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Invest USA

The Reshaping of Global Capital Flows

Citi Institute

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Foreword

Sunil Garg
CEO of Citibank, N.A. and
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For Citi, facilitating trade across borders is in our DNA. As a global bank, helping our clients to navigate different jurisdictions, differing ways of doing business and a fast evolving geopolitical and trade landscape is central to everything that we do.

The secular trend driving Foreign Direct Investment both into the U.S. and outbound from the U.S. to the rest of the world might encounter bumps in the road, but it looks set to endure.

Our global network means we are well placed to bring FDI into the U.S., and facilitate outbound trade, by supporting investment flows from our clients across the world.

Today FDI – and more broadly global trade – is well established; estimates put the total value of global trade in 2024 at $33 trillion.

But operating away from home markets still presents challenges. Local customs, regulations, and the risks of dealing with unfamiliar counterparties are challenges corporates must navigate when doing business far from home.

We hope this report provides valuable insights as you try to make sense of – and make decisions in – a rapidly shifting global scene.

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The Reshaping of Global Capital Flows

This Citi GPS report focuses on Foreign Direct Investment (FDI) into the U.S. and how the rapidly shifting dynamics of global capital movements might affect it.

Whereas most other regions saw declines in 2024 vs 2023, the U.S. enjoyed a double-digit growth of 13%, while also recording the highest growth in greenfield projects. It is also worth noting that while the U.S. was the largest recipient country of the global FDI inflows, it was also the biggest giver by far in terms of investments abroad in 2023.

The report looks at what led the U.S. to capture a larger share of global FDI flows in recent years as well as the prospects for U.S. FDI going forward, particularly considering the Trump administration's America First policies.

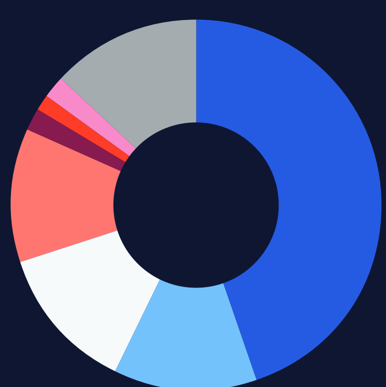
We'll look at what the data tells us about how the dynamics of global trade have been shifting in recent years. What are some of the limiting factors for FDI?

How should companies thinking about FDI into the U.S. think about it? What do they need to know?

Citi clients are always looking at their supply chains, often moving them from one part of the world to another, seeking resilience first and foremost. The pandemic drove greater awareness that having a dependence on only one part of the world for supply chains represented a risk. That trend has continued, more recently, most obviously due to geopolitical shifts.

Given the prominent role of the U.S. in global FDI flows, we also use these pages to dive deeper, looking at sectoral and state-level data as well as exploring how U.S. FDI is broken down by country of origin.

U.S. FDI Inward Position by Place of Origin (2023)



European Union	44.9%
Canada	12.5%
Japan	12.8%
United Kingdom	17%
British Caribbean	1.8%
Korea	1.4%
Other DM	2.1%
Other EM	12.8%

Source: Citi Research, BE

Key Takeaways

The U.S. was the largest recipient country of global FDI inflows in 2023, attracting $311 billion inward investments.

International trade in goods and services deficit was $122.7 million in February, down from $130.7 billion in January, but still above $98.1 billion in December 2024.

China, Mexico and Vietnam were the top three countries that the U.S. had the highest deficits with. At the opposite end of the spectrum, the U.S. achieved the most trade surpluses with Netherlands, Australia and Singapore.

The Rust Belt states have enjoyed outsized capital injections benefiting several industrial sectors, especially the manufacturing sector over the past decade.

Among countries which contributed the most towards job creation, Canada and the UK lead the way with aggregated FDI-induced employment from the two nations totaling over 2 million since 2014.

In the years before the pandemic, FDI to the EU regularly exceeded that to the U.S. However, in the years since the pandemic, the U.S. has moved well ahead. The U.S. share of global FDI flows has stepped up from roughly 15% to 25%.

The manufacturing sector stands out as the largest recipient, with $380 billion in FDI flows since 2022, or roughly 42% of total flows.

The individual state that received the largest flows is California—also the largest state by both U.S. population and output. California received just over 8.5% of total U.S. FDI flows.

2.3%
How much Real GDP in the U.S. has risen per year since late 2019

12.8%
Proportion of U.S. FDI held by Japan

0.5%
Proportion of U.S. FDI held by China

Invest USA: The Reshaping of Global Capital Flows

Sweeping tariffs on imports to the U.S. have upended the geopolitical and trade landscape in recent weeks, ripping up the playbook and roiling markets across the globe.

Reciprocal and retaliatory tariffs on imports have been imposed by several countries, most notably China, sparking market concerns of an all-out trade war. More recently China and the US have agreed to high level trade talks.

And indeed more broadly, the U.S., having introduced higher tariffs, has since paused many of them to allow time for trade deals to be negotiated.

President Trump has said the moves represent a long-needed relevelling of the global playing field, on which he says the U.S. has for too long been taken advantage of.

Trying to predict exactly how the current situation will play out – with respect to tariffs – is clearly fraught with difficulty. Every day brings fresh developments and unpredictable twists.

What is clear is that recent moves are more than just a directional policy change. They represent a fundamental structural shift that has profound implications for global commerce.

It is also clear, not least from global reaction to the moves, that the U.S. continues to be seen as an important destination for investment. This is driven by strong underlying fundamentals, the importance of U.S. consumers, its position as the world's largest economy and the biggest recipient of FDI flows, and the administration's stated focus on bringing more investments onshore. Among other moves, policy makers are expected to preserve key provisions from President Trump's first term Tax Cuts and Jobs Act (TCJA) of 2017 – which are set to expire at the end of this year. The law cut the corporate tax rate, among other measures aimed at boosting growth.

The federal government policies of recent U.S. administrations have focused on attracting more investments from overseas and the new administration is targeting the same, albeit through different strategies. Several U.S. states are also marketing incentives, developing and enhancing relationships with foreign governments and implementing policies and regulatory structures designed to attract FDI.

Candi Wolff, Head of Government Affairs at Citi, says: "While tariff moves may have grabbed headlines, America First Investment policies do have the potential to encourage and fast track investments from our allies." She added this could promote greater economic security and prosperity for U.S. workers and exporters.

In the pages that follow we will focus specifically on Foreign Direct Investment (FDI) into the U.S., with some detail too on outbound FDI from the U.S. to the rest of the world.

What does the data tell us about how the dynamics of global trade have been shifting in recent years? How will America First policies, as laid out so far, impact global trade going forward? What are some of the limiting factors for FDI? How should companies thinking about FDI into the U.S. think about it? What do they need to know? We'll also hear insights from several Citi executives at the cutting edge of facilitating global trade corridors.

It is often the case that when tariffs on imports are high, FDI can benefit as companies favour setting up local production centres rather than face punitive tariffs on imports.

On the face of it, that is the cornerstone of the U.S. government's approach; a bet that tariffs will lead to negotiation and, eventually, drive more business onshore. The timeline over which such a result might materialize is of course open to debate.

> "Recent U.S. Legislation such as the Bipartisan Infrastructure and Jobs Act, Inflation Reduction Act, and CHIPS Act, supports growth and drives public and private investment in the U.S.
>
> *Paul Burroughs, North America Head of Corporate Banking, Citi*"

One of the hallmarks of the first Trump presidency was so-called 'nearshoring' of 'friendshoring', the setting up of operations in nearby, friendly countries to take advantage of lower cost production and labor and particular concentration of skill sets. But with tariffs now being deployed as a key lever on the global stage, early evidence suggests efforts around reshoring, driven by FDI will, at least in part, color President Trump's second term.

> I think as a foreign company considering coming to the U.S., I would proceed incrementally. I would gain a foothold and then try to get to the next stone in my journey. I don't think a prudent foreign firm would ignore or abandon the U.S. market.
>
> At the same time, the political uncertainties are almost certainly greater right now than they have been in the past.
>
> *Lawrence H. Summers, 71st U.S. Secretary of the Treasury*

FDI – What the Data Tell Us

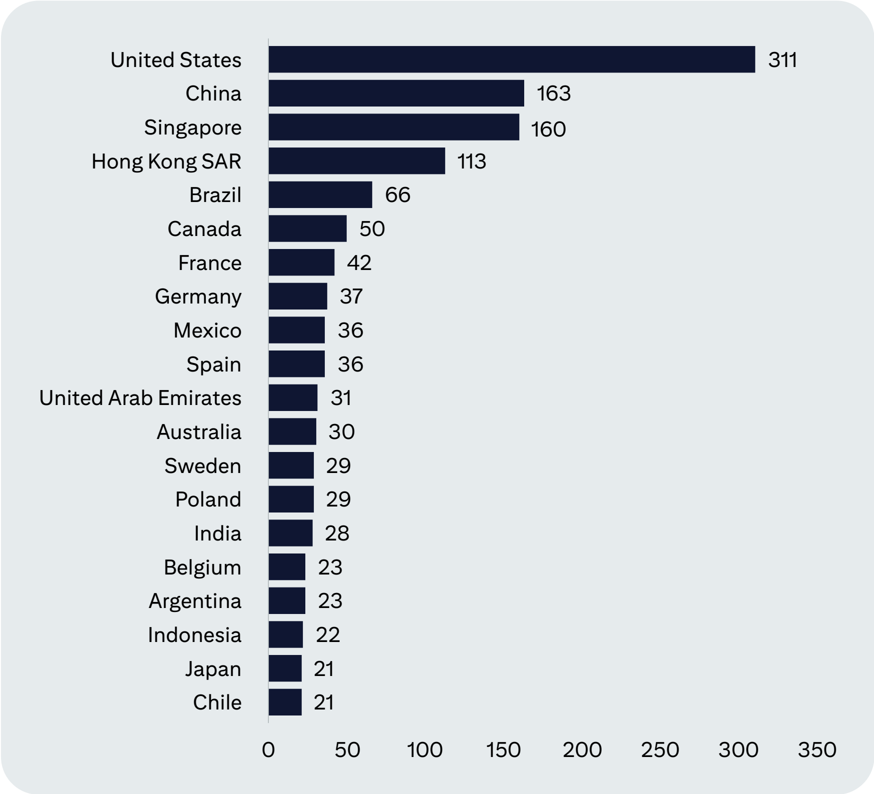
The reconfiguration of U.S. economic policies will clearly have far-reaching consequences.

Citi clients are moving their supply chains from one part of the world to another, looking for resilience first and foremost. The pandemic drove greater awareness that having a dependence on only one part of the world for supply chains represented a risk. That trend has continued, more recently, most noticeably due to geopolitical shifts.

Whereas most other regions saw declines in 2024 vs 2023, North America enjoyed a double-digit growth of 13%, while also recording the highest growth in greenfield projects.

