

Investment Policy Framework for Digital Transformation



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Foreword

The *Investment Policy Framework for Digital Transformation* identifies the policies, institutions, instruments and practices needed to mobilise international investment that supports digital transformation. It provides a pragmatic tool to diagnose policy gaps and opportunities. The framework is organised around four building blocks – governance, regulatory framework, technical and financial support, and information and facilitation – that bring together diverse policy domains, including investment, competition, cross-border data flows, trade and investment agreements, skills development, and responsible business conduct, into a coherent approach to ensure that international investment effectively supports digital transformation.

The framework draws on OECD investment instruments that guide governments in attracting more, better, and safe FDI. Its principles and policy questions are grounded in evidence from OECD tools and databases – such as the FDI Qualities Initiative, FDI Regulatory Restrictiveness Index, *Investment Tax Incentives Database*, and Mapping of Investment Promotion Agencies – as well as from cross-cutting frameworks like the OECD Going Digital Integrated Policy Framework, ensuring a whole-of-economy and society approach to realising the promises of digital transformation for all.

The framework incorporates comments received from the OECD Investment Committee, the FDI Qualities Policy Network, and FDI Qualities Advisory Group. It also benefits from comments from OECD Directorates (Directorate for Science, Technology, and Innovation; Trade and Agriculture Directorate; Directorate for Employment, labour and Social Affairs; Centre for Entrepreneurship, SMEs, Regions and Cities; Centre for Tax Policy and Administration); OECD stakeholder bodies (BIAC, TUAC); and international organisations and global and regional foras (APEC, IFC, ILO, UNCTAD, WEF). The development of the framework was supported by concrete country examples derived from a mapping of policies and institutions and from in-depth country assessments of Morocco, Uzbekistan and Viet Nam.

The framework was prepared by a team led by Stratos Kamenis and comprising Irina Grigoryeva and Nunzia Saporito, under the supervision of Fares-Al-Hussami, Head of FDI Qualities and Impact Team in the Sustainable Investment Unit of the Investment Division, Directorate for Financial and Enterprise Affairs (DAF). Overall guidance was provided by Ana Novik, Head of the Investment Division, and Martin Wermelinger, Deputy Head of the Investment Division and Head of the Sustainable Investment Unit. Nicolas Rosselot of the International Investment Governance Unit of the Investment Division and Rashad Abelson of the Centre for Responsible Business Conduct in DAF provided instrumental contributions on specific sections of the framework. In DAF, Carolina Abate, Katharina Bohme, Tihana Bule, Alexandre de Crombrughe, Hélène Francois, Iris Mantovani, Fernando Mistura, Letizia Montinari, Clemente Rojas Giacobbe, Juan Rodrigo, Ana Laura Sobalbarro, and Mamiko Yokoi-Arai provided substantive inputs and comments. Liv Gudmundson and Lucinda Pearson prepared the document for publication.

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Executive summary

The OECD Investment Policy Framework for Digital Transformation aims to help governments promote private investment that supports digital transformation. Building upon existing OECD investment standards, it identifies key policies that are relevant for enabling investment in support of digital transformation and harnessing its potential to strengthen economic resilience and broad-based development while managing any attendant risks.

Mobilising quality investment is key to unlocking the potential of digital transformation

The rapid advancement of digital technologies is reshaping economies and societies, transforming businesses, market labour operations, delivered services, and industries evolution. Digital technologies are at the core of this transformation, driving productivity gains, fostering innovation, and creating new opportunities for economic growth. Digitalisation could also play a crucial role in addressing global challenges, from expanding access to essential services like education and healthcare to improving the reliability, durability, affordability and efficiency of energy systems. However, the transition to a digital economy is uneven. Many developing and emerging economies face structural barriers such as underdeveloped communications infrastructure, insufficient digital skills, and regulatory uncertainty that hinder digital uptake.

Attracting and mobilising quality investment is key to overcoming these challenges and unlocking the full potential of digitalisation. FDI brings not only financial capital but also technological expertise, global knowledge networks, and business practices that support the development of communications infrastructure, services, and capabilities. Multinational enterprises (MNEs) can play a central role in this process by investing in broadband networks, cloud computing, and data centres, which expand connectivity and provide the backbone for digital services. They can also contribute to digital adoption in traditional sectors, modernising industries such as manufacturing, finance, and logistics through automation, data-driven decision making, and new business models. Greenfield foreign investments in goods and services that form the backbone of digital ecosystems has seen substantial growth, rising from 15% of global greenfield investments between 2016-2020 to 26% between 2021-2025.

FDI can also present challenges that require careful policy responses. For example, large firms may use their market power to harm competition by reducing consumer choice, stifling innovation, and limiting opportunities for small and medium-sized enterprises (SMEs). The top 20 MNEs in ICT manufacturing, for example, accounted for 81% of total greenfield FDI in the sector between 2021 and 2025. Additionally, workers may need new skills to transition into emerging digital roles in demand by MNEs. For instance, 62% of foreign firms with changing skills needs in the OECD are looking for digital skills, compared to 55% of domestic firms.

What can governments do?

This policy framework provides guidance on how governments can create an enabling environment for private investment to support the digital transformation. It identifies the key policy areas that influence digital investment decisions, including market openness, investment facilitation, competition policy, responsible business conduct, and digital skills development. By addressing market failures, regulatory misalignments, and investment barriers, the framework aims to help governments foster an investment climate that supports digital innovation, strengthens domestic capabilities, and maximises the broader economic and other benefits of digitalisation. The framework is structured around the following four building blocks, based on the FDI Qualities Policy Toolkit, and related key policy recommendations in the table below:

- **Governance:** Effective governance of digital FDI requires clear institutional responsibilities, strong co-ordination mechanisms, and alignment between investment and digital policies. Transparent and predictable investment policies that integrate digitalisation needs, while ensuring digital policies support investment attraction and retention, can enhance investor confidence. Given the cross-cutting nature of digital technologies, whole-of-government co-ordination is essential to prevent policy fragmentation and align efforts across communications infrastructure, skills development, and connectivity. Aligning investment policies with national digital strategies maximises the contribution of digital FDI to economic growth and innovation.
- **Domestic and international regulation:** A predictable, transparent, and non-discriminatory regulatory framework is fundamental to fostering digital-intensive investment. Strong competition policies, intellectual property protection and enforcement, and facilitation of cross-border data flows reduce barriers and promote fair market conditions. Economies that maintain open, interoperable data regimes attract more investment, lower costs for domestic businesses, and foster innovation. In contrast, restrictive approaches such as forced data localisation reduce competitiveness, increase compliance costs, and slow digital growth. Regulations must remain agile to keep pace with technological advancements while mitigating risks generated by companies and activities in their supply chains. Furthermore, maintaining openness while addressing national security considerations, particularly for sensitive data and strategic technologies, is crucial for building a resilient digital investment climate. Meanwhile, international trade and investment agreements increasingly incorporate digital provisions, promoting regulatory certainty and reducing fragmentation in the global digital economy.
- **Technical and financial support:** Encouraging investment in digital technologies, and communications infrastructure is key to fostering a competitive digital economy. Public-private partnerships, targeted incentives, and capacity-building initiatives can help overcome market failures and investment barriers such as high R&D costs, skills mismatches, and infrastructure gaps. Policies should support integration of domestic firms into global digital supply chains, enabling voluntary knowledge transfer on mutually agreed terms and local innovation. Reliable and affordable communications infrastructure, particularly in underserved regions, is a prerequisite for attracting digital-intensive investments. Bridging digital divides and promoting universal access to digital technologies while strengthening digital competences ensure that both domestic and foreign firms benefit from digital transformation.
- **Information and facilitation services:** Investment promotion and facilitation efforts should address information asymmetries and administrative barriers that may deter digital FDI, particularly in economically lagging regions. Investment promotion agencies (IPAs) at national and subnational levels can play a key role in bridging information gaps by providing up-to-date insights on the digital ecosystem, regulatory environment, and sector-specific opportunities. Facilitating connections between foreign investors and domestic technology firms enhances innovation and voluntary knowledge transfer on mutually agreed terms, while targeted information campaigns can highlight

a country's or region's digital strengths, such as advanced infrastructure, skilled talent and energy resources. Simplified administrative processes and enhanced transparency in investment procedures create a more attractive and efficient environment for digital investors, supporting long-term economic growth.

Main guiding questions for policymakers

Principle 1: Provide strategic direction and ensure co-ordination and coherence on investment and digital policies.

- **Institutional co-ordination on investment and digital policies:** Are responsibilities for digitalisation and investment clearly defined across government institutions, and are there effective co-ordination mechanisms to align policy objectives?
- **Strategic alignment and policy coherence:** Are investment policy strategies and action plans aligned with key national priorities for the digital transition, including developing communication infrastructure and services, fostering digital innovation, and promoting workforce upskilling?

Principle 2: Ensure that domestic and international regulations and standards create a conducive business environment for investment in support of digital transformation.

