

FDI trends in transition economies and COVID-19 implications for value chains

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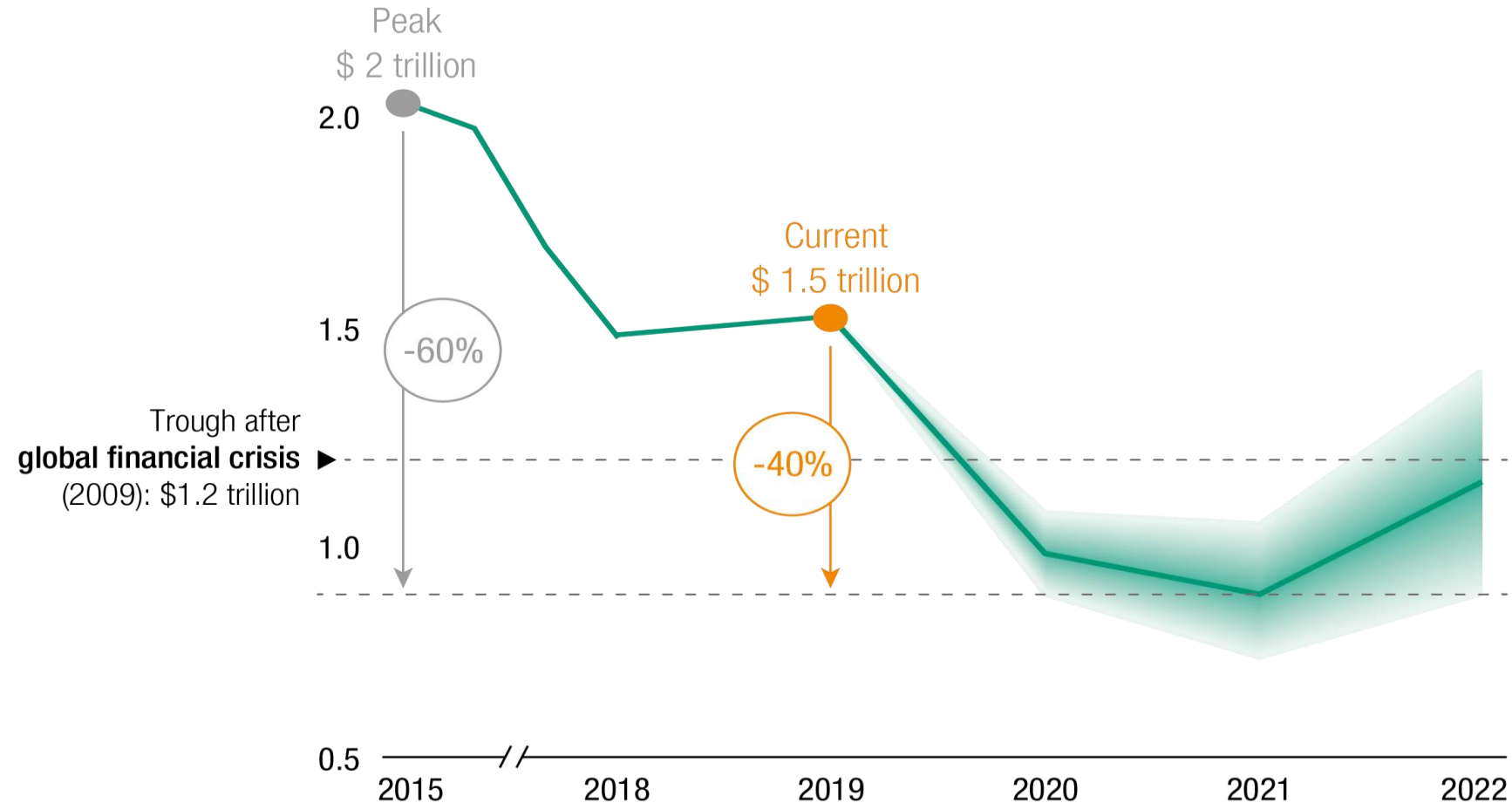
