

**Prospects for
Foreign Direct Investment
and the Strategies of
Transnational Corporations,
2005-2008**

CHAPTER 4



UNITED NATIONS
New York and Geneva, 2005

IV. Regional prospects

The focus of investors' attention appears to be shifting away from traditionally important investment locations in the developed world towards a handful of emerging markets. This underlies the fact that developing countries were at the forefront of the global FDI recovery in 2004 (UNCTAD 2005a).

Overall, developed countries are expected to see some recovery in FDI, but this will be relatively modest in the short run. The United States is expected to remain the most attractive destination for FDI in the developed world. Of the major European economies, only the United Kingdom and Germany feature among the ten most attractive investment locations. Prospects for FDI in new European Union (EU) member countries are generally positive.

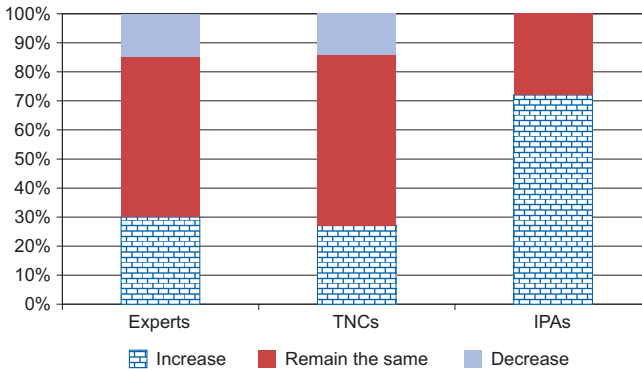
Asia and Eastern Europe are the two regions with the most positive FDI prospects. China, India and the Russian Federation are likely to be the main beneficiaries, while Thailand, the Republic of Korea, Ukraine and Romania are also expected to perform well. FDI flows to Africa are generally expected to remain stable. South Africa is considered to be by far the most attractive investment location on the continent, although Egypt, Nigeria and Morocco are also expected to see healthy FDI growth. Latin America should maintain its recent FDI recovery, with Brazil at the forefront, followed by Mexico, Argentina and Chile.

A. Developed countries

Between 2003 and 2004, developed countries' share of global FDI inflows dropped from 70% to 59%. Looking ahead, most of the experts and TNCs surveyed expect FDI flows to developed countries to remain steady in the short term (figure IV.A.1). Much of the caution over the FDI prospects of developed countries is due to ongoing uncertainty about the health of their economies, as well as concerns over protectionism and trade wars (see the policy section, chapter II, section B). IPA respondents⁶ are much more optimistic, however. This reflects the positive outlook of

IPAs from EU accession countries, which are currently enjoying high growth and offer access to EU markets, low labour costs and low corporate tax rates (UNCTAD 2005a).

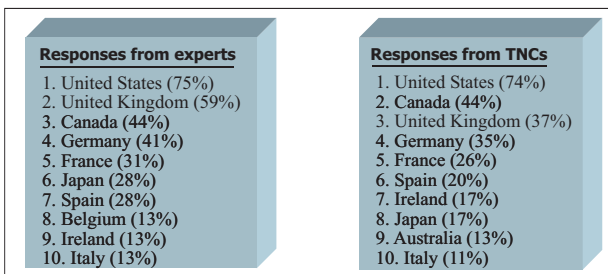
Figure IV.A.1. Developed countries: prospects for FDI flows, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

The United States remains the most attractive destination, and largest source, for FDI among developed countries (figure IV.A.2). Other top FDI destinations include the United Kingdom, Canada, Germany and France.

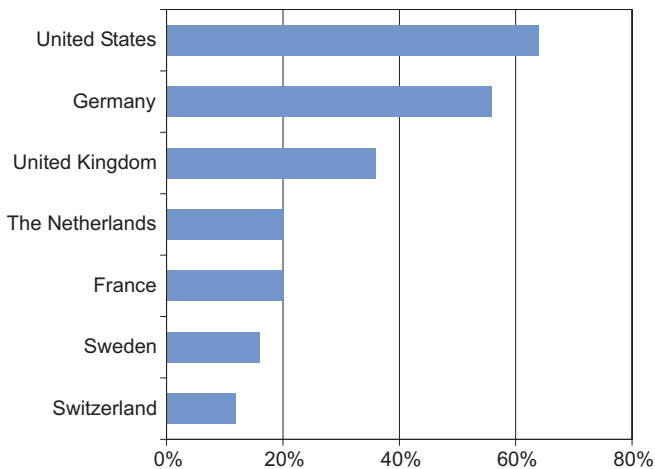
Figure IV.A.2. Developed countries: most attractive business locations, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Most FDI flows are likely to take place between developed countries. The expected leading sources of FDI to the group of developed countries are the United States, followed by Germany and the United Kingdom (figure IV.A.3). Indeed, significant variation in FDI flows between developed countries was recorded in 2004 (UNCTAD 2005a), due to, among other things, varying levels of economic growth, business confidence, and cross-border M&As. On the other hand, EU-15 countries, Norway and Switzerland generally performed worse owing to lower economic growth rates and corporate restructuring. Meanwhile, FDI flows to those new EU accession countries are expected to continue growing.

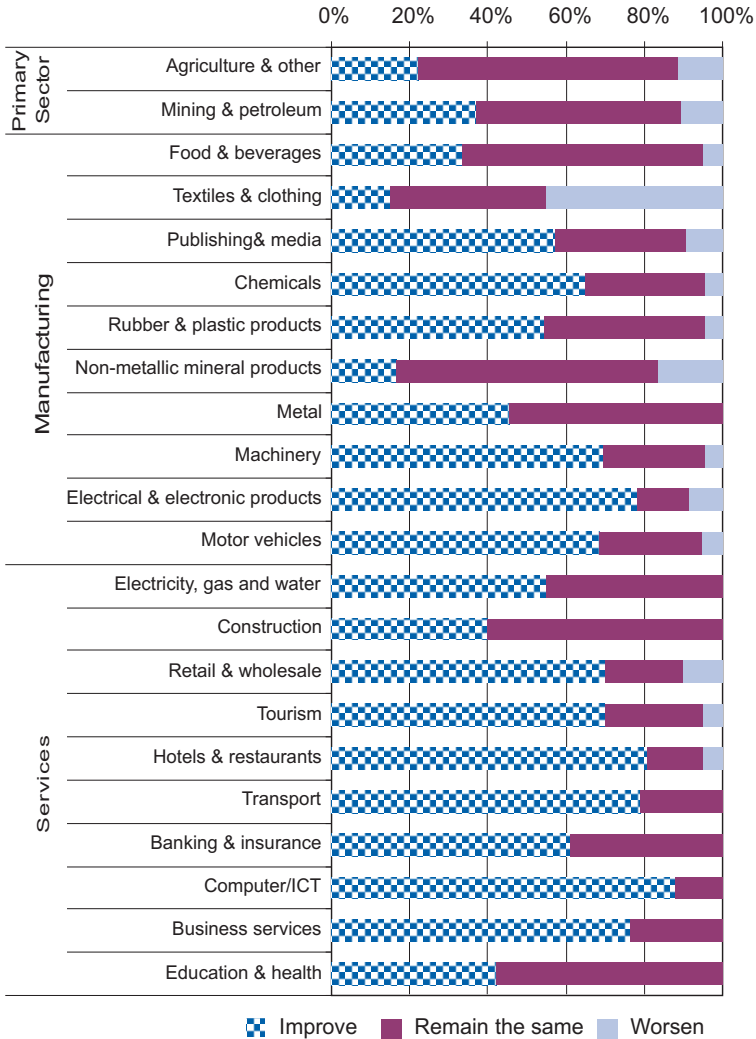
Figure IV.A.3. Developed countries: expected leading sources of FDI, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Overall, IPAs from developed countries were generally most optimistic about the prospects for attracting FDI in services (figure IV.A.4). The sectors expected to attract most investment are computing and ICT, hotels and restaurants, transport and business services industries. FDI in tourism, and in the retail and wholesale sector, is also expected to grow, though more modestly.

