



Photo by Kevin Peschke  
Kearney, Chicago

# Optimism dashed

The 2022 FDI Confidence Index®

**KEARNEY**  
Global Business Policy Council

In January, business leaders were optimistic about the investment outlook for 2022. Subsequent geopolitical shocks are now remaking the world—and their hopes for a robust recovery.

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Even as the world was contending with the effects of the Omicron variant in January, investors were striking an optimistic outlook about the next three years. It appeared they had sound reason to do so. The previous year had marked a significant recovery, in terms of both global growth and FDI flows. While the economic rebound was expected to slow somewhat in the year ahead, it was on pace to remain robust. Just a few weeks later, in late February, the world changed fundamentally when the Ukraine conflict began.

The results of our 2022 FDI Confidence Index® capture a moment in time roughly one month prior to the conflict—when our survey was in the field. The results are nevertheless revealing, showcasing both areas of CEO foresight as well as blind spots regarding the changes that were on the immediate horizon. And while our results cannot show directly how investor sentiment has shifted since the conflict in Ukraine, several findings suggest we are likely to see a continued shift in FDI to developed markets, capitalizing on destinations marked by regulatory transparency and stability.

Despite the preceding optimism evident in these survey results—reflected in an improved outlook on the global economy, plans to increase foreign direct investment, rising FDI country scores, and a belief that most countries in our index would see their three-year economic prospects improve—investors did identify some notable areas of concern. They noted that a rise in commodity prices, escalating geopolitical tensions, and persistent inflation were likely in the year ahead. Just a few months into the year, each of these concerns has already developed, exacerbated, of course, by Russia’s military actions in Ukraine

While significant, these developments do not diminish other findings in this year’s survey. One is a remarkable resurgence in optimism about the United States. The country retains its top position as investors’ preferred destination for FDI for the 10th consecutive year—an unprecedented achievement in the history of our Index. Further, optimism about the US economic outlook has surged compared with last year. Net optimism about the country’s economic performance over the next three years more than doubled.

Our results also show strong investor enthusiasm for pursuing environmental, social, and governance (ESG) commitments. This view was reflected widely across all regions, with 94 percent of all respondents asserting that their respective companies had developed a strategy to achieve their ESG commitments, and 89 percent viewing these commitments as a source of competitive advantage. Investors point directly to the global pandemic as having accelerated their timelines to implement these commitments, suggesting another, perhaps unexpected, ripple effect of the COVID phenomenon. While our results showcase that there is still much work to be done to achieve greater alignment on ESG best practices and in prioritizing and realizing these commitments in a meaningful way, the overall enthusiasm in these results suggests that this is a moment for meaningful action in this space.

At the time of this writing, the Ukraine conflict continues to intensify, bringing with it both humanitarian catastrophe and ever-greater degrees of uncertainty about the ultimate outcome and global consequences. We at the Global Business Policy Council will continue to monitor these developments closely and share our analysis of their implications in the coming weeks and months. In the meantime, we believe this year’s FDI Confidence Index® will provide meaningful insights into the thinking of investors in the pivotal period leading up to the outbreak of conflict.

As always, we welcome your views and feedback regarding this Index.



**Paul A. Laudicina**

Founder, Global Business Policy Council  
Chairman emeritus, Kearney

# Executive summary

- **The 2022 FDICI survey was in the field in January, roughly one month before Russian troops entered Ukraine.** While these events have undoubtedly shifted the geopolitical and macroeconomic outlook, our results reveal both key insights and blind spots for investors just weeks before the outbreak of conflict.
- **Results suggest that optimism among business leaders was rebounding from last year's levels.** More than three quarters (76 percent) of companies said they were planning to increase their FDI in the next three years—up from 67 percent a year ago. Further, 83 percent cited foreign direct investment as becoming more important for corporate profitability and competitiveness in the next three years, including 50 percent of business leaders in the Americas region who said they believed FDI would become significantly more important. Similarly, respondents judged the outlook on the global economy to have improved, with 63 percent saying they were more optimistic than pessimistic—up from 57 percent last year.
- **But the Ukraine conflict clearly must have caught them by surprise, as it did much of the world.** Tensions had already started to rise between Russia and Ukraine at the beginning of 2022, but the survey results suggest investors were still relatively sanguine about Europe and Eurasia's prospects, with 50 percent saying they were more optimistic about the region than the year prior (up from 44 percent last year). Nevertheless, investors cited a rise in commodity prices, escalating geopolitical tensions, and persistent inflation as developments that were likely to occur in the year ahead—and the Ukraine crisis has exacerbated each of these areas.
- **The Russian military actions in Ukraine will have lasting implications for Russia as a destination for foreign direct investment.** Historic FDICI results indicate that the current developments will adversely impact Russia. After several years of being a relatively attractive target on our Index—including appearing in the 11th position in 2013—the global community of investors retreated from Russia in response to the country's annexation of Crimea in 2014. The country has not been ranked among the top 25 FDI destinations in our Index since then. With disinvestment from Russia taking place at unprecedented rates since February 2022 and investors citing transparency in government regulations and lack of corruption as the most important factors when choosing where to make FDI, it is safe to expect that significant Western capital is unlikely to flow into Russia for the foreseeable future.

**Investors cited a rise in commodity prices, escalating geopolitical tensions, and persistent inflation as likely developments in the year ahead.**

- **The United States takes the top ranking for the 10th consecutive year.** Germany advances to the second position as Canada falls one position to third. Japan moves up to fourth, and the United Kingdom slips one position to fifth. The top 10 markets on the Index are largely unchanged from 2021, save for China rising from 12th to 10th. Developed markets account for 21 of 25 spots on the Index, including the top nine. These markets continue to show their strength in our survey during periods of crisis, representing more safety and stability to business leaders whose strategies and bottom lines have been shaken by the pandemic.
- **China, the United Arab Emirates, Brazil, and Qatar are the only emerging markets to make this year's list.** China moves up two positions from 12th place last year to 10th, perhaps a reflection of the country's strong economic recovery in 2021 and continued solid growth projections over the next three years. The UAE rises one position from 15th to 14th, and Brazil rises two positions from 24th to 22nd. Notably, Qatar makes its debut in the 24th position, marking the first time in the history of our survey that Qatar has appeared in the Index.
- **Investors are enthusiastic about pursuing environmental, social, and governance (ESG) commitments ...** A striking 94 percent of investors agreed that their respective companies had developed a strategy to achieve their ESG commitments, 89 percent view their company's ESG commitments as a source of competitive advantage, and 73 percent said their ESG commitments had become stronger in the past three years. Further, 67 percent of investors said the pandemic accelerated their timelines for implementing their ESG commitments, including 71 percent of Americas respondents, 74 percent in Asia, and 58 percent in Europe.
- **... but they are frequently split on which ESG goals to prioritize.** Despite broad enthusiasm, only 35 percent of companies had fully developed and implemented their ESG strategy, policy, and practices. Further, priorities assigned to ESG vary by region. The Americas prioritize higher-quality carbon footprint monitoring and measuring (55 percent), while Europe's top priority is water conservation (39 percent), and Asia is focused on developing more sustainable products (43 percent). And investors cited improving productivity, increasing cost efficiencies, and improving supply chain issues as the top factors driving their commitment to ESG over factors such as mitigating climate change and boosting employee morale. This suggests investors are primarily focused on how ESG can shape their bottom line, arguably more so than the societal and environmental benefits achievement of such goals can bring. So, while investors may indicate a general commitment to ESG, what they understand ESG to mean, what goals they set, and how they measure performance is, at best, a work in progress.

