UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Geo-economic fragmentation and foreign direct investment

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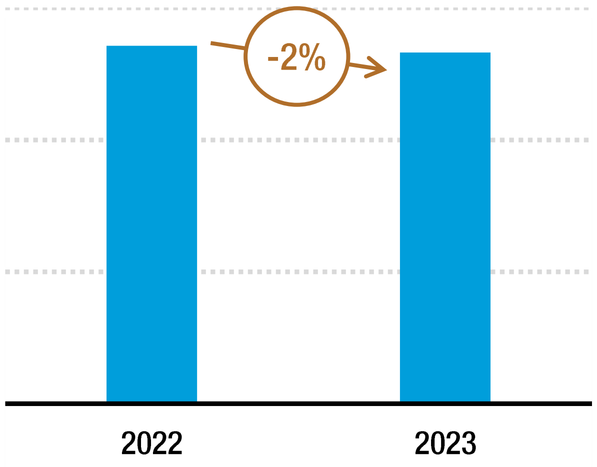
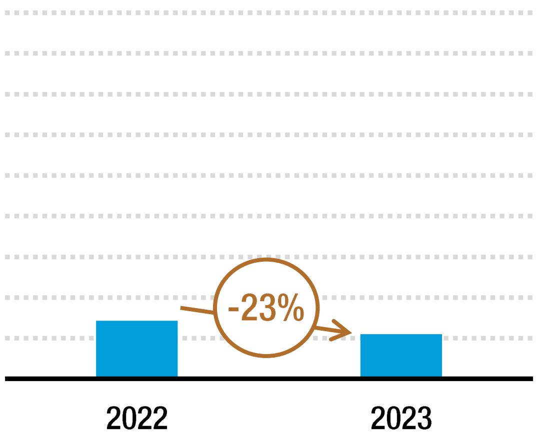
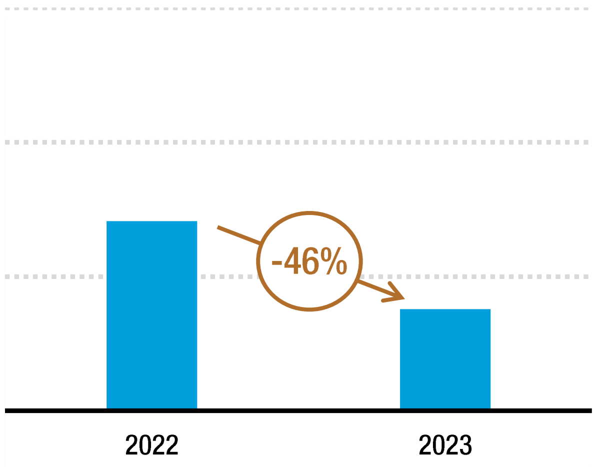
Trends in international investment



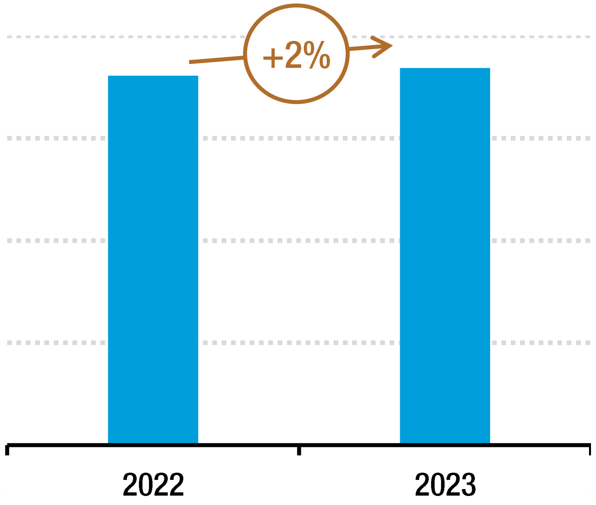
FDI
(Value, billions of dollars)



International project finance
(Number)



