



FOREIGN DIRECT INVESTMENT TRENDS AND PROSPECTS IN DEVELOPING ASIA

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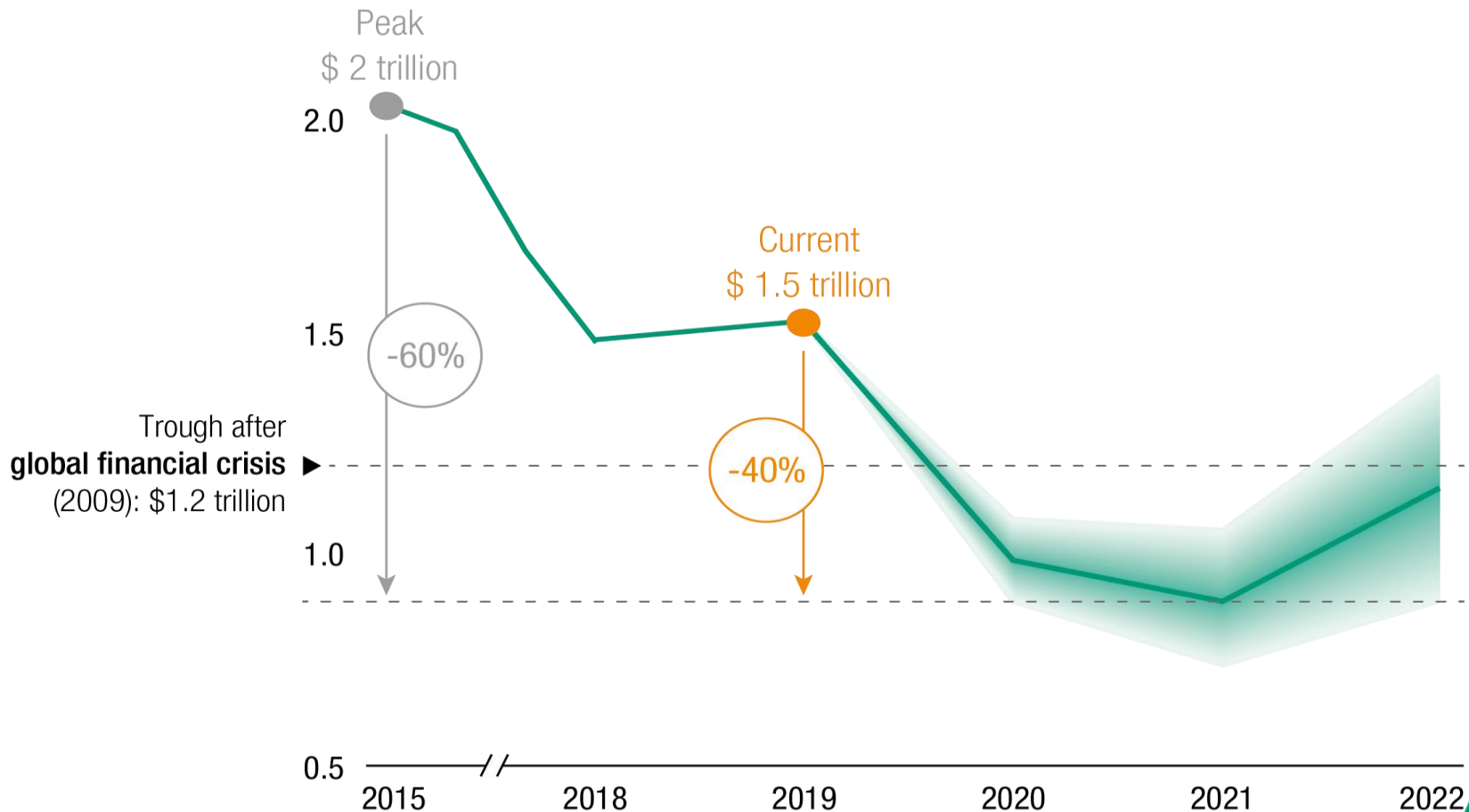
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WIR2020
World Investment Report

