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Annual Report on Investment Climate and Opportunities in OIC Countries | 2023

The Role of IPAs in the Digital Economy and Digitalization of Investment Services

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FDI in the Digital Economy and Digitalization of Investment Services

Islamic Centre for Development of Trade (ICDT)
& Islamic Development Bank (IsDB)
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Annual Report on Investment Climate and Opportunities in OIC Countries 2023: FDI in the Digital Economy and Digitalization of Investment Services

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Acronyms

AI	Artificial intelligence
APIEx	Investment and Export Promotion Agency of Benin
AR	Augmented reality
B2B	Business-to-business
B2C	Business-to-consumer
B2G	Business-to-government
BIDA	Bangladesh Investment Development Authority
BRICS	Brazil, Russia, India, China, South Africa
CAGR	Compound annual growth rate
COI	Complexity Outlook Index
CRM	Customer relationship management
CWFDI	Country Watch Foreign Investment Index
ECI	Economic Complexity Index
EDGI	E-Government Development Index
EU	European Union
FDI	Foreign direct investment
FIPA	Foreign Investment Promotion Agency of Tunisia
FVA	Foreign-added value
G7	Canada, France, Germany, Italy, Japan, United Kingdom United States
GAFI	General Authority for Investment and Free Zones of Egypt
GCI	Global Competitiveness Index
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GIEPA	Gambia Investment & Export Promotion Agency
GII	Global Innovation Index
GTMI	GovTech Maturity Index
GVC	Global value chain
HS	Harmonized system
ICDT	Islamic Centre for Development of Trade
ICT	Information and communications technology
IMF	International Monetary Fund
IMF CIDS	IMF Coordinated Direct Investment Survey
IoT	The Internet of Things
IPA	Investment promotion agency
IsDB	Islamic Development Bank
IT	Information technology
ITU	International Telecommunication Union
KPIs	Key performance indicators
M&A	Mergers and acquisitions
ME	Multinational enterprise
MIDA	Malaysia Investment Development Authority
MR	Multilateral resistances
OECD	Organisation for Economic Co-operation and Development

OIC	Organisation of Islamic Cooperation
OLS	Ordinary least squares
PPML	Poisson Pseudo-Maximum Likelihood
R&D	Research and development
RCA	Revealed Comparative Advantage
SMEs	Small and medium-sized enterprises
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
VR	Virtual reality
WAIPA	World Association of Investment Promotion Agencies
WEF	World Economic Forum
WTO	World Trade Organization

Message from ICDT

The Islamic Centre for Development of Trade (ICDT) is pleased to present the second edition of the "Annual Report on Investment Climate and Opportunities in OIC Countries 2023." This year's report focuses on the theme "FDI in the Digital Economy and Digitalization of Investment Services," highlighting the transformative impact of digitalization on foreign direct investment (FDI) trends within the OIC countries.

FDIs are increasingly recognized as significant contributors to national income generation, employment opportunities, and the accumulation of skills, capital, technology, and trade development. Like many others, OIC countries seek to attract FDIs to foster economic growth and development while ensuring sustainability.

This report aims to lay the foundation for implementing ICDT commitments to enhance investments among OIC countries. It provides a comprehensive overview of FDI trends in the digital economy and the digitalization of investment services to promote intra-OIC investment flows.

In an era where digital technologies are reshaping economies worldwide, OIC countries must harness the potential of FDI in the digital economy. This report investigates the evolving landscape of FDI dynamics and explores the factors influencing FDI inflows to OIC nations. It also examines inter-OIC investments, analyzes the development of digital economies within OIC member states, and underscores the pivotal role of digital technologies in fostering FDI attraction.

By embracing digital technologies, OIC countries can further enhance their attractiveness to foreign investors and drive sustainable economic growth. On the other hand, while digitalization has brought numerous benefits, it also presents challenges that must be addressed. Cybersecurity threats, data privacy concerns, and digital infrastructure gaps are key challenges OIC countries must overcome to fully leverage the potential of FDI in the digital economy. However, these challenges also present opportunities for innovation and collaboration to create a more secure and robust investment environment.

In this edition, ICDT has emphasized the crucial role of Investment Promotion Agencies (IPAs) and the digitalization of investment promotion services offered

by IPAs across OIC countries. A comprehensive survey was conducted with OIC IPAs to delve deeper into the landscape of investment promotion services within OIC countries. The insights gathered from this survey have provided valuable data and perspectives that have enriched the content of this report. ICDT sincerely thanks all the OIC IPAs who participated in and supported the survey conducted for this report.

One of the key advantages of this report is its comparability between OIC countries, which allows authorities to understand how their FDI policies have developed and to learn from best practices. The report serves as a valuable resource for policymakers, investors, and stakeholders seeking to understand and leverage the evolving investment climate within OIC countries.

The ICDT hopes that this report will provide valuable insights and inspire collaborative efforts towards fostering a conducive investment climate that harnesses the potential of digitalization for sustainable economic growth within OIC countries. I encourage OIC countries to host ICDT Invest Days to enhance their intra-OIC investment flows.

Mrs. Latifa El Bouabdellaoui
Director General,
Islamic Centre for Development of Trade

Message from IsDB

It is a great honor and privilege to present the comprehensive Annual Report titled "Investment Climate and Opportunities in OIC Countries-2023: The Role of IPAs in the Digital Economy and Digitalization of Investment Services". This report provides an in-depth analysis of the investment landscape in OIC Member States and highlights the pivotal role of investment promotion agencies (IPAs) amidst the evolving digital economy.

As we are at the intersection of technological advancement and economic transformation, the need for investment in the digital economy cannot be overlooked. Given the dynamic and young population in the OIC countries and the growing number of IT-enabled technologies and solutions, the role of the digital economy is becoming more important than ever.

This report is an important tool in our collective endeavor to promote inclusive economic development and lead the OIC countries to greater prosperity. The key findings of the report emphasize the critical importance of improving the investment climate through targeted policy measures, regulatory reforms, and strategic investments in digital infrastructure. By harnessing the power of digitalization, OIC countries can open new avenues for foreign direct investment, facilitate cross-border trade and foster vibrant ecosystems for entrepreneurship and innovation.

The report highlights the indispensable role of IPAs in navigating the complexities of the digital economy and enabling seamless investment experiences. IPAs act as intermediaries between the private sector and governments and provide important investment-related services. However, the report's findings underscore the importance of equipping IPAs in OIC countries with the necessary knowledge, digital tools, and skills to realize their full potential and adapt to the evolving global business environment.

The Islamic Development Bank (IsDB) recognizes the importance of digital inclusion in today's interconnected world and aims to bridge the digital divide by ensuring that all people and communities in its member countries have access to and can effectively use digital technologies. On December 19, 2023, at the Digital Government Forum in Riyadh, Saudi Arabia, the President of the

Islamic Development Bank (IsDB), H.E. Dr. Muhammad Al Jasser, called for a global "coalition of the willing" to bridge the digital divide and connect the estimated 2.7 billion people who are currently offline. Dr. Al Jasser also spoke about the digital divide and the significant investment required to achieve universal connectivity by 2030. The IsDB member countries face a serious challenge as over 820 million people, or 40% of the Muslim world, are without internet. The 57 IsDB member countries need 136 billion US dollars to achieve universal internet connectivity by 2030.

The IsDB has developed a comprehensive operational strategy on digital inclusion for the period 2024–2027, focusing on the regional and national levels to close digital gaps and achieve digital connectivity. The IsDB is also actively seeking collaboration with various partners and stakeholders to fund digital transformation projects specifically aimed at promoting the digital economy. These include improving digital reskilling and upskilling as well as e-Government, e-Social and e-Public Services. In this context, the IsDB's "Reverse Linkages" program is crucial for knowledge and skills transfer and capacity development between member countries.

The Investment Promotion Technical Assistance Program (ITAP) is another successful IsDB capacity development initiative that provides learning and development opportunities for IPAs and investment promotion professionals. The IsDB remains committed to supporting digital transformation, building a digital economy, and developing the capacity of IPAs to digitize their investment services.

I would like to thank all the stakeholders and contributors who have helped to produce this insightful report. Together, let us harness the transformative power of digitalization to unleash the full potential of investment opportunities in OIC countries and make progress together towards shared prosperity and sustainable development.

May Ali Babiker

Director

Cooperation and Capacity Development Department of IsDB

Note for readers

The information presented in this publication has been meticulously researched and analyzed using data sources deemed accurate and reliable. While every effort is made to incorporate the most recent updates and backward revisions of data, the author cannot be held responsible for any updates that may occur after the publication of this report.

All figures and tables presented in this report have been calculated and visualized by the author. As a substantial portion of the content is statistical in nature, it is essential to highlight that while every effort has been made to ensure accuracy, the ICDT and the IsDB cannot be held liable for any potential omissions or errors.

Compiling data in this report has revealed a systematic issue with missing foreign direct investment (FDI) data for OIC economies. This report used the UNCTAD's FDI/MNE database to address this challenge as a primary source of FDI data for OIC economies. This resource provides comprehensive and standardized data on FDI inflows and outflows, making it an ideal choice for comparative analysis. In addition to UNCTAD, the IMF's Coordinated Direct Investment Survey has also been used to supplement the FDI data of OIC economies.

Official figures utilized by governments to track the progression of FDI flows often exhibit disparities when compared to data compiled by UNCTAD and IMF, which adhere to a standardized methodology. These variations in statistics can be attributed to several factors. For instance, certain countries disclose the book value of FDI, while an increasing number of nations opt for reporting the market value. Additionally, some countries employ a mixed valuation approach, using market value for listed companies and book value for non-listed entities.

The presence of Special Purpose Entities (SPEs) further complicates the clarity of FDI data. FDI directed towards SPEs located abroad, categorized as outward FDI, may subsequently return to the domestic economy as inward FDI, a phenomenon known as round-tripping FDI. Moreover, FDI initiated by direct investors into SPEs overseas might later find its way into investments in third countries, termed as transshipped FDI.

It is important to highlight that access to reliable official statistics concerning e-commerce, cross-border digital trade, and digital FDI is currently limited and

lacks comparability across different economies. The process of gathering data on digital trade and FDI is still in its nascent stages in numerous countries, particularly in developing economies. Furthermore, a lack of consensus exists regarding the standardized measurement of cross-border digital trade and investment. Consequently, this report utilizes certain indicators formulated by international organizations and estimates from private data sources to provide valuable insights into the progress of the digital economy until official statistics become available.

This report offers a comprehensive analysis at various levels. The report delves into the OIC, regional, and country-level specifics. OIC countries are categorized into the OIC African group, OIC Arab group, and OIC Asian group. Notably, Guyana and Suriname are situated geographically in Latin America, while Albania is located in Europe. Despite their geographical locations, these three countries are classified under the OIC Asian group within this report for practical considerations.

OIC African group		OIC Arab group		OIC Asian group	
Benin	Mali	Algeria	Morocco	Afghanistan	Malaysia
Burkina Faso	Mozambique	Bahrain	Oman	Albania	Maldives
Cameroon	Niger	Comoros	Palestine	Azerbaijan	Pakistan
Chad	Nigeria	Djibouti	Qatar	Bangladesh	Tajikistan
Cote d'Ivoire	Senegal	Egypt	Saudi Arabia	Brunei	Türkiye
Gabon	Sierra Leone	Iraq	Somalia	Indonesia	Turkmenistan
Gambia	Togo	Jordan	Sudan	Iran	Uzbekistan
Guinea	Uganda	Kuwait	Syria	Kazakhstan	Guyana
Guinea-Bissau		Lebanon	Tunisia	Kyrgyzstan	Suriname
		Libya	UAE		
		Mauritania	Yemen		

Executive summary

Global FDI dynamics and expectations considering the digitalization era

The global economy experienced a slower growth rate, with real GDP growth decreasing from 6.3% in 2021 to 3.5% in 2022 and further to 3% in 2023. Even global GDP growth projections for 2024 indicate a slight slowdown compared to the previous year.

Global FDI declined 12% in 2022 to $1.3 trillion, primarily due to lower volumes in developed countries, where it fell 37% to $378 billion. The European Union (EU), United States, and China held significant global FDI outstock shares in 2022, with the EU holding 31.9%, the United States 20.2%, and China 7.4%, respectively.

Geopolitical risks like the Russian-Ukrainian conflict, Middle East turbulences, US-China tensions, and the COVID-19 pandemic threaten international relations and may lead to geoeconomic fragmentation, slowing globalization. The emerging regional trade blocs and alliances are altering FDI and trade patterns. Geopolitically adjacent nations engage in friendshoring and nearshoring, with FDI increasingly directed to geopolitically close countries. Many governments and businesses work to diversify their supply chains and production modes.

Domestic laws are increasingly regulating FDI due to the slowdown in globalization. Most developed economies have tightened foreign investment screening mechanisms, giving national authorities more power to prevent takeovers in strategic sectors.

The global economy is undergoing significant transformation due to the rapid advancement of digital technologies. In 2022, two-thirds of the world's population used the Internet, and 96% was covered by mobile broadband. The six digitally enabled frontier technologies, including cloud computing, AI, automation, robotics, blockchain, 3D printing, and IoT, are experiencing dramatic advancements.

Countries increasingly adopt digital technologies for economic purposes, driving significant changes in production, trade, and consumption. As of 2021, half of all countries have released digital strategies across various sectors, aiming to harness digital technology's potential and spur economic growth.

Digitalization has significantly impacted consumer behavior and the digital transformation process of businesses. Global digital transformation spending

reached $1.6 trillion in 2022, with an expected increase to $3.4 trillion by 2026. AI investments reached $276.1 billion in 2021 but slowed later due to global economic uncertainties and decreased investment activity.

The global e-commerce transaction value, including B2B, B2C, and B2G sales, reached $32.6 trillion in 2022 and is expected to reach $61.4 trillion by 2030. Retail e-commerce, which sells items directly to consumers through digital trade, reached a global value of $5.7 trillion in 2022. It is projected to continue growing, accounting for over 24% of global retail sales in 2026. Physical goods dominated cross-border online purchases in 2023, accounting for 97% of purchases, while digital goods comprised only 3%. Digitally deliverable services have grown from 44.7% in 2005 to 62.8% in 2021.

Digital FDI is about attracting investment to grow the digital economy. It is more significant in areas like communications, software, and IT, as well as supporting digital enablers like business machines, consumer electronics, electronic components, and semiconductors. In 2022, global greenfield FDI to the ICT sector reached $120.4 billion, accounting for 10% of global greenfield FDI flows. The electronics and electrical equipment sector also experienced a surge, accounting for 25% of global greenfield FDI.

Digital technologies have significantly impacted the way IPAs promote and attract FDI. IPAs are investing in digitalizing their services. So far, digital tools are best adopted for image-building and investor outreach activities.

Foreign direct investment in OIC countries

In 2022, FDI flows to OIC countries decreased by 2%. The greenfield projects' value was higher than cross-border M&A transactions. Inward FDI stock in OIC countries reached nearly $2.35 trillion, with the OIC share of global inward FDI stock at 5.3%. The OIC Arab and Asian groups hold a nearly equal share of 45% of OIC's inward FDI stock, while the OIC Africa Group holds a 10% share.

FDI flows per capita to OIC countries were 2.4 times less than the global average, with a value of $68, compared to $165 in 2022. From 2000-2006, FDI significantly influenced OIC economies' domestic capital formation. The share of inward FDI flows in domestic capital formation reached 13% in 2006. However, this share decreased to 6% in 2022.

The primary sector remains significant in some OIC countries in attracting FDI due to natural resources, with manufacturing accounting for over 30% of FDI stock in countries such as Qatar, Tunisia, Türkiye, Malaysia, and Brunei. The services sector is the primary driver of FDI in most OIC countries.

OIC countries' announced greenfield investments show a comprehensive sectoral composition, with energy and construction sectors having the highest share in the 2003-2019 period, followed by financial services, food, beverages, tobacco, and transportation, according to the fDI Markets data.

In 2022, the United Arab Emirates became the top OIC investor in greenfield projects with $33.5 billion, with the United Kingdom and India following closely behind, whose total value of announced greenfield investments is estimated at $50.3 billion.

In 2022, 51.6% of OIC FDI inflows went to the Asian group, 39.7% to the Arab group, and 8.7% to the African group. The African group experienced a 37% decline, while the Arab group saw a 10% increase. In the same year, the United Arab Emirates accounted for 42% of FDI inflows within the OIC Arab group, followed by Egypt (21%). Indonesia (31%), Malaysia (24%), and Türkiye (18%) dominated inward FDI flows in the OIC Asian group, while Senegal, Mozambique, Côte d'Ivoire, and Uganda held significant shares in FDI flows to the OIC African group.

In 2022, the United Arab Emirates, Indonesia, Malaysia, Türkiye, and Egypt accounted for 63% of total FDI flows towards OIC countries. On the other hand, Saudi Arabia, Indonesia, Malaysia, the United Arab Emirates, Türkiye, Kazakhstan, and Egypt accounted for nearly 60% of the total inward FDI stocks of OIC countries.

OIC countries' outward investments reached nearly $1 trillion in 2022, with Arab and Asian groups accounting for 90% of the total. The top 15 countries accounted for 94% of total OIC outward investment, with the United Arab Emirates and Saudi Arabia being key players, accounting for 41% of OIC FDI stock. These two countries contributed 57% to the total OIC outward flows in 2022.

From 1992 to 2022, inward FDI flows to OIC countries were higher than their outward FDI, with OIC net FDI value at (-86.4) billion dollars in 2022.

Analysis of determinants of FDI flows to OIC countries

The gravity model was applied to understand FDI flows to OIC countries. Factors such as distance, common past, and language are increasing FDI flows to OIC countries. Recognizing these variables can help OIC IPAs attract investment from countries with shared commonalities, enabling them to tailor their marketing efforts and promotional activities. IPAs can also encourage overseas diaspora communities to invest in their home countries.

Cultural barriers and unfamiliarity with foreign markets can influence FDI. OIC IPAs can help reduce these barriers by providing comprehensive market research, capacity-building programs, and information about the host country's business landscape.

Trade agreements and hosts' trade capacity significantly affect FDI inflows in OIC countries. Facilitating trade with the world can enhance a host country's attractiveness to foreign investors. IPAs should strategically leverage existing trade agreements, promote their benefits, and support negotiations for new agreements to facilitate FDI inflows further.

Enhancing the quality of human capital should be a primary objective for OIC countries, and organizing investment events will play a significant role in attracting more foreign direct investment (FDI) flows. Gravity model results show that human capital positively affects FDI flows to manufacturing, ICT, and electronics.

Improving governance has also been found to be significant in attracting more FDI in OIC countries. IPAs can enhance investor confidence by promoting reforms and signaling a stable and transparent investment environment conducive to long-term business operations.

Foreign direct investments among OIC countries

Official inward bilateral direct investment stock data is available only for the following 29 OIC countries: Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Brunei, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Indonesia, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Malaysia, Mali, Morocco, Mozambique, Niger, Nigeria, Oman, Pakistan, Palestine, Senegal, Tajikistan, Togo, Tunisia and Türkiye. Only 13.9% of the total inward direct investment stock attracted by these 29 OIC countries originated from within the OIC itself. A positive correlation exists between the per capita GDP of 29 OIC countries and the direct FDI they attract from other OIC members.

80.5% of Bahrain's total inward direct investment stock originates from these 29 OIC countries. Indonesia and Malaysia have the highest inward FDI stock from 29 OIC countries, but their economic connections with non-OIC Asian economies result in a low share of OIC in their total FDI stock.

The most significant intra-OIC investments occur within the OIC Arab group. In 2022, 245 greenfield FDI projects were announced within the OIC Arab group, with Egypt being the most attractive destination.

FDi Markets data shows that 40% of intra-OIC greenfield FDI in 2003 and later was in real estate, 22% in coal, oil, and natural gas, and 5.5% in hotel and tourism sectors.

The OIC's top 1000 companies by annual revenue are primarily based in Indonesia, Malaysia, Türkiye, Saudi Arabia, and Pakistan, with 637 companies based in these countries. Only 29 out of 57 OIC countries have companies on the list, and only 110 out of 1000 have operations outside their own country.

Out of the top 1000 global companies by annual revenue in the telecom and IT sector, only 33 companies from OIC countries are present.

The analysis of trade and value chains reveals significant disparities in intra-regional trade within the OIC, with key players like the United Arab Emirates, Malaysia, Türkiye, Indonesia, and Saudi Arabia playing crucial roles. The OIC should enhance trade and investment relations, encourage collaboration, reduce trade barriers, and diversify partners.

Greater integration between large and small OIC economies is crucial for cost savings, technology transfer, and economic growth. This can lead to economies of scale, lower production costs, access to larger markets, and increased FDI.

The OIC countries have shown a decrease in their participation in global value chains over the past fifteen years despite an increase in forward participation. The OIC should promote collaboration and knowledge-sharing among member countries to increase GVC participation, attract FDI, and diversify sectors.

The comprehensive data analysis found that OIC countries have the potential for deeper economic cooperation and value chain development. Encouraging regional value chains and supporting SMEs can strengthen local industries. European countries are found to be the most prominent economic partners to OIC, while OIC countries like Türkiye, Malaysia, Saudi Arabia, the United Arab Emirates, Tunisia, Morocco, and Nigeria have the potential to become regional hubs for increasing intra-OIC trade and investment and mainly in Subsaharan African countries.

Development of digital economy in OIC countries and implications for IPAs

Rapid globalization and increased use of ICT technologies affected the investment landscape and digital services in OIC countries. Notably, in the OIC region, the proportion of Internet users in the total population increased from 2.1% in 2000 to 58.9% in 2023, reflecting the increased number of people connected to the Internet (e.g., e-commerce, digital services, etc.). Similarly, the

fixed broadband subscriptions per 100 people in the OIC group jumped from 2.2 in 2010 to 9.1 in 2022, thanks to the new investments and technological advances that dramatically reduced access costs.

A growing number of people in OIC countries use or benefit from online payment services. Around 42% of the adult population either made or received digital payments in 2022, which is slightly lower than the global average of 64%.

The OIC average e-commerce penetration rate (the percentage of the population that conducts online shopping) has followed a positive pattern in recent years. Yet, the average of the OIC (38.8%) stayed below the global average of 47% in 2023. E-commerce market revenue of OIC countries is projected to reach $194 billion in 2023, up from $75 billion in 2019, representing an increase of 159%.

Regarding digital infrastructure, there are disparities across OIC regions and member countries. The OIC countries have the potential to further their readiness for digital transformation by boosting investments and increasing R&D expenditure. R&D expenditure (as % of GDP) stayed well below 1% in 12 OIC countries with available data.

The OIC African group needs to take bolder steps to achieve digital transformation that could help attract more investments, particularly in the digital economy. In several indices and indicators, the OIC African group lagged the OIC Arab and Asian groups.

There is a positive momentum in terms of digital services trade. In the OIC group, the value of exports of digitally deliverable services increased from $43 billion in 2010 to $112 billion in 2022. Yet, due to the limited investments in the digital economy and ICT, many OIC countries still have a limited share in the global trade of ICT goods, which could be addressed by attracting new FDI projects in the digital sectors.

OIC countries and their IPAs should develop and implement strategies to improve their competitiveness and attract more quality FDI projects that could bring new technologies, support the digital economy, and enhance human capital development.

The role of digital technologies in promoting and attracting FDI in OIC countries

Digital single windows are effective business registration platforms that streamline processes, facilitate payment, and provide certificates. Investors should have access to informational websites that outline business registration steps, provide links to forms, provide legal explanations, and have a designated

contact point for questions or concerns if digital single windows are not established.

As of mid-2024, 28 OIC countries have implemented single-window portals for online business registration. These countries are Bahrain, Bangladesh, Benin, Brunei, Burkina Faso, Cameroon, Côte d'Ivoire, Iraq, Kazakhstan, Nigeria, Oman, Qatar, Somalia, Togo, the United Arab Emirates, and Uzbekistan. Their single window portals received scores between 7 and 9 on a scale of 10, with a higher score indicating more efficient and streamlined business registration processes. Among 49 OIC countries, Bangladesh, Benin, Brunei, Burkina Faso, Cameroon, Comoros, Djibouti, Gabon, Guinea-Bissau, Iraq, Libya, Pakistan, and Togo had the best information portals.

The survey conducted with 16 OIC IPAs revealed different levels of digitalization, highlighting the need for tailored strategies and support mechanisms to assist less digitally advanced agencies in catching up with their more advanced counterparts. Collaboration, knowledge sharing, and capacity-building initiatives could play a crucial role in helping these agencies leverage digital technologies effectively to attract investments and foster economic growth.

Global FDI dynamics and expectations considering the digitalization era

I.A Overview of recent foreign direct investment developments worldwide

Foreign Direct Investment (FDI) is considered to be among the primary driving forces of economic growth in developing countries. Therefore, these countries are paying significant attention to FDI and are competing to attract it (Kimiagari, Mahbobi and Toolsee, 2023: 1). FDI has the potential to accelerate economic growth through the provision of fresh capital, job creation, and the cross-border transfer of innovative technology and know-how.

Empirical studies indicate that FDI may benefit local businesses by increasing productivity spillovers, especially in the supplying industries (Harding and Javorcik, 2011: 1445). Being successful in attracting FDI is also crucial for ensuring a potential and stable source of financing for development needs in the long run (Forte and Neves, 2023: 457). Given these benefits of FDI inflows, an essential question for policymakers is how to attract foreign investors. This question becomes particularly relevant in the challenging global economic conditions that create downward pressure on FDI flows.

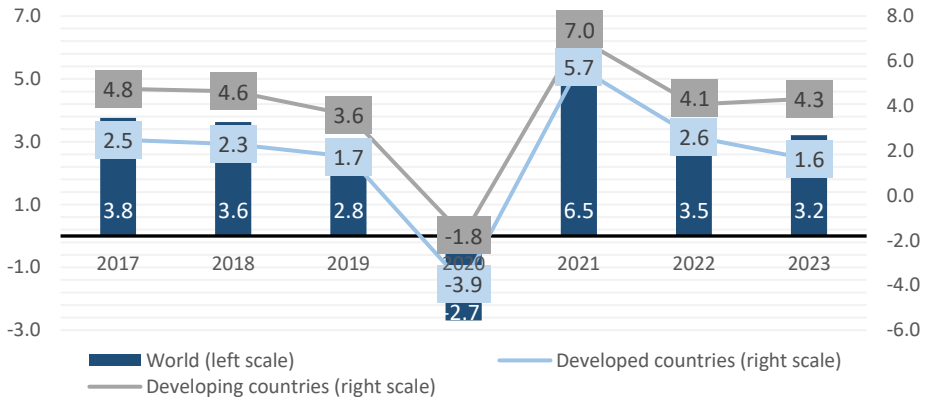
I.A.1 The slowdown of the world economy

In 2022, the world economy grew slower, and substantial risks arose. Global real GDP growth decreased from 6.5% in 2021 to 3.5% in 2022. In the same period, the growth momentum has significantly weakened in the world's biggest economies by GDP, such as China, the United States, India, Japan, Germany, Russia, Brazil, and the United Kingdom. Developed countries, on average, grew 2.6% in 2022, which was significantly slower growth compared to 5.7% in 2021. The economic slowdown was also visible in developing countries, whose average real GDP growth has declined from 7% in 2021 to 4.1% in 2022. The economic downturn persisted in 2023 for developed economies at a rate of 1.6%, while it remained relatively stable in developing countries at 4.3% (Figure I.1). Notably, most developed economies encountered subdued growth throughout 2023. Even global GDP growth projections for 2024 indicate a slight slowdown compared to the previous year.

Global economic activity decelerated in 2022, mainly due to synchronized monetary policy tightening to contain high inflation, weaker external demand, and supply chain disruptions caused by the Russian-Ukrainian conflict and Middle-East turbulences. Global inflation has increased due to demand pressures, supply shocks, and high import costs. Inflation started to increase in 2021 and peaked in mid-2022. As a result, the global inflation rate increased from 3.2% in 2020 to 8.7% in 2022, which is the highest global inflation rate since

1997. Rising prices in the food and energy sectors are responsible for a significant proportion of the high inflation witnessed by major economies in 2022. Inflationary pressures have begun diminishing and moderate gradually through 2023, reflecting softening demand and easing commodity and energy prices. Still, as illustrated in Figure I.2, average consumer prices in 2023 remained at 6.8%, significantly higher than the levels observed in 2017-2020.

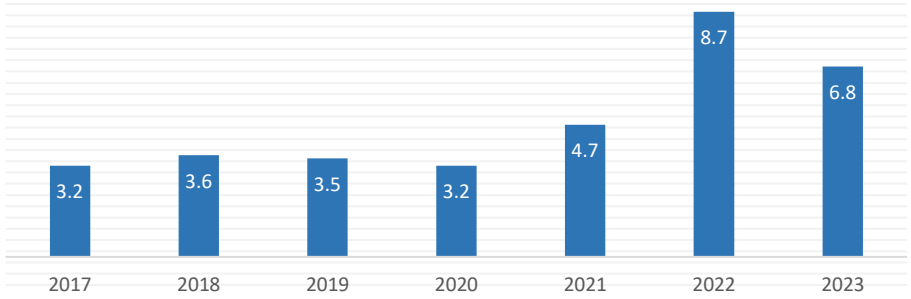
Figure I.1: Reel GDP growth
(Percent change)



Source: IMF, World Economic Outlook, April 2024.

The tight monetary policy is the most significant reason driving the slowdown in inflation rates. Over 85% of central banks worldwide tightened monetary policy and increased interest rates in 2022 to put down inflationary pressures and avoid a recession (UN, 2023: 12). This monetary policy tightening cycle was the fastest and steepest since the 1980s.

Figure I.2: Inflation, world average consumer prices
(Percent change)

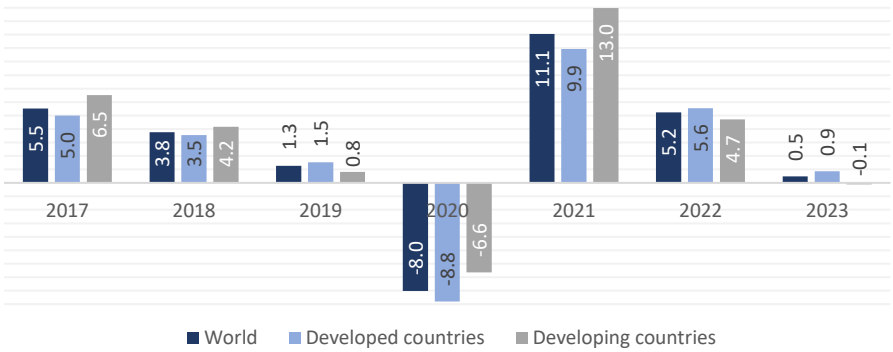


Source: IMF, World Economic Outlook, April 2024.

Disruptions in global supply chains have also challenged the global economic outlook. Even before the COVID-19 pandemic, the US-China trade war affected supply chains. Later, the COVID-19 pandemic led to massive supply chain disruption that contributed substantially to the global surge in inflation. The difficulties caused by the war in Ukraine have prolonged these disruptions and added pressure on companies in many sectors. In 2023, there was a notable decline in global transportation costs, indicating less supply chain pressure.

The world economy's slower growth has significantly impacted international trade. In 2020, the COVID-19 pandemic caused an 8% decline in global exports of goods and services. The value of goods and services exported globally rebounded fast in 2021, increasing by 11.1%. However, there was a notable slowdown in worldwide export growth in 2022 (4.9%) and 2023 (0.5%). Developing countries were more severely impacted than developed ones by the overall decline in international trade in 2022 and 2023 (Figure I.3).

Figure I.3: Exports of goods and services
(Percent change)



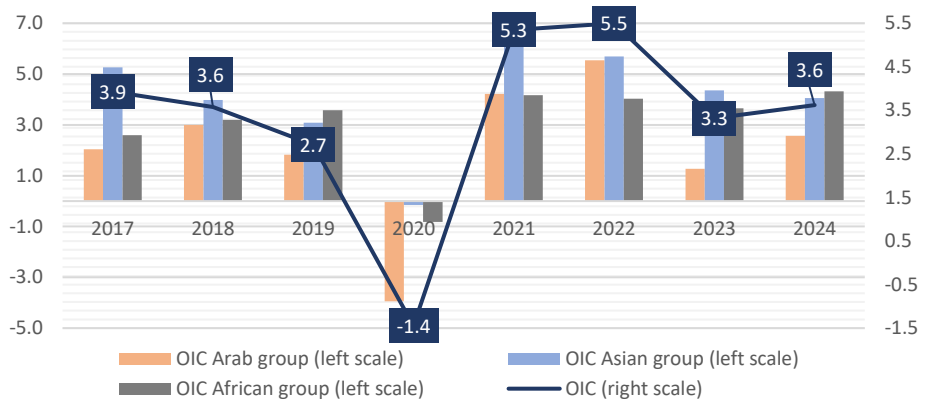
Source: IMF, World Economic Outlook, April 2024.

It is a well-established fact that developing economies suffer the most from crises in developed economies since investors tend to withdraw their funds from the markets and hold onto their money until the storm passes. OIC countries are also affected by the heaviness of the global economy. However, the OIC countries have maintained an average growth rate of 5.7% in 2022, yet real growth has decreased to 3.3% in 2023. The International Monetary Fund (IMF) projects that the average growth rate of OIC countries will slightly increase to 3.6% in 2024.

The most considerable contributions to growth in 2022 came from the OIC Asian group and OIC Arab group, whose average growth rates in 2022 were 5.7% and 5.5%, respectively. However, the growth slowdown in 2023 primarily originated

from the OIC Arab group, with their average real growth rate decreasing to 1.3% in 2023. (Figure I.4).

Figure I.4: Reel GDP growth of OIC countries
(Percent change)



Source: IMF, World Economic Outlook, April 2024.
Note: Real GDP growth rates are computed as a weighted average, with the weights reflecting the relative importance of each country within the group's total GDP in PPP.

In recent years, the OIC countries have experienced fluctuations in their growth rate of value of exports of goods and services. The COVID-19 pandemic significantly impacted the OIC countries' exports of goods and services by a $461 billion decrease. In 2021, the global economic recovery from the pandemic began to gain momentum, increasing demand for goods and services. As a result, exports from OIC countries also saw an improvement. The total value of OIC countries' exports of goods and services increased by 41% in 2021 compared to the previous year, reaching $2104,3 billion (Figure I.5).

Figure I.5: Exports of goods and services of OIC countries
(Billion $US)

Source: IMF, including 54 OIC countries with available data.

In 2022, the total value of exports from OIC countries increased by 34% year-on-year. However, in 2023, the export of goods and services from these countries decreased by $168.6 billion compared to 2022 due to ongoing geopolitical tensions and inflationary pressures.

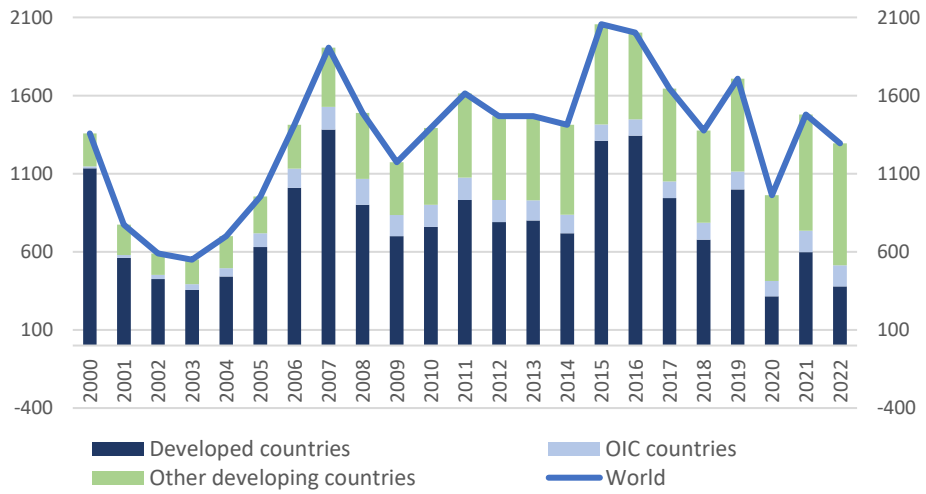
I.A.2 Decrease in foreign direct investment flows

FDI plays a crucial role in the global economy. Understanding the current trends in global FDI flows is essential for policymakers, investors, and businesses to make informed decisions. Recently, several key trends and patterns have emerged in global FDI flows.

FDI has experienced outstanding growth in the global economy since the 1990s. However, according to the United Nations Conference on Trade and Development (UNCTAD) data, global FDI flows have been experiencing significant fluctuations in recent years. Moreover, UNCTAD's World Investment Report 2023 shows an overall confidence problem and uncertain prospects dampening FDI.

The 2008 global financial crisis and, later, the COVID-19 pandemic severely impacted FDI flows. In 2009, global FDI experienced a drop of 38% compared to 2007, moving down from $1.91 trillion in 2007 to $1.17 trillion in 2009, according to the UNCTAD data. Global FDI flows narrowed down by 44% in 2020 to $962 billion due to the COVID-19 pandemic (Figure I.6).

Figure I.6: FDI inflows by country groups
(Billion $US)



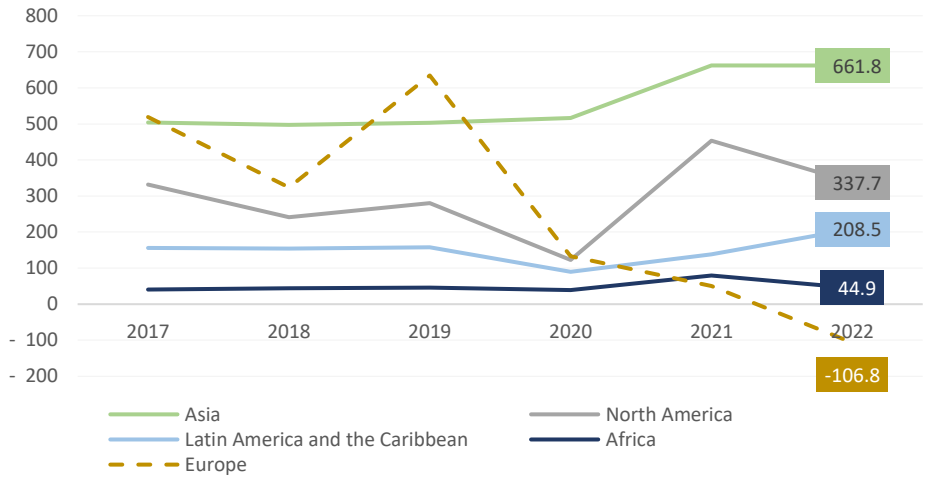
Source: UNCTAD, FDI/MNE database.

Global FDI declined by 12% in 2022, to $1.3 trillion, after a strong rebound in 2021 following the steep drop induced by COVID-19 in 2020. The decline was mainly a result of lower volumes of FDI flows in developed countries, where FDI fell by 37% to $378 billion in 2022. Luxembourg faced significant capital losses in 2022, amounting to $322 billion, mainly due to a telecommunication MNE's withdrawal from this country.

Thanks to increased openness to foreign companies, developing countries have significantly deepened their integration into the international production system in the last decade. According to UNCTAD, after a significant drop in 2020, FDI flows to developing countries reached $881 billion in 2021, showing a stronger-than-expected rebound. FDI flows to developing countries in 2022 slightly increased by %4, reaching $916 billion, with $135.4 billion belonging to the OIC countries (Figure I.6). From 2010 to 2022, the share of OIC countries within the FDI flows to developing economies averaged nearly 20%.

Particularly after 2009, China continued to lead in FDI growth in the developing world. From 2017 to 2023, almost 21% of FDI inflows to developing countries went to China.

Figure I.7: FDI Inflows in the main regions
(Billion $US)



Source: UNCTAD, FDI/MNE database.

Asia remains the largest FDI recipient in the developing world (Figure I.7). Economies like China, Singapore, Hong Kong, and India have attracted substantial investments due to their large consumer markets, skilled labor force, and infrastructure development. In 2022, FDI inflows to Asia remained almost unchanged compared to the previous year, at $661.8 billion.

Europe has traditionally been among the major destinations for FDI. However, from 2020 to 2022, FDI inflows into Europe declined significantly due to economic uncertainty. The aftershocks of the conflict in Ukraine, weak economic growth, supply chain disruption, rising inflation, and soaring energy costs resulted in disinvestment in Europe in 2022 with a net value of $106.8 billion.

In 2022, FDI inflows to North America decreased by 26%. However, the United States remained the largest recipient of FDI globally. The United States continued to attract investments in industries such as software and IT services, manufacturing, and financial services, whose total value reached $337.7 billion. FDI inflows to Latin America and the Caribbean increased by 51.17%% in 2022, driven by investments in sectors like renewable energy, infrastructure, and natural resources. Countries such as Brazil, the British Virgin Islands, and Mexico were among the top recipients of FDI in the region.

Africa has been gradually attracting more FDI inflows due to its growing consumer market and improving business environment. However, in 2022, FDI inflows to Africa decreased by almost 44%, partly due to reduced new investment activity.

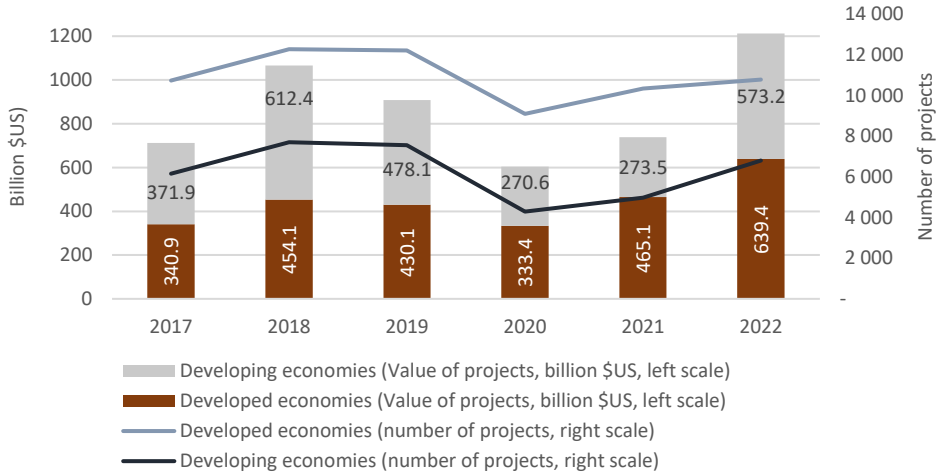
One way to measure FDI is through greenfield FDI projects, which involve establishing new facilities or expanding existing facilities by foreign investors. These projects involve substantial capital investment, technology transfer, and job creation, making them an essential driver of economic development. The value and number of announced greenfield FDI projects by destination provide valuable insights into the attractiveness of different countries for foreign investment and reflect the total capital investment committed by foreign investors. A higher number of projects indicates a greater influx of foreign capital and business activities in a particular country.[1]

Developed countries continue to attract significant greenfield FDI projects. The value of greenfield FDI targeting developed economies rose by 37% between 2021 and 2022 to $639.4 billion, the highest value recorded to date (Figure I.8). The United States, for example, remains a top destination for greenfield FDI due to its large consumer market, technological innovation, and favorable business environment. Similarly, Western European countries, including the United Kingdom and Germany, attract substantial greenfield FDI projects, particularly in

[1] UNCTAD provides data on greenfield FDI projects based on information from the Financial Times Ltd, fDi Markets. This data source tracks the capital investment at the date of announcement of the investment, while official data tracks FDI at the date the capital effectively crosses borders. Further, the source estimates the values of greenfield FDI projects when the company does not announce them. fDi Markets data may thus, at times, reflect intentions rather than effectively carried out investments and may significantly differ from official FDI figures.

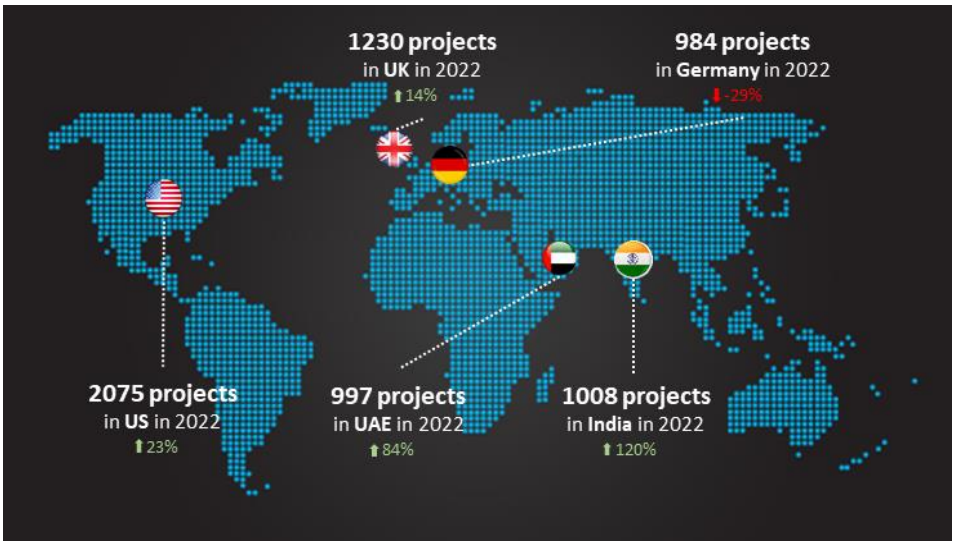
industries such as automotive manufacturing, pharmaceuticals, and financial services (see Map I.1).

Figure I.8: Announced greenfield FDI projects, by destination
(Value and number of projects)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets.

Map I.1: Top five recipients of inward greenfield projects
(Number of announced greenfield FDI projects and percent change)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets.

Developing countries are increasingly becoming attractive destinations for greenfield FDI projects due to factors such as emerging consumer markets, abundant natural resources, and favorable demographic trends. In 2022, announced greenfield projects going to developing countries increased by 110% compared to 2022, reaching $573.2 billion, the highest value since 2018. Among developing countries, most of the announced greenfield projects were related to India (1008 projects), the United Arab Emirates (997 projects), and Mexico (482 projects) (Map I.1).

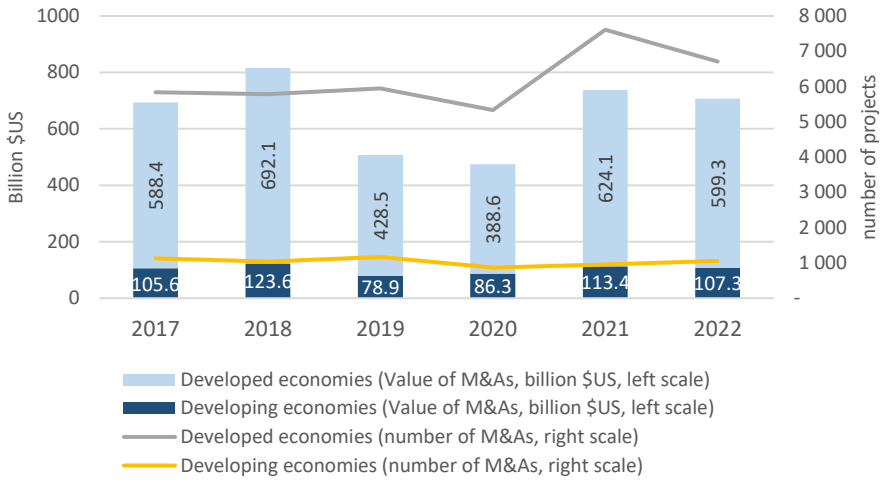
Several key differences emerge when comparing the flows of announced greenfield FDI projects to developed and developing countries. In developed countries, greenfield FDI projects often focus on innovation-driven industries such as technology research and development, advanced manufacturing processes, and high-value services. On the other hand, greenfield FDI projects in developing countries frequently target sectors that support infrastructure development, resource extraction, and export-oriented manufacturing. Furthermore, the motivations behind greenfield FDI projects differ between developed and developing countries. In developed economies, investors are often driven by access to skilled labor, advanced R&D capabilities, and proximity to established markets. In contrast, investors targeting developing countries are attracted by lower production costs, untapped consumer markets, and natural resource endowments.

Cross-border mergers and acquisitions (M&A) are transactions in which companies from different countries combine their operations, assets, or equity ownership. These transactions involve the acquisition of one company by another, often resulting in the creation of a new entity or the absorption of the target company by the acquiring company. Cross-border M&A transactions can offer numerous benefits to the involved parties, such as access to new markets, enhanced economies of scale, and increased competitiveness.

UNCTAD values and numbers referring to net cross-border M&As exclude sales of foreign affiliates (already owned by foreign MNEs) to other foreign MNEs. Divestments (sales of foreign affiliates to domestic firms) are also subtracted from the value or number of projects.

Developed economies typically experience higher levels of cross-border M&A activity. In 2022, only 15% of net cross-border M&As' value targeted developing countries. From 2017 to 2022, developed economies were the target of 84% of the value of net cross-border M&As (Figure I.9). Cross-border M&A transactions in developing economies can also be significant, but they often face more significant challenges than those in developed economies. These challenges can include political instability, weak legal frameworks, and limited access to capital.

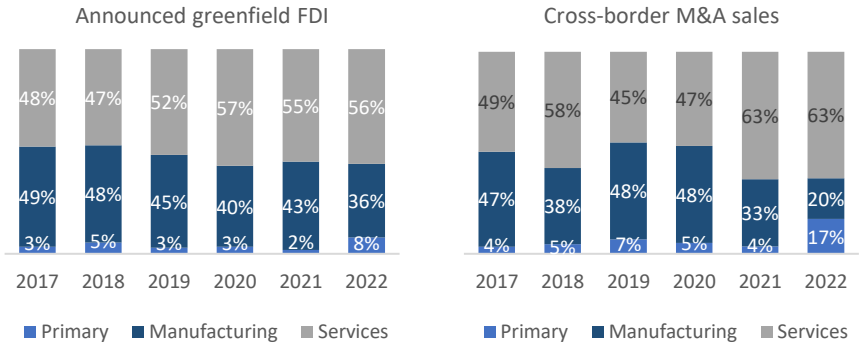
Figure I.9: Value of net cross-border M&As by economy of seller
(Value and number of projects)



Source: UNCTAD cross-border M&A database.

Figure I.10 shows that greenfield FDI and cross-border M&As increasingly target the services sector. In 2022, 56% of announced greenfield FDI projects and 63% of cross-border M&As related to the services sector. The share of the manufacturing sector in 2022 has significantly dropped in both categories of FDI.

Figure I.10: Value of projects by sector
(By destination and sales)

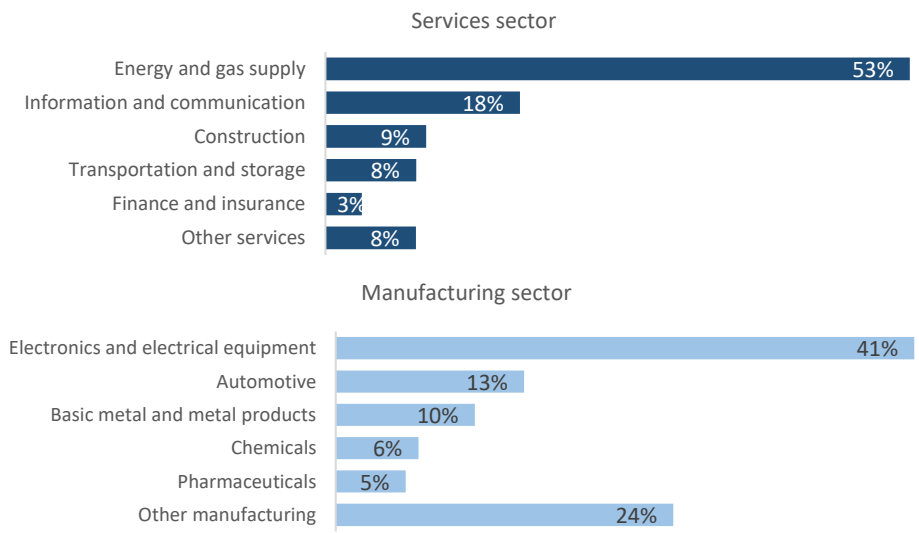


Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets; UNCTAD cross-border M&A database.

In 2022, within announced greenfield FDI projects (by destination) that went to the services sector, the largest proportion belonged to energy and gas supply (53%), followed by information and communication (18%), construction by 9%, and finance and insurance by (3%). In manufacturing, 41% of greenfield FDI

belonged to electronics and electrical equipment, 13% to automotive, and 10% to basic metal and metal products (Figure I.11). Further, UNCTAD data shows that in 2022, among cross-border M&A transactions that went to the services sector, biggest proportion belonged to information and communication (38%), finance and insurance (20%) and transportation and storage (9%). Shares of information and communication and electronics and electrical equipment in FDI figures indicate the growing importance of FDI in the digital economy.

Figure I.11: Shares within announced greenfield FDI projects in services and manufacturing sectors, by destination (*2022*)

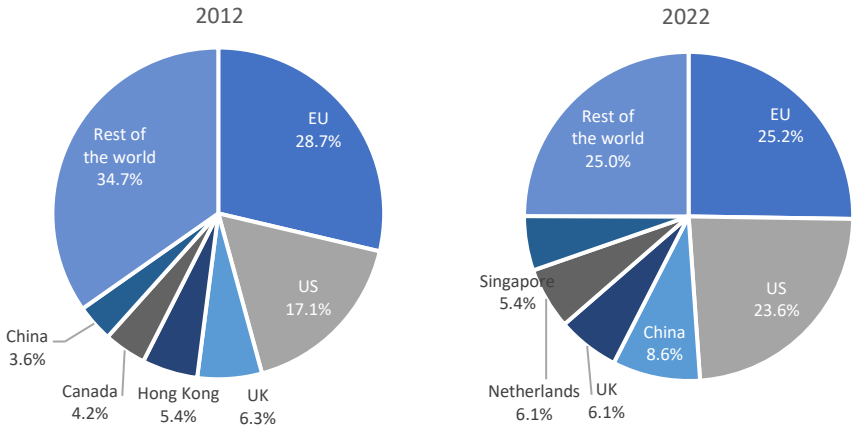


Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets.

According to the UNCTAD FDI/MNE database, the United States is the largest recipient of FDI, with a significant portion of its FDI stock in 2022 coming from developed countries, particularly Japan ($712 billion or 13.5%), the United Kingdom ($663.4 billion or 12.6%), Netherlands ($617.1 billion or 11.7%), Canada ($589.3 billion or 11.2%), and Germany ($431.4 billion or 8.2%). The share of the United States in world inward FDI stock has increased from 17.1% in 2012 to 23.6% in 2022 (Figure I.12).

