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Foreign Direct Investment Trends and Outlook in Asia and the Pacific

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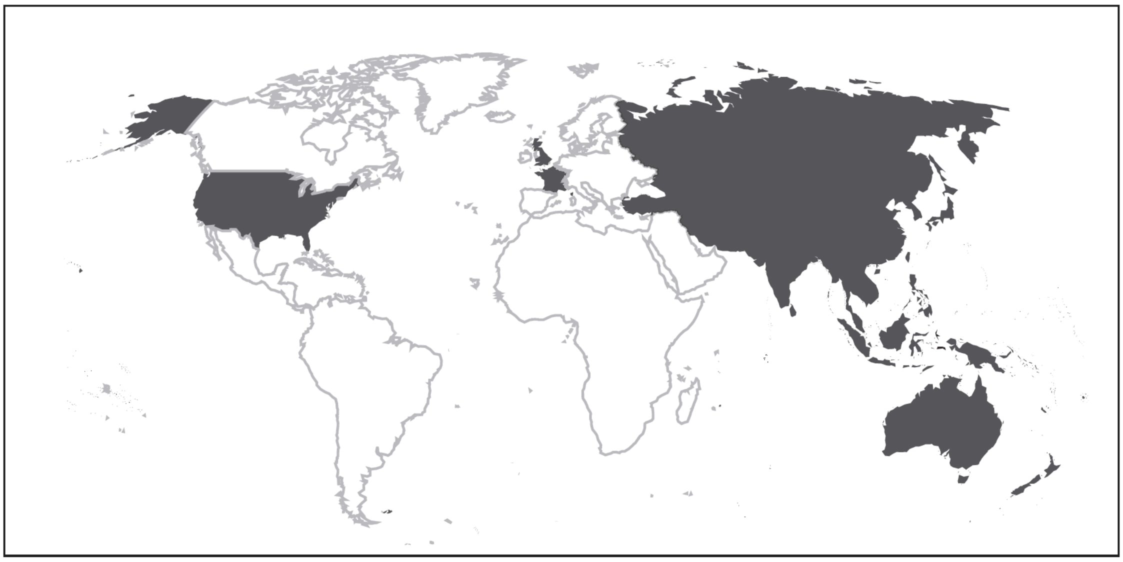

The shaded areas of the map indicate ESCAP members and associate members.*

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Highlights

- Globally, both FDI inflows and outflows started to recover in 2019, with the former growing 30% to $1.5 billion and the latter increasing by 33% to $1.3 billion. However, the COVID-19 pandemic has caused global FDI flows to drop by 49% in the first two quarters of 2020 compared to the same period in 2019.
- Asia-Pacific's share in global FDI inflows dropped from 45% in 2018 to 35% in 2019, and its share in global FDI outflows decelerated from 52% to 41%. Nonetheless, the region remained the largest source of global outflows for the second year running.
- In 2019, China and Hong Kong, China were the largest FDI recipients attracting 38% of total FDI inflows to the region. Japan was the largest source of investment from the region in 2019, responsible for 42% of regional outward FDI.
- The COVID-19 pandemic has accelerated the downward trend already recorded in recent years in greenfield FDI with the value of announced inbound greenfield investment projects from January to August 2020 dropping by 40% from the average over the same period in 2019. Likewise, outbound greenfield investment project values declined 48% over the same period in 2019.
- Intraregional greenfield investments as a whole have slowed in 2020 due to the pandemic, with announced intraregional greenfield investment values dropping 45% to $35 billion in the January-August 2020 period compared to the same period in 2019.
- FDI is expected to remain low and below pre-crisis levels throughout 2021. The outlook beyond 2021 is highly uncertain and dependent on the duration of the crisis, the effectiveness of policy interventions to stimulate investment and navigate the economic effects of the pandemic, as well as geo-economic tensions. FDI recovery rates are challenging to predict at this stage because they are dependent on the rate of overall socio-economic recovery, and consequently investment levels, within the region and socio-economic rate of recovery from countries outside of the region.
- On the bright side, the recent signing of the Regional Comprehensive Economic Partnership is expected to strengthen flows and lift investment prospects, especially for smaller and least developed countries in the group.
- Beyond this, restoring and increasing FDI in the medium and long-term in the region as whole requires swift, coherent and appropriately sequenced action from policymakers to, inter alia, review, revise and revamp FDI strategies to make them more fit-for-purpose, develop green growth recovery plans with a robust role for FDI, operationalize policy measures to support value-chain linked FDI and boost FDI in the digital economy.

