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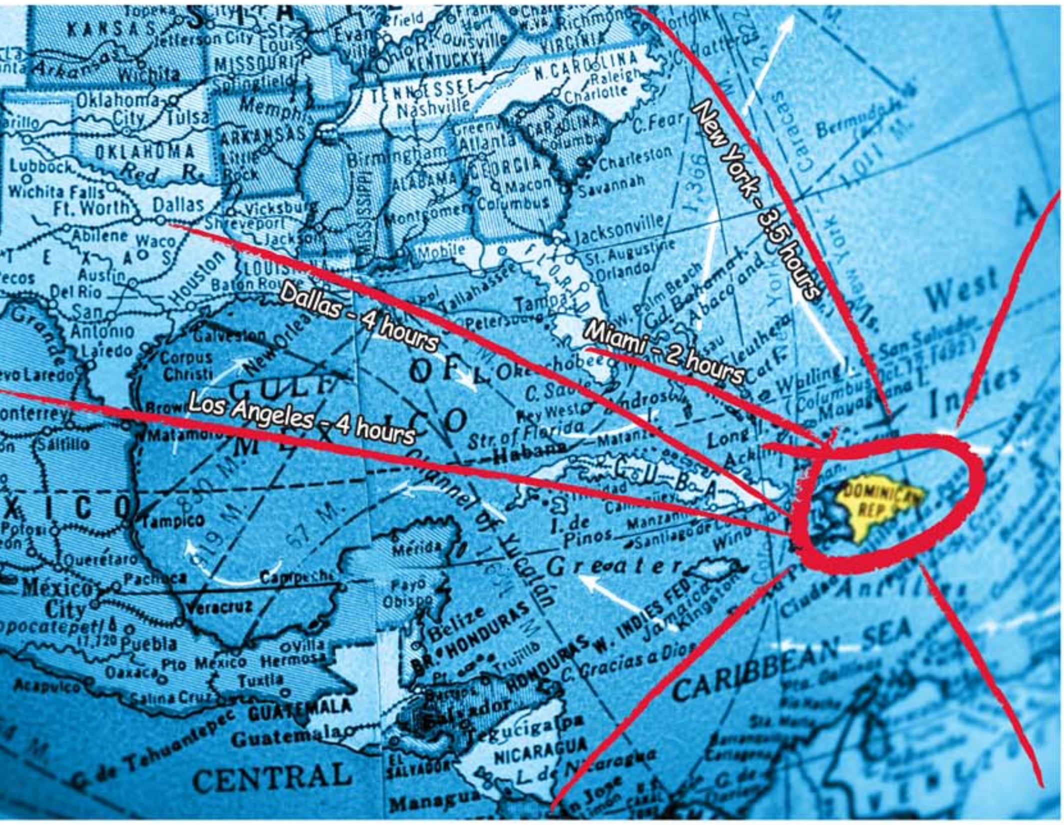
World investment prospects to 2011

Foreign direct investment and the challenge of political risk

Written with the Columbia Program on International Investment



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Columbia Program on International Investment

The Columbia Program on International Investment (CPII), headed by Dr. Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Professor Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment.

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Executive summary

Summary

Global foreign direct investment (FDI) flows over the next five years will be pushed upwards by buoyant growth, competitive pressures and improvements in business environments in most countries. But macroeconomic, regulatory and geopolitical risks will constrain flows. Global FDI recovered strongly in 2004-06 after a deep three-year slump. Following a further increase in FDI inflows in 2007, albeit at a slower rate than annual average growth in 2004-06, a modest and temporary decline in global FDI inflows is expected in 2008. Global FDI inflows are projected to return to steady growth in 2009-11 and to reach US$1.6trn by 2011.

There are a number of reasons to be optimistic about the medium-term prospects for FDI. These include the ongoing global trend towards better business environments, technological change and the search for competitively priced skills; and sharper global competition pushing companies to seek lower-cost destinations. On balance, most host and home governments will continue to encourage FDI. However, downside risks loom large. These range from the risks emanating from global financial turbulence to a host of political risks.

Table 1

Foreign direct investment projections

(US$ bn unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World FDI inflows	**618.1**	**563.4**	**730.2**	**971.7**	**1,335.1**	**1,474.7**	**1,406.4**	**1,470.3**	**1,536.8**	**1,604.0**
% change, year on year	-27.4	-8.8	29.6	33.1	37.4	10.5	-4.6	4.5	4.5	4.4
% of GDP	1.9	1.5	1.8	2.2	2.8	2.8	2.5	2.5	2.4	2.4
FDI inflows to developed countries	**421.1**	**354.6**	**379.5**	**546.8**	**824.4**	**940.2**	**879.0**	**925.5**	**972.6**	**1017.3**
% change, year on year	-25.2	-15.8	7.0	44.1	50.7	14.0	-6.5	5.3	5.1	4.6
% of GDP	1.7	1.3	1.2	1.7	2.4	2.6	2.3	2.3	2.3	2.4
% of world total	68.1	62.9	52.0	56.3	61.7	63.8	62.5	62.9	63.3	63.4
FDI inflows to emerging markets	**197.0**	**208.9**	**350.7**	**424.9**	**510.7**	**534.6**	**527.4**	**544.8**	**564.2**	**586.7**
% change, year on year	-31.5	6.0	67.9	21.1	20.2	4.7	-1.3	3.3	3.6	4.0
% of GDP	2.5	2.4	3.4	3.5	3.6	3.3	2.9	2.7	2.6	2.4
% of world total	31.9	37.1	48.0	43.7	38.3	36.2	37.5	37.1	36.7	36.6
World stock of inward FDI	**7,185**	**8,615**	**9,981**	**10,455**	**12,216**	**13,622**	**14,955**	**16,347**	**17,796**	**19,307**
% change, year on year	11.4	19.9	15.9	4.7	16.9	11.5	9.8	9.3	8.9	8.5
% of GDP	22.1	23.6	24.3	23.6	25.6	25.9	26.5	27.4	28.3	29.0
Developed country stock of inward FDI	**5,151**	**6,246**	**7,189**	**7,265**	**8,510**	**9,441**	**10,306**	**11,216**	**12,171**	**13,169**
% change, year on year	20.7	21.2	15.1	1.1	17.1	10.9	9.2	8.8	8.5	8.2
% of GDP	20.6	22.2	23.0	22.3	24.9	25.6	26.4	27.8	29.2	30.4
% of world total	71.7	72.5	72.0	69.5	69.7	69.3	68.9	68.6	68.4	68.2
Emerging markets stock of inward FDI	**2,034**	**2,369**	**2,792**	**3,189**	**3,706**	**4,181**	**4,649**	**5,130**	**5,626**	**6,139**
% change, year on year	-6.8	16.5	17.9	14.2	16.2	12.8	11.2	10.4	9.7	9.1
% of GDP	26.2	27.1	27.2	26.3	26.3	25.7	25.6	25.7	25.6	25.3
% of world total	28.3	27.5	28.0	30.5	30.3	30.7	31.1	31.4	31.6	31.8

Sources: National statistics; IMF; OECD; UNCTAD; all forecasts are from the Economist Intelligence Unit.

Key trends

Key expected medium-term trends for FDI include the following.

- After a brief retrenchment, crossborder mergers and acquisitions (M&As) will continue to drive global FDI. The US and the EU15 (inclusive of intra-EU inflows) will continue to dominate as recipients of world FDI.
- Despite growing protectionist sentiment, the US is expected easily to retain its position as the world's leading FDI recipient in 2007-11.
- Among emerging markets, China will remain by far the main recipient, with almost 6% of the global total and 16% of projected inflows into emerging markets.
- There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although this is unlikely to be as dramatic as many observers hope or fear.
- The offshoring of services will accelerate—which will also feed protectionist sentiment, although this form of internationalisation is accompanied by relatively modest capital flows.
- Investment by companies from leading emerging markets is likely to continue to gain in importance.

Benign economic outlook versus heightened political risk

Foreign direct investors are generally a resilient breed and security and related risks should not be exaggerated. However, the risk of protectionism is now appreciable, the global geopolitical climate appears more threatening and the outlook for securing a stable and co-operative international trading and investment environment is worse than in the recent past.

Multinational corporations (MNCs) are generally bullish about the medium-term global investment outlook, and appear to be sanguine about macroeconomic and financial risks, according to a global survey of 602 executives conducted for this report. However, these same executives also foresee a marked heightening of political risks that could undermine the success of their overseas investment strategies.

The survey reveals that political risk has jumped towards the top of corporate agendas. Political risk is seen as posing a considerably greater threat to business over the next five years than in the recent past. This is especially so for emerging markets, where generic political risk is identified as the main investment constraint. All four forms of political risk (risks of political violence, FDI protectionism, and threats associated with geopolitical tensions and governmental instability having a material impact on business) in emerging markets are seen as increasing over the next five years. For developed countries, this is true only of FDI protectionism, but there is widespread concern about the threat of political violence in leading countries such as the US and the UK, and apparent sensitivity to a range of geopolitical risks. The respondents in the survey expressed high rates of agreement with statements pointing to disruptions from key sources of global risk such as conflict between the West and Iran, Islamic radicalism and Russian-Western tensions.

The survey thus reveals an apparent disconnect between bullish sentiment on the investment outlook and heightened perceptions of political risk, especially in emerging markets. Opportunities appear to predominate over political risk concerns, even though these are seen as posing a considerably greater threat to business over the next five years than in the recent past.

Strong growth in 2006

Global FDI inflows climbed to US$1.34trn in 2006, a 37% increase in US dollar terms on the 2005 total and the first time since 2000 that global inflows surpassed the US$1trn mark. This was the third consecutive year of strong growth in global FDI inflows—by 30% or more each year in nominal US dollar terms—although the weakening US dollar has boosted the nominal US dollar-denominated totals. Global FDI inflows had plummeted by a cumulative 60% in US dollar terms in 2001-03. Despite the recovery in 2004-06, FDI inflows as a percentage of the world's GDP, at 2.8% in 2006, were still considerably lower than their peak at the end of the previous decade.

The global environment for FDI has been very favourable in the past few years, and it improved further in 2006. Economic growth remained strong in the US and accelerated in other OECD countries. Most emerging markets performed well, with China's economy continuing to power ahead at exceptionally high rates. This also helped to drive up commodity prices, which in turn fuelled growth in many other emerging markets. Corporate profitability was strong, interest rates were low, equity markets performed well and real estate prices have generally been high. Ample liquidity was available for companies to invest abroad. World trade growth was robust and risk-aversion on the part of international investors low.

The growth in global FDI in 2006, as well as in 2004-05, was in large part the result of very strong M&A activity, including in crossborder deals (which are the main form of FDI in the developed world). The increase in FDI inflows in 2006 was thus especially strong to developed economies—by more than 50%. Growth in FDI flows to emerging markets was more modest—by 20% in 2006, similar to the rate of expansion in 2005. Thus the share of emerging markets in global FDI inflows declined to 38% in 2006 from a peak of 48% in 2004. Nevertheless, FDI inflows to emerging markets reached a record of more than US$500bn in 2006.

FDI inflows increased to record levels in most emerging regions. There were, however, two exceptions—FDI flows in 2006 declined in Sub-Saharan Africa and in Latin America and the Caribbean. Developing Asia received a record US$212bn. China was again far and away the main FDI recipient among emerging markets, with inflows of US$78bn (China's rank dropped from third to fourth globally, behind the US, the UK and France).

Table 2
New FDI projects, top recipient countries

	2005		2006		
	No.	Share in world total (%)	No.	Share in world total (%)	% change, year on year
China	1,237	11.84	1,378	11.66	11.4
India	590	5.65	979	8.29	65.9
US	563	5.39	725	6.14	28.8
UK	633	6.06	668	5.65	5.5
France	489	4.68	582	4.93	19.0
Russia	511	4.89	386	3.27	-24.5
Romania	261	2.50	362	3.06	38.7
Germany	271	2.59	333	2.82	22.9
Poland	271	2.59	324	2.74	19.6
Bulgaria	140	1.34	286	2.42	104.3

Source: Locomonitor.

Growth in new projects

The list of leading destination countries for FDI projects in 2006 differs somewhat from the list of leading recipients by FDI values. This is unsurprising, since FDI values are heavily influenced by crossborder M&As, rather than greenfield investments. China, with 1,378 projects in 2006, is ranked first by the number of new FDI projects, whereas it was fourth by FDI inflows. India jumps to second place—although a distant second behind China—with 979 new projects, ahead of the US with 725 projects, the UK (668) and France (582).

A slowdown and decline before renewed growth

FDI inflows in 2007 should be sustained by a strong global economy and the continued boom in crossborder M&As that occurred in the first half of 2007. However, growth in 2007 in the global FDI total will be modest. Global inflows are projected at US$1.5trn, representing 10% growth on 2006. The high rates of recovery growth in FDI inflows of recent years will thus not be repeated this year, as a result of some slowdown in activity and tighter financing conditions in the light of volatility in financial markets. M&A activity will slow from 2005-06 levels. There will also be fewer privatisation opportunities in emerging markets compared with recent years.

Completed crossborder global M&As surged by more than 50% year on year in the first half of 2007. In particular, private equity funds were willing to inject capital into all kinds of deals. However, volatile financial markets will have a dampening impact on M&A activity in the second half of 2007 and into 2008. Even before the recent global financial turmoil, it was clear that the frenetic activity in global M&As in 2006, which strengthened further in the first half of

Table 3
FDI inflows
(2007-11 average)

	US$ bn	Rank	% of world total		US$ bn	Rank	% of world total
US	250.9	1	16.75	Finland	5.7	42	0.38
UK	112.9	2	7.54	Czech Republic	5.4	43	0.36
China	86.8	3	5.79	Hungary	5.1	44	0.34
France	78.2	4	5.22	New Zealand	5.0	45	0.34
Belgium	71.6	5	4.78	Ukraine	4.9	46	0.33
Germany	66.0	6	4.41	Algeria	4.7	47	0.32
Canada	63.2	7	4.22	Austria	4.0	48	0.27
Hong Kong	48.0	8	3.20	South Africa	3.2	49	0.21
Spain	44.9	9	2.99	Qatar	3.1	50	0.21
Italy	41.6	10	2.77	Pakistan	2.9	51	0.19
Netherlands	38.5	11	2.57	Serbia	2.8	52	0.19
Australia	37.8	12	2.52	Bulgaria	2.6	53	0.17
Russia	31.4	13	2.10	Croatia	2.6	54	0.17
Brazil	27.5	14	1.84	Philippines	2.4	55	0.16
Singapore	27.1	15	1.81	Slovakia	2.2	56	0.15
Sweden	26.1	16	1.74	Jordan	2.1	57	0.14
Mexico	22.7	17	1.51	Nigeria	2.1	58	0.14
India	20.4	18	1.36	Peru	2.0	59	0.14
Ireland	20.3	19	1.35	Angola	1.9	60	0.12
Turkey	20.0	20	1.33	Tunisia	1.8	61	0.12
Switzerland	18.2	21	1.22	Libya	1.6	62	0.11
Japan	13.3	22	0.89	Azerbaijan	1.6	63	0.11
UAE	12.8	23	0.85	Dominican Republic	1.6	64	0.10
Poland	12.6	24	0.84	Morocco	1.5	65	0.10
Chile	10.9	25	0.73	Greece	1.5	66	0.10
Portugal	9.1	26	0.61	Ecuador	1.5	67	0.10
Thailand	8.9	27	0.59	Estonia	1.4	68	0.09
Denmark	8.2	28	0.55	Cyprus	1.3	69	0.08
Saudi Arabia	7.9	29	0.52	Lithuania	1.2	70	0.08
Romania	7.7	30	0.51	Latvia	1.0	71	0.07
South Korea	7.2	31	0.48	Slovenia	1.0	72	0.07
Taiwan	7.1	32	0.47	Venezuela	1.0	73	0.07
Israel	7.0	33	0.47	Costa Rica	1.0	74	0.07
Malaysia	6.8	34	0.45	Bahrain	1.0	75	0.06
Kazakhstan	6.7	35	0.45	Bangladesh	0.7	76	0.05
Indonesia	6.6	36	0.44	El Salvador	0.6	77	0.04
Argentina	6.5	37	0.44	Cuba	0.5	78	0.04
Vietnam	6.5	38	0.44	Kuwait	0.4	79	0.03
Norway	6.4	39	0.43	Iran	0.4	80	0.02
Colombia	6.3	40	0.42	Sri Lanka	0.3	81	0.02
Egypt	6.0	41	0.40	Kenya	0.1	82	0.01

Source: Economist Intelligence Unit.

2007, could not be sustained. The fallout from the US sub-prime loan market will reinforce further the slowdown in M&As that would have occurred in any case. Our global economic forecast assumes that the financial turbulence will be contained, in the light of the continuing healthy fundamentals of the world economy. Much of the M&A activity continues to be undertaken by strategic investors with healthy balance sheets and strong cash flows. The slowdown in M&As, and FDI, is thus likely to be a soft landing, rather than a hard crash like the one that occurred in 2001.

The increase in global FDI in 2007 is expected to be slightly stronger in the developed world (14% growth) than in emerging markets, where FDI inflows are projected to rise by only 5% in 2007, as strong growth in inflows into Latin America (by 20%) is offset by weak growth of flows to Asia and a slight decline of FDI flows to eastern Europe from their 2006 peak. FDI into China is likely to be only slightly up on the 2006 figure; no growth in inflows to India is expected in 2007, and further brisk growth in inflows to Russia and the Commonwealth of Independent States (CIS) will be offset by a decline in flows to other east European subregions, including the EU's new member states.

The deceleration of growth in FDI in 2007 is likely to be followed in 2008 by a modest fall (for the first time since 2003) in nominal global FDI inflows—by a projected 5%. Global inflows are projected to return to steady growth in 2009-11, and to reach US$1.6trn by 2011.

Bullish investors

The survey responses on investment intentions are broadly consistent with our macroeconomic forecast for global FDI flows. We forecast annual average global FDI inflows of US$1.5trn in 2007-11, compared with an annual average of US$843bn in 2002-06. Two-fifths of respondents said that their companies would "substantially increase" investments outside their home markets over the coming five-year period compared with the previous five years, and 52% said that they would increase their foreign investment "moderately". Thus more than 90% expect their investments to increase; fewer than 1% of respondents expect to reduce substantially their foreign investments in 2007-11. These intentions were shared across all major industries we surveyed.

The US will remain the top destination for FDI

The US will remain the main recipient of FDI, accounting for some 17% of the world total in 2007-11. However, FDI into the EU as a whole (including intra-EU flows) will be significantly higher than this. The EU will also continue to outstrip the US as a source region for direct investment. FDI will remain geographically concentrated. The top ten host countries are expected to account for almost 60% of the world total; the top 20 for three-quarters of the world total. Eight of the top 20 are emerging-market recipients.

China will remain the biggest emerging-market destination—

FDI into China is likely to rise slightly in 2007 to some US$80bn and to grow steadily thereafter to surpass US$90bn towards the end of the forecast period. China is still ranked by most international firms as their preferred investment destination, including in the survey conducted for this report. China is committed to meeting its World Trade Organisation (WTO) obligations, which should boost FDI. China's price competitiveness will be maintained over the forecast period. However, despite the range of factors that underpin the expectation of buoyant FDI into China, some factors will keep FDI below potential. Although China will remain open to foreign capital—and in some aspects will liberalise even further—there are signs of unease in China about FDI and of the FDI protectionism that is occurring elsewhere.

—but India will disappoint

Despite the country's dynamism and perceived increasing importance, actual FDI inflows to India will be relatively modest. India's potential to attract FDI is vast and the government has in recent years been adopting measures to encourage FDI. Increased acquisitions by foreign companies will lead to higher FDI inflows. There will be a steady increase in FDI focused on growing domestic market opportunities, especially in consumer goods. FDI in manufacturing will remain limited, although it should increase from a low base on the back of improvements in infrastructure.

FDI inflows are set to increase substantially during the forecast period, but will still remain well below potential because of persistent business environment problems. The government's FDI target of US$25bn for fiscal year 2007/08 (April-March) is unlikely to be met. Political resistance to privatisation, inflexible labour laws and poor infrastructure will also restrict FDI inflows.

Medium-term drivers

Global FDI flows over the forecast period will be influenced by a combination of forces—most of them positive, pushing FDI flows upwards, but also some constraining factors that will keep flows below what they might otherwise be. One of the main factors underpinning our baseline FDI forecast is that the solid world economic recovery is set to continue. We forecast that global growth (at purchasing power parity—PPP—rates) will remain buoyant; it is forecast to average 4.6% a year over 2007-11. The strong global performance reflects in large part the increasing weight of fast-growing emerging markets, especially China and India.

Other reasons to expect continued growth in FDI include the ongoing global trend towards better business environments; technological change and the search for competitively priced skills; and sharper global competition that will push companies to grow through acquisitions or seek lower-cost destinations. The degree of firms' transnationalisation is also clearly linked to their performance, as also illustrated by the results of our survey. Firms that had a high degree of transnationalisation—those with more than 25% of revenue or employees outside their home markets—were more likely to have above-average financial performance than less internationalised firms.

The investment climate

Recent years have brought considerable improvement in the global investment climate. The liberalisation of economies and of policies towards foreign investors has acted as a spur to FDI. Our business environment rankings model provides a quantitative representation of these trends. The business environment rankings paint a relatively optimistic picture of the global operating environment over the next five years. On baseline assumptions, the global trend for liberalisation and deregulation is expected to continue.

A model of FDI determinants shows FDI to be very sensitive to the quality of the business environment. There is scope in almost all countries for still more improvement than we assume will occur over the medium term, with striking implications for FDI. For example, under the assumption that all countries' business environment scores for 2007-11 were a mere 5% higher than we actually assume, our model predicts annual average global FDI flows of US$1.7trn rather than the actual forecast of US$1.5trn. The difference of US$200bn per year, or US$1trn cumulatively over the whole 2007-11 period, is a measure of the huge opportunity cost, in terms of forgone FDI and thus development, of suboptimal policies.

Constraining factors

Several factors will work to dampen FDI flows and keep them below what they would otherwise be. FDI protectionism is one of those factors. Appeals to security threats and fears about the consequences of globalisation have prompted several governments to review and in some cases tighten their FDI regulations. Although instances of protectionism are expected to remain limited, this will nevertheless have some negative impact. At least some large crossborder deals are likely to be prevented. Some firms may be reluctant to engage in a crossborder deal if they feel that opposition from the host government might be an issue. Instances of outward FDI protectionism as well as regulatory restrictions in some emerging markets will also have some adverse impact.

Risks loom large

Our baseline forecast for global FDI flows in 2007-11 assumes that the effects of a host of positive factors for FDI growth will be tempered to an extent by factors such as growing opposition to foreign capital in

Table 4
Business environment ranks and scores

	2007-11 Total score	2007-11 Rank	2002-06 Total score	2002-06 Rank	Change in total score	Change in rank
Denmark	8.76	1	8.69	2	0.06	1
Finland	8.75	2	8.64	3	0.11	1
Singapore	8.72	3	8.71	1	0.01	-2
Switzerland	8.71	4	8.59	7	0.12	3
Canada	8.70	5	8.63	5	0.07	0
Hong Kong	8.68	6	8.57	8	0.11	2
US	8.65	7	8.64	4	0.01	-3
Netherlands	8.64	8	8.53	9	0.11	1
Australia	8.60	9	8.16	12	0.44	3
UK	8.60	10	8.62	6	-0.02	-4
Sweden	8.60	11	8.34	11	0.25	0
Ireland	8.57	12	8.49	10	0.07	-2
Germany	8.46	13	7.97	16	0.48	3
New Zealand	8.31	14	8.15	13	0.16	-1
Belgium	8.30	15	8.07	14	0.23	-1
Austria	8.24	16	7.87	17	0.36	1
Norway	8.14	17	7.99	15	0.15	-2
France	8.12	18	7.87	18	0.25	0
Taiwan	8.11	19	7.66	21	0.45	2
Chile	8.04	20	7.77	19	0.27	-1

Note. The model covers 82 of the largest economies in the world and scores each of these countries on a range of indicators affecting the business environment—for a five-year historical period (currently 2002-06) and a five-year forecast period (2007-11).

some countries and the negative impact of a host of political risks. However, it is possible that negative international political and economic developments could be worse than assumed, with a much more negative impact on global FDI than in our baseline assumptions.

The host of economic risks to our baseline range from overleveraged financial institutions to the impact of commodity price volatility. Turmoil in financial markets could be sharper and more prolonged than is assumed; the slowdown in the US could be steeper than expected; there could be the need for a more aggressive monetary policy stance by central banks in response to higher inflationary pressures. A sharp, sustained downward turn in global equity markets would, for example, put paid to the growth in M&As that underpins much FDI.

A rise in FDI protectionism—

Following decades of liberalisation and openness to FDI, protectionism is on the rise and there is a danger that it will intensify. To the extent that there is a backlash against globalisation and the economic uncertainty it entails, FDI (like free trade) becomes suspect, especially when political and social concerns supplement economic motives. There are also FDI-specific issues that are fuelling protectionist sentiment.

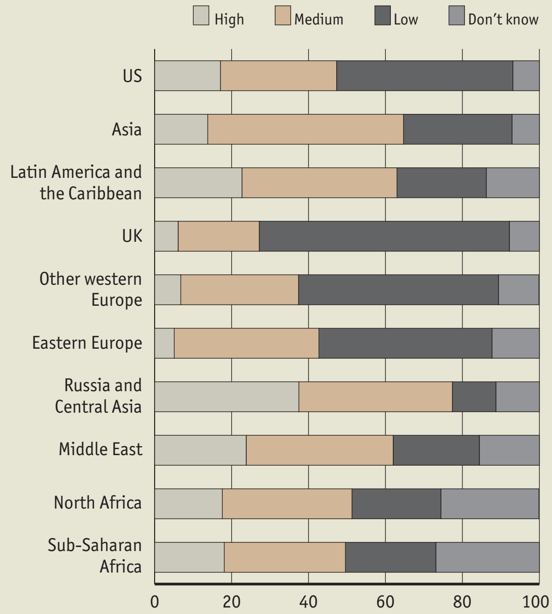
Alongside the continuing dominant trend of liberalisation towards FDI, there has also been a noticeable trend in recent years—in a number of countries and sectors—towards various forms of FDI protectionism. These include moves in several countries to tighten existing investment rules or to enact new rules to regulate foreign investments and protect “strategic sectors” from foreign investors.

Crossborder M&A deals have become a bone of contention in some countries. M&A deals have been blocked in both the developing and the developed world. In many countries, more rigorous screening procedures have been adopted. The growing involvement of private equity funds in crossborder M&As has generated considerable public criticism in some developed countries. The rise of sovereign investment agencies has reinforced calls for restrictive measures.

Several Latin American countries (Bolivia, Ecuador, Argentina, and Venezuela) have been renegotiating contracts with MNCs. Although China's foreign investment regime remains open, acquisitions of Chinese firms by foreign investors are increasingly being questioned. In Russia several oil sector contracts with MNCs have been renegotiated, or MNCs have been forced to sell parts of their stakes, and limits on foreign investment in strategic sectors are being introduced. There has been an increase in disputes between MNCs and host governments in recent years. More than 200 international arbitration cases concerning investment projects have been initiated in the past few years.

A large proportion of our survey respondents reported that they had experienced blocked M&A deals. There is concern that FDI protectionism will increase significantly in most emerging-market regions. There is also concern about FDI protectionism in the US, although investors appear more sanguine about the threat in other developed countries.

How high is the risk of increased FDI protectionism in the following markets during the next five years, in your view?
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

—especially in the energy sector

The biggest investment risks are in the energy sector. The political risks of energy investments wax and wane with the tightness of global oil supplies. When markets are tight and oil prices are high, as they are now, existing contracts are renegotiated to the benefit of host countries, and some of the hydrocarbon reserves are re-nationalised. The absence of internationally agreed norms for foreign investment in energy hinders economic development in the host countries, foments aggressive geopolitical competition that threatens global security, and will block the scale of investment and co-operation necessary to overhaul a strained global energy system.

Political risks facing FDI in energy are likely to continue to rise in the coming years. The tensions will reflect the large gaps in income between rich and poor countries, which easily inspire a backlash against foreign investment within poor host countries (such as Bolivia); the growing scramble for natural resources in a fast-growing world economy, especially in view of the rising resource demands of China, and the possible peaking of conventional oil supplies in the coming decade; and the rising environmental threats, which will put many natural-resource-based FDI projects under increased scrutiny.

Outward FDI from emerging markets

Considerable attention is being devoted to increasing outward investment by companies from emerging markets. Outward FDI flows from emerging markets amounted to some US$160bn in 2005. This increased to an estimated US$210bn in 2006—at 17% of the global total, a slight decline from the share in 2005. Rapid economic growth, especially in Asia and oil-exporting countries, high prices for raw materials and continuing investment liberalisation in some countries have underpinned strong growth in outflows.

Until relatively recently most FDI flows from emerging markets took the form mainly of so-called South-South investments. But MNCs based in emerging economies have also in more recent years undertaken some large, high-profile acquisitions in developed countries that have attracted considerable attention. The rise of multinationals from the South is an important phenomenon. It is also feeding rising protectionist sentiment in parts of the developed world, which makes it all the more important to keep the development of emerging-market outward FDI in perspective. There are still relatively few companies from the South on the list of the worlds' major MNCs. Despite the increase in FDI outflows from emerging markets in recent years, these are still dwarfed by investments originating in the developed world. Although it is set to increase in the future, the present degree of penetration of developed countries by Southern capital is minuscule.

The US will set the tone

Developments in the US will be of critical importance to overall global trends. Thus, for example, following the September 11th 2001 terrorist attacks, the movement of people and goods in and out of the US is not as free as it was previously. The US is no longer as hospitable to foreign students and migrants. Nor will the US operate an open-door policy with respect to foreign capital: occasionally it will block foreign takeovers of key US companies, which has become more likely following recent legislative changes. All this will make for a constrained globalisation and for less FDI than might otherwise be the case. There is, furthermore, a risk of more intensive protectionism than we assume in our baseline forecast, which would then also spill over to other parts of the world.

The management of political risk

The survey revealed that many firms are not addressing adequately their expectations of increased political risk. Firms that outperformed their competitors paid significantly more attention to assessing and taking measures to manage political risk. Better-performing companies, with better political risk assessment capabilities, also experienced fewer cases of expropriation, government payment default, import/export licence cancellation, or currency transfer restriction than other firms in our survey sample.

The virtuous circle of globalisation

Our survey also demonstrated that firms that exhibited a high degree of transnationalisation—those with more than 25% of revenue or employees outside their home markets—were significantly more bullish in their investment outlook than firms that are comparatively more focused on domestic operations. Of firms with more than one-quarter of their employees working overseas, 45% expect foreign investment to increase substantially in 2007-11, compared with 34% of those with a greater home-market focus. Crucially, there also appears to be a link between the degree of transnationalisation and companies' performance: those firms in our survey with a relatively greater presence in foreign markets were more likely to report better than average financial performance over the past two years (62% compared with 53% for the less internationalised firms).

On most survey questions, the degree of transnationalisation did not appear to be related to significant differences in perceptions of political risk. But there were a few exceptions, suggesting that the experience, and confidence, gained from operating intensively in foreign destinations led to a more sanguine view of some types of political risk. Thus, perhaps ironically, more intensive internationalisation appeared to be associated with less fear of some of the consequences of greater exposure to globalisation.

Part 1
World investment prospects to 2011

Global foreign direct investment to 2011

By Laza Kekic, Director for Country Forecasting Services, Economist Intelligence Unit

Introduction

Global foreign direct investment (FDI) flows will be pushed upwards by buoyant growth, competitive pressures and improvements in business environments in most countries. But factors such as macroeconomic, regulatory and geopolitical risks will constrain flows. Global FDI recovered strongly in 2004-06 after a deep three-year slump. Following a further increase in FDI inflows in 2007, albeit at a slower rate than annual average growth in 2004-06, a modest and temporary decline in global FDI inflows is expected in 2008. Global FDI inflows are projected to return to steady growth in 2009-11, at annual rates that are approximately equal to the rate of growth in world GDP, and to reach US$1.6trn by 2011.

There are a number of reasons to be optimistic about the medium-term prospects for FDI. These include the ongoing global trend towards better business environments, technological change and the search for competitively priced skills; and sharper global competition pushing companies to seek lower-cost destinations. However, downside risks loom large. These range from global macroeconomic imbalances to a range of political risks.

FDI inflows in 2006

Global FDI inflows climbed to US$1.34trn in 2006, a 37% increase in US dollar terms on the 2005 total and the first time since 2000 that global inflows surpassed the US$1trn mark. This was the third consecutive year of strong growth in global FDI inflows—by 30% or more each year in nominal US dollar terms—although it should also be kept in mind that the weakening US dollar has boosted the nominal US dollar-denominated totals.[1] The growth in global FDI in 2006 would have even been even stronger were it not for two large accounting transactions that distorted, and on a net basis inflated, the 2005 total. Taking out these two accounting transactions, global FDI inflows would have amounted to US$892bn in 2005 and the growth in FDI inflows in 2006 would have been 50%.[2]

The 2004-06 recovery in global FDI flows followed a deep slump. World FDI flows had experienced a sharp decline after 2000, in line with the global economic slowdown and the end of the previous merger and acquisition (M&A) boom, reaching a nadir in 2003. Global FDI inflows plummeted by a cumulative 60% in US dollar terms in 2001-03 (no previous FDI downturn in recent decades had been as severe or had exceeded two years). Despite the recovery in 2004-06, FDI inflows as a percentage of the world's GDP, at 2.8% in 2006, were still considerably lower than their level at the end of the previous decade. The 2006 inflows were also still slightly below the peak of US$1.4trn recorded in 2000.

The increase in FDI inflows in 2006 was especially strong to developed economies—by more than 50%,[3] which followed almost equally strong growth, of 44%, in 2005. Growth in FDI flows to emerging markets was more modest—by 20% in 2006, similar to the rate of expansion in 2005. Thus the share of emerging markets in global FDI inflows declined to 38% in 2006 from a peak of 48% in 2004. Nevertheless, FDI inflows to emerging markets reached a record of more than US$500bn in 2006. It should also be kept in mind that the 2005-06 FDI trend in emerging markets was preceded by exceptionally strong growth of 68% in 2004 and that the FDI slump at the beginning of this decade was less severe for emerging markets than for developed countries.

Constant price estimates

The picture looks significantly different in some respects if we express FDI inflows in terms of constant prices, using US dollar-based import price indices, rather than in terms of current US dollars.[4] The rate of decline in world FDI inflows in 2001-03 looks

1. The 2006 increase followed 33% growth in global inflows in 2005 to US$972bn, and 30% growth in 2004.

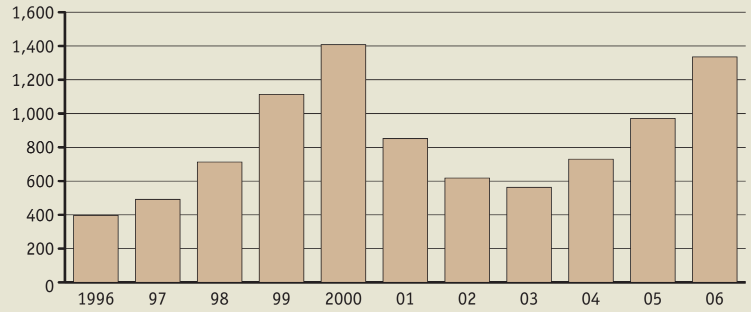
2. The 2005 FDI inflows total was pushed in an upward direction by US$115bn for the UK (owing to the reorganisation of the Shell Transport and Trading Company and the Royal Dutch Petroleum Company into Royal Dutch Shell, an essentially accounting operation that was recorded in the UK's balance of payments as an FDI inflow), and in a downward direction for Australia (a net disinvestment of US$37bn resulting from a reorganisation by News Corporation).

3. Or by as much as 76% if the 2005 base total is adjusted by netting out the accounting transactions in Australia and the UK.

4. The estimates are based on deflating nominal US dollar totals by US dollar-based import price indices, with base year 2000, for more than 80 countries.

somewhat deeper when measured at constant prices and the recovery weaker in 2004-06 than at current prices (global FDI inflows in constant prices grew at an annual average rate of 26% in 2004-06, compared with annual average growth of 33% in nominal US dollar terms). At current prices, global FDI inflows in 2006 were only 5% below the peak level reached in 2000; in constant prices in 2006 they were still some 26% below the 2000 level.

The global environment for FDI has been very favourable in the past few years, and it improved further in 2006. Economic growth remained strong in the US and accelerated in other OECD countries. Most emerging markets performed well, with China's economy continuing to power ahead at exceptionally high rates. This also helped to drive up commodity prices, which in turn fuelled growth in many other emerging markets. Corporate profitability was strong, interest rates were low, equity markets performed well and real estate prices have generally been high. Ample liquidity was available for companies to invest abroad. World trade growth was robust and risk-aversion on the part of international investors low.



Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD.

Boom in crossborder deals

The growth in global FDI in 2006, as well as in 2004-05, was in large part the result of very strong M&A activity, including in crossborder deals (which are the main form of FDI in the developed world). Many companies had accumulated large amounts of cash on their balance sheets, and many have engaged in more

Table 1
FDI inflows
(US$ bn unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
World total	**491.8**	**712.9**	**1,113.8**	**1,408.3**	**851.1**	**618.1**	**563.4**	**730.2**	**971.7**	**1,335.1**
% change, year on year	23.8	45.0	56.2	26.4	-39.6	-27.4	-8.8	29.6	33.1	37.4
Developed countries	**279.0**	**493.8**	**853.0**	**1,125.0**	**563.4**	**421.1**	**354.6**	**379.5**	**546.8**	**824.4**
% change, year on year	21.4	77.0	72.7	31.9	-49.9	-25.2	-15.8	7.0	44.1	50.7
% of world total	56.7	69.3	76.6	79.9	66.2	68.1	62.9	52.0	56.3	61.7
Emerging markets	**212.8**	**219.1**	**260.9**	**283.3**	**287.8**	**197.0**	**208.9**	**350.7**	**424.9**	**510.7**
% change, year on year	27.2	2.9	19.1	8.6	1.6	-31.5	6.0	67.9	21.1	20.2
% of world total	43.3	30.7	23.4	20.1	33.8	31.9	37.1	48.0	43.7	38.3
North America	**114.9**	**197.2**	**308.1**	**380.8**	**171.6**	**96.6**	**60.6**	**122.0**	**128.4**	**252.7**
Western Europe	**151.1**	**285.3**	**527.6**	**718.3**	**373.6**	**296.7**	**277.0**	**212.6**	**455.5**	**554.8**
EU15	138.2	269.8	505.9	688.8	357.3	287.4	252.0	202.5	433.6	496.5
Eastern Europe	**24.1**	**26.7**	**29.1**	**29.5**	**30.0**	**36.0**	**35.1**	**66.9**	**77.1**	**105.9**
Asia-Pacific	**111.0**	**100.8**	**124.2**	**165.9**	**121.8**	**116.1**	**110.9**	**186.0**	**144.1**	**238.6**
Developing Asia	98.1	89.4	107.3	142.6	102.6	88.2	93.9	138.6	174.1	212.4
Latin America & the Caribbean	**73.6**	**85.5**	**108.8**	**98.3**	**131.2**	**54.7**	**46.9**	**105.0**	**106.3**	**102.5**
Middle East	**7.1**	**8.2**	**4.9**	**6.6**	**6.5**	**5.5**	**14.2**	**18.7**	**30.4**	**46.2**
North Africa	**1.5**	**2.5**	**2.2**	**3.2**	**2.7**	**3.4**	**5.2**	**7.8**	**14.8**	**22.3**
Sub-Saharan Africa	**8.4**	**6.7**	**9.0**	**5.7**	**13.6**	**9.0**	**13.4**	**11.3**	**15.2**	**12.2**

Sources: National statistics; Economist Intelligence Unit; IMF; UNCTAD.

Table 2

FDI inflows in current and constant prices

(US$ bn unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006
In current US$ terms								
World total	1,113.8	1,408.3	851.1	618.1	563.4	730.2	971.7	1,335.1
% change, year on year	56.2	26.4	-39.6	-27.4	-8.8	29.6	33.1	37.4
Developed countries	853.0	1,125.0	563.4	421.1	354.6	379.5	546.8	824.4
% change, year on year	72.7	31.9	-49.9	-25.2	-15.8	7.0	44.1	50.7
Emerging markets	260.9	283.3	287.8	197.0	208.9	350.7	424.9	510.7
% change, year on year	19.1	8.6	1.6	-31.5	6.0	67.9	21.1	20.2
In constant 2000 US$ terms								
World total	1,123.7	1,408.3	877.4	631.7	520.2	642.1	794.5	1,039.8
% change, year on year	61.1	25.3	-37.7	-28.0	-17.7	23.4	23.7	30.9
Developed countries	855.4	1,125.0	585.7	431.7	319.4	326.3	439.9	633.7
% change, year on year	77.0	31.5	-47.9	-26.3	-26.0	2.2	34.8	44.1
Emerging markets	268.4	283.3	291.6	200.0	200.8	315.8	354.7	406.1
% change, year on year	24.8	5.5	2.9	-31.4	0.4	57.3	12.3	14.5

Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD; Economist Intelligence Unit estimates for constant price totals.

Table 3

Completed crossborder M&A deals

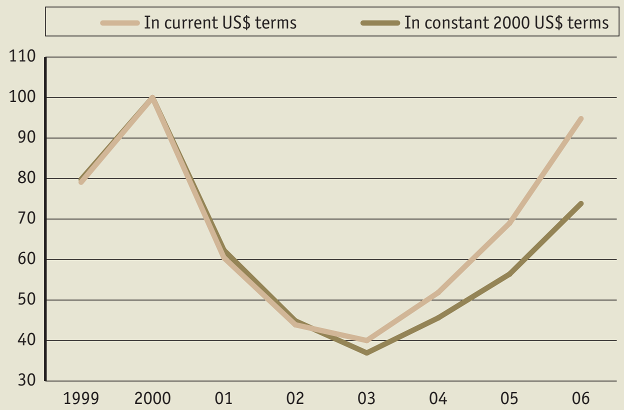
(US$ bn unless otherwise indicated)

	Developed countries	Emerging markets	World	% change, year on year	Developed countries, % of world total
2000	1,088	88	1,176	49.0	92.5
2001	548	98	646	-45.1	84.8
2002	378	62	440	-31.9	85.9
2003	324	57	381	-13.4	85.0
2004	422	68	490	28.6	86.1
2005	589	137	726	48.2	81.1
2006	768	165	933	28.5	82.3

Source: Economist Intelligence Unit based on data from the following sources: Dealogic, as reported by OECD; Thomson Financial as reported by UNCTAD; Bloomberg.

Index of global FDI inflows

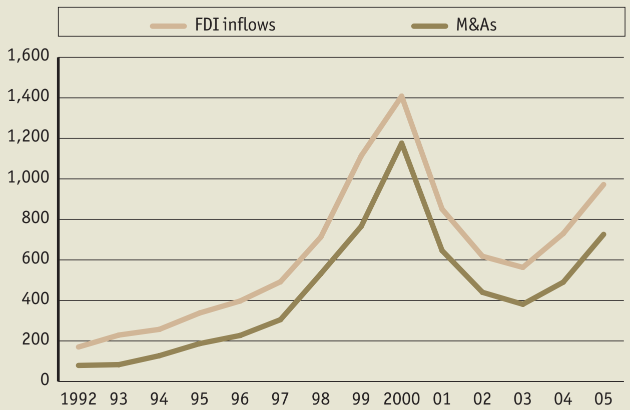
(2000=100)



Source: Economist Intelligence Unit.

Global FDI inflows and crossborder M&As

(US$ bn)



Sources: Economist Intelligence Unit; OECD; UNCTAD.

restructuring, a trend that has also supported crossborder M&As. Another element is the increase in transactions being undertaken by private equity groups, which raised large funds and concluded a series of multi-billion-dollar deals.[5]

According to the company Dealogic, global M&As—both domestic and crossborder—were worth a record US$3.9trn in 2006. This was a 30% increase over the US$3trn recorded in 2005, which itself represented a 40% increase over 2004. The Economist Intelligence Unit estimates that one-quarter of M&A deals in 2006 were crossborder transactions.[6]

The UK in particular was the target country for some of the largest crossborder M&As in 2005-06. The largest of these was the takeover of the telephone operator O2 by Telefonica of Spain for US$31bn (announced in 2005 and completed in 2006). In all, in the list of top crossborder deals completed in 2006 (see Table 4), seven out of the top 20 involved purchases of UK companies.

Deal-making was spread fairly evenly across the major sectors—mining and metals, telecommunications, the financial sector, and energy and utilities. There was also a sprinkling of major deals in some other sectors such as pharmaceuticals, technology and media (see Table 4).

It is noticeable that no companies based in emerging markets were among the targets for the top M&A deals in 2006. The share of emerging markets in global crossborder M&A sales has been gradually increasing in the past few years—to reach almost 20% of the total in 2005-06, which is still considerably less than their share in global FDI inflows. A higher share than in the past of FDI inflows into emerging markets is now made up of M&As as opposed to greenfield investment. However, the trend of increasing M&A sales in emerging markets does not appear to be accelerating. Indeed, the growth in crossborder M&As in 2006 was somewhat stronger in the developed world than in emerging markets. Even if the emerging markets' share in total M&A activity creeps up in the coming years, crossborder M&A activity will continue to be heavily dominated by the developed countries for some time to come.

This view also appeared to be supported by the survey of multinational corporations (MNCs) that was conducted for this report. Respondents in the survey said that greenfield investments would continue to be their primary route for investment into emerging markets in the coming five years. M&As lagged behind, and the share of those who cited M&As as the preferred vehicle for investing into emerging markets rose only slightly for 2007-11 plans compared with the situation in the previous five-year period (see the article on the Economist Intelligence Unit survey elsewhere in this volume).

FDI flows to the developed world

FDI inflows to developed countries increased by more than 50% in 2006, to US$824bn, although, after three years of recovery from the deep slump at the beginning of the decade, inflows in 2006 were still well below the peak total of US$1.1trn recorded in 2000.

The growth in global FDI in 2006 was in particular boosted by a recovery in FDI to the US, after it had dropped to an exceptionally low level in 2005. The US was again the world's top recipient, with US$183.6bn in inflows, having been displaced from the top spot in 2005 by the UK. Many west European firms with improved earnings were drawn to the US, where buoyant economic growth and a weaker US dollar made US companies attractive acquisition propositions. The UK was in second place in 2006, with US$137.7bn in inflows. This was a considerable decline on the US$196bn total recorded in 2005. However, if the Royal Dutch Shell restructuring that has been mentioned is netted out of the 2005 figure, FDI inflows into the UK in 2006 were higher than in the previous year. The UK has been a major beneficiary of the global recovery in crossborder M&As. The value of overseas companies' acquisitions in the UK hit an all-time high of US$112bn in 2006, up by almost one-third from the 2005 total, which was already strong.

Strong growth of inflows into the euro zone

FDI flows into the euro zone surged by 51% in 2006, to US$325bn, almost one-quarter of the world total. This followed even stronger growth, by 76%, in 2005. The 2005-06 recovery followed a four-year steep decline of FDI flows to the euro zone—to a low of US$122bn

5. The relationship between the movement in global FDI flows and crossborder M&As has been extremely close, at least since the early 1990s, as illustrated by the graph on the previous page.

6. Economist Intelligence Unit estimates based on data from the following sources: Dealogic, as reported by the OECD; Thomson Financial as reported by UNCTAD; and Bloomberg.

Table 4

Major completed crossborder M&As, 2006

Investor company	Investor country	Target company	Target country	Value of deal (US$ bn)	Sector
ARCELOR MITTAL	Netherlands	ARCELOR	Luxembourg	32.0	Metals
TELEFONICA SA	Spain	02 PLC	UK	30.6	Telecoms
FERROVIAL	Spain	BAA LTD	UK	20.0	Utilities
XSTRATA PLC	Switzerland	FALCONBRIDGE LTD	Canada	18.0	Metals
LINDE AG	Germany	BOC GROUP PLC	UK	16.9	Industrial
MACQUARIE BANK LIMITED	Australia	THAMES WATER PLC	UK	14.9	Utilities
ALCATEL-LUCENT	France	LUCENT TECHNOLOGIES INC	US	15.3	Telecoms
MULTIPLE ACQUIRERS	–	SOCIETE DES AUTOROUTES PARIS	France	12.1	Utilities
AXA	France	WINTERTHUR SCHWEIZ VERS-REG	Switzerland	10.9	Financial
BNP PARIBAS	France	BANCA NAZIONALE LAVORO-ORD	Italy	11.4	Financial
OSPREY ACQUISITIONS	Australia	AWG PLC	UK	10.8	Utilities
TEVA PHARMACEUTICAL IND LTD	Israel	IVAX CORP	US	10.0	Pharma
MULTIPLE ACQUIRERS	–	NXP BV	Netherlands	9.5	Media and entertainment
ABERTIS INFRAESTRUCTURAS SA	Spain	SANEF	France	9.3	Utilities
GOLDCORP INC	Canada	GLAMIS GOLD LTD	US	7.6	Metals
PORTS CUSTOMS & FREE ZONE CO	UAE	PENINSULAR & ORIENTAL STEAM	UK	7.8	Utilities
SWISS RE-REG	Switzerland	GE GLOBAL INSURANCE HOLDING	US	7.7	Financial
COMPAGNIE DE SAINT-GOBAIN	France	BPB LTD	UK	7.6	Building materials
OLD MUTUAL PLC	UK	SKANDIA FORSAKRINGS AB	Sweden	6.6	Financial
NYCOMED HOLDING AS	Denmark	ALTANA PHARMA AG	Germany	5.8	Pharma
HILTON HOTELS CORP	US	LODGING ASSETS	UK	5.7	Media and entertainment
NOVARTIS AG-REG	Switzerland	CHIRON CORP	US	5.7	Pharma
TOSHIBA CORP	Japan	WESTINGHOUSE ELECTRIC CO LLC	US	5.4	Consumer goods
BASF AG	Germany	BASF CATALYSTS LLC	US	5.4	Chemical
ARCELOR	Luxembourg	DOFASCO INC	Canada	5.2	Metals
ADVANCED MICRO DEVICES	US	ATI TECHNOLOGIES INC	Canada	5.0	Technology

Source: Bloomberg.

in 2004 from the peak total of US$507bn recorded in 2000. The largest host for inward FDI in the euro zone in 2006 was France, which attracted inflows of US$86.9bn. In the absence of large crossborder deals (with the partial exception of foreign investment in a privatised toll roads operator), FDI was dominated by reinvested earnings and intra-company loans. Germany was the second main recipient country in the euro zone, with inflows of US$43.4bn. FDI inflows into Italy—traditionally a low recipient country—almost doubled in 2006, to US$39bn, mainly as a result of some major financial sector M&As.

As the world's second-largest economy (at market exchange rates) and boasting one of the world's largest consumer markets (with a wealthy population of nearly 130m), Japan should, in theory, offer inward investors ample rewards. The reality is rather different. FDI inflows into Japan were more than halved in 2005 to US$3.2bn (a mere 0.1% of GDP, one of the lowest ratios in the world), from what was a modest average of US$7.3bn in 2001-04, and large disinvestments meant that inward FDI flows turned negative, at US$-6.8bn, in 2006. Officially, the Japanese government welcomes inward FDI. In practice, however, Japan's FDI regime remains difficult, owing to the complex regulatory environment that appears designed to protect domestic players. In addition, high labour costs, weak growth in recent years and cultural barriers also help to explain the low FDI levels.[7]

FDI flows to emerging markets

FDI flows to emerging markets increased by 20% in 2006, to US$511bn. As noted, the increase of FDI to emerging markets in 2005-06 was weaker than that to developed countries, in part because there had already been a strong emerging-market recovery in 2004, and the general post-2000 slump in FDI had been less severe in emerging markets than in the developed world.

Nevertheless, FDI flows to emerging markets surpassed US$500bn for the first time. As in the developed world, increased corporate profits and favourable financing conditions fuelled FDI growth. Emerging markets have performed well in recent years, as the global environment has been supportive and they have improved their economic fundamentals—many have been implementing market-friendly reforms and most have consolidated macroeconomic stability. Thus, although cyclical factors, such as strong external demand and the commodity price boom, have predominated in explaining recent FDI growth, in some countries structural factors have also been at play.

Services dominate inflows

FDI in emerging markets' banking, telecoms and real estate sectors was particularly strong, as several countries relaxed restrictions on foreign ownership and undertook major privatisations in services. Most of the largest M&As in 2006 in emerging markets occurred in the banking and telecoms sectors. FDI in real estate was strong in India, Turkey, and several countries in eastern Europe and the Middle East and North Africa. More than half of the FDI stock in emerging markets is now in the services sector.[8]

FDI inflows increased to record levels in most emerging regions. There were, however, two exceptions—FDI flows in 2006 declined in Sub-Saharan Africa and in Latin America and the Caribbean. Developing Asia received a record

Table 5

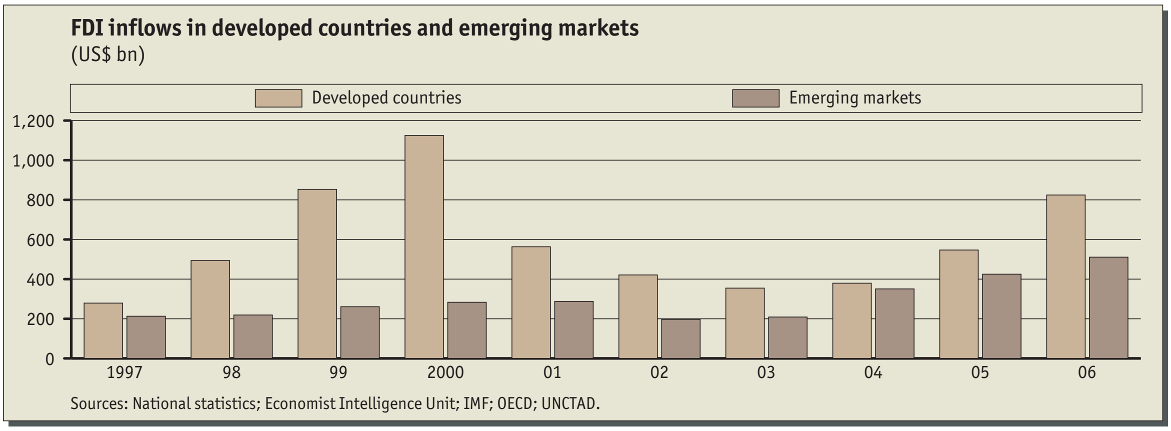
FDI inflows, main recipients

(US$ bn)

	2002	2003	2004	2005	2006
North America					
US	74.5	53.1	122.4	99.4	183.6
Canada	22.2	7.5	-0.4	28.9	69.0
Western Europe					
Belgium	18.1	34.5	44.4	32.0	72.5
France	49.5	43.1	38.7	70.7	86.9
Germany	53.6	30.9	-8.9	35.3	43.4
Ireland	29.5	22.4	-11.0	-29.7	12.8
Italy	14.7	16.5	16.8	19.6	39.0
Netherlands	25.5	20.4	2.0	40.4	3.8
Spain	40.0	25.6	24.8	24.6	20.2
Sweden	12.2	5.0	11.5	10.2	27.2
UK	25.5	27.6	77.9	195.6	137.7
Eastern Europe					
Czech Republic	8.5	2.0	5.0	11.6	6.0
Hungary	3.0	2.2	4.5	7.5	6.1
Kazakhstan	2.6	2.1	4.2	2.0	6.1
Poland	4.1	4.6	12.9	9.6	14.5
Romania	1.1	1.8	6.4	6.5	11.4
Russia	3.5	8.0	15.4	12.8	28.7
Asia & Australasia					
Australia	17.0	8.1	36.6	-35.1	24.7
China	49.3	47.1	54.9	79.1	78.1
Hong Kong	9.7	13.6	34.0	33.6	42.9
India	5.6	4.3	5.8	6.7	17.5
Japan	9.1	6.2	7.8	3.2	-6.8
Malaysia	3.2	2.5	4.6	4.0	6.1
Singapore	7.2	10.4	14.8	20.1	25.7
South Korea	2.4	3.5	9.2	6.3	3.6
Latin America					
Argentina	2.1	1.7	4.6	5.0	4.8
Brazil	16.6	10.1	18.2	15.2	18.8
Chile	2.6	4.3	7.2	7.0	8.1
Colombia	2.1	1.8	3.1	10.3	6.3
Mexico	19.4	15.3	22.4	19.7	19.0

Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD.

7. See also box later in this article on FDI into Japan

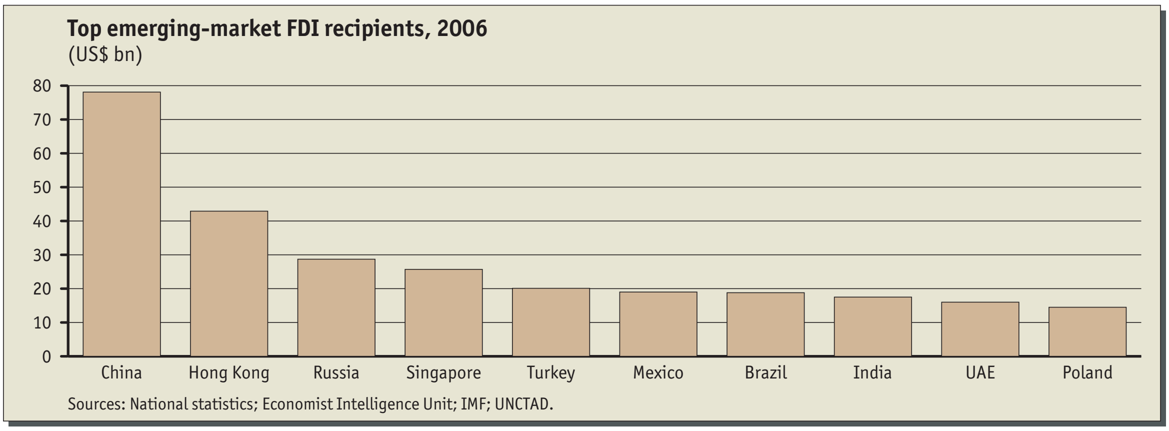


Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD.

US$212bn—an increase by 22% on 2005, just above the average rate of increase for emerging markets. This followed growth by 26% in 2005 and 48% in 2004. China was again far and away the main FDI recipient among emerging markets, with inflows of US$78bn (China's rank dropped from third to fourth globally, behind the US, the UK and France).

FDI inflows into India grew strongly to US$17.5bn in 2006, two and half times the US$6.7bn recorded in 2005. The increase in FDI flows into India was owing to increased M&A activity, a booming property market and the increased ability of some investors to find ways around remaining entry restrictions. However, some US$4.6bn of the 2006 recorded inflow was owing to two accounting transactions by the UK-based Cairn Energy and its Indian arm's initial public offering (IPO). These transactions resulted in an FDI inflow and outflow of the same amounts. Nevertheless, even if these are deducted from the 2006 inflow, growth was still strong. Inflows into India are, however, still dwarfed by the amounts that China receives.

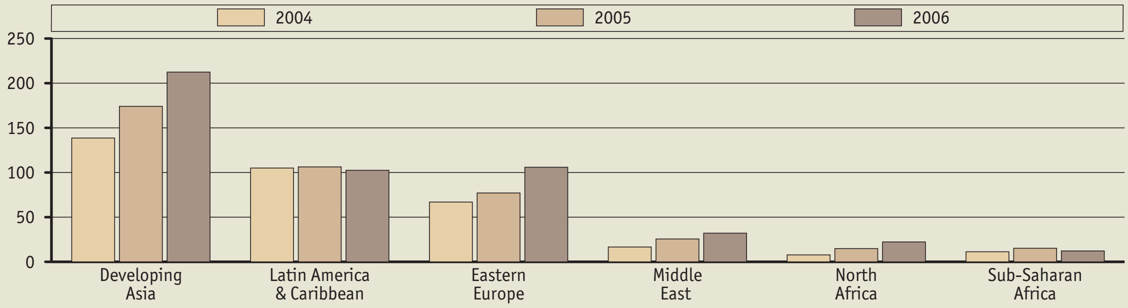
FDI inflows into the transition economies of eastern Europe reached a record total of US$106bn in 2006, up by more than one-third on the US$78bn received in 2005. This region thus displaced for the first time Latin America and the Caribbean as the second most important emerging-market destination for FDI. The 2006 increase affected most economies in the area. The growth was the result of large-scale privatisation sales in some countries; growth in reinvested earnings, as well as a real estate boom in many new EU member states; ongoing strong growth in FDI into previous laggards such as the Balkans; and commodity investments into some members of the Commonwealth of Independent States (CIS). There was a very strong increase in FDI flows into Russia, which more than doubled in 2006, to US$28.7bn, and made up more than one-quarter of the regional



Sources: National statistics; Economist Intelligence Unit; IMF; UNCTAD.

8. World Bank, *Global Development Finance 2007*.

FDI inflows into emerging markets, 2004-06
(US$ bn)



Sources: National statistics; Economist Intelligence Unit; IMF; UNCTAD.

total. The lure of ample market opportunities and very strong consumer spending growth in Russia more than offset the impact of some deterioration in the business environment—especially as far as investment in natural resources is concerned.

In Turkey large-scale M&As in the banking sector and foreign purchases of real estate underpinned a surge of FDI inflows to a record US$20bn in 2006, double the 2005 total—which was itself far above the paltry amounts of US$1bn-2bn that had been invested in previous years.

A small decline in inflows to Latin America

Inflows of US$102.5bn to Latin America and the Caribbean in 2006 represented a decline on the 2005 total of US$106.3bn. Nevertheless, inflows into the region had already more than doubled in 2004-05, after being reduced to a low of US$47bn in 2003. The performance in 2006 and the maintenance of inflows of over US$100bn was still respectable and was sustained by the region's economic recovery, improved macroeconomic environment and strong demand for commodities. However, the inflows in 2004-06 were still far below the record highs seen in 2001.

As usual, FDI inflows into Brazil and Mexico dominated regional FDI (comprising more than one-third of total inflows, although the 2006 Mexico total was slightly down on 2005). A sizeable share was, as usual, also owing to inflows into Caribbean tax havens (Bermuda, the Cayman Islands and the British Virgin Islands). FDI inflows to Chile increased to an estimated US$8.1bn as a result of strong growth in reinvested earnings in the mining sector. By contrast, FDI inflows to Colombia declined sharply from one-off, privatisation-related record inflows of US$10.3bn in 2005. In the Andean countries, a trend towards greater state control of the natural resources sector and less favourable fiscal regimes for investors in Bolivia, Ecuador and Venezuela dampened investment.

FDI grew strongly in 2006 in both North Africa (by 51%, to an estimated US$22.3bn, with Egypt accounting for some 45% of the total) and the developing Middle East[9] (by 25%, to some US$32bn—a record total for the region, despite the high political and security risks). A surge in FDI is being driven by a boom in privatisation and strong regional liquidity. Inflows increased to just about every economy in both North Africa and the Middle East.

FDI inflows into Sub-Saharan Africa dropped to an estimated US$12.2bn in 2006—a 20% drop on the 2005 record inflow of US$15.2bn, mainly because of developments in South Africa. In 2005 a large part of the regional inflow was owing to several M&As in South Africa. In 2006, in turn, large disinvestments meant that inward FDI was slightly negative for South Africa. High prices and strong global demand for commodities were the main drivers of FDI flows in other countries. Angola, Equatorial Guinea and Nigeria were the region's only significant FDI recipients and this was almost exclusively in the form of oil sector investments.

9. The Middle East excluding Israel.

Concentration of FDI

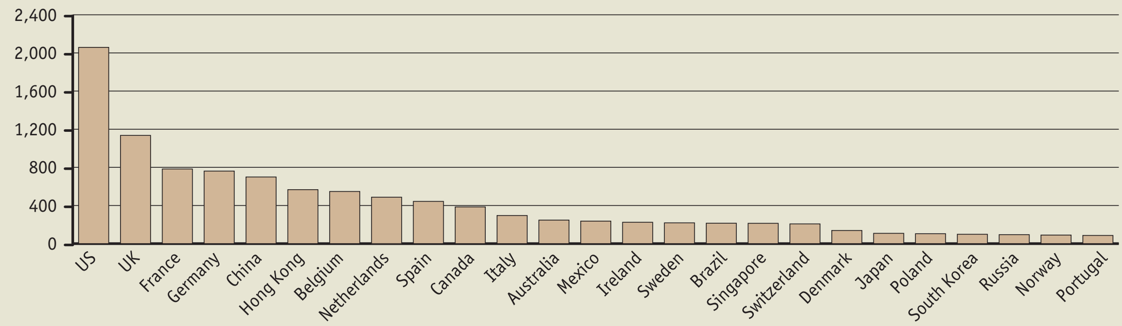
Despite the increase in FDI into some previously poorly performing emerging-market regions, the concentration of FDI flows into emerging markets remains relatively high. The top ten recipient countries accounted for 55% of all inflows to emerging markets in 2006. The concentration is nevertheless down on the 70%-plus recorded in the late 1990s. Among the top ten in 2006 were the main traditional FDI recipients in the emerging-market world—China, Brazil, Mexico and Poland, as well Hong Kong and Singapore. Russia (ranked third), Turkey (fifth) and India (eighth) are relative newcomers to the top ten.

Inward FDI stocks

The value of the global inward FDI stock climbed to more than US$12trn by the end of 2006, more than double the 2000 total in nominal terms. As a share of world GDP, the inward FDI stock increased from 19% to an estimated 26% over the same period. The US inward FDI stock was by far the highest in the world—almost twice the stock in the UK, but was still only equal to some 15% of US GDP. France was in third place, with a stock estimated at US$783bn (35% of GDP), ahead of Germany in fourth place (US$761bn; 26% of GDP) and China in fifth (US$699bn; 26% of GDP).

