

**Prospects for
Foreign Direct Investment
and the Strategies of
Transnational Corporations,
2004-2007**



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Acknowledgements

The Global Investment Prospects Assessment (GIPA) was conducted by a team comprising: James X. Zhan (Team Leader); Ludger Odenthal (Deputy Team Leader); Persephone Economou and Padma Mallampally (Senior Advisors); Jonathan Cobb and Frank Roger (Experts); Samantha Dolet, Cristina Gueco, Anne Rijntjes and Chen Zhang (Assistant Researchers). Karl P. Sauvant provided guidance to the research. Anne Miroux and Kalman Kalotay commented on the study. Jayanti Gupta and Josephine Lamptey provided administrative assistance. The cover was designed by Diego Oyarzun-Reyes. Graphics and desk-top publishing were done by Teresita Sabico.

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Summary of Main Findings

Prospects for global foreign direct investment (FDI) are expected to be positive in both the short term (2004-2005) and the medium term (2006-2007). The extent and the speed of the FDI recovery, however, will vary by region and industry. Despite the FDI recovery, competition for FDI is expected to remain fierce in the years to come.

The stage for the expected FDI recovery is set by the acceleration of global GDP growth, the relatively low levels of interest rates in major capital exporting economies, and the increase in domestic investment and industrial output. Corporate profits of TNCs are also rising, as are stock valuations. All groups surveyed by UNCTAD agreed that investment confidence is returning and that global FDI flows are likely to increase during the period 2004-2007.

Services are expected to be the sector most attractive to FDI, particularly in tourism, telecommunications and IT. Prospects for manufacturing are also expected to be good, although varying by industry. Electronics, automobiles and machinery are expected to perform better. The primary sector is expected to see a moderate FDI recovery.

Asia and Central and Eastern Europe are viewed as the most attractive regions for FDI, while relatively weaker FDI recovery is expected in Western Europe and Africa in 2004-2005, and in Latin America in 2006-2007. The top FDI recipients for 2004-2005 are likely to be China and India in Asia, South Africa and Egypt in Africa, Brazil and Mexico in Latin America and the Caribbean, Poland and Russia in Central and Eastern Europe, and the United States and the United Kingdom among the industrialized countries.

The United States, the United Kingdom, France, Germany and Japan will continue to be the main sources of FDI, but newcomers such as China and South Africa will also be on the list of top FDI providers.

Mergers and acquisitions are expected to resume their popularity in developed economies, while greenfield investments will be preferred in developing countries.

The surge in offshoring worldwide indicates that lower-labour-cost countries will benefit most from FDI, in activities such as production, logistics and support and sales & marketing. Infrastructure and skill-dependent investments will also expand in certain countries.

Policy competition for FDI is getting fierce. Most host countries are expected to intensify their efforts in investment targeting, in addition to offering more generous investment incentives and further liberalization.

These generally positive trends may be counterbalanced by a number of risk factors, including oil price volatility, the rise of new protectionism impeding trade and outward FDI, regional conflicts and increased threats from terrorism. Also on the down side, some major developed and developing countries continue to struggle with structural impediments to economic growth and FDI flows.

Overall, the positive factors will outweigh the negative ones, although the recovery will be modest when compared to the 1999-2000 FDI boom driven by massive M&A deals.

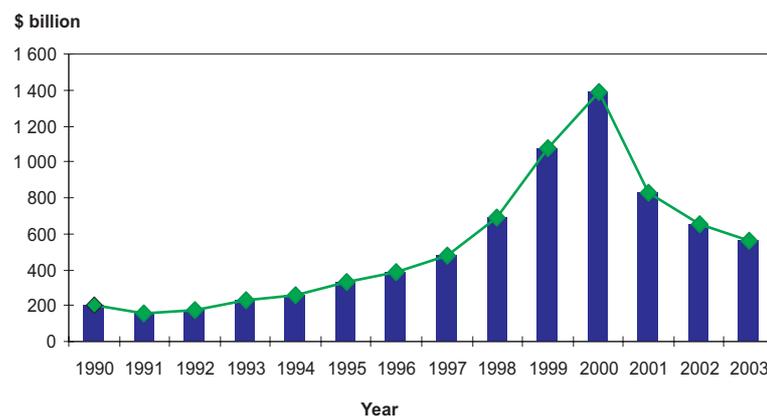
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I. Background

For most of the 1990s, total foreign direct investment (FDI) flows attained new record levels every year (figure 1), and increasing investment flows were taken for granted in many countries. Then, in 2001, investment plummeted, and the subsequent years saw a steady and steep decline in global FDI flows. For an analysis of these trends, see the *World Investment Reports 2000-2004*.

Figure 1. Trends in global FDI flows, 1991-2003



Source: UNCTAD, www.unctad.org/fdistatistics.

During this FDI recession, a number of countries also saw an increase in the number of TNCs scaling down their investment plans or reducing their presence in their economies. The UNCTAD survey of IPAs in 2003 saw 26% of respondents reporting TNCs cancelling investment projects and 23% scaling down prospective projects in their countries. Many companies sold their foreign assets to pay off debts they had accumulated earlier when trying to speed up their overseas expansion through expensive merger and acquisition (M&A) deals.

The turbulent developments of recent years have increased the uncertainty on the part of companies and policymakers alike as to what the future holds. There is now more than ever an interest in, and need for, information to help understand future trends in FDI. Will companies start expanding and investing again, or will the present slump continue? What policies should be put in place to respond to the expected upturn in FDI flows, or to be well equipped for even greater competition to attract FDI?

It is in the context of these questions that the UNCTAD surveys of 2004 on FDI prospects were carried out. Having run a successful survey of IPAs in 2003, UNCTAD decided to expand the reach of the survey to incorporate two further groups with valuable views on FDI flows: TNCs and international investment location experts. This led to the undertaking of three separate surveys of FDI prospects over the next three years. The findings of each survey were released separately during the first half of 2004.

This publication brings together the results from these three surveys, covering the whole spectrum of views on FDI prospects of IPAs, TNCs and location experts around the world.

The publication consists of the following chapters: chapter II assesses overall FDI prospects. Chapter III presents future trends for individual economic regions. Chapter IV analyses policy developments and implications. Chapter VI explains the methodology employed in the prospects assessment.

II. Global Prospects

A. Prospects for global FDI flows

Global FDI flows are likely to increase during the period 2004-2007. Available relevant leading macroeconomic and microeconomic indicators influencing future FDI flows as well as the findings of the three UNCTAD global surveys point in the same direction. While the strength of the recovery and the extent to which it will affect different regions will vary, there is little doubt that global FDI flows will rebound after the past few consecutive years of steady decline.

Prospects for a future increase in FDI depend on a number of macro and micro factors and policy developments, as well as on the impact of specific events on investors' plans. Prospects for all of these factors so far indicate a new FDI recovery in the short and medium term, albeit one that is likely to be modest compared to the boom experienced during 1999-2000. Specifically:

- Macroeconomic growth rates measured by GDP are expected to accelerate.
- The level of global interest rates is expected to remain relatively low, keeping the cost of corporate financing for investment low.
- Domestic investment, a significant component of gross fixed capital formation (GFCF), and industrial output are both expected to increase.
- Most companies are reporting increasing profits again, strengthening their capacity to invest.
- The rise in stock valuations is expected to boost the value of cross-border M&A deals as asset values of individual target companies increase, even if the number of M&A transactions remains unchanged.
- Intensified policy efforts at national and international levels may facilitate additional FDI flows.

The picture described above is subject to several factors that might impede the future growth of FDI flows. For example, high oil prices and other factors may subdue the economic growth of some major home and host economies. It should also be noted that the forthcoming FDI boom is expected to be driven mainly by cyclical factors; countries still need to address structural problems in order to sustain the growth of FDI in the years to come. Other risks include a possible rise in trade protectionism (affecting export-oriented FDI) and impediments to outward investment in some countries; and increased risks related to terrorism and regional conflicts. Furthermore, the tapering-off of the privatization process in many countries means that less FDI will be channelled through this mode in the future.

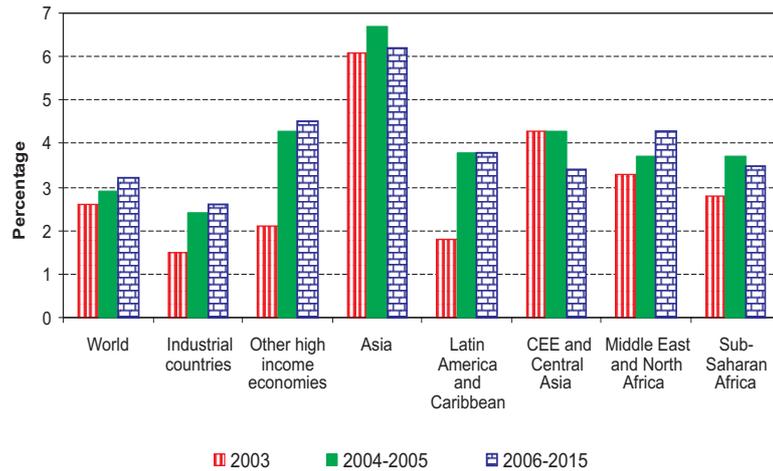
While the above factors might play a more important role for some industries and countries than for others, all available forecasts expect the positive factors ultimately to outweigh the negative ones.

1. Leading macroeconomic indicators

The consensus of the main multilateral agencies is that global economic recovery will continue in 2004 and beyond.¹ The economic growth rate for the world as a whole is expected to be over 3% during 2004-2005, as compared to 2% in 2003 (figure 2). The longer-term prospects are considered even brighter, with growth expected to gather further momentum in the world's major economies.

While the improvement in growth prospects is broad-based across almost all major economies, it varies in strength. The GDP growth forecast of 4.3% for the United States and of 3.1% for Japan is in both cases substantially higher than the average growth rate of the last 10 years. Western Europe has entered recovery later than other major developed countries, and its GDP growth will likely remain below potential in 2004 before accelerating in subsequent years.² For developing economies, growth prospects are bright for the short and medium term. Strong growth is also forecast for Central and Eastern Europe (CEE).

Figure 2. Forecast of GDP growth rates, 2003-2015



Source: World Bank, Global Economic Prospects, 2004.

Overall, there is a stable and positive relationship between global FDI flows and world GDP growth. On the supply side, FDI is affected by the availability of investible funds from corporate profits or loans, which in turn are affected by domestic economic conditions. On the demand side, growing overseas markets lead TNCs to invest more, while depressed markets inhibit them.

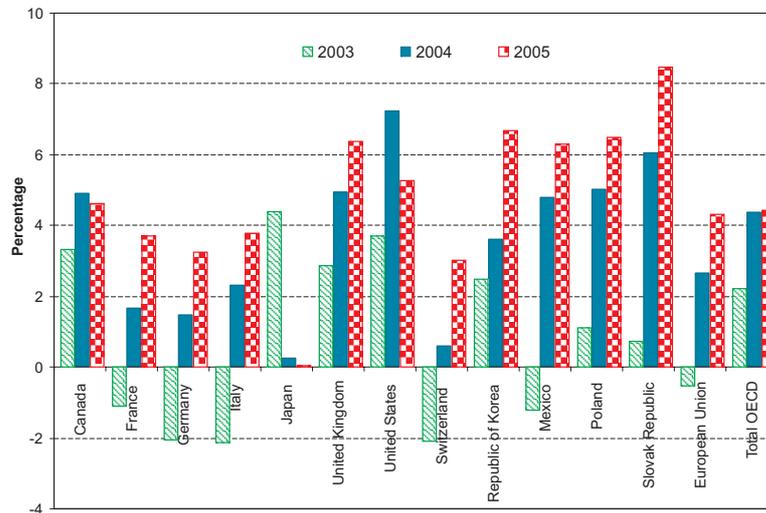
Over the past two decades, booms in global FDI have followed periods of high economic growth, while declines have followed recessions or periods of slow growth. The decline in FDI flows in 2001 and 2002 followed rapid increases in FDI growth during the late 1990s. There was a similar pattern during the late 1980s and early 1990s, as well as in 1982-1983. Each downward cycle in FDI punctuates a long upward trend in FDI every 10 years or so. Recent economic trends indicate that an FDI upturn is in the works following the recent investment recession.

Further corroborating the expected upturn in growth is the expectation that domestic investment as measured by gross fixed capital formation (GFCF) will increase rapidly in the coming two years. For almost all the major economies (Japan being the

exception), GFCF growth is expected to be stronger in 2004-2005 as compared with 2003 (figure 3). This indicates a stronger business demand in host countries, as well as greater opportunities for FDI in the years to come.

Prospects for an increase in GDP and domestic investment growth rates therefore augur well for an increase in FDI flows.

