GREAT
BRITAIN & NORTHERN IRELAND

The Global Investment Landscape

Trade challenges and opportunities post pandemic

RESEARCHED AND WRITTEN BY

The Economist INTELLIGENCE UNIT

Foreword

Covid-19 has caused unprecedented disruption to the global economy and investment flows fell by a record 35% in 2020.[1] However, the post pandemic recovery presents an opportunity to put in place robust foundations for an equitable and green industrial revolution in the UK.

The UK has a proud and hard-won reputation as one of the most open economies in the world. And is a leading FDI destination country in Europe[2], with a 17% market share.

This report demonstrates that an open investment landscape continues to be a critical driver of economic growth and development globally. This is particularly important here in the UK, where we benefit from a higher proportion of mobile investment compared with other G20 countries[3] and where foreign owned companies remain a crucial source of productivity and employment across the UK.

The UK's ambition is to increase trade with the fastest-growing parts of the world and to forge a leadership role in the green industrial revolution. The UK's Office for Investment has an important part to play in this and has recently established a partnership with the UAE to invest in UK life sciences and industries of tomorrow.

The UK recently hosted the Global Investment Summit bringing together some of the world's most influential investors and innovative companies. The need for businesses to decarbonise is urgent, and comes with it an opportunity for investors, businesses, and governments to play a vital role to achieve our global COP26 ambitions to build resilient, sustainable economies both now and for future generations. This year is a pivotal moment for investment and the environment both for the UK and globally.

The pandemic has demonstrated the dependence of daily life on high-quality scientific research and technological development.[4] The UK aims to lead by example and our post pandemic recovery is built on our inherent strengths in R&D, a successful Covid recovery plan and a domestic agenda that sets a clear aim to level up in all regions. The UK has committed to equality of opportunity across the Union, building on inherent regional strengths, recent announcements of freeports and UK funding of £4.5bn to attract private sector investment to drive equitable prosperity and resilience.

Leading on from the UK's presidency at the COP26, the Global Investment Summit, and our successful vaccination programme investor confidence has improved and is a strong platform for attracting mobile investment.[5] The UK Government stands ready to lead the way and is doubling down its approach of placing investment as a central tenet to level up the country, galvanise a Green Industrial Revolution and build back better.

Daniel Gieve,
Chief Operating Officer,
Office for Investment

About this report

Challenges and Opportunities in the Post-Pandemic World: The Global Investment Landscape is an Economist Intelligence Unit (EIU) report, supported by **the UK's Department for International Trade (DIT).**

Through a range of expert interviews, secondary literature review and a data audit, this report explores the challenges and opportunities for global trade and investment in creative goods and services. The EIU would like to thank all experts for their time and insights.

Ana Novik, Head of the Investment Division, OECD.

Diego Lopez, Managing Director, Global SWF.

Riccardo Crescenzi, Professor of Economic Geography, London School of Economics.

Richard Bolwijn, Head of Investment Research, Division on Investment and Enterprise, UNCTAD.

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Section 01

Most recent developments in cross-border investment

01

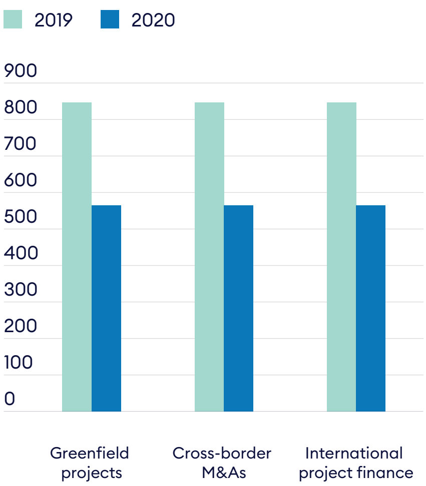
Most recent developments in cross-border investment

The Covid-19 pandemic has had a seismic effect on the global economy, world trade and cross-border investment.

In 2020, the World Bank estimates that the global economy contracted by 3.5%;[6] the World Trade Organisation estimates that global trade in goods fell by 8.0%, commercial services by 20%, and travel services by 63%;[7] and UNCTAD estimates that global foreign direct investment (FDI) flows fell by a record 35% to US$1trn,[8] the lowest level since 2005 and 20% below the 2009 trough after the global financial crisis of 2007/08.

The Covid-19 pandemic evolved in tandem with containment measures implemented worldwide to control the spread of the virus, which slowed the pace of existing investment projects and stalled the announcement of new projects in the form of cross-border mergers and acquisitions (M&As), greenfield investments, and international project finance. The value of announced greenfield investments fell 33% to a record low of US$564bn, cross-border M&A investment fell 6% to US$475bn, and international project finance deals, which are a major component of infrastructure investment, registered a 42% decline to US$367bn in 2020.[9]

Figure 1: Shock across the board: *Announced deals in greenfield projects, cross-border M&As and international project finance, 2019/20 ($US bn)*



Source: United Nations Conference on Trade and Development (UNCTAD)

The retraction in global cross-border investment was felt most in developed economies, where FDI inflows and outflows both plummeted by almost 60% - although much of this decline was attributed to large fluctuations in intra-company transactions and financial flows rather than new investment in productive assets. Developing economies saw FDI inflows and outflows fall by just under 10%, largely on account of resilient flows in Asia and especially China and India, which elevated the share of developing country FDI inflows and outflows to 66% and 39% of the global totals, respectively.[10]

Richard Bolwijn, Head of Investment Research at UNCTAD, points out that “the shock to the global investment landscape has been enormous. Developed countries may have recorded the largest fall in FDI flows but developing countries recorded the steepest decline in announced greenfield and international project finance deals, which are more indicative of investment trends in productive sectors and infrastructure”, and this could weaken their Covid-19 recovery prospects.

