

A New Era of Capital Flows in a Polycentric World

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Executive Summary

In this paper, we explore the idea that the world is on the cusp of a new era of capital flows.

Consistent, resilient flows of capital have decreased in recent years and never recovered to pre-financial crisis levels.

- The total volume of reserves held by central banks around the world is still high, around USD 12 trillion, although its rate of growth has slowed.
- There is a sharp rise in total portfolio flows, both debt and equity, into 25 growth market economies studied by the Institute of International Finance (IIF) since 2022 - albeit not reaching the heights of previous cycles, coming from a very low base established during the pandemic.

This shows that the way capital is moving and being mobilized is changing.

Two Key Trends Underpin this Change:

1. Global capital flows are originating from a wider set of contributors and are being directed to an increasingly diverse set of destinations. The emerging pattern is consistent across portfolio, trade and foreign direct investment flows.
2. While capital flows have primarily been steered by global factors such as liquidity and market volatility in the past, the significance of domestic pull factors such as economic growth, trade openness, or investor sentiment is rising.

As a result of this reorientation, many of the most dynamic markets are now both providers and receivers of capital flows, a position previously held by advanced economies such as the United States (US).

A Polycentric World Emerges

One of the drivers of change is the rapid increase in sovereign capital. There are now 176 recognized sovereign wealth funds around the world, an increase of 73 during the last decade alone. The aggregate size of the funds collectively managed by them has increased to over USD 12 trillion, doubling over the last twenty years. A growing number of sovereign

wealth funds are dedicated to using the capital that used to be invested abroad as a catalyst for economic development at home.

Polycentrism opens up a window of opportunity for countries in the Global South. Leading investment figures believe that now is the time for these countries to institutionalize their savings markets, use their own capital more strategically, and create the environment and ecosystems that will attract global capital. Countries can also focus on putting in place the technical building blocks of global financial markets, such as settlement systems, indices, and ratings while making sure their own securities are included in the global standards.

Retaining capital, once attracted, remains a challenge. To enhance the resilience of capital flows, innovative new fund structures are appearing that blend the impact of development finance with the returns from private sector. The creation of International Financial Centers can also play a major role in mitigating capital flow volatility by co-ordinating policy, creating stability, and attracting financial sector players to establish an on-the-ground presence, thus acting as a multiplier.

The cases of the UAE, Singapore, and Malaysia demonstrate the growing influence of pull factors. Political, exchange rate and financial stability all act as additional incentives attracting global capital flows. Following comprehensive structural market reforms and measures taken to increase the markets' attractiveness to foreign investors, the United Arab Emirates (UAE) and Singapore are seeing record foreign direct investment inflows, while Malaysia's services and production sectors are flourishing thanks to major investments coming from countries such as Hong Kong, Japan, and the US.

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Foreword

Consistent, resilient flows of capital are the life blood of the global economy. But these global capital flows have decreased in recent years and never recovered to pre-financial crisis levels. It is a phenomenon that is being called 'slowbalization'. But for many working in the global investment industry, shrinking volumes of capital flows do not tell the full story. In this paper, we examine two trends that have emerged in the last few years that give a more nuanced view.

The Emergence of a Polycentric World

Firstly, we look at how global capital flows now come from and go to a much wider variety of destinations than in the past. Many of the world's most dynamic markets are now both providers and receivers of capital flows, a position previously dominated by advanced economies.

The UAE, and particularly the Emirate of Abu Dhabi, is a case in point. Where before, the Emirate's economic surpluses were mostly invested abroad, investments at home have emerged as a focus. In fact, our nation is looking to double cumulative foreign direct investment (FDI) to AED 1.3 trillion (USD 354 billion) and reach a total FDI balance of USD 600 billion by 2031. And we are just one example among many countries. This is what we mean by a polycentric world.

Secondly, we look at what conditions, policies, and even attitudes are necessary to attract global capital flows. In academic terms, these are referred to as pull factors.

Perspectives of Prominent Investment Minds

In this paper, we include insights from some of the world's leading investment minds who have shared their perspectives on how and why global capital flows are changing. We have also examined recent academic literature to assess the latest thinking on what policies are important to attract global capital flows.

When these pull factors of global capital flows are successful, they can have a large influence on both local and regional economies. To demonstrate this, we also review examples of countries that have established themselves as successful importers and exporters of capital - the UAE, Singapore and Malaysia - to provide examples of specific policies and initiatives that have been effective in attracting capital inflows and generating returns from capital outflows.

Informing Conversations as we Enter a New Era

With this paper, we hope to inform the conversation on what is an important and evolving issue for nations around the world as we continue to navigate the changing global economic landscape. It is likely that polycentrism will increase in the future, and we believe that Abu Dhabi - known as the 'Capital of Capital' - as well as the wider UAE can provide a useful viewpoint for others.

Here at ADQ, we will continue to play our part in this new era. Established in 2018, we are an active sovereign investor in critical infrastructure and global supply chains. As a strategic partner to the Government of Abu Dhabi, we are committed to building global business platforms that generate financial returns and unlock value for the nation. We proudly do so in various ways: we build national champions that export their products and services globally; we invest abroad to complement supply chains in key sectors of Abu Dhabi's economy; and we deepen the local capital markets by actively promoting IPOs and listings of our portfolio companies on ADX, which has contributed to making ADX the second largest in the region by market capitalization.

We would like to thank all who have supported this paper and participated in its making - in particular our distinguished interviewees for their time and valued insights - as well as Abu Dhabi Finance Week, Abu Dhabi Global Market, and Stern at NYU Abu Dhabi.

