



EXPERTS IN CORPORATE EXPANSION

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The State of FDI

- The Global Outlook
- Changing FDI Drivers
- FDI in Alberta
- The North American Picture
- Takeaways



1 | FDI – The Global Outlook

The Changing Face of FDI



Global Context

Last several years characterized by uncertainty and instability

Election results in developed economies

Upheaval in emerging economies

Process of “deglobalization”

Challenges that will require greater global attention and action:

- 1.Revitalizing global economic growth
- 2.Fostering greater solidarity and long-term thinking in market capitalism
- 3.Mitigating the risks and exploiting the opportunities of the 4th Industrial Revolution
- 4.Strengthening the systems of global cooperation

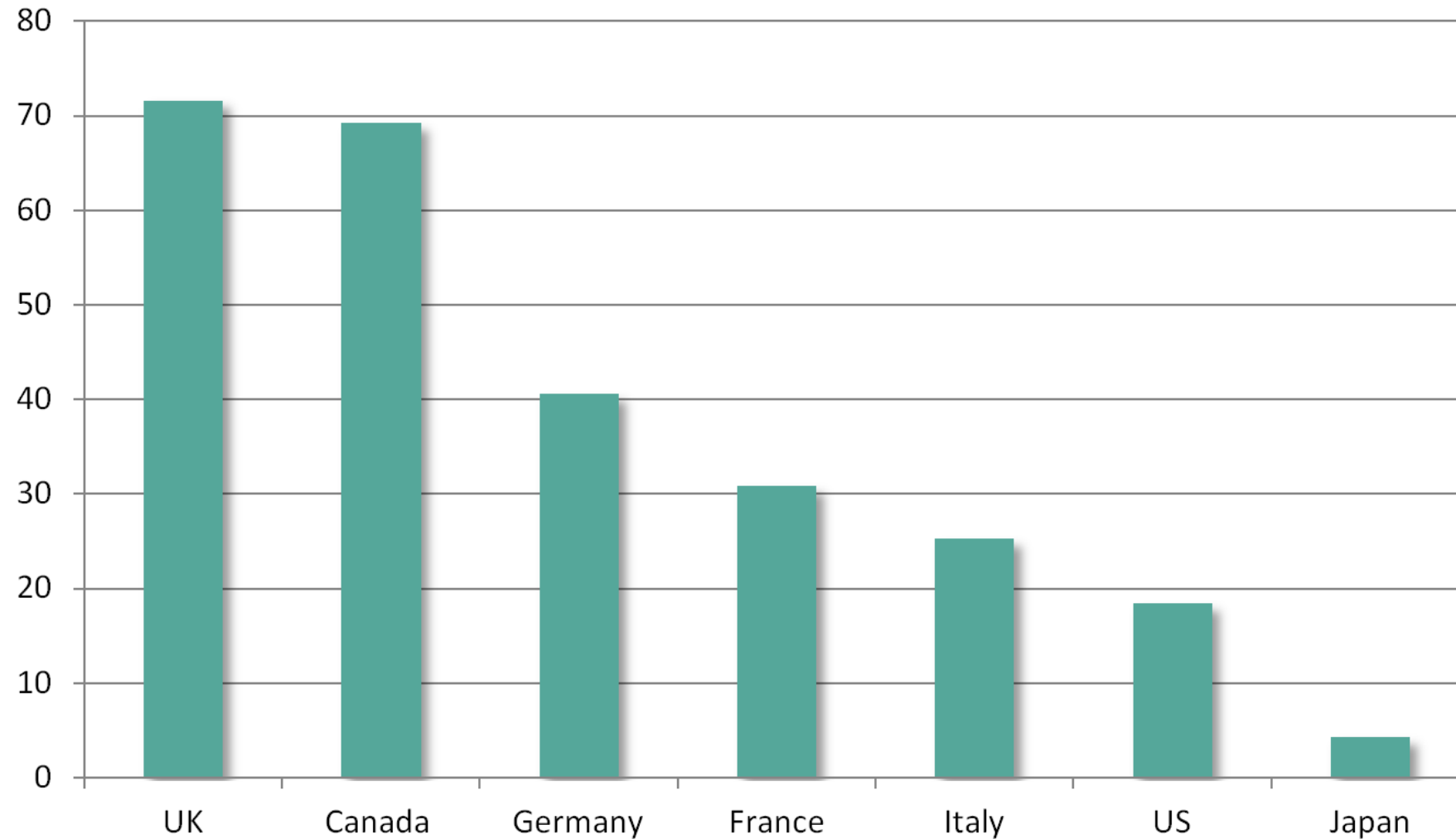


Why Care

- Foreign direct investment benefits the global economy
- Capital goes to the businesses with the best growth prospects, anywhere in the world
- FDI diversifies risk
- FDI allows for knowledge transfer in the global marketplace
- Generally higher wages
- Tends to be “stickier” (longer decision timeline and longer commitment)

