

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

Public Disclosure Authorized

FDI WATCH

QUARTERLY REPORT

ISSUE 1 | DECEMBER 2020

CONTENTS

Global FDI Trends	2	South Asia	20
Regional FDI Trends		Sub-Saharan Africa	23
East Asia and Pacific	8	Latest Research and News	26
Europe and Central Asia	11	Appendix	35
Latin America and Caribbean	14	Abbreviations	37
Middle East and North Africa	17		

KEY MESSAGES

- **FDI flows:** Global foreign direct investment (FDI) flows were down 61 percent in the second quarter (Q2, Apr–Jun) 2020 year-on-year (YoY) for countries with available data, compared with the same period in 2019, driven largely by large FDI declines in high-income economies. FDI flows to developing countries with available data fell 35 percent YoY in Q2 2020. This drop represented a further deterioration from the 23 percent YoY decline seen in Q1. Looking at Q2 trends across regions, East Asia and Pacific performed relatively better (15 percent YoY decline), while Latin America and the Caribbean (49 percent YoY decline), Middle East and North Africa (52 percent YoY decline) and Sub-Saharan Africa (decline to the point of net disinvestment) saw especially sharp declines.
- **Greenfield FDI announcements:** The value of greenfield FDI project announcements fell even more sharply than total FDI in developing countries in Q2, although Q3 (Jul–Sep) data showed a slight improvement. Announced greenfield FDI fell 77 percent YoY in Q2 in developing countries (60 percent globally) but improved slightly to a 73 percent YoY decline in Q3 (51 percent globally).
- **Cross-border mergers and acquisitions (M&A) announcements:** Cross-border mergers and acquisitions rebounded in Q3 after a steep decline in Q2. The value of cross-border M&A transactions fell 24 percent year-on-year globally and 48 percent in developing countries in Q2, reaching US\$213 billion and \$27 billion, respectively. However, values rebounded in Q3 to be down just 3 percent YoY globally and up 3 percent YoY for developing countries.
- **Investor sentiment:** Surveyed affiliates of multinational enterprises (MNEs) in developing countries almost universally experienced negative impacts due to COVID-19 in Q3. Respondents expected only limited improvements in Q4 (Oct–Dec). Medium-term investment outlooks remained fairly pessimistic in light of the global economic downturn, with the majority of respondents planning to decrease or at best maintain their levels of investment in host countries.
- **Policy changes in FDI entry and screening:** Most new FDI restrictions on entry and screening introduced since the beginning of 2020 have occurred in the developed countries, many of which have introduced new FDI screening measures. Across developing countries, there was relatively little new policy activity in Q3 2020, 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) flows and intentions, investor perceptions, and policy developments. It also highlights recent FDI publications by the World Bank and other organizations. *The FDI Watch* is prepared by Peter Kusek, Ryan Kuo, and Brody Viney, under the guidance of Christine Qiang (Manager, Global Investment Climate Unit). The team is grateful for contributions of other colleagues, including Ivan Nimac, Armando Heilbron, Siddharth Ramalingham, Abhishek Saurav, Yan Liu, Philippe De Bonneval, and Xavier Forneris. For further information or contributions please contact Peter Kusek (pkusek@ifc.org). A full list of Investment Climate resources is available at <https://www.worldbank.org/en/topic/investment-climate>.

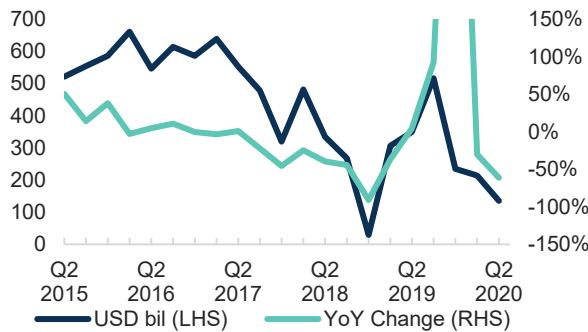
GLOBAL FDI TRENDS

FDI Inflows

Globally, FDI flows contracted significantly across the first half of 2020 for the 95 countries with available FDI data, falling to US\$218.4 billion in Q1 (Jan–Mar) and slipping further to \$137.9 billion in Q2, reflecting the onset and spread of COVID-19 over the first half of the year. FDI flows were down 61 percent in Q2 YoY.

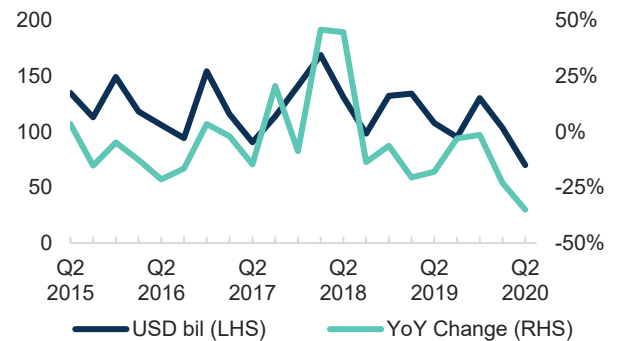
Inflows to developing (low- and middle-income) countries also contracted, to \$103.6 billion in Q1 and \$70.1 billion in Q2 for the 56 countries with available data (Figure 1, Figure 2). However, this fall was relatively less severe than in advanced economies, with inflows to developing countries down 35 percent in Q2 YoY.

Figure 1: Quarterly FDI inflows, global¹



Source: IMF Balance of Payments.

Figure 2: Quarterly FDI inflows, developing countries

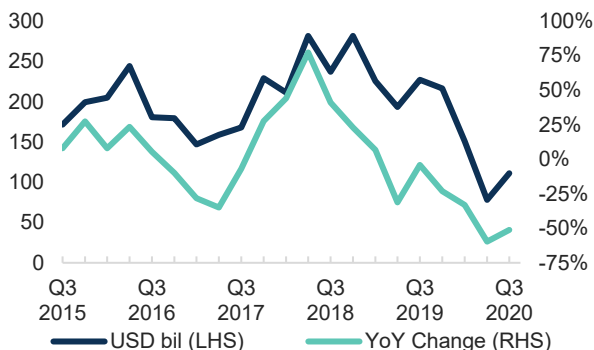


Source: IMF Balance of Payments.

Greenfield FDI

While in Q1 and Q2 the value of greenfield project announcements declined significantly year-on-year, declines eased slightly over Q3, hinting at recovery (Figure 3, Figure 4). In Q2, greenfield project announcements were down 77 percent in developing countries YoY. Declines eased in Q3, down 73 percent YoY to reach around US\$29 billion in developing countries.

Figure 3: Announced greenfield FDI, global



Source: Financial Times fDi Markets.

Figure 4: Announced greenfield FDI, developing countries



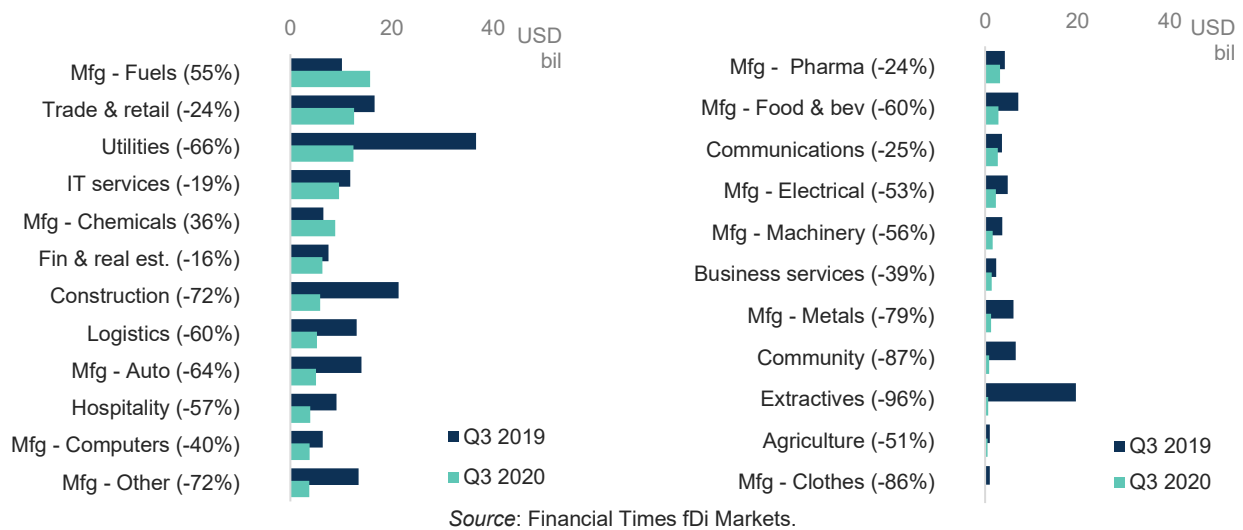
Source: Financial Times fDi Markets.

¹ Q4 2019 represents an outlier with 700 percent YoY growth in FDI flows due to an abnormally low amount of FDI in Q4 2018. 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.

At the global level, greenfield FDI announcements declined across almost all sectors in Q3. The decline was sharpest in extractive industries (down 96 percent YoY), reflecting uncertainty about future resource demand and prices (Figure 5).

Information technology (IT) services registered a smaller decline (19 percent YoY), reflecting the sector's relative resilience to COVID-19-related disruptions. Similarly, more modest declines were observed in finance and real estate (down 16 percent YoY), wholesale and retail trade (down 24 percent YoY), and manufacturing of pharmaceutical, medical, and chemical products (down 24 percent YoY). Manufacturing of fuels actually registered an increase in announced FDI, although this increase mostly reflected a few large outlier deals, such as Canada Business Holdings' plans to invest in a new petroleum refinery in Oman.

Figure 5: Year-on-year change in announced greenfield FDI by sector, global, Q3 2020



Cross-border mergers and acquisitions

The value of cross-border M&A transactions fell 24 percent year-on-year globally and 48 percent in developing countries in Q2, reaching US\$213 billion and \$27 billion, respectively (Figure 6, Figure 7). However, values rebounded in Q3 to be down just 3 percent YoY globally and up 3 percent YoY for developing countries.

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

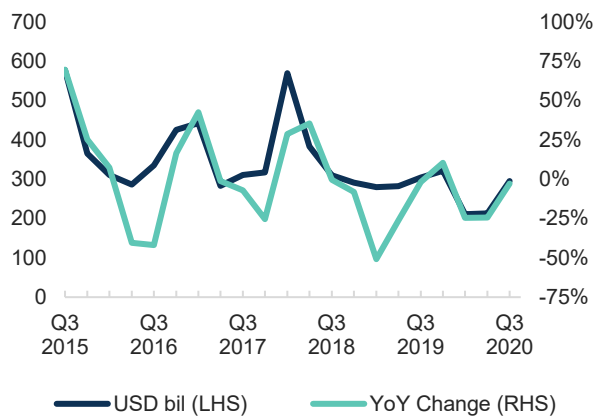
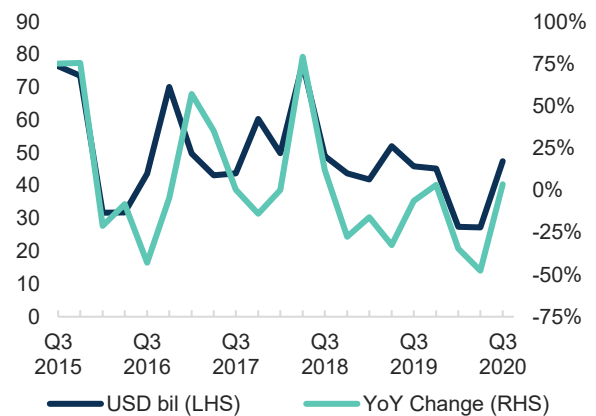


Figure 7: Value of cross-border M&A deals, developing countries



Investor sentiment

Data from the [third global pulse survey](#) of foreign investors in developing countries show that the adverse effects of the COVID-19 pandemic remained widespread for MNE affiliates in Q3, with over 90 percent experiencing some adverse effects (Figure 8).