**The vast majority of companies view their ESG commitments as a source of competitive advantage.**

# The 2022 Foreign Direct Investment (FDI) Confidence Index

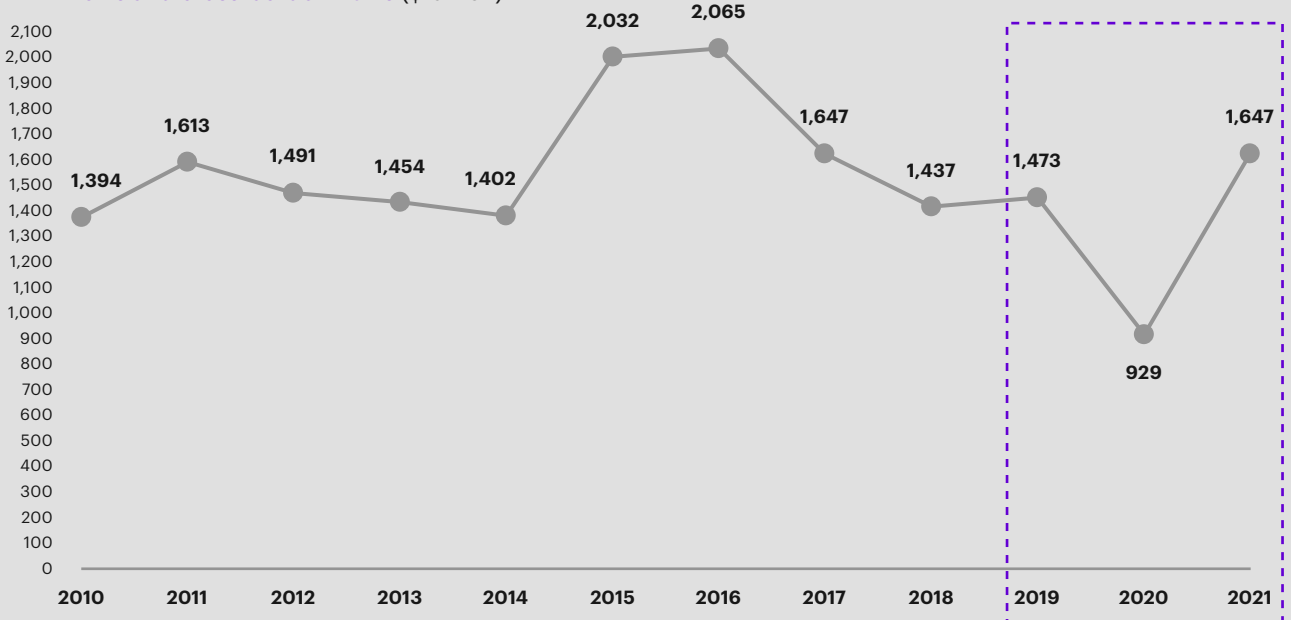
As our Foreign Direct Investment Confidence Index entered the field in January 2022, there was reason for investor optimism. After the COVID-19 pandemic had devastated foreign direct investment flows in 2020—resulting in a 35 percent decline in global FDI, according to the [United Nations Conference on Trade and Development](#) (UNCTAD)—there were indications of a strong rebound. The global economy appeared to be recovering, with growth hitting 6.0 percent in 2021 following a devastating 3.4 contraction the year prior.

And FDI flows resurged, with UNCTAD’s [Investment Trends Monitor](#) showing a striking 77 percent increase in global FDI to roughly \$1.65 trillion, up from just \$929 billion in 2020. This number surpassed pre-pandemic investment levels, which stood at roughly \$1.5 trillion (see figure 1).

Figure 1

## Global foreign direct investment flows surpassed pre-pandemic levels in 2021

FDI inflows and cross-border M&As (\$ billion)



Sources: UN Conference on Trade and Development (UNCTADstat); 2022 Kearney FDI Confidence Index®

Given these dynamics, it is not surprising that business leaders in our survey were showing signs of optimism. More than three quarters (76 percent) said they were planning to increase their FDI in the next three years—up from 67 percent the year prior. Further, 83 percent cited FDI as becoming more important for their corporate profitability and competitiveness in the next three years, including 50 percent of investors based in the Americas who said FDI would become significantly more important. Similarly, investor perspectives on the outlook for the global economy were improving. Nearly two-thirds of investors (63 percent) said they were more optimistic about the global economy, up from 57 percent last year (see figure 2). This was most evident in the Americas, where optimism was expressed by 69 percent of respondents, followed by Asia Pacific (63 percent) and Europe (59 percent).

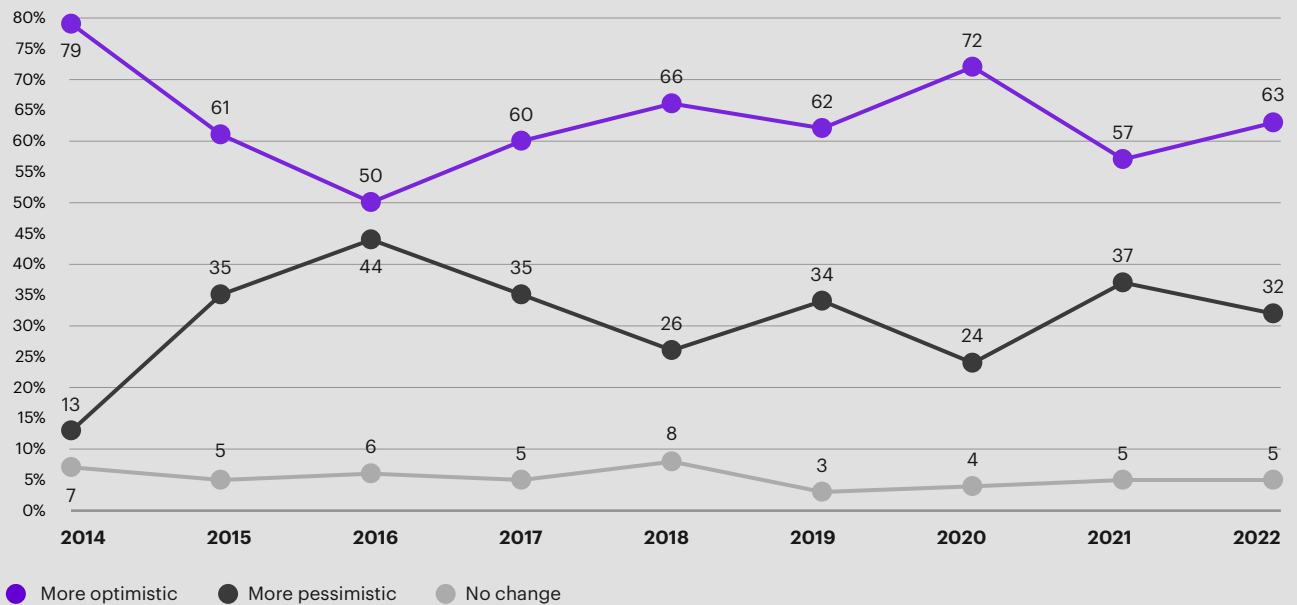
These indications of optimism were also evident in our country rankings and scores. Unlike last year, when only five of the top 25 countries on our list saw their scores increase from the year prior (2020), this year saw 16 of the top 25 countries improve their overall scores (see figure 3 in the next section).

In fact, only six of the top 25 countries saw any decrease in their overall score, with three country scores unchanged. Notably, Europe did especially well in our Index, retaining the greatest regional share—14 (56 percent) of the top 25 countries. These numbers further reflect the overall sense of optimism investors appeared to be feeling at the start of this year.

Then Russia began the conflict in Ukraine. While the threat of military action was mounting in January, when the survey was in the field, our results suggest that investors were still relatively sanguine about Europe and Eurasia’s prospects. Half of those surveyed (50 percent) said they were more optimistic about the region than they had been the previous year, which marked an increase from the 44 percent who said the same in our 2021 survey. While investors were likely surprised by Russian actions, as was most of the world, there were indications that they anticipated some of the effects that these events have amplified (see “Risks” section below). As a result, our findings suggest that investors will likely continue to turn to developed markets during periods of crisis. We saw this phenomenon during the heights of the pandemic. Once again in 2022, developed markets dominate the rankings, accounting for all but four spots on our index.

