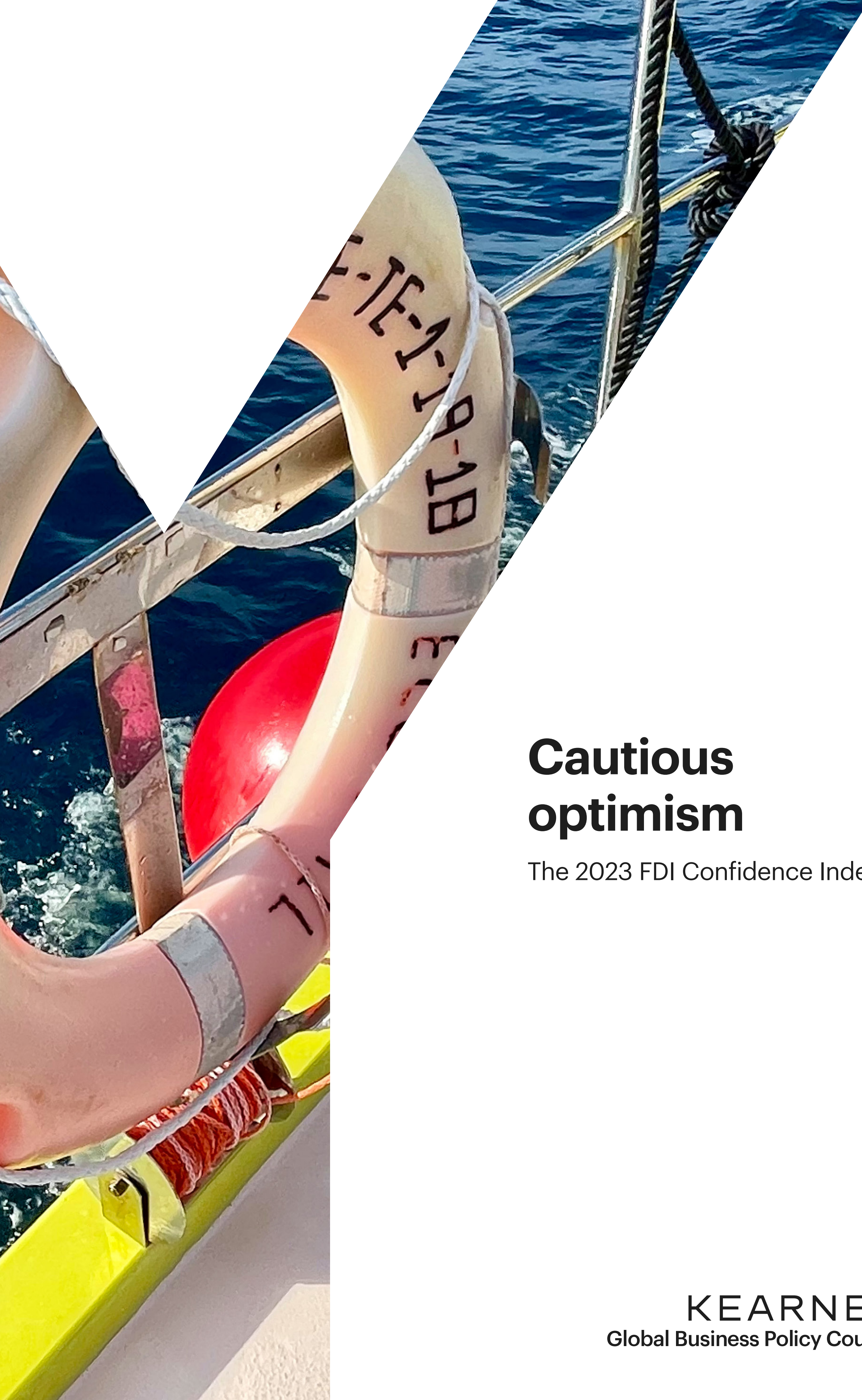


Photo by Kevin Peschke
Kearney, Chicago

Cautious optimism

The 2023 FDI Confidence Index®

KEARNEY
Global Business Policy Council

Business leaders show signs of confidence in the investment outlook and the prospects for globalization—though concerns about persistent risks remain.

A global health crisis. Disrupted supply chains. Conflict in Eastern Europe. Record inflation. And escalating tensions between two of the world's largest powers. This is hardly the global backdrop that would suggest a case for much positivity from global investors. Nevertheless, executives in our 2023 Foreign Direct Investment Confidence Index© show cautious optimism.

The findings of our Index suggest that investors are hopeful in several areas. A growing majority of companies (82 percent) say they plan to increase their FDI in the next three years. Even more indicated they believe FDI will drive corporate profitability and competitiveness. And despite the headwinds, most (63 percent) are optimistic about the outlook for the global economy.

Yet underneath these headline numbers, our results this year also reflect a degree of caution. According to the survey, investors anticipate a rise in commodity prices, an increase in geopolitical tensions, and rising political instability in emerging markets. Those investors who said their FDI levels would decrease in the next three years highlighted concerns about foreign exchange dynamics, risk tolerance, and the broader macroeconomic environment.

As in past years, the results of our Index rankings also suggest a preference for market stability and security. For those countries at the very top of the Index—namely, the United States, Canada, and Japan—overall scores rose relative to last year. In fact, this was the case with eight of the top 10 countries. Not so with 10 of the 15 countries at the bottom of our top-25 rankings, however, which logged lower absolute scores. This suggests that investors are most confident in a smaller number of established markets at the top of the list but more guarded in their optimism for the remaining economies.

Each year, our Index features a thematic section. This year, in the context of discussion on economic fragmentation, we devoted questions to the outlook for globalization. Here, once again, business leaders revealed cautious optimism, but with some key caveats. While two-thirds of respondents indicated they believe globalization will increase, only 19 percent anticipate a significant increase. Furthermore, among the 23 percent who said they worry about a decrease in globalization, concerns around trade barriers, supply chain disruptions, and a less stable geopolitical outlook loom large. And while more than three-quarters agreed that globalization is beneficial to their companies today and will continue to be over the next three years, similar numbers pointed to the need for localization strategies and actions to address further self-sufficiency policies by governments.

We believe that these results suggest an FDI environment at inflection. Having endured the series of interrelated and complex crises that engulfed the world in recent years, investors are pushing ahead on the basis that further expansion of FDI flows and economic growth over the next three years is more likely than not. There are new opportunities to explore investment options in both developed and emerging markets alike. With this in mind, we are proud to include for the first time in the Index's 25-year history a supplemental ranking of the top 25 emerging markets.

Our 2023 results suggest subdued investor optimism. They also reflect concern about potential downside risks. Under the current circumstances, it is no surprise that business leaders continue to focus most on the largest and most stable markets.

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

Erik R. Peterson
Partner and managing director
Global Business Policy Council
Kearney

Executive summary

- **The 2023 FDICI survey was in the field in January, when the economic outlook for the year was by no means optimistic.** However, after months of economic projections suggesting a (potentially major) recession might be looming, the outlook was showing signs of improving in the new year. Inflation was ticking downward, labor markets in key markets appeared to be rebalancing, and the International Monetary Fund released the January update of its World Economic Outlook, suggesting that it no longer expected a global recession for the year ahead. Coupled with estimates from Oxford Economics that global FDI inflows rose slightly from an estimated $2.07 trillion in 2021 to $2.13 trillion in 2022, global investors likely felt somewhat more positive about the economic outlook than in previous months.

- **Survey results reflect continued optimism among investors ...** More than three-quarters (82 percent) said they were planning to increase their FDI in the next three years—up marginally from a corresponding level last year of 76 percent. Further, 87 percent cited FDI as more important for their corporate profitability and competitiveness in the next three years, up slightly from 83 percent in 2022. And investor perspectives on the outlook for the global economy were generally aligned with last year's results. While levels of pessimism ticked up slightly from 32 to 35 percent, nearly two-thirds of investors (63 percent) remained more optimistic than pessimistic about the global economy—precisely the same level as last year.

- **... yet this positive sentiment is tempered by concern about downsides.** Investors see commodity price increases, heightened geopolitical tensions, and political instability in an emerging market as the most likely risks this year. These anticipated developments are likely attributable to the continued Russia–Ukraine conflict and the continuing effects of the pandemic, including commodity price volatility and high inflation. Indeed, global inflation reached a striking 7.8 percent in 2022 and, while currently declining, is still anticipated to remain above 5 percent in 2023. And energy prices increased to unprecedented levels, especially in Europe.

