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Political Capital: How Geopolitics Is Reshaping Cross-Border Investment and M&A Flows

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Key Findings

1 Geopolitical competition is reshaping the global landscape for cross-border investment and mergers and acquisitions (M&A), influencing how capital is deployed along key regional corridors. As major powers deploy a broader and more discretionary set of economic statecraft tools like tariffs, export controls, investment screening, sanctions, and data-governance regimes, corporates now operate in an environment where economic and national security priorities increasingly determine where capital can move, how deals are structured, and which sectors remain accessible.

2 US and European investment in China has undergone the most pronounced retrenchment, driven by heightened strategic friction, expanded export controls, and more assertive investment screening regimes in the United States and Europe. China's own regulatory tightening, capital-control measures, and evolving industrial policy have further constrained two-way flows. That said, sectoral exceptions persist; transactions where the US is acquiring Chinese healthcare and biotech assets have accelerated since 2020, driven largely by licensing agreements that allow US firms to access Chinese innovation without full ownership exposure.

3 US and European capital is being reallocated from China toward emerging "de-risking hubs" like Southeast Asia, India, and Mexico, where greenfield foreign direct investment (FDI) has risen in technology-intensive sectors, particularly computers and electronics. This shift reflects both policy-driven incentives (i.e., export controls, friendshoring frameworks, industrial subsidies) and market-driven supply chain diversification, though many of these production networks remain partly exposed to Chinese inputs, technology, or capital.

4 The Transatlantic M&A corridor remains resilient, but FDI shows early signs of caution. Nearly half of each of US and European cross-border M&A occurs between the two markets, anchored by deep institutional alignment and integration in sectors such as healthcare and electronics. However, recent greenfield FDI trends show early signs of caution: US greenfield investment projects into Europe have slowed since 2022, while European FDI projects into the US fell from 2024, potentially reflecting shifting industrial priorities and debates over strategic autonomy.

5 US–Gulf Cooperation Council (GCC) capital flows remain episodic on the M&A side, dominated by high-profile megadeals in AI, digital infrastructure, and entertainment, but are gradually deepening through two-way FDI in strategic sectors. Gulf states deploy sovereign capital, favorable regulatory frameworks, and abundant energy to position themselves as global hubs for data center infrastructure, cloud computing, and next-generation digital industries under national transformation agendas such as Saudi Vision 2030 and the UAE's AI strategy. However, the conflict with Iran exposes the vulnerability of this model, as attacks on energy infrastructure, technology assets, and tourism affect GCC economies and risk undermining the region's safe-haven reputation, potentially weighing on future investment.

6 Taken together, these patterns point to a global investment system increasingly influenced by geopolitical alignment, industrial policy, and supply chain resilience, requiring corporates to factor geopolitical considerations into investment decisions and dealmaking strategy. Capital is not retreating; it is being channeled into corridors that align with national security priorities and away from those defined by strategic rivalry. Corridors that are not typically contentious are also feeling the effects in the form of more complicated processes. This reconfiguration is likely to persist, influencing where investments flow, how transactions are structured, and the strategic decisions multinational firms can credibly pursue.

Introduction

Competition between major powers is increasingly driving a regime shift in global capital flows as geopolitical rivalry and state intervention channel cross-border investment and M&A activity into more clearly defined strategic investment corridors

The increasingly fraught international environment is exerting a growing influence over cross-border capital flows, shaping not only where capital is deployed but also how transactions are structured and executed. Intensifying US–China strategic competition, policy-driven divergence in advanced technology ecosystems, supply chain realignment, and the weaponization of economic dependencies have all become direct sources of friction. Governments are responding by taking a more proactive role in directing, conditioning, and restricting capital flows within and across borders to reduce exposure to geopolitical rivals, secure critical technologies, and build domestic capacity in strategically sensitive sectors. As a result, geopolitics and other political considerations, which were once treated as background risks, now often sit at the center of investment and dealmaking assessments.

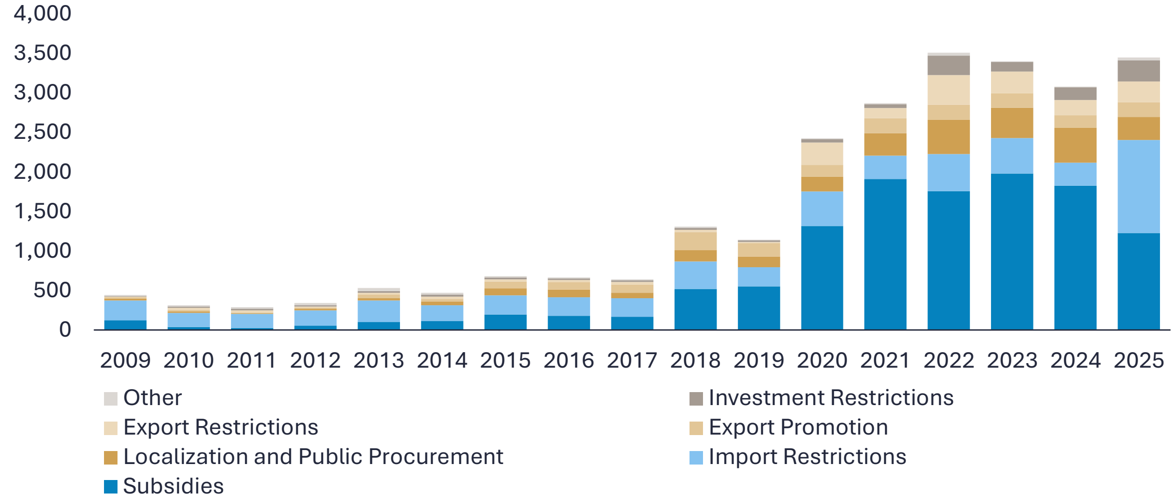
Corporates are therefore operating within an emerging system of politically influenced investment corridors, where access to markets and capital is driven not only by commercial logic but also by alignment with economic and national security priorities. This environment makes “contextual alpha” essential: narrow financial analysis alone is no longer sufficient, and firms must integrate policy, geopolitics, regulation, trade architecture, and macro shifts directly into capital allocation and dealmaking strategy.

This shift is most clearly visible in governments’ expanded use of economic statecraft tools to restrict, screen, and condition cross-border trade and investment flows, signaling the rise of a more discretionary form of state interventionism. Rather than relying primarily on stable, broad rules-based frameworks, authorities are increasingly turning to firm- and sector-specific, transactional tools that more directly steer corporate behavior and shape investment incentives.

Over the past decade, for example, the number of annual new restrictive measures has increased roughly five-fold, spanning export and import controls on critical technologies such as semiconductors, investment screening aimed at geopolitical rivals, subsidies for strategic sectors like clean energy, and tighter localization requirements in public procurement. Equally important is the shift in the mix of these tools. In 2025, import restrictions accelerated relative to subsidies and localization or procurement mandates, underscoring a turn toward tariffs and trade barriers amid an intensifying US-led reshaping of the global trading system.

Geopolitics: “Contextual alpha” as a growing component of M&A decision-making. Rising geopolitical tensions and a growing cadence of trade and investment restrictions are increasingly shaping dealmaking strategies and feasibility. The concept of “contextual alpha”—factors that decision makers need to take into account beyond the narrow deal terms—is more important than ever. Particularly in strategic sectors like advanced technology, understanding and navigating regulatory landscapes and domestic priorities across the US, Europe, and Asia-Pacific is becoming an essential aspect of deal advisory.

Figure 1. The Number of Restrictive Measures Globally Has Increased over Time[1]



The rise in restrictive measures represents only one dimension of the geoeconomic toolkit now shaping cross-border capital flows. Beyond these actions, governments are increasingly wielding sanctions, financial levers, and data-standards regimes to advance geopolitical objectives. Taken together, these instruments heighten regulatory and policy risk for cross-border M&A and foreign direct investment by potentially constraining market access, raising compliance and transaction costs, and influencing how deals are structured. Companies that develop a plan to address these issues have been able to successfully execute value-creating deals.