The Covid-19 crisis has exacerbated some FDI trends that were already evident prior to the emergence of the pandemic. The relative importance of the primary sector, specifically the hydrocarbons and extractives industries, continued to wane with a major reduction in the value of cross-border investment in 2020. International project finance investment in renewable energy showed some resilience, global value chain (GVC) intensive manufacturing contracted sharply, while cross-border investment in ICT continued to grow on the back of strong global demand for digital infrastructure and related services.[11]

> Tourism and travel industries saw operating cash declining by 90% but were able to increase debt more than tenfold. With very low interest rates, investors were willing to finance firms that were strong enough to outlive the crisis.

The internationalisation of major multinational enterprises (MNEs) stagnated in 2020, although the degree of retreat varied considerably across industries. MNEs in energy, extractives and heavy industry reduced their presence abroad, light industries, utilities, automotive and trading companies witnessed lower sales but maintained international production structures, while others, such as pharmaceuticals, IT and telecommunications, expanded their international operations.[12]

On aggregate, major MNEs saw their profits drop sharply, which contributed to a rapid decline in intra-company transactions, including re-invested earnings and corporate loans. However, MNEs have built up their cash balances and appear to have weathered the storm. In 2020, the top 5,000 non-financial listed MNEs increased their cash holdings by more than 2% to US$8trn. Differences in exposure to the crisis across industries compounded differences related to size and access to credit. For example, tourism and travel industries saw operating cash declining by 90% but were able to increase debt more than tenfold. With very low interest rates, investors were willing to finance firms that were strong enough to outlive the crisis, favouring the largest MNEs. Among the largest MNEs, average levels of cash and liquid assets also rose significantly, especially in highly integrated industries. The high levels of cash on hand in the largest MNEs could boost further consolidation activity and investment in the coming years.[13] Thoughts are now turning to the future trade and investment landscape, and how and when a full recovery can be achieved.

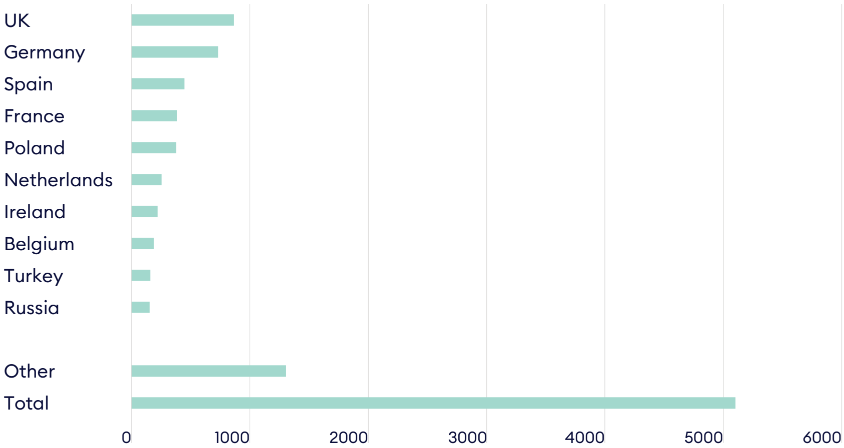
The global recovery in economic activity, world trade and global investment is already underway and expected to gain momentum during the second half of 2021 and 2022. Global economic growth and world trade are expected to receive a boost from the roll-out of Covid-19 vaccination programmes, lighter restrictions on business activity, and ongoing economic policy stimulus and support measures. UNCTAD expects global FDI flows to bottom out and recover some lost ground in 2021 then return to pre-pandemic (2019) levels during 2022. FDI recovery is likely to be uneven. Developed economies are expected to drive global growth in FDI, both as a result of strong cross-border mergers and acquisitions (M&A) activity and large-scale public investment support. As current measures wind down, advanced economies in Europe, North America and Asia have pushed forward public investment strategies. Such measures will have a positive effect on FDI, particularly in the infrastructure, green and digital economy sectors.[14]

Governments, business leaders and investors are considering ways to leverage emerging trends in FDI to build a comparative advantage and benefit from the factors that will drive future cross-border investments and shape the international investment landscape in the decade ahead. Covid-19 could well prove to be an accelerator of existing and emerging investment trends, throwing up risks and opportunities along the way that require close attention and new strategic planning.

UK perspective: The importance of global integration

Total FDI inflows to the UK – including investment through greenfield projects, M&As, and international project finance – hit a record high of US$259bn in 2016 but have declined every year since. However, the UK remains one of the leading FDI destinations in Europe and ranks among the top 20 recipient countries worldwide. For instance, fDi Intelligence reported a 35% decrease in greenfield FDI projects in 2020 but highlighted that the UK was still the top FDI destination country in Europe, with a total of 868 projects providing a regional market share of 17%.