Mansour AlMulla
Deputy Group Chief Executive Officer, ADQ



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The Changing Nature of Global Capital Flows

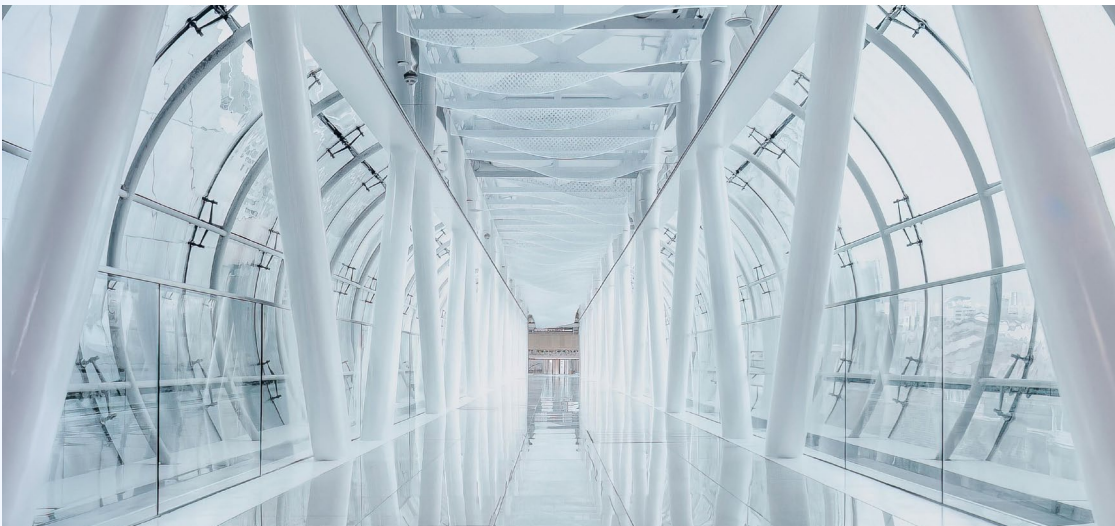
Previously, global portfolio flows were characterized as investment flowing from developed markets into what are referred to as growth markets, and then the recycling of fiscal surpluses from growth markets into the government securities of developed markets. Research indicates that this trend is now shifting with evidence suggesting a systematic change in this flow is on the horizon.

Today, global capital flows are moving in multiple directions. This may be related to the distribution of growth opportunities worldwide. Indeed, what were formerly called 'emerging markets' are now seen as 'growth markets', while the investment opportunities in developed markets have lost some of their appeal, to some extent because of growth saturation.

"The US and the UK pull in about 60% of global capital to finance their living standards," says Hendrik du Toit, Founder and CEO of global asset manager Ninety One. "As a result, most developing countries have been forced to run surpluses. There are massive surpluses in the Middle East that naturally could not be invested back home because the local economies

could not accommodate that amount of capital. However, I think we are now just starting to see the end of that model - although we haven't seen the peak of that model just yet."

The latest data from the Institute of International Finance (IIF) shows how global capital flows have ebbed and flowed in recent years. Since 2022, there has been a sharp rise in total portfolio flows (both debt and equity) into 25 growth market economies studied by the IIF - albeit from a very low base established during the pandemic. These have not reached the heights of previous cycles, but they do call into question the notion that the flows have completely stopped.



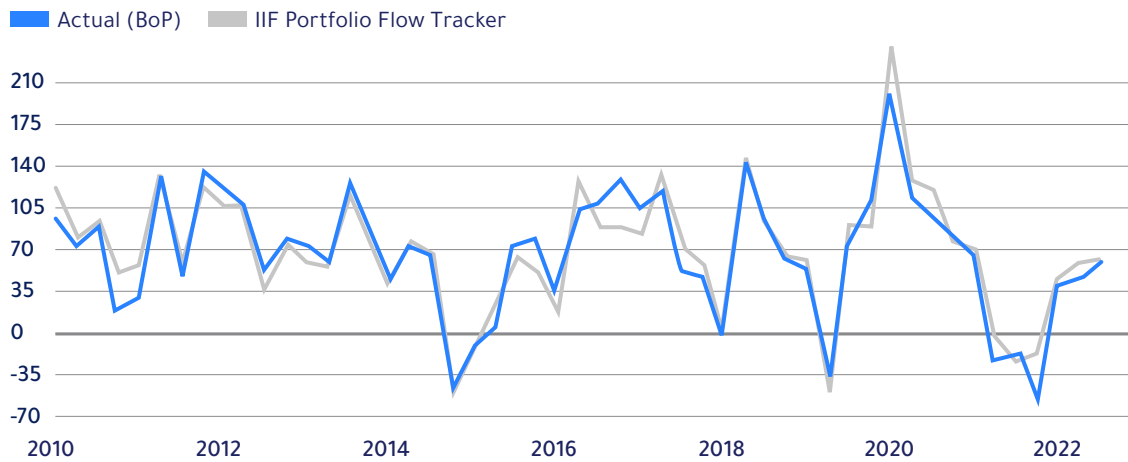
The US and the UK pull in about 60% of global capital to finance their living standards.

Hendrik du Toit
Founder and CEO of global asset manager Ninety One



Total Portfolio Investment Inflows to Emerging Economies

USD billion, IIF group of 25 emerging economies, quarterly data



Source: National Sources, IIF

Our contention is that these portfolio flows have changed both in terms of where they are coming from and going to and the way that they are structured. It is important to note similar stories of change can be seen in other forms of global capital flows, such as trade and foreign direct investment (FDI) flows. The emerging pattern is consistent: capital flows are originating from a wider set of contributors and are being directed to an increasingly diverse set of destinations. This phenomenon reflects what we refer to as a polycentric world.

The November release of the DHL and New York University's Stern School of Business Global Connectedness Tracker¹ shows that globalization is holding steady at a record high, highlighting the resilience of international flows. The tracker also reveals that countries that are unaligned with the US or China are conducting a growing share of world trade, developing new roles as connecting economies. The share of trade involving these countries rose from 42% in 2016 to 47% in 2024, with the UAE, India, Vietnam, Brazil, and Mexico seeing especially large trade share gains over this period.

"The UAE's dual role as an importer and exporter of capital creates a dynamic investment environment," says H.E. Mohammed Al Hawi, Undersecretary of the Ministry of Investment of the UAE. "To maximize the impact of capital flows, the UAE has diversified its investment sources, encouraging investments from both greenfield and M&A activity, across a range of sectors."

Growth Market Capital Increases

The volume of capital globally coming from global growth markets has indeed increased significantly over the last 20 years, and, if anything, has risen even more in the last five years.

"There are great changes in wealth generation that are the cause of the changing capital flows," says Ray Dalio, Founder and CIO Mentor of hedge fund Bridgewater Associates. "However, everyone is now in the same world market and every entity that has capital is looking for the same things. This is the first time in my life that I have seen this."