Figure 3. Gross fixed capital formation: percentage change from previous year, 2003 and forecasts for 2004-2005
(Major economies)



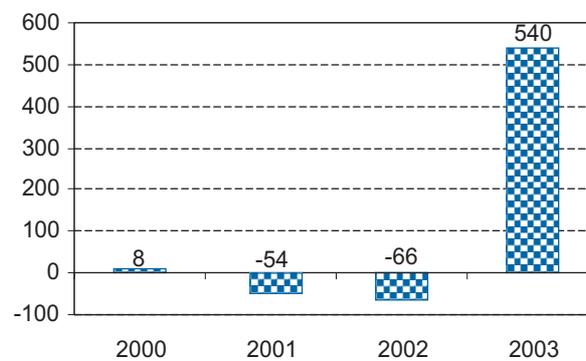
Source: UNCTAD, based on OECD Economic Outlook No. 74, December 2003.

2. Leading microeconomic indicators

The recovery in economic growth and stronger demand in a range of industries has improved corporate profits over the past year, thus increasing the availability of investible funds for the near future. The global 500 largest companies reported higher revenues in 2003 than in 2000 at the height of the internet and stock-market boom. The average net profits of the top 500 companies in the United States increased by 540% in 2003 (figure 4), after heavy losses in the previous two years. Similarly, average

net profits of the 1,000 largest Asian companies (mainly TNCs from Japan, China, Hong Kong (China), Malaysia, Republic of Korea, and Taiwan Province of China) also increased significantly (by 128%) in 2002. Profits of responding TNCs surveyed by UNCTAD increased more than 20% in the past two years.³

Figure 4. Profits of the biggest 500 United States corporations, 2000-2003
(Per cent)



Source: www.fortune.com.

This optimism has also fostered conditions for better stock market performance and portfolio equity flows. Improved stock market performance can boost the value of cross-border M&As, as well as the ability of TNCs to raise funds for investment by issuing new stock or by borrowing on the value of their assets. In other words, financial conditions pertaining to TNCs have moved in a direction that augurs well for greater FDI in the near future.

The massive stock of FDI already in place gives rise to two trends that sustain FDI flows. First, it generates revenues and earnings, a portion of which is reinvested. In the United States, for example, reinvested earnings and equity outflows increased in 2003. Reinvested earnings are likely to remain important in sustaining future FDI flows.

Second, the large FDI stock requires additional capital investment to make up for depreciation and ensure that assets remain in working order. Positive prospects for economic growth have encouraged TNCs to once again consider growth-oriented

strategies. Furthermore, relatively low interest rate levels in major home countries reduce the cost of corporate financing for new investment projects. During the past three years, firms have worked off many of the financial imbalances accumulated in the late 1990s, as well as excess capacity and large inventories.⁴ Companies are now ready to expand once again. All this can boost further FDI flows.

Looking ahead, business confidence has increased significantly over the past year. The PriceWaterhouseCoopers global survey (carried out at the end of 2003) finds that CEOs worldwide are optimistic about their companies' growth potential, with more than 80% of the nearly 1,400 CEOs surveyed indicating confidence in their revenue growth in 2004 and the subsequent three years. In a poll of 1,114 experts from 92 countries, the International Chamber of Commerce and the IFO research institute World Economic Survey (February 2004) also find global economic confidence at a ten-year high.

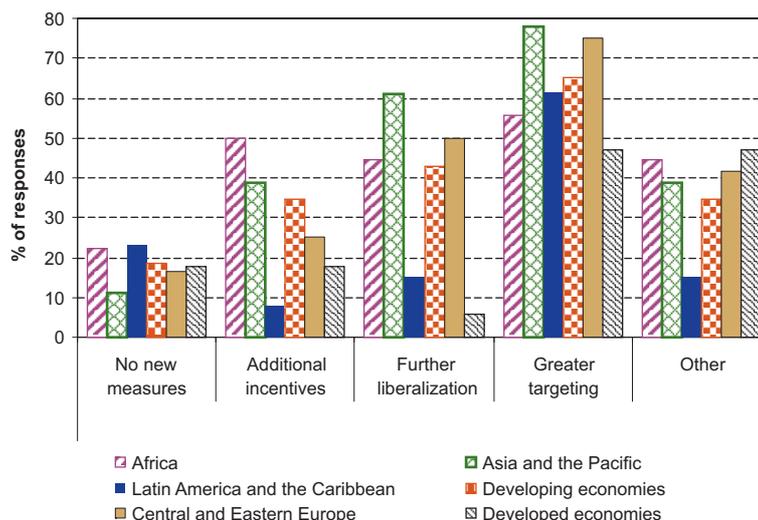
3. FDI policy developments

In an effort to stem the downward FDI trend and to respond to ever-increasing competition for FDI projects, many countries have further liberalized their regulatory regimes to attract FDI. For 2003, 220 changes in national FDI regimes were more favourable to FDI. This represents a 50% increase over the year 2000 (with 147 changes). These changes were initiated by a record number of 82 countries (UNCTAD, 2004d).

The recent trends in FDI liberalization have been confirmed by UNCTAD's survey of national investment promotion agencies, which indicates that countries from all regions further liberalized their FDI regimes during 2003, particularly those in Africa (40%), Asia and the Pacific (61%) and CEE (50%). Furthermore, countries intensified their efforts in FDI promotion, particularly through greater targeting and additional incentives.

Complementing the increase in domestic regulatory initiatives, the recent FDI recession has also spurred intensified efforts in investment promotion (figure 5). Furthermore, many countries are flanking their national initiatives with the conclusion of bilateral or regional agreements covering FDI. As a consequence, TNCs are offered a more attractive investment environment.

Figure 5. Preferred policy measures to attract FDI in 2003
(Per cent of responses of IPAs)



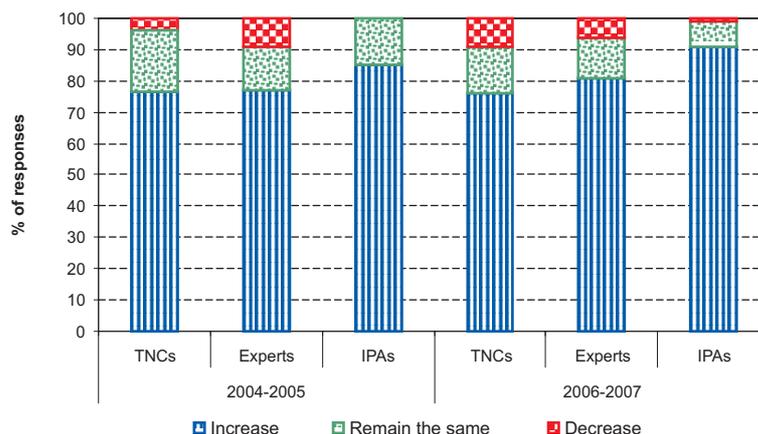
Source: UNCTAD, www.unctad.org/fdiprospects.

4. Findings of UNCTAD’s global surveys

The expectations that stronger growth will lead to an increase in FDI flows have been confirmed by the findings of UNCTAD’s worldwide surveys. On the whole, there is a consensus among large TNCs, national IPAs and international investment location experts that a new FDI upturn is expected in the short and medium term (figure 6). There are some minor differences, however, as IPAs are more optimistic than the other two groups. For the medium term, all groups tend to be slightly more positive than for the short term, while TNCs for both the short and medium term have slightly lower expectations than the other groups surveyed.

Overall, the above leading economic indicators, business confidence and expectations, as well as policy developments, all point to positive prospects for FDI. Counterbalancing these positive factors are the potential risks. These increased risks are likely to have implications for the future regional and sectoral patterns of FDI flows.

Figure 6. FDI prospects: comparison of perceptions of TNCs, experts and IPAs



Source: UNCTAD, www.unctad.org/fdiprosppects.

B. Industry patterns of future FDI flows

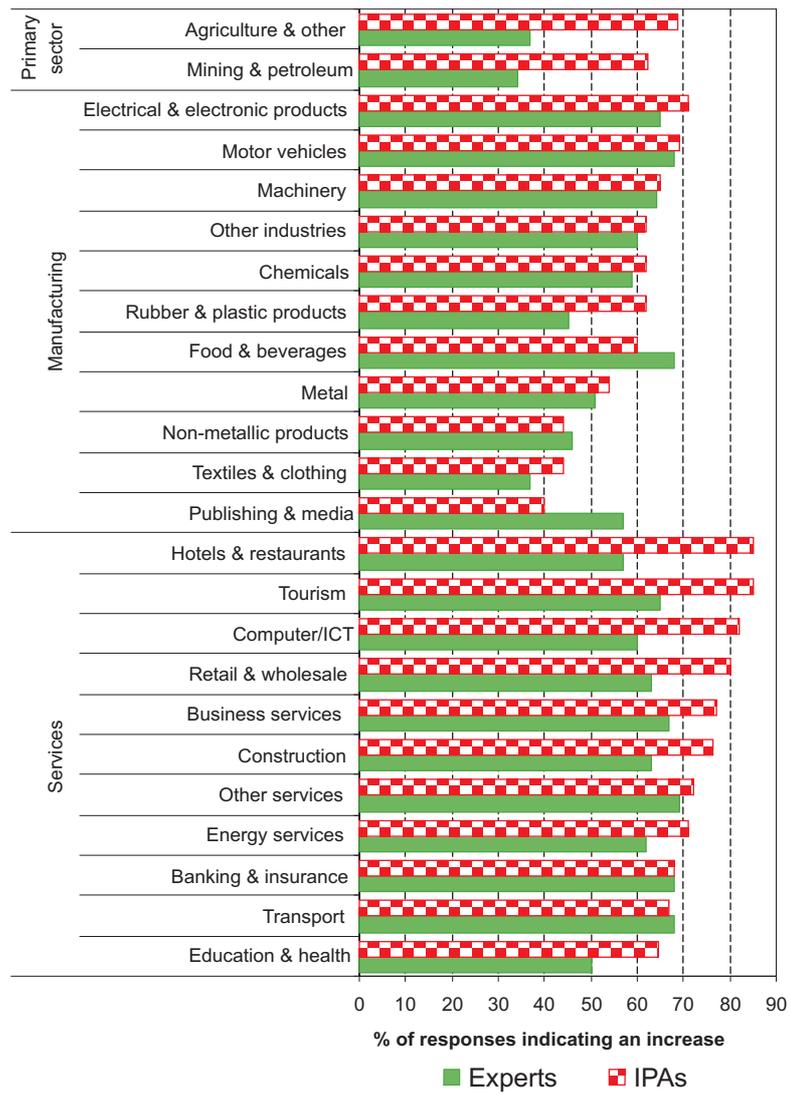
The revival of FDI flows is expected to be mainly in the services sector, and to a lesser extent in manufacturing industries. Prospects for an increase in FDI flows to the primary sector are less certain. This difference in prospects between services and manufacturing sectors and between individual industries is particularly apparent in the views of IPAs, with investment location experts and TNCs taking a more balanced view.

1. Prospects for the services sector

All groups surveyed, especially IPAs, were very optimistic about FDI prospects in the services sector, expecting an increase in FDI flows in business services, tourism, computer/ICT, retail and wholesale, construction, energy services, banking and insurance, and transport (figure 7).

The above views were corroborated by forecasts reported by individual service industries. According to the Institute for Supply Management (ISM), the index of non-manufacturing

Figure 7. FDI prospects by industry, 2004-2005



Source: UNCTAD, www.unctad.org/fdiprospects.

business activity in the United States rose to 68% in April 2004, reaching a new high for the index since the inception of ISM's Non-Manufacturing Business Survey in July 1997 (above 50% indicates an expansion). The global tourism industry is expected to expand in 2004 and beyond, according to the World Tourism Organization.⁵ ICT industries are also recovering strongly, and should continue to do so with spending growth in telecom expected to surpass global GDP growth during 2004-2008. On the IT side, consumer spending on computers is expected to increase by 8-9% annually. Corporate IT spending is also expected to increase.⁶

2. Prospects for the manufacturing sector

FDI prospects for the manufacturing sector are positive. The majority of respondents for IPAs and international location experts expect an increase in FDI flows into most manufacturing industries. The optimism for FDI growth in the manufacturing sector is backed up by the Manufacturers' Alliance Business Outlook Index in the United States, which rose to 77% in 2004, the highest in its 31-year history.⁷ However, individual industry prospects vary.