Why Care

Stock of FDI as % of GDP in the G7 (2015)



Source: EIU

Approximately 68% of Canadian GDP has an FDI component
(Less than 20% of US GDP does)



2 | Changing FDI Drivers

Top-5 Global Risks - Likelihood

2009	2010	2011	2012	2013	2014	2015	2016	2017
Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration	Extreme weather events
Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events	Large-scale involuntary migration
Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation	Major natural disasters
Global governance gaps	Fiscal crises	Biodiversity loss	Cyber attacks	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences	Large-scale terrorist attacks
Retrenchment from globalization (emerging)	Global governance gaps	Climate change	Water supply crises	Mismanagement of population ageing	Cyber attacks	High structural unemployment or underemployment	Major natural catastrophes	Massive incident of data fraud/theft

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

Top-5 Global Risks - Impact

2009	2010	2011	2012	2013	2014	2015	2016	2017
Asset price collapse	Asset price collapse	Fiscal crises	Major systemic financial failure	Major systemic financial failure	Fiscal crises	Water crises	Failure of climate-change mitigation and adaptation	Weapons of mass destruction
Retrenchment from globalization (developed)	Retrenchment from globalization (developed)	Climate change	Water supply crises	Water supply crises	Climate change	Rapid and massive spread of infectious diseases	Weapons of mass destruction	Extreme weather events
Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food shortage crises	Chronic fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises
Chronic disease	Chronic disease	Asset price collapse	Chronic fiscal imbalances	Diffusion of weapons of mass destruction	Unemployment and underemployment	Interstate conflict with regional consequences	Large-scale involuntary migration	Major natural disasters
Fiscal crises	Fiscal crises	Extreme energy price volatility	Extreme volatility in energy and agriculture prices	Failure of climate-change mitigation and adaptation	Critical information infrastructure breakdown	Failure of climate-change mitigation and adaptation	Severe energy price shock	Failure of climate-change mitigation and adaptation

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- FDI policy changes may create opportunities within US for domestic producers
- Protections from foreign government subsidy and cheap labor
- Protections for US labor from competition both from foreign producers and through limited expansion of labor supply (immigration)
- Tax and regulatory relaxations?



- Possible increase in costs for consumers
- Increase in punitive tariffs for exported goods
- Increased difficulties in cross-border partnerships
- Concerns with regards to attracting/retaining international talent
- What the *#*&^ is actually going on?

Why Care?: Changing FDI Motives

FDI Motive	2007	2017	Change
Proximity to markets or customers	43.3%	39.5%	-3.8%
Domestic market growth potential	50.9%	32.8%	-18.1%
Skilled workforce availability	13.1%	20.7%	+7.6%
Regulations or business climate	9.9%	17.4%	+7.5%
Technology or innovation	1.6%	10.0%	+8.4%
Infrastructure and logistics	9.3%	9.4%	+0.1%
Industry cluster	5.7%	6.5%	+0.8%
Attractiveness and quality of life	3.1%	4.0%	+0.9%
IPA or government support	5.3%	3.6%	-1.7%
Universities or researchers	2.0%	3.6%	+1.6%
Presence of Suppliers or JV Partners	2.9%	2.2%	-0.7%
Lower costs	5.4%	2.1%	-3.3%
Facilities site or real estate	2.0%	1.7%	-0.3%
ICT infrastructure	1.0%	1.5%	+0.5%
Language Skills	1.3%	1.3%	+0.0%

