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INVESTMENT TRENDS MONITOR

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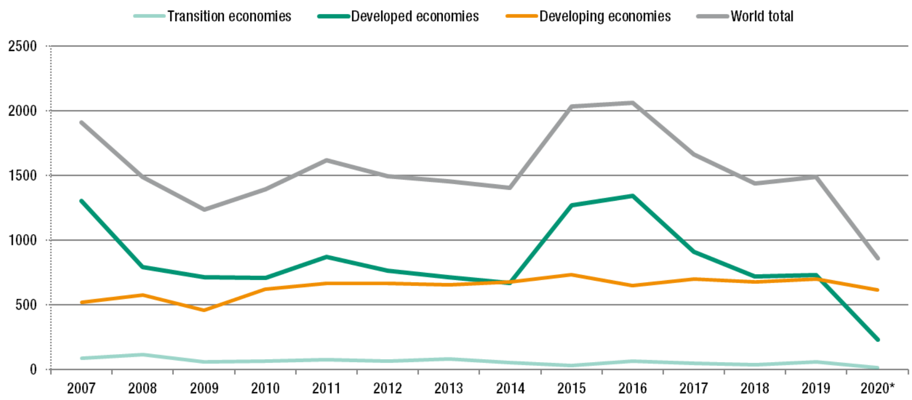
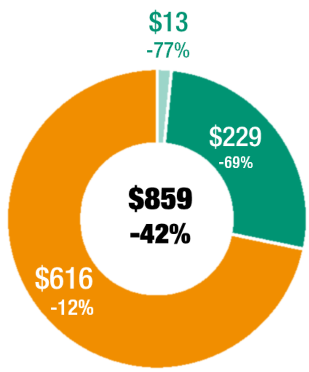
GLOBAL FDI FLOWS DOWN 42% IN 2020
Further weakness expected in 2021, risking sustainable recovery

HIGHLIGHTS

- *Global foreign direct investment (FDI) collapsed in 2020, falling by 42% to an estimated $859 billion, from $1.5 trillion in 2019 (figure 1).* FDI finished 2020 more than 30% below the trough after the global financial crisis in 2009.
- *The decline was concentrated in developed countries, where FDI flows fell by 69% to an estimated $229 billion.* Flows to Europe dried up completely to -4 billion (including large negative flows in several countries). A sharp decrease was also recorded in the United States (-49%) to $134 billion.
- *The decline in developing economies was relatively measured at -12% to an estimated $616 billion.* The share of developing economies in global FDI reached 72% – the highest share on record. China topped the ranking of the largest FDI recipients.
- *The fall in FDI flows across developing regions was uneven,* with -37% in Latin America and the Caribbean, -18% in Africa and -4% in developing Asia. East Asia was the largest host region, accounting for one-third of global FDI in 2020. FDI to the transition economies declined by 77% to $13 billion.

Figure 1. FDI inflows: global and by group of economies, 2007–2020*
(Billions of US dollars)





Source: UNCTAD.
* Preliminary estimates.

- *Trends in selected economies:*
  - FDI in China, where the early phase of the pandemic caused steep drops in capital expenditures, ended the year with a small increase (+4%).
  - FDI in India rose by 13% boosted by investments in the digital sector.
  - FDI in ASEAN – an engine of FDI growth throughout the last decade – was down 31%.
  - The halving of FDI inflows to the United States was due to sharp drops in both greenfield investment and cross-border mergers and acquisitions (M&As).
  - FDI in the EU fell by two thirds, with major declines in all the largest recipients; flows to the United Kingdom fell to zero.

- *Looking ahead, the FDI trend is expected to remain weak in 2021.* Data on an announcement basis, an indicator of forward trends, provides a mixed picture and point at continued downward pressure:
  - Sharply lower greenfield project announcements (-35% in 2020) suggest a turnaround in industrial sectors is not yet in sight.
  - Upticks in the fourth quarter of 2020 dampened earlier declines in newly announced international project finance deals (-2% for the full year). International investment in infrastructure sectors could thus prove stronger, also buoyed by economic support packages in developed countries.
  - Similarly, the 2020 decline in cross-border M&As (-10%) was cushioned by higher values in the last part of the year. Looking at M&A announcements, strong deal activity in technology and pharmaceutical industries is expected to push M&A-driven FDI flows higher.

