



Photo by Kevin Peschke  
Kearney, Chicago

# On shaky ground

The 2021 FDI Confidence Index®

**KEARNEY**  
Global Business Policy Council

Investors are exhibiting a high level of caution as they assess the fallout and pace of recovery from COVID-19.

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There is reason for optimism that the global economy is emerging from the long shadow of COVID-19. From the United States to Japan to Australia, several economies are expected to surpass their Q4 2019 outputs in the year ahead as vaccines are administered and economies rebuilt.

Yet the results of our 2021 FDI Confidence Index® suggest that business leaders worldwide remain cautious in their outlook for the next three years. Overall levels of optimism about the global economy have fallen significantly from their pre- and early-pandemic levels last year, and investors now appear to be gearing up for a long-haul recovery for investment flows. Such concerns may be well-founded. The diminished significance of labor arbitrage, the prospect of increased trade friction, the relentless rise of technology competition, the progressive fragmentation of global supply chains, growing national procurement policies, and consumer demand for product customization could all put even more pressure on the volume and directions of FDI, at least over the next three years.

Perhaps this shift in perspective reflects a course correction—last year’s survey, fielded in the first months of 2020 just as the pandemic was beginning to emerge, found investors displaying a strong level of optimism about the global economy and their investment outlook. They only appeared to see the approaching storm at the last second, and many were caught flat-footed as the world around them was brought to an economic standstill. Now, a year into the pandemic and its severe disruption to the global economy, investors appear to have been chastened.

It comes as little surprise, then, that developed economies account for the lion’s share of rankings on our top-25 list this year. There are two primary reasons at work. First, established markets represent more safety and stability to business leaders, whose strategies and bottom lines have been shaken by the pandemic. It is no coincidence that investors point to concerns about the macroeconomic environment as the most prominent factor in explaining why direct investment might decrease. And, second, investors continue to prioritize destinations with strong infrastructure and investment in technology and innovation—natural strengths of most developed markets.

Three months into 2021, with mass vaccination programs under way in many countries, conditions have started to improve. Most projections, including our own GBPC [Global Economic Outlook 2021-2023](#), predict the economy will regain significant momentum this year and next. Still, investors have several lingering concerns. The speed and scope of recovery—both human health and economic—are uncertain. The specter of vaccine nationalism and the continued healthcare challenges faced by several emerging markets underline the threat of new virus variants that could be more resistant to vaccines. Likewise, the economic outlook is clouded by uneven rates of renewed dynamism.

This all suggests that we will continue to be on shaky ground—and that it will take some time for global investment flows to fully emerge from the long shadow of COVID-19.

As always, we welcome your views and feedback regarding this Index.



**Paul A. Laudicina**  
Founder, Global Business Policy Council  
Chairman emeritus, Kearney

# Executive summary

- **Investors are operating in an environment of uncertainty.** In the field from January 12 to February 12, our 2021 survey captures the prevailing views of business leaders during that snapshot of time—marked by the pandemic (reaching 2 million COVID-19 deaths globally on January 15 and 100 million cases on January 26), the tumultuous political transition in the United States (including the January 6 storming of the Capitol and the second impeachment of then-President Donald Trump), and complex geopolitical dynamics elsewhere in the world, including the aftermath of Brexit with the January 29 invocation of [Article 16 of the Northern Ireland Protocol](#) governing trade agreements with the European Union and the United Kingdom as a consequence of their dispute with AstraZeneca over the [COVID-19 vaccine](#). To be sure, these and other developments illuminate how uncertain the environment appeared to our survey respondents.
- **Unsurprisingly, investors are very cautious.** Only 57 percent expressed optimism about the three-year global economic outlook, which is much lower than the corresponding figure last year of 72 percent prior to and at the onset of the pandemic. This suggests continued apprehension and uncertainty about how quickly the global economy will recover post-COVID. In addition to the fall in confidence about the economy, most of the overall scores for the top 25 economies have fallen compared with previous years. In fact, only five—the United Arab Emirates, Norway, Austria, Portugal, and Denmark—scored higher than in 2020.
- **The United States once again takes the top ranking—for the ninth consecutive year.** Canada remains second, and Germany maintains its third spot. The United Kingdom rejoins the top five after ranking sixth last year. France falls modestly—to sixth place after holding the fifth spot for three years in a row, a position now taken by Japan, which dropped from fourth last year. It is noteworthy that the top 10 countries remain unchanged from 2020, with the exception of Spain replacing China. This reflects the continued preference for advanced economies. The top 25 remains almost unchanged from last year with one exception: Austria rejoins the Index, while Taiwan (China) falls out.
- **Developed markets maintain their highest share ever—for the third year in a row.** This year's survey results largely reaffirm the shift to safety that had been observed in prior years and a clear predisposition for larger, more advanced markets. In fact, the results mark the third time in the 23-year history of the Index—and the third consecutive year—in which the top five spots are all held by developed markets. This continued strong showing of advanced economies likely stems from conducive regulatory environments coupled with skilled workforces, advanced tech infrastructure, and economic stability. When it comes to pinpointing the factors that are most important for investment decisions, respondents say taxation is the top consideration, but also important are technological and innovation capabilities as well as R&D capabilities—areas of strong competitive advantage for most developed economies.

- **China, the United Arab Emirates, and Brazil are the only emerging markets to make this year's list.** China, which has held strong positions in the rankings for years (including topping the Index from 2002 to 2012)—drops to 12th. This result is counterintuitive when it comes to the fast restart of China's economy last year, long before other economies began to regain momentum. However, it may reflect escalated US–China trade tensions and other policy conflicts along with the exposure of international supply chains to China, which—consistent with [Kearney analysis](#)—has led some companies to restructure their supply chains to avoid geopolitical and tariff fallout, among other factors compelling investors to rethink their global supply chains.
- **As investors increasingly rely on data and the cross-border flow of data to support their operations, many cite burgeoning data regulations as impacting their foreign direct investments.** Investors say data is integral to generating revenue, with many stating that a large portion of their turnover is generated through data. But they are also aware of the growing amount of data regulations and the costs that they incur. A majority say that cross-border data restrictions have a moderate to significant impact on FDI, while compliance with data regulations already comes with a heavy price tag. Further, many are concerned about how data nationalism—moves by nation-states to ensure control over data—might affect their investments over the next three years.
- **Investors are very attuned to the risks often associated with emerging markets, likely affecting their weak showing in this year's Index.** The lower levels of confidence in emerging markets are reflected in the risks and developments that investors perceive as most likely in the coming year. This year, investors note the likelihood of a rise in commodity prices. Given that the global economy is expected to rebound, it is unsurprising that they expect commodity prices to rise. However, higher prices will be a double-edged sword for emerging markets as exporters will likely benefit while importers, already contending with elevated social and economic pressures from the pandemic, will face additional costs. As top risks, investors also point to an economic crisis in an emerging market and an increase in geopolitical tensions. Challenges are mounting in both areas, from complexities in vaccine rollout and distribution in emerging markets to persistent tensions between the United States and China.

**Many investors are concerned about how data nationalism might affect their investments over the next three years.**

# The 2021 Foreign Direct Investment (FDI) Confidence Index

The shockwaves of the coronavirus pandemic cannot be overstated. The 2020 global economy contracted by 3.7 percent, the most since World War II, according to our [Global Economic Outlook 2021–2023](#). Global trade collapsed even more dramatically last year—by about 9.5 percent according to the World Bank. Direct investment flows, which historically correspond closely with the fluctuations in global output and trade in goods in services, had already started to decline prior to the pandemic. Last year, they declined even more precipitously—by a staggering 42 percent, according to the United Nations Conference on Trade and Development (UNCTAD).