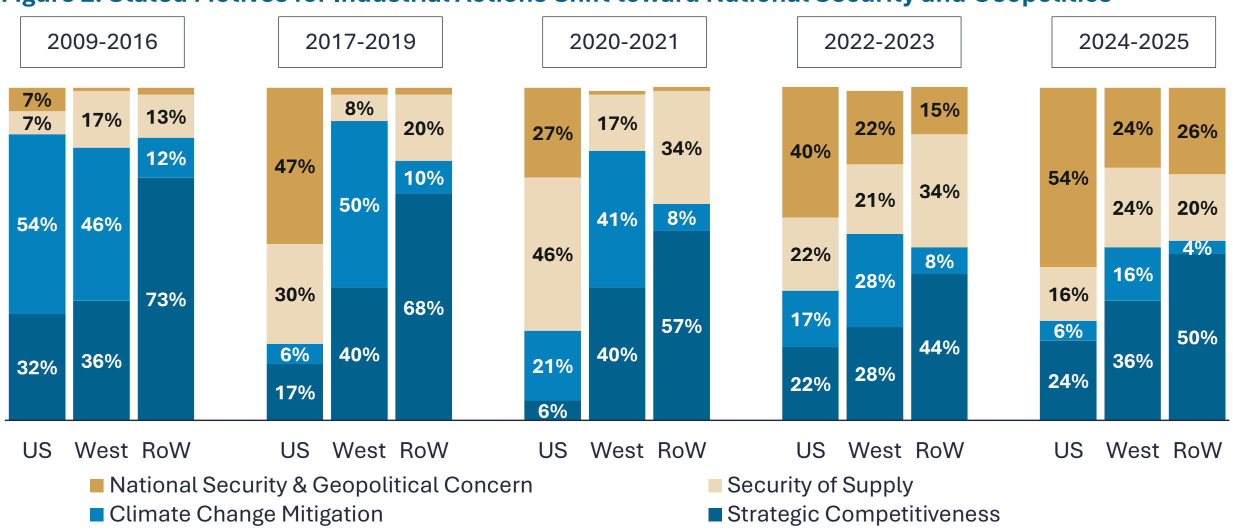
Table 1. A Broad Toolkit of Economic Statecraft Tools Reshapes Capital Flows

Tools	Descriptions	Examples	Illustrative Implications
Market Access Restrictions	• Tariffs • Quotas • Import and export bans • Rules of origin and licensing requirements	• US' Section 301 tariffs on China • EU Carbon Border Adjustment Mechanism (CBAM) • China Export Control Law (incl. critical minerals restrictions)	***Alters market access and cost structures, reshaping cross-border acquisitions, but potentially opening up opportunities domestically***
Production and Localization Incentives	• Subsidies • Tax credits • Preferential procurement policies • Local content rules	• US CHIPS and Science Act; US Inflation Reduction Act (IRA) • EU Net-Zero Industry Act (NZIA) • "Made in China 2025"	***Creates subsidy arbitrage opportunities, incentivizing domestic consolidation and production***
Investment Controls	• Inbound national security screening • Outbound restrictions	• US CFIUS • EU FDI Screening Regulation • China Negative List for Foreign Investment Access	***Raises risk to direct investments, shifts deal structures toward minority stakes, JVs, and carve-outs***

Sanctions	• Asset freezing • Transaction prohibitions • Sectoral sanctions • Embargos	• US OFAC Iran Sanctions • EU Russia Sanctions Packages • China Anti-Foreign Sanctions Law	***Rapidly disrupts financing and/or access to assets, prompting exits, divestments, or forced restructuring***
Financial Levers	• Banking and/or clearing and settlement restrictions • Capital controls	• US OFAC dollar-clearing restrictions • SWIFT disconnection of Russian banks • China Cross-border Interbank Payment System (CIPS)	***Constrains cross-border financing, favoring onshore funding; that said, US allies are affected far less***
Data and Standards Regimes	• Data localization • Data transfer limits • Technical standards requirements	• US CHIPS Act Guardrails • EU GDPR, Digital Markets Act (DMA), Digital Services Act (DSA) • China Data Security Law (DSL)	***Increases compliance costs, reducing cross-border platform synergies***

This expansion in policy tools has been accompanied by a qualitative change in policy motivation. Industrial policy rationales increasingly emphasize national security and geopolitical concerns, as well as supply chain resilience, signaling that geopolitics increasingly shapes countries' capital allocation policies.

Figure 2. Stated Motives for Industrial Actions Shift toward National Security and Geopolitics[2]



Note: "West" refers to non-US western economies (Australia, the EU-27, other G7 members, and South Korea).

Corporate behavior reflects this structural change. Analysis of Fortune 250 corporate disclosures shows that references to geopolitical risk have more than doubled since 2019 and quadrupled since 2009, signaling that geopolitics is now embedded in corporate strategy, risk management, and external communication to shareholders and investors.[3] Rather than treating geopolitical risk as an episodic shock, firms are increasingly internalizing it as a fundamental factor shaping long-term investment decisions.

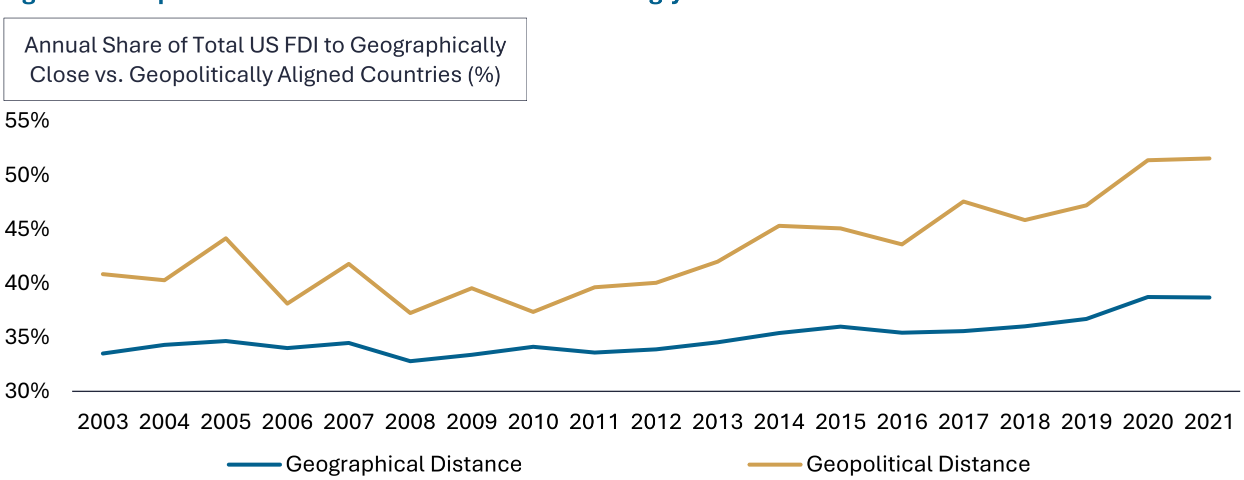
M&A and FDI provide complementary lenses on how geopolitics shapes capital allocation

M&A and greenfield FDI offer two distinct lenses into how corporates translate geopolitical considerations into concrete investment decisions. In this analysis, FDI refers to greenfield investment as defined by fDi Markets: cross-border investment in new or expanded physical operations that create jobs and productive capacity. Their definition includes qualifying joint ventures but excludes M&A and other financial equity investments. Because fDi Markets sometimes estimates project values when companies do not disclose them, we focus on project counts to ensure a consistent and comparable measure of investment activity across FDI and M&A.

While both FDI and M&A involve substantial capital commitments, recent evidence points to meaningful heterogeneity in how different forms of cross-border investment adjust to geopolitical fragmentation. Aggregate FDI flows increasingly reflect "ideological sorting," with investment shifting toward more geopolitically aligned partners and becoming more geographically concentrated, consistent with "friend-shoring" dynamics. The International Monetary Fund documents this pattern clearly, showing that geopolitical alignment appears to matter more than physical distance in shaping the global FDI footprint (see Figure 3). In this literature, geopolitical alignment is typically proxied using bilateral ideological distance derived from United Nations General Assembly voting patterns, which capture similarity in foreign policy preferences over time.[4] More recent Federal Reserve data reinforce this point: geopolitical pressures are prompting reallocation rather than retrenchment in US outward direct investment. For example, capital has shifted away from China toward alternative emerging markets, including Mexico and India, rather than experiencing a generalized reduction (see Figure 4). The result is a form of fragmentation characterized by targeted reallocation.

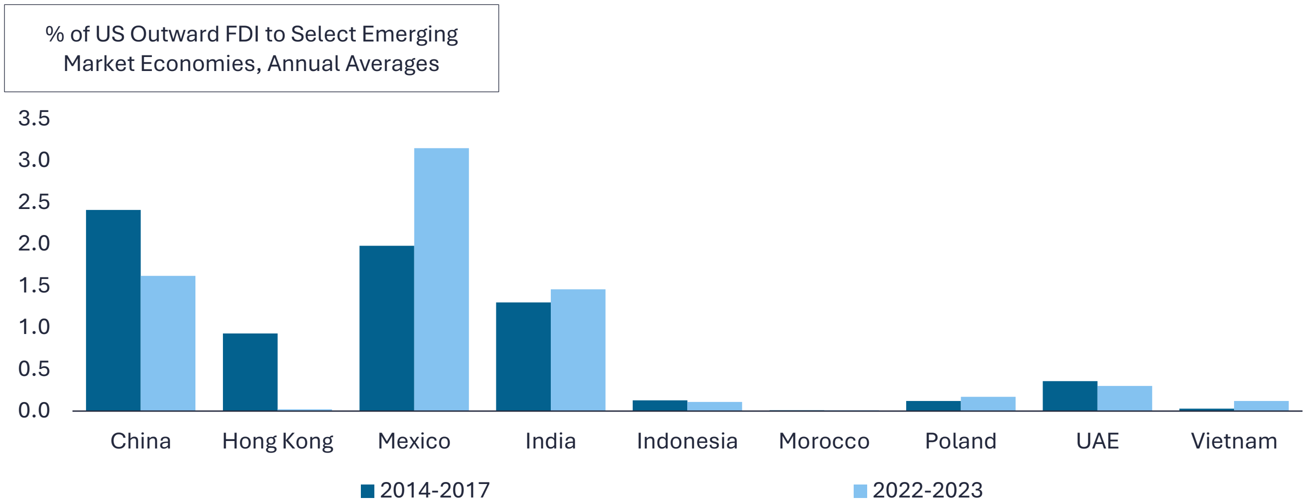
By contrast, cross-border M&A shows clearer evidence of de-risking. Transactions between geopolitically distant countries have declined more sharply, particularly in large and horizontal acquisitions that entail long-term ownership and control. This aligns with empirical literature from the Federal Reserve, [5] which distinguishes between FDI's tendency to fragment via reallocation and M&A's tendency to adjust via selective pullback from politically distant counterparties. In other words, the two forms of capital respond to geopolitical risk through different adjustment mechanisms: FDI becomes more concentrated among aligned partners, while M&A activity falls off more sharply where geopolitical distance is high.

