Global trends in foreign direct investment

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Given the waning impact of the US tax reform, the downtrend in worldwide FDI inflows came to an end in 2019, with inward flows increasing by a modest 6.5% to USD 1.5 trillion. FDI stocks moreover benefited from monetary policy easing, expanding by 11% to USD 36.4 trillion.

According to preliminary UNCTAD data, the COVID-19 pandemic triggered the second largest contraction in FDI flows (–34.7% to USD 998.9 billion) in the entire history of FDI statistics. This notwithstanding, total global FDI stocks registered a record increase of 13.7% to USD 41.3 billion on the back of numerous economic policy measures aimed to cushion the pandemic impact.

Preliminary data for 2021 suggest that FDI funds will even exceed pre-pandemic levels in almost all regions.

2.1 Trends in 2019

In 2018, global foreign direct investment flows[2] (inward FDI)[3] continued the downward trend seen in the previous two years, which in that year was mainly due to the effects of the US tax reform. At +6.5%, 2019 saw a first sign of moderate growth again. Still, at USD 1.5 trillion, global FDI inflows remained well below the average of the last ten years in 2019. The stagnation was largely attributable to weak global economic growth, the USA ramping up pressure in its trade conflict on both China and other trading partners as well as Brexit and other sources of political uncertainty.

On the other hand, the accommodative monetary policy stance pursued by major central banks, including increasingly lower interest rates on US dollar and euro central bank deposits, made foreign investors increasingly turn to debt while at the same time contributing to strong financial market performance. As a result and despite subdued transactions, worldwide FDI stocks were up by 11%, expanding to USD 36.3 trillion by year-end 2019. By contrast, in 2018, they had for the first time since the financial and economic crisis of 2008 seen a drop, namely by 1.1% to USD 32.8 trillion.

Regional trends in outward FDI

As the repatriation of earnings accumulated abroad by US-controlled multinationals slowed down markedly, outflows from developed countries, above all from the USA, increased by 45.6% to USD 960.3 billion. Investors from developed economies thus accounted for some 78.7% of the world's FDI flows.

Yet, despite this increase, the FDI transaction volume from developed countries remained low, reaching only about half of the record high observed in 2007. In parallel, outflows from developing and transition economies grew by just 3.2% to USD 416.6 billion, which led to a considerable shift in the overall shares in outward FDI flows.

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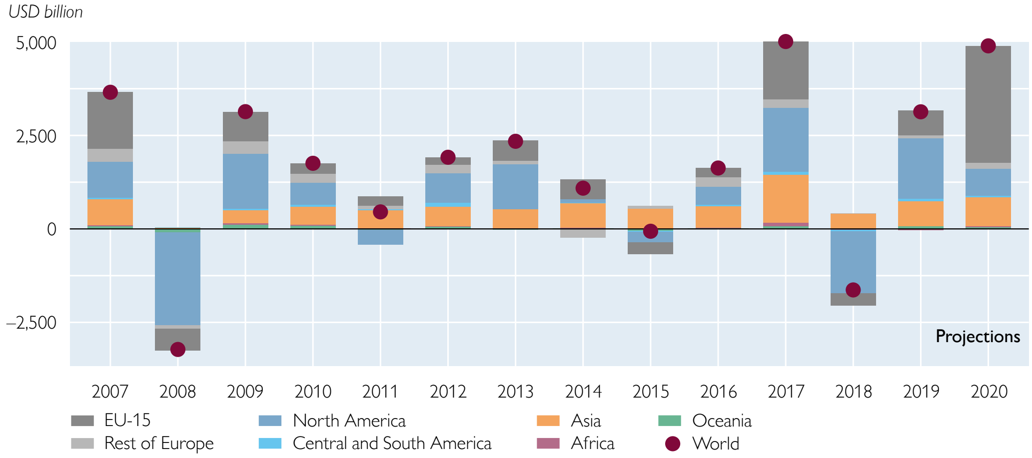
[2] *Inward and outward FDI of two economies should be the same, once netted, and the same applies to global values. In practice, there are still gaps in recording FDI in some countries, especially regarding outward FDI. For this reason, total global values in this publication are based on inward FDI.*

[3] *Outflows: flows of outward direct investment; inflows: flows of inward direct investment.*

Chart 1

Global outward FDI growth by region, 2007–2020



Source: UNCTAD.