The effects of the pandemic on direct investment flows are likely to be long-lasting. Our estimates suggest that the world could be looking at a multiyear long-haul recovery for global FDI flows—2016 peak levels will likely not be surpassed until 2028. And, under less positive assumptions, it could take as much as a decade for flows to reach their earlier apogee.

Given these dynamics, it's not surprising that investors are more cautious. In this year's Index, respondents were less optimistic about the three-year outlook for the global economy than they have been since 2016, suggesting concern about how quickly the economy will recover from COVID-19. Specifically, only 57 percent expressed optimism about the global economy this year, which is much lower than the peak of 79 percent in 2014 and 72 percent just one year ago (see figure 1 on page 5).<sup>1</sup>

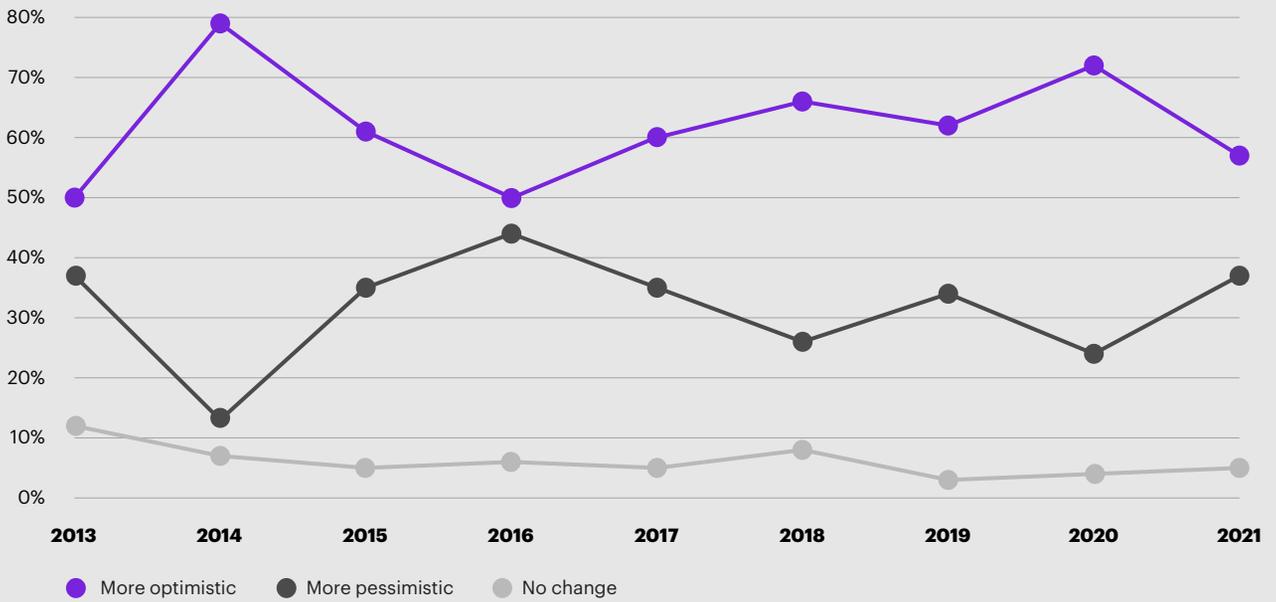
Fast-forward to 2021—and what a difference a year makes. Following the historic economic, social, and political disruptions that came with the pandemic, vaccines have been developed, and countries around the world are now racing to inoculate their people. Our baseline projections suggest the global economy will rebound this year to 5.6 percent growth and that, in the second quarter of 2021, global output will exceed its pre-pandemic level from the fourth quarter of 2019. Yet even as conditions are starting to look up, investors appear far more cautious in their outlook only 12 months after the COVID upheaval began.

<sup>1</sup> Last year's [FDI Confidence Index](#)® survey was in the field in early 2020, just as the world was entering the pandemic “storm” that continues to this writing, even as promising large-scale vaccine rollouts begin. The health and economic impacts of the virus were growing more dire by the day globally, yet these nascent developments did little to dent investor sentiment. Seemingly caught off guard by the calamity before them, investors instead expressed overall high optimism about the global economy and investment opportunities more broadly.

Figure 1

**Investors are more pessimistic about the economy this year than they were last year**

Compared with a year ago, how has your view of the global economy changed?



Source: 2021 Kearney FDI Confidence Index®

In addition to the fall in optimism, most of the overall scores for the top-25 economies have fallen. In fact, only five registered higher than they did in 2020 (see figure 2 in the next section). This reflects concern about the uncertain state of the economic recovery. In fact, investors pointed to the macroeconomic environment as the most prominent factor in explaining why direct investment might decrease. In contrast, availability of funds is identified as a primary driver of investments. And this makes sense—with the pandemic severely testing their corporate finances, executives are likely to take their time expanding their store of capital before they mobilize FDI.

Such sentiment is understandable. When this year’s survey was in the field, investors were still contending with the financial and psychological shocks of COVID-19. Several obstacles to overcoming the pandemic remain at this writing, including the sheer complexity of delivering vaccines to all corners of the world and the emergence of potentially deadlier and more easily transmissible strains of the virus. These have since resulted in renewed lockdowns and disruptions to economic activity, casting more doubt on the ability of the global business and investment environment to rapidly rebound to pre-pandemic conditions.

And while there is light at the end of the tunnel, emerging from the shadow of COVID-19 will be a marathon rather than a sprint. The Index respondents say they expect a long haul and a tenuous recovery for investment flows. For this reason, we have titled this year’s Index *On shaky ground*.

## Rankings

In an environment characterized by greater caution from investors, this year's survey results reaffirmed the shift to safety that had been observed in prior years.<sup>2</sup> The new findings show a clear predisposition for larger, more advanced markets insofar as the same six economies were at the top of the rankings last year (see figure 2 on page 7). In fact, this year marks the third time in the 23-year history of the Index—and the third consecutive year—in which the top five spots are all held by developed economies. Furthermore, the top-25 rankings include only three developing economies: China (12th), the UAE (15th), and Brazil (24th).

In addition, overall scores for each of the top 25 fell compared with previous years. Only five economies achieved higher scores than in 2020, albeit marginally: UAE, Norway, Austria, Portugal, and Denmark.

The United States ranks first on this year's Index—for the ninth year in a row. Although anticipation of a post-COVID recovery of the US economy likely influenced the ranking, it is noteworthy that the survey was in the field mere days after the January 6 siege on the Capitol. These attacks, along with uncertainties clouding the security of the presidential inauguration of Joseph Biden, may have diminished the country's score overall. Canada remains second, with Germany maintaining the third spot. And the United Kingdom rejoins the top five after ranking sixth last year. France falls to sixth after holding the fifth spot for three years in a row, a position now taken by Japan, which fell from fourth last year. It is notable that the top 10 economies on the Index remain unchanged from 2020, apart from Spain replacing China in the top 10 and China falling to 12th. This is likely a reflection of the continued preference for advanced economies. The list of countries remains almost unchanged from last year, with one exception: Austria rejoins the Index, while Taiwan (China) falls out.

