World Investment Report 2026

Chapter III

International investment in a turbulent era: Trends and policy response

United Nations

Key findings

Investment is surging in sectors at the centre of global strategic competition
Their share in global greenfield investment rose from 16 to 44 per cent between 2020 and 2025, driven by strong growth in semiconductors, AI infrastructure, critical minerals and clean technologies, each with distinct investment patterns.

This investment surge is bypassing many developing economies
The top three investor and recipient economies each account for disproportionately large shares of global investment in strategic sectors. Low-income and lower-middle-income economies captured only about 10 per cent of that investment in 2020–2025, compared with more than 20 per cent in other sectors.

Industrial policy and economic security measures are reshaping investment decisions
Incentives, subsidies, screening, national security exceptions in investment agreements, outbound controls and other security-related measures are steering investment towards priority sectors while limiting transactions seen as strategically sensitive.

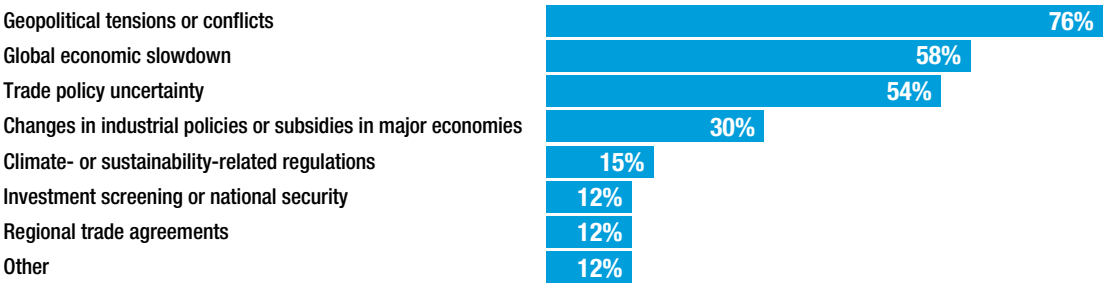
Manufacturing FDI is under pressure as global supply chains reconfigure
Greenfield investment in manufacturing outside strategic sectors declined during the last decade, as firms reorganized their supply chains. The reconfiguration of global supply chains presents both challenges and opportunities, widening the gap between better-positioned developing economies and others.

Developing countries need targeted and practical investment strategies
Policy responses should focus on feasible entry points, stronger enabling capabilities, regional integration and investment that supports upgrading, resilience and sustainable development rather than competing through large-scale subsidies that many countries cannot sustain.

International cooperation is key to preserve a set of commons for investment in a contested world
Greater transparency, dialogue on investment-related measures and pragmatic cooperation can help maintain predictable conditions for cross-border investment in a more fragmented global economy.

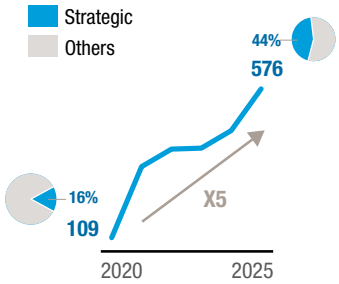
Top factors affecting FDI in the last three years

UNCTAD IPA survey 2026, share of respondents



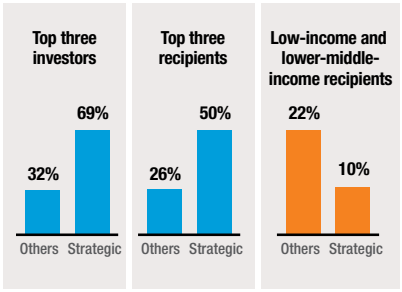
FDI in strategic sectors is booming...

Growth of announced greenfield projects in strategic sectors (Billions of dollars and percentage)



...but is highly concentrated

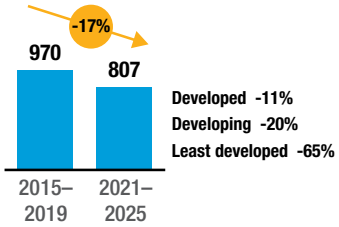
Concentration at the top… marginalization at the bottom



Share of value of announced greenfield projects, 2020–2025

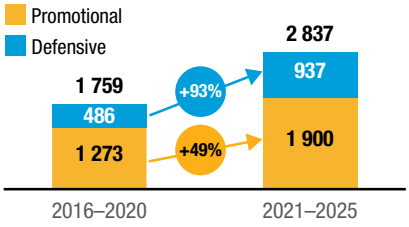
Manufacturing declines, hitting developing countries harder

Value of announced greenfield projects in manufacturing, non-strategic sectors (Billions of dollars and percentage)



Industrial policy interventions are increasing

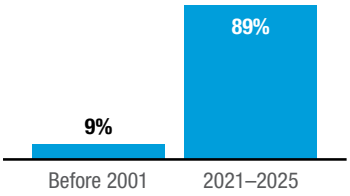
Average annual number by type



52 economies now screen for national security 2x since 2016

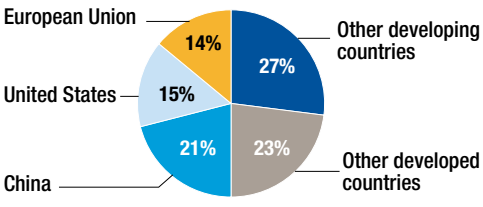
Essential security exceptions appear more and more in international investment agreements

Share of agreements with exception



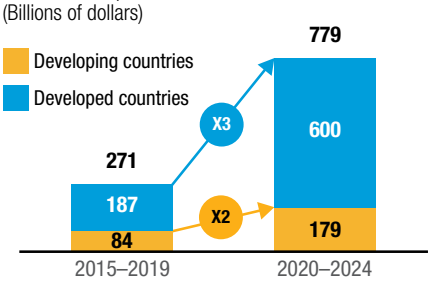
Major economies dominate industrial policy activity

Share of policy interventions by economy and economy grouping, 2015–2024



Subsidies are rising globally, but unevenly

Value of firm-specific subsidies, 2015–2024 (Billions of dollars)



A. Introduction

Geopolitical tensions, trade policy uncertainty and heightened economic security concerns are reshaping the conditions under which MNEs invest across borders. Investment decisions increasingly reflect risk management objectives related to geopolitical uncertainty, supply chain resilience, technological competition and secure access to markets. Developing countries face significant challenges in navigating this complex environment and strategically positioning themselves to harness investment opportunities, emphasizing the need for careful and balanced policy responses.

The global landscape for international production is undergoing a profound transformation. The world economy is being shaped by intensifying competition between major powers, heightened geopolitical tensions and trade policy uncertainty. As a result, the environment in which firms plan, execute and govern their cross-border investments has become more uncertain, more fragmented and more responsive to geopolitical realities.

Policymakers are placing growing emphasis on economic security. Control over vital infrastructure, access to critical technologies and positioning in industries expected to drive future economic growth have become central considerations in investment policy design. Governments are deploying a wide range of industrial policy instruments to steer investment towards sectors deemed strategic, combining incentives and support schemes with new forms of regulation and restriction.[1] The expansion of investment screening mechanisms, outbound investment controls and other security-related measures reflects renewed concern about safeguarding critical assets and limiting technological leakage. For firms operating internationally – particularly in strategic industries – these shifts translate into greater pressures on the geography and structure of their operations.

Consequently, international investment decisions by MNEs are no longer driven predominantly by considerations of efficiency and market access. While cost minimization and market access remain important, more and more they are complemented and, in some cases, overridden by risk management objectives related to geopolitical uncertainty, supply chain resilience, technological competition, shifting trade barriers and security concerns.

These shifts are visible in ongoing and emerging global FDI patterns (IMF, 2023b;

[1] In this chapter, the term “strategic sectors” is used for analytical purposes and is not intended to convey any normative assessment, nor to reflect or suggest preferences regarding national policy priorities or development strategies.

Resilience, strategic positioning and risk management play bigger roles in shaping global investment

UNCTAD, 2024c).[2] They are also reflected in the experience of investment promotion agencies (IPAs), which observe them through evolving project pipelines and changing investor behaviour. The annual UNCTAD IPA Survey asks agencies about trends over the preceding three years. The 2026 results paint a mixed picture of disruption and opportunity. Two thirds of agencies reported that geopolitical and trade policy turbulences have been the main factors affecting investment in their country, leading to project cancellations or downsizing in some cases, but also to relocations both into and out of their economies. Specifically, 60 per cent of respondents reported cancellations or downsizing, 50 per cent reported relocations to their country and 31 per cent reported relocations abroad (box III.1).

In this context, two broad trends stand out and warrant closer analysis. First, FDI has expanded at an above-average pace in sectors increasingly viewed as strategic from the perspectives of both industrial policy and economic security. These sectors include artificial intelligence (AI) infrastructure, advanced and sensitive technologies, critical minerals, clean energy and semiconductors. The pace of FDI expansion reflects the rapid growth of these industries and the interaction between countries' industrial policy priorities and firms' responses to technological competition and security-related considerations. Economic security concerns are increasingly reshaping the direction and governance of international investment in strategic sectors. Governments are promoting investment in activities considered critical for technological leadership, industrial resilience and national security, while screening or restricting transactions that may create vulnerabilities. Promotion and control therefore increasingly coexist, producing a more selective and geopolitically conditioned pattern of FDI.

Second, the reconfiguration of global supply chains is increasingly shaping investment patterns in manufacturing industries. Building on pre-existing efforts to enhance resilience, firms are adjusting the geography and organization of their production networks to mitigate the effects of trade policy uncertainty, secure access to key inputs and markets, and respond to incentives or pressures to invest domestically or in selected foreign locations. Together, these trends point to a reconfiguration of global investment dynamics in which considerations of efficiency and market access increasingly coexist with considerations of resilience, strategic positioning and risk management.

Although this chapter focuses on international investment, domestic investment remains a main driver of capital formation, industrialization and structural transformation in most economies. The development experience of major industrial economies, including most notably China, illustrates that large-scale domestic investment in infrastructure, urbanization, manufacturing capacity and industrial ecosystems has played a central role alongside integration into global production networks. For many developing economies, domestic and regional investment therefore remain essential complements to FDI in building productive capacity and supporting industrial development. Nevertheless, international investment continues to play a critical role in shaping technology transfer, supply chain integration, access to markets and the international organization of production. Understanding how global investment patterns are changing is therefore important not only for attracting

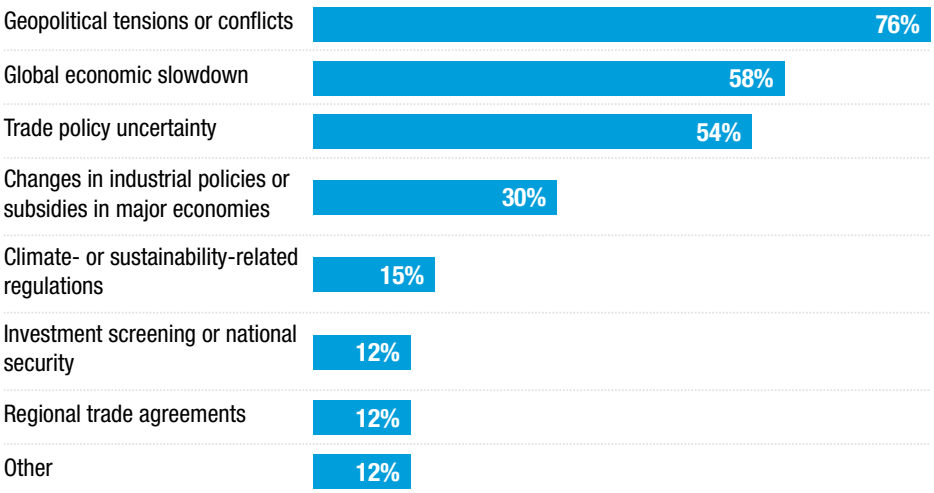
[2] A growing body of literature shows that trade and investment patterns are becoming more sensitive to policy and regulatory compatibility, understood as similarities in countries' policy environments, regulatory frameworks and exposure to trade or investment restrictions. Relevant analysis and discussions appear in recent UNCTAD work on trade (e.g. *Global Trade Update* series), investment patterns (e.g. *World Investment Report 2025*; UNCTAD, 2024c) and development (e.g. *Trade and Development Report 2025*). In addition to UNCTAD analysis, evidence that FDI patterns have become more sensitive to geopolitical factors is also found in recent studies from the International Monetary Fund, the World Bank and the European Central Bank (IMF, 2023b; Aiyar et al., 2024; Boeckelmann et al., 2024; Grover and Vézina, 2025).

Box III.1
The 2026 UNCTAD IPA Survey

The 2026 UNCTAD IPA Survey, run in cooperation with the World Association of Investment Promotion Agencies and the Caribbean Association of Investment Promotion Agencies, examines how agencies are responding to the more turbulent international investment environment. The survey covers external factors affecting investment, project changes associated with geopolitical and trade policy uncertainty, policy responses, and shifts in IPA priority sectors and target markets, as well as adjustments in investment facilitation, aftercare and policy advocacy. The results reflect a highly unsettled investment environment: 76 per cent of respondents identified geopolitical tensions or conflicts among the external factors having the greatest impact on investment in their country over the past three years, while 58 per cent cited the global economic slowdown and 54 per cent cited trade policy uncertainty (box figure III.1.1).

Box figure III.1.1
External factors with the greatest impact on inward investment in the past three years, as identified by investment promotion agencies

Share of respondents, up to three selections
(Percentage)



Source: UNCTAD 2026 IPA Survey (*n* = 99).

Notes: The survey received 99 responses; 62 were from developing economies and 37 from developed economies, with 13 responses from least developed countries. Of the respondents, 80 are classified as national agencies and 19 as subnational or regional agencies. The sample covers all major regions. Results are presented as shares of responding agencies and are not weighted by country size. Findings from individual questions are presented throughout chapter III.

Source: UNCTAD.

The investment trend: **more concentrated, more selective, less accessible** to developing economies

foreign capital, but also for positioning domestic economies within the evolving international production system.

Against this background, this chapter pursues four main objectives. First, it analyses recent shifts in international investment patterns, with particular attention to the rise of strategic sectors and the growing roles of industrial policy, investment screening and economic security considerations in shaping FDI trends (section B). Second, it examines the reconfiguration of global supply chains, focusing on manufacturing investment, where these dynamics are most visible (section C). Third, it assesses the implications of ongoing changes for developing countries and discusses policy options to help countries promote, retain and leverage foreign investment in a more fragmented and selective global investment landscape (section D). Finally, it explores areas where international cooperation and common approaches may help address emerging tensions and support a more open, predictable and development-oriented investment environment (section E).

The issues addressed in this chapter are particularly relevant for ongoing international policy processes, including the Financing for Development agenda and multilateral, regional and bilateral trade discussions.

The Financing for Development agenda has clearly reaffirmed the central role of FDI in supporting sustainable development, particularly in countries that face structural constraints. The Compromiso de Sevilla, adopted at the Fourth International Conference on Financing for Development, calls for renewed efforts to mobilize and channel investment towards productive transformation and the Sustainable Development Goals. In addition, it established the first-ever Borrowers' Platform, launched in April 2026 during the IMF–World Bank Spring Meetings with the support of UNCTAD, reflecting growing efforts by developing countries to address debt constraints that limit fiscal space and investment. The analysis in this chapter points to a growing gap between these objectives and current investment trends: global investment is becoming more concentrated, more selective and less accessible to developing economies. By identifying these shifts and their implications, the report helps inform the broader policy architecture for strengthening the role of FDI in development.

At the same time, ongoing multilateral trade discussions highlight rising pressures on the global trading system, including fragmentation, policy uncertainty and uneven integration, which particularly affect the most vulnerable economies. These issues have featured prominently in policy discussions at Ministerial Conferences of the World Trade Organization on the future of the trading system. Within global production networks, trade and investment are closely intertwined. With its analysis of the investment dimension of supply chain reconfiguration, this chapter complements existing trade-based evidence and helps inform ongoing multilateral discussions on global economic fragmentation and its implications for development.

B. Competition in strategic sectors

Strategic sectors – such as AI and other advanced and sensitive technologies, critical minerals, energy transition technologies and semiconductors – are among the fastest-growing components of global investment flows. As a result, many governments are increasingly prioritizing these industries within their investment promotion strategies. However, FDI in these sectors remains highly concentrated geographically. In advanced economies in particular, growth in strategic sector investment is strongly shaped by active industrial policies that provide substantial public support and is supported by a growing set of restrictive measures designed to protect national security and technological leadership.

Competition in strategic sectors has become a central feature of the contemporary investment landscape. As geopolitical tensions intensify and economic security considerations gain prominence, governments and firms alike are placing greater emphasis on control over sectors deemed critical for national security, technological leadership and long-term economic growth. These developments are reshaping patterns of FDI, altering the balance between openness and protection, and redefining the role of the State in guiding cross-border capital flows.

The meaning of "strategic" is not uniform across countries. For major advanced economies, strategic sectors are often defined through the lens of technological leadership and national security and control over frontier capabilities, which include semiconductors, AI, quantum technologies, advanced manufacturing and dual-use technologies. For many developing economies, by contrast, the sectors of greatest strategic importance may be those that underpin resource security, resilience and basic development needs, including food systems, agribusiness, water infrastructure, energy access, health-related production, logistics and climate-resilient infrastructure. Recent trade disruptions, geopolitical tensions and geoeconomic fragmentation have reinforced the strategic importance of such sectors, while climate change is increasing their vulnerability and raising the cost of underinvestment.

The focus of this section is deliberately narrower than the full range of sectors that may be considered strategic from a national development perspective. It examines a set of sectors that are at the centre of current global investment competition and security-related policy intervention. The broader development question – how countries identify sectors that are strategic for their own resilience, productive transformation and sustainable development – is taken up in section D.

The sectors analysed in this section combine a central role in shaping future production systems with a high degree of strategic competition, reflected in the growing influence of industrial policy, regulatory intervention and economic security considerations on investment decisions. In these sectors, investment decisions are increasingly influenced not only by market fundamentals – such as

cost, efficiency and market access – but also by industrial policy, regulatory scrutiny and economic security considerations.

The set of strategic sectors identified in this report can be grouped into five categories that cover key technological and industrial domains associated with the digital and energy transitions as well as economic security considerations. They are (i) AI infrastructure and AI-related technologies, including data centres and digital backbone infrastructure; (ii) advanced and sensitive technologies, encompassing frontier and dual-use technological domains such as robotics, quantum technologies and space systems; (iii) critical minerals; (iv) energy transition technologies and services; and (v) semiconductors (table III.1). Although analytically distinct, these categories are also deeply interconnected. AI infrastructure and advanced technologies depend on semiconductors and critical minerals; energy transition technologies rely heavily on critical minerals and advanced manufacturing inputs; and semiconductors themselves depend on secure access to critical minerals and highly specialized industrial ecosystems.

Empirically, tracking investment in these strategic sectors is not straightforward, as their perimeter does not map neatly onto standard sectoral classifications. To identify them in a transparent and consistent way, this chapter therefore combines multiple layers of information from project-level greenfield data in The Financial Times fDi Markets database (box III.2).

Table III.1
Definition of strategic sectors used in the analysis

Areas	Strategic focus	Included activities and scope
AI infrastructure and AI-related technologies	AI-driven backbone including compute capacity, data centres and core AI technologies, and AI-enabled ecosystem technologies	Digital infrastructure (data centres, cloud), core AI capabilities (AI systems, big data) and AI-enabled technologies (e.g. cybersecurity, blockchain and immersive technologies)
Advanced and sensitive technologies	Frontier and dual-use technologies with strategic and security relevance	Space systems, biotechnology, robotics, quantum technologies, autonomous systems and military-linked technologies
Critical minerals	Critical minerals essential for energy transition and advanced industrial ecosystem	Mining, extraction and processing of key transition metals and strategic materials
Energy transition technologies and services	Manufacturing and services enabling the low-carbon transition	Batteries and transition-enabling technologies (e.g. electric vehicles, hydrogen, carbon capture, clean-tech supply chains); excludes primary renewable power generation
Semiconductors	Core semiconductor manufacturing and production equipment with highest strategic sensitivity	Semiconductor fabrication, design-enabling activities and equipment production

Source: UNCTAD.

Abbreviation: AI, artificial intelligence.

Box III.2
Strategic sectors: Data and classification

Investment in strategic sectors is tracked using project-level data on greenfield investment announcements from The Financial Times fDi Markets database.

As with all announced greenfield investment data, project values reported in fDi Markets do not necessarily correspond to realized capital expenditure. Implementation may occur gradually over several years, and some announced projects may be delayed, scaled down or cancelled. This consideration is particularly relevant in strategic sectors characterized by large-scale projects and long investment horizons, such as AI infrastructure and semiconductors. Nevertheless, announced greenfield data remain highly informative for analysing emerging investment patterns, investor strategies and shifts in the geography of international production, as they capture location decisions and intended investment allocation at an early stage.

The use of greenfield project data for analysing sectoral and geopolitical investment patterns reflects the dominant practice in recent work on geoeconomic fragmentation and supply-chain reconfiguration, including by international organizations (IMF, 2023b; Aiyar et al., 2024; Boeckelmann et al., 2024; Grover and Vézina, 2025; OECD, 2025a), consultancies and financial institutions (McKinsey Global Institute, 2025; J.P. Morgan, 2026), and academic scholars (Kim and Lee, 2026; Park, 2026). Balance-of-payments FDI statistics remain the standard measure of aggregate FDI trends but do not provide the timeliness and sectoral granularity required to track emerging shifts in international investment patterns in this context.

Each project in the fDi Markets database is classified individually by cluster, sector, subsector and business function, in a proprietary system. The terms “sector” and “subsector” refer to the industry and more specific line of activity of the investment project at the host site, and “business activity” records the function performed there, such as manufacturing, extraction, research and development or headquarters. This sectoral classification does not strictly correspond to any standard statistical classification, yet broad correspondence is feasible for analytical and comparative purposes. The fDi Markets documentation indicates that subsectors can be aligned with the North American Industry Classification System (NAICS) (fDi Markets, 2022).

In this chapter, investment in strategic sectors is identified through a combination of sector and subsector classification and project-level tags provided by fDi Markets. Sector and subsector classification provides the main criterion. Where the relevant category is both exhaustive and exclusive, it is used on its own. This is the case for semiconductors, which are captured through the dedicated fDi Markets sector “Semiconductors”. For the other strategic sectors, sectoral classification is complemented with project-level tags.

Box table III.2.1 summarizes the selection criteria used to identify strategic sectors in the analysis, combining sectoral and subsectoral classifications, and complementary project-level tags from the fDi Markets database. Broad NAICS correspondences are also provided, where available, for indicative reference. The sectors are listed hierarchically according to coding priority rules that ensure mutual exclusivity between categories. Note that the category “Energy transition technologies and services” does not include projects in renewable power generation. Although central to the green transition, such projects are generally less directly linked to the industrial and technological capabilities that are increasingly shaping strategic competition and the reconfiguration of international production systems.

Source: UNCTAD.

Box table III.2.1
Selection criteria for strategic sectors

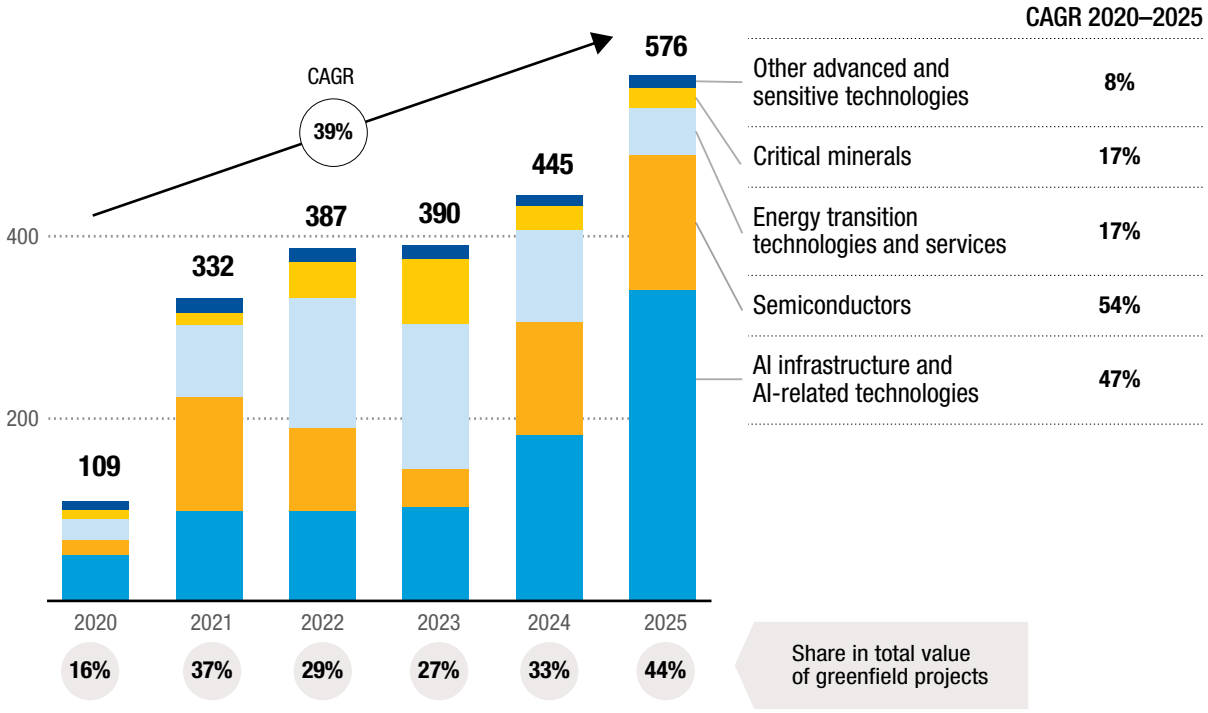
Strategic sector	Main criteria: fDi Markets sector/subsector	Broad NAICS correspondence, where available	Complementary "tag" indications
Semiconductors	Sector: "Semiconductors"	NAICS 3344, Semiconductor and other electronic component manufacturing	None
Critical minerals	Subsectors: "Copper, nickel, lead and zinc mining" and "Other metal ore mining" (in "Metals" sector)	NAICS 2122, Metal ore mining and NAICS 331, Primary metals manufacturing	Climate- and resource-related tags, including e.g. critical minerals and lithium
Energy transition technologies and services	Subsector: "Batteries" (in "Electronic components" sector); exclusion of subsectors linked to renewable power generation (in "Renewable energy" sector)	NAICS 335910, Battery manufacturing	Climate-related tags, including e.g. clean technologies, electric vehicles, hydrogen, carbon capture, wind and solar technologies
AI infrastructure and AI-related technologies	Subsector: "Data processing, hosting, and related services" (in "Communications" sector)	NAICS 5182, Data processing, hosting and related services	AI- and digital-related tags, including e.g. data centres, cloud computing, AI, big data and cybersecurity
Advanced and sensitive technologies	Miscellaneous; selected sectors and subsectors, including "Biotechnology" sector and "Guided missile & space vehicles" subsector (in "Space & defense" sector)	Selected: NAICS 325414, Biological product manufacturing; NAICS 336414, Guided missile and space vehicle manufacturing	Targeted digital- and frontier-tech tags, including e.g. robotics, quantum computing, military technologies and unmanned systems

Source: UNCTAD.
Abbreviations: AI, artificial intelligence; NAICS, North American Industry Classification System.

1. The growth of international investment in strategic sectors

Investment in strategic sectors has expanded rapidly, both in absolute terms and as a share of global investment. The value of announced greenfield projects rose from $109 billion in 2020 to $576 billion in 2025 (figure III.1). Over the same period, the share of global greenfield investment in strategic sectors increased from 16 per cent to 44 per cent, indicating a strong shift towards a limited set of priority industries.

Figure III.1
Strategic sectors now attract almost half of international investment globally
Value of announced greenfield projects in strategic sectors
(Billions of dollars and percentage)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Notes: Data for 2025 are annualized on the basis of information available as of 30 November. The aggregate CAGR of non-strategic sectors during 2020–2025 is 5 per cent.

Abbreviation: CAGR, compounded annual growth rate.

This expansion reflects distinct but interconnected investment waves, with differences in scale, timing and growth dynamics.

AI infrastructure and AI-related technologies are the largest segment in value terms. They accounted for three fifths of total greenfield investment in strategic sectors in 2025, rising from less than $50 billion in 2020 to almost $350 billion. This surge reflects the scale-up of the computing and data backbone required for AI deployment – including data centres, cloud infrastructure and related digital infrastructure – alongside investment in AI-enabled applications and automation across sectors.

Semiconductors represent the fastest-growing segment, with international investment expanding by 54 per cent annually in 2020–2025. Growth reflects

their role as a key input into AI, digital infrastructure and advanced manufacturing, reinforced by industrial policy support and efforts to strengthen supply chain security. Together, investment in semiconductors and AI forms a closely linked digital value chain, combining the largest investment base with the fastest growth rates across strategic sectors.

Investment in critical minerals also expanded strongly, growing at an average annual rate of 17 per cent during the period. Growth reflects rising demand for minerals that are critical inputs into a wide range of strategic industries, including semiconductors, AI infrastructure, advanced manufacturing and energy transition technologies. Investment patterns increasingly combine resource extraction with efforts to expand refining and processing capacity and secure access to critical inputs.

Investment in strategic sectors **expanding rapidly, but highly concentrated**

Energy transition technologies and services recorded similar growth dynamics, also expanding at an average annual rate of 17 per cent over the period. Growth was driven by rapid expansion in batteries, electric vehicles and related clean-technology value chains, supported by industrial policy incentives, supply-chain diversification strategies and efforts to build manufacturing capacity. Although driven by different investment motivations, critical minerals and energy transition technologies are closely linked through supply chains spanning extraction, processing, manufacturing and final industrial applications.

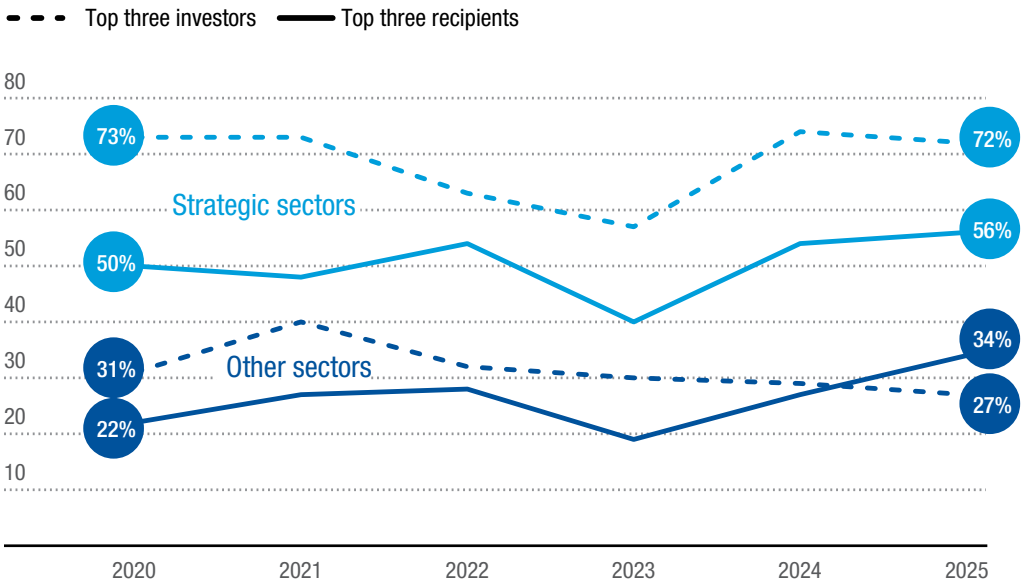
Other advanced and sensitive technologies – including in areas such as quantum technologies, advanced robotics, cybersecurity and autonomy-related systems – grew more slowly in 2020–2025, at 8 per cent annually. Despite their smaller scale, they are strategically important for their dual-use applications and links to technological leadership.