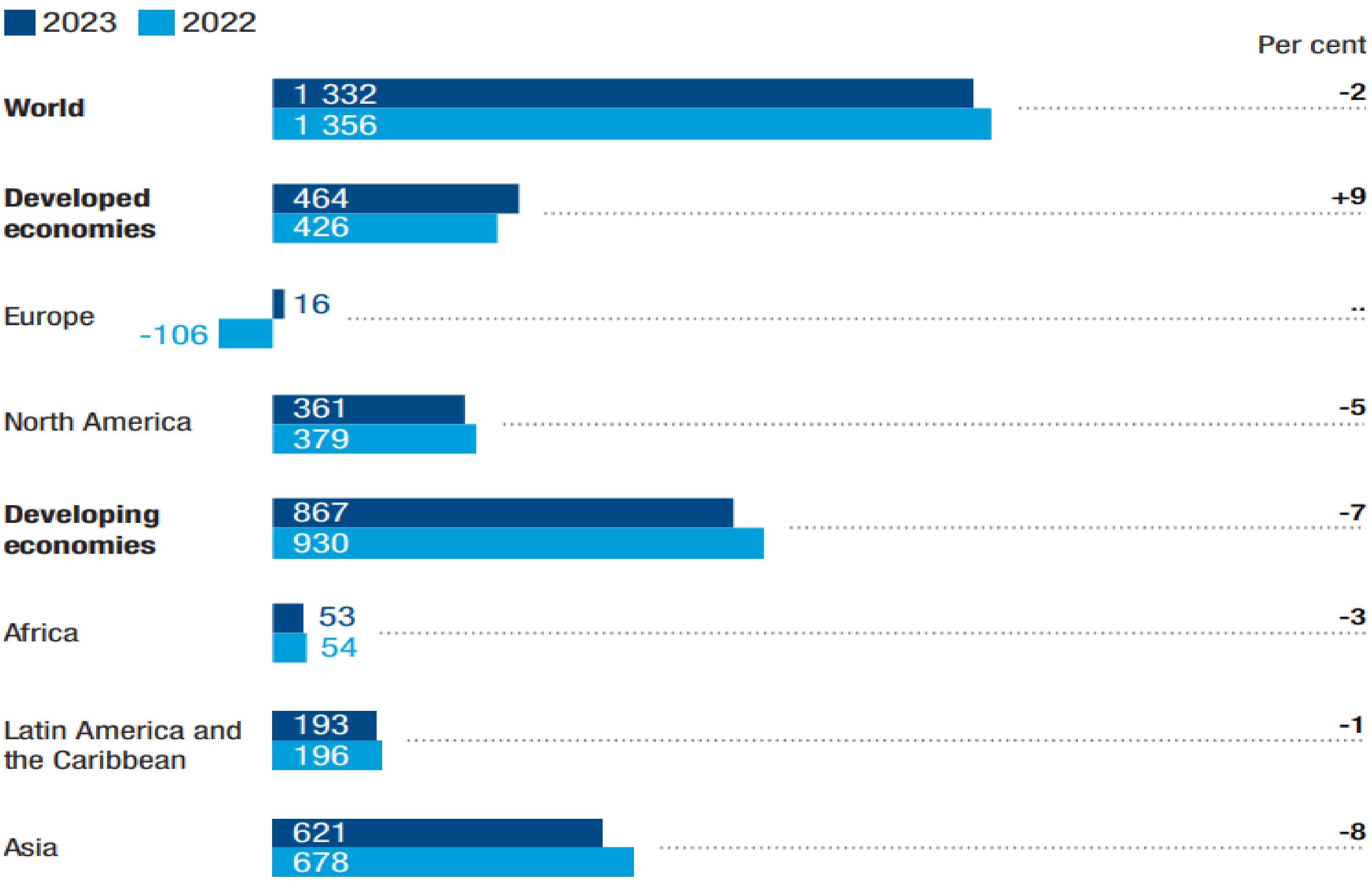
Cross border M&As
(Value, billions of dollars)



Greenfield projects
(Number)

Foreign direct investment declined in most regions

Inflows by economic grouping and region
(billions of dollars and percentage change)