Chart 1 shows global outward FDI growth by region from 2007 to 2019 and projections for 2020, based on preliminary UNCTAD data.[4]

In 2019, outward FDI from Europe declined for the fourth time in a row, falling by 13.3% to USD 387 billion. This was mainly ascribable to Swiss investors' disinvestments of USD 43.7 billion and a 63.5% drop in French investments to USD 38.7 billion. Investors from Germany and the Netherlands, in contrast, invested more abroad in 2019 than the year before. Germany's outward direct investments went up by USD 53 billion to USD 139.3 billion, while Dutch investments grew by USD 130.2 billion to USD 84.9 billion.

FDI outflows of multinationals resident in Asian countries rose by 10.5% to USD 599.5 billion. Even though this figure fell short of the record reading of USD 606.6 billion reached in 2017, the Asian continent remained the largest foreign investor for the third consecutive year. Following the USD 62 billion acquisition of the Irish company *Shire* by the Japanese pharmaceutical group *Takeda*, which happened to be the largest takeover abroad by a Japanese enterprise to date[5], Japan's outward FDI surged by 58.3%, to reach a new all-time high of USD 226.7 billion. For the second consecutive year, Japanese investors thus accounted for the highest FDI outflows worldwide.

While recovering somewhat, outward FDI flows from the Americas still remained at a relatively low level of USD 219.4 billion. After a record low of –USD 194.4 billion in 2018, when enterprises repatriated their earnings accumulated abroad in light of the US tax reform, the outflows from the USA turned positive again in 2019, clocking in at USD 93.5 billion. Despite the modest gain in outflows, the stocks of US-controlled subsidiaries abroad registered a record growth rate of 20% on the back of the good performance on stock markets, reaching a level of USD 7.6 trillion. This figure translated into a share of 22.3% in global

[4] *UNCTAD FDI database: https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx.*

[5] *https://www.pharmatimes.com/news/takeda_completes_shire_acquisition_1274243.*

FDI. US investors consequently remained in first place in the international ranking of the most important sources of outward FDI in 2019.

Outflows from Africa, in turn, were weighed down by global geopolitical and economic frictions; they declined by 38.5% to USD 4.9 billion. South African investors, whose new investment was largely concentrated on the home continent and sank by 22.8% to USD 3.2 billion, accounted for 74.5% (USD 215 billion) of Africa's outward FDI stocks.

Austrian-controlled subsidiaries abroad received net capital inflows of EUR 11.2 billion.[6] Austria's outward FDI stocks hence rose by 6% in 2019 to EUR 213 billion, accounting for 0.7% of global FDI outflows. In an international comparison, Austria continued to rank 23rd as a home economy.

Regional trends in inward FDI

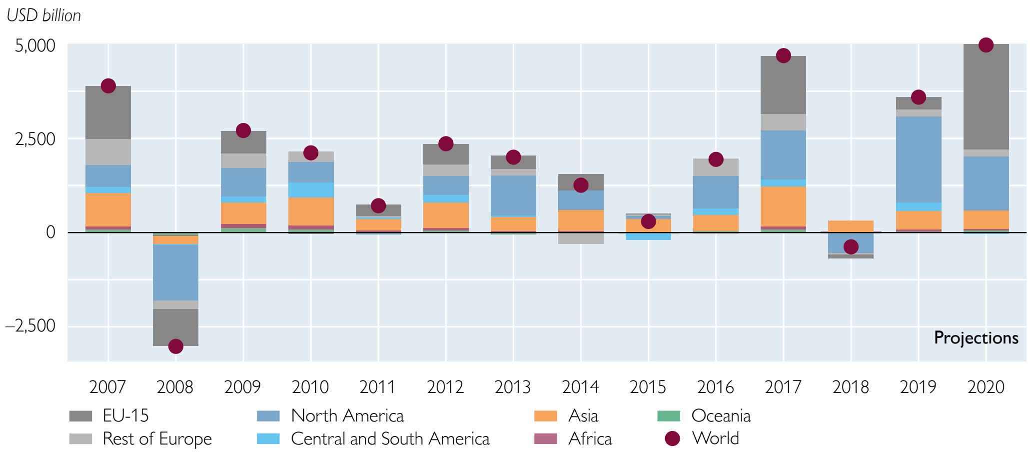
Many investments were driven by a surge in cross-border mergers and acquisitions (M&As) in the developed economies (+8.3% to USD 795.8 billion) once the effects of the US tax reform had lessened. FDI flows into transition and developing economies also increased, namely by 4.6% to USD 734.4 billion. Given that inward FDI in the developed economies had been substantial in the past ten years, the increase registered in 2019 by this region was relatively small.

