INVESTMENT-DRIVEN RECOVERY: GROUNDS FOR OPTIMISM

Even though economic growth in early 2023 was better than forecast for emerging countries, the slowdown scenario is seemingly coming to pass for the rest of the year. In 2024, the strength of the recovery will hinge on the geopolitical climate and on how far monetary policy is eased in the US and the euro zone. It will also hinge on the investment outlook for emerging countries. The UNCTAD's annual report gives cause for optimism around the investment outlook, except for low-income economies.

During the first few months of the year, economic growth in emerging countries held up well (up 1.7% q/q in Q1 2023) thanks to the rebound in activity in some regional heavyweights (China, Brazil and Poland). Our central scenario for the months ahead still points to a slowdown. This is based on the many constraints on Chinese growth (see Focus on China) and the slowdown in global trade. This slowdown, already seen in Q1, was confirmed in Q2 by the worsening of new export orders indexes in PMI business surveys, particularly in industrialised Asian countries that have been facing the downturn in the global electronic cycle. Moreover, our slowdown scenario takes into account the delayed effect of monetary tightening, even though policy interest rates are no longer rising in the vast majority of countries.

In the short term, the world is seemingly no longer heading for a recession, thanks to disinflation fuelled by falling oil prices and the return of portfolio investments, which have contributed to the easing in domestic and foreign financing conditions since end-2022.

In 2024, the strength of the recovery will hinge on the geopolitical climate (the war in Ukraine and the ramifications of the trade and technology conflict between the USA and China) and on how far monetary policy is eased in the US and the euro zone. However, real GDP growth will also hinge on how well countries can adapt to climate change and, therefore, on their investments to help to generate sustainable growth. These transition and adaptation investments cannot solely come from governments, which will be working to or will have to limit or reduce their debt levels, or which simply have very little to no leeway in their financing capacity (see Focus on Egypt). Therefore, transition and adaptation investments will need to be largely covered by the private sector.

SIGNIFICANT FDI RECOVERY IN EMERGING COUNTRIES…

UNCTAD's World Investment Report 2023 paints a rather positive picture here. In China, foreign direct investment (FDI) has stood firm at 1% of GDP since 2018. If China is excluded, for emerging and developing countries within UNCTAD's amended scope[1] , FDI has recovered sharply, up 8% on average over 2020-2022 compared to the average for the previous three years. 2022 was a record year, with FDI standing at 2.4% of GDP, the highest level since 2012. Taking a regional-specific view, major Latin American countries have enjoyed a sizeable upswing in FDI over this period (3.8% of GDP, with a significant upturn in Brazil in 2021-2022), as well as major Central European countries and Turkey (3.2% of GDP). Foreign investment in the Middle East was also very strong, standing at 2.2% of GDP on average over 2020-2022 (compared to 1.3% over the previous three years). Africa continues to receive the lowest amount of FDI, but the picture is far from uniform here. On the one hand, non-hydrocarbon-producing countries have enjoyed stable levels of FDI (it even recovered in some countries in 2022, such as in Egypt and Morocco, where FDI respectively rose to 2.4% and 1.6% of GDP). On the other hand, hydrocarbon-producing countries faced stagnating FDI in 2022 due to repayments of loans linked to investments (in Angola since 2016 and in Nigeria in 2022) and investments nearly drying up altogether in Algeria.

It should be noted that industrialised Asian countries excluding China (Korea, Hong Kong, Singapore and Taiwan) have continued to attract the most FDI, in absolute terms, but also in relative terms. Collectively, FDI in the four countries accounted for almost 9% of GDP, which was slightly below the record level hit in 2015.

… SHOULD BE CONFIRMED BY GREENFIELD INVESTMENT PROJECTS

UNCTAD's report also takes the highly original approach of setting out information about greenfield investment projects[2] and financing for international projects (in numerical and value terms). Greenfield investment projects are broken down by country, helping readers to distinguish between developed and developing countries. As was the case with FDI, based on the UNCTAD sample and excluding China, greenfield projects amounted to the equivalent of 2.5% of GDP in 2022, thereby bringing them back to their pre-Covid levels. India boasts more projects than any other country, and the second highest in cumulative project valuation. However, if we look at this by major region, unlike with FDI, during 2022, the Middle East and non-hydrocarbon-producing African countries enjoyed the largest growth in the number and value of the projects announced. On the other hand, the broken-down figures for low-income countries suggest a gloomy outlook on the horizon.

Even more so than FDI, which cannot be compared to new investments as a whole (half at best), greenfield investment projects and their impact on economic growth should be taken with a pinch of salt, as announcements or pledges around these projects may not be followed up, particularly if financial costs threaten the viability of financing plans. In addition, for most projects, implementation times can be very long. It is the case in some Gulf countries (Qatar and Oman), and especially in Egypt where announced projects total a large USD 107 billion, which amounts to 23% of GDP.

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1 The distinction between developed and developing countries is not completely identical for UNCTAD, IMF and World Bank. UNCTAD views every EU country, as well as all Balkan countries and other European countries (Russia, Ukraine, Belarus and Moldova), as developed countries. On the other hand, Hong Kong, Singapore and Taiwan are classified as developing Asian countries. The figures in this Editorial have been recalculated in order to make it easier to compare these UNCTAD figures with the data from the IMF and World Bank. They do not include South Korea, Hong Kong, Singapore or Taiwan. On the other hand, they do include Central and Eastern European countries and Balkan countries that are EU members. We have also excluded Russia and Ukraine. The figures by region only take into account the major emerging countries (except for low-income countries which are part of UNCTAD).

2 Greenfield project data is from the Financial Times FDI Markets database. This source contains investment projects or joint ventures of all sizes that create jobs and obtain capital injections. These do not just cover cross-border investments, unlike FDI