1. Global and regional inward and outward FDI trends

The investment landscape in Asia and the Pacific has become increasingly uncertain and tied to the unfolding of current global and regional political economic risks, such as increased trade tensions, the retreat of multilateralism, and health risks resulting from the COVID-19 pandemic. Together, these risks have disrupted global foreign direct investment (FDI) flows to, from and within Asia and the Pacific.

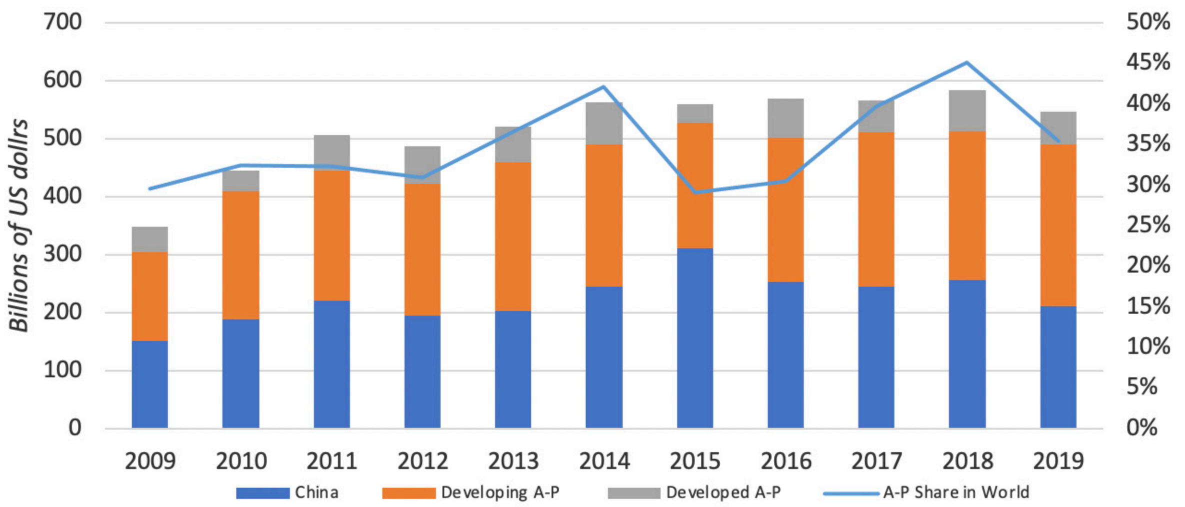
Globally, while both FDI inflows and outflows started to recover in 2019, with the former growing 30% to reach $1.5 billion and the latter increasing by 33% to $1.3 billion, the COVID-19 pandemic has had an immediate and severe effect on FDI in 2020. By the end of the second quarter in 2020, FDI inflows had dropped by 49% compared to the same period in 2019. While all forms of FDI have been affected, unsurprisingly, greenfield FDI has fallen the most, dropping by 37% in the first two quarters of the year. Developed economies have recorded the largest FDI declines, with FDI inflows to these economies falling by 75% of their levels over the same period in 2019. (UNCTAD, 2020a; UNCTAD, 2020b)

Inward and outward FDI in Asia and the Pacific reached unprecedented levels in 2018, making the region both the most attractive destination of global FDI inflows and the largest source of global FDI outflows. Yet political and economic uncertainties in 2019 caused contractions in the region's share in both global inward and outward FDI, with the region's share in global FDI inflows dropping from 45% in 2018 to 35% in 2019, and its share in global FDI outflows decelerating from 52% to 41%. The region nonetheless remained the largest source of global outflows for the second year running.[1]

The largest contractions in inward investment in 2019 were in developed countries of the region, with a 22% decline from $72 billion in 2018 to $56 billion in 2019. Inflows to developing countries marginally decreased by 4% to $490 billion in 2019 compared to $513 billion in 2018. As in previous years, FDI inflows were neither evenly distributed among the subregions or within each of them. East and North East Asia received the largest share of inflows, 44% or $239 billion in 2019, followed by South-East Asia which received 29% or $155 billion (figure 1).