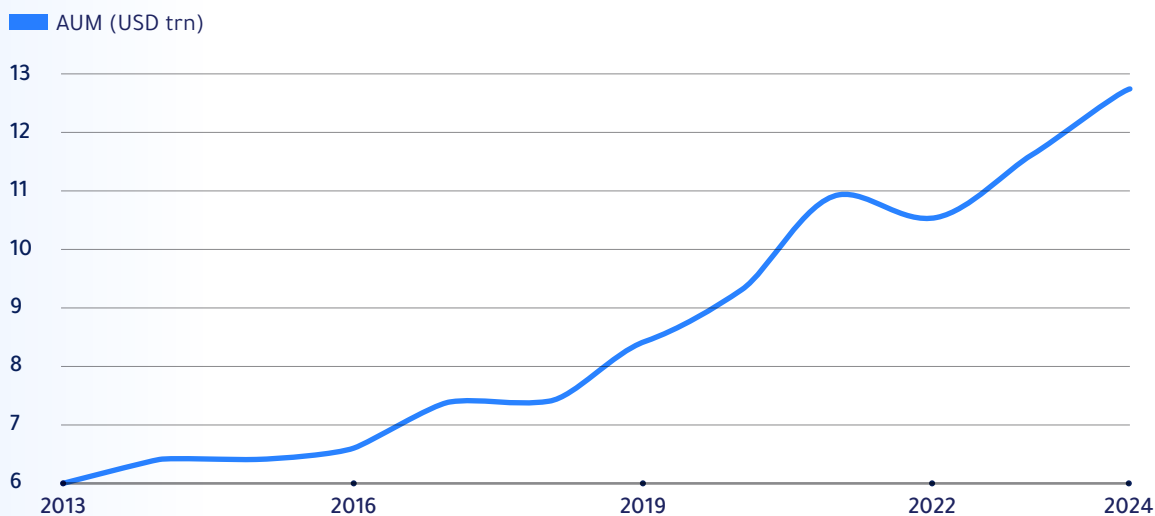
The increase in growth market capital is most evident when examining sovereign wealth funds (SWFs). Today, there are 176 recognized SWFs around the world, an increase of 73 during the last decade alone.² The chart below illustrates that the growth in aggregate size of the funds now managed by SWFs has increased to over USD 12 trillion - doubling over the last twenty years. It is evident that the geographic distribution of these funds has changed significantly. Nearly all of the new SWFs come from the global growth markets that lie between the G7 and the more frontier markets, although both the US and the UK have discussed plans to establish their own SWFs.

1. DHL Global Connectedness Tracker: Globalization remains at a record level, despite geopolitical tensions and uncertainties - DHL Group. 2024, Nov 19. URL: group.dhl.com/en/media-relations/press-releases/2024/dhl-global-connectedness-tracker.html

2. www.statista.com/topics/8616/sovereign-wealth-funds/#editorsPicks

Aggregate AUM of Sovereign Wealth Funds Globally from 2013 to 2024

Total assets under management for sovereign wealth funds globally has risen to USD 12.7 trillion in 2024

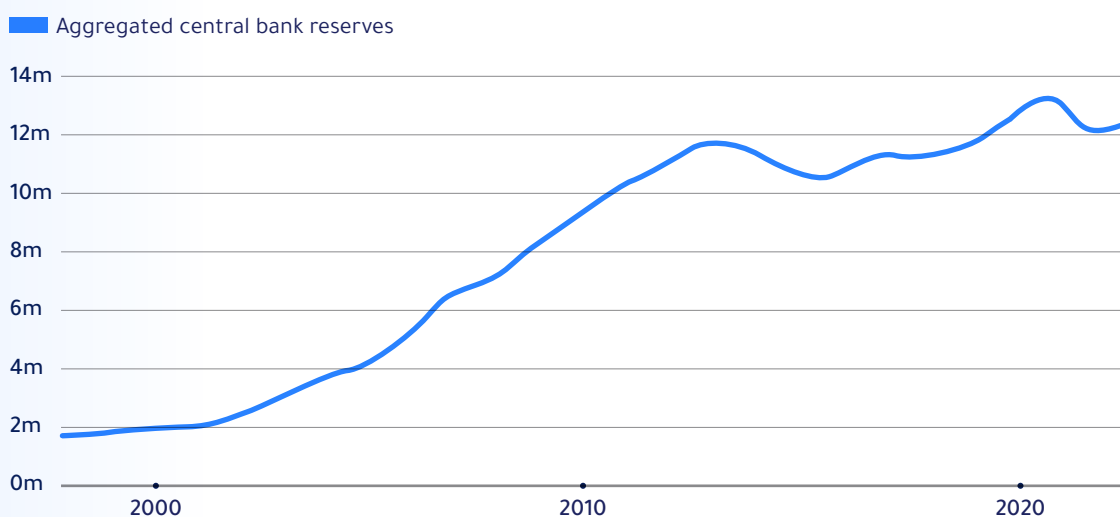


Source: Flare analysis of industry reports

At the same time, the growth rate of reserves held by central banks worldwide has slowed in recent years. While the total volume remains high, it has experienced significant changes over the last ten years, showing much greater volatility than in the preceding decade. This largely reflects the stalling of returns generated by the traditional way these reserves are invested.

Global Aggregated Central Bank Reserves for 25 years

Total central bank reserves (minus gold) in current USD (m) from 1998 to 2023



Source: World Bank

Direction of Travel

One of the key changes to capital flow patterns is that capital from growth markets, which once went into government securities in developed markets, is now being directed toward investments much closer to home. The returns generated by the previous approach have been suboptimal for several years, particularly during the period of zero interest rates. Indeed, the S&P US Treasury Bond Current 10-Year Index has only increased by 4.5% over the past ten years.³

This strategic objective of using the available capital as a catalyst for domestic economic development adds another dimension to the need for risk-adjusted returns generated abroad. Several SWFs, often dubbed 'domestic development funds', now include this further focus on creating value for the local economy as part of their mandate.

"One big change is that capital has become more inward looking," says Rajiv Jain, Chairman and CIO of GQG Partners. "Surpluses and reserves are no longer automatically exported. In many cases, those surpluses and reserves are now being invested back into their home markets."