Investment location experts and IPAs consistently rank electrical and electronic equipment, motor vehicles, and machinery and equipment the highest in terms of FDI prospects in the manufacturing sector. The outlook for semiconductors, computer equipment and construction machinery is also expected to be bright. The automotive industry is expected to return to growth in 2004, with global sales expected to increase by 3-4% annually in the near future. Regions in which the rebound of the automotive industry is expected to be strong are North America and Western Europe; while in emerging markets such as China and India, a significant surge in demand is forecast to occur.⁸

3. Prospects for the primary sector

There are divergent views on FDI prospects for the primary sector. IPAs are far more bullish, while international location experts are cautiously optimistic. Agriculture is expected to have better prospects for FDI than mining and petroleum. Whether the predictions of location experts and IPAs hold true will depend largely on developments and fluctuations in commodity prices.

After depressed commodity prices in 2000-2003, metal producers are looking forward to increases in gold, copper, nickel, aluminium and zinc prices to drive up investments and the consolidation in this sector. Higher commodity prices are the result of increased growth in manufacturing, especially in China. This surge in metal prices will lead to an increased need for exploration and reserve bases, which will consequently stimulate M&A activity in the mining sector.⁹

Evidence to date suggests that current high petroleum price levels will continue for some time into the future, thus making FDI into that sector attractive.¹⁰ According to the International Energy Agency, the world's increasing demand for oil and natural gas will require oil companies to invest \$5.3 trillion in this industry over the next three decades. Although FDI in some Middle Eastern countries has declined, it has been increasing in West Africa, Russia and the Caspian region.¹¹

C. Prospects for major host and home countries

1. Top destinations for FDI

The largest recipients of FDI flows in each region were expected to continue to be the most likely destinations of FDI in the future, with some important exceptions. In Asia for instance, India was ranked right behind China, even though it is yet to become a major FDI recipient in the region (table 1). Thailand's third place is also somewhat surprising considering that there are several countries in Asia that have received more FDI than Thailand in the past.

In Africa, South Africa and Nigeria are the only sub-Saharan countries on the list of the top five destinations for the continent as a whole. The other three top destinations are Egypt, Morocco and Algeria. The responses suggest that a country's natural resources, rather than its level of economic or political stability, determine the likeliness of receiving increased FDI in the future in the region.

In Latin America and the Caribbean, the traditional FDI powerhouses - Brazil, Mexico, Argentina and Chile - are on top of the list, with Venezuela in fifth place. Brazil leads the way by a huge margin.

Table 1. Bright spots for FDI as ranked by FDI experts, 2004-2005

Region/ country	Africa	Asia and the Pacific	Latin America and the Caribbean	Central and Eastern Europe	Developed economies
Top 1	South Africa	China	Brazil	Poland	United States
Top 2	Egypt	India	Mexico	Russian Federation	United Kingdom
Top 3	Morocco Nigeria	Thailand	Argentina	Hungary Czech Republic	Canada
Top 4	..	Viet Nam Republic of Korea	Chile	..	Germany
Top 5	Algeria		Venezuela	Romania	Japan

Source: UNCTAD, www.unctad.org/fdiprospects.

In the CEE region, Poland is top-placed (ahead of the Russian Federation), due to its accession to the EU. The high rankings of Hungary and the Czech Republic can also be attributed in part to EU accession. The rankings, however, point to the emergence of a more complex picture than just a mere accession versus non-accession divide in CEE countries. For example, Romania, a non-accession country, ranks among the top five in the region. These results could revive discussions on the applicability to the CEE countries of the “flying geese” model used to describe industrial restructuring in South-East Asia (UNCTAD, 2003). The accession countries continue to receive FDI with an increasing share of upgraded and high value-added investments, while investments based mainly on low labour costs are gradually shifting to other countries in the region, including Romania, where accession-driven pressure on prices and wages has not yet set in.

In the case of developed countries, the positions assigned by the respondents to Canada and Japan among the most attractive

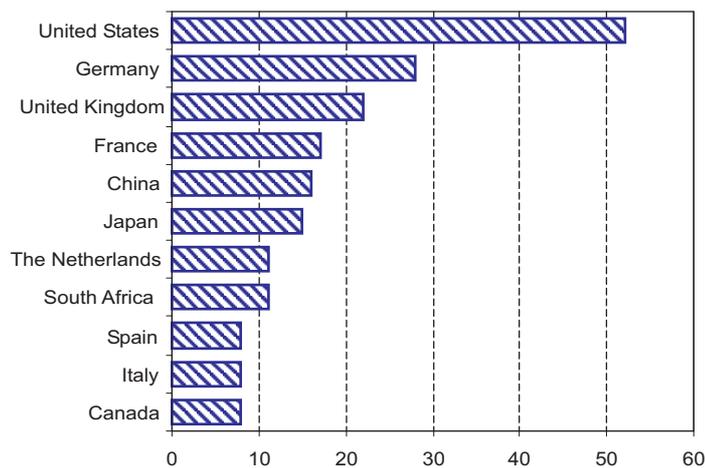
destinations are somewhat surprising, especially since Japan has only relatively recently begun to seek FDI actively. Japan’s high ranking might be explained by the renewed trust of investors and the country’s economic recovery after years of stagnation.

These results, however, should be interpreted with caution. They do not mean that the respondents expect the countries in top places to receive the largest FDI flows in absolute terms. Rather, the results point to the business opportunities for firms in their respective industries, even if their scale of operations in those developing countries is smaller.

2. Leading sources of FDI

For the first time, a developing country, China, has made the list of the expected top five home countries worldwide in terms of geographical coverage (2004-2005), replacing Japan, which traditionally has been a significant home country (figure 8).¹² Many developing countries rank China second after the United States as an expected country of origin for FDI. This may be because Chinese TNC ventures abroad so far have raised expectations on the part of developing country IPAs as to the likelihood of attracting

Figure 8. Leading sources of FDI, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprospects.

additional Chinese investment. The phenomenon is particularly significant because it underscores China's growing importance as regards FDI, not only as a host but also as a home country. However, in terms of the value of individual FDI projects, Chinese investment is still smaller than that of traditional home countries.

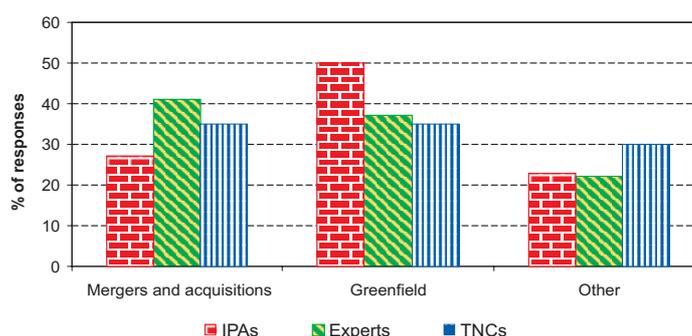
D. Expected trends in TNC investment strategies

Brighter growth prospects have strengthened business confidence. The turnaround in corporate profits in 2003 has relieved financial constraints. This encourages all types of investment, including FDI. Over three quarters of the TNCs surveyed expected FDI flows to increase over the short and medium term.

1. Modes of investment

The responses of the groups surveyed by UNCTAD differed over the relative importance of different modes of investment in the coming years. According to TNCs and international location experts, M&As and greenfield investment are likely to be equally important. IPAs, however, expect greenfield FDI to be more significant in the future (figure 9). The discrepancy in the views of these groups is not surprising, as most IPAs responding to the survey are from developing countries where greenfield FDI has traditionally played a much stronger role than M&A activity.

Figure 9. Comparison of expected modes of investment, 2004-2005



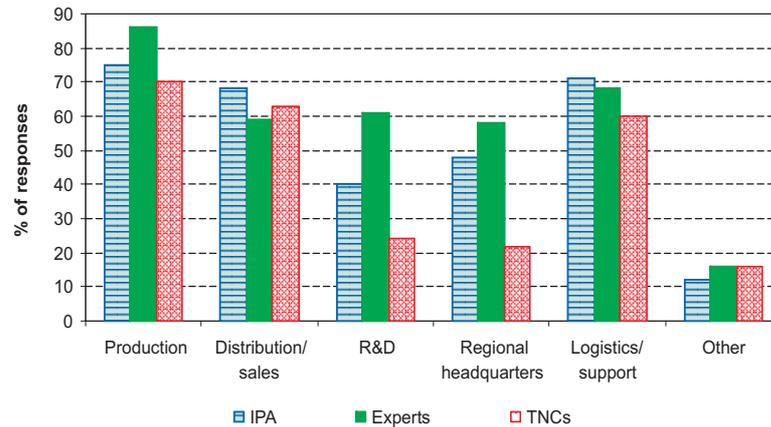
Source: UNCTAD, www.unctad.org/fdiprosects.

Naturally, in developed countries, despite the recent slump in M&A activity, FDI through this mode of investment is still popular and likely to increase. In developing countries, greenfield FDI is expected to remain the dominant mode. The top TNCs, although planning to use both modes of investment almost equally, are also interested in using other forms of investment, equity or non-equity, as a means of penetrating overseas markets.

2. Relocation of corporate functions

The relocation of labour-intensive and some skill-intensive activities to lower-cost locations with appropriate transportation and communication infrastructure is gathering speed. Small and medium-sized enterprises are also under pressure to reap the cost-cutting and efficiency benefits of business-process offshoring. Offshoring has grown rapidly in the past couple of years, led by the offshore operations of major United States firms (UNCTAD, 2004d). A recent UNCTAD-Roland Berger Survey of European TNCs shows that, although lagging behind, they are also accelerating the pace of offshoring business services.¹³ All this augurs well for the internationalization of production and related functions by TNCs.

The consensus of the surveys' findings was that production, distribution and sales as well as logistics and support services are the corporate functions most likely to be relocated over the next few years. This picture is more mixed when it comes to regional headquarters and R&D facilities. Here, IPAs are much more optimistic than international location experts and TNCs (figure 10). Although these functions were traditionally much more difficult to relocate abroad, given that they depend on very specific sets of locational 'assets' and characteristics such as highly-skilled employees and first-class infrastructure, recent years have seen the beginning of a shift in white-collar activities from developed countries to selected developing countries. While a trend towards the greater globalization of these activities has set in, the extent and speed of this development is not yet clear. (For a full discussion, see UNCTAD 2004d).

Figure 10. Relocation of corporate functions in 2004-2005

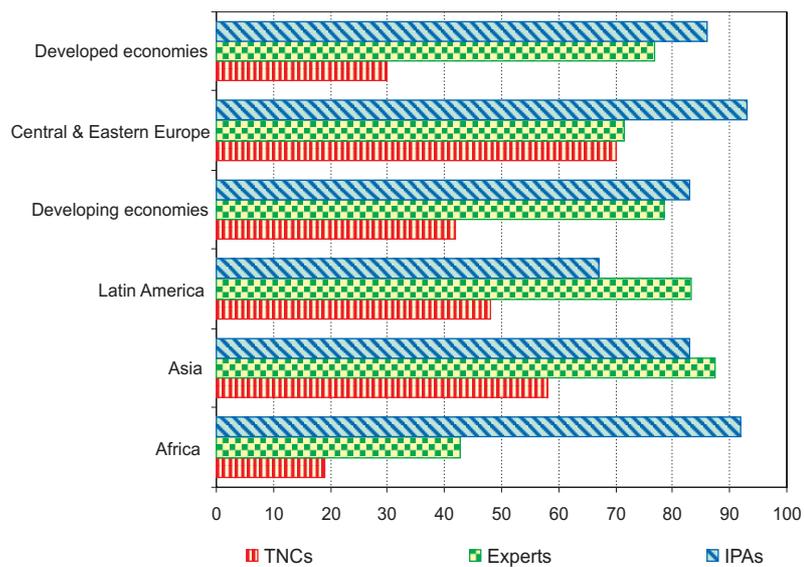
Source: UNCTAD, www.unctad.org/fdiprospects.

It is important to note that the respondents' ranking of corporate functions according to the likelihood/expectation of their relocations depends upon the individual industries to which the responding TNCs belong. Thus, 40% of the companies that expected a relocation of research and development facilities were from the chemical and pharmaceutical industries. Likewise, more than a quarter of the responses predicting a relocation of regional headquarters came from automobile companies. For other corporate functions – production, distribution and sales, as well as logistics and support services – the industry distribution was much more balanced, with no single industry standing out.