Investment in strategic sectors is highly concentrated in a small number of economies. Global economic fragmentation and industrial policy dynamics reinforce this tendency by favouring locations with established technological capabilities, strategic assets and supportive policy frameworks. In 2025, across the strategic sectors analysed, the average share of the top three investor economies was 72 per cent of global greenfield project values and the average share of the top three recipient economies was 56 per cent, compared with 27 per cent and 34 per cent, respectively, in the other sectors (figure III.2).

These concentration effects reflect a combination of firm-level factors, including economies of scale, supply chain integration and the concentration of technological capabilities, and policy-driven factors, such as subsidy regimes, local content incentives and regulatory compatibility. Together, these dynamics shape both the location of investment and the concentration of capital among a limited number of source countries.

Their relative importance, however, varies across strategic sectors depending on the underlying asset and capability requirements. AI infrastructure depends on reliable energy, digital connectivity, data governance and technical capabilities. Advanced technologies depend on research systems, specialized skills, intellectual property frameworks and links between firms, universities and public agencies. Critical minerals depend on resource endowments but create opportunities for processing and refining only where infrastructure, energy and regulatory conditions are adequate. Energy transition technologies require manufacturing capabilities, supplier networks and policy support. And semiconductors require highly specialized ecosystems, proprietary know-how and large-scale public support.

Figure III.2
International investment in strategic sectors is highly concentrated
Value of announced greenfield projects; share in total
(Percentage)

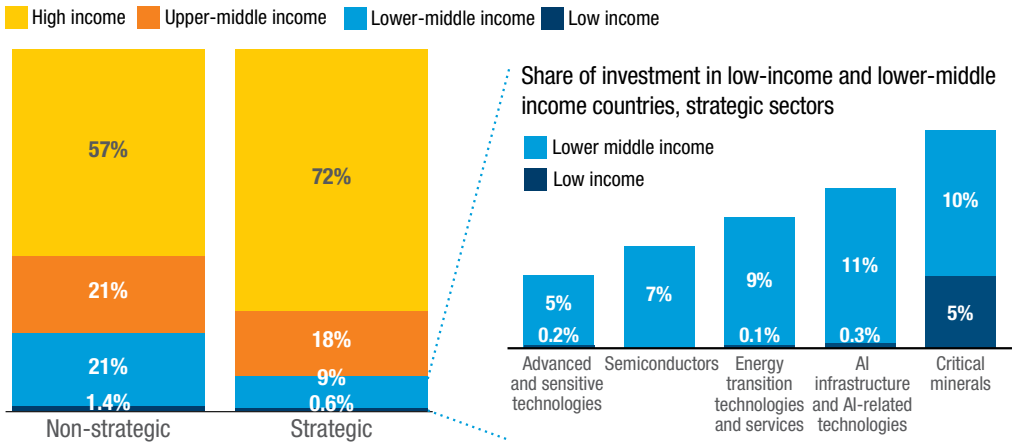


Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Notes: For strategic sectors, concentration measures are calculated as the simple average of the top three investor and top three recipient shares across individual sectors, rather than for strategic sectors as a whole, in order to account for differences in sector size, characteristics and investment patterns. Calculating concentration for strategic sectors as a single aggregate still yields a significant, though narrower, gap relative to other sectors.

As a result of this high concentration, the expansion of FDI in strategic sectors is reinforcing an uneven global distribution of investment across both source and recipient economies. On the recipient side, economies in the low-income and lower-middle-income World Bank groups together attract only about 10 per cent of global greenfield investment in strategic sectors, compared with more than 20 per cent in the other sectors, and the share of low-income countries remains marginal (figure III.3; see also chapter I, box I.1 on country classifications). Participation varies significantly across strategic sectors, remaining very limited in semiconductors, advanced technologies and AI-related activities, but reaching 15 per cent in critical minerals. The latter stands out as the only strategic sector in which low-income countries capture a non-negligible share of global investment, reflecting the importance of location-specific resource endowments.

Figure III.3
International investment in strategic sectors bypasses poorer countries
Share of value of inward announced greenfield projects by income group, 2020–2025
(Percentage)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

2. Emerging patterns of international investment in strategic sectors

Beyond the common features described in section B.1 – strong growth, high capital intensity and marked concentration – strategic sectors do not follow a single model of international investment. Their organization reflects differences in technology, resource dependence, infrastructure requirements, policy sensitivity, firm structure and value chain configuration. These differences matter because they shape both the geography of investment and the development opportunities available to different groups of countries.

a. AI infrastructure and AI-related technologies

AI infrastructure and AI-related technologies are among the fastest-growing components of strategic sector investment. Between 2020 and 2025, announced greenfield investment in AI-related activities grew at an average annual rate of 47 per cent (see figure III.1). The current expansion is based on a capital-intensive physical layer, including data centres, cloud infrastructure, high-capacity connectivity and computing systems for model training, storage and deployment.

The main driver of this investment pattern is the rapid expansion of demand for computing capacity. The AI economy is often described in terms of algorithms, models and applications, but its deployment depends on large-scale physical infrastructure. Data centres and cloud platforms form the backbone through which AI can be trained, hosted and commercialized. This gives the sector an infrastructure-like investment profile: projects are large, capital-intensive and highly dependent on reliable energy, land, water, connectivity and permitting capacity.

The geography of AI investment is shaped by both commercial and geopolitical considerations. Data centres are often located close to the markets they serve because of latency requirements, data localization rules and concerns related to digital autonomy. At the same time, governments increasingly view AI infrastructure as a strategic asset linked to technological leadership, security and control over data, and computing capacity. This has reinforced investment flows among economies with interconnected digital ecosystems, advanced technological

capabilities and compatible regulatory environments, and contributed to a broader shift in investment screening towards digital activities, which now account for up to 60 per cent of screened FDI projects (UNCTAD, 2025h).

These dynamics have produced a highly concentrated investment landscape centred on major advanced digital and innovation hubs, particularly in the United States and Europe, but with an asymmetric structure between investors and recipients (figure III.4, panel a). On the investor side, the United States dominates outward investment, accounting for almost half of global greenfield investment between 2020 and 2025. It hosts many of the leading hyperscalers, cloud platforms and AI developers, giving companies based in the United States both the capital and technological capabilities to expand AI infrastructure abroad. On the recipient side, the European Union stands out, capturing about 30 per cent of inward flows. It combines large digital markets, advanced connectivity and energy infrastructure, and a regulatory environment in which data governance, jurisdictional certainty and digital sovereignty matter for investment decisions.

At the same time, investment patterns are gradually widening beyond the more established innovation hubs. India has emerged as a major recipient because of its scale, fast-growing digital demand, technical skills and expanding markets for cloud services. Recent announcements also point to growing investment in South-East Asia, in particular Malaysia, and other emerging digital markets as firms seek to position infrastructure closer to new sources of demand.

New sources of investment are emerging in West Asia. The United Arab Emirates accounted for 9 per cent of outward investment between 2020 and 2025, with major projects announced in Europe and the United States, including large-scale AI and data centre investments in France. These investments reflect broader efforts by Gulf economies to position themselves within global AI infrastructure networks through capital deployment, energy advantages and strategic partnerships with leading technology firms.

Despite this gradual diversification, international investment in AI remains highly concentrated. Location choices depend not only on market size, but also on the depth of digital ecosystems, the presence of major technology firms, access to advanced semiconductors, regulatory predictability and the availability of large-scale energy and connectivity infrastructure. This concentration has significant development implications. Unequal access to computing infrastructure, data and skills limits the ability of many developing countries to participate in the AI economy beyond the adoption of externally developed tools (box III.3).

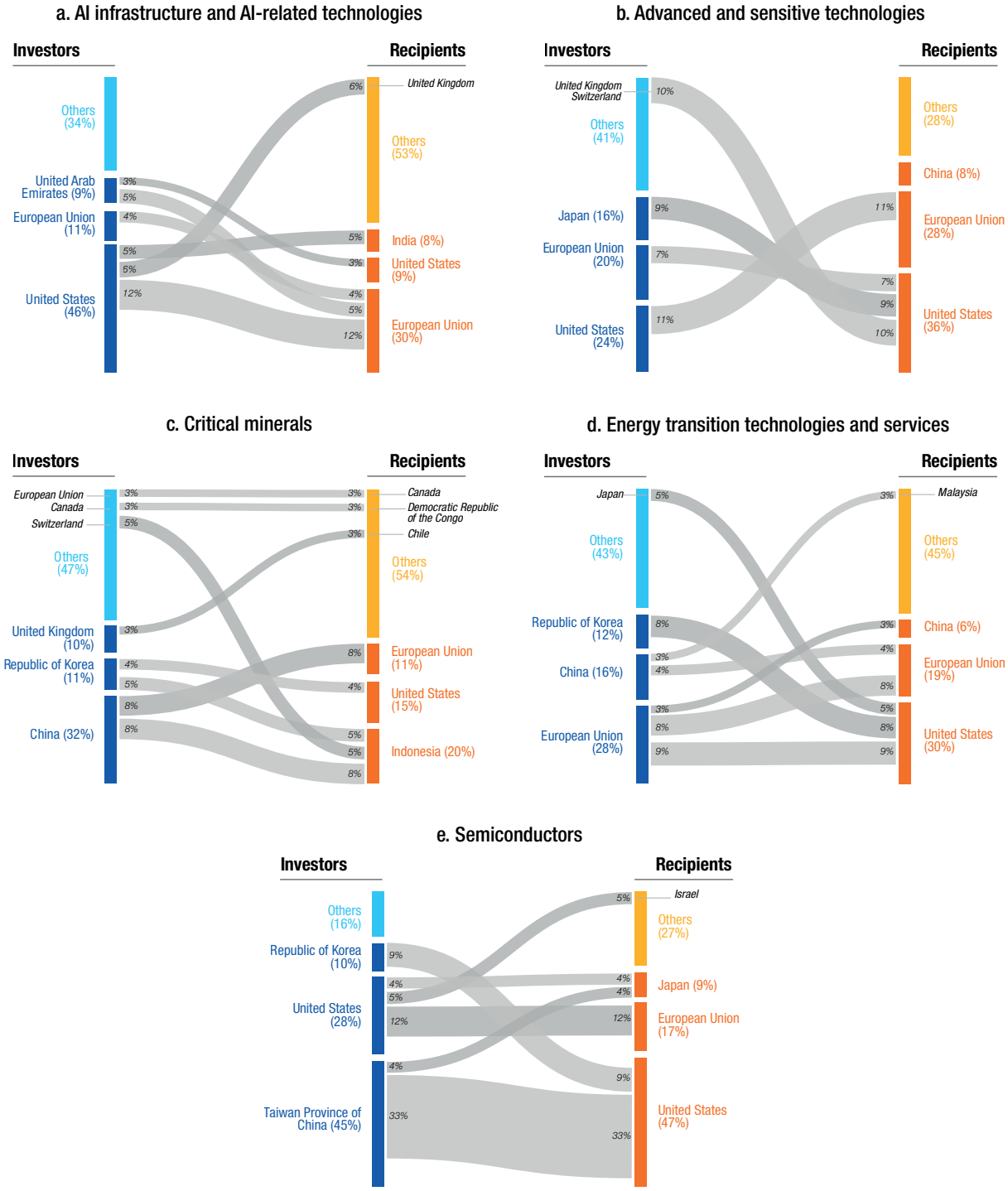
These concerns are reflected in recent United Nations initiatives: The High-level Advisory Body on Artificial Intelligence called for more inclusive participation and capacity-building, emphasizing that the benefits of AI must be shared equitably and that developing countries require targeted support to build the infrastructure, skills and regulatory frameworks needed to engage on their own terms. And the Independent International Scientific Panel on AI was established in 2025 to support evidence-based and inclusive global governance of AI (United Nations, 2024a).

In addition, following the publication of the *World Investment Report 2025* (UNCTAD, 2025h) and the related policy toolkit for International Investment in the Digital Economy (UNCTAD, 2026), UNCTAD and the International Telecommunication Union launched the Digital Infrastructure Investment Catalyzer with support from the World Bank and other multilateral development partners. Its objective is to help mobilize investment, strengthen capacity and expand financing for digital infrastructure in developing countries.

Outward AI investment: led by United States

Main destination: European Union

Figure III.4
Strategic sectors display markedly different investment patterns
Share of value of announced greenfield projects, by strategic sector, 2020–2025



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Notes: Bars show the three largest investors (left) and recipients (right), ranked from largest (bottom) to smallest (top), by their share in the value of announced greenfield projects in each sector. Flows show the main bilateral investment links, with percentages indicating their share in the value of announced greenfield projects in the sector. Bar heights and flow widths broadly reflect relative investment shares; exact values are indicated by the percentages shown.

Box III.3
AI, entrepreneurship and development: From infrastructure to participation

The concentration of AI infrastructure in a small number of economies raises not only issues of access to computing capacity, but also broader challenges for firm-level participation in the AI economy. For developing countries, the key question is not only whether infrastructure is available, but whether firms and entrepreneurs can effectively use AI to create value, innovate and compete.

UNCTAD analysis highlights that AI adoption is increasingly driven by access to a combination of complementary assets: data, computing power, skills and digital infrastructure. In many developing countries, gaps across these dimensions limit the ability of firms – especially micro, small and medium-sized enterprises – to move beyond basic adoption of externally developed tools. In practice, barriers often go beyond technical capabilities alone. Many firms lack clarity about the business value of AI, as well as how it applies to day-to-day operations and whether it can generate concrete returns. As a result, AI is frequently perceived as complex, costly or insufficiently relevant to existing business models, which slows adoption and experimentation. Participation therefore tends to remain concentrated in downstream uses, such as services, platforms or localized applications, with limited involvement in higher-value segments of AI development.

The relevance and accessibility of data also matter. While access to data is important, access to relevant, local and sector-specific data is often more critical for effective AI adoption. Many AI tools are developed using data, business models and market assumptions from advanced economies, which may not reflect local realities, consumer behaviour or production structures in developing countries. This can reduce the usefulness of AI applications for local firms and limit their ability to adapt technologies effectively to domestic markets and sectors.

Entrepreneurship plays a critical role in bridging these gaps. Start-ups and digital firms can act as entry points into the AI economy, adapting global technologies to local markets and creating new applications across sectors. However, their development depends on enabling ecosystems, including access to finance, digital infrastructure, skills, data governance frameworks and linkages to global technology networks. Weaknesses in these areas constrain scaling and limit the diffusion of AI across the broader economy.

Policy responses therefore need to go beyond infrastructure provision. Drawing on UNCTAD's Entrepreneurship Policy Framework, strengthening participation in the AI economy requires coordinated efforts to build entrepreneurship ecosystems, expand business development services and support firm-level capabilities. This includes targeted training and capacity-building initiatives, including for women and youth – such as AI-focused programmes delivered through the global Empretec network of UNCTAD – aimed at enabling entrepreneurs and small businesses to identify practical business applications of AI and use these technologies effectively. Without such measures, the current concentration of AI capabilities risks reinforcing existing technological divides and limiting the contribution of AI to structural transformation.

Source: UNCTAD (2025a).

b. Advanced and sensitive technologies

Advanced and sensitive technologies cover a diverse set of high-value and often dual-use activities, including biotechnology, robotics, aerospace, quantum-related technologies and defence-linked systems. International investment in these segments accounts for a smaller share of strategic sector investment than AI infrastructure, semiconductors or energy transition technologies, but it is strategically important because of its links to technological autonomy, national security and critical industrial capabilities. In the period 2020–2025, investment in these segments grew at an average annual rate of 8 per cent – a significant increase, though more moderate than in other strategic sectors (see figure III.1).

Building capabilities and infrastructure: key for developing economies to attract investment in advanced technologies

The nature of cross-border investment in advanced and sensitive technologies differs from investment in AI infrastructure, but the underlying drivers are closely connected. AI infrastructure is dominated by large-scale physical assets such as data centres, cloud systems and computing capacity, whereas advanced technologies are more knowledge-intensive and application-driven. Nevertheless, both evolve within the same digital and innovation ecosystem: AI infrastructure provides the computing backbone on which many advanced applications depend, while the expansion of these applications reinforces demand for computing capacity, specialized data, technical talent and digital services, further supporting investment in AI infrastructure.

The patterns of international investment in advanced and sensitive technologies closely mirror that of investment in AI infrastructure. International investment concentrated mainly in links between the United States and Europe, reflecting the role of advanced research capabilities, specialized technology firms and established regulatory frameworks in shaping investment in these sectors (see figure III.4, panel b). This pattern reflects not only technological strengths, but also the increasing importance of regulatory compatibility, business environments and security considerations in strategic sectors. At the same time, market and industrial factors continue to matter alongside geopolitical considerations. For example, China remains an important recipient of investment from both the United States and the European Union, reflecting the continued relevance of its industrial capabilities, technological ecosystem and large domestic market in selected advanced industries.

For developing economies, participation remains limited and largely confined to niche segments. Entry points are more likely to emerge in specialized services, component supply, testing, assembly, clinical or technical support functions, or applications adapted to local markets, rather than in core technology development. The development challenge is therefore to build absorptive capacity around digital infrastructure, skills, research partnerships, standards and innovation support, so that AI infrastructure and related digital investments can translate into broader participation in advanced applications (UNCTAD, 2025d).

c. Critical minerals

International investment in critical minerals, including copper, lithium, cobalt, nickel, graphite and rare earth elements, is central to the energy transition, digital transformation and advanced manufacturing. These materials are essential inputs for renewable energy systems, battery storage, electric vehicles, electricity grids, semiconductors and strategic technologies. Their role has placed them at the centre of industrial policy, investment strategy and geopolitical competition (IEA, 2025; UNCTAD, 2025f).

FDI in critical minerals is driven by the rapidly growing demand for strategic inputs required across industries involved in the energy and digital transition and advanced manufacturing. Because mineral deposits are geographically fixed, investment first follows access to resources. At the same time, the sector is increasingly shaped by concerns related to supply chain resilience, strategic autonomy and industrial security. Many critical minerals are characterized by

high concentration not only in extraction, but also in refining and processing, often involving a limited number of suppliers and locations. Governments and firms are therefore investing not only to expand production capacity, but also to diversify supply sources, secure long-term access to inputs and reduce vulnerabilities linked to concentrated trade relationships.

The value of announced greenfield investment in critical minerals increased strongly between 2020 and 2023, before declining in the most recent years, although remaining well above pre-2020 levels (see figure III.1). Outward investment remains concentrated among a small number of source economies, led by China, followed by the Republic of Korea and the United Kingdom (see figure III.4, panel c). Recipient economies are more diversified, reflecting the dual structure of investment in critical mineral supply chains. Resource-rich developing economies, including Chile, the Democratic Republic of the Congo and Indonesia, attract investment in extraction, while higher-value activities such as refining, processing and precursor materials production remain concentrated in locations with the necessary infrastructure, energy, logistics and industrial capabilities. As a result, investment is more geographically dispersed than in AI or semiconductors, although upgrading opportunities remain uneven.

China occupies a particularly central position in this configuration, not only as a major outward investor – accounting for about one third of global greenfield investment in critical minerals – but also across downstream refining and processing activities linked to strategic mineral supply chains. Large-scale investment in Indonesia linked to nickel processing illustrates this role, while newer projects in Europe, Latin America and North Africa point to broader efforts to secure inputs, expand refining capacity and strengthen positions across strategic industries.

At the same time, investment from advanced economies increasingly links industrial centres in Europe and North America with resource-rich economies such as Canada, Chile and the Democratic Republic of the Congo, reflecting efforts to diversify supply sources and strengthen the critical mineral value chain.

For mineral-rich developing countries, the key policy challenge is to promote domestic and international investment and convert it into structural transformation, rather than deeper dependence on raw material exports. This challenge is particularly visible in Africa. The continent holds at least one fifth of global reserves of more than a dozen minerals critical to the energy transition, including about 19 per cent of reserves linked to electric-vehicle supply chains, yet accounts for only about 2 per cent of global investment in these industries (UNCTAD, 2023a). Addressing this gap is also central to the recommendations of the United Nations Secretary-General's Panel on Critical Energy Transition Minerals, which called for greater equity, transparency, benefit-sharing, local value addition, and environmental and social responsibility across mineral value chains (United Nations, 2024b).

Capturing value from critical minerals requires **investment in processing, refining and industrial capabilities**

Country experiences show that policy can shape investment outcomes and that approaches differ based on the type, scale and market significance of a country's critical mineral resources. Countries with large reserves or dominant positions in strategic minerals may be able to use export measures, fiscal tools, State participation, industrial clustering and strategic partnerships to promote local refining and processing activities, as illustrated by the nickel strategy of Indonesia. Countries with established mining sectors but more limited prospects for large-scale downstream industrialization may focus on supplier development, innovation, sustainability standards and regional linkages, as in Chile. Smaller producers or countries with narrower mineral endowments can still promote local value capture through targeted instruments, including differentiated royalties, restrictions on low-value exports, investment funds and incentives for domestic processing, as in Senegal (box III.4).

For many developing economies, especially where national markets or resource bases are too small to anchor processing investments alone, regional offtake aggregation and multilateral guarantees or political risk insurance can also help improve project bankability and reduce risks for investors and lenders.

Box III.4
Critical minerals: Selected country approaches to promoting downstream value addition

Chile remains a leading global producer of copper and lithium and has built a strong supplier ecosystem around mining. Downstream industrial activities such as battery manufacturing are still developing, with current policy efforts focused on strengthening technological capabilities and value addition. The 2023 progressive royalty reform increased fiscal revenues while redistributing funds to mining regions, and the R&D Tax Incentive supports technological upgrading, including mining-related innovation. Through challenge-based calls by the Chilean economic development agency and pilotage infrastructure such as the Centro Nacional de Pilotaje, Chile seeks to improve sustainability (e.g., lithium extraction, residue recovery) and strengthen linkages between mining firms and suppliers. Investment facilitation reforms and environmental, social and governance standards – including water-use targets and renewable energy integration – reinforce the country's reputation as stable and sustainability-oriented.

Indonesia shifted from exporting raw nickel ore to building a domestic processing and battery materials hub, based on the 2020 ban on nickel exports. Unlike the 2014 ban on raw minerals, the nickel restriction was paired with strong fiscal incentives (up to 20-year tax holidays, super-deductions, value added tax and customs exemptions), subsidized energy through the Domestic Market Obligation and large-scale industrial clustering in industrial parks such as Morowali and Weda Bay. These parks addressed bottlenecks by providing integrated infrastructure, including power, ports and logistics. Regulatory streamlining (centralized permits, open-source software licensing) and State coordination, including the establishment of the Indonesia Battery Corporation and sovereign co-investment vehicles such as the Indonesia Investment Authority, further lowered investor risk. Between 2019 and 2022, FDI in the mining sector rose by more than 200 per cent, and Indonesia emerged as a major global hub for nickel processing, illustrating how export leverage combined with infrastructure and policy coordination can drive downstream investment when supported by strong resource endowments.

Senegal, in its 2016 Mining Code, introduced a modular royalty structure that varies by mineral and by the degree and location of processing. In the phosphate value chain, the Code applies a 5 per cent royalty to phosphate rock and a 1.5 per cent royalty to phosphate acid, differentiating between exports of an upstream mineral and a processed chemical intermediate. In the years following the reform, UN Comtrade data show a marked shift in the composition of Senegal's phosphate exports: exports of phosphoric acid increased from $158.9 million in 2015 to $282.6 million in 2018, while exports of unground phosphate rock fell from $26.3 million to $6.8 million. In value terms, phosphoric acid exports rose from about six times the value of unground phosphate rock exports in 2015 to more than 40 times by 2018, consistent with a stronger orientation toward processed phosphate exports. In 2024, Senegal also strengthened royalty collection by introducing an index-linked reference price for exports of phosphate rock and calculating royalties on the higher of the reference price and the declared sale price.

Source: UNCTAD, based on official documents and governmental websites.

d. Energy transition technologies and services

Energy transition technologies and services include manufacturing and services linked to low-carbon production and transport systems, including electric vehicles, batteries, clean hydrogen, carbon capture and related clean-technology supply chains. The category excludes renewable power generation projects, which are primarily utility-based infrastructure investments rather than manufacturing-oriented activities embedded in strategic industrial value chains. The investment dynamics of this strategic sector are instead closer to advanced manufacturing, reflecting the importance of technological capabilities, industrial ecosystems and supply chain positioning.

International investment in the sector is driven by the rapid expansion of clean-technology industries and by efforts to reorganize supply chains around new industrial objectives and changing policy frameworks. Rising demand for electric vehicles, batteries and low-carbon industrial technologies is generating large-scale investment needs across manufacturing, assembly and component production.

At the same time, governments are using industrial strategies, subsidies, local content requirements and regulatory frameworks to support domestic or regional production capacity. Firms are responding not only to market growth, but also to the need to diversify production away from highly concentrated supply chains, manage trade barriers and position themselves close to major consumer markets and emerging industrial clusters. Investment decisions therefore increasingly reflect a combination of market access, industrial policy support, supply chain resilience, and control over key technologies and inputs.

Cross-border investment is organized across interconnected stages, including battery materials, components, vehicle assembly and related manufacturing activities. Energy transition technologies are also closely linked to the critical minerals sector upstream, forming an integrated supply chain system that spans extraction, processing, manufacturing and final industrial applications. The resulting investment geography is broader and more sequential than in AI infrastructure and advanced technologies. Rather than concentrating primarily around a small number of interconnected innovation ecosystems, investment is distributed across different locations performing distinct functions within the chain – from mineral extraction and processing to battery materials, component manufacturing and final assembly.

Energy transition investment spreads across the green production chain

As with critical minerals, FDI in energy transition technologies and services expanded rapidly between 2020 and 2023, driven by strong growth in electric vehicles, batteries and related supply chains (see figure III.1). The sector remains relatively concentrated, reflecting the technological, industrial and infrastructure capabilities required across clean-technology value chains. Between 2020 and 2025, the European Union accounted for almost 30 per cent of outward greenfield investment, followed by China and the Republic of Korea. On the recipient side, the United States, the European Union and China, in that order, together attracted nearly 60 per cent of global investment (see figure III.4, panel d).

This concentration reflects different but interconnected industrial strategies across major economies. In the United States, inward investment has become part of broader reindustrialization efforts linked to clean technologies and advanced manufacturing, supported by industrial policy incentives and access to the regional market. Firms from Japan and the Republic of Korea have played a particularly important role in automotive assembly and battery manufacturing, alongside growing investment by firms from Europe. This contrasts with AI infrastructure, where the United States dominates as a source of outward investment.

Europe displays a different but equally important dynamic, with firms from China emerging as major investors in batteries and electric vehicle-related manufacturing, including large projects in Germany, Hungary, Portugal, Slovakia and Spain. These investments reflect a combination of factors: for European economies, the expansion of clean-technology manufacturing capacity and the development of battery and electric vehicle supply chains; for investing MNEs, establishing production capacity within key regional markets, maintaining market access and integrating into industrial ecosystems in Europe.

China is a major source of investment in the energy transition

Chinese MNEs are also playing a central role in the broader internationalization of clean-technology manufacturing beyond Europe. Investments in batteries, electric vehicle assembly and related activities have expanded rapidly across emerging markets, including Malaysia, Mexico, Morocco, Saudi Arabia, Türkiye and Viet Nam, contributing to the emergence of new regional production platforms. Together, these patterns point to a broader reorganization of clean-technology manufacturing around regional supply chains, industrial clustering and proximity to major consumer markets.

Policy continues to shape international investment in the sector. Although climate change mitigation has become a less prominent stated motive for industrial policy measures globally (section B.3), it remains important in some major economies, including the European Union and China. In the European Union, State aid and industrial policy measures have supported clean technologies, batteries and low-carbon industrial production in recent years (see chapter II). Similar policy packages in other major economies are reinforcing the tendency for investment to cluster in locations that combine market scale, policy support and industrial capabilities.

For many developing economies, entry points exist but remain selective. Countries with resource-processing or renewable energy capabilities pertinent to the automotive, electronics and chemicals sectors may attract projects in electric vehicles, batteries, precursor materials or components, or in related supply chain projects. Resource-rich economies may seek opportunities in refining, raw materials or related processing. Countries with established manufacturing platforms may attract assembly or component projects linked to regional markets. Experiences such as those of Morocco in batteries and Thailand in electric vehicle-related activities show how policy frameworks, incentives and industrial capabilities can help attract investment in specific segments (see annex A.2). Countries without these capabilities risk being bypassed, even where global demand for clean technologies is expanding.

e. Semiconductors

Semiconductors have become central to industrial policy, export controls and technological competition. The value of announced greenfield investment in semiconductors grew at an annual rate of 54 per cent between 2020 and 2025, the highest rate among the strategic sectors covered in this analysis (see figure III.1).

The investment pattern in semiconductors is driven by a combination of demand growth, technological dependence, extreme capital intensity and security concerns. Demand is expanding because semiconductors are core inputs into AI, digital infrastructure, advanced manufacturing, mobility systems and defence-related technologies. At the same time, production is highly concentrated in a very small number of firms and economies. This creates strong incentives for governments and firms to diversify production capacity, especially for leading-edge semiconductors and key segments of the semiconductor value chain.

Semiconductors are also highly innovation-intensive, but their cross-border investment configuration differs from that of AI infrastructure and advanced technologies. The current wave of greenfield investment centres primarily on manufacturing capacity – fabrication plants, equipment facilities and related industrial infrastructure – rather than

on digital ecosystems. Semiconductors are tradable manufactured inputs that can be integrated into AI systems, vehicles, data centres and industrial equipment across multiple markets. As a result, semiconductor investment is shaped less by the location of users, data ecosystems or digital service markets and more by the ability of a small number of economies to support highly specialized, capital-intensive and security-sensitive manufacturing. This gives the sector a distinctive investment logic, characterized by extreme scale requirements, dense supplier networks, advanced engineering capabilities, large public support programmes and strong national security considerations. Export controls, subsidy schemes and investment screening have therefore become central features of semiconductor investment patterns.

FDI in semiconductors is even more concentrated than FDI in AI infrastructure. A limited number of investor–host links, involving Japan, the Republic of Korea, Taiwan Province of China and the United States, account for most global investment activity (see figure III.4, panel e). Notably, announced greenfield investment from Taiwan Province of China to the United States accounted for about one third of the total value of announced greenfield investment between 2020 and 2025, highlighting the high degree of concentration in the international production of semiconductors. At the same time, it should be noted that these cross-border investment patterns capture the international dimension of the semiconductor industry, while in some major economies – notably China – industrial expansion is mostly being driven by large-scale domestic investment and State-supported capacity-building strategies.

The concentration in international investment in semiconductors reflects the industry's unusually high entry barriers. A leading-edge fabrication plant can cost more than $10 billion and requires highly specialized equipment, chemicals, suppliers, engineering skills, clean-room environments, reliable utilities and accumulated production know-how. Only a small number of firms can develop such projects at scale. Semiconductor FDI is therefore not spreading broadly across low-cost locations, but remains concentrated among technologically advanced economies able to support highly sophisticated manufacturing ecosystems. Despite this concentration, some developing countries – for example, the Dominican Republic, Malaysia and Viet Nam – have identified entry points in activities such as assembly, testing, packaging, selected design services, inputs, maintenance and supplier development (box III.5; Kam, 2025). Capturing these opportunities depends on targeted policy support, reliable infrastructure, specialized skills and close links with lead firms. Even in these narrower segments, participation requires sustained capability-building and integration into highly demanding industrial ecosystems.

Semi-conductors: fastest-growing strategic sector, but capacity concentrated in a few hubs

f. Synthesis: Three configurations of international investment in strategic sectors

The sector-by-sector analysis highlights important differences in the drivers and geography of international investment across strategic sectors. At the same time, some broader investment configurations emerge from the analysis. Broadly speaking, these sectors can be understood as reflecting three distinct but interconnected patterns of international production and investment.

