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**Prospects for FDI Flows, Transnational Corporation Strategies
and Promotion Policies: 2004–2007**

**Global Investment Prospects Assessment (GIPA) Research Note 1:
Results of a survey of location experts**

Executive summary

International investment location experts in foreign direct investment (FDI) are optimistic about the prospects for global FDI flows during the next four years. Their optimism extends to almost all geographical regions, but in varying degrees. Overall, they are optimistic about FDI prospects in the manufacturing sector, especially in food and beverages, motor vehicles and other transport equipment, electrical and electronic products, and machinery and equipment. In the services sector, location experts have confidence in the recovery of FDI in transport, banking and insurance, business services and tourism. China and India are the hot spots for FDI, followed by the United States, Thailand, Poland, the Czech Republic, Mexico, Malaysia, the United Kingdom, Singapore and the Republic of Korea. All countries are expected to intensify their efforts to attract FDI, reflecting increased competition worldwide for FDI projects. This document presents the key findings of the UNCTAD–Corporate Location 2004 worldwide survey of 87 international direct investment location experts.

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UNCTAD would like to express its appreciation to the respondents for their participation in the expert survey. Their kind cooperation and the valuable information they provided were indispensable for the assessment of FDI prospects. For a list of experts who participated in the survey, see www.unctad.org/fdiprospects.

Introduction

The survey of international FDI location experts was conducted by UNCTAD and the editorial staff of *Corporate Location* in January–February 2004, when global FDI was still reeling from the FDI recession that marked the period beginning in 2001. The recession had ended an unprecedented run of ever-increasing annual FDI flows during much of the preceding decade. Prospects for 2004, however, indicate that an FDI recovery is in sight.

UNCTAD's survey of international location experts aims to assess future developments in FDI in order to provide information relevant for policy makers in charge of devising promotion policies and regulatory frameworks for FDI. The survey is coordinated with two related worldwide surveys carried out by UNCTAD: a survey of the largest transnational corporations (TNCs) in the developed and, separately, in the developing world, and a survey of national investment promotion agencies (IPAs). The findings of each of these surveys will be published separately.

Respondents to the survey covered here are international location experts closely involved as consultants, advisers 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 (87 international experts) proved sufficiently large for identifying clear trends.

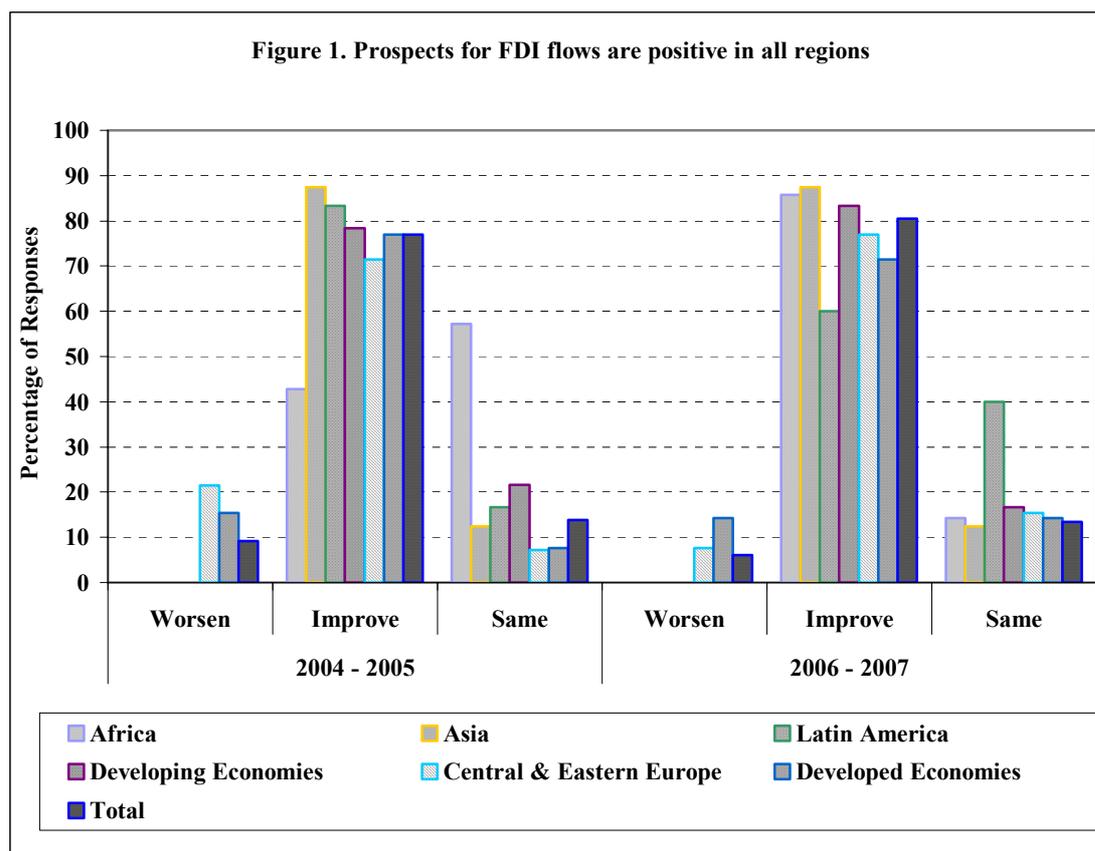
The survey attempts to answer the following questions:

- What are the general expectations concerning FDI prospects in the near future?
- What are the expected patterns in terms of industry and region?
- What are the expected strategies by TNCs in relocation of their corporate functions and mode of investment?
- What are the expected trends in terms of policy responses by Governments?

Prospects for FDI flows

The large majority of location experts are optimistic about the prospects for FDI. Roughly four out of five experts surveyed believe that FDI prospects will improve, not just in the short term (2004–2005) but also in the medium term (2006–2007) (see Figure 1). The survey results suggest that experts are on balance slightly more optimistic about the medium term, as the percentage of respondents predicting worsened prospects for the period 2006–2007 is somewhat lower than that for 2004–2005.

