2020 H1 FDI down 49%. Biggest declines in Europe and the United States. Outlook negative as new project announcements drop 37%.

**Highlights**

- Global foreign direct investment (FDI) flows in the first half of 2020 were down 49% compared to 2019 as lockdowns around the world slowed existing investment projects and the prospects of a deep recession led MNEs to re-assess new projects (figure 1).

- The decline cut across all major forms of FDI. New greenfield investment project announcements dropped by 37%, cross-border mergers and acquisitions (M&As) fell by 15% and newly announced cross-border project finance deals, an important source of investment in infrastructure, declined by 25%.

- Developed economies saw the biggest fall, with FDI reaching an estimated $98 billion in 2020 H1 – a decline of 75% compared to 2019. The trend was exacerbated by sharply negative inflows in European economies with significant conduit flows. FDI flows to North America fell by 56% to $68 billion.

**Figure 1. Global investment thermometers, 2020 Q1-Q3**

(Per cent change vs 2019)

Source UNCTAD.

* The trend in greenfield projects refers to the first eight months of 2020.

** International project finance refers to (the trend in) the number of deals, as project values for the latest months are unavailable.
• FDI flows to developing economies decreased by 16%—less than expected. Flows were 28% lower in Africa, 25% in Latin America and the Caribbean and 12% in Asia, mainly due to resilient investment in China. In the first half of 2020, developing Asia accounted for more than half of global FDI. FDI flows to transition economies were down 81% due to a strong decline in the Russian Federation.

• Cross-border M&A values reached $319 billion in the first three quarters of 2020. The 21% decline in developed countries, which account for about 80% of global transactions, was checked by the continuation of M&A activity in digital industries.

• The value of greenfield investment project announcements—an indicator of future FDI trends—was $358 billion in the first eight months of 2020. Developing economies saw a much bigger fall (-49%) than developed economies (-17%), reflecting their more limited capacity to roll out economic support packages.

• The number of announced cross-border project finance deals declined by 25%, with the biggest drops in Q3, suggesting that the slide is still accelerating.

• Prospects for the full year remain in line with earlier projections of a 30-40% decrease. The rate of decline in developed economies is likely to flatten as some investment activity appears to be picking up in Q3. Flows to developing economies are expected to stabilize, with East Asia showing signs of an impending recovery.

• The outlook remains highly uncertain, depending on the duration of the health crisis and on the effectiveness of policy interventions to mitigate the economic effects of the pandemic. Geopolitical risks also continue to add to the uncertainty.

• Despite the 2020 drop, FDI remains the most important source of external finance for developing countries. Other sources, including remittances and official development assistance—relatively more important for LDCs—are also falling. The overall decline can add to external payments problems in developing countries.

Global FDI flows (excluding Caribbean offshore financial centers) in the first half of 2020 were under severe pressure due to the Covid-19 pandemic. They reached an estimated $399 billion, 49% less than in 2019, as lockdowns around the world forced companies to delay existing investment projects and to postpone non-essential investment to preserve cash buffers. The decrease in FDI was in line with earlier (June) forecasts for the full year in the World Investment Report 2020.

Figure 2. FDI inflows by region, 2020 H1 vs 2019 6-month average
(Billions of US dollars and per cent)

<table>
<thead>
<tr>
<th>Region</th>
<th>2020 H1</th>
<th>2019 6-month average</th>
<th>Per cent</th>
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<tbody>
<tr>
<td>World</td>
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<tr>
<td>Latin America and the Caribbean</td>
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<td>Asia</td>
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</tr>
<tr>
<td>Transition economies</td>
<td>29</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source UNCTAD.

1 FDI trends in this Monitor are based on quarterly data derived from the (extended) directional principle. For a few countries data following the asset/liability principle was used for estimation. All growth rates are calculated over 2019 monthly averages, unless otherwise specified.
The decline was more pronounced in developed economies, where flows fell to $98 billion — a value last seen in 1994. FDI flows into Europe were negative, and they fell sharply in North America (figure 2). Among major FDI recipients in 2019, flows declined most strongly in Italy, the United States, Brazil and Australia (figure 3).

