

By <u>David Goldman</u>, CNN Business Updated 10:01 AM ET, Mon January 25, 2021

New York (CNN Business) – Foreign companies are turning their backs on the United States, taking advantage of China's booming economy and superior management of the Covid-19 pandemic.

Direct investment in the US by foreign companies plummeted 49% to \$134 billion last year, according to a report released Sunday by the United Nations Conference on Trade and Development. By contrast, foreign direct investment in China grew by 4% to \$163 billion in 2020.

2020 marked the first year in history that foreign direct investment in China overtook that of the US, according to the UN. China is now the world's largest recipient of foreign companies' investments.

Although Covid-19 was a large factor in foreign direct investment tumbling in the US -- and most places around the world -- the drop-off in foreign companies' American investments began well before the pandemic.

After hitting a high of \$440 billion in 2015, according to the US Commerce Department, foreign investment in the US has been on a sharp downward slide. Former President Donald Trump's go-it-alone trade policies hurt foreign investment -- particularly from China, which represented the sharpest drop in US investment over the past several years. Growing economic uncertainty around the globe also contributed to the decline.

Last year, decline in foreign direct investment into the US was most prominent in wholesale trade, financial services and manufacturing, the report said. International mergers and acquisitions, as well as sales of US assets to foreign investors, fell by 41%.

Meanwhile, China's explosive economic growth -- and quick recovery from the pandemic -- helped foreign investment there soar. China's economy grew 2.3% last year, when most of the world's major economies shrank. The country enforced stringent lockdown and population tracking policies intended to contain the virus, and set aside hundreds of billions of dollars for major infrastructure projects to fuel economic growth.

China's ability to control the spread of the virus "helped stabilize investment after the early lockdown," the report noted.

Foreign direct investment to India has similarly skyrocketed, from less than \$25 billion in 2014 -- before Prime Minister Narendra Modi took power -- to \$57 billion last year, according to the UN report. Much of that growth was brought about by policies that enabled global brands like lkea and Uniqlo to open up stores, as well as Modi's signature "Make in India" campaign to grow the country's manufacturing base.

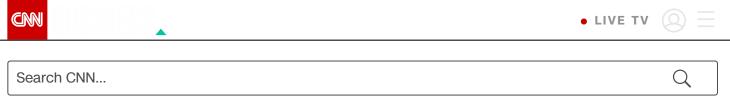
That helped India's foreign direct investment soar 13% last year.

Most economies weren't so lucky. Foreign direct investment in the United Kingdom and Italy fell by almost 100%. Russia's foreign direct investment fell 96%, Germany's sank 61% and Brazil's plunged by 50%. Australia, France, Canada and Indonesia -- all among the top foreign direct investment recipients in 2019 -- also fell by double digits.

Overall, foreign direct investment tumbled 42% last year to the lowest level since the 1990s -- and 30% below the lowest level reached during the 2008-2009 global financial crisis.

The attractiveness of the US as a safe and robust place for foreign companies to invest has been one of the more powerful driving forces behind America's economic growth over the past several decades. But the UN said the circumstances stopping the flow of foreign direct investment to the US and other countries will remain in place this year.

"The effects of the pandemic on investment will linger," James Zhan, director of UNCTAD's investment division, said in a statement. "Investors are likely to remain cautious in committing capital to new overseas productive assets."



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