Entering the storm: anticipating risk in an uncertain world

The 2020 Foreign Direct Investment Confidence Index®

KEARNEY
Global Business Policy Council

Investor sentiments at the onset of the COVID-19 crisis highlight the urgent need for strategic foresight capabilities in an age of external shocks, mounting complexities, and growing risks.

No one could have predicted last December that a then-unknown virus would bring the global economy to a standstill—or that it would morph into a global pandemic that would claim more than 200,000 lives in the span of just a few months. As COVID-19 continues to ravage the global economy, leaving no market unscathed, much uncertainty remains. The total cost of the virus's devastation, in human and economic terms, will not come into focus for some time. A host of concurrent shocks, from continued energy market volatility to extraordinary food shortages, are among the myriad looming challenges.

This year's Foreign Direct Investment Confidence Index (FDICI) survey was in the field as COVID-19 was starting its deadly spread across the globe, with market shocks just beginning to emerge. The survey captures a moment in time in which the world was on the brink—as it was entering a great storm. The seismic shocks that were under way—and are still ongoing—had not fully revealed themselves in the first few months of the year. Therefore, they are not entirely reflected in the survey results. In fact, investors showed a strong dose of optimism about the global economy even as recently as early March. Investors only appeared to see the approaching storm over the horizon at the last second, and many were caught flat-footed as the world around them was unraveling.

It is noteworthy that any snapshot in time would fail to capture what clearly has been the most tumultuous circumstance in the 22-year history of the Index. Even in less volatile periods, it is difficult to anticipate seismic change. The recent history of prediction—or failure thereof—is noteworthy. Major surprises and misses over the past several years—from the global financial crisis to Brexit and now COVID-19—underscore how prediction methodologies can come up short in evaluating the forces of change.

Yet strategic foresight can provide outsized value when deployed effectively. Survey findings suggest that climate change may be one area in which investors are looking ahead. Notably, 85 percent of investors tell us that the environmental impact of potential foreign investment targets is important to them. And they anticipate further climate regulations and worsening climate risks in the years ahead. To maximize gains, investors will need to recalibrate their investment decisions to match the climate-driven shifts in their operating environments.

Even more fundamentally, we expect the very nature of foreign direct investment (FDI) and its role in corporate global value chains may well be undergoing the most dramatic strategic rethink since the global expansionary period at the turn of the century when this Index was launched. This reassessment of FDI had already begun pre-COVID. Automation and technology had diminished the importance of labor arbitrage, fears of policy-induced friction in the cross-border movement of goods had generated worries about security of supply, and growing consumer demand for greater customization and more rapid delivery of products argued in favor of shorter "multi-local" supply chains. The many knock-on effects of COVID-19 will only accelerate this fundamental reassessment.

As in previous years, the FDICI has revealed important insights about the thought processes driving global investment. We expect foreign direct investment to crash in 2020, especially for the least developed countries. The nature and timeline of FDI recovery remain highly uncertain and subject to the kind of major reassessment noted above. Investors that effectively leverage strategic foresight tools will have an advantage planning for the post-COVID world.

As always, we welcome your views regarding the Index and our analysis.

Paul A. Laudicina
Chairman emeritus of Kearney and founder of the Global Business Policy Council

Executive summary

— **The profound downward effect of the COVID-19 crisis on direct investment is evident in the results of this year's Kearney Foreign Direct Investment Confidence Index (FDICI).** Our survey was in the field between January 27 and March 3, just as **the world was entering the protracted pandemic "storm" that continues to this writing.** At the outset of the survey period, before the spread of the virus, business leaders were reasonably bullish about the global economy and the future of direct investment. COVID-19 appeared to be contained in Asia. Furthermore, after protracted trade friction, Washington and Beijing had concluded the first phase of the US–China trade agreement. This sentiment declined sharply over the following six weeks, however, mirroring the rapid outbreak of the pandemic. As a result, investor confidence predictably declined across the board—for developed, emerging, and frontier markets alike.[1]

— This year's results are significant for a number of reasons. Three in particular stand out:

  — They reveal the extent to which business leaders underestimated the scale and scope of the COVID-19 phenomenon—even at the early stages of COVID-19. When the survey was in the field at the beginning of the year, business leaders were very confident about future prospects. In fact, 72 percent said they were more optimistic about the coming year than they were last year.

  — The survey provides a remarkable snapshot of how business leaders (and many other leaders) were caught flat-footed. Many had failed to envision—or at least plan for—a future in which an infectious disease could effectively put the global economy into a medically induced coma through lockdowns. The reality, however, is that infectious disease is routinely identified in strategic assessments as a potential driver of systematic change. For years, strategic foresight models have highlighted the "low-probability, high-impact" possibility of a global pandemic and its effect on international business. It is clear that few organizations were able to anticipate or plan for the circumstances that followed.[2]

  — As investors "entered the storm," there appeared to be a return to the fundamentals—to large, more stable markets with more predictable political and regulatory structures. This move amounts to a continuation of the shift to developed economies that has grown over recent years.

[1] Throughout this report, the term "developed markets" is used to describe the countries that the International Monetary Fund classifies as advanced economies based on high income per capita, high export diversification, and strong integration into the global financial system. Emerging markets are those countries that have middle levels of income per capita, offer a governance and regulatory environment that allows for some investment, and are somewhat integrated into the global financial system. Frontier markets are defined as developing economies with generally low levels of income per capita, less advanced regulatory environments, and weak integration with the global financial system.

[2] The World Economic Forum's The Global Risk Report 2020, released in mid-January prior to the annual meeting at Davos, is a case in point. Infectious disease was not among the top five risks it identified for 2020—in terms of either likelihood or impact. The competitive risk chart in the report assigns values to 30 global risks for both "likelihood" and "impact." For 2020, infectious diseases ranked only 27th in terms of likelihood and 10th in terms of impact.

- **The highest-ranked destinations this year are consistent with last year's FDICI results.** The top 10 countries on the Index remain unchanged from 2019, save for Switzerland joining the top group and Singapore falling to the 12th spot. The United States tops the 2020 Index for the eighth year in a row—spanning two presidential administrations. Canada retakes the number two position, and Germany falls to third. The United Kingdom moves down to sixth place, and France maintains its fifth place. This year marks the second time in the 22-year history of the Index—and the second consecutive year—in which all of the top five spots are held by developed markets. European and Asia Pacific countries—including Italy, Japan, China, and Australia—dominate the rest of the top 10.

- **Developed markets dominate the Index yet again.** Developed markets account for 22 of the 25 spots on the Index, maintaining their share of positions for the second year in a row. European developed markets hold steady at 14 spots, while Asia Pacific developed markets drop from eight spots last year to seven spots this year. China, Brazil, and the United Arab Emirates are the only emerging markets on the Index.

- **Brazil and Portugal make a comeback, and the United Arab Emirates rejoins the top 25.** Though included in the Index in 2018, both Brazil and Portugal fell out of the top 25 last year. They rejoin the list this year, placing 21st and 22nd respectively. The Middle East and North Africa region is represented this year, with the United Arab Emirates joining the Index at 19th, up from 21st place when it was last represented in the Index in 2017.

- **Climate change considerations play an important role in FDI decisions.** Before the full impact of the COVID-19 challenge was clear, business leaders were focused on climate change. Our survey suggests that climate-related risks are affecting the FDI assets of four-fifths of companies and are likely to influence the investment decisions of 77 percent of investors over the next three years. Investors rank extreme temperatures as the biggest climate change risk. The majority also expect climate regulations to strengthen in the coming years. More than half of investors expect financial losses as a result of climate change.

The top 10 countries remain unchanged from 2019, save for Switzerland joining the top group and Singapore falling to 12th.

The 2020 Foreign Direct Investment Confidence Index

Introduction

The present volatility of the global operating environment is unprecedented in the 22-year history of the FDICI. The economic and social tumult caused by the shocks of COVID-19, energy market turbulence, and the related fallout of both is simply extraordinary. This year's FDICI captures the attitudes of investors prior to the widespread outbreak of COVID-19 and into the early weeks of the crisis. If nothing else, these findings serve as a temperature check of where businesses were at the start of the pandemic.

It bears noting that the Index provides a snapshot of investor sentiment. Since FDI decisions are generally very carefully considered with long gestation periods, these decisions are usually much less subject to swings in business environment conditions than, for example, those in capital markets. However, the dramatic changes in the global business environment posed by COVID-19 present a degree of uncertainty and risk that will undoubtedly have a dramatic impact on FDI volume and direction.

In the document that follows, we provide the rankings of the top 25 destinations for foreign direct investment over the next three years. We then explore these results, including the strong performance of developed markets. Next, we discuss in some detail the implications of COVID-19 for investors—in terms of both our survey results and the outlook ahead. This discussion leads into our consideration of strategic foresight and the practical steps that organizations can take to prepare for low-probability, high-impact shocks, such as the ones we are experiencing now. As our readers are aware, every year our FDICI has a dedicated thematic section. When we were developing our survey late last year, we identified climate change as a key area of importance for investors. While these issues have receded somewhat from the headlines in recent months, we believe climate change will continue to be relevant for investors in the years ahead. Therefore, we have included our findings in a special section of this report. In the latter portion of the report, we also include detailed regional- and country-level analyses based on our results before offering our final conclusions.

In many respects, the 2020 FDICI tells a story of two separate worlds—one pre-COVID, in which the economic outlook was strengthening, and another as this outlook started to rapidly fade. More turmoil in the foreign direct investment environment is likely in the months ahead, but we believe this year's FDICI provides an important picture of investor thinking as we entered the current storm.

Figure 1
The 2020 Kearney Foreign Direct Investment Confidence Index®

2018	2019	2020		
1	1	**1**	United States	**2.26**
2	3	**2**	Canada	**2.20**
3	2	**3**	Germany	**2.15**
6	6	**4**	Japan	**2.14**
7	5	**5**	France	**2.09**
4	4	**6**	United Kingdom	**2.06**
8	9	**7**	Australia	**1.98**
5	7	**8**	China	**1.95**
10	8	**9**	Italy	**1.94**
9	13	**10**	Switzerland	**1.89**
15	11	**11**	Spain	**1.88**
12	10	**12**	Singapore	**1.87**
16	19	**13**	New Zealand	**1.85**
13	12	**14**	Netherlands	**1.85**
14	15	**15**	Sweden	**1.81**
21	18	**16**	Belgium	**1.75**
18	17	**17**	South Korea	**1.72**
19	20	**18**	Ireland	**1.69**
—	—	**19**	United Arab Emirates	**1.69**
20	14	**20**	Denmark	**1.69**
22	—	**21**	Portugal	**1.67**
25	—	**22**	Brazil	**1.65**
—	23	**23**	Finland	**1.65**
23	24	**24**	Norway	**1.65**
—	22	**25**	Taiwan (China)	**1.62**

Maintained ranking

Moved up

Moved down

Source: 2020 Kearney Foreign Direct Investment Confidence Index

Rankings

The United States tops the FDICI for the eighth year in a row (see figure 1).[3] This stretch represents the longest run for the United States in the top position on the Index and dates back to 2013. However, it remains behind the all-time record held by China, which maintained the first position on the Index from 2002 through 2012. The enduring appeal of the United States to foreign investors, starting in the aftermath of the Great Recession, is likely a result of its continued strong fundamentals, namely its business-friendly regulatory environment, market size, and technological infrastructure. However, increased Sino-American polarity could well impact the overall attractiveness of both superpowers as prospective investors worry about the growing negative impact of a further deterioration in this bilateral relationship.

This year marks the second time in the 22-year history of the Index—and the second consecutive year—in which all of the top five spots are held by developed markets. Canada rises one spot to reclaim the second position, after ceding the spot to Germany in last year's Index. And Germany remains in the top five but falls just one spot to rank third. France maintains its fifth position for the second straight year. And the United Kingdom falls out of the top five, dropping to sixth, after holding steady at the fourth spot for three years in a row. Instead, Japan, which held the sixth spot for the past three years, rose to fourth in this year's Index.

[3] The Index is calculated as a weighted average of the number of high, medium, and low responses to questions regarding the likelihood of making a direct investment in a market over the next three years. For information on the methodology and history of the FDICI, see About the study on page 34.

The top 10 countries on the Index remain unchanged from 2019, with one exception: Switzerland rises to the 10th place and displaces Singapore, which falls to 12th. Within the top 10, Australia makes one of the largest gains, rising two spots this year to 7th place. The other notable movement among the top 10 is that China drops one spot to 8th—after falling two spots last year, marking what was then its lowest ranking in the history of the Index. It remains, however, the highest-ranked emerging market on the Index—a distinction it has held consistently since 1999.

More broadly, markets in the Americas do better in the 2020 Index than last year, with the United States and Canada claiming the top two spots and Brazil rejoining the top 25 after a one-year absence. As a result of Brazil re-joining the Index, the region captures three spots this year—the same share as last year.

European markets hold 14 spots in this year's Index, the same number as last year. Europe is, therefore, once again the region in which companies seem most confident. Portugal, like Brazil, rejoins the Index after a year-long hiatus and holds the 21st spot. Continued investor focus on European markets likely stems from overall friendly regulatory environments coupled with skilled workforces, advanced tech infrastructure, and economic stability.

The number of Asia Pacific markets on the Index decreases to seven this year from eight last year, and only three of the countries from the region rank in the top 10: Japan, China, and Australia. There are some significant changes in the rankings of certain markets. New Zealand gains six spots to 13th in this year's Index, its highest-ever position. Taiwan (China), in contrast, drops by three spots to 25th this year.

