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Highlights

- The COVID-19 pandemic has contributed to the collapse of global foreign direct investment (FDI) flows, which fell 42 per cent from US$1.5 trillion in 2019 to an estimated US$859 billion in 2020. The most recent data for 2021, however, suggests global FDI flows have already started to rebound, having reached US$852 billion in the first half of the year.

- In Asia and the Pacific, the rebound in the first half of 2021 was driven by accelerated FDI flows, both to the East and North-East Asian and South-East Asian subregions. The region as a whole, however, has remained a top destination for inward FDI since 2020, thanks to China in the East and North-East Asian subregion and India in the South and South-West Asia subregion. Flows to the former grew by 23 per cent and to the latter by 20 per cent in 2020. Meanwhile, FDI inflows to the North and Central Asia subregion recorded the largest contraction at 59 per cent between 2019 and 2020.

- Announced greenfield investments targeting the Asia-Pacific region totalled US$103 billion in 2021, falling only slightly short of their value in the same period of 2020 (US$106 billion) largely due to the impact of the severe third and fourth waves of COVID-19 in the region.

- Intraregional investments continued to be significant in the region, with 47 per cent of all greenfield investment to Asia and the Pacific being intraregional in nature in 2020. Overall greenfield investment has continued to decline in 2021, and intraregional greenfield investments have also continued to decline.

- The Asia-Pacific region maintained its position as the largest source of global FDI outflows since 2018. Developing countries in the region accounted for 77 per cent of all outflows in 2020.

- The Asia-Pacific region has remained an attractive market for mergers and acquisitions (M&As), despite the COVID-19 pandemic. M&As only declined moderately by 1.5 per cent (in value) in the Asia-Pacific region in 2020, compared to the 10 per cent decline witnessed globally.

- Simultaneously, a growing number of deals have also been put on hold. Due to remote communication, increased cautiousness of buyers and delayed regulatory approvals, have led to prolonged negotiations and an increase in pending M&As in the region, equal to US$736 billion in 2021, much above the completed M&As with a
value of US$461 billion. This trend is a continuation from 2020, when 53 per cent of all deals were put on hold due to the pandemic.

- Asia and the Pacific economies are expected to register small, but positive, growth in FDI inflows. However, in 2022, FDI is expected to remain below pre-pandemic crisis levels in the region as many economies are still struggling to contain the third and fourth waves of the pandemic as well as speed up vaccination roll out to the general public, and respond to severe socio-economic disruptions exacerbated by the pandemic.

- The coming into force of the Regional Comprehensive Economic Partnership Agreement, together with the recently concluded ASEAN Investment Facilitation Framework, is expected to help boost more sustainable FDI in the region, particularly value chain-linked FDI, in the medium and long term.

- Increasing investment in the health-care sector was already a core priority in many Asian and Pacific countries before the pandemic. However, declining flows into the sector and the need to be better prepared for any future health crises has led to greater prioritization of the sector in investment and promotion activities.

- Greenfield investment in the health sector in Asia and the Pacific has been volatile since 2008. Between 2019 and 2020, investment in the health-care sector dropped by 45 per cent, and continued to decline in 2021 to 34 per cent in the first three quarters of the year.

- Although investment promotion activities are essential in attracting the quantity and quality of investment needed in the health-care sector, key challenges include poor regional and domestic investment ecosystems, lack of capital, technology and skills, low regulatory capacity, and poor infrastructure and related services.

- Regional cooperation and political commitment to openness for investment will be critical to helping economies build back better and harness the potential of FDI, particularly for the health sector. Regional and multilateral cooperation is needed in addressing transnational challenges, and make national and international investment governance more coherent and sustainable development oriented.
COVID-19 has disrupted FDI considerably, and while global FDI inflows and outflows have plummeted, flows to and from the Asia and the Pacific region have remained more resilient during the pandemic and have even started to rebound in 2021.

Global FDI flows collapsed in 2020, falling 42 per cent from US$1.5 trillion in 2019 to an estimated US$859 billion in 2020 (UNCTAD, 2021a). Such a low level has not been seen since the 1990s, and global FDI flows were even 30 per cent lower than the investment trough that followed the 2008-2009 global financial crisis. Developed countries, particularly in Europe as well as in North America, recorded the most dramatic declines in FDI. Developing countries in Asia and the Pacific, by comparison, were more resilient with FDI flows to developing Asia dropping by only 4 per cent in 2020 (UNCTAD, 2021a). Asia and the Pacific became the largest destination for global inflows in 2020, attracting 53 per cent of all inward FDI (figure 1). The most recent data for 2021, suggest that global FDI flows have started to rebound, reaching US$852 billion in the first two quarters of 2021 (UNCTAD 2021b). While developed economies have recorded the largest increases in FDI in the first half of 2021, FDI flows both to the East and North-East Asian and South-East Asian subregions also accelerated (figure 1).

Figure 1. FDI inflows to Asia and the Pacific and their global share, 2009-2020

**Source:** ESCAP calculations based on UNCTAD, 2021a.

**Note:** China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China, Hong Kong, China and Macao, China.
Flows to Asia and the Pacific largely remained resilient in 2020 due to the resilience of China in the East and North East Asian subregion and India in the South and South-West Asia subregion. Flows to the East and North East Asian subregion grew by 23 per cent and to the South and South-West Asia subregion by 20 per cent in 2020. Overall, the only other economies that did not see FDI inflows drop in 2020 were (in descending order): Brunei Darussalam, the Lao People’s Democratic Republic, India, Kazakhstan and New Caledonia.¹

Among the subregions, FDI inflows to North and Central Asia recorded the largest contraction, dropping by 59 per cent from US$43 billion in 2019 to US$17 billion in 2020. Significant declines were recorded in Kyrgyzstan (dropping by 259 per cent to US$331 million) and the Russian Federation (declining by 70 per cent to US$10 billion), while Kazakhstan was the only country in the subregion to record an increase reaching 24 per cent in FDI inflows amounting to US$4 billion. FDI inflows to the Pacific contracted by 43 per cent from US$43 billion to US$24 billion in 2020. Within the Pacific subregion, the largest declines were in Papua New Guinea (declining by 380 per cent to US$935 million), and Samoa (decreasing by 198 per cent to US$1 million). FDI inflows to South-East Asia declined by 13 per cent to US$135 million, with the largest contractions in Thailand (a 247 per cent decline to US$6 billion) and Malaysia (a 54 per cent decline to US$3.4 billion).

Global outflows of FDI dropped by 44 per cent from US$1.3 trillion in 2019 to US$739 million in 2020. Outward investments by multinational enterprises (MNEs) from developed economies dropped by 56 per cent in 2020 to US$347 billion, with outward investment from European MNEs recording the largest dip (80 per cent to US$74 billion) among developed economies. By comparison, outbound investments undertaken by MNEs from Asia and the Pacific contracted the least, dropping by 11 per cent to US$475 billion (figure 2).

¹ Section 4 provides a detailed overview of countries per subregion.
Although outward investment from Asia and the Pacific contracted, the region nevertheless remained the largest source of global FDI outflows for the third consecutive year. As in previous years, developing countries of the region were responsible for the major share of outflows, accounting for 77 per cent of all outflows from Asia and the Pacific. Further in line with previous years, the North and North East Asian subregion was responsible for the largest share (81 per cent) of outflows from Asia and the Pacific. Outbound investments from the subregion were driven by China, including Hong Kong, China, and Macau, China, which accounted for 61 per cent (US$235 billion) of all outflows from the subregion in 2020. Outbound investments by Chinese MNEs increased in 2020 by 34 per cent from 2019, while outbound investment from all MNEs headquartered in the subregion declined.

Outbound investments by South-East Asian MNEs grew by 9 per cent in 2020 to US$61 billion and accounted for 13 per cent of all outbound investments in the global economy from Asia and the Pacific. While outbound investment from Singapore declined by 3 per cent, large increases from the Philippines (436 per cent), Thailand (41 per cent) and Indonesia (32 per cent) were recorded in 2020.

Source: ESCAP calculations based on UNCTAD, 2021a.
Note: China includes Hong Kong, China and Macao, China; A-P stands for Asia and the Pacific; Developing A-P excludes China, Hong Kong, China, and Macao, China.
Greenfield investments, which are an important indicator for future FDI trends, have globally and regionally been on a steep decline since 2018, and continue to remain the most vulnerable type of FDI amid continued outbreaks of the COVID-19 pandemic.

Globally, greenfield investments declined by 35 per cent in 2020 to an estimated US$547 billion. The decline was even steeper in developing economies, dropping 63 per cent in Africa and 51 per cent in Latin America and the Caribbean. Even developing economies in Asia saw a 38 per cent drop in greenfield announcements to US$135 billion. Although greenfield FDI started to pick up in the first three quarters of 2021, severe third and fourth waves of COVID-19 across Asia and the Pacific resulted in widespread lockdown measures across the region, reflected the continued vulnerability of this type of investment (figure 3). Developing countries in the region have been disproportionately affected because sectors that have been severely affected by the pandemic, including the primary and manufacturing sectors, account for a larger share of their FDI than developed economies.