Figure IV.A.4. Developed countries: FDI prospects by industry, 2005-2006
(Per cent of responses from IPAs)

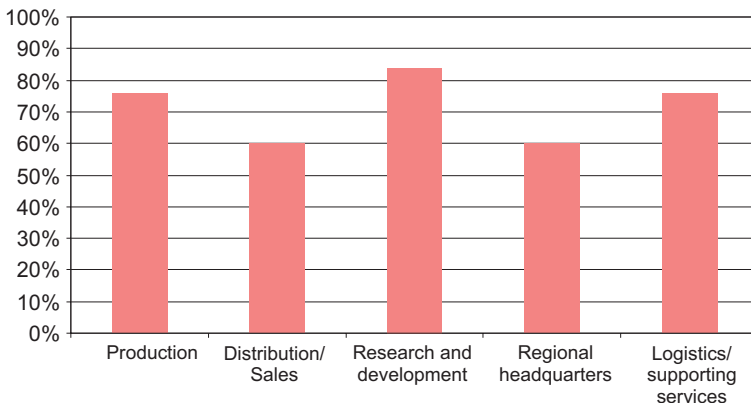


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

The largest growth areas for foreign investment in the manufacturing sector are likely to be electrical and electronic equipment, motor vehicles and other transport equipment, machinery and chemicals. Investment in textiles and clothing is expected to fall because of competition from developing countries, particularly those from Asia.

The corporate functions that IPAs from developed countries most expect to see relocated include R&D, logistics and supporting services, and production (figure IV.A.5). Most of the FDI in R&D by firms from developed countries continues to be directed at other developed countries.

Figure IV.A.5. Developed countries: expected relocation of corporate functions, 2005-2006
(Per cent of responses from IPAs)

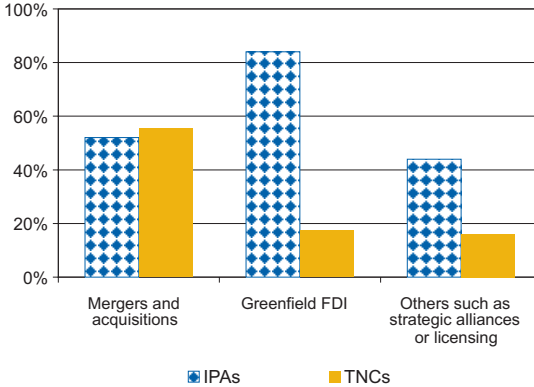


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

TNCs believe that M&As will remain the most frequent means of investment in developed countries. On the other hand, IPAs believe that the majority of the FDI they will receive in 2005-2006 will take the form of greenfield investment (figure IV.A.6). This is largely a reflection of the shift taking place within the EU, with firms looking to move their operations to new accession countries to take advantage of the lower cost structures available. This could also reflect the fact that IPAs are geared more towards new, greenfield investors.

Figure IV.A.6. Developed countries: expected modes of investment, 2005-2006

(Response by TNCs and IPAs from developed countries)

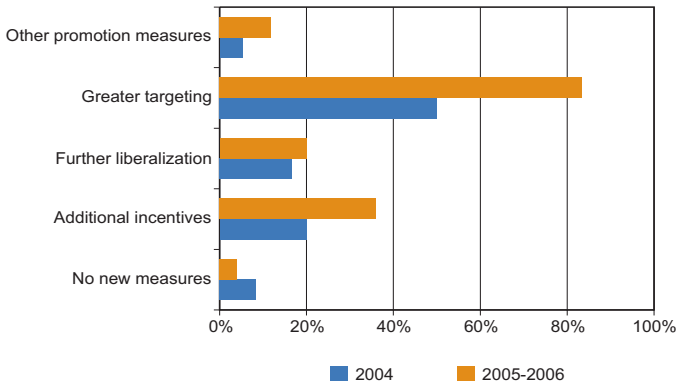


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

In 2004, around half of developed countries boosted their investment promotion efforts by introducing more sophisticated targeting techniques. In addition, 20% offered extra investment incentives, and 17% further liberalised their investment regimes (figure IV.A.7).

Figure IV.A.7. Developed countries: trends in policy measures to attract FDI, 2004-2006

(Per cent of responses)



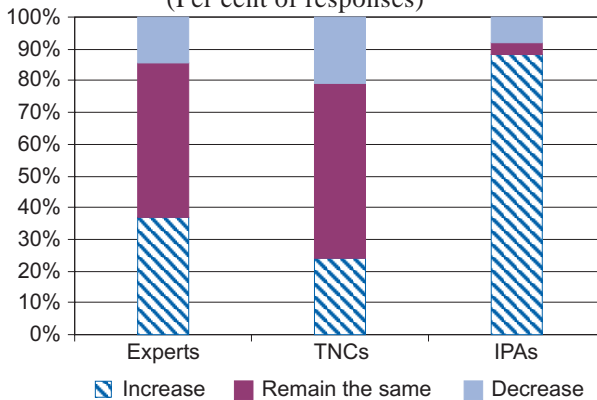
Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

In 2005-2006, developed countries will continue to intensify their investment promotion efforts, particularly through greater targeting and additional incentives. However, they plan to introduce fewer new liberalization measures than countries from other regions. This is not surprising given that most developed countries already have highly liberalised markets and relatively hospitable investment environments.

B. Africa

After a downturn in 2002, FDI flows to Africa recovered in 2003 and remained relatively stable in 2004. In the short run, FDI expectations for the continent remain fairly positive, though the three survey groups gave widely differing assessments (figure IV.B.1). The consensus among TNCs is that FDI flows to Africa will remain stable, with the same proportion of respondents predicting an increase in FDI as predicting a fall. In contrast, experts and, especially, IPAs⁷ are more optimistic: a third of the former and 90% of the latter believe that FDI inflows will continue to increase. Both experts and TNCs believe that North African countries have greater FDI potential than those from sub-Saharan

Figure IV.B.1. Africa: prospects for FDI flows, 2005-2006
(Per cent of responses)

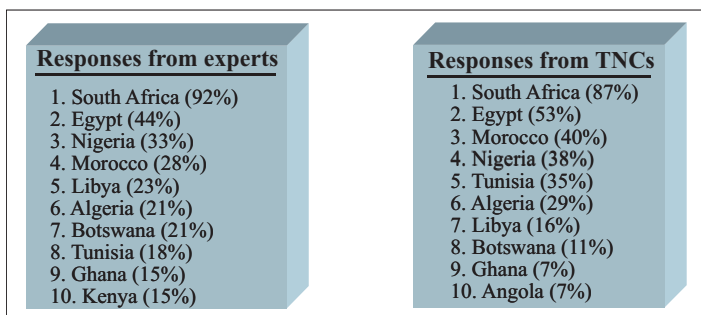


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Africa. The overall mood of optimism is due in large part to high petroleum and commodity prices. In the case of the IPAs and their high level of confidence, it should be noted that their optimism is partly rooted in their professional role.

