FDI WATCH

QUARTERLY REPORT

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WORLD BANK GROUP

CONTENTS

KEY MESSAGES

- **Global FDI flows:** FDI flows to developing (low- and middle-income) countries with available data decreased 6 percent year-on-year (YoY) after registering a slight YoY increase in Q3 2020, reflecting uneven progress with containing the pandemic and its economic impacts. In contrast, strong performance in developed (high-income) countries and China drove a YoY increase in total FDI inflows globally. Developing countries' weak performance vis-à-vis developed countries—a reversal of the pattern seen in prior quarters of 2020—partly reflects differing expectations of vaccine rollouts between wealthier and poorer nations (the first vaccines were announced in Q4).

- **Regional FDI flows**: Across developing regions, significant inflows to China, India, and Qatar in Q4 2020 boosted the growth of total FDI to developing countries in the East Asia and Pacific (up 32 percent YoY), South Asia (up 44 percent YoY), and Middle East and North Africa (up 80 percent YoY) regions. In contrast, there was a YoY decline in total FDI to developing countries in the Latin America and the Caribbean and Europe and Central Asia regions. Some of these trends reflect select countries' successes in controlling infection rates (e.g., in China), while other trends reflect one-off, country-specific situations (e.g., the normalization of relations between Qatar and select Middle Eastern neighbors).

- **Greenfield FDI announcements:** The contraction in the value of announced greenfield FDI in developing countries eased somewhat in Q1 (Jan-Mar) 2021. Announced greenfield FDI was down 31 percent YoY in developing countries and 25 percent globally in Q1 2021, a slight improvement from 54 percent and 38 percent, respectively, in Q4 2020. This trend reflects the rollout of vaccines across an increasing number of countries as well as the resulting increase in investor optimism.

- **Cross-border mergers and acquisitions (M&A) announcements:** Cross-border mergers and acquisitions continued to rebound globally, up 112 percent YoY to reach US$463 billion in Q1 2021. Cross-border merger and acquisition activity also increased in developing countries, where total deal value increased 41 percent YoY to reach US$41 billion. However, total cross-border M&A volumes were not very far above historical averages, suggesting that the wave of 'fire-sale' acquisitions predicted by some observers has not yet come to pass.

- **Sectoral trends:** Interestingly, Q1 2021 saw a slight reversal of sectoral trends observed in previous quarters. Previously resilient sectors such as IT services (down 39 percent YoY) and utilities (down 38 percent YoY) saw large decreases in announced greenfield FDI. In contrast, some sectors that had faced significant challenges amidst the pandemic saw less significant declines (e.g., automotive manufacturing, down 6 percent YoY). This pattern may reflect reversion to the mean after the disruption severely disrupted preexisting sectoral patterns of FDI. Nevertheless, some pandemic-driven patterns persisted: In Q1 2021, greenfield FDI in pharmaceuticals was up 67 percent YoY, while greenfield FDI in hospitality was down 77 percent.

Investor sentiment: Surveyed affiliates of multinational enterprises (MNEs) in developing countries continued to report widespread negative impacts due to COVID-19 in Q1 of 2021, with 93 percent of surveyed firms reporting they were adversely affected on at least one business dimension. The recovery in global demand caused input price pressures to appear, as 52 percent of firms reported elevated input costs in Q1 2021 relative to Q1 2020. With input costs excluded, the share of firms that reported any adverse effects fell from 89 percent in Q4 2020 to 79 percent in Q1 2021. Despite these signs of improvement, 68 percent of firms were still operating below their pre-COVID capacity in Q1 2021. Respondents generally expected a gradual recovery over the coming year, with 52 percent of firms not expecting to return to full capacity until 2022 or later.

- **Policy changes:** Most new FDI restrictions introduced since the beginning of 2020 have occurred in developed countries, many of which have introduced new FDI screening measures. Across developing countries, there was relatively little new policy activity in Q1 2021, with a mix of liberalizing and restricting measures.

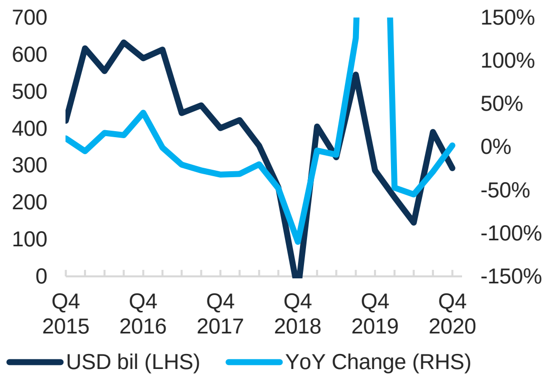
This quarterly report has been prepared by the Global Investment Climate Unit of the World Bank. *The FDI Watch* presents the latest data on foreign direct investment (FDI) capital flows, investor perceptions, and policy developments. Data cover Q3 2020 (for total FDI flows) and Q4 2020 (for greenfield investment, M&A, and investor sentiment). It also highlights recent FDI publications by the World Bank and other organizations. *The FDI Watch* is prepared by Peter Kusek, Brody Viney, Ryan Kuo, Dayo Ojaleye, and Siddharth Ramalingam under the guidance of Christine Qiang (Manager, Global Investment Climate Unit). For further information or contributions please contact Peter Kusek (**pkusek@worldbank.org**). A full list of Investment Climate resources is available at **https://www.worldbank.org/en/topic/investment-climate**.

GLOBAL FDI TRENDS

FDI Inflows

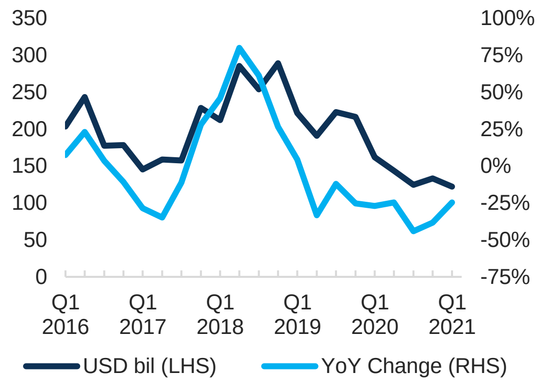
After many consecutive quarters of YoY declines due to COVID-19, global FDI recovered slightly in Q4 (Oct-Dec) 2020, with a total of $293 billion in FDI inflows (up 2 percent YoY) across the 91 countries with available FDI data. This modest recovery was mostly driven by FDI inflows to high-income countries such as the United States and Germany. However, FDI inflows into developing (low- and middle-income) countries decreased 6 percent YoY to $130 billion in Q4 2020 for the 56 countries with available data (Figure 2), reflecting the continued impact of the crisis on new investment projects and MNE affiliate profits. Developing countries' worse performance relative to developed countries in Q4 stood in contrast to their stronger performance in prior quarters. This pattern reversal is in part due to COVID-19 vaccine approval announcements made in Q4 2020, which are likely to have disproportionately improved investor sentiment in wealthier countries expected to roll out vaccines more rapidly.

Figure 1: Quarterly FDI inflows, global[1]



Source: IMF Balance of Payments.

Figure 2: Quarterly FDI inflows, developing countries



Source: IMF Balance of Payments.

Greenfield FDI

The impact of the crisis on the value of greenfield projects announcements continued to ease in Q1 of 2021 (Figure 3 and Figure 4). After a decline of 54 percent YoY in developing countries in Q4 2020, the value of new announcements was down a relatively modest 31 percent YoY for Q1 2021, although the absolute value actually declined slightly relative to Q4 2020.

Figure 3: Announced greenfield FDI, global

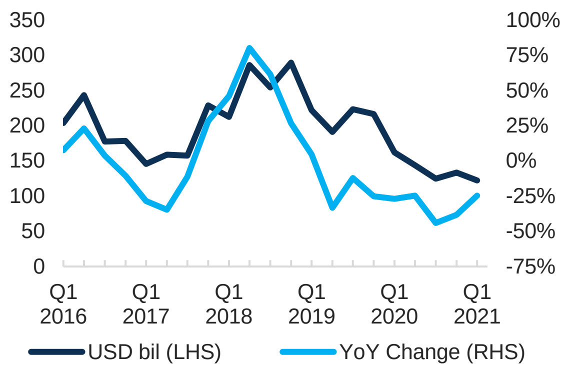
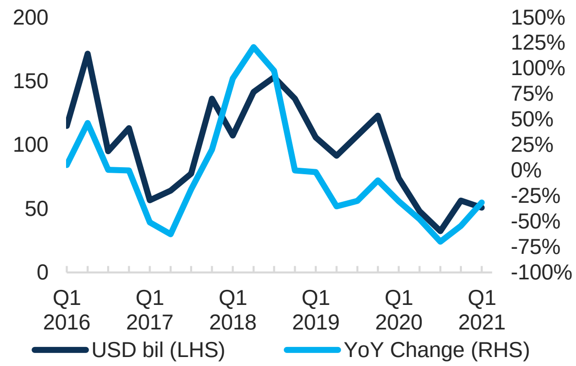


Figure 4:Announced greenfield FDI, developing countries



[1] Q4 2019 and Q4 2020 represent large outliers in YoY growth terms due to abnormally low FDI in previous years. The low FDI was driven by large-scale repatriations from select high-income European economies due to a change in United States tax law. This pattern is also evident to a lesser extent in other quarters of 2019.

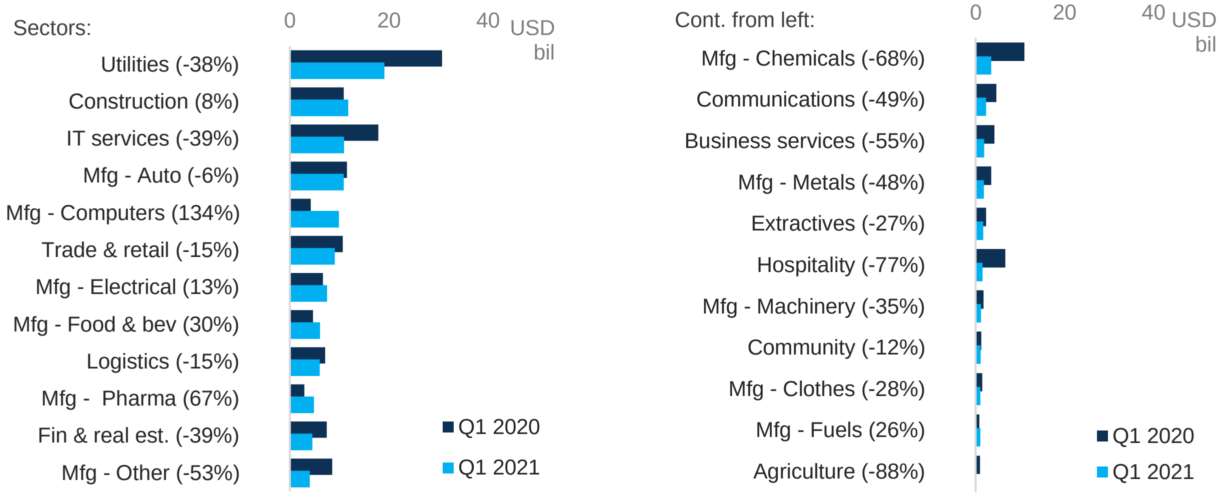
Source: Financial Times fDi Markets.

