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Global FDI flows fell substantially in 2017 on account of rising political and economic instability. FDI inflows to developed countries suffered the biggest annual loss. Saudi Arabia witnessed a wave of divestments, Iran benefitted from the lifting of sanctions while Turkey felt the ripples of a failed coup and currency depreciation. Meanwhile in Lebanon, FDI inflows registered a minor 1% uptick to \$2.62 billion with a strong concentration on real estate, especially acquisitions from the large Lebanese diaspora. However, Lebanon cannot escape some long-overdue structural reforms if it hopes to attract more FDIs.

"In 2017, Growth accelerated in about three quarters of countries—the highest share since 2010" according to the IMF. However, FDIs have not followed suit. According to UNCTAD's 2018 report, FDIs registered a double-digit drop of 23% in 2017, going from \$1.87 trillion in 2016 to \$1.43 trillion in 2017. In detail, the value of cross-border Mergers and Acquisitions fell by a yearly 22% and the value of announced Greenfield projects slid by a yearly 14%.

2017 held a great deal of uncertainty which in turn negatively impacted global FDI flows. Interestingly, the only component of FDIs to have increased on a global level is re-invested earnings. According to UNCTAD, re-invested earnings represented half of global FDIs and more than 50% of foreign affiliates' income was re-invested in 2017. This could be an indication of investors 'wait and see approach in the face of growing uncertainty vis-à-vis global political and economic developments. The Trump presidency in the world's largest economy has stirred the global trade and diplomacy agendas, Brexit raised questions about the future of UK but also that of the European Union, the Middle East remained mired in conflict and saw the economies of rich oil-exporters adapt to a supply glut that has kept oil prices low.

FDI inflows to developed countries saw the most significant decrease of 37% to reach \$712 billion in 2017. According to UNCTAD, the decline comes after inflows to developed economies surpassed a whopping \$1 trillion in 2015-2016 due to sharp upturns in cross-border M&As and corporate reconfigurations. Flows to the United States dropped from \$457 billion in 2016 to \$275 billion in 2017, while FDI flows into the UK also especially in the US where Multinational Enterprises were anticipating tax relief on repatriation of funds.

Regional Trends

According to UNCTAD, inflows to Saudi Arabia, previously the most attractive FDI hub dropped by four-fifths to \$1.4 billion in 2017 due to divestments and negative intracompany loans by foreign MNEs. According to UNCTAD, “Shell (United Kingdom–the Netherlands) sold its 50 per cent interest in the petrochemical joint venture company (SADAF) to its partner Saudi Basic Industries Corporation (SABIC) for \$820 million.” Therefore, the share of Saudi Arabia in total FDI inflows to West Asia has consistently declined from 53% in 2009 to 27% in 2015 and to 6% in 2017.

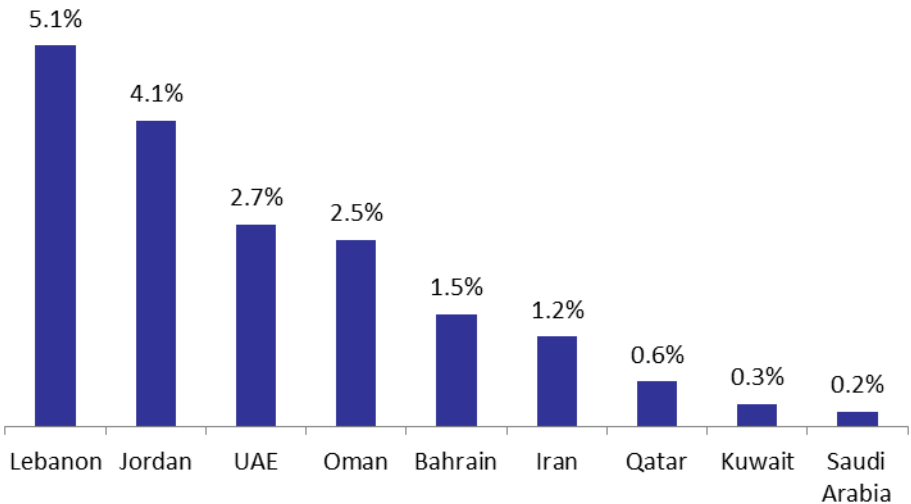
The FDI outlook also got grimmer for another popular investment hub: Turkey. While this region accounted for over 25% of total inflows to West Asia in the 2007-2015 period, political instability sparked in July 2016 has had a negative impact on the investment outlook. Turkey suffered credit downgrades (Fitch’s latest rating is at BB with a negative outlook), a failed coup d’état attempt against the government of President Erdogan and a sizeable devaluation in the Turkish lira. Accordingly, the value of FDI inflows dropped from \$12.94 billion in 2016 to \$10.86 billion in 2017.