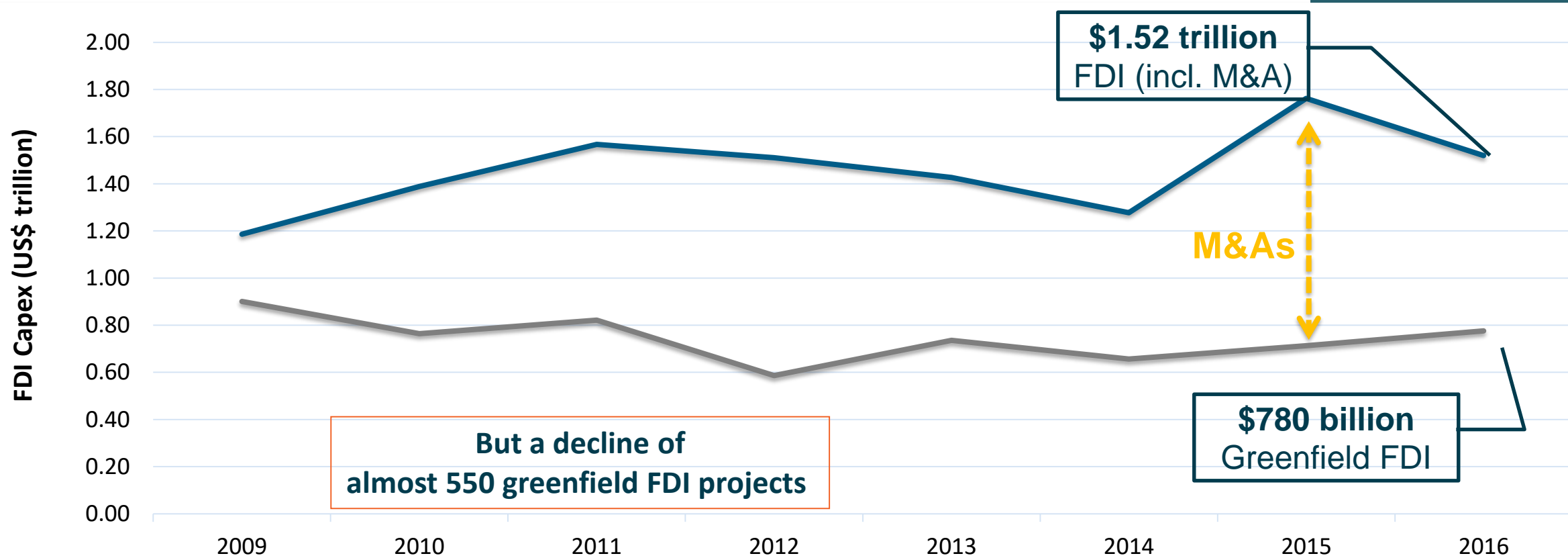
Source: fDi Markets from FT Ltd. Date range: 2007 & 2017