The share of United States FDI stock abroad (outstock) has slightly decreased from 22.9% in 2012 to 20.2% in 2022 (Figure I.13). United States FDI stock abroad is heavily concentrated in developed countries (76%), particularly in the United Kingdom ($994.6 billion or 16.4%), the Netherlands ($944.6 billion or 14.4%, Luxembourg ($605.3 billion or 9.2%), Ireland ($574.3 billion or 8.7) and Canada ($438.8 billion or 6.7%).

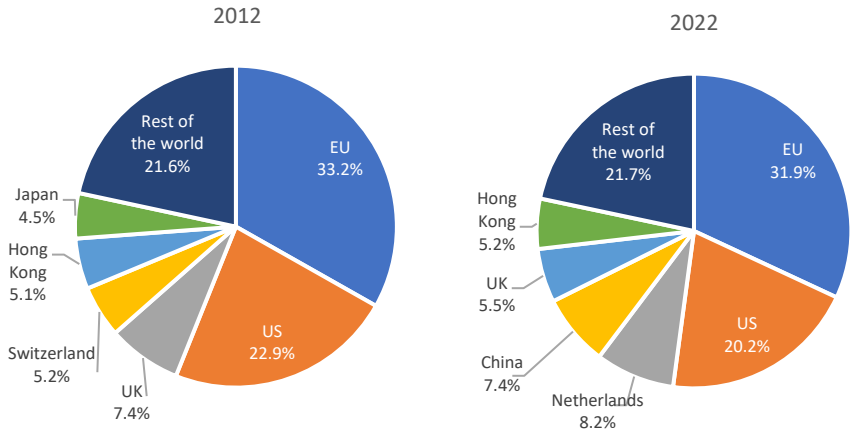
Figure I.12: World FDI instock
(Percent of total)



Source: UNCTAD, FDI/MNE database.

China is another major player in the global FDI market, with a rapidly growing economy and a large consumer base. China's share within world inward FDI stock increased significantly from 3.6% in 2012 to 8.6% in 2022 (Figure I.12). The country has been attracting significant FDI inflows from developing countries, comprising 79.3% of China's inward FDI stock. According to the UNCTAD FDI/MNE database, in 2021, the economies with the most significant shares in China's inward FDI stock were the British Virgin Islands ($446.2 billion or 12.5%), Japan ($211.8 billion or 5.9%), and Singapore ($168.9 or 4.7%).

Figure I.13: World FDI outstock
(Percent of total)



Source: UNCTAD, FDI/MNE database.

China's investments abroad have grown exponentially in recent years, reflecting the country's increasing global influence and economic power. China's share in the world's outward FDI stock has risen from 2.3% in 2012 to 7.4% in 2022, making it the world's third-largest investor (Figure I.13). According to the UNCTAD FDI/MNE database, in 2021, the largest share of China's FDI stock was concentrated in Asia ($1757.8 billion or 63.1%), Latin America and the Caribbean ($693.7 billion or 24.9%), and Europe ($134.1 billion or 4.8%).

As a block, the European Union (EU) is a major player in global investments, with significant FDI instock and outstock. However, the share of the EU in the global FDI instock has slightly decreased in the last decade, from 28.7% in 2012 to 25.2% in 2022. Similarly, the EU's share in world FDI outstock has somewhat subsided in the same period, from 33.2% to 31.9% (Figure I.12 and I.13). Within the inward FDI stock of the EU, the largest share belongs to the Netherlands (24%), which is followed by Ireland (12,6%), Luxembourg (10,3%), Germany (9%), France (8%) and Spain (7%), according to the UNCTAD data.

I.A.3 Restructuring of the global economic balance of power

International economic institutions served as conduits for the liberalization of cross-border investment and trade in the post-World War II global order (Chaisse and Dimitropoulos, 2023: 2). Accordingly, the process known as economic globalization intensified and increased the interconnectedness of countries and regions through trade, investment, and technology. This process has further accelerated since the fall of the Berlin Wall in 1989 and the establishment of the World Trade Organization (WTO) in 1995. Economic globalization has significantly impacted economies and the growth of global trade and FDI flows (Figure I.14).

In the aftermath of the 2008 global financial crisis, there has been a relative decline in economic globalization. The COVID-19 pandemic has further accelerated these trends. Moreover, geopolitical risks such as the war in Ukraine and worsening US-China tensions have put international relations in jeopardy and may result in a policy-driven reversal of globalization, a process known as "geoeconomic fragmentation," "slowdown in globalization" or "slowbalization" (IMF, 2023: 91). The Ukraine conflict has created a significant rift between the West and Russia, leading to sanctions and trade restrictions. Additionally, worsening US-China relations, the two largest global economies, have resulted in a more competitive and contentious relationship between the two largest economies. These tensions have led to a surge in trade restrictions and shifts in trade and capital flows. Future policy choices would determine the direction of the multilateral system and the flow of goods, services, and capital.

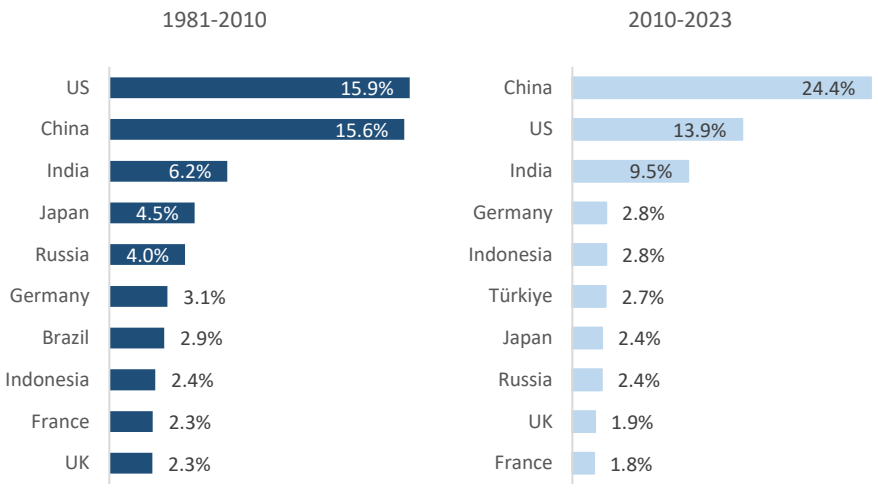
Figure I.14: Slowdown in globalization
(Percent of GDP)

Source: UNCTAD, FDI/MNE database; World Bank.

These developments have several consequences for the global economy. One of the most significant consequences is the growing geoeconomic fragmentation of the global economy. As countries become more focused on their domestic markets, regional trade blocs and alliances are forming, creating new divisions in the global economy.

In recent decades, one of the engines of the world economy has been the spectacular growth of China. From 1980 to 2010, 15.6% of the increase in global GDP in purchasing power parity (current prices) was due to China's growth, outstripping the contributions of India (6.2%), Japan (4.5%), Russia (4%) and Germany (3.1%). From 2010 to 2023, the world was even more dependent on China; in that period, China's growth accounted for 24.4% of global GDP, which surpassed even the contributions of the US economy (13.9%) (Figure I.15). This shifting global economic balance of power has increasingly led to political backlash, trade conflicts, and protectionism.

Figure I.15: Top ten contributors for increase in global GDP
(Percent, based on GDP in PPP, international dollars)



Source: IMF, World Economic Outlook, October 2023.

Rising economic fragmentation among nations with similar geopolitical orientations is anticipated to change FDI and trade patterns. Geopolitically adjacent nations are more likely to engage further in trade, FDI, and strengthening supply chains. These altering partners are known as "friendshoring" and "nearshoring" (IMF, 2023: 91).

I.B Effects of evolving digital business models on foreign direct investment

The rapid advancement of digital technologies and digitalization are causing a considerable transformation in the global economy. Implementing digital infrastructures and technology in many facets of businesses, the economy, and society is known as "digitalization." (Ha and Huyen, 2022: 179). Moreover, today, terms such as digital economy, digital transformation, digital trade, digital goods, and digital FDI are increasingly becoming a part of everyday economic life.

Two-thirds of the world's population used the Internet in 2022 (ITU). Moreover, in the same year, a mobile broadband network covered 96% of the world's population. In 2022, there were 5.4 billion mobile subscribers globally, of which 4.4 billion (55% of the world's population) were mobile Internet users. Nearly 3.2 billion people (41% of the world population) live in areas covered by the mobile broadband network but do not use mobile Internet (GSMA, 2023).

According to Groupe Speciale Mobile Association projections, by 2030, 5G adoption will represent about 54% of all connections worldwide (GSMA, 2023). Additionally, the usage of smartphones reached 76% globally in 2022 and is projected to increase to 92% by 2030. There has also been a considerable increase in the adoption of devices like laptops and personal computers, driving up digital content consumption.

Although the Internet serves as the backbone of the economy's technology, the six digitally enabled frontier technologies of cloud computing, artificial intelligence (AI) and data analytics, automation and robotics, blockchain, 3D printing or additive manufacturing, and the Internet of Things (IoT) are all experiencing dramatic advancements that are driving the economy's growth.

Not every country is experiencing the digital transition at the same rate or intensity; some are moving forward more quickly, while others are just beginning to accept it. Still, aware of the importance of digitalization, states are increasingly attempting to leverage the Internet and digital technologies for economic aims, and digitalization processes are driving significant changes in the production, trade, and consumption of goods and services. According to the International Telecommunication Union data, as of 2021, half of all countries worldwide have released digital strategies that span several economic sectors (DRP, 2023) to harness digital technology's potential and spur economic growth entirely. Among other goals, these strategies seek to (1) advance trade digitization by incentivizing investment in digital technologies like big data, cloud computing, and the Internet of Things; (2) enhance trade regulations and standards to meet the demands of the digital age; and (3) strengthen protections of consumer privacy and corporate property rights, including investing on cybersecurity (Chen and Gao, 2022; Ma, Guo and Zhang, 2019).

I.B.1 Digital economy and changes in the behavior of economic actors

The digital economy can be defined as an economy that is characterized by economic and social activities supported by the Internet, mobile networks, and digital technologies (Chaisse, 2023: 75). Any transaction that is conducted over the Internet makes up the digital economy. The digital economy cannot function without the Internet since it depends on data-enabled connectivity. Because of this, the digital economy is frequently referred to as the "Internet economy," or the "web economy," and sometimes as the "knowledge economy" (Satyanand, 2021: 8).

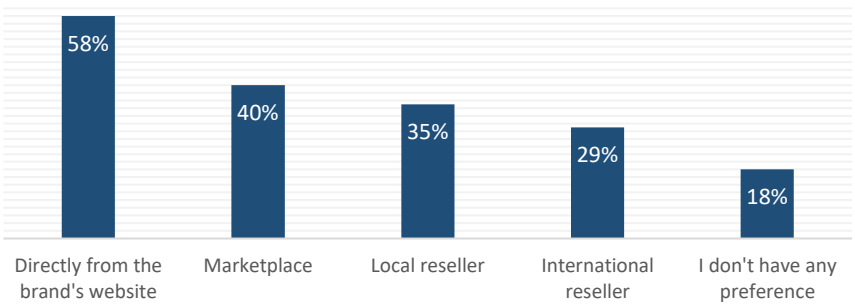
One of the most visible icons of the digital economy is the emergence of digital (online) platforms, which are replacing traditional marketplaces for consumer purchases, including for multilateral transactions. Certain platforms can service

international markets without having a local presence because they solely rely on data flows and digital products. Some platforms, like Amazon and Alibaba, function as multisided marketplaces for goods or services that require actual delivery. They combine physical assets and operations with Internet connectivity. They must have a local presence in foreign markets to facilitate the supply of physical goods or services (Meyer et al., 2023: 580).

Consumers may now access global marketplaces instantly thanks to online platforms, which remove the geographical barrier. Moreover, consumer behaviors are changing due to technological advancements, the growing use of Internet-enabled devices, the falling cost of ICT services, and broadband Internet connections.

Although consumers still prefer engaging with human representatives, digitalization and social media usage have affected practically every step of the buying process. Digital technologies are now an essential consumer experience for product research, actual purchases, or payment processing. Due to easy access to a wealth of information, consumers are now more willing to interact with brands digitally, depending on social media and online platforms for research, reviews, and comparisons (Figure I.16).

Figure I.16: Preferred platform types to buy branded products among cross-border online shoppers *(2022)*

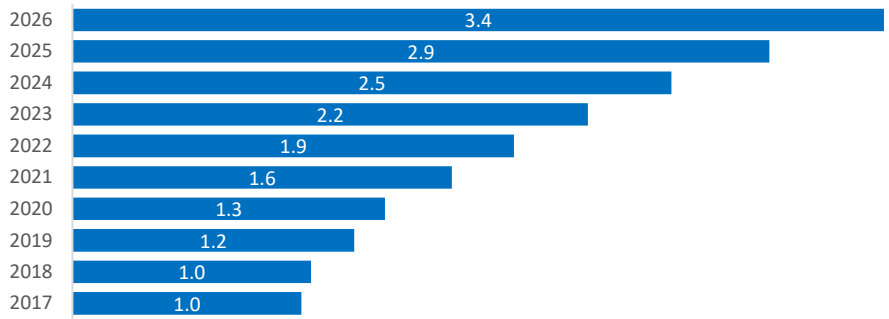


Source: Global-e (2022, November).
Note: Survey with the buyers who have shopped online in the past year and bought from a brand or retailer based outside of their country. Approximately 1,000 respondents per the following markets: U.S., Canada, U.K., Germany, France, China, Japan, UAE, and Australia.

The growth of the digital economy impacts businesses' digital transformations as well as their production efficiency, business models, and overall strategies, which has an essential impact on business decisions, including foreign investment decisions. Adopting digital technology into several facets of an organization's operations to convert non-digital business processes and services to digital ones is known as digital transformation.

In essence, businesses must change to keep up with the expectations of their customers because of the shift in consumer behavior (Gong and Ribiere, 2021). Companies can collect and analyze consumer data, gain deeper insights into the interests and behavior of their customers, customize and expand their product offers, personalize marketing efforts, and give proactive customer assistance by implementing digital technologies. Further digital transformation helps businesses optimize their supply chain, adopt more innovative operational processes, improve maintenance processes, and distribute their products at a lower cost (Chawla and Goyal, 2022). Global digital transformation spending totaled $1.6 trillion in 2022. This spending is expected to reach $3.4 trillion by 2026 (Figure I.17).

Figure I.17: Digital transformation spending worldwide
(trillion $US)



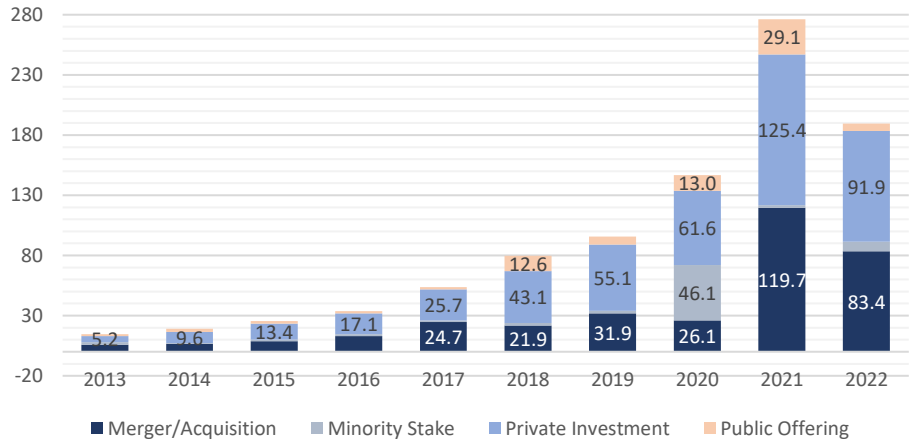
Source: IDC (2022).

In response to the growing consumer demand for increased personalization, brands provide a more comprehensive array of customization choices for all online-sold goods and services (Passport, January 2023: 6). Artificial intelligence (AI) and other technology have made offering unique solutions on demand easier for firms.

The global corporate investment in AI has rapidly grown in recent years, as shown in Figure I.18. In 2021, investments in AI reached $276.1 billion, compared to only 14.6 billion in 2013. These investments have slowed in 2022

due to the heaviness of the global economy and the general decrease in investment activity.

Figure I.18: Global corporate investment in artificial intelligence by investment activity *(Billion $US)*



Source: HAI, 2023, p. 184.

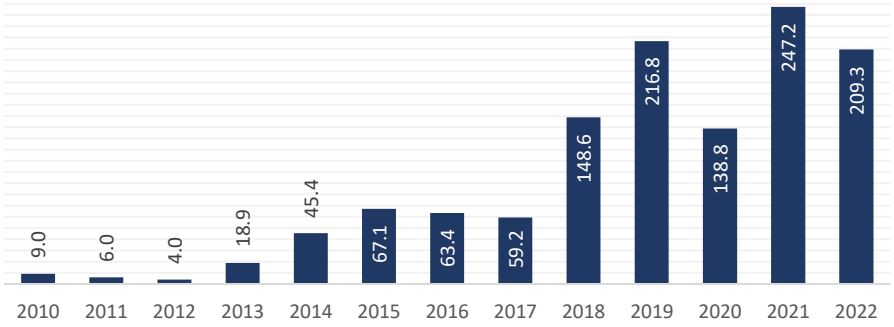
Financial technology (fintech) - computer programs, software, and other innovative technology that supports, facilitates, or delivers both banking and financial services - is a rapidly accelerating trend. In recent years, fintech has become increasingly popular and has revolutionized how individuals and organizations handle their funds. Thanks to the widespread use of mobile devices, people now have instant access to financial services. Strict cybersecurity precautions and secure online payment systems have increased consumer trust in online financial transactions.

Online payments are another domain in which fintech has had a significant influence. Businesses like Square, Venmo, and PayPal have completely transformed how people transfer and receive money. Additionally, cryptocurrencies (or virtual currencies) such as Bitcoin, Ethereum, Ripple, Litecoin, and IOTA have emerged as alternative mediums of exchange. In contrast to traditional currencies, central banks do not influence cryptocurrencies. Since 2009, the number of cryptocurrencies has grown; as of April 2022, there were 10,311 distinct varieties with nearly $1.1 trillion in market capitalization (Acquisdata, 2023).

Between 2010 and 2019, investments in fintech startups globally climbed dramatically to $216.8 billion. However, investments in fintech startups fell sharply in 2020—below $140 billion. The value of the investments rose to almost $247 billion in 2021. But 2022 was another slow year for fintech, with

investments seeing a sharp decline in value (Figure I.19). With over half of all investments made in the sector, the Americas drew the greatest attention (KPMG, 2023).

Figure I.19: Investments into fintech companies globally
(Billion $US)



Source: KPMG (2023), p. 8

I.B.2 Increase in digital trade

The growth of digital technologies has coincided with a surge in digital trade or business conducted through electronic methods, commonly called e-commerce. All types of digital trade are made possible by digital technologies, but not all digital trade is delivered digitally. In general, it is accepted that digital trade refers to digital trading in goods and services that can be provided physically or digitally and that involves consumers, businesses, and governments (López-González and Jouanjean, 2017).

More specifically, digital trade comprises digitally ordered but physically delivered goods and services (e-commerce); digitally ordered and digitally delivered services and products such as entertainment, publishing, software, financial services, music, and games; and digital knowledge and information (Azmeh, S., Foster, C., and Echavarri, J. 2020). Digital trade has highly improved transaction efficiency and significantly reduced trade costs.

A global survey conducted by Reuters in cooperation with Avalara about cross-border e-commerce adoption among manufacturers and retailers shows that 56% of businesses globally make cross-border sales through online platforms. While 8% of companies plan to do the same, 36% have reported not selling online abroad (Figure I.20).

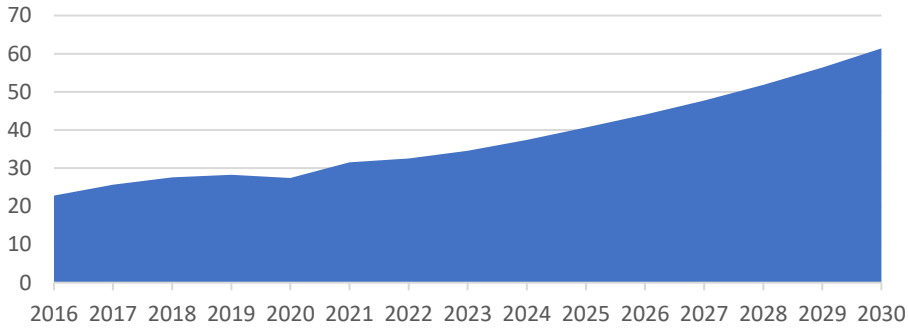
The total estimated value of e-commerce transactions worldwide, including sales to B2B, B2C, and B2G clients, was $32.6 trillion in 2022 and is projected to

grow to $61.4 trillion by 2030, representing an 88% growth. Between 2016 and 2022, the value of global e-commerce transactions increased by 43% (Figure I.21).

Figure I.20: Percentage of manufacturers and retailers selling online abroad worldwide *(2023)*

Source: Avalara and Reuters (2023).

Figure I.21: Global value of e-commerce transactions *(Trillion $US)*



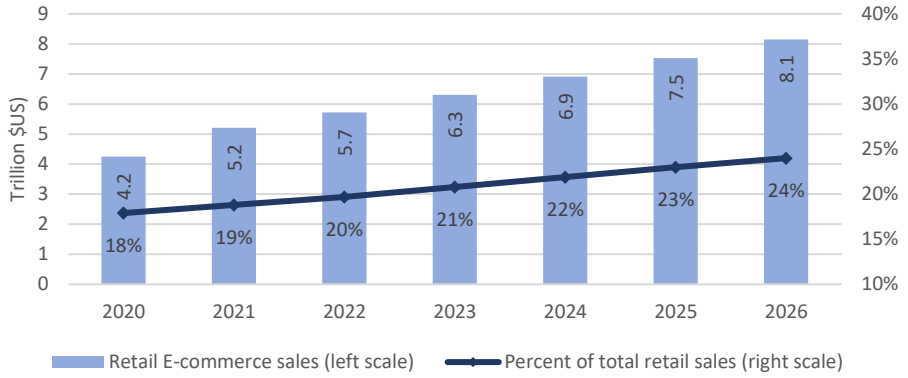
Source: Passport (2022, December).
Note: The data includes companies' sales to B2B, B2C and B2G clients.

Selling items directly to the final consumer through digital trade is known as retail e-commerce, and it reached a global value of $5.7 trillion in 2022 from $5.2 trillion in 2021. eMarketer projects that the global retail e-commerce industry will continue to grow, making up over 24% of all retail sales worldwide (Figure I.22).

Figure I.23 shows that the real growth of global retail e-commerce is slowing down from COVID-19 pandemic-induced highs. During the height of the pandemic, the transition towards e-commerce intensified quickly, and in 2020, the record growth rate of goods sold online peaked at 29%. Global retail e-

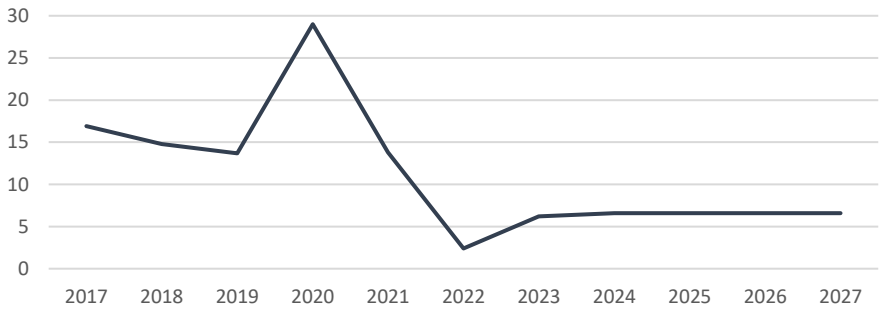
commerce rose by only 2.4% in 2012 and is expected to grow by 6% in 2023, with growth rates staying in the single digits throughout the forecasted period until 2027 (Figure I.23). It could be said that e-commerce growth rates have been normalized and influenced from the global economic slowdown, which means that digital trade is no longer immune to economic forces as it once was.

Figure I.22: Global retail e-commerce sales
(trillion $US)



Source: eMarketer (2022).

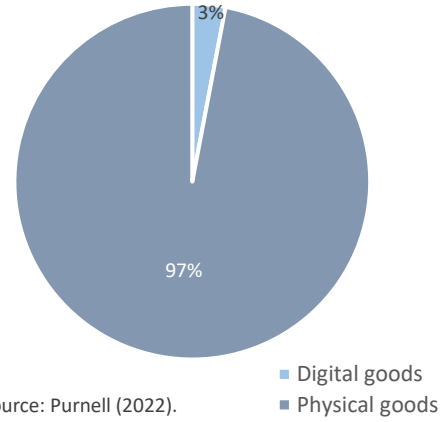
Figure I.23: Global retail e-commerce real growth
(Percent)



Source: Passport.

The global cross-border e-commerce market has experienced significant growth in recent years. This growth has led to a rise in physical and digital products sold across borders. However, most cross-border digital trade transactions involve purchasing and selling physical goods. According to forecasts from April 2022, physical goods will make up 97% of all cross-border online purchases in 2023, while digital goods will make up only 3% (Figure I.24).

Figure I.24: Physical and digital products share of global cross-border e-commerce *(2023)*

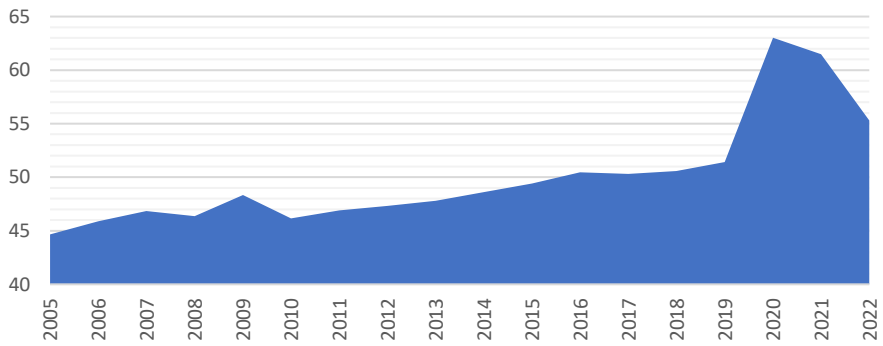


Source: Purnell (2022).

Fast technological development makes services more prevalent in international e-commerce transactions. Many services, such as e-learning, e-health, and travel booking, are provided remotely. ICT advancements create the infrastructure required for new digital services to appear (Smeets, 2021). The share of globally exported digitally deliverable services has experienced significant growth, increasing from 44.7% in 2005 to a peak of 63% in 2020. However, it saw a slight decrease to 61.5% in 2021 and further declined to 55.3% in 2022 (Figure I.25). Still, the UNCTAD estimates show that exports of digitally deliverable services increased by 3% worldwide in 2022, reaching $3.94 trillion.

While developed countries continue to dominate trade in digitally deliverable services, the share of developing countries has increased from 19% in 2010 to 24% in 2022, with China accounting for a significant portion.

Figure I.25: Global export of digitally-deliverable services *(percentage of total trade in services)*

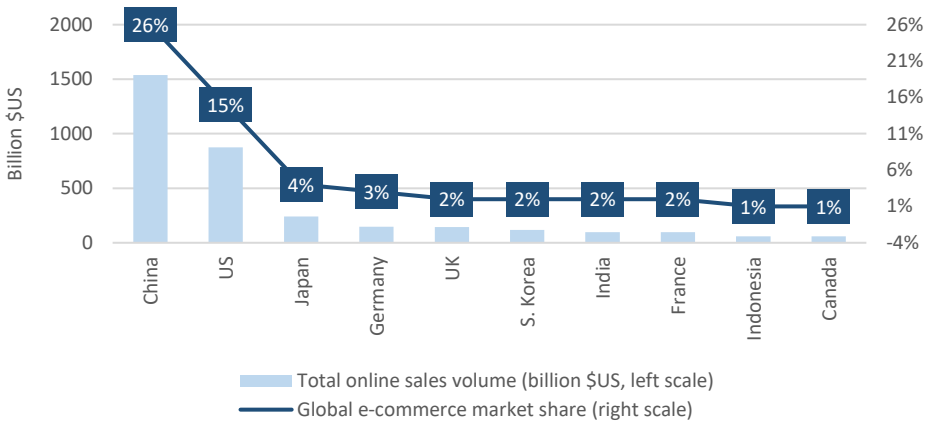


Source: UNCTADstat.

In 2022, China topped the worldwide e-commerce sales rankings, accounting for over $1.5 trillion, or 26% of the global market value. The US came in second place with $875 billion, or 15%, and Japan in third place with $241 billion, or 4%.

The remainder of the Top 10 nations (Germany, the United Kingdom, South Korea, India, France, Indonesia, and Canada) combined accounted for 12% of the world's e-commerce revenues in 2022 (Figure I.26).

Figure I.26: Countries with the highest e-commerce market value in the world *(2022, billion $US and percent)*



Source: E-Commerce Nation (2023).

I.B.3 Implications of digitalization for foreign direct investment

There is currently no legal definition for digital FDI (Chaisse, 2023: 77). However, it has already become clear that digital FDI has become a vital component of the world economy. Digital FDI is about attracting investment to grow the digital economy. FDI, in general, can assist the host nation in developing its digital economy by supporting the building of physical infrastructure and consumer services of telecommunications and the Internet, helping in the digital transformation of established businesses, and developing indigenous digital businesses (ESCAP, 2023: 2).

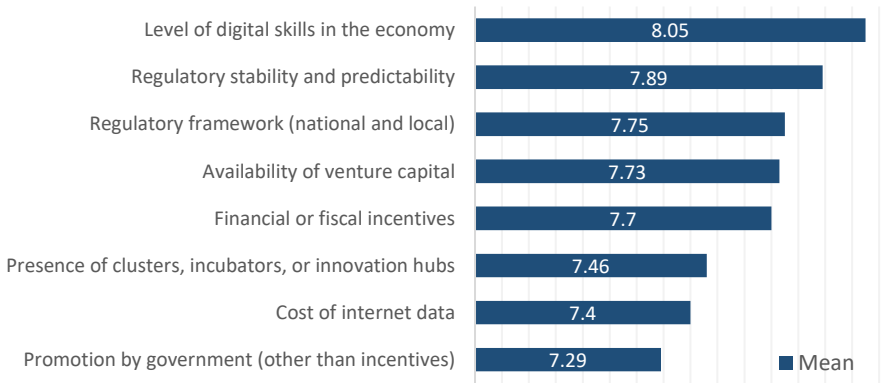
FDI could be realized in digitally oriented sectors, such as acquiring or creating data centers, e-commerce platforms, and other digital infrastructure. FDI plays a crucial role in developing and growing specific technologies due to their potential for innovation, including information technology, biotechnology, renewable energy, artificial intelligence, robotics, nanotechnology, and telecommunications. There is an increase in knowledge-oriented FDI, meaning that foreign investors are doing more innovation outside their home country (Chaisse, 2023: 76).

Furthermore, FDI can significantly impact any sector by enabling technology transfer, encouraging innovation, providing financial support, and generally developing infrastructure. Still, because they can facilitate the digitization of other industries, FDI is comparatively more significant in areas such as (1) communications and (2) software & and IT that are considered as "structural digital enables," and in four more "supportive digital enablers" namely (3) business machines and equipment, (4) consumer electronics, (5) electronic components, and (6) semiconductors (Stephenson et al., September 2021: 13-14).

Nations should strategically enhance their digital competitiveness and direct FDI into targeted sectors to support local digital development efforts. Further, governments should have the necessary digital infrastructure in place to draw in digital investment at the desired levels. Insufficient infrastructure may prevent a country from drawing in sufficient digital FDI.

Developing a digital-friendly investment climate and supporting it with necessary rules, regulations, procedures, and infrastructure are also essential to attracting digital FDI. One of the critical elements of a digital-friendly investment climate is the presence of supportive government policies to create an enabling environment for digital FDI.

Figure I.27: How important are the following for investing abroad in the digital economy?



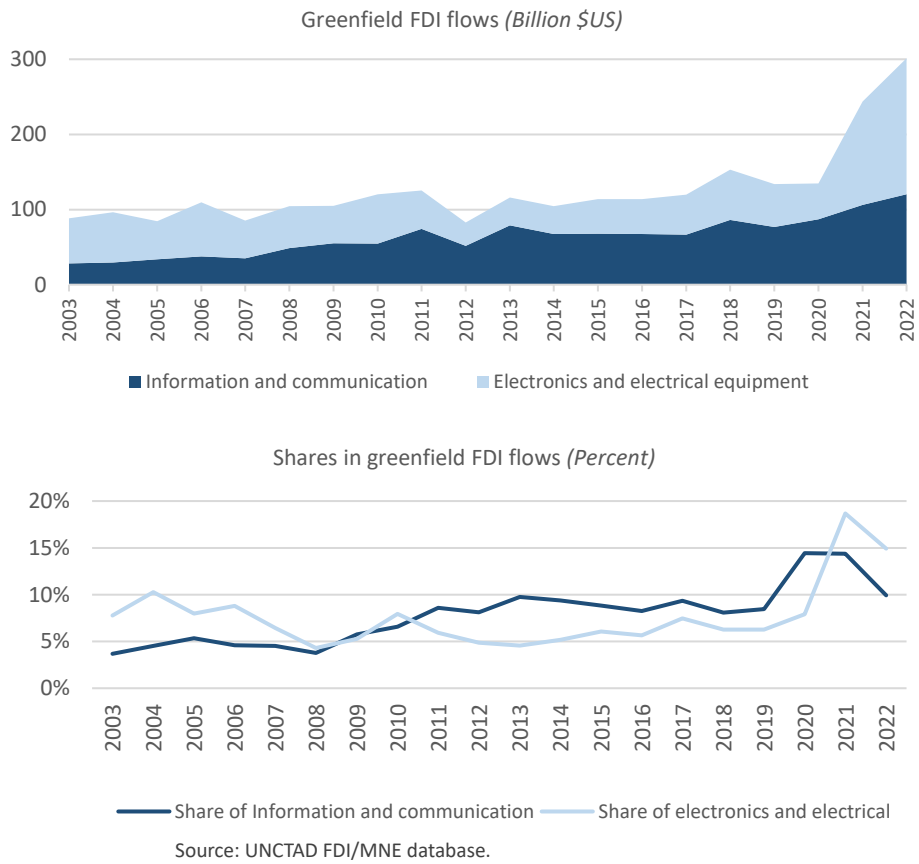
Source: WEF (2020, September).
Note: Survey with 310 firms from the United States (170), the United Kingdom (50), India (30), Japan (20), Canada (20), and China (20).

When determining whether to invest in the digital economy, investors primarily consider three factors: the level of digital skills, regulatory stability and predictability, and the regulatory framework in the economy. These are the findings of the survey conducted by the World Economic Forum with senior

representatives of 310 companies from the United States, the United Kingdom, India, Japan, Canada, and China, which are presented in Figure I.27. Findings of similar studies shows that multinational enterprises (MNEs) tend to invest in countries with better digital infrastructure when choosing transnational investment destinations (Chaisse, 2023: 75).

E-commerce has increased the importance of information and communication, which attract significant amounts of FDI. In 2022, the value of global greenfield FDI directed to information and communication reached $120.4 billion, representing 10% of total greenfield FDI flows worldwide (Figure I.28).

Figure I.28: Global greenfield FDI flow into information and communication, and electronics and electrical equipment sectors



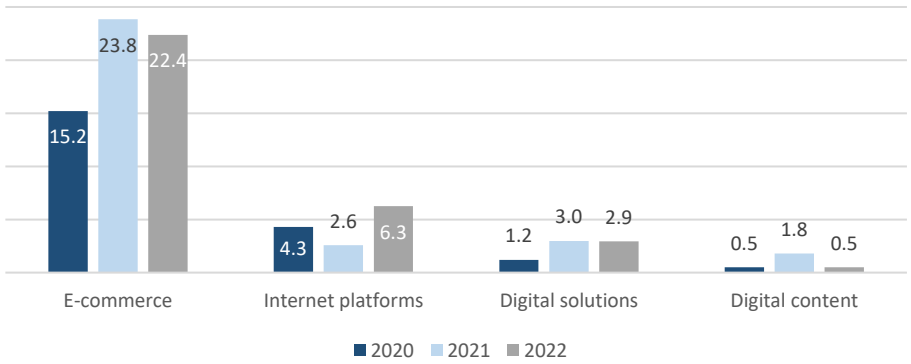
Source: UNCTAD FDI/MNE database.

Another significant part of digital FDI, greenfield FDI to the electronics and electrical equipment sector, skyrocketed in 2021 and 2022. Greenfield flows to this sector increased from $47.7 billion in 2020 to $137.9 billion in 2021 and to $180.9 billion in 2022. The total share of global greenfield FDI directed to

information and communication and the electronics and electrical equipment sectors totaled 25% (Figure I.28).

The term "digital industries" describes economic sectors whose operations, goods and services largely depend on digital platforms and technologies. Digital content, digital solutions, e-commerce, and Internet platforms are the four pillars of the UNCTAD classification of the digital industries. The value of greenfield FDI to these digital industries climbed by 47% between 2020 and 2021 and just 3% between 2021 and 2022 to reach around $32.1 billion in 2022. From 2021 to 2022, the value of greenfield FDI increased only for Internet platforms—businesses that use the Internet to operate and distribute their goods. However, the e-commerce pillar of digital industries attracted significantly more greenfield FDI from 2020 to 2022, as shown in Figure I.29.

Figure I.29: Announced greenfield projects in digital industries
(Billion $US)



Source: UNCTAD (2017) and UNCTAD (2023).
E-commerce: Online platforms that enable commercial transactions, including Internet retailers and online travel agencies. Delivery may be digital (if the content of the transaction is digital) or physical (if the content is tangible*).*
Internet platforms: Digitally born businesses that operate and deliver through the Internet, e.g., search engines, social networks, and other platforms, such as for sharing.
Digital solutions: Internet-based players and digital enablers, such as electronic and digital payment operators, cloud players, and other service providers.
Digital content: Producers and distributors of goods and services in digital format, including digital media such as video and TV, music, e-books- games, and data and analytics. Digital content can be delivered through the Internet but also through other channels, e.g., cable TV.

Digital technologies are changing how businesses strategize and organize internationally. Improved access to information thanks to digital innovations enables companies to modify their product plans and production decisions more quickly, which will play a positive role in enterprises' overseas investment (Peng, Yang, and Jiang, 2022: 4)

Digitalization offers companies new ways to interact with international clients and lowers the capital needed to compete effectively in a foreign market. For instance, virtual entrance modes that improve exporting chances, like online platforms or firm-specific websites, greatly expand the possible customer base that a company can access.

Virtual communication platforms make immediate cross-border information sharing via social media or video conferencing possible. Businesses can service international markets with augmented reality and additive manufacturing (3D printing) without necessarily establishing physical facilities in the country. Furthermore, cross-border financing, historically a source of difficulty for companies, has become quicker, cheaper, and more secure with blockchain technologies. On the other hand, the practice of "work from anywhere" has made it possible to hire people who are located abroad. It is even possible to use human resources located in remote areas for specific tasks, like creating logos (Meyer et al., 2023: 578-579).

Digital transformation enables companies to develop business-to-business (B2B) networking abroad and cultivate business relationships. B2B digital platforms offer a massive advantage, particularly for SMEs, by making it easy for them to find and connect with the right kind of suppliers, learn about their products, and make business transactions, thus facilitating the coordination of global value chains. As people and businesses increasingly use online means of buying and selling, global value chains are becoming increasingly digitalized.

I.C Digital technologies and foreign direct investment services promotion

IPAs are at the forefront of national efforts to attract FDI, boost productivity, enhance overall competitiveness, and support sustainable economic growth. In the current volatile global economic environment, where change is desperately needed, IPAs must continually assess their strategy to attract suitable investors. According to the survey results of the OCO Global-WAIPA Innovation Report 2023, for 29% of responding IPAs, current global uncertainty is damaging investors' confidence and slowing down or delaying FDI plans (OCO Global and WAIPA, 2023: 7).

Governments have recently begun using IPAs as a strategic tool to augment international companies' investments in the host nation. From 1985 to 2015, the number of countries with IPAs has quadrupled (Martincus and Sztajerowska, 2019: XXI). 85% of the IPAs in developing countries were established in 1980 or later. Traditionally, IPA's primary role is to inform foreign investors about the

nation's investment climate and to encourage and support them in making new or additional investments there (Ni, Todo, and Inui, 2017: 232). However, today, IPAs are expected to contribute to a growing array of economic and social goals, including innovation, digitalization, regional development, sustainability, and talent attraction, in addition to their primary role.

Digital technologies have revolutionized various aspects of IPA's efforts to promote and attract FDI. Countries are increasingly investing in digitalizing the process of investing and establishing a foreign affiliate. Further, IPAs are developing different modules, online interactive platforms, and virtual fairs to promote and attract FDI and are improving their digital customer support services, enabling them to perform their duties more efficiently (UNCTAD, 2023, January). Digital tools and practices used by IPAs are summarized in Table I.1.

Table I.1. Types of digital tools used by IPAs

IPA functions	Digital tools and practices
Investment promotion	IPA websites, social media, online investment guides (iGuides), digital platforms featuring investment opportunities, digital benchmarking tools, automated value proposition generation tools
Investment facilitation	Step-by-step online information portals (eRegulations), investment maps, online single windows (eRegistrations), digital site selection maps, guided virtual tours, digital comparison tools, project monitoring platforms, incentive calculator tools
Aftercare services and policy advocacy	Customer relations management (CRM) systems, online investor surveys, business linkages matchmaking exchanges, online supplier databases, virtual grievance consultations

Source: UNCTAD (January 2023: 2).

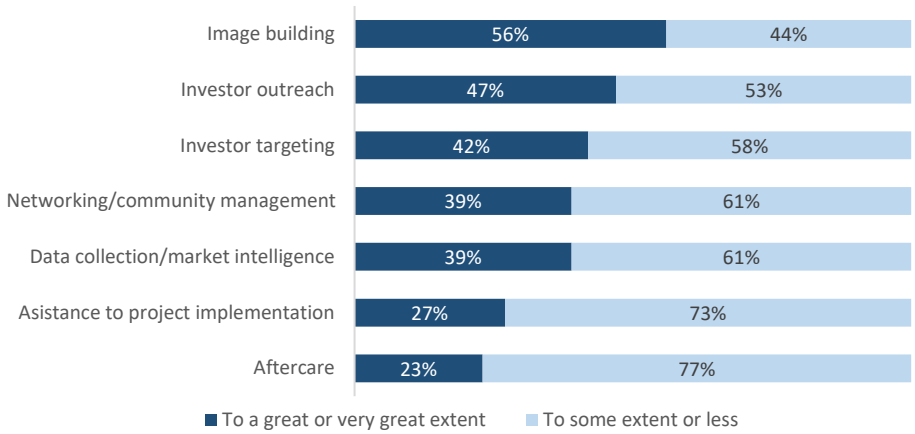
Digital technologies have transformed the way IPAs communicate with investors and stakeholders. Websites, social media platforms, and video conferencing have made it easier for IPAs to share information, engage with potential investors, and promote their investment opportunities. This improved communication has increased transparency, enabling IPAs to build trust with investors and foster long-term partnerships. Otherwise, one of the main obstacles preventing businesses from investing abroad is the difficulty in collecting information (Peng and Jiang, 2022: 3-4). In addition to resolving information asymmetries, IPAs either directly or indirectly enhance the general investment climate or shape local or national regulatory frameworks in response to investor demand (Crescenzi, Di Cataldo and Giua, 2021: 3).

Big data analytics enables IPAs to analyze vast amounts of information to identify investment trends, assess potential risks, and develop targeted investment promotion strategies. By improved understanding of the evolving context, trends, and investor needs, policymakers in line ministries and IPAs can jointly develop coherent investment policies to target and promote FDI in the digital economy more effectively.

Digital technologies have also contributed to streamlining administrative processes and reducing bureaucratic barriers for investors. Online platforms, electronic filing systems, and digital signatures have simplified obtaining permits, licenses, and other regulatory approvals. This has significantly reduced the time and cost of setting up a business, making it more attractive for investors.

Virtual reality (VR) and augmented reality (AR) technologies are altering the way IPAs showcase their investment opportunities. By using VR and AR, IPAs can provide immersive experiences, allowing investors to explore potential investment sites and understand the local business environment without physically visiting the location.

Figure I.30: To what extent are you leveraging digital tools for the following activities? *(2023)*



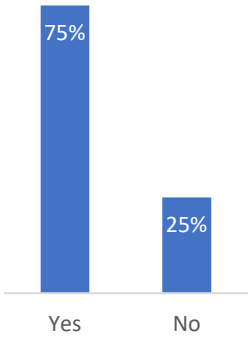
Source: OCO Global and WAIPA (2023).
Note: Survey 74 IPAs from around the world conducted between November 2022 and March 2023.

The OCO Global-WAIPA Innovation Report 2023 survey results found that digital tools are well adopted for image building by 56% of 74 surveyed IPAs and for investor outreach by 47% of them. However, digital tools are not yet fully utilized for the following crucial tasks: Investor targeting (only 42% of IPAs), market intelligence (only 39% of IPAs), community management (only 39% of IPAs), and

aftercare (only 23% of IPAs) (see Figure I.30). 23% of surveyed IPAs have reported that limited resources prompt a need for innovative marketing and promotion strategies and tools (OCO Global and WAIPA, 2023: 7-9). According to the same survey, 49% of IPAs have created a talent attraction plan in addition to an investment attraction strategy. Software and IT professionals are in high demand (73% of IPAs), followed by those in healthcare (58%) and advanced manufacturing (53%).

Recent studies show that IPAs started using more resources to draw FDI into the digital economy. Before the COVID-19 pandemic, just over half of the OECD IPAs allocated at least 25% of their resources to the promotion of digital FDI; this proportion rose to over 75%, and it is predicted to surpass 90% soon (Crombrugghe and Moore, 2021: 1).

Figure I.31: Have you developed a specific strategy to attract quality FDI projects?



Source: OCO Global and WAIPA (2023).
Note: Survey 74 IPAs from around the world conducted between November 2022 and March 2023.

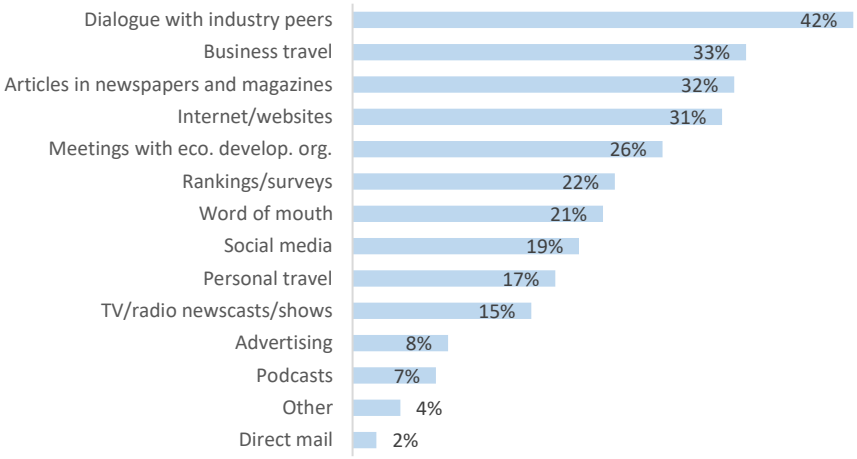
On the other hand, many IPAs have started to target "quality FDI." There is no clear definition of quality FDI. Still, it could be said that FDI aligned with the IPA's target sectors that bring technological advancement, diversity, and prosperity to the economy could be considered quality FDI. For example, by 2030, most countries aim to achieve net zero emissions. As a result, any investment that promotes the growth of renewable energy sources qualifies as quality FDI. 75% of IPAs that took part in the recent OCO-WAIPA survey have reported that they have developed a specific strategy to attract quality FDI projects (Figure I.31).

It should be noted digital infrastructures are increasingly more important than traditional infrastructures in drawing in foreign direct investment. Empirical research shows that FDI is significantly impacted by digital infrastructure in the short and long terms, and it also highlights the significance of digital public services over the long term (Ha and Huyen, 2022: 180-186).

IPAs tend to learn from each other and keep an eye on what other agencies offer to companies in similar target sectors to remain competitive. Still, the degree to which host countries can absorb and hence benefit from FDI depends on local factors (Chitambara, 2021: 219). Further, many factors influence awareness of a location for investment purposes. In a survey conducted by Development Counsellors International with 306 corporate executives with site-selection

responsibilities in the United States, respondents were asked to select the leading information sources influencing executive perceptions of an area's business climate. Respondents could choose up to three of the 13 provided responses. As shown in Figure I.32, dialogue with industry peers (42%) is the top influencer on perceptions of an area, followed by business travel (33%), articles in newspapers and magazines (print and online, 32%), and Internet/websites (31%). Direct mail is the least influential source of information.

Figure I.32: Leading sources of information influencing executive perceptions of a location's business climate *(2023)*



Source: DCI (2023).

While integrating digital technologies presents numerous opportunities for IPAs and FDI services, it also comes with its own challenges. These include the need for significant investment in technology infrastructure, cybersecurity concerns, and the necessity for upskilling the workforce to leverage these technologies effectively. However, by proactively addressing these challenges, IPAs can harness the full potential of digital technologies to attract FDI and drive economic growth.

Looking ahead, it is clear that digital technologies will continue to play a pivotal role in shaping the strategies and operations of IPAs and FDI services. Embracing these technological advancements will be crucial for staying competitive in the global landscape of FDI attraction.

Developing a capacity-building program between OIC IPAs would help exchange best practices in digitalization efforts. Policy dialogue forums could be considered in collaboration with ICDT, IsDB, WAIPA, and other regional IPA associations.

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IMF, Direction of Trade Statistics, https://data.imf.org/?sk=9d6028d4f14a464ca2f259b2cd424b85

ITU, International Telecommunication Union, World Telecommunication/ICT Indicators Database, www.itu.int.

Passport, www.euromonitor.com

UNCTAD, FDI/MNE database, https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock

UNCTAD, cross-border M&A database, https://unctad.org/topic/investment/world-investment-report

CHAPTER

II

Foreign direct investment in OIC countries

II.A Inward foreign direct investment

The Organization of Islamic Cooperation (OIC) is a diverse group of 57 member states spanning four continents and is home to a significant portion of the world's population. Foreign direct investment (FDI) in the OIC countries has been a topic of interest due to the potential for economic growth and development in these nations.

Abundant natural resources, favorable geographic locations, a young and growing population, and untapped market potential present opportunities for FDI inflows into many sectors of OIC economies. Still, global economic conditions, regional stability, and domestic policy reforms have influenced the trends in FDI flows to OIC countries.

II.A.1 Characteristics of foreign direct investment entries to OIC countries

The inward FDI stock in OIC countries has been increasing steadily (Figure II.1), albeit at different rates across member states. Inward FDI stock refers to the total value of FDI held in a country at a given point in time. It reflects the cumulative impact of past FDI inflows on a country's economy. As of 2022, the inward FDI stock accumulated in OIC countries reached nearly $2.35 trillion, showing an increase from $2.25 trillion in the previous year, representing a growth of 4.3%.

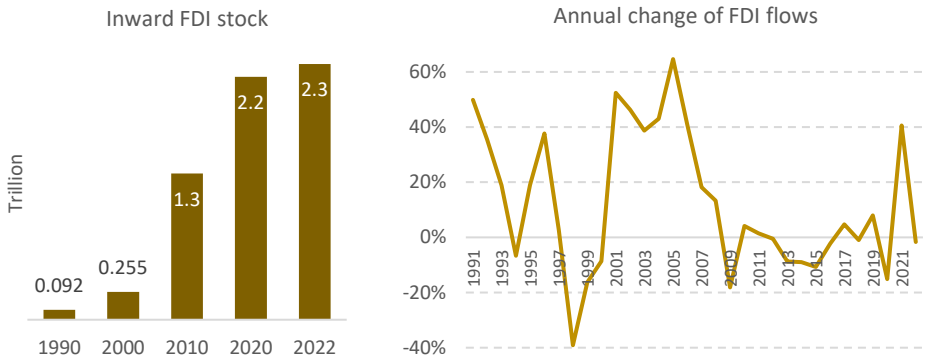
In contrast to inward FDI stock, inward FDI flows are subject to significant fluctuations driven by economic conditions, government policies, global events, and sector-specific factors. The inward FDI flows represent the amount of FDI that flows into a country within a specific period, usually annually. As shown in Figure II.1, inward FDI flows to OIC countries have been subject to significant fluctuations in the last three decades.

The economic transitions and transformation period of the 1990s, the 2018 global financial crisis, and the COVID-19 pandemic have significantly impacted FDI flows to the OIC group of countries. These events have influenced investment decisions, leading to fluctuations in FDI flows over the years.

The 2000s saw one of the most robust bull-era of globalization, and thus, FDI flows increased globally (Chirilă-Donciu, 2013). This global trend had a similar reflection on the FDI towards OIC countries. In 2020, FDI flows to OIC economies decreased by 15% due to the COVID-19 pandemic's disruptive effects on global trade, supply chains, and investment activities. In 2021, FDI flows to OIC economies increased by 41% compared to the previous year, reflecting a

rebound in investor interest as global economic conditions improved. In 2022, following global trends, FDI flows to OIC countries experienced a marginal decrease of 2% (Figure II.1).

Figure II.1: Inward FDI stock and flows of OIC countries
(Trillion $US and percent)



Source: UNCTAD, FDI/MNE database.

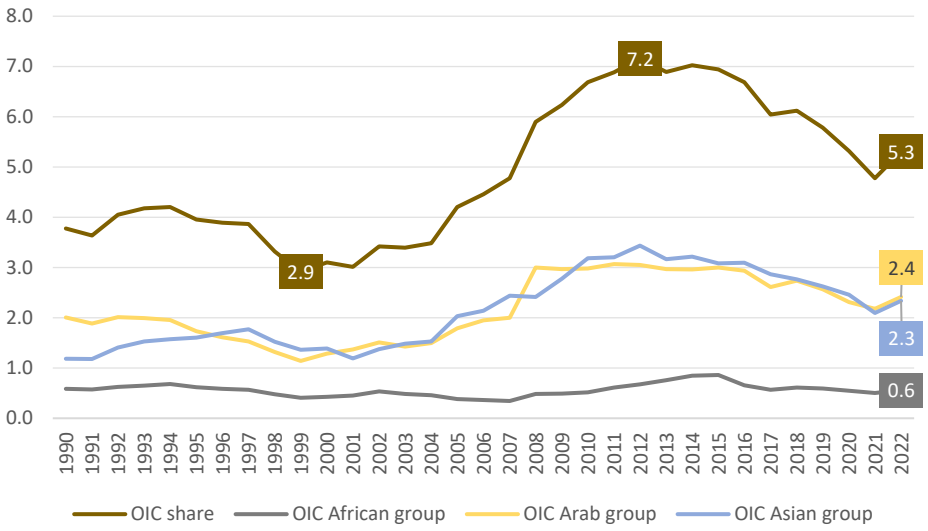
Countries' global inward FDI stock share reflects the ability to attract and retain FDI. A higher share indicates that a country is successful in attracting FDI compared to others, reflecting competitiveness in terms of market size, economic stability, infrastructure, regulatory environment, and overall business climate. Conversely, a lower share may signal challenges or limitations that hinder a country's ability to compete for FDI (Uddin et al., 2019).

