

ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2023/2024

*Foreign Direct Investment Trends and Outlook
in Asia and the Pacific*



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for Asia and the Pacific



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Contents

Highlights	1
1. Greenfield investment trends	2
2. Subregional FDI trends.....	5
2.1. East and North-East Asia	7
2.2. North and Central Asia	8
2.3. South-East Asia	9
2.4. South and South-West Asia	11
2.5. The Pacific	12
3. Trends in intraregional Greenfield FDI	14
4. Sectoral trends in Greenfield FDI.....	16
5. Investment determinants	20
6. Conclusion.....	24
References.....	26

List of figures

Figure 1. Announced Greenfield FDI inflows and outflows from Asia-Pacific.....	3
Figure 2. Greenfield FDI Inflow YTD September growth rates for subregions in Asia-Pacific.....	5
Figure 3. Greenfield FDI Outflow YTD September growth rates for subregions in Asia-Pacific.....	6
Figure 4. Intraregional Inflows of Greenfield FDI in Asia-Pacific.....	14
Figure 5. Sectoral composition of announced Greenfield inflows in Asia-Pacific.....	17
Figure 6. Top sectors for Greenfield FDI.....	19
Figure 7. Top ten motives cited for projects	21
Figure 8. Incentives deals concluded in Asia-Pacific.....	23



Highlights

FDI trends in 2023

1 Resilient growth in Greenfield FDI

Despite global geopolitical and economic pressure, Greenfield investments in the Asia-Pacific have remained resilient, growing by 35 per cent in 2023



2 Subregional success

At the subregional level, South-East Asia leads 2023 with US\$ 120 billion inward investment, but it was East and North-East Asia that saw the most growth this year at 148 per cent



3 India remains on top

For the second year in a row, India attracted the most FDI at US\$ 68 billion. India was targeted for several mega-deals in communications, software, semiconductors, automotive, and biomass power which accounted for this result



4 Intraregional FDI

China was the largest source of intra-regional FDI with 65 per cent, followed by Japan at 12 per cent. Almost 50 per cent of intra-regional investments flowed into ASEAN



5 The magnetism of metals

Investment into metals has grown US\$ 23 billion or 241 per cent in 2023, now the second largest sector for Greenfield inflows behind renewable energy



6 Investor's choice

International investors are choosing Asia-Pacific for its talent pool, technology and innovation ecosystems and industry clusters over traditional cost considerations





1. Greenfield investment trends¹

After the exogenous shocks that influenced foreign direct investment (FDI) on a global scale in recent years, uncertainty – yet also hope – permeated economic forecasts in 2023. Increasing levels of FDI are desperately needed to bridge the financing gap to meeting the Sustainable Development Goals (SDGs). While Greenfield FDI in Asia-Pacific in 2023 is on track to reach its highest level in the past decade, the amount the region is receiving will still fall short of contributing tangibly to the 2030 Agenda for Sustainable Development.

With increased geopolitical tensions expected to persist for the foreseeable future, geopolitical considerations have become a key priority for investors by investors when expanding abroad and choosing suitable locations. De-risking and de-coupling have been cited among investor announcements as one of the key reasons for investing in the region this year. In fact, the term ‘geopolitics’ was used almost 12,000 times by company executives in 2023 – nearly three times as much as two years ago – including BlackRock, Coca Cola and numerous other S&P 500 executives.²

This is mirrored in the current global economic landscape, with pronounced monetary policies, tight labour markets, elevated public debt and core inflation seemingly more persistent than anticipated due to disruptions to energy and food markets. Nonetheless, post-pandemic Greenfield FDI levels in Asia-Pacific are at relatively strong levels – especially vis-à-vis a general global downturn identifiable post-2016³ – and in line with the OECD’s prediction that “a disproportionate share of global growth in 2023-2024 is expected to continue to come from Asia”.⁴ Companies are responding to the above economic pressures by disrupting some of the traditional and established patterns of FDI flows, seeking economic opportunity and stability in new markets, and by diversifying their operational bases within Asia-Pacific.⁵

Turning to specifics, the region witnessed US\$ 302 billion worth of Greenfield projects announced in the January to September 2023 period, a staggering 35

¹ All Greenfield investment data in this report for 2023 is based on the most recent Greenfield FDI data available at the time of writing, which includes January-September 2023.

² See <https://www.bloomberg.com/graphics/2023-geopolitical-investments-economic-shift/>

³ See [https://www.investmentmonitor.ai/comment/is-fdi-in-trouble-foreign-investment/~:text=Foreign%20direct%20investment%20\(FDI\)%20flows,merely%20look%20at%20greenfield%20projects.](https://www.investmentmonitor.ai/comment/is-fdi-in-trouble-foreign-investment/~:text=Foreign%20direct%20investment%20(FDI)%20flows,merely%20look%20at%20greenfield%20projects.)

⁴ See <https://www.oecd.org/economic-outlook/september-2023/#:~:text=The%20world%20economy%20is%20expected,than%2Dexpected%20recovery%20in%20China>

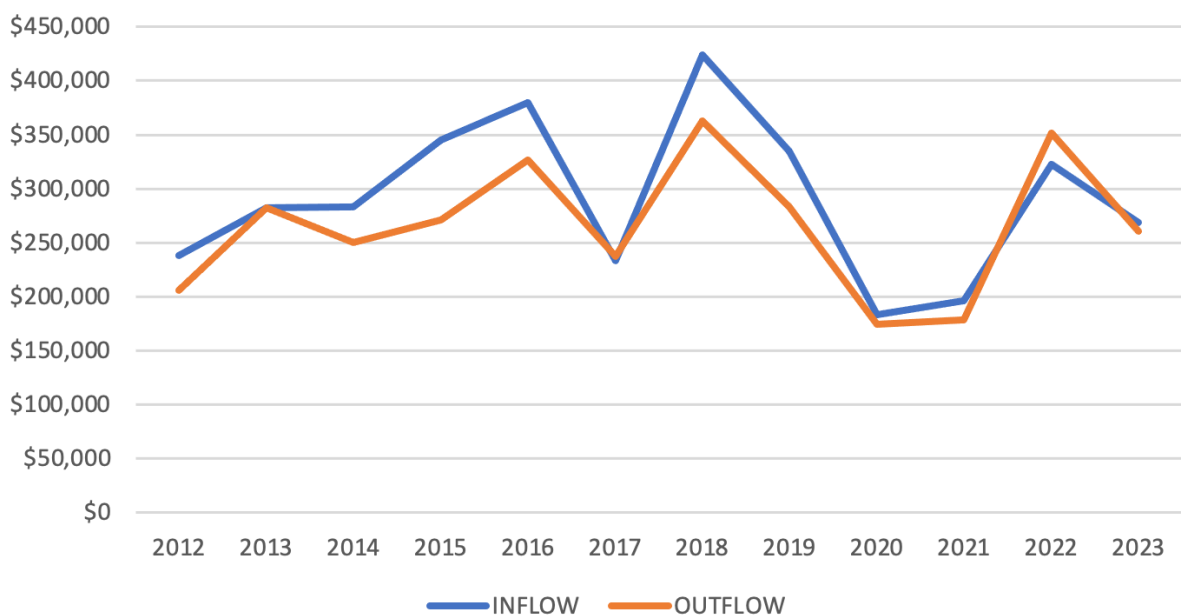
⁵ See also <https://www.oecd.org/finance/enabling-sustainable-investment-in-asean-eb34f287-en.htm>



percent increase⁶ compared with the same period in 2022, when US\$ 224 billion had been recorded. Notwithstanding the strong figures recorded in the last quarter of 2022 (particularly in November and December), 2023 appears to be on track to match project announcements in terms of capital investment levels (see figure 1).