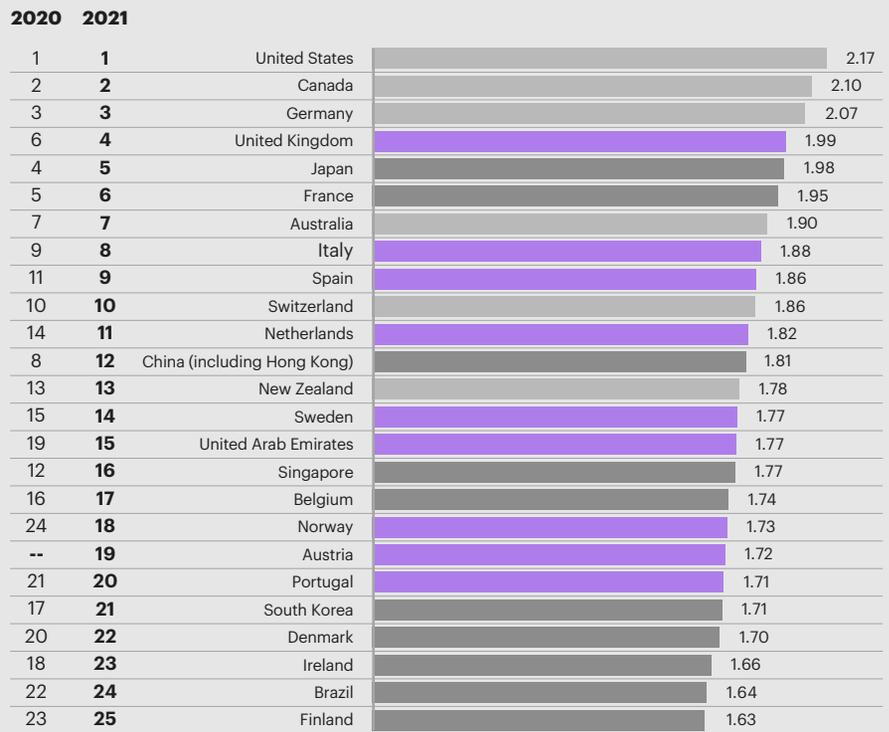
More difficult to explain is the continued slide in China's ranking as it falls to 12th place, down from 8th last year. The Chinese economy has made the most rapid and robust recovery post-COVID among the world's major economies and is poised to regain high growth this year of 8.9 percent. Survey respondents may have been affected by reports about shifting global supply chains, along with broader concerns about global trade and investment flows. (See more analysis in the "Weak showing of emerging markets" section.)

Regardless, the regional distribution of countries remains similar to last year. The Americas region is once again represented by three markets: the United States, Canada, and Brazil. European markets hold 15 spots this year, rising from 14 last year thanks to Austria rejoining the Index. With Taiwan (China)'s exit from the ranking, the number of Asia Pacific economies decreases by one spot to six, and only two of the countries from the region rank in the top 10: Japan and Australia. There are some notable changes in the rankings of certain markets. The UAE represents the Middle East and Africa region for the second consecutive year—jumping four spots to 15th.

<sup>2</sup> 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 21.

Figure 2  
**The 2021 Kearney FDI Confidence Index®**

- Moved up
- Moved down
- Maintained ranking



Source: 2021 Kearney FDI Confidence Index®

Our survey also shows shifting attitudes about the economic outlook for these countries. Business leaders were most optimistic about Japan, Germany, Canada, and Switzerland, with the UAE and Australia tied for fifth as the countries with the most optimistic economic outlook in net terms. The relative strength of these countries is likely attributable to the fact that all these markets have strengths in technology and are wealthy markets with high consumer purchasing power. Nevertheless, the overall levels of optimism across most of these countries were down compared with last year. In contrast, investors were least bullish on Brazil, Ireland, Portugal, Finland, and Italy (see figure 3 on page 8). Here, their outlook was likely driven by internal developments. For example, Brazil was struggling to contain COVID, Italy was in a political crisis, and the Irish economy was—and likely still is—facing some uncertainty from the EU–UK Trade and Cooperation Agreement, which was signed in December.

**Business leaders were most optimistic about Japan, Germany, Canada, and Switzerland.**

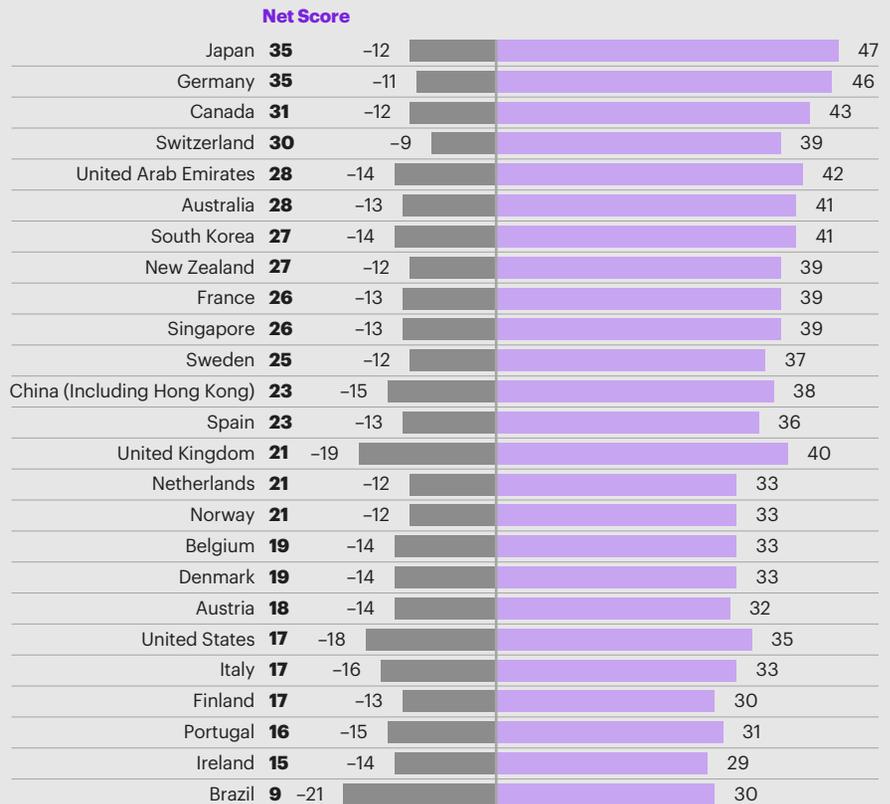
Figure 3

**Optimism about the economy is lower than last year**

How has your three-year economic outlook for [country] changed compared with a year ago? (%) Countries listed in descending order of “net score” (more optimistic minus more pessimistic)

- More pessimistic
- More optimistic

Note: Countries are listed in descending order of the net score (more optimistic to more pessimistic). Numbers do not add up to 100 because the remaining respondents selected “about the same.”  
Source: 2021 Kearney FDI Confidence Index®



