OECD IPA NETWORK

INVESTMENT PROMOTION IN THE CONTEXT OF GLOBAL ECONOMIC TURBULENCE

Synthesis Note

OECD

Investment promotion agencies in the new global context

A series of major crises in quick succession has generated turbulence in international economic relations. The COVID-19 pandemic and Russia's war of aggression on Ukraine have increased vulnerability, global tensions and the geoeconomic redefinition of blocs. As a response, governments have resorted to various measures that affect trade and investment, including restrictions on the movement of goods, services and capital. Some measures are meant to safeguard and reallocate value chains, others are designed for national security reasons and others aim to support the green and digital transitions. Although governments have reaffirmed their commitments to open markets, many of the measures that were taken in the past years deviate from the previously observed long-term trend towards greater openness and a reduction of barriers to international investment and trade. Acceptance to foreign investment, especially from certain source countries, has also become an increasing challenge in host economies, exacerbated by growing inequalities and geoeconomic fragmentation.

These trends have implications for investment promotion agencies (IPAs), which are at the forefront of governments' efforts to attract and facilitate international investment. They are also at the interface of government and business and receive valuable feedback from investors that help policymakers in the design and implementation of investment policies. But IPAs navigate a difficult economic environment, amid global crises, raising geopolitical tensions and rapidly evolving megatrends. There are new opportunities emerging, but also new challenges.

On 24 May 2023, the OECD IPA Network organised a workshop with senior IPA representatives from OECD countries to share views and experiences on this topic. Participants discussed how global economic turbulence is affecting the role, the work and the priorities of their agencies and exchanged on how they are addressing these challenges and ensuring their country remain an attractive investment destination.[1]

Main facts and takeaways

International investment fragmentation and supply chain disruptions

Trends in foreign direct investment (FDI) have been down globally in 2022, with the United States and China – the major FDI recipients – recording lower FDI flows than previously, while still remaining top FDI destinations.[2] The global outlook for greenfield investment remained positive, however. Rising geopolitical tensions are affecting FDI trends, as investments are increasingly concentrated among countries that share similar

[1] The following note is a summary of those discussions and does not represent the views of any particular IPA or those of the OECD Secretariat.

[2] See OECD FDI in Figures, April 2023.

geopolitical views. The importance of geopolitical tensions has increased over time, especially in recent years, and are of particular relevance to some sectors. The impact of these trends on IPAs is very high. More and more, agencies are evaluating the pros and cons of attracting FDI from countries with which geopolitical tensions are growing. They have to make strategic choices on whether to dedicate investment promotion resources in servicing investors from certain markets.

These trends also lead to global value chain disruptions. With the increasing geopolitical risk associated with sourcing from certain countries. OECD governments are adopting new strategies. While the COVID-19 pandemic prompted governments to adopt reshoring strategies, they have since shifted the focus to “nearshoring”, “friend-shoring” and “ally-shoring” strategies. However, several IPAs feel that these strategies can only be successful through international co-operation. As multinational companies have their supply chain spread in different countries, they may increasingly target countries within the same geopolitical blocs to create their business ecosystem and international co-operation across IPAs should be further encouraged to support these developments.

The role of investment promotion may also be ever more important as governments aim to boost a certain degree of self-sufficiency and resilience of national economies. IPAs feel they have to play a key role in supply chain resilience, notably in attracting specific investments that can fill existing gaps in value chains.

Essential security risks and related investment policy measures

Investment policy measures in OECD countries over the past years have been principally dealing with managing essential security implications. These policies, which take the form of FDI screening mechanisms, have been on the rise over the past years. They cover a broader spectrum of sectors and are often triggered by crises, such as the COVID-19 pandemic and Russia’s war of aggression on Ukraine.

The introduction of new investment screening mechanisms has altered the investment landscape in which the IPAs operate and that investors need to navigate. Yet, some IPAs do not foresee that investment screening mechanisms will have a major negative effect on their work, as these measures mainly relate to mergers and acquisitions, rather than greenfield investment. Agencies still highlight the need for close co-operation and communication across government agencies to ensure screening measures do not have unintended consequences on investment attraction. IPAs also play an important role in informing prospective investors and will need to increase their policy advocacy activities to ensure that these policies do not negatively affect the investment environment. Keeping an open and sound investment climate remains a key priority for IPAs.