Since 2012, the global inward stock share of FDI for OIC nations has experienced a decline, with a peak share of 7.2% in 2012 dropping to 4.7% in 2021. This trend has consistently declined, except for slight increases in 2014 and 2018. However, in 2022, there was a 0.6% point increase, primarily driven by contributions from the OIC Asian and Arab groups and minor contributions from the OIC African group. In 2022, the OIC share of global inward FDI stock was 5.3% (Figure II.2). While the OIC Arab group and the OIC Asian group host an almost equal share of 45% of all the investment stock within OIC, the OIC Africa Group's share stands at 10%.

The consolidation in OIC countries' global share of FDI stock may be partly driven by various domestic factors, such as economic reforms and efforts to improve the business environment. Still, compared with the findings of Chapter I of this report, the increase of OIC share of global inward FDI stock seems to be influenced by disinvestment and reduction in FDI flows to developed countries

due to global economic dynamics, geopolitical shifts, and changes in investment patterns among multinational corporations.

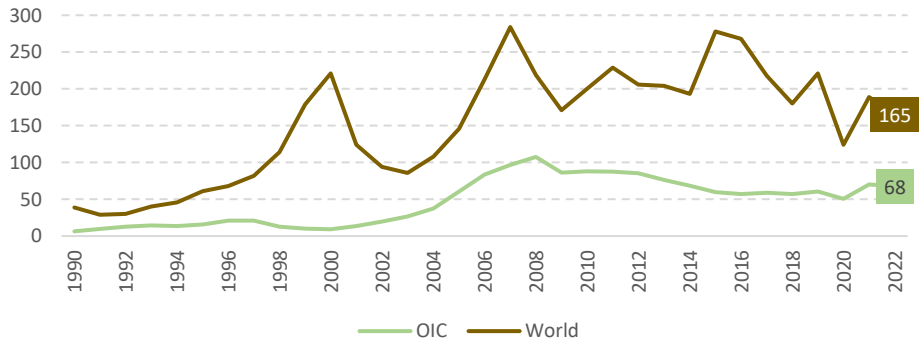
Figure II.2: OIC share of global inward FDI stock
(Percent)



Source: UNCTAD, FDI/MNE database.

FDI flows per capita measures the amount of FDI a country receives relative to its population. This indicator can reveal the country's attractiveness as an investment destination. Higher inward FDI flows per capita generally indicate that a country successfully attracts FDI. In contrast, lower inward FDI flows per capita may suggest that a nation faces challenges in attracting foreign investment, which could impact its economic development and competitiveness in the global market. Figure II.3 shows that FDI flows per capita to the OIC group

Figure II.3: Inward FDI flows per capita
($US in current prices)

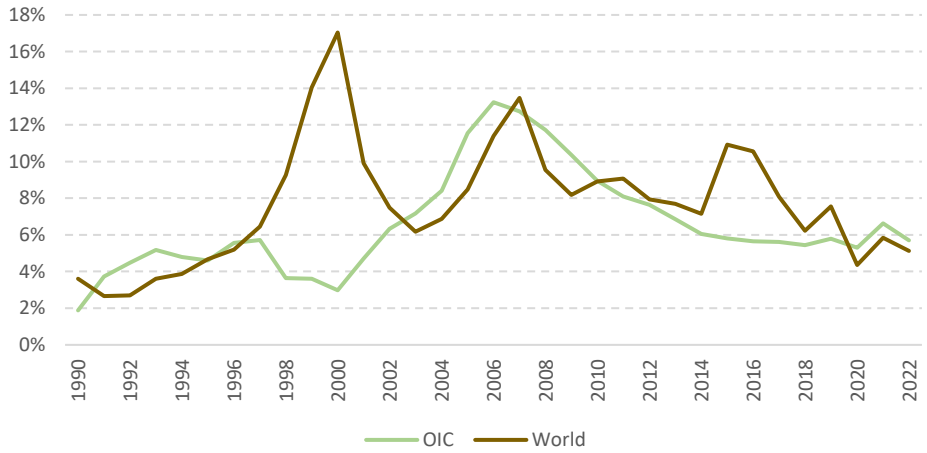


Source: UNCTAD, FDI/MNE database and World Bank.

of countries is 2.4 times less than the global value. In 2022, this value for OIC countries was $68, compared to $165 of world value.

The ratio of inward FDI flows to gross fixed capital formation (GFCF) is a crucial metric for assessing the role of foreign investment in driving domestic capital formation. A higher percentage indicates that FDI is driving a significant portion of the country's capital formation. This can have various economic implications, including technology transfer, job creation, and overall economic growth. From 2000 to 2006, the role of FDI in the OIC economies was significant. In 2006, the share of inward FDI flows in GFCF reached 13%. However, this value significantly decreased in the last fifteen years to only 6% in 2022. In the 1997-2001 and 2011-2019 periods, the OIC group of economies benefited less from the FDI compared to the values of the world (Figure II.4)

Figure II4.: FDI inflows as a ratio to gross fixed capital formation
(Percent)

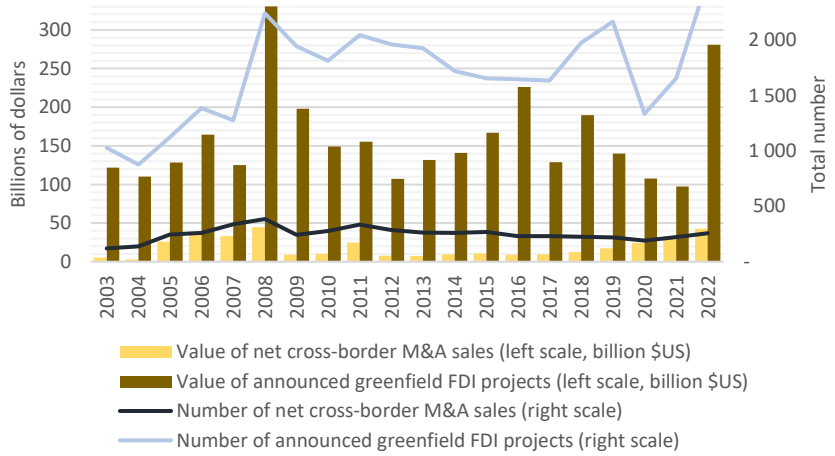


Source: UNCTAD, FDI/MNE database, World Bank and GlobalData.

Existing statistics on greenfield FDI projects and net cross-border M&As show that OIC countries are much more attractive for greenfield FDI projects. In 2022, the estimated value of announced greenfield projects ($280.9 billion) was 6.6 times higher compared to net cross-border M&A transactions ($42.5 billion) targeting OIC countries (Figure II.5). On the other hand, while greenfield FDI projects were affected by the Covid-19 pandemic with a 23% decrease from 2019 to 2020, net M&As proved to be more resilient in the case of OIC countries and increased by 39% in the same period. In 2021, net cross-border M&A transactions directed to OIC countries increased by 33% compared to the previous year, while the decrease in greenfield projects was 10%. In 2022, greenfield projects were announced to have increased by a record 189% on a year-on-year basis.

Still, figures on announced greenfield FDI projects should be interpreted with caution. UNCTAD provides data on greenfield FDI projects based on information from the Financial Times Ltd, fDi Markets. This data source tracks the capital investment at the date of announcement of the investment, while official data tracks FDI at the date the capital effectively crosses borders. Further, the source estimates the values of greenfield FDI projects when the company does not announce them. fDi Markets data may thus, at times, reflect intentions rather than effectively carried out investments and may significantly differ from official FDI figures.

Figure II.5: Greenfield FDI projects and net cross-border M&A targeting OIC countries *(Billion $US and number)*



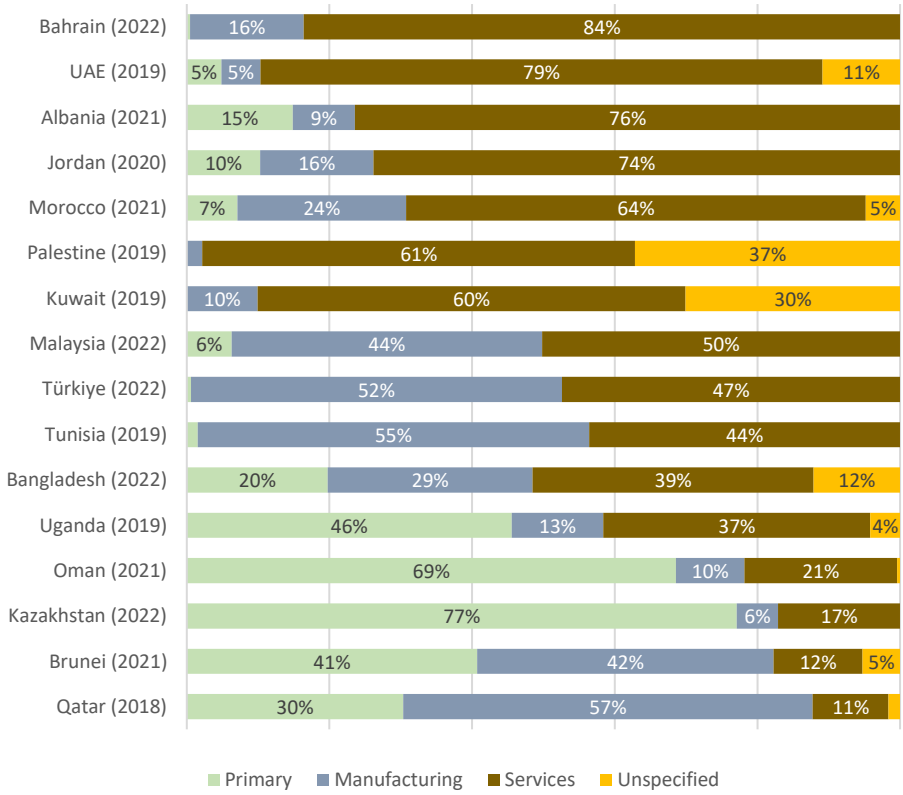
Source: UNCTAD greenfield FDI projects database, based on information from the Financial Times Ltd, fDi Markets; UNCTAD cross-border M&A database.
Note: Greenfield FDI projects values refer to estimated amounts of capital investment. UNCTAD values and numbers referring to cross-border M&As exclude sales of foreign affiliates (already owned by foreign MNEs) to other foreign MNEs. Divestments (sales of foreign affiliates to domestic firms) are subtracted from the value (number).

Figure II.6 shows the sectoral distribution of inward FDI stock between the primary sector, manufacturing, and services for 16 OIC countries with available official data. The primary sector includes activities related to natural resources, such as agriculture, forestry, fishing, mining, and quarrying. Inward FDI in the primary sector often indicates foreign investment in the extraction and production of raw materials. As expected, due to natural resources, the significance of the primary sector remains high for some OIC countries in attracting FDI. For example, almost 77% of Kazakhstan's inward FDI stock was accumulated in mining and quarrying in 2022. One of the strengths of Kazakhstan's economy is its significant hydrocarbon and mining resources.

Kazakhstan plans to become a major oil producer and a significant regional gas exporter (IHS Markit, 2021).

Similarly, 69% of Oman's inward FDI stock is concentrated in mining and quarrying. However, as hydrocarbon resources diminish over the medium-to-long term, Oman's capacity to rely on its hydrocarbon assets will decrease (Hamid et al., 2022). For this reason, Oman must prioritize economic diversification over other economic goals. The availability of significant natural resources in Uganda, such as copper, cobalt, limestone, gold, and largely untapped crude oil and natural gas reserves, makes this country also attractive for investments in mining and quarrying, which pulled almost 45% of Uganda's inward FDI stock as of 2019.

Figure II.6: Sectoral distribution of inward FDI stock
(Percent)



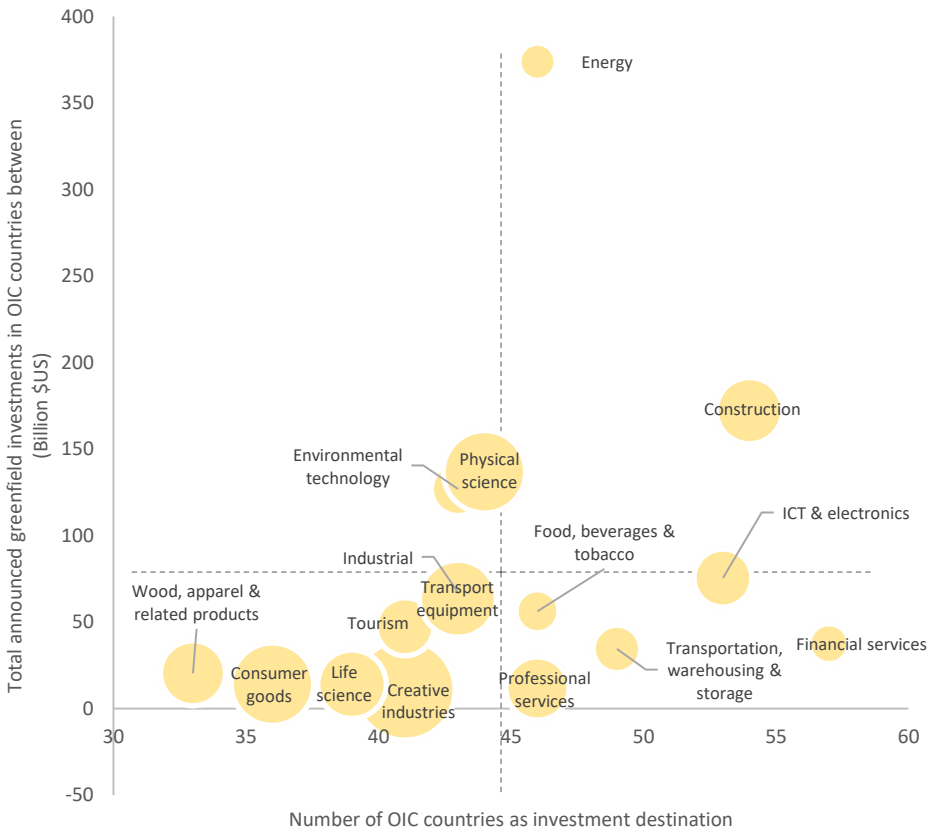
Source: UNCTAD, FDI/MNE database, ITC Investment Map, Office des Changes of Morocco and Central Bank of the Repbulic of Türkiye.

Inward FDI in manufacturing reflects foreign investment in industrial activities, which can lead to the modernization of production facilities, enhancement of

export capabilities, and the transfer of technical know-how. The relative importance of FDI in manufacturing is intricately linked to local economic conditions (Lee, Hon and Makino, 2016). From the given sample of the OIC countries listed in Figure II.6, the manufacturing kept shares above 30% of FDI stock in Qatar, Tunisia, Türkiye, Malaysia, and Brunei, which points to the relatively high integration of these countries into global production chains.

The services sector comprises various economic activities, including finance, tourism, transportation, communication, and professional services. Services account for the bulk of FDI in most OIC countries. During the past decade, most FDI in this sector has been driven by growth in consumer spending. Share of the services sector was above 60% of the inward FDI stock of Kuwait, Palestine, and Morocco, above 70% of Jordan, Albania, and the United Arab Emirates, and 84% of the inward FDI stock of Bahrain (Figure II.6).

Figure II.7: Total announced greenfield investments to OIC countries according to sectors and the number of countries receiving them
(2009-2019, billion and number)



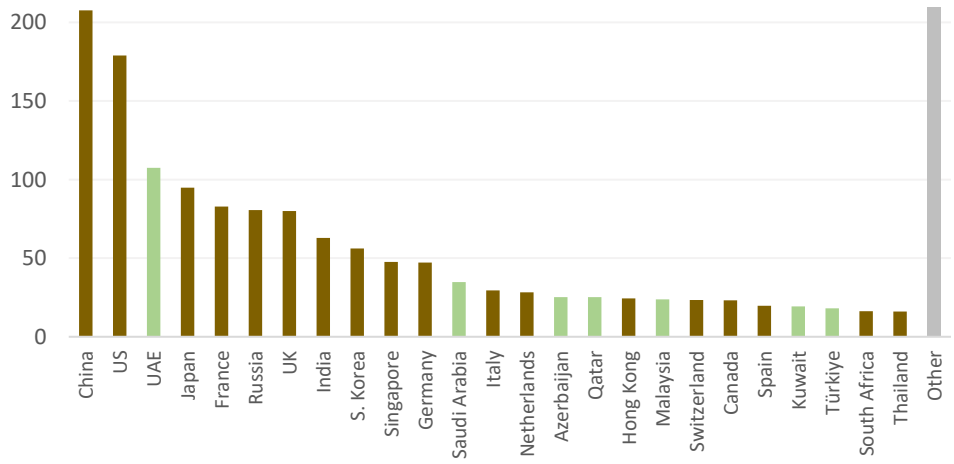
Source: Financial Times Ltd, fDi Markets.

The sectoral composition of announced greenfield investments towards OIC countries shows a more comprehensive picture. The energy and construction sectors had the highest share from 2009 to 2019 and were above average in terms of the number of destination countries and investment value. Being above these averages indicates that these sectors had both depth and breadth for OIC countries during the pre-COVID period. Figure II.7 shows whether the investments were concentrated on a single or a small group of countries or not via calculating the Herfindahl Hirschman Index (HHI). This index measures the competitive intensity and concentration of firms or market share within an industry or market.

The bubble sizes in Figure II.7 represent the market share of individual OIC countries within a related sector. Larger bubbles indicate a concentration of announced greenfield investments in a few OIC countries, while smaller bubbles show that announced greenfield investments in a given sector cover more OIC countries.

Energy, financial services, food, beverages and tobacco, and transportation, warehousing and storage are among the least concentrated sectors within OIC announced greenfield investments, meaning countries have relatively closer shares from the total FDI. The creative industries sector, on the other hand, has the highest HHI index. In attracting investments in creative industries, the top three OIC countries received 58% of the total sectoral investment, while the same rate was 33% in the energy sector.

Figure II.8: 2009-2019 cumulative announced greenfield investments towards OIC countries by source country *(Billion $US)*



Source: Financial Times Ltd, fDi Markets.

The top 25 foreign investors in OIC countries ranked by announced greenfield investments for the period from 2009 to 2019 constitute 86% of the total announced investments to these countries. Almost 25% of greenfield FDI in OIC countries belongs to China and the United States (Figure II.8). The United Arab Emirates and the United States were among the top three investors in OIC countries in the 2003-2009 period, while China was in 7th place. Therefore, the pre-COVID period shows an increasing interest in Chinese investors toward OIC countries, in line with the objectives of the Belt and Road Initiative (Yu, Qian and Liu 2019). Seven OIC countries, namely the United Arab Emirates, Saudi Arabia, Azerbaijan, Qatar, Malaysia, Kuwait, and Türkiye, stand out as significant investors to other OIC countries, which will be further discussed in Chapter 4.

Table II.1: Most essential investors in greenfield projects targeting the OIC Arab group
(2022, ranking by number of projects)

	Value (million $US)	Number of projects	Jobs created	Number of investing companies
United States	20 747	271	21 278	231
United Kingdom	21 356	214	14 874	204
India	28 931	168	19 078	154
UAE	33 451	127	20 121	99
France	20 705	82	12 887	65
Switzerland	982	67	3 285	52
Germany	1 485	46	8 877	43
Singapore	234	41	1 171	41
China	2 535	36	6 162	32
Saudi Arabia	10 808	35	7 185	23
Netherlands	1 677	30	8 302	26
Italy	12 976	27	5 942	22
Hong Kong	1 298	26	6 565	24
Canada	269	24	833	24
Egypt	128	24	916	20
Others Countries	42 652	399	39 613	358
TOTAL	200 234	1.617	177 089	1 418

Source: DHAMAN (June 2023), based on information from the Financial Times Ltd, fDi Markets. N=22 OIC countries.

The annual report published by the Arab Investment and Export Credit Guarantee Corporation titled “Investment Climate in Arab Countries” deserves attention to monitor announced greenfield FDI projects in 22 countries from the OIC Arab group. According to the 2023 report, in 2022, with 271 projects and an estimated value of $20.7 billion, the United States was the top investor in the OIC Arab group when ranked by the number of projects. The United Kingdom (214 projects) and India (168 projects) were the second and third most significant investors, whose total value of announced greenfield investments is estimated at $50.3 billion. In the same period, the value of projects from other European countries listed in Table II.1 (252 projects) amounted to $37.8 billion.

In 2022, the United Arab Emirates became a top OIC investor in greenfield projects targeting the OIC Arab group. When ranked by value created instead of the number of projects, the United Arab Emirates appears as the biggest investor in the OIC Arab group globally in 2022. That year, the estimated value of 127 projects of 99 companies from the United Arab Emirates was nearly $33.5 billion. The United Arab Emirates Masdar and AMEA Power companies working in the renewable energy sector were among the top 10 companies with announced greenfield projects in the OIC Arab group, based on the value created (Table II.2). Saudi Arabia (35 projects, $10.8 billion value) and Egypt (24 projects, $128 million value) were also among the top 15 investors in greenfield projects in the OIC Arab group.

Tables II.2 and II.3 give insight into the most prominent companies that invested in OIC countries in 2022. While Table II.2 focuses on the announced greenfield investments in the OIC Arab group, Table II.3 shows major cross-border deals by the disclosed value in the last two years, targeting all OIC countries.

Table II.2: Top 10 companies investing in the OIC Arab group according to the value of announced greenfield projects *(2022, billion $US)*

Company	Country	Sector	Value
ACME Group	India	Renewable energy	13.0
Eni SpA	Italy	Coal, oil & gas	12.8
Masdar	UAE	Renewable energy	11.2
Globeleq Generation	United Kingdom	Renewable energy	11.0
Total Eren	France	Renewable energy	10.3
Fortescue Future Industries (FFI)	Australia	Renewable energy	10.0
TotalEnergies (Total)	France	Coal, oil & gas	9.2
ReNew Power Ventures	India	Renewable energy	8.0
AMEA Power	UAE	Renewable energy	6.6
Shell PLC (Royal Dutch Shell)	United Kingdom	Coal, oil & gas	6.3

Source: DHAMAN (June 2023), based on information from the Financial Times Ltd, fDi Markets. N=22 OIC countries.

Table II.3: Major cross-border transactions targeting non-financial sectors of OIC countries in 2022 and 2023

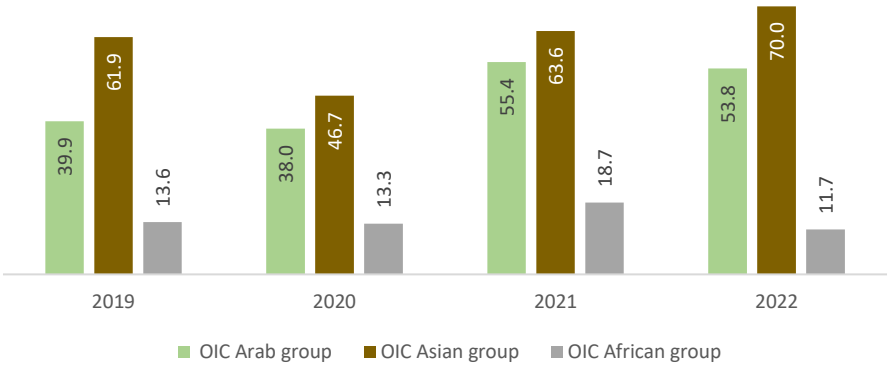
Buyer(s)	Country of buyer	Target company	Country of a target company	Target's main industry	Deal type	Deal stake (%)	Deal value (million $US)
Hassana Investment Company	Saudi Arabia	Jebel Ali Port; Jebel Ali Free Zone; National Industries Park	UAE	Port and harbor operations; warehousing and storage	Minority stake	10,20	2400,00
ACWA Power	Saudi Arabia	Kungrad wind farm project	Uzbekistan	Wind electric power generation	Privatization	100,00	2400,00
Beijing ByteDance Technology Co Ltd	China	PT Tokopedia	Indonesia	Electronic shopping and mail-order houses; software publishers	Acquisition	75,01	1500,00
Mubadala Investment Company PJSC; Abu Dhabi National Energy Co PJSC	UAE	Talimarjan Power Plant	Uzbekistan	Fossil fuel electric power generation	Privatization	80,00	940,00
Mubadala Investment Company PJSC; Abu Dhabi Growth Fund; Alpha Wave Global; Sequoia Capital; Tiger Global Management LLC	UAE; United States	Getir	Türkiye	Couriers and express delivery services; Software publishers	Minority stake	6,50	768,00
Golden Falcon Acquisition Corp	United States	MNG Havayolları	Türkiye	Air transportation	Acquisition	100,00	676,00
Global Investment Holding Company Ltd.	UAE	Eastern Company S.A.E	Egypt	Tobacco manufacturing	Minority stake	30,00	625,00
Alpek SAB de CV	Mexico	Octal Holding SAOC	Oman	Plastics product manufacturing	Acquisition	100,00	620,00
Indorama Corporation Pte. Ltd	Singapore	Indorama Eleme Fertilizer and Chemicals Ltd	Nigeria	Fertilizer manufacturing	Minority stake	15,00	500,00
International Holding Company (IHC)	UAE	Kalyon Enerji	Türkiye	Wind electric power generation; solar electric power generation	Minority stake	50,00	489,96
Liberty Resources Acquisition Corp	United States	Caspi Oil Gas LLP	Kazakhstan	Oil and gas extraction	Acquisition	100,00	427,70
Kohlberg Kravis Roberts & Co LP (KKR)	United States	Oms Group Berhad	Malaysia	Fiber optic cable manufacturing	Minority stake	..	400,00
Apollo Global Management Inc	United States	Aldar Properties PJSC	UAE	Commercial and institutional building construction; residential building construction	Minority stake	..	400,00
Public Investment Fund (PIF)	Saudi Arabia	Misr Fertilizers Production Company S.A.E	Egypt	Fertilizer manufacturing	Minority stake	25,00	394,62
ADQ	UAE	Abu Qir Fertilizers & Chemical Industries	Egypt	Pesticide, fertilizer, and other agricultural chemical manufacturing	Minority stake	21,52	391,90
COSCO Shipping Ports Ltd	Hong Kong SAR, China	Sokhna New Container Terminal	Egypt	Marine cargo handling	Minority stake	25,00	375,00
Zijin Mining Group Co Ltd	China	Rosebel gold mine; Saramacca gold mine	Suriname	Gold ore mining	Acquisition	..	360,00

Source: Research based on cross-border deals with disclosed value profiled by EMIS DealWatch.

II.A.2 Developments in foreign direct investment in the OIC subregions

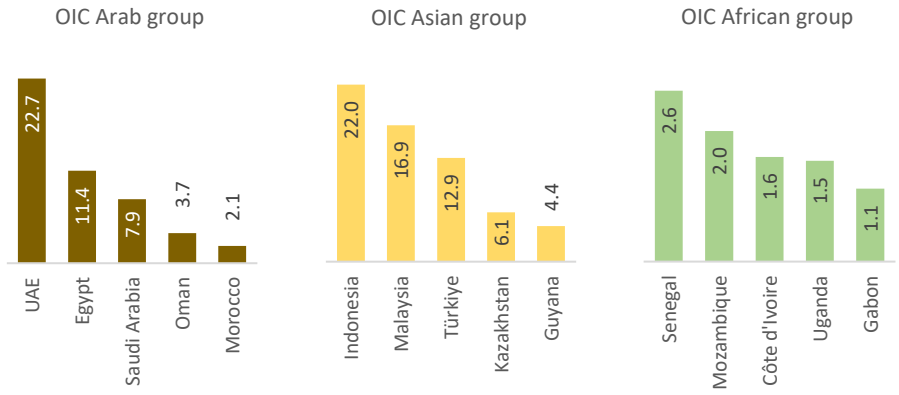
The trends of FDI inflows differ in the main regions of OIC. In 2022, 51.6% of OIC FDI inflows went to the OIC Asian group, 39.7% to the OIC Arab group, and 8.7% to the OIC African group of countries. The most significant weakening in FDI inflows occurred in the OIC African group in 2022, with a $7 billion or 37% decline compared to the previous year. Inflows into the OIC Arab group in 2022 remained at almost last year's level, with only a $1.7 million decline. FDI flows to the OIC Asian group have increased by 10%, reaching $70 billion in 2022 (Figure II.9).

Figure II.9: Inward FDI flows by the OIC country groups
(Billion $US)



Source: UNCTAD, FDI/MNE database.

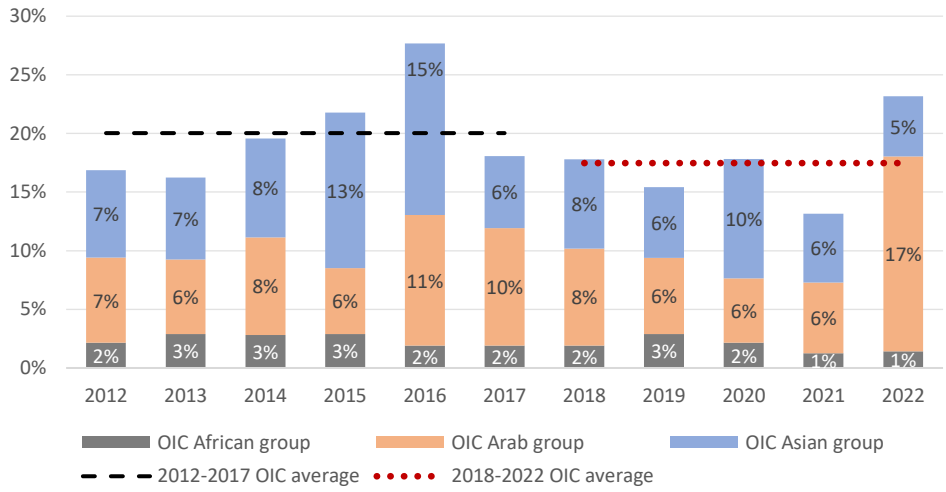
Figure II.10: Top five OIC countries in FDI inflows by country groups
(2022, billion $US)



Source: UNCTAD, FDI/MNE database.

In 2022, 42% or $22.7 billion of FDI flows within the OIC Arab group belonged to the United Arab Emirates. Egypt was the second-most-important host of FDI inflows within this group (21% of the group, $11.4 billion). Indonesia dominated in the inward FDI flows of the OIC Asian group with 31% in 2022 ($22 billion) and was followed by Malaysia ($24%, 16.9 billion) and Türkiye (18%, $12.9 billion). The most significant shares within the inward FDI flows of the OIC African group in 2022 belong to Senegal (22%), Mozambique (17%), Côte d'Ivoire (13%), and Uganda (13%) (see Figure II.10).

Figure II.11: Value of announced greenfield investments to OIC countries as share of global announced greenfield investments *(Percent)*



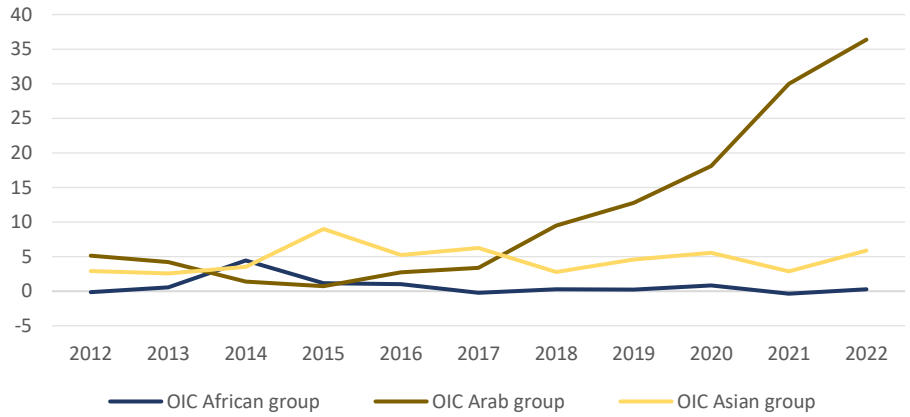
Source: UNCTAD, FDI/MNE database.

Announced greenfield projects, as illustrated in Figure II.5, are crucial to FDI flows to OIC nations. OIC's portion of worldwide FDI stocks is lower than its share in globally announced greenfield projects. Figure II.11 shows an average of 20% of the total value of announced greenfield investments going to the OIC countries in the first half of the last decade. In the second half of the decade, OIC countries' share in global announced greenfield investments averaged 17%. In 2022, the share of the OIC Arab group within the global announced greenfield investments was 17%, which was significantly higher than the shares of the OIC Asian group (5%) and the OIC African group (1%) (Figure II.11).

Concerning the net cross-border M&A flows, Figure II.12 shows that after 2017, the OIC Arab group became much more attractive for this type of direct investment. Moreover, M&A activity in the OIC Arab region has shown a remarkable exception to the general pattern of the slowdown in global M&A deal activity. In 2022, 85.5% of net cross-border M&A flows targeting OIC

countries went to the OIC Arab group, 13.8% to the OIC Asian group, and only 0.6% to the OIC African group. Most M&A flows targeting the OIC Arab group were concentrated in the United Arab Emirates, Saudi Arabia, and Egypt in 2022. The United Arab Emirates and Saudi Arabia witnessed the fastest year-on-year increase in deals. In the United Arab Emirates, M&A flows mainly target consumer markets, technology, industrials, and financial services, supporting the country's efforts to diversify away from oil and gas.

Figure II.12: Value of net cross-border M&A sales by selling OIC country groups *(Billion $US)*

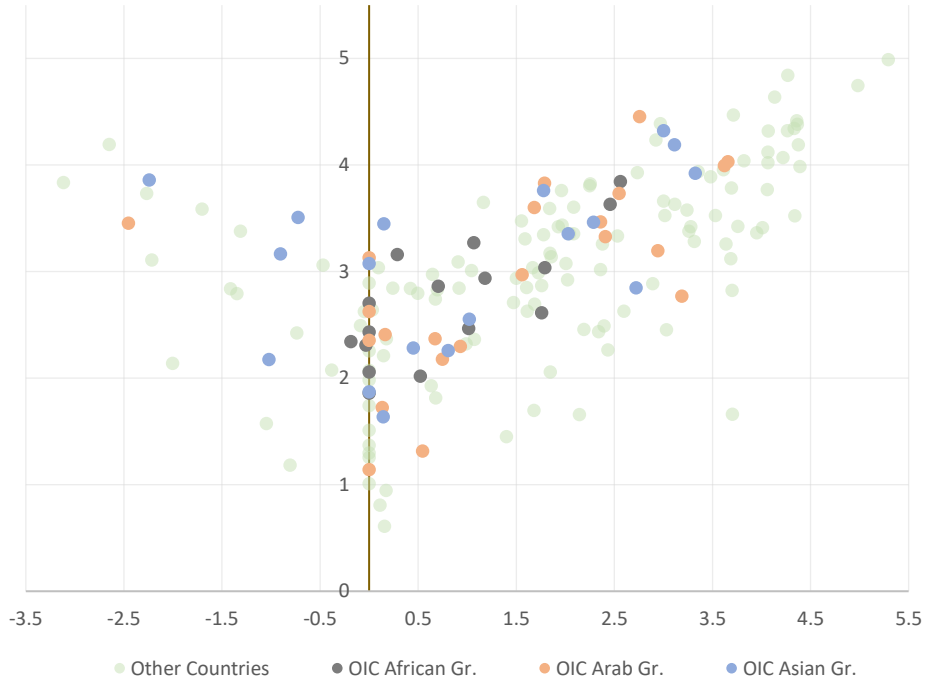


Source: UNCTAD, FDI/MNE database.

Positive and high net cross-border M&A value serves as a rough proxy for the ability of an economy to produce competitive firms and possess an overall attractive market. Empirical studies show that restrictive investment rules lower the likelihood of M&A inflows. However, this detrimental impact might be lessened in nations where manufacturing and, to a lesser extent, services account for comparatively significant portions of GDP (Barattieri, Borchert and Mattoo, 2016). Similarly, it can be claimed that positive and high greenfield investment values indicate openness conditions, sizeable market, economic growth, access to finance, resources, and high-quality infrastructure (Alon, I. et al. (2022).

When comparing the average annual values of announced greenfield investments and net M&A flows between 2012 and 2022, the performance of OIC nations is quite varied. Certain countries in the OIC Asian group have experienced significant divestments, while the countries in the OIC African group have modest levels of M&A. Thirty percent of OIC countries—the majority of which are Arab nations—perform better on both metrics than the world average (Figure II.13).

Figure II.13: Average annual announced greenfield investments (y-axis, log transformed) and average annual net M&A value (x-axis, log transformed*) *(2012-2022)*



Source: UNCTAD, FDI/MNE database. *As M&A is in net values, negative and null values are transformed according to: -1*log(|val|+1).

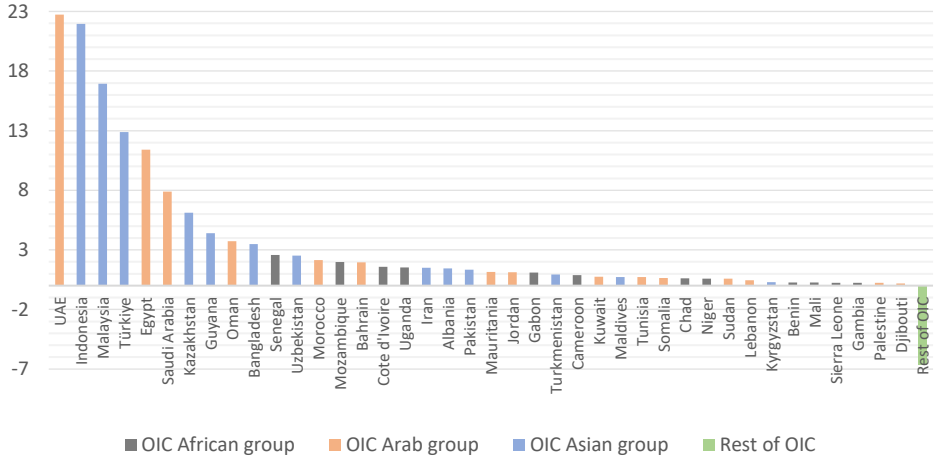
II.A.3 Foreign direct investment inflows by countries

In 2022, the top five countries with the highest inward FDI flows were the United Arab Emirates ($22.7 billion), Indonesia ($22 billion), Malaysia ($16.9 billion), Türkiye ($12.9 billion), and Egypt ($11.4 billion). They accounted for 63% of the total FDI flows toward OIC countries in 2022 (Figure II.14). Azerbaijan, Brunei, Iraq, Nigeria, and Togo experienced negative flows that year. Negative values of FDI inflows for a particular year show that the value of disinvestment by foreign investors was more than the value of capital newly invested in the reporting economy. Further, 21 OIC countries faced a decrease in FDI inflows in 2022 compared to 2020 (Table II.4).

In the OIC Arab group, the best performance in attracting FDI came from the United Arab Emirates, Egypt, Saudi Arabia, Oman, and Morocco, accounting for 89% of FDI flows to this group of countries in 2022. Indonesia, Malaysia, Türkiye, Kazakhstan, and Guyana dominated within the OIC Asian group, attracting 89%

of FDI flows within this group. In the same year, the FDI flows to the OIC Africa group were mainly concentrated in Senegal, Mozambique, Côte d'Ivoire, Uganda, and Gabon, with a 75% share within this group (Table II.4).

Figure II.14: Inward FDI flows at country level
(2022, billion $US)



Source: UNCTAD, FDI/MNE database.

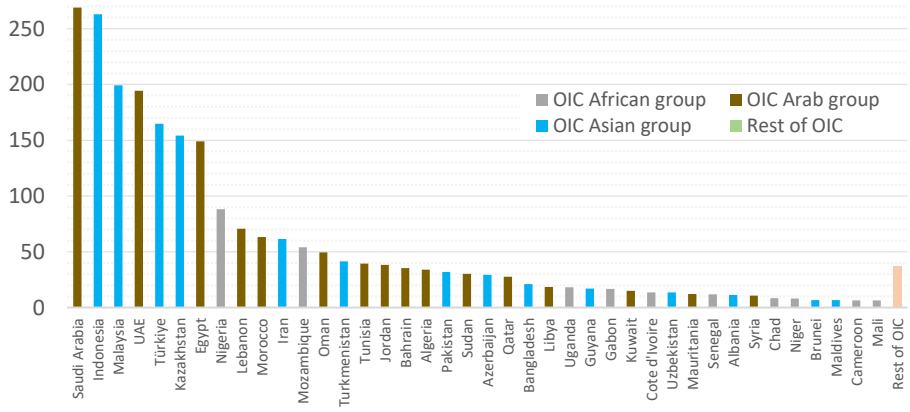
Table II.4: Foreign direct investment inflows by recipient country
(Million $US and percent)

	2010-2020 average	2021	2022	Difference 2021/2022
OIC African Group	*14 425,3*	*18 718,9*	*11 733,7*	*-37%*
Benin	223,1	346,0	266,6	-23%
Burkina Faso	209,9	- 80,0	121,3	252%
Cameroon	632,4	963,5	888,5	-8%
Chad	342,9	705,1	614,0	-13%
Côte d'Ivoire	557,6	1 376,6	1 583,7	15%
Gabon	1 017,4	1 529,2	1 104,6	-28%
Gambia	44,7	248,6	236,0	-5%
Guinea	324,9	197,6	139,5	-29%
Guinea-Bissau	25,9	18,5	21,9	18%
Mali	430,2	639,9	252,9	-60%
Mozambique	3 636,3	5 101,7	1 975,3	-61%
Niger	645,7	594,8	580,7	-2%
Nigeria	4 258,1	3 313,2	- 186,8	-106%
Senegal	620,3	2 588,1	2 586,2	0%
Sierra Leone	389,7	212,0	250,0	18%
Togo	141,8	- 136,2	- 226,9	-67%
Uganda	924,3	1 100,2	1 526,2	39%
OIC Arab Group	*40 424,4*	*55 447,8*	*53 758,6*	*-3%*
Algeria	1 442,5	869,7	88,8	-90%
Bahrain	1 182,1	1 779,2	1 951,3	10%
Comoros	6,9	4,0	3,9	-4%
Djibouti	147,0	168,0	190,9	14%
Egypt	6 022,3	5 122,0	11 399,9	123%
Iraq	-3 268,0	-2 637,0	-2 088,2	19%
Jordan	1 497,8	621,8	1 137,0	83%

Kuwait	1 063,2	567,2	757,8	34%
Lebanon	2 627,3	605,1	457,9	-24%
Libya	366,9	0,0	0,0	..
Mauritania	700,9	1 063,5	1 147,6	8%
Morocco	2 593,3	2 266,5	2 141,4	-6%
Oman	2 175,0	4 020,8	3 715,6	-8%
Qatar	145,7	-1 093,4	76,1	107%
Saudi Arabia	9 620,1	19 285,6	7 886,3	-59%
Somalia	293,8	601,0	636,0	6%
State of Palestine	181,9	353,5	232,9	-34%
Sudan	1 416,7	522,9	573,5	10%
Syrian Arab Republic	206,7	0,0	0,0	..
Tunisia	1 067,8	660,2	713,4	8%
United Arab Emirates	11 182,4	20 667,1	22 736,6	10%
Yemen	- 247,9	0,0	0,0	..
OIC Asian Group	*64 372,4*	*63 560,4*	*69 953,3*	*10%*
Afghanistan	64,9	20,6	0,0	-100%
Albania	1 094,6	1 233,9	1 434,1	16%
Azerbaijan	2 356,7	-1 707,7	-4 474,5	-162%
Bangladesh	2 023,9	2 895,6	3 480,0	20%
Brunei	484,8	204,7	- 292,4	-243%
Guyana	601,1	4 468,1	4 408,4	-1%
Indonesia	17 905,1	21 131,1	21 968,2	4%
Iran	3 037,0	1 425,0	1 500,0	5%
Kazakhstan	7 800,7	3 336,8	6 108,4	83%
Kyrgyzstan	372,2	226,2	290,9	29%
Malaysia	9 354,3	12 173,4	16 939,6	39%
Maldives	432,0	642,8	721,9	12%
Pakistan	1 821,5	2 147,0	1 339,0	-38%
Suriname	102,2	- 124,0	7,3	106%
Tajikistan	313,2	84,0	174,0	107%
Türkiye	2 646,6	1 287,3	936,0	-27%
Turkmenistan	12 625,7	11 840,0	12 881,0	9%
Uzbekistan	1 335,7	2 275,5	2 531,3	11%

Source: UNCTAD, FDI/MNE database.

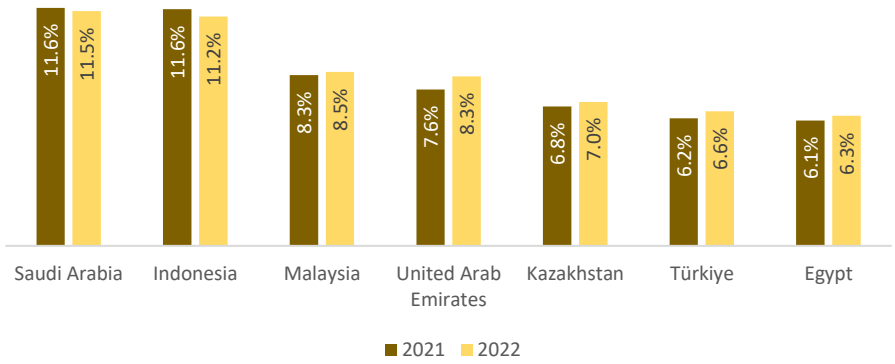
Figure II.15: Inward FDI stock of OIC countries
(2022, billion $US)



Source: UNCTAD, FDI/MNE database.

As of 2022, Saudi Arabia, Indonesia, Malaysia, the United Arab Emirates, Türkiye, Kazakhstan, and Egypt were the top OIC countries regarding inward FDI stock. Their combined value covered almost 60% of the total FDI stocks of OIC countries in 2022 (Figure II.15). The shares of Saudi Arabia (11.5%), Indonesia (11.2%), Malaysia (8.5%), Kazakhstan (6.6%), and Egypt (6.3%) have remained almost unchanged with minor variations, compared to the previous year. Türkiye and the United Arab Emirates have both seen a slight increase in their shares of inward FDI stock among OIC countries, as illustrated in Figure II.16. The United Arab Emirates maintained its position as the fourth-largest recipient, while Türkiye moved up from sixth to fifth place among the top OIC countries in terms of inward FDI stock.

Figure II.16: Biggest shares in inward FDI stock of OIC countries
(Percent)

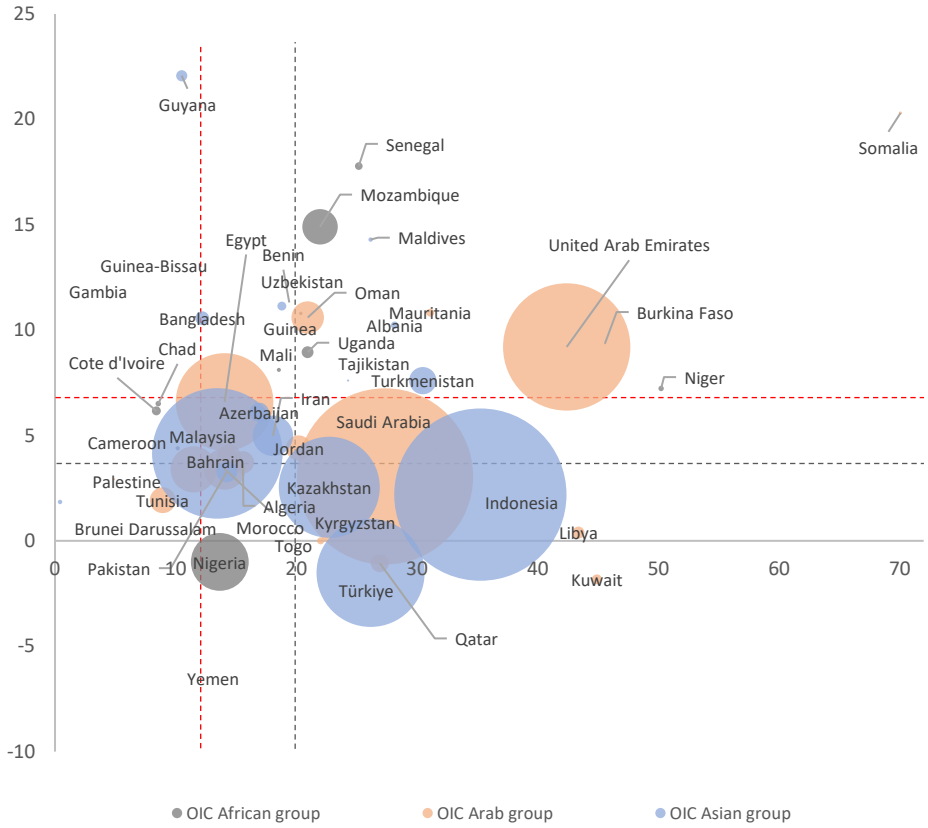


Source: UNCTAD, FDI/MNE database.

Mid- to short-run developments in inward FDI stocks of individual OIC countries are following the aggregate results. Most OIC countries lack performance in the 2012-2022 period compared to the 2002-2012 period. On average, inward FDI stock growth between 2012 and 2022 was 3.6%, while the growth rate for 2002-2012 was 20%. Among OIC members' top FDI stock hosts, only the United Arab Emirates grew its FDI stock above the 2002-2012 and 2012-2022 OIC and world average. Malaysia and Egypt's FDI stock growth for 2012-2022 is higher than the OIC average.

Only Türkiye and Nigeria, as substantial FDI stock hosts among OIC members, have experienced a shrinkage in their stocks for the last decade. Guyana and Somalia have experienced a compound annual growth rate of more than 20% from 2012 to 2022, potentially owing to Guyana's new offshore oil reserve discoveries in the same period. Among OIC African group countries, Mozambique had a remarkable growth performance for both periods and was well above OIC and world averages (Figure II.17).

Figure II.17: Compound annual growth rate of inward foreign direct investment stocks of OIC countries in periods 2002-2012 (%, x-axis) and 2012-2022 (%, y-axis)



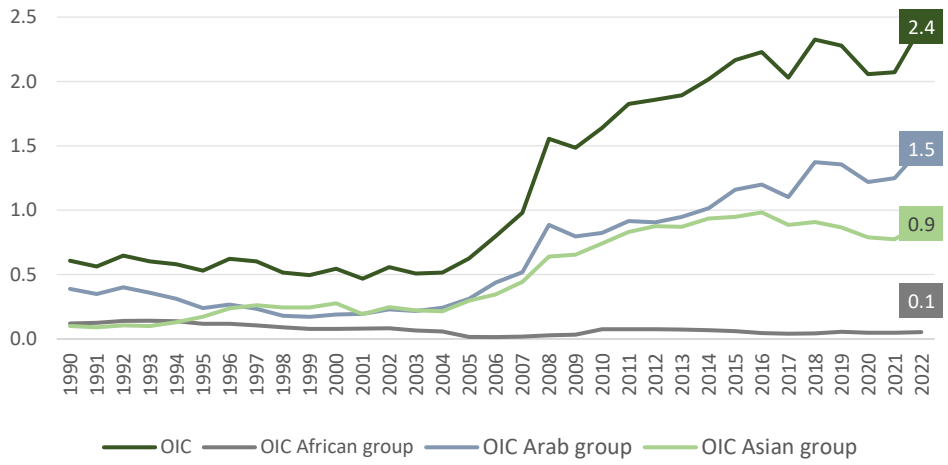
Source: UNCTAD, FDI/MNE database.

II.B Outward foreign direct investment

The outward FDI stock of OIC countries represents the total value of direct investments made by businesses and individuals from OIC countries in enterprises located outside their respective borders. This metric is essential for assessing OIC member states' international investment activities and economic influence. It reflects the extent to which these countries engage in cross-border investments and expand their global economic footprint. OIC countries jointly constitute 2.4% of the global outward investment. The share of OIC has been stagnant throughout the 1990s, saw a sharp increase in the early 2000s, and has been in a positive trend since 2012. As of 2022, the value of outward

investments from OIC countries was close to $1 trillion. OIC Arab and Asian groups constitute almost 90% of the sum, with $590 billion and $396 billion, respectively (Figure II.18). OIC countries' disparity in outward investing is higher than inward investment received.

Figure II.18 Share of OIC countries in the global outward FDI stock
(Percent)



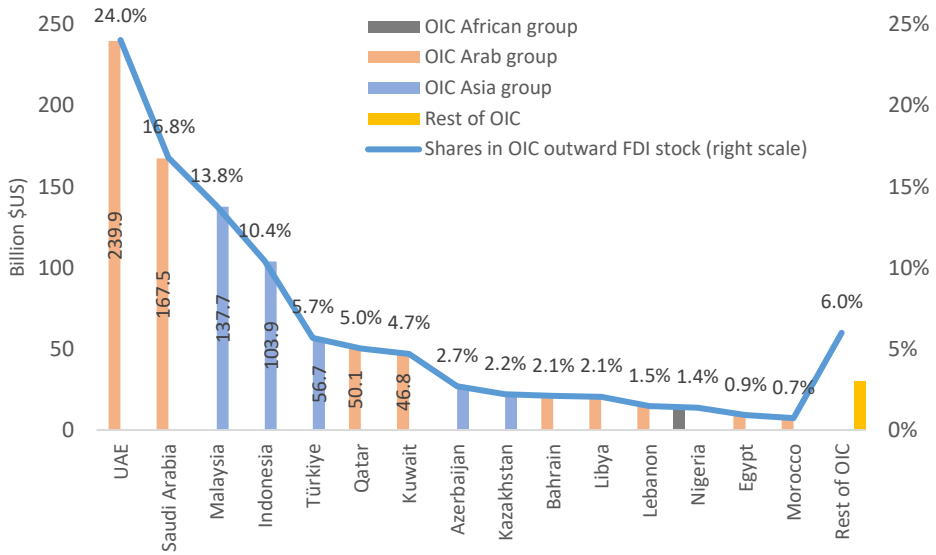
Source: UNCTAD, FDI/MNE database.