III. Regional Prospects

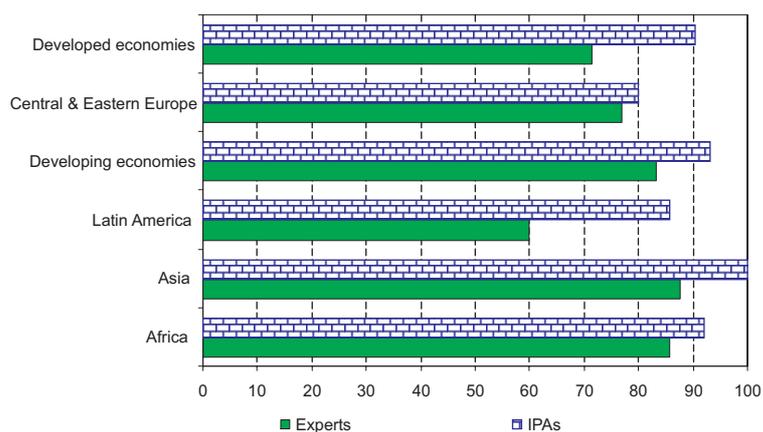
On the whole, FDI prospects for almost all regions are expected to be bright in both the short and the medium term. The greatest optimism about FDI prospects in the short term (2004-2005) is to be seen in the case of CEE and Asia (figure 11). FDI prospects for Western Europe and Africa, while positive, are seen as less bright. For the medium term (2006-2007), prospects for FDI flows are expected to be bright for all regions, but less so for Latin America than the others (figure 12).

Figure 11. Increase FDI flows: 2004-2005 prospects
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 12. Increase in FDI flows: 2006-2007 prospects
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

A. Developed economies

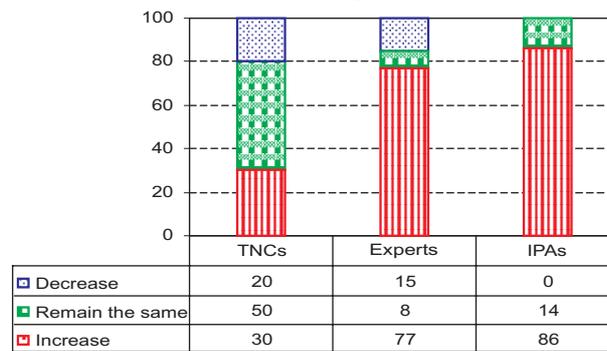
In 2003, FDI inflows fell by 25% for developed economies as a whole. The main reason for the decline in North America was a drop in inflows into the United States (-53%), mainly due to the repayment of intra-company loans by foreign affiliates to their parent firms. In the case of the EU, FDI inflows declined by 19%, sluggish economic growth paired with a fall in equity investment were the causes for the decline (UNCTAD, 2004d).

However, both the leading macroeconomic and microeconomic indicators point to a recovery in FDI. GDP growth in the United States, Japan and EU is expected to reach around 3.5% in 2004-2005 and to be broad-based, even including some countries that have suffered from low or negative growth rates in the past. The positive growth, in combination with the generally increased profitability of TNCs, can be expected to trigger additional FDI flows into these countries.

The findings of UNCTAD’s three surveys see a possible FDI recovery in the developed world, with the majority of respondents expecting FDI flows into this group of countries to increase.

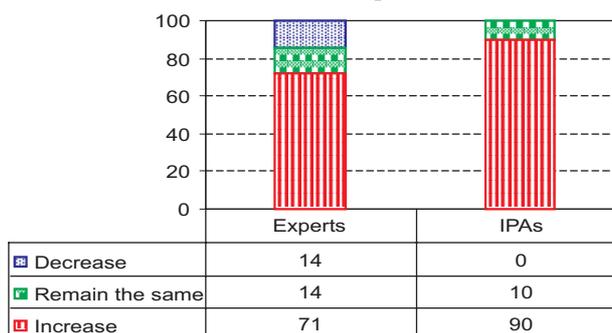
In the short term, the majority of IPAs and investment location experts expect more FDI (Figure 13). TNCs are less positive, however, and see brighter prospects for North American than European countries. In the medium term, both international location experts and IPAs are optimistic (Figure 14).¹⁴

Figure 13. Prospects for FDI flows, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprosects.

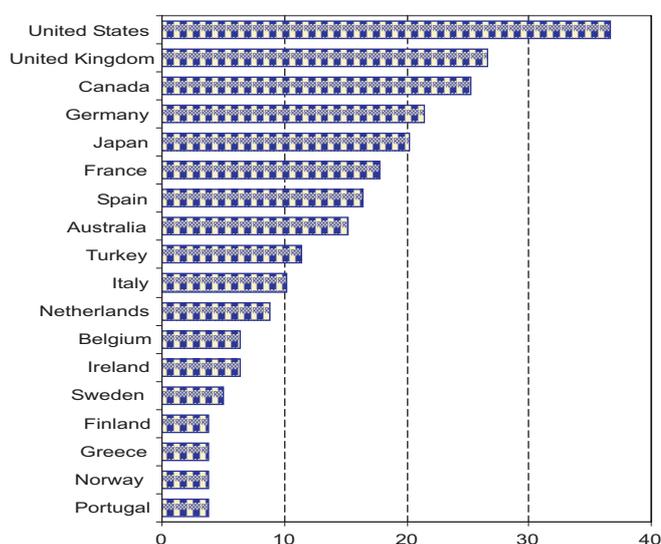
Figure 14. Prospects for FDI flows, 2006-2007
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprosects.

The United States is supposed to remain the most important FDI recipient among developed countries (figure 15). Canada's and Japan's high ranking are slight surprises. They point to newly found confidence of investors in these economies.

Figure 15. Countries' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)

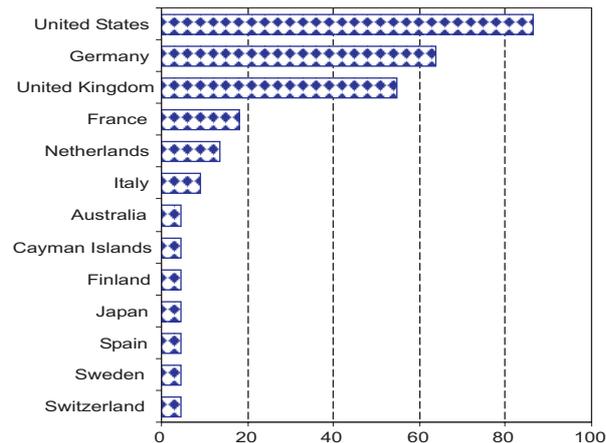


Source: UNCTAD, www.unctad.org/fdiprospects.

The United States is expected to remain the top outward investor, followed by Germany and the United Kingdom (figure 16).

As for economic sectors, FDI prospects are positive for only a few industries, particularly in services such as computer/ICT, business services and banking and insurance (figure 17). This is in line with the large share of services in total inflows and outflows of FDI. In the manufacturing sector, machinery and equipment and publishing and media are expected to enjoy positive investment prospects.

Figure 16. Sources of FDI, 2004-2005
(Per cent of responses by IPAs)



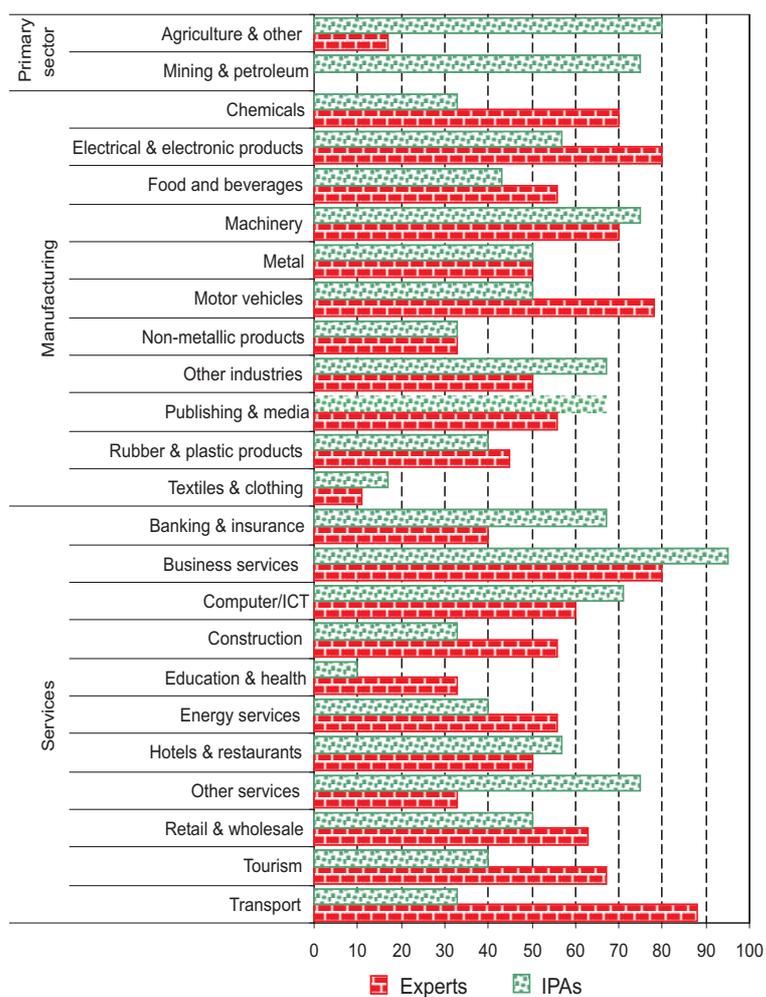
Source: UNCTAD, www.unctad.org/fdiprospects.

M&As are expected to be a more popular FDI mode than greenfield FDI. This coincides with past experience, where M&As accounted for most FDI in developing countries.

Developed countries are expected to attract investment in all of the major corporate functions (figure 18). Research and development stands out, followed by distribution and sales. Investment location experts were generally more bullish than IPAs regarding the prospects for relocation. The biggest discrepancy between the two groups concerns production. Only a minority of IPAs expect to receive production-related FDI in their countries. This may indicate that FDI in production will be rather concentrated in a relatively small number of developed countries that can still provide the conditions for efficiency-seeking FDI in manufacturing.

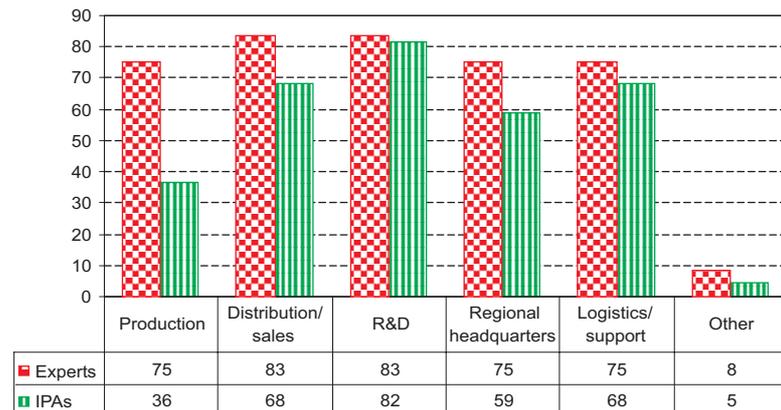
Greater targeting measures were the principal investment promotion instrument used for attracting FDI to the countries in the region in 2003, and the importance of this is expected to increase considerably in 2004-2005 (figure 20).

Figure 17. FDI prospects for industries, 2004-2005
(Per cent of responses)



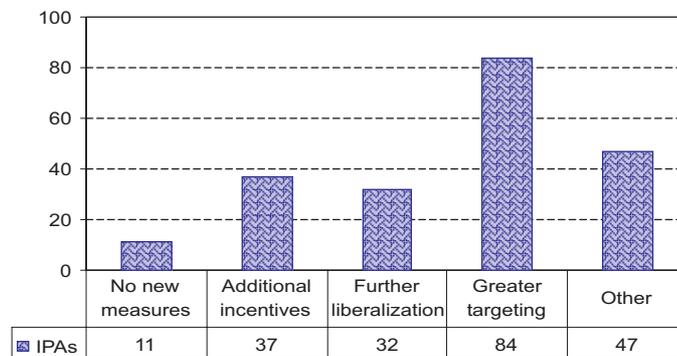
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 18. Relocation of corporate functions, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 19. Policies to attract FDI, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

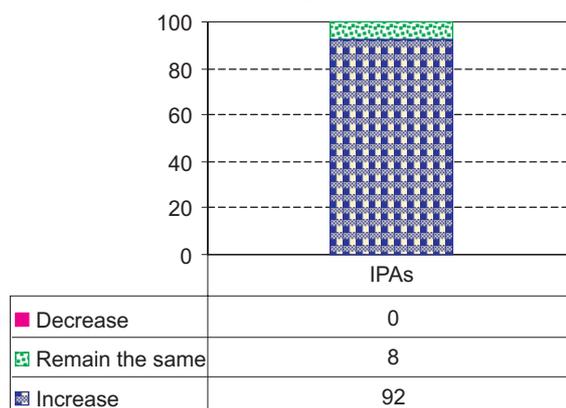
B. Africa

FDI inflows to Africa have been more or less stagnant in recent years, despite a significant increase in 2003. However, there is no evidence that FDI flows into Africa will increase substantially from present levels.