Meanwhile, the lifting of sanctions revived foreign investment activity in Iran. After the removal of crippling sanctions on the Islamic Republic of Iran following the nuclear deal reached with the United States, FDI inflows to Iran grew from \$3.37 billion in 2016 to \$5.02 billion in 2017. According to UNCTAD, “in July 2017, the French Total, the Chinese CNPC and the National Iranian Oil Company signed a contract to develop phase 11 of South Pars, the world’s largest gas field. In August, Unit International (Turkey), Zarubezhneft (Russia) and the local Ghadir Investment Holdings agreed jointly to invest \$7 billion in three oil fields and a gas field. The Turkish company has also reached an agreement with the Iranian Government to build seven power plants in the country.” However, the future prospects might not be bright after Trump’s withdrawal from the nuclear deal brokered by his predecessor Barack Obama.

FDI Inflows to Lebanon

In Lebanon, international investments are indispensable for economic growth. According to IDAL’s latest FDI monitor, the contribution of FDI to Lebanon’s GDP is the highest in the Middle East, standing at 5.1%. The inflow of hard currency in Lebanon is essential for the stability of the monetary system and more specifically the maintenance of the Lebanese Pound’s peg to the dollar. Since 2011, Lebanon has suffered large deficits in its balance of payments as local and regional instabilities deterred investments.

FDI Contribution to GDP in Middle Eastern Countries



Source: IDAL FDI Monitor 2018

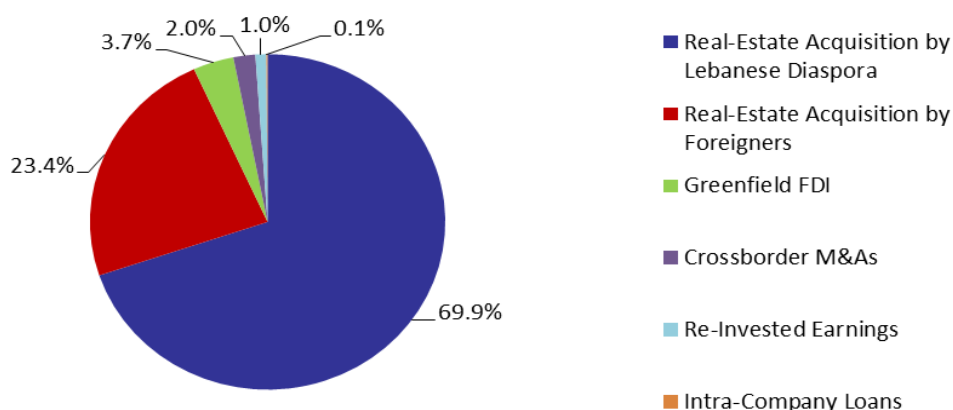
In 2017, Lebanon was the third largest recipient of FDI in the Middle East and accounted for 10% of FDI inflows to the West Asia region. In 2017, Lebanon attracted \$2.62 billion in FDI inflows, marginally up by 1% from 2016's levels. According to IDAL, 98.9% of FDI inflows to Lebanon in 2017 were equity investments while only 1% were re-invested earnings and 0.1% were intra-company loans.

	FDI 2016	FDI 2017	Y-o-Y Growth
Bahrain	243	519	114%
Iran	3,372	5,019	49%
Qatar	774	986	27%
Iraq	(6,256)	(5,032)	20%
Oman	1,680	1,867	11%
UAE	9,605	10,354	8%
Jordan	1,553	1,665	7%
Lebanon	2,610	2,628	1%
Kuwait	419	301	-28%
Saudi Arabia	7,453	1,421	-81%

Source: IDAL

The composition of Lebanon's FDIs shows a strong emphasis on real estate. According to IDAL's 2018 FDI monitor, the real estate sector grasped a crushing 93.3% of total FDIs to Lebanon with 69.9% being acquisitions made by the Lebanese diaspora and with 23.4% being acquisitions made by foreigners, mainly from the Middle East. The remaining shares are Greenfield FDI in non-real estate related sectors (3.7%), in cross border Mergers and Acquisitions (M&As), 2% in reinvested earnings and 1% in intra-company loans.