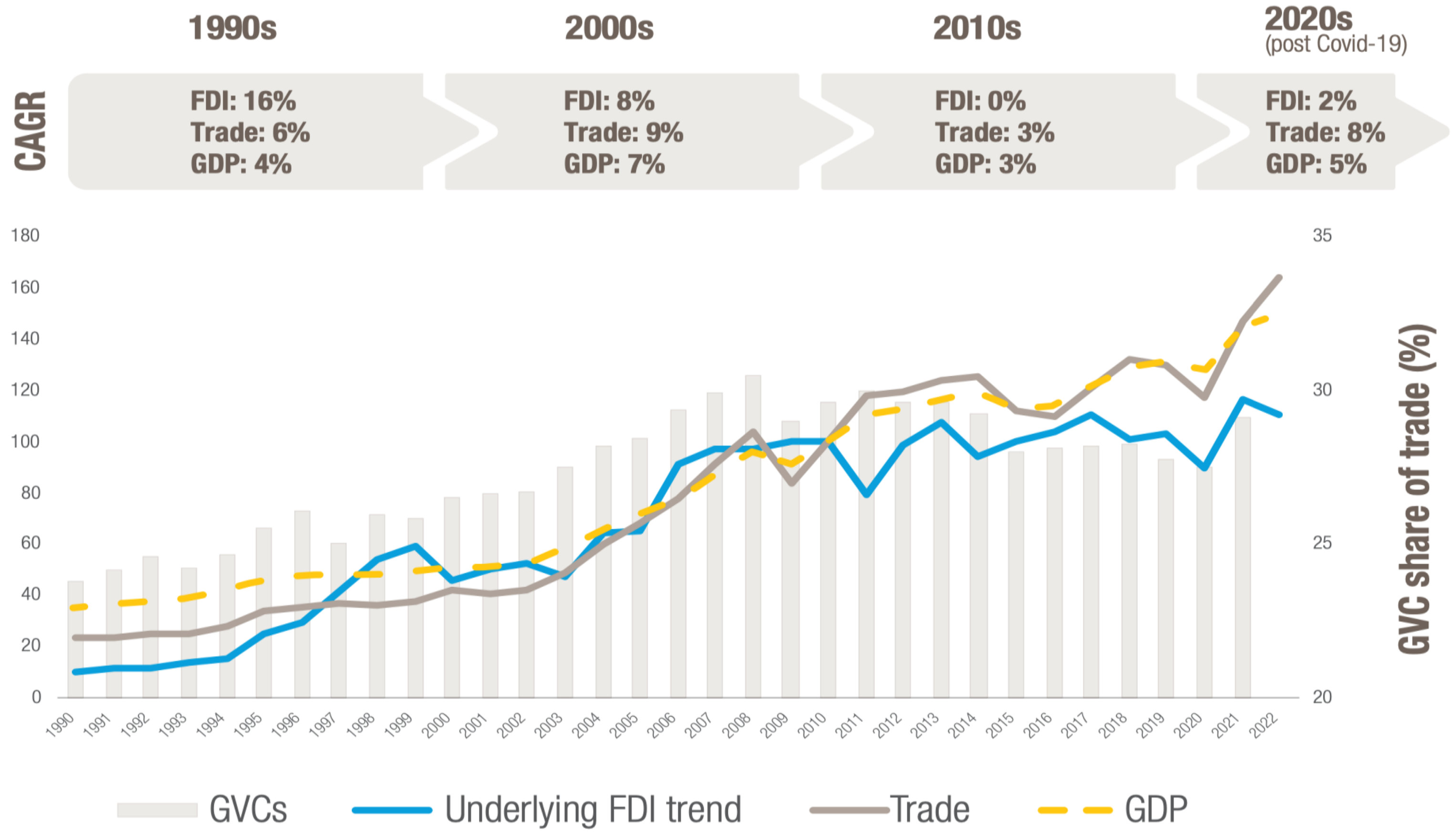


Long term FDI trends

- **Trend 1**: Long term FDI stagnation
- **Trend 2**: The increasing weight of services
- **Trend 3**: The diminishing role of FDI in China

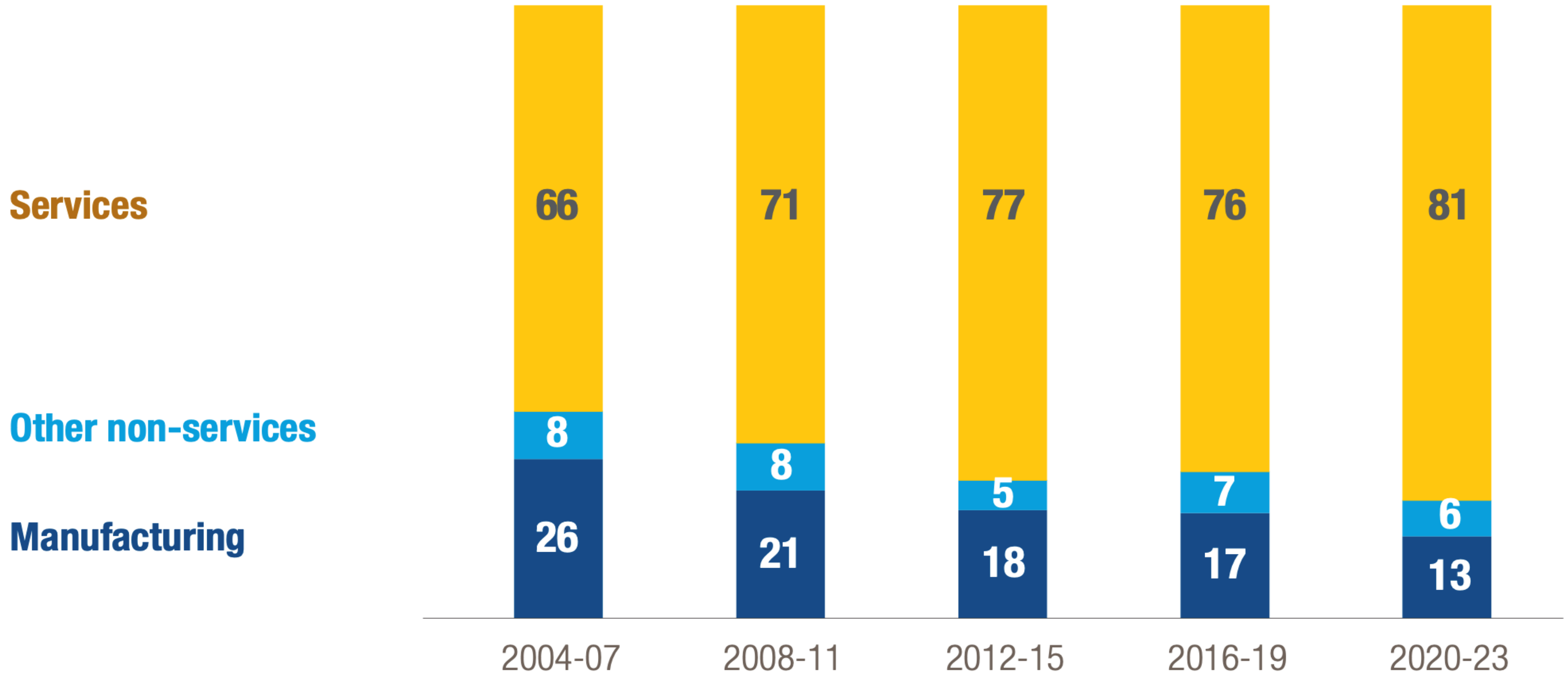
FDI and GVCs lost pace with trade and GDP growth around 2010

- The slowdown in global FDI already started in 2010
- Trade within GVCs also slowed