Figure 3. Geopolitical Distance Has Become Increasingly Relevant for FDI[6]



Note: The figure shows the annual share of total US FDI directed toward countries that are either geographically close or geopolitically aligned with the United States. Geopolitical proximity is measured using similarity in countries' United Nations voting patterns. The rising share of FDI flowing to geopolitically aligned countries suggests that geopolitical distance has become an increasingly important driver of investment.

Figure 4. US Outward FDI Shifts Away from China toward Select Emerging Markets[7]

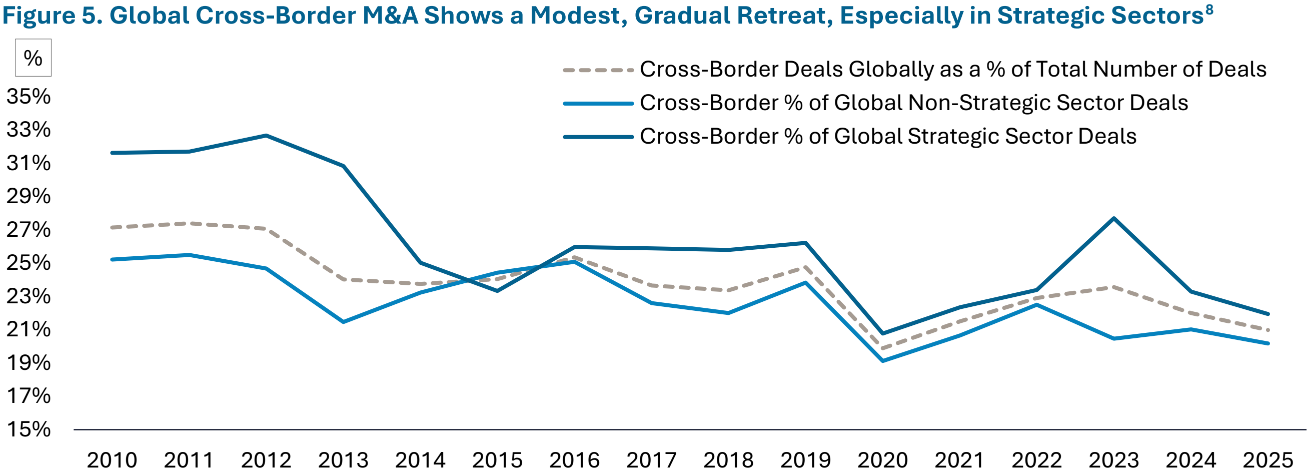


These dynamics underscore that geopolitics is an increasingly important consideration shaping cross-border investment patterns alongside traditional drivers of capital flows, such as market size, profitability, and institutional depth. In practice, geopolitics now reframes how firms interpret those fundamentals, amplifying opportunities in aligned markets and constraining them where political risk is rising.

Overall, cross-border capital flows show signs of selective retrenchment, even as the absolute value and number of cross-border M&A transactions grew in 2025. The shift is most visible in sectors subject to heightened political and regulatory scrutiny, such as aerospace and defense, telecommunications, computers and electronics, and healthcare, where cross-border activity has declined as a share of total global M&A, falling from 32% in 2010 to 22% in 2025. Non-strategic sectors experienced a more modest pullback over the same period, with the cross-border share falling from 25% to 20% over the same period.

Yet, the picture is not uniformly negative: transatlantic dealmaking between the US and Europe has remained notably resilient, with cross-border activity holding up even as other corridors face increasing geopolitical headwinds. This durability underscores the depth of economic integration and regulatory familiarity within the US–Europe corridor. Taken together, these patterns point to geopolitical and national security considerations increasingly shaping dealmaking in sensitive industries, even as overall M&A volumes remain robust.

Figure 5. Global Cross-Border M&A Shows a Modest, Gradual Retreat, Especially in Strategic Sectors[8]



Note: Strategic sectors are defined by reference to US CFIUS national security screening (31 CFR Part 800) and reflect industries that most consistently fall within critical infrastructure, critical technologies, or sensitive personal data categories. These include aerospace & defense, telecommunications, machinery, auto/truck, computers & electronics, healthcare, metals, and mining. The EU, the United Kingdom, Switzerland, and Norway are combined as one bloc.

Building on these dynamics, the following pages examine how geopolitics has reshaped four major capital corridors that dominate global cross-border investment and sit at the center of geopolitical competition: the West–China corridor (including US and European flows to China), the West–de-risking geographies (including US and European flows to Southeast Asia, India, and Mexico), the Transatlantic corridor, and the US–GCC corridor.

Political Investment Corridor Analysis

The West-China Corridor

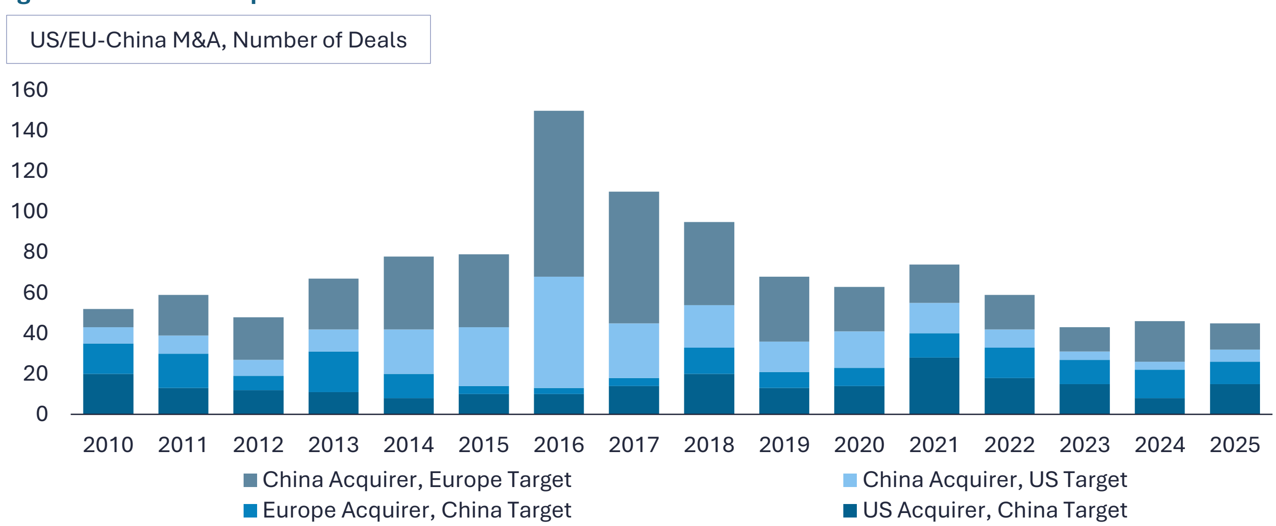
Rising geopolitical tensions have fueled a prolonged pullback in West–China investment, though select strategic sectors have seen continued cross-border engagement

Geopolitical competition is most prominently shaping the flow of capital between the West and China. Heightened friction between Beijing, Brussels, and Washington, D.C. has led the United States and Europe to broaden export controls on advanced technologies and reinforce investment screening regimes, slowing the pace of cross-border investment and transactions. As explored in our August 2024 publication, "The Geopolitics of Supply Chains," companies are also reassessing supply chain exposure, weighing the benefits of China's scale against the risks of concentration in a market subject to geopolitical pressure.

West–China M&A activity is retrenching amid regulatory and geopolitical frictions

Cross-border M&A activity between the United States and China has undergone a marked structural shift. Dealmaking peaked in 2016, largely driven by an unprecedented surge in Chinese acquisitions of US targets—far outpacing the historical scale of US acquisitions of Chinese firms. After 2016, flows in both directions fell amid tightening regulatory environments and escalating geopolitical tensions under a new US administration.

