GCC: Trends in Foreign Direct Investment

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Foreign direct investment a boon to economic growth

Our series of notes on investment, published earlier in the year, highlighted the immense levels of spending required globally to maintain critical infrastructure and develop emerging industries, such as renewable energy. While individual governments, together with the domestic private sector, may cover a significant share of this spending, a portion will undoubtedly be financed by way of Foreign Direct Investment (FDI).

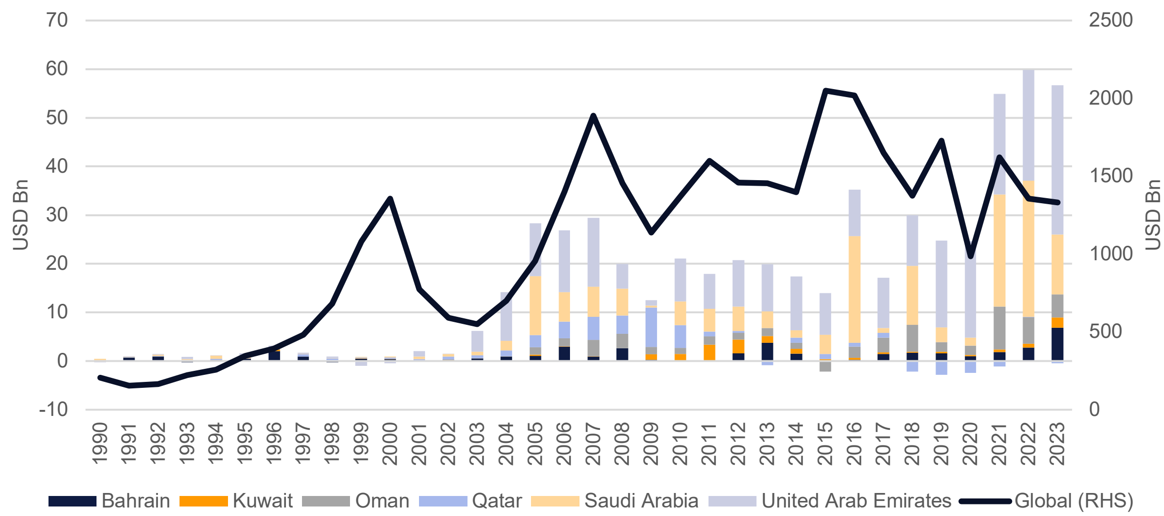
FDI- a foreign investor gaining a significant degree of influence in a business or asset - is generally regarded as a boon for economic growth. The host country is thought to benefit not only from the inflow of funds from abroad supplementing domestic capital, but also through potentially gaining new technologies, increasing human capital, contributing to corporate tax, improving management practices and unlocking higher productivity. There are also potential benefits for the source country, primarily through the opening of new markets to sell into or export from. Foreign investors gain controlling stakes in these businesses or assets in a variety of ways, including the purchase of an existing business (M&A activity) or building new assets (greenfield investment).

Real-world examples of the ability of FDI to kickstart the development of new sectors highlight why attracting FDI is a key component of several GCC country diversification plans, including those of the UAE and Saudia Arabia. For example, Morocco has seen an unprecedented rise in automotive exports since the development of manufacturing facilities, starting with the opening of a Renault factory in 2012. In addition to the manufacturing of vehicles, the car manufacturer’s presence attracted a variety of other companies who are part of the automotive supply chain, further developing the country’s nascent manufacturing sector. Similar success stories can be found in Mexico and Vietnam.

Global levels of aggregate FDI inflows have dropped off in recent years

UN Trade & Development (UNCTAD) estimates suggest that after rebounding strongly post-Covid, global FDI inflows fell 16% in 2022 and 2% in 2023, to reach USD 1.3trn. The UNCTAD World Investment Report 2024 highlights that the decline in headline global FDI inflows in 2023 was driven by weaker M&A and international project finance activity, likely dampened by tight financial conditions, increased regulatory scrutiny and rising geo-political tensions. In contrast, greenfield investment announcements (both value and volume) rose marginally in 2023. That increase was however concentrated in developing economies, where the value of greenfield projects rose 20% between 2022 and 2023. Interestingly, the bulk of the growth in developing country greenfield investment related to projects in the manufacturing sector, breaking a decade-long decline. Developed nations - in contrast - saw an 8% decline in the value of greenfield project announcements over the same period.