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Global FDI Flows 2009-2016



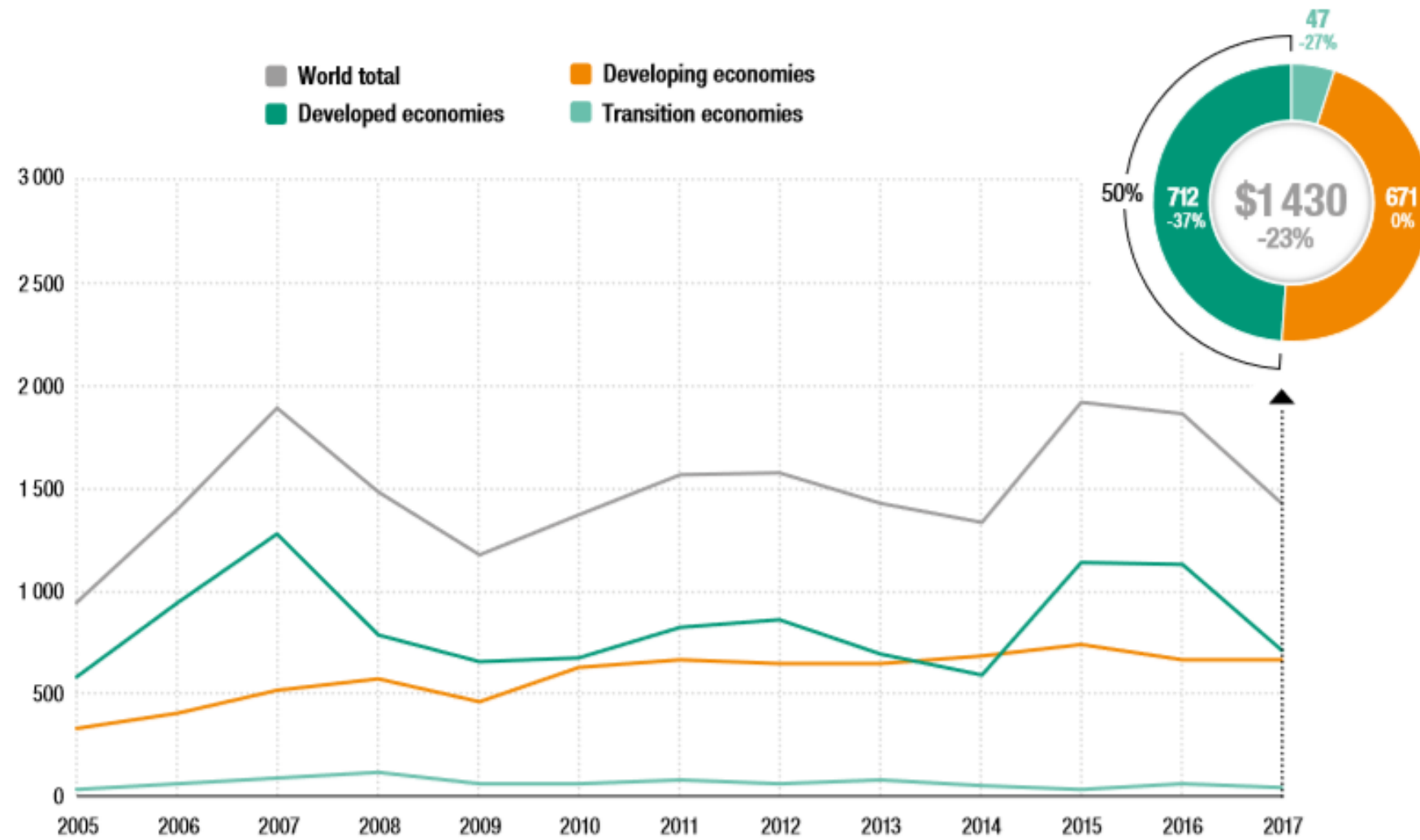
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. and UNCTAD, World Investment Report 2016 Date range: 2009-2016

Largest part of the growth in FDI was due to M&As, corporate reconfigurations & handful of very large projects.

These transactions often involve large movements in the balance of payments but little change in actual operations.

FDI Landscape

Figure I.1. | FDI inflows, global and by group of economies, 2005–2017 (Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Source: UNCTAD

FDI Landscape

Global foreign direct investment (FDI) flows fell by 23 per cent in 2017, to \$1.43 trillion from a revised \$1.87 trillion in 2016.

The value of announced greenfield investment – an indicator of future trends – also fell by 14 per cent, to \$720 billion.

FDI flows fell sharply in developed economies and economies in transition while those to developing economies remained stable. As a result, developing economies accounted for a growing share of global FDI inflows in 2017, absorbing 47 per cent of the total, compared with 36 per cent in 2016.

FDI Landscape

This negative cycle is caused by several factors.