Figure 2: Numbers game: *Top FDI destination countries in Europe (by project numbers), 2020*



Source: fDi Intelligence

Associated capital investment into the UK rose by 6% to US$34.4bn in 2020, representing a 19% regional market share.[15] The UK's performance as a leading destination for inward FDI in Europe was partly based on its success in attracting investment in digital technology projects, which, according to EY, have accounted for the largest share of inbound FDI projects in the UK every year since 2013.[16] Looking ahead, EY points towards the digital economy as a significant driver of UK economic growth in the coming years, followed by the healthcare, real estate, 'cleantech' and renewables, and automotive and mobility sectors. London is also expected to retain its status as one of Europe's main destinations for inbound FDI projects in the future, although there are signs from investors of a shift in attention to cities such as Manchester, Edinburgh, and Leeds, reflecting the availability of a skilled local workforce, the strength of local business networks, and access to regional grants and incentives for investment and R&D.[17]

In terms of investment footprint overseas, the UK was the second-largest source of FDI in Africa with a total FDI stock of US$66bn in 2019, the seventh-largest investor in developing Asia with US$220bn of investment, the ninth-largest investor in the transition economies with US$16bn of investment, and the fourth-largest investor in developed economies with US$1.5trn of investment.[18] The UK was also the largest source of FDI flowing out of Europe in terms of outbound projects (1,085) and the third largest in terms of capital investment (US$33bn) in 2020.[19] Although outward investment flows declined in consecutive years, UNCTAD reported that investment promotion agencies (IPAs) showed optimism over the short-term recovery of FDI inflows to their countries and ranked the UK as the fourth most likely source of foreign investment behind China, the US and Germany. IPAs identified the sectors that were more likely to attract investment from abroad as agriculture and food, ICT, healthcare and pharmaceuticals, utilities, and extractive industries.

Section 02

Key trends shaping the global investment landscape

02

Key trends shaping the global investment landscape

The global flow of foreign direct investment has changed profoundly over the past two decades.

The global investment landscape has suffered major shocks linked to the global financial crisis in 2007/08 and the Covid-19 health and economic crisis in 2020.

Major structural shifts in cross-border investment reflect the evolution of global value chains (GVCs) for both goods and services, the rise and fall of specific sectors and industries, deployment of new technologies, and the changing spheres of national economic power and influence. These factors have reshaped investment appetite, risk profiles, and available finance among investors – including multinational enterprises, private investors, institutional investors, and sovereign states – which in turn have influenced the source, size and direction of financial flows dedicated to cross-border investments.

The global investment landscape has suffered major shocks linked to the global financial crisis in 2007/08 and the Covid-19 health and economic crisis in 2020. During this period cross-border investments have undergone various forms of adjustment, but three major trends stand out: the increasingly important role of services in cross-border trade and investment; the increasing pool of outward cross-border investors; and broader investment in emerging technologies. These trends will continue to play out in the years ahead as existing and new forces of change adapt, disrupt, and reinforce them.

Increasingly intangible international investment

The proportion of international investment linked to services has increased markedly over the past decade, driven largely by three interrelated factors: the gradual servicification of (GVC-intensive) manufacturing; the rapid internationalisation of service industries; and the meteoric rise of truly global digital technology companies. Together, these factors have driven an upwards trajectory for international investment in services. According to UNCTAD, services accounted for 60% of announced greenfield projects and 71% of announced cross-border M&A deals in 2020,[20] while more than one-third of the global stock of FDI was in financial services (including investment in the finance functions of multinational enterprises operating in non-finance sectors) making it by far the largest single recipient industry.[21]

Manufacturing investments have facilitated the global sourcing, production, and distribution of a wide range of inputs, intermediates, and end products. However, the distinction between trade and investment in goods and services has become increasingly blurred. Manufacturers have invested heavily in services to improve efficiencies and create new supplementary revenue streams, a process known as the servicification of manufacturing. For instance, installation and maintenance of solar panels and wind turbines or the services needed for enhanced oil recovery techniques have become a crucial part of value addition in the sector.