- *For developing countries, the trends in greenfield and project finance announcements are a major concern.* Although overall FDI flows in developing economies appear relatively resilient, greenfield announcements fell by 46% (-63% in Africa; -51% in Latin America and the Caribbean, and -38% in Asia) and international project finance by 7% (-40% in Africa). These investment types are crucial for productive capacity and infrastructure development and thus for sustainable recovery prospects.

- Risks related to the latest wave of the pandemic, the pace of the roll-out of vaccination programmes and economic support packages, fragile macroeconomic situations in major emerging markets, and uncertainty about the global policy environment for investment will all continue to affect FDI in 2021.

Global FDI inflows,[1] excluding Caribbean offshore financial centers, fell by 42% in 2020, reaching an estimated $859 billion, in line with the forecast in the World Investment Report 2020. The COVID-19 pandemic affected all types of investment: greenfield investment project announcements (-35%), cross-border M&As (-10%) and new international project finance deals (-2%).

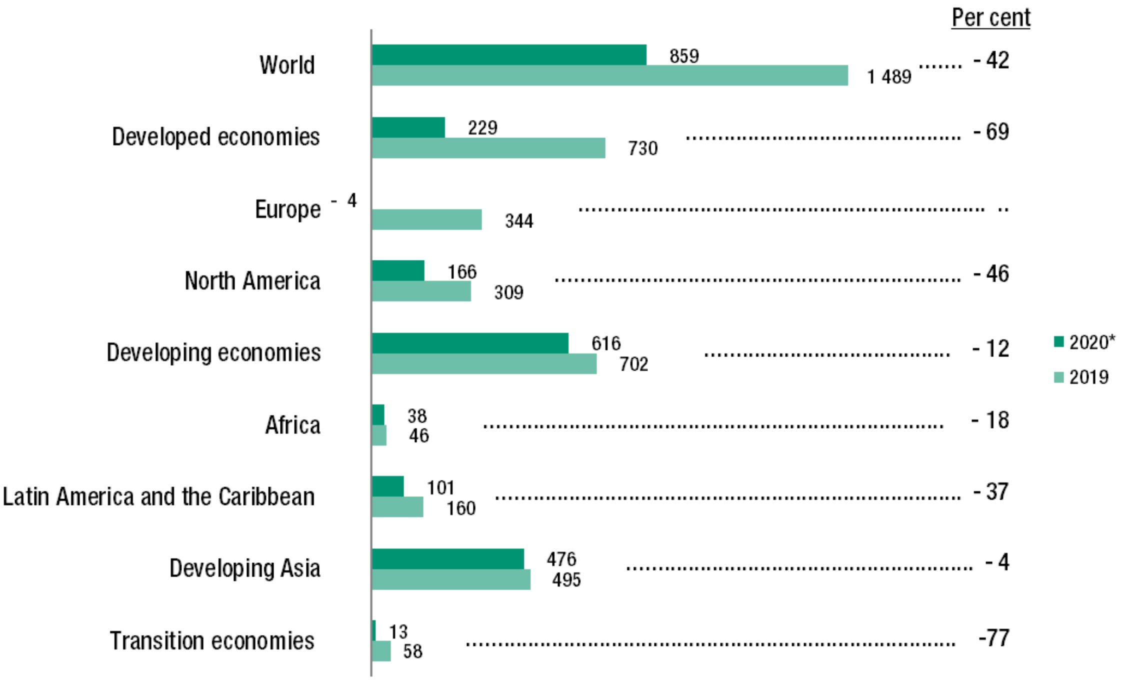
By region, falling flows to Europe (by more than 100%) and North America (-46%) contributed most to the global decline. FDI flows fell by only 4% in developing Asia (figure 2). As a result of these regional differences, the share of developing economies increased to 72% of the world total.