- **Regulatory framework for market access:** Are existing regulatory restrictions on FDI periodically reassessed against evolving public policy objectives on digital transformation and, where relevant, streamlined or removed?
- **Legal framework for digital technologies:** Do legislative and regulatory frameworks for digital technologies (e.g. AI, blockchain, e-commerce) provide legal certainty while remaining adaptive to technological advancements and investment needs?
- **Competition and intellectual property protection and enforcement policies:** Does competition policy address risks such as anti-competitive behaviour, and ensure that businesses can compete on a level playing field domestically and internationally? Do intellectual property rights (IPR) protection and enforcement policies ensure a level playing field for foreign and domestic firms in the digital economy?
- **National security policies:** If they exist, are investment screening mechanisms transparent, proportionate, and designed to address national security risks of investment in digital and emerging technology sectors without creating undue barriers to investment?
- **Responsible Business Conduct:** Are responsible business conduct (RBC) standards integrated into investment and digital policies? To what extent do they include safeguards for cybersecurity, data protection, and trustworthy AI? Are emerging digital technologies considered and addressed within these policy frameworks?
- **International trade and investment agreements:** Does the country promote the inclusion of provisions in international trade and investment agreements that support digital transformation, including those related to cross-border data flows, digital trade facilitation, competition, protection and enforcement of intellectual property rights, and source code protection?

Principle 3: Stimulate investment and strengthen technical capabilities in digital technologies and ICT services and infrastructure.

- **Investment incentives:** If provided, do investment incentives aim at addressing specific barriers to investment or market failures (e.g. high initial fixed costs for communication infrastructure and services development, risks in digital R&D, digital skills shortages)? Are incentives subject to regular impact assessments and evaluations?
- **Technical support to leverage FDI spillovers:** Are capacity building programmes available to domestic firms to help them strengthen their digital capacities, voluntarily create knowledge-sharing partnerships on mutually agreed terms with foreign investors and integrate global digital value chains?
- **Skills and labour market policies:** Do labour market policies and workforce upskilling initiatives consider the challenges and opportunities arising from digital investment, including by anticipating and addressing digital skills shortages in FDI-intensive sectors, mitigating job displacement risks, and supporting job creation for all segments of the population?
- **Policies for communications infrastructure development:** Has the government developed a coherent and comprehensive plan for the development of communications infrastructure and services that leverages FDI's potential to expand connectivity while meeting electricity demand and advancing future energy efficiency and reliability?

Principle 4: Address information failures and administrative barriers to facilitate FDI in support of digital transformation.

- **Investment promotion and facilitation:** Do investment promotion agencies (IPA) operating at national and subnational levels have a dedicated strategy to attract and facilitate digital FDI, particularly in support of economically lagging regions? Does this strategy ensure streamlined regulatory procedures, targeted investor engagement, and effective co-ordination with industry and government stakeholders?

1 Introduction

This chapter introduces the OECD Investment Policy Framework for Digital Transformation, a practical tool designed to help governments mobilise quality international investment to support digital transformation. It highlights how foreign direct investment can contribute to digital infrastructure, innovation, skills development, productivity, and broader progress. The chapter also describes the channels that shape the impacts of digital investment and determine countries' ability to benefit from digitalisation. The framework provides a non-prescriptive approach for identifying policy gaps and strengthening enabling environments for digital transformation.

Mobilising quality investment is essential for the digital transformation

Digital transformation – the impact of digital technologies and data and their use on existing and new activities – has emerged as a transformative force reshaping economies and societies (Box 1.1). Digital technologies, such as Artificial Intelligence (AI), Blockchain and Internet of Things (IoT), are altering how goods and services are being produced, delivered, and used (OECD, 2024^[1]). The digital economy, which includes industries reliant on these technologies, is becoming a fundamental driver of global growth, fostering new business models, driving innovation, improving productivity, and creating new entrepreneurship opportunities (OECD, 2024^[1]). Beyond driving economic expansion, digitalisation could serve as a powerful enabler for achieving national development priorities. It can improve access to education and healthcare, support environmental objectives and facilitate voluntary knowledge sharing on mutually agreed terms. By integrating digital solutions, countries can unlock significant development potential for all segments of society.

Mobilising investment in communications infrastructure, enhancing human capital, and developing robust digital ecosystems in host economies is essential. FDI can accelerate digital transformation by providing capital, technology, and expertise, fostering voluntary knowledge transfer on mutually agreed terms, and strengthening local capabilities. Investment in digital sectors supports infrastructure development, job creation, and skills upgrading, while enhancing value creation, competitiveness, and productivity. The impact of FDI on digitalisation also depends on the ability of host economies to absorb and integrate these technologies, underpinned by investments in digital skills development and supportive policy frameworks (OECD, 2020^[2]) as well as the establishment of basic connectivity.

Box 1.1. Definitions

- **Digitisation:** conversion of analogue data and processes into a machine-readable format.
- **Digitalisation:** use of digital technologies and data as well as interconnection that results in new or changes to existing activities.
- **Digital transformation:** economic and societal effects of digitisation and digitalisation.
- **Digital sectors:** sectors involving goods or services that are core to the digital transition and/or enable digital activity, including digital services, ICT goods and electrical equipment.
- **Digital FDI:** for the purpose of this report, this refers to FDI in core digital sectors (e.g. digital services, ICT goods and electrical equipment).
- **Digital-intensive sectors:** those characterised by the extensive adoption and integration of digital technologies across various facets of their operations. In addition to core digital sectors, these also include traditional sectors (e.g. automotive, finance, business services, retail trade, audiovisual and broadcasting), which are increasingly incorporating digital inputs and processes into their core business models.

Source: OECD (2019^[3]), *Going Digital: Shaping Policies*, <https://doi.org/10.1787/9789264312012-en>.

Objectives of the investment policy framework for digital transformation

The OECD has partnered with economies across all continents to share its expertise in reforming investment frameworks. The policy lessons from decades-long efforts to improve the investment climate have been distilled into tools and instruments that policymakers can use to attract quality investment. These instruments are part of the overarching OECD Declaration on International Investment and Multinational Enterprises and support strategic objectives of governments in attracting more, better, and safe FDI. In addition, other OECD standards in the areas of artificial intelligence, data governance and digital security, such as the OECD Recommendation on AI and OECD Privacy Guidelines, provide guidance for governments seeking to encourage private investment in digital technologies.

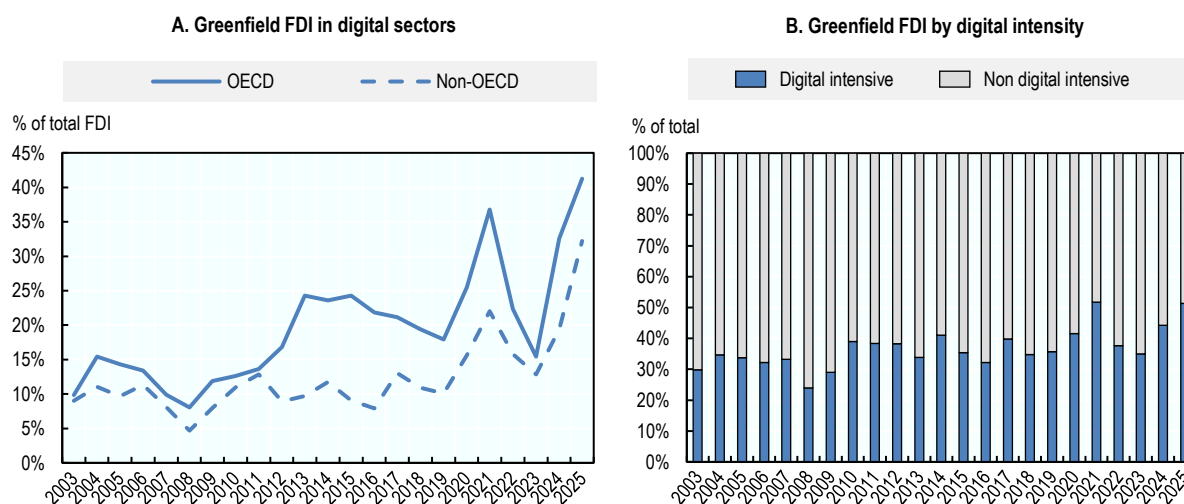
The investment policy framework for digital transformation provides a pragmatic tool to diagnose policy gaps and opportunities to mobilise international investment in support of digital transformation. It addresses a broad set of policy areas – from investment and competition to cross-border data flows, trade and investment agreements, skills development, and responsible business conduct. Building on the structure of the FDI Qualities Policy Toolkit (OECD, 2022^[4]), it is organised around four building blocks that highlight the policy domains most relevant for enabling digital investment: governance, domestic and international regulations, financial and technical support, and information and facilitation services. Its added value lies in bringing together these diverse policy strands and integrating them into a coherent approach to ensure that international investment effectively supports digital transformation.

The framework is intended to provide a non-prescriptive approach to strengthening the enabling environment for private investment, particularly international investment, and its impact on digital transformation. The framework can be used in various ways and for various purposes by different constituencies, including in OECD Investment Policy Reviews and FDI Qualities Reviews, for self-evaluation and reform design by governments, and for peer reviews in regional or multilateral discussions. Users of the framework are invited to go through each of the building blocks and use the provided guiding questions to identify potential gaps and areas for improvement. Each building block contains an explanation of the relevance of the questions, illustrated with examples of international good practices.

How investment impacts digital transformation

Digital sectors are essential to digital transformation, involving the production of goods or services that form the backbone of digital ecosystems. These include computer, electronic and optical products; publishing, audiovisual and broadcasting activities; telecommunications; and IT and other information services. Greenfield FDI in digital sectors has seen substantial growth, rising from 15% of greenfield FDI between 2016-2020 to 26% between 2021-2025, driven by ICT goods, including semiconductors, computers, and electronic components (Figure 1.1, Panel A). Variations across countries are large, however. Economies like Japan, Ireland or Malaysia, attract a large share of FDI in digital sectors, leveraging strong positioning in the digital technology value chain. In contrast, some countries in Latin America and Sub-Saharan Africa have seen limited benefits from the surge in digital investments.