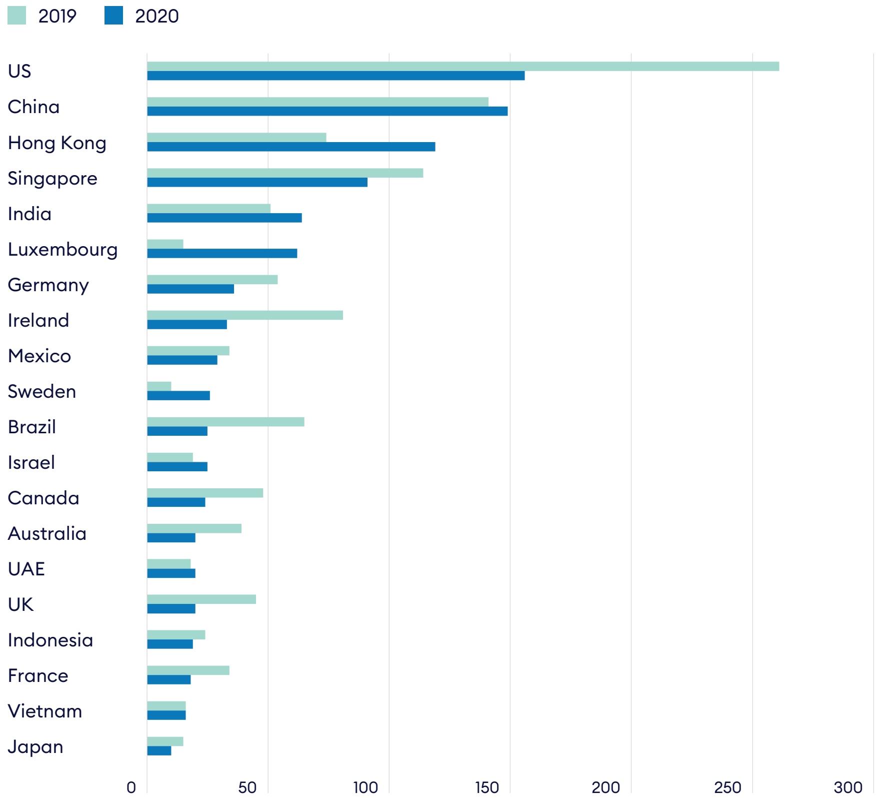
In addition, the shift towards global services trade and investment linked to the evolution of traditional manufacturing has been accompanied by the international outreach of service industries and the booming global digital economy. These two trends - servicification of manufacturing and internationalisation of service industries - have unfolded in tandem with the meteoric rise of truly global digital technology companies. UNCTAD highlights that 13 of the world's top 100 multinational enterprises were 'asset-light' technology companies in 2019, compared with just four in 2010, while their share of total foreign sales among the top 100 MNEs increased by five percentage points to 22% in 2020.[22]

Growing pool of international investors

International investment has witnessed profound change across sectors and industries during the past two decades, accompanied by a major shift in terms of the destinations and sources of cross-border investment. International investment flows continue to be dominated by developed market economies, but emerging economies have retained their status among the top destinations for investment while greatly increasing their role as sources of investment finance.

Major markets, China, India, and Brazil, were firmly among the top 20 host economies for FDI inflows in 2020. FDI inflows to developing countries[23] averaged around 30% of global inflows during the period 2000-09 and this share increased to an average of 42% from 2010-19. The events of 2020 saw developing country inflows take a major hit but their share of global FDI inflows reach a record high at 66% of the total.

Figure 3: Changing guards: *Top host economies by FDI inflows (2019-20)*



Source: United Nations Conference on Trade and Development (UNCTAD)

Developing countries accounted for almost one-fifth of global M&A deals by value and almost half the value of global greenfield and international project finance investment in 2020. FDI outflows from developing countries increased from an average of just 12% of the global total during the 2000s to an average of 26% during the 2010s and 39% in 2020.[24] Outward investment by developing countries has spiralled since 2009, which largely reflects the launch of the Chinese 'Belt and Road Initiative' and related infrastructure investment, along with a wide range of other efficiency-, market-, resource- and strategic asset-seeking investments. In 2020, among BRI countries, Chinese outward investments were spread broadly across the world. Vietnam, Indonesia, Pakistan and Chile were the largest recipients. Vietnam in particular saw a strong increase of

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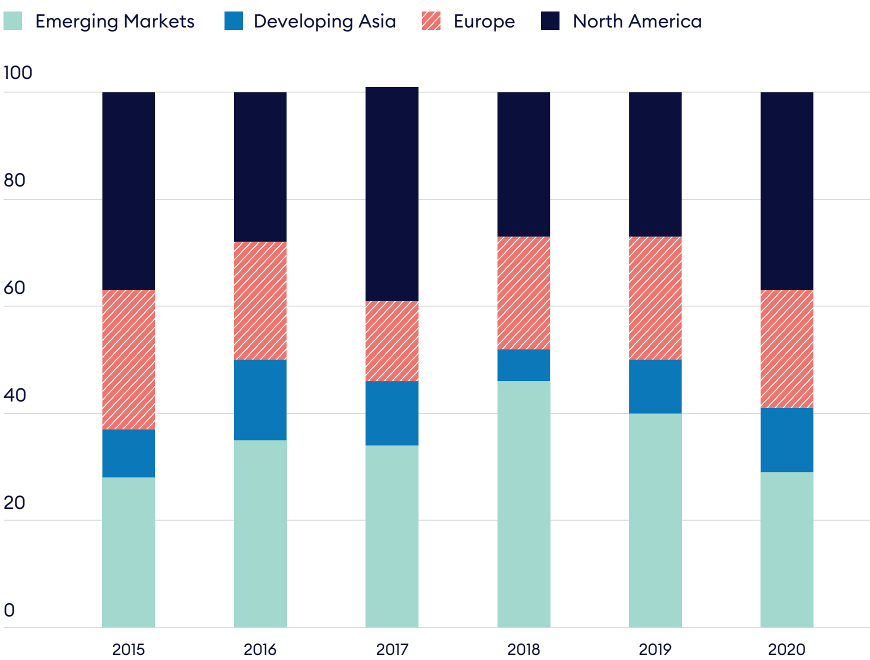
>
> **Ana Novik**, Head of the Investment Division, OECD

Chinese investments, possibly driven by near-shoring to avoid American sanctions. Other BRI countries that saw increases of Chinese investments despite the Covid-19 pandemic include Poland, Bulgaria, Serbia, Zimbabwe, Zambia and Chile, as well as Thailand.[25]

Ana Novik, Head of the Investment Division at the OECD, highlights that “Chinese outward investment has contributed significantly to the growing phenomenon of investment by developing country firms in other developing countries, so-called “South-South” investment.” Diego Lopez, Managing Director of Global SWF, adds that “emerging markets have played an increasingly important role in the international investment landscape but suffered a setback in 2020 as the Covid-19 pandemic drove a return to perceived safer bets and domestic interests. This will be short-lived and emerging markets’ importance [as an FDI destination and source] will return as part of the post-pandemic recovery.”