Chart 2 shows global inward FDI growth by region from 2007 to 2019 and projections for 2020.

Some 26.8% of worldwide FDI in 2019 was channeled into subsidiaries resident in Europe, where international investors considerably stepped up their transactions year on year (+10% to USD 409.5 billion). In light of the US tax reform and Brexit, FDI flows to Europe were very volatile. As a case in point, new inward FDI in Ireland rose – on account of the *Takeda-Shire* deal – from –USD 16.1 billion to USD 81.1 billion, and that in Russia swelled by 142.5% to USD 32 billion. By contrast, FDI flows to the countries that used to attract the largest FDI volumes in

Chart 2

Global inward FDI growth by region, 2007–2020



Source: UNCTAD.

[6] *https://www.oenb.at/en/Statistics/Standardized-Tables/external-sector/foreign-direct-investment.html.*

the past declined. Inward FDI in the Netherlands sank by half, falling to almost USD 48.9 billion, and its growth also slipped in Germany (12.9% to USD 54 billion), France (11% to USD 34 billion) and the United Kingdom (30.4% to USD 45.5 billion).

In Asia, China's increasing role in the global economy had a positive impact on FDI growth on this continent. In 2018, Asia had for the first time recorded more FDI inflows than any other region in the world, and this trend continued also in 2019, with inflows rising by 4.3% to USD 560.2 billion. China accounted for 9.2% (or USD 141.2 billion) of global FDI inflows in 2019, which makes it the second most important FDI host country behind the USA.

FDI flows to the Americas stagnated in the past few years amid the ongoing US-China trade conflict and other political tensions, coming to USD 469.7 billion in 2019. Despite comparatively modest inflows of USD 261.4 billion, the USA continued to be the most important recipient country of global FDI with a share of 17.1%. Accounting for 25.8% of worldwide FDI stocks, foreign-controlled subsidiaries resident in the USA came in first in a global comparison.

Amid subdued demand for raw materials and moderate economic growth, some important African host countries, such as South Africa, Morocco, Nigeria and Algeria did not attract as much inward FDI as before.[7] At USD 9 billion, Egypt's inflows, by contrast, climbed by 10.7% year on year in 2019, with Egypt remaining the host country number one on the African continent.

At EUR 2.7 billion in 2019, inward FDI in Austria clearly fell short of the levels seen in the previous two years (see section 1). Yet, the favorable stock market performance also lifted up Austria's inward FDI by 6.6% to EUR 172.4 billion. Unchanged from 2018, Austria thus kept its 33rd place in the 2019 international ranking of host economies.

2.2 Longer-term perspective on global FDI

Direct investment is, as a rule, strategic and long-term in nature. Therefore, stocks are relatively immune to short-term political and economic developments or events. Nevertheless, FDI can be very sensitive to cyclical fluctuations and geopolitical events.

Chart 3 shows the development of global FDI from 2007 to 2019 and projections for 2020. "Non-flow changes" were calculated on the basis of stocks and flows and include price and exchange rate effects as well as reclassifications and residual changes.