On the positive side the survey data points to positive development in the longer-term (figure 20). This is compounded by optimistic growth forecasts for the region, as GDP growth is expected to reach 4% in 2004 supported mainly by rising commodity prices and a resumption in world demand. There are also other sector-specific factors that might support additional FDI inflows in certain industries. One example is the adoption of the “AGOA Acceleration Act of 2004” that grants textile-producing companies extended market access to the United States. This is expected to trigger additional FDI in this industry.

According to IPAs, Africa is an attractive location for FDI in the short term (figure 21). However the expectations of the location experts and TNCs are not in line with those of IPAs. Only a fifth of the responding TNCs expected increasing FDI flows into the region. The majority of respondents (67%) expected flows to

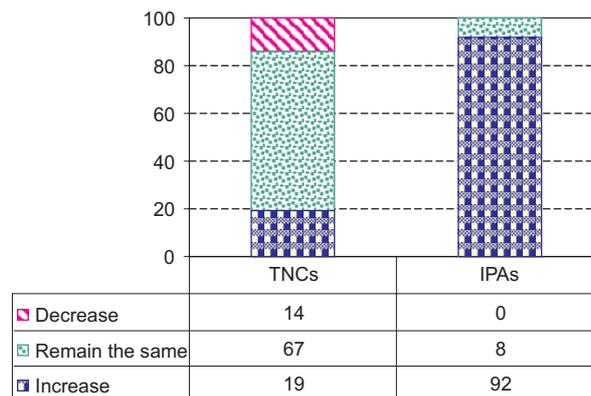
Figure 20. Prospects for FDI flows to Africa, 2006-2007
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprosects.

remain steady. This shows that the African continent is not yet on the strategic map of the overwhelming majority of the world's largest TNCs. Companies prefer non-equity engagements, for example management contracts with local investors, to reduce political and economic risk, which is generally perceived to be higher in Africa than elsewhere. This holds true particularly for companies headquartered in developed countries. There is, nevertheless, a consensus among location experts and IPAs that FDI prospects are expected to improve in the medium term.

Figure 21. Prospects for FDI flows, 2004-2005
(Per cent of responses)

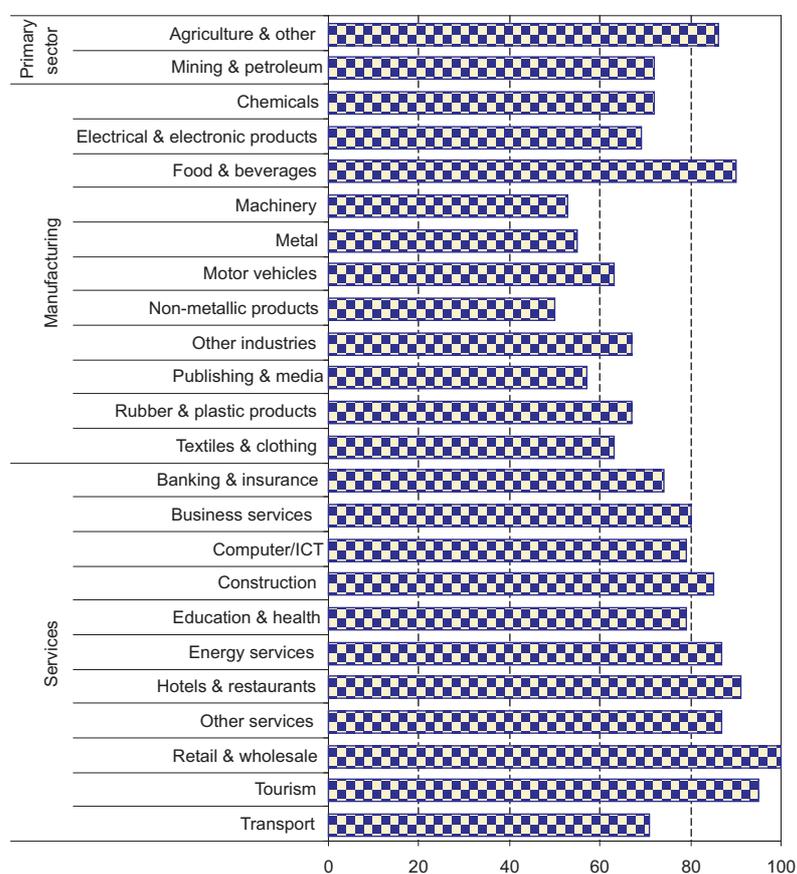


Source: UNCTAD, www.unctad.org/fdiprospects.

The services sector is expected to hold the most promising prospects, with all responding IPAs expecting more FDI in the retail and wholesale industries in 2004–2005, followed by tourism and hotels and restaurants (figure 22). Among the manufacturing industries, food and beverages are ranked the highest, while in the primary sector, prospects for FDI in agriculture are expected to be better than those for petroleum and mining. This last result appears surprising at first sight given the FDI boom in Africa's oil industry in recent years. However, the number of African countries that offer investment opportunities in agriculture is substantially higher than those with petroleum reserves.

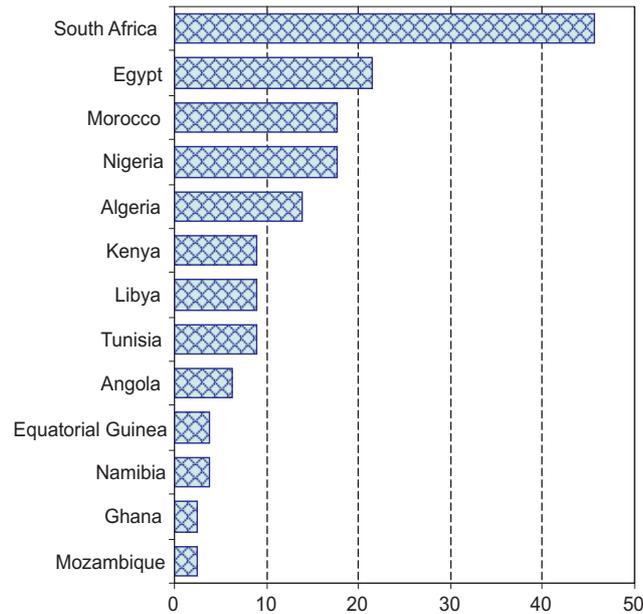
Countries that are traditionally the recipients of the largest FDI flows, South Africa and Nigeria in sub-Saharan Africa and Egypt, Morocco and Algeria in North Africa, are expected to hang on to their positions in 2004-2005 (figure 23).

Figure 22. FDI prospects for industries, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 23. Countries' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)



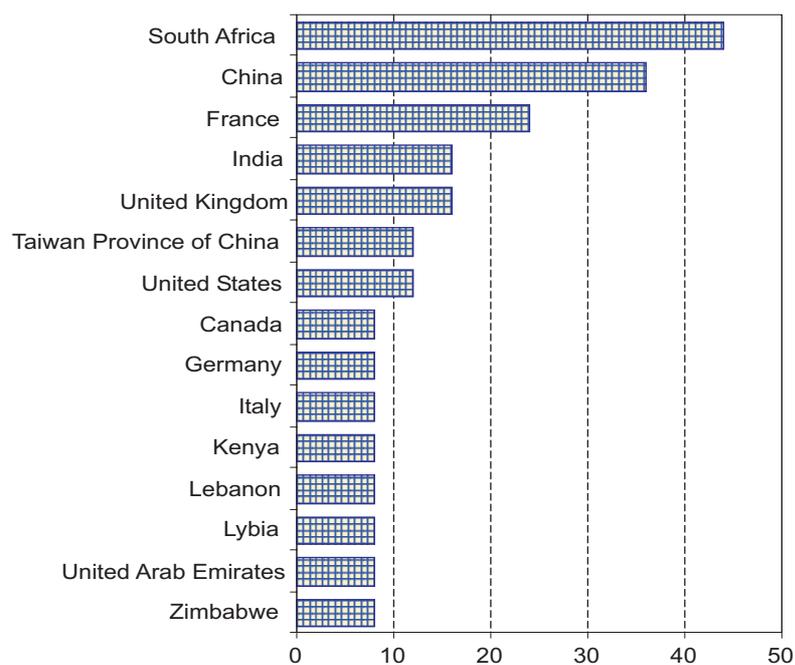
Source: UNCTAD, www.unctad.org/fdiprospects.

South Africa and China are the most frequently mentioned important investors in the region, surpassing countries that have (in value terms) traditionally been the most important investors such as the United Kingdom and France (figure 24). This implies that even if FDI from the former does not match the value of FDI from traditional source countries, it might be more widespread and less focused on specific countries.

Almost half of the respondents (49%) expect greenfield FDI to be the preferred mode of entry (figure 25). The majority of IPAs expect FDI to come in the form of production, distribution and sales as well as logistics and support services. Half of them also saw a chance to attract regional headquarters while less than a third expected to attract R&D-related FDI (figure 26).

Figure 24. Sources of FDI, 2004-2005

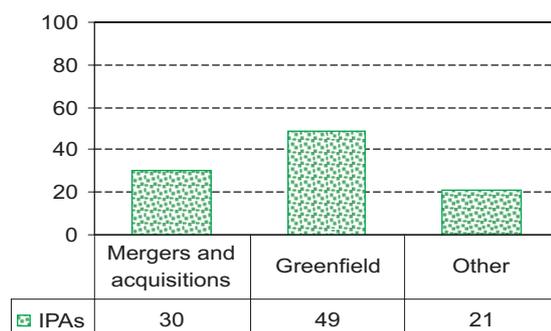
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprospects.

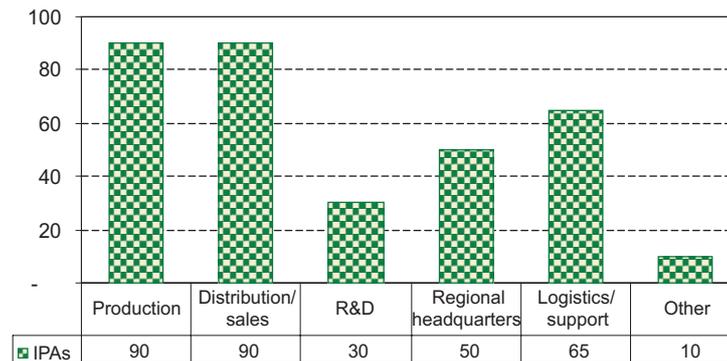
Figure 25. Modes of investment, 2004-2005

(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

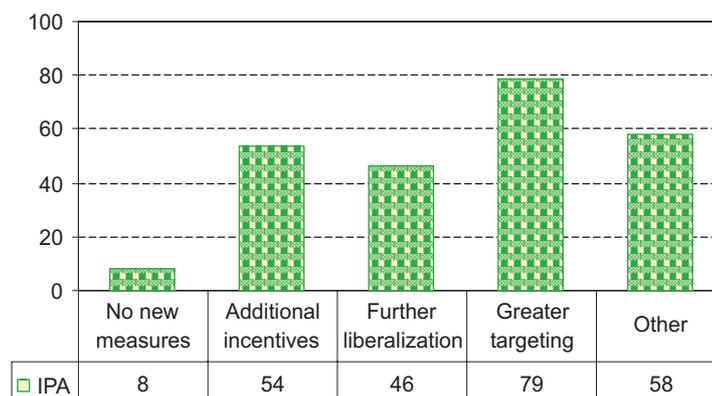
Figure 26. Relocation of corporate functions, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprosects.

In 2003, African IPAs utilised incentives (54%) more than in any other developing region, while they lagged behind other developing regions in their use of greater targeting (79%). Both these trends are expected to continue in 2004–2005 (figure 27).

Figure 27. Policies to attract FDI, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprosects.

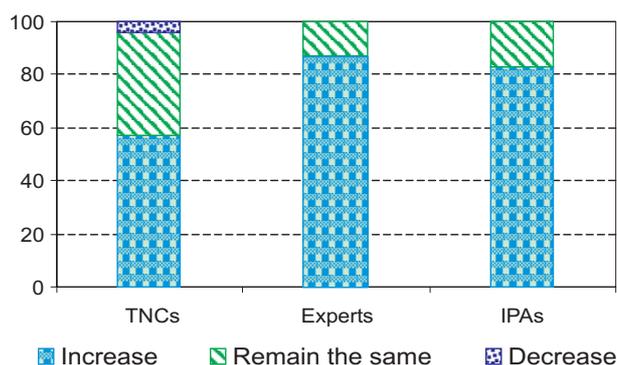
Although the prospects are basically positive, a note of caution has to be added. As long as many structural problems such as low labour productivity and insufficient infrastructure are not addressed, most African countries cannot expect a substantial increase in FDI inflows, in particular as far as export-oriented manufacturing is concerned.