AI infrastructure and other advanced and sensitive technologies form an *innovation-driven investment system*. In AI, the dominant investment driver is the expansion of large-scale digital infrastructure, especially data centres and cloud capacity. In advanced and sensitive technologies, the investment driver is the development and control of sophisticated applications that depend on knowledge assets, research systems, trusted regulatory environments and, increasingly, access to AI infrastructure. Their investment geographies are highly concentrated and largely overlapping, centred on the United

Box III.5
Creating entry points in the semiconductor value chain: Country experiences

The **Dominican Republic** illustrates how a small island developing State can build on an established free zone manufacturing base to position itself for entry into digital and semiconductor-related activities. The country has recorded four consecutive years of increasing FDI inflows, reaching about $5 billion in 2025. Its strategic framework is anchored in the FDI Attraction and Expansion Plan 2025–2036 and aligned with two dedicated sectoral strategies. The National Strategy for Artificial Intelligence and the National Strategy for the Promotion of the Semiconductor Industry, launched in 2025, target entry into assembly, testing and packaging, and printed circuit board production, building on a feasibility assessment that identified the country as a viable location for nearshored semiconductor manufacturing. Investment in large-scale digital infrastructure and an agreement with NVIDIA (United States) to establish the first AI centre of excellence in Central America and the Caribbean signal an emerging role in AI-related activities. High-level coordination through an Investment Promotion Cabinet chaired by the Vice-President, alongside targeted human capital and partnerships in science, technology, engineering and math, underpins efforts to move beyond efficiency-seeking manufacturing towards activities with higher value added.

In **Malaysia**, the semiconductor industry reflects long-term upgrading from labour-intensive assembly to higher-value activities. Since the 1970s, export-oriented industrial zones such as Bayan Lepas and Kulim Hi-Tech Park have provided infrastructure, logistics and supplier clustering, helping the country become a major hub for semiconductor assembly, testing and packaging. Electrical and electronics exports reached about $134.8 billion in 2022, or 38 per cent of total exports. Fiscal incentives, including Pioneer Status and the Investment Tax Allowance, have supported high-technology investment and reinvestment, while targeted grants have helped anchor strategic projects. These measures have been complemented by capability-building policies, including the National Semiconductor Strategy, which allocates about $5.3 billion to train 60,000 engineers, and platforms such as CREST (Collaborative Research in Engineering, Science & Technology), which promote industry-academia collaboration and supplier development. Recent investments in advanced packaging and testing, together with semiconductor exports of about RM 388 billion (about $98 billion) in 2024, underline the sector's continued importance.

In **Viet Nam**, semiconductor development has built on earlier success in export-oriented electronics. From the late 2000s, industrial parks and export processing zones offering serviced land, streamlined permits, tax holidays and one-stop facilitation have helped attract large electronics investors, especially in smartphone production. While this made Viet Nam a major assembly base, local content and domestic supplier linkages remained limited. Policy has since shifted from broad support for higher-quality, technology-intensive FDI to a targeted effort to build a fuller semiconductor ecosystem. The 2024 Strategy for semiconductor industry development aims to establish at least 100 design companies, one small-scale fabrication plant, and 10 packaging and testing plants by 2030. This strategy is reinforced by the 2025 Law on the Digital Technology Industry, Decree 19/2025 and the Investment Support Fund, which support semiconductor R&D, design, manufacturing, packaging, testing and related inputs. Viet Nam is also linking semiconductor policy to clean energy access, including direct renewable power procurement and planned arrangements for favourable pricing and stable clean energy supply for semiconductor plants.

Source: UNCTAD, based on official documents and governmental websites.

States, the European Union and a small number of other advanced innovation hubs, with selected large emerging economies participating where scale, skills and digital demand are strong.

A different configuration emerges around *green transition supply chain networks*, linking critical minerals and energy transition technologies. Critical minerals provide the upstream resource base; energy transition technologies translate these inputs into batteries, electric vehicles, clean-technology equipment and related industrial systems. Cross-border investment is more geographically dispersed on the recipient side because it follows resources, processing opportunities, manufacturing platforms and market access. It also features a stronger FDI role for China than the innovation-driven sectors, reflecting that country's central position in mineral processing, batteries, electric vehicles and clean-technology manufacturing. These sectors therefore offer broader entry points for developing economies, but only where resource endowments, infrastructure, energy, skills and policy coordination support upgrading beyond low-value segments.

Investment in semiconductors is organized around highly *specialized manufacturing systems.* Investment patterns are shaped by the location of advanced fabrication capacity. Fabrication plants are extraordinarily capital-intensive, technologically complex and controlled by a very small number of firms. Semiconductors are tradable manufactured inputs, but the ability to produce them at scale is concentrated in a handful of economies with deep supplier ecosystems, strong industrial capabilities and public support.

These differences confirm that strategic sector investment cannot be addressed through a single policy model. Entry points and policy priorities vary by sector, value chain segment and country capability. For developing economies, the central policy challenge is to identify realistic positions within these configurations: building digital and innovation capabilities around AI infrastructure where feasible; leveraging resources and industrial capabilities to move into green supply chain networks; and targeting narrow but viable semiconductor-related segments where capabilities and partnerships allow.

3. Industrial policies and competitive investment strategies

A defining feature of competition in strategic sectors is the renewed and expanding use of industrial policy as a tool to promote, retain and shape investment. This trend had already been observed in the UNCTAD *World Investment Report 2018*, which noted that more than 100 economies had adopted industrial development strategies over the preceding decade. This resurgence of industrial policy forms part of a broader reassessment of the role of the State in shaping structural transformation and technological upgrading, a theme long emphasized in UNCTAD research on development strategies (UNCTAD, 2016; UNCTAD, 2018a). What has changed in recent years is their scale, scope and explicit linkage to economic security considerations, as well as the implications for investment policy (table III.2).

Table III.2
The evolution of industrial policies
Key drivers, features and investment policy implications

Period	Dominant policy orientation	Main objectives	Typical policy instruments	Investment policy implications
1950s–late 1970s	State-led industrialization and import substitution	Build domestic industrial capacity; reduce dependence on imports; promote structural transformation and economic sovereignty	**Vertical policies and central role for SOEs:** tariff and non-tariff protection; local content requirements; directed credit; public procurement; technology licensing controls	• FDI often restricted, screened or tightly conditioned • Selective admission of foreign investment to support domestic industrialization objectives • Performance requirements, including local content, technology transfer and export targets
1980s–1990s	Liberalization, privatization and market-oriented reforms	Improve efficiency; restore macroeconomic stability; increase competitiveness; integrate into the global economy	**Horizontal policies and greater role for the private sector:** trade liberalization; privatization; regulatory streamlining; financial sector reform; tax reform; export processing zones; investment promotion; limited selective intervention; R&D support; public-private partnerships	• FDI liberalization, including the removal of equity caps and joint venture requirements; • Emphasis shifted from control to promotion, with incentives, facilitation and export-oriented investment promotion becoming more prominent • Emergence of investment promotion agencies
2000s–2014	GVC integration and knowledge-based upgrading	Move into higher value added activities; strengthen productivity; develop technological capabilities; integrate into regional and GVCs	**Targeted strategies in open economies:** cluster policies, special economic zones, innovation and skills policies; SME support and supplier development programmes; targeted incentives	• FDI promotion more closely linked to upgrading, export diversification and participation in GVCs • Greater emphasis on enabling business environments, investment facilitation, linkages programmes and outward FDI promotion

Period	Dominant policy orientation	Main objectives	Typical policy instruments	Investment policy implications
2015–2019	Industry 4.0, sustainability and mission-oriented industrial policy	Support digital transformation; foster innovation ecosystems; advance clean energy and sustainability goals; strengthen national champions in frontier sectors	**Advanced manufacturing strategies and innovation ecosystems:** R&D support; AI, robotics and IoT; technology acquisition; sustainability embedded as policy objective; early responses to technological rivalry	• Investment policy combines horizontal facilitation with strategic-sector targeting • Investment incentives increasingly reoriented towards sectors related to the Sustainable Development Goals, including clean energy and electric vehicles • Scrutiny of inward investment in technology-intensive sectors
2020–present	Resilience, strategic autonomy and economic security	Strengthen supply-chain resilience; secure critical inputs and technologies; accelerate the energy transition; reduce vulnerability to geopolitical and pandemic-related shocks	**Economic security embedded in industrial policy design:** reshoring incentives; production subsidies; export controls; strategic stockpiling; local content and domestic-preference measures; tighter screening of sensitive investments	• More selective and proactive investment policy • Expansion of firm-specific subsidies • Combination of investment promotion and facilitation in strategic sectors with heightened screening, conditionalities and security-related restrictions • Outward FDI restrictions

Source: UNCTAD, updated from UNCTAD (2018b).

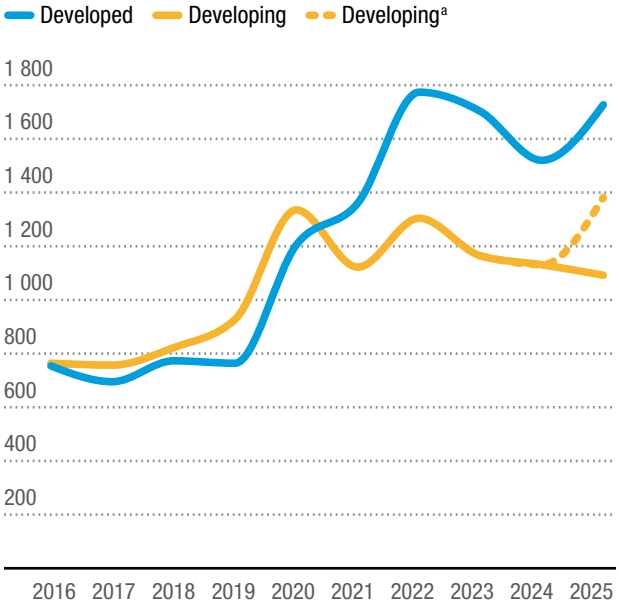
Note: The periodization identifies broad shifts in policy emphasis rather than sharp breaks. Several features of the current phase have earlier roots, including the mission-oriented turn of the 2010s and resilience concerns that emerged after the 2008–2009 global financial crisis. The post-2020 phase is distinguished by the greater scale and scope of intervention and its more explicit linkage to economic security.

Abbreviations: AI, artificial intelligence; FDI, foreign direct investment; GVC, global value chain; IoT, Internet of things; IPA, investment promotion agency; R&D, research and development.

The average annual number of industrial policy interventions globally grew by 60 per cent between 2016–2020 and 2021–2025 (figure III.5).[3] Initially associated with post-pandemic recovery and supply chain stabilization, these measures have evolved into structural instruments shaping investment patterns in sectors considered critical for technological leadership, energy transition and resilience. Industrial policy is thus no longer confined to correcting market failures or supporting infant industries. Governments increasingly use it to reduce dependencies, secure critical capacities and strengthen their position in supply chains (Martin, 2026).

[3] The data on industrial policies in this section are based on data from the New Industrial Policy Observatory (NIPO), at https://globaltradealert.org/reports/new-industrial-policy-observatory-nipo. NIPO records targeted industrial policy interventions that change competitive conditions at home and abroad. Measures may support domestic firms or production and/or affect foreign firms, FDI, trade and cross-border investment conditions through instruments such as subsidies, procurement, localization requirements, trade measures and FDI measures.

Figure III.5
Industrial policy resurgence is driven by national security and geopolitical concerns
Number of industrial policy interventions by country group, and change in motives



Motive	2015–2024 change (Percentage points)
National security or geopolitical concern	21
Resilience/security of supply (non-food)	13
Strategic competitiveness	-19
Climate change mitigation	-15

Source: UNCTAD, based on the New Industrial Policy Observatory (February 2026).

Notes: NIPO records targeted industrial policy interventions that change competitive conditions at home and abroad. The measures may support domestic firms or production and/or affect foreign firms, FDI, trade and cross-border investment conditions through instruments such as subsidies, procurement, localization requirements, trade measures and FDI measures. For measures with multiple motives, each motive is given equal weight.

[a] Developing includes estimates for China, as firm-specific data from China has not yet been received in the database (estimates include the same number of firm-specific measures from China in 2025 as in 2024).

In developed countries, in particular, industrial policies increasingly reflect national and economic security concerns and geopolitical factors, which motivated more than a quarter of measures introduced with specified objectives over the past five years. Twenty-two per cent of other measures were motivated by resilience and security of supply and 23 per cent by climate change objectives.[4] By linking market access, large-scale financial support or regulatory advantages to local production, technology control or domestic sourcing requirements, these policies aim to secure technological leadership, strengthen strategic autonomy and position national firms favourably within global and regional value chains.

In most developing countries, industrial and investment policies are more commonly framed around developmental objectives, including industrialization, structural transformation and employment creation. Over the past five years, strategic competitiveness was the dominant motive (60 per cent of the total), followed by supply chain resilience (30 per cent). In comparison, national security and climate change accounted respectively for only 4 per cent of motives cited.

This difference is also reflected in the priorities reported by IPAs in the 2026 UNCTAD IPA Survey. Among the two thirds of IPAs that reported adjusting their

[4] Motives are classified using each measure's stated rationale: for measures announced or implemented from 2023, motives are drawn from official sources; for earlier records, they are inferred using a large language model trained on coded NIPO observations (Evenett et al., 2025). Motives are observed for fewer than 35 per cent of measures overall and fewer than 25 per cent in developing countries; measures may have multiple motives.

priority sectors in response to recent global or regional developments, those in developed economies were more likely than those in developing economies to increase their focus on strategic or security-sensitive sectors (78 per cent compared with 46 per cent). By contrast, IPAs in developing economies tended to prioritize digital and advanced technologies (87 per cent versus 67 per cent). Attention to clean energy and green transition activities was high in both groups (79 per cent and 74 per cent, respectively).

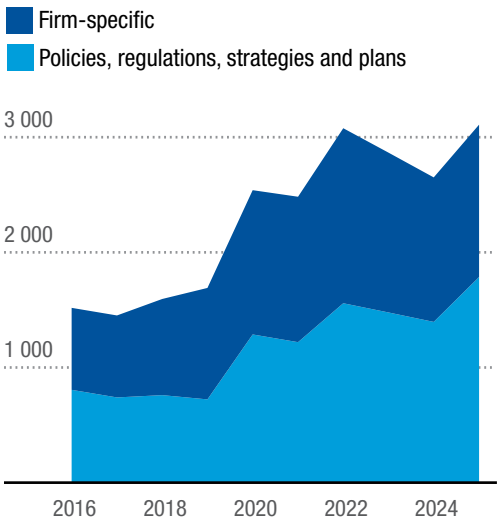
For analytical purposes, industrial policy measures in the NIPO database are classified along two dimensions. First, they may be promotional (e.g. subsidies, tax incentives, export support) or defensive (e.g. import and/or export restrictions, localization requirements, FDI restrictions). Second, they may be general (industry-wide) or selective (firm-specific). This typology helps clarify differences in design, scale and potential investment effects.

These measures affect firms through different channels. Subsidies and incentives alter investment risk and returns and can attract mobile capital to targeted sectors and locations. Tariffs and localization requirements raise the cost of importing or sourcing abroad, which can encourage market-seeking FDI or supply chain restructuring (section C). However, they may deter efficiency-seeking investment that relies on integrated global value chains. Given their scale, such policy packages can generate significant cross-border spillovers, shaping investment decisions beyond national borders and intensifying competition for mobile capital.

The industrial policy resurgence is evident in all countries and across a broad range of instruments. Selective and firm-specific measures with direct implications for investment competition are more concentrated in large economies (figure III.6).

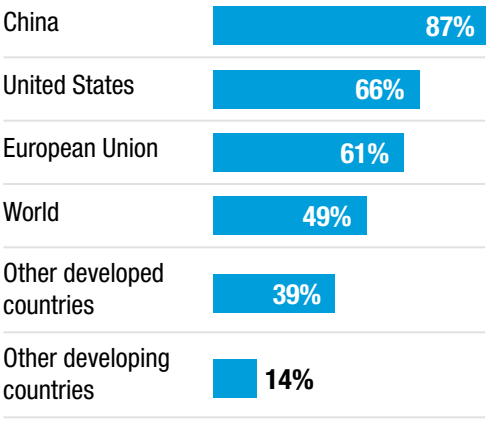
Figure III.6
Both selective and general industrial policy interventions have increased since 2020

a. Number of newly introduced interventions by type, 2016–2025



b. Share of firm-specific measures in total number of measures introduced, by economy and economy grouping, 2015–2024

(Percentage)



Source: UNCTAD, based on New Industrial Policy Observatory (February 2026).

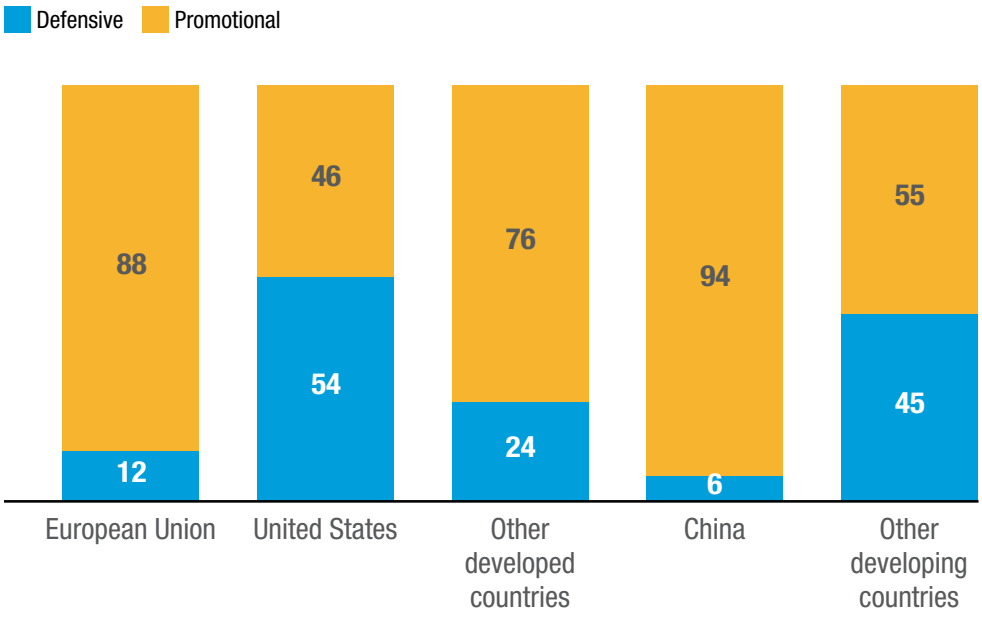
Note: NIPO records targeted industrial policy interventions that change competitive conditions at home and abroad. The measures may support domestic firms or production and/or affect foreign firms, FDI, trade and cross-border investment conditions through instruments such as subsidies, procurement, localization requirements, trade measures and FDI measures.

[a] Data for 2025 include estimates for the number of firm-specific interventions in China, based on 2024 data.

In most regions of the world, promotional interventions prevail (figure III.7). Subsidies, in particular, account for nearly half of all industrial policy interventions recorded over the past decade. Their use is particularly pronounced in China (91 per cent of interventions) and the European Union (72 per cent) (figure III.8). However, the types of subsidies differ; the European Union favours loans, grants and guarantees, while China favours direct financial grants to individual firms (90 per cent of total subsidies). The United States has combined subsidies – about 33 per cent of industrial policy interventions – with other tools, including localization policies (29 per cent) and import policies (10 per cent). By contrast, subsidies account for only 18 per cent of interventions in developing countries.

Since 2020, defensive measures increased markedly, especially in technology-intensive sectors. They are also more common in developing countries (excluding China) and in the United States (see figures III.7 and III.8). Approaches also vary across sectors within the country. For example, in the semiconductor sector the United States relies mainly on promotional measures but in the steel industry it more frequently applies defensive measures. This is consistent with literature emphasizing that industrial policy operates through context-specific policy mixes, with outcomes sensitive to design, governance and implementation (Juhász et al., 2024; Martin, 2026). Earlier UNCTAD work similarly emphasized that successful industrialization strategies rely on coherent combinations of trade, investment, financial, technology and macroeconomic policies rather than on isolated instruments (UNCTAD, 2016).

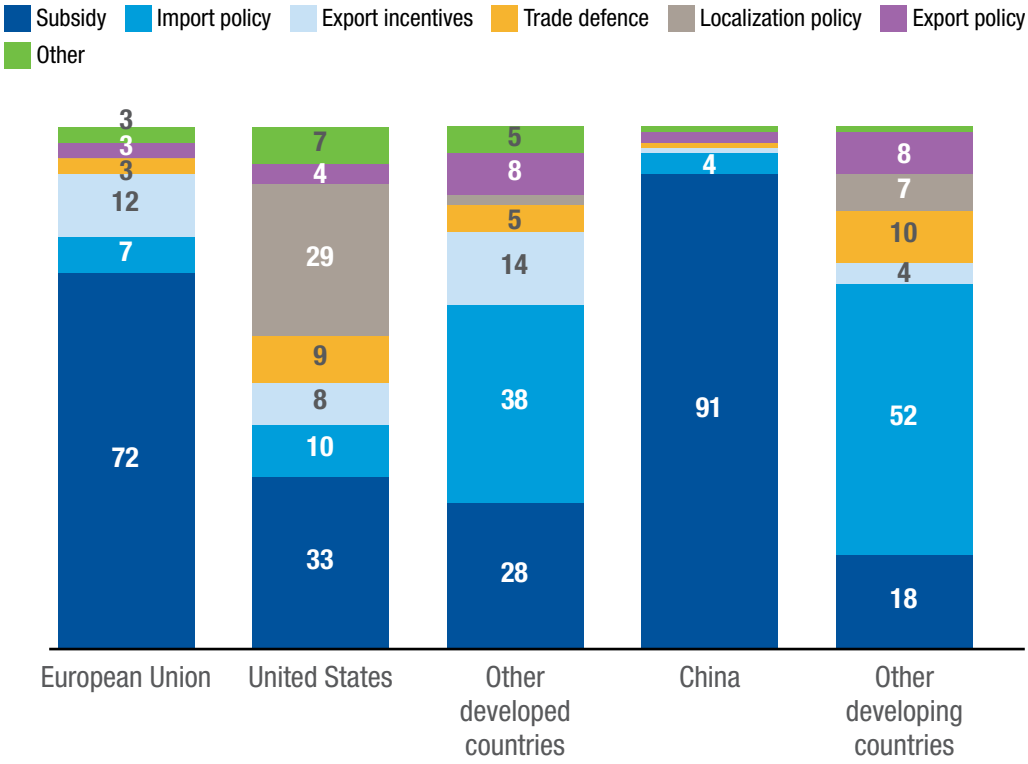
Figure III.7
Interventions of a promotional nature prevail in most economies and economy groups
Industrial policy measures by types and economy grouping, 2015–2024
(Percentage)



Source: UNCTAD based on New Industrial Policy Observatory (February 2026).

Note: Defensive measures include the introduction of import, export and FDI restrictions; trade defence instruments (e.g. anti-dumping and anti-subsidy measures); procurement policies; localization policies; and other restrictions, such as controls on commercial transactions. Promotional measures include the introduction of subsidies and export incentives, as well as the removal of import and export restrictions (for example, the lifting of bans).

Figure III.8
Subsidies and import policies are the most used instruments
Industrial policy measures by types and economy grouping, 2015–2024
(Percentage)



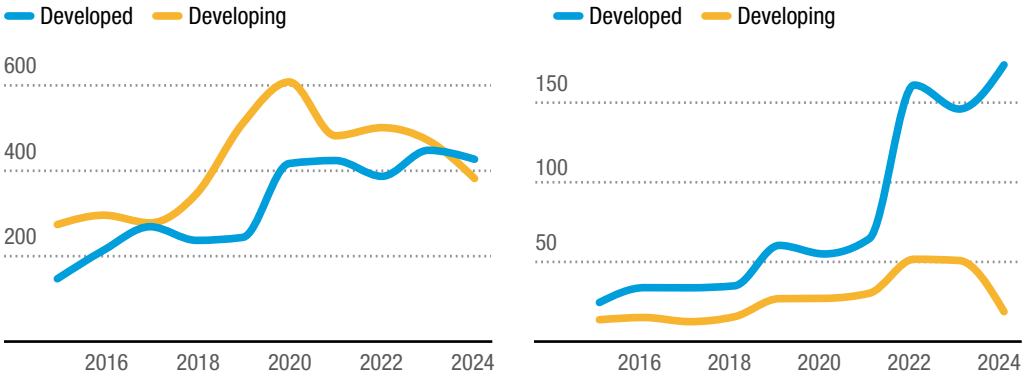
Source: UNCTAD, based on New Industrial Policy Observatory (February 2026).

Notes: NIPO records targeted industrial policy interventions that change competitive conditions at home and abroad. The measures may support domestic firms or production and/or affect foreign firms, FDI, trade and cross-border investment conditions through instruments such as subsidies, procurement, localization requirements, trade measures and FDI measures.

Industrial policy interventions are also concentrated geographically. China, the European Union and the United States, in that order, account for roughly half of all measures recorded over the past decade, while other developing countries represent a significantly smaller share (27 per cent). This concentration becomes more pronounced when examining selective, firm-specific subsidies in value terms. Although the number of selective measures recorded for developed and developing economies is similar, the total financial amounts involved diverge substantially (figure III.9). In developed economies, the value of selective subsidies has increased sharply in recent years, whereas in developing countries it has stagnated or declined.

These asymmetries have implications for investment. Absolute subsidy counts do not fully capture competitive effects; fiscal capacity, duration of support, conditionality and policy credibility also shape investor responses. Large-scale, multiyear programmes in major economies may alter the global allocation of investment in strategic sectors, particularly where they are embedded in broader regulatory or market access frameworks.

Figure III.9
Subsidy amounts diverge across developed and developing economies
Selective subsidies by economy grouping
(Number and billions of dollars)

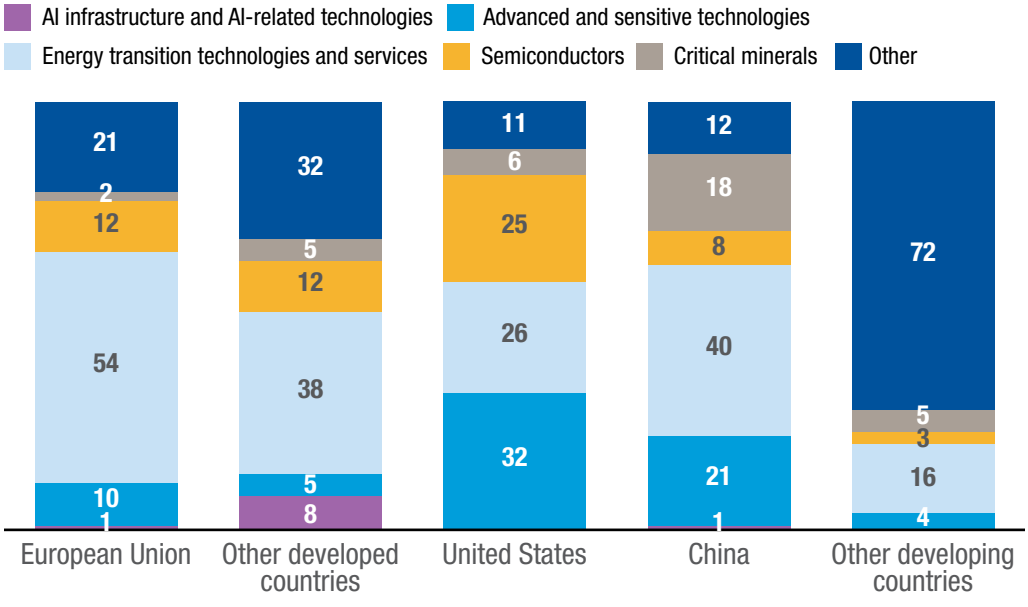


Source: UNCTAD, based on New Industrial Policy Observatory (NIPO) (February 2026).

Note: Only subsidies over $10 million are recorded in the NIPO database.

The industrial policy landscape reflects not only differences in fiscal space but also differences in development stage, strategic priorities and technological capabilities. In developed economies and China, selective subsidies are predominantly directed towards strategic sectors such as semiconductors, advanced technologies, clean energy and critical minerals. In many developing countries, they more frequently target traditional sectors, including agriculture, food processing, oil and gas, and electricity generation (figure III.10).

Figure III.10
Selective subsidies for strategic sectors are concentrated in developed economies and China
Firm-specific subsidies by strategic product and economy grouping, 2015–2024
(Percentage)



Source: UNCTAD, based on New Industrial Policy Observatory (February 2026).

Note: Only subsidies over $10 million are recorded in the NIPO database.

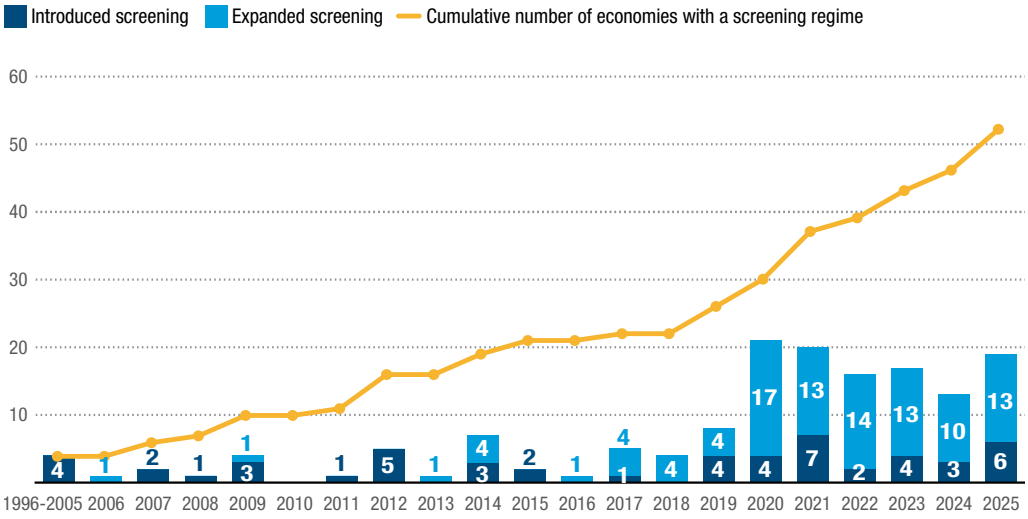
4. Investment screening and national security considerations

a. National policies

Alongside the resurgence of industrial policy, governments have significantly expanded mechanisms to review foreign investment on national security grounds, also as a part of growing concerns about economic security. The number of economies operating dedicated FDI screening regimes has doubled from 26 in 2019 to 52 in 2025 (figure III.11).

Most developed economies now operate case-by-case review mechanisms. Recent reforms have broadened both sectoral scope and transaction coverage, lowered ownership thresholds triggering review and expanded the range of transactions subject to notification. Screening regimes increasingly cover minority stakes, indirect acquisitions and foreign-controlled domestic entities, as well as transactions granting access to sensitive data or critical capabilities.

Figure III.11
Screening regimes continue to expand
Number of economies introducing or expanding national security-related investment screening



Source: UNCTAD.

Note: Economies with a dedicated nationwide mechanism to review foreign investments case by case on national security grounds (for full methodology, see UNCTAD, 2023b).

The evolution of screening regimes reflects an expansion of the concept of national security. Earlier regimes focused narrowly on defence-related assets and explicitly enumerated sectors. More recent ones have adopted a risk-based and activity-driven logic, addressing vulnerabilities linked to critical technologies, data infrastructure, supply chain chokepoints and systemic interdependencies and incorporating a strategic dimension aimed at safeguarding technological leadership (table III.3).

Screening targets M&As most directly, but can also influence greenfield investment, either directly or through uncertainty, compliance costs and the risk of conditions affecting governance, data access, technology transfer or supply commitments. The current focus is increasingly on targeting sectors where security concerns intersect with industrial policy objectives – such as AI-related investment, semiconductors, critical minerals and clean energy technologies. High-profile cases have resulted in blocked,

modified or abandoned transactions in such sectors, reinforcing investor sensitivity to differences in scope, transparency and implementation across jurisdictions. The rapid expansion of screening regimes may be shaping investor behaviour more broadly, potentially leading some investors to adjust deal structures, avoid sensitive sectors or self-select out of certain markets, though the magnitude of any such effect remains difficult to assess.