The U.S. was the largest recipient country of global FDI inflows in 2023, attracting $311 billion inward investments.

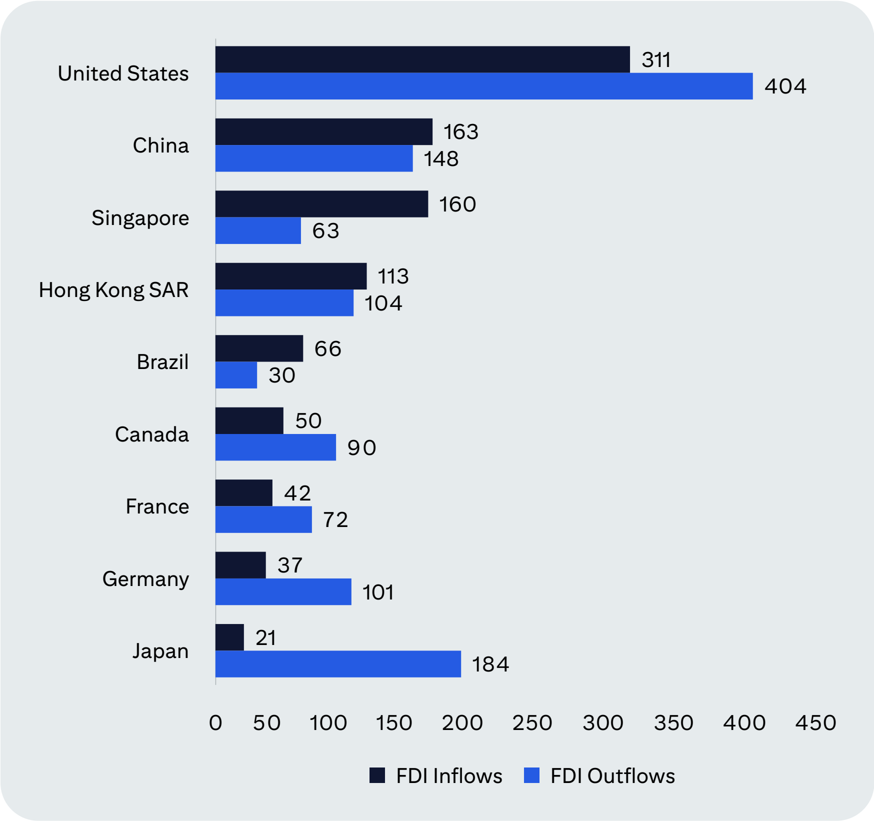
Figure 1. Global FDI Inflows by country in 2023 (in billion US$) showing the U.S. leading the way from China



Source: UNCTAD, https://unctad.org/system/files/official-document/diaeiainf2025d1_en.pdf, based on information from The Financial Times, fDi Markets (www.fDimarkets.com) and LSEG Data & Analytics

It is also worth noting that while the U.S. was the largest recipient country of the global FDI inflows, it was also the biggest giver by far in terms of investments abroad in 2023 as shown in Figure 2. Recent government policy changes could have significant implications on outward investment too, as companies start to rethink the potential ramifications.

Figure 2. Global FDI Inflows and Outflows in 2023 (in billion US$)



Source: UNCTAD, https://unctad.org/system/files/official-document/wir2024_en.pdf

From the latest U.S. published data, the international trade in goods and services deficit[1] was $122.7 million in February, down from $130.7 billion in January, but still above $98.1 billion in December 2024.

On an annual basis, the trade deficit in 2024 was the second highest since 2000, only topped by 2022's. It is against this backdrop that new policies have been announced with the clear intention to reverse the trend, while encouraging foreign firms to invest directly into the U.S. market.

[1] https://www.bea.gov/news/2025/us-international-trade-goods-and-services-february-2025.

Dissecting the trade figures on a country-by-country basis, China, Mexico and Vietnam were the top three countries that U.S. had the highest deficits with, and the trade levels worsened further in 2024. At the opposite end of the spectrum, the U.S. achieved the most trade surpluses with Netherlands, Australia and Singapore.

From the perspective of Global FDI over the past two years, regionally, Asia was the biggest recipient of FDI inflows followed by North America. Excluding conduit economies, FDI in Europe[2] decreased by 45%.

Figure 3. Global FDI Overview (2024 vs 2023)

	FDI value	Growth rates (%)		
		FDI	Greenfield projects	International project finance deals
World	1,378	+11(-8)	-8	-26
Developed economies	522	+43(-15)	-10	-29
Europe	104	=(-45)	-23	-26
North America	317	+13	+20	-34
Other developed economies	101	+16	+11	-32
Developing economies	854	-2	-6	-23
Africa	94	+86	-22	-13
Latin America and the Caribbean	173	-9	-9	-24
Asia	588	-7	-7	-25

Source: UNCTAD, https://unctad.org/system/files/official-document/diaeiainf2025d1_en.pdf, based on information from The Financial Times, fDi Markets (www.fDimarkets.com) and LSEG Data & Analytics

Among the largest 10 greenfield projects announced, the U.S. scooped three major investments from Taiwan, South Korea as well as UAE to bring in capital and jobs for the semiconductors industry, totalling an estimated $60 billion and 5,400 jobs.

[2] Excluding conduit economies. Several European economies, including Ireland, Luxembourg, the Netherlands, Switzerland and the United Kingdom, where FDI statistics are significantly affected by conduit financial flows, continue to report large fluctuations in flows and negative numbers over 2023 and 2024.

Figure 4. Largest Greenfield Projects[3] Announced in 2024

HOME ECONOMY	INDUSTRY SEGMENT	HOST ECONOMY	PARENT COMPANY	ESTIMATED CAPITAL EXPENDITURE (BILLIONS OF DOLLARS)	ESTIMATED JOBS CREATED (THOUSANDS)
Malaysia	Coke and refined petroleum	Argentina	Petronas	30.0	3.0
Taiwan, Province of China	Semiconductors	United States	Taiwan Semiconductor Manufacturing	25.0	1.1
Republic of Korea	Semiconductors	United States	Samsung Group	24.0	3.0
Luxembourg	Basic metal and metal products	India	ArcelorMittal	16.5	20.9
United States	Coke and refined petroleum	Mexico	Mexico Pacific	15.0	2.8
United States	Information and communication	United Kingdom	QTS Realty Trust	13.0	1.6
United Arab Emirates	Semiconductors	United States	Mubadala Investment Company	11.0	1.3
Taiwan, Province of China	Semiconductors	India	Powerchip Technology	11.0	3.0
United States	Information and communication	United Kingdom	Amazon.com	10.5	3.0
Canada	Renewable energy	Australia	Amp Energy	9.8	3.0

Source: UNCTAD, https://unctad.org/system/files/official-document/diaeiainf2025d1_en.pdf, based on information from The Financial Times, fDi Markets (www.fDimarkets.com) and LSEG Data & Analytics

See page 29 in the RSCH contribution starting on page 20 to see which countries contributed the most to U.S. FDI.

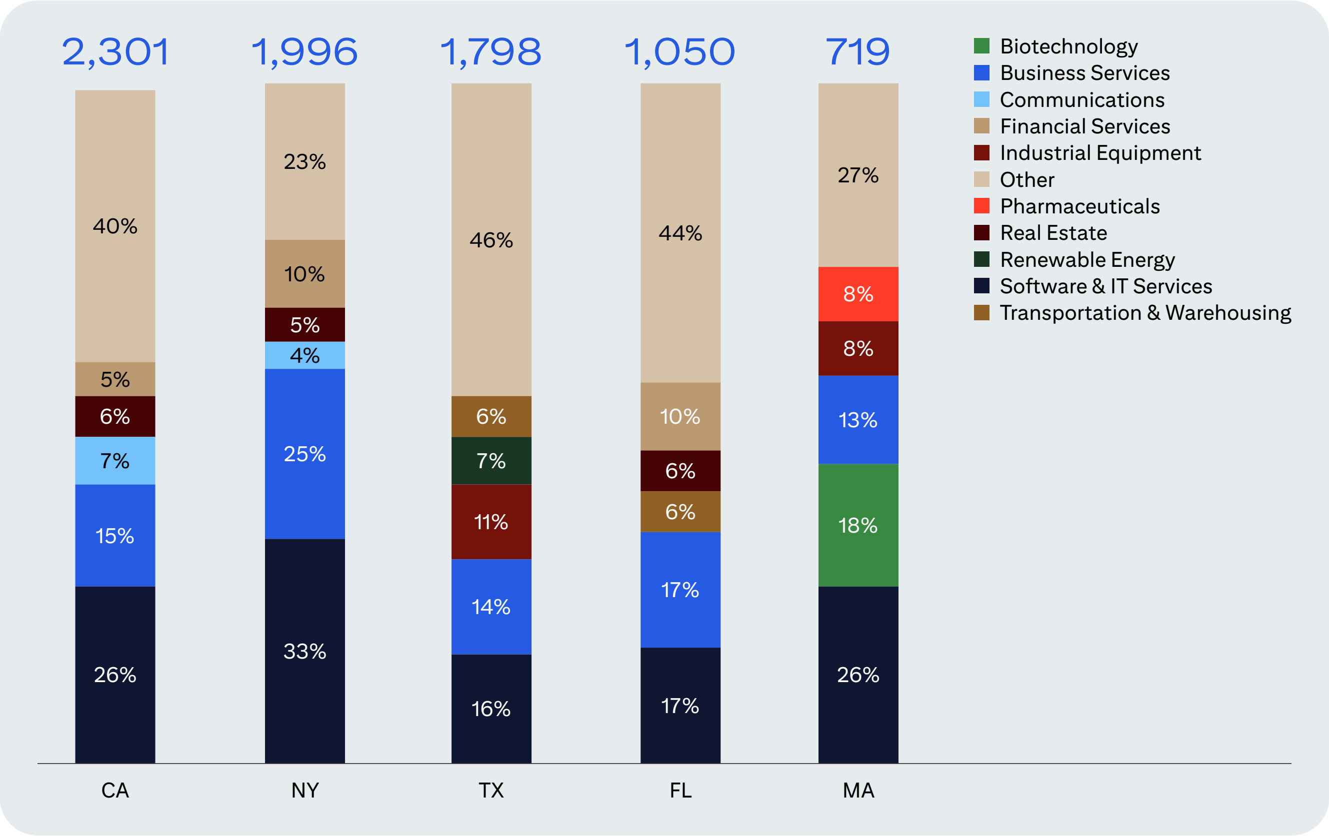
[3] New investments made by foreign investors into a host country to establish a new business or expand an existing foreign-owned business in the host country.