1 ESCAP calculations based on data in UNCTAD (2020). World Investment Report: International Production Beyond the Pandemic. United Nations publication. Available at : https://unctad.org/system/files/official-document/wir2020_en.pdf.

Figure 1. FDI inflows to Asia and the Pacific and their global share, 2009-2019

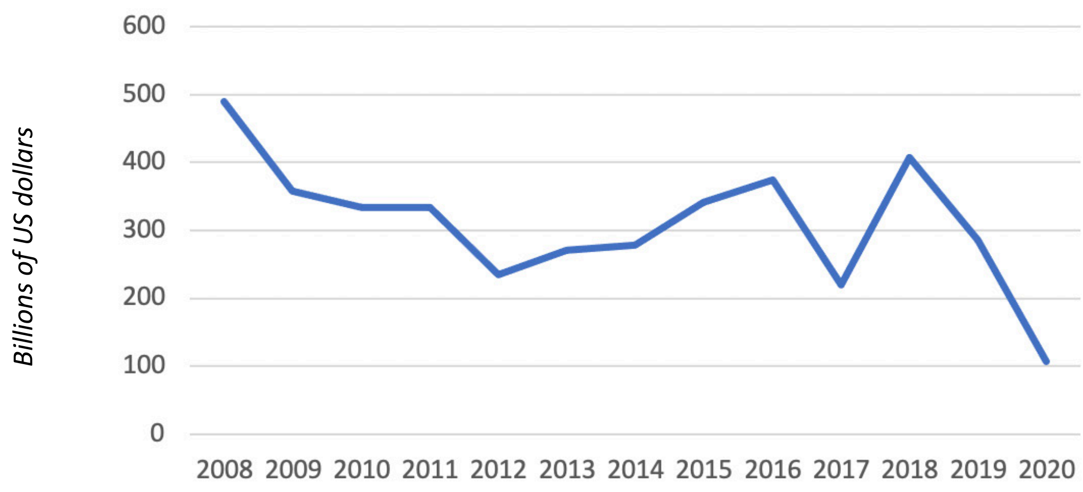


Source: ESCAP calculations based on UNCTAD (2020a).
Note: China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China, Hong Kong China and Macao, China.

Within South-East Asia, Cambodia, Indonesia and Viet Nam recorded their highest levels of inward FDI to date in 2019. Investment boosts in both countries were driven by relocations of multinational enterprises (MNEs) from China due to ongoing trade tensions as well as strong investments in the manufacturing and services sector from other ASEAN member Countries and Japan. Other economies, such as India, Kyrgyzstan, New Zealand, the Russian Federation, and the Solomon Islands also attracted comparatively more FDI in 2019 compared to 2018.

The value of announced greenfield projects in Asia and the Pacific, which is an indicator of future FDI trends, dropped in 2019 to its lowest level in four years to $285 billion (figure 2). The COVID-19 pandemic has accelerated the downward trend in greenfield FDI inflows to the region in 2020. The value of announced greenfield investment projects from January to August 2020 dropped by 40% from the average over the same period in 2019. Lockdown measures, including the physical closure of businesses, manufacturing plants and construction sites, were responsible for delayed and canceled investment projects in 2020.

Figure 2. Announced greenfield FDI flows to Asia and the Pacific region, 2008-2020



Source: ESCAP calculations based on fDi Markets data (accessed October 2020).

As in previous years, inflows of greenfield investments have been unevenly distributed across the region. In both 2019 and 2020, together China and Hong Kong, China received the largest share of greenfield investments, absorbing 23% in 2019 and 21% in the first eight months of 2020. Nonetheless, political unrest in Hong Kong, China in 2019 contributed to a 55% decline in greenfield investment flows in 2019 compared to 2018. In 2019, Viet Nam received the second largest share of inward greenfield investment (11%), followed by India (10%), and Sri Lanka (8%). Much of the inward investment into Viet Nam in 2019 was related to investment diversions resulting from heightened trade tensions between China and the United States, however, inflows have considerably dropped in 2020. In the first eight months of the year, India received the second largest share (15%) behind China, followed by Australia (13%) and Indonesia (12%).

Subregionally, ASEAN member States together have received the largest values