Figure 6. US and Europe Cross-Border M&A with China Peaked in 2016 and Never Recovered[9]



Note: "Europe" includes the EU, the UK, Switzerland, and Norway.

In the United States, the 2016 downturn reflected a convergence of market, regulatory, and political pressures. Washington adopted a more cautious posture toward Chinese buyers—especially in technology and infrastructure—and a more assertive CFIUS lengthened review timelines and increased deal uncertainty, making Chinese bids less attractive to US sellers.

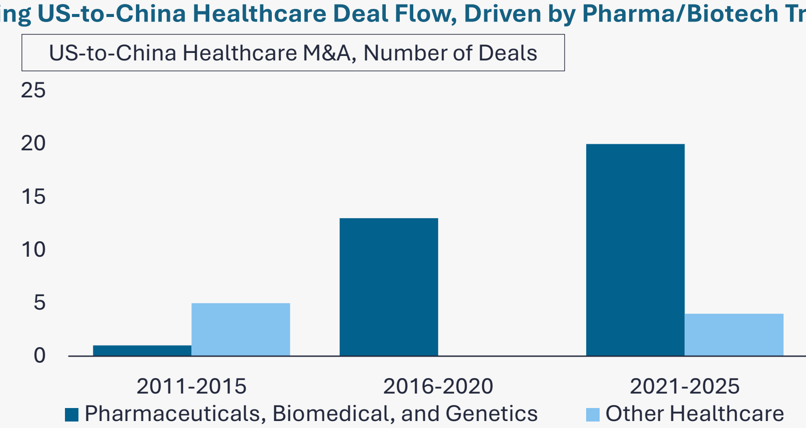
In China, the pullback stemmed from mounting macro-financial strains. The August 2015 renminbi (RMB) regime adjustment triggered depreciation expectations, accelerating capital outflows and pressuring foreign-exchange reserves. Regulators responded by tightening capital flow oversight from late 2015 onward, culminating in a formal clampdown on outbound investment in 2016. Anticipating tighter outbound investment approvals, Chinese firms accelerated overseas deals in 2016, resulting in a temporary surge in M&A activity that year.

Chinese acquisitions in Europe followed a similar pattern. After surging between 2010–2016, Chinese acquisitions declined sharply and then stabilized at much lower levels. Part of this reflected the broader tightening of China's outbound-investment regime after 2015, but also Europe's own evolving policy of restrictions vis-à-vis China, including, but not limited to, the introduction of the EU-wide FDI Screening Regulation, the proliferation of national-level review mechanisms, and growing political scrutiny of Chinese investment in sensitive sectors. In contrast, EU acquisitions of Chinese firms remained consistently limited throughout the entire 15-year period of 2010-2025, rarely exceeding 10–15 deals annually.

The Exception: Healthcare

Within this overall downturn in M&A between the US and China, one notable exception stands out: US investors' rising appetite for China's biotech innovation.

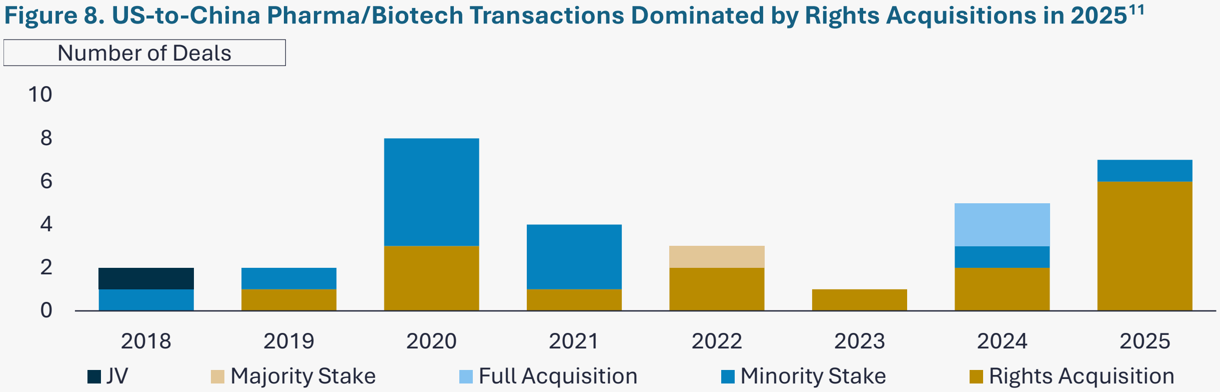
Figure 7. Increasing US-to-China Healthcare Deal Flow, Driven by Pharma/Biotech Transactions[10]



US-to-China healthcare M&A deals accelerated from 2020 onward, largely driven by China's expanding medical services market and biotech innovation. This activity primarily focused on biopharmaceutical R&D, particularly genetics, advanced biotechnology platforms, and novel drug development.

The majority of these transactions are exclusive licensing agreements that grant US companies rights to develop and commercialize Chinese-originated drugs outside Greater China, reflecting a strategy to access Chinese innovation without full operational integration or ownership. Full acquisitions tend to target healthcare service providers, medical device manufacturers, and pharmaceutical distributors, while minority equity stakes in leading Chinese biotechnology companies provide strategic IP pipeline access.

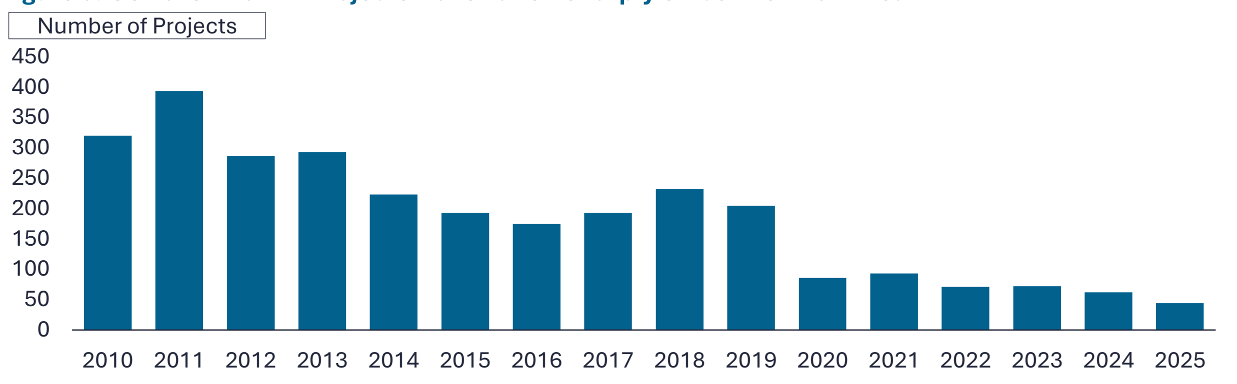
Figure 8. US-to-China Pharma/Biotech Transactions Dominated by Rights Acquisitions in 2025[11]



US–China FDI activity similarly points to a pullback

The US' FDI relationship with China shows a clear trend: US FDI into China has been in long-term decline, decelerating sharply after 2019, and shows no sign of recovery through 2026.

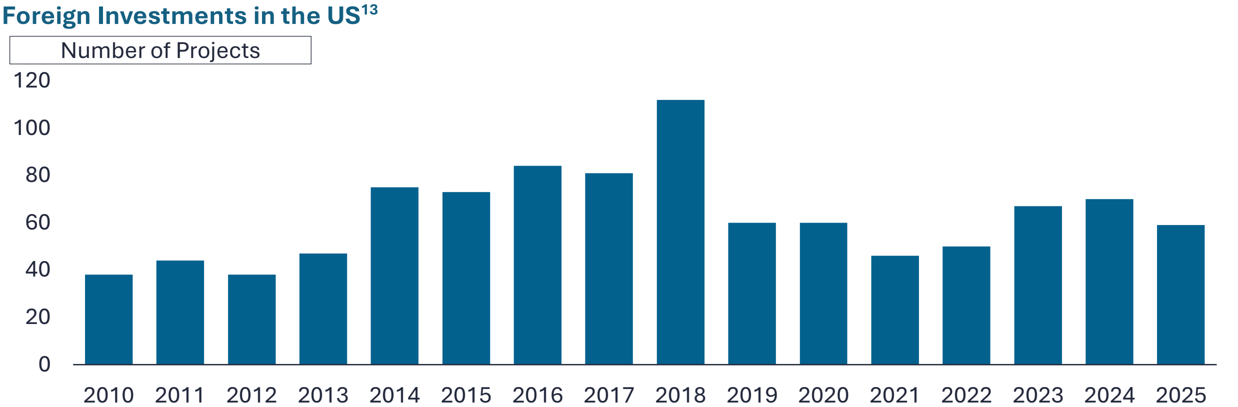
Figure 9. US-to-China FDI Projects Have Fallen Sharply Since Their 2011 Peak[12]



This decline began in the mid-2010s as China's growth began to moderate, industrial policy became more state-directed, and Beijing's push for technological self-reliance signaled a more competitive environment for foreign firms. At the same time, the bilateral relationship moved into a more adversarial phase, with trade tensions, export controls, and national-security concerns increasingly shaping corporate risk assessments.