The differences by region are relatively small. There is less optimism regarding short-term prospects for Africa than for the other regions. However, for the longer term, there is a remarkable reversal in experts' opinions of Africa's FDI prospects, as the "improved" responses increase to more than 80 per cent, positioning Africa squarely among the other regions. For Latin America, the reverse holds true: optimistic responses about the region's FDI prospects in 2004–2005 exceed those for the period 2006–2007. However, the majority of location experts foresee improved prospects for Latin America in both periods.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

Future bright spots

China and India lead, followed by the United States, as the countries for which FDI prospects are brightest (see Figure 2). In India, where FDI flows have been low, location experts expect a major surge. For many developed countries, especially in Europe, which have traditionally been among the largest FDI recipients, prospects appear less bright than for certain developing countries such as Thailand, Malaysia, Singapore and the Republic of Korea. Poland and the Czech Republic also make the list of the most frequently mentioned countries with favourable FDI prospects, as they are expected to benefit from accession to the European Union. Mexico is the only Latin American country on this list.

For each region, experts ranked the countries they considered the top FDI locations in 2004–2005:

- In the developed world, the United States was the top expected location for FDI, followed by the United Kingdom. Canada and France tied for third place.
- In Africa, South Africa, Angola and Tanzania occupy the top three spots. South Africa is perceived as the most attractive location, while Angola and Tanzania are tied in second place. These two least developed economies have bright prospects in natural resource extraction industries, in Angola's case particularly the petroleum industry.
- In Asia and the Pacific, China and India are the most attractive destinations for FDI in the near future, with Thailand in third place.
- In Latin America, the traditional magnets for FDI inflows – Mexico, Brazil and Chile – are expected by experts to continue to play that role, at least in the short term.

- In Central and Eastern Europe, Poland and the Czech Republic occupy first and second place, while Russia and Romania share third place.

FDI prospects by industry

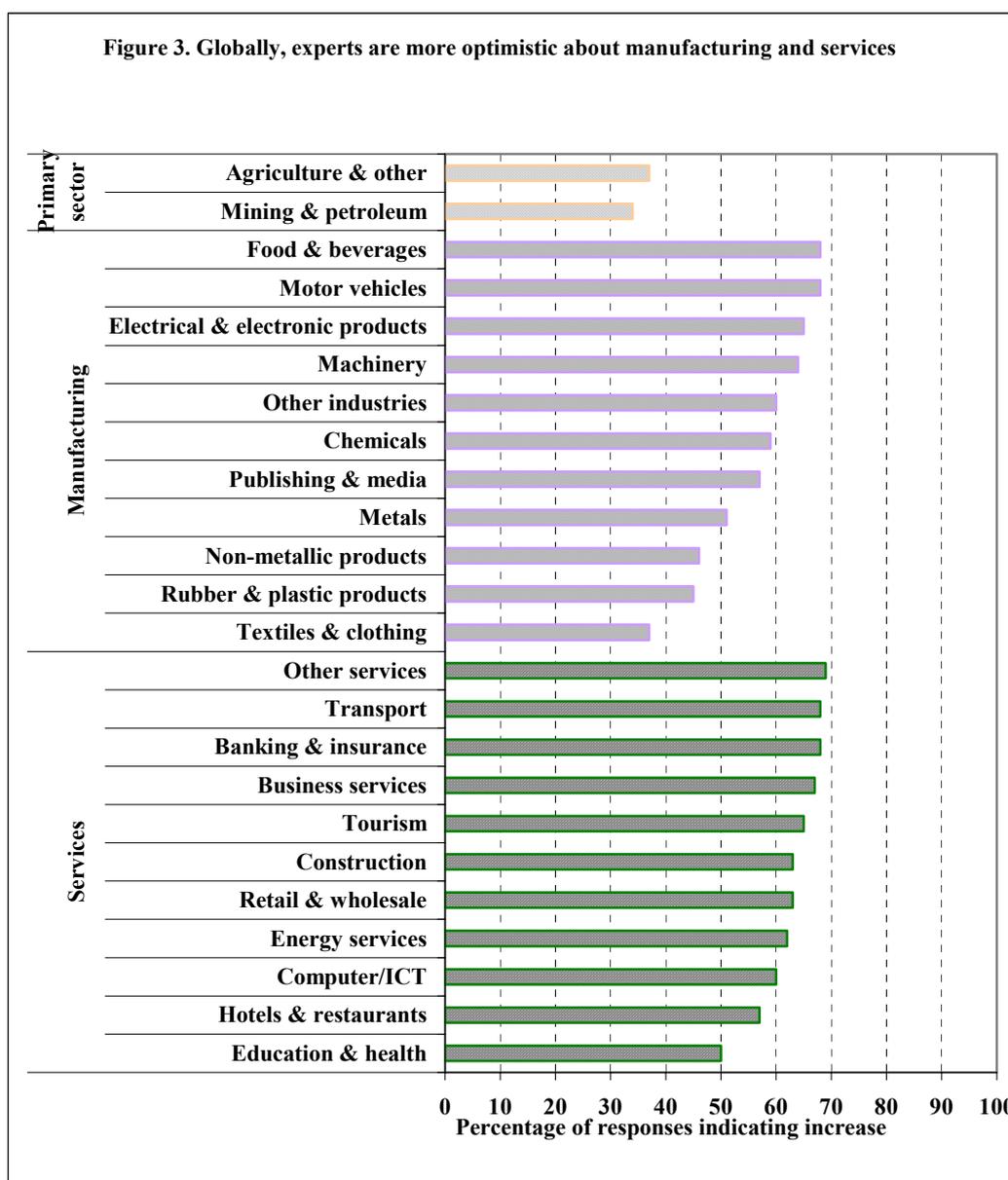
Globally, experts are optimistic about FDI prospects in manufacturing industries such as food and beverages, motor vehicles and other transport equipment, electrical and electronic products, and machinery and equipment (see Figure 3).