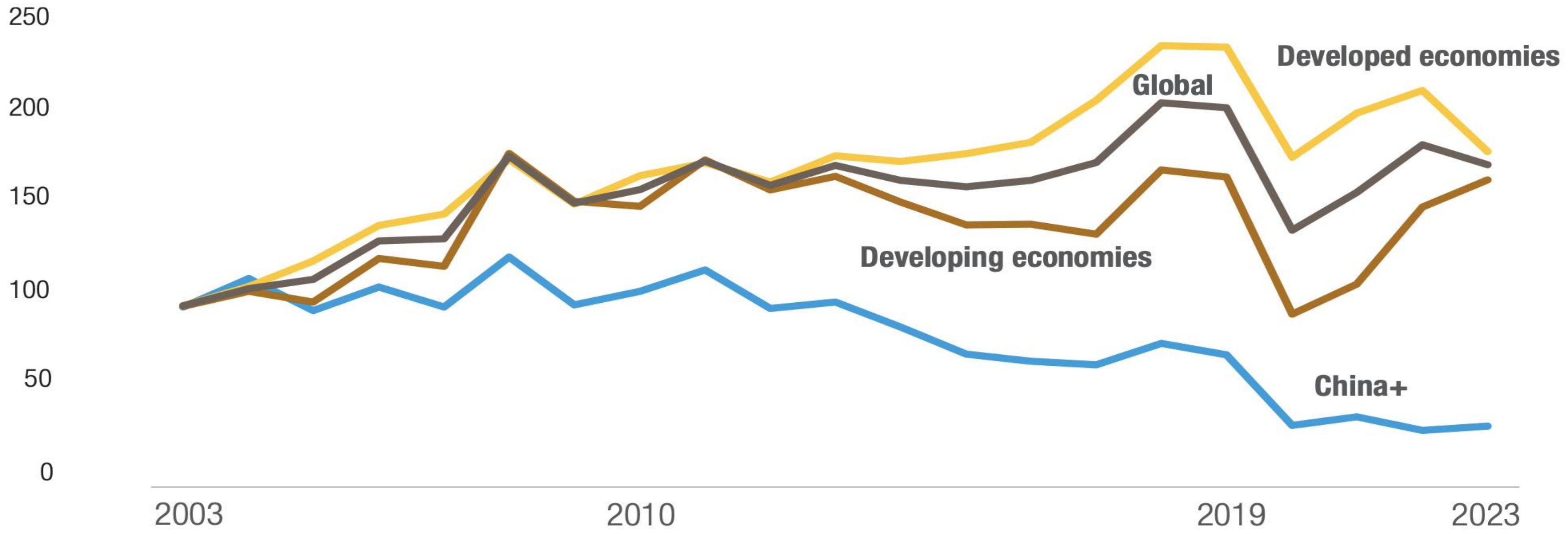
Services activities have become dominant in global FDI

- Since the mid-2000s, the share of services in total greenfield projects has increased
- This includes the services component of traditional manufacturing
- Fast- growing manufacturing servitization



Cross-border greenfield investments in China show a declining trend

Number of projects, indexed 2003 = 100



- Since 2010s, the number of greenfield investments in China began a gradual decline
- Official Chinese FDI inflows continued to increase (except in 2023)
- Possible shift in the composition of FDI increasingly consisting of reinvestment and fewer but larger transactions

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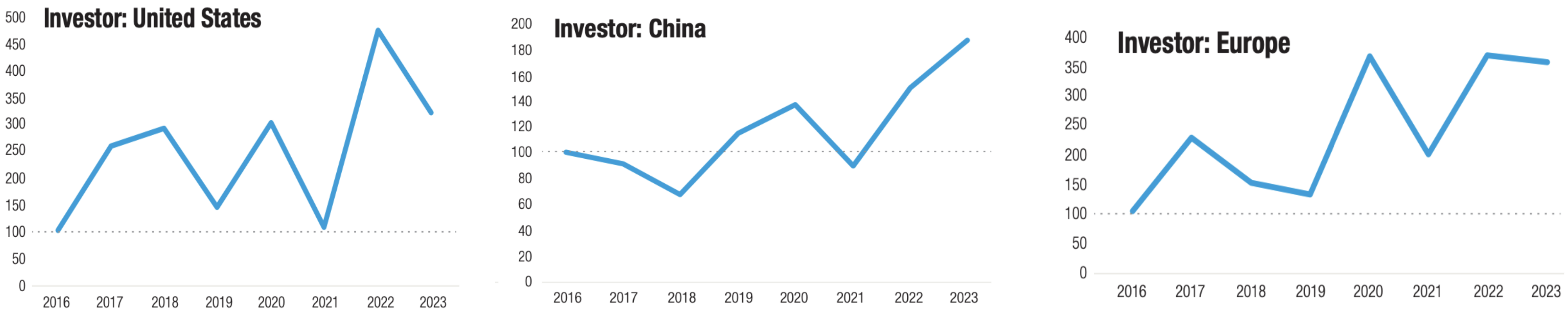
Recent developments

- **Trend 1**: Unstable investment relationships
- **Trend 2**: De-risking strategies (Western MNEs): localisation vs nearshoring
- **Trend 3**: Marketing-seeking strategies (Emerging economies MNEs) tariff-jumping FDI

FDI fracturing: disruptive shifts in investment patterns

Indicators of annual change in the geographic disruption of outward cross-border greenfield projects, indexed 2016 = 100

Euclidean distance between geographic distributions of outward cross-border greenfield projects in two consecutive years t and t+1



- Since 2018, bilateral investment patterns have become increasingly volatile
- This limits the capacity of developing countries to capitalize on opportunities

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Rise of geopolitical tensions