- **The United States takes the top ranking for the 11th consecutive year.** Canada reclaims the second position after falling to third in 2022, and Japan jumps to third place from a rank of fourth last year. Germany drops two spots to fourth, likely reflecting the economic and energy challenges it has faced due to the geopolitical crisis in Eastern Europe. The United Kingdom maintains the fifth position, with France following closely behind. China jumps from 10th position to 7th, perhaps attributable to signs of recovering economic activity following the decision to drop the zero-COVID policy in late 2022. Overall, this year's survey once again demonstrated investor preference for developed markets, which accounted for 19 out of 25 of the countries on the Index.

- **For the first time in the 25-year history of the FDI Confidence Index®, we are introducing this year an exclusive ranking for emerging markets.** This list is intended to give business leaders insight into which emerging markets are most appealing to investors. China, India, the United Arab Emirates, Qatar, Thailand, and Saudi Arabia hold the top six positions; they are also the only emerging markets included in the world rankings. Beyond these top six, Latin America makes a strong showing, with Brazil, Mexico, and Argentina taking the 7th, 8th, and 9th positions, respectively. Southeast Asia also performs strongly, with Malaysia, Indonesia, the Philippines, and Vietnam taking the 10th through 13th positions, respectively.

- **This year's thematic section results suggest that business leaders believe globalization is and will remain the central force in foreign direct investment ...** A distinct majority of respondents (66 percent) anticipate an increase in globalization in the next three years; by contrast, only 23 percent expect a decrease. Those anticipating an expansion of globalization cite a combination of connected digital infrastructure alongside growing trade opportunities and limited trade barriers as the primary driving forces. This is likely the result of the striking proliferation in digital trade and services, especially for telecom and IT, that took place during the pandemic and the rebound in trade writ large beginning in 2021.

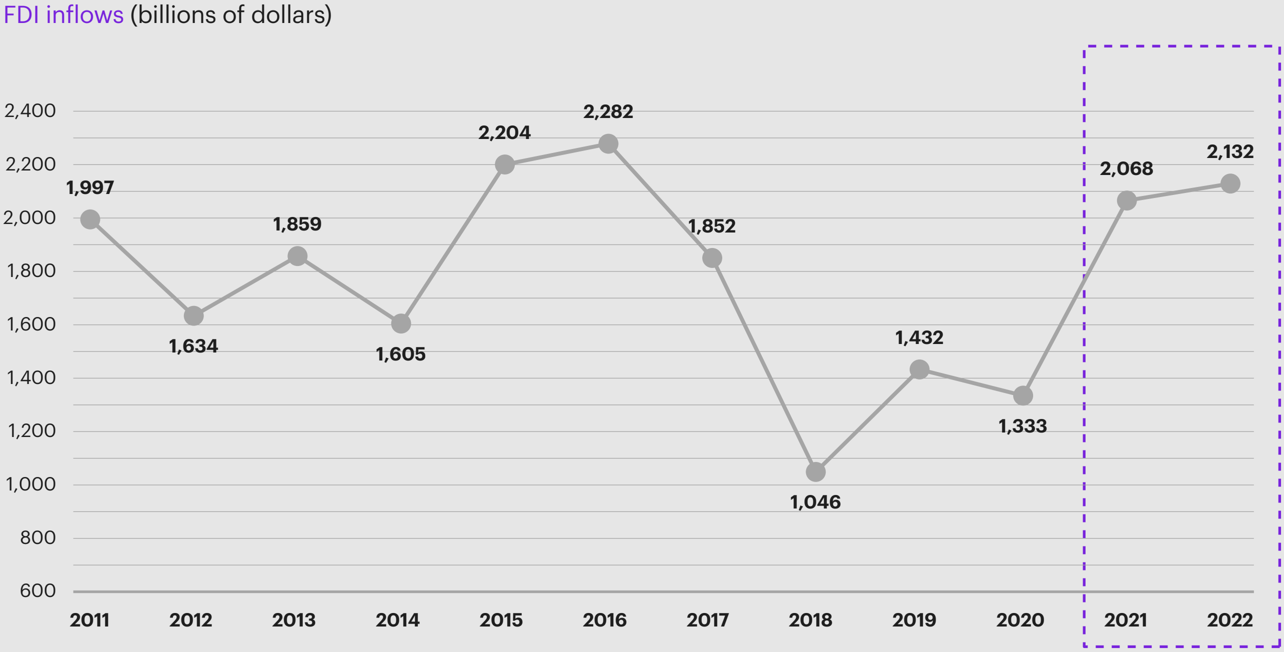
- **... but investors acknowledge that globalization is changing.** While investors believe in the benefits of globalization and expect it to strengthen, they also anticipate more regionalization over the next three years and that national governments will pursue strategies to increase self-sufficiency. Nevertheless, respondents expect FDI to increase. Roughly half indicated they intend to expand their global investment postures. These figures clearly reflect an awareness that while globalization will continue, its nature may shift as regionalization and self-sufficiency efforts proliferate.

The nature of globalization may shift as regionalization and self-sufficiency efforts proliferate.

The 2023 Foreign Direct Investment (FDI) Confidence Index

After three years of turbulence associated with COVID-19 disruptions, economic hardship, and geopolitical tensions in Eastern Europe, our survey was conducted at a comparatively stable point. In January, the economic outlook for 2023 was by no means robust—global output growth was projected at less than 2 percent—but there was still reason for guarded optimism. After months of economic projections suggesting a (potentially major) recession might be looming, the International Monetary Fund's *World Economic Outlook* update released in January stated that a global recession was no longer in its baseline. And, according to Oxford Economics, global FDI inflows in 2022 ticked up marginally from their estimated 2021 levels of $2.07 trillion to reach $2.13 trillion (see figure 1).

Figure 1
Global foreign direct investment inflows slightly increased year-over-year in 2022



Sources: 2023 Kearney Foreign Direct Investment Confidence Index, Oxford Economics; Kearney analysis

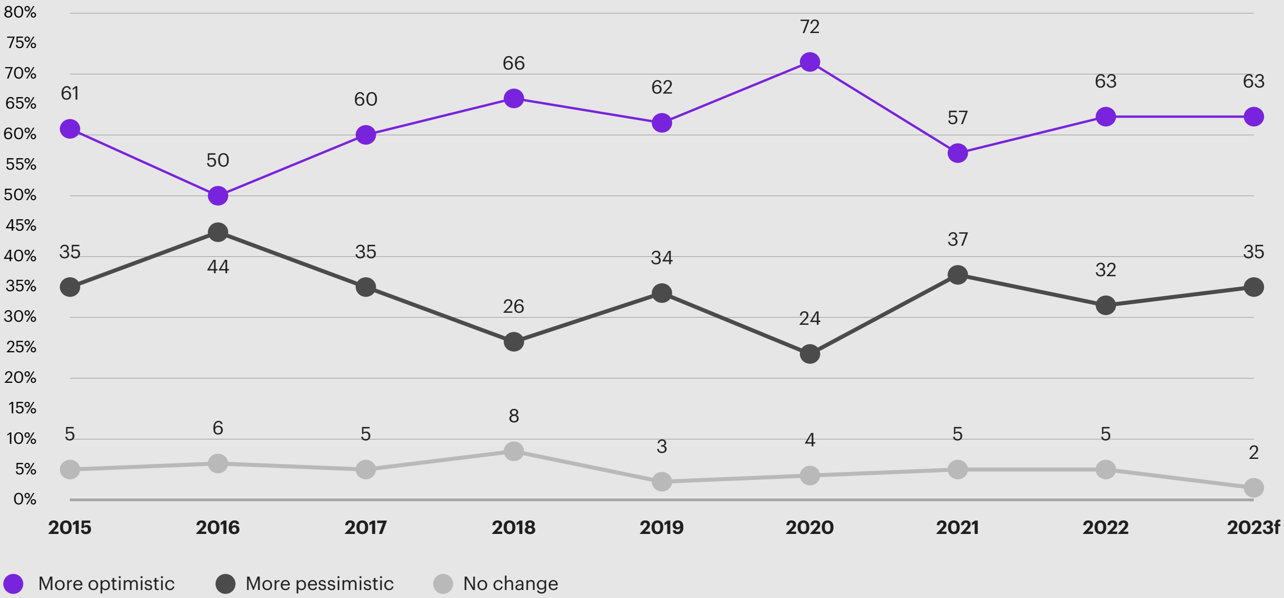
Against this backdrop, business leaders showed signs of optimism. More than three-quarters (82 percent) said they were planning to increase their FDI in the next three years—up marginally from 76 percent last year. Furthermore, 87 percent said they regarded FDI as more important to their corporate profitability and competitiveness in the next three years–up slightly from 83 percent in 2022. And investor perspectives on the outlook for the global economy were generally aligned with last year's results. While levels of pessimism ticked up slightly from 32 to 35 percent, nearly two-thirds of investors (63 percent) remained more optimistic than pessimistic about the global economy—precisely the same level as last year (see figure 2). Despite global economic headwinds on the back of supply chain disruptions and high inflation, investors were likely buoyed by indications that inflation was slowing, labor markets in key economies were rebalancing, and that China was reversing course on its zero-COVID policy.