Two-thirds of the foreign firms decreased investment and over half reduced employment in developing country affiliate operations. Revenue and profits were also down for two-thirds of firms.

Looking ahead, MNEs expect limited improvements in Q4, reflecting ongoing uncertainty about the course of the pandemic and resulting economic crisis. MNEs report an improved outlook for supply chain reliability, investment, and profits.

Figure 8. Share of surveyed MNE affiliates reporting adverse impacts, developing countries

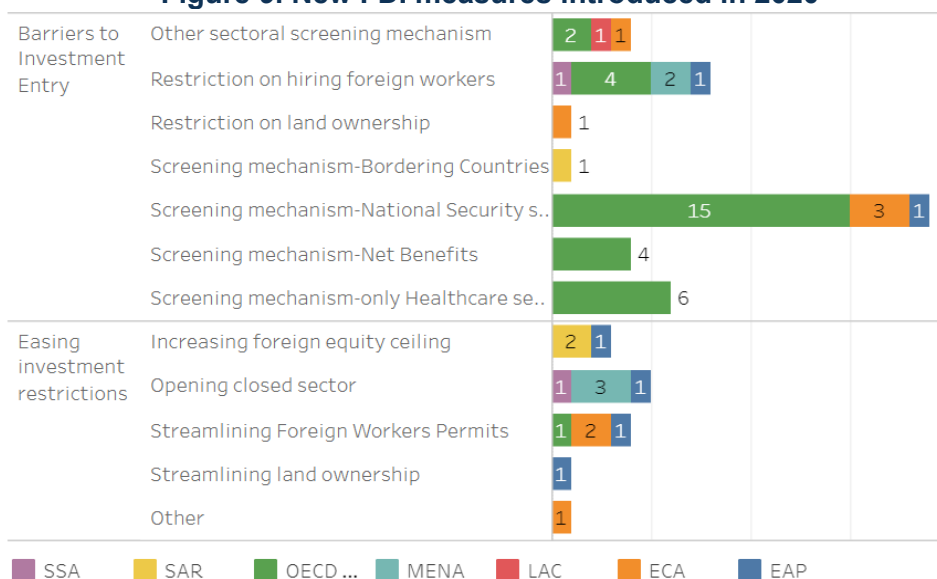


Policy changes in FDI entry and screening

Overall, new policy restrictions on FDI entry and screening introduced since the beginning of 2020 have been concentrated in OECD countries and driven by new screening mechanisms concerning national security. There have been 15 new screening measures in OECD 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.

Outside of the OECD, new restrictions on FDI have been more limited (see further in this report for region-specific changes). Conversely, several countries—mostly non-OECD 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 measures introduced in 2020



Special Section: FDI industry dynamics

The COVID-19 crisis has presented enormous economic shocks that reverberate across sectors and industries. To examine the likely impact of these shocks on future FDI flows to developing countries, the World Bank partnered with IBM PLI—a consultancy specialized in advising on the location strategies of multinational corporations—to assess the changes in corporate location and FDI decision-making strategies. The objectives of the analysis were to analyze how COVID-19—and other factors and megatrends—are affecting multinational corporations across different sectors.

The analysis took an investor's perspective, exploring what factors influence MNCs' strategic investment decisions and location choice, and investigated how these factors have changed after the crisis. Given the forward-looking nature of this analysis, the approach draws on IBM-PLI's insights in corporate location strategy. The methodological approach consisted of five main steps.

- First, the analysis laid out four possible scenarios after the pandemic on two dimensions: international integration and exogenous disruption.
- Second, the team identified 36 “Transformation Drivers” that have long-term implications for business strategies. These Transformation Drivers encompass technology advancements (such as Artificial Intelligence, Internet of Things), broad economic trends (such as globalization, increased industry concentration), social developments (such as population aging, urbanization) as well as exogenous factors (such as climate change).
- Third, the team then selected the top ten Transformation Drivers that are expected to have the largest impact on MNCs' business strategies under each scenario identified in step 1.
- Fourth, the next step assessed how the ten Transformation Drivers will affect individual sectors in terms of number of FDI projects, FDI job creation, and relevance for developing countries in various scenarios. This step also estimated a final score for each sector under each scenario based on the overall impact of Transformation Drivers, with higher scores indicating higher FDI growth potential and relevance for developing countries.
- Finally, based on the relevance ranking averaged across scenarios, current FDI volume, and export intensity for each sector, the team identified four sectors that are most promising for FDI promotion in developing countries: food processing, clothing production, automotive components manufacturing, and IT-enabled services.

The analysis revealed a markedly different picture for short-term versus long-term FDI opportunities for developing countries (Figure 10). In the short run, during the COVID-19 pandemic:

- The top five resilient sectors for developing country FDI include (a) medical-supplies manufacturing, (b) information technology (IT)-enabled services (including business process outsourcing and customer support), (c) financial services, (d) food processing, and (e) horticulture.²
- By contrast, FDI is likely to be most negatively affected in (a) hotels, (b) automotive component manufacturing, and (c) electronic components assembly.

In the long run, after the COVID-19 pandemic:

² The analysis points to horticulture and food processing as relevant industries in the short term but as presenting less robust longer-term potential. FDI has always been relatively low in horticulture industry, and local sourcing trends could further drive investment location choices closer to end consumption markets. Opportunities in dedicated products or niche areas with strong local market linkages are expected to become increasingly relevant.

- The most promising FDI sectors for developing countries comprise (a) logistics, (b) hotels and tourism (despite the negative short-term impacts),³ (c) garments and textiles,⁴ (d) financial services, and (e) medical-supplies manufacturing.
- Sectors with declining long-term opportunities for developing countries include (a) metal products manufacturing, (b) wood products manufacturing, and (c) horticulture.

Figure 10: Sector-level FDI effects for developing countries in the short and long term

a. FDI effects in the short term (1-2 yrs)		b. FDI effects in the long term (+5 yrs)	
Sector segments	Short Term	Sector segments	Long Term
Medical supplies manufacturing	3.4	Logistics services	3.2
IT-enabled services (BPO)	3.3	Hotels	3.2
IT-enabled services (customer support)	3.3	Clothing production	3.1
Financial services	3.2	Medical supplies manufacturing	3
Food processing	3.2	IT-enabled services (BPO)	3
Horticulture	3.1	Financial services	3
Logistics services	3	IT-enabled services (customer support)	2.9
Plastic products manufacturing	3	Food processing	2.9
Wood products manufacturing	3	Plastic products manufacturing	2.9
Metal products manufacturing	2.9	Fabricated chemical production	2.9
Fabricated chemical production	2.9	Electronic components assembly	2.9
Clothing production	2.8	Automotive components manufacturing	2.9
Electronic components assembly	2.8	Horticulture	2.8
Automotive components manufacturing	2.7	Wood products manufacturing	2.8
Hotels	2.4	Metal products manufacturing	2.8

Source: IBM PLI assessment.

Note: Impact on FDI: decrease = 1.0 -> neutral = 3.0 -> increase = 5.0. The analysis defines short-term as 1-2 years, and long-term as 5+ years.

Across both shorter- and longer-term time horizons, the main opportunities for developing countries are in (a) food processing, (b) garments and textiles, (c) automotive component manufacturing, and (d) IT-enabled services. These sectors are characterized by their relative resilience, employment generation, and exports orientation in developing countries.

The analysis also considered 36 exogenous factors (that is, transformational drivers) that are changing the nature of international production (Figure 11). Of these factors, the most dominant ones for the future of FDI include digitalization, artificial intelligence, robotics and automation, environmental sustainability and natural resource use, and adjustments in global and regional supply chains. Changes in these factors are also being accelerated because of COVID-19. Countries need to revise their FDI strategies on the basis of how these dynamics affect their value proposition to investors. See [COVID-19 and FDI: How should governments respond?](#) for details.

³ Tourism is expected to be a key sector in the longer term despite severe challenges in the short term. Global tourism is projected to flourish in the long term as consumers' disposable incomes increase rapidly in developing countries and tourists' appetite for leisure travel grows. In addition, the tourism industry is less exposed to negative shocks from policy disruptions and new technologies. Nevertheless, risks related to environmental and health awareness and climate change may lead to different consumption patterns with increased focus on sustainability and proximity.

⁴ Clothing production is also ranked highly in the long term as the sector is highly labor intensive, and automation of many value chain segments will remain difficult. The balance in terms of cost and resilience is expected to remain more favorable for developing countries.

Figure 11: 36 transformation drivers across 4 categories are changing FDI patterns



Source: IBM PLI assessment.

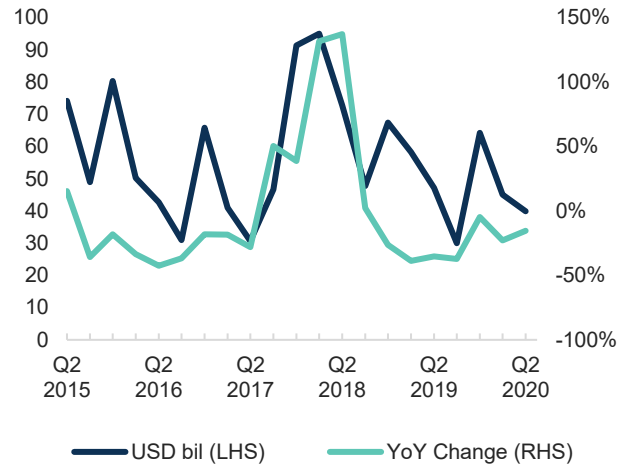
EAST ASIA AND PACIFIC

Total FDI inflows

For the nine countries in the East Asia and Pacific region for which data are available, total FDI inflows fell 15 percent YoY (compared with the same period in 2019) in Q2 2020, an improvement on the 23 percent decline registered in Q1 (Figure 12).

The decline was driven by large decreases in FDI inflows into Indonesia (down US\$3.5 billion YoY) and Thailand (down US\$2.5 billion YoY). Overall, however, the decline in the East Asia and Pacific region continued to be smaller than in other regions, in line with the region's relative success in containing COVID-19.

Figure 12: Quarterly FDI inflows, developing countries in East Asia and Pacific with data available



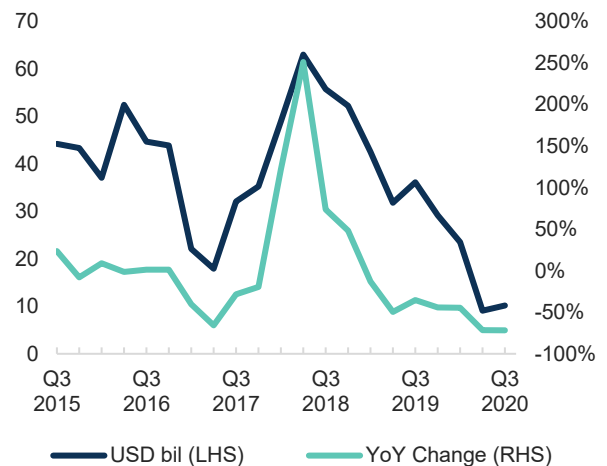
Source: IMF Balance of Payments.

Greenfield FDI

The contraction in announced greenfield FDI in the East Asia and Pacific region continued but stabilized in Q3, with greenfield project announcements down by 72 percent YoY to reach 10.2 billion after an almost identical result in Q2 (Figure 13). Announced greenfield FDI showed greater signs of recovery in China, where the total was down 70 percent in Q2 but just 46 percent in Q3. By contrast, the remaining developing countries in East Asia and Pacific saw announced greenfield FDI deteriorate from a 73 percent decline in Q2 to an 88 percent reduction in Q3.

