ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2021/2022

Foreign Direct Investment Trends and Outlook in Asia and the Pacific

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Highlights

- The COVID-19 pandemic has contributed to the collapse of global foreign direct investment (FDI) flows, which fell 42 per cent from US$1.5 trillion in 2019 to an estimated U$$859 billion in 2020. The most recent data for 2021, however, suggests global FDI flows have already started to rebound, having reached US$852 billion in the first half of the year.

- In Asia and the Pacific, the rebound in the first half of 2021 was driven by accelerated FDI flows, both to the East and North-East Asian and South-East Asian subregions. The region as a whole, however, has remained a top destination for inward FDI since 2020, thanks to China in the East and North-East Asian subregion and India in the South and South-West Asia subregion. Flows to the former grew by 23 per cent and to the latter by 20 per cent in 2020. Meanwhile, FDI inflows to the North and Central Asia subregion recorded the largest contraction at 59 per cent between 2019 and 2020.

- Announced greenfield investments targeting the Asia-Pacific region totalled US$103 billion in 202,1 falling only slightly short of their value in the same period of 2020 (US$106 billion) largely due to the impact of the severe third and fourth waves of COVID-19 in the region.

- Intraregional investments continued to be significant in the region, with 47 per cent of all greenfield investment to Asia and the Pacific being intraregional in nature in 2020. Overall greenfield investment has continued to decline in 2021, and intraregional greenfield investments have also continued to decline.

- The Asia-Pacific region maintained its position as the largest source of global FDI outflows since 2018. Developing countries in the region accounted for 77 per cent of all outflows in 2020.

- The Asia-Pacific region has remained an attractive market for mergers and acquisitions (M&As), despite the COVID-19 pandemic. M&As only declined moderately by 1.5 per cent (in value) in the Asia-Pacific region in 2020, compared to the 10 per cent decline witnessed globally.

- Simultaneously, a growing number of deals have also been put on hold. Due to remote communication, increased cautiousness of buyers and delayed regulatory approvals, have led to prolonged negotiations and an increase in pending M&As in the region, equal to US$736 billion in 2021, much above the completed M&As with a value of US$461 billion. This trend is a continuation from 2020, when 53 per cent of all deals were put on hold due to the pandemic.

- Asia and the Pacific economies are expected to register small, but positive, growth in FDI inflows. However, in 2022, FDI is expected to remain below pre-pandemic crisis levels in the region as many economies are still struggling to contain the third and fourth waves of the pandemic as well as speed up vaccination roll out to the general public, and respond to severe socio-economic disruptions exacerbated by the pandemic.

- The coming into force of the Regional Comprehensive Economic Partnership Agreement, together with the recently concluded ASEAN Investment Facilitation Framework, is expected to help boost more sustainable FDI in the region, particularly value chain-linked FDI, in the medium and long term.

- Increasing investment in the health-care sector was already a core priority in many Asian and Pacific countries before the pandemic. However, declining flows into the sector and the need to be better prepared for any future health crises has led to greater prioritization of the sector in investment and promotion activities.

- Greenfield investment in the health sector in Asia and the Pacific has been volatile since 2008. Between 2019 and 20202, investment in the health-care sector dropped by 45 per cent, and continued to decline in 2021 to 34 per cent in the first three quarters of the year.

- Although investment promotion activities are essential in attracting the quantity and quality of investment needed in the health-care sector, key challenges include poor regional and domestic investment ecosystems, lack of capital, technology and skills, low regulatory capacity, and poor infrastructure and related services.