Signs of optimism were also evident in our country rankings and scores. This year saw 13 of the top 25 countries in our rankings improve their absolute scores, though these gains were primarily concentrated in the highest-ranking countries (eight of the top 10). In contrast, 10 of the bottom 15 countries in the rankings saw their absolute scores decline, perhaps suggesting that the most established FDI destinations attracted the highest levels of confidence. Importantly, of the 12 countries that saw their scores decline from 2022, eight are based in Europe, likely reflecting investor worries about the impact of the Russia–Ukraine conflict.

We have entitled this year's Index *Cautious optimism* to reflect the generally positive outlook of investors regarding FDI and globalization—despite the profound economic and geopolitical shocks of the recent past. Yet signs of "caution" emerge in the softer scores for countries outside the top 10 of our rankings and, as will be explored later, in some lasting concerns about rising commodity prices, heightened geopolitical tensions, and political instability in emerging markets. As always, we believe the results of our 2023 FDI Confidence Index® provide valuable insights into investor thinking as they plan their investments over the next three years.

Figure 2
Investors expressed the same level of optimism in 2023 as in 2022

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



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Rankings

World rankings

This year's survey once again demonstrated investor preference for trusted and developed markets, which accounted for 19 out of 25 of the countries on the Index. Of the top 10 markets this year, eight were in the top 10 last year, and each with the exception of China is a developed market (see figure 3). This also marks the fifth consecutive year during which each of the top five positions in the rankings is held by a developed market. Emerging-market performance did improve overall this year, with China jumping three spots to 7th position and India (16th), Thailand (23rd), and Saudi Arabia (24th) rejoining the list after respective hiatuses.

For the 11th year in a row, the United States ranks first on the Index. This likely reflects investors' continued preference for the relative safety of the largest and most established developed country, especially in the context of a weak global economic environment. The uptick in the overall score of the United States may also be attributed in part to new government incentives for investment in the form of major legislation, such as the Inflation Reduction Act and increased implementation of the Bipartisan Infrastructure Law. Canada reclaims the second position after falling to third place in 2022, likely a result of recovery in non-housing investment. And Japan jumps to third place from a rank of fourth last year, perhaps buoyed by its ability to avoid a recession in the early part of 2023. Germany drops two spots to fourth, likely reflecting the economic and energy challenges it has faced due to the geopolitical crisis in Eastern Europe. The United Kingdom maintains the fifth position, with France following closely behind. China jumps from 10th to 7th position, likely reflecting optimism that the country will rebound rapidly as it emerges from the economically restrictive zero-COVID policy.

Figure 3
Developed markets account for 19 of the 25 spots on the Index

Source: 2023 Kearney Foreign Direct Investment Confidence Index

Singapore sees the largest increase in rankings, rising from 18th to 9th position, as a result of its higher-than-expected growth in 2022, which reached 3.6 percent and far exceeded the advanced economy average of 2.6 percent. Investors were perhaps also optimistic about improvements in the country's tech exports, which appear poised to increase amid rebounding external demand. Other notable changes in 2023 include the re-emergence of India, Thailand, and Saudi Arabia on the Index at 16th, 23rd, and 24th, respectively.

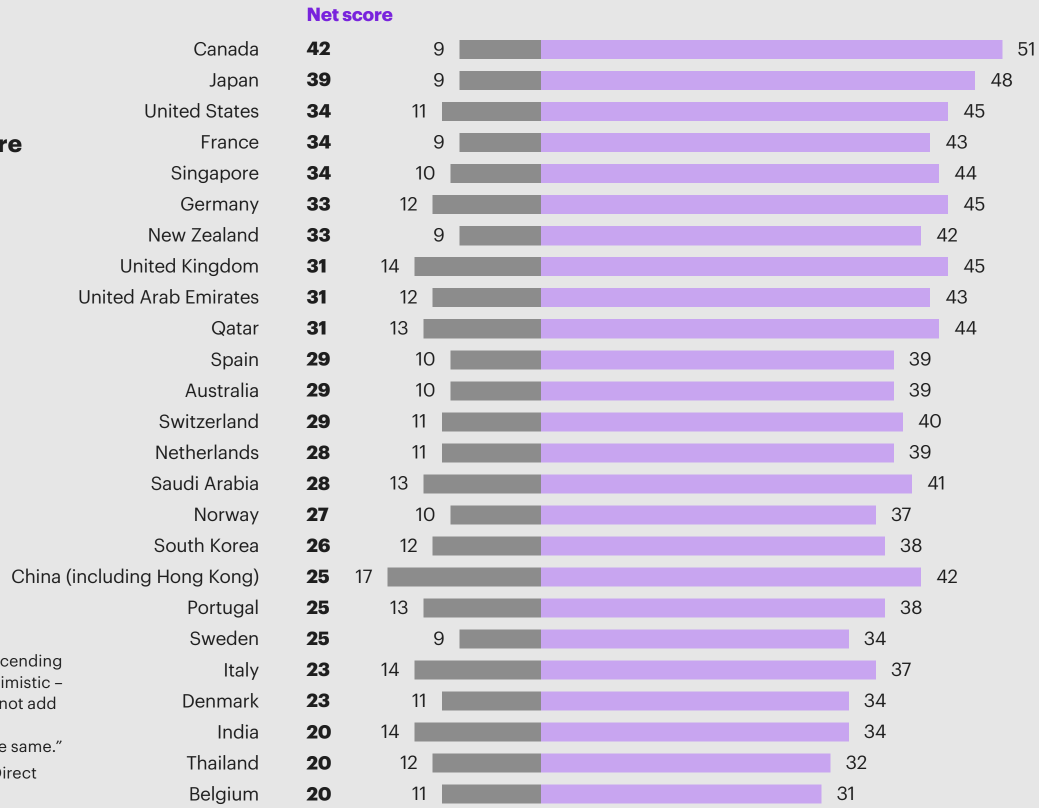
The regional breakdown of our results shows Europe retaining the greatest share of the top 25 markets, with 12 economies representing nearly one-half of the top 25. As significant as that percentage is, it represents a decline from recent years, as 14 European markets appeared on the 2022 list and 15 in 2021. This could be due to the recessionary pressures facing many of these markets amid the current geopolitical turbulence and high inflation in the region. Asia Pacific has the second strongest showing with eight markets represented on our Index—up two from 2022 with the addition of India and Thailand. As mentioned, China jumps three spots to 7th, and Japan climbs from fourth to third, and, in a massive leap, Singapore soars from 18th in 2022 to 9th. India's re-emergence on the Index at 16th after a three-year hiatus is also noteworthy and is likely spurred by the country's robust growth prospects, with expected growth averaging 6.3 percent over the next three years (far exceeding the global expected average of 2.5 percent). Thailand's re-emergence at 23rd place—after a five-year absence—is due in part to its economic resilience, with its tourism sector recovery and private consumption remaining the major drivers of growth.

The Americas sees just the United States and Canada make the Index this year, with Brazil dropping off after ranking 22nd last year. And the Middle East and North Africa is represented by three markets, with Saudi Arabia (24th) joining Qatar (21st) and the United Arab Emirates (18th). Saudi Arabia likely re-emerged as a result of its high growth of 8.7 percent in 2022 combined with sweeping pro-business reforms, a sharp rise in oil prices, and production power recovery following a pandemic-induced recession. Qatar's jump from 24th to 21st is probably reflective of continued optimism and excitement following its hosting of the 2022 FIFA World Cup. And the United Arab Emirates, despite dropping four notches from 2022, remains attractive to investors, especially on the back of Dubai's early January 2023 announcement of an $8.7 trillion economic plan to boost trade, investment, and promote its status as a global hub.

