Strategic industries buck post-Covid investment slump

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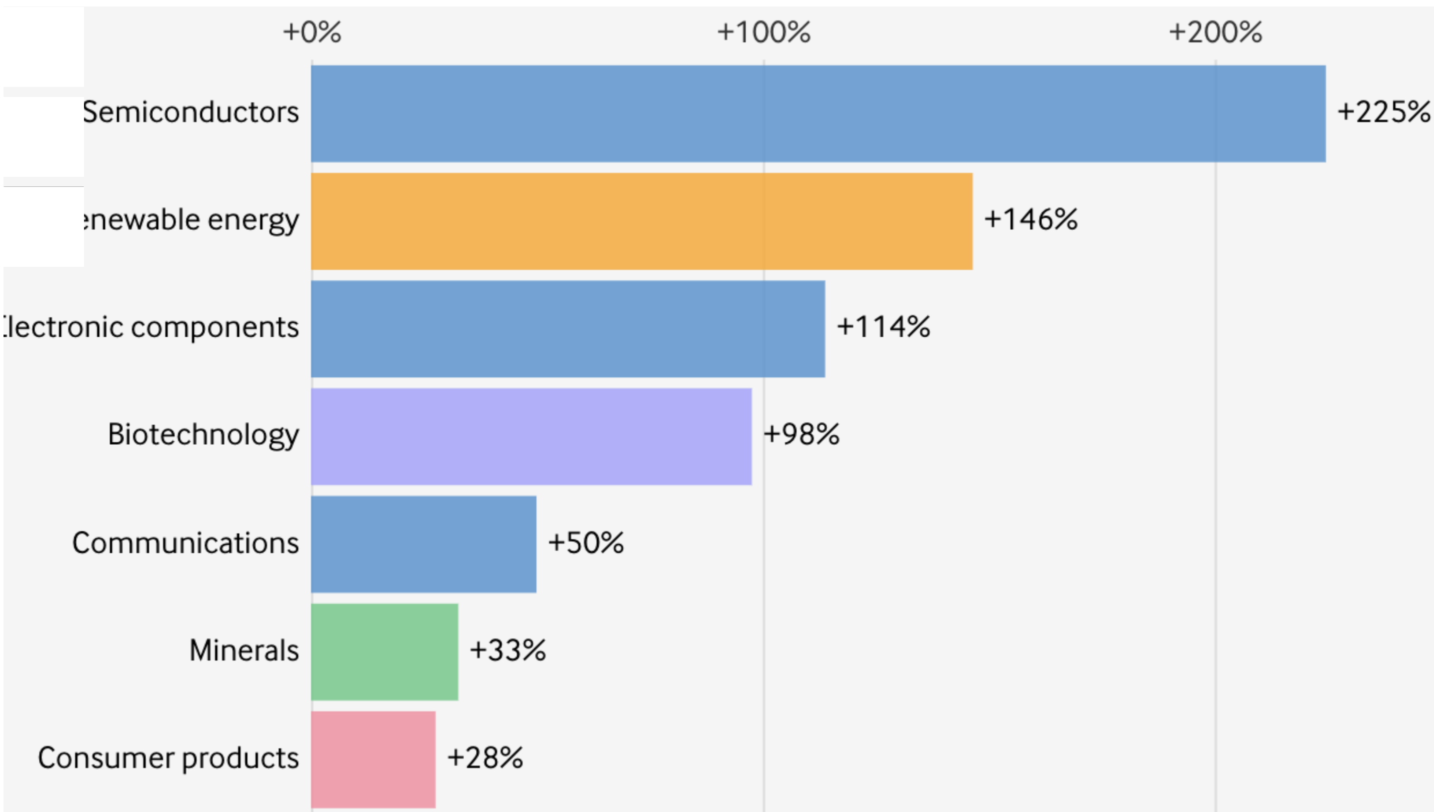
Chips, renewables and electronics have seen the largest increase in FDI since the pandemic



Scroll down to view full chart showing the top 10 sectors by growth of investment since Covid-19 poandemic.