Figure 3. Announced greenfield FDI inflows to and outflows from Asia and the Pacific region, 2010-2021 (US$ millions)

Source: ESCAP calculations based on fDi Markets data (accessed October 2021).

From January to September 2021, announced greenfield investments totalled US$103 billion, compared to US$106 billion in the same period of 2020, representing only a marginal drop of 2 per cent in 2021 compared with 2020. The strongest rebounds were recorded in China (including Hong Kong, China, and Macau, China), where
greenfield investments grew 40 per cent in the January-to-September period of 2021 compared to 2020. The Lao People’s Democratic Republic, Malaysia, New Zealand, the Philippines, Singapore and the Russian Federation all saw strong growth in greenfield investments in 2021. Gains in these economies were offset by significant losses in most of the region’s other economies, with Australia, Azerbaijan, Cambodia, India, Indonesia, Kazakhstan, Nepal, Uzbekistan and Viet Nam registering the largest declines in the January to August 2021 period compared to the same period in 2021.

Global outward greenfield investments declined in 2020 by 32 per cent to US$537 billion, and have continued to decline in the first three quarters of 2021 to a low of US$391 billion. Asia and the Pacific accounted for 22 per cent of global outbound greenfield investments in 2020, and, so far, in 2021 for 21 per cent. The region’s share in global outbound greenfield investments has remained stable over the past five years at around 20 to 25 per cent.

Outward greenfield investments from Asia and the Pacific have also been on the decline since 2018. Outbound greenfield FDI from the region peaked in 2018 at US$282 billion, before declining by 28 per cent to US$201 billion in 2019, and then by 41 per cent in 2020 to US$119 billion. Since 2018, greenfield FDI flows from the region have declined by 58 per cent. They continued to slide downwards in the first three quarters of 2021, dropping by 15 per cent to US$83 billion compared with the same period in 2020 (US$97 billion). The largest declines in outbound investments were registered in the Philippines (95 per cent), Malaysia (88 per cent), and New Zealand (72 per cent). Greenfield outflows from China also decreased by 22 per cent, largely due to a significant drop in investment from Taiwan, China. Outbound greenfield investments from MNEs in some countries in the region have, however, started to show some signs of recovery. For example, large increases in outbound greenfield investments were recorded in Indonesia (387 per cent), Australia (373 per cent), India (164 per cent) and Viet Nam (90 per cent).

There were only moderately declines in M&As in the first year of the pandemic in Asia and the Pacific compared to greenfield investments, and they have remained stable in 2021 indicating that the appetite of investors for deals in the region is still healthy.

FDI flows through completed M&As in the Asia-Pacific region have continuously grown during the past two decades (figure 4). The total value of cross-border M&A deals increased by 18 times between 1994 and 2020, from US$55 billion to US$982 billion. Even with the COVID-19 pandemic, the Asia-Pacific region has remained an attractive market for M&As. Illustrating this, M&As only moderately declined by 1.5 per cent (in value) in the Asia and Pacific region in 2020, compared with the 10
per cent decline witnessed globally. The strong performance of China, where cross-border M&As rose by 54 per cent amid the pandemic, was the largest contributor to the quick rebound of M&A sales in the Asia-Pacific region. The resiliency of the Asia-Pacific region highlights the extent to which the region will be a critical driver of recovery in the post-pandemic period.

Figure 4. Completed and pending M&As in Asia and the Pacific, 2010-2021 (US$ millions)

Source: ESCAP calculations based on Refinitiv Eikon data (accessed November 2021)

However, since 2018, expenditure on completed M&As has decreased sharply, while intended and pending projects have increased (figure 4). Rising protectionism accompanied by stricter FDI screening mechanisms, a slowdown in the global economy and intensified geopolitical conflicts have made buyers uncertain of their decisions. Illustrating this, the escalation of the United States-China trade war was associated with 41.9 per cent (in volume) of the inbound M&As in China being put on hold in 2019 compared with 28 per cent in 2018. The COVID-19 pandemic further created postponements of the execution of M&As, and approximately 53 per cent of the total investment in Asia-Pacific was put on hold in 2020. This trend has continued in 2021, with pending M&As increasing to US$736 billion in the first three quarters of the year, while completed M&As in 2021 have levelled out at US$461 million (which is slightly below the total of US$466 billion for all of 2020). This trend can be attributed to prolonged negotiations due to remote communication, increased cautiousness of buyers, delayed regulatory approvals leading to extended project timelines as well as more intense negotiations over due diligence processes, and renegotiation and litigation of many existing clauses in M&A deals.
Looking ahead, FDI in the Asia-Pacific region is expected to remain below pre-crisis levels in 2022 as many economies are still struggling to contain the third and fourth waves of the pandemic, speed up vaccination roll-outs to the general public and respond to severe socio-economic disruptions exacerbated by the pandemic. In particular, access to vaccines together with the emergence of COVID-19 mutations is expected to put continued downward pressure on FDI levels in 2022 and heighten competition for FDI among countries, not only in the region, but also globally.

Asia and the Pacific economies are expected to register small, but positive growth in FDI inflows, as the region as a whole has remained relatively resilient throughout the pandemic, thanks to the region’s attractiveness as an investment destination with strong market fundamentals. However, as the environment for FDI flows becomes more competitive in the coming years, coherent and effective investment strategies, together with a commitment to improving the transparency and predictability of investment regimes and to further easing of investment restrictions, will be critical in stimulating more and higher quality FDI. To this end, the coming-into-force of the Regional Comprehensive Economic Partnership Agreement (RCEP) together with the recently concluded ASEAN Investment Facilitation Framework are expected to send important positive signals to investors in the region, which could help to boost more sustainable FDI, particularly value chain-linked FDI, in the medium and long term.

### 2. Trends in intraregional greenfield FDI

Although intraregional greenfield FDI flows account for almost half of greenfield FDI flows in Asia and the Pacific, this type of investment was particularly hard-hit by the pandemic and has yet to rebound in 2021.

Intraregional greenfield FDI in Asia-Pacific has been on a gradual rise during the past decade, growing from 40 per cent of total greenfield FDI inflows to the region in 2009 to 47 per cent in 2020. The emergence and consolidation of Asian and Pacific countries as outward investors has reinforced the growing importance of intraregional investments in the region (figure 5).
Figure 5. Destinations of intraregional greenfield FDI inflows and share of total greenfield FDI inflows to Asia and the Pacific region, 2009-2021

![Chart showing intraregional greenfield FDI inflows and share of total greenfield FDI inflows to Asia and the Pacific region, 2009-2021.]

**Source:** ESCAP calculations based on fDi Markets data (accessed November 2021)

However, as COVID-19 lockdown measures have made greenfield investments particularly vulnerable, drops in intraregional investments have been registered during the pandemic. Intraregional greenfield FDI decreased by 52 per cent in 2020, from US$138 billion to US$66 billion. This type of investment continued to decline in the first three quarters of 2021, dipping by 34 per cent in January to September 2021 compared with the same period in 2020.

ASEAN member States attracted the largest share of intraregional greenfield investments at the subregional level, receiving US$43 billion (66 per cent) of all intraregional greenfield investments in Asia-Pacific in 2020 (figure 5). Within ASEAN, Brunei Darussalam, Indonesia and Viet Nam (in descending order) attracted the largest flows of such investments. The third and fourth waves of COVID-19 in the second and third quarters of 2021, however, caused intraregional investments to ASEAN to be delayed or postponed. Consequently, this type of flow was down to US$20 billion by the end of the third quarter of 2021.

The single largest individual recipients of intraregional greenfield inflows in 2020 were Brunei Darussalam (21 per cent), Indonesia (14 per cent), and China and Viet Nam (both with 12 per cent, respectively). An investment by Singaporean-based fishing company, Barramundi Asia, was responsible for a US$43 billion deal in Brunei Darussalam in 2020 to open operations in the country. An US$8 billion deal in the coal and gas sector by a Chinese company (CPC) in Indonesia, together with several investments by Singaporean-based firms, were responsible for Indonesia claiming such a large share of intraregional investment in 2020. In the first three quarters of 2021 the largest recipients of intraregional FDI were Malaysia (31 per cent), China
(20 per cent) and Viet Nam (12 per cent). A US$10 billion project in electronic components by the Chinese company Risen Solar Technology made the largest investment in Malaysia in 2021, followed by several other smaller-scale projects by Chinese companies in the ICT sector.

China (including Hong Kong, China and Macau, China), has been the largest source of intraregional investments, followed by the ASEAN subregion. In 2020, China was responsible for 46 per cent of all intraregional investments while ASEAN accounted for 22 per cent. In the first three quarters of 2021, China was responsible for 49 per cent of intraregional investment, while ASEAN only funded 14 per cent. Compared with January to September 2020, intraregional greenfield investments from China dropped 25 per cent, while flows from ASEAN member States dropped 62 per cent during the same period.