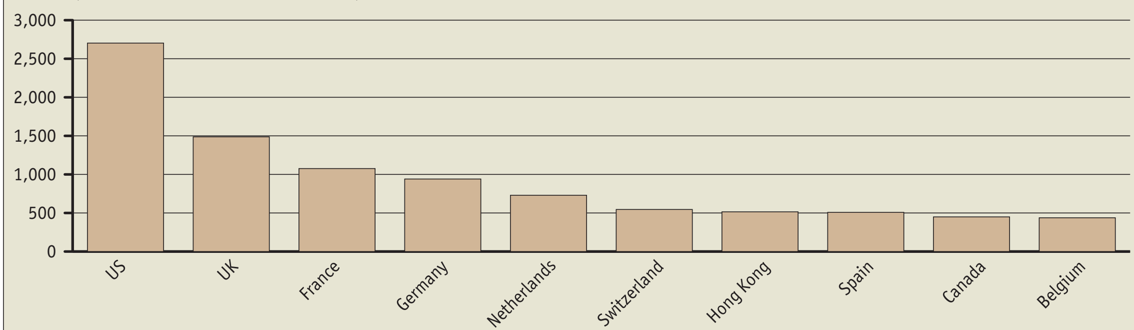
There is considerable variation across countries in the degree of FDI penetration (as measured by the ratio of the stock of inward FDI to GDP) around the global average ratio of about 25%. Reflecting the differential experience in recent decades of countries around the world in attracting FDI, it ranges from extremely high ratios in excess of 100% for Hong Kong, Ireland and Singapore to extremely low ratios for Japan, Iran and Kuwait (less than 3%).

Inward FDI stock, end-2006
(US$ bn)



Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD.

Leading outward investors
(Outward FDI stock, end-2006; US$ bn)



Sources: National statistics; Economist Intelligence Unit; IMF; UNCTAD.

Inward FDI projects

Looking at FDI trends by the number of projects, irrespective of their size, or values, also confirms that 2006 was a strong year for global FDI performance. According to data from Locomonitor, there were 11,814 new FDI projects worldwide in 2006. This represented growth of 13% on the 2005 total, a considerable acceleration on growth rates for new projects of 8% in 2004 and 2% in 2005.

The list of leading destination countries for FDI projects in 2006 differs somewhat from the list of leading recipients by FDI values. This is unsurprising, since FDI values are heavily influenced by crossborder M&As, rather than greenfield investments. China, with 1,378 projects in 2006, is ranked first by the number of new FDI projects, whereas it was fourth by FDI inflows. India jumps to second place—although a distant second behind China—with 979 new projects, ahead of the US with 725 projects, the UK (668) and France (582).

Whereas the list of the top recipients by FDI values is dominated by developed countries, for projects emerging markets are better-represented. Among the top ten in 2006 are six emerging markets—including four from eastern Europe (Russia, Romania, Poland and Bulgaria). The ranking by project numbers thus also corresponds more closely to the list of most attractive FDI destinations from our survey of investors (see the article by Matthew Shinkman in this volume).

Table 6

New FDI projects, top recipient countries

	2005		2006		
	No.	Share in world total (%)	No.	Share in world total (%)	% change, year on year
China	1,237	11.84	1,378	11.66	11.4
India	590	5.65	979	8.29	65.9
US	563	5.39	725	6.14	28.8
UK	633	6.06	668	5.65	5.5
France	489	4.68	582	4.93	19.0
Russia	511	4.89	386	3.27	-24.5
Romania	261	2.50	362	3.06	38.7
Germany	271	2.59	333	2.82	22.9
Poland	271	2.59	324	2.74	19.6
Bulgaria	140	1.34	286	2.42	104.3
UAE	226	2.16	282	2.39	24.8
Spain	152	1.46	242	2.05	59.2
Hungary	206	1.97	235	1.99	14.1
Vietnam	169	1.62	196	1.66	16.0
Singapore	159	1.52	189	1.60	18.9
Canada	206	1.97	177	1.50	-14.1
Czech Republic	149	1.43	174	1.47	16.8
Mexico	137	1.31	170	1.44	24.1
Hong Kong	125	1.20	151	1.28	20.8
Japan	121	1.16	145	1.23	19.8
Brazil	170	1.63	145	1.23	-14.7
Ireland	193	1.85	140	1.19	-27.5
Italy	140	1.34	138	1.17	-1.4
Netherlands	109	1.04	129	1.09	18.3
Australia	110	1.05	126	1.07	14.5
Ukraine	125	1.20	124	1.05	-0.8
Malaysia	93	0.89	123	1.04	32.3
Sweden	105	1.01	120	1.02	14.3
Slovakia	118	1.13	115	0.97	-2.5
Thailand	117	1.12	111	0.94	-5.1

Source: Locomonitor.

Trends in outward FDI

In 2006 the US regained its traditional role as the world's main outward investor, as its outward FDI flows reached US$249bn, 20% of the world total.[10] Reinvested earnings accounted for about half of US outward investment in 2006, in contrast to the massive repatriation of funds by US investors in 2005 (driven by changes in US corporate tax laws). Despite the upsurge in global M&As, the weak US dollar contributed to the fact that US companies were not especially active in acquiring new corporate assets abroad. Foreign equity investment by US companies of some US$40bn in 2006 was similar to the total for US crossborder acquisitions in 2005.[11]

The other main investing countries in 2006 were France (US$136.3bn), which had also recorded a high total in 2005 (US$133.6bn); Switzerland (US$81.6bn); and the UK (US$79.8bn), although outflows from the latter declined from the levels in 2004-05. French outward investment reflected a high level of foreign acquisitions. About 30% of the outflows were accounted for by the five largest foreign M&As by French companies, including, notably,

10. Many problems in statistical coverage (which for many countries tend to affect the recording of outward investment even more than of inward investment) mean that at the global level inward and outward flows never match and the discrepancy can in some years be considerable.

11. See OECD, *Trends and Recent Developments in Foreign Direct Investment*, June 2007, p. 4.

Table 7

Global FDI outflows

(US$ bn unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006
World	**1,076.7**	**1,267.0**	**768.2**	**541.0**	**546.0**	**817.6**	**891.5**	**1,260.7**
% change, year on year	52.3	17.7	-39.4	-29.6	0.9	49.7	9.0	41.4
Developed countries	**1,004.0**	**1,104.2**	**687.0**	**477.2**	**505.2**	**723.2**	**731.2**	**1,050.5**
% of total	93.2	87.2	89.4	88.2	92.5	88.4	82.0	83.3
Emerging markets	**72.7**	**162.8**	**81.2**	**63.8**	**40.8**	**94.4**	**160.3**	**210.2**
% of total	6.8	12.8	10.6	11.8	7.5	11.6	18.0	16.7

Sources: National statistics; Economist Intelligence Unit; IMF; OECD; UNCTAD.

Alcatel's acquisition of US-based Lucent and AXA's takeover of the Swiss insurer Winthurthur.[12]

German firms' FDI outflows amounted to US$79bn in 2006—the second year of recovery from unusually low levels in 2002-04, which had in part been affected by corporate tax reforms. Germany's investment was concentrated in the EU15 and the US, whereas central and eastern Europe received relatively little—despite ongoing concerns in Germany about a supposed threat of a major relocation of German capital and jobs to the east.

FDI outflows from Japan in 2006 increased to US$50.2bn, from US$45bn in 2005—the 2005 figure was the highest for Japan since 1990. Japanese outward investors have benefited from the high profitability of their overseas assets in recent years, and they have increased their reinvestments in host economies.

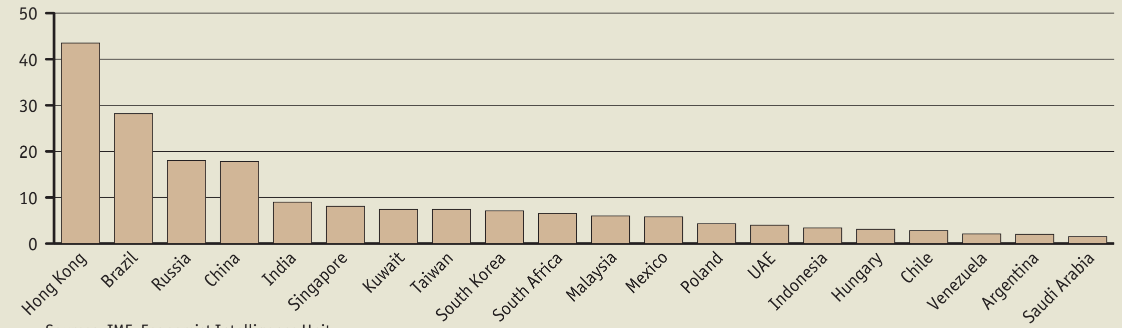
Outward flows from emerging markets

Considerable attention has lately been devoted to increasing outward investment by companies from emerging markets.[13] Significant outward FDI flows from emerging markets are a relatively recent phenomenon. Although almost all developing countries remain net importers of FDI, several of them have nevertheless emerged in recent years as important outward investors. Unsurprisingly, it is the relatively more advanced economies—certain countries in the Association of South-East Asian Nations (ASEAN), some east-central European economies, South Africa, Russia, and a few within South America—as well as China, that have taken the lead.

We estimate that outward FDI flows from emerging markets, including from offshore financial centres, amounted to some US$160bn in 2005. This was the highest level ever recorded and represented 18% of world outflows—still far below the share of emerging markets in inward flows of 44% in that year, but a sharper rise on their share in global outward flows of 12% in 2004. This rose to an estimated US$210bn in 2006—at 17% of the global total, a slight decline from the share in 2005. Rapid economic growth, especially

FDI outflows from emerging markets, 2006

(US$ bn)

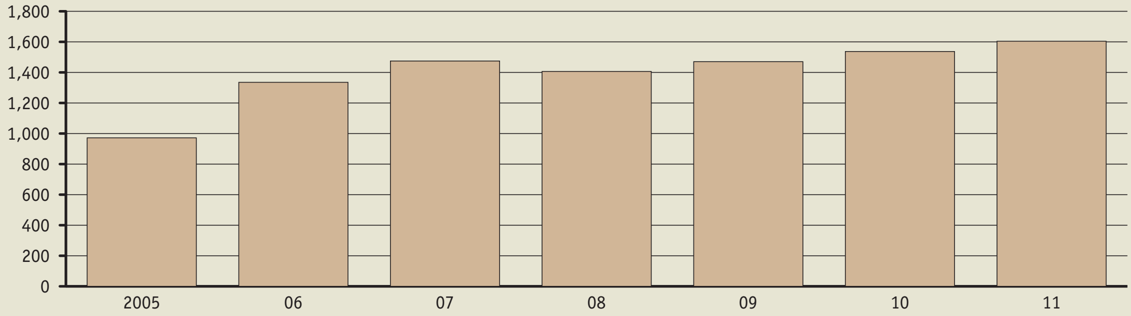


Sources: IMF; Economist Intelligence Unit.

12. Ibid, p. 5.

13. UNCTAD, *World Investment Report 2006*; OECD, *Trends and Recent Developments in Foreign Direct Investment*, June 2007; World Bank, *Global Development Finance 2007*; UNCTAD, "The emerging landscape of foreign direct investment: some salient issues", TD/B/COM.2/77, February 1st 2007.

Global FDI inflows, 2005-11
(US$ bn)



Source: Economist Intelligence Unit.

in Asia and oil-exporting countries, high prices for raw materials and continuing investment liberalisation in some countries have underpinned strong growth in outflows.

Until relatively recently most FDI flows from emerging markets took the form mainly of so-called South-South investments. These are still significant. South-South investment has and will continue to be driven by comparative advantages such as local knowledge and geographic and cultural proximity. Investors from emerging economies play an important role especially in Sub-Saharan Africa, with South Africa emerging in recent years as one of the largest source countries. China and, to a lesser extent, Brazil, India, Malaysia and Russia have been active in natural resources. In the Middle East and North Africa, investment from the Gulf countries has been important.

FDI between Asian countries accounts for almost half of all FDI inflows to the region and there is evidence of increasing intra-ASEAN flows. In China, the four largest emerging Asia investors (Hong Kong, South Korea, Taiwan and Singapore) accounted for some 40% of the FDI amount invested in 2006, with Hong Kong alone representing 30%.[14] In eastern Europe, too, intra-regional flows are on the rise. FDI by so-called Translatinas accounts for an increasing share of total FDI in Latin America.[15]

However, MNCs based in emerging economies have also in more recent years undertaken some large, high-profile acquisitions in developed countries. A few large M&As that have involved companies from emerging markets have attracted considerable attention. Recent examples (see Table 9) include: the US$17bn purchase by Brazil's CVRD of Inco of Canada, making CVRD the world's second-largest mining company; and two US$14bn deals—Mexico-based Cemex's purchase of Rinker of Australia and the acquisition by India's Tata Steel of the Anglo-Dutch Corus.

The rise of multinationals from the South is an important phenomenon. As discussed elsewhere in this volume, it is also feeding rising protectionist sentiment in parts of the developed world, which makes it all the more important to keep the development of emerging-market outward FDI in perspective. There are still relatively few companies from the South on the list of the world's major MNCs. Despite the increase in FDI outflows from emerging markets in recent years, these are still dwarfed by investments originating in the developed world. Although it is set to increase in the future, the present degree of penetration of developed countries by Southern capital is minuscule.

14. OECD, *Trends and Recent Developments in Foreign Direct Investment*, June 2007, p. 15.

15. UN Economic Commission for Latin American and the Caribbean, *Foreign Investment in Latin America and the Caribbean*, 2007. Thierry Ogier, "Latin America's emerging multinational companies", *Latin America Regional Overview*, June 2007, Economist Intelligence Unit.

Table 8
FDI projections
(US$ bn unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World FDI inflows	**618.1**	**563.4**	**730.2**	**971.7**	**1,335.1**	**1,474.7**	**1,406.4**	**1,470.3**	**1,536.8**	**1,604.0**
% change, year on year	-27.4	-8.8	29.6	33.1	37.4	10.5	-4.6	4.5	4.5	4.4
% of GDP	1.9	1.5	1.8	2.2	2.8	2.8	2.5	2.5	2.4	2.4
FDI inflows to developed countries	**421.1**	**354.6**	**379.5**	**546.8**	**824.4**	**940.2**	**879.0**	**925.5**	**972.6**	**1,017.3**
% change, year on year	-25.2	-15.8	7.0	44.1	50.7	14.0	-6.5	5.3	5.1	4.6
% of GDP	1.7	1.3	1.2	1.7	2.4	2.6	2.3	2.3	2.3	2.4
% of world total	68.1	62.9	52.0	56.3	61.7	63.8	62.5	62.9	63.3	63.4
FDI inflows to emerging markets	**197.0**	**208.9**	**350.7**	**424.9**	**510.7**	**534.6**	**527.4**	**544.8**	**564.2**	**586.7**
% change, year on year	-31.5	6.0	67.9	21.1	20.2	4.7	-1.3	3.3	3.6	4.0
% of GDP	2.5	2.4	3.4	3.5	3.6	3.3	2.9	2.7	2.6	2.4
% of world total	31.9	37.1	48.0	43.7	38.3	36.2	37.5	37.1	36.7	36.6
World stock of inward FDI	**7,185**	**8,615**	**9,981**	**10,455**	**12,216**	**13,622**	**14,955**	**16,347**	**17,796**	**19,307**
% change, year on year	11.4	19.9	15.9	4.7	16.9	11.5	9.8	9.3	8.9	8.5
% of GDP	22.1	23.6	24.3	23.6	25.6	25.9	26.5	27.4	28.3	29.0
Developed country stock of inward FDI	**5,151**	**6,246**	**7,189**	**7,265**	**8,510**	**9,441**	**10,306**	**11,216**	**12,171**	**13,169**
% change, year on year	20.7	21.2	15.1	1.1	17.1	10.9	9.2	8.8	8.5	8.2
% of GDP	20.6	22.2	23.0	22.3	24.9	25.6	26.4	27.8	29.2	30.4
% of world total	71.7	72.5	72.0	69.5	69.7	69.3	68.9	68.6	68.4	68.2
Emerging markets stock of inward FDI	**2,034**	**2,369**	**2,792**	**3,189**	**3,706**	**4,181**	**4,649**	**5,130**	**5,626**	**6,139**
% change, year on year	-6.8	16.5	17.9	14.2	16.2	12.8	11.2	10.4	9.7	9.1
% of GDP	26.2	27.1	27.2	26.3	26.3	25.7	25.6	25.7	25.6	25.3
% of world total	28.3	27.5	28.0	30.5	30.3	30.7	31.1	31.4	31.6	31.8

Sources: National statistics; IMF; OECD; UNCTAD; all forecasts are from the Economist Intelligence Unit.

The forecast: a slowdown and decline before renewed growth

The outlook for 2007

FDI inflows in 2007 should be sustained by a strong global economy and the continued boom in crossborder M&As that occurred in the first half of 2007. However, growth in 2007 in the global FDI total will be modest, especially compared with the growth rates in 2004-06. Global inflows are projected at US$1.5trn, representing 10% growth on 2006, and the first time this decade that the nominal US dollar total will have exceeded the peak achieved in 2000. The high rates of recovery growth in FDI inflows of recent years will thus not be repeated this year, as a result of some slowdown in activity and tighter financing conditions in the light of volatility in financial markets. M&A activity will slow from 2005-06 levels. There will also be fewer privatisation opportunities in emerging markets compared with recent years.

According to data from Dealogic, announced global M&As in the first half of 2007 increased by 51% to US$2.8trn, from US$1.9trn in the first half of 2006. On the basis of data from Bloomberg, we estimate that completed crossborder M&As surged by more than 50% in the first half of 2007, to some US$650bn. Industry consolidation fuelled the continued surge in M&As in the first half of 2007, despite signs that the benign lending environment that underpinned the boom was coming to an end. In particular, private equity funds were willing to inject capital into all kinds of deals. Private equity transactions represented about 20% of all M&A activity worldwide in the first half of 2007, in line with a trend that has been building since the end of 2003. However, volatile financial markets will have a dampening impact on M&A activity in the second half of 2007 and into 2008.

Even before the recent global financial turmoil, it was clear that the frenetic activity in global M&As in 2006, which strengthened further in the first half of 2007, could not be sustained. The fallout from the US sub-prime loan market will reinforce further the slowdown in M&As that would have occurred in any case.

Our global economic forecast assumes that the financial turbulence will be contained, in the light of the continuing healthy fundamentals of the world economy. Global growth is still strong, and profit growth remains robust. Much of the M&A activity continues to be undertaken by strategic investors with healthy balance sheets and strong cash flows. European activity in particular remains more corporate-driven than based on activity by private equity funds—in the first half of 2007 leveraged buyouts represented 13% of European deal volume, compared with 35% in the US.

The slowdown in M&As, and FDI, is thus likely to be a soft landing, rather than a hard crash like the one that occurred in 2001. Diverse and expanded funding sources for M&A will provide a cushion. Deals by private equity funds will be hit most, possibly severely for a period of time. Even here, however, activity might continue by some large funds, which are more diversified than they were at the start of the decade.

Table 9

Major completed crossborder M&As, Jan-Jun 2007

Investor company	Investor country	Target company	Target coutry	Value of deal (US$ bn)	Sector
IBERDROLA SA	Spain	SCOTTISH POWER PLC	UK	28.9	Energy
KKR & CO LP	US	ALLIANCE BOOTS PLC	UK	24.2	Consumer goods
JAPAN TOBACCO INC	Japan	GALLAHER GROUP PLC	UK	19.5	Consumer goods
CEMENTOS MEXICANOS	Mexico	RINKER GROUP	Australia	14.0	Building materials
CIA VALE DO RIO DOCE-PREF A	Brazil	INCO LTD	Canada	16.7	Metals
ASTRAZENECA PLC	UK	MEDIMMUNE INC	US	14.7	Pharma
VODAFONE GROUP PLC	UK	HUTCHISON ESSAR LTD	India	13.1	Telecoms
TATA STEEL LIMITED	India	CORUS GROUP PLC	UK	13.5	Metals
ALLIANZ SE-REG	Germany	AGF - ASSUR GEN DE FRANCE	France	12.7	Financial
NYSE EURONEXT	US	EURONEXT NV	Netherlands	12.1	Financial
ENEL SPA	Italy	ENDESA SA	Spain	11.0	Energy
CITIGROUP INC	US	NIKKO CORDIAL CORP	Japan	7.8	Financial
CREDIT AGRICOLE SA	France	CASSA RISPARMIO PARMA E PIAC	Italy	7.5	Financial
ROYAL DUTCH SHELL PLC-A SHS	Netherlands	SHELL CANADA LTD	Canada	7.3	Energy
MULTIPLE ACQUIRERS	–	US FOODSERVICE	US	7.1	Consumer goods
MULTIPLE ACQUIRERS	–	TELEDIFFUSION DE FRANCE	FR	6.5	Media
HINDALCO INDUSTRIES LIMITED	India	NOVELIS INC	US	5.7	Metals
SCHNEIDER ELECTRIC SA	France	AMERICAN POWER CONVERSION	US	5.5	Energy
ARCELOR MITTAL	Netherlands	ARCELOR BRASIL SA	Brazil	5.4	Metals
CENTRO PROPERTIES GROUP	Australia	NEW PLAN EXCEL REALTY TRUST	US	5.2	Real estate
TERRA FIRMA CAPITAL PARTNERS	UK	PEGASUS AVIATION FINANCE CO	US	5.2	Financial
DANSKE BANK A/S	Denmark	SAMPO BANK PLC	Finland	5.2	Financial
SWISSCOM AG-REG	Switzerland	FASTWEB	Italy	5.2	Telecoms

Source: Bloomberg.

Although buyouts will be at a virtual standstill, other private equity transactions such as distressed debt deals and workouts could increase.

The increase in global FDI in 2007 is expected to be slightly stronger in the developed world (14% growth) than in emerging markets, where FDI inflows are projected to rise by only 5% in 2007. The US is expected again to be the world's leading FDI recipient in 2007, with some US$240bn in inflows. FDI inflows into the EU15 are forecast to rise only by about 5%, as further increases in FDI flows to major euro zone economies offset an expected decline of flows into the UK. M&A activity in the UK has slowed from the heights achieved in 2005-06.

FDI inflows to emerging markets in 2007 are forecast to rise by only 5% in US dollar terms, as strong growth in inflows into Latin America (by 20%) is offset by weak growth of flows to Asia and a slight decline of FDI flows to eastern Europe from their 2006 peak. FDI into China is likely to be only slightly up on the 2006 figure; no growth in inflows to India is expected in 2007,[16] and further brisk growth in inflows to Russia and the CIS will be offset by a decline in flows to other east European subregions, including the EU's new member states.

Heading for a temporary fall in 2008

The deceleration of growth in FDI in 2007 is likely to be followed in 2008 by a modest fall (for the first time since 2003) in nominal global FDI inflows—by a projected 5%. Global inflows are projected to return to steady growth in 2009-11, at annual rates that are approximately equal to the rate of growth in world GDP, and to reach US$1.6trn by 2011.

The value of global FDI is expected to remain high in historical terms. Annual average global FDI inflows of US$1.5trn are forecast for 2007-11, compared with an annual average of US$843bn in 2002-06. At the end of the forecast period global FDI inflows will be US$1.6trn, 14% above their peak in 2000 in US dollar terms. However, in terms of constant price estimates (when current values are deflated by US dollar-based import price indices), global FDI inflows will in 2011 still be more than 10% below the 2000 peak. The overall trend in FDI flows in 2007-11, although buoyant, will fall well short of the dynamism in the boom period of the 1990s.[17]

The expected buoyancy of global FDI becomes most apparent when it is measured in relation to GDP. Until the late 1990s world FDI inflows scarcely averaged more than 1% of GDP. Until then the IMF

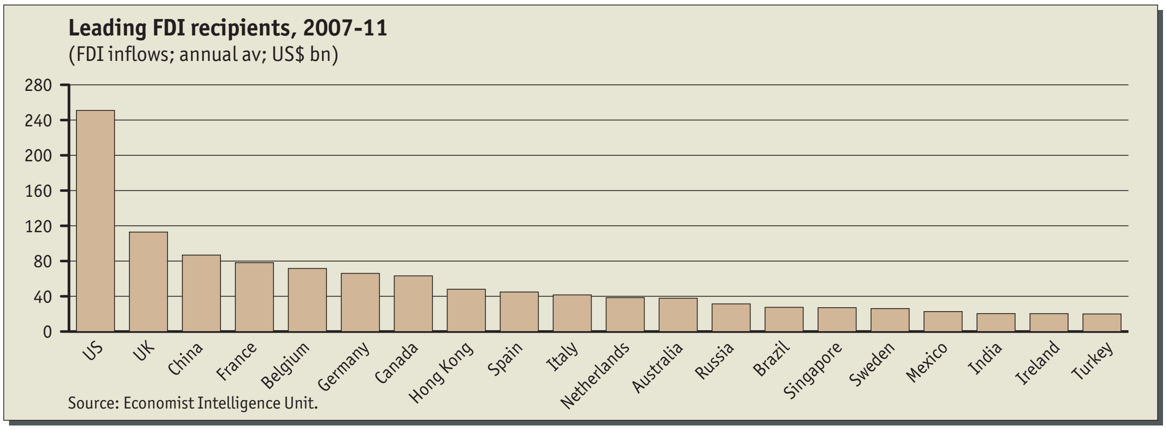
Table 10
FDI inflows in current and constant prices
(US$ bn unless otherwise indicated)

	2006	2007	2008	2009	2010	2011
In current US$ terms						
World total	1,335.1	1,474.7	1,406.4	1,470.3	1,536.8	1,604.0
% change, year on year	37.4	10.5	-4.6	4.5	4.5	4.4
Developed countries	824.4	940.2	879.0	925.5	972.6	1,017.3
% change, year on year	50.7	14.0	-6.5	5.3	5.1	4.6
Emerging markets	510.7	534.6	527.4	544.8	564.2	586.7
% change, year on year	20.2	4.7	-1.3	3.3	3.6	4.0
In constant 2000 US$ terms						
World total	1,039.8	1,097.3	1,038.0	1,109.6	1,184.8	1,231.2
% change, year on year	30.9	5.5	-5.4	6.9	6.8	3.9
Developed countries	633.7	686.6	641.2	700.8	761.6	796.4
% change, year on year	44.1	8.3	-6.6	9.3	8.7	4.6
Emerging markets	406.1	410.7	396.8	408.8	423.2	434.8
% change, year on year	14.5	1.1	-3.4	3.0	3.5	2.7

Source: Economist Intelligence Unit.

16. See the discussion later in this article.

17. Between 1990 and 2000 global FDI increased by a factor of 6.5. Global FDI inflows almost tripled between 1997 and 2000, growing at an average annual rate of over 40% in 1998-2000. The growth in global FDI in the 1990s far outstripped the growth in world output and trade over the same period, and earned FDI the title of the "cutting edge of globalisation". In 2000 FDI inflows were a staggering 20 times higher than they had been 20 years previously.



would classify as "high FDI recipients" those countries in which FDI inflows exceeded 1% of GDP. It was only from the mid-1990s that the share of FDI flows in GDP began to grow significantly. The projected average FDI/GDP ratio in 2007-11 of 2.5% for the world as a whole would be high by historical standards.

The US will remain the main recipient of FDI, accounting for some 17% of the world total in 2007-11. However, FDI into the EU as a whole (including intra-EU flows) will be significantly higher than this. The EU will also continue to outstrip the US as a source region for direct investment. FDI will remain geographically concentrated. The top ten host countries are expected to account for almost 60% of the world total; the top 20 for three-quarters of the world total. Eight of the top 20 are emerging-market recipients.

The league table of FDI recipients looks significantly different if we "normalise" FDI inflows by GDP, gross fixed investment or population. As could be expected, the rankings on the basis of these measures differ greatly from the rankings based on absolute FDI numbers. Unsurprisingly, natural-resource-rich countries rank highly, attracting considerably more FDI than their market size would warrant. A mix of mainly small countries from different regions are represented in the top ten. Notably among larger, more developed economies, Japan has the second-lowest ratio of FDI inflows to GDP and ratio of FDI inflows to gross fixed investment among these 82 countries.

FDI in the developed world

Contrary to widespread expectations about the concentration of new FDI in the emerging world, a larger share of the increase in global FDI in 2007-11 will go to the developed world, in large part because of the pattern of crossborder M&As. Indeed, the share of emerging markets in global FDI inflows is projected

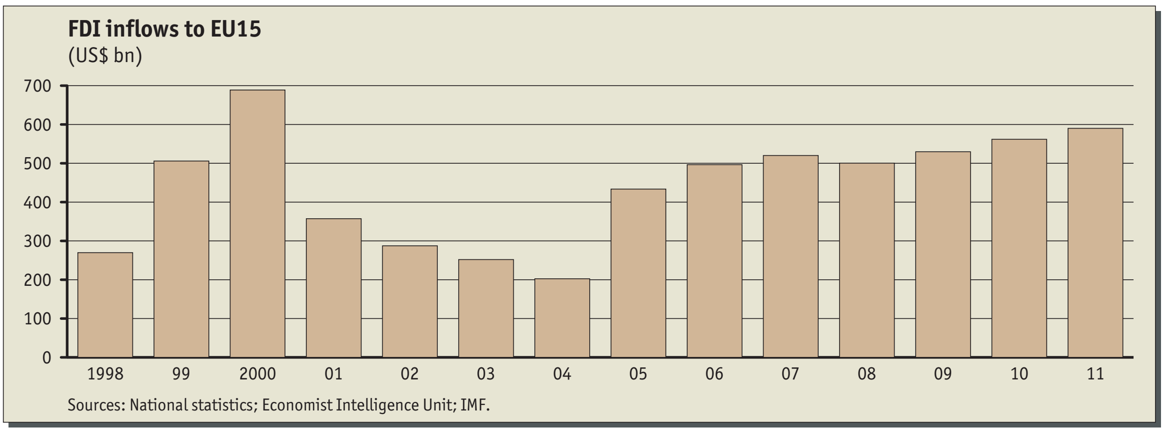


Table 11

FDI inflows

(2007-11 average)

	US$ bn	Rank	% of world total		US$ bn	Rank	% of world total
US	250.9	1	16.75	Finland	5.7	42	0.38
UK	112.9	2	7.54	Czech Republic	5.4	43	0.36
China	86.8	3	5.79	Hungary	5.1	44	0.34
France	78.2	4	5.22	New Zealand	5.0	45	0.34
Belgium	71.6	5	4.78	Ukraine	4.9	46	0.33
Germany	66.0	6	4.41	Algeria	4.7	47	0.32
Canada	63.2	7	4.22	Austria	4.0	48	0.27
Hong Kong	48.0	8	3.20	South Africa	3.2	49	0.21
Spain	44.9	9	2.99	Qatar	3.1	50	0.21
Italy	41.6	10	2.77	Pakistan	2.9	51	0.19
Netherlands	38.5	11	2.57	Serbia	2.8	52	0.19
Australia	37.8	12	2.52	Bulgaria	2.6	53	0.17
Russia	31.4	13	2.10	Croatia	2.6	54	0.17
Brazil	27.5	14	1.84	Philippines	2.4	55	0.16
Singapore	27.1	15	1.81	Slovakia	2.2	56	0.15
Sweden	26.1	16	1.74	Jordan	2.1	57	0.14
Mexico	22.7	17	1.51	Nigeria	2.1	58	0.14
India	20.4	18	1.36	Peru	2.0	59	0.14
Ireland	20.3	19	1.35	Angola	1.9	60	0.12
Turkey	20.0	20	1.33	Tunisia	1.8	61	0.12
Switzerland	18.2	21	1.22	Libya	1.6	62	0.11
Japan	13.3	22	0.89	Azerbaijan	1.6	63	0.11
UAE	12.8	23	0.85	Dominican Republic	1.6	64	0.10
Poland	12.6	24	0.84	Morocco	1.5	65	0.10
Chile	10.9	25	0.73	Greece	1.5	66	0.10
Portugal	9.1	26	0.61	Ecuador	1.5	67	0.10
Thailand	8.9	27	0.59	Estonia	1.4	68	0.09
Denmark	8.2	28	0.55	Cyprus	1.3	69	0.08
Saudi Arabia	7.9	29	0.52	Lithuania	1.2	70	0.08
Romania	7.7	30	0.51	Latvia	1.0	71	0.07
South Korea	7.2	31	0.48	Slovenia	1.0	72	0.07
Taiwan	7.1	32	0.47	Venezuela	1.0	73	0.07
Israel	7.0	33	0.47	Costa Rica	1.0	74	0.07
Malaysia	6.8	34	0.45	Bahrain	1.0	75	0.06
Kazakhstan	6.7	35	0.45	Bangladesh	0.7	76	0.05
Indonesia	6.6	36	0.44	El Salvador	0.6	77	0.04
Argentina	6.5	37	0.44	Cuba	0.5	78	0.04
Vietnam	6.5	38	0.44	Kuwait	0.4	79	0.03
Norway	6.4	39	0.43	Iran	0.4	80	0.02
Colombia	6.3	40	0.42	Sri Lanka	0.3	81	0.02
Egypt	6.0	41	0.40	Kenya	0.1	82	0.01

Source: Economist Intelligence Unit.

Table 12

FDI inflows in relation to population, GDP and fixed investment

(2007-11 average)

	FDI inflows per head (US$)	Rank	FDI inflows/ GDP (%)	Rank	FDI inflows/ fixed investment (%)	Rank
Belgium	6,883	1	16.09	3	72.86	2
Hong Kong	6,843	2	20.42	1	97.69	1
Singapore	5,938	3	16.15	2	68.61	3
Ireland	4,729	4	7.26	5	28.15	8
Qatar	3,233	5	5.10	14	20.00	19
Sweden	2,831	6	5.55	12	28.99	6
Switzerland	2,400	7	4.29	22	19.74	20
UAE	2,337	8	5.07	15	21.67	13
Netherlands	2,319	9	4.70	19	22.00	11
Canada	1,907	10	4.59	20	20.37	17
UK	1,860	11	3.97	25	21.38	14
Australia	1,835	12	4.57	21	17.16	25
Cyprus	1,591	13	5.88	10	28.49	7
Denmark	1,500	14	2.44	50	10.58	48
Norway	1,362	15	1.62	65	7.84	65
Bahrain	1,278	16	5.34	13	20.22	18
France	1,274	17	2.93	45	14.27	36
New Zealand	1,188	18	4.28	23	18.73	23
Finland	1,078	19	2.40	51	10.65	47
Estonia	1,034	20	5.78	11	16.91	27
Spain	978	21	2.93	43	9.82	56
Israel	963	22	3.99	24	20.94	15
Portugal	856	23	3.95	27	19.13	22
USA	823	24	1.61	66	10.41	54
Germany	798	25	2.01	57	10.41	53
Italy	715	26	1.90	60	8.93	60
Chile	650	27	6.31	8	28.04	9
Croatia	565	28	5.00	17	15.07	33
Czech Republic	528	29	2.95	42	11.25	46
Hungary	517	30	3.59	33	16.05	31
Slovenia	509	31	2.04	55	7.99	64
Austria	483	32	1.05	73	4.60	71
Latvia	460	33	3.38	36	9.30	58
Kazakhstan	432	34	4.78	18	15.12	32
Slovakia	406	35	2.70	49	10.35	55
Serbia	378	36	6.36	7	30.41	5
Lithuania	363	37	2.85	46	11.31	45
Romania	356	38	3.93	28	14.03	37
Bulgaria	343	39	6.15	9	18.21	24
Jordan	341	40	11.46	4	39.23	4
Poland	331	41	2.75	47	11.71	43
Taiwan	310	42	1.67	64	8.04	63
Saudi Arabia	293	43	1.86	61	9.82	57
Libya	265	44	3.38	37	12.20	42
Turkey	263	45	3.65	31	17.13	26
Malaysia	245	46	3.17	40	16.06	30
Russia	223	47	2.12	53	10.53	51
Costa Rica	219	48	3.61	32	16.59	29
Mexico	206	49	2.37	52	10.56	49
Azerbaijan	185	50	3.70	30	13.74	38
Tunisia	169	51	5.07	16	20.67	16
Dominican Republic	165	52	3.57	35	23.10	10
Argentina	164	53	2.11	54	8.89	61
South Korea	146	54	0.59	76	2.02	76
Brazil	144	55	1.98	58	10.44	52
Greece	138	56	0.40	78	1.59	78
Algeria	138	57	3.59	34	13.29	40
Colombia	133	58	3.73	29	13.38	39
Thailand	133	59	3.34	38	11.34	44
Kuwait	109	60	0.34	79	1.46	79
Ecuador	108	61	3.33	39	14.79	34
Ukraine	107	62	2.93	44	13.12	41
Angola	107	63	3.10	41	21.77	12
Japan	104	64	0.24	81	1.04	81
El Salvador	85	65	2.75	48	14.75	35
Egypt	77	66	3.96	26	16.80	28
Vietnam	75	67	6.86	6	19.17	21
Peru	70	68	1.77	62	7.52	66
South Africa	66	69	1.18	71	6.29	68
China	65	70	1.97	59	4.38	72
Cuba	49	71	1.07	72	7.46	67
Morocco	47	72	2.03	56	8.49	62
Venezuela	35	73	0.48	77	1.80	77
Indonesia	26	74	1.26	70	5.17	70
Philippines	25	75	1.45	67	10.55	50
India	18	76	1.35	69	4.09	73
Pakistan	18	77	1.71	63	9.03	59
Sri Lanka	15	78	0.86	75	2.77	75
Nigeria	14	79	1.40	68	5.59	69
Iran	5	80	0.12	82	0.37	82
Bangladesh	5	81	0.90	74	3.28	74
Kenya	2	82	0.27	80	1.32	80

Source: Economist Intelligence Unit.

to remain broadly stable (there is a slight decline from 38% in 2006 to 37% in 2011). During 2007-11 as a whole compared with the previous five-year period of 2002-06, FDI inflows into the developed world are projected to be 87% higher, compared with a 63% increase in flows to emerging markets.

In the developed world the main part of FDI will continue to originate from M&A activity. This will be underpinned by relatively low interest rates; the competitive pressures for restructuring and consolidation; and the increasing sophistication of financial markets. In Europe, M&As and the creation of pan-European companies will be spurred as companies strive to make sure that their businesses are large and productive enough to compete around the world. Although some countries are close to exhausting their opportunities for large-scale privatisations, overall there is still scope for the worldwide trend to continue into the medium term, in response to fiscal pressures and the desire to improve efficiency.

Many firms with improved earnings are likely to be drawn to the US, where fairly buoyant economic growth and a weaker US dollar will make US companies attractive acquisition propositions.[18] The strength of productivity growth in the US also makes it an appealing location for investors (European investors already account for about 60% of FDI in the US).[19]

FDI in emerging markets

MNCs will look to expand operations in select emerging economies to increase sales and rationalise production activities in order to benefit from economies of scale and lower production costs. High prices for many commodities will also stimulate direct investment in countries that are rich in natural resources. As a result, FDI flows to the emerging markets are expected to remain buoyant, averaging more than US$550bn per year in 2007-11, although overall there will be relatively modest annual growth in inflows from the record highs achieved in 2004-06.

Despite the range of factors that will tend to push up FDI inflows to the emerging-market world, there are a number of reasons to be cautious about their FDI prospects. The fact that privatisation revenue is expected to tail off in many leading emerging markets will dampen inflows, as will increased risk perceptions about some emerging markets among many investors. Economic growth in the emerging world is expected to slow somewhat compared with recent years, and the international environment will gradually become less supportive. In a few countries populism and nationalism are on the rise, culminating in some cases in the repudiation of existing contracts with foreign firms, and this will act to slow the pace of investment in affected markets. External imbalances and the possibility of sharp exchange-rate fluctuations, as well as volatile commodity prices, pose risks that could also hamper investment activity.

Key trends

Key medium-term trends in global FDI will include the following.

- After a brief retrenchment, crossborder M&As will continue to drive global FDI. The US and the EU15 (inclusive of intra-EU inflows) will continue to dominate as recipients of world FDI.
- Among emerging markets, China will remain by far the main recipient, with almost 6% of the global total and 16% of projected inflows into emerging markets.
- There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although this is unlikely to be as dramatic as many observers hope or fear.
- Compared with earlier years, the outsourcing of services will accelerate. This form of internationalisation is accompanied by relatively modest capital flows. Nevertheless, although development of information and communications technology (ICT) may have lagged behind some expectations, the explosion in bandwidth potentially brings a widening number of services into the offshoring realm. In addition, it is likely that outsourcing will increasingly shift to captive providers, so that a higher share of outsourcing is conducted through FDI than in the past.
- Investment by companies from leading emerging markets is likely to continue to gain in importance.
- Foreign investors are generally a resilient breed and security and related risks should not be

18. Various business surveys also confirm the appeal of the US as a medium-term target for acquisitions—for example, according to Accenture/Economist Intelligence Unit's 2006 Global M&A Survey, the US was rated the most promising M&A target market, well ahead of other countries.

19. On the expected significant medium-term increase in EU15 investment into the US, see the article in the 2006 issue of *World Investment Prospects* by Dan O'Brien, "Transatlantic foreign direct investment: the backbone of the global economy".

exaggerated. However, the risk of protectionism is now greater, the global geopolitical climate appears more threatening and the outlook for securing a stable and co-operative international trading and investment environment is worse than in the recent past (see discussion below).

Medium-term drivers of FDI

Global FDI flows over the forecast period will be influenced by a combination of forces—most of them positive, pushing FDI flows upwards, but there are also some constraining factors that will keep flows below what they might otherwise be.

One of the main factors underpinning our baseline FDI forecast is that the solid world economic recovery is set to continue. We forecast that global growth (at purchasing power parity—PPP—rates) will remain buoyant; it is forecast to average 4.6% a year over 2007-11. The strong global performance reflects in large part the increasing weight of fast-growing emerging markets, especially China and India.

Other reasons to expect continued growth in FDI include the ongoing global trend towards better business environments (as measured by our cross-country business environment rankings); technological change and the search for competitively priced skills; and sharper global competition that will push companies to grow through acquisitions or seek lower-cost destinations. The degree of firms' transnationalisation is also clearly linked to their performance, as also illustrated by the results of our survey of more than 600 MNCs. Firms that had a high degree of transnationalisation—those with more than 25% of revenue or employees outside their home markets—were more likely to have above-average financial performance than less internationalised firms.

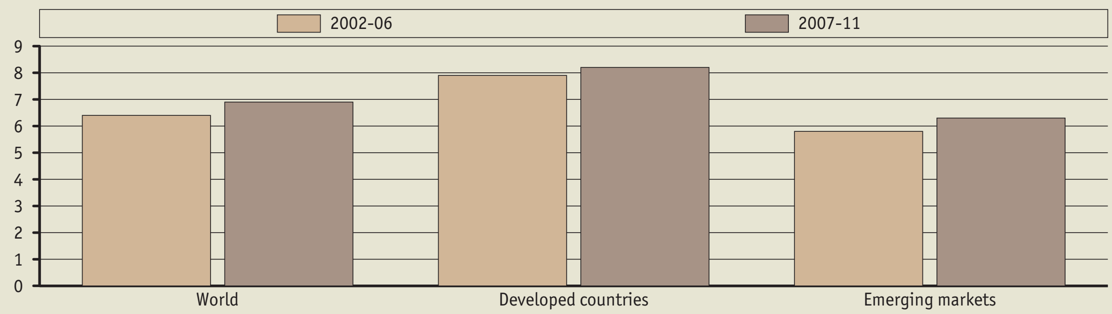
The global investment climate

Recent years have brought considerable improvement in the global investment climate. Policies have been liberalised in many countries across the globe. The liberalisation of economies and of policies towards foreign investors has acted as a spur to FDI. Our business environment rankings model provides a quantitative representation of these trends. The business environment rankings paint a relatively optimistic picture of the global operating environment over the next five years. The average country business environment score in 2007-11 is expected to be 0.46 points higher than in 2002-06.

The global trend for liberalisation and deregulation of domestic markets is expected to continue. Despite instances of reversals, most countries have not retreated from liberalisation. Further measures to liberalise international trade flows now look unlikely, with the Doha round of World Trade Organisation (WTO) negotiations in deep trouble. However, we do not expect a reversal of the liberalisation seen over the past few decades.

The expected trend of improvement in the global operational environment augurs well for FDI prospects. Our FDI model (see Annex A to this article) shows FDI to be very sensitive to the quality of the business

Business environment average scores
(out of 10)



Source: Economist Intelligence Unit.

environment. The trend of further improvement in business environments across the globe that we expect, and the consequent beneficial impact on FDI, however, masks one important consideration: there is scope in almost all countries for still more improvement than we assume will occur over the medium term, with striking implications for FDI.

For example, under the assumption that all countries' business environment scores for 2007-11 were a mere 5% higher than we actually assume, our model predicts annual average global FDI flows of US$1.7trn rather than the actual forecast of US$1.5trn. The difference of US$200bn per year, or US$1trn cumulatively over the whole 2007-11 period, is a measure of the huge opportunity cost, in terms of forgone FDI and thus development, of suboptimal policies.

However, several factors will work to dampen FDI flows and keep them below what they would otherwise be. FDI protectionism is one of those factors. Appeals to security threats and fears about the consequences of globalisation have prompted several governments to review and in some cases tighten their FDI regulations.[20]

The trend towards FDI protectionism is being reinforced by rising concern in a number of countries about investments by state-owned sovereign investment agencies. The latter invest official currency reserves in foreign assets and control an estimated US$2.5trn, more than all the world's hedge funds combined.[21]

Although instances of protectionism—on security grounds or otherwise—are expected to remain limited, this will nevertheless have some negative impact. At least some large crossborder deals are likely to be prevented. Some firms may be reluctant to engage in a crossborder deal if they feel that opposition from the host government might be an issue. Instances of outward FDI protectionism as well as regulatory restrictions in some emerging markets will also have some adverse impact.

20. See the in-depth discussion in the article in this volume by Karl P Sauvant, and the review, also in this volume, by Matthew Shinkman of the views on political risk that emerge from our survey of more than 600 MNC executives.

21. Sauvant, ibid.

The business environment rankings

The framework covers 82 of the world's leading economies that are analysed regularly in the Economist Intelligence Unit's *Country Forecasts*. The model seeks to measure the quality or attractiveness of the business environment and its key components. The quantitative assessment of the business environment—the opportunities for and obstacles to business—enables a country to be ranked on its overall position and in each of ten categories, on both a global and regional basis. The model uses quantitative data, business surveys and expert assessments to measure the attractiveness of the business environment across the 82 countries. Individual country scores are compiled by a large team of in-house economists and country experts, assisted by a global network of associated contributors and analysts. The framework is designed to reflect the principal criteria used by companies to formulate their global business strategies and investment location decisions. The overall scores (on a scale of 1-10) and rankings are based on scores for 91 indicators, grouped into ten categories of the business environment. Scores and rankings are produced for both a five-year historical period (currently 2002-06) and a five-year forecast period (2007-11). The full methodology appears at the end of this report.

The enabling framework for foreign direct investment (FDI), captured by the policy towards foreign investment in the model, consists of the rules and regulations governing entry and operation of FDI, and overall standards of treatment. Although open FDI policies are a necessary condition, a wide range of other policies can influence FDI decisions. These are captured in the other categories of our business environment rankings model, and include government measures that influence institutional effectiveness, infrastructure and skill endowments, macroeconomic and political stability. They also involve policies towards private enterprise in general: tax, labour market, financial sector, and foreign trade and exchange-rate policies.

Business surveys conducted by the Economist Intelligence Unit have confirmed that our ten categories are all highly rated as important for business. This means that countries need to satisfy across the full range of business environment issues. This is also the reason why developed countries have the best business environments—taking into account their performance across the board.

Specific policies towards foreign investment have a moderately high influence on executive decisions, but again less so than the broad business climate in a country. Pro-FDI policies can have a significant but rarely decisive influence on companies' decisions to invest in a country. Special tax incentives are considered much less important than other features of the investment climate.

Table 13

Business environment ranks and scores

	2007-11 Total score	2007-11 Rank	2002-06 Total score	2002-06 Rank	Change in total score	Change in rank
Denmark	8.76	1	8.69	2	0.06	1
Finland	8.75	2	8.64	3	0.11	1
Singapore	8.72	3	8.71	1	0.01	-2
Switzerland	8.71	4	8.59	7	0.12	3
Canada	8.70	5	8.63	5	0.07	0
Hong Kong	8.68	6	8.57	8	0.11	2
US	8.65	7	8.64	4	0.01	-3
Netherlands	8.64	8	8.53	9	0.11	1
Australia	8.60	9	8.16	12	0.44	3
UK	8.60	10	8.62	6	-0.02	-4
Sweden	8.60	11	8.34	11	0.25	0
Ireland	8.57	12	8.49	10	0.07	-2
Germany	8.46	13	7.97	16	0.48	3
New Zealand	8.31	14	8.15	13	0.16	-1
Belgium	8.30	15	8.07	14	0.23	-1
Austria	8.24	16	7.87	17	0.36	1
Norway	8.14	17	7.99	15	0.15	-2
France	8.12	18	7.87	18	0.25	0
Taiwan	8.11	19	7.66	21	0.45	2
Chile	8.04	20	7.77	19	0.27	-1
Estonia	7.87	21	7.72	20	0.15	-1
Spain	7.82	22	7.40	22	0.41	0
Israel	7.67	23	6.95	29	0.72	6
Qatar	7.60	24	6.93	30	0.66	6
South Korea	7.56	25	7.12	25	0.44	0
Czech Republic	7.55	26	7.03	28	0.52	2
Japan	7.54	27	7.08	27	0.46	0
UAE	7.48	28	7.27	24	0.22	-4
Slovakia	7.44	29	6.81	31	0.63	2
Bahrain	7.43	30	7.10	26	0.33	-4
Malaysia	7.43	31	7.29	23	0.14	-8
Slovenia	7.41	32	6.75	34	0.66	2
Portugal	7.39	33	6.73	36	0.67	3
Poland	7.17	34	6.73	35	0.44	1
Hungary	7.12	35	6.79	32	0.32	-3
Cyprus	7.10	36	6.77	33	0.33	-3
Latvia	7.06	37	6.63	39	0.43	2
Lithuania	7.03	38	6.62	40	0.41	2
Mexico	7.02	39	6.65	38	0.37	-1
Italy	7.02	40	6.48	42	0.54	2
South Africa	6.97	41	6.09	46	0.88	5
Thailand	6.81	42	6.71	37	0.10	-5
Greece	6.81	43	6.34	44	0.47	1
Bulgaria	6.77	44	5.89	49	0.88	5
Costa Rica	6.72	45	6.31	45	0.40	0
Brazil	6.69	46	6.53	41	0.16	-5
Croatia	6.67	47	5.84	50	0.83	3
Romania	6.58	48	5.79	51	0.79	3
Saudi Arabia	6.57	49	5.78	52	0.79	3
Jordan	6.46	50	5.72	54	0.74	4
El Salvador	6.44	51	5.98	47	0.46	-4
Turkey	6.42	52	5.66	57	0.76	5
China	6.38	53	5.61	58	0.77	5
India	6.37	54	5.27	62	1.10	8
Kuwait	6.34	55	6.37	43	-0.03	-12
Philippines	6.34	56	5.90	48	0.44	-8
Argentina	6.33	57	5.70	55	0.63	-2
Peru	6.27	58	5.68	56	0.58	-2
Colombia	6.26	59	5.74	53	0.53	-6
Egypt	6.23	60	5.11	65	1.12	5
Indonesia	6.21	61	5.39	60	0.83	-1
Serbia	6.10	62	4.98	68	1.12	6
Russia	6.07	63	5.44	59	0.63	-4
Tunisia	6.01	64	5.22	63	0.78	-1
Vietnam	5.95	65	4.83	70	1.12	5
Sri Lanka	5.80	66	5.32	61	0.49	-5
Dominican Rep.	5.77	67	5.21	64	0.56	-3
Morocco	5.64	68	4.66	72	0.98	4
Kazakhstan	5.60	69	5.10	66	0.50	-3
Ukraine	5.45	70	4.44	76	1.01	6
Pakistan	5.34	71	4.94	69	0.40	-2
Azerbaijan	5.30	72	4.53	73	0.78	1
Algeria	5.25	73	4.31	77	0.94	4
Bangladesh	5.10	74	4.44	75	0.66	1
Nigeria	4.88	75	4.46	74	0.41	-1
Ecuador	4.85	76	5.05	67	-0.19	-9
Kenya	4.83	77	4.24	79	0.59	2
Cuba	4.48	78	4.08	80	0.40	2
Iran	4.35	79	3.59	81	0.76	2
Libya	4.33	80	4.30	78	0.03	-2
Venezuela	4.30	81	4.81	71	-0.50	-10
Angola	3.92	82	3.19	82	0.73	0
Average	6.87	–	6.41	–	0.46	
Median	6.89	–	6.50	–	0.39	

Source: Economist Intelligence Unit.

Risks loom large

Our baseline forecast for global FDI flows in 2007-11 assumes that the effects of a host of positive factors for FDI growth will be tempered to an extent by factors such as growing opposition to foreign capital in some countries and the negative impact of a host of political risks. However, it is possible that negative international political and economic developments could be worse than assumed, with a much more negative impact on global FDI than in our baseline assumptions.

The host of economic risks to our baseline range from overleveraged financial institutions to the impact of commodity price volatility. Turmoil

The return of political risk

Contrary to popular belief, businesspeople and investors have traditionally paid little attention in their decision-making to most forms of political risk, compared with most other important drivers of investment decisions. Macroeconomic conditions, labour availability and costs, and the overall business and policy environment in a country have been far more important issues.

Nor did the terrorist attacks in the US on September 11th 2001 change things much in this respect. This event may have transformed the political landscape but it has had surprisingly little impact on the global economy or even businesspeople's perceptions. Even though September 11th spawned a growth industry of writing on risk and doom-laden warnings about the end of globalisation, the actual impact on international business, and businesspeople's decision-making and perceptions, has been minimal.

The low corporate profile of political risk was reinforced by the drastic decline since the end of the cold war of the capacity of geopolitical tensions seriously to undermine business. Furthermore, the increasing sophistication of corporate strategies and the availability of insurance schemes mitigated the potential impact from "classical political and security risks"—of disruption to business from governmental instability or civil unrest. Indeed, most multinational corporations (MNCs)—and not only oil companies—have traditionally been a very hardy breed operating in the seemingly most inhospitable climates.

However, there are signs that things may be changing. Various forms of political risk have jumped towards the top of corporate agendas. This trend was also very much confirmed by the results of the survey conducted for this report. Political risk was generally seen as posing a considerably greater threat to business over the next five years than in the recent past. This was especially so for emerging markets, where generic political risk was identified as the main investment constraint. All forms of political risk in emerging markets were expected to increase over the next five years. For developed countries, this was the case for the risk of foreign direct investment (FDI) protectionism. There was widespread concern about the threat of political violence and apparent sensitivity to a range of geopolitical risks.

On the threat of political violence, the survey findings mirrored in large part the results of other recent Economist Intelligence Unit surveys. For example, a Lloyds-Economist Intelligence Unit survey from early 2007 ("Under attack? Global business and the threat of political violence") found that business leaders believe that political violence risk is real and rising. More than 50% of the executives that were surveyed believe that business is now as much a target for attack as government, and think political violence will increase worldwide over the next five years, with terrorism and conflict set to become bigger problems than ordinary crime. Concerns about political violence were seen as a significant barrier to foreign investment. Business leaders clearly believe that they are operating in an increasingly dangerous world.

At the same time, in the survey conducted for this report the majority of executives were bullish about the investment outlook over the next five years, and when asked what forces would have the greatest influence on global FDI trends in the coming five years, respondents largely cited economic, rather than political, trends—out of 14 factors, six of the top seven were economic issues (geopolitical tensions were fifth).

Opportunities versus risks

There thus appears to be a clear disconnect between a benign economic outlook and significantly heightened political risk perceptions. How can this be explained? In large part, the increased risk perceptions are related to real developments. As discussed in various parts of this report, there is certainly a threat of increased FDI protectionism and geopolitical tensions are high in various parts of the world. Arguably, the incidence of terrorist attacks, the possibility of the export of terrorists from Iraq to other parts of the world and expectations that business could be targeted directly more than in the past may also justify heightened concern about threats to business from political violence.

Yet these concerns do not appear to have a significant impact on decision-making. Most likely, the heightened political risk perceptions are trumped by the perceived good opportunities for investment and the very positive overall economic outlook. Were the latter to deteriorate—disturbing the present balance between perceived opportunities and risks—then there would most likely also be a greater readiness to act on the heightened sensitivity to a wide range of political risks.

in financial markets could be sharper and more prolonged than is assumed; the slowdown in the US could be steeper than expected; there could be the need for a more aggressive monetary policy stance by central banks in response to higher inflationary pressures. A sharp, sustained downward turn in global equity markets would, for example, put paid to the growth in M&As that underpins much FDI.

In addition to macroeconomic risks, the possible adverse impact of political risks, over and above what is already assumed in our baseline forecast, looms large. After the collapse of Soviet communism, international political co-operation helped to fuel a decade of intensified globalisation, including stellar growth in foreign investment. The co-operative spirit has wilted in recent years. The deepening of globalisation, with FDI to the fore, could be at risk if the tensions over the Middle East and other disputes sour further the international climate.

Three types of, in part inter-related, political risks pose a threat to our baseline FDI scenario: disruptions and costs to business associated with terrorist attacks and the threat to personal security; the potential adverse impact on global business of the unsettled international political climate; and the threat to globalisation from strengthened protectionist sentiment (the survey of more than 600 MNCs that was conducted for this report revealed heightened perceptions of political risk among investors, especially for investment into emerging markets).

Developments in the US are of critical importance to overall global trends. Thus, for example, following the September 11th 2001 terrorist attacks, the movement of people and goods in and out of the US is not as free as it was previously. The US is no longer as hospitable to foreign students and migrants. Nor will the US operate an open-door policy with respect to foreign capital: occasionally it will block foreign takeovers of key US companies. All this will make for a constrained globalisation and for less FDI than might otherwise be the case.

However, there are several reasons not to expect a descent into serious protectionism or a backlash against globalisation and FDI. Powerful business interests in the US and Europe will continue to lobby and push for FDI openness, including to companies from the South. Their efforts are already bearing fruit in at least partly defusing some proposed measures for FDI protectionism. Technology and communications developments will continue to be strong countervailing forces undermining moves toward protectionism of all kinds. The fast-growing emerging markets, such as China and India, will be a powerful engine sustaining international integration.

Regional trends

North America

FDI inflows into the US slumped in the early part of the decade, reaching a low of US$53bn in 2003. Inflows recovered in 2004-05 to an annual average of US$111bn (equal to 1% of GDP). In 2006 the US regained its position as the world's leading destination for FDI inflows, as a pick-up in growth and the weakening of the US dollar made the US attractive to investors. The US will remain the world's leading destination for FDI over the medium term. The key attraction to investing in the US will be the size of the market. With GDP valued at US$13.3trn in 2006, the US economy at current exchange rates was approximately three times the size of Japan's and one-quarter larger than that of the euro zone. The US also has a very good business environment, with a liberal policy towards private enterprise, a well-functioning labour market, deep capital markets and good infrastructure. At the federal level, little is done to encourage foreign investment, but many states and local governments offer tax breaks or grants.

In addition to the appeal of the vast size of the domestic market and the business-friendly policy environment, the US remains the unquestioned global technology leader. Foreign companies will continue to view having operations in the US as a way of gaining access to cutting-edge technology. The stock of FDI in the US is still relatively low, which suggests that there is potential for continued substantial inflows. Strong global economic growth and buoyant profits have left many firms globally in a good position to seek

Table 14
FDI inflows into North America

	1996	1997	1998	1999	2000	2001	2002	2003
US								
Inflows (US$ bn)	84.5	103.4	174.4	283.4	314.0	144.0	74.5	53.1
% of world total	21.3	21.0	24.5	25.4	22.3	16.9	12.0	9.4
% change, year on year	43.7	22.4	68.7	62.5	10.8	-54.1	-48.3	-28.6
% of GDP	1.1	1.2	2.0	3.1	3.2	1.4	0.7	0.5
Canada								
Inflows (US$ bn)	9.6	11.5	22.8	24.7	66.8	27.7	22.2	7.5
% of world total	2.4	2.3	3.2	2.2	4.7	3.3	3.6	1.3
% change, year on year	4.1	19.6	97.9	8.5	169.9	-58.6	-19.9	-66.2
% of GDP	1.6	1.8	3.7	3.7	9.2	3.9	3.0	0.9
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
US								
Inflows (US$ bn)	122.4	99.4	183.6	237.7	235.0	252.0	260.0	270.0
% of world total	16.8	10.2	13.8	16.1	16.7	17.1	16.9	16.8
% change, year on year	130.3	-18.7	84.7	29.4	-1.1	7.2	3.2	3.8
% of GDP	1.0	0.8	1.4	1.7	1.6	1.6	1.6	1.6
Canada								
Inflows (US$ bn)	-0.4	28.9	69.0	84.8	59.1	56.0	57.0	59.0
% of world total	0.0	3.0	5.2	5.8	4.2	3.8	3.7	3.7
% change, year on year	-104.9	–	138.7	22.9	-30.3	-5.3	1.8	3.5
% of GDP	0.0	2.6	5.4	6.3	4.4	4.1	4.1	4.0

Sources: National statistics; IMF; OECD; all forecasts are from the Economist Intelligence Unit.

acquisitions, and the depreciation of the US dollar has made prices of US firms particularly attractive. These factors underpin a bullish forecast for FDI inflows into the US, even for 2007, a year in which the economy will register weak GDP growth. A cooling of the boom in leveraged buyouts is likely to lead to a temporary decline of FDI inflows in 2008, before a resumption in steady growth in FDI inflows in 2009-11.[22]

Risks to the forecast stem from the threat to macroeconomic stability and protectionist sentiment. On our baseline assumptions, rising protectionist sentiment will have only a limited effect on FDI flows. However, there is a risk of a stronger negative impact. Political opposition by some to foreign involvement in so-called strategic sectors, such as energy and infrastructure, has already affected a few high-profile deals. The US recently amended legislation dealing with scrutiny of FDI deals.[23] This will lengthen the time it takes to win approval for proposed crossborder M&As in sensitive sectors.

US business environment rank declines

The US's rank in our business environment rankings for 2007-11 falls to seventh, down from fourth in 2002-06. Although the business environment will remain generally very good, there are serious concerns about macroeconomic stability (arising from the current-account deficit and high levels of personal debt), security risks, strained international relations and long-standing problems with political lobbying. However, we still expect the US economy to outperform most major developed economies over the coming five years. Medium-term growth, although slower than during the second half of the 1990s, will still be robust by historical standards.

Canada experienced a sharp drop in FDI inflows

22. Our survey also confirmed that a majority of MNCs rate the US very highly as a location for investment in 2007-11.

23. See the detailed discussion in the article by Karl P Sauvant in this volume.

in 2003-04. However, inflows recovered strongly in 2005 and especially 2006. Canada will provide good opportunities for foreign investors over the medium term. Close physical proximity to and economic integration with the US will continue to be the driving force behind foreign investment in Canada. Canada has been reducing some of the remaining barriers to FDI, while also introducing measures to promote inward investment, including low-cost financing and reductions in business taxes. However, a liberalisation of foreign ownership curbs in telecoms and broadcasting will continue to be obstructed by strong opposition. High oil prices will underpin strong investment inflows into exploration and extraction activities. Nevertheless, the surge in 2006 and 2007 will not be sustained, as financing conditions for acquisitions deteriorate globally.

Canada ranks as the fifth-best place in the world in which to conduct business in 2007-11, according to our business environment model, equal to its rank for 2002-06. Canada's position is the result of a strong macroeconomic environment and market opportunities, an increasingly liberalised policy framework (compared with the past) and excellent infrastructure.

Western Europe

After falling sharply in 2001-04, FDI inflows into western Europe recovered strongly in 2005 and 2006. Western Europe will continue to be the world's largest recipient of FDI. The main motive for the majority of foreign companies investing in the region will continue to be better access to one of the world's largest and wealthiest markets. The presence of dense industry clusters will also continue to make the region attractive as an investment location. Projected annual average FDI inflows into the region in 2007-11 will be above 3% of GDP—a historically high level and above the world average.

As in 2005, the UK was the EU's top FDI recipient in 2006, with US$138bn in inflows. This represented more than one-quarter of all FDI inflows into the EU15. On a crude measure of FDI activity—the number of projects irrespective of their size and value—the UK also held the top position in Europe in 2006, ahead of France (see Table 6). The leading locations for investment across Europe have not changed significantly over the past ten years. Every year the UK, France and Germany have consistently held their position as the favourite European destinations for FDI.

The US is the single largest generator of company investment projects; it has generated more than double the next-largest provider, Germany, which in turn accounted for double the number of projects as third-placed Japan. Leading west European nations benefit to a large extent from US investment–English-speaking Ireland and the UK notably so. The UK is a significant investor for France. French companies make up a large proportion of investment into Spain and Germany.[24]

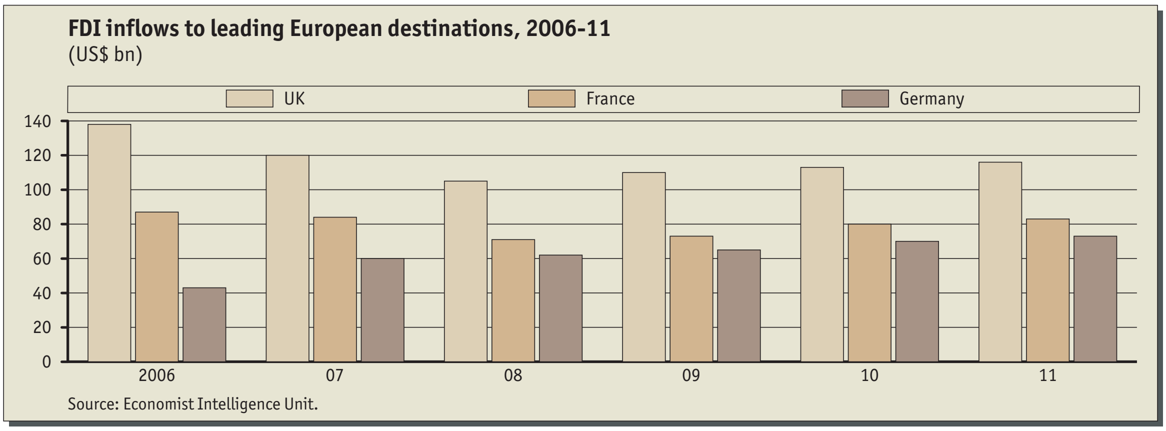
The UK and France will remain the main destinations for FDI into western Europe. The UK's attractiveness as a location for FDI has rested on a policy of openness to foreign investors, a flexible labour market and a highly developed financial sector. A less tangible but still important reason is the status of English as the world's leading business language.

