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GLOBAL FOREIGN DIRECT INVESTMENT TRENDS IN 2025: CHALLENGES AND OPPORTUNITIES FOR SUSTAINABLE ECONOMIC DEVELOPMENT

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Abstract:

Foreign Direct Investment (FDI) has been historically regarded as an essential part of economic growth as it provides capital accumulation, technological change, higher productivity, new employment and further integration into world economy.1 Moreover, through FDI, states benefit from access to finance, managerial skills, new technological endowments and global production networks conducive to sustainable development. Nevertheless, in recent years, the global FDI environment has been largely affected by fluctuating geopolitical conflicts, disruption of trade, inflationary shocks, monetary tightening and economic uncertainty.2 As indicated by the 2025 UNCTAD report, global FDI plunged 3 per cent during the first six months of 2025, following the 11 per cent decrease in 2024,3 reflecting a persistent deceleration in international investment trends. The downward trend proved to be even more depressed in developed nations where the foreign investment flows fell 7 per cent in 2025, whereas the developing economies experienced a mixed pattern of capital flows. Significant falls were observed in infrastructure finance, manufacturing investment and cross border mergers and acquisitions, intensifying doubts about the ability of many nations to finance their development projects and accomplish the Sustainable Development Goals (SDGs).In this paper, we seek to address the recent phenomena of decreasing cross-border investment flows and on this basis, present possible consequences for sustainable development and economic growth.

Key words:

Foreign Direct Investment, Economic Development, Global Investment Trends, Sustainable Development, Infrastructure Finance, Artificial Intelligence, International Business

Introduction

FDI is arguably one of the most important aspects of today's global economy. Foreign direct investment should be contrasted with portfolio investment where investors simply purchase financial assets. FDI involves a long-term relationship—embodied in a lasting management interest—and encompasses a broad range of activities that involve direct investment in the productive capacity of a host country. FDI has played an important role in fostering economic growth by transferring knowledge, capital, managerial and organizational skills and marketing resources and improving access to international markets.

Countries and regions which have been able to attract FDI have enjoyed high levels of industrialization, rapid productivity growth and integration into global production networks. Emerging Asian economies, such as China, India and Vietnam, have successfully used FDI as an effective tool for transforming economies and increasing competitiveness on the global stage.

FDI is not only a crucial driver of global growth but also an important source of development finance. Investments in infrastructure and renewable energy projects, support for key manufacturing industries and the achievement of the Sustainable Development Goals are highly dependent on FDI inflows. Fluctuations in global investment flows have meaningful implications for economic stability and prospects for world growth.

The global investment environment has become increasingly volatile following the outbreak of COVID-19 pandemic. Disruption to the global supply chains has created a more unpredictable environment which, together with geopolitical conflicts and tensions, inflationary pressures and mounting interest rates, has further undermined investor confidence. In particular, the large-firm and long-term investments, where the role of FDI is much stronger, have been deeply affected.According to the UNCTAD 2025 'Global Investment Trends Monitor', during the first semester of 2025 global FDI has decreased by 3 percent compared to the last period of the previous year. While the global tendency seems to be pretty low, some regions have proven not to be so affected. Developed nations have witnessed a big reduction in investment, whereas some developing regions have been resilient. Investment in manufacturing and infrastructure related sectors and sustainable development areas has been significantly affected leading to concerns about future economic growth.

The aim of this paper is to study the recent trends of the world FDI, identify the main drivers of the trend of decline, examine regional investment performance and offer some implications for policymakers and development practitioners. Lastly, the opportunities provided by digital technology and artificial intelligence for the future of FDI are being explored.

Literature review

The academic study of foreign direct investment has evolved significantly over the past several decades. One of the most influential frameworks is the Eclectic Paradigm developed by John H. Dunning. Dunning's Ownership-Location-Internalization (OLI) framework argues that firms engage in foreign investment when they possess proprietary advantages, identify favorable foreign locations, and find it beneficial to internalize operations rather than rely on market transactions.