State of Play

As also highlighted by Citi Research Economists later in this report, California was the biggest recipient of the FDI inflows in 2023. However, its growth rate in terms of new U.S. FDI investments over the last 10 years has been significantly negative as the state bore the brunt of the federal restrictions on investment from China. In contrast, the Rust Belt states have enjoyed outsized capital injections benefiting several industrial sectors especially the manufacturing sector over the past decade. Homing in on the broader states and areas picture for FDI inflows, NY Tri-State attracted the highest levels of investment in 2023.

The top five states highlighted in Figure 5 accounted for almost 50% of announced greenfield projects over the last 10 years, where the services sector[4] claimed more than one-third of the overall projects.

Figure 5. Top U.S. states by industry sector



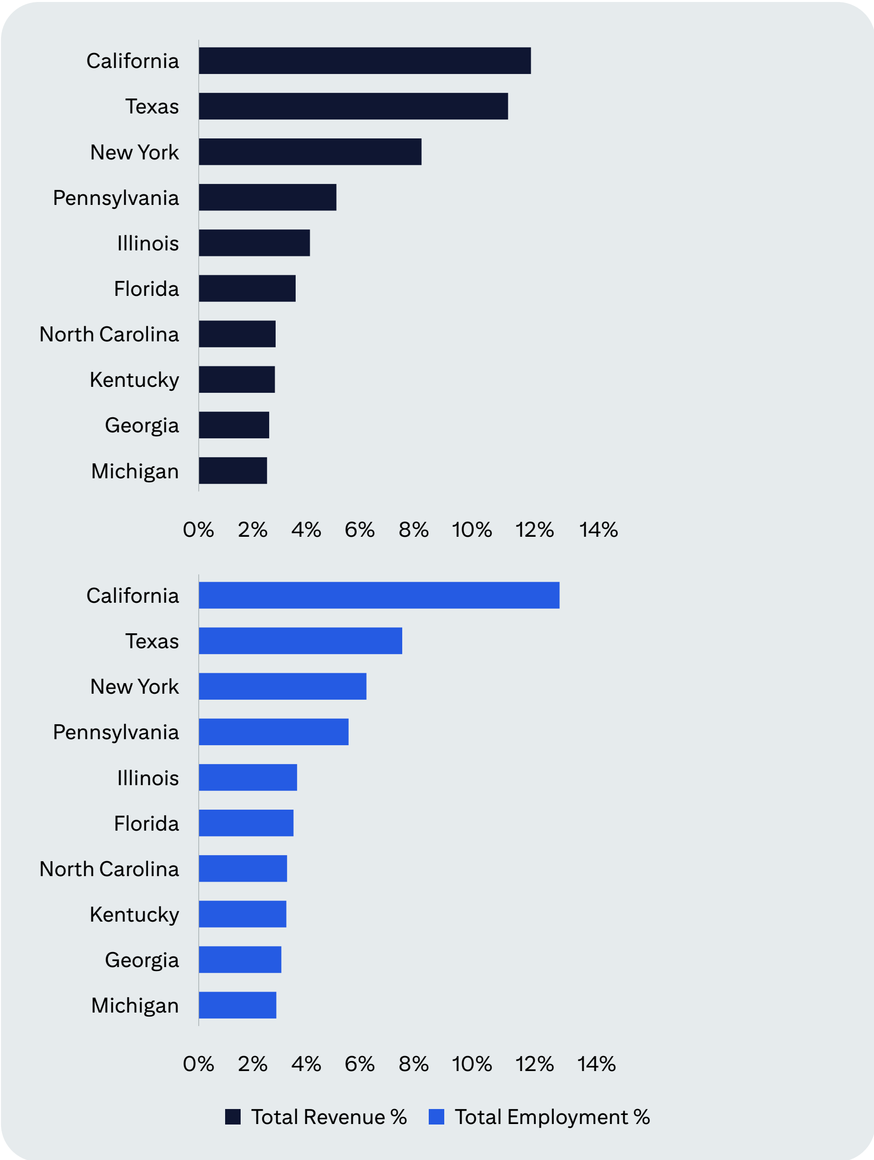
Source: SelectUSA

[4] Business Services and Software & IT Services.

Along with the new investments and greenfield projects come domestic employment opportunities and taxable revenues. According to Reshoring Initiative, the cumulative number of jobs brought back onshore since 2010 together with those initiated by FDI is nearing 2 million, about 40% of jobs that went abroad due to offshoring.

Total revenues of new affiliates from FDI inflows over the last 10 years[5] reached US$ 1.35 trillion and total employment (both current and planned) created by FDI hit 7.8 million. As can be seen below, California is the top beneficiary state, followed by Texas, on both counts.

Figure 6. FDI Total Revenues and Employment 2014 – 2023

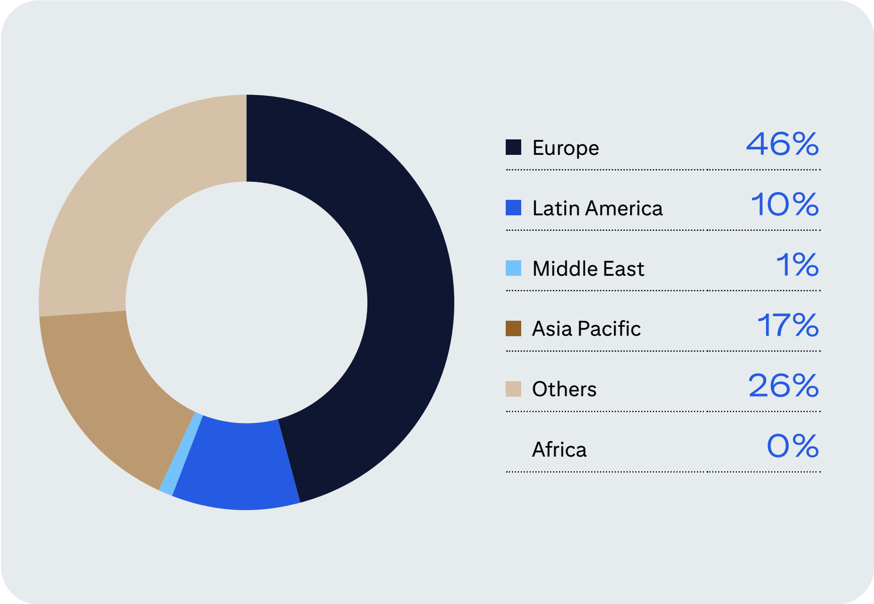


Source: U.S. BEA, Citi Global Data Insights

[5] Up to 2023 as that is the latest full year data disclosed on the state level.

Among countries which contributed the most towards job creation, Canada and the UK lead the way with aggregated FDI-induced employment from the two nations totaling over 2 million since 2014. Regionally, FDI by Europe into the U.S. accounts for 46% of total associated employment, followed by Asia Pacific.

Figure 7. FDI Employment 2014 – 2023 Created by Country



Source: U.S. BEA, Citi Global Data Insights

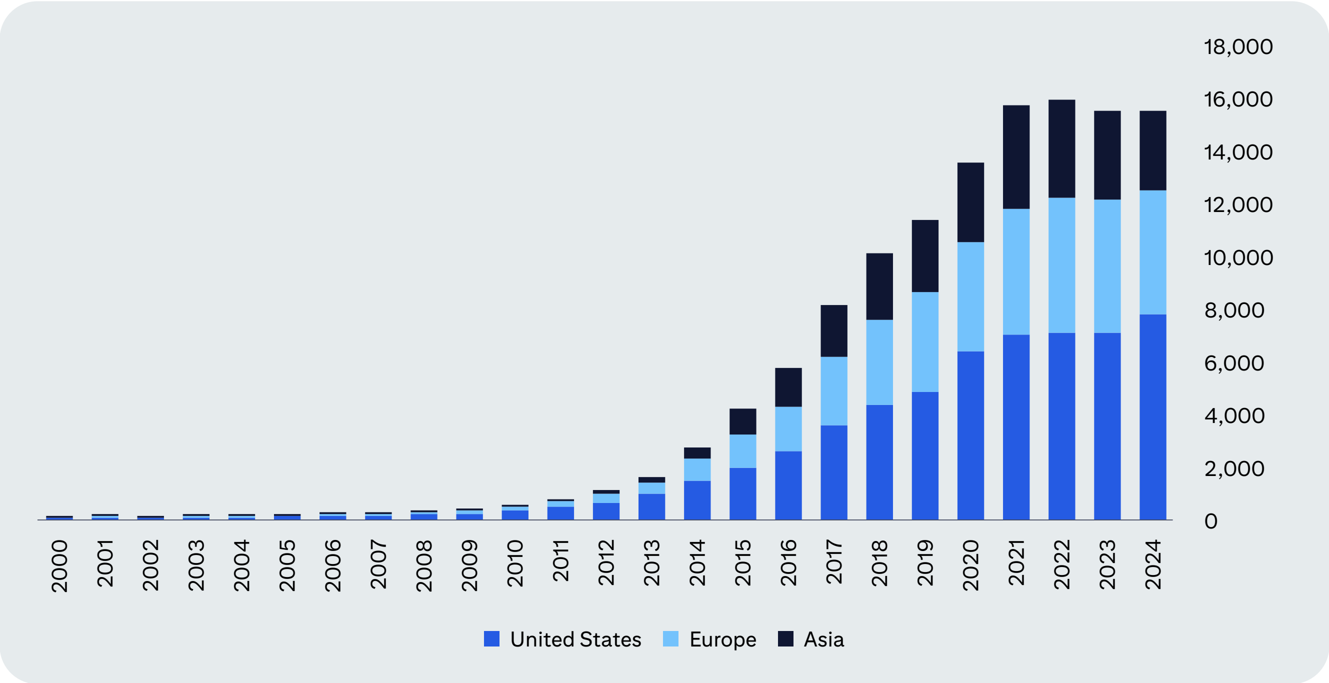
As mentioned, one of the reasons for considering FDI is to access large or growing foreign markets. The proximity to customers and talents is a major draw that warrants serious consideration for multinational companies. The stand-out sectors that benefitted are technology and manufacturing. With extensive investments into these sectors, it is perhaps unsurprising to see innovation is flourishing on the back of a skilled workforce and abundant capital. The diagram below shows that electronic technology and producer manufacturing in particular have the highest categories of patents being deemed 'high quality[6]'.

In fact, the quality of patent filing in the U.S. has improved markedly, especially in the last five years. Besides the two sectors mentioned earlier, many sectors have 75%-plus quality scores (and thus are deemed 'high quality') including health technology, industrial services, non-energy minerals, transportation as well as utilities. The broad range of innovation across the board demonstrates the breadth and depth of the talent pools in the U.S.

From a thematic vertical perspective, the recent focus on AI advancements could also be tailwind for the U.S.. The 'AI and machine learning' vertical has enjoyed exponential growth in VC deals globally. While the number of deals in Europe and Asia has plateaued in the last three years, the U.S. continues its positive growth trajectory and claimed over 50% of VC deals in 2024.