Figure 2  
Investors expressed more optimism in 2022 compared with 2021

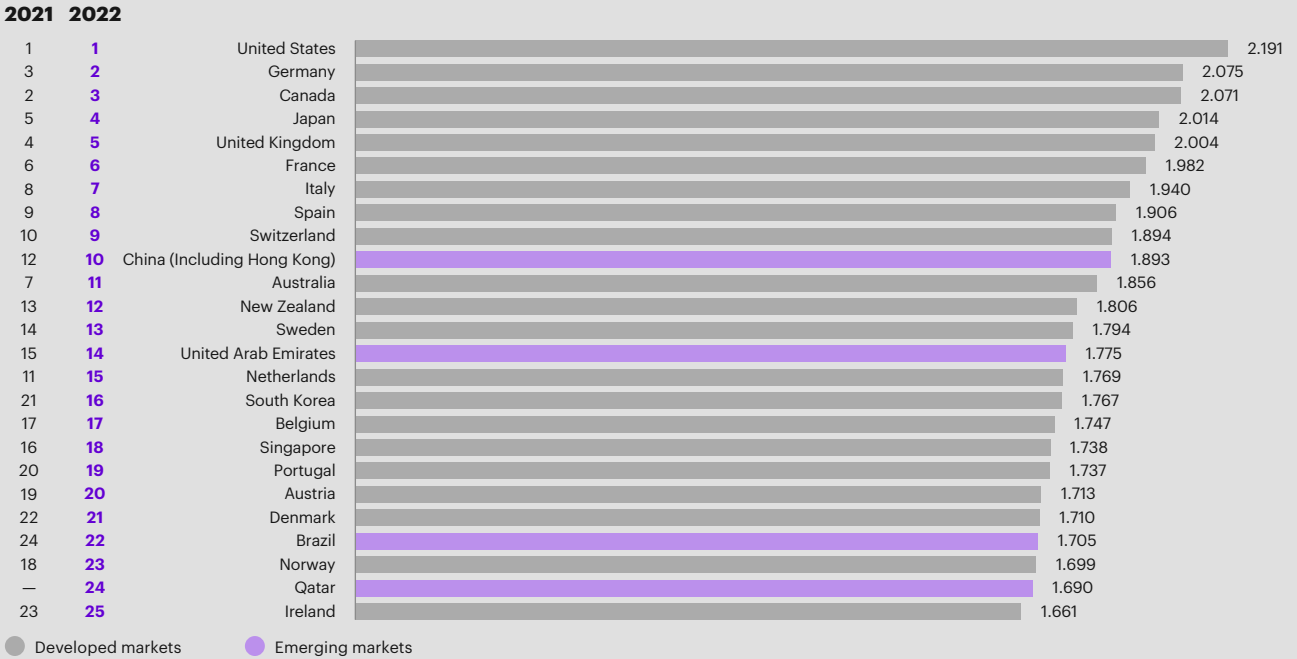
Compared with a year ago, how has your view on the global economy changed? (%)



Source: 2022 Kearney FDI Confidence Index®

Figure 3

**Developed markets account for 21 of the top 25 spots on the Index**



Source: 2022 Kearney FDI Confidence Index®

Beyond these findings, more precise prognostications are difficult to make. We entitled this year’s Index *Optimism dashed* for good reason: to capture the whiplash between the high hopes at the beginning of the year and the reality of the enduring tragedy in Ukraine. The results of our 2022 FDI Confidence Index® provide valuable insights into investor thinking in the weeks immediately before the outbreak of conflict in Europe. We believe these findings illuminate what they anticipated, what they did not, and what this could suggest for a future irrevocably changed by war.

## Rankings

In an environment marred by two years of pandemic disruption, this year’s survey once again demonstrated investors’ preference for trusted and developed markets in times of uncertainty. This is reflected in the relative consistency of the makeup of our list from last year to this year. Of the top 10 markets in our Index this year, nine were in the top 10 last year, and each of these nine is a developed market (see figure 3). This also marks the fourth consecutive year that each of the top five positions in the rankings is held by a developed market. While China has regained the 10th position, likely a reflection of the country’s strong economic performance and COVID recovery in 2021, it is one of just four emerging markets on our Index—alongside the United Arab Emirates (14th), Brazil (22nd), and Qatar (24th).

<sup>1</sup> The Index is calculated as a weighted average of the number of high, medium, and low responses to questions regarding the likelihood of making a direct investment in a market over the next three years. For information on the methodology and history of the FDICI, see “About the study” on page 19.

In addition, overall scores for 16 economies in the top 25 rose over last year. Only six saw their scores decline from our 2021 survey, albeit marginally: Canada, Australia, the Netherlands, Singapore, Austria, and Norway.

The United States ranks first on this year's Index—the 10th year in a row it has been at the very top of the rankings. This result likely reflects tailwinds following the country's economic rebound to 5.8 percent growth in 2021 (following a 3.4 percent contraction the year prior) as well as optimism about the country's \$1.2 trillion infrastructure bill, which was passed in November 2021. Germany rises one spot to second, very narrowly outscoring Canada, which slips to third. Similarly, Japan surpasses the United Kingdom for the fourth position, although both countries saw modest increases to their overall scores relative to last year. France maintains the sixth position, followed by Italy, Spain, and Switzerland, each of which rose one position relative to last year. As noted, China reenters the top 10 after slipping to 12th in 2021. The overall composition of the Index is largely unchanged from last year, with one exception: Qatar makes the list for the first time since the Index was founded in 1998, displacing Finland from the top 25.

The regional breakdown of our results shows Europe retaining the greatest share of the top 25 markets, with 14 economies representing 56 percent of the top-25 list. The relative strength of Europe on our Index has been a consistent feature in recent years, with 14 markets appearing in 2020 and 15 in 2021. Asia Pacific has the second strongest showing with six markets represented on our Index, in line with our 2021 results. The most notable changes in this market are Australia's decline from 7th to 11th, likely caused in part by the country's strict and extended border closures during the pandemic, and South Korea's rise from 21st to 16th this year. Investor enthusiasm for South Korea may have been fueled by strong statements of support for growing trade and investment from both presidential candidates as the country prepared for its election in early March 2022. The Americas sees the same three countries as last year appear on the list, with Brazil rising two positions to 22nd. And the Middle East and North Africa is represented by two markets, with Qatar joining the United Arab Emirates, which had been the region's lone market on our Index for the past two years. Qatar likely benefitted from investor enthusiasm about the country hosting the 2022 FIFA World Cup, the first Arab country ever to do so.

Taken together, our survey shows both strong levels of consistency with last year's results along with indicators of growing optimism. With just one exception, the composition of the results is the same, with the vast majority experiencing only a modest adjustment in overall ranking placement or no change at all. The changes that were most evident, however, were in the levels of optimism. Nearly two-thirds of countries on the list saw their overall scores improve relative to last year. Further, when respondents were asked about how their three-year outlook for individual countries had changed compared with a year ago, scores also improved (see figure 4 on page 8). Canada, Japan, Germany, the United States, and the United Kingdom round out the top five countries with the most optimistic economic outlook in net terms. Each of the top five saw notable improvements in their net outlook score relative to last year—but the results are most striking for the United States. The net score for the United States more than doubled from 17 percent last year (35 percent optimistic versus 18 percent pessimistic) to a net score of 36 percent (44 percent optimistic versus 8 percent pessimistic). This is likely a function of the country's economic recovery and may also reflect greater levels of pessimism in last year's survey, which was fielded just days after the failed insurrection at the US Capitol on January 6, 2021. In contrast, investors were least bullish on the economic outlook for Belgium, Austria, Ireland, and Brazil. But even in these four cases, overall net scores were higher in our 2022 survey than a year ago, likely a reflection of the global economic recovery fueling broader levels of optimism overall.