According to this theory, multinational corporations invest abroad to access resources, expand markets, increase efficiency, and acquire strategic assets. The framework remains highly relevant in explaining contemporary patterns of global investment.

Numerous empirical studies have examined the relationship between foreign direct investment and economic growth. Research conducted by Eduardo Borensztein and colleagues demonstrated that FDI positively influences economic growth by facilitating technology transfer and enhancing productivity. Their findings suggest that the benefits of FDI are particularly significant when recipient countries possess sufficient human capital and institutional capacity.

Similarly, research by Laura Alfaro emphasizes the importance of domestic financial markets in maximizing the developmental impact of foreign investment. Countries with stronger financial institutions are generally better positioned to absorb and utilize foreign capital effectively.

Several studies have also highlighted the role of FDI in promoting exports, generating employment, and improving industrial competitiveness. Foreign firms often introduce advanced production methods and management practices that contribute to productivity spillovers across domestic industries.

Recent literature indicates that the global investment landscape is undergoing substantial transformation. Increasing geopolitical tensions, economic nationalism, and industrial policy

competition have influenced investment decisions across multiple sectors. Governments have introduced new regulations, investment screening mechanisms, and subsidy programs designed to protect strategic industries and strengthen national economic security.

Scholars have argued that these developments contribute to the fragmentation of global investment networks and may reduce the efficiency of international capital allocation. Simultaneously, the rapid advancement of digital technologies and artificial intelligence has created new investment opportunities concentrated in high-technology sectors.

UNCTAD's recent reports emphasize that investments associated with digital infrastructure, semiconductor production, cloud computing, and artificial intelligence have emerged as major drivers of international investment activity. However, traditional sectors such as manufacturing, transportation infrastructure, and large-scale industrial projects continue to experience significant challenges.

The connection between foreign investment and sustainable development has become increasingly important within academic and policy discussions. Sustainable Development Goal financing depends significantly on private-sector investment, particularly in developing countries where public financial resources remain limited.

Research suggests that declining investment in infrastructure, renewable energy, transportation, and water management systems may undermine progress toward achieving the SDGs. Consequently, sustained reductions in foreign investment flows represent a significant concern for policymakers seeking to promote inclusive and sustainable economic development.

Methodology

This study applies descriptive techniques to a qualitative research methodology drawing on secondary data. The main source is the UNCTAD's 2005 report on world investment. Data analysis was carried out by means of descriptive methods aimed at studying various aspects and drivers of world and regional trends in FDI and their implications for economic development and sustainable growth.

Analysis and results

Global Investment Performance in 2025

The first half of 2025 was characterized by continued weakness in international investment activity. Global FDI declined by 3 percent compared with the same period in the previous year. This decline reflects broader economic uncertainties affecting investment decisions across multiple regions and industries.

Figure 1. Global foreign direct investment trends and growth rates by region during the first half of 2025. Source: UNCTAD (2025).

Region	Forgein direct investment (FDI)	Growth rates (%) FDI	Greenfield projects	International project finance	Cross-border mergers and acquisitions (M&As)
World	737	-3	7	-8	-23
Developed economies	303	-7	+48	-32	-18
Europe	82	-25	+28	-35	-1
North America	176	+5	+79	-36	-23
Other developed economies	45	-7	+23	-12	-52
Developing economies	434	0	-37	+21	..
Africa	28	-42	-58	+1	..
Latin America and the Caribbean	93	+12	-15	+23	+254
Asia	322	+7	-20	+29	-67

The figures also show significant regional disparities. Developed countries suffered a 7 per cent fall in investment inflows and Europe saw a particularly sharp contraction of 25 per cent. North America experienced a modest 5 per cent growth. Economies of developing countries on the whole remained stable, although differences among particular regions proved substantial. Asian economies saw a 7 per cent growth thanks to buoyant investment in high-tech activities. Latin America and the Caribbean benefited from a 12 per cent growth. Africa, however, plummeted by 42 per cent.