Table III.3
The concept of national security is expanding
Drivers and scope of inward FDI screening regimes on national security grounds over time

Period	Core drivers	Typical scope	Selected examples of relevant screening laws and reforms
Pre-2005	Defence security, privatization and safeguards	**Narrow asset-based scope focused on defence:** military technology, defence contracts, dual-use technologies with clear military relevance. Screening tied to ownership or control of enumerated assets. Technology and data narrowly defined in terms of military or intelligence value (no civilian technology or data).	• United States: Exon-Florio Amendment (1988), establishing CFIUS authority • France: Early prior-authorization regime (1966) followed by a more formal investment screening (2004) focused on defence • Germany: Foreign Trade & Payments Act (AWG) security controls (pre-modern expansions) (2004)
2005–2014	Rising State-owned or State-linked investors, high-profile takeovers, energy and financial crises	**Expansion of focus to critical infrastructure and investors:** energy, telecommunications, transport, utilities. Sector-list model dominates. Screening expands beyond pure defence but remains tied to enumerated infrastructure sectors and control acquisitions.	• Canada: Investment Canada Act (2009), national security review mechanism • Russian Federation: Law on Strategic Sectors (2008) • France: (2014): Decree No. 2014-479 explicitly focuses on infrastructure (water, energy, transport, telecommunications and health) and industrial champions
2015–2019	Technology capability plus economic security framing	**Focus expands to technology capability:** critical and emerging technologies, cybersecurity, advanced manufacturing, R&D assets. Lower shareholding and control thresholds and non-controlling stakes captured in some regimes. Beginning shift from sector-only triggers to sector plus activity triggers.	• United States: FIRRMA (2018) expanding to critical tech, data, non-controlling stakes • European Union: FDI Screening Regulation (2019/452) with broad risk factor criteria • Germany: AWV amendments (2017–2019), adding critical technology fields • France: Decree No. 2018-1057 added advanced technology and digital infrastructure sectors (2018)
2020–2021	COVID-19 shock plus opportunistic takeover concerns plus supply resilience	**Cross-sector additions:** health, biotech, pharma, medical devices, food and critical inputs, sensitive personal data, expanded tech lists. Many regimes introduce temporary broad coverage that is later partly made permanent. Strong move toward activity- and risk-based triggers.	• Spain: RDL 8/2020, establishing broad temporary screening for non-European Union investors • Italy: "Golden Power" regime (2020), extending to health, finance, tech, data sectors • Japan: FEFTA amendments (2020), lowering thresholds in core sectors • France: Biotech added to screening scope (2020) • China: National Security Review (2021) adopted

Period	Core drivers	Typical scope	Selected examples of relevant screening laws and reforms
2022–2025	Geopolitical concerns plus sectors of the future and economic security	**Expansive:** AI, semiconductors, quantum, cyber, data centres, cloud, critical minerals, dual-use technologies, media and information influence, supply-chain chokepoints, indirect acquisitions and foreign-controlled European Union entities. Screening logic centres on capabilities, data access and systemic dependencies rather than sector labels alone.	• Netherlands: Vifo Act (2023) covering vital providers and sensitive technologies • United Kingdom: National Security and Investment Act (operational in 2022) with 17 sensitive sectors • European Union: FDI Screening Framework strengthening and recasting (political agreement 2025) • Japan: Further FEFTA tightening for critical tech and supply chains (2024) • France: Decree No. 2023-1293 expanded screening to critical minerals and R&D in photonics and low-carbon energy technologies (2023)

Source: UNCTAD, based on review of national legislation on investment screening for national security available on the UNCTAD Investment Laws Navigator and additional national legal instruments.

Abbreviations: AI, artificial intelligence; CFIUS, Committee on Foreign Investment in the United States; FEFTA, Foreign Exchange and Foreign Trade Act; FIRRMA, Foreign Investment Risk Review Modernization Act; R&D, research and development; RDL, Royal Decree-Law.

Security considerations and technological competition are also increasingly shaping outward investment decisions and policies, with the introduction or expansion of controls on outbound investment, technology transfer and related transactions in sensitive sectors such as AI, reflecting concerns about the diffusion of critical technologies and know-how (UNCTAD, 2024d). High-profile cases – such as restrictions affecting advanced semiconductor equipment suppliers – illustrate how major powers can influence investment and production decisions well beyond their borders. Together, these trends suggest that strategic competition is extending from inward investment controls to a broader set of policy instruments that shape both inward and outward FDI, with implications for the geography and governance of international investment. The ongoing revision of the European Union's framework for FDI screening is likely to further intensify policy activity in this area across the region (box III.6).

Box III.6
Revision of the European Union framework for foreign direct investment screening

The European Union is strengthening its framework for coordinating FDI screening across Member States. In January 2024 the European Commission proposed a revision of the FDI Screening Regulation, and in December 2025 the European Parliament and the Council reached a provisional political agreement on the new framework.

The reform aims to reduce fragmentation among national screening systems and address gaps in the current regime. Under the revised regulation, all Member States will be required to maintain a national screening mechanism, and a common minimum scope of activities subject to review will be introduced. The proposed scope focuses on sectors considered critical for security and public order, including defence-related and dual-use technologies, and advanced and emerging technologies such as AI, semiconductors and quantum technologies, as well as critical infrastructure in energy, transport and digital networks.

The revised framework also expands attention to activities linked to critical minerals, sensitive financial market infrastructure and certain systems relevant to democratic processes. In addition, it strengthens coordination across the European Union by enhancing information-sharing among Member States and with the European Commission.

Another key element of the reform is the closing of potential circumvention channels. The new framework allows scrutiny of indirect investment by non-European Union investors carried out through European Union-based entities, addressing concerns that foreign investors could otherwise bypass screening through complex ownership structures.

Taken together, these changes signal a gradual shift from a primarily cooperative coordination framework toward a more harmonized European Union approach to investment screening focused on safeguarding strategic technologies, infrastructure and supply chains.

Source: UNCTAD, based on European Commission proposals and provisional agreement of the European Parliament and Council (2025).

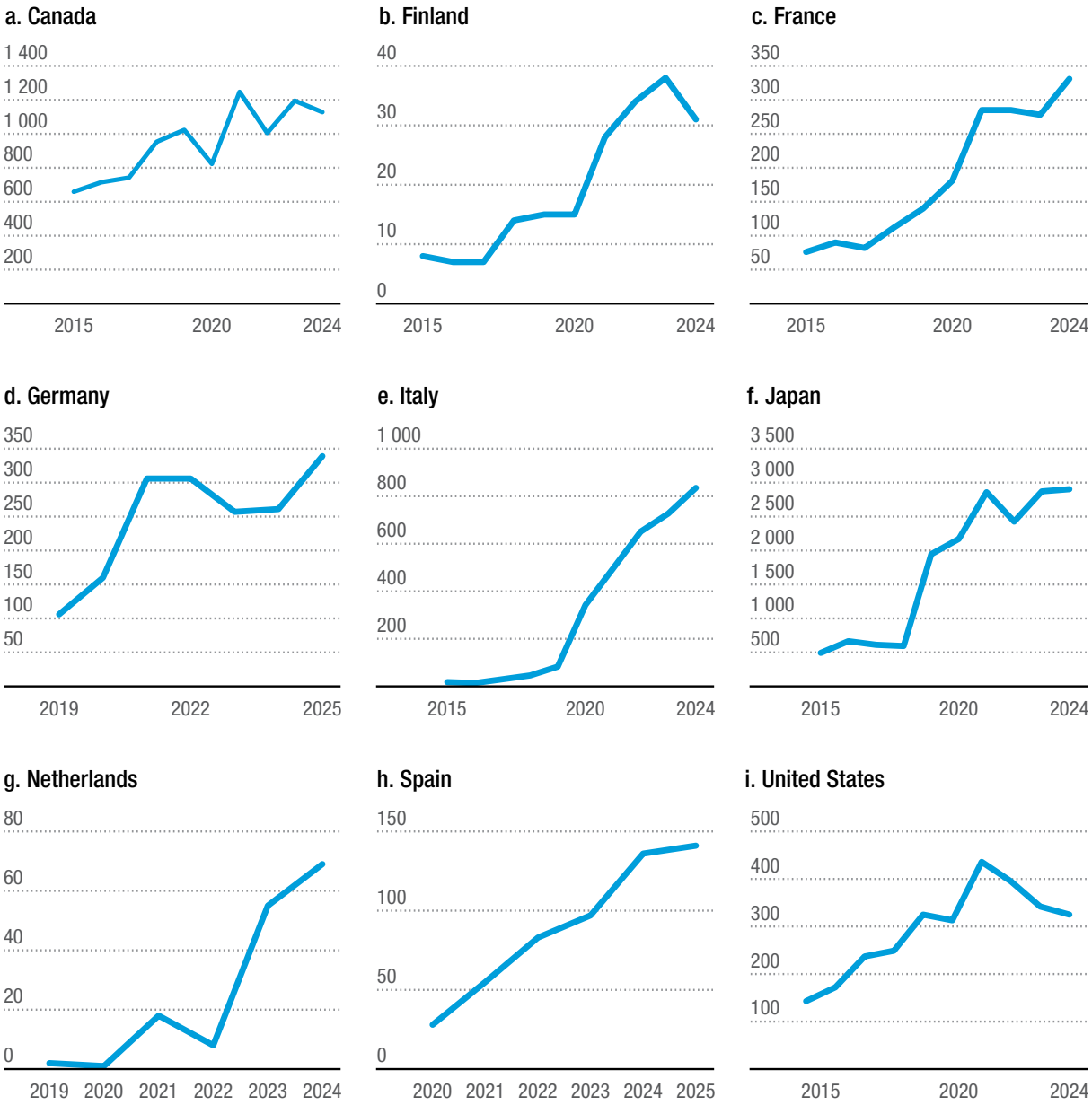
Although fewer than 1 per cent of screened projects are rejected or blocked (chapter II), national security screening is affecting a widening set of transactions. In the countries for which data are available, screening volumes have risen sharply over the past decade. Between 2015 and 2024, the number of screened projects increased by more than 70 per cent in Canada (from 659 to 1,128) and more than doubled in the United States (from 143 to 325). In France and Japan, screening volumes rose by more than 300 per cent (from 76 to 331 and from 491 to 2,903, respectively), while in Italy they increased even more (from 18 to 835) (figure III.12). This expansion matters even when prohibitions remain rare because it increases compliance costs and uncertainty for investors, while also raising the administrative burden on public authorities responsible for notifications, reviews and inter-agency coordination.

FDI screening is also increasing among developing economies – 10 now operate a screening regime for national security, more than half of those adopted since 2020.[5] Their approach varies significantly. For instance, China operates a formal screening mechanism that applies to acquisitions and greenfield investments in designated sensitive sectors. Singapore's screening regime is based on the designation of specific companies or assets deemed critical to national security, rather than on sectoral classification, and applies to both foreign and domestic investors. In the Lao People's Democratic Republic and Thailand, foreign investment regulations include special prior approval requirements explicitly linked to national security, defence, public order and strategic State interests. Each of these regimes empower governments to intervene before establishment, acquisition or changes in ownership, when a proposed foreign investment concerns sensitive activities.

[5] Recent United States-led initiatives and agreements with third countries, including partners in Asia, have further encouraged greater attention to screening frameworks and security-related investment policies in developing countries.

Figure III.12
The volume of screened transactions is rising

Investment projects undergoing screening for national security, selected countries
(Number, years available)



Source: UNCTAD, based on official sources and country inputs.

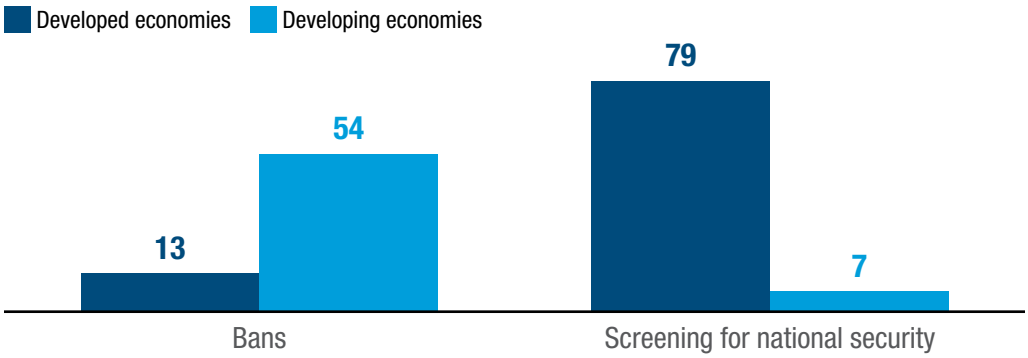
Notes: Pre-notification filings are not included. For Canada, data refer to April–March fiscal years and net benefit applications are not included. For Spain, the data exclude archived notifications for lack of jurisdiction. For the United States, data starting from 2018 include declarations (short notices).

In terms of scope, however, most of the screening regimes adopted by developing economies are limited to specific sectors with a focus on critical infrastructure, and only a few have expanded to activity- or risk-based triggers. They also differ in the coverage of transactions. Whereas developed economies tend to focus predominantly on M&As, developing economies often apply screening to both acquisitions and greenfield investment in designated sectors. This reflects the

different policy context in which such regimes emerged in developing economies, often as part of broader liberalization reforms aimed at narrowing the scope of previously banned sectors, while retaining oversight of entry into sensitive activities.

Most developing economies continue to rely primarily on sectoral entry restrictions – including bans and foreign equity caps – as the main tool to safeguard national security. More than half of the 59 developing economies analysed in the OECD FDI regulatory restrictiveness index impose at least one ban in sectors associated with national security, compared with a much smaller share of developed economies (figure III.13). Equity restrictions in national security-related sectors are also, on average, higher in developing economies (figure III.14). Other tools include broad public-interest or national-security clauses, typically embedded in investment laws, or general authorization systems not specifically designed to address national security.

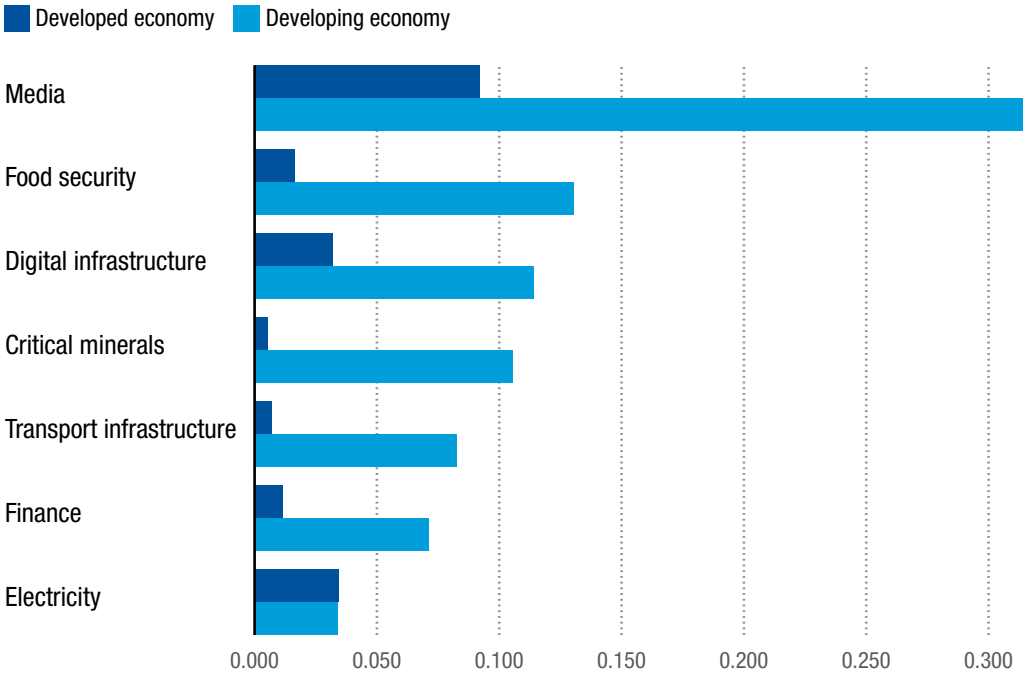
Figure III.13
Different approaches to managing foreign direct investment risk by economy grouping
Shares of economies with bans on investment in sensitive sectors and with screening for national security
(Percentage)



Source: UNCTAD, based on UNCTAD screening law database and OECD FDI Regulatory Restrictiveness Index.

Note: A country is classified as having a ban if it imposes at least one ban in any sector or subsector associated with national security.

Figure III.14
Equity restrictions in national security-related sectors are stronger in developing economies
FDI Regulatory Restrictiveness Index by sector and economy grouping, 2024 (Score)



Source: UNCTAD, based on OECD FDI Regulatory Restrictiveness Index.

Notes: Proxies have been used for food security (agriculture and fishing), digital infrastructure (telecommunications), and critical minerals (mining). The index ranges from 0 to 1, with higher values indicating greater restrictiveness.

While sectoral restrictions are more straightforward to administer, they can deter investment regardless of the specific risk profile of transactions, while missing risks that arise through minority stakes, complex ownership structures, contractual control rights, management influence, or access to sensitive data and capabilities. This situation highlights the growing relevance of more targeted, risk-based approaches that focus scrutiny on clearly defined risk drivers rather than sector labels alone.

b. International investment policies and essential security interests

About 2,600 international investment agreements (IIAs) are currently in force, 85 per cent of them concluded before 2010.

The substantive treatment standards under these old-generation agreements are formulated in broad and vague terms, with few exceptions or safeguards, and they can constrain States' ability to regulate in pursuit of their essential security interests. These old-generation IIAs have served as the basis in the vast majority of investor–State dispute settlement (ISDS) claims to date.

Measures taken in the context of geopolitical tensions, national security concerns, restrictive economic measures, conflicts and civil unrest have given rise to investor claims under IIAs in the past, with several high-profile cases in recent years (e.g. *Huawei v. Sweden*; *Fridman v. Luxembourg*). From 1987 to 2025, investors initiated at least 131 treaty-based investor–State arbitration cases related to categories of security issues (box III.7).[6]

[6] Some cases involved multiple security-related categories and are counted under each relevant category. Without double counting, the consolidated number of cases is 131.

Box III.7
National security-related developments have given rise to investment treaty arbitrations

National security-related ISDS cases initiated between 1987 and 2025 can be broadly grouped into four categories:

Security-related investment restrictions

Four known investor–State arbitrations based on IIAs have been initiated concerning investment restrictions, reviews or other such measures related to national security considerations (*Deutsche Telekom v. India*; *Devas v. India (I)*; *Global Telecom Holding v. Canada*; *Huawei v. Sweden*).

Restrictive economic measures and suspensions of diplomatic relations

Thirty known investment treaty claims have been brought in connection to restrictive economic measures and the suspension of diplomatic relations (e.g. *beIN v. Saudi Arabia*; *Fortum v. Russian Federation (I)*; *Fridman v. Luxembourg*; *LIA and LAFICO v. Belgium (I)*; *Optim v. Ukraine*; *Saab v. Cyprus*).

Conflict and civil unrest

Forty-five known ISDS cases have been brought against States in the context of conflicts and civil unrest (e.g. *AAPL v. Sri Lanka*; *Ampal-American and others v. Egypt*; *Cengiz v. Libya*; *Stabil and others v. Russian Federation*).

Economic crises and emergency measures

Measures taken during economic, social and political crises played a role in at least 55 ISDS cases (e.g. *AES v. Argentina*; *Unión Fenosa v. Egypt*; *von Pezold and others v. Zimbabwe*). Argentina has faced 52 of these cases related to the country's financial crisis in the early 2000s.

Other security-related ISDS cases challenged government actions purportedly aimed at addressing threats to the environment or public health (e.g. *Lee-Chin v. Dominican Republic*) or at countering criminal activity (e.g. *Seda and others v. Colombia*).

Source: UNCTAD.

Note: Based on publicly available information on treaty-based ISDS cases included in the UNCTAD Investment Dispute Settlement Navigator database, covering investor–State arbitrations administered by the International Centre for Settlement of Investment Disputes (ICSID) as well as other non-ICSID arbitration cases based on IIAs (BITs and TIPs).

Recent IIAs show a marked evolution aimed at recalibrating the balance between investment commitments and States' essential security interests.

The share of national security exceptions in IIAs has risen steadily. Nine out of ten agreements concluded after 2020 contain such a clause, compared to fewer than 1 of 10 before 2001. Under security exceptions, IIA commitments cannot be construed to "preclude a Party from applying measures that it considers necessary for the fulfilment of its obligations with respect to the maintenance or restoration of international peace or security, or the protection of its own essential security interests." (e.g. Comprehensive and Progressive Agreement for Trans-Pacific Partnership, article 29.2). About two thirds of security exceptions further define the security-related measures they encompass, typically covering (i) measures taken in time of conflict or domestic or international emergency, as well as measures related to (ii) the traffic of

arms or non-proliferation of weapons and (iii) fissionable and fusionable materials. A few recent IIAs, including megaregional agreements such as the Regional Comprehensive Economic Partnership (RCEP), adopt a broader definition expressly covering security measures related to critical public infrastructure for communications, power and water.

Nearly all security exceptions since 2021 (92 per cent) – and the majority of them overall (57 per cent) – offer a wide margin of discretion to the contracting parties to determine their security needs, with limited (good faith) adjudicative scrutiny (i.e. they are drafted in self-judging terms).[7] This rise in self-judging language came after the wave of ISDS cases related to Argentina's economic crisis and the resulting conflicting, and at times narrow, interpretations of earlier exceptions. At the same time, recent instances of expansive reliance on security exceptions in international economic relations[8] have brought forward the need for a balanced approach that can foster legal certainty and prevent abuse – e.g. by further clarifying the types of situations the provision covers and the type of adjudicative review of its use.

Countries also increasingly preserve regulatory space in their IIAs for specific types of security measures. Under the majority (63 per cent) of IIAs signed since 2021, a party can deny the benefits of the treaty to investors and investments owned or controlled by third country-registered entities subject to restrictive economic measures or in case of suspended diplomatic relations (figure III.15). Recent geopolitical tensions have led to the proactive use of this type of provision. For example, the war in Ukraine that began in 2022 has resulted in their use by several contracting parties under the Energy Charter Treaty.[9]

Recent IIAs add exceptions to **strengthen countries' ability to safeguard essential security interests**

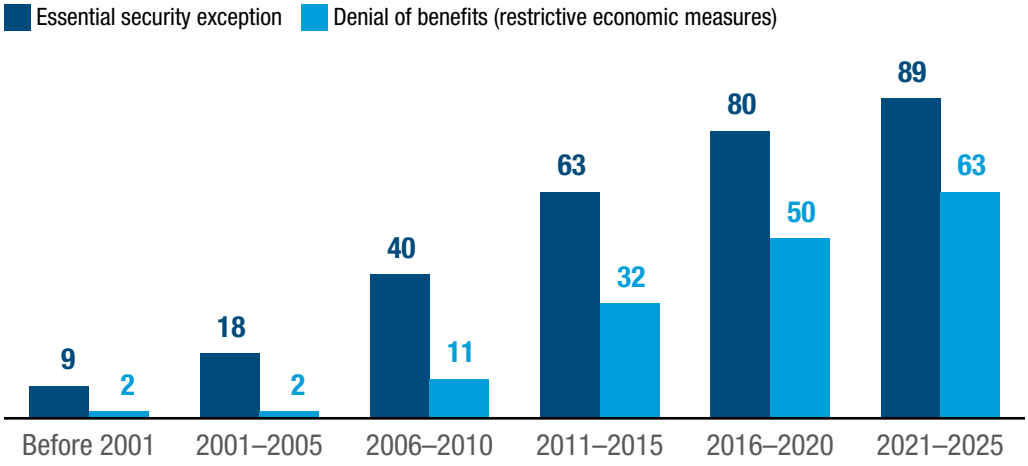
[7] National security exceptions in IIAs are often drafted in "self-judging" terms such as those of Article XXI of the General Agreement on Tariffs and Trade and retained in most regional trade agreements. A few further clarify that "if a Party invokes [the essential security provision in dispute settlement, the tribunal] hearing the matter shall find that the exception applies". ISDS tribunals to date have interpreted self-judging essential security exceptions to allow for at least a good faith level of adjudicative review (e.g. *Angel Samuel Seda and others v. Republic of Colombia* (ICSID Case No. ARB/19/6), Award 27 June 2024).

[8] Certain Iranian Assets (*Islamic Republic of Iran v. United States of America*), International Court of Justice, Judgement, 30 March 2023; World Trade Organization, Dispute Settlement Body, Panel Report, *Russia – Measures Concerning Traffic in Transit* (adopted 26 April 2019), WT/DS512/R; World Trade Organization, Dispute Settlement Body, Panel Report, *United States – Certain Measures on Steel and Aluminium Products* (9 December 2022), WT/DS556/R; World Trade Organization, Dispute Settlement Body, Panel Report, *United States – Origin Marking Requirement* (21 December 2022), WT/DS597/R.

[9] See e.g. Switzerland, Notice of denial of advantages of Part III of the Energy Charter Treaty (ECT), 29 September 2025; European Union and Member States, Declaration on denial of advantages of Part III of the ECT, 2 July 2024.

Figure III.15
Investment treaties increasingly preserve regulatory space for essential security considerations

Agreements with selected essential security regulatory safeguards, 1959–2025
(Percentage)



Source: UNCTAD, IIA Content Mapping database, accessed 5 March 2026.

Note: Based on 2,821 IIAs with investment content, mapped in the IIA Content Mapping database.

Abbreviation: IIA, international investment agreement.

Specifically for screening, decisions under domestic mechanisms are gradually excluded from relevant commitments under recent IIAs, mostly by developed economies. More than two thirds (69 per cent) of IIAs with liberalization commitments during 2021–2025 exclude screening decisions from substantive commitments or dispute settlement. Notwithstanding this, most IIAs do not preserve regulatory space for decisions under domestic review mechanisms.

In parallel, economic security considerations are beginning to shape the substantive investment governance commitments in recent IIAs. Several recent treaties concluded by the United States (e.g. with Argentina, Bangladesh, Cambodia, El Salvador, Guatemala, Indonesia, Malaysia and Taiwan Province of China) typically commit the other party to consider establishing an investment screening mechanism and to cooperating and sharing information on questions of economic security and inbound investment.[10]

Recent geopolitical tensions highlight the regulatory constraints and ISDS risks arising from the stock of outdated IIAs which continue to dominate the international investment regime, underscoring the urgency to accelerate reform and preserve States' ability to regulate in pursuit of essential security interests. IIAs need to provide sufficient flexibility to accommodate countries' evolving legitimate security policies, while maintaining legal certainty. In addition, geoeconomic factors may generate burdensome security-related international investment commitments – particularly for developing economies. This makes it essential to preserve policy autonomy to define economic security priorities within the increasingly complex international investment landscape.

[10] For further information and the texts of the agreements see: https://ustr.gov/trade-agreements/agreements-reciprocal-trade.

C. Manufacturing investment and supply chain reconfiguration

MNEs had already begun to place greater emphasis on the resilience of their global supply chains in response to the COVID-19 pandemic and other recent disruptions. With the increase in trade policy uncertainty, investment decisions are increasingly shaped not only by concerns about supply chain resilience and operational continuity, but also by the need to secure market access and mitigate risks from trade policy changes. These pressures are driving the restructuring of production networks worldwide, with growing constraints for developing economies that rely on efficiency-seeking FDI as a driver of industrial upgrading and economic diversification.

Global supply chains – defined here as the cross-border organization of production, sourcing and distribution activities by MNEs – have come under increasing pressure in recent years. A series of overlapping shocks, including the pandemic, disruptions to logistics networks and escalating trade tensions, has exposed structural vulnerabilities in highly fragmented production systems and prompted firms to reassess the organization of international production.

In this report, supply chain reconfiguration refers to the gradual adjustment of these production networks through new investment decisions rather than large-scale relocation of existing capacity. Although the terms global value chain and global supply chain are often used interchangeably in the literature, the focus here is specifically on the location of international production and investment across supply chain activities. Critically, changes in the geography of production do not necessarily imply a corresponding relocation of value creation across supply chains. New production platforms and emerging hubs may continue to rely heavily on imported intermediate inputs, technologies and higher-value functions concentrated elsewhere. As a result, diversification in investment and production locations does not automatically translate into deeper industrial upgrading or greater domestic value capture for recipient economies.

The analysis focuses specifically on manufacturing industries, which are characterized by complex cross-border production linkages through which firms organize multiple stages of production across locations and in which shifts in international investment patterns can reshape the geography of production. Services and extractive activities, which account for a large share of global FDI and are shaped by different production and investment patterns, are not the primary focus. Within manufacturing industries, however, exposure to supply chain reconfiguration varies across value chain segments. Activities based on standardized products, modular production stages or relatively substitutable suppliers are generally more exposed to relocation or diversification than those relying on specialized suppliers, tacit knowledge or

long-standing inter-firm relationships. Supply chain reconfiguration should therefore be understood as a selective adjustment of investment patterns rather than a uniform relocation of industrial production networks (Thun et al., 2022; Martin et al., 2026).

Supply chain reconfiguration predates recent policy tensions and reflects a longer process of adjustment as firms continuously reorganize their global production networks and reassess risk in response to successive shocks. The internationalization of manufacturing accelerated from the 1970s onwards, driven by falling transport costs and technological advances that enabled firms to fragment production across locations and coordinate it globally (Hummels et al., 2001; Hummels, 2007; Baldwin, 2012). This gave rise to complex global production networks, combining contractual arrangements and FDI, and supported the integration of developing countries into manufacturing systems (UNCTAD, 1993; Gereffi et al., 2005; Taglioni and Winkler, 2016).

Global uncertainties make firms **reassess supply chain strategies and investment decisions**

Early resilience concerns focused on physical and logistical disruptions. Events such as the 2011 Tohoku earthquake and Thailand floods and the 2021 Suez Canal disruption exposed the risks linked to just-in-time production and the concentration of critical nodes (Haraguchi and Lall, 2015; Boehm et al., 2019; Qu et al., 2024). These risks became systemic during the pandemic, which disrupted production, trade and demand simultaneously (Baldwin and Freeman, 2020 and 2022; Bonadio et al., 2020). Resulting shortages highlighted the fragility of highly concentrated supply chains, for example in semiconductors (Haramboure et al., 2023). In response, firms moved towards diversification, redundancy and larger inventories, shifting away from purely efficiency-driven models (UNCTAD, 2020 and 2021b; OECD, 2021; IMF, 2022; Crowe and Rawdanowicz, 2023).

More recently, trade policy measures – including tariffs and export controls– have exacerbated uncertainty and added pressure on international production networks, contributing to adjustments in investment patterns as firms seek to manage policy risks, maintain market access and strengthen supply chain resilience (Blanchard et al., 2021; IMF, 2023b; Aiyar et al., 2024; McKinsey Global Institute, 2025). Recent tensions in the Middle East, associated volatility in energy prices and renewed disruptions to shipping routes have further reinforced concerns about transport security, logistics resilience and exposure to geopolitical shocks. Together, these developments are reshaping both the geography and the drivers of FDI, including greater concentration in key sectors and a stronger role for policy and sustainability considerations (UNCTAD, 2023e, 2024c, 2025h).

At the same time, cost structures, technological change, environmental constraints and currency fluctuations continue to influence location decisions. Emerging sustainability requirements and the accelerated pace of digitalization add pressures to supply chains (OECD, 2025b), while exchange rate volatility can erode the cost advantages that originally motivated an investment, encouraging MNEs to disperse production across currency zones as a natural hedge (Goldberg and Kolstad, 1995; Li et al., 2025).

Overall, supply chain reconfiguration is no longer driven by efficiency considerations alone, but by a combination of cost, resilience and policy-related factors whose relative weight varies significantly across sectors, countries and firms, making uniform policy responses poorly suited to the heterogeneity of the adjustment processes underway.