State-owned investors (SOIs), including largely emerging-market-located sovereign wealth funds (SWFs) and largely developed-country-located pension funds (PFs), have become increasingly prevalent in the international investment landscape. SWFs and PFs have increased in size and number to become major players on the global financial scene, while their continually evolving investment strategies and a growing appetite for alternative asset classes has resulted in a shift from a passive to a more active investment philosophy. SOIs have increasingly targeted productive or real (non-financial) assets, including energy, infrastructure, real estate, and, more recently, emerging technologies, life sciences, and the “green” and “blue” economies. Global SWF estimates that around 415 SOIs had a total US$29.2trn in assets under management in early 2021,[26] and although 75-80% of these assets were held in fixed income and treasuries or public equities, that still leaves a sizeable pot potentially available for alternative and productive assets. Investors seek safer investments during economic crises. In 2020, state-owned investors (SOIs) focused their investments on North America and Europe and scaled back their focus on emerging markets to 2015 levels.[27] According to JP Morgan, SWFs globally would suffer equity losses of around US$1trn due to the pandemic, which seems to be accelerating a pre-existing trend of falls in equity investment since 2017.[28]

Figure 4: Back to safety: *State-Owned Investors (SOIs) investment share by region, 2015-2020*



Source: Global SWF

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>
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Broader investment in technology and innovation

Technology and innovation have increasingly spurred global investment over the past decade, which has been driven by factors such as the search for efficiencies and resilience across value chains, more sustainable operations and infrastructure, the creation of new markets and revenue streams, and attempts to acquire a competitive edge through knowledge-seeking investment.

The World Economic Forum has highlighted a wide range of technologies that are already having a major effect on GVCs, and international trade and investment.[29] Digital documentation, digital platforms, digital payments, cybersecurity, and cloud computing have evolved as fundamental technologies to support GVCs. These technologies will be enhanced and accompanied by the wider deployment and more effective use of the Internet of Things (IoT), Artificial Intelligence (AI) and machine learning, robotics and automation, 3D printing (or additive manufacturing), 5G networks, blockchain solutions, Virtual Reality (VR) and Augmented Reality (AR), and digital supply chain services. Already, these technologies have attracted substantial interest and cross-border investment; more is in the pipeline.

Knowledge-seeking cross-border investment has gained prominence as countries and businesses seek technical expertise and diversity to attract high-value FDI, support value chain operations, and create new market opportunities. According to fDi Intelligence, Science, Technology, Engineering, and Mathematics (STEM) projects accounted for approximately one third of all global greenfield FDI projects in 2020,[30] retaining roughly the same proportion of total projects recorded in the previous four years. STEM FDI has been driven by individual countries’ ability and willingness to spend on R&D activities. This has elevated their attractiveness as an investment destination, as well as the search for a competitive edge and strategic assets by multinational enterprises.

Ana Novik, Head of the Investment Division at the OECD, confirms that: “Knowledge-seeking investment has come to the fore in recent years, in tandem with technological developments, and has added to the ongoing search for efficiencies and market opportunities.” Riccardo Crescenzi, Professor of Economic Geography at the LSE, draws attention to the unprecedented internationalisation of R&D “whether it is in greenfield, acquisitions or in the form of joint ventures, offshore R&D centres have been growing exponentially and this story has a long way to go.”

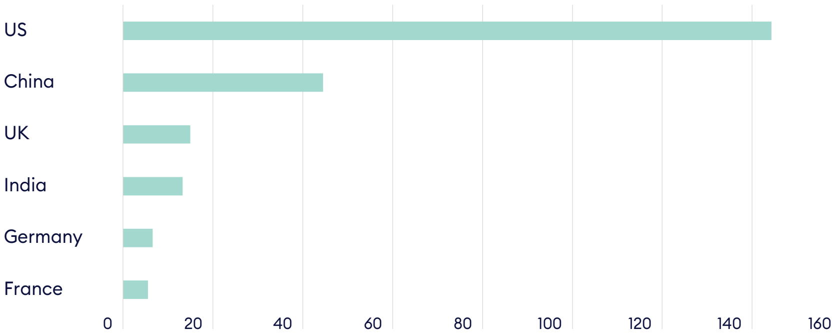
Cross-border investment in technology-driven sectors such as renewable energy, ICT, and life-sciences have experienced a surge in cross-border investments. For instance, global greenfield FDI in renewable energy has doubled since 2010 to reach a record US$87.2bn in 2020, which was higher than the level of FDI directed towards hydrocarbons (US$44.8bn) for the first time.[31] Also, life science companies have greatly increased their global investment footprint with the number of greenfield projects rising every year since 2010 and reaching a record 1,124 projects in 2019. fDi Intelligence highlights that the biotechnology sector experienced the biggest increase in greenfield capital investment during 2020, a jump of 88% from a year earlier, while the software & IT services sector attracted the most projects in 2020, with the 2,226 investments secured representing a 20% market share.[32] UNCTAD adds that the Covid-19 pandemic has accelerated the trend towards digitalisation of GVCs for goods and services, with technology playing a crucial role in driving major MNEs in their search for efficiency gains and market-seeking opportunities.[33]

UK perspective: Competitive investment landscape despite challenges

The UK is fully integrated into the global investment landscape and actively engaged in a wide range of GVCs. The UK regularly features among the world's top ten nations in terms of inward and outward FDI stocks and flows, and income received - or payments made - in relation to these cross-border investments. This exposure places the UK directly among the push-and-pull factors influencing GVCs for goods and services, and the major forces of change affecting the global investment landscape.