In the short term, South Africa appears to be by far the most attractive business location in Africa (figure IV.B.2). Nine out of ten experts and TNCs believed it will be among the continent's top five business locations in 2005-2006. Around half of each group also placed Egypt in their top five most attractive business locations, while North African countries in general featured prominently in the top ten.

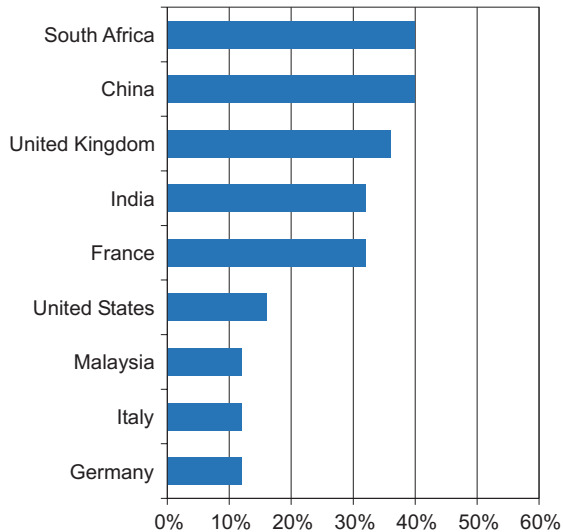
Figure IV.B.2. Africa: most attractive business locations, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

South Africa and China were the most frequently cited as potential sources of FDI for Africa (figure IV.B.3). 40% of African IPAs believe that corporations from these countries will be among their three largest investors. Europe is also seen as a major source of investment, with the four largest EU economies all in the top ten. Many IPAs also expect significant investment from Asia. In recent years, Chinese TNCs have expanded their resource-seeking and manufacturing activities on the continent, and Indian firms have begun to invest in IT-related services. Both China and India featured in the top five expected leading sources of FDI in the 2004 edition of the GIPA survey.

Figure IV.B.3. Africa: expected leading sources of FDI, 2005-2006
(Per cent of responses from IPAs)

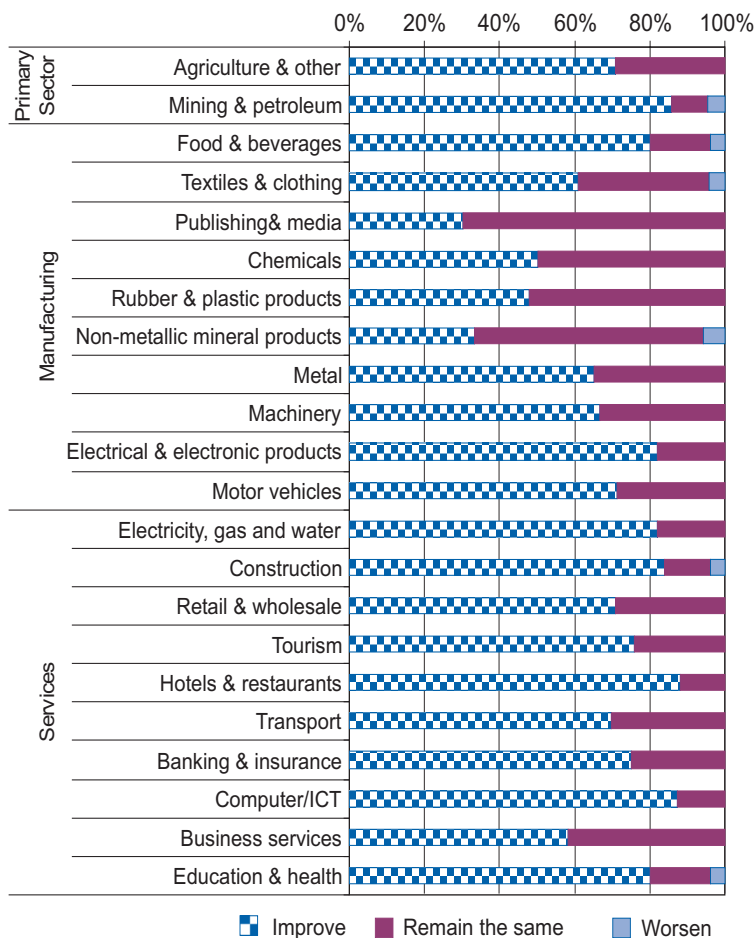


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

The majority of African IPAs continue to expect FDI growth in the services sector to remain strong (figure IV.B.4). They are particularly positive about prospects for computing and ICT services, the hotel and restaurant sector and construction and real estate. This is in line with most other developing countries. There is less optimism about FDI in the manufacturing sector, although some exceptions, such as electrical and electronic products, food, beverages and tobacco, are expected to perform relatively well. In the primary sector, predictions for FDI in agriculture, forestry and fishing are less upbeat than last year. In contrast, 85% of IPAs believe that mining, quarrying and petroleum will see substantial investment growth, largely as a result of rising commodity prices.

Most African IPAs believe that production and distribution are the corporate functions that are the most likely to be relocated to their countries (figure IV.B.5), with 80% expecting to benefit from investment in these areas. Around half are also optimistic about the prospect of attracting FDI in logistics and supporting

Figure IV.B.4. Africa: FDI prospects by industry, 2005-2006
(Per cent of responses from IPAs)



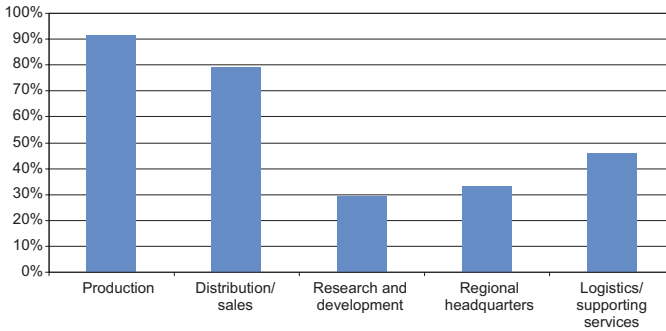
Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

services. Few believe that they will attract FDI for R&D or regional headquarters.

Both TNCs and IPAs believe that greenfield investment will dominate FDI to Africa in the short term (figure. IV.B.6). 80% of IPAs expect to see new greenfield investment in their country

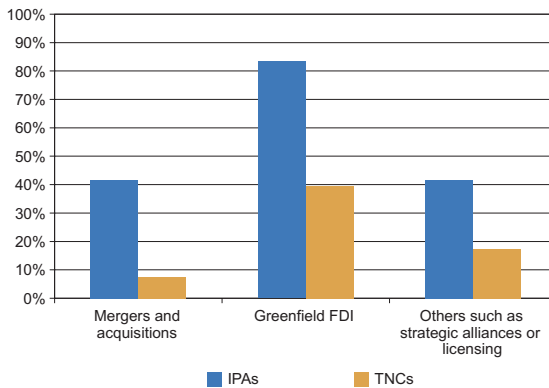
by the end of 2006. The low expectation for other modes of investment is largely a result of the under-developed nature of African economies and companies, which makes it difficult for TNCs to find appropriate targets for M&As.