Figure 2. The most attractive countries for FDI flows

	Africa	Asia	Latin America	Developing economies	Central & Eastern Europe	Developed economies
1	South Africa	China	Mexico	China	Czech Republic Poland	United States
2	Angola Tanzania	India	Brazil Chile	India		United Kingdom
3		Thailand		Thailand	Romania Russia	Canada France

Global Ranking	
1	China
2	India
3	United States
4	Thailand
5	Poland and the Czech Republic
6	---
7	Mexico and Malaysia
8	---
9	United Kingdom, Singapore and the Republic of Korea

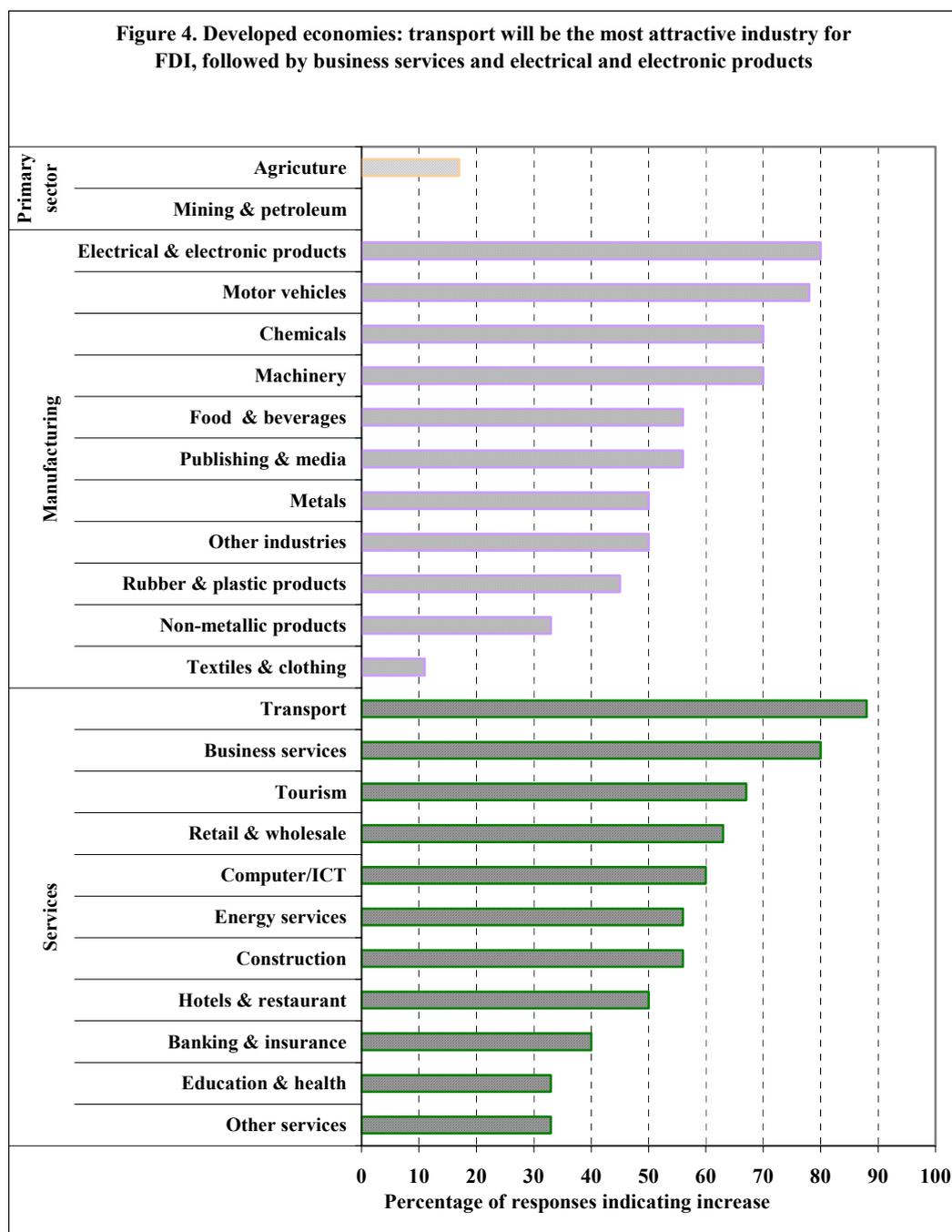
Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

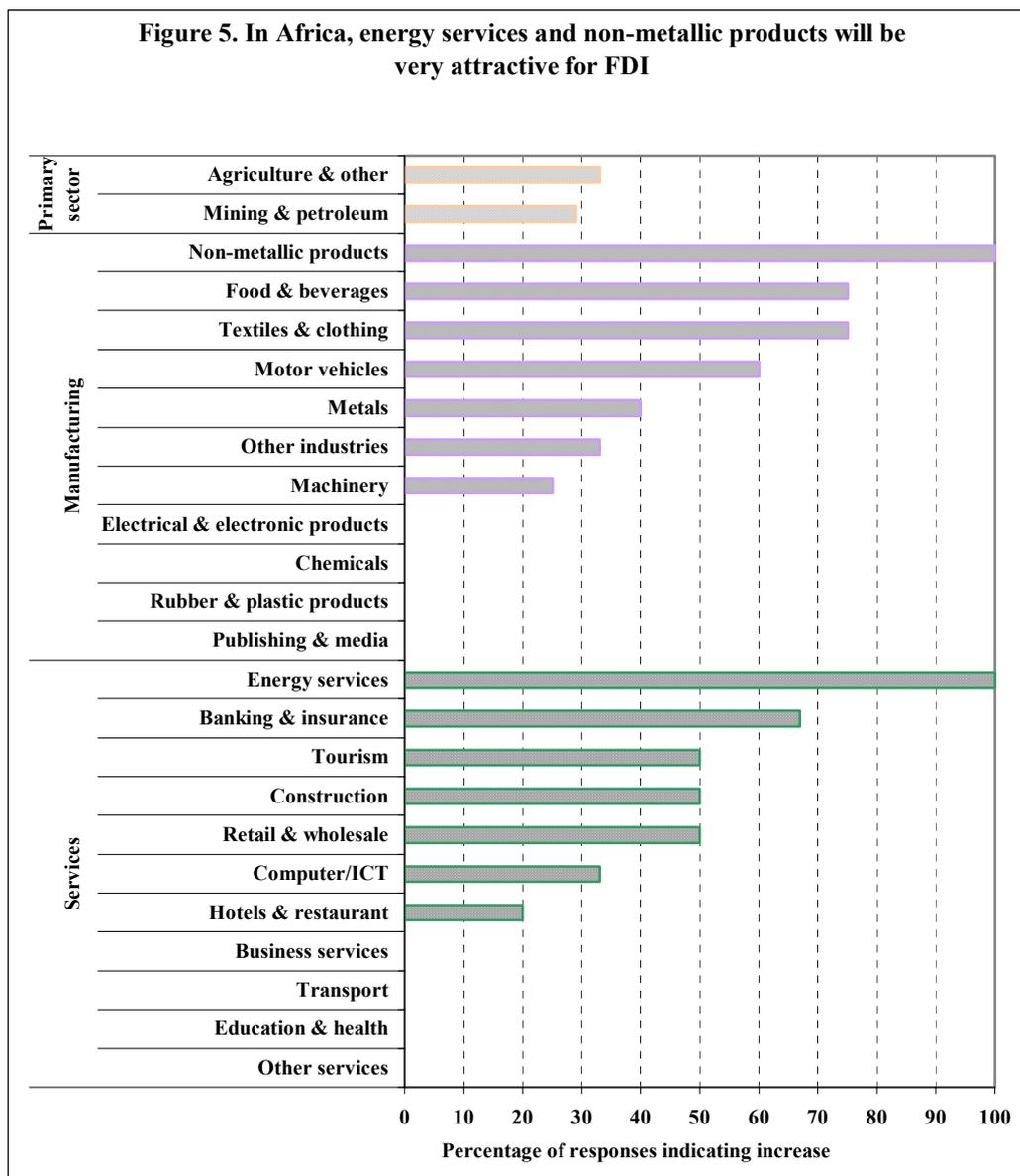
In the services sector, experts expect a recovery in transport, banking and insurance, business services and tourism. They are pessimistic about future FDI flows into the primary sector. However, the prospects vary from region to region:

