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WORLD INVESTMENT PROSPECTS SURVEY

2008-2010

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NOTE

As the focal point in the United Nations system for investment and technology, and building on 30 years of experience in these areas, UNCTAD, through DIAE, promotes understanding of key issues, particularly matters related to foreign direct investment. DIAE also assists developing countries in attracting and benefiting from FDI and in building their productive capacities and international competitiveness. The emphasis is on an integrated policy approach to investment and enterprise development.

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Developed countries: the members countries of the OECD (other than Mexico, the Republic of Korea and Turkey), plus the new European Union member countries which are not OECD members (Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania and Slovenia), plus Andorra, Israel, Liechtenstein, Monaco and San Marino.

Transition economies: South-East Europe and the Commonwealth of Independent States.

Developing economies: in general all economies not specified above. For statistical purposes, the data for China do not include those for Hong Kong Special Administrative Region (Hong Kong SAR), Macao Special Administrative Region (Macao SAR) and Taiwan Province of China.

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The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (–) indicates that the item is equal to zero or its value is negligible;

A blank in a table indicates that the item is not applicable, unless otherwise indicated;

A slash (/) between dates representing years, e.g., 1994/95, indicates a financial year;

Use of an en dash (–) between dates representing years, e.g., 1994–1995, signifies the full period involved, including the beginning and end years;

Reference to “dollars” ($) means United States dollars, unless otherwise indicated;

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates;

Details and percentages in tables do not necessarily add to totals because of rounding.

The material contained in this study may be freely quoted with appropriate acknowledgement.

UNCTAD/DIAE/IA/2008/1

TABLE OF CONTENTS

Boxes

Figures

Tables

PREFACE AND ACKNOWLEDGMENTS

UNCTAD's *World Investment Prospect Survey 2008–2010* aims at providing an outlook on future trends in foreign direct investment (FDI) by the largest transnational corporations (TNCs). The present publication is the most recent in a series of similar surveys that have been carried out regularly by UNCTAD since 1995 as part of the background work for its *World Investment Reports*. The series includes *International Investment: Towards the Year 2001* and *International Investment: Towards the Year 2002* (UNCTAD, 1997; UNCTAD, 1998), published jointly by Arthur Andersen, Invest in France Mission and UNCTAD, as well as two UNCTAD publications entitled *Prospects for Foreign Direct Investment and the Strategies of Transnational Corporations* for the years 2004–2007 and 2005–2008 respectively (UNCTAD, 2004a; UNCTAD, 2005a). The present survey and the previous one published in 2007 are entitled, *World Investment Prospects Survey* (UNCTAD, 2007a).

Research collaboration for the present survey and analysis of the results were conducted principally by Fabrice Hatem (Ecole de Management de Normandie) and by an UNCTAD team comprising Philippe Dedekind, Masataka Fujita, Kornel Mahlstein, Gianluca Mele, Barbara Myloni and Jean-François Outreville, under the overall guidance of Anne Miroux.

Assistance was provided at various stages by the following: Kumi Endo, Jovan Licina, Lizanne Martinez, Hafiz Mirza, Shin Ohinata, Milica Tomasevic, Tadelle Taye and Kee Hwee Wee. The text benefited from comments and feedback by Torbjörn Fredriksson, Guoyong Liang and Astrit Sulstarova. Séverine Excoffier and Katia Vieu provided secretarial assistance and desktop publishing was done by Teresita Ventura. It was edited by Praveen Bhalla.

A panel of location experts was established to provide qualitative analysis on FDI trends and to contribute to assessing the results of the survey. We would like to thank the following participants of this panel: Ash Ahmad, Oscar Alvarez, René Buck, Bénédict de Saint-Laurent, Christina Knutsson, Peter Lemagnen, Paid McMenamin, Irène Mia, Mark O'Connell, Magnus Runnbeck, Roel Spee, Susumu Ushida and Yoannis Yatropoulos.

EXECUTIVE SUMMARY

In order to complement its analysis on trends in FDI in its annual *World Investment Reports*, UNCTAD conducts annual surveys aimed at gauging *future* medium-term trends in foreign direct investment (FDI). This World Investment Prospects Survey (WIPS) 2008-2010 is the most recent in the series (box 1).

Box 1. The UNCTAD *World Investment Prospects Survey* (WIPS): a methodological brief

The World Investment Prospects Survey aims at estimating foreign direct investment (FDI) patterns over the next three years based on the responses of a sample of company executives selected among the largest transnational corporations (TNCs) (annex 1). Its results should not be considered as a numeric projection; rather they are an assessment of the respondents' views at the time the study was undertaken.

This years' WIPS 2008-2010 is based on a survey of 226 companies undertaken between April and June 2008. Some face-to-face and phone interviews were also carried out in order to gain a more in-depth understanding of companies' internationalization strategies.

The findings were submitted to a group of location experts (consultants, academics and members of investment promotion agencies) for comments and analysis of medium-term opportunities, risks and uncertainties affecting FDI (annex table 3).

WIPS 2008-2010 is based on the same methodology as the 2007 survey, thereby allowing a comparison of the results (annex 1).

Source: UNCTAD.

The main findings from *WIPS 2008-2010* (table 1) can be summarized as follows:

- FDI plans have been revised downwards compared to last year's survey: only 21% of companies anticipate a "large"[1] increase in their FDI expenditures over the next three years, as compared with 32% in the previous WIPS.
- The majority of the respondents nevertheless still appeared to be positive, though they were more cautious than last year, due to the climate of increased uncertainty. 68% of companies still intend to increase their investments during the next three years. But the proportion of those

Table 1. Summary of survey results
(Per cent of responses)

A. Global prospects

FDI growth prospects	Increase	Remain the same	Decrease
Prospects for 2008 compared with 2007	61	21	18
Prospects for 2009 compared with 2008	61	24	15
Prospects for 2010 compared with 2009	56	32	12
Prospects for 2010 compared with 2007	68	16	16

Future level of internationalization by corporate function in 2010	Less than 10%	Between 10% and 50%	More than 50%
Production of goods and services	16	35	49
Research and development	44	35	21
Headquarters and decision-making centres	55	38	7
Logistics and distribution	22	39	39
Sales offices	15	33	52
Marketing	26	44	30
Human resource management	35	39	25
Call centres and customer relationship management	40	32	28
Finance, accounting and treasury management	41	44	16
Sales	5	23	72
Employment	9	31	60

Major risk factors for global FDI flows in 2008 - 2010	Not important	Less important	Neutral	Important	Very important
War, conflict and political instability	10	13	21	12	43
Threats to personal and business safety	12	14	20	23	32
Volatility of prices of petroleum and raw materials	12	27	22	19	21
Financial instability	6	17	28	31	18
Changes in investment regime	5	18	29	33	15
Exchange rate fluctuation	6	24	33	26	12
Global economic downturn	4	19	25	33	18
Inflation	8	26	41	22	3

Top six destinations for FDI in 2008-2010	
China	55
India	41
United States	33
Russian Federation	28
Brazil	22
Viet Nam	12

Most important factors influencing location of companies in 2008-2010	
Rate of growth of market	18
Size of total market	18
Access to international/regional markets	14
Availability of skilled labor and expertise	8
Cheap labor	8

Most important location criteria by sector, 2008-2010

Primary sector	*Manufacturing sector*	*Services sector*
1. Access to international/regional markets	1. Rate of growth of market	1. Size of total market
2. Access to natural resources	2. Size of total market	2. Rate of growth of market
3. Government effectiveness	3. Access to international/ regional markets	3. Access to international/regional markets
4. Availability of skilled labour and expertise	4. Cheap labour	4. Availability of skilled labour and expertise

Greenfield projects and M&As as FDI entry modes by economic grouping, 2008-2010 rated from 0 to 4 (0=not used, 4=used frequently)

	Greenfield projects	M&As
Developed countries	1.7	2.3
Developing countries	2.3	1.7
South-East Europe and CIS	1.6	1.3

/...

Table 1. Summary of survey results *(continued)*

B. Regional prospects	Africa		Asia		Latin America and the Caribbean	Developed countries					South-East Europe and CIS
	North Africa	Sub-Saharan Africa	West Asia	South, East and South-East Asia		United States and Canada	EU-15	New EU-12	Other Europe	Other developed countries	
Companies that have FDI stocks in the relevant regions in 2008 (in per cent)	16	16	31	70	46	74	84	52	46	52	32
Expected change in FDI stocks by region, 2008-2010											
Decrease	2	2	1	3	5	9	8	3	4	6	3
No change	83	81	67	27	56	44	47	43	73	70	56
Increase	15	17	32	69	39	47	45	53	23	24	41
Most attractive business locations in the relevant regions, 2008-2010											
First choice	Egypt (1%)	South Africa (5%)	Turkey (5%)	China (55%)	Brazil (22%)	United States (33%)	Germany (9%)	Poland (5%)	Norway (3%)	Australia (7%)	Russian Federation (28%)
Second choice	Tunisia (1%)	Kenya (1%)	United Arab Emirates (3%)	India (41%)	Mexico (6%)	Canada (6%)	United Kingdom (6%)	Czech Republic (4%)	Swit-zerland (2%)	Japan (4%)	Ukraine (4%)
Level of priority for each region as an FDI location 2008-2010 (0=not important; 4=very important)	0.8	0.6	1.3	2.6	1.7	2.3	2.4	2.1	1.2	1.4	1.6

Source: WIPS 2008–2010.

which only plan a “moderate increase”[2] has dramatically risen (48%, as against 38% in the previous survey) to the detriment of the most optimistic ones.

- A large proportion (39%) of respondent TNCs reported that the financial instability following the United States sub-prime mortgage crisis has already had a significantly negative impact on their investment plans for the next three years.
- Companies are very sensitive to the risk of a further deterioration of the global economic situation. For instance, half of the respondents suggested that the possibility of a global economic downturn is a significant additional threat to their ongoing investment plans.
- Despite the moderate setback in medium-term FDI prospects, the underlying long-term trend towards further international expansion shows great resilience to short-term economic and financial turmoil. In this present survey, 72% of the respondent companies indicated they expected that more than half of their sales would be made abroad by 2010, as against only 62% in 2007.
- Market size and growth are by far the most important factors influencing companies’ choice of location (50% of answers overall), followed by the quality of the business environment, including the availability of skilled labour (8%), suppliers (6%), and adequate infrastructure (7%). The legal environment and government effectiveness were also mentioned fairly frequently. The availability of cheap labour, although not a negligible factor on average (8% of responses), is only a major determinant for a few labour-intensive manufacturing activities such as garments production.
- Companies show a growing interest in developing and transition economies, especially in Asia, Central and Eastern Europe, and Latin America. Of all the regions, though, their investment strategies accord the greatest preference to South, East and South-East Asia, which remains the n°1 priority region as in last year’s survey. It is also the region where the largest percentage of companies expects to increase their FDI expenditures. Market growth and, to a lesser extent, availability of cheap labour, are its major location assets.
- The EU-15 and North America remain among the most preferred investment locations in the companies’ investment plans for the next three years, ranking 2nd and 3rd, respectively, among 11 regions. Investors mentioned market size and the quality of the business environment as

the major reasons to locate projects in these two regions. As for other developed regions[3], they have lost some ground compared with last year's survey.

- The six most preferred destination countries for FDI are the same as in last year's survey: China takes the lead, followed by India, the United States, the Russian Federation, Brazil and Viet Nam. The next in order of preference are Germany, Indonesia, Australia, the United Kingdom, Mexico and Canada.
- Companies from developing Asia, and to a lesser extent Europe, appeared to be the most upbeat with regard to their future investment expenditure plans. Conversely, the sharpest decline in investment prospects compared to the previous survey was reported by North American TNCs.
- Although still very focused on investing in their own home regions, many companies expressed growing interest in projects located in other regions of the world. The geographical scope of their internationalization strategies is thus progressively expanding.
- Judging from responses, investment prospects are particularly promising in services, notably in infrastructure industries (telecommunications, transport, electricity, gas and water). In these activities, more than 25% of companies expect to considerably increase their FDI expenditures from 2007 to 2010, as against 20%, on average, of all respondents. In the manufacturing sector, prospects appear to be the most promising for the equipment and machinery industries.
- Although sales and production should remain by far the most internationalized of companies' activities, other business functions such as logistics, research and development (R&D), and some back-office administrative activities are also expanding rapidly abroad, generating new FDI flows.
- Mergers and acquisitions (M&A) are the most favoured mode of entry into developed countries, whereas greenfield investments are more commonly used for entering developing countries.

This report is divided into three chapters. Chapter I highlights global FDI trends and examines the impacts of the present financial crisis and other risk factors. Chapter II describes future trends in host regions and countries, and analyses their competitive positions in terms of major criteria for choice of location. Chapter III analyses FDI patterns by categories such as industry, business functions and home region.

Notes

1 That is, by more than 30%.

2 That is, by less than 30%.

3 See list of countries in annex table 11.

CHAPTER 1. LOWER LEVEL OF CONFIDENCE, BUT INTERNATIONALIZATION SET TO CONTINUE

Respondents to the survey were more cautious than last year with regard to their FDI plans for the next three years. Following a record high of FDI flows in 2007, the current economic downturn seems to be having an impact on international investment plans.

However, a majority of respondent companies still plan to increase their FDI expenditures over the next three years. This is largely due to the existence of an underlying and persistent trend towards expansion of the share of TNCs' foreign production, employment and sales, associated with a continuous process of reconfiguration of their international production systems.

This further expansion of international activities will nevertheless take place in a climate of increased uncertainty about the economic and financial outlook as well as the geopolitical situation.

Increased caution among TNCs regarding FDI prospects

Responses show a dimming of FDI prospects compared to the 2007 survey: the majority of companies still plan to increase their investments abroad over the next three years, but not at the same level as before.