Infrastructure Financing Challenges

Among the most negative trends in 2025 it is possible to mention the reduction of international project finance. Infrastructure investment is a basic prerequisite for sustained economic growth over the long-term as it underpins transportation networks, energy infrastructure, telecommunications infrastructure and industrial productivity. Indeed, international project finance declined by almost 8 percent in the first half of 2025. The number of project finance deals also fell by 11 percent. Announcements of greenfield investments were also down significantly. Several factors played a role in this development. High interest rates meant greater cost of borrowing, which lowered the profitability of long-term investment projects. Political instability and heightened geopolitical tensions led to higher risks of investing in infrastructure projects and thus reduced the willingness of investors to finance them. The reduced funding of infrastructure projects could be a serious problem in the future, in particular for developing countries with infrastructure deficits that have long been dependent on foreign investment flows.

Manufacturing and Industrial Investment

Manufacturing investment represents another area experiencing substantial pressure. Supply-chain-intensive industries, including automotive manufacturing, electronics production, machinery, and textiles, recorded significant declines in greenfield investment activity.

The reduction in manufacturing investment can be attributed to several factors. First, ongoing supply-chain restructuring has encouraged firms to diversify production locations and reduce exposure to geopolitical risks. Second, higher production costs and uncertain demand conditions have reduced incentives for capacity expansion.

The decline in manufacturing investment may negatively affect industrial development strategies in many emerging economies that rely on export-oriented manufacturing to generate employment and economic growth.

Rise of Artificial Intelligence and Digital Investments

While total investment levels continue to be weak throughout the world, the technology-intensive sectors have been exceptionally resilient. The unprecedented level of international investment activity in 2025 was largely driven by growth in the AI sector. Substantial amounts of capital were placed into large-scale investments in new semiconductor manufacturing facilities, cloud computing infrastructure, and data centers, particularly in North America. These investments are a reflection of the increasing anticipation of how much new technologies like AI will change the economy. As AI-related investments increase rapidly, it appears that the world is entering a new stage of technological change or transformation. Countries attracting digital investments will likely see tremendous increases in productivity and international competitiveness. There is a risk that the concentration of technology related investments is likely to widen the gap between developed and developing countries, particularly for those countries without digital infrastructure, the needed skilled workforce, and innovation to strengthen their systems. Some countries will have a difficult time participating in the new digital economy.

Implications for Sustainable Development

The decline in investment associated with sustainable development sectors presents a major challenge for policymakers. Financing requirements for renewable energy, transportation infrastructure, water management systems, and climate adaptation projects remain substantial.

UNCTAD estimates that investment projects related to the Sustainable Development Goals declined significantly during the first half of 2025. Least-developed countries appear particularly vulnerable because they rely heavily on external financing sources.

Without sufficient investment, many countries may face difficulties achieving development objectives related to poverty reduction, clean energy access, industrialization, and environmental sustainability. Consequently, strengthening investment frameworks and mobilizing private capital should remain a priority for national governments and international organizations.

Conclusion and discussion

The overall results indicate that the world's economy will continue to face substantial challenges in 2025 in terms of foreign direct investment (FDI). There has been a reduction in FDI activity globally due to many factors, including economic uncertainty, increased geopolitical tension, heightened costs of borrowing, and growing fragmentation within markets.

The largest declines have taken place within the developed economies, while output in developing economies has been mixed. Two developing regions, Asia & Latin America, showed some resiliency; however, Africa experienced substantial declines in FDI activity levels. Investment in infrastructure and manufacturing has dropped significantly, leading to concerns regarding future economic development and the achievement of sustainable development goals (SDGs).

Meanwhile, there are several emerging opportunities in artificial intelligence, digital infrastructures, and advanced technologies, suggesting that the global FDI market structure is being transformed. Therefore, policymakers must respond to both reviving traditional sectors of FDI and

positioning their economies to take full advantage of future technological advancements. Future policy strategies should focus on enhancing the investment climate, improving the quality of institutions, reducing regulatory uncertainty, encouraging investment into sustainable infrastructure projects, and fostering innovation ecosystems that will attract future generations of FDI.

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