- In the developed countries, electrical and electronic products and motor vehicles and other transport equipment are the most attractive industries in the manufacturing sector, followed by chemicals and machinery and equipment. In services, transport and business services are the most attractive for FDI, followed by tourism, retail and wholesale trade, and computer-related services (see Figure 4).



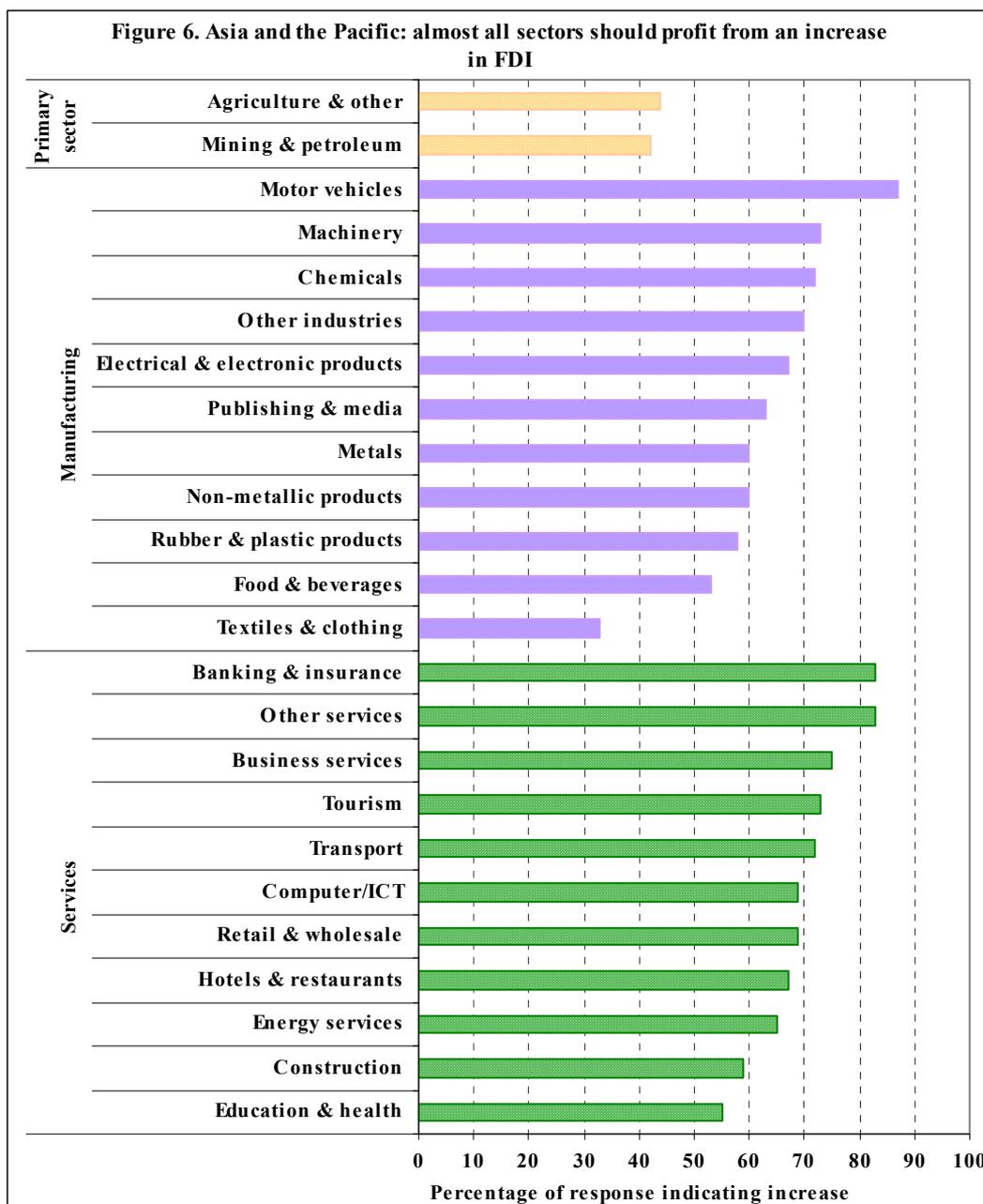
Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

- In Africa, non-metallic products, food and beverages, textiles, clothing and leather are expected to attract FDI. In the services sector, electricity, gas and water services and, to a much lesser extent, banking and insurance will attract FDI flows (see Figure 5).