Looking ahead, getting current outbreaks of COVID-19 under control and speeding up vaccination rates will be critical in getting intraregional FDI back to pre-crisis levels.

### 3. Sectoral trends in greenfield FDI

The manufacturing and services sector continue to attract the largest share of greenfield investments in Asia and the Pacific. Investment in the renewable energy sector has continued to significantly expand in 2021 and defied the overall trend of declining greenfield investments.

The general trend in sector composition during the past decade in Asia and the Pacific has been a declining share of greenfield inward FDI in the primary sector, a stable share directed towards the manufacturing sector, and a growing share in the services sector (figure 6). Overall, the relative share of the primary sector in greenfield investments declined by 6 per cent in 2020 and made up 18 per cent of all greenfield investments in that year, while the manufacturing sector accounted for 42 per cent of investments and the services sector for 40 per cent.
Turning to each sector individually, the manufacturing sector declined by 29 per cent in 2020, the lowest drop in investments recorded among the sectors. Within the manufacturing sector, the engine and turbine subsector recorded the largest decrease, dropping by 88 per cent (US$1.5 billion), followed by consumer electronics with an 80 per cent decline (US$958 million). However, in absolute terms, investments in the automotive original equipment manufacturing sector dropped by US$11 billion, which was 57 per cent lower than the value of investments in the subsector in 2019. Significantly lower levels of global production due to COVID-19 production disruptions, combined with the upstream development of transition economies in global value-chains, have contributed to overall lower investment in the subsector (UNCTAD, 2021a). The manufacturing sector as whole, has begun to rebound in 2021, growing by 6 per cent in the first three quarters of 2021.

The services sector declined by 38 per cent in 2020 to US$69 billion. The biggest relative declines were in the leisure and entertainment subsector (98 per cent) and health care subsector (96 per cent). However, both contributed only marginally to overall investment in the services sector (less than 1 per cent). The biggest loss in absolute terms in 2020 was in the hotel and tourism subsector, dropping by 75 per cent to US$16 billion. Transport and warehousing also experienced a significant decline of 46 per cent. The services sector has yet to start rebounding, with investments in the first three quarters of 2021 down by 21 per cent compared to the same period in 2020, and down 56 per cent compared to the same period in 2019.
Greenfield investment in the primary sector dropped by 55 per cent, from US$67 billion in 2019 to US$30.5 billion in 2020. The coal, oil and gas subsector declined from US$38 billion in 2019 to US$30.5 billion in 2020, while the minerals subsector dropped from US$120 million in 2019 to US$14 million in 2020. Extractive industries are likely to recover in the short and medium term as demand increases. In the long term, however, the increased prominence of renewable energies in most developed economies will certainly dampen recovery to or beyond pre-pandemic levels (UNCTAD, 2021a). Investments in the primary sector have continued to decline, dropping by 93 per cent in the first three quarters of 2021 compared with the same period in 2020.

The remainder of the top 10 economic activities receiving the most greenfield investment since 2010 are fairly evenly distributed between the manufacturing and services sectors (figure 7), with the former receiving more investments in electronic components and the latter recording an increase in real estate and renewable energy during 2016-2020. Overall investment growth in other individual subsectors, both in manufacturing and services, slowed. Further investments in physical infrastructure, particularly climate-friendly transport infrastructure, will be crucial in addressing transboundary connectivity challenges in the region as well as enabling countries to build back more sustainably and with resilience in the post-COVID-19 recovery period.

Figure 7. Top 10 sectors for greenfield FDI, 2010-2020

Source: ESCAP calculations based on fDi Markets data (accessed November 2021)
4. Subregional FDI trends

4.1. East and North-East Asia

The East and North-East Asian subregion continues to be the leading destination and source of FDI in Asia and the Pacific. The subregion received 53 per cent of total FDI inflows to the region and accounted for 81 per cent of total FDI outflows in 2020. Inflows to the subregion grew by 23 per cent in 2021 due to rebounds in investment in Macau, Hong Kong, and mainland China. Inflows to Macau, China grew 85 per cent to US$3.5 billion, while they increased by 74 per cent in Hong Kong, China to US$119 billion and by 6 per cent in China to record a high of US$149 billion. Much of the investment in Hong Kong, China was driven by intracompany loans and reinvested earnings (UNCTAD, 2021a). Much of the growth in inflows to these three destinations was related to investments being carried out in 2020, which had been put on hold in 2019 due to political tensions. Beyond this, stronger than expected GDP growth and removal of certain investment restrictions helped sustain and boost FDI in China. To boost FDI amid the crisis, the Government of China has liberalized several more industries for investment, removed restrictions in others, and revised the negative list for FDI in free trade zones (UNCTAD, 2021a). The recently released five-year plan and long-term vision for 2035 indicates the Government’s intention to ease more restrictions in the near future in order to boost FDI to pre-pandemic levels (Global Times, 2021).

Interestingly, trade frictions and lower levels of global FDI from 2018 onwards have not hampered levels of inward investment in China as whole. Rising labour productivity, together with the country’s advanced infrastructure and effective participation in GVCs, has enabled China to continue to attract FDI, especially in capital- and technology-intensive sectors and supply chains, making it a prime example of the potential of FDI to contribute to development. At the same time, however, rising wages have gradually weakened the country’s comparative advantage in the labour-intensive manufacturing sector, and have caused leading companies to relocate their production facilities to low-wage countries, predominantly in South-East Asia. As these production networks have spread to other countries in the region, intraregional trade and FDI inflows in those countries have gone up considerably.

Inflows to all other countries in the subregion declined, with both Japan and the Mongolia each recording a dip of 30 per cent. A significant drop in the value of cross-border M&As from US$2.8 billion in 2019 to US$1.9 billion in 2020 in the Republic of Korea was responsible for FDI dropping by 13 per cent in that country. Nonetheless, several industries in the Republic of Korea, including those related to
artificial intelligence, big data and cloud computing, have been able to continue to attract strong investment from abroad throughout the pandemic.

Outflows from MNEs headquartered in the East and North-East Asia subregion contracted in 2020 by 12 per cent to US$383 billion. Outbound investment from Mongolia dropped by 80 per cent to US$26 million, and in Japan it dropped by 49 per cent to US$115 billion. As with inward FDI, outbound FDI from Chinese firms grew in 2020 – with outbound transactions from Hong Kong, China increasing by 72 per cent to US$102 billion and from China by 14 per cent to US$132 billion. Much of the investment from these two destinations was fuelled by corporate restructuring by Chinese firms in Hong Kong, China (UNCTAD, 2021a). In addition, expansion efforts by Chinese MNEs related to the Belt and Road Initiative, together with strong growth in cross-border M&As from Chinese MNEs, underpinned much of the growth in outbound investments from China.

Overall, FDI inflows to the subregion are expected to remain stable in 2022, largely driven by the resilience of flows to and from China. Nonetheless, initial data on greenfield investments suggests that significant downside risks are still hampering FDI to other countries of the subregion. For example, greenfield FDI was down by 100 per cent in Mongolia, 25 per cent in Japan and 3 per cent in the Republic of Korea in the first three quarters of 2021 compared to the same period in 2020. As the pandemic has accelerated the digital transformation, while also giving Governments an unparalleled opportunity to build more resilient and sustainable economies, investment prospects for some sectors in this subregion in particular are more optimistic than for others. Smart investment policies targeting these sectors will be especially important for stimulating FDI in the coming years.

4.2. North and Central Asia

FDI inflows to the North and Central Asian subregion declined by 59 per cent in 2020, from US$43 billion in 2019 to US$17.5 billion in 2020. The biggest relative drops were in Azerbaijan, in which investment shrank by 66 per cent to US$996 million in 2020, the Russian Federation, where investment dropped by 70 per cent to US$9.5 billion, and Kyrgyzstan, in which investment dropped 259 per cent to US$331 million.

Much of the decline in the Russian Federation has been linked to shocks to the extractive industry (The Economist, 2021) and increased screening measures. Noticeably, on average in 2019, 17 per cent of the projects screened in the Russian Federation were not approved compared to 1 per cent in other countries for which data are available.2 However, recent agreements to protect and promote investments,

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2 The Russian Federation introduced new screening procedures for temporary foreign acquisitions of voting stakes in strategic companies (UNCTAD, 2021a).
which will be concluded between public and private investors, may serve to boost FDI in the near term. Furthermore, an updated version of the ASEAN-Russia Trade and Investment Cooperation Roadmap from 4 September 2021 may help to speed up international policy dialogue and facilitate more intraregional FDI (Chipman Koty, 2021).

The only country to register investment growth during 2020 was Kazakhstan. Inflows to Kazakhstan grew by 24 per cent to US$3.8 billion in 2020, largely due to growth in investments in the mining, transport, finance, telecommunications and energy sectors. The Netherlands, the United States and Switzerland were the largest sources of investment in Kazakhstan. Inflows into Kazakhstan continued to grow in the first half of 2021, and the announcement of the Government’s intent to support all FDI projects with a 20 per cent commitment to installation, construction and equipment purchases will increase inflows further.