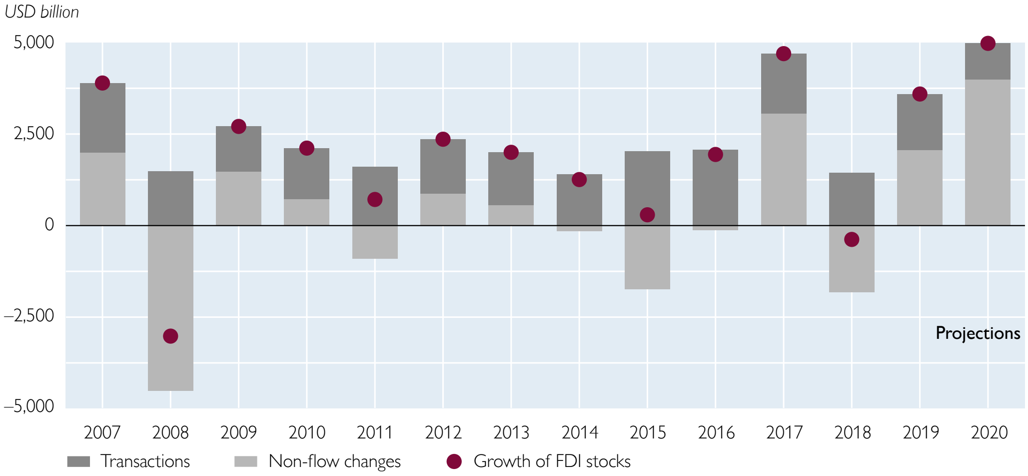
In 2008, despite positive inflows, global direct investments had dropped by 16.7% to USD 15 trillion in the course of the financial and economic crisis and subsequent stock market losses. Soon thereafter, global FDI stocks seemed largely unaffected by the worldwide recession, recovering fairly quickly and even exceeding pre-crisis levels in 2010.

In the years that followed, global uncertainty arising from the ongoing crisis and fiscal issues in the EU caused global investment activity to slow down. Favorable stock market developments, on the other hand, contributed to record growth of FDI in 2017 (16.5%), which propelled FDI stocks to a level of USD 33.1 trillion.

[7] *UNCTAD 2020. World Investment Report 2020. United Nations. https://unctad.org/system/files/official-document/wir2020_en.pdf.*

Chart 3

Global FDI growth, 2007–2020



Source: UNCTAD.

In 2018, global FDI stocks decreased again, by 1.1% to USD 32.8 trillion, on the back of the US tax reform, the economic tensions between the USA and China as well as the Brexit negotiations and Italy's fiscal dispute with the European Commission. In 2019, by contrast, a new round of monetary policy easing not only favored global stock markets, but also gave momentum to international FDI stocks, which grew by 11% to USD 36.4 trillion.

While FDI transactions remained relatively stable in recent years despite cyclical fluctuations and geopolitical tensions, price and exchange rate effects – and thus also FDI stocks – told a different story, facing heightened volatility. Apart from contracting in 2008 and 2018, global direct investments continuously posted positive growth, doubling from USD 18 trillion at end-2007 to USD 36.4 trillion at end-2019.

An integral part of bilateral economic relations, foreign direct investments have for years now helped boost economic growth, improve global financial development and increase both employment and living standards.

Host countries benefit above all from FDI-driven output growth and FDI-driven employment growth. According to statistical evidence, the contribution of FDI to the creation of jobs has been on the rise in recent years. On a global scale, the headcount of employees working for foreign-controlled subsidiaries had swelled to 83.2 million persons by year-end 2019.[8] Of that number, 277,000 persons were employed in Austria (where payroll employment totals 3.8 million persons according to Statistics Austria). With their outward FDI generating employment for 891,000 persons, Austrian investors, in turn, contributed to some 1% of FDI-related jobs abroad[9] (see tables 4.1 to 6.2 in the "tables and maps" section).

Moreover, income from outward direct investments is a key component of home countries' current account. With an average return of 6.3% between 2010

[8] *Estimate based on a regression of data from the UNCTAD FDI database.*

[9] *Annual direct investment survey 2019, Oesterreichische Nationalbank.*

and 2019, foreign-controlled subsidiaries worldwide scored exceptionally well incomewise.[10] Slightly outperforming the international average, the return on capital attained for Austrian FDI equaled 6.5% (outward FDI) and 6.9% (inward FDI).

2.3 Regional pattern of inward and outward FDI

By promoting bilateral, long-term cross-border financial linkages, multinational corporations and their foreign direct investments have been a catalyst for global economic and geopolitical integration for a long time. And multinationals are becoming ever more relevant to global financial developments, both in the host and the home countries.

Chart 4 shows changes in FDI as a percentage of GDP over a ten-year period (2009 against 2019). The continuous rise of the FDI stocks-to-GDP ratio was only interrupted twice, namely in 2008 and 2018. Between 2009 and 2019, global FDI stocks expanded by 10.5 percentage points of GDP. At the end of 2019, the share of FDI in total global GDP came to 41.6%.