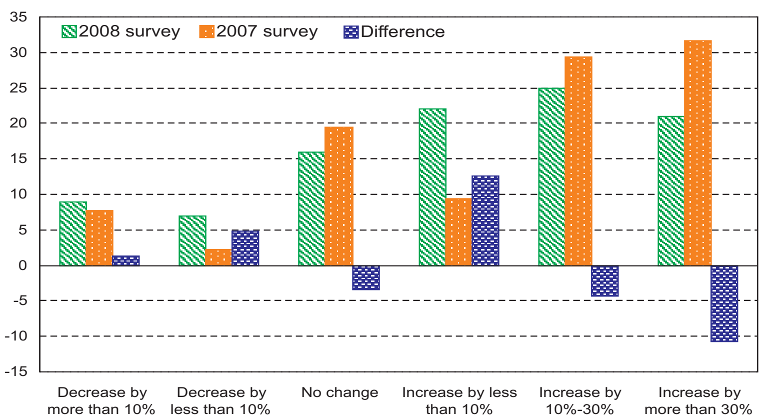
Foreign direct investment fell between 2000 and 2002, but thereafter it experienced steady growth, with a noticeable acceleration in the last two years. Flows reached a historic high in 2007, amounting to more than $1.8 trillion. This increase was the result of a perceptible rise in cross-border M&As, which reached $1.6 trillion (UNCTAD, 2008). The number of international greenfield projects and jobs also increased, by 23% and 25% respectively, between 2003 and 2007, according to the OCO review of FDI (OCO, 2008).

Nevertheless, the financial crisis, which began in mid-2007, and the resulting downward forecasts in the world economic outlook have fuelled growing uncertainty and concerns about the future prospects of global investments. Confronted with declining profitability, tighter credit conditions, reduced market growth, and, above all, a climate of growing uncertainty, companies might reduce their investment expenditures, including FDI, in the years to come.

Indeed, preliminary estimates by UNCTAD for 2008 indicate a decrease in FDI world flows compared to those of 2007. As in 2001 and 2002, this reduction will be mainly due to a slowdown in cross-border M&As, which were already significantly lower in the first semester of 2008 compared to the same period in 2007 (UNCTAD, 2008). There are also signs of a deceleration of greenfield investments projects. For instance, the number of new projects recorded in the *FDI markets database* of OCO (2008), which was already down by 3% in 2007 compared to 2006, declined by another 2% during the first quarter of 2008 compared to the same period in 2007.[4] This suggests a more cautious behaviour by companies, in sharp contrast to the steady increase of various international investment indicators since 2003.

Responses to WIPS 2008–2010 confirm that FDI plans have been revised significantly downwards from last year, although they still remain positive (figure 1). Compared to last year's survey, the percentage of respondents that intend to increase their FDI investments by more than 30% has declined (21% as against 32%). Moreover, a larger proportion of respondents forecast a reduction of their FDI (16% compared to 10%) (figure 1).

Figure 1. Expected change in FDI expenditures over the next three years[a]
(Per cent of responses to the UNCTAD survey)

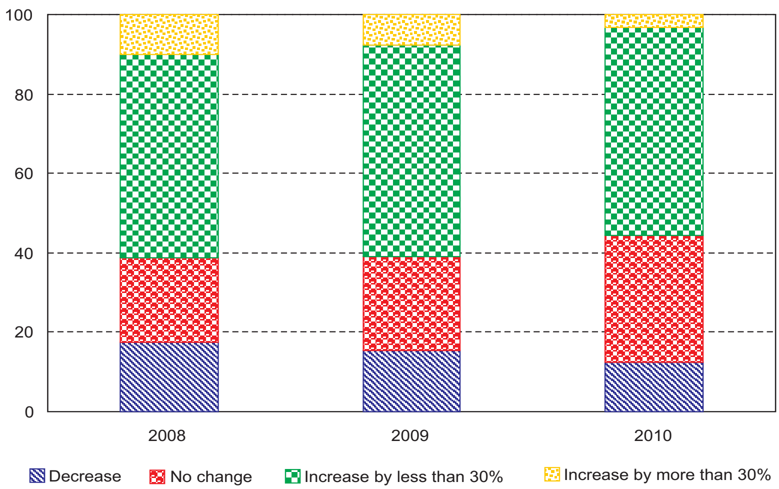


Source: WIPS 2008-2010.
[a] Comparisons between this year's survey and last year's relate to the periods 2008–2010 and 2007–2009 respectively.

Nevertheless, overall medium-term prospects remain positive: 68% of the companies expect at least some increase in their international investment expenditures until 2010. But the magnitude of the increase is smaller than was predicted a year ago. This finding is in line with the moderate optimism expressed by the members of the WIPS expert panel regarding potential changes in FDI flows over the next three years (box 2).

Regarding the year-on-year outlook, compared to last year's WIPS there is a slight decline in investment prospects for 2008 as well as for 2009 (figure 2). For instance, the overall proportion of companies planning to reduce their investments in 2008 compared to 2007 has increased slightly (18% in 2008 against 11% in 2007). A similar trend is noticeable for the year 2009 (15%) compared to 2008 (9%).

Figure 2. Changes in FDI flows, 2008-2010[a]
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.
[a] Changes in relation to the preceding year.

Initial impacts of the economic downturn on FDI prospects

The current global financial instability has already had a negative impact on FDI prospects as reported by a significant number of companies, although they nevertheless remain reasonably optimistic.

Overall, short-term economic prospects do not seem promising, largely as a result of the impact on the real economy of the financial crisis and of the soaring prices of energy and raw materials. Most of the recent macroeconomic forecasts by the International Monetary Fund (IMF), the

Box 2. Relatively high level of confidence among WIPS expert panel members regarding FDI prospects until 2010

Members of the WIPS expert panel were asked their views regarding the potential impact of the present economic downturn and financial turmoil on the level of FDI flows over the next three years.[a] Their answers revealed a relative consensus that the setback in FDI should be more moderate and more limited in time than the downturn which began in 2001. Their arguments to support this relatively optimistic view included the following:

- Large companies around the world – including in the main developed countries – are not in critically poor financial shape, despite the recent decline in profits. They will continue to expand abroad, and they have the internal financial resources to do so, but have become more cautious due to uncertainties in their markets and restrictions on external credits. Thus they may postpone projects rather than cancel them.
- Even if the financial crisis has made M&As more difficult overall, as exemplified by the recent decline in the activities of private equity funds, particularly leverage buyouts, due to a shortage of bank credit, it will also create new opportunities. Accelerated restructuring in some industries (such as the car industry or the financial sector) could result in large M&A transactions. The low exchange rate of the dollar could also facilitate takeovers of United States-based companies by TNCs from other countries.
- To cope with the economic downturn, some companies could implement a series of measures which might result in an increase in their FDI, such as relocating some activities to cut costs, or expanding into new markets to increase sales.
- All the underlying trends contributing to sustained FDI flows are still present, such as the need for companies to internationalize their sales and production (see section below) or enhance their efficiency through cross-border reorganization.
- New sources of FDI, such as government-owned sovereign wealth funds and investments by new companies from emerging markets, could gain momentum and partly compensate for the possible slowdown of investments by companies from developed economies.

Source: WIPS 2008-2010.

[a] The question was: “Do you think that the present worsening of the world financial and economic situation could trigger a large-scale downsizing of worldwide foreign direct investment (FDI) flows on the medium term?”

Organisation for Economic Co-operation and Development (OECD), the World Bank and UNCTAD expect a slowdown in rate of growth of gross domestic product (GDP) during the period 2008–2009. It is expected to be especially marked in the developed economies, whereas in the developing and transition economies, notably in Asia, growth prospects should remain positive, sustained by strong internal demand (table 2).

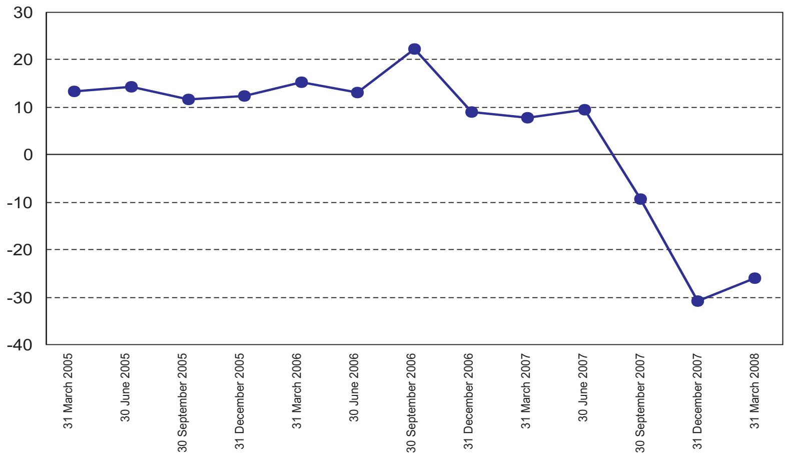
The financial crisis which began in mid-2007 has started affecting non-financial companies in many ways. Stagnating economic growth, in particular in the United States, has adversely affected the balance sheets of many industries sensitive to the business cycle. The credit squeeze has made it more difficult for companies to obtain external financing for their investments. Finally, the deterioration of the commercial and financial environment, together with the rise in prices of raw materials and energy, had a negative impact on the profitability of companies.[5] Earnings of the S&P 500 companies in the first quarter of 2008 were more than 25% lower than their level of one year ago (figure 3),[6] and profits are expected to drop further in the remainder of 2008. Consequently, forecasts by major international institutions point to an overall slowdown of growth in gross fixed capital formation in the business sector, although that sector in developing countries could prove much more resilient.

Table 2. GDP growth rates and prospects by region, 2006-2010

		Annual growht rate of GDP (%)				
Source	**Region/economy**	**2006**	**2007**	**2008[a]**	**2009[a]**	**2010[a]**
IMF[b]	**World**	5.1	5.0	4.1	3.9	..
	of which:					
	Advanced economies	3.0	2.7	1.7	1.4	..
	United States	2.9	2.2	1.3	0.8	..
	Euro area	2.8	2.6	1.7	1.2	..
	Japan	2.4	2.1	1.5	1.5	..
	Developing and emerging economies	7.9	8.0	6.9	6.7	..
	Developing Asia	9.9	9.7	8.4	8.4	..
World Bank	**World**	5.4	5.4	4.3	4.5	4.8
	of which:					
	High-income countries	3.0	2.6	1.6	2.0	2.5
	Developing countries	7.6	7.8	6.5	6.4	6.4
OECD	**OECD countries**	3.1	2.7	1.8	1.7	..

Source: IMF, 2008, World Bank, 2008 and OECD, 2008.
[a] 'Projected'
[b] According to IMF categorization (July 2008)

Figure 3. Year-on-year change in operating earnings of S&P 500
(Per cent)



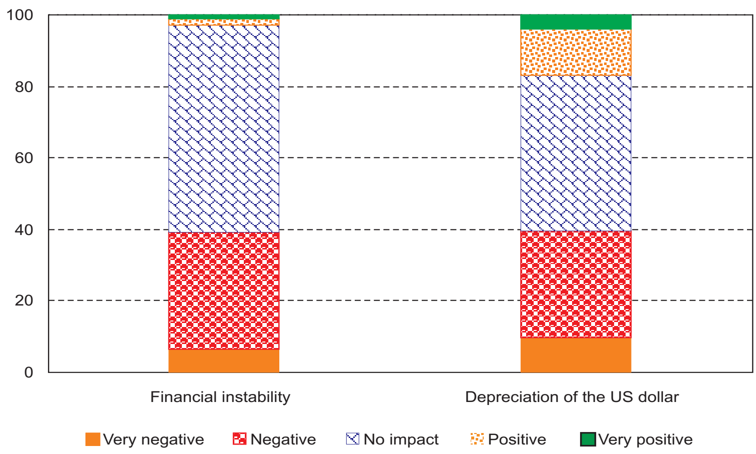
Source: S&P's index service.

Regarding FDI prospects, responses to WIPS 2008–2010 point to a negative, albeit limited, impact of the economic downturn. Approximately 40% of the companies stated that the current financial crisis would have a negative or very negative impact on their FDI plans (figure 4). However, FDI plans by the majority of firms has not yet been affected by the present turmoil.

The diagnosis is more ambiguous regarding the impact of the weakening dollar. Although 40% of responses pointed to an overall negative impact on FDI plans, almost 20% of respondents declared that the depreciation of the dollar had had a positive impact. These respondents included companies from all home regions. Companies other than those from the United States may take advantage of the declining investment and acquisition costs, due to the lower value of the dollar, to set up activities or acquire businesses in the United States.[7] And a significant percentage of United States companies also see a positive impact of the dollar's weakness on their FDI plans: it may increase the competitiveness of their products and boost not only exports, but also their investments in logistics and distribution networks abroad to sustain their increased sales.

Other surveys confirm that the majority of business executives remain generally optimistic about their companies' prospects, despite an overall deterioration in their perception of the economic environment. In a recent survey by McKinsey (2008), 64% of respondents declared that economic conditions had worsened in their country "during the last six months"[8] and 43% expected them to become even worse over the next six months (compared to 22% who thought conditions would improve). Nevertheless, 35% still expected to increase their staff levels during the same time period, as against 24% who intended to reduce staff levels.[9] A survey by PricewaterhouseCoopers (2008) shows a decline in its *Confidence Index* of company leaders worldwide. However, 42% of respondents remained confident about growth of their own business revenue over the next three years, as against 44% in the previous survey. Finally, the *Ifo World Economic Climate Index* fell again in the second quarter of 2008 to a level below its long-term average, representing a six-year low (CESifo, 2008). However, it still remains higher than at the end of 2001, when the previous world economic slowdown episode began.