New opportunities and associated risks

Global economic turbulence is accompanied by rapidly evolving megatrends, which are also offering new opportunities and new strategic orientations to countries and IPAs.

Agencies are often shifting their efforts from the quantity to the quality of investments and rising geopolitical tensions are prompting them to become more selective in their attraction efforts and services to investors. As such, some IPAs have boosted their monitoring and evaluation capacity and strengthen investor prioritisation. While some agencies opt not to overly alter their investment promotion strategy, others are paying more attention to screening prospective investors by looking at risks related to both economic security and corporate social responsibility before engaging resources in attracting them and facilitating their establishment locally. Overall, the sustainable development goals take a prominent role in investment promotion strategies and more sophisticated key performance indicators are developed accordingly. IPAs are also, in many cases, focusing increasingly on existing investors and seeking to win expansions and reinvestments rather than concentrating all the energy on new projects.

While climate change represents a daunting risk for the people and planet, it also comes with net-zero investment opportunities and green transitioning possibilities for companies. Some IPAs have recorded successful results recently, as they managed to attract large investments, notably in battery production and renewable energy projects, while others are focusing efforts on accompanying existing investors in their decarbonisation process. This also requires IPAs to focus on the energy transition, including by reinforcing the grid and attracting renewable energy projects, to help existing investors reduce their carbon emissions.

However, climate change objectives can also lead to a fierce competition for FDI projects, which can materialise in a growing number of generous tax incentives and subsidies' packages provided by governments. While this can help the climate transition of certain countries, IPAs fear a race to the bottom in terms of tax and non-tax incentives, creating competition distortions and putting companies in a stronger position to request and negotiate tax breaks and subsidies. This could not only have negative effects on economic relationships across regional blocs, but also within countries of the same blocs (e.g. on the European single market). It can also lead to short-termism and hastiness in investor decisions, driven by spontaneous incentives and devaluating other parameters of healthy and sustainable business development in other economic regions.

Innovation, digitalisation and artificial intelligence are also high on IPAs' agendas when it comes to attracting FDI and boosting competitiveness. Nevertheless, attracting FDI in these sectors requires certain competencies to be available and rapidly developed in host economies, and many IPAs are thus increasingly focusing efforts on skills development and the attraction of talents. Skills shortages are particularly salient in remote or less developed regions, exacerbating territorial disparities within countries and making it more difficult for these regions to attract quality investments. At the same time, labour-saving solutions offered by digitalisation can also facilitate realisation of investment projects in these locations. Supporting regional development has thus become a top priority of IPAs in the OECD.

▪ More information

The further understand the global context of economic turbulence, suggested readings include:

- OECD Economic Outlook, Volume 2023 Issue 1, OECD (June 2023)
- FDI in figures, OECD (April 2023)
- Geoeconomic fragmentation and foreign direct investment, IMF (April 2023)
- OECD Economic Outlook, Interim Report: A Fragile Recovery, OECD (March 2023)
- Report on G20 Investment Measures, OECD (November 2022)
- International investment implications of Russia's war against Ukraine, OECD (May 2022)

The OECD IPA Network

The OECD contributes to global thinking and international co-operation on investment promotion and facilitation through comparative analysis and experience sharing. In 2016, the OECD IPA Network was created under the auspices of the OECD Investment Committee to bring together senior investment promotion practitioners and facilitate peer-learning on issues of common interest.

The Network's main objectives are:

- To bring together a community of like-minded investment promotion practitioners willing to engage in discussions, exchanges and experience sharing;
- To benefit from OECD expertise to gather, build and use knowledge and evidence-based analysis on investment promotion and related topics; and
- To engage with a broader community of policymakers and IPAs, including from regions and countries outside of the OECD area, and with other areas of OECD expertise.

The OECD IPA Network has established itself as an important forum for exchange and networking among practitioners from IPAs across the OECD area and beyond. The thematic discussions, which take place during special webinars and annual meetings every Autumn, advance collective understanding on issues of joint interest and facilitate exchanges on best practices.

The OECD IPA Network is chaired by Achim Hartig, Managing Director at Germany Trade and Invest, and closely advised by a Steering Group composed of the IPAs from Canada, Costa Rica, Czech Republic, Finland, Ireland, Luxembourg, Netherlands and the United Kingdom.

More information and resources can be found at www.oecd.org/investment/investment-promotion-and-facilitation.htm.