The UK's FDI appeal could weaken

However, a number of factors could weaken the UK's appeal over the next few years. High levels of consumer debt pose a threat to the stability of the macroeconomic environment. The tax regime is becoming more burdensome and complex. Improvements to the congested road and rail transport infrastructure will be slow to materialise. And despite concerted government efforts, the UK will struggle to close its productivity gap with the US and the best performers in western Europe. In our business environment rankings, the UK falls to tenth place for 2007-11 (compared with sixth in 2002-06), as a result of some deterioration in the labour market, increasing government regulation and a rise in the tax burden. The risk of terrorism has also increased uncertainty.

Nevertheless, the size of the UK market and the existence of industry clusters, centres of scientific excellence and skilled human capital will continue to be important magnets for FDI in sectors such as financial services, software, pharmaceuticals and

24. Ernst & Young, *European Investment Monitor 2007*.



biotechnology.

France's business environment has been transformed since the mid-1980s, and it now has many strengths as an investment location that offset some of its long-standing weaknesses, such as an onerous tax burden and a highly regulated labour market.

The election of Nicolas Sarkozy as president in May 2007 has improved the chances of structural reforms in France, but these are likely to be less far-reaching than many observers assume. Despite a number of important microeconomic reforms in the pipeline, some of France's long-standing weaknesses are likely to persist. The tax burden will remain high and the labour market will continue to be burdened by excessive regulation.

Table 15

FDI inflows into western Europe

	1996	1997	1998	1999	2000	2001	2002	2003
Western Europe								
Inflows (US$ bn)	125.3	151.1	285.3	527.6	718.3	373.6	296.7	277.0
% of world total	31.6	30.7	40.0	47.4	51.0	43.9	48.0	49.2
% change, year on year	-0.7	20.6	88.8	84.9	36.1	-48.0	-20.6	-6.6
% of GDP	1.3	1.7	3.0	5.7	8.3	4.3	3.1	2.4
EU15								
Inflows (US$ bn)	116.5	138.2	269.8	505.9	688.8	357.3	287.4	252.0
% of world total	29.3	28.1	37.8	45.4	48.9	42.0	46.5	44.7
% change, year on year	-1.6	18.7	95.2	87.5	36.2	-48.1	-19.6	-12.3
% of GDP	1.3	1.6	3.1	5.8	8.5	4.4	3.2	2.3
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Western Europe								
Inflows (US$ bn)	212.6	455.5	554.8	572.3	550.4	581.9	613.9	644.1
% of world total	29.1	46.9	41.6	38.8	39.1	39.6	39.9	40.2
% change, year on year	-23.3	114.3	21.8	3.1	-3.8	5.7	5.5	4.9
% of GDP	1.6	3.3	3.8	3.4	3.1	3.3	3.5	3.6
EU15								
Inflows (US$ bn)	202.5	433.6	496.5	520.1	500.4	529.7	561.8	590.0
% of world total	27.7	44.6	37.2	35.3	35.6	36.0	36.6	36.8
% change, year on year	-19.6	114.1	14.5	4.8	-3.8	5.9	6.1	5.0
% of GDP	1.6	3.4	3.7	3.4	3.1	3.3	3.5	3.6

Sources: National statistics; IMF; OECD; all forecasts are from the Economist Intelligence Unit.

France in two minds on FDI

The government is also likely to continue a policy of promoting "national champions" and obstructing foreign takeovers of French companies in sectors that are considered to be "strategic". French policymakers appear often to be in two minds—they want to attract FDI and take pride in France's high position in the international FDI league tables, and at the same time they seek to foster "national champions", limiting FDI in some sectors. Although France has been at the forefront of espousing protectionist sentiment, we do not expect that this will have a significant effect on crossborder M&As and FDI into France. Offsetting to a large extent some expected deterioration in specific policies and attitudes to FDI are France's attractions as an investment location. These include the country's central geographical location in the EU, one of the world's most highly educated and productive labour forces, and its outstanding transport and telecoms infrastructure. In all, France retains many advantages that will help it to remain one of the largest destinations for FDI in the EU.

Germany's highly skilled workforce and excellent infrastructure will continue to make it a good location for specialised manufacturing. The structure of German industry is still relatively fragmented, providing foreign investors with the opportunity to participate in sectoral consolidation and to reap economies of scale through acquisitions. The still low level of real estate prices by west European standards may also attract investors in this sector.

Asia and Australasia

Asia will remain the world's most dynamic region, with growth rates comparable to those in the mid-1990s. The region's economies are being lifted by intra-regional trade, particularly as the Chinese economy continues to boom. FDI flows to the region will remain buoyant, despite some negative trends such as rising protectionism in several Asian countries.[25]

FDI inflows into Asia and Australasia increased in 2006 to almost US$240bn, after inflows had fallen back sharply to US$144bn in 2005. The latter was in large part the result of a large negative inward investment figure for Australia (stemming from a reorganisation by News Corporation). Developing Asia, by contrast, had attracted a record high of US$174bn in inflows in 2005 (a 26% increase compared with 2004), and this climbed to a new record total of US$212bn in 2006, by far the highest emerging-market regional total.

China will retain its leading position

As in recent years, China was far and away the main FDI recipient among emerging markets. Although FDI inflows actually fell slightly in 2006, to US$78.1bn, from US$79.1bn in 2005, this was still one of the highest totals in the world. Despite concerns about rising cost pressures, because of the size of the domestic market and strong growth prospects, and for reasons of cost competitiveness, China remains a favoured base for foreign companies. Many foreign companies are now starting to make good profits (even if there are significant variations across sectors). Nevertheless, companies wishing to sell into the domestic market still find the country's business environment a difficult one in which to operate. Despite improvements in recent years, the Chinese market is characterised by bureaucratic hurdles and an opaque legal system.

FDI into China is likely to rise slightly in 2007 to some US$80bn and to grow steadily thereafter to surpass US$90bn towards the end of the forecast period. China is still ranked by most international firms as their preferred investment destination, including in the survey conducted for this report. China is committed to meeting its WTO obligations, which should boost FDI. The gradual opening up of sectors such as domestic commerce, financial services, insurance and tourism is under way. Geographical restrictions on where foreign companies are allowed to set up operations will also be relaxed in the coming years.

China's price competitiveness will be maintained over the forecast period. On baseline assumptions, there seems little risk of a massive relocation of FDI from China to cheaper locations. However, despite the range of factors that underpin the expectation of buoyant FDI into China, there are also some considerations that will keep FDI below potential,

25. The most recent examples are in ASEAN countries. In early 2007 Thailand's government approved measures that limit foreign investors to holding no more than 50% of the shares or the voting rights in companies. In July 2007 Indonesia greatly expanded its "negative investment list" of local industries in which foreign investment is partly or wholly restricted. The new list will affect at least 338 business sectors, up substantially from 83 previously.

as well as downside risks to the baseline forecast. Although China will remain open to foreign capital—and in some aspects will liberalise even further—there are signs of unease in China with what some are beginning to see as excessive dependence on FDI, similar to the increasing FDI protectionism that is occurring elsewhere. Another dampening effect will come from the alignment of corporate tax rates levied on domestic and foreign firms (towards the higher domestic rate). Furthermore, if the upward pressure on the renminbi leads to appreciation that is much stronger than anticipated, that might also hold back inward FDI flows.

Although China has been the top investment destination in Asia for some years, investor interest in India is a more recent development. Whereas China's FDI is concentrated in capital-intensive manufacturing, FDI flows into India are mostly in information technology (IT) and communications centres, which are not accompanied by sizeable FDI flows. Despite India's successful positioning as a business processing and IT outsourcing hub, these activities often translate into Indian services sector exports via third-party transactions—not FDI. Despite strong growth in FDI inflows in 2005-06, India has yet to build a critical mass in FDI.

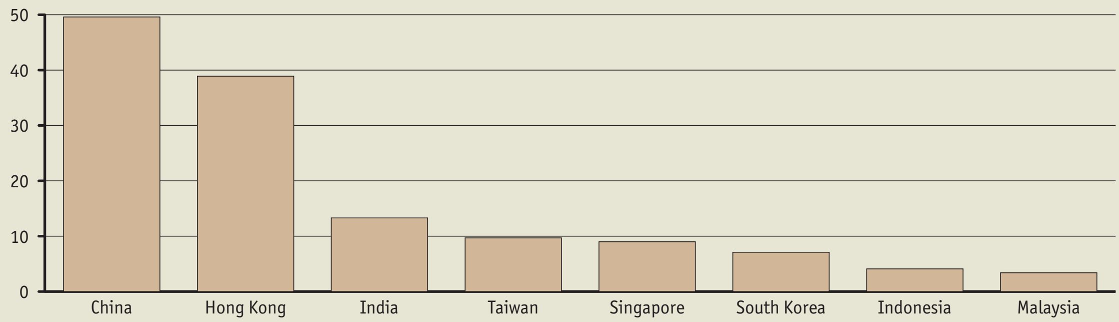
The services sector continues to be the main target for FDI in India. FDI in the services sector increased to US$5.3bn in 2006, compared with US$1.8bn in 2006—in part owing to two large transactions by Oracle and Merrill Lynch (both US). There were also a number of small investments in IT services, as well as a pick-up of FDI in real estate (to about US$1.5bn, from only US$0.1bn in 2005), following a relaxation of regulations related to FDI in the sector in February 2006. By contrast, FDI in manufacturing actually declined in 2006 to US$1.5bn, compared with US$1.8bn in 2005. The largest single investment in the manufacturing sector was only US$79m, reflecting the fact that the overall business environment for manufacturing FDI is not yet attractive enough.[26]

India's potential to attract FDI is vast and the government has in recent years been adopting measures to encourage FDI. Increased acquisitions by foreign companies will lead to higher FDI inflows. There will be a steady increase in FDI focused on growing domestic market opportunities, especially in consumer goods. FDI in manufacturing will remain limited, although it should increase from a low base on the back of improvements in infrastructure. There could also be a foreign investment boom in retailing, if the government eventually opens up this sector. Telecoms and energy are other high-potential industries for FDI.

FDI inflows into India will remain below potential

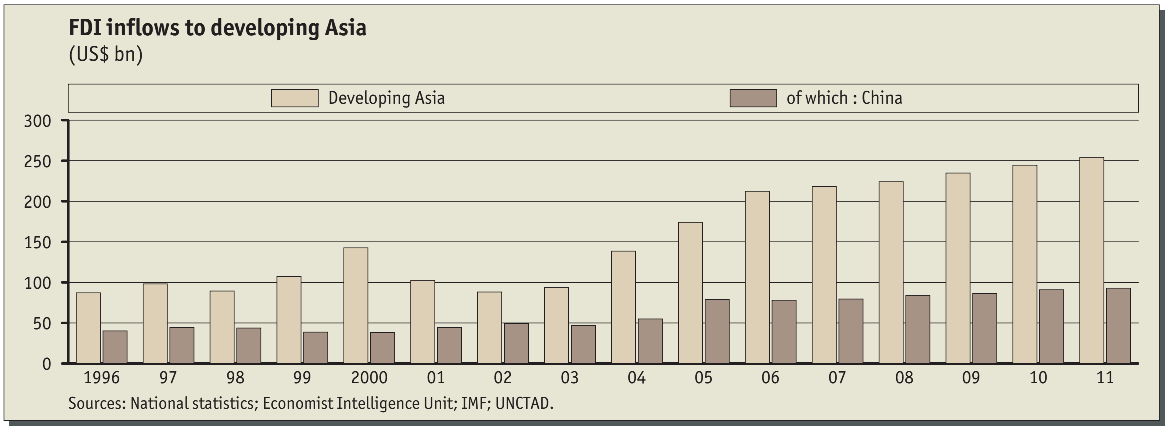
FDI inflows are set to increase substantially during the forecast period, but will still remain well below potential because of persistent business environment problems. The government's FDI target of US$25bn for fiscal year 2007/08 (April-March) is unlikely to be met. The Congress-led coalition government has

Main outward investors from developing Asia
(FDI outflows; 2007-11 annual av; US$ bn)



Source: Economist Intelligence Unit.

26. Morgan Stanley, *India FDI Story: Changing Gears*, May 21st 2007.



made significant progress in opening the economy to foreign investment, but further progress before the next election, due by May 2009, will be constrained by opposition from the government's leftist political allies. India's privatisation programme has stalled owing to opposition from the Left Front, on the support of which the government relies. Inflexible labour laws and poor infrastructure will also restrict FDI inflows.

FDI into India will grow but will remain very low in relation to the size and potential of its economy. India will also continue to lag far behind China as a

FDI inflows into Japan

Inward foreign direct investment (FDI) in Japan is very low; the rate of FDI penetration as measured by the share of the stock of inward FDI in GDP, at 2.5%, is one of the lowest in the world. FDI inflows into Japan were more than halved in 2005 to US$3.2bn (a mere 0.1% of GDP, one of the lowest ratios in the world), from what was a modest average of US$7.3bn in 2001-04, and large disinvestments meant that inward FDI flows turned negative, at US$-6.8bn, in 2006. Although some pick-up is expected during the forecast period, FDI inflows will remain very low as a share of GDP and the ratio of the stock of inward FDI to GDP is projected to rise to only 2.8% by the end of the period.

The Economist Intelligence Unit's FDI model of FDI determinants captures the main reasons why FDI into Japan has been so low, although even the low total for average annual FDI inflows predicted by the model (US$5.8bn for 2002-06) exceeded the actual (US$4bn)—suggesting that some factors not fully captured by the model were also at work. High labour costs, various problems of the operating environment (as measured in our business environment score for Japan), weak growth and poor knowledge of foreign languages all offset the attractions of a large market.

Japan's attractiveness is further diminished by the fact that consumer spending is weak, prices are falling and the population is shrinking. Japan cannot compete as a regional export hub with countries such as Singapore. Many domestic companies resist foreign takeovers.

The government has been trying to attract FDI. It has reformed the commercial code and made it easier for foreign firms to buy Japanese ones. Japan hopes that foreign capital can reform companies and increase competition. In manufacturing, labour productivity at the Japanese affiliates of foreign firms is as much as 60% higher than it is at domestic firms; in services firms it is 80% higher, according to the OECD. Acquisitions by foreign buyers have tended to increase the overall value of Japanese firms. Three years after an international takeover, profits have increased by 35% on average and the overall value of firms acquired by foreigners has increased nearly twice as much as those bought by domestic competitors (see "Gaijin at the gates", *The Economist*, August 16th 2007).

The Japanese government has a goal of increasing the stock of inward FDI to 5% of GDP by 2010. Since the government began its "Invest Japan" campaign in 2003, the country has implemented some policy measures to encourage FDI. A takeover technique known as "triangular merger" allows acquirers to use equity stakes instead of only cash to buy targeted firms.

Even with an inward FDI stock at 5% of GDP, Japan would still lag far behind other advanced economies in attracting foreign investment. In fact, Japan is expected to fall well short of this target. Despite having one of the largest markets in the world, Japan will remain a difficult country in which to invest. Change is likely to be incremental at best. A complicated regulatory environment, high costs and residual hostility to foreign ownership of important Japanese companies will militate against a rapid increase in inward FDI.

preferred destination for investment. For example, in the survey conducted for this report, China was rated far ahead of India as a location that was considered important to investors in 2007-11.

ASEAN prospects

There has been concern among members of ASEAN that China is divert FDI from their countries, and that India too will increasingly do so. However, FDI is not necessarily a zero-sum game. If countries continue to improve their business environments, they will also remain attractive locations for FDI. China will continue drawing FDI to its expanding higher-value-added production base. At the top end, however, it will remain in direct competition with other economies, and some of China's advantages in low-level production during the 1990s will gradually pass to others.

Indeed, we forecast that the gap between FDI inflows into China and the ASEAN countries will narrow. Whereas inflows into China were in 2002-06 80% higher than the size of inflows into the ASEAN ten, in 2007-11 FDI into China is projected to be 45%

Table 16

FDI inflows into Asia & Australasia

	1996	1997	1998	1999	2000	2001	2002	2003
Asia & Australasia								
Inflows (US$ bn)	97.6	111.0	100.8	124.2	165.9	121.8	116.1	110.9
% of world total	25.5	23.4	14.8	12.8	12.6	16.9	18.9	19.8
% change, year on year	10.1	13.8	-9.2	23.2	33.6	-26.6	-4.7	-4.4
% of GDP	1.3	1.5	1.5	1.7	2.1	1.6	1.5	1.3
Developing Asia								
Inflows (US$ bn)	87.1	98.1	89.4	107.3	142.6	102.6	88.2	93.9
% of world total	21.9	20.0	12.5	9.6	10.1	12.1	14.3	16.7
% change, year on year	19.2	12.6	-8.9	20.1	32.8	-28.0	-14.1	6.5
% of GDP	2.8	3.0	3.1	3.4	4.2	3.0	2.4	2.3
China								
Inflows (US$ bn)	40.2	44.2	43.8	38.8	38.4	44.2	49.3	47.1
% of regional total	41.2	39.9	43.4	31.2	23.2	36.3	42.5	25.3
% change, year on year	12.1	10.1	-1.1	-11.4	-0.9	15.2	11.5	-4.5
% of GDP	4.5	4.5	4.2	3.5	3.2	3.4	3.4	2.9
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Asia & Australasia								
Inflows (US$ bn)	186.0	144.1	238.6	276.5	275.0	287.9	302.7	315.6
% of world total	25.6	14.9	18.3	18.9	19.7	19.7	19.9	19.9
% change, year on year	67.7	-22.5	65.6	15.9	-0.6	4.7	5.2	4.3
% of GDP	2.0	1.4	2.2	2.3	2.0	1.9	1.8	1.7
Developing Asia								
Inflows (US$ bn)	138.6	174.1	212.4	218.2	224.0	234.8	244.5	254.2
% of world total	19.1	18.0	16.3	14.9	16.0	16.1	16.1	16.0
% change, year on year	47.5	25.6	22.0	2.7	2.7	4.8	4.1	4.0
% of GDP	2.9	3.2	3.3	2.9	2.6	2.4	2.3	2.1
China								
Inflows (US$ bn)	54.9	79.1	78.1	79.5	84.1	86.5	90.9	92.9
% of regional total	29.5	54.9	32.7	28.8	30.6	30.0	30.0	29.4
% change, year on year	16.7	44.0	-1.3	1.8	5.8	2.8	5.1	2.2
% of GDP	2.8	3.5	2.9	2.4	2.2	1.9	1.7	1.5

Sources: National statistics; IMF; UNCTAD; all forecasts are from the Economist Intelligence Unit.

higher than inflows into the ASEAN countries.

The ASEAN economies are expected to perform well over the forecast period, growing by an annual average of around 5% in 2007-11. Despite increased competition in Asia for FDI flows, Singapore will remain an attractive destination for foreign investors during 2007-11, with its business environment remaining one of the most attractive in the world. FDI inflows will be enhanced by the increasing number of bilateral free-trade agreements that Singapore is negotiating, and the island state's pivotal position within South-east Asia. Nevertheless, it has become an increasingly high-cost location. Accordingly, the government is now building on its high-quality physical and social infrastructure.

Vietnam joined the WTO in 2007, which should reinforce the positive impact of high growth rates on FDI. As a result, in 2007-11 FDI inflows into Vietnam are projected to rise steadily and to reach almost US$8bn by 2011. Annual FDI inflows in 2007-11 are forecast to average almost 7% of GDP. In Indonesia, FDI inflows are expected to pick up from the very low levels of recent years, despite the recent adoption of some restrictive measures. Thailand is currently in the midst of political turmoil. Aside from political concerns, Thailand has been losing its attractiveness as a location for investment owing to a rising cost base and uncertainty about the commitment to liberalisation—particularly in key sectors such as telecoms and utilities. The country's poor infrastructure has also deterred investors.

FDI inflows into South Korea will remain well below the country's potential. Despite having a domestic market of nearly 50m (increasingly wealthy) people and one of the most advanced manufacturing bases in Asia, South Korea is likely to remain a difficult place to do business. This reflects residual hostility towards foreign ownership, continued lack of corporate transparency and persistent labour militancy.

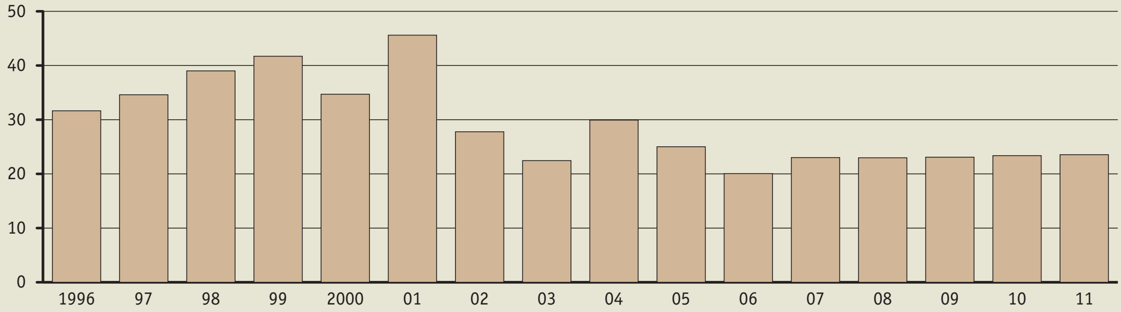
Latin America and the Caribbean

FDI into Latin America and the Caribbean declined slightly in 2006, but as in 2005 exceeded US$100bn. Strong growth in the US and resource-seeking investors were the principal forces behind the high level.[27] The regional economic recovery, an improved macroeconomic environment and strong demand for commodities underpinned the opening of new business opportunities for foreign investors.

As usual, Brazil and Mexico were the main FDI recipients in 2006, together accounting for 37% of the regional total. Although Mexico's inflows of US$19bn represented a slight decline on 2005, these were marginally higher than inflows into Brazil. Mexico thus beat Brazil again for the sixth consecutive year as the top FDI destination in the region. Mexico's manufacturing sector received the majority of FDI, much of which flowed via the *maquila* free economic zones. High inflows reflect the continued strength of the US economy.

FDI inflows to Chile increased to an estimated US$8.1bn as a result of strong growth in reinvested earnings in the mining sector. FDI inflows to Colombia declined sharply from one-off, privatisation-related

FDI inflows to Latin America & the Caribbean
(% of emerging-markets total)



Sources: National statistics; Economist Intelligence Unit; IMF; UNCTAD.

27. See UN Economic Commission for Latin American and the Caribbean, *Foreign Investment in Latin America and the Caribbean*, 2007.

Table 17

FDI inflows into Latin America & the Caribbean

	1996	1997	1998	1999	2000	2001	2002	2003
Latin America & the Caribbean								
Inflows (US$ bn)	52.9	73.6	85.5	108.8	98.3	131.2	54.7	46.9
% of world total	13.3	15.0	12.0	9.8	7.0	15.4	8.9	8.3
% of emerging markets total	31.6	34.6	39.0	41.7	34.7	45.6	27.8	22.5
% change, year on year	64.3	39.1	16.0	27.3	-9.7	33.5	-58.3	-14.3
% of GDP	2.8	3.5	4.1	5.9	4.8	6.6	3.1	2.6
Brazil								
Inflows (US$ bn)	11.2	19.7	31.9	28.6	32.8	22.5	16.6	10.1
% of regional total	21.2	26.7	37.3	26.3	33.3	17.1	30.3	21.6
% of GDP	1.3	2.3	3.8	4.9	5.1	4.1	3.3	1.8
Mexico								
Inflows (US$ bn)	9.2	12.8	12.4	13.7	17.8	27.4	19.4	15.3
% of regional total	17.4	17.4	14.5	12.6	18.1	20.9	35.4	32.7
% of GDP	2.8	3.2	2.9	2.8	3.1	4.4	3.0	2.4
Chile								
Inflows (US$ bn)	4.8	5.3	4.6	8.8	4.9	4.2	2.6	4.3
% of regional total	9.1	7.2	5.4	8.1	4.9	3.2	4.7	9.2
% of GDP	6.4	6.4	5.8	12.0	6.4	6.1	3.8	5.8
Argentina								
Inflows (US$ bn)	6.9	9.2	7.3	24.0	10.4	2.2	2.1	1.7
% of regional total	13.1	12.4	8.5	22.0	10.6	1.7	3.9	3.5
% of GDP	2.6	3.1	2.4	8.5	3.7	0.8	2.1	1.3
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Latin America & the Caribbean								
Inflows (US$ bn)	105.0	106.3	102.5	123.0	121.2	125.8	131.9	138.1
% of world total	14.4	10.9	7.7	8.3	8.6	8.6	8.6	8.6
% of emerging markets total	29.9	25.0	20.1	23.0	23.0	23.1	23.4	23.5
% change, year on year	123.8	1.2	-3.6	20.1	-1.5	3.8	4.8	4.8
% of GDP	5.0	4.1	3.4	3.7	3.4	3.4	3.4	3.4
Brazil								
Inflows (US$ bn)	18.2	15.2	18.8	34.5	27.0	25.0	25.0	26.0
% of regional total	17.3	14.3	18.3	28.0	22.3	19.9	19.0	18.8
% of GDP	2.7	1.7	1.8	2.7	1.9	1.8	1.7	1.8
Mexico								
Inflows (US$ bn)	22.4	19.7	19.0	21.3	21.5	22.5	23.7	24.5
% of regional total	21.3	18.6	18.6	17.3	17.7	17.9	18.0	17.7
% of GDP	3.3	2.6	2.3	2.4	2.4	2.4	2.4	2.3
Chile								
Inflows (US$ bn)	7.2	7.0	8.1	10.0	9.8	10.9	11.8	12.0
% of regional total	6.8	6.5	7.9	8.2	8.1	8.6	8.9	8.7
% of GDP	7.5	5.9	5.5	6.4	5.8	6.2	6.7	6.5
Argentina								
Inflows (US$ bn)	4.6	5.0	4.8	5.2	5.8	6.6	7.2	7.9
% of regional total	4.4	4.7	4.7	4.2	4.8	5.2	5.5	5.7
% of GDP	3.0	2.7	2.2	2.1	2.1	2.1	2.1	2.1

Sources: National statistics; IMF; UNCTAD; all forecasts are from the Economist Intelligence Unit.

record inflows of US$10.3bn in 2005. In the Andean countries, a trend towards greater state control of the natural resource sector and less favourable fiscal regimes for investors in Bolivia, Ecuador and Venezuela dampened investment.

Robust growth in 2007

The region is expected to record significant growth of FDI this year, by a projected 20%, led by very strong inflows into Brazil. FDI inflows into Brazil surged in the first half of 2007, owing to a combination of a liquid global market, favourable financing conditions, and increased investment in export-oriented manufacturing and extractive sectors. Several large deals were concluded, including the acquisition of Arcelor Brasil by Arcelor Mittal (Netherlands) for US$5.4bn, and the purchase of Serasa by Experian (UK) for US$1.2bn.

Over the medium term, further growth in FDI inflows into the region is expected, although the peak of the late 1990s is not expected to be repeated by 2011. Real GDP growth in the Latin America region is forecast to slow from 5.3% in 2006 to 4.6% in 2007 and 4.1% in 2008. Economies in the region will continue to be among the leading beneficiaries of strong Asian demand for non-oil commodities, although prices are likely to decline from their recent exceptionally high levels, particularly in 2008. The slowdown in the US will depress growth in 2007, particularly among countries with strong trade ties to North America. Some domestic factors behind recent strong growth will also weaken. International financing conditions are likely to tighten.

Given its reasonable growth prospects and the attractions of its large domestic market, Brazil will receive sizeable inflows of FDI. We expect Mexico to remain a desirable destination for FDI. Rising incomes will make Mexico more attractive to firms selling consumer goods and services. Manufacturing will continue to receive investment, as foreign companies locate plants geared to the US market in Mexico in order to take advantage of lower labour costs. However, Mexican manufacturers will be exposed to the threat of competition from lower-cost destinations in the emerging-market world, especially China.

However, FDI inflows will continue to be hindered by costs to business deriving from bureaucracy, deficiencies in infrastructure and underinvestment in human capital. Many Latin American countries slip down the business environment rankings in 2007-11, as the pace of improvement is slow compared with other regions. Latin America also received a modest rating as a preferred destination for investors in the survey that was conducted for this report, although the results were somewhat better than average among respondents from US companies. Further instances of protectionism are likely in some countries, although these are very unlikely to translate into a full-scale regional backlash against foreign investors.

Structural weaknesses will continue to depress Latin American performance, especially in comparison with other emerging regions. Although the share of gross fixed investment in GDP has risen in Latin America, it remains low, and this will continue to depress the region's long-term growth potential. Weak investment reflects low domestic saving rates, high real interest rates, an inefficient tax system and a high level of red tape.

The left-wing nationalist tone adopted by some Latin American governments, such as in Bolivia, Ecuador and Venezuela, may also deter foreign investment inflows. Populist leaders in the region are seeking greater revenue from national energy resources to finance redistributive economic policies. The situation in Venezuela is a particular concern. The president, Hugo Chávez, has long threatened to take control of "key sectors", but nationalisation even outside the energy sector is moving beyond rhetoric.

Eastern Europe

FDI inflows into the transition economies of eastern Europe reached a record total of US$106bn in 2006, compared with US$77bn in 2005—the rate of increase, 37%, was exactly equal to the growth rate in global FDI in 2006. This meant that the transition economies' share in global FDI inflows in 2006 remained unchanged compared with 2005, at 7.9%. In 2006 the region displaced Latin America and the Caribbean as the second most important emerging-market destination for FDI after developing Asia.

Three economies in the region were among the top emerging-market FDI recipients in 2006—Russia (third), Poland (tenth) and Romania (11th). The US$106bn total inflows represented almost 5% of the transition region's GDP, the highest ratio achieved so far. For the Balkans the FDI inflows/GDP ratio exceeded 10% in 2006, and it was almost 8% for the Baltic states.

The 2006 increase in FDI inflows affected all transition subregions—except east-central Europe, where inflows equalled the 2005 total—and most economies in the area. For a large number of countries, the 2006 inflows represented a record total (Russia, Poland, Romania, Slovakia, Bulgaria, Croatia, Serbia, Montenegro, Latvia, Lithuania and Kazakhstan). The growth in FDI inflows was the result of large-scale privatisation sales in some countries; growth in reinvested earnings, as well as a real estate boom in many new EU member states; ongoing strong growth in FDI into previous laggards such as the Balkans; and commodity investments into some CIS states. There was a very strong increase in FDI flows into Russia, which more than doubled in 2006 to US$28.7bn. The lure of ample market opportunities and very strong consumer spending growth in Russia more than offset the impact of some deterioration in the business environment—especially as far as investment in natural resources is concerned.

FDI inflows into Poland reached US$14.5bn in 2006, a 51% increase on 2005. Unlike in most other high-FDI recipient countries in the region, Poland's total owed little to privatisations in 2006. The ongoing real estate boom underpinned much of the increase in FDI, as did an increase in reinvested earnings, indicating growing confidence in the Polish economy. The inflow into Hungary was boosted by the US$1.3bn acquisition of MOL's natural gas storage

EU membership and FDI

A key question is whether EU membership boosts foreign direct investment (FDI) flows. The conventional wisdom has been that membership will lead to a new surge of FDI into the EU's new member states and that it will spark a massive intra-EU relocation of production from the west to the east. This conventional wisdom is now fraying a bit at the edges, although the dominant view is still that membership has and will boost FDI inflows to the new members. In 2003 there was a sharp dip in FDI flows to the eight east European countries that joined the EU in 2004. A good recovery followed from 2004. But it is difficult to ascribe this to the effect of EU membership as such, as flows in 2004-06 were influenced by a number of large privatisations. The recovery in FDI inflows has also been cyclical in the sense that the new members benefited from the economic recovery in the euro area following very weak activity in the beginning of the decade.

EU membership has been accompanied by some FDI-enhancing aspects. There were some further reductions in risk ratings; many small investors in particular were reassured. Although the bulk of trade liberalisation (which was an important driving force for FDI) occurred long before, some residual trade barriers were removed after membership. Further improvement occurred in some areas of the business environment, as practices became further aligned with EU norms. Access to EU structural funding is a point of attraction for some FDI. Ultimately, the adoption of the euro is likely to have a positive impact on FDI flows—although for most of the new EU members in eastern Europe this is still some years away.

The caveats

However, there are also some significant caveats and the net impact of EU membership on FDI is by no means self-evident. The attainment of membership removed a reform anchor and the discipline of the accession process; this has been very evident in many countries of the region. The well-known World Bank ease of doing business indicators show that, on average, the regulatory framework for business in the EU new member states is far from ideal—there is a lot of room for improvement. Although the Baltic states and, to a lesser extent, Slovakia rank highly, the others perform quite poorly. EU membership also appears to have been associated with upward pressure on currencies and on labour costs. Some EU regulations reduce flexibility and impose costs on business. The elimination of special FDI incentives, required by EU membership, may be positive from an overall economic welfare point of view, but from the point of view of attracting FDI it is a negative. The experience of previous enlargements, the Nordic or the southern ones, also suggests that the link between FDI and enlargement is much weaker than often supposed.

Economist Intelligence Unit surveys of multinational corporations (MNCs) tend to show that East Asia features far more prominently than the east European EU members as a preferred destination for future investment. It is worth mentioning that labour costs are not the only issue for investors. The new member states lose out also on the criteria of a skilled labour force and as a location for research and development (R&D) activities.

and wholesale trading businesses by Germany's E.ON.

Large privatisation deals accounted for a significant portion of the region's FDI inflows in 2006. Fast-growing Romania attracted inflows of US$11.4bn in 2006. Some US$2.8bn of the total was based on the purchase by Austria's Erste Bank of a stake in the country's largest bank, Banca Comerciala Romana. Slovakia's FDI inflow of over US$4bn in 2006 partly reflected privatisation inflows from the sale of the power generator Slovenske elektrarne (SE) to Enel (Italy). Croatia's US$3.6bn FDI inflow was based on the sale of pharmaceuticals giant Pliva to Barr (US) for US$2.5bn, and, to a lesser extent, another round of privatisation of oil and gas company INA (for some US$500m). In Lithuania the US$1.8bn inflow in 2006 was boosted by the sale of the government's stake in the oil complex Mazeikiu Nafta to Poland's PKN Orlen for US$852m.

Nevertheless, despite the high 2006 inflow into the region, it is noticeable that despite widespread fears in western Europe about dislocation of economic activity to the east, the share of the eight new east European EU member states that joined in 2004 in total FDI flows to the EU25 was a mere 7% in 2006, down on the 8% share recorded in 2005.

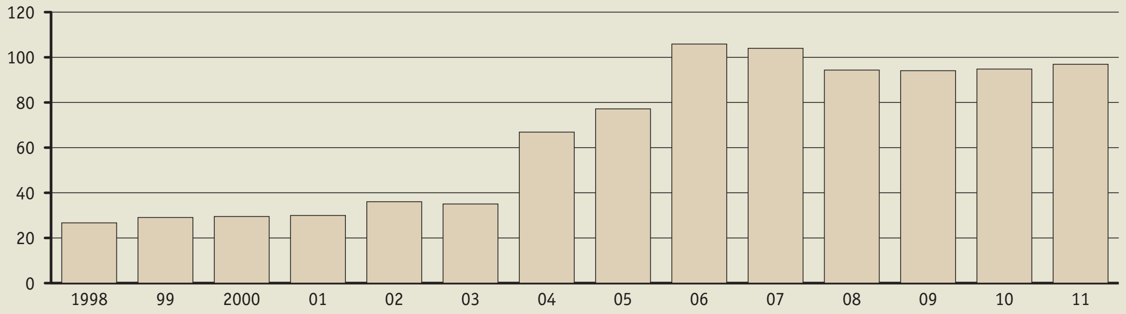
FDI flows have peaked

There are a number of reasons to believe, however, that FDI inflows into the region may have peaked in 2006. A modest decline is forecast for 2007, to a still very high US$104bn. Total FDI inflows are likely to continue to trend downwards after that over the medium term, both in absolute US dollar terms and in terms of the percentage of the region's GDP. The main reason for this is the near-exhaustion of major privatisation opportunities in much of the region. But sharply increasing labour costs in many countries, continuing business environment problems and competition from other destinations will contribute to a tailing-off of FDI inflows into many of the new EU member states. Although FDI inflows have increased significantly into many CIS states, political risk and business environment problems will keep flows below potential. FDI inflows into each subregion are expected to taper off in 2007, with the exception of the CIS, as a result of declining competitiveness and the absence of large privatisation sales, as well the effect of an uncertain macroeconomic environment in some countries.

Medium-term trends

Russia, a notable FDI laggard so far, is expected to become the main destination country in the region over the medium term (although as a share of GDP and in per-capita terms inflows will still remain relatively modest). Implementation of reforms will remain a serious problem, but Russia is nevertheless expected to record an improvement in its business environment in the medium term. WTO membership, expected in the next couple of years, will have a positive impact. Annual average FDI inflows into Russia are projected at above US$30bn during the next five years. Although this will represent a notable improvement on Russia's past performance, it is still short of the

FDI inflows to east European EU member states
(US$ bn)



Sources: National statistics; Economist Intelligence Unit; IMF.

Russia's outward foreign direct investment

Russia's booming domestic market and natural resource endowments mean that the country has become a major destination for inward foreign direct investment (FDI). Attention has recently also turned to Russia's increasingly prominent role as an outward investor. Russian outward foreign direct investment (OFDI) is part of a new global phenomenon of investment by some emerging markets. Although Russian companies are relative latecomers, their recent expansion, facilitated by oil liquidity, has been rapid. Russian FDI outflows averaged only about US$3bn per year up to 2002 (similar to the low levels of inward flows). But they shot up to US$9.7bn in 2003, an average of more than US$13bn in 2004-05, and reached a record total of US$18bn in 2006.

OFDI data are problematic for most emerging markets, but appear to be especially so in the case of Russia. Official figures overstate OFDI as they also include some portfolio investment. Round-tripping (outward investment that then makes its way back into Russia as inward investment) plays a role. Official data understate OFDI to the extent that some unrecorded capital flight may have the characteristics of FDI, although the majority of capital flight has been channelled into non-FDI financial assets. Investments by Russian-controlled entities registered abroad do not appear in Russian OFDI statistics. In so far as this is a secondary movement of resources that originated in Russia, the cumulative stock of Russian FDI is not affected. But some growth in offshore assets and the investment of that increase of assets would have the character of Russian outward investment. FDI registration procedures seem to have improved in recent years. Part of the OFDI in 2006 would probably have previously been unrecorded and appeared as capital flight. In 2006 capital flight declined, mainly because of the introduction of full capital-account convertibility in July 2006.

Comparable FDI stock data can be crudely estimated on the basis of cumulative flows. In 1992-2006 cumulative outflows for Russia of US$75bn are higher than for most emerging markets (including Brazil, China and India), although the differences are far smaller than if reported stock data are used. Overall, although Russian OFDI has been fast-growing, its extent can be easily exaggerated. Russian multinationals appear to be still less globalised than the leading companies from some other emerging markets. Boston Consulting Group's 2006 list of the top 100 "global challengers" from rapidly developing economies includes just seven Russian companies, compared with 12 from Brazil and 44 from China. In the *Financial Times*'s recent ranking, according to market capitalisation, of the world's top companies, only three Russian firms appeared in the top 100—Gazprom at sixth, Rosneft at 68th and Lukoil at 96th. In a recent survey of 51 chief executive officers (CEOs) of leading companies in Russia, PricewaterhouseCoopers found that about three in four did not wish to acquire assets abroad, and only 10% had acquired foreign assets in the past year—a lower proportion than was found in similar surveys of leading Chinese and Brazilian firms.

A statistical regression analysis of OFDI for 74 countries in 2006 shows that just two variables—the size of the country (measured by GDP in US dollars) and income per head levels (in US dollars) explain almost 80% of the inter-country variation in OFDI flows. Russia's OFDI is about what one would expect on the basis of its size and wealth—that is, the level predicted by the Economist Intelligence Unit's equation is exactly equal to the actual OFDI flow in 2006 of US$18bn.

Distribution of Russian OFDI

OFDI from Russia is largely limited to a few sectors, where companies have specific competitive advantages and where global consolidation pressure is intense—in energy, metallurgy and telecommunications. Only a few Russian companies have so far emerged as global players; most others remain at best regional players. While Gazprom and Lukoil have been active in the oil and gas sector for several years, outward investment has been more recent in the metals sector, with Severstal, Norilsk Nickel, Rusal and Evraz becoming significant investors. Within the Commonwealth of Independent States (CIS), Russian telecoms companies have also become dominant players. Until recently, the bulk of Russia's OFDI went to the CIS, where Russian companies are the dominant foreign investors. Russian OFDI is also flowing into central and south-eastern Europe. Russian metals companies are becoming major investors in Africa.

Drivers of Russian OFDI

Russian OFDI is driven by a number of motives, including gaining critical mass to survive consolidation; and to gain access to new markets, raw materials, and technology and management know-how. Russian OFDI has sometimes been also driven by a desire to flee the country's difficult domestic business environment. The improved financial position of Russian natural resource firms—as a result of high world prices and several years of strong growth—has been a major factor. Despite the increasing role of the state in the Russian economy, commercial motives appear to predominate in Russian OFDI. This is especially true of the metals companies and of the mobile operators. The case of the oil and gas companies is less clear-cut—especially of the state-owned gas giant Gazprom. The latter fuses commercial and geopolitical agendas into one.

Russian companies suffer from a poor image. A 2006 survey by the Economist Intelligence Unit of 332 international executives showed that a majority of respondents had negative perceptions of Russian business in all aspects, from management skills and reliability to issues of transparency and political independence. Over 60% of respondents expected political opposition to be the major obstacle to Russia's corporate expansion in their home countries. In part the image is undeserved, in so far as it is based on prejudices. However, the negative reputation is also in part based on reality and Russian companies' substantial weaknesses, such as weak governance.

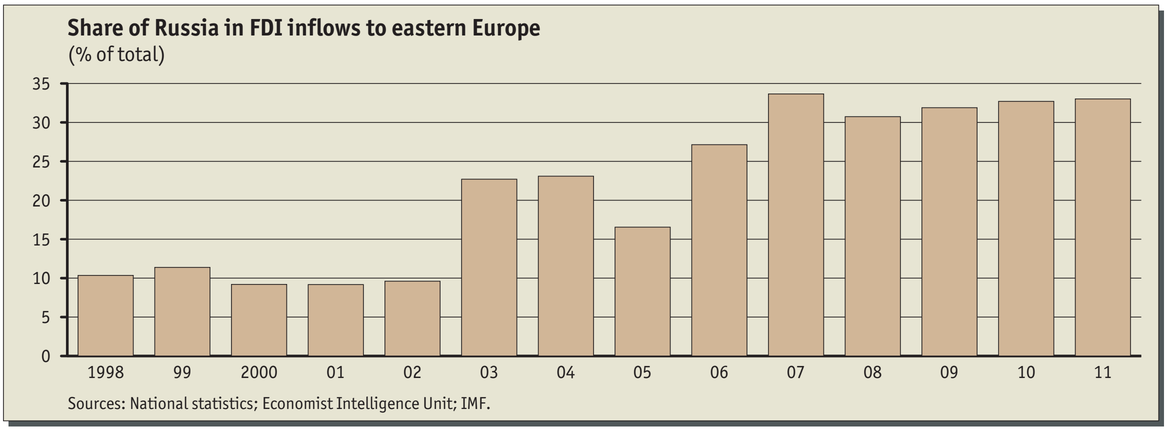
Outlook

Leading Russian investors, such as Lukoil, Gazprom, Rusal, Severstal and Evraz, have announced very ambitious investment plans. However, it is possible that the increasing role of the Russian state in the economy, as well as poor Russian-Western political relations, will constrain Russian OFDI. State control of energy companies will make these more sluggish and complacent in general, and less able to expand. Resistance in developed countries to Russian takeover bids is likely to feed off the uncertainties about the relationship between the state and Russia's companies. As of 2008, Russia will have a Fund for Future Generations, part of which will be invested in riskier assets, including in the form of FDI. It will be worth more than US$30bn in 2008. The likelihood that the state will seek to invest a significant part of such large sums in Western businesses is bound to magnify further the risk of a protectionist reaction in the West.

Table 18
FDI inflows into eastern Europe

	1996	1997	1998	1999	2000	2001	2002	2003
Eastern Europe								
Inflows (US$ bn)	16.8	24.1	26.7	29.1	29.5	30.0	36.0	35.1
% of world total	4.2	4.9	3.7	2.6	2.1	3.5	5.8	6.2
% change, year on year	1.2	43.1	10.8	5.6	1.5	1.5	20.3	-2.7
% of GDP	1.8	2.6	3.2	4.0	3.7	3.4	3.6	2.9
East-central Europe								
Inflows (US$ bn)	9.7	10.9	14.2	17.4	19.3	17.4	21.4	9.8
% of regional total	57.9	45.1	53.2	59.7	65.4	58.0	59.5	27.8
% change, year on year	-14.7	11.4	30.6	24.3	11.2	-9.9	23.3	-54.5
% of GDP	3.2	3.6	4.4	5.5	6.1	5.0	5.5	2.2
Balkans								
Inflows (US$ bn)	1.1	3.1	3.9	3.7	3.6	4.2	4.2	8.0
% of regional total	6.5	12.7	14.4	12.7	12.2	14.2	11.7	23.0
% change, year on year	45.2	181.4	26.1	-4.5	-1.8	17.5	-0.8	91.1
% of GDP	1.2	3.3	3.6	3.8	3.4	4.3	3.7	5.4
Baltics								
Inflows (US$ bn)	0.7	1.1	1.9	1.1	1.2	1.1	1.3	1.4
% of regional total	4.1	4.7	7.0	3.9	4.0	3.7	3.5	4.0
% change, year on year	50.8	66.8	63.1	-38.8	3.4	-5.0	11.7	12.1
% of GDP	3.7	5.4	7.9	4.8	4.7	4.2	4.1	3.6
CIS								
Inflows (US$ bn)	5.3	9.0	6.8	6.9	5.4	7.2	9.1	15.8
% of regional total	31.6	37.5	25.4	23.7	18.4	24.1	25.3	45.2
% change, year on year	32.4	69.9	-24.9	-2.7	-21.3	32.9	26.6	73.5
% of GDP	1.1	1.7	1.8	2.4	1.5	1.8	2.0	2.8
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Eastern Europe								
Inflows (US$ bn)	66.9	77.1	105.9	104.0	94.3	94.1	94.8	96.9
% of world total	9.2	7.9	7.9	7.1	6.7	6.4	6.2	6.0
% change, year on year	90.8	15.4	37.2	-1.8	-9.3	-0.3	0.8	2.3
% of GDP	4.4	4.1	4.7	3.8	3.0	2.8	2.6	2.4
East-central Europe								
Inflows (US$ bn)	24.3	31.2	31.2	26.6	26.3	26.0	26.3	26.7
% of regional total	36.4	40.4	29.4	25.5	27.9	27.7	27.8	27.5
% change, year on year	149.4	28.2	-0.1	-14.8	-1.1	-1.0	1.1	1.5
% of GDP	4.5	5.0	4.5	3.2	2.9	2.8	2.7	2.6
Balkans								
Inflows (US$ bn)	13.3	15.1	27.4	22.0	18.5	16.5	16.7	17.1
% of regional total	19.9	19.6	25.9	21.2	19.6	17.5	17.6	17.6
% change, year on year	65.6	13.7	81.0	-19.7	-16.0	-10.8	0.9	2.5
% of GDP	7.4	7.2	10.9	7.0	5.2	4.4	4.1	3.9
Baltics								
Inflows (US$ bn)	2.4	4.8	5.0	3.4	3.3	3.6	3.9	4.1
% of regional total	3.6	6.2	4.8	3.3	3.5	3.8	4.1	4.2
% change, year on year	70.0	99.7	6.0	-32.6	-2.9	8.5	7.5	6.2
% of GDP	5.0	8.6	7.6	4.1	3.5	3.7	3.7	3.7
CIS								
Inflows (US$ bn)	26.8	26.1	42.2	52.0	46.3	48.0	48.0	49.1
% of regional total	40.1	33.8	39.9	50.0	49.0	51.0	50.6	50.6
% change, year on year	69.4	-2.9	62.1	23.1	-11.0	3.7	0.0	2.3
% of GDP	3.5	2.6	3.3	3.4	2.6	2.4	2.1	1.9

Sources: National statistics; IMF; all forecasts are from the Economist Intelligence Unit.



country's potential. Even by 2011, Russia's total stock of inward FDI (projected at US$251bn) will amount to only 13% of GDP.

Other CIS energy producers will continue to attract significant FDI over the medium term. The investment plans of a group of large and well-established investors in the oil and gas sector mean steady inflows into Kazakhstan of some US$7bn per year in 2007-11. In Azerbaijan the completion of several major hydrocarbons projects in 2005-06 means that FDI inflows in the coming years will be lower than in the recent past—annual FDI inflows into Azerbaijan in 2001-05 averaged over 25% of GDP (one of the highest ratios in the world). Investment in non-oil sectors will continue to be hindered by a poor overall business environment.

FDI flows into the new EU member states

FDI inflows into the ten new EU member states from eastern Europe (including Bulgaria and Romania, which joined in January 2007)—the "EU10"—peaked in 2006 at US$53bn. They are forecast to decline to US$43bn in 2007 and to fall further, stabilising at just under US$40bn per year, in 2008-11. Although well below the 2006 peak, this will still amount to a good performance in terms of FDI inflows as a share of GDP. Certain sectors, such as services outsourcing, will be very attractive. However, services outsourcing does not tend to be associated with large capital flows. Overall, given rising wage costs in the region, the danger of a diversion of cost-sensitive forms of FDI to even cheaper destinations may loom larger than any promise of much more relocation to these countries of investment from the West.

The Middle East and North Africa

This is a very disparate region. It includes countries, such as Israel, with a good business environment, as well as countries with extremely poor conditions for business, such as Iran. Globalisation trends had traditionally tended to bypass much of the region, which has been afflicted by political instability and state-directed economies. However, more investor-friendly attitudes and policies are now on the agenda throughout much of the area. The latter include liberalisation measures, the sale of state enterprises, and the reduction of trade barriers and deregulation. Some of these countries have in the past been among the most hostile countries to FDI in the world, but, as governments look to relieve fiscal pressures by promoting private-sector growth, the worldwide wave of liberalisation of policy towards foreign investment is affecting these countries as well.

High oil prices and strong oil demand have underpinned recent GDP growth in the Middle East and North Africa. FDI flows increased strongly in 2006, and this affected almost all countries in the region. Egypt in particular received significant levels of FDI in 2006, of US$10bn—which was almost double the previous record inflow attracted in 2005. FDI inflows into Israel almost tripled in 2006, to US$14.2bn, having also grown strongly in 2005. This was mainly the result of several large-scale privatisations. Israel is also becoming an active outward investor, especially in technology-intensive sectors.

Robust growth prospects

Growth prospects in the Middle East and North Africa remain robust, with overall GDP growth for the region forecast to average around 5% per year in 2007-11. Buoyant energy markets have helped to support strong economic expansion since 2003. Oil revenue remains buoyant. This extra liquidity is still boosting growth in the region, as strong receipts are tempting even the more prudent governments to lift public spending and investment. The benefit of high oil receipts is spreading to non-oil-exporting countries, as oil-rich Gulf states seek investment opportunities in the region.

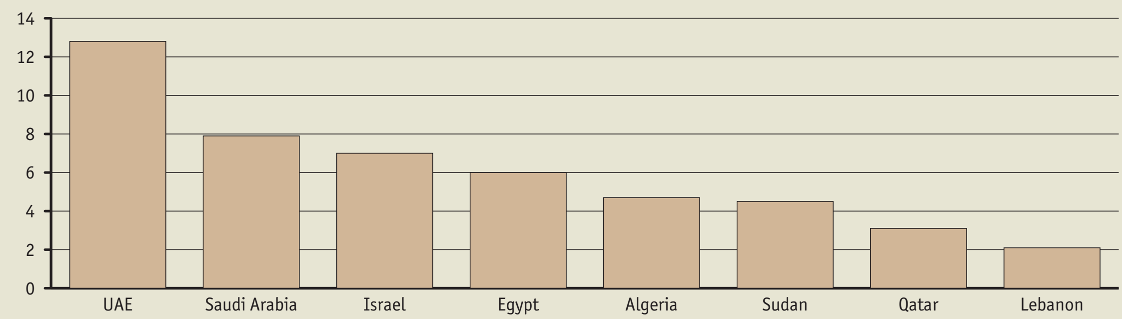
The massive reserves and generally low extraction costs for oil in the region are reason enough for most foreign companies to maintain or increase hydrocarbons investments in the area, despite the difficult political and business environment. However, the attractions of the Middle East and North Africa for other forms of FDI will remain fairly limited. Despite the recent extensive moves towards liberalisation in the region, progress is likely to be slow. In some countries economic liberalisation will remain difficult, given a volatile political atmosphere. Entrenched vested interests are liable to delay the restructuring and liberalisation of certain sectors. Business environments should generally improve compared with the past, but change will generally not keep pace with that in other regions.

Foreign investors will be discouraged by poor business environments and regional political tensions. Investor sentiment and tourism could be adversely affected by a deterioration of the security environment. Apart from the possibility of a general rise in terrorist attacks against local and Western targets across the region, there are specific risks associated with the security situation in Iraq, political turmoil in Lebanon and concerns about Iran's nuclear programme.

In North Africa, privatisations, increased investment into tourism and access to EU markets should encourage FDI. Tunisia and Morocco may be attractive locations for offshore services to French- and Spanish-speaking countries. FDI in tourism has historically been modest, despite the sector's economic importance, but it seems set to grow more rapidly in future. Algeria has substantial FDI potential owing to its proximity to markets and its large pool of cheap labour. The country's investment climate is improving, albeit from a low base. Medium-term gas demand from Europe should ensure that the hydrocarbons sector continues to attract strong inflows of FDI.

Direct investment is projected to remain robust in Algeria and Egypt, although in the case of Egypt some slowdown is likely as the pace of privatisation decelerates. Egypt regards the encouragement of FDI as a policy priority and has undertaken a number of legislative reforms to help to improve the investment environment. These include a more flexible labour

Leading FDI recipients in Middle East and North Africa
(FDI inflows; 2007-11 annual av; US$ bn)



Source: Economist Intelligence Unit.

Table 19
FDI inflows into the Middle East & North Africa

	1996	1997	1998	1999	2000	2001	2002	2003
Middle East								
Inflows (US$ bn)	4.8	7.1	8.2	4.9	6.6	6.5	5.5	14.2
% of world total	1.2	1.4	1.2	0.4	0.5	0.8	0.9	2.5
% change, year on year	298.6	47.6	16.0	-40.4	33.6	-0.3	-15.7	158.2
% of GDP	1.0	1.3	1.7	1.0	1.1	1.1	0.8	1.9
North Africa								
Inflows (US$ bn)	1.1	1.5	2.5	2.2	3.2	2.7	3.4	5.2
% of world total	0.3	0.3	0.3	0.2	0.2	0.3	0.6	0.9
% change, year on year	27.3	37.5	62.9	-12.6	46.7	-13.6	25.3	51.4
% of GDP	0.5	0.7	1.1	0.9	1.3	1.1	1.4	2.1
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Middle East								
Inflows (US$ bn)	18.7	30.4	46.2	41.8	36.8	37.4	39.7	42.0
% of world total	2.6	3.1	3.5	2.8	2.6	2.5	2.6	2.6
% change, year on year	31.5	62.3	52.2	-9.4	-12.2	1.7	6.2	5.7
% of GDP	2.2	2.9	3.9	3.2	2.6	2.4	2.3	2.2
North Africa								
Inflows (US$ bn)	7.8	14.8	22.3	21.1	20.8	19.1	19.7	20.2
% of world total	1.1	1.5	1.7	1.4	1.5	1.3	1.3	1.3
% change, year on year	49.3	89.9	50.9	-5.4	-1.8	-7.8	2.8	2.6
% of GDP	2.6	4.3	5.6	4.7	4.3	3.7	3.6	3.5

Sources: National statistics; IMF; UNCTAD; Economist Intelligence Unit estimates and forecasts.

law and laws allowing majority foreign ownership of banks, insurance companies and real estate. Despite moving ahead only slowly, the privatisation programme should attract more FDI. Egypt's large pool of cheap labour, relative political stability and a prime geographical location should help to attract investors.

Sub-Saharan Africa

FDI inflows to Sub-Saharan Africa fell to US$12.2bn in 2006, after having reached a record total of more than US$15bn in 2005. The trend in both 2005 and 2006 was dominated by developments in South Africa. In 2005 a large part of the regional inflow was attributable to several M&As in South Africa, especially the purchase of South African bank ABSA by Barclays (UK). In 2006, in turn, the main reason for the decline in the regional total was large disinvestments in South Africa, which meant that inward FDI was slightly negative for South Africa in 2006.

We forecast that real GDP growth in Sub-Saharan Africa will remain buoyant, at over 5% per year over the medium term. These aggregate figures are dominated by South Africa and Nigeria, which together with many smaller countries are benefiting from the still high level of commodity prices. The increased global demand for commodities will attract FDI into Africa.

The bulk of African FDI remains concentrated in resource-based industries. FDI flows and corporate investor interest have so far been limited to just a few key markets. Over the medium term growth in Sub-Saharan Africa is expected to moderate. Oil prices will remain high, but other commodity prices are expected to slip back, especially from 2007, hurting export revenue and slowing FDI into the extraction industries. Nevertheless, Africa's growth performance will remain robust in comparison with that of most of the 1990s.

Table 20

FDI inflows into Sub-Saharan Africa

	1996	1997	1998	1999	2000	2001	2002	2003
Sub-Saharan Africa								
Inflows (US$ bn)	4.5	8.4	6.7	9.0	5.7	13.6	9.0	13.4
% of world total	1.1	1.7	0.9	0.8	0.4	1.6	1.5	2.4
% change, year on year	-0.9	87.2	-20.6	34.0	-35.9	137.7	-34.1	49.3
% of GDP	1.5	2.6	2.2	3.0	1.9	4.6	3.0	3.4
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Sub-Saharan Africa								
Inflows (US$ bn)	11.3	15.2	12.2	13.4	13.9	16.1	17.1	18.1
% of world total	1.5	1.6	0.9	0.9	1.0	1.1	1.1	1.1
% change, year on year	-15.9	34.3	-19.6	10.3	3.0	16.3	6.3	5.7
% of GDP	2.3	2.7	2.0	2.0	1.9	2.1	2.1	2.0

Sources: National statistics; IMF; UNCTAD; all forecasts are from the Economist Intelligence Unit.

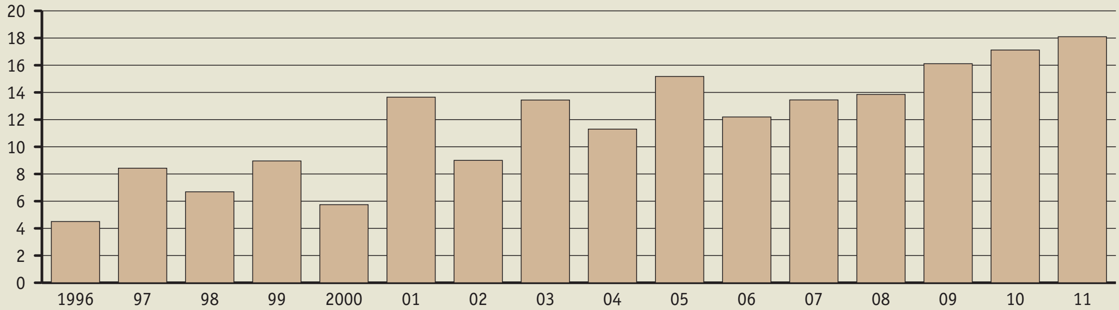
Disincentives to investment

The disincentives to investment in Sub-Saharan Africa are many. The main barriers are poor infrastructure and poor education. Other important deterrents are war and social unrest; the impact of HIV/AIDS; the lack of transparency; government instability and policy uncertainty; and vulnerability to shifts in world commodity prices.[28] The small size of many African markets and the lack of integration between them is another drawback. Many MNCs still prefer to tap African markets by trading rather than investing.

Over the medium term, the region's share in global FDI will remain very low (at only 1% in 2007-11). Three countries are likely to continue to dominate FDI in Sub-Saharan Africa: South Africa and Nigeria (the two largest economies in terms of GDP), followed by Angola. In the case of Nigeria and Angola, development of the oil and gas sector has been the driving force. The attraction of South Africa is more diverse: in addition to mineral wealth, there is also the appeal of relative financial sophistication and closer integration with the global economy. Nigeria has enormous opportunities, but risks remain very high. Corruption and security are major problems, as well as the very poor infrastructure.

FDI inflows to Sub-Saharan Africa

(US$ bn)



Sources: National statistics; Economist Intelligence Unit; IMF.

28. For example, see UNCTAD, *Economic Development in Africa, Rethinking the Role of Foreign Direct Investment*, 2005.

Annex A: FDI determinants and forecasts

Cross-section model

In our cross-section empirical investigation of the determinants of FDI, average FDI inflows into 77 countries (missing data reduced the size of the sample from 82 to 77) were related to a number of variables that influence FDI. The estimation was very satisfactory. Market size (income) and the business environment scores alone explained more than two-thirds of the variation in FDI inflows across countries. The full model, containing other significant explanatory variables, gave a high coefficient of determination (R2) for cross-section estimation. The model results suggested that FDI inflows are sensitive to the policy framework.

The estimated equation has been used to make projections for 2007-11, or rather serve as a check on individual country forecasts that are generated, in the first instance, by time-series methods. The equation has also been used to conduct sensitivity analysis and alternative projections of global FDI flows.

The Economist Intelligence Unit produces regular medium-term forecasts for 82 countries, which account for almost all of global FDI. For an additional 68 countries, FDI is forecast over a two-year time horizon. For the purposes of this study, in addition to the five-year forecasts for the 82 countries, the two-year forecasts for the 68 countries were extended to 2011. Simple extrapolation procedures were used for the remaining other countries to derive regional and world totals.

The individual country projections are based on an error correction equation, which assumes a long-term relationship between FDI and GDP and other variables, with the share of FDI in GDP rising over time. The specification of the equation varies across countries, but in general the long-term elasticity of FDI with respect to GDP is quite high, with large changes in GDP taking several years fully to affect FDI flows.

Determinants of foreign direct investment
(dependent variable Ln FDI)

	Coefficients	t Stat
Ln GDP	0.9001	19.5306
GDPGROWTH	0.0881	3.1986
BERADJ	0.3581	6.7596
NATRES	0.0225	4.6487
ULC	-0.0104	-4.3529
AIRDIST	-0.00007	-2.3374
FDISTOCK	0.0115	7.4793
ENGLISH	0.8099	3.9072
WEUDUM	1.5282	7.6024
EEDUM	1.0966	5.3345
LATAM	1.0611	5.9947
MENA	1.0928	5.7689
n	77	
R2	0.91	
Constant is not reported		
Ln is the natural logarithm		
Dependent variable:		
FDI: average FDI inflows; 2002-06; US$ m		
Independent variables:		
GDP in 2004; at PPP, US$ bn,		
GDPGROWTH: annual average real GDP growth, 2002-06		
BERADJ: the business environment score, 2002-06, for all categories except for market opportunities		
NATRES: percentage share of fuels and minerals in total merchandise exports, 2000		
ULC: Unit labour costs,2004. Index, US=100. Index (US=100) of wages (the average monthly US dollar wage for the whole economy; in some cases manufacturing sector only) divided by index (US=100) of GDP per head, at PPP US$.		
AIRDIST: air distance in km between the country and the closest of one of three metropolitan areas (US, EU15 (as represented by Frankfurt), Japan).		
FDISTOCK: share of the inward FDI stock in GDP, 2001.		
ENGLISH: dummy variable taking value of 1 for English-speaking countries, 0 otherwise.		
WEUDUM: dummy variable for West European countries		
EEDUM: dummy variable for East European countries		
LATAM: dummy variable for Latina American countries		
MENA: dummy variable for North African and Middle Eastern countries		

Sources for the data are IMF; Economist Intelligence Unit; UNCTAD, *World Investment Report*, *World Bank, World Development Indicators*; ILO; UNIDO; CIA World Factbook.