[6] The Quality score is calculated by Quant IP which takes into account the number of citations, the probability of patents being approved etc. For more information, see https://www.quant-ip.com.

Figure 8. AI/Machine Learning
VC Deal Count



Source: Citi Global Data Insights, Pitchbook

Being the largest consumer market in the world, combined with a deep talent pool and advanced technology, the data shows that the U.S. is an undeniably attractive destination for foreign investment for years to come.

In the next section our global economists look at how the policy backdrop might shape the global landscape in the years to come.

FDI – How Will "America First" Shape the Landscape?

First up in this section, authored by Citi Research economists, we'll tackle some conceptual issues regarding FDI, including a few important definitions and an outline of FDI's potential benefits to investing companies and recipient countries.

We'll focus mainly on "net inbound FDI" or, equivalently, "net FDI inflows." As such, we're focused on the net FDI investments of foreigners in the U.S.

Setting the Stage: The Features and Attractions of FDI

FDI inflows can either take the form of new "greenfield" investment or the purchase of a 10% (or larger) ownership stake in an existing firm. Together these flows comprise "equity FDI". With greenfield investment, a foreign firm is organically expanding its footprint abroad and, in many cases, this investment translates into increased production and employment in the recipient country.

The purchase of a sizable ownership stake in an existing firm doesn't directly expand the recipient country's productive footprint, but it can improve access to financing and boost competitiveness in foreign markets.

Foreign firms may bring skills and expertise from their home offices, which their local workers acquire over time (sometimes referred to as "technology transfer"), thus raising the sophistication of the recipient country's labor force.

The definition of FDI also includes a firm's ongoing investments in (and financing for) its foreign affiliates. This takes the form of reinvested profits from the affiliate's operations as well as inter-company lending.

These types of flows are generally a notch more volatile than equity FDI. Even so, FDI in aggregate tends to be a relatively stable form of external financing. By comparison, portfolio flows – another major class of capital flows – are more liquid and have at times shown much greater variability. This category includes equity stakes below the 10% threshold, as well as arms-length debt transactions.

Cross-border bank loans constitute the third major class of private capital flows. Like FDI, bank financing is likely to be relatively stable through the cycle – banks have tended to take a longer-term view of their cross-border investments. However, bank flows are primarily in the form of debt, whereas FDI provides valuable equity investment.

There are a wide range of reasons that firms undertake FDI rather than simply producing at home and exporting products to foreign markets (Figure 9).

Figure 9. Rationales for FDI

RATIONALE	BENEFITS
Access to large or growing foreign markets	Move production closer to consumers and key markets
Cost efficiencies	Firms "outsource" to reduce labor and production costs
Access to expertise, labor and natural resources	Domestic firms can utilize comparative advantages of foreign economies
Diversifying production chains	Diversify production processes that are too geographically concentrated
Minimize "cross border" frictions	Insulates foreign firms from trade barriers as well as reduces transportation costs

Source: Citi Research

One reason is to access large or growing foreign markets. The proximity to customers in these economies allows firms to better monitor customer preferences and rapidly respond to changing customer demand.

Another reason is gaining access to lower-cost labor or reduced production costs – a major historical driver of investments in the manufacturing sector in China and the services sector in India.

Firms may also want to gain access to specific qualities of foreign labor markets and natural resource endowments. Silicon Valley, for example, may attract foreign capital because of its skilled workforce in the technology sector.

Firms may also look to geographically diversify their supply chains as we have seen following the pandemic shock as firms are adjusting their operations to be less concentrated. The upshot has been the emergence of "China + 1" production strategies, as well as "near-shoring," "friend-shoring," and "re-shoring." Finally, firms may take part in FDI to avoid the challenges created by distance or trade barriers such as tariffs.

All of this being said, there are also some factors that limit FDI. For one, globally diversified production may bring significant management challenges as it is hard to ensure a firm's culture and production strategies are successfully transmitted across borders. Two, far-flung global operations may dilute key sources of expertise or increase the risks to trade secrets. Three, firms may face political pressures to produce and employ workers in their home economies.

The Contours of Global FDI

Figure 10 shows the contours of global FDI inflows over the past 25 years.[7] Through this period, aggregate FDI flows have averaged around $1.5 trillion annually, but they have also shown significant volatility. More striking, however, is that these flows have broadly stepped down as a share of global GDP. Before 2018, it was not unusual for FDI flows to exceed 2% of GDP, with a peak of over 4% of GDP in 2000. In contrast, since 2018, FDI inflows have hovered around 1.5% of GDP, with recent readings notably lower. The decline in FDI inflows as a share of GDP is consistent with other evidence pointing to a slowing pace of globalization over the past decade.[8]

Figure 11 displays FDI inflows for the United States, European Union (excluding intra-EU flows), United Kingdom, and China starting in 1999. In the years before the pandemic, FDI to the EU regularly exceeded that to the United States. However, in the years since the pandemic, the U.S. has moved well ahead. More broadly, the U.S. share of global FDI flows has stepped up from roughly 15% to 25%.

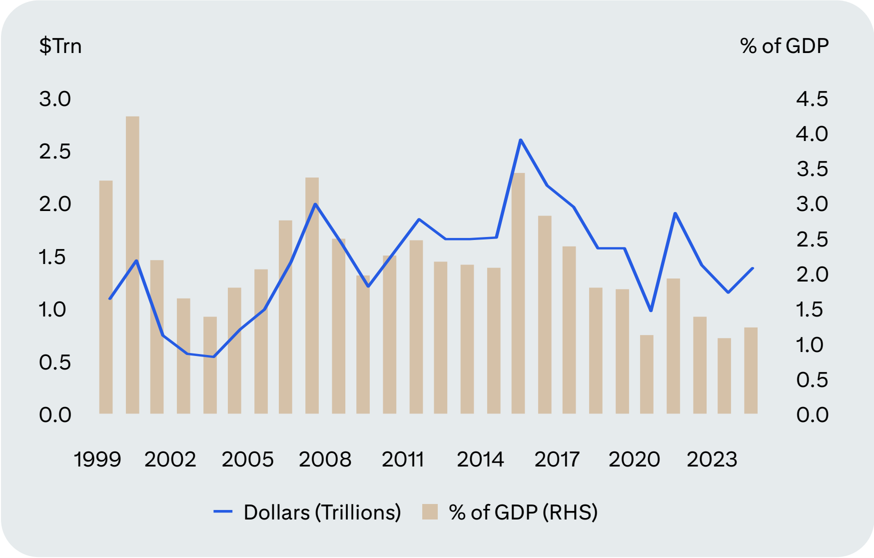
As we'll discuss in more detail below, this increase looks to reflect ongoing reshoring flows, investment in the chemicals sector attracted by cheap and abundant natural gas, the success of recent policies, and the burgeoning U.S. AI sector.

In tandem, net FDI inflows to the EU and China have stepped down sharply in recent years. For the EU this decline is accentuated by a sizable withdrawal of capital by a telecommunications firm in Luxembourg;[9] but even with Luxembourg excluded, FDI flows to Europe have softened.

Our view is that this reflects a cocktail of challenges that Europe has faced, including weak domestic demand, an uncertain energy portfolio, and continuing overhang from the Russia-Ukraine war. However, to the extent that these challenges are resolved, or at least diminish, it could open the door for a gradual return of FDI flows.

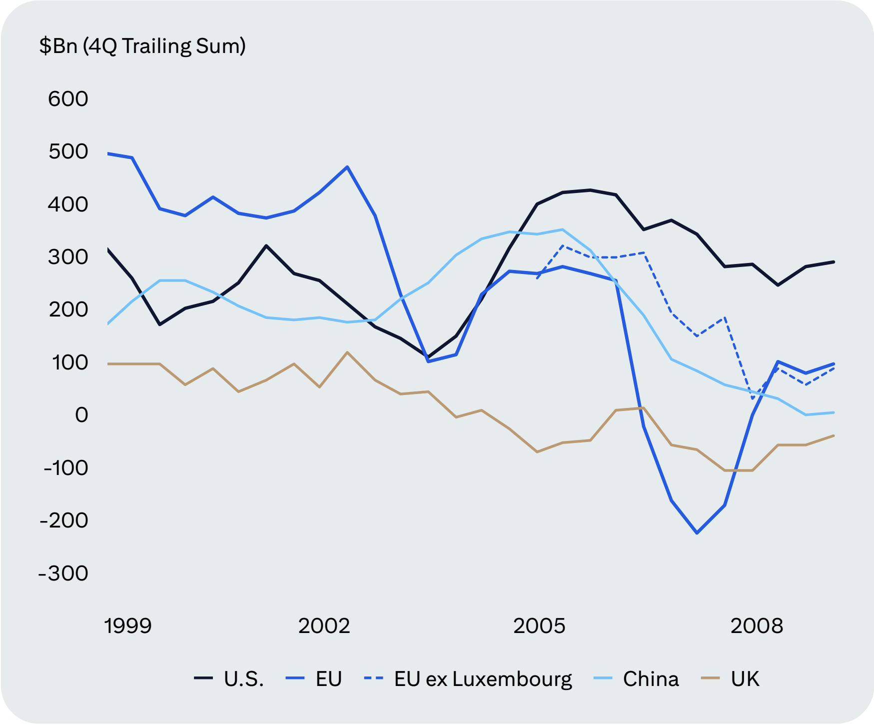
[7] These data value FDI positions using their historical cost.
[8] See Globalization vs. Deglobalization: What's Next?.
[9] See "FDI in Figures," OECD, October 2024, footnote 2.

Figure 10. Global FDI Inflows*



*Data for 2024 are annualized through Q3.
Source: Citi Research, IMF, OECD

Figure 11. Country FDI Inflows



Source: Citi Research, IMF, OECD

The decline in China's FDI strikes us as more structural. As a result of ongoing geopolitical pressures, and related shifts in supply chain and production management strategies, investment and sourcing is systematically moving away from China.

This is not generally "deglobalization" but, rather, a rebalancing and reprofiling of the globalization process. Notably, this rebalancing of flows away from China does not so much reflect a stampeding exit of existing investments. Rather, allocations of new investment are increasingly going to other jurisdictions.

Figure 12 reports FDI "positions," i.e., countries' cumulative stocks of FDI. Globally, FDI totaled $50 trillion or 46.5% of global GDP as of end-2023. FDI tends to flow to large economies – together, the United States, EU, and China account for 60% of cumulative global FDI.[10]

But several trade and financial centers including Luxembourg, Switzerland, the Netherlands, and Ireland also punch well above the size of their economies, with FDI positions that are large relative to GDP. Notably, these four jurisdictions have also historically been seen as offering favorable tax regimes.

As an alternative prism on global FDI performance, Figure 13 shows rankings of the top 25 countries in terms of their perceived attractiveness as FDI destinations derived some a survey published by Kearney's Global Business Policy Council.