Total FDI net inflows (USD Bn)



Source: UNCTAD World Investment Report 2024, UNCTAD FDI database, Emirates NBD Research

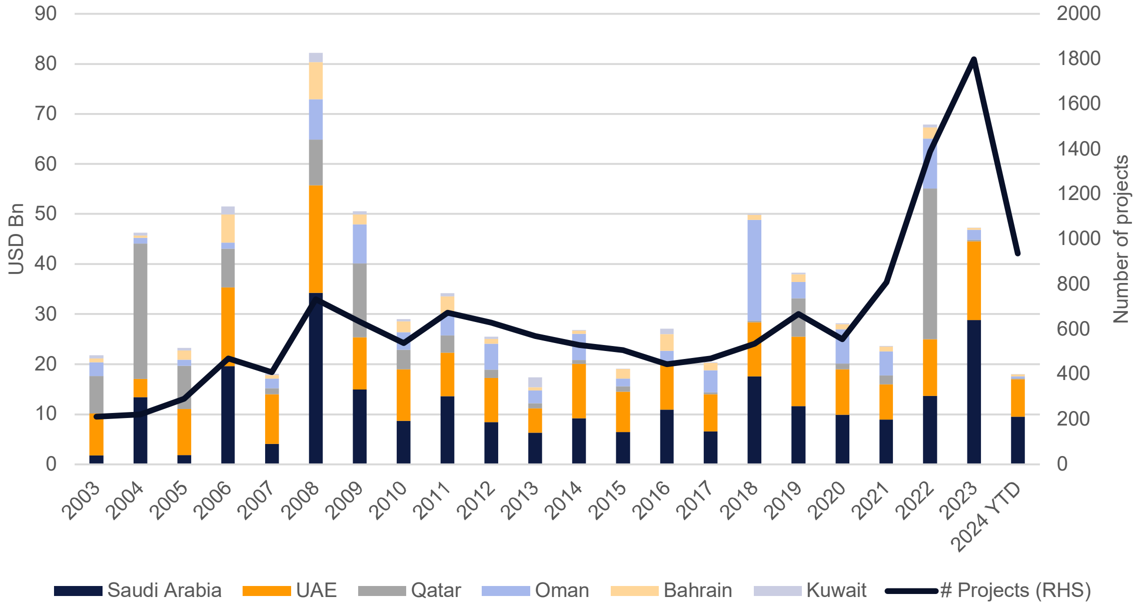
UNCTAD data suggests that the GCC experienced a 6% decline in total FDI inflows between 2022 and 2023, but within that there were large differences between member states, particularly the two largest recipients – the UAE and Saudi Arabia. KSA drove much of the decline in aggregate GCC FDI inflows in 2023, with a 56% fall, while the UAE bucked the trend of declining aggregate FDI inflows in 2023 with a 35% y/y increase. Bahrain and Kuwait also saw rises in total FDI inflows in 2023, relative to 2022, albeit from low starting levels.

Greenfield FDI in the GCC dominated by the UAE and KSA

Greenfield FDI, in particular, is likely to play a critical role in diversification plans in the GCC, as it introduces new activity in the host country. Using the fDiMarkets database, which tracks greenfield investment announcements, we can take a deeper look at how countries within the GCC have fared in terms of their ability to attract this type of investment.

The value of aggregate GCC greenfield investment fell back after the 2007/8 financial crisis and remained at those levels for much of the following decade, before ticking up sharply post-Covid. The post-Covid period has also seen a material rise in the number of greenfield projects in the bloc, rising to a record high of almost 1800 projects in 2023.

Value of GCC greenfield FDI inflow announcements



Source: fDiMarkets, Emirates NBD Research

Throughout much of the last two decades greenfield FDI projects awarded to countries in the GCC have predominantly been in either Saudi Arabia or the UAE, accounting for 34% and 29% of the value of announcements, respectively. While Qatar accounts for the next largest share of inward greenfield FDI in the GCC over the 2003 – July 2024 period, at 17%, investment tends to be far lumpier than in KSA or the UAE, with large scale projects occurring intermittently. It is also worth noting that the number of greenfield projects is materially higher in the UAE relative to the other GCC countries, with the UAE accounting for the vast majority (63%) of all projects over the same period.