Investor optimism regarding the countries on this year's Index is almost completely in line with the average net optimism level last year (see figure 4 on page 8). However, in absolute terms, only 11 out of 25 saw their overall scores improve relative to last year versus nearly two-thirds of countries on the list in 2022. Canada, Japan, the United States, France, and Singapore make up the top five countries on this list as the geographies with the most optimistic economic outlook in net terms. However, both Canada and the United States saw very slight declines in net scores (one and two points, respectively) compared with their 2022 results. France and Singapore were the only two out of the top five countries to register an increased net optimism score year-over-year. These lower net optimism scores could be a function of the low economic growth forecast in advanced economies this year, with minor recessions expected in several key economies throughout the world.

Figure 4
Optimism is highest in Canada, Japan, the United States, France, and Singapore

Optimism ranking
(percent)



More pessimistic

More optimistic

Note: Countries are listed in descending order of the net score (more optimistic – more pessimistic). Numbers do not add up to 100 because remaining respondents selected “about the same.”

Source: 2023 Kearney Foreign Direct Investment Confidence Index

Emerging market rankings

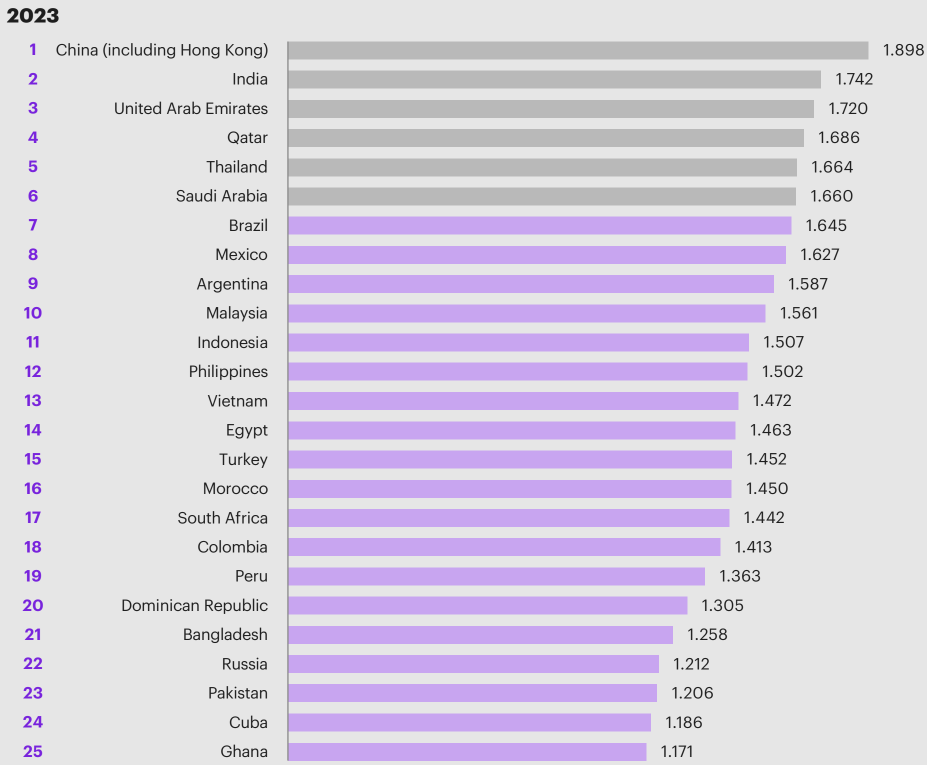
For the first time in the 25-year history of the FDI Confidence Index®, we are pleased to include an exclusive emerging market ranking to give business leaders insights into which emerging markets are most appealing to investors now and over the next three years (see figure 5 on page 9). China, India, the United Arab Emirates, Qatar, Thailand, and Saudi Arabia make up the top six positions, and they are the only emerging markets included in the world rankings. Beyond these top six, Latin America makes a strong showing, with Brazil, Mexico, and Argentina taking the 7th, 8th, and 9th positions, respectively. Southeast Asia also performs strongly, with Malaysia, Indonesia, the Philippines, and Vietnam taking the 10th through 13th positions. Their strength, along with that of Thailand, could reflect an uptick in investors pursuing strategies to diversify their regional investments to boost supply chain resilience in a period of heightened geopolitical uncertainty.

Bangladesh, Russia, Pakistan, Cuba, and Ghana make up the bottom five among the emerging market rankings. Russia is a notable case study, as its overall score fell from 1.622 in 2022 (immediately prior to the onset of the Russia–Ukraine conflict) to just 1.212 this year. This decline suggests that investors are spooked predictably by geopolitical crisis, a finding that is confirmed by the country’s net optimism score of -13 (see figure 6 on page 9). While net optimism levels overall for emerging markets are lower than for their counterparts in the developed markets, investors are more optimistic than pessimistic about most emerging markets on the list, with Southeast Asia showing particular promise.

Figure 5

Brazil, Mexico, and Argentina top the ranks of emerging markets that did not make the main Index, followed by four Southeast Asian countries

Emerging market rankings



World rankings

Emerging market rankings

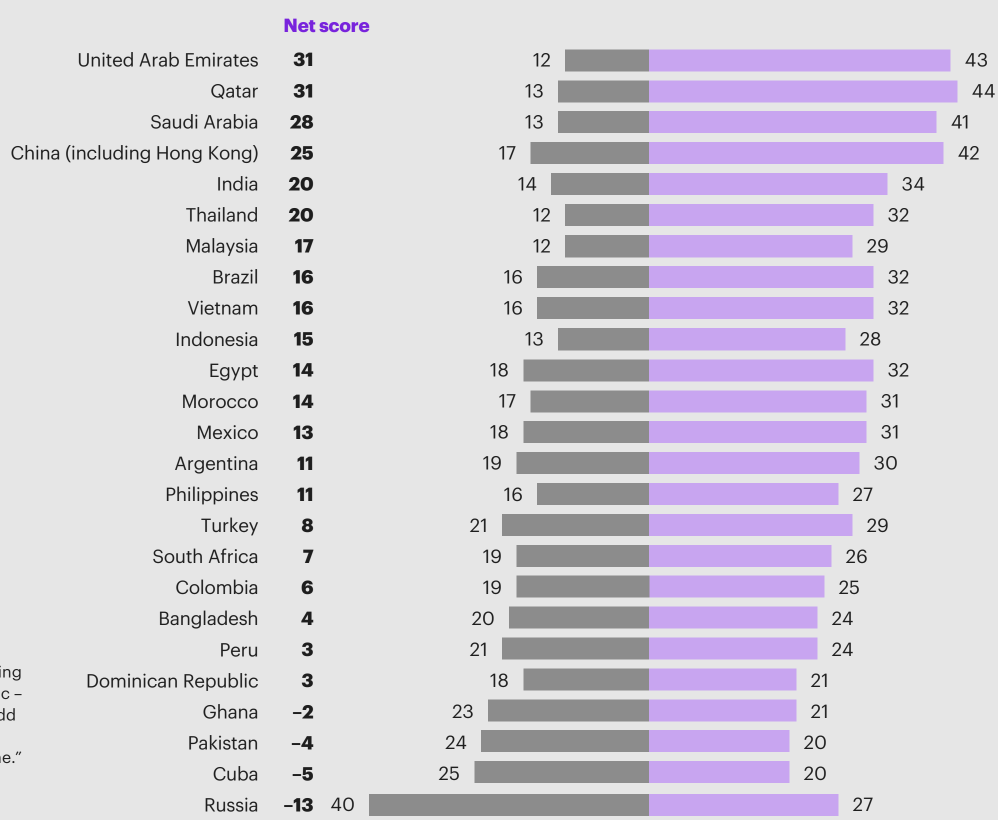
Notes: Emerging markets are classified using the World Bank's country classification system. For our purposes, emerging markets are considered any markets that fall below the "high income" category.

Source: 2023 Kearney Foreign Direct Investment Confidence Index

Figure 6

In emerging markets, optimism is highest in the United Arab Emirates, Qatar, and Saudi Arabia

Optimism ranking (percent)



More pessimistic

More optimistic

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

Source: 2023 Kearney Foreign Direct Investment Confidence Index

Investors continue to prioritize transparency of government regulations, tech capabilities, and tax rates in making investment decisions

For the second consecutive year, the top three factors that investors prioritize when choosing where to make their FDI are transparency of government regulations, technological and innovation capabilities, and tax rates and ease of tax payments (see figure 7). For European and Americas-based investors, the top-ranked rationale when choosing where to make foreign direct investments is transparency of government regulations and lack of corruption. This likely reflects the European Union's focus on regulatory compliance, whether it be in terms of data transfer through GDPR legislation or business best practices. Asian investors, on the other hand, rank tax rates and ease of payment most highly when choosing where to make their FDI.