UNCTAD's GITM:

- **First full-year estimates for 2020 FDI flows**
- **153 economies included**
- **111 national official sources verified end-year estimates**
- **98% of global FDI flows covered**

[1] The trend monitor is based on FDI inflows for 153 economies for which data are available for at least part of 2020, as of 21 January 2020. These economies account for 98% of global FDI flows. Annual figures are estimated based on available partial-year data, in most cases up to the third quarter of 2020. The proportion of inflows from these economies in total inflows to their respective region in 2019 is used to extrapolate 2020 regional and global data. Quarterly FDI data are based on the directional principle. For a few countries FDI data follow the asset/liability principle.

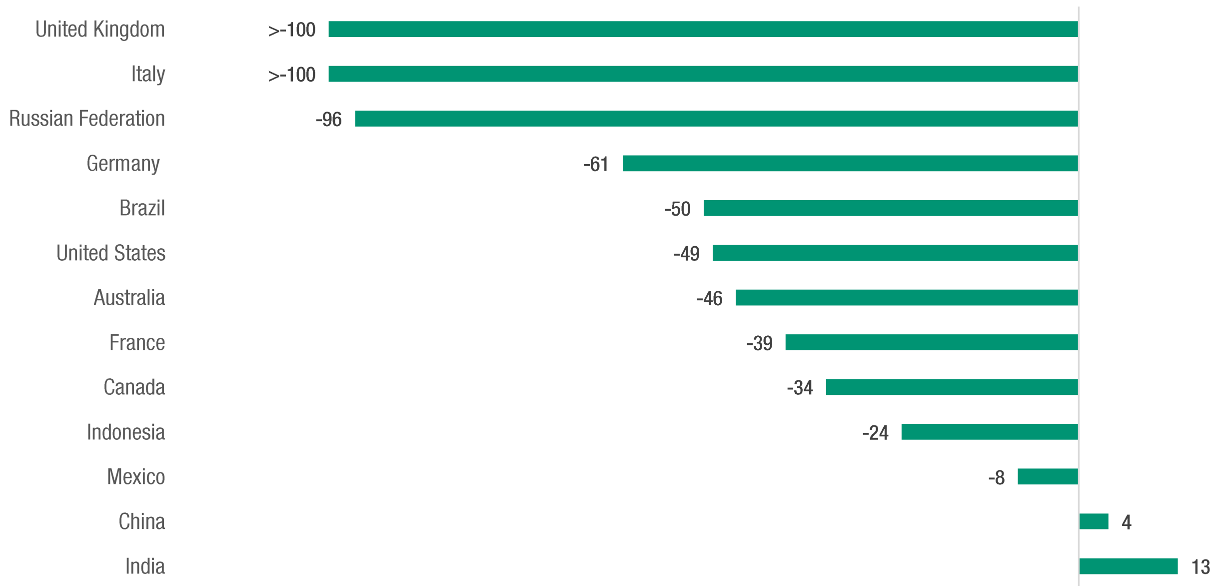
Figure 2. FDI inflows by region, 2019 and 2020*
(Billions of US dollars)



Source: UNCTAD.
* Preliminary estimates.

Looking at top FDI host economies, China became the largest recipient, attracting an estimated $163 billion in inflows, followed by the United States with $134 billion. The dramatic impact of COVID-19 on FDI inflows in major economies is illustrated most clearly by the trends in the top recipients *before* the pandemic. Figure 3 shows the percentage change in the largest economies in the 2019 top 20 (as reported annually in the World Investment Report). In relative terms, flows declined most strongly in the United Kingdom, Italy, Russian Federation, Germany, Brazil and United States. India and China bucked the trend.

Figure 3. Changes in 2020 FDI inflows for selected top 2019 recipient economies
(Per cent)



Source: UNCTAD.