Figure 3. Change in 2020 H1 FDI inflows for the top 2019 recipient economies (Per cent)

Source UNCTAD. Note: Excludes top recipient economies with significant conduit FDI.

FDI flows to developed economies precipitate

FDI flows to developed economies were $98 billion in 2020 H1, only a quarter of the level in 2019 ($397 billion). The low level was mainly due to sharply negative FDI in countries with significant conduit flows, such as Switzerland and the Netherlands, and the decrease of FDI in the United States.

Flows to Europe in 2020 H1 turned negative to -$7 billion (from $202 billion), for the first time ever. Among major forms of FDI, announced greenfield investment project values and cross-border project finance deals dropped by 17% while cross-border M&As fell by 5%.

FDI flows to the EU27 (without the United Kingdom) fell by 29% to $133 billion from $186 billion. Most countries saw their FDI decline, but the negative trend was worsened by a few economies that experienced strong volatility. Flows to the Netherlands fell to -$86 billion in 2020 H1 due to large divestments in equity (-$70 billion) and negative intra-company loans (-$57 billion). In Italy, the divestment of mobile tower assets of Vodafone (United Kingdom) to Telecom Italia SpA for $4.2 billion contributed to reducing flows from $9 billion to only $2 billion in 2020 H1.

Despite the crisis caused by the pandemic, a few countries recorded rising FDI flows. FDI flows to Ireland reached $75 billion, with a jump of $65 billion in equity in the second quarter of 2020. The increase was driven by sizeable transactions, financial flows and corporate restructurings. FDI to Germany rose by 15% to $21 billion. The value of cross-border M&A sales rose more than fivefold; Thyssenkrupp sold its elevator business to a consortium of two private equities Advent (United States) and Cirven (United Kingdom) for $18.7 billion — the largest deal in 2020 so far; Elanco (United States) acquired the animal health business of Bayer $6.9 billion.

In the rest of Europe, FDI flows to the United Kingdom were -$30 billion mainly due to large negative intra-company loans. In addition, there were several divestments; for example, Swiss Re (Switzerland) divested its ReAssure Group to Phoenix Group Holding for $4.2 billion. In Switzerland, FDI turned sharply negative to -$98 billion (from -$11 billion).
FDI flows to North America fell by 56% to $68 billion with project finance deals declining by 34%, cross-border M&As by 32% and greenfield investment projects by 25%. FDI to the United States more than halved (-61%) to $51 billion. Investments in the United States by EU MNEs declined by 53% and MNEs from developing economies reduced their investment from $31 billion to -$2 billion. Cross-border M&A sales of United States assets to foreign investors fell by 30%.

Inflows to several other developed economies declined as well, including in Australia (-40% to $11 billion) and New Zealand (-55% to $1.2 billion). The FDI decline in Australia was due to a 64% drop in cross-border M&As. In contrast, flows to Japan increased by 6% and those to Israel by 74% to $16 billion. Among the largest M&As deals in Israel was the sale of Mellanox Technologies to Nvidia (United States) for $6.9 billion.

**Flows to developing economies more resilient**

Developing economies saw their FDI flows decrease by 16%. While the value of announced greenfield projects suffered a 49% decline and the number of cross-border project finance deals fell by 25%, cross-border M&As rose by 12%.

The overall decline was spread across all regions – Africa (-28%), Latin America and the Caribbean (-25%) and developing Asia (-12%). The FDI contraction in developing countries has so far been less severe than in developed economies: FDI in developing economies contains more greenfield investments and project finance, which tend to be more stable.

FDI in *developing Asia* fell by 12% in the first half of 2020 to $217 billion. Despite suffering the brunt of the initial impact of the pandemic and the effects of the early supply chain shocks on global value chain investment, Asia shows the lowest decline in investment among developing regions.

The relatively successful containment of the pandemic in *East Asia* is reflected in continued investment activity in the region. FDI in East Asia remained stable at $125 billion. This was in large part the effect of a 22% rise in flows (including conduit flows) to Hong Kong, China from the anomalously low level of FDI in the previous year. FDI flows to China also proved relatively resilient. In the first half of 2020, flows to China reached $76 billion, a 4% decline. The decline—lower than expected—was cushioned by an 84% rise in the value of M&A transactions, mostly in information services and e-commerce industries. Government investment facilitation measures, which focused on restoration and continuation of previously announced greenfield investment projects, also helped to stabilize investment activities. FDI in the Republic of Korea fell by 34% to $3 billion with a strong decline in cross-border M&A sales and a 37% fall in announced greenfield investment projects.