Turning to outward FDI, this type of investment dropped by 77 per cent in 2020 to US$5 billion, despite marginal absolute increases of outward investment from Armenia and Tajikistan. The drop in outbound investments was largely driven by the 72 per cent decline in outward investment from the Russian Federation in 2020. However, the first half of 2021 saw Russian outflows pick up, indicating that global recovery, however slow, may have started (Coutino, 2021). Illustrating this, in July 2021, Mikhailovskii Kombinat Stroitelnikh Materialov’s (Russian Federation) performed the largest subregional acquisition in 2021 and acquired GFI Investments Ltd. (Cyprus) in July 2021.

Looking ahead, investment prospects for the subregion are unlikely to recover in the short term, despite various investment measures that have been adopted to motivate FDI during the COVID-19 pandemic. The subregion’s dependency on natural resource-based investment projects has made recovery particularly vulnerable in the short term as investments in the primary sector have continued to decline globally. Nonetheless, revisions to investment facilitation and promotion strategies in several countries of the subregion will help send important signals to investors, which could promote growth in FDI flows going forward (UNCTAD, 2021).

### 4.3. South-East Asia

FDI inflows to the South-East Asian subregion declined by 13 per cent to US$126 billion in 2020. The region’s downturn can largely be attributed to economic uncertainties, trade closure-related supply chain issues and inter-related decreasing corporate profits in addition to COVID-19 infection and lockdown waves (UNCTAD, 2021a). Myanmar, Malaysia and Thailand recorded the biggest relative declines. Thailand’s FDI inflows dropped by 247 per cent, Myanmar’s inflow by 34 per cent and Malaysia’s
inflow by 54 per cent. In fact, Thailand also experienced some of the largest absolute losses, mainly as a result of the United Kingdom’s US$10 billion divestment of Tesco to a Thai investor (UNCTAD, 2021a). Indonesia’s inflows dipped US$5 billion, with large divestments by Japanese and Singaporean investors (UNCTAD, 2021a). Investment flow into Viet Nam, Timor-Leste, Cambodia and Singapore in 2020 remained relatively stable. This is significant for regionwide trends, as Singapore and Viet Nam accounted for 67 per cent and 12 per cent, respectively, in 2020. Singapore was also the target of a mega-M&A deal, the United States’ Altimeter Growth Corp Financials acquisition of Singapore’s Grab Holdings Inc for US$31 billion. This resulted in a 261 per cent increase in regional M&A transactions (Eikon, 2021). FDI inflows grew by 110 per cent to US$577 million to Brunei Darussalam, by 74 per cent to US$968 million in the Lao People’s Democratic Republic, and by 31 per cent to US$6.5 billion in the Philippines in 2020. Investment in the first three quarters of 2021 started to rebound for ASEAN member States. For example, the Philippines has already recorded a 43 per cent increase in inward investment in the first three quarters of 2021 so far, compared with the same period last year (Chipongian, 2021).

Outflows from South-East Asia have actually grown during the pandemic, increasing by 9 per cent to US$61 billion in 2020. The largest increases were registered in the Philippines and Thailand, where outbound investment grew by 436 per cent to US$3.5 billion in the former country and by 41 per cent to US$16.5 billion in the latter. While Singapore accounted for the largest share of outbound investments in 2020 (53 per cent), Thai firms, which closely followed at 27 per cent, invested heavily in financial services and manufacturing projects in the subregion (UNCTAD, 2021a). Overall, outward M&A transactions from South-East Asian countries increased by 172 per cent in 2020, with Singapore-based firms contributing the most to this growth.

Looking ahead, the economies of South-East Asia face better recovery prospects than most other subregions as investments in technology, digital infrastructure and cloud computing have been, and are expected to remain, rather robust. South-East Asia is on track to be the next international “data-centre hub” and is likely to experience a comparatively smooth recovery. The subregion’s economies are also busy engaging in a variety of active mitigating measures, from physical infrastructure to new SEZ developments, thereby helping investment prospects and investor confidence (UNCTAD, 2021a). Furthermore, the recent signing of the ASEAN Investment Facilitation Framework in October 2021, combined with the coming into force of the RCEP Agreement in January 2022, is also expected to help bolster investment flows to the subregion as a whole.
4.4. South and South-West Asia

Inward FDI flows to South and South-West Asia grew by 20 per cent in 2020, from US$66 billion to US$78 billion. The growth was driven by Bangladesh and India, which were the only countries to not record a decline in inward investment in 2020. Inward investment to Bangladesh grew by 61 per cent to US$78 billion in 2020, while in India it grew by 27 per cent to US$64 billion. Furthermore, India accounted for 81 per cent of all FDI into the subregion, compared to 2019 when it accounted for 77 per cent of all inflows. The majority of these inflows were destined for the ICT and the construction subsectors. With regard to the former, investment to India has evolved from information technology services for MNEs to the thriving local digital ecosystem where many domestic players – especially in e-commerce – have attracted considerable international investment. Cross-border M&A deals grew by 83 per cent to US$27 billion in 2020. Deals spanned the health, ICT, infrastructure and energy sectors. (UNCTAD, 2021a). Many investors perceived India as a highly attractive market. In fact, investors, particularly from Japan, increasingly targeted India’s domestic market per se and not as an intermediary for exports, given its tremendous growth potential and highly skilled work force. Despite being hit by a severe second wave of the COVID-19 pandemic, overall investment levels in India are expected to remain robust in 2021 and 2022.

Inward FDI to all other economies in the subregion declined in 2020, with the largest dips registered in Afghanistan (-66 per cent), Bhutan (-58 per cent), Sri Lanka (-43 per cent), the Maldives (-38 per cent), Nepal (-32 per cent) and the Islamic Republic of Iran (-11 per cent).

Outward investment from the subregion marginally contracted by 1 per cent in 2020 to US$15 billion. Outflows from Indian-based MNEs contracted by 4 per cent in 2020 to US$11.5 billion; nonetheless, Indian-based MNEs continued to account for 77 per cent of all outflows from the subregion. The remainder of the outflows from the subregion were largely from Turkish-based MNEs, which accounted for 22 per cent of the subregion’s outflows in 2020. Outbound investment from Turkish MNEs also increased by 14 per cent in 2020 from US$2.8 billion to US$3.2 billion. Increases in outbound investments also occurred in Pakistan and Bangladesh. Outbound investments from Sri Lanka dropped by 81 per cent from US$77 million to US$15 million, and in the Islamic Republic of Iran by 8 per cent from US$85 million in 2019 to US$78 million in 2020.

Despite positive growth in 2021, FDI to the subregion is likely to register significant dips in 2021 and 2022, largely driven by the wide-spread effect of newer mutations of the COVID-19 virus and slower vaccination roll-outs in 2021. In the first three quarters
of 2021, greenfield investments registered significant drops in the subregion’s economies compared with the same period in 2020, falling 97 per cent in Nepal, 33 per cent in India and 16 per cent in Bangladesh. On the positive side, greenfield investments grew in Bangladesh by 414 per cent to US$437 million in Pakistan, and by 100 per cent in the Maldives to US$102 million. Investments in Pakistan were driven by Chinese firms in the manufacturing sector, while in the Maldives it was a one-time investment in a new data centre by the United States-based ICT firm Cloudflare. While India’s market size and strong fundamentals will enable it to rebound quicker than the subregion’s other economies, continued efforts by the latter economies to improve their investment environment and boost FDI in sustainable development priority sectors will be critical in going forward.

4.5. The Pacific

The Pacific subregion recorded 43 per cent less FDI inflows in 2020, declining from US$43 billion in 2019 to US$24 billion in 2020. While some countries in the subregion, including the Marshall Islands, New Caledonia, Palau and French Polynesia all recorded marginal increases in FDI inflows, the remaining economies of the subregion all faced significant declines. The biggest relative losses were in Papua New Guinea, where FDI declined by 380 per cent to US$935 million, in Samoa by 198 per cent to US$1 million and in Kiribati by 162 per cent to US$0.3 million. In absolute terms, the downturn in FDI flows to the subregion was largely driven by a 44 per cent decrease in investment in Australia to US$20 billion and a 22 per cent drop in investment in New Zealand to US$4.2 billion.

Australia suffered particularly from decreased inflows in the chemical and financial sectors. It has made the zero monetary threshold for investment screenings permanent in national security, land and businesses as well as extending the time window by 300 per cent to 90 days. In fact, Australia rejected 7 per cent of all screenings, while New Zealand rejected none in 2020 (UNCTAD, 2021a). Increased political and economic tensions between Australia and China have also discouraged intraregional investment from China (KPMG 2021). Illustrating this, in August 2020 a Chinese investor pulled out of a US$600 million take-over of an Australian dairy and drinks firm when the Government of Australia argued the deal would counter its national interest (UNCTAD, 2021a). Consequently, M&A transactions dropped in the subregion by 26 per cent in 2020. This is reflected in a 26 per cent decrease in regional M&A transactions (Eikon, 2021).