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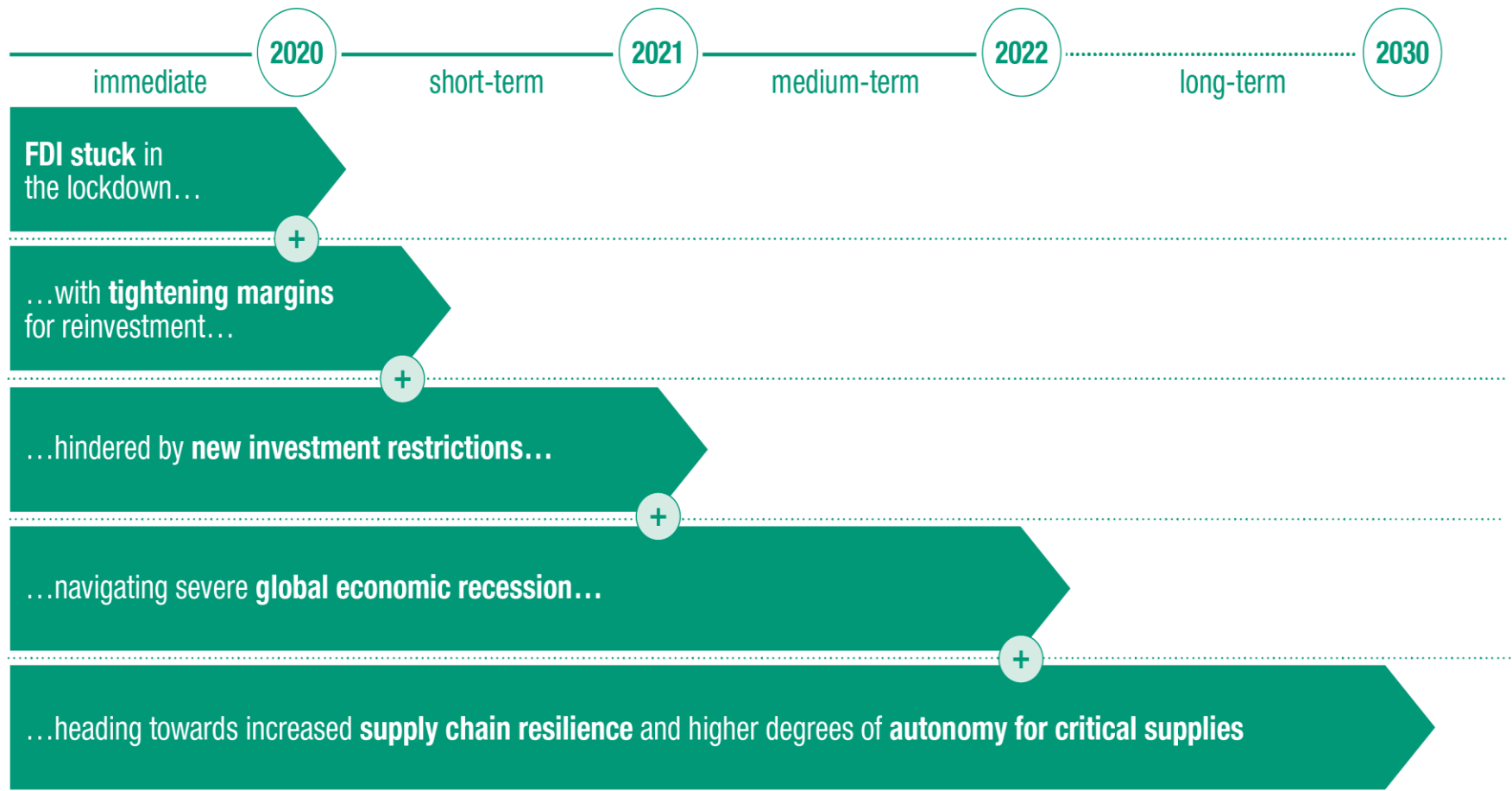
The COVID-19 crisis will cause a 30-40% drop in FDI, with no recovery expected until 2022