FDI in *South-East Asia* contracted by 20% in the first half of 2020 to $62 billion due to a significant fall in flows to Singapore (-28% to $33 billion), Indonesia (-24% to 9.1 billion) and Viet Nam (-16% to $6.8 billion) — the three largest recipients of the region. There were a few exceptions. FDI in the Philippines rose by 20% to $3 billion and flows to Thailand more than doubled to $4.8 billion from a low level in 2019. M&A deals in agriculture and energy in these two countries played a role in sustaining inflows. However, overall cross-border M&As in South-East Asia decreased by 44% because of a significant fall in activity in Singapore. Announced greenfield investment dropped by 36%, with services and manufacturing suffering the most.

FDI in *South Asia* fell 31% to $20 billion in the first half of 2020. India, the largest FDI recipient in the region, saw FDI contracting by 33% to $17 billion as the country struggles with COVID-19 containment. However, investment growth in India’s digital economy continued, especially through cross-border M&A sales, which doubled in value. Deals included, for example, the acquisition of Jio Platforms by Jiaadhi, owned by Facebook (United States) for $5.6 billion. Several cross-border deals in infrastructure and energy also propped up M&A values in India, including the acquisition of Tower Infrastructure Trust and the fuel business of Reliance Industries. In other South-Asian economies, where investments are largely tied to export-oriented apparel manufacturing, greenfield investments have taken a severe hit due to activity stoppages and contracting global demand. Announced greenfield projects in Bangladesh fell by 78% and in Sri Lanka by 97%.

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2 The data excludes divestments, not reported by MOFCOM. FDI liabilities reported by SAFE declined by 12% in the first half of 2020.
FDI flows to West Asia declined by a third in the first half of 2020 to an estimated $9.3 billion, amid worsening GDP growth projections and the shock to oil prices. Steady investment flows in a few countries and some notable projects mitigated against an even steeper downturn. For example, inflows to Saudi Arabia and Jordan defied the broader trend with investment increasing by 12% to $2.6 billion and by 17% to $0.4 billion, respectively. Conversely, inflows to Turkey declined by 32% to $2.9 billion.

FDI in Latin America and the Caribbean fell by 25% in the first half of 2019 to an estimated $62 billion. While the first quarter was relatively unaffected by the Covid-induced economic crisis, flows plummeted in the second quarter leading to declines in most of the major economies with the exception of Mexico and Chile. In South America, flows to Brazil almost halved, to $18 billion, as the privatization programme launched last year stalled. Flows are expected to recover moderately in the second half of the year as asset sales are resumed and a new infrastructure plan is rolled out. Flows to Argentina, Colombia and Peru fell by 40, 34, and 72%, respectively. In Argentina, the health crisis compounded an already difficult economic situation with a sovereign debt default in May. In Peru, the suspension of mining projects led to a sharp decrease in FDI flows to $1.3 billion. In Chile, flows increased by 67% to $9.5 billion driven by investments in the first quarter in transport, manufacturing and trade industries. Inflows included the 20% stake acquisition of Chilean LATAM by Delta Airlines (United States) for $1.9 billion, concluded at the end of 2019.

Flows to Central America were flat at $23 billion. FDI to Mexico increased by 5% to $18 billion, with more than half in the form of reinvested earnings. Flows to the manufacturing sector remained stable: losses in the automotive industry (mostly auto parts) were offset by increases in the electronics and machinery industries. The sale of a 40% share in Mexican construction company IDEAL to a Canadian consortium for $2.6 billion contributed to increasing flows in the services sector. In Costa Rica, FDI flows decreased by 41% with falling inflows to the tourism industry (-70%) and into special economic zones (-45%).

In the Caribbean, flows fell by 27% to $1.4 billion, significantly hit by reduced investment in the tourism industry. In the Dominican Republic, they fell by 20% as investments in the mining, telecom and power industries contracted sharply.