The subregion’s outflows notably soared 171 per cent, from US$4 billion to US$10.5 billion. Large relative gains were recorded in Fiji and Papua New Guinea, growing 139 per cent and 108 per cent, respectively; yet, both held only around a 1 per cent
share in the regional total. However, the two subregional powerhouses, New Zealand and Australia, also recorded a 580 per cent and 70 per cent increase in outbound investment, respectively. Australia’s investors sent US$10 billion abroad in 2020, up from US$5.5 billion in 2019.

Overall, the severe knock-on effects of the pandemic on the hard-hit tourism sector have hampered FDI to the subregion as a whole. In addition, Tropical Cyclone Harold in April 2020 also did not help the economies of Tonga, Vanuatu, the Solomon Islands and Fiji. Some measures to increase self-sufficiency in agriculture, fisheries and forestry, after the demonstration of supply-chain fragility in 2020, have also deterred investments. Looking ahead, prospects for the subregion remain subdued as the dominance of a handful of sectors, particularly tourism and natural resources, continue to face underlying vulnerabilities, obstructing speedy recovery in the short and medium term. Targeting investment in transportation and infrastructure improvements will be essential in tackling obstacles to recovery and budget limitations in the long-term (UNCTAD, 2021a).

### 5. FDI policy trends

The Asia-Pacific region has appeared to be witnessing a flattening of the investment restrictiveness curve since 2020, while developments in investment policy and agreements remain generally somewhat paralyzed. Overall, in 2020, a total of 129 measures were adopted globally, while 53 were adopted regionally by 17 countries – of which 31 measures were liberalizing or incentivizing, 15 restricting or disincentivizing and seven neutral in their essence. The most active country by far was China, responsible for 13 entries, striking a balance between liberalizing and restrictive measures. This compares somewhat poorly to 2019; while liberalizing efforts have remained stable, the number of restrictive policies has doubled. Since January 2021, 59 policy changes have been undertaken globally and 23 regionally – 13 of which were liberalizing, seven restricting and two neutral. Compared to 2020, there have been six less liberalizing policies and one less restrictive policy (UNCTAD Investment Policy Hub, 2021) (figure 8).

Within Asia and the Pacific, new restrictive measures in 2021 have been introduced in China, Indonesia, New Zealand and Cambodia. These measures often extend the COVID-19-related measures of 2020, and generally entail tightened reporting and monitoring, ex-ante screening and national security requirements and provisions.
International investment governance, globally and regionally, has continued its slow-down in recent years. As of November 2021, 2,593 international investment agreements (IIAs) were in force, which was a 38-year low.

In 2019, there were 33 new IIAs, including 21 regional ones. In 2020, 23 IIAs were signed globally (including RCEP), of which an astounding 11 were regional; only the Hong Kong, China SAR – Mexico BIT has yet to enter into force. So far in 2021, nine IIAs have been signed worldwide, while Asia-Pacific was involved in two of them – the Georgia-Japan BIT and the Israel-Republic of Korea FTA.

The region recorded 13 bilateral investment treaties (BITs) in 2019, five in 2020 and, so far, three in 2021. The termination pace, however, seems to be slowing while the number of treaties signed is picking up pace. Four treaties have been terminated since October 2020, while three have been signed, of which one, the Hong Kong, China SAR-Mexico BIT, has already entered into force. This compares somewhat favourably to previous years when the termination rate well exceeded that of emerging agreements (figure 9).
Globally, 11 treaties with investment provisions (TIPs) were signed and/or entered into force in 2019, eight of which had Asia-Pacific involvement (table 1). In 2020, the respective numbers were 15 and seven, while in 2021 has been three and one, respectively. This development is meagre, given the role that FDI could play in COVID-19 recovery. Especially in combination with increased geopolitical tensions and uneven recovery, regional and global joint efforts in governing, facilitating and strengthening cooperation are of the utmost importance.

Table 1. New Treaties with Investment Provisions (TIPs)
by Asian and Pacific countries, October 2020-October 2021

<table>
<thead>
<tr>
<th>Treaties with Investment Provisions (short title)</th>
<th>Signatories from Asia and the Pacific</th>
<th>Signatories from non-Asia-Pacific</th>
<th>Date of signature</th>
<th>Date of entry into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>PACER Plus (2017): Australia, Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, New Zealand, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu</td>
<td>Australia, Cook Islands, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, New Zealand, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu</td>
<td></td>
<td>14/06/17</td>
<td>13/12/20</td>
</tr>
<tr>
<td>Singapore-United Kingdom FTA (2020)</td>
<td>Singapore</td>
<td></td>
<td>10/12/20</td>
<td></td>
</tr>
<tr>
<td>Indonesia-Republic of Korea CEPA (2020)</td>
<td>Indonesia, Republic of Korea</td>
<td></td>
<td>18/12/20</td>
<td></td>
</tr>
<tr>
<td>United Kingdom-Viet Nam FTA (2020)</td>
<td>Viet Nam</td>
<td></td>
<td>29/12/20</td>
<td></td>
</tr>
<tr>
<td>Turkey-United Kingdom FTA (2020)</td>
<td>Turkey</td>
<td></td>
<td>29/12/20</td>
<td></td>
</tr>
<tr>
<td>Israel-Republic of Korea FTA (2021)</td>
<td>Republic of Korea</td>
<td></td>
<td>12/05/21</td>
<td></td>
</tr>
</tbody>
</table>


Notably, the Regional Comprehensive Economic Partnership (RCEP), first signed in November 2020 by 15 countries, has been ratified by Australia, Brunei Darussalam, Cambodia, China, Japan, the Lao People’s Democratic Republic, New Zealand, Singapore and Thailand and as such it will enter into force on 1 January 2022. This is significant as RCEP has a comprehensive chapter on investment, covering a most-favoured-nation clause, national treatment provisions, security provisions granting legal and administrative proceedings, the prohibition of performance requirements, shall-clauses for fair and equitable treatment as well as transparency and disclosure requirements. RCEP is already boosting investor confidence and, once in effect, is expected to significantly bolster investments among signatories and the region as such.

5.1. National FDI policies per subregion

Within East and North-East Asia, China has been the only country to modify its investment policy. Out of 10 policy changes, two have been restrictive and disincentivized investment. Since January 2021, investors in several subsectors of the

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3 No new measures were introduced between December 2020-October 2021 in the North and Central Asian subregion.
primary, manufacturing and services sectors must meet authorisation and approval requirements. Investments in areas related to critical sectors, national security and where foreigners would ‘obtain actual control’ are subject to the ‘Foreign Investment Security Review Working Mechanisms’. This is potentially far-reaching, given the vagueness of national security provisions in general. The formulation grants significant leeway and discretion to Chinese authorities to change the underlying policy rationale while still fitting the broadness of “national security”. A lack of timelines and other administrative specifics means that processes can be delayed unreasonably (Zheng, 2021).

Overall, from the outset, predictability is rendered inherently difficult; however, this may change once the provision has been observed in practice for some time. On the other side, liberalising and incentivizing changes seems to offer much to investors in terms of security and new opportunities in other areas. In the insurance sector, foreign shareholding restrictions have been lifted, while a Circular also promises to liberalize the digital economy. In addition, negative lists have been shortened for Hainan Free Trade Port and the Market Access Negative List, while the Catalogue for Encouraged Industries for Foreign Investment has been extended. Moreover, the application process has been standardised for domestic and international investors wishing to enter restricted sectors, as well as Shanghai Pilot Free Trade Zone. Regional headquarters, R&D endeavours and imported self-use equipment are eligible for tax incentives, grants and customs duty exemptions, respectively. Thus, ownership and operations, coming after potential screenings, could be made more efficient and balance out the negative impact of increased screenings.

The South-East Asian subregion is further advancing its position as a regional FDI hub. Eight new measures have been introduced since 2020, mostly liberalizing and facilitating. Indonesia was responsible for the vast majority and bulk of changes, having introduced six new measures – four focused on liberalizing and two on restricting. Regarding the former, there are further openings and liberalization, under Presidential Regulation 10, Government Regulation No. 18 and the ‘Omnibus Law’ which:

(a) Replace negative with positive lists, opening previously closed telecommunication, transportation, energy and construction up for foreigners;
(b) Extend to eligible foreign investors the ownership of strata title apartment units in special economic zones instead of right-to-use provisions;
(c) Introduce simplification, streamlining and harmonization.

New restrictive measures in Indonesia increased the capital requirements for companies from rupiah 2.5 billion to rupiah 10 billion in paid-up capital. In addition, a requirement was introduced for 15 per cent of the shares in the payment services
sector to be held by Indonesian shareholders. Several sectors were closed to FDI, including the alcoholic beverage sector as well as several subcomponents of the e-commerce sectors.\(^4\) Aside from these measures, Indonesia also upgraded the status of the investment promotion agency, B Badan Koordinasi Penanaman Modal (BKPM) into a fully-fledged Ministry of Investment with the mandate of boosting investment to and in the country (UNCTAD Policy Hub).