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



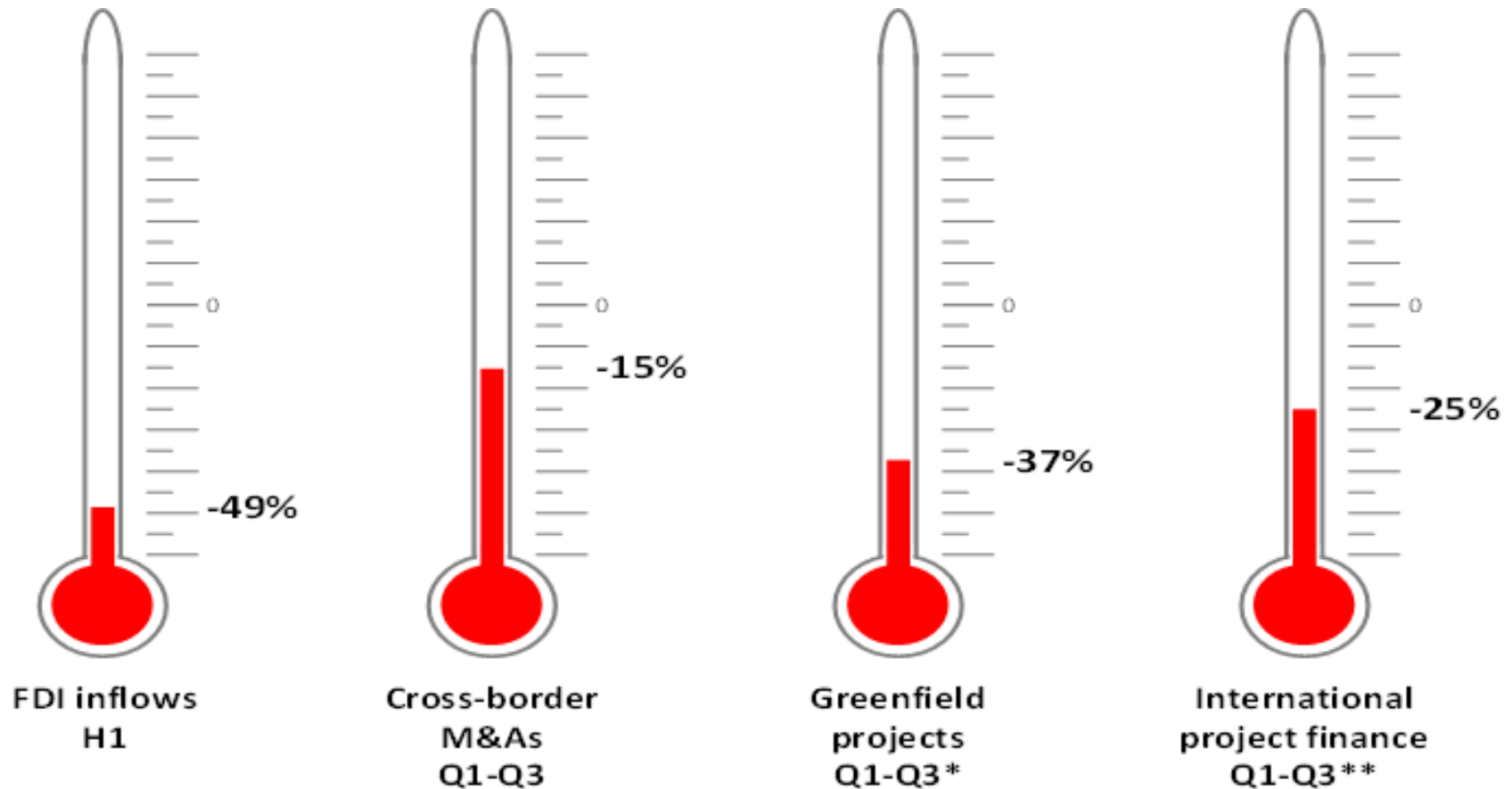
The COVID-19 pandemic is a supply, demand and policy shock for FDI

Impact of the pandemic on FDI: transmission mechanisms



The pandemic is affecting all major forms of international investment

Investment trends by type, 2020 Q1-Q3 (per cent change vs 2019)