Figure 1.1. Greenfield FDI in digital sectors and by digital intensity, 2003-2025



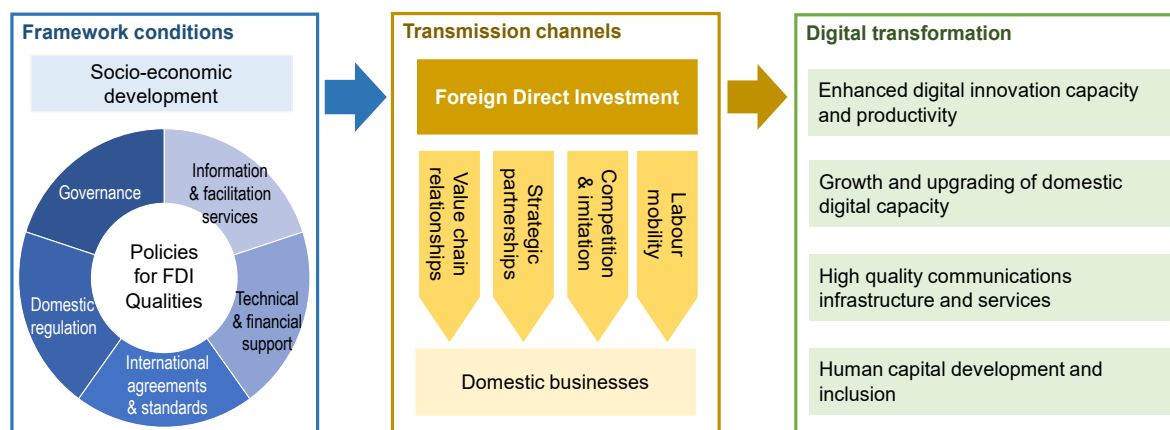
Note: Panel A: Based on the ISIC Rev. 4 classification, the digital sectors include: i) computer, electronic and optical products (C26); ii) publishing, audiovisual and broadcasting activities (J58T60); iii) telecommunications (J61), and; iv) IT and other information services (J62T63). This categorisation is based on the economic activities included in the “Information industries” classification used in the OECD Going Digital Toolkit (<https://goingdigital.oecd.org>). Panel B: Digital-intensive FDI combines high and mid-high digital-intensive sectors. Adapted from Calvino et al., (2018^[5]). A taxonomy of digital intensive sectors, <https://doi.org/10.1787/f404736a-en>. Source: OECD FDI Qualities Indicators based on Financial Times’ fDI Markets Database.

As digital technologies evolve, digital transformation extends beyond traditionally digital sectors, impacting all sectors of the economy. The extent to which sectors are exposed to digital technologies varies significantly (Calvino et al., 2018^[5]). While digital sectors exhibit high adoption rates of digital technologies, more traditional sectors (e.g. automotive, finance, business services and retail trade), are increasingly incorporating digital technologies across various facets of their operations (OECD, 2024^[1]). Analysing FDI through the lens of sectoral digital intensity provides insights into its contribution to the broader digital economy. Digital-intensive sectors account for approximately 40-50% of total greenfield FDI (Figure 1.1, Panel B), depending on the year. However, the share of FDI in these sectors varies significantly across countries; in some advanced economies, such as Singapore, it exceeds 50% of total FDI. These disparities highlight the importance of the host country’s economic structure and digital readiness to leverage the benefits of international investment. Similarly, countries with a more skilled workforce are better positioned to attract and leverage FDI in digital-intensive sectors, while those with weaker capabilities risk falling behind.

The investment policy framework for digital transformation identifies the channels through which private investment influences the digital transformation and examines how this impact is shaped by policies of host countries. The extent to which FDI contributes to digital transformation and the magnitude and direction of the impact – positive or negative – depend on the framework conditions of the host country (Figure 1.2). Absorptive capacity – the ability of local firms, institutions, and workers to adopt and integrate new technologies, plays a critical role in attracting FDI and ensuring that spillovers result in sustained economic transformation (Gönel and Aksoy, 2016^[6]). This capacity is shaped by the strength of the domestic digital ecosystem, including the availability of digital skills and infrastructure, as well as supportive policy and regulatory frameworks. By identifying gaps in these conditions and addressing barriers, governments can enhance the contribution of FDI, mitigate its risks, and ensure a sound digital transformation.

FDI drives digital transformation through both the direct activities of MNEs and their spillover effects in host economies. MNEs operating in digital sectors (digital MNEs) contribute by increasing technology adoption, stimulating demand for digital skills, and expanding the supply of digital services. Beyond core digital sectors, MNEs accelerate digitalisation in traditional industries – for instance, through automation in automotive manufacturing and the expansion of fintech in financial services – reflecting their typically higher adoption of advanced digital technologies relative to domestic firms. MNEs invest in communications infrastructure and services – broadband, cloud computing, and data centres – enhancing connectivity and enabling broader technology adoption. Their presence can also support labour market outcomes by creating high-quality jobs, implementing training programmes that upskill and reskill local workers, and generating new employment opportunities in digital services, offering enhanced work flexibility including part-time and remote work options which allows for a better work-life/family balance. Through their investments, digital MNEs can expand workforce participation in rural and remote areas by enabling flexible work arrangements and facilitating online job opportunities.

Figure 1.2. Conceptual framework: Channels of FDI impact on digital transformation



Source: Based on OECD (2022^[4]), FDI Qualities Policy Toolkit, OECD publishing, Paris, <https://doi.org/10.1787/7ba74100-en>.

Interactions between MNEs and local firms generate indirect impacts or spillovers, creating ripple effects that extend beyond the direct activities of foreign investors. Through value chain linkages, domestic firms gain access to advanced digital tools and technologies, that allow them to adopt international digital standards and more innovative practices. For instance, collaborations between MNEs and local suppliers often result in voluntary digital technology transfer on mutually agreed terms, enabling local firms to meet international quality benchmarks and expand their market reach. On average, MNEs in digital sectors rely more heavily on imports compared to MNEs in non-digital sectors, particularly in developing countries (Box 1.2). High import reliance may reduce opportunities for voluntary knowledge transfer on mutually agreed terms, while competitive pressures introduced by MNEs can encourage local firms to improve their operations, adopt digital tools, and innovate to maintain their market position. Labour mobility also plays a significant role, as employees trained by MNEs transfer their expertise to domestic firms or launch their own startups, spreading digital knowledge and driving innovation and entrepreneurship. The interplay of direct and indirect channels amplifies the transformative potential of FDI, embedding advanced digital practices across the economy and fostering long-term growth and innovation.

Box 1.2. The OECD FDI Qualities Indicators: Digital transformation in the spotlight

With a substantial increase in the financing gap to meet national development objectives, and the urgent need to accelerate investment to support the digital transition, FDI is even more important. The FDI Qualities Indicators provide governments with essential data to gauge FDI's impacts on the economy. Covering a large number of OECD and non-OECD economies, the FDI Qualities Indicators on the digital transformation provide information on FDI flows into sectors that enable digital transformation, as well as into emerging digital technologies, including AI and data processing. They also assess the impact of FDI on the digitalisation of the broader economy, with a focus on the development of communication infrastructure and connectivity. Additionally, they allow investigating the varying levels of participation in the digital economy between foreign-owned and domestic firms, highlighting potential disparities.

The indicators show that, between 2021 and 2025, more than a quarter of global greenfield FDI targeted digital sectors – 32% in OECD and 20% in non-OECD countries. FDI in technologies, such as cloud computing, data centres, and 5G-6G, doubled during this period. However, supply chain vulnerabilities and industry restructuring have led to a high concentration of digital FDI. The top 20 MNEs in ICT manufacturing accounted for 81% of total greenfield FDI in the sector. The impact of FDI on the digital economy varies significantly across OECD and non-OECD countries. In developing countries, foreign firms contribute close to 3 times as much to value added in digital sectors as domestic firms, compared to twice as much in the OECD. FDI promotes digitalisation through knowledge spillovers, but digital foreign firms source few inputs locally and rely on foreign technologies.

Source: OECD (2025^[7]), FDI Qualities Indicators Visualisation Platform, <https://www.oecd.org/en/data/dashboards/fdi-qualities-indicators-visualisation-platform.html>.

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2 Policy principles

This chapter sets out the OECD Investment Policy Framework for Digital Transformation, highlighting the policy principles, institutional frameworks and policy instruments that can help mobilise international investment in support of digital transformation. It examines the channels through which foreign direct investment can contribute to digital infrastructure, innovation, skills development and broader productivity gains, while also considering the risks and framework conditions that can shape these impacts. Building on the OECD Policy Framework for Investment, the FDI Qualities Initiative and related OECD standards, the chapter offers a practical, non-prescriptive tool to help governments identify policy gaps and reform priorities.

Key components of the policy framework

A policy framework for investment in the digital economy is in many aspects comparable to an enabling environment that is conducive to investment in general. Policies conducive to FDI, however, may not automatically translate into investment in digital activities, technologies and infrastructure, nor into associated gains in productivity, innovation and skills upgrading. Policymakers need to improve specific enabling conditions for digital investment by developing policies, regulations, and support programmes that facilitate both investment and its knowledge and technology spillovers (OECD, 2020^[1]; 2022^[2]). This framework provides a comprehensive assessment of policy initiatives, from national strategies and regulations to financial incentives, technical assistance programmes and information services that influence FDI impacts on the digital transformation across advanced and developing economies. Table 2.1 outlines the four overarching principles along with the policy instruments that support their implementation.

