	2.0	0.6	6.3
Myanmar	99.7	91.5	0.0	0.1	0.2
Philippines	80.9	17.2	2.5	4.6	12.0
Singapore	95.9	4.7	1.5	0.7	1.9
Thailand	92.6	7.2	1.6	1.0	4.8
Viet Nam	97.9	56.1	0.1	1.0	0.9
The Pacific	84.1	4.0	0.3	3.5	12.0
Cook Islands	95.7	0.0	0.2	0.4	3.7
Fiji	88.5	4.3	0.4	6.4	4.7
Kiribati	90.9	31.7	0.4	2.9	5.7
Marshall Islands	42.9	12.9	0.8	4.4	52.0
Micronesia, Federated States of	9.6	1.8	0.4	2.8	87.2
Nauru	92.1	3.9	1.6	1.8	4.5
Niue	95.7	0.0	0.2	0.9	3.2
Palau	11.5	1.7	0.6	3.2	84.7
Papua New Guinea	96.4	2.3	0.1	1.1	2.4
Samoa	77.9	4.2	0.1	0.0	22.0
Solomon Islands	91.2	6.4	1.0	1.7	6.1
Timor-Leste	93.7	6.9	0.9	1.1	4.3
Tonga	89.1	3.5	0.2	9.3	1.4
Tuvalu	81.0	10.3	1.1	2.6	15.4
Vanuatu	81.6	3.1	0.4	0.6	17.4
Oceania	58.2	4.4	23.5	8.2	10.2
Australia	54.7	4.5	26.3	8.2	10.8
New Zealand	73.4	3.9	11.2	8.0	7.4
Asia	75.1	27.7	5.5	3.2	16.2
Developing Asia	76.9	29.9	4.0	2.2	16.9

-- = unavailable, EU = European Union, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China, ROW = rest of the world, US = United States.

Source: ADB calculations using data from United Nations World Tourism Organization. Tourism Satellite Accounts. <http://statistics.unwto.org> (accessed April 2019).