Annex B: Business environment rankings: Regional scores

Indicator scores in the business rankings model, 2007-11

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
Political environment							
1. Risk of armed conflict	3.9	4.6	4.7	4.3	3.5	4.1	3.1
2. Risk of social unrest	3.5	4.1	4.4	3.6	3.2	3.1	2.8
3. Constitutional mechanisms for the orderly transfer of power	3.5	5.0	4.7	3.5	3.4	3.3	2.5
4. Government and opposition	3.7	4.7	4.4	3.5	3.8	2.9	3.4
5. Threat of politically motivated violence	3.4	3.6	3.9	3.8	3.4	3.7	2.4
6. International disputes or tensions	3.4	3.9	4.4	3.3	3.2	3.3	2.5
7. Government policy towards business	3.6	4.3	3.9	3.6	3.6	3.1	3.3
8. Effectiveness of political system in policy formulation and execution	3.1	3.7	3.8	2.8	3.1	2.7	2.8
9. Quality of the bureaucracy	3.0	3.9	3.8	2.4	3.2	2.8	2.4
10. Transparency and fairness of legal system	3.0	4.1	4.2	2.8	3.2	2.6	2.1
11. Efficiency of legal system	3.3	4.1	4.3	3.2	3.6	2.4	2.8
12. Corruption	2.9	3.7	4.1	2.3	2.8	2.3	2.4
13. Impact of crime	3.5	4.0	4.2	3.4	3.5	2.6	3.5
Macroeconomic environment							
*1. Inflation	4.5	5.0	4.9	4.3	4.5	4.1	4.3
*2. Budget balance as % of GDP	4.2	4.1	4.5	4.3	3.9	4.3	4.1
*3. Government debt as % of GDP	4.3	3.0	3.8	4.8	4.0	4.5	4.4
*4. Exchange-rate volatility	4.0	4.0	4.0	4.0	4.1	4.0	4.0
*5. Current-account balance as % of GDP	3.7	4.1	3.8	2.3	4.0	4.2	4.4
6. Quality of policymaking	3.7	4.3	4.3	3.8	3.9	3.2	3.1
7. Institutional underpinnings	3.8	4.9	4.8	3.7	3.9	3.3	3.1
8. Asset prices	3.4	3.4	3.5	3.5	3.4	3.3	3.2
Market opportunities							
*1. GDP, US$ bn at PPP	3.2	5.0	3.6	2.5	3.9	3.0	2.6
*2. GDP per head, US$ at PPP	3.2	5.0	4.7	3.1	2.9	2.3	2.6
*3. Real GDP growth	3.8	2.7	3.0	4.3	4.1	3.5	4.2
*4. Share of world merchandise trade	2.8	5.0	3.8	2.3	3.4	2.0	1.9
*5. Average annual rate of growth of exports	3.1	2.6	2.7	3.8	3.2	2.6	3.1
*6. Average annual rate of growth of imports	3.5	3.0	2.8	3.9	3.5	3.4	3.8
*7. The natural resource endowment	3.0	4.1	3.2	2.3	2.5	3.2	3.9
*8. Profitability	3.9	3.1	3.2	4.1	4.1	3.9	4.4
9. Regional integration	3.8	4.4	4.9	4.4	3.0	3.3	3.1
10. Proximity to markets	3.0	4.9	4.2	3.6	2.4	2.1	2.2

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
Policy towards private enterprise and competition							
1. Degree to which private property rights are protected	3.9	4.9	4.9	3.8	4.1	2.9	3.4
2. Government regulation on setting up new private businesses	3.5	4.0	4.1	3.4	3.6	3.1	3.0
3. Freedom of existing businesses to compete	3.4	4.3	4.1	3.2	3.6	3.2	2.9
4. Promotion of competition	3.3	4.4	4.1	3.1	3.4	3.0	2.6
5. Protection of intellectual property	3.4	4.7	4.6	3.2	3.1	2.9	2.6
6. Price controls	3.7	4.3	4.3	3.9	3.8	3.3	3.1
7. Distortions arising from lobbying by special interest groups	2.9	3.4	3.6	2.6	3.2	2.7	2.3
8. Distortions arising from state ownership/control	3.4	4.1	4.1	3.5	3.4	3.0	2.7
9. Minority shareholders	3.4	4.4	4.4	3.0	3.6	2.7	2.9
Policy towards foreign investment							
1. Government policy towards foreign capital	3.8	4.1	4.3	3.7	3.9	3.5	3.5
2. Openness of national culture to foreign influences	3.5	3.7	3.7	3.4	3.5	3.6	3.2
3. Risk of expropriation of foreign assets	4.1	5.0	4.9	4.1	4.1	3.5	3.6
4. Availability of investment protection schemes	3.8	4.6	4.6	3.7	3.6	3.5	3.3
5. Government favouritism	3.4	3.7	4.0	3.1	3.6	3.2	3.1
Foreign trade and exchange controls							
1. Capital-account liberalisation	4.2	5.0	5.0	4.0	3.9	4.2	3.5
**2. Tariff and non-tariff protection	3.7	4.1	4.1	3.8	3.7	3.7	3.2
3. Ease of trading	3.9	4.7	4.4	3.9	4.1	3.4	3.2
*4. Openness of trade	4.1	4.3	4.2	4.1	4.5	3.8	3.6
5. Restrictions on the current account	4.6	5.0	5.0	4.9	4.8	4.3	4.0
Taxes							
**1. The corporate tax burden	3.8	2.9	3.7	4.6	3.6	3.5	3.8
*2. The top marginal personal income tax	4.2	3.4	3.2	4.8	4.2	4.8	4.2
*3. Value-added tax	3.5	3.9	2.6	3.1	4.2	3.2	4.0
4. Employers' social security contributions	3.3	3.0	2.9	2.1	4.0	3.2	3.9
5. Degree to which fiscal regime encourages new investment	3.1	3.3	3.7	2.7	3.3	2.8	2.9
6. Consistency and fairness of the tax system	3.2	4.1	4.2	2.9	3.5	2.4	2.5
7. Tax complexity	3.3	2.9	3.4	3.6	3.6	2.5	3.4
Financing							
1. Openness of banking sector	4.0	4.4	4.6	4.0	3.9	3.8	3.4
2. Stockmarket capitalisation	3.4	4.9	4.5	2.7	3.5	2.4	3.1
**3. Distortions in financial markets	4.2	4.9	4.9	4.1	4.3	3.7	3.7
4. Quality of the financial regulatory system	3.6	4.4	4.3	3.5	3.6	3.3	3.2
5. Access of foreigners to local capital market	3.8	4.7	4.8	3.7	3.8	3.3	3.1
6. Access to medium-term finance for investment	3.5	4.6	4.4	3.0	3.8	2.9	3.1

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
The labour market							
*1. Labour costs adjusted for productivity	3.9	2.3	2.3	4.8	4.4	4.2	4.3
*2. Availability of skilled labour	3.3	4.9	4.3	3.4	3.0	2.7	2.5
3. Quality of workforce	3.3	4.1	4.0	3.1	3.2	3.1	2.8
4. Quality of local managers	3.5	4.6	4.3	3.3	3.7	3.5	2.6
5. Language skills	3.5	4.3	4.3	3.1	3.6	3.3	3.0
6. Health of the workforce	3.6	5.0	4.9	3.1	3.4	3.4	3.1
7. Level of technical skills	3.6	4.6	4.1	3.8	3.6	3.1	3.0
*8. Cost of living	2.6	2.0	1.8	2.1	2.9	3.5	2.9
**9. Incidence of strikes	3.7	4.0	3.8	3.9	3.8	3.2	3.8
10. Restrictiveness of labour laws	3.2	3.7	3.5	3.3	3.3	2.8	3.0
11. Extent of wage regulation	3.5	3.9	3.7	3.3	3.9	3.3	3.0
12. Hiring of foreign nationals	3.5	4.0	3.8	3.8	3.3	3.8	2.8
Infrastructure							
*1. Telephone density	3.6	4.9	4.7	3.4	3.4	3.0	3.2
**2. Reliability of telecoms network	3.7	4.7	4.7	3.3	3.5	3.4	3.1
*3. Telecoms costs	4.0	4.9	4.8	3.9	4.0	3.8	3.4
*4. Mobiles	4.1	4.7	4.9	4.8	3.8	3.4	3.4
*5. Stock of personal computers	3.8	4.9	4.7	3.9	3.6	3.6	3.1
*6. Internet use	3.8	5.0	4.8	4.2	3.4	3.3	2.8
*7. Broadband penetration	3.7	5.0	4.8	4.2	3.4	3.3	2.8
*8. R&D expenditure as % of GDP	3.1	4.7	4.3	3.1	3.2	2.3	2.3
9. Research infrastructure	3.5	4.7	4.4	3.4	3.8	3.0	2.6
**10. The infrastructure for retail and wholesale distribution	3.4	4.6	4.5	3.1	3.3	2.5	2.8
**11. Extent and quality of the road network	3.2	4.6	4.4	3.0	2.9	2.4	2.5
**12. Extent and quality of the rail network	3.0	4.4	4.2	3.4	2.7	2.4	2.0
13. Quality of ports infrastructure	3.7	4.6	4.4	3.5	3.8	3.1	3.4
14. Quality of air transport infrastructure	3.8	4.7	4.5	3.5	3.8	3.6	3.4
*15. Production of electricity per head	3.4	4.6	4.3	3.8	3.0	2.3	3.0
*16. Rents of office space	2.8	1.9	1.8	1.9	3.1	3.7	3.6

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Indicator scores in the business rankings model, 2002-06

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
Political environment							
1. Risk of armed conflict	3.9	4.4	4.6	4.3	3.6	3.9	3.1
2. Risk of social unrest	3.4	4.3	4.3	3.4	3.5	2.8	2.7
3. Constitutional mechanisms for the orderly transfer of power	3.5	5.0	4.9	3.4	3.0	3.4	2.2
4. Government and opposition	3.7	4.7	4.5	3.5	3.9	3.0	3.2
5. Threat of politically motivated violence	3.5	3.7	4.1	3.8	3.8	3.6	2.5
6. International disputes or tensions	3.3	4.0	4.3	3.3	3.3	3.4	2.4
7. Government policy towards business	3.5	4.3	3.9	3.5	3.5	3.1	3.1
8. Effectiveness of political system in policy formulation and execution	3.0	3.7	3.8	2.6	3.2	2.6	2.6
9. Quality of the bureaucracy	2.9	3.9	3.7	2.3	3.2	2.6	2.2
10. Transparency and fairness of legal system	2.8	4.1	4.1	2.4	2.9	2.4	1.8
11. Efficiency of legal system	3.2	4.1	4.3	2.8	3.6	2.4	2.6
12. Corruption	2.7	3.7	4.1	2.2	2.6	1.9	2.3
13. Impact of crime	3.4	3.9	4.2	3.1	3.5	2.6	3.2
Macroeconomic environment							
*1. Inflation	4.3	5.0	4.7	4.1	4.6	3.8	4.1
*2. Budget balance as % of GDP	3.9	3.4	3.9	4.0	3.6	4.2	3.8
*3. Government debt as % of GDP	3.9	3.0	3.5	4.6	3.6	4.1	3.9
*4. Exchange-rate volatility	3.9	4.1	4.2	4.1	3.9	3.5	3.6
*5. Current-account balance as % of GDP	3.8	4.1	3.8	2.1	4.4	4.3	4.6
6. Quality of policymaking	3.6	4.3	4.3	3.7	3.8	3.2	2.9
7. Institutional underpinnings	3.8	4.9	4.8	3.6	3.7	3.3	3.1
8. Asset prices	3.6	3.9	3.8	3.8	3.8	3.1	3.3
Market opportunities							
*1. GDP, US$ bn at PPP	2.9	5.0	3.4	2.2	3.6	2.8	2.2
*2. GDP per head, US$ at PPP	3.0	4.4	4.3	2.6	2.7	2.2	2.5
*3. Real GDP growth	3.8	2.1	2.6	4.4	4.1	3.7	4.3
*4. Share of world merchandise trade	2.7	5.0	3.9	1.8	3.4	1.8	1.9
*5. Average annual rate of growth of exports	3.3	2.3	2.3	3.9	3.9	3.0	3.4
*6. Average annual rate of growth of imports	3.6	2.7	2.8	4.3	3.9	3.5	3.8
*7. The natural resource endowment	3.1	4.4	3.3	2.3	2.5	3.2	3.9
*8. Profitability	4.2	2.7	3.0	4.6	4.5	4.3	4.6
9. Regional integration	3.5	4.4	4.8	3.6	2.9	3.0	2.8
10. Proximity to markets	3.0	4.9	4.2	3.6	2.4	2.1	2.2

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
Policy towards private enterprise and competition							
1. Degree to which private property rights are protected	3.7	4.9	4.8	3.2	3.9	3.0	3.0
2. Government regulation on setting up new private businesses	3.2	3.9	3.8	3.0	3.4	2.9	2.6
3. Freedom of existing businesses to compete	3.3	4.3	4.1	3.0	3.4	3.3	2.5
4. Promotion of competition	2.9	4.1	3.8	2.4	2.8	2.8	2.2
5. Protection of intellectual property	3.1	4.7	4.5	2.6	3.0	2.5	2.3
6. Price controls	3.5	4.3	4.1	3.8	3.4	3.3	2.7
7. Distortions arising from lobbying by special interest groups	2.7	3.1	3.5	2.2	2.6	2.5	2.4
8. Distortions arising from state ownership/control	3.1	4.1	3.8	3.1	2.9	3.3	2.2
9. Minority shareholders	3.3	4.4	4.4	2.6	3.8	2.4	2.7
Policy towards foreign investment							
1. Government policy towards foreign capital	3.6	3.9	4.2	3.6	3.5	3.5	2.9
2. Openness of national culture to foreign influences	3.5	3.7	3.8	3.4	3.4	3.7	3.0
3. Risk of expropriation of foreign assets	4.1	5.0	4.9	3.9	4.1	3.7	3.4
4. Availability of investment protection schemes	3.6	4.4	4.6	3.5	3.2	3.2	3.1
5. Government favouritism	3.4	3.7	4.0	2.9	3.6	3.0	3.0
Foreign trade and exchange controls							
1. Capital-account liberalisation	3.8	4.9	4.9	3.6	3.5	4.0	2.9
**2. Tariff and non-tariff protection	3.4	4.3	3.9	3.6	3.5	3.3	2.5
3. Ease of trading	3.5	4.6	4.4	3.3	3.6	3.3	2.8
*4. Openness of trade	3.4	3.3	3.5	3.6	3.8	3.0	2.8
5. Restrictions on the current account	4.3	5.0	4.9	4.6	4.4	4.3	3.5
Taxes							
**1. The corporate tax burden	3.5	2.6	3.4	4.1	3.4	3.6	3.2
*2. The top marginal personal income tax	3.8	2.9	2.9	4.1	4.1	4.6	3.7
*3. Value-added tax	3.4	3.9	2.7	2.8	4.2	3.2	3.9
4. Employers' social security contributions	3.2	3.0	2.8	1.9	4.1	3.6	3.7
5. Degree to which fiscal regime encourages new investment	2.8	3.0	3.4	2.4	3.1	2.4	2.4
6. Consistency and fairness of the tax system	3.0	4.1	4.0	2.4	3.2	2.3	2.4
7. Tax complexity	3.1	2.9	3.4	2.9	3.5	2.3	3.1
Financing							
1. Openness of banking sector	3.5	4.1	4.3	3.4	3.2	3.5	2.8
2. Stockmarket capitalisation	3.0	4.7	4.3	2.3	3.1	2.3	2.8
**3. Distortions in financial markets	3.8	5.0	4.8	3.7	3.9	3.3	3.2
4. Quality of the financial regulatory system	3.1	4.1	4.1	2.7	2.8	3.1	2.5
5. Access of foreigners to local capital market	3.4	4.4	4.4	3.3	3.1	3.3	2.6
6. Access to medium-term finance for investment	3.2	4.6	4.3	2.6	3.4	2.3	2.7

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
The labour market							
*1. Labour costs adjusted for productivity	3.9	2.3	2.3	4.8	4.2	4.2	4.3
*2. Availability of skilled labour	3.1	4.9	4.3	3.4	2.9	2.4	2.1
3. Quality of workforce	3.1	4.0	3.7	2.7	3.1	3.1	2.5
4. Quality of local managers	3.5	4.6	4.4	2.9	3.7	3.5	2.5
5. Language skills	3.5	4.3	4.3	3.0	3.8	3.2	3.0
6. Health of the workforce	3.4	4.9	4.7	2.8	3.2	3.3	2.9
7. Level of technical skills	3.5	4.6	4.1	3.6	3.4	3.0	2.9
*8. Cost of living	2.8	1.3	1.4	3.1	3.0	3.8	3.2
**9. Incidence of strikes	3.5	3.7	3.6	3.9	3.5	3.2	3.4
10. Restrictiveness of labour laws	3.0	3.4	3.3	3.1	2.9	2.8	2.9
11. Extent of wage regulation	3.3	3.6	3.5	2.9	3.8	3.3	2.8
12. Hiring of foreign nationals	3.4	3.9	3.8	3.4	2.9	3.8	2.8
Infrastructure							
*1. Telephone density	3.3	4.7	4.5	3.3	3.1	2.8	2.6
**2. Reliability of telecoms network	3.3	4.7	4.6	2.9	3.1	3.1	2.6
*3. Telecoms costs	3.6	4.7	4.7	3.3	3.5	3.2	3.0
*4. Mobiles	3.3	4.3	4.8	3.5	3.0	2.3	2.5
*5. Stock of personal computers	3.4	4.7	4.5	3.3	3.4	3.1	2.4
*6. Internet use	2.9	4.6	4.1	2.9	2.9	2.1	2.1
*7. Broadband penetration	2.9	4.7	4.2	2.8	3.1	2.5	1.6
*8. R&D expenditure as % of GDP	3.0	4.6	4.2	2.9	3.2	2.3	2.1
9. Research infrastructure	3.5	4.7	4.3	3.4	3.8	3.1	2.5
**10. The infrastructure for retail and wholesale distribution	3.0	4.6	4.3	2.5	2.8	2.4	2.4
**11. Extent and quality of the road network	3.0	4.4	4.3	3.0	2.8	2.1	2.2
**12. Extent and quality of the rail network	3.0	4.4	3.8	3.4	2.7	2.5	2.2
13. Quality of ports infrastructure	3.5	4.3	4.3	3.4	3.4	2.8	3.2
14. Quality of air transport infrastructure	3.6	4.7	4.4	3.0	3.7	3.3	3.3
*15. Production of electricity per head	3.2	4.6	4.3	3.5	2.8	2.1	2.9
*16. Rents of office space	3.4	2.0	2.2	2.8	3.4	4.4	4.4

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

Regulatory risk and the growth of FDI

*Karl P Sauvant, Executive Director, Colombia Program on International Investment**

Introduction

Almost every week, if not every few days, one can read that the laws and regulations governing foreign direct investment (FDI) in some country have been changed to make them more welcoming, that another investment promotion agency (IPA) has been set up, and that FDI into some country has broken another record. World FDI inflows were US$1.3trn in 2006 and are expected to reach US$1.5trn in 2007 (just above, in current US dollar terms, the all-time high of US$1.4trn in 2000). They are predicted to increase further over the next five years, albeit at slower annual rates than during the recent recovery in global FDI (see the article by Laza Kekic elsewhere in this volume). As discussed below, the economic and other forces driving FDI upwards continue to be very strong.

At the same time, however, one can also read that a crossborder merger and acquisition (M&A) is being questioned or blocked, a contract between a multinational corporation (MNC) and a host country is being renegotiated or cancelled, or laws and regulations are being introduced that make the business environment less hospitable for FDI.[1]

Are these restrictions straws in the wind or do they indicate a storm in the making? Will the forces that drive the expansion of FDI continue to trump the risks, especially the political and regulatory risks that may slow down drastically or even stop the growth of FDI flows?

The pressure of competition

The growth of FDI is driven by the interests of MNCS and those of host- and home-country governments. All firms are subject to the pressures of globalisation. As a result of the liberalisation of international economic transactions in recent decades and improved communication technologies, global competition has intensified. This puts considerable pressure on firms to internationalise, including through FDI. MNCs are motivated to establish a portfolio of locational assets to secure competitive advantage. They are driven to invest abroad to have better access to resources (including skills and technology) and to be close to their markets. No wonder, then, that the number of MNCs has multiplied in recent decades (the total number of MNCs in the world is about 80,000). The pressures of globalisation will continue to drive firms to invest abroad to develop their own portfolios of locational assets, driving up global FDI.

Host countries still seek FDI

Host countries are interested in the tangible and intangible assets that FDI represents, outweighing whatever negative effects are associated with it. These assets include capital and, even more important, skills, technological know-how and access to markets (often in combination with brand names). The latter is particularly important for countries that pursue an export-oriented development strategy, as it is extremely difficult to break into highly competitive markets, especially in the developed world.

Today, almost all countries in the world seek to attract FDI and they pursue increasingly similar strategies in this respect. The most basic strategy has been, and continues to be, to make the regulatory framework for FDI more welcoming. This includes, first of all, opening more sectors to foreign investment. Out of 2,349 changes in national FDI laws between 1991 and 2005, 92% were in the direction of creating a more favourable climate for foreign investors.[2]

The bulk of manufacturing in an overwhelming number of countries is now open to FDI. Natural resources are less so, but MNCs have access through various non-equity forms. Even the services sector—which, traditionally, has contained many activities that are off-limits for foreign investors—has

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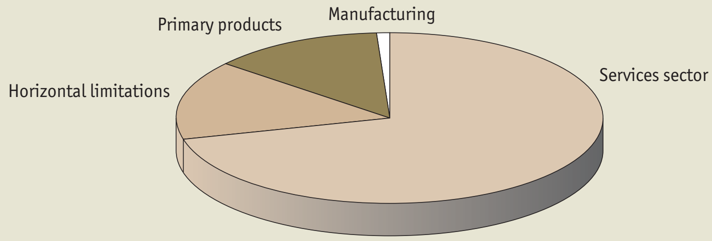
1. Even the G8 leaders, at their June 2007 summit, warned of an increased tendency towards FDI protectionism.

2. UNCTAD, *World Investment Report 2006: FDI from Developing and Transition Economies. Implications for Development*, Geneva, 2006, p. 23.

Reservations on investment, by economic sector, selected international investment agreements (a)
(share of total)



(a) The agreements are: the Andean Pact (Decision 510); the Canada-Chile and US-Chile Free-Trade Agreements; the Agreement between Columbia, Mexico and Venezuela; the Mercosur Colonia Protocol; NAFTA; the OECD National Treatment Instrument; and the draft OECD MAI.
Source: UNCTAD, *Preserving Flexibility in IIAs: The Use of Reservations*, Geneva, 2006, p. 40.

increasingly been opened, although (compared especially with manufacturing) many restrictions still apply.[3] Nevertheless, the liberalisation trend has been clear, indeed overwhelming.

To strengthen and make more credible the improvements of the national regulatory framework, 174 countries had concluded 2,572 bilateral investment treaties (BITs) by the end of 2006.[4] They enshrine key protection standards in legally binding international agreements. Increasingly, moreover, preferential free-trade and investment agreements also include various investment protection standards and sometimes prescribe further liberalisation of the investment framework; as of the end of 2006, 241 such agreements had been signed.[5]

Economic determinants

A country's regulatory framework needs to be enabling and investment promotion can help. However, whether FDI will be undertaken will in the end depend mainly on economic factors such as market size and growth; the quality of infrastructure, skills and the

3. An indication of the uneven liberalisation process and the room that still exists in this respect as regards services is the distribution of reservations in international investment agreements (IIAs) across sectors: out of 4,806 non-conforming measures scheduled in eight IIAs, close to three-quarters (71%) of them relate to services; that number is almost six times higher than the number of reservations for primary sector industries and 70 times higher than that for manufacturing industries (see chart). UNCTAD, *Preserving Flexibility in IIAs: The Use of Reservations*, Geneva, 2006, pp. 39-40.

4. See, UNCTAD, "International investment rulemaking", TD/B/COM.2/EM.21/2 (May 22nd 2007), mimeo, p. 3. Relevant are also double-taxation treaties (DTTs) not discussed here; 2,651 such treaties existed at the end of 2006; see *ibid*.

5. *Ibid*., p. 4.

Attracting FDI: beyond mere liberalisation

The great majority of countries have gone beyond liberalisation by protecting and actively seeking to encourage foreign investors to enter their markets. The instruments of choice of this second generation of investment promotion strategies are investment promotion agencies (IPAs); investment guides and websites; and especially incentives. IPAs of one kind or another have been established in the great majority of countries during the past decade. Although highly uneven in terms of size, competence and effectiveness, they all try actively to attract foreign investors within the context of a liberalised foreign direct investment (FDI) framework. They do this by, among other things, building a positive image of their countries in the investment community, undertaking "road shows", providing after-investment services to existing investors and, increasingly, engaging in policy advocacy.

The role of incentives

Most IPAs also make use of financial, fiscal or other (including regulatory) incentives. In fact, all indications are that incentive competition is becoming stronger, especially as far as taxes are concerned. How effective incentives are in swaying investors is very much debated, but unless the key economic determinants are favourable, they may frequently be only icing on the cake. This may be particularly the case for natural resource and market-seeking investors, as for them the major attractions are clear. It may be less the case for efficiency-seeking investors, especially when they produce goods or services for the world market for which alternative, equally attractive, investment locations are available. Incentives that bring in flagship investors (the attraction of which could entice other investors to follow suit) may be useful; this is particularly the case for locations that are not yet prominently on the radar screen of investors. Regardless of what the overall effectiveness of incentives is, unless a multinational agreement is reached to tame incentives competition (and such an agreement is not even in sight in the foreseeable future), the use of incentives will increase and, at least at the margins, help to attract FDI.

technology base; and the availability of natural resources in host countries (see the FDI determinants model elsewhere in this volume).

Home countries encourage outward FDI

What about home-country governments and their interests? Developed-country governments support outward FDI in the interest of the international competitiveness of their firms. They provide, for example, information about investment opportunities, finance feasibility studies, conclude bilateral treaties for the protection and promotion of FDI (as well as the avoidance of double taxation), and offer insurance for outward FDI projects.

Some emerging markets have begun to follow suit, be they small countries such as Singapore (which wants to create, through outward FDI, an "external wing" of its economy), or large ones such as China (with its "Go Global" policy). For example, most recently the vice-minister of the National Development and Reform Commission of China, Zhang Xizoqiang, indicated that Chinese government entities will provide diplomatic, foreign-exchange, tax, customs, credit, insurance and other support to Chinese firms investing abroad in target industries.[6] Most emerging markets, however, do not yet have a coherent set of policies in place on outward FDI. Yet, where their firms are successful in international acquisitions, there are visible expressions of national pride. Many countries are likely to continue to support their firms' expansion abroad, thus increasing the likelihood that investment flows will grow.

Potential sources of FDI

What are the main sources of future FDI? There are, first of all, the traditional MNCs, that is, the firms that are already established abroad. Quite a number of them already have a high share of their assets abroad, but most can be expected to continue to expand. That is even more the case for firms that have only a moderate share of their assets abroad, the low-level transnationalisers, and firms that are not yet transnational at all (including most small and medium-sized enterprises—SMEs).

The services sector

Firms in the services sector are a particularly important source of future FDI, as these firms are considerably less transnational (in terms of the share of their assets abroad) than industrial firms. Moreover, since most services are still not tradeable, if services firms want to expand abroad, they need to do that via FDI. In fact, services firms have dominated outward FDI flows in recent years, indicating that the catch-up process with industrial firms is in full swing—and the chances are that it will continue. The growth of offshoring services functions will be particularly important here.

Emerging market MNCs

Another key pool of potential FDI consists of firms headquartered in emerging markets. FDI outflows from these economies have risen considerably over the past 25 years, from negligible amounts at the beginning of the 1980s to, according to Economist Intelligence Unit estimates, US$160bn in 2005 and US$210bn in 2006 (see p. 28). An estimated 20,000 MNCs are now headquartered in emerging markets. Most of them have the potential to become much more transnational. There are many more firms that have not yet taken the first steps abroad, but are likely to do so in the future. As emerging markets grow, therefore, they will not only become more attractive for inward FDI, but increasingly also become sources of more outward FDI.[7]

Sovereign investment agencies

The sovereign investment agencies (SIAs) of a number of countries—that is, investment vehicles of governments (see Table 1)—could potentially have a considerable impact on FDI flows. Such entities are not new. Perhaps the oldest is the Kuwait Investment Authority; it has substantial holdings in a number of companies, including Germany's DaimlerChrysler. Another well-known example is Singapore's Temasek Holdings; it bought, for example, Shin Corp. (Thailand) for US$3.8bn. The biggest one is the Abu Dhabi Investment Authority, which has some US$875bn at its disposal.

It is difficult to determine the number of these

6. At the Chinese Enterprises Outbound Investment Conference, Beijing, May 15th 2007; see *China Daily*, June 15th 2007, p. 11.

7. For a discussion of the range of issues related to the rise of emerging market MNCs, see Karl P Sauvant with Kristin Mendoza and Irmak Ince (eds), *The Rise of Transnational Corporations from Emerging Markets: Threat or Opportunity?*, Edward Elgar, Cheltenham, forthcoming; UNCTAD, *World Investment Report 2006: FDI from Developing and Transition Economies. Implications for Development*, Geneva, 2006; and Andrea Goldstein, *Multinational Companies from Emerging Economies: Composition, Conceptualization and Direction in the Global Economy*, Palgrave McMillan, Hampshire and New York, 2007.

8. Stephen Jen, "How Big Could Sovereign Wealth Funds Be by 2015?", Morgan Stanley Research: Economics, May 3rd 2007, p. 2. Note that, apart from SIAs, state-owned enterprises will invest more abroad. The China Development Bank, for example, may invest as much as US$13.5bn in Barclays (*Financial Times*, July 25th 2007).

state-owned entities, as the boundary line between public funds in general and SIAs is difficult to draw. For example, many pension funds of public institutions could technically be included, but many of them are passive investors that control only small stakes and do not seek active involvement in the management of the assets they have acquired. However, a growing number of these entities are becoming active shareholders and are acquiring controlling stakes.

Add to that the resources SIAs have at their disposal. Morgan Stanley estimates these to be around US$2.5trn in mid-2007, projected to rise to US$12trn in 2015 (based largely on the assumption that oil prices will remain at current levels).[8] These figures compare with a forecast US$1.5trn of world FDI flows in 2007 and a world stock of inward FDI of about US$12trn at the end of 2006.

These SIAs draw on the official reserves accumulated by their governments, typically in the context of commodity-price booms (especially for oil) or surpluses generated by the export of other goods

Table 1

Estimated assets of sovereign investment agencies, Jul 2007

(US$ bn unless otherwise indicated)

Economy	Sovereign investment agency	Estimated assets[a]	Year of establishment	Country's foreign-exchange reserves[b]	Source of funds
Abu Dhabi	Abu Dhabi Investment Authority	875.0	1976	34.8[c]	Oil
Saudi Arabia	Saudi Arabian funds of various types	300.0	n/a	23.2	Oil
Singapore	GIC	330.0	1981	143.6	Export surplus
Norway	Government Pension Fund - Global	300.0	1996	56.0	Oil
China	China Investment Corporation[d]	300.0	2007	1,332.6	Export surplus
Kuwait	Kuwait Investment Authority	167.0	1953	20.6	Oil
Singapore	Temasek Holdings	100.0	1974	143.6	Export surplus
Australia	Australian Future Fund	40.0	2004	64.9	Other
Qatar	Qatar Investment Authority	40.0	n/a	5.2	Gas
Brunei	Brunei Investment Agency	30.0	1983	0.5	Oil
US (Alaska)	Alaska Permanent Fund	39.4	1976	41.5	Oil
Russia	Fund for Future Generations[e]	32.0	2008	397.0	Oil
Republic of Korea	KIC	20.0	2005	250.3	Export surplus
Malaysia	Khazanah Nasional Berhad	18.3	1993	90.8	Export surplus
Taiwan	National Stabilisation Fund	15.0	n/a	268.0	Export surplus
Canada	Alberta Heritage TF	15.4	1976	39.4	Oil
Iran	Oil Stabilisation Fund	12.0	1999	58.2	Oil
Kazakhstan	National Fund	17.0	2000	20.9	Oil, gas
Botswana	Pula Fund	6.2	1966	8.0	Diamonds
Chile	Copper SF	3.9	1981	16.7	Copper
Oman	State General RF	2.0	1980	6.9	Oil, gas
Azerbaijan	State Oil Fund	1.5	1999	2.8	Oil
Venezuela	FIEM	0.8	1998	16.3	Oil
Trinidad & Tobago	Revenue Stabilisation Fund	0.5	2000	5.5	Oil
Kiribati	Revenue Equalisation Fund	0.4	1956	n/a	Phosphates
Uganda	Poverty Action Fund	0.4	1998	1.9	Aid

[a] It is not know what portion of these funds will be used for FDI purposes. [b] Most recent 2007 figures. [c] Reserves for the United Arab Emirates. [d] Still formally to be established. Includes Huijin Co. [e] Still formally to be established. Source: Columbia Program on International Investment, based on estimates by Morgan Stanley, Economist Intelligence Unit and the IMF.

and services. Originally, the funds involved were primarily meant to protect a country against volatile commodity price fluctuations or to cushion it against exchange-rate risks. However, some of these have evolved, to quote Stephen Jen, "from 'stabilization funds' to 'wealth accumulation' or 'wealth preservation' funds".[9] In that new function, they are diversifying their assets into equities—they are becoming SIAs. As public institutions, their ultimate responsibility is, at least in principle, to increase the welfare of their countries, with the general public being the ultimate stakeholders. It is not known what share of their funds SIAs have used for FDI purposes or, for that matter, how much they would use (and how much of their reserves countries will allocate to these agencies). However, if they were to use substantial funds for FDI purposes and were not hindered from doing so, emerging markets would come to account for a large share of growing world FDI flows.

In summary, there is considerable potential for more FDI, both from the demand and the supply side. The dominant trend for the main FDI determinants will remain favourable. In particular, the trend medium- and long-term economic conditions for FDI are likely to remain benign, despite inevitable cyclical fluctuations. These are powerful forces pushing the growth of FDI. So what could disturb this rosy picture and slow down or even stop the growth of FDI?

Countervailing factors

Although the economic determinants of FDI are crucial, they can only come into play if and when the regulatory framework is enabling. The risk of adverse changes in regulatory frameworks represents the single most important threat to the future of FDI flows. Various other risks also loom, including geopolitical risks and the risk of political violence or government instability (see the article elsewhere in this volume on a survey of more than 600 investors on attitudes to political risk).

The regulatory framework for FDI is the concrete expression, via the political process, of the attitudes towards FDI of governments in home and host countries. The latter are, in turn, embedded in attitudes towards globalisation, of which FDI is one of the most important components. To the extent that there is a backlash against globalisation (although most of the discussion so far has focused on trade and its effects on jobs), attitudes towards FDI will be affected as well.

The regulatory framework for FDI reflects the balance of the economic and other costs and benefits that countries associate with FDI. Countries seek to attract FDI because it is judged to help them advance their economic development without jeopardising other national objectives, such as national security, control over strategic industries and firms, preserving cultural identity, or a reluctance to allow firms from particular countries to play a key role in one's own economy. There are indications that regulatory risk (including FDI protectionism) is becoming more salient in many host and home countries, especially when it comes to M&As and offshoring.

The risk of host-country FDI protectionism

As mentioned, the regulatory framework for FDI has been characterised, in recent decades, by a strong trend of liberalisation. Although this overall trend continues, there has in recent years been a marked rise in the number of regulatory changes *unfavourable* to foreign investors: compared with a total of 90 such changes over the 12-year period 1991-2002, the number rose to 101 in 2003-05.[10]

A number of these changes signal a more cautious approach to crossborder M&As. Crossborder M&As are by far the most important mode of entry for MNCs in developed countries, and they account for an increasing share of FDI flows to emerging markets. (For a discussion of M&A trends, see the article by Laza Kekic elsewhere in this volume.)

From a firm's perspective, M&As have certain advantages, including the speed with which new tangible and intangible assets can be acquired and the corporate network expanded. From a host-country perspective, crossborder M&As do not add to its productive capacity (at least immediately), but merely represent a transfer of ownership from domestic to foreign firms. Moreover, such transactions are often accompanied by restructuring, typically implying job losses or the closing down of activities, in order

9. Stephen Jen, "Sovereign Wealth Funds and Official FX Reserves", Morgan Stanley Research: Economics, September 14th 2006, p. 2.

10. See UNCTAD, *World Investment Report 2006*, p. 24.

to increase the efficiency of the assets involved, integrate them profitably into the new parent company or simply ensure their survival.

A more cautious attitude towards crossborder M&As can therefore have a major impact on FDI flows. Caution can be heightened if the acquirer is a private equity group, is from an emerging market or is a state-owned entity; or if the targeted firm involves national security, is in a strategic industry or is regarded as a national champion.

The role of private equity groups

The increasingly prominent role of private equity groups in FDI has affected attitudes. In 2006 private equity investments accounted for an estimated one-fifth of the value of all crossborder M&A flows. Although their acquisitions may make perfect sense from an economic efficiency point of view, they are at times surrounded by controversy. Private equity groups are often seen as taking advantage of a company in distress. Resistance may only be magnified if the foreign investor succeeds in rescuing the firm, turning it into a successful venture and then selling it for a considerably higher price.[11]

Discussions of the role of private equity groups have been particularly heated in Germany; not so long ago, a leading politician compared them with the biblical plague of locusts. Underlying these hostile reactions is that private equity groups are not regarded as strategic investors interested in, and bound to, the long-term economic development of a host country. Rather, they are seen as firms out to make a "quick buck", to maximise as rapidly as possible their own returns on investment, including by breaking up, if need be, the firms acquired and selling individual pieces to the highest bidder. It may well be that sceptical attitudes towards private equity groups will lead to more restrictions in host countries on these types of investors.

National security or just protectionism?

The needs of national security, tightly linked to strategic sectors and national champions, are often explicitly invoked when it comes to stymying crossborder M&As. National security is a vague concept; it easily lends itself to misuse for protectionist purposes.[12] For the US, preoccupied with terrorism, this concept has primarily military and strategic political connotations—witness the Dubai Ports World and CNOOC cases. For the EU, Japan and a number of developing countries, "national security" is also economic in nature and easily blends with talk of strategic industries and national champions. French policymakers, for example, speak about "economic patriotism" and include casinos among the country's strategic industries.[13] The issue of national champions came into play when there was a rumour that Pepsi (US) might want to acquire France's Danone, one of the world's leading yogurt producers.

A number of crossborder M&As in Europe have invoked considerations of strategic industries or national champions and hence triggered government resistance. Examples are the attempt by Enel (Italy) to buy Suez (France); German E.ON's bid to acquire Endesa (Spain); Italy's blocking the Albertis (Spain) bid for Autostrade; and the reported failed takeover attempts by Russia's Gazprom of Centrica (UK) in 2005-06. As it happens, Gazprom itself benefits from its government's determined strategy to re-establish state control over Russia's natural resources, considered to be of strategic importance. As part of that strategy, some MNCs have had to relinquish controlling stakes in a number of projects. Russia is in fact considering declaring a number of activities as being "strategic", with implications for the participation of foreign firms.[14]

Most of the difficulties that crossborder M&As have faced so far seem to have taken place in developed countries. But the change in attitude is catching on in developing countries. An earlier Economist Intelligence Unit survey of 258 senior executives across Asia, for example, found that the US (24%), China (23%) and France (13%) are regarded as the countries most likely to block M&As because of strategic and political concerns.[15]

In the survey conducted for this report, respondents expressed considerable concern about possible protectionism in a number of emerging-market regions. Among developed countries, France and the US were the two that stood out in terms of

11. The acquisition of the Korea Exchange Bank by Lone Star (US) had elements of this reaction when Lone Star sought to sell the firm for a much higher price than for the one it had paid when it made its acquisition.

12. In its 2007 Summit Declaration the G8 noted: "we remain committed to minimize any national restrictions on foreign investment. Such restrictions should apply to very limited cases which primarily concern national security".

13. In a December 31st 2005 decree, the French government announced that it would protect eleven priority industries from foreign takeovers: casinos; private security; research, development and production of products with potential illicit or terrorist use; surveillance equipment; information security; government information technology security services; dual-use (military/civilian) technologies; cryptography; companies with access to defence secrets; arms and munitions; and defence subcontracting (*Financial Times*, January 4th 2006).

14. Most of the activities mentioned in the current (August 2007) bill before the State Duma (the lower house of the Russian parliament) relate to arms, nuclear facilities, cryptography, espionage, aerospace and natural monopolies (including pipelines, power transmission, rail transport, ports, airports, mail). The bill also foresees that no foreign state-controlled entity can control over 25% of a Russian firm that engages in a strategic activity.

15. Norton Rose, "Cross-border M&A: the Asian perspective", Economist Intelligence Unit and Norton Rose, London, 2007, p. 4.

concern about attitudes of officials to FDI.

In China, the leading FDI recipient among emerging markets, questions have been posed about the desirability of certain M&As. The reaction in the US to the Dubai Ports World acquisition played a role in this respect: if the US, as the world's leading economy, has concerns regarding FDI, should not China, as a developing country, be also concerned about the role of FDI in its economy? As a result, the concept of "economic security" has gained currency. Thus, the demonstration effect of blocking M&As in developed countries may well ripple through an increasing number of emerging markets.

Emerging-market and state-owned investors receive special attention

There seems to be special scepticism towards large M&As by emerging-market firms. Such M&As have increased from 5% to 17% in terms of number of deals and from 4% to 13% in terms of value between 1987 and 2005, representing 1,072 deals worth US$90bn in 2005.[16] Some prominent examples include:

- the US$1.25bn acquisition by Lenovo (China) of the personal computer (PC) division of IBM (US) in 2005;
- the takeover by CVRD (Brazil) of INCO (Canada) in 2007, for US$16.7bn; and
- the successful bid by Tata (India) for Corus (UK/Netherlands) for US$13.5bn in 2007.

One certainly cannot say that M&As are *typically* resisted (all of the ones just mentioned were successful). However, it appears that especially high-profile ones are receiving increasing attention and may encounter resistance. The 2006 acquisition of Arcelor (Luxembourg) for US$32bn by Mittal Steel, a company registered in the Netherlands and managed out of London, is an example.

Scepticism, at times bordering on hostility, becomes stronger if the emerging-market entity is state-owned. Acquisitions by a developed-country state-owned entity such as Deutsche Bahn AG (Germany—it acquired the US's DHL, a logistics firm) do not seem to present problems, even if they take place in sensitive sectors. However, UAE-based Dubai Ports World's acquisition of P&O Steam Navigation Company (UK), with assets in the US, was only approved in 2006 once Dubai Ports World agreed to divest itself of its US assets. In the case of CNOOC (China), and its 2005 attempt to purchase Unocal (US), the fact that it is a state-owned enterprise played a role.

There is, however, a special breed of state-owned entities that has entered the spotlight and created considerable anxiety in a number of countries: SIAs. As these entities are not new (see above), the obvious question is: why do they (apart from state-owned firms) suddenly get so much attention? A confluence of reasons is responsible, first and foremost among them the growing number and size of such agencies. The key, however, is that most of them are controlled by emerging-market governments.

The size of the resources available to SIAs combines with the fear that emerging-market SIAs are basically instruments of government policy, meant to advance not only the public good in general but to support political goals. This was not much of an issue, at least in the past, with regard to the SIAs of small countries such as Singapore and Norway. (In fact, entities of this type from developed countries—such as Norway's Government Pension Fund, which has some 3,500 investments and is an activist investor—have so far not drawn much attention; the focus of the public and policy debate is on emerging-market agencies.) But it becomes an issue when large countries and especially strategic competitors are involved. Hence the foray of Russian state-owned enterprises into western Europe, and the expected investments by Russia's SIA (to be formed in 2008), are regarded with trepidation in much of the developed world. This applies even more so to China's SIA, to be set up later in 2007. (Fear of China's and Russia's government-controlled entities—and to a certain extent also those controlled by Gulf states—fuels a good part of the discussions and concerns on this issue.) China's prospective agency may well have US$200bn-300bn at its disposal, including for FDI.[17] If China's investment arm embarks on a major acquisition spree, this is bound to lead to strong reactions in a number of countries.

16. UNCTAD, *World Investment Report 2006*, p. 108.

17. An early transaction of this still-to-be-established agency was the acquisition, in June 2007, of 9.9% of the Blackstone Group, a leading US private equity firm. China's new investment agency was careful to remain, in this acquisition, below the 10% threshold at which it would have been considered a direct investment, and it took its share in non-voting stock, in this manner not triggering a review by the Committee on Foreign Investment in the United States. But even then this move was front-page news when the plan was announced on May 19th 2007.

To cope with the reaction to SIAs, China (as well as other countries) may need to learn from the experience of Japan. When that country's (private) firms began to make large-scale foreign investments in the 1980s, there was widespread fear that they would come to dominate the world economy, and attitudes in some countries (such as the US) were quite defensive. These fears only calmed down when Japan entered a period of stagnation in the 1990s and, perhaps even more important, when Japanese firms moved to much more acceptable foreign investments, namely by establishing assembly facilities and eventually full greenfield production units in the US. (Additional effects were that, in this manner, they not only circumvented "voluntary" export restraints but also reduced the bilateral trade deficit, thereby neutralising other sources of friction between Japan and the US.) State-owned entities may need to have a similar trajectory in order to allay a good part of the fears associated with their emergence as significant outward investors and, in the case of China, the rise of that country as an economic power.

So far there is little, if any, systematic evidence that SIAs are instruments of specific government policies; their actions would most likely also have been taken if they had been purely commercial enterprises. Nevertheless, the suspicion is there. It is fuelled by a lack of transparency as to what the strategic objectives of SIAs are and, in particular, what investments they have undertaken (a notable exception is Norway's SIA). This is part of a broader concern, namely the quality of corporate governance of these entities, a concern that is also voiced with respect to state-owned enterprises.[18] Part of that is the fear that such state entities also enjoy certain advantages (such as cheap financing), as this could put private-sector firms at a competitive disadvantage. The financing advantage acquires a particular edge for countries that are seen to have an undervalued currency.

Finally, one cannot avoid the impression that the very rise of emerging-market MNCs as new and powerful competitors, the need to accept that they are here to stay and the challenge of integrating the newcomers into the world economy all play a role. And, as we know from other contexts (such as international relations among states), accommodating rising newcomers is not easy.

Points to watch

The various instances of crossborder M&As that have encountered difficulties so far represent only a very small share of all M&As that take place each year. Nevertheless, they are becoming more frequent. Moreover, the greater prominence of SIAs will almost certainly lead to defensive reactions in a number of countries, thus reducing FDI flows below what they otherwise might be. What we will need to watch are three things:

- the frequency and nature of instances of opposition to M&As;
- how much pressure there will be for reciprocity between governments in their treatment of FDI deals; and
- whether governments create new mechanisms that allow them to block crossborder M&As.

It is likely that an increasing number of crossborder M&As will encounter resistance. The only question is how many? The answer is probably only a limited number. The reason is that the bulk of M&As are normal commercial transactions (with the only principal constraining consideration being anti-competitive M&As) that receive little attention. The key will be how active state-owned entities (and especially SIAs) will be in the M&A market.

With respect to reciprocity, the argument is being made that, if state-owned entities from one country are allowed to invest in another country, the latter country's firms should have equal access to the former country.[19] As most developed countries are much more open to FDI than emerging markets, reciprocity becomes a tool to open other countries to FDI—or to protect oneself from undesirable inward FDI. Where reciprocity is not forthcoming, FDI flows may be dampened; where it is, they may go up. To quote US deputy Treasury secretary Robert Kimmitt, speaking in the context of the discussions to strengthen the Committee on Foreign Investment in the United

18. See, for example, Rainer Geiger, "Corporate Governance of Emerging Market TNCs: Why Does it Matter?", in Sauvant with Mendoza and Ince (eds), *The Rise of Transnational Corporations from Emerging Markets*. For a broader discussion of developed countries' concerns as regards M&As by state-owned enterprises, see Andrea Goldstein, "Who's Afraid of Emerging Market TNCs? Or: Are Developing Countries Missing Something in the Globalisation Debate?", in the same volume.

19. See, for example, Jeffrey Garten, "We need rules for sovereign funds", *Financial Times*, August 8th 2007.

States (CFIUS): "Reciprocity is not a factor that CFIUS considers. However, investments that take place inside a broader political context, and the degree to which American companies are afforded access to their investment opportunities in countries abroad will be related to the opportunities available to their companies in the US."[20]

CFIUS is the best-known example of a mechanism to monitor, and potentially block, crossborder M&As; it is an inter-agency committee chaired by the secretary of the US Treasury. It implements the Exon-Florio provision of the 1988 Omnibus Trade and Competitiveness Act, which gives authority to the country's president "to suspend or prohibit any foreign acquisition, merger or takeover of a US corporation that is determined to threaten the national security of the United States".[21] On July 26th 2007, CFIUS was strengthened with the signing into law of the "Foreign Investment and National Security Act of 2007".[22]

Other countries are also considering establishing CFIUS-type defence mechanisms. Countries such as Germany and Hungary are considering the creation of review mechanisms, especially for investments by SIAs, perhaps at the EU level (which France would support). German Chancellor Angela Merkel is quoted as saying: "With those sovereign funds we now have a new and completely unknown element in circulation ... One cannot simply react as if these are completely normal funds of privately pooled capital."[23] A bill may still be considered this year by the Bundestag. The UK, on the other hand, is more cautious, although the need for reciprocity is also emphasised. As in the case of the US, the intention is to install the equivalent

20. Quoted in Deborah Solomon, "Foreign investors face new hurdles across the globe", *Wall Street Journal*, July 6th 2007. This is perhaps also what is behind the following observation in the 2007 G8 Summit Declaration: "Companies from G8 countries investing in emerging economies expect to find the same open investment environment as companies from such countries investing in G8 countries."

21. US Department of Treasury: http://www.ustreas.gov/offices/international-affairs/exon-florio/

22. US Senate, 110th Congress, S. 1610, "Foreign Investment and National Security Act of 2007".

23. *International Herald Tribune*, July 14th-15th 2007.

The Committee on Foreign Investment in the United States

CFIUS reviews must be completed within 30 days. A review of a covered transaction leads to an investigation (which needs to be concluded within 45 days) if any of the following conditions apply: (1) a transaction threatens to impair the national security of the US, and this threat has not been mitigated during or prior to the review of the transaction; (2) a transaction involves a foreign government-controlled entity; (3) a transaction would result in control of any critical infrastructure and could impair national security; or (4) the lead agency and CFIUS agree that an investigation should take place. Crucially, the law creates a presumption that an investigation must take place if a state-owned entity is the acquirer, unless the secretary of the Treasury and the head of the lead agency jointly determine that the transaction will not impair national security. Factors that CFIUS needs to consider when determining the national security impact of a transaction include the risk of technology transfer to a country that is a threat to the US; the impact on critical infrastructure and critical technologies; and foreign government ownership.

During its first years of existence, CFIUS reviewed relatively few cases. That number has increased, however, in recent years, as has the number of mitigation agreements. To quote from the testimony on February 7th 2007 of Todd M Malan, president and chief executive officer (CEO) of the Organization for International Investment, Washington, to the House Financial Services Committee: "A recent study published by the National Foundation for American Policy showed that, in the last year, the number of CFIUS filings increased by 73%, the number of investigations jumped by 350% and the number of companies withdrawing their filings with CFIUS grew by 250%. There were more second-stage investigations last year than during the previous five years of the Bush administration and more than during 1991-2000. The number of mitigation agreements, or conditions imposed on companies, more than tripled last year. More specifically, the Department of Homeland Security required an average of 4.5 mitigation agreements per year between 2003 and 2005. Last year, DHS required mitigation agreements in fifteen transactions."[1]

Although the percentages quoted are based on low absolute numbers, they do reflect a changing attitude in the US towards crossborder mergers and acquisitions (M&As). CFIUS reviews are likely to become more frequent and stringent, if only because the number of M&As in which the acquirer is a state-owned enterprise or a sovereign investment agency (SIA) is likely to go up.

1. Testimony of Todd M Malan before the House Financial Services Committee, February 7th 2007.

of an emergency brake, to put the government into a position to block undesirable crossborder M&As. As in the case of the US, it is of course difficult to draw the line between "desirable" and "undesirable" transactions, to determine which industries are "strategic" and to avoid an outcome whereby the institutions created become overly restrictive, be it in response to public concerns or protectionist pressures.

Outside Europe, China has already established (in 2006) a defence mechanism, in the form of a "National Economic Security Review Mechanism". Under this system, approval is required for the following categories of acquisitions: important industries, elements that may affect national economic security, and famous trademarks and long-established Chinese trade names/companies. None of these categories is defined.[24]

It would not be surprising if other countries were to follow suit, creating in this manner new screening mechanisms for FDI. This is reminiscent of a time some 20-30 years ago when various countries (such as Canada) had review mechanisms in place to screen out undesirable FDI. Most of these (along with the laws that restricted inward FDI) were eventually dismantled, became less stringent in terms of enforcement or were replaced by investment promotion agencies (IPAs).

In addition, crossborder M&As can also be discouraged or stymied informally, for example by the very knowledge that they have to go through a formal review process, through statements by leading politicians that rumoured or proposed M&As are frowned upon and through resistance in legislative bodies or among the public at large. These informal barriers are difficult to quantify, but they have been rising.

MNC-host country conflicts

Concrete cost/benefit considerations, combined with strategic industry concerns, are also at the heart of conflicts between host developing countries and MNCs in natural resource industries. Many assets in these industries were nationalised in the 1960s and 1970s, with nationalisations of this kind reaching a peak during the early 1970s. The rationale at that time was that governments needed to exercise direct control over their natural resources, as these, as strategic industries, were central to their economic development and because the distribution of rents from their exploitation was considered to be lopsided in favour of MNCs. At that time, heated discussion took place on the right of "permanent sovereignty over natural resources", with developing countries reaffirming this right in various UN resolutions.

This discussion subsequently died down, but the *problematique* is re-emerging. Reference was already made to Russia. A number of governments in Africa (Congo, Liberia) and Latin America (Bolivia, Ecuador, Venezuela) have re-visited the contracts concluded between MNCs and host-country entities in order to see whether the host country did get the best possible deal for the exploitation of what are often the only significant assets a country has (although ideological considerations also play a role in some of these countries). The situation is further complicated by the fact that many of the deals in national resource industries are subject to the "obsolescing bargain".

Prospecting for natural resources is a risky business in that a firm typically does not know whether it will be successful; in order to entice firms to undertake prospecting, countries often offer very generous terms. Once prospecting is successful and a firm has invested heavily, it becomes, in a sense, a captive of the country, which, in turn (and not surprisingly), will seek to increase its share of the rents derived from its natural resources. (For the firm, the benefits of successful prospecting in one country need to be offset by the costs of unsuccessful prospecting in another country.) If differences cannot be resolved through renegotiations of the underlying contract, they may well result in unilateral action by the governments. Where this takes the form of nationalisation or similar action, FDI is reduced. Equally important, such action can have a chilling effect on future FDI flows, including to other countries, if firms see this type of political risk increasing. More countries may well become more assertive in this area (especially if the commodities boom lasts), with the risk of conflicts between them and MNCs increasing and FDI flows in the natural resource sector declining.

24. Robert D Lewis, "Cross-border M&A in China: a comparative analysis", Lovells, Beijing, 2007, mimeo. However, China had been screening inbound FDI before that.

Increased litigation

The relationship between MNCs and host countries is becoming more confrontational, judging from the number of international arbitration cases. There were few such cases during the 1980s and the early 1990s. By the end of 2006, however, 258 international treaty-based arbitration cases had been initiated, some two-thirds before the International Centre for Settlement of Investment Disputes (ICSID).[25] Some 47% have arisen in the past three years, and 73% during the past five years; 70 countries in all parts of the world are (or were) respondents in cases initiated by MNCs (see Table 2). Bolivia's denunciation of the ICSID Convention in May 2007 may be an indication of the growing scepticism towards FDI and the international arbitration of investment disputes.

There is considerable potential for a substantial further increase in the number of investment disputes, if one considers that (1) there are some 3,000 international investment agreements, most of which contain dispute-settlement provisions; and (2) there are more than 80,000 MNCs, over 800,000 foreign affiliates and even more shareholders, most of which, depending on the treaty language, could in principle initiate a case if they felt aggrieved. The growth of investment disputes reflects the confidence of international investors to stand up for what they consider to be their rights and for the rule of law,[26] but it comes at a time when the role of FDI is under reassessment in some countries.

Table 2
Leading respondents in international investment disputes, end-2006

Defendant	No. of claims
Argentina	43
Mexico	18
Canada	12
Czech Republic	11
US	11
Moldova	9
Russia	9
India	9
Ecuador	9
Egypt	8
Poland	7
Romania	7
Ukraine	6

Source: UNCTAD, Database of Investor-State Dispute Settlement Cases.

Home-country protectionism

As discussed earlier, most home countries are supportive of "their" MNCs and their outward FDI. There are, however, two imponderables that may change this situation, one relating to developed countries, the other to emerging markets. Developed countries are faced with a profound transformation affecting more than two-thirds of their economies—the services sector. A similar transformation some 40 years ago as regards the manufacturing sector triggered a broad discussion as to what this meant for employment and how this could lead to a hollowing-out of the economies involved—and, ultimately, whether or not FDI was desirable. At that time, part of the answer was presented by trade adjustment programmes and the prospects of moving into the services sector. Outward FDI in manufacturing gathered speed, contributing significantly to the growth of FDI flows and the emergence of an integrated international production system in manufacturing.

Resistance to offshoring

We are now at the threshold of a similar development in the services sector. In particular, the process of offshoring the production of services, and efforts by largely white-collar workers to protect their jobs are likely to spark debates on the desirability of outward FDI. Such a discussion has already flared up in the US (which led to a series of bills seeking to introduce restrictions on offshoring) and, under the heading of "*délocalisation*", in France. Given the magnitude of the transformation we are facing, it may well be that, as the offshoring of services gathers speed, the call for restrictions on outward FDI will become louder and may be heeded. A key consideration will be the overall performance of the economies of the developed countries and hence their ability to absorb the shock of this transformation.

Similar considerations apply also to emerging markets and their outward FDI. The underlying reality,

25. UNCTAD, "International investment rulemaking", TD/B/COM.2/EM.21/2 (22 May 2007), mimeo, p. 5. For a discussion of the reasons for this explosion of investment disputes, see Jeswald W Salacuse, "Explanations for the Increased Recourse to Treaty-based Investment Dispute Settlement: Resolving the Struggle of Life against Form?", in Karl P Sauvant with Michael Chiswick-Patterson (eds), *Coherence and Consistency in International Investment Law*, Oxford University Press, Oxford, forthcoming.

26. For comparison: during the entire existence of the General Agreement on Tariffs and Trade (GATT; 1948-94), a total of 101 disputes were brought; another 366 disputes have been brought under the World Trade Organisation (WTO) from its inception up to July 12th 2007. It must be noted, however, that only states can use the WTO dispute settlement mechanism.

however, is that emerging markets, by definition, are economies that do not have sufficient productive capacity. Hence, outward FDI may begin to be questioned, and may affect the regulatory framework for (outward) FDI.

There is another reason why the outcome is uncertain, and it cuts across developed countries and emerging markets: as firms transnationalise, their interests are no longer necessarily identical with those of their home countries; they become, as their name implies, "multinational", with their own interests being paramount and no longer attached to any particular country. It used to be said that what is good for General Motors is good for the US. Globalisation, and especially outward FDI, has put this dictum in question, as reflected in the famous debate between Robert Reich and Laura Tyson on "Who is us?": a corporation that is headquartered in the US but has a substantial part of its activities abroad, or a foreign company that has a substantial share of its activities in the US?[27] For Mr Reich, the answer was "the American worker", and he was prepared, therefore, not to give preferential treatment to US-headquartered firms. For Ms Tyson it was the US company—although she conceded that this may become less clear in the future as firms become more transnationalised (which is what happened).

This debate took place some 15 years ago. Since then, firms have become more transnational. But virtually all countries continue to believe that firms headquartered in their territories are "their" firms, and some indeed are considered national champions; hence, what is good for them is good for the country. Once it sinks in that MNCs seek to maximise their global competitiveness, as opposed to the performance of any particular economy, the support for outward FDI may wane, with implications for the regulatory framework and FDI flows.

27. See Robert Reich, "Who is us?", *Harvard Business Review*, 1990, pp. 53-64; Laura D'Andrea Tyson, "They are not us: why American ownership still matters", *The American Prospect*, 1991, pp. 37-48; and Robert Reich, "Who do we think they are?", *The American Prospect*, 1991, pp. 49-53.

The bottom line

The driving forces for a further expansion of FDI are strong. Over the medium and long term, the economic drivers of FDI should remain favourable. For firms, a portfolio of locational assets is crucial for their competitiveness, and there are still substantial potential sources of FDI. Host countries continue to attract investment to promote their development, and home countries promote outward FDI in the interest of the competitiveness of their firms and the performance of their own economies.

Expectations are therefore that MNCs will continue to invest abroad at historically high levels—if they are allowed to do so, that is, by host and home countries. However, there is an appreciable risk that the FDI regulatory framework—which has in the past two decades overwhelmingly moved in a liberalising direction—will become more protectionist, in both host and home countries.

Ambivalent attitudes

Attitudes to FDI do not depend on an assessment of its economic costs and benefits alone. Openness to FDI can be perceived to conflict with other national objectives. And attitudes towards FDI are ambivalent in most countries, precisely because of the "foreignness" of the investment. As a result, supportive and sceptical attitudes towards FDI often battle for supremacy when it comes to policymaking. Today, sceptical attitudes are in the ascendancy in a growing number of countries, especially towards crossborder M&As, emerging-market MNCs (particularly state-owned enterprises and SIAs) and private equity groups, and with regard to the distribution of benefits related to FDI (primarily in the natural resource sector).

Attitudes to *outward* FDI may become less favourable in developed countries if the offshoring of services accelerates. In emerging markets, where capital is scarce, attitudes towards outward FDI may also change. In both cases, such a change in attitudes would increase regulatory risk and have implications for investment flows.

In countries that are high FDI recipients, attitudes and policy towards FDI may also be affected by a feeling that a country has attracted "enough" FDI (a consideration that seems to play a role in China), or if there is a perception that a country needs to be more selective in attracting FDI by focusing on attracting "good" FDI and discouraging "bad" FDI. In such circumstances, FDI can become a victim of its own success, and M&As are then particularly vulnerable. On the other hand, most countries (or regions within countries) that have been less successful in attracting FDI are more likely to eschew restrictive measures.

What is the bottom line? In particular, could a protectionist backlash trump the forces driving FDI in an upward direction? Until now, the overall interests of the three key players in world FDI were largely aligned: host countries sought inward FDI to further their economic development; home countries supported outward FDI to further the competitiveness of their firms; and firms undertook such investment to further their international competitiveness. This alignment found its expression in the liberalisation of national FDI regulatory frameworks, the strengthening of international standards of protection for FDI and the efforts of IPAs to attract such investment. The result was the dramatic growth of FDI flows in recent decades. Overall, the driving forces of FDI continue to be strong, grounded in economic considerations.

But forces sceptical towards FDI are on the rise, and the interests of the three key players are no longer as aligned as in the past. The regulatory risk is increasing, and the climate for at least some types of FDI is becoming less welcoming. One cannot exclude the possibility that increased scepticism may presage a storm in the making that could overwhelm the forces driving FDI in an upward direction.

On balance, no major backlash is likely to take place given the continuing strength of globalisation and the forces that propel FDI (and this underlies the forecasts made elsewhere in this volume). Rather, we are more likely to see a certain re-balancing in the attitudes towards, and regulatory frameworks for, FDI, tempering the dominant liberalisation trend of the past two decades and restraining the growth of future investment flows.

Addressing political risk in the energy sector

*By Jeffrey D Sachs, Quetelet Professor of Sustainable Development and Director of the Earth Institute at Columbia University**

Introduction

We have entered a new cycle of increased political risk regarding foreign direct investment (FDI) in general and in the energy sector in particular (see the contributions elsewhere in this volume by Karl P Sauvant on FDI protectionism and by Matthew Shinkman on a survey of foreign investors' attitudes to political risk). Nationalisations are on the rise in Latin America. Russia is confiscating foreign assets and cancelling foreign oil and gas concessions. The US is rejecting FDI inflows from some emerging markets in the name of national security. Foreign equity ownership through sovereign investment agencies (SIAs)—many of them from energy-exporting countries—is moving to the top of the policy and political debate.

One is tempted to sigh "*plus ça change, plus c'est la même chose*". We have, of course, seen nationalisations before, most notably in the 1970s when oil-producing states wrested control of their oil reserves away from the "Seven Sisters". Today's upheavals in Venezuela, Bolivia, Russia and other hydrocarbon economies show similar muscle-flexing by producing states in a rapidly tightening global energy market. One is also tempted to cry "hypocrite" at US politicians who attack proposed investments by Dubai or China, when they have favoured similar US investments abroad for decades. And of course we have good reason to cringe when UK investigators stop their enquiries into British corruption regarding projects in Saudi Arabia in the name of national security.

Yet there are serious matters afoot that deserve our attention. The nationalisations and turmoil in the energy sector are more than muscle-flexing or the result merely of a tightening oil market. They represent much more than the anti-US antics of Venezuelan president Hugo Chávez, the populism of Bolivia's Evo Morales or the neo-authoritarianism of Russian president Vladimir Putin. They in fact represent a serious lack of basic investment standards in the global energy sector. The costs of this turmoil are much more than broken contracts and reduced or delayed investment flows. The absence of internationally agreed norms for foreign investment, especially in energy, hinders economic development in the host countries, foments aggressive geopolitical competition that threatens global security, and will block the scale of investment and co-operation necessary to overhaul a strained and environmentally dangerous global energy system.

Resource investments without legitimacy

The biggest investment risks today are in the natural resource sectors, and especially the energy sector. And it is in the energy sector where global investment standards are the most lacking. For a century, FDI in hydrocarbons has been part of the geopolitical great game. The international oil giants, the world's largest companies, have long operated in a ruthlessly politicised environment. The US and Europe have long pursued foreign policies, up to and including coups and war, to win concessions for their energy giants, and to try (usually ineffectually) to secure cheap and reliable energy supplies for their home nations. The stakes are even higher today as big new competitors, notably China and India, have joined these great games. And the oil exporting states themselves, many in the low-income world, find themselves riding the proverbial tiger. They seem to be in control right now, when oil markets are very tight, but these same countries are easily devoured when oil prices decline. The implosion of the Soviet Union was precipitated, at least in part, by the collapse of oil prices in the mid-1980s.