To a large extent, this was driven by inflows that targeted Japan, Indonesia, the Philippines and China, each of which has seen Greenfield investments increase beyond the US\$ 10 billion mark compared to the first three quarters of 2022 – by US\$ 18.1 billion, US\$ 18 billion, US\$ 17.4 billion, and US\$ 13.5 billion respectively. These increases were substantial enough to outweigh some of the more pronounced decreases in the region where, for example, Australia, Singapore and Turkmenistan all saw capital investment pledges decrease by US\$ 11.5 billion, US\$ 9.1 billion and US\$ 7.4 billion, respectively.

Figure 1. Announced Greenfield FDI inflows and outflows from Asia-Pacific, 2013-2023 (US\$ millions)*



Source: ESCAP calculations based on fDi Markets data (accessed November 2023).

*January-September 2023.

⁶ Year-over-year changes refer to the January-September periods in 2022 and 2023



Similarly, as of September 2023, outward Greenfield announcements have already surpassed the levels recorded in the first three quarters of 2022 by 32 per cent, increasing from US\$ 231 billion in 2022 to US\$ 305 billion in 2023 (figure 1). After 2017 and 2022, outward Greenfield FDI announcements are on track to surpass inward flows for the third time in the past decade. While 2017 saw only a slight imbalance of US\$ 3.7 billion towards outward FDI, Asia-Pacific is now increasingly establishing itself as a leading source region of FDI – targeting the region and beyond.

The biggest increases in outward capital investment this year were recorded in China, including Hong Kong, China, (US\$ 117.6 billion), Singapore (US\$ 7.4 billion), the Russian Federation (US\$ 3.7 billion). At the same time, companies from India, Australia and Japan committed significantly less capital to endeavours abroad than they did in the previous year – US\$ 21 billion, US\$ 16.3 billion and US\$ 9.6 billion less, respectively.

“The Asia-Pacific region has remained a desirable location for investors despite turbulent economic conditions in 2023 in addition to increasingly being a source region for FDI”

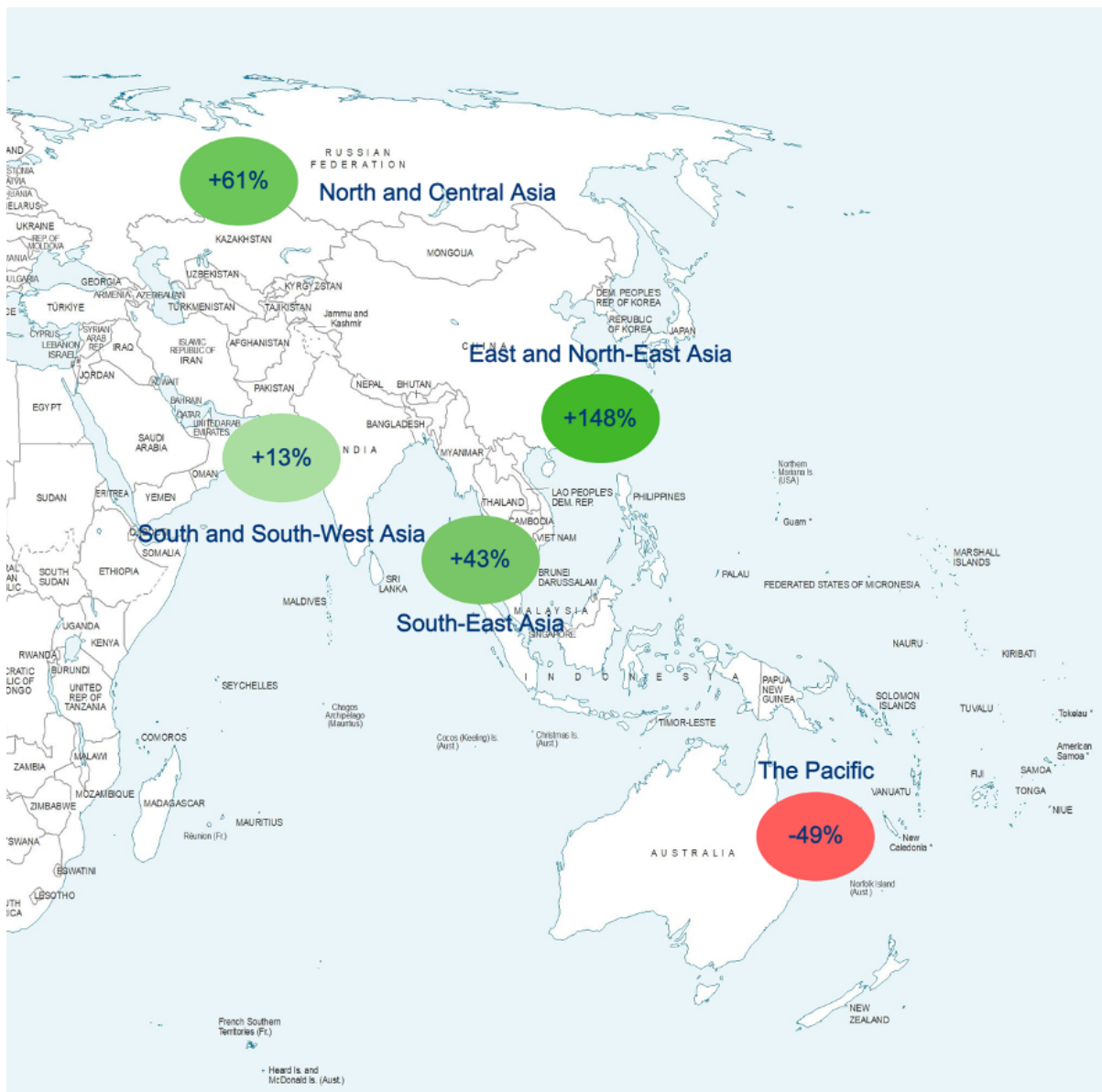
However, this regional snapshot does not capture all the nuances, developments and challenges across ESCAP’s member and associate member States. Therefore, the following sections will focus on subregional, intraregional and sectoral trends.



2. Subregional FDI trends

As in previous years, the distribution of inward and outward Greenfield FDI was highly uneven across and within subregions of Asia-Pacific (figure 2). Figures 2 and 3 illustrate the respective growth and decline rates of FDI for both inward and outward FDI per subregion. The following subsections present more details per subregion.