Figure 4. Impacts of the financial crisis and dollar depreciation on FDI prospects, 2008-2010
(Per cent of responses to the UNCTAD survey)



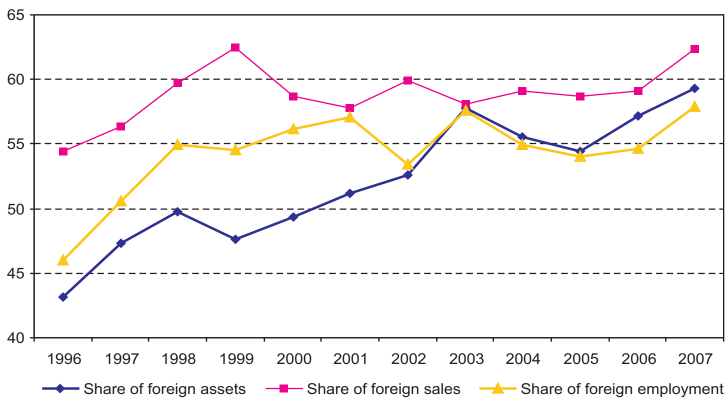
Source: WIPS 2008-2010.

An underlying upward trend: expansion of TNCs' international activities

The long-term trend towards increased internationalization of TNCs in all aspects of their activities (e.g. sales, production, employment) is expected to continue over the next three years.

An increase in FDI is only one aspect of a more widespread trend in the expansion of companies abroad. There are various reasons for the continuing trend towards greater internationalization of TNCs (UNCTAD, 2007a). First, companies are seeking access to large and fast growing markets overseas, and are strengthening their market power worldwide. Second, some of them are searching for scarce resources available abroad, such as raw materials, research capabilities, finance and, above all, skilled labour. And third, they are trying to increase their efficiency by seeking to reduce the costs of their inputs (especially labour) or by establishing their activities in locations that offer better technical and legal business environments. The result has been a continuous upward trend in most companies' internationalization indicators in the past few years (figure 5).

Figure 5. Internationalization ratios for the top 100 companies
(Per cent)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

The results of WIPS 2008–2010 indicate that this trend will continue over the next three years. Of the total respondents, 72% expected that by 2010 their sales abroad would constitute more than half of their total sales, as against only 62% in 2007. Regarding employment, 61% of companies expect their foreign affiliates to account for the majority of their staff, as against only 52% in 2007 (figure 6). This ongoing expansion abroad is a major explanation for the optimism of respondents regarding their medium-term FDI plans.

Figure 6. Expected changes in internationalization of employment and sales, 2008-2010
(Per cent of responses to the UNCTAD survey)

Source: WIPS 2008-2010.

Responses of the WIPS expert panel also indicate considerable confidence in the continuation of the ongoing trend of internationalization by companies (box 3).

These findings are consistent with those made in other recent studies. For instance, according to a PricewaterhouseCoopers survey (PWC, 2008), "Major CEOs are still keen on expanding overseas" and 31% of respondents planned to complete a cross-boarder M&A during the next 12 months. At the national level, the example of Japan is well documented in two annual surveys. A survey by the Japan Bank for International Cooperation (JBIC, 2008) found that foreign activities of Japanese manufacturing companies are still on the rise. For instance, overseas sales represented more than 34% of total sales in 2007, as against 33% in 2006; and 74% of respondents stated their intention to expand their activities overseas in the years to come. A survey by the Japan External Trade Organization (JETRO, 2008) revealed similar findings: 66% of the respondents said they planned to increase their business overseas in the coming three years compared to 50% domestically.

Box 3. Why companies will continue to internationalize: views of the expert panel[a]

According to the WIPS panel of experts, several factors suggest that companies will continue to internationalize over the next three years:

- Internationalization is now rooted in the corporate culture of companies and in the minds of executives, especially the young ones. Most of them have learnt to "think global", and it seems unlikely that their strategic scope will shrink back to national borders.
- Companies will continue to extend their presence in foreign markets in order to take advantage of newly arising opportunities. While firms from emerging countries will develop their business in the larger markets of developed countries, companies from developed countries will do the same in the dynamically expanding markets of the developing world. This translates into increased internationalization for all of them.
- A likely durable rise in energy and transportation costs will not significantly affect the overall level of internationalization of TNCs; rather, it will affect the way they organize their cross-border activities. For instance, the relocation of production sites to countries with low labour costs that are located far from the final market could be negatively affected. Conversely, the setting up of integrated regional production networks in each of the large final markets (e.g. North America, Europe and Asia) could gain momentum.
- Despite growing concerns about the local impacts of globalization, no major protectionist backlash against FDI has taken place so far, and the majority of the experts of the WIPS panel considered such a scenario to be unlikely in the next three years.

Source: WIPS 2008–2010.

[a] The experts were asked the following question: "Do you think that the progressive exhaustion of some trends which have had a favourable impact on globalization over the past 20 years (such as the decrease in transportation costs or the liberalization of international investment regulations) could involve a slowdown in the rhythm of internationalization?"

A period of high uncertainty

Results of the WIPS 2008-2010 survey show that companies are highly sensitive to geopolitical instability and threats to business and personal safety. Concerns relating to an economic downturn and financial instability are also quite widespread.

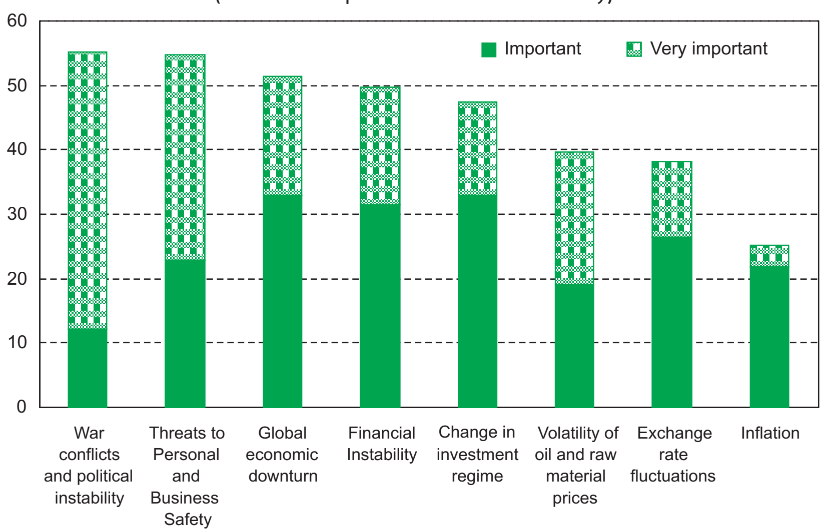
Investment decisions involve comparing the real present value of expenditures with uncertain future streams of revenue. The perception of risks therefore has a major influence both on the overall level and on the structure of planned investment. In a climate of rising uncertainty, companies may restrict their investment plans to projects with the highest profitability or the quickest returns. They may cancel or delay investments that are the most exposed to risk, and favour projects in the safest regions or activities.

To gain better insight into this issue, every year WIPS includes a question about business executives' perceptions of medium-term risks and their potential impact on their FDI plans. This year's question specified a list of eight different types of risk (including, for example, geopolitical, economic and institutional risks).

Responses by companies (figure 7) yielded the following main findings:

- There is a high degree of awareness of risks. Out of eight categories of risk mentioned in the survey, five were considered "important" or "very important" by 50% or more of the respondents. In the views of executives, the world seems to have entered into a period of high and multidimensional uncertainty, with major potential consequences for their business. According to many of the panel's experts, this increasing awareness of risks may itself have had a very negative impact on investment plans, in addition to the actual worsening of the economic environment.

Figure 7. Importance of risk factors for FDI decisions, 2008-2010
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.

- Companies in the primary sector appeared to be more concerned about geopolitical instability, business and personal safety, as well as changes in country's investment regimes. This may be because many of these companies are operating in countries in which these types of risks are very pronounced.
- Companies from developing countries expressed a higher degree of risk awareness overall than their counterparts from developed countries. A possible reason might be because TNCs from developing countries are more prone to invest in other developing regions, characterized by a generally higher level of perceived risks.
- Geopolitical risks (war, conflicts and political instability) are generally perceived potentially to pose the greatest risk for companies' investments in the medium term. Of the total respondents, 43% considered geopolitical risks as "very important" and 12% as "important". The major issues cited in the context of today's geopolitical conditions were tensions in the Middle East, concerns about nuclear proliferation, as well as rising commodity prices and food security (WEF, 2008).
- Companies also expressed a high level of concern about the threats to personal and business safety: 32% of respondents ranked such threats as "very important". The threats cover a wide range of issues, some of which are closely connected to global geopolitical risks (such as terrorism), while others are more specific in nature (such as crime or an increase in liability regimes).[10]
- Half of all responding companies expressed concern about the risk of a major global economic downturn and financial instability: 51% regarded this as either "important" or "very important". This reflects the high degree of uncertainty about the short-term world economic outlook. For instance, while the IMF or the OECD's base-case scenario forecast a moderate slowdown of world economic growth (table 2), these organizations also acknowledge the existence of many pending global imbalances. Indeed, at present, many macroeconomic indicators are a source of major concern: the financial situation of United States companies (e.g. high debt levels and costs), the fragility of the banking system (e.g. risks of bad loans), and the questionable sustainability of the United States current-account deficit and debt, to mention only a few. All these cumulative and interconnected factors of risks could create the conditions for a further worsening of the world economic situation and/or stress on the international financial system.[11]

- Company executives also expressed concerns about the risk of negative changes in country's investment regimes: 48% of respondents mentioned this as "important" or "very important". Other studies or surveys also cite concerns about what is termed "retrenchment from globalization" (WEF, 2008) or "protectionist tendencies of national governments" (PWC, 2008) as major issues in the years to come. Symptoms of this new trend include: rising hostility against acquisitions of local companies by foreign interests (including private equity funds, sovereign wealth funds and other State-owned firms), growing sensitivity over the national control and conservation of natural resources – especially in developing countries – and growing concerns in developed countries about the impact of relocation and off-shoring. These fears have fuelled a negative reaction by the general public and politicians towards FDI. In a few cases, they have contributed to reconsideration of the liberalization of investment codes in some countries. Consequently, the share of regulatory changes favourable to FDI reached a 15-year low in 2007, while the number of unfavourable changes, although on the decline as compared to 2005, remained relatively high (UNCTAD, 2008).

- The volatility of oil prices was mentioned as an "important" or "very important" issue by only 40% of respondents. This relatively low risk assessment might be explained by two factors. On the one hand, the world economy so far has shown relatively strong resilience to the rise in energy prices, despite the fact that they reached unexpected levels. On the other hand, the direct impact of these variables on investment decisions may be somewhat limited and indirect, the exceptions being the energy-dependent metals, chemicals, oil and gas industries and the transport industry. The impact even seems to be positive for the primary sector, for which FDI prospects are bright. In the longer term, however, the prospect of durably high energy prices, together with the need to reduce greenhouse gas emissions, could involve a major transition from energy-intensive to energy-lean economies. The transition path to such a new regime is not clear. It may involve risks related to the disruption of energy supplies, uncertainties about the availability of alternative technologies, the need for radical changes in consumption behaviour and huge investment costs (WEF, 2008).

- Finally, only 3% of respondent companies considered inflation and 12% considered changes in exchange rates as "very important risks". This might be explained by the fact that the direct consequences of these risk variables on global FDI expenditures are somewhat uncertain. For instance, as mentioned above, a decline in the exchange rate of a currency such as the United States dollar may have contradictory effects on FDI inflows into the country involved. Moreover, the financing of the largest TNCs' FDI expenditures may be little affected by exchange rate fluctuations, as a significant share of these investments (especially in developed countries) comprises reinvested earnings, and/or the companies use the resources of the local financial system. Lastly, hedging mechanisms are now widely used by TNCs to insure against adverse effects of exchange rate fluctuations on the profitability of their investments abroad.

Notes

[4] Preliminary estimate based on project announcements.

[5] According to a recent survey by McKinsey (2008), companies are finding it difficult to raise the prices of their products to adjust to the higher prices of their inputs, as many of them are afraid of losing competitiveness. The result is a squeeze in their profit margins.

[6] However, profits have soared to unprecedented levels in the oil and mining industries.

[7] Even if their investment plans in the United States may also be negatively affected by the weakness of the United States market. On the potentially positive impact of a fall of the dollar in FDI in the United States, see also UNCTAD, 2008, chapter 1.

[8] From November 2007 to April 2008.

[9] In the survey made six months earlier, the figures were 45% and 21% respectively.

[10] For example, the increasing possibility of companies to be prosecuted for damages they have not caused directly, but which are indirectly linked to their activity or to the use of their products (such as lung cancer due to smoking).

[11] In its 2008 report on global risks, the World Economic Forum (WEF) has highlighted the existence of a systemic financial risk (WEF, 2008). According to the WEF, the development of complex financial instruments, the trend towards deregulation, the rise of alternative capital pools, the growing role of non-bank intermediaries, and the increasing interconnection of markets have multiplied the possible pathways for the contagion of financial risks, while the overall opacity of the system tends to grow.

CHAPTER 2. INCREASED FOCUS ON DEVELOPING AND TRANSITION ECONOMIES

This present survey points to a progressively increasing preference by investors for developing and transition economies. Nevertheless, the EU-15 and North America, along with South, East and South-East Asia, remain the most preferred regions by the top TNCs. A salient feature of the country rankings is that all BRICs (Brazil, the Russian Federation, India and China) remain among the five most preferred countries, in addition to the United States.

The first section of this chapter presents an overall view of the results of the survey and compares them with last year's survey. The three subsequent sections provide a more in-depth analysis of host regions and countries. The final section throws light on the main investment location criteria.

Country and regional rankings: overall results

Country rankings: the BRIC countries are among the top five

Five very large countries clearly emerge as favourite investment destinations: China, India, the United States, the Russian Federation and Brazil (in that order). Their rankings are unchanged from last year's survey (figure 8). However, the Russian Federation and Brazil catch up noticeably in terms of the number of responding companies that cited them. Four of the five top country destinations are emerging economies (the BRICs).

Among the other top 15, Viet Nam ranks again in 6th place. Germany and Indonesia have improved their rankings to 7th and 8th place respectively, while Australia, France, Poland and the United Kingdom have lost ground, but still remain among the 15 most preferred FDI destinations. Newcomers to the top 15 are Canada, South Africa and Turkey in that order.