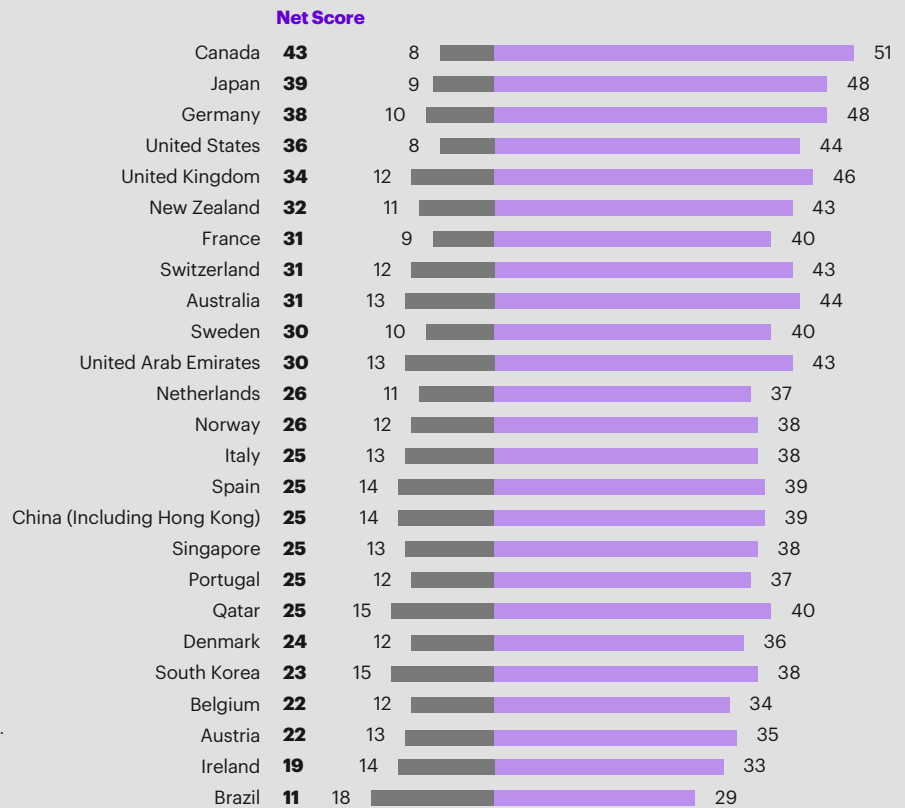
Figure 4

**Investors expressed more optimism than last year**

How has your three-year economic outlook for [country] changed compared with a year ago? (%)

- More pessimistic
- More optimistic

Note: Countries are listed in descending order of the net score (more optimistic to more pessimistic). Numbers do not add up to 100 because the remaining respondents selected "about the same."  
 Source: 2022 Kearney FDI Confidence Index®



**The factors that investors prioritize most are natural strengths of developed markets**

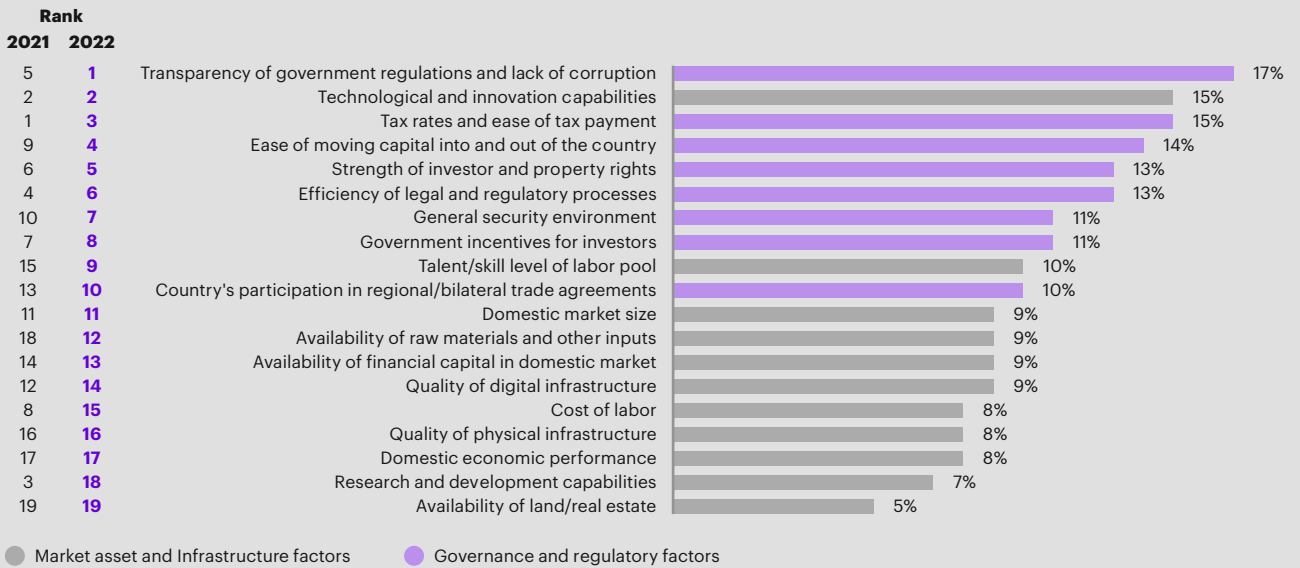
The strong showing of developed markets in our 2022 Index is underpinned by the factors that investors identified as the most important when choosing where to make foreign direct investments. Most notable was the surge in emphasis investors placed on transparency of government regulations and a lack of corruption, which rose from the fifth position last year to first this year (see figure 5 on page 9). Tax rates and ease of tax payment also maintain a high ranking, falling slightly to third from the top of our Index last year. Overall, governance and regulatory factors dominated the top of the rankings this year, capturing eight of the top 10 positions compared with market asset and infrastructure factors. This suggests that after two years of serious COVID disruption, supply chain challenges, and other dislocations, investors are recognizing the value of good governance and transparent regulation while also seeking safe and reliable destinations to place their investments.

For the fourth year in a row, technological and innovation capabilities were ranked as the second factor overall prioritized by business leaders and is the top-rated market asset and infrastructure factor. The pandemic has driven home the crucial role of technology in facilitating everything from remote work and greater connectivity to increased automation, making its continued prevalence on our Index understandable. Furthermore, as is the case with issues of transparency and corruption, technological and innovation capabilities generally tend to be strongest in developed markets with advanced technology infrastructures.

Figure 5

**Transparency of government regulations and lack of corruption were the most important factors in determining investment intentions**

From those factors that you selected, which are the most important overall factors to your company when choosing where to make FDI?



Source: 2022 Kearney FDI Confidence Index®

These findings also reinforce the results of the country rankings in this year's survey. Many of the countries at the top of this year's Index also score highly on Transparency International's [Corruption Perceptions Index](#)—namely Germany, Canada, Japan, and the United Kingdom, among others. Similarly, the top five countries on the World Intellectual Property Organization's 2021 [Global Innovation Index](#) are Switzerland, Sweden, the United States, United Kingdom, and South Korea. Each of these countries rank highly and saw their scores improve in our 2022 FDI Confidence Index®.

There is still some variation across geographical regions in the factors shaping investment intentions and decisions. For investors in the Americas, the top two factors are efficiency of legal and regulatory processes (18 percent) and transparency of government regulations and lack of corruption (17 percent). This reflects an emphasis on both transparency and efficient regulations. For respondents in Europe, transparency of government regulations and lack of corruption once again tops the list (19 percent) but is followed by strength of investor and property rights (16 percent). And the results for investors in the Asia Pacific region were even more varied, with a three-way tie for the most important overall factor in determining investment intentions: technological and innovation capabilities, ease of moving capital into and out of country, and government incentives for investors (each at 16 percent).