Figure IV.B.5. Africa: expected relocation of corporate functions, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

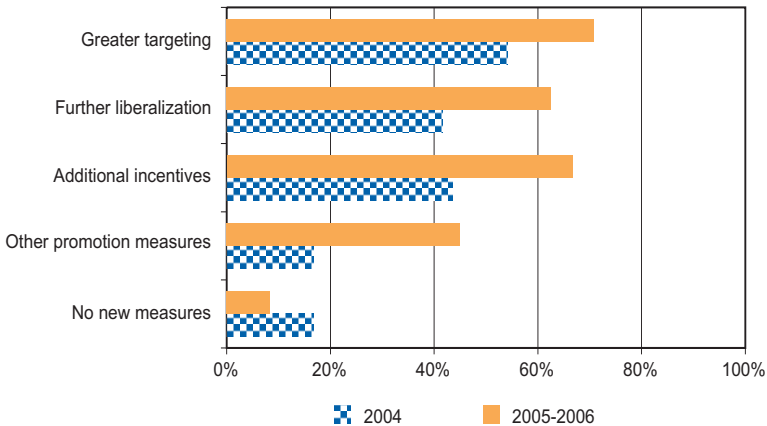
Figure IV.B.6. Africa: expected modes of investment, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Over two thirds of IPAs indicated that their countries will intensify investment promotion efforts through greater targeting, additional incentives and further liberalisation (figure IV.B.7). Investor targeting, which was employed by more than half of African IPAs in 2004, is expected to become even more important as promotion efforts become more focused. Investment promotion is still at its infancy for most countries, since many IPAs in the region are still young. It is not surprising, therefore, that IPAs are experimenting with different investment promotion techniques. Only one out of five African IPAs did not introduce new investment promotion methods in 2004, and just one in ten have no plans for applying new methods in 2005-2006.

Figure IV.B.7. Africa: trends in policy measures to attract FDI, 2004-2006
(Per cent of responses from IPAs)

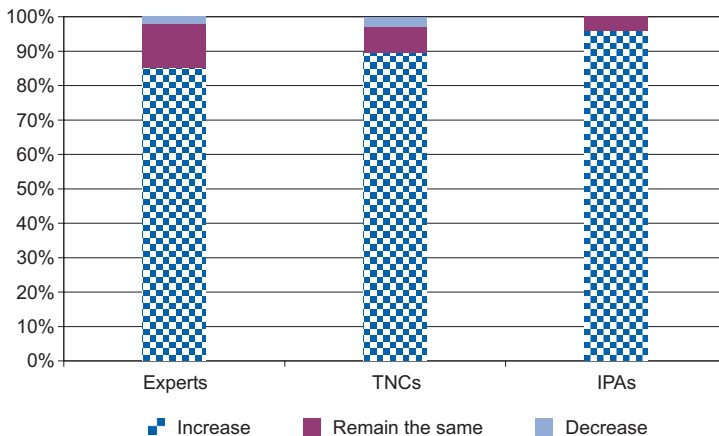


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

C. Asia and the Pacific

FDI prospects for Asia and the Pacific are resoundingly positive, with over 85% of each survey group expecting increased FDI flows to the region (figure IV.C.1). This is significantly more optimistic than in previous years. FDI inflows surged in 2004, reaching \$148 billion, an increase of \$46 billion on 2003 levels. Rapid economic growth, an improving policy environment and TNCs' increasing strategic commitment to the region should ensure sustained FDI growth in the years to come.

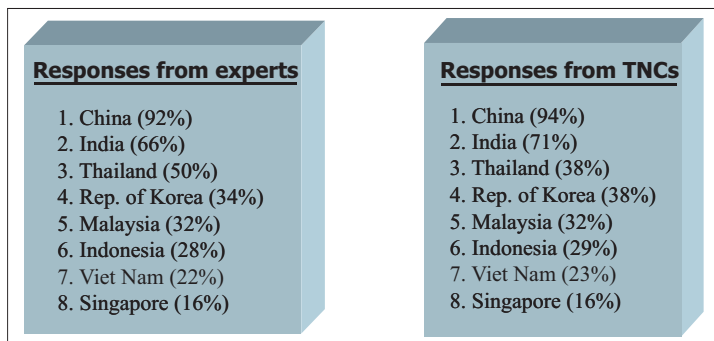
Figure IV.C.1. Asia and the Pacific: prospects for FDI flows, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

China and India are expected to be the top FDI destinations in the region. Thailand's prospects are also encouraging, while the Republic of Korea, Malaysia, Indonesia, Viet Nam and Singapore are all expected to perform well (figure IV.C.2). It should be noted that experts and TNCs came up with an identical ranking of the countries. This suggests that there is a general consensus on the region's and individual countries' prospects.

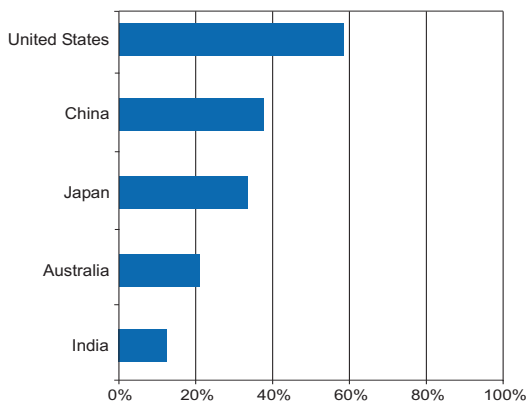
**Figure IV.C.2. Asia and the Pacific: most attractive
business locations, 2005-2006**
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

The United States is expected to be the most important source of FDI for more than half of Asia's economies in 2005-2006, according to IPAs in the region.⁸ Other major source countries include China, Japan, Australia and India, as well as the United Kingdom (figure IV.C.3).

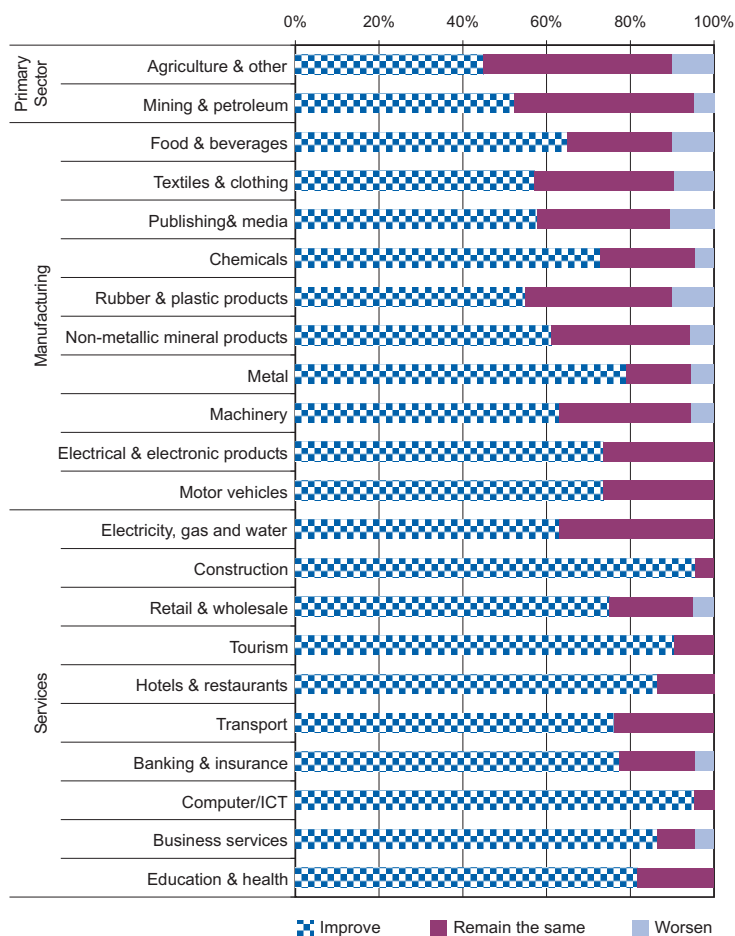
**Figure IV.C.3. Asia and the Pacific: expected leading
sources of FDI, 2005-2006**
(Response rate of IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