* For further discussion, see *Escaping the Resource Curse*, edited by Jeffrey D Sachs, Macartan Humphreys and Joseph E Stiglitz, Columbia University Press, June 2007.

The political risks of energy investments, judged from the perspective of the US and Europe, wax and wane with the tightness of global oil supplies. When markets are tight and oil prices are high, as in the 1970s and now, existing contracts are renegotiated to the benefit of host countries, and some of the hydrocarbon reserves are re-nationalised. Oil rents are thereby reallocated to the advantage of the host countries. When oil prices are low, the host countries are weak and unable to renegotiate the terms of existing agreements.

Judged by the financial press of the US and Europe, the renegotiations of contractual terms are a sign of perfidious host-country behaviour. But there is of course much more than meets the eye. The contracts that are being cancelled or restructured in Russia, Bolivia and elsewhere cannot pass minimal standards of honesty, transparency and due process. Neither side can claim the high ground. The FDI and concessions have such little staying power because they lack true legitimacy. All parties—the host government, the source governments (acting on behalf of the oil companies) and the companies themselves—behave opportunistically, seizing short-term advantages at the expense of long-term trust. When short-term bargaining power changes, so too do the contracts.

The Russian government's nationalisation of Yukos and other oil assets, as well as the cancellation of various drilling concessions, exemplify brazen behaviour on both sides. Yukos gained its vast oil and gas assets in the flagrantly corrupt shares-for-loans deals of the mid-1990s, which pillaged the Russian state of tens of billions of dollars of natural resource wealth. It is certainly not surprising that wealth so flagrantly won was so easily lost in a re-nationalisation of the same assets. Who truly could cry for Yukos?

The Bolivian nationalisations of the gas sector occurred in a different context, but as in Russia, a context with far too little transparency and legitimacy in the relationship between foreign investors and the state. When companies such as Petrobrás (Brazil) and Repsol (Spain) acquired their interests in Bolivian natural gas in the 1990s, the declared natural gas reserves were less than 10trn cu feet. A few years later, the reserves were declared to be vastly greater, perhaps between 50trn and 100trn cu feet. Were the original estimates understated? Is the entire increase in reserves truly the result of unexpected discoveries? Even if that is the case, which is far from clear, the original contracts surely required restructuring to prevent a massive transfer of wealth to foreign investors from an impoverished country.

The companies should have agreed to renegotiate the terms of their original agreements with the Bolivian government, but for many years they resisted. Finally, after coups, failed governments, public unrest and growing political turmoil, a new and more assertive government headed by Mr Morales simply imposed new contractual terms, which the foreign investors accepted. Without knowing the precise terms, I would bet that the companies will still do very well on their investments over the long haul.

The ultimate source of contractual instability in Russia, Bolivia and many other countries, is not arbitrary host-country behaviour but rather the *lack of legitimacy* of the contractual process in the first place. The negotiations between investors and the state are habitually secret, and the resulting terms are almost always secret as well. An air of corruption hangs heavily over most deals. The public has no confidence in the legitimacy of the investor-state relationship. Western countries fuel the doubts. Their foreign policies are directed to winning favourable energy concessions, rather than establishing a sense of fairness and a framework for long-term development of the host countries. Even when "official" money is involved in these deals, as with the World Bank's co-financing of the Chad-Cameroon oil project, the terms of the oil agreements are still kept secret. That deal too, not surprisingly, has exploded in acrimony and yet another failure to convert oil earnings into economic development in a low-income country.

Stabilising host-investor relations

In the international sphere, effective long-term relations are maintained not mainly through international law, which is inherently weak, but through the desire of parties to maintain trust and thereby to reap the benefits of long-term co-operation. Game theorists have given us the conceptual model of a "repeated prisoner's dilemma", in which two parties to an ongoing bilateral relationship must decide in one period after the next whether to co-operate with their counterpart, or instead to cheat. One possible outcome is that the parties act opportunistically in each period, cheating on each occasion, and not worrying how today's poor behaviour will imperil the future of the relationship. Another possible outcome is that each party co-operates today, not only to repeat the benefits of co-operation today, but also to preserve trust and co-operation in the future. Each of these outcomes is a game-theoretic equilibrium, but only the co-operative outcome leads to the best payoffs for the parties.

Today's political risk in hydrocarbons reflects a basic lack of co-operation and norms between investors and host governments. Opportunism dominates and cynicism is confused with true wisdom. The idea that the relationship between hosts and foreign investors should be one of long-term trust is widely judged to be naive and beyond reach. The idea that the foreign energy policies of the US, Europe, China and India can be co-operative among themselves as well as with the host countries is viewed as hopelessly utopian.

Yet the costs of this failure of trust will be more than lost contracts or arbitrary swings in wealth. We have entered a period in which rapid global growth is coming up against the constraint of a lack of spare capacity in primary energy production, and when the world also needs a fundamental overhaul of its energy technologies to head off these supply constraints—as well as the growing danger of human-induced climate change. Only massive flows of FDI, guided by appropriate environmental policies, will be able to provide the trillions of dollars needed to ensure reliable and environmentally safe power for a rapidly growing world economy in the coming decades.

Dealing with political risk

The growing political risks around hydrocarbon investments will undermine these goals, unless we take a radically new direction. We will need to build institutional structures for long-term co-operation between businesses, importing countries (the G8, China, India and others) and the host countries. I suggest three core steps.

First, FDI in the energy sector should be based on a foundation of full disclosure, including the publication of all contractual terms and all payments between host country and the investing companies. The Extractive Industries Transparency Initiative, a growing partnership of key stakeholders in business, government and civil society, has begun to formulate such global standards. A library of contracts could be maintained at the UN and be available online for all interested parties and the general public.

Second, the relationship between host country and foreign direct investors should recognise the long-term mutual interests of investors and host countries. Foreign direct investors need to be able to earn profits at rates that compensate adequately for risk, and the host countries should be able to benefit in terms of long-term sustainable development, meaning economic growth in an environmentally sound manner. Projects that fail either the developmental or environmental imperatives are bound to fail politically in the long term. The violence in the Niger Delta and the cutbacks in production by the international producers epitomise the disasters that befall both the companies and the host regions when investments are taken without regard for the longer-term development context. The UN Global Compact is an ideal place to hammer out a set of common principles for the sector.

Third, home-country governments, which wield foreign policy instruments for the benefit of their national companies, will have to practice a new kind of restrained global politics. The current US administration has been the quintessential "great game" operator. The administration's machinations in Iraq and throughout the Middle East have left the region, and US foreign policy, in tatters. Explicit codes of conduct are needed among governments to reduce as much as possible the use of foreign policy tools (foreign aid, promises of military sales and other military support, threats of sanctions, and so forth) to promote specific commercial opportunities of their major companies. This is, of course, the very stuff of traditional international politics, but it is no less destructive for that being the case.

New investment co-operation is required

Political risks facing FDI are likely to continue to rise in the coming years, at least until a new global framework for such investment is established. The tensions will reflect three basic facts: the startling gaps in income between rich and poor countries, which easily inspire a backlash against foreign investment within poor host countries (such as Bolivia); the growing scramble for natural resources in a fast-growing world economy, especially in view of the rising resource demands of China, and the possible peaking of conventional oil supplies in the coming decade; and the rising environmental threats in most regions, and at the global scale, which will put many natural-resource-based FDI projects under increased scrutiny and much greater controversy.

All of these trends have been exacerbated in recent years by US foreign policy and a wavering of support for globalisation within the US. Just when co-operation has been most needed to work out suitable frameworks for combining economic growth with poverty reduction and environmental sustainability, the US embarked on a path of aggressive unilateralism and a sense of grievance about the world economy. And this has paralleled a growing opposition within the US to FDI inflows, not unlike the kinds of opposition long seen (and long ignored by the US) abroad. The rise of China, and the increasing security fears of the US after the September 11th 2001 terrorist attacks, are both fuelling the new anti-investment sentiment.

If the US and other countries, including China, simply step up their competition for natural resources, and push for short-term commercial opportunities (for example, in demands for the opening of foreign markets), the hostile politics over FDI will surely heat up further. The chances to mobilise such investment to revamp the global energy sector, to achieve sustainable growth rather than a resource-curse in oil-rich countries, and to invigorate the economic development of the poorest countries, could be squandered. If, instead, we recognise that the recent skirmishes over FDI reflect deeper needs for trust and co-operation, there will still be time to address the growing political risks for such investment in a more fundamental and therefore sustainable manner. The latter course is our only sensible approach, and the stakes are high and rising.

The investors' view: economic opportunities versus political risks in 2007-11

By Matthew Shinkman, Manager, Industry and Management Research CEEMEA, Economist Intelligence Unit

Companies are generally bullish about the medium-term global investment outlook, according to a global survey of 602 executives conducted by the Economist Intelligence Unit for this report. However, these same executives also foresee a marked heightening of political risks that could undermine the success of their overseas investment strategies.

For the purposes of our survey, the Economist Intelligence Unit defines political risk to include:

Risk of political violence: terrorism and civil unrest that can cause material loss

FDI protectionism: impact on existing operations (expropriation, negative impact of changes in FDI regulations); and on new investments, including mergers and acquisitions—M&As (formal or informal barriers)

Geopolitical risk: impact of international tensions and threat of organised conflict

Government instability: government collapse or prolonged instability having a material impact on business

Questions addressed by the survey include:

- What are companies' plans for FDI?
- What weight does political risk assessment have, compared with other features of the business environment, in explaining companies' investment location decisions?
- How heavily do global geopolitical threats weigh on multinational corporation (MNC) strategies?
- Is there an intensifying protectionist backlash against FDI?
- How sensitive are firms to the threat of political violence?
- What measures have MNCs put in place to manage political risk?
- Do investors see a trade-off-between political stability and political democratisation?
- What are companies' coping strategies and what are the key factors to minimise the impact of political instability on overseas operations, particularly in emerging markets?

We surveyed 602 senior executives from MNCs around the world in June 2007 in order to try to answer these and other questions. Survey responses were roughly evenly split between executives in western Europe, North America and Asia, and came from a range of industries. The survey also attracted a highly internationalised sample—about one-third of the companies represented in the survey reported at least half of their revenue coming from operations or affiliates outside their home countries. Roughly half of respondents are either at senior vice-president level or above in their organisations.

Benign economic outlook versus heightened political risk

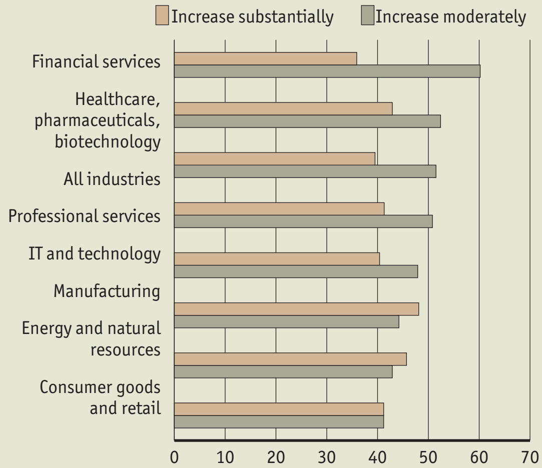
The main overall finding of the survey on business sentiment is that executives are bullish about the investment outlook over the next five years, and are apparently sanguine about macroeconomic and financial risks and the impact of tightened credit conditions. The vast majority of respondents plan to increase FDI "substantially" or "moderately" over the next five years compared with the previous five years. The survey results suggest that economic factors trump risks and other considerations in the list of forces that will have the greatest influence on global FDI. Opportunities appear to predominate over risk concerns.

However, at the same time there are signs of significantly heightened political risk perceptions. Political risk is seen as posing a considerably greater threat to business over the next five years than in the recent past. This is especially so for emerging markets, where generic political risk is identified as the main investment constraint. All four forms of political risk in emerging markets are seen as increasing over the next five years. For developed countries, this is true only of FDI protectionism, but there is widespread concern about the threat of political violence in leading countries such as the US and the UK, and apparent sensitivity to a range of geopolitical risks. The respondents in the survey expressed high rates of agreement with statements pointing to disruptions from key sources of global risk such as conflict between the West and Iran, Islamic radicalism and Russian-Western tensions.

Investors remain optimistic

The survey results show that despite the perception of greater political risk in coming years, businesses are bullish about their investment intentions. Two-fifths of respondents said that their companies would "substantially increase" investments outside their home markets over the coming five-year period compared with the previous five years, and 52% said that they would increase their foreign investment "moderately". Thus more than 90%

Investment intentions by industry
How do you expect your company's investment outside its home market to change over the next five years compared with the previous five years?
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

expect their investments to increase; fewer than 1% of respondents expect to reduce substantially their foreign investments in 2007-11. These intentions were shared across all major industries we surveyed. Manufacturing and energy firms are even more bullish than the sample as a whole—almost half of these companies expect investment to rise substantially in coming years. Respondents based in the US were less bullish than their counterparts in Europe and Asia—only 32% of US-based firms expect investment to rise substantially in 2007-11, compared with 40% and 44% in Asia and Europe, respectively.

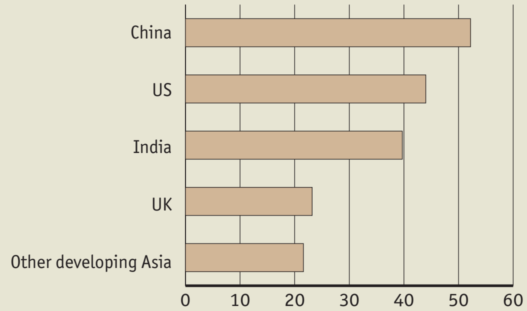
The survey responses on investment intentions are thus broadly consistent with our macroeconomic forecast for global FDI flows (see the article by Laza Kekic elsewhere in this volume). We forecast annual average global FDI inflows of US$1.5trn in 2007-11, compared with an annual average of US$843bn in 2002-06.

The most important markets

The survey respondents rated China as the most important market for businesses in 2007-11: 52% expect the market to be of "critical importance" to their investment strategies over the coming five years, and over 85% expect it to be either critically important or to be at least of some importance in their investment plans. The US came out as the second most important market, with 76% of firms expecting it to play an important role in their investment portfolios in 2007-11.

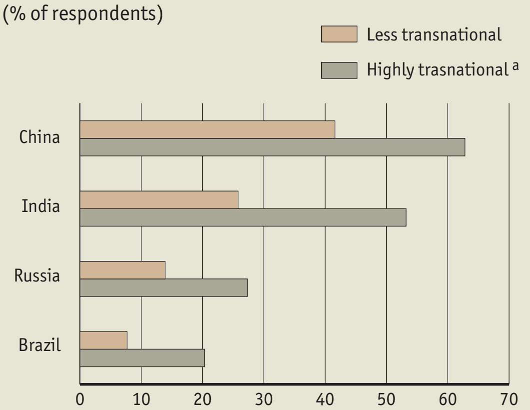
India and the rest of emerging Asia are also of great interest to our respondents (in particular those in the professional services sector), with the UK not far behind. The rest of western and eastern Europe are rated about equally. Most other emerging regions are far behind Asia, as well as emerging Europe. Perhaps surprisingly, the rating for Latin America is rather modest. The Middle East and North Africa and Sub-Saharan Africa are by some distance least important to investors in the coming five-year period—with the exception of the energy and natural resource industries, which see Sub-Saharan Africa and the Middle East, unsurprisingly, as critically important to their businesses.

Assess the importance of the following countries and regions in your company's investment plans over the next five years.
(% of respondents who stated these were "of critical importance")



Source: Economist Intelligence Unit survey, June 2007.

Importance of BRIC countries for investors
Which of the following markets are of "critical importance" in your firm's investment strategy for 2007-11?
(% of respondents)



a More than 25% of employees working in operations outside home market. Source: Economist Intelligence Unit survey, June 2007.

Firms with a more developed international presence (as measured by the share of their revenue and employment accounted for by their foreign affiliates) gave a significantly higher rating to Brazil, Russia, India and China—the so-called BRICs markets—than the sample as a whole.

Regionalisation versus globalisation

Despite ongoing globalisation, our survey responses reflect the well-known proposition that location and geography remain key determinants of FDI (see p. 60) and that much of FDI remains regional in nature. Thus firms from North America were significantly more likely to rate Mexico and Latin America as markets of "critical importance" in their investment planning (20% and 15% of North American respondents, respectively—in both cases about twice the level of the sample as a whole), whereas European respondents expect the UK, France, and the emerging economies of eastern Europe to feature more prominently than do respondents from other regions. Asian firms, equally, expect China, India and the rest of Asia to be of greater importance than does the sample as a whole.

Forms of investment

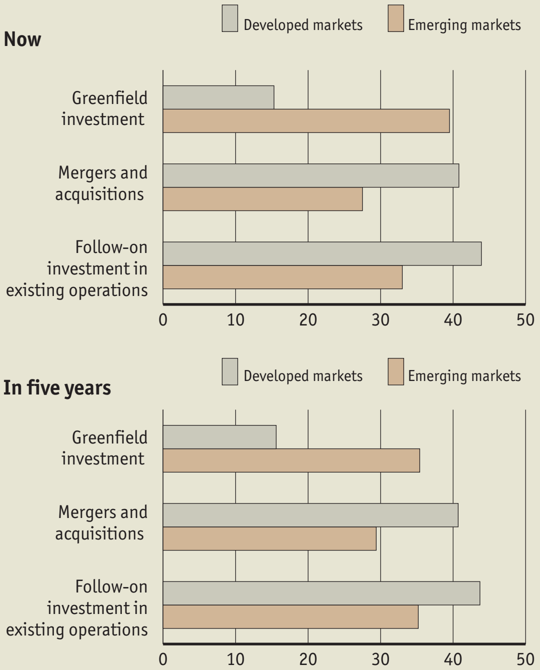
Respondents suggested that greenfield investments would be their primary route into emerging markets in the coming five years (35% said it would be their most important form of investment in these markets), although relative to the previous five-year period the importance of follow-on investment is expected to rise slightly. Despite the trend in recent years of an increasing share of global crossborder M&As taking place in emerging markets, in our survey the share of M&As as the preferred vehicle for investing into emerging markets rises only slightly in 2007-11 compared with the previous five-year period (from 28% to 29%). The implied caution about undertaking M&As in emerging markets may also help explain why the expected increase of FDI into emerging markets during the next five years (as reflected in our forecast) is not stronger, despite the growing importance of these markets for global business.

In developed markets, competitive pressures will continue to drive consolidation, with M&As expected to be by far the most important form of investment for our respondents (about 40% of respondents for both periods).

Economic factors override other issues

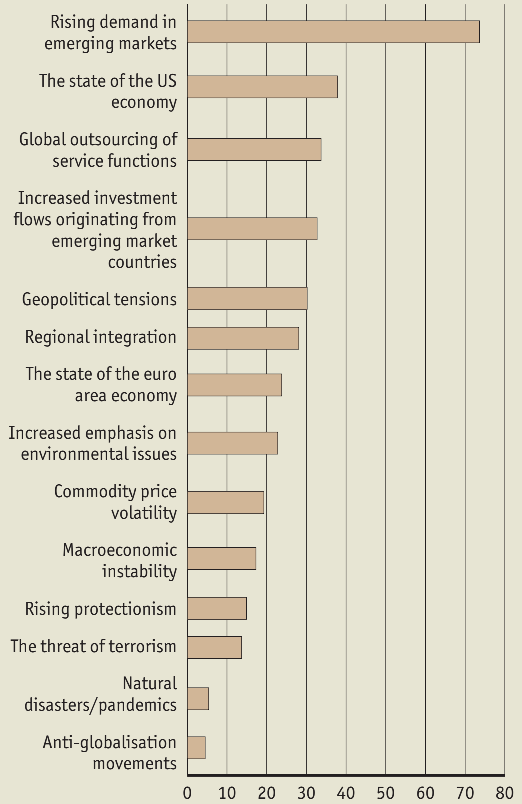
When asked what forces will have the greatest influence on global FDI trends in the coming five years, respondents largely cited economic, rather than political, trends—out of 14 factors, six of the top seven are economic issues. Almost three-quarters of respondents feel that rising demand in emerging markets will be the most important factor driving

Which forms of investment in developed and emerging markets are most important now and in five years?
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

In your opinion, which of the following forces will have the greatest influence on global foreign direct investment over the next five years?
Select up to four.
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

investment flows in 2007-12, with the state of the US economy, global outsourcing trends and increased outward investment from emerging markets the next most-cited factors. Geopolitical tensions were the fifth most important, while only around 14% of respondents expect the threat of terrorism to be a key driver of investment trends in the coming five years.

Here, too, geography plays a role—Asian firms were more likely to cite emerging-market demand as a key factor (84% compared with 74% in the full sample), whereas North American and European firms were more likely to expect the performance of the US and the euro zone to be a factor in global investment trends.

Constraints on investment

Unsurprisingly, investments in developed and emerging markets face differing constraints. Costs are clearly the main concern for investors into developed markets, whereas political risk and governance issues are the most prominent barriers to investment into emerging markets. For the developed economies, respondents were most likely to cite labour costs (42%), exchange-rate strength (38%) and taxation rates (32%) as key limitations on their investment plans.

In emerging markets, almost half cited political risk as a key constraint, followed by corruption (43%) and then by infrastructure weaknesses and contract enforcement problems (North American firms were substantially more likely to cite contract enforcement as an investment constraint—47% compared to 37% in the sample as a whole).

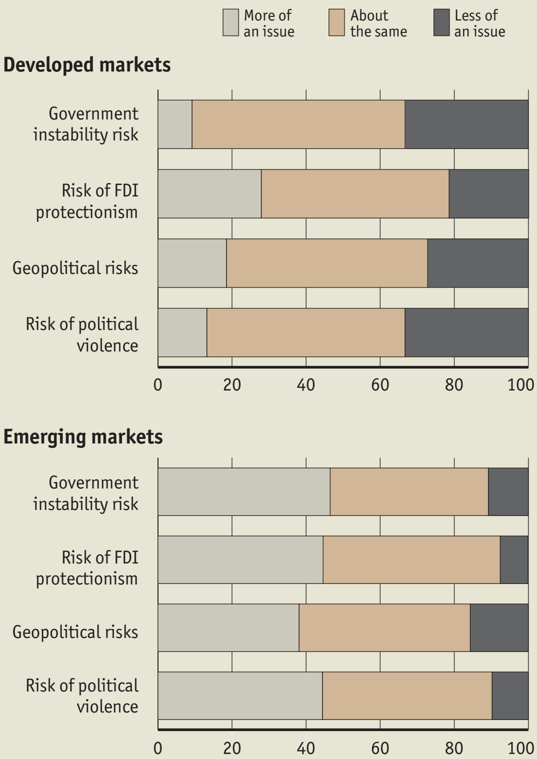
Political risk is seen to be on the rise

Survey responses suggest that political risk is expected to become a much more significant issue in 2007-11, especially for emerging markets. In developed markets, investors remain relatively sanguine about most forms of political risk: one-third even expect the risk of political violence to recede in these markets in the coming five years compared with the previous five years, relative to 13% who expect this risk to increase. Government instability and geopolitical risks to developed-market investments are also expected to ease.

The only exception here—unsurprising given recent trends (see the article by Karl Sauvant elsewhere in this volume)—concerns the risk of FDI protectionism in developed countries; a higher proportion of respondents expect this risk to increase than those who see it as diminishing over the next five years.

However, for emerging markets there is a strong trend of heightened risk perceptions for all types of political risk. An astonishingly high proportion of respondents—around half—expect political violence, geopolitical risk and government instability to increase in these markets in the coming five years (compared with only around 10% of respondents who think these risks will be lower in 2007-11). Around 40% expect the same for the risk of FDI protectionism. These views were shared broadly across geographies and sectors.

Are the following types of political risk likely to be more of an issue over the next five years compared with the previous five years?
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

When asked which specific countries exhibit the highest levels of political risk, respondents unsurprisingly rated Iraq as the riskiest. More surprisingly, the second-riskiest country was Russia, ahead of Afghanistan and Iran. China, Venezuela, Pakistan, Zimbabwe, North Korea and Nigeria rounded out the top ten riskiest markets.

At the same time, opportunities appear to offset risk perceptions (or at least illustrate the disconnect between the economic outlook and political risk perceptions) for several of these economies. China and Russia are high FDI recipients (China was also rated the most important market in our survey and over half of the survey respondents considered Russia important to their investment plans). Pakistan and Nigeria are also likely to attract significant FDI flows in 2007-11, despite the political risks.

Geopolitical hotspots

Several geopolitical hot-spots also feature highly on investors' radar screens. The majority of respondents expect a crisis in Iran to disrupt the global economy at some point in the next five years, and over 70% believe that Islamic radicalism will pose an increasing threat to business. Well over half of the respondents agreed that rising Western-Russian political tensions will have a significant negative impact on business (unsurprisingly, this share rose to 70% in the case of energy sector firms).

Respondents are somewhat less worried about political instability in Asia, although more than 40% thought that the region could experience a major political crisis in the next five years that would disrupt business. Around 40% agreed with the statement that renewed instability in the Balkans will dampen the FDI recovery in that region. However, perhaps it is fortunate for the FDI recipient countries of this subregion that this portion declined significantly, to 29%, for respondents from west European firms—the most significant investors in the Balkans.

Respondents based in North America proved more worried about the potential for a crisis over Iran than were their European and Asian colleagues—almost one-third strongly agreed that "A crisis over Iran will disrupt the global economy during the next five years", compared with 18% of the entire sample.

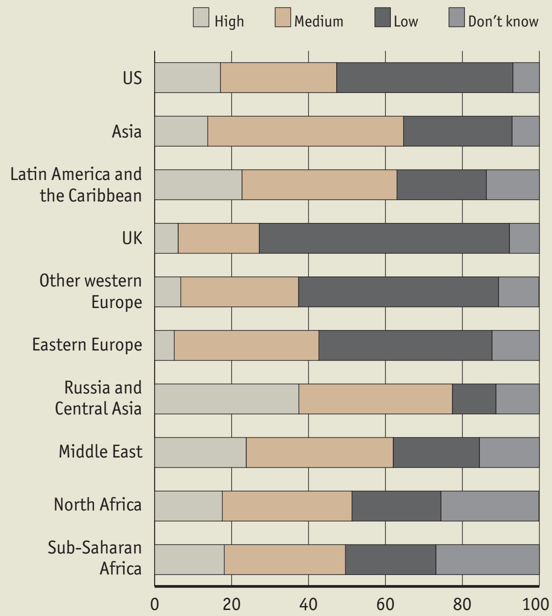
Investors are concerned about the risk of terrorism, not only in many emerging markets, but also in some leading developed states. Unsurprisingly, 70% of respondents expect terrorism to be a "high risk" in the Middle East in 2007-11, but this region is followed by the US and the UK as markets considered most likely to be at high risk of terrorist activity.

For most markets the risk of increased FDI protectionism features much less prominently among investors' concerns than the risk of terrorism. For developed markets as a whole, on balance survey participants actually expect protectionism to be less of an issue in 2007-11 than in the previous five-year period—although there appeared to be particular concern about rising protectionism in the US. The threat of protectionism was less of a concern, compared with other risks, to investors in emerging markets.

When asked about specific markets, significant differences emerged. When correcting for those who either do not know or do not invest in individual regions, Russia came out as by far the most high-risk market for protectionism (42% of respondents). The Middle East and Latin America followed with 28% and 26% of respondents, respectively. Almost one in five respondents expect FDI protectionism to be a high risk in the US in 2007-11, well ahead of the proportion who expect the same in western Europe.

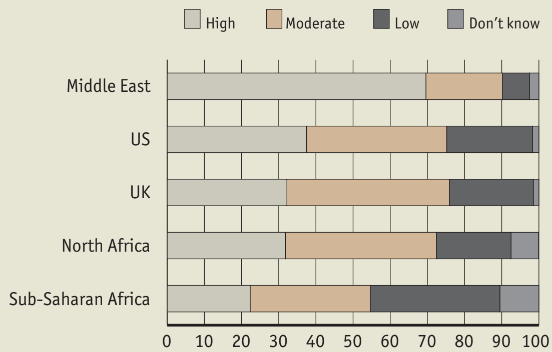
The US and France were the only two developed markets for which a higher share of respondents thought that officials were today less receptive to foreign investors than they were five years ago. For most regions, both developed and emerging markets, the proportion of survey respondents who thought that officials were today more receptive to investors than five years ago far outstripped those who believed that officials had become less receptive. In part, this is a reflection of the fact that over the past five years as a whole, the global trend of liberalisation and opening to FDI has continued (reversals in some areas, as described elsewhere in this volume, are a recent phenomenon and pose risks for the future). This was particularly the case for China and India. For China, 46% of respondents believed that the attitudes

How high is the risk of increased FDI protectionism in the following markets during the next five years, in your view?
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

Risk of terrorism in the coming five years
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

of officials had become more receptive to investors and only 7% said that they had become less receptive; for India the corresponding proportions were 49% and 6%. These responses may also to a certain extent illustrate the fact that attitudes towards officialdom and bureaucracy can be influenced by a country's economic attractiveness and market dynamism.

Political risk is a reality

The concept of political risk covers a wide range of issues, from the threat of political violence and geopolitical tensions to shifting legal and regulatory frameworks and collapsing governments. When we asked participants to identify instances in which their firms had been subject to specific political risk events—things such as problems with currency convertibility and transfer, government payment default or expropriation of assets—the responses were striking.

When adjusting for respondents who do not operate in the regions in question, the survey found that 16% of companies had experienced problems with converting or transferring currency in Latin America, and 14% had had similar issues in Asia. One in seven had suffered a unilateral contract cancellation or request for renegotiation by a government counter-party in Russia (the same ratio had faced this issue in Asia). And almost one in ten had suffered some form of expropriation of assets in Russia and Latin America. Payment defaults by government buyers in Latin America were suffered by 12% of respondents operating in those markets, and 9% of respondents working in the MENA region and Asia.

The problem is largely—but not solely—an emerging-market phenomenon: 17% of respondents operating in North America said that they had had an M&A deal blocked by authorities in the past five years. For western Europe and Asia the corresponding proportion was 10%.

Managing political risk

It is unclear whether firms are addressing adequately their expectations of increased political risk. Firms appear unlikely to seek external help in managing their relationships with political actors: 43% of respondents said their firms do not have any contact with investment promotion agencies (IPAs), and only 18% suggested that their interactions with IPAs are helpful in their investment decisions. At the same time, only 20% of respondents suggested that the existence of an international investment agreement (IIA) between their home country and other markets strongly affects their decisions to invest crossborder.

Internally, within firms, survey responses suggest that things are a bit better, although room for improvement remains: 32% of respondents said that their firms' internal political risk assessment capabilities are "excellent" or "very good", but almost one-quarter said their firms are either weak at assessing political risk or that they do not do it at all.

Of responding firms, 22% generate formal political

Political risk events

Which of the following has your company experienced?
% of respondents operating in each region

	North America	Latin America	Western Europe	Eastern Europe	Russia/ CIS	Middle East & North Africa	Sub-Saharan Africa	Asia
Unilateral contract cancellation or request for renegotiation by a government counterparty	11.5%	13.7%	11.0%	10.3%	13.6%	12.3%	6.6%	14.2%
Cancellation of import or export licences	10.2%	6.6%	7.8%	6.4%	8.7%	7.1%	6.6%	6.8%
Payment default by a government buyer	3.8%	11.9%	6.5%	7.8%	8.2%	9.1%	6.6%	9.0%
Inability to convert or transfer currency	6.9%	16.0%	3.2%	10.8%	8.7%	10.0%	9.6%	14.0%
Expropriation of assets	3.6%	8.0%	3.5%	5.0%	8.4%	3.4%	5.6%	5.4%
Blocked M&A deal	16.5%	7.1%	9.9%	5.3%	6.9%	3.4%	2.3%	10.2%
Litigation based on an event of political violence	3.6%	4.3%	2.2%	3.3%	3.3%	5.4%	5.3%	3.8%

Source: Economist Intelligence Unit survey, June 2007.

Foreign direct investment and democracy

The impact of forms of political regime on investment, and in particular the relationship between FDI and democracy, has been the subject of much attention. Traditionally, there has been an assumption that most foreign investors tend to be indifferent to the form of government in host countries, as long as the main economic drivers of investment are favourable and the overall business environment is at least tolerable. Indeed, although democracies are associated with greater transparency, there was even a presumption that many foreign investors may even prefer the predictability that authoritarian regimes are sometimes perceived to confer. However, various empirical studies have also revealed a significant positive link between FDI flows and the existence of political democracy in host countries, once other FDI drivers are controlled for.

We asked our survey respondents a range of questions to ascertain their views on this issue. The responses were mixed and, in some cases, surprising. The respondents were split in their answers to the question of whether a country being a democracy had a significant impact on their investment decisions in emerging markets. Just over half said yes and 45% said no. With respect to the proposition that in emerging markets authoritarian regimes may make for a more stable and predictable environment for business, perhaps surprisingly only 38% disagreed, 31% neither agreed nor disagreed and almost 30% agreed.

It is often said that energy sector firms in particular tend to have to operate in authoritarian countries, that they are used to this and may indeed even prefer such a situation. Our survey provides some limited support for this proposition. A significantly lower share of energy sector firms (44%) than the survey average stated that whether a country was a democracy was important to their investment decisions. A significantly higher share than the average (39%) agreed with the statement that authoritarian regimes in emerging markets make for a more stable and predictable environment.

The responses to other questions suggested a greater sensitivity to the importance of types of political regimes and a possible positive link between democracy in host countries and MNC operations. A clear majority disagreed with the statement that “a country’s political system is of marginal importance to my company’s investment decisions”. Only some 20% agreed with the statement that the fact that China is an autocracy and India a democracy helps explain why China attracts so much more FDI than India; the vast majority of respondents disagreed.

risk ratings internally, and about 30% rely on rating agencies for help in assessing political risk. However, 35% said they do not use formal ratings in their investment decisions. Only 16% of respondents said their firms purchase political risk insurance.

Does all of this matter? A closer look at the survey results suggests that it does. We asked respondents to rate the financial performance of their firms relative to their peers over the past two years, and those whose firms outperformed their competitors were significantly more likely to rate their firms’ political risk assessment capability highly. One-tenth of high-performers said their firms were “excellent” at assessing political risk, twice the 5% of the remainder of our sample who said the same, and 28% rated their political risk assessment as “very good”, compared to 15% of average or low-performing companies. High-performing companies are also more likely to make use of IPAs (20% compared with 15%).

Perhaps most crucially, these high-performing companies—with better political risk assessment capabilities—have also experienced fewer cases of expropriation, government payment default, import/export licence cancellation or currency transfer restriction than underperforming firms in our sample.

How would you rate your company’s political risk assessment capability?
(% of respondents)

Source: Economist Intelligence Unit survey, June 2007.

Bulls and bears

We found no clear difference in the political risk outlook between those firms who plan to invest heavily in 2007-11 and those who have more moderate investment plans—in line with the overall finding of the survey of an apparent disconnect between expectations of heightened political risk and a general investment bullishness.

However, respondents whose firms anticipate a substantial increase in foreign investment in the coming five years exhibited a number of important differences in outlook relative to those who expect foreign investment to remain unchanged or decrease.

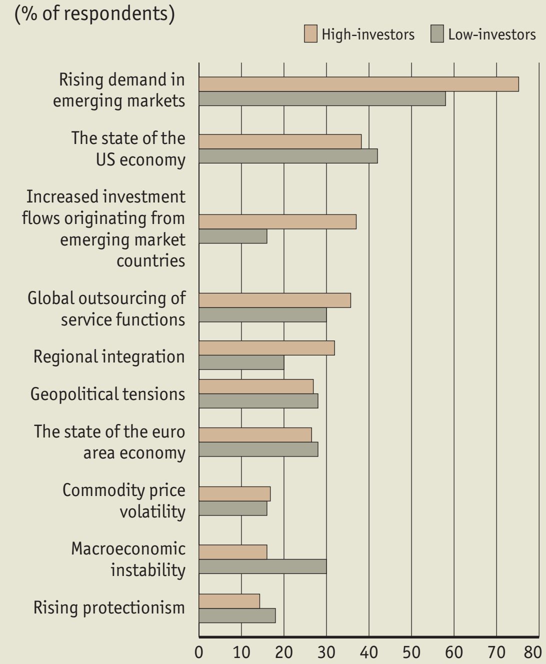
Aggressive investors are more sanguine about macroeconomic risks—just 16% cite macroeconomic instability as a likely factor in future global investment trends, compared with almost one-third of those who are less likely to invest themselves.

More optimistic investors also appear to view the institutional aspects of globalisation differently from their more cautious peers. Those with more bullish crossborder investment plans—and thus more likely to benefit from freer trade and investment patterns—place a higher value on regional integration and multilateralism. Almost one-third of high-investors expect regional integration to be a key investment driver in 2007-11, whereas only 20% of low-investors agree. Equally, when asked whether "multilateral co-operation on key international problems is essential", 56% of high-investors strongly agreed, compared with 36% of low-investors.

Those with more modest plans for crossborder investment place a heavier emphasis on democracy and the quality of governance in their target markets. This may indicate that problems in these areas are a key deterrent to investment by this group of companies—75% of low-investors agreed that "whether a country is a democracy has a significant impact on our investment decisions in emerging markets", and just 8% disagreed. Fewer than half of high-investors agreed, and 20% disagreed.

These differences in outlook also appear to drive different approaches to the investment process. One-quarter of high-investors consider IIAs to be "very important" to their investment decisions,

In your opinion, which of the following forces will have the greatest influence on global foreign direct investment over the next five years?
Select up to four.
(% of respondents)



Source: Economist Intelligence Unit survey, June 2007.

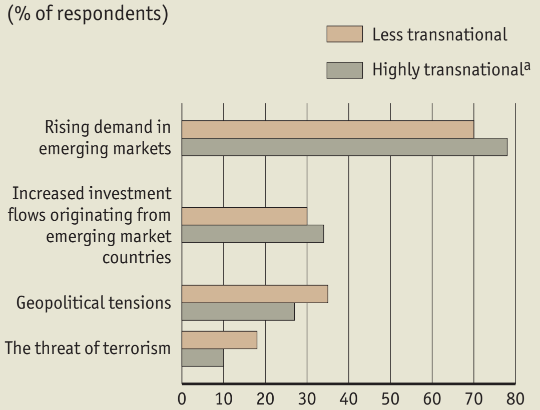
compared with 14% of low-investors, and high-investors put more stock in political risk assessment than their peers. Just over one-tenth consider their firms' political risk assessment capabilities to be "excellent", compared with just 2% of low-investors, and 24% call it "very good", compared with 16% of those with cautious investment plans. High-investors are also significantly more likely to purchase political risk insurance.

The virtuous circle of globalisation

Firms that exhibited a high degree of transnationalisation—those with more than 25% of revenue or employees outside their home markets—were significantly more bullish in their investment outlook than firms that are comparatively more focused on domestic operations. Of firms with more than one-quarter of their employees working overseas, 45% expect foreign investment to increase substantially in 2007-11, compared with 34% of those with a greater home-market focus. (As mentioned above, more internationalised firms show a greater interest in emerging markets as investment destinations as well.) This suggests a further widening in the future of the gap between the most transnationalised MNCs and the rest—rather than a narrowing as is sometimes expected.

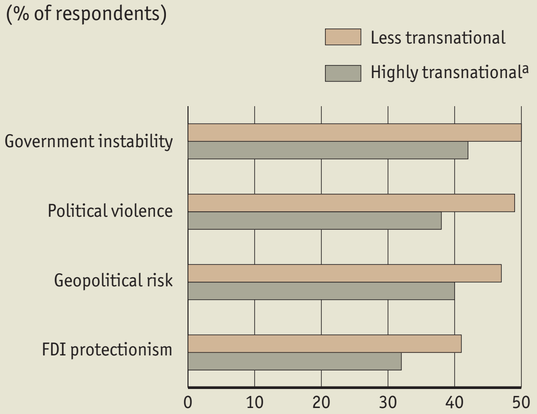
Crucially, there also appears to be a link between the degree of transnationalisation and firm performance: those firms in our survey with a relatively greater presence in foreign markets were more likely to report better than average financial performance over the past two years (62% compared with 53% for the less internationalised firms).

Investment drivers 2007-11
Which of the following forces will have the greatest influence on global foreign direct investment over the next five years?
(% of respondents)



a More than 25% of employees working in operations outside home market. Source: Economist Intelligence Unit survey, June 2007.

Outlook for emerging market political risk 2007-11
Which of the following types of political risk is likely to be more of an issue over the next five years?
(% of respondents)



a More than 25% of employees working in operations outside home market. Source: Economist Intelligence Unit survey, June 2007.

Internationalisation and risk perceptions

On most questions, the degree of transnationalisation did not appear to account for large or significant differences in perceptions of political risk. But there were a few exceptions, suggesting that the experience, and confidence, gained from operating intensively in foreign destinations led to a more sanguine view of some types of political risk. Thus, perhaps ironically, more intensive internationalisation appeared to be associated with less fear of some of the consequences of greater exposure to globalisation.

The highly transnationalised firms seemed somewhat less sensitive to the threats from geopolitical tensions and terrorism—27% of the more internationalised firms cited geopolitical tensions as a key factor for investment in 2007-11, compared with 35% of the other firms; the corresponding proportions for the risk from terrorism were 10% and 18%, respectively. With respect to the risk of terrorism in emerging markets, 39% of the more internationalised companies saw this as an increasing threat over the next five years, compared with 49% for the others.

Conclusion

Our survey has helped to cast considerable light on the questions we posed:

- **Political risk and companies' investment location decisions**. The main finding of the survey was the apparent disconnect between bullish sentiment on the investment outlook over the next five years, and heightened perceptions of political risk, especially in emerging markets. Opportunities appear to predominate over political risk concerns, even though these are seen as posing a considerably greater threat to business over the next five years than in the recent past.

- **Geopolitical threats and MNCs**. Firms exhibit sensitivity to a range of geopolitical risks. The survey respondents expressed high rates of agreement with statements pointing to disruptions from key sources of global risk such as conflict between the West and Iran, Islamic radicalism and Russian-Western tensions.

- **On a protectionist backlash against FDI**. A large proportion of the sample reported that they had experienced blocked M&A deals. There is concern that FDI protectionism will increase significantly in most emerging-market regions. There is also concern about FDI protectionism in the US, although investors appear more sanguine about the threat in other developed countries. Investors were, however, less worried about FDI protectionism than about other forms of political risk in emerging markets.

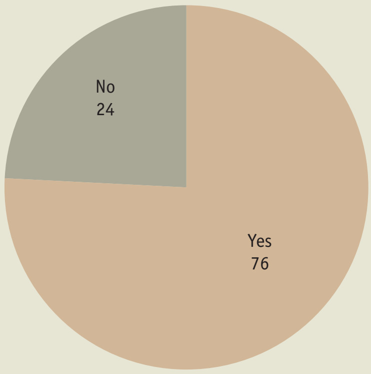
- **The sensitivity of firms to the threat of political violence**. Terrorism did not feature highly on the list of factors that will shape future FDI trends. However, investors appear very concerned about the risk of terrorism, not only in many emerging markets, but also in some leading developed states such as the US and the UK.

- **FDI, political stability and political democratisation**. The respondents were split in their answers to the question of whether a country's being a democracy had a significant impact on their investment decisions in emerging markets. The responses to some questions suggested a greater sensitivity to the importance of types of political regimes and a possible positive link between democracy in host countries and MNC operations.

- **The management of political risk**. Many firms are not addressing adequately their expectations of increased political risk. Firms that outperformed their competitors paid significantly more attention to assessing and taking measures to manage political risk. Better-performing companies, with better political risk assessment capabilities, also experienced fewer cases of expropriation, government payment default, import/export licence cancellation, or currency transfer restriction than other firms in our sample.

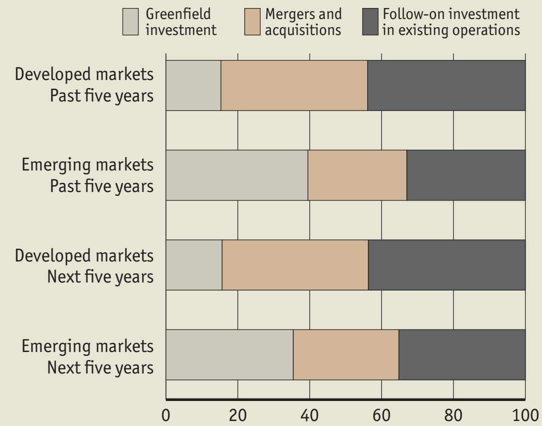
Survey results

Screener question. Does your company invest, or plan to invest, in markets outside its home country?
(% of respondents)

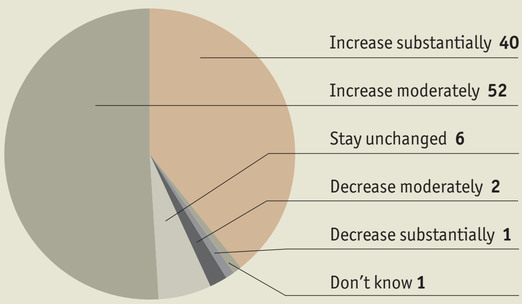


Note. Results shown here include all respondents who completed the survey plus those who were screened out by this question.

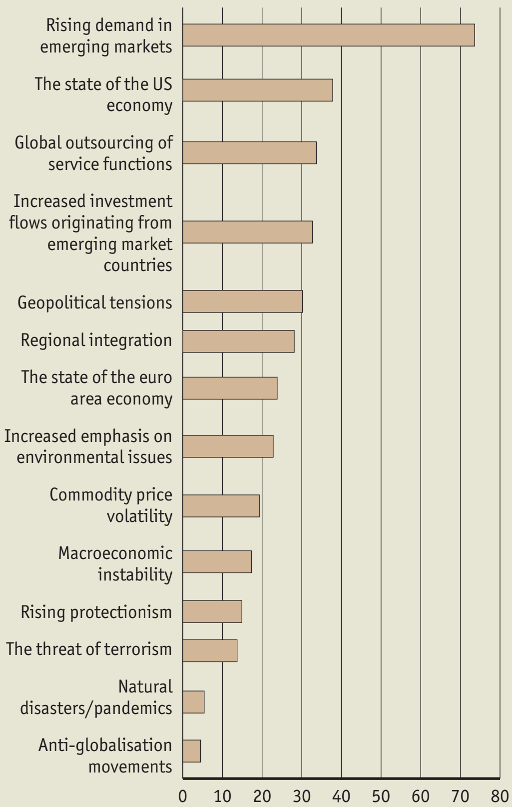
Which forms of investment in developed and emerging markets are most important now and in five years?
(% of respondents)



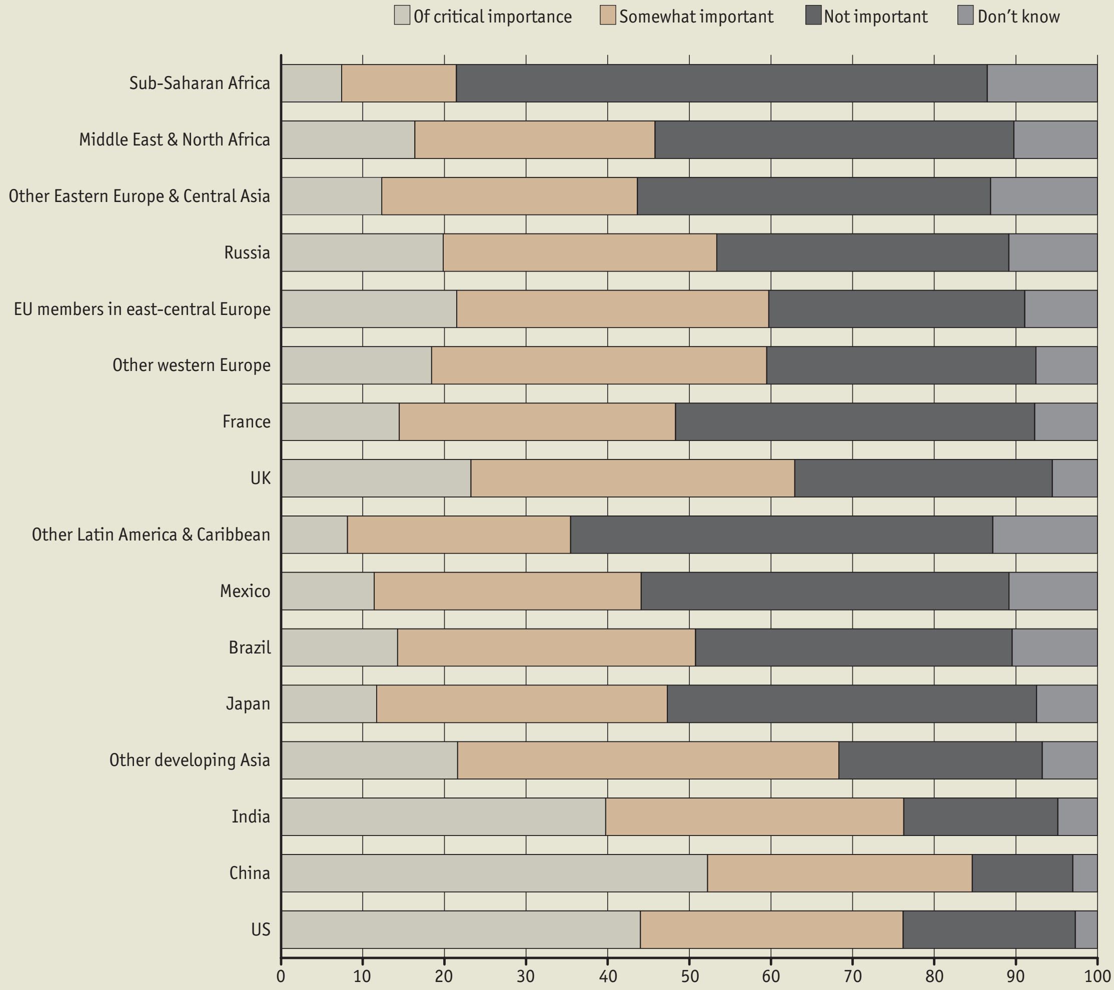
How do you expect your company's investment outside its home market to change over the next five years compared with the previous five years?
(% of respondents)



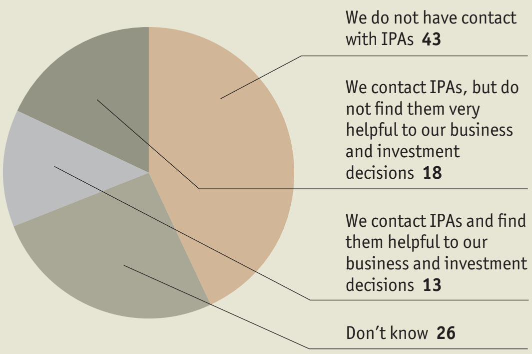
In your opinion, which of the following forces will have the greatest influence on global foreign direct investment over the next five years?
Select up to four.
(% of respondents)



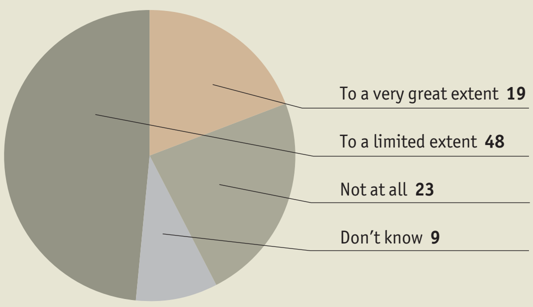
Assess the importance of the following countries and regions in your company's investment plans over the next five years.
(% of respondents)



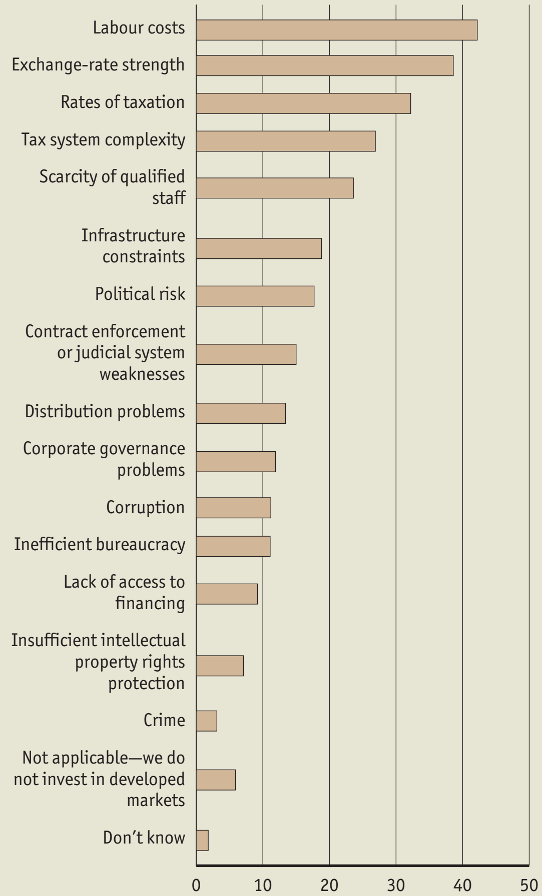
How does your company use investment promotion agencies (IPAs)?
(% of respondents)



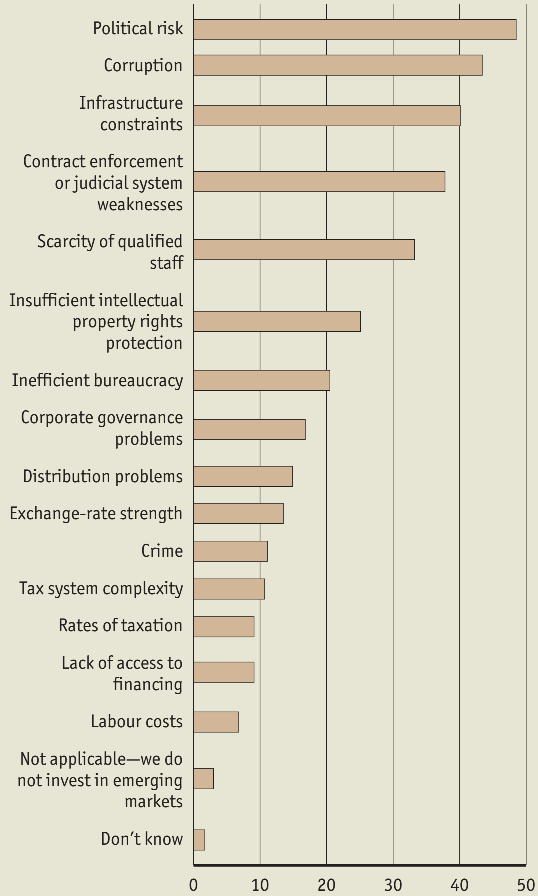
To what extent does the existence of an international investment agreement (for example, a bilateral investment treaty) influence your company's decision on which markets to invest in?
(% of respondents)



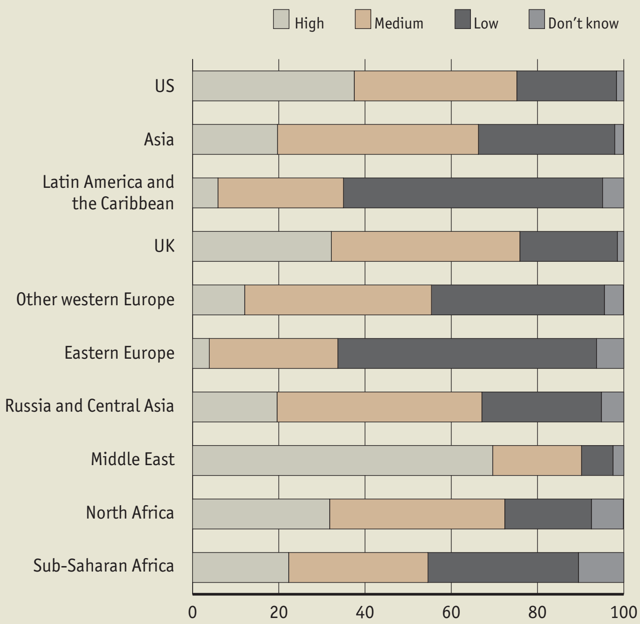
Which of the following represent the most significant constraints on your company's plans to invest in developed markets? Select up to four.
(% of respondents)



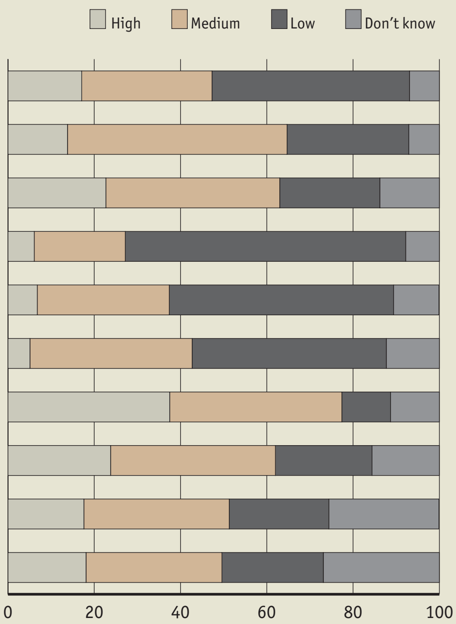
Which of the following represent the most significant constraints on your company's plans to invest in emerging markets? Select up to four.
(% of respondents)



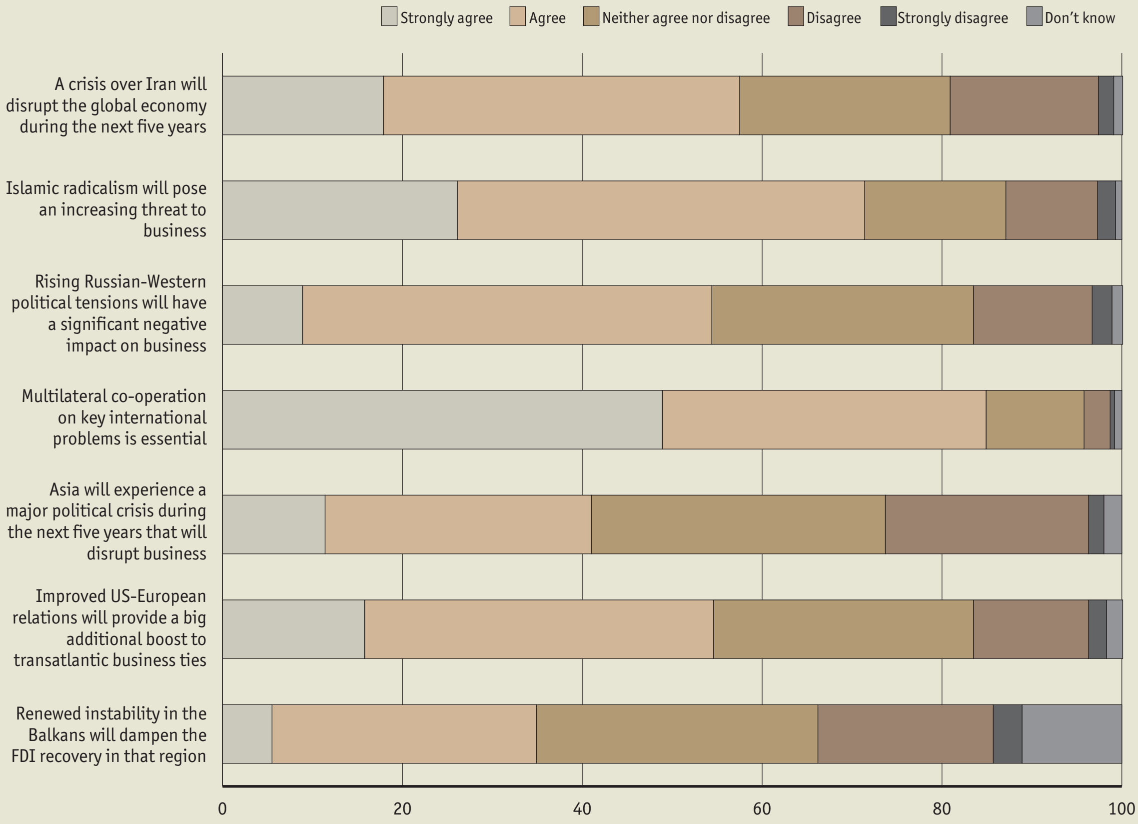
Risk of terrorism in the coming five years
(% of respondents)



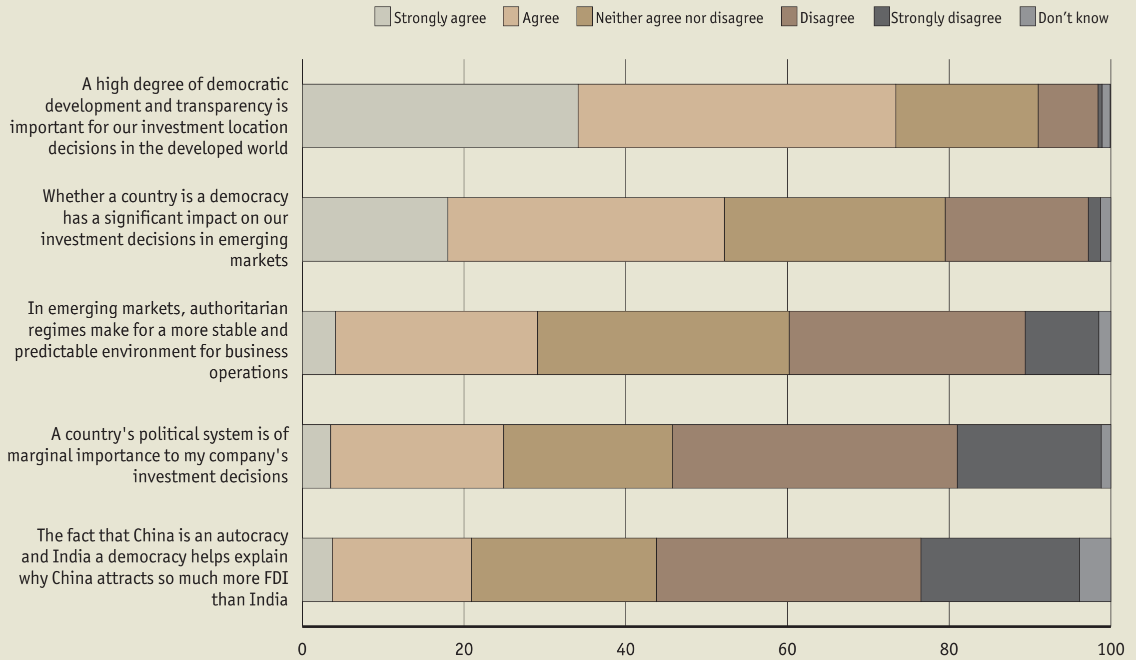
Risk of increased FDI protectionism in the coming five years
(% of respondents)



Please indicate whether you agree or disagree with the following statements.
(% of respondents)



Please indicate whether you agree or disagree with the following statements.
(% of respondents)

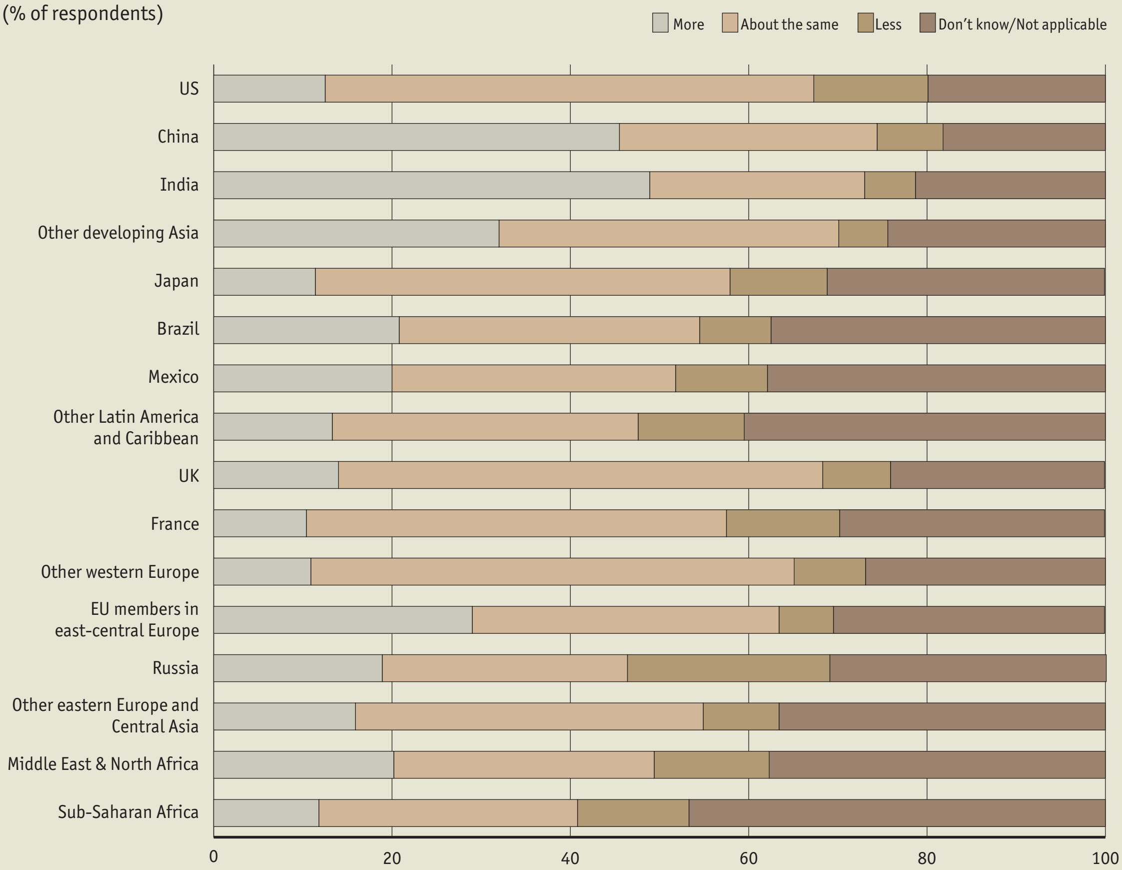


In your opinion, which countries have the highest political risk? Name up to three countries.
(% respondents)

	Country 1	Country 2	Country 3
Afghanistan	10.7	11.2	3.8
Albania	0.3	0.5	0.2
Algeria	0.7	0.4	0.2
American Samoa	0.0	0.2	0.0
Angola	0.7	0.5	0.6
Antigua	0.2	0.0	0.0
Argentina	0.5	0.2	0.8
Armenia	0.2	0.0	0.0
Azerbaijan	0.9	0.9	0.4
Bahrain	0.0	0.0	0.2
Bangladesh	0.5	0.9	1.2
Barbuda	0.2	0.0	0.0
Belarus	0.3	0.2	1.0
Belgium	0.0	0.2	0.0
Benin	0.0	0.0	0.2
Bhutan	0.3	0.2	0.0
Bolivia	0.3	0.9	1.0
Bonaire	0.0	0.2	0.0
Bosnia & Hercegovina	0.2	0.5	0.4
Botswana	0.0	0.4	0.4
Brazil	0.3	1.4	0.8
Bulgaria	0.0	0.2	0.4
Burkina	0.0	0.0	0.2
Cambodia	0.3	0.2	0.2
Central African Republic	0.3	0.4	0.2
Chad	0.3	0.4	0.2
Chile	0.0	0.2	0.0
China	8.8	6.2	5.4
Colombia	0.3	1.3	0.2
Congo	0.5	0.5	1.8
Cook Islands	0.0	0.0	0.2
Cote d'Ivoire	0.5	0.2	0.6
Cuba	0.3	1.1	0.4
Cyprus	0.2	0.0	0.0
Czech Republic	0.0	0.0	0.4
Ecuador	0.0	0.7	0.4
Egypt	0.7	0.5	0.4
El Salvador	0.0	0.0	0.2
Equatorial Guinea	0.0	0.0	0.2
Eritrea	0.0	0.0	0.2
Ethiopia	0.0	0.4	0.6
Fiji	0.0	0.0	0.4
France	0.2	0.2	0.4
Georgia	0.0	0.0	0.2
Ghana	0.3	0.2	0.0
Gibraltar	0.0	0.0	0.2
Greece	0.2	0.0	0.0
Grenada	0.0	0.2	0.0
Guatemala	0.0	0.2	0.0
Guinea	0.2	0.0	0.0
Guyana	0.2	0.0	0.0
Haiti	0.0	0.7	0.8
Honduras	0.0	0.2	0.0
Hong Kong	0.0	0.4	0.0
India	0.3	0.9	2.4
Indonesia	2.1	2.4	2.0
Iran	7.2	7.2	10.2
Iraq	17.2	9.8	6.6
Israel	1.4	2.0	2.0
Jamaica	0.0	0.2	0.0
Kazakhstan	0.2	0.4	0.6
Kenya	0.0	0.2	0.0
Kyrgyz Republic	0.2	0.0	0.0
Korea (North)	2.1	2.4	5.2
Korea (South)	0.0	0.4	0.2
Kuwait	0.0	0.2	0.0
Laos	0.3	0.0	0.2
Lebanon	0.5	1.1	1.6
Liberia	0.3	0.0	0.2
Libya	0.0	0.4	0.2
Malaysia	0.2	0.4	0.4
Mexico	0.2	0.2	0.6
Moldova	0.0	0.0	0.2
Mozambique	0.2	0.0	0.0
Myanmar	1.0	0.5	0.4
Nauru	0.0	0.0	0.2
Nepal	0.0	0.0	0.6
Nicaragua	0.2	0.0	0.0
Nigeria	2.4	3.1	2.8
Oman	0.2	0.0	0.0
Pakistan	3.3	4.2	3.6
Panama	0.2	0.0	0.0
Papua New Guinea	0.0	0.4	0.0
Peru	0.0	0.2	0.0
Philippines	0.3	0.4	0.8
Poland	0.0	0.2	0.0
Puerto Rico	0.0	0.2	0.0
Russia	12.6	8.0	6.8
Rwanda	0.0	0.4	0.8
Saudi Arabia	1.0	2.4	2.0
Sierra Leone	0.2	0.0	0.2
Somalia	0.7	0.5	1.0
South Africa	0.0	0.4	0.4
Spain	0.0	0.0	0.2
Sri Lanka	0.2	0.0	1.0
Sudan	0.7	1.3	1.6
Syria	0.2	0.4	1.6
Taiwan	0.5	0.7	1.2
Tajikistan	0.0	0.0	0.4
Thailand	1.9	2.2	1.6
Togo	0.0	0.0	0.2
Turkey	0.0	0.7	1.4
Turkmenistan	0.0	0.0	0.4
Uganda	0.0	0.0	0.2
Ukraine	1.0	2.0	1.2
United Arab Emirates	0.0	0.2	0.4
United Kingdom	0.0	0.0	0.2
United States of America	1.7	0.7	1.2
Uruguay	0.0	0.0	0.2
Uzbekistan	0.0	0.2	0.2
Venezuela	5.3	6.0	5.2
Vietnam	0.2	0.2	0.2
Virgin Islands (UK)	0.0	0.0	0.2
Yemen	0.0	0.2	0.0
Yugoslavia	0.2	0.2	0.2
Zaire	0.2	0.4	0.0
Zambia	0.0	0.2	0.2
Zimbabwe	3.6	3.1	3.0

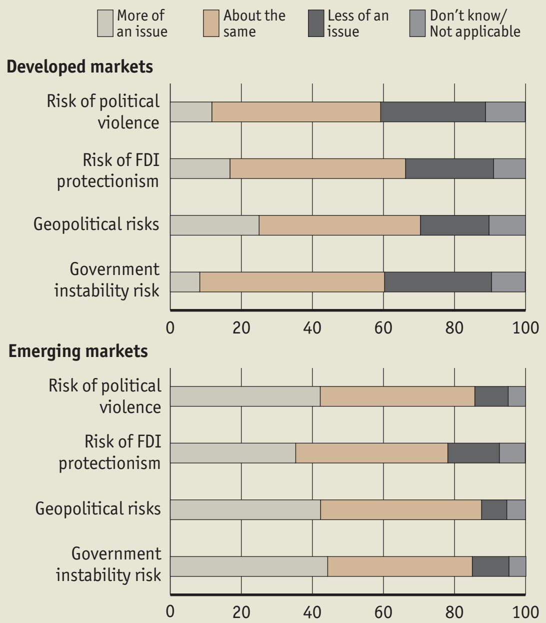
Is the attitude of officials your company deals with in the following emerging and developed markets more or less receptive to foreign investment than five years ago?