Among the 48 OIC countries with available outward FDI stock data, the top 15 countries account for a significant portion, approximately 94%, of the total OIC outward investment (Figure II.19). This concentration of outward FDI highlights the economic influence and investment capabilities of selected OIC countries.

Notably, the top 15 OIC countries in outward investments are predominantly from the OIC Arab or Asia groups. This underscores the economic significance and investment potential of OIC Arab and Asia groups in the global economy.

The United Arab Emirates (UAE) and Saudi Arabia emerged as key players in the outward FDI activities of OIC countries. Together, these two countries constitute a substantial portion, approximately 41%, of the total outward FDI stock of OIC countries.

Figure II.19: Outward FDI stock of OIC countries
(2022, Billion $US and percent)



Source: UNCTAD, FDI/MNE database.

In 2022, the top five countries for outward FDI flows and stocks are the same, in the same order, indicating a consistent pattern of investment behavior among these countries. The parallelism between outward FDI flows and stocks suggests that these countries attract FDI and invest significantly abroad.

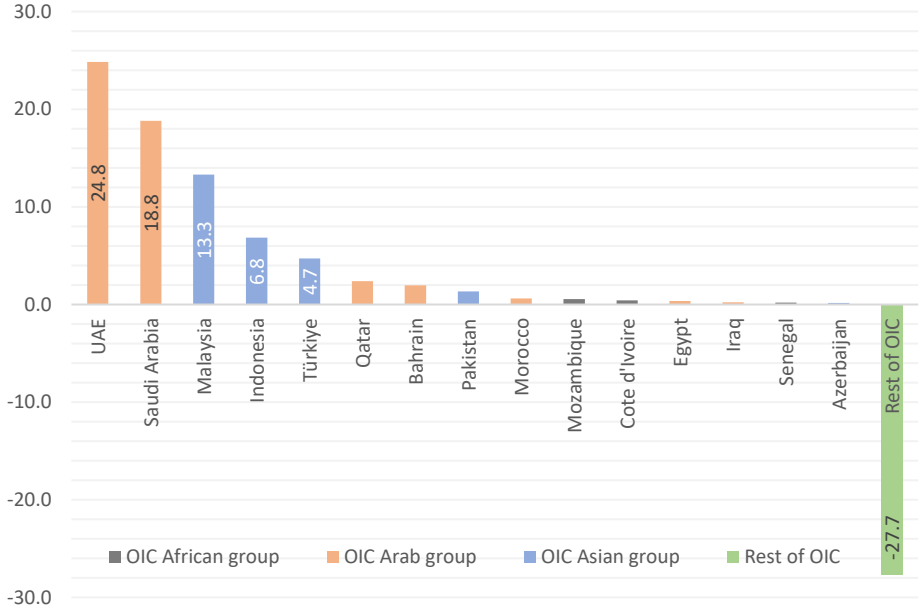
The outward FDI flows of the United Arab Emirates, Saudi Arabia, and Malaysia are above the global average outward FDI flow of $9.4 billion. This implies that these countries actively engage in international investment activities and significantly impact global FDI flows.

When disregarding negative flows, the top 15 countries constitute 98% of the total OIC outward flows for 2022, highlighting the concentration of outward FDI activities within a relatively small group of countries within the OIC. It also indicates that a few key players dominate the outward FDI landscape within OIC groups of countries.

The combined share of the United Arab Emirates and Saudi Arabia in the total OIC outward flows for 2022 is 57%. Kuwait and Kazakhstan contributed 90% of the negative outward flows in 2022. Kuwait, in particular, had a dominant role with a negative outward FDI flow of -25 billion USD, which was the second-

highest negative outward FDI flow recorded globally for 2022, following Luxemburg.

Figure II.20: Outward FDI flow of OIC countries
(2022, billion $US)

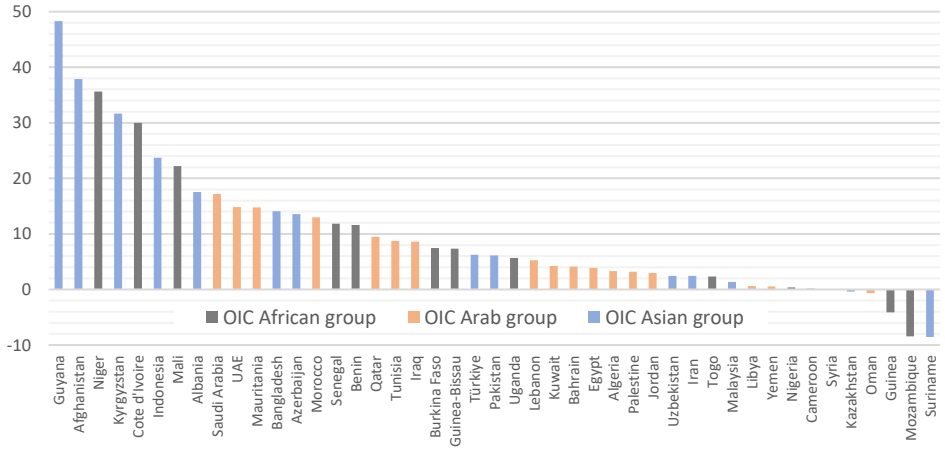


Source: UNCTAD, FDI/MNE database.

The period from 2012 to 2022 has seen significant growth in the outward stock of developing countries, including OIC economies (Figure II.21). Among the top 10 growing outward OIC investors, only Indonesia, Saudi Arabia, and the United Arab Emirates have substantial outward stock. These three countries have shown promising growth performance in outward FDI over the last decade and are considered attractive targets for investment promotion agencies (IPAs) seeking to attract intra-OIC investments.

Türkiye and Malaysia, which also have more than $50 billion outward FDI in total, have exhibited below-average outward FDI growth rates for the 2012-2022 period. Further, 8 out of the top 10 performers in outward stock growth are from OIC Asian or African groups. Since distance is an important determinant in intra-OIC investments, IPAs should consider OIC countries with high growth performance in their proximity as potential attraction targets.

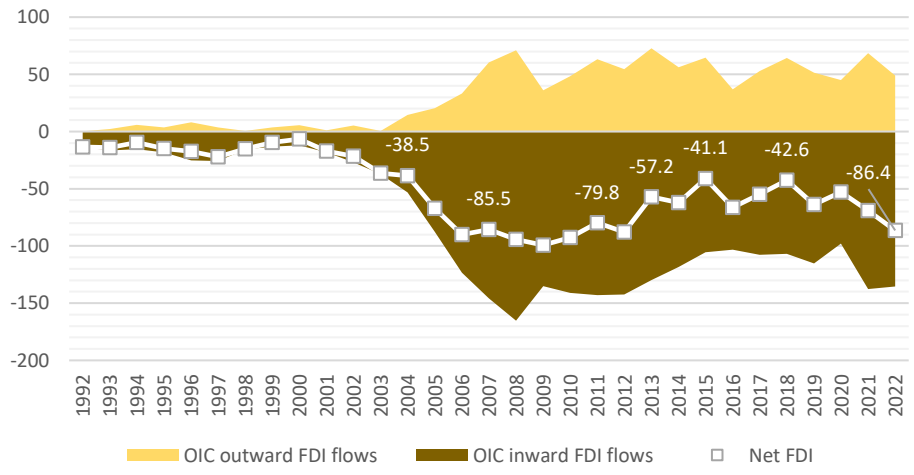
Figure II.21: Compound annual growth rate of outward stock of OIC countries between 2012 and 2022 *(Percent)*



Source: UNCTAD, FDI/MNE database.

The net FDI of the OIC countries, which represents the difference between outward and inward FDI flows, indicates whether these countries are net importers or net exporters of capital. Positive values of net FDI represent net capital outflows, while negative values represent net capital inflows. The net FDI of OIC countries has been consistently negative, indicating that these countries are net importers of capital. From 1992 to 2022, inward FDI flows to OIC countries were higher each year than outward FDI realized by them (Figure

Figure II.22: OIC net FDI *(Billion $US)*



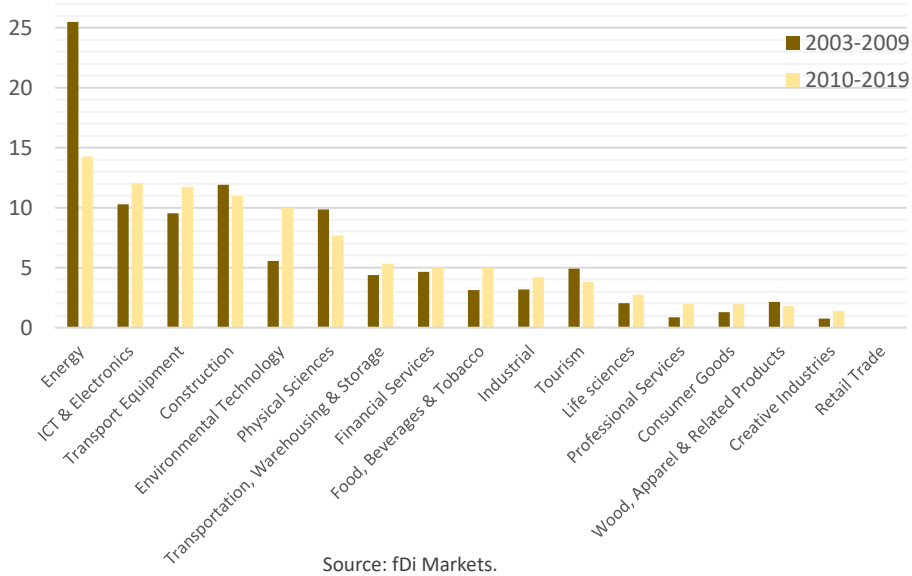
Source: UNCTAD, FDI/MNE database.
Note: Net FDI is the difference between outward FDI flows and inward FDI flows. Positive values represent net capital outflows and negative values represent net capital inflows.

II.22). From 2003 to 2021, inward FDI flows to OIC countries were 2.4 times higher than their worldwide FDI outflows. In 2022, the value of OIC net FDI was (-86.4) billion dollars.

II.C Foreign direct investment in the digital economy

fDi Markets data provides sector, field of activity, and cluster information on each investment. One of the identified clusters is the ICT and electronics cluster. The change in the cluster composition of global FDI after 2009 supports the twin (green and digital) transition trend. When analyzing the change in the share of sector clusters worldwide during 2003-2009 and 2010-2019, it is evident that certain sectors experienced significant increases. The four sectors that exhibited the highest increase in shares were environmental technologies (4.42 points), transportation equipment (2.21 points), food, beverage and tobacco products (1.84 points), and ICT and electronics (1.75 points) clusters. Among the 17 sector clusters, ICT and electronics was the third cluster with the most investments in 2003-2009, and it rose to second place in 2010-2019 (Figure II.23)

Figure II.23: OIC net FDI *(Billion $US)*

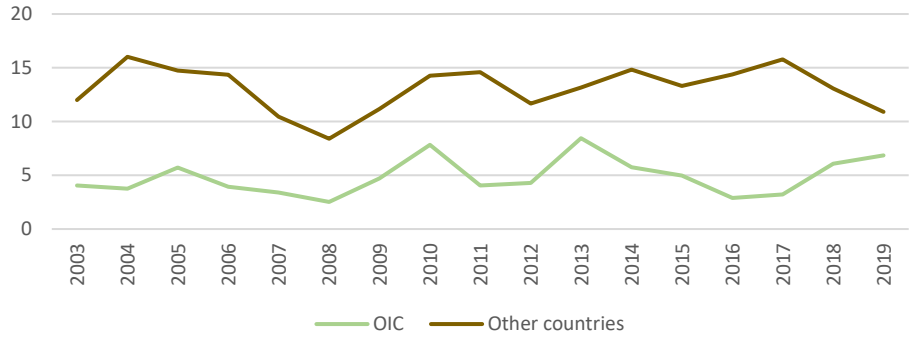


Source: fDi Markets.

The share of FDI in the ICT and electronics cluster within the OIC countries is relatively low compared to other countries. However, it is noteworthy that, particularly after 2017, this share has increased across the OIC while showing a declining trend in other countries (Figure II.24). From 2017 to 2019, the share of FDI in the ICT and electronics cluster within the OIC countries increased by 3.63 percentage points, while it decreased by 4.88 percentage points in other

countries. This development led to a notable increase in OIC's share of total inward FDI in the ICT and electronics cluster, rising from 4.49% in 2017 to 11.32% in 2019.

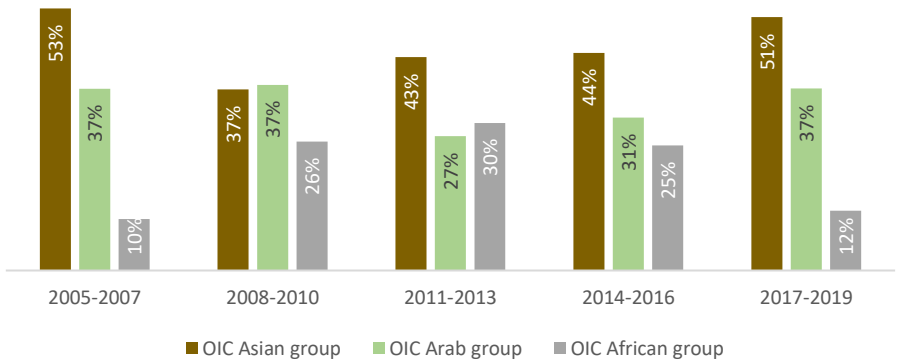
Figure II.24: Share of ICT and electronics cluster in total FDI inflows *(Percent)*



Source: fDi Markets.

From 2003 to 2019, the distribution of FDI inflows to ICT and electronics cluster among OIC groups was as follows: 46.2% was attracted by the OIC Asian group, 33.3% by the OIC Arab group, and 20.5% by the OIC African group. When examining the contributions in 3-year periods, it becomes evident that the share of investments attracted by the OIC Asian group in this cluster increased after 2008, while the share of the OIC African group decreased (Figure II.25).

Figure II.25: OIC country groups' shares in FDI attracted to the ICT and electronics cluster *(Percent)*



Source: fDi Markets.

When examining the OIC countries that attracted the most FDI in the ICT and electronics sectors from 2017 to 2019, it becomes evident that Asian countries, as well as a few Arab countries, stand out in this regard. In this period, Indonesia,

Malaysia, and Pakistan emerged as the top OIC countries attracting significant FDI in the ICT and electronics cluster. In addition to the Asian countries, the United Arab Emirates and Saudi Arabia have also been notable recipients of FDI in the ICT and electronics sectors within the OIC.

In the 2017-2019 period, Saudi Arabia's share in the OIC inward FDI flows, excluding the ICT and electronics cluster, was 8.7%. During the same period, Saudi Arabia's share of inward FDI in the ICT and electronics cluster was 6.2%.

Egypt and Türkiye, despite being among the leading recipients of FDI within the OIC, have struggled to attract significant investments in the ICT and electronics sector. During the 2017-2019 period, Egypt and Türkiye collectively accounted for a substantial 22% share of FDI inflows into sectors other than ICT and electronics within the OIC. However, their combined share of FDI specifically directed towards the ICT and electronics sector was significantly lower at only 3.5%. This discrepancy highlights a notable disparity in the ability of these countries to attract investments in the ICT and electronics industry compared to other sectors.

Between 2017 and 2019, FDI in the ICT and electronics cluster within OIC countries generally exhibited varying trends. Only 32 OIC countries attracted FDI in this cluster during this period. However, it is noteworthy that the number of those with a share of more than 1% of the OIC's total ICT and electronics cluster FDI inflows was 19.

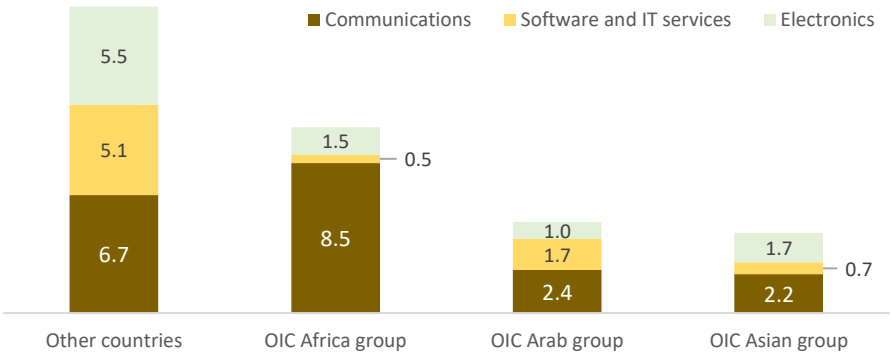
The focus on the sub-sectors of (1) communications, (2) electronics, and (3) software and IT services provides valuable insights into the distribution of FDI in the digital economy. In non-OIC countries, the average share of investments in these three sub-sectors in the total FDI attracted during the 2015-2019 period was 17.33%. This indicates a significant allocation of FDI towards these key sub-sectors, highlighting their strategic importance in driving economic development and innovation. Within OIC countries, the average share of inward FDI in these three sub-sectors was notably lower at 5.36% during the same period.

Within the OIC, the rate of FDI in the sub-sectors of communications, electronics, and software and IT services was highest in the OIC African group. The total share of these three sub-sectors in the inward FDI flows to the OIC African group was 10.51%. The highest contribution to this rate came from the communications sub-sector, whose share was 8.48% (Figure II.26).

The main reason for the high FDI rate in the communications sub-sector within the OIC African group is attributed to the relatively lower amount of FDI

attracted by these countries compared to other OIC groups. From 2017 to 2019, the total FDI attracted by the OIC African group was 19.3% of the total FDI attracted by the OIC Asian group and 24.4% of the FDI drawn by the OIC Arab group.

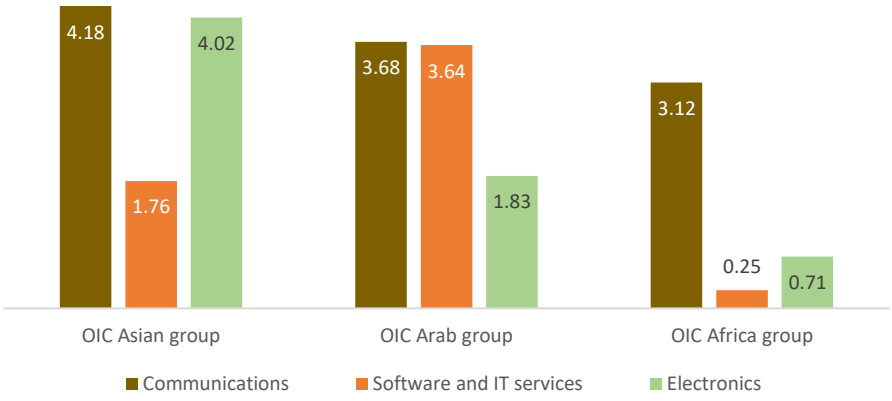
Figure II.26: The share of selected digital sectors in the total FDI attracted by different regions *(2015-2019, percent)*



Source: fDi Markets.

From 2015 to 2019, 10.98% of global FDI flows to the communication sector went to OIC countries. Within the global FDI flows to the electronics sector, the OIC's share was 6.56% during the same period. The OIC's share of global FDI flows was 5.65% in the software and IT services sector. These shares for the OIC country groups are presented in Figure II.27.

Figure II.27: OIC regions' share in global FDI inflows in digital sectors *(2015-2019, percent)*



Source: fDi Markets.

According to data from 2015-2019, the OIC African group attracted 28.4% of FDI towards OIC in the communications sector. Despite this overall percentage, the distribution of these investments was heavily concentrated in a few specific countries within the region. During the period mentioned, it was observed that 64.6% of the total FDI attracted by the OIC African group in the communications sector was directed towards Nigeria. Additionally, 9.4% of the investments in this sector went to Senegal and 9.1% to Uganda. This means these three countries collectively attracted 83.1% of the total communications investment in the OIC African group.

The value chain stage, in which a country attracts FDI, is as vital as the sector in which it is invested. Different types of investments, such as market-oriented sales investments, manufacturing investments, and efficiency-oriented innovation investments, have varying impacts on the economy.

FDIs in manufacturing are often considered to impact the economy significantly. They contribute to job creation, technology transfer, and overall industrial development. When foreign companies invest in manufacturing facilities within a country, it can lead to the transfer of advanced production techniques and know-how, thereby enhancing the country's industrial capabilities.

Similarly, innovation-oriented FDIs are crucial in driving technological advancements and knowledge accumulation within a country. These FDIs often lead to creating research and development centers, fostering collaboration between local and international experts, and contributing to the growth of high-value industries.

Efficiency-oriented innovation FDIs are expected to contribute significantly to productive knowledge accumulation in a country. These FDIs focus on improving operational efficiency, process optimization, and knowledge spillover. By implementing advanced production methods and operational practices, they can enhance the overall competitiveness of the country's industries.

While market-oriented sales investments are important for expanding market reach and distribution networks, their impact on the overall economy may be lower than manufacturing and innovation investments. These investments primarily focus on sales and marketing rather than substantial knowledge transfer or technological advancement.

A classification developed by Sturgeon (2008) for fDi Markets data is often utilized to analyze the value chain distribution of inward FDI. This classification categorizes FDI based on their fields of activity into the following five value chain stages at the core-support level:

1) Headquarter: FDI related to corporate headquarters, management functions, and strategic decision-making.
2) Innovation: FDI focused on research and development, technology innovation, and intellectual property creation.
3) Logistics and distribution: FDI associated with supply chain management, logistics infrastructure, and distribution networks.
4) Manufacturing: FDI in physical production facilities, assembly plants, and manufacturing operations.
5) Sales: FDI aimed at market expansion, sales operations, and customer relationship management.

88.2% of the total FDI attracted by OIC countries in the 2015-2019 period was made in the manufacturing phase, with 62.7% in core manufacturing and 25.5% in support manufacturing activities. In contrast, the same rate is 72.7% on average for non-OIC countries.

When examining the distribution of FDI attracted to the manufacturing phase in the OIC region by activity types, it is evident that there are significant differences compared to non-OIC countries. According to the available data, the share of electricity FDI as a support activity in the total manufacturing stage FDI attracted by the OIC is 26.1%, while the same rate is 16.7% for non-OIC countries. This difference in FDI share can be attributed to several factors, including development level differences and investments in alternative energy.

On the other hand, the share of extraction investments in total FDI for the manufacturing phase is significantly higher in OIC countries than in non-OIC economies. In the OIC, this share stands at 11.3%, while it is only 3.9% in non-OIC countries. This discrepancy indicates that the OIC has a higher tendency to attract resource-seeking investments.

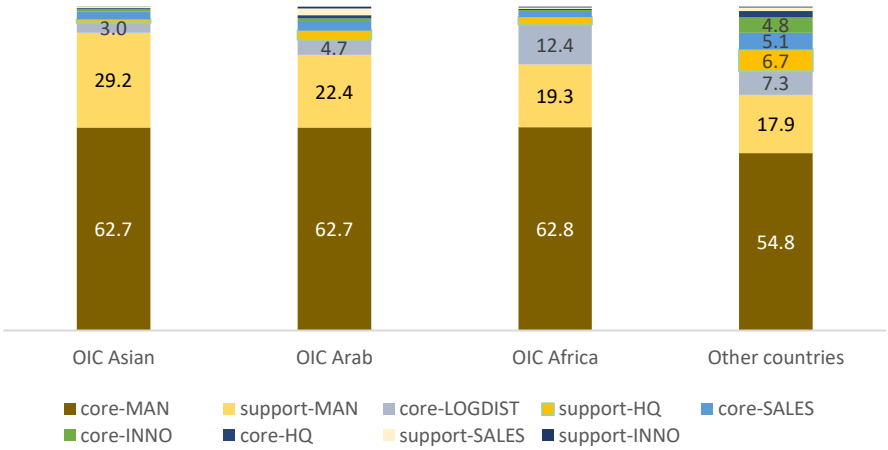
Further, the share of FDI in ICT and internet infrastructure is a crucial indicator of a country's preparedness for digital transformation. The statistics provided indicate that the share of FDI in ICT and internet infrastructure as a support activity in total manufacturing FDI in non-OIC countries was 8.2%, while within the OIC, it was 2.9%. This suggests that OIC countries may be lagging behind other nations in terms of readiness for digital transformation.

When examining the distribution of FDI by value chain stages in detail across the OIC regions, it becomes evident that the OIC Asian group attracts a higher proportion of manufacturing stage investments compared to the other two OIC groups (Figure II.28). The share of core manufacturing investments in total FDI attracted is relatively similar across all three OIC regions. However, the main reason for the differentiation lies in within FDI support activities. One of the

primary factors contributing to this differentiation is the prevalence of electricity investments, particularly in the FDI attracted by the OIC Asian group.

On the other hand, it is noteworthy that ICT and internet infrastructure FDI in all three regions are behind the average of non-OIC countries. Another critical difference is the differentiation in the innovation stage, which is one of the high-value-added stages of the value chain. While the share of investments for the innovation phase in the total FDI attracted is 5.1% on average in non-OIC countries, this rate is 1.4% in the OIC Arab group, 0.87% in the OIC Asian group, and 0.54% in the OIC African group. It is important to attract investments for this stage to expand innovation activities and accelerate both adaptation to the digital economy and the development process.

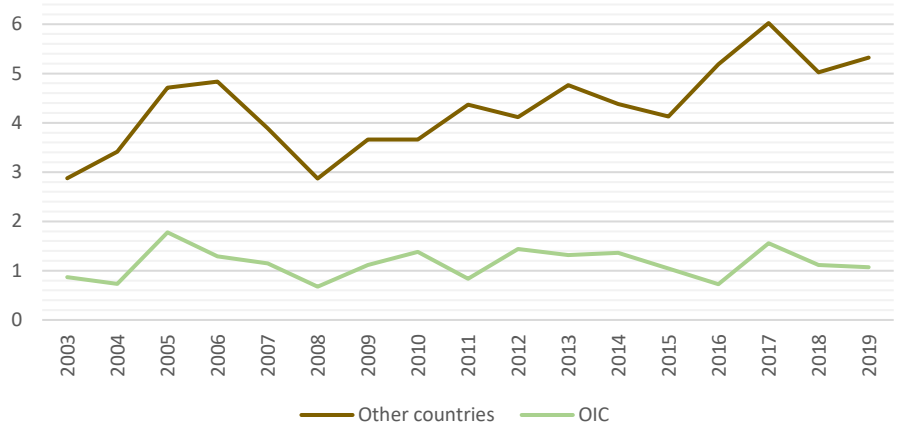
Figure II.28: Distribution of FDI attracted by country by value chain stages *(2015-2019, percent)*



Source: fDi Markets.

The investment in innovation phase activities, including design, development and training, R&D, and education and training, is a crucial component of economic development and growth. The OIC countries have attracted an average of around 1.2% of FDI for innovation-oriented activities since 2003. In contrast, non-OIC countries have seen an increasing share of innovation-oriented investments within their total FDI since 2008. The difference between the average share of innovation-oriented investments in total FDI attracted by non-OIC countries and OIC countries has widened from 2 points in 2003 to 4.3 points in 2019 (Figure II.29). This trend indicates a growing divergence in the allocation of FDI towards innovation-related activities between OIC and non-OIC countries since 2008.

Figure II.29: Share of investments in the innovation phase of the value chain in FDI attracted *(Percent)*



Source: fDi Markets.

According to the results of the OECD's 2021 investment promotion and digitalization survey, the main goal that OECD IPAs try to achieve through FDI promotion is to increase innovation and productivity. The survey asked IPAs in which digital economy sectors they aimed to attract investment the most, and 89% answered software development, 86% said data centers/cloud computing, and 83% answered ICT and connectivity infrastructure (Crombrugghe and Moore, 2021). In other words, they aim to improve both the digital ecosystem's input and output sides by focusing on infrastructure development and product/software investments.

To stand out in the digital economy and adapt to the green and digital transformation, OIC IPAs need to follow the same pattern as OECD IPAs. However, compared to non-OIC countries, the OIC tends to draw fewer FDI with a lesser weighting of the digital economy. OIC countries struggle to attract investments in high-value-added activity areas such as innovation. While the recent increased investments of the OIC Arab group in adapting to the digital economy are noteworthy, this situation does not extend throughout the entire OIC.

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Databases

EMIS, ISI Emerging Markets Group, www.emis.com

fDI Markets, www.fdimarkets.com

GlobalData, www.globaldata.com

UNCTAD, FDI/MNE database,
https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock

UNCTAD, cross-border M&A database, https://unctad.org/topic/investment/world-investment-report

World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators

Chapter III

Analysis of determinants of FDI flows to OIC countries

III.A Data, variables, and estimation model

Foreign Direct Investment (FDI) plays a crucial role in the economic development of countries. Understanding the determinants of FDI flows to OIC countries is essential for policymakers. The gravity model, commonly used in international economics, provides a framework for analyzing FDI flows between countries based on different variables. By incorporating these variables into the gravity model estimation, policymakers can gain insights into which factors significantly affect FDI inflows to OIC countries.

Still, FDI is a complex mechanism that includes many factors, from firm-level decision-making to government-level policymaking. Although accounting for all the factors may not be possible, as some of these factors are unobservable and some possibly observable factors are not detectable for every country; by using proxies, limiting the country sample (due to data limitations), and employing gravity model, this chapter presents the results of an effort to uncover the determinants of FDI flows to OIC countries.

The chapter uses two models which have the same structure but different variables. The first model utilizes a global sample of 159 countries, including 51[2] OIC members. The second model utilizes a global sample of 151 countries, including 46[3] OIC members. Although data limitations draw sample boundaries for both models, the first and second models present 93.5% and 92.7% of the total sample FDI value for the given period.

The period used in the data is ten years between 2009 and 2019. This period was chosen to account for the changing trend in FDI flows after the 2008 global financial crisis and to avoid the outlier period during and immediately after the COVID-19 pandemic.

III.A.1 Theoretical considerations and explanation of used variables

Since its inception (Tinbergen, 1962), the Gravity model has been widely used and tinkered. The theory and its application progressed throughout the years, taking many forms and answering various questions. Although initially thought of and still commonly used in international trade literature, gravity-like models are used in different fields, including foreign investment literature (Head and Mayer, 2014; Kox, 2022).

[2] Out of 57 OIC members, Comoros, Djibouti, Somalia, Sudan, Palestine and Yemen are not included due to data limitations.
[3] Out of 57 OIC members, Chad, Comoros, Djibouti, Niger, Somalia, Sudan, Syria, Turkmenistan, Uzbekistan, Palestine and Yemen are not included due to data limitations.

In their guide, Yotov et al. (2016) list eight main challenges and solutions for estimating the gravity model. Some of these challenges are rooted in the model structure itself, while others are econometric or data-related. Yet the literature offers solutions for these challenges, such as the multilateral resistances and the zero flows problem, and existing solutions have shaped this chapter's model selection and specification.

The applied variables in this estimation are grouped under two main categories: (1) bilateral indicator variables and (2) unilateral country-specific explanatory variables. Bilateral variables address time-invariant, primarily geographic and cultural features unique to the country pair in question.

The second type of used variables are country-specific variables like GDP, labor force size, etc. These variables are native to the traditional gravity models of international trade and the overall categorization of FDI in the literature, known as classical efficiency-seeking, resource-seeking, and market-seeking behaviors.

This categorization of variables helps determine the fixed effects specifications for the model. Country-specific variables work for observable country-specific effects, and bilateral variables work for noticeable country-to-country specific effects (like distance, shared border, cultural proximity, etc.). Fixed effects specifications are used as leverages for these categories' unobservable and observable factors.

The results are presented under the following two models with the same structure and a slight difference in variable choice: a) Model 1 uses UN E-Government Development Index scores that are separated into two indices: the technological maturity index and the human capital index; b) Model 2 uses UNCTAD's frontier technology index. The complete set of used variables is presented in Table 1.

While the brief descriptions provided in Table 1 are enough for most variables, indices require a detailed explanation. The human capital index of the UN E-Government Development Index consolidates four components: a) expected years of schooling, b) mean years of schooling, c) adult literacy, and d) gross enrollment ratio for combined primary, secondary, and tertiary education (UN, September 2022). This chapter initially assumed that higher scores in the human capital index stand for a better quality of human capital in the country and tested if this is a statistically significant pull factor in FDI flows.

The technological maturity index is the average of the online services index, which consolidates five subindices: a) institutional framework, b) service provision, c) content provision, d) technology, and e) e-participation, each of

which has a different weight in the final online services index; and telecommunication infrastructure index, which consists of four indicators: a) mobile subscriptions per 100 habitants, b) internet users, % of population, c) fixed broadband subscriptions per 100 habitants, and d) active mobile broadband subscriptions per 100 people. Initially, it is assumed that technological maturity might increase the attraction of FDI for a destination country.

Table III.1: Variables of the model

Variable	Description	Source	Models
FDI	Foreign direct investment flow	fDI Markets	Model 1 and 2
ln FDI	Foreign direct investment flow (log)	fDI Markets	Model 1 and 2
ln_distance	Distance between most populated cities (log)	CEPII▫	Model 1 and 2
contig	The shared border between countries	CEPII	Model 1 and 2
comlang_off	Common official language	CEPII	Model 1 and 2
comcol	Common collonizer	CEPII	Model 1 and 2
col_dep_ever	Colonial dependency	CEPII	Model 1 and 2
comleg_posttrans	Common legal origins after 1991	CEPII	Model 1 and 2
fta_wto_raw	Free trade agreements between countries	CEPII	Model 1 and 2
ln_gdp_d	GDP of the destination country (log)	World Bank, WDI	Model 1 and 2
ln_gdp_o	GDP of the origin country (log)	World Bank, WDI	Model 1 and 2
human_capital_d*	Human capital index of the destination country	UN E-Government Knowledgebase	Model 1
tech_readiness_index_d*	Online services and telecommunication infrastructure indices of the destination country	UN E-Government Knowledgebase	Model 1
good_governance_d	Worldwide governance indicators	World Bank	Model 1 and 2
merch_trade_d	Merchandise trade as % of GDP, destination country	World Bank	Model 1 and 2
frontier_tech_d	UNCTAD Frontier Technology Index	UNCTAD	Model 2

▫ Conte, Cotterlaz and Mayer, 2022.
* Online services and telecommunication infrastructure indices of the UN E-Government Knowledgebase are reported biennially. Simple averages of years with reported data are imputed to the missing years to maintain the sample of countries and years.

Governance indicators include “Control of Corruption,” “Government Effectiveness,” “Political Stability and Absence of Violence/Terrorism,” “Rule of Law,” “Regulatory Quality,” and “Voice and Accountability” estimates of Worldwide Governance Indicators dataset of the World Bank.

The Frontier Technology index aims to “measure the capacity to use, adopt and adapt frontier technologies” through four pillars of measurement: (1) ICT deployment, (2) skills and R&D activity, (3) industry activity, and (4) access to finance.

III.B Gravity model estimation results

The Gravity model estimation results provide valuable insights into the determinants of FDI flows both globally and specifically to the OIC countries. By analyzing these results, readers can understand the factors influencing FDI movements and their implications for policy formulation.

III.B.1 Determinants of global FDI flows to OIC countries

Table III.2 provides the Poisson Pseudo Maximum Likelihood (PPML) estimator results for Model 1 and Model 2 with different fixed effects specifications. The first columns of these two Models (1.1 and 2.1) use year and country-sector fixed effects specifications. The second columns (1.2 and 2.2) use year, sector, and country-pair fixed effects specifications, and finally, the third columns (1.3 and 2.3) use country-year-sector fixed effects specifications. The following sub-sample considers OIC countries as the destination and the rest of the world as the source of FDI flows.

The following is a summary of the outcomes displayed in Table III.2:

- Traditional gravity variables like distance, colonial dependency, and common official language are statistically significant at varying levels, and their signs are as expected. As the distance increases by 10%, FDI flows to OIC countries tend to decrease by around -5.9%. Model 1 and Model 2 coefficients for distance are close.
- Regarding colonial dependency, country pairs with past colonial relationships tend to have around 90%[4] more FDI flows bilaterally than the others.
- The bilateral trade agreement coefficient is positively and significantly related to FDI flows (Models 1.3 and 2.3). Source countries tend to invest around 50% more in OIC countries with whom they have a trade agreement.
- Both the human capital and the governance indices have significant and high coefficients. A 0.1-point increase in the human capital index (ranging between 0 and 1) of the destination country results in a 0.41% increase in FDI flows. A 0.1-point increase in the destination country's governance index (ranging between 0 and 1) results in a 0.68% increase in FDI flows.

[4] Coefficient values for indicator variables are interpreted as (exp(x)-1)*100.

Table III.2: Model results for OIC countries as destinations with PPML and different fixed effects specifications

(Model 1= 51 OIC countries and Model 2 = 46 OIC countries, 2010-2019)

	Model 1			Model 2		
	(1.1)	(1.2)	(1.3)	(2.1)	(2.2)	(2.3)
ln_distance	-0.632***		-0.571***	-0.651***		-0.569***
	(0.115)		(0.0984)	(0.117)		(0.103)
contig	0.206		0.291	0.203		0.324
	(0.337)		(0.316)	(0.340)		(0.332)
comlang_off	0.204		0.270*	0.195		0.322**
	(0.155)		(0.142)	(0.155)		(0.149)
comcol	0.118		0.0456	0.107		0.168
	(0.251)		(0.238)	(0.255)		(0.253)
col_dep_ever	0.726***		0.658***	0.729**		0.634***
	(0.280)		(0.236)	(0.286)		(0.243)
comleg_posttrans	0.134		0.150	0.130		0.108
	(0.146)		(0.125)	(0.146)		(0.125)
fta_wto_raw	0.298*	-0.791**	0.443***	0.255	-0.730**	0.411**
	(0.175)	(0.322)	(0.153)	(0.178)	(0.351)	(0.162)
ln_gdp_o	1.764**	1.715**		1.799**	1.734**	
	(0.743)	(0.716)		(0.783)	(0.790)	
ln_gdp_d	0.0485	0.214		-1.338	-1.130	
	(0.869)	(0.886)		(1.293)	(1.313)	
merch_trade_d	0.445	0.356		0.581	0.474	
	(0.746)	(0.763)		(0.785)	(0.805)	
human_capital_d	4.189***	4.315***				
	(1.446)	(1.443)				
tech_readiness_index_d	-1.427	-1.373				
	(1.219)	(1.228)				
good_governance_d	6.823***	6.622***		4.084**	3.860**	
	(1.666)	(1.710)		(1.604)	(1.650)	
frontier_tech_d				0.915	1.111	
				(1.572)	(1.572)	
gov_dif			-0.503			-0.599
			(0.686)			(0.741)
tech_dif			-0.268			
			(0.731)			
human_cap_dif			-2.712***			
			(0.754)			
frontier_dif						-1.515
						(1.540)
Observations	172,280	57,160	64,302	152,880	53,400	370,432
Year FE	Yes	Yes	No	Yes	Yes	No
Sector FE	No	Yes	No	No	Yes	No
Country-sector FE	Yes	No	No	Yes	No	No
Country-pair FE	No	Yes	No	No	Yes	No
Country-year-sector FE	No	No	Yes	No	No	Yes
Pseudo R2	0.561	0.540	0.651	0.560	0.541	0.652

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

- Technological maturity or frontier technology scores in Models 1 and 2 appear to be insignificant for the period from 2009 to 2019 in FDI flows toward OIC countries.

III.B.2 Determinants of Intra-OIC FDI flows

The analysis of intra-OIC FDI flows using the gravity model provides valuable empirical evidence on the factors driving investment patterns within the OIC. The OIC sub-sample results with the source and destination countries being OIC members (case of intra-OIC FDI flows), which are presented in Table III.3, offer significant implications for policymakers, researchers, and practitioners interested in promoting economic integration and investment within OIC member countries.

A summary of the results shown in Table III.3 is as follows:

- Distance has a significant negative effect, and its coefficient value is close to that of OIC countries as destinations sample (Table II.2).

- Common official language has a positive and significant effect on intra-OIC FDI flows with a very high coefficient value due to the high rate of common language (24% of OIC country pairs).

- Having a common colonizer significantly and positively affects intra-OIC FDI. Source countries invest almost 100% more in destination countries that share a common colonizer than others.

- Another sub-sample effect is observable in the coefficient of the bilateral trade agreements variable. As trade gravity literature suggests, trade agreements are expected to affect trade flows significantly. Trade facilitation can also be expected to affect the investment flow positively, and this is observed in OIC countries as destinations sample (Table II.2). However, the intra-OIC sample results of Models 1.3 and 2.3 show an negligible trade agreement effect. From 2010 to 2019, the global sample ratio of country-pairs with free trade agreements rose from 14% to 21%, while the same ratio for the OIC sub-sample stayed at 13%.

- In Model 1, the economic size of the destination country and governance index score contribute significantly to a higher level of FDI flows between OIC countries. In Model 2, the destination country's GDP becomes insignificant while the governance index score remains positive and significant. For both models, the governance index has a high coefficient value.

Table III.3: Model results for OIC countries as destinations and sources with PPML and different fixed effects specifications

(Model 1= 51 OIC countries and Model 2 = 46 OIC countries, 2010-2019)

	Model 1			Model 2		
	(1.1)	(1.2)	(1.3)	(2.1)	(2.2)	(2.3)
ln_distance	-0.546***		-0.578***	-0.543***		-0.640***
	(0.155)		(0.157)	(0.157)		(0.159)
contig	0.454		0.343	0.432		0.284
	(0.400)		(0.305)	(0.407)		(0.321)
comlang_off	2.065***		2.115***	1.939***		2.155***
	(0.452)		(0.470)	(0.462)		(0.482)
comcol	0.504*		0.703**	0.557*		0.663**
	(0.295)		(0.315)	(0.307)		(0.324)
col_dep_ever	0.517		0.430	0.440		0.186
	(0.473)		(0.557)	(0.486)		(0.647)
comleg_posttrans	0.176		0.233	0.176		0.160
	(0.199)		(0.216)	(0.200)		(0.204)
fta_wto_raw	0.0609	1.530***	0.268	0.149	1.650***	0.194
	(0.342)	(0.271)	(0.437)	(0.372)	(0.274)	(0.477)
ln_gdp_o	0.159	-0.166		-0.905	-1.296	
	(1.373)	(1.500)		(1.453)	(1.657)	
ln_gdp_d	3.152**	3.111**		2.595	2.434	
	(1.391)	(1.382)		(1.871)	(1.854)	
merch_trade_d	0.601	0.589		0.0471	0.0233	
	(1.351)	(1.344)		(1.310)	(1.313)	
human_capital_d	0.930	0.916				
	(2.714)	(2.691)				
tech_readiness_index_d	-0.153	-0.166				
	(1.544)	(1.548)				
good_governance_d	8.156***	8.290***		7.212***	7.634***	
	(2.757)	(2.923)		(2.364)	(2.566)	
frontier_tech_d				1.338	1.312	
				(3.002)	(2.999)	
gov_dif			2.039*			2.255**
			(1.046)			(1.020)
tech_dif			1.071			
			(0.998)			
human_cap_dif			-4.257***			
			(1.108)			
frontier_dif						-0.257
						(0.959)
Observations	43,780	16,480	10,448	39,160	15,320	9,743
Year FE	Yes	Yes	No	Yes	Yes	No
Sector FE	No	Yes	No	No	Yes	No
Country-sector FE	Yes	No	No	Yes	No	No
Country-pair FE	No	Yes	No	No	Yes	No
Country-year-sector FE	No	No	Yes	No	No	Yes
Pseudo R2	0.565	0.551	0.740	0.566	0.552	0.739

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

- The difference in governance index in the two models has a significant positive effect on FDI flows. One possible explanation is the characteristics of the source countries in the OIC sub-sample. The top 10 destination countries in the OIC sub-sample have a lower average governance score and higher average GDP than the top 10 source countries. Although the destination country's governance score significantly and positively affects the value of FDI flows, the governance score difference does not deter source countries from investing.
- In parallel with the previous sample (Table III.2), the difference in the human capital index score between the investor and host OIC country negatively affects FDI.

III.C General overview and key implications for OIC IPAs

The gravity model provides a valuable point of view in understanding the FDI flows in the world and to the OIC countries. Although every model has its limitations, this chapter aimed to provide a general perspective on the standing of OIC countries within it. While there are significant parallels with the globe, OIC countries, individually and as a group, have distinct features shaping the FDI they receive and make within themselves.

Regression results with different specifications and sub-samples show that traditional gravity variables like distance, common colonizer, and common language are significant in determining the value of FDI. When the country-specific indicators and multilateral trade resistance are accounted for, like in trade models, increasing distance results in less FDI, but having a common colonizer and having the same official languages between countries increase the value of FDI flows.

By recognizing the significance of these traditional gravity variables in determining FDI, IPAs may prefer to focus on attracting investment from countries with which they share commonalities, such as language or historical ties. This can inform their marketing and outreach efforts, allowing them to tailor their promotional activities towards countries that are more likely to invest based on cultural affinities, historical connections, or geographical proximity.

Further, IPAs can tap into the potential of the overseas diaspora communities, who have cultural and historical connections with their home countries, and encourage them to invest in their home countries.

This finding also suggests unfamiliarity with foreign markets and cultural barriers may deter companies from considering FDI. IPAs shall play a pivotal role in

decreasing these barriers and promoting the flow of FDI by undertaking various strategic initiatives. IPAs shall provide comprehensive market research and disseminate relevant information about the host country's business landscape. By offering detailed insights into market trends, consumer behavior, regulatory frameworks, and investment opportunities, IPAs will empower potential investors with the knowledge necessary to navigate unfamiliar territories. This proactive approach can help reduce uncertainty and minimize the impact of cultural barriers on investment decisions.

In general, IPAs should promote investments in sectors with high growth potential and global demand, such as technology, renewable energy, infrastructure, and healthcare. This will make the investment opportunities more attractive to foreign investors, irrespective of cultural or historical ties. Moreover, IPAs can contribute to enhancing the overall business environment in their respective countries by simplifying bureaucratic processes. This will make the country more appealing to foreign investors, regardless of cultural or historical connections.

In today's world, transforming the business interface of a country by improving the ease of access and establishing one-stop shops through digitalization and investor experience design frames would be a viable contemporaneous approach. As simple as it may sound, even ensuring well-maintained translations of government and access to information web portals may help embark on this transformation.

Trade agreements and hosts' trade capacity also play an essential role in attracting the FDI. From a broader perspective, facilitating trade with the rest of the world may increase the attractiveness of the host country for foreign investors. From a sectoral point of view, attracting export-oriented industrial production can be made possible by increasing trade orientation.

One implication for IPAs is the need to strategically focus on leveraging existing trade agreements. They should actively promote the benefits of these agreements to potential investors, highlighting the preferential market access, reduced trade barriers, and other advantages that can enhance the attractiveness of the host country as an investment destination. Additionally, IPAs may need to engage in advocacy efforts to support negotiating and implementing new trade agreements that can further facilitate FDI inflows.

Another implication is the importance of enhancing the host country's trade capacity. IPAs may need to collaborate with relevant government agencies and industry stakeholders to address infrastructure gaps, streamline customs procedures, improve logistics and transportation networks, and invest in trade

facilitation measures. By strengthening trade capacity, IPAs can create a more conducive environment for FDI by reducing transaction costs, improving market access, and enhancing overall competitiveness.

Increasing the quality of the human capital is a clear goal for OIC countries as it is significant in attracting more FDI flows. Higher human capital index scores positively affect manufacturing, ICT and electronics investments. As these investments potentially transfer their technologies inside the destination country as well, leveraging the spill-over effect and increasing the development levels with high value-added production is a viable target.

IPAs can tailor their marketing and promotion efforts to highlight the human capital advantages of their respective countries. This may involve showcasing educational achievements, technological expertise, and research capabilities through targeted promotional campaigns and industry-specific events.

IPAs may need to advocate for policies that support the attraction and retention of skilled professionals, such as streamlined visa processes for foreign talent, incentives for high-skilled workers, and initiatives to retain graduates from domestic educational institutions. Creating an environment where skilled individuals are welcomed and supported can enhance a country's appeal to multinational companies considering FDI.

IPAs can also promote investment in research and development (R&D) activities to enhance their countries' human capital advantage further. By encouraging collaboration between foreign businesses, academia, and government agencies in R&D projects, IPAs can contribute to creating knowledge-based economies that are attractive to FDI. This may involve providing incentives for R&D investments and fostering innovation clusters.

Improving the governance indicators is another plausible strategy for attracting more FDI flow for the destination countries. Governance index scores of destination countries have a significant and positive relation to FDI flows in every country sub-sample this chapter addressed. Although improving governance indicators is not a simple task and requires a strong political and bureaucratic will, IPAs, with their aforementioned bridging role, can lead to enhanced credibility and investor confidence. By actively promoting governance reforms and demonstrating progress in this area, IPAs can signal potential investors that the investment environment is stable, transparent, and conducive to long-term business operations.

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UN. E-Government Konowledgebase, https://publicadministration.un.org/egovkb

UNCTAD Frontier Technology Readiness Index, https://unctadstat.unctad.org/datacentre/

CHAPTER

IV

Foreign direct investments among OIC countries

Obtaining comprehensive and reliable data on FDI flows in the host economy by geographical origin can be challenging for developing countries, as bilateral FDI data is often missing or incomplete. Some developing countries may have varying definitions and reporting standards for FDI, leading to inconsistencies in the data. This issue can be particularly pronounced in countries with weaker statistical systems. Further, some developing countries lack the resources or infrastructure to collect and report detailed bilateral FDI data. As a result, these data gaps can limit the availability and accuracy of information on FDI flows between specific countries. Moreover, some countries may choose not to disclose bilateral FDI data due to confidentiality concerns or strategic considerations, further limiting the availability of this information.

The Coordinated Direct Investment Survey (CDIS) is a global survey conducted by the International Monetary Fund (IMF) to collect comprehensive and detailed information on FDI stock positions. The survey helps better understand the global direct investment landscape, including bilateral FDI stock size and distribution. The IMF CDIS collects data from participating countries on an annual basis. National authorities report inward and outward FDI stock data, broken down by country of origin/destination (IMF, 2015).

Intra-regional FDI refers to investments made within a specific region, such as within Europe or Asia, while total FDI stock encompasses all foreign investments in a particular region. The share of intra-regional FDI instock within the total FDI instock of a region provides insights into the level of investment flows within that region compared to external investments. The IMF CIDS database classifies countries into 11 geographical regions. Regional analysis shows that 44.2% of the world's FDI instock was realized intra-regionally in 2022. The share of intra-regional FDI instock within total regional FDI instock was highest in the Persian Gulf (63.1%), Europe (62.9%), East Asia (51.7%), and the North Atlantic and the Caribbean (44.5%) (Figure IV.1).

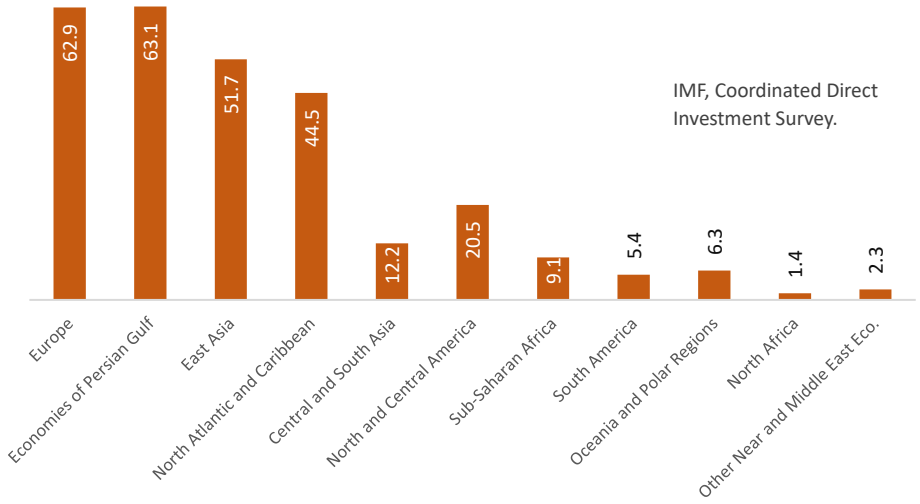
Of the 129 countries reporting inward direct investment stock data in the IMF's CDIS database, 32 are OIC countries. However, only 25[5] of these countries did report their FDI stock data broken down by country of origin. To enrich the OIC dataset further, data on inward bilateral direct investment stock for Cote d'Ivoire in 2020, Jordan in 2021, Oman in 2022, and Senegal in 2019 was obtained from UNCTAD. Similarly, data for Guinea Bissau in 2020 and Tunisia in 2021 were sourced from the Investment Map database of the International Trade Centre (ITC). Therefore, the number of countries providing inward bilateral direct investment stock data for the OIC has increased to 31 countries.

[5] Albania, Algeria, Azerbaijan, Bahrain, Bangladesh, Benin, Brunei, Burkina Faso, Guinea, Indonesia, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Malaysia, Mali, Morocco, Mozambique, Niger, Nigeria, Pakistan, Tajikistan, Togo, Türkiye and Uganda.

However, in Albania, Uganda, and Malaysia, the data of 8, 21, and 30 OIC countries were kept confidential, respectively, although bilateral FDI flows existed between them. For this reason, Albania and Uganda were excluded from the analysis to ensure the reliability of the results. However, Malaysia's data from ITC's Investment Map database for 2020 was utilized in the calculations.

It is noteworthy that only 13.9% of the total inward direct investment stock attracted by the 29 OIC countries originated from within the OIC itself. Upon examining the rates provided in Figure IV.1 for eleven geographical regions, it becomes evident that the intra-OIC inward FDI stock has not achieved the desired levels. This scenario highlights an opportunity for the OIC to enhance its engagement in foreign direct investment activities and thereby bolster its economic integration efforts.