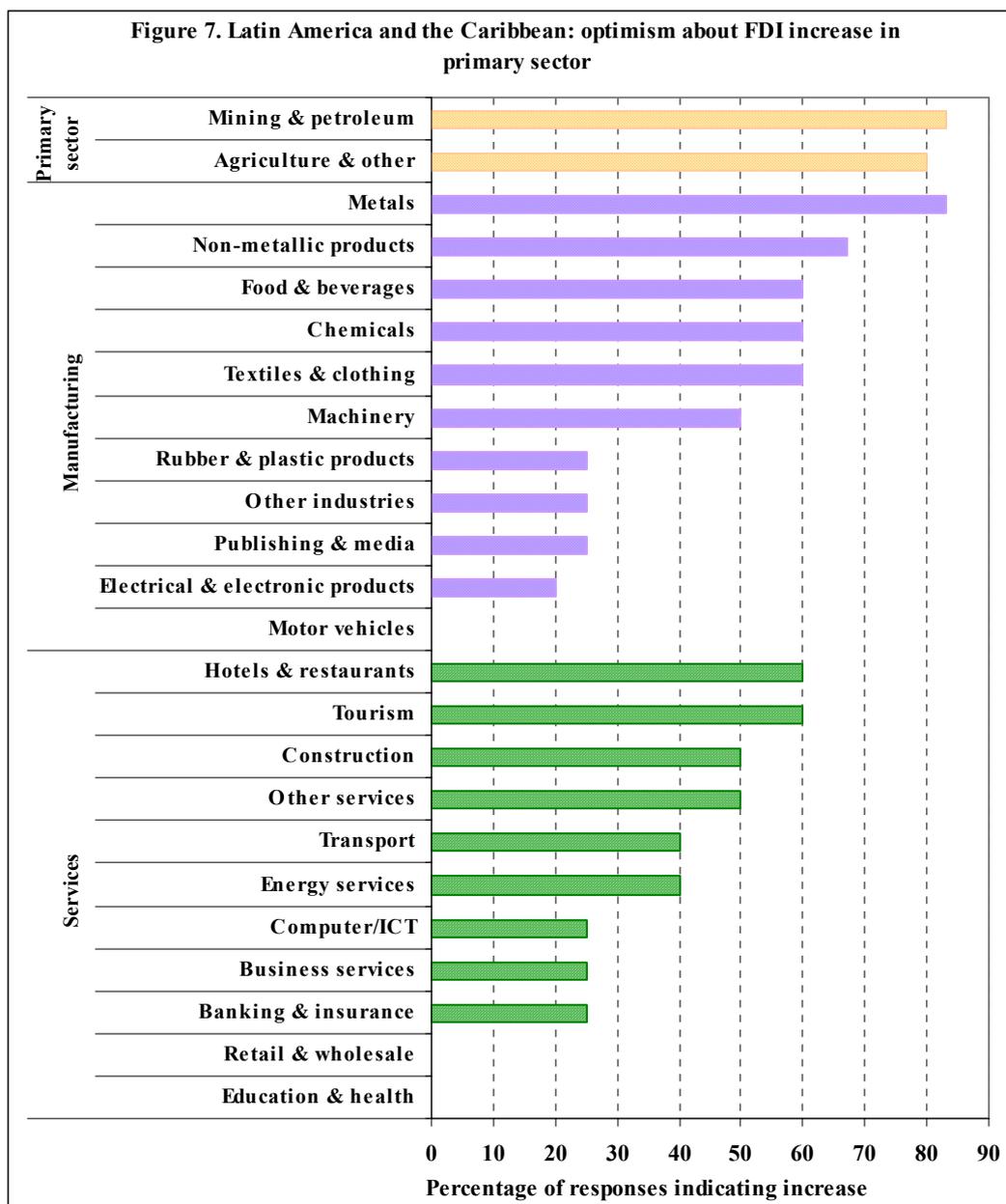
Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

- In Asia and the Pacific, optimism about FDI prospects is broad-based in terms of industries. In the manufacturing sector, improved prospects are expected for motor vehicles and other transport equipment, machinery and equipment, chemicals and, to a lesser extent, electrical and electronic products, publishing and media, and printing and recording industries. In the services sector, banking and insurance, business services, tourism, transportation, computer-related services and retail and wholesale will take the lead in attracting FDI in coming years (see Figure 6).



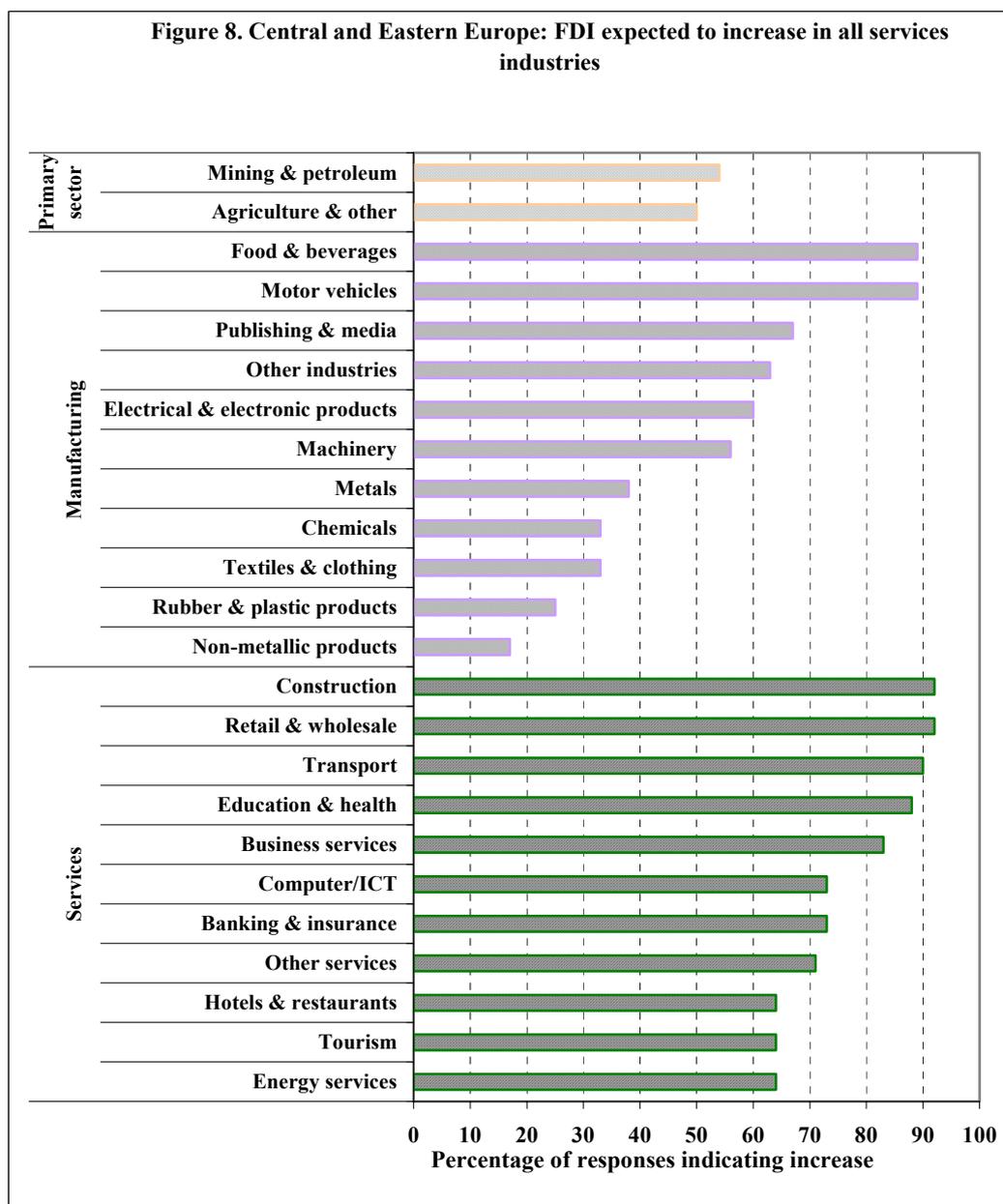
Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