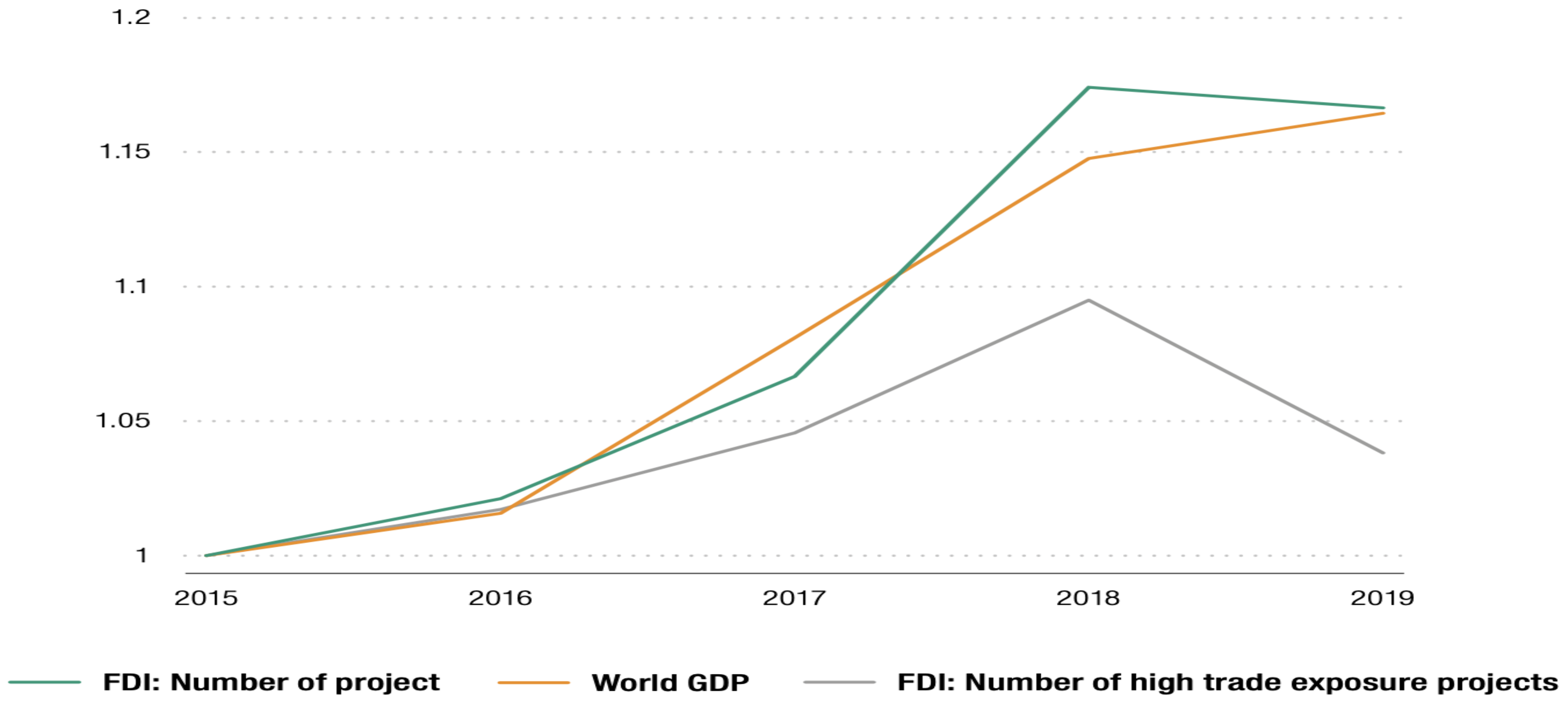
Global FDI patterns have responded to the sharp increase in trade barriers since 2018, in particular due to the United States tariffs imposed on imports from China

Blanchard, Emily J. and Santos-Paulino, Amelia U. and Trentini, Claudia and Milet, Emanuel, Implications of Rising Trade Tensions for FDI Projects Transnational Corporations, Vol. 28, No. 2, 2021.

- There is some evidence of diversion to South-East Asia in specific industries, but the aggregate effect on investment in China is limited and the overall effect on investment in South-East Asia is actually negative.
- A possible explanation lies in the importance of global value chain linkages as key determinants of firms' investment decisions.

