

After increasing in 2015 post a three year downturn, global FDI inflows once again declined in 2016, albeit marginally by 1.6% to reach USD 1.75 Trillion highlighting weak economic growth and significant policy risks. The decline was mainly due to a steep decline of 14.1% in Developing Economies, primarily inflows in Asia which witnessed its first decline in five years of close to 15.5%. This decline was primarily on the back of the biggest year-on-year decline in FDI inflows towards China (including Hong Kong). FDI inflows to Europe also declined by 5.8% in 2016 after more than doubling in 2015.

Investment inflows in Developed economies continued to grow during 2016, although at a much slower pace of 4.9% to reach USD 1.03 Trillion as compared to a growth of 75% in 2015. The growth was led by 9% higher FDI flows to North America (solely on the back of flows to US that increased by 12.3% as compared to a decline of 18.8% in Canada) that more than offset the aforementioned decline in FDI inflows to Europe. **Meanwhile, after declining for the past seven consecutive years, FDI inflows to the GCC saw slight improvement in 2016 after seeing an increase of 21% to reach USD 17.9 Bn.**

On the other hand, global FDI outflows witnessed a drop of 8.9% in 2016 after increasing by more than a quarter in 2015. The decline was led by drop in outflows from almost all major regions globally, except for Asia and the GCC. The global decline was due to 11% drop in flow emanating from Developed Economies, primarily from European Multi National Enterprises (MNEs) that recorded a drop of 22.7% during 2016. On the other hand, FDI outflows from the Asia Pacific region reached the highest level since 2008. This was primarily on the back of a surge in outflows from China which stood at USD 183 Bn in 2016, making in the second biggest overseas investor after US. Corporate M&As and individual property investments emanating from developing countries has led to this increase. Outflows from the GCC dropped 17.2% during 2016 to reach USD 26.7 Bn.

This year's World Investment Report highlights the importance of Digital Economy and how it is changing the world economies structurally and requires a shift in how legacy policies were designed. The need to bridge the digital divide, especially in developing economies, presents both challenges and opportunities. Technology has enabled cross border trades without the need of significant physical investment in the host market. The report suggests that this has serious implications on regulations governing investor behavior and necessitates to have a relook at these rules to keep up to date with this global phenomenon.

FDI Flows by Region

FDI Inflows (USD Mn)	2011	2012	2013	2014	2015	2016	5-Y CAGR	Share in World FDI Inflows	
								2015	2016
World	1,591,146	1,592,598	1,443,230	1,323,863	1,774,001	1,746,423	1.9%		
Developed Economies	824,293	856,979	684,260	563,330	984,105	1,032,373	4.6%	55.5%	59.1%
Europe	484,932	541,375	340,466	272,463	565,934	532,994	1.9%	31.9%	30.5%
North America	269,531	242,145	270,784	230,663	389,914	424,825	9.5%	22.0%	24.3%
US	229,862	199,034	201,393	171,601	348,402	391,104	11.2%	19.6%	22.4%
Developing Economies	687,511	670,998	674,658	703,780	752,329	646,030	-1.2%	42.4%	37.0%
Asia	425,657	401,177	421,500	460,316	523,641	442,665	0.8%	29.5%	25.3%
GCC	29,384	27,189	24,290	23,854	14,811	17,911	-9.4%	0.8%	1.0%
FDI Outflows (USD Mn)	2011	2012	2013	2014	2015	2016	5-Y CAGR	Share in World FDI Outflows	
								2015	2016
World	1,576,041	1,388,455	1,399,483	1,253,159	1,594,317	1,452,463	-1.6%		
Developed Economies	1,129,936	974,079	890,920	707,635	1,172,867	1,043,884	-1.6%	73.6%	71.9%
Europe	560,386	466,516	386,834	221,284	665,781	514,677	-1.7%	41.8%	35.4%
North America	448,717	374,060	360,813	352,749	370,214	365,406	-4.0%	23.2%	25.2%
US	396,569	318,196	303,432	292,283	303,177	299,003	-5.5%	19.0%	20.6%
Developing Economies	390,443	381,409	432,766	472,745	389,267	383,429	-0.4%	24.4%	26.4%
Asia	318,745	304,637	362,681	412,333	338,683	363,058	2.6%	21.2%	25.0%
GCC	26,791	16,919	39,907	14,376	32,303	26,746	0.0%	2.0%	1.8%