This new pattern of capital flows from and to global growth markets creates a virtuous cycle. Capital is being used to generate returns and attract more capital. "The new ways that capital is flowing are markedly different from how they were before," says Ray Dalio, Founder and CIO Mentor of hedge fund Bridgewater Associates. "Previously closed economies are now opening up, selling off assets, undertaking new borrowing, and investing back into their home economies to drive development. It is a much better system as it will better help them achieve their strategic goals. It also changes the players as large asset managers become development partners."

This multidirectional travel pattern of capital flows - both inwards and outwards - can be strategically managed to create value at both the macro and portfolio level. "Strategic coordination between

national priorities ensures that capital flows align with the national strategy," says Undersecretary Al Hawi. Capital flows can act as an effective conduit for knowledge transfer and ensure sustainable growth of national economies.

Capital Mobilization

The evolving role of global asset managers is evident in the innovative new fund structures that are emerging. These new structures are merging the impact of development finance with the focus on risk adjusted returns from private sector investment. Concessional capital sourced from global development institutions such as the World Bank and the International Monetary Fund has always been a mainstay of many growth markets' inflows - especially frontier markets. But it comes with terms and conditions that can be onerous and can crowd out private sector flows. New forms of capital mobilization are seeking to blend the best of both.

One such vehicle is ALTÉRRRA, the world's largest climate investment platform. Created during COP28 in Dubai in 2023 with an initial USD 30 billion seed investment from the Government of the UAE, it aims to mobilize up to USD 250 billion in global capital to invest in climate and sustainability solutions in the Global South.

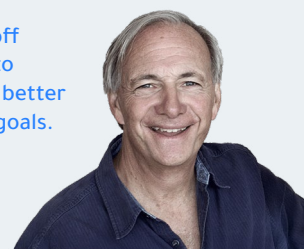
"We know the challenges that prevent capital flows going to those markets, being currency risk, policy risk, political risk, or just perception risk," says H.E. Majid Al Suwaidi, CEO of ALTÉRRRA. "So we have created a vehicle that would help catalyze capital flows and investments that realizes opportunities in the Global South that deliver both positive climate impact and market returns."

With the emergence of new pools of capital and new ways of mobilizing and channeling them to global growth markets, the question becomes what those markets should do to attract those flows.



Previously closed economies are now opening up, selling off assets, undertaking new borrowing, and investing back into their home economies to drive development. It is a much better system as it will better help them achieve their strategic goals.

Ray Dalio
Founder and CIO Mentor of Bridgewater Associates



3. S&P Global. URL: www.spglobal.com/spdji/en/indices/fixed-income/sp-us-treasury-bond-current-10-year-index/#overview

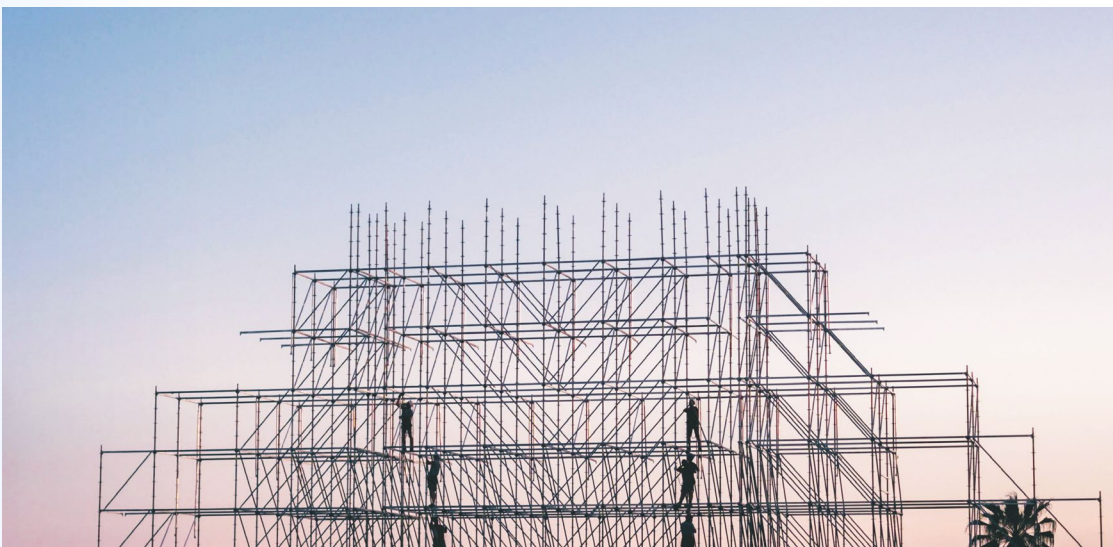
The Pull Factors that Attract Capital

There is a wealth of academic literature that looks at the interplay of numerous macroeconomic, fiscal, and policy factors that can attract global capital. These are a set of conditions that are based on economic orthodoxy, and which have formed the template for explaining global capital flows for the past half century.

An academic paper dating from 1993⁴ introduced the distinction between global “push” and domestic “pull” factors that drive capital flows, providing a useful framework of analysis. Almost four decades of literature show that capital flows play an important role for financial stability in emerging markets, and sudden stops in capital flows are often associated with large output losses. Moreover, push and pull factors have a heterogeneous impact on capital flows, often stemming from the complex interplay of these and other variables, which makes it challenging to isolate a specific cause of an observed capital flow pattern.

Push factors

- a. **Global liquidity:** The availability of capital in global markets, influenced by factors such as US monetary policy.
- b. **Market volatility:** Measured by indicators like the Chicago Board Options Exchange’s (CBOE) Volatility Index (VIX), or fear index (increase), which reflects global risk appetite (decrease).
- c. **Global risk premium:** The US spread, or the differential between the 10-year and 2-year US treasury bond yields, which, if positive, generally suggests market optimism, and if negative indicates expectations of recession.
- d. **US Federal Reserve policy:** The effectiveness of US monetary policy, such as interest rates, influences global capital movements.



4. Calvo, G.A., Leiderman, L., Reinhart, C.M. Capital inflows and real exchange rate appreciation in Latin America: the role of external factors. Staff Papers 40 (1), 108-151. 1993.

