

Investment Promotion Agencies (IPAs) Innovation Report 2023

Introduction

With the evolving landscape of global economy and trade, Foreign Direct Investment (FDI) has emerged as a powerful force driving nations towards sustainable-economic growth. It ignites innovation and international collaborations through global cooperation. To truly understand the essence of FDI, it becomes imperative to delve into the nuances associated with its historical development as well as its current state and future potential linked to FDI.

FDI Sector: Progress Report & Opportunities

The global economy underwent a significant downturn as the COVID-19 pandemic triggered disruption of the supply chains and severely impacted global demand. This resulted in a decline in FDI projects from limited sources. Corporations worldwide are grappling with challenges such as geopolitical risks, protectionism, supply chain fragmentation, energy crises, climate change concerns, talent shortages, inflation, and rapid technological advancements.

In 2022 the world economy dynamics are undergoing massive changes. Global FDI trends showed a modest 6 per cent increase compared to 2021, but the outlook for 2023 remains weak due to ongoing uncertainty, exerting downward pressure on FDI flows. Over the past five years, with a combined share of 69 per cent, Western Europe and the United States accounted for the majority of outward FDI projects, but the changing global economy is witnessing diversification towards emerging economies.

Despite the year 2022 witnessing dynamic shifts in the FDI sectors, some sectors experienced remarkable growth while others faced significant challenges. The most vibrant sectors in terms of FDI in 2022 were Software & IT Services and Business Services with (+41 per cent) each, Financial Services (+40 per cent), among few others. This stellar performance observed in these sectors is backed by rapid adoption of digital and remote services post COVID-19. Moreover, the United Nations Conference on Trade and Development (UNCTAD) report suggests that the increase in FDI value can be attributed to several megaprojects and the rise in average project size in the renewables sector. On the other hand, certain sectors were severely impacted, including Food & Beverages (-26 per cent), Biotechnology, Consumer Products, and Communications (-24 per cent) each. The emerging trends observed in FDI 2022 present a mix of opportunities and challenges. Greenfield project announcements increased by +6 per cent,

highlighting key trends in cross-border investment. Notably, chip factories accounted for three of the top 10 announcements, reflecting global shortages and supply chain restructuring. Additionally, six of the top 10 projects emerged in the renewable energy sector, emphasizing the growing importance of sustainable investments.

Global Outlook & FDI Trends

In 2023, the global FDI landscape appears to be sluggish. Negative or sluggish economic growth in many countries, compounded by deteriorating financing conditions, poses significant obstacles to investment flows. Investor confidence is further undermined by the presence of multiple crises, adding to the overall climate of uncertainty. Particularly in developing countries, increasing debt-related risks loom large, creating further downward pressure on FDI. However, the FDI prospects appear to be geographically distinct.

In North America, the United States maintains its position as the leading global inward and outward FDI market, with the Inflation Reduction Act allocating \$ 400 billion to support green investments and intensify competition with Europe.

Whereas in Europe, despite post-Brexit adjustments and the war in Ukraine, it remains the top destination for FDI in 2022, with 15,290 projects.

Asian markets, including India and Vietnam, are witnessing a rise in FDI attraction, while China faces challenges from smaller players, resulting in a decline of 26 per cent in projects in 2022. While FDI in the Middle East has more than doubled in 2022, propelled by public sector programs and large infrastructure projects driving local economies.

While Africa continues to be driven by natural resources, but the landscape is shifting with a 40 per cent increase in FDI projects in 2022, indicating a growing diversification and potential for investment, Latin America displays heterogeneity, with countries like Brazil and Mexico emerging as attractive destinations while others, such as Argentina and Peru, experience a decline in FDI attraction due to various factors.

Adapting to the New FDI Landscape

Navigating the evolving FDI landscape requires International Promotion Agencies (IPAs) to adapt and overcome multiple hurdles. In this changing FDI environment, IPAs must adopt strategic adjustments in order to attract investments and remain relevant. The pervasive global uncertainty that erodes investor confidence and casts doubt on FDI plans is a persistent concern for IPAs. To create confidence in potential investors, IPAs must provide transparent information, demonstrate stability, and offer risk mitigation strategies.

In addition to global uncertainty, IPAs grapple with the pressing need to evaluate and refresh their organizational structures and FDI strategies. Shifting global economic dynamics demand IPAs to reassess their approaches, potentially resetting strategies to align with the changes. This requires reviewing processes, adopting agile decision-making frameworks, and integrating technology-driven tools for efficiency.

IPAs have yet another difficult issue in the form of restricted resources. Budget and personnel constraints limit their capacity to perform major marketing and promotion operations. However, IPAs overcome these limitations by embracing innovation and investigating other paths. IPAs maximize their reach and interaction with potential investors by leveraging the power of digital platforms, social media channels, and data-driven marketing techniques. These innovative ways enable IPAs to maximize the impact of their marketing efforts while working with restricted resources, demonstrating their adaptability and resourcefulness. IPAs offer themselves as dependable partners for potential investors by proactively adjusting and embracing a dynamic approach, supporting economic growth and development.

IPA Agenda for 2025

IPAs have a robust agenda aimed at maximizing their impact and attracting valuable investments.

A significant number of IPAs are actively seeking out fresh opportunities for FDI by capitalizing on the regionalization of value chains. A staggering 86 per cent of IPAs are currently focused on sourcing new FDI prospects through this approach. When it comes to attracting FDI, several strategic sectors have emerged as the most frequently mentioned targets. These sectors include energy with 85 per cent of IPAs, followed by digital at 81 per cent. Additionally, health and advanced manufacturing are also seen as promising areas, with both sectors being cited by 45 per cent of IPAs as key sectors for FDI attraction.

Digital adoption has become increasingly important in today's fast-paced business landscape. However, there is still a noticeable gap in digital adoption within crucial strategic areas. To address this disparity, IPAs play a vital role as intermediaries between stakeholders, working to bridge the digital adoption gap and enable more effective engagement in these areas.

The issue of monitoring quality in FDI projects is a concern that IPAs must address. Despite 59 per cent of IPAs acknowledging the positive impact of quality FDI on fostering innovation, only 30 per cent currently utilize innovation as a key performance indicator (KPI) for monitoring project progress. This discrepancy highlights the disconnect between recognizing the importance of quality FDI and the insufficient monitoring practices employed by IPAs.

Conclusion

In an increasingly interconnected world, countries compete fiercely to attract foreign investments. To stand out in this competitive environment, nations need to offer an attractive business climate. Moving forward, Investment Promotion Agencies (IPAs) will play pivotal role by focusing on promoting key strengths, such as infrastructure, talent pool, business-friendly policies, and incentives, to attract a diverse range of investors. IPAs aim to create an environment that attracts and retains high-quality investments, stimulates sustainable economic growth, and contributes to the overall development of their regions. With a forward-thinking mindset and a commitment to excellence, IPAs are poised to play a critical role in shaping the investment landscape in 2025 and beyond.