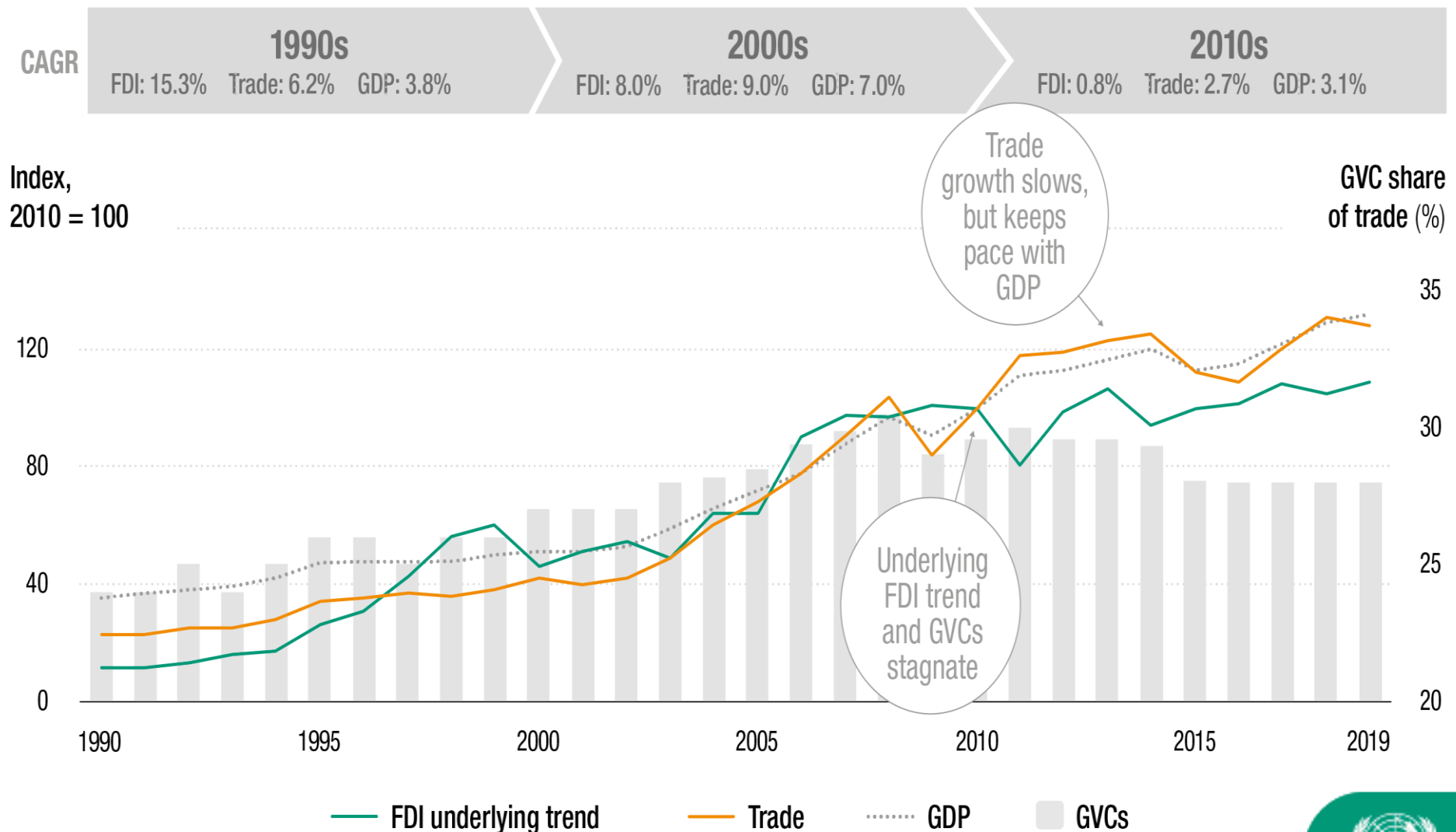


Transition economies are among the worst affected

Investment trends by type and region, 2020 Q1-Q3 (per cent change vs 2019)

	Cross-border M&As	Greenfield projects*	International project finance**
World	-15	-37	-25
Developed economies	-21	-17	-19
Europe	-5	-17	-17
North America	-32	-25	-34
Developing economies	12	-49	-25
Africa	-44	-66	-49
Latin America and the Caribbean	-73	-53	-34
Asia	60	-42	8
Transition economies	84	-58	-46

The COVID-19 crisis follows a decade of slow GVC growth and FDI stagnation



The COVID-19 pandemic arrived on top of 3 existing megatrends shaping international production

Trends

Technology/ New Industrial Revolution

- Advanced robotics and AI
- Digitalization in the supply chain
- Additive manufacturing (3D printing)

Policy and economic governance

- More interventionism in national policies
- More protectionism in trade and investment
- More regional, bilateral and ad hoc economic cooperation

Sustainability

- Sustainability policies and regulations
- Market-driven changes in products and processes
- Physical supply chain impacts

In the 2020s, international production will follow four trajectories with varying relevance across industries

○ Not relevant

● Highly relevant

Reshoring

Diversification

Regionalization

Replication

Primary

Extractive industries, agro-based



Manufacturing

GVC-intensive industries

High technology intensity



Medium-low technology intensity



Geographically distributed industries

Regional processing



Global hub and spokes



Services

Distributed, lower value added

Wholesale and retail trade, transportation and logistics



Concentrated, higher value added

Financial services, business services



The transformation of international production will bring both challenges and opportunities for policymakers

Challenges

Impact of restructuring of international production configurations: divestment, relocations, investment diversion

Shrinking pool of efficiency-seeking investment: tougher competition for FDI

Value capture in GVCs and development based on vertical specialization increasingly difficult