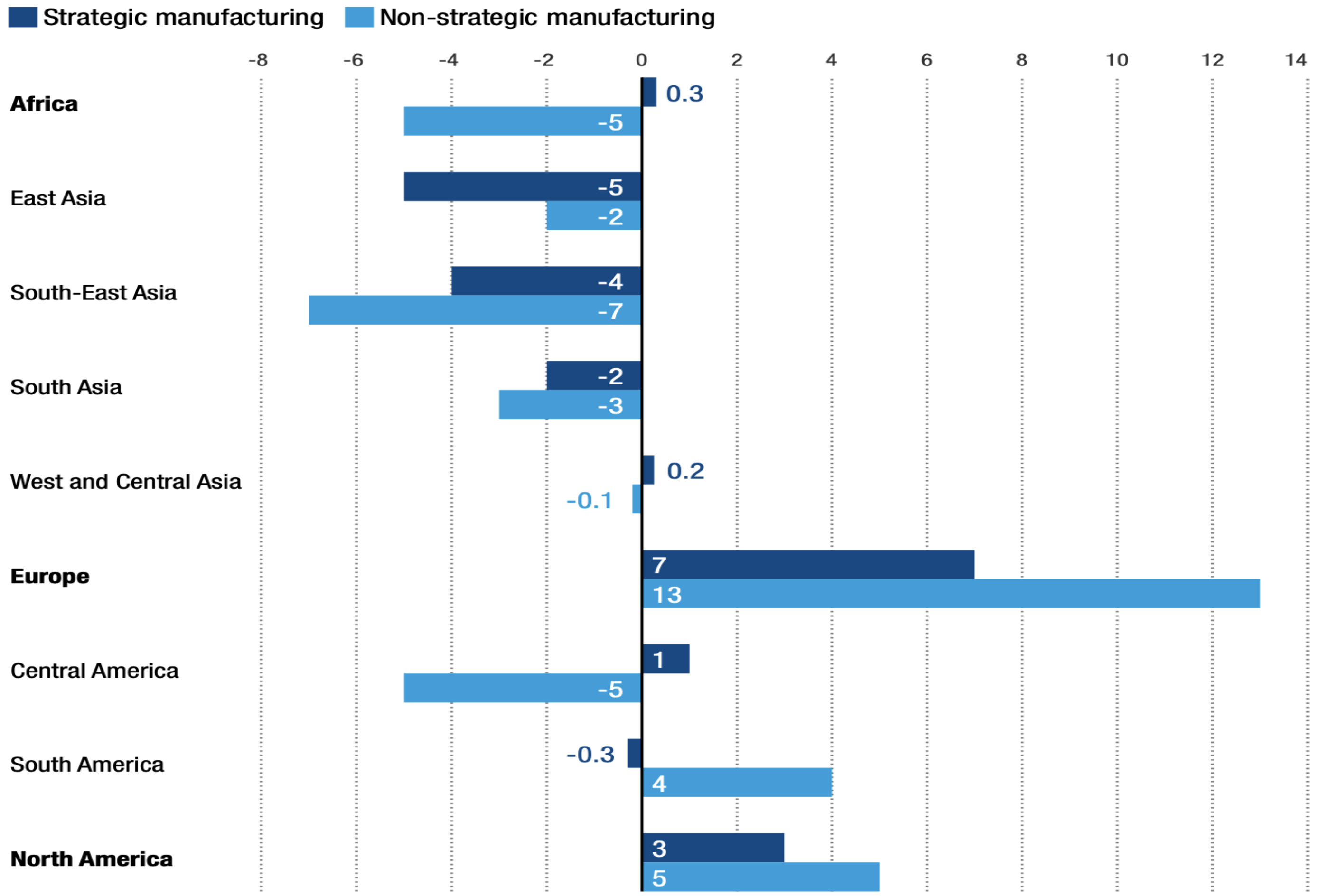
The 2019 decline in high trade-exposed FDI projects was particularly stark since the onset of the trade war

Number of announced FDI projects globally and world GDP, 2015-2019



Near-shoring (Western MNEs) of manufacturing activities

Shares of selected regions/sub-regions in types of manufacturing projects, difference between 2019-2023 and 2014-2018
(Percentage points)

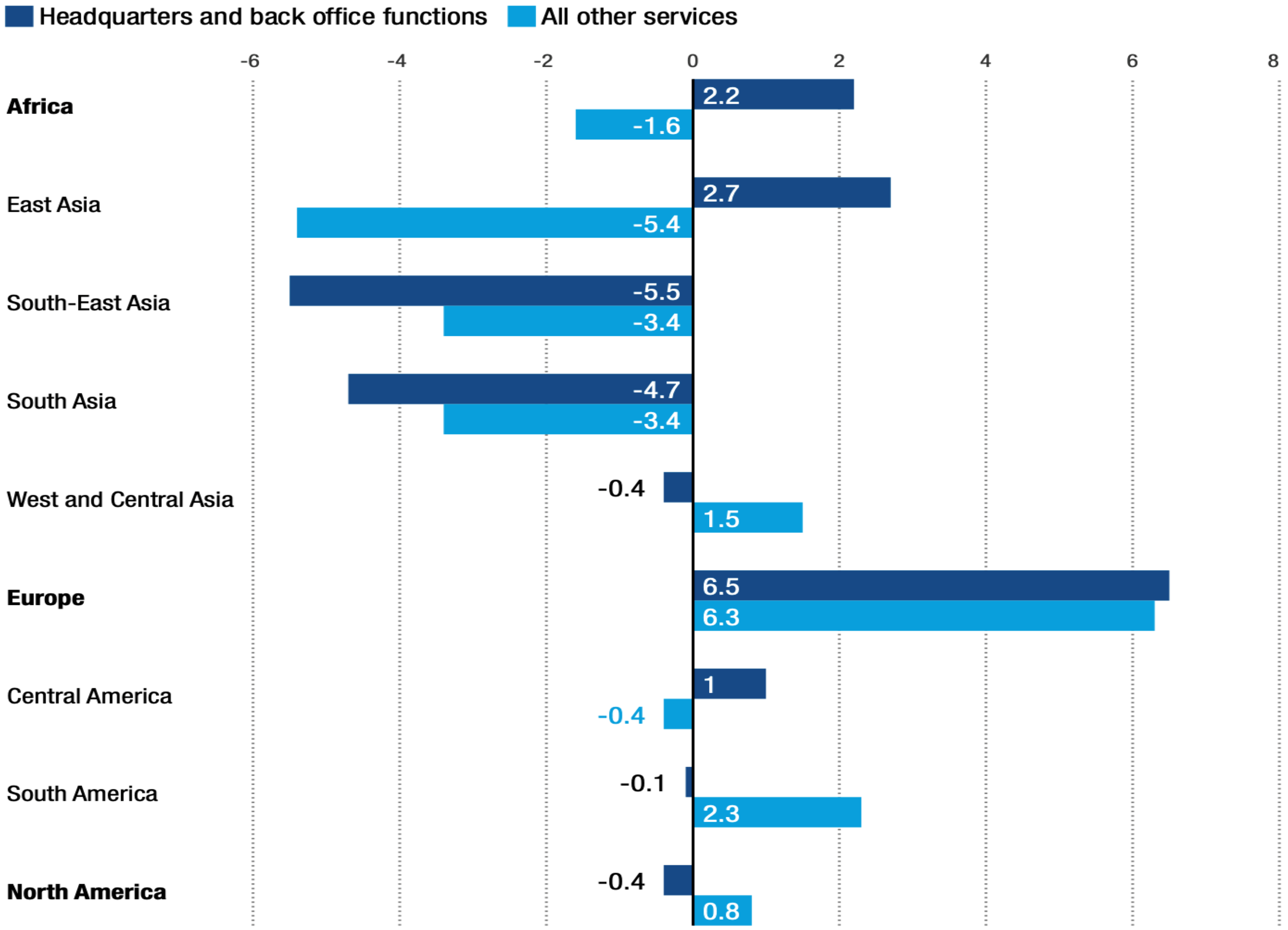


- Since 2019, the geographical distribution of manufacturing projects moved closer to home markets
- Near-shoring and regionalization reduces geopolitical risk and enhances resilience
- Concentration of FDI