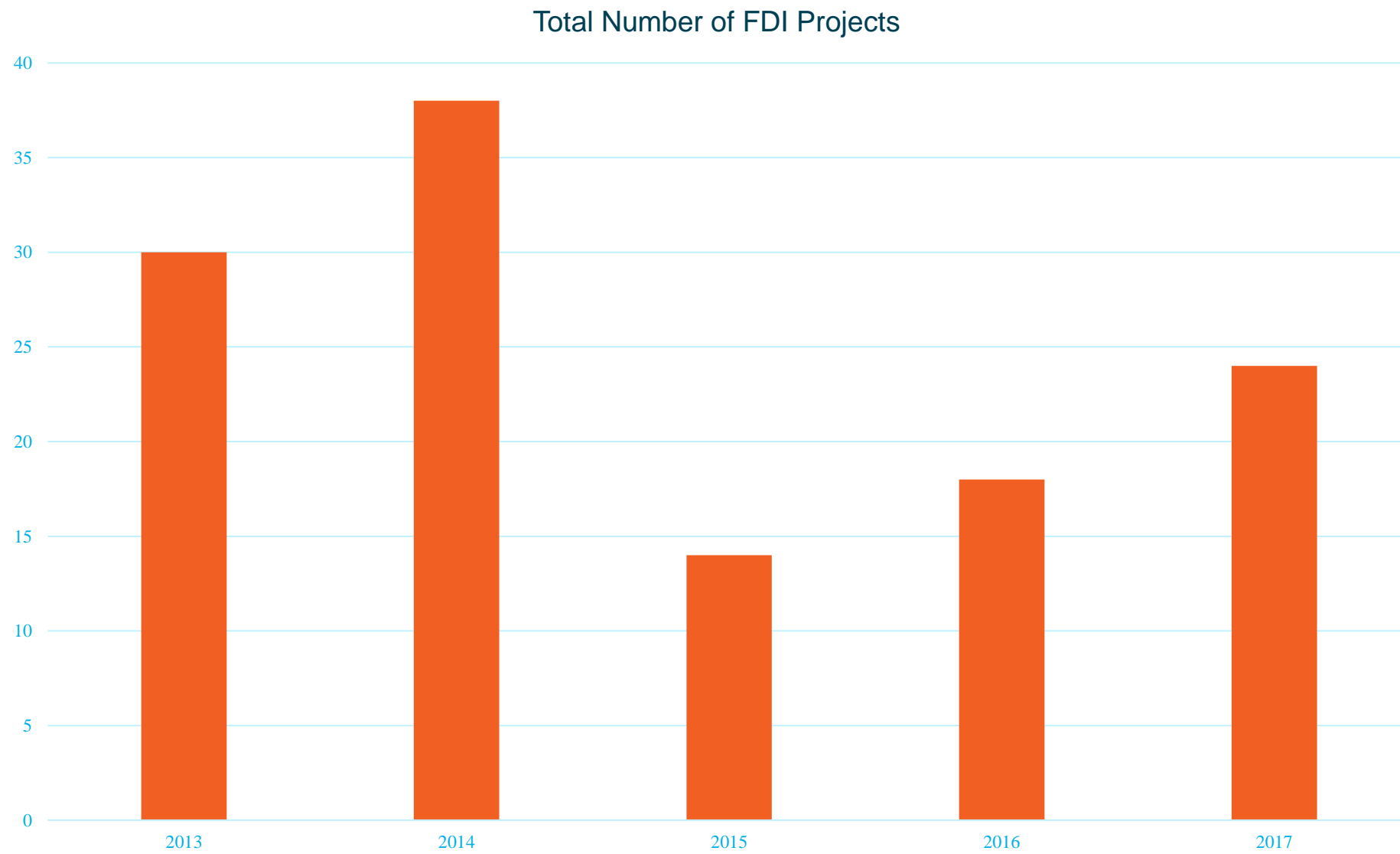
One factor is asset-light forms of overseas operations, which are causing a structural shift in FDI patterns.

Another major factor is a significant decline in rates of return on FDI over the past five years. In 2017, the global rate of return on inward FDI was down to 6.7 per cent, extending the steady decline recorded over the preceding five years.