Source: Financial Times fDi Markets.

Globally, greenfield FDI announcements remained below 2020 levels for most sectors in Q1 2021 (Figure 5). Amongst major FDI sectors, the decline was sharpest in the hospitality (down 77 percent YoY) and chemicals (down 68 percent YoY) sectors. Interestingly, sectors which had been relatively insulated from pandemic effects in previous quarters such as IT services and utilities also saw large YoY declines in Q1 2021, although this pattern may reflect more of a reversion to the mean after a few consecutive quarters of very strong performance.

In contrast, announced greenfield FDI declined less (or even grew) in YoY terms in the construction sector and across multiple manufacturing sectors (e.g., automotive, computer, electrical, food and beverage), potentially signaling a rebound in manufacturing FDI after a prolonged period of pandemic-driven declines.

Figure 5: Year-on-year change in announced greenfield FDI by sector, global, Q1

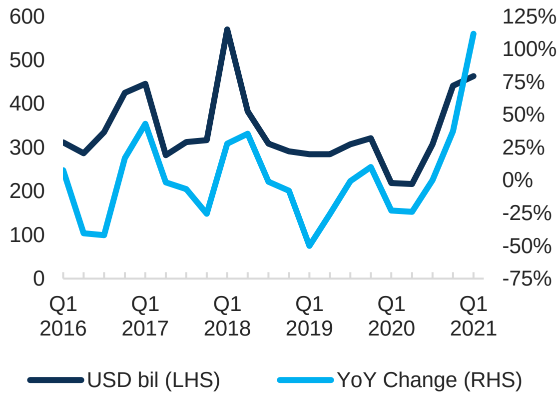


Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

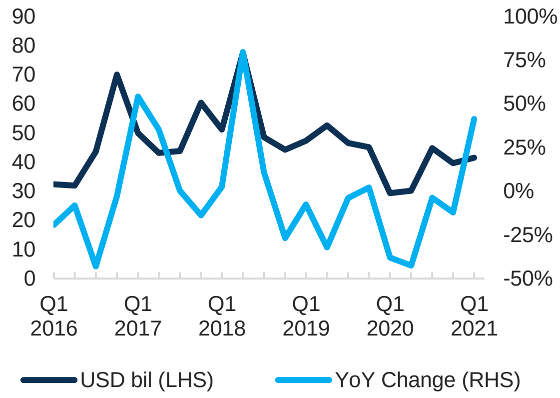
Globally, the value of announced cross-border M&A transactions continued to increase in Q1 2021, reaching US$463 billion (up 112 percent YoY) (Figure 6). This steady increase was also reflected in developing countries, where M&A transaction value increased 41 percent YoY (Figure 7). However, the dramatic YoY growth rates in part reflect low M&A deal flow in Q1 2020, and the value of cross-border M&A in developing countries remained in line with historical norms.

Figure 6: Value of total cross-border M&A deals, global



Source: Refinitiv Eikon.

Figure 7: Value of cross-border M&A deals, developing countries



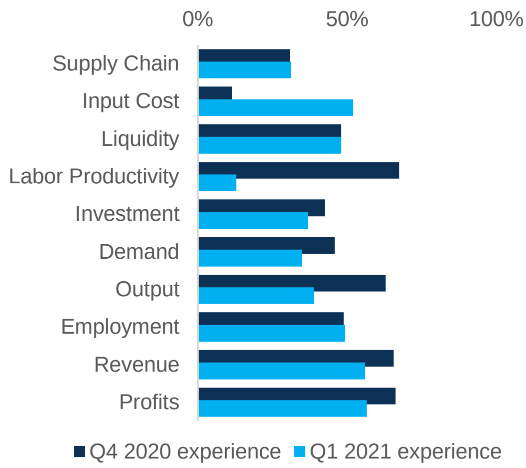
Source: Refinitiv Eikon.

Investor sentiment

Data from the World Bank's latest global MNE pulse survey show that the adverse effects of the COVID-19 pandemic remained widespread for MNE affiliates in Q1 2021, with 93 percent experiencing adverse effects along at least one dimension (Figure 8).

Nevertheless, there were signs of improvement in terms of the share of respondents who reported adverse impacts with respect to labor productivity, investment demand, output, revenue, and profits. At the same time, a significantly greater share of respondents reported experiencing increased input costs in Q1 2021, compared to the same period in 2020. Both of these trends may reflect the global economic recovery that is underway, pushing up firm performance but also commodity and input costs.

Figure 8: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing countries



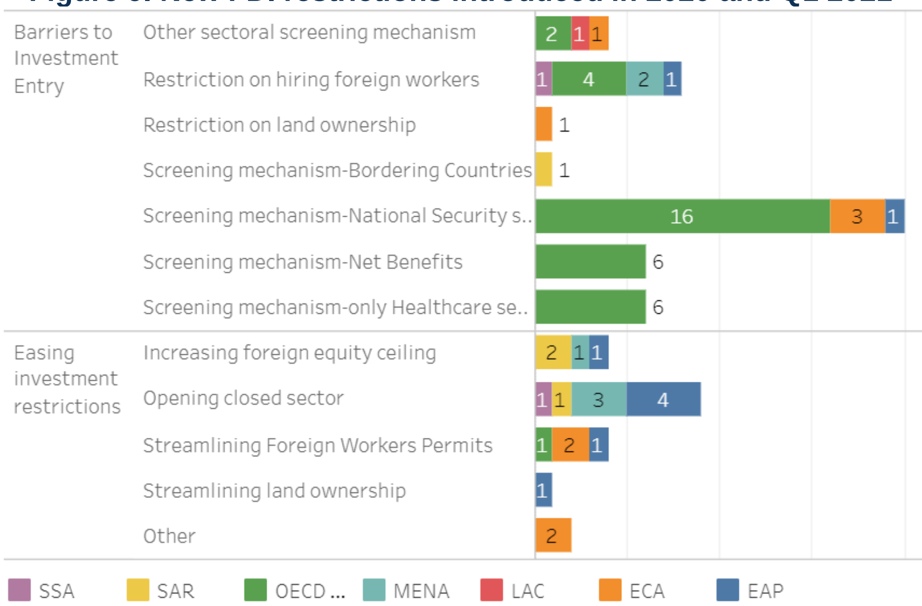
Source: Global MNE Pulse Survey.

Policy changes

Overall, new policy restrictions on FDI introduced since the beginning of 2020 have been concentrated in developed countries and driven by new screening mechanisms concerning national security. There have been 16 new screening measures in high-income countries targeting national security sectors, as well as a further 6 measures in the health care sector and 4 new measures limiting the hiring of foreign workers.

Across most developing countries, new restrictions on FDI have been more limited (see further in this report for region-specific changes). In fact, many economies have introduced measures to facilitate investment entry (Figure 9). Please see World Bank's FDI Entry and Screening Tracker for more information.

Figure 9. New FDI restrictions introduced in 2020 and Q1 2021



Source: World Bank FDI Entry and Screening Tracker, analyzing public announcements and information.

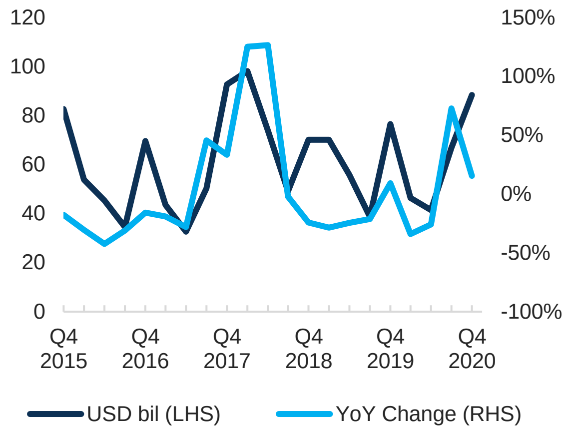
EAST ASIA AND PACIFIC

Total FDI inflows

For the ten countries in the East Asia and Pacific region with available data, total FDI inflows rebounded in Q4 2020, up 15 percent YoY (from the same period in 2019) to reach US$88 billion (Figure 10).

However, this rebound was primarily driven by China, where inflows rose to US$86 billion in Q4 2020, a 32 percent YoY increase versus the same period in 2019. The other nine countries in the region with available data received a total inflows of US$2 billion (down 80 percent YoY versus the same period in 2019).

Figure 10: Quarterly FDI inflows, developing countries in East Asia and Pacific with data available



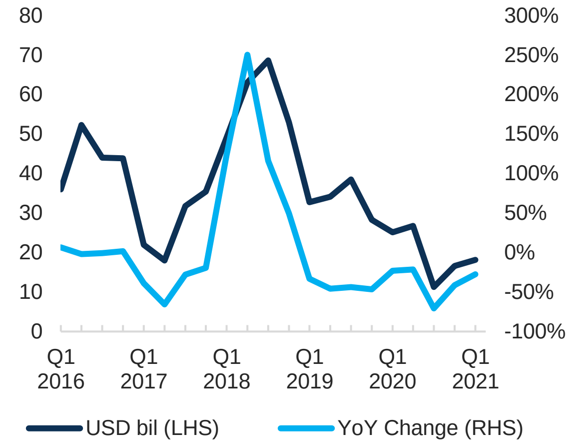
Source: IMF Balance of Payments.

Greenfield FDI

The contraction in announced greenfield FDI in the East Asia and Pacific region eased furthermore in Q1 of 2021, with project announcements totaling up to US$18 billion, representing a 28 percent decline YoY. This represented a steady improvement after lows of around US$14 billion (over 56 percent YoY declines) in Q3 and Q4 (Figure 11).

As with total FDI inflows, the improvement in regional greenfield FDI was primarily driven by China, where new announcements totaled US$12 billion in Q1 2021, up 16 percent YoY. Other countries with available data in the region received US$7 billion in Q1 2021, down 56 percent YoY.

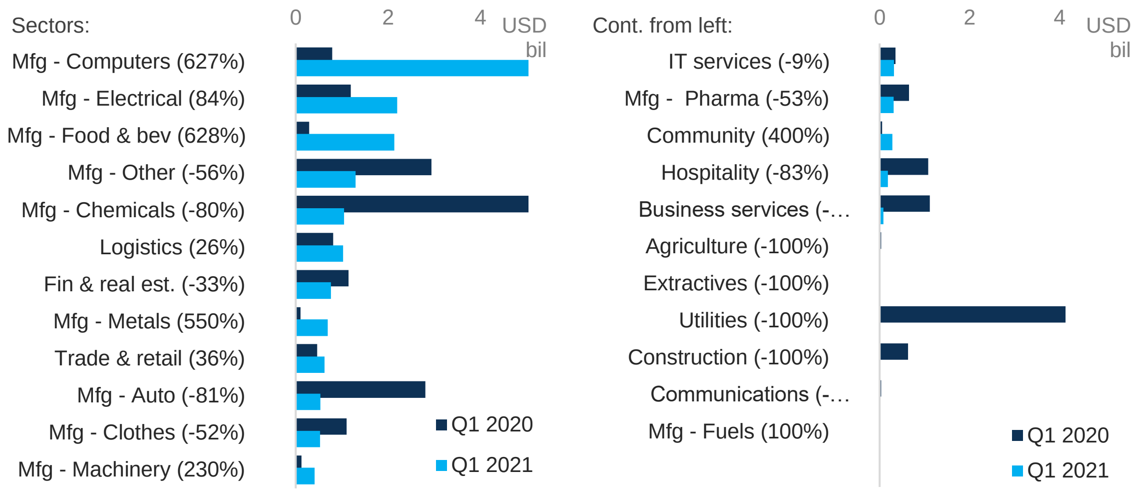
Figure 11: New announced greenfield FDI, developing countries in East Asia and Pacific



Source: Financial Times fDi Markets.