(% of respondents)

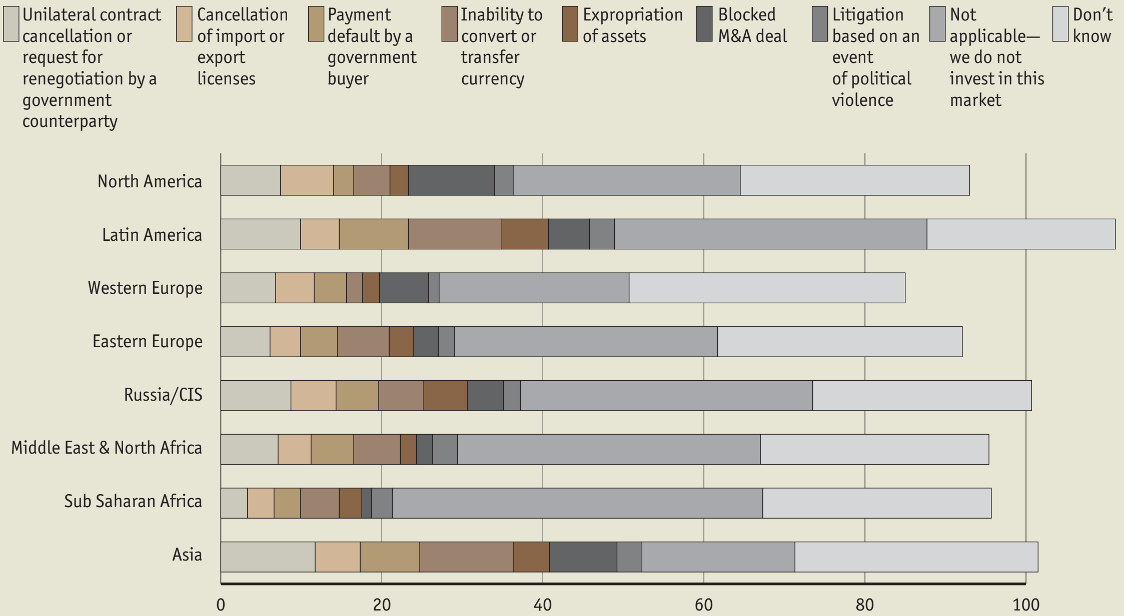


Thinking about your company's plans to invest in both developed and emerging markets, are the following types of political risk likely to be more of an issue over the next five years compared with the previous five years?

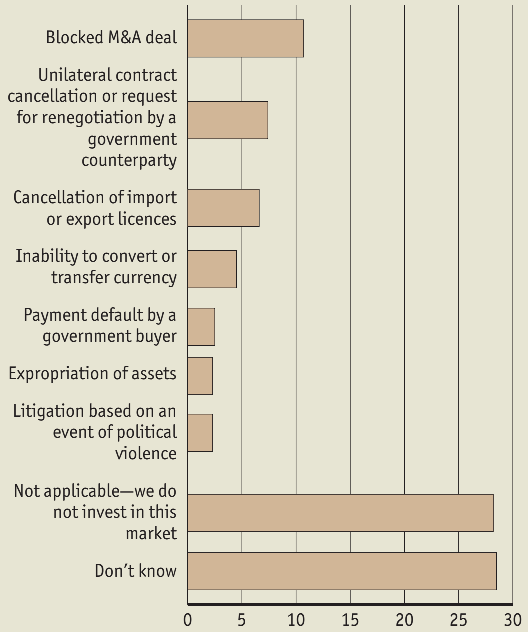
(% of respondents)



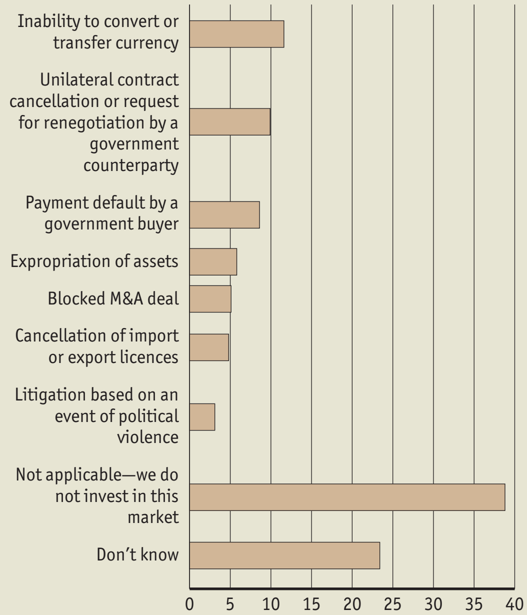
Which of these has your company experienced in the following markets in the past five years?
(% of respondents)



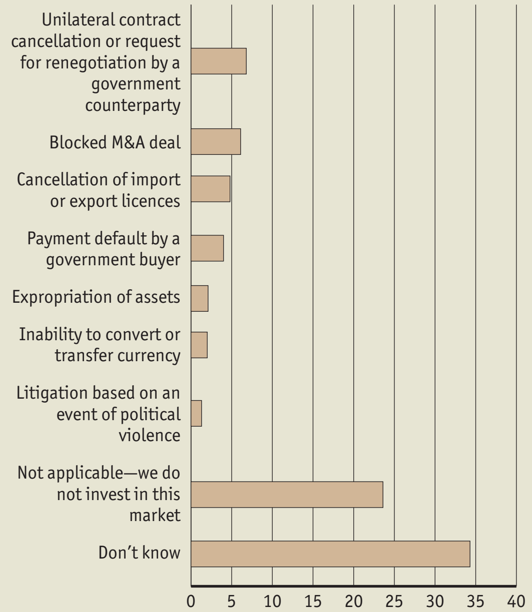
Which of the following has your company experienced in North America in the past five years?
(% of respondents)



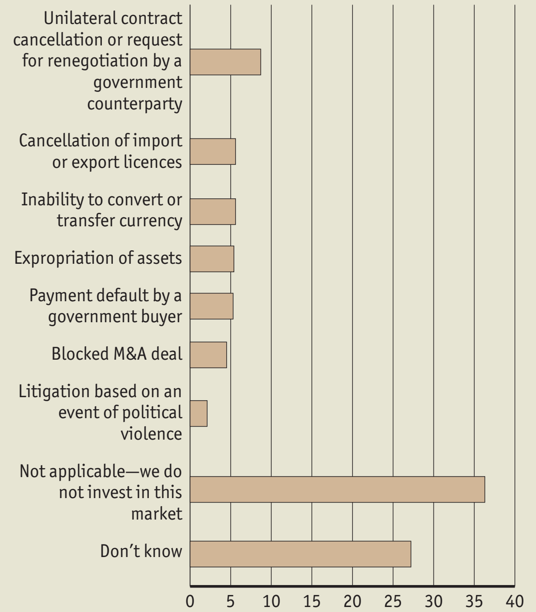
Which of the following has your company experienced in Latin America in the past five years?
(% of respondents)



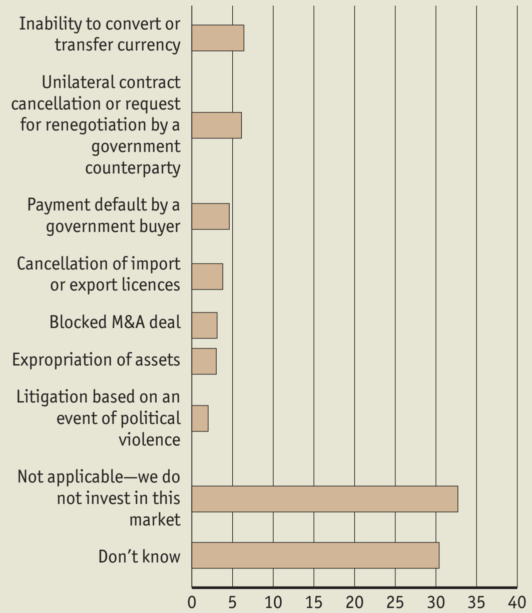
Which of the following has your company experienced in western Europe in the past five years?
(% of respondents)



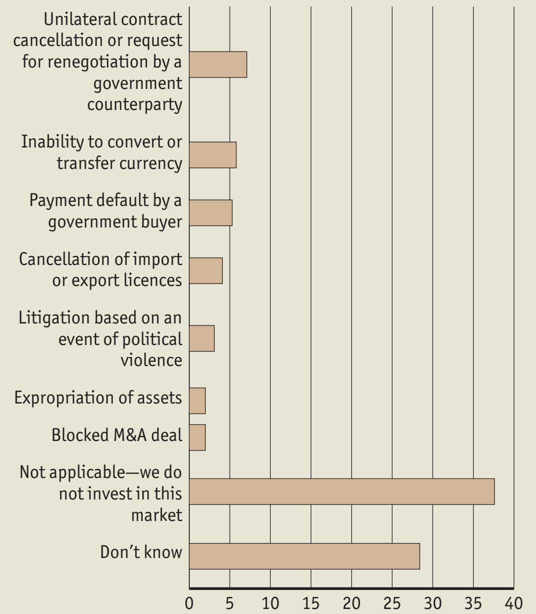
Which of the following has your company experienced in Russia/CIS in the past five years?
(% of respondents)



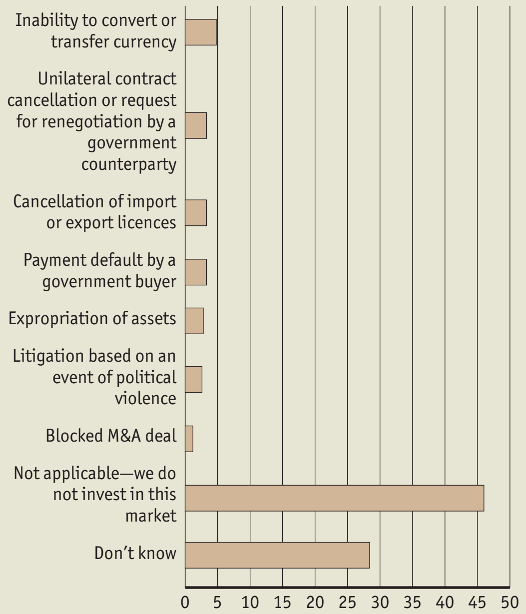
Which of the following has your company experienced in eastern Europe in the past five years?
(% of respondents)



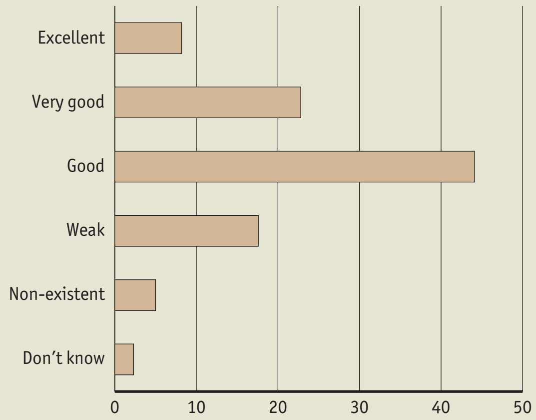
Which of the following has your company experienced in the Middle East & North Africa in the past five years?
(% of respondents)



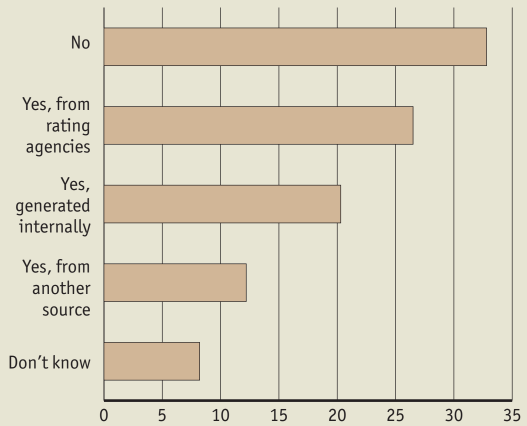
Which of the following has your company experienced in Sub-Saharan Africa in the past five years?
(% of respondents)



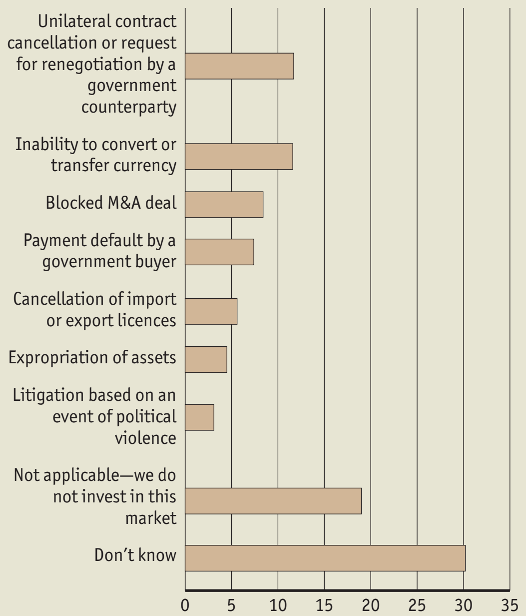
How would you rate your company's political risk assessment capability?
(% of respondents)



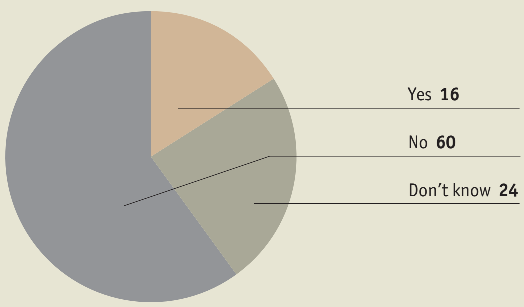
Does your company use formal ratings for political risk?
(% of respondents)



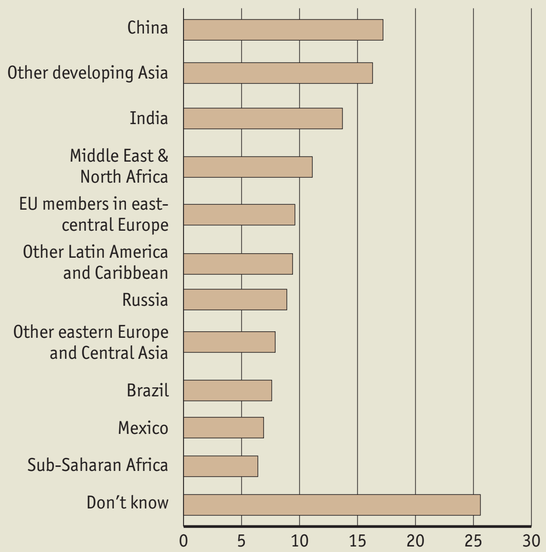
Which of the following has your company experienced in Asia in the past five years?
(% of respondents)



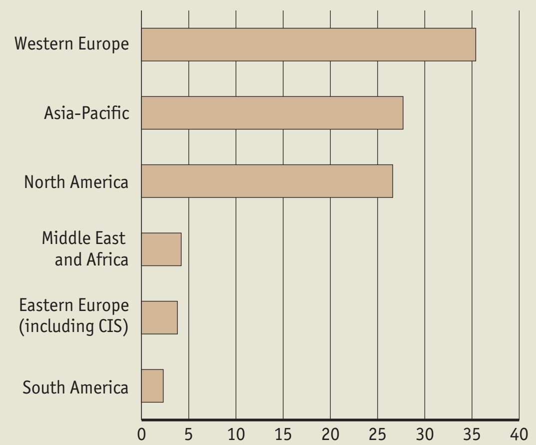
Does your company purchase political risk insurance?
(% of respondents)



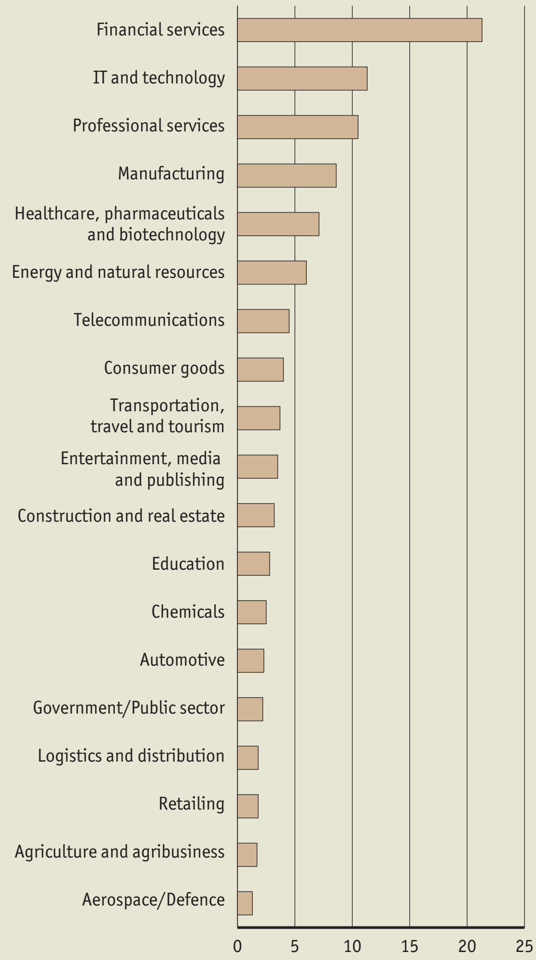
If your company has political risk insurance, in which regions are your operations covered?
(% of respondents)



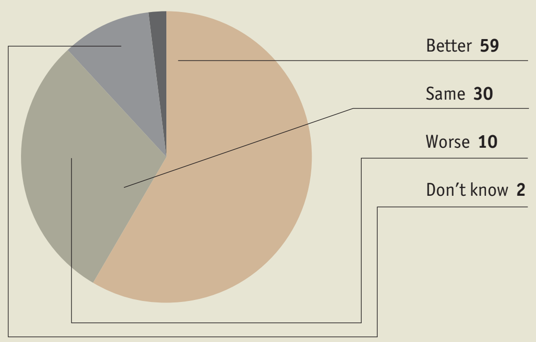
In which region are you personally located?
(% of respondents)



What is your primary industry?
(% of respondents)

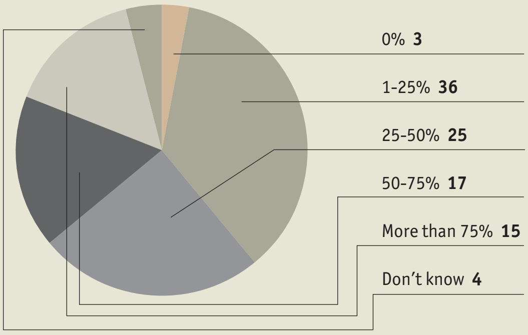


How would you assess your company's financial performance relative to its peers over the past two years?
(% of respondents)

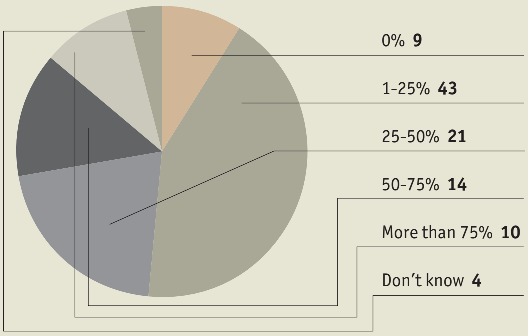


Roughly what percentage of your company's workers and revenue are accounted for by operations or affiliates outside its home country?
(% of respondents)

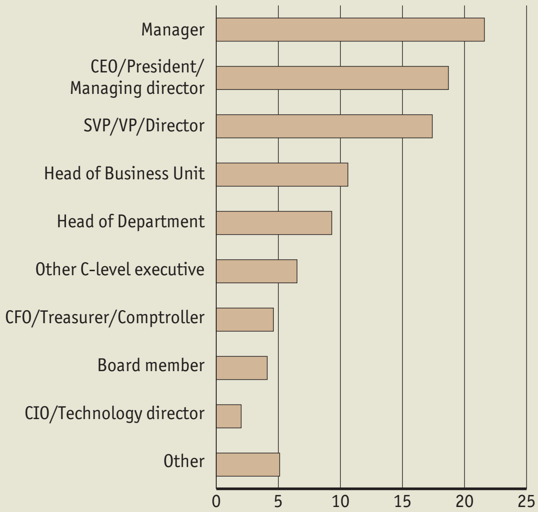
Revenue



Employees



Which of the following best describes your title?
(% of respondents)



Part 2
Selected country profiles
Leading FDI destinations

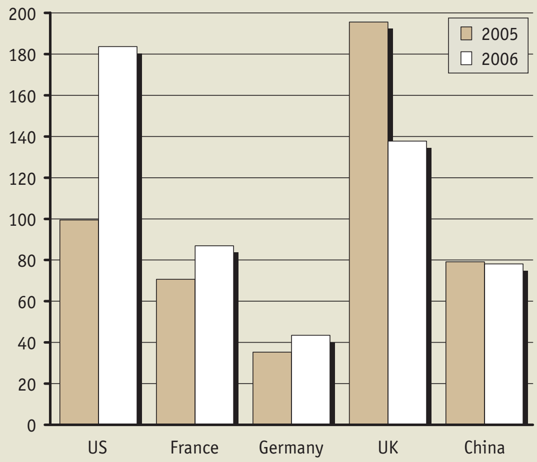
United States of America

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.64	8.65	4	7
Political environment	7.9	7.9	18	17
Political stability	7.4	7.4	32	33
Political effectiveness	8.4	8.4	10	10
Macroeconomic environment	7.8	7.5	33	44
Market opportunities	8.2	8.3	3	3
Policy towards private enterprise & competition	9.5	9.5	1	1
Policy towards foreign investment	8.7	8.7	10	12
Foreign trade & exchange controls	10.0	9.6	1	3
Taxes	7.0	7.2	19	21
Financing	9.6	9.6	6	8
Labour market	8.3	8.8	1	1
Infrastructure	9.4	9.4	3	3

Key issues

The US remains one of the most attractive destinations for FDI in the developed world. Investors are drawn to its wealth of market opportunities and its investor-friendly entrepreneurial culture, trading environment and infrastructure. These strengths underpin a bullish forecast for FDI, even for 2007, a year in which the economy will register the weakest GDP growth since 2002. Strong global economic growth and buoyant profits have left many firms globally in a good position to seek acquisitions, and the depreciation of the US dollar has made prices of US firms particularly attractive. However, the current spending spree is clearly fuelled in part by excess global liquidity, often channelled through private equity funds, and a tightening of financial conditions may lead to substantial correction. Another concern is rising protectionist sentiment in Congress, which has amended legislation dealing with checks on foreign investment inflows. This threatens to lengthen the time it takes to win approval for proposed mergers and acquisitions (M&As) in sensitive sectors. Political opposition by some to foreign involvement in so-called strategic sectors, such as energy and infrastructure, has already derailed a few high-profile deals.

FDI inflows, 2005-06
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	293.7	296.4	299.4	302.1	304.8	307.6	310.3	313.1
GDP (US$ bn at market exchange rates)	11,734.3	12,487.2	13,272.1	14,019.5	14,909.4	15,812.8	16,739.2	16,739.2
GDP (US$ bn at PPP)	11,712.5	12,455.8	13,246.6	13,832.8	14,574.8	15,373.7	16,204.4	17,067.0
GDP (% real change)	3.9	3.2	3.3	1.9	2.4	2.7	2.7	2.7
Foreign direct investment inflows (US$ bn)	122.4	99.4	183.6	237.7	235.0	252.0	260.0	270.0
% of GDP	1.0	0.8	1.4	1.7	1.6	1.6	1.6	1.6
% of gross fixed investment	6.7	4.9	8.5	11.1	10.4	10.5	10.1	9.9
Inward foreign direct investment stock (US$ bn)	1,727.1	1,874.3	2,057.9	2,295.6	2,530.6	2,782.6	3,042.6	3,312.6
% of GDP	14.7	15.0	15.5	16.4	17.0	17.6	18.2	19.8
Foreign direct investment outflows (US$ bn)	222.4	-12.7	248.9	225.0	220.0	239.0	245.0	265.0
Outward foreign direct investment stock (US$ bn)	2,399.2	2,453.9	2,702.8	2,927.8	3,147.8	3,386.8	3,631.8	3,896.8
% of GDP	20.4	19.7	20.4	20.9	21.1	21.4	21.7	23.3

Foreign direct investment in the United States of America

Stocks and flows

In absolute terms, the US is the largest host of FDI in the world. The Economist Intelligence Unit estimates that the book value of the stock of FDI in the US reached US$2.1trn by the end of 2006, or more than one-third of the stock of FDI hosted by the G7 group of industrialised countries. However, this was equivalent to only around 16% of GDP, compared with an average of 25% of GDP in the other G7 countries. FDI inflows surged at the end of the 1990s and in 2000, but then slumped to a low of US$53bn in 2003. Since then inflows have picked up and according to national figures (which can differ from international statistics used for our series) reached US$183.6bn (equivalent to 1.4% of GDP) in 2006. Foreign memories of the US recession of 2001 and the scandals relating to US corporate accounting have faded, and the weakening of the US dollar makes US dollar assets cheaper to foreign investors. FDI inflows amounted to about 8.5% of total fixed investment in 2006. Although annual fluctuations have been large, acquisition of equity capital has been by far the most important component of inward FDI flows in recent years. Over one-half of the acquisitions are made by foreign-owned firms already operating in the US, rather than new entrants to the US market.

Origin and distribution

The most important single owner of FDI in the US is the UK, which in 2005 accounted for about 17% of the US inward direct investment stock (measured at historic cost). The next most significant investor, Japan, owns 12%, with Germany owning 11% and the Netherlands owning 10%. As a region, Europe is by far the largest investor in the US, accounting for about 70% of the entire stock of FDI. FDI inflows from Europe have fluctuated considerably, reaching a recent low point of 43% of total inflows in 2003, when European companies were financially stretched by the impact of the economic downturn, but they recovered to 66% in 2005. Manufacturing accounted for 33% of the stock of inward FDI in 2005. Among manufacturing industries, chemicals (9% of the total FDI stock) and transport (mainly cars, 5% of the total) are the most important. Banks and other financial institutions account for 21% of the total. All petroleum-related industries (including extraction, related services, refining, transport and re-selling) account for 8%.

Determinants

Unsurprisingly, the key attraction to investing in the US is the size of the market. With GDP valued at US$13.3trn in 2006, the US economy at current exchange rates was approximately three times the size of Japan's and one-quarter larger than that of the euro zone. The US also has an excellent business environment, with a liberal policy towards private enterprise, a well-functioning labour market, deep capital markets and good infrastructure. The country is particularly attractive for high value-added industries and functions in which a highly qualified workforce is particularly important. At the federal level, little is done to encourage foreign investment, but many states and local governments offer tax breaks or grants.

Impact

Inward direct investment to the US economy is not that important as a source of new fixed investment, since almost all of the inflow of FDI in recent years has been associated with merger and acquisition (M&A) activity rather than direct increases in the US capital stock. Indeed, the drop-off in FDI inflows seen in 2001-03 was almost entirely attributable to the slump in global M&A activity. Although inflows related to M&As may boost productivity, the effect, at least in the short term, is much less visible than that of greenfield investments. In so far as knowledge transfer plays a role in the FDI activity, it is often the foreign acquirer that does the learning, not the US target.

Potential

The stock of FDI in the US is relatively low, which suggests that there is potential for continued substantial inflows. In addition to the appeal of the vast size of the domestic market and the business-friendly policy environment, the US remains the unquestioned global technology leader. Foreign companies increasingly view having operations in the US as a way of gaining access to cutting-edge technology. Consequently, we believe that FDI inflows will remain strong, although a cooling of the current boom in leveraged buyouts may lead to a temporary stagnation or even decline.

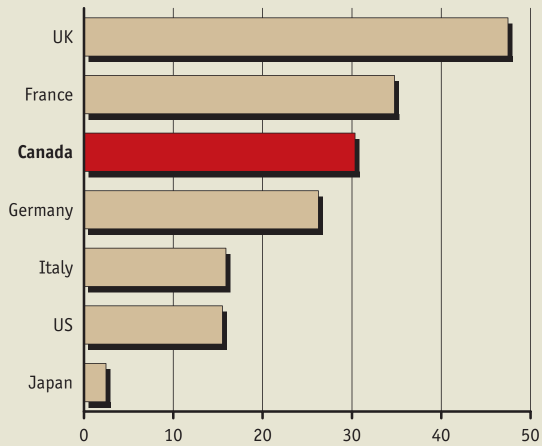
Canada

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.63	8.70	5	5
Political environment	8.4	8.4	13	13
Political stability	8.9	8.9	13	13
Political effectiveness	8.1	8.1	13	13
Macroeconomic environment	8.9	8.9	6	8
Market opportunities	7.8	8.0	6	4
Policy towards private enterprise & competition	8.8	9.0	6	4
Policy towards foreign investment	8.7	8.7	10	12
Foreign trade & exchange controls	10.0	10.0	1	1
Taxes	7.2	7.2	16	21
Financing	9.6	9.6	6	8
Labour market	7.6	7.8	9	6
Infrastructure	9.3	9.3	6	9

Key issues

Canada has one of the healthiest economies of the main industrialised countries. It runs surpluses on both the federal budget and the current account, and its strong growth performance and high living standards provide ample opportunities for foreign investors. The country's comparatively small population and consumer base will always place it at a disadvantage in a direct comparison with the US, but heavy public investment in infrastructure and the country's wealth in natural resources, allied to productivity-enhancing private investment, should prevent any further rise in the income gap between the two countries. The strong macroeconomic environment will allow governments, current and future, to continue the ongoing reduction in the tax burden while also implementing new spending measures to improve Canada's already good infrastructure. Investment in security is critical to meet US requirements and thereby keep trade flowing across the US border. A shift to tighter US border controls would threaten to curb crossborder commerce, reducing Canada's attractiveness. Meanwhile, the risks posed by the separatist movement in Quebec are much less prominent than in the recent past, but cannot be dismissed altogether.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	32.0	32.3	32.6	32.9	33.2	33.5	33.8	34.0
GDP (US$ bn at market exchange rates)	992.1	1,131.8	1,268.8	1,351.0	1,341.7	1,349.4	1,399.9	1,465.8
GDP (US$ bn at PPP)	1,036.8	1,098.9	1,170.2	1,229.8	1,281.0	1,353.0	1,426.1	1,499.1
GDP (% real change)	3.1	3.1	2.8	2.2	2.7	2.9	2.7	2.5
Foreign direct investment inflows (US$ bn)	-0.4	28.9	69.0	84.8	59.1	56.0	57.0	59.0
% of GDP	0.0	2.6	5.4	6.3	4.4	4.1	4.1	4.0
% of gross fixed investment	-0.2	12.3	25.3	29.1	19.8	18.3	17.6	17.1
Inward foreign direct investment stock (US$ bn)	318.6	350.0	385.2	470.0	529.1	585.1	642.1	701.1
% of GDP	32.1	30.9	30.4	34.8	39.4	43.4	45.9	47.8
Foreign direct investment outflows (US$ bn)	43.7	33.5	45.2	51.0	48.0	43.0	45.0	47.5
Outward foreign direct investment stock (US$ bn)	369.8	392.7	449.0	500.0	548.0	591.0	636.0	683.5
% of GDP	37.3	34.7	35.4	37.0	40.8	43.8	45.4	46.6

Foreign direct investment in Canada

Stocks and flows

FDI plays a major role in the Canadian economy. The stock of inward FDI totalled an estimated US$350bn at the end of 2005 (on a historic-cost book-value basis), equivalent to 31% of GDP. This compares with 38% of GDP for the UK, 24% for Germany and 15% for the US. FDI inflows into Canada fell sharply in 2001-04 after peaking at US$67bn in 2000. The bursting of the technology bubble, the economic downturn in the US and the absence of foreign acquisitions of large Canadian companies reduced FDI inflows into Canada to an average of just US$15bn in 2001-04. FDI inflows recovered strongly in 2005, to US$29bn, and surged to almost US$70bn in 2006 on the back of a boom in mergers and acquisitions (M&As).

Origin and distribution

The US accounts for the main share of FDI inflows into Canada, owning nearly two-thirds of the inward FDI stock in 2005 on a current-cost basis. The EU is the only other important direct investor, owning around one-quarter of the FDI stock, with the UK the largest single EU source, accounting for around 7%. Japan is relatively unimportant, accounting for less than 3% of the inward stock. There are high levels of foreign ownership in many sectors of the Canadian economy, particularly in natural resources, manufacturing and financial services. Finance and insurance and energy each account for about one-fifth of the FDI stock. Other important sectors include machinery and transport equipment (dominated by US car manufacturers), services and retailing, and wood and paper.

Determinants

Physical proximity has been a key driving force behind US foreign investment in Canada and has encouraged the integration of the two economies. Canada's attraction as a destination for US investment was enhanced when the Free-Trade Agreement (FTA) between the two countries came into effect in 1989. Under the FTA, almost all tariffs on trade in goods have been abolished, and many US companies have restructured their operations to treat the US and Canada as a single market. Large FDI projects in Canada (the approval threshold is lower for certain sectors, such as finance, transportation and culture) have to be approved by a federal agency, Investment Canada, but few are rejected. Under the North American Free-Trade Agreement (NAFTA), which superseded the FTA in 1994, less restrictive conditions exist for investments by US and Mexican companies, and these will gradually be extended to firms from other countries that belong to the World Trade Organisation (WTO). Canada is pursuing separate free-trade agreements with other countries and regions. Canada has an attractive business environment for foreign investors and scores highly in all categories of the Economist Intelligence Unit's business environment rankings. Canada's ranks for foreign trade and exchange controls, infrastructure, market opportunities and policy towards private enterprise and competition are particularly high.

Impact

FDI inflows into Canada accounted for 25% of total gross fixed capital formation in 2006. This was a marked increase on recent years, but still well down on the high of 48.1% in 2000. FDI inflows have been a catalyst for improving efficiency, raising productivity and promoting diversification of the Canadian economy. They have also helped to generate enormous trade flows between the US and Canada, creating new jobs and raising living standards.

Potential

Although the stock of inward FDI as a percentage of GDP in Canada is fairly high in comparison with other developed countries, there is still considerable potential for large-scale inflows in the medium term, and FDI inflows are expected to remain high. Nevertheless, the surge in 2006 and 2007 will not be sustained as financing conditions for acquisitions deteriorate globally. Governments, past and present, have been reducing some of the remaining barriers to FDI, while also introducing measures to promote inward investment, including low-cost financing and reductions in business taxes. However, a liberalisation of foreign ownership curbs in telecommunications and broadcasting will continue to be obstructed by strong opposition from the left. High oil prices will underpin strong investment inflows into exploration and extraction activities in Alberta's oilsands.

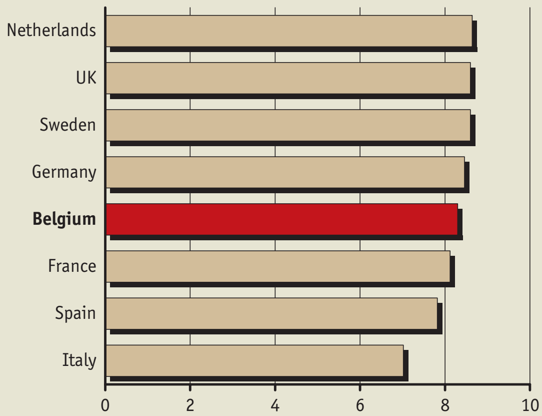
Belgium

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.07	8.30	14	15
Political environment	8.3	8.1	15	15
Political stability	8.9	8.9	13	13
Political effectiveness	7.8	7.4	17	20
Macroeconomic environment	8.3	8.3	20	19
Market opportunities	6.3	7.0	37	20
Policy towards private enterprise & competition	8.5	9.0	10	4
Policy towards foreign investment	9.1	9.1	6	8
Foreign trade & exchange controls	9.6	9.6	3	3
Taxes	5.6	5.8	41	60
Financing	9.3	10.0	11	1
Labour market	6.8	6.7	27	41
Infrastructure	9.0	9.4	10	3

Key issues

Belgium is an attractive business location overall, with an open economy, a relatively benign environment for free enterprise, and a generally reliable transport and communications infrastructure. Set against this, Belgium is saddled with a high ratio of public debt to GDP (although this has been declining in recent years), an onerous tax burden and an excessively regulated labour market. The general government budget has been kept in balance in recent years and should remain at or close to balance, but the need for fiscal stringency will make it hard to reduce the tax wedge (the difference between labour costs and take-home pay), which remains one of the highest in the world. Fiscal stringency will become more difficult as the devolution of power to the regions reduces the effectiveness of spending controls. The corporate tax rate in Belgium is high, although it is mitigated by tax deductions on notional interest when firms invest from own resources, and a "ruling" system to allow long-term tax planning. Port and road infrastructure in Belgium is good, and the rail infrastructure is being improved by a €13bn (US$16.6bn) investment programme. However, congestion will remain a concern.

Business environment scores, 2007-11



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	10.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4
GDP (US$ bn at market exchange rates)	359.3	372.6	394.5	442.4	461.5	446.3	437.2	439.9
GDP (US$ bn at PPP)	328.0	342.0	354.8	365.4	375.1	393.1	410.6	428.1
GDP (% real change)	2.8	1.4	3.0	2.3	2.1	2.1	1.9	1.9
Foreign direct investment inflows (US$ bn)	44.4	32.0	72.5	71.0	68.0	71.0	73.0	75.0
% of GDP	12.4	8.6	18.4	16.0	14.7	15.9	16.7	17.0
% of gross fixed investment	63.5	43.3	90.1	76.0	67.6	72.0	74.0	74.8
Inward foreign direct investment stock (US$ bn)	471.1	474.7	547.2	618.2	686.2	757.2	830.2	905.2
% of GDP	131.1	127.4	138.7	139.7	148.7	169.7	189.9	205.8
Foreign direct investment outflows (US$ bn)	34.7	30.1	63.2	70.9	71.3	80.0	78.8	84.3
Outward foreign direct investment stock (US$ bn)	369.2	374.6	437.7	508.6	579.9	659.9	738.8	823.1
% of GDP	102.8	100.5	111.0	115.0	125.7	147.9	169.0	187.1

Foreign direct investment in Belgium

Stocks and flows

FDI inflows into Belgium have recovered since bottoming out at US$18.1bn in 2002. Annual FDI inflows have been consistently strong in 2004-06, reaching US$73bn in 2006. The stock of inward FDI is estimated by the IMF to have increased from US$471bn at end-2004 to US$474.7bn at end-2005. The Economist Intelligence Unit estimates that the stock of inward FDI reached US$547bn at end-2006 (139% of GDP). However, FDI statistics for Belgium tend to be inflated because they include the large number of corporate "co-ordination centres" in Belgium, which are often intermediaries for FDI in other countries. This caveat notwithstanding, Belgium is a significant host of FDI, ranking fourth in Europe for the number of projects in 2005, according to a study by accountancy firm Ernst & Young.

Origin and distribution

The main foreign investors into Belgium have historically been the US, France and the Netherlands. According to the Ernst & Young study, the US accounted for 35% of the number of investment projects in 2005. It continues to be the main investor in Flanders, which attracts the largest share of FDI in Belgium. Both Flanders and Wallonia are increasingly successful in attracting warehousing and distribution centres for a significant part of Europe. FDI in Belgium as a whole is concentrated mainly in the real estate and general business services (excluding financial services), which comprised 22.2% of incoming FDI in 2005. In manufacturing, Belgium receives FDI inflows to its automotive industry from long-standing investors such as Ford, General Motors (both US), Volkswagen (Germany) and Volvo (Sweden). Greenfield investments are largely concentrated in the general chemicals (particularly plastic and rubber), pharmaceuticals and life sciences sectors. The major electricity companies, Electrabel and SPE, are now foreign-owned, so much new investment is coming from the parent companies, currently based in France.

Determinants

Belgium's central geographical position in the EU, strong infrastructure and access to ports, close links with its immediate neighbours, and multilingual and highly productive labour force all contribute to the country's high stock of FDI. The EU provides some incentives for companies in less-advantaged regions (namely, Wallonia) and for sectors that are in industrial decline or suffering from high unemployment (specifically high-technology sectors). Previously, Belgium attracted FDI because of its attractive tax regime for company co-ordination centres, but these were removed after being declared unfair competition by the EU and the OECD. The government hopes that new favourable provisions for the investment of own capital, which came into effect in 2005, will continue to attract co-ordination centres, but the new provisions must be put in the context of the still-high rate of corporation tax. One deterrent to FDI in Belgium is its poor ranking for research and development (R&D), spending on which has declined as a share of GDP in recent years. However, Belgium has some strong research initiatives, such as the Inter-University Micro-Electronics Centre (IMEC) in Leuven and the headquarters of GlaxoSmithKline Biologicals in Rixensart. Another deterrent to FDI in Belgium is its high labour costs, although discounts on the generally high level of social insurance contributions are provided for certain groups, including younger workers, older workers and researchers.

Impact

Belgium has long benefited from the presence of foreign-controlled companies, as they make a significant positive contribution to the spread of technology, employment and exports. Most recent investments have been acquisitions of existing companies, including financial services companies. The resultant highly internationalised financial sector ensures that financing conditions are competitive and of a high standard.

Potential

A stable macroeconomic environment and a central location, which offers easy access to the UK, French, Dutch and German markets, will remain important points of attraction for inward FDI flows. Flanders has acquired a reputation as a centre for a range of high-technology activities and Brussels is well situated and serviced to manage EU-wide operations. Wallonia, which is trying to enhance its status and its marketing efforts and wants to build special centres of excellence, has the highest growth potential of the three regions.

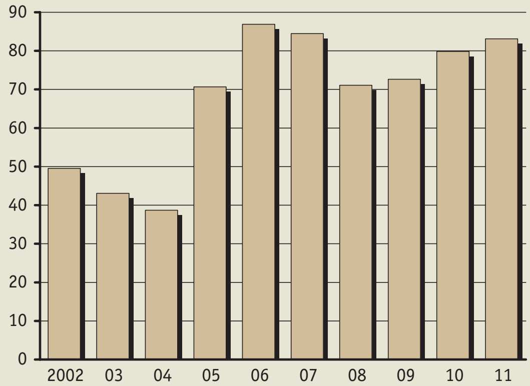
France

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.87	8.12	18	18
Political environment	8.1	7.9	16	17
Political stability	8.1	7.8	19	27
Political effectiveness	8.1	8.1	13	13
Macroeconomic environment	8.0	8.0	25	25
Market opportunities	7.5	8.0	12	5
Policy towards private enterprise & competition	8.0	8.0	17	21
Policy towards foreign investment	8.2	8.2	17	20
Foreign trade & exchange controls	8.2	8.7	28	24
Taxes	5.1	6.0	63	54
Financing	9.6	9.6	6	8
Labour market	6.9	7.4	26	18
Infrastructure	9.2	9.4	8	3

Key issues

France's business environment benefits from outstanding infrastructure, a highly productive labour force and a central geographical position in western Europe. However, the country's attractiveness as a business location is vitiated by a high tax burden, an onerous regulatory environment and by capricious state intervention in product markets. The election of Nicolas Sarkozy as president in May 2007 has improved the chances of structural reforms, but these are likely to be less far-reaching than many observers assume. The government's priority will be to push through reforms designed to reduce the country's high unemployment rate. This will entail cutting direct taxes and relaxing France's restrictive labour laws. However, the government's room for manoeuvre will be limited by the weakness of the public finances and by possible resistance to change from labour market insiders. In addition, the government will continue to interfere in product markets—notably by promoting "national champions" and obstructing foreign takeovers of French companies in sectors that are considered to be "strategic".

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	60.4	60.6	60.9	61.1	61.4	61.6	61.9	62.1
GDP (US$ bn at market exchange rates)	2,061.2	2,137.4	2,252.0	2,540.1	2,693.6	2,667.5	2,699.5	2,780.8
GDP (US$ bn at PPP)	1,813.8	1,902.2	1,995.0	2,074.6	2,162.4	2,267.2	2,373.8	2,488.1
GDP (% real change)	2.3	1.7	2.2	2.0	2.3	2.1	2.0	2.2
Foreign direct investment inflows (US$ bn)	38.7	70.7	86.9	84.4	71.1	72.6	79.8	83.1
% of GDP	1.9	3.3	3.9	3.3	2.6	2.7	3.0	3.0
% of gross fixed investment	9.7	16.7	18.9	16.1	12.8	13.3	14.5	14.8
Inward foreign direct investment stock (US$ bn)	641.8	627.9	783.0	867.5	938.5	1,011.2	1,091.0	1,174.1
% of GDP	31.1	29.4	34.8	34.2	34.8	37.9	40.4	42.2
Foreign direct investment outflows (US$ bn)	76.7	133.6	136.3	135.5	92.1	91.3	94.8	102.8
Outward foreign direct investment stock (US$ bn)	845.5	882.3	1,075.9	1,211.4	1,303.6	1,394.9	1,489.7	1,592.4
% of GDP	41.0	41.3	47.8	47.7	48.4	52.3	55.2	57.3

Foreign direct investment in France

Stocks and flows

Although they dipped in 2004, FDI inflows into France held up well during the global downturn in merger and acquisition (M&A) activity in 2001-03. Since 2005, FDI inflows have surged on the back of a strong recovery in global M&A activity. In 2006 FDI inflows into France totalled US$86.9bn—a record both in absolute terms and as a share of GDP. With 582 new projects in 2006, France was traditionally highly placed in terms of the number of FDI projects, second only to the UK in Europe. Sizeable cumulative FDI flows over the past decade have pushed up France's stock of inward FDI (measured at book value) from 12% of GDP in 1995 to 35% in 2006. France's ratio of FDI stock to GDP remains slightly below the EU average. This reflects the low base from which France started in the early 1990s, when governments' embrace of foreign investment was lukewarm, as well as a history of obstruction to foreign takeovers of leading domestic firms.

Origin and distribution

Most FDI into France originates from other EU countries, although there has been a sharp rise in the number of investment projects from the US since 1997. As in other EU countries, investment from Asia still accounts for only a small share of the total. Firms from the US, the UK, the Netherlands and Germany account for the largest share of the inward FDI stock in France. Although most investment projects still originate from other EU countries, US firms created more jobs (8,756) in France in 2005 than the next two largest investing countries, Germany (6,055) and the UK (2,598), combined. The sectoral composition of FDI into France has changed markedly over the past decade, with the share of services in the inward FDI stock rising from 46% in 1991 to over 70% at present. FDI in the industrial sector is now concentrated in high-skill sectors such as biotechnology, pharmaceuticals and aerospace equipment.

Determinants

Despite a high tax burden, a long tradition of state interventionism and an excessively regulated labour market, France has many attractions as an investment location. These include the country's central geographical location in the EU, one of the world's most highly educated and productive labour forces, the quality of its research and development (R&D) and its outstanding transport and telecommunications infrastructure. France has a number of important clusters in sectors such as healthcare, biotechnology, software, electrical engineering, and commercial and financial services, which act as magnets for FDI.

Impact

Foreign companies with presences in France employ some 2.3m workers. However, the pattern of inward investment is geographically uneven, with four regions—Ile de France, Rhône-Alpes, Nord-Pas-de-Calais, Provence-Alpes-Côte d'Azur and Midi-Pyrénées—capturing the bulk of inward investment projects, and other parts of the country, particularly the north-west, attracting little. The impact of FDI on employment, working practices and productivity has been equally uneven. In 2005 just three regions—Ile de France, Rhône-Alpes and Nord-Pas-de-Calais—accounted for over 50% of all the jobs created or saved by new FDI projects.

Potential

France's exaggerated concern about *délocalisation*—the belief that firms are set to migrate en masse to new EU member states and emerging economies outside the EU to take advantage of their lower labour costs and taxes—is misplaced. France retains many advantages that will help it to remain one of the main destinations for FDI in the EU. However, despite a number of important microeconomic reforms in the pipeline, some of France's long-standing weaknesses are likely to persist. The tax burden will remain high; the labour market will continue to be burdened by excessive regulation; competition policy will be unevenly enforced; and corporate consolidation will remain susceptible to capricious intervention by the state, which will continue to promote "national champions" and discourage foreign takeovers of leading domestic firms.

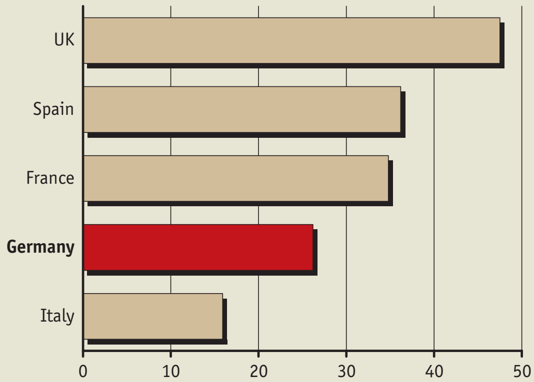
Germany

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.97	8.46	16	13
Political environment	8.8	8.8	9	10
Political stability	9.3	9.3	10	9
Political effectiveness	8.4	8.4	10	10
Macroeconomic environment	8.0	8.9	25	8
Market opportunities	7.2	8.0	15	5
Policy towards private enterprise & competition	8.5	8.5	10	14
Policy towards foreign investment	8.7	8.7	10	12
Foreign trade & exchange controls	8.7	9.6	15	3
Taxes	5.1	6.2	60	48
Financing	8.9	9.3	14	14
Labour market	6.9	7.3	24	22
Infrastructure	9.0	9.4	10	3

Key issues

Germany's rate of GDP growth over the past decade has been one of the lowest in the developed world, a reflection of structural problems and of a protracted adjustment after excessive wage growth and a construction overhang following reunification. A period of sustained low wage growth has restored German firms' trade competitiveness, and strong export growth has started to feed through to domestic demand. Since late 2005 GDP growth has been robust, but structural problems remain a concern and the "grand coalition" government is making only moderate progress. Reforms are being driven by fears that domestic firms will shift their production to eastern Europe and other emerging markets, where the tax burden and labour costs are lower than in Germany. A reduction in the overall corporate tax rate (including local trading taxes) from around 39% to below 30% will take effect from the start of 2008. After significant reforms of unemployment benefits in 2002 and 2003, some moderate further improvements are likely. Transport, pensions and healthcare financing are all likely to remain firmly on the policy agenda.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	82.5	82.5	82.6	82.6	82.7	82.8	83.0	82.9
GDP (US$ bn at market exchange rates)	2,744.2	2,791.7	2,899.5	3,235.4	3,398.4	3,296.9	3,244.4	3,294.6
GDP (US$ bn at PPP)	2,368.2	2,454.5	2,469.6	2,519.8	2,604.0	2,734.4	2,858.6	2,980.7
GDP (% real change)	1.3	0.9	2.8	2.8	2.5	2.3	2.0	1.9
Foreign direct investment inflows (US$ bn)	-8.9	35.3	43.4	60.4	62.2	65.2	69.7	72.5
% of GDP	-0.3	1.3	1.5	1.9	1.8	2.0	2.1	2.2
% of gross fixed investment	-1.9	7.3	8.4	10.2	9.8	10.3	10.8	10.9
Inward foreign direct investment stock (US$ bn)	709.4	660.4	761.1	821.5	883.7	948.9	1,018.7	1,091.2
% of GDP	25.9	23.7	26.2	25.4	26.0	28.8	31.4	33.1
Foreign direct investment outflows (US$ bn)	14.1	56.9	79.0	83.8	85.0	89.0	95.6	96.0
Outward foreign direct investment stock (US$ bn)	810.6	801.4	940.4	1,024.1	1,109.1	1,198.1	1,293.7	1,389.7
% of GDP	29.5	28.7	32.4	31.7	32.6	36.3	39.9	42.2

Foreign direct investment in Germany

Stocks and flows

Relative to GDP, FDI into Germany has been lower than in most other large economies in western Europe. During the late 1990s Germany participated in the global boom in merger and acquisition (M&A) activity, with FDI inflows shooting up to US$210bn in 2000. However, the scale of the inflows in 2000 reflected the hostile takeover of a German mobile telephone company, Mannesmann, by Vodafone of the UK—the world's largest ever crossborder acquisition. FDI inflows subsequently fell back as the global M&A boom came to an end. In 2004 FDI inflows turned negative, reflecting substantial disinvestments by foreign investors in reaction to changes in the tax code mainly affecting holding companies. However, FDI inflows have since recovered, in parallel with the broader recovery in international flows. The Economist Intelligence Unit estimates that the stock of inward FDI reached US$761bn at the end of 2006, or 26.2% of GDP. Outflows of FDI usually exceed inflows. As a result, the stock of outward investment, at 32.4% of GDP in 2006, exceeds the inward stock.

Origin and distribution

As is the case in other developed countries, the FDI stock in Germany is increasingly dominated by services providers rather than manufacturers, although the latter remain important. Most of Germany's inward FDI stock originates from other EU countries—although this sometimes includes investments from outside the EU that are transferred through countries such as the Netherlands and Luxembourg (the largest and fifth-largest foreign direct investors in Germany, respectively). The most important investor from outside the EU is the US. Most outward investment is to other west European countries, but outflows to the lower-cost, former communist countries to the east are also significant, particularly in the manufacturing sector.

Determinants

German labour costs are among the highest in the world, despite a period of low wage growth in recent years, so that Germany cannot compete for investment in labour-intensive production. Rigid labour laws have also deterred foreign investors. The tax environment also remains a downside, although an improvement is expected in 2008. Foreign investors, including a rising number of private equity firms, are attracted by the large number of highly sophisticated mid-sized companies specialising in profitable niche markets. Additional strengths are the country's good infrastructure, relatively strong innovation activity and highly skilled labour force.

Impact

Foreign-owned companies employed 2.2m people in Germany in 2004. Most FDI inflows takes the form of acquisitions (initially often associated with a payroll reduction) rather than greenfield investments, so that the immediate impact on employment is not clear (and in some cases has been negative initially). Nevertheless, FDI into Germany has often helped to prevent company closures. Since FDI inflows are often motivated by attempts to benefit from superior technology and skills in Germany, the positive effect on human capital and innovation is limited. However, there is some evidence to suggest that FDI inflows have led to an improvement in management practices.

Potential

Germany's generally highly skilled workforce and excellent infrastructure make it a good location for specialised manufacturing. More generally, the structure of German industry is still relatively fragmented, providing foreign investors with the opportunity to participate in sectoral consolidation and to reap economies of scale through acquisitions. The still low level of real estate prices by west European standards may also attract investors in this sector. The generational changeover at the helm of many small and medium-sized companies provides increased opportunities for foreign investors. Annual average FDI inflows in 2007-11 are forecast to average about 2% of GDP, which will be considerably higher than the historical average.

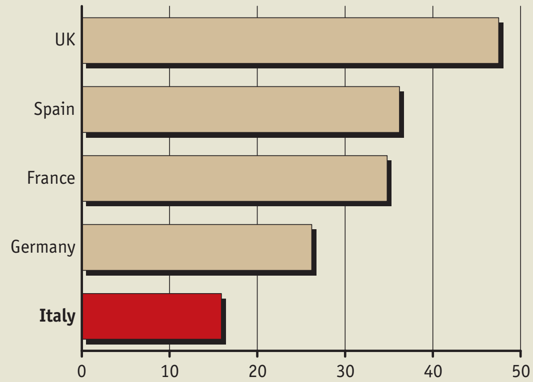
Italy

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.48	7.02	42	40
Political environment	6.7	6.9	33	33
Political stability	8.9	8.9	13	13
Political effectiveness	4.9	5.2	45	46
Macroeconomic environment	6.9	7.2	56	54
Market opportunities	5.6	7.0	53	19
Policy towards private enterprise & competition	6.3	6.8	33	37
Policy towards foreign investment	6.9	7.3	41	39
Foreign trade & exchange controls	7.8	8.7	32	24
Taxes	4.1	4.1	78	82
Financing	7.8	8.5	20	24
Labour market	5.5	6.1	65	59
Infrastructure	7.3	7.8	25	29

Key issues

A major improvement in the business environment is unlikely under the left-of-centre government led by Romano Prodi. Its main challenge will be to continue the process of fiscal consolidation without stifling economic growth. But resistance to long overdue spending cuts meant that the 2007 budget focused on higher taxation to lower the budget deficit. Some tax cuts are likely in 2008, as revenue has exceeded projections, partly as a result of a clampdown on tax evasion. The tax wedge on labour has been reduced and social security contributions on overtime have been lowered. Measures have been introduced to increase competition in protected services sectors such as professional services, taxis and pharmacies, but the government made concessions in the face of protests and implementation is proving a problem. Mr Prodi has resisted pressure from the left to dismantle the 2003 labour market reform, but social security contributions on some temporary contracts have been raised. Changes to the 2004 pension reform will result in a more gradual increase in the minimum retirement age from 2008. The government's latest infrastructure investment plan appears more realistic, but few projects will be completed before 2011.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.0
GDP (US$ bn at market exchange rates)	1,726.8	1,773.2	1,854.3	2,109.7	2,222.2	2,182.8	2,192.3	2,239.0
GDP (US$ bn at PPP)	1,632.1	1,674.6	1,755.9	1,843.8	1,909.0	1,990.8	2,077.5	2,164.0
GDP (% real change)	1.0	0.2	1.9	1.9	1.6	1.6	1.7	1.6
Foreign direct investment inflows (US$ bn)	16.8	19.6	39.0	38.8	40.7	42.8	42.8	42.8
% of GDP	1.0	1.1	2.1	1.8	1.8	2.0	2.0	1.9
% of gross fixed investment	4.7	5.4	10.1	8.9	8.7	9.2	9.1	8.8
Inward foreign direct investment stock (US$ bn)	220.7	224.1	294.8	333.6	374.3	417.0	459.8	502.5
% of GDP	12.8	12.6	15.9	15.8	16.8	19.1	21.0	22.4
Foreign direct investment outflows (US$ bn)	19.1	40.7	41.8	52.7	55.4	58.1	61.0	64.1
Outward foreign direct investment stock (US$ bn)	280.5	293.5	375.8	428.5	483.8	542.0	603.0	667.1
% of GDP	16.2	16.6	20.3	20.3	21.8	24.8	27.5	29.8

Foreign direct investment in Italy

Stocks and flows

FDI inflows into Italy are modest compared with most other EU countries. Nevertheless, in 2001-03, when global FDI flows fell sharply, inflows into Italy rose. In 2006 they amounted to almost US$39bn, or 2.1% of GDP, compared with 1.1% of GDP in 2005 and 0.2% of GDP in 1998. The stock of FDI in Italy was an estimated US$294.8bn at the end of 2006, just over one-quarter of the level in the UK and just over one-half of that in the Netherlands. In relation to GDP the stock of FDI was estimated at about 15.9% in 2006, lower than in any other EU country apart from Greece. FDI outflows have also generally been small (partly because of the large number of small and medium-sized family-owned companies in Italy, which lack the financial resources for rapid expansion abroad). However, there was a sharp increase in 2005-06 as a result of large investments abroad in the banking sector. Italy has generally been a net exporter of FDI.