The regional pattern of inward and outward FDI remained largely stable over this period. In economically advanced regions such as the EU-15 or North America, stocks of outward FDI exceeded those of inward FDI, whereas in developing regions like Asia, Central, Eastern and Southeastern Europe (CESEE) or South America, inward FDI stocks were higher than outward FDI stocks.

The European countries with the largest FDI activity between 2009 and 2019 – such as the United Kingdom, Germany, France and the Netherlands – were typical countries of origin, recording a persistent expansion of both inward and outward FDI stocks. Within the EU-15, the net balance, i.e. outward less inward FDI stocks, went up by 13.1% to USD 2.3 billion over the same period. In contrast, almost all CESEE countries showed a negative net balance throughout the observation horizon, and they remained attractive for foreign investors, especially those from the EU-15 countries, which accounted for 57.8% of CESEE's inward FDI.[11] All told, the stocks of inward FDI in CESEE exceeded those of outward FDI by USD 900 billion.

While FDI stocks had been slightly negative on the Asian continent in 2009 (–3% of GDP), they improved over the next decade, to 0.5% at end-2019. China's rapid globalization helped establish Chinese enterprises as major international investors and gain an increasing foothold in Europe.[12] Racking up a combined share of 44.6%, Japan and China dominated Asian outward FDI at end-2019. At the same time, inward FDI in China and Singapore each held a share of no less than 20%.

Between 2009 and 2019, the balance of US FDI stocks turned negative on account of the tax reform, dipping from USD 1.3 billion to –USD 1.7 billion. Accounting for a share of 75.7% (outward FDI) and 73.9% (inward FDI) in the Americas, the USA was therefore also the main cause for changes in the direction of net FDI flows. As a consequence, the decline in the US FDI balance had implications

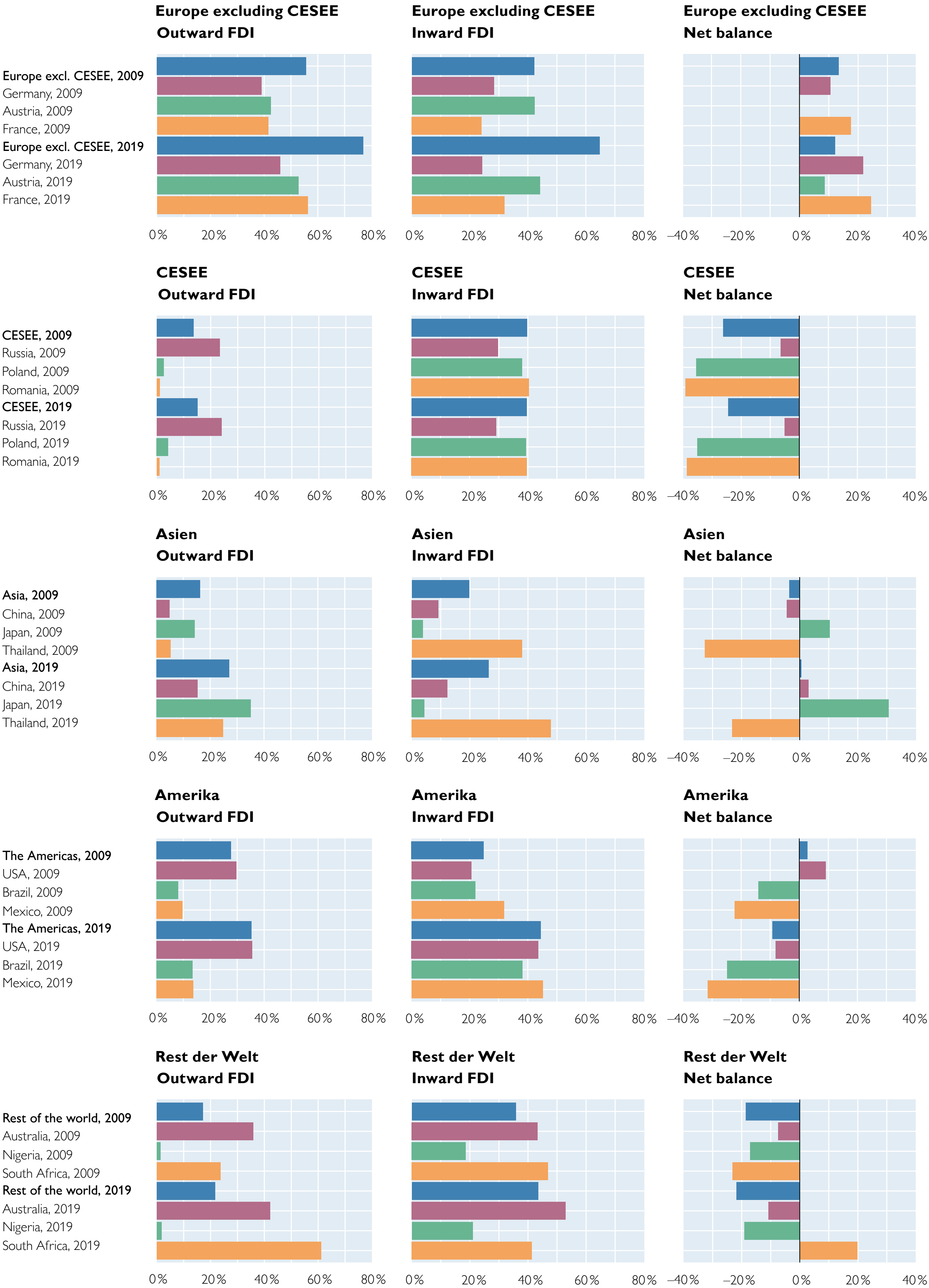
[10] *Estimate based on a linear interpolation of data from the OECD.Stat database (https://stats.oecd.org/Index.aspx?QueryId=64216).*