In the short term, FDI to Asia is expected to be concentrated in the services and manufacturing sectors as companies take advantage of low production costs and the availability of skilled labour (figure IV.C.4).

Figure IV.C.4. Asia and the Pacific: FDI prospects by industry, 2005-2006
(Per cent of responses from IPAs)



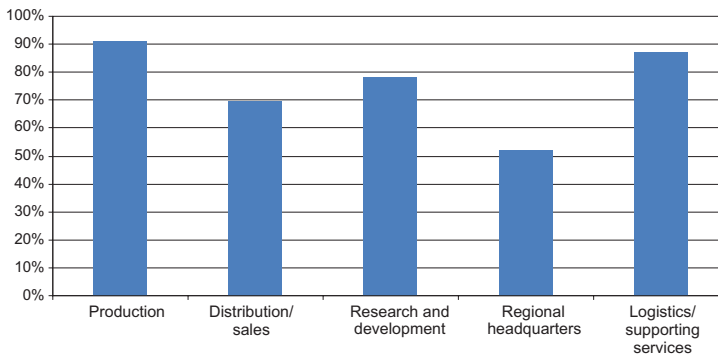
Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Asian IPAs expect FDI growth in the services sector to be concentrated in construction, tourism, computing and ICT, business services, and education and health. In the manufacturing sector, metal and metal products, electronics, motor vehicles and chemicals are expected to attract the most investment. The food and beverages and machinery and equipment industries are also expected to perform relatively well.

One striking aspect of these forecasts is that most of the industries predicted to attract substantial investment are human capital-intensive. This reflects an increasing effort by firms to take advantage of the abundance of skilled labour in Asia. Investment in construction, meanwhile, is driven by rapid economic growth in the region as well as post-tsunami reconstruction. Business services and computing and ICT-related activities are likely to continue to benefit from the current wave of outsourcing. In contrast, prospects for agriculture are gloomy, but this is unsurprising given that FDI in that industry is traditionally low.

Asian IPAs believed they would benefit from the relocation of numerous corporate activities in 2004-2005. 90% expect to receive investment in production, while 87% anticipated FDI in logistics and supporting services. The figures for R&D, and distribution and sales are 78% and 70% respectively (figure IV.C.5).

Figure IV.C.5. Asia and the Pacific: expected relocation of various corporate functions, 2005-2006
(Per cent of responses from IPAs)

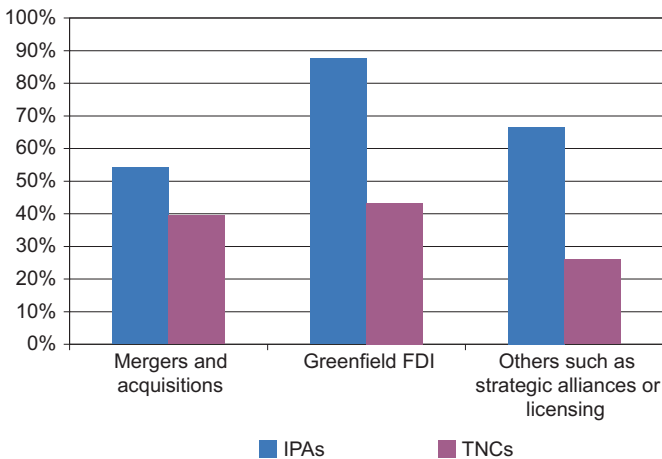


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

The largest change from last year's results is in R&D, with positive responses more than doubling since 2004, reflecting a broader trend towards growing FDI in research (UNCTAD 2005a).

In the short term, greenfield investment is expected to be the most important form of FDI in Asia. It is interesting to note that 67% of Asian IPAs also expect to benefit from other forms of investment, up from 23% in 2004 (figure IV.C.6). This may reflect the efforts of countries in the region to upgrade the capacities of local firms, thus facilitating greater cooperation with foreign corporations through strategic alliances and contractual arrangements. TNCs continue to regard greenfield investment and M&As as equally important modes of FDI.

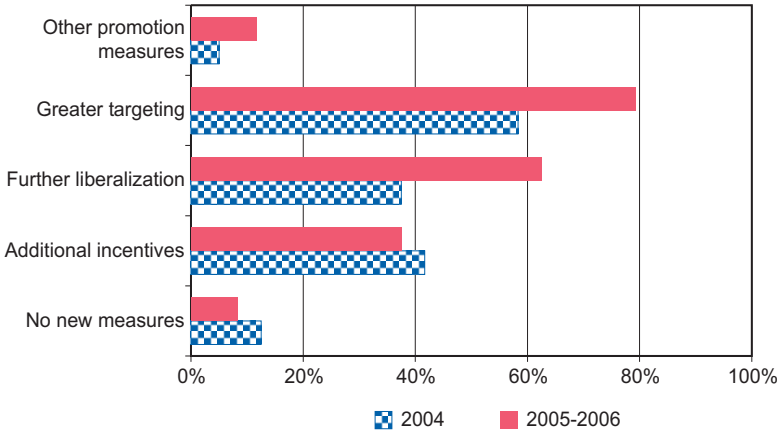
Figure IV.C.6. Asia and the Pacific: expected modes of investment of FDI, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Asian countries introduced a range of new investment promotion measures in 2004, and this is expected to continue in 2005-2006 (figure IV.C.7).

Figure IV.C.7. Asia and the Pacific: trends in policy measures to attract FDI, 2004-2006
(Per cent of responses from IPAs)

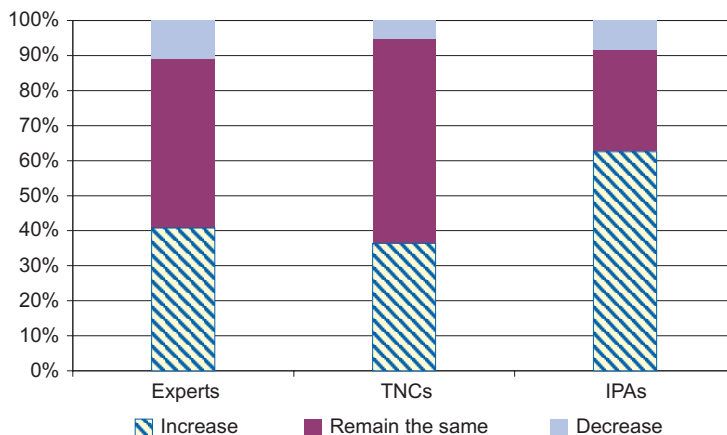


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosppects.