Table 2.1. Policy principles and instruments for investment in support of digital transformation

Principle 1: Provide strategic direction and ensure co-ordination and coherence on investment and digital policies	Governance	Investment and digital strategies and action plans
		Oversight and co-ordination bodies
		Monitoring and data collection
Principle 2: Ensure that domestic and international regulations and standards create a conducive business environment for investment in support of digital transformation	Domestic regulations	Regulatory conditions for investment and market access
		Competition policy and intellectual property rights protection and enforcement
		Regulation on cross-border data flows
		Legal framework for digital technologies
		FDI screening and national security policies for digital activities
	International agreements and standards	Responsible Business Conduct standards (MNE Guidelines)
		International trade and investment agreements with provisions related to the digital economy
Principle 3: Stimulate investment and strengthen technical capabilities in digital technologies and ICT services and infrastructure	Financial support	Incentives for digital-intensive investments
		Funding schemes and PPPs for communication infrastructure
	Technical support	Capacity building and technology adoption policies
		Digital skills development programmes and labour market policies
Principle 4: Address information failures and administrative barriers to facilitate FDI in support of digital transformation	Information & facilitation services	Investment promotion policies
		Investment facilitation and aftercare

Table 2.2. Policy recommendations to leverage investment in support of digital transformation

Building blocks	Key policy recommendations and good practices
Governance	• Clearly define institutional responsibilities for digital and investment policies across all relevant ministries and government agencies on national and subnational levels to ensure policy coherence, transparency, and accountability. • Establish new or strengthen existing co-ordination mechanisms (e.g. inter-ministerial councils, working groups) to enhance collaboration between agencies involved in digital and investment policymaking, including at the subnational level. • Align investment strategies with digital transformation goals, and vice versa, ensuring they set measurable targets, define priority policy actions, and clarify institutional responsibilities for attracting digital FDI. • Ensure that technology-specific action plans (e.g. AI, blockchain, cybersecurity) align investment strategies with national digitalisation objectives and include implementation measures.
Domestic and international regulation	• Assess and, if needed, streamline market access regulations to remove unnecessary barriers such as foreign equity limitations, joint venture mandates, and operational restrictions that may deter digital FDI. • Ensure that restrictions on foreign personnel and operational requirements do not hinder voluntary technology and skill transfer on mutually agreed terms from FDI in support of digital transformation. • If in place, implement clear, transparent, and predictable investment screening mechanisms to address security risks in critical digital technologies (e.g. AI, blockchain, 5G) while maintaining openness to FDI. • Assess how international trade and investment agreements can support investment conditions for digital transformation, particularly through provisions on digital trade facilitation (e.g. cross-border data flows), protection and enforcement of intellectual property rights (e.g. source code), and competition policy. • Encourage responsible business conduct in digital sectors by integrating privacy, cybersecurity, trustworthy AI, and risk-based due diligence standards into investment policies. • Ensure that competition policies prevent anti-competitive behaviour in digital markets (e.g. anti-competitive self-preferencing, and algorithmic collusion) while providing businesses the opportunity to compete on a level playing field. • Ensure intellectual property rights are transparent, adequately protected and enforced, and encourage digital innovation while preventing market distortions. • Ensure that legal frameworks for digital technologies provide regulatory certainty and remain adaptable to evolving digital and investment needs. • Facilitate cross-border data flows to enhance investment conditions by ensuring interoperability while upholding appropriate data protection standards, balancing privacy, innovation, and investment needs.
Financial and technical support	• Regularly assess the effectiveness of incentives to ensure they address specific barriers to digital investment or market failures (e.g. digital skills gaps, network externalities in digital platforms, high costs for communications infrastructure development), remain adaptable to technological change, and compliant with international tax standards (e.g. OECD BEPS). • Align policies for the development of communications infrastructure with national connectivity and energy generation goals, to support FDI and public-private partnerships in broadband, data centres, and 5G networks, particularly in underserved regions, while promoting secure, resilient and trusted digital infrastructure supply chains. • Promote voluntary knowledge and technology transfer on mutually agreed terms in digital sectors by supporting domestic firms particularly SMEs to integrate into the supplier networks of foreign MNEs through upskilling, digital technology adoption, and cluster development programmes. • Align investment and skills development policies by ensuring that skills anticipation mechanisms and workforce training programmes consider the digital skill needs of MNEs and encourage partnerships between MNEs and educational institutions. • Ensure that FDI in support of digital transformation supports development of worker skills by fostering reskilling programmes for workers adversely exposed to digital change.
Information and facilitation services	• Ensure that investment promotion strategies at national and subnational level include clear objectives, targets (e.g. KPIs), and dedicated activities and tools (e.g. market intelligence and promotional campaigns) to attract digital FDI, ensuring alignment with broader national digital transformation and economic development goals. • Ensure that MNEs investing in digital sectors have streamlined access to regulatory and market information at national and subnational levels, including sector-specific opportunities, data protection, protection and enforcement of intellectual property rights, and cybersecurity regulations. • Strengthen IPA co-ordination with relevant government bodies, including industry clusters, innovation hubs, and regulatory agencies, to ensure digital investors receive targeted support in expanding their operations. • Facilitate investor engagement and feedback mechanisms to identify and address regulatory barriers, improve the investment climate, and enhance digital FDI retention and expansion.

Principle 1: Provide strategic direction and ensure co-ordination and coherence on investment and digital policies

Effective governance for digital FDI requires clear institutional responsibilities, strong co-ordination mechanisms, and policy coherence to align investment and digital transformation objectives. Policies should be designed to maximise the contribution of digital FDI to economic growth, innovation, and inclusion, ensuring that investment policy strategies integrate digitalisation needs, while digitalisation policies support investment attraction and retention. Given the cross-cutting nature of digital technologies, whole-of-government co-ordination is essential to avoid policy fragmentation and ensure alignment across areas such as communication infrastructure, energy supply, digital skills development, and connectivity. Countries may adopt different approaches based on sectoral priorities, but investment policies that are transparent, predictable, and aligned with national digitalisation strategies can enhance investor confidence and contribute to broader development goals.

A whole-of-government approach is necessary to mobilise international investment in support of digital transformation

The effective mobilisation of international investment for digital transformation depends on coherent strategies, strong institutional co-ordination, and reliable monitoring frameworks. Effective governance is central to ensuring that international investment supports digital transformation. Clear institutional responsibilities, strong co-ordination mechanisms and coherent policies help align investment promotion and digitalisation strategies, maximising their contribution to growth, innovation, and societal well-being. Due to the cross-cutting nature of digital technologies, whole-of-government approaches are needed to avoid policy fragmentation and to ensure consistency across areas such as communication infrastructure, energy supply, digital skills and connectivity. Transparent and predictable investment policies, aligned with national digital strategies, can enhance investor confidence and generate broader development benefits.

Countries adopt different institutional models to govern investment and digital policies – from fragmented arrangements requiring formal co-ordination, to highly integrated “mega-agencies” – but all need mechanisms to bridge mandates across ministries and levels of government. In many OECD and partner economies, responsibilities are distributed across multiple ministries and agencies, requiring robust co-ordination to overcome information asymmetries and reduce transaction costs. Co-ordination is often facilitated through inter-ministerial councils, task forces, and working groups that bring together stakeholders at both strategic and operational levels. Increasingly, governance arrangements are being elevated to the Centre of Government – such as Prime Ministers’ or Presidents’ Offices – to ensure strategic coherence across policy domains. Examples include Singapore’s Smart Nation and Digital Government Office and Japan’s Digital Agency, both of which report directly to the Prime Minister’s Office.

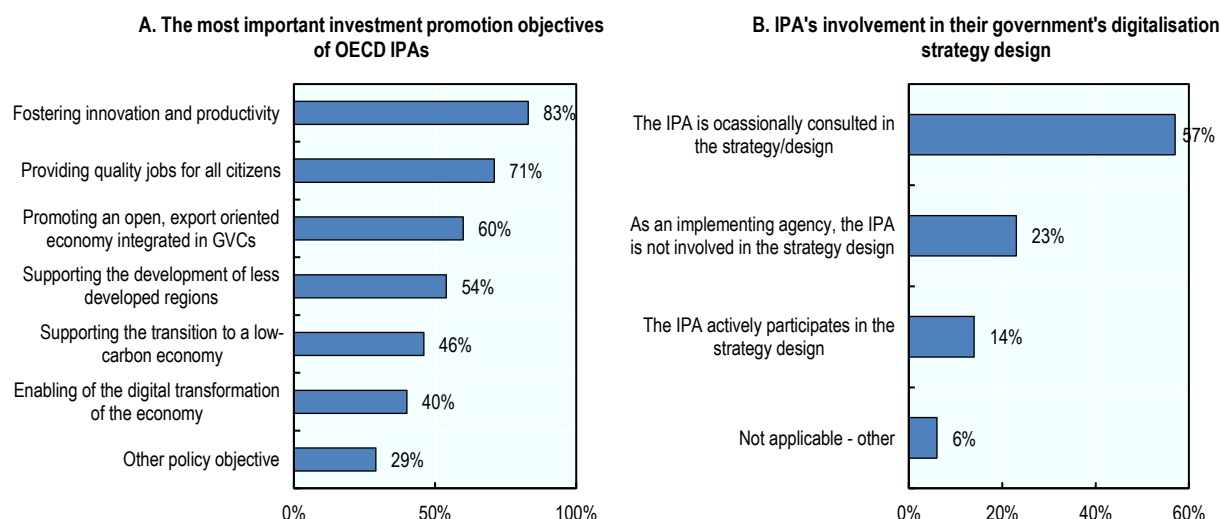
In some countries, responsibilities are split between separate ministries for investment and digitalisation, requiring top-down mechanisms to maintain alignment. Uzbekistan and Costa Rica, for example, have ministries for digital policies alongside investment promotion agencies, with co-ordination taking place through presidential decrees or high-level commissions. Other countries, such as Estonia, have adopted more integrated models, where a single “mega-agency” manages investment, digital, and industrial policies under one institutional umbrella. This can improve efficiency and foster synergies, though it also risks diluting specialisation. In all cases, effective inter-institutional co-ordination – both formal and informal – is key to ensuring that policies are coherent and mutually reinforcing.