Among major sectors, there were large declines in extractives (down 98 percent YoY) and across most major manufacturing sectors. These patterns reflect severe disruptions in select global supply chains and collapses in demand for energy and other extractive industry output. Services such as hospitality, construction, and logistics also suffered large reductions (Figure 13).

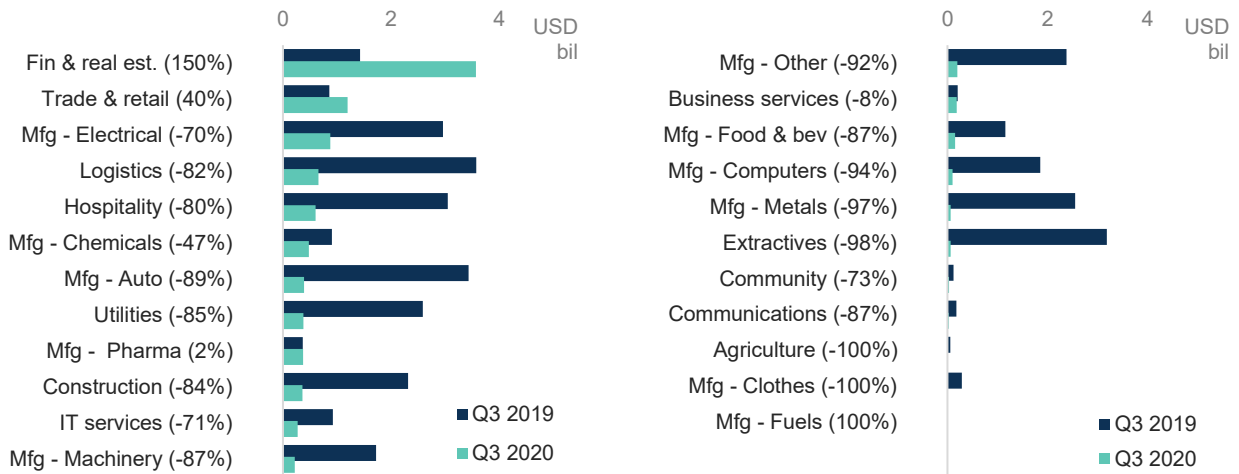
Figure 13: New announced greenfield FDI, developing countries in East Asia and Pacific



Source: Financial Times fDi Markets.

Declines were less severe in business services (down 8 percent), and announced greenfield FDI actually increased in finance and real estate (up 150 percent) as well as in trade and retail. Notable projects in these sectors in Q3 included HSBC's expansion of its wealth planning business in China—where it planned to hire additional 2,000–3,000 wealth planners—and Spanish engineering firm Itera's opening of its China headquarters in Shanghai.

Figure 14: YoY change in announced greenfield FDI by sector, developing countries in East Asia and Pacific, Q3 2020



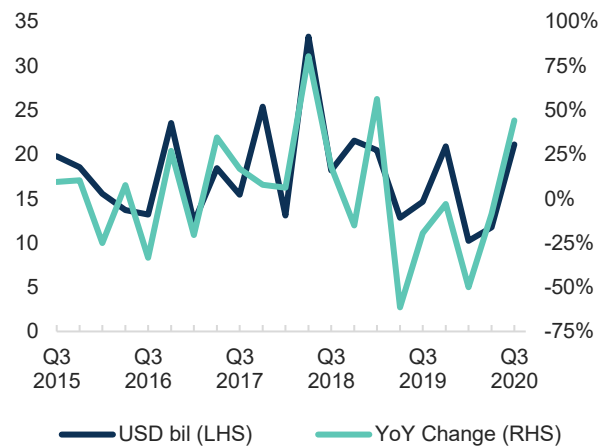
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

Unlike greenfield announcements, the value of cross-border M&A into low- and middle-income countries in the East Asia and Pacific region rebounded sharply in Q3 (Figure 15).

After falling to US\$11.7 billion in Q2 (down 9 percent YoY), total transaction value increased to \$21.1 billion in Q3, up 44 percent YoY. This rebound was seen for transactions targeting China and for the developing countries across the wider East Asia and Pacific region.

Figure 15: Value of total cross-border M&A deals, developing countries in East Asia and Pacific



Source: Refinitiv Eikon.

Investor sentiment

Existing MNEs in the East Asia and Pacific region widely reported experiencing adverse effects from COVID-19 in Q3, although they expect performance to improve somewhat in subsequent months (Figure 16). More than half of respondents reported declines in revenues and profits, and a majority reported reducing investment and employment.

Looking forward to Q4, some respondents expected adverse impacts from COVID-19 to lessen, particularly in terms of labor productivity, demand, and revenue and profits. While the share of firms expecting lower YoY investment declined (from 60 percent in Q3 to 48 percent in Q4), expectations for reduced employment became more common (from 50 percent in Q3 to 60 percent in Q4).

Figure 16: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in East Asia and Pacific



Source: Global MNE Pulse Survey.

Policy changes in FDI entry and screening

In the third quarter of 2020, low- and middle-income countries in the East Asia and Pacific region introduced the following measures related to FDI entry and screening:

- **Vietnam (pending)—Screening mechanism.** Under this proposed amendment, the Economic Committee would be mandated to “suggest to the Prime Minister to prevent the transfer of investment projects under construction or operating to foreign investors, if deemed that such transfer affects national security and national interests.”
- **Myanmar (pending)—Streamlining foreign worker permits.** Myanmar is considering a policy to streamline foreign worker permits in the public health sector.

More information on changes in the FDI entry and screening policies in the region can be found [here](#).

EUROPE AND CENTRAL ASIA

Total FDI inflows

Total FDI inflows rebounded and actually registered modest YoY growth of 7 percent in Q2 for the 18 developing countries for which data were available in Europe and Central Asia, compared with the same period in 2019 (Figure 16). This recovery comes after an 86 percent YoY decline in Q1.

However, gains were not spread evenly throughout the region. Kazakhstan experienced a US\$4.5 billion YoY increase in FDI inflows, driving most of the regional increase. Most developing countries with available data in the region experienced YoY declines. For example, Turkey experienced a US\$1.6 billion YoY decrease.

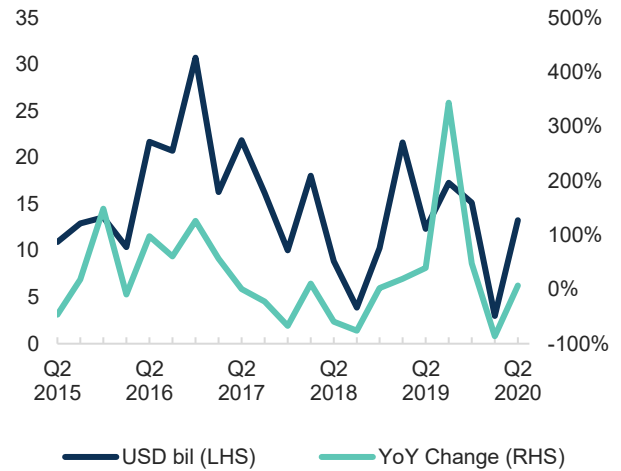
Greenfield FDI

The value of announced greenfield FDI remained lower across developing countries in Europe and Central Asia in Q3 2020, compared with the same period in 2019 (Figure 18). Announced greenfield FDI totaled 3.7 billion in Q3, down 82 percent YoY, almost identical to Q2. The decline was broadly shared across major economies such as the Russian Federation and Turkey, as well as other developing countries.

Decreases occurred across nearly all major sectors (Figure 19). Consistent with global trends, the steepest decline was in extractives (down 99 percent YoY), and automotive manufacturing also experienced a large decline (down 72 percent). Greenfield FDI announcements in trade and retail, utilities, and agriculture also declined significantly.

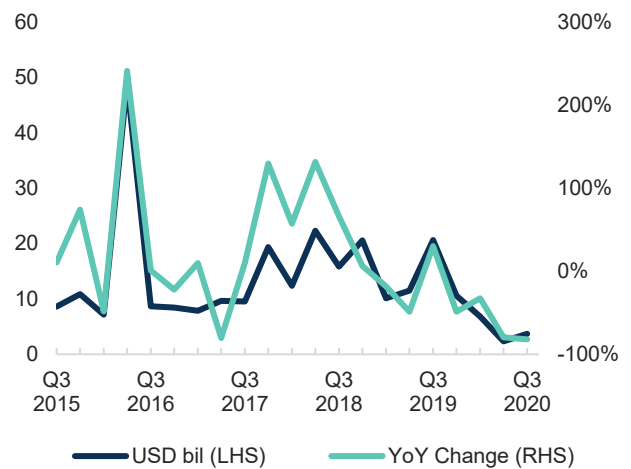
In line with global trends, IT services and business services were relatively resilient. IT services project announcements decreased just 23 percent YoY, and the business services sector declined 26 percent YoY. Increases in announced greenfield FDI registered for hospitality and for communications were largely a function of the very few projects in these sectors in both the second and third quarter 2019.

Figure 17: Quarterly FDI inflows, developing countries in Europe and Central Asia with data available



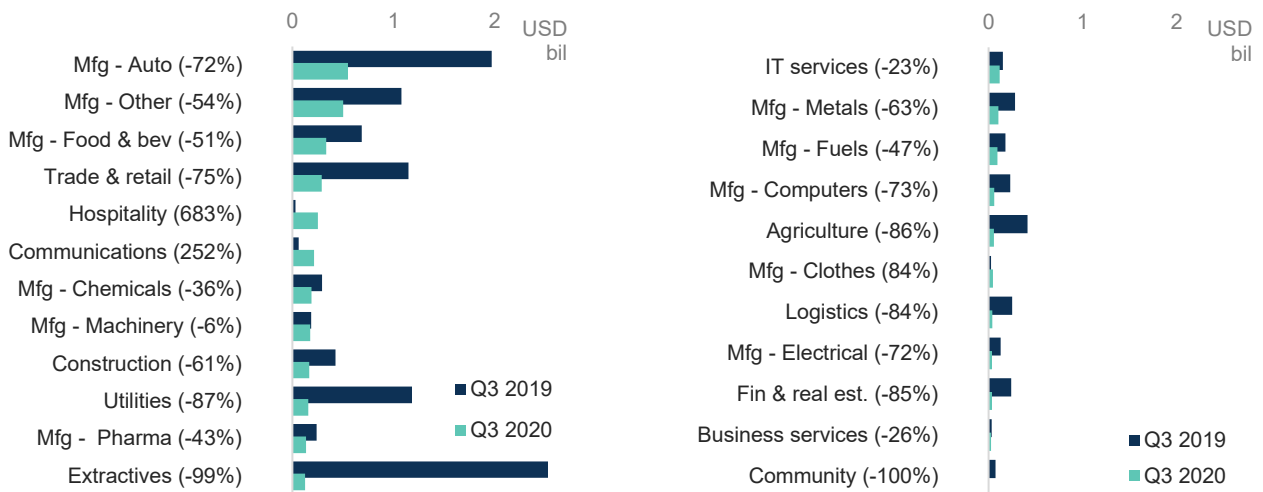
Source: IMF Balance of Payments.

Figure 18: New announced greenfield FDI, all developing countries, Europe and Central Asia



Source: Financial Times fDi Markets.