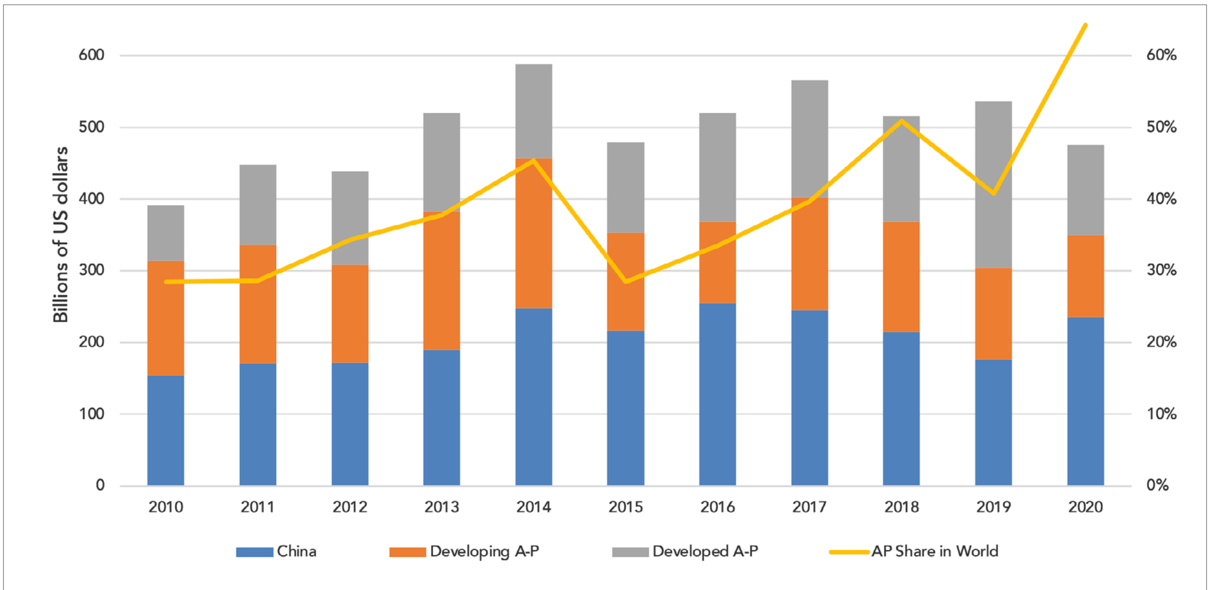
- Regional cooperation and political commitment to openness for investment will be critical to helping economies build back better and harness the potential of FDI, particularly for the health sector. Regional and multilateral cooperation is needed in addressing transnational challenges, and make national and international investment governance more coherent and sustainable development oriented.

1. Global and regional inward and outward FDI trends

COVID-19 has disrupted FDI considerably, and while global FDI inflows and outflows have plummeted, flows to and from the Asia and the Pacific region have remained more resilient during the pandemic and have even started to rebound in 2021.

Global FDI flows collapsed in 2020, falling 42 per cent from US$1.5 trillion in 2019 to an estimated U$$859 billion in 2020 (UNCTAD, 2021a). Such a low level has not been seen since the 1990s, and global FDI flows were even 30 per cent lower than the investment trough that followed the 2008-2009 global financial crisis. Developed countries, particularly in Europe as well as in North America, recorded the most dramatic declines in FDI. Developing countries in Asia and the Pacific, by comparison, were more resilient with FDI flows to developing Asia dropping by only 4 per cent in 2020 (UNCTAD, 2021a). Asia and the Pacific became the largest destination for global inflows in 2020, attracting 53 per cent of all inward FDI (figure 1). The most recent data for 2021, suggest that global FDI flows have started to rebound, reaching US$852 billion in the first two quarters of 2021 (UNCTAD 2021b). While developed economies have recorded the largest increases in FDI in the first half of 2021, FDI flows both to the East and North-East Asian and South-East Asian subregions also accelerated (figure 1).

Figure 1. FDI inflows to Asia and the Pacific and their global share, 2009-2020



Source: ESCAP calculations based on UNCTAD, 2021a.
***Note:** China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China, Hong Kong, China and Macao, China.*

Flows to Asia and the Pacific largely remained resilient in 2020 due to the resilience of China in the East and North East Asian subregion and India in the South and South-West Asia subregion. Flows to the East and North East Asian subregion grew by 23 per cent and to the South and South-West Asia subregion by 20 per cent in 2020. Overall, the only other economies that did not see FDI inflows drop in 2020 were (in descending order): Brunei Darussalam, the Lao People's Democratic Republic, India, Kazakhstan and New Caledonia.[1]

Among the subregions, FDI inflows to North and Central Asia recorded the largest contraction, dropping by 59 per cent from US$43 billion in 2019 to US$17 billion in 2020. Significant declines were recorded in Kyrgyzstan (dropping by 259 per cent to US$331 million) and the Russian Federation (declining by 70 per cent to US$10 billion), while Kazakhstan was the only country in the subregion to record an increase reaching 24 per cent in FDI inflows amounting to US$4 billion. FDI inflows to the Pacific contracted by 43 per cent from US$43 billion to US$24 billion in 2020. Within the Pacific subregion, the largest declines were in Papua New Guinea (declining by 380 per cent to US$935 million), and Samoa (decreasing by 198 per cent to US$1 million). FDI inflows to South-East Asia declined by 13 per cent to US$135 million, with the largest contractions in Thailand (a 247 per cent decline to US$6 billion) and Malaysia (a 54 per cent decline to US$3.4 billion).

Global outflows of FDI dropped by 44 per cent from US$1.3 trillion in 2019 to US$739 million in 2020. Outward investments by multinational enterprises (MNEs) from developed economies dropped by 56 per cent in 2020 to US$347 billion, with outward investment from European MNEs recording the largest dip (80 per cent to US$74 billion) among developed economies. By comparison, outbound investments undertaken by MNEs from Asia and the Pacific contracted the least, dropping by 11 per cent to US$475 billion (figure 2).