Turning to other South-East Asian countries, Viet Nam introduced new lists for sectors that were closed to, or restricted for FDI. In addition, new criteria were introduced for qualifying as a high-tech business and which tie tax incentives to harsher sectoral revenue accumulation and educational levels of employees inter alia (UNCTAD Investment Policy Hub, 2021). New regulations for M&A, restructuring and dissolution of Vietnamese companies might further deter investment of this form into Viet Nam (Tilleke and Gibbins, 2021). Cambodia has adopted a new Law on Investment with improved ownership provisions, more protection and guarantees, tax incentives in 19 sectors, streamlined and more efficient procedures, and equal treatment for domestic and foreign investors.

In the South and South-West Asian subregion, countries generally attempted to facilitate FDI inflows by liberalizing provisions. India opened up the insurance sector further, raising the FDI limit from 49 per cent to 74 per cent. Sri Lanka established a pharmaceutical manufacturing zone that provides all infrastructural necessities, which is located strategically close to Hambantota Port. Nepal liberalized the primary sector for investments, removed a variety of subsectors in the agricultural sector, and enacted a policy in which foreign investors must commit 70 per cent of the investment within a year of approval; the final 30 per cent can be made in the subsequent two years after investment approval.

Australia, New Zealand and Fiji were the only countries active in the investment policy realm in the Pacific subregion.

Australia introduced one measure to facilitate investment and two restricting measures. Liberalizing measures included the implementation of a Corporate Collective Investment Vehicle to improve licensing efficiency, review tax regulations and provide certainty for large-scale investments. On the restrictive side, a temporary monetary threshold for investment screenings and more ambitious monitoring requirements in national security businesses were made permanent (in force from 1 January 2021)

\(^4\) Within e-commerce, FDI is not allowed in the following subsectors: food and beverages, tobacco, chemicals, pharmacy, cosmetics, laboratory equipment, textiles and clothes, footwear, personal equipment, and household and kitchen equipment.
(UNCTAD Investment Policy Hub, 2021). Of further concern over this measure is that the Treasury has been granted the ability to unilaterally impose conditions even after Foreign Investment Review Board (FIRB) approval (McHugh, 2021). Beyond this, Australia has also tightened visa requirements for investors. Not only did venture capital and private equity investment requirements double (20 per cent of funds), but 30 per cent now need to be invested in “emerging companies” through a managed fund. The overall capital amount for visa holders thus rose from US$1.5 million to US$2.5 million (UNCTAD Investment Policy Hub, 2021). Thus, barriers to migration and investment have been, interrelatedly, extended.

New Zealand displayed a rather balanced policy stance. There was a welcome change with the introduction of the Overseas Amendment Act 2021, which removes the requirement for approval by the Overseas Investment Office in cases of low-risk transactions, while providing simplified procedures (for overseas investors) and improved management (for New Zealanders) in cases of high-risk transactions. On the other side, however, the Government may have acted too eagerly in making sure home-country effects are beneficial in the process disincentivising investors. Investors interested in acquiring considerable New Zealand business assets now face new and thorough tax disclosure requirements when handing in their applications (starting from 5 July 2021). Furthermore, a new National Security and Public Order notification tool may well contribute to uncertainty. Similar to the Australian FIRB, this notification gives the Overseas Investment Office and Ministers involved the right to review ‘strategically important businesses that are otherwise free of consent requirements (starting from 7 June 2021). ‘Strategically important’ in both cases is subject to rulings that may contribute to setting a precedent, rendering the investment environment vague and unpredictable.

Finally, Fiji, has reassured investors with the issuance of its new Investment Act that removes the application requirement for a Foreign Investor Registration Certificate, while also offering a range of protection and guarantees to foreign investors. Reporting requirements are now standardised among local and foreign investors. However, the Government reserves the right for ownership ceilings and restrictions in critical sectors. Overall, from a comparative perspective, this is welcome news for potential investors in the archipelago.

6. FDI and the health-care sector

The health sector has always been a core priority for most national development strategies. Ensuring access to health-related services and goods is a permanent policy objective for achieving the Sustainable Development Goals (SDGs).
The ongoing COVID-19 pandemic has exposed the cracks in the current health sector, deteriorated access to health care, tested the resilience of global supply chains of medical goods and put an unprecedented strain on national health systems. Through this, it has also highlighted the importance of investing more in health and creating stronger health systems. Investments in the health sector usually refer to investments in three key components. These are:

(a) The manufacturing component – including the production of medical goods and devices as well as the manufacturing of medical equipment and pharmaceuticals;
(b) The infrastructure component – including the construction of medical facilities such as hospitals, health centres and medical research centres;
(c) The services component – including the provision and export of medical services, research and development in fields such as medical technologies and medicine, and medical tourism.

In the context of this report, health-related FDI focuses on four related subsectors: pharmaceuticals, biotechnology, medical devices and health care. National development goals and comparative advantages in the various subsectors have often determined which subsector is prioritized for investment. Consequently, the level of FDI that each respective subsector receives will differ within each country and across the Asia-Pacific region as a whole.

Figure 10. Greenfield FDI inflow to Asia and the Pacific in the health sector, 2008-2020

Source: ESCAP calculations based on fDi Markets data (accessed November 2021)
Greenfield inward investment as a whole in all four segments of the health sector, was considerably volatile during 2008-2020 (figure 10). More worrisome is the fact that greenfield FDI in the sector was 50 per cent lower in 2020 compared with 2008. Drops in investment in the sector began after the financial crisis in 2009, although they started to recover in 2012. They dropped again in 2014, and again from 2018 onwards. More recently, the general downward trend in FDI levels during the past five years, combined with dramatic declines in greenfield investments since the start of the COVID-19 pandemic, have driven the decline of FDI into the sector. Illustrating this, investment in the health-care sector dropped by 45 per cent in 2019-2020; the decline has continued in 2021, with a drop of 34 per cent in the first three quarters of the year compared with the same period in 2020.

Turning to the individual subsectors, during 2008-2020 the pharmaceutical subsector attracted the highest amount of greenfield investment, amounting to US$49.2 billion. It attracted more than twice the amount of investment that went into the medical devices subsector, which stood second (US$24 billion). They were followed by biotechnology (US$19.6 billion) and health-care subsectors (US$11.9 billion). The decrease in investment in the health sector since the pandemic, can be attributed mainly to contractions in the medical devices subsector which declined sharply in 2019, compared with smaller contractions in the health-care and biotechnology subsectors, and an increase in the pharmaceuticals subsector (figure 11).

![Figure 11. Greenfield FDI inflow to Asia and the Pacific by subsector, 2008-2020](image)

Source: ESCAP calculations based on fDi Markets data (accessed November 2021)
The production and export of pharmaceutical products constitutes a large share in most Asian and Pacific economies. China and India particularly are two of the world’s largest suppliers of pharmaceuticals. In 2019, investment in the pharmaceutical subsector amounted to US$3.3 billion, and fell by 70 per cent to US$1 billion in 2020. Prospects also remain subdued for the remainder of 2021 as well as 2022, with US$0.9 billion worth of greenfield investments being undertaken in the first three quarters of 2021 in the pharmaceutical subsector. Investment in that sector might take longer to bounce back as countries rethink their medical supply chains, given the disruptions and shortages caused by the lockdowns in 2020.

The medical devices subsector has experienced the largest growth in investment of close to 400 per cent, from US$0.8 billion in 2008 to US$3.9 billion in 2018. It, however, also experienced the largest decrease in investment, a fall of 83 per cent between 2018 and 2019. In January to August 2021, this fall was further exaggerated, leading to a 90 per cent decrease since 2018. This fall is surprising, given the excessive increase in demand for medical devices such as PPE suits, ventilators, oxygen masks, and latex gloves. The continuing decrease in 2020 could be explained by the rethinking of supply chains. However, unlike in the pharmaceuticals subsector, the medical devices subsector saw just a smaller decrease in 2021. In the short term, contractions in investment in this sector could be reversed by an increase in demand for medical equipment as developed countries set up their factories for the manufacture of medical devices. Investment in this sector is also set to increase, given a rapidly expanding middle class and an ageing population in several Asian countries.