Comparisons between WIPS and other worldwide surveys on country attractiveness show the following differences and similarities:

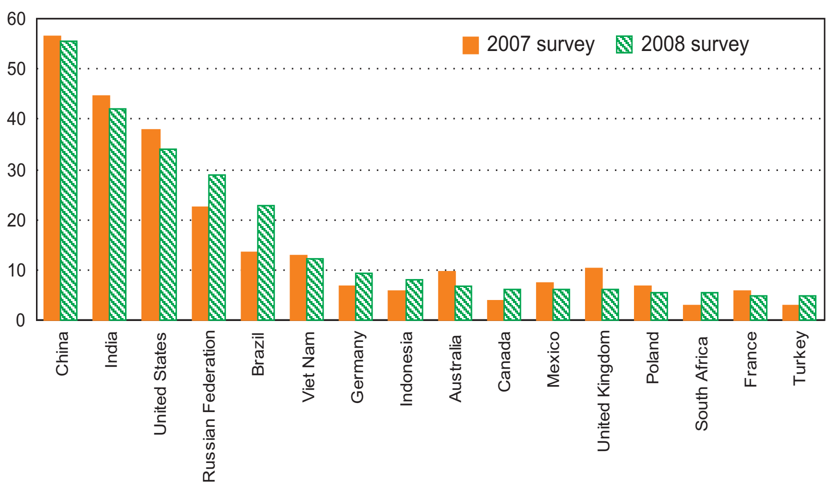
- Of the top 25 countries mentioned in the last A.T. Kearney *FDI Confidence Index* (A.T. Kearney, 2008), 18 countries also figure in the top 25 WIPS rankings. The WIPS show slightly more European countries and countries with large market potential, while A.T. Kearney's Index lists a few more Asian countries and small countries with a good business environment.

- A recent JBIC survey of Japanese manufacturing companies (JBIC, 2008) also shows rather similar rankings to those of WIPS: they have 5 identical countries in the top 6 list. However, the JBIC survey gives, on average, higher rankings to Asian countries, reflecting the focus of Japanese companies on Asia.

A comparison of the WIPS rankings with those based on actual FDI flows or international projects reveals the following:

- Regarding rankings based on greenfield projects, OCO data for the year 2007 (OCO, 2008) also show strong similarities with WIPS: 6 of the top 10 countries are identical. However, in the OCO survey, medium-sized European countries, such as France, Poland, Romania or Spain are ranked higher than in WIPS.
- Last but not least, rankings based on actual FDI flows and stocks (UNCTAD, 2008) clearly give higher positions to the major developed economies, especially EU-15 countries such as France or the United Kingdom, which received large FDI inflows, partly to finance acquisitions of local companies.

Figure 8. The 15 most attractive economies for the location of FDI
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.

Regional rankings: increased focus on developing and transition economies

A comparison with last year's WIPS shows that developing and transition regions have gained in importance in the preference rankings relative to developed regions (table 3). The region of South, East and South-East Asia remains in first place, followed by the EU-15 and North America (which have switched places). The new EU-12, Latin America and West Asia have each gained one position, while South- East Europe and the CIS have moved up two positions.[12] "other developed Europe" and "other developed countries" have each moved down two positions. North Africa and sub-Saharan Africa remain at the lowest end of the regional preference rankings.

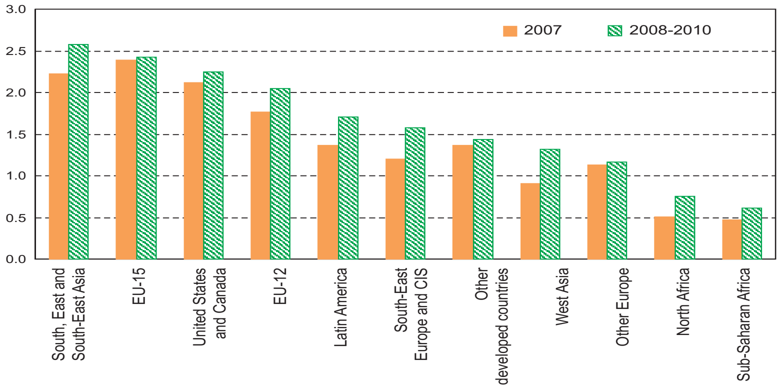
Table 3. Ten most preferred regions for FDI: rankings of 2007 and 2008 surveys compared[a]

WIPS 2007 ranking	Region	WIPS 2008 ranking	Region	Change in ranking
1	South, East and South-East Asia	1	South, East and South-East Asia	-
2	North America	2	EU-15	↑
3	EU-15	3	North America	↓
4	New EU-12	4	New EU-12	-
5	Other developed countries	5	Latin America	↑
6	Latin America	6	South-East Europe and CIS	↑
7	Other Europe	7	Other developed countries	↓
8	South-East Europe and CIS	8	West Asia	↑
9	West Asia	9	Other Europe	↓
10	North Africa	10	North Africa	-

Source: WIPS 2008-2010.
[a] Regions are listed in the order of their respective rankings in WIPS 2007 and WIPS 2008.

Future prospects seem even brighter for developing and transition economies. The preference given by responding companies to South, East and South-East Asia, the new EU-12, South-East Europe and the CIS, Latin America, West Asia and North Africa is expected to increase further in the next three years. In contrast, little improvement is expected for the main developed regions, particularly the EU-15, other European and other developed countries (figure 9).

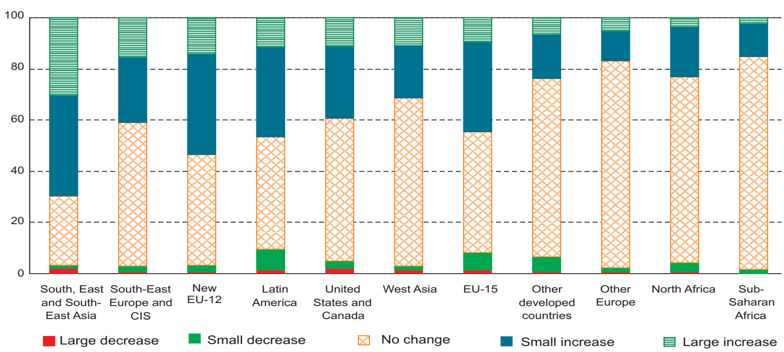
Figure 9. Investment preferences, by host region, 2007 and 2008-2010
(Average score)*



Source: WIPS 2008-2010.
* 0 = Not all important, 4 =Very important.

Regarding FDI growth prospects,[13] a decline in investment plans as compared to last year's survey can be observed for most regions of the world, especially for developed countries.[14] The regions with the most promising outlook for the next three years are South, East and South-East Asia, the new EU-12, and South-East Europe and the CIS, followed by North America, the EU-15 and Latin America. At the opposite end, other developed countries (either European or non-European), sub-Saharan Africa and North Africa show the least promising prospects (figure 10).

Figure 10. FDI growth prospects, by host region, 2008-2010
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.

Last but not least, the survey found that the modes of entry differ widely depending on the host region, with greenfield projects being more commonly used in developing regions and M&As in developed economies (box 4).

Box 4. Specific modes of entry by host region

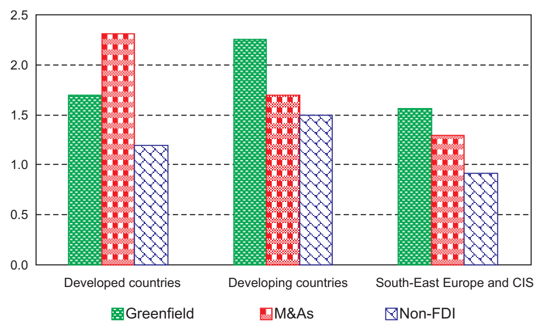
The preferred mode of entry by TNCs for their investments abroad may vary considerably depending on the host country. For instance, 83% of cross-border M&A transactions in value were undertaken in developed economies in 2006, while 56% of announced international greenfield projects were located in developing or transition economies (UNCTAD, 2007c).

To gain more insight into this issue, WIPS 2008–2010 asked companies about the most commonly used mode of entry by host region. Responses confirmed that greenfield investments are preferred in developing economies, where the rapid growth of markets implies possibilities for an increase in production capabilities and where opportunities are limited for the purchase of existing local companies. M&As are more commonly used in developed countries, where market growth is slower and where a large stock of companies is available for buyouts. In the transition economies of South East-Europe and the CIS, the pattern of entry modes is closer to that of developing countries, with a slightly greater use of greenfield investments than M&As.

Non-FDI modes of entry (such as partnerships, agreements or licensing) rank last in all regions. Many expert on the WIPS panel of experts, however, insisted on the growing importance of cross-border partnerships, especially in R&D and innovation-intensive projects (including also partnerships with universities), and projects involving high levels of investment risk (including private-public partnerships in infrastructure).

Box figure 1. Use of M&As, Greenfield projects and non-FDI sources as entry modes, 2008-2010

(Average score)[a]



Source: WIPS 2008-2010.

[a] 0 = Not used at all, 4 = Very much used.

Detailed results by home regions

Developing regions: Asia continues to attract FDI

> Two major factors explain why the region of South, East and South-East Asia continues to attract increasing levels of FDI: market growth, followed by availability of cheap labour. Latin America and West Asia have gained momentum while Africa as a whole remains marginal.

South, East and South-East Asia as a region has already attracted large amounts of FDI. Of the respondent companies, 70% declared having already invested there: the region accounted for about 16% of FDI inward stocks in 2007, far ahead of any other developing region. In 2007, FDI inflows rose to another record level – $248 billion (UNCTAD, 2008). Similar to the results of WIPS 2007–2009, this region emerges as the most preferred FDI destination by TNCs worldwide. Moreover, the respondent TNCs believed its importance would increase further over the next three years. Indeed, the largest percentage of respondents mentioned they intended to increase their investments there, despite a noticeable decline compared to last year's survey (74% as against 70%).

Among the factors that attract FDI to South, East and South-East Asia, market growth appears to be the most important, followed by availability of cheap labour (table 4). Buoyant economic growth prospects,[15] further regional integration, the opening up of countries to FDI (such as Viet Nam), and noticeable improvements in the business environment for foreign companies in countries such as Indonesia have contributed to the positive image of the region as a prime business location. No less than eight countries from this region rank among the 30 preferred locations, and two are in the top10 league.

- China and India remain in first and second place. However, their scores have been adjusted slightly downwards compared to last year's WIPS.[16] In line with the region as whole, the main location determinants are the size and growth of the local market, followed by cheap labour (table 5). More specifically, access to skilled labour is considered to be a significant asset for India. These two countries are ranked in the two first positions regardless of the home region of the respondent, but they obtain a higher score from Asian companies.

Table 4. Factors attracting FDI by host region, 2008-2010
(Per cent of responses to the UNCTAD survey)

Host region	Access to international / regional markets	Access to local capital markets (finance)	Access to natural resources	Availability of incentives	Availability of skilled labour and expertise	Availability of suppliers	Cheap labour	Following competitors	Government effectiveness	Quality of infrastructure	Rate of growth of market	Size of market
Developed												
North America	15	7	4	3	11	8	1	6	7	13	8	19
EU-15 and other European countries	15	4	5	3	14	8	-	3	9	14	8	18
New EU-12	18	1	2	5	7	5	14	4	3	4	26	13
Other developed countries	15	3	6	6	13	5	1	8	10	13	10	11
Developing												
North Africa	13	-	13	13	-	-	13	6	13	6	13	13
Sub-Saharan Africa	13	-	21	10	2	-	8	6	8	6	15	10
West Asia	24	3	8	5	4	4	3	-	6	5	26	14
South, East and South-East Asia	12	2	3	3	8	6	13	4	5	4	21	19
Latin America	14	2	11	2	7	6	11	1	5	5	19	16
South-East Europe and CIS	13	1	6	2	4	5	9	4	2	2	29	25
World average	**14**	**3**	**5**	**3**	**8**	**6**	**8**	**4**	**6**	**7**	**18**	**18**

Source: WIPS 2008–2010.

Table 5. Factors favouring investment by host country (ten most attractive countries for FDI), 2008–2010
(Per cent of responses for a given country)

Ranking	Host country	Access to international / regional markets	Access to local capital markets (finance)	Access to natural resources	Availability of incentives	Availability of skilled labour and expertise	Availability of suppliers	Cheap labour	Following your competitors	Government effectiveness	Quality of infrastructure	Rate of growth of market	Size of market
1	China	13	2	3	2	5	6	14	4	3	4	22	22
2	India	12	2	2	-	10	4	15	4	3	3	24	22
3	United States	14	7	2	2	11	7	1	6	8	13	8	21
4	Russia Federation	12	2	5	1	3	3	8	3	2	2	30	29
5	Brazil	17	2	8	2	4	4	8	2	4	4	25	22
6	Viet Nam	9	-	4	8	15	6	21	8	2	-	19	9
7	Germany	13	4	4	4	16	7	-	4	13	16	7	13
8	Indonesia	5	-	15	8	5	10	13	5	10	-	15	13
9	Australia	18	2	9	2	14	2	-	2	9	11	18	11
10	Canada[a]	15	8	13	3	13	13	-	8	5	10	8	8
10	Mexico[a]	13	-	8	4	13	13	19	-	2	6	13	10
10	United Kingdom[a]	14	5	3	-	14	11	-	3	8	19	5	19
	World average	14	3	5	3	8	6	8	4	6	7	18	18

SSource: WIPS 2008–2010.

[a] Canada, Mexico and the United Kingdom are all ranked 10th.