The bulk of greenfield investments into the GCC have historically come from Western Europe, the Asia-Pacific region and North America. At various points in the last 20 years, other countries in the Middle East have also made a significant contribution to GCC greenfield FDI inflows.

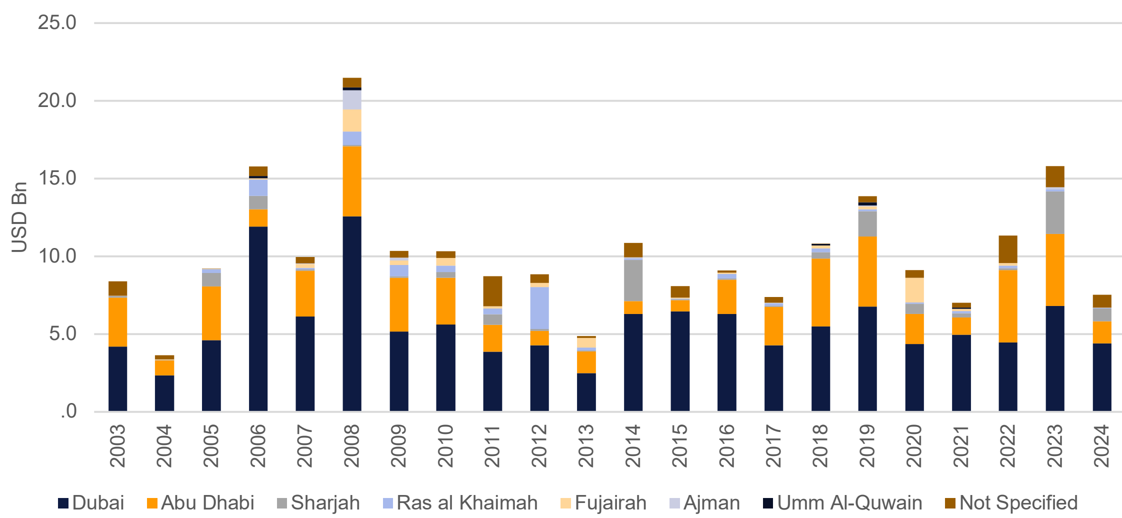
UAE has emerged as a popular destination for FDI

The UAE certainly appears to have gained in popularity as a destination for FDI in recent years. The UNCTAD World Investment Report 2024 suggests that the UAE has risen in global rankings of destinations for total FDI inflows, from 21st place in 2022 to 11th place, with a total value of inflows of around USD 31bn in 2023.

In addition, the UAE also ranked number two globally for the number of announced greenfield projects in 2023 (following the USA in the top spot), while the value of announced greenfield projects rose by just shy of 40% between 2022 and 2023, far exceeding the 20% annual growth seen in aggregate for developing nations. A recent report also points to the UAE ranking first in the fDi Intelligence Greenfield FDI performance index, by virtue of attracting the most greenfield FDI, relative to GDP, in 2023.

The popularity of the UAE as a destination for FDI is likely to have received a boost in recent periods from reforms including a law allowing 100% foreign ownership in 2021. In addition, continued development of trade relations, through the negotiation of a host of Comprehensive Economic Partnership Agreements (CEPAs), together with a well-developed logistics infrastructure, is likely to appeal to multinational enterprises looking for hubs from which to manufacture and export goods.