Localization (Western MNEs): establishing regional HQ

Shares of selected regions/sub-regions in types of service projects, difference between 2019-2023 and 2014-2018

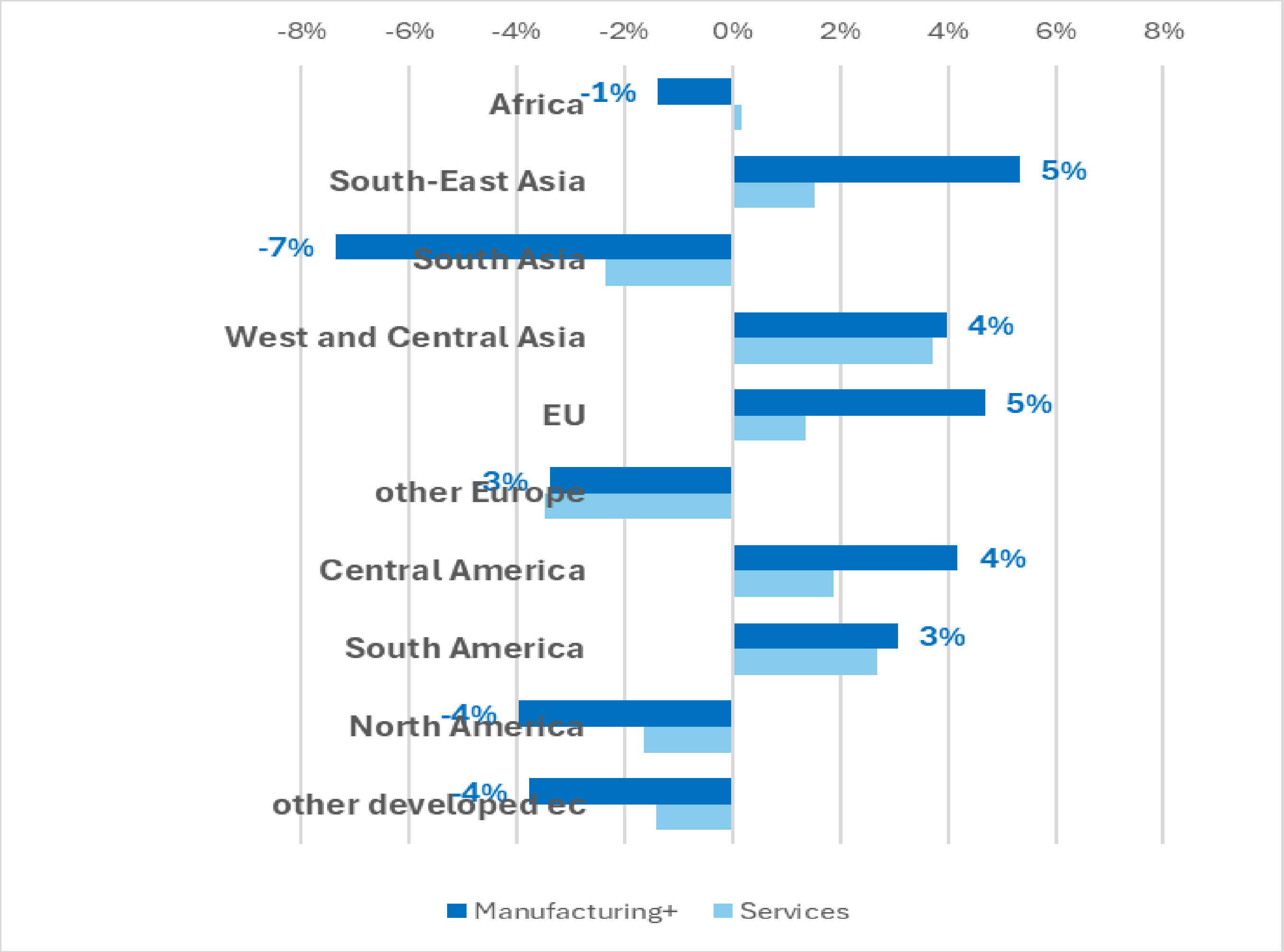
(Percentage points)



- Western MNEs have increasingly established regional headquarters throughout developing Asia
- Other services also moved closer to home

Tariff-jumping FDI (Chinese MNEs)

Shares of selected regions/sub-regions in types of manufacturing projects, difference between 2019-2023 and 2014-2018
(Percentage points)



- Chinese manufacturing MNEs have increasingly used South –East Asia and Latin America (especially Central) as an export platform
- Services projects follow the same trend but are shifting less
- Concentration of FDI

Implications of geopolitical tensions

- Re-examining the GVC development ladder. Consider the potential of services-based development
- Reducing vulnerability to FDI/ GVC volatility, strengthen other determinants of FDI: political stability, trade openness, industrial (but also high value services) capacities.