Source: UNCTAD World Investment Report-2017, KAMCO Research

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FDI in the GCC

FDI Inflows (USD Mn)	2011	2012	2013	2014	2015	2016	5-Y CAGR	Share in GCC FDI Inflows	
								2015	2016
GCC	29,384	27,189	24,290	23,854	14,811	17,911	-9.4%		
Saudi Arabia	16,308	12,182	8,865	8,012	8,141	7,453	-14.5%	55.0%	41.6%
UAE	7,152	8,828	9,491	10,823	8,795	8,986	4.7%	59.4%	50.2%
Qatar	939	396	-840	1,040	1,071	774	-3.8%	7.2%	4.3%
Kuwait	3,259	2,873	1,434	953	293	275	-39.0%	2.0%	1.5%
Oman	1,628	1,365	1,612	1,506	-2,692	142	-38.6%	-18.2%	0.8%
Bahrain	98	1,545	3,729	1,519	-797	282	23.4%	-5.4%	1.6%

FDI Outflows (USD Mn)	2011	2012	2013	2014	2015	2016	5-Y CAGR	Share in GCC FDI Outflows	
								2015	2016
GCC	26,791	16,919	39,907	14,376	32,303	26,746	-0.03%		
Saudi Arabia	3,430	4,402	4,943	5,396	5,390	8,359	19.5%	16.7%	31.3%
UAE	2,178	2,536	8,828	11,736	16,692	15,711	48.5%	51.7%	58.7%
Qatar	10,109	1,840	8,021	6,748	4,023	7,902	-4.8%	12.5%	29.5%
Kuwait	10,773	6,741	16,648	-10,468	5,407	-6,258	-189.7%	16.7%	-23.4%
Oman	1,222	884	934	1,358	294	862	-6.7%	0.9%	3.2%
Bahrain	-920	516	532	-394	497	170	-171.4%	1.5%	0.6%

Slight improvement in the GCC but more needs to be done to attract FDI...

The GCC region continues to account for a miniscule portion of total global FDI inflows. The share of GCC in terms of FDI inflows increased slightly to 1.0% in 2016 from a 13-year low level of 0.8% in 2015. This increase reflected the 21% year-on-year increase in FDI inflows to the region reaching USD 17.9 Bn in 2016. This increase comes after seven straight years of decline during which inward FDI reached the lowest level in eleven years, since 2005. Nevertheless, the progress in 2016 is a welcome sign as, all the individual countries in the region recorded positive investment flows during the year. UAE continued to attract the bulk of the FDI, accounting for half of the recorded flows, followed by Saudi Arabia at 41.6%. The rest of the GCC countries accounted for 8.2% of the flows to the region.

Low oil prices continues to be one of the key reasons for the continued low inflow of FDIs into the region. This is particularly true in the case of major oil exporters, including Saudi Arabia, whose FDI flows declined to 12-year low level of USD 7.5 Bn in 2016. On the other hand, diversification efforts in countries like UAE has resulted in elevated level of FDI despite weakness in oil prices and the related slowdown in the economy. In addition, political and geopolitical uncertainty in the overall West Asia region continue to affect the region's overall attractiveness to foreign capital.

FDI stock in the GCC

FDI Inward Stock (USD Mn)	2011	2012	2013	2014	2015	2016	Share in GCC	
							2015	2016
GCC	343,405	370,779	391,588	414,124	427,512	444,804		
Saudi Arabia	186,758	199,032	207,897	215,909	224,050	231,502	52.4%	52.0%
UAE	71,021	79,849	89,340	100,164	108,959	117,944	25.5%	26.5%
Qatar	31,502	31,898	31,058	32,098	33,169	33,943	7.8%	7.6%
Kuwait	15,176	18,144	16,097	15,733	14,604	14,260	3.4%	3.2%
Oman	16,615	17,980	19,592	21,098	18,406	18,548	4.3%	4.2%
Bahrain	22,332	23,875	27,604	29,122	28,324	28,606	6.6%	6.4%