Value of UAE FDI greenfield announcements, by Emirate



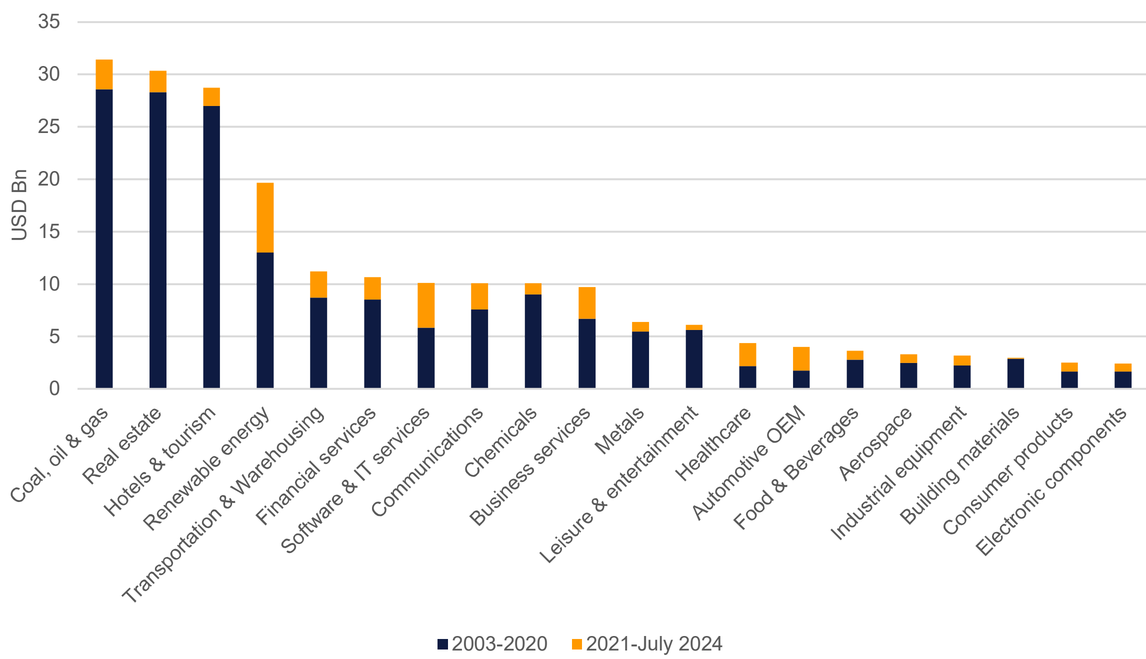
Source: fDiMarkets, Emirates NBD Research

Within the UAE, Dubai has historically been the dominant destination for greenfield FDI, accounting for almost 56% of announced projects over the course of the last two decades, followed by Abu Dhabi which accounts for 25%. The top source markets for greenfield investments into the UAE remain the US, India and the United Kingdom, but there have also been significant investments from France, Germany and China in more recent years.

Greenfield FDI into the UAE has historically been dominated by inflows to the coal, oil and gas; real estate; and hotels and tourism sectors, with those three sectors accounting for almost 41% of the value of announced projects since 2003. There has however been a shift in more recent years, with the top three sectors for greenfield FDI in the years 2021 – July 2024 swapping to renewable energy, software and IT, and business services. Large renewable energy project announcements have included plans to construct a green hydrogen plant in KEZAD, worth USD 1bn, by Korea Electric Power Corporation, as well as several solar power projects financed by companies in Germany, France and Israel.

There have also been increasing levels of greenfield FDI in communications and automotive OEMs. Specifically, there have been a variety of electric vehicle companies investing in manufacturing facilities. This shift away from traditional sectors may suggest that diversification efforts are increasingly beginning to bear fruit.

Value of UAE FDI greenfield announcements, by top 20 sectors



Source: fDiMarkets, Emirates NBD Research

Outlook for KSA FDI improving

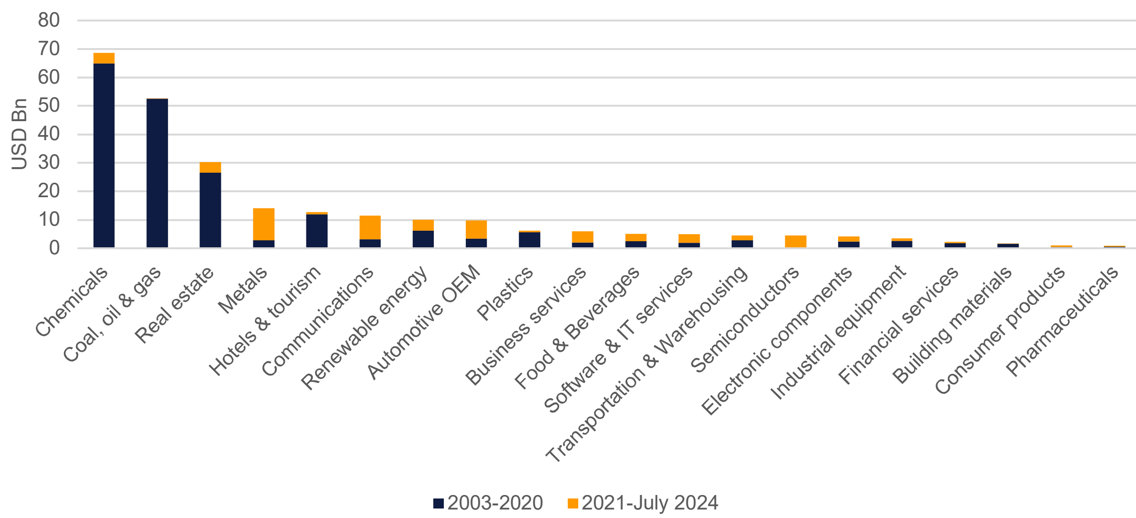
The Kingdom of Saudi Arabia has set an explicit target for FDI in its Vision 2030 plans, hoping to attract USD 100bn annually by 2030. Data released by the Saudi General Authority for Statistics show that in the first half of 2024, the Kingdom attracted just USD 9.8bn. With a target of USD 29bn worth of FDI inflows this year, this means that Saudi would need to see a sizeable inflow in the second half of the year.