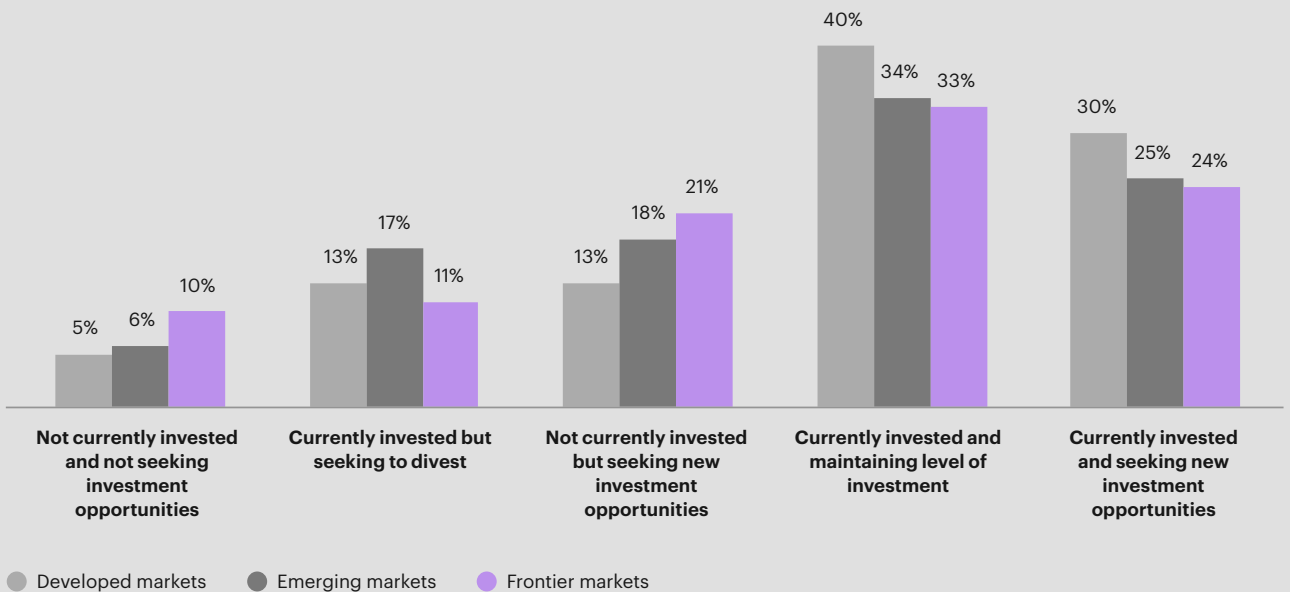
Other results in our Index further demonstrate the strength of developed markets. The largest share of investors intends to maintain their level of FDI or seek additional investments in developed markets rather than in emerging or frontier markets (see figure 6). In last year's Index, we wrote that developed markets would have an edge in securing a higher percentage of investments if FDI flows rebounded, and this year's survey appears to reflect that outcome. Roughly 70 percent of investors surveyed are invested in developed markets and are either maintaining or seeking to expand investment opportunities in them, relative to 59 percent in emerging and 57 percent in frontier markets. The intention to seek new investment opportunities was strongest in the Americas (42 percent), followed by the Asia Pacific (30 percent), and Europe (21 percent).

## Most investors intend to maintain their level of FDI or seek additional investments in developed markets.

Figure 6

### Investors continue to prioritize developed markets over emerging and frontier markets

How would you characterize your company's level of investments in [market type]?



Source: 2022 Kearney FDI Confidence Index®

## Risks and likely developments

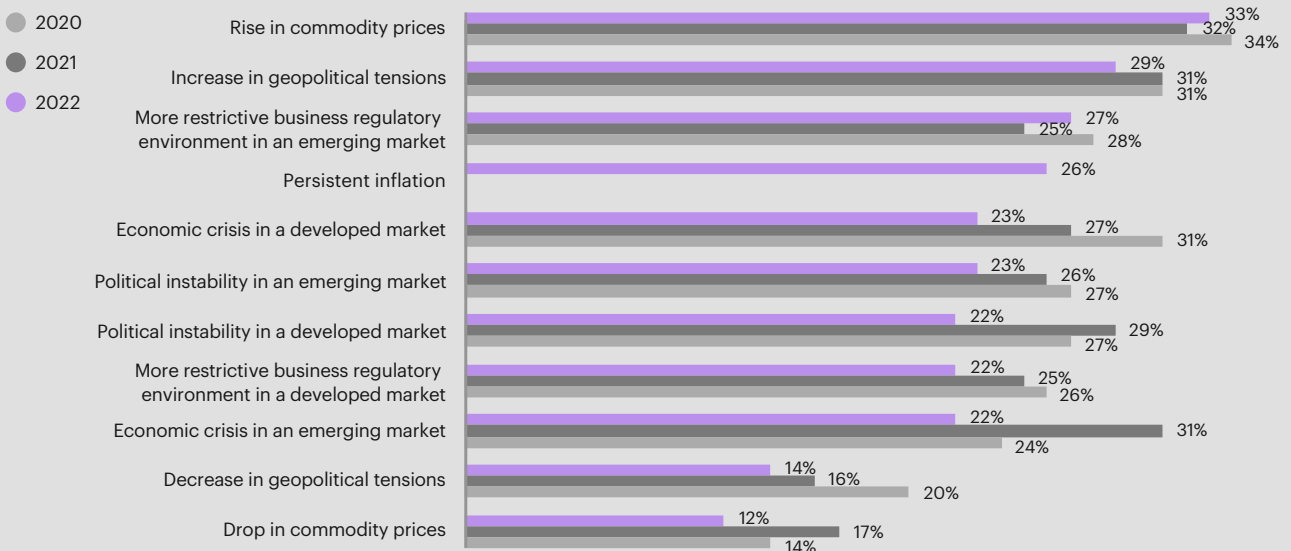
While the results of the FDI Confidence Index® suggest the Ukraine crisis caught investors by surprise, they still anticipated that a rise in commodity prices and an increase in geopolitical tensions would take place this year—both of which have occurred since the survey was in the field. Rising inflation and persistent US–China tensions could have respectively contributed to these sentiments, along with the specter of conflict in Eastern Europe as Russian troops gathered on the Ukrainian border in late 2021 and January 2022. Investors also anticipated a more restrictive business regulatory environment in emerging markets, possibly because of supply chain disruptions that have pummeled the world amid the pandemic (see figure 7).

A rise in commodity prices topped the list of developments that investors most anticipated occurring in the year ahead. This may have been driven by the increased inflation under way at the time the survey was in the field, as inflation tends to correlate with higher prices. Indeed, 26 percent of investors cited persistent inflation as a key future development. Both rising commodity prices and inflation have been fueled in part by renewed consumer demand amid the COVID economic recovery. A fast-growing global economy tends to result in greater demand for commodities and higher commodity prices. In September 2021, for example, commodities surged to a 10-year high amid rising costs for goods in the construction, manufacturing, and electrical sectors. While we project that global growth will come down to 3.4 percent in 2022 from 6.0 percent in 2021, consumer demand is still expected to remain strong and commodity prices will likely remain high.

Figure 7

### Investors see commodity price increases and escalating geopolitical tensions as the most likely developments in the year ahead

What developments from among the following do you think are more likely to occur in the next year?



Note: Persistent inflation was included as an option in our survey for the first time in 2022.