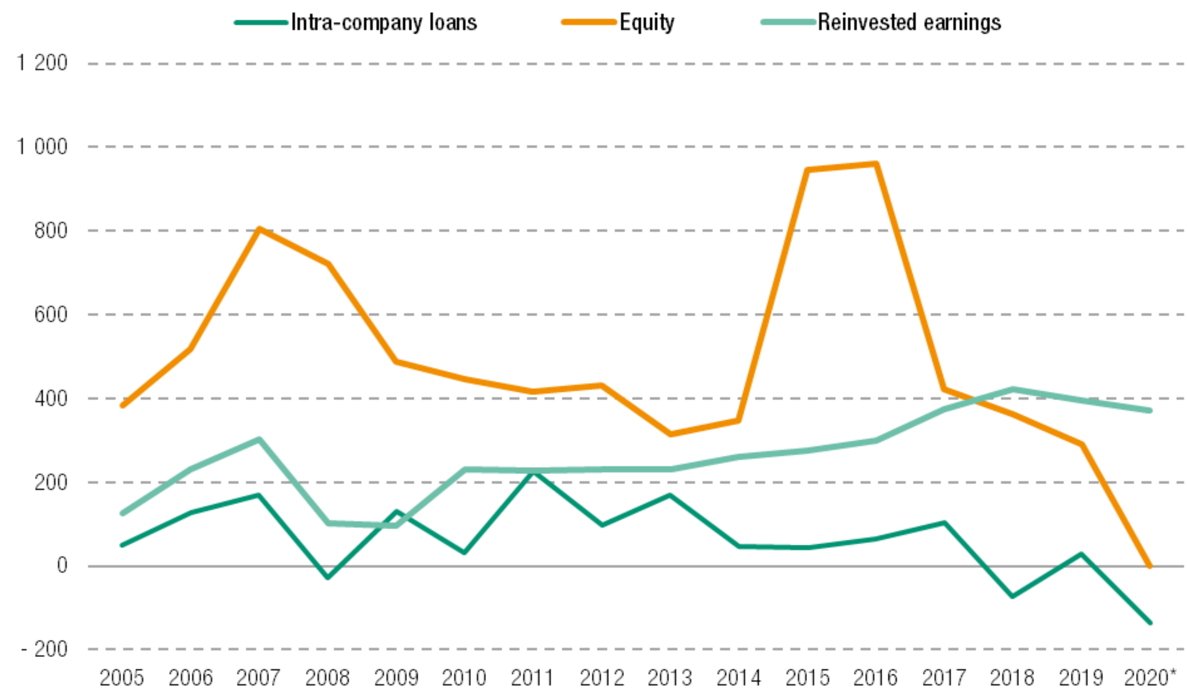
FDI flows to developed economies plummeted

FDI flows to developed countries fell drastically by 69% to values last seen almost 25 years ago. Of the global decline of $630 billion, almost 80% was accounted for by developed economies. At an estimated $229 billion, inflows in developed economies were only one third of the low point after the global financial crisis in 2009 (at $714 billion). Multinational enterprises (MNEs) significantly reduced new equity investments. In combination with lower M&A activity this resulted in a marked decline in the equity component of FDI (to near-zero). Intra-company loans turned negative (-$134 billion) as parent firms withdrew or were paid back loans from their affiliates, strengthening their balance sheets at home. Contrary to earlier expectations and despite significantly lower profit levels, reinvested earnings in foreign affiliates remained relatively stable, declining by only 6% (figure 4).

Inflows to *Europe* dropped into negative territory (-$4 billion) mainly due to sharply negative FDI in countries with significant conduit flows, such as the Netherlands and Switzerland. Flows to the Netherlands fell to an estimated -$150 billion in 2020 due to large equity divestments and negative intra-company loans (-$125 billion and -$102 billion, respectively). The value of cross-border M&As in the country reached almost $100 billion due to a corporate reconfiguration registered as a merger of Unilever (United Kingdom) with Unilever (Netherlands) for $81 billion. FDI to Switzerland remained negative at -$88 billion, due in part to large equity divestments (to an estimated -$155 billion).