National strategies should foster policy coherence to promote digital investment

National digital strategies are important tools to establish priorities, set goals, and outline actions across government. They provide a framework for aligning objectives across domains, including international investment. In Portugal, for example, the Action Plan for the Digital Transition supports enterprise digitalisation and regulatory reforms, while in Uzbekistan the Digital Uzbekistan 2030 Strategy defines investment goals for ICT growth and assigns institutional responsibilities and budgets (OECD, 2025^[3]; 2022^[4]). Investment promotion agencies (IPAs) can play a key role in ensuring that investment considerations are embedded in such strategies. OECD evidence shows that while many IPAs identify digitalisation as a priority, relatively few are actively involved in strategy design (Figure 2.1). Stronger engagement is needed to better align digital and investment objectives

Conversely, investment promotion strategies can explicitly integrate digitalisation goals. Ireland's Trade and Investment Strategy 2022-2026 places digitalisation at the core of efforts to strengthen competitiveness, supply chain resilience, and integration in global value chains. Similarly, sectoral action plans such as Egypt's National AI Strategy or Costa Rica's semiconductor roadmap set detailed priorities, training needs, and investment promotion initiatives tailored to specific technologies. These plans demonstrate how targeted approaches can reinforce broader digital transformation efforts and create clearer pathways for investment attraction.

Figure 2.1. Involvement of investment promotion strategies in national digital strategies



Source: OECD (2021), Survey on investment promotion and digitalisation.

Measuring and tracking the impact of digital FDI can help identify appropriate policy responses

Robust monitoring and evaluation (M&E) frameworks are needed to track how FDI contributes to digital transformation. Systematic collection of disaggregated data allows governments to assess how digital FDI supports the development of communication infrastructure, innovation, and technology adoption, and to adjust policies accordingly. The OECD FDI Qualities Indicators and Visualisation Platform provide tools for benchmarking and analysis, helping policymakers understand how digital investment aligns with their national development priorities (OECD, 2025^[5]).

IPAs often have privileged access to investor information and can complement national datasets with operational insights. Few IPAs currently employ key performance indicators (KPIs) that capture digital

economy outcomes, reflecting both data gaps and limited internal evaluation capacity. Strengthening collaboration between IPAs, innovation bodies, ICT regulators and statistical offices, and building internal expertise through dedicated evaluation units, would help ensure more systematic assessment of digital FDI impacts. At the international level, harmonising definitions and practices around digital investment data would further improve comparability and inform better policy responses.

Guiding questions for policymakers

Inter-institutional co-ordination on investment and digital policies

- Are responsibilities for digitalisation and investment clearly defined and understood across all line ministries and government agencies?
- Is there horizontal strategic co-ordination between ministries and operational co-ordination among implementing agencies for policies supporting digital transformation, including digital investment? If yes, is this co-ordination mechanism formal (i.e. inter-ministerial councils, working groups, etc.) or informal?
- Is there a centralised mapping of institutions involved in developing and delivering policies at the intersection of investment and digitalisation? Do actors involved in governance decisions know about it and use it as a point of reference?

Strategic alignment and policy coherence

- Are the country's strategic priorities for digitalisation, such as government service digitalisation, enterprise digitalisation, communication infrastructure development and digital upskilling, clearly outlined in a national strategy or action plan?
- Does the country's investment promotion strategy clearly articulate the government's vision for increasing investment in support of digital transformation? If yes, does the strategy set specific goals, identify priority policy actions, and clearly define the responsibilities of involved institutions?
- Does the country have sectoral action plans, such as those for AI adoption or cybersecurity, that outline national priorities, policy ambitions, and investment promotion initiatives? Do these plans align sectoral needs with investment strategies and include detailed implementation measures?

Monitoring and access to data

- Do monitoring and evaluation frameworks employed by national and subnational institutions adequately capture the impacts of FDI on the digital economy?
- Do government institutions responsible for investment and digital policy have dedicated evaluation units, specialised staff, and effective data collection and data sharing mechanisms in place to systematically track and evaluate the impact of digital FDI?

Principle 2: Ensure that domestic and international regulations and standards create a conducive business environment for investment in support of digital transformation

A predictable, transparent, and non-discriminatory regulatory environment is essential for attracting and retaining digital-intensive investment. Strengthening competition policies, protecting and enforcing intellectual property rights, and facilitating cross-border data flows reduces barriers and fosters fair market conditions. Regulatory frameworks must remain agile to address the rapid evolution of digital technologies while ensuring responsible business conduct to mitigate risks. Balancing openness with national security considerations, particularly for sensitive data and strategic technologies, is key to fostering a resilient digital investment climate. To this end, digital provisions are increasingly becoming part of international agreements, which aim to promote trade and investment by addressing critical issues in the digital economy.

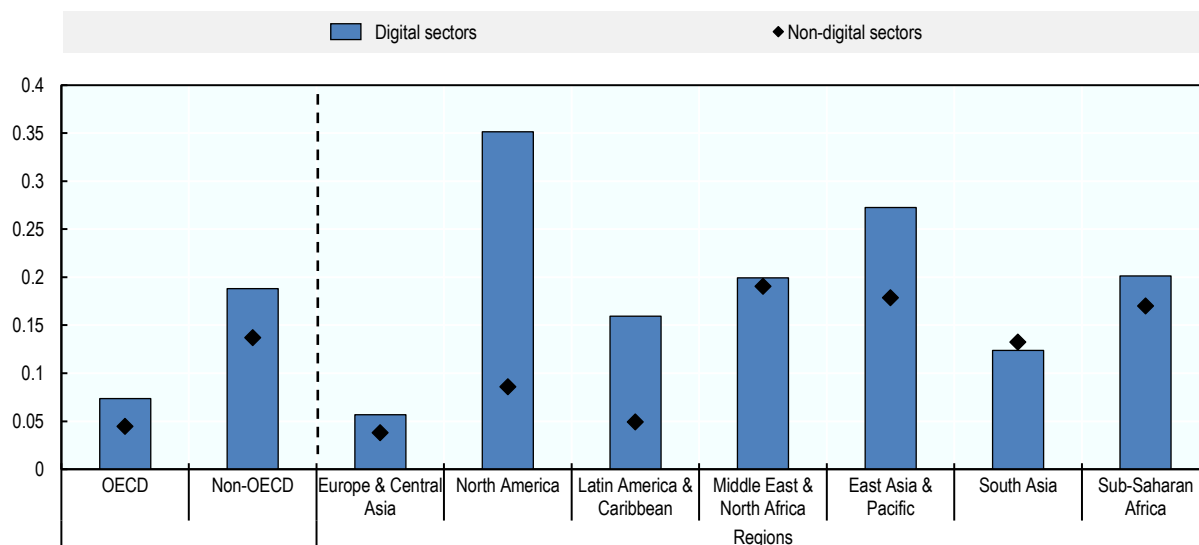
An open, transparent and non-discriminatory regulatory environment can foster more and better investment in the digital economy

Regulatory restrictions on foreign investment remain one of the most significant factors influencing the location and scale of digital FDI. In many economies, statutory barriers such as equity caps, joint venture mandates or data localisation requirements raise costs and uncertainty for multinational enterprises, potentially deterring digital investment projects. The OECD FDI Regulatory Restrictiveness Index shows that digital sectors tend to be more restrictive than others, with limitations particularly prevalent in telecommunications and media – sectors that are both strategically sensitive and essential for broader digitalisation (Figure 2.2). While governments often justify restrictions on grounds of strategic autonomy or protection of domestic firms, evidence suggests that such measures can reduce long-term competitiveness and undermine the diffusion of digital technologies. Where restrictions exist, they should be carefully assessed for proportionality, predictability and impact on market efficiency. Countries that avoid unnecessary restrictions benefit from stronger digital ecosystems, increased domestic innovation, and improved competitiveness in global markets.

Competition policy can play an important role in determining how digital FDI translates into economic benefits. MNEs may have high shares in certain digital sectors, contributing substantially to value added and productivity and their investments can spur competition, voluntary technology transfer on mutually agreed terms and efficiency gains, provided that strong competition policy guards against anti-competitive harms. Policymakers have taken varying approaches to competition policy in digital markets. Some jurisdictions, such as the EU through the Digital Markets Act, have taken the approach of ex ante regulations that impose obligations on large digital platforms with the aim of increasing contestability in some digital markets, alongside ex post enforcement of competition policy. In other jurisdictions, policymakers rely exclusively on ex post enforcement of competition laws, considering targeted action against anti-competitive conduct by digital MNEs as the primary means of protecting competition. In certain jurisdictions, measures addressing aspects of data portability, interoperability and algorithmic transparency are also being introduced aimed at promoting competition. International engagement is increasingly important given the global reach of digital MNEs and enforcers engage on these issues in many fora.