The UK is at the forefront of developing and deploying new technologies. The UK has thriving and entrepreneurial technology ecosystems, a track record in R&D activity and technology deployment, and strong creative technology and digital capabilities. Over the past two years, the UK has experienced a fast-tracked pivot towards the adoption of cutting-edge technologies and digital transformation in industries as diverse as agriculture, automotive, education, energy, finance, healthcare, insurance, logistics, manufacturing, retail, telecommunications, transport and logistics, and more. Venture capital investment in the UK tech sector hit a record high of US$15bn in 2020, which made the UK the third-largest market for tech investment behind the US and China and ahead of India, Germany, and France. Almost two-thirds of that investment came from overseas, especially the US and Asia.[34]

Figure 5: Tech races: *VC investment in tech companies by country, 2020*



Source: Tech Nation

The UK has had success in building relations with international investors, including private investors, institutional investors, multinational corporations, and sovereigns. A secure investment environment, proactive investment promotion, global value chain integration, dynamic (financial and professional) services and technology sectors, industrial clusters, as well as a credible Covid-19 recovery plan, are just some of the factors cited as making the UK a strong investment destination, according to the EY Europe Attractiveness Survey.[35] According to the survey, one of the key factors in the UK's continuous ability to attract FDI during the pandemic has been its dominance in service-based projects, which include business and shared services centres, regional headquarters, contact centres and R&D facilities.[36] Despite Brexit-related uncertainty, these characteristics are likely to remain intact and will help the UK drive and leverage evolving trends and forces of change affecting the international investment landscape over the coming decade.

Section 03

Future drivers and trajectories of the global investment landscape

03

Future drivers and trajectories of the global investment landscape

The global investment landscape has been shaped by the search for efficiency gains along value chains, access to existing and potential markets, control over natural resources, and acquisition of strategic assets.

In addition, knowledge-seeking investments are on the rise. These motives for driving cross-border trade and investment will remain firmly intact in the decade ahead and will be accompanied by some pivotal driving forces throughout the 2020s. The forces of change were already in motion prior to the appearance of Covid-19, but the pandemic has modified their trajectory and accelerated the rate of adjustment.

Major forces that will drive the pattern of global investment flows in the decade ahead include the development and deployment of emerging technologies; the re-alignment of trade and investment policy; resilience-oriented restructuring; sustainability endeavours; and the evolving nature of geopolitics and global demand. Each of these forces will change the investment landscape in different, but often interconnected ways throughout the 2020s.

Deployment of emerging technologies

The development and deployment of new technologies will have far-reaching consequences for the configuration of global trade and investment in the decade ahead. Emerging technologies have gained traction across a wide range of businesses, but deployment remains at an early stage for most countries and sectors. Tech industries are notoriously dynamic, innovative, and self-reinventing, hence the truly transformative effect of investment in emerging technologies, and the so-called fourth industrial revolution, is yet to be fully felt. Fintech, Insurtech, Biotech, Agritech and Oceantech, among others, will gain traction, while the deployment of digital technologies across manufacturing and services sectors to enhance existing processes and products and create new revenue streams has enormous potential.

Diego Lopez, Managing Director of Global SWF, says “technology development and deployment will be at the heart of international investment and play a central role in countries’ ability to attract foreign investment [in the years ahead]. Governments must be aware and shape policy to encourage it.”

International investment in GVC-intensive manufacturing will focus on wider and more effective application of supply-chain digitalisation, robotics-enabled automation and AI-enhanced systems and distributed and additive manufacturing (3D printing). The broader roll out and uptake of 5G networks, IoT, Cloud computing, and Big Data Analytics will add to the dynamism of digital transformation of GVCs for both goods and services. Investment in digital technologies in the finance sector (Fintech and Insurtech), including new payment gateways, services with blockchain technology and Big Data-driven intelligence, will likely drive the financial services industry to become even more hyper-modular and introduce hyper-customisation and hyper-localisation of services.[37] R&D functions associated with manufacturing and services could well be increasingly offshored as multinational enterprises seek strategic knowledge acquisitions and attempt to gain a competitive edge by better aligning product design with existing and future market demand.