Pull factors

- a. **Economic growth:** Countries with higher GDP growth tend to attract more capital;
- b. **Trade openness:** A country's level of integration (high) into global trade can influence (higher) capital inflows;
- c. **Inflation:** In the past, high inflation deterred investments due to concerns about economic instability. However, more recently, moderate inflation is perceived as a sign of economic growth and often attracts foreign capital, particularly when it leads to higher interest rates. However, excessive inflation can increase volatility in capital flows.
- d. **Exchange rate regimes:** Over time, the flexibility of exchange rate regimes has become a crucial pull factor. Countries with more flexible exchange rate systems have historically been able to attract capital by providing more predictable and stable foreign exchange environments. Fixed exchange rates, on the other hand, have sometimes deterred foreign investment. The evolution towards floating exchange rates and more market-driven currency policies has generally improved investor confidence, particularly in emerging markets.
- e. **Investor sentiment:** The importance of investor sentiment has grown in recent years, driven by both domestic economic conditions and global events. Indices like the Consumer Confidence Index (CCI) reflect how optimistic or pessimistic investors feel about a country's future economic prospects, impacting their willingness to invest. This factor has become more pronounced with the rise of global financial markets and the growing influence of social media and news on investor behavior.
- f. **Capital controls:** The evolution of capital controls has also played a significant role in shaping pull factors. Capital controls were historically viewed as a barrier to investment, but over time, their role as a tool for managing financial stability has become clearer. In emerging markets, the implementation of capital controls has sometimes been used to attract stable long-term investment by minimizing volatility from speculative flows.
- g. **Country-specific risk premium:** The yield differential between the 10-year and 2-year government bonds of a specific country. The country-specific risk premium has become more prominent as global financial markets have evolved. A widening country spread, often a signal of economic or political instability, can discourage investment. However, in some cases, a higher risk premium can attract investors seeking higher returns, especially when compared to safer, lower-return markets.
- h. **Relative country risk premium:** Measured as the relative the domestic spread of 10-year sovereign bonds compared with the US rate. The country risk premium, or spread, has evolved as global financial markets have become more integrated. Investors now closely monitor the bond yields of emerging markets relative to US yields, with widening spreads indicating higher perceived risk and driving capital outflows. Events like the 2014 Russia-Ukraine crisis or Latin American economic instability have caused spikes in country spreads, influencing cross-border investment decisions.

Exogenous factors

Another set of influence variables can explain how external events with pan-regional effects produce repercussions to capital flows in one or multiple interconnected countries.⁵ Specifically:

- a. **Trade linkages:** Similar to trade openness, trade linkages refer to the strength of trade relationships between countries, which can influence capital flows. Stronger trade ties between countries can lead to synchronized capital flow movements. The downside risk of strong links is that economic shocks in one country can spread to others (i.e., COVID-19 pandemic).
- b. **Geographical distance:** Refers to the physical distance between countries that affects capital flows. Countries that are geographically closer tend to have stronger trade and financial linkages, which can result in more synchronized capital movements and greater (negative) spillover effects during financial crises. Recently, economists also consider geopolitical distance as a new determinant: The rise of protectionism in recent years, such as the US-China trade war and Brexit, or geo-political conflicts, have caused some pullback in capital inflows due to heightened uncertainty about market access.
- c. **Financial connectedness (or DHL Global Connectedness Index)⁶:** This is an index that measures the level of global interconnectedness in terms of trade, capital flows, information, and people movement. Countries with higher global connectedness are more likely to experience higher levels of capital inflows and outflows due to their exposure to international financial markets.

The evolution of influence variables reflects the increasing interconnectedness of the global economy, with greater financial integration, faster communication, and more widespread global trade. Technological advancements and the growth of global financial markets have made contagion more rapid and pervasive, affecting countries regardless of their proximity or direct connections to the source of the shock.

However, there is a sense that while the orthodoxy still stands from an economic point of view, current deployers of capital have a more nuanced view of what they are looking for.

“There are three big pull factors that I look at,” says Dalio. “The first is the financial condition of the country and the entity. The second is the internal order: how well does the system work, are property rights respected, can people be productive, is it a harmonious environment in which productivity, profits and property are respected? Ideally, rule of law. The third is that there is no risk of getting involved in geopolitical conflict. I start with those. And then I look at the depth and capabilities of their markets, across all asset classes.”

5. Ftiti, Z., Ameur, H. B., Louhichi, W., Anastasiou, D., & Awijen, H. Revisiting capital flow drivers: Regional dynamics, constraints, and geopolitical influences. *Journal of International Money and Finance*, 142, 103049. 2024.

6. Altman, S. A., & Bastian, C. R. 2023. DHL global connectedness index 2022. An in-depth report on the state of globalization, 301

Monetary, Macro, Fiscal and Financial Stability

One of the biggest factors that affect global capital flows is monetary policy. Central banks' decisions on interest rates in advanced economies, particularly in the US, significantly influence global capital flows. Lower interest rates in developed countries can lead to increased capital inflows to global growth markets as investors search for higher yields.

Furthermore, programs like quantitative easing (QE) increase the liquidity in the global financial system, often resulting in increased capital flows to higher-yielding emerging markets. Conversely, tapering or ending QE can lead to capital outflows or reduced inflows as investors reposition in anticipation of higher yields in their home markets.

Fiscal stability and prudent management of public finances make a country more attractive to foreign investors, whereas high levels of debt or deficits might deter investment due to fears of inflation or instability. Political stability, exchange rate stability, and financial stability all act as additional pull factors to global capital flows.⁷

Rather than addressing each of these pull factors separately and in siloes, it serves to think of them as one ecosystem. The best physical expression of this approach is in the creation of International Financial Centers (IFCs) that can co-ordinate policy, create stability, and attract financial sector players to establish an on-the-ground presence.

"To attract global capital flows, countries need to create vibrant, successful ecosystems that offer diversification and alternative return profiles," says Hendrik du Toit, Founder and CEO of global asset manager Ninety One. "You need to create an environment for business that works."

Changing Attitudes to Global Capital Flows

The attitudes of some global growth markets to worldwide capital flows have changed in recent

years. While some countries have become less receptive to foreign capital, others are becoming more open.

"The underlying dynamic of attracting capital is receptivity - capital goes where it is treated well," says Rajiv Jain, Chairman and CIO of global asset manager GQG Partners. "If you talk to the senior leadership of countries in the Middle East, there is a real drive to attract capital. And that is not so clear in other countries. Not everyone wants to attract capital."