Figure IV.1: The share of intra-regional FDI instock within the total FDI instock of given regions *(Percent, 2022)*



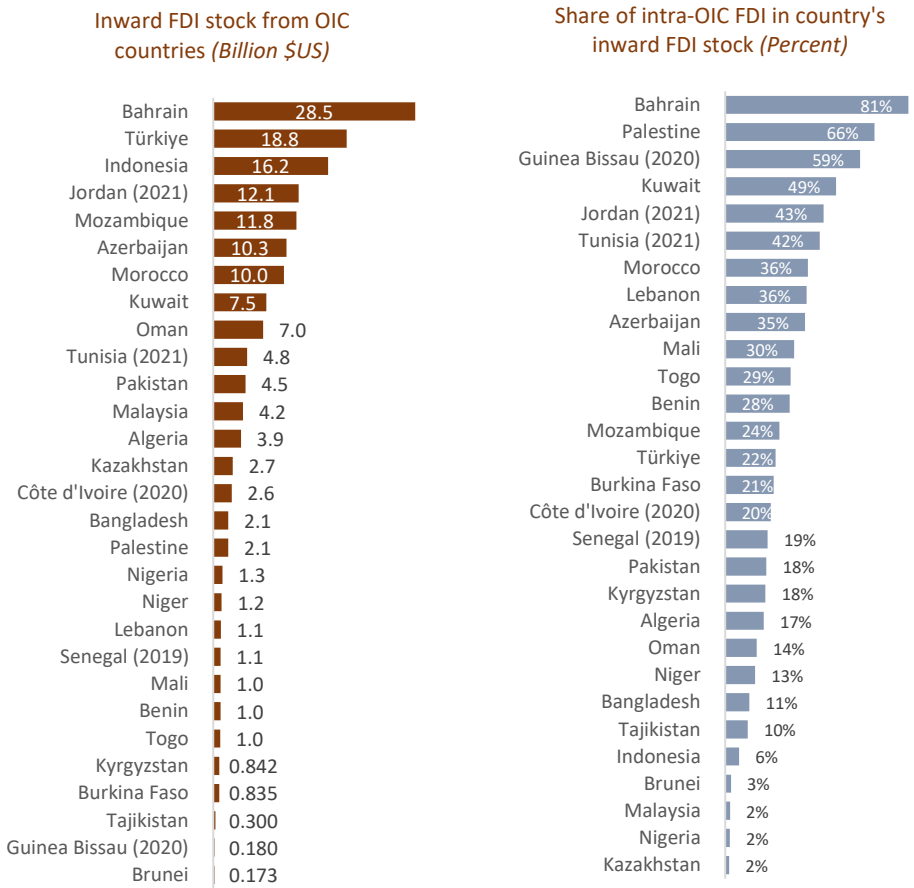
IV.A.1 Overview of intra-OIC investment

Bahrain has the highest inward FDI stock among the 29 OIC members for which data is available. As of 2022, Bahrain's direct investment stock from OIC countries is reported to be $28.5 billion, accounting for 80.5% of the country's total inward direct investment stock. This indicates that Bahrain has strong economic ties with other OIC countries.

Among the countries listed in Figure IV.2, Indonesia and Malaysia have the highest total stock of inward FDI. However, since these two countries have

developed intense economic connections with non-OIC Asian economies, the share of the FDI they receive from OIC countries in their total investments remains low. In 2022, the share of the investment stock attracted from Singapore, Japan, China, and Hong Kong in the total inward FDI stocks was 51.4% in Indonesia. On the other hand, as of 2020, Malaysia had a share of 48% of FDI stock from the same countries. Türkiye stands out from these two OIC countries due to its relatively higher FDI stock originating from OIC and the significant share of the FDI from OIC countries in its total inward FDI stock (Figure IV.2).

Figure IV.2: Intra-OIC FDI stock
(2022, billion and percent)



Source: IMF Coordinated Direct Investment Survey, ITC Investment Map, UNCTAD.

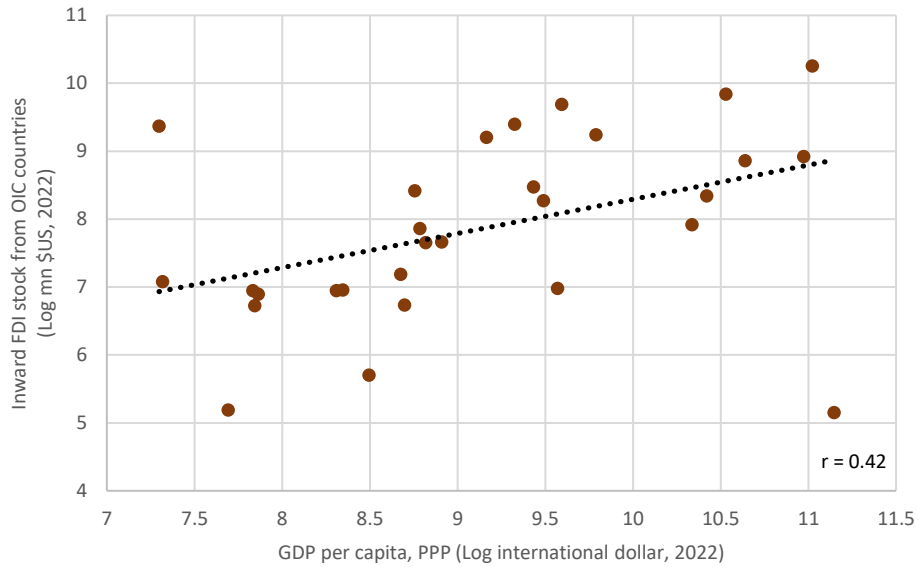
In Figure IV.3, the data illustrates a positive relationship between the per capita GDP of the 29 OIC countries and the direct FDI stock these nations attract from other OIC countries. This relationship suggests that as the per capita GDP of

these countries increases, they tend to attract higher levels of FDI from other OIC members.

Several factors can explain this correlation. Firstly, a higher per capita GDP indicates a stronger economy with greater purchasing power and market potential. This attractiveness can incentivize investors from other OIC countries to invest in these economies to capitalize on their growth prospects and market opportunities.

Moreover, OIC countries with higher per capita GDP levels often have better infrastructure, skilled labor forces, and regulatory environments that are conducive to foreign investment. These factors make them more appealing destinations for FDI from other OIC nations seeking profitable ventures and partnerships.

Figure IV.3: The relationship between the GDP per capita of OIC countries and the FDI they attract from other OIC countries



Source: IMF Coordinated Direct Investment Survey, ITC Investment Map, UNCTAD and World Bank.

According to fDi Markets data, 40% of the greenfield FDI flows within all OIC countries in 2003 and later were in real estate, 22% in coal, oil, and natural gas, and 5.5% in the hotel and tourism sectors. This indicates that the investment motivation within the OIC is essentially market or natural resource-oriented. Since OIC members that stand out in tourism and natural resources are countries

with higher GDP per capita, a strong relationship emerges between the two variables, implying that wealthier countries are more attractive for intra-OIC FDI.

Table IV.1: Geographical distribution of the 1000 largest OIC companies by annual revenues and presence of international operations (2023)

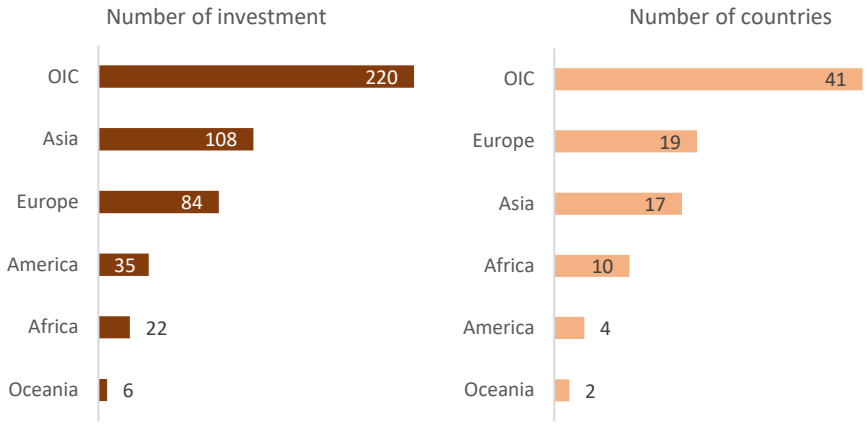
	Number of companies in OIC's top 1000 list	Number of companies in the OIC top 1000 ranking engaged abroad	Percentage of companies among the top 1000 that have at least one investment abroad
Indonesia	185	6	3.2%
Malaysia	179	21	11.7%
Türkiye	109	8	7.3%
Saudi Arabia	87	7	8%
Pakistan	77	3	3.9%
UAE	60	17	28.3%
Bangladesh	42	2	4.8%
Egypt	38	3	7.9%
Kuwait	37	8	21.6%
Qatar	30	4	13.3%
Nigeria	29	5	17.2%
Morocco	26	3	11.5%
Oman	20	4	20%
Jordan	18	4	22.2%
Bahrain	15	9	60%
Kazakhstan	15	2	13.3%
Tunisia	10	0	0
Lebanon	6	3	50%
Uganda	4	0	0
Gabon	2	0	0
Palestine	2	0	0
Syria	2	0	0
Togo	1	1	100%
Algeria	1	0	0
Senegal	1	0	0
Iraq	1	0	0
Suriname	1	0	0
Sudan	1	0	0
Cote d'Ivoire	1	0	0

Source: MarketLine

The country distribution of the 1000 largest companies by annual revenues in the OIC is shown in Table IV.1. There are two noteworthy points in OIC's list of the 1000 largest companies. First, 637 of the top 1000 companies are based in Indonesia, Malaysia, Türkiye, Saudi Arabia, and Pakistan. Only 29 out of 57 OIC countries have companies on the top 1000 list. Secondly, according to MarketLine data, only 110 out of 1000 companies have operations outside their own country. Of these 110 companies, 21 are headquartered in Malaysia, 17 in the United Arab Emirates, and nine in Bahrain. The United Arab Emirates differs from other OIC countries in terms of FDI orientation, with 17 of the 60 companies on the list engaged abroad. Of the three countries with the most

companies on the list, 3.2% of those in Indonesia, 11.7% in Malaysia and 7.3% in Türkiye operate in at least one other foreign country.

Figure IV.4: Geographical distribution of FDI of the OIC's 1000 largest companies (2023)



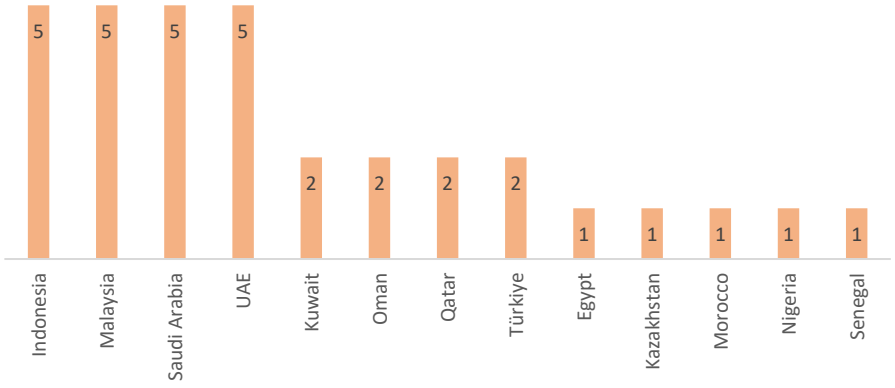
Source: MarketLine.

The 110 companies in the OIC's top 1000 list engaged abroad have operations in 93 countries outside their headquarters. OIC countries accounted for 220 of the 475 OIC investments made in these 93 economies. In the geographical distribution of the other 255 investments, it is seen that Asia stands out with 108 investments, and Europe stands with 84 investments. (Figure IV.4) OIC countries' investments in non-OIC African countries are low. However, as the IMF emphasized in its note published in October 2023, China's investments are increasing, especially in Sub-Saharan Africa (IMF, 2023). China's investments in the region have been on an increasing trend since 2006, and as of 2021, 23% ($3 billion) of FDI in Sub-Saharan Africa were made by China. China's share in the OIC African group's total FDI stock is 6.5%. It is critical that the OIC countries with the greater potential for direct investment concentrate on Africa if the organization is to build robust value chains or engage more fully in already-existing ones.

Out of the top 1000 global companies by annual revenue in the telecom and IT sector, only 33 companies from OIC countries are present. The distribution of these OIC companies across different countries is presented in Figure VI.5. While the number of OIC companies in the top 1000 global list is relatively low, the presence of multiple companies from countries like Indonesia, Malaysia, Saudi Arabia, and the United Arab Emirates suggests that these nations have successfully captured a notable market share of the telecom and IT market. This

indicates a certain level of competitiveness and capability to operate internationally.

Figure IV.5: Number of OIC companies in the list of top 1000 global telecom and IT companies by annual revenue (2023)



Source: MarketLine.

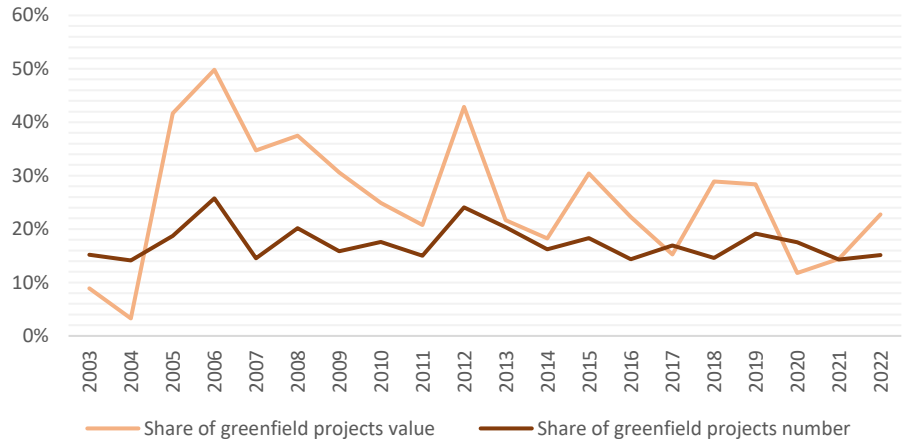
IV.A.2 FDI dynamics among OIC Arab group of countries

The most significant intra-OIC investments occur within the OIC Arab group. Therefore, the FDI developments within the OIC Arab group are decisive in determining the level of overall intra-OIC investments.

Within the OIC Arab group, 245 greenfield FDI projects were announced in 2022. This is 15.2% of the total number of announced greenfield FDI projects directed to this group of countries in the same year. The yearly data for 2003–2022 shows that this rate has a long-term average of 17.5%. (Figure IV.6) While the share of intra-OIC Arab group greenfield FDI in total greenfield FDI received by this group of countries has generally shown a declining trend since 2006, the intra-Arab share has increased for two years in 2021–2022. This may suggest a renewed interest among OIC Arab countries in investing more within their own group, or it could be due to other factors, such as changes in global economic conditions or geopolitical developments.

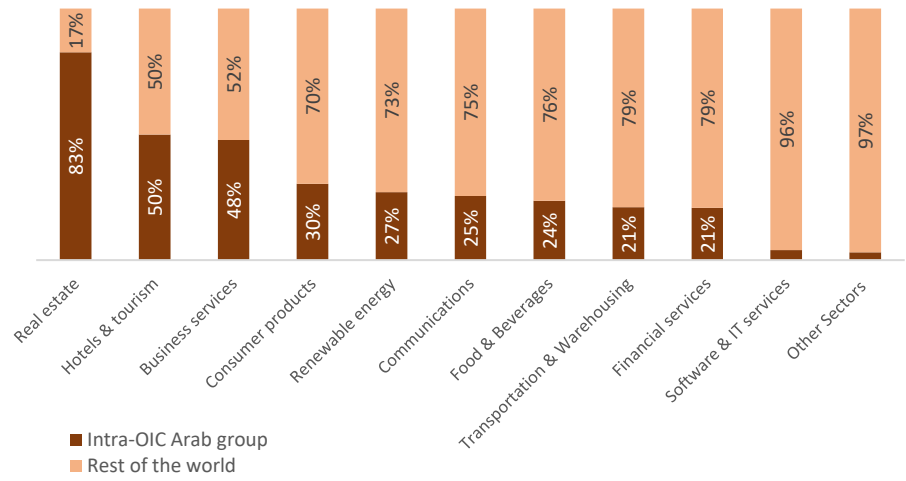
Figure IV.7 shows the sectoral distribution of the intra-OIC Arab group greenfield FDI projects by announced value in 2022. Among the announced greenfield FDI directed to OIC Arab group's different sectors, 83% of FDI to real estate, 50% of FDI to hotels and tourism, and 48% of FDI to business services came from this group of countries. Announced greenfield FDI to software and IT services had the lowest share within the intra-OIC Arab group FDI, with only 4% of total value.

Figure IV.6: Share of intra-OIC Arab group greenfield FDI within total greenfield FDI inflows of this group of countries



Source: DHAMAN (2023), based on fDI Markets.

Figure IV.7: Sectoral distribution of intra-OIC Arab group greenfield FDI projects *(2022)*



Source: DHAMAN (2023), based on fDI Markets.

In 2022, Egypt was the most attractive destination for the announced greenfield project among the OIC Arab group of countries. 32.7% of the value of announced greenfield FDI projects (nearly $35 billion) directed to Egypt came from other Arab countries. This represents 76.7% of the total value of the intra-OIC greenfield FDI inflows. After Egypt, the Arab countries that attracted the most FDI from the OIC Arab group were Oman, Saudi Arabia, and Bahrain in the same year (Table IV.2). The share of these three countries in the intra-OIC Arab group

greenfield FDI flow totaled to 16.4%. In other words, four countries from the OIC Arab group attracted 93% of the greenfield FDI flows realized within this group. This suggests an issue with the spatial diversification of intra-FDI flows across Arab countries. Another diversification problem applies to Bahrain, Yemen, Kuwait, Somalia, and Sudan, where 70% to 100% of inward greenfield FDI flows in 2022 originated from the OIC Arab group of countries. While this indicates a high level of intra-group economic integration, these countries must attract more FDI from outside the Arab economies to increase their chances of joining new value chains and improve their internationalization levels.

Table IV.2: Country shares within the intra-OIC Arab group greenfield FDI *(2022)*

	Total FDI inflow *(Million $US)*	FDI inflow from the OIC Arab group *(Million $US)*	Share of the OIC Arab group in total FDI inflow (%)	Share in value of intra-OIC Arab group FDI inflow (%)
Egypt	106995.5	34954.8	32.7	76.7
Qatar	29778.5	169.1	0.6	0.4
Morocco	15308.4	533.9	3.5	1.2
Saudi Arabia	13249.2	2220.6	16.8	4.9
UAE	10836.6	729.7	6.7	1.6
Oman	9794.6	3628.1	37	8.0
Libya	6361.7	197.1	3.1	0.4
Djibouti	2469.0	180.7	7.3	0.4
Bahrain	2198.7	1604.6	73	3.5
Iraq	1038.7	41.5	4	0.1
Kuwait	554.5	551.9	99.5	1.2
Tunisia	401.9	19.3	4.8	0.0
Jordan	376.5	97.1	25.8	0.2
Yemen	357.7	355.3	99.3	0.8
Sudan	174.1	174.1	100	0.4
Algeria	135.7	16	11.8	0
Somalia	108.5	108.5	100	0
Mauritania	55.0	0	0	0
Palestine	24.8	0	0	0
Lebanon	12.3	0.9	7.3	0

Source: DHAMAN (2023), based on fDI Markets.

IV.B Emerging opportunities for intra-OIC investment

Numerous emerging opportunities exist for intra-OIC investment across various sectors, such as infrastructure development, technology and innovation, renewable energy, agriculture, and tourism. Investors can achieve financial returns by strategically allocating capital to these areas and contribute to OIC countries' sustainable growth and development.

One key area of opportunity for intra-OIC investment is infrastructure development. Many OIC member states need substantial investments in their

infrastructure, including transportation networks, energy systems, and telecommunications. By investing in infrastructure projects within OIC countries, investors can contribute to these nations' modernization and improvement and benefit from the long-term returns generated by such investments.

Another promising area for intra-OIC investment is technology and innovation. With the rapid advancement of technology globally, OIC countries have recognized the importance of investing in this sector to drive economic growth and enhance competitiveness. Investors can tap into the region's technological advancement and entrepreneurship potential by supporting technology startups, research institutions, and innovation hubs within the OIC.

Renewable energy presents a significant opportunity for intra-OIC investment due to the abundant natural resources available in many member states. Countries in the OIC have vast solar, wind, and hydroelectric potential that remains largely untapped. Investing in renewable energy projects within the OIC helps address energy security and environmental concerns and offers attractive returns on investment as these technologies become more cost-effective and widespread.

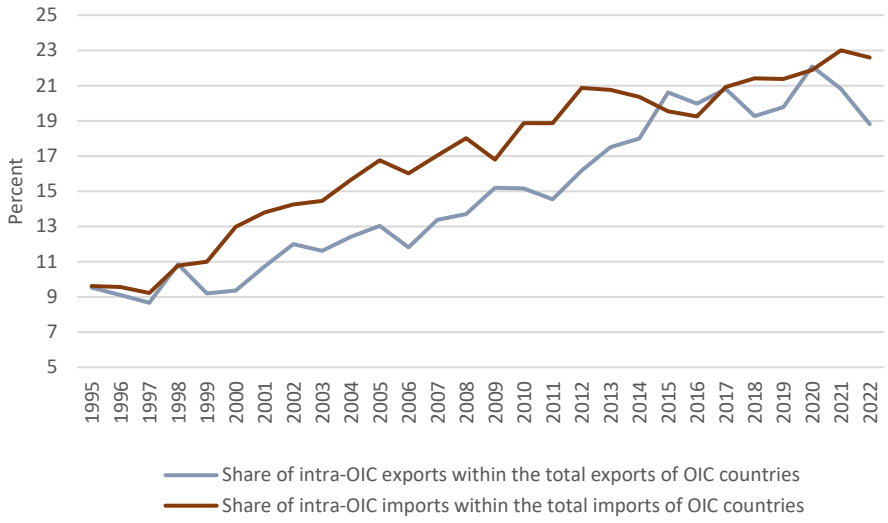
Agriculture is vital for many OIC countries, providing employment opportunities and ensuring food security for their populations. Investing in agriculture-related projects, such as sustainable farming practices, agribusinesses, and food processing facilities, can help boost agricultural productivity and enhance food security within the OIC. These investments not only have the potential to generate profits but also contribute to poverty reduction and economic development.

Tourism is another area with significant potential for intra-OIC investment. Many OIC countries boast rich cultural heritage, natural beauty, and historical sites that attract millions of tourists each year. By investing in tourism infrastructure, hospitality services, and marketing initiatives, investors can capitalize on the growing demand for travel within the OIC countries while promoting cross-cultural exchange and economic diversification.

Other emerging opportunities for intra-OIC investment can be identified through an analysis of trade patterns and global value chains. By examining the volume of goods being traded among these countries, it is possible to identify the potential for furthering investment and overall economic relations. Similarly, mapping out how different OIC countries are integrated into global production networks makes it possible to pinpoint areas with the potential for increased collaboration and investment.

The share of inta-OIC foreign trade in total trade of these countries increased rapidly in the 2000s but then entered a period of stagnation. While the share of OIC countries in OIC's total goods exports was 8.7% in 1997, this rate followed a rapid increase trend and reached 20.6% in 2015. This rate was followed by a stable course in 2015-2020 and a decreasing trend in 2020-2022, remaining at 18.8% in 2022 (Figure IV.8). On the import side, intra-OIC imports increased from 1997 to 2012, raising the share of intra-OIC imports in the OIC countries' total imports from 9.2% in 1997 to 20.9% in 2012. From 2013 to 2016, this share decreased and, following the increasing trend in succeeding years, reached 22.6% in 2022 (Figure IV.8).

Figure IV.8: Share of intra-OIC trade within the total trade of OIC countries *(Percent)*

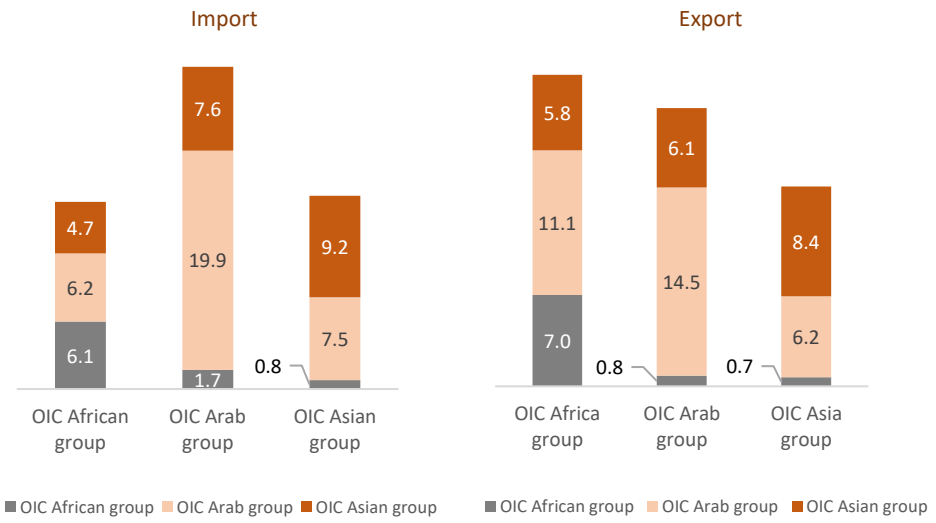


Source: CEPII BACI database and ICDT.

Upon closer inspection of the trade distribution within the OIC groups, it is seen that the OIC Arab group has the most considerable intra-regional commerce. As of 2022, the share of intra-regional exports in the groups's total exports is 14.5% in the OIC Arab group, 8.4% in the OIC Asian group, and 7% in the OIC African group (Figure IV.9). Because commerce occurs between various OIC groupings, the intra-OIC trade rate is larger than the same rate inside OIC groups. The OIC Asian group received 6.1% of all exports from the Arab countries group, while the OIC African group received 0.8%. The share of the remaining two OIC groups in an OIC group's total exports was 16.9% for the OIC African group, 6.91% for the OIC Asian group, and 6.88% for the OIC Arab group.

In terms of imports, in 2022, the group with the most intense intra-regional trade is again the OIC Arab group. The share of intra-group imports in total imports is 19.9% in the OIC Arab group, 9.2% in the Asian group, and 6.11% in the OIC African group. The share of the remaining two OIC groups in an OIC group's total imports was 10.9% in the OIC African group, 9.3% in the OIC Arab group, and 8.3% in the OIC Asian group (Figure IV.9).

Figure IV.9: Share of OIC groups within an OIC group's overall export and import *(2022, percent)*

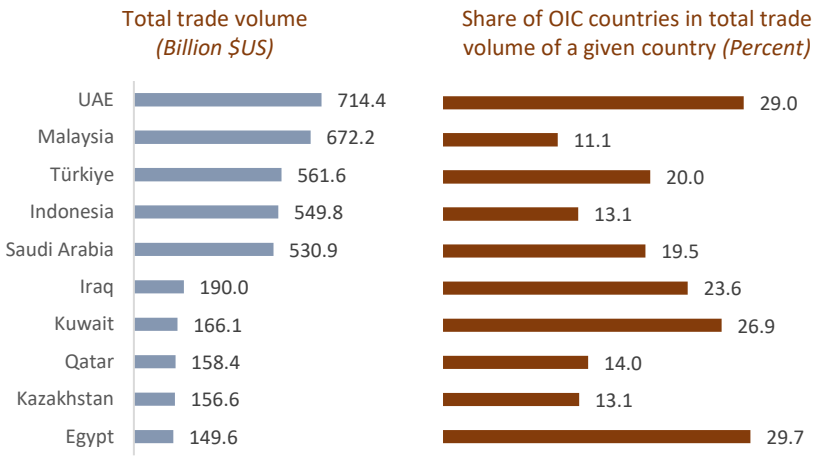


Source: CEPII BACI database.

According to 2022 data, five OIC countries (the United Arab Emirates, Malaysia, Türkiye, Indonesia, and Saudi Arabia) have more than $500 billion foreign trade volume. These five countries account for 59.1% of OIC's total exports and 53.7% of OIC's total imports. At the same time, these five countries provide 62.4% of OIC's intra-regional exports and 41.4% of OIC's intra-regional imports. The share of OIC in the total foreign trade volumes of these five OIC countries was between 11.1% and 29% in 2022 (Figure IV.10)

On the other hand, it is seen that the economies with the highest OIC share in their total trade are countries with a total trade volume below $15 billion, such as Syria, Afghanistan, Mali, Somalia, and Niger. This is an expected result, as larger economies are more integrated into global value chains, and their product and geographical diversity is higher. However, this also indicates that one of the optimal strategies to increase the economic integrity of the OIC would be to increase the large economy-small economy integration between member states.

Figure IV.T: Share of OIC countries in total foreign trade volume of the top 10 OIC economies by trade volume *(2022)*



Source: CEPII BACI database.

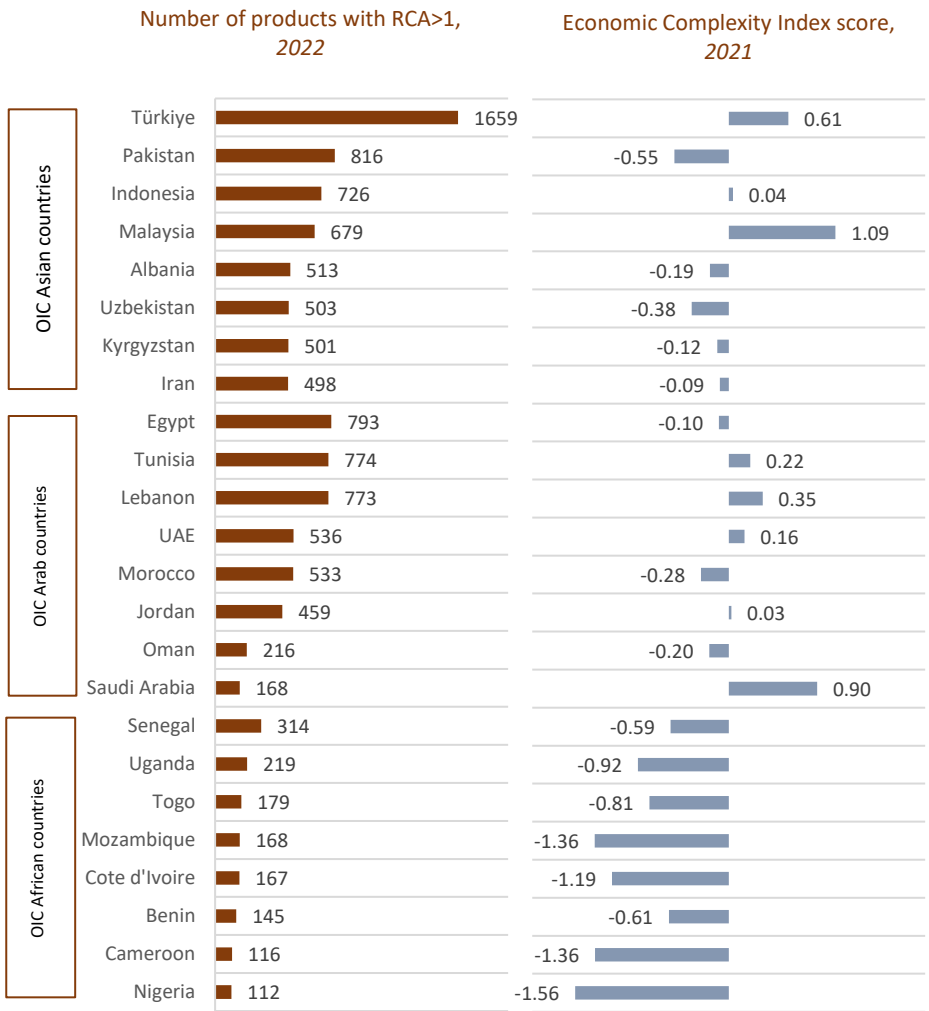
The product diversity and average quality of national exports were analyzed to identify which nations could lead the OIC's forward participation in global value chains and intraregional integration. Revealed Comparative Advantage (RCA) is a valuable tool for countries to determine their competitive strengths in international trade and optimize their economic activities accordingly. RCA is an economic concept that identifies areas where a country has a comparative advantage based on its actual trade patterns. It is calculated by comparing the share of a particular product in a country's total exports to the share of that product in global exports. If a country's share of exports for a specific product is higher than its share in global exports, it is said to have a revealed comparative advantage in that product. Here, the number of products with an RCA value greater than one (1) was considered as an indicator of product diversity. If a country's RCA value in a sector is greater than 1, the country is competitive in this product.

On the other hand, the Economic Complexity Index (ECI) is a statistical tool used to measure a country's economy's relative complexity and diversification. The ECI is based on the idea that some countries have a comparative advantage in producing complex goods and services while others specialize in simpler ones. Here, the ECI score was used to represent the average quality of exports. Countries with more diverse and complex export baskets have higher ECI scores.

Figure IV.11 shows both product diversity and ECI scores of the eight countries with the highest product diversity in the three OIC groups. The country with the highest product diversity across OIC is Türkiye. Being competitive in 1659 of the

4648 products traded globally, Türkiye also has the 6th most diverse export basket globally. On the other hand, analysis of ECI scores shows that Malaysia has the most developed productive capacity among the OIC countries (Figure IV.11). In the Observatory of Economic Complexity's ECI rankings for 2021, Malaysia ranks 24th among 131 countries.

Figure IV.11: Product diversification and sophistication of exports in selected OIC countries *(2022)*



Source: CEPII BACI database, MIT Observatory of Economic Complexity.

If the ECI score is greater than zero, it means that the productive capacity accumulation in the country is above the world average, and if it is less than 0, it is below the world average. When the OIC countries are evaluated from this

perspective, it is concluded that only 9 of the 44 OIC countries with available data have productive capacity accumulation above the world average.

The results in Figure IV.11 show that at least one country stands out in each OIC group, but the group of African countries lags behind the OIC Arab and Asian groups. In the Asian group, Türkiye is the most prominent country with its high product diversity and productive capacity accumulation above the world average. However, Malaysia, which is competitive in 679 products and has the highest ECI score in the OIC, also stands out as the OIC Asian groups' potential center of technology-oriented value chains.

Notably, lower qualified sectors are concentrated in the sector structure of Egypt, which is the most diverse country in the OIC Arab group (Figure IV.11). Countries such as Tunisia, Lebanon, and the United Arab Emirates, which have product diversity similar to Egypt and ECI scores greater than 0, stand out more than Egypt as regional value chain centers.

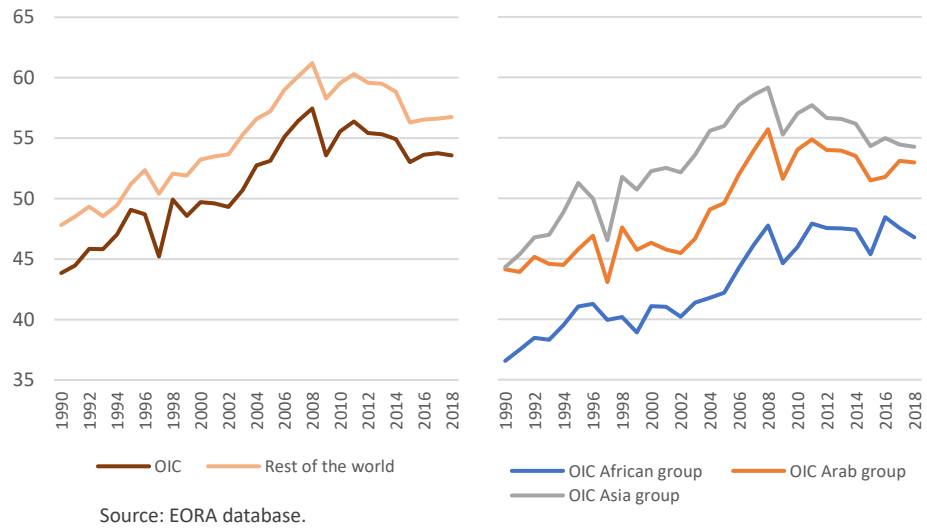
No country with a positive ECI score in the OIC African group exists, but Senegal differs from other countries in terms of product diversity. For the OIC African group, an FDI strategy that will enable these countries' forward participation in the value chains that will develop in the OIC Arab and Asian groups may be considered more appropriate.

As pointed out by FDI and foreign trade data, the problem of economic integration inadequacy reveals itself in the OIC's global value chain performance. The global value chain performance of OIC and OIC groups is analyzed using the Global Value Chain (GVC) Participation Index. This index measures the extent to which a country is involved in international production networks and the value-added activities that occur across borders. The index provides insights into how countries are positioned within the global economy and their contribution to producing goods and services traded internationally. Countries with higher scores on the index are considered to have a more significant presence in global value chains, indicating a higher level of economic interconnectedness with other countries.

Participation in global value chains occurs in two ways. The use of inputs from other countries in a country's exports is called backward participation or foreign-added value (FVA) in exports. The value value of one country in another country's exports is called forward participation. The share of the sum of forward and backward participation in the total value added obtained from exports gives the GVC Participation Index. (Fernandes, Kee, and Winkler, 2022).

Since 2008, the participation of OIC countries in GVC has followed a downward trend, reflecting the global tendency. Driven by China's rapid integration into the world economy, GVC participation increased worldwide from the mid-1990s until the 2008 global financial crisis. Although there was an increase in GVC participation in 2010-2011, which was the recovery period from the global crisis, the general tendency for the 2008-2018 period is downwards. On the other hand, as shown in Figure IV.12, OIC's GVC participation is below the average of other countries. Additionally, OIC country groups differ among themselves regarding participation in value chains. Even though Asian nations are the OIC group that attends GVCs the most, it is noteworthy that OIC Asian and Arab groups have converged in this respect in recent years (Figure IV.12). The OIC African group differed from the world average and other OIC groups in terms of its post-2008 GVC participation dynamics.

Figure IV.12: Global Value Chain participation of OIC country groups *(1990-2018)*

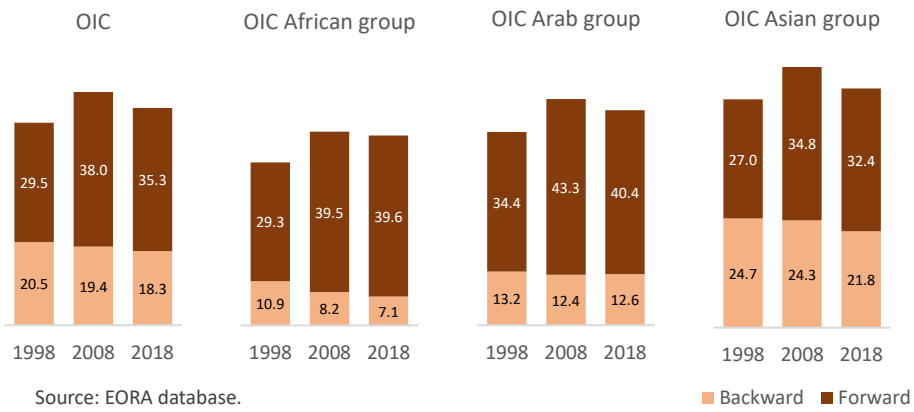


Source: EORA database.

During the 2008-2018 period, OIC's forward participation in GVCs increased while its backward participation decreased. In general, the period before the global crisis can be considered as a period in which the weight of OIC members as supplier countries in the world economy increased. It is noteworthy that after 2008, both forward and backward participation decreased. A similar trend for forward participation occurred in all three OIC groups (Figure IV.13). However, the way the Asian group of countries participates in GVCs differs from the OIC African and Arab groups of countries. African and Arab countries can take a forward position in GVCs by supplying raw materials with the advantage of their rich natural resources. In the OIC Asian group, which covers the OIC's most competitive economies in the manufacturing sector, forward participation is

again higher than backward participation, but there is significantly higher backward participation compared to the other two OIC groups.

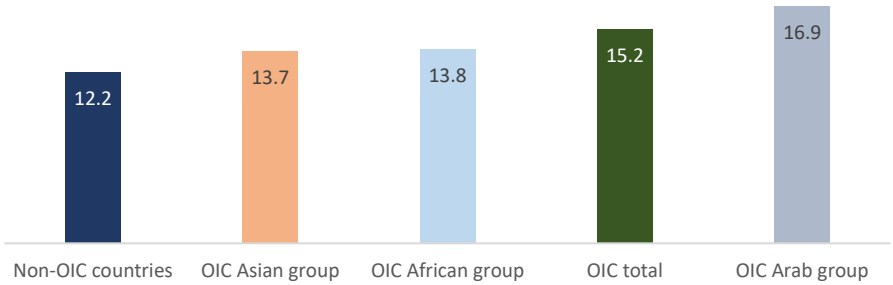
Figure IV.13: Forward and backward GVC participation
(Percent)



Source: EORA database.

In 2022, OIC countries provided 12.2% of the value added in the total exports of non-OIC countries. The same rate is 13.7% in the OIC Asian group and 13.8% in the OIC African group. (Figure IV.14). The fact that these ratios are close indicates that OIC has not been able to create a sufficient value chain to provide economic integrity within itself. However, it is important to remember that this circumstance offers IPAs a chance. The low value-added flow within the region has the potential to increase with FDI between OIC countries. Martínez-Galán and Fontoura (2019) found that the higher the countries' GVC participation, the higher their bilateral FDI inward stocks. The same study also stated that there is a natural relationship between efficiency-seeking direct investments and GVC participation since these kinds of investments mean moving certain parts of production to other locations.

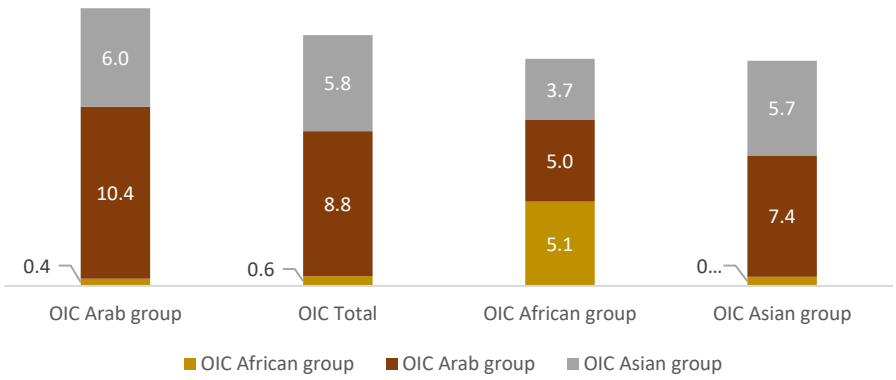
Figure IV.14: Share of OIC countries in foreign value added in exports
(2022, percent)



Source: EORA database.

The distribution of OIC groups' foreign value added in an OIC group's export is shown in Figure IV.15. The dominance of the OIC Arab group in this distribution is noteworthy, which provided 8.8% of the total foreign value added in the OIC level exports.

Figure IV.15: Distribution of OIC groups' foreign value added in an OIC group's export *(2022, percent)*



Source: EORA database.

Five country-sector pairs outside the African group that provide the most added value to the total exports of the OIC African group are Saudi Arabia's mining sector, United Arab Emirates' financial intermediation, electricity, and natural gas and mining sectors, and Iraq's mining sector. Similarly, regarding other OIC countries with the most value added in the exports of the OIC Asian group, the mining activities of Saudi Arabia, United Arab Emirates, Iraq, and Kuwait, and the financial intermediary sector of the United Arab Emirates come first. In the value-added provided to the OIC Arab group, the contribution of Iran's mining, Türkiye's wholesale-retail trade, and railway transportation activities stand out.

These findings show that the energy and mining sector is one of the main determinants of intra-OIC economic relations. Attracting FDI to the OIC in sectors other than energy and mining will generally trigger sectoral diversification and reduce the possibility of OIC members, which provides forward participation in other countries' exports through mining activities, experiencing the resource curse. The resource curse, also known as the paradox of plenty, is a phenomenon where countries with abundant natural resources, such as oil, gas, and minerals, experience negative economic and political consequences. To mitigate these effects, countries must adopt policies promoting diversification, transparency and accountability, good governance, and regional cooperation.

The Eora database's value chain data was utilized in a three-stage filtering method to determine non-OIC countries as possible targets for OIC IPAs. The three-stage filtering method is a systematic data analysis utilized to extract valuable insights from complex or noisy datasets.

Countries with foreign-added value in exports below $10 billion in 2022 were eliminated in the first stage. Since they didn't fit this requirement, 89 of the 133 countries with available data were disqualified.

The second filter eliminated countries with less than 30% foreign value-added ratio in their exports. 16 of the 44 countries that passed the first filter did not pass this threshold. Countries with an OIC share of over 10 percent in foreign value added in their exports were removed from consideration in the third and final filter.

The share of OIC countries in the foreign value added in the exports of 11 out of the 28 countries that passed the first two filters was between 10.1% and 23.7%. These countries were also eliminated because they already had economic relations with the OIC above the threshold value. As a result, 17 countries were able to complete the filtering process. 15 of these 17 countries presented in Table IV.3 are European countries. The other two countries are Mexico and Hong Kong.

Table IV.3: Non-OIC countries that have passed the 3-stage filtering process

	FVA in export *(Billion $, 2022)*	Share of FVA in export *(Percent, 2022)*	Share of OIC countries in *FVA (Percent, 2022)*
Germany	588.9	42.6	9.3
Hong Kong	339.7	64.0	4.4
Belgium	196.4	58.2	9.0
UK	192.8	30.6	7.3
Ireland	168.3	43.0	4.1
Mexico	164.5	44.9	3.9
Switzerland	120.1	32.2	5.0
Poland	89.1	36.7	6.0
Luxembourg	75.1	71.2	4.7
Austria	71.7	38.3	8.7
Denmark	69.3	48.2	5.2
Hungary	48.6	49.1	5.4
Slovakia	41.2	55.4	4.0
Finland	29.3	37.5	4.7
Slovenia	16.8	49.7	5.8
Ukraine	16.1	38.2	8.3
Lithuania	14.5	49.1	5.2

Source: EORA database. FVA = foreign-added value

Table IV.4 utilizes Türkiye's example to discuss how the OIC might enhance economic integration and where FDI can be directed from large OIC economies

to smaller OIC economies. The first reason for this choice is that Türkiye is the OIC member with the highest product diversity. Secondly, it is the fortieth country with the highest ECI score among 133 countries as of 2021 and the third country with the highest potential to leap into new and more complex sectors with its existing competencies (Growth Lab at Harvard University, 2019).

Table IV.4 presents the distribution of added value in the ten activity areas that create the most export-added value in Türkiye, according to EORA 2022 data. Textiles and ready-made clothing, which offer the most added value and are both low-tech manufacturing sectors, account for 24.4% of the country's total export-added value. Although Türkiye has a foreign value-added rate of around 30% in these two sectors, the share of other OIC countries in this foreign-added value is average. It may be considered an appropriate policy for Türkiye to move the production stages in these sectors to other countries to concentrate on more qualified sectors such as electronics, aviation, and chemistry.

Table IV.4: Distribution of value added in Türkiye's ten sectors that create the most export value added *(2022)*

	Technology classification	Share in Türkiye's total export value added *(Percent)*	FVA share in total export *(Percent)*	OIC share in FVA *(Percent)*
Textiles	Low tech	14.74	33.31	14.64
Wearing apparel	Low tech	9.68	29.36	12.22
Agricultural products	Resource-based	9.43	10.03	17.98
Chemicals	Medium-high tech	6.99	37.99	11.83
Motor vehicles	Medium-high tech	6.52	40.42	6.68
Machinery	Medium-high tech	6.26	32.29	7.61
Basic metals	Medium-low tech	4.86	51.20	8.62
Other non-metallic mineral products	Medium-low tech	3.68	20.58	17.77
Electrical equipment	Medium-high tech	2.63	38.49	11.04
Post and telecom services	High tech knowledge-intensive	2.57	14.51	7.32

Source: EORA database.

Türkiye, which is competitive in 539 of the 748 textile and wearing apparel products in the 6-digit detail of the HS 92 classification, is the country with the highest competitive diversity in these sectors after China. Türkiye can direct its investments in textile and wearing apparel to OIC countries, which, like itself, have knowledge in these sectors but have a low probability of leaping into other sectors. To identify these countries, competitive diversity in the total textile-wearing apparel sectors, ECI score, and Complexity Outlook Index (COI) values were used to represent the country's potential to be competitive in new and more complex products with its productive capacity. Apart from Türkiye, among the 38 OIC countries for which all three data can be calculated, two countries meet the required criteria in all three variables: Bangladesh and Morocco. The

ECI scores of Bangladesh, which is competitive in 262 products in the textile and ready-made clothing fields, and Morocco, which is competitive in 202 products, are below the world average, and their potential to make a qualified leap is low.

When determining the target country, OIC IPAs must consider intra-regional and extra-regional foreign trade, FDI, and value-added flows. In particular, efficiency-oriented direct investments that will increase economic integration within the OIC will ensure the development of value chains in the region and, therefore, the productive capacity in member countries. For this reason, it is essential to examine in detail economies with high potential to become regional hubs within the OIC, such as Türkiye, Malaysia, and Tunisia.

So far, the analysis of trade and value chains has determined several critical facts. The data provided reveals significant disparities in intra-regional trade within the OIC. The United Arab Emirates, Malaysia, Türkiye, Indonesia, and Saudi Arabia are crucial in intra-regional trade within the OIC. Given the disparities in intra-regional trade shares among the OIC groups, the OIC needs to focus on enhancing trade relations. Encouraging collaboration through trade agreements, reducing trade barriers, and facilitating cross-border FDI can help boost intra-regional trade volumes. Further, efforts should be made to diversify trade partners to reduce dependency on a few key players.

Improving infrastructure, logistics, and connectivity within the OIC groups is essential for enhancing trade flows. Investing in transportation networks, customs facilitation procedures, and digital infrastructure can help streamline trade processes and reduce transaction costs, thereby promoting greater economic integration among the OIC member states.

There is a need for greater integration between large and small OIC economies, which can lead to cost savings through economies of scale. Larger economies can benefit from lower production costs in smaller economies, while smaller OIC economies can access larger markets for their goods and services. Collaboration between large and small OIC economies can facilitate technology transfer, enabling smaller economies to adopt advanced technologies and improve their productivity levels. Further, increased integration can attract FDI from large economies to smaller ones, promoting economic growth and development.

The findings suggest that the OIC countries have a lower participation rate in global value chains (GVCs) than other countries. In the last fifteen years, the OIC experienced an increase in forward participation in GVCs while its backward participation decreased.

The OIC could encourage collaboration and knowledge-sharing among member countries to learn from each other's successful strategies in increasing GVC participation. This could involve organizing workshops, seminars, and joint projects to foster cooperation. Enhancing the integration of OIC countries into GVCs can attract more FDI into these economies. Moreover, inspiring diversification across sectors can reduce dependency on traditional industries and open opportunities for OIC countries to integrate into higher value-added segments of global value chains. However, embracing innovation and adopting advanced technologies are essential for enhancing competitiveness within GVCs. OIC countries should prioritize research and development efforts to stay abreast of technological advancements.

There is untapped potential for deeper economic cooperation and value chain development among OIC countries. Encouraging the growth of regional value chains and industries with a lot of potential for intra-OIC trade and investment is important. Further, providing support and incentives for SMEs within OIC countries can help strengthen local industries and promote their participation in intra-OIC value chains.

Based on the findings that European countries dominate the list of potential targets for OIC IPAs, it is recommended that OIC countries strengthen economic ties with these European nations.

Countries like Türkiye, Malaysia, Morocco, Egypt, Senegal, and Tunisia have been identified as having high potential to become regional hubs within the OIC due to their strategic location, infrastructure capabilities, skilled workforce, and business-friendly environments. These countries can serve as gateways for trade and investment flows within the OIC and beyond.

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Databases

BACI Database, http://www.cepii.fr/CEPII/en

fDi Markets, https://www.fdimarkets.com

IMF Coordinated Direct Investment Survey, https://data.imf.org/?sk=40313609-f037-48c1-84b1-e1f1ce54d6d5

International Trade Center (ITC) Investment Map, https://www.investmentmap.org/home

MarketLine, https://www.marketline.com

Observatory of Economic Complexity, https://oec.world/en

UNCTAD-EORA Global Value Chain Database, https://worldmrio.com/unctadgvc

The World Bank World Development Indicators, https://databank.worldbank.org/source/world development-indicators

CHAPTER

V

Development of digital economy in OIC countries and implications for IPAs

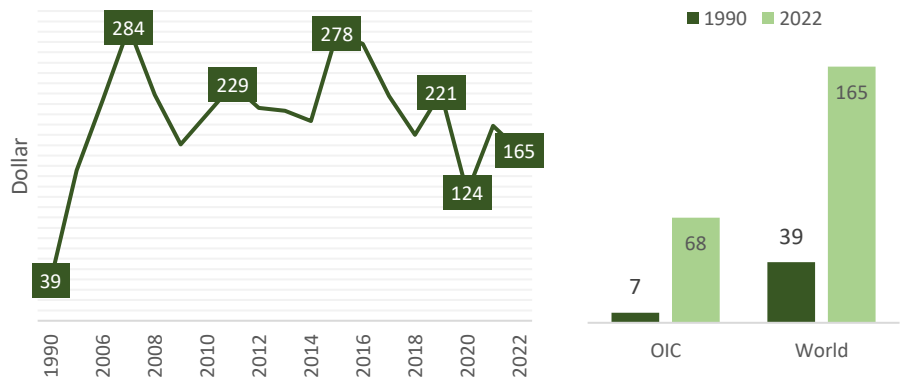
VA Digital infrastructure in OIC countries

Globalization has paved the way for international capital flows, including FDI and portfolio investments, since the 1980s. While the global inward FDI flows per capita accounted for $39 in 1990, they reached $278 in 2015 (Figure V.1, left). In OIC countries, per capita FDI inward flows jumped from $7 in 1990 to $68 in 2022, reflecting an increased integration of OIC countries into the world economy (Figure V.1, right). In recent years, global FDI inflows have significantly decelerated due to the prevailing global imbalances, reducing the global inward FDI flows per capita to $165 in 2022.

Therefore, unlike in the 1990s, there is a growing competition among countries to attract more FDI in recent years. This competition has also affected the nature and volume of FDI flows directed to OIC countries, as discussed in Chapter II of this report.

To this end, OIC countries' investment promotion agencies (IPAs) must compete to attract more FDI in a more competitive and digital-oriented global FDI market. They must offer superb or at least competitive digital and ICT infrastructure for prospective MNEs and retain existing ones in their host economies. Otherwise, many OIC countries may remain under their potential regarding FDI inflows. Even more, there is a possibility that some existing MNEs may decide to divest because of the reduced competitiveness stemming from outdated ICT infrastructure or limited digitalization in the economy.

Figure V.1: Globalization through FDI
(Global inward FDI flows per capita)

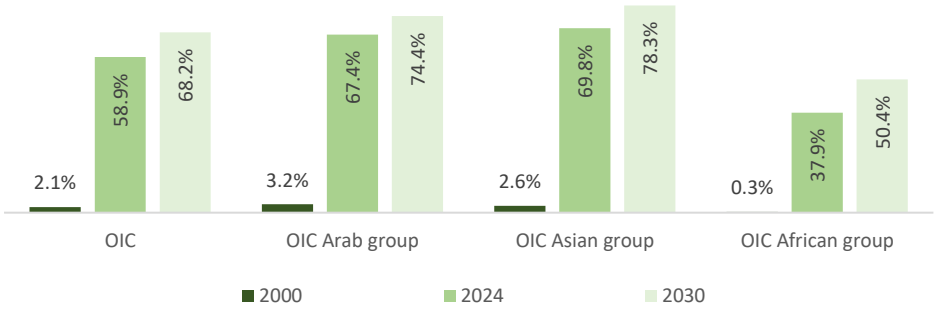


Source: UNCTAD, FDI/MNE database.

