

Outward FDI-Trends

In the context of the recent investment intentions expressed by several countries to the US, it is important to look at how global outward FDI flows have fared historically. It is to be noted that majority of these countries came up with different quantum of investment pledged to keep a balanced trade relation with the US afloat and to secure a moderate tariff rate. In this note, we have specifically looked at countries which have made huge outward FDI commitment to the US. The latter section also focusses on the evolution of outward FDI of India. From the data perspective, it holds crucial, as these pledges are construed as announcements/investment intentions and might not fully materialize. The past trend shows the potential of the same.

Details of investment announcements:

A host of countries have pledged to invest significant amount in the US to deepen its trade and economic ties. In most countries, the amount is expected to span over a period of next three years or the next decade. Also since these are investment intentions, numbers should be read with caution as the entire amount might not be translated into actual FDI flows. Table 1 below shows the country-wise details. Amongst them, the amount pledged by UAE is the highest followed by Qatar and Japan. For most of the countries, investment is expected to be in sectors such as US energy, defence, aviation, auto and technology.

Table 1: Details of recent investment pledges offered to US

Countries	Amount, US\$	Sectors in Focus
EU	750bn in next three years	US energy
Japan	1tn	Auto, energy infrastructure, semiconductor manufacturing and research, critical minerals, pharma and commercial and defence shipbuilding
United Arab Emirates (UAE)	1.4tn over next decade	AI infrastructure, semiconductors, energy, and manufacturing
Qatar	1.2tn	As part of economic exchanges with sectors such as aviation, critical energy infrastructure and defence in focus
Saudi Arabia	600bn in next four years	AI data centres, energy and data infrastructure
South Korea	450bn	Energy products and shipbuilding
Bahrain	17bn	Aviation and defence

Source: White House factsheet, Bank of Baroda Research

Evolution of outward FDI

To get a broad perspective of the numbers reflected in Table 1 we look at how the trajectory of outward FDI flows have emerged in the past decade. A closer look at Fig 1 reveals that outward FDI flows have been stable in the past three years. However, what comes out strikingly in this data is that the highs of CY15 and CY21 at US\$ 1.9tn have not been reached for outward FDI flows. Thus, the level of flows albeit stable has been at a far moderate range. This can be partly attributable to slowdown in

global growth from Covid induced shock, geopolitical conflict and unsynchronized monetary policy response of global central banks.

Fig 2 shows the CAGR across different time periods which reflects a meagre range of flows. Only some momentum is visible for the 5-year CAGR data of outward FDI flows.

Figure 1: Outward Global FDI has been stable

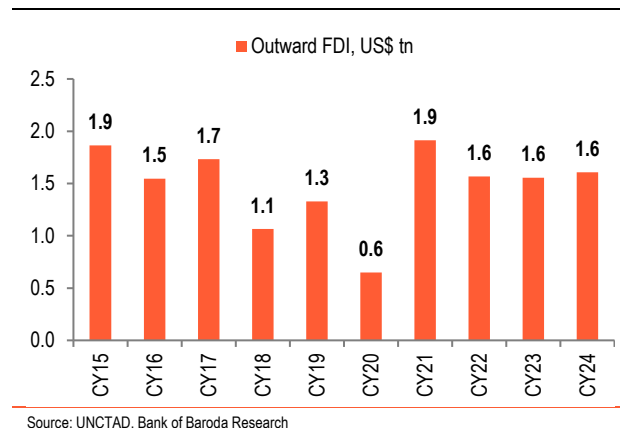
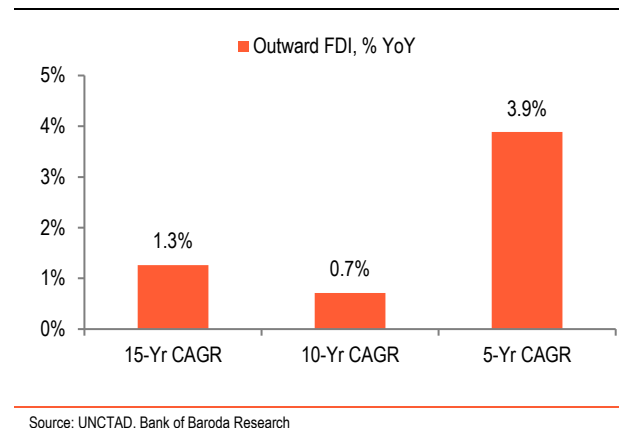