D. Latin America and the Caribbean

After four consecutive years of FDI decline, Latin America and the Caribbean registered a significant upsurge in inflows in 2004, albeit to a level still significantly below that recorded in 1997. The consensus among TNCs, experts and IPAs from the region⁹ is that this recovery will continue, though Latin America is not expected to perform as well as other developing regions (figure IV.D.1). The majority of Latin American and Caribbean IPAs, a third of TNCs, and two out of five FDI experts expect a short-term increase in FDI to the region. The regional economic recovery, improved macroeconomic environment, high demand for commodities and increased policy support for manufacturing industries in some countries is opening up new business opportunities for foreign investors. Nonetheless, FDI experts and TNCs generally expect FDI inflows to the region to remain fairly constant.

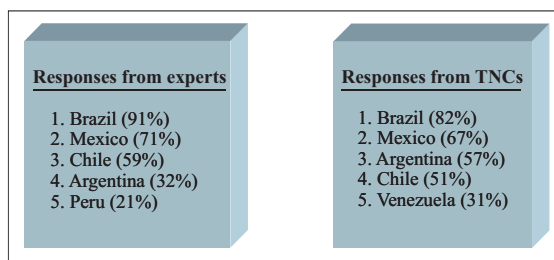
Figure IV.D.1. Latin America and the Caribbean: prospects for FDI flows, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Brazil is expected to be the most attractive location in Latin America for FDI in 2005-2006 (figure IV.D.2). More than 80% of TNCs and 90% of FDI experts believe that the country will be one of the region's five most attractive investment locations in the short term. This may be due to a recent upturn in the

Figure IV.D.2. Latin America and the Caribbean: most attractive business locations, 2005-2006
(Per cent of responses)

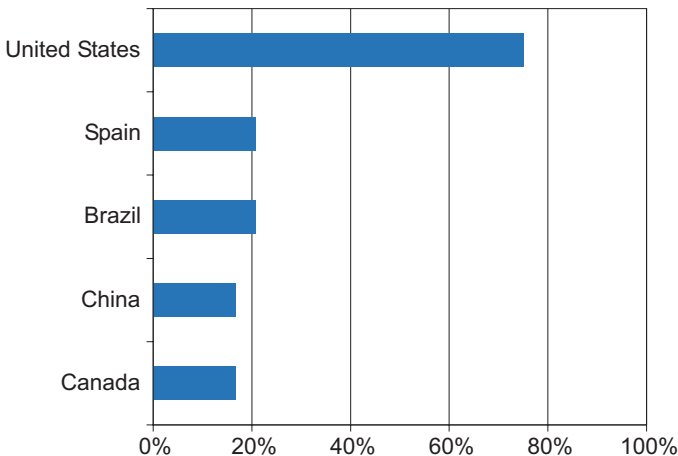


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

economy, led by the dynamically expanding export sector. Mexico's high ranking is unsurprising given that it has been the major recipient of investment over the last four years. Argentina and Chile are also considered to have positive prospects for 2005-2006.

The United States is expected to remain the leading source of FDI in Latin America and the Caribbean. Spain, Brazil, China and Canada are also expected to provide investment, though on a significantly smaller scale (figure IV.D.3). Latin American and Caribbean IPAs expect growth in investment from Asian sources, such as China, the Republic of Korea and Japan.

Figure IV.D.3. Latin America and the Caribbean: expected leading sources of FDI, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

In line with global trends, FDI growth in Latin America and the Caribbean is expected to be the highest in service industries (figure IV.D.4). This is also consistent with the results of the 2004 survey. The industries with the most positive prospects are hotels and restaurants, construction/infrastructure related and real estate, tourism and computing and ICT services.

In the manufacturing sector, the majority of Latin American IPAs expect no significant change in FDI flows. The only exception to this is the food and beverage sector, for which the outlook is more promising. This suggests that the region's manufacturing industries are still in the process of restructuring.

Figure IV.D.4. Latin America and the Caribbean: FDI prospects by industry, 2005-2006
(Per cent of responses)

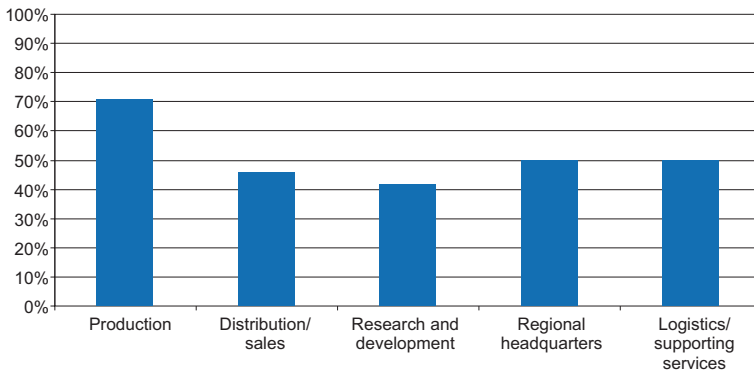


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Only one in three IPAs expect FDI in agriculture to grow in 2005-2006. This is a dramatic change from last year's survey where the figure was closer to four out of five. On the other hand, prospects for the mining and petroleum industries remain positive, buoyed by high raw material prices. It is not yet clear, though, to what extent the most recent changes in the fiscal regimes covering the sector will affect FDI prospects for mining and petroleum in the region.

The IPA survey suggests that the activity most likely to receive foreign investment in Latin America and the Caribbean is production (figure IV.D.5). 71% of IPAs believe that they will see increased FDI in this area. The expectation is that other corporate functions are equally likely to be relocated to the region in 2005-2006. Less FDI is anticipated in logistics and supporting services than last year. In contrast, more investment is predicted in R&D. Remarkably, half of the respondents also expect to benefit from more regional headquarters projects.

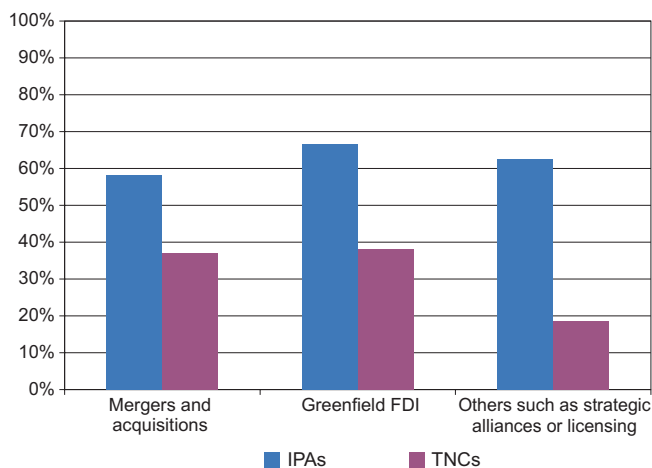
Figure IV.D.5. Latin America and the Caribbean: expected relocation of corporate functions, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Both TNCs and IPAs predict that greenfield investment will be an important mode of FDI delivery in Latin America and the Caribbean in 2005-2006 (figure IV.D.6). Other types of investment have also gained in importance since last year. More than half of IPAs expect M&As, strategic alliances and licensing to play an important role in the expansion of foreign companies into regional markets. FDI to the region is also expected through private-public partnerships).