It is important to note that almost all of the 70-plus countries in our survey—which together account for more than 95 percent of FDI inflows—experience gains in their absolute scores this year over last year. These increases serve to maintain the dramatic upward trend we saw last year in scores across the board from the prior year. Under normal circumstances, this growth would indicate that companies are keen to invest broadly around the world in the years to come. However, the emergence of the COVID-19 pandemic and the subsequent economic shocks show how quickly and dramatically the external operating environment can change.

Explaining the dominance of developed markets

Our survey results show that 82 percent of investors plan to increase their foreign direct investments over the next three years, and they have similar levels of interest in seeking new investments across all types of markets. While 53 percent say their companies are seeking new investment opportunities in emerging markets, 52 and 47 percent of investors say the same for both developed and frontier markets, respectively. There are, however, multiple explanations for developed markets' position at the top of our rankings.

The first is that developed markets show particular strength in the factors that investors tend to prioritize in their investment decisions. Top among these are an attractive investment environment and strong technological infrastructure. The optimal combination of these characteristics is most often found in developed markets (see figure 2 on page 7).

Another factor that benefits developed markets—and will continue to support their dominance in the years ahead—is that they offer a more stable and predictable economic environment relative to emerging and frontier markets. In contrast, emerging markets often tend to struggle with limited fiscal space and economic flexibility as well as high exposure to exchange rate fluctuations, which are exacerbated by US-denominated debt levels. Investors who plan to decrease FDI point to a "macroeconomic environment" as the top reason for this decision. It would stand to reason that the importance of macroeconomic stability for investors would deter investments in emerging and frontier markets should the economic indicators in these countries continue to deteriorate in the years ahead (see figure 3 on page 7).

Figure 2

The tax environment, technological innovation capabilities, and regulatory quality remain key determinants of investment intentions

From those factors that you selected, which are the most important overall factors to your company when choosing where to make FDI?

Governance and regulatory factors

Market asset and infrastructure factors

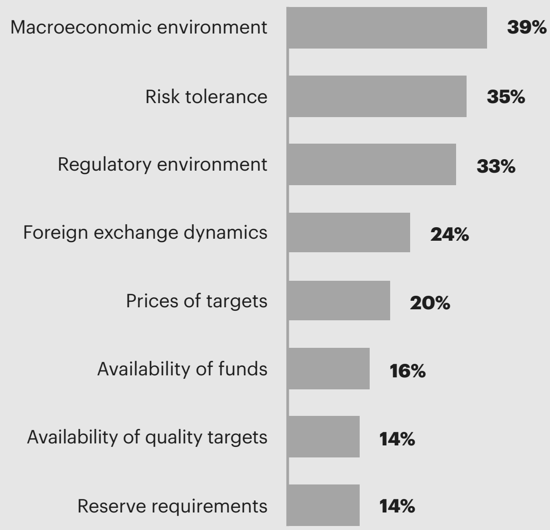
Source: 2020 Kearney Foreign Direct Investment Confidence Index

Figure 3

Availability of quality targets drives increased FDI, while macroeconomic risks hold back some firms

What factors are most important in explaining why your company's FDI will increase?

What factors are most important in explaining why your company's FDI will decrease?



Source: 2020 Kearney Foreign Direct Investment Confidence Index

The weak showing of emerging markets in the rankings this year may also be influenced by the fact that there are far more emerging and frontier markets than there are developed markets, making investor interest in these markets more diffuse. For the second consecutive year, the share of investors seeking new investments in emerging markets is technically slightly higher than the share seeking new investments in developed markets. This interest, however, is spread widely across a large number of emerging and frontier markets rather than on a handful of large, developed markets.

While investors expressed clear intentions to invest across various types of markets during our survey period, global economies have since been engulfed by the COVID-19 pandemic. The impact on emerging and frontier markets will be particularly profound. These countries will likely suffer disproportionately due to a confluence of factors, including inadequate medical infrastructure, limited fiscal options, and higher levels of poverty overall. Investors likely did not anticipate the magnitude of economic havoc brought on by this pathogen, but their enthusiasm to invest in many of these emerging and frontier markets has surely abated since.

The lasting effects of the pandemic will profoundly reshape FDI flows in the coming years.

The emergence of COVID-19

The rapid emergence of COVID-19 this year has brought us to a critical inflection point. The pandemic and its subsequent economic shocks show just how quickly and profoundly the external operating environment can change. Some markets will recover faster than others from the economic damage, and some will not reach their pre-COVID economic potential in the foreseeable future. The lasting effects of the pandemic will profoundly reshape FDI flows in the coming years.

The dynamics of the COVID-19 spread appear to have affected this year's FDI results. Our survey was in the field between January 27 and March 3, when the economic disruptions of COVID-19 were still comparatively contained. While there were some indications of the storm ahead by early March, several major developments in the global economy had not yet transpired, including countrywide lockdowns and quarantines in a number of major markets, including most European markets.

In some respects, then, the survey presents a tale of two different worlds. One of them de facto lasted into January of this year and suggested economic growth prospects were strengthening. In its October 2019 World Economic Outlook, the International Monetary Fund projected 3.4 percent growth in 2020—an improvement over its 2.9 percent estimate for 2019. Stronger growth was expected among emerging markets, including countries in Latin America and the Middle East. Developed markets, including the United States and major EU economies, were also on track to grow.

Over the course of the six weeks that the survey was in the field, the environment changed dramatically, and a second, new world emerged. The relatively optimistic outlook was turned upside down by the accelerating global spread of COVID-19. Countries started to introduce more government-mandated lockdowns and other restrictions to contain what was then still labeled an epidemic. Global stock market volatility began to intensify toward the end of February, and the signs of the looming economic crisis in Europe became clearer as the month progressed. On February 23, for example, Italy implemented its first lockdowns and quarantines in a few towns in the north. Results, therefore, show darkening investor attitudes going right up to the edge of the crisis, as its effects were just starting to percolate. In fact, only a week after the survey was completed, the World Health Organization officially classified the virus as a pandemic.

As we hurled from one world into the next over the six weeks during which the survey was in the field, investor confidence started to fall. Investor responses recorded in January are notably different than those documented toward the end of the survey period in March—for both overall country scores and for emerging risks in the external environment. In view of the relatively stable economic outlook at the beginning of 2020—when COVID-19 still appeared to be contained in Asia—investor intentions and optimism were higher. These positive attitudes subsequently declined for all markets during the survey period. Between the first two weeks of the survey (January 17–February 6) and the last two weeks (February 19–March 3), scores for developed, emerging, and frontier markets all fell 25 to 33 percent (see figure 4).

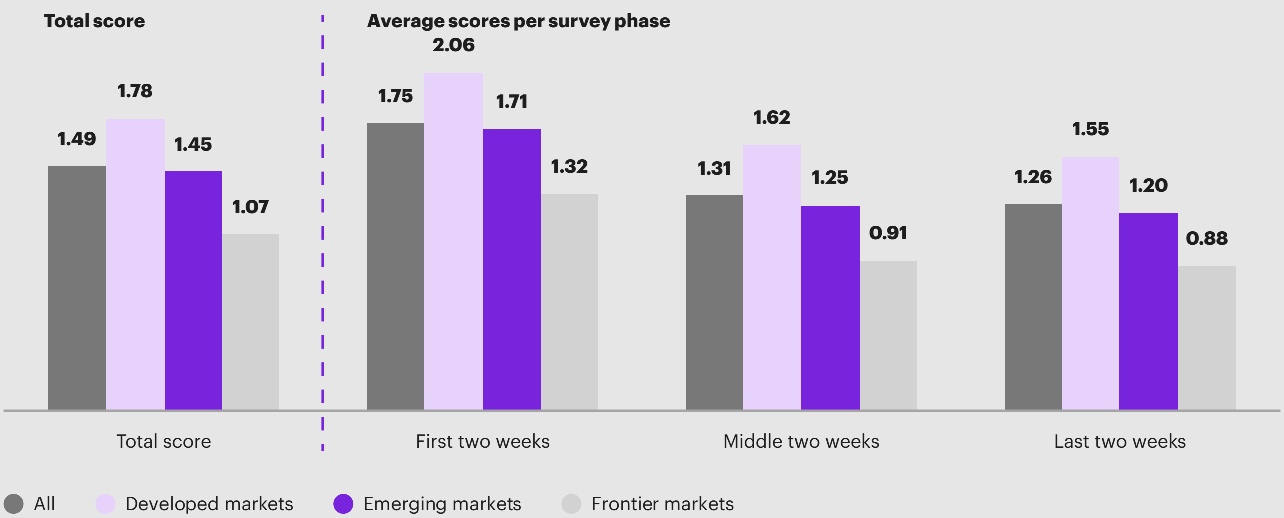
Along the same lines, the biggest concern reported by investors in all regions changed between the beginning and the end of the survey period. In the first two weeks of the survey, investors ranked commodity price increases as the biggest risk. In the last two weeks of the survey, by contrast, investors told us that a potential economic crisis in a developed market was their biggest concern (see figure 5 on page 10). This shift likely suggests that looming economic threats in the United States and key economies in Europe, such as Italy, moved to the front of mind for investors as the virus was spreading. By the end of the survey period in early March, media had reported the deaths of the first victims of COVID-19 in the United States, while the health and economic impact of the virus was growing more dire by the day in China and across the globe, particularly in Iran and Italy. By February 27, COVID-19 had reached 44 countries. These developments swiftly displaced commodity price concerns, which were likely a result of the relatively promising economic growth prospects evident in the pre-COVID world earlier in the year.

Figure 4

Investment intentions declined for all markets between January and March, likely reflecting the dampening effect of COVID-19 on the macroeconomic environment

FDI Confidence Index

Average scores by market type for all countries surveyed

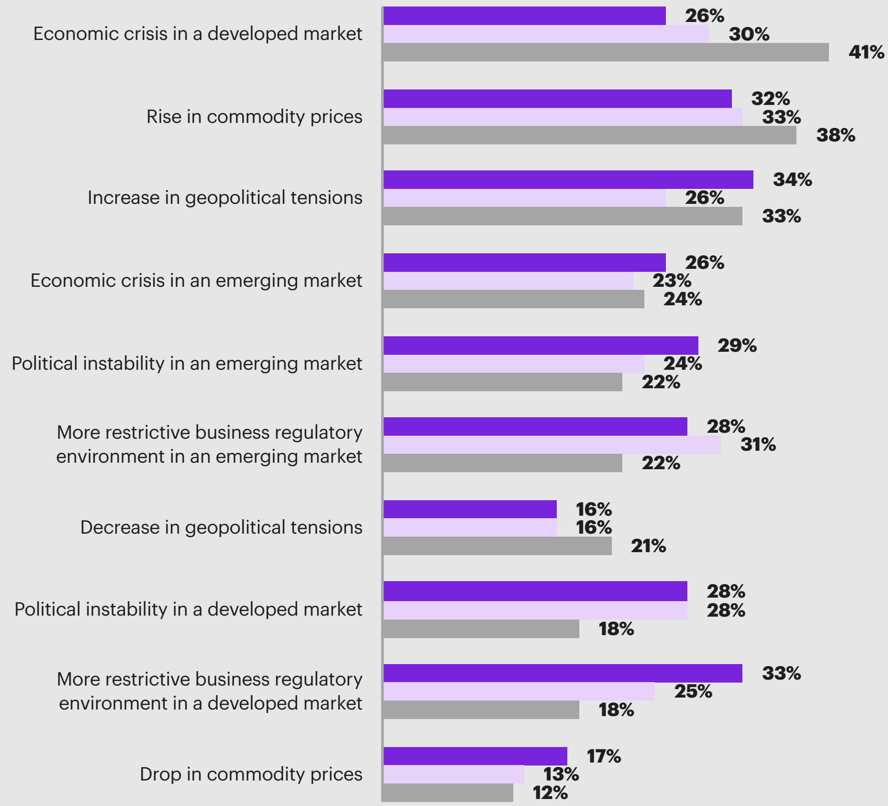


Source: 2020 Kearney Foreign Direct Investment Confidence Index

Figure 5

Significantly more investors saw an economic crisis in a developed market as a likely development in the final two weeks of the survey

What developments from among the following do you think are more likely to occur in the next year?



Source: 2020 Kearney Foreign Direct Investment Confidence Index

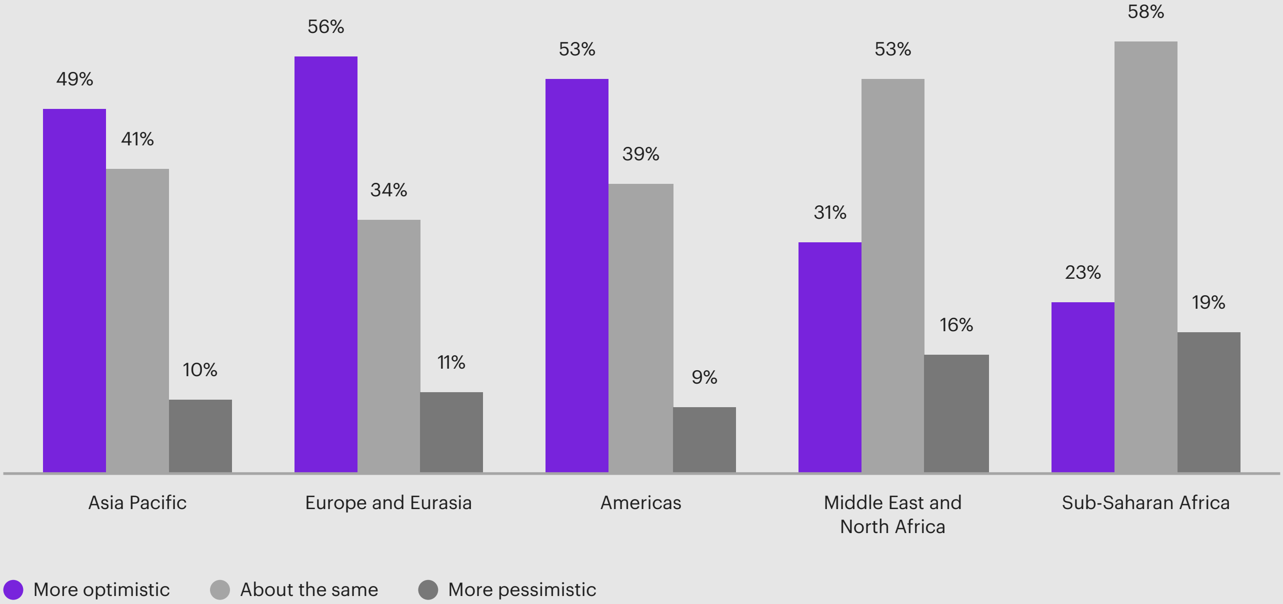
As of the writing of this report, global economic growth has gone into reverse. Economic forecasts, including our own Global Economic Outlook, predict steep declines in global GDP over the remainder of the year. The vast majority of developed, emerging, and frontier markets have fallen into a recession triggered by a range of quarantines and lockdown measures. Furthermore, export controls and trade barriers—particularly in the trade of medical supplies—have risen rapidly. All of these developments suggest a dramatic reduction in FDI in the months ahead.