Figure 2. Greenfield FDI Inflow YTD September growth rates for subregions in Asia-Pacific*

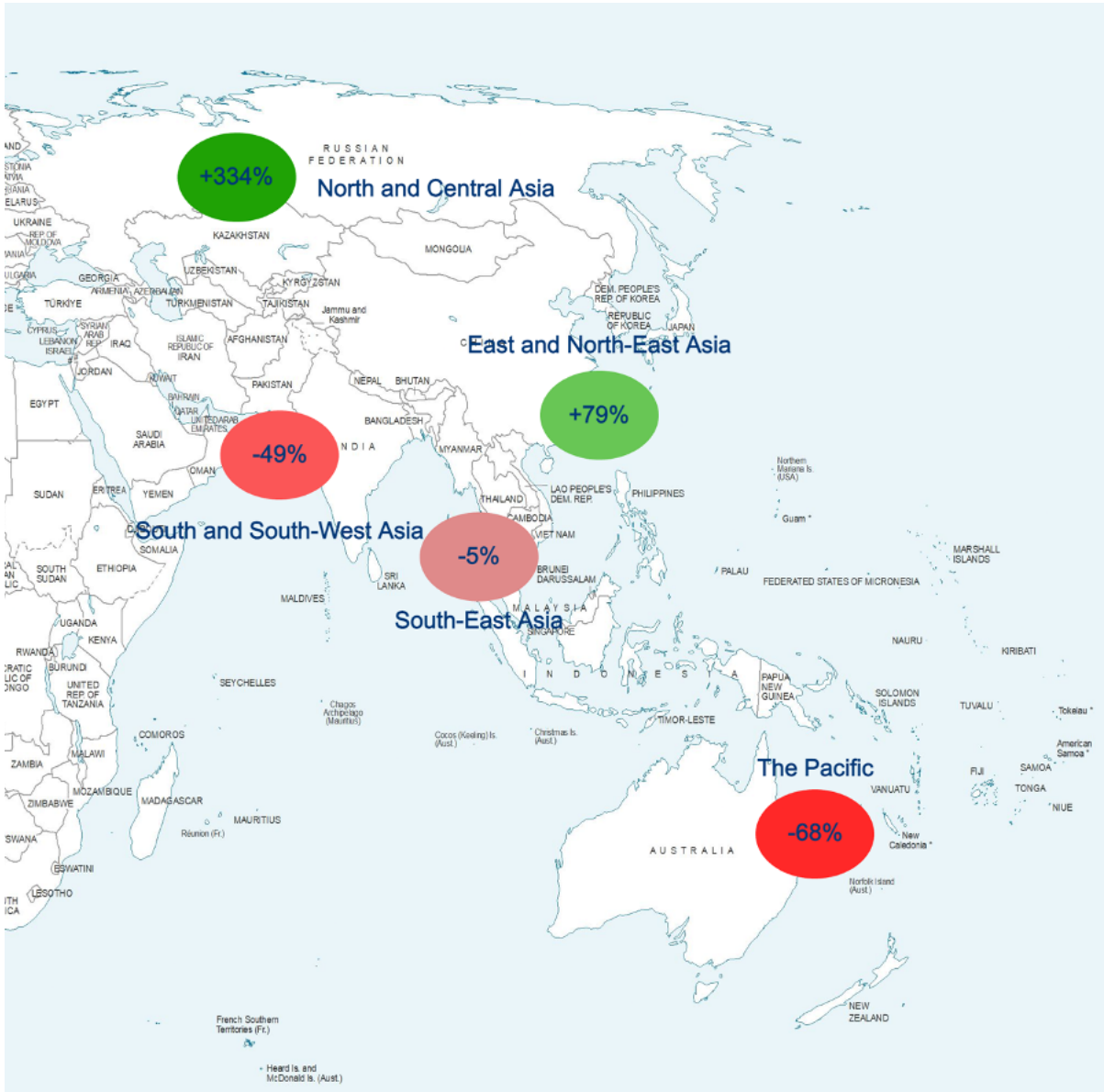


Source: ESCAP calculations based on fDi Markets (accessed November 2023).

*January-September 2023.



Figure 3. Greenfield FDI Outflow YTD September growth rates for subregions in Asia-Pacific*



Source: ESCAP calculations based on fDi Markets (accessed November 2023).

*January-September 2023.



2.1. East and North-East Asia

East and North-East Asia attracted 22 per cent of the Asia-Pacific region's Greenfield investments, the third highest of subregions at US\$ 65.1 billion (year to date). The regions saw an increase of 148 per cent, the largest increase in inbound Greenfield investments for subregions in Asia-Pacific (figure 2). Inward Greenfield investment grew for all countries in the region, led by increases in Japan, the Republic of Korea and China, including Hong Kong, China and Macau, China, which increased 438 per cent, 141 per cent and 79 per cent, respectively. Japan's rebound in investment can largely be attributed to investments into semiconductor manufacturing, as companies are seeking to diversify their production bases in light of geopolitical tensions.⁷

In absolute numbers, Japan saw the largest increase up US\$ 18.1 billion to US\$ 22.3 billion in 2023. China – including Hong Kong, China and Macau, China – was next with an increase of US\$ 13.2 billion, but this figure remains well below the levels recorded during the decade before the pandemic. The Republic of Korea followed with an increase of US\$ 7.5 billion to US\$ 12.9 billion while Mongolia increased US\$ 57 million from none in 2022.

Box 1. Sample deal in the region Republic of Korea to receive EV battery plant

China's BYD is set to invest US\$ 412 million in the Republic of Korea to supply the auto-maker KG Mobility CO Ltd with a stable supply of EV batteries. The factory is expected to start mass production in 2025. BYD's entrance to the Republic of Korea, home to three big battery producers, LG Energy Solutions, Samsung SDI and SK On, is crucial to advancing the EV ecosystem in the country, BYD specializes in lithium-iron-phosphate (LFP) batteries, while the three Republic of Korean companies focus on nickel cobalt batteries.

Photo from: <https://www.bbc.com/news/business-56574779>

Source: <https://www.reuters.com/business/autos-transportation/byd-kg-mobility-talks-battery-joint-venture-south-korea-source-2023-08-23/>

⁷ See <https://www.reuters.com/technology/micron-poised-get-15-blj-japan-next-gen-chips-bloomberg-news-2023-05-18/>



“China is increasingly investing outward, providing new opportunities for countries within the Asia-Pacific to obtain the necessary funds for strategic objectives, such as digital infrastructure”

In terms of Greenfield investment outflows, East and North-East Asia also registered a large increase to US\$ 245.7 billion in outbound FDI, up 79 per cent from US\$ 137.5 billion. This was driven entirely by the increase from China, including Hong Kong, China and Macau, China, up 170 per cent to US\$ 186.7 billion. The only other countries that recorded outflows were the Republic of Korea (plus 1 per cent to US\$ 30.2 billion) and Japan (minus 25 per cent to US\$ 28.8 billion) in 2023.

2.2. South-East Asia

Greenfield investment inflows into South-East Asia rose by 43 per cent, from US\$ 84.3 billion to US\$ 120.5 (figure 2). The region attracted 40 per cent of Greenfield FDI in Asia-Pacific year in 2023 the highest of the subregions. The largest recipient countries all saw sizable increases including Indonesia, up 79 per cent to US\$ 40.7 billion and Malaysia, up 37 per cent to US\$ 29.5 billion. The Philippines saw an increase of 705 per cent to US\$ 19.9 billion, which has been driven by US\$ 12.5 billion of investments into wind power, following the removal of ownership limitations, now allowing 100

Box 2. Sample FDI project in the region Battery Recycling Plant for the Lao Peoples’ Democratic Republic

Singapore’s GLC Recycle has invested US \$124 million in the Lao Peoples’ Democratic Republic, opening a battery recycling plant at an industrial park in Vientiane. The facility can produce 24,000 tonnes annually of recycled nickel and cobalt hydroxide as well as 4,500 tonnes annually of recycled, lithium carbonate. The recycling facility will use the recycled ‘black mass’ as raw materials. The company plans to increase the plant’s capacity up to 80,000 tonnes annually by 2028.

Photo by Inside Climate News.

Source: <https://www.glc recycle.com/post/laos-plant-achieves-on-spec-black-mass-production>



per cent foreign ownership in offshore wind.⁸ Thailand also saw a 51 per cent increase to US\$ 3.9 billion, as did Cambodia and Lao PDR, with the former recording an increase of 115 per cent to US\$ 2 billion and from zero to US\$ 360 million.⁹ Both Singapore and Viet Nam witnessed declining Greenfield project announcements, down 60 per cent and 4 per cent to US\$ 5.9 billion and US\$ 18.0 billion, respectively.