## Dominance of developed markets

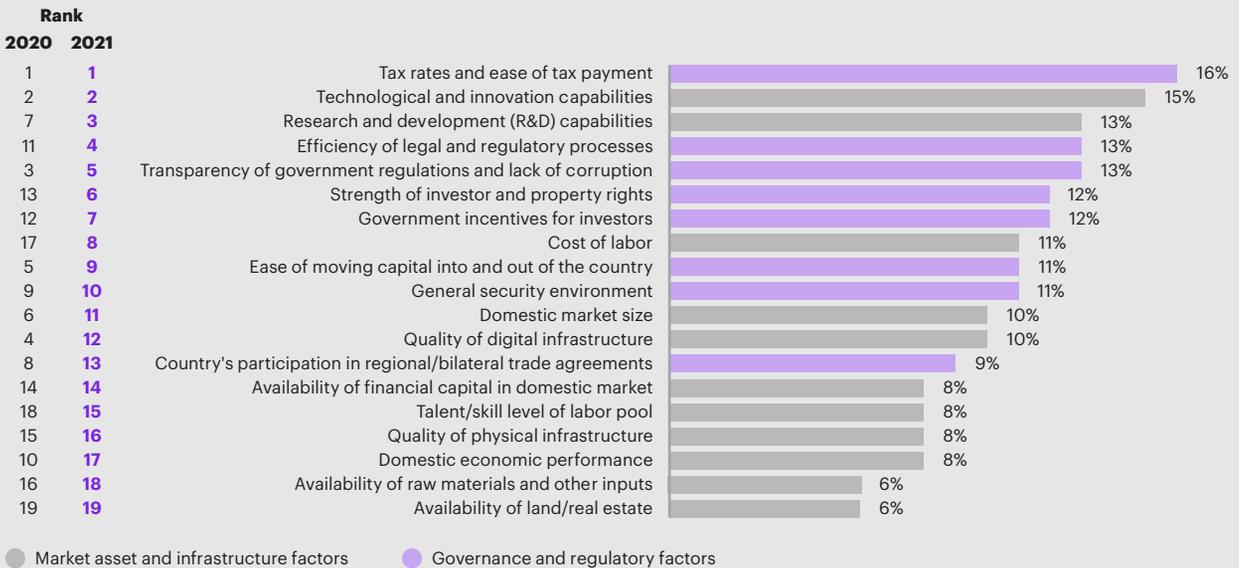
The continued strong showing of developed markets likely stems from overall conducive regulatory environments coupled with skilled workforces, advanced tech infrastructure, and economic stability. When it comes to factors most important for investment decisions, respondents are looking for strong technological and innovation capabilities as well as R&D capabilities—areas of distinct competitive advantage for many developed markets. In fact, R&D capabilities makes one of the largest gains in the factor rankings this year (see figure 4 on page 9). This underscores the role of technology in underpinning and reshaping global growth, production, and supply chains. The pandemic has accelerated a shift toward more automation and technology, and machines are replacing people at a faster pace as companies have been forced to adapt production processes to accommodate extended lockdowns and quarantines. This shift will favor markets with high-technology endowments.

Yet the top-ranked investment criterion remained tax rates and ease of tax payments, one of three “governance and regulatory factors” to rank in our top five. Both this factor and the next—technological and innovation capabilities—were particularly highly prioritized by respondents in Asia Pacific. Some countries in the region have become more competitive in manufacturing and production, and investors there have likely witnessed firsthand the key role of tech and innovation to growth and development in the region. Investors’ prioritization of governance and regulatory factors when determining where to invest may also explain the steady focus on investing in developed markets, which are generally perceived to be more secure and have more transparent regulatory environments, easier-to-navigate tax systems, less corruption, and better security.

Figure 4

**The tax environment, technological innovation capabilities, and regulatory quality are key determinants of investors' intentions**

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



Source: 2021 Kearney FDI Confidence Index®

Both technological and regulatory factors underpin the continued dominance in the rankings of the United States, which has strengths in all fundamental factors that investors prioritize. Investors were also likely buoyed both by the new administration’s focus on delivering vaccinations as quickly as possible as well as by the potential for more fiscal spending. No doubt the transition of the US economy to anticipated post-COVID growth also benefitted the country’s ranking, despite the concerns created by the siege on the Capitol and the COVID-induced 3.5 percent contraction in economic growth last year.

On the other side of the Atlantic, the improved performance of the United Kingdom this year is likely the result of less uncertainty about Brexit. Less than a month before our survey was in the field, the United Kingdom and the European Union concluded a post-Brexit trade deal after years of intense negotiations. For international investors, this clarified the bilateral trade and economic relationship. In parallel, they also likely realized that to have optimal access to the UK market, a physical presence there would be beneficial. In addition, while the survey was in the field, the United Kingdom was in the midst of an overall successful and efficient strategy to ensure vaccinations while it was also managing deadlier and more transmissible new strains of COVID-19. This aggressive and effective pandemic response likely boosted investors’ confidence.

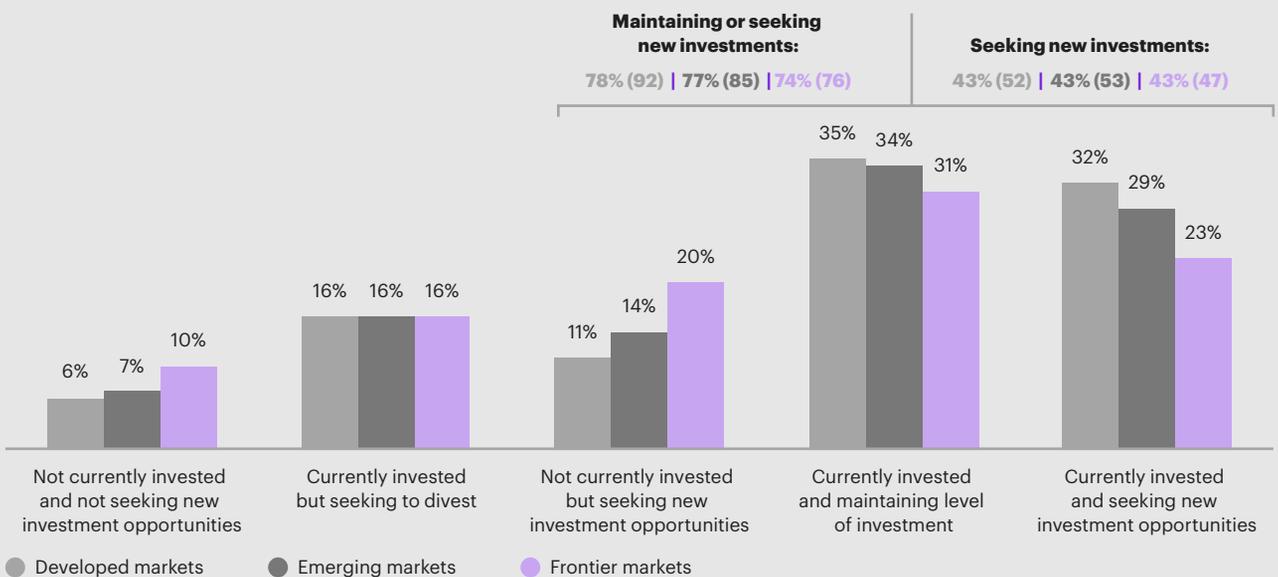
Many of the remaining countries on this year's Index reinforce business leaders' search for safety and stability. Large developed markets such as Canada, Germany, France, and Japan all have high governance and technology scores. Smaller European markets such as Norway, Finland, and Switzerland along with Asian economies such as Australia and New Zealand have long been on our Index for similar reasons. New Zealand, in particular, has also been widely acknowledged for its efficient and highly successful efforts to contain the pandemic. Generally, these countries consistently provide a stable economic environment and score high marks on regulatory and governance indicators. For example, until the pandemic hit last year, Australia had not experienced a recession for almost 30 years.

This continued emphasis on governance and technology may also explain why the largest share of investors intend to maintain their existing FDI or seek additional investments in developed markets rather than in emerging or frontier markets (see figure 5). Our broader theme of escalating caution among business leaders is also apparent in the fact that fewer investors say they intend to invest across all types of markets compared with last year. As mentioned, respondents are also less inclined to invest overall than last year, giving most markets' lower scores. They also pointed to macroeconomic risk in particular as a key factor in such decisions.