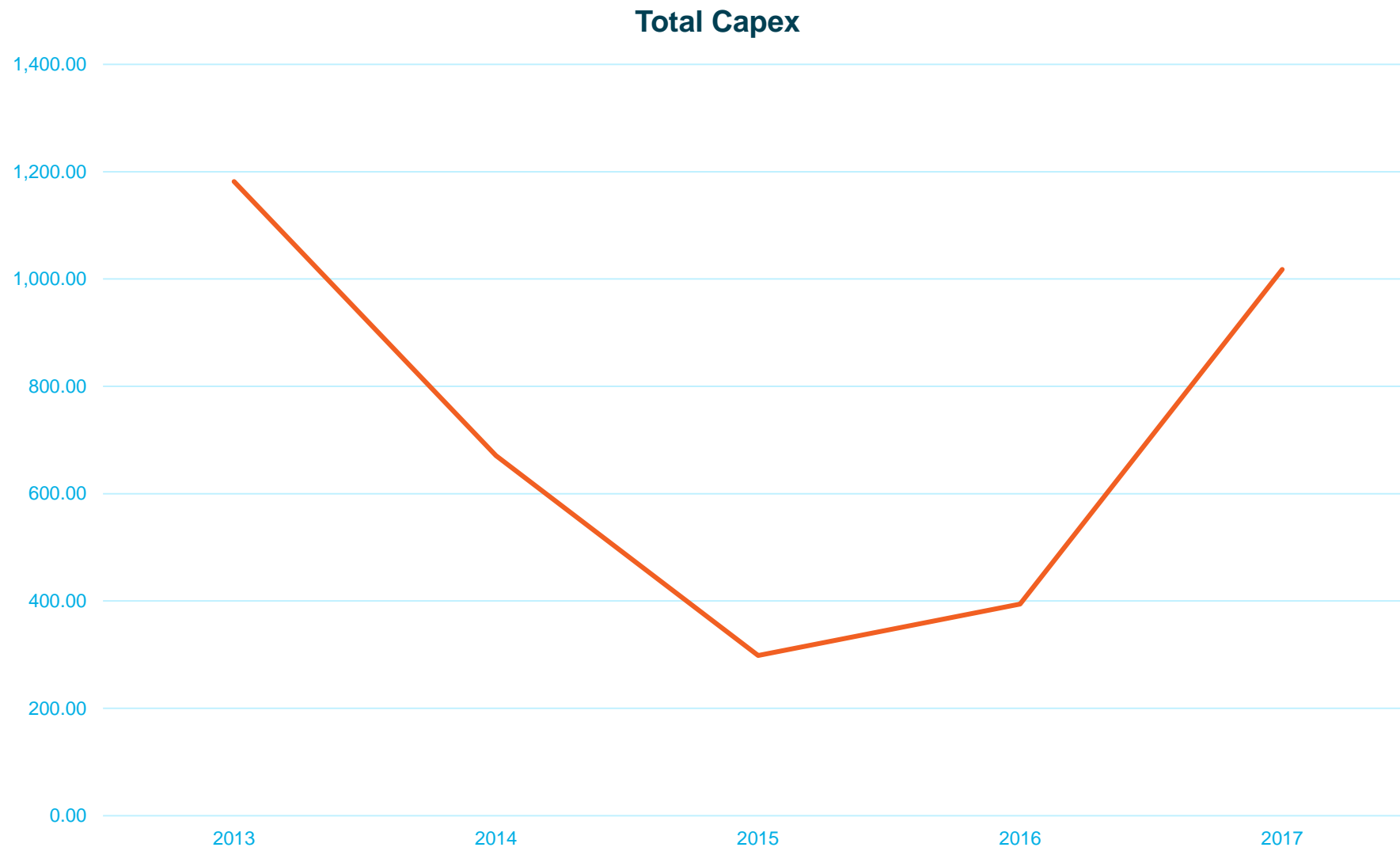
3 | FDI in Alberta

FDI Landscape for Alberta



Source: Fdi Markets 2013-2017

FDI Landscape for Alberta



Source: Fdi Markets 2013-2017

FDI Landscape for Alberta

Industry Sector	Projects	% of Total	Capex	% of Total	Avg Capex	Jobs Created	% of Total
Business Services	23	18.55%	182.6	5.12%	7.9	563	8.32%
Industrial Machinery, Equipment & Tools	17	13.71%	175.5	4.93%	10.3	640	9.46%
Financial Services	12	9.68%	160.5	4.50%	13.4	557	8.23%
Chemicals	11	8.87%	334.8	9.40%	30.4	360	5.32%
Coal, Oil and Natural Gas	11	8.87%	465.7	13.07%	42.3	772	11.41%
Software & IT services	8	6.45%	56.9	1.60%	7.1	445	6.58%
Transportation	8	6.45%	228.9	6.42%	28.6	519	7.67%
Metals	6	4.84%	407.2	11.43%	67.9	419	6.19%
Alternative/Renewable energy	4	3.23%	640.8	17.98%	160.2	40	0.59%
Food & Tobacco	4	3.23%	83.1	2.33%	20.8	325	4.80%
Real Estate	4	3.23%	241.6	6.78%	60.4	260	3.84%
Automotive Components	3	2.42%	53.8	1.51%	17.9	190	2.81%
Automotive OEM	3	2.42%	15.9	0.45%	5.3	58	0.86%
Consumer Products	3	2.42%	208.8	5.86%	69.6	1,160	17.14%
Biotechnology	1	0.81%	100.0	2.81%	100.0	130	1.92%
Communications	1	0.81%	83.6	2.35%	83.6	65	0.96%
Electronic Components	1	0.81%	10.8	0.30%	10.8	50	0.74%
Minerals	1	0.81%	18.0	0.51%	18.0	61	0.90%
Textiles	1	0.81%	.4	0.01%	0.4	8	0.12%
Warehousing & Storage	1	0.81%	78.3	2.20%	78.3	96	1.42%
Wood Products	1	0.81%	16.1	0.45%	16.1	50	0.74%
Total	124		3,563.3		28.7	6,768	