Investment in the biotechnology subsector was at its peak in 2009, before a sharp decrease following the global financial crisis that continued until 2012. In 2012, investments were at their lowest in this subsector at US$0.2 billion. Since then, however, inward investment began rising and reached US$2.1 billion in 2018. The pandemic caused an expected decrease in investment in the subsector in 2019; however, unlike all the other subsectors, the biotechnology subsector saw an uptick in investment in 2020 with a value of US$1.3 billion in investments. The biotechnology subsector is the primary driver of innovation in the health sector. Its resilience during the pandemic should not come as a surprise as the race to understand and develop treatments for the virus has led to an increase in the attractiveness of this sector as an area for investment. This trend is only set to increase as the world moves towards further advances in digital technologies, particularly digital health technologies. Although in the first three quarters of 2021, investment in this subsector only reached US$0.6 billion, the slow-down could be justified by the focus on manufacturing more vaccines instead of developing new ones.
Finally, the health-care subsector has received the lowest amount of inward investment in the region. It was at its peak in 2014 with US$2.2 billion in greenfield investment, but has since seen a steady decline – except for a small increase in 2018 when it attracted US$0.6 billion worth of investments. Between 2014 and 2020, investment in this sector recorded a decrease of 99 per cent, which is not surprising given the dismal amount of investment made in this subsector in 2020 (US$20 million). However, investment in the first three quarters of 2021 has been more promising with an uptick of close to US$40 million. The health-care sector faces the highest number of FDI restrictions, which aim to prevent the crowding out of smaller domestic firms. However, the pandemic has exposed the fault lines in the current health system, with shortages not just of medical equipment but also of medical services. As a result, investment in health-care services, including education and training, is going to become an important aspect on which Asia-Pacific IPAs will need to focus their strategies.

Turning to mergers and acquisitions (M&As), this type of investment has also been particularly dominant in the health-care sector in the Asia-Pacific region. The flow of FDI through cross-border M&As have been on a constant rise since the early 2000s, with the total value of projects increasing from US$2 billion to US$10.6 billion dollars from 2001 to 2020 (figure 12). Between 2010 and 2020, more than 6,000 agreements, worth US$421 billion, took place in the region. Since 2010, M&As have seen a steady rise, but in 2018 they increased very quickly by 416 per cent from their level in 2010 to reach a value of US$120 billion. This sudden increase can be mainly attributed to a US$76 billion arrangement between Shire PLC (Ireland) and Takeda Pharmaceuticals (Japan). This agreement amounted to more than 50 per cent of the value of M&As in 2018. Although the COVID-19 crisis caused a sharp decrease of 67 per cent in these project values, they remained above pre-2018 levels. Most M&A deals in the region took place in the pharmaceuticals subsector – close to 2,500 between 2010 and 2020. This was followed by the health-care subsector, and then biotechnology. Although there seems to be a pivot in the expansion strategies of developed economies, where they favour smaller acquisitions over larger ones in this sector (UNCTAD, 2021a), the same cannot be said yet for Asia-Pacific, as between 2010 and 2019 the number of M&As a value of more than US$1 billion increased from four to 10, with a dip in 2020 to five.
Turning to country-wise trends in investment in the Asia-Pacific region’s health sector, China was the largest receiver of inward greenfield FDI during 2008-2020 (figure 13). During this period, it accumulated a stock of US$37 billion in the health sector, and in 2020 accounted for 40 per cent of the total health sector investment to the region. In terms of stock of investment, China is followed by India (US$18 billion), Singapore (US$14 billion) and Malaysia (US$5 billion). Market-seeking is the primary incentive for firms to invest in these countries. A total of 51.5 per cent of companies report domestic market growth as the key motive, and 32.7 per cent of companies believe proximity to markets and customers incentivizes them. In addition, a friendly regulatory environment as well as active promotion measures contribute to health-related FDI promotion in these countries. For example, stronger patent protection leads to higher FDI inflow to the Indian pharmaceutical sector (Tripathy and others, 2011). In the case of Singapore, the launch of a comprehensive pharmaceutical programme – the Biomedical Science (BMS) initiative – has provided a clear policy framework that has boosted FDI in the country (Mercurio and Kim, 2015).

The 2018 increase in the inward greenfield investment to the region was mainly led by increased inward investment in India and China. For example, in 2018 inward greenfield investment in China’s health sector grew by 22 per cent and by 885 per cent in India. In 2020, concerted efforts to increase health-related FDI resulted in several economies in the region recording higher investments in the sector, including (in descending order) Singapore, Thailand, Uzbekistan, Cambodia, New Zealand and Macau, China. Several developing countries, such as the Lao People’s Democratic
Republic, Maldives, Cambodia, Nepal, and Sri Lanka, began to receive FDI into the health sector for the first time. This illustrates the important role that health-sector FDI can play in complementing public resources to build and develop a sector that is better able to respond to health crises. Subsector investment trends in those countries are similar to the trends seen in subsector investment trends in the region. For most, the highest amount of investment was in the pharmaceutical subsector, sometimes preceded by the medical devices subsector, and followed by the biotechnology and health-care subsectors. For India and Malaysia, investments in the medical devices sector have been greater than the pharmaceutical sector, while for the Republic of Korea, the biotechnology subsector has attracted the largest amount of investment compared with all other subsectors.

![Figure 13. Share of health sector investment in the Asia-Pacific region, 2020 (percentage)](image_url)

Source: ESCAP calculations based on fDi Markets data (accessed November 2021)

In terms of source countries, investors from developed countries, together with several Asian economies, were responsible for the largest shares of investment in Asia and the Pacific in the health sector. Between 2008 and 2021, the United States was the largest investor to the Asia-Pacific health sector, accounting for 35 per cent of all health-related greenfield investment in the region. Switzerland, Japan, Germany and France, in descending order, followed the United States as the largest sources of investment. Together, those five countries accounted for 66 per cent of all health-related investment in the Asia-Pacific region. While investment in the health-care
sector from developed economies outside the region decreased in 2020, intraregional FDI in the sector grew, with investment by China and the Republic of Korea increasing by 3,771 per cent and 87 per cent, respectively. In terms of intraregional investors, firms from China, Japan, the Republic of Korea, Singapore and India led investments in the health-care sector in the region. Their role as outward investors in the region in the health sector is expected to grow in the wake of the COVID-19 pandemic. Japan, in particular, can act as a reliable source of investment, since it excels in expertise in advanced technology and its companies disclose nearly 100 per cent of their pharmaceutical manufacturing know-how, which can induce knowledge spillovers and aid receivers to achieve self-reliance (Kumari et. al., 2021).

Since the pandemic, countries in the Asia-Pacific region have needed more investment in the health sector. In particular, subsectors such as pharmaceuticals and health care are important for this region, given that one of them drives investment in the region while the importance of the other has been increasing since the beginning of the pandemic. The health-care sector is also the most restricted in the Asia-Pacific. Eleven countries in this region impose some kind of entry restrictions in the health-care and medical services subsectors (UNCTAD, 2021a). These take the form of FDI ceilings (China, Malaysia, Myanmar, the Philippines and Thailand), FDI bans (Indonesia, the Lao People’s Democratic Republic, Malaysia and Myanmar), and conditional entry (Mongolia, the United Arab Emirates and Viet Nam). Eight of the countries in the Asia-Pacific region also impose entry restrictions on the pharmaceuticals and biotechnology subsectors, while six impose restrictions on the manufacturing of medical devices. Entry restriction measures in the health-care subsector typically aim at avoiding crowding-out small local hospitals and clinics, while entry restrictions in pharmaceuticals production and biotechnology are mostly aimed at ensuring the participation of local investors.

At the same time, many countries in Asia and the Pacific have also made investments in the health sector a core policy objective. Countries such as Sri Lanka, Brunei Darussalam, Bhutan and Timor-Leste have prioritized FDI in the health sector. In order to promote and attract investment in health, countries have adopted several measures, such as:

(a) Targeting investment promotion (13 per cent of the countries in Asia) – for example, Malaysia and Singapore periodically organize medical fairs to promote investment;

(b) Creating special economic zones (14 per cent of the countries in Asia) – for example, the Chinese Zhuhai International Health Port and the Taizhou Medical New and Hi-tech Industrial Development Zone focus on the pharmaceutical industry;

(c) Other measures that include financial incentives for investment. For example, Thailand has announced new incentives to accelerate investment in the
medical industry, including a 50 per cent reduction in corporate income tax for another three years.