Despite these present realities and some late-breaking shifts in investor sentiment in the later periods of our survey, other results suggest investors held fast to views that reflect the world that existed in January. For example, investor optimism regarding the prospects for the global economy and most regional economic outlooks remained overall stable throughout the survey (see figure 6 on page 11). This optimism suggests that investors were caught unprepared for the colossal scale of the business and economic deterioration caused by COVID-19. It may also explain why more than 80 percent of investors expected an increase in their FDI in the coming three years—a figure that did not change significantly over the six weeks that the survey was in the field. Indeed, intentions to increase FDI fell by only by a modest 11 percentage points—from 87 to 76 percent.

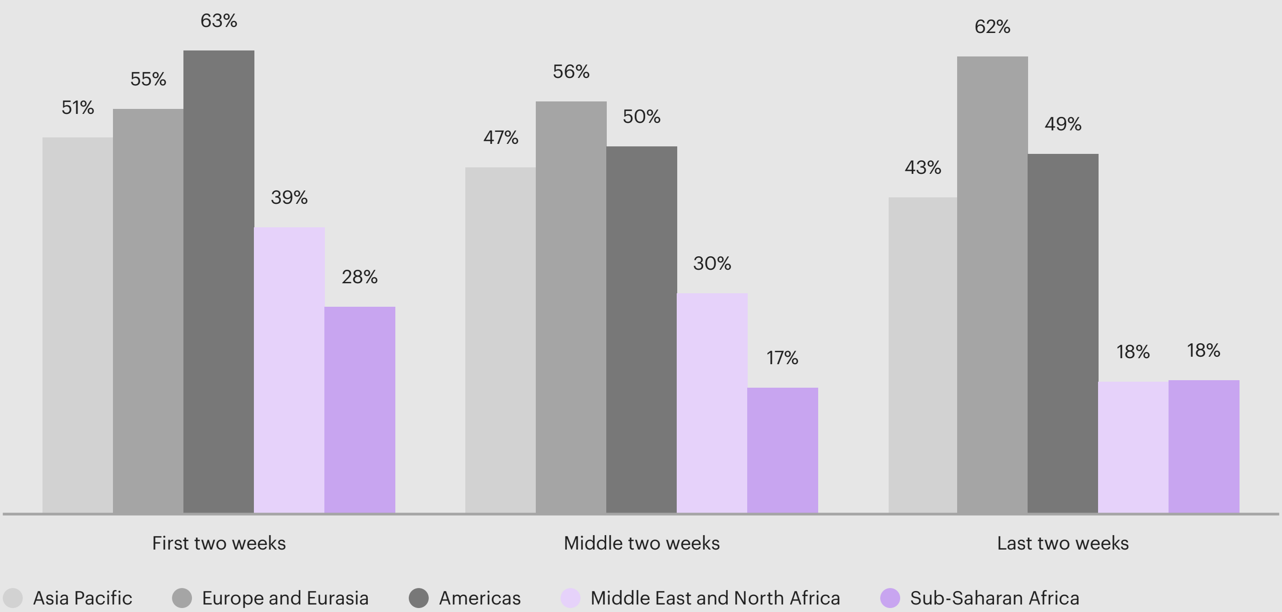
Figure 6

While investor optimism about the Americas and Europe and Eurasia was strong, the positive outlook decreased over time for all regions, except Europe and Eurasia, where confidence remained stable throughout

How has your view on regional economies changed compared with a year ago?



Share of investors who are more optimistic



Notes: Regions are in descending order of the dfferential between more optimistic and more pessimistic. Figure shows only the share of investors who are optimistic about the respective region.

Source: 2020 Kearney Foreign Direct Investment Confidence Index

Investment outlook in a COVID and post-COVID world

The economic crises that have engulfed developed, emerging, and frontier markets have most certainly tempered this optimistic investor outlook since the survey came back from the field. In an effort to curb the worst economic effects of the crisis, central banks and governments around the world have implemented unprecedented monetary and fiscal measures. They have slashed interest rates and unleashed economic stimuli in proportions not seen since the Great Depression. In some markets, such as the United States and the European Union, these efforts have been somewhat successful at keeping capital flowing through the economy and providing a lifeline to consumers and businesses. However, they have not been nearly enough to match all economic needs, and depressed corporate profitability and earnings have led companies to prioritize immediate vulnerabilities, shifting their attention away from foreign investment.

The quick downward spiral of the global economy since March will have profound negative implications for FDI flows that will markedly diverge from the positive investment intentions expressed in our survey. The United Nations Committee on Trade and Development (UNCTAD) is projecting global FDI to fall by as much as 30 to 40 percent this year and next, as has historically happened during periods of economic downturn. For example, global FDI flows decreased by 23 percent in 2008 and then an additional 44 percent the following year—as the global economy was still reeling from the global financial crisis. The health and social dimensions of COVID-19 may compound these economic challenges even further.

The negative effects of COVID-19 on the investment environment are likely to be acute and long-lasting. According to UNCTAD, global companies are likely to see their profits squeezed by at least 9 percent on average as a result of COVID-19-related business interruptions, and companies in developing countries may see reductions of as much as 16 percent. These losses will dampen capital spending, particularly as the profitability of many multinational companies and their affiliates abroad has been severely hit by business and consumer spending disruptions. While COVID-19 is less likely to affect greenfield projects and M&A transactions thanks to their long-term investment nature, firms will postpone new investments and acquiring or building new assets. The reinvestment of earnings, which represents about 40 percent of global FDI flows, is going to be significantly disrupted over the medium term due to lower profit margins. Therefore, even if FDI flows did recover over the medium term—in view of forecasts for increasing global growth post-COVID and a corresponding increase in investment opportunities—the pool of investment capital available for FDI would be much smaller.

These unfavorable dynamics are already being felt in emerging and frontier markets and suggest a difficult outlook. Over the first few months of 2020, demand for riskier assets collapsed, as investors sought to limit their exposure to these more vulnerable economies. According to the Institute of International Finance, portfolio outflows in the first quarter of this year were the largest ever recorded in emerging markets—roughly twice the size of outflows recorded at the peak of the global financial crisis. Emerging and frontier markets are expected to be disproportionately affected by COVID-19 and to suffer the greatest consequences. The World Bank, for example, estimates that global poverty levels will increase dramatically as a result of COVID-19, reaching their highest level since the Asian financial crisis in 1997. Most of these vulnerable populations are in emerging and frontier markets. Our survey results also reaffirm the likely direction of FDI away from these markets. As we discussed above, investors rank the availability of quality targets as the most important factor behind increasing FDI while pointing to macroeconomic stability as a top hindrance. These responses suggest that investments will likely occur in developed markets where these factors are generally stronger—and where the damage from COVID-19 is expected to be comparatively lower.

Though there is the prospect that the global economy may recover next year, the extent and nature of the recovery—and whether it will support FDI flows—remain highly dubious. The spread of COVID-19 is beginning to slow as containment efforts are starting to bear fruit, though risks of subsequent waves of the virus remain. Many economies are still reeling from the virus, and the economic damage will far outlive COVID-19. Once growth resumes, then, it will do so from a much lower baseline than before the pandemic.

The impact of COVID-19 on investment flows is likely to remain profound into the future, regardless of the shape and form it takes. We anticipate new FDI flows will be heavily shaped by accelerating automation and a push toward customer customization and personalization. Declining labor arbitrage advantages in less developed markets are also enabling companies to shift production closer to their local markets, including developed markets where employment costs are overall higher. Capital flight dynamics are amplifying these trends. All these factors suggest that FDI, which used to be the ballast of the global economy, is going to look very different going forward.

On the bright side, investors tell us every year that they see FDI as vitally important for corporate profitability and competitiveness. And 84 percent of investors said FDI will be even more important in the coming years. The share of investors with this mindset did not significantly decrease over the six weeks our survey was in the field. Furthermore, the share of investors saying that FDI will be much more important for corporate profitability and competitiveness has grown steadily over the past several years. This increase indicates that foreign investments will be prioritized in an economic recovery after the crisis recedes, however long it may take. The composition of these flows, however, will change based not only on shifting destination preferences, but also on the likely dramatic shift in the fortunes and business models of various sectors.

Survey results highlight the need for strategic foresight

In aggregate, these results strongly suggest investors only started to realize that the global economy was in freefall at the last moment. The rapid attack of COVID-19 should serve as a wake-up call to executives that they cannot assume that the global operating environment will remain relatively constant from one day to the next. Implementing strategic foresight tools and improved planning strategies in order to better predict and plan for severe exogenous shocks is paramount. While there is no single playbook to manage a crisis, there are some general strategies that will increase the ability to anticipate and navigate them.

As a first step, organizations may need to go back to the drawing board and prepare a multi-stakeholder assessment of potential high-impact events and their respective drivers. This evaluation should include careful analysis of the relative probability of these events and the degree of impact on various aspects of the organization.

Companies should then look back at their own capabilities to understand the contingencies they would be able to implement in these alternative environments, including identification of early warning indicators for each of the potential disruptive events. Assessments of the strengths and weaknesses of individual corporate units—and even the reliability of suppliers—can help to identify a company's weakest link should any of these events occur.

Collaboration with other organizational units and divisions on brainstorming and thinking through the implications and drivers of these potential events will produce an even clearer vision of their consequences for business. Assigning specific roles and responsibilities that kick in when certain changes in the external environment occur will allow resources to immediately shift toward managing a response plan.

Such efforts can be bolstered by the use of select strategic foresight tools, including contingency and scenario planning that help identify the highly impactful and uncertain drivers of change. Simulation and war-gaming exercises, in which participants assume different roles and act out simulations of potential real-world issues and scenarios, can also prove effective. And soliciting expert advice from thought leaders on a regular basis can help inform and strengthen such efforts.

Developing and fine-tuning this process requires multiple iterations. Starting the exercise anew and making adjustments to the crisis action plan may be repeatedly required. The product of this painstaking and diligent effort, however, is a robust disaster mitigation and recovery plan, which will increase strategic flexibility and the ability to weather crises.

In fact, leading scholarship suggests that such events exact much greater costs on business operations because of failures to take measures to mitigate risks that are already visible. Unpredictability is, therefore, not the culprit. This trend is apparent in our survey results as well. Although investors may have started to catch on to the pandemic's economic consequences toward the end of our survey, its quick spread should have led businesses to catch on to the catastrophic risks earlier. The risks of pandemic have been long understood and anticipated by experts. For example, in October 2019, the World Health Organization's Global Preparedness Monitoring Board warned that the estimated global losses of a pandemic comparable to the 1918 Spanish flu would be in the amount of $3 trillion. The Council has also warned of the enduring risks of pandemic, including discussions in 2014 amid the Ebola crisis and in 2017 amid rising concerns surrounding antimicrobial resistance. Many other such risks may also be hiding in plain sight.

Those who plan appropriately will, therefore, win in the near and medium term, and those who do not will be at greater risk of being broadsided. If companies incorporate the processes outlined above in their routine business planning and strategies, the pandemic may ultimately help some emerge from the crisis stronger and more resilient. On the other hand, failure to incorporate such strategies in company planning processes increases the chance of getting caught flat-footed when the next shock arrives.

Climate change is rising in importance as an investment factor

When we started designing this year's survey at the end of 2019, we wanted to understand how—and if—investors are factoring climate change in their investment decisions. Since that time, the rapid spread of the COVID-19 pandemic has forced climate change out of the spotlight. The thematic discussion of climate change below presents a snapshot of investor attitudes toward climate change before the COVID-19 crisis had fully engulfed the world. Our findings are indeed striking. Climate change is a consideration for the majority of investors, and most believe it will result in financial losses. This issue, then, will likely remain relevant for investors, even after the COVID-19 crisis recedes. In fact, it may become an even more central concern for corporate and policy leaders as understanding grows about the link between animal-to-human transmitted pathogens and climate change.

Climate is one area in which investors do appear to be anticipating important changes. Climate change considerations play a significant role in FDI decisions and will likely grow as a priority. Importantly, 77 percent of investors tell us that climate-related risks are likely to affect their investment decisions over the next three years, and 60 percent anticipate financial losses as a result of climate change in the medium term.