V.A.1 Level of digital development

The quality of an economy's infrastructure, including power, communications, and digital connectivity, is crucial in investment decisions for domestic and foreign investors. Looking at comparable statistics on access, use, quality, and affordability of ICT is needed to formulate relevant investment and related policies of IPAs and other stakeholders. For example, MNEs require high-speed Internet in their establishment and operational processes. Broadband also enhances many Internet applications, including new e-government services like electronic tax filing, online health care services, e-learning, and e-commerce. Therefore, MNEs consider the availability/functionality of the digital infrastructure in a host economy during their shortlisting procedures. In addition, IPAs utilize and offer Internet-based solutions and initiatives for potential investors, which is closely linked to the availability of quality and high-speed Internet in the country.

Figure V.2: Proportion of internet users
(% of total population)



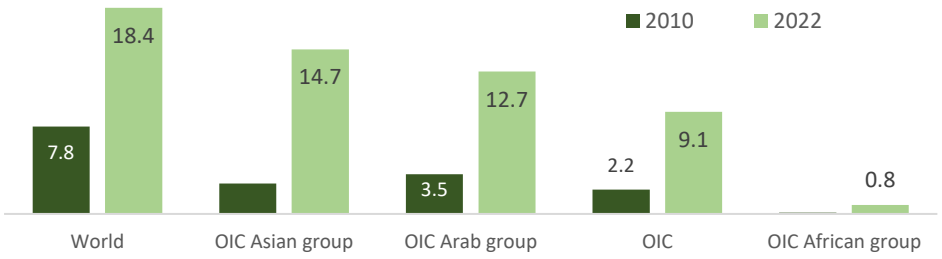
Source: GlobalData, International Telecommunication Union and the World Bank.
Note: The indicator refers to the total number of people who accessed the Internet in a year.

Access to the Internet is critical for the development of the digital economy. According to the World Bank data, the proportion of internet users in the total population increased by nine times between 2000 and 2021 (from 7% to 63%). This stemmed from significant infrastructure investments and advancements in Internet technology. Similarly, Figure V.2 shows that Internet users in the total OIC population increased from 2.1% to 58.9% in 2024. The projections show that by 2030, 68.2% of the OIC's total population will have Internet access, constituting a significant market size for the future digital economy's growth. Yet, the pace of Internet users is not the same across OIC sub-regions. Despite substantial improvements, the proportion of Internet users in the OIC African group (37.9%) remains below the other OIC subregions. Yet, projections show that the Internet penetration rate of this OIC group will hit 50.4% in 2030.

Besides, the relatively limited access to the Internet in some OIC countries limits the growth of the digital economy and deters potential investors willing to invest in some sectors.

Over the past decade, new technologies have spurred dramatic growth in telecommunications, including broadband Internet in many countries. Yet, many developing countries still record limited progress in this domain. Fixed broadband subscriptions (per 100 people) could be used to measure the availability/accessibility of broadband Internet and, therefore, exhibit the quality of Internet infrastructure in a country as a proxy indicator.[6]

Figure V.3: Fixed broadband subscriptions
(Per 100 people)



Source: World Bank.

Figure V.3 shows that the global fixed broadband subscriptions per 100 people jumped from 7.8 in 2010 to 18.4 in 2022, thanks to the new investments and technological advances that dramatically reduced access costs. During the same period, the average of the OIC group also recorded a development, which increased from 2.2 in 2010 to 9.1 in 2022 (per 100 people). Yet, as of 2022, the OIC average (9.1) lagged significantly behind the global average of 18.4. Besides, widespread regional disparities exist among OIC sub-regions. In particular, the OIC Africa sub-region had a relatively lower number of fixed broadband subscriptions, measured at 0.8 (per 100 people) in 2022. This reflects significant challenges related to quality broadband Internet infrastructure in this geography. Even many other OIC countries in Asia and Arab groups need to intensify their investments in fixed broadband to provide a competitive digital infrastructure for prospective investors. Nevertheless, at the individual level (based on available data for 41 OIC countries), eight OIC countries namely Brunei Darussalam (20.1), Suriname (20.2), Azerbaijan (20.2), Albania (20.5), Türkiye (22.3), Uzbekistan (26), Saudi Arabia (37), and United Arab Emirates (39.9)

[6] It refers to fixed subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to, or greater than, 256 kbit/s. This includes cable modem, DSL, fiber-to-the-home/building, other fixed (wired)-broadband subscriptions, satellite broadband, and terrestrial fixed wireless broadband (World Bank, 2023).

reported relatively high number of fixed broadband subscriptions as compared to the global average of 18.4 in 2022.

The World Bank's Global Findex database provides comprehensive information on digital financial inclusion and payments. As of 2022, a significant share of adults worldwide (74%) had an account with a financial institution. The OIC average was measured at around 41% in the same year (Table V.1). Further, it is important to note that there are still substantial differences in account ownership across different OIC countries. Many adults, particularly those in the Sub-Saharan Africa OIC countries, do not have an account. Without a bank account, starting e-commerce activities or digital payments is impossible. In this respect, efforts are required to promote financial inclusion through technical advancements, regulatory changes, and financial education.

Table V.1: Population engaged in online payments and purchases
(% of age 15+, 2022)

	OIC	World
Account with a financial institution	41%	74%
Credit or debit card ownership	29%	55%
Made or received digital payments in the last year	42%	64%
Used a mobile phone or the Internet to buy something online	14%	39%
Used the Internet to pay bills	16%	34%

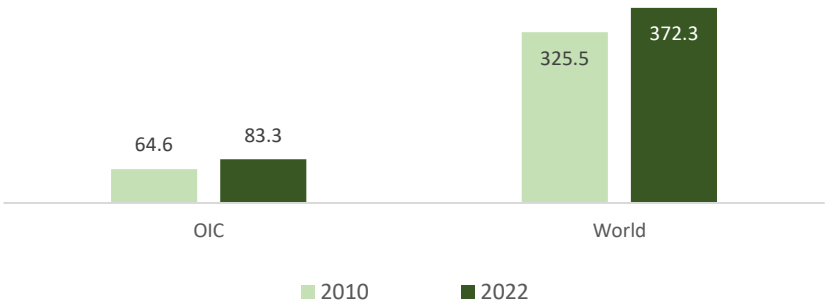
Source: World Bank Global Findex Database.
Note: The latest available year was used for some countries.

The percentage of the population with credit or debit card ownership also varies among OIC countries. Only 29% of adults in OIC countries have credit or debit cards, whereas the global average is around 55%. In 12 OIC countries, this share was above the global average in 2022. In the same year, in 16 OIC economies, less than 10% of the adult population have this payment tool, reflecting the existing disparities among OIC countries.

In the OIC region, a growing number of people use or benefit from online payment services. Around 42% of the adult population either made or received digital payments in the last year, which is slightly lower than the global average of 64% (Table V.1). In terms of the use of mobile phones or the Internet for digital shopping, it is found that on average, only 14% of OIC's adult population benefited from such services. The global average was 39%, almost three times higher than the OIC's average in the same year. Yet, some OIC countries' adult population extensively uses the Internet or mobile to buy something. For example, 50% of adults in Malaysia used mobile phones or the Internet for digital shopping in 2022. In Saudi Arabia, this share hit 62% in the same year.

The Internet has become essential to daily life in many OIC countries. For example, 16% of the adult population used the Internet to pay bills, reflecting the increased integration of digital payment systems. Yet, the OIC average stayed below the global average of 34% in the same year. Notably, a significant portion of the adult population in some OIC countries, like Saudi Arabia (62%) and Kazakhstan (51%), used the Internet significantly higher in paying their bills. However, in 23 OIC countries, less than 10% of the adult population benefited from online bill payment services. It is important to note that the data from a survey may not reflect the complete picture of the OIC economies. Still, the level of digitalization in online payments and purchases is not the same in all OIC countries. In many of them, there is a need for additional investments and training to increase the exposure of such services that could facilitate the growth of the digital economy and investments.

Figure V.4: Capital investment in telecommunications
(Billion US$)



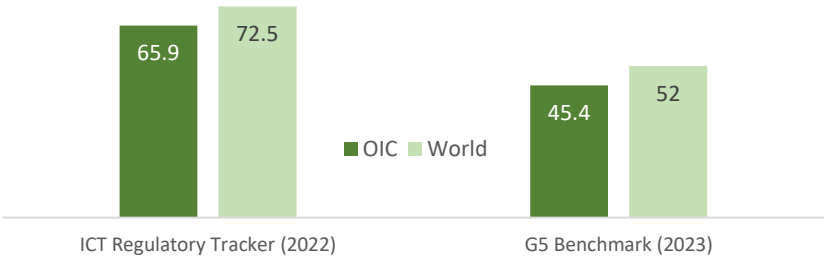
Source: Passport and IMF.

Capital investment in telecommunications is vital for the growth of the digital economy. Over the past decade, OIC countries have acknowledged the importance of new capital investment in telecommunications and recorded a significant increase in the volume of investments, which went up from $64.6 billion in 2010 to $83.3 billion in 2022 (Figure V.4). All OIC sub-regions have invested more in telecommunications. Capital investments in telecommunications in the OIC African group reached $52.8 billion in 2022. This represented a share of 63% of the OIC total. In other words, OIC countries in Africa have been increasingly paying attention to telecommunications and, therefore, forging investments. Overall, the OIC countries increased their share in the global capital investment in telecommunications, from 19.9% in 2010 to 22.4% in 2022. This increases the likelihood of better integrating the OIC economies into the global digital economy and could potentially pave the way for increased FDI inflows.

V.A.2: Readiness for digital transformation

International Telecommunication Union developed two indices, namely The ICT Regulatory Tracker and the G5 Benchmark, to track the readiness of national policy, legal, and governance frameworks for digital transformation. The generation of regulation from G1 to G4 of the ICT Regulatory Tracker helps track the maturity of telecom markets and the changes in the ICT environment. G1 and G2 mean that an economy is missing out on development opportunities and global digitization. The G5 Benchmark mainly focuses on cross-sector policies and regulations and classifies the evolution of national digital markets from limited to transitioning and advanced to leading (ITU, 2023).

Figure V.5: ICT Regulatory Tracker and G5 Benchmark Index
(values)



Source: ITU.

As shown in Figure V.5, on average, OIC countries as a group (65.9) are lagging the global average of 72.5 in 2022. According to the G5 benchmark indicator, a similar picture prevails: OIC countries need to improve their digital transformation readiness to increase their average score (45.4). It is essential to highlight that, as in many indicators at the individual country level, the performances of OIC countries vary. 26 OIC countries had higher scores than the global average of 72.5 in the ICT regulatory tracker indicator, reflecting their advanced level of readiness. 18 OIC countries had higher scores than the global average of 52 in the G5 Benchmark indicator, pointing out their advanced level of readiness. Yet, many OIC countries still need to improve their readiness for digital transformation by enhancing regulations and investing in the necessary infrastructure. Intra-OIC cooperation could play an important role in advancing the readiness of the member countries by sharing knowledge and national experiences.

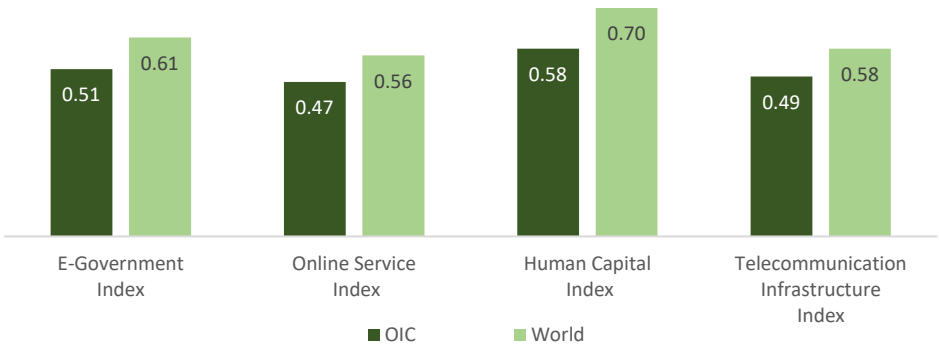
The E-Government Development Index (EDGI) presents the state of E-Government Development across countries by incorporating the access characteristics, such as the infrastructure and educational levels, to reflect how a country uses information technologies to promote access and inclusion of its

people. The EGDI is a composite measure of three critical dimensions of e-government: provision of online services, telecommunication connectivity, and human capacity.

Developing e-government services is vital for investors as they always need to use public services such as tax filing, registration, utility payment, and labor force-related issues (e.g., social security). Besides, the availability of e-government services also makes the operations of IPAs more effective. They can handle various investor requests rapidly and benefit from such services.

Although many OIC countries improved these services in recent years, the average score of the OIC group (0.51) lagged the global average (0.61), pointing out the need for further steps to be taken. In terms of the three dimensions of the EGDI, in line with the global average, the lowest average score was observed in the online service index (0.47), followed by the telecommunication infrastructure index (0.49) and the human capital index (0.58) in the OIC region (Figure V.6). Some OIC countries offer well-advanced e-government services that obtain high scores. For instance, given their EGDI scores, the United Arab Emirates, Kazakhstan, Saudi Arabia, Türkiye, and Oman were placed in the global top 50 among 193 countries in 2023.

Figure V.6: E-Government Development Index
(2023 values)



Source: UN (2023a).

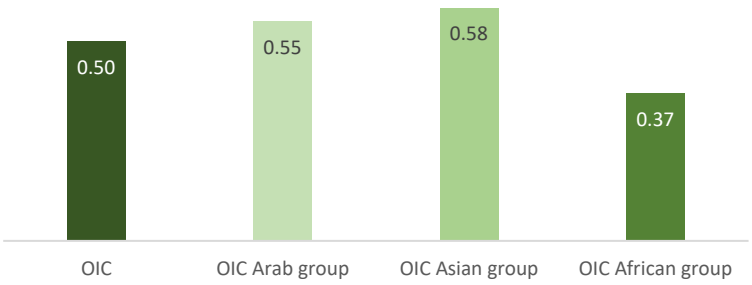
The World Bank developed the GovTech Maturity Index (GTMI) [7] that measures the key aspects of four GovTech focus areas—supporting core government

[7] Note: *GTMI* - GovTech Maturity Index is the simple average of the normalized scores of the following four components: 1. *CGSI* - Core Government Systems Index (17 indicators) captures the key aspects of a whole-of-government approach; *PSDI* - Public Service Delivery Index (9 indicators) presents the state of online portals, e-filing services, e-payment capabilities and more; *DCEI* - Digital Citizen Engagement Index (6 indicators) measures aspects of public participation platforms, citizen feedback, and open gov/data portals;

systems, enhancing service delivery, mainstreaming citizen engagement, and fostering GovTech enablers—and assists practitioners in the design of new digital transformation projects (Dener et al., 2021). The GTMI offers governments a comprehensive evaluation of their digital transformation efforts, enabling them to identify areas for improvement, benchmark against best practices, and track progress over time.

Digital maturity is classified by the GTMI as low when it is less than 0.25, medium between 0.25 and 0.50, high between 0.50 and 0.75, and very high above 0.75. The OIC average is around 0.5, corresponding to a medium level. Yet, regional disparities exist. In particular, the OIC African group obtained a score of 0.37, which is considered a low maturity level (Figure V.7). The OIC Arab and Asian groups had higher scores than 0.5, highlighting their medium maturity level. Overall, the OIC group has the potential to further its readiness for digital transformation by realizing the necessary investments and reforms. Notably, the African group of OIC countries needs to take bolder steps to achieve this objective.

Figure V.7: GovTech Maturity Index
(2022 values)

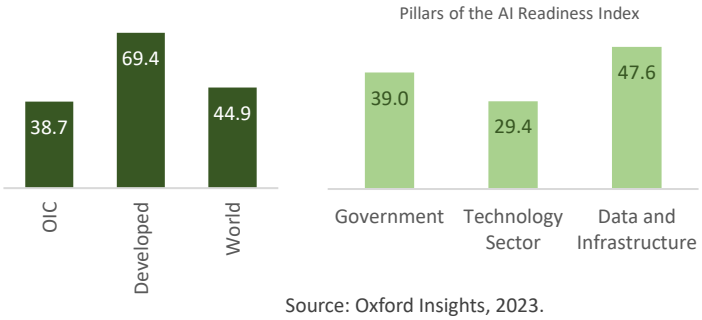


Source: World Bank.

Artificial intelligence (AI) services are increasingly used in different sectors around the globe. Governments are working to regulate AI, foster AI innovation, and strive to integrate this technology into public services. The Government AI Readiness Index was developed to gauge the performance across countries regarding AI. The composite index covers 39 indicators across 10 dimensions, comprising three pillars: Government, Technology Sector, and Data and Infrastructure (Oxford Insights, 2023).

GTEI - GovTech Enablers Index (16 indicators) captures strategy, institutions, regulations, digital skills, and innovation programs. Levels of maturity are classified as Low < 0.25, Medium ≥ 0.25 < 0.50, High ≥ 0.50 < 0.75, and Very High ≥ 0.75.

Figure V.8: Government AI Readiness Index, 2023
(Value)



Source: Oxford Insights, 2023.
Note: A higher score implies more AI readiness.

Out of 57 OIC countries, 17 obtained higher scores in the Government AI Readiness Index than the global average of 44.9 in 2023. Among the three pillars of the index, OIC countries received the lowest score in the Technology Sector Pillar (29.4), reflecting the critical needs of infrastructure-related investments (Figure V.8). The scores of the UAE, Malaysia, Saudi Arabia, Qatar, Indonesia, and Türkiye remarkably exceeded 60. The average scores of these OIC countries are not too far away from the average of developed countries (69.4), which means they offer competitive infrastructure and readiness for AI investors. The OIC African group (29.8) scored the lowest among the three OIC subregions. The average scores of Arab (42.9) and Asia (43.4) groups surpassed 40. These findings show that some OIC countries have relatively advanced levels of AI readiness, while many OIC countries still need to speed up their investments and improve regulations related to AI, technology, and data infrastructure. Improving the availability and readiness for AI services in the OIC region could also help IPAs of member countries better utilize the AI-offered solutions for potential and existing investors.

VB Digitalization of OIC countries' international economic relations

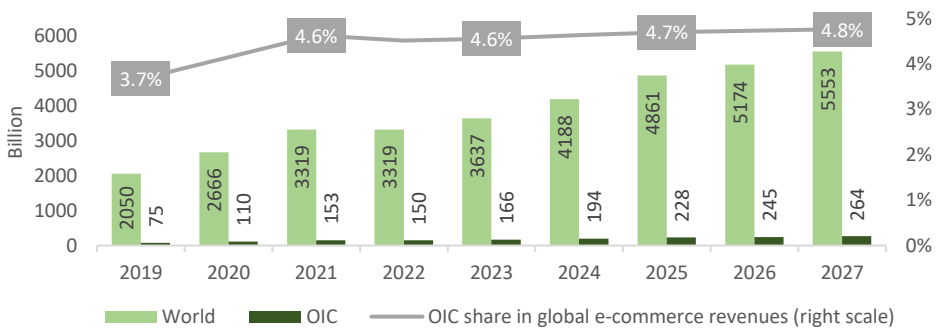
Understanding the level of digitalization of international relations of OIC countries is daunting due to the lack of official data. Yet, looking at several selected internationally comparable indicators and indices on the nexus of digitalization and international economic relations could provide some evidence and guidance on formulating concrete policies for IPAs of OIC countries.

V.B.1 The e-commerce market

E-commerce, short for electronic commerce, refers to selling goods to a private end consumer via a digital channel. It has become an essential part of the digital economy. The e-commerce market includes businesses that operate solely online and those that have a physical presence but also sell products or services online (UNCTAD, 2018).

The rise of e-commerce has enabled businesses to reach customers worldwide, increase sales, and offer new and innovative products and services. E-commerce encompasses purchases via desktop computers (including notebooks and laptops) as well as purchases via mobile devices (e.g., smartphones and tablets) through a website or mobile application (Kituyi, 2020). Revenue generated by e-commerce activities could be used to identify the level of development of the digital economy in a country, as it requires a certain level of digital infrastructure and ICT stakeholders to offer seamless services in the sector. As the digital economy grows, global revenues generated through e-commerce are expected to increase from above $2 trillion in 2022 to $3.6 trillion in 2023. A similar positive trend is observed in the OIC group: e-commerce market revenue is projected to reach $166 billion in 2023, up from $75 billion in 2022 (Figure V.9). In terms of outlook, positive momentum is expected in both the global economy and the OIC region. The global total e-commerce revenue will increase by 53% compared to 2023 and reach nearly $5.6 trillion in 2027. From 2023 to 2027, faster growth will occur in the OIC region. The total e-commerce revenue is projected to hit $264 billion, reflecting a 60% increase compared to OIC countries' value in 2023.

Figure V.9: E-commerce revenue
(Billion US$ and percent)

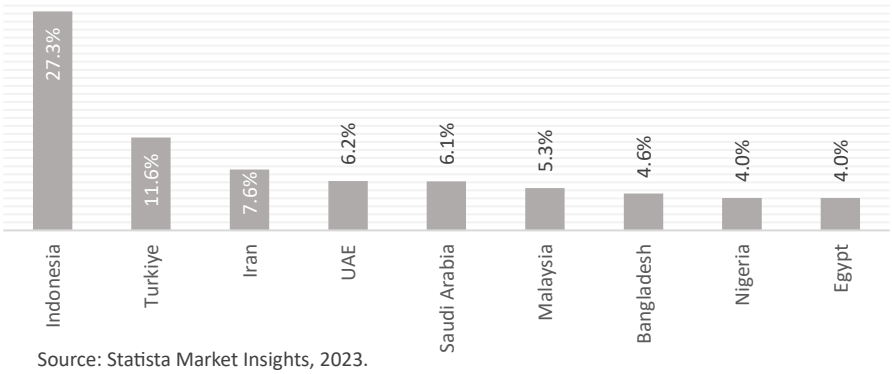


Source: Statista Market Insights, 2023.

In recent years, the OIC group's leading e-commerce countries were Indonesia, Türkiye, Iran, the United Arab Emirates, Saudi Arabia, Malaysia, Bangladesh,

Nigeria, and Egypt, respectively (Figure V.10). These nine countries generated 76.6% of the total e-commerce revenue of the OIC group in 2023.

Figure V.10: Top performer OIC countries in e-commerce, 2023
(Share in OIC total e-commerce revenue)



Source: Statista Market Insights, 2023.

Table V.2: Online and offline revenue shares in selected OIC Countries
(percent)

	Sales type	2019	2020	2023	2024	2027
Albania	Offline	97.6	96.8	96.8	96.5	96.1
	Online	2.4	3.2	3.2	3.5	3.9
Algeria	Offline	98.7	98.1	97.7	97.5	97.2
	Online	1.4	1.9	2.3	2.5	2.8
Azerbaijan	Offline	94.6	92.6	91.9	91.1	89.9
	Online	5.4	7.4	8.1	8.9	10.1
Bahrain	Offline	89.1	85.9	85.8	85.0	84.2
	Online	10.9	14.2	14.2	15.0	15.9
Indonesia	Offline	95.7	93.3	90.9	90.3	89.2
	Online	4.3	6.8	9.1	9.7	10.9
Malaysia	Offline	95.2	93.2	91.5	90.7	89.2
	Online	4.8	6.9	8.5	9.4	10.9
Morocco	Offline	98.0	97.3	97.1	96.8	96.2
	Online	2.0	2.7	2.9	3.2	3.9
Saudi Arabia	Offline	95.0	93.8	92.8	91.8	90.0
	Online	5.1	6.2	7.2	8.2	10.0
Togo	Offline	98.7	98.1	97.5	97.1	96.4
	Online	1.4	1.9	2.5	2.9	3.6
Türkiye	Offline	95.2	93.0	93.3	92.8	92.9
	Online	4.8	7.0	6.7	7.3	7.1
UAE	Offline	91.8	88.2	86.0	85.4	84.2
	Online	8.2	11.8	14.0	14.7	15.8

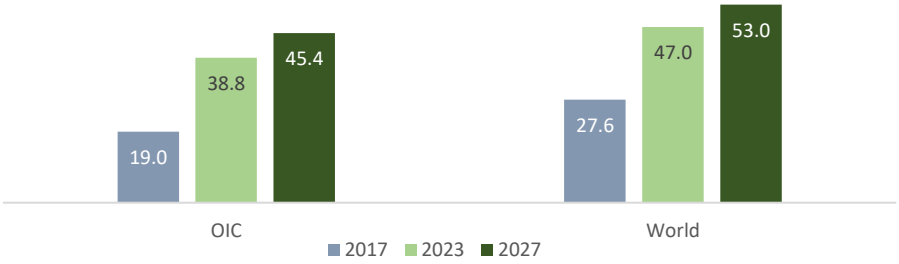
Source: Statista Market Insights, 2023. Figures are derived from national statistical offices, online retail portals, and digital media.

Online sales channels are growing in importance all around the globe, including in OIC countries. Yet, the offline retail revenue still accounts for the vast majority

of total retail sales. In 2023, offline sales generated above 90% of revenues in 9 out of 11 OIC countries, as presented in Table V.2. The share of offline sales was estimated at 86% in Bahrain and the United Arab Emirates. Nevertheless, the data shows that the share of online revenue is on the rise in all countries. For example, this share increased in Malaysia from 4.8% in 2019 to 8.5% in 2023. The projections reveal that this positive trend will continue, and in several OIC countries, the share of online sales will exceed 10%.

The OIC average e-commerce penetration rate (the percentage of the population that conducts online shopping) has also followed a positive pattern in recent years. Yet, the average of the OIC (38.8%) stayed below the global average of 47% in 2023 (Figure V.11). In the OIC region, the e-commerce penetration rate varies considerably across member countries. 12 OIC countries (Malaysia, Egypt, Türkiye, Iran, Oman, Lebanon, Kuwait, Saudi Arabia, Indonesia, Bahrain, United Arab Emirates, Qatar) had a higher e-commerce penetration rate than the global average in 2023. Yet, in eight OIC countries (Suriname, Niger, Gabon, Burkina Faso, Togo, Chad, Mozambique, and Sierra Leone), this rate was below 20% in the same year.

Figure V.11: E-commerce penetration rate
(Percent)



Source: Statista Market Insights, 2023.

V.B.2 Cross-border economic relations

The digital economy is an economic system that is built upon digital technologies and information and communication technology (ICT) goods. According to several datasets, the digital economy is not sufficiently developed in many OIC countries. Yet, many efforts have been put into practice by the private and public sectors to improve international trade in the digital economy. The UNCTAD data reveals that OIC exports of ICT goods (computers and peripheral equipment, communication equipment, consumer electronic equipment, electronic components, and miscellaneous) increased from $102 billion in 2017 to $145 billion in 2021 (Figure V.12).

Figure V.12: OIC trade in ICT goods
(billion US$)

Source: UNCTADStat.
Note: The list of ICT goods is defined by the OECD, and was revised in 2010 and then adapted to HS12. This new list consists of 93 goods defined at the 6-digit level of the 2012 version of the Harmonized System.

Table V.3: Share of ICT trade in selected OIC countries
(2021, % in total merchandise trade)

	Share of ICT goods exports
Lebanon	0.55
Türkiye	0.88
Jordan	1.21
Morocco	2.13
Egypt	2.88
Indonesia	2.92
Kyrgyzstan	3.58
Tunisia	4.26
UAE	8.45
Malaysia	32.19

	Share of ICT goods imports
Egypt	4.85
Tunisia	5.22
Azerbaijan	5.51
Maldives	5.53
Pakistan	5.53
Qatar	6.73
Saudi Arabia	7.45
Indonesia	8.5
UAE	12.24
Malaysia	27.04

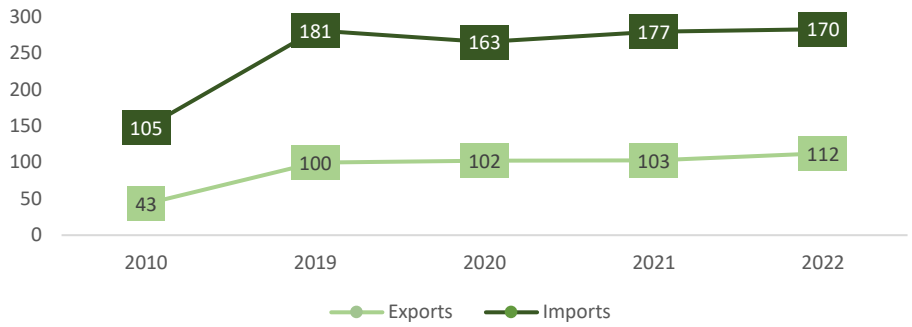
Source: UNCTADStat.

The exports and imports of ICT goods remain at low levels in several OIC countries. For instance, two OIC countries, namely Malaysia (39%) and the United Arab Emirates (26%), together imported 65% of all ICT goods in the OIC region in 2021, according to the UNCTAD. In addition, as Table V.3 displays, the performance of OIC countries in terms of ICT goods trade varies considerably. For example, the share of ICT goods exports in total merchandise trade is 32.19% in Malaysia and 0.55% in Lebanon. With the growth of the digital economy, advancements in technology, and a surge of digital FDI, many other OIC countries will have the opportunity to increase their ICT trade in the future.

International trade in digitally-deliverable services refers to exchanging services that can be delivered electronically over the Internet or other digital networks. Digitally deliverable services have become essential to today's global economic relations due to technological advancements and the widespread adoption of

the Internet. This type of trade allows businesses and individuals to offer their services to clients located in different countries without needing physical presence or transportation of goods. Consequently, companies have more opportunities to grow and easily reach foreign markets. In the OIC group, the value of exports of digitally deliverable services increased from $43 billion in 2010 to 112 billion in 2022. The share of the OIC group in the world's digitally-deliverable services exports climbed from 2.3% to 2.9% in the same period. The United Arab Emirates took the lead among OIC countries in terms of the value of digitally-deliverable services exports, measured at U$43.5 billion in 2022. During the same period, the value of imports of digitally deliverable services went up from $65 billion and reached US$ 170 billion in OIC countries (Figure V.13).

Figure V.13: OIC countries' digitally-deliverable services export and imports *(Billion US$)*



Source: UNCTADStat.

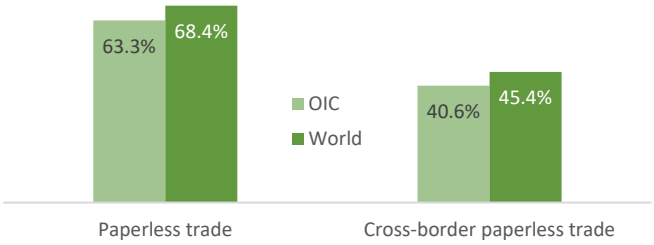
Paperless trade utilizes electronic documents and digital technologies to facilitate international trade transactions. It involves exchanging information and documents electronically, eliminating the need for physical paperwork. This shift from traditional paper-based processes to digital systems has numerous benefits and is becoming increasingly important.

Businesses can significantly cut administrative tasks and associated costs by removing the need for physical documents, such as invoices, bills of lading, and customs declarations. Electronic documents can be created, shared, and processed faster in paperless trade, allowing quicker turnaround times. This efficiency helps save time and reduces operational costs, such as printing, storage, and transportation expenses.

The UN Global Survey on Digital and Sustainable Trade Facilitation provides detailed information that helps track the implementation of paperless trade

practices in national economies. Paperless trade infrastructure is widely developed in the OIC region. The implementation rate of paperless trade in the OIC group was measured at 63.3%, closer to the global average of 68.4%. Regarding cross-border paperless trade, the average of the OIC group stood at 40.6%, while the global average was 45.4%.

Figure V.14: Paperless trade
(Rate of implementation, percentage)



Source: UN (2023b).

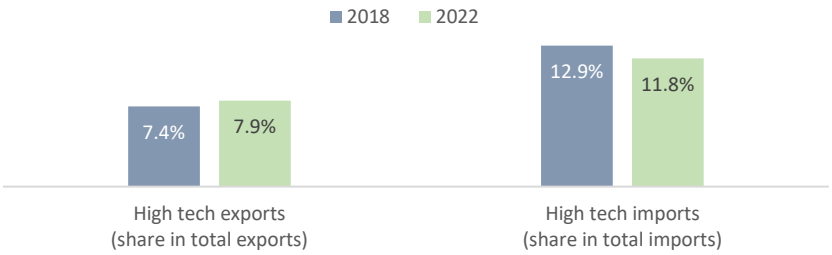
Yet, at the individual county level, wide disparities exist in the OIC group. For instance, the paperless trade implementation rate in five OIC countries was less than 30% in 2023. In Saudi Arabia and Türkiye, the rate was measured at 100%. In terms of cross-border paperless trade, again, a similar picture exists: in 12 OIC countries, the implementation rate was below 20%. In five OIC countries, namely Senegal, Kyrgyzstan, Qatar, Saudi Arabia, and Uzbekistan, the implementation rate towards paperless cross-border trade exceeded 70% in 2023. Many OIC countries still need to take additional steps toward eliminating existing barriers to achieve full paperless trade both domestically and internationally (Figure V.14).

High-tech and ICT-related trade

Looking at the international trade structure of OIC countries provides additional insight into what extent they are ready to achieve growth in the digital economy and digitalization in FDI. Broadly speaking, FDI can act as a substitute and a complement for trade. In particular, when a firm decides to invest and produce in a foreign country to serve customers directly (or jump trade barriers), FDI substitutes trade. When efficiency-seeking (export-oriented) firms look for the best location to produce and export their products, FDI could complement trade (UNESCAP, 2022). However, in high-tech products, the relationship between FDI and trade is more complicated as ICT or high-tech FDI projects could bring new technologies and spillover effects to the local economy. These FDI projects often generate more value-added than FDI projects in the primary sector.

In this context, Figure V.15 displays the share of high-tech in OIC countries exports and imports. On average, high-tech exports constitute 7.9% of total exports in the OIC region in 2022, up from 7.4% in 2018. On the imports side, high-tech imports comprised 11.8% of total imports in 2022, down from 12.9% in 2018. Overall, the positive trend seen in the increased share of high-tech export documents progresses in the OIC region, on average, towards more technology and a digital-oriented economic structure.

Figure V.15: High-tech international trade in OIC countries
(Percent of total exports and imports)



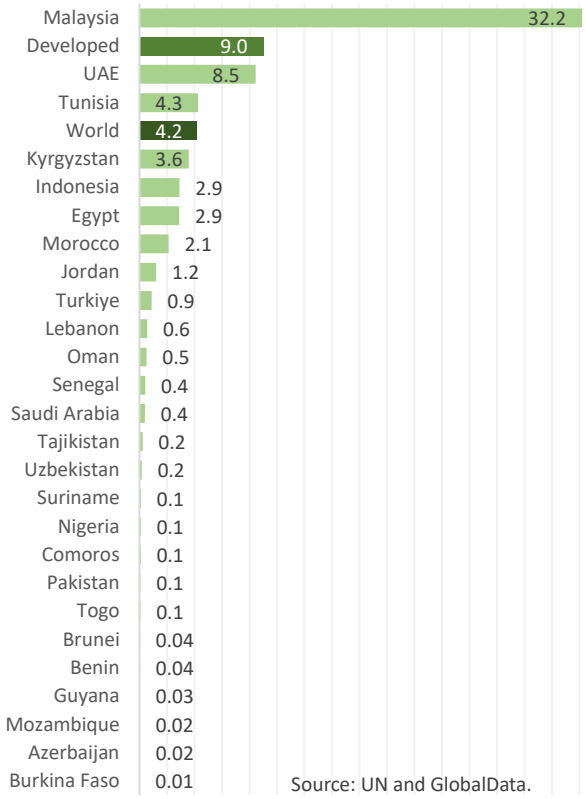
Source: ITC Trade Map.
Note: High-tech products include electrical machinery and equipment and parts thereof; sound recorders and reproducers, television; aircraft, spacecraft, and parts.

Yet, not all OIC countries have high shares of high-tech exports and imports in their international trade relations. Many still mainly export and import raw materials, agricultural products, and low-tech products. This type of trade composition (i.e., with a restricted share of high-tech products) not only limits the contribution of international trade to the balance of payments but also slows down digital transformation in the overall economy. Thus, achieving a higher share of high-tech exports requires a significant policy shift in the production capabilities of OIC countries.

Analyzing information technology (IT) exports within total exports of goods could bring an additional perspective regarding the varying performance of OIC countries compared to the world average, particularly on digitalization and ICT capacities. Figure V.16 reveals that only Malaysia (32.2%), the United Arab Emirates (8.5%), and Tunisia (4.3%) among 28 OIC countries (with available data) surpassed the world average of 4.2% in 2021. Notably, the share of IT exports in total goods exports in Malaysia (32.2%) was 3.6 times higher than the average of developed countries (9%) in the same year. The performance of the United Arab Emirates (8.5%) in IT exports was two times better than the global average in 2021. In 15 OIC countries, this share stayed below 0.5%. These OIC countries with a limited share of IT exports are located in all OIC group countries. This implies that OIC countries collectively need to intensify their efforts towards

producing and exporting more IT-based products and materials that often necessitate the development of new national export policies and attracting MNEs focusing on high-tech FDI projects.

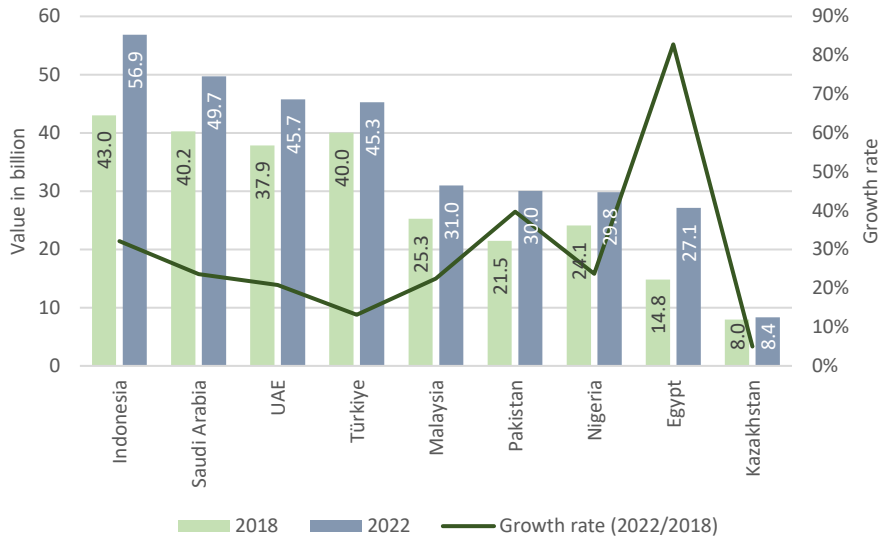
Figure V.16: Information technology exports
(2021, share in export of goods)



The experiences of some OIC countries like Malaysia and the United Arab Emirates could provide many lessons learned and guidance on upgrading the national export structure and aligning it with IT & digital sectors. This policy stance would lead to more value-added generation in products and services and trigger prospective MNEs and investors to consider investing in OIC countries. Besides, IPAs of OIC countries could develop effective targeted marketing and promotion strategies and policies to attract new IT investors that would pave the way for developing digital economy, commerce, and investment.

Figure V.17 shows that many OIC countries have significant potential in ICT-related industries. These industries play a crucial role in the modern economy and encompass various activities, including telecommunications, software development, hardware manufacturing, internet services, and digital content creation. Figure V.17 is prepared based on the values of IT Services, software, telecommunication services, wireless telecommunication, IT hardware, cloud computing, and internet access. In 2022, Indonesia, Saudi Arabia, and the United Arab Emirates had the most significant values in these industries within the given sample of OIC countries. However, comparing 2022 with 2018 shows that the value industries under discussion have grown by 83% in Egypt, 40% in Pakistan, and 32% in Indonesia (Figure V.17).

Figure V.17: Value of ICT-related industries in selected OIC countries
(Billion $US)



Source: MarketLine.
Note: Values include the following industries: IT Services, software, telecommunication services, wireless telecommunication, IT hardware, cloud computing, and internet access.

Table V.4: Value of ICT-related industries in selected OIC countries
(By industries, billion US$))

	EGY	IDN	KAZ	MYS	NGA	PAK	SAU	TUR	ARE
IT Services	0,9	13,0	0,0	6,4	5,2	15,3	9,2	16,4	12,5
Software	4,2	11,1	1,2	6,1	7,4	4,4	7,3	11,8	11,0
Telecommunication Services	6,5	12,9	2,0	7,6	7,0	3,3	14,6	6,4	7,6
Wireless Telecommunication	4,8	11,5	1,4	5,6	6,9	2,9	12,2	4,5	4,4
IT Hardware	6,8	4,7	1,0	2,8	2,9	2,1	2,8	2,4	4,2
Cloud Computing	2,7	2,7	0,3	1,4	0,3	1,7	2,3	2,0	3,4
Internet Access	1,2	1,1	2,3	1,2	0,1	0,3	1,4	1,7	2,6

Source: MarketLine.

In 2022, Türkiye ($16.4 billion), Pakistan ($15.3 billion), and Indonesia ($13 billion) were leaders in the IT services industry. The software industry's value was largest in Türkiye ($11.8 billion), Indonesia ($11.1 billion), and the United Arab Emirates ($11 billion). The value of the telecommunication services industry was most outstanding in Saudi Arabia ($14.6 billion), Indonesia ($12.9 billion), and the United Arab Emirates ($7.6 billion). In the wireless telecommunication industry, Saudia Arabia led with ($11.2 billion) and was followed by Indonesia ($11.5 billion) and Nigeria ($6.9 billion). As of 2022, Egypt stands out in the IT hardware industry with a value of $6.8 billion, whereas the

United Arab Emirates performs best in cloud computing and internet access industries with 3.4 billion and 2.6 billion, respectively (see Table V.4).

The high potential of the digital economy and ICT-related industries in the OIC countries presented in Figure V.17 and Table V.4 stems from several reasons like aligning ICT and digitalization with their national development plans and prioritization of growth in ICT sectors (e.g., through incentives and establishing industrial zones or special economic zones with high quality, cost-effective infrastructure to increase the competitiveness of the operating companies and attract new investments). In this picture, IPAs of OIC countries could also play a critical role in guiding and shaping national FDI policies and promoting and marketing their countries' special economic zones or regions to attract new MNEs and investors, particularly those working in the ICT products and digital services sector.

V.C Strategies for the digitalization of the economy and IPA services

Globalization paved the way for higher integration of countries through trade, capital, and people flows, particularly accelerating since the 1990s until the global financial crisis in 2008. Subramanian et al. (2023) defines 1992-2008 as hyperglobalization in which global exports grew at close to 10 percent a year in nominal terms while GDP increased by only 6 percent a year.

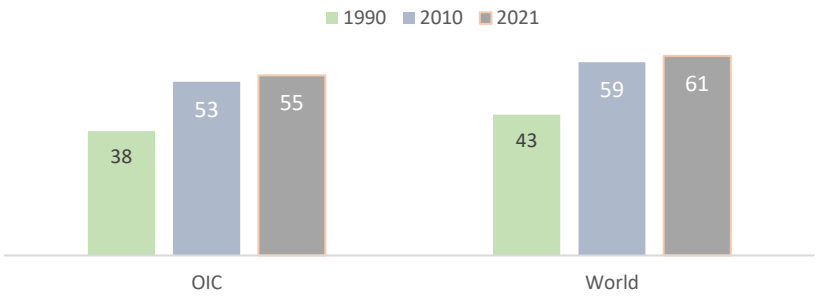
Data presented in Figure V.18 confirms the slowdown in globalization. The Konjunkturforschungsstelle (KOF) Globalization Index, which measures globalization's economic, social, and political dimensions, increased from 43 in 1990 to 59 in 2010 due to the rapid globalization in various dimensions of life.[8] Then, it merely went up from 59 in 2010 to 61 in 2021 due to several factors elaborated in the first chapter of this report. Many OIC countries have rapidly integrated into the global economic system via trade or FDI/capital flows since the 1990s. Their average score climbed from 38 in 1990 to 53 in 2010. Since then, slower globalization has also been observed in OIC countries, with an OIC KOF index value increase of only 2 percent points from 2010 to 2021.

Importantly, gravity, the tradability of output, financial globalization, and policy restiveness have all worked against globalization since the global financial crisis in 2008. Besides, the outbreak of the COVID-19 pandemic and increased geopolitical tensions constituted a barrier to global integration in terms of trade

[8] For detailed information on the KOF globalization index, see Savina et al. (2019).

and investment. In particular, there is slower growth in globalization in the manufacturing sector. Yet, globalization in services continues apace (Subramanian et al., 2023).

Figure V.18: KOF Globalization Index
(Index value)



Source: KOF Swiss Economic Institute.
Note: A higher score reflects an increased level of globalization.

According to Beattie (2023), globalization has not failed. Yet, its structure has been reshuffling in recent years. In this picture, the services sector and digital commerce will grow more thanks to the rapid advances in technology and digital solutions. To this end, OIC countries and their IPAs should consider such structural shifts in the global economic order while developing their national development plans and initiatives. They should develop and pursue targeted FDI attraction, promotion, and retention policies. IPAs of OIC countries should develop and implement a wide range of strategies to improve their competitiveness and attract more quality FDI projects that could bring new technologies, support the digital economy, and enhance human capital development, as summarized in Figure V.19.

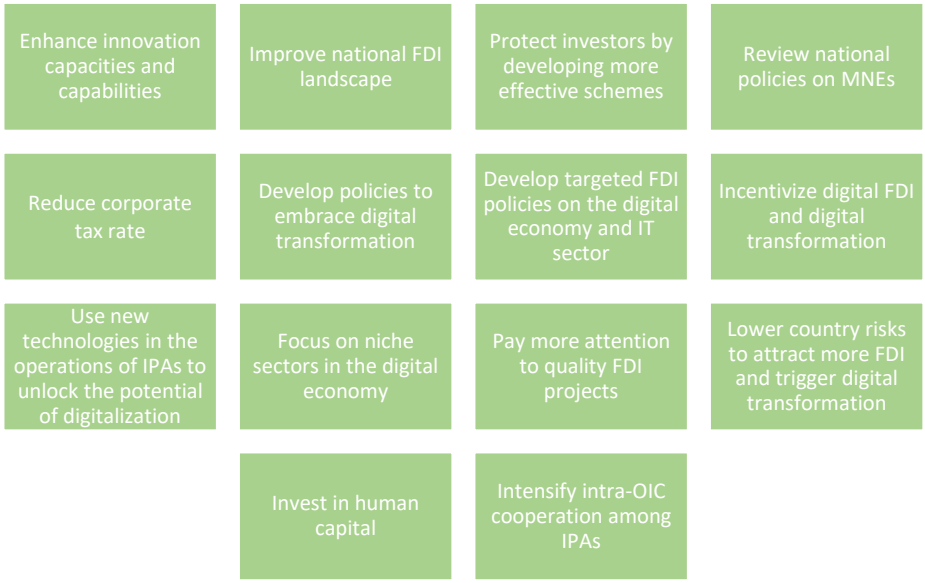
Enhance innovation capacities and capabilities

To attract more digital FDI and enhance the growth of the digital economy in the OIC region, IPAs, and relevant national stakeholders should work hand in hand. In particular, they must participate in policy discussions on improving innovation capacities and capabilities.

Some new metrics should be developed, or existing ones should be used to track and monitor the innovation capacities and capabilities. For instance, the Global Innovation Index (GII) prepared by the World Intellectual Property Organization (WIPO, 2023), captures elements of the national economy that enable innovative activities: (1) Institutions, (2) Human capital and research, (3)

Infrastructure, (4) Market sophistication, and (5) Business sophistication. Other than this, two output pillars capture actual evidence of innovation outputs: (6) Knowledge and technology outputs and (7) Creative outputs.

Figure V.19: Key strategies to be followed by IPAs in the era of digital economy



Source: Author's analysis.

In 2023, 36 OIC countries with available data, on average, obtained a score of 23.9. Switzerland, the top-performing country globally, scored 67.6 in the same year. Five OIC countries, namely the United Arab Emirates (a score of 43.2), Malaysia (40.9), Türkiye (a score of 38.6), Saudi Arabia (a score of 34.5), and Qatar (33.4) were placed among top 50 countries in the global ranking, reflecting their extensive national level efforts on innovation activities and institutional initiatives (Table V.5). Yet, many OIC countries in the OIC Africa group obtained lower scores. The best performer member country from the OIC-Africa region was Nigeria, ranked 109th globally (with a score of 18.4).

Overall, the average GII score of the OIC countries (23.9) remains far below top-performer countries that often stay over 40, reflecting the necessity of policies to upgrade national innovation capacities and institutions such as investing in institutions, human capital and R&D. Climbing up in the global innovation ladder is not only critical for establishing a favorable national innovation ecosystem but also creating an attractive business and investment climate for prospective investors, especially MNEs operating in the digital economy, e-commerce and ICT.

Table V.5: Global Innovation Index
(2023)

Country	Index value	Country	Index value
UAE	43.2	Pakistan	23.3
Malaysia	40.9	Azerbaijan	23.3
Türkiye	38.6	Lebanon	23.2
Saudi Arabia	34.5	Bangladesh	20.2
Qatar	33.4	Kyrgyzstan	20.2
Indonesia	30.3	Nigeria	18.4
Iran	30.1	Tajikistan	18.3
Kuwait	29.9	Côte d'Ivoire	18.2
Bahrain	29.1	Togo	16.9
Oman	28.4	Algeria	16.1
Morocco	28.4	Benin	16
Jordan	28.2	Uganda	16
Tunisia	26.9	Cameroon	15.3
Kazakhstan	26.7	Burkina Faso	14.5
Uzbekistan	26.2	Mozambique	13.5
Albania	25.4	Guinea	13.3
Egypt	24.2	Mali	12.9
Brunei	23.5	Niger	12.4

Source: Global Innovation Index Database, WIPO (2023). 0 (worst)-100 (best).

Improve national FDI landscape

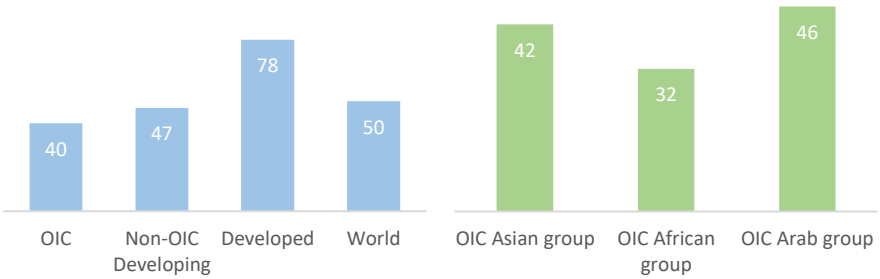
The quality of the national FDI landscape or so-called investment climate is a prime concern for MNEs whether they operate in the digital economy or other sectors. Regardless of the type of investment (greenfield or mergers & acquisitions), all MNEs do take several factors like the local macroeconomic conditions, the state of economic freedoms, and country risks into consideration during shortlisting and making their final decision on the destination country. During the site-selection process and throughout their operations, the host country's conditions affect the profitability of activities and sustainability of operations of MNEs.

Various renowned organizations and MNEs, among other things, use several indicators and indices when selecting investment locations. It is, therefore, an essential objective for IPAs to improve the national FDI landscape by addressing anomalies and irregularities while enhancing coordination mechanisms among various national regulatory bodies and institutions in a planned matter.

In short, to be effective, IPAs must contribute to building investment-friendly policies and regulatory frameworks and develop a solid capacity to market the country to investors who are willing to consider investing their capital in the economy's high-priority sectors (Rasavac-Avdagic and Ramirez, 2015).

In this picture, several indicators matter to gauge the performance of IPAs. For example, the Country Watch (CW) Foreign Investment Index (CWFDI) is a composite index calculated using variables from other indices, such as economic freedom, Environmental Performance Index (EPI), interest rate, GDP per capita, inflation, and unemployment (Country Watch, 2023). Yet, the indicators and their implications matter for MNEs as they reflect existing challenges that could hinder their activities.

Figure V.20: CW Foreign Investment Index
(2022, index values)



Source: Country Watch, 0 (worst) -100 (best).

The 2022 CWFDI scores reflect that developed countries offer the most enabling environment for MNEs, with an average score of 78. The global average was measured at 50 in 2022. In the same year, the OIC group's score of 40 lagged the global average (Figure V.20). Across OIC sub-regions, the Arab group (46) obtained the highest score, followed by the Asian group (42) and the African group (32). 30 OIC countries have remained below the average of the OIC. At the country level, the United Arab Emirates (83) and Kuwait (79) had higher CWFDI scores than the average of developed countries.

The implication of this finding is straightforward. Most OIC countries need to take swift actions and implement policies to improve their FDI landscape by mobilizing their IPAs and collaborating with national stakeholders. In particular, OIC countries in Africa need to accelerate their reforms in this area as they face a relatively higher number of challenges, resulting in the lowest regional average within the OIC group in 2022.

The Economic Freedom Index documents the positive relationship between economic freedom and various positive social and economic goals. In economically free societies, governments allow labor, capital, and goods to move freely and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. The Index covers 12 freedoms – from property rights to investment freedom – in 184 countries (Heritage, 2023). As in the CWFDI index, in the economic freedoms index, OIC countries, on average (55), obtained relatively lower scores in 2023, reflecting existing challenges that affect economic freedoms, where the global average was measured at 60 (Table V.6).

Two sub-indices of the economic freedoms index are critically important for MNEs, namely trade and investment freedoms. The Trade Freedom Index is based on two indicators: the trade-weighted average tariff rate and non-tariff barriers (including quantity, price, regulatory, customs and investment restrictions, and direct government intervention) and measures. The Investment Freedom Index evaluates a variety of investment restrictions (burdensome bureaucracy, restrictions on land ownership, expropriation of investments without fair compensation, foreign exchange controls, capital control, security problems, a lack of basic investment infrastructure, etc.). Points are deducted from the ideal score of 100 for each of the restrictions found in a country's investment regime (Heritage, 2023).

In these two dimensions, the average scores of the OIC could not reach the global average. In the trade freedoms sub-index, OIC countries, on average, obtained a score of 66.6. In the investment freedoms sub-index, even a lower average score (51.6) was measured for the OIC group. This sub-index measured the global average score at 57 (Table V.6).