A decisive inflection point emerges around 2019–2020, when US FDI flows fall sharply and fail to rebound. While the pandemic and Zero-COVID controls accelerated the downturn, both Washington and Beijing also adopted more restrictive postures toward cross-border capital, tightening scrutiny of sensitive technologies, expanding national-security frameworks, and increasing regulatory oversight of foreign business operations. Geopolitical tensions have also reshaped corporate perceptions of China's long-term addressable market. Many firms now view the profit opportunity as structurally smaller and more uncertain than a decade ago—not solely because of politics, but because political and regulatory developments have altered expectations about market accessibility, competitive dynamics, and long-term returns.

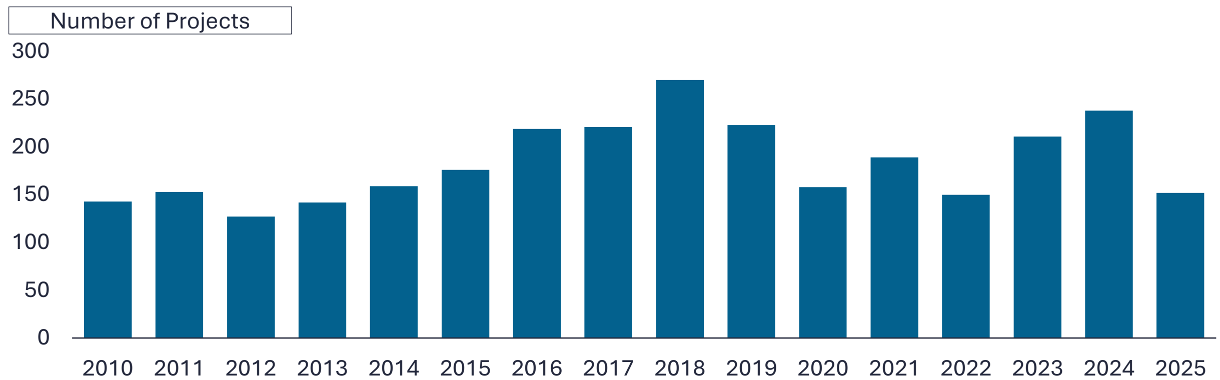
Figure 10. China–to–US FDI Flows Peaked in 2018 and Decreased Due to Increased Scrutiny on Inbound Foreign Investments in the US[13]



At the same time, Chinese investment into the US was encountering its own tightening environment. Conditions shifted most notably in 2018, when US policymakers elevated national security as the primary filter for Chinese investment. Washington intensified the Committee on Foreign Investment in the US (CFIUS) review process under the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) and broadened the scope of transactions subject to review, especially those involving sensitive technologies, data, or critical infrastructure. Despite a modest rebound after 2023, aggregate flows remain below the 2018 peak, underscoring the persistence of structural constraints on Chinese FDI in the United States.

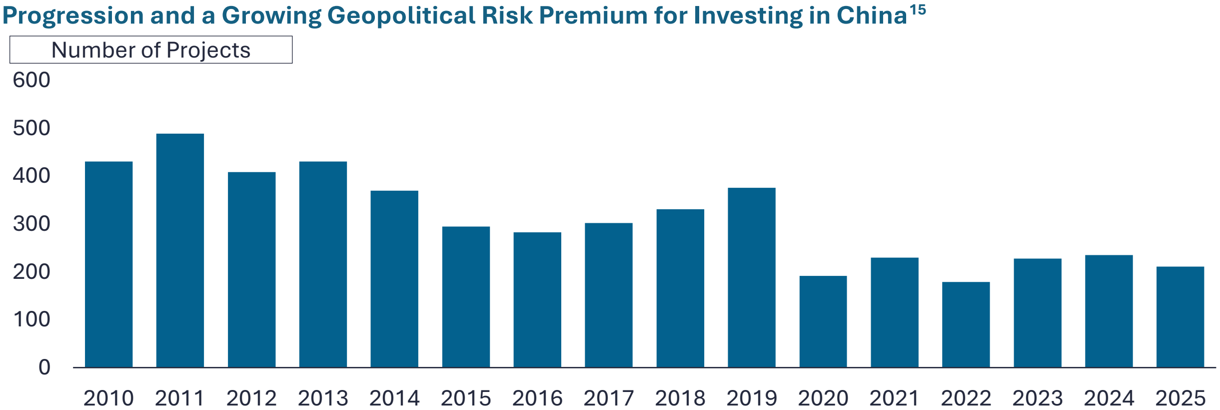
EU–China FDI corridor reflects rising geopolitical risk, but has been more resilient

Figure 11. China-to-EU FDI Flows Experienced a Boom-Peak-Contraction Cycle Driven Primarily by Domestic Chinese Industrial Policy Initiatives[14]



Chinese FDI into the EU from 2010–2025 demonstrates more resilience. From 2010–2018, flows rose steadily across a broad set of sectors, deepening commercial engagement amid Beijing's industrial upgrade agenda. Volumes fell in 2019–2020 due to pandemic disruption, tighter Chinese outbound capital controls, and a more attentive European posture toward sensitive technologies, though screening remained uneven across EU member states. The limited rebound beginning in 2023 concentrated on sectors aligned with China's evolving industrial policy, particularly autos, machinery, and semiconductors. In 2025, renewed geopolitical pressures, domestic capital allocation priorities, and persistent sensitivity around advanced technology contributed to another period of retrenchment.

Figure 12. Long-Term Decline in EU-to-China FDI Flows Reflects China's Domestic Industrial Progression and a Growing Geopolitical Risk Premium for Investing in China[15]



EU investment into China has declined gradually from its early-2010s peak through 2025. The downturn spans multiple industries and reflects a broader shift in the underlying conditions that once supported strong European engagement. Slower Chinese growth, rising geopolitical frictions, and China's increasing capacity to produce higher-value goods domestically have reduced the incentives for European firms to invest.

Together, these dynamics point to a structural recalibration in EU investments into China, driven more by China's industrial upgrading and rising geopolitical risk than by cyclical market dynamics alone.

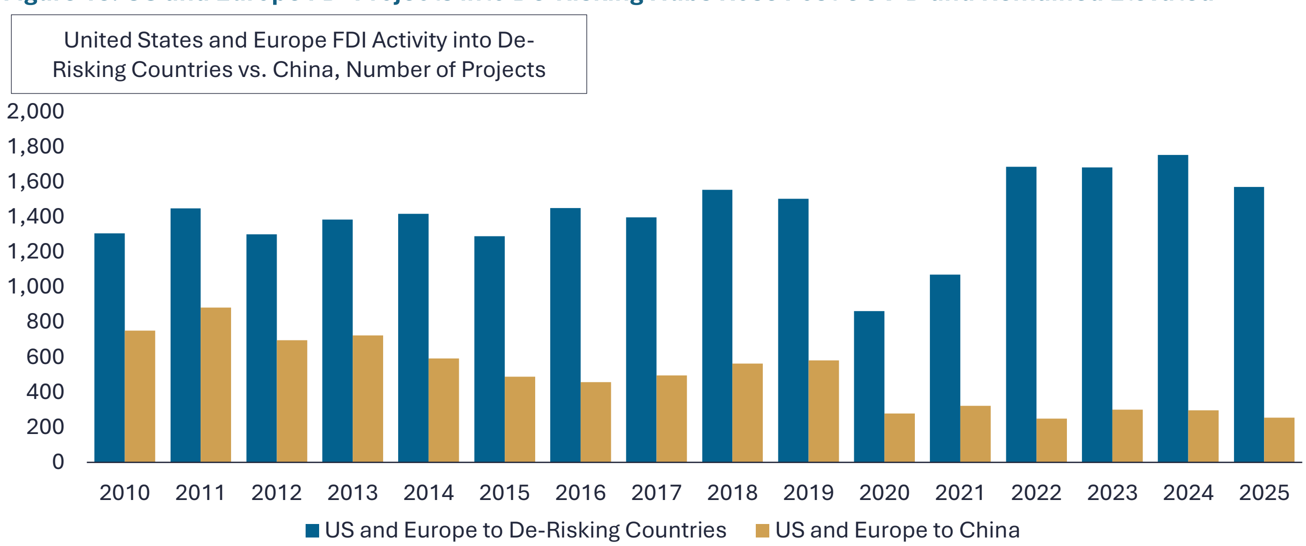
The West–De-Risking Countries Corridor

De-risking hubs in Southeast Asia, India, and Mexico are gaining prominence in strategic sectors

Since the COVID-19 pandemic, Western investment patterns have increasingly reflected a structural reallocation away from China toward a set of alternative "de-risking" geographies, with M&A and FDI flows shifting from China toward emerging hubs in Southeast Asia, India, and Mexico. This reconfiguration reflects a broader corporate response to rising geopolitical risk, supply chain disruptions, and policy uncertainty in China, alongside growing incentives to diversify production footprints across geopolitically aligned or neutral markets. However, this shift still largely reflects a "China+1" diversification strategy rather than a full decoupling, with many relocated supply chains continuing to depend on Chinese inputs, capital equipment, or supplier ecosystems.