One influential paper from 2016 has shown why these attitudes have become more nuanced.⁸ In the paper, the authors identify periods of exceptionally large net capital inflows (surges) to 53 global growth markets from 1980 to 2014, classifying these surges based on whether they end in a financial crash or a soft landing. The study found that approximately 20% of the surge episodes ended in a financial crisis.

Attracting long-term capital takes commitment and a willingness to adopt new practices. "The UAE has been achieving unprecedented levels of FDI over the last few years," says H.E. Undersecretary Al Hawi. "This has been achieved through a commitment to creating a dynamic investment ecosystem based upon economic diversification, reducing the reliance on oil revenues, and fostering development in high-growth sectors such as manufacturing, financial services, transport and logistics, utilities, and information and communications technology."

The key is therefore to not just attract global capital in the first place, but also to retain it once it is there. "We have heard from many countries that while concessional capital is still an important need, they also need scaled capital from across all sources, so they are able to grow their local economies and capacities," says H.E. Majid Al Suwaidi, CEO of ALTERRA. "For that they need public finance, but also private sector finance. It will be important that we mobilize the private sector to create economic growth opportunities for these Global South economies."



We have heard from many countries that while concessional capital is still an important need, they also need scaled capital from across all sources, so they are able to grow their local economies and capacities.

His Excellency Majid Al Suwaidi
CEO, ALTERRA



7. Buono, I., Corneli, F., & Stefano, E. D. Capital inflows to emerging countries and their sensitivity to the global financial cycle. *International Finance*, 27(1), 17-34. 2024.

8. Ghosh, Atish R., Jonathan D. Ostry and Mahvash S. Qureshi. "When Do Capital Inflow Surges End in Tears?" *American Economic Review*, 106(5): 581-85. 2016.



Market Size, Liquidity, and Data

All investment, and therefore capital flows, is ultimately about generating returns and minimizing risks. “When it comes to the equity markets, the size and depth of a market, as well as the possibility of good returns are what will ensure international capital is retained,” says Jain from GQG. “But if the opportunity set is diminishing, it won’t stick around.”

Two key risks that have deterred global capital flows from growth markets in the past have been exchange rate risk and illiquidity risk. Developing a local currency bond market, as was successfully achieved in many Asian countries since the Asian financial crisis of 1997, has been a key source of stability for the region. Furthermore, developing local capital markets creates a deep pool of local/national capital, which creates the liquidity that attracts global capital.

“Countries should have the term structure of their interest rates established,” says Dalio. “But the number one thing is liquidity and making their investment assets liquid.”

Access to regular and up-to-date data is also an increasingly important factor for policy makers to consider. In another recent paper, it was shown that the introduction and analysis of high-frequency

data sources like those from EPFR and IIF have significantly enhanced the capability to track and predict capital flows in real-time. This improvement allows for a more immediate response from policy makers to sudden changes in capital flows, which can be crucial during financial crises or sudden market shifts. Furthermore, the paper shows that high-frequency proxies for portfolio flows have substantial predictive content for movements in balance of payments data. This can help forecast future capital flow trends more accurately, aiding investment strategies and policy interventions.

Countries can also focus on putting in place the technical building blocks of global financial markets, such as settlement systems, indices, and ratings while making sure their own securities are included in the global standards such as indices, ratings, and settlement systems. “Countries need to create a technical market infrastructure that is compatible with the way capital is allocated in the largest markets, which essentially means the US,” says Du Toit. “If the markets are index driven, you’ve got to make sure you get inclusion in those indices. And you can get excluded from public markets if settlement is an issue.”



When it comes to the equity markets, the size and depth of a market, as well as the possibility of good returns are what will ensure international capital is retained.

Rajiv Jain
Chairman and CIO of GQG Partners



Creating Incentives

One additional way to attract global capital above and beyond country-specific pull factors is to create venues for mediating global capital flows. Such IFCs are not new, but with a specific hinterland to service (London for Europe, Hong Kong for China, or Singapore for Southeast Asia), they can be highly attractive venues for global capital. Recent years have seen the emergence of country specific centers such as those in Astana in Kazakhstan and more recently the Gujarat International Finance Tec-City (GIFT City) in India.

IFCs can act as financial freezones that bridge the gap between local and international regulations and practices. "Freezones have been absolutely pivotal to attracting international FDI in the UAE as they provide flexibility, unified regulation in line with global financial centers and access to the wider ecosystem of investors, talent and capital," says H.E. Mohammad Al Hawi, Undersecretary of the Ministry of Investment of the UAE. "For example, the Dubai International Financial Centre and Abu Dhabi Global Market have become global hubs for finance and fintech, attracting global financial innovators every day to expand their operations here."

One of the key elements of IFCs that makes them so attractive is that they can - in the right circumstances - increase the resilience of global capital flows. Once money is managed from a destination, rather than just invested in it, it is less likely to be withdrawn and repatriated during the next downturn. Given the changing nature of global capital flows, this is an opportunity for many global growth markets.

"There is a massive opportunity for the Global South to institutionalize their savings in a way the West used to do," says du Toit. "Countries that are too small should try to create a regional version of that institutionalized savings market, one that is compatible, vibrant, depoliticized, and with very clear rules."

Bringing all these pull factors together is a test. In the next section we will examine three countries that have successfully risen to meet this challenge - the UAE, Singapore and Malaysia.



There is a massive opportunity for the Global South to institutionalize their savings in a way the West used to do.

Hendrik du Toit

Founder and CEO of global asset manager Ninety One



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Country Case Studies

Each of these three countries are both importers and exporters of capital. All three are characterized by proactive measures to attract international capital, including tax incentives and reduced restrictions on foreign ownership. Each also has a proactive posture in terms of regional and global investment.