C. Asia and the Pacific

The rebound in FDI flows from a temporary slump in early 2003 was further proof of Asia's ongoing attractiveness to FDI. Almost all developing countries with fast-growing FDI inflows came from this region, with the "Tiger Economies" and China leading the way. However, from 2001 to 2003, the FDI downturn due to SARS, the war in Iraq, and tensions in the Republic of Korea led to a slow-down in FDI inflows into a number of countries.¹⁵

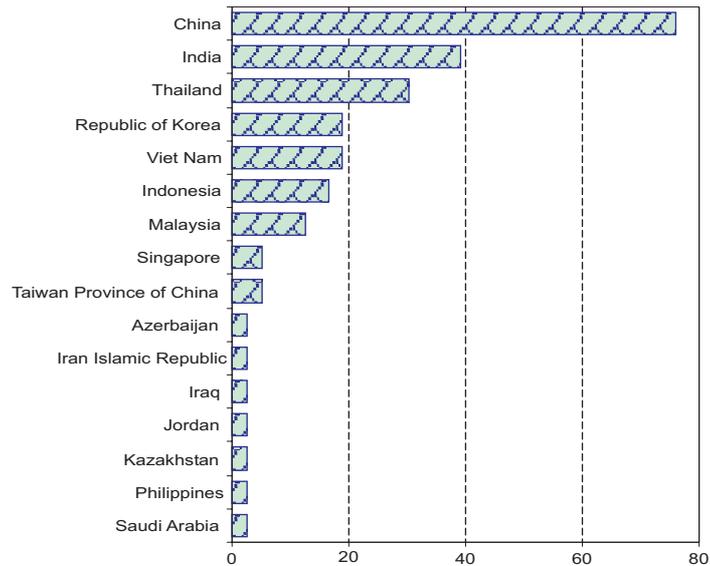
FDI flows are expected to pick up further in Asia, with China considered to be the most attractive destination (figures 28 and 29). There is consensus that prospects for the short term are bright, with location experts and IPAs more optimistic than TNCs, while for the medium term, the overwhelming majority of location experts and IPAs are optimistic about FDI prospects (figure

Figure 28. Prospects for FDI flows, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

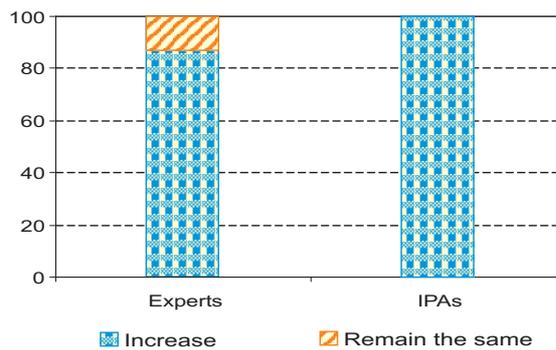
Figure 29. Economies' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprosects.

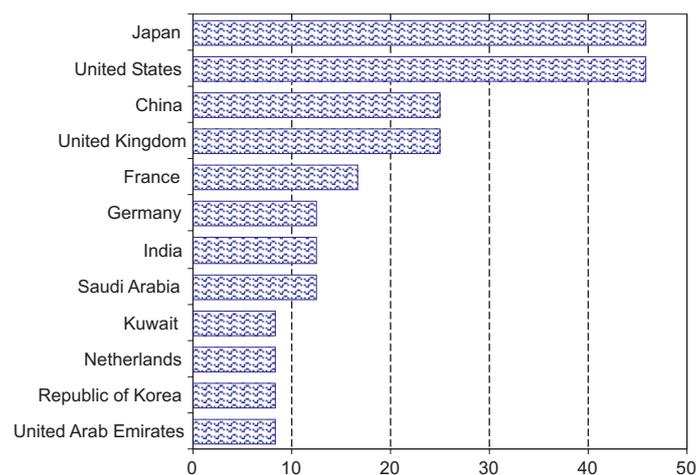
30). The main sources fuelling this boom are developed countries and China (figure 31).

Figure 30. Prospects for FDI flows, 2006-2007
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprosects.

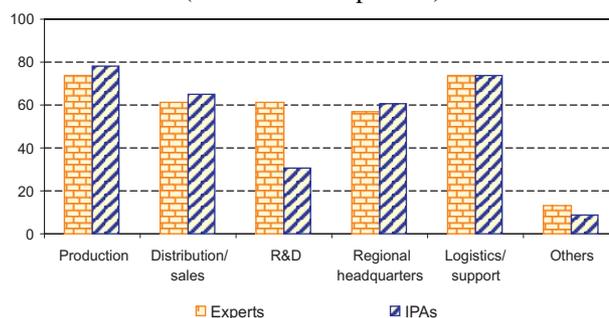
Figure 31. Sources of FDI, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprospects.

FDI is expected to flow into production, distribution and sales, and logistics and support services in the short term. The Asia-Pacific region is expected to attract more TNC regional headquarters. The survey results also suggest that Asia will benefit from considerable FDI in the form of R&D-related investments, yet these are likely to be concentrated in a few countries (figure 32).

Figure 32. Relocation of corporate functions, 2004-2005
(Per cent of responses)



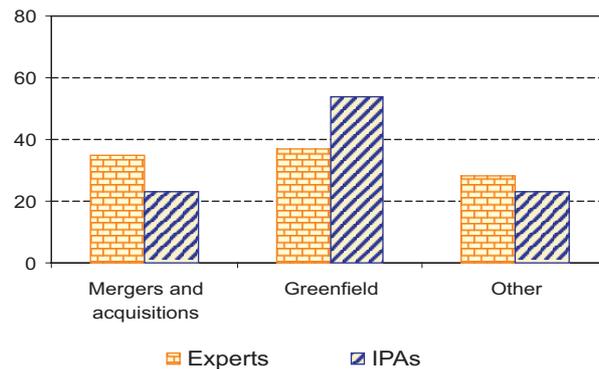
Source: UNCTAD, www.unctad.org/fdiprospects.

Greenfield investment will remain the dominant mode of investment in 2004-2005, followed by M&As and other modes (figure 33). Experts frequently mention FDI options other than greenfield operations and M&As (29%), which suggests that the entrepreneurship and access to capital available in Asian countries and the kinds of activities located there by foreign investors provide considerable scope for non-equity/contractual arrangements between foreign and domestic firms.

The tourism, construction, computer/ICT, wholesale and retail sectors are expected to lead the way in 2004-2005, suggesting that the share of services in total FDI inflows into the region will continue to increase (figure 34). FDI prospects for the manufacturing sector are less positive, but survey respondents are optimistic regarding the automobile and machinery industries and, to a lesser extent, the chemicals and electrical and electronics industries. The rebound in demand for the latter may help to revitalise FDI flows in that industry (UNCTAD, 2004d).

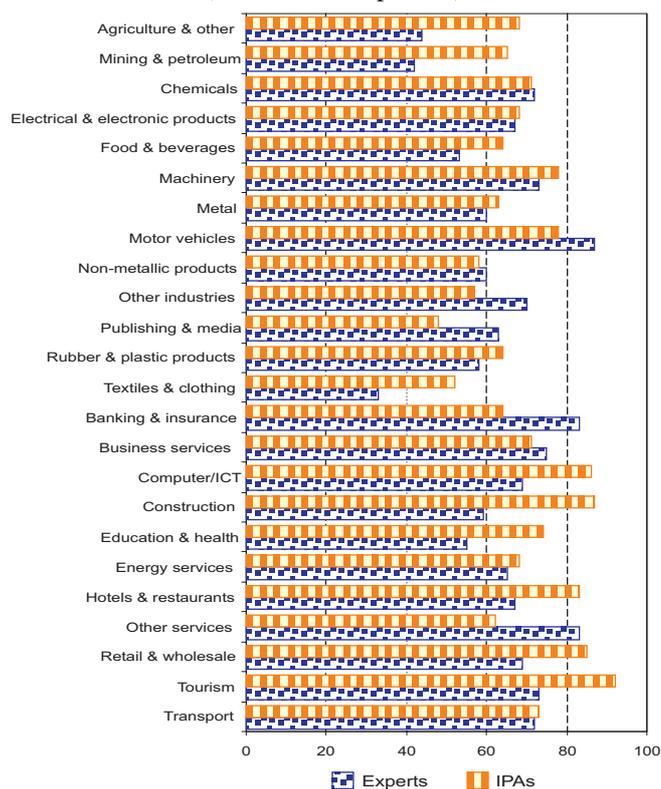
Asian countries will continue their already significant policy efforts to attract further FDI in 2004-2005. IPAs respondents expect further liberalization (61%) and greater targeting (78%) to play a strong role in attracting FDI in the region, followed by the use of incentives (49%) (figure 35).

Figure 33. Modes of investment, 2004-2005
(Per cent of responses)



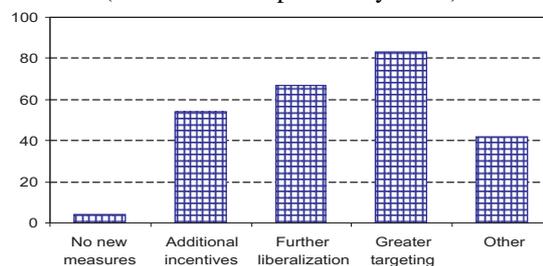
Source: UNCTAD, www.unctad.org/fdiprosects.

Figure 34. FDI prospects for industries, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 35. Policies to attract FDI, 2004-2005
(Per cent of responses by IPAs)



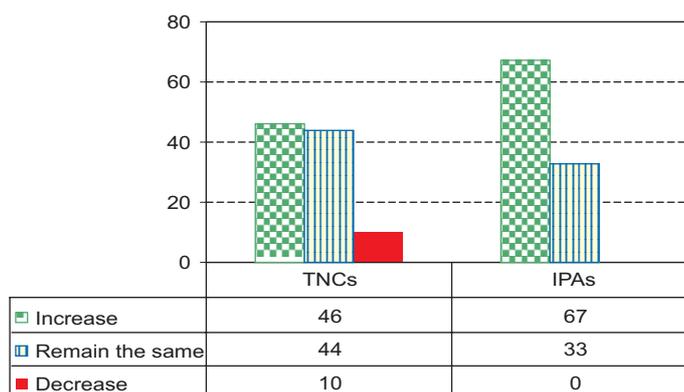
Source: UNCTAD, www.unctad.org/fdiprospects.

D. Latin America and the Caribbean

Latin America and the Caribbean have experienced a fourth consecutive year of FDI decline, bringing FDI inflows down to 1996 levels. FDI inflows halved over the period 1999-2003, with Argentina, Brazil and Mexico being the worst-hit countries. Main factors behind the downturn were disappointing GDP growth, a decline in cross-border M&As and a tailing-off of privatization programmes that had fuelled FDI inflows into the region.

In the short run, FDI prospects depend on economic recovery in major home countries of FDI and on the growth of the region. Although economic recovery on both sides of the Atlantic could reverse the cyclical component of the recent decline of FDI into the region, the strength of the FDI recovery also depends on the effectiveness of individual countries in addressing their structural problems. Views of prospects for FDI flows in 2004-2005, while positive, are divergent among the surveyed groups (figure 36). IPAs see bright FDI prospects, but TNCs are more cautious in their expectations, even though GDP growth may accelerate in 2004 and approach 4% in the region.

Figure 36. Prospects for FDI flows, 2004-2005
(Per cent of responses)

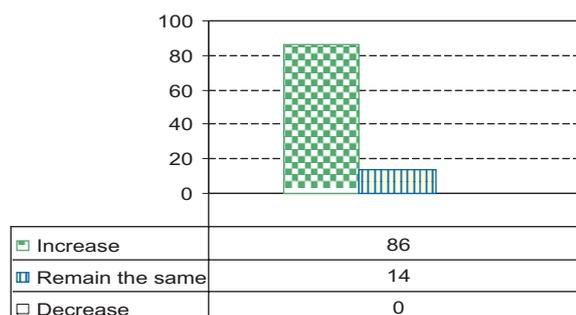


Source: UNCTAD, www.unctad.org/fdiprospects.

In the medium term, i.e. in 2006-2007, prospects are seen by IPAs to be improving for the region, with 86% of respondents expressing considerable optimism for increased FDI (figure 37). However, while medium-term expectations are better than those for the short term, they still lag behind those of all other developing regions. This somewhat subdued optimism might be explained by factors such as the slow economic recovery in some countries.

In the longer term, the prospects for FDI in the region depend on how successfully countries in the region tackle structural weaknesses.