Table 4. Factors attracting FDI by host region, 2008-2010
(Per cent of responses to the UNCTAD survey)

Host region	Access to international / regional markets	Access to local capital markets (finance)	Access to natural resources	Availability of incentives	Availability of skilled labour and expertise	Availability of suppliers	Cheap labour	Following competitors	Government effectiveness	Quality of infrastructure	Rate of growth of market	Size of market
Developed												
North America	15	7	4	3	11	8	1	6	7	13	8	19
EU-15 and other European countries	15	4	5	3	14	8	-	3	9	14	8	18
New EU-12	18	1	2	5	7	5	14	4	3	4	26	13
Other developed countries	15	3	6	6	13	5	1	8	10	13	10	11
Developing												
North Africa	13	-	13	13	-	-	13	6	13	6	13	13
Sub-Saharan Africa	13	-	21	10	2	-	8	6	8	6	15	10
West Asia	24	3	8	5	4	4	3	-	6	5	26	14
South, East and South-East Asia	12	2	3	3	8	6	13	4	5	4	21	19
Latin America	14	2	11	2	7	6	11	1	5	5	19	16
South-East Europe and CIS	13	1	6	2	4	5	9	4	2	2	29	25
World average	**14**	**3**	**5**	**3**	**8**	**6**	**8**	**4**	**6**	**7**	**18**	**18**

Source: WIPS 2008–2010.

the regional market are other reasons (table 5). North American and Japanese respondents indicated the most marked interest in Brazil.

West Asia is not yet a major focal point for FDI: it had only 2% of world FDI stock in 2007 (UNCTAD, 2008), and 31% of responding companies reported having a presence in the region. Nevertheless, it is progressively gaining ground in the business executives' scoreboard. Investors are becoming increasingly interested in the region, as evident by its improvement in the regional rankings by one place (to 8th position) (table 3). In 2007, FDI flows to West Asia rose by 12%, reaching $71 billion, marking the fifth consecutive year of growth for the region. Compared with the worldwide downwards trends, FDI prospects in West Asia seem very resilient: 33% of respondents expressed their intention of increasing investments in the region as against 32% last year (figure 11).

The attractiveness of this economically very heterogeneous region stems mainly from its rapidly growing regional market (table 4). Economic prospects are good, with 5% GDP growth projected by the World Bank for the next three years. Two countries (Turkey and the United Arab Emirates) rank among the 30 most preferred destinations for FDI.

North Africa, despite a slightly greater interest evinced by large TNCs in this region, will remain a marginal destination for FDI in the next three years. It has so far attracted only a limited amount of FDI, accounting for a mere 1% of world inward FDI stock in 2007 (UNCTAD, 2008). Only 17% of respondent companies mentioned having a presence in this region. Still, FDI inflows reached $22 billion in 2007**,** $1 billion below their peak in 2006. The level of preference of large TNCs for this region is expected to increase slightly over the next three years, although not enough to allow an improvement in its global ranking (10th place). Only 15% of the respondent companies reported that they planned to increase their investments in the region – the lowest percentage score worldwide.

As compared to the rest of the world, access to natural resources and government incentives seem to play a relatively more important role as location determinants in the region (table 4). Privatization, an improved business environment and good growth prospects – averaging 5% per annum for the period 2007–2010 (World Bank, 2008) – may help attract investors. Egypt and Tunisia were the countries most frequently mentioned by respondents in this year's survey as favoured locations in the region.

Sub-Saharan Africa will remain a marginal player overall for FDI flows during the next three years. Only 16% of responding companies have established a presence there, and the region accounted for only about 2% of world inward FDI stock in 2007 (UNCTAD, 2008). Despite a marked rise in FDI flows in 2007, amounting to $31 billion, partly the result of the current boom in commodity markets, sub-Saharan Africa remains at the bottom of the investors' preference list, with few signs of improvement for the next three years. Only 17% of the responding companies indicated an intention to increase their investments in the region. Access to natural resources remains one of the major location assets. Economic prospects are also positive, with a projected GDP growth rate of around 6% until 2010 (World Bank, 2008), although starting from low levels. South Africa is the only country of the region that figures among the 30 most preferred locations for FDI.

Good prospects for the new EU-12, South-East Europe and CIS

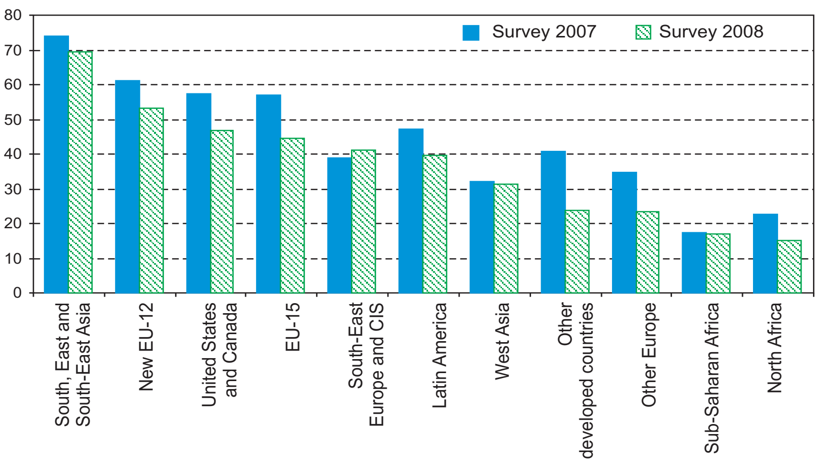
As in last year's survey, FDI prospects for the new EU-12 as well as South-East Europe and the CIS region are good, for the following reasons: rapidly growing local markets (notably in South-East Europe and the CIS), availability of skilled labour, and proximity and easy access of the new EU-12 to the large markets of other European countries.

The new EU-12 member countries have recently attracted large inflows of FDI following market reforms, greater liberalization, and finally accession to the European Union. However, at present, their inward FDI stock is relatively low: it was only 4% of world FDI stock in 2007 (UNCTAD, 2007), and inflows remained at $65 billion, the same level as in 2006. However, TNCs are beginning to evince a strong interest in this group of countries, with as many as 52% of respondents to WIPS declaring having already invested in them. Responding companies intend to give higher priority to the new EU-12 group for the 2008–2010 period, thus confirming its position in the WIPS 2007-2009 as the 4th most preferred destination for FDI. More than 50% of the respondents reported they intended to increase their FDI in the region over the next three years, a percentage slightly lower than last year's, but higher than the world average.

According to the respondents, the main advantages of this region are that it affords access to the EU regional market, strong market growth and the availability of cheap labour (table 4). Growth prospects remain good for the three years: around 5% per annum (World Bank, 2008). Integration into the EU and the availability of a low-cost and skilled labour force has turned the region into a hot spot for the location of new production facilities and for the relocation of manufacturing sites from Western Europe. This year's survey ranks four countries among the top 30 preferred locations for FDI: Poland, the Czech Republic, Bulgaria and Romania, in that order.

South-East Europe and the CIS has so far attracted only limited FDI, despite a very recent upsurge of inflows. Only 32% of responding companies reported having a physical presence in that region, and, not surprisingly, it accounted for a mere 3% of global inward FDI stock in 2007 (UNCTAD, 2008). However, current trends indicate rapid change: in 2007, FDI inflows continued to grow and reached a new record high of $86 billion. Investors are also showing a growing preference for this region: it ranked 6th place in this year's survey, two ranks higher than last year. It is also one of the few regions for which the survey does not record a decline in investment growth prospects: 41% of respondents to this year's survey indicated that they planned to increase their investments as against 39% last year (figure 11).

Figure 11. Companies intending to increase their investments, by host region: WIPS surveys 2007 and 2008 compared
(Per cent of responses)



Source: WIPS 2008-2010 and WIPS 2007-2009.

Among the major assets of the region are the size and growth of the market (mainly of the Russia Federation). Growth prospects until 2010 appear to be quite good, at around 5% per annum (World Bank, 2008). New countries such as Ukraine, Serbia and Croatia are opening up to foreign investors. Two countries rank this year among the top 30 as preferred locations for FDI: the Russian Federation and Ukraine.

As in last year's survey, the Russian Federation occupies fourth place in the country rankings this year, with a substantial increase in its score. Among the main location determinants are the size and growth rate of its market, followed by access to cheap labour and abundant natural resources (table 5). Many experts on the WIPS panel emphasized the importance of the market potential of the Russian Federation, boosted by sizeable incomes from energy and raw material exports. Large TNCs are particularly motivated by the country's substantial infrastructure needs and sustained consumers demand for goods and services. European and North American companies, in particular, mentioned this country as an important location for their FDI projects.

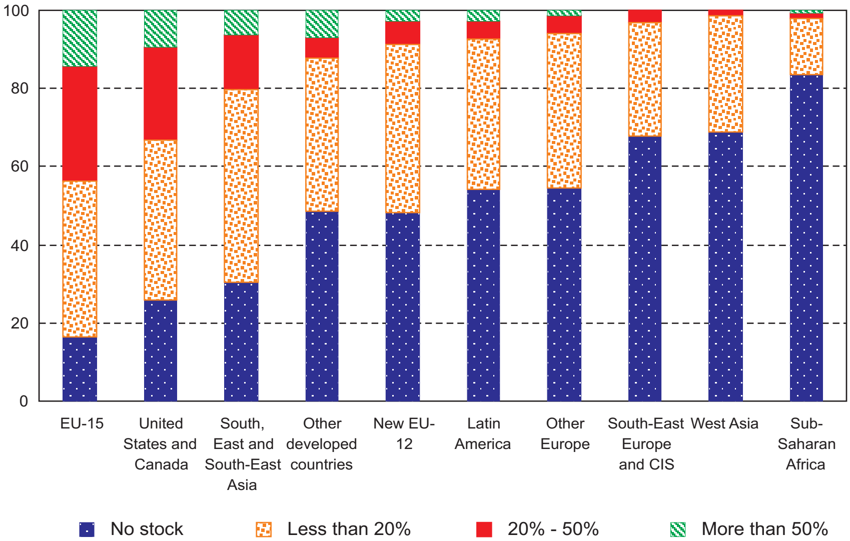
Main developed countries/regions: EU-15 and North America are still major locations

Despite high labour costs and dim growth prospects, the EU-15 and North America, which have been historically the major FDI destinations, continue to draw considerable interest among investors. This is mainly due to the large size of their markets and the overall good quality of their business environments. However, other developed regions show no signs of improving prospects.

Despite the recent growth of global FDI flows to the developing regions, the main developed economies still host the largest share of TNCs' assets abroad. And for most respondents to WIPS, they remain the most important foreign locations. While 84% and 76% respectively of responding companies indicated they already had assets in the EU-15 and North America, a much lower proportion had assets in developing and transition economies, with the exception of South, East and South-East Asia (figure 12).

The EU-15 will remain a major hub for TNCs' FDI strategies, but this survey anticipates a slight decline in the region's relative importance over the next three years, in line with the trend observed for all developed regions. At present, the EU-15 is still the major destination for FDI in terms of flows, and especially in terms of FDI stock. Of the responding companies, 84% have a presence in the EU-15 and this group accounted for 42% of global inward FDI stock in 2007 (UNCTAD, 2008). Mainly due to the rise

Figure 12. Share of various regions where respondents' overseas stocks, 2007
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.

in cross-border M&As, FDI inflows rose to a new record of $739 billion in 2007. But prospects for the next three years are somewhat ambiguous. Although the EU-15 still ranks second worldwide in terms of investment location preferences, its score does not increase as much as that of most of the developing regions. Of the respondent companies, 44% planned to increase their investments in the region, a proportion that is well above the world average, but significantly below that observed in last year's survey, which was 57%. Moreover, a significant number of companies (8% of respondents) intend to reduce their investments in the EU-15 over the next three years – one of the largest percentages worldwide. The limited growth prospects for the EU-15, which, according to World Bank estimates (2008) will be lower than 2% per annum until 2010, together with high labour costs and a strong euro, may explain this relative cautious stance of investors. On the positive side, however, investors attach great value to access to a large regional market, the availability of skilled labour and suppliers, the quality of infrastructure and government effectiveness (table 4). Five EU-15 countries (Germany, the United Kingdom, France, Italy and Spain in that order) rank among the 30 preferred locations for FDI – and two of them among the top 10:

- Germany ranks 7th, two ranks better than last year. Its main assets for attracting FDI are its skilled labour, availability of ample suppliers, government effectiveness, quality of infrastructure and access to the regional market (table 5). It interests European and North American companies in particular.
- The United Kingdom ranks 10th, having fallen three positions compared to last year's survey. Its major assets are the quality of its infrastructure, availability of skilled labour and suppliers, government effectiveness and the size of the local and regional markets (table 5). European companies cite the United Kingdom the most frequently as one of their preferred investment locations.

North America will remain one of the most attractive regions in the world, but its position is expected to erode as emerging countries gain in importance. The region is still presently one of the leading destinations of FDI: 75% of the survey's respondents already have subsidiaries there. The region accounted for 17% of global inward FDI stock in 2007 (UNCTAD, 2008), and FDI inflows grew by 14%, to reach a record \$341 billion. But the level of preference of investors for North America is not projected to increase very much in the near future: it only ranked third as the most preferred location in this year's WIPS, down one place from last year's survey. Still, a large proportion (48%) of the responding companies plan to increase their investments in North America during the next three years, which is well above the world average, but much lower than in the previous survey (57%). Similar to the EU-15, a significant number of firms (9%) expect to reduce their investment volumes in this region.

The dim growth prospects for North America – averaging less than 2% per annum until 2010, according to the World Bank (2008) – and uncertainties relating to a further worsening of the economic and financial situation in the region, may explain investors' cautious attitude. But respondent companies also value access to the North American market, the quality of its infrastructure, availability of skilled labour and suppliers, and access to financial markets (table 4). Both the United States and Canada rank among the 10 most attractive FDI destinations.

The United States ranks 3rd in the country rankings, as in last year's survey, but with a declining score. Its major location assets are the size of the local market, followed by the quality of its infrastructure, availability of skilled labour, and access to the regional market and to financial resources (table 5). European companies in particular remain interested in this country.

Canada ranks 10th in this year's survey, up several places from last year's WIPS. Access to skilled labour, natural resources, the regional market, financial resources, and high quality infrastructures are among its main assets for attracting FDI (table 5).