Origin and distribution

According to data from the Italian Foreign Exchange Office (Ufficio Italiano dei Cambi, UIC), the Italian inward FDI stock is regionally diversified, with just over 50% of the total originating from four European countries (France, the Netherlands and Switzerland with about 13.5% each and the UK with just over 12%). The US also accounts for about 13%. The EU accounts for over 60% of the inward stock. The services sector accounts for almost 60% of the inward FDI stock, of which finance accounts for about 30%. The share accounted for by the financial sector is likely to have risen following crossborder mergers and acquisitions (M&As) such as the BNL and Antoveneta bank takeovers by two foreign banks, BBVA (Spain) and ABN Amro (Netherlands), in 2005. Machinery and equipment accounts for just over 10% of the inward FDI stock, and chemicals and chemical products for 6.5%. Almost all of the inward FDI stock is located in the north and centre of the country.

Determinants

The factors deterring FDI inflows are the complexity of Italy's legal system, inefficiencies in public administration, inadequate infrastructure (particularly in the south of the country), and continued political instability, which has led to frequent changes in laws affecting FDI decisions. In addition, studies of the determinants of FDI in southern Italy have highlighted classical deterrents to investing in the south, such as poor infrastructure, distance from major European markets, low presence of other foreign firms, and a high level of organised crime. Such studies seem to indicate that fiscal incentives and the presence of specialised producer service providers have a low impact on foreign entrants' decisions, but that human capital is an important positive variable. Italy has an abundant workforce in the south, which has attracted a few high-technology investments to areas such as Catania in Sicily. The abundance of skilled labour in the south, combined with limited job opportunities in high valued-added sectors, has helped to keep wage costs down for high-tech start-ups there.

Impact

Because of the comparatively low level of inflows, the impact of FDI on the Italian economy has been limited. The depressed areas of the south, which attract little FDI, would benefit substantially in terms of employment and through the spillover effect of advanced technology, management practices and production processes. However, the debate often overstates the benefits that FDI would have, given the ease with which Italian firms can tap the financial markets and the existence of an abundance of domestic capital, as highlighted by the country's high savings ratio, which in the past was mainly channelled into high-yielding Treasury bills, but is now becoming more available for equity investment.

Potential

Most of the factors that have deterred FDI in the past will remain in place for some time. A slight improvement is expected in the efficiency of the public administration, as a result of past reforms. However, the investment agency, Sviluppo Italia, has been largely ineffective and may be shut down. Inefficient work practices in the public sector will be slow to change. Italy is starting to catch up with other European countries in terms of computer usage and broadband penetration. Extensive privatisations since 1992 have attracted some foreign investors and the process is now almost complete. Opposition to the sale of assets in so-called strategic sectors to foreign investors is likely to continue. Nevertheless, foreign takeovers in the banking sector used to face major obstacles in the past, but most of these appear to have been removed by reforms introduced at the end of 2005.

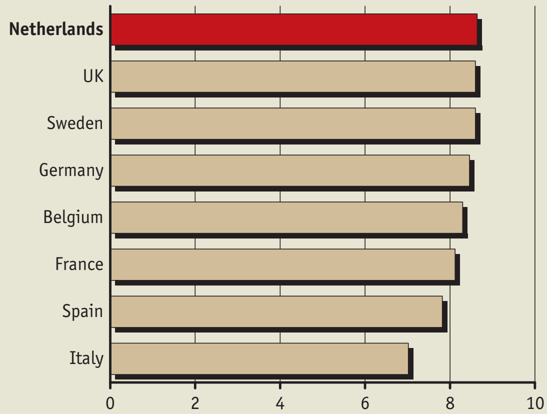
Netherlands

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.53	8.64	9	8
Political environment	9.1	9.0	7	8
Political stability	9.6	9.3	4	9
Political effectiveness	8.7	8.7	9	9
Macroeconomic environment	8.6	9.2	11	2
Market opportunities	6.3	7.0	34	20
Policy towards private enterprise & competition	9.0	9.0	4	4
Policy towards foreign investment	9.6	9.6	2	1
Foreign trade & exchange controls	9.6	9.6	3	3
Taxes	6.2	6.5	31	35
Financing	10.0	10.0	1	1
Labour market	7.8	7.5	6	15
Infrastructure	9.2	9.2	8	12

Key issues

After a weak performance in 2005, real GDP growth accelerated to 2.9% in 2006. Stronger GDP growth has been accompanied by a fall in unemployment and an improvement in the public finances. The Netherlands ranks as one of the world's most attractive business locations, with an efficient financial sector, a highly skilled and multilingual labour force, product markets that are now mostly open to competition and a high-quality transport and communication infrastructure. Given the negative impact of the ageing population on the sustainability of the public finances, one of the government's principal long-term challenges will be to increase the rate of participation in the labour force. The political complexion of the new coalition government is likely to rule out substantial tax reductions. As a result, the relative attractiveness of the country's tax environment is likely to deteriorate slightly over the next five years. Set against this, the country's already favourable climate for free enterprise should be bolstered by the liberalisation of previously uncontested product markets and by the establishment of new domestic watchdogs.

Business environment scores, 2007-11



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	16.3	16.3	16.4	16.5	16.6	16.6	16.7	16.8
GDP (US$ bn at market exchange rates)	609.0	629.9	662.9	762.3	814.8	812.5	827.7	854.9
GDP (US$ bn at PPP)	546.4	573.0	608.9	647.0	679.8	713.7	747.8	782.3
GDP (% real change)	2.0	1.5	2.9	2.4	2.3	2.3	2.1	2.0
Foreign direct investment inflows (US$ bn)	2.0	40.4	3.8	29.9	27.4	36.8	45.1	53.1
% of GDP	0.3	6.4	0.6	3.9	3.4	4.5	5.5	6.2
% of gross fixed investment	1.8	33.2	2.8	19.2	16.0	21.1	25.2	28.4
Inward foreign direct investment stock (US$ bn)	469.9	447.1	487.5	517.4	544.8	581.6	626.7	679.8
% of GDP	77.2	71.0	73.5	67.9	66.9	71.6	75.7	79.5
Foreign direct investment outflows (US$ bn)	26.4	140.5	22.3	63.6	79.2	80.4	79.9	84.6
Outward foreign direct investment stock (US$ bn)	597.9	629.9	729.7	793.3	872.4	952.9	1,032.7	1,117.3
% of GDP	98.2	100.0	110.1	104.1	107.1	117.3	124.8	130.7

Foreign direct investment in the Netherlands

Stocks and flows

Annual FDI inflows averaged US$52bn in 1999-2000 at the peak of the previous global merger and acquisition (M&A) boom, compared with an annual average of US$6.9bn in 1985-95, but, like most other EU countries, the Netherlands suffered from the sharp fall in global crossborder investment flows in 2001-04. After a resurgence in 2005, FDI inflows fell back again in 2006 to just US$3.8bn. In general, the country has been relatively successful in attracting inward FDI, as attested by inward FDI stock figures. With an estimated stock of US$487.5bn at the end of 2006, the Netherlands is one of the largest hosts of inward FDI in the EU. The Netherlands' success in attracting FDI is even more apparent when measured as a share of GDP. In 2006 the Netherlands' inward FDI stock amounted to 73.5% of GDP. Despite its success as an FDI host, the Netherlands, like many developed economies, is still a net exporter of direct investment capital. In 2006 the stock of outward FDI reached US$729.7bn.

Origin and distribution

The largest inward investor in the Netherlands is the US, followed by other large EU economies (mainly the UK, Germany and Belgium). At the end of 2005 companies from other EU countries accounted for 61% of the total stock of FDI in the Netherlands, with a further 18% taken up by companies from the US. Services—particularly transport, information technology (IT), telecommunications, media, banking and insurance—account for much of the recent surge in inward FDI. In 2005 services accounted for 65% of the total stock of FDI in the country. Breakdowns are not yet available for the end of 2006, but figures for flows during the course of the year suggest that EU countries continued to invest in the Netherlands, but that US direct investments fell quite significantly.

Determinants

The Netherlands' success in attracting inward FDI can be linked to its strong international orientation, its membership of the EU, its participation in European economic and monetary union (EMU), and the government's liberal policy stance towards foreign investment and private enterprise. Additional attractions are a highly skilled and multilingual labour force, well-developed capital markets, and the Netherlands' favourable geographical location at the centre of the EU (the country's modern and reliable telecoms network makes it a particularly good base for distribution centres serving the entire EU single market). Although the tax burden remains quite high by international standards, foreign companies wishing to set up in the country can negotiate tax rulings in advance. The Netherlands has bilateral tax treaties with around 100 countries, and there are no withholding taxes on outgoing royalties and interest payments. The government, through the Netherlands Foreign Investment Agency (NFIA), is actively involved in promoting the country as a location for FDI. Incentives are made available to encourage investment in the less-developed areas of the country (particularly the north-east and the south), as well as in new technologies. Rules on the taxation of staff share options, extensively used by "new economy" companies, have been changed to encourage further investment in this field.

Impact

The scale of inward direct investment in the Netherlands has been sufficient to have a number of positive effects on the economy. As in other EU countries where inward direct investment has reached a certain level, the Netherlands now has a critical mass of firms in a number of sectors (notably telecoms, media and IT), resulting in the creation of "positive externalities" that are likely to continue to attract more investment in the sectors concerned. FDI makes a significant contribution to employment growth and to gross fixed capital formation.

Potential

The Netherlands has set out to reinforce its position as the undisputed international gateway to the EU. Its political, social and economic stability, highly qualified and multilingual workforce, pro-business policies and privileged geographical location should ensure that the country continues to receive a large share of intra-regional FDI flows, as well as investments from outside the EU seeking to exploit the Netherlands' position as a gateway.

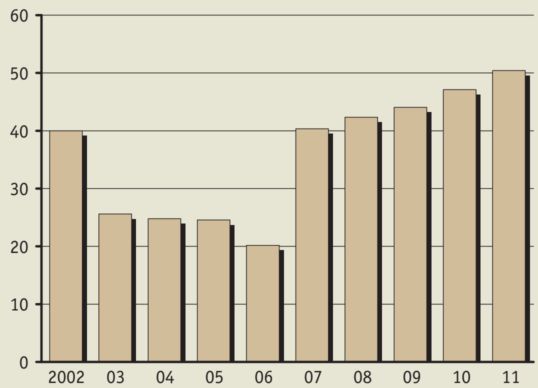
Spain

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.40	7.82	22	22
Political environment	7.8	7.8	19	21
Political stability	8.5	8.1	16	16
Political effectiveness	7.1	7.4	20	20
Macroeconomic environment	7.5	7.2	39	54
Market opportunities	7.1	7.7	17	11
Policy towards private enterprise & competition	7.5	7.8	21	24
Policy towards foreign investment	8.2	8.2	17	20
Foreign trade & exchange controls	8.7	9.1	15	14
Taxes	5.6	6.3	42	42
Financing	7.8	8.9	20	18
Labour market	6.5	7.2	38	28
Infrastructure	7.5	8.2	24	22

Key issues

Rising wage and non-wage costs, insufficient reforms in key areas and the growing attractiveness of alternative locations (particularly in central and eastern Europe) pose a threat to Spain's attractiveness as a business location. Hourly wage costs remain lower than in France or Germany, but they are far higher than in a wide range of countries in eastern Europe, the Far East and elsewhere that have become attractive destinations for FDI. With labour market regulations also less flexible than in a number of other EU countries, Spain is not an obvious location for greenfield investments except in a few niche fields. Spain is a major market and many Spanish companies are profitable, making them potentially attractive targets for takeovers, but the Spanish government may lean on the regulatory authorities to impede such takeovers in what it considers important sectors, as it did in 2006 and early 2007, when it obstructed the attempt by a German energy company, E.ON, to acquire the Spanish electricity company Endesa. This has raised questions about the Spanish government's commitment to the free flow of capital within the EU.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	42.7	44.1	45.1	45.4	45.8	46.2	46.6	46.9
GDP (US$ bn at market exchange rates)	1,044.5	1,128.0	1,225.8	1,430.1	1,529.4	1,521.4	1,551.0	1,608.1
GDP (US$ bn at PPP)	1,108.3	1,183.6	1,267.8	1,365.5	1,436.7	1,509.2	1,586.3	1,664.9
GDP (% real change)	3.2	3.5	3.9	3.4	2.2	2.3	2.5	2.5
Foreign direct investment inflows (US$ bn)	24.8	24.6	20.2	40.3	42.4	44.0	47.1	50.4
% of GDP	2.4	2.2	1.6	2.8	2.8	2.9	3.0	3.1
% of gross fixed investment	8.5	7.4	5.4	9.3	9.2	9.8	10.3	10.6
Inward foreign direct investment stock (US$ bn)	395.2	371.5	443.3	483.6	526.0	570.0	617.1	667.6
% of GDP	37.8	32.9	36.2	33.8	34.4	37.5	39.8	41.5
Foreign direct investment outflows (US$ bn)	61.5	41.9	88.7	95.8	86.2	86.2	87.1	88.0
Outward foreign direct investment stock (US$ bn)	371.2	372.6	508.0	603.8	690.0	776.3	863.4	951.4
% of GDP	35.5	33.0	41.4	42.2	45.1	51.0	55.7	59.2

Foreign direct investment in Spain

Stocks and flows

Spain has a reasonable track-record in attracting greenfield industrial projects over the past three decades, but FDI inflows have been low compared with other EU countries. As the country's relative appeal has declined, so too have FDI inflows. FDI inflows into Spain amounted to just US$20.2bn in 2006, down from a peak of US$40bn in 2002. The total stock of inward FDI was estimated at US$443.3bn at the end of 2006, which was up on US$371.5bn a year earlier, largely owing to the weakening US dollar. Outflows of FDI, driven initially by a surge in investment by Spanish companies buying companies in Latin America and subsequently in Europe, have exceeded inward FDI since 1997 (with the exception of 2002) and reached US$88.7bn in 2006. The stock of Spanish FDI abroad stood at US$508bn at end-2006, substantially higher than the US$373bn recorded at end-2005.

Origin and distribution

In common with other developed economies, FDI inflows into Spain have been shifting from manufacturing to services, although the country has had limited success in attracting inward direct investment in the information communications and technology (ICT) sector. This reflects shortcomings in its educational system and the lack of a strong domestic industry in these areas. Other EU countries account for most FDI inflows into Spain.

Determinants

Spain's accession to the EU in 1986 generated foreign interest in what was a large and growing domestic market with an established low-cost industrial base. Foreign multinationals quickly purchased and restructured much of the country's heavy manufacturing industry, encountering little political or social opposition and enjoying considerable business success. Spain has well-established political and financial mechanisms in place for foreign investors, as well as a workforce accustomed to multinational work practices and a younger generation of managers, who have adopted a more flexible business culture. Spanish labour costs remain a little below those in most other west European countries, but are far higher than in eastern Europe or in other parts of the world where manufactured activity has recently developed. A case in point is the automotive sector, where Spain hosts some of Europe's most efficient car assembly plants, from which firms are beginning to relocate in the face of rising labour costs. Foreign investors can, however, still be attracted to invest in some other sectors by the ease of access to the EU market, a favourable quality of life, and a dynamic consumer market. The government has in the past offered a range of financial and tax incentives to foreign investors, as have regional governments, which enjoy considerable autonomy and compete with each other to attract inward FDI. However, these incentives have been curtailed by EU state aid regulations that strictly limit aid to regions other than the least developed. The Spanish government has shown itself resistant to foreign takeovers of major Spanish companies, as was vividly illustrated in 2006-07, when it tried to block the bid by a German energy company, E.ON, for the Spanish energy company Endesa.

Impact

Inward direct investment was important to Spain's economic development in the 1980s and early 1990s in terms of job creation, labour productivity and the spillover benefits to the larger economy. More recently the scale of FDI, and therefore the impact for the broader economy, has been more limited, although even a modest level of FDI in high-technology sectors helps to boost the country's limited capacity for research and development (R&D) and technological innovation.

Potential

Although many of the factors that used to attract foreign investors to Spain remain in place, its former advantage as a relatively low-wage economy has in effect disappeared. The government will need to introduce labour market and other economic reforms, improve education and vocational training, encourage research and be more vigorous in the implementation of competition policy to compete more effectively to attract FDI into high-tech and innovative sectors, which could help to stimulate indigenous activity. It would also need be more open to foreign takeovers.

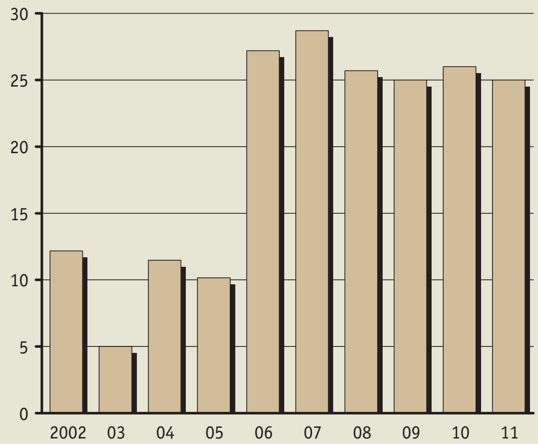
Sweden

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.34	8.60	11	11
Political environment	9.5	9.7	2	1
Political stability	10.0	10.0	1	1
Political effectiveness	9.0	9.4	5	2
Macroeconomic environment	9.2	9.2	3	2
Market opportunities	6.8	6.9	24	24
Policy towards private enterprise & competition	8.3	8.8	16	10
Policy towards foreign investment	10.0	9.6	1	1
Foreign trade & exchange controls	8.7	9.6	15	3
Taxes	6.0	6.3	32	42
Financing	8.9	9.6	14	8
Labour market	6.6	7.1	33	30
Infrastructure	9.6	9.4	1	3

Key issues

A new centre-right government entered office in September 2006, ending 12 years of Social Democratic rule. The four-party coalition's main objective is to strengthen the economic incentives to work, with a view to easing welfare dependency and social exclusion and boosting labour supply. Measures include cuts in income tax; lower employers' social security contributions (to encourage the hiring of younger workers, immigrants and the long-term unemployed); and reduced unemployment benefit. The welfare reforms have been criticised by trade unions, but a sharp deterioration in industrial relations is unlikely. The state's role in the economy will be cut, with the planned sale of government stakes in six companies, including TeliaSonera, Nordea, OMX, and Vin & Sprit. Further liberalisation measures will see the opening of product markets (including public services) to wider private-sector competition. Fiscal reforms are to be introduced to boost the low level of entrepreneurship in Sweden by making it easier and more profitable to set up a business. Wealth tax was abolished at the beginning of 2007, and property tax is to be reformed. Despite a reduction in the state's involvement in the economy, the tax burden in Sweden will still remain among the highest in the world.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	9.0	9.0	9.1	9.2	9.2	9.3	9.3	9.4
GDP (US$ bn at market exchange rates)	349.1	357.3	384.1	437.0	470.5	475.4	482.9	492.5
GDP (US$ bn at PPP)	279.5	290.0	308.9	321.7	340.2	358.3	376.1	394.6
GDP (% real change)	3.7	2.9	4.5	3.7	3.5	2.6	2.3	2.3
Foreign direct investment inflows (US$ bn)	11.5	10.2	27.2	28.7	25.7	25.0	26.0	25.0
% of GDP	3.3	2.8	7.1	6.6	5.5	5.3	5.4	5.1
% of gross fixed investment	20.2	16.5	39.6	34.3	28.0	27.6	28.2	26.9
Inward foreign direct investment stock (US$ bn)	197.8	172.4	218.4	247.1	272.8	297.8	323.8	348.8
% of GDP	56.7	48.2	56.9	56.5	58.0	62.6	67.1	70.8
Foreign direct investment outflows (US$ bn)	21.8	26.5	24.6	35.0	31.5	30.2	28.4	30.6
Outward foreign direct investment stock (US$ bn)	216.3	201.8	263.0	298.0	329.4	359.6	388.0	418.6
% of GDP	62.0	56.5	68.5	68.2	70.0	75.6	80.4	85.0

Foreign direct investment in Sweden

Stocks and flows

FDI inflows averaged around US$29bn per year between 1997 and 2000, peaking, at the height of the global merger and acquisition (M&A) boom, at US$61bn in 1999—in part driven by the acquisition of a Swedish pharmaceutical firm, Astra, by Zeneca of the UK. FDI inflows held up fairly well in 2001-02, despite the global recession, averaging US$11.8bn in the two-year period. After bottoming out at US$5bn in 2003, FDI inflows have recovered strongly, averaging US$10.8bn in 2004-05 and rising to US$27.2bn in 2006, driven in part by the robust growth performance of the economy. Measured at book value, Sweden's inward FDI stock totalled an estimated US$218.4bn in 2006 (or 56.9% of GDP), up from US$77bn in 2000 (32% of GDP). In absolute terms, this places Sweden in a middle rank among the EU15 countries, although it remains one of the larger hosts in the EU15 relative to the size of its economy, behind only Belgium, Ireland and the Netherlands. With a fivefold increase over the past decade, the inward FDI stock has grown at a faster rate than the outward stock. FDI outflows have remained fairly stable in recent years, averaging US$23.5bn in 2003-06.

Origin and distribution

Since the mid-1990s the bulk of FDI inflows has originated in Europe. Between 1998 and 2003 EU countries accounted for around 70% of total inward investment, with the UK (30%), Finland (17%) and Germany (13%) the leading players. Flows from the Netherlands, Norway and Denmark have also been significant. Since 2000 the US has become an increasingly important direct investor in Sweden. At the end of 2005, 66% of Sweden's inward FDI stock originated from other EU countries (Dutch, UK and Finnish companies being the largest investors); 18% from the US; and just 1.5% from Asia. Manufacturing remains the dominant sector for inward FDI into Sweden: the chemicals, pharmaceuticals, engineering and energy sectors account for over 50% of the inward and outward stock. However, the sectoral composition of inward FDI is changing, as Sweden's technology-based clusters and excellent research capability attract a growing share of FDI in sectors such as information technology (IT), electronics and software development, and financial and business services.

Determinants

Sweden's main attraction as an investment location is its exceptional infrastructure, particularly its facilities for research and development (R&D), on which Sweden spends proportionally more than any other country. Its strong technological base, the close relationship between academia and industry, a highly educated workforce, a strong and stable economy, and well-informed consumers and suppliers also enhance Sweden's attractions as a research and manufacturing base, particularly in high-technology, capital-intensive industries. However, high labour costs (in terms of wages, payroll taxes and restrictive labour regulations) reduce the country's appeal in labour-intensive industries, and a lack of competition still exists in certain sectors, notably retail trade, pharmaceuticals and construction.

Impact

Foreign-owned firms account for about 11% of the labour force, although part of this share reflects acquisitions by overseas interests of existing Swedish firms, rather than new jobs created by start-up ventures. Foreign investors account for about one-third of R&D spending and may therefore have contributed to a virtuous circle by improving the technological base.

Potential

Although non-participation in European economic and monetary union could deter FDI in parts of the economy, most likely within the manufacturing sector, it will probably have less of an impact in most services sectors (which account for a rising share of FDI in Sweden). The country's highly skilled workforce, excellent infrastructure and export-oriented economy will remain positive features of the business environment, as will its good and improving transport links with northern and eastern Europe. Sweden's well-developed research capabilities have helped to encourage inward investment in R&D and high-tech businesses, and although the country is somewhat vulnerable to a downturn in the technology cycle, its advanced status in this area should continue to attract FDI over the forecast period. High personal taxes and labour and other business costs remain disincentives, but the tax environment for firms is favourable, with the standard rate of corporation tax, at 28%, competitive by west European standards.

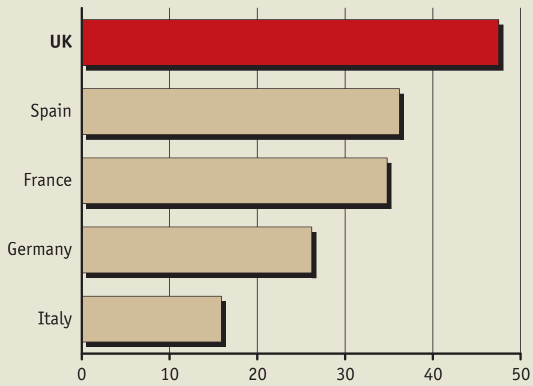
United Kingdom

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.62	8.60	6	10
Political environment	8.1	8.1	16	15
Political stability	7.8	7.8	27	27
Political effectiveness	8.4	8.4	10	10
Macroeconomic environment	9.2	8.3	3	19
Market opportunities	7.8	7.8	7	7
Policy towards private enterprise & competition	9.5	9.5	1	1
Policy towards foreign investment	9.6	9.6	2	1
Foreign trade & exchange controls	8.7	9.1	15	14
Taxes	7.3	7.3	14	19
Financing	10.0	10.0	1	1
Labour market	7.9	7.9	4	5
Infrastructure	8.3	8.5	17	20

Key issues

The UK will remain one of the world's most attractive business locations. Its defining features will continue to be a favourable disposition to free enterprise, a tough and rigorously enforced competition policy, a relaxed attitude to foreign takeovers of domestic companies, flexible labour markets and deep and sophisticated capital markets. However, a number of factors could weaken the UK's appeal over the next few years. High levels of consumer debt pose a threat to the stability of the macroeconomic environment. The tax regime is becoming more burdensome and complex. Improvements to the creaking and congested road and rail transport infrastructure will be slow to materialise. And despite concerted government efforts, the UK will struggle to close its productivity gap with the US and the best performers in western Europe. The UK's low productivity will reflect a combination of factors, including skills deficiencies (both at managerial and lower levels), strict planning restrictions (which inhibit economies of scale), the continued deficiencies of the transport network, and comparatively low levels of spending on research and development (R&D).

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	59.8	60.0	60.3	60.5	60.7	60.9	61.2	61.4
GDP (US$ bn at market exchange rates)	2,168.3	2,243.6	2,391.3	2,731.3	2,801.0	2,837.0	2,910.4	2,957.9
GDP (US$ bn at PPP)	1,913.2	1,993.5	2,102.9	2,207.3	2,317.4	2,438.2	2,558.3	2,687.0
GDP (% real change)	3.3	1.8	2.8	2.6	2.3	2.5	2.2	2.4
Foreign direct investment inflows (US$ bn)	77.9	195.6	137.7	119.8	105.4	110.4	112.7	116.3
% of GDP	3.6	8.7	5.8	4.4	3.8	3.9	3.9	3.9
% of gross fixed investment	21.0	50.8	31.9	23.7	20.2	21.0	20.9	21.1
Inward foreign direct investment stock (US$ bn)	742.4	863.0	1,135.3	1,255.1	1,360.5	1,470.9	1,583.6	1,699.8
% of GDP	34.2	38.5	47.5	46.0	48.6	51.8	54.4	57.5
Foreign direct investment outflows (US$ bn)	98.2	91.7	79.8	82.8	84.8	91.1	95.0	101.4
Outward foreign direct investment stock (US$ bn)	1,268.5	1,296.0	1,487.0	1,569.8	1,654.6	1,745.7	1,840.7	1,942.1
% of GDP	58.5	57.8	62.2	57.5	59.1	61.5	63.2	65.7

Foreign direct investment in the United Kingdom

Stocks and flows

FDI inflows into the UK have recovered sharply since the downturn in global mergers and acquisitions (M&As) in 2001-03. Having bottomed out at US$25.5bn in 2002, FDI inflows recovered to total US$195.6bn in 2005 and US$137.7bn in 2006. Although over half of the annual inflow into the UK in 2005 was accounted for by a major corporate reorganisation involving Royal Dutch Shell that had no real impact on the host economy, the number and scale of FDI inflows into the UK in 2005-06, which mostly took the form of M&As, confirmed the UK's status as one of the world's largest and most open hosts of FDI. In absolute terms, the UK is Europe's largest and the world's second-largest host of FDI, accounting for one-quarter of the total stock of inward FDI in the EU. Relative to GDP, the UK's inward FDI stock is the highest in the G7 group of industrialised countries, although it is lower than that of some medium-sized EU economies such as the Netherlands and Sweden. Measured at book value, the inward FDI stock totalled an estimated US$1.1trn at the end of 2006, or 47% of GDP.

Origin and distribution

US firms have been the largest inward direct investors in the UK since two carmakers, Ford and General Motors, established a presence in the early 20th century, but investments from EU countries have risen sharply and the UK has been the favoured destination in the EU for greenfield investments by Asian firms (even if the latter still account for a small share of the total inward FDI stock). At the end of 2005, 31% of the UK's inward FDI stock originated from the US; 56% from other European countries (Dutch, French and German companies being the largest investors); and just 6% from Asia. The banking, electronics and automotive sectors have traditionally accounted for a large share of inward FDI into the UK, but the sectoral composition of inward FDI is changing, as the UK's technology-based clusters and centres of scientific excellence attract more FDI in sectors such as pharmaceuticals, biotechnology, information technology (IT) and software development.

Determinants

The UK's attractiveness as a location for FDI over the past 20 years has rested on a policy of openness to foreign investors, a strikingly relaxed attitude to foreign takeovers of domestic firms, liberalised product markets, a flexible labour market (particularly by European standards), deep and liquid capital markets, membership of the EU (which gives firms located in the UK access to the world's largest trading bloc) and external economies of scale in sectors such as financial services (where London's position as a financial centre has developed and fed on a large pool of qualified banking, legal and accounting staff). A less tangible but still important magnet has been the status of English as the world's leading business language.

Impact

FDI has had a positive impact on the economy, even if several studies suggest that this is sometimes exaggerated. Inward direct investors employ around 2m workers in the UK, and many of the country's most productive business units, such as the Japanese Nissan and Toyota car plants, are foreign-owned. The evidence for broader spillover effects is more mixed, however. Although foreign firms are often held to raise working practices and quality standards in local firms, the empirical evidence suggests that positive spillover effects—if they occur at all—are often geographically concentrated, partly because of low levels of labour mobility and partly because demonstration effects are often limited to the region where the foreign firm is located. By and large, positive productivity spillover effects from foreign firms to local firms have been limited.

Potential

Despite the publicity sparked by disinvestments to lower-cost countries in eastern Europe and Asia, the UK should remain an attractive location for FDI overall. The UK's failure to join European economic and monetary union (EMU) could deter FDI in a handful of manufacturing sectors, but it will have less of an impact in most services sectors (which account for a rising share of FDI in the UK). Indeed, existing clusters and external economies of scale in sectors such as pharmaceuticals, biotechnology, financial services and software development will remain powerful magnets to foreign entrants. One of the UK's main weaknesses will be the congestion and unreliability of its land transport infrastructure, which exerts a drag on productivity.

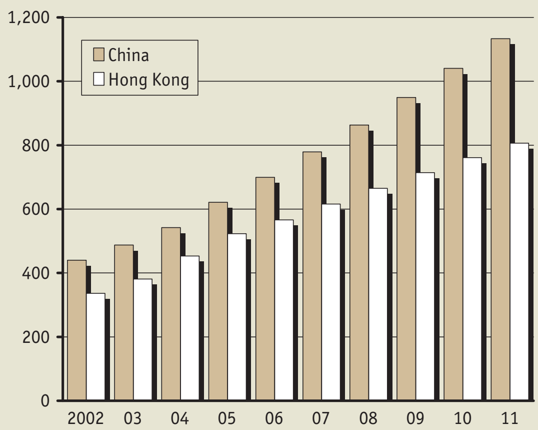
China

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.61	6.38	58	53
Political environment	4.6	4.8	62	61
Political stability	5.5	5.1	55	62
Political effectiveness	3.9	4.5	61	58
Macroeconomic environment	7.8	7.5	33	44
Market opportunities	8.7	8.5	1	1
Policy towards private enterprise & competition	3.8	4.8	67	68
Policy towards foreign investment	6.0	6.9	57	49
Foreign trade & exchange controls	6.0	7.8	61	51
Taxes	5.3	6.0	52	54
Financing	3.6	5.9	71	60
Labour market	5.8	6.2	54	57
Infrastructure	4.7	5.6	56	55

Key issues

China is one of the world's largest recipients of FDI. Although FDI inflows actually fell slightly in 2006, to US$78.1bn, this was still one of the highest totals in the world. Despite concerns about rising cost pressures, China remains a favoured base for foreign companies wishing to reduce production costs. Nevertheless, companies wishing to sell into the domestic market still find the country's business environment a difficult one in which to operate. Despite improvements in recent years, the Chinese market is characterised by intense competition, bureaucratic hurdles and an opaque legal system. Nevertheless, many foreign companies are now starting to make good profits (even if there are significant variations across sectors). China is also becoming an important outward investor, and this trend will continue. Owing to its rising stock of foreign-exchange reserves, as well as booming demand for natural resources, in particular oil, China will become an increasingly important source of investment for many resource-rich countries in Africa, Central Asia and Latin America over the forecast period. Overall, these countries have given a cautious welcome to Chinese investment.

Inward FDI stock, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	1,299.9	1,307.6	1,314.5	1,323.1	1,331.1	1,336.7	1,342.5	1,351.0
GDP (US$ bn at market exchange rates)	1,936.5	2,278.3	2,720.2	3,250.2	3,832.6	4,481.9	5,232.0	6,080.6
GDP (US$ bn at PPP)	7,642.3	8,692.3	9,903.8	11,192.9	12,587.2	13,993.8	15,453.8	16,970.8
GDP (% real change)	10.1	10.4	10.7	9.9	9.3	9.0	8.4	9.4
Foreign direct investment inflows (US$ bn)	54.9	79.1	78.1	79.5	84.1	86.5	90.9	92.9
% of GDP	2.8	3.5	2.9	2.4	2.2	1.9	1.7	1.5
% of gross fixed investment	7.0	8.4	6.8	5.7	5.0	4.3	3.8	3.3
Inward foreign direct investment stock (US$ bn)	542.3	621.4	699.5	779.0	863.1	949.5	1,040.4	1,133.4
% of GDP	28.0	27.3	25.7	24.0	22.5	21.2	19.9	18.6
Foreign direct investment outflows (US$ bn)	1.8	11.3	17.8	26.0	37.0	48.0	65.0	72.0
Outward foreign direct investment stock (US$ bn)	52.7	64.5	82.3	108.3	145.3	193.3	258.3	330.3
% of GDP	2.7	2.8	3.0	3.3	3.8	4.3	4.9	5.4

Foreign direct investment in China

Stocks and flows

In absolute terms at least, China is one of the world's largest hosts of FDI. In 2006 FDI inflows totalled US$78.1bn (in balance-of-payments terms). FDI inflows into China have generally been increasing over the past two decades, with annual average inflows rising from US$3.9bn (again in balance-of-payments terms) in 1985-92 to US$37.8bn in 1993-2000 and US$59bn for 2001-06. FDI inflows are forecast to remain high and to increase gradually throughout the forecast period, averaging US$87bn in 2007-11. The stock of inward FDI reached US$699.5bn by end-2006, although it has actually been falling as a share of GDP in recent years (largely because the economy has been growing faster than FDI inflows). FDI data for China should, however, be treated with caution. FDI inflows are inflated by "round-tripping", whereby domestic investment from the mainland is taken offshore, usually to Hong Kong, and then returned to the mainland to take advantage of the preferential tax rates offered to foreign investors. The World Bank has estimated that round-tripping could account for up to 25% of total FDI into China.

Origin and distribution

The major investors in China are Hong Kong, South Korea, Japan and the US. Most investment goes to the coastal provinces and provincial-level cities, despite attempts to attract investors inland. The three most important investment locations can be described as "greater Guangdong" (which comprises Guangdong, Fujian and Hainan provinces), "greater Shanghai" (Shanghai, Jiangsu and Zhejiang provinces) and "greater Beijing" (comprising the capital, together with Tianjin municipality and Hebei province).

Determinants

Most foreign investors have been attracted by China's vast domestic market and low labour costs. Early arrivals, however, were largely disappointed with the initial results of their China operations, and either lived with losses or left the market. However, an increasing number of foreign-invested companies are now in profit, and the outlook for the economy is healthy, which suggests that there will be continued strong interest from foreign companies. Lingering barriers to trade are coming down, but high non-wage costs remain a concern. Problems of overcapacity, and strong competition from domestic companies, will continue to cause problems for many foreign firms.

Impact

FDI has had a profound impact both on the overall level of industrial development in China and on its geographical distribution. The coastal provinces have seen the greatest transformation, with central and western provinces left on the sidelines. There is growing concern among some policymakers in China that the economy, and in particular the export sector, is becoming overly dependent on foreign investment. In 2006 foreign-invested enterprises (FIEs) accounted for over 50% of China's total exports, and FIEs will remain a key driver of China's export dynamism for years to come.

Potential

China has been attracting sizeable amounts of FDI for some years, and FDI inflows are forecast to remain high during the forecast period. China is still ranked by many international firms as their preferred investment destination. The stock of inward FDI accounts for a high share of GDP (at 25.7% in 2006), but remains small per head of population. This suggests that China has the potential to absorb considerable additional FDI. China is committed to meeting its World Trade Organisation (WTO) obligations, which should boost FDI. The gradual opening up of sectors such as domestic commerce, financial services, insurance and tourism is under way. Geographical restrictions on where foreign companies are allowed to set up operations will also be relaxed in 2007-11. But the government is becoming more choosy about approving certain investment projects, and increasingly priority will be given to projects in the interior of the country or those that promise a greater degree of technology transfer. However, if the government's plan to encourage more FDI in the interior is to be successful, the region will need better transport connections to international markets.

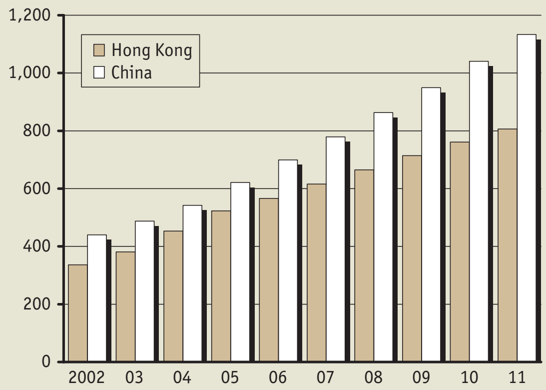
Hong Kong

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.57	8.68	8	6
Political environment	7.2	7.6	23	22
Political stability	7.0	7.0	37	40
Political effectiveness	7.4	8.1	18	13
Macroeconomic environment	8.6	8.9	11	8
Market opportunities	7.2	6.7	15	31
Policy towards private enterprise & competition	8.5	8.8	10	10
Policy towards foreign investment	8.7	8.7	10	12
Foreign trade & exchange controls	9.6	10.0	3	1
Taxes	9.7	9.7	1	1
Financing	9.3	9.3	11	14
Labour market	8.3	8.6	2	2
Infrastructure	8.7	8.7	14	18

Key issues

Hong Kong, Asia's second-largest recipient of FDI, remains one of the world's most attractive business environments. It boasts a world-class infrastructure, low rates of taxation and a strategic location. The potential of the territory's domestic economy, which is set to grow strongly in the period to 2011, continues to draw foreign investors, even though concerns remain over the extent to which vested interests can hamper new market entrants in some sectors. Hong Kong's position as a gateway to China's booming economy, coupled with its impressive labour force and regulatory environment, are the main attractions. The development of the Closer Economic Partnership Arrangement (CEPA) with the mainland will continue to give Hong Kong-based companies special benefits when operating in China. As mainland Chinese locations such as Shanghai improve their infrastructure and skills base, some of Hong Kong's advantages over them may be eroded, particularly in the logistics field. However, the territory's advantages in the key field of professional services are unlikely to be surpassed, largely owing to political factors that hamper China's regulatory development.

Inward FDI stock, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	6.9	6.9	6.9	7.0	7.0	7.1	7.1	7.1
GDP (US$ bn at market exchange rates)	165.8	177.8	189.8	203.5	220.9	237.4	256.2	274.9
GDP (US$ bn at PPP)	212.1	235.0	258.6	279.5	302.0	326.8	352.3	379.7
GDP (% real change)	8.6	7.5	6.9	5.6	5.3	5.4	5.2	5.3
Foreign direct investment inflows (US$ bn)	34.0	33.6	42.9	50.0	49.0	49.0	47.0	45.0
% of GDP	20.5	18.9	22.6	24.6	22.2	20.6	18.3	16.4
% of gross fixed investment	96.4	90.4	103.9	112.9	104.4	99.1	90.3	81.8
Inward foreign direct investment stock (US$ bn)	453.1	523.2	566.1	616.1	665.1	714.1	761.1	806.1
% of GDP	273.2	294.3	298.3	302.8	301.1	300.8	297.0	293.2
Foreign direct investment outflows (US$ bn)	45.7	27.2	43.5	40.6	37.0	39.0	38.7	39.3
Outward foreign direct investment stock (US$ bn)	403.1	471.3	514.8	555.3	592.4	631.4	670.1	709.4
% of GDP	243.1	265.1	271.2	273.0	268.2	265.9	261.5	258.1

Foreign direct investment in Hong Kong

Stocks and flows

FDI inflows have been volatile in recent years, ranging from US$9.7bn in 2002 to US$42.9bn in 2006 (the record inflow occurred in 2000, when just under US$62bn was invested). FDI outflows from Hong Kong have been similarly volatile, rising from US$5.5bn in 2003 to US$43.5bn in 2006. However, a large proportion of both inflows and outflows reflects "round-tripping", whereby Chinese companies take money from the mainland, only to reinvest in China through Hong Kong entities in order to take advantage of the tax incentives offered to foreign investors in China. These tax breaks will be withdrawn from the start of 2008, which will cause FDI inflows and outflows alike to fall gradually as a proportion of GDP. The stock of FDI is likely to continue to climb in 2007-11 as more companies site their regional headquarters in the territory.

Origin and distribution

Official figures show that the largest source of FDI in Hong Kong was mainland China, accounting for around 28% of the total in 2005 (the latest year for which a full breakdown is available). The British Virgin Islands (BVI) accounted for 18% of inflows, reflecting the role of local and Chinese companies that have established operating companies in the tax haven. Bermuda and the Cayman Islands, also tax havens, feature in the list of the top ten sources of FDI for the same reason. Thailand, the Netherlands, Japan and the UK were important investors in 2005, accounting for 10.7%, 6.5%, 5.4% and 5.2% of inflows, respectively. As of 2005 China was also the holder of the largest stock of foreign investment, accounting for just over 31% of the total, closely followed by the BVI, also with just over 31%. The majority of the stock of inward direct investment is in service industries, including investment-holding, real estate and business services; wholesale, retail and trading; banking, finance and insurance; and transport and communications. The first category, which includes "investment-holding", is by far the most important, accounting for over 59% of the stock of inward investment.

Determinants

Hong Kong provides an attractive market for companies dealing in consumer goods, nearly all of which are imported, and services, including financial services. However, the main reason for investing in Hong Kong is its favourable institutional environment and its proximity to China. Hong Kong continues to provide the most convenient platform for foreign companies doing business on the mainland. Hong Kong's entrepôt function and its strategic location have encouraged its development as a major regional financial centre. Unlike China and Singapore, traditionally Hong Kong's government has not provided specific incentives to foreign investors, arguing that the open business environment provides sufficient reason to invest there. However, this attitude has begun to change in recent years: in 2000 an investment promotion agency was established, and land and infrastructure were provided to encourage a US entertainment company, Walt Disney, to establish a theme park in the territory. Such efforts have not all been successful: the government-backed Cyberport business park, designed to attract high-technology firms to Hong Kong, struggled at its launch.

Impact

In 2002-06 FDI inflows were equivalent to an average of 15.3% of GDP and over 70% of fixed investment expenditure. However, this overstates the importance of FDI; domestic capital spending was unusually weak in this period. More generally, Hong Kong is a centre for merger and acquisition (M&A) activity, as well as the formation of investment-holding companies, but financial flows associated with such deals do not in themselves expand the capital asset base. In addition, an unknown proportion of the large FDI inflows from offshore tax havens is not truly foreign investment, as it either derives from Hong Kong-owned companies or is associated with round-tripping. Nevertheless, FDI has been important in building up the territory as a business hub, and many companies site their regional or China headquarters in Hong Kong.

Potential

Under the terms of its reversion to Chinese rule Hong Kong remains an open economy, with foreign investment treated in largely the same way as domestic enterprise. Although China will endeavour to lure fresh investment directly to mainland business centres such as Shanghai, a sizeable proportion will continue to be attracted to Hong Kong, owing to its regulatory and infrastructural advantages.

India

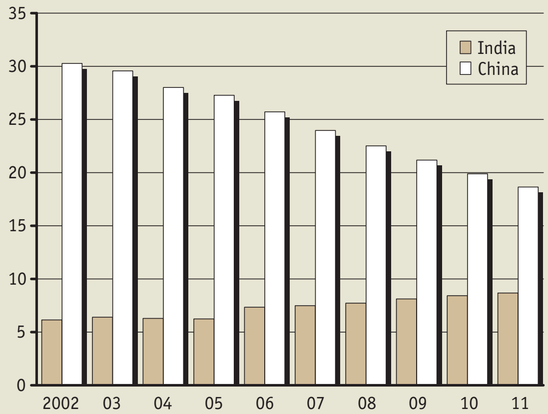
Business environment rankings	**Score (out of 10) 2002-06**	**2007-11**	**Rank (out of 82) 2002-06**	**2007-11**
Overall scores and ranks	5.27	6.37	62	54
Political environment	5.2	5.7	50	50
Political stability	5.5	6.3	55	49
Political effectiveness	4.9	5.2	45	46
Macroeconomic environment	7.5	7.5	39	44
Market opportunities	7.6	7.7	10	9
Policy towards private enterprise & competition	5.0	6.0	51	50
Policy towards foreign investment	5.1	6.9	66	49
Foreign trade & exchange controls	3.7	6.4	76	68
Taxes	5.1	6.3	60	42
Financing	4.8	6.6	59	48
Labour market	5.6	6.2	64	56
Infrastructure	3.3	4.5	76	72

Key issues

FDI inflows will rise sharply during the forecast period, but will still remain very low by international standards. The Congress-led coalition government has made significant progress in opening the economy to foreign investment, but further progress before the next election, due by May 2009 at the latest, will be constrained by opposition from the government's political allies in the Left Front. The main opposition party, the Bharatiya Janata Party (BJP), is in some ways more free-market than Congress, but its Hindu-nationalist rhetoric, coupled with its reliance on groups such as small traders for support, would make it wary of moving too quickly were it to form the next government. Recognising that the Indian economy could easily absorb a much higher level of FDI, the government is progressively raising its annual FDI target; it stands at an ambitious US$25bn for fiscal year 2007/08 (April-March)—although continued problems of the business environment are likely to keep actual inflows below these targets. Foreign investors will be attracted by major new opportunities in infrastructure projects. Telecommunications and energy are likely to emerge as other high-potential industries for FDI.

Inward FDI stock, 2002-11

(% of GDP)



Market summary	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Population (m)	1,065.1	1,080.3	1,095.4	1,110.4	1,125.4	1,140.2	1,155.0	1,169.7
GDP (US$ bn at market exchange rates)	692.7	805.6	922.9	1,131.9	1,329.1	1,512.4	1,719.4	1,955.2
GDP (US$ bn at PPP)	3,389.7	3,814.6	4,293.8	4,765.5	5,283.6	5,834.0	6,438.1	7,096.5
GDP (% real change)	8.3	9.2	9.4	8.5	8.0	7.5	7.5	7.5
Foreign direct investment inflows (US$ bn)	5.8	6.7	17.5	17.0	18.0	20.0	22.0	25.0
% of GDP	0.8	0.8	1.9	1.5	1.4	1.3	1.3	1.3
% of gross fixed investment	3.2	2.9	6.4	4.8	4.2	4.0	3.8	3.7
Inward foreign direct investment stock (US$ bn)	43.6	50.3	67.7	84.7	102.7	122.7	144.7	169.7
% of GDP	6.3	6.2	7.3	7.5	7.7	8.1	8.4	8.7
Foreign direct investment outflows (US$ bn)	2.2	2.5	9.0	10.0	12.0	14.0	14.5	16.0
Outward foreign direct investment stock (US$ bn)	10.1	12.1	21.1	31.1	43.1	57.1	71.6	87.6
% of GDP	1.5	1.5	2.3	2.7	3.2	3.8	4.2	4.5

Foreign direct investment in India

Stocks and flows

FDI into India is rising rapidly. FDI inflows totalled US$17.5bn in 2006, compared with US$6.7bn in 2005 and US$2bn-3bn for most of the 1990s (although these figures are not strictly comparable, since in 2000/01 the government changed the means by which it measures FDI to include, for example, reinvested earnings). However, inflows of FDI into India are low by global standards (equivalent to 1.9% of GDP in 2006), as is the stock of inward FDI, at around US$68bn in 2006 (equivalent to 7.3% of GDP, or US$62 per head). This is below the figure for Pakistan (US$91 per head), and a fraction of the level in China (US$532 per head).

Origin and distribution

According to the Secretariat for Industrial Assistance, the largest source of FDI in 2006/07 was Mauritius, which accounted for 40% of total inflows. Many companies incorporate in Mauritius to invest in India because of tax benefits. The UK was the second most important foreign investor, with 11.9% of the total, followed by the US (5.4%), the Netherlands (4%), Singapore (3.7%) and Germany (0.8%). Historically the electrical equipment sector, which includes India's highly successful computer software industry, has attracted the most FDI, but in 2006/07 it was overtaken by the services sector. Financial and non-financial services drew in US$4.7bn in investment, well above the US$2.7bn garnered by electrical equipment. The next most important sectors for FDI were construction activities (US$985m), telecommunications (US$521m) and transportation (US$466m). Foreign investment has been concentrated in the southern and western states, where more reform-minded administrations are in power. The top five destination states for FDI in recent years have been Maharashtra, Delhi, Tamil Nadu, Karnataka and Andhra Pradesh. FDI accounted for 6.4% of gross fixed investment in 2006, up sharply from 2.9% in 2005.

Determinants

India's skilled, English-speaking workforce has been a significant attraction for FDI, particularly in the information technology (IT) sector. Caps on FDI in protected industries have been steadily lifted: in January 2004 the limits on foreign investment in oil production and oil refining were abolished, and in private banking the limit was raised to 74%. In October 2004 the sectoral caps were raised in insurance (to 26%), civil aviation (to 49%) and telecoms (to 49%). The limit for some telecoms services, for example Internet service providers (ISPs), was subsequently raised to 74% in February 2005, and all basic, mobile, and value-added telecoms services were moved under the 74% limit in November 2005. In February 2006 FDI up to 51% was permitted for retail trading of "single brand" products. However, fuller liberalisation of the retail sector has been held up by political opposition, and some sectors, such as agriculture, remain off-limits to foreign investment. The approval process is gradually being simplified, and the government is expanding the number of industries that are subject to automatic approval. However, state-level impediments can be severe, and companies have been known to abandon FDI projects mid-way through the implementation stage.

Impact

FDI has had the greatest impact on India's software industry and on IT-enabled services. Call centres and other forms of back-office administration have become important industries. The pharmaceutical, telecoms and power sectors have also been influenced significantly by FDI.

Potential

India's potential to attract increased FDI inflows is vast, although poor infrastructure, excessive bureaucracy and interdepartmental wrangling will slow the pace of opening in many sectors. The infrastructure, energy, telecoms, IT and insurance sectors are likely to be the main magnets for FDI. Producers and assemblers of cars and automotive components are also re-evaluating India's potential, as are biotechnology firms. The establishment of special economic zones, in which 100% foreign ownership is allowed, in order to promote exports should attract increased FDI inflows into export-oriented industries. India's privatisation programme accelerated in 2003/04 with the sale of shares in major car and oil companies, but since then has stalled owing to opposition from the Left Front, on the support of which the government relies.

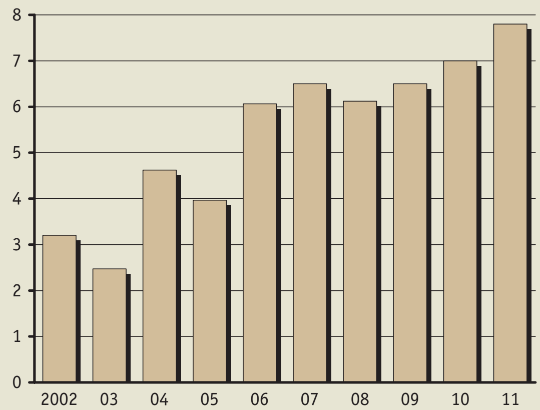
Malaysia

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.29	7.43	23	31
Political environment	7.1	6.7	25	37
Political stability	7.4	7.0	32	40
Political effectiveness	6.8	6.5	26	31
Macroeconomic environment	8.3	8.3	20	19
Market opportunities	6.5	6.7	29	28
Policy towards private enterprise & competition	6.3	6.8	33	37
Policy towards foreign investment	7.3	6.9	33	49
Foreign trade & exchange controls	8.7	8.7	15	24
Taxes	8.4	8.1	6	10
Financing	6.6	7.8	31	27
Labour market	7.1	6.8	20	34
Infrastructure	6.8	7.6	28	30

Key issues

Large inflows of FDI will remain important to Malaysia's economic development plans, especially the government's goal of attaining developed-nation status by 2020. Government attempts to position Malaysia as an attractive base for high-tech manufacturing and high value-added services will lead to an increase in FDI during the forecast period compared with the historical period. However, despite business-friendly policies, there are a number of weaknesses that might deter prospective investors. The pursuit of developed-nation status will place huge demands on the country's small pool of skilled labour, leading to higher wage costs. The enforcement of patents remains weak in Malaysia and the government has yet to establish a special court to deal with cases of patent infringements. Although prospective investors in the Iskander Development Region (located on the southern tip of the Malaysian peninsula) will be exempt from the "30% equity rule"—which requires 30% of equity to be held by bumiputera (ethnic Malays and other indigenous peoples)—this policy of positive discrimination will continue to be applied to other parts of the economy.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	25.6	26.1	26.6	27.1	27.6	28.1	28.6	29.2
GDP (US$ bn at market exchange rates)	118.5	130.8	148.9	177.8	196.5	215.9	233.8	255.2
GDP (US$ bn at PPP)	255.8	276.7	301.7	326.9	354.6	384.8	416.6	450.1
GDP (% real change)	6.8	5.0	5.9	5.9	5.8	5.7	5.6	5.6
Foreign direct investment inflows (US$ bn)	4.6	4.0	6.1	6.5	6.1	6.5	7.0	7.8
% of GDP	3.9	3.0	4.1	3.7	3.1	3.0	3.0	3.1
% of gross fixed investment	19.1	15.2	20.1	18.4	15.8	15.4	15.2	15.5
Inward foreign direct investment stock (US$ bn)	43.6	47.5	53.6	60.1	66.2	72.7	79.7	87.5
% of GDP	36.8	36.3	36.0	33.8	33.7	33.7	34.1	34.3
Foreign direct investment outflows (US$ bn)	2.1	3.0	6.0	4.3	3.9	3.1	2.8	3.0
Outward foreign direct investment stock (US$ bn)	12.8	21.8	27.8	32.1	36.0	39.1	41.9	44.9
% of GDP	10.8	16.7	18.7	18.0	18.3	18.1	17.9	17.6

Foreign direct investment in Malaysia

Stocks and flows

FDI inflows peaked in 1997 at US$5.1bn (equivalent to 5.1% of GDP), but collapsed in the wake of the Asian financial crisis to US$2.2bn in 1998. Inflows improved in 1999-2000, but plunged to US$600m in 2001, the lowest level since 1987, upon China's admission to the World Trade Organisation (WTO). FDI inflows averaged around US$4bn a year in 2002-06, following an increase in government incentives. The bulk of FDI inflows into Malaysia usually consists of reinvested earnings by foreign multinationals companies operating in the country. At the end of 2006, the stock of FDI in Malaysia stood at US$53.6bn, equivalent to 36% of GDP.

Origin and distribution

According to the Ministry of International Trade and Industry (MITI), in 2006 the major foreign countries investing in Malaysia were Japan (21% of the total), the Netherlands (16.2%) and Australia (12.7%). MITI's statistics are incomplete, however, because they measure the value of approved investments in manufacturing, but not services. Japan has traditionally had major production facilities in Malaysia. The focus of foreign investment in 2006 was unusually narrow: the bulk of it went to the electronics and electrical goods sector, although there was also substantial foreign investment in chemicals, plastics, non-metallic mineral products, machinery and food-manufacturing. In electronics and electrical goods, foreign companies accounted for 85.8% of the value of total approved projects.

Determinants

Malaysia's appeal as a destination for FDI—particularly FDI from new and innovative companies—has diminished, partly in the face of competition from China, and partly because the incentives on offer in Malaysia are being matched by other countries in the region. In recent years there has been a shift in foreign investment towards sectors that make use of Malaysia's rich resources. Since the start of the Ninth Malaysia Plan, a medium-term spending plan covering 2006-10, the government has abolished the 30%-equity rule—a restriction on the ownership and control of companies imposed to raise the participation of the bumiputera (ethnic Malays and other indigenous peoples) in the economy—in some subsectors within manufacturing and services. Incentives are important: three-quarters of approved manufacturing projects proposed by foreign investors in 2005 were given "pioneer" status, which accords them certain tax exemptions. A relatively well-educated workforce, good infrastructure (including the transport system) and strong foreign-language ability will mean that Malaysia remains an attractive investment destination in South-east Asia.

Impact

Foreign investment will continue to play an essential role in the leading sectors of the economy, helping to spur job-creation in the technology sector, the transfer of technology, the growth of productivity and structural change in the economy. The importance of inward FDI to gross fixed capital formation has diminished in recent years, from an average of around 20% of the total before the Asian financial crisis to 15% in 2005. Despite a strong pick-up in 2006, when inward direct investment accounted for 20% of gross fixed investment, we expect inward direct investment to average a more modest 16% a year during the forecast period. In recent years FDI inflows have also become more broad-based, with more investment flowing into services and less into manufacturing, and this trend is likely to continue.

Potential

Access to the fast-growing Chinese market will continue to be a catalyst for regional change, forcing a move to higher value-added production and creating new opportunities in the commodity sector to satisfy Chinese demand. There will also be new opportunities in the services sector, including information technology (IT) services as well as manufacturing-related services—areas targeted by the government. Privatisation is likely to receive a new boost as government-linked corporations are reorganised, creating opportunities for strategic foreign investment. The government will look to outside investors to take stakes in some of the major national corporations, and will also seek strategic investors in information and communications technology (ICT), energy, infrastructure, tourism and finance. FDI inflows in 2007-11 are projected to average about 3% of GDP per year, which is near the emerging-market average.

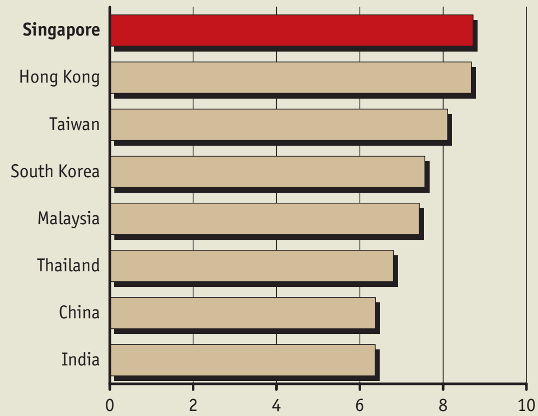
Singapore

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	8.71	8.72	1	3
Political environment	8.6	8.6	11	12
Political stability	7.4	7.4	32	33
Political effectiveness	9.7	9.7	1	1
Macroeconomic environment	8.3	8.6	20	13
Market opportunities	6.6	6.3	27	39
Policy towards private enterprise & competition	8.5	8.5	10	14
Policy towards foreign investment	9.6	9.6	2	1
Foreign trade & exchange controls	9.6	9.6	3	3
Taxes	9.0	9.0	3	2
Financing	9.6	9.6	6	8
Labour market	8.0	8.2	3	3
Infrastructure	9.3	9.3	6	9

Key issues

The government has in recent years pushed up spending and intensified its efforts to restructure the economy. To this end, it is seeking to encourage innovation and to diversify the economy towards new services and consumer industries (away from lower value-added manufacturing). Higher value-added activities are being promoted to foster the development of a "knowledge-based" economy. Protected sectors, such as financial services, are being liberalised in an effort to increase overall efficiency. Various bilateral free-trade agreements have been negotiated to improve market access and encourage FDI. The government will also continue to focus on maintaining Singapore's attractiveness as a destination for FDI by cutting corporation tax rates; the revenue losses are being offset by increases in the goods and services tax (GST). It will seek to balance the need to maintain business-friendly fiscal policies with the growing need to address rising inequalities in income. The impact on poorer families of the higher GST rates, for example, is being mitigated by a system of GST credits. In all, despite increased competition from other Asian destinations, Singapore will remain an attractive location.

Business environment scores, 2007-11



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	4.2	4.3	4.5	4.5	4.6	4.6	4.7	4.7
GDP (US$ bn at market exchange rates)	107.4	116.7	132.2	146.7	156.6	167.0	179.9	192.8
GDP (US$ bn at PPP)	136.2	149.6	166.1	178.3	190.9	205.3	219.7	234.9
GDP (% real change)	8.8	6.6	7.9	5.0	4.4	4.7	4.4	4.5
Foreign direct investment inflows (US$ bn)	14.8	20.1	25.7	26.0	24.6	27.0	28.4	29.8
% of GDP	13.8	17.2	19.5	17.7	15.7	16.2	15.8	15.4
% of gross fixed investment	58.1	77.1	84.4	76.6	66.7	68.5	66.5	64.7
Inward foreign direct investment stock (US$ bn)	174.2	187.7	213.4	239.4	264.0	291.0	319.3	349.1
% of GDP	162.2	160.9	161.5	163.2	168.6	174.2	177.5	181.1
Foreign direct investment outflows (US$ bn)	8.5	5.5	8.1	8.9	8.9	9.0	8.9	9.4
Outward foreign direct investment stock (US$ bn)	108.0	110.5	118.6	127.5	136.4	145.4	154.3	163.7
% of GDP	100.6	94.7	89.7	86.9	87.1	87.1	85.8	84.9

Foreign direct investment in Singapore

Stocks and flows

Singapore has been highly successful in attracting FDI. The stock of inward FDI stood at an estimated US$213.4bn in 2006, equivalent to around 160% of GDP. With strong growth of inflows in US dollar terms, FDI has accounted for over 20% of nominal gross fixed investment expenditure every year since 1993. FDI inflows as a share of GDP averaged about 10% a year in the 1980s and 1990s, and peaked at about 20% in 1999. The deterioration in the global electronics industry caused FDI inflows to fall from US$15.6bn (18.3% of GDP) in 2001 to US$7.2bn (8.2% of GDP) in 2002, but a pick-up in this sector helped to raise inflows steadily since then to an estimated US$25.7bn (19.5% of GDP) in 2006. Singapore has also been a major outward direct investor, particularly in China, Hong Kong and Malaysia. FDI outflows collapsed in 1998 following the Asian financial crisis, before recovering in 1999 and reaching a record high of US$20.3bn in 2001 (although a large part of this was attributable to a few large crossborder deals). Outflows fell to US$2.3bn in 2002 but have remained on a broadly upward trend since then, to stand at an estimated US$8.1bn in 2006. During the forecast period Singaporean companies are expected to continue to pursue their regional ambitions, thereby resulting in projected FDI outflows of close to US$9bn a year on average.

Origin and distribution

Around one-half of the stock of foreign investment in Singapore has come from the US. The second- and third-largest foreign investors are the EU and Japan, respectively. To date, inward FDI has been concentrated in manufacturing, with electronics attracting the largest proportion. In 2006 electronics accounted for around one-half of net investment commitments into Singapore.

Determinants

There are many reasons why Singapore has been able to attract large volumes of FDI. The most important of these are its liberal investment climate, stable and uncorrupt political and business regime, world-class infrastructure, highly educated workforce, competitive economy and favourable tax system (with special incentives for FDI). Singapore initially focused on attracting companies that would help it to industrialise, but since then it has evolved into a base for research, high value-added manufacturing and distribution. As a result, it also provides support to the lower value-added assembly operations of multinational enterprises situated elsewhere in South-east Asia, where production and business costs are lower.

Impact

Foreign-owned companies, mainly multinational firms, account for three-quarters of manufacturing output and almost 90% of manufactured exports. Since the early 1990s Singapore has been particularly successful in attracting firms that wish to establish value-added services and production centres in the region, as well as acting as a research and development (R&D) base. This has provided opportunities for technology and information transfer—most significantly in the electronics, pharmaceutical and financial services sectors. The economy relies heavily on foreign trade in terms of related services and re-exports. Exports of goods and services are estimated to have equalled a massive 252.6% of GDP in 2006.

Potential

According to the Economic Development Board (EDB), over one-half of investment commitments worth went into manufacturing projects in 2006, and much of the remainder went into services projects. The bulk of the investment commitments came from overseas investors. Despite increased competition in Asia for FDI flows, Singapore will remain an attractive destination for foreign investors during 2007-11, with its business environment remaining one of the most attractive in the world. FDI inflows will be enhanced by the increasing number of bilateral free-trade agreements that Singapore is negotiating, and the island state's pivotal position within South-east Asia. Nevertheless, it has become an increasingly high-cost location. Accordingly, the government is now building on its high-quality physical and social infrastructure. Petroleum, electronics manufacturing and pharmaceuticals remain the prime magnets for investment, but the government is liberalising the financial and legal sectors, as well as telecommunications, in an effort to encourage the growth of the "new economy". To this end it is trying to attract multinational corporations in high-technology sectors, as well as to turn the island into a financial hub. Other areas being promoted include life sciences and communications.