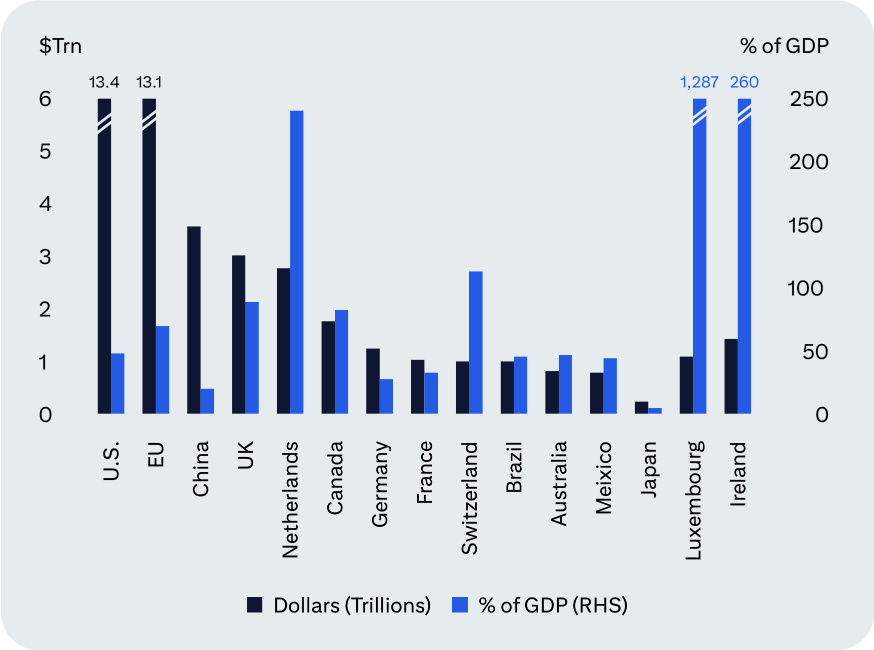
This survey reflects over 500 responses from C-level executives and regional business leaders headquartered in 30 countries and spanning a wide-range of sectors.[11]

One caveat, however, is that the survey was conducted in early-2024, so it broadly reflects the "pre-Trump" administration baseline. We return to this issue in the next section.

[10] Japan's inward stock of FDI is comparatively small at roughly $225 billion, but the country is a significant global investor with an outward position of over $2 trillion.

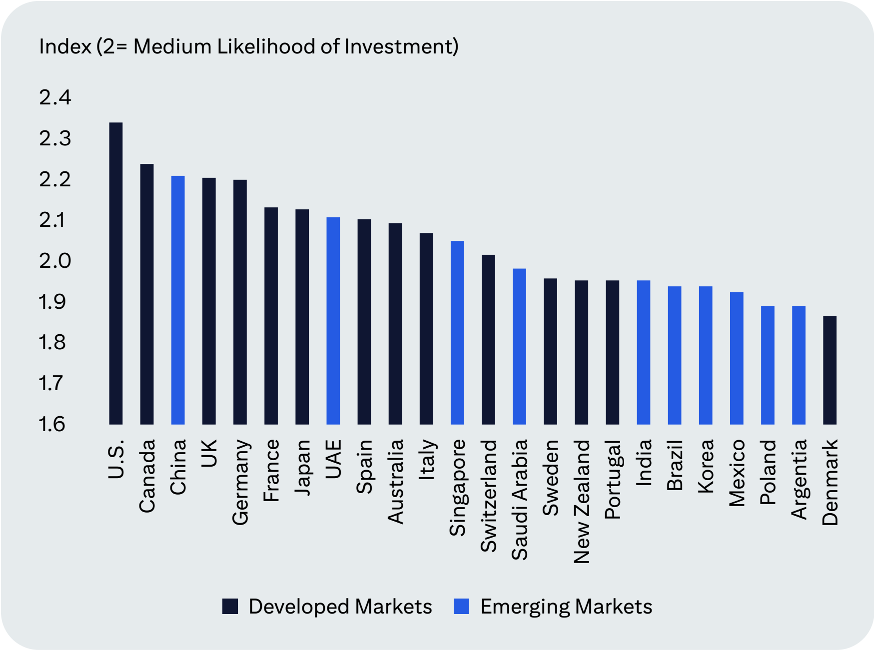
[11] This survey is conducted annually by Kearney's Global Business Policy Council. The results are subsequently aggregated and published in the "Kearney FDI Confidence Index."

Figure 12. FDI Inward Positions (2023)



Source: Citi Research, OECD, IMF

Figure 13. FDI Confidence Index*



*Average of responses for likelihood of making direct investment in a market over the next three years.
Source: Citi Research, Kearney

The top five countries according to the survey are the U.S., Canada, China, the UK, and Germany. What is notable is that these countries were also the top five in 2018. Further, the rankings for the U.S., Canada, and the UK are unchanged over this period, while Germany has fallen by two notches and China has risen by two notches. Taken together, these results signal striking stability in the perception of business leaders regarding the attractiveness of key jurisdictions. Other surprises include China's rise in the rankings, given the perception of mounting geopolitical pressures. Also surprising is the UK's unchanged ranking, despite its relatively weak growth performance, as well as the weakness in recent UK FDI flows. Rising starts in the survey include Spain, Portugal, and Brazil which have all moved up in the rankings since 2018. The UAE and Saudi Arabia also improved markedly relative to 2023's figures.

In the survey, investors indicate that in choosing FDI destinations, they place particular emphasis on technology and innovation, but they also consider the efficiency of the legal and regulatory environment and the ease of moving capital into and out of the country. For "nearshoring" and "friendshoring" strategies, firms have looked to reduce risks embedded in supply chains. Concerns around the U.S. and China have loomed large and worries about Russia-Ukraine have also played a role. Finally, FDI decisions also reflect efforts to ensure dependable access to resources and avoid commodity dislocations.

A Deeper Dive into U.S. FDI

Given the prominent role of the U.S. in global FDI flows, in this section we dive deeper into these flows by looking at sectoral and state-level data as well as explore how U.S. FDI is broken down by country of origin. We also analyze what factors have led the U.S. to capture a larger share of global FDI flows in recent years as well as the prospects for U.S. FDI going forward.

Figure 14 shows cumulative U.S. FDI flows since 2022 by major sector. The first point is that the manufacturing sector stands out as the largest recipient, with $380bn in FDI flows over this period, or roughly 42% of total flows. This figure is close to the sector's average share of total U.S. FDI flows over the last ten years. By comparison, the U.S. manufacturing sector accounts for 10% of U.S. GDP.

Figure 14. U.S. FDI Flows by Major Sectors

	2022-2024 Q4		10-YEAR AVERAGE
	$Bn	Share (%)	Share (%)
All Sectors	**897**	**100.0**	**100.0**
Manufacturing	380	42.3	47.3
Wholesale and Retail Trade	171	19.1	16.2
Information	34	3.8	3.1
Financial Services	103	11.5	12.4
Real Estate	27	3.0	4.6
Professional Services	32	3.5	3.2
Other Industries	151	16.8	13.2

Source: Citi Research, BEA

Wholesale and retail trade jointly are a distant second in terms of FDI flows – at roughly $170bn these related sectors together accounted for 19% of total flows. The next largest sector is financial services which made up roughly 12% of flows. Real estate, professional services, and information all make up 2-4% of flows. The remainder of FDI flows (17%) are accounted for by other industries including utilities, transportation and warehousing, and nonbank holding companies.

Within manufacturing, the chemicals sector of late has received about 27% of the manufacturing sector's flows, the largest share of any manufacturing subsector. Still, this share is a bit low compared to its long-run average of around 40% of manufacturing FDI flows. The vast majority of chemicals FDI goes to pharmaceuticals. Transportation and machinery are the next largest manufacturing subsectors by FDI flows, each accounting for about 12% of flows directed at the manufacturing sector over the last few years. Both of these subsectors also saw an upsurge of flows in 2024.

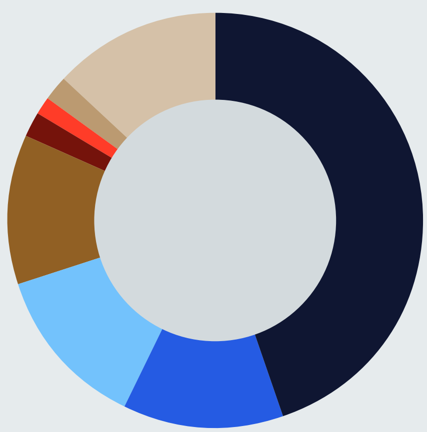
U.S. FDI Positions by Country Origin

Figure 15 shows the stock of FDI in the U.S. by country of origin. Most U.S. FDI is held by developed markets which account for nearly 85% of the FDI stock. The European Union accounts for roughly 45% of the U.S. FDI stock. Outside of the EU, the next largest holder of U.S. FDI is Japan (12.8%) followed by Canada (12.5%) and the United Kingdom (11.7%). Emerging markets account for around 15% of U.S. FDI with most EMs holding relatively small shares. Among major EMs, Korea holds 1.4% of U.S. FDI, while Mexico is second with a share of around 0.7%. China meanwhile has a share of 0.5%, and other major EMs such as India and Brazil still have relatively small shares at around 0.1%.

Two additional points are worth highlighting. One is that China's share of the U.S. FDI stock a decade ago was closer to 1%, but its FDI flows into the U.S. have fallen sharply and have been running close to zero in recent years. The drop in China's share coincides with deeper geopolitical tensions between China and the U.S.

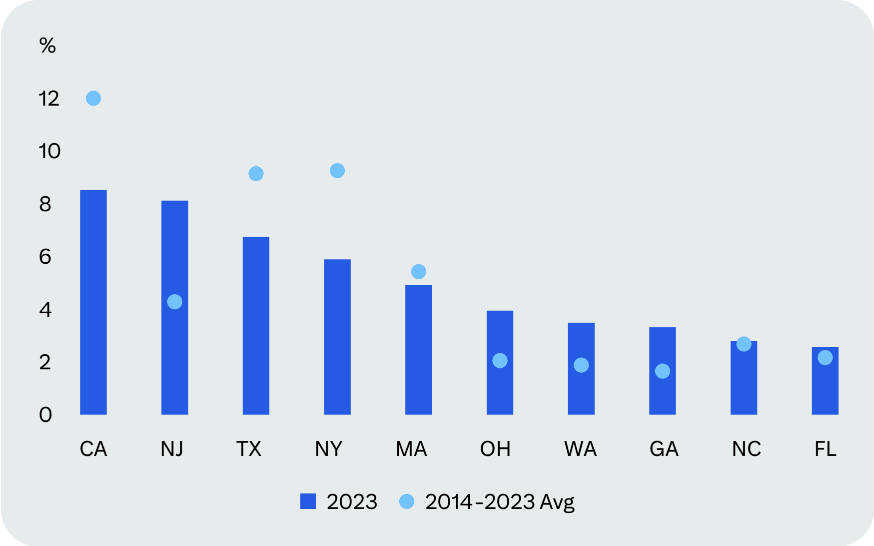
The second is that some small economies that act as offshore financial centers such as Luxembourg, Bermuda and the British Virgin Islands have historically had sizable shares of U.S. FDI, particularly compared to the size of these economies. In 2023, for example, Bermuda, Luxembourg, and the British Virgin Islands together accounted for about 7% of the U.S. FDI stock.