Sources: 2022 Kearney FDI Confidence Index®, 2021 Kearney FDI Confidence Index®, 2020 Kearney FDI Confidence Index®

Investors believe the second most-likely development, following rising commodity prices, is escalating geopolitical tensions. As was the case last year, respondents who point to an increase in geopolitical tensions are likely concerned about the rivalry between the world's two largest economies—the United States and China. Following years of trade disputes and competition for [technology supremacy](#), fears of escalated tensions between Washington and Beijing were likely on the minds of investors. And although levels of uncertainty in January were high regarding whether Russia would move into Ukraine, investors were likely mindful that some degree of escalation in tensions was possible, or even probable. Other geopolitical flashpoints that may have prompted investor concern include the risks presented by Iran's nuclear ambitions or the precarious situation in [Afghanistan](#), where the Taliban is contending with rival jihadist groups such as the Islamic State, raising the risk of terrorist activity more broadly. Of course, the missile tests by North Korea have contributed to new tensions on the Korean Peninsula.

Beyond higher commodity prices and increased geopolitical risk, investors point to a “more restrictive business regulatory environment in an emerging market” as a key development in 2022. There could be multiple reasons for this result, including China's [regulatory crackdown](#) on several sectors in 2021. Last year, Beijing made allegations of monopolistic behavior by Internet giants such as Alibaba, clamped down on real estate property developers' high reliance on debt, and moved to address regional failures to reduce carbon emissions. These developments resulted in disruptions to some businesses and factory power cuts. Restrictive business regulatory environments have been appearing in other emerging markets. In Mexico, for example, authorities have been [shutting down private refined-product imports](#) in an apparent effort to benefit the market share of state-owned Pemex.

The conflict in Ukraine has exacerbated each of the developments and risks discussed above. Indeed, econometric analysis from Oxford Economics, conducted in early March, suggests that a sustained conflict could cost the global economy at least 1 percent of total output relative to baseline projections in 2023 alone, and these effects could compound exponentially in the years that follow should the conflict persist. Such an outcome would cost the global economy trillions of dollars and likely curb overall levels of foreign direct investment. These dynamics are already causing the price of oil, gas, and wheat commodities to skyrocket. The crisis has [precipitated](#) a 40 percent rise in gas prices and boosted the oil price to above \$100 per barrel for given stretches, with prices even [surpassing \\$130 per barrel](#) at one stage in early March. And short-term European wheat prices neared [record highs](#) in late February.

The risks cited by investors suggest an uncertain future for investment in the three years ahead. Much will depend on the duration, nature, and evolution of the conflict in Ukraine. One thing is clear. Historic FDI Confidence Index® findings suggest that these developments bode poorly for the future of foreign investment flows into Russia, in particular. While in the past the country had appeared routinely on our Index, including in the 11th position in 2013, it fell off the list following its annexation of Crimea in 2014 and has not returned since. Much of the global community of investors retreated from Russia in response to this development and the sanctions that followed. Russian real estate has traditionally been the biggest [magnet](#) of FDI, followed by oil and gas as well as a number of industrial sectors, including food and beverages and automotive. But signs of outflows have already appeared, with the MOEX Russia Index dropping precipitously following the Ukraine conflict beginning in February, to about 50 percent below the high recorded in October 2021. Given the levels of disinvestment now taking place and the fact that respondents cite transparency in government regulations and a lack of corruption as the most important factors when choosing where to make FDI, we believe it is safe to expect that significant Western capital is unlikely to flow into Russia anytime soon.

## Investors are enthusiastic about pursuing ESG commitments, but they are split on which goals to prioritize

Climate change. Political division. Growing inequality. These are just a few of the macro trends plaguing the global operating environment. It is no surprise, then, that investor, business, and consumer focus on ESG issues has surged in the past few years. And this focus is only growing, especially as we continue to trudge through the pandemic. Given the timeliness and importance of the growing ESG movement, we have decided to focus this year's FDI Confidence Index® thematic section on these issues, asking investors to share their views on how ESG is not only impacting their foreign direct investment, but also shaping their companies' operating strategies.

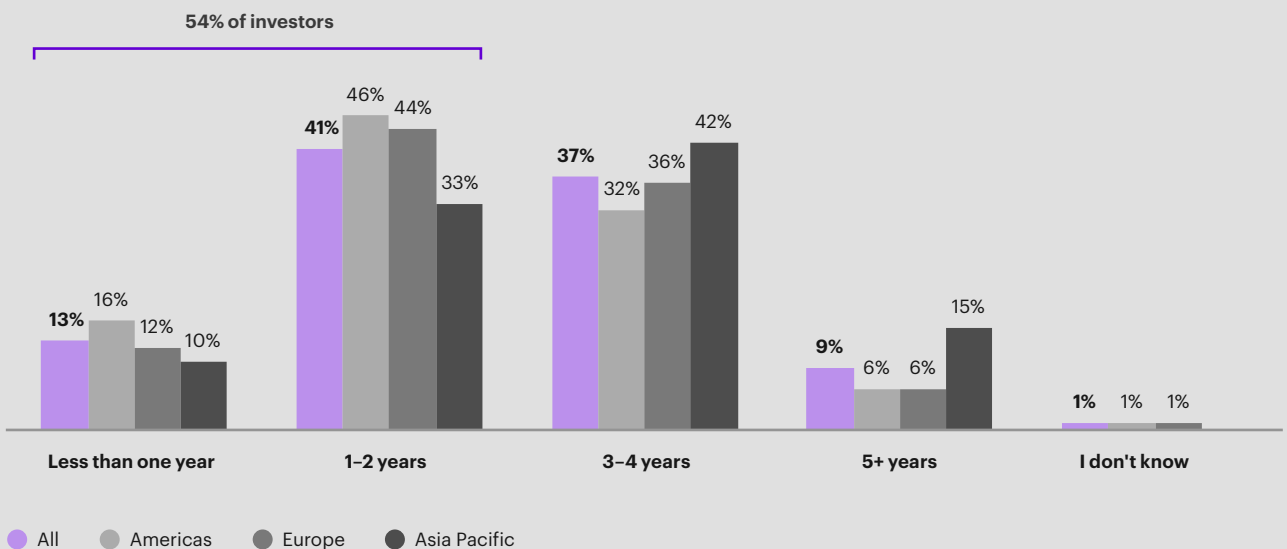
Our findings reveal that a striking 94 percent of investors say their companies have already developed a strategy to achieve their ESG commitments, 89 percent view their company's ESG commitments as a source of competitive advantage, and 73 percent believe their ESG commitments became stronger over the past three years. Indeed, two-thirds of investors say COVID-19 accelerated their companies' timelines to implement their ESG commitments—including 71 percent of Americas respondents, 74 percent in Asia, and 58 percent in Europe. Clearly, the pandemic has served as a catalyst for investors—as well as business and consumers—to think more about the challenges impacting the planet.

Nevertheless, investors are seemingly still at the early stages of their respective ESG journeys. Only 35 percent said their companies have fully developed and fully implemented their ESG strategies, policies, and practices. However, the results reflect an urgency in pursuing ESG goals, with 54 percent of investors indicating they expect their company to fully implement their ESG commitments within the next two years (62 percent of Americas investors, 56 percent of those in Europe, and 43 percent of those in Asia Pacific) (see figure 8).

Figure 8

### A small majority of investors expect their companies' ESG commitments to be fully developed and implemented in the next two years

Over which time frame do you expect your company to develop and fully implement any ESG commitments?



Note: ESG is environmental, social, and governance.

Source: 2022 Kearney FDI Confidence Index®

Investors cite improving productivity (32 percent), increasing cost efficiencies (27 percent), and improving supply chain issues (27 percent) as the top factors driving their commitment to ESG (see figure 9). These factors rate considerably higher than others, such as mitigating climate change (18 percent) and boosting employee morale (18 percent). This suggests that investors are primarily focused on how ESG can affect their bottom line, more so than the broader societal and environmental benefits such goals can bring. Thus, while investors may universally claim a commitment to ESG, what they understand that to mean, what goals they set, and how they measure performance may still be, at best, a work in progress.