The Q1 2021 improvements in greenfield announcements were led by projects in computer manufacturing, which totaled US$5.7 billion with an increase of 627 percent YoY (Figure 12). Much of this volume was driven by Hong Kong-based GCL Poly Energy, which invested US$3 billion in a new semiconductor manufacturing facility in China. In contrast, new projects in the chemicals industry fell 80 percent YoY to US$1 billion, new projects in automotive manufacturing fell 81 percent YoY to US$0.5 billion, and new projects in hospitality were down 83 percent YoY at US$0.2 billion. These trends in part reflect continued challenges in industry and lower demand for tourism, although Q1 results in general tend to be volatile across years due to seasonality.

Figure 12: YoY change in announced greenfield FDI by sector, developing countries in East Asia and Pacific, Q1



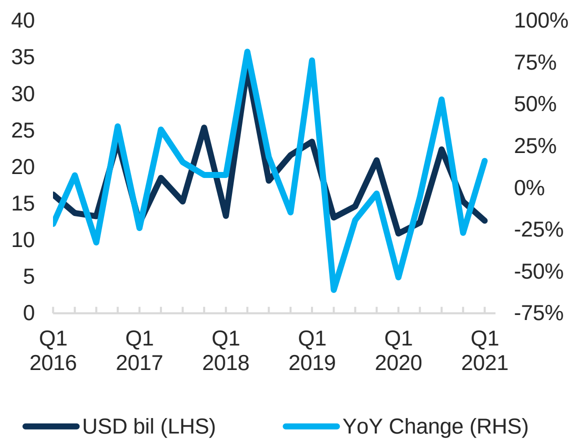
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

After declining in YoY terms in Q4 of 2020, the value of cross border M&A into developing countries in the region increased 16 percent YoY (Figure 13).

Most of the cross-border M&A activity concentrated in China, which saw US$10 billion in inbound cross-border M&A (43 percent YoY increase). This trend reflected a general increase in deal flow rather than any one megadeal. In contrast, other countries in the region recorded just US$2.3 billion in total cross-border M&A, down 38 percent YoY.

Figure 13: Value of total cross-border M&A deals, developing countries in East Asia and Pacific



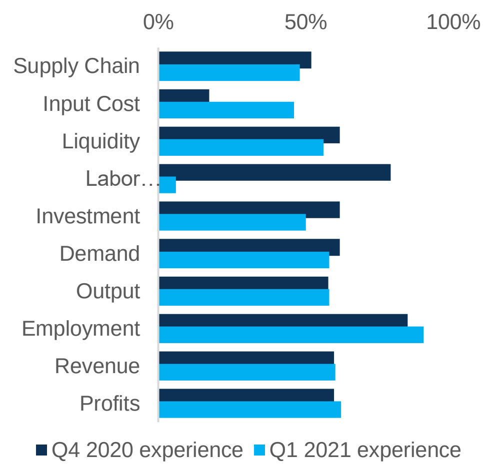
Source: Refinitiv Eikon.

Investor sentiment

MNEs in the East Asia and Pacific region widely reported experiencing adverse effects from the pandemic in Q1 2021 (Figure 14), with 99 percent of survey respondents reporting adverse impacts on at least one business dimension. While global results showed some improvements in supply chain and demand-side impacts, these improvements were not evident in this region, potentially because Q4 survey results already reflected the earlier recovery in the East Asia and Pacific region.

Most respondents continued to report declines in output, revenues, and profits at levels similar to what was seen in Q4 2020.

Figure 14: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing countries in East Asia and Pacific



Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, low- and middle-income countries in the East Asia and Pacific region introduced the following measures related to FDI entry and screening:

- **China (March 2021)—Opening closed sectors.** China's Banking and Insurance Regulatory Commission abolished restrictions on foreign shareholding in joint venture life insurance companies.
- **Indonesia (February 2021)—Reducing foreign capital ownership.** A new decree from the Indonesian government specified that Indonesian nationals must hold at least 15 percent of shares (and 51 percent of voting rights) in non-bank payment services providers.
- **Indonesia (March 2021)—Opening closed sectors.** A new FDI 'positive list' opened up many new sectors of the economy to foreign investment, including telecommunications, transportation, energy, distribution, and construction services.

More information on policies for FDI entry and screening in the region can be found **here**.

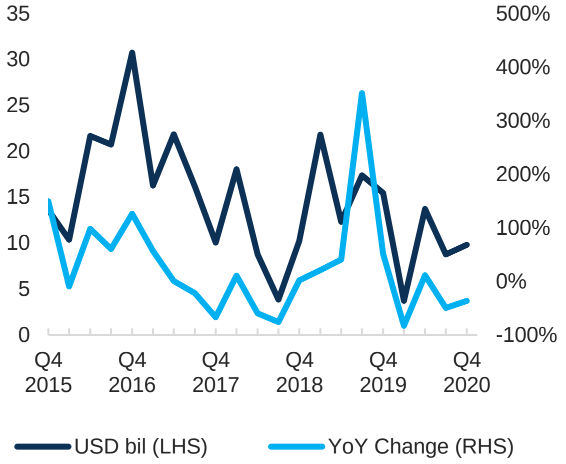
EUROPE AND CENTRAL ASIA

Total FDI inflows

Total FDI flows to Europe and Central Asia fell again in Q4 2020, totaling just US$9.8 billion for 18 developing countries for which available data were available. This represented a decline of 37 percent YoY (compared with the same period in 2019) (Figure 15).

This decline was primarily driven in absolute terms by Russia, where inflows fell to US$4 billion in Q4 2020, a 36 percent decrease versus the same period in 2019. In contrast, flows to Turkey fell to US$2.4 billion, a relatively modest decrease of 3 percent YoY. Other developing countries in the region received a total of US$3.5 billion (down 49 percent YoY).

Figure 15: Quarterly FDI inflows, developing countries in Europe and Central Asia with data available



Source: IMF Balance of Payments.

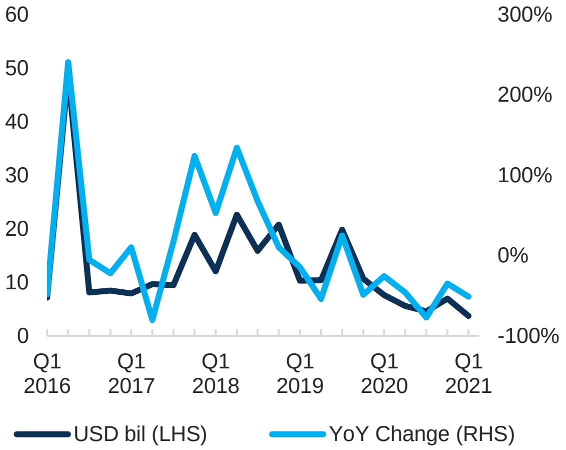
Greenfield FDI

The total value of announced greenfield FDI in Europe and Central Asia region declined in Q1 2021, totaling US$4 billion, representing a 51 percent contraction YoY (Figure 16).

The decline in greenfield FDI announcements is seen across most developing countries: Russia, Turkey, Serbia, Ukraine, Bosnia, Belarus, Bulgaria, Uzbekistan, Kazakhstan, Azerbaijan, and North Macedonia. However, Albania and Romania saw an increase in greenfield announcements YoY.

The decline in Q1 2021 was led by reduced investment in the auto manufacturing sector, where the YoY announcements were down 91 percent. A significant decline in greenfield announcements was also seen in other sectors such as utilities (down 88 percent YoY), retail (down 70 percent YoY), and logistics (down 68 percent). Finally, greenfield announcements in the extractive sectors also fell to zero, as also seen in other regions.

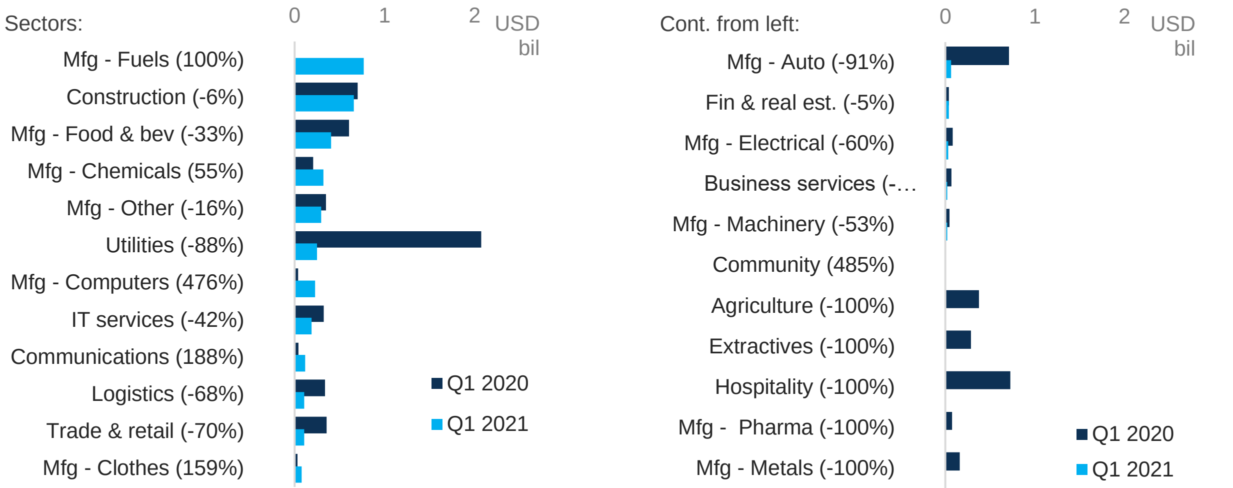
Figure 16: New announced greenfield FDI, developing countries, Europe and Central Asia



Source: Financial Times fDi Markets.

In contrast, greenfield announcements in the fuel manufacturing sector improved in Q1 (up 100 percent YoY). This is largely attributed to a US$769 million investment by Chinese-based Jingan in a new fuel manufacturing facility in Russia.

