Executive Summary

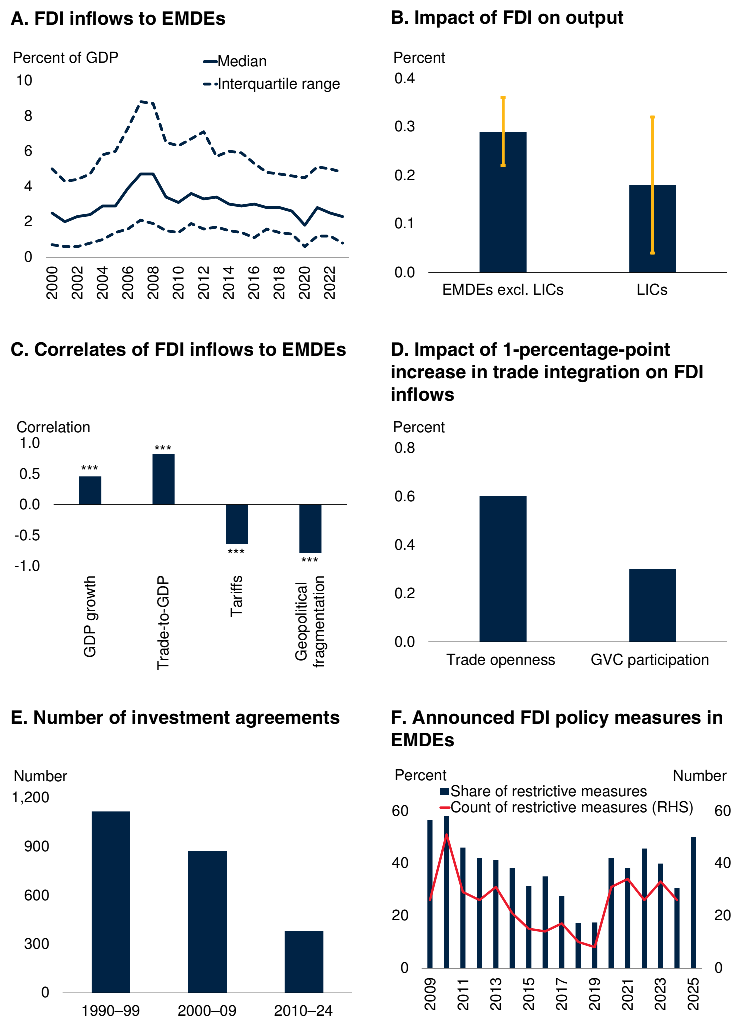
Foreign direct investment (FDI) inflows to emerging market and developing economies (EMDEs) have weakened steadily as a share of their GDP since the global financial crisis. During the boom years of the 2000s, FDI inflows to EMDEs grew fivefold in nominal terms, equivalent to nearly 5 percent of their GDP in the typical economy at the peak in 2008. Since then, FDI inflows have declined, settling at around 2 percent of GDP in recent years (figure ES.A). In nominal terms, EMDEs received $435 billion in FDI in 2023, the lowest level since 2005. The trend has been broad based across economies: about 60 percent of all EMDEs and four out of six EMDE regions had lower FDI-to-GDP ratios in 2012-23 than in 2000-11. Recent project announcements suggest a decline in greenfield FDI, the predominant form of FDI to EMDEs, by about 25 percent year-on-year in 2024.

The sectoral composition of FDI inflows to EMDEs has shifted notably since the early 2000s, from manufacturing to services, while FDI to EMDEs has become somewhat more concentrated in the largest economies. Nearly 65 percent of FDI inflows to EMDEs went to the services sector in 2019-23, about the same proportion of FDI to advanced economies directed to services, up from 45 percent in the early 2000s. As the share of services-related FDI to EMDEs has risen, the share of manufacturing-related FDI has fallen, to less than 30 percent in 2019-23, down from about 45 percent in the early 2000s. The three largest EMDEs—China, India, and Brazil—jointly received almost half of total FDI inflows to EMDEs, on average, during 2012-23, about 10 percentage points more than in 2000-11. China received nearly one-third of inflows to EMDEs during 2012-23, while Brazil and India received 10 percent and 6 percent, respectively.