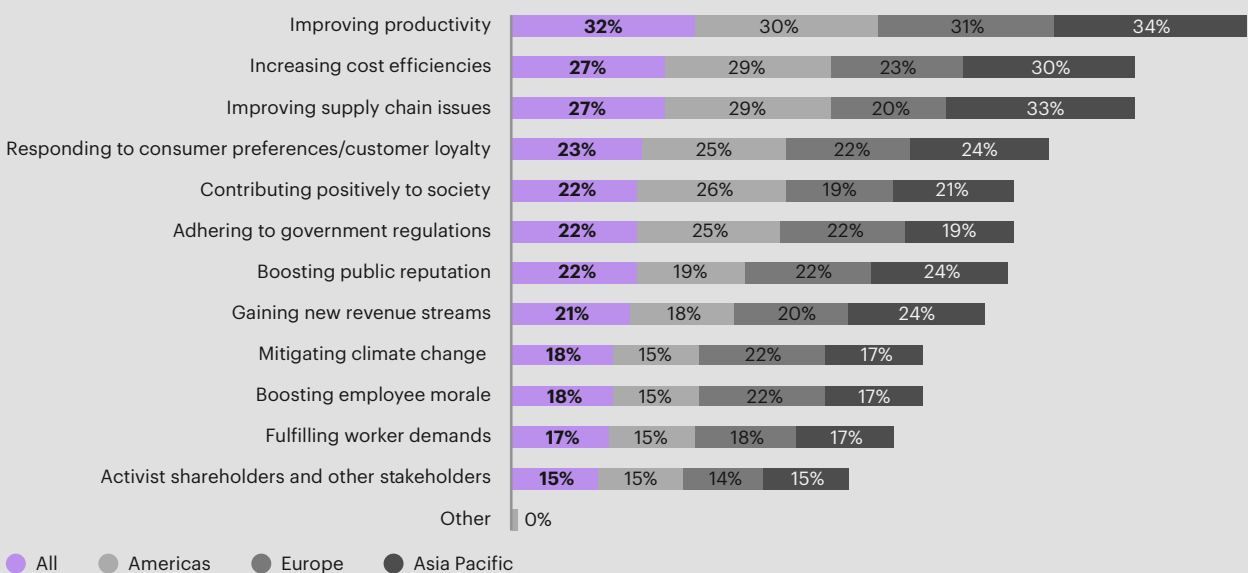
Furthermore, regional priorities assigned to ESG vary. The Americas, for example, puts a higher priority on quality carbon footprint monitoring and measuring (55 percent), while Europe’s top priority is water conservation (39 percent) and Asia is focused on developing more sustainable products (43 percent) (see figure 10 on page 15). These regional differences are understandable given the varying regulatory environments in each region:

- In the **United States** in December 2021, for example, the Biden administration signed an [executive order](#) stating that in 2022, the General Services Administration (GSA) will require federal contractors to disclose the embodied carbon of building materials for new building and major modernization contracts. The United States is also mulling [similar disclosure requirements](#) that would require publicly traded companies to release information to investors about their emissions and how they are managing risks related to climate change and future climate regulations.

Figure 9

**Investors cite improving productivity, increasing cost efficiencies, and improving supply chain issues as the most important factors driving their ESG commitments**

What factors are driving your company’s commitment to ESG? Select the top three factors.



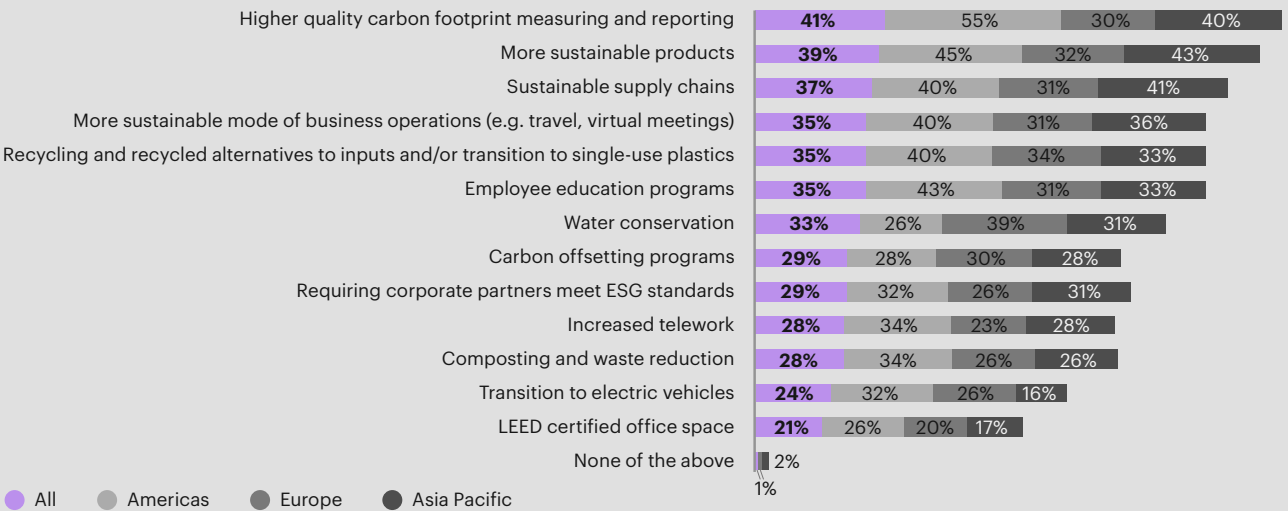
Note: ESG is environmental, social, and governance.

Source: 2022 Kearney FDI Confidence Index®

Figure 10

**Higher-quality carbon footprint measuring and reporting and a commitment to more sustainable products are high in investor ESG priorities**

If improving environmental and sustainable commitments is a top priority for your firm, which types of ESG priorities related to the environment and sustainability is your company currently pursuing or considering pursuing? Select all that apply.



Note: ESG is environmental, social, and governance.  
 Source: 2022 Kearney FDI Confidence Index®

- Similarly, in **Europe**, the ranking of water conservation as a top priority reflects the significant and growing concern in the region regarding **water issues**. About 30 percent of Europe’s population is affected by **water stress** in an average year, with the situation expected to worsen as climate change increases the frequency and impact of droughts.
- In **Asia**, investors prioritizing producing more sustainable products also makes sense, especially given that many resource-intensive products such as fast fashion are manufactured there. Asia’s textile industry was **valued** at more than \$290 billion in 2015, which accounted for 60 percent of the world’s readymade garments, textiles and footwear in 2015, according to World Trade Organization statistics. It will indeed be key for investors with assets in Asia—especially in environmentally impactful industries such as clothing manufacturing—to keep a keen eye on sustainable developments there.

There is, however, much smaller regional variation in the way investors view ESG in terms of their FDI. Indeed, 91 percent of Americas investors, 89 percent of those in Europe, and 87 percent of those in Asia Pacific believe their companies are prioritizing investing in foreign entities that adhere to ESG best practices. This suggests that investors are universally thinking about how the business dealings and operations of their foreign assets reflect on their companies at home. This is important, especially given the evidence that investors may increasingly come under fire for acquisitions that do not meet ESG muster. This has come to light in Microsoft’s recent \$75 billion acquisition (though not foreign) of video-game maker **Activision Blizzard**. Activision lags far behind Microsoft in its ESG efforts, disclosing much less ESG information and having far fewer policies in place. If the deal goes through, it could take years for Microsoft to bring Activision into line with its ESG practices.