Figure 17: YoY change in announced greenfield FDI by sector, developing countries in Europe and Central Asia, Q1



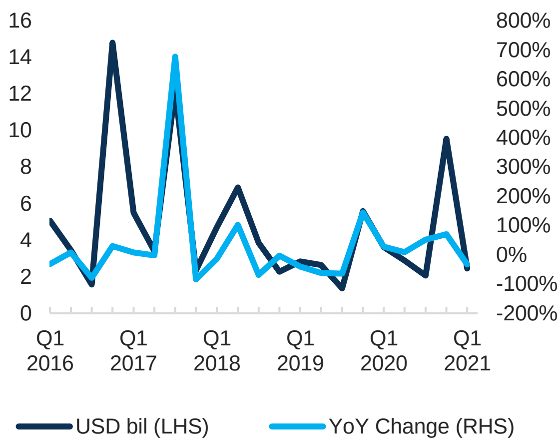
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The value of announced cross-border M&A deals in the Europe and Central Asia region declined in Q1 2020, totaling US$2.4 billion (down 33 percent YoY) (Figure 18).

The vast majority of announced M&A activity was targeted toward Russia, with a total of US$1.4 billion driven by a large acquisition of Chelyabinsk Pipe Rolling Plant PJSC by a consortium of domestic and foreign acquirors. Few deals were reported for other developing countries in the region.

Figure 18: Value of total cross-border M&A deals, developing countries in Europe and Central Asia



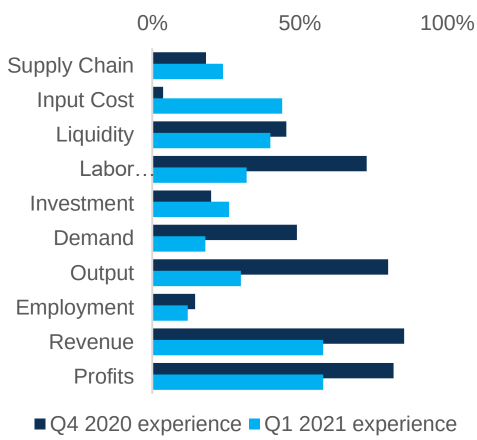
Source: Refinitiv Eikon.

Investor sentiment

Adverse effects from the COVID-19 crisis remained widespread for MNE affiliates in Europe and Central Asia in Q1 2021, with some signs of improvement.

In Q1 2021, 80 percent of MNC affiliates in developing countries in the region reported at least some adverse impacts (relative to the same period in 2020) from COVID-19. However, there were encouraging signs of improvement as the share of MNEs reporting adverse impacts on revenues, profits, output, demand, and labor productivity all decreased.

Figure 19: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing countries in Europe and Central Asia



Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, low- and middle-income countries in the Europe and Central Asia region did not introduce any new measures related to FDI entry and screening.

More information on policies for FDI entry and screening in the region can be found **here**.

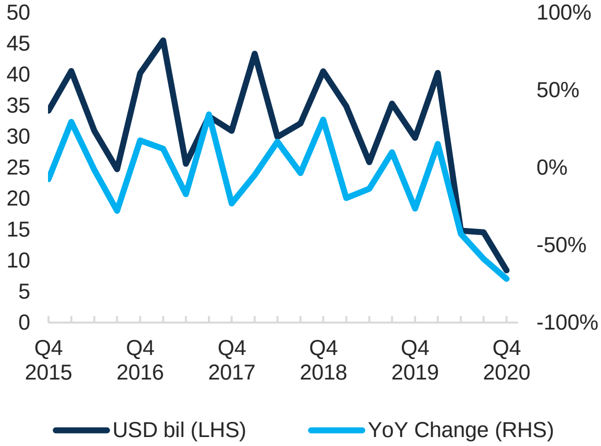
LATIN AMERICA AND CARIBBEAN

Total FDI inflows

For twelve countries for which data were available in the Latin America and Caribbean region, total FDI declined in Q4 of 2020, down 72 percent YoY (compared to the same period in 2019) to reach US$8.4 billion (Figure 20).

The crisis has fallen heavily on FDI inflows to Brazil, which totaled just US$4 billion in Q4 (down 80 percent YoY). Inflows to other countries in the region were down 56 percent YoY. However, smaller countries such as Nicaragua, the Dominican Republic and Paraguay saw relatively stronger results, up slightly YoY.

Figure 20: Quarterly FDI inflows, developing countries in Latin America and Caribbean with available data



Source: IMF Balance of Payments.

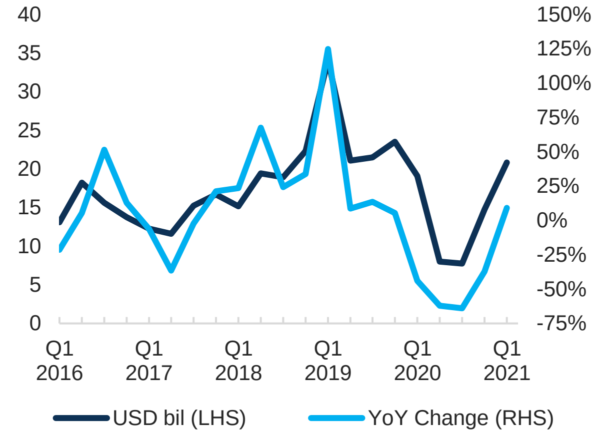
Greenfield FDI

Total announced greenfield FDI in the Latin America and Caribbean region rebounded in Q1 of 2021, with project announcements totaling up to US$21 billion, representing a 9 percent YoY increase over the same period in 2020 (Figure 21).

Brazil led the way with a total of US$12 billion in greenfield announcements in Q1 2021, double the amount recorded in the same period in 2020. Across other developing countries in the region, however, announced greenfield FDI was down 34 percent YoY in Q1 of 2021.

The Q1 2021 improvement in greenfield announcements was led by projects in the utility sector, which totaled US$8.5 billion with an increase of 47 percent YoY (Figure 22). Much of the volume was driven by Australian-based Enegix Energy, which invested US$5.4 billion in the development of a utility-scale green hydrogen plant in Brazil.

Figure 21: New announced greenfield FDI, all developing countries, Latin America and Caribbean

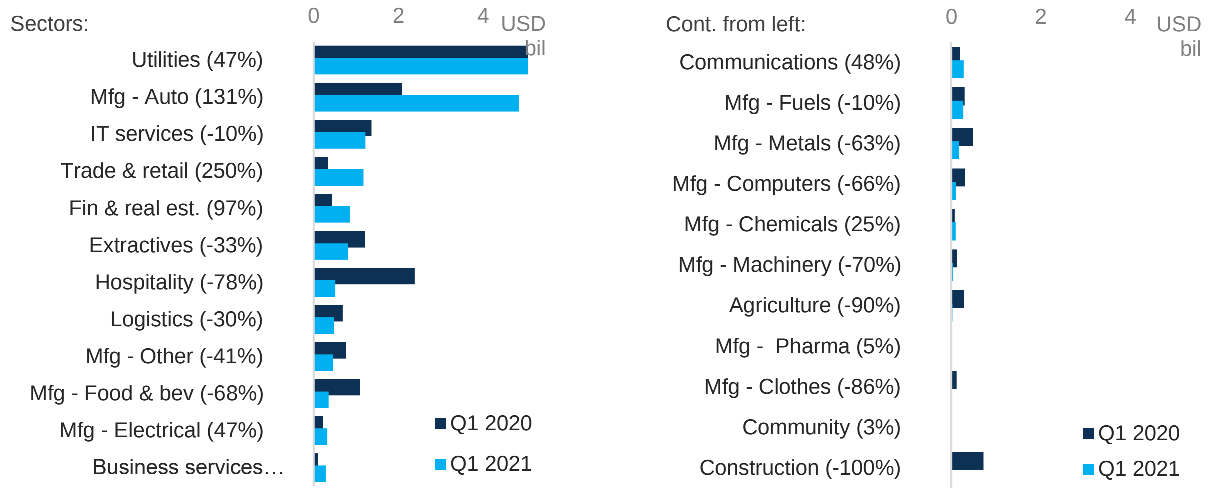


Source: Financial Times fDi Markets.

Other sectors with YoY growth include auto manufacturing, retail trade, business services, financial services and real estate, and electrical manufacturing.

In contrast, announced greenfield FDI decreased in YoY terms in the hospitality and extractives sectors, reflecting continued global challenges for these sectors due to economic downturn and travel restrictions.

Figures 22: YoY change in announced greenfield FDI by sector, developing countries in Latin America and Caribbean, Q1



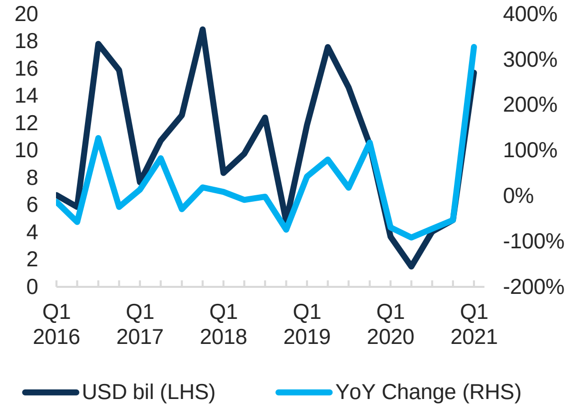
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

After declining in YoY terms in Q4 of 2020, the value of announced cross-border M&A into the region increased 328 percent YoY (Figure 23).

Most of the cross-border M&A activity concentrated in Brazil, totaling US$8.4 billion (239 percent YoY increase). Other countries in the region recorded US$7.3 billion in total cross-border deals, up 512 percent YoY. Much of this volume was driven by a few high-profile deals in the telecommunications and energy sectors, including US-based New Fortress Energy's US$2.5 billion acquisition of Hygo Energy Transition in Brazil.

Figure 23: Value of total cross-border M&A deals, developing countries in Latin America and Caribbean



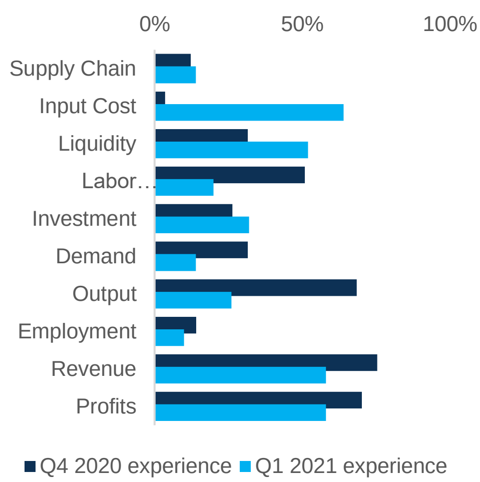
Source: Refinitiv Eikon.

Investor sentiment

Most MNE affiliates surveyed in the Latin America and Caribbean region reported experiencing adverse business impacts from the COVID-19 crisis in Q1 2021, but with some signs of improvement.

In Q1 2021, 90 percent of MNC affiliates in the region reported at least some adverse impacts (relative to the same period in 2020) from the COVID-19 pandemic. However, there were encouraging signs of improvement as the share of MNEs reporting adverse impacts on revenues, profits, output, demand, and labor productivity all decreased.

Figure 24: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing countries in Latin America and Caribbean



Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, low- and middle-income countries in the Latin America and Caribbean did not introduce any new measures related to FDI entry and screening.