Other developed Europe includes a small number of European countries that are not member of the EU. Due to its small economic sizes this group has so far attracted only a limited amount of FDI: 45% of respondent companies mentioned a presence in the region, but they accounted for only 3% of world FDI stock in 2007 (UNCTAD, 2008). FDI inflows increased significantly in 2007, as they did in the rest of Europe, reaching $44 billion. But investors reported that they did not intend to significantly increase their present level of preference for the region over the next three years. This explains the group's ranking at 9th position – down two places from last year's survey. The share of companies planning to increase their investment volumes in the coming years is fairly low and in decline: only 24%, compared to 34% last year.

Among the major location assets of the group are the size of the regional market, availability of skills and suppliers, the quality of infrastructure, and government efficiency (table 4). Two countries, Norway and Switzerland, rank among the 30 most attractive locations for companies.

Other developed countries taken together have not attracted a very high level of FDI so far. Although 52% of responding companies reported having invested in this group and its share in world FDI stock remains limited: only 4% in 2007 (UNCTAD, 2008). As in other developed regions, inflows increased considerably in 2007, to reach $58 billion, of which $23 billion went to Japan and $22 billion to Australia. Nevertheless, respondents to WIPS seemed reluctant to increase the low level of preference given to this group. In fact, according to the survey, the level of preference for this group has fallen significantly compared to last year: from 5th to 7th place. Furthermore the percentage of companies intending to increase their investment has declined sharply, from 41% a year ago to only 23% this year.

Limited growth prospects (less than 2% in Japan for the three years to come, according to the World Bank (2008)) and high labour costs are among the major handicaps of the region. Respondents to the survey cited availability of skilled labour and suppliers, the quality of infrastructure and government effectiveness among the advantages offered by this group (table 4). Australia and Japan rank among the top 30 countries as preferred locations for FDI.

Indeed, Australia remains in the list of the 10 most attractive countries in the world, despite a slight fall in the number of respondents citing it as compared to last year. Among its major assets for attracting FDI are access to the regional market and natural resources, availability of skilled labour, government effectiveness, the quality of its infrastructure, and the growth and size of the local market (table 5). North American companies, in particular, indicated their interest in Australia.

Market access is the most important location criterion

Size and growth of the market are by far the most important location criteria, followed by the quality of resources (including skilled labour) and of the technical and administrative business environment. On the other hand, government incentives play a limited role in attracting FDI.

To succeed in attracting FDI projects, a country must be able to compete with other countries in terms of the major location criteria that exercise a positive influence the decisions of potential investors. Thus it is necessary to gauge the order of importance of these criteria in order to understand the preferences of business executives for a given region or country. The survey therefore included a specific question about location determinants. Of course, the criteria differ widely depending on the industry or business function in which the investment project takes place (discussed in chapter 3). However, some general findings can be gleaned from the responses to WIPS 2008–2010 (figure 13).

- *Access to market* is by far the most important location determinant (50% of responses). “Size of local market” (18% of responses) favours large economies such as the United States, while “growth of local market” (18%) gives an advantage to dynamically expanding economies such as the BRIC countries, as confirmed by the growing interest of Japanese manufacturing TNCs for these countries (JBIC, 2008). The criterion “access to regional market” (14% of responses) favours medium or smallsized national economies that offer access to a very large regional market, such as member countries of the European Union.

Figure 13. Location criteria in order of importance, 2008-2010
(Per cent of responses to the UNCTAD survey)

Source: WIPS 2008-2010.

- *Availability and cost of labour* were also frequently mentioned by respondent companies (16% of responses overall), with two different aspects. Access to skilled labour was mentioned by 8% of the respondents. Other recent surveys of international business executives confirm that availability of important skills is increasingly considered a major issue (PwC, 2008). This criterion favours the more developed economies, such as the United States, but also some Asian economies such as Viet Nam, and, to a lesser extent, India. Cheap labour, also mentioned by 8% of the respondents, gives an advantage above all to developing Asia, especially in labour-intensive industries.

- *The technical quality of the business environment* refers to various criteria: quality of infrastructure (7% of responses), availability of suppliers (6% of responses), and access to local capital markets (3%). All of these criteria favour investments in the more developed countries and regions, such as Australia, the EU-15 and the United States.

- *Regarding the legal and administrative environment*, the provision of incentives, seems to play only a marginal role (3% of responses).

Investors are more sensitive to government effectiveness (6%), which was frequently mentioned by respondents. This favours developed economies such as the EU-15 members and Australia.

- Unsurprisingly, access to natural resources (5% of all responses) is considered especially important by companies active in the primary sector and in some commodity-intensive manufacturing activities, such as wood, paper and metal industries. This criterion favours countries endowed with natural resources, such as Indonesia, Canada, Australia and Brazil, in that order.[17] This factor also benefits African and Latin America at the regional level.
- Finally, the criterion "follow your competitor" (4% of responses) plays a particularly important role in the case of promising, newly liberalizing economies such as Viet Nam.

Notes

12 All three regions with the greatest improvements are producers of oil and raw materials.

13 Companies were asked two questions in the WIPS regarding plans for their future regional location of FDI. The first question related to "level of preference" by host region, and the second to "future investment increase" by host region. These questions were aimed at giving two complementary insights: (i) level of preference (measured as an absolute value) is the expression of an interest ex ante for a given region, while (ii) increase in investment is what the company intends to invest. It indicates the actual ability to invest in a given region based on local conditions and availability of financial resources. The value of this variable is expressed as an index compared to the base year (e.g. 2007 in the present survey). These two indicators can of course point to different regional rankings.

14 For further detail, see regional analysis and figure 11.

15 More than 8% per annum for the period 2007–2010, according to the latest World Bank forecasts (World Bank, 2008).

16 According to some experts on the WIPS panel, the rapid increase in wages in many regions of China could adversely affect its attractiveness for labour-intensive industries.

17 The relatively low attractiveness of the Russia Federation in terms of this criterion, despite the existence of a wealth of natural resources in this country, might seem rather surprising. It should be noted, however, that the Russian regulation has recently become more restrictive on foreign investments in the primary sector, with the vote of the Strategic Industry Law in 2008 (for more details, see UNCTAD, 2008).

CHAPTER 3. FDI PATTERNS BY ACTIVITY AND INVESTOR

The UNCTAD survey throws light on the different FDI patterns by categories of investors. First of all, an analysis by home region shows the fast growing ambitions of companies from the developing world, especially from Asia, to expand abroad. On the other hand, FDI prospects for companies from developed countries and regions, especially Japan and North America, have diminished compared to one year ago. All companies expressed a growing interest in investments beyond their home regions, providing evidence of a gradual extension of their strategic scope.

As for analysis by sector, companies active in *services*, such as telecommunications, transportation and other infrastructure services, are expanding their activities dynamically abroad. It should also be noted that in all industries, companies tend to internationalize their *business functions*, such as logistics, R&D and call centres. A final section of this chapter throws light on the differences in location determinants by industry.

Prospects by activities: sectors, industries, corporate functions

Good prospects for FDI in the services sector

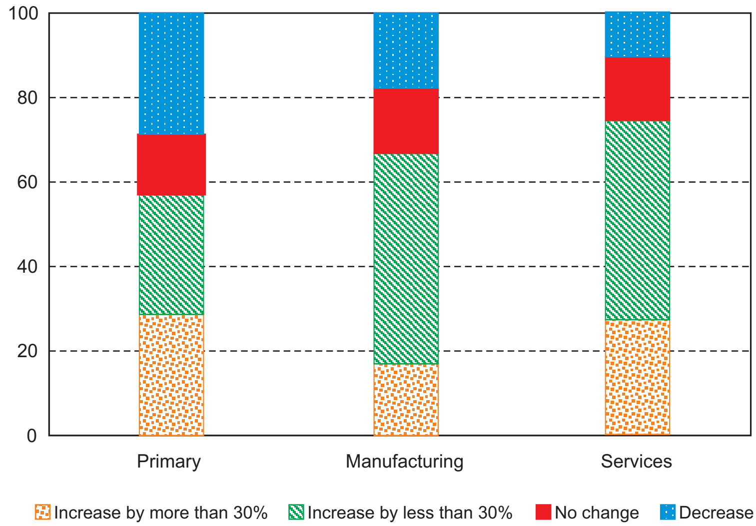
Companies in the services sector, and especially in infrastructure industries such as telecommunication, transport, electricity, gas and water, seem particularly eager to expand their FDI over the next three years.

The global setback in FDI prospects can be observed at various levels and in all sectors. Nevertheless, the services sector seems to have been less affected overall: 27% of companies in this sector (as against 33% in WIPS 2007–2009) still intend to significantly increase their investments (i.e. by more than 30%) over the next three years, while this percentage is only 17% for manufacturing, down by 12 percentage points from the previous year (figure 14 and table 6).

- The primary sector exhibits the most contrasting picture: a fairly large proportion of companies (29%) in this sector anticipate a substantial increase in FDI expenditures. This corresponds to the recent growing demand and prices of raw materials, which has prompted a new wave of investments in the extractive industries (UNCTAD, 2007b). However, the percentage of companies intending to reduce their investments is also quite high.[18]

- TNCs in manufacturing seem relatively cautious this year, as only 17% expect to substantially increase their investments abroad. For some medium- to low-tech industries, such as textiles and garments, investment prospects are somewhat below the overall average. By contrast, the equipment and machinery industry faces very favourable investment prospects.

Figure 14. Expected changes in FDI expenditure, by sector, 2008-2010
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008-2010.

- During the past two decades, companies in the services sector have accelerated their expansion abroad. After having lagged behind manufacturing in terms of internationalization, they are catching up, as shown by the high share of foreign assets in the total assets of the largest services TNCs (annex table 4). In addition, they are taking advantage of the trend towards an increasing share of services in world gross domestic

Table 6. Expected changes in investment, by industry, 2008–2010
(Per cent of responses to the UNCTAD survey)

Sector/industry	Decrease	No change	Increase of less than 30%	Increase of more than 30%
Primary	29	14	29	29
Manufacturing	18	15	50	17
Food products, beverages and tobacco	15	0	69	15
Textiles, clothing and leather	0	75	25	0
Wood and wood products	9	18	64	9
Chemicals, petrochemicals, plastics and rubber	24	21	38	17
Metals and non-metallic products	29	0	43	29
Electrical and electronic equipment	30	15	55	0
Professional equipment goods	5	15	45	35
Motor vehicles	13	13	53	20
Other manufacturing	0	25	75	0
Services	11	15	47	27
Electricity, gas and water	17	8	50	25
Construction	0	50	33	17
Trade	6	13	50	31
Transport	23	15	38	23
Telecommunications	20	0	40	40
Business and other services	0	14	57	29
Total	16	15	48	21
Memorandum item:				
Infrastructure	20	10	43	27

Source: WIPS 2008–2010.

product (GDP) and demand. Their FDI prospects for the next three years are thus very promising, especially in infrastructure activities, in which 70% of respondents intend to increase their FDI expenditures.

Promising niches for FDI growth in many industries

Going one step beyond these very broad sectoral prospects, it is possible to identify industry segments in which technological innovation, market growth, organizational changes, or a combination of all three factors may lead to a rapid rise in FDI flows. Reponses by the WIPS expert panel permits identification of some examples of these “investment niches”, particularly for projects in developed economies (Hatem, 2007).

- **Life sciences:** equipment and services for medical diagnosis (notably in-vitro), clinical tests, biotechnologies, bio-cosmetics, oncology and bio-production.
- **Agro-food industries:** intermediate food products, special ingredients (colourings, emulsifiers, preservatives), processed seafood, aquaculture products and high-value-added products (e.g. pastries, pre-cooked food, health food).

- **Transport equipment:** automotive and aerospace electronics, hybrid motors, automotive logistics and innovative materials.
- **Business services:** customer service centres, logistics and business service outsourcers, regional headquarters, R&D centres, technical engineering and financial services.
- **Personal services:** retail, care of senior citizens, health care (e.g. medical care at home and remote diagnosis), financial services.
- **Equipment and machines:** robotics.
- **Information and communication technologies:** micro and nano electronics, software for video games, interactive and virtual image technologies, Internet technologies and embedded technologies for wireless telecommunication systems.
- **Energy, chemistry and plastics, and environmental conservation:** nano materials, improvements in existing materials, photovoltaic energy, wind power, water processing, recycling of wastes and non-food use of agricultural products (e.g. bio-fuels, bio-polymers, bio-solvents, bio-materials).
- **Other industries:** technical textiles (e.g. textiles with particular qualities in terms of robustness, suppleness, or adaptability).

Various location factors and geographical preferences

Analysis of[19] location determinants by sector reveals the following findings (table 7):

- As already mentioned in the previous chapter, access to markets – especially the size and rate of growth of the local market – is the most important location factor in any economic activity, though less important, overall, for the primary sector.
- Access to natural resources is particularly important for companies active in the primary sector (a rather self-evident finding), but government effectiveness also seems to play an important role. Companies are especially sensitive to issues such as local restrictions on FDI in the oil extraction and mining industries, the level of investor protection and the existence of dispute settlement mechanisms.
- In manufacturing – and especially in some labour-intensive industries such as garment manufacture or the motor industry – access to cheap

labour seems to be a more important location factor than it is for other industries.

- Companies in services are slightly more sensitive than other companies to the overall quality of the business environment, such as access to suppliers and local capital markets, or the quality of local infrastructure.

Table 7. Importance of location factors, by sector, 2008-2010
(Per cent of responses to the UNCTAD survey)

Location factor	Primary	Manufacturing	Services
Access to international/regional markets	18	14	14
Access to local capital markets (finance)	3	2	4
Access to natural resources	17	5	5
Availability of incentives	6	3	3
Availability of skilled labour and expertise	12	8	8
Availability of suppliers	5	6	7
Cheap labour	5	10	5
Following competitors	1	4	3
Government effectiveness	13	5	6
Quality of infrastructure	7	7	8
Rate of growth of market	6	20	19
Size of total market	8	19	18
All factors	100	100	100

Source: WIPS 2008–2010.