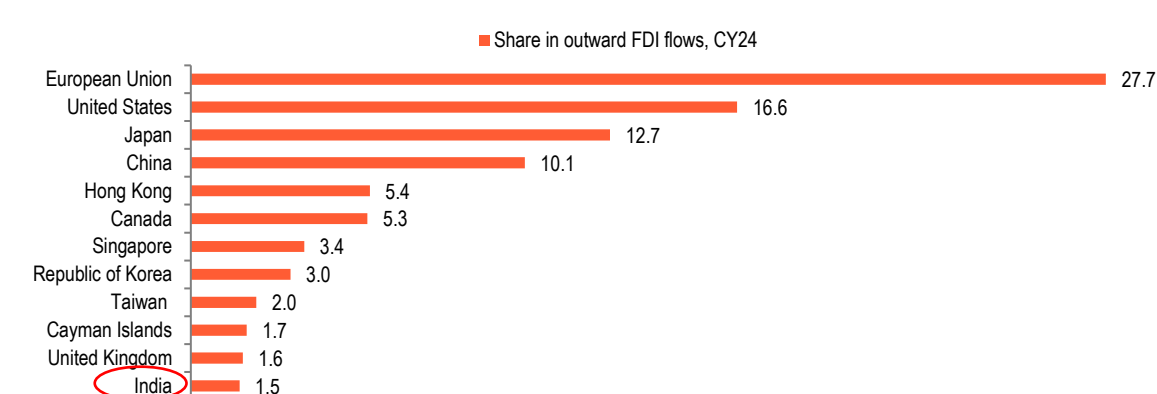
Figure 2: The 5-year CAGR has witnessed some momentum



Country wise share in outward FDI flows

The flows are predominantly concentrated towards EU, US, Japan, China and Hong Kong, comprising of more than 70% of overall outward flows. If we see the 5-Yr CAGR country-wise, US, Taiwan and UK, has witnessed a higher growth rate than majority of other countries. The 5-Yr CAGR for US is in fact considerably higher. On the other hand, EU albeit a higher share has seen a drop in flows on a 5-year CAGR basis. So is case for Singapore and Japan. India has a share of 1.5% in outward FDI flows. However, on a 5-Yr CAGR basis, flows have increased by 12.6%, higher compared to major peers. The details of 5-Yr CAGR are given in the Appendix Table 1.

Figure 3: EU, US and Japan occupy significant share of outward FDI flows



Cross country glimpse:

Fig 3 gives a holistic picture of the concentration of outward FDI in countries. However, it is difficult to get a cross-country angle i.e. the preferred destination for outward FDI with respect to each country. The metadata for each country is not available from a single source. Hence, we focus on certain countries which managed to secure a fair trade deal with the US in recent times and which have pledged higher investment in the US in the coming years.

For majority of the countries such as Japan, Korea and EU, the preferred choice for outward FDI flows is US. For Japan it is considerably higher at 43%. China is towards the lower end of the spectrum for outward FDI flows of Japan, Korea and UK. Only for EU, flows to China is higher. The share of outward FDI flow to India for these countries is also lower. What comes out clearly from the destination data of outward FDI flows for these specific countries, is that US already dominate the outward FDI space. With the ongoing announcements of investment pledges, the share of other countries might even turn out to be lower.

Figure 4: US, UK and Singapore occupy a significant share in outward FDI flows of Japan