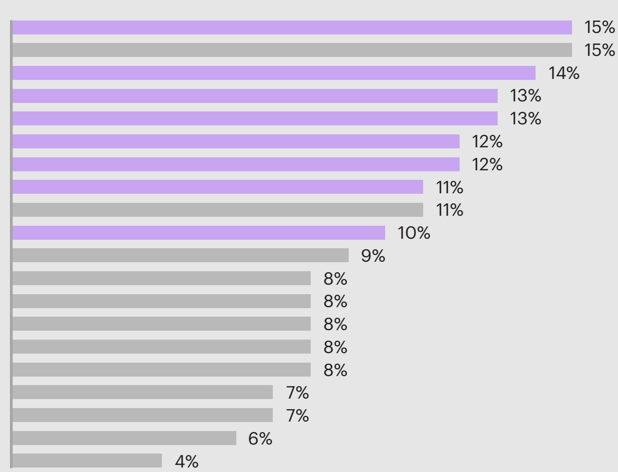
We also probed investors on their reasons for choosing not to invest in a certain market type: developed, emerging, or frontier (see figure 8 on page 11). The results varied widely. Availability (or presumably, lack thereof) of raw materials and other inputs was listed as the top reason (40 percent) why investment in developed markets was not being considered. And political instability (38 percent) was listed as the top reason by far why investors were not considering placing FDI in emerging markets. Finally, investors cited infrastructure quality (36 percent) as the primary factor blocking their investments in frontier markets.

Figure 7

Transparency of government regulations and lack of corruption as well as technological and innovation capabilities are 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? (percent)

Rank 2022	Rank 2023		
1	**1**	Transparency of government regulations and lack of corruption	15%
2	**2**	Technological and innovation capabilities	15%
3	**3**	Tax rates and ease of tax payment	14%
6	**4**	Efficiency of legal and regulatory processes	13%
8	**5**	Government incentives for investors	13%
4	**6**	Ease of moving capital into and out of the country	12%
10	**7**	Country's participation in regional/bilateral trade agreements	12%
5	**8**	Strength of investor and property rights	11%
7	**9**	General security environment	11%
18	**10**	Research and development capabilities	10%
14	**11**	Quality of digital infrastructure	9%
9	**12**	Talent/skill level of labor pool	8%
12	**13**	Availability of raw materials and other inputs	8%
13	**14**	Availability of financial capital in domestic market	8%
15	**15**	Cost of labor	8%
17	**16**	Domestic economic performance	8%
11	**17**	Domestic market size	7%
-	**18**	Diversified supply chain	7%
16	**19**	Quality of physical infrastructure	6%
19	**20**	Availability of land/real estate	4%

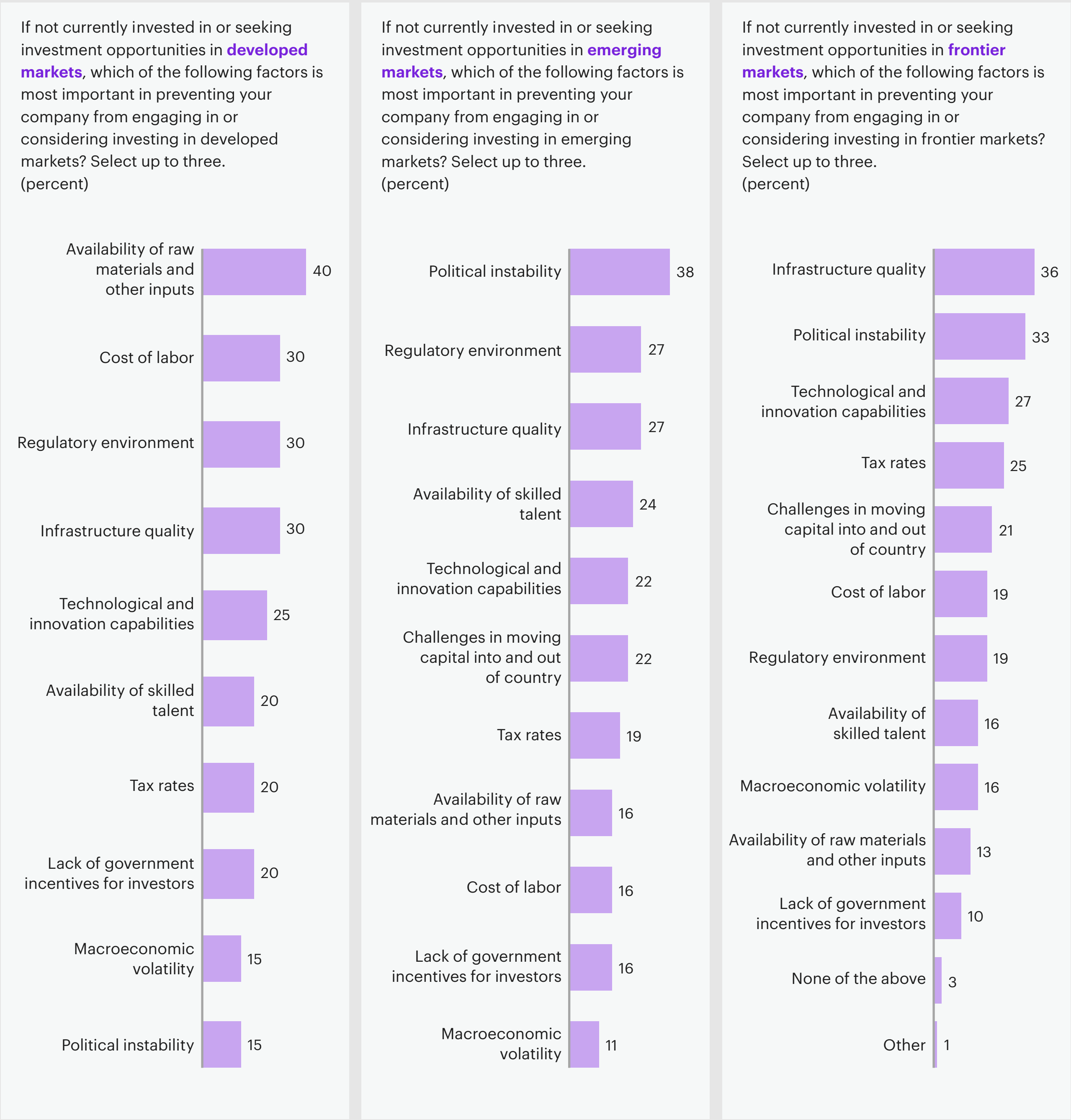


Market asset and infrastructure factors   Governance and regulatory factors

Source: 2023 Kearney Foreign Direct Investment Confidence Index

Figure 8

Reasons vary widely for not investing in developed, emerging, and frontier markets



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Risks and likely developments