Outbound Greenfield FDI from South-East Asia dropped by 5 per cent from US\$ 27.1 billion to US\$ 25.6 billion (figure 3). The drop was due to outflows from many countries nearly ceasing. For example, investments from Viet Nam declined to US\$ 4.1 billion or by 90 per cent, while from Malaysia they declined to US\$ 3.2 billion or by 80 per cent, from the Philippines to US\$ 1.8 billion or by 85 per cent, and from Indonesia to US\$ 781 million or by 91 per cent. Thus far in 2023, Singapore has been the main outward investor, accounting for 87 per cent of the subregion's outbound Greenfield FDI.

2.3. South and South-West Asia

South and South-West Asia attracted the second largest share of Greenfield investments in Asia-Pacific, totalling US\$ 85.1 billion in 2023. The subregion grew by 13 per cent. India again received the lion's share of Greenfield investments at US\$ 67.8 billion, down 4 per cent on the 2022 total. India has seen several mega deals in 2023 across sectors including communications, semiconductors, automotive OEM, software, biomass power and more from companies including NTT, Micron Technology, Hyundai, Suzuki, Microsoft and others. Most countries in the region saw inflows increase so far in 2023. Nepal and Bhutan saw sharp increases, up 2,150 per cent to US\$ 731 million and from zero to US\$ 630 million in 2022 respectively. This was due to each being targeted for US\$ 618 million hydroelectric projects from Singapore's Summit Group.¹⁰ Sri Lanka followed, up 1,170 per cent to US\$ 1.1 billion, while Maldives was next, up 891 per cent to US\$ 554 million, and Pakistan, up 675 per cent to US\$ 10.4 billion due to a US\$ 10 billion refinery project announced by Saudi Aramco.¹¹ Bangladesh saw an increase of 211 per cent to US\$ 1.3 billion while Türkiye dropped 16 per cent to US\$ 2.6 billion.

⁸ See <https://www.fdiintelligence.com/content/news/fdi-roundup-philippines-wind-enters-new-era-africa-wins-7bn-climate-commitment-uk-to-clarify-national-security-reviews-82316>

¹⁰ See <https://www.reuters.com/sustainability/bangladeshs-summit-group-invest-3-blm-clean-energy-push-2023-09-08/>

¹¹ See <https://profit.pakistantoday.com.pk/2023/07/28/saudi-aramco-shakes-hands-with-pakistans-soes-to-open-pakistans-largest-refinery/>



Box 3. Sample FDI project in the region Decarbonizing tyre manufacturing

Japan's Bridgestone invested US\$ 73 million in a tyre plant in Chakan in Pune, India to decarbonize the plant and expand its capacity. The facility, which produces more than 4 million tyres annually, has had its total carbon footprint reduced by 94 per cent over the years. The measures that have been employed to achieve this include the installation of solar panels at the plant and a carbon neutral biomass-based boiler plant which uses carbon neutral biomass briquettes made from agricultural waste. This has been certified by the assurance company LRQA, in line with PAS 2060 standards. The remainder of emissions are offset via Verified Carbon Standard credit purchases.

Photo by Metro Tyres.

Source: <https://press.bridgestone-emia.com/bridgestone-announces-its-first-carbon-neutral-tyre-manufacturing-site/>

Outward Greenfield investment from the subregion fell 49 per cent to US\$ 20.3 billion in 2023 (figure 3). India again was the largest source of outbound investment, responsible for US\$ 16.5 billion, or 81 per cent of the subregion's outflow. However, India's outflow was down 56 per cent compared to 2022. Türkiye was the other major outbound investor in the subregion sending out US\$ 3.2 billion, up 51 per cent compared to 2022. Pakistan also saw a notable increase of 490 per cent to US\$ 396 million with a major investment by Lucky Cement into Iraq to expand production.



**Box 4. Sample FDI project in the region
Around US\$ 5 billion to bolster India's renewable
energy production**

United Arab Emirates-based Ociar Energy plans to invest US \$4.85 billion into the Kutch district of Gujarat, India to build a green hydrogen and ammonia production facility. The project will be developed in two phases and is expected to become operational by 2030. It is expected to generate nearly 10,400 direct jobs, while also boosting indirect employment opportunities in supporting businesses and downstream industries. The facility is to produce around 1 million tonnes of green hydrogen and ammonia annually. The company has plans to develop 4 GW of green hydrogen and ammonia capacity across India, the Middle East and North Africa.

Photo by r.classen/Shutterstock

Source: <https://www.investmentmonitor.ai/news/ociar-energy-to-open-hydrogen-plant-in-gujarat-india/?cf-view>

2.4. North and Central Asia

Greenfield investment inflows into North and Central Asia rose 61 per cent to US\$ 17.3 billion a year in 2023. Inward Greenfield investment into the Russian Federation increased 102 per cent to US\$ 520 million despite ongoing geopolitical tensions. The countries that received the bulk of Greenfield FDI in the region were Kazakhstan which recorded a 700 per cent increase in investment to US\$ 7.4 billion, Uzbekistan which grew 880 per cent to US\$ 7.0 billion, and Azerbaijan, up 77 per cent to US\$ 1.1 billion. These increases are returning the countries to levels similar to prior the pandemic. The remaining countries, Armenia (US\$ 482 million), Kyrgyzstan (US\$ 443 million), Georgia (US\$ 250 million) and Turkmenistan (US\$ 104 million), have been targeted by less capital-intensive projects, while Tajikistan has not been selected as a project location by foreign investors so far in 2023.

Outflow from the subregion rebounded in 2023, increasing by 334 per cent in 2023 to US\$ 5.4 billion, with 91 per cent (US\$ 4.9 billion) originating from the Russian Federation. Of this, Russian Federation-based investors committed US\$ 2.4 billion into major metals projects in Kazakhstan, Bolivia, Namibia and Tanzania. The other sources of outbound Greenfield investments in the region were Kazakhstan (US\$ 218 million), the Kyrgyz Republic (US\$ 127 million), Georgia (US\$ 98 million), Armenia (US\$ 47 million), Azerbaijan (US\$ 8 million) and Turkmenistan (US\$ 3 million).



Box 5. Sample FDI project in the region Turkmenistan targeted for ammonia plant

The Republic of Korea's Daewoo E&C is investing US\$ 104 million to build the first plant producing blue ammonia in Central Asia. The deal is to be signed before the end of 2023, with construction planned to commence no later than the second half of 2024. The plant will produce carbamide-ammonia fertilizers – derivatives of blue ammonia – and will provide ample opportunities for exporting environmentally friendly products to Europe.

Photo and source: <https://en.trend.az/casia/turkmenistan/3758632.html>

2.5. The Pacific

The Pacific subregion recorded a 49 per cent decrease in Greenfield investment inflows in 2023, dropping from US\$ 27.2 billion to US\$ 14.0 billion. As in previous years, Australia attracted the largest volumes of Greenfield investments however they were down 48 per cent to US\$ 12.2 billion compared to 2022. New Zealand also experienced a decline of 46 per cent to US\$ 1.2 billion. Tonga received US\$ 277 million from Sweden's sea-based into a hydroelectric wave power project,¹² Fiji (US\$ 148 million), and Papua New Guinea (US\$ 102 million) were the only other regions to receive Greenfield FDI in the first three quarters of 2023.