These shifts have uneven development implications. As supply chain decisions become less driven by cost alone, integration into emerging production networks depends more frequently on productive capacities, infrastructure availabilities, policy frameworks and access to finance – factors that are under strain in many developing economies (UNCTAD, 2023d, 2024f, 2025g). In Africa,

infrastructure gaps, weak connectivity and fragmented market access continue to limit participation despite regional initiatives (UNCTAD, 2023a and 2024b), while resource-rich countries remain largely confined to extraction despite rising demand for transition minerals (UNCTAD, 2024a). Logistics constraints and broader capacity gaps further limit the ability to attract manufacturing FDI (UNCTAD, 2021a, 2023c, 2024e, 2025e).

Against this background, this section provides an updated analysis of supply chain reconfiguration in manufacturing, drawing on recent investment data to examine how evolving drivers are reshaping the geography of production (box III.8). It combines evidence on investment patterns with analysis of emerging policy responses, with particular attention to developing economies. The aim is to provide an integrated, analytically grounded and policy-relevant perspective on how supply chain reconfiguration is unfolding through FDI and what that implies for development outcomes.

Where section B examined the rise of strategic sectors as a defining feature of the contemporary investment landscape, the emphasis here is on the reconfiguration of production networks across manufacturing activities for which supply chain organization remains a central driver of international investment. This distinction is important because the ongoing transformation of international production is unfolding through different adjustment mechanisms across sectors. In strategic industries – such as semiconductors, AI infrastructure or critical minerals – investment patterns are shaped primarily by technological specialization, innovation ecosystems, infrastructure requirements and resource endowments, often in combination with strong industrial policy. By contrast, in traditional manufacturing, adjustment is more directly reflected in the shifting geography of production networks, supplier relationships and export platforms, with trade costs, tariffs and broader market access considerations playing more prominent roles.

Global patterns being reshaped by **rising investment in strategic sectors and shifting manufacturing networks**

Accordingly, the aggregate analysis of supply chain reconfiguration (section C.1) focuses on manufacturing activities excluding strategic sectors, both to ensure complementarity with section B and to avoid aggregate trends being dominated by large strategic segments within broader industries. At the same time, the section incorporates broader perspectives where relevant. The analysis of regional patterns (section C.2) considers economy-wide investment patterns in order to capture wider changes in regional and cross-regional investment linkages, while the sectoral deep dives (section C.3) selectively include strategic manufacturing segments – notably electric vehicles – where supply chain restructuring dynamics are particularly pronounced. Taken together, this approach aims to balance analytical clarity with a comprehensive view of the ongoing transformation of international production.

Box III.8
Analysis of global supply chain reconfiguration: Data and scope

Data and coverage

The analysis of supply chain reconfigurations in this section is based on project-level data on announced cross-border greenfield investment from the fDi Markets database. This data set captures new investment projects and expansions by MNEs, with detailed information on sector, business activity, source and destination economies. The focus is on announced investment flows, which are more responsive to recent shocks and policy changes than FDI and therefore better capture emerging shifts in the geography of international production (see also data discussion in box III.2).

Scope and selection criteria

The analytical perimeter is defined by two main filters:

Manufacturing focus: The analysis covers investment projects classified as "Manufacturing" under the fDi Markets variable "Business function", thus excluding services, construction, extraction and energy generation. This ensures consistency with the focus on those industries that are most directly shaped by reconfiguration of global production and supply chain linkages.

Exclusion of strategic sectors: Investment identified as strategic in section B – namely in semiconductors, AI infrastructure and technologies, critical minerals, energy transition technologies and services, and advanced and sensitive technologies (see box III.2) – is excluded by the analysis of the aggregate trends in section C.1. This reflects three considerations. First, it ensures complementarity with the preceding section, which focuses specifically on strategic industries. Second, it allows the analysis to concentrate on traditional manufacturing activities, where supply chain organization is most clearly observable and more relevant for a broader group of developing economies. Third, it avoids distortions arising from the scale of international investment in strategic segments, which can dominate aggregate trends within broader sectors (this is the case for example of semiconductors within ICT and electronics). At the same time, selected strategic manufacturing activities are incorporated where relevant for analysing specific sectoral dynamics (section C.3 and annex A). In particular, the sectoral analysis of transport equipment includes electric vehicles because of their growing importance in FDI and their role in reshaping global manufacturing and supplier networks.

Classification of cross-border greenfield investment in manufacturing

Greenfield investment in manufacturing is further grouped into broad clusters that reflect differences in the organization of global supply chains (box table III.8.1). This classification captures the heterogeneity of production systems across industries, allowing for a consistent comparison of how investment and supply chains are organized.

Box table III.8.1
Scope of manufacturing clusters

Cluster	Main segments	Supply chain rationale
ICT and electronics	Electronic components, communications equipment, business machinery	Complex, multistage production systems with strong cross-border integration
Transport equipment	Automotive production and components, aerospace	Regionally integrated production networks with dense supplier systems
Materials and industrial manufacturing	Metals, chemicals, plastics, industrial equipment	Core intermediate inputs linking upstream processing and downstream production

Cluster	Main segments	Supply chain rationale
Life sciences	Pharmaceuticals, medical devices	High-value, technology-intensive production with strong regulatory requirements
Consumer goods	Household goods, furniture, personal care products and other manufactured consumer products	Export-oriented production platforms and cost-driven location decisions
Agribusiness	Food processing and agro-industry	Supply chains linked to agricultural inputs and domestic/regional markets
Textiles and apparel	Textiles, garments, leather products	Labour-intensive production integrated into global sourcing networks

Source: UNCTAD.

Note: Within the defined perimeter, the clusters follow the fDi Markets taxonomy, with the exception of "Materials and industrial manufacturing", which combines the fDi Markets clusters "Industrial" and "Physical sciences".

Abbreviation: ICT, information and communication technology.

Source: UNCTAD.

1. Directions and drivers of supply chain reconfiguration

Recent investment patterns point to important shifts in the geography and organization of manufacturing production networks, including adjustments associated with MNE efforts to reduce external dependence and geopolitical exposure. Although supply chain reconfiguration is an ongoing feature of international production, recent shocks and policy changes have intensified debates on reshoring, regionalization and diversification of production networks.

When strategic sectors are excluded, the value of global greenfield investment in manufacturing declined by 17 per cent between the periods 2015–2019 and 2021–2025 (figure III.16). This signals a retreat in traditional manufacturing – not a dismantling of existing production systems, which continue to rely on accumulated FDI stocks, but rather a slowdown in the expansion and renewal of international production networks. In addition, it suggests that supply chain reconfiguration is not taking place only through the relocation of cross-border investment, but also may involve greater reliance on existing production bases and domestic capacity expansion, including reshoring in some industries.

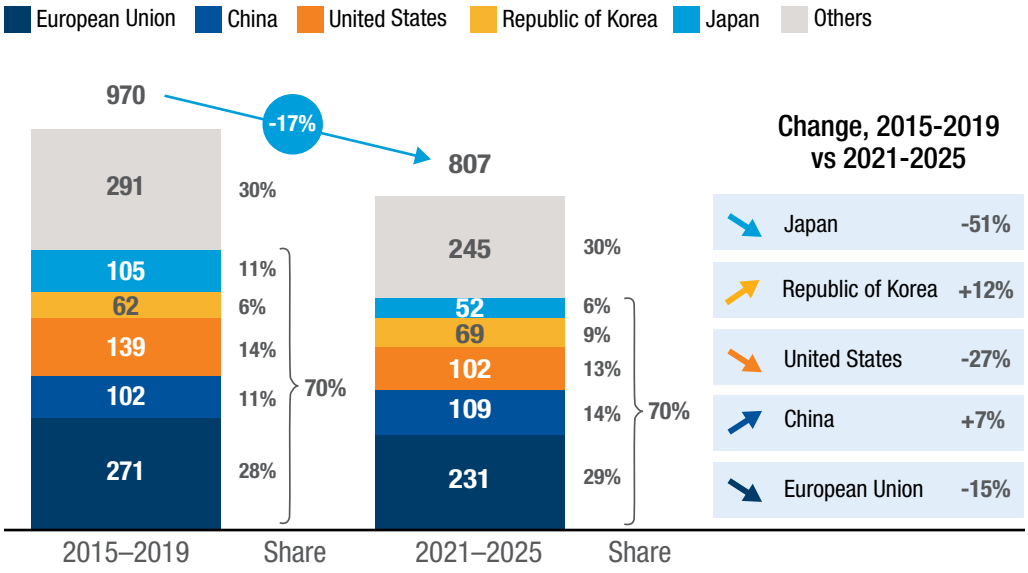
Evidence from the 2026 UNCTAD IPA Survey (see box III.1) points to a selective process of investment reconfiguration already being felt at the country level. Sixty per cent of respondents reported project downsizing or cancellations in the preceding three years, but many also observed project expansions (55 per cent) and relocations into their country (50 per cent). This suggests that the broader slowdown in manufacturing investment is affecting countries unevenly, with some facing investment losses while others benefit from relocation and diversification. The pattern is more adverse in LDCs, where 85 per cent of IPAs reported downsizing or cancellations, compared with 47 per cent in other developing economies, suggesting a heavier downside for countries at lower levels of development.

Within this contracting trend, international investment in manufacturing remains concentrated in a small group of major investing economies. The European Union, China, the United States, the Republic of Korea and Japan, in that order, account for 70 per cent of the value of global greenfield investment in manufacturing. Although less concentrated than strategic industries, manufacturing investment still

depends heavily on a small number of major capital-exporting economies. As a result, tracking cross-border investment trends from these five economies provide a strong indication of the direction of global manufacturing reconfiguration.

Figure III.16
Declining cross-border investment in manufacturing shapes supply chain reconfiguration

Value of announced greenfield projects in manufacturing (excluding strategic sectors), by largest investors
(Billions of dollars)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Data for 2025 are annualized on the basis of information available as of 30 November. Investors are ordered by their share in total manufacturing investment in 2021–2025, from largest (bottom) to smallest (top).

Patterns of outward manufacturing investment differ significantly across the five major investor economies (figure III.17). Those that continue to expand outward investment – notably China and the Republic of Korea – are also the ones leading diversification across recipient countries, including significant expansion into developing economies. Their investment patterns show more pronounced shifts in the geography of production, with new destinations gaining importance alongside established ones, particularly in parts of Asia such as India and Viet Nam, in Mexico and in selected resource- and processing-oriented locations. Instead, investors with stagnating or declining outward investment – notably Japan, the United States and the European Union – are adjusting within a more limited set of locations. Their patterns point to selective repositioning rather than expansion, often centred on established production systems such as in Europe and North America, with only gradual extensions to a small number of alternative destinations.

Overall, these shifts suggest that supply chain reconfiguration is not taking the form of a broad relocation of production to new or lower-cost locations, but rather a more selective adjustment of investment networks shaped by a wider set of factors beyond traditional cost and market access considerations.

The broader empirical literature on geoeconomic fragmentation provides further evidence on some of these drivers, showing that cross-border investment has become more sensitive to geopolitical factors, including policy uncertainty,

trade frictions, market access risks and compatibility between countries' policy and regulatory environments (IMF, 2023b; Aiyar et al., 2024; UNCTAD, 2024c; Grover and Vézina, 2025; Kim and Lee, 2026; Park, 2026).[11] These factors may partly overlap with existing industrial, economic and income-based relationships between countries, but they point to a growing role for risk management and policy predictability in investment location decisions.

By contrast, geographic proximity does not appear yet to be a main driver of reconfiguration of manufacturing investment. The share of outward investment directed towards geographically closer destinations – including both regional investment and other forms of nearshoring – has not increased systematically across major investor economies (figure III.18). The United States is a notable exception, with increased investment within North America, largely reflecting deeper integration with Canada.

Figure III.17
Cross-border networks in manufacturing are shifting at different speeds across main investors

Top five recipient economies based on value of inward greenfield projects in manufacturing (excluding strategic sectors), by largest investors

⊖ No longer in top five ⊕ New in top five ↘ Lower rank within top five ↗ Higher rank within top five

Investors	Recipient ranking 2015–2019	Recipient ranking 2021–2025	Top five overlap	Same rank (top five)
European Union	European Union United States China Mexico ⊖ Russian Federation	European Union United States ⊕ India Mexico ↘ China	4	3
China	⊖ Indonesia Kazakhstan ⊖ India ⊖ Philippines ⊖ United States	↗ Kazakhstan ⊕ Viet Nam ⊕ Mexico ⊕ Egypt ⊕ European Union	1	0
United States	China European Union Mexico ⊖ Brazil India	↗ European Union ↗ Mexico ⊕ Canada ↗ India ↘ China	4	0
Republic of Korea	⊖ Indonesia Viet Nam ⊖ China United States India	↗ United States Viet Nam ⊕ Australia ↗ India ⊕ Mexico	3	1
Japan	United States ⊖ China India European Union Mexico	United States ↗ European Union India ↗ Mexico ⊕ Viet Nam	4	2

Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

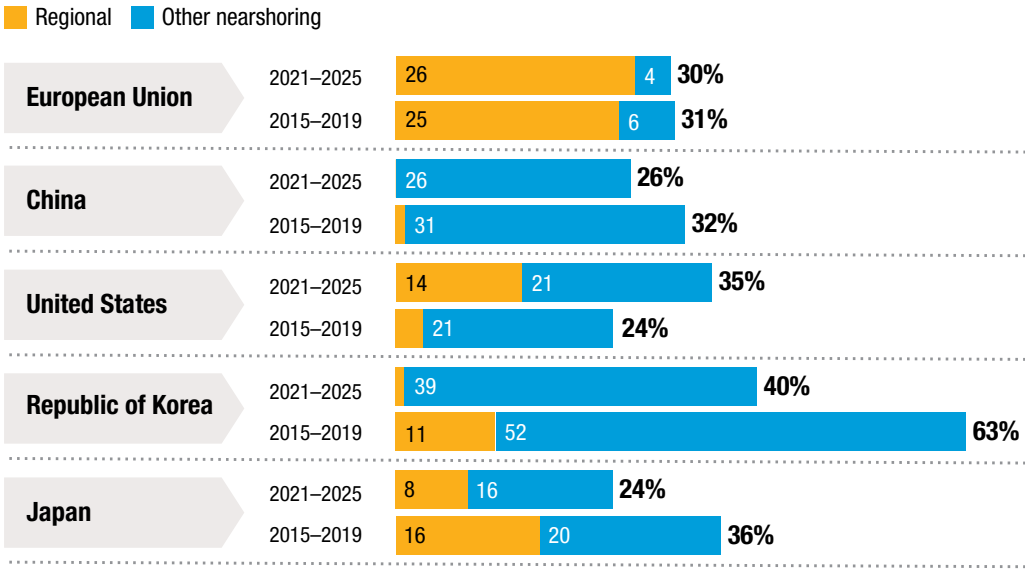
Note: Investors are ordered by their share in total greenfield investment in manufacturing in 2021–2025, from largest to smallest.

[11] These studies examine whether cross-border investment is becoming more sensitive to policy and regulatory compatibility, including exposure to policy uncertainty, trade frictions and market-access risks. Across different datasets and measures, they find growing evidence that FDI location choices are increasingly shaped by these factors. In particular, the recent World Bank study by Grover and Vézina (2025) tests this relationship across greenfield FDI, mergers and acquisitions and affiliate activity and find that the trend is robust across measures, with FDI becoming more sensitive to countries' differences in policy orientation and regulatory environment.

The 2026 UNCTAD IPA Survey (see box III.1) suggests that these shifts are also influencing investment promotion strategies. Nearly 70 per cent of responding agencies reported changes in their target source countries for FDI promotion in response to geopolitical developments. Among those that adjusted their priorities, the most common shifts were towards economic partners and towards regional or neighbouring markets. Developing-country IPAs placed relatively greater emphasis on regional markets, while developed-country agencies were more likely to report reduced engagement with sanctioned jurisdictions. This suggests that IPAs are positioning themselves to capture opportunities for both nearshoring and sourcing from economically or politically aligned countries, even though greenfield data indicate that geopolitical alignment has so far been the stronger driver of actual manufacturing relocation.

Figure III.18
Geographic proximity is not yet driving a broad reconfiguration of manufacturing investment

Share of the value of outward greenfield projects in manufacturing (excluding strategic sectors) to economies in the same geographic area, by largest investors



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Investors are ordered by their share in total manufacturing investment in 2021–2025, from largest to smallest. "Regional" refers to investment within the same United Nations subregion. "Nearshoring" refers to investment in geographically proximate locations within established production systems, including nearby economies outside the immediate subregion (e.g. European Union neighbourhood, United States–Mexico–Canada Agreement area, East Asia and South-East Asia production systems).

Tariff measures may become an important accelerator of supply chain reconfiguration, exposing specific pressure points in manufacturing FDI. The exposure is particularly high for those country-sector combinations where a large share of cross-border investment is tied to activities affected by rising or volatile tariffs (figure III.19). The illustrative cases in the figure point to three distinct exposure patterns.

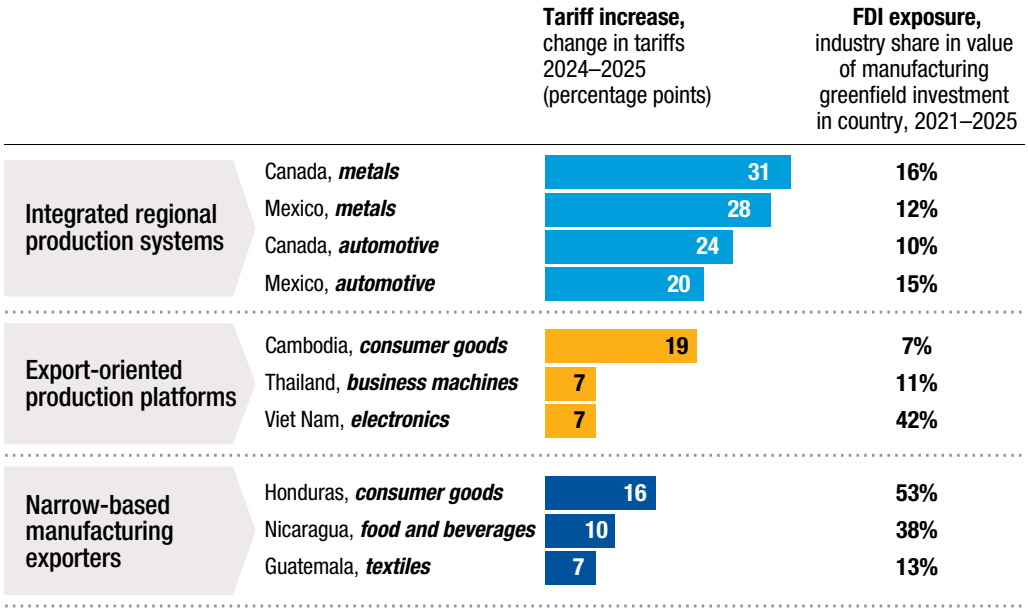
In integrated manufacturingregional production systems, such as Canada and Mexico in automotive and metals, vulnerability stems from the depth of cross-border production integration. In this context, tariff increases can generate significant system-wide effects because production stages are tightly interconnected across borders.

In export-oriented production platforms in South-East Asia, including Cambodia,

Thailand and Viet Nam, exposure reflects the dependence of manufacturing investment on external markets. In these cases, tariff increases can weaken cost competitiveness and redirect production towards alternative export locations, particularly in sectors such as electronics, consumer goods and business machinery.

A different pattern emerges in more narrowly based manufacturing exporters in Central America, such as in Guatemala, Honduras and Nicaragua. Here, exposure is amplified by the concentration of inward investment in a limited number of sectors. As a result, even more moderate tariff increases can generate significant economy-wide effects because affected industries account for a large share of manufacturing investment.

Figure III.19
Tariff changes expose sizable parts of manufacturing investment to reconfiguration
Illustrative country-sector cases with large foreign direct investment exposure to tariff changes



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Potentially significant FDI exposure to tariff changes can arise where both tariff increases and FDI shares are high (e.g. Canada, metals), but also where very large tariff changes affect a smaller share of FDI (e.g. Cambodia, consumer goods), or where more moderate (but still meaningful) tariff changes affect a large share of FDI (e.g. Viet Nam, electronics). Tariff changes are calculated as of 31 December 2025 and reflect the increase in tariffs in 2025, averaged across products and weighted by each country's export structure. Although they may not capture the latest developments, they provide an indication of where pressure points are likely to emerge under evolving and potentially volatile trade policy conditions. For Canada and Mexico (automotive), tariff changes assume non-compliance with the United States–Mexico–Canada Agreement.

2. Regional patterns of supply chain reconfiguration

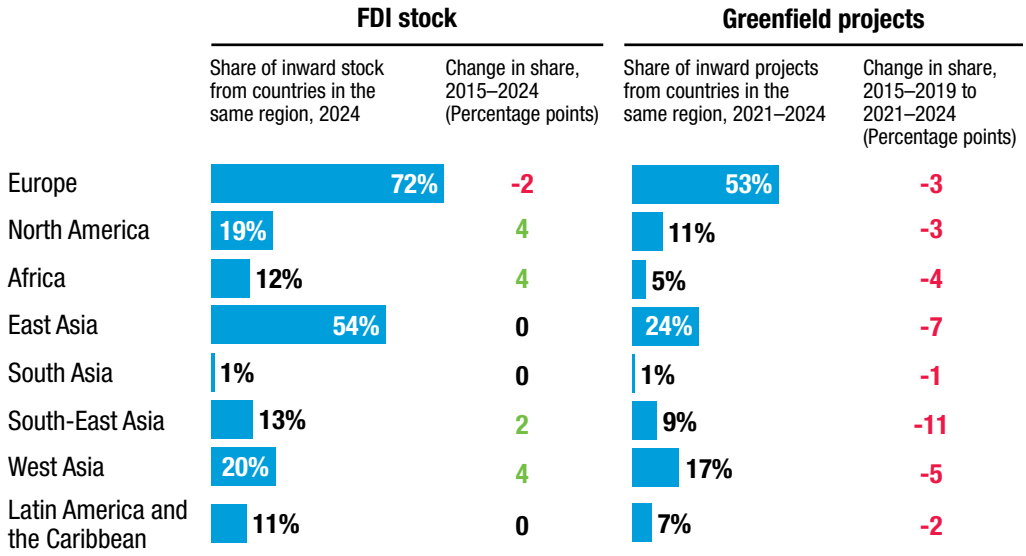
As geopolitical tensions intensify and uncertainties surrounding global trade and investment regimes persist, expectations have grown that international production will increasingly be organized along regional lines. However, regional investment patterns are evolving in a more nuanced and uneven way than often expected. Evidence from greenfield investment in manufacturing presented earlier already shows that, for the main capital-exporting economies, the share of new investment directed within their own region has not generally increased and in some cases has declined (see

figure III.18). Extending the scope beyond manufacturing and across all investors and sectors, and considering both FDI stocks and greenfield investment, points to a similarly mixed picture (figure III.20).

Intraregional FDI stocks remain relatively high in some regions, reflecting the legacy of established production systems, but they are progressing only gradually. By contrast, greenfield investment – capturing new location decisions – shows a more mixed pattern, with the share of intraregional projects generally declining. The sectors driving current investment dynamics – particularly strategic and technology-intensive activities – are less tied to regional proximity and more influenced by access to specialized capabilities, resources and policy incentives (see discussion in section B.2). As a result, regional linkages are increasingly combined with, and in some cases overshadowed by, broader global diversification strategies.

These patterns can be better understood by distinguishing between two underlying dimensions of regional investment: the expansion of outward investment and the share directed within regions. Over the past two decades, the rise of new outward investors across regions has supported deeper regional integration, as firms expanded their international footprint. However, this has not consistently translated into higher intraregional investment shares. While outward investment has continued to grow in several regions, in some cases a declining share of that investment is directed towards regional partners, as firms increasingly diversify across regions rather than concentrate within them.[12]

Figure III.20
Foreign direct investment stock and greenfield projects reflect mixed trends in investment regionalization
Share of values of inward bilateral stock and of cross-border greenfield investment by region
(Percentage)



Source: Bilateral FDI statistics from UNCTAD FDI/MNE database and from IMF/CDIS where not available from UNCTAD, and information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

[12] UNCTAD analysis of regional FDI decomposes the share of intraregional investment into two components: (i) an outwardness component, capturing the scale and growth of outward investment relative to inward investment, and (ii) a regional intensity component, capturing the share of outward investment directed within the region. The results show that while outward investment has increased in several regions, the regional intensity of that investment has generally declined, limiting the extent to which higher outward activity translates into stronger regional integration.

A distinction should nevertheless be made between the geographical regionalization of production and investment patterns, on the one hand, and the expansion of regional and cross-regional institutional frameworks, on the other. While investment patterns do not point to a generalized intensification of geographically concentrated regional production systems, governments and regional groupings are increasingly using regional and interregional agreements to strengthen regulatory cooperation, improve predictability and support supply chain integration across broader networks of partner economies.

Reflecting the continued importance of these networks, IPAs continue to place strong emphasis on regional market integration. In the 2026 UNCTAD IPA Survey, 90 per cent of respondents describe regional market access as important or very important in their current investor value proposition, with 59 per cent ranking it as very important and not a single respondent rating it as not important. More than 80 per cent of agencies actively promote their country as part of a regional production or supply chain network, either systematically (41 per cent) or case by case (40 per cent). Regional market access is also cited by 52 per cent of agencies as a formal criterion in selecting priority sectors for promotion, rising to 61 per cent among developing-economy IPAs.

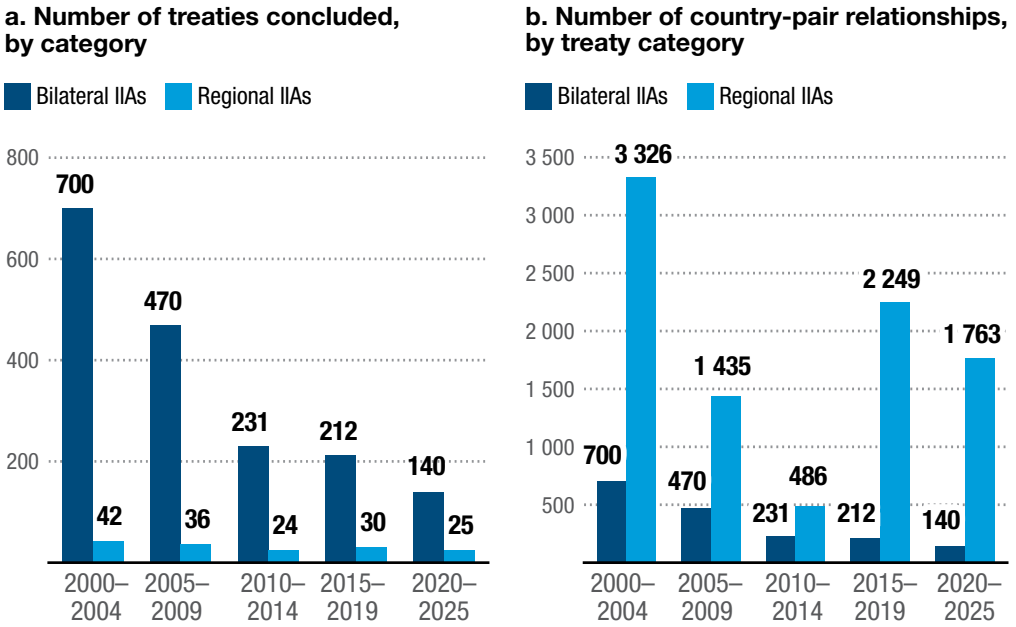
In parallel, international investment policymaking is increasingly advancing through broader and deeper regional and cross-regional frameworks. The relative weight of investment provisions embedded in comprehensive multiparty economic cooperation agreements covering trade and investment (treaties with investment provisions, TIPs) has increased, in parallel with a slowdown in the conclusion of stand-alone bilateral investment treaties (BITs). Over the past decades, TIPs have also deepened in scope, increasingly incorporating provisions affecting investment, services and supply chain governance. Large frameworks such as the African Continental Free Trade Area (AfCFTA) and the RCEP illustrate efforts to reduce regulatory fragmentation and strengthen regional investment integration.

More broadly, TIPs now increasingly operate as deep commitment networks, creating multiple country-pair relationships at once and expanding the reach of investment rules (figure III.21). In this context, different TIP configurations are increasingly used to enhance predictability and support domestic reform. Moreover, in some cases, multi-party TIPs modernize and consolidate existing investment treaty networks. For example, upon its entry into force, the Chile–European Union Advanced Framework Agreement will replace existing BITs with new-generation provisions on investment protection. Similarly, the AfCFTA Investment Protocol stipulates that existing BITs between the parties shall be terminated within five years of the Protocol's entry into force, leaving the new-generation Protocol to govern the investment relationship between the parties.

Regional investment patterns remain below potential despite deeper investment frameworks

The majority of what is being labelled "regional" policymaking extends beyond geographic regions, often connecting countries across continents. Three TIP configurations are particularly relevant in this context: (i) intraregional agreements among a group of economies aimed at deepening integration within a geographic region, such as the AfCFTA and the RCEP; (ii) interregional agreements connecting two regional groupings (for example, the European Union–Mercosur partnership agreement and the European Free Trade Agreement (FTA)–Central America FTA); and (iii) agreements between a more closely integrated regional grouping and a single third country, extending commitments to key partners (for example, the FTA between Central America, the Dominican Republic and the United States of America (2004), the Pacific Alliance–Singapore FTA and the Central America–Republic of Korea FTA (2018)). Regional integration initiatives have also fostered regulatory cooperation and administrative harmonization initiatives that can reduce transaction costs and improve operational certainty. Experiences from several regions illustrate the potential benefits of such reforms (box III.9).

Figure III.21
Despite their lower number, regional IIAs create significantly more connections between countries than bilateral IIAs



Source: UNCTAD.

Note: Regional IIAs are (i) intraregional agreements among a group of economies, (ii) interregional agreements connecting two regional groupings, and (iii) agreements between a more closely integrated regional grouping and a single third country.

Box III.9
Promoting regulatory cooperation and administrative harmonization: Selected examples

Regional initiatives show how regulatory cooperation and administrative harmonization can reduce border frictions, improve legal certainty and support investment.

In **South-East Asia**, the Association of Southeast Asian Nations (ASEAN) has developed a layered facilitation architecture for production networks based in the region. The ASEAN Single Window enables electronic exchange of trade and customs documents, processing 1.4 billion electronic certificates of origin and 3.3 million customs declarations in 2024. The ASEAN Customs Transit System, launched in 2020, allows goods to move across participating member States under a single electronic declaration and guarantee. In parallel, the Second Protocol upgrading the ASEAN Trade in Goods Agreement, concluded in 2025, further strengthens regional supply chains through additional liberalization, upgraded rules of origin and new provisions such as zero tariffs for certain remanufactured goods. On the investment side, the ASEAN Investment Facilitation Framework, adopted in 2021, promoted greater transparency, streamlined procedures, digitalization and, in most Member States, single digital windows; by 2025, its 10 broad measure categories had been implemented in nearly all Member States. ASEAN is also advancing digital regulatory integration through the ASEAN Digital Economy Framework Agreement, which aims to harmonize rules on cross-border data flows, digital payments, e-commerce and cybersecurity.

In **Africa**, along the Abidjan–Lagos corridor, trade facilitation reforms were used to strengthen cross-border regulatory cooperation and administrative harmonization

among corridor States. Under the 2007 Accra Memorandum of Understanding, Côte d'Ivoire, Benin, Ghana, Nigeria and Togo committed to harmonizing border controls, enabling customs interconnectivity, strengthening cooperation among border agencies, aligning border-post business hours and reducing en route controls. These reforms were supported through the Abidjan–Lagos Transport and Transit Facilitation Project, which combined computerized single windows, customs information-sharing, streamlined procedures, capacity-building and corridor performance monitoring with road rehabilitation and related infrastructure investments. By project closure in 2017, single windows were fully operational in Lomé and Cotonou, port dwell time had fallen significantly and border-crossing times at several posts had also declined. Regional customs digitalization has also advanced through the UNCTAD Automated System for Customs Data (ASYCUDA) and support from the Economic Community of West African States (ECOWAS) for SIGMAT, a regional transit management solution that automates procedures and strengthens the exchange of customs data across corridors. By the end of 2025, SIGMAT was operational in six ECOWAS member States along eight corridors, helping reduce paper use and transit times.