More information on policies for FDI entry and screening in the region can be found **here**.

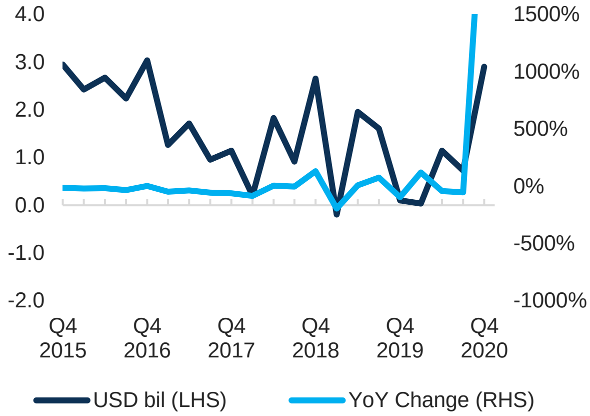
MIDDLE EAST AND NORTH AFRICA

Total FDI inflows

Total FDI flows in the Middle East and North Africa region rebounded in Q4 of 2020 (up 2,778 percent YoY) to reach US$3 billion (Figure 25).[2]

This rebound was primarily driven by Qatar, which saw a large swing from net disinvestment in Q4 2019 to net inflows in Q4 2020, although other countries in the region also saw increases in FDI inflows. Qatar's situation is likely explained by the normalization of relations between Qatar and other GCC countries, while trends in the rest of the region can be explained by rising oil prices and a rebound in manufacturing FDI in Morocco.

Figure 25: Quarterly FDI inflows, countries in the Middle East and North Africa with available data



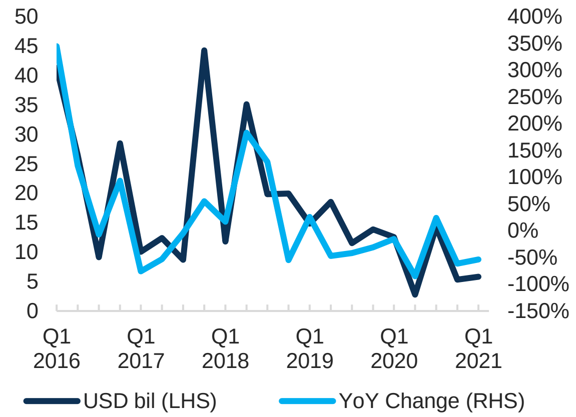
Source: IMF Balance of Payments.

Greenfield FDI

Announced greenfield FDI declined in Q1 of 2021, with project announcements totaling up to US$6 billion, representing a 54 percent decline YoY (Figure 26). Significant declines were seen across many major economies in the region, including Saudi Arabia, UAE, Tunisia, Morocco, Oman, Qatar, Iran, Algeria, and Bahrain. Egypt was the lone bright spot in the region, up 121 percent YoY due to two large projects in water treatment and real estate sectors.

The decline in greenfield announcements was primarily driven by projects in utilities, chemical, logistics, construction, and retail. In contrast, the logistics, construction, and retail sectors saw YoY increases (Figure 27).

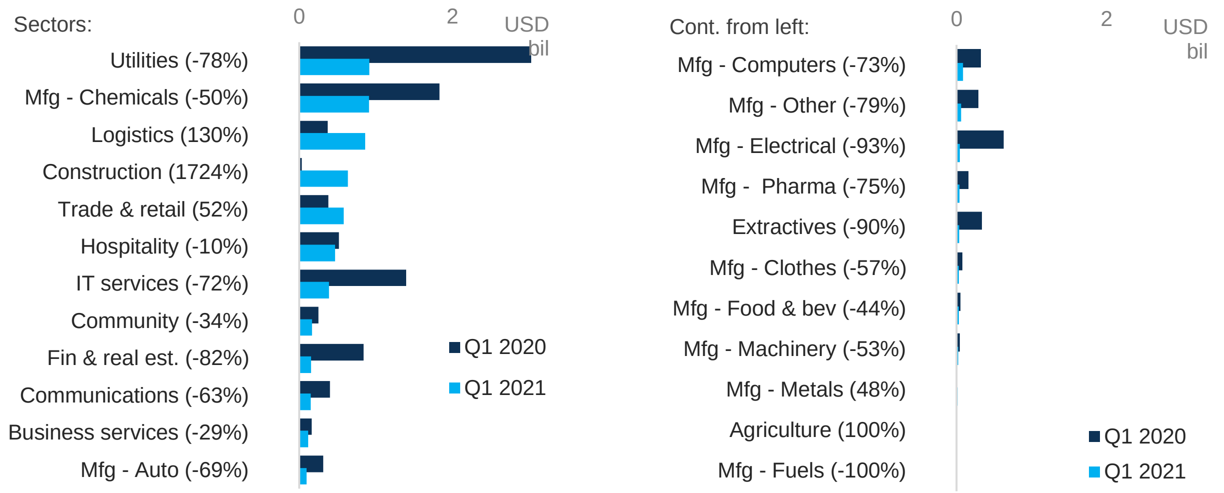
Figure 26: New announced greenfield FDI, all Middle East and North Africa



Source: Financial Times fDi Markets.

[2] This analysis excludes Israel and select other countries for which data are not available.

Figure 27: YoY change in announced greenfield FDI by sector, Middle East and North Africa, Q1



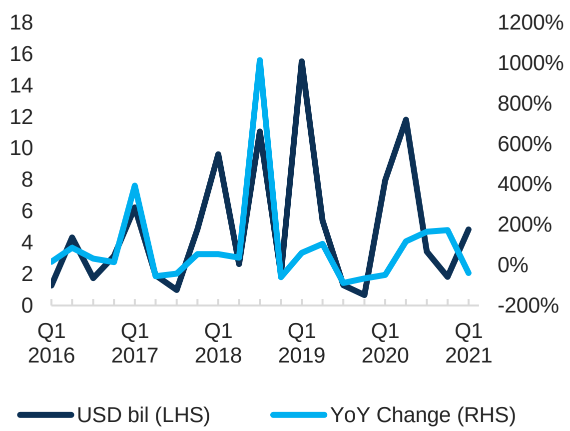
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The total value of announced cross-border M&A deals targeting the Middle East and North Africa region (excluding Israel) contracted in Q1 of 2021, totaling US$5 billion and representing a 39 percent decline YoY (Figure 28).

Announced cross-border M&A to Saudi Arabia contracted more than other countries reflecting a 98 percent decline YoY.

Figure 28: Value of total cross-border deals, Middle East and North Africa

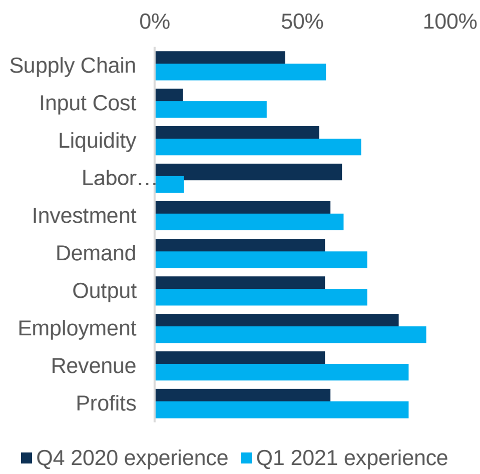


Source: Refinitiv Eikon.

Investor sentiment

Existing MNE affiliates in the Middle East and North Africa region reported widespread adverse impacts in Q1 2021, with very little evidence of improvement. All survey respondents reported YoY deteriorations along at least one business dimension in Q1 2021 relative to Q1 2020. While global results showed some improvements in supply chain and demand-side impacts, these improvements were not evident in this region (Figure 29).

Figure 29: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing Middle East and North Africa countries



Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, countries in the Middle East and North Africa region did not introduce any new measures related to FDI entry and screening.

More information on policies for FDI entry and screening in the region can be found **here**.

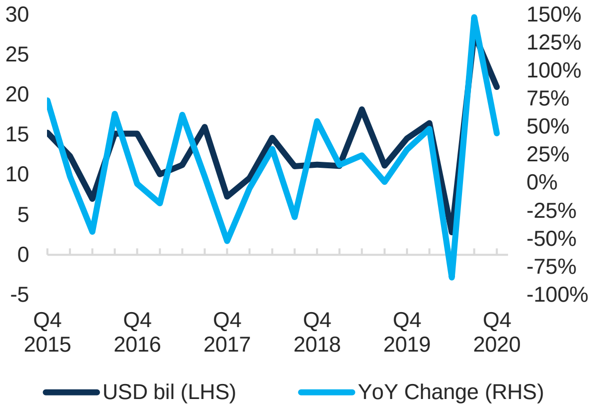
SOUTH ASIA

Total FDI inflows

For the five countries in the South Asia region with available data, total FDI inflows increased in Q4 of 2020, up 44 percent YoY (from the same period in 2019) to reach US$21 billion (Figure 30).

This trend was mainly concentrated in India, where inflows totaled US$20 billion for Q4 (up 51 percent YoY). In contrast, FDI inflows were down YoY in Afghanistan, Nepal, and Pakistan.

Figure 30: Quarterly FDI inflows, developing countries in South Asia with data available



Source: IMF Balance of Payments.

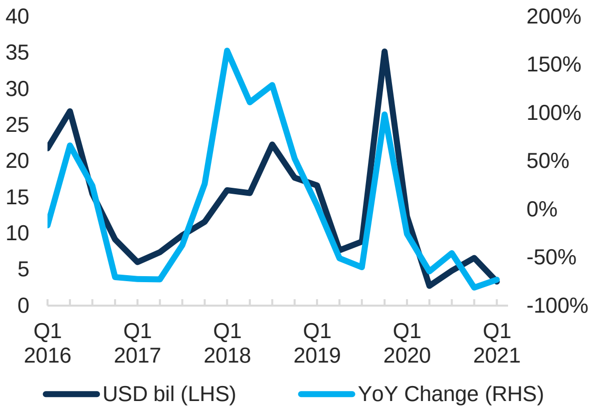
Greenfield FDI

Announced greenfield FDI into the South Asia region declined in Q1 of 2021, with project announcements totaling up to US$3.3 billion, representing a 73 percent decline YoY (Figure 31).

This decline was primarily driven by reduced announcements in India, which witnessed a 71 percent YoY decline. Greenfield announcements also declined across other developing countries in the region, with an 87 percent decline YoY.