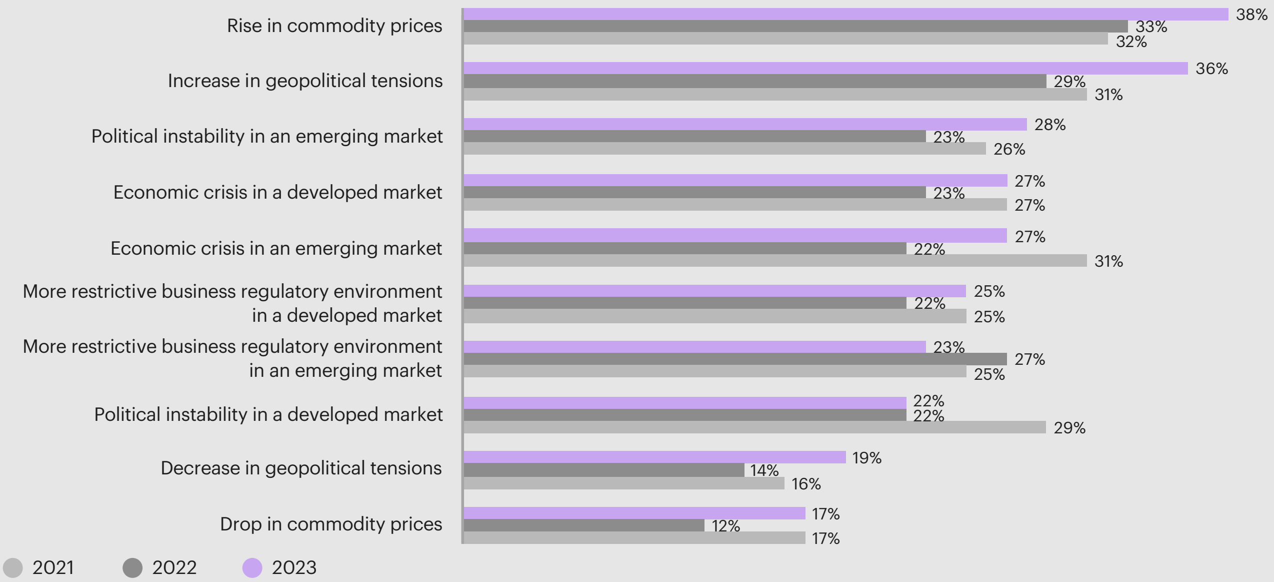
Investors see a rise in commodity prices, an increase in geopolitical tensions, and political instability in an emerging market as the most likely risks this year (see figure 9). These concerns are likely the result of the Russia–Ukraine conflict and the continuing reverberations of the pandemic as well as subsequent commodity price volatility and high inflation. Indeed, global inflation reached a striking 7.8 percent in 2022 and, while currently declining, is still anticipated to remain above 5 percent in 2023. And energy prices reached unprecedented levels, in Europe especially. Between February and July 2022 as the conflict in Ukraine unfolded, European gas and electricity wholesale prices increased by 115 percent and 237 percent, respectively. While prices have since fallen significantly from these highs, markets are suggesting further volatility in 2023 as the conflict continues, with futures contracts predicting that European natural gas prices will remain elevated above pre-conflict levels.

Aside from the ongoing conflict in Eastern Europe, the results reflect concern about heightening geopolitical tensions between Washington and Beijing, which do not appear to be dissipating. Outside of US–China relations, global cybersecurity concerns are also likely contributing to investor concern about geopolitical tensions. Global cyberattacks rose 38 percent in 2022, with the most attacked countries being the United Kingdom (77 percent increase), the United States (57 percent increase), and Singapore (26 percent increase) over the previous year.

Also weighing on investors' minds is political instability in emerging markets. This could be related to Latin American countries such as Brazil and Peru, where political violence and widespread protests, respectively, are causing frictions. Further, the Middle East and adjacent countries have also been home to instability, namely with the mass protests in Iran and significant governance challenges in Afghanistan as the Taliban reassert control.

Figure 9
Investors see commodity price increases, an increase in geopolitical tensions, and political instability in an emerging market as the most likely developments in the next year

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



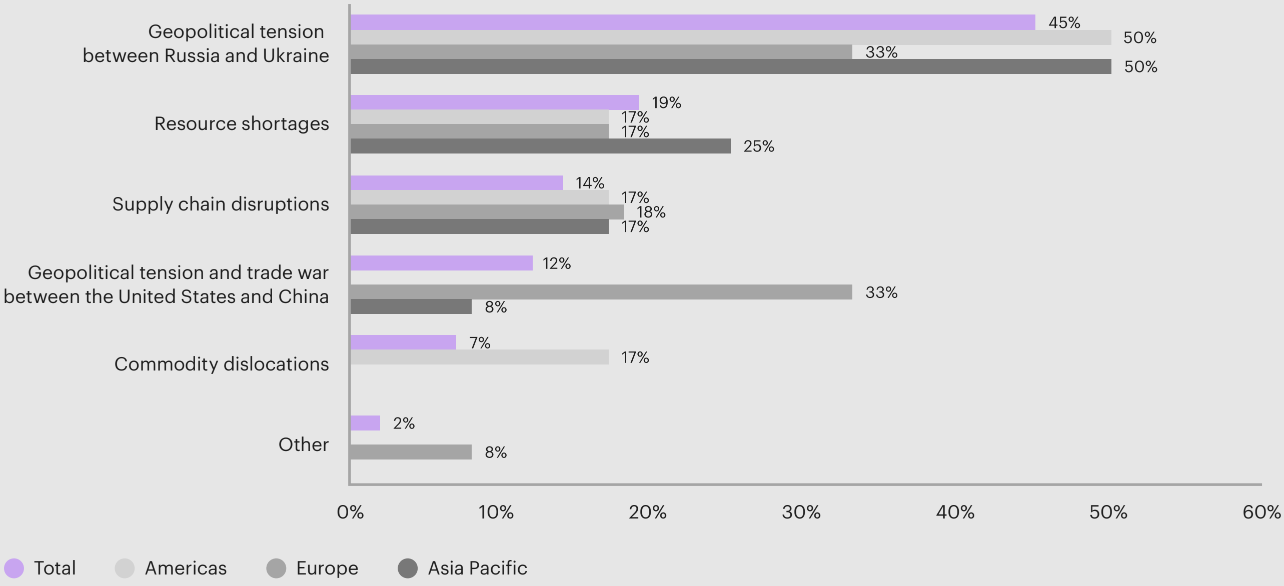
Sources: 2023 Kearney Foreign Direct Investment Confidence Index, 2022 Kearney Foreign Direct Investment Confidence Index, 2021 Kearney Foreign Direct Investment Confidence Index

We also probed investors this year on how friendshoring and nearshoring is affecting their investment decisions. Of the 12 percent of investors who said friendshoring and nearshoring is indeed impacting their FDI decisions, a plurality (45 percent) said the primary reason behind this is the conflict between Russia and Ukraine (see figure 10). Investors based in Europe and Asia are especially concerned about how these tensions are impacting their FDI decisions, with 50 percent from each group expressing worries about the conflict. Notably, 33 percent of European investors who are impacted by friendshoring or nearshoring also said geopolitical tensions and the trade war between the United States and China was a key driver, likely a reflection of the deep economic ties many European countries maintain with both countries.

Investors anticipate a rise in commodity prices and increased geopolitical tensions in the year ahead.

Figure 10
Tensions between Russia and Ukraine are having a significant impact on investor nearshoring and friendshoring decisions

If nearshoring and friendshoring is impacting your FDI decisions, what are the primary drivers behind this?



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Globalization remains central to global companies' operations, and most expect the trend to continue

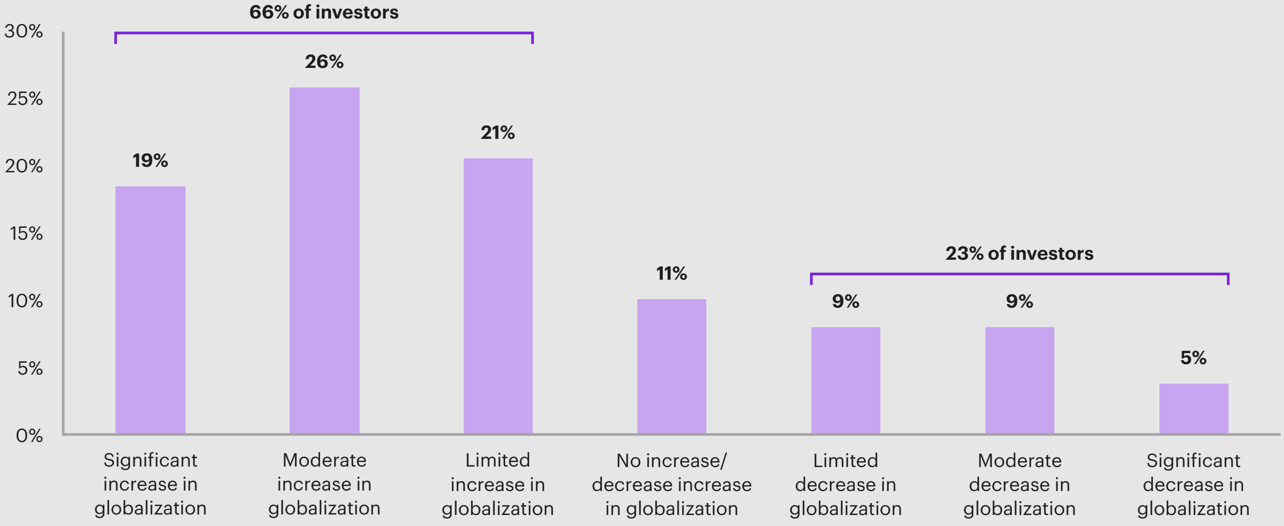
This year's survey results suggest globalization is and will remain a central force in foreign direct investment in the years ahead. A strong majority of respondents (66 percent) anticipate an increase in globalization over the next three years, with only 23 percent anticipating a decrease (see figure 11). Those expecting an expansion of globalization point to a combination of connected digital infrastructure alongside growing trade opportunities and limited trade barriers as the primary driving forces. This is likely a result of the striking proliferation in digital trade and services (especially for telecom and IT) throughout the pandemic period and a reflection of the rebound in trade to surpass pre-COVID levels beginning in 2021.