Figure 2.2. Market access restrictions for FDI in digital versus non-digital sectors

Average of the OECD FDI Regulatory Restrictiveness index in digital and non-digital sectors, 2023



Note: The OECD FDI Regulatory Restrictiveness Index only covers statutory measures discriminating against foreign investors, which are evaluated on a scale from 0 (fully open to FDI) to 1 (fully closed to FDI).

Source: OECD (2023^[6]), FDI Regulatory Restrictiveness Index, <https://www.oecd.org/en/topics/sub-issues/sustainable-investment/fdi-regulatory-restrictiveness-index.html>

The rapid rise of emerging technologies – including AI, blockchain, cloud computing and IoT – underscores the need for agile legislative frameworks. Greenfield FDI in these technologies has expanded rapidly, particularly in AI. Such investment can strengthen domestic R&D, provide cloud infrastructure and foster innovation ecosystems. Certain technologies can also raise concerns around data privacy, and cybersecurity. Certain countries are adopting comprehensive legislative frameworks to address these challenges, such as the EU's Artificial Intelligence Act or Viet Nam's Digital Technology Industry Law. Singapore has also advanced this agenda internationally through its Digital Economy Agreements, which aim to promote cross-border interoperability, trust and innovation by establishing common rules in areas such as data flows, AI governance and digital trade. These initiatives seek to establish standards for safety, accountability and innovation while promoting regulatory consistency. Effective governance requires cross-sectoral approaches, clear responsibilities for digital security, and co-ordination among relevant bodies to ensure responsive and predictable frameworks.

Facilitating cross-border data flows, protecting and enforcing intellectual property rights, and balancing national security concerns can foster investments in digital activities

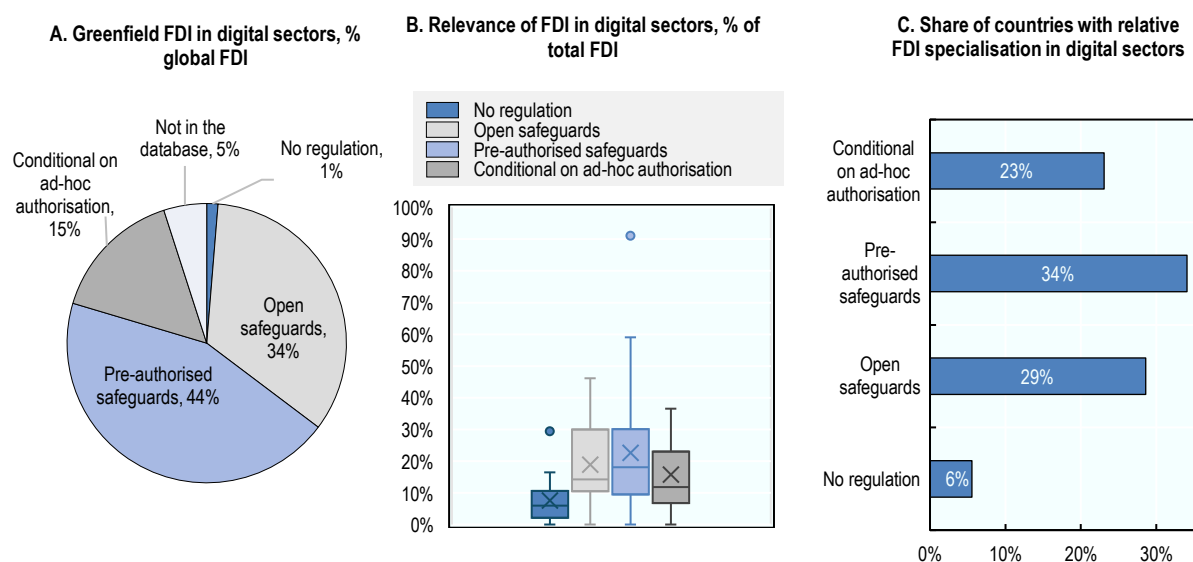
Intellectual property rights (IPRs) provide another cornerstone of the regulatory environment for digital investment. Clear protection and enforcement of IPR foster innovation, enable voluntary technology licensing on mutually agreed terms and encourage foreign firms to engage in local R&D partnerships. Complementary measures – such as incentives for partnerships between foreign investors and local institutions – can promote diffusion without resorting to performance requirements that may deter FDI. Protecting and enforcing IPRs will expand opportunities for technology access and is among the keys to a competitive digital economy.

Cross-border data flows are essential for digital FDI but have become a central source of regulatory uncertainty. Approaches vary widely across countries, from open safeguards that allow transfers with accountability mechanisms, to pre-authorised regimes requiring certification of receiving jurisdictions, to restrictive ad hoc authorisation or localisation mandates. Evidence suggests that economies with open or pre-authorised regimes attract a greater share of global digital FDI, while prohibitive approaches deter investment and increase compliance costs (Figure 2.3). Data localisation may also discourage broader digital sector investment if costs outweigh benefits. OECD studies have shown that over the long-term data localisation increases costs and decreases security. The OECD Digital Services Trade Restrictiveness Index shows that restrictive data flow regimes are more common in non-OECD economies. Risk-based approaches that combine strong safeguards for privacy and security with interoperability across jurisdictions are most conducive to investment. OECD instruments – including the Privacy Guidelines (OECD, 2002^[7]) and the Recommendation on Enhancing Access to and Sharing of Data (OECD, 2021^[8]) – provide internationally recognised principles to build trust in cross-border data flows.

National security concerns have gained prominence in relation to foreign investment in digital technologies and infrastructures. Governments have expanded investment screening mechanisms to cover sensitive digital technologies, such as semiconductors, AI and quantum technologies. These regimes have proliferated across OECD economies, with coverage broadening steadily since 2015. Emerging economies are also beginning to adopt such measures. Screening mechanisms allow governments to assess individual transactions for risks while remaining open to beneficial investment. OECD guidance, notably the 2009 Recommendation on Recipient Country Investment Policies relating to National Security, continues to provide principles of non-discrimination, proportionality and transparency to ensure that security-based measures are well designed (OECD, 2009^[9]).

Figure 2.3. Correlations between FDI in digital sectors and data regulations

Share of FDI in digital sectors and FDI specialisation index in digital sectors, 2019-2023



Note: The classification of countries' approaches to data flows is based on the OECD-DSTRI regulation database and has been updated as of December 2023. The FDI specialisation index in digital sectors is a Balassa Index calculated as the ratio of a country's global share of FDI in digital sectors to its global share of FDI across all industries.

Source: OECD based on DSTRI regulations database and Financial Times fDi Markets database.

Embedding responsible business conduct and advancing international agreements can strengthen trust and predictability in digital investment

Responsible Business Conduct (RBC) can support a sound digital investment ecosystem. The OECD Guidelines for Multinational Enterprises provide recommendations for integrating RBC into digital value chains (OECD, 2023^[10]; 2026^[11]). Enterprises are encouraged to conduct risk-based due diligence across their operations, business relationships and supply chains. In some situations, public procurement and financial incentives for businesses are tied to acting consistently with RBC standards, using government leverage to encourage responsible practices. National Contact Points (NCPs) under the MNE Guidelines provide an avenue for addressing specific situations and promoting dialogue on RBC in digital sectors.

International trade and investment agreements increasingly address the digital economy, offering another layer of predictability and co-operation. Provisions on e-commerce, data flows, source code, consumer protection and cybersecurity are now embedded in many bilateral and multilateral agreements. Since 2020, some countries have developed Digital Economy Agreements, broadening co-operation on issues such as AI and digital identity. Binding commitments on cross-border data flows, such as those in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or the United States – Mexico – Canada Agreement (USMCA), prohibit forced localisation while allowing exceptions for public policy objectives. Provisions on intellectual property protection and enforcement, competition policy and source code disclosure also provide legal certainty and reduce investment risks. At the same time, exceptions ensure that governments retain the ability to regulate for legitimate purposes, including consumer protection and public procurement. Evolving treaty practice reflects a balance between protecting proprietary assets and safeguarding the right to regulate digital markets.

Guiding questions for policymakers

Evaluating market access and regulatory restrictions for digital investment

- Do current regulatory frameworks impose market access barriers, such as foreign equity limitations, joint venture mandates, or operational restrictions, that may deter digital FDI?
- How frequently are regulations assessed to ensure they foster rather than inhibit competitiveness in digital sectors?
- How are restrictions on foreign personnel and other operational requirements affecting voluntary technology transfer on mutually agreed terms and investment attraction in the digital economy?

Ensuring that policy frameworks for digital technologies safeguard digital security and trust while remaining responsible to technology developments and investment needs

- How do policy frameworks for digital technologies (e.g. AI, blockchain, e-commerce) promote legal certainty while maintaining agility to adapt to rapid digital advancements and evolving investment needs?
- Are legal frameworks in place to ensure digital security, and how are they designed to foster trust while providing regulatory clarity?

Facilitating cross-border data flows

- Do data governance regulations facilitate seamless cross-border data flows while ensuring interoperability with international standards and maintaining appropriate data protection safeguards?

- Does the regulatory framework effectively balance data privacy, innovation, and investment needs while supporting cross-border trade and investment?