Although these investment promotion activities are essential for attracting more investment, there are certain key challenges that limit the capacity of countries in the region to attract the quantity and quality of investment needed. These include poor regional and domestic investment ecosystems, a lack of capital, technology and skills, low regulatory capacity, and poor infrastructure and related services. Addressing these challenges is an essential first step in promoting the needed investment in the health sector. A few actions that member countries can take in this regard include:

(a) Investing in skills development and technological capacity. This is extremely important for the health sector as shown by the COVID-19 pandemic. The race to develop and distribute vaccines was essential in combating the virus. Investing in the necessary skills and technology to achieve these results can boost the attractiveness of a country as a place for innovation in the health sector. University education should be aligned and updated according to the industrial practices and regulatory standards;

(b) Creating linkages between foreign investors and domestic producers. Through stronger linkages between foreign investors and domestic producers, sharing of technology and knowledge becomes easier. This is particularly important in the health sector for the development of vaccines, pharmaceuticals and medical devices that meet the required regulatory standard. A recent example is that of AstraZeneca, a British–Swedish pharmaceuticals company, that licensed the Serum Institute, a private company in India, and Siam Bioscience, a public-private partnership based in Thailand, to produce its COVID-19 vaccines. This has contributed extensively to India and Thailand becoming regional and global suppliers of the AstraZeneca vaccine;

(c) Improving access to finance. The health sector usually has complex regulatory requirements for investment, given its importance in national policy. As a result, private sector investors are often reluctant to invest in this sector. Therefore, Governments and regional development banks need to provide alternate ways of financing development in the health sector. In Asia and the Pacific, for example, the Asian Development Bank has launched an Operation Plan for Health, 2015-2020, to support developing countries in achieving universal health coverage through investment in health infrastructure, health governance and health financing;

(d) Updating and streamlining regulations. The health sector usually has a complex regulatory framework. Streamlining and updating complex and old regulations can help to facilitate investment in the sector. To this end, countries can consider joining multilateral systems that facilitate the upgrading of regulatory systems. For example, countries such as Indonesia, Thailand and the Islamic Republic of Iran, together with South Africa, Brazil, Argentina and Mexico, are part of the
Pharmaceutical Inspection Co-operation Scheme, which ensures that members comply with the established international standards in the pharmaceutical sector;

(e) Investing in health infrastructure. One way of addressing infrastructure needs is through dedicated industrial parks or similar economic zones that provide centralized services and have positive spill overs. For example, India is promoting “bulk drug parks” and “medical device parks” to reduce the cost of local manufacturing in the country. Another aspect of infrastructure development for the health sector is investing in the information and communication technology (ICT) sector to adopt digital health care which is more accessible and cheaper. ESCAP is already partnering with the China Public-Private Partnerships Center (CPPPC), under the Ministry of Finance, and the Asian Development Bank, to realize the promise of telemedicine in rural and remote areas via more resilient ICT infrastructure development;

(f) Emphasizing a regional cooperation approach. Regional cooperation can help to ensure more sustainable and equitable development for all. It reduces barriers to interregional trade and investment, and facilitates more cross-border activity. It also helps to harmonize regulation across regions, which makes seeking market approval across countries much easier. For example, in 2015, ASEAN established the ASEAN Medical Device Directive (AMDD), a set of directives that aim to harmonize regulations across the region and require medical device manufacturers to register their devices in any member State where they have production. Because of the AMDD, medical devices start-ups in ASEAN member States are able to conduct cross-border business across ASEAN without having a physical base in the target country;

(g) Harnessing digital channels. Harnessing digital channels for investment promotion and facilitation activities can also make the health sector more attractive for investment. For example, the Republic of Korea has done a great job in adopting digital channels to promote investment in the health sector, for which it was also recognized at the World Investment Forum in 2021 (see box 1);

(h) Ensuring sustainable investment. The health sector can benefit from ensuring that the investment in a country is contributing to the SDGs. To this end, the sustainable FDI indicators developed by UN ESCAP to assess the contribution of an FDI project towards sustainable development can enable countries to review their investments in the health sector and determine if these can contribute to the country's priorities in that sector. Countries can use this tool to analyse project level investments and understand their contributions to sustainable development.

To support member States in this area, ESCAP will release a guide on investment in the health-care sector in early 2022. The guide will provide an in-depth overview of trends in the region as well as elaborate further on policy recommendations and examples of best practices in the region.
Invest Korea, the Republic of Korea’s investment promotion agency, recently won an award at the World Investment Forum 2021 for promoting investment in health. It was especially recognized for the wide-ranging coverage of the health sector on its virtual outreach channels, which includes tools such as sector guides and reports, information about investment opportunities, and incentives and databases as well as potential investment partners. In 2020, Invest Korea’s annual investment event, Invest Korea Week, was also held online. Its session on “promising industries in Korea” featured the pharmaceutical industry and was viewed more than 40,000 times on YouTube (Wessendrop and others, 2021).

The Republic of Korea is also advancing innovation in the health sector. It had the largest growth in outward investment in the biotechnology sector in 2020. It has also developed a special economic zone in the region of Songdo which focuses on high-tech industries such as bioengineering and hosts a number of pharmaceutical companies (UNCTAD, 2021b).

The COVID-19 pandemic has brought with it a great opportunity to harness digital technologies in not only the health sector, but also the investment sector. Channelling these technologies can help achieve the innovation and investment needed to overcome the fallout from the pandemic.

7. Conclusion

COVID-19 has accentuated economic and social inequalities in Asia and the Pacific. Appropriate policy responses to this public health and economic emergency can accelerate long-needed transformations towards sustainable development in the region by putting in place the right conditions to attract, retain and bolster FDI in a manner that prioritizes sustainable development. Bold new actions taken by countries today will set the national development trajectory for perhaps the next decade or even longer.

The pandemic will have lasting effects on national, regional and global investment policymaking. While the priorities of each country in the building-back period differ, all Governments will have to work out how to tailor their investment policies so that FDI can be most effectively harnessed to enable economies to get back on the path to sustainable development. Many economies in the region, including, inter alia,
Bhutan, Cambodia, Fiji, Indonesia, Malaysia and Mongolia, have used the pandemic to revisit and revise their FDI strategies and investment laws, with a view towards sustainable development. However, a more concerted effort among the region’s other economies to ensure that FDI is repurposed to target sustainable development priority sectors is still needed. Given the considerable uncertainty of the road ahead, policies must be resolutely supportive and carefully sequenced if they are to build and sustain a recovery in and across the region’s economies. Furthermore, as the crisis is still unfolding, the uncertainty that it implies means that a certain degree of flexibility must be incorporated into any and all revamped FDI policies, so that they can evolve and facilitate a sustainable recovery. To this end, ESCAP can provide its member States with technical assistance and policy advisory services to make FDI more fitting for sustainable development purposes.

Beyond this, re-energizing multilateral and regional cooperation on investment, particularly on matters related to investment facilitation, will also be especially important in enabling a path to recovery, especially for the countries in special situations in the region. This is particularly true at a time when national screening measures on FDI have reached a high. To this end, the coming into force of the Regional Comprehensive Economic Partnership Agreement, which has a special chapter on investment with an investment facilitation provision, and the ASEAN Investment Facilitation Framework will provide a gateway to boosting sustainable investment flows in the near term in member countries. Continued progress on negotiations of the multilateral framework on investment facilitation for development at the WTO will also help to boost sustainable investment flows to a broader set of Asian and Pacific countries in the longer term.

Regional cooperation, together with political commitment to keeping countries open to investment, will be critical to helping economies and businesses build back better in the recovery period and to harness the potential of regional value chain-linked FDI. In particular, such cooperation can help stimulate more FDI in the region’s health sector, attract and facilitate investments to address transboundary challenges, make national and international investment governance more coherent and sustainable development-oriented, and enable countries to more effectively harness intraregional investment flows. The rise in Asia’s outward FDI flows and the general upward trajectory for intraregional FDI up until the pandemic implies that there is much scope for strengthening cooperation between IPAs, including both home and host country IPAs.\(^5\) Such collaboration should include partnerships on

\(^5\) Such partnerships could also promote joint IPA activities, like for instance matchmaking, joint business missions, jointly developed investment projects. It could also include an investment fair platform that could bring both home and host countries, as well as investors to a table to identify, present and discuss investment opportunities (Stephenson, 2020).
knowledge and experience-sharing to build capacity, enhance investment flows and promote sustainable investment. To this end, ESCAP is working with several other international and regional institutions, including the World Economic Forum, to develop a proposal for a regional investment cooperation platform.

In conclusion, ESCAP is committed to supporting its member States in designing and implementing FDI policies as well as FDI promotion, and facilitation mechanisms for sustainable development. To this end, ESCAP has been working with several of its member States to design sustainable FDI policies to respond to the COVID-19 pandemic and to deploy new approaches to investment promotion to attract FDI in the digital economy. Furthermore, together with the World Economic Forum and Kings College of London, ESCAP released the Outward FDI Policy Toolkit for Sustainable Development to help home countries better leverage outward FDI for positive developmental outcomes. In 2022, ESCAP will be releasing the second edition of its Handbook on FDI Policies, Promotion and Facilitation for Sustainable Development in Asia and the Pacific as well as a Policy Guidebook on Promoting and Facilitating FDI in the Digital Economy. In addition, in 2022 ESCAP will release an e-learning course for IPAs to train them on how to design and implement indicators to evaluate the contribution of an FDI project to sustainable development. Beyond this, ESCAP’s intergovernmental platform, particularly its ARTNeT on FDI platform, is well-placed to support efforts in the region to re-invigorate regional cooperation on investment. It provides a unique platform which brings together the region’s policymakers and stakeholders to collectively develop strategies to ensure FDI policies and regulatory frameworks, thus enabling the region to get back on the path towards sustainable development.
References


The Asia-Pacific Trade and Investment Trends are prepared by the Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific. They provide annual updates and forecasts of trends and developments in: (a) intra- and inter-regional trade in goods and services; (b) foreign direct investment; (c) regional trade integration; as means of implementation of Sustainable Development Goals. It is freely available on the ESCAP website: https://www.unescap.org/our-work/trade-investment-innovation