FDI to the EU27 fell by 71% to an estimated $110 billion from $373 billion in 2019. Among EU members, 17 saw their FDI decline. Germany posted a large decrease (from a revised $58 billion in 2019 to $23 billion) despite a jump in cross-border M&As. Flows fell strongly to Italy and Austria due to large divestments; in Italy the mobile tower assets of Vodafone (United Kingdom) were sold to Telecom Italia SpA for $5.8 billion, while in Austria Mubadala Investment Co PJSC (United Arab Emirates) divested 36% of Borealis to OMV AG for $4.7 billion. France also saw its FDI decline by 39% to $21 billion due in part to lower M&A sales which fell from $18 billion to $5.1 billion.

Figure 4. Developed economies: FDI inflows by components 2005–2020*
(Billions of US dollars)



Source: UNCTAD.
* Preliminary estimates.

FDI flows to the United Kingdom were -$1.3 billion (from $45 billion in 2019) mainly due to large negative intra-company loans and some equity divestments (for example, Swiss Re divested its ReAssure Group to Phoenix Group Holding for $4.2 billion). Reinvested earnings turned positive to an estimated $27 billion from -$5 billion in 2019.

There were a few European countries that saw their FDI increase despite the crisis. FDI to Sweden doubled from $12 billion to $29 billion, as United States MNEs injected loans in their affiliates in the country. FDI to Spain rose 52% due to several acquisitions (for example a group of private equities from the United States (Cinven, KKR and Providence), acquired 86% of Masmovil for $2.8 billion).

FDI flows to *North America* fell by 46% to $166 billion with cross-border M&As dropping by 43%. Announced greenfield investment projects also fell by 29% and project finance deals by 2%. FDI to the United States halved (-49%) to an estimated $134 billion. Investments in the United States by MNEs from the United Kingdom, Germany and Japan declined significantly. The decline took place in wholesale trade, financial services and manufacturing. Cross-border M&A sales of United States assets to foreign investors fell by 41% mostly in the primary sector. FDI in Canada decreased by 34% to $32 billion, as MNEs from the United States halved new investment in the country.

Among other developed economies, flows to Australia fell (-46% to $22billion), while those to Israel increased (from $18 billion to $26 billion), as did those to Japan (from $15 billion to $17 billion). In Israel M&As sales in computer related industries rose by 31% to $7.3 billion (for example Nvidia (United States) acquired Mellanox for $6.9 billion).

Developing economies now account for more than 70% of global FDI

FDI flows to developing economies decreased by 12% (to an estimated $616 billion). The decline was reflected across all types of investment: the value of announced greenfield projects (-46%), the number of cross-border project finance deals (-7%) and the value of cross-border M&As sales (-4%).

FDI in *developing Asia* fell by 4% to an estimated $476 billion in 2020, the mildest FDI contraction among all regions. FDI in East Asia actually grew 12% to $283 billion. This was due in part to a rebound of financial flows to Hong Kong, China (+40%) after unrests resulted in exceptionally low values in 2019. FDI flows to China rose by 4% to $163 billion, making the country the largest recipient in 2020. A return to positive GDP growth (+2.3%) and the Government's targeted investment facilitation programme helped stabilize investment after the early lockdown. FDI in high tech industries was up by 11% in 2020. Cross-border M&As rose by 54% mostly in ICT and pharmaceutical industries. A notable deal was the acquisition of BeiGene by Amgen (United States) for $4.9 billion. In the Republic of Korea, FDI fell by 42% to $6 billion, with a significant decline in cross-border M&As.

FDI in South-East Asia contracted by 31% to $107 billion due to a decline in investment to the largest recipients in the subregion: inflows in Singapore fell by 37% to $58 billion, Indonesia by 24% to $18 billion, Viet Nam by 10% to $14 billion and Malaysia by 68% to $2.5 billion. In Singapore, through which investments in the subregion are often funneled, cross-border M&As contracted by 86%, reflecting a significant slowdown of foreign acquisitions in the subregion. In Thailand, FDI contracted 50% to $1.5 billion, mainly due to a large divestment (Tesco (United Kingdom) sold its stores to a Thai investor group for $9.9 billion). FDI flows in the Philippines, bucking the trend, rose by 29% to $6.4 billion. The strength of South-East Asia as an FDI engine remained evident; announced greenfield investment contracted more moderately (-14%) than in other developing regions. South-East Asia registered more than $70 billion in new greenfield investment projects, the largest volume among developing regions. An uptick in the number of projects in Q3 in Singapore could signal an impending FDI recovery in the region. In addition, the signing of RCEP could help renew FDI growth (see GITM37 Special Issue on RCEP).