Figure 19: YoY change in announced greenfield FDI by sector, developing countries in Europe and Central Asia, Q3 2020



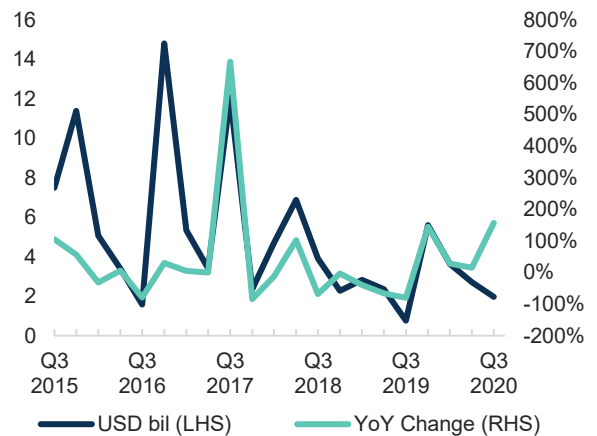
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

In terms of US dollars, the value of cross-border M&A deals in the Europe and Central Asia region continued to decline in Q3, down to just \$2 billion after falling to \$2.7 billion in Q2 (Figure 20). However, in YoY terms this represented an increase, owing to a very low total in Q3 2019.

M&A activity largely targeted Russia, which saw values rise to \$1.6 billion. Deals were minimal in other developing countries in the region.

Figure 20: 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 pandemic were widespread for MNE affiliates in Europe and Central Asia in Q3, with more than 60 percent experiencing reduced demand, output, and employment (Figure 21). Two-thirds reduced their local investment in the quarter, and three-quarters experienced reduced revenue and profits.

Consistent with global trends, expectations for improvement in Q4 were limited, with little change in the share reporting adverse impacts on most measures. Expectations for reduced investment appeared to ease somewhat.

Figure 21: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in Europe and Central Asia



Source: Global MNE Pulse Survey.

Policy changes in FDI entry and screening

In the third quarter of 2020, low- and middle-income countries in the Europe and Central Asia region introduced the following measures related to FDI entry and screening:

- **Russia (July 2020)—Screening mechanism.** Under this new regulation, screening mechanisms will apply even to temporary acquisitions of firms in strategic sectors for national security reasons.
- **Ukraine (pending)—Screening mechanism.** This proposed law would establish FDI screening for investments in the defense and telecommunications sectors.

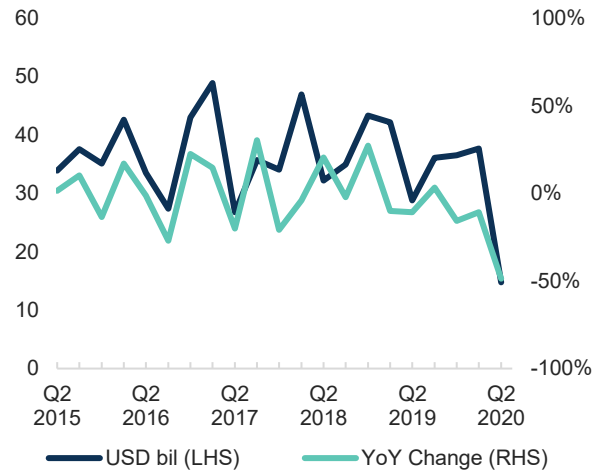
More information on changes in the FDI entry and screening policies in the region can be found [here](#).

LATIN AMERICA AND THE CARIBBEAN

Total FDI inflows

Total FDI inflows into the 15 countries for which data were available in the Latin America and Caribbean region declined 49 percent YoY in Q2 2020, compared with the same period in 2019, a further deterioration from the 11 percent decline seen in Q2 (Figure 22). Much of this decline was driven by large absolute declines in FDI inflows into Colombia (US\$2.8 billion YoY decline), Mexico (US\$3.8 billion), and Brazil (US\$5.0 billion). In contrast, some smaller economies performed better, with Guyana seeing a US\$162 million YoY increase in FDI inflows and El Salvador seeing a US\$115 billion YoY increase.

Figure 22: Quarterly FDI inflows, developing countries in Latin America and the Caribbean with available data

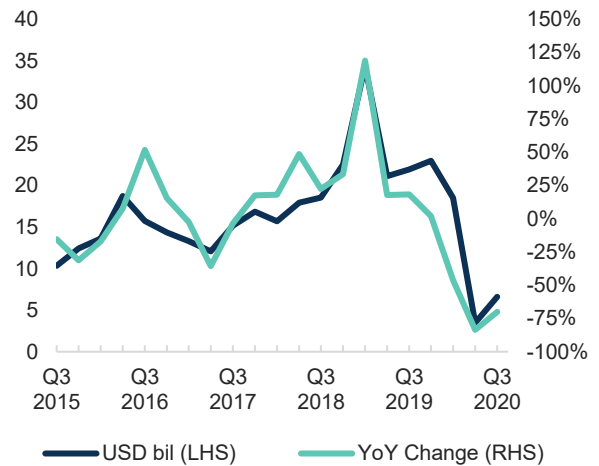


Source: IMF Balance of Payments.

Greenfield FDI

In line with global trends, announced greenfield FDI in the Latin America and Caribbean region remained in decline in Q3, but declines had eased up from the prior quarter (Figure 23). Announced greenfield FDI was down 70 percent YoY in Q3 at US\$6.7 billion, an improvement from the 84 percent YoY decline registered in Q2.

Figure 23: New announced greenfield FDI, all developing countries, Latin America and the Caribbean

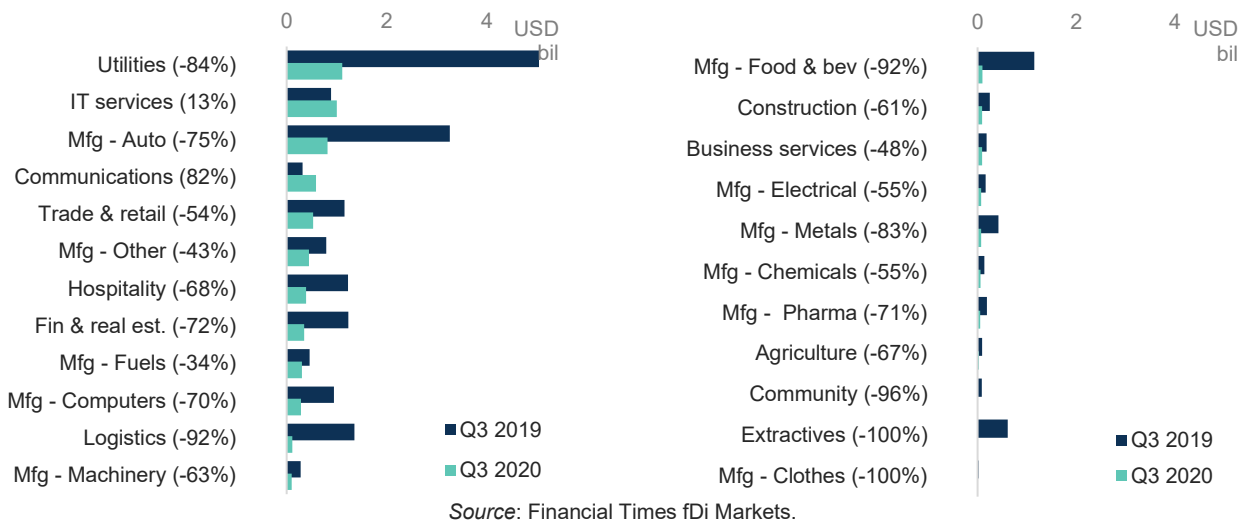


Source: Financial Times fDi Markets.

Declines in announced greenfield FDI occurred across nearly all sectors. Among sectors which traditionally receive large amounts of FDI, investment in extractives fell to zero, while utilities were down 84 percent YoY and auto manufacturing was down 75 percent YoY (Figure 24). Logistics, trade and retail, and hospitality were also down considerably. This pattern reflects depressed demand for tourism, for many discretionary consumer purchases, and for energy, driven by COVID-19 and the resulting slowdown in economic activity.

In contrast, investment actually rose in communications (up 84 percent YoY) and IT services (up 13 percent YoY). This is consistent with wider trends that indicate COVID-19 has had relatively less impact on the ability of many knowledge-intensive service industries to operate and has in some cases even increased demand for such services (such as for technology solutions to enable remote work).

Figure 24: YoY change in announced greenfield FDI by sector, developing countries Latin America and the Caribbean, Q3 2020

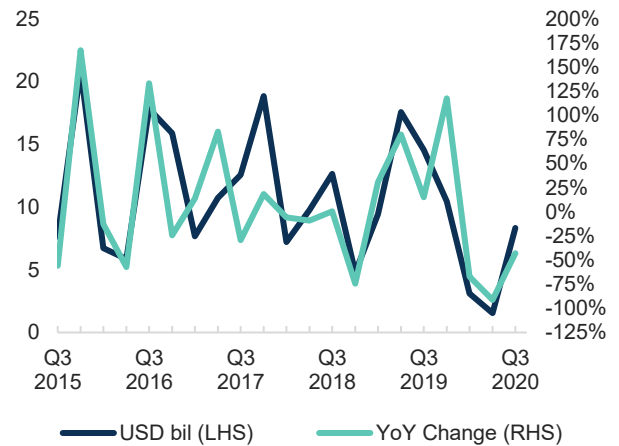


Cross-border mergers and acquisitions

The value of cross-border M&A deals in the Latin America and Caribbean region rebounded in Q3. Regionally, total values fell to US\$1.5 billion in Q2 (down 91 percent YoY) but rebounded to \$8.3 billion in Q3, to be down 43 percent YoY.

The rebound was entirely driven by Brazil, with \$7 billion worth of deals occurring in Q3 after just \$0.6 billion in deals was recorded in Q2. By contrast, total deals were little changed across the rest of the region at \$1.4 billion in Q3, down 83 percent YoY.

Figure 25: Value of total cross-border M&A deals, developing countries in Latin America and the Caribbean



Investor sentiment

Most MNE affiliates surveyed in the Latin America and Caribbean region reported experiencing adverse business impacts from the COVID-19 crisis in Q3 (Figure 26). Three-quarters experienced reduced demand, half experienced supply chain disruptions, and more than two-thirds reported reduced revenue and profits.

Impacts on both demand and the supply chain were expected to ease slightly in Q4, and a smaller share of firms reported expecting adverse revenue impacts, but effects on profits were expected to be little changed.

Figure 26: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in Latin America and the Caribbean



Policy changes in FDI entry and screening

In the third quarter of 2020, low- and middle-income countries in the Latin America and Caribbean region introduced the following measures related to FDI entry and screening:

- **Brazil (pending)—Screening mechanism.** This proposed law would enhance FDI screening for select strategic sectors by adding considerations regarding foreign state-owned sponsors.

More information on changes in the FDI entry and screening policies in the region can be found [here](#).

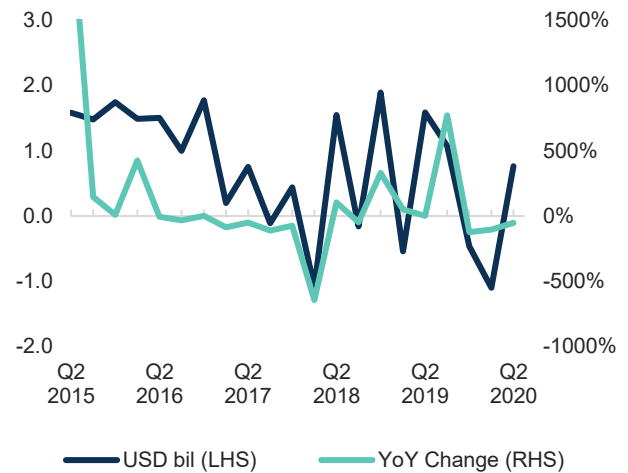
MIDDLE EAST AND NORTH AFRICA

Total FDI inflows

Total FDI flows in the Middle East and North Africa region were down 52 percent YoY in Q2 of 2020, when looking across countries in the region with available data (Figure 27).⁵

While in YoY terms FDI flows were little changed from the sharp declines of more than 100 percent experienced in Q4 of 2019 and Q1 of 2020, in dollar terms the Q2 result represented a rebound to positive inflows after the region had experienced net disinvestment in the preceding quarters. Large YoY declines in Qatar (down US\$0.5 billion) and Saudi Arabia (down \$0.2 billion) weighed on the Q2 result.