FDI inflows have a positive impact on economic output in EMDEs, but the magnitude of the impact depends on country characteristics. In the average EMDE, a 10-percent increase in FDI inflows is estimated to increase GDP by

FIGURE ES FDI in EMDEs

FDI inflows to the typical EMDE have dropped to around 2 percent of GDP in recent years—less than half their peak level in 2008. FDI inflows have a positive impact on economic growth, but the magnitude of the effects varies substantially across EMDEs, with much larger effects in countries with conducive structural conditions. Persistently weak economic growth, the slowing pace of trade and investment integration, and the loss of momentum in advancing reforms to improve the investment climate were all significant factors that weakened FDI inflows to EMDEs.



Sources: CEPII; Fernández-Villaverde, Mineyama, and Song (2024); Global Trade Alert (database); UNCTAD; World Bank; World Development Indicators (database).

Note: EMDEs = emerging market and developing economies; GVC = global value chain; LICs = low-income countries; PVAR = panel vector autoregression.

A. Median and interquartile range of the FDI-to-GDP ratio. Balanced sample of 134 EMDEs.

B. Impact after three years of a 10-percent increase in net FDI inflows on real GDP level (in percent), based on heterogenous PVAR model estimations. Bars show the response for the average economy in each group. Whiskers show 90 percent confidence intervals. Sample includes 74 EMDEs, 11 of which are LICs.

C. Correlation coefficients between annual average FDI-to-GDP ratio and the following variables: real GDP growth, sum of exports and imports as a share of GDP, import tariff rate, and the geopolitical fragmentation index from Fernández-Villaverde, Mineyama, and Song (2024). *** denotes statistical significance at the 1 percent level.

D. Bars show marginal effects on FDI inflows of a 1-percentage-point increase in trade openness (sum of exports and imports as a percent of GDP) and GVC participation (value-added trade as a percent of exports).

E. Data include new international investment agreements in force as of April 2025.

F. Sample includes 83 EMDEs. The line shows the number of announced restrictive FDI measures, and bars show the share of announced restrictive FDI measures in all announced FDI policy measures. 2025 includes announcements between January and April 2025.

0.3 percent after three years (figure ES.B). However, the effect is much stronger—up to 0.8 percent—in economies with greater trade openness, stronger institutions, better human capital development, and lower informality. Low-income countries (LICs) lag other EMDEs in many of these dimensions. Accordingly, the impact of FDI growth on GDP is weaker in LICs.

Macroeconomic, trade, and institutional conditions matter for the ability of EMDEs to attract FDI. FDI inflows to EMDEs are strongly correlated with economic growth and international trade (figure ES.C). Indeed, the last two global recessions, in 2009 and 2020, were associated with a large decline in FDI flows to EMDEs. Economies with higher trade integration receive more FDI inflows—an extra 0.6 percent for each percentage-point increase in the trade-to-GDP ratio and an extra 0.3 percent for each percentage-point increase in value-added trade as a share of exports, a measure of participation in global value chains (figure ES.D). An investment treaty tends to raise FDI flows between signatory states by more than 40 percent.

Current conditions are not conducive for generating robust FDI flows to EMDEs. Global economic policy uncertainty and geopolitical risk have soared to the highest level since the turn of the century. The formation of investment and trade agreements has slowed sharply. Between 2010 and 2024, just 380 new investment treaties came into force, less than half of the approximately 870 treaties between 2000 and 2009 (figure ES.E). There has also been a change in domestic policy in EMDEs. Following a trend toward less restrictiveness in the 2010s, newly announced FDI policy measures in EMDEs have become more restrictive in the 2020s (figure ES.F). Trade-distorting policy measures have proliferated. At the same time, progress on improving the quality of institutions conducive to investment climate in these economies has stalled.

EMDEs should follow a three-pronged strategy to attract FDI, amplify the benefits of FDI, and advance global cooperation to support FDI flows. Attracting FDI and maximizing its benefits depends on reforms that foster a favorable investment climate, macroeconomic stability, human capital development, financial deepening, and removal of international trade and investment barriers. Global cooperation is essential to uphold a rules-based international system for cross-border investment and trade flows. By providing technical and financial assistance to EMDEs, international organizations can support structural reform efforts that will boost FDI inflows and enhance their impact. These policies are now more important as EMDEs face rising global economic fragmentation and elevated uncertainty. The World Bank Group, the world's largest development bank, plays an active role in mobilizing private capital—by creating instruments that lower financial risks for investors, by helping to improve market conditions in developing economies, and by scaling up its engagement with the private sector.