Types of FDI Investments in Lebanon – 2017

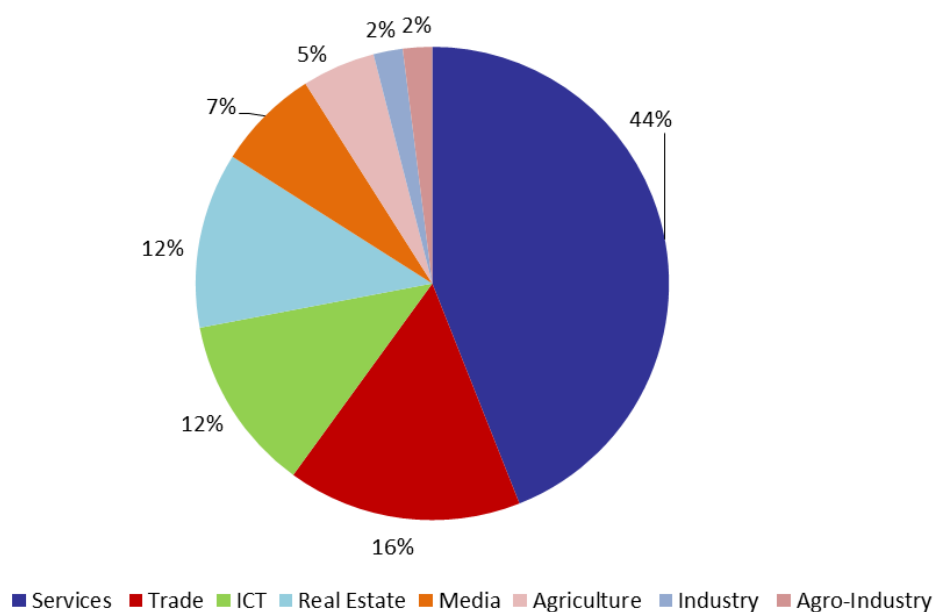


Source: IDAL FDI Monitor 2018

The dominance of real estate over all other types of FDI in Lebanon impedes potential growth. The bulk of the FDI inflows are made up of real estate acquisitions by the Lebanese diaspora due to the Central Bank's offer of subsidized loans for this group. However, the concentration of investments in real estate indicates that the FDI flows are not contributing to potential growth and to generating new job opportunities that Lebanon desperately needs.

Meanwhile, Greenfield FDIs which remain marginal in Lebanon are targeting sectors with high value added. According to IDAL, the services sector is the most attractive sector for Greenfield FDIs with "financial institutions and consulting firms dominating foreign investments". Moreover, the ICT sector is also gaining traction with projects in software development and data processing.

Distribution of Foreign Companies Affiliates by Sector of Activity - 2017



On a positive note, IDAL highlighted a "shift away from capital-intensive projects towards knowledge-intensive ones" among 45 new branches and affiliates of foreign companies being established in Lebanon. This trend is in harmony with the Central Bank's efforts to boost the knowledge economy through circular 331, which allows for commercial banks to make equity investments directly in startups or in venture capital funds.

Europe topped the list as source of Greenfield and non-Equity Forms FDI in Lebanon with a share of 31%. In details, the United Kingdom accounted for a share of 9% followed by a share of 7% for each France and Switzerland. European investments were centered around services, ICT, Consulting and Financial Advisory, according to IDAL.

The second biggest source of Greenfield and non-Equity Forms FDI in Lebanon were Middle Eastern countries. Middle Eastern countries accounted for 29% of total foreign investments in Lebanon. The top Middle Eastern country investing in Lebanon is the UAE with a share of 11%, followed by 2% each for the Kingdom of Saudi Arabia, Kuwait and Iraq. Middle Eastern investments on the other hand concentrated mostly on infrastructure, real estate developments and certain trade activities. Clearly the slump in oil prices negatively impacted investments from this region.

Meanwhile, 22% of Greenfield and non-equity forms FDIs originated from North America according to IDAL. The top investors were the United States of America with a share of 7% along with Canada and Panama with a share of 2% each. Targeted sectors were real estate, media and consulting.

2017 saw the enactment of important laws and actions needed as groundwork for future investments. According to IDAL's compilation, the Ministry of Industry has chosen five locations across Lebanon for the creation of 5 new industrial zones, the Council of Ministers provided the Tripoli Special Economic Zone with \$15 million for infrastructure while the additional \$30 million will be made up of bank loans. The PPP law was passed with more transparent clauses and processes which pave the way for a proper materialization of Lebanese Private-Public Partnerships. Moreover, the first budget in over a decade was passed; this move is important as it will allow for a sounder management of fiscal revenues and expenditures. However, structural reforms and political stability remain inevitable for Lebanon to be a main hub of FDIs in the region.

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