Global FDI flows increased marginally (+3%) in 2019, drastic decrease forecast for 2020 with recovery expected only by 2022

Global FDI inflows, 2015–2019 and 2020–2022 forecast



All regions will see negative FDI growth rates in 2020 with severe impact expected in developing Asia (-30 to -45 per cent)

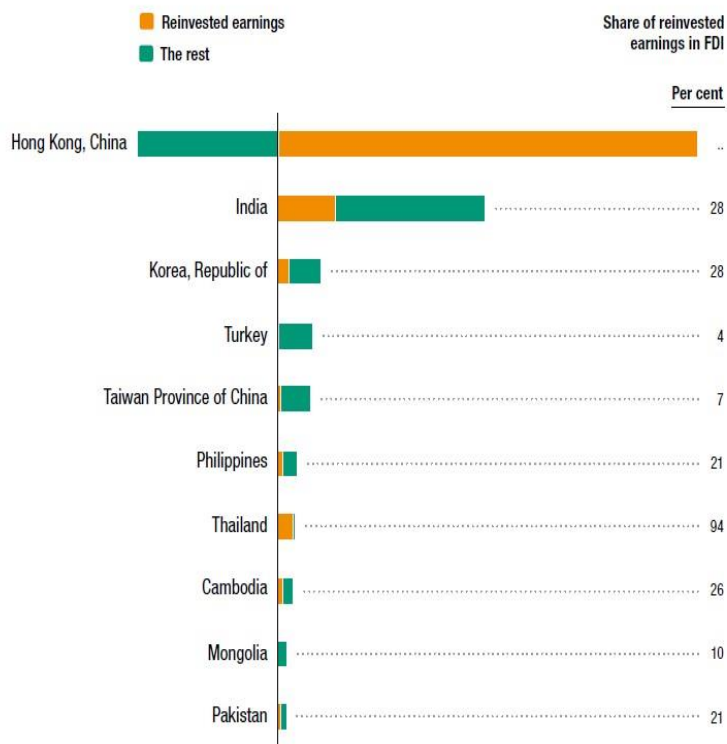
FDI inflows and projections, by group of economies and region, 2017-2019, and forecast 2020 (Billions of dollars and per cent)

Group of economies/region	2017	2018	2019	Projections
				2020
World	1 700	1 495	1 540	920 to 1 080
Developed economies	950	761	800	480 to 600
Europe	570	364	429	240 to 300
North America	304	297	297	190 to 240
Developing economies	701	699	685	380 to 480
Africa	42	51	45	25 to 35
Asia	502	499	474	260 to 330
Latin America and the Caribbean	156	149	164	70 to 100
Transition economies	50	35	55	30 to 40
<i>Memorandum: annual growth rate (per cent)</i>				
World	-14	-12	3	(-40 to -30)
Developed economies	-25	-20	5	(-40 to -25)
Europe	-16	-36	18	(-45 to -30)
North America	-40	-2	0	(-35 to -20)
Developing economies	7	0	-2	(-45 to -30)
Africa	-10	22	-10	(-40 to -25)
Asia	7	-1	-5	(-45 to -30)
Latin America and the Caribbean	14	-5	10	(-55 to -40)
Transition economies	-25	-31	59	(-45 to -30)

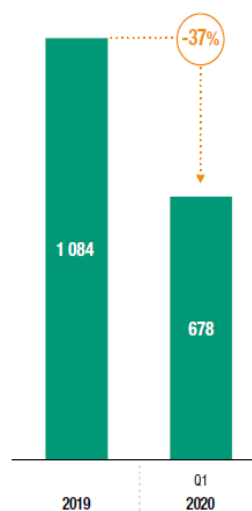
Severe impact of the pandemic in Developing Asia due to GVC-intensive profile

Factors include lockdown measures, supply chain disruption and economic slowdown, as well as declining corporate earnings and stagnant global demand