Figure 27: Quarterly FDI inflows, countries in the Middle East and North Africa with available data



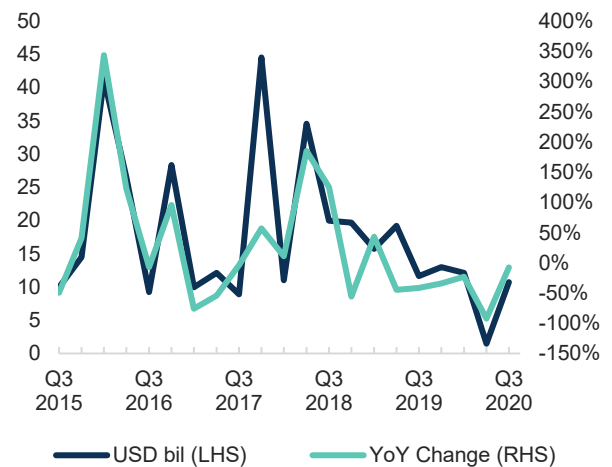
Source: IMF Balance of Payments.

Greenfield FDI

Announced greenfield FDI rebounded strongly in Q3 in the Middle East and North Africa region (Figure 28). It had fallen to just US\$1.5 billion in Q2, down 92 percent YoY. However, announced greenfield FDI rebounded to \$10.7 billion in Q3 to be down 8 percent YoY.

The result was primarily driven by a small number of unusually high-value project announcements in the chemical manufacturing and fuel processing sectors in Saudi Arabia (Kurita and Air Products) and Oman (Canada Business Holdings).

Figure 28: New announced greenfield FDI, Middle East and North Africa



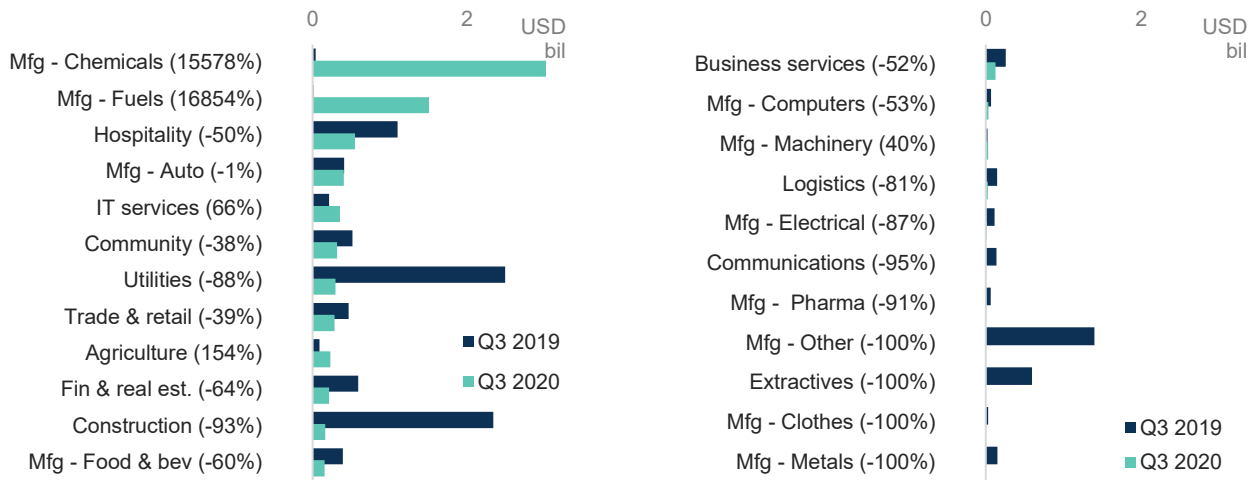
Source: Financial Times fDi Markets.

Across other sectors, Q3 announced greenfield FDI was more in line with global results with a decline to zero in extractives and large declines in construction (down 93 percent) and utilities (down 88 percent) (Figure 29).

The IT services sector was a relative bright spot, with announced greenfield FDI rising by 66 percent YoY in Q3. Notable projects announced in Q3 included Oracle's opening of a new cloud data center in Saudi Arabia and Joint Scope Technologies opening of a new office in Egypt.

⁵ The analysis excludes Israel and select other countries for which data was not available.

Figure 29: YoY change in announced greenfield FDI by sector, Middle East and North Africa, Q3 2020



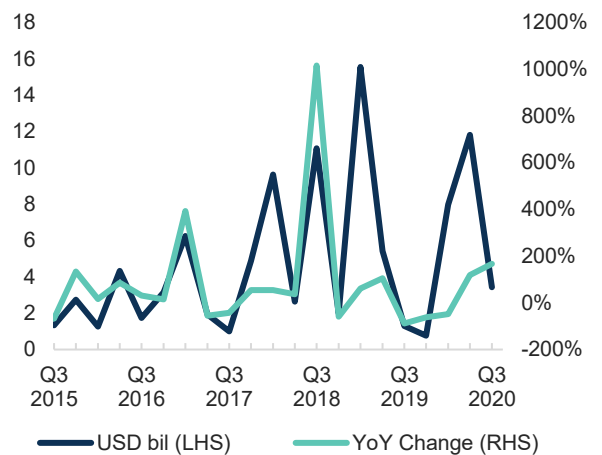
Source: Financial Times fDI Markets.

Cross-border mergers and acquisitions

The total value of cross-border M&A deals targeting the Middle East and North Africa region has remained surprisingly strong through the crisis. M&A values actually spiked in Q2, reaching US\$11.8 billion to increase more than 100 percent YoY (Figure 30).

In Q3, values normalized to \$3.4 billion, but this remained a relative increase in YoY terms because of a low result in Q3 2019.

Figure 30: Value of total cross-border deals, Middle East and North Africa



Source: Refinitiv Eikon.

Investor sentiment

Surveyed MNE affiliates in the Middle East and North Africa region reported widespread adverse impacts in Q3, in line with global results. More than 80 percent of affiliates experienced reduced demand and labor productivity, while around 70 percent reported reducing investment and employment (Figure 31). Three-quarters reported reduced profits.

Although affiliates expected noticeable improvements in supply chain disruption in Q4, and only 44 percent expected to reduce employment, the outlook for revenue and profit remained negative, with a slightly increased share of affiliates expecting adverse effects.

Figure 31: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in the Middle East and North Africa



Source: Global MNE Pulse Survey.

Policy changes in FDI entry and screening

In the third quarter of 2020, countries in the Middle East and North Africa region introduced the following measures related to FDI entry and screening:

- **United Arab Emirates (pending)—Foreign worker restrictions.** Under this proposed policy, the United Arab Emirates would implement new quotas for foreign workers from countries not repatriating their citizens currently in the United Arab Emirates, as a measure to mitigate the spread of COVID-19.

More information on changes in the FDI entry and screening policies in the region can be found [here](#).

SOUTH ASIA

Total FDI inflows

In line with the rest of the global economy, FDI inflows into the South Asia region fell steeply in Q2 2020, compared with the same period in 2019 (Figure 32). For the five countries with available data, FDI inflows fell 84 percent YoY in Q2 2020 after registering a 49 percent YoY increase in Q1. This steep drop reflects the spread of COVID-19, which had not yet spread at scale across the region in Q1 but began to grow in Q2.

All five countries with available data experienced declines in FDI inflows in Q2, with India registering the largest drop in absolute terms (a US\$15 billion decline compared with the same period in 2019).

Greenfield FDI

In line with global trends, announced greenfield FDI into the South Asia region rebounded somewhat in Q3 (Figure 33). After falling sharply to just US\$1.2 billion in Q2 (down 85 percent YoY), announcements in Q3 totaled \$4.6 billion (down 47 percent YoY).

This result was primarily driven by projects in India, which saw \$4.6 billion in project announcements in Q3 (down 33 percent YoY). Announced greenfield FDI was minimal across other developing countries in the region, down 92 percent YoY.

Declines in announced greenfield FDI occurred across many major sectors, including extractives (which fell to zero), auto manufacturing (down 86 percent YoY) and utilities (down 79 percent YoY). IT services and business services, which showed some resilience in other regions, were also down 68 percent and 65 percent respectively.

Also contrary to global trends, investments in new trade and retail projects rose 23 percent (largely driven by Amazon’s investments across multiple cities in India), and projects in computer manufacturing also increased (largely driven by Foxconn’s plans to expand iPhone manufacturing in Tamil Nadu, India).

Figure 32: Quarterly FDI inflows, developing countries in South Asia with data available

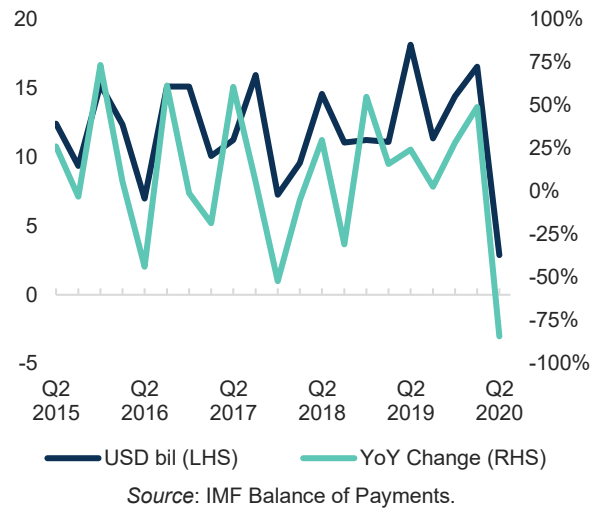
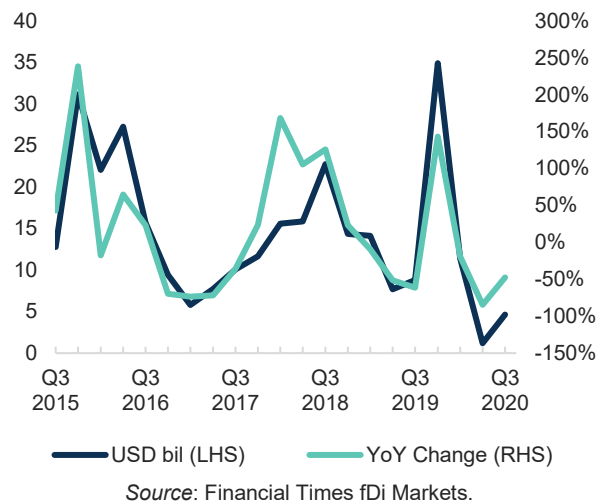
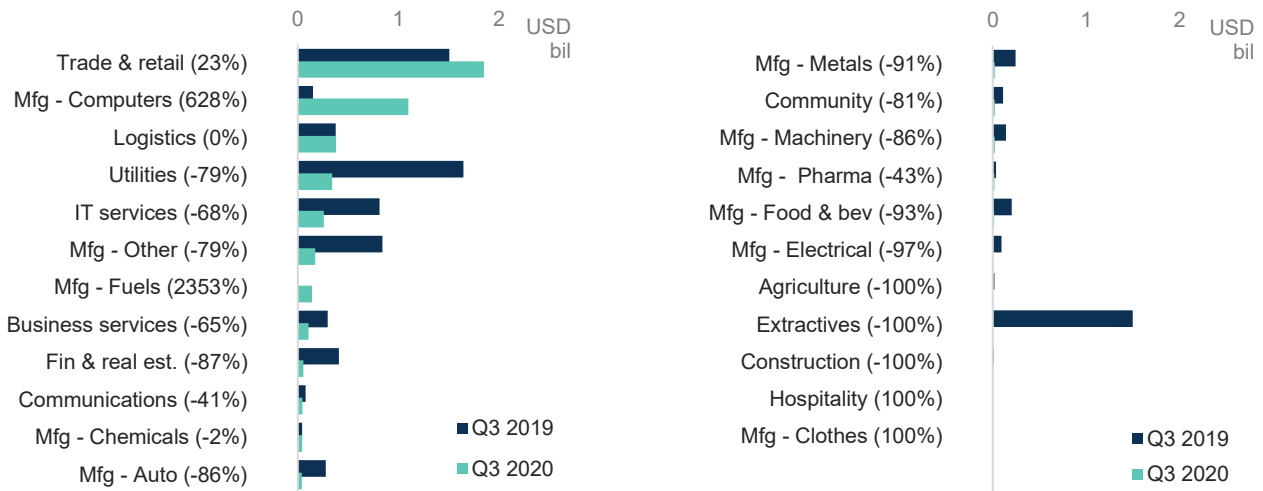