This optimistic outlook may also be fueled in part by the finding that nearly 80 percent of investors surveyed indicated their business operations are dependent on highly globalized value chains. Furthermore, more than 90 percent of investors dependent on globalized value chains are confident they can maintain these global linkages over the next three years. For all the discussion of a reversal in globalization, or even a deceleration, these businesses appear steadfast in their conviction to stay the course with a globalized system that 80 percent believe is beneficial to their companies.

Figure 11

Two-thirds of investors anticipate an increase in globalization over the next three years, while nearly one quarter expect a decrease

How would you characterize the state of globalization over the next three years? Do you believe globalization is increasing, decreasing, or staying the same? (percent)



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Still, the survey findings did reveal concerns about the longer-range outlook for globalization. Among the 23 percent of investors anticipating a deceleration of globalization in the years ahead, increased trade barriers, supply chain disruptions, and a less stable geopolitical outlook were viewed as the most significant drivers (see figure 12). For these investors, global headwinds continue to be top of mind—and for good reason. Rising self-sufficiency measures have caused friction among key trading partners, notably the United States and European Union, and global supply chain pressures largely remain elevated over pre-pandemic levels. A sizeable portion of investors are indeed tempering their optimism in light of continued economic and geopolitical challenges.

Despite this view among some investors, the central role of globalization is evident in the investment posture of respondents, with a majority (56 percent) characterizing their company's primary investment strategy as globalized. Furthermore, 82 percent of these respondents expect to either expand or maintain a globalized strategy over the next three years. Even for companies whose primary investment postures are regionalized in nature, more than a third of these investors expect a shift to a more globalized configuration in the coming years.

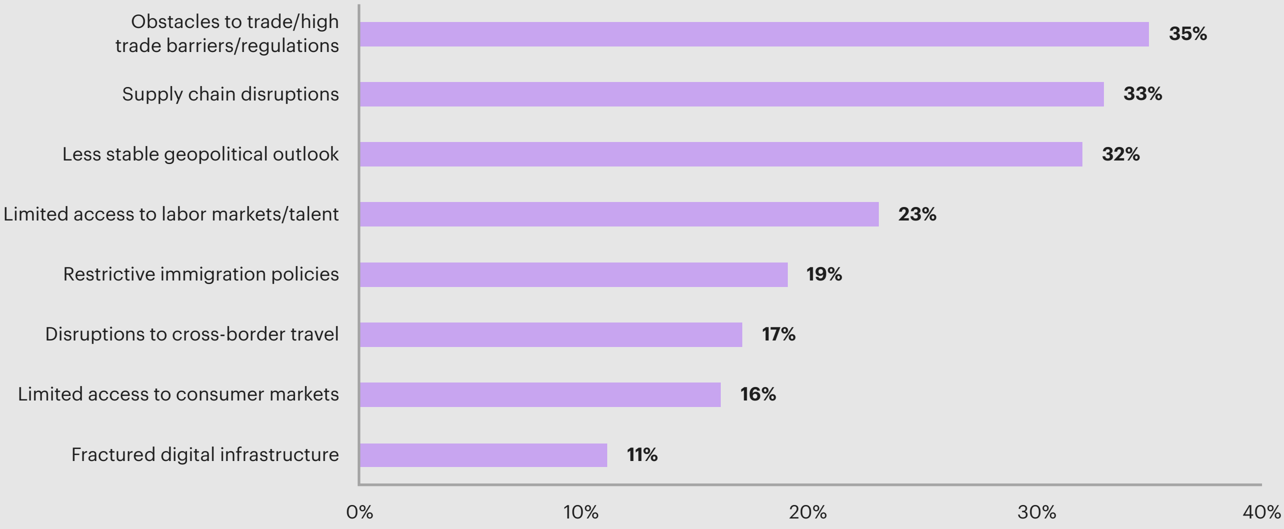
Regional variations

Despite being in general agreement on the importance of globalization for their companies, respondents revealed sharply diverging views on the regional nature of and outlook for globalization and FDI. Across several measures, respondents from the Asia Pacific (APAC) region generally showed the most bullish and favorable views on their companies' ability to continue to benefit from global linkages. The Americas generally followed closely behind APAC, while Europe showed the most pessimism relative to their counterparts. These differences may be reflective of the unique opportunities and challenges facing each region economically and geopolitically. APAC's strong optimism, for example, may mirror the region's strong post-pandemic recovery, relatively high near-term growth prospects, and generally robust dynamism. In contrast, many economies in Europe are likely to contend with recessions in the year ahead.

Figure 12

Investors who anticipate deglobalization cite trade barriers, supply chain disruptions, and a less stable geopolitical outlook as the most significant factors responsible for this trend

If you anticipate a decrease in globalization over the next three years, what factors are most responsible for this decrease?



Source: 2023 Kearney Foreign Direct Investment Confidence Index

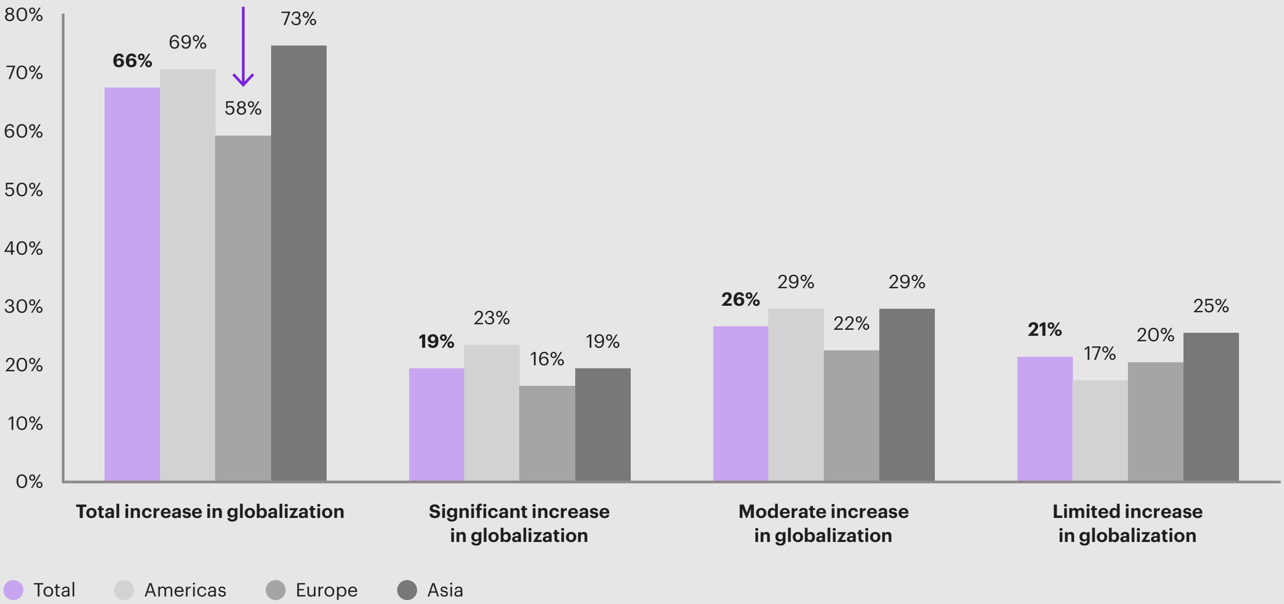
Several of our results appear to support this finding. While 73 percent of APAC respondents and 69 percent of those surveyed in the Americas expected an increase in globalization over the next three years, only 58 percent in Europe shared this view (see figure 13). Europe also showed relatively less optimism when asked about globalization being beneficial to companies in three years, with 71 percent answering affirmatively, compared with 84 percent for the Americas and 82 percent for APAC. On the question of confidence in the ability to maintain global value chains over the next three years, APAC respondents expressed the highest degree of optimism (95 percent), followed by the Americas (93 percent), and Europe (86 percent). Europe's relative pessimism may be attributed in part to heightened perceptions of trade barriers, the most cited factor in Europe for decreasing globalization.