Fewer investors seeking opportunities across all types of markets also aligns with UNCTAD forecasts. After plunging 42 percent in 2020, the agency expects that global FDI flows will remain flat this year until they register a moderate rebound in 2022. Our findings suggest that when FDI flows do rebound, developed markets will have an edge in securing a higher percentage of these investments. Nevertheless, for the time being, FDI levels are likely to remain depressed, particularly as the pandemic continues to squeeze many profit margins, and companies are likely to hold off on deploying significant amounts of investments abroad in view of macroeconomic uncertainty.

Figure 5  
**Fewer investors are seeking new investments**

How would you characterize your company's level of investments in [market type]?  
 (%); numbers in parentheses show 2020 figures



Source: 2021 Kearney FDI Confidence Index®

## Weak showing of emerging markets

The same reasons that explain the dominance of developed markets—investor emphasis on technology, governance, and macroeconomic stability—also explain why few developing economies are on this year’s list. The three exceptions are China, the UAE, and Brazil.

Notably, China falls to 12th. While striking, China’s lower score was likely impacted not only by the flight to advanced economies but also by US–China trade tensions, tariffs, and a more general corporate rethink of international supply chains. These developments suggest that companies are under more pressure than ever to restructure their supply chains to avoid geopolitical and tariff fallout.

As we have written in prior years of the Index, new FDI flows will also be shaped by accelerating automation. This means that labor arbitrage advantages in less developed markets, already declining in China and elsewhere, are going to be even less appealing to investors as automation enables companies to shift production closer to their local markets. As [Kearney’s Reshoring Index](#) notes, some companies importing to the United States have started to move some manufacturing to Mexico in order to be closer to the US market and away from other countries, including China. This trend is amplified by US–China trade tensions and the recently concluded United States–Mexico–Canada Agreement.

Such developments may be working against China’s attractiveness as an investment locale. Yet despite challenges on the investment front, overall levels of optimism about China’s economic outlook remained stable—likely driven by the country’s relatively swift response in containing the pandemic and rapid economic recovery.

As for the UAE, its striking rise in the rankings this year is likely a result of its advanced technological infrastructure and high innovation levels as well as its efficient response to the pandemic. Along with Bahrain, the UAE became the first country to approve a COVID vaccine back in December, and the country has embarked on an extremely ambitious campaign to vaccinate its whole population by the end of 2021. Behind Israel and the Seychelles, the UAE has vaccinated the [highest portion of its population](#) at the time of this writing, which should boost economic and investment prospects further.<sup>3</sup>

Meanwhile, Brazil’s fall in the Index mirrors a deterioration in the domestic economic and governance environment. During the survey period, the country’s vaccine rollout was starting but was slow and uneven. The government was accused of failing to ensure and distribute vaccines while downplaying the threat posed by the virus. All the while, a deadlier, more contagious variant emerged in the country. Popular discontent led to anti-government protests sweeping some major cities, including Rio de Janeiro and São Paulo.

Overall, the relatively lower levels of confidence in emerging markets paint a picture of investors who are uncertain about the speed of the pandemic recovery in much of the developing world. Understandably so. Over the past year, developed economies have been able to deploy larger monetary and fiscal responses than emerging and frontier markets thanks to the size of their economies. This will lead to comparative stability and less economic uncertainty in developed markets vis-à-vis emerging economies, which are generally projected to emerge more slowly from the pandemic. At the time of writing this report, many emerging markets are lagging in acquiring and administering the vaccine compared with developed economies.

<sup>3</sup> [Vaccines administered by country](#), doses administered per 100 people

## Risks and likely developments

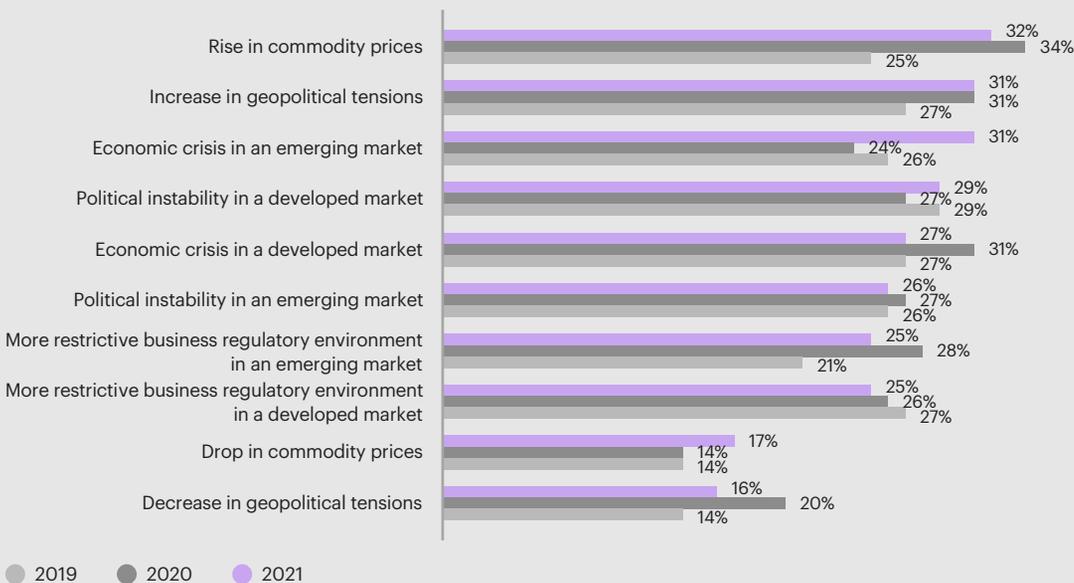
The lower levels of confidence in emerging markets are accurately captured in the risks and developments that investors perceive as most likely in the coming year. This year, investors pointed to a rise in commodity prices as the top risk, followed by both an increase in geopolitical tensions and an economic crisis in an emerging market (see figure 6).

Similar to FDI levels, commodity prices move in tandem with global growth. A fast-growing global economy would lead to greater demand for commodities used as inputs in various industries, including construction and electricity. Oil demand in particular could rebound as economies reopen and global travel increases. Given that we expect the global economy to reach 5.6 percent growth this year, the subsequent growth in demand will increase a range of commodity prices. For emerging markets, the impact of higher prices will depend on whether they are exporters or importers, with only the former group likely to receive an economic boost. The expectation of higher commodity prices aligns with broader trends showing improvements to baseline global growth, which corresponds with rising commodity prices. This result was also largely driven by investors based in Europe, where most economies depend on commodity imports.

Figure 6

### Investors say the top risks are higher commodity prices, an increase in geopolitical tensions, and an economic crisis in an emerging market

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



Sources: 2021 Kearney FDI Confidence Index®, 2020 Kearney FDI Confidence Index®, 2019 Kearney FDI Confidence Index®

The second most-likely developments, according to investors, are an increase in geopolitical tensions and an economic crisis in an emerging market (tied for second). Respondents who point to an increase in geopolitical tensions are no doubt concerned that the rivalry between the world's two largest economies—the United States and China—could escalate their battle for economic and technology supremacy. Trade relations as well as geopolitical and broader economic tensions between the United States and China are unlikely to improve much in 2021, even with new leadership in Washington. As tariffs are poised to become permanent, the scope of economic recovery is at risk. For instance, halving current US FDI levels to China could result in a \$500 billion GDP loss, according to the [US Chamber of Commerce](#). And [Oxford Economics](#) projects that an increase in tensions could add up to a \$1.6 trillion economic loss for the United States over the next five years. Before the pandemic, the [International Monetary Fund](#) estimated that the cumulative global costs of US–China trade tensions would reach \$700 billion by the end of 2020.