FDI in South Asia rose by 10% to $65 billion. India saw FDI rising by 13% to $57 billion as investment in the digital economy continued, particularly through acquisitions. Cross-border M&A sales grew 83% to $27 billion; a notable deal was the acquisition of 10% of Jio Platforms, by Jaadhu owed by Facebook (United States) valued at $5.7 billion. Infrastructure and energy deals also propped up M&A values in India. In Pakistan, FDI was flat at $2 billion and concentrated in power generation and telecommunication industries. FDI fell in other South-Asian economies where investments are often tied to export-oriented apparel manufacturing which suffered significantly from the slump in global demand.

FDI flows to West Asia dropped by 24% to $21 billion. In most oil exporters the impact of the pandemic was exacerbated by low energy prices. Inflows to Turkey decreased by 19% to $6.8 billion. Major investments included a $200 million stake in a pharmaceutical manufacturing project by Metric Capital (France) and a 10% equity acquisition valued at $200 million by Qatar Investment Authority in a stock exchange operator. FDI to Saudi Arabia remained stable, with inflows increasing by 4% to an estimated $4.7 billion. Policy interventions in investment promotion and diversification under the framework of Vision 2030 appear to be showing an effect. MNEs based in Egypt and India were the most active investors in Saudi Arabia, followed by the United Kingdom.

FDI in *Latin America and the Caribbean* decreased by 37% to an estimated $101 billion, amidst one of the deepest recessions across the developing world. Investments in oil-related industries and market-seeking flows recorded steep declines. Among the larger economies only Mexico experienced a decline of less than 10%, thanks to resilient reinvested earnings.

In South America, flows fell by 46% to an estimated $60 billion as all the major recipients registered steep contractions. In Brazil, FDI decreased to $33 billion as the privatization programme and infrastructure concessions paused during the pandemic crisis. The worst affected industries were transportation and financial services, with falls in inflows of more than 85% and 70%, respectively, and the oil and gas extraction and automotive industries, which both registered a (preliminary) 65% decline in inflows.

Flows to Peru, Colombia and Argentina slumped by 76%, 49%, and 47%, respectively. In Peru, all sectors registered severe declines of flows with virtually no new investments in the services, manufacturing and utilities industries. The mining sector registered a milder decline, sustained by reinvested earnings. In Argentina, the health crisis compounded an already dire economic situation with a sovereign debt default in May. In Chile, flows fell by 21% to $8.9 billion; an increase in new investments in the first quarter in the transport, manufacturing and trade industries was undone in the second part of the year.

Flows to Central America contracted by 14% to an estimated $38 billion. FDI to Mexico decreased by 8% to $31 billion. The automotive industry was particularly hard hit by the pandemic registering a drop in flows (by -44%). The sale of a 40% share in Mexican construction company IDEAL to a Canadian consortium for $2.6 billion led to an increase in the services sector. In Costa Rica, FDI decreased by -48% to $1.3 billion with falling flows to the tourism industry and to special economic zones. In the Caribbean, flows fell by 18% to $3.2 billion, significantly hit by reduced investment in the tourism industry. In the Dominican Republic although overall inflows fell by 9%, manufacturing investments increased, supported by new projects in medical devices.

FDI flows to *Africa* declined by 18% to an estimated $38 billion, from $46 billion in 2019. Greenfield project announcements, an indication of future FDI trends, fell 63% to $28 billion, from $77 billion in 2019. The pandemic's negative impact on FDI was amplified by low prices of and low demand for commodities.

