FDI FLOWS IN THE TIME OF COVID-19

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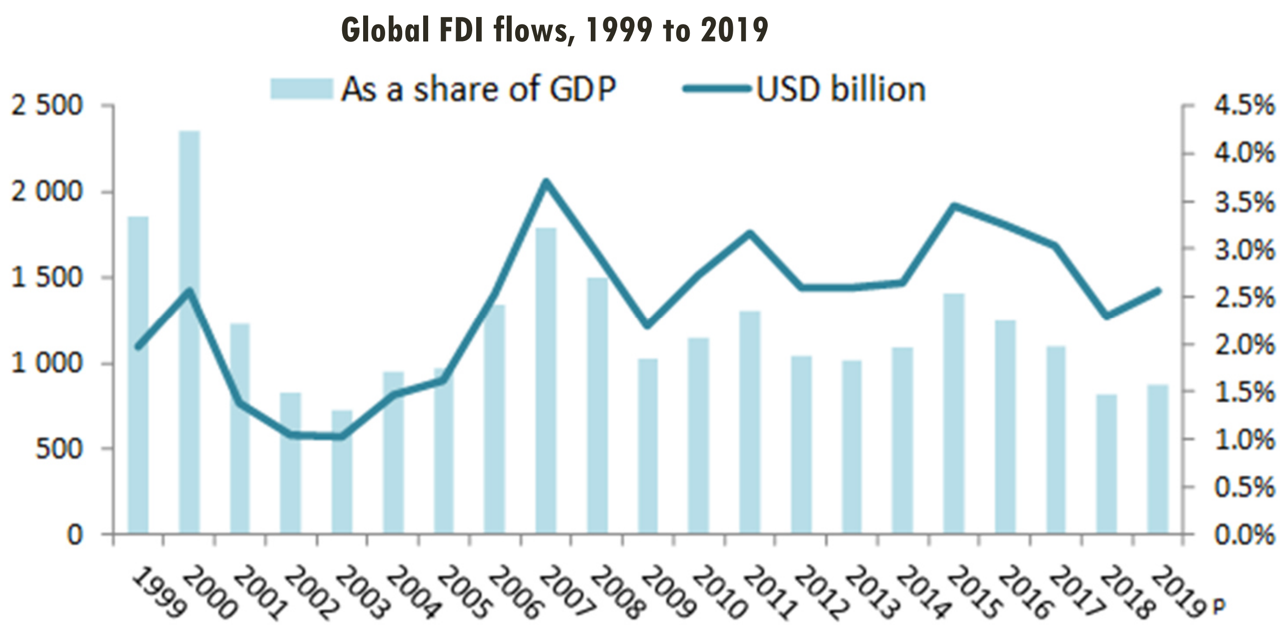
FDI AT THE TIME THE PANDEMIC HIT

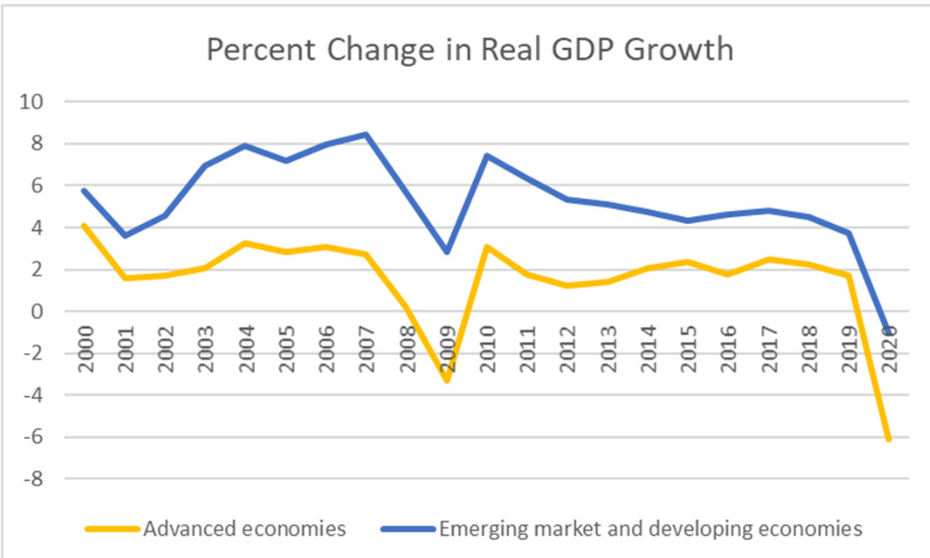


Source: OECD FDI statistics database

FDI flows in 2018 and 2019 lower than at any time since 2010

Global FDI flows in 2019 amounted to only 1.6% of GDP, down from more than 2% between 2015 and 2017

SEVERE AND SUDDEN DROP IN ECONOMIC ACTIVITY



Source: IMF World Economic Outlook
Note: Estimates start after Q1 2020

- Varied impact across sectors
  - Some sectors suffer significant drop in earnings: travel and tourism, consumer discretionary spending, commodities, some manufacturing
  - Some sectors expect increased earnings: communications, IT, medical equipment and pharmaceuticals
- Record levels of corporate debt:
  - Stock of non-financial corporate bonds was at an all-time high at the end of 2019, and that this stock has lower overall credit quality, higher payback requirements, longer maturities, and inferior covenant protections compared to previous debt cycles
  - High levels of debt could limit the ability of companies to survive the COVID-19 crisis, let alone support their foreign affiliates or pursue new investments