Investors based in Asia Pacific highlighted an economic crisis in an emerging market as the most likely development, perhaps because of the larger share of emerging economies in both regions. And the preconditions for such a crisis are readily apparent in several cases. Vaccine rollouts in emerging markets will be highly uneven because of logistical and economic factors, which will generate yet unknown political, social, and economic pressures. The sheer supply chain volume and complexity required to transport vaccines is in itself striking. For example, providing the vaccine supply needed to deliver a single dose to each of the world's 7.8 billion inhabitants by air would require 8,000 Boeing cargo airplanes, according to the [International Air Transport Association](#). Even when accounting for only half of the world's required doses, this would be the “largest single transport challenge ever” for the air freight industry. In addition, emerging economies are likely to be on the vaccine waitlist, particularly as [developed markets](#) have already claimed more than half of the vaccines that can be produced by the end of 2021. At the same time, about 70 poorer countries will only be able to vaccinate one in 10 citizens by the end of 2021. This in turn increases the risk of political and social upheaval in these emerging markets and will weigh on foreign investment and confidence in the business environment, especially as new viral strains emerging from under-vaccinated regions of the world could encumber pandemic recovery everywhere.

Beyond these findings, the biggest risk that international investors will continue to face will be the pandemic itself. Overcoming COVID-19 will be vital to the global economic recovery and improved FDI flows as the two go hand in hand. And economic growth in the near term will be determined in large part by the duration of the pandemic, the effectiveness of fiscal and monetary responses, and the success of vaccination efforts. This suggests that the economic recovery will be highly uneven given the emerging and developed market disparities in vaccine distribution, which will in turn weigh on FDI levels.

Until an economic recovery is under way, many companies and international investors will continue to see their profit margins squeezed. Despite forecasts for global growth post-COVID and a corresponding rise in investment opportunities—the pool of capital available for FDI is likely to be much smaller. Cautious investors are unlikely to make quick decisions in such an environment.

The silver lining is perhaps the enduring investor perception that FDI will drive corporate profitability and competitiveness over the next three years. In this year's survey, 81 percent of investors expressed this view, which is only a slight decrease from the 84 percent who held that view last year. This suggests that, despite the economic and financial shockwaves of the pandemic, investors remain convinced of the benefits of FDI. And despite investors' heightened caution this year, the 2020 FDI plunge will likely not become a permanent feature of the global economy.

## **Investors are increasingly thinking about the value—and the costs—of using and transferring data when making foreign investments**

The global spread of COVID-19 underlined the paramount importance and value of data. Data facilitated contact-tracing efforts, enabled clinical trials for vaccines, and has been central to tracking vaccine distribution and administration. As international investors operate in a data-enabled world, we decided to explore the shifting economic value of data and its implications for investment in the thematic section of this year's Index.

## **The global spread of COVID-19 underlined the paramount importance and value of data.**

Our findings reveal that most investors are using data in three ways. First, 60 percent use data to improve their effectiveness in the market, including reaching new clients and crowdsourcing new ideas. Similarly, 60 percent use data to boost internal efficiency, including by connecting geographically dispersed teams and operations, monitoring their operations in real time, and for preventive maintenance. And third, 57 percent use data to access IT infrastructure and capabilities, such as cloud computing, big data analytics, and artificial intelligence (AI). Each of these areas—market effectiveness, internal efficiency, and IT capabilities—reflects investors' breadth and depth of data usage and suggests that the use of data will continue to expand as new capabilities develop, including AI and machine learning. This demonstrates that more investors are seeing how Fourth Industrial Revolution technologies can add value to their businesses and investments.

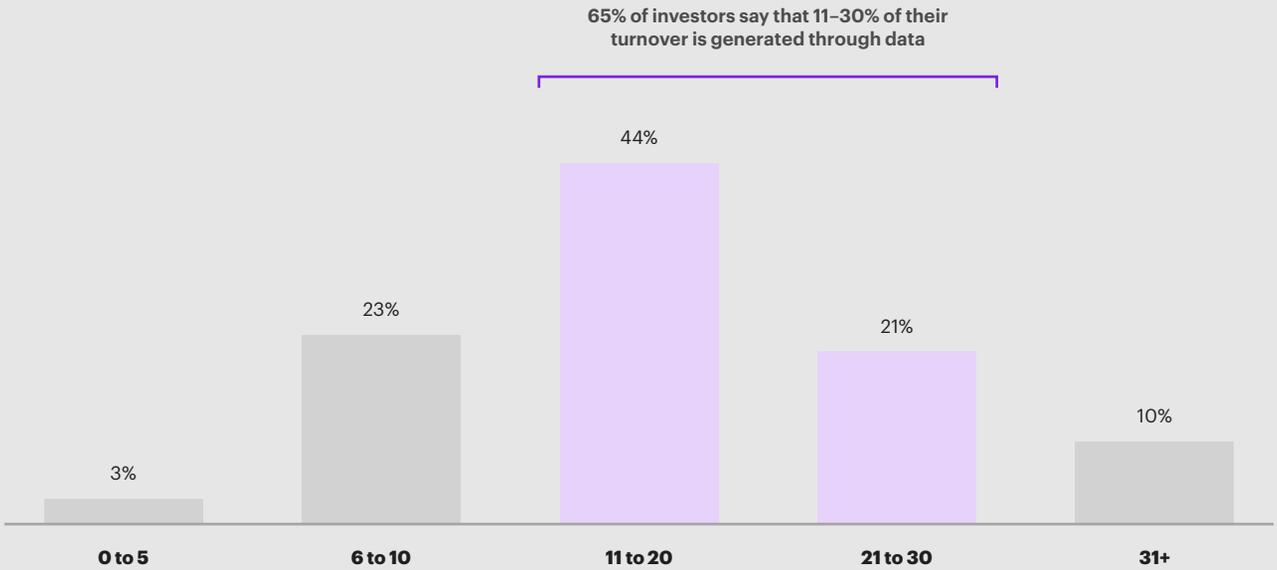
These uses for data give investors a range of benefits. In particular, they cite the use of mobile applications and the delivery of products and services as most valuable to their business. And this makes sense especially as the world is more virtually connected than ever before as a result of the pandemic. Second, investors point to other data applications such as the role of data in increasing transparency, enabling cloud services, and improving productivity and efficiency. A quarter of investors also say digital marketing and loyalty are among the most valuable data-related activities, demonstrating how vital data is to reaching consumers—and ultimately to corporate survival.

Unsurprisingly, investors indicated that data is of great importance to their revenue streams. In fact, 65 percent say that 11 to 30 percent of their turnover is generated through data (see figure 7 on page 15). And only 3 percent cite 0 to 5 percent of their revenue coming from data, illustrating that for the vast majority of investors, data is a vital component to their businesses' success.