The Organisation for the Harmonization of Business Law in Africa (OHADA) illustrates a deeper form of regulatory harmonization. Established in 1993, OHADA brings together 17 African countries under a unified system of business law that is directly applicable across all member States and prevails over conflicting domestic legislation. Its 11 Uniform Acts cover matters such as commercial law, commercial companies, secured transactions, insolvency, arbitration, mediation and accounting standards. These rules are enforced by national courts, while the Common Court of Justice and Arbitration ensures uniform legal interpretation and acts as the final court for OHADA law matters. This single legal space for business across 17 jurisdictions has reduced legal fragmentation and uncertainty, helping to support cross-border investment and business operations across a market of more than 340 million people.

In **Central America**, deep integration between El Salvador, Guatemala and Honduras shows how harmonized border controls and customs procedures can deliver rapid gains. Under the customs union launched in 2017 with support from the Secretariat for Central American Economic Integration, Guatemala and Honduras replaced duplicate processes with a single electronic instrument, the Central American Single Invoice and Declaration. Border-crossing times reportedly fell from 10 hours to 15 minutes by early 2018, while bilateral trade increased by 7 per cent. After El Salvador joined in 2018, average transit times across the three countries' common borders fell further, to approximately 6 minutes by 2022. Integration has continued through the launch of the Central American Digital Trade Platform in 2023 and expanded cooperation at key border crossings, including integrated 24/7 customs and immigration operations between El Salvador and Guatemala in 2025.

Source: UNCTAD, based on official documents and governmental websites.

Investment effects of regional frameworks are neither automatic nor uniform. Outcomes depend critically on implementation, the depth and coherence of commitments, and their alignment with national investment and industrial policies. International policymaking may also have a nuanced impact on regional investment patterns. While some initiatives are designed to strengthen investment links within a geographic region, many others deliberately create or deepen cross-regional connections.

In addition, regional agreements and connectivity initiatives are more likely to generate development gains when

complemented by investment facilitation, coordinated infrastructure, industrial platforms and measures to strengthen productive linkages. Experiences with corridor-linked special economic zones (SEZs) (as in Cambodia, Malaysia and Morocco) show how targeted policy action can help translate regional connectivity into investment, productive capacity and value chain participation, although outcomes remain uneven and context-specific (box III.10).

Box III.10
From transport corridors to investment platforms: Corridor-linked SEZ experiences

Cambodia aligned its special economic zones (SEZs) with the Southern Economic Corridor (Bangkok–Phnom Penh–Ho Chi Minh City) and the Phnom Penh–Sihanoukville road, with zones concentrated in three strategic nodes: Poipet (Thai border), Bavet (Viet Nam border) and Phnom Penh, an inland hub connected to both borders and the seaport. The Industrial Development Policy, 2015–2025, formalized this spatial logic, while ASEAN trade and customs arrangements lowered the cost of moving intermediate goods across borders. These conditions supported a sectoral shift towards electronics, electrical components and auto parts, alongside continued apparel production. The Phnom Penh SEZ illustrates the depth of that shift: by 2025, it hosted 113 firms specialized in electronics, electrical components, automobile assembly and auto parts; in 2025 the zone generated more than 55,000 jobs and exports of $2.14 billion, approximately 7 per cent of national exports.

In **Malaysia**, the southernmost state of Johor borders Singapore and has developed over two decades into a cross-border extension of the Singapore economy, anchored by Iskandar Malaysia — a development zone established in 2006 around logistics gateways, industrial parks and services clusters that effectively expanded the operating perimeter of Singapore across the border. That base proved especially valuable where Singapore faces hard constraints on scaling: in data centres, investors adopted a "Singapore-plus" model, retaining higher-value and client-facing functions in Singapore while placing space- and energy-intensive capacity in Johor. The Johor–Singapore SEZ, agreed by both Governments in January 2025, formalizes this de facto platform as a binational framework spanning more than 3,500 square kilometres across Iskandar Malaysia and Pengerang, organized around nine flagship areas. It aims to strengthen the joint value proposition through improved cross-border connectivity, coordinated facilitation and targeted incentives on the Malaysian side. Approved investments reached approximately $17.3 billion in the first nine months of 2025.

Morocco built the Tanger Med port and zones complex as a gateway to Europe that converts locational advantage into export-oriented FDI by physically integrating the port with an adjacent network of SEZs and industrial parks. The investment proposition is anchored in proximity: the main automotive cluster lies within 35 minutes of the terminal, reducing inland time and variability between factory gates and vessel departure. Rail further strengthens this model; on average, the port receives six trains daily from Renault Tanger Med and two from Stellantis, each carrying up to 280 vehicles, reducing dependence on road haulage and extending the port's reach beyond the immediate Tangier cluster. The zone's offering combines serviced industrial land with utilities and road works, built-to-suit warehousing delivered within six months and a one-stop shop covering administrative and technical installation. The corridor logic extends across the Strait of Gibraltar through formal cooperation with the Port of Algeciras in Spain, including measures to facilitate cross-Strait flows and a planned exchange of digitized

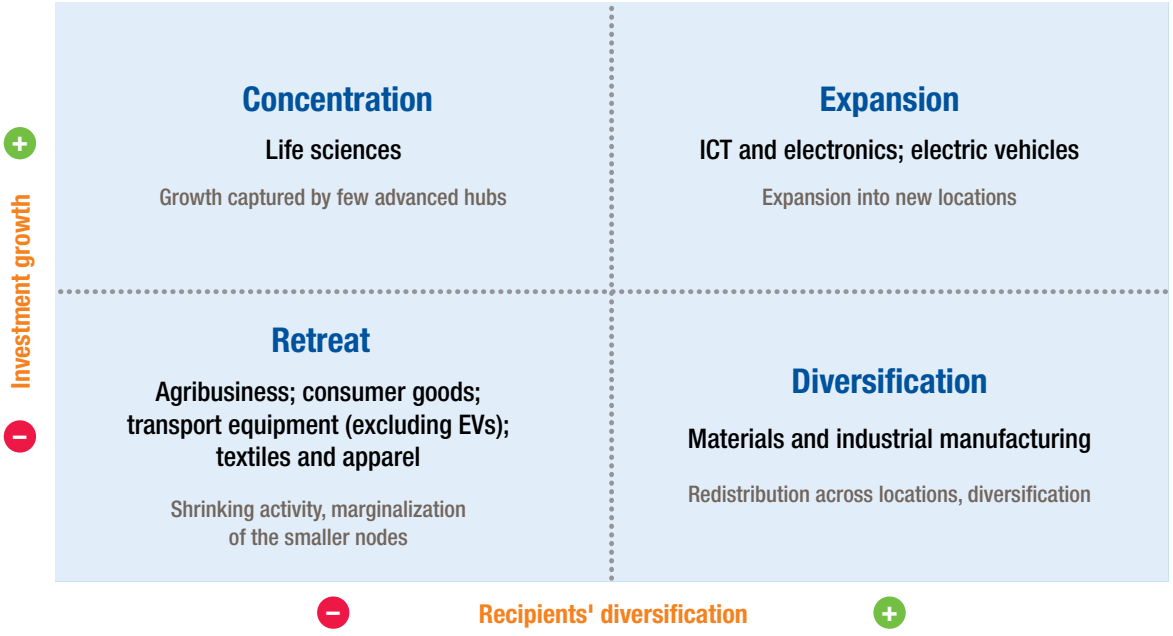
traceability data on goods and trucks across access control points in both port areas, effectively embedding Tanger Med in a binational logistics system that reinforces its proposition to export-oriented investors.

Source: UNCTAD, based on official documents and governmental websites.

3. Sectoral dynamics

Global supply chains are reconfiguring in different ways across manufacturing. In some industries, production is expanding and spreading across new locations, while in others it is contracting or becoming more concentrated around a small number of established hubs. This heterogeneity can be captured through two dimensions: whether investment is growing or declining, and whether investment destinations are becoming more concentrated or more diversified geographically (figure III.22). The analysis of sectoral dynamics also includes selected strategic manufacturing segments – notably electric vehicles – where current reconfiguration trends are particularly pronounced and increasingly shape the geography of global supply chains.

Figure III.22
Four investment patterns summarize distinct forms of supply chain reconfiguration in manufacturing



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: The mapping is based on changes between 2015–2019 and 2021–2025. Investment growth (vertical dimension) reflects the change in the value of announced greenfield projects. Recipient diversification (horizontal dimension) captures changes in the share of the top three destination economies by value. The same classification emerges when growth is measured by the number of projects (with the exception of a relative decline in life sciences, compared with a strong increase as measured by value), and diversification is assessed using a concentration index (Herfindahl–Hirschman) based on the distribution of investment values across destinations.

Abbreviations: EVs, electric vehicles; ICT, information and communication technologies.

Taken together, these two dimensions identify four patterns of supply chain reconfiguration.

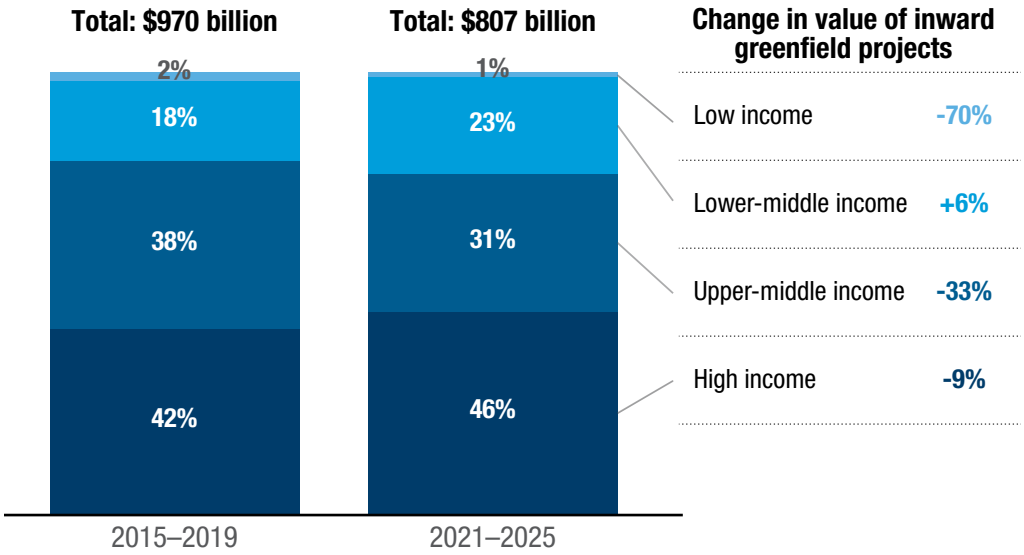
- **Expansion** *(high growth – high diversification)*: *ICT and electronics; electric vehicles.* In ICT and electronics, international investment is moving beyond a China-centred model towards a wider set of production locations in South-East Asia and India, while also strengthening regionally in Europe and North America. Production is increasingly organized across multiple investor-led systems, with East Asian firms expanding within the South-East Asia region and into India, while in North America and Europe production systems deepen within their own regions (annex A.1).[13] In electric vehicles, international investment is rising rapidly and reaching new destinations – including Brazil, India, Morocco and Thailand – driven by market growth and policy support. New locations are taking on differentiated roles, from export platforms to market-oriented production and component manufacturing (annex A.2).
- **Concentration** *(high growth – high concentration)*: *life sciences.* International investment is increasing but remains concentrated in a small number of locations, mainly linking the United States and the European Union, with a significant participation also of Switzerland and the United Kingdom. A small number of investment links dominate, reflecting the importance of research ecosystems, regulatory frameworks and specialized production capabilities. Outside this core, participation is confined to a limited set of highly competitive locations such as Costa Rica and Singapore (annex A.3).
- **Diversification** *(low growth – high diversification)*: *materials and industrial manufacturing.* International investment is spreading across a broader set of locations, as firms diversify supply chains and build alternative production bases. This reflects offshore relocation strategies, with investors (particularly from China) developing new industrial platforms linked to processing capacity (e.g. Kazakhstan) and export-oriented manufacturing platforms serving regional markets (e.g. Egypt). The geography of investment is widening, but entry points remain selective and tied to specific industrial roles (annex A.4).
- **Retreat** *(low growth – high concentration): transport equipment (excluding electric vehicles); agribusiness; consumer goods; textiles and apparel.* When excluding electric vehicles, international investment in transport equipment has declined sharply, with production consolidating around major markets, particularly within North America. Mexico is strengthening its role as an export platform linked to the United States, while new activity is limited to a small number of alternative locations such as Brazil, India and Viet Nam. This reflects both weaker demand in traditional automotive segments and efforts to simplify complex supply chains (annex A.2). In agribusiness, investment is also contracting and becoming more concentrated in large consumer markets, notably Mexico, the United States and the European Union. For low-income countries, this sector remains one of the strongest entry points into manufacturing, but it is weakening: their already small share of global investment in agribusiness has declined further, and participation is increasingly limited to a narrow set of countries and activities, often focused on domestic or regional markets (annex A.5).

[13] The sectoral deep dives presented in the annex A cover five major manufacturing clusters – ICT and electronics, transport equipment, life sciences, materials and industrial manufacturing, and agribusiness (see also box III.8). While not exhaustive, this selection captures the largest segments of investment in manufacturing activity and accounts for about 90 per cent of global greenfield investment in manufacturing, excluding strategic sectors (both in terms of value and number of projects). Electric vehicles are discussed separately alongside transport equipment because of their growing role in the restructuring of automotive supply chains, although they are not included in this coverage estimate as they are classified under strategic sectors and already discussed in section B (as part of "energy transition technologies and services").

These configurations have direct implications for development. Low-income countries are losing more ground as recipients of cross-border investment in manufacturing. Their already limited participation has declined further over the past decade, with the level of inward greenfield investment falling sharply from a low base (figure III.23). This reflects a structural shift in the organization of global production. The segments where these countries have traditionally participated – labour-intensive and cost-driven manufacturing – are precisely those that are now shrinking and becoming more concentrated (see figure III.22, bottom-left quadrant). As a result, the most accessible entry points into global manufacturing are narrowing rather than expanding.

Lower-middle-income economies show a more differentiated trajectory. While they remain largely excluded from the most dynamic and technology-intensive segments, some are capturing investment linked to the reconfiguration of traditional manufacturing. Countries such as Egypt and Viet Nam are positioning themselves as alternative production bases, processing hubs or gateways to major markets, reflecting their ability to combine cost advantages with industrial capacity and integration into existing production systems. This creates a growing divergence within developing countries: while the space for participation is contracting overall, it remains accessible to those economies able to move beyond the lowest segments of the manufacturing ladder.

Figure III.23
Foreign direct investment in manufacturing is shrinking further in low-income countries amid global supply chain reconfiguration
Share of value of inward announced greenfield projects in manufacturing (excluding strategic sectors), by recipient-country income group
(Percentage)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

The difference between low-income and lower-middle-income countries becomes clearer when compared with strategic sectors discussed in section B (see figure III.3). In those sectors, international investment is highly concentrated and increasingly directed towards a small number of advanced economies, creating greater challenges not only for low-income countries but also for most lower-middle-income economies. In non-strategic manufacturing, by

contrast, although the overall space is shrinking, broader opportunities remain for countries that can position themselves within existing supply chains.

4. Investment policy responses to supply chain reconfiguration

For many developing countries, the reconfiguration of global supply chains creates a more uncertain environment for investment, affecting not only new location decisions but also the continuity, expansion and upgrading of existing projects. In response, many countries are adapting their investment policies by adopting short-term measures aimed at stabilizing investment already in place and preserving the credibility of the location as a production base, and in some cases by using disruption as an opportunity to reposition investment towards higher-value activities.

a. Immediate responses to shocks

Experience across countries shows that when trade, geopolitical or environmental shocks occur, the immediate risk to investment is often hesitation rather than outright divestment. Firms may postpone projects, scale down expansion plans, delay technological upgrading or adopt a wait-and-see approach before committing capital to new facilities. In this context, early policy responses often focus on maintaining the conditions for continued investment through liquidity support, trade finance and temporary relief on financing pressures, to prevent short-term shocks from turning into cancelled projects, delayed expansion and longer-term investment losses. Country experiences illustrate how such stabilization measures have been used in practice (box III.11).

IPAs have taken a lead role in this context. According to the 2026 UNCTAD IPA Survey, nearly three quarters have adjusted their facilitation or aftercare services in response to geopolitical and trade policy turbulence. Among them, 82 per cent expanded aftercare and investor-retention activities, while 61 per cent strengthened policy advocacy on behalf of investors. This suggests a broadening of the IPA role towards operational problem-solving, including the identification of bottlenecks that affect existing investors, the escalation of policy constraints and efforts to prevent temporary uncertainty from resulting in cancelled expansions or lost reinvestment.

Box III.11
Country responses to stabilize investment under external shocks

Several countries have used temporary support measures to prevent external shocks from translating into deferred or cancelled investment.

In **India**, tightening global financial conditions and heightened trade policy uncertainty affecting export-oriented sectors in 2025 led to the introduction of a Credit Guarantee Scheme for Exporters, together with trade relief measures implemented by the Reserve Bank of India. These measures were aimed at easing working capital constraints and debt-servicing pressures for viable export-oriented firms, helping them maintain production and investment plans during a period of heightened uncertainty.

Brazil adopted a similar approach through its Brasil Soberano programme. The initiative combined export credit facilities, tax rebates and more flexible drawback compliance to help firms redirect shipments and avoid investment retrenchment.

In **South Africa**, the Economic Response Package also included working capital support linked to plant and equipment finance, designed to prevent tariff-related shocks from resulting in underused capacity or deferred reinvestment in export-oriented industries.

These experiences show how short-term liquidity and financing measures have been used to stabilize investment expectations and reduce the risk that temporary shocks might generate longer-term investment losses.

Source: UNCTAD, based on official documents and governmental websites.

A second set of countries' responses has centred on preserving confidence in the country as a reliable production base in a more fragmented and compliance-sensitive international environment (box III.12). In this context, the main concern has not been cost competitiveness, but whether production in the host economy can continue to supply external markets without being exposed to origin-related scrutiny, export control restrictions, or other forms of geopolitical and regulatory risk. This credibility depends on both sides of the production chain: the ability to source inputs at competitive cost within transparent and compliant regulatory frameworks, and the ability to export outputs without being seen as a transshipment conduit. Country experience shows that responses in this area have focused on reducing the risk premium attached to the location through stronger compliance, transparency and control in internationally exposed sectors, including through tighter origin verification, anti-transshipment enforcement and export control administration.

Evidence from the 2026 UNCTAD IPA Survey suggests that IPAs have also reacted to lower the risk premium attached to their location. Among agencies that modified their services, 47 per cent expanded the information provided to investors on trade policy and regulatory uncertainty; 41 per cent strengthened coordination with customs, trade or industrial policy authorities; and 36 per cent assisted investors with supply chain diversification, local sourcing or supplier development.

Box III.12
Country experiences in safeguarding location credibility

Viet Nam strengthened its origin verification and anti-transshipment enforcement through Resolution 119 (2019) and later Directive 09/CT-BCT (2025). These measures aimed to protect the credibility of Vietnamese exports and reduce the risk that trade-remedy spillovers might affect compliant producers.

Thailand adopted a complementary approach through its investment promotion framework, withdrawing support from sectors considered particularly vulnerable to foreign trade measures. This signalled tighter oversight of activities hosted in the country and reduced the risk of the country becoming a diversion point for trade subject to external restrictions.

In **Malaysia**, concerns related to expanding export control regimes in advanced technologies led the Government in 2025 to tighten permit requirements for the export, transshipment and transit of high-performance AI semiconductors. The objective was to ensure compliance with evolving international regulations and avoid being treated as a diversion node in sensitive technology supply chains.

These policy responses illustrate how strengthening regulatory compliance and supply chain transparency can help reduce the perceived risk associated with a production location during periods of geopolitical tension.

Source: UNCTAD, based on official documents and governmental websites.

b. Strategic repositioning

As attention shifts from immediate shock management related to heightened uncertainty, tariff shocks and production frictions to a medium-term outlook for investment, policy concerns increasingly extend to sustaining the broader commercial case for new and ongoing projects. This involves lowering execution risk, accelerating implementation and improving expected returns, while also strengthening the conditions for longer-term investment continuity and expansion. In some cases, country responses have sought to turn external shocks and supply chain reconfiguration into opportunities for strategic repositioning within evolving production networks. Such efforts have aimed to steer investment towards activities with stronger prospects for technological upgrading, local value addition, supplier development and resilience. As a result, measures to maintain competitiveness have increasingly overlapped with efforts to improve the quality of investment (box III.13).

The results of the 2026 UNCTAD IPA Survey (see box III.1) also point in this direction. Fifty-seven per cent of IPAs reported that their country had adopted or revised investment-related policies in recent years in response to geopolitical or economic security considerations, with higher shares among developed-economy IPAs (68 per cent) and LDCs (69 per cent). A common pattern emerges: policy revisions are used not only to preserve existing investment patterns, but also to turn disruption into upgrading opportunities. For instance, in Türkiye the 2024–2028 FDI strategy and renewed incentive framework target high-tech, green and digital transformation investment. In Cambodia, the 2021 Law on Investment and related subdecrees combine incentives for priority sectors with more streamlined digital procedures and strengthened aftercare mechanisms. In Côte d'Ivoire, the 2024 Investment Code reform strengthens incentives for industrialization, local processing and investment beyond Abidjan.

Box III.13
Country experiences in preserving competitiveness and repositioning amid global changes

Several countries have combined measures aimed at sustaining investment attractiveness under external pressure with efforts to redirect investment towards higher-value and more resilient activities.

In **Argentina**, the Incentive Regime for Large Investments adopted in 2024 offers approved large-scale projects long-term stability in tax, customs and foreign exchange rules. The regime applies to large investments in such sectors as mining, energy, oil and gas, infrastructure, technology, forestry, tourism and steel. The approach aimed to improve the investment case for long-horizon projects and support renewed investment in activities linked to infrastructure, energy supply and critical inputs.

In **Chile**, a package of investment facilitation and administrative reforms adopted in 2025 sought to accelerate the implementation of ongoing projects affected by tariff-related pressures and broader uncertainty in global trade conditions. The reforms aimed both to sustain current investment activity and to position the country to attract new investment linked to the reconfiguration of global production networks.

In **Mexico**, initial policy responses focused on preserving the country's role as a manufacturing platform within North American production networks, including through accelerated depreciation allowances, training-related tax deductions and corridor-based investment facilitation initiatives aimed at improving project economics and accelerating industrial investment. Over time, this approach was supplemented by a more selective

upgrading dimension. Nearshoring remained central to the country's investment strategy, but under *Plan México* incentives increasingly also emphasized domestic value added, innovation, training and the development of new productive capacity.

Following the pandemic, **Morocco** introduced an industrial recovery strategy combining import substitution initiatives, project development and support for small and medium-sized enterprises (SMEs), to reduce supply chain vulnerabilities and build domestic industrial capacity.

In **South Africa**, the Economic Response Package combined exporter support with instruments aimed at sustaining industrial competitiveness, including support for plant and equipment, feasibility studies and technical upgrading. These measures aimed to prevent external shocks, resulting in deferred investment and declining industrial capacity.

Viet Nam used the period of supply chain relocation to shift its foreign investment strategy from attracting "more" FDI to attracting "better" FDI. Policy priorities increasingly emphasized technology intensity, environmental performance and stronger domestic linkages within sectors integrated into global value chains.

Thailand linked additional tax incentives in the electric vehicle and electrical appliance industries to "Made in Thailand" certification and local content thresholds. This approach sought to increase domestic value added and strengthen local supplier participation within emerging regional electric vehicle supply chains.

Türkiye integrated green transformation objectives into its investment incentive framework in response to the European Union Green Deal and the Carbon Border Adjustment Mechanism, linking competitiveness in export-oriented industries to green finance, emissions monitoring and carbon-pricing readiness.

Source: UNCTAD, based on official documents and governmental websites.

D. Development implications and policy responses

Developing countries face a more complex and selective international investment environment, in which opportunities depend increasingly on strategic positioning, policy coordination and domestic capabilities. As investment in strategic sectors becomes more concentrated, industrial policy expands and supply chain reconfiguration narrows traditional entry points, development strategies need to focus on realistic niches, fiscally sustainable support measures and stronger links between FDI, domestic firms and productive upgrading. To turn disruption into development gains, policy responses should combine evidence-based prioritization, enabling infrastructure and skills, balanced approaches to national security risks, adaptive investment facilitation and more effective regional integration.

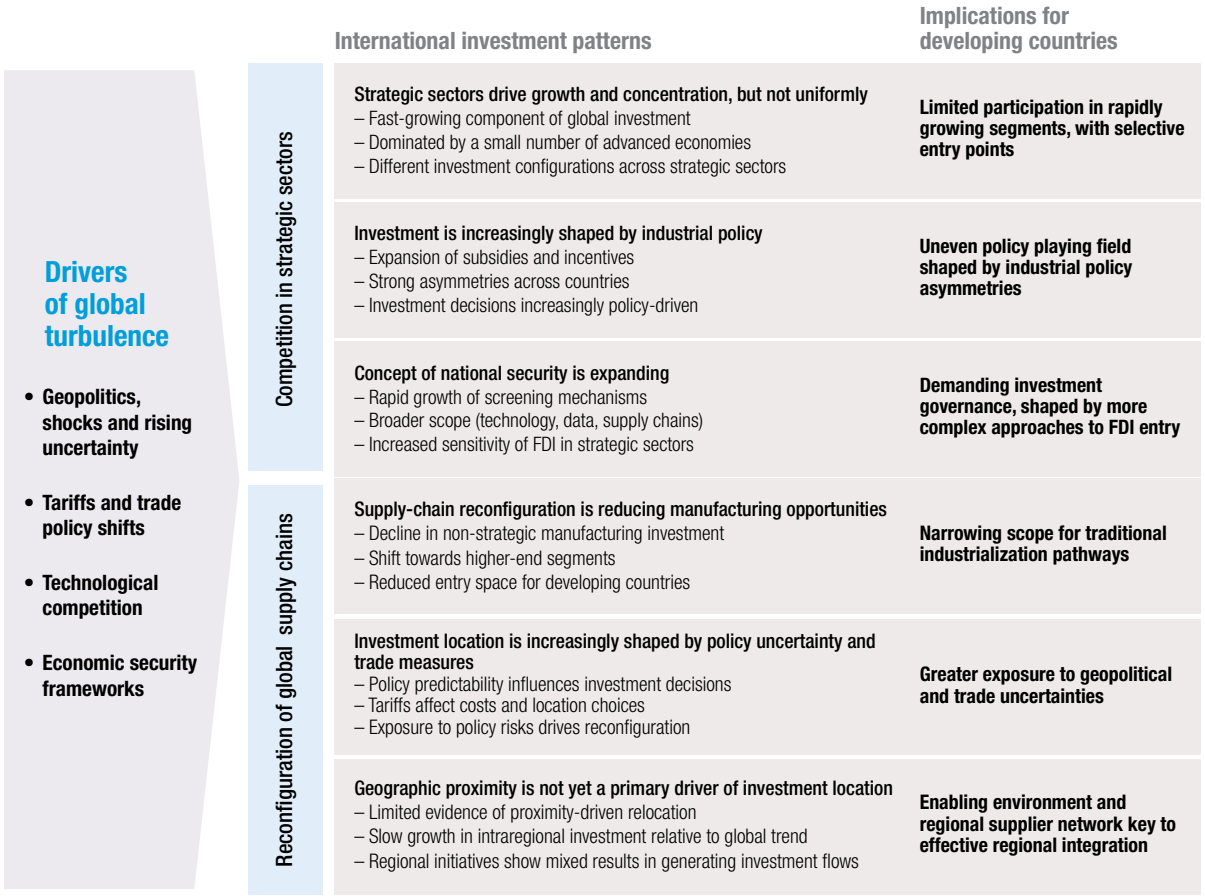
The emergence of a more fragmented and strategically contested global economy is reshaping international investment patterns in ways that are tightening the conditions for participation by developing countries. Two structural trends are particularly important: intensified competition for investment in strategic sectors and the reconfiguration of global supply chains in manufacturing. Together, these trends are making investment more selective, more concentrated and more policy-driven – affecting not only where investment goes, but under what conditions countries can attract, retain and translate it into development gains. In this context, six key development implications follow directly from the analytical findings of sections B and C (figure III.24).

First, participation in rapidly expanding strategic investment segments remains limited. Investment growth in strategic sectors is concentrated in a narrow set of economies and activities, with different configurations across sectors. Entry barriers are high, but selective entry points exist – for example in upstream processing, specific manufacturing segments or supporting services. The implication is a dual dynamic: overall participation remains limited, but differentiated opportunities exist for countries able to position themselves in specific niches.

Second, the policy playing field is increasingly uneven. The expansion of industrial policy is a central driver of current investment patterns. Large subsidy packages, in particular, are concentrated in a small number of economies. Most developing countries cannot match these policy efforts. Competition for investment in strategic sectors is therefore increasingly policy-driven, reinforcing concentration and limiting the scope for broad-based participation.

Third, the broadening concept of national security makes the regulation of FDI more complex. National security concerns associated with foreign investment are extending beyond defence-related assets to encompass critical infrastructure, sensitive

Figure III.24
Rising constraints in international investment: from structural shifts to development implications



Source: UNCTAD.

data, key technologies, strategic natural resources and supply chain vulnerabilities. For developing countries, this creates a particular policy challenge: many of the investments needed to support the green and digital transitions, including in clean energy, critical minerals and digital infrastructure, may raise national security considerations. However, the reliance in many countries on equity restrictions and sectoral bans as the main instruments for regulating FDI entry may not adequately address the risks associated with such investment.

Fourth, traditional industrialization pathways are narrowing as participation in international production becomes more selective and capability-intensive. Supply chain reconfiguration is not leading to a generalized relocation of manufacturing towards developing economies. While new opportunities are emerging in selected sectors and supply chain segments, participation increasingly depends on industrial capabilities, infrastructure, policy support and strategic positioning within evolving production networks. FDI in non-strategic manufacturing is weakening and shifting towards higher-value and more technology-intensive activities. Countries reliant primarily on labour cost advantages or enclave-type export models therefore face an increased risk of marginalization.

Fifth, exposure to geopolitical and trade-related uncertainties is increasing. The growing role of tariffs, geopolitical factors and policy uncertainty in shaping investment location decisions introduces new forms of volatility. Firms are increasingly adjusting their footprints in response to

these risks, leading to more frequent reconfigurations of investment patterns. For developing countries, particularly those with concentrated trade and investment structures, this raises exposure to sudden reallocation and disruption.

Sixth, regional integration requires effective implementation and regional supplier networks to translate into investment outcomes. Geographic proximity does not appear to be a dominant driver of recent investment location patterns. While regional frameworks can improve conditions – through market access, coordination and reduced frictions – their impact on FDI depends on deeper forms of productive integration. Without sufficient infrastructure, supplier networks and institutional coordination, regional initiatives do not automatically translate into investment or upgrading.

These developments point to a more constrained and complex policy environment. Industrial policy, trade policy, investment regulation and national security considerations are increasingly intertwined, raising the difficulty of policy design and implementation – particularly in capacity-constrained contexts. This makes policy coordination not only a matter of administrative efficiency, but a condition for translating investment into development gains: investment promotion, trade policy, industrial strategy and science, technology and innovation (STI) policies need to send consistent signals and support the same upgrading objectives.