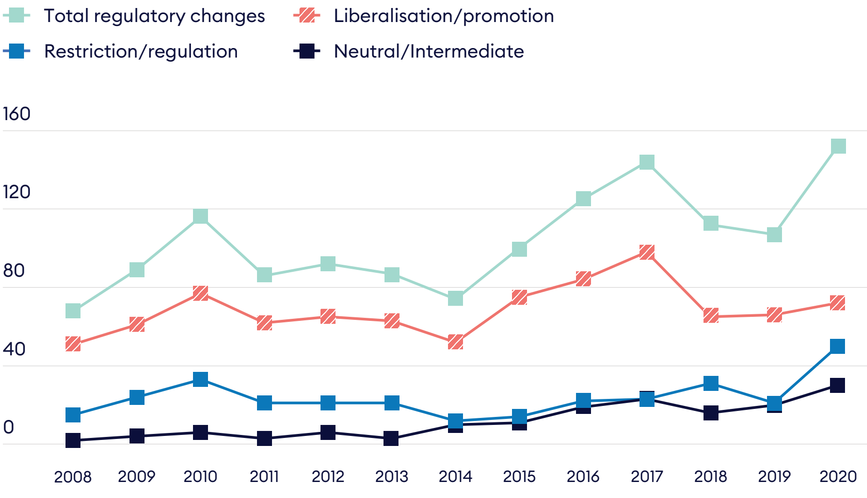
This is likely to lead to greater competition and the emergence of new regional financial hubs around the world. For instance, the Global Fintech Index 2020 highlighted that new contenders, such as Sao Paulo, Bangalore, or Mumbai, have replaced many "traditional" Fintech hubs in the top 20 ranking.[38]

Re-alignment of trade and investment policy

FDI review regulations or FDI screening was already in the ascendancy prior to the appearance of Covid-19.

The OECD found that more than half of its 38 member states had a cross- or multi-sectoral investment screening mechanism in place in 2018, compared to less than a third a decade earlier.[39] While the reform drive continued in 2019, the pandemic brought FDI restrictions into sharper focus. UNCTAD found that the number of investment policy measures adopted in 2020 rose by 40% compared with 2019. The ratio of restrictive or regulatory measures over measures aimed at liberalisation or facilitation of investment reached 41%, which was the highest on record.[40]

Figure 4: Policies matter:
Number of investment policy measures adopted globally between 2008-2020



Source: United Nations Conference on Trade and Development (UNCTAD)

Cross-border investors will need to redouble their due diligence in assessing whether their transactions will require and pass an FDI review.

Supply chain vulnerabilities and the risk of predatory takeovers of strategic and sensitive areas have prompted policy adjustments in the US, Europe and Asia. The dependence of US companies on foreign value chains became an area of focus for US regulators and the Committee on Foreign Investment in the United States (CFIUS) has taken a harder line on foreign investment approvals. In February 2021, President Biden kicked off his "Build Back Better" strategy by signing an executive order, "Securing America's Critical Supply Chains", which aims to reduce the reliance on foreign-made inputs needed by critical industries and could herald potentially significant changes to US supply chain and investment policies.

The European Union approved new screening regulations for FDI in 2019 and implemented the regime in late 2020. Meanwhile, the European Commission recommended that EU member states actively apply FDI screening regimes to protect sensitive sectors, covering critical infrastructure, technologies, and inputs.[41] Japan lowered the thresholds triggering investment approval requirements in 2020, while a temporary measure eliminated these thresholds entirely in Australia, and India implemented more rigorous screening of investments from any neighbouring country.[42]

UNCTAD highlights that the observed, and possible further, increase in the adoption of FDI screening mechanisms is likely to have a growing impact on FDI inflows in the coming years.[43] Cross-border investors will need to redouble their due diligence in assessing whether their transactions will require and pass an FDI review. Access to strategic and sensitive sectors may become more difficult for foreign investors but host countries will still be keen to attract and secure much-needed foreign investment. According to Ana Novik of the OECD, this could entail "more stringent investment review mechanisms that better balance the risks and opportunities that foreign investments bring. Governments may resort to targeted measures once risks have been identified, but they will be equally keen to attract investment and remain proactive in pursuing investment facilitation."

International economic policymaking could migrate towards a better balance between multilateral, regional and bilateral co-operation and solutions. This shift in policy will likely encourage deeper financial, operational and logistics partnerships at a regional level, especially in critical sectors, as well as strategic international bilateral partnerships given the continued interdependence and rivalries in GVCs. fDi Intelligence suggests that protectionism and tech sovereignty combined with a drive to improve supply chain resilience will lay the foundation for increasing regionalisation of the GVCs centred on North America, Europe and Asia.[44] The full effect of re-aligned trade and investment policies on international investment has yet to be felt. Policy adjustments will ebb and flow with economic and political cycles, and the effects will linger in the background, affecting the decision-making process and risk-reward ratios for investments and commercial alliances.

Resilience-oriented restructuring

GVCs for goods and services are leaning towards building greater resilience to better handle shocks, such as geopolitical pressures, financial crises, terrorist attacks, extreme weather, and pandemics.[45] GVCs will adopt new modes of business operation to enhance agility and flexibility, and to cope with increasing volatility, uncertainty, complexity, and ambiguity of the global business environment. Increasing resilience will be viewed as a crucial business strategy rather than an unwanted or unnecessary business cost, but this will be seen in attempts to build a better balance between resilience and efficiency for most companies and sectors rather than a fundamental shift from one aspect of investment to the other. Some technology developments, especially digital technologies, will help to facilitate greater resilience without necessarily diminishing efficiency and could, in fact, improve both resilience and efficiency at the same time. Richard Bolwijn of UNCTAD points out that "multinational enterprises engaged in global value chains are already seeking a better balance between efficiency and resilience, which entails an element

> **"The evolution of hubs or hotspots within countries will be crucial to attract investment but reshoring will be held in check because its costly."**
>
> **Riccardo Crescenzi**, Professor of Economic Geography, London School of Economics.

of network restructuring and better risk management solutions. The former is costly and often difficult, so the latter is more likely to prevail in the short term."