CURRENT SITUATION: STEEP DROP IN FDI FLOWS IN 1ST HALF 2020

Reinvested earnings, an increasingly important component of FDI flows, will fall

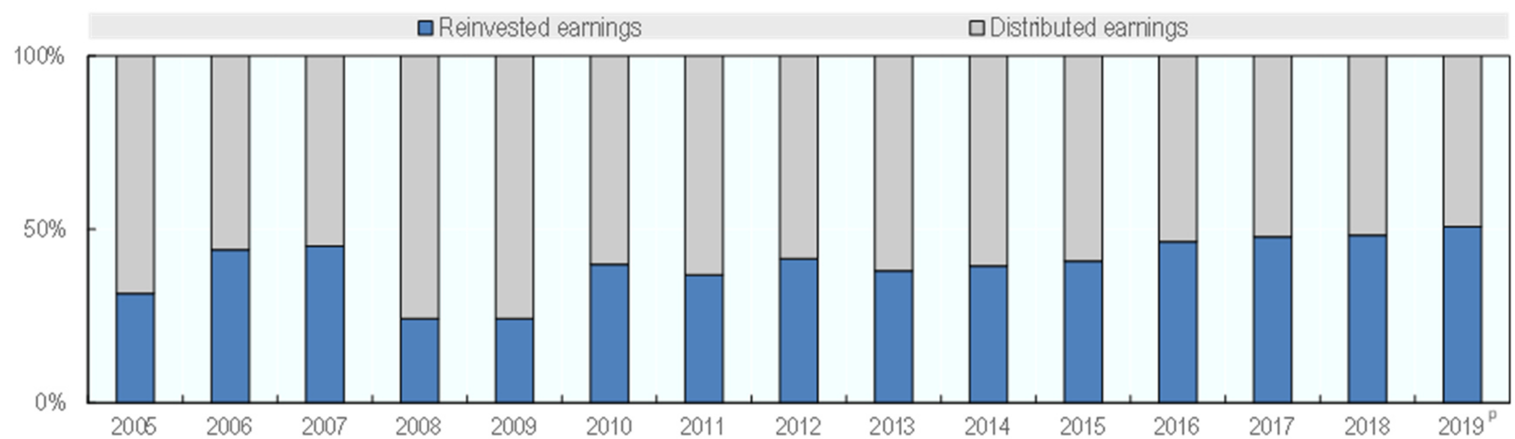
Determined by earnings of direct investment enterprises and share direct investor chooses to reinvest

In the 1st half of 2020, earnings of large MNEs are expected to fall but varies greatly across sectors

- Refinitiv: expect large year-over-year drops in earnings in the energy, consumer discretionary sector, industrials, and materials sectors
- But expect year-over-year increases in earnings in the health care, technology, and communications sectors

Share of earnings investors choose to reinvest is also likely to fall during the crisis

Share of FDI earnings reinvested and distributed, OECD countries from 2005 to 2019



Source: OECD FDI statistics database

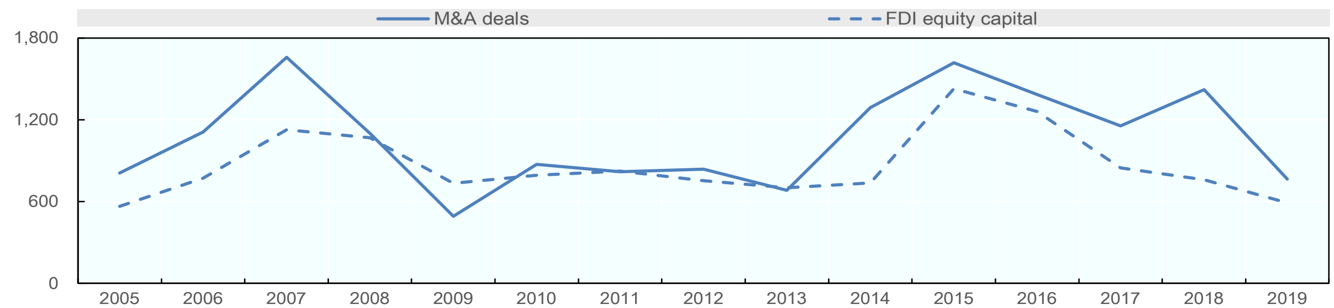
CURRENT SITUATION: NEW INVESTMENTS ON HOLD

Equity capital flows are closely tied to new investments – M&As and greenfield investments – and divestments