FDI inflows to Africa declined by 28% to $16 billion in the first half of 2020. Greenfield project announcements fell by 66% and cross-border M&As by 44%. Natural resource-based economies in Africa are being hit the hardest. In North Africa, for example, inflows to Egypt, declined by 57% to an estimated $1.9 billion in 2020 H1. Total FDI inflows to North Africa decreased by 44% to $3.8 billion in the first half of the year. Against the tide, FDI flows to Morocco increased by 6% to $0.8 billion, due to a relatively diverse investment profile.

FDI inflows to Sub-Saharan Africa decreased by 21% to an estimated $12 billion. Inflows to Nigeria fell by 29% to $1.2 billion as the implementation of ongoing projects slowed down due to closures of sites in the oil and gas industry. One of the major investments in Nigeria was in the non-oil economy, with China Communications Construction Co Ltd, acquiring a majority stake in Lekki Port Enterprise Ltd, a deep-sea freight transportation firm, for $233 million. Inflows to Ethiopia were relatively stable, declining by only 12% to $1.1 billion. China continues to be the biggest source of FDI to Ethiopia accounting for a quarter of newly approved projects in 2020. FDI to Mozambique decreased by 27% to $0.8 billion as the implementation of offshore gas projects slowed down due to the pandemic. Bucking the trend, FDI flows to South Africa increased by 24% to $2.9 billion. However, this increase was driven largely by intra-company transfers of foreign companies to their subsidiaries in the country rather than greenfield investment projects. In March 2020, the Government approved the deal by PepsiCo (USA) to acquire Pioneer Foods for a sum of $1.8 billion, one of PepsiCo’s largest foreign investments. This deal can be expected to add to inflows to the country when implemented, especially as further direct investment over the next five years has been stipulated in the investment agreement.

In the first half of 2020, FDI flows to the transition economies fell sharply – by 81%, to an estimated $5.4 billion. They plummeted in the Russian Federation, the largest economy of the region: from $16 billion in 2019 to -$1.2 billion. The decrease in FDI was more limited in Serbia (-24%). In contrast, Kazakhstan saw a 19% increase with growth of FDI in construction and trade compensating for a decline in flows in oil and gas.

Greenfield investment announcements in the region fell by 58%. In larger recipients of greenfield investment such as Kazakhstan (-86%), the Russian Federation (-68%) and Serbia (-72%), the decline was even stronger, indicating a major slowdown in future investment intentions. Cross-border M&As targeting the region increased by 84%, but from a very small base. The increase was mostly due to corporate restructurings in the Russian Federation.
Cross-border M&As, greenfield investment and project finance all falling

Cross-border M&A sales reached $319 billion in the first three quarters of 2020 — a decrease of 15% compared to 2019. In developed countries, where they are a significant part of total FDI, they fell by 21%, mostly in North America (table 1). In developing economies, cross-border M&As rose by 12%. The decrease of sales in Latin America and the Caribbean (-73%) and Africa (-44%) was more than offset by the 60% increase in Asia.

Cross-border M&A sales dropped by 76% in the primary sector (mainly in mining, quarrying and petroleum) and by 27% in manufacturing. Sales of assets in digital-related industries rose significantly (mainly in manufacturing of computer, electronic, optical products and electrical equipment and information and technology). In Europe, the value of acquisitions in the digital sector grew strongly — with large acquisitions in the United Kingdom. Notable deals included the merging of Just Eat (United Kingdom) and Takeaway.com (Netherlands), both mobile apps, valued at $8 billion, and the acquisition by Thoma Bravo (United States) of Sophos Group, a cloud solution service (United Kingdom), valued at $3.7 billion.

At the global level, M&A deal values in the pharmaceutical industry fell by 46%, but pharma remained the second largest M&A industry due to deals in North America. An estimated $17 billion worth of acquisitions was made by Europe’s largest pharmaceutical companies, such as Novartis (Switzerland), Sanofi (France), UCB (Belgium), and Roche (Switzerland) in the United States.