FDI Outward Stock (USD Mn)	2011	2012	2013	2014	2015	2016	Share in GCC	
							2015	2016
GCC	160,094	169,045	198,433	220,432	257,627	299,341		
Saudi Arabia	29,958	34,359	39,303	44,699	63,121	80,424	24.5%	26.9%
UAE	57,738	60,274	69,102	80,838	97,530	113,241	37.9%	37.8%
Qatar	22,653	24,494	32,515	39,263	43,287	51,189	16.8%	17.1%
Kuwait	32,250	31,023	37,153	34,310	31,577	31,342	12.3%	10.5%
Oman	4,018	4,903	5,836	7,194	7,488	8,350	2.9%	2.8%
Bahrain	13,476	13,992	14,524	14,128	14,625	14,795	5.7%	4.9%

In terms of individual country contribution, UAE was the only country in the GCC that recorded a growth in FDI during 2016 to the tune of USD 191 Mn, while Oman and Bahrain recorded positive FDI's of USD 142 Mn and USD 282 Mn in 2016, respectively, after divestments by MNEs during 2015 that resulted in negative inflows for the year.

In terms of FDI outflows, the share of GCC dropped from 2.0% in 2015 to 1.8% in 2016. Total FDI outflows during 2016 stood at USD 26.7 Bn, a decline of 17% as compared to USD 32.3 Bn during the previous year. The year-on-year drop was primarily due to divestments by Kuwait that resulted in negative FDI outflows of USD 6.3 Bn. Qatar, on the other hand, contributed the most during the year and recorded an increase of almost USD 3.9 Bn to reach total outflows of USD 7.9 Bn followed by Saudi Arabia, which recorded an increase of USD 3.0 Bn to reach a new high of USD 8.4 Bn. These increases were primarily related to the diversification efforts by these countries.

In terms of FDI inward stock in the GCC, Saudi Arabia continues to top the chart with a total stock of USD 231 Bn, an increase of 3.3% as compared to 2015, followed by UAE at USD 117.9 Bn. On the other hand, UAE is the biggest GCC investor abroad with the highest FDI outward stock of USD 113 Bn, an increase of 30% from 2015, followed by Saudi Arabia at USD 80.4 Bn and Qatar at USD 51.2 Bn.

UAE tops overseas M&A purchases...

Total cross-border M&A transactions in the GCC continued to rise in 2016 with net sale transactions pegged at USD 3.6 Bn, almost double of the value in 2015, while value of net cross-border purchase transactions increased by 9% to USD 18.7 Bn in 2016, as compared to USD 17.1 Bn in 2015. Nevertheless, despite the increase, GCC's share in total global M&A transactions continues to be at one of the lowest historical levels. In terms of GCC as a seller in the transaction, the region's share in total global value stood at a marginal 0.4%, while as a purchaser, the region's share stood at 2.2%. Moreover, despite an increase in GCC purchases as mentioned above, the region's global share was the lowest in five years.

UAE took the crown from Qatar as the top GCC purchaser in 2016 with total M&A purchases worth USD 11.6 Bn followed by Qatar at USD 6.6 Bn. UAE also witnessed the biggest year-on-year increase in 2016, thereby offsetting a decline recorded by other GCC economies. On the other hand, as a seller, Kuwait topped the chart with annual total sale transactions worth USD 2.8 Bn in 2016, an increase of almost USD 2 Bn during the year that more than offset decline in other regions in the GCC.