Figure 7

**Most investors say that 11 to 30 percent of their turnover is generated through data**

Approximately what share of your company's turnover is generated through data? (%)



Source: 2021 Kearney FDI Confidence Index®

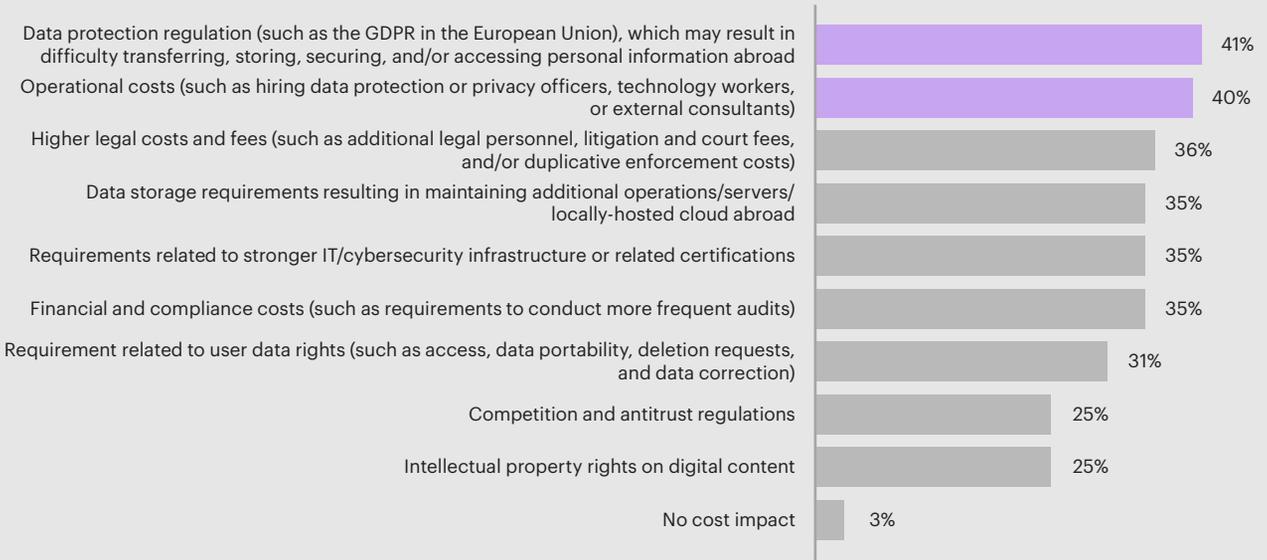
Yet despite the applications and benefits of data, uncertainty about data governance is also growing—and affecting foreign investment decisions. Investors are confronted with burgeoning regulations such as data privacy rules. As we noted in our [Year-ahead predictions 2020](#), data privacy rules have proliferated throughout the world over the past few years. The European Union set the standard for such regulations with its General Data Protection Regulation (GDPR), which came into effect in 2018, and other countries have since followed suit. New data protection laws are set to go into effect in Thailand in [May](#), Brazil in [August](#), and the US state of California in [2023](#). With these regulations on the horizon and with many other GDPR-like policies already in effect, many investors see data protection regulations (41 percent) and the operational costs of data protection (40 percent) as imposing costs on their foreign direction investment (see figure 8 on page 16).

Investors in Asia are particularly concerned about data protection regulations, with 43 percent citing high costs associated with data privacy rules versus 41 percent of investors in the Americas and 38 percent in Europe. This could reflect China’s stringent data protection rules introduced in the past two years, such as the [Cybersecurity Law](#), which requires network operators to store select data within the territorial boundaries of China and allows Chinese authorities to conduct spot-checks on a company’s network operations. Similarly, India has been deliberating a [data privacy bill](#) with implications for data rules that investors are likely monitoring closely.

Figure 8

**Many investors see data protection regulations and the operational costs of protecting data as imposing costs on their FDI**

In what ways do cross-border data transfer regulations impose costs on your foreign direct investments? Select all that apply. (%)



Source: 2021 Kearney FDI Confidence Index®

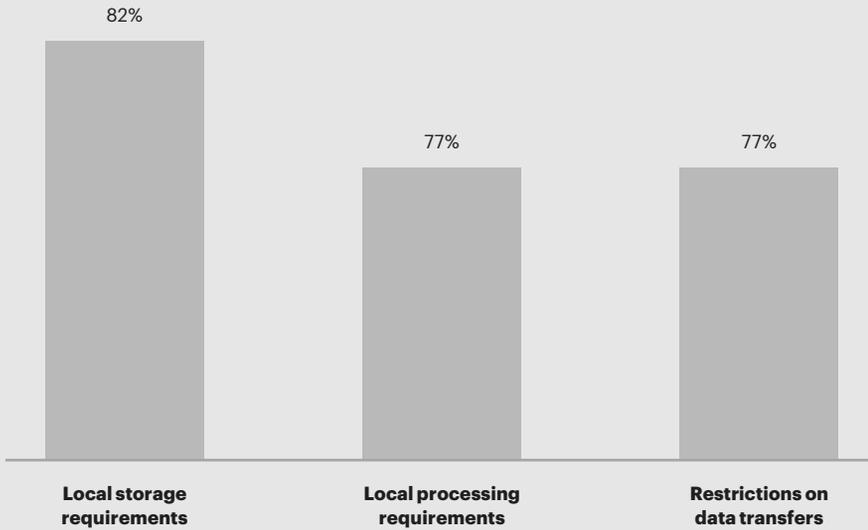
Local storage requirements mandating that companies must keep a copy of certain types of data within their national territories are also growing more common in other parts of the world and are top of mind for investors (see figure 9 on page 17). This often applies to specific types of data, such as accounting or bookkeeping. Denmark is one example of a nation that mandates local storage of accounting data through its [Book Keeping Act](#), which dictates that companies must store their accounting data for five years. Under special circumstances, the Danish Commerce and Companies Agency may grant companies permission to preserve accounting records abroad. However, permission is rarely granted. Finland’s Accounting Act (1997) also requires that companies store a copy of their accounting records, though the records can be stored in another EU country if a real-time connection to the data is guaranteed. And Germany’s Commercial Code requires companies to store accounting data and documents locally.

Local processing requirements, in which companies must use data centers in the national territory to process data either by building their own local data centers or switching to local service providers, are also affecting FDI decisions. Such measures are now in place in several markets, including most stringently in Brunei, China, Indonesia, Nigeria, Russia, and Vietnam, according to the non-profit women’s advocacy group [Women in Localization](#). This could explain why, when asked which region in which they have FDI assets has been most affected by local storage requirements, about a fifth of investors say China and East Asia. The second highest number of investors, 16 percent, cited Western Europe—likely a reflection of the GDPR’s effects.

Figure 9

### Most investors say cross-border data restrictions have a moderate to significant impact on FDI

For each of the following types of existing or proposed policies and regulations pertaining to cross-border data flows, please indicate what impact each has on your existing foreign direct investments? (Percent responding “significant” or “moderate”)



Source: 2021 Kearney FDI Confidence Index®

Restrictions on cross-border data transfers also impact investors, preventing companies from transferring data abroad unless certain conditions are met. For example, the GDPR forbids cross-border transfer of EU citizens’ data unless a company or individual receives an [“adequacy decision”](#) or the commission finds that the legal framework in that country, territory, sector, or international organization provides “adequate” protection for individuals’ rights and freedoms for their personal data. According to the international law firm [White & Case](#), organizations that use online IT services, cloud-based services, remote access services, or global HR databases, among others, are now often required to implement lawful data transfer mechanisms such as this. And these restrictions will only grow in light of the July 2020 decision by the Court of Justice of the European Union to [invalidate the EU-US Privacy Shield Framework](#). More than 5,000 US companies depend on these provisions to comply with EU data privacy rules in their conduct of transatlantic trade, and the decision has made transferring data across borders much more challenging.