5.1 United Arab Emirates

CAPITAL INFLOWS

The UAE is a leading destination for global capital. Numerous steps have been taken to further increase capital flows to the country. Examples include:

- The UAE Companies Law, enacted in 2021, allows foreign investors to own 100 percent of businesses in most activities, except for those considered “Activities of Strategic Effect”, eliminating the 51 percent local ownership requirement.
- The UAE offers investors more than 40 multidisciplinary free zones, in which expatriates and foreign investors can have full ownership of companies. These zones are characterised by their highly efficient infrastructure, and distinct services that facilitate smooth workflows, saving businesses considerable time and effort. These free zones include the country’s two international financial centres located in Dubai (Dubai International Financial Centre, DIFC) and Abu Dhabi (Abu Dhabi Global Market, ADGM).
- Launched in June 2022, the Abu Dhabi Industrial Strategy (ADIS) has accelerated the transformation of the Emirate’s manufacturing sector, strengthening its position as the region’s most competitive industrial hub within its first year. The ROWAD program is designed to attract investors in the industrial and manufacturing sectors and has spurred a 16.6 percent surge in industrial licenses granted in Abu Dhabi from 2022 to 2023.¹⁰
- The Ministry of Investment was established in July 2023. In November 2024, the National Investment Strategy (NIS) was launched, which aims to position the UAE among the top 10 global destinations for foreign investments by 2031. The stated ambition is to attract USD 817 billion (AED 3 trillion) for the UAE’s economy by 2031, USD 1.2

trillion (AED 4.4 trillion) in investments between 2025 and 2031, and USD 354 billion (AED 1.3 trillion) in FDI within the same period.

- The market value of stocks listed on the UAE’s two stock exchanges Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX) crossed the USD 1 trillion mark in November 2024, with ADX contributing more than USD 800 billion. Benefitting from strides made in raising foreign ownership limits over the past years, over 90 percent of ADX-listed companies are accessible to foreign investors, who account for more than 40 percent of the total investors trading on the exchange.

140%

The UAE achieved an all-time high in FDI inflows in 2023, with total inward FDI increasing by 140 percent in the last ten years. Specifically, FDI has risen from USD 11 billion in 2014 to USD 30 billion in 2023.¹¹

31%

With 1,332 greenfield projects announced in 2023, the UAE came in second in 2023 following the US in terms of greenfield FDI project announcements, a 31 percent increase compared to 2022.¹²

USD 354 billion

The UAE seeks to attract USD 354 billion (AED 1.3 trillion) in FDI between 2025 and 2031.¹³

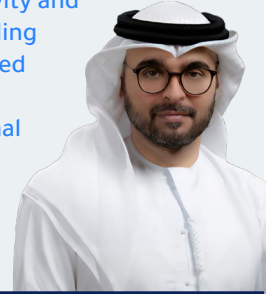
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Our strategic location, robust infrastructure, and thriving financial markets, combined with unparalleled connectivity and access to capital, make the UAE one of the most compelling global investment destinations. FDI inflows have increased significantly over the last decade, reflecting the UAE's economic resilience and the confidence that international investors place in our forward-looking policies."

H.E. Mohammad Al Hawi
Undersecretary, Ministry of Investment of the UAE



5.1 United Arab Emirates

CAPITAL OUTFLOWS

The UAE is also a major exporter of capital, making substantial investments into foreign markets over the past few decades.

- Since 2022, six Comprehensive Economic Partnership Agreements (CEPAs) were ratified and are in effect, among else with three major economies: India (May 2022), Türkiye (September 2023) and Indonesia (September 2023).¹⁴
- Since October 2023, the UAE has signed six free trade agreements with South Korea, Georgia, Israel, Indonesia, New Zealand, and Australia.
- As of early 2024, UAE entities held investments in 90 countries, with India, Indonesia, ASEAN countries, Egypt, Morocco, Central Asian countries, Britain, France, Germany, the United States, Canada, and selected Eastern European countries expected to be in focus going forward. 72 percent of these investments are owned by the UAE's sovereign wealth funds, followed by government-owned and quasi-governmental companies at 18 percent, UAE banks at 2.5 percent, and 7.5 percent for family-owned and private companies.¹⁵
- In February 2024, a USD 35 billion investment into Egypt was announced by Abu Dhabi-based sovereign investor ADQ, aiming to develop the Mediterranean coastal region Ras El-Hekma into a 170 million square meter megacity. The agreement marked the largest FDI in the history of Egypt.

12.6%

Non-oil trade rose by 12.6 percent in 2023 to USD 953 billion, compared to 2022.¹⁶

USD 22 billion

In 2023, the UAE's FDI outflows were USD 22 billion.¹⁷

USD 262 billion

In 2023, FDI outflow stock reached USD 262 billion.¹⁸

USD 2.5 trillion

As of early 2024, the total value of UAE investments abroad, across government and private sectors, stood at an estimated USD 2.5 trillion.¹⁹

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5.2 Singapore

CAPITAL INFLOWS

Singapore has long been a trusted hub for business and foreign investment, attracting foreign investors from around the world, owing to its competitive business environment, and investment-supportive policies and frameworks.

- Singapore was ranked 1st in the 2024 IMD World Competitiveness Ranking, making it the most competitive economy out of 67 across the world's eight major regions.²⁰ According to the UNCTAD World Investment Report 2023, Singapore was ranked as the top FDI destination in Asia.²¹
- The Singapore government has pledged USD 18.5 billion to its RIE2025 (Research, Innovation, and Enterprise 2025) plan. This commitment ensures that investments in research, innovation and enterprise will remain around 1% of the country's GDP throughout the period from 2021 to 2025.²²
- Singapore offers tax incentives to attract growth sectors and has renewed its 100% investment allowance scheme. Managed by the Economic Development Board, this initiative exempts up to 100% of fixed capital expenditure from taxes.²³
- Other incentives include the International Headquarters initiative, which offers a 10% corporate tax rate for qualifying income, and the Pioneer Certificate Incentive which grants up to five years of tax exemptions to companies introducing innovative technology or practices.²⁴
- Singapore has consistently been a top financial hub in Asia for IPOs and bond issuances, driving significant capital inflows.²⁵ In 2023, the Singapore Exchange (SGX) saw a rise in IPO fundraising, including both local and international listings.²⁶

USD 160 billion

Singapore achieved record FDI inflows of USD 160 billion in 2023, up 13.1% on 2022, driven by investment from the United States.²⁷

54.6%

FDI inflows into Singapore were led by the finance and insurance sector in 2023, contributing 54.6% of total FDI inflows into the country.²⁸

USD 19 billion

Singapore ranked second globally in attracting greenfield FDI projects in 2023, with 442 projects valued at approximately USD 19 billion.²⁹

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5.2 Singapore

CAPITAL OUTFLOWS

An important part Singapore's economic strategy are direct investments abroad, strengthening the presence of domestic companies in new markets and boosting capital outflows. Additionally, Singapore has enhanced its trade networks through numerous Free Trade Agreements (FTAs) with various countries.