Figure 15. U.S. FDI Inward Position by Country of Origin (2023)



Source: Citi Research, BE

Figure 16. FDI Flows by U.S. State



Source: Citi Research, BE

U.S. FDI Flows by State

We next look at how FDI flows are distributed across U.S. states. These data are defined somewhat differently than the figures in the previous section. While the data shown earlier covers net FDI flows including further investments in ongoing FDI relationships, these data by state are just new gross FDI flows into U.S. states. This being said, we would expect the patterns highlighted here to broadly hold if the data matched other definitions of FDI.

Figure 16 shows these FDI flows for 2023, the latest full year available. The individual state that received the largest flows is California – also the largest state by both U.S. population and output. California received just over 8.5% of total U.S. FDI flows. New Jersey is the tenth largest state by economic output, but in 2023 ranked a close second to California for FDI inflows. The manufacturing sector is the largest recipient of FDI in New Jersey, and the state has a sizable pharmaceuticals sector. Texas was the third largest recipient of FDI during 2023 while New York came in fourth.

California's share in the most recent data is running low by recent historical standards. In the mid-2010s, for example, California accounted for closer to 20% of total FDI flows. The state has recently faced a number of headwinds including the effects of federal restrictions on investment from China.[12] Prior to China's decline in FDI flows to the U.S., California was the primary recipient of these flows. New Jersey on the other hand has seen its share of U.S. FDI pick-up in recent years, while New York is seeing a lower share than usual. The recent share for Texas is a notch below its historical average.

[12] See California Hustles to Attract Foreign Investors' Money, Financial Times November 7 2023.

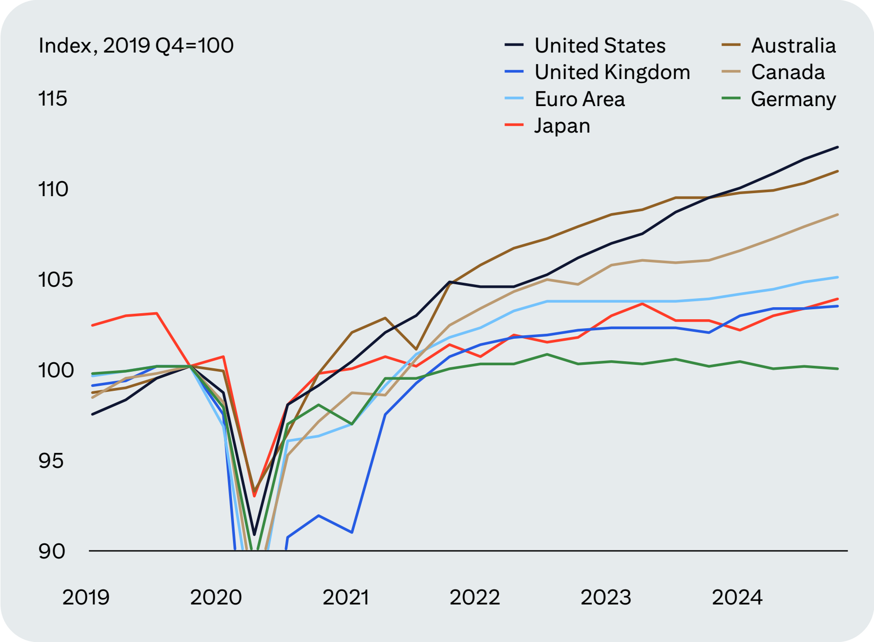
Drivers of Recent Strength in U.S. FDI

As highlighted earlier, the U.S. offers many pull factors for FDI investors. More recently, the surge in the United States's share of global FDI flows raises the question of what other factors have asserted themselves over the last few years.

For one, the U.S. was the strongest performing economy among developed markets from 2019 to 2024 (Figure 18). Real GDP in the U.S. has risen by 2.3% per year since late 2019. Australia comes in second with 2.1% per year with Canada in third at 1.6%. The euro area, Japan, and the UK have all risen less than 1% per year. Germany, which has often been a large recipient of global FDI, has recorded zero economic growth since 2019 and has also seen its FDI flows decline.

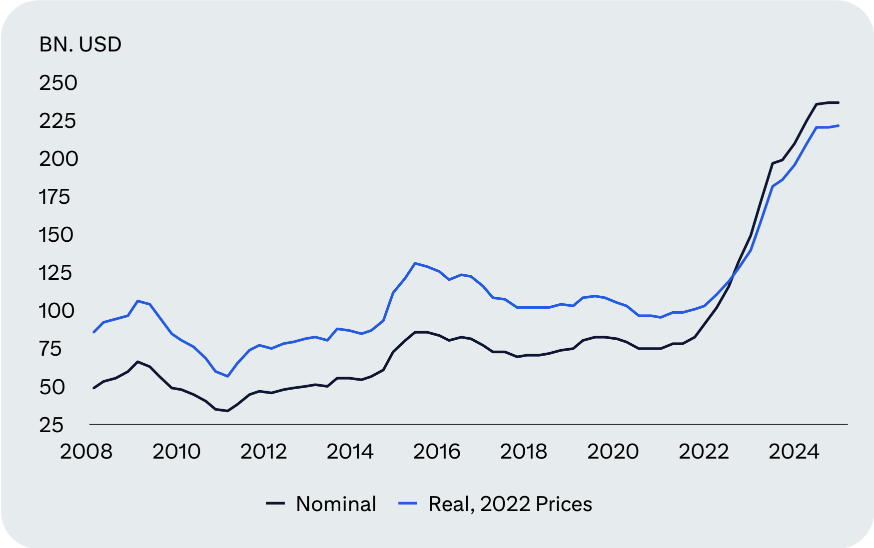
Two, the U.S. has continued to reap the benefits of cheap and abundant natural gas. Natural gas prices in the United States have been low and stable compared with other key regions. The chemicals sector is gas-intensive and has been a particular beneficiary of the comparatively low prices. Another result has been much lower U.S. electricity prices, which have benefited the manufacturing sector more broadly.

Figure 17. DM Real GDP



Source: Citi Research, National Statistical Sources, Haver Analytics

Figure 18. U.S. Manufacturing Construction Spending



Source: Citi Research, Census, Haver Analytics

Three, the U.S. has emerged as one of the leaders in the development of AI technologies. AI is driving demand, including for more sophisticated chips, faster and more flexible networking equipment, and ever-rising data center capacity. Significant investment has already occurred in the U.S. for this space. The U.S. has, for example, rapidly expanded its datacenter infrastructure and is currently home to one-third of the global stock.

Four, as discussed earlier, the global system is gradually rebalancing away from China and toward other locations. The winners of this rebalancing look to be several EM economies including India, Vietnam, and Mexico (where its proximity to the U.S. is bringing significant investment). Production is also moving back home to the U.S. as well.

Five, U.S. Administrations have been increasingly focused on supporting domestic production. The manufacturing sector is increasingly the target of interventions by U.S. policymakers seeking to foster its competitiveness. During the Biden Administration, this effort took the form of the CHIPS Act and the IRA. While this legislation also had other objectives, supporting the U.S. manufacturing sector was high priority. In sync with the approval and implementation of these fiscal packages, the U.S. experienced an upsurge in manufacturing construction (Figure 19), although other factors were likely also in play. At the moment, this spending looks to have flattened out – but it remains at historically high levels.

Looking Ahead for the U.S.

Whether the U.S. is likely to remain a global leader in FDI flows depends on whether the factors we highlighted above remain in place. On this front, we remain cautiously optimistic.

Does U.S. economic outperformance continue? The U.S. as noted has performed well in recent years while other major economies have faced challenges. Germany has increasingly found that its economic model needs updating while China is combatting a range of challenges including high debt, property sector adjustments,

and high youth unemployment. Still, a key question for the U.S. is how much damage is being done to the economy's strong fundamentals? Frankly, we see this as an open issue. It is still early in President Trump's term and it's hard to know how the tariffs and a whole range of other policies – including deregulation which might be supportive for growth – will play through. It is fair to say that the current policy trajectory carries long-term risks as many fixed points in the policy universe are being shaken. Still, the economy has shown marked resilience in recent years.

Low natural gas prices, and a supportive energy infrastructure more broadly, is likely to continue to be an advantage for U.S. industries. Reshoring trends are also likely to continue. In a recent Citi survey, we found that most companies are pursuing or planning to pursue diversification strategies away from China.[13] We also expect the global economy to continue to digitize, with AI playing an increasingly important role.[14] The U.S. looks well-placed to be one of the economies to reap the largest benefits from AI.

The recent AI developments in China has brought some of this into question. First, from a purely economic perspective, this should be a constructive development as the advent of more efficient and cheaper AI represents a positive supply shock for the global economy. Second, the U.S. in our view remains well-positioned to be a leading provider of AI technologies. Many of the major AI-related companies are U.S. firms, and U.S. investment in AI is expected to continue running strong.

Finally, this takes us back to the outlook for policy. President Trump, similar to his first term, is focused on revitalizing the U.S. manufacturing sector. This has been demonstrated by the President's recently issued America First Investment Policy which aims to boost FDI from allies and partners. As noted earlier, one of the reasons for FDI is to avoid tariffs or other trade barriers. This is very much one of the motivations for Trump's tariffs – to incentivize companies to invest in the U.S. and produce domestically. Whether this will be successful remains an open issue.

Working in the other direction, questions around how U.S. tariffs will evolve and whether they will stay in place is stoking uncertainty, which tends to be a depressing factor for FDI. In addition, if tariffs do remain elevated in the U.S. for the next few years, it is unclear how much FDI it will encourage and how fast this FDI is likely to transpire. Firms, for example, may be hesitant to commit to long-term investments if the tariff and broader policy regime could change abruptly in just a few years – for example if a Democrat wins the White House in 2028.

Still, President Trump is also likely to pull other levers to encourage domestic production, including verbal jawboning, favorable regulatory changes, and supportive legislation (to the extent that Congress agrees). In addition, President Trump has signaled, including through an executive order, that he wants to start a sovereign wealth fund. This could be used to invest in strategic industries such as chips as well as support the manufacturing sector more broadly. President Trump may also seek to lower the corporate tax rate for domestic producers or provide other tax breaks and subsidies to support domestic activity. All told, while the direction and contours of policy remain unclear, at a minimum the Administration will aim to bring more investment into the United States.