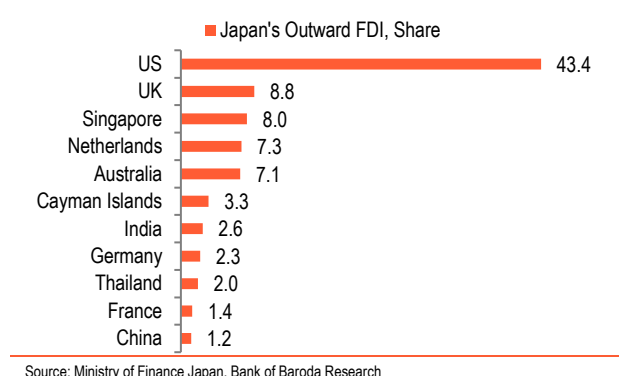


Figure 5: For Korea as well, major outward FDI goes to the US

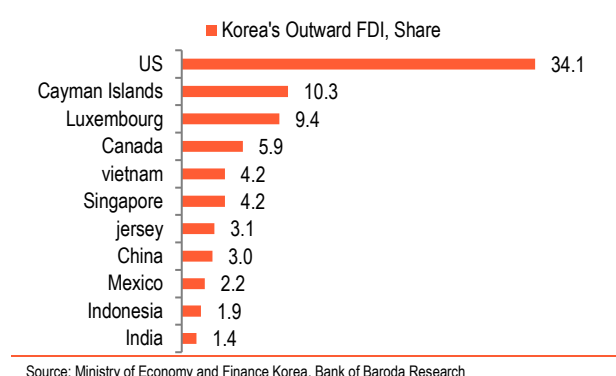


Figure 6: Even for EU, majority of the flows directed towards US

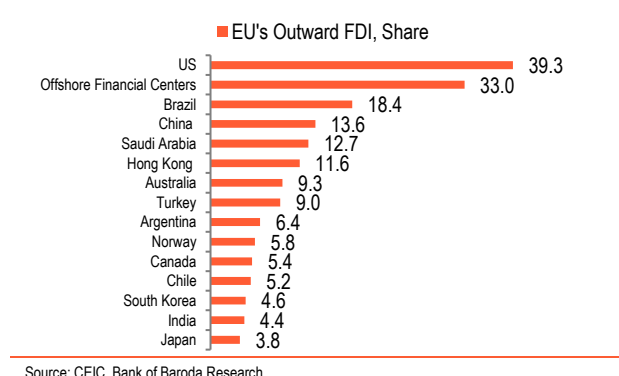
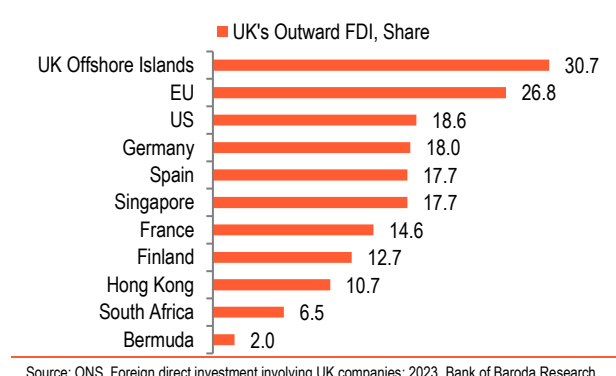


Figure 7: For UK, it is both towards EU and US



Outward FDI Flows: India

India's outward FDI flows have increased at a sharp pace in the past 5 years. It recorded a 5-Yr CAGR of 12.6%, which is higher than the world 5-Yr CAGR of 3.9%. This may be attributable to more efforts

towards integrating in global investment cycle to tap newer markets. In CY24, it reached a record high level of US\$ 23.8bn. The country-wise profile gives a closer picture about direction of India's outward FDI flow. **Fig 9** shows that here also US comprises of one of the top three countries only after Singapore. However, the outward FDI profile for India is still considerably diversified.

Figure 8: India's Outward FDI has picked pace

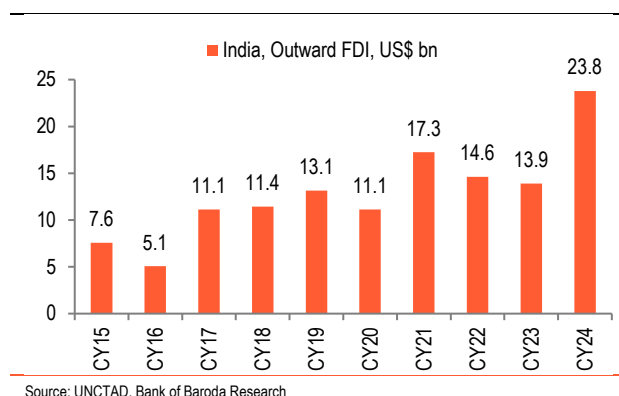


Figure 9: Singapore, US and UAE occupy the major share in India's outward FDI profile