At the sub-regional level, the OIC African group obtained the lowest scores in the dimensions of economic, trade, and investment freedoms. In trade freedoms, the OIC Arab group (71.6) recorded the highest score, whereas in the investment freedoms, both Arab and Asian groups obtained a score of 52, slightly higher than the average of the OIC African group (Table V.6). At the country level, remarkable differences exist in the OIC in terms of overall economic freedoms as well trade and investment freedoms. In this respect, OIC countries with limited economic/trade/investment freedoms, which could hinder potential investors, should create a favorable environment for investors by eliminating or easing trade barriers and capital controls. This would be associated with higher FDI inflows and pave the way for the quick emergence of domestic companies and investors, especially by benefiting from the opportunities brought by rapid digitalization.

Table V.6: FDI-related freedoms in OIC countries
(2023)

	Economic freedoms	Trade freedoms	Investment freedoms
OIC	55.1	66.6	51.6
Non-OIC Developing	56.7	67.1	51.7
Developed	72.9	80.8	78.3
World	59.5	69	57
OIC-Asia	56.6	68.5	52
OIC-Africa	54.2	61	51
OIC- Arab	55.9	71.6	52

Source: Heritage Foundation. A higher score implies more freedom.

Protect investors by developing more effective schemes

New investors tend to choose destinations where their investments are better protected. In a highly digitalized world, providing adequate protection for investors to retain them in host economies is essential. The Economist Intelligence Unit developed an indicator to gauge investment protection schemes around the globe where a score of 5 displays the highest protection level. Based on available data for 16 OIC countries, in 2023, Malaysia has the highest score of 5, reflecting relatively high protection schemes followed by Qatar (4) and UAE (3.6) (Table V.7). The measure reveals the existence of sharp differences among OIC countries in terms of protection schemes for investors.

Table V.7: Investment protection schemes in selected OIC countries

	2010	2023	2027
Algeria	3	3	3
Azerbaijan	2	2.6	3
Bahrain	4	3	3
Egypt	4	3.6	4
Indonesia	3	3	3
Iran	1	1	1
Kazakhstan	3	3	3
Kuwait	3	3	3
Libya	2	2	2

	2010	2023	2027
Malaysia	5	5	5
Nigeria	2	2	2
Pakistan	2	2	2
Qatar	4	4	4
Saudi Arabia	3	3	3
Türkiye	3	3	3
UAE	3	3.6	4
World	4.2	4.3	4.3

Source: EIU. A score of 5 is the highest protection level.

Many OIC countries still need to take additional steps to provide a more compelling investment protection scheme to convince and attract new investors in a more competitive global FDI landscape. Besides, IPAs should develop specific measures to secure and protect investors (both in terms of technology

infrastructure and legal protection) in the digital economy as they are more vulnerable (e.g., cyberattacks and ransomware).

According to the UNCTAD's database, several OIC countries must also enact legislation to improve cyberlaw to protect investors and end users effectively. The UNCTAD's 2021 dataset on cyberlaw reveals that only 18 OIC countries out of 57 have legislation covering all four cyberlaw dimensions: electronic transactions, consumer protection, privacy and data, and cybercrime.

There is a slight chance of attracting FDI projects into digital and ICT sectors in economies that offer limited protection for economic agents active in digital businesses and operations. To this end, IPAs of OIC countries, in cooperation with national agencies responsible for law-making and cybersecurity, should work hand in hand to ensure adequate protection for users and service providers by improving the legal protection mechanisms.

Review national policies on MNEs

National policies on MNEs matter. In the decision-making process of MNEs, national rules, regulations, and policies are essential factors that influence the decisions of existing or potential investors. For instance, sectoral restrictions, tax policies, or labor rules that govern the MNEs operating in the country affect the companies' profitability and signal these companies about the country's future policies and stance on MNEs and digitalization. If a country offers specific incentives for potential investors in digital economy-related sectors, this is a positive sign of the country's intention to upscale the production base in ICT and the digital economy, which could also create positive externalities for companies in down or upstream sectors. Overall, it is an essential task to comprehensively review the existing national policies on FDI and digitalization for IPAs of OIC countries with a view to identifying existing bottlenecks like ineffective incentive mechanisms and outdated promotion techniques.

IPAs in some OIC countries have already started to work towards reviewing and upgrading their national policies in light of their national priorities. For instance, Saudi Arabia's 2030 Vision aims to diversify economic activities and increase the presence of multinational companies. In this respect, Saudi Arabia decided to implement legislation to attract regional headquarters of MNEs. This strategy has started to pay off. A growing number of MNEs started to move their headquarters from other countries in the region to Saudi Arabia (Box V.1). In this respect, IPAs of OIC countries should review the existing FDI policies that directly or indirectly affect MNEs to revise them according to their national priorities and development agenda. In this exercise, IPAs must focus on developing targeted FDI policies. For instance, if a country is willing to emerge

as a hub in digital sectors or ICT, certain incentives and exemptions need to be developed by analyzing existing trends and developing effective dialogue with active MNEs operating in these sectors. Otherwise, broad policies may generate some limited results or could be ineffective in triggering a sectoral transformation in the FDI landscape of the country.

Box V.1: Companies setting up headquarters in Saudi Arabia hit record highs

In 2021, Saudi Arabia hosted less than 5% of regional company headquarters (HQ). In the same year, the United Arab Emirates hosted the regional headquarters for 76% of companies on the Forbes Middle East list.
In February 2021, Saudi Arabia implemented legislation mandating international companies to establish a regional headquarters in the Kingdom to qualify for government contracts starting in 2024. Saudi Arabia aims to get 480 companies to open regional headquarters by 2030, ensuring the sustained presence of MNEs and retaining more corporate expenditure in the country. This legislative initiative aligns with Vision 2030, aiming to generate private-sector employment and reduce the economy's reliance on oil.

According to fDi Markets data, Saudi Arabia's headquarters program not only resulted in a higher number of headquarters recently but also showcased diversification in the types of companies investing in the country. Notably, in 2023, 46.7% of newly established headquarters operate in the Software & IT services sector.

The first nine months of 2023 have seen an announcement of $242.5 million from international companies investing in headquarters, compared with $214.2 million from 2013 to 2020. With the 2024 deadline drawing near, this upward trajectory in the FDI ecosystem is set to continue.

Source: Adopted from Arab News (2023) and Ali (2023).

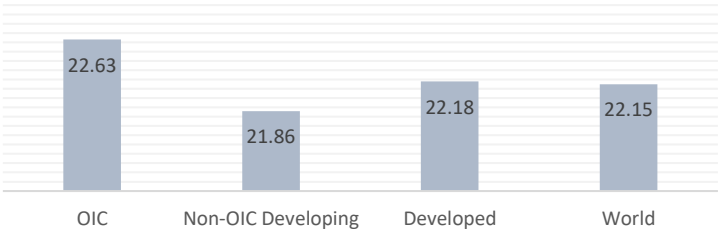
Reduce corporate tax rate

Corporate tax (CT) is a direct tax levied on corporations' and other entities' net income or profit from their business. An important determinant of FDI that MNEs consider is the corporate tax rate before deciding on their new projects. The global consensus is that the minimum corporate tax rate should be 15% (European Commission, 2021).[9] However, the OIC average corporate tax was measured at 22.63% in 2023, which is close to the global average (22.15%)

[9] Minimum corporate taxation is one of the two work streams agreed by members of the Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework, a working group of 141 countries and jurisdictions who concentrated on the Two-Pillar Approach to address the tax challenges of the digital economy. They worked on a global consensus-based solution to reform the international corporate tax framework, which culminated in a global agreement among 137 jurisdictions in October 2021. The discussions focused on two broad topics: Pillar 1, the partial re-allocation of taxing rights, and Pillar 2, the minimum level of taxation of profits of multinational enterprises (European Commission, 2021).

(Figure V.21). Yet, the regional averages sometimes could be misleading as there is a wide array of effective corporate tax rates being implemented by various OIC countries. For instance, Bahrain and the United Arab Emirates had a 0% corporate tax rate.[10] On the other side, Suriname implements a rate of 36%. 42 OIC countries effectively applied a corporate tax that exceeds 15% in 2023. In 13 OIC countries, this rate was equal to or above 30%, which could deter potential investors.

Figure V.21: Corporate tax rate
(2023, percent)



Source: Damadoran (2023).

Evidence from OECD countries revealed that the countries that reduce their corporate tax rates attract higher levels of FDI following this reduction (Abdioglu et al., 2016). To this end, OIC countries should carefully re-examine their effective corporate tax rates to build a competitive digital economy where MNEs and digital investors should not be discouraged due to high tax rates. Besides, in the light of international best practices, IPAs of OIC countries in close coordination with national tax authorities should examine the possibility of identifying the optimum corporate tax rate that neither leads to tax avoidance and significant tax revenue losses nor discourages investors.

Develop policies to embrace digital transformation

Being ready for digital transformation is essential to enhance the development of the digital economy in OIC countries. In this respect, many OIC countries must develop national blueprint strategies to develop effective policies in transforming their economies towards a digital economy, ranging from upgrading education curricula to identifying IT infrastructure priorities. Yet, this requires creating a holistic policy approach across sectors and line ministries. Some OIC countries have already embraced digital transformation, reflected by a few international indices.

[10] Barring Bahrain, the UAE has introduced the lowest corporate tax rate within the GCC region at a standard rate of 9% as effective from 1 January 2024. Some exemptions will apply on certain amounts and in special economic zones in the UAE (KPMG, 2023).

Table V.8: Future readiness for digital transformation in OIC countries *(2023)*

Global Rank	Country	Score Value
23	UAE	76,0
26	Qatar	75,0
30	Saudi Arabia	69,7
31	Kazakhstan	68,7
33	Malaysia	64,6
41	Kuwait	58,2
43	Indonesia	57,1
44	Türkiye	55,2
45	Jordan	55,0
46	Bahrain	54,8

Source: IMD (2023). A higher score implies more readiness for digital transformation.

For instance, the 2023 IMD World Digital Competitiveness Rankings have a dimension on "Future readiness for digital transformation" that measures a country's preparedness to embrace digital transformation. In this dimension, the United Arab Emirates ranked first among OIC countries with available data (ranked 23rd globally), scoring 75.99 in the 2023 IMD World Digital Competitiveness Rankings (IMD, 2023). It was followed by Qatar (a score of 75) and Saudi Arabia (a score of 69.7). These three OIC countries were placed among the global top 30 countries in the IMD ranking under this dimension. Kazakhstan, Malaysia, Kuwait, Indonesia, Türkiye, Jordan, and Bahrain were rated between 31st and 46th out of 64 countries under the dimension (Table V.8).

The results indicate that 10 OIC countries in the 2023 IMD ranking are on the right track due to a series of achievements and reforms that allowed them to embrace digitalization. Yet, they still need to take additional steps to further their readiness to embrace digital transformation to climb up the global ranking. This would also increase their FDI and digital competitiveness and pave the way for more FDI projects, particularly in the digital and technology sectors.

Develop targeted FDI policies on the digital economy and IT sector

Targeted FDI policies could effectively attract MNEs in specific sectors of the host economy. Several empirical studies support this fact. UNESCAP (2022) also highlights that investment promotion policies can indeed bring tangible results for host economies when they are implemented in a targeted manner. To this end, IPAs of OIC countries should prioritize digital economy and IT sector-related FDI projects by targeting MNEs operating in these sectors. IPAs of OIC countries need to undertake a mapping study to identify potential investors (MNEs) and examine the country's existing digital infrastructure. In this way, an effectively

targeted FDI policy could bring new FDI projects, and existing investors in the country's digital and IT sectors could consider scaling up their investment projects.

Incentivize digital FDI and digital transformation

Considering regional and global spending trends on digital transformation, OIC countries should carefully assess opportunities (national, regional, and international levels) to accelerate their digital transformation and follow targeted FDI policies. IPAs of OIC countries could identify rapidly growing MNEs implementing digital transformation to provide them with incentives and guide them in site selection. In this context, IPAs of OIC countries should redefine priority areas on digitalization, primarily by conducting a rigorous mapping study by taking the country's strengths and weaknesses in this vital area.

As UNCTAD (1996) noted, the cost of incentives may exceed its benefits. In this respect, the type and scope of FDI incentives (e.g. financial or fiscal incentives, etc.) should be calculated carefully. Yet, carefully designed selective FDI incentives on digital economy-related sectors could accelerate the digital transformation in the OIC region. IPAs of OIC countries could play a critical role in providing incentives, mainly as facilitators or advisors, as they are actively involved in allocation decisions in many countries (UNCTAD, 2022).

Use new technologies in the operations of IPAs to unlock the potential of digitalization

New technologies provided practical tools for IPAs that could help them in marketing, promotion, matchmaking, and aftercare services. IPAs of OIC countries need to streamline new technologies in their day-to-day operations, as summarized in Box V.2, to benefit more from the power of digitalization, provide better services for investors, and reach more MNEs. This requires a digital transformation strategy for IPA services in many OIC countries. Without a sound digital transformation strategy, ad-hoc basis interventions on the digitalization of IPAs may not likely generate the expected results.

Box V.2: Revisiting core investment promotion functions of IPAs

1. **Image building** comprises all general marketing activities (website and web services, TV, print, and promotion materials such as brochures), and general public relations events (road shows and fora and general mission abroad and incoming missions).

2. **Investment generation** encompasses intelligence gathering (raw data analyses and market studies), sector and investor-specific events (such as road shows and missions

abroad and incoming missions), and direct targeting of investors (one-to-one meetings, pro-active campaigns, and inquiry and request handling).

3. **Investment facilitation** and retention consist of assistance with project definition (information on local suppliers and clients, working meetings, site visits, and airport pickups), help with administrative procedures (such as support to obtain visas, tax registration, etc.), and with securing financing, aftercare services (structured troubleshooting, ombudsman, intervention, and conflict mitigation), and specific business support programs (linkage programs including local supplier database, cluster programs, and personnel recruitment programs).

4. **Policy advocacy** entails actions to monitor the investment climate (tracking of rankings, meetings with the private sector, consultation with offices, embassies and consulates abroad, investor and expat surveys and inputs on Regulatory Impact Assessment), formal feedback to government on how to improve the investment climate (meetings, participation in taskforce or councils, and production of reports or position papers), and informal feedback to the government on how to improve the investment climate (participation in periodic meetings with the private sector and public awareness campaigns or events).

5. **Aftercare** services consist of administrative, operational, and strategic assistance. IPAs are expected to be well-connected with the local community and provide foreign investors with necessary contacts and services for administrative services. IPAs offer investors various operational support services, including human resources, production, facilities management, finances, and sales. (Calimanu, 2021). The aftercare services cover post-establishment facilitation services to developmental assistance aimed at retaining investment, encouraging follow-on investment, and boosting local economic effects.

Source: Adapted from OECD (2019) and Calimanu (2021).

Focus on niche sectors in the digital economy

Digitalization of economies paved the way for the emergence of niche sectors ranging from AI and blockchain to e-commerce. Yet, not all OIC countries have adequate or competitive infrastructure to support investors in such sectors. In particular, OCO (2021) highlighted that an increasing number of FDI projects will affect the growth of international investment projects in the following niche sectors: cybersecurity, AI, blockchain, fintech, disposable medical products, cleantech, agritech, and e-commerce. Amongst others, the AI sector offers significant opportunities for economic growth and new FDI projects. These sectors often require good-quality digital infrastructure and skilled human capital. Based on OIC countries' national conditions and competitiveness, IPAs should carefully assess and identify the niche sectors where they could have a competitive edge for MNEs. This approach could lead to developing and implementing targeted FDI marketing and promotion strategies, given the

limited budgets of IPAs in many OIC countries. According to OCO and WAIPA (2023), limited resources prompt a need for innovative marketing and promotion strategies and tools for IPAs around the globe.

Pay more attention to quality FDI projects

IPAs of OIC countries need to consider the fact that quality FDI projects, particularly the ones in the digitalization, require certain conditions like the provision of adequate digital infrastructure and the creation of a conducive environment to attract talented tech-savvy workforce (see Box V.3 for an example from Bahrain). Therefore, IPAs of OIC countries need to reshape their FDI policies by taking the emerging trend that focuses on more quality FDI projects, especially by benefiting from digital solutions and new technologies. In this picture, IPAs should coordinate with national stakeholders (e.g., Ministry of Technology, Ministry of Labour, etc.) to develop and implement effective FDI policies in this domain.

Box V.3: Experience of Bahrain in targeting FDI projects in the ICT sector

As a pioneer within the region, Bahrain is willing to host more ICT and communication technology companies. The Economic Development Board of Bahrain (EDB), the IPA of Bahrain, has identified the ICT sector among the top five priority sectors for FDI projects and offers a striking market proposition for foreign companies to invest in Bahrain. In particular, the EDB highlights its sound fiber-optic Internet infrastructure and cybersecurity investments leading to reliable-secure connection, which is critical, especially for effective and seamless business operations via cloud systems. Besides, the EDB has identified sub-areas within the ICT sector, namely business services outsourcing, cybersecurity, digital entertainment, gaming, and e-commerce, to attract new FDI projects by targeting sectors and potential investors. Bahrain aims to increase the number of ICT companies by 20% as part of the 2022-2026 Economic Recovery Plan.

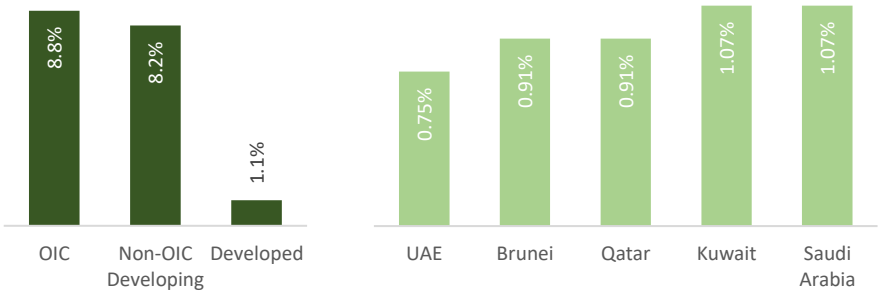
Source: EDB (2023).

Lower country risks to attract more FDI and trigger digital transformation

OIC countries, on average, had a relatively high country-risk-premium (8.8%) in 2023 compared to non-OIC developing countries (8.2%). Developed countries have the lowest (1.1%) country-risk-premium due to their relatively sound macroeconomic fundamentals. Nevertheless, OIC countries do have varying performance at the country level. Figure V.22 (right) shows that some OIC countries' risk premiums are comparable to those in developed countries. For example, in the United Arab Emirates, Brunei, and Qatar, it stayed below 1% in 2023. In 10 OIC countries, country risk premium surpassed 10%. To this end, many OIC countries still need to focus on reducing the risk premium to become

a more attractive destination for MNEs and provide an enabling environment for them. Besides, IPAs of OIC countries should develop a communication strategy to inform potential investors and stakeholders of the country's efforts to reduce country risks and market prospects for the future. This could help build the image of the country and aid in changing the perception of investors in a positive direction. In addition, a reduction in the country's risk score will likely be associated with more FDI flows that could also support the country's overall digital economy landscape over time (Clark and Kassimatis, 2009).

Figure V.22: Country Risk Premium
(2023, Percent)



Source: Damodaran, New York University, July 2023. A higher percentage implies a higher country risks (financial default).

Invest in human capital

Providing adequate infrastructure for the digital economy and investors is essential. Yet, sustainable growth in FDI projects is impossible without talented human capital. Therefore, OIC countries should provide additional training on ICT to their workforce to upskill and reskill them. This, in turn, will help to upscale the number of skilled workers that could work in ICT-related sectors. If OIC countries could significantly increase the number of qualified people with exceptional talent by training or facilitating the immigration of skilled people from around the world (e.g., through special visa programs), these destinations could be essential attraction points for MNEs and investors operating in the digital economy. Some OIC countries like the United Arab Emirates and Bahrain already offer some special visa programs to attract talented/skilled people to their countries. For instance, thanks to Bahrain's well-functioning visa system, companies can hire local and international staff teams to serve their regional clients better (EDB, 2023).

FDI also could bring new technologies and work habits that could help host countries' workforce to upskill and reskill. In the OIC region, many good practices facilitate the skills development of the host country through FDI. For instance,

Malaysia upskilled many local suppliers, enabling human capital development and contributing directly to the transformation initiatives of the Malaysian workforce, particularly from low-skilled electronics assembly for export to higher-skilled design and production of sophisticated electronics (see Box V.4).

Box V.4: Skills development through FDI: The experience of Malaysia

FDI has enabled Malaysia to restructure its skills development profile. The country successfully diversified from exports of raw materials to high-quality manufacturing exports, and within manufacturing, Malaysia shifted from low-skilled electronics assembly for export to higher-skilled design and production of sophisticated electronics in GVCs.

The Penang Skills Development Centre (PSDC) has introduced a successful initiative to encourage the development of local suppliers' skills. Established in 1989, the PSDC is Malaysia's industry-led skills training and education center. Since its inception, the Centre has grown extraordinarily to become a premium learning institution in the country and is, to this day, recognized as a successful example of a regional skills development center. PSDC initially concentrated on vocational training in electrical engineering and electronics as part of Malaysia's advance into standardized component production and, subsequently, to higher value-added components and products in the semiconductor, information technology, audio-visual, and digital camera sectors. PSDC later added life sciences, biotechnology, pharmaceuticals, and medical devices to its repertoire for FDI-SEZ-export expansion. Since its establishment, the Centre has trained more than 200,000 participants through more than 10,000 courses, pioneered local industry development initiatives, assisted in the input and formulation of national policies pertaining to human capital development, and contributed directly to Malaysian workforce transformation initiatives.

Sources: Adopted from OECD & UNIDO (2019) and Freund & Moran (2017)

Intensify intra-OIC cooperation among IPAs

Digital transformation of IPAs of OIC countries is on the way. Yet, the progress and scope of reforms toward a more digitalized FDI landscape are at different stages of development across OIC economies. Based on available resources and human capital, some OIC countries have already reached a competitive stage where their IPAs utilize the most advanced technologies and can positively influence MNEs' decisions, particularly in the digital economy. Such OIC countries also provide competitive digital infrastructure for potential investors thanks to their large-scale physical and IT investments. Even though some OIC countries do not offer such opportunities in all regions and cities of their respective countries, many have established special economic or industrial zones that help them attract MNEs and new FDI projects. More importantly, IPAs of OIC countries have a series of good practices that could help others learn from

each other, such as by sharing experiences and lessons learned. These lessons and good practices are invaluable to avoid repeating the same mistakes and developing more effective policies. Yet, putting intra-OIC cooperation in practice necessitates building and maintaining a better dialogue mechanism among IPAs of OIC countries, such as creating a network of IPAs or an online platform (e.g., sharing data, initiatives, exhibitions, and information, etc.). In this regard, many OIC institutions like the Islamic Centre for Development of Trade (ICDT) and the Islamic Development Bank (IsDB) can facilitate the work of such a platform if they could join their forces in coordination and with the support of IPAs of OIC countries.

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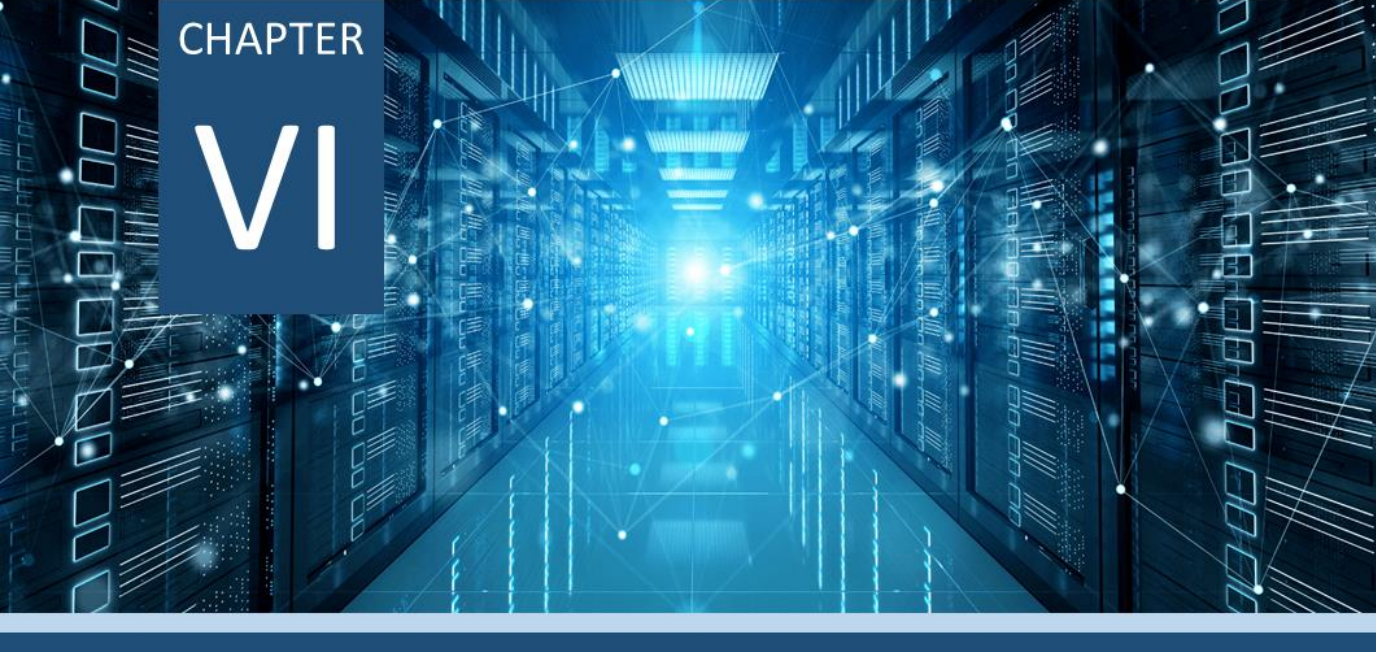


The role of digital technologies in promoting and attracting FDI in OIC countries

VI.A Digitalizing the process of investing and establishing a foreign affiliate

Digital technologies are transforming how governments interact with clients and deliver their services. This transformation makes government services more efficient, accessible, and user-friendly. By leveraging digital technologies, governments are streamlining processes, reducing costs, improving service delivery, and enhancing people's engagement.

One of the key benefits of digitized administrative processes is the reduction of barriers to investment. The process of investing and establishing a foreign affiliate has been significantly facilitated by technology. Businesses can now create and obtain operating permits using digital technologies in significantly less time than traditional methods. Online portals and automated systems have reduced the need for physical paperwork, manual processing, and in-person visits, thereby speeding up the process. Digital technologies have enabled electronic documents to be easily shared, accessed, and processed by relevant authorities. They also facilitate real-time data sharing—between different departments and agencies involved in the permit issuance process. Moreover, many digital platforms now incorporate automated workflows and decision-making systems that can quickly assess applications and determine whether they meet the necessary criteria for approval. It is now possible for businesses to pay fees and taxes associated with obtaining permits and licenses online.

Another way in which digitization reduces barriers to investment is by improving access to information. In the past, investors may have had to spend significant time and effort researching potential investment opportunities, often relying on incomplete or outdated information. With the advent of digital technologies, investors now have access to a wealth of information at their fingertips, allowing them to make more informed decisions and quickly identify promising investment opportunities.

The most effective business registration platforms function as digital single windows, offering a streamlined process with one online application for all mandatory registrations. These platforms also facilitate easy digital payment and provide users with certificates confirming successful registrations. To improve digital single windows, adding more simultaneous online services is essential, enhancing collaboration across ministries and providing users with a seamless, integrated experience. If digital single windows are not established, at the very least, investors should have access to informational websites (information portals) that clearly outline the necessary steps to register their businesses. The

basic features and contents of investment facilitation portals are summarized in Table VI.1.

Table VI.1 Key features of investment facilitation digital platforms

Online investment guides	Digital information portals	Digital single windows
Publication of information on laws, regulations, and procedures affecting investment.	Publication of the information on competent authorities, including contact details.	Availability of online business registration system.
Publication of lists or catalogs indicating which sectors are allowed, restricted, or prohibited for foreign investment.	Publication of the timeframe required to process an application associated with any specific investment decision.	Competent authorities accept the submission of an application at any time throughout the year.
Establishment of a national investment website for information purposes.	Information published on fees.	Copies of documents accepted.
	Publication of information on procedural rules for appeal and review.	Publication of timeframes to process an application.
	Publication of timeframes to process an application.	Availability of information concerning the status of the application.
	The focal point responds to inquiries from governments, investors, and other interested parties.	Inform the applicant of the decision concerning an application.
	Cooperation and coordination of the activities of agencies involved in investment management to improve and facilitate investment.	Availability of a national investment portal (or single window) for submitting and/or processing applications online.
		Possibility to submit all documents necessary for investment applications simultaneously (e.g., business registry, national and/or state/municipal tax identification number, social security, pension schemes).
		Cooperation and coordination of the activities of agencies involved in investment management to improve and facilitate investment.

Source: UNCTAD, Investment Facilitation.

Some countries do not have single windows for online business registration or information portals that offer comprehensive business registration information. Tables VI.2 and VI.3 provide ratings of OIC countries' online single windows and

information portals. As of mid-2024, only 28 OIC countries had established single-window portals (Table IV.3). In 2024, Qatar, the United Arab Emirates, Cameroon, Iraq, Kazakhstan, Benin, Bahrain, Oman and Togo were among the countries with the world's best single windows, according to the Global Enterprise Registration (Table VI.2).

Table VI.2: Rating of online single windows of OIC countries *(2024)*

	Score	Web page and responsible authority
Qatar	9	https://www.moci.gov.qa/en/e-services (Ministry of Commerce and Industry)
UAE	9	https://basher.gov.ae/invest/# (Ministry of Possibilities)
Cameroon	8.5	https://easybusiness.cm (Agency for the Promotion of Small and Medium-sized Enterprises)
Iraq	8.5	https://business.mot.gov.iq (Government of Iraq)
Kazakhstan	8.5	https://www.elicense.kz/?lang=en (Electronic licensing of the Republic of Kazakhstan)
Benin	8.5	https://monentreprise.bj (Investment and Export Promotion Agency)
Bahrain	8	https://www.sijilat.bh (Ministry of Industry and Commerce, Commercial Registration Portal)
Oman	8	https://www.business.gov.om/ieasy/wp/en (Oman Business Platform)
Togo	8	https://www.cfetogo.tg (Business Formalities Centre)
Brunei	7	https://www.ocp.mofe.gov.bn (Ministry of Finance and Economy, One-Common-Portal)
Burkina Faso	7	https://www.creerentreprise.me.bf (The Enterprise House)
Côte d'Ivoire	7	https://www.225invest.ci (Single Portal for Investor Services in Côte D'ivoire)
Nigeria	7	https://www.nipc.gov.ng Nigerian Investment Promotion Commission
Somalia	7	https://ebusiness.gov.so (Ministry of Commerce and Industry, Somali Business Registration System)
Uzbekistan	7	https://fo.birdarcha.uz/s/uz_landing (Uzbekistan Public Services Center)
Bangladesh	7	https://bidaquickserv.org/articles/available-services (Bangladesh Investment Development Authority)
Malaysia	6.5	https://www.mida.gov.my/e-services (Malaysian Investment Development Authority)
Pakistan	6.5	Securities and Exchange Commission of Pakistan https://eservices.secp.gov.pk/eServices
Azerbaijan	6	https://www.e-taxes.gov.az (Ministry of Economy, State Tax Service)
Mali	5.5	https://monentreprise.ml (Mali Investment Promotion Agency)
Saudi Arabia	5	https://mc.gov.sa/en/eservices/Pages/default.aspx (Ministry of Commerce, E-Services)
Türkiye	4	https://mersis.ticaret.gov.tr/Portal/KullaniciIslemleri/GirisIslemleri Ministry of Trade, MERSİS
Indonesia	3.5	https://nswi.bkpm.go.id (National Single Window for Investment)

Albania	3	https://e-albania.al/eAlbaniaServices/Packages.aspx?lvl=2&path_code=10&cat_id=10 (National Agency of the Information Society - AKSHI)
Guyana	3	https://guyanainvest.gov.gy/expression-of-interest-application (Guyana Office for Investment)
Uganda	6	https://www.ebiz.go.ug (Uganda Investment Authority)
Maldives	2	https://business.egov.mv/ (Ministry of Economic Development and Trade, Business Portal)
Egypt	1.5	https://www.gafi.gov.eg/english/eServices/Pages/Services.aspx?DepartmentID=1 (General Authority of Investment and Free Zones)

Source: Global Enterprise Registration. 10=best.

Global Entrepreneurship Network ranked business information portals of Benin, Burkina Faso, Cameroon, Comoros, Guinea-Bissau, Iraq, Libya, Togo, Bangladesh and Pakistan among the best in the world (Table VI.3). The average rating value of information portals of 49 OIC countries was 6.6 (on the 10-point scale) in 2024, which was above the global average rating.

Table VI.3: Rating of OIC countries' business information portals *(2024)*

	Rating	Website
Benin	10	https://benin.eregulations.org
Burkina Faso	10	https://businessprocedures.bf/procedure/1119?l=fr
Cameroon	10	https://douala.eregulations.org/procedure/92/85?l=fr
Comoros	10	https://eregulations.investcomoros.net/procedure/37?l=fr
Guinea-Bissau	10	https://guinebissau.eregulations.org/menu/5?l=pt
Iraq	10	https://baghdad.eregulations.org/procedure/22?l=en
Libya	10	https://ejraat.org/procedure/32?l=en
Togo	10	https://investirautogo.tg
Bangladesh	9	https://bidaquickserv.org/articles/available-services
Pakistan	9	https://www.secp.gov.pk/company-formation/registration-of-company
Djibouti	8.5	http://www.guichet-unique.dj/creation
Brunei	7.5	https://business.mofe.gov.bn/SitePages/Home.aspx
Gabon	7	https://www.gni-anpigabon.com/user-manual
Bahrain	6.5	https://www.sijilat.bh
Albania	6	https://aida.gov.al/en/business-in-albania
Guinea	6	https://apip.gov.gn/Creer-mon-entreprise
Maldives	6	https://trade.gov.mv/?lid=30
Sierra Leone	6	https://www.cac.gov.sl/gen-incorporation.html
Sudan	6	https://sudanembassy.org/invest-in-sudan/doing-business-starting-a-business/#1551069420451-5288a0e0-6f8c
Jordan	5.5	https://www.startupguidejo.com/en
Kazakhstan	5.5	https://egov.kz/cms/kk/services/e_084
Niger	5.5	http://demarches.gouv.ne
Uzbekistan	5.5	https://invest.gov.uz
Algeria	5	https://aapi.dz/creation-dentreprise
Morocco	5	https://casainvest.ma/fr/creer-mon-entreprise/procedures-demarches/demarche-de-creation
Senegal	5	http://www.creationdentreprise.sn
Côte d'Ivoire	5	https://www.cepici.gouv.ci/creation_entreprise
Lebanon	5	http://investinlebanon.gov.lb/en/doing_business/starting_a_business
Malaysia	4.5	https://www.malaysia.gov.my/portal/category/1522

Mozambique	4.5	https://www.portaldogoverno.gov.mz/por/Empresas/Registos/Registo-de-Sociedades
Tunisia	4.5	http://www.investintunisia.tn/En/incorporating-your-company_11_47
UAE	4.5	https://basher.gov.ae/invest/#/home
Guyana	4	http://goinvest.gov.gy/investment/incorporation
Syria	4	https://egov.sy/page/ar/112/0/cancelFilter.html#&panel1-1
Egypt	3.5	https://www.gafi.gov.eg/english/Pages/default.aspx
Kyrgyz Republic	3.5	https://invest.gov.kg
Saudi Arabia	3.5	http://mci.gov.sa
Uganda	3.5	https://ursb.go.ug/business-registration
Kuwait	3.5	https://kbc.moci.gov.kw
Somalia	3.5	https://sominvest.gov.so
Türkiye	3	https://www.invest.gov.tr/en/investmentguide/pages/establishing-a-business.aspx
Gambia	3	https://www.giepa.gm/Business%20in%20The%20Gambia
Indonesia	3	https://www.bkpm.go.id/
Mauritania	2.5	https://www.invest-mauritania.com/le-guichet-unique
Qatar	2	https://www.moci.gov.qa
Nigeria	1.5	https://pre.cac.gov.ng/home
Suriname	1.5	https://www.discover-suriname.com/business-startup
Afghanistan	0.5	https://acbr.gov.af/en/newlicense
Oman	0.5	https://www.business.gov.om/ieasy/wp/en

Source: Global Enterprise Registration. 10=best.

VI.B Digital tools for investment promotion and facilitation: Selected good examples from OIC countries

Digital investment promotion and facilitation tools have become essential in attracting investors, streamlining processes, and enhancing transparency. This shift towards digitalization has enabled IPAs to showcase their investment opportunities effectively and provide a seamless experience for potential investors.

Several IPAs in OIC countries have successfully leveraged digital tools to improve their services and attract investments. Still, limited resources, lack of expertise in digital technologies, varying levels of technological infrastructure, and the need for capacity building are some common obstacles that OIC IPAs encounter when embarking on the digitalization journey. Nevertheless, the success IPA stories provided below offer valuable insights into the best practices for digital transformation in investment promotion.

Bangladesh

Bangladesh Investment Development Authority (BIDA) is Bangladesh's IPA. The Government of Bangladesh has enacted the "One Stop Service Act 2017" to

improve the investment facilitation services in Bangladesh. Under the act, BIDA has been empowered to implement an online single window for investors.

Accordingly, in 2019, BIDA launched a digital single window to make investor services digitally available in Bangladesh. At present, 58 online services are available, of which 18 services are from BIDA and 40 from 18 other government and private agencies (BIDA, 2024). BIDA is working to integrate all investor services with the digital single window. BIDA's Foreign Industry Wing processes 100% of applications. The significant features of the BIDA's digital single window can be summarized as follows: (1) Access e-payment-enabled services; (2) Submit a service request and get time-bound results; (3) Track all communication and service request status; (4) Back-end approval processes carried out electronically to ensure the quality of service; (5) Application status monitored through dashboards; (6) Real-time user feedback enabled. The portal also offers a call center service to assist interested investors and reply to queries.

Benin

The Investment and Export Promotion Agency (APIEx) is a public government agency created to boost exports and promote the FDI in Benin. Through its role of formalization, guidance, information, assistance, and support for investors and businesses, it constitutes the one-stop shop for business creation in Benin.

Regarding digital solutions for investors, APIEx has established a dedicated online single window. Before the online single window, an investor had to fill in five paper forms and hand in up to twelve documents, including prior notarized copies, pay the fee by cash after queuing at the bank, and collect certificates five days later from APIEx. With the activation of the digital single window, investors may use a mobile phone to fill in an online form and scan three to five documents, pay the fee with mobile money or credit card, and receive certificates two hours later by email, which is fastest in the world (UNCTAD, Digital Single Windows). Company registration in Benin has doubled in the two years following the installation of the online single window.

The APIEx also provides companies strategic monitoring and economic intelligence through information collection, production, and dissemination, as

well as alerts on business opportunities, markets, and foreign market studies (APIEX, 2024).

The Gambia

The Gambia Investment & Export Promotion Agency (GIEPA) is the national agency responsible for promoting and facilitating private sector investments in the country. The GIEPA offers various services to promote a conducive business environment, attract investments, develop exports, and support businesses with the overriding objective of contributing towards employment creation and wealth generation in the Gambia.

The GEIPA presents detailed information about the sectors with high potential. The Gambia has invested considerably in ICT to improve the trade environment since 2009. The Gambia Revenue Authority has made trading across borders faster by investing in an ICT processing system to improve the efficiency of trade facilitation (GEIPA, 2024).

In terms of digital solutions for investors, the agency offers a comprehensive business information portal that provides detailed information about the investment climate, investment code, and investment opportunities in the country. In recent years, the digital solutions used by the agency have started to pay off, and a growing number of investors consider the Gambia to be on their priority list for investments. The Gambia is currently formulating a Digital Economy Master Plan, which is under preparation through a multi-stakeholder approach.

Egypt

The General Authority for Investment and Free Zones (GAFI) is the principal governmental authority that regulates and facilitates investment in Egypt. GAFI seeks to strengthen its Investors Services Center, which aims to facilitate licenses and approvals, gathering representatives from 47 ministries and governmental agencies. To that aim, it recently expanded its services with the real estate and the commercial registries. GAFI has been fully working to digitalize its Investor Services Centres across the country. The Ministry of Finance of Egypt has issued a decree requiring VAT registrant taxpayers to issue electronic invoices (OECD, 2022; OECD, 2020).

Since the beginning of 2023, Egypt has taken serious steps towards promoting and attracting investment, including slashing the paperwork required for new

companies to start operations by 62%. In November 2023, the GAFI launched an online platform that allows investors to establish their businesses in Egypt quickly.

The GAFI announced launching the first phase of the digital single window known as the "Golden License" portal (Ehram, 2023). The Golden License, first activated in 2022, allows investors to acquire or lease land and operate enterprises without additional government approvals. The Golden License is a comprehensive approval on the setup, operation, and management of a project, including building licenses of such project and the allocation of the real property required (GAFI, 2024). In October 2023, for example, GAFI granted four golden licenses to facilitate $487 million in investments in four new projects by Samsung Electronics Egypt, Egyptian Natural Gas Company, Fayoum for Stores and Warehouses, and EgyptSat2 (Ehram, 2023b).

Kazakhstan

The Investment Promotion Council of Kazakhstan is working on implementing the National Digital Investment Platform to improve the country's investment attractiveness. The platform should simplify foreign investment processes, including government services, and ensure transparency for all parties (Omirgazy, 2024).

NC Kazakh Invest places special emphasis on attracting investments for developing digital infrastructure. In 2022, Kazakhstan's digital economy experienced a growth of 12.2%, with non-cash payments surging by 42% to reach $227 billion, according to Kazakh Invest.

Kazakh Invest aims to create highly favorable conditions to attract investments in the ICT sector, focusing on developing large data centers for data storage and processing. Moreover, the project focused on creating a "Digital Silk Road" to connect the major markets of Europe and Asia through

Kazakhstan by establishing trans-Caspian fiber-optic main routes, is among the key priorities.

Malaysia

Malaysia has been actively working towards transforming its economy into a digital one, recognizing the importance of technology and innovation in driving economic growth and competitiveness. The government is focused on digital infrastructure projects, and the Digital Ecosystem Acceleration (DESAC) scheme introduced under Budget 2022 underscores its commitment to creating an environment conducive to digitalization. Moreover, Malaysia's goal of achieving a digital economy contribution to GDP of at least 25.5% by 2025 is a significant target set by the government to propel the country towards becoming a digitally advanced nation.

Malaysia has established dozens of data centers, and numerous projects are upcoming. The Malaysian data center market is projected to reach $1.57 billion by 2027, with a compound annual growth rate (CAGR) of 6.68% during the forecast period from 2022 to 2027 (The Star, 2023).

MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

The Malaysia Investment Development Authority (MIDA) is crucial in effectively targeting investments in the digital economy, driving the country's digital transformation forward. One of the central pillars of this transformation is the MyDIGITAL initiative, which sets the stage for a comprehensive digital transformation across various sectors. The Digital Investment Office (DIO) also acts as a catalyst by facilitating investments in the digital economy. MyDIGITAL and DIO have created an ecosystem that promotes innovation and collaboration and attracts global businesses and investors to Malaysia.

Morocco

In recent years, Morocco has positioned itself as a premier investment destination due to its proactive government policies and substantial infrastructural developments. Since 2010, Morocco has consistently emphasized Foreign FDI as a key component of its economic strategy. The primary objective is to transform the nation into an industrial center while decreasing its import dependence. Additionally, Morocco is actively promoting the expansion of its domestic companies throughout the African continent.

The Moroccan Agency for Investment and Export Development (AMDIE) plays a pivotal role in fostering both domestic and international investments, as well as the export of goods and services in Morocco. The agency's primary mission is to support FDI in all economic sectors throughout their entire cycle.

Morocco aims to position itself as a strategic hub in the Middle East and North Africa by becoming one of the top-performing countries in the region in terms of digitalization. The Agency for Digital Development is a public institution under the Ministry of Industry, Trade, and Green and Digital Economy, responsible for implementing Morocco's strategy on digital development and promoting the distribution of digital tools and the development of their use among citizens.

The MoroccoTech initiative was launched in 2022 as a national brand to promote the Moroccan digital sector. It is based on a "public-private" partnership, bringing together all stakeholders involved in digital transformation, including AMDIE. MoroccoTech aims to achieve a successful technological transformation to enhance the competitiveness and attractiveness of the Moroccan economy internationally, as well as accelerate job creation and accumulation of added value.

Qatar

Qatar is dedicated to nurturing a vibrant and diverse digital economy to drive the country's economic diversification goals of transitioning into a knowledge-based economy, in line with the Qatar National Vision 2030. Qatar is home to regional hubs of tech giants like Microsoft and Google. The government's future priorities include initiatives to enhance the cloud market and advance artificial intelligence development (Business Start Up Qatar, 2024).

Invest Qatar works toward enhancing its cutting-edge digital services by leveraging innovative technology and artificial intelligence (AI) to provide investors with a distinctive experience. In collaboration with Microsoft, Invest Qatar introduced Ai.SHA, an AI-powered assistant utilizing GPT capabilities via the Azure OpenAI service (Arab News, 2024). This strategic partnership marks a significant milestone for Invest

Qatar, establishing it as a pioneering global IPA by embracing cutting-edge technology.

The implementation of Ai.SHA is set to transform the landscape of professional engagements between investors and businesses within Qatar. Ai.SHA is an all-inclusive tool for well-informed corporate decision-making. It answers questions about establishing and growing businesses, investment prospects in Qatar, and much more. Additionally, it uses information from affiliated organizations, such as the Qatar Free Zones Authority, the Ministry of Commerce and Industry, the Qatar Financial Center, and the Qatar Science and Technology Park.

In addition to Ai.SHA, there is Invest Qatar Gateway that serves as an online resource for investors. This innovative online tool supports international corporations and investors by simplifying the process of discovering new business partners, pinpointing authentic business prospects across both public and private sectors, and equipping users with essential resources to foster the expansion of enterprises in Qatar.

Tunisia

Tunisia has been ranked the best country in North Africa in terms of the use of digital tools for economic purposes, with 57% of companies having a website, according to the report entitled "Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs" (African Union Commission and OECD, 2021). Thanks to its digital development, Tunisia is also considered a technological hub for the region. The Foreign Investment Promotion Agency (FIPA) of Tunisia provides all the support foreign investors need and promotes foreign investment in Tunisia. Its main functions include informing on the situation and specific government measures, collecting information on foreign investors' operations, coordinating with partners to respond to investor issues, and supporting solutions. A hotline functions seven days a week and replies to investor requests case-by-case. The Tunisia Investment Authority also set up a web portal with FAQs and information for investors.

FIPA-Tunisia has used creative digital solutions to sustain and retain existing investment, particularly in strategic and essential sectors, and reinforce its aftercare services, representing 70% of its activities. The agency offers aftercare services focusing on solving punctual requests and issues of investors operating in health and agribusiness and

encouraging redirection of production lines toward demanded products and services. Issues often include production and exports being blocked or delayed because of logistics and transport issues. Investors' requests in other sectors are treated case-by-case (OECD, 2020).

Türkiye

The Investment Office of the Presidency of the Republic of Türkiye is the official organization that promotes Türkiye's investment opportunities to the global business community. It has two offices in Türkiye and representatives in 14 countries, providing services to international investors.

The Investment Office has extensively used digital technologies and tools to guide and assist investors with pre-investment, during-investment, and aftercare investment services. The Investment Office has been promoting selected 15 sectors. One is the ICT, in which Türkiye offers several opportunities for potential investors. According to the Investment Office, the Turkish ICT sector and digital economy is very strong. The total value of the Turkish ICT market hit $30 billion in 2021. The average growth rate of the Turkish ICT sector in the past five years was around 23%, reflecting the country's sound growth (Investment Office, 2024).

The FDI Strategy of Türkiye for 2021-2023 targeted more quality FDI projects. To achieve this objective, the Investment Office of Türkiye utilizes CRM, online site-selection tools, and benefits from AI. The Investment Office has established an "FDI e-Coordination Team," a communication network with representatives from the institutions responsible for FDI-related actions (Investment Office, 2021).

The Investment Office of Türkiye is also looking at further opportunities along the supply chain to support existing investors in moving their suppliers to Türkiye. In this regard, the Investment Office has started developing policies and tools to increase the capabilities of local suppliers, boost backward-forward linkages, and build a more robust logistics infrastructure (OCO Global and WAIPA, 2023).

United Arab Emirates (Dubai)

Dubai has long fostered a pro-business outlook and an innovative, forward-thinking approach to governance. These efforts have created unique investment opportunities and an environment where businesses can thrive. Dubai is home

to over 30 free zones catering to and supporting businesses of all sizes, ranging from hi-tech startups to multinationals, including Google, Microsoft, LinkedIn, Samsung, and Apple. The free zones offer wide-ranging support and are often highly specialized to serve the needs of the companies that operate within them (Visit Dubai, 2020).

Dubai has been targeting several sectors by providing online solutions to investors to reach high objectives. For instance, the Blockchain is an area in which Dubai offers tremendous opportunities. In particular, following the vision of the Dubai Blockchain Strategy 2020, Smart Dubai has delivered on its promise of building a thriving blockchain ecosystem in the city and establishing Dubai as the world capital of blockchain development.

The Strategy led to the launch of numerous use cases, a joint Blockchain Platform, and the Dubai Blockchain Policy. The government and the private sector entities work on 24 blockchain use cases. The use cases span eight sectors: finance, education, real estate, tourism, commerce, health, transportation, and security. Consequently, Dubai's economy has attracted more than 100 investors working in the blockchain sector.

The government of Dubai launched Invest in Dubai in early 2021, the integrated digital business setup platform. Services available include electronic submission of approvals for commercial and trade licenses and trade name registration. An automated response to a questionnaire provides information on the availability of instant licensing options and costs depending on activity and company type. The platform also supports investors through their setup with a personalized webpage with information on requirements. Thanks to the Invest in Dubai efforts, Dubai has emerged as a regional hub and become home to one-third of all MENA investors.

VI.C Insights from a survey with OIC investment promotion agencies

ICDT conducted an online survey between December 2023 and January 2024 targeting the OIC countries' investment promotion agencies (IPAs). Sixteen IPAs from Comoros, Egypt, Gambia, Guinea, Kazakhstan, Lebanon, Mauritania, Mozambique, Nigeria, Pakistan, Palestine, Senegal, Sierra Leone, Somalia, Tunisia, and Türkiye supported the survey. The responses were provided by

management team members representing the respective IPAs. Their insights aided in evaluating the effectiveness and challenges faced by IPAs in promoting investment in the digital economy and digitalization of investment promotion services.

All IPAs included in this survey were national-level investment promotion agencies. The average age of an IPA in the 16 surveyed OIC countries is approximately 16 years. Some IPAs are relatively young, with seven reporting an age exceeding 20 years and five being over a decade old. A notable commonality among the 16 OIC IPAs is that all of them are public institutions. Surveyed IPA staff have an average size of 99 employees, with six IPAs having below 60 employees each. As shown in Table VI.4, the employee count varies significantly among the surveyed IPAs, with notable differences seen in the Board of Investment – Pakistan (300 employees), National Agency for the Promotion of Investment and Major Works (APIX-SA) – Senegal (214 employees), and Nigerian Investment Promotion Commission (200 employees).

Table VI.4: Basic institutional features of IPAs

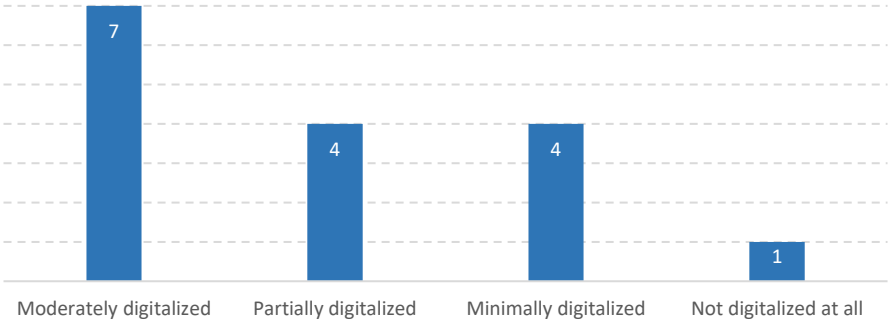
	Year of establishment	Number of employees
National Agency for the Promotion of Investments (ANPI) - Comoros	2008	54
General Authority for Investment and Free Zones (GAFI) - Egypt	1997	..
Gambia Investment and Export Promotion Agency (GIEPA)	2010	49
Private Investment Promotion Agency (APIP) - Guinea	2014	100
National Company KAZAKH INVEST JSC	2017	105
Investment Development Authority of Lebanon (IDAL)	1994	17
Mauritania Investment Promotion Agency (APIM)	2021	93
Investment and Export Promotion Agency (APIEX) - Mozambique	2016	101
Nigerian Investment Promotion Commission (NIPC)	1995	200
Board of Investment (BOI) - Pakistan	1960	300
Palestinian Investment Promotion and Industrial Estates Agency (IPIEA)	1998	64
National Agency for the Promotion of Investment and Major Works (APIX-SA) - Senegal	2000	214
Sierra Leone Investment and Export Promotion Agency (SLIEPA)	2007	48
Investment Promotion Office of Somalia (SOMINVEST)	2015	32
Foreign Investment Promotion Agency (FIPA) - Tunisia	1995	60
Investment Office of the Presidency of the Republic of Türkiye	2006	150

VI.C.1 Digitalization of investment services

IPAs in OIC countries are at varying stages of digitalization in providing their services. Most IPAs fall under the categories of moderately digitalized and partially digitalized, indicating that they have made some progress in integrating digital technologies into their service delivery. This suggests a positive trend towards embracing digitalization to enhance efficiency and effectiveness in promoting investments within their respective countries. However, it is noteworthy that many IPAs are still minimally digitalized or not digitalized at all

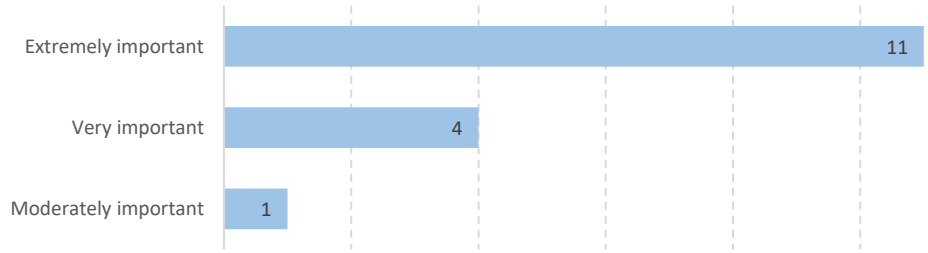
(one case), indicating the potential challenges or barriers these agencies face in adopting digital tools and platforms to improve their services (Figure VI.1).