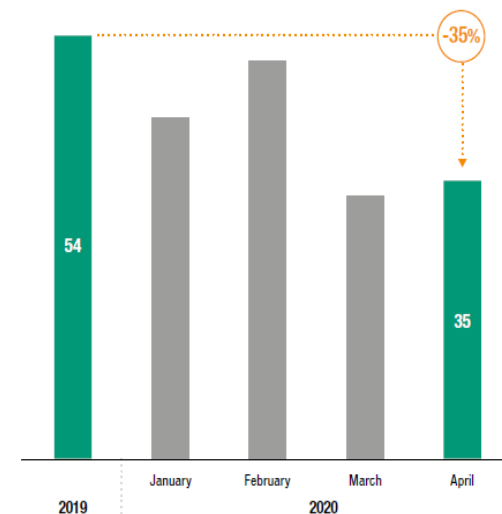
Asia: FDI inflows and reinvested earnings, 2019 (Volume and per cent)



Asia: Average quarterly number of announced greenfield investment projects, 2019 and Q1 2020 (Number)



Asia: Average monthly number of cross-border M&As, January–April 2020 (Number)



Pandemic came on top of trends impacting international production that were already arriving at a boiling point



Trends arriving at “boiling point”

- New technologies, New Industrial Revolution → Changing economics of international production
- Rising protectionist tendencies → New hurdles for international production
- Sustainability imperative → Rethinking international operations of MNEs



COVID-19

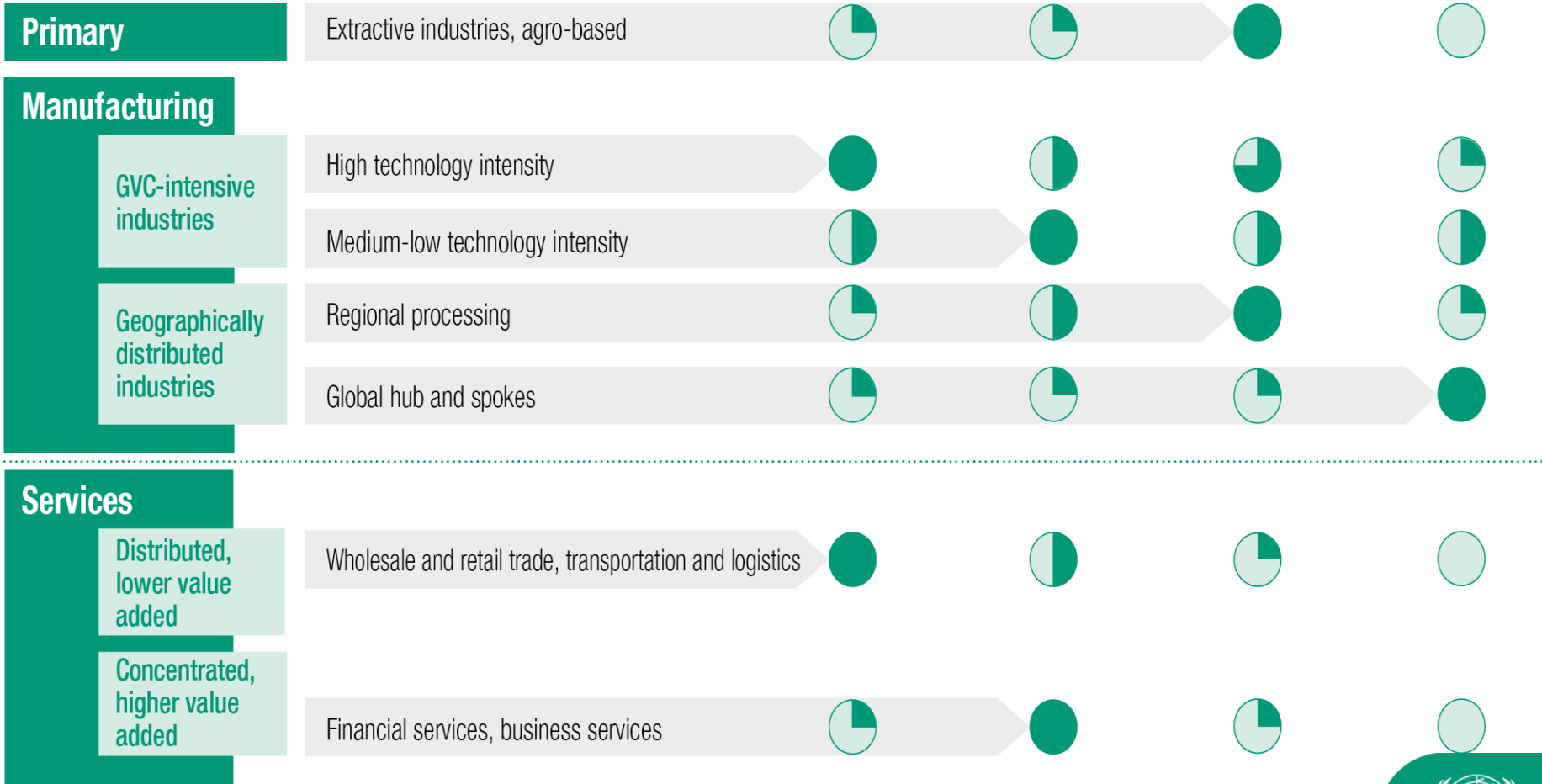
- Immediate impact**
 - Production and supply chain disruptions
 - Global recession
- Supply and demand shock
- Longer-term impact**
 - Imperative to increase supply chain resilience
 - Pressure to increase national/regional autonomous productive capacity



