GLOBAL FOREIGN DIRECT INVESTMENT: RECENT TRENDS, STRUCTURAL CHALLENGES AND FORECASTS

Ismailov Dilshod Anvarjonovich
Researcher of Tashkent State
University of Economics
E-mail: d.ismailov@tsue.uz
ORCID: 0000-0001-7199-3773

Annotation. *This article examines the current trends, structural problems and prospects of global foreign direct investment (FDI) in a period of geopolitical and economic turbulence, drawing on the latest data from UNCTAD and the IMF. It shows that, despite a 6 percent rebound in 2025, global FDI remains concentrated in a narrow group of advanced economies and strategic technology sectors, leaving developing and least developed economies behind. The article reviews the econometric evidence linking investment to growth, analyzes the key structural problems facing the global investment system, and evaluates emerging policy solutions such as blended finance and de-risking instruments, concluding with short- and medium-term forecasts for 2026.*

Keywords*: foreign direct investment (FDI), economic growth, global economic uncertainty, econometric analysis, panel data, investment policy, blended finance, sustainable development.*

Investment has always been the primary channel through which savings are converted into productive capacity, technology is transferred across borders, and long-run growth is generated. Yet the global investment landscape is currently undergoing one of its most significant structural shifts in decades: rising geopolitical tensions,

trade-policy uncertainty, economic-security concerns and intensifying technological competition are reshaping not merely how much capital flows across borders, but where it goes, into which sectors, and who ultimately benefits from it. This article is based on a comparative analysis of the most recent statistical and analytical publications of UNCTAD, the International Monetary Fund's World Economic Outlook, and applied econometric studies on the relationship between investment and growth, using methods of comparative evaluation, scientific abstraction and systematic analysis.

The theoretical foundation of the investment-growth relationship rests on neoclassical growth theory, in which an economy's output depends directly on its stock of physical capital, so that a higher rate of capital accumulation raises the growth path of output, at least until diminishing returns set in; augmented versions of these models add human capital as a further, complementary form of investment. Barro[1] found that the investment share of GDP is one of the most robust correlates of long-run growth across countries, while De Long and Summers[2] showed that investment in machinery and equipment in particular is associated with substantially higher growth than other forms of investment, suggesting that the composition of capital formation matters as much as its volume. Islam[3] subsequently demonstrated, using panel-data methods, that allowing for country-specific fixed effects substantially changes the estimated speed of convergence and the estimated contribution of capital accumulation compared with simple cross-section regressions. More recent dynamic panel and Granger-causality studies[4] confirm that the direction of causality between FDI and

1 Barro, R. J. Economic Growth in a Cross Section of Countries. Quarterly Journal of Economics, 106(2), 1991, pp. 407-443.

2De Long, J. B., Summers, L. H. Equipment Investment and Economic Growth. Quarterly Journal of Economics, 106(2), 1991, pp. 445-502.

3Islam, N. Growth Empirics: A Panel Data Approach. Quarterly Journal of Economics, 110(4), 1995, pp. 1127-1170.

4More than just investment: Causality analysis between foreign direct investment and economic growth. PLOS ONE / PMC9632898.

growth varies considerably across regions - in some regions FDI drives growth, in others growth attracts FDI - implying that no single universal coefficient links investment to growth and that policy must be tailored to local structural conditions.

Global investment has entered what UNCTAD terms a turbulent era. After two consecutive years of decline, global foreign direct investment (FDI) rose by 6 percent in 2025 to approximately USD 1.6 trillion[5]; however, the recovery is narrow and uneven, with developed economies growing by 11 percent while developing economies grew by only 2 percent, reaching about USD 901 billion, and the top 20 host economies absorbing over 80 percent of global inflows[6]. Concentration is even sharper at the sectoral level: greenfield investment in strategic sectors such as artificial intelligence, semiconductors, critical minerals and energy transition rose from USD 109 billion in 2020 to USD 576 billion in 2025 - more than a fivefold increase - raising their share of global greenfield investment from 16 to 44 percent[7]. Semiconductors expanded at an average annual rate of about 54 percent over this period, while AI infrastructure alone attracted USD 341 billion in 2025, with the top three investor economies accounting for 72 percent of strategic-sector project values.

This pattern generates several interrelated problems for the world economy. First, the recovery in aggregate FDI is fragile rather than structural, as much of the reported growth reflects volatile financial and conduit flows through a small number of jurisdictions rather than a genuine expansion of productive capacity. Second, the benefits of the strategic-sector boom are highly unequal: low- and lower-middle-income economies attracted only about 10 percent of global greenfield investment in strategic sectors between 2020 and 2025, risking their exclusion from the fastest-

5UN Trade and Development (UNCTAD). World Investment Report 2026: International Investment in a Turbulent Era. Geneva, 2026.

6UNCTAD. “Global investment rises 6% to $1.6 trillion, but development gains remain uneven.” July 2026.

7UNCTAD. World Investment Report 2026 – Overview. Geneva, 2026.

growing segments of global production networks[8]. Third, investment in traditional manufacturing outside the strategic sectors is retreating sharply and disproportionately affecting the poorest countries: comparing 2015-2019 with 2021-2025, FDI to traditional manufacturing fell by about 17 percent worldwide and by as much as 65 percent in least developed countries. Fourth, financing for infrastructure and Sustainable Development Goals-related investment remains critically short, with blended finance commitments of USD 18.7 billion in 2025 remaining far below the estimated USD 4.2 trillion in annual climate-related investment needs of developing economies[9], while a record 229 new investment-policy measures were adopted in 2025 amid persistent policy uncertainty.

Several solutions are being tested in response to these problems. The wider use of blended finance and de-risking instruments - first-loss capital, guarantees and subordinated debt - can lower the risk-adjusted return thresholds required by private institutional investors from the typical 12-15 percent range down to the 6-8 percent range acceptable to pension funds and insurers, mobilizing between three and seven dollars of private investment per dollar of concessional capital. UNCTAD further recommends that developing economies target realistic opportunities where they can build credible competitive advantage and invest in the underlying foundations that investors require - reliable infrastructure, skills, supplier networks and standards - rather than engaging in an unaffordable subsidy race with larger, wealthier economies, while keeping investment screening proportionate, transparent and risk-based. Modernizing international investment governance to reconcile economic-security objectives with development goals, together with resolving trade-policy uncertainty, is

8UNCTAD. “Investment in strategic sectors is expanding, but many developing economies risk being left behind.” July 2026.

9Convergence / Sustainability Atlas. “Trend watch: Blended finance & catalytic capital in 2026.” 2026.

estimated by the IMF to add close to one percent to global output when combined with productivity gains from artificial intelligence[10].

Looking ahead, UNCTAD describes the 2026 investment outlook as remaining difficult, with trade-policy uncertainty, geopolitical tensions, high financing costs and continued economic fragmentation likely to weigh on investment decisions even as moderating interest rates provide some support. The IMF projects global growth of around 3.2-3.3 percent in 2026, roughly in line with 2025, with risks still tilted to the downside but some upside potential from artificial-intelligence-driven productivity gains. With cumulative global infrastructure needs exceeding USD 150 trillion through 2050[11], even a sustained recovery in headline FDI figures would leave a very large financing gap unless accompanied by a substantial expansion of blended and private capital.

In conclusion, translating investment into durable, inclusive growth will require reducing policy uncertainty through predictable trade rules and proportionate investment screening; targeting realistic niches of competitive advantage in developing economies rather than competing broadly for footloose capital; and scaling up blended finance and de-risking instruments alongside a genuine modernization of international investment governance that reconciles economic-security concerns with sustainable, inclusive development.

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