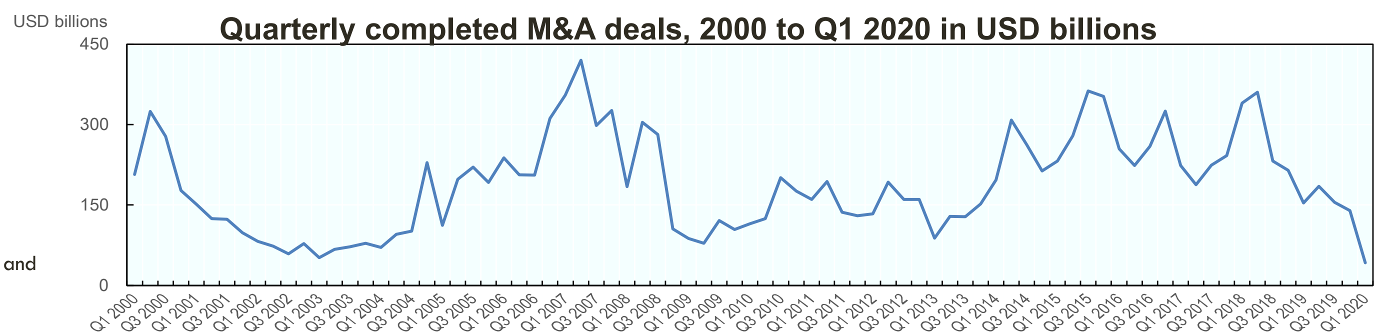
Expected to fall:

- Close relationship between completed M&As and equity capital flows
- Big drop in completed M&As in Q1 2020, but evidence they are on hold and not abandoned
- Could mean there will be an increase in the future as these deals are completed as the economy recovers

Completed cross-border M&A deals and equity capital flows, 2005 to 2019 in USD billions



Quarterly completed M&A deals, 2000 to Q1 2020 in USD billions



Source: OECD FDI statistics database and Refinitiv M&A database

DEVELOPMENTS IN ANNOUNCED GREENFIELD PROJECTS & DIVESTMENTS

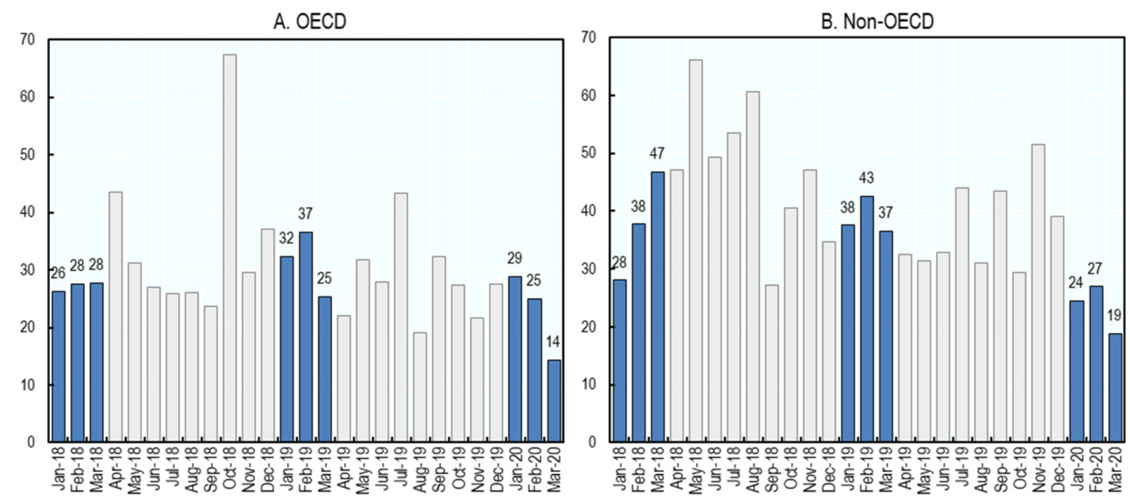
Decline in new project announcements in the first two months of 2020, compared to previous years

- More important in non-OECD economies
- Manufacturing suffered the largest decline in non-OECD countries

Divestments could also have an impact on FDI flows

- One in every five foreign-owned firms is divested every five years
- Financial health and debt levels of MNEs are important drivers of international divestment
- Historical data show foreign divestments increased in 2008, exceeding foreign acquisitions in terms of number and value but were followed by a wave of foreign acquisitions as some firms were able to buy assets at attractive prices

Monthly announced cross-border greenfield investments, 2018 to March 2020 in USD billions



Source: Financial Times' fDi Markets database

LONG TERM IMPACTS

COVID-19 may affect investors and economies differently depending on country/regional context and FDI motivations

With expected growth in the healthcare and ICT sectors, knowledge-seeking FDI may prove buoyant in the longer run

Given collapse in demand for energy, negative impacts for economies relying on resource-seeking FDI

Future trends in efficiency-seeking FDI are still uncertain

- Disruptions due to the coronavirus pandemic may lead some MNEs to rethink the geographic and sectoral spread of their activities and shorten their supply chains
- Other MNEs may wish to diversify their supplier networks to increase resilience to location-specific shocks leading to divestments from some locations but expansions in others
- Add to other factors that were already leading companies to reconsider their supply chains: global trade tensions demands by consumers and companies for more sustainable and inclusive production methods; and digitalisation
- May mean less FDI in the long-run but also creates FDI opportunities
- While some re-shoring opportunities may arise post-COVID-19, offshoring is likely to remain attractive to MNEs