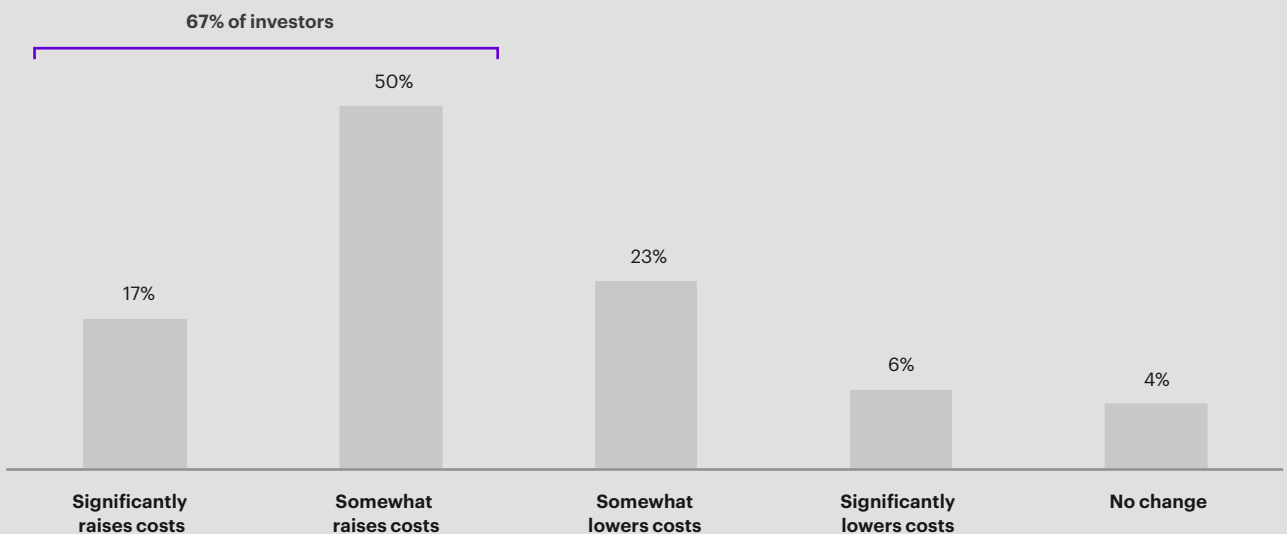
Overall, the results of our survey show clear enthusiasm for ESG principles and indicate that it is something that investors are factoring into their investment decisions. However, principle does not always translate into practice. Indeed, some of the survey results appeared to be contradictory. For example, while investors cited the top three factors driving their ESG commitments as improving productivity, increasing cost efficiencies, and improving supply chain issues, two-thirds of them also agreed that pursuing an ESG strategy raises operating costs (see figure 11).

This may suggest that investors are still identifying best practices on how ESG strategies can bring cost savings. It may also indicate they believe an initial investment raising operational costs is necessary before greater cost efficiencies can be realized. Yet there are a growing number of examples of ESG directly benefitting a company’s bottom line. [Nike](#), for example, has reduced the raw material and labor time needed to make its shoes through more efficient weaving practices, resulting in 3.5 million pounds of waste reduction since 2012. And United Airlines has driven down fuel use and costs by making its planes lighter—for example, [using lighter paper](#) for in-flight magazines has saved almost \$300,000 per year on fuel for the company alone. These examples demonstrate how ESG priorities can and do vary by industry. And given investor desire to harness ESG to boost productivity and cost efficiencies, the current circumstances may represent an important opportunity for companies to identify areas in which they can do well by doing good.

Figure 11

**Two-thirds of investors agree that pursuing an ESG strategy raises operating costs**

How does pursuing an ESG strategy affect your company’s costs of operations?



Note: ESG is environmental, social, and governance.  
 Source: 2022 Kearney FDI Confidence Index®

# Conclusion and business implications

When our survey was in the field in January, global investors were clearly optimistic about the outlook for FDI. While COVID-19 proved to be a blow in 2020, the recovery of the global economy and FDI flows in 2021 made them more optimistic about the year ahead. Yet mere weeks after our survey was completed, another shock emerged in the form of Russian troops crossing the border into Ukraine. Had the conflict begun while the survey was still with investors, would our results be different? It is impossible to reach any other conclusion. But the degree to which the tragic situation in Ukraine would overshadow investor attitudes is equally impossible to assess. Perhaps investor concern about rising geopolitical tensions would have been validated, but at this early stage of the conflict, many questions would have remained (as they continue to do at this writing). Will there be ripple effects of the conflict impacting FDI to nations other than Russia? Or will we only see mass capital flight from Russia with other nations seeing little difference to their flows?

Growing investor enthusiasm for implementing ESG initiatives both at home and abroad might help to answer the latter question. Indeed, we have already seen many global companies pulling away from Russia in response to its actions. At the time of this writing, McDonald's, Starbucks, Coca-Cola, and many other Western brands have [suspended operations in Russia](#). It is probable that others will follow suit. This set of circumstances is the latest example of the growing role of ESG in business, and something that investors should watch closely. As geopolitical events and consumer preferences for ESG-friendly companies and products converge, we appear to be moving into a new era of expanded corporate social responsibility.

Even in tumultuous times such as these, encompassing a persistent pandemic as well as renewed geopolitical volatility, there is still reason for guarded investor optimism. The surge in global FDI in 2021 surpassed pre-pandemic levels, reflecting not only strength leading into the current period of uncertainty, but also the capacity for FDI to rebound rapidly when exogenous shocks and dislocations occur. Further, UNCTAD finds that investor confidence was particularly strong in infrastructure sectors, an area that is likely to see more gains in the year ahead. In addition to the aforementioned \$1.2 trillion package passed in the United States, there are signs of growing infrastructure investment elsewhere in the world. The Middle East, for example, is expected to see a wave of [infrastructure investment from China](#), including large potential investments in Oman, Abu Dhabi, and Israel. And Japan is [heavily investing](#) in Southeast Asian infrastructure. In total, the country has \$259 billion invested in unfinished projects in Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

The title of our 2022 FDI Confidence Index®, *Optimism dashed*, should be qualified: For how long? While global developments have certainly transformed the world, this does not preclude investors from building on existing momentum or pursuing new opportunities that arise. Focusing on investing in key sectors such as infrastructure and implementing ESG strategies sooner rather than later at home and abroad will provide a solid path forward for investors and companies, and ultimately help to build a stronger, more enduring investment environment.

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The authors wish to thank Terry Toland and Gabriella Huddart for their valuable contributions to this report.

## About the study

The Kearney FDI Confidence Index® is an annual survey of global business executives that ranks markets that are likely to attract the most investment in the next three years. In contrast to other backward-looking data on FDI flows, the FDICI provides unique forward-looking analysis of the markets that investors intend to target for FDI in the coming years. Since the FDICI's inception in 1998, the countries ranked on the Index have tracked closely with the top destinations for actual FDI flows in subsequent years.

The 2022 Kearney FDI Confidence Index® is constructed using primary data from a proprietary survey of senior executives of the world's leading corporations. The survey was conducted in January 2022. Respondents include C-level executives and regional and business leaders. All participating companies have annual revenues of \$500 million or more. The companies are headquartered in 30 countries and span all sectors. The selection of these countries was based on UNCTAD data, with the 25 countries represented in the Index originating more than 95 percent of the global flow of FDI in recent years. Service-sector firms account for about 44 percent of respondents, industrial firms for 33 percent, and IT firms for 22 percent.

The Index is calculated as a weighted average of the number of high, medium, and low responses to questions on the likelihood of making a direct investment in a market over the next three years. Index values are based on responses only from companies headquartered in foreign markets. For example, the Index value for the United States was calculated without responses from US-headquartered investors. Higher Index values indicate more attractive investment targets.

All economic growth figures presented in the report are the latest estimates and forecasts available from Oxford Economics unless otherwise noted. Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, relevant news media, and other major data sources.

**For past editions of the FDI Confidence Index®, please go to: [www.kearney.com/foreign-direct-investment-confidence-index](http://www.kearney.com/foreign-direct-investment-confidence-index).**



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