Figure 33: Number of new greenfield announcements, all developing countries in South Asia



Figures 34: YoY change in announced greenfield FDI by sector, developing countries in South Asia, Q3 2020



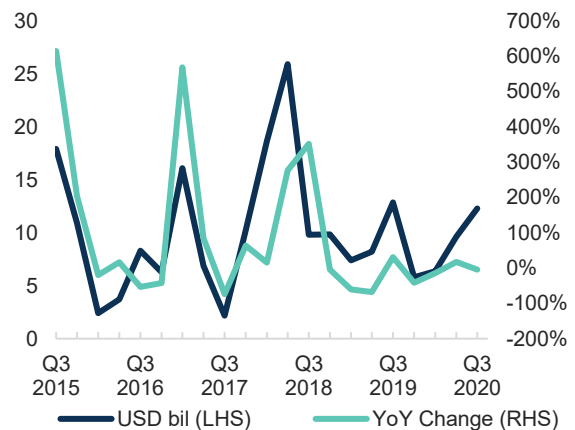
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The value of cross-border M&A transactions has remained fairly robust in the South Asia region through the COVID-19 crisis. M&A values reached \$9.6 billion in Q2 (up 17 percent YoY) and progressed to \$12.3 billion in Q3 to be little changed from the same period in 2019 (Figure 35).

This result was driven almost entirely by deals targeting India, which made up almost all of the deals in the region for the quarter.

Figure 35: Value of total cross-border M&A deals, developing countries in South Asia



Source: Refinitiv Eikon.

Investor sentiment

MNE affiliates in the South Asia region reported widespread adverse effects of the pandemic in Q3. Half experienced reduced demand, around 60 percent reported revenue cuts, and half reported reduced profits (Figure 36). Employment was reduced by 40 percent of firms while 63 percent reported reducing investment.

The share of survey respondents expecting adverse impacts in Q4 was noticeably lower across most measures—a more positive outlook than in other regions—although the share expecting to reduce employment increased.

Figure 36: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in South Asia



Source: Global MNE Pulse Survey.

Policy changes in FDI entry and screening

In the third quarter of 2020, low- and middle-income countries in the South Asia region did not introduce any new measures related to FDI entry and screening.

More information on changes in the FDI entry and screening policies in the region can be found [here](#).

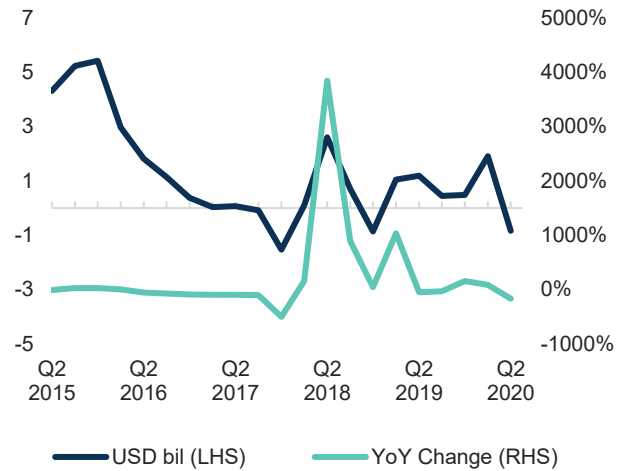
SUB-SAHARAN AFRICA

Total FDI inflows

Total FDI inflows into the six countries for which data are available in the Sub-Saharan Africa region fell and were negative—indicating net withdrawal of foreign direct investments—in Q2 2020 (Figure 37).

Much of this decline was driven by South Africa (US\$973 million YoY decline), Angola (down US\$875 million), and Mozambique (down US\$490 million). In contrast, Zambia experienced a YoY increase of US\$173 million.

Figure 37: Quarterly FDI inflows, developing countries in Sub-Saharan Africa with available data



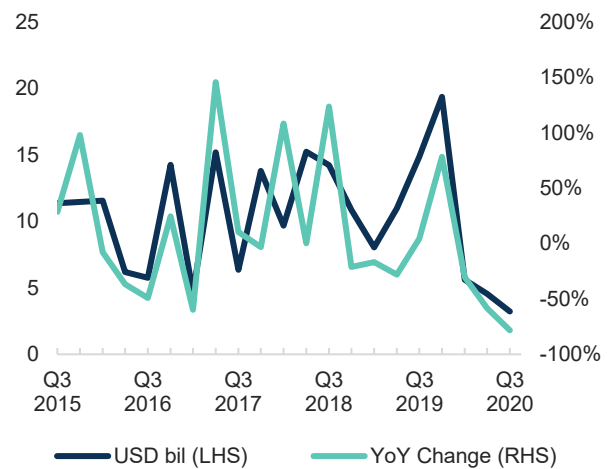
Source: IMF Balance of Payments.

Greenfield FDI

Announced greenfield FDI in the Sub-Saharan Africa region has declined since the onset of COVID-19. Announced greenfield FDI fell to US\$ 4.6 billion in Q2 (down 58 percent YoY) and fell further in Q3 to \$3.2 billion (down 78 percent YoY) (Figure 38).

Declines in greenfield project announcements occurred across nearly every major sector (Figures 39), with announced greenfield FDI in construction and fuel processing falling to zero, extractives down 80 percent YoY, logistics down 68 percent YoY, and utilities down 73 percent YoY. These results mirrored wider trends, reflecting uncertainty about future commodities demand and prices, and widespread global trade disruption. Most manufacturing sectors fell as well. Investments in hospitality fell 83 percent YoY, reflecting the impact of the crisis on tourism.

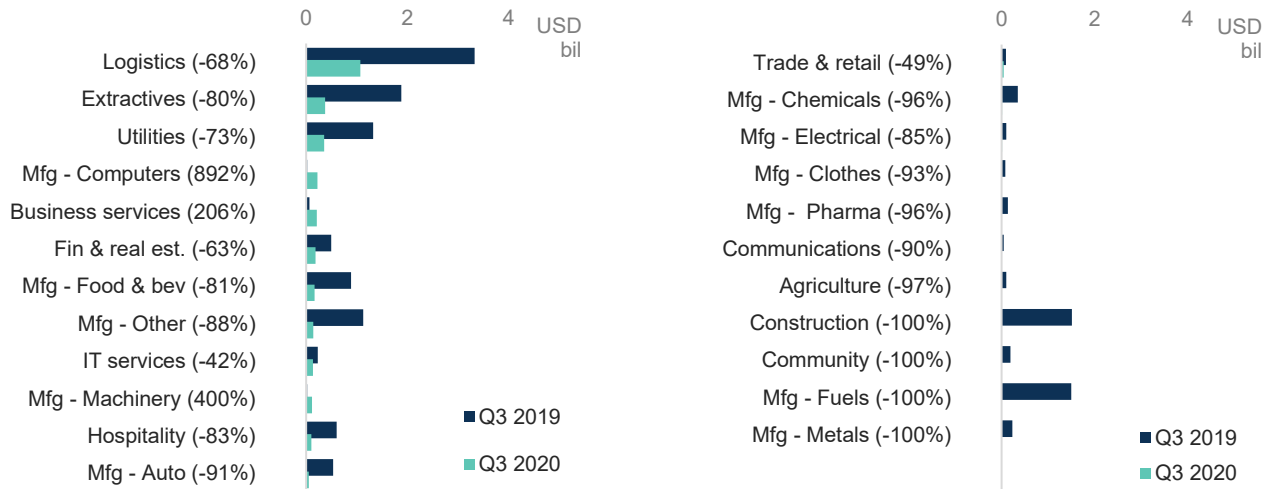
Figure 38: Number of new greenfield announcements, all developing countries in Sub-Saharan Africa



Source: Financial Times fDi Markets.

In line with global trends, business services proved an exception with announced greenfield FDI increasing somewhat in YoY terms. Notable projects included Saudi Arabian consultancy 4SiGHT Research and Analytics' establishment of offices in Nigeria and South Africa and British law firm Clyde and Company's potential plans to expand into Ghana.

Figures 39: YoY change in greenfield project announcements by sector, developing countries in Sub-Saharan Africa, Q3 2020



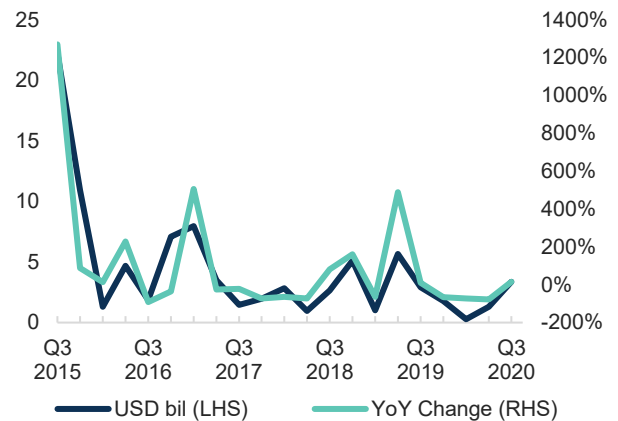
Source: Financial Times fDi Markets.

Cross-border mergers and acquisitions

The value of cross-border M&A transactions targeting countries in the Sub-Saharan Africa region rebounded slightly in Q3 (Figure 40). M&A values were down to US\$1.3 billion in Q2 (down 77 percent YoY) but rose to \$3.4 billion in Q3 to be 15 percent higher YoY.

Transaction values remained down 35 percent YoY in South Africa in Q3, with the improvement coming in other countries.

Figure 40: Value of total cross-border M&A deals, developing countries in Sub-Saharan Africa



Source: Refinitiv Eikon.

Investor sentiment

MNE affiliates surveyed in the Sub-Saharan Africa region reported widespread adverse impacts from the COVID-19 crisis in Q3, including more than half reporting reduced demand and output, 62 percent reporting reduced revenue, and 72 percent reduced profits (Figure 41). More than two-thirds reported reducing investment locally in the quarter, and half reduced employment.

The outlook for Q4 was little changed in some ways, with the share expecting reduced output and employment increasing. However, fewer firms expected to face reduced profits.

Figure 41: Share of surveyed MNE affiliates reporting adverse impacts, developing countries in Sub-Saharan Africa



Source: Global MNE Pulse Survey.

Policy changes in FDI entry and screening

In the third quarter of 2020, low- and middle-income countries in the Sub-Saharan Africa region introduced the following measures related to FDI entry and screening:

- **Ethiopia (September 2020)—Opening closed sectors.** This new regulation opens up the health (hospitals, higher clinics, diagnostic centers), transportation (cold chain, railway, cable car, freight transport), telecommunications, and education sectors to greater foreign participation.

More information on changes in the FDI entry and screening policies in the region can be found [here](#).