Figure 37. Prospects for FDI flows, 2006-2007
(Per cent of responses by IPAs)

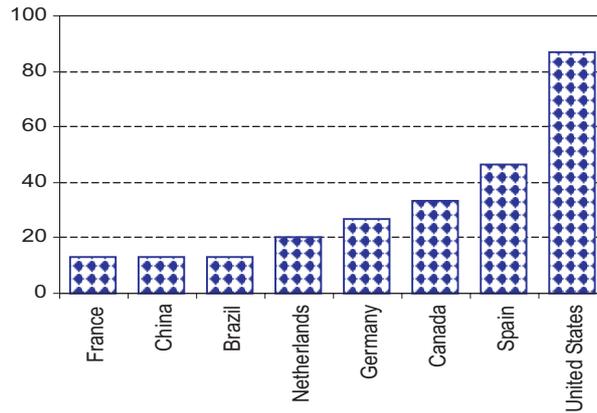


Source: UNCTAD, www.unctad.org/fdiprospects.

The United States, Spain and Canada are expected to remain the major sources of FDI (figure 38), and the traditional largest recipients, such as Brazil, Mexico and Argentina, will continue to be attractive to foreign investors. On the recipient side, the region's top countries will continue to receive the bulk of FDI (figure 39).

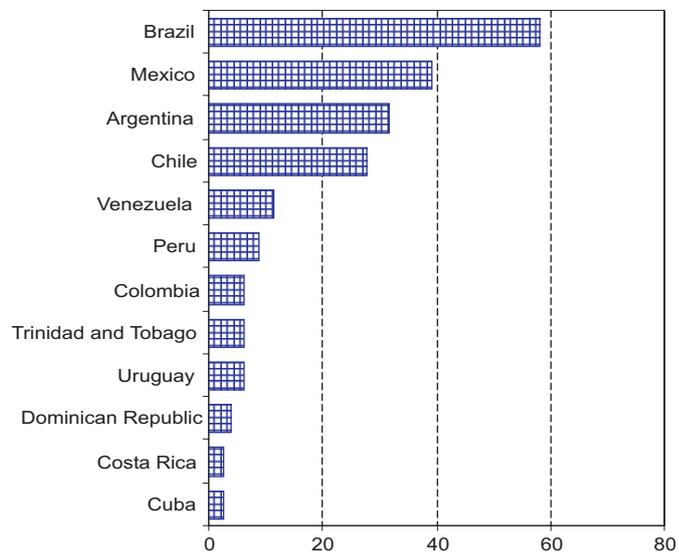
Fewer industries than in other regions are expected to see an increase in FDI flows in 2004-2005 (figure 40). Among those, such service industries as hotels and restaurants, wholesale and retail, tourism, ICT and construction stand out. The manufacturing sector is not expected to benefit from forthcoming FDI growth, with rubber and plastic products being a notable exception. Prospects for the primary sector are seen as more positive.

Figure 38. Sources of FDI, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprosects.

Figure 39. Countries' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)

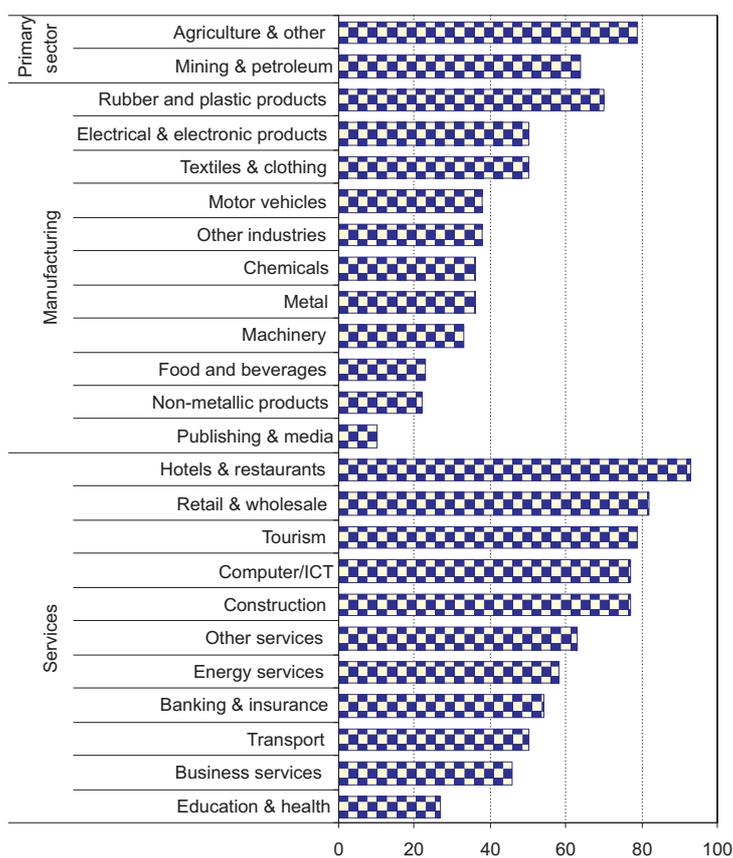


Source: UNCTAD, www.unctad.org/fdiprosects.

Greenfield FDI is expected to be the most significant mode of investment in 2004-2005 (figure 41).

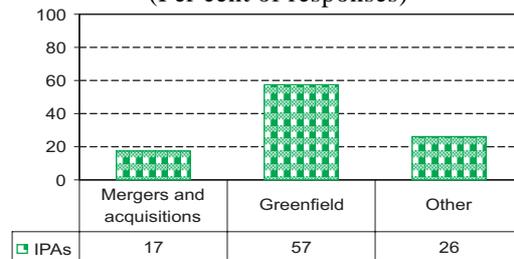
IPAs expect that countries will mainly employ targeting measures as the principal policy instrument to attract FDI in 2004-2005 (figure 42). For the same period, production and logistics and support will be the most relocated corporate functions in the region (figure 43).

Figure 40. FDI prospects for industries, 2004-2005
(Per cent of responses by IPAs)



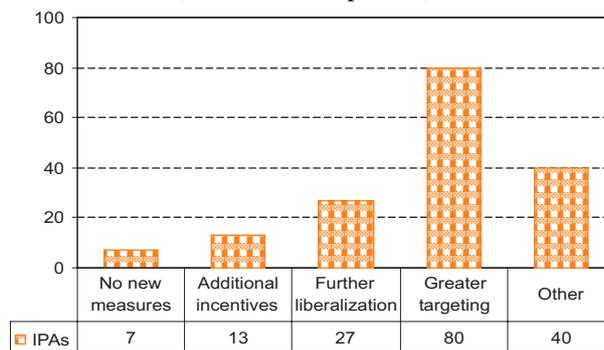
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 41. Modes of investment, 2004-2005
(Per cent of responses)



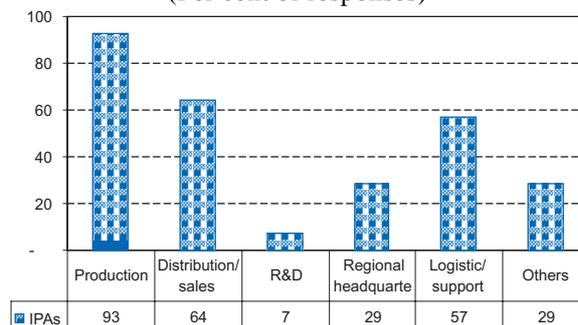
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 42. Policies to attract FDI, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 43. Relocation of corporate functions, 2004-2005
(Per cent of responses)



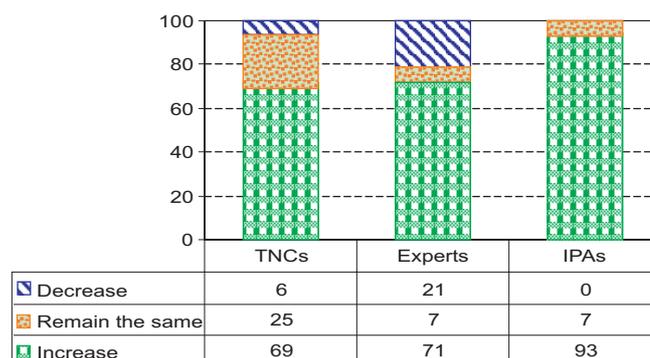
Source: UNCTAD, www.unctad.org/fdiprospects.

E. Central and Eastern Europe

FDI into Central and Eastern Europe has gradually increased since the beginning of the 1990s when these countries abandoned their socialist systems and started market-oriented reforms. However, after a record year in 2002, FDI to CEE fell sharply in 2003, due to an end to privatization programmes in the Czech Republic and Slovakia. FDI inflows increased to other countries such as the Russian Federation. Most countries in the region, however, have continued to maintain FDI inflows at previous years' levels.

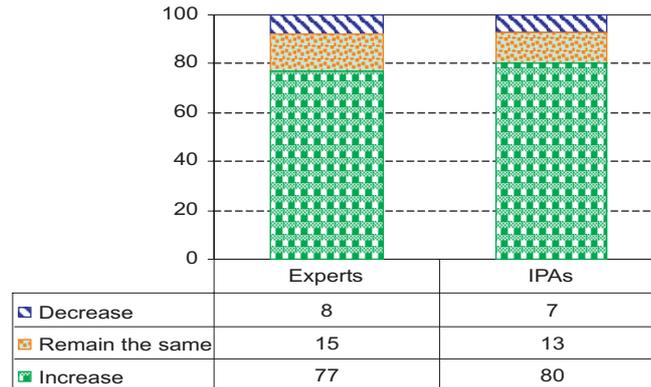
The consensus among all survey groups is that FDI prospects for the region are positive for 2004-2005 (figure 44). The survey results also indicate bright prospects for the medium term (2006-2007), although IPAs' optimism is moderated for this period (figure 45). This might stem from expectations that the accession of several CEE countries to the European Union will trigger a wave of FDI inflows into those countries that will abate somewhat at a later stage. In addition, most of the major privatization deals are expected to be concluded in the next 2-3 years. Reinvested earnings and investments in existing operations will play an increasingly important role instead.

Figure 44. Prospects for FDI flows, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 45. Prospects for FDI flows, 2006-2007
(Per cent of responses)



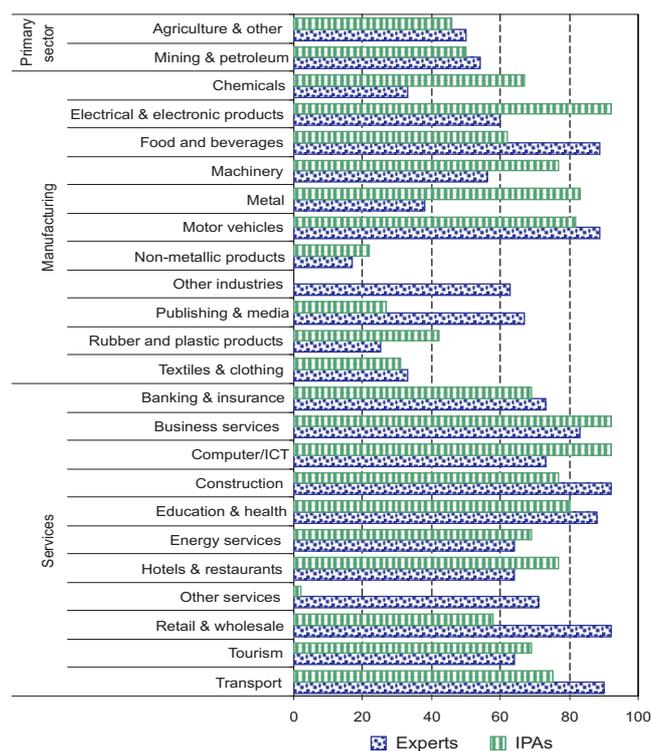
Source: UNCTAD, www.unctad.org/fdiprospects.

IPAs and location experts are optimistic for most industries for the period 2004-2005 (figure 46). The most significant increase is expected in services industries such as business services, construction, education and health, computer/ICT and transport. In the manufacturing sector, motor vehicles, electrical and electronics products and food and beverages are expected to lead FDI recovery in the region. The primary sector is also expected to receive inflows of FDI, with mining and petroleum slightly ahead of agriculture.

EU accession countries – most notably Poland, the Czech Republic, Hungary – dominate the list of the most attractive host countries for FDI (figure 47). There are, however, also non-accession countries – Russia and Romania – in the top five ranking for the region. Thus, while the EU accession process continues to exert a dominating influence over FDI flows into the region, other factors such as good economic performance and political stability will also be important determinants. Traditional leading FDI home country Germany is the top investor in the region, followed by the United States (figure 48).