Egypt remained the top recipient of FDI in Africa, despite a significant decline in inflows (-39%) to an estimated $5.5 billion. Overall, in North Africa, FDI inflows fell by 32% to $9.4 billion from $14 billion in 2019. Only flows to Morocco were robust and stayed almost unchanged at $1.6 billion as the country's FDI profile is relatively diversified with the established presence of several major MNEs in manufacturing industries including automotives, aerospace and textiles.

FDI inflows to Sub-Saharan Africa decreased by 11% to an estimated $28 billion. Inflows to Nigeria declined to $2.6 billion from $3.3 billion in 2019. Lower crude oil prices, coupled with the closure of oil development sites at the start of pandemic due to movement restrictions, weighed heavily on FDI to Nigeria. Senegal was among the few economies with higher inflows in 2020, registering a 39% increase to $1.5 billion supported by rising investments in energy. Inflows to Ethiopia declined by 17% but were still substantial at $2.1 billion. Significant investments took place in the manufacturing, agriculture and hospitality sectors. FDI inflows were also steady in Mozambique decreasing by only 6% to $2 billion as the implementation of the $20 billion LNG project led by Total continued, although at slower than planned speed. FDI to South Africa almost halved to $2.5 billion from $4.6 billion in 2019. However, several large projects were announced including an investment by Google (United States) of approximately $140 million in a fibre optics submarine cable and an additional investment of $360 million by Pepsico (United States) to expand the capacity of Pioneer Foods.

FDI flows to the *transition economies* fell sharply – by 77%, to an estimated $13 billion. This was the lowest level of inflows recorded in the region since 2002. Inflows plummeted in the Russian Federation, the largest economy of the region – from $32 billion in 2019 to $1.1 billion due to the COVID-19 crisis. In addition, weak international demand for crude oil, and a price conflict with other large producers in April 2020 drove prices to historical low levels, putting downward pressure on investment in the oil sector.

FDI also decreased in less natural resource dependent South-East Europe (-28%). Manufacturing activities connect to global supply chains suffered in several economies, explaining most of the decline in FDI. In the more resource-based Commonwealth of Independent States and Georgia, the majority of countries experienced large declines in FDI. Exceptions were Kazakhstan where FDI grew by 19% due to an expansion of activities in construction and trade and Belarus where FDI rose by 27% to $1.6 billion.

The value of greenfield project announcements in the region fell by 60%, to $19 billion, the lowest level ever recorded. In some of the biggest recipients, such as Kazakhstan (-86%), the Russian Federation (-68%) and Serbia (-78%), the decline was even more severe, pointing at continued weakness in investment in 2021.

The decline affected all forms of FDI: M&As, greenfield and project finance

New greenfield investment project announcements were 35% lower in 2020, cross-border M&As fell by 10% and newly announced cross-border project finance deals, an important source of investment in infrastructure, declined by 2% (table1).

Table 1. Investment trends by type and region, 2020 *(Per cent change vs 2019)*

	Cross-border M&As	Greenfield projects*	International project finance**
World	-10	-35	-2
Developed economies	-11	-19	7
Europe	26	-15	7
North America	-43	-29	-2
Developing economies	-4	-46	-7
Africa	-45	-63	-40
Latin America and the Caribbean	-67	-51	-9
Asia	31	-38	17
Transition economies	147	-60	-50

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics), information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield projects, and Refinitiv SA for announced cross-border project finance deals.

* The trend in greenfield projects refers to the first eleven months of 2020.
** International project finance refers to the number of deals, as project values for the latest months are unavailable.

Cross-border M&A sales reached $456 billion in 2020 – a decrease of 10% compared to 2019. In developed countries, they fell sharply in North America (-43%) while in Europe the increase of 26% was due in part to the above mention Unilever corporate reconfiguration adding $81 billion. In developing economies, M&A sales in Asia rose by 31%, while those in Latin America and the Caribbean (-67%) and Africa (-45%) fell.

The value of cross-border M&A sales dropped by 52% in the primary sector (mainly in mining, quarrying and