Recent US M&A in these "de-risking" geographies has been concentrated in sensitive sectors like computers and electronics, with semiconductor supply chains seeing the largest M&A volume by value in 2025—primarily driven by a single large transaction in adjacent electrification infrastructure. The de-risking pattern is more clearly observable in FDI data, as M&A trends are often skewed by a small number of large transactions: US greenfield FDI projects into these markets have seen a sectoral bias toward computers and electronics. This stands in stark contrast to US FDI into China, which stagnated or declined, highlighting a growing divergence in Western capital allocation.

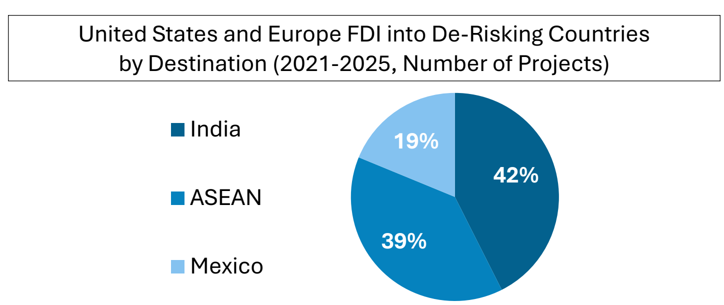
Figure 13. US and Europe FDI Projects into De-Risking Hubs Rose Post COVID and Remained Elevated[16]



Note: "Europe" includes the EU, the UK, Switzerland, and Norway.

The nearly 60% increase in US and European FDI into "de-risking" countries from 2021 to 2022—remaining broadly stable thereafter—has been primarily directed toward India and ASEAN economies, followed by Mexico.

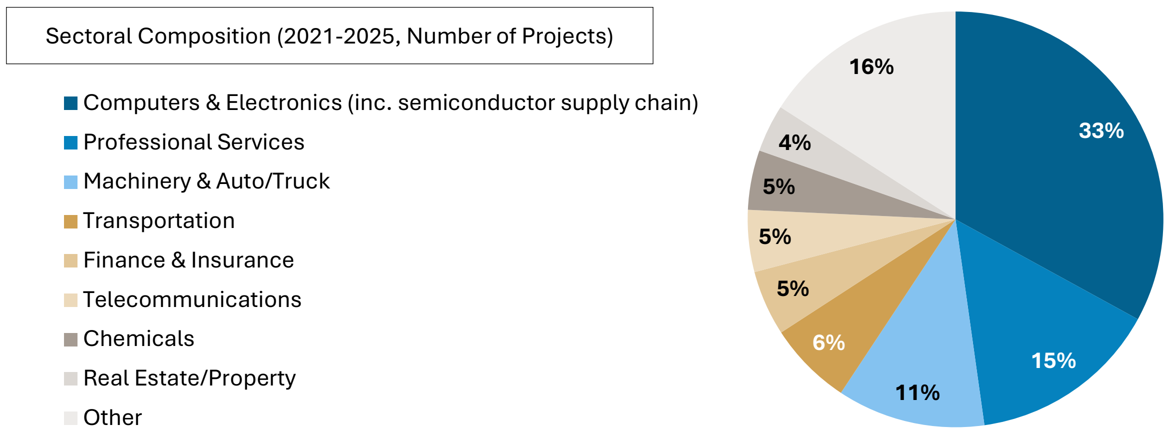
Figure 14. Balanced Destination Mix Across De-Risking Hubs



Each hub plays a distinct role within these reconfigured supply chains: India as both a large domestic market and emerging manufacturing platform; ASEAN economies as export-oriented electronics and assembly hubs; and Mexico as a nearshoring base integrated into North American industrial supply chains.

In terms of sectoral composition, US and European FDI into de-risking hubs over the past five years has been concentrated in computers and electronics, professional services, and machinery and auto/truck manufacturing, reflecting a reconfiguration of global production networks in technology-intensive industries.

Figure 15. US and European Greenfield Investments into De-Risking Geographies Have Been Concentrated in Computer and Electronics Over the Past 5 Years[17]



This shift is being shaped by a combination of economic statecraft and market-driven incentives. On the policy side, US and European export controls, technology restrictions, and investment screening regimes have raised the regulatory and compliance costs of operating in China. At the same time, friendshoring strategies have actively incentivized investment into aligned or strategically neutral economies, including India, Mexico, Singapore, Malaysia, and Vietnam, which are emerging as the leading recipient of US and European FDI over the period. Yet these same hubs are increasingly subject to scrutiny from Western policymakers concerned about Chinese content, ownership, or technology linkages within relocated supply chains, complicating efforts to fully insulate these corridors from China-related geopolitical risk.

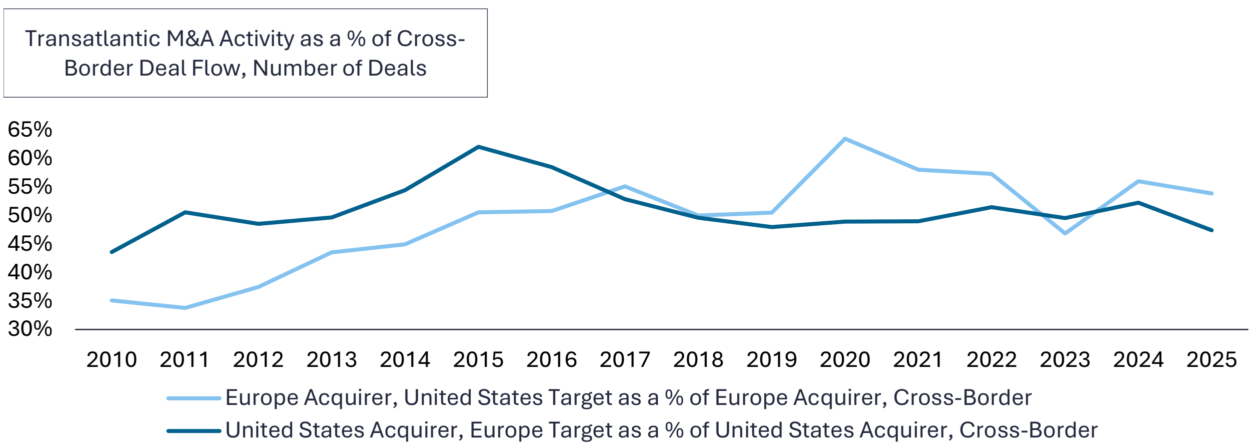
As the United States increases pressure on alternative manufacturing hubs such as Vietnam to reduce Chinese inputs and technology linkages in export-oriented supply chains, some economies are adopting a more pragmatic approach to maintaining access to Chinese capital and technology. In March 2026, India partially eased restrictions on Chinese investment in sectors such as electronics, capital goods, and solar cells, while allowing investors with up to 10% Chinese ownership to invest under the automatic approval route.[18] The move follows industry pressure to restore access to Chinese financing, technology, and intermediate inputs that remain critical to manufacturing supply chains. The policy change could facilitate additional Chinese minority investments and cross-border M&A in capital-intensive sectors. More broadly, it underscores how "de-risking" is increasingly taking the form of complex triangular investment patterns—where Western firms diversify production toward India, ASEAN, or Mexico, while those same ecosystems remain partially integrated with Chinese suppliers, capital, and technology.

The Transatlantic Corridor

The transatlantic M&A corridor has remained robust, including in 2025, despite recent trade tensions

The US and Europe continue to serve as each other's leading cross-border partners; nearly half of their cross-border activity flows between the two. This concentration partly reflects the sheer scale of the transatlantic addressable market: the US and Europe together account for the vast majority of global corporate revenues, financial assets, and consumer demand, naturally concentrating investment and acquisition opportunities between them. More broadly, this dynamic is reflected across global M&A, where nearly 80% of cross-border transactions by advanced economy acquirers over the past 15 years have been directed toward other advanced economies.[19] Institutional proximity, regulatory alignment, and capital market integration further reinforce this structural tendency. The corridor is anchored by a few strategic sectors, primarily computers and electronics.