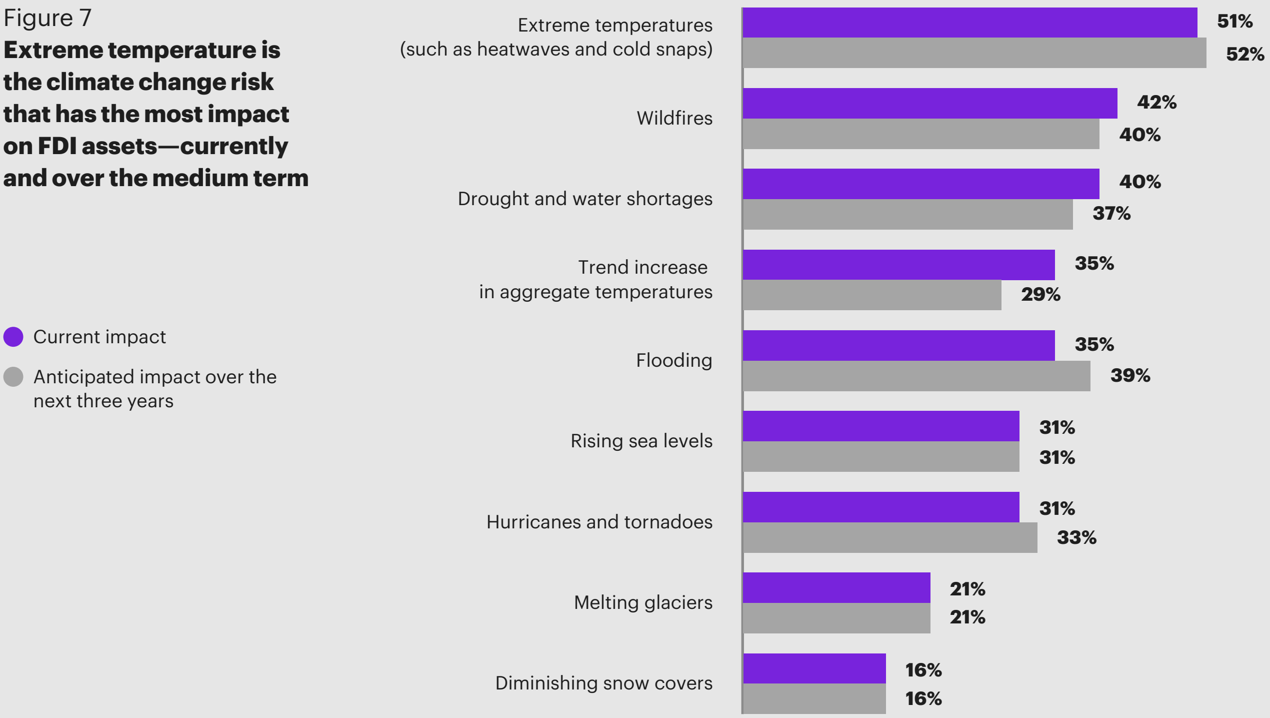
Currently, climate change is affecting the existing foreign direct investments of four-fifths of companies. A significant number of companies, then, are vulnerable to climate risks—and are aware of their exposures. This high level of awareness likely reflects the rise of global efforts to mitigate climate change before the COVID-19 pandemic. It may also suggest that companies have undertaken efforts to understand and analyze their existing climate risk vulnerabilities.

Investors in all regions rank extreme temperatures as the biggest climate risk today and over the next three years (see figure 7). The impact of extreme temperatures and climate risks in general on the global economy is considerable. According to one estimate, climate change risks will threaten as much as 30 percent of global GDP by 2025, double the amount in 2008. The effects of extreme weather can be profound and destructive. In the United Kingdom, roadways liquified when the temperature reached 33°C. In India—where the average temperatures are 1.2°C higher than they were a century ago—heatwaves are now melting roads every summer. And Qatar—one of the warmest countries on the planet—will require more than double its current cooling infrastructure by the end of the 2020s. Extreme weather also lowers labor productivity. Factories and manufacturing or other physical assets are therefore particularly vulnerable.

Investors in all regions rank extreme temperatures as the biggest climate risk today and over the next three years.

The second biggest climate risk currently facing investors is wildfires, and the third is droughts and water shortages. Wildfires are a global phenomenon that result in significant economic losses. In 2019, wildfires struck many geographic regions—including Spain, the US state of California, and Australia, among others. Australian wildfires in 2019 and 2020 inflicted damages in the amount of $110 billion. In California, the 2019 wildfire losses were $80 billion. There is a heavy price tag for countries experiencing droughts as well. In the United States alone, losses from droughts amount to an estimated $9 billion yearly.

Figure 7
Extreme temperature is the climate change risk that has the most impact on FDI assets—currently and over the medium term



Note: Respondents could select all that apply.

Source: 2020 Kearney Foreign Direct Investment Confidence Index

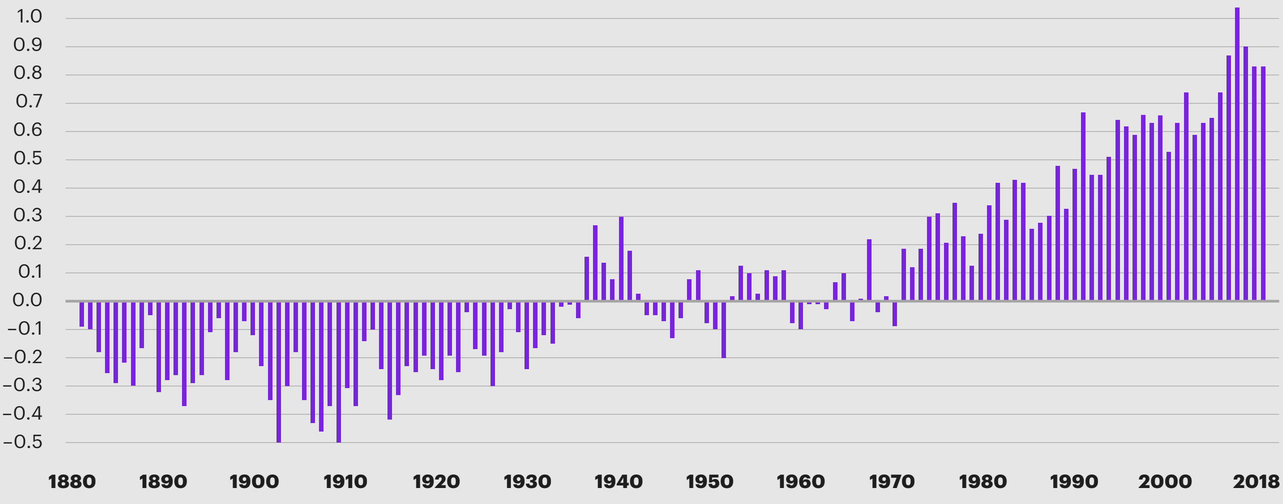
On a regional level, Europe-based investors cite similar levels of concern about the longer-term trend increase in aggregate temperatures—perhaps a reflection of increased climate change efforts in that region. It is an area where investors appear to be displaying a higher level of foresight. Developments such as activist Greta Thunberg's efforts to prompt action against climate change likely brought this steady increase in global temperatures to the front of mind for investors. Over the 1880–2012 period, the annual average temperature rose by about 0.85°C (see figure 8). The past five years have been the hottest years on record, with 2016 the hottest, followed by 2019. And temperatures are expected to continue rising at an accelerating pace.

Global investors rate melting glaciers and diminishing snow covers as the least impactful climate risks in shaping their investment decisions. This ranking likely reflects the fact that few investors have physical assets in close proximity to these phenomena. They may also perceive these challenges as more long-term and abstract relative to the others.

Given that nearly four-fifths of investors indicate that climate risks are currently affecting their existing FDI, it logically follows that a strong majority—60 percent—anticipate climate change-related financial losses over the next three years (see figure 9 on page 17). And the vast majority of investors—79 percent—anticipate that climate regulations will influence their investment decisions over the next three years.

Figure 8
The past five years have been the hottest years on record

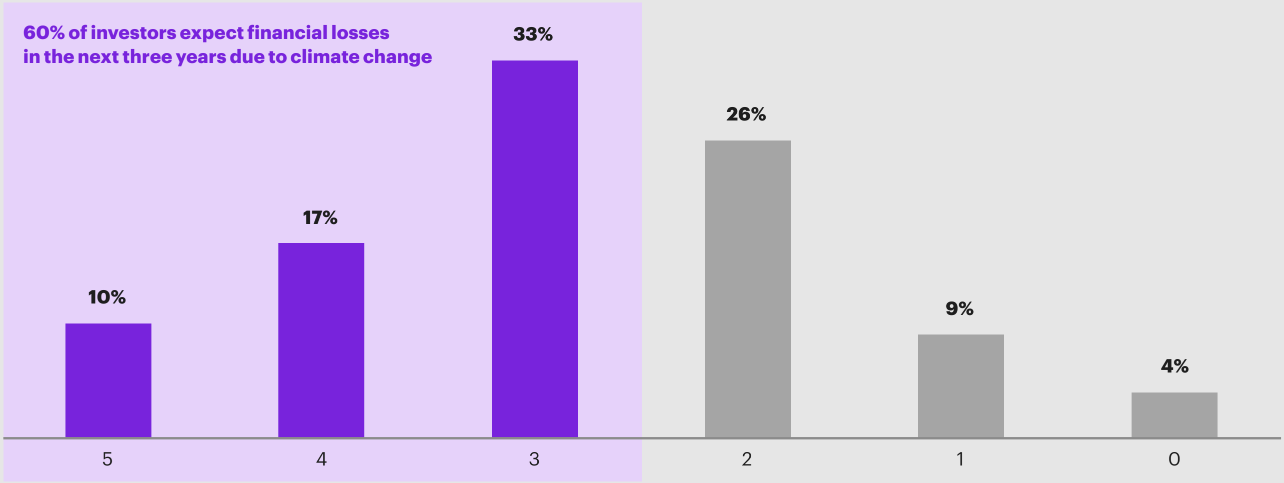
Global surface temperature anomalies
(Degrees Celsius)



Note: Numbers represent the difference from the November–October average annual temperature for each year, with anomalies benchmarked against the 20th century average temperature.
Sources: National Oceanic and Atmospheric Agency; Kearney analysis

Figure 9
60 percent of investors anticipate climate change-related financial losses over the next three years

How much financial loss due to climate change do you expect over the next three years? Use a 0–5 scale where 0 means no losses and 5 means very significant losses (such as stranded assets, regulatory costs, or damaged infrastructure).



Source: 2020 Kearney Foreign Direct Investment Confidence Index

Climate change mitigation efforts and related regulations may be set to intensify following the eventual economic recovery from COVID-19. Investors seem to be aware of this possibility. So far, 124 state and regional governments in 35 markets have declared climate action goals. As of April, carbon pricing initiatives covering 46 national and 31 subnational jurisdictions had been implemented or were scheduled to be implemented. China also plans to gradually roll out a nationwide carbon cap-and-trade program in 2020, which is slated to be the biggest emissions-trading scheme in the world. While COVID-19 dynamics may delay this initiative, it is broadly expected to incentivize power companies to make their operations more environmentally friendly when implemented. And the EU—the region consistently dominating the Index and the home of the majority of the most desired FDI markets—has proposed a Carbon Border Adjustment, which would tax imports from countries without a carbon pricing plan and is expected to lead to a reduction of carbon emissions globally as more countries adopt similar legislation. Broadly, these findings indicate that investors worried about the impact of climate change are more likely to favor the destinations that are more interested in mitigating climate change impact, as their investments in these destinations may be at lower risk. In addition, research has shown that there are linkages between infectious diseases and higher temperatures. Among other factors, the shifting of animal habitats due to higher temperatures and the destruction of nature by humans increase the proximity between humans and animals, facilitating pathogen transmission. It was also recently discovered that there is a correlation between coronavirus deaths and pollution. Such findings may inspire environmentally conscious lifestyle changes among consumers and may also increase public support for renewables and cleaner energy sources in general.

Climate readiness and resilience capacity are important aspects of the ability to mitigate these risks and the impact of climate change. Investors show considerable optimism in their capacity to manage climate risks in the near term. Overall, more than 80 percent of investors say they have a moderate to high level of climate readiness and resilience capacity. On the other hand, only about 60 percent of investors report that they have a fully developed, sustainability strategy. Resilience capacity, then, remains a blind spot for a significant number of companies. However, half of the companies that have neither developed nor implemented a sustainability strategy indicate that they are likely to do so in the next three years, suggesting climate readiness and resilience capacity is likely to improve in the near future. This statistic is encouraging, particularly as natural disasters are expected to increase in frequency and intensity in the years ahead.

In view of these findings, it is unsurprising that the environmental impact of potential FDI targets is a factor for the overwhelming majority—85 percent—of investors. They anticipate further climate regulations and worsening climate risks in the years ahead. As a result, they are recalibrating their investment decisions accordingly. Among other strategies, they are exploring ways to enhance the sustainability of their operations that will both mitigate future financial losses from physical environmental damage and decrease their exposure to regulations that will increase the financial burden on current FDI assets.

Regional and country analysis

Americas

Inward flows to North America remained steady in 2019, attracting $298 billion compared with $297 billion in 2018. The United States and Canada ranked in the top five markets for the eighth consecutive year, landing at first and second places, respectively. Though significant headwinds presented by the outbreak of COVID-19 have developed since the survey was conducted, the strong business dynamism in both countries and the recently ratified United States–Mexico–Canada Agreement (USMCA) will likely continue to attract healthy FDI. In contrast to its neighbors to the north, inward FDI growth in South America surged by 20 percent in 2019, reaching $170 billion. This growth was largely fueled by Brazil, which made a comeback after not having placed in the top 25 the year prior. Indeed, Brazil is the only Latin American country to feature in this year's ranking, seeing a 26 percent increase in FDI inflows from the past year. This development is likely a result of its recently launched privatization program, which involves selling or privatizing state assets across multiple sectors, including technology.