Outward Greenfield investments from the Pacific subregion decreased by 68 per cent to US\$ 8.0 billion year to date September 2023 (figure 3). This was due to Australia returning to a more typical rate of outward investment in 2023 after a record 2022 that recorded US\$ 34.6 billion in outward FDI. Australia led as the main source of outbound investments in 2023 (US\$ 7.4 billion), followed by New Zealand (US\$ 594 million).

¹² See <https://seabased.com/news-insights/tonga-other-sids-choose-seabased-wave-power-for-renewable-transition>



Box 6. Sample FDI project in the region The South Pacific Connect Initiative

In October 2023, Google announced an investment that would deliver two new transpacific subsea cables — Honomoana and Tabua — to help increase the reliability and resilience of digital connectivity in the Pacific by connecting Fiji and French Polynesia to both the United States and Australia. The created ring will include pre-positioned branching units that will allow other countries and territories of Oceania to take advantage of the reliability and resilience resulting from the initiative. Investment Fiji, the Fijian investment promotion agency, has been the lead agency working with Google to announce this investment project.

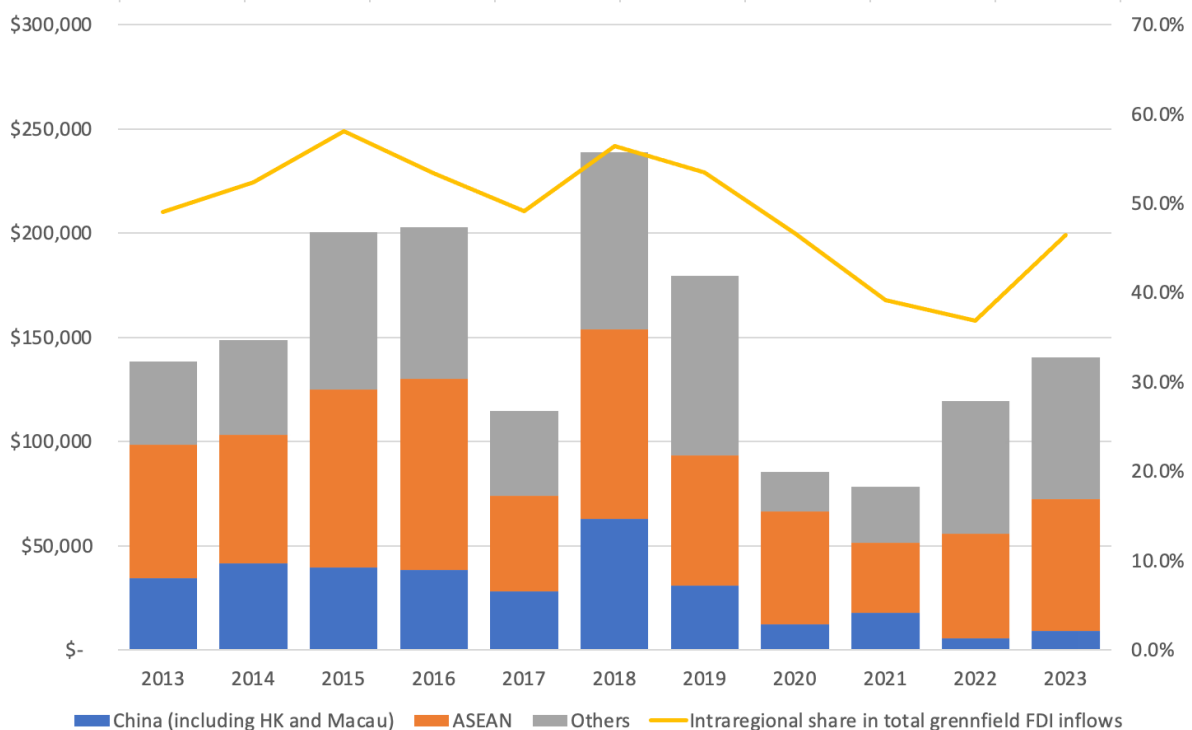
Photo and source: <https://cloud.google.com/blog/products/infrastructure/honomoana-and-tabua-subsea-cables-connect-south-pacific>



3. Trends in intraregional Greenfield FDI

Since the start of the COVID-19 pandemic, intraregional Greenfield FDI inflows have been decreasing as a share of total inflows to the region; however, so far in 2023 the share has begun to rebound. Also, 2023 data confirm the trend that ASEAN is attracting the greatest share of intraregional FDI flows (figure 4).

Figure 4 . Intraregional Inflows of Greenfield FDI in Asia-Pacific, (US\$ millions)*



Source: ESCAP calculations based on fDi Markets data (accessed November 2023).
*January-September 2023.

ASEAN member States continue to receive the largest share of intraregional Greenfield investments since the pandemic, receiving US\$ 57.4 billion, i.e., 45 per cent of all intraregional Greenfield investments in Asia-Pacific (figure 4). Within ASEAN, Indonesia attracted US\$ 25.0 billion (40 per cent), Viet Nam US\$ 14.4 billion (23 per cent) and Malaysia US\$ 13.7 billion (22 per cent) in 2023. Examples of some of the largest intraregional investments in 2023 included Hong Kong, China’s Xinyi Glass investing US\$ 11.5 billion in Indonesia’s mineral sector to build a quartz and sand processing plant, and China’s Zhejiang Geely Holding Group investing US\$ 10 billion in Malaysia’s automobile sector to establish an auto-making hub.



In terms of the entire Asia-Pacific region, the largest recipients of intraregional FDI in 2023 were India (22 per cent), Indonesia (18 per cent), Viet Nam (10 per cent), Japan (10 per cent) and Malaysia (10 per cent). The largest intraregional contribution to India's FDI inflows in 2023 was China-based Foxconn's announcement to invest US\$ 5.7 billion into electronics manufacturing in the country.¹³

“Asia-Pacific based investors are returning to investing heavily within the region, seeking shorter and more resilient supply chains”

Intraregional Greenfield FDI outflows within Asia-Pacific have been declining as a share of total regional outflows since 2019, but have bounced back from a low of 34 per cent in 2022 to 46 per cent as of September 2023. At the country level, investors from China (including Hong Kong, China and Macau, China) were again the largest source of intraregional investments with US\$ 91.4 billion (65 per cent) in 2023. Following China, Japan was the second largest source country of intraregional FDI at US\$ 17.2 billion (12 per cent). Singapore and the Republic of Korea were the only other major intraregional investors committing US\$ 11.8 billion (8 per cent) and US\$ 10.1 billion (7 per cent) to projects in the region, respectively.

¹³ See <https://www.indiatoday.in/business/story/foxconn-manufacturing-plant-facility-telangana-key-benefits-for-state-2343259-2023-03-06>