International production will follow four trajectories with varying relevance across industries

○ Not relevant ● Highly relevant

Reshoring Diversification Regionalization Replication



The four trajectories have different implications for investment-development policy

Reshoring



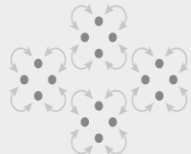
- Possible shock of restructuring, including divestment, relocation; investment diversion
- Shrinking pool of efficiency-seeking FDI
- Need to re-industrialize or cope with (premature) de-industrialization
- Access to and upgrading along the GVC development ladder becomes more difficult

Diversification



- Broader opportunity to participate in GVCs, but loosely governed, platform-based and asset-light
- Acceleration of the shift to intangibles and services-based GVCs
- Concentration of value, value capture in host countries becomes more difficult
- Quality of hard and soft digital infrastructure drives GVC participation

Regionalization



- Shift from global efficiency-seeking investment to regional market-seeking investment
- Shift from investment in dispersed vertical GVC segments to investment in broader industrial bases and clusters
- Nearshoring replicates restructuring effects of reshoring (but softens others)
- Regional economic cooperation, industrial policy and investment promotion indispensable to build regional value chains

Replication



- Shift from investment in large-scale industrial activity to small-scale distributed manufacturing
- Local manufacturing base and producer services a prerequisite to attract final stages of GVCs
- Increased outsourcing to local producers and service providers, value capture and technology dissemination not guaranteed
- Greater need for cost-effective physical supporting infrastructure and quality digital infrastructure (hard and soft)

New international production and investment promotion paradigm

From

- Export-oriented

- Efficiency-seeking investment

- Targeting GVC segments/tasks

- Prioritizing large-scale industrial investors

- Cost-based competition for single-location investors

- “Big infrastructure”

To

- Export “plus plus”
 - Plus production for local markets
 - Plus infrastructure development

- (Regional) Market-seeking investment

- Building diversified industrial clusters

- Competition for diversified investments based on flexibility and resilience

- Room for small-scale manufacturing facilities and services

- “Lean infrastructure” – digital and sustainable

Implications for Asia

Target key strategic industries, such as electric vehicles, healthcare and electronics

Promote intra-continental investment and regional value chains

Promote synergies across industries

Build nimble and adaptable investment promotion institutions and policies

Promote matching between investors and entrepreneurs and SMEs

Build on existing technology endowments to expand and enhance digital infrastructure

THANK YOU!

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