United States

The United States maintains the top ranking in the FDICI for the eighth consecutive year, demonstrating its consistently high level of attractiveness to foreign investors. Since the country attained the top position in 2013, spanning both the Obama and Trump administrations, the United States has consistently demonstrated strong fundamentals overall. Economic growth remained strong in 2019 at 2.3 percent, though it declined from 2.9 percent the year prior. Growth in 2020 is expected to decrease substantially—to -7.0 percent. Consumer spending accounts for more than half of GDP growth in the United States, which means that reductions in discretionary spending levels will hit some sectors of the economy particularly hard.

The United States is likely attractive to survey respondents thanks to its strong technological innovation and robust business dynamism, which is reflected by its fall to second spot on the 2019 World Economic Forum's Global Competitiveness Index. However, there are risks on the horizon. Escalating tensions with China and the potential for increased protectionism, combined with the economic and potential geopolitical impact of COVID-19, will weigh on the economic outlook and overall competitiveness for the country in the year ahead. And policy initiatives such as the newly implemented Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 will tighten scrutiny on FDI, especially in the technology field, which may impact the investment outlook. Unlike many other countries globally, the United States had the fiscal space to inject a stimulus in the amount of $2.2 trillion earlier this year, providing a lifeline to many consumers and businesses. Despite COVID-related business uncertainties, the real estate sector in the United States is expected to rebound from the virus, given the relative stability of single-family homes as assets in an investment portfolio and the potential role of real estate as a safe haven for foreign investment.

Cross-border M&A activity was robust in 2019, with the United States accounting for almost half of global M&A volume. Deals were valued at a combined $1.8 trillion—up 6 percent from 2018. And while investment from Canada and the EU declined by 24 percent and 6 percent respectively, Japan and Australia increased their investments in the United States. According to UNCTAD, FDI inflows to the United States fell just 1 percent from 2018 to 2019, reaching $251 billion. The United States suffered less than other developed markets where FDI flows were at historically low levels. One of the biggest cross-border deals of the year was French luxury goods firm LVMH Moët Hennessy Louis Vuitton's acquisition of jewelry company Tiffany & Co. for $16.2 billion, which was approved in February 2020.

Canada

Canada ranks second this year, the same highest-ever position it held in 2018 and up one notch from 2019. Growth at 1.6 percent was somewhat sluggish in 2019 and represented a decrease from 2.0 percent the previous year. However, Canada likely continues to attract investors with its strong infrastructure and well-educated workforce. According to the OECD's Education at a Glance 2019 report, more than half of Canada's population in the 25–34 age bracket possesses a tertiary level of education. This figure bodes well for the country's talent pool in the years after COVID-19 and should support the business environment and increase foreign investor confidence.

Since the survey has been administered, a double-whammy of COVID-19 disruptions and turbulence in Canada's energy sector driven by global oil markets has significantly weakened its growth prospects in 2020. Indeed, the economy is expected to plunge by 10.7 percent this year. And while the energy sector, which accounts for about 10 percent of the country's economy, has historically been stable (despite some issues in recent years such as insufficient pipeline capacity), the devastating impact of COVID-19 on oil and gas prices will prove to be a large challenge for the country in 2020. Canadian oil producers have been significantly affected by the virus' spread as well as by the Saudi–Russia oil price war. On the other hand, trade is a bright spot for Canada.

Total FDI inflows to Canada in 2019 rose 8 percent from the year prior, according to UNCTAD, and a range of sectors were attractive for deals. One of the largest cross-border M&A deals was executed by US-based Newmont Mining Corporation, which acquired gold producer Goldcorp Inc. for $10 billion. This acquisition represents the biggest deal in the history of the gold mining industry. Another large M&A transaction worth $6 billion involved the acquisition of Canada's software-gaming company The Stars Group Inc. by Irish firm Flutter Entertainment PLC, highlighting Canada's increasing presence in the technology sphere.

Brazil

After falling out of the Index in 2019, Brazil bounced back this year, landing at 22nd place—up three spots from 2018. Inward FDI to Brazil increased by a sizable 26 percent in 2019, reaching $75 billion. Economic growth in the country exceeded expectations in 2019—reaching 1.1 percent—but it still contracted from its 2017 and 2018 levels of 1.3 percent. The COVID-19 outbreak will cause additional economic damage and will likely lead to lower growth of -4.8 percent in 2020.

Despite the negative impacts of COVID-19, factors likely to bolster investment sentiment in the near and medium term include the approval of the pension reform, which should boost the economy and could save the country $194 billion (paywall) over the next decade. If the government maintains or even speeds up reform implementation during and after COVID-19, business and foreign investor confidence should rise, although this development looks unlikely in the short term (paywall). Further, Brazil announced in January that in an effort to reduce corruption and boost foreign investment, it would allow foreign companies an equal opportunity to win government contracts starting in May. Some headwinds remain, however. Despite the country's low interest rates, businesses remain reluctant to boost investment (paywall), likely owing to the economic malaise even pre-COVID. And doing business in Brazil is still not easy according to the World Bank's Doing Business 2020 report, which ranked the country 124th—down from 109th the previous year. The fires that swept the Amazon in the middle of 2019 also caused some investor jitters (paywall) and put pressure on Brazilian companies to focus more heavily on environmental, societal, and governance standards.

The marked increase in FDI in 2019 can be partly attributed to the country's privatization program, which launched in July 2019 and plans privatization of big state companies as well as strategic sectors of the economy, such as infrastructure and energy. In 2020, privatization of state companies is expected to continue, with large, state-controlled firms such as Eletrobras, a power company, and Telebrás, a communications company, likely to attract more FDI. Transportadora Associada de Gas, Petrobras' natural gas transport unit, was the first of the privatizations carried out in 2019 and was bought by a consortium of investors under French firm ENGIE for almost $8.7 billion. COVID-19 has caused some roadblocks, however, as Brazilian state-controlled lender Caixa Econômica Federal suspended an IPO of its insurance subsidiary in March.

Europe

European countries dominate the FDICI once again, accounting for 14 of the top 25 investment markets. Some countries, such as Switzerland, saw significant improvements in their rankings. The dominance of European markets highlights investor confidence in these generally politically stable and richer economies. Many of these countries, however, were severely affected by the coronavirus after the survey was completed, including the region's largest economies: Germany, the United Kingdom, France, and Italy. Most economies have fallen into recession, and the economic recovery timeline after COVID-19 is still unclear. The EU and the eurozone are expected to contract by 7.1 and 7.6 percent this year, respectively. The virus will also likely weigh on foreign investment in the European Union. For example, the bloc issued new guidelines on FDI in the wake of the coronavirus that stress the need for member states to scrutinize foreign investments in sensitive industries, such as biotechnology and health. On the other hand, investors may be encouraged by the European Commission's recovery package proposal, which includes grants and loans for the members most severely impacted by COVID. Regardless, the coronavirus is exacerbating existing debates between EU member states, ranging from the issue of mutualizing eurozone debt to disagreements over political measures undertaken in some member states to stem the COVID-19 crisis. Europe's response to the coronavirus remains the big issue to watch, as it will likely impact investor confidence and FDI flows to the region in the years to come.

Europe's response to the coronavirus remains the big issue to watch.

Germany

Germany ranks third on the Index this year, moving down one notch from 2019. FDI inflows to the country rose to $40 billion in 2019, up from $12 billion the previous year. On the economic front, growth is forecast to decline to -6.1 percent in 2020. Prior to COVID-19, bullish investor sentiment was likely driven by some of Germany's domestic strengths, which include strong infrastructure, an educated workforce, and robust transportation and automotive industries.

Strong investor confidence is also reflected in Germany's consistently high ranking in the World Economic Forum's Global Competitiveness Report, in which it placed seventh for 2019. And though hit hard by the pandemic in 2020, Germany adopted a significant fiscal stimulus to reduce the economic impact of the virus after the survey was completed. To do so, Berlin relaxed its balanced budget rule for the first time since adding this requirement to its constitution in 2009. As in most European countries, investor confidence in 2020 and in the years following COVID-19 is likely to be shaped by forthcoming restrictions to foreign investment—though Germany may fare better than some of its Western European neighbors given its comparatively low rates of infection and ability to restart the economy in May. Adopted in April, an amendment to the Foreign Trade and Payments Act will strengthen the government's ability to scrutinize FDI into the country, and the government's review procedures of M&A deals will become more complex. Germany also follows many other countries in its new national security initiative to screen non-European investors aiming to invest in firms in high-tech sectors such as robotics and artificial intelligence.

A few large M&A transactions were completed in 2019, particularly in the healthcare sector. US firm Elanco Animal Health Inc., for example, announced its acquisition of Germany's Bayer AG animal-health unit in a transaction valued at $7.6 billion. And in another healthcare-related deal, UK firm GlaxoSmithKline paid Germany's Merck KGaA $4.2 billion for the rights to a new immunotherapy.

France

France maintains its fifth spot on this year's Index, and its score slightly improves from last year. The country grew by 1.3 percent in 2019, according to Oxford Economics, which is higher than the eurozone average of 1.2 percent. In 2020, growth is expected to contract by 9.4 percent. When investors were responding to the survey, they likely zeroed in on some of France's key strengths, such as market size, macroeconomic stability, developed infrastructure, and advanced financial systems. France ranks 15th on the World Economic Forum's Global Competitiveness Report, up two spots from 2018 thanks to its highly competitive scores in these areas.

Investor confidence in France was likely boosted by government efforts to implement market-friendly measures. When investors were filling out the survey, the government was pushing through pension reforms (paywall). However, these efforts have been put on hold because of the COVID-19 crisis, and the government is instead enhancing public spending to help the economy recover. This spending push could mean that France's debt–GDP ratio soars above 100 percent in 2020. Moreover, before the current crisis, the government was looking into ways to make it easier for some foreign technology workers to obtain working visas, but the virus may affect these policies as well. French unemployment fell to the lowest levels in more than a decade at the end of 2019, reaching 8.1 percent. Reform efforts continued despite persistent "yellow vest" protests (paywall), which do not seem to have fazed global investors. Like other European countries, the French government also strengthened its oversight of foreign investment in some industries.

FDI inflows to France rose to $52 billion in 2019, up from $37 billion in 2018, according to UNCTAD. Deals spanned manufacturing, energy, and real estate, among many other industries. For example, Groupe PSA and Fiat Chrysler signed a 50–50 merger deal that will make the group the fourth largest automaker in the world. France's renewable energy industry—particularly wind power—is also on the radar for foreign investors, as the country plans to increase production so that 40 percent of power generation comes from renewables in the next 10 years. The British firm Octopus Renewables, for example, bought a wind farm from RES for roughly $110 million. Among other noteworthy investments, Colgate bought Laboratoires Filorga Cosmétiques SAS for roughly $1.7 billion. Coca-Cola announced its intentions to invest more than $1 billion in France over the next five years, and Toyota has plans to build new car models at its French plant, investing $110 million in the effort.

United Kingdom

The United Kingdom falls two spots to sixth place on this year's Index, despite a slight increase in its score. At 1.4 percent in 2019, economic growth surpassed that of major markets in Western Europe, including Germany and France. Though the United Kingdom left the European Union in January as planned, uncertainties about the country's future trade and economic relationship with the EU persist. Optimism about ongoing trade negotiations between Britain and the EU and a potential trade deal with the United States likely brightened the outlook for investors while the survey was in the field. COVID-19, however, has likely soured investor outlook since. Like many of its European neighbors, the United Kingdom had to implement a lockdown due to the coronavirus. As a result, growth projections for 2020 are a bleak -8.3 percent.

At the time of the survey, investors were likely drawn to the United Kingdom's competitive economy coupled with its increasing political stability. Britain ranks ninth on the World Economic Forum's Global Competitiveness Index. Its political environment grew more stable at the end of 2019 after a majority government was formed, helping mitigate some of the deadlock seen post-Brexit. Despite continuous uncertainty, the UK's Brexit deal managed some pressing questions surrounding its relationship with the EU, such as the "Irish border" question. These developments have likely helped calm British political onlookers as well as foreign investors, though COVID-19 could delay talks with the EU, throwing a wrench into London's plans for quick negotiations.

FDI inflows fell by 6 percent in 2019, totaling $61 billion, according to UNCTAD. Recent FDI deals span many industries, including food services, real estate, fashion, technology, and insurance. Dutch Takeaway.com bought fellow online delivery platform Just Eat PLC for $7.8 billion. US plastic packaging company Berry Global Group acquired RPC Group, another manufacturer of plastic packaging products, for around $6.5 billion. In real estate, CK Asset Holdings, based in Hong Kong, bought an operator of public houses, Greene King, for about $5.6 billion. And in industry, Jiangsu Shagang Group, a steel manufacturer in China, bought a stake in Global Switch Holdings for around $2.2 billion.

Italy

Italy fills the ninth spot this year, falling one position from last year despite an increase in its overall score. Oxford Economics notes that Italy grew at 0.3 percent in 2019—a lower rate than many of its European peers. Estimates for 2020 are at -8.7 percent, as the coronavirus is dealing a significant blow to Italy's already fragile economic situation. Italy was the first major European economy to institute a mandatory, nationwide quarantine. These measures will likely affect some of Italy's strongest sectors, namely manufacturing, agriculture, and tourism, and result in a deep recession, which could last even after the virus recedes. Our survey was in the field before some more aggressive measures were implemented in the country.