[11] *wiiw FDI Database: https://data.wiiw.ac.at/foreign-direct-investment.html.*

[12] *IMF Coordinated Direct Investment Survey (CDIS): https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F-1CE54D6D5.*

Chart 4

Stocks of outward and inward FDI as a percentage of GDP by region, 2009 vs. 2019



Source: UNCTAD.

for the entire continent, with the Americas turning from a net FDI originator to a recipient region.

The direction of Austrian FDI stocks varied during the period under review. Austrian outward and inward FDI used to be largely balanced for an extended period, with both inward and outward FDI stocks recording continuous growth (see section 1) until 2008, when Austrian outward FDI for the first time exceeded inward FDI by EUR 1.7 billion. From that point onward, outward FDI would exceed inward FDI, and the balance continuously increased over time. Especially in the EU-19 countries, Austrian investors' total outward FDI expanded by 122% to EUR 95.7 billion between 2009 and 2019. Vice versa, inward FDI in Austria stemming from EU-19 investors increased by a mere 18.8% to EUR 84.4 billion in total.

2.4 Preliminary data for 2020 and 2021

According to preliminary UNCTAD data, global FDI inflows contracted amid the COVID-19 pandemic by 34.7% to USD 998.9 billion in 2020, thus sinking for the first time since 2005 below the USD 1 trillion mark. This slide is the second largest slump in the history of FDI statistics since 2001, the year of the September 11 terrorist attacks, and exceeded that observed during the financial and economic crisis of 2008 by around 12.9 percentage points.

Ongoing investment projects were delayed because of pandemic-induced lockdowns and travel restrictions. Foreign investors exerted extreme caution in light of fears of another recession, uncertainty about the outcome of the US elections and Brexit. This likewise stalled new M&A deals.[13]

The COVID-19 pandemic hit the developed economies hardest, where FDI inflows decreased by 58.7% to USD 328.5 billion. By contrast, transactions with developing and transition economies fell by a relatively small 8.8% to USD 670.4 billion. As a result, about two-thirds of global inflows went to developing countries in 2020 (2019: close to half).

The pandemic affected most regions across the world, but to differing degrees (chart 5). FDI flows to Europe suffered most, declining by 78.3% to USD 88.9 billion. Europe's inflows thus reached a 27-year trough, exceeding the flows to the African continent (USD 47.1 billion) only marginally. The countries in North and South America likewise lost in attractiveness as recipient economies. Their FDI inflows in 2020 amounted to a mere USD 267.8 billion, down 43% from the 2019 figure. The only region where FDI inflows remained stable in 2020 was Asia. Asian economies profited from persistently high growth rates, wide-reaching regional and global investment relations and a favorable investment climate. FDI flows to Asia ran to USD 578.1 billion, up 3.2% year on year.