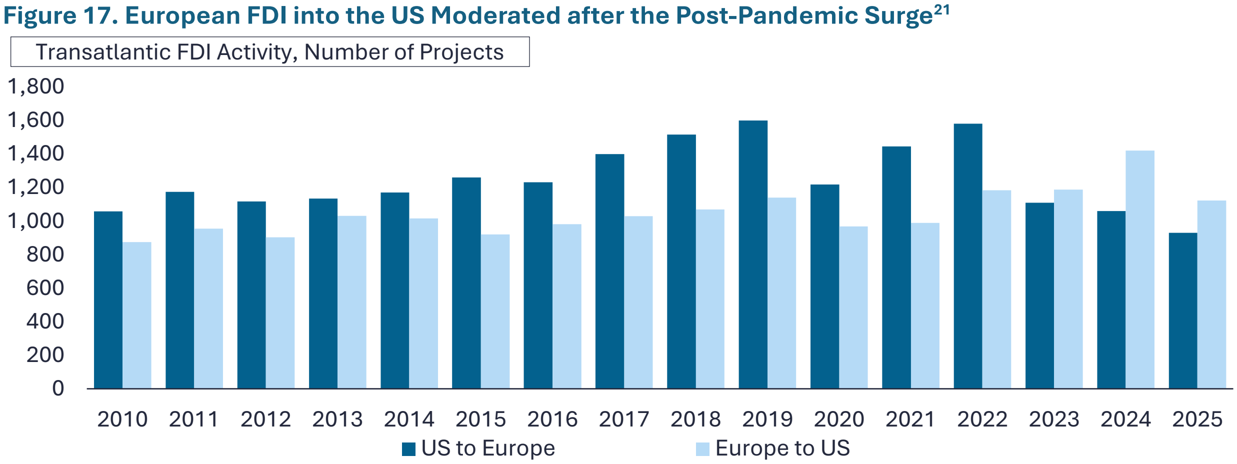
Figure 16. Transatlantic M&A Activity Has Remained Central to Both the US and Europe[20]



Note: "Europe" includes the EU, the UK, Switzerland, and Norway.

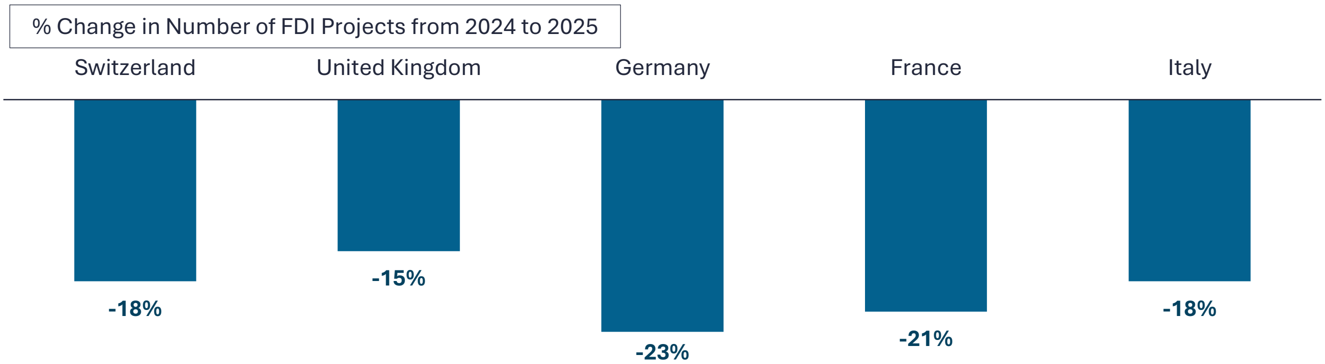
However, recent FDI trends signal more caution: US greenfield investment projects and capital expenditure in Europe have declined since 2022, and European FDI project counts fell from 2024.

Figure 17. European FDI into the US Moderated after the Post-Pandemic Surge[21]



In fact, fDi Markets data show that all the main European source countries driving FDI into the US over the past 15 years, namely the UK, Switzerland, Germany, France, and Spain, recorded a decline in project numbers in 2025, pointing to a broad-based slowdown rather than a country-specific effect. These dynamics may reflect early signs of shifting priorities toward strategic autonomy, as governments increasingly seek to incentivize European corporates to strengthen domestic and intra-European industrial capabilities amid growing uncertainty over the durability of US security and trade commitments.

Figure 18. All Top Five European Sources of US FDI Recorded Declines in 2025[22]



With the highest decline, Germany may illustrate the early stages of a broader shift in Europe's approach towards outward investment. In 2025, German firms launched fewer greenfield projects in the US across key industrial segments that have historically anchored their footprint, notably machinery and auto/truck manufacturing, transportation, and semiconductors. Whether these signals harden into structural trends remains a key watchpoint as the transatlantic alliance comes under greater strain and policy debates shift accordingly. The country's evolving stance is already visible: Germany's finance minister, Lars Klingbeil, has called for a new era of "European patriotism," arguing that companies receiving state aid should retain jobs in Europe and that public procurement should prioritize Europe-made goods.[23]

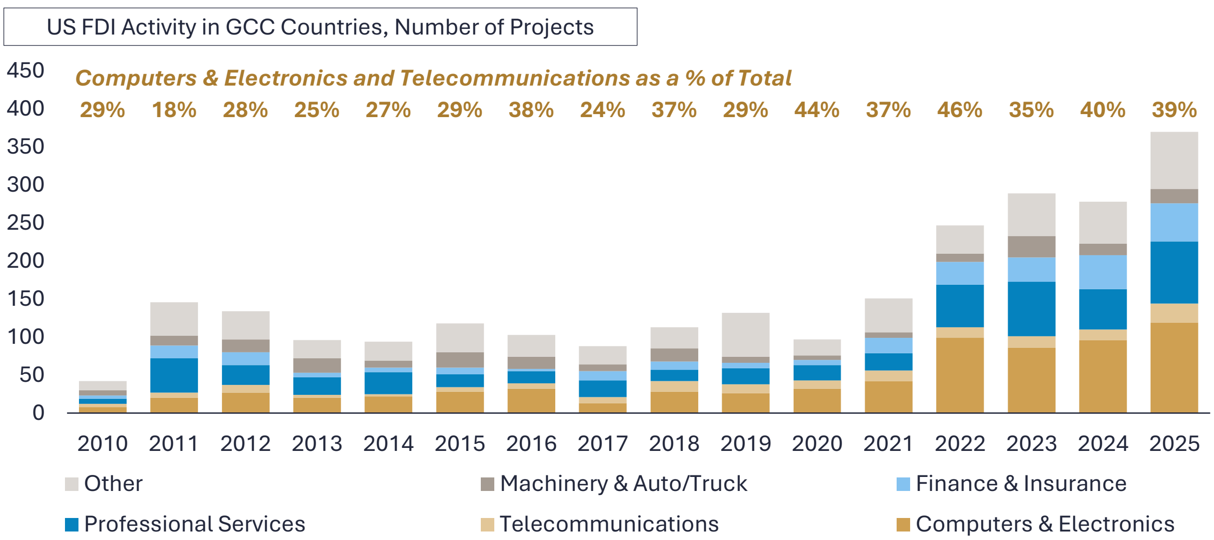
Taken together, these patterns point to a more nuanced transatlantic picture. M&A flows suggest broad continuity and a transatlantic "status quo," but greenfield FDI patterns suggest some potential rebalancing of priorities as trade and security frictions rise. Germany's early caution signals the kinds of strategic recalculations that may increasingly shape European investment decisions.

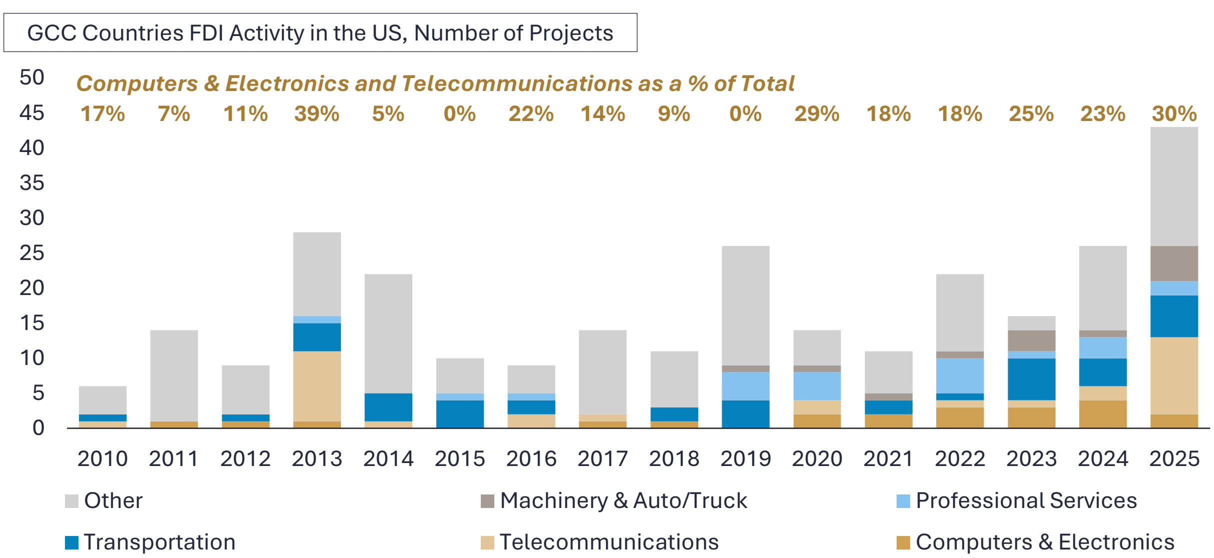
The US-GCC Corridor

The US–GCC M&A corridor is driven by episodic, highly public megadeals but is gradually deepening through two-way FDI in digital infrastructure

US–GCC capital flows have remained structurally limited on the M&A side, with the exception of recent megadeals in artificial intelligence and digital infrastructure, as well as gaming and entertainment. Notably, these transactions have largely taken the form of club deals, with GCC sovereign wealth funds co-investing alongside global private equity sponsors. FDI data tell a different story: both US and Gulf FDI have risen sharply over the past five years, reflecting bullish investor sentiment and converging sector priorities. Project-level data also show that while the UAE has consistently remained the dominant destination for US FDI—capturing roughly two-thirds of projects across the GCC over the last 15 years—Saudi Arabia is emerging as a second major hub (its share of US projects rose from roughly 16%–20% in the late 2010s to 28% in 2025).