Diminishing returns of infrastructure built for a world of GVCs

Opportunities

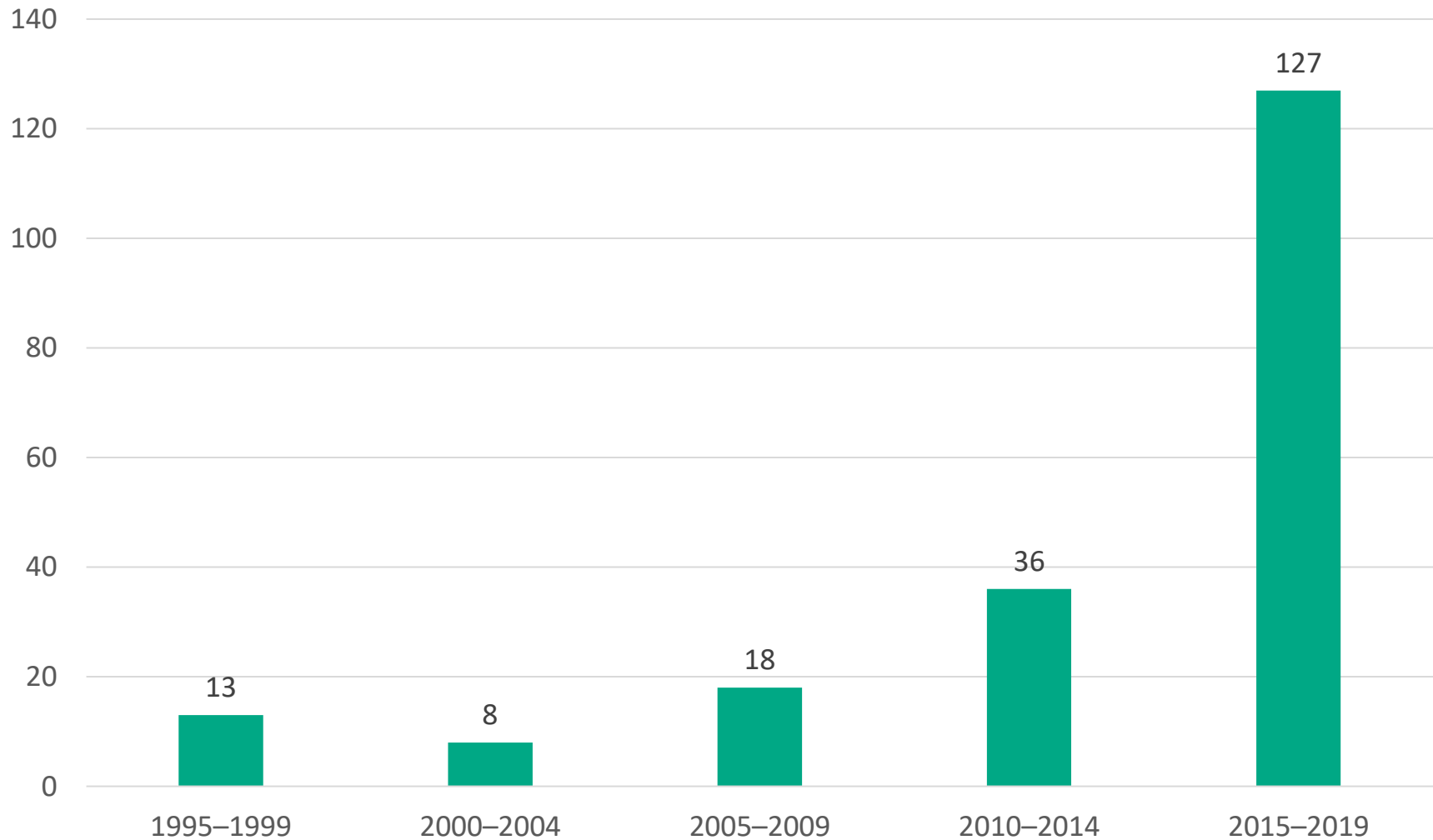
Attracting investors that are looking to diversify supply bases and building redundancy and resilience

Increasing (local and regional) market-seeking FDI and distributed manufacturing

Shorter value chains and more investment in final-goods production with broader industrial capability and clustering

Digital infrastructure and platforms enabling new applications and services and new GVC entrants

In transition economies, the transformation of international production will have important implications for SEZ strategies



Source: UNCTAD WIR 2019.



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For further information on the work on foreign direct investment, multinational enterprises and Special Economic Zones, please address inquiries to:

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