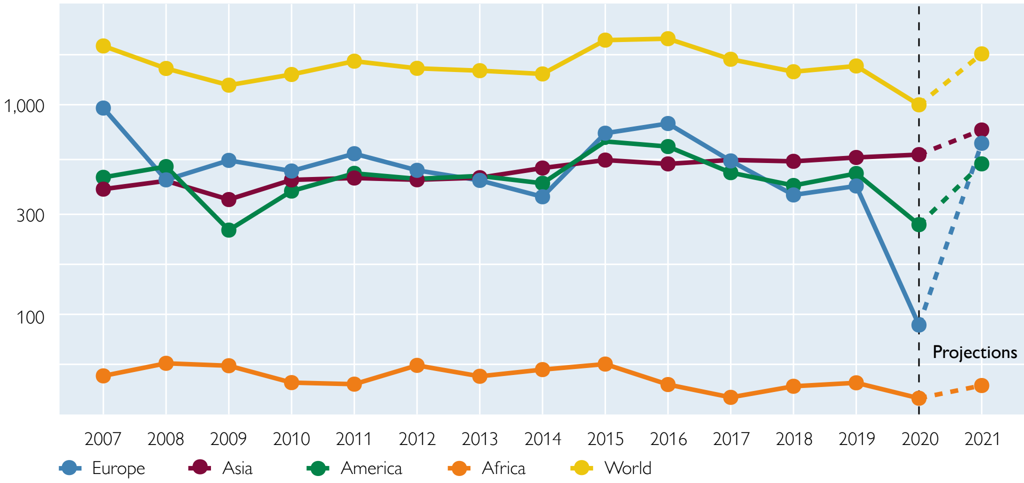
Inward FDI in China rose by 5.8% in 2020, totaling USD 149.3 billion, which is above all traceable to positive economic growth in the face of the pandemic and the government's support for measures facilitating foreign investments and liberalization of FDI policies. In the USA, where large multinationals were hesitant amid uncertainty about both the pandemic and the presidential elections, inward FDI

[13] *UNCTAD 2021. World Investment Report 2021. United Nations. https://unctad.org/system/files/official-document/wir2021_en.pdf.*

Chart 5

Global FDI inflows, 2007–2020

USD billion (values in logarithmic form)



Source: UNCTAD.

receded by 40.2% to USD 156.3 billion. This notwithstanding, the USA remained the number one destination for inward FDI, followed closely by China.

In the course of 2020, financial markets recovered relatively quickly from the price drops of March 2020, even outperforming pre-pandemic levels. This was due to numerous policy measures meant to cushion the economic impact of COVID-19, such as the Federal Reserve Bank cutting the US dollar key interest rates and the ECB expanding the bond purchase volumes under its pandemic emergency purchase programme (PEPP) to more than EUR 1 trillion. This propelled FDI stocks to record growth of 13.7% to USD 41.3 trillion – even though FDI flows contracted to an unprecedented extent in 2020. The share of FDI in global GDP consequently rose by 7.1 percentage points to 48.7%.

In contrast to the global trend, Austrian FDI stocks declined markedly in 2020. Outward FDI contracted by 9.1% to EUR 193.6 billion, and inward FDI saw a slide of 5.1%, dropping to EUR 163.7 billion. In other words, Austrian investors' shares in global FDI shrank significantly and Austria became notably less attractive as an investment location (see section 1).

Drawing on half-yearly data for 2021[14] and historical data for the period 2007 to 2020, we also provide first projections for the year 2021.[15] They rely on statistical interrelationships and account neither for any economic or geopolitical aspects nor for ongoing or scheduled investment projects. COVID-19-related support measures evidently had a strong, favorable impact on the development of global FDI flows. The forecast suggests that FDI funds will exceed pre-pandemic levels in almost all regions already by end-2021 (chart 5).

[14] *UNCTAD Investment Trends Monitor: https://unctad.org/system/files/official-document/diaeiainf2021d2_en.pdf.*

[15] *Estimate based on an ARIMA model. ARIMA is short for auto-regressive integrated moving average, and this powerful model class lends itself to describing and analyzing time series.*