- Contrary to the global trend, in Latin America more natural-resource-based industries such as metal products, mining and petroleum, and agriculture are expected to lead FDI recovery in the region. Other industries that will attract FDI are non-metallic products, food and beverages, chemicals, and the textiles, clothing and leather industries. In the services sector, hotels and restaurants and tourism are expected to be attractive for FDI (see Figure 7). The fact that, generally speaking, the respondents did not expect FDI in the primary sector to have the same potential as in other sectors, may explain why for Latin America – unlike for the other regions – experts are not very optimistic regarding longer-term FDI prospects.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

In Central and Eastern Europe, FDI inflows are expected to increase in food and beverages, motor vehicles and other transport equipment and, to a lesser extent, publishing and media, printing and recording, and the electrical and electronics industries. The perception of improved prospects for FDI in the services sector is broad-based and includes industries such as construction and real estate, retail and wholesale trade, transport, education and health, business services, computer-related services, and banking and insurance (see Figure 8).

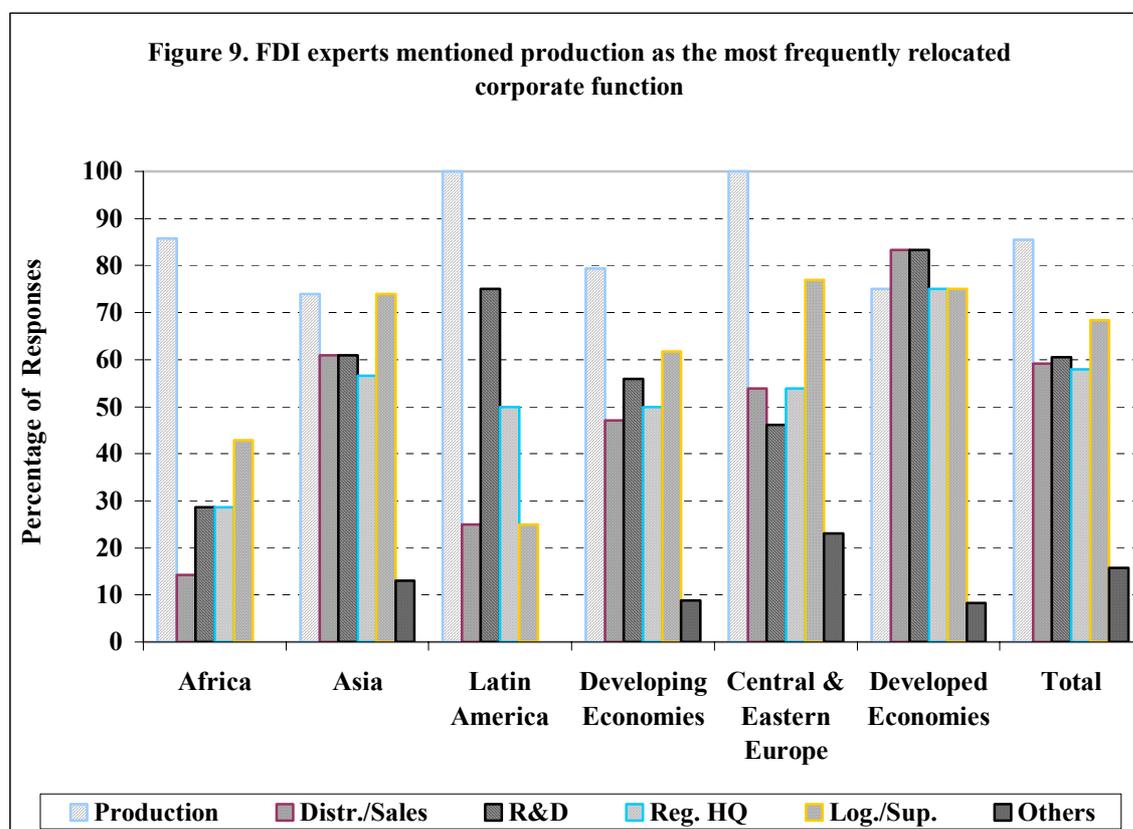


Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

Prospects for the relocation of corporate functions

The relocation of corporate functions, in particular those associated with higher-value-added activities, has become a topical issue, with reports in the press of companies relocating research and development facilities or other “white-collar” activities abroad, especially to developing countries. In this context, it is interesting that the FDI experts still see the bulk of relocations involving lower-value-added corporate functions (see Figure 9). Overall, processing activities, followed by logistics and supply functions, are the most frequently mentioned corporate functions likely to relocate abroad. These results differ significantly by region. The relocation of higher-value-added functions such as research and development was much more frequently mentioned in the case of developed countries than developing countries. Processing is considered the most important function likely to be relocated to developing countries, followed by logistics and supply activities.