Ensuring that competition and protection and enforcement of intellectual property rights promote digital innovation while addressing potential risks

- Do competition rules ensure a level playing field for foreign and domestic digital firms while addressing anti-competitive behaviours, including anti-competitive self-preferencing and algorithmic collusion, through transparent, evidence-based and non-discriminatory enforcement while preserving incentives for innovation, investment and consumer welfare?
- Does the regulatory framework offer authorities and policymakers the necessary tools to address competition risks posed by market power in digital markets?
- Are intellectual property rights (IPR) protected and infringement violations prosecuted or enforced privately through transparent and adequate criminal, civil and administrative laws and regulations? Is the IPR legislation effectively enforced?

Integrating responsible business conduct standards across digital and investment policies

- Do investment policies encourage responsible business conduct (RBC) in digital sectors, including with privacy, cybersecurity, trustworthy AI, and risk-based due diligence to mitigate adverse impacts across the digital value chain?
- What mechanisms are in place to engage stakeholders – businesses, civil society, and policymakers – in developing, implementing, and monitoring RBC standards for the digital economy?

Balancing market openness with national security considerations

- Do investment screening mechanisms sufficiently address security risks in areas such as AI, blockchain, and 5G?
- Are the criteria for screening investments clear, transparent, and predictable to reduce uncertainty for potential investors?
- Are national security measures tailored to address risks without imposing unnecessary barriers to foreign investment?

Leveraging international trade and investment agreements for digital transformation

- Is the country party to international trade and investment agreements that include provisions related to the digital economy such on cross-border data flows, source code protection, and digital trade facilitation? If yes, how are these commitments implemented?
- How effectively do international agreements ensure consistency with international standards to provide predictability for investors in digital-intensive sectors

Principle 3: Stimulate investment and strengthen technical capabilities in digital technologies and ICT services and infrastructure

Creating a thriving digital economy requires co-ordinated efforts to stimulate investment in digital technologies, ICT services and communication infrastructure, supported by public-private partnerships and robust technical capabilities. Where investment incentives are used, their effectiveness depends on whether they are well-designed, targeted at clear barriers to investment or specific market failures – such as high R&D costs, skills mismatches or gaps in communication infrastructure – and aligned with broader digital transformation objectives. Capacity-building initiatives and matchmaking programmes are essential to integrate domestic firms into the supply chains of foreign technology multinationals, fostering innovation, voluntary knowledge transfer on mutually agreed terms, and local economic development. Equally, reliable and affordable access to communication infrastructure and services is a fundamental precondition for attracting digital-intensive investments, particularly in underserved regions. Policies that bridge digital divides and promote universal access to technology are critical to creating an investment climate that supports digital transformation and benefits both domestic and foreign firms.

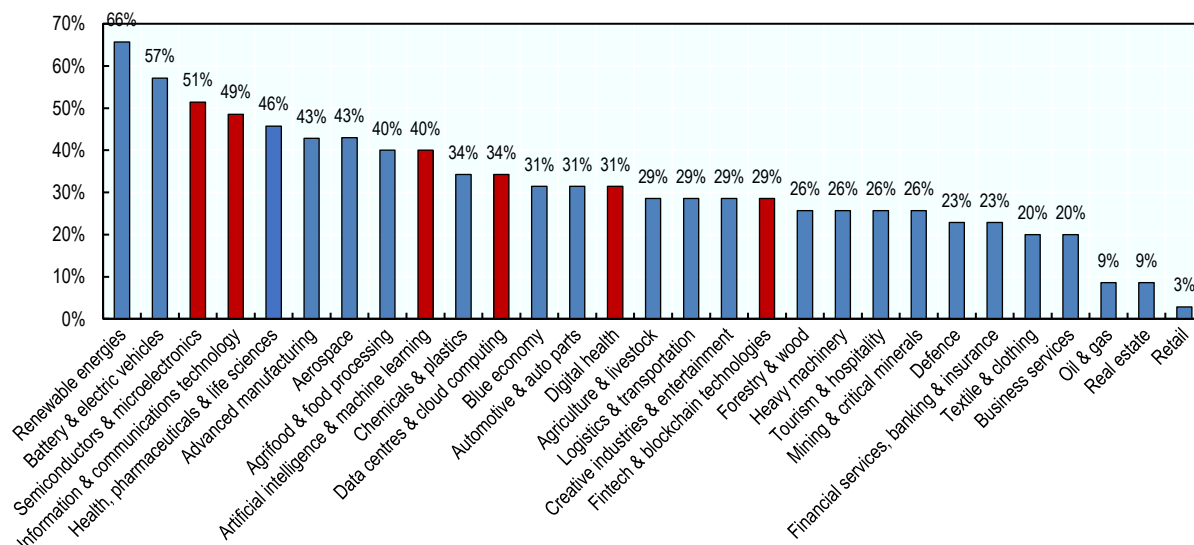
Incentives are used to stimulate digital FDI; yet they will be most effective if they are regularly evaluated and address specific barriers to investment and market failures

Tax and non-tax incentives have become widely used to stimulate investment in digital activities and technologies such as semiconductors, ICT services, and AI. OECD evidence shows that more than half of IPAs report incentives targeted at these sectors (Figure 2.4). Instruments include patent boxes, tax credits for R&D, and accelerated depreciation of digital equipment, as well as grants for data centres and AI laboratories. Some governments also condition support on contributions to skills development or regional development. For example, the Slovak Republic's Regional Investment Aid Scheme provides grants, tax relief, and wage subsidies for projects in robotics, cybersecurity, and cloud computing, while Malaysia has revised its digital tax incentives to align with OECD/G20 standards and strengthen links with real economic activities.

While incentives can catalyse investment that would otherwise not materialise, their effectiveness is context dependent. Broad corporate tax exemptions risk eroding revenue bases without delivering additionality, whereas expenditure-based incentives, such as R&D tax credits or accelerated depreciation, tend to be more cost-effective in targeting specific market failures. Governments are encouraged to regularly evaluate schemes, adjust them to technological developments, and ensure consistency with international tax standards, including the OECD/G20 Base Erosion and Profit Shifting framework. Complementary measures – such as skills development, improved regulatory predictability, and robust infrastructure – are often more decisive in shaping long-term investor confidence than fiscal incentives alone.

Figure 2.4. Investment incentives targeting digital activities in OECD economies

Percentage of OECD countries offering at least one incentive (tax and non-tax) in a specific activity



Source: OECD survey on investment promotion and investment incentives, 2024.

Policies for the development of communication infrastructure can harness the potential of FDI to expand digital connectivity

Reliable and affordable communication infrastructure underpins digitalisation and is a prerequisite for attracting digital-intensive investment. FDI has been a critical driver of connectivity through investment in broadband, mobile networks, data centres, and interconnection facilities. Multinational technology companies increasingly build and operate their own infrastructures to host data and provide cloud services, often in partnership with local operators. OECD data show that greenfield FDI in communication infrastructure and services accounts for around 10% of global FDI projects (OECD, 2025^[5]), with particular significance in emerging markets where demand for connectivity is growing rapidly.

Yet infrastructure deployment faces challenges, especially in underserved regions. High upfront costs, complex licensing procedures, and energy constraints can deter private investment. To address these barriers, governments use direct support such as grants, concessional loans, or universal service funds, alongside public – private partnerships. Initiatives such as the United States' Broadband Equity, Access and Deployment programme, Japan's 5G promotion projects and Greece's Ultra-Fast Broadband scheme illustrate how public funding can complement private investment to bridge connectivity divides. Simplifying regulatory procedures, adopting technology-neutral policies, and ensuring transparency in rights-of-way can further reduce costs and accelerate rollout.

Targeted technical support and capacity building can strengthen domestic digital ecosystems by leveraging knowledge spillovers from digital FDI

Beyond infrastructure, digital FDI can generate positive spillovers through supplier linkages, voluntary technology transfer on mutually agreed terms, and knowledge diffusion. Foreign firms often adopt digital tools more intensively than their domestic counterparts, exposing local enterprises to new standards relating to cybersecurity, e-payments, or cloud services. Backward linkages with local suppliers can embed

foreign investors in the host economy, while joint ventures, R&D partnerships, and cluster initiatives help voluntarily transfer knowledge on mutually agreed terms.

Capturing these benefits requires targeted support. Small and medium-sized enterprises (SMEs) often lag behind in adopting advanced digital tools, limiting their ability to integrate into global value chains. Governments can bridge this gap through supply chain development programmes, digital readiness assessments, demonstration facilities, and innovation centres. Germany's Mittelstand 4.0 Centres of Excellence, Portugal's Technological Interface Centres and Egypt's Industry 4.0 Innovation Centre illustrate approaches to providing technical assistance, training, and applied research to help SMEs upgrade capabilities and link with foreign tech investors. Online self-assessment tools and peer learning initiatives also offer scalable models for raising awareness and building managerial capacities in digital adoption.

Cluster development policies are particularly relevant for fostering collaboration between multinational enterprises and domestic firms in sectors such as semiconductors, AI, and advanced manufacturing. Secure data-sharing platforms, interoperable systems, and trust-building measures are equally important to facilitate co-operation within clusters while addressing concerns regarding uneven adoption levels and cybersecurity.

Labour market policies can address digital skills shortages faced by foreign firms and help maximise the benefits of digital FDI

The labour market effects of digital FDI are significant. Investments in ICT goods and services generate large numbers of jobs, particularly in R&D and training activities, and can accelerate structural transformation. However, digital FDI also reshapes job profiles, increasing demand for high-level digital skills while displacing some routine or manual tasks. While OECD evidence over the period between 2012 and 2022 suggests that automation and AI have not reduced overall employment, they are contributing to market changes and new risks for various professions (Lane, 2024^[12]). Labour market policies, including ensuring workers' voice, representation and negotiation, minimum wage frameworks, and access to social protections, can help ensure that digital FDI contributes to decent work and broad-based growth.