LATEST RESEARCH AND NEWS

[Supporting Businesses and Investors: A Phased Approach of Investment Climate Policy Responses to COVID-19 \(World Bank: Global Investment Climate Unit\)](#)



As the COVID-19 pandemic spreads and its economic impact deepens, supporting businesses and investors requires not only fiscal and financial stimulus but also complementary investment climate policies and programs to promote the flow of productive investment. As the crisis develops and eventually subsides, measures should follow a phased approach: (1) During the relief stage, policy makers should focus on supporting market functioning and firm survival via targeted services to retain investment, regulatory flexibility, and financial support. (2) In the restructuring stage, governments should focus on risk-based reopening of the economy, providing targeted support to viable firms and strengthening insolvency regimes. They should also review and roll back select measures from the relief stage as their need expires; proactively address investor grievances related to response measures; and manage the market and institutional implications of state aid, bailouts, and nationalization. (3) In the recovery stage, policy makers should shift their focus from undoing the damage from the pandemic toward new areas of opportunity. This work entails attracting and promoting FDI in light of market shifts following the pandemic and realigning policy and regulatory environments to facilitate the reallocation of resources toward long-run economic transformation, job creation, and inclusion.

[COVID-19 and FDI: How Should Governments Respond? \(World Bank/Columbia: Ivan Anton Nimac\)](#)



Policy responses to the unprecedented economic shocks caused by COVID-19 have given limited attention to the promotion of FDI, which plays a major role in the recovery. Good practices demonstrated by countries indicate certain actions that governments should consider during the pandemic's crisis and recovery phases. Governments' economic support to keep firms operational should be extended to both domestic firms and foreign affiliates. In the recovery phase, governments should consider resetting their FDI policy through a four-step process to help them overcome COVID-19's impact on FDI flows and to account for such preexisting transformation drivers as sustainability and technological development. Governments should (1) review FDI strategies, (2) confirm priority segments, (3) implement FDI policy reforms to improve value propositions for priority segments, and (4) promote new segments.

[The Voice of Foreign Direct Investment: Foreign Investor Policy Preferences and Experiences in Developing Countries \(World Bank: Abhishek Saurav and Ryan Kuo\)](#)

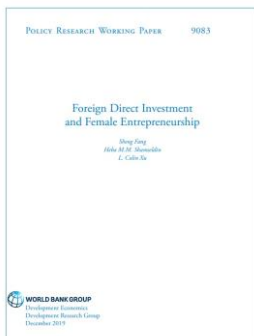


This paper analyzes the results of a survey of more than 2,400 affiliates of multinational enterprises across 10 middle-income countries to provide insights to inform government efforts to attract and retain FDI. The paper explores corporate perspectives and decision-making on countries' legal and regulatory environments, political risk, and investment promotion activities. The survey finds that a business-friendly policy environment is critical to multinational enterprises' investment decisions, confirming the importance for governments to remove regulatory barriers to FDI (particularly approval processes), lower political risks, and maintain investment promotion agencies. The survey results also show that investors are heterogeneous, with affiliates' sectors, trading behaviors, sizes, ages, source countries, and foreign ownership levels affecting their perceptions of and sensitivity to various policy factors.



[Investment Facilitation and Mode 3 Trade in Services: Are Current Discussions Addressing the Key Issues? \(World Bank: Roberto Echandi and Pierre Sauvé\)](#)

This paper reviews available evidence on factors affecting trade costs for services supplied via a commercial presence in a host country market, so-called Mode 3 trade. It does so with a view to answering the question of whether the current “facilitation” agendas on services and investment proceeding at the World Trade Organization focus on the most important factors affecting Mode 3–related trade costs, by far the most important of all modes of supplying services internationally. The paper highlights how reducing regulatory heterogeneity, tackling discriminatory impediments to cross-border investment, and developing investor-state conflict management mechanisms to retain and expand investment and prevent dispute escalation—all issues left unaddressed by ongoing negotiations—hold important potential for reducing Mode 3 trade costs and facilitating expanded investment.



[Foreign Direct Investment and Female Entrepreneurship \(World Bank: Sheng Fang, Heba M.M. Shamseldin, and L. Colin Xu\)](#)

Using World Bank Enterprise Survey data from around the world, this paper examines how FDI is associated with female entrepreneurship (that is, a firm being managed and at least partly owned by women), along with other factors such as business environment and female empowerment, and their interactions with FDI. Female entrepreneurship rises with FDI inflow, lower entry barriers for women, women’s better access to finance, higher female labor force participation, and women’s better education. The positive association of FDI inflow and female entrepreneurship is stronger for firms in the service sectors and for small firms. The horizontal competition effects of intra-industry foreign direct investment for female entrepreneurship are reduced when women face lower entry barriers for starting a business and have a higher labor force participation rate, and the effects do not depend on women’s access to finance or their level of education.



[Investment Linkages and Incentives: Promoting Technology Transfer and Productivity Spillovers from Foreign Direct Investment \(World Bank: Yassin Sabha, Yan Liu, and Wim Douw\)](#)

This note seeks to provide an overview of investment incentive policy as a tool for governments seeking to promote technology transfer and productivity spillovers by multinational enterprises (MNEs) in the host economy to local firms and suppliers. The note summarizes international experiences to demonstrate what has worked and what has not worked, as well as the advantages and disadvantages of different investment incentive schemes. Evidence suggests that backward links between MNEs and local suppliers are the most important channels for technology and productivity spillovers to local firms. Furthermore, backward links offer an important avenue for ambitious local firms to integrate into global value chains. However, several market failures and challenges often prevent backward links from materializing.



[Global Investment Competitiveness Report 2019/2020: Rebuilding Investor Confidence in Times of Uncertainty \(World Bank: Global Investment Climate Team\)](#)

This report provides novel analytical insights, empirical evidence, and actionable recommendations for governments seeking to rebuild investor confidence in times of uncertainty. It focuses on the role of foreign direct investment in alleviating the impact of the COVID-19 crisis and in boosting countries’ economic resilience. It highlights FDI’s contributions to providing a critical source of external finance, creating jobs, lifting people out of poverty, and raising productivity.



[Foreign Direct Investment and Employment Outcomes in Developing Countries. A Literature Review of the Effects of FDI on Job Creation and Wages \(World Bank: Abhishek Saurav, Yan Liu, and Aarushi Sinha\)](#)

This survey of literature explores the heterogeneous effect of FDI on employment outcomes in three types of domestic firms: foreign-owned local firms that are affiliates of multinational corporations (MNCs), local firms that are suppliers to or customers of MNC affiliates, and local firms that compete with MNC affiliates. Confirming expectations that FDI will create new and better-paying jobs, evidence suggests that foreign-owned firms positively affect employment generation in affiliate firms. The gap between wages in domestic firms and foreign firms is larger for high-skilled workers. For firms in upstream sectors (that is, suppliers of MNCs), there is a sizeable increase in jobs but only modest wage growth. The effect on domestic competitors, both in terms of jobs and wages, is muted. The type of FDI, domestic firms' size, domestic ownership share, and the sector's technological capacity are important conditioning factors.



[The Impact of COVID-19 on Foreign Investors: Evidence from the Quarterly Global Pulse Survey for the Third Quarter of 2020 \(World Bank: Abhishek Saurav, Peter Kusek, Ryan Kuo, and Brody Viney\)](#)

This paper discusses the latest results of a quarterly survey of multinational enterprise (MNE) affiliates in developing countries. It finds that (1) the effects of the COVID-19 pandemic remained widespread in the third quarter (July to September) of 2020 as 97 percent of respondents experienced adverse effects; (2) MNE affiliates anticipate only limited improvement in the fourth quarter (October to December) of 2020; (3) the outlook for foreign investment in developing countries remains negative as 85 percent expect investment in the host country to remain the same or decline; (4) over 90 percent of MNE affiliates have received COVID-19-related support from their local governments, but most firms indicated that ongoing support is needed; (5) more than 60 percent of MNE affiliates have received support from their foreign parents in the form of technological, managerial, or financial assistance; and (6) changes in FDI policy in response to the pandemic have been far from uniform, with some respondents reporting business-friendly changes in local entry and operational rules and others reporting new restrictions.



[Policy Options to Mitigate Political Risk and Attract FDI \(World Bank: Priyanka Kher and Dongwook Chun\)](#)

Events in the past year have triggered concerns around political risk. In particular, the global rise in protectionism and policy uncertainty in response to nationalist sentiments and economic security considerations, coupled with some immediate policy actions to tackle the COVID-19 pandemic, present new challenges. With increased strains on government budgets, there are concerns around foreign exchange controls, as well as in the inability of governments to fulfill contractual obligations. On the other hand, the pandemic has amplified the backlash against globalization, increasing scrutiny of and interference in companies with foreign ownership. Furthermore, dissatisfaction with government responses to the pandemic can potentially fuel political discontent, civil unrest, or both, and could lead to political instability in some countries. It is therefore critical to establish effective mechanisms to address specific investor grievances related to political risk.



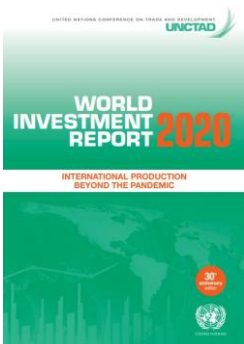
[Institutions for Investment: Establishing a High-Performing Institutional Framework for Foreign Direct Investment \(FDI\) \(World Bank: Armando Heilbron and Robert Whyte\)](#)

This paper identifies best practices that will lead to a more effective institutional framework for FDI. Global experience shows that the right institutional arrangements can result in higher levels of FDI. A well-functioning institutional framework requires (1) a shared, strategic vision for FDI across government that includes private sector input; (2) technically capable institutions with clearly defined mandates; (3) institutional stability and sustainability through political cycles; (4) appropriate incentives for institutional cooperation with strong results measurement and communications tools; and (5) political and financial support to establish and staff institutions according to best practices.



[The Initial Response of Investment Promotion Agencies to COVID-19 and Some Observed Effects on Foreign Direct Investment \(World Bank: Investment Climate Unit\)](#)

This note summarizes COVID-19–related impacts and the responses of investment promotion agencies (IPAs) as observed by the World Bank Group’s global operational portfolio and the findings of its April 2020 rapid survey of IPAs. The survey finds that many IPAs have turned to working remotely, maintaining close communication with investors and providing assistance for resolving issues. At the moment, IPAs should prioritize retention services, which include keeping investors informed, solving their operational emergencies, and advocating for critical reforms not only for investors to survive the crisis but also to recover quickly.



[World Investment Report 2020: International Production Beyond the Pandemic \(UNCTAD\)](#)

This report discusses trends in global flows of FDI in the context of the COVID-19 pandemic. The report posits that FDI flows to developing countries will be hit especially hard, because export-oriented and commodity-linked investments are among the most seriously affected. The consequences could last well beyond the immediate impact on investment flows. Indeed, the crisis could be a catalyst for a process of structural transformation of international production this decade and an opportunity for increased sustainability, but this opportunity will depend on the ability to take advantage of the new industrial revolution and to overcome growing economic nationalism. Cooperation will be crucial; sustainable development depends on a global policy climate that remains conducive to cross-border investment.



[Mainstreaming Gender Equality in Investment Promotion \(UNCTAD\)](#)

Investment promotion agencies in developed and developing countries are increasingly integrating gender equality and women’s empowerment into their work, in line with national commitments. IPAs are working on two main fronts: (1) facilitating greater impacts of foreign companies’ operations on gender equality in the host country and (2) empowering women and promoting gender equality within the agency. This paper argues that the COVID-19 crisis presents a threat to recent gains on gender equality.

Twenty-fourth Report on G20 Investment Measures (OECD and UNCTAD)



This report examines significant changes to policies on international investment as documented by G20 members' policy changes since the outbreak of the pandemic. In particular, COVID-19 has heightened awareness of the need to prevent and mitigate risks. In the realm of investment policy making, this awareness has accelerated the introduction and strengthening of policies to counter threats to essential security interests that may be associated with foreign investment in the health sector. Overall, risk-related investment policy making has reached a historic all-time high in the first nine and a half months of 2020.