Interestingly, among regions, the developed countries and Asia have the most balanced profile, implying that these regions are expected to attract FDI in all the different corporate functions. Most developing regions, on the other hand, are expected to be much more specialized in their capacity to attract FDI. For Africa and America, but also for the Central and Eastern European countries, production stands out as the corporate function most likely to be attracted to these regions, followed, at some distance, by supply and logistics.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

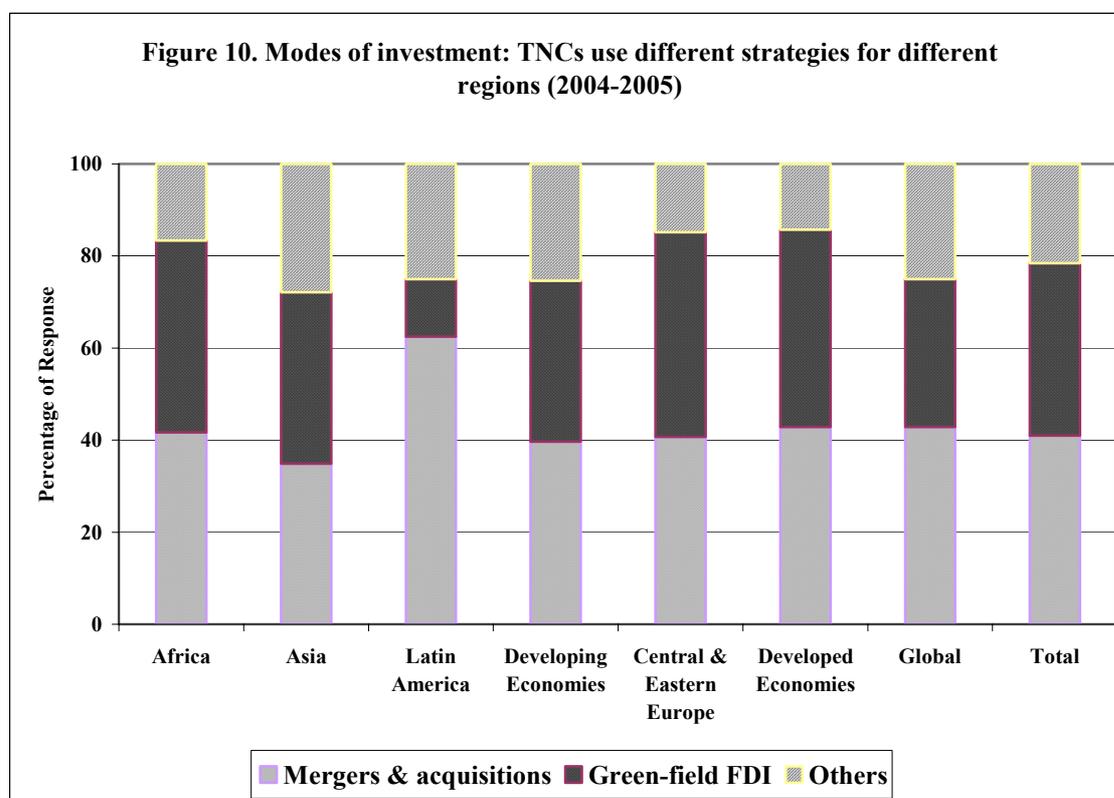
Prospects for modes of investment

In general, the surveyed location experts expect firms to further internationalize their operations using both greenfield operations and mergers and acquisitions (M&As) (see Figure 10). Overall, these two options received a similar number of votes (about 40 per cent of the total) as the most likely mode of entry by TNCs in the period 2004–2005. Other non-equity options such as licensing and strategic alliances were mentioned by only some 20 per cent of experts.

The emerging picture is the same for almost all regions with the exception of Latin America. For all other regions, greenfield FDI and M&As are seen as more or less equally important. For Latin America, however, 80 per cent of experts foresee M&As as the dominant form of FDI into the region. Here it is worth recalling that Latin America has the highest share of M&A-related FDI in total FDI inflows in the developing world, which is partly a reflection of its privatization programme.

M&As were not frequently mentioned by location experts in the case of developed countries, where they had been the driving force for the latest FDI boom. The failure of many such deals may be one reason for this.

Options other than FDI through greenfield operations and M&As are particularly frequently mentioned in connection with Asia and Latin America (29 per cent in each case), which suggests that the entrepreneurship and access to capital available in many countries of these regions and the kinds of activities located there by foreign investors provide considerable scope for non-equity/contractual arrangements between foreign and domestic firms.



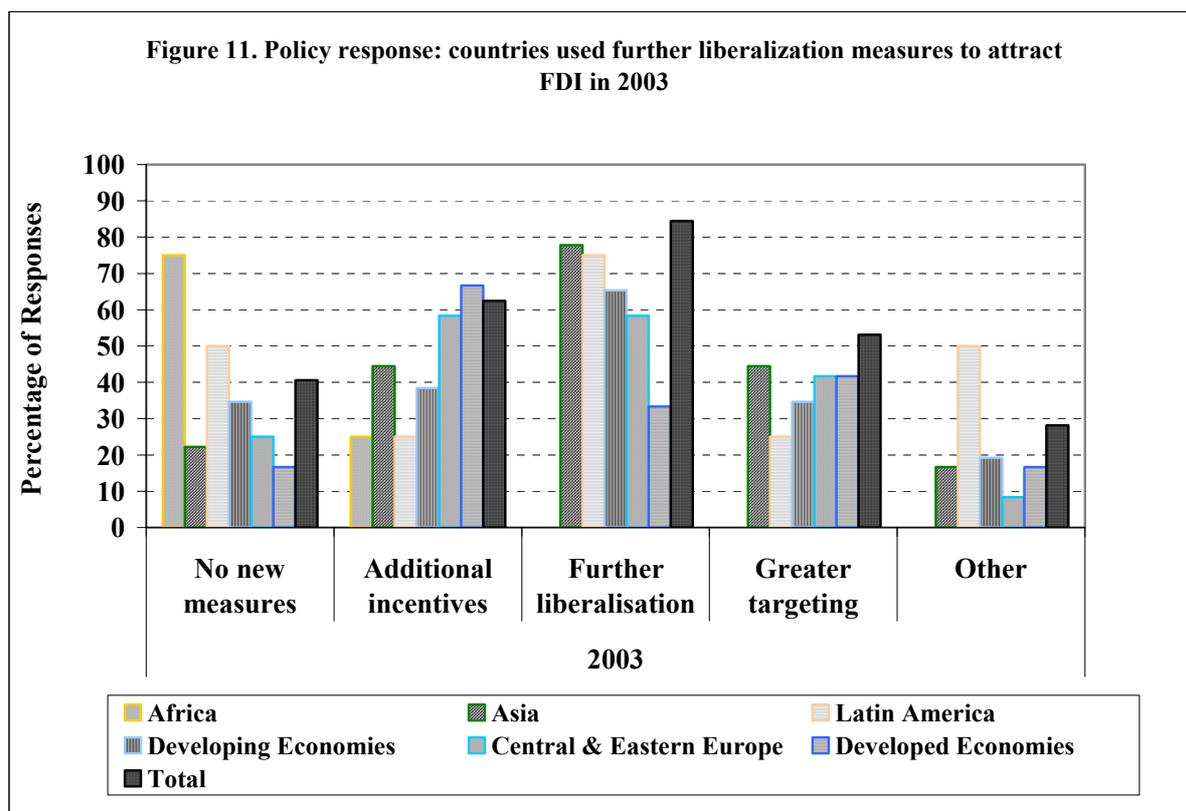
Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