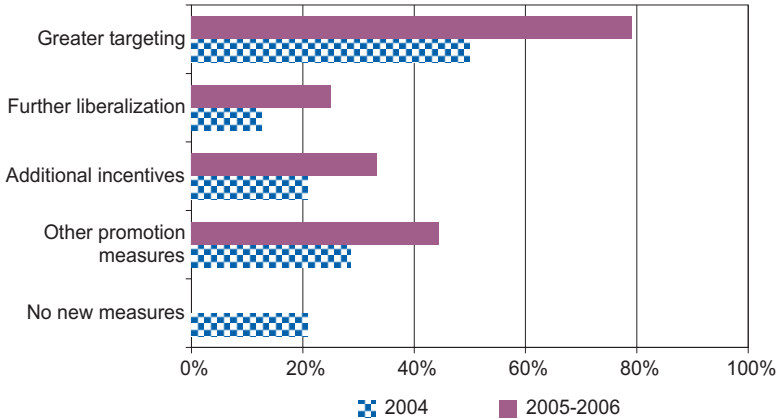
Figure IV.D.6. Latin America and the Caribbean: expected modes of investment, 2005-2006
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Most Latin American and Caribbean countries plan to intensify their efforts to attract FDI in 2005-2006 (figure IV.D.7). Most importantly, they intend to use greater targeting of specific investors as an investment promotion method. These findings do not differ significantly from those for other regions, although liberalisation and additional incentives do not feature quite as prominently as elsewhere. All the Latin American and Caribbean IPAs that participated in the 2005 survey intend to use new investment promotion methods in 2005-2006.

Figure IV.D.7. Latin America and the Caribbean: trends in policy measures to attract FDI, 2004-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

E. South-east Europe and the Commonwealth of Independent States

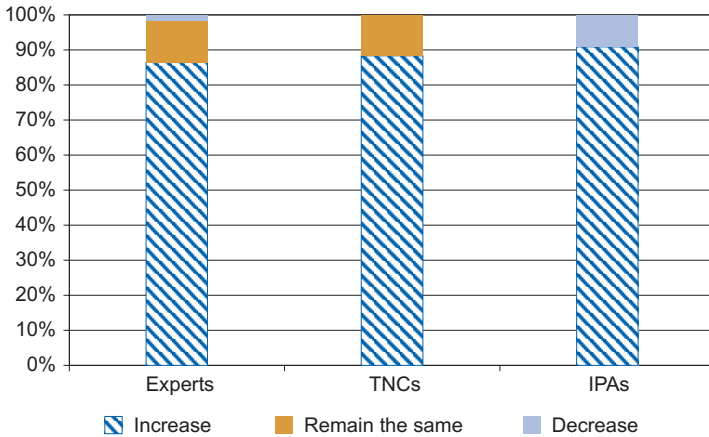
Short-term FDI prospects are very positive for South-east Europe and the Commonwealth of Independent States (CIS) (figure IV.E.1). Nine out of ten respondents believe that FDI will increase in 2005-2006. This makes it the second most promising investment destination after Asia. After the FDI boom in 2003 and 2004, FDI inflows to the region are expected to rise further in the near future as it attracts an increasing number of efficiency-seeking and export-orientated FDI projects. High oil and gas prices will also contribute to greater FDI inflows.

The Russian Federation is considered the most promising investment location in the region (figure IV.E.2). More than half of FDI experts and TNCs cited it among the five most attractive business locations in Southeast Europe and the CIS. It appears that even after a string of financial, macroeconomic and fraud-related crises, the country is still attracting investor interest.

Ukraine, Kazakhstan and Romania also feature prominently in the list of top regional FDI locations .¹⁰

Figure IV.E.1. South-east Europe and the CIS: prospects for FDI flows, 2005-2006

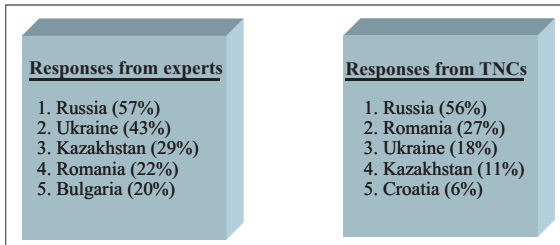
(Per cent of responses)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

Figure IV.E.2. South-east Europe and the CIS: most attractive business locations, 2005-2006

(Per cent of responses)

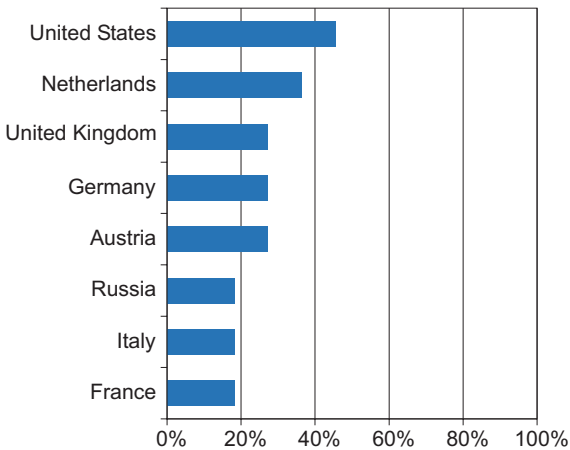


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprosects.

The United States and EU member countries are expected to be the leading sources of FDI to South-east Europe and the CIS in the near future. Almost half of IPAs¹¹ mentioned the United

States as one of the countries from which they expect to receive the most investment (figure IV.E.3). One third of the region's IPAs expect investment from the Netherlands and one quarter from the United Kingdom, Germany and Austria. Despite heading the list, the United States is not anticipated to dominate investment in South-east Europe and the CIS as much as in other regions. European countries are expected to become a more important source of FDI in the short run, due in part to their geographical proximity.