[13] See Citi GPS: Supply Chain Financing – Resilience, Opportunity, and the Shifting Winds of Trade.

[14] See The Digital Transformation of the Global Economy: Riding the Wave of Virtual Progress.

FDI In Global Trade: Financing the Journey

Today's FDI landscape is driven by several factors; the rise of globalization led to increased interconnectedness of the global trade landscape. On the contrary, deglobalization or a move to more localized economies, often driven by increased protectionism, still has implications for FDI. Foreign corporations may seek new ways to retain access to other countries consumer while domestic corporates may elect to re-route supply chains or production to countries closer to home or that they perceive as "more friendly."

Figure 19. What are your key motivations for shifting or considering a shift of your supply chains to a new country?

	Asia Pacific	EMEA	LATAM	North America	Total
Access to greener energy sources	12%	7%	9%	6%	9%
Access to new technologies	6%	10%	9%	6%	7%
Cheaper labor/production costs	29%	40%	37%	44%	35%
Closer to major suppliers	26%	43%	48%	44%	36%
Diversification to limit country risk	23%	20%	30%	34%	26%
Diversification to limit supplier risk	27%	43%	37%	16%	30%
Proximity to end consumers	22%	24%	35%	29%	26%
No plans to diversify our supply chains to new countries	37%	19%	29%	26%	31%

Note: Responses sum to over 100% due to multiple responses being enabled.
Source: East & Partners Large Corporate Survey 2024, Citi Treasury and Trade Solutions

Pursuing FDI is a bit of a balancing act but boils down to one of two things: invest for future growth or invest to reduce future costs. Corporates considering FDI in either form can determine a project's net present value (NPV) to assess how much their investment will be worth over its lifetime.

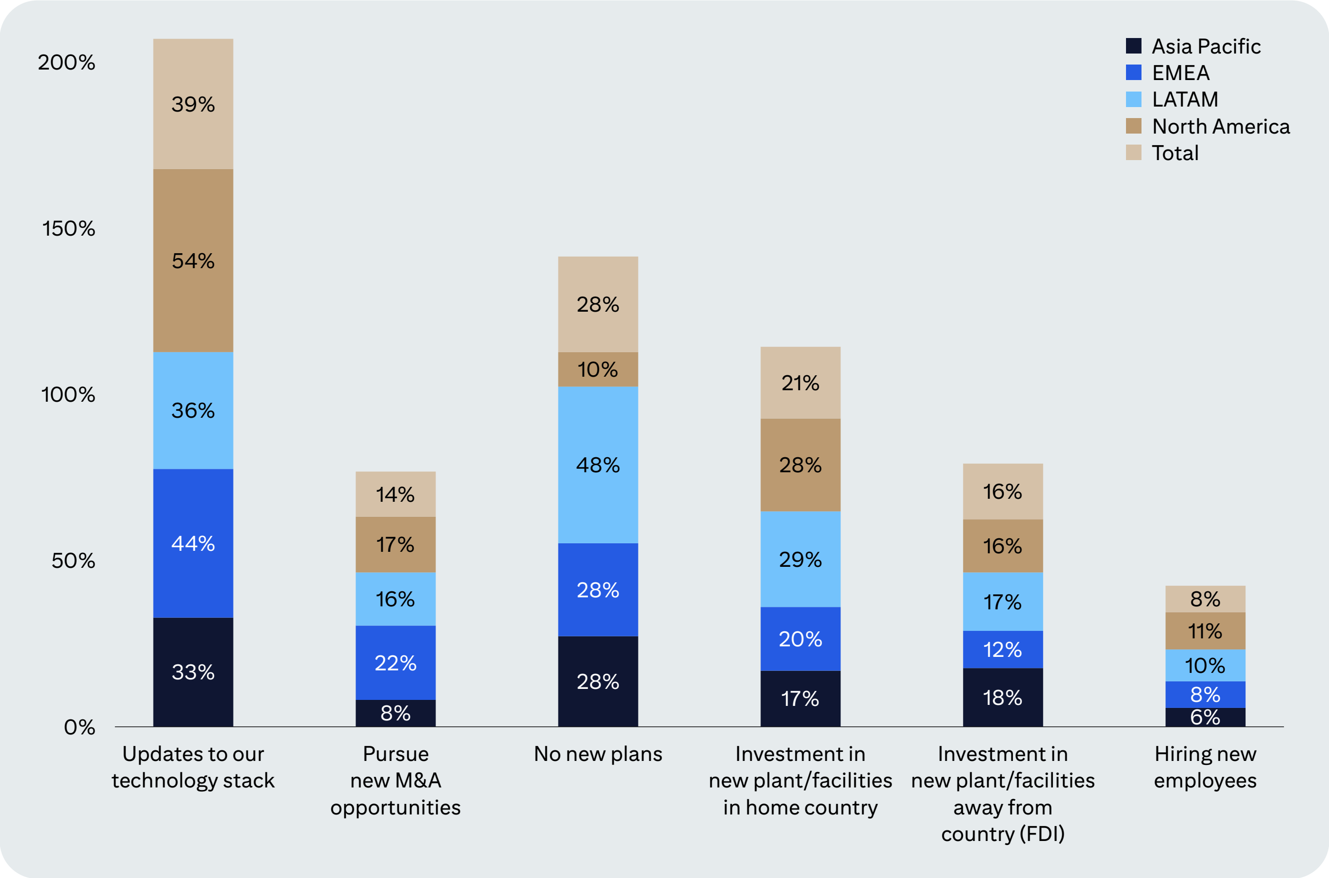
Securing "cost efficiencies" remains a key driver of many FDI projects. For many companies, labor costs can represent their single largest expense, so where it makes sense corporate may pursue FDI plans that enable them to access cheaper labor pools, as was the case when large corporates began to offshore certain functions to lower cost countries in the 1970's through more recent times.

While cheaper labor costs are certainly a key component of securing overall cost efficiency, other factors such as energy costs are also worth considering.

The Fourth Industrial Revolution

Known as "Industry 4.0", the fourth industrial revolution represents the ongoing trend of enhancing manufacturing and industrial processes by incorporating digital technologies such as AI, IoT and robotics. While previously at least some outbound FDI from developed nations sought to achieve a cost benefit by lowering production costs, Industry 4.0 has shifted the paradigm by making it more feasible to manufacture in locations that had previously been prohibitive, due to cost or other reasons. When considering their FDI plans, decision makers now have a new set of criteria to evaluate when formulating their FDI development plans.

Figure 20. What new capital expenditures or investments does your organization have planned for a declining interest rate environment?



Note: Responses sum to over 100% due to multiple responses being enabled.
Source: East & Partners Large Corporate Survey 2024, Citi Treasury and Trade Solutions

FDI is not just limited to business that produce goods and equipment. Service-oriented businesses (and service-oriented components of manufacturing business) conduct FDI of their own. "Connected" working, while proliferated by the Covid-19 pandemic, for many had already been standard operating procedure thanks to the rise of email and technological advancements that made long distance calling less burdensome. Today, many businesses now favor the "follow the sun" operating model, enabling workflow and supporting customers to occur 24 hours a day.

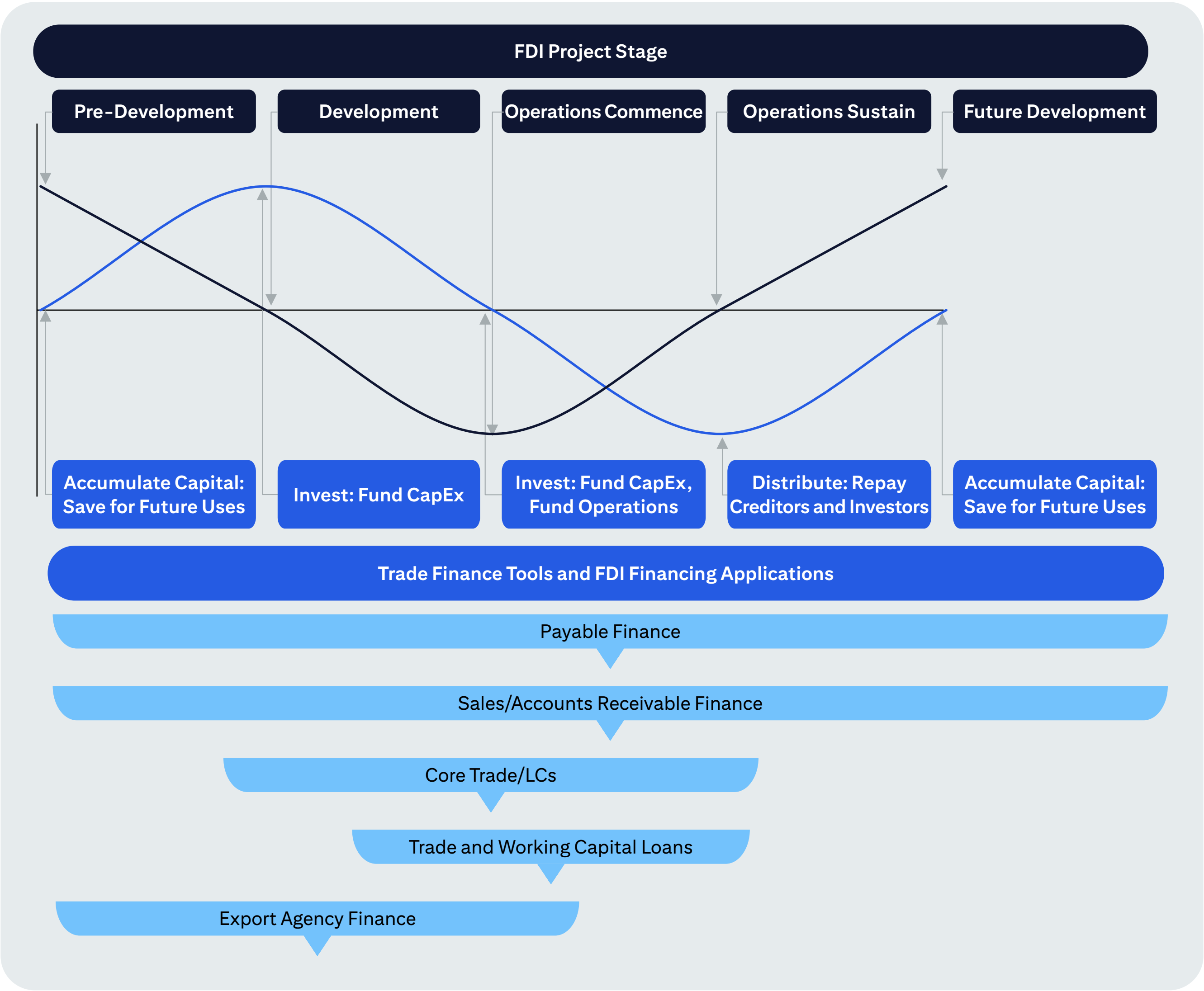
Financing FDI with Trade Finance

Planning for a foreign direct investment project is similar to planning for any other capital expenditure, notably both require a corporate to deploy funds and there is likely some time before a corporate is able to start realizing a return on their investment. While every FDI project has its own nuances, execution of a FDI project can be broadly categorized into five broad stages:

- **Pre-Development/Planning:** Initial planning stage, site selection process completed to determine location.
- **Development:** Construction and development; procurement of machinery and equipment; procurement of inventory; staffing.
- **Operations Commence:** Day 1 operations and beyond; likely includes a ramp-up period and subsidiary not yet self-sustaining.
- **Operations Sustained:** Operations have reached full capacity; entity may no longer require parent level support (financial); repayment of financing.
- **Future Development/Pre-Development:** The cycle restarts: Initial planning stage begins for future expansion, site selection process completed to determine location.