Development gains increasingly **depend on strategic positioning**

In this environment, development gains depend increasingly on strategic positioning. For LDCs and structurally vulnerable economies, for instance, the immediate challenge is often not direct entry into frontier strategic sectors, but the creation of basic conditions for participation: reliable infrastructure, energy access, investment facilitation, skills formation and regional connectivity. For lower-middle-income economies, integration into global manufacturing value chains is more likely to arise in assembly, supplier development, business services, processing and selected niches. For economies with established industrial bases, the challenge is to move into higher-value segments of strategic value chains while avoiding costly subsidy competition. Resource-rich developing economies face a distinct policy problem: how to leverage rising demand for critical minerals and strategic inputs to support domestic processing, fiscal revenues and industrial upgrading rather than reinforcing commodity dependence. This implies a shift from focusing on the volume of investment to focusing on its quality and function, including its contribution to upgrading, resilience and sustainability.

Development strategy must therefore address a threefold challenge: capturing limited and selective opportunities, reducing growing exposure to new vulnerabilities and building the capabilities required to participate in more selective and resilience-oriented production networks. The following subsections present policy guidance for navigating this increasingly complex investment landscape, taking into account differences in countries' capacities, economic structures and development levels. It supports the identification of realistic entry points for attracting international investment and the design of efficient industrial policy support to build the enabling capabilities needed to develop those priorities. It also addresses the management of national security risks associated with FDI, while considering how shocks can be turned into opportunities for investment expansion and upgrading and how regionalization can be leveraged more effectively for development.

1. Strategic prioritization: Identifying realistic entry points

Large-scale incentive programmes and targeted support schemes in major economies are increasingly influencing the global allocation of investment. For developing countries, which typically operate with more limited fiscal and institutional capacity, competing broadly across many sectors is rarely feasible. Strategic prioritization is therefore essential to focus policy efforts on a limited set of activities that can support structural transformation, productivity growth, employment and diversification.

Strategic prioritization is a practical, evidence-informed process for identifying a limited number of promising and feasible opportunities where a country has, or can realistically build, competitive advantages that can contribute to its sustainable development objectives. It is most effective when it is selective, realistic and proportionate to institutional capacity. The process should draw on available data, investor feedback, IPA experience and regular reassessment. At the same time, prioritization increasingly needs to account for risk and resilience: recent shocks have shown that development gains can be reversed when economies are highly exposed to narrow sets of suppliers, routes, markets or regulatory regimes, and when they lack readiness for evolving standards, including environmental requirements.

Because prioritization is closely linked to industrial transformation objectives, it is typically embedded in national industrial strategies. Effective prioritization links strategy with implementation by aligning investment promotion, incentives, spatial policies such as industrial parks and SEZs, and complementary measures in skills, infrastructure and innovation. Investment policy plays a key role in operationalizing these priorities, particularly through investment promotion, facilitation and the development of project pipelines. Policy coherence is strongest when the same priorities are applied consistently across industrial, investment and trade policy instruments.

Countries apply different approaches to operationalizing investment-related sector prioritization depending on their development stage, institutional capacity and industrial structure (box III.14). Evidence from the UNCTAD IPA survey (see box III.1) suggests that these differences lie less in whether formal frameworks exist than in how selectively they operate in practice. Alignment with national development plans is almost universal, and both developing- and developed-economy IPAs report using about six criteria on average when identifying priority sectors. Yet priority sector lists tend to be broader among developing-economy IPAs, especially in LDCs. This suggests that the central challenge is not simply to define priorities, but to apply filters that are sufficiently selective to narrow broad development objectives into a limited set of investible opportunities.

The implementation of such prioritization frameworks is also shaped by fiscal constraints, political economy pressures, institutional fragmentation and administrative capacity, factors that often determine what can realistically be achieved and that often require targeted capacity support,

Effective prioritization is **selective, realistic and matched to institutional capacity**

Box III.14
Strategic prioritization: Selected country examples

Countries use different approaches to operationalize investment-related sector prioritization. The examples here illustrate how governments translate strategic prioritization frameworks into investment promotion strategies, incentive regimes and project pipelines.

In **Thailand**, the industrial strategy under the Thailand 4.0 framework seeks to shift the economy towards innovation-driven growth. The strategy identified 10 targeted industries, later updated to 12, based on the "S-curve" concept of industrial development, distinguishing between sectors to be upgraded and new sectors to be developed. The First S-curve includes established industries such as next-generation automotive, smart electronics and biotechnology, while the New S-curve focuses on emerging sectors such as robotics, digital industries and advanced healthcare services. Implementation relies heavily on investment policy instruments. The Board of Investment (BOI) provides differentiated incentives linked to technology intensity and activity type, while the Eastern Economic Corridor offers enhanced benefits for investors in targeted sectors, including regulatory sandboxes, extended land leases and additional tax incentives.

In **Türkiye**, the Technology Focused Industrial Movement (HAMLE) programme uses a quantitative multidimensional prioritization methodology published in the Official Gazette. In 2021, the Ministry of Industry and Technology selected 919 priority products across seven manufacturing sectors – chemicals, pharmaceuticals, medical devices, computers, electronics and optics, electrical equipment, machinery and transport equipment. Selection criteria include technology intensity, import dependency, product complexity and proximity to existing capabilities, export potential, domestic production capacity and value chain linkages, market concentration, value added per unit of investment and trading partner concentration (as a proxy for supply risk). The list is regularly updated and, by early 2026, covered 1,126 priority products, 414 technology areas and 34 critical minerals. HAMLE translates these priorities into an investment pipeline through thematic calls, offering firms coordinated support that combines investment incentives, R&D funding and SME instruments. The programme also aligns with the country's FDI promotion strategy, which targets "quality FDI" in areas such as green and digital investment, value chain–linked and knowledge-intensive projects, and higher-end services.

In **Rwanda**, the Industrial Policy (2024–2034) illustrates a prioritization approach tailored to a capacity-constrained context. Recognizing limited fiscal and institutional resources, the Government adopted a structured "opportunity versus feasibility" framework to identify a small number of priority subsectors. The process began with a long list of candidates derived from product-space analysis and was followed by detailed assessment based on market opportunity, feasibility and stakeholder consultations, which generated an opportunity score and a feasibility score for each option. The scoring results were then discussed in a consultative workshop, including a voting element, to agree on priority subsectors. The policy distinguishes "focus subsectors" from longer-term "strategic bets" and signals an intention to revisit and adjust targeting over time. To operationalize it, the policy assigns a central role to the Rwanda Development Board in driving investment attraction to the selected focus subsectors and in advancing flagship projects aligned with priorities. It also describes moving towards more targeted, condition-based incentives, explicitly linked to the needs of each priority subsector and even to different steps in their value chains.

Source: UNCTAD, based on official documents and governmental websites.

including from international institutions.[14] Key considerations for sectoral prioritization for investment include the following:

a. Use structured, data-informed prioritization frameworks

Apply diagnostics and multi-criteria assessment frameworks to identify priorities based on capabilities, market opportunities, feasibility, exposure to shocks and development impact. Transparent methodologies help strengthen credibility, manage political economy pressures and enable prioritization frameworks to be updated as capabilities and external conditions evolve.

b. Define specific and feasible opportunity areas

Move beyond broad sector labels to identify concrete activities, value chain functions, locations or clusters where investment is plausible and realistic given existing capabilities, institutional capacity and resources. This level of granularity helps reveal differences in investment requirements, spillover potential and feasibility, and translate priorities into operational instruments. In lower-capacity settings, this can start from existing capabilities, export performance and consultations with firms and IPAs. The aim is to focus scarce policy and facilitation resources on removing binding constraints to investment and identifying the complementary policy reforms and investment promotion strategies needed to make targeted activities viable. More ambitious activities may require gradual sequencing and ecosystem development to proceed hand in hand.

c. Align sector priorities across policy instruments and institutions

Operationalizing priorities requires policy coherence across industrial, investment, trade and STI instruments, with incentives, spatial policies, investment promotion, skills systems, innovation support, standards policies and regulation consistently supporting the same strategic activities. This also requires coordination among IPAs, trade authorities, industrial policy bodies, STI institutions and sector regulators. Without this alignment, prioritization risks remaining symbolic rather than shaping actual investment outcomes.

2. Industrial policy amid fiscal asymmetries

A central policy challenge is to use limited fiscal resources in ways that improve investment viability, reduce bottlenecks and raise the development impact of FDI. This calls for a fiscally realistic approach to industrial policy, focused on enabling capabilities, better-governed incentives and catalytic instruments that crowd in private investment rather than substitute for it. It also requires a shift in emphasis – from competing for investment volume through costly incentives to competing for investment that supports innovation, domestic linkages, employment, skills development and export upgrading – a long-standing emphasis of UNCTAD's development-oriented approach to industrial policy, ever more relevant in the current context (UNCTAD, 2016; UNCTAD, 2018a).

[14] UNCTAD, through its Investment Policy Reviews, has often assisted countries in identifying specific opportunity areas for investment. The United Nations Development Programme supports the identification of priority investment sectors aligned with the Sustainable Development Goals through initiatives such as the SDG Investor Map, which uses country-level market intelligence to pinpoint commercially viable investment opportunities that advance national development and sustainability goals. The United Nations Industrial Development Organization also provides assistance to developing countries, including LDCs, in structured, evidence-based prioritization through its Industrial Country Diagnostics methodology and its DIVE (Diversifying Industries and Value Chains for Exports) tool. Finally, the World Bank's investment climate unit provides technical assistance to countries in identifying nearshoring investment opportunities by utilizing data on FDI and global value chain trends, including trade and FDI statistics, competitive sector benchmarking and investor surveys.

In this setting, industrial policy cannot be treated separately from investment, trade and STI policy. FDI will contribute to structural transformation only where investment attraction is linked to national industrial priorities, market-access conditions, and employment generation objectives, as well as supplier development, skills formation and innovation capabilities. This is particularly important in strategic and technology-intensive sectors, where the benefits of foreign investment depend on domestic absorptive capacity and on linkages between foreign affiliates, local firms, research institutions and training systems. It also applies to sectors linked to climate mitigation and adaptation, where industrial and investment policies can support employment and the development of local capabilities in areas such as clean energy, low-carbon production and climate-resilient infrastructure. Policy approaches to achieve such objectives are described in the following subsections.

a. Focus scarce resources on enabling capabilities that reduce investment bottlenecks

Under tight fiscal conditions, public resources are best directed to binding constraints that affect investment, such as infrastructure gaps and other productivity-enhancing public inputs, rather than toward large firm-specific subsidies (Juhász, Lane and Rodrik, 2024; IMF, 2023a). Recent practical guidance on industrial policy similarly suggests that countries with more limited resources may need to start with less fiscally and institutionally demanding measures – such as industrial parks, skills development, market access support and quality infrastructure – before moving towards more complex or costly instruments including public procurement, tailored financial incentives or large-scale subsidies (Fernandes and Reed, 2026).

Investment in enabling capabilities can strengthen the overall investment environment and increase the attractiveness of a country overall. Such enabling measures, however, can still be targeted. By focusing on the common constraints facing selected sectors, value chains or locations where a country has a strategic interest or an emerging competitive strength, governments can support investment in a more incremental and fiscally sustainable way.

In a more turbulent investment environment, enabling capabilities can also serve as risk reduction assets. Reliable and verifiable access to low-carbon electricity is a case in point. It is becoming a key factor in the location of data centres, materials processing and advanced manufacturing activities, as firms seek to meet decarbonization commitments and regulatory requirements in their home or export markets. Several developing countries are therefore seeking to leverage the availability of renewable energy to attract energy-intensive and digital investment (box III.15).

Innovation and technology ecosystems are another important enabling factor. In higher-technology segments, public support can be especially effective in attracting investment when it can reduce risks related to testing, deployment, compliance and commercialization through instruments such as pilot facilities, shared laboratories, standards infrastructure and regulatory sandboxes (box III.16).

Skills systems are equally critical. Governments can address shortages in technical and managerial capabilities through demand-driven training programmes, targeted scholarships in technical fields and collaborative training centres linked to priority sectors.

Finally, standards and interoperability are an important part of the enabling environment for investment (World Bank, 2025). Alignment with relevant technical, digital and quality standards can reduce fragmentation, lower compliance costs, support interoperability across systems and regulatory frameworks, and strengthen participation in cross-border production networks.

Box III.15
Clean power as a resilience and locational advantage: Country examples

Countries with reliable and affordable low-carbon power can strengthen their position in investment decisions shaped by energy security, carbon-related market requirements and supply chain resilience, as illustrated by the following examples.

Indonesia is promoting "green industrial parks" as part of its downstream industrialization strategy. It is also beginning to channel new public financing into greener downstream activities, including a nickel processing hub, announced with Chinese recycler GEM, that aims to operate as a green industrial estate with a net-zero emissions target.

Kenya has a renewable-heavy electricity system, with nearly 90 per cent of generation coming from renewable sources, led by geothermal power. This gives the country both a cost and a credibility advantage in attracting digital infrastructure investment. Kenya has already secured large-scale projects, including a $1 billion investment package that includes a geothermal-powered data centre.

Morocco's renewable energy targets and decarbonization commitments, combined with arrangements that give firms access to dedicated renewable electricity, have helped position the country as an attractive location for battery materials and cell manufacturing. At Jorf Lasfar, the CNGR–Al Mada joint venture COBCO plans to increase the share of green electricity in its operations to 80 per cent in 2025 and 100 per cent by the end of 2026. In Kénitra, Gotion's gigafactory project is linked to a dedicated renewable supply arrangement, including a 500 MW wind project with 2,000 MWh of battery storage.

Türkiye is linking renewable energy expansion with battery storage, so that new capacity in wind and solar comes with built-in flexibility. By June 2024, pre-licensed renewable projects with co-located battery storage had reached about 32 GW, pointing to a growing pipeline of more reliable clean power for high-uptime investors such as data centres, advanced manufacturing and electric vehicle-related industries.

Source: UNCTAD, based on official documents and governmental websites.

Box III.16
Innovation-enabling capabilities as a locational advantage: Country examples

Chile combines public support with industrial test environments and challenge-based innovation funding. In mining, pilotage centres allow firms to test equipment and processes under operational conditions, helping validate technologies, generate reliable performance data and reduce deployment risk. Through CORFO, Chile's economic development agency, challenge-based calls financed by lithium royalties have also helped to steer innovation in mining. These calls cover up to 80 per cent of project costs and support solutions with spillover effects beyond a single firm.

Kenya has focused on digital innovation infrastructure and regulatory experimentation. Konza Technopolis is being developed as an innovation hub and host for national digital infrastructure, with the aim of supporting investment in the digital economy. Kenya has also used a regulatory sandbox in the information and communications technology sector to provide a controlled environment in which emerging products can be tested before being fully exposed to existing regulatory requirements.

Nigeria has used regulatory frameworks to reduce uncertainty for innovative firms.

Under the Startup Act and related central bank frameworks, sandboxes allow start-ups to test products with real users in a controlled setting before facing the full burden of regulation.

Thailand combines targeted investment support, test environments and institutional innovation. It has extended the sandbox approach beyond product regulation to include skills and training, allowing universities and firms to co-design specialized programmes for sectors such as semiconductors. Sandbox arrangements in the Eastern Economic Corridor support innovation testing in strategic industries.

Source: UNCTAD, based on official documents and governmental websites.

b. Use targeted and performance-based incentives

Despite recent reforms to streamline incentives and favour expenditure-based ones in some developing countries (chapter II), many developing countries, particularly in Africa and Asia, continue to rely heavily on profit-based incentives such as tax holidays (UNCTAD, 2022b). Broad tax holidays or generalized exemptions often generate limited developmental benefits relative to their fiscal cost, particularly when they support investments that would have taken place even in their absence.

A more effective approach is to rely on targeted, capped and performance-based incentives, linked to specific development outcomes, such as job creation, training, innovation, research and development or domestic value addition. Expenditure-based incentives – including tax credits for research and development, training subsidies or accelerated depreciation for specific investments – are often better suited to this purpose because they tie support to verifiable spending or performance and reduce the risk of windfall gains for investors. Several countries (such as Bhutan, Senegal and Viet Nam) are therefore shifting from broad tax holidays toward more selective incentive regimes tied to sectoral priorities, upgrading objectives and measurable commitments (box III.17).

Location-based incentives can also play an important role when they support regional development objectives, but only if they are carefully targeted and coordinated with infrastructure and skills policies. Stronger governance is also essential. Transparent eligibility criteria, monitoring mechanisms and periodic evaluations can help ensure that incentives remain aligned with development priorities and that ineffective programmes are adjusted or phased out. Finally, better fiscal management of incentive regimes can itself help create fiscal space that can be redeployed through more targeted and transparent industrial policy instruments, including direct support for R&D, training, fixed investment, supplier development and other capability-building activities.

c. Mobilize catalytic public finance

In a more uncertain and fragmented investment environment, State-sponsored investment vehicles can serve as instruments of risk-sharing and investment coordination. Strategic investment funds, development banks and sovereign wealth funds can help mobilize private capital by structuring bankable projects, providing patient or blended finance, offering guarantees and supporting enabling infrastructure. For developing economies with limited fiscal space, such instruments can provide a more targeted alternative to broad subsidy competition, provided they are governed transparently, subject to clear mandates and assessed against additionality and development impact.

The catalytic role of public finance depends, however, on institutional capacity and balance-sheet strength. In many developing countries, domestic development banks,

Box III.17
Targeted and performance-based incentives: Country examples

Bhutan is shifting from broad incentives toward a more targeted regime aligned with sectoral priorities. The Fiscal Incentives Act 2021 links key tax benefits to approved priority activities, reserving income tax holidays for high-priority sectors and tying additional deductions to the employment and training of Bhutanese workers. This approach is anchored in the Industrial Development Roadmap 2025, which identifies priority sectors using economic, social, environmental and strategic criteria, including value addition, export potential, employment, sustainability and FDI attractiveness.

Senegal has complemented its general investment incentives with more targeted regimes linked to strategic policy objectives. Under the 2025 Investment Code, standard incentives are maintained, with duration differentiated by location, while two special regimes introduce more selective support. The Strategic Investment Regime targets projects based on criteria such as location outside Dakar, alignment with strategic sectors, export orientation or import substitution, and links approval to obligations on national skills, local inputs, quality standards, reporting, and technology and skills transfer. The Socially Responsible Investment regime links incentives to commitments with local authorities and contributions to local development, sustainability, equity and inclusion, including through local content and transfer obligations.

Viet Nam is aligning investment incentives with the green and digital transitions. Its Strategy for Foreign Investment Cooperation 2021–2030 prioritizes projects with stronger spillovers, including the use of Industry 4.0 technologies, high value added, links to global networks, environmental protection and domestic value creation. Recent reforms translate this into the incentive regime by moving away from automatic location-based tax holidays toward more sector- and policy-based targeting. The 2025 Corporate Income Tax Law removes industrial zones as a standalone basis for incentives, while special incentives and the Investment Support Fund provide more targeted support for R&D, training, fixed investment and social infrastructure, particularly in areas such as semiconductors and AI data centres.

Source: UNCTAD, based on official documents and governmental websites.

sovereign investment vehicles or guarantee institutions may have limited capacity to absorb risks and crowd in private investment at scale. In these contexts, partnerships with regional and multilateral institutions can help extend their catalytic role while supporting gradual institutional strengthening. Partnership-based instruments, such as co-investment, blended finance and risk-sharing arrangements can also help standardize governance, pool pipelines, distribute risk and mobilize larger volumes of private and foreign capital, including from larger sovereign wealth funds (box III.18).

Strong governance is essential to preserve the catalytic function of these institutions. Rigorous appraisal, transparency and accountability can reduce politicization and weak project selection, but their impact will remain limited unless broader structural bottlenecks are addressed.

Box III.18
Strategic investment funds and sovereign wealth funds as catalytic co-investors and de-risking platforms: Country experiences

Countries have used strategic investment funds and sovereign wealth funds not only to invest directly in infrastructure, digital, industrial and resource-based projects, but also to mobilize additional public and private capital through co-investment, platform structures, fund vehicles and risk-sharing instruments.

In **Indonesia** the Investment Authority, established in 2020 and operational from 2021, is a sovereign wealth fund and domestic investment platform capitalized through Government cash injections and transfers of State-owned enterprise shares. It focuses on sectors including transport and logistics, digital infrastructure, green energy, the blue economy, healthcare and advanced materials. The Authority uses direct co-investments, platform models and general partner/limited partner structures and has partnered with institutions such as the Development Finance Corporation (United States), Impact Fund Denmark, British International Investment and the Norwegian Investment Fund for Developing Countries. In digital infrastructure, it is participating with DayOne in the Nongsa Digital Park data centre campus in Batam. In 2024, the Investment Authority and co-investors disbursed about $1.2 billion, of which about $870 million came from co-investors.

India established the National Investment and Infrastructure Fund in 2015 with the Government as anchor investor. Its Master Fund pools capital for platform companies in sectors such as roads, railways, airports and waterways, while allowing sidecar co-investments. Institutional investors have included the Abu Dhabi Investment Authority and the United States International Development Finance Corporation. The Fund has also extended the platform model to digital infrastructure through a hyperscale data-centre platform with Digital Edge and AGP.

Morocco uses the Mohammed VI Investment Fund (FM6I), a State-owned strategic investment vehicle, supporting major projects and enterprises in sustainable infrastructure, industry, innovation, SMEs, agriculture and tourism. Its instruments include co-investment funds and quasi-debt structures, such as CapAccess, which combines subordinated debt with senior commercial bank lending. FM6I has also mobilized equity financing through selected fund managers, with total commitments of about $1.9 billion, including about $450 million from FM6I. Its partnerships include arrangements with the European Investment Bank, the International Finance Corporation and the African Development Bank for financing, technical assistance and risk-sharing.

Source: UNCTAD, based on official documents and governmental websites.

3. Managing national security concerns in an open investment environment

Heightened geopolitical tensions are reshaping the governance of foreign investment. In this context, how national security frameworks are designed and applied can play a growing role in shaping investment predictability and attractiveness. Countries that strike an appropriate balance between vigilance and openness will be better positioned to attract high-quality investment while safeguarding essential public interests.

Approaches differ across economies. Many developing countries manage

national security concerns mainly through sectoral bans and foreign equity caps, while developed economies increasingly rely on transaction-based screening mechanisms. This reflects differences in institutional capacity, fiscal space and risk exposure. For many developing economies, especially LDCs, replicating complex screening systems may be neither feasible nor necessary. Policy approaches should therefore remain proportionate to national risks and administrative capacity, focusing on clearly defined vulnerabilities while preserving openness to investment. A balanced approach should rest on the principles in the following subsections.

a. Define national security risks in a focused and pragmatic way

Effective management of FDI-related security risks begins with identifying a limited set of assets, capabilities or sectors where foreign investment could raise national security concerns. In many cases it may include defence-related technologies, critical infrastructure, sensitive data systems or certain strategic natural resources. A focused risk assessment helps ensure that national security measures remain proportionate and targeted. Not all sectoral restrictions or ownership caps, however, are driven by national security. Some reflect broader public interest objectives, including affordability, universal service, public service delivery, consumer protection or development strategy. These objectives may be legitimate and should not automatically be recast as security concerns. A clear distinction between security risks and other public interest objectives helps ensure that national security measures remain proportionate and targeted.

b. Apply proportionate and risk-based oversight

Oversight mechanisms should be calibrated to the level of risk involved. General sector bans or foreign equity caps are administratively simple but often blunt instruments, as they may exclude all foreign investors regardless of the actual risk profile of the transaction. At the same time, they may fail to capture risks arising from minority stakes, complex ownership structures or access to sensitive capabilities outside formally designated sectors.

Governments can instead focus scrutiny on higher-risk transactions, such as those involving acquisitions of significant control over sensitive assets, or access to critical infrastructure or data. Where risks can be addressed through tailored conditions, mitigation measures may be preferable to outright prohibitions. Conditional approvals can allow governments to safeguard critical interests while maintaining an open investment climate.

For many developing countries, comprehensive screening regimes may be administratively burdensome or disproportionate to a country's risk exposure. Targeted authorization procedures limited to predefined vulnerabilities and investor categories can offer a practical middle ground between blanket restrictions and full-scale screening systems (box III.19). Risk assessment can also be integrated into existing procedures, such as investment registration, sector licensing, competition review or company incorporation, with "flagging points" to route higher-risk cases to competent authorities without duplicating structures or creating parallel bureaucracies. The chosen model should clearly delineate roles, ensure coordination among agencies and avoid conflicts between investment promotion and security mandates.

c. Reform outdated IIAs and include carefully designed national security and denial-of-benefits provisions

Recent geopolitical tensions highlight the regulatory constraints and ISDS risks arising from the stock of outdated IIAs. It is important to accelerate their reform. Carefully crafted national security exceptions and denial-of-benefits clauses are important to safeguard the State's right to regulate in pursuit of legitimate security objectives, while maintaining legal certainty, preventing

Box III.19
Alternatives to comprehensive screening and equity restrictions

Flexible approaches can preserve policy oversight over sensitive assets while allowing transactions to proceed where risks are limited or can be mitigated. These include list-based authorization for controlled activities, designation of specific critical entities and narrowly scoped screening mechanisms. Although institutionally different, they all replace automatic exclusion with review, approval or conditional authorization. Some examples:

Lao People's Democratic Republic and Thailand: Authorization within negative list or controlled-activity systems

In the Lao People's Democratic Republic, investment outside the controlled business list generally proceeds through ordinary enterprise registration, while activities on the controlled list require review by relevant sector authorities and approval through the investment one-stop service or investment committee. In Thailand, the Foreign Business Act restricts foreign participation in listed activities and requires approval for certain businesses related to national safety or security, including defence-related activities and domestic transportation, while also covering other public-interest concerns.

Rather than operating comprehensive case-by-case national security screening, these countries rely on activity-based authorization requirements embedded in their broader investment law frameworks.

Singapore: Entity designation model focused on critical assets

The Significant Investments Review Act introduced a targeted mechanism centred on the protection of designated entities critical to national security. Review is triggered by changes in ownership or control or significant influence in designated entities, without a general sector-wide screening requirement or universal filing obligation outside the designated perimeter. This confines oversight to clearly identified vulnerabilities while preserving openness elsewhere.

Switzerland: Narrowly scoped screening limited to State-controlled investors

The country's Federal Assembly adopted an Investment Screening Act in 2025. Unlike most other developed countries' screening systems, the Act applies only to acquisitions of Swiss companies by foreign State-controlled investors, such as State-owned enterprises, sovereign wealth funds and State-linked entities. It is limited to defined sensitive and critical sectors and does not cover private foreign investors.

Targeted authorization should not be understood as a return to broad sectoral bans. When properly designed, it replaces bans with narrowly scoped, review-based oversight focused on clearly identified vulnerabilities. It can also incorporate mitigation and conditional approval mechanisms. In this way, it supports the broader objective of shifting from general restrictions towards proportionate, risk-based management of FDI-related security concerns.

Source: UNCTAD, based on official documents and governmental websites.

overly expansive interpretations and limiting potential exposure to ISDS claims, including for national investment screening decisions. These provisions can define the types of security-related measures that they encompass (e.g. measures taken in time of conflict, or domestic or international emergency); and can deny the benefits of the treaty to investors and investments owned or controlled by third country-registered entities (i) subject to coercive economic measures or (ii) in case of suspended diplomatic relations. Countries may also wish to closely monitor, and remain informed about, the rapidly evolving content of IIAs amid rising geopolitical tensions, ensuring for example that new security-related commitments such as investment screening mechanisms and outbound investment controls remain aligned with broader national development strategies.

4. Turning shocks into opportunities

When countries are exposed to trade or geopolitical turbulence, the policy challenge extends beyond managing immediate trade disruption. It also involves limiting the effects of uncertainty on investment decisions. Country experience suggests the following directions for policy action:

a. Prioritize retention and reinvestment during shocks

When shocks occur, the priority is to preserve ongoing projects, encourage reinvestment and prevent temporary uncertainty from becoming a permanent loss of investment. Policy responses should focus on viable firms facing temporary tariff, financing or supply chain pressures, using time-bound instruments such as credit guarantees, export credit facilities, working capital support, trade finance measures and targeted relief from debt servicing or compliance pressures (see examples in box III.11). Stronger aftercare, investor retention services and policy advocacy by IPAs can help identify operational constraints early, bring them to the attention of the relevant authorities and reduce the risk that uncertainty leads to cancelled expansions or lost reinvestment.

b. Reinforce the credibility of the location as a production base

In a more fragmented and compliance-sensitive international environment, investment retention and attraction depend increasingly on whether firms can source, produce and export from a location without exposure to origin-related scrutiny, transshipment concerns, export control risks or other forms of regulatory uncertainty. Clearer regulations and practical support on customs procedures, rules of origin, sustainability standards, traceability, due diligence and other market-access requirements can reduce uncertainty for investors and help prevent compliance shocks from disrupting production, exports or reinvestment. IPAs can complement these efforts by helping investors navigate changing trade policy and regulatory requirements, improving access to information, strengthening referrals to competent agencies, flagging recurring bottlenecks and facilitating links with qualified local suppliers where local sourcing or value addition is relevant to origin compliance.

c. Use disruption to reposition and upgrade investment within reconfigured value chains

External shocks can create opportunities for countries to reposition themselves as credible locations for scalable production within reconfigured value chains and to attract investment that is more resilient and more supportive of development. This requires reducing structural frictions that raise the cost, time and uncertainty of operating or expanding in the country.

SEZs, industrial parks and serviced industrial sites can help where they provide ready-to-use infrastructure, predictable

establishment procedures, efficient customs and logistics services, access to inputs and room for expansion. Their value lies not only in incentives, but also in reducing execution risk for investors seeking backup, complementary or alternative production locations. The country examples in box III.13 illustrate how location-based platforms, when combined with facilitation, supplier development services and market access strategies, can help translate supply chain shifts into concrete investment opportunities. Over time, embedding these investments through local supplier development, workforce upgrading and stronger service linkages can turn resilience-driven relocation into deeper participation in regional and global value chains.

IPAs can contribute to repositioning efforts through their established mandates in promotion, facilitation, aftercare and policy advocacy. They can help identify emerging opportunities, engage investors in relevant value chain segments, connect foreign firms with domestic suppliers and training institutions, and feed investor intelligence back into policy design and implementation.

5. Regionalization as a development lever

Against a backdrop of geopolitical tension and persistent uncertainty in global trade and investment regimes, and despite the uneven reorganization of international production, regionalization is being discussed as a possible pathway to mobilizing intraregional investment. The evidence presented in this chapter, however, suggests that regional investment patterns are evolving in a more nuanced and uneven way than often expected.

Regional and interregional integration through trade and investment frameworks can help strengthen economic resilience, expand productive opportunities and improve the position of developing countries within an increasingly complex global investment landscape, by creating more predictable investment environments, reducing transaction costs and connecting firms to wider markets, suppliers and logistics systems. However, infrastructure connectivity, efficient border management, trade and investment facilitation, and institutional coordination among neighbouring economies are essential to reduce the operational frictions that often discourage regional investment. Equally important is the development of productive capacity and supplier networks capable of linking foreign investment to domestic and regional firms. Without these conditions, regional integration risks remaining largely nominal, with limited effects on production integration or industrial upgrading. This approach is consistent with the long-standing vision at UNCTAD of developmental regionalism, which views regional integration not as an end in itself or as a matter of trade liberalization alone, but as a means to build productive capacities, infrastructure, industrial capabilities and regional value chains (UNCTAD, 2022a).