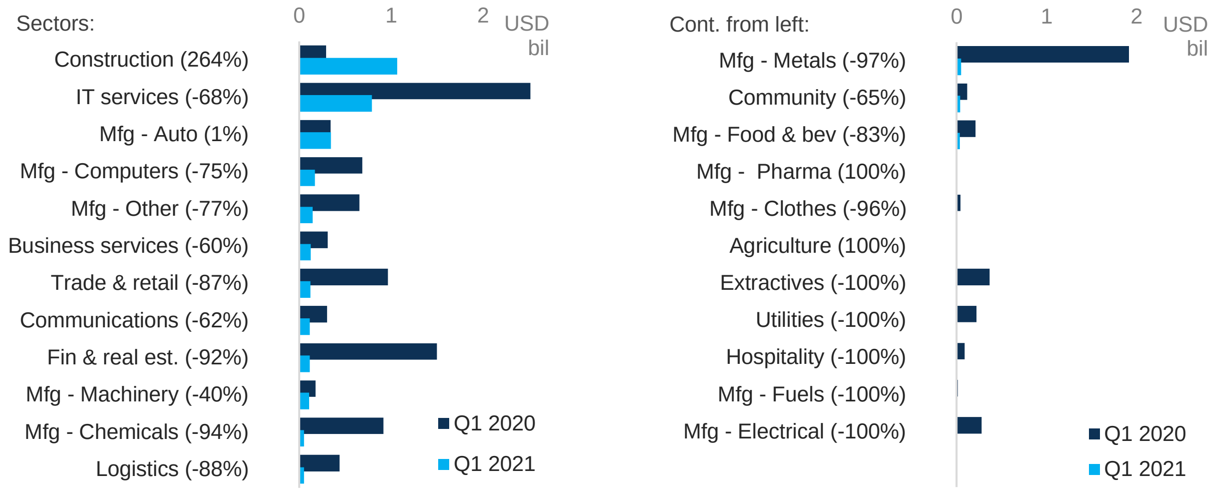
Interestingly, despite strong sector performance in general throughout the pandemic, announced FDI in IT services was down 68 percent YoY in Q1 2021. This result may reflect continued challenges in the region in combatting the pandemic as well as a reversion to the mean after consecutive quarters of relatively strong performance. In line with their performance in previous quarters, greenfield investment in materials-focused sectors (e.g., metals, chemicals, extractives) was also down significantly in YoY terms. In contrast, the construction sector received significant amount of announced greenfield FDI in Q1 2021, representing a 264 percent YoY increase (Figure 23). However, most of this investment was driven by Netherlands-based Ingka Centres' US$750 million shopping mall project in India rather than a general trend across countries.

Figure 31: New announced greenfield FDI, all developing countries in South Asia



Source: Financial Times fDi Markets.

Figures 32: YoY change in announced greenfield FDI by sector, developing South Asian countries, Q1



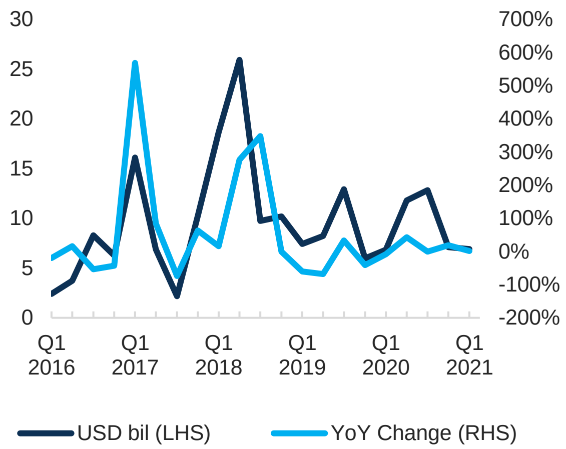
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The value of cross-border M&A transactions into developing countries in the region increased slightly representing 1 percent YoY (Figure 33).

Most of the announced cross-border M&A was concentrated in India, which recorded US$6.8 billion with a (2 percent YoY increase). Other countries in the region recorded just US$0.1 billion in total cross border M&A, a decline of 57 percent YoY.

Figure 33: Value of total cross-border M&A deals, developing South Asian countries



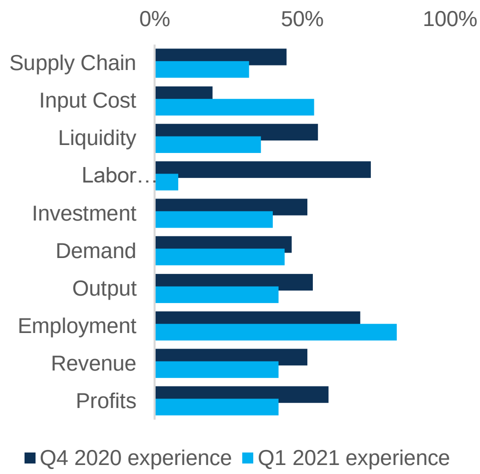
Source: Refinitiv Eikon.

Investor sentiment

Adverse effects from the COVID-19 crisis remained widespread for MNE affiliates in the South Asia region in Q1 of 2021, with some signs of improvement (Figure 34).

In Q1 2021, all MNC affiliates in the region reported at least some adverse impacts (relative to the same period in 2020) from COVID-19. However, there were encouraging signs of improvement as the share of MNEs reporting adverse impacts on revenues, profits, output, demand, and labor productivity all decreased.

Figure 34: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing South Asian countries



Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, low- and middle-income countries in the South Asia region introduced the following measures related to FDI entry and screening:

- **India (March 2021)—Opening closed sector.** Foreign investors are now allowed to own up to 74 percent in insurance companies, up from 49 percent before.
- **Nepal (February 2021)—Opening closed sector.** Foreign investors are now allowed to own up to 75 percent of firms operating in the poultry farming, fisheries, beekeeping, fruits, vegetables, oil seeds, pulse seeds, and dairy sectors under the country's new FDI negative list.

More information on policies for FDI entry and screening in the region can be found **here.**

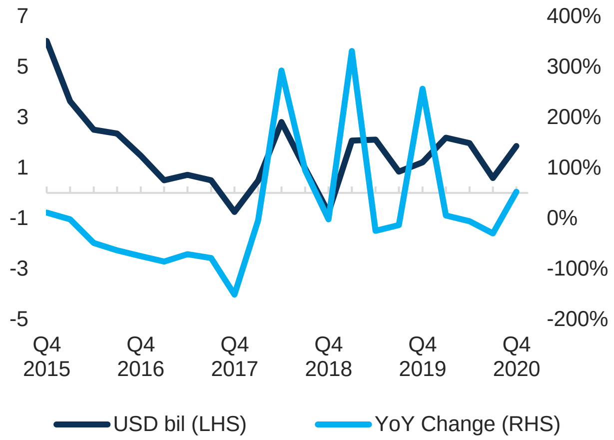
SUB-SAHARAN AFRICA

Total FDI inflows

Total FDI inflows into the nine countries for which data are available in the Sub-Saharan region rebounded in Q4 of 2020, up 52 percent YoY (from the same period in 2019) to reach US$2 billion (Figure 35).

This trend was primarily driven by large YoY increases in quarterly FDI in Nigeria (up 77 percent YoY) and Mozambique (up 175 percent YoY). In contrast, total FDI flows dropped in YoY terms in Q4 of 2020 in South Africa (down 11 percent YoY) and Angola (50 percent worsening of net FDI disinvestment, which was already occurring in Q4 2019).

Figure 35: Quarterly FDI inflows, developing countries in Sub-Saharan Africa with available data



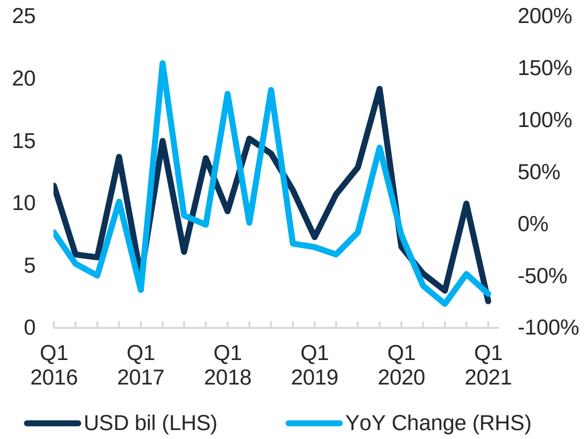
Source: IMF Balance of Payments.

Greenfield FDI

Announced greenfield FDI in the Sub-Saharan Africa region declined further in Q1 of 2021, falling 67 percent YoY to reach US$2.1 billion (Figure 36).

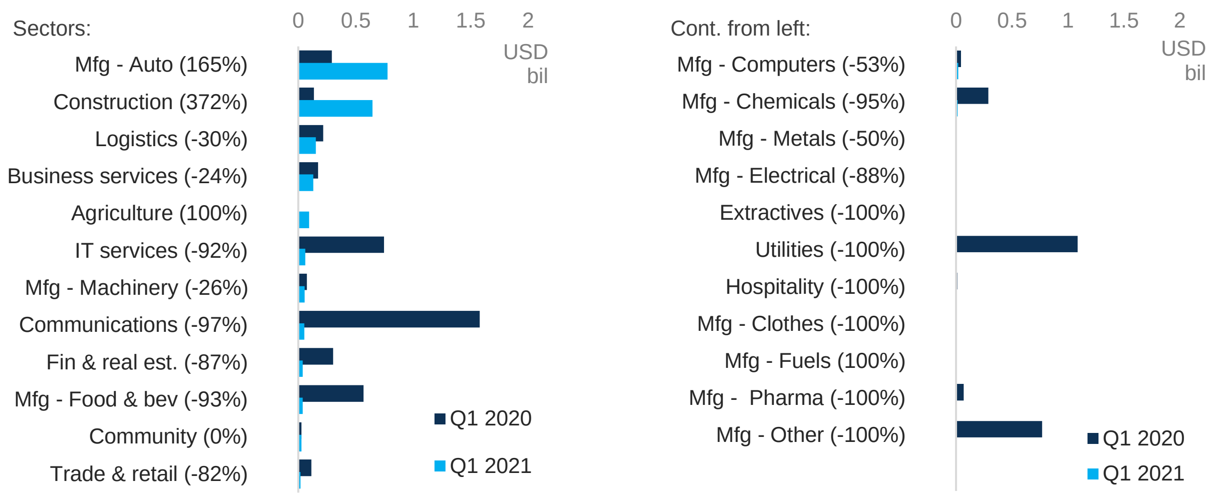
Declines were seen across most major sectors. Interestingly, in absolute terms, greenfield FDI in the communications, IT services, and utilities sectors dropped the most, with YoY declines of 97 percent, 92 percent and 100 percent, respectively, despite relatively strong performance in prior quarters. In contrast, automotive manufacturing performed well in Q1 2021 with a 165 percent YoY increase. This was primarily driven by US-based Ford's US$699 million investment in expanding its production facility in South Africa (Figure 37).

Figure 36: New announced greenfield FDI, all developing countries in Sub-Saharan Africa



Source: Financial Times fDi Markets.

Figures 37: YoY change in greenfield project announcements by sector, developing Sub-Saharan African countries, Q1



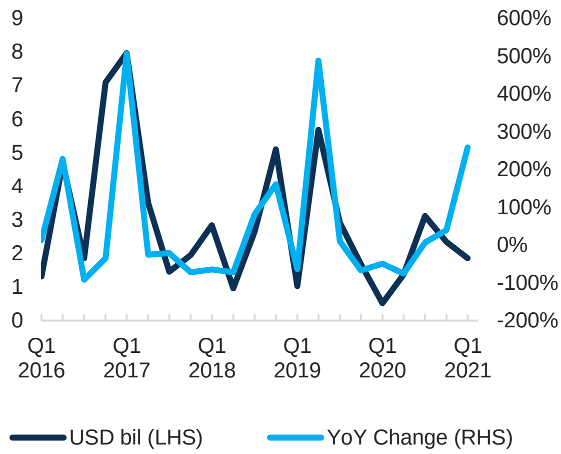
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The value of announced cross-border M&A transactions targeting countries in the Sub-Saharan Africa region increased in Q1 2021. M&A values reached US$2 billion in Q1 (up 258 percent YoY) (Figure 38).