Logistics and support services, and distribution and sales will be the main corporate functions to be relocated in the short term (figure 49). Location experts also expect the CEE region to

Figure 46. FDI prospects for industries, 2004-2005
(Per cent of responses)



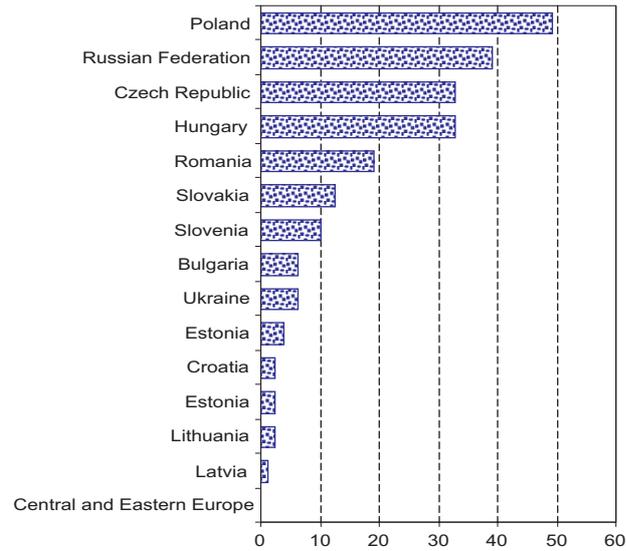
Source: UNCTAD, www.unctad.org/fdiprospects.

attract regional headquarters operations, which may be due to certain countries' already well-developed infrastructure and ready availability of skilled staff.

Greenfield investment and M&As are expected to be equally important modes of investment in 2004-2005 (figure 50).

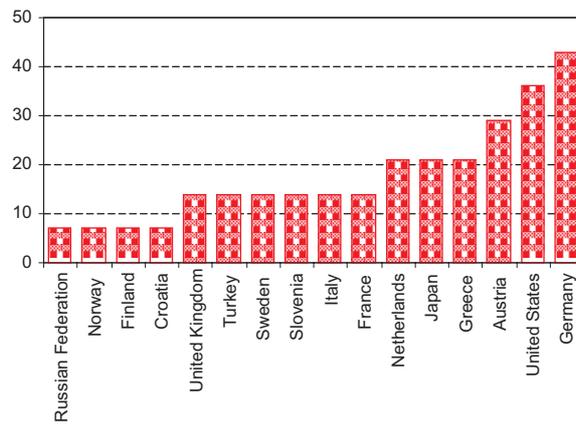
With regard to policies to attract FDI in 2004-2005, all IPAs surveyed in the Central and Eastern European countries expect to use targeting measures to attract FDI. 50% of the IPAs also expect to use further liberalization. In the EU accession countries this liberalization is locked in as part of the accession process (figure 51).¹⁶

Figure 47. Countries' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)



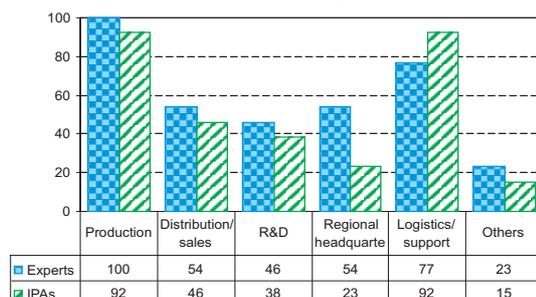
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 48. Sources of FDI, 2004-2005
(Per cent of responses by IPAs)



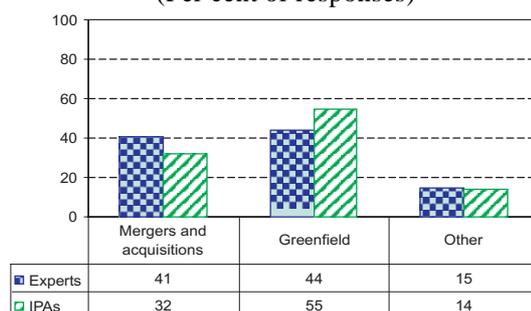
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 49. Relocation of corporate functions, 2004-2005
(Per cent of responses)



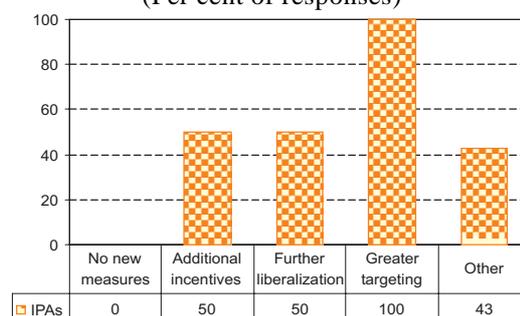
Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 50. Modes of investment, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure 51. Policies to attract FDI, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

IV. Policy Prospects and Implications

There is a clear indication from the findings of the UNCTAD surveys of IPAs and location experts that, regardless of whether FDI flows increase in the future, countries will intensify their efforts to attract FDI and will compete fiercely for it (figure 52). As liberalization spreads, a greater use of incentives is expected during the next two years. Investment targeting will also become an important tool for attracting FDI on a worldwide basis.

These findings do not differ much from the views of international location experts. However, location experts expect liberalization to play a stronger role than targeting in attracting FDI. In fact, they expect FDI liberalization to be the most important policy measure over the next few years. They also view incentives as a means of luring investors to attract FDI.

What both groups agree upon is that few countries will remain passive without adopting any measures to attract FDI. The option of “no new measures” was the least frequent choice of all groups surveyed. Increasingly sophisticated and resource-intensive policy measures are used to retain existing investments and attract new ones.

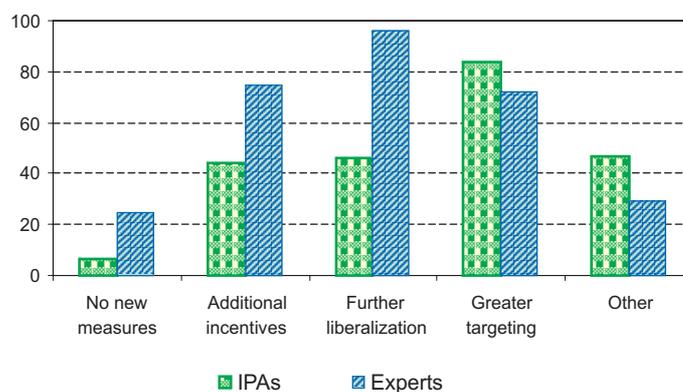
In this scenario, countries seeking to attract new investment will need to become more competitive. As they provide focused, targeted packages aimed at individual potential investor, investors themselves will become increasingly selective in choosing investment locations.

The competition for FDI requires increased human and financial resources and specialization by IPAs. One of the difficulties faced by host countries, particularly developing ones, is the lack of resources and expertise. In light of this, countries may wish to formulate their policies and their investment promotion strategies carefully. They need to avoid “racing to the top” in providing costly incentives, particularly if the benefits of such incentives are low and diminishing.

Furthermore, countries need to pay more attention to the *quality* of FDI that they are attracting, i.e. FDI that is conducive to sustainable development of their economies. Instead of trying

to outbid each other by “racing to the bottom” in social and environmental standards, countries need to rely more on improving their overall investment climate. Countries also need to intensify their efforts to help local companies to reap the potential benefits of FDI. They should foster linkages between foreign affiliates and local supplier companies so as to upgrade the value chain in selected industries and deepen the developmental impact of FDI.

Figure 52. FDI policies, 2004-2005
(Per cent of responses)



Source: UNCTAD, www.unctad.org/fdiprospects.

V. Methodology

The Global Investment Prospects Assessment is based on the findings of three large-scale worldwide surveys, i.e. a survey of the largest TNCs; a survey of international FDI location experts; and a survey of IPAs, as well as research on various leading macroeconomic and microeconomic indicators and policy developments. The results of these approaches complement each other, leading to a relatively credible assessment.

Survey of Transnational Corporations

The UNCTAD survey of TNCs was conducted in February–April 2004. It covered 335 TNCs from UNCTAD’s list of the top 200 TNCs based in developed countries, the top 100 TNCs from developing countries and the top 25 TNCs from Central and Eastern Europe. The list also included the top 10 TNCs ranked by foreign assets in service industries. Some 24% of the TNCs covered by the survey responded.

Respondent companies are among the most internationalized TNCs per UNCTAD’s Transnationality Index (a composite index based on their shares of foreign assets, foreign employees and foreign sales in total assets, total employees and total sales) (UNCTAD, 2003). The combined assets of the responding TNCs totalled over \$1.9 trillion in 2002, of which 38% (or over \$725 billion) were located outside their countries of origin. Aggregated total sales of these companies in 2002 stood at over \$2.1 trillion, of which over \$727 billion were attributed to their foreign affiliates. These TNCs employed over 5.1 million staff worldwide, 42% of which (2.2 million) worked in their foreign affiliates.¹⁷

The TNCs surveyed were asked for their views not only on their own investment plans, but also on overall trends in their respective industries. Thus, their assessment of the FDI prospects provides useful insights into the plans of a much larger group of companies. TNCs monitor closely the future investment strategies of other companies in the same industry in formulating their own strategies, which places them in a unique position to assess broad

future trends in FDI flows. All this suggests that the information gathered from the participating companies is highly relevant and indicative of the investment plans of thousands of TNCs around the globe.

Survey of Investment Promotion Agencies

UNCTAD conducted its second worldwide survey of IPAs in 158 countries in January–March 2004.¹⁸ The overall response rate of the second survey was 63%. The response rate for developed countries with IPAs was 100%, while that for developing countries was 54%. IPAs can provide insights and a unique perspective on FDI trends and prospects, being at the forefront of countries' efforts to attract and facilitate such investments. As they respond in their day-to-day operations to foreign investors' inquiries and facilitate investors' locational exploratory missions and feasibility studies, they serve as important antennae for receiving signals relating to FDI flows and the location strategies of TNCs.

Survey of Investment Location Experts

UNCTAD in collaboration with the editorial staff of *Corporate Location* conducted a survey of international investment location experts in January–March 2004. Respondents to the survey included experts from 67 countries, closely involved as consultants, advisors and/or analysts in the investment location decision-making processes of TNCs. The diverse mix of industries and the array of countries and regions represented by the respondents ensure that the survey is not biased regarding any particular industry or region. The sample size of 87 international experts proved sufficiently large to identify trends.

Survey results by region

The survey results as reported in the regional sections are based on the following responses:

- **Developed economies:**
The number of responding IPAs was 17. The expert survey results stem from 33 locational experts based in the region. The TNCs' survey results are based on 81 responses.

- **Africa:**
The number of responding IPAs was 22. The TNCs' survey results are based on 81 responses.
- **Asia and Pacific:**
The number of responding IPAs was 20. The expert survey results stem from 24 locational experts based in the region. The TNCs' survey results are based on 81 responses.
- **Latin America and the Caribbean:**
The number of responding IPAs was 13. The TNCs' survey results are based on 81 responses.
- **Central and Eastern Europe:**
The number of responding IPAs was 13 as was the one for locational experts based in the region. The TNCs' survey results are based on 81 responses.

* * *

The questionnaires of the three survey groups were similar but not identical. While the basic structure was the same, some questions had to be slightly adapted to the different perspectives of TNCs, IPAs and locational experts. As a result, it was not possible to compare the results for every question across the survey groups.

Technical Explanations

The following technical remarks should be noted:

- Reference to “dollars” (\$) means United States dollars, unless otherwise indicated.
- Use of a hyphen (-) between dates representing years, e.g. 2004-2005, signifies the full period involved, including the beginning and end years.
- 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.

Notes

- 1 (IMF, 2004) (Washington, D.C.: IMF); (World Bank, 2004); (UNDESA/UNCTAD, 2004) .
- 2 World Bank, 2004.
- 3 These figures were available for 67 of the 81 responding companies.
- 4 World Bank, 2004.
- 5 World Tourism Organization, 2004.
- 6 AIG, 2004a.
- 7 An index of 50% or more indicates an expected increase in manufacturing activity in the next three months.
- 8 AIG, 2004b.
- 9 Mergers and Acquisitions, 2004.
- 10 World Bank, 2004.
- 11 Oil and Gas Journal, 2003.
- 12 For a comprehensive analysis of China's outward FDI, see UNCTAD's e-brief: China: an emerging outward investor, 4 December 2003, available at: <http://r0.unctad.org/en/subsites/dite/>.
- 13 UNCTAD/RBSC, 2004.
- 14 Medium-term prospects were not addressed in the TNC survey.
- 15 European Commission, 2003.
- 16 UNCTAD, 2004d.
- 17 The actual figures should be substantially higher as some of the respondent companies did not report on certain aspects of their operations.
- 18 Some countries do not have national IPAs. They are, therefore not covered by the survey.

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