Source: Fdi Markets 2013-2017

FDI Landscape for Alberta

Industry Business activity	Projects		Capex	
Business Services	32	25.81%	300.4	8.43%
Sales, Marketing & Support	30	24.19%	294.3	8.26%
Logistics, Distribution & Transportation	19	15.32%	849.5	23.84%
Manufacturing	17	13.71%	1,003.2	28.15%
Maintenance & Servicing	9	7.26%	38.7	1.09%
Electricity	4	3.23%	640.8	17.98%
Headquarters	3	2.42%	46.3	1.30%
Research & Development	3	2.42%	39.1	1.10%
Design, Development & Testing	2	1.61%	53.0	1.49%
Construction	1	0.81%	149.1	4.18%
Customer Contact Centre	1	0.81%	3.5	0.10%
Education & Training	1	0.81%	45.2	1.27%
ICT & Internet Infrastructure	1	0.81%	83.6	2.35%
Recycling	1	0.81%	16.6	0.47%
Total	124		3,563.3	

FDI Landscape for Alberta

Motive	Projects	% of FDI Projects
Domestic Market Growth Potential	17	54.8
Proximity to markets or customers	13	41.9
Regulations or business climate	9	29.0
Skilled workforce availability	2	6.4
Attractiveness / Quality of Life	1	3.2
Industry Cluster / Critical Mass	1	3.2
Infrastructure and logistics	1	3.2
Presence of Suppliers or JV Partners	1	3.2

FDI Landscape for Alberta

Alberta FDI by Source Country

Source Country	Alberta Share of Projects	British Columbia Share of Projects	Ontario Share of Projects	Quebec Share of Projects
United States	54.84%	53.19%	53.20%	31.38%
United Kingdom	14.52%	8.51%	8.37%	7.59%
Germany	8.06%	3.55%	5.91%	3.45%
Switzerland	3.23%	2.84%	1.97%	2.76%
China	2.42%	7.09%	1.81%	2.76%
France	2.42%	1.42%	3.61%	35.17%
Ireland	2.42%	0.71%	1.15%	0.69%
India	1.61%	2.13%	2.96%	0.34%
Italy	1.61%	0.71%	1.31%	0.69%
Japan	1.61%	4.26%	3.61%	2.76%
Other Countries	7.28%	7.81%	7.24%	5.16%

Source: fDIMarkets.com



4 | The North American Picture

Looking Back on 20 Years of NAFTA

Effects of the NAFTA treaty include:

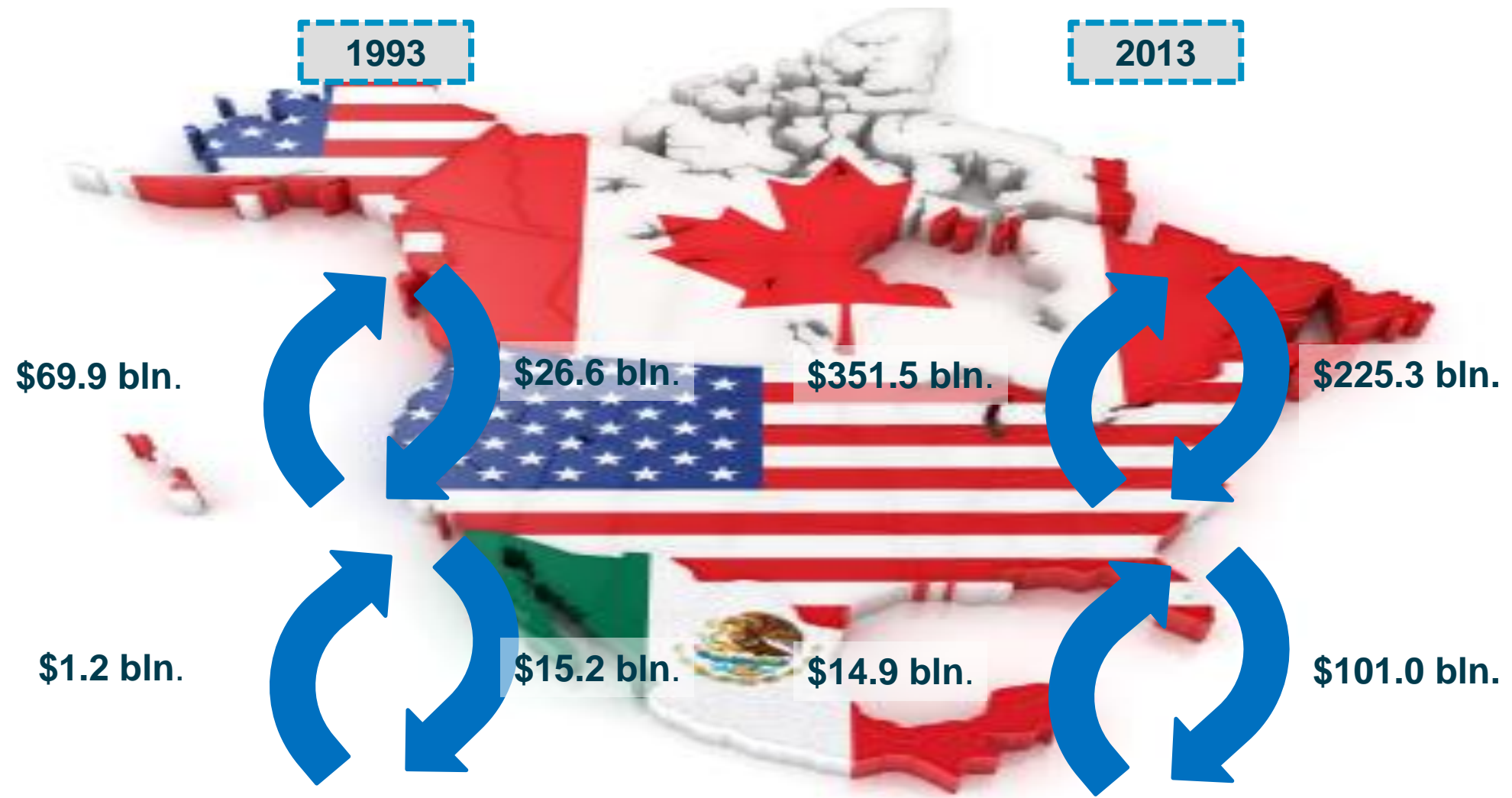
- ... it changed **supply chains** throughout North America
- ... increase in **exports**, particularly in machinery, vehicles, and electrical machinery
- ... faster growth rate of **imports** to the US than exports from the US
- ... direct economic development with a rather strong **geographical** component (e.g. corridor & border communities, *Maquiladora's*)

Topics remaining (slightly) unaddressed by NAFTA:

- Protection of the environment and worker rights;
- Broader infrastructure plan and border infrastructure;
- Regulatory cooperation;
- promoting R&D to enhance the global competitiveness of North
- American industries;
- Creating more efforts to lessen income differentials within the region.



Looking Back on 20 Years of NAFTA



Total U.S. trade with Mexico increased by **522%** in 1993-2013

Total US trade with Canada increased by **200%** in 1993-2013

Total US trade with non-NAFTA countries increased by **279%** in 1993-2013

Source: Congressional Research Service

And now with the USMCA...?

Effects on North American supply and value chains?

Will the US rebuild ability to manufacture consumer goods?

Impacts on exports of higher value items?

Will investors “wait it out?”



5 | Takeaways

Key Takeaways

FDI remains an active field for economic development, but the forms are more diverse. Investment may take many forms.

International Companies are just as (if not more) interested in stability, predictability, and resilience as they are about cost of doing business.

Current events in the US and UK have resulted in a complex and dynamic playing field for FDI, one that creates considerable uncertainty.

Never interrupt your opponent when he is making a mistake.

Wise EDOs can take advantage if they do their homework!

Key Takeaways

May You Live In Interesting Times....



Conway, Inc.

6625 The Corners Pkwy, Suite 200

Peachtree Corners, GA 30092

770.446.6996 (main office)

www.conway.com