These differences might explain the present geographical location patterns of various sectors and industries, and future preferences as expressed by respondents (table 8). Companies in the primary sector give higher preference overall to developing regions that are well endowed with natural resources, such as Africa, West Asia and Latin America. As for the manufacturing sector, the South, East and South-East Asia region, which offers large pools of cheap labour, ranks very high in the regional rankings. Companies in the services sector have a more marked preference for the EU-15, which has a generally high quality business environment.

Growing internationalization of corporate functions

Sales and production are by far the most internationalized activities, but logistics and R&D also internationalize faster than others.

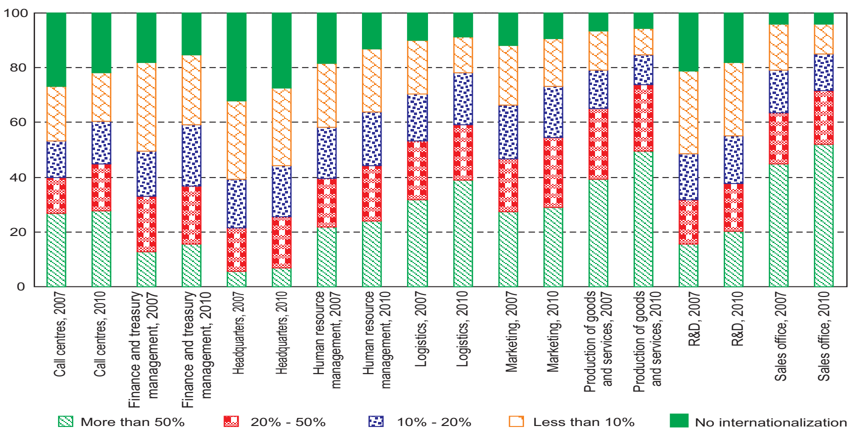
The corporate value chain consists of various functions: in addition to production and sales, it can comprise logistics, R&D, regional headquarters and various back-office activities. All these functions are expanding abroad, but with different patterns, as shown by responses to the WIPS 2008–2010 (figure 15).

Table 8. Regional preferences, by sector, 2008–2010[a]
(Average score)

Region	Manufacturing	Services	*Memorandum item:* Infrastructure
Developed			
EU-15	2.5	2.3	2.3
New EU-12	2.1	2.1	2.9
Other Europe	1.2	1.1	1.1
North America	2.6	1.6	1.4
Other developed countries	1.6	1.0	1.6
Developing			
North Africa	0.7	0.7	0.7
Sub-Saharan Africa	0.6	0.4	0.4
Latin America	1.8	1.3	1.0
West Asia	1.2	1.5	1.5
South, East and South-East Asia	2.8	2.2	1.5
South-East Europe and CIS	1.7	1.4	1.6

Source: WIPS 2008–2010.
[a] Note:(0=Not preferred at all, 4=Very much preferred)

Figure 15. Share of various corporate functions undertaken abroad, 2007 and 2010
(Per cent of responses to the UNCTAD survey)



Source: WIPS 2008–2010.

- Sales and production are the most internationalized functions: 46% and 41%, respectively, of the respondent companies reported carrying out more than half of these functions abroad. A significant increase in their degree of internationalization is expected over the next three years, mainly for market-seeking motives (for production only, their motives are also efficiency-seeking and access to specific resources of the host country).
- Logistics comes next, with one third of respondent companies having relocated more than half of their activities abroad. A substantial rise is expected from 2007 to 2010, as logistics is necessary to support production and sales. For instance, large logistic projects have been announced in the new-EU-12 countries in recent years, following the expansion into these countries of manufacturing production facilities and rapidly growing logistics bottlenecks.
- Various back-office activities (e.g. marketing and human resources) and customer relationship activities are slightly less internationalized, with less than 30% of respondent companies currently carrying out a major proportion of these activities abroad. However, increasing internationalization of back-office functions is expected in order to provide more efficient support to companies' local production and sales activities in various regions of the world.[20] Meanwhile, large TNCs tend to regroup specialized back-office functions (e.g. accounting, customer service, human resources management or communications networks) in shared service centres to provide support to all of the regional subsidiaries of their group.
- Internationalization in R&D activities is still very limited, as companies have long been reluctant to decentralize this strategic function away from the home country. However, this tendency is progressively changing, as evident by the survey. Of the respondent companies, 21% mentioned they expected more than half of their research activities to be carried out abroad by 2010, as against 16% in last year's survey. Three major factors explain this: (i) product adaptation centres need to be located close to the final markets; (ii) fundamental research centres have to be close to major scientific and technological clusters in order to gain access to the best talents and sources of knowledge; and (iii) development centres carrying out various R&D support and/or routine tasks (such as testing or software design) need to be located in areas well endowed with both qualified and lower cost human resources (for a more in depth analysis, see UNCTAD, 2005b).

- Finance and headquarters activities appear to be the least nationalized, according to the UNCTAD survey. Strategic decision-making is normally the last to be relocated abroad in the internationalization process of a firm. As overseas production and sales activities increase, companies may choose to relocate some of their decision-making processes closer to their final markets, generally at the regional level, for coordinating their activities abroad. They thus establish regional headquarters, which, in addition to their local coordination tasks, are given responsibility for a specific range of products worldwide or for a certain geographic area.

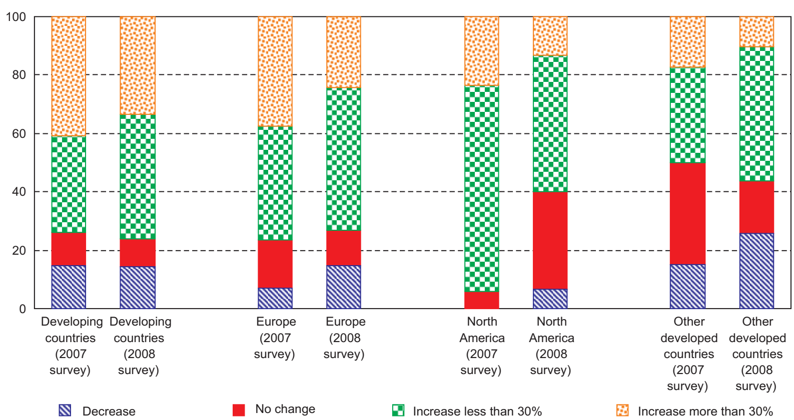
Investment patterns by home region

Overall findings

Investors from developing countries reported their intention to increase the volume of their assets abroad fairly rapidly, while companies from developed countries indicated a decline in international investment prospects.

Responses to the survey sorted by home region show that the decline in investment prospects since last year's survey is likely to affect all home regions in the world, but with differences in magnitude (figure 16).

Figure 16. Investment prospects, by home region, 2008-2010
(Per cent of responses to the UNCTAD suvey)



Source: WIPS 2008-2010.

- Companies from developing regions continue to be the most dynamic, and even more of them expect to increase their investments over the next three years than did the respondents in the previous survey: 76% as against 73% last year.

- Of the European companies, 73% still intend to increase their investments over the next three years, down by 3% from the previous survey.
- North American companies indicated the greatest setback in medium-term prospects. Only 60% of them mentioned they intended to increase their investments abroad over the next three years, as against more than 90% last year.
- Investment prospects by companies in other developed countries, especially Japanese companies, show limited dynamism: only 58% of respondent companies reported their intention to increase their investments abroad during the next three years, as against 68% for the world average. And a much smaller proportion of them than last year reported plans to significantly increase their investments.

These findings are in line with other available surveys that have assessed the business climate by regions of the world. These studies also show that the overall level of business confidence by executives has suffered much less in developing countries than in developed countries (especially in North America and the developed countries of the Asia-Pacific region). A McKinsey survey states for instance that "North American CEOs are becoming more cautious about going overseas" (McKinsey, 2008).

Changing geographical patterns: are companies expanding their strategic scope?

TNCs will remain focused on their home region as their preferred investment location, but with a growing interest in more distant locations.

Responses to WIPS 2008–2010 show a progressive evolution in the geographical patterns of FDI, where the dominant trend so far has been towards regionalization.

Presently, a larger-than-average proportion of TNCs' FDI is concentrated in their home country or region or continent.[21] The WIPS 2008-2010 results confirm the existence of these "near-shore" or regional investment strategies. For instance, the proportion of companies from the EU-15 owning foreign assets in a European country is larger than that of companies from North America or "other" developed countries. Similarly,

Table 9. Percentage of companies with investments in different host regions, by home region
(Per cent of respondent companies)

Host region/Home region	All respondents	Europe	North America	Other developed countries	Developing Asia
Developed					
EU-15	84	95	43	77	42
New EU-12	52	63	36	43	25
Other European countries	46	60	41	24	33
North America	74	72	82	87	33
Other developed countries	52	46	65	66	25
Developing					
North Africa	16	22	18	6	-
Sub-Saharan Africa	16	21	17	3	-
Latin America	46	45	54	37	17
West Asia	31	41	24	9	33
South, East and South-East Asia	70	66	59	81	77
South-East Europe and CIS	**33**	**43**	**31**	**17**	**17**

Source: WIPS 2008–2010.

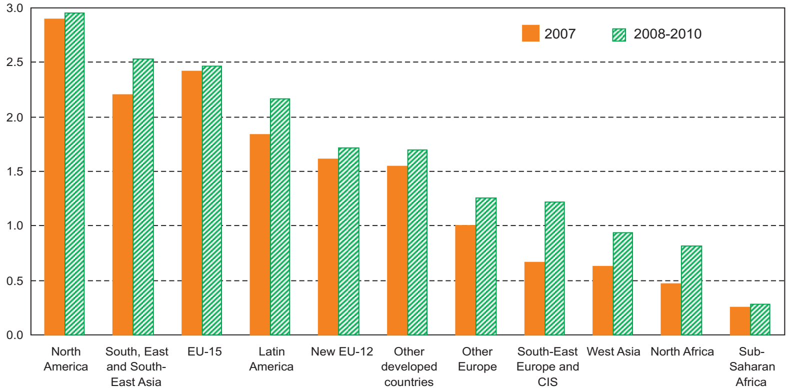
respondents from North America have a larger-than-average propensity to own assets in North America or Latin America. And, so far, companies from developing Asia have tended to concentrate their investments in South, East and South-East Asia (table 9). Further evidence of this focus on the home region is provided by looking at the present regional investment preference by the home region of investors (figures 17 to 20).

How will cross-regional differences evolve over the next three years? Figures 17 to 20 suggest two major trends:

- On the one hand, respondents indicated they will continue to give greater priority to their home region over other regions. In other words, regionalization will remain a major driving force of international expansion.
- At the same time, companies also expressed a greater interest in expanding into destinations beyond their home regions. Preferences by North American companies for their own region will remain stable, though at the same time they expect a significant increase in activities in developing regions in general – and into developing Asia in particular – as well as into the new EU-12 and South-East Europe and the CIS. The level of preference of European companies for their home region is expected to remain practically unchanged, while it will increase considerably for all

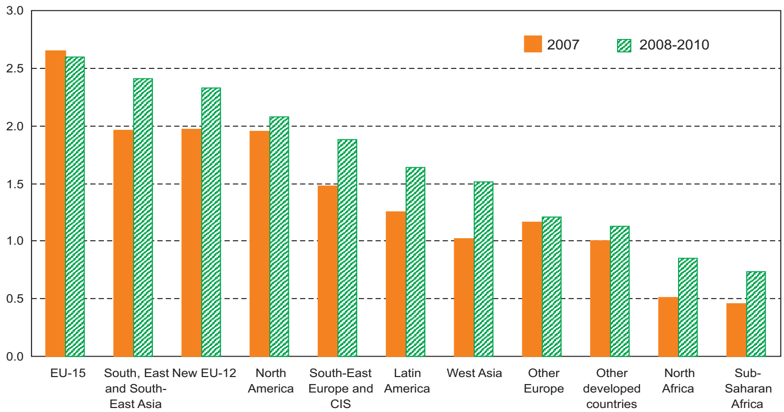
developing regions, the new EU-12 and South-East Europe and the CIS. Companies from developing Asia, on the other hand, reported plans to increase by much more their level of preference for the EU-15, North America, and South-East Europe and the CIS than for their own region.[22]

Figure 17. Regional location preferences for FDI by North American companies, 2007 and 2008-2010
(Average score)*



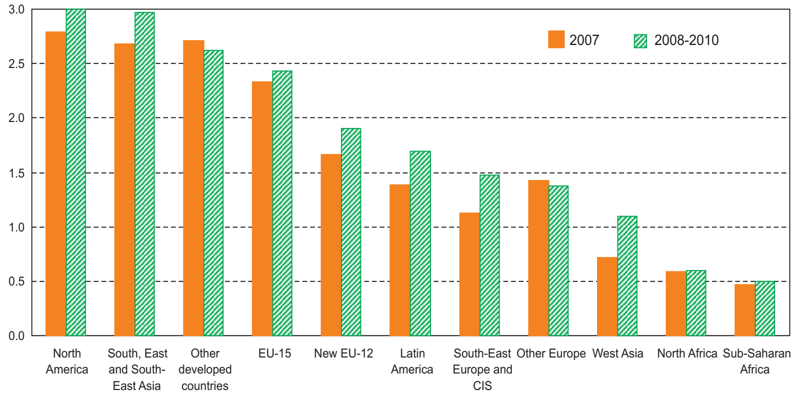
Source: WIPS 2008-2010.
* 0 = Not preferred at all, 4 = Very much preferred.