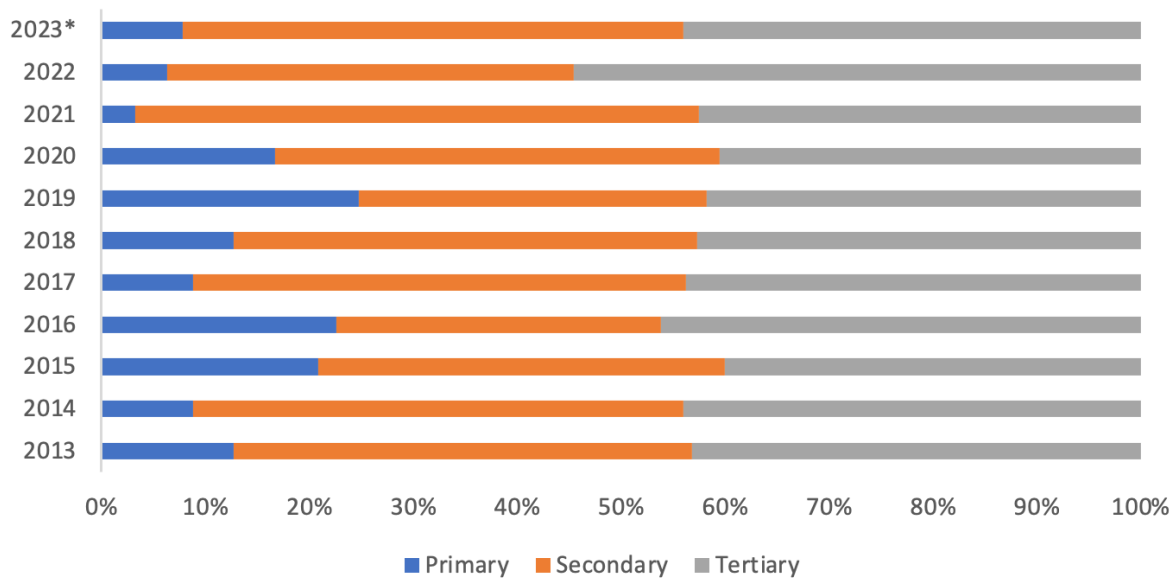
4. Sectoral trends in Greenfield FDI

During the past decade, the general trend in Greenfield inward FDI by sector has been a declining share in the primary sector, a stable share directed toward the manufacturing sector and a growing share in the services sector (figure 5). As of September 2023, the primary sector had attracted around 8 per cent of inward FDI in the region, with the manufacturing and services sectors accounting for approximately 48 per cent and 44 per cent of announced inward projects, respectively. While this is in line with the global trend, a notable regional development is the significant plunge in the share primary sector investments since the COVID-19 pandemic through to 2023. This can largely be attributed to lower levels of investments originating from the Russian Federation targeting mining and energy related sectors in Central Asia as well as declining project numbers targeting the Russian Federation.

Investment in the primary sector accounted for 8 per cent of all FDI in Asia-Pacific (compared to 6 per cent during the same period in 2022). In absolute figures, investments rose by US\$ 10.5 billion (80 per cent), due to two investments accounting for 91 per cent of the sector's YTD US\$ 23.6 billion. The first investment amounted to US\$ 10 billion in Pakistan for a petroleum refinery. This investment alone boosted the coal, oil and gas sector which has been slipping in recent years. The second investment by Xinyi Glass Holdings to build a quartz sand processing plant in Indonesia totalled US\$ 11.5 billion and caused an increase for the mining sector of the same amount. Renewable energy investments was one of the top receiving sectors on investments in the region, up 27 per cent in 2023 compared with the same period in 2022.



Figure 5. Sectoral composition of announced Greenfield inflows in Asia-Pacific, 2013-2023*



Source: ESCAP calculation based on fDi Markets data (accessed November 2023).

*January-September 2023.

Within the manufacturing sector, Greenfield investments in engines and turbines as well as building materials realized the most significant growth in relative terms in 2023. Engines and turbines saw a 37,607 per cent increase to US\$ 1.7 billion up from US\$ 5 million while the building materials sector grew by 32,656 per cent from US\$ 78 million to US\$ 1.2 billion. This incredible rise highlights that investments into wind power generation are taking off in the region. In absolute figures, investments into metals rose US\$ 22.5 billion while the automotive OEM sector attracted an additional US\$ 17.1 billion compared to 2022 – mostly due to a US\$ 10 billion mega investment by Geely Holding Group into making Tanjung Malim, Malaysia, the auto-making hub its key source for serving the domestic market. The sector boasted two more mega investments: Hyundai Motor invested US\$ 2.4 billion to increase production capacity at one of its sites in India, and Volkswagen invested US\$ 1.1 billion in a new research and development centre in Hefei, China.

The largest recipient within the manufacturing factor in 2022, the semiconductor sector maintained its top spot among the three sectors in the first three quarters of 2023, despite investments dropping 35 per cent compared to the same period in 2022. In 2023, US\$ 28.2 billion worth of investments have been announced in 2023 in



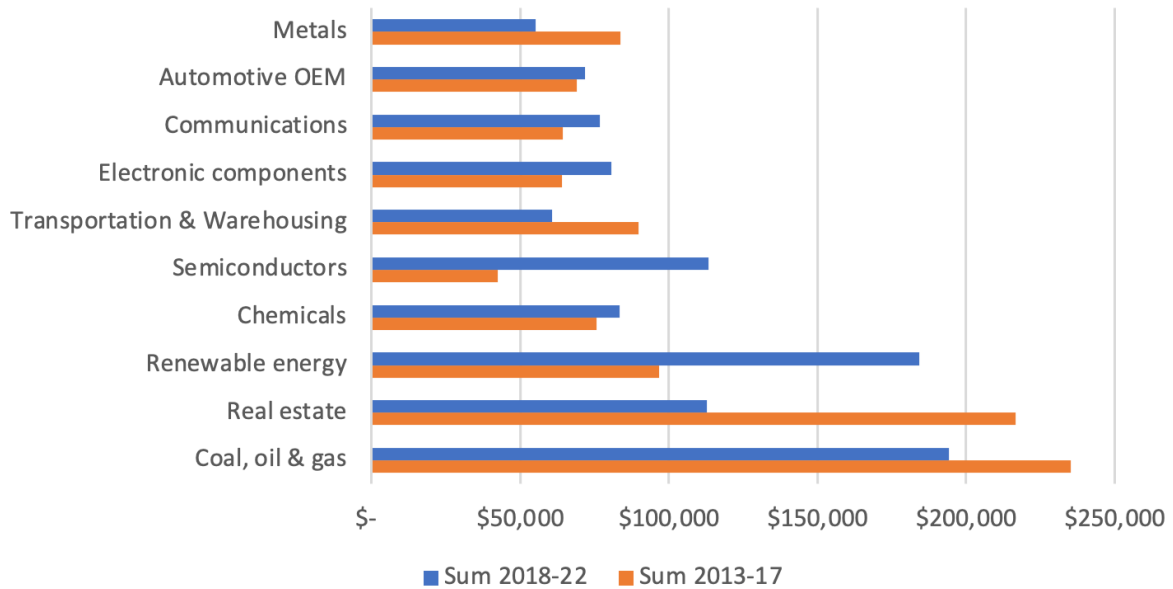
this sector alone. A heightened pandemic-fuelled rate of digital transformation and the geopolitical securitization of semiconductors are driving much of the growth in this sector. Furthermore, the geographical reorientation of semiconductor investments has meant that sophisticated production facilities must be built from the ground up in non-traditional emerging markets, rendering this sector particularly capital intensive, and an attractive sector for investment in many developing countries in Asia-Pacific.

Within the services sector, Greenfield investments in the communications sector recorded the largest relative and absolute increase (370 per cent) from US\$ 6.4 billion to US\$ 30 billion, the highest on record since 2013. While FDI by digital businesses (i.e., software and IT services) into Asia-Pacific were the largest type of Greenfield investment in this sector in 2022, while in 2023 the largest winners of Greenfield investments in 2023 has been projects (in value and volumes) in digital infrastructure development and expansion. Like the semiconductors sector, this core sector of the digital economy is benefitting from the acceleration of the digital transformation.