COVID-19 Disruptions Send Global FDI Plunging 50% (OECD)



This report discusses the impact of COVID-19 on global FDI. Global FDI flows fell by 50 percent in the first half of 2020 compared with the second half of 2019, to US\$364 billion, the lowest half-year level since 2013. Inflows to the Organisation for Economic Co-operation and Development (OECD) area dropped by 74 percent in the same period, largely driven by lower flows to the United States and by disinvestments from Switzerland, the Netherlands, and the United Kingdom. Outflows from the OECD area decreased by 43 percent. FDI inflows to non-OECD G20 countries decreased by 30 percent and FDI outflows decreased by 60

percent, largely driven by disinvestments from Brazil. Completed cross-border mergers and acquisition deals dropped by 11 percent in advanced economies and remained depressed in Q3. Announced greenfield projects in emerging markets and developing economies dropped by 46 percent, driven primarily by the manufacturing sector.



Covid-19 Threatens Investment Drought in Sub-Saharan Africa (Economist Intelligence Unit)



The report forecasts that FDI flows to Sub-Saharan Africa will fall by 30 percent from US\$31.7 billion in 2019 to US\$22.2 billion in 2020, although the impact will vary by country and sector. The pandemic and regionwide recession will squeeze company profits, leading to projects being delayed or shelved, and will cut reinvested earnings, a key source of FDI. Investors may focus more on their home markets than on overseas ventures. The scale of the post-pandemic FDI rebound will depend on the strength of domestic and global economic recoveries and on commodity price trends, which are pivotal for Sub-Saharan Africa, given that most countries depend on hydrocarbons, minerals, or agricultural raw materials to drive growth and exports.

Diverse economies will be the most protected from the FDI slump.



Attracting Foreign Direct Investment into Tunisia through Outreach Campaigns (World Bank: Yassin Sabha, Mouna Hamden, and Armando Heilbron)

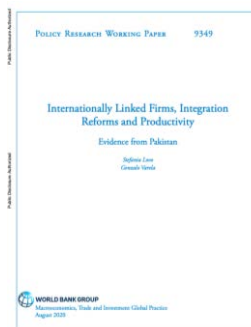
After the Arab Spring, Tunisia urgently needed to create productive jobs and economic opportunities for its young population. Attracting foreign direct investment in priority sectors was a key pillar of the government's strategy to deliver this job agenda. With the support of the World Bank Group, the Investment Promotion Agency of Tunisia engaged in proactive outreach campaigns that resulted in 21 investment leads and three announced FDI

projects, including a manufacturing plant by Japan's Sumitomo. This case study shows that well-planned and well-executed investor outreach campaigns can lead to concrete investment results and contribute to a country's development objectives. It provides key success factors useful to other countries wanting to engage in outreach.



[Gender Empowerment, Supply-Chain Linkages and Foreign Direct Investment Evidence on Bangladesh \(World Bank: Ana M. Fernandes and Hiau Looi Kee\)](#)

This paper studies foreign direct investment spillovers on the gender-related labor market practices of domestic firms, using a unique firm-to-firm data set of Bangladesh's textiles and garment sectors. The paper looks at the female employment of domestic firms that are directly and indirectly related to FDI firms through supply chain links. These domestic firms are either the local suppliers or customers of FDI firms, or they share local suppliers and customers with FDI firms. The estimates show that domestic firms related to FDI firms have significantly more female administrative workers, but not necessarily female nonadministrative workers, because the former participate in more firm-to-firm interactions.



[Internationally Linked Firms, Integration Reforms and Productivity: Evidence from Pakistan \(World Bank: Stefania Lovo and Gonzalo Varela\)](#)

This paper examines productivity dynamics and drivers for Pakistani firms listed on the stock exchange (publicly listed firms) over 2012–17. It relies on policy and outcome measures of integration in upstream merchandise and services sectors to assess their impact on productivity downstream. The paper presents three main findings. First, the productivity of publicly listed firms remained stagnant over the period, in line with macro-level indicators for Pakistan. Second, foreign-owned or exporting firms are more productive than domestic-owned or domestic-oriented firms. Third, increased import duties on intermediates, or reduced levels of foreign direct investment in upstream services sectors, are associated with decreases in the total factor productivity of firms downstream. Taken together, these results suggest that productivity growth in Pakistan would benefit from increased exposure of upstream sectors to global markets.

intermediates, or reduced levels of foreign direct investment in upstream services sectors, are associated with decreases in the total factor productivity of firms downstream. Taken together, these results suggest that productivity growth in Pakistan would benefit from increased exposure of upstream sectors to global markets.



[Multinational Corporation Affiliates, Backward Linkages, and Productivity Spillovers in Developing and Emerging Economies: Evidence and Policy Making \(World Bank: Jacob Arie Jordaan, Willem Douw, and Zhenwei Qiang\)](#)

Recent research on productivity spillovers from affiliates of multinational corporations in developing and emerging economies finds that backward links from affiliates of foreign-owned firms to local suppliers constitute the main channel transmitting productivity spillovers. This paper conducts a new and comprehensive survey of recent empirical studies that focus on the drivers and impacts of backward links between multinational corporation affiliates and their

local suppliers. It reveals that several characteristics of multinational corporation affiliates and domestic firms, host economy conditions, and various mediating factors influence the level of use of local suppliers, the nature and degree of technology dissemination, and the materialization of productivity spillovers among domestic firms. The paper discusses various types of soft or light-handed industrial policies that host economy governments can design and implement to foster the extent of links between multinational corporations and local suppliers, facilitate technology dissemination, and enhance productivity spillovers among domestic firms.



State of Investment Promotion Agencies: Evidence from WAIPA-WBG's Joint Global Survey (World Bank/WAIPA: Armando Heilbron, Andreas Hora, Alex Sanchiz, and Ahmed Omic)

This report describes the results of the 2020 Global Investment Promotion Agencies Survey. It covers corporate strategic planning and sector prioritization, finding that 70 percent of IPAs have a multiyear strategy while 24 percent of them do not. Furthermore, there are encouraging indications that IPAs' strategies are influenced by the Sustainable Development Goals, mostly when identifying priority sectors and activities. It also covers IPAs' institutional frameworks, revealing that IPAs have different organizational structures, reporting lines, and mandates, and vary significantly regarding their financial and human resources. The study reveals that the most common changes anticipated by IPAs are the impact of digitalization and technology disruptions (56 percent), while the main challenges that IPAs face are related to budgetary issues and financial limitations.



Post-COVID-19: Investment Promotion Agencies and the "New Normal" (UNCTAD)

This special issue of the IPA Observer provides an updated overview of the measures that IPAs have taken in response to the crisis and highlights emerging trends and challenges. In the past months, IPAs have continued to strengthen their online presence, with 77 percent of national IPAs worldwide providing COVID-related information and services online. The response has been asymmetric, and differentials in digital capacity, culture, and resources between IPAs have surfaced: 44 percent of national IPAs from developing countries provided no or little information for investors on the pandemic on their websites or social media channels. There has been an increased focus on strengthening links and troubleshooting that is likely to remain post pandemic. After focusing almost exclusively on retention and aftercare during the past few months, IPAs are now promoting investment to help restart economies.



Investment Policy and Regulatory Reviews (World Bank: Kher, Priyanka; Kusek, Peter; Eltgen, Maximilian Philip; Raslan, Azza Anwar Ahmed)

The Investment Policy and Regulatory Reviews present information on the legal and regulatory frameworks governing foreign direct investment and competition that affect businesses and foreign investors. The research is based on a review of applicable policies, laws and regulations, but is not a comprehensive assessment of the entire legal and regulatory framework affecting investment. The Reviews' thematic coverage includes investment entry and establishment, protection, incentives, linkages, outward investment, and merger control, among other topics. Latest Reviews are available for Brazil, China, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam.



Strengthening Service Delivery of Investment Promotion Agencies : The Comprehensive Investor Services Framework (World Bank: Armando Heilbron and Yago Aranda-Larrey)

Research shows that investment promotion agencies (IPAs) may be the best public institutions to meet government objectives for attracting, establishing, retaining, expanding, and linking productive private investment. As part of this, IPAs need to provide relevant, high-quality services to investors at different stages of the investment life cycle. Informed by its research and experience in global operations, the World Bank Group introduces the Comprehensive Investor Services Framework (CISF), a catalog of specific services to meet investor needs. IPAs can use this investor-centric framework to design service offerings in line with their strategic focus and promotion capacity.



Evaluating the Costs and Benefits of Corporate Tax Incentives : Methodological Approaches and Policy Considerations (World Bank: Hania Kronfol and Victor Steenbergen)

Developing countries are increasingly offering tax breaks to attract investors and pursue various policy objectives such as encouraging investments in research and development (R and D) and increasing exports. Such incentives, however, can be very costly to governments. Too often, developing countries - already struggling with revenue mobilization - adopt investment incentives in an ad hoc manner, without analyzing the value for money of these instruments. Cost-benefit analysis can help policy makers demonstrate the direct cost (tax

revenue foregone) incurred by governments against the economic benefits being pursued. Global evidence on investment location decisions suggests that while tax incentives can help attract investment, other factors, such as the wider investment climate and market opportunities, matter most. Tax incentives should therefore be conceived as part of a country’s broader investment policy framework and governments should be realistic about the potential impact any measure may have. In this light, cost-benefit analysis can serve as a powerful tool to inform incentives policy reform and offer important inputs into a country’s investment policy strategy.



Leveraging corporate tax incentives to attract FDI: design and implementation considerations (World Bank/Columbia: Hania Kronfol)

In the face of fierce global competition for inward FDI, countries increasingly rely on tax breaks to lure investors. However, empirical evidence suggests that tax incentives influence investors’ location decisions only marginally. This paper sets out guidelines for governments to design and implement incentives strategically, in a manner that maximizes their value for money and minimizes the risks.

RECENT NEWS UPDATES ON FDI TOPICS

[Covid-19 Is Bad News for Foreign Direct Investment, but There May Be a Silver Lining](#) (*LSE Business Review*)

[The Law on Foreign Takeovers Is Being Tightened: It's Not about China, Honest](#) (*Economist*)

[Vietnam Could Be Next Target in U.S. Trade Fight. What Investors Need to Know](#) (*Barron's*)

[Foreign Investors Pile Back into Booming China](#) (*Financial Times*)

[Global Foreign Direct Investment Halved amid Pandemic, but China Remained Resilient](#) (*UN News*)

[As U.S.-China Rift Grows, Mexico Tries to Lure American Businesses to Move Operations Closer to Home](#) (*Washington Post*)

[Japan Helps 87 Companies to Break from China after Pandemic Exposed Overreliance](#) (*Washington Post*)

[South Korea Struggles to Lure Factories Home from China](#) (*Financial Times*)

[Up to \\$4.6 Trillion in Industrial Trade Flows Could Be Rebalanced across Geographies](#) (*McKinsey*)

[US Companies Defy Trump's Threats about "Decoupling" from China](#) (*Financial Times*)

[Why Globalists and Frontier-Market Investors Love Vietnam](#) (*Economist*)

[The Anglophones Are Coming: Companies Based in English-Speaking Africa Are Investing in Their Francophone Neighbors](#) (*Global Finance*)

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 Q2 are included in total FDI inflows calculations and figures. These countries are

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

Figures on greenfield project announcements are from World Bank analysis of the Financial Times fDi Markets data. Greenfield project announcements include major expansions. All countries are included in these analyses.

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 captured in the FDI Entry and Screening Tracker.

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).

Country Classification

This reports presents regional findings for low- and middle-income countries (i.e. developing countries) based on World Bank’s country classification accessible [here](#).

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