Differing regional views on the factors supporting globalization also emerged. While 40 percent in the Americas believed trade opportunities and low trade barriers and regulations to be most responsible for increasing globalization over the next three years, only 28 percent in APAC and 22 percent in Europe shared this view. This divergence may reflect relatively low regulatory burdens in the United States and Canada as well as open trade relations established by the United States–Mexico–Canada Agreement (USMCA). Similarly, Europe cited "access to consumer markets" as a leading driver of globalization (28 percent versus 21 percent and 18 percent for APAC and the Americas, respectively), likely reflecting the importance of the European Union single market for European companies. And 38 percent of respondents in APAC believe an increase in geopolitical tensions is more likely to occur in the next year, slightly higher than in Europe (34 percent) and in the Americas (35 percent), suggesting APAC investors may be most acutely attuned to rising geopolitical risk inside and out of the region.

Figure 13

Europe shows comparatively less optimism regarding an increase in globalization over the next three years

Characterization of the state of globalization over the next three years (percent)



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Investor sentiment suggests an awareness that globalization is changing

While investors overwhelmingly believe in the benefits of globalization and expect it to strengthen, they also believe that more regionalization is likely to emerge over the next three years. In addition, investors indicated that governments need to become more self-sufficient to build resilience (see figure 14). Still, respondents largely expect FDI to increase and roughly half intend to expand their global investment postures. These figures likely reflect an awareness that while globalization will continue, its nature may shift as regionalization and self-sufficiency efforts proliferate—and potentially create turbulence in the coming years.

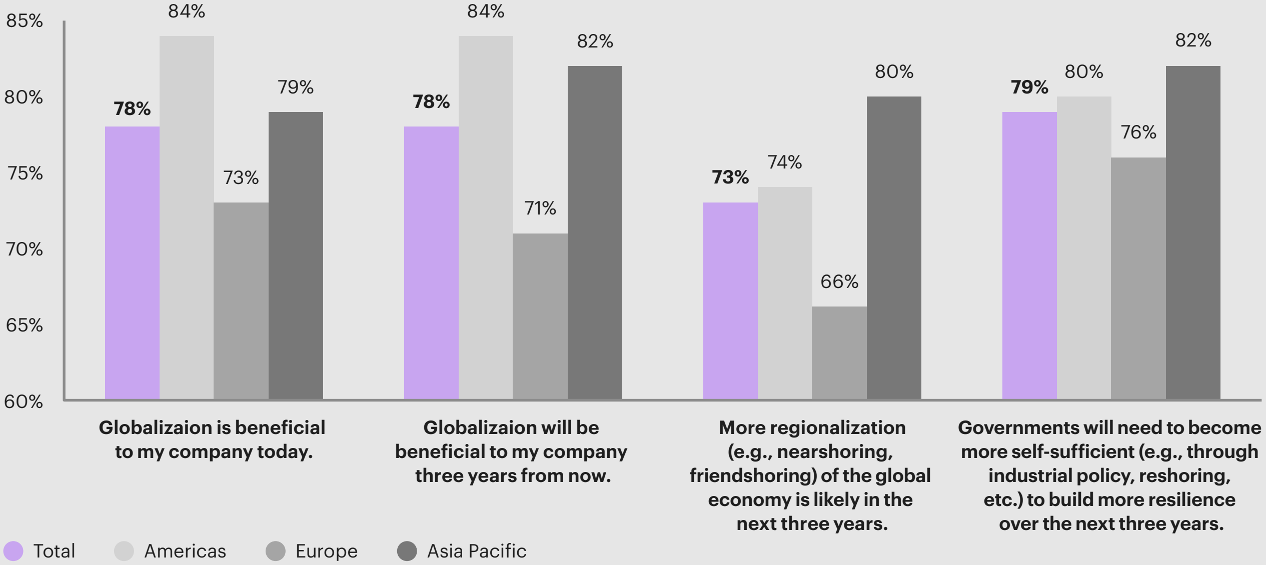
Moreover, the factors chosen by investors as most responsible for increasing globalization in the coming years have considerable degrees of uncertainty, highlighting the ongoing downside risks to globalization. As noted above, a plurality (33 percent) of respondents who expect a rise in globalization over the time frame identified connected digital infrastructure as the factor most likely to increase globalization over the time frame. While technological improvements are certainly driving digital connectivity, significant headwinds from rising data protection policies to digital services taxes to increasingly diverging regulatory regimes may challenge connected digital infrastructure in years ahead. The second most cited factor, trade opportunities and low trade barriers and regulations (identified by nearly 30 percent of respondents who expect an increase in globalization), contrasts with a broader retreat from trade liberalization and rising industrial policies in many of the world's key economies. And while 23 percent of these respondents expect a more stable geopolitical outlook to drive globalization, clear and ongoing geopolitical headwinds, notably the Russia–Ukraine conflict and US–China tensions, call this into question.

Indeed, investor optimism on the prospects of globalization and FDI remains strong, though recognition of growing regionalization trends and persistent headwinds in the global operating environment suggests an expectation of turbulence in the path ahead.

Figure 14

Though investors agree that globalization will continue to be beneficial to their companies, they also believe more regionalization and government self-sufficiency are likely over the next three years

Do you agree with the following statements about globalization? (percent agree)



Source: 2023 Kearney Foreign Direct Investment Confidence Index

Conclusion and business implications

Topline results from the 2023 FDI Confidence Index® suggest that investors remain broadly positive on the prospects for FDI, globalization, and global economy. Indeed, strong majorities expect their companies' level of FDI to increase over the next three years, and nearly two-thirds are more optimistic than pessimistic on the global economic outlook.

Nonetheless, recognition of key risks in the global economy, expectations of rising regionalization, and awareness of a need for increased government self-sufficiency policies suggest a degree of caution in the investment outlook. Moreover, investors appear to be bracing for an evolving globalization that, while remaining robust, will increasingly coexist and compete with self-sufficiency and resilience efforts.

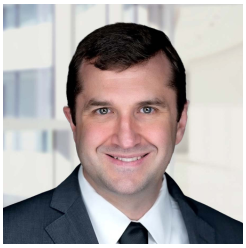
In this environment, it stands to reason that increases to FDI scores were most concentrated in eight of our top 10 ranked countries. Investors see significant risk in rising commodity prices and increased geopolitical tensions while prioritizing markets with transparent government regulations, a lack of corruption, and established technological capabilities. Countries at the top of the Index, such as the United States, Canada, and Japan, are established leaders in each of these areas. And while the number of emerging markets on the Index rose by two over last year, overall scores were generally softer for countries outside the top 10. This suggests a mixed picture of investors tentatively exploring new markets while sticking most closely to established destinations.

Despite these caveats, results also reflect rising economic dynamism in Asia and the Middle East. With the addition of Thailand and India to this year's Index, investors may be increasingly bullish on Asia's economic prospects, particularly given India's vast economic potential and Thailand's recent gains in manufacturing. Singapore's surge from 18th on last year's Index to 9th place this year reflects the country's importance as a major trading hub—as well as its strategic position between the United States and China. Moreover, the arrival of Saudi Arabia this year to the Index, along with the United Arab Emirates and Qatar (which rose three places this year) remaining in the top 25, suggests strong investor sentiment regarding these Gulf states' ambitious economic reform agendas and their increasing importance in global energy markets.

The picture emerging from this year's FDICI gives reason for both promise and concern in the global economic and investment outlook, highlighting the need for strategic businesses to plan for turbulent and potentially unexpected shifts in globalization. Indeed, companies will continue to benefit from the vast and deeply interconnected global economic linkages built up over past decades—though rising regionalization and fragmentation will also call for updated and creative game plans. Ultimately, thriving in the future will require close surveillance of the quickly evolving risks and opportunities around the shifting nature of globalization.

Authors

Erik Peterson
Partner and managing director of the Global Business Policy Council, Washington, D.C.
erik.peterson@kearney.com



Terry Toland
Consultant, thought leadership, Global Business Policy Council, Washington, D.C.
terry.toland@kearney.com

The authors wish to thank Gabriella Huddart and Kevin Wolfe for their valuable contributions to this report.

Appendix

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 2023 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 2023. 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 50 percent of respondents, industrial firms for 37 percent, and IT firms for 12 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**.**

Kearney is a leading global management consulting firm. For nearly 100 years, we have been a trusted advisor to C-suites, government bodies, and nonprofit organizations. Our people make us who we are. Driven to be the difference between a big idea and making it happen, we help our clients break through.

kearney.com

KEARNEY
Global Business Policy Council