Resilience building diversification could involve an element of reshoring or nearshoring and regionalisation, although strategic offshoring and outsourcing partnerships will remain crucial. In part, this will reflect the fact that the financial and opportunity costs associated with bringing investments closer to home (geographically and politically) will be a major factor that prevents more widespread reshoring or nearshoring. Riccardo Crescenzi, of the LSE, says "the evolution of hubs or hotspots within countries will be crucial to attract investment but reshoring will be held in check because its costly, maybe you cannot do what needs to be done offshore, and you do not necessarily get back what you offshored."

Sustainability endeavours

Many business leaders, policymakers, and investors view the Covid-19 pandemic as a wake-up call that has accelerated the need for a different approach to investing. Issues such as climate change, biodiversity loss, and corporate social responsibility will continue to climb the ladder of priorities for consumers, governments, business leaders, and investors. Governments and regulators are expected to gear up efforts to integrate environmental, social, and corporate governance (ESG) standards into regulatory frameworks for foreign investments and capital markets. Internationally operating companies and investors will also likely strive to achieve a better balance between shareholder-based and stakeholder-based business and investment models. Consequently, it will likely become increasingly difficult for corporates and investors to access finance, allocate funds, and sell goods or services when their strategies and business operations are misaligned with sustainability and ESG objectives.

Increased investment in the "Green" and "Blue" economies, corporate social responsibility initiatives, and attempts to better address inequalities through the global investment landscape will play an increasing role in international investment in the years ahead. Greenfield FDI flows into renewable energy projects exceeded flows into hydrocarbon ventures for the first time in 2020 and the upwards trajectory of renewable projects and investments looks firmly set. Indeed, there have been more cross-border greenfield investments made into renewable energy than fossil fuels every year since 2011, and in 2020, there were over five times as many renewable FDI projects as traditional energy projects.[46]

UNCTAD estimates that sustainability-dedicated investments – investment products such as sustainable funds, green bonds, social bonds, and mixed sustainability bonds targeting sustainable development-related themes or sectors – amounted to US$3.2trn in 2020, an increase of more than 80% compared with 2019.[47] The rapid expansion of the sustainable investment market is expected to continue and could play a crucial role in helping to fill the financing gap to attain the Sustainable Development Goals 2030 championed by the United Nations.

Geopolitics and global demand

Geopolitics will play a major role in shaping the investment landscape. In particular, the intense rivalry between the US and China will continue to play out in the areas of global value chains, technology leadership, and strategic alliances. These tensions will be accentuated by the evolving geographical spread of global demand, which will continue to re-align along with the purchasing power of the rising middle-class in developing countries and emerging markets. Asia, in particular, will remain a rising force and seek regionalised solutions, especially as the region increasingly "seeks to serve itself and become a market for itself, while holding enormous untapped potential", according to Riccardo Crescenzi of the LSE.

Global FDI flows have been hard hit during the global health and economic crisis linked to the Covid-19 pandemic. Developing countries were the most severely affected, as export-oriented and commodity-linked investments suffered a major setback. The pandemic has led to some reshoring or nearshoring of investment as governments, businesses, and investors sought safer havens and greater security. However, this does not signal the impending retreat of globalisation or halt the rise of emerging economies as more significant players on the international investment landscape.

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Geopolitics and the changing geography of global demand will impact the international investment landscape as developing countries continue to deepen their participation in global flows of goods, services, finance, people, and data.[48] GVCs for goods and services will reconfigure their operations and investments as companies decide where and how to best deal with geopolitics and compete for access to core supplies and end markets. Similarly, geopolitical risks and the evolving nature of global demand will weigh heavily on investment strategies by private, institutional, and state-owned investors seeking long-term returns but wary of falling foul of competing global powers.

Reshaping international investment

The international investment landscape will undergo substantial transformation over the coming decade, enabled by technological change, shaped by the interaction between policy and sustainability trends and the pandemic shock, and driven by the shifting pattern of geopolitics and global demand.

These forces will alter the way lead companies and investors operate and invest in specific sectors, countries, and across global value chains. They will influence strategic choices and financial flows concerning the sourcing of supplies and routes to market, the location of value addition, the purchase of tangible and intangible productive and strategic assets, and the modes of internal governance, among other things.

The international investment landscape will remain, and could become increasingly, competitive as global outreach by multinationals and sovereigns drives demand and creates opportunity for foreign investors. In such an environment, it will be crucial for countries to have a credible and clear strategy surrounding their value proposition, what the country has to offer, and direction of travel. Developed and developing countries are increasingly aware of the need for a value proposition and accompanying industrial strategy that makes sense across sectors, at both the national and sub-national level. In addition, countries are aware that their future will be closely tied to their ability to build and maintain international ties through a combination of selective and strategic bilateral, regional, and multi-lateral trade and investment partnerships. These international efforts will require a productive domestic policy agenda that allows companies and investors to feel secure and realise long-term investment potential.

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