Investments in the hotel and tourism sector remain among the lowest levels recorded during the past decade. However, there has been some recovery since the pandemic, and 2023 saw a 96 per cent increase vis-à-vis the same period the prior year – with an absolute increase of US\$ 667 million. Overall, this sector has been the fourteenth most improved sector out of 37 in 2023. Nonetheless, recovery for the sector remains challenging, with high travel associated costs (such as flight prices) hindering a rebounding to pre-pandemic levels. While tourist arrivals in the Asia-Pacific region remain well below pre-pandemic levels, they are bouncing back at a considerable pace. Arrivals during first quarter of 2023 were still 46 per cent below the same period in 2019, but a staggering 474 per cent higher than during quarter one of 2022 (fDi Insights and WTO, 2023). Another longer-term contributing factor to lower capital investment levels in the sector is a change in the nature of tourism-related FDI towards less capital- and asset-intensive projects. This is related to the rise and proliferation of platform-based businesses and increasing levels of FDI, to and from digital businesses in the region.



Figure 6. Top sectors for Greenfield FDI, 2013-2022 (US\$ millions)*



Source: ESCAP calculation based on fDi Markets data (accessed November 2023).
 *January-September 2023.

Overall, the top 10 most attractive sectors for Greenfield investments since 2013 have been largely in the secondary and tertiary sectors (figure 6), with the weight slightly skewed towards the former. Comparing the period of 2018-2022 with the preceding five years, the secondary sector experienced growth in the chemicals, semiconductors, electric components, automotive OEM and metals sectors, while the tertiary sector recorded growth in the real estate, renewable energy and communications sectors.

“Renewable energy remained the top sector in 2023 for Greenfield FDI in the Asia-Pacific region, as sustainability standards were becoming ever more important for company reporting as well as host economies”



5. Investment determinants: Motivations and incentives

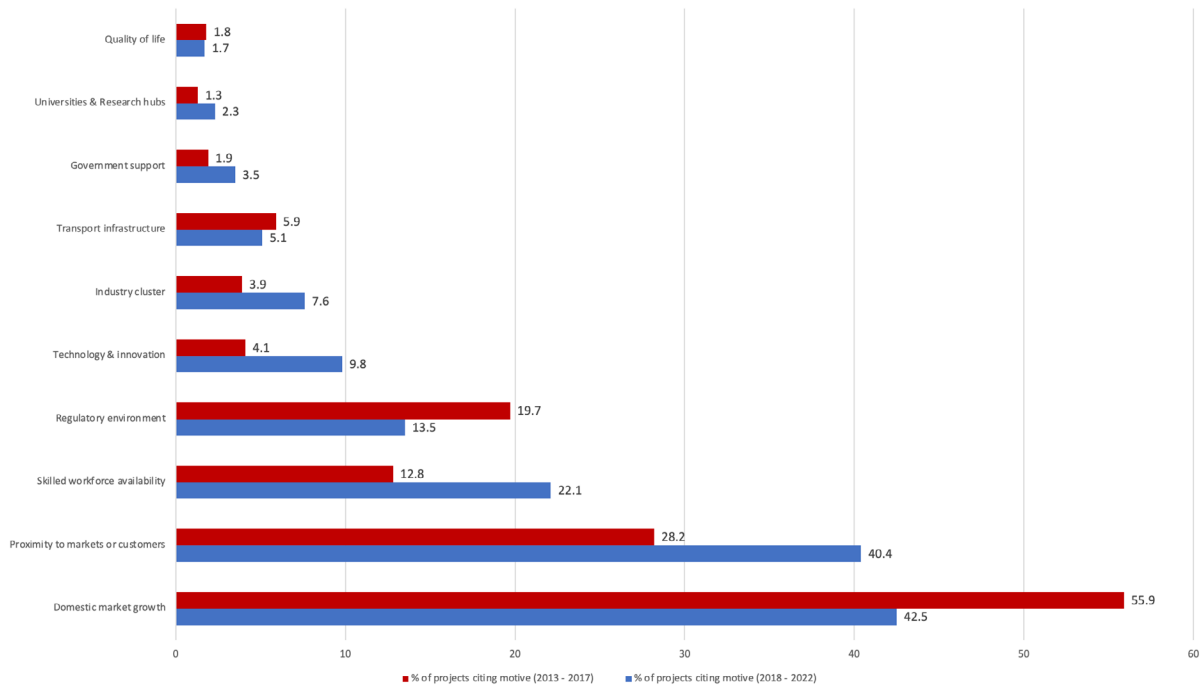
Making sense of some of these developments requires considering investor motivations and how they have shifted over time (figure 7). From 2013-2017, investors' most cited determinants for investment in the Asia-Pacific region were domestic market growth, proximity to markets or customers and the regulatory environment. Since then, skilled workforce availability has entered the top three most influential factors. Approximately half of all Greenfield projects within the software and IT services sector with listed-cited skilled workforce availability influenced the location decision. The figures are 22 per cent for the business services sector, 22 per cent for communications and 17 per cent for the financial services sector. Similarly, technology and innovation as well as the existence of universities and research hubs moved up the ranks, while conversely, lower cost moved from the ninth place down to fifteenth in the 2018-2022 period.

“Locations in Asia-Pacific are being increasingly chosen due to dynamic qualitative factors, such as a skilled workforce, rather than static quantitative factors, such as low-cost considerations”

This development underscores that the Asia-Pacific region is increasingly chosen due to its (interrelated) talent pool, technology and innovation ecosystems, industry clusters and services quality – affirming its track record of moving towards higher value-added services along the sectoral transition trajectory. Such a change in investor appreciation also aligns with the observation that the region is attracting increasingly higher value-added business activities. Hence, investors are beginning to appreciate the dynamic progress made in the region rather than static low cost factors – investments in sectors such as communications, software and IT services, renewable energy, electronic components etc. It can thus be expected that investments in such sectors will remain at high levels and increase in the medium term (and not simply as a reaction to geopolitical tensions, for example).



Figure 7. Top ten motives cited for projects (2013-2017 vs 2018-2022)*



Source: ESCAP calculation based on fDi Markets data (accessed November 2023).
*January-September 2023.

This observation – locations in Asia-Pacific being increasingly chosen due to dynamic qualitative factors rather than static quantitative factors – is reinforced by the number of incentives deals concluded over the years (figure 8). With the exception of the COVID- 19 pandemic and its immediate aftermath, where (mostly fiscal) government support measures were hiked up, incentives deals in the region have been continuously declining since 2014.

Thailand (400 deals), Türkiye (288), the Russian Federation (167) and India (103) have awarded the most incentives deals – yet most deals were awarded under Special Economic Zone or Industrial Park programmes – such as the, India Sri City SEZ and the Russian Federation’s Kaluga Region Industrial Parks. As SEZs in particular are targeted by investors due to their depth of fiscal but also soft incentives (infrastructure and services provision, for example) the data show a tautological loop; most countries in Asia-Pacific do not generally provide excessive fiscal incentives to foreign investors operating in their territories, but largely in designated zones designed for incentives support.