Figure 19. US–GCC FDI ties have deepened—driven by computers & electronics and telecommunications[24]





The corridor is now dominated by computers & electronics and telecommunications, as US technology firms expand data center investments across the UAE and Saudi Arabia, while Gulf investors scale up digital infrastructure and tech-adjacent projects in the US. This two-way expansion is closely aligned with the Gulf's long-term industrial policy agenda, most notably Saudi Arabia's Vision 2030 and the UAE's national digital and AI strategies, which explicitly aim to position the region as a global hub for cloud computing, artificial intelligence, and data intensive services. It also aligns with broader US efforts to strengthen resilience across the full technology stack, from semiconductors and critical minerals to compute infrastructure and data systems. Initiatives such as the US-led Pax Silica partnership, joined by the UAE and Qatar, illustrate these efforts by promoting cooperation among trusted partners on advanced chips, compute infrastructure, and other data-intensive technologies.

The Gulf offers a supportive policy and regulatory backdrop for these sectors. Governments pair pro-business regulation, large-scale sovereign financial backing, and rapidly expanding renewable energy capacity, especially solar, to fuel the build out of energy intensive data centers at scale and advance national decarbonization and digital transformation objectives. This model has drawn in US firms, and increasingly Chinese technology companies, which have expanded their presence across the region in recent years (Chinese FDI projects rose fivefold between 2020 and 2025). A key watchpoint remains whether this balancing act between the US and China by GCC states heightens US national security concerns, particularly around data governance, technology transfer, and the control of dual-use digital infrastructure by Beijing in the Gulf.

US FDI into the GCC countries also shows strong exposure to professional services and finance & insurance sectors, reflecting the Gulf's emergence as a more sophisticated hub for asset managers. Conversely, GCC FDI projects into the US retain a notable focus on transportation, consistent with Gulf efforts to build global connectivity and logistics capacity.

However, this investment model remains highly exposed to regional geopolitical risk. The conflict in Iran represents an immediate test for the Gulf's economic and technology ambitions. Strikes have hit several Gulf energy infrastructures—still the primary revenue driver for most GCC economies—and forced production shut-ins across the region. The conflict is also beginning to affect the GCC countries' technology ambitions: drone strikes damaged data centers in the UAE and Bahrain, disrupting cloud services and highlighting the vulnerability of energy-intensive compute infrastructure that underpins the Gulf's push to become a global AI hub. At the same time, the non-oil economy has been hit as attacks on airports, ports, and hotels disrupt tourism, aviation, and logistics flows. The UAE non-oil Purchasing Manager's Index (PMI) fell to 52.9 in March, its weakest level in nearly four years,[25] while Saudi Arabia's non-oil private sector contracted with PMI dropping to 48.8.[26] Together, these shocks risk undermining the Gulf's "safe haven" reputation, central to its strategy of attracting capital, technology investment, and tourism—potentially delaying FDI inflows and slowing dealmaking in the near term. However, the region's structural value proposition is likely to remain intact.

Conclusion

Corporates can capitalize on the opportunities emerging from this shift in the environment for global capital

The global flow of capital is gradually reorganizing around geopolitical fault lines. Governments are asserting a more muscular and discretionary interventionist role, firms are recalibrating long-standing assumptions about market access and regulatory predictability, and cross-border capital is adjusting to a world in which political alignment increasingly shapes commercial outcomes.

The effects of a geopolitical realignment of capital flows are visible across every major investment corridor. M&A transactions and investment ties with China, once a cornerstone of globalization, are now weakening. Yet, capital is rerouting rather than retreating: Southeast Asia, India, and Mexico are absorbing flows redirected from China and strengthening their respective positions within global supply chains. The GCC is likewise emerging as a strategic hub for both US and Chinese capital. Advanced-economy linkages, particularly transatlantic flows, remain resilient, though firms must still navigate a more contested policy landscape that shapes transaction feasibility and the outlook for greenfield investment.

Taken together, these shifts point to a long-term evolution in how global capital is deployed, structured, and governed. Moreover, because the underlying drivers of global fragmentation and geopolitical tension are enduring, we believe that these trends are here to stay. Investment screening frameworks are expanding across sectors; industrial-policy regimes in the US, EU, and Asia are locking in multi-year subsidy cycles; supply chain risk management has become a board-level mandate; and geopolitical alignment is increasingly embedded in regulatory processes. A wave of policy moves is reinforcing this trajectory. The EU is tightening its investment security toolkit,[27] while Japan is adding new critical technology categories to its Foreign Exchange and Foreign Trade Act (FEFTA) national security review regime and deepening supply chain scrutiny.[28] Australia and Canada are similarly raising national security review thresholds.[29,30] And South Korea—already active through AI-biotech strategy and alliance adjustments—is expected to update its FDI screening thresholds.[31]

Cross-border transactions and investment in this environment are not slowing down; in fact, 21% of M&A transactions in 2026 were cross-border, nearly matching the 2020-2024 average of 22%. But in deploying capital, geopolitical and policy factors are becoming more important. In response, corporates and investors are adopting a new playbook and increasingly filtering capital allocation decisions through geopolitical risk assessments, national security frameworks, and industrial policy priorities.

Regulatory strategy has likewise become more important. Governments are no longer merely setting the rules of the game; they are actively shaping outcomes—steering capital, conditioning market access, and, in some cases, taking stakes in or exerting influence over strategic firms. As discretion replaces predictability, regulatory approvals and investment screenings are becoming more politicized, raising execution risk and increasing the premium on political fluency for companies as they contemplate a deal or major investment.

The result is a global economic environment that is more fragmented, more interventionist, and more conditioned by strategic alignment than at any point over the past 15 years. This dislocation not only introduces new risks, but it also creates meaningful opportunities for companies that adapt. In this environment, having a firm grasp of "contextual alpha" becomes essential: firms must integrate geopolitical, regulatory, and macro forces directly into financial analysis and deal design to understand where capital can credibly flow and where value can be created under shifting political constraints. Corporates and investors that embed contextual alpha analysis, build regulatory strategy into deal design, and diversify across resilient corridors will be best positioned to capture the upside of this emerging order of more political capital.

Recommendations for corporates and investors as they navigate geopolitical risk

Establish **systematic, forward-looking policy monitoring capabilities** to track geopolitical, regulatory, and industrial policy developments across priority markets. These insights should feed directly into capital allocation decisions and diligence processes, shaping investment theses that emphasize geographic diversification, heightened diligence for China-related transactions given potential targeting by regulators, and alignment with jurisdictions offering regulatory predictability and supportive industrial policy environments.

- Initiate **regulatory approval workstreams earlier and in parallel with transaction structuring**, recognizing the expanded scope and complexity of national security, competition policy, and foreign investment reviews. Deal models should incorporate assumptions around longer–than–usual timelines and elevated scrutiny—particularly for transactions involving sensitive technologies, data, or linkages to China's military-industrial complex or state investment funds. Furthermore, teams should develop proactive mitigation strategies such as data governance commitments, supply chain adjustments, or governance safeguards.

- Develop **scenario planning and "geopolitical risk" diligence assessments** that analyze shocks to the regulatory environment, political risk environment, and market access conditions. Investment decisions now need a layer of "geopolitical diligence"—alongside more traditional diligence—to analyze how geopolitical and policy matters may impact the investment thesis and feasibility. Such exercises also provide a handbook to help leaders at all levels of the organization manage the ways that geopolitics can affect conditions, either positively or negatively.

- **Strengthen stakeholder engagement strategies and bolster government relations functions.** Build out engagement and policy capabilities and country-specific strategies within dealmaking and investor teams to better navigate increasingly interventionist policy regimes that could impede investment and deal execution.

- Consider minority-stake strategies, structured partnerships, and staged market entries as flexible **mechanisms to manage regulatory exposure**, mitigate geopolitical risk, and preserve strategic optionality. These structures can be especially useful in markets where approval risk or political sensitivity is elevated, allowing companies to test regulatory receptivity and partner reliability, while reserving majority-control strategies for markets with clearer, more stable regulatory regimes.

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