Persistent skills shortages remain one of the main barriers to investment in the digital economy. Employers across OECD and partner countries report difficulties recruiting software engineers, data specialists, and cybersecurity experts. Addressing these shortages requires co-ordinated policies, including forward-looking skills anticipation systems, investment in vocational education and training, and partnerships between firms and educational institutions. Countries such as Portugal and Uzbekistan have launched comprehensive digital skills strategies aligned with investment promotion objectives, while Ireland and Costa Rica have linked their investment promotion agencies directly with training initiatives. Foreign enterprises themselves often play an important role in upskilling, establishing training centres and programmes in collaboration with host governments.

Guiding questions for policymakers

Ensuring that investment incentives address specific market failures in the digital economy

- Where incentives are used, are they specifically designed to address barriers to investment and/or market failures, such as high initial fixed costs for communication infrastructure development, offsetting risks in digital R&D, bridging digital skills gaps or supporting network externalities in digital platforms and ecosystems?

- Is the design and implementation of incentives aligned with international tax standards, such as those set by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)?
- Are there mechanisms in place to regularly assess the effectiveness of incentives in attracting digital FDI, and to ensure that they remain flexible and adaptable to rapid technological changes?

Implementing infrastructure development policies that leverage FDI to expand digital connectivity while considering resource and energy aspects

- How does infrastructure development policy ensure that foreign investment supports national connectivity goals, including investments in data centres, broadband networks and 5G deployment, while leveraging public-private partnerships to expand ICT access in underserved regions?
- Are initiatives in place to simplify licensing procedures and improve transparency in communication infrastructure investments?
- What effect will digital technologies, including ICT manufactured goods (e.g. semiconductors), have on investors' electricity demand, and on the domestic electrical grid? Are arrangements in place to supply additional energy that may be required?

Strengthening domestic digital ecosystems through FDI spillovers

- How are foreign investors encouraged to create backward linkages and knowledge-intensive partnerships with domestic firms in digital value chains?
- Are technical support programmes (e.g. clusters, supply chain development programmes, collaboration with academic institutions) in place to help domestic firms, in particular small and medium-sized enterprises, integrate into the supply networks of foreign digital multinationals?
- Are domestic firms sufficiently supported through capacity building programmes to acquire the digital capabilities needed to integrate into global value chains?

Addressing digital skills shortages in FDI-intensive sectors

- How do labour market policies anticipate and respond to digital skills shortages, ensuring alignment with the evolving needs of foreign investors in digital-intensive sectors? How are skills anticipation systems used to forecast future workforce demands and inform upskilling initiatives?
- What mechanisms are in place to integrate workforce digital upskilling into broader investment and industrial policies, including through collaboration between investment promotion and skills development agencies, to attract FDI that contributes to workforce training?
- Are there policy initiatives in place to encourage digital investors to establish training partnerships with educational institutions and vocational education and training (VET) programmes, while supporting worker transitions from declining industries to digital-intensive jobs?

Principle 4: Address information failures and administrative barriers to facilitate FDI in support of digital transformation

Insufficient, inaccurate, or costly information can create barriers to digital-intensive FDI or lead to suboptimal decisions by investors in the digital economy. Investment promotion agencies (IPAs) play a critical role in addressing these challenges by bridging information gaps, particularly in fast-evolving digital services markets, and supporting the realisation of foreign investments with high spillover potential. By connecting foreign digital investors with local technology firms, IPAs help facilitate partnerships that promote voluntary innovation and knowledge transfer on mutually agreed terms. Information campaigns can highlight the country's digital strengths, such as advanced infrastructure, talent pools, or regulatory frameworks supporting data-driven businesses. Digitalisation of investment promotion itself – through the adoption of AI, single-window platforms, and online facilitation – further enhances the capacity of governments to attract, retain, and benefit from international investment in the digital economy.

Investment promotion policies can be geared towards targeting investments in digital-intensive activities

FDI in digital technologies and services can drive productivity, innovation, and digital inclusion, but its success often depends on the availability of reliable information and the efficiency of administrative processes. In many economies, insufficient or costly information creates barriers for investors and limits opportunities for integration into local ecosystems. IPAs are central to addressing these challenges. By bridging information gaps, supporting project facilitation, and advocating for reforms, they can play a catalytic role in ensuring that digital FDI contributes to broader development objectives.

IPAs across the OECD increasingly dedicate significant resources to attracting investment in the digital economy. Prior to the COVID-19 pandemic, just over half of agencies devoted at least one-quarter of their resources to digital investment promotion; today this share is closer to three-quarters, with projections that nearly all will prioritise digital FDI in the near future. Target sectors typically include software development, data centres, communication infrastructure, digital health, and artificial intelligence. Some IPAs take a broad approach, targeting all major digital subsectors, while others focus more narrowly on areas of comparative advantage.

Tailored promotion strategies are key. Countries with strong cloud infrastructure may prioritise attracting data-intensive services, while those with skilled software talent may focus on digital services or e-commerce. To optimise efforts, many agencies are moving towards data-driven prioritisation and the use of outcome-based indicators, for example by benchmarking projects against expected contributions to skills development, voluntary technology transfer on mutually agreed terms, or alignment with national digitalisation strategies. Around one-third of OECD IPAs already use digital-related KPIs in their targeting.

Digital tools are also transforming how promotion takes place. Some agencies use AI to screen potential investors, predict market trends, or provide virtual investor support. AI-driven chatbots and automated content generation tools can extend the reach of promotion activities and provide timely responses to investors, particularly in fast-moving digital markets. Used effectively, these tools can enhance efficiency, reduce costs, and create a more user-friendly interface for investors.

Investment facilitation and aftercare services that reduce information barriers should be aligned with the specific needs of the digital economy

Once projects are underway, facilitation and aftercare services are essential to ensuring that foreign investors embed themselves in the host economy and deliver spillovers. This includes guiding investors through regulatory requirements, supporting the acquisition of permits, and providing clarity on rules for telecommunications, data protection, and cybersecurity. Given the specific nature of digital business models, investors particularly value access to clear, up-to-date information on sectoral regulations and digital governance frameworks. Digitalisation of government services, such as online business registration, single-window investment portals, and automated licensing processes, can reduce administrative burdens and transaction costs. This is especially important for digital services firms, which may operate without a large physical presence and depend on streamlined, remote processes.

Aftercare services play an equally important role but remain less common. Helping digital investors connect with domestic ICT providers, research institutions, or skilled workers is crucial for fostering spillovers. IPAs can co-ordinate with ministries responsible for skills, innovation clusters, and local technology parks to align domestic capabilities with investor needs. Systematic collection of investor feedback can also identify regulatory bottlenecks and inform reforms, ensuring that facilitation services remain responsive.

IPAs are uniquely positioned at the interface between business and government. They can channel insights from investors into policy discussions, ensuring that emerging regulatory challenges in areas such as data governance, cybersecurity, or digital skills are addressed proactively. This advocacy role is increasingly important as digital markets evolve rapidly and require agile policy responses. In some economies, IPAs are also experimenting with AI tools to strengthen this advocacy role. Automated text and data analysis can help agencies compile investor feedback, identify recurrent challenges, and propose reforms more systematically. These insights can then be fed into broader industrial and digital strategies, ensuring coherence between investment promotion and national digital transformation objectives.

Guiding questions for policymakers

Leveraging investment promotion policies for digital FDI attraction

- Does the IPA have a dedicated strategy to attract digital-intensive FDI, targeting key subsectors such as AI, cloud computing, software development, and semiconductors, while aligning promotional efforts with digital transformation and national development goals?
- How effectively does the IPA promote the country's comparative advantages in the digital economy, including infrastructure, talent, and the regulatory environment, to attract high-potential investors?
- What key performance indicators (KPIs) and data-driven approaches does the IPA use to identify, target, and prioritise digital-intensive investments, and how frequently are they reviewed to reflect market trends?
- How does the IPA collaborate with industry associations, multinational firms, and foreign chambers of commerce to enhance investment promotion efforts?

Aligning investment facilitation services with the needs of the digital economy

- How does the IPA ensure digital investors have access to clear, up-to-date information on regulations, sector-specific opportunities, and the broader domestic digital ecosystem?
- To what extent are business registration, licensing, and investment authorisation processes digitalised? Has the government implemented a single-window portal to streamline investment approvals and reduce administrative burden for digital businesses?

- How effectively does the IPA facilitate digital investors' navigation of permit and clearance processes, particularly in the areas of telecommunications, data governance, and cybersecurity, while also connecting them with local suppliers, ICT service providers, and skilled talent?
- How well does the IPA co-ordinate with government bodies, industry clusters, and innovation hubs to support foreign investors in expanding digital operations? What mechanisms are in place to collect and integrate investor feedback to improve the regulatory environment?

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Investment Policy Framework for Digital Transformation

This report aims to support governments in promoting private investment that advances digital transformation, while considering its implications for long term growth, resilience and societal well being. Building on existing OECD investment standards – including the *Policy Framework for Investment, 2015 Edition*, and the *Foreign Direct Investment Qualities Policy Toolkit* – it identifies key policies for enabling investment in digital transformation and harnessing its potential to strengthen economic resilience and broad based development.



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