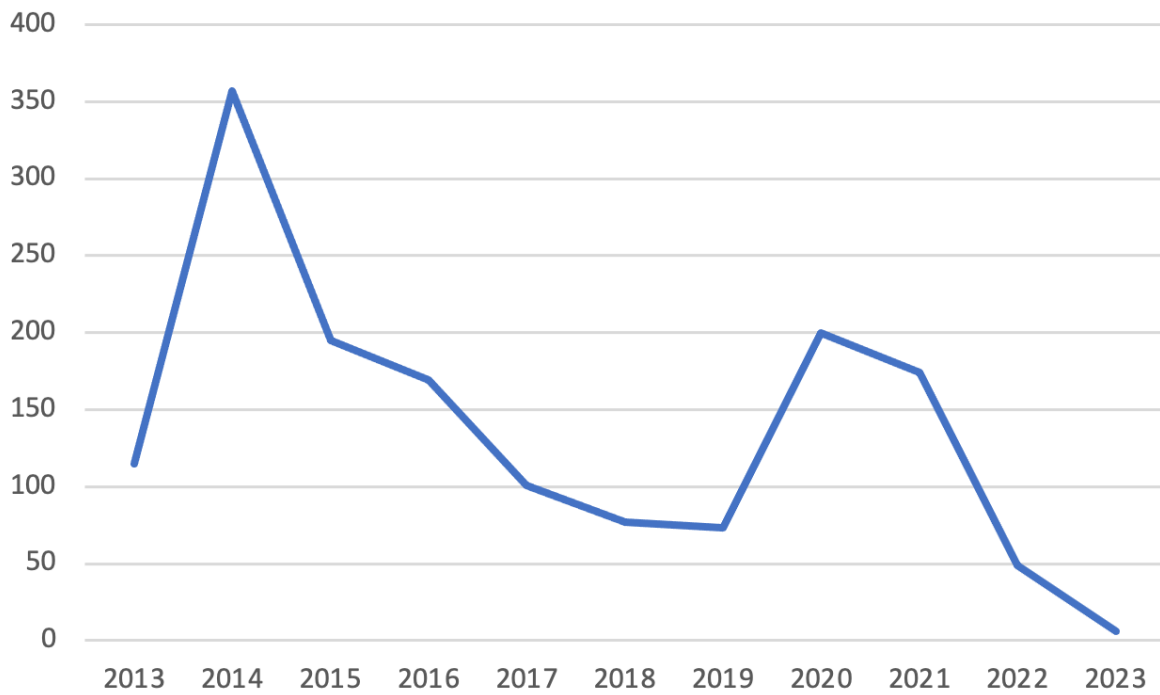
With the Global Minimum Tax (GMT) set to be implemented from 2024 onwards, the nature of incentive deals and SEZ-focused investment promotion is likely to change from fiscal incentives to other, soft and service-based types. As the GMT is grating the taxing rights of 15 per cent for eligible investments to either the home (rule number two) or host countries (rule number one), host countries are encouraged not to forego tax revenues by shifting them indirectly to home countries as well as to reinvest them in their business and investment environment and infrastructure, i.e. improved infrastructure, talent development, the encouragement of linkages and R&D cooperation.¹⁴ The above evidence surrounding investment determinants allows locations to develop their value propositions and position themselves more uniquely – and not simply as ‘low-cost-environments’ – ultimately addressing and matching investor priorities more sustainably by improving the overall business environment. Another upside may be the more beneficial nature of these incentives for the host economy and its local companies, as improved infrastructure, talent development, the encouragement of linkages and R&D co-operation are there to stay – even if the investing company decides to leave the country – which stands in strong contrast to traditional fiscal incentives (Sauvant and Zimny, 2023).

The top sectors that received incentives were in the primary as well as secondary sectors, with food and tobacco, chemicals, industrial manufacturing, metals, textiles and automotive OEM receiving the top share among the sectors. Thus, sectors with business activities higher up the value chain have located to Asia-Pacific largely without extensive government support and due to the motives cited above. This is very much aligned with extensive evidence from the OECD that tax incentives do not influence investment decisions as much as Governments tend to think they do.

¹⁴ See UNCTAD, 2023, The Impact of International Tax Reforms on Special Economic Zones. Geneva: UNCTAD. Available at: <https://unctad.org/publication/impact-international-tax-reforms-special-economic-zones>.



Figure 8. Incentives deals concluded in Asia-Pacific (2013-2023*)



Source: ESCAP calculation based on Incentives Flow data (accessed November 2023).
*January-September 2023.



6. Conclusion

Overall, Greenfield FDI trends in 2023 seem to confirm a certain resilience in Asia-Pacific's growth in the face of heightened geopolitical turbulence, economic pressures and the associated uncertainty. The region has proved to be an attractive investment destination for international investors despite growing global skepticism towards FDI, rising protectionism, screening provisions for inward FDI and nearshoring policies. While Greenfield FDI patterns are changing in response to the above, the economies of Asia-Pacific are a well-performing destination as well as a source of FDI.

Subregional data highlights three key trends. First, ASEAN countries' stability, digitalization, adoption of sustainable policies and targets, and growth histories maintain it as a top subregion within Asia-Pacific for Greenfield FDI. Second, India's potential for rapid growth, educated labour pool and large domestic market will similarly ensure its place among the largest receiving countries for FDI in the region and globally in the medium term. Third, China is increasingly looking outward, investing more in its neighbours, particularly within ASEAN.

Investors have expressed market growth, proximity to markets, a favourable regulatory environment, access to, and availability of talent, physical and digital infrastructure as well as technology and innovation as key considerations when selecting jurisdictions to which they can locate. However, these factors are comparatively static and the changes fundamental enough to sway investor perception when it comes to location selection and are seldomly observed in the short term. Therefore, a proactive approach by investment promotion agencies (IPAs) can provide countries with the necessary competitive edge vis-à-vis competing economies. Their support – from information provision to issuing licences and beyond – can mitigate ad hoc some of the shortcomings in the overall business climate.

In fact, economies are increasingly competing through pro-active investment attraction, not least as the challenge to established patterns of Greenfield FDI is opening up new opportunities for countries that have traditionally been overlooked. In terms of strategy, it is imperative that IPAs and the responsible line ministries cooperate to integrate FDI into coherent national development strategies. In terms of execution, IPAs should support the entire investment development life cycle, ranging from image building and marketing, investor targeting, servicing and facilitation,



to aftercare and policy advocacy.¹⁵ To maximize benefits, strategy and execution should be regularly monitored and evaluated to make sure they result in the desired outcomes. This way, IPAs can influence investment patterns and contribute to the national development agenda, especially around boosting FDI in and for sustainable development.

This is the backdrop against which the United Nations Economic and Social Commission of Asia-Pacific (ESCAP) is providing practical technical assistance, capacity-building and policy advice to its member States. ESCAP is supporting member State IPAs on how to attract FDI for sustainable development in the short-term within their current business climate. This approach helps to ensure that countries are not only still attracting more of the right kind of FDI in the short term, but that they can continue to work on making the necessary changes to the overarching investment climate and investment policies in the medium- and long-term to boost even more FDI in sustainable development in the future. For this matter, ESCAP has been working with several of its member States to design and implement FDI attraction action plans to boost investment in the next 2-5 years in climate action, healthcare, digital transformation and gender equality. In addition, ESCAP is providing tailored capacity-building to all of its member States focused on promoting, attracting and facilitating FDI in as well as for sustainable development.

The capacity-building and technical assistance provided by ESCAP has also been supported by the strong partnerships it has built, and continues to build, with other development partners. For example, in 2022 it became an active founding member of the World Investment for Development Alliance, a global platform aimed at synergizing the work of international and regional organizations to better enable countries to promote sustainable FDI. In 2023, it also entered into a partnership with the ASEAN Secretariat to work together to develop regional investment promotion and an attraction action plan for FDI in sustainable development. This action plan will be unveiled at the second ASEAN and United Nations Sustainable Investment Forum in the Lao Peoples' Democratic Republic in 2024.

ESCAP looks forward to continue providing support to its member States, to working with its partners on maximizing the contribution of FDI to sustainable development and to achieving the 2030 Agenda for Sustainable Development.

¹⁵ For a discussion of the different means available to IPAs, particularly from LDCs, taking differences in capacity and resources into account, see Becker, Best Practices in Investment Promotion of LDC, Geneva: UNCTAD. Forthcoming.



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