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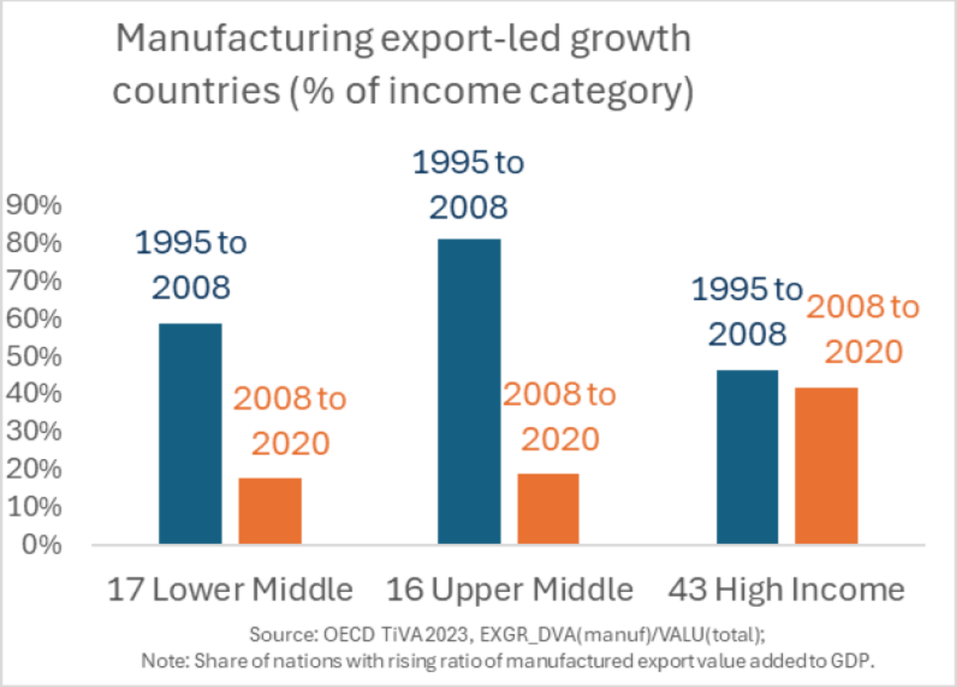
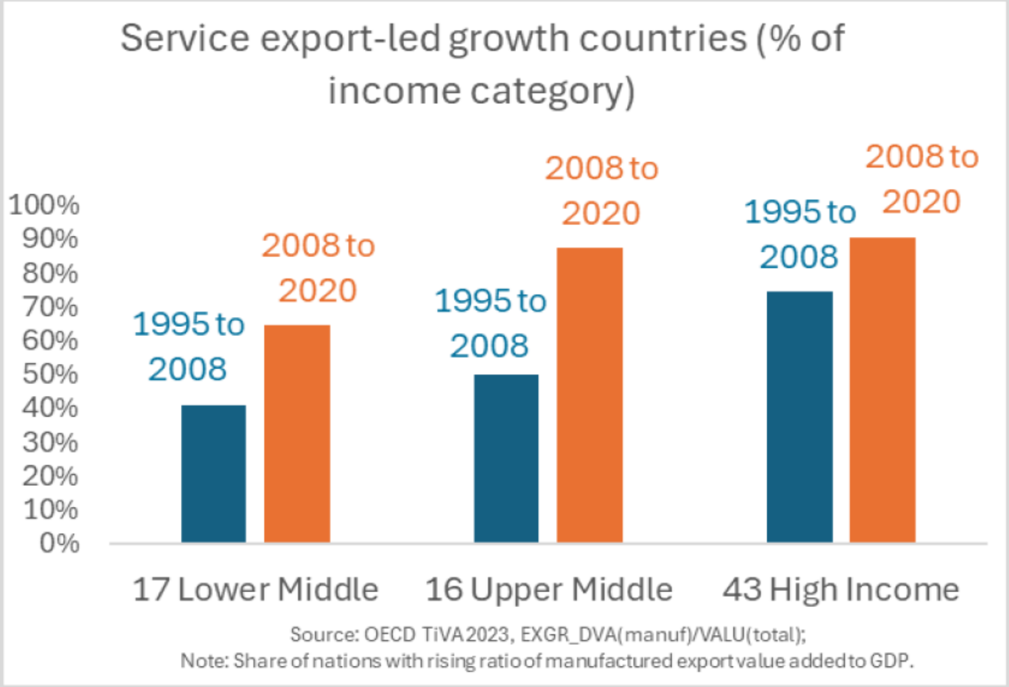
Export led growth: Manufacturing vs services

Manufacturing export-led.



Service export-led.



NB: Export-led, defined as value-added exports growing faster than GDP.
ICT-Enabled = Information and communication, Financial and insurance activities & Other business sector services

Source: Professor Richard Baldwin, International Institute for Management Development presentation at the 60th anniversary of UNCTAD (14th June 2024)

FUTURE RESEARCH

Disentangling the various factors influencing Foreign Direct Investment (FDI) trends, accounting for:

- FDI motives: market vs resources seeking
- Industry and business sector activities
- Geopolitical distance
- Trade policy and market access indicators

Reducing vulnerability – way forward

Research project on major determinants of FDI in the new economic scenario to strengthen opportunities of growth:

- Maintain openness to trade
- Maintain stability of regulatory and governance factors at the national and international level
- Invest in infrastructures and skills to access both high tech manufacturing and services
- Integrate climate objectives in the legislative and economic frameworks

Thank you

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