Improved political stability likely contributed to investor confidence in Italy while the survey was in the field. After government changes in 2019, Italy has been proactively addressing issues that previously caused friction with the EU. For example, the country worked with other EU member states to address migration (paywall), an issue that has inspired considerable tension between the bloc and Italy in the past. Concerns over Italy's debt and spending persist, however, and will be exacerbated in the coming years by the coronavirus-induced economic shock. Recent projections indicate that the country's deficit will equal 10 percent of GDP in 2020, and the debt to GDP ratio will surpass 155 percent. Domestically, the Italian government has made progress on a deal with steelmaker ArcelorMittal, headquartered in Luxembourg, over its plant in the country's South. A final outcome is expected later this year. In 2019, Italy's government also strengthened its oversight over 5G network development.

Foreign direct investment into Italy was lower during the first six months of 2019 than during the same period in 2018, dropping in line with most other markets. Foreign investment, however, continued to pour into Italy's highly competitive industries such as manufacturing, agriculture, fashion, and tourism. In the country's largest merger, automakers Fiat Chrysler and French Peugeot signed a 50–50 merger agreement, making the new group the world's fourth largest automaker. US Carlyle Group also acquired the manufacturer Forgital for around $1.1 billion. And British Farfetch Group, an online platform for luxury fashion, acquired New Guards Group, which hosts a platform for the design and manufacturing of luxury fashion, for $675 million.

Switzerland

Switzerland ranks 10th this year, up three spots from last year. The Swiss economy grew by 0.9 percent in 2019, according to Oxford Economics, and 2020 growth will decline by 5.3 percent owing to the coronavirus and lockdowns. Policymakers in Switzerland are growing concerned about rising unemployment and a potential federal budget deficit, which would reverse the budget surplus Switzerland saw in 2019. However, Switzerland's political and financial stability, highly educated workforce, and innovation capabilities were likely appealing to investors while the survey was in the field. According to the World Economic Forum, the Swiss economy is the fifth most competitive globally. INSEAD ranks Switzerland first on its Global Talent Competitiveness Index, noting that leads in technical skills development and enabling talent and growth.

Risks include slowing global growth, particularly as the Swiss economy is very open. The EU remains an important trading partner for Switzerland, accounting for 78 percent of Swiss imports and 43 percent of exports. When the world starts to recover from the coronavirus, Switzerland could suffer if international trade or activity in major trade partners such as the EU do not pick up. Investors are also likely keeping an eye on a future referendum on the free movement of people between the EU and Switzerland. Though the referendum has been postponed because of the coronavirus, it is possible that the pandemic could bolster support for restricting freedom of movement. On the investment front, 2020 marks the beginning of the Federal Act on Tax Reform and AHV Financing (TRAF). The law requires that Swiss cantons tax foreign and domestic companies at the same corporate tax rate, eliminating preferential treatment for some multinational groups. However, the new regulation does allow cantons to offer incentives in other forms, such as deductions.

Positive investor sentiment about Switzerland last year was reflected in deals across a wide array of fields in 2019, from logistics to telecommunications. Danish transport and logistics company DSV bought logistics company Panalpina for around $5.4 billion, and Spanish telecoms group Cellnex entered an agreement with telecoms operator Salt to acquire new sites.

Spain

Spain maintains its 11th position on the Index this year. Its economy grew at 2 percent in 2019, higher than the eurozone average and that of many larger EU member states, according to Oxford Economics. Recent forecasts show, however, that the Spanish economy will contract by 9.5 percent in 2020. Spain has been hit particularly hard by the coronavirus and implemented strict lockdown measures. The virus will hurt travel and tourism, one of Spain's largest industries, which accounts for almost 12 percent of Spanish GDP, according to the OECD. The outlook for recovery of the sector, and many others in Spain, post-COVID continues to be highly uncertain, and the virus may significantly dent the investment environment in the years ahead.

In terms of investment, estimates show that Spain benefited from a "Brexit boost" in FDI, receiving foreign funds that would have otherwise gone to Britain. For example, 43 headquarter operations moved to Spain in 2019, while only 14 did in 2014. On the economic level, however, existing vulnerabilities are now amplified by COVID-19. Public debt before COVID-19 equaled just over 95 percent of GDP. Projections expect public debt in 2020 to reach between 115.5 percent of GDP and 120 percent due to the coronavirus, even though the government previously had plans to reduce it to 90 percent (paywall) of GDP within three years. Prior to the coronavirus, the government had also proposed implementing a three percent digital services tax at the end of 2020 and appears to be pushing forward with this effort. Monitoring these developments and EU-level debates over fiscal and monetary responses to the virus will be crucial for foreign investors looking at future opportunities in Spain.

Overall FDI flows totaled $6 billion in 2019, per UNCTAD figures, marking a significant drop from $45 billion in 2018. This decrease was likely driven by debt restructuring in foreign affiliates, which took a toll on total inflows, according to UNCTAD. Regardless, some major deals took place. For example, London-headquartered International Consolidated Airways Group took over the airline Air Europa Lineas for more than $1 billion, Canadian Brookfield Renewable Energy Partners closed an acquisition of 50 percent of solar energy company X-Elio for around $500 million. And in the area of real estate, US investment firm Starwood Capital acquired property in Madrid and Barcelona for roughly $135 million.

Netherlands

The Netherlands ranks 14th this year, falling two spots from its 2019 ranking. Recent projections from Oxford Economics show that Dutch GDP grew by 1.8 percent in 2019 and will contract by 4.4 percent in 2020, owing to the coronavirus' cooling of the global economy. As investors were filling out the survey, they likely found the country attractive because of its economic competitiveness, particularly in the area of technology. It holds the fourth spot on the World Economic Forum's Global Competitiveness Report, and it comes in sixth on IMD's World Competitiveness ranking. An estimated 60 percent of technology companies from Forbes 2000 have operations in the Netherlands, highlighting its strengths in gaming, cyber security, research and development, and other technical sectors.

Some estimates show that before the coronavirus, exports accounted for around 85 percent of Dutch GDP. This figure bodes negative for Amsterdam, as it may have to grapple with reduced trade flows until global growth enters recovery mode. Given the importance of international trade and foreign direct investment for the economy, the Dutch government plans to reduce the highest corporate tax rate from 25 percent to 21.7 percent, and it introduced measures to stymie tax avoidance. Both laws are expected to come into force in 2021. The Dutch 2020 budget also introduced separate tax cuts in an effort to further boost household spending, and with it, overall levels of consumption. However, as is the case with other EU markets, FDI in the Netherlands will also be affected by the recently introduced EU-wide regulations on foreign investment and screening, which are set to come into force in October.

Foreign investment in the Netherlands declined in 2019. According to UNCTAD, 2019 FDI inflows were 98 percent lower than those in 2018—falling to $1.9 billion from a previous $114 billion. The group attributes this decrease primarily to the IPO of a Naspers foreign affiliate. Broadly, deals spanned a variety of industries, including fleet management, automotive, and real estate. Bridgestone Europe, a subsidiary of Japan's automotive parts manufacturer Bridgestone Corporation, bought TomTom Telematics, a digital fleet solutions provider, for just over $1 billion. And Japanese Hitachi Automotive agreed to buy Chassis Brakes, which specializes in automotive brakes and their components. In the cosmetics industry, a proposed acquisition of eyewear product brand GrandVision by EssilorLuxottica for more than $8 billion is under investigation by the EU, with a decision expected this year (paywall).

Sweden

Sweden maintains its 15th spot in the Index this year. The Swedish economy grew at 1.3 percent in 2019 and is projected to contract by 4.7 percent in 2020. Though Sweden did not resort to the same strict lockdown measures as many of its European peers, the coronavirus will still impact its economy. As investors were filling out the survey, they likely zeroed in on Sweden's attractiveness in many respects, including its highly educated workforce and strong manufacturing industry. The World Economic Forum ranks Sweden eighth on its Global Competitiveness Report, and Sweden holds the fourth position on the INSEAD Global Talent Competitiveness Index. Sweden's stable macroeconomic environment and technological infrastructure likely contributed to these rankings. Sweden is also among the European Union's most vocal in trade agreements with other countries, which likely contributes to its attractiveness for investors.

The Swedish economy, however, was showing some signs of stress even before the coronavirus. For example, unemployment was on the rise, with the seasonally adjusted rate reaching a four-year high of 7.4 percent in August 2019. Then, manufacturing activity (paywall) contracted in September of last year. This contraction was the worst since the 2008 financial crisis. Though challenging, the Swedish government took steps to manage these issues in ways that encourage economic activity, such as tax cuts in its 2020 budget proposal. The COVID-19 crisis, however, is projected to send government deficits, public debt, and unemployment up in 2020 and in 2021.

The real estate and manufacturing industry as well as the energy sector were particularly attractive to foreign investors in 2019. Electric vehicles received a great deal of foreign investment in 2019, highlighting Sweden's competitiveness in this area. China's Evergrande Health Industry Group, for example, bought a majority stake in National Electric Vehicle Sweden AB for an estimated $930 million. Northvolt and Volkswagen entered a joint venture to build a lithium-ion facility, with Volkswagen investing around $1 billion total and acquiring 20 percent of the Swedish company's shares. Wind power, geothermal energy, and other green energy groups also received foreign investment.

Belgium

Belgium holds the 16th spot this year, up two positions from last year. The economy grew at 1.4 percent in 2019 and is projected to contract by 8.9 percent in 2020, owing to the coronavirus and strict lockdown measures. Recent FDI deals show that investors in multiple industries view Belgium as an attractive investment destination, including those in biopharmaceuticals, health care, food, real estate, and financial services. US-based biopharmaceutical company Gilead Sciences, for example, made an equity investment of about $1.1 billion in Galapagos for research and development, and South Korea-based financial services group Meritz Securities, along with British asset manager Valesco Group, bought a building in Brussels for around $1.3 billion.

Key risks for Belgium, even before but especially after COVID-19, include a cooling global economy and reduced trade flows. Exports account for more than 80 percent of GDP, and with international trade slowing, the economy will be on shakier ground after COVID-19 ebbs away. For example, Belgium's public debt levels—which were high even before the pandemic—may increase further to plug the economic need created by COVID-19. Belgium has made some changes to its tax code that investors likely find appealing, however. The country plans to drop its corporate tax rate to 25 percent in 2020, from a previous 29.58 percent. Investors are also keeping tabs on Belgium's new Controlled Foreign Corporation (CFC) rules, which give the government more power to tax companies that have subsidiaries in lower-tax countries. The EU is investigating Belgium for allowing multiple companies to claim "excess profits." The decision is pending, and the outcome may affect investor outlook.

Belgium's economy showed strength in 2019. Unemployment for those between 15 and 64 decreased to 5.4 percent in 2019, from 6 percent in 2018. With its strategic location, highly educated and multilingual workforce, open economy, and sophisticated infrastructure, Belgium fares well in international competitiveness rankings. It ranks 22nd on the World Economic Forum Competitiveness Report and 18th on INSEAD's list. Communities in Belgium are also taking strides to further develop and improve the economy. For example, some groups plan to pioneer artificial intelligence efforts, which investors will likely find appealing, and the country has plans to build renewable energy projects, including a green hydrogen plant in the Port of Ostend, though COVID-19 could delay these efforts.

Ireland

Ireland ranks 18th in this year's index, up two positions from last year. The country grew at 5.5 percent in 2019, far above the eurozone average of 1.2 percent. Oxford Economics projects that economic growth will decline by 5.7 percent this year, though, offsetting much of these gains as the coronavirus takes its toll.

An open economy, Ireland will remain sensitive to drops in global trade and investment after the worst of the coronavirus has passed. Foreign direct investment alone equaled almost 17 percent of Irish GDP in 2018. Reflecting positive investor sentiment, total FDI flows to Ireland were $37 billion in 2019, up from net losses in 2018, according to UNCTAD. In addition to its business-friendly tax code, Ireland's liberal investment policies, relatively low corporate tax rates, and straightforward legal system likely drew investors while the survey was in the field. Pharmaceuticals and technology were among the sectors most appealing to investors in 2019. Japanese pharmaceutical firm Takeda bought Shire for roughly $62 billion, which helped boost overall Irish 2019 FDI levels. Another notable deal was between the specialty metal group of Ardagh, a packaging company, and Exal, an aluminum company controlled by the Ontario Teachers' Pension Plan board, for an estimated $2.5 billion (paywall). The United Kingdom remains an important investor in Ireland, and several UK firms made significant real estate investments in Dublin, including Henderson Park Capital's purchase of Irish property investor Green REIT for $1.5 billion.

On the investment front, 2020 marks the official end of the "Double Irish" tax benefits that some large US corporations previously used (paywall). After it came under international scrutiny, Ireland agreed to end the provision years ago (paywall), but the country gave companies until 2020 to do so. Investors also seem unfazed by the recent surge in support for populist party Sinn Fein, as evidenced during the February national elections before the coronavirus. Sinn Fein's platform proposes higher taxes on business to support liberal social programs and higher public spending, which could impact overall levels of government spending if adopted, particularly if undertaken alongside coronavirus economic stimulus programs. Sinn Fein is, however, committed to maintaining Ireland's comparatively low corporate tax rate (paywall) of 12.5 percent. In terms of Ireland's competitive tax regime, the country introduced Controlled Foreign Corporations (CFC) rules and other measures aligned with EU anti-avoidance rules.