Large multinational corporates and their mid-cap peers have a number of financing structures available to them but shouldn't lose sight of the trade finance tools available to them to support their FDI initiatives. Below presents a framework of the different stages of a FDI project and the relevant trade finance tools that can support a corporate at each stage.

Figure 21. Framework for Financing FDI with Trade Finance



Note: Responses sum to over 100% due to multiple responses being enabled.
Source: East & Partners Large Corporate Survey 2024, Citi Treasury and Trade Solutions

Payables Finance

Payables finance includes solutions such as supply chain financing and dynamic discounting as well as commercial cards.

Accounts Receivable Finance/Sales Finance

Accounts receivable (AR) finance structures help corporates activate liquidity by monetizing receivables owed to them through different structures depending on the characteristics of their portfolio of receivables.

Letters of Credit

Once an FDI project is operational, letters of credit can help mitigate risk when selling to unknown parties, as may often be the case when transacting in/with new jurisdictions.

Trade and Working Capital Loans

Trade and working capital loans help corporates close any working capital gaps within the entire order-to-cash (O2C) by offering a set of tools that can help bridge the gap between paying suppliers and receiving payment from buyers.

Export Agency Finance

Export agency financing (EAF) solutions are highly structured financing solutions where export credit agencies (ECAs), development finance institutions (DFIs) or multilateral development banks (MDBs) can offer guarantees to limit credit and political risks to enhance lenders' ability to provide financing.

> “The U.S. continues to be a sought-after destination for investment. This is driven by strong underlying fundamentals, its position as the world's largest economy and the biggest recipient of FDI flows, and a new administration focused on bringing more investments onshore.”
>
> *Ernesto Torres Cantú,*
> *Head of International, Citi*

Family Fortunes – A Vital Capital Source

Hannes Hofmann, Head of Global Family Office, Citi

Family-owned wealth is becoming a vital source of capital in the world economy. Indeed by 2030, Deloitte estimates that family offices will manage more assets than the global hedge fund industry – with an additional $2 trillion in asset expected as family offices continue rapid global expansion.

More than 75% of family offices globally have an entity or investment within another country. With that, many family offices are investing in Foreign Direct Investment (FDI) and the United States, which presents a significant growth opportunity for them. "Over the next five to ten years, we believe this opportunity is likely to grow as we continue to see an influx of foreign investments, the expansion of innovation and the United States dollar continuing to serve as the world's reserve currency," says Hofmann.

Against a backdrop of higher market volatility and lower visibility, some investors have acted to limit their losses and reduce their significant overweight positions in U.S. stocks since the start of the year. But, while it may be clear that the trading community has cut net exposure, fundamental investors and asset allocators remain largely overweight.

Many family offices are taking advantage of this unique moment in time to seek additional yield opportunities. For example, some are exploring real estate-focused entities within the United States (many in Florida) as they look to invest in more properties, both residential and commercial.

Of course, the benefits and opportunities of global investments also come with challenges and complexities. The more jurisdictions families have connections to, the greater the potential for obligations and liabilities arising in those places.

A View From CCB

Tasnim Ghiawadwala, Global Head of Citi Commercial Bank

Q: The geopolitical climate has been volatile in recent months. Against this backdrop, what are clients telling us about their appetite for doing business in the U.S?

Across all our Commercial Banking industry verticals, the US continues to be a very important market for our clients. While, there has been increased volatility over recent months, this has not diminished the attractiveness of the U.S. market and we see our clients working hard with their suppliers and market partners to ensure continued smooth access to the U.S.

For many of our clients building operational resilience started during COVID but with the increased geopolitical uncertainty around the world this has gained heightened focus. Examples of operational resilience are clients continually focused on innovation, disrupting their business models, changing or integrating supply chains, leverage nearshoring, friendshoring or onshoring as well as reinforcing liquidity and access to a wide variety of funding sources. Equally, in these times of uncertainty we see clients who are more in a 'wait and see' mode before they commit to major changes or take investment decisions.

When companies are looking to provide products and services to a country with higher barriers to entry, such as tariffs, they will need to consider the impact of increased costs and downstream changes that may be necessary to operate in that market. One option would be to move manufacturing and production to the US and this is a trend that we expect to see more of. 'Made in America' goods are likely to gain traction consistent with what's being communicated by the U.S. government, however what is less clear is the speed at which this could happen. For all companies this is a significant operational as well as investment decision with many risk factors to consider so companies will tread with utmost caution.

Despite this challenging backdrop, we still see that most companies across all global corridors continue to see the U.S. as their number 1 market to further expand and grow in the future due to its dynamism, strong demographics, and robust consumption.

Q: At the state level, are there particular pockets of activity that you would highlight when you think about investment in the U.S?

When we look across the US, we do see distinctions in terms of industry focus as well as variance in talent pools and policy incentives, differing state by state. This in turn feeds into trends around foreign direct investment.

For example, we know that Northern California tends to attract investment capital directed at technology, logistics, and e-commerce, whereas Massachusetts and New Jersey have a concentration of healthcare and pharmaceutical companies coming in and setting up operations, largely due to the pool of talent. We also see, increasingly, Digital Tech and Communications companies are now exploring operational set ups outside the historically typical locations they would gravitate to and are also setting up across select Southern and Mid-western states tapping into talent pools.

Additionally, we're seeing capital flows for manufacturing gravitate to states like Texas and more broadly Southern states. For financial and professional services, again we see money continuing to come into the Northeast.

When it comes to reported first-year expenditures in the U.S., California, New Jersey and Texas collectively accounted for nearly 24% of total reported activity in 2023, with the highest expenditures and announcements linked to transportation and warehousing sector projects, followed by manufacturing. Additionally, greenfield projects follow a largely similar geographical distribution to new foreign direct investment into the U.S., with more than 16,000 projects announced over the 10-year period to 2024, and California accounting for more than 2,000 of all projects. These are a few examples where we do see capital flows into the U.S., however, every market across the nation is unique and has the potential to attract new investment and new business activity.

Q: What are the specific challenges emerging growth companies face when expanding their businesses to the U.S. vs. large caps?

Expanding into any market, including the U.S., comes with its own unique set of challenges, particularly if you're a mid-sized corporate with smaller teams and more limited resources to manage the expansion.

The first challenge is often reputational as the company is not known in the market, so they need to focus on building credibility and accessing the right partners. The learning curve on how to operate efficiently and competitively is then often steep in massive and highly competitive markets like the US. Around the world mid-sized corporates tend to bank only with their national champion or local banks and are therefore not known by banks in their destination market.

Access to credit and treasury management to support expansion also becomes more challenging. Inefficiencies can arise with accurate and timely visibility on cash and cashflow, complexity around funding and the capital stack – the list of concerns can feel endless. Unlike large cap corporates, mid-sized and emerging growth companies have smaller finance and treasury teams; the smaller the team, the more the need for a bank that can help them with the nuts and bolts, while also simplifying the banking experience for the client teams.

This is where we see the benefits of building a relationship with a global bank, with local insights, to help and offer support both inside and outside their home market providing full-banking services with access to global products and solutions via a single relationship banker. In these times of immense global dislocations, having the knowledge and options to deal with different scenarios will be a critical resource.

Sector Specifics

Technology: The U.S. is a leader in AI, software development, semiconductors, and cloud computing, attracting major foreign investment especially in states like California.

Manufacturing and Auto: The U.S. has seen a resurgence in manufacturing, especially in EV production and semiconductor fabrication, with concentrations in the Midwest and also the Southeast rapidly emerging as hubs for logistics, and associated elements of the EV value chain, such as batteries.

Business and Professional Services: The northeast of the U.S. and especially New York, remains a global financial hub with high levels of foreign investment.

Healthcare and Biotech: Major investments in pharmaceuticals, biotechnology, and medical devices are being made, in states including Massachusetts, NJ and California.

Key Considerations To Advise Clients on in the U.S.

Market integration: The U.S. (and North America more broadly) are tightly integrated. Companies established in one state can trade anywhere in the country without friction. While there are some tax and legal differences between states, they are minor compared to other parts of the world. Picking which state to set up in is also a consideration.

Cultural diversity: Despite the U.S. sharing a common language, its geographical scale means there are important cultural differences between markets. To serve customers effectively (and hire talent), it's critical to understand local and regional nuances.

Financing: Unlike countries that rely primarily on bank finance, the U.S. has an unrivalled investment community as well as deep and liquid markets that support a diverse financing landscape. Companies of every size and type can find financing in a myriad of ways from early and later stage venture capital funding to going public via IPOs. On the debt side, venture debt, traditional bank loans, syndicated bank loans, asset based lending and private credit reflect the breadth of the market. The depth and breadth of financing options and innovations gives companies greater choice and flexibility.

A dynamic treasury environment: Companies active in North America have the chance to deploy cutting edge solutions for hedging, and cash and liquidity management – including USD global pools – and can use instant and digital payment methods.

Citi Commercial Bank: Corridors into the U.S.

Citi Commercial Bank and the U.S. Commercial Subsidiary Group (CSG), within Global Network Banking, work with clients across industries who are expanding into the U.S.

The current breakdown is ~40% DTC, ~25% Industrials, ~11% Consumer & Retail, ~10% BPS and ~10% HC.

JANA: The fastest growing corridor for North America CSG (across BPS, Industrials & DTC) with the most meaningful pipeline and 'Invest in America' related opportunities.

UK: One of the most mature corridors. Up YoY with progress in DTC and new pipeline in Industrials, C&R and DTC industries.

Asia South: Very active (India) in acquisition financings (DTC) and with meaningful pipeline (Healthcare & DTC). Singapore and broader Asia South countries hold potential for 2025.

Europe: Western Europe is home to many companies that have sizeable and longstanding subsidiaries in the U.S.

Latin America: Very positive progress across all industries. Latin American companies continue to rapidly expand and invest in the U.S. across all industries.

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