FDI policy developments

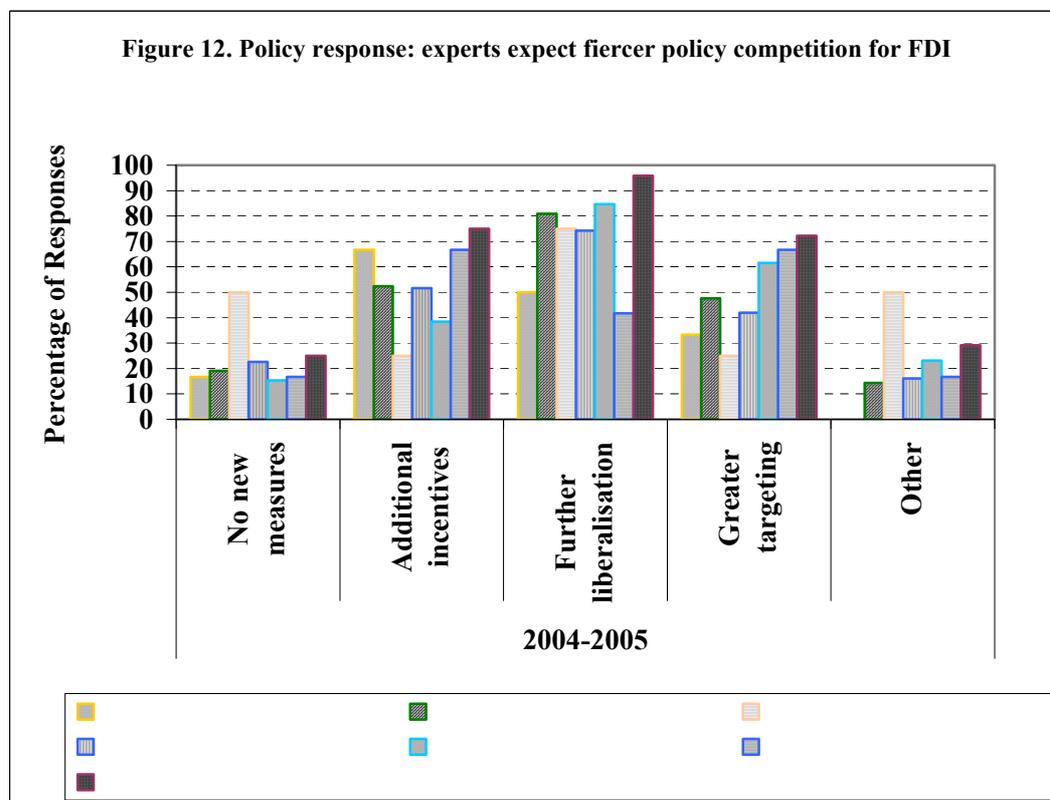
The message emerging from this survey is that countries are expected to intensify their efforts to attract FDI, reflecting increased competition worldwide for FDI projects. The number of experts who expected countries to adopt no new measures to promote FDI in 2004–2005 was significantly lower than the number of those who indicated having observed no such measures being implemented during 2003 (see Figures 11 and 12). The general expectation is that countries will become more active in promoting FDI, in particular through further liberalization measures, additional incentives and increased targeting (see Figure 12).

There are regional differences, of course. In Africa, for instance, more experts identified a preference for additional incentives as opposed to greater targeting. In Central and Eastern Europe, the reverse holds true. In developed countries, liberalization is expected to play a lesser role, while targeting and, to a certain extent, additional incentives are expected to become more important.

The upshot, particularly for developing countries, is that increasingly sophisticated and possibly resource-intensive policy measures are needed to retain existing FDI and attract new investment.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.



Source: UNCTAD-DITE, Global Investments Prospects Assessment (GIPA) 2004.

UNCTAD's Global Investment Prospects Assessment (GIPA)

The Global Investment Prospects Assessment (GIPA) is designed to assess short- and medium-term prospects for FDI. It analyses predicted future patterns of FDI flows at the global, regional, national and industry levels from the perspectives of global investors, host countries and international FDI experts. It also analyses evolving trends in the strategies of TNCs as well as FDI policies.

GIPA is designed to fill a research and policy analysis gap, equipping Governments and business alike with a critical instrument for proactive development of policies and strategies, as opposed to after-the-fact assessment of foreign investment facts.

In addition to its own research and policy analysis, UNCTAD bases its assessments on the findings of three-part large-scale surveys:

- A worldwide survey of and follow-up interviews with the largest TNCs with headquarters in developed and developing countries and in Central and Eastern Europe.
- A worldwide survey of and follow-up interviews with international FDI experts who typically assist TNCs in their overseas location decisions (in collaboration with *Corporate Location* magazine).
- A worldwide survey of national investment promotion agencies regarding their perception of TNCs' investment strategies and of FDI prospects for their respective countries and regions.

These surveys complement each other and allow for direct comparison of the results obtained.

GIPA is managed by a team comprising:

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