

»» Downturn in Greenfield investments in Asia – cyclical or structural?



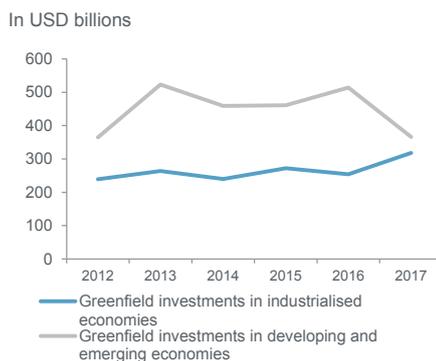
Nr. 166, 28 September 2018

Authors: Dilek Saake, phone 0176-313 19 222, dileksaake@yahoo.com
Dr Tim Heinemann, phone +49 69 7431-4784, tim.heinemann@kfw.de

According to UNCTAD, global direct investments decreased in 2017. The sub-segment ‘Greenfield investments’ (the establishment of new plants) has a unique dynamic: emerging economies and developing countries showed a decline, while industrialised nations reported an increase. In view of this development, the question arises as to whether this is a cyclical downturn or an early sign of a structural change in the global economy.

Greenfield investments are particularly important for the development and integration of emerging and developing countries into the global economy (keywords: technology transfer and jobs). In addition, new plants are regarded as a forward indicator for the future economic development of the target countries due to their capacity-expanding effects.

Global direct investments in 2017

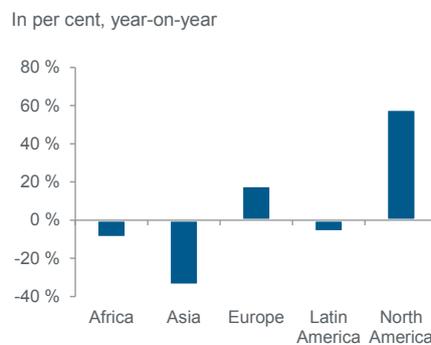


Source: UNCTAD World Investment Report 2018

Greenfield investments in industrialised countries rose by approx. 25% in 2017 compared with 2016. The USA has benefited in particular, as has Europe in part. Latin America and Africa only experienced slight declines. The downturn

in emerging and developing economies is thus concentrated in particular on Asia, where investments fell by around 36% compared to 2016.

Greenfield investments by region 2017



Source: UNCTAD World Investment Report 2018

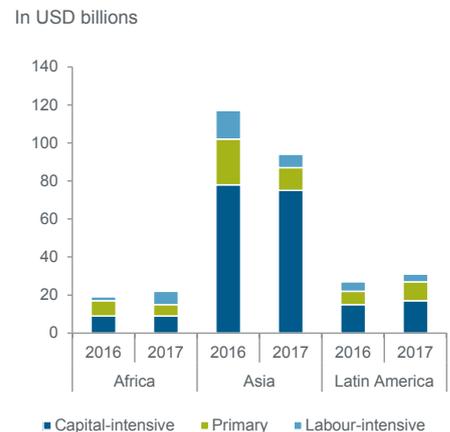
With regards to Asia, it is evident that mainly the labour-intensive sectors are affected by the downturn. One of the main reasons is the strong growth of wages in China. This is also evidence that these locations have matured, developing slowly from the “workbenches of the world” to “industrialised countries”. This is particularly true for China and partly for Taiwan and the Republic of Korea. As the economies of these countries continue to improve, the production of capital-intensive goods is also likely to increase: This in turn can result in more capital-intensive direct investments.

Asian investors, especially those from China, are shifting labour-intensive production to low-wage locations in Africa or Southeast Asia (Cambodia, Laos and Vietnam). Investors from industrialised countries are reducing their exposure to Asia and investing more “at home”. The USA in particular is benefiting from this

development.

According to UNCTAD, the increase in new plants in North America can be linked to the new US trade and tax policy. Given the long planning periods, this assertion must be put into perspective: Many decisions regarding the location of new plants were made before the US elections in 2016. However, the effects of US trade and fiscal policies on medium-term investment dynamics, especially between Asia and the USA, cannot be ruled out. The advancing digitalisation in the area of capital-intensive production can strengthen the current investment dynamics between Asia and the industrialised countries.

Greenfield investments by sector 2017



Source: UNCTAD World Investment Report 2018

Overall, the changes in investments in Asia appear to be of a more structural nature. The emerging economies in Asia therefore run the risk of losing much of their production to developing or industrialised countries if they do not manage to transform their economies and attract new direct investment. ■