Scaling up to achieve the required levels of inflows remains a significant challenge but there have been a series of reforms which should facilitate growth in FDI. These include allowing 100% foreign ownership of companies, a bankruptcy law, and more recently a new law unifying the treatment of foreign and local firms to ensure a level playing field. There is also arguably slightly better news for Saudi FDI when looking at greenfield FDI announcements, with the fDiMarkets database pointing to a material rise in the number of projects between 2022 and 2023. There have also been 187 projects announced in the first half of 2024, which if repeated in the remainer of the year would take the number of projects to a new record high.

Between 2003 and July 2024, roughly 42% of the value of greenfield FDI projects were located in the Eastern Province, predominantly related to mining and quarrying and petrochemical manufacturing activity. Increasingly however, a growing share are located in Riyadh, with almost 22% of the value of greenfield projects announced between 2021 and July 2024 now being in the capital city.

Traditionally major sources of greenfield FDI projects into Saudi have included the United States, China, France, and the UAE. China in particular made over USD 16.7bn worth of greenfield announcements in 2023, while the value of announcements from India have also risen in more recent periods.

Value of KSA greenfield FDI inflow announcements, by top 20 sectors



Source: fDiMarkets, Emirates NBD Research

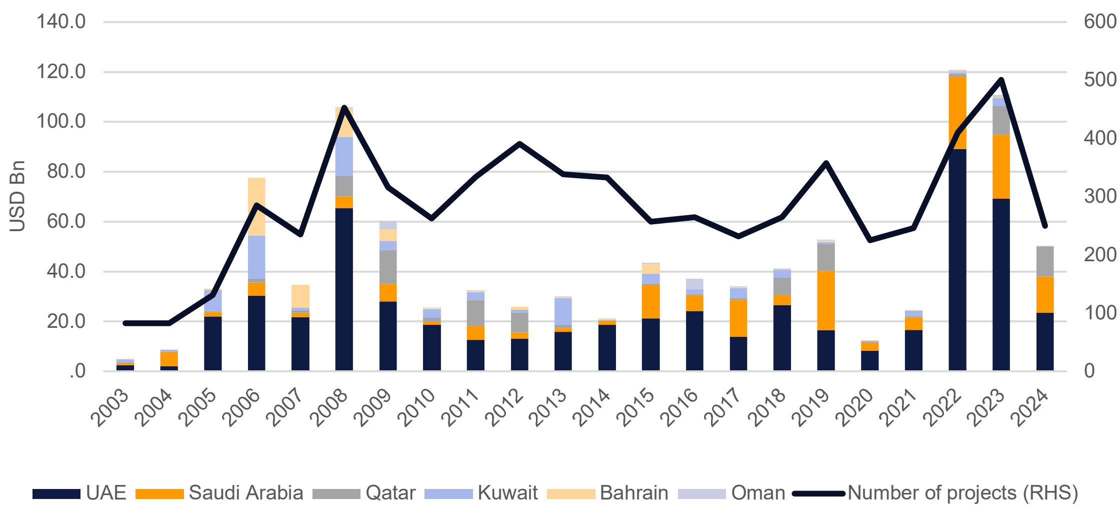
As might be expected from a hydrocarbon rich country, the sectors that have historically received the greatest share of greenfield FDI are chemicals and coal, oil and gas. Similar to the trend seen in the UAE in recent years there are, however, signs of diversification. Between 2021 and July 2024, the top sectors for greenfield FDI (by value) were metals, communications and automotive OEMs. Some of the big projects in these sectors include a USD 5.6bn investment in electric vehicle manufacturing from a Chinese automotive company, a USD 4.3bn Chinese investment in semiconductor design and manufacturing, a USD 4bn investment from a Chinese company in metal manufacturing, and a USD 5.3bn investment from Amazon Web Services into data and innovation centres.