Compliance with these data protection regulations comes with a heavy price tag for investors. A full 46 percent say complying with local data storage requirements is costing up to \$1 million a year, while an additional 40 percent of investors spend between \$1 million and \$10 million a year. Over the next three years, 41 percent of investors expect costs related to local storage requirements to go up, while 37 percent expect them to go down. These divergent perspectives reflect how the operational and cost impacts of forthcoming data privacy regulations are likely to vary across different corporate structures and business models.

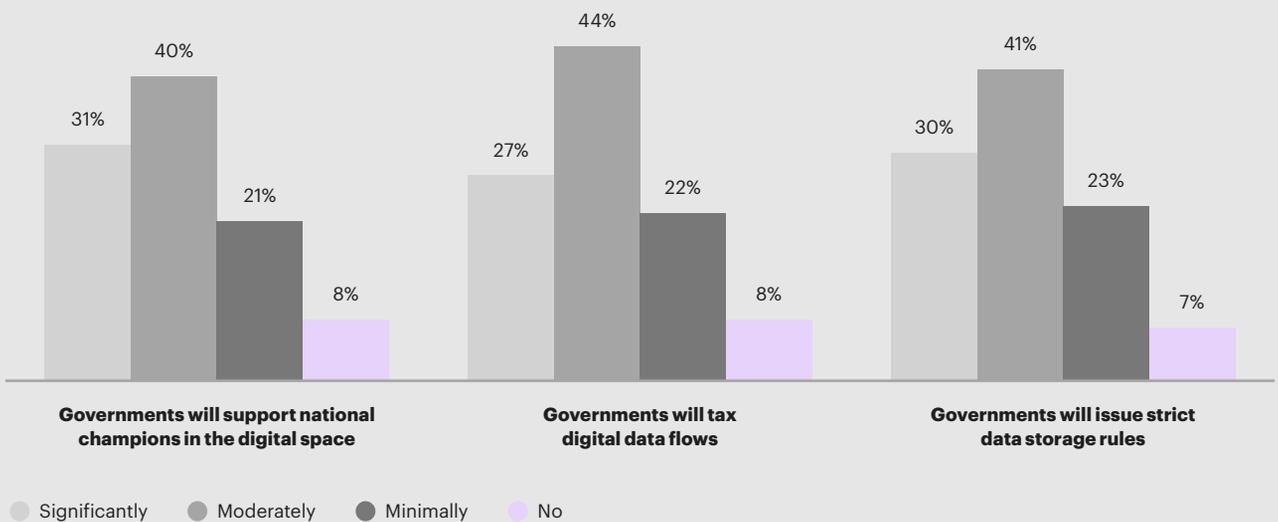
A wildcard that is also shaping investors' outlook is the role of data nationalism. Loosely defined by the research group [Data Catalyst Institute](#) as "the effort by nation-states to ensure control over data for a range of normative and security-based reasons," data nationalism is already impacting investor FDI decisions. A vast majority of investors (71 percent) are either significantly or moderately concerned about data nationalism entering the policy realm and impacting their investments (see figure 10). This is aligned with broader trends toward greater national self-sufficiency amid COVID-19. Indeed, in our [Global trends 2020-2025](#), we point out that national efforts to support domestic technology and restrict foreign products were already under way pre-COVID, exemplified by the international competition to develop 5G, US sanctions on Huawei, and the EU's plans for "technological sovereignty" to develop digital capabilities that could match those of China and the United States. The pandemic has only accelerated these trends.

As the world starts to move past the pandemic and relies more on technology, the value of data will become even more central to competitiveness. Digitalization is impacting every industry to a degree never before seen, and with it will come a push for more regulation. To be prepared, maintaining up-to-date knowledge of data regulations in investors' respective home countries as well as their recipient nations will be key. Further, adhering to regulations will be necessary to avoid incurring fines or bad will in recipient countries, particularly against a backdrop of rising data nationalism.

Figure 10

**Investors are concerned about data nationalism's impact on their businesses**

Below is a list of concerns you might have about data nationalism affecting your company. For each, please indicate how concerned you are about the impact of this (these) nationalism measure(s)? (1 = significantly 2 = moderately 3 = minimally 4 = no concern) (%)



Source: 2021 Kearney FDI Confidence Index®

## Conclusion and business implications

The COVID-19 economic disruption appears to have profoundly rattled global investors. In a dramatic swing from the optimism they expressed immediately before the pandemic, they now appear to be cautiously scanning the investment landscape and assessing the trajectory of economic recovery. To be sure, developments in the external environment are reinforcing this wait-and-see approach. While vaccines appear promising, much uncertainty remains—and many signals point toward a long-haul recovery in investment flows.

This state of play suggests two things. First, FDI will likely be a secondary priority until there is greater clarity regarding post-pandemic recovery. This aligns with forecasts of weak FDI flows this year. Second—and perhaps more importantly—the companies that are using this period to develop and implement strategic foresight tools will emerge more resilient and better able to face future COVID-like shocks in the operating environment. Such organizations will also find themselves in a better position to resume FDI initiatives, given how important foreign investment is to their corporate competitiveness.

In the meantime, investors should be carefully scanning the globe for attractive investment opportunities made available by COVID-19. The outlook for certain industries is actually positive as a result of the pandemic. In fact, the pandemic is likely to result in business opportunities in select industries, not least because of government support. For example, many countries are providing support to aid sectors deemed crucial for economic competitiveness and growth, which could boost these sectors. Early examples include policies to support electric vehicles in Germany and funding for infrastructure in China, along with opportunities in [agricultural technology](#) and renewable energy in many advanced economies. By studying and exploring complementarities with their business operations, investors will have opportunities to capitalize on these policy developments. Investors would be wise to focus on these emerging areas now before the competitor landscape becomes too crowded.

In addition, investors should explore industry-specific opportunities. The pandemic has squeezed profit margins in some industries and sectors, such as travel and retail, which will likely remain attractive areas for M&A activity. Some industries, such as energy, will consolidate as smaller companies impacted by oil price swings go bust or are acquired by larger players seeking efficiency, technologies, or assets. Even as investors are on shaky ground, the environment creates opportunities to reposition and take advantage of such opportunities once they are on a firmer footing.

International investors will also have to navigate the rapidly changing regulatory landscape of cross-border data flows. In an increasingly digital world, data is inseparable from revenue generation for most investors. And while most of our respondents believe they are set up to maximize the value derived from data, the impact of digital regulations is becoming more important in their foreign investment decisions.

Further regulatory risks remain. Numerous countries, including several EU member states, the United Kingdom, and Australia, tightened FDI rules last year on national security grounds as more countries seek to become self-sufficient in various sectors. The Council believes other countries, including the United States, could also take steps to further regulate FDI in strategic sectors. Continued monitoring of the ever-changing policy landscape will prove crucial for investors as the world adjusts to post-pandemic realities.

To better navigate this regulatory maze, strategic investors will go beyond monitoring the regulatory landscape and work internally to improve their ability to comply with data regulations, even if that involves upfront costs. In a data-dependent world, strong IT and cybersecurity protections are also paramount to doing business today and in the future. Taking these small steps will be vital to minimizing financial, reputational, and societal costs associated with data breaches.

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The authors wish to thank Terry Toland, Radina Belberova, Gabriella Huddart, and Rebecca Grenham for their valuable contributions to this report.

## About the study

The Kearney FDI 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 2021 Kearney FDI Confidence Index® is constructed using primary data from a proprietary survey of senior executives of the world's leading corporations. The survey was conducted between January and February 2021. 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 33 percent, and IT firms for 22 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.

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](https://www.kearney.com/foreign-direct-investment-confidence-index).**

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