Promises made: Gap between announcements and actual investments

Table 2 shows that there could be a gap between investment intentions and actual investment amount. Two points need to be made here. First we have annualized the pledged amount as different countries have announced investment intentions in the USA which are going to spread for a certain number of years. For some countries such as Japan and South Korea, the number of years has not been mentioned. We have taken the base case of 3 years which have been mentioned for sectors such as defense and auto. The second is the actual investment from these countries in USA in 2024. This is calculated by using the share of US in outward FDI of these countries. The expected gap in the last column is calculated using the base data for outward FDI in CY24. However, we get a clearer picture that the gap between actual and investment intentions is going to be considerable.

The expected gap is quite revealing because it does mean that these countries will have to invest extremely high amounts on an annual basis in the coming years in USA which is quite challenging given that growth conditions across the world are at best stable.

Table 2: Investment Playbook

Countries	Pledge amount, US\$ bn	Annual amount as per pledge, US\$ bn	Actual Amount of outward FDI, in US\$ bn- CY24	Amount routed to US*	Expected Gap, US\$ bn
European Union	750	250	446	175	-75
Japan	1000	333	204	89	-245
United Arab Emirates	1400	140	23	1	-139
Saudi Arabia	600	150	22	1	-149
Republic of Korea	450	150	49	17	-133

Source: Ministry of Finance Japan, Ministry of Economy and Finance Korea, CEIC, Bank of Baroda Research, Note: For Japan and Korea we have assumed the time span of pledge benchmarked to defense and auto sectors respectively as no formal time frame have been mentioned, * calculated using US share in outward FDI for individual countries, #, Gap between actual investment and pledged amount

Concluding remarks

The note gives a broad perspective of global investment flows looked at from the angle of outward FDI flows. The direction and concentration of outward FDI becomes crucial at this juncture when a lot of countries have made significant investment pledges to the US.

1. Global outward FDI flows have remained stable.
2. Majority of the countries whose shares in global outward FDI are high such as US, China and Hong Kong have witnessed considerable pick up on 5-Yr CAGR terms.
3. Countries such as EU and Japan which have made fallen.
4. Thus, investment intentions should be read with caution.
5. A detailed breakdown of outward FDI of countries such as Japan, Korea, EU and UK reveal that in terms of the destination of flows, US does occupy a dominant place.
6. Hence with recent announcement of higher pledges, further increased share of US may leave a smaller pie for other countries.
7. India's outward FDI flows has reached its record high level in CY24. On 5-Yr CAGR basis, India's outward FDI has increased by 12.6% compared to global 5-Yr CAGR of 3.9%, albeit its share still lower at 1.5%.
8. In terms of destination country for outward FDI of India, it is more diversified than majority of other countries. Hence it doesn't pose much immediate risk under the volatile global policy space.
9. In view of the trajectory of outward FDI and its concentration, it might be that the entire pledged amount for these countries may face some shortfall. However, the higher share of US will impact the share of other countries having smaller share.

Annexure 1: Country-wise outward FDI flows

Countries	Share in outward FDI flows, CY24	Outward FDI flows in CY24, US\$ bn	5-Yr CAGR
European Union	27.7	446.1	-4.1
United States	16.6	266.4	50.0
Japan	12.7	204.4	-2.6
China	10.1	162.8	3.5
Hong Kong	5.4	87.2	10.4
Canada	5.3	86.0	2.1
Singapore	3.4	55.3	-4.0
Republic of Korea	3.0	48.6	6.6
Taiwan	2.0	32.0	22.1
Cayman Islands	1.7	27.2	-2.9
United Kingdom	1.6	25.3	16.6
India	1.5	23.8	12.6
United Arab Emirates	1.5	23.4	2.0
Saudi Arabia	1.4	22.0	8.7
Australia	0.9	14.1	10.0
Brazil	0.8	12.4	-8.2
Russia	0.7	11.7	-11.9
Israel	0.7	10.5	3.8

Kuwait	0.6	10.3	-230.8
Indonesia	0.6	9.7	23.7
Total	-	-	3.9

Source: AceEquity, Bank of Baroda Research

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