Figure VI.1: Current level of digitalization in service provision



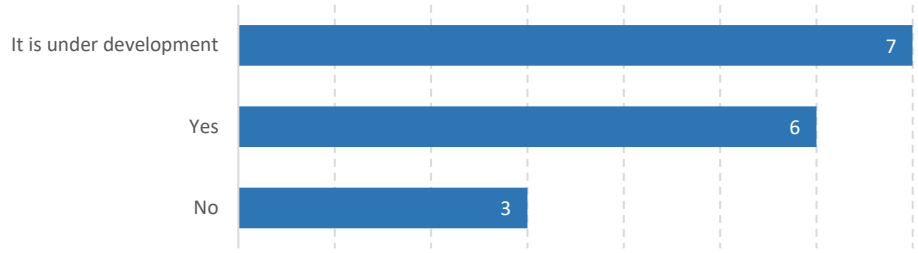
The IPAs were asked to rate the importance of digital tools in enhancing their agency's performance in attracting foreign investment. The overwhelming majority of IPAs, with 11 out of 16 respondents, rated digital tools as extremely important and four as very important in enhancing their agency's performance in attracting foreign investment (Figure VI.2). This indicates a strong consensus among the IPAs regarding the significance of digital tools in their operations.

Figure VI.2: Importance of digital tools in enhancing agency performance in attracting foreign investment



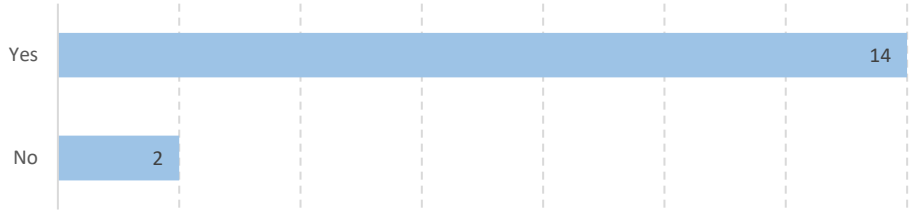
Most IPAs in OIC countries have recognized the importance of digitalization for investment promotion. Six has a formal digitalization strategy for its investment services. Seven IPAs mentioned that their digitalization strategy is currently under development (Figure VI.3). On the other hand, three surveyed IPAs do not have a formal digitalization strategy for their investment services, showing that there is still room for efforts in adopting digitalization among some IPAs in OIC countries.

Figure VI.3: The IPA has a formal digitalization strategy for its investment



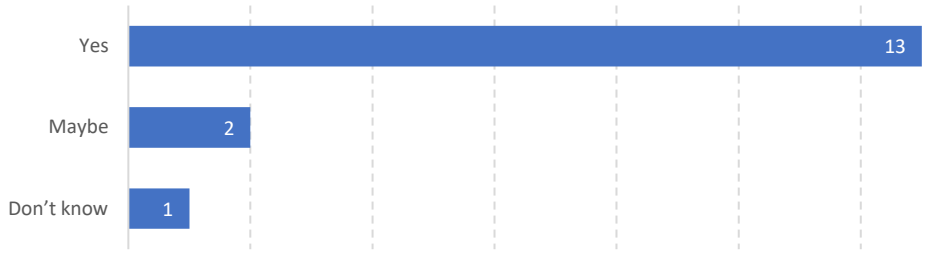
Out of the 16 IPAs that responded to the survey, 14 reported implementing digital platforms or tools in the last 12 months to facilitate foreign investment services (Figure VI.4). This represents a significant portion of the responding IPAs and indicates a growing trend toward digital transformation in the realm of investment promotion. By harnessing the power of digital platforms and tools, IPAs can better position themselves to attract and retain foreign investments.

Figure VI.4: You have implemented digital platforms or tools in the last 12 months to facilitate foreign investment services



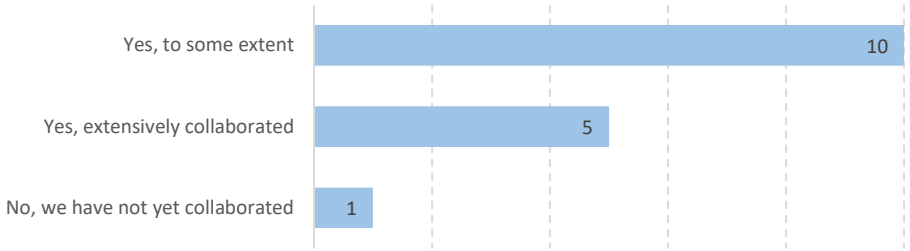
The survey also aimed to understand the future plans of IPAs regarding the extension of digital tools and processes for investment promotion and facilitation. Most IPAs, accounting for 13 out of the total responses, expressed a clear intention to extend the use of digital tools, indicating a positive outlook towards leveraging technology for enhancing investment facilitation efforts (Figure VI.5). For IPAs that responded with “maybe” or “don’t know,” capacity-building initiatives may be needed to support their greater transition towards digital platforms. Providing training, technical assistance, and best practice sharing could help address uncertainties and build confidence in adopting digital tools.

Figure VI.5: You are planning to extend the use of digital tools and processes for investment promotion and facilitation in the future



It is evident from Figure VI.6 that one IPA has not yet engaged in any form of collaboration with other entities to drive digital innovation. However, a significant portion of the IPAs (5 out of the total) have reported extensive collaboration with other government agencies, private sector entities, and regional/international organizations. This level of collaboration suggests a proactive approach towards embracing digital innovation and seeking solutions through partnerships. Most IPAs (10 out of the total) have indicated some level of collaboration with external entities for driving digital innovation.

Figure VI.6: You collaborate with other government agencies, private sector entities, or regional and international organizations to drive digital innovation and solutions for your agency

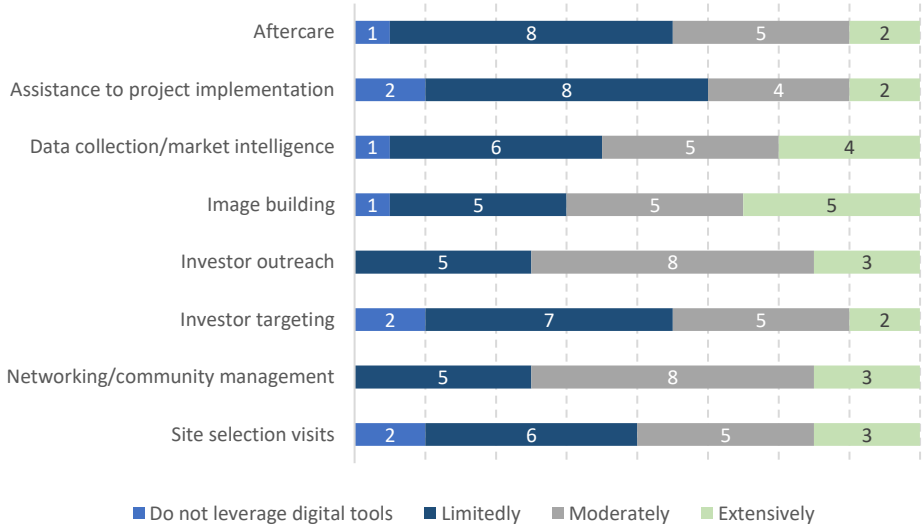


It is concerning that nine of the 16 IPAs do not leverage digital tools in some activities, such as site selection visits (two IPAs), investor targeting (two IPAs), assistance with project implementation (two IPAs), image building (one IPA) and data collection/market intelligence (one IPA). This indicates a potential gap in their approach toward utilizing technology to attract investments.

Between 35% and 40% of IPA answers to questions in Figure VI.7 reported leveraging digital tools to a limited or moderate extent for listed activities. This suggests that while some OIC IPAs recognize the importance of digital tools, they may not fully maximize their potential. Still, five IPAs reported leveraging digital

tools extensively for image building, four for data collection/market intelligence, and three IPAs for each of the following activities: site selection visits, networking/community management, and investor outreach (Figure VI.7).

Figure VI.7: To what extent does your agency leverage digital tools for the following activities?



Social media campaigns are a popular tool surveyed IPAs use to reach a wide audience, showcase investment opportunities, share success stories, and engage with potential investors (Figure V.8).

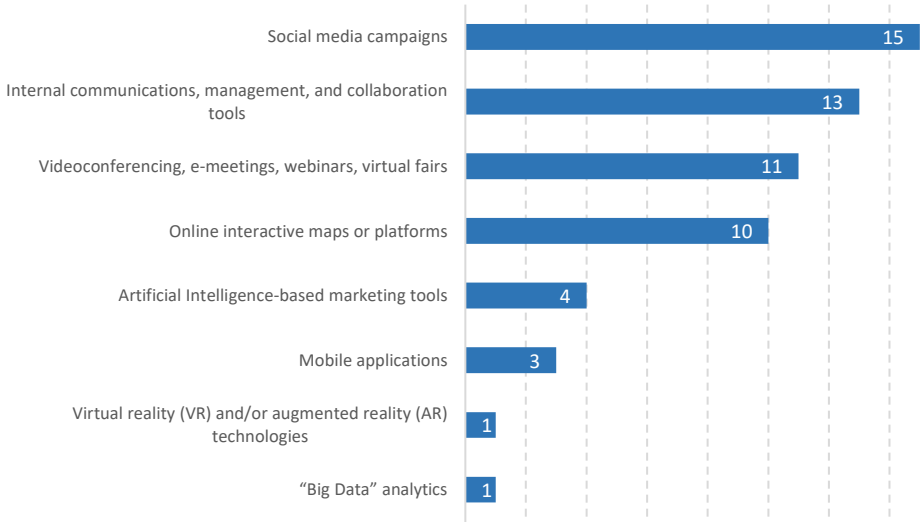
Efficient internal communication and collaboration are crucial for the smooth functioning of IPAs. Out of 16 surveyed IPAs, 13 reported using digital tools to improve teams' coordination efforts, share information, and manage projects effectively.

In the digital age, video conferencing tools are essential for virtual meetings with potential investors worldwide. Webinars and virtual fairs provide platforms for 11 surveyed IPAs to showcase investment opportunities and engage with potential investors.

Ten OIC IPAs use online interactive maps or platforms to represent investment opportunities within a country visually. These tools help potential investors explore different regions, understand infrastructure availability, and decide where to invest. Four surveyed IPAs have reported using AI-based marketing tools, and three utilize mobile applications. The use of "Big Data" analytics and

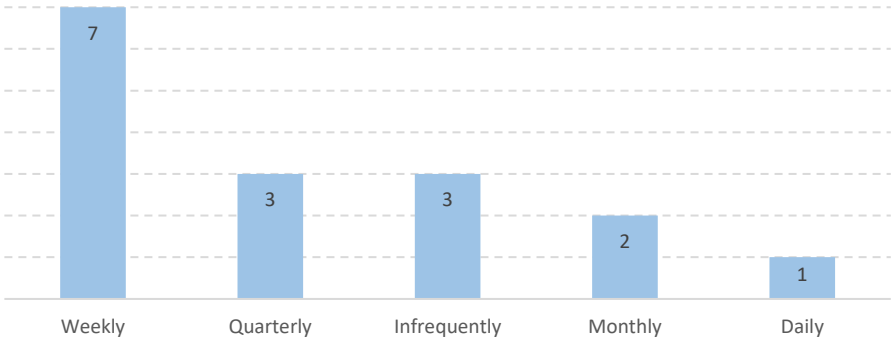
virtual reality or augmented reality technologies is almost absent in the case of surveyed OIC IPAs (Figure VI.8).

Figure VI.8: What digital tools does your agency use to promote and attract FDI?



The survey revealed the following distribution of responses regarding the frequency of updating content on their agency's website: Weekly 7 IPAs, quarterly 3 IPAs, infrequently 3 IPAs, monthly 2 IPAs, and daily 1 IPA (Figure VI.9). Weekly updates indicate a proactive approach toward keeping IPA's online presence current and engaging. However, a notable portion of IPAs, comprising eight respondents, acknowledged updating their website content monthly, quarterly, or infrequently. This could hinder their ability to provide up-to-date information to stakeholders and investors.

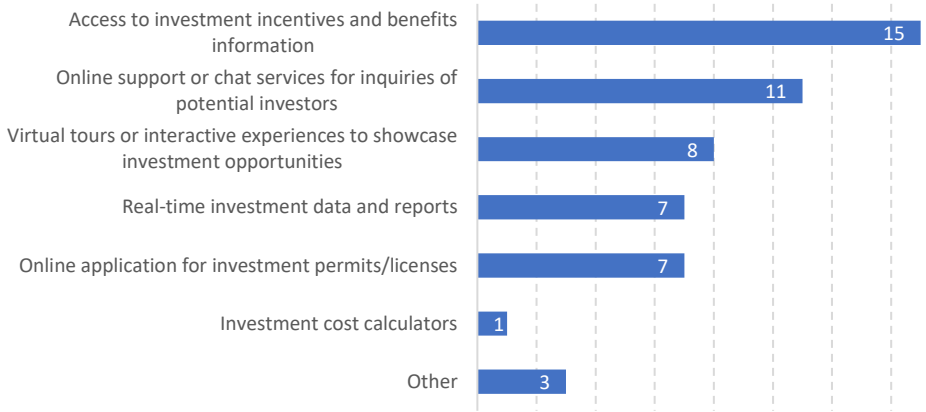
Figure VI.9: Frequency of content updates on agency's website



Given the dynamic nature of investment landscapes, maintaining timely and relevant content on IPA websites is crucial for attracting potential investors. Most of the surveyed IPAs must establish a regular schedule for updating their online content to ensure consistency in communication and transparency with stakeholders. Still, establishing a balance between frequency and quality of updates can enhance the effectiveness of the IPAs

The fact that 15 out of the 16 OIC IPAs offer access to investment incentives and benefits information on their websites indicates a strong focus on providing potential investors with detailed insights into the advantages of investing in their respective countries. With 11 IPAs offering online support or chat services for inquiries from potential investors, it demonstrates a commitment to providing personalized assistance and addressing investor queries promptly.

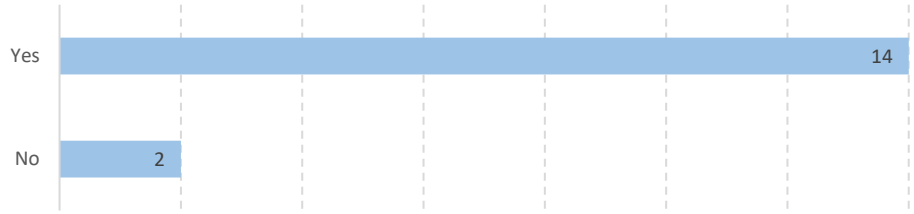
Figure VI.10: Digital services that the agency offers on its website to potential investors



The availability of virtual tours or interactive experiences on the websites of 8 IPAs suggests a proactive approach to engaging potential investors visually and immersively. However, only seven IPAs offer online applications for investment permits/licenses to streamline the administrative process for potential investors. Seven more have reported providing real-time investment data and reports on their website (Figure VI.10). It could be said that most surveyed IPAs prioritize providing essential information on investment incentives, offering support services, and showcasing investment opportunities through interactive means.

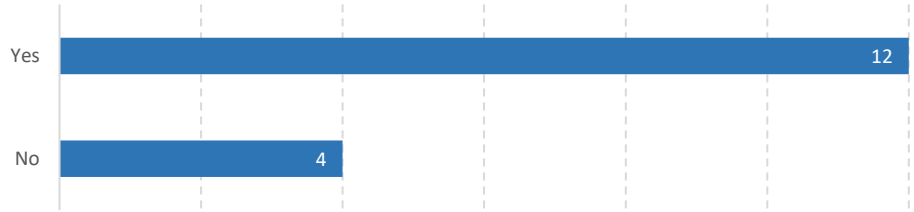
Out of the 16 IPAs surveyed, 14 IPAs indicated that they offer industry-specific information on their websites, while 2 IPAs stated that they do not provide such information (Figure VI.11). IPAs that provide industry-specific details may have a competitive edge in attracting FDI.

Figure VI.11: The agency's website offers industry-specific information



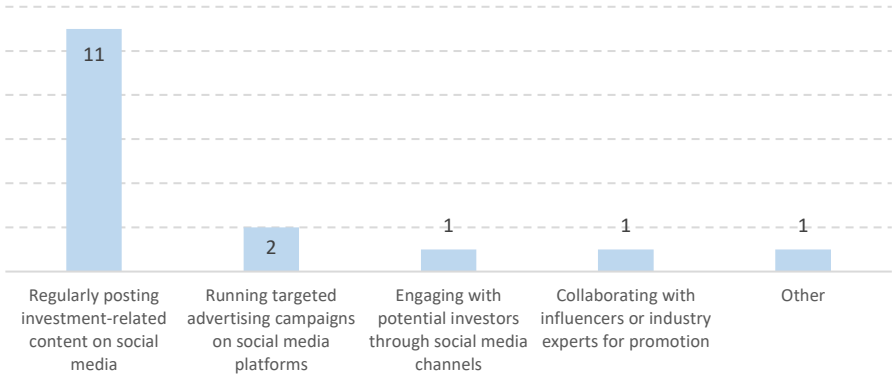
12 IPAs indicated they offer personalized consulting services for investors looking to enter specific industries. This accounts for 75% of the total IPAs surveyed. On the other hand, 4 IPAs stated that they do not provide personalized consulting services in this context, representing 25% of the respondents (Figure VI.12). By offering personalized consulting services for particular industries, IPAs can enhance investor confidence, streamline the investment process, and potentially increase FDI inflows into their respective countries.

Figure VI.12: The agency offers personalized consulting services for investors seeking to enter specific industries



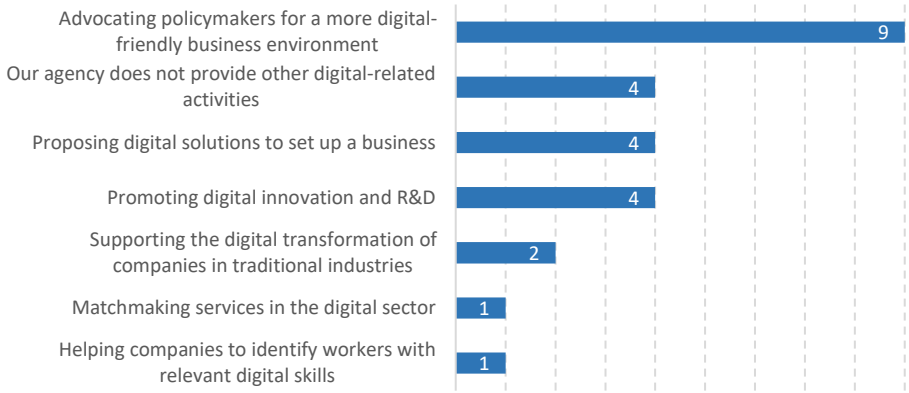
The survey shed light on how surveyed IPAs utilize social media platforms to promote foreign investment opportunities. The most common approach among the IPAs is to post investment-related content on social media platforms regularly. By sharing information about investment opportunities, economic trends, success stories, and relevant news, IPAs can maintain an active online presence and inform potential investors about the benefits of investing in their respective countries. However, only two IPAs run targeted advertising campaigns on social media platforms to reach a specific audience of potential investors, and only one IPA highlighted the importance of engaging directly with potential investors through social media channels (Figure VI.13).

Figure VI.13: Leveraging social media platforms for promoting foreign investment opportunities



The survey results indicate varying levels of engagement by IPAs in different digital-related activities. Nine of the surveyed IPAs actively engage with policymakers to create an environment conducive to digital businesses. Four encourage innovation in the digital sphere and/or propose digital solutions for setting up businesses (Figure VI.14). The four IPAs indicated their agencies do not provide other digital-related activities. While some agencies actively promote digitalization and innovation, others may benefit from expanding their scope to better support investors in navigating the complexities of the digital economy.

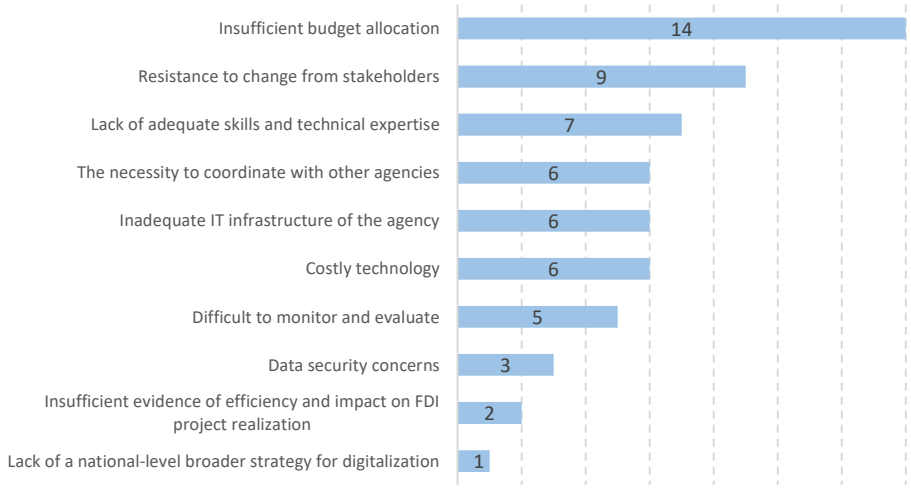
Figure VI.14: The agency conducts the below-mentioned other digital-related activities regularly



The survey revealed several key challenges hindering the greater integration of digital tools in the core activities of surveyed IPAs. The most common challenge reported by the 14 IPAs was the insufficient budget allocation for digitalization

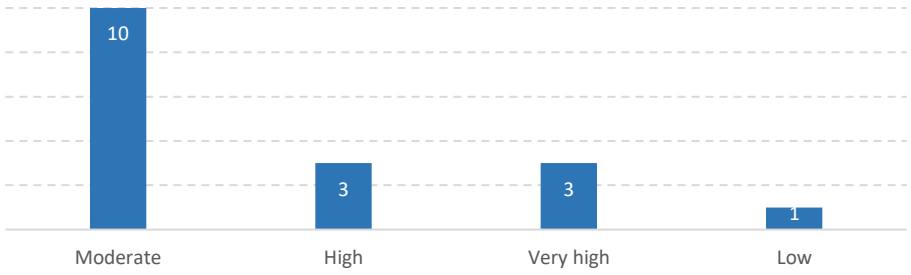
efforts. Limited financial resources can impede the adoption of advanced digital tools and technologies (Figure VI.15).

Figure VI.15: Main challenges for greater integration of digital tools in agency's core activities



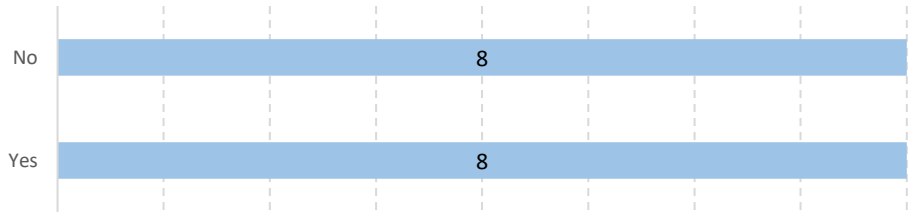
Resistance to change from internal and external stakeholders (9 IPAs) can pose a significant barrier to successfully integrating digital tools in IPA activities. A shortage of skilled personnel with the necessary technical expertise to implement and manage digital tools was reported among the major challenges by 7 IPAs. The inadequate IT infrastructure of the agency and the necessity to coordinate with other agencies are among other significant challenges for greater integration of digital tools in core activities of surveyed IPAs (Figure VI.15).

Figure VI.16: The level of digital skills and capabilities among the staff members of the agency



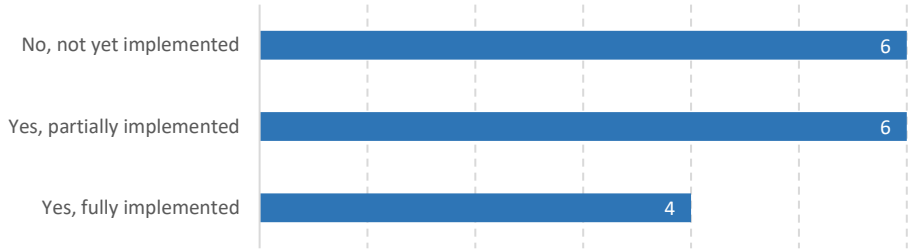
Most of the surveyed IPAs (10) reported moderate digital skills and capabilities among their staff members (Figure VI.16). This indicates that there is still room for improvement in digital proficiency within these agencies. On the other hand, a considerable portion of the IPAs (six or 37.5%) reported a high or very high level of digital skills and capabilities among their staff members, suggesting that some IPAs have successfully invested in developing and maintaining a digitally competent workforce. These results indicate that while some OIC IPAs have strong digital capabilities, others must improve to ensure that they can effectively leverage digital tools to promote FDI.

Figure VI.17: The agency has funded or arranged training and development for staff, including informal on-the-job training, regarding the digitalizing of investment services over the past 12 months



The survey results indicate an equal split among the IPAs, with half having funded or arranged training and development for staff related to digitalizing investment services while the other half not (Figure VI.17).

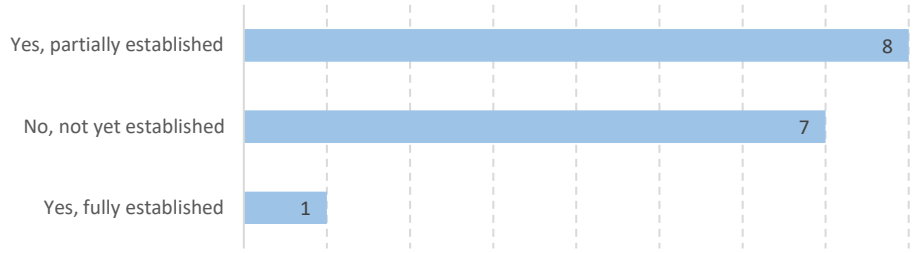
Figure VI.18: Implementation of cybersecurity measures by the agency to protect sensitive data and information



Out of the 16 IPAs surveyed, the responses indicate that four IPAs have fully implemented cybersecurity measures to protect sensitive data and information, six IPAs have partially implemented cybersecurity measures, and six IPAs have not yet implemented any cybersecurity measures (Figure VI.18). Based on these results, it can be concluded that while some IPAs have taken significant steps in implementing cybersecurity measures, a considerable portion of IPAs have not

fully addressed this issue. This highlights the need for further efforts and improvements in cybersecurity among these organizations to protect valuable data and information.

Figure VI.19: The agency has established key performance indicators to measure the success of its digital tools and initiatives



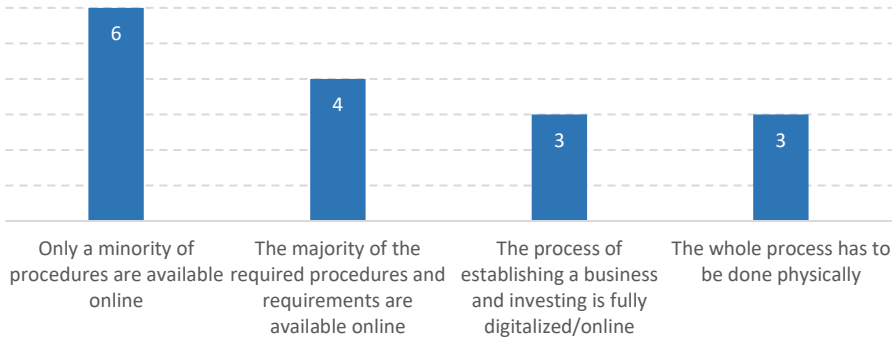
There is a mixed approach among surveyed IPAs regarding establishing key performance indicators (KPIs) to measure the success of digital tools and initiatives. Only one agency out of the 16 has fully established KPIs to measure the success of its digital tools and initiatives. Most agencies, eight out of sixteen, have partially established KPIs. This could imply that these agencies are in the process of developing and refining their metrics for measuring digital success, indicating a growing awareness of the importance of data-driven decision-making. Seven agencies have not yet established any KPIs for measuring the success of their digital tools and initiatives (Figure VI.19).

VI.C.2 Attraction of FDI in the digital economy

The process of establishing a business and investing is fully digitalized/online only in three surveyed OIC countries, according to the responses of IPAs. These countries have fully digitalized the process, allowing investors to complete all necessary steps online. In four OIC countries, a significant portion of the necessary procedures and requirements for investing and establishing a foreign affiliate business can be accessed and completed online. There is some level of digitalization in six countries, but it is limited. Investors may be able to access some information or complete certain procedures online, but the overall process is not digitalized enough.

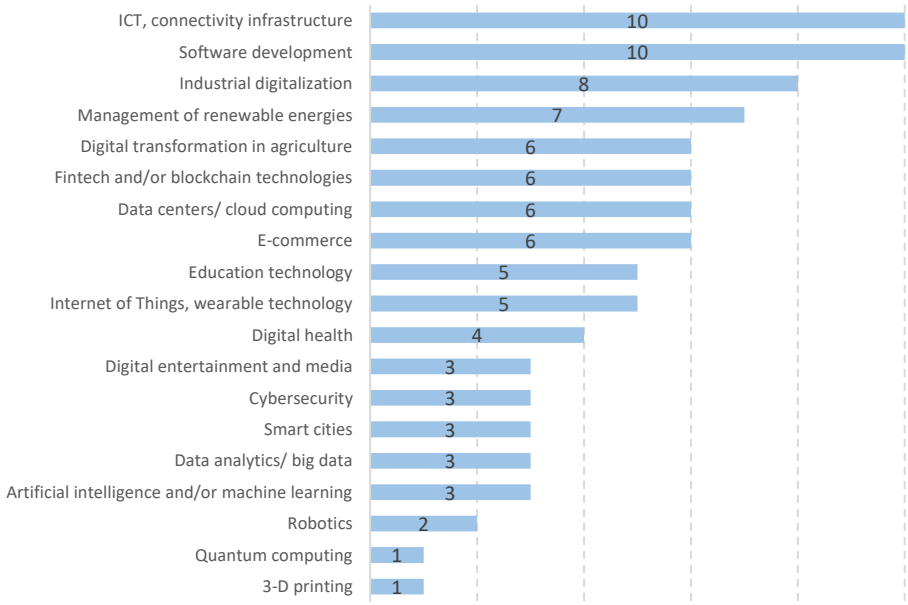
According to IPA's responses, three OIC countries have not yet embraced digitalization in the process of establishing a business (Figure VI.20). Investors are required to physically complete all procedures, which may lead to inefficiencies and barriers for potential investors.

Figure VI.20: The level of digitalization of the process of investing and establishing a foreign affiliate (business) in a country



One of the survey's objectives was to reveal the sectors and industries of the digital economy actively promoted and targeted by OIC IPAs. The responses indicate a diverse range of focus areas within the digital economy.

Figure VI.21: Digital economy sectors and industries that the IPA actively promotes and targets



Software development is a fundamental aspect of the digital economy, and it is not surprising that 10 out of the 16 IPAs actively promote this sector (Figure

VI.21). This includes promoting software companies, programming services, and related technologies.

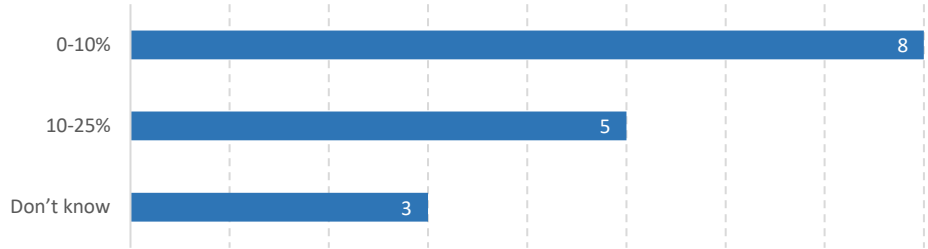
Industrial digitalization involves integrating digital technologies into industrial processes to improve efficiency and productivity. Eight IPAs actively promote this sector, focusing on Industry 4.0 technologies. On the other hand, the emphasis on renewable energy management by seven IPAs highlights the importance of sustainability and clean energy in the digital economy.

E-commerce continues to be a significant driver of economic growth globally. Six IPAs are targeting this sector to support online retail businesses and digital marketplaces. With the increasing demand for data storage and processing capabilities, six IPAs are focusing on promoting data centers and cloud computing services.

Six IPAs are actively promoting innovation in fintech and blockchain technologies. Again, six IPAs are targeting the agricultural sector, which is undergoing a digital transformation by adopting precision farming techniques and agri-tech solutions. Other sectors/industries of the digital economy that surveyed IPAs promote and target are presented in Figure VI.21.

Eight out of the 16 surveyed IPAs allocated between 0% and 10% of their resources (time and staff) towards attracting FDI in digital sectors in the past 12 months (Figure VI.22). This suggests that digital sectors may not have been a primary focus area for investment attraction efforts for these agencies in the past year.

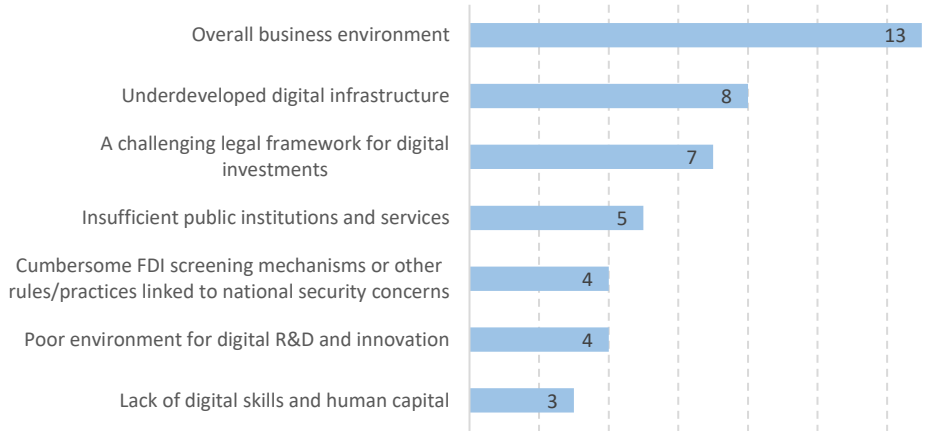
Figure VI.22: Allocation of time and staff for FDI attraction in digital sectors vs. other sectors by IPAs



A moderate share of resources, ranging from 10% to 25%, was dedicated by five IPAs towards attracting FDI in digital sectors, indicating a significant but not dominant focus on digital sectors compared to other industries. Three surveyed IPAs lack a clear understanding or tracking of the specific allocation of resources toward attracting FDI in digital sectors.

Surveyed OIC IPAs revealed several key challenges these nations face in attracting FDI in the digital economy. Most IPAs (13) identified the overall business environment as a significant challenge (Figure VI.23). This could include regulatory frameworks, ease of doing business, political stability, and corruption levels. A conducive business environment is crucial for attracting FDI in any sector, including the digital economy.

Figure VI.23: The main challenges faced by a country to attract FDI in the digital economy



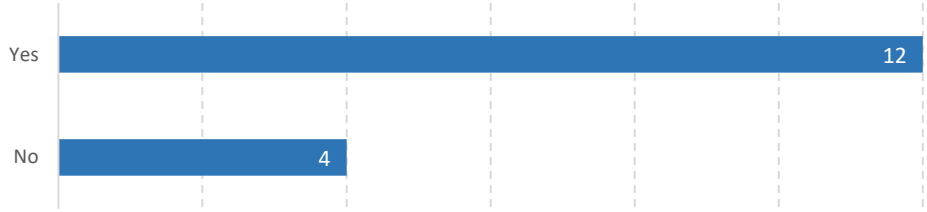
Another prominent challenge highlighted was the underdeveloped digital infrastructure (issues related to internet connectivity, broadband penetration, and access to advanced technologies) in these countries (8 IPAs). A robust digital infrastructure is essential for the growth of the digital economy and attracting tech investments.

Seven IPAs pointed out the presence of a challenging legal framework for digital investments as a barrier. Five of them highlighted the lack of adequate public institutions and services as a hindrance to FDI in the digital economy. Other responses related to the main challenges to attracting FDI in the digital economy are shown in Figure VI.23.

Most of the surveyed IPAs focus on attracting quality FDI projects rather than just focusing on quantity. Out of the 16 IPAs, 12 have developed a specific strategy to attract quality FDI projects, while four agencies have not (Figure VI.24). A specific strategy to attract quality FDI projects is crucial for maximizing the benefits FDI can bring to a country. Countries can attract investments that bring advanced technologies, create high-skilled jobs, foster innovation, and contribute to sustainable economic growth by targeting quality projects. The four IPAs that have not developed a specific strategy to attract quality FDI

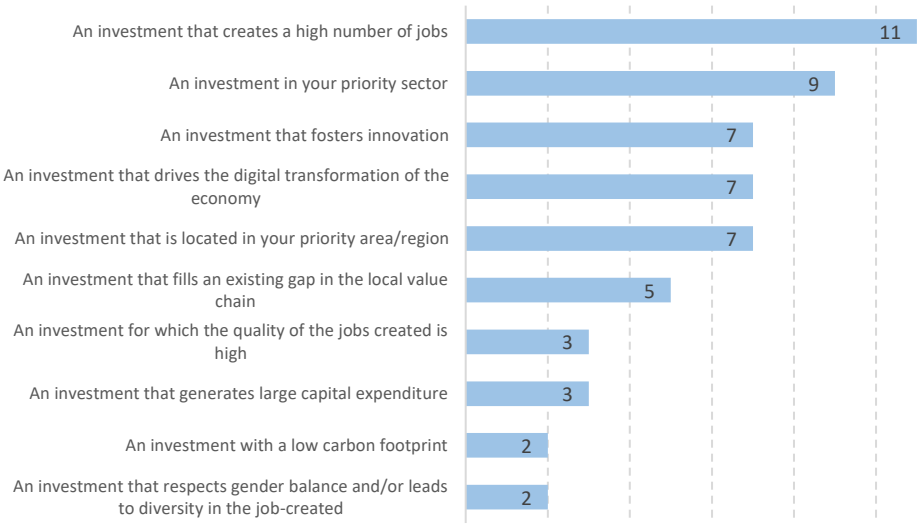
projects may be missing out on opportunities to attract investments that could significantly impact their economies.

Figure VI.24: The agency has developed a specific strategy to attract quality FDI projects



Analysis of the responses regarding what quality FDI means for IPA shows that an investment that creates a high number of jobs is a quality investment for 11 IPAs. This indicates that attracting investments that result in significant job opportunities is among the top priorities for surveyed OIC IPAs. For the same question, nine IPAs opted for foreign investment in the priority sector, showing that these IPAs prefer FDI that aligns with the country's development goals and strategic objectives (Figure VI.25).

Figure VI.25: What does quality FDI mean for your IPA?

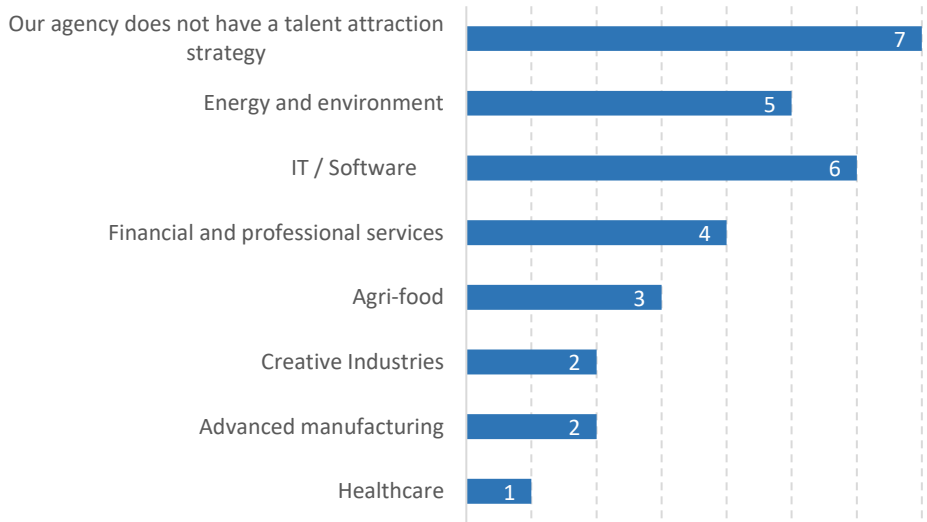


Geographical considerations also play a role in determining the quality of FDI for surveyed IPAs. Seven of them consider foreign investment located in priority areas or regions that can lead to more balanced regional development,

infrastructure improvement, and overall economic stability. An investment that drives the digital transformation of the economy and fosters innovation is considered a quality FDI by seven IPAs. Promoting inclusivity and diversity in the workforce through FDI and ensuring sustainable and environmentally friendly FDI was described as quality FDI only by two IPAs (Figure VI.25).

It is notable that a significant portion of IPAs (7 out of 16) mentioned that their agency does not have a talent attraction strategy in place. Among the IPAs that have developed a talent attraction strategy, the sectors they are focusing on for talent attraction vary. The most commonly mentioned sector is IT/software, with six agencies focusing on attracting talent in this field. This aligns with the global trend of the growing importance of technology and digital skills in various industries. Following IT/software, energy and environment emerged as another key sector for talent attraction, with five agencies targeting talent attraction in this area. Financial and professional services, agri-food, advanced manufacturing, creative industries, and healthcare are also sectors where some IPAs are concentrating their talent attraction efforts, albeit to a lesser extent (Figure VI.26).

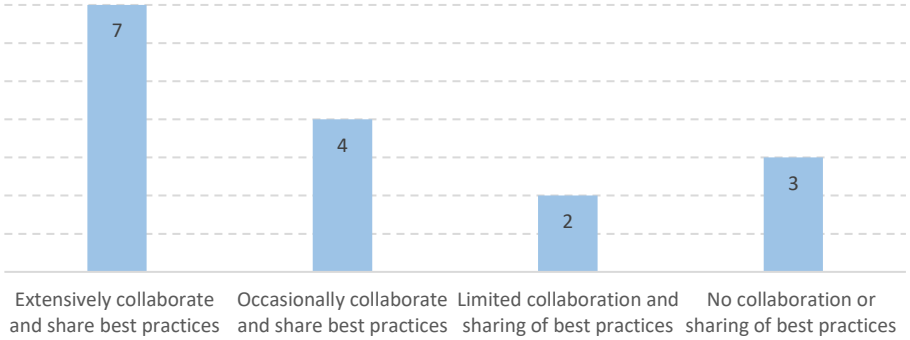
Figure VI.26: Sectors that agency focus on for talent attraction



According to the survey results, seven IPAs extensively collaborate and share best practices in digitalization, four occasionally collaborate and share best practices, two have limited collaboration and sharing of best practices, and three do not collaborate or share best practices at all (Figure VI.27). By collaborating with others to share best practices in digitalization, IPAs can harness collective

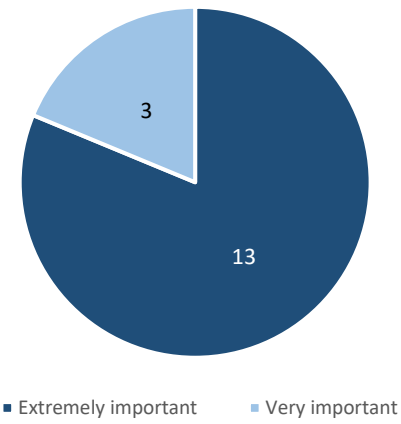
knowledge, drive innovation, enhance efficiency, expand their network, gain a global perspective, and optimize resource utilization for more effective investment promotion efforts.

Figure VI.27: Extent of collaboration with other IPAs or organizations to share best practices in digitalization



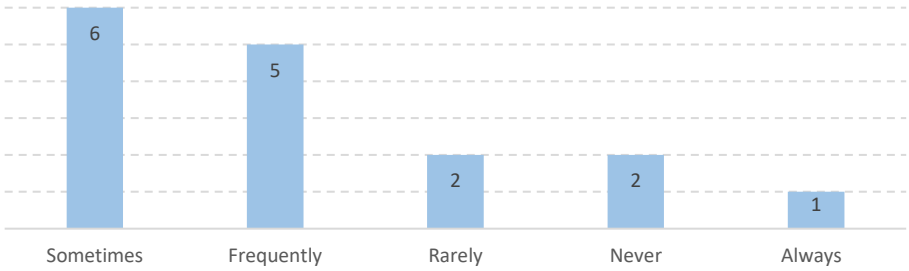
Most IPAs considered it extremely important to have a training and support program organized by the Islamic Centre for Development of Trade (ICDT) and Islamic Development Bank (IsDB) for digital processes and tools (Figure VI.28). The high number of IPA rating this initiative as extremely important suggests a clear demand for support in adapting to digital advancements within their operations. By prioritizing training and support in this area, OIC IPAs are aiming to improve their digital competencies, competitiveness, efficiency, and overall performance in attracting FDI in their respective countries.

Figure VI.28: Importance of organizing training and support programs by ICDT and IsDB for digital processes and tools



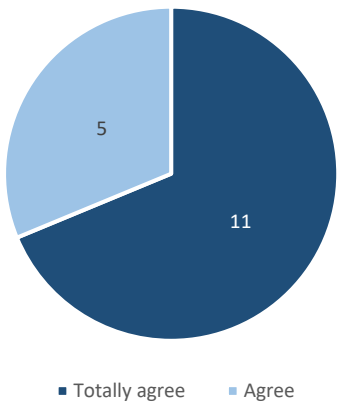
It is evident that there is a varying degree of collaboration and information exchange among OIC IPAs (Figure VI.29). Overall, while some IPAs demonstrate a high level of engagement and cooperation, there are also instances where collaboration is limited or non-existent. Strengthening communication channels and promoting regular interactions among IPAs across OIC countries could enhance the collective efforts towards attracting investments and fostering the prosperity of the Islamic world.

Figure VI.29: IPA collaborates and exchanges information about investment opportunities with other OIC IPAs



The survey reveals that all respondents agree with the statement that coordination of investment policies and investment promotion among the OIC countries would improve their country's investment ecosystem and boost national competitiveness (Figure VI.30). Coordination and cooperation among OIC countries in investment policies and promotion can have several positive

Figure VI.30: Agreement with the statement: Coordination of investment policies and investment promotion among the Member States of the Organization of Islamic Cooperation (OIC) would improve my country's investment ecosystem and boost national competitiveness



implications for the involved nations, including increased FDI flows and improved access to markets for OIC countries.

VI.D Potential cooperation areas among IPAs of OIC countries

The presence of OIC IPAs at different levels of digitalization highlights the need for tailored strategies and support mechanisms to assist less digitally advanced agencies in catching up with their more advanced counterparts. Collaboration, knowledge sharing, and capacity-building initiatives could play a crucial role in helping these agencies leverage digital technologies effectively to attract investments and foster economic growth.

Clear guidelines and framework for collaboration: ICDT and IsDB must establish clear guidelines and framework for cooperation between OIC IPAs in partnership with other relevant stakeholders. ICDT and IsDB can ensure that partnerships are structured effectively and yield positive results by outlining expectations, roles, responsibilities, and processes for collaboration.

Centralized platform for information sharing: To enhance overall collaboration among OIC IPAs, a centralized platform for information sharing could be established. This platform could serve as a hub where OIC IPAs can exchange best practices, research findings, and relevant data. By centralizing this information, IPAs can benefit from each other's experiences.

Knowledge sharing and best practices exchange: IPAs from OIC countries can collaborate to share knowledge, experiences, and best practices related to digitalizing investment promotion. This can include sharing successful strategies, tools, and approaches that have proven effective in attracting FDI in the digital economy.

In this context, ICDT and IsDB could facilitate best practice sharing and help OIC IPAs establish monitoring and evaluation mechanisms to track progress, gather feedback on effectiveness, and make necessary adjustments for continuous improvement in digitalizing investment promotion.

Capacity building and training programs: Collaborative efforts can be made to develop capacity-building programs and training initiatives to enhance IPA staff members' digital skills and capabilities. This can include training on digital marketing, data analytics, online investment platforms, and other relevant areas.

ICDT and IsDB could develop tailored training programs catering to participants' needs and skill levels. This can include beginner, intermediate, and advanced levels of training to ensure that all participants can benefit from the program.

Further, ICDT and IsDB could provide continuous learning opportunities such as webinars, workshops, and online courses to keep OIC IPAs updated on the latest trends and technologies in digital processes and tools.

Joint investment projects: OIC countries may be encouraged to explore opportunities for joint investment projects in the digital sector. Collaborative initiatives can leverage the comparative advantages of different nations, drive innovation through cross-border partnerships, and create synergies that benefit all involved nations.

Digital platforms and tools development: Collaborating on developing digital platforms and tools can streamline the investment promotion process for OIC IPAs. This can involve jointly creating online investment portals, virtual investment forums, AI-powered matchmaking tools, and other digital solutions to facilitate FDI attraction in the digital economy.

Investor outreach programs: Collaborative investor outreach programs can be designed to target specific regions or industries with high demand for digital investments. By coordinating roadshows, webinars, virtual conferences, and matchmaking events, OIC IPAs can engage with potential investors and showcase the investment opportunities available in OIC countries at the regional level.

Policy advocacy and regulatory alignment: IPAs can exchange practices for favorable policies and regulatory frameworks that support digital investments. By improving regulations related to data privacy, cybersecurity, e-commerce, and other key areas, IPAs can create a more conducive environment for FDI in the digital sector.

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Conclusions and policy recommendations

The world foreign direct investment (FDI) landscape has been evolving, with developing economies playing an increasingly significant role in the global market. However, the digital divide between developed and developing countries is growing. Further, there has been a noticeable slowdown in globalization in recent years, characterized by a move towards regionalization, reconfiguration of supply chains, and alterations in trade and investment flows. Therefore, diversifying supplier networks, end markets, and production locations is crucial for OIC countries to mitigate risks and capitalize on emerging opportunities.

Digitalization has emerged as a significant megatrend in the current decade, profoundly influencing FDI. The rise of digitalization has reshaped the global FDI scene by creating new opportunities for companies to expand their operations internationally. Digital technologies have enabled businesses to establish a global presence more easily, streamline cross-border transactions, and access new markets. Moreover, FDI flows have increasingly been directed towards digital-intensive industries. Countries that have invested in developing robust digital infrastructure are increasingly becoming more attractive destinations for FDI.

As digital technology advances rapidly, the demand for a skilled workforce that can adapt to these changes is increasing. Moreover, global remote working has significantly transformed talent pools by expanding them beyond traditional geographical boundaries. This shift has led to a more diverse and dispersed workforce, with employees located in various parts of the world. As a result, businesses now have access to a broader talent pool with diverse skill sets and perspectives.

The digital economy presents a transformative window of opportunity for OIC countries to accelerate economic growth, create jobs, and foster inclusive development. However, significant investments will be required across various areas to prevent many OIC countries from being left behind in adopting and implementing advanced digital production technologies.

The analysis in the report has revealed that investment opportunities are huge in the OIC countries, with significant unused potential in the digital economy. However, the best strategies to attract more investment in digital FDI are yet to be defined.

On the other hand, implementing digital transformation can be a challenging and painful journey for businesses and economies, especially without good partners supporting them.

Private investment and public-private partnerships are essential drivers of digitalization by providing the financial resources, expertise, collaboration, and innovation needed to advance technological transformation across sectors. By leveraging the strengths of both sectors through strategic partnerships and investments, OIC countries can accelerate their digital transformation journey and reap the benefits of a more connected, efficient, and inclusive digital economy.

Investing in research and development (R&D) and fostering collaborations with universities are crucial to driving innovation and the digital economy. It is essential to have rules and regulations that offer a supporting framework for innovators and investors alike in order to foster an innovation-focused investment culture in OIC countries.

FDI is essential for developing digital industries as it brings in necessary capital, technology, and expertise. IPAs play a vital role in attracting FDI to a country. However, IPAs must adapt to digitalization and enhance their digital capacity to promote and facilitate FDI effectively. Investment Promotion 4.0 is a concept borrowed from the term Industry 4.0, which signifies a shift towards utilizing advanced technologies and digital tools to attract FDI.

On the other hand, strategies are essential tools for IPAs to navigate the complex landscape of investment promotion while staying aligned with national development goals. OIC IPAs have to develop and implement effective FDI strategies that have a clear direction, foster collaboration, and enable effective monitoring.

Sector targeting in investment promotion shall be a critical approach OIC IPAs employ to attract FDI. By focusing on specific sectors that align with the country's strengths, resources, and development goals, IPAs can effectively market their investment opportunities to potential investors. However, the survey results with OIC IPAs show that in many cases, IPAs have too many priority sectors, which can pose challenges and diminish the effectiveness of IPA activities.

A clear mandate for investment promotion is essential for IPAs to achieve their objectives effectively. Many OIC IPAs have additional mandates beyond investment promotion, sometimes leading to confusion and inefficiency.

IPA employees should possess a diverse skill set that includes bilingual capabilities, intercultural competence, private sector experience, negotiation skills, analytical abilities, and networking practices to drive successful investment attraction initiatives.

In Africa, a proverb says, "To go fast, go alone, to go far, go with the team." This principle holds true for IPAs regarding their collaboration with different stakeholders. The effectiveness of IPAs can be significantly enhanced by collaborating with other partners. These partners shall include:

- Ministries and administrations responsible for key areas of the regulatory environment for investment (such as the ministry of finance, ministry of labor, ministry of SME development, ministry of interior, and local authorities);
- Ministries, administrations, and agencies relevant to investment promotion and facilitation (ministry of trade and investment, ministry of foreign affairs, SEZs and sub-national IPAs, PPPs, and privatization units);
- Private sector;
- Other IPAs;
- Relevant international organizations.

In general, OIC countries should undertake regulatory reforms to develop a supportive regulatory environment for the digital economy, including setting clear and transparent regulations governing e-commerce, data protection, and cybersecurity.

Moreover, in collaboration with the private sector and educational institutions, OIC should prioritize skills development and education in digital technologies, including coding, data analytics, and digital marketing. This will help equip the workforce with the skills needed to participate in the digital economy and attract investment in digital industries.

Furthermore, OIC countries should invest in enhancing cooperation among the IPAs in the OIC region to explore joint action areas and share knowledge, experiences, and good practices. ICDT, IsDB, and other relevant OIC institutions could play a pivotal role in fostering partnerships among the IPAs of OIC countries through organizing ICDT Invest Days as a platform to enhance intra-OIC investment flows and publishing OIC Investment reports.

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