South Africa continued to make up bulk of the announced cross-border deals in the region, with US$1.3 billion in Q1 2021 (up 1,137 percent YoY). This strong performance was driven in part by Singapore-based Temasek's US$500 million acquisition of Leapfrog Investments in the country. Announced cross-border M&A flows to other developing countries in the region were up 40 percent YoY.

Figure 38: Value of total cross-border M&A deals, developing Sub-Saharan African countries



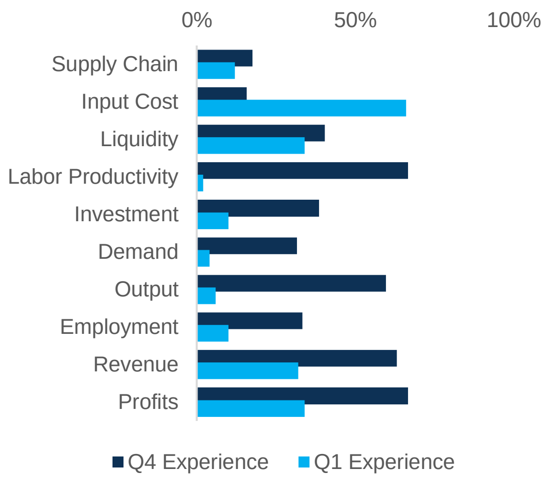
Source: Refinitiv Eikon.

Investor sentiment

Adverse effects from the COVID-19 crisis remained widespread for MNE affiliates in the Sub-Saharan Africa region in Q1 2021, albeit with some signs of improvement.

In Q1 2021, 88 percent of MNC affiliates in the region reported at least some adverse impacts (relative to the same period in 2020) from COVID-19. However, there were encouraging signs of improvement as the share of MNEs reporting adverse impacts on revenues, profits, output, demand, and labor productivity all decreased.

Figure 39: Share of surveyed MNE affiliates reporting adverse impacts relative to the same quarter one year prior, developing Sub-Saharan African countries



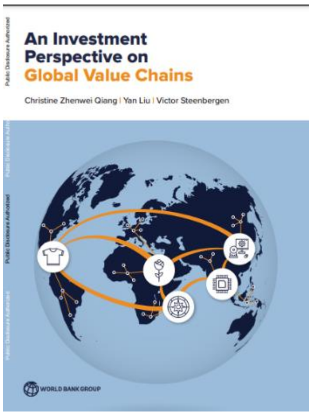
Source: Global MNE Pulse Survey.

Policy changes

In the first quarter of 2021, low- and middle-income countries in the Sub-Saharan Africa region did not introduce any measures related to FDI entry and screening.

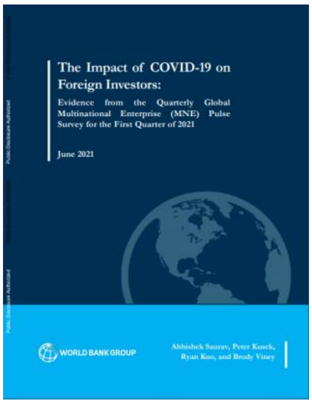
More information on policies for FDI entry and screening in the region can be found **here**.

LATEST RESEARCH AND NEWS



An Investment Perspective on Global Value Chains (World Bank: Christine Zhenwei Qiang, Yan Liu, and Victor Steenbergen)

This report summarizes the latest theories and the literature surrounding multinational corporations' (MNCs) and domestic firms' strategies and approaches, and the relationships, interactions, and dynamics among these firms along various Global Value Chains (GVCs). The underlying analyses combine global foreign direct investment (FDI) data, trade data, and firm-level and transaction-level data to uncover the dynamics between investment and GVCs. The report also features six case studies, providing practical insights for developing countries in different contexts on how they can develop strategies and approaches that leverage FDI to strengthen their GVC participation and upgrading.

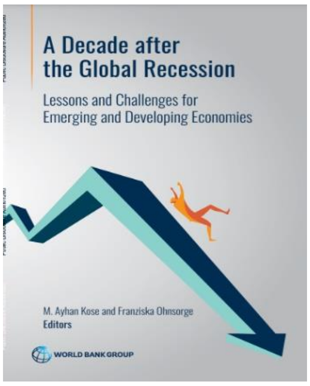


The Impact of COVID 19 on Foreign Investors: Evidence from the Quarterly Global Multinational Enterprise Pulse Survey for the First Quarter of 2021 (World Bank: Abhishek Saurav, Peter Kusek, Brody Viney, and Ryan Kuo)

The World Bank Group's Global Investment Climate Unit is conducting quarterly pulse surveys of MNE affiliates to gauge the pandemic's effect on foreign investors. The surveys aim to provide insight into the impacts of the pandemic on foreign investors, as well as how their plans and strategies are evolving. The adverse effects of the pandemic were still being felt in the first quarter (January to March) of 2021, although the situation is gradually improving. Overall, the proportion of respondents reporting adverse impacts due to COVID-19 declined across most business dimensions (e.g., revenue, demand, profits, investment). However, the proportion of respondents reporting input price increases rose, suggesting that economic recovery has begun to increase the prices of raw and intermediate inputs.

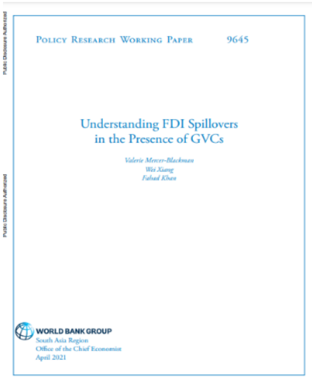
Investment Rules in Developing Countries: Trends and Approaches (World Bank: Priyanka Kher, Maximilian Eltgen)

This paper presents a comparative analysis of the investment rules affecting foreign direct investment (FDI) in ten middle-income countries—Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. It finds that entry and establishment restrictions are widespread in the ten countries. The most frequently identified restrictions are equity ceilings and expatriate limitations, while mandatory export requirements, mandatory research and development (R&D) requirements, quotas for foreign firms, and restrictions based on the types of shares are least prevalent. Legal protection guaranteed to foreign investments varies significantly among the ten countries. The weakest guarantees are on capital transfers and transparency of government conduct. The strongest guarantee is dispute settlement, although few countries have provisions on addressing grievances before they become legal disputes. There is variation in the level of transparency on tax and financial incentives. These findings highlight areas for further reforms in these countries, but more broadly can inform the reform efforts of other countries and be the basis for further analytical research.



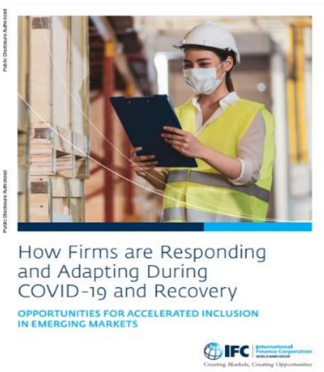
A Decade after the Global Recession – Lessons and Challenges for Emerging and Developing Economies (World Bank: Eds. M. Ayhan Kose and Franziska Ohnsorge)

Although emerging market and developing economies (EMDEs) weathered the global recession a decade ago relatively well, they now appear less well placed to cope with the substantial downside risks facing the global economy. In many EMDEs, the room for monetary and fiscal policies to respond to shocks has eroded, underlying growth potential has slowed, and the momentum for improving policy frameworks, institutions, and business climates seems to have slackened. The experience of the 2009 global recession highlights once again the critical role of policy room in shielding economic activity during adverse shocks. The subsequent decade of anemic growth underlines the need for sound policy frameworks, institutions, and business environments to promote sustained growth. With the global growth outlook weakening and vulnerabilities rising, the policy priority for EMDEs is now to improve resilience to shocks and to lift long-term growth prospects.



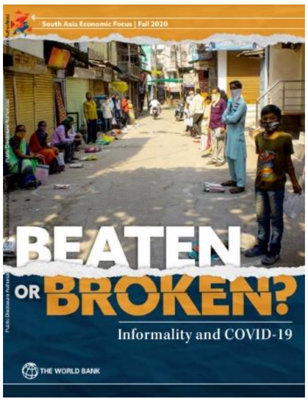
Understanding FDI Spillovers in the Presence of GVCs (World Bank: Valerie Mercer-Blackman, Wei Xiang, and Fahad Khan)

The paper explores whether a GVC framework provides additional insights into the question of whether FDI is beneficial to host countries. It finds that FDI has a positive effect on labor productivity in sectors and firms within those sectors. It further finds that sectors with lower GVC participation benefit more from FDI - the positive effect seems to be due to the increased competition created by FDI. FDI spillovers also take place through domestic and foreign backward linkages, which means that FDI also has positive inter-sector and cross-border spillovers.



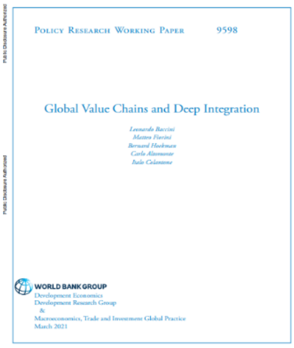
How Firms are Responding and Adapting During COVID-19 and Recovery – Opportunities for Accelerated Inclusion in Emerging Markets (International Finance Corporation)

COVID-19, which began as a health crisis in early 2020, has rapidly evolved to become an unprecedented economic crisis affecting global, national, and regional economies and billions of individuals around the world. This report analyzes the widespread implications of the crisis on industry sectors, businesses, individuals, families, and communities. It closely examines evidence and data from business sectors and segments of society that may face challenging paths to recovery, including the most vulnerable firms and individuals in emerging markets that are likely to experience continuing hardship and specific difficulties coping with the crisis. And it highlights opportunities for the private sector to respond, to support a vigorous recovery and to “build back better.”



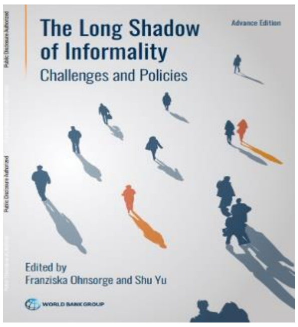
Beaten or Broken? Informality and COVID-19 (World Bank: Robert C. M. Beyer, Valerie Anne Mercer Blackman, Maurizio Bussolo, Hans Timmer, Manuela Francisco, and Zoubida Kherous Allaoua)

The COVID-19 crisis brought South Asia to a near standstill, and the pandemic is not yet under control despite early containment measures. The associated collapse in economic activity was widespread, but South Asian governments proactively stabilized economic activity through monetary easing, fiscal stimulus, and supportive financial regulation. Still, South Asia’s GDP is expected to contract 7.7 percent this year, by far the largest decline on record. The impact on livelihoods will even be larger - in the long term, labor productivity is likely to have deeper scars the longer the crisis lasts. The informal economy in South Asia has been hit hard by the COVID-19 pandemic. This is of grave concern, because more than three quarters of all workers in South Asia depend on income from activities in the informal sector. The crisis lays bare complicated structural problems in the informal sector. The decline in demand and supply disruptions generated by the pandemic and the policies required to contain its spread have resulted in severe reductions in incomes in the South Asia region. Governments have begun to respond by expanding assistance to the poor and to affected firms. An effective policy response will require a clear understanding of which households and firms are most in need of assistance, and how to reach them.