Denmark

Denmark ranks 20th this year, six spots lower than last year. The Danish economy grew at 2.4 percent in 2019, above the estimated EU average of 1.5 percent, according to Oxford Economics. Economic growth projections for 2020 stand at -3.9 percent due to the coronavirus and in line with many other European countries. Exports accounted for around 55 percent of Danish GDP before the coronavirus. Therefore, potential negative developments surrounding the economic relationship between the United Kingdom, one of Denmark's biggest trading partners, and the EU might cause concern in the operating business environment. Moreover, international risks mount as global trade slows and the coronavirus leads to sharp reductions in worldwide commerce, which could persist even after the worst of COVID-19 is behind us.

Multiple Danish industries were attractive for foreign investment in 2019, including food, financial services, healthcare, and chemicals. In financial services, US-based Mastercard agreed to acquire Nets A/S for just under $3.2 billion. In pharmaceuticals, Japan's Asahi Kasei bought Veloxis, a specialty company focusing on transplant patients, for $1.3 billion. And in foods, a Belgian company affiliated with Italy's Ferrero SpA acquired Kelsen, which makes products under the Royal Dansk and Kjeldsens brands, for $300 million.

Denmark remains a competitive country given its highly educated workforce and its friendly business environment. The country currently ranks fourth on the World Bank's Doing Business 2020 report. As a further reflection of these strengths, Denmark is fifth on INSEAD's Global Talent Competitiveness Index. Denmark's institutions, macroeconomic stability, skilled workforce, and financial system were likely attractive to investors. Denmark is also taking strides to stimulate domestic innovation. For example, the country convened a panel of experts to review its innovation policies, which found that Denmark is an innovative economy that invests heavily in research and development but could take steps to help commercialize these efforts. Denmark also launched an artificial intelligence strategy in 2019 that outlines ways to increase investment in the sector through initiatives such as the public–private partnership Digital Hub Denmark. Considering that technology and digital infrastructure are among the top priorities for international investors, these efforts are likely welcomed.

Portugal
Portugal rejoins the Index this year, ranking 21st. Portugal has been steadily growing in recent years, most recently at an estimated 2.2 percent in 2019, according to Oxford Economics. In 2020, the economy will experience a significant recession, plunging by 8.6 percent as a result of measures taken against the coronavirus and a slowing global macroenvironment. Vulnerabilities in the banking sector were readily apparent pre-COVID, driven by headwinds in the global economy. These could magnify depending on the extent of economic turmoil after the virus recedes.

Tourism remains central to the health and growth of the Portuguese economy, accounting for almost 15 percent of GDP, according to recent estimates. The sector grew 6.5 percent in the first eight months of 2019, though increased travel restrictions after the United Kingdom's departure from the EU as well as the global plunge in air travel as a result of the coronavirus will weigh on this sector. The recovery of this sector post-COVID remains highly uncertain, which may significantly undermine growth prospects. There are efforts, though, to assist Lisbon's blossoming technology and start-up scene, supported by the national program Startup Portugal. Similarly, the country is considering an e-residency program, which would allow foreigners to create a company and access Portuguese services without establishing tax residency. On the economic front, investor optimism was likely boosted by the election of Portugal's new government, which was keen on reducing debt levels before the coronavirus, though COVID-19-related difficulties may push this target further down the line. Additionally, combined taxes on corporations in Portugal are among the highest worldwide at 31.5 percent, second only to France. As an EU member state, Portugal is also subject to new rules regarding foreign direct investment screening.

Recent FDI deals show investors are attracted to various sectors of Portugal's economy, particularly energy and real estate. A consortium led by French energy giant Engie moved to buy six hydroelectric plants (paywall) for $2.5 billion from Energias de Portugal, while Thailand's PTT Exploration & Production, an upstream energy company, acquired Partex Holding for $622 million. Finally, British Tristan Capital bought real estate around Lisbon for more than $100 million.

Finland
Finland maintains its 23rd position in the ranking this year. Growth was 1 percent in 2019 and is projected to contract by 5.3 percent in 2020, according to Oxford Economics. Domestic stress will be compounded by a decline in economic activity in other European trading partners due to the coronavirus. The Bank of Finland also noted that household and business confidence were low even before the virus, dragging down economic growth prospects even further. In addition, public debt was a growing concern before the COVID-19 crisis. Recent debt projections anticipate these trends worsening in the coming years, particularly as the Finnish population ages. And after the survey left the field, the country's central bank predicted that the government balance will deteriorate further this year because of the pandemic.

While Finland remains a competitive economy according to many global indicators, COVID-19 may temper investor enthusiasm. The World Economic Forum ranks Finland 11th on its Global Competitiveness Report. On INSEAD's report measuring global talent competitiveness, Finland holds the seventh spot. Finland's key advantages include political stability, a skilled workforce, low crime rates, and the efficiency of its legal system. Finland has also introduced numerous initiatives to support technology, such as start-up grants and programs to train parts of the population on artificial intelligence. Estimates show that research and development spending accounts for almost 3 percent of Finnish GDP. Given that investors prioritize technology and digital capabilities, these initiatives are likely to benefit the country post-pandemic as economic recovery begins. Investors also likely monitored the government's pre-COVID push to cut tax rates for low- and middle-income earners, which could help boost household consumption. And as an EU member state, Finland is subject to EU-wide changes to FDI screening.

The construction and telecommunications sectors were particularly attractive for FDI in 2019. French equipment supplier Loxam acquired Ramirent Oyj, a construction machinery and equipment company, for roughly $1.1 billion, and the Dutch Boels Rental acquired Cramo Oyj for $650 million. Telecommunications also remain central to the Finnish economy, as shown by Norwegian Telenor Asa acquiring a majority stake for roughly $1.7 billion.

Norway

Norway ranks 24th this year, maintaining its previous ranking. The Norwegian economy grew at 1.2 percent in 2019, but it is projected to plunge by 5.9 percent this year as a result of a global slowdown driven by the coronavirus and oil markets turbulence. These developments have already led the government to introduce measures to stave off a recession. Just after our survey left the field, the government brought in provisions to help businesses and offered roughly $10 billion in support for businesses. These efforts likely provided a lifeline to the economy in the midst of the coronavirus crisis, but the economy will not be unscathed by the crisis.

Though historically known for its oil industry, investors likely took note of Norway's competitiveness in other areas, such as fishing, maritime trade, and manufacturing, as they were filling out the survey. COVID-19 will likely weigh on the outlook for these industries, however, and may also impact Norway's efforts to boost renewable energy. For example, its sovereign wealth fund, which receives funds from oil revenues, is now permitted to invest up to $14 billion in unlisted renewable energy projects. The fund is eyeing wind and solar projects in particular, with plans to invest around $11 billion in such projects from 2020–2022. On the economic front, Norway is competitive according to many international metrics. Helped by its overall macroeconomic stability, healthy and skilled population, and strong institutions, Norway ranks ninth in INSEAD's Global Talent Competitiveness Index and 11th on IMD's World Competitiveness rankings. In the area of FDI, Norway introduced new screening measures in 2019 allowing the government to examine the national security implications of investments, aligning with similar EU efforts. These new provisions could create hurdles for investors, as the measures apply to all industries and investors.

Many large deals remain concentrated in energy, though recent foreign investment in a variety of sectors shows the diverse strengths of the Norwegian economy, including IT and financial services. Finnish Tieto Oyj, an IT services company, bought IT infrastructure services firm EVRY Asa for $1.5 billion, creating a digital services consultancy based in the Nordic region. And Finnish Nordea Bank acquired SG Finans AS for roughly $634 million.

Middle East and North Africa

After a two-year absence, the United Arab Emirates (UAE) as well as the Middle East and North Africa region, make a return to the Index. Regional dynamics are rather negative, however, as the COVID-19 pandemic sent economies in a downspin after the investor survey had concluded. The Gulf Cooperation Council (GCC) region is expected to contract by 7.0 percent this year and will be especially hurt by a COVID-induced crash in oil prices. In Africa, growth will tumble to just under 0 percent. Though no African countries appear on the list this year, the continent saw a 3 percent increase in inward FDI year-over-year in 2019, likely reflecting strengthened investor confidence in Egypt on the back of newly implemented reforms as well as a surge of investment in Nigeria. Investors may be more hesitant to invest in the region in 2020, however, given the threat that the coronavirus poses to the fragile health systems in many of the continent's economies.

United Arab Emirates

The United Arab Emirates returns to the Index after a two-year absence and places 19th—up two spots from its rank in 2017. Economic indicators in the country are strong, and growth reached 2.4 percent in 2019, up from 1.7 percent in 2018. The coronavirus, however, will push down 2020 performance to a projected growth rate of –7.8 percent. As is the case in most commodity-exporting markets, plunging oil prices that dropped consistently after the survey was administered represent a key risk to the economy and foreign direct investment moving forward.

During the survey period, respondents were likely attracted to the UAE's continued efforts to diversify its economy away from oil. Last year, the government allowed 100 percent foreign ownership in 13 sectors of the economy—including manufacturing, agriculture, and renewable energy. This initiative expanded the landmark 2018 foreign investment law, which significantly relaxed foreign investment requirements. The overall strong business environment was boosting its foreign investment attractiveness, and this economic stability should support the business environment post-COVID as well. Indeed, the World Bank's Doing Business 2020 report ranked the United Arab Emirates at 16 out of 190 countries, noting that the country has reduced fees involved in starting a business there and made international trade easier.

The United Arab Emirates saw some notable M&A deals in 2019. Italian oil and gas company Eni acquired a 20 percent equity interest in the Abu Dhabi National Oil Company for $3.3 billion. And the country's technology sector also experienced some strong activity, with the United States' ride-sharing firm Uber Technologies Inc. acquiring the United Arab Emirates' online car booking service (paywall) Careem Networks FZ LLC for $3.1 billion. The United Arab Emirates was also expected to benefit from the entry into force of the Africa Continental Free Trade Area (AfCFTA) through new trade opportunities with African countries, though COVID-19 has delayed the timeline for the agreement. And though the Dubai 2020 Expo has been postponed until 2021, the event could stimulate foreign investment in innovative small businesses in the country.

Asia Pacific

Growth in the Asia Pacific region is expected to land at –1.7 percent in 2020 as a result of the COVID-19 pandemic. However, the region continues to be attractive to foreign investors. New Zealand, for example, jumped six notches to 13th on the Index, likely reflecting the business-friendly operating environment in the country. China, on the other hand, saw its lowest-ever rank on the Index, landing at 8th. Early COVID-19 concerns may have contributed to this drop, but the country's continued place in the top 10 likely reflects initial investor optimism about China's ability to recover. Investors also appear to be bullish on Singapore—where inward FDI flows rose a significant 42 percent in 2019—perhaps shifting their attention to the country as a result of continued trade tensions between the United States and China.

China saw its lowest-ever rank on the Index, landing at 8th.

Japan

Japan is up by two notches to rank fourth. The country's strong position is likely a reflection of the economy's competitiveness. Indeed, the World Economic Forum's Global Competitiveness Index ranked Japan sixth in 2019. Japan's economic growth in 2020 is projected at -6.5 percent as a result of the COVID-19 outbreak. The government's response to COVID-19 included a massive $1 trillion stimulus, which mitigated the pandemic-related business disruptions to an extent. However, the post-COVID economic indicators are likely to weaken, particularly, as these measures will add to Japan's already heavy debt burden—the highest in the world.

Investment flows to Japan rose moderately by 9 percent in 2019, reaching $11 billion, according to UNCTAD. Trends attracting FDI into the country include a stable political situation as well as a positive business environment. One major cross-border deal in the country was UK-based pharmaceutical company AstraZeneca's purchase of Japanese firm Daiichi Sankyo's cancer drug trastuzumab deruxtecan for $6.9 billion. However, the postponement of the 2020 Olympics in the country's capital as a result of the coronavirus pandemic has dealt a blow to the country economically (an estimated cost of around 0.1 percent of GDP). And Japan may have to delay talks on the Regional Comprehensive Economic Partnership (RCEP) as the coronavirus response takes precedence.

The investment environment in Japan may be affected by the 2019 announcement of new rules outlining the tightening of reporting requirements for foreign investment in industries related to national security. The rules came into effect on May 8, 2020 and require that foreign investors in Japan's defense, nuclear power, utilities, telecommunications, and potentially medical industries report holdings after acquiring a 1 percent stake in a company. This mandate is significantly lower than the current 10 percent requirement. According to an estimate, about 400 to 500 Japanese firms are currently under these criteria. The rules follow similar efforts by the United States and Europe and may weigh on investor confidence in the coming years.

China

China lands in eighth place this year, its lowest-ever position in the Index. It remains, however, the only emerging market ranked among the top 10 markets for FDI globally. China's relatively high position in the ranking indicates that, despite the coronavirus wreaking havoc on the country's economy in the short term, investors were perhaps optimistic for a quick and strong economic recovery during the survey period. The Chinese economy experienced slower growth in 2019, landing at 6.1 percent—a nearly 30-year low as a result of sluggish demand both domestically and abroad, partly stemming from trade tensions with the United States.

The outbreak of COVID-19 will result in economic growth collapsing to 0.8 percent this year. Perhaps unsurprisingly, Chinese inward FDI dropped 25.6 percent in February of this year following a 4 percent increase in January—likely a reflection of the sudden stop in most manufacturing and service companies over that month. However, its economic stimulus efforts—including financial assistance for infrastructure projects and tax reductions for businesses—likely signaled to investors that the country was slowly opening back up for business. The planned signing of the Regional Comprehensive Economic Partnership (RCEP) at the end of the year could also boost connectivity in the years of economic recovery following COVID-19. Further, a new foreign investment law that came into effect on January 1, 2020 establishes a new legal framework that relaxes requirements for foreign investment in the country—which could signal a "new era" for FDI in China. Foreign investors therefore have reasons to be optimistic.