GCC FDI outflows rose sharply post-Covid

The GCC is not just a destination for FDI inflows but also a sizeable source of FDI outflows, with both the UAE and KSA in the top 20 source countries for total FDI outflows in 2022 and 2023. According to UNCTAD, the UAE had FDI outflows worth USD 22bn in 2023, slightly lower than the USD 25bn recorded in 2022, leaving the country in 16th position (up from 17th the year prior). Saudi fell back to 18th position in the global ranking from 16th, with USD 16bn worth of FDI outflows.

Looking, more specifically, at greenfield investment outflows from GCC countries it is clear that the post-Covid period saw a material rise in project announcements. Those projects are, however, dominated by the UAE, which accounts for over 56% of the value of all announced greenfield FDI project outflows since 2003. Saudi Arabia and Oman are the next two largest sources of greenfield project announcements.

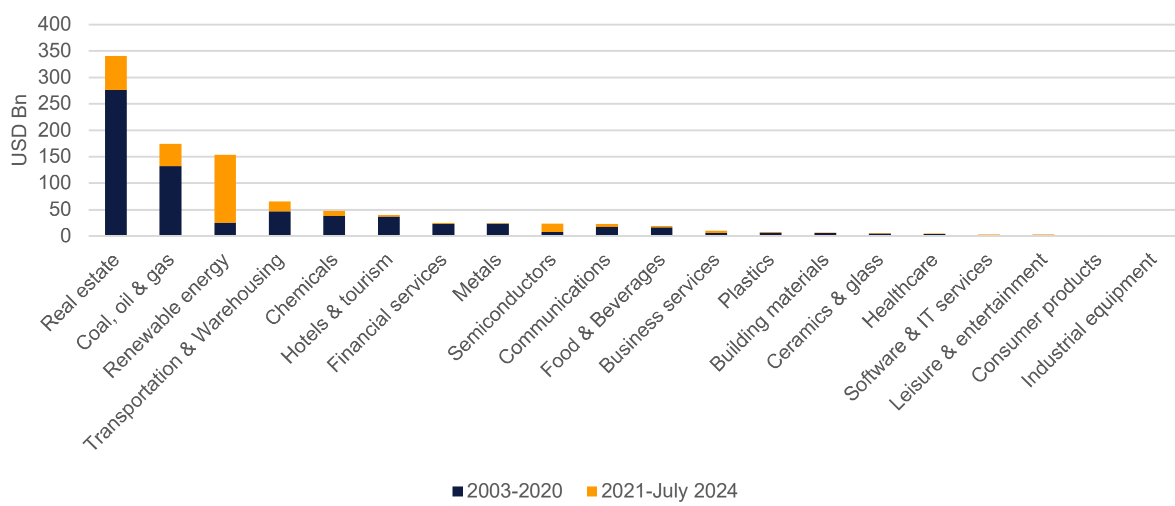
Value of GCC greenfield FDI outflow announcements



Source: fDiMarkets, Emirates NBD Research

Historically, Egypt has been the primary recipient of GCC greenfield FDI outflows, with significant investment in renewables in recent periods, including a USD 10bn wind power project financed by Mubadala. China, India and the United States are also traditional destinations for GCC funds. There is also a fair amount of intra-GCC outflows, accounting for 13% of GCC outflows from 2003-July 2024.

GCC greenfield FDI outflows, by sector



Source: fDiMarkets, Emirates NBD Research

GCC greenfield outflows have overwhelmingly gone into real estate projects, followed by coal, oil and gas. More recently, renewable energy projects have seen a material rise in importance, with Mubadala participating in a USD 34bn investment in a green hydrogen plant in Mauritania.

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