[Global Value Chains and Deep Integration (World Bank: Leonardo Baccini, Matteo Fiorini, Bernard Hoekman, Carlo Altomonte, and Italo Colantone)]

How does trade affect the design of preferential trade agreements (PTAs)? What is the role of GVCs? The paper answers these questions by empirically investigating the causal impact of gross and value-added trade on the depth of PTAs. The paper finds that trade occurring through GVCs increases the probability of forming deep PTAs, i.e., agreements that include provisions that go beyond the coverage of the WTO. These GVC-trade effects are larger than those of gross exports, which include flows that are unrelated to GVCs. The results indicate that GVCs are an important driver of deep preferential liberalization.

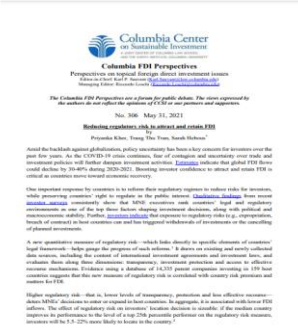


[The Long Shadow of Informality – Challenges and Policies (World Bank: Eds. Franziska Ohnsorge and Shu Yu)]

Informal activity is widespread in EMDEs. In the average EMDE, informal economic activity accounts for about one-third of output and more than two-thirds of employment. Widespread informality has long been associated with a whole host of development challenges. Most prominently, more widespread informality has been associated with significantly poorer governance and greater lags in achieving every dimension of the Sustainable Development Goals. Countries with larger informal sectors tend to have less access to finance for the private sector, lower labor productivity, slower physical and human capital accumulation, and smaller fiscal resources. Over the past several decades, many EMDE governments implemented policies at the microeconomic level and found that the implications for informality were more benign when these reforms were implemented in a supportive institutional and macroeconomic environment. Further, reform packages need to be tailored to country circumstances.

[Investment Reform Map for Lao PDR - A Foundation for a New Investment Policy and Promotion Strategy (International Finance Corporation)]

The report proposes that given Lao PDR's FDI is highly concentrated in natural resource-seeking investments and market-seeking investments, its new vision or strategy should attempt to attract efficiency-seeking investments, which are precisely the type of FDI that can help the economy enter knowledge-intensive industries. The report also provides specific recommendations on how to strengthen the investment protection framework for investors, which will also serve to enhance their confidence and therefore support promotion efforts. It also discusses ways to improve the investment climate in Lao DPR.


Columbia Center on Sustainable Investment

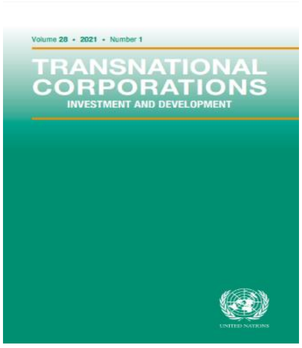
Columbia FDI Perspectives

No. 306 May 31, 2021

Reducing regulatory risk to attract and retain FDI

Reducing regulatory risk to attract and retain FDI (Columbia Center on Sustainable Development: Priyanka Kher, Trang Thu Tran, and Sarah Hebous)

Amid the backlash against globalization, policy uncertainty has been a key concern for investors over the past few years. As the COVID-19 crisis continues, fear of contagion and uncertainty over trade and investment policies will further dampen investment activities. Estimates indicate that global FDI flows could decline by 30-40% during 2020-2021. Boosting investor confidence to attract and retain FDI is critical as countries move toward economic recovery. An important response by countries is to reform their regulatory regimes to reduce risks for investors, while preserving countries' right to regulate in the public interest.



Transnational Corporations – Investment and Development, Volume 28, No.1 (UNCTAD)

This volume explores four themes: physical and constructed dimensions of geography and their implications for inward FDI performance; an evaluation of the effects of the European Commission's proposals for the Common Consolidated Corporate Tax Base; foreign participation and leapfrogging in the establishment chain of emerging market firms due to FDI; and, cultural spillovers from multinational to domestic firms as examined through evidence on female employment in Costa Rica.

SDG Investment Trends Monitor, Issue 3 (UNCTAD)

International private sector investment flows to developing and transition economies in sectors relevant to the Sustainable Development Goals (SDGs) fell by one-third in 2020 due to the COVID-19 pandemic. Greenfield investment in SDG sectors in developing and transition economies is now almost 20% lower than before 2015, international project finance is more than 30% lower – the progress made in promoting and facilitating SDG investment is at risk. The decline in SDG-related investments was much larger in developing and transition economies than in developed countries.

RECENT NEWS UPDATES ON FDI TOPICS

Foreign Investment Will Be the Last Financial Casualty of the Pandemic *(Wall Street Journal)*

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Things we need to get right to woo back foreign investors *(New Strait Times)*

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China to relax foreign investment rules amid further opening up *(CCTV)*

Declining foreign direct investment can't contribute much to sustainable development *(Brookings)*

What shifting foreign investment patterns mean for Africa's recovery *(World Economic Forum)*

(Indian) FDI hits all-time high in FY21; forex reserves jump over $100 bn *(The Indian Express)*

Tech and sustainability drive Europe's FDI rebound *(FDI Intelligence)*

International tax reform and FDI *(Columbia FDI Perspectives)*

APPENDIX

Data sources

Total FDI inflows are from World Bank analysis of International Monetary Fund (IMF) **Balance of Payments (BOP) data**. To ensure year-over-year figures are calculated on a comparable basis, only countries with BOP data available for 2020 Q4 (as of 31 May 2021) are included in total FDI inflows calculations and figures. These countries are:

High-income countries		Developing countries					
		EAP	ECA	LAC	MNA	SSA	SAS
Australia	Korea, Rep.	Cambodia	Albania	Brazil	Algeria	Angola	Afghanistan
Austria	Latvia	China	Armenia	Colombia	Iraq	Cabo Verde	Bangladesh
Belgium	Lithuania	Fiji	Azerbaijan	Costa Rica	Morocco	Mozambique	Nepal
Canada	Luxembourg	Indonesia	Belarus	Dominican Republic	Qatar	Namibia	Pakistan
Chile	Netherlands	Mongolia	Bosnia and Herzegovina	Ecuador	Saudi Arabia	South Africa	India
Croatia	New Zealand	Philippines	Bulgaria	El Salvador		Zambia	
Czech Republic	Norway	Thailand	Georgia	Guatemala		Lesotho	
Denmark	Poland	Malaysia	Kazakhstan	Honduras		São Tomé and Principe	
Estonia	Portugal		Kosovo	Mexico			
Finland	Romania		Kyrgyz Republic	Paraguay			
France	Singapore		Moldova	Suriname			
Germany	Slovak Republic		Montenegro	Nicaragua			
Greece	Slovenia		North Macedonia				
Hong Kong SAR, China	Spain		Russian Federation				
Hungary	Sweden		Serbia				
Iceland	Switzerland		Tajikistan				
Ireland	Trinidad and Tobago		Turkey				
Israel	United Kingdom		Ukraine				
Italy	United States		Uzbekistan				
Japan							

Figures on greenfield project announcements are from World Bank analysis of the Financial Times' **fDi Markets data**. Greenfield project announcements include major expansions. Cross-border mergers and acquisitions data are from World Bank analysis of data from **Refinitiv Eikon**. All countries are included in these analyses. Investor sentiment figures come from the World Bank's quarterly Global Pulse Survey of MNE affiliates. Data on policy changes are from World Bank analysis of public announcements and information.

Sector classifications

Greenfield project announcements are classified on the basis of ISIC Revision 4 sector classifications, using the Intermediate-level SNA/ISIC aggregation (A*38). Some have been aggregated and titles abbreviated for simplicity. Sector abbreviations correspond as follows:

- "Agriculture" is code A (Agriculture, forestry and fishing);
- "Extractives" is code B (Mining and quarrying);
- "Mfg – Food & beverage" is code CA (Manufacture of food products, beverages and tobacco products);
- "Mfg – Clothes & textiles" is code CB (Manufacture of textiles, wearing apparel, leather and related products);

- “Mfg – Fuels” is code CD (Manufacture of coke and refined petroleum products);
- “Mfg – Chemicals” is code CE (Manufacture of chemicals and chemical products);
- “Mfg – Pharmaceuticals” is code CF (Manufacture of pharmaceuticals, medicinal chemical and botanical products);
- “Mfg – Metals” is code CH (Manufacture of basic metals and fabricated metal products, except machinery and equipment);
- “Mfg – Computers etc” is code CI (Manufacture of computer, electronic and optical products);
- “Mfg – Electrical” is code CJ (Manufacture of electrical equipment);
- “Mfg – Machinery” is code CK (Manufacture of machinery and equipment n.e.c.);
- “Mfg – Auto & transport” is code CL (Manufacture of transport equipment);
- “Other manufacturing” is codes CC (Manufacture of wood and paper products; printing and reproduction of recorded media), CG (Manufacture of rubber and plastics products, and other non-metallic mineral products), and CM (Other manufacturing; repair and installation of machinery and equipment);
- “Utilities” is codes D (Electricity, gas, steam and air conditioning supply) and E (Water supply; sewerage, waste management and remediation activities);
- “Construction” is code F (Construction);
- “Trade & retail” is code G (Wholesale and retail trade; repair of motor vehicles and motorcycles);
- “Logistics” is code H (Transportation and storage);
- “Hospitality” is code I (Accommodation and food service activities);
- “Communications” is codes JA (Publishing, audiovisual and broadcasting activities) and JB (Telecommunications);
- “IT services” is code JC (IT and other information services);
- “Finance & real estate” is codes K (Financial and insurance activities) and L (Real estate activities);
- “Business services” is codes MA (Legal, accounting, management, architecture, engineering, technical testing and analysis activities), MB (Scientific research and development), MC (Other professional, scientific and technical activities), and N (Administrative and support service activities); and
- “Community services” is codes O (Public administration and defence; compulsory social security), P (Education), QA (Human health), QB (Residential care and social work activities), R (Arts, entertainment and recreation), and S (Other service activities).

ABBREVIATIONS

EAP – East Asia and Pacific
ECA – Europe and Central Asia
FDI – foreign direct investment
LAC – Latin America and the Caribbean
M&A – mergers and acquisitions
MNA – Middle East and North Africa
MNE – multinational enterprise
Q1 – Quarter 1 (January to March)
Q2 – Quarter 2 (April to June)
Q3 – Quarter 3 (July to September)
Q4 – Quarter 4 (October to December)
SAS – South Asia
SSA – Sub-Saharan Africa
USD – United States Dollars (US$)
YoY – year on year