While coronavirus-related uncertainty will likely weigh on foreign investment levels this year and beyond, 2019 levels were strong. UNCTAD reports that FDI inflows to China remained stable at $140 billion. One of the largest cross-border deals was between US pharmaceutical company Amgen and Chinese firm BeiGene. Amgen paid $2.7 billion in exchange for a 20.5 percent stake in the company, aiming to boost the presence of its cancer drugs in China. Another lucrative deal was in the automobile industry, with Japan's SoftBank's Vision Fund investing $1.5 billion into Chinese online car trading group Chehaoduo.

Australia

Australia's position jumps from ninth to seventh in this year's Index, reflecting steady investor confidence in the country's FDI environment. Indeed, Australia has been ranked among the top 10 counties on the Index for a decade. Like many other advanced economies, Australia's economy will take a hit in 2020; it is expected to contract by 5.9 percent due to COVID-19 as well as the bushfires that ravaged the country starting in 2019.

Australia's overall stable business environment—likely the biggest draw for survey respondents—is unlikely to remain unscathed from COVID-19, though the country's response to the pandemic has been exemplary. Australia was ranked 14th out of 190 countries in the World Bank's Doing Business 2020 report, up from a ranking of 18th the previous year. Australia is appealing to investors with improved access to credit information. Furthermore, to prevent a perceived lack of fairness in how it treats multinationals with regard to tax issues, the Australian government continues to promote and enforce anti-tax avoidance legislation, particularly within its oil and gas industry. A shorter-term obstacle to inward FDI in Australia could be the country's temporary tightening of its rules on foreign takeovers (paywall), which were implemented after the investor survey had concluded. The government is concerned that strategic assets—especially in the aviation, freight, and health industries—could be sold off cheaply to foreign buyers in the midst of COVID-19. As such, all foreign takeover and investment proposals will be scrutinized by the foreign investment review board. And the timeframe to review such proposals will be extended from 30 days to six months. If the temporary tightening is extended, it may weigh on investor sentiment.

FDI inflows to Australia decreased 42 percent from 2018 to 2019, amounting to $39 billion, according to UNCTAD. Despite the decline of cross-border M&A sales, some notable deals took place—especially with Japan. Beverage company Anheuser–Busch InBev (paywall) sold its Australian business to Japan's Asahi Group Holdings for $11.3 billion. And Nippon Paint Holdings Co. Ltd. purchased (paywall) Australian paint manufacturer Dulux Group Ltd. for $2.7 billion.

Singapore

Twelfth this year, Singapore drops two notches from 10th place in last year's report. Overall, inward FDI was extremely robust in 2019, amounting to $110 billion and increasing by 42 percent from the previous year. This strong growth, driven by deals in the information and communications sector, crowned Singapore the biggest FDI host country in the Southeast Asia region and third-largest host economy overall behind the United States and China. The country also invested $2 billion into a new program to support green finance, which should enable it to promote environmentally sustainable projects and attract sustainability-conscious investors when COVID-19 ebbs and the government is able to shift its attention to other priorities. One such priority will be more aggressive pursuit of its plan to produce 30 percent of its food supply by 2030. In the near term, however, prospects are weak, and growth will dip to –6.0 percent this year as a result of the pandemic.

Contributing factors that boosted Singapore's FDI performance include the escalating trade war between the United States and China and protests in Hong Kong, which have made Singapore a new attractive destination for spooked investors. Further, Singapore's business environment remained as robust as ever pre-COVID, with the World Bank's Doing Business 2020 report ranking it second out of 190 countries. Its productivity and institutional strength on the world stage is also a boon for FDI, as the country ranks number one out of 141 countries in the World Economic Forum's Global Competitiveness Report for 2019, up from number two the year prior. While the future remains more uncertain in view of the coronavirus pandemic, Singapore has had more success than other countries in the containment of its COVID-19 outbreak—though a new resurgence in cases may temper investor confidence. Further, given that Singapore's economy is reliant on its status as a major hub for transit, imports, and exports, coronavirus-related travel and trade restrictions could hurt it moving forward.

Other Asian economies continue to be the biggest investors into Singapore, with a pending cross-border deal on the table between China's Yanlord Land Group and Singapore's United Engineers, valued at $1.2 billion. This deal is slated to be one of Singapore's largest cross-border M&A transactions in 2019. Further, multinational ride-hailing company Grab Taxi Holdings has attracted an investment of $1.46 billion from Japan's Softbank Vision Fund, and Chinese social media platform YY has bought out Singaporean Bigo Technology for $1.45 billion.

South Korea

Reflecting strong foreign investor confidence, South Korea ranks 17th this year—maintaining its spot from the previous year and jumping one notch from 2017 and 2018. Despite the economy growing at a decade-low pace in 2019—rounding at 2 percent—the country continued to be attractive to foreign investors during the survey period owing in part to its robust industrial, materials, and equipment sector. As a reflection of these strengths, it ranks fifth in the Doing Business 2020 report. Despite a 13 percent reduction in inward FDI to the country in 2019, FDI picked up in the fourth quarter of 2019. This increase was driven by large-scale M&As, such as Aramco's equity investment in Hyundai Oilbank—valued at $1.2 billion—and Estée Lauder's investment in Korean cosmetics company Have & Be Co., valued at $1 billion.

Developments surrounding trade and investment policy may weigh on investor sentiment in the near and medium term, however. For example, South Korea's trade relationship with Japan weakened last year because of political disagreements, and bilateral trade declined by about 10 percent in the first six months of 2019. During this time, the number of Japan's direct investments in South Korea also dropped by 20 percent. The abolition of corporate tax breaks previously given to foreign-invested enterprises likely also pushed down investor sentiment.

Moving into 2020, developments surrounding the Japan–South Korea trade relationship may affect the investment outlook, especially given that COVID-19-related tensions could exacerbate an already fragile rapport between the two countries. Overall, however, South Korea's response to containment of the virus after a rapid acceleration early in 2020 has garnered global praise and should prove to be a boon for FDI in the future as well as its broader economy if and when FDI flows resume after the COVID-19 pandemic blows over. Growth is expected to decline to –1.0 percent in 2020, overperforming most other countries in the region. And South Korea's $62 billion "New Deal" should help rebuild its economy through increased promotion of 5G and job creation.

New Zealand

New Zealand jumps six spots to 13th. This shift is significant, as it debuted on the Index in 2017 at the 23rd position. Despite an economic deceleration in 2019—down to 2.3 percent growth from 3.0 percent the previous year—foreign investor sentiment remained strong, likely reflecting the consistently robust business environment in the country. New Zealand ranks first out of 190 countries in the World Bank's Doing Business 2020 report and receives top scores for starting a business and regulatory performance. Further, it holds a strong rating of 19 out of 141 countries on the World Economic Forum's Global Competitiveness Index. Economic prospects have weakened significantly since the outbreak of COVID-19 as in most other markets globally, and growth is expected to tumble to –4.0 percent this year.

A potential obstacle to FDI in New Zealand in the coming years could be recently widened government powers to block foreign investment on national security grounds. However, New Zealand's general openness and commitment to foreign trade is likely seen as an advantage by foreign investors and may continue to benefit New Zealand in the years ahead. It is also important to note that the historically strong tourism industry is in shambles as a result of the COVID-19 pandemic, though it may see a resurgence after the outbreak weakens.

Overall, New Zealand's inward FDI should remain fairly strong in 2020 and beyond, especially given its expedient and successful response to the COVID-19 outbreak following the conclusion of the investor survey. As of late March 2019, the value of FDI in New Zealand had risen to $67 billion, continuing its upward trend which began in 2001. Top source countries include Australia, Hong Kong (China), the United States, Japan, and the United Kingdom. The financial and insurance services industry continues to be a top destination for FDI in New Zealand. Indeed, since 2009, investment into the sector has more than doubled to $22.8 billion. The food and beverage sector is also continuing to see strong investment, with the United Kingdom's Froneri Ltd. acquiring New Zealand's Fonterra Tip Top ice cream brand for $250 million and China's Inner Mongolia Yili Industrial Group Company Limited buying Westland Co-operative Dairy Company Limited, New Zealand's second-largest dairy co-operative.

Taiwan (China)

Taiwan (China) drops to 25th place in this year's Index, down three spots from the year prior. Investor interest was likely supported by the country's strong electronics sector. Economic growth in 2019 reached 2.7 percent, up from 2.4 percent in 2018, and there are additional positive signs on the economic front. The island has been internationally praised for its handling of the coronavirus outbreak, with many countries seeing it as an example of how to mitigate the virus's impact on their own shores and prepare for public health crises. Perhaps unsurprisingly, the Taiwanese economy is expected to contract to –0.6 percent growth in 2020. Comparatively, growth prospects in 2020 are much stronger than most other markets in the region.

Other positive developments are also a draw for investors. For example, Taiwan (China) has proved to be particularly resilient amid US–China trade tensions. Indeed, exports—especially in the electronics sector—from the island remained robust in 2019. And if US–China trade relations continue to ease in 2020 and beyond, Taiwan (China) should also see investment levels continue to improve, depending on the trajectory of the coronavirus crisis. The business environment was a bright spot for Taiwan (China) before the COVID-19 crisis hit, which was reflected in Taiwan (China)'s 15th place ranking in the World Bank's Doing Business 2020 report. Further, if Taiwan (China) continues to engage in discussions with the European Union and the United States regarding increased trade and investment, FDI could see a notable increase when growth and investment flows get on a more stable footing following COVID-19. More specifically, the European Union may be looking to enter into a Free Trade Agreement (FTA) with Taiwan (China) in the foreseeable future.

Overall, the future of inward FDI into Taiwan (China) looks stable. Taiwan (China) saw high levels of inward FDI from January to November of 2019, reaching the highest levels since 2008 at $10 billion. This increase can be largely attributed to Taiwan (China)'s strengthening relationship with Dutch firm ASML, which is the largest semiconductor equipment supplier in the world. Another notable deal within the semiconductor space is US firm EnPro Industries' acquisition of Taiwan (China)'s Leanteq Co., Ltd.

Conclusion and business implications

COVID-19 is reshaping the global economy, causing turbulence in the external operating environment to a degree we have not seen in the 22-year history of this survey. The ongoing seismic shift was not yet fully apparent when the survey was in the field and thus not fully reflected in the results of this study. Yet, it is noteworthy that any snapshot would likely fail to capture the extent of the current changes given the extreme volatility and uncertainty we are experiencing. Our results illustrate perspectives from two distinct vantage points—one pre-COVID, another reflecting a global economy on the brink.

From these perspectives, some important themes do emerge from the 2020 FDICI, with implications for advanced, emerging, and frontier markets alike. Every market segment will spend some time in intensive care during and after their battle against COVID-19. The impact on emerging and frontier markets has the potential to be even more severe. Capital flight from less developed economies has accelerated since the beginning of this year, and this trend will not abate anytime soon.

Our findings indicate that investors were generally broadsided by this pandemic. They seemed to only belatedly appreciate that global conditions were rapidly deteriorating. Much uncertainty remains, suggesting a need to prepare for a range of potential futures. In this context, effective use of strategic foresight may provide needed tools to mitigate such risk moving forward. This approach can help plan for business continuity when the next crisis—a pathogen, another wild card, or a markets-driven disaster—upends the business operating environment.

The high level of awareness of climate change risks and the need for action to ameliorate those risks in this year's survey presents a potential bright spot. Our survey results suggest investors are already thinking about these matters and believe they are prepared for them. Extreme weather events as well as the longer-term impacts of climate change will continue to require careful planning and strategic thinking, from bolstering resilience to developing sustainability plans. Such efforts will also mitigate the risk that companies will face in adhering to future climate regulations and the myriad other challenges ahead—through and beyond COVID-19.

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Appendix

About the study

The Kearney Foreign Direct Investment Confidence Index® is an annual survey of global business executives that ranks markets that are likely to attract the most investment in the next three years. In contrast to other backward-looking data on FDI flows, the FDICI provides unique forward-looking analysis of the markets that investors intend to target for FDI in the coming years. Since the FDICI's inception in 1998, the countries ranked on the Index have tracked closely with the top destinations for actual FDI flows in subsequent years.

The 2020 FDICI is constructed using primary data from a proprietary survey of 500 senior executives of the world's leading corporations. The survey was conducted between January and March 2020. Respondents include C-level executives and regional and business leaders. All participating companies have annual revenues of $500 million or more. The companies are headquartered in 30 countries and span all sectors. The selection of these countries was based on UNCTAD data, with the 25 countries represented in the Index originating more than 95 percent of the global flow of FDI in recent years. Service-sector firms account for about 44 percent of respondents, industrial firms for 37 percent, and IT firms for 20 percent.

The Index is calculated as a weighted average of the number of high, medium, and low responses to questions on the likelihood of making a direct investment in a market over the next three years. Index values are based on responses only from companies headquartered in foreign markets. For example, the Index value for the United States was calculated without responses from US-headquartered investors. Higher Index values indicate more attractive investment targets.

FDI flow figures presented in this report are the latest statistics available from UNCTAD, and all 2019 figures are estimates. The data on specific FDI deal values is from Dealogic unless otherwise noted. All economic growth figures presented in the report are the latest estimates and forecasts available from Oxford Economics unless otherwise noted. Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, relevant news media, and other major data sources.

For past editions of the FDI Confidence Index, please go to: kearney.com/foreign-direct-investment-confidence-index.

As a global consulting partnership in more than 40 countries, our people make us who we are. We're individuals who take as much joy from those we work with as the work itself. Driven to be the difference between a big idea and making it happen, we help our clients break through.

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