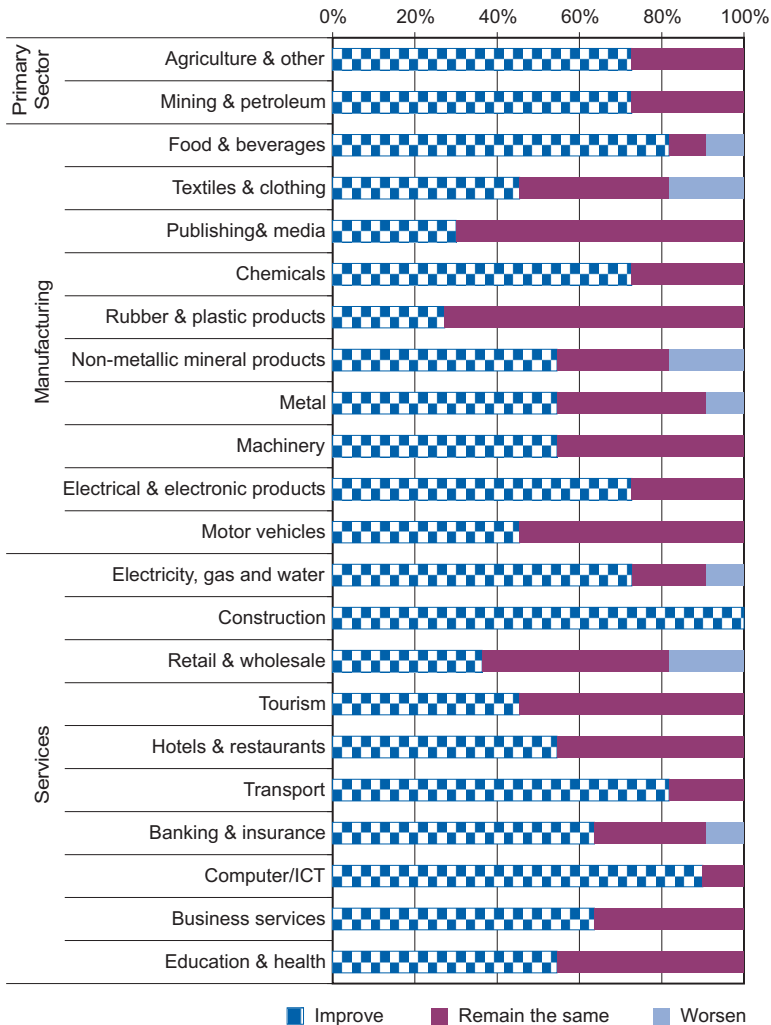
Figure IV.E.3. South-east Europe and the CIS: expected leading sources of FDI, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

The services sector is widely perceived as having the greatest potential to attract foreign investors to South-east Europe and the CIS. It accounts for the industries for which 80% of IPAs agree there will be an increase in FDI inflows (figure IV.E.4). These industries are: computing and ICT, construction and real estate, and transport. The optimistic assessments for the latter two industries are largely due to the economic growth forecast in the region and the resulting need for greater infrastructure investment. High expectations for FDI in computing and ICT services are consistent with the findings for other regions.

Figure IV.E.4. South-east Europe and the CIS: FDI prospects by industry, 2005-2006
(Per cent of responses from IPAs)



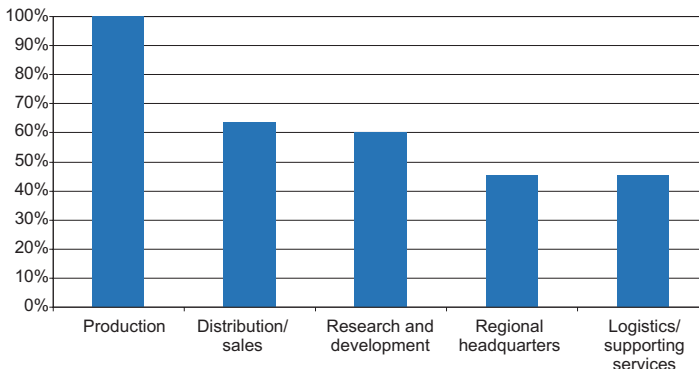
Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

IPAs seem to believe that South-east Europe and the CIS could have a competitive advantage in the primary sector. Three out of four IPAs surveyed expect FDI growth in agriculture, forestry and fishing, as well as in the mining, quarrying and petroleum industries. This contrasts markedly with feedback from other regions, and especially the developed countries. Twice as many IPAs in South-east Europe and the CIS expect to see FDI growth in mining, quarrying and petroleum and three times more expect increased FDI in agriculture, compared to IPAs in developed countries.

In the manufacturing sector, the food and beverages industry seems to have the brightest prospects, followed by chemicals and electrical and electronic equipment. This expectation could be largely based on anticipated outsourcing of production by TNCs from the European Union.

IPAs from South-east Europe and the CIS believe that production is the corporate activity most likely to be relocated to the region. Every IPA respondent expected to see further relocation of production in 2005-2006 (figure IV.E.5). Considerably fewer IPAs expect to benefit from the relocation of other corporate functions, with three out of five anticipating investment in distribution and sales and R&D.

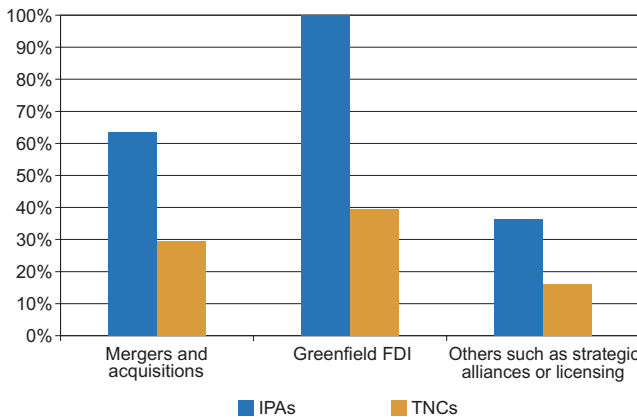
Figure IV.E.5. South-east Europe and the CIS: expected relocation of corporate functions, 2005-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Due to their positive investment environment, flexible labour market, and lower labour costs, South-east Europe and the CIS have benefited from the outsourcing of production by companies in the developed world, particularly Western Europe. Much of this outsourcing uses greenfield investment as its main mode of entry. It is not, therefore, surprising that all of the region's IPAs and most TNCs believe that greenfield investment will be the leading mode of entry into the region (figure IV.E.6). Three out of five IPAs also expect M&As to be a major means of investment during 2005-2006. TNCs, however, predict less use of M&As, with only 30% anticipating short-term M&A growth in the region in the near future. This is significantly lower than for other regions.

Figure IV.E.6 South-east Europe and the CIS: expected modes of investment, 2005-2006
(Per cent of responses)

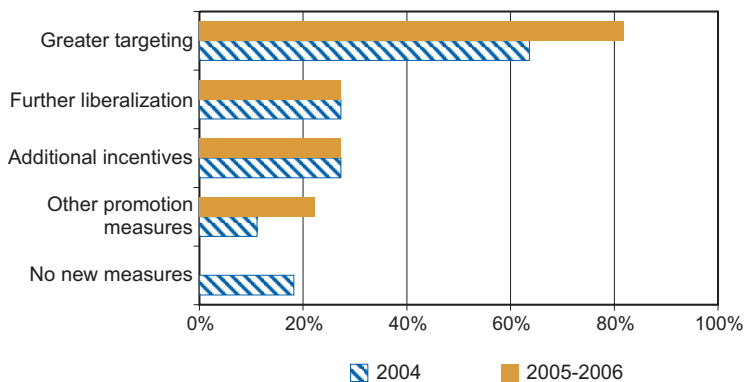


Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.

Most IPAs in South-east Europe and the CIS have been established only since the fall of communism and are thus not much more than ten years old. Many are still experimenting with investment policy and promotion measures. Only one in five IPAs introduced no new investment promotion measures in 2004 (figure IV.E.7) and they all plan to apply new measures in 2005-2006.

In line with global trends, 80% of the region's IPAs believe that more focussed investor targeting is a useful tool for investment promotion. However, only one in four intends to introduce further liberalisation during 2005-2006 (less than in other regions.)

Figure IV.E.7. South-east Europe and the CIS: trends in policy measures to attract FDI, 2004-2006
(Per cent of responses from IPAs)



Source: UNCTAD prospects assessment 2005, www.unctad.org/fdiprospects.