The following policy directions can help translate regional integration frameworks into tangible investment and development outcomes.

a. Ensure effective implementation of regional trade and investment agreements

Regional trade and investment agreements can be leveraged to preserve and strengthen economic cooperation when multilateral approaches face strain. They have become important instruments not only for liberalizing trade through market access, rules of origin and trade facilitation disciplines, but also for shaping the conditions under which investment takes place through protection, facilitation, promotion, cooperation and implementation mechanisms. These channels are distinct but complementary, and their relative importance varies according to the depth of economic integration. For regional IIAs to have a more

tangible effect, they should go beyond passive protection and include proactive provisions aimed at fostering intraregional investment, notably through stronger investment facilitation and promotion, structured cooperation between the parties, and commitments to improve domestic institutions and procedures, as well as home-country measures that encourage regional investment. In this context, it is important to scale up technical assistance for developing countries to support their capacity to negotiate, implement and monitor regional trade and investment agreements, ensuring that commitments are coherent with national investment and industrial strategies. Such assistance should also facilitate the systematic replacement of outdated BITs with modern regional frameworks that provide clearer, more balanced investment rules and reinforce resilient regional production systems during periods of global uncertainty.

b. Develop corridor-based regional production networks and supplier linkages

Regionalization is also shaped by the ability of cross-border spaces to function as integrated production locations. Corridors, border zones and corridor-linked industrial platforms can provide the physical and institutional infrastructure needed for firms to organize production across neighbouring economies. Evidence suggests that such initiatives are most effective when they combine transport connectivity with dedicated production space, customs facilitation, and coordinated investor services and support for cross-border production cooperation.

Regional transport, energy and logistics corridors are critical foundations for regional investment integration. Beyond facilitating trade, corridors can create investable nodes – including ports, dry ports, logistics hubs, industrial parks, border platforms and specialized zones – that concentrate infrastructure and services in locations capable of attracting investment. These spatial configurations allow firms to exploit complementarities in labour, resources and market access while reducing logistics and coordination costs. In South-East Asia, corridor-based industrial clustering has supported cross-border production networks linked to major manufacturing hubs. In Africa and other regions with fragmented national markets, emerging border zone initiatives point to the potential role of such spatial platforms in anchoring investment and fostering regional value chains.

The development impact of such initiatives, however, depends on the quality of infrastructure, the depth of policy coordination, the effectiveness of customs and administrative arrangements, and the extent to which enclave investments are linked to domestic and regional supplier networks. Where these conditions are weak, zones and corridors may remain transit spaces or isolated enclaves with limited upgrading effects.

Because regional integration alone does not automatically generate regional value chains, corridor development should be complemented by measures to strengthen regional supply networks and productive linkages. This can include supplier development programmes, regional business matchmaking platforms, cross-border industrial cooperation initiatives and partnerships between foreign investors and regional firms to help local suppliers meet quality, certification and logistics requirements. IPAs and development institutions can play an important role in facilitating such linkages. By combining corridor-based investment platforms with stronger regional supplier ecosystems, countries can deepen regional production systems, increase the development impact of regional investment and expand opportunities for firms across multiple economies within a region.

c. Use regional cooperation to build joint leverage and investment platforms

In an increasingly regionalized investment landscape, investors often assess locations not only at the country level but as part of broader production spaces. For many developing countries, especially those with relatively small domestic markets, a credible regional value proposition can therefore be essential to attract larger and higher-quality investment projects. Regional cooperation is most useful where it creates advantages that no country can offer alone: larger effective markets, connected production locations, more predictable rules and stronger bargaining power with investors.

This requires shifting the emphasis from generic regional investment promotion to practical regional investment platforms. Countries can cooperate to promote transport and logistics corridors, cross-border industrial zones, regional SEZ networks and shared infrastructure that allow firms to distribute production across neighbouring locations. They can also develop common or interoperable approaches to SEZ regimes, customs procedures, rules of origin, standards, investment facilitation and supplier development programmes. Such measures reduce transaction costs for investors and make regional production networks easier to organize.

Regional cooperation can also strengthen countries' negotiating leverage, especially where investors seek access to regional markets, infrastructure, energy systems or natural resource corridors. Coordinated approaches can help avoid a race to the bottom in incentives, improve the credibility of regional investment propositions and ensure that large projects generate benefits across more than one economy.

Regional promotion can complement national efforts where the investment proposition is regional rather than purely national. Joint outreach by IPAs or regional bodies can help present corridors, cross-border industrial zones, shared infrastructure and distributed supplier networks as integrated production platforms. Such efforts should not replace national investment promotion but provide a common narrative, investor information and coordinated outreach that help firms understand how the region can function as an integrated production platform. The examples in box III.20 illustrate how these functions can be combined in practice.

Box III.20
Regional investment promotion: Selected examples

The **Caribbean Association of Investment Promotion Agencies** (CAIPA), established in 2007, coordinates 24 IPAs and presents a single regional entry point for investors across the wider Caribbean. Its shared portal provides regional market intelligence and sector insights through investment booklets, country investment information, and UNCTAD–ICC (International Chamber of Commerce) iGuides and case studies, with a focus on high-growth sectors across the region, including high-tech, agribusiness, renewable energy, and logistics and transportation. CAIPA also supports its members with investment data, research and sector intelligence. CAIPA's work is complemented by Caribbean Export, with both institutions contributing to a broader regional investment promotion architecture. Within this wider ecosystem, the Caribbean Investment Forum 2025, organized by Caribbean Export, brought together more than 450 participants from 39 countries and showcased 12 investment-ready projects worth more than $80 million.

The **Common Market for Eastern and Southern Africa** (COMESA) Regional Investment Agency (RIA), launched in 2006 and headquartered in Cairo, serves as the investment promotion arm of the 21-member bloc. It markets COMESA and its Member

States as investment destinations, supports national IPAs through capacity-building and coordination, and connects investors with opportunities and public sector counterparts across the region. Its tools include international investment forums, roadshows in target markets, digital campaigns, a shared regional portal and the COMESA Interactive Investment Map. COMESA RIA also acts as a market intelligence hub through products such as the COMESA Investment Teaser of 350-plus opportunities, the *COMESA Investment Handbook*, Practical Guides to Doing Business in COMESA Member States, and the *COMESA Investment Report 2025*, prepared with UNCTAD. Its training activities have reached more than 1,000 officials through more than 60 workshops and 30 webinars.

The **East African Community**'s (EAC) Market Access Upgrade Programme (MARKUP), a joint effort with the European Union, supports SMEs in improving value addition, export competitiveness and market access, helping expand the pool of firms able to supply regional and international value chains; MARKUP II was launched in 2023 as a €40 million programme implemented in collaboration with the EAC Secretariat. In its first phase, MARKUP reached 37,819 SMEs, helped more than 115 firms generate $16 million in sales and exports, and attracted $1 million in investment for more than 70 small businesses. This effort is complemented by regional promotion tools, such as the *EAC Investment Guide*; the EAC Buyer-Seller Platform; a digital marketplace and supplier directory showcasing manufacturers, SMEs and service providers across the region; and the EAC Diaspora Desk, a one-stop source of investment information for diaspora investors.

In **ASEAN**, the Coordinating Committee on Investment, supported by the ASEAN Secretariat, anchors regional promotion efforts. Since 2012, the annual *ASEAN Investment Report*, prepared with UNCTAD, has provided a shared evidence base on FDI trends and themes including regional value chains, infrastructure, SME linkages and digitalization. More recently, ASEAN and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) launched the Regional Investment Promotion Action Plan 2025–2030, which aims to attract FDI in sectors with cross-border value chain potential, combining regional branding with country-specific value propositions. Initial priority sectors, selected through a region-wide assessment of FDI trends and potential and contribution to development objectives include carbon capture and storage, medical devices, biofuels and solar photovoltaic equipment. Implementation includes investor engagement with industry associations, sector-specific marketing materials, ESCAP-supported capacity-building for IPAs and the promotion of investment-ready projects through the ASEAN Investment Forum and regional investment website.

Source: UNCTAD, based on official documents and governmental websites.

E. Conclusion: The search for the commons

The analysis in this chapter shows that the global investment landscape is undergoing a structural shift. Cross-border investment is becoming more selective, concentrated and shaped by policy and geopolitical considerations. Growth is increasingly centred on technological and industrial domains linked to the digital and energy transitions, critical minerals, AI infrastructure, semiconductors and advanced technologies, many of which remain dominated by a small number of economies. At the same time, industrial policy is reshaping competition, supply chain reconfiguration is narrowing traditional industrialization pathways while opening selective entry points, and economic security and resilience are becoming more important determinants of location decisions.

For developing countries, this situation poses three broad and interrelated priorities. First, to identify realistic entry points into strategic and fast-growing segments of international production, while calibrating industrial policy choices to make them effective within fiscal and institutional realities. Second, to improve their position within the reconfiguration of global supply chains by strengthening investment facilitation, upgrading domestic productive capabilities and addressing security-related concerns in ways that do not undermine openness. Third, to turn current disruptions into opportunities through deeper regional integration, policy coordination and investment cooperation that can expand markets, strengthen resilience and support development.

The growing intersection between investment policy, industrial policy and national security considerations also risks creating a more complex and uneven investment environment, particularly for developing countries with more limited policy and institutional capacities. In this context, renewed attention to international cooperation remains essential. It can help preserve elements of a shared investment framework – a set of "commons", or areas of shared interest, where collective action can help preserve predictable conditions for cross-border investment even in a more geopolitically contested world.

Such cooperation can take multiple forms. Multilateral and regional institutions can support transparency in investment-related measures, facilitate dialogue on industrial policy developments and promote good practices in areas such as investment facilitation and responsible investment. Calls for stronger global policy coordination increasingly extend beyond macroeconomic management to include trade, investment, business conditions and private sector–led growth.[15] The participation of 129 countries in the Investment Facilitation for Development Agreement, is a case in point. In a context of heightened trade tensions, policy uncertainty and renewed geoeconomic concerns, the case for pragmatic forms of cooperation has become stronger. For developing countries, preserving a minimum level of predictability in the international investment environment remains critical.

Against this background, a realistic agenda for the commons could include several key and practical initiatives:

- First, a global monitoring mechanism to improve timely and comparable

[15] See Chair's Statement, Fifty-Third Meeting of the IMFC, press release 26/124, 17 April 2026, available at https://www.imf.org/en/news/articles/2026/04/17/pr26124.

reporting on policy measures that affect cross-border investment. The growing use of trade, industrial and economic security measures is increasingly shaping investment decisions, altering market access conditions and influencing the reconfiguration of global value chains, particularly in strategic and technology-intensive sectors. Tariffs, subsidies, local content requirements, screening mechanisms and other access or security-related measures can have significant direct and indirect effects on international investment flows, yet information on these measures remains fragmented and unevenly available. Building on existing monitoring efforts, including the UNCTAD Investment Policy Monitor, international cooperation could strengthen transparency by systematically tracking and classifying investment-relevant measures across trade, industrial and economic security domains, covering both supportive and restrictive instruments. For developing economies, improved transparency would help anticipate external policy shifts, adapt national investment and industrial policy frameworks, reduce uncertainty and engage more effectively in international negotiations.

- Second, policy guidelines and principles for security-related investment measures could support greater clarity and proportionality in their implementation. These could include clearer definitions of sensitive activities, transparent procedures, proportionality, confidentiality safeguards, reasonable review timelines, and mechanisms for reporting and periodic reassessment, as well as best practices on the inclusion of national security exceptions in IIAs and the avoidance of investor–State dispute settlement based on national security measures. Such cooperation would not imply convergence on national security priorities; rather, it would help ensure that legitimate security concerns are addressed through approaches that are predictable, targeted and less distortive for investment flows.
- Third, multilateral development banks, development finance institutions and export credit agencies could strengthen joint project preparation and risk-sharing platforms for productive investment in developing countries. Such platforms could support bankable projects in areas such as industrial infrastructure, renewable power for industry, transport and logistics, digital connectivity, supplier upgrading and selected strategic processing activities. Better coordination among public financial institutions would help mobilize private investment in sectors where development needs are high, but project risks remain difficult to absorb.
- Fourth, regional frameworks, regional trade agreements, or specialized regional bodies working on standards, testing, trade facilitation, customs digitalization or supplier matching could establish facilities for supplier upgrading and standards support to help domestic firms connect to reconfigured production networks. In many developing economies, the main constraint is not the absence of investor interest alone, but the limited readiness of local firms to meet certification, quality, traceability, digital and logistics requirements. Regional support mechanisms focused on standards, testing, customs digitalization, trade facilitation and supplier matching could help turn regional integration into a more effective platform for attracting and embedding investment.
- Fifth, efforts to reform international investment agreements should accelerate, particularly in relation to essential security interests and policy space for sustainable development. As security-related policies become more prominent, the gap between old-generation treaty provisions and current policy realities is likely to widen. Reform efforts can help preserve legal certainty while ensuring that countries retain sufficient flexibility to address legitimate public policy

concerns, including national security, resilience and structural transformation.

- Sixth, global investment partnerships could help structure cooperation between home and host countries in evolving supply chains, especially in strategic sectors such as critical minerals, energy transition technologies, digital infrastructure, AI and selected manufacturing activities. The platform would provide a practical space for policy dialogue, technical assistance and partnership design, helping align the security-of-supply objectives of capital-, technology- and market-source countries with the development priorities of host economies, including local value addition, supplier upgrading, skills development and industrial diversification. For developing countries, such a mechanism could strengthen capacity to engage with home-country industrial strategies, identify realistic areas of complementarity, improve policy and regulatory frameworks, and negotiate more balanced investment partnerships. For home countries, it could support more reliable, diversified and sustainable supply chains by helping address host-country constraints that limit investment feasibility. To operationalize this approach, at the 9th World Investment Forum, UNCTAD will bring together home and host countries, investors and development partners to identify bankable opportunities, address policy and capacity constraints, and support more development-oriented supply chain partnerships.

International development institutions can support this agenda through technical assistance and capacity-building. This includes helping countries identify realistic strategic priorities, design coherent investment and industrial policies, strengthen investment governance, improve the business environment and build domestic capabilities to connect local firms with regional and global value chains. Such support is especially important for countries with limited fiscal space and institutional capacity, which face the greatest risk of being bypassed by current investment shifts.

Ultimately, the search for the commons reflects the need to preserve sufficient areas of cooperation and shared rules to allow international investment to continue supporting development, technological diffusion and economic diversification. By combining pragmatic national strategies with renewed international cooperation, the evolving global investment landscape can remain a source of opportunity for developing economies rather than a driver of further fragmentation.

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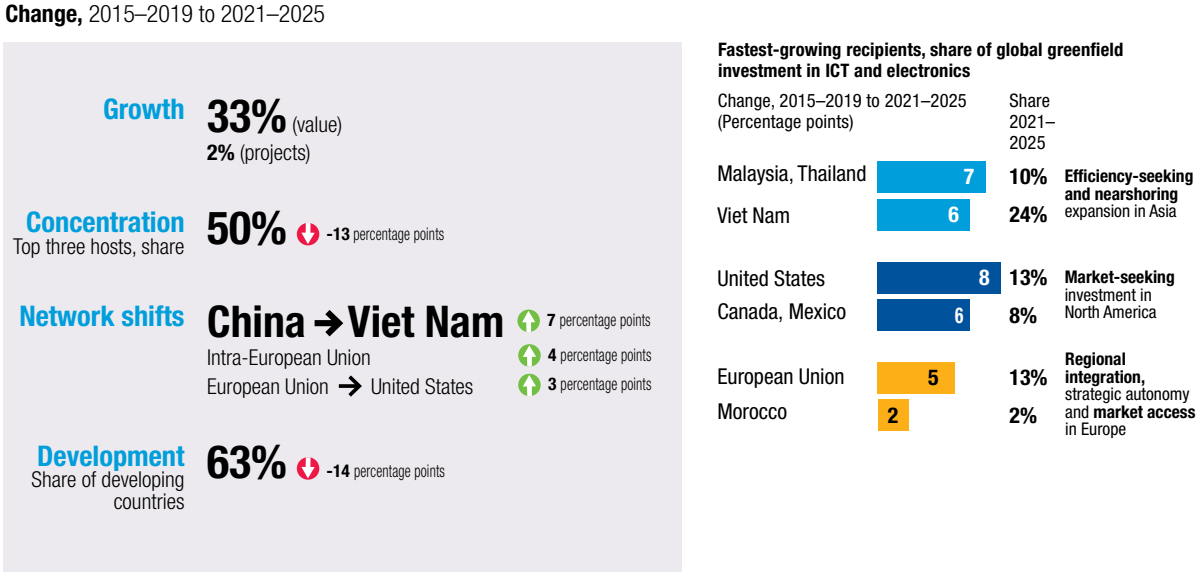
Annex A. Sectoral dynamics: Deep dives

A.1. ICT and electronics: Strong growth combined with geographic diversification

International investment patterns point to a gradual diversification away from China towards a wider set of production locations and regional manufacturing systems (annex figure A.1.1). The share of global greenfield investment in ICT and electronics going to China declined sharply between 2015–2019 and 2021–2025, while new hubs gained importance across Asia, Europe and North America. In Asia, production is shifting towards alternative manufacturing hubs, with ASEAN countries, particularly Viet Nam, and India gaining prominence.[1] In North America, investment is strengthening within integrated production systems, with Mexico consolidating its role as a manufacturing platform linked to the United States. In the European Union, investment is

Annex figure A.1.1
Rebalancing from China is spreading across multiple production systems

Value of cross-border greenfield projects in ICT and electronics manufacturing (excluding strategic sectors)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

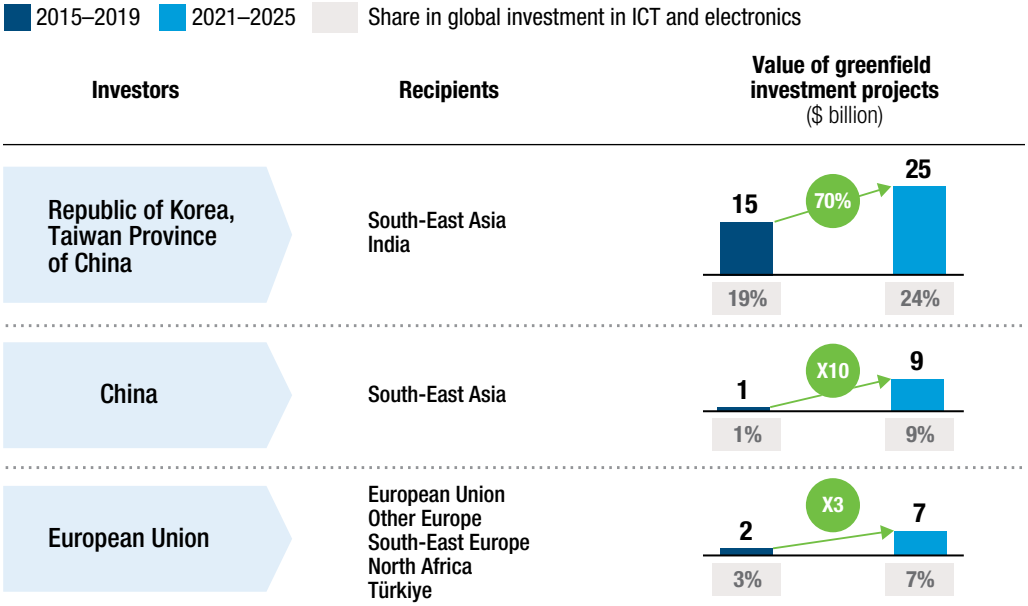
Abbreviation: ICT, information and communication technologies.

[1] Reuters, Apple moving to make most iPhones for U.S. in India rather than China, source says, 25 April 2025; Reuters, Foxconn sends 97% of India iPhone exports to U.S. as Apple tackles Trump's tariffs, 13 June 2025; Reuters, After SpaceX's requests, Taiwanese suppliers move manufacturing abroad, sources say, 6 November 2024.

concentrating within established European production networks while extending into nearby lower-cost locations, including parts of South-East Europe and North Africa.

These shifts reflect the growing importance of regional supply chains and nearshoring dynamics (annex figure A.1.2). Production is increasingly organized within investor-specific regional systems rather than globally dispersed networks. For developing countries, this creates selective entry points for those able to plug into these systems – but leaves limited space outside them.

Annex figure A.1.2
Nearshoring systems are becoming more important
Value of cross-border greenfield projects in ICT and electronics manufacturing (excluding strategic sectors)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

A.2. Transport equipment (including electric vehicles): Decline in traditional manufacturing and rapid expansion in electric vehicles

In traditional automotive, international production is contracting and consolidating around major markets, particularly in Europe and North America. Mexico and the United States are strengthening their roles within an integrated production system, with Mexico consolidating its position as an export platform linked to the United States market.

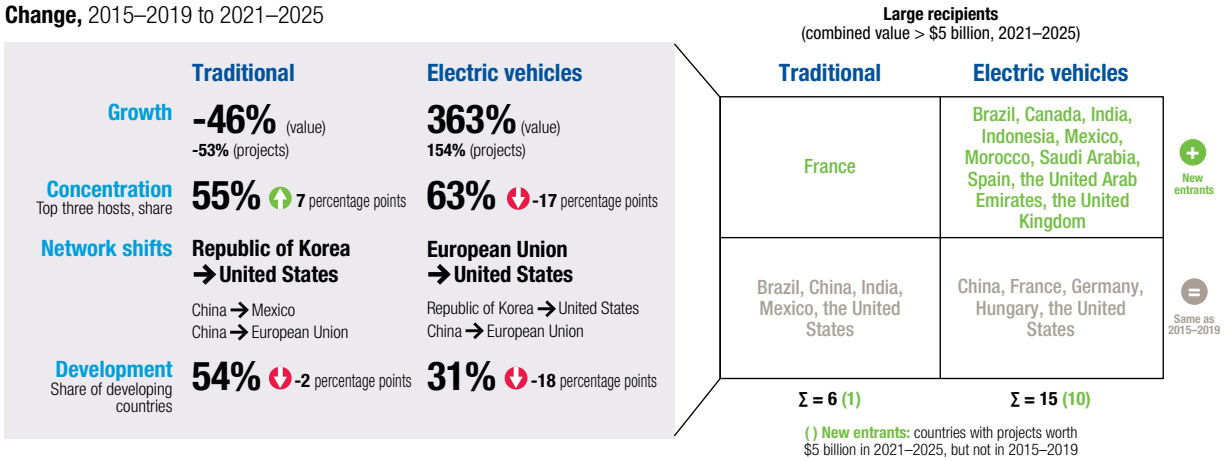
International investment in electric vehicles, by contrast, is expanding and spreading across a wider set of locations (annex figure A.2.1). The United States has emerged as the leading destination. Europe is also attracting significant investment in batteries and components, particularly in selected countries such as Hungary and Spain. New investment locations are also emerging across all developing regions, including Morocco in Africa, India in South Asia, Brazil in South America, and Saudi Arabia and the United Arab Emirates in West Asia,

reflecting a mix of market-seeking, resource-linked and supply chain–driven strategies.[2]

For developing countries, this divergence creates a widening gap. In traditional automotive, entry opportunities are limited and largely confined to existing production systems. In electric vehicles, opportunities are broader but more selective, requiring not only market size and policy support but also technological capabilities, industrial infrastructure, skills and integration into evolving value chains. The experiences of Morocco and Thailand illustrate how developing economies can use targeted industrial policy, investment facilitation and capability-building measures to position themselves in emerging value chains for electric vehicles.

Annex figure A.2.1
The transition to electric vehicles is expanding international investment to new production hubs

Value of cross-border greenfield projects in transport equipment manufacturing (including electric vehicles)



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

For **Morocco**, entry into electric vehicle battery manufacturing reflects a long-term industrial strategy rather than a one-off incentives package. Over two decades, the National Pact for Industrial Emergence and the Industrial Acceleration Plan have helped build an export-oriented automotive platform based on serviced industrial land, free zone incentives, supplier development and dedicated training institutions. The 2022 New Investment Charter added performance-based support and a strategic project mechanism for large investments. Together, these measures helped create the supplier base, workforce and industrial infrastructure that underpinned the 2024 fast-tracking of a major gigafactory for electric vehicle batteries in the Rabat–Salé–Kénitra region. The project involves an initial investment of about $1.3 billion, with planned expansion from 20 GWh to 100 GWh and potential total investment of about $6.5 billion, signalling the country's ambition to move from vehicle assembly into battery cell production.

In **Thailand**, the electric vehicle strategy combines targeted incentives with a broader industrial policy aimed at building domestic capabilities. Its 30@30 target, which seeks

[2] International Energy Agency (IEA), Global EV Outlook 2025, chapters "Electric vehicle batteries" and "Trends in electric car markets"; Reuters, Gotion High-Tech Morocco gigafactory to start production in 2026, 7 June 2024; Reuters, U.S. government confirms Tesla and LG Energy Solution's $4.3 billion battery deal, 17 March 2026; Reuters, Chinese carmaker GAC plans Brazil production from 2027, 18 March 2026.

30 per cent zero-emission vehicle production by 2030, provides a clear signal to investors, while building on the country's established automotive base, supplier networks and export-oriented infrastructure. Under Thailand 4.0 and the Eastern Economic Corridor, the Government has supported electric vehicle investment through cluster development, logistics infrastructure, dedicated industrial zones and streamlined facilitation. More recently, this framework has been reinforced by the introduction of the Thailand FastPass system, approved in November 2025, to speed up investment approvals across key agencies. Promotion by the BOI has also been extended to hybrids, plug-in hybrids and hydrogen-related activities. At the same time, skills and linkage initiatives, including the Electric Vehicle–Human Resource Development programme and the BOI Unit for Industrial Linkage Development Programme, aim to help Thai firms and workers move into higher-value segments. Fiscal incentives remain important (e.g. tax holidays, duty exemptions, subsidy schemes linked to local production and local content–based tax reductions) but are embedded in a wider effort to link electric vehicle investment more closely to the domestic economy.

A.3. Life sciences: Highly concentrated growth

A small number of cross-border links dominate global investment in life sciences, particularly between the United States and Europe, alongside strong intra-European investment and selected links with other advanced hubs such as Japan (annex figure A.3.1). These dense investment linkages reinforce the concentration of high-value activities connected to pharmaceutical production within a relatively small number of established innovation centres. These locations combine scale, strong regulatory systems, advanced manufacturing standards and R&D capabilities, raising entry barriers and reinforcing cumulative advantages.

Outside this core, diversification remains limited and highly selective. Only a few locations –notably Costa Rica and Singapore – are attracting investment as specialized pharmaceutical hubs, supported by strong regulatory frameworks and targeted policies.

For developing countries, this pattern highlights a structural gap. Limited capacity to attract investment in pharmaceutical manufacturing constrains the ability to move from dependence on imported medicines towards more resilient and locally anchored production systems. In regions such as Africa, this reinforces external dependence and poses major risks to health security. Bridging the gap requires targeted investment policies, stronger regulatory systems and coordinated efforts to build viable manufacturing ecosystems. It also depends on broader international efforts to facilitate technology transfer and local capability-building, as recent debates on vaccine production and health security have highlighted (UNCTAD, 2025b; 2025c).

A.4. Materials and industrial manufacturing: Diversification across new industrial locations

International investment is shifting from a narrow set of established production hubs towards a wider range of industrial locations (annex figure A.4.1). This expansion is opening new roles within global production systems, particularly in economies combining industrial scale, processing capacity, resource endowments or strategic market access.

India is emerging as a central industrial base, while Egypt and Kazakhstan are gaining traction as processing and gateway

Annex figure A.3.1
International investment in life sciences is highly concentrated among advanced economies
Value of cross-border greenfield projects in life sciences manufacturing (excluding strategic sectors)

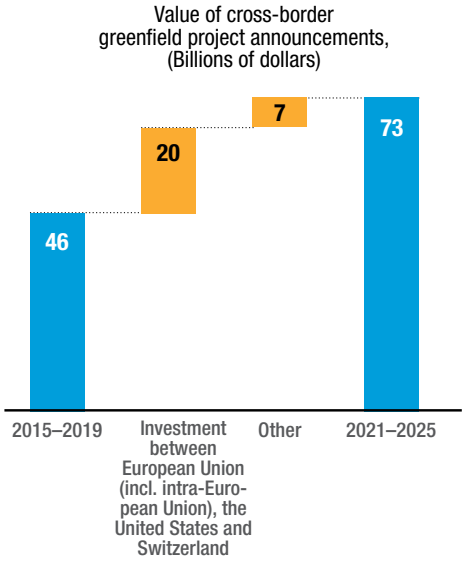
Change, 2015–2019 to 2021–2025

Growth **59%** (value)
-17% (projects)

Concentration Top three hosts, share **74%** ↑ **13** percentage points

Network shifts
United States → European Union ↑ **7** percentage points
Intra-European Union ↑ **6** percentage points
Switzerland → United States ↑ **4** percentage points

Development Share of developing countries **29%** ↓ **-9** percentage points



Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Annex figure A.4.1
Offshore diversification opens new industrial entry points
Value of cross-border greenfield projects in materials and industrial manufacturing (excluding strategic sectors)

Change, 2015–2019 to 2021–2025

Growth **-14%** (value)
-31% (projects)

Concentration Top three hosts, share **36%** ↓ **-7** percentage points

Network shifts
European Union → India ↑ **10** percentage points
China → Kazakhstan ↑ **6** percentage points
Hong Kong, China → Indonesia ↑ **5** percentage points

Development Share of developing countries **67%** → **0** percentage points

Top three recipients

Main investors		Share in value of investor's outward greenfield projects, 2021–2025 (Established / Emerging)	Change from 2015–2019 (Percentage points)
China (incl. Hong Kong, China)	Indonesia	23%	1
	Kazakhstan	33%	19
	Egypt	20%	18
European Union	United States	15%	-5
	European Union	14%	1
	India	35%	26
United States	European Union	22%	11
	Canada	34%	33
	Mexico	9%	6

Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: Investors are ordered by their value of outward investment in material and industrial manufacturing in 2021–2025, from largest to smallest.

platforms, alongside Mexico as a bridge into North America. Chinese investment is playing a major role in this shift, expanding and diversifying across new locations. Overall, restructuring in this sector remains predominantly offshore rather than regional.

For developing countries, the geography of international investment is widening but entry points remain selective. Opportunities are concentrated in specific industrial functions – processing, large-scale manufacturing or market-linked production – and depend on a clear alignment with investor strategies. Countries that combine scale, resources or access to major markets are attracting investment, while others face growing barriers to entry.

A.5. Agribusiness: Contraction and increasing concentration

International investment remains focused on major consumer markets, with limited geographic reconfiguration. Mexico, the United States and the European Union dominate as destinations, reflecting market size and established supply structures. Much of the observed shift reflects a sharp decline in investment to the Russian Federation, rather than the emergence of new investment hubs.

Agribusiness is one of the main manufacturing entry points for low-income countries, but this role is eroding. While the sector accounts for a large share of inward investment in low-income countries, their participation in global agribusiness FDI remains small and declining (annex figure A.5.1).

In Africa, this decline is compounded by weakening intraregional investment, pointing to reduced dynamism in regional value chains. Opportunities are largely confined to agroprocessing and input-related activities serving domestic and regional markets, and remain concentrated in a small number of countries, including for example Ethiopia and Ghana.

Realizing these opportunities requires targeted investment policies, stronger agroprocessing capacity, improved infrastructure and deeper regional integration to support more resilient food and production systems (see for example UNCTAD, 2020).

Annex figure A.5.1
Agribusiness is becoming a narrower entry point for low-income countries
Value of cross-border greenfield projects in agribusiness (excluding strategic sectors)

Change, 2015–2019 to 2021–2025

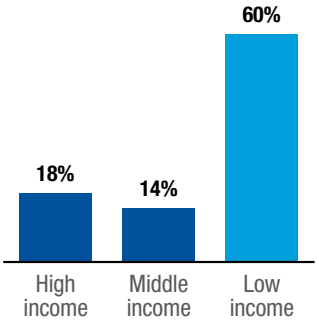
Growth **-17%** (value)
-32% (projects)

Concentration
Top three hosts, share
41% **6** percentage points

Network shifts
European Union → United States **4** percentage points
United Kingdom → United States **3** percentage points
Japan → United States **2** percentage points

Development
Share of developing countries
55% **-2** percentage points

Share of agribusiness in total inward investment,
by income group, 2015–2025



Share in total investment in agribusiness
by group, 2015–2019 and 2021–2025

Low income	6% → 3%
Africa	17% → 11%
Intra-Africa	6% → 3%

Source: UNCTAD, based on information from The Financial Times Ltd, fDi Markets (www.fDimarkets.com).