Table 1. Investment trends by type and region, 2020 Q1-Q3 (Per cent change vs 2019)

<table>
<thead>
<tr>
<th>Region</th>
<th>Cross-border M&amp;As</th>
<th>Greenfield projects</th>
<th>International project finance**</th>
</tr>
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<tbody>
<tr>
<td>World</td>
<td>-15</td>
<td>-37</td>
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</tr>
<tr>
<td>Developed economies</td>
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<td>North America</td>
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<td>Africa</td>
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<tr>
<td>Latin America and the Caribbean</td>
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<td>Asia</td>
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<tr>
<td>Transition economies</td>
<td>84</td>
<td>-58</td>
<td>-46</td>
</tr>
</tbody>
</table>


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

Announced greenfield projects reached $358 billion in the first eight months of 2020 — a decline of 37% compared to 2019. The largest decline took place in developing economies (49%), mainly in Africa and Latin America and the Caribbean (table 1).

The largest fall was registered in manufacturing (-49%), especially in coke and petroleum products (-89%), reflecting the oil price slump. Announced greenfield projects fell by 33% in the primary sector and 25% in services. Chemicals (+5%) and utilities (+1%) were more resilient (table 2). The number of greenfield projects declined across sectors and industries (table 2).

The number of announced cross-border project finance deals fell by 25% from the 2019 monthly average. The strongest decline was registered in developing and transition economies. Project finance deals in Africa fell by 49%. The biggest drop occurred in Q3, suggesting that the slide is still accelerating. The number of announced projects in transportation infrastructure and fossil fuel energy fell the most (-47% and -41% respectively).
Table 2.  Greenfield projects, by sector and selected industries, 2020 Q1-Q3* (Per cent change vs 2019)

<table>
<thead>
<tr>
<th>Sector/industry</th>
<th>Value</th>
<th>Number</th>
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<tbody>
<tr>
<td>Total</td>
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<tr>
<td>Primary</td>
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<td>-41</td>
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<td>Manufacturing</td>
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<td>-46</td>
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<tr>
<td>Services</td>
<td>-25</td>
<td>-29</td>
</tr>
</tbody>
</table>

Top 10 industries in value terms:
- Electricity, gas, steam and air conditioning supply 1 -2
- Information and communication -1 -26
- Chemicals and chemical products 5 -48
- Computer, electronic/optical products and electrical equipment -23 -37
- Construction -47 -22
- Motor vehicles and other transport equipment -57 -55
- Transportation and storage -46 -28
- Financial and insurance activities -4 -34
- Trade -1 -28
- Accommodation and food service activities -66 -64

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fdimarkets.com).
*Greenfield investment projects refer to the first eight months of 2020.

FDI flows on path to 30-40% decrease in 2020

The preliminary FDI data for 2020 H1 and the M&A, greenfield and project finance indicators for the first three quarters are all in line with projections in the World Investment Report 2020 of a decline in 2020 FDI of 30-40%. Although cross-border M&As picked up in the third quarter of 2020, new greenfield and project finance activity remains weak.

Projections for 2020 remain laden with uncertainty. With a second wave of the pandemic in some developed economies undermining efforts to return to normal, the near 50% decline in 2020 H1 could persist longer.

FDI remains the most important source of finance for developing countries

Despite the drastic decline, FDI remains the largest source of external financing for developing economies as a group (figure 4), although official development assistance (ODA) and remittances play a relatively greater role in the least developed countries (LDCs).

The projections for the various types of external flows reflect their different drivers and responsiveness to shocks. Portfolio flows and other investments are more volatile than FDI, which is relatively stable and tied to the real economy. As a result, they were sharply negative in the first half of 2020. However, capital markets worldwide have shown a recovery since June and portfolio flows could see an earlier rebound, while the FDI downturn is expected to last longer.

Remittances are the second largest source of finance for developing countries. However, although important for livelihoods, they rarely translate into investment in productive capacity. Remittances in 2020 are strongly affected by the economic downturn in developed economies where migrant workers earn their incomes.

The overall picture of external financial flows is especially important for developing countries facing external payments problems, which may be aggravated by a prolonged downturn in FDI inflows.
Figure 4. Developing economies: sources of external finance, 2010–2020*
(Billions of dollars)

Source: UNCTAD, based on UNCTAD (for FDI), World Bank (for remittances), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA).
Note: 2020 numbers are estimates.
The next regular issue of UNCTAD’s Investment Trends Monitor will be released in mid-January 2021.

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