Value of cross-border M&As in the GCC

M&A Net Sales (USD Mn)	2011	2012	2013	2014	2015	2016	Share in GCC	
							2015	2016
GCC	1,288	3,420	950	1,339	1,909	3,558		
Saudi Arabia	657	1,429	305	239	753	478	39.5%	13.4%
UAE	556	366	342	-186	189	88	9.9%	2.5%
Qatar	28	169	0	538	0	140	0.0%	3.9%
Kuwait	16	2,230	414	629	857	2,776	44.9%	78.0%
Oman	0	-774	0	0	110	53	5.8%	1.5%
Bahrain	30	0	-111	120	0	23	0.0%	0.7%

M&A Net Purchases (USD Mn)	2011	2012	2013	2014	2015	2016	Share in GCC	
							2015	2016
GCC	4,790	9,314	6,786	11,398	17,077	18,686		
Saudi Arabia	107	294	520	-560	3,333	971	19.5%	5.2%
UAE	5,896	-207	2,102	8,238	5,870	11,572	34.4%	61.9%
Qatar	-790	7,971	3,594	4,421	8,838	6,588	51.8%	35.3%
Kuwait	2,078	376	258	1,403	729	365	4.3%	2.0%
Oman	222	354	-6	26	-1,044	-105	-6.1%	-0.6%
Bahrain	-2,723	527	317	-2,131	-649	-705	-3.8%	-3.8%

Value of Announced Greenfield FDI projects

GCC as Investors (USD Mn)	2012	2013	2014	2015	2016	Share in GCC	
GCC	28,778	33,911	23,718	44,932	35,667	2015	2016
Saudi Arabia	2,034	2,478	2,350	13,572	6,504	30.2%	18.2%
UAE	15,763	18,788	19,887	21,869	23,720	48.7%	66.5%
Qatar	7,829	1,489	297	689	718	1.5%	2.0%
Kuwait	1,292	10,048	422	4,083	1,386	9.1%	3.9%
Oman	351	464	280	555	3,257	1.2%	9.1%
Bahrain	1,510	644	482	4,163	82	9.3%	0.2%

World investment in GCC (USD Mn)	2012	2013	2014	2015	2016	Share in GCC	
GCC	27,780	23,631	29,951	20,150	30,836	2015	2016
Saudi Arabia	8,640	8,068	10,282	6,205	11,775	30.8%	38.2%
UAE	10,246	7,376	13,000	9,475	9,802	47.0%	31.8%
Qatar	2,089	1,646	1,225	934	744	4.6%	2.4%
Kuwait	614	2,176	249	158	1,286	0.8%	4.2%
Oman	4,838	3,187	4,177	1,232	3,422	6.1%	11.1%
Bahrain	1,353	1,178	1,018	2,146	3,807	10.7%	12.3%

Saudi Arabia tops greenfield FDI's destination in the GCC...

Total value of greenfield FDI projects abroad by GCC countries declined by 21% in 2016 to reach USD 35.7 Bn after almost doubling in the year before. The decline comes as the year-on-year increase in investment by Oman, UAE and Qatar (USD 2.7 Bn, USD 1.9 Bn and USD 29 Mn, respectively) was more than offset by steep decline recorded in the rest of the GCC economies. The biggest decline was recorded in Saudi Arabia at USD 7.1 Bn followed by USD 4.1 Bn in Bahrain, while Oman recorded the biggest jump with an almost five-fold increase in investments in overseas greenfield FDI projects.

On the other hand, external investment in greenfield FDI projects in the GCC increased by more than 50% in 2016 to reach USD 30.8 Bn. The increase was primarily on the back of 90% increase in investment in Saudi Arabia totaling USD 11.8 Bn followed by USD 2.2 Bn in Oman and USD 1.1 Bn in Kuwait. Qatar was the only country in the GCC that recorded a year-on-year decline during 2016.

Cautiously optimistic outlook for 2017...

Global investment is expected to see modest growth in 2017 and is estimated to reach USD 1.8 Trillion followed by USD 1.85 Trillion in 2018. Growth in 2017 is expected to be driven by higher expected economic growth in key global economies further supported by a resumption of growth in trade and a recovery in corporate profits. Investment in developing economies is expected to increase by 10% in 2017, primarily in developing Asia, while developed economies are expected to hold steady.

Investment in the MENA region is forecasted to remain flat as the positive effect of the increase in oil prices is offset by political and geopolitical uncertainty. Nevertheless, KAMCO Research expects positive investment growth in the GCC in the near term as the region makes a dedicated effort to open the economy to foreign investors. We believe that new regulations, well laid out strategic plans as well as an urgent need for diversification makes a positive case for an increase in investment in the region.

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