Figure 18. Regional location preferences for FDI by European companies, 2007 and 2008-2010
(Average score)*



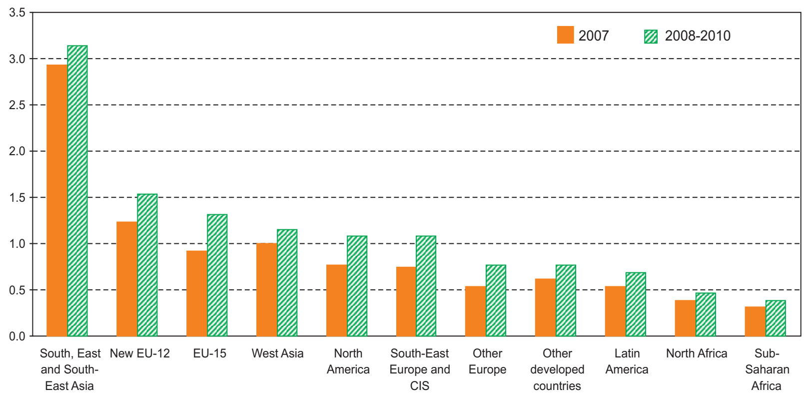
Source: WIPS 2008-2010.
* 0 = Not preferred at all, 4 = Very much preferred.

Figure 19. Regional location preferences for FDI by other developed countries companies, 2007 and 2008-2010
(Average score)*



Source: WIPS 2008-2010.
* 0 = Not preferred at all, 4 = Very much preferred.

Figure 20. Regional location preferences for FDI by developing Asia companies, 2007 and 2008-2010[a]
(Average score)*



Source: WIPS 2008-2010.
[a] Please note that for developing Asia, results are based on a limited number of observations.
* 0 = Not preferred at all, 4 = Very much preferred.

Notes

18 These results, however, are based on a limited number of observations.

19 See also the UNCTAD survey on foreign affiliates (UNCTAD, 2007d).

20 For more insights into the internationalization of services functions, see UNCTAD, 2004b.

21 For a more in- depth analysis, see (UNCTAD, 2007a and b); (A.T. Kearney, 2008).

22 The relatively high level of preference expressed by these companies for the new EU-12 members is in line with their current strategy of entering the EU market through production facilities in Eastern Europe, particularly in such manufacturing industries as household electrical and electronic appliances (AFII, 2006).

CONCLUSIONS

While world FDI flows reached a historic high in 2007, WIPS 2008-2010 shows that the current global economic slowdown and financial instability started to have a noticeable impact on FDI prospects in 2008. The respondent TNCs also seemed to be highly aware of the existence of persistent geopolitical risks, as well as a possible further worsening of the world economic outlook. However, global investment prospects for the next three years remain positive in general, due to the underlying long-term trend of internationalization of businesses.

According to the respondent companies, FDI prospects are likely to be especially bright in the services sector, particularly in infrastructure activities. FDI flows might also increase markedly in specific segments of each industry, boosted either by technical innovation (e.g. nano materials), dynamic demand (e.g. services for the elderly in developed countries), or organizational changes (e.g. outsourcing of business services). In addition, TNCs will progressively increase the degree of internationalization of all of their business functions, including those that have so far remained concentrated in their home country.

In terms of regional prospects, the survey points to an upward trend among developing and transition economies, both for FDI inflows and outflows. On the one hand, companies from these countries plan to implement ambitious international expansion strategies, resulting in dynamically expanding FDI outflows. On the other hand, the attractiveness of the developing and transition regions for inward FDI is set to increase, due mainly to expected buoyant growth of markets and the availability of abundant labour resources. In addition to China and India, other Asian countries such as Viet Nam now rank in the list of the 10 most attractive FDI locations worldwide.

Prospects for the main developed countries appear somewhat less promising: international investors indicated a decline in their relative preference for these countries compared to the rest of the world. The EU-15 and North America will nevertheless remain among the preferred destinations of inward FDI flows in the coming years, due mainly to the size of their markets, availability of suppliers and skilled labour, and the good quality of their infrastructure.

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ANNEXES

Annex 1. Methodology of the UNCTAD survey

Objective. The aim of the annual *UNCTAD World Investment Prospects Survey* (WIPS) is to give insight into investment prospects by the largest TNCs. Questions were addressed to capture, among others, changes in FDI expenditures over the next three years until 2010 as compared with 2007; the most attractive locations for FDI in the future; the most important location criteria; and the major risk factors.

About the sample. The largest 5,000 TNCs ranked by total assets were selected as the basic sample for the survey, drawing from the Thomson One Banker database (annex 2). A sample of 3,000 companies was then selected at random representing 33% of total assets. After sorting the list of companies by assets (As), a probability proportional to size (PPS) sample was drawn, using asset as the measure of size. PPS was employed to ensure that companies of all sizes would be selected in the sample, but also that a high percentage of the largest 100 TNCs[1] would be selected and surveyed.

Development of the questionnaire. A draft questionnaire was tested among a handful of executives. Based on their comments, as well as an internal review, the questionnaire was finalized and sent to the companies in April 2008.

Data collection. A mixed-mode approach for data collection was adopted, using the post, e-mail and telephone follow-up. The questionnaire was also available for completion online. Between April and June 2008, 226 responses were collected (annex 3), representing 9.4% of total assets of the sample.

Reliability of the survey. The structure of respondent companies by sectors is very similar to that of the total population of companies. Regarding the structure by home regions, various usual statistical tests showed that the over-representation of European and Japanese companies did not introduce a statistical bias in the findings of the survey.

Note

[1] The list of the 100 largest TNCs in the world ranked by foreign assets can be found in UNCTAD's annual *World Investment Reports*.

Annex table 1. Comparing frame, sample and responses, by region
(Per cent of respondent companies)

Region	Frame[a]	Sample	Survey responses
All developed regions	77	82	88
Europe	33	35	54
North America	29	31	14
Japan	12	13	17
Other developed countries	3	3	3
All developing regions	23	18	11
Developing Asia	20	15	8
Unknown	..	..	2
Total	100	100	100

Source: WIPS 2008-2010.
[a] The frame refers to the population of the 5000 biggest TNCs by total assets.

Annex table 2. Comparing frame, sample and responses, by sector
(Per cent of respondent companies)

Sector	Frame	Sample	Survey responses
Primary	4	5	4
Manufacturing	63	62	62
Services	33	34	31
Unknown	..	..	3
Total	100	100	100

Source: WIPS 2008-2010.

Panel of location experts. In addition to the survey carried out among companies, a panel of location experts was established to obtain qualitative information on FDI trends and to review the drafts of this study (annex table 3).

Annex table 3. List of members of the WIPS

Last name	First name	Function	Institution
Ahmad	Ash	Deputy Director, Strategy and Analysis Division	Invest in Canada Bureau
Alvarez	Oscar	Economic Intelligence Division Manager	Interest Invest in Spain
Buck	René	President	Buck Consultants International
de Saint-Laurent	Bénédict	Délégué général, Animacoop	Invest in Med
Knutsson	Christina	Director	gdpglobal development
Lemagnen	Peter	Director	Oxford Intelligence
McMenamin	Paid	Chairman	Deerac Fluidics
Mia	Irène	Senior economist	World Economic Forum
O'Connell	Mark	Chief executive officer	OCO Consulting
Runnbeck	Magnus	Head of research	Invest In Sweden Agency
Spee	Roel	Senior economist	PLI - Global location Strategies - BM Global Business Services
Ushida	Susumu	Senior economist	Japan Bank for International Cooperation
Ushida	Susumu	Senior economist	Japan Bank for International Cooperation

Annex 2. Characteristics of top 5,000 companies

Annex table 4. Top 5,000 companies by sector and industry
(Per cent)

Sector/Industry	Number of companies (% of total)	Foreign assets (% of total)	Internationalization ratio[a]
Primary	4.2	6.7	39.4
Manufacturing	62.7	62.9	32.0
Food products, beverages and tobacco	4.1	6.1	38.1
Textiles, clothing, leather	2.5	0.4	33.8
Chemicals, petrochemicals, plastics and rubber	9.7	10.7	33.1
Metals and non-metalic products	4.4	4.3	34.7
Electrical and electronic equipment	12.1	5.6	32.5
Professional equipment goods	16.9	11.3	27.8
Motor vehicles and transportation	4.2	11.7	33.3
Other manufacturing	6.6	10.7	33.8
Services	33.3	30.0	33.7
Electricity, gas and water	1.7	6.9	32.2
Trade	11.7	8.7	35.4
Transport and telecommunications	5.4	10.4	34.5
Business and other services	16.3	6.6	31.8
Total	100	100	33.1

Source: UNCTAD, based on Thomson ONE Banker database.
[a] Ratio of foreign assets to total assets.

Annex table 5. Top 5,000 companies by size of total assets ($ million)

Size of total assets	Number of companies (% of total)	Foreign Assets (% of total)	Internationalisation ratio[a]
0-500	38.0	2.7	63.5
500-4 000	41.3	11.1	31.6
4 000 and over	19.9	86.2	32.5
Unspecified	0.8	..	..
Total	100.0	100.0	33.1

Source: UNCTAD, based on Thomson ONE Banker database.
[a] Ratio of foreign assets to total assets.

Annex table 6. Top 5,000 companies by total assets, sorted by home country of the parent company

Region	Number of companies (% of total)	Foreign assets (% of total)	Internationalization ratio[a]
All developed regions	77.3	92.2	31.7
Europe	33.1	52.1	42.5
North America	28.6	27.3	22.0
Japan	12.4	11.3	25.5
Other developed countries (excluding Japan)	3.3	1.5	36.7
All developing regions	22.6	7.8	60.6
Developing Asia	19.8	6.6	90.2
South-East Europe and CIS	0.1	..	..
Total	100.0	100.0	33.1

Source: UNCTAD, based on Thomson ONE Banker database.
[a] Ratio of foreign assets to total assets.

Annex 3. Survey results: detailed statistical tables

Annex table 7. Respondents by sector and industry

Sector/industry	Number	Percentage of total sample
Primary	**8**	**4**
Manufacturing	**141**	**62**
Food products, beverages and tobacco	13	6
Textiles, clothing and leather	4	2
Chemical, petrochemicals, plastics and rubber	31	14
Metals and non-metallic products	17	8
Electrical and electronic equipment	22	10
Professional equipment goods	21	9
Motor vehicles and transportation	18	8
Other manufacturing	4	2
Services	**70**	**31**
Electricity, gas and water	12	5
Trade	16	7
Transport and telecommunications	20	9
Business and other services	14	6
Unspecified	**7**	**3**
Total	**226**	**100**

Source: WIPS 2008-2010.

Annex table 8. Respondents by company size[a]

Size ($ million)	Number	Percentage of total sample
0-500	19	8
500-4 000	102	45
4 000 and over	97	43
Unspecified	8	4
Total	226	100

Source: WIPS 2008-2010.
[a] Classified by magnitude, of the assets (in million) of the parent company.

Annex table 9. Respondents by home region

Region	Number	Percentage of total sample
All developed regions	**198**	88
Europe	122	54
North America	31	14
Japan	38	17
Other developed countries (excluding Japan)	7	3
All developing regions	**24**	11
Developing Asia	19	8
Other developing countries	5	2
Unspecified	**4**	2
Total	**226**	100

Source: WIPS 2008-2010.

Annex 4. Classifications used in the survey

The classifications used in this survey, are generally the same as those used in UNCTAD's *World Investment Reports*, but with slight differences. Annex tables 10 and 11 show the correspondence between the survey classification and the usual UNCTAD ones.

Annex table 10. Regional classification

	UNCTAD survey
Europe	EU-15, new EU-12, other Europe
North America	Canada and the United States
Other developed countries	Australia, Israel, Japan, New Zealand
Developing countries	All other countries

Annex table 11. Classification by host regions

Selected regions referred to in the UNCTAD survey	Countries
EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom
New EU-12	Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia
Western Europe	EU-15, Other Europe, Cyprus and Malta
Other Europe	Norway and Switzerland
North America	Canada and the United states
Other developed countries	Australia, Israel, Japan and New Zealand

Note: For the other regions not listed above, the standard United Nations classification was used.

Annex table 12. Classification by sector and industry

UNCTAD World Investment Prospects Survey	*World Investment Report*
Primary	Agriculture, hunting, forestry and fisheries, mining, quarrying and petroleum
Manufacturing	**Manufacturing**
of which:	*of which:*
Food products, beverages and tobacco	Food, beverages and tobacco
Textiles, clothing and leather	Textiles, clothing and leather
Pharmaceuticals, chemicals and plastics	Chemicals and chemical products
Metals and non-metallic products	Metals and metal products, non-metallic mineral products
Electrical and electronic equipment	Electrical and electronic equipment
Professional equipment goods	Machinery and equipment
Motor vehicles and transportation	Motor vehicles and other transport equipment
Other manufacturing	Wood and wood products, publishing, printing and reproduction of recorded media, coke, petroleum products and nuclear fuel, other manufacturing
Services	**Services**
of which:	*of which:*
Electricity, gas and water	Electricity, gas and water
Trade	Trade
Transport and telecommunications	Transport, storage and communications
Business and other services	Business activities, construction, hotels and restaurants, finance, public administration and defence, education, health and social services, community, social and personal service activities, other services

QUESTIONNAIRE

World Investment Prospects Survey 2008-2010

In order to improve the quality and relevance of the work of the UNCTAD Division on Investment and Enterprise, it would be useful to receive the views of readers on this and other similar publications. It would therefore be greatly appreciated if you could complete the following questionnaire and return it to:

Readership Survey
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Switzerland
Or by Fax to: (+41 22) 907.04.98

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2. Which of the following best describes your area of work?

Government	☐	Public enterprise	☐
Private enterprise institution	☐	Academic or research	☐
International organization	☐	Media	☐
Not-for-profit organization	☐	Other (specify)	☐

3. In which country do you work?

4. What is your assessment of the contents of this publication?

Excellent	☐	Adequate	☐
Good	☐	Poor	☐

5. How useful is this publication to your work?

Very useful ☐ Of some use ☐ Irrelevant ☐

6. Please indicate the three things you liked best about this publication and how are they useful for your work:

____

____

7. Please indicate the three things you liked least about this publication:

____

____

8. On the average, how useful are these publications to you in your work?

Very useful ☐ Of some use ☐ Irrelevant ☐

9. Are you a regular recipient of Transnational Corporations (formerly The CTC Reporter), the Division's tri-annual refereed journal?

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If not, please check here if you would like to receive a sample copy sent to the name and address you have given above. Other title you would like to receive instead (see list of publications):

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