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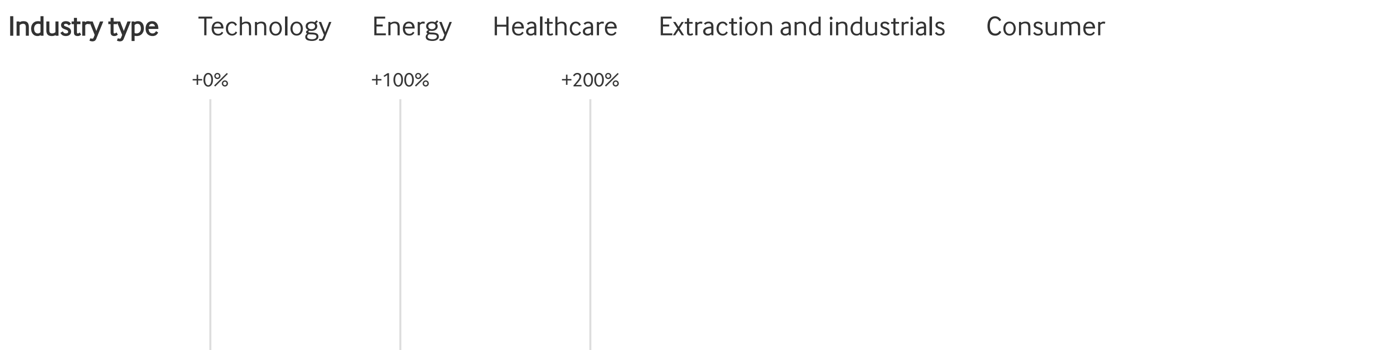
The majority of sectors have seen a decline in foreign direct investment (FDI) since the Covid-19 pandemic, according to figures from greenfield investment monitor **fDi** Markets. But a handful of industries driving the new, green economy have bucked the downward trend.

Data comparing the three-year periods before and after March 2020 — when the World Health Organization declared that Covid-19 was a pandemic — shows the energy transition, digitalisation and the return of state aid for strategic industries have helped drive the rebound in global investment activity.

Just 12 out of 37 sectors tracked by **fDi** Markets saw an increase in FDI over the period, with the semiconductor, renewable energy and electronic component industries experiencing the largest growth in capital expenditure (capex).

Post-Covid winners

Top 10 sectors by percentage change in FDI capital pledged by industry, Q2 2017–Q1 2020 vs Q2 2020–Q1 2023



Source: fDi Markets

fDi Intelligence

FDI in the chip sector rose by 225% to more than $190bn since Covid-19, compared with $59bn over the three-year period immediately before the pandemic. This was primarily due to massive manufacturing expansions by chipmakers like TSMC, Intel and Samsung. Countries such as the US, Japan, Germany and France have offered huge subsidy packages in order to build out domestic capacity at the expense of rival nations.

Renewable energy, the largest sector for FDI flows globally for several years, has experienced the second strongest post-Covid rebound. Capex announcements in renewables jumped by 146% to a whopping $668bn in the three years since April 2020. This was driven in large part by 58 FDI megaprojects — each worth at least $1bn — into large-scale green hydrogen production, which is hoped to help decarbonise industries.

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In third place is the electronic components sector, which includes solar photovoltaic cell manufacturing and electric vehicle (EV) battery plants. FDI into electronic components topped $157bn in the three years since Covid-19, an increase of 113% on the corresponding pre-pandemic period.

The biotechnology sector, which includes many of the Covid-19 vaccine manufacturing facilities, placed fourth overall with a 98% increase in FDI announcements to hit $36bn. Meanwhile the healthcare and medical devices sector both saw cross-border investment climb by 14% since Covid-19. This placed them ninth and tenth by FDI growth, respectively.

The communications sector, which includes data centres, placed fifth overall with 50% more FDI at $201bn, followed by minerals (+33% to $6.8bn) and consumer products (+28% to $48.5bn). The jump in consumer-products FDI is primarily driven by Amazon's massive global expansion of its logistics network to meet e-commerce demand since the pandemic. In eighth place is the broadly defined software and IT services sector, which saw a post-pandemic FDI increase of 22%.

Post-Covid losers

Bottom ten sectors by percentage change in FDI capital pledged by industry, Q2 2017–Q1 2020 vs. Q2 2020–Q1 2023

Industry type Extraction and industrials Energy Consumer

Source: fDi Markets

On the flipside, consumer-focused industries have seen the sharpest decline in FDI since the pandemic. The leisure and entertainment sector, which includes a wide range of activities such as sports, theme parks and casinos, saw FDI pledges fall by 92% to just $3bn over the period.

It was followed by the closely aligned tourism industry, which has seen FDI fall by 79% since the start of the pandemic. Tourism investment has failed to recover after record levels of capital were pledged before the pandemic. Even as international travel numbers have recovered to pre-pandemic levels in some markets, the industry remains in flux.

Several heavier industries have seen a decline of FDI flows. Chemicals saw capex fall by 63% to $62bn, followed by engines & turbines (–61% to $2.1bn), plastics (–59% to $17.7bn) and textiles (–57% to $11.2bn), according to **fDi** Markets.

Despite a rebound of investment into coal, oil and gas in 2022 following Russia's war in Ukraine, FDI in the three years since the pandemic is still about half the amount recorded in the three years prior.

Finally, a 45% fall in automotive components investment was notable, and is likely explained by the shift from internal combustion engine (ICE) to battery powered vehicles. The drivetrain of EVs have about 20 moving components compared with more than 2000 in ICEs. Rounding out the bottom 10 sectors for change in FDI since Covid-19 are paper, printing and packaging (–56% to $14.5bn) and rubber (–50% to $10bn).

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