- The top 10 destination economies for direct investments abroad at the end of 2023 included Mainland China, India, Luxembourg, the United Kingdom, Indonesia, Hong Kong, Netherlands, Cayman Islands, Australia, and Malaysia.³⁰
- Singapore has an extensive network of 27 implemented FTAs, providing investors and exporters with tariff concessions, preferential access and preferential treatment.³¹ Recent agreements have been signed with:
 - The United Kingdom, including the UK-Singapore Free Trade Agreement in 2021.
 - A Maritime Chapter through the Pacific Alliance-Singapore Free Trade Agreement in 2022.
 - MERCOSUR, a Latin American customs union (comprising of Argentina, Brazil, Paraguay and Uruguay), to implement the MERCOSUR-Singapore Free Trade Agreement in 2023.³²
- Singapore is a member of RCEP, the world's largest free trade agreement, which includes 15 Asia-Pacific countries. This partnership enhances market access and provides Singaporean companies with opportunities to expand and invest in member economies, boosting regional trade and investment flows.³³
- Singapore is a member of ASEAN, which serves as the country's largest trading partner, third largest services export market and top investment destination.³⁴

USD 206.6 billion

In 2023, Singapore experienced significant financial outflows, with net outflows for the capital and financial account amounting to USD 206.6 billion.³⁵

27

As of December 2024, Singapore has 27 Free Trade Agreements in place, creating a trade network spanning key markets across the world.³⁶

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5.3 Malaysia

CAPITAL INFLOWS

Malaysia's capital inflows in recent years have demonstrated strong economic appeal, driven by a strategic focus on investment diversification and growth across critical sectors. These inflows highlight the country's efforts to position itself as a competitive destination for global investors:

- The Iskandar Regional Development Authority's target to achieve cumulative investments of approximately USD 135 billion by 2030 plays a key role in Malaysia's ambition of becoming one of the top 30 global economies and ranking in the top 12 for global competitiveness.³⁷
- Malaysia's New Investment Policy aims to reinforce its position as a global investment destination by enhancing regulatory frameworks and offering targeted incentives for high-growth sectors, including green energy and advanced manufacturing.³⁸ During the first half of 2024, foreign investments in Malaysia totaled approximately USD 16.2 billion, accounting for 46.6% of total investments in the country. The top five sources of foreign investments were led by Austria with USD 6.4 billion, followed by Singapore with USD 3.5 billion, the People's Republic of China with USD 2.1 billion, the Netherlands with USD 851 million, and Taiwan with USD 511 million.³⁹
- The Pioneer Status initiative in Malaysia is a tax incentive aimed at promoting new projects or expansions in targeted, high-priority sectors such as technology, manufacturing, and other strategic industries. This incentive allows eligible companies to receive income tax exemptions, which can be applied for 5 to 10 years.⁴⁰
- Special Economic Zones in Malaysia, such as Iskandar Malaysia and the East Coast Economic Region, play a crucial role in boosting economic activity by offering location-specific incentives and benefits tailored to attract both local and international investments.⁴¹

USD 16.2 billion

During the first half of 2024, Malaysia attracted USD 16.2 billion in foreign investments, led by Austria, Singapore, the People's Republic of China, the Netherlands, and Taiwan.⁴²

46.6%

Foreign investments in Malaysia accounted for 46.6% of total investments in the country.⁴³

16.7%

Foreign investments in Malaysia have experienced a 16.7% growth compared to the same period last year.⁴⁴

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5.3 Malaysia

CAPITAL OUTFLOWS

Malaysia has directed substantial investments into foreign markets across diverse sectors and regions in the recent past.

- Since 2022, Malaysia has expanded its trade network through major agreements, including the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) (November 2022) with countries like Japan, Canada, Australia, and Mexico, and the Regional Comprehensive Economic Partnership (RCEP) (March 2022) with China, South Korea, Japan, and ASEAN nations.⁴⁵
- Malaysian investments abroad are diversified across various sectors, including manufacturing, services, and mining, with a geographical focus on ASEAN, Africa, the Middle East, and Europe. In the first quarter of 2024, the top three destinations were Singapore (23.5% of total outflows), Indonesia (11.1%), and the Netherlands (5.8%).⁴⁶
- Malaysian sovereign wealth fund, Khazanah Nasional, has been active in international investments. In April 2023, Khazanah invested USD 40 million in the Indian logistics company Xpressbees.⁴⁷

USD 7.6 billion

Malaysia's FDI outflows in 2023 totaled USD 7.6 billion, marking a 49.5% increase compared to 2018.⁴⁸

USD 8.62 billion

In 2023, Malaysia's direct investment abroad amounted to USD 8.62 billion.⁴⁹

USD 141.06 billion

In 2023, Malaysia's direct investment abroad stock reached USD 141.06 billion.⁵⁰

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Conclusion

As we enter a new era of capital flows, a window of opportunity opens for many global growth markets.

The dominance of push factors in directing and attracting global flows has begun to decrease as a result of a reshaping of the global financial system, emerging economic powers, and geopolitical shifts. Today, many of the world's most dynamic markets find themselves in the role of both providers and receivers of capital flows, a position previously dominated by advanced economies such as the US.

The wealth that is being generated in global growth markets is now as likely to be reinvested in those markets as it is to be invested in advanced economies. This use of development capital creates growth opportunities in those markets which in turn attracts global capital - whether it is portfolio flows or FDI flows. This virtuous circle is a huge opportunity for global growth markets and the creation of a polycentric world.

The pull factors that attract capital are still based on the economic orthodoxies of macro, fiscal and financial stability. But individual countries can still help to create the ecosystems that attract global investors. IFCs, freezones, and connections to global financial infrastructure are all contributors to these ecosystems.

At the end of the day, capital flows to where it is treated well.





Established in 2018, ADQ is an active global sovereign investor with a focus on critical infrastructure and supply chains. As a strategic partner to the Government of Abu Dhabi, ADQ invests in the growth of business platforms anchored in the Emirate that deliver value to local communities and long-term financial returns to its shareholder. ADQ's expanding portfolio has a total book value of USD 225 billion (as at 30 June 2024) and encompasses companies across numerous core sectors of the economy, including energy and utilities, transport and logistics, food and agriculture, and healthcare and life sciences.

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