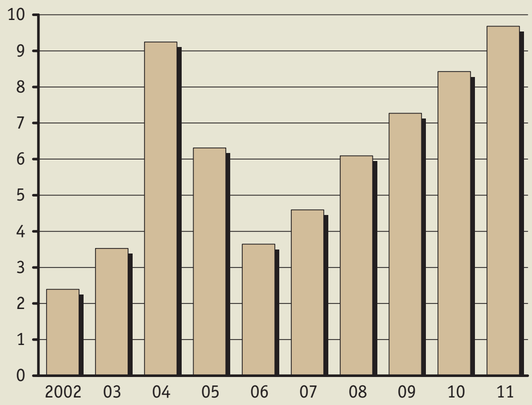
South Korea

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.12	7.56	25	25
Political environment	7.1	7.2	25	26
Political stability	7.0	7.0	37	40
Political effectiveness	7.1	7.4	20	20
Macroeconomic environment	8.6	8.6	11	13
Market opportunities	8.1	7.6	4	13
Policy towards private enterprise & competition	6.5	7.3	29	27
Policy towards foreign investment	6.9	7.3	41	39
Foreign trade & exchange controls	7.8	9.1	32	14
Taxes	7.0	6.9	19	30
Financing	5.9	7.4	45	33
Labour market	5.7	6.4	58	50
Infrastructure	7.8	7.9	22	27

Key issues

The outlook for economic reform in South Korea is uncertain. The political authority of the president, Roh Moo-hyun, continues to weaken and, with jockeying for position by potential candidates ahead of the end-2007 presidential election already under way, is unlikely to recover in the remaining few months of his presidency. The main opposition party, the conservative Grand National Party (GNP), is currently well ahead in the opinion polls, and is the strong favourite to win power in the forthcoming election. Even under the GNP, however, pro-business sentiment may not easily or automatically embrace foreign business as an equal partner. The government's weakness may encourage increased trade union militancy. North Korea will continue to cast a long shadow over South Korea's fortunes. Although inter-Korean relations are likely to remain generally peaceful, North Korea's unpredictability means that an escalation of tension between the two countries cannot be discounted. On a more positive note, South Korean firms stand to benefit from rapprochement, particularly if they are allowed greater access to North Korea's cheap and disciplined workforce.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	48.1	48.3	48.7	49.0	49.2	49.4	49.6	49.7
GDP (US$ bn at market exchange rates)	680.5	791.4	888.0	964.9	1,078.2	1,200.9	1,316.0	1,445.8
GDP (US$ bn at PPP)	993.8	1,061.4	1,117.5	1,163.2	1,223.2	1,307.3	1,391.4	1,478.2
GDP (% real change)	4.7	4.2	5.0	4.3	4.8	4.1	3.8	3.8
Foreign direct investment inflows (US$ bn)	9.2	6.3	3.6	4.6	6.1	7.3	8.4	9.7
% of GDP	1.4	0.8	0.4	0.5	0.6	0.6	0.6	0.7
% of gross fixed investment	4.6	2.7	1.4	1.6	1.9	2.1	2.2	2.3
Inward foreign direct investment stock (US$ bn)	87.8	94.1	97.7	102.3	108.4	115.7	124.1	133.8
% of GDP	12.9	11.9	11.0	10.6	10.1	9.6	9.4	9.3
Foreign direct investment outflows (US$ bn)	4.7	4.3	7.1	7.1	7.1	7.1	7.0	7.3
Outward foreign direct investment stock (US$ bn)	32.2	36.5	43.6	50.7	57.9	64.9	71.9	79.3
% of GDP	4.7	4.6	4.9	5.3	5.4	5.4	5.5	5.5

Foreign direct investment in South Korea

Stocks and flows

With the exception of 2004, when they rose sharply on the back of a handful of high-profile deals, since 1999-2000 FDI inflows have generally been disappointing, averaging US$2bn-4bn a year. Relative to the size of the economy, inward FDI also remains comparatively low. At end-2006 the stock of inward FDI stood at an estimated US$98bn, or around 11% of GDP. Outward direct investment has remained significant since the early 1990s, partly reflecting rising factor costs in South Korea, which have encouraged firms to establish operations in cheaper locations. The bulk of this investment has been in manufacturing. China and North America (mainly the US) have been the most favoured destinations for outward FDI; in 2006 Asia and North America accounted for 56.5% and 20%, respectively, of South Korean outward FDI in value terms, according to data from the National Statistical Office. FDI outflows were not affected by the end-1997 financial crisis, and in balance-of-payments terms hovered around US$3bn-5bn a year in 1996-2005. Ceilings on investment in North Korea were removed in 1998, although the government maintains a list of restricted areas, including electronics and aerospace.

Origin and distribution

The US, Japan and the EU—principally Germany, the UK, the Netherlands and France—have been the largest foreign direct investors in South Korea since 1997. According to data from the Ministry of Commerce, Industry and Energy (MOCIE), the US, Japan and the UK accounted respectively for 23.3%, 16.2% and 20% of the value of total inward FDI notifications in 2005. Services typically account for around 80% of inward FDI notifications, with manufacturing making up most of the remainder. In terms of geographical distribution, most inward FDI is directed to the industrial heartlands in the south-eastern Gyeongsang provinces and the area around the capital, Seoul.

Determinants

South Korea's FDI regime used to be designed to protect domestic companies from foreign competition. Although accession to the OECD at end-1996 brought some improvements, the restrictive nature of the regime remained broadly unchanged. The situation eased, however, in the wake of the financial crisis in 1997, as the government began to promote inward FDI in order to underpin the economic recovery. In November 1998 the government implemented the Foreign Investment Promotion Act, with the specific aim of creating a more transparent and open environment for FDI. It also increased the range of incentives for inward FDI, including tax exemptions and reductions for certain manufacturing businesses. Almost all sectors are now open to inward FDI. Despite the government's official pro-inward FDI stance, South Korea's inward FDI environment remains difficult by the standards of those of its competitors, owing to the continuing complexities of registration, notification, licensing and approval requirements. Other problems include inter-ministry turf wars, which frequently delay approvals.

Impact

The limited scale of FDI to date means that inward FDI has had only a small impact on gross fixed capital formation. FDI inflows accounted for an estimated 1.4% of total gross fixed capital formation in 2006, a sharp fall from the peak of 7-8% recorded in 1999-2000. These rates compare with a range of between 0.5% and 2% for most of the early and mid-1990s.

Potential

Although FDI inflows are projected at US$4bn-10bn per year in 2007-11, this will remain well below the country's absorptive potential. Despite boasting a market of nearly 50m (increasingly wealthy) people, one of the most advanced manufacturing bases in Asia and a government officially committed to encouraging inward FDI, South Korea is likely to remain one of the most difficult countries in Asia in which to invest. This will reflect a number of factors, including residual hostility towards foreign ownership of South Korean assets on the part of ordinary South Koreans, the continued lack of corporate transparency and, particularly since early 2003, increased labour militancy. As a result, annual FDI inflows will remain below 1% of GDP—far below the emerging-market average.

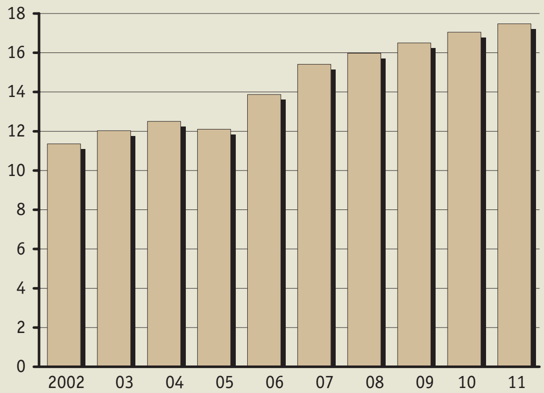
Taiwan

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.66	8.11	21	19
Political environment	7.1	7.1	25	29
Political stability	7.0	7.0	37	40
Political effectiveness	7.1	7.1	20	25
Macroeconomic environment	8.9	8.6	6	13
Market opportunities	6.9	6.7	23	26
Policy towards private enterprise & competition	7.5	8.0	21	21
Policy towards foreign investment	7.8	8.2	24	20
Foreign trade & exchange controls	7.3	8.7	43	24
Taxes	8.4	8.4	6	6
Financing	7.4	8.9	24	18
Labour market	7.2	7.8	17	9
Infrastructure	8.3	8.9	17	17

Key issues

The government's ability to implement its economic policymaking objectives is hindered by the opposition's obstructiveness in parliament. Policy will focus on upgrading manufacturing and encouraging the development of services. Officials have been forced to prioritise these areas, as low-end manufacturing has largely relocated to mainland China. The government will also concentrate on cleaning up and consolidating the financial sector. Policies are also increasingly being directed at stemming rising income inequalities in the country. To this end, for example, the minimum wage was raised in July 2007. This agenda is affecting taxation policies, with tax reforms being focused, at least in the short term, on making the system more equitable rather than on improving the government's overall revenue-collection performance. The need for broader tax reform is urgent, as the country suffers from a structural budget deficit, but the government fears that improving the corporate tax take by removing the large number of exemptions available would accelerate the relocation of local companies' operations overseas.

Inward FDI stock, 2002-11
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	22.5	22.6	22.7	22.7	22.8	22.8	22.9	23.0
GDP (US$ bn at market exchange rates)	322.2	346.4	355.7	367.0	396.1	422.8	449.5	484.2
GDP (US$ bn at PPP)	617.1	661.4	712.3	760.8	815.8	870.6	927.5	987.3
GDP (% real change)	6.1	4.0	4.6	4.4	4.5	3.9	3.9	4.0
Foreign direct investment inflows (US$ bn)	1.9	1.6	7.4	7.2	6.7	6.5	6.8	8.0
% of GDP	0.6	0.5	2.1	2.0	1.7	1.5	1.5	1.6
% of gross fixed investment	2.8	2.3	10.3	9.7	8.3	7.3	7.2	7.7
Inward foreign direct investment stock (US$ bn)	40.3	41.9	49.4	56.6	63.3	69.8	76.6	84.6
% of GDP	12.5	12.1	13.9	15.4	16.0	16.5	17.0	17.5
Foreign direct investment outflows (US$ bn)	7.1	6.0	7.4	7.5	8.9	10.2	10.3	11.7
Outward foreign direct investment stock (US$ bn)	91.3	97.3	104.7	112.1	121.1	131.2	141.5	153.2
% of GDP	28.3	28.1	29.4	30.6	30.6	31.0	31.5	31.6

Foreign direct investment in Taiwan

Stocks and flows

FDI plays a less significant role in Taiwan than in most other Asian economies. According to the Central Bank of China (CBC, Taiwan's central bank), even in the 1990s—when inflows were significantly higher than they had been in the 1980s—annual FDI inflows never exceeded US$3bn, equivalent to just 1% of GDP. FDI inflows rose to more than US$4bn a year in 2000-01, but this was the product of an unsustainable bubble in the global technology industry rather than the result of a structural upturn in foreign investor interest in Taiwan. FDI inflows fell to just US$453m in 2003. They averaged a relatively high US$1.8bn in 2004-05 and then surged to US$7.4bn in 2006, driven largely by investments in the financial and media sectors. Taiwan is a net investor abroad: the island's stock of outward FDI is around double its inward stock. FDI data exclude much of Taiwan's investment in mainland China, which many believe stands at a cumulative US$100bn over the past ten years.

Origin and distribution

According to the Ministry of Economic Affairs, the largest foreign investors in Taiwan in recent years have been companies from the US, Japan and Europe. Reflecting Taiwan's importance as a base for the manufacture—and, increasingly, the development—of information technology (IT) hardware, this sector has been the destination for most approved private foreign investment. The next most popular industrial sector has been chemicals. In the services industry, the banking and insurance sectors have attracted most foreign investment. As befits an increasingly sophisticated economy, non-financial services and retail food and drink are attracting a growing share of FDI.

Determinants

Foreign investors are offered reduced tax rates, the opportunity of 100% foreign ownership and the right to repatriate 100% of investment capital and profits at any time. For firms wishing to establish research and development (R&D) centres in Taiwan, talent support is also available: engineers who have just left university may be permitted to take up a four-year contract with an R&D centre rather than enrolling in otherwise compulsory national service. Taiwan has an adequate infrastructure, an educated workforce, a strategic location and a pro-business attitude. But foreign investors complain about inadequate protection of intellectual property rights (IPR) and difficulty in securing government contracts. The restrictions on links between Taiwan and China also cause problems: Taiwan continues to restrict the import of more than 2,000 products from China, despite the fact that both countries are members of the World Trade Organisation (WTO). Moreover, it remains difficult for companies to bring Chinese nationals to work on the island, and travel across the Taiwan Strait is restricted.

Impact

Apart from an exceptional period in 2000-01 and in 2006, FDI inflows have traditionally made up around 2-3% of fixed investment expenditure, a relatively modest contribution compared with the rest of Asia, where foreign capital accounts for around 10% of total fixed capital formation. However, the raw figures understate the importance of FDI to the overall economy. For example, although the sums involved in the establishment by foreign firms of R&D facilities on the island may not be large, the "positive externalities" generated by the resultant inflows of expertise and technology are significant.

Potential

New privatisations, market liberalisation and the continued expansion of services will ensure a pick-up in FDI inflows over the forecast period. Further sales of state assets in the banking, oil, telecommunications, transport and power sectors are planned, and these should also lift inward FDI. However, Taiwan will find it increasingly difficult to compete with lower-cost China as a destination for manufacturing FDI. Many foreign companies will also be reluctant to invest in Taiwan until the government frees up economic links with the mainland. If restrictions on investments by mainland-Chinese companies in Taiwan were removed, it is likely that many would seek to invest on the island. However, many in Taiwan fear that allowing Chinese companies to invest could have significant repercussions for the island's economic and political security, and as a result restrictions are likely to remain in place.

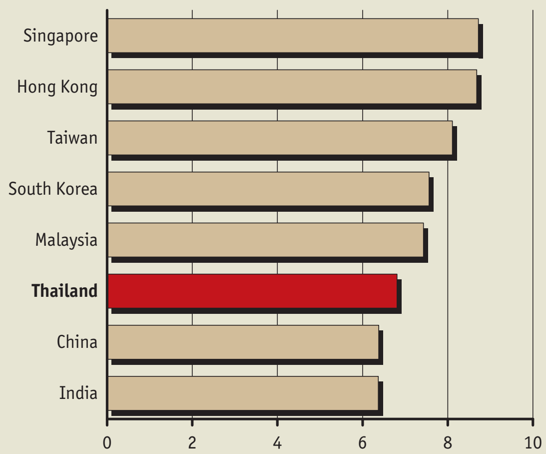
Thailand

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.71	6.81	37	42
Political environment	6.5	5.3	37	56
Political stability	8.1	5.5	19	58
Political effectiveness	5.2	5.2	42	46
Macroeconomic environment	8.6	7.8	11	36
Market opportunities	6.5	6.2	28	42
Policy towards private enterprise & competition	5.5	6.5	45	41
Policy towards foreign investment	7.3	6.4	33	61
Foreign trade & exchange controls	7.8	8.7	32	24
Taxes	7.5	7.5	12	18
Financing	6.3	7.4	41	33
Labour market	6.4	7.0	44	31
Infrastructure	4.8	5.4	54	57

Key issues

Thailand's investment environment has been undermined by the deterioration in political stability since early 2006, culminating in the military coup in September of that year. A new government could be in place by early 2008, but there are concerns over how effective it will be—the most likely scenario is that it will be a weak coalition government. The interim military-appointed government's efforts to amend the Foreign Business Act, ostensibly to prevent foreign investors from circumventing limits on foreign ownership of Thai firms, has also had a serious negative impact on foreign investor confidence. Progress on privatisation will be slow, with the government moving in mid-2007 to restrict the sale of state assets, particularly utilities. However, Thailand's economy is expected to grow steadily, which will provide opportunities for investors interested in making sales into the local market. Thailand's geographical position, at the centre of the Association of South-East Asian Nations (ASEAN) free-trade area, is also proving an incentive. However, Thailand can no longer compete regionally for investment in labour-intensive, low-tech industries owing to rising wages, and a lack of specialised workers is making it difficult for Thailand to move up the value-added chain.

Business environment scores, 2007-11



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	65.1	65.5	66.0	66.5	67.0	67.5	67.9	68.4
GDP (US$ bn at market exchange rates)	161.3	176.2	206.3	239.5	253.6	264.6	279.0	296.8
GDP (US$ bn at PPP)	515.3	554.7	599.6	639.1	688.4	737.0	790.2	846.0
GDP (% real change)	6.3	4.5	5.0	4.2	4.9	4.3	4.5	4.4
Foreign direct investment inflows (US$ bn)	5.9	9.0	9.7	8.5	8.7	9.2	9.0	9.0
% of GDP	3.6	5.1	4.7	3.5	3.4	3.5	3.2	3.0
% of gross fixed investment	14.0	17.6	16.5	12.8	12.0	11.8	10.5	9.5
Inward foreign direct investment stock (US$ bn)	53.2	58.3	68.0	76.5	85.2	94.4	103.4	112.4
% of GDP	33.0	33.1	33.0	32.0	33.6	35.7	37.1	37.9
Foreign direct investment outflows (US$ bn)	0.1	0.5	0.8	0.4	0.2	0.3	0.4	0.4
Outward foreign direct investment stock (US$ bn)	3.7	4.8	5.6	6.0	6.2	6.5	6.9	7.3
% of GDP	2.3	2.7	2.7	2.5	2.5	2.5	2.5	2.5

Foreign direct investment in Thailand

Stocks and flows

FDI inflows (including re-invested earnings by companies already operate in the country) have increased sharply over the past five years. After falling to US$3.3bn in 2002, inflows rose to US$9.7bn in 2006, despite the upsurge in political instability in that year. The stock of inward FDI stood at 33% of GDP in 2006.

Origin and distribution

The privately owned manufacturing sector attracts the majority of FDI inflows into Thailand. In particular, automotive-parts manufacturers, and electronic and electrical appliance producers, have attracted significant foreign interest in recent years. Much of this investment has come from Japan—in 1990-2006 Japanese firms invested a total of US$22.7bn, around 35% of the total inflow during this period. Other leading sources of FDI include Singapore (accounting for 17% of the total in 1990-2006), the US (12%) and Hong Kong (8.4%). Geographically, FDI has been unevenly distributed in Thailand, with inflows into rural areas, particularly in the north of the country, deterred by a lack of adequate infrastructure and services.

Determinants

Thailand has traditionally been an attractive investment destination owing to its relatively low labour costs, a low cost of living, and flexible labour laws. Incentives offered by the Board of Investment (BoI, a government agency tasked with promoting investment) generally take the form of tax exemptions, with regard to corporate income tax and duties on imported machinery. The BoI also offers non-tax incentives, including permission to bring in foreign workers, own land and take or remit foreign currency abroad. Thailand has generally been regarded as open to foreign investment, but planned amendments to the Foreign Business Act, which were introduced in early 2007, have been interpreted as being nationalistic. The changes are aimed at removing ambiguities in the law that have been used by foreign firms to evade restrictions already imposed on overseas ownership of firms in certain sectors.

Impact

A surge in FDI inflows, combined with the lower US dollar value of GDP as a consequence of the devaluation of the Thai baht during the Asian financial crisis, caused the ratio of FDI inflows to GDP to rise to 6.5% in 1998. This ratio fell to only 2.6% in 2002, but has since picked up, reaching 5.1% in 2005 and 4.7% in 2006. The large scale of FDI in recent years has helped to bolster overall economic growth and has contributed to the development of Thailand as a regional export hub in a number of sectors, notably in automotives (particularly light pick-up trucks), electronics (hard-disk drives) and electrical appliances.

Potential

Thailand is currently in the midst of a political crisis following the September 2006 military coup. Until a degree of political stability is restored, some foreign investors are likely to maintain a wait-and-see approach before pushing ahead with major investment plans. (However, based on the value and number of investment applications lodged with the BoI in the first half of 2007, foreign firms remain keen to invest in the country.) Aside from concerns over short-term political instability, there are still a number of weaknesses that limit the potential for strong growth in FDI in Thailand in the next five years or so. The country has been losing its attractiveness as a location for investment owing to a rising cost base (particularly for labour) and uncertainty about the political commitment to liberalisation—particularly in key sectors such as telecommunications and utilities. The country's poor infrastructure (a result of under-investment since the financial crisis) has been another factor deterring potential investors. The Thaksin Shinawatra government, which was ousted in the coup, had planned an ambitious five-year infrastructure development programme involving expenditure of Bt17trn (US$48.5bn). This programme has now largely been scrapped, but some transport development projects are moving forward, and the next government is likely to continue to push ahead with plans to upgrade the country's infrastructure. Notwithstanding such weaknesses, Thailand continues to attract foreign investment by virtue of its leading position in the development of the ASEAN free-trade area and also because it is well positioned to service the growing Chinese market.

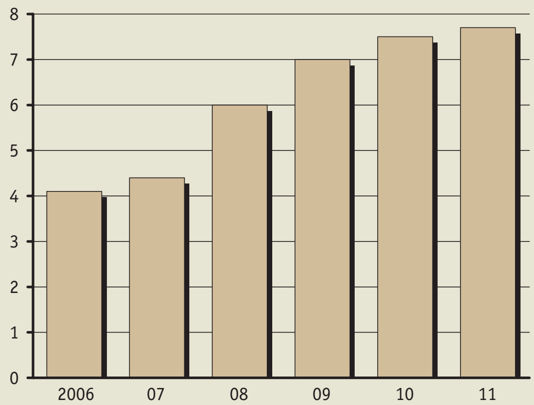
Vietnam

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	4.83	5.95	70	65
Political environment	5.2	5.3	50	56
Political stability	6.3	6.3	48	49
Political effectiveness	4.2	4.5	57	58
Macroeconomic environment	6.9	6.9	56	64
Market opportunities	5.7	6.3	50	41
Policy towards private enterprise & competition	3.8	5.5	67	58
Policy towards foreign investment	6.0	6.9	57	49
Foreign trade & exchange controls	5.1	7.3	66	59
Taxes	4.6	5.9	73	57
Financing	2.5	5.5	76	66
Labour market	5.7	5.9	58	62
Infrastructure	3.0	4.1	78	77

Key issues

New legislation governing private enterprises and investment, which came into effect in mid-2006, will improve the operating environment for local and foreign investors, as will Vietnam's accession to the World Trade Organisation (WTO), which was completed in January 2007. The government will also push ahead with its plans to reform state-owned enterprises, and there will be progress in levelling the playing-field for private enterprises. Wage costs for unskilled labour will remain low, although shortages of skilled labour are becoming a problem. Vietnam moves up to 65th place out of 82 countries in the Economist Intelligence Unit's global business environment rankings for 2007-11, but remains near the bottom of the regional rankings. Poor infrastructure and a cumbersome bureaucracy will remain key business environment weaknesses. The Communist Party of Vietnam will maintain a strong grip on power. The party will resist major political reform and will remain the dominant political force. The president, Nguyen Minh Triet, and the prime minister, Nguyen Tan Dung, are set to remain in office during 2007-11. They are both economic liberals with strong anti-corruption credentials.

FDI inflows, 2006-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	82.7	83.8	84.9	85.9	87.0	88.1	89.2	90.3
GDP (US$ bn at market exchange rates)	45.3	52.8	61.6	70.0	81.2	93.7	108.1	123.9
GDP (US$ bn at PPP)	225.5	251.9	280.5	310.9	345.1	382.0	421.5	465.4
GDP (% real change)	7.8	8.4	8.2	8.4	8.1	7.8	7.5	7.7
Foreign direct investment inflows (US$ bn)	1.6	2.0	4.1	4.4	6.0	7.0	7.5	7.7
% of GDP	3.6	3.7	6.7	6.3	7.4	7.5	6.9	6.2
% of gross fixed investment	10.7	11.2	20.6	18.7	21.1	20.7	18.7	16.8
Inward foreign direct investment stock (US$ bn)	21.7	23.6	26.3	30.7	36.7	43.7	51.2	58.9
% of GDP	47.9	44.7	42.7	43.8	45.2	46.6	47.3	47.5
Foreign direct investment outflows (US$ bn)	–	0.1	0.1	0.1	0.1	0.1	0.1	0.2

Foreign direct investment in Vietnam

Stocks and flows

FDI flows into Vietnam increased rapidly in the early to mid-1990s as liberalising reforms were launched. However, after peaking at US$2.2bn in 1997, annual FDI inflows fell back in 1998 as foreign investor sentiment soured in the wake of the 1997-98 Asian crisis. Annual FDI inflows continued to decline in the beginning of this decade, before picking up steadily over the following few years to reach US$4.1bn in 2006. At end-2006 the estimated stock of inward FDI stood at US$26.3bn, equivalent to around 43% of GDP.

Origin and distribution

FDI has flowed in from a wide range of countries, a trend that has helped to stabilise inflows. At end-March 2007, Singapore was the leading source of FDI commitments, with a total of US$8.8bn in commitments. Other leading sources of commitments include Taiwan, Japan, South Korea and Hong Kong. Nearly 80% of all FDI commitments to date have gone to just six provinces: Ho Chi Minh City, Hanoi, Dong Nai, Binh Duong, Ba Ria-Vung Tau and Haiphong. Ho Chi Minh City alone accounted for around 25% of all FDI committed in the country by the end of 2006. Heavy industry accounts for the bulk of FDI commitments, with nearly 27% of the total, followed by light industry, construction, agriculture, and transport and telecommunications.

Determinants

Foreign investors have generally been attracted to Vietnam's rapidly expanding economy. Other favourable factors include its stable political scene and low-cost labour base. Vietnam has been viewed as an ideal alternative to China by many foreign investors keen to diversify their investment. In an effort to bolster foreign investor interest, the government has appeared willing to implement reforms, most notably eradicating discrimination by putting into effect a Unified Enterprise Law and a Common Investment Law in July 2006. Foreign investors are also now permitted to convert profits and principal into foreign exchange without any restrictions. Foreign investors, however, are still discouraged by pervasive red tape, in addition to problems involving access to land and capital. The government is aware of these difficulties, and is moving to tackle them.

Impact

Vietnam has received less FDI than most of its South-east Asian neighbours, and the impact of foreign investment has been less marked, with little in the way of technology transfer between foreign firms and joint-venture partners. Nevertheless, in recent years output by foreign-invested enterprises (FIEs) has grown strongly, and in 2006 the value of their industrial output increased by almost 19%. Around 6% of this output is accounted for by the oil and gas industry, which is practically controlled by FIEs. Reflecting the export-oriented nature of many foreign firms operating in the country, FIEs' share of exports stood at 58% in 2006, with exports growing by 23% year on year in US dollar terms, compared with growth of 21% in the export receipts of domestic firms (although much of the growth in exports by FIEs was accounted for by rising crude oil exports).

Potential

Vietnam joined the World Trade Organisation (WTO) in January 2007, a development that should bring about far-reaching changes to benefit foreign investors and increase the attractiveness of Vietnam as an investment destination. In particular, Vietnam will lower barriers to entry in a number of important sectors, such as insurance, banking and telecoms. However, the government's reform rhetoric will remain more impressive than actual changes on the ground, as the authorities remain intent on limiting what they perceive as the more harmful effects of FDI. Thus, certain barriers and a degree of obstructive red tape will continue to deter some foreign investors. However, with the economy forecast to continue to post high rates of growth, foreign investors will remain keen to tap into the rapidly expanding domestic market, especially in the services sector. FDI inflows into Vietnam are projected to rise steadily over the medium term and to reach almost US$8bn by 2011. Annual FDI inflows in 2007-11 are forecast to average almost 7% of GDP.

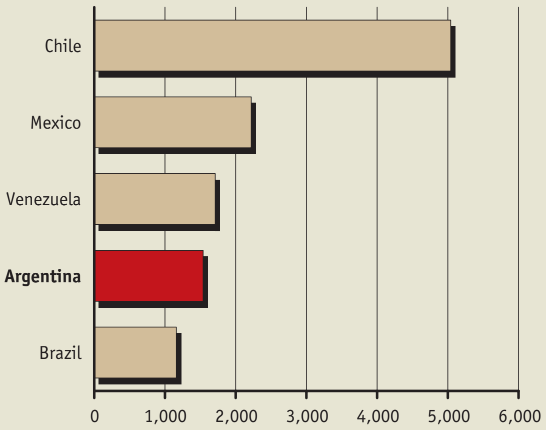
Argentina

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.70	6.33	55	57
Political environment	5.7	6.0	45	45
Political stability	6.6	7.4	45	33
Political effectiveness	4.9	4.9	45	57
Macroeconomic environment	5.8	7.8	71	36
Market opportunities	6.3	6.0	36	47
Policy towards private enterprise & competition	5.5	5.5	45	58
Policy towards foreign investment	6.0	6.4	57	61
Foreign trade & exchange controls	5.5	6.9	64	65
Taxes	4.6	5.2	72	70
Financing	4.8	6.3	59	57
Labour market	7.3	7.0	13	32
Infrastructure	5.6	6.3	45	46

Key issues

The challenge facing the next government that takes office in December 2007 will be to bring about a smooth transition from the strong rebound after the deep recession in 2001-02 to more sustainable rates of GDP growth. The current government has restructured and reduced its external debt, but public debt, at 64% of GDP (excluding another 10% of GDP in "holdouts" that the government currently does not recognise), remains large as a share of national income. Following the early repayment of IMF debt in January 2006, the government regained full autonomy in policymaking. Political considerations will preclude rapid progress in reforming institutions and restoring the confidence of investors. In contrast with the market-oriented policies of the 1990s, the state will play a more active role in the economy. The renegotiation of public utilities contracts and dealing with energy shortages will move to the centre-stage of policymaking. The government is expected to continue to impose distortionary taxes and will seek to channel available resources into infrastructure without jeopardising its target of budgetary surpluses. However, this will only go some of the way to relieving the structural bottlenecks which impede Argentina's prospects.

Inward FDI stock per head, 2006
(US$)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	38.2	38.6	39.0	39.4	39.7	40.1	40.5	40.9
GDP (US$ bn at market exchange rates)	153.1	183.2	214.3	245.6	278.2	310.7	343.3	372.4
GDP (US$ bn at PPP)	510.3	574.0	640.7	705.4	762.3	812.5	863.2	913.8
GDP (% real change)	9.0	9.2	8.5	7.6	5.4	3.8	3.7	3.4
Foreign direct investment inflows (US$ bn)	4.6	5.0	4.8	5.2	5.8	6.6	7.2	7.9
% of GDP	3.0	2.7	2.2	2.1	2.1	2.1	2.1	2.1
% of gross fixed investment	15.6	12.7	9.6	8.8	8.8	9.1	8.9	8.9
Inward foreign direct investment stock (US$ bn)	50.6	54.6	59.4	64.6	70.4	77.0	84.2	92.1
% of GDP	33.0	29.8	27.7	26.3	25.3	24.8	24.5	24.7
Foreign direct investment outflows (US$ bn)	0.4	1.2	2.0	0.5	0.5	0.5	0.5	0.5
Outward foreign direct investment stock (US$ bn)	21.6	22.9	25.0	25.5	26.0	26.5	27.0	27.5
% of GDP	14.1	12.5	11.6	10.4	9.3	8.5	7.9	7.4

Foreign direct investment in Argentina

Stocks and flows

During the first half of the 1990s, inflows of FDI were mainly attracted by the privatisation programme launched by the first Menem administration (1989-95). In contrast, most of the large-scale investment during the latter part of the decade came in the form of acquisitions of domestic private firms. After reaching US$24bn in 1999 (when a Spanish oil firm, Repsol, took over the local energy firm, YPF), FDI inflows into the Argentinian economy fell in every year between 2000 and 2003, reaching a trough of US$1.7bn in 2003, but they recovered substantially afterwards. FDI reached US$4.8bn in 2006. Most FDI inflows into Argentina were reinvested profits by local subsidiaries of foreign multinationals. The stock of FDI (at book value) reached US$59.4bn in 2006 (27.7% of GDP).

Origin and distribution

According to the latest available official estimates, in 2004 Spanish firms accounted for 22.2% of the stock of FDI, followed by US (21.7%), Dutch (8.7%), French (6.3%) and Chilean (4.4%) firms. Spanish firms initially invested mainly in privatised public utilities, but they have now moved into banking and petroleum. In 1992-2001, 43% of total FDI inflows went into services. The crisis that followed the collapse of the currency board hit European firms harder than US firms. As European firms disinvested after the crisis, firms from elsewhere in Latin America, mainly Brazil, Mexico and Chile, bought up cheap assets. After the devaluation of the peso, net FDI inflows into service-producing sectors were negative, whereas FDI into goods-producing sectors was positive. In 2004 the main recipients of FDI inflows were petroleum (with FDI reaching US$2.1bn), the motor vehicle industry (US$606m) and food, beverages and tobacco (US$419m). More recently, firms outside the region have become more active again, with medium-sized investments in banking.

Determinants

FDI has mostly flowed into oil and gas, arable land and mineral resources. Petroleum investment has tended to weather economic turmoil better than investment in other areas. Mining investment has also proved resilient, encouraged by a more investor-friendly regime. Argentina has attracted investors hoping to take advantage of a relatively affluent and protected domestic market. Efficiency-seeking investment has been less common, and has been mainly limited to the automobile industry, where special government incentives have been in place for over a decade. Since the devaluation, FDI has been attracted by a weak currency, with acquisitions accounting for the bulk of inflows and relatively little greenfield investment. Recent FDI in services (including information technology—IT) has been attracted by a skilled workforce and relatively low wages.

Impact

The presence of foreign subsidiaries has brought positive spillovers (both within and across industries) in manufacturing, but only where domestic firms have proved sufficiently adaptable. In other cases, increased competition from foreign investors, or a preference on the part of the latter for foreign suppliers, damaged local firms. Telecommunications is one example of a sector where the quality of service and technology was transformed by foreign investment. However, prior to 2001, limited competition kept prices and profits high. Foreign investors own most of the country's privatised utilities. Their reluctance to invest since the crisis (as the maxi-devaluation in effect broke the terms of their contracts) has led to a decline in service. The contribution of foreign firms to local research and development (R&D) activities has been marginal.

Potential

Over the forecast period, the major attractions for FDI will be an expanding domestic market, a still competitive exchange rate, strong natural resource endowments, including rich mineral deposits, and, to a lesser extent, Argentina's potential as a base for manufacturing. A relatively large and cheap pool of skilled human capital, together with a large stock of natural resources, constitute Argentina's long-term advantages. Uncertainty over the regulatory framework, especially in infrastructure, will be the main negative factor, but the Economist Intelligence Unit expects the renegotiation of contracts with investors in privatised utilities gradually to improve the situation.

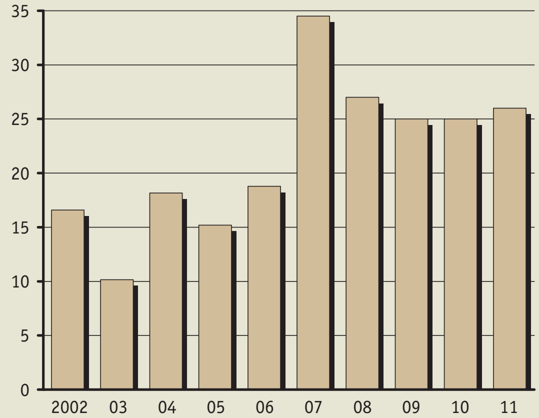
Brazil

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.53	6.69	41	46
Political environment	6.2	6.2	40	40
Political stability	8.1	8.1	19	16
Political effectiveness	4.5	4.5	51	58
Macroeconomic environment	7.8	8.0	33	25
Market opportunities	7.1	7.1	19	18
Policy towards private enterprise & competition	6.3	6.5	33	41
Policy towards foreign investment	7.3	7.3	33	39
Foreign trade & exchange controls	6.9	7.8	47	51
Taxes	4.7	4.7	69	78
Financing	7.0	7.0	27	43
Labour market	6.6	6.5	32	48
Infrastructure	5.5	5.8	46	52

Key issues

Policy improvements over the past decade have placed Brazil on a path of sustainable, albeit moderate, growth. An inflation-targeting regime has helped to bring inflation closer towards OECD levels, exchange-rate volatility has been reduced, real incomes are expanding and interest rates are declining (although they remain high). A large domestic market, natural resource wealth and a welcoming attitude to foreign investment have attracted foreign firms across a wide array of sectors. However, the current president, Luis Inácio Lula da Silva, of the left-wing Partido dos Trabalhadores (PT), who began his second four-year term in January 2007, seems unlikely to capitalise on his government's strong starting position to put forward any ambitious structural reforms. Brazil's overall business environment remains impaired by weak political effectiveness, which hampers efforts to reform a complex and burdensome tax system, improve regulation, tackle crime and address deficiencies in the labour market and bottlenecks in the physical infrastructure. These shortcomings will continue to restrict investment expansion, constraining GDP growth to below the government's target of 5% real growth per year.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	181.6	184.2	186.8	189.3	191.9	194.4	196.8	199.5
GDP (US$ bn at market exchange rates)	663.6	882.0	1,067.4	1,267.1	1,394.7	1,422.7	1,454.2	1,483.5
GDP (US$ bn at PPP)	1,507.1	1,598.2	1,705.7	1,809.3	1,925.9	2,048.6	2,180.8	2,317.7
GDP (% real change)	5.7	2.9	3.7	4.3	3.8	3.7	3.8	3.7
Foreign direct investment inflows (US$ bn)	18.2	15.2	18.8	34.5	27.0	25.0	25.0	26.0
% of GDP	2.7	1.7	1.8	2.7	1.9	1.8	1.7	1.8
% of gross fixed investment	17.0	10.6	10.5	15.4	10.4	9.1	8.7	8.6
Inward foreign direct investment stock (US$ bn)	161.2	195.6	214.3	248.8	275.8	300.8	325.8	351.8
% of GDP	24.3	22.2	20.1	19.6	19.8	21.1	22.4	23.7
Foreign direct investment outflows (US$ bn)	9.5	2.5	28.2	5.0	10.0	8.0	9.1	10.0
Outward foreign direct investment stock (US$ bn)	69.2	79.3	107.5	112.5	122.5	130.5	139.6	149.6
% of GDP	10.4	9.0	10.1	8.9	8.8	9.2	9.6	10.1

Foreign direct investment in Brazil

Stocks and flows

In absolute terms at least, Brazil is one of the three largest recipients of FDI among emerging-market economies. The stock of inward FDI totalled US$214bn in 2006, almost twice as high as the 2001 stock of FDI. At just 20%, however, Brazil's ratio of inward FDI stock to GDP is low by international standards. Average annual inflows of FDI fell back in 2000-06 following a privatisation-induced peak in the late 1990s, but inward FDI started to pick up in 2006 and has been surging in 2007, amid strong inflows into export-oriented extractive and associated activities. Outward FDI has risen strongly in recent years, as the appreciation of the Real has facilitated Brazilian firms' expansion abroad. Most outward FDI is directed towards Argentina and the US. The outward stock of FDI stood at US$107.5bn at end-2006, roughly 10% of GDP.

Origin and distribution

The US still accounts for the lion's share of FDI inflows into Brazil, although in the past decade inflows from Europe have risen, particularly into telecommunications and financial services, in response to the government's privatisation programme. In the past couple of years, new emerging markets, notably India, Mexico and Colombia, have become a more significant source of FDI. In 2002-06, 19% of FDI inflows came from the US, 20% from the Netherlands, 8% from the Cayman Islands (a tax haven) and around 6% each from France and Spain. In 2001-06 services accounted for 54% of inflows, with a further 38% channelled into industry and just over 7% into agriculture. Inflows since the beginning of 2007 have been characterised by a marked increase in flows channelled into industry, accounting for 47% of the total of just over US$25bn in inflows recorded in the first half of the year.

Determinants

As steady low-inflationary economic growth underpins sustainable growth of real incomes, Brazil—the world's fifth-most populous country and the tenth-largest in terms of GDP—is becoming an increasingly attractive location for market-seeking FDI. Brazil is also the world's third-largest agricultural exporter and a major producer and exporter of hard commodities and processed goods, such as iron ore, steel and aluminium. The country has an extensive and diversified industrial base, ranging from heavy engineering to consumer goods, with most of these sectors having attracted foreign investment. Trade liberalisation in the 1990s and a more proactive policy of export promotion in the past five years have boosted the attractiveness of other sectors. As a result, most of the world's 100 largest multinational companies are investing in Brazil.

Impact

Evidence concerning the impact of increased FDI on aggregate productivity is inconclusive, but it is clear that increased foreign participation has boosted modernisation of public utilities (in particular in telecoms). Foreign investors have made strong inroads into the retail sector, with the three largest supermarket chains now controlled by France's Casino (in a 50/50 shareholding with Brazil's Pão de Açúcar), Carrefour (another French chain of super- and hypermarkets) and the US's Wal-Mart. The pulp and paper sector is also attracting significant foreign investment. Traditionally, FDI has been directed to the most developed south-eastern states, but in the past decade an increasing share has been channelled into southern states (automotive, food and beverages, tobacco) and the north-eastern states (automotive, retail).

Potential

Brazil is expected to attract sustained, if moderate, inflows of FDI in the medium term as its market size, natural resource endowment and political and macroeconomic stability will partly compensate for deficiencies in the business environment. The Economist Intelligence Unit's forecasts envisage that, conscious of the increasing urgency of tackling logistical bottlenecks that constrain growth, the government will accelerate efforts to attract private including foreign investment into the physical infrastructure, primarily through the new public-private partnership (PPP) mechanism. Steady economic growth, coupled with a sustained increase in real incomes, will open new avenues for investors in the consumer goods and retailing industries. There may also be fresh opportunities in natural resource sectors, especially in those activities currently suffering restrictions, such as mining.

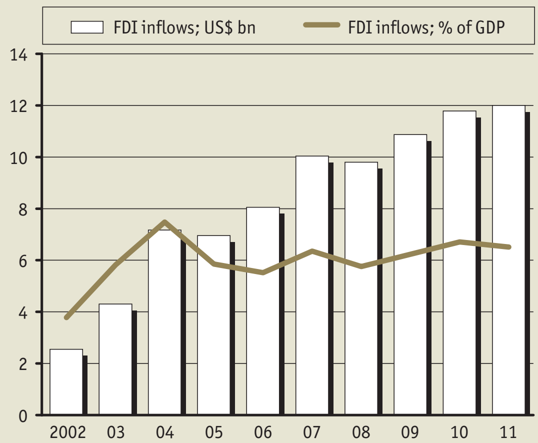
Chile

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.77	8.04	19	20
Political environment	7.8	7.9	19	17
Political stability	8.5	8.1	16	16
Political effectiveness	7.1	7.8	20	18
Macroeconomic environment	8.9	9.2	6	2
Market opportunities	5.9	6.1	44	45
Policy towards private enterprise & competition	8.5	8.8	10	10
Policy towards foreign investment	9.1	9.6	6	1
Foreign trade & exchange controls	9.1	9.6	9	3
Taxes	7.4	6.9	13	28
Financing	8.5	8.5	18	24
Labour market	6.7	6.6	31	46
Infrastructure	5.9	7.3	39	33

Key issues

Chile began a process of structural reform in 1974, some 15 years earlier than the rest of Latin America and most other developing countries. There is strong consensus among the governing elite on the desirability of maintaining a liberal market economy and pursuing prudent fiscal and monetary policies. Differences in economic policy tend to be a matter of degree rather than substance. Reforms already under way will further enhance the attractiveness of the business environment over the next few years by promoting a more transparent judicial system, cutting red tape, opening the capital markets and liberalising the financial sector further. Diversification of exports since the 1980s, particularly into agriculture, viniculture and fisheries, has reduced the country's dependence on copper, although copper still accounted for 56% of export earnings in 2006. Chile's network of free-trade agreements, particularly those with the US, the EU and China, and a forthcoming deal with Japan, give Chile privileged access to the world's richest and largest markets. Such access, combined with low country risk and continued investment in human capital and physical infrastructure, will ensure that Chile remains the most attractive business location in Latin America.

FDI inflows, 2002-11



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	16.1	16.3	16.4	16.6	16.8	16.9	17.1	17.2
GDP (US$ bn at market exchange rates)	95.8	118.9	145.8	158.1	170.3	174.5	175.7	184.4
GDP (US$ bn at PPP)	175.3	190.9	204.3	221.2	238.5	257.1	276.1	296.5
GDP (% real change)	6.0	5.7	4.0	5.8	5.1	5.0	4.8	4.9
Foreign direct investment inflows (US$ bn)	7.2	7.0	8.1	10.0	9.8	10.9	11.8	12.0
% of GDP	7.5	5.9	5.5	6.4	5.8	6.2	6.7	6.5
% of gross fixed investment	39.2	28.4	28.7	31.8	27.3	27.6	27.6	25.9
Inward foreign direct investment stock (US$ bn)	60.5	73.9	82.0	92.0	101.8	112.7	124.5	136.5
% of GDP	63.2	62.2	56.2	58.2	59.8	64.6	70.8	74.0
Foreign direct investment outflows (US$ bn)	1.6	2.2	2.8	2.9	3.1	3.3	3.4	3.7
Outward foreign direct investment stock (US$ bn)	17.4	21.4	24.2	27.1	30.2	33.5	36.9	40.6
% of GDP	18.2	18.0	16.6	17.1	17.8	19.2	21.0	22.0

Foreign direct investment in Chile

Stocks and flows

Annual FDI inflows peaked in 1999 at US$9.9bn, mostly owing to the takeover by Spain's Endesa of two leading electricity companies in Chile, Enersis and Endesa. FDI inflows have remained robust since then, reaching US$8.1bn (5.5% of GDP) in 2006. Further investment opportunities have lifted FDI in 2007, when it is forecast to reach a new peak of US$10bn (6.4% of GDP). Strong FDI inflows have raised the stock of FDI, which reached US$82bn (56.2% of GDP) in 2006, the largest ratio to GDP of FDI stock in the region. Although Chile's basic infrastructure is reaching maturity, and there are few chances that the remaining state companies will be privatised, annual FDI inflows are forecast to remain robust in 2007-11, averaging just over 6% of GDP—still high by historical comparison—led by investment into telecommunications, mining, energy and transport, livestock, aquaculture and tourism. In recent years Chile's importance as a regional investor has increased, particularly in the airline, shipping and retail sectors. FDI outflows totalled US$2.8bn in 2006, and are forecast to rise further as Chilean companies continue to expand abroad.

Origin and distribution

The US remains the largest investor, accounting for 25.3% of FDI into Chile in the period from 1974 to 2006. However, Spanish companies have been the most active foreign investors in recent years, raising the country's share of cumulative FDI flows to 21.7% (a result, among other things, of the acquisition by Spanish companies of leading local operators in energy and telecoms, and heavy investment in transport infrastructure projects through build-operate-transfer—BOT—concessions). Canada is the third-largest source country, with 16.4% of the total, as a result of its strong participation in local mining ventures. These countries are followed by the UK (8.9%); Australia (4.8%); Japan (2.9%); and Italy (2.6%). Mining accounts for 33.2% of the total foreign investment in Chile since 1974, compared with 20.1% into utilities (electricity, water and gas); 10.3% into communications; 10% into financial services; 4.6% into the chemical industry; 3.6% into the food and beverages industry; 3.3% into insurance; and 2.3% into other manufacturing industries. Other sectors have received smaller FDI injections, including construction and the retail, forestry, aquaculture and agricultural sectors.

Determinants

The regime governing foreign investment has been in place for three decades, during which time it has been one of the most liberal in the world. Based on the principle of non-discrimination between local and foreign investors, foreign investors are able to sign formal contracts with the state that guarantee them access to foreign exchange at the best market rate for the repatriation of capital and profits. Investors also enjoy additional protection as a result of the rapidly expanding network of investment-protection accords and double-taxation treaties signed with other countries. Generally sound regulation, combined with political and economic stability and firm growth, have helped to boost FDI inflows since the early 1990s. Chile's managerial talent and comparatively well-qualified labour force, together with a reputation for order and safety, are also combining with the country's rapidly expanding network of free-trade agreements to attract a growing number of multinationals to use the capital, Santiago, as their headquarters for Latin America.

Impact

FDI funded a growing share of gross fixed investment in Chile in the 1990s, averaging 25.5% of gross fixed investment in 1996-98, compared with 10.4% in 1990-92. In 1999 currency depreciation and depressed domestic private investment lifted the ratio to 61.1%, but this fell back to 28.5% in 2000. In 2001-06 FDI funded 28% of the gross fixed investment that materialised in Chile in that period, contributing to the modernisation of infrastructure, including telecoms. FDI has also made a major contribution in terms of the transfer of technology and managerial expertise, and has helped to open access to foreign markets for Chilean investors.

Potential

Transparent business operating conditions, a healthy economy and an enviable network of free-trade, double-taxation and investment-protection accords will combine with the most modern infrastructure in Latin America and a growing pool of skilled labour to ensure that Chile continues to attract substantial FDI inflows. Services will overtake mining as the main magnet for foreign investment in the forecast period, but opportunities will also grow in agro-industry, aquaculture, the utilities, telecoms and communications, as well as in tourism infrastructure.

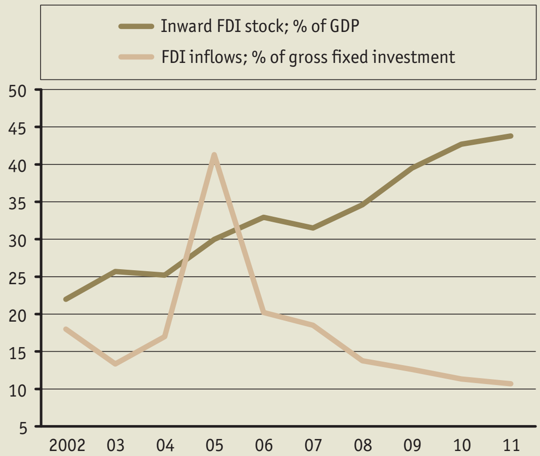
Colombia

Business environment rankings	**Score (out of 10) 2002-06**	**2007-11**	**Rank (out of 82) 2002-06**	**2007-11**
Overall scores and ranks	5.74	6.26	53	59
Political environment	4.5	5.2	64	59
Political stability	4.4	5.1	70	62
Political effectiveness	4.5	5.2	51	46
Macroeconomic environment	7.2	7.5	45	44
Market opportunities	5.7	5.3	50	61
Policy towards private enterprise & competition	5.8	6.5	42	41
Policy towards foreign investment	6.9	7.3	41	39
Foreign trade & exchange controls	6.4	7.8	54	51
Taxes	4.4	4.4	75	80
Financing	5.9	6.6	45	48
Labour market	6.3	6.6	47	47
Infrastructure	4.4	5.5	60	56

Key issues

In an effort to restore the fragile authority of the state, the president, Álvaro Uribe, who began his second four-year term in office in August 2006, has taken a hard line against the country's guerrilla groups. This strategy has reaped rewards, with levels of violence falling to their lowest point in decades. Nevertheless, the security climate remains fragile, limiting Colombia's attractiveness to foreign investors. Right-wing paramilitary forces were fully demobilised in 2006, but long-term benefits will hinge on whether the legal framework for demobilisation succeeds in permanently dismantling organisational structures. Economic policy is likely to remain orthodox during the remainder of Mr Uribe's second term, which will improve the macroeconomic environment, as well the climate for foreign investment. However, challenges remain: the government faces rising inflationary pressures arising from strong domestic demand, as well as still-high levels of public debt. In spite of reforms to the tax and transfer systems, fiscal inflexibility remains a key weakness. An active liability management strategy has improved the maturity profile of the country's external debt and reduced exposure to currency volatility, but Colombia's liquidity ratios remain high.

Inward FDI stock and FDI inflows



Market summary	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Population (m)	44.9	45.6	46.3	47.0	47.6	48.3	48.9	49.6
GDP (US$ bn at market exchange rates)	98.1	122.9	136.0	167.5	171.4	165.3	165.9	174.1
GDP (US$ bn at PPP)	325.9	351.6	386.5	415.6	445.5	473.4	502.0	531.4
GDP (% real change)	4.9	4.7	6.8	5.1	4.5	3.5	3.5	3.4
Foreign direct investment inflows (US$ bn)	3.1	10.3	6.3	8.0	6.5	6.0	5.5	5.5
% of GDP	3.1	8.3	4.6	4.8	3.8	3.6	3.3	3.2
% of gross fixed investment	17.0	41.3	20.2	18.5	13.8	12.6	11.3	10.7
Inward foreign direct investment stock (US$ bn)	24.7	36.8	44.8	52.8	59.3	65.3	70.8	76.3
% of GDP	25.2	30.0	32.9	31.5	34.6	39.5	42.7	43.8
Foreign direct investment outflows (US$ bn)	0.1	4.7	1.1	1.0	0.9	0.8	0.7	0.7
Outward foreign direct investment stock (US$ bn)	4.4	8.9	10.0	11.0	11.9	12.7	13.4	14.1
% of GDP	4.4	7.3	7.4	6.6	6.9	7.7	8.1	8.1

Foreign direct investment in Colombia

Stocks and flows

Inflows of FDI rose from an annual average of US$818m in 1990-94 to a record US$10.3bn in 2005, but this included the one-off effect of acquisitions of large Colombian companies by foreign multinationals, such as the US$4.7bn purchase of a beer producer, Bavaria, by SABMiller (UK) and the US$300m acquisition of a tobacco producer, Coltabaco, by Philip Morris (US). By historical standards, inward FDI remained high at US$6.3bn in 2006. The stock of FDI stood at US$44.8bn at the end of 2006, representing almost 33% of GDP, up from US$24.7bn in 2004 (25.2% of GDP). FDI outflows have traditionally been modest. However, FDI outflows from Colombia rose sharply to US$4.7bn in 2005, reflecting an outflow of US$3.3bn as part of the shares exchange between Bavaria and SABMiller. In 2006 outflows fell back again, closer to trend, to around US$1.1bn.

Origin and distribution

There is some uncertainty with regard to the origin of FDI into Colombia, but it seems clear that the importance of the US, Spain and South American countries as inward investors is understated in official FDI statistics, as much of this investment is channelled through offshore tax-havens such as the Cayman Islands, Panama and the British Virgin Islands, which together account for around one-third of the non-oil FDI stock. In 2006 official data indicate that 48% of FDI came from the US, 23% from Europe, 8% from Central America and 3% from South America. Since the mid-1990s FDI inflows have traditionally been concentrated in the oil sector, in financial services and in public utilities. In 2006 non-oil mining accounted for 32% of FDI inflows, followed by oil (28%), transportation and telecommunications (13%) and manufacturing (11%). After years of sluggish performance, FDI in oil rose significantly in 2006, attracted by high international oil prices and improved contract terms.

Determinants

In the first half of the 1990s large oil discoveries attracted investment, and financial liberalisation during the same period led to the entrance of foreign banks. In the second half of the decade FDI was encouraged by privatisation and concessions in electricity distribution, gas, coal and telecoms. Political and economic instability, delays in privatisation, the maturation of oilfields and increased risk-aversion towards Latin American assets caused FDI inflows to underperform in 1998-2002. However, there has been a strong recovery since late 2003, reflecting stronger confidence in Colombia's prospects, and also an attractive new regulatory and tax regime in the oil sector, as well as strong global commodity prices.

Impact

The impact of FDI inflows on aggregate productivity and export competitiveness has been limited because most investment has been directed towards capital-intensive natural resource sectors or the acquisition of existing facilities in non-tradeable services. However, FDI has helped to boost export earnings, particularly in the hydrocarbons and mining industries. FDI in the financial sector has improved asset quality and productivity, but spreads between deposit and lending interest rates remain wide. Manufacturing has benefited from technology transfer in activities such as chemicals, petrochemicals and plastics. Telecoms services users have also benefited from improved technologies and higher levels of competition. FDI in the retail sector has increased competition, forcing incumbents to modernise and expand.

Potential

Assuming that economic conditions remain solid and security does not deteriorate, Colombia has the potential to attract around US$6bn in FDI annually. This could be higher if a free-trade agreement with the US is ratified, as the assurance of permanent market access to the US would offer additional security to investors. Privatisation and concessions will require foreign participation, owing to the low financial and technological capacity of local firms. Concessions for utilities and infrastructure will be granted in the medium term. Exploitation in the energy and mining sectors will also require international capital. The government recently introduced long-term stability contracts, which will protect investors from tax and regulatory changes. The private sector will continue to pursue alliances and joint ventures with international corporations, principally in manufacturing and services. Nonetheless, uncertainty about the future of the internal conflict or setbacks on fiscal consolidation could keep FDI inflows below the Economist Intelligence Unit's baseline forecasts. Other limitations include infrastructure deficiencies and a shortage of highly-skilled labour.

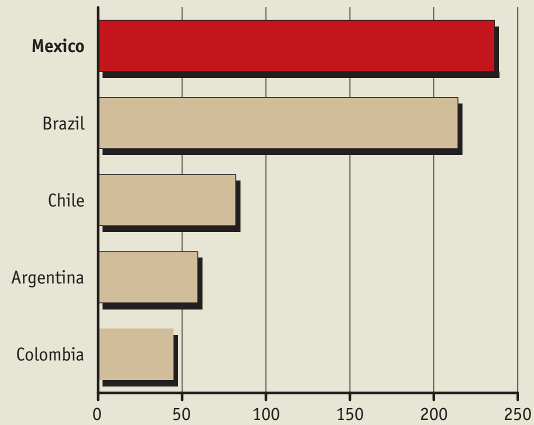
Mexico

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.65	7.02	38	39
Political environment	5.8	6.2	42	40
Political stability	7.4	7.4	32	33
Political effectiveness	4.5	5.2	51	46
Macroeconomic environment	7.8	8.0	33	25
Market opportunities	7.4	7.7	13	10
Policy towards private enterprise & competition	5.0	5.3	51	61
Policy towards foreign investment	7.8	7.8	24	25
Foreign trade & exchange controls	8.7	9.6	15	3
Taxes	5.5	5.6	47	62
Financing	7.4	7.4	24	33
Labour market	6.0	6.7	51	39
Infrastructure	5.2	6.1	48	48

Key issues

Continued commitment to orthodox fiscal and monetary policy will help to consolidate policy credibility and ensure macroeconomic stability. However, a number of weaknesses in Mexico's policy environment are likely to persist. The tax system is convoluted and characterised by evasion; labour market regulations are complex and inflexible; and private enterprise is hindered by a weak competition policy and political resistance to the liberalisation of some sectors, including energy. Structural reform in these areas would help to tackle the poor levels of competitiveness, address a looming crisis at the state-owned oil company, Pemex, secure long-term fiscal sustainability and raise GDP growth rates. Reform has, however, been hampered for several years by Congress, which is dominated by the opposition. Felipe Calderon, who began a six-year term as president in December 2006, is proving markedly more successful than his predecessor in obtaining legislative backing, and there is renewed optimism about the chances for passage of structural reforms. However, the more politically sensitive reforms are likely to be watered down substantially. Consequently progress will only be gradual, and FDI inflows will remain below potential.

Inward FDI stock, 2006
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	105.0	106.2	107.4	108.7	110.0	111.2	112.5	113.8
GDP (US$ bn at market exchange rates)	683.5	767.7	840.0	876.4	905.3	952.4	1,000.8	1,054.4
GDP (US$ bn at PPP)	1,017.5	1,077.7	1,162.3	1,225.6	1,302.3	1,383.8	1,469.1	1,557.7
GDP (% real change)	4.2	2.8	4.8	3.1	3.5	3.5	3.4	3.4
Foreign direct investment inflows (US$ bn)	22.4	19.7	19.0	21.3	21.5	22.5	23.7	24.5
% of GDP	3.3	2.6	2.3	2.4	2.4	2.4	2.4	2.3
% of gross fixed investment	16.6	13.2	11.1	11.5	10.8	10.5	10.3	9.8
Inward foreign direct investment stock (US$ bn)	197.5	217.2	236.2	257.5	279.0	301.5	325.2	349.7
% of GDP	28.9	28.3	28.1	29.4	30.8	31.7	32.5	33.2
Foreign direct investment outflows (US$ bn)	4.4	6.5	5.8	5.8	6.8	6.7	7.7	8.5
Outward foreign direct investment stock (US$ bn)	22.2	28.0	33.8	39.6	46.4	53.1	60.8	69.2
% of GDP	3.3	3.7	4.0	4.5	5.1	5.6	6.1	6.6

Foreign direct investment in Mexico

Stocks and flows

Mexico is the largest host of FDI in nominal terms in Latin America. Its stock of FDI is estimated to have reached US$236bn (28% of GDP) at end-2006. However, FDI inflows into Mexico have remained short of potential. As a percentage of GDP, inflows averaged 3% in 1996-2006, equal to Brazil but below China (3.5% of GDP) and Chile (6.5% of GDP). FDI inflows peaked in 1995-98, immediately following implementation of the North American Free-Trade Agreement (NAFTA), and again in 2000-02, reflecting the sale of several government assets in a privatisation move, as well as merger and acquisition (M&A) activity. Annual inflows have been volatile, with peaks in 2001 and 2004 mainly reflecting M&A activity. FDI inflows fell back in 2005 to US$19.7bn (2.6% of GDP) and slipped further, to US$19bn (2.3% of GDP) in 2006. Outflows of FDI are small compared with inflows, but high relative to most of the rest of the region, reflecting activity by a very small number of Mexican multinational companies. Mexico's stock of outward FDI stood at US$33.8bn at end-2006.

Origin and distribution

Since NAFTA came into force in 1994, almost two-thirds of FDI inflows have come from the US and Canada and around one-quarter from the EU (two-thirds of this from Spain). The implementation of NAFTA prompted a boom in FDI into manufacturing in the second half of the 1990s; in 1994-99 it accounted for just over 60% of FDI. Within the sector, the automotive industry and electronics and computer industries, particularly those related to *maquila* (offshore assembly for re-export), received the majority. In the past five years, inflows have shifted from low-technology to higher-tech manufacturing activity. At the same time, the lifting of restrictions on foreign ownership of banks in 1998 and considerable reform and consolidation in the sector have attracted substantial FDI inflows into financial services. These accounted for 25% of all inflows in 2001-06 (although manufacturing still accounted for almost half of all inflows).

Determinants

NAFTA provided the main stimulus to the sharp rise in FDI inflows of the past decade: annual average inflows rose from US$2.6bn in 1980-93 to US$14.1bn in 1994-2004. Mexico's geographical location and openness to trade are allowing it to graduate from being a supplier of cheap manufacturing labour to the US to becoming more closely integrated in the production and distribution systems of US industry. In sectors where "just-in-time logistics" and transportation costs are crucial to competitiveness, Mexico's locational advantages have more than compensated for higher labour costs relative to emerging markets such as China. Reform and consolidation have attracted investment in other sectors, such as financial services.

Impact

For much of the decade following NAFTA's implementation, FDI funded a growing share of gross fixed investment. FDI rose from 6% of gross fixed investment in 1980-93 to 17% in 1995-2001. Since then, the trend has been downwards, as improvements in bank balance sheets and cheaper financing have encouraged greater domestic financing of fixed investment. FDI has had an important impact on the transformation and modernisation of Mexican industry, with a first wave of inflows aimed at investing in *maquila* (particularly electronics, computers and cars), followed by a second wave of investment channelled into other branches of manufacturing.

Potential

The Economist Intelligence Unit expects FDI inflows to rise to close to US$25bn by the end of the forecast period (although as a share of GDP they are likely to remain stable at around 2.4%). This assumes that the government's track-record of pro-market orthodox economic policy continues, that structural reform makes gradual progress, and that global growth trends are positive. An expanding network of free-trade agreements creates potential for expansion of inflows from outside of the US, particularly the EU. Export-oriented industries will continue to be the primary destination of inflows, but there will also be growth, from a low base, of inflows directed at the domestic market, given its large size and projected growth in disposable incomes and consumer credit. Nationalist sentiment will continue to limit growth of FDI in certain sectors, but progress on liberalisation and regulatory reforms would boost opportunities for foreign investment in energy and telecommunications in particular.

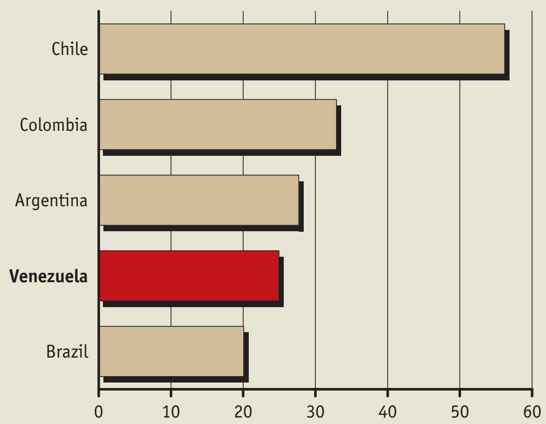
Venezuela

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	4.81	4.30	71	81
Political environment	3.8	3.1	75	78
Political stability	4.8	4.0	64	74
Political effectiveness	2.9	2.3	76	81
Macroeconomic environment	5.2	5.2	76	81
Market opportunities	4.8	5.0	69	67
Policy towards private enterprise & competition	3.8	2.5	67	79
Policy towards foreign investment	4.6	3.3	73	80
Foreign trade & exchange controls	6.0	5.1	61	77
Taxes	5.1	4.4	62	79
Financing	4.8	4.4	59	75
Labour market	4.9	4.8	76	79
Infrastructure	5.2	5.4	48	57

Key issues

Despite its oil riches, Venezuela will remain one of least attractive investment locations among emerging-market economies. The operating environment has long been a challenge for investors because of weak institutions and persistent cycles of boom and bust. However, conditions have deteriorated in recent years as a result of political conflict and the erosion of the legal framework for investors, and the political and policy environment is set to weaken further under the current president, Hugo Chávez. The politicisation of already weak institutions will impair mechanisms to contain corruption and entrench chronic bureaucratic inefficiency. Price and exchange controls will complicate business operations and create economic distortions. Promotion of a state-led model of development will hit private enterprise and competition. Although not officially restricted, foreign investment will be limited by the growing risk of expropriation of private assets as the government undertakes a programme of nationalisation of "strategic" sectors. Even where FDI remains welcome, terms for businesses will be increasingly onerous, given growing competition from the state and an emerging emphasis on links with investors from "friendly" countries.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	26.0	26.5	26.9	27.3	27.8	28.2	28.6	29.0
GDP (US$ bn at market exchange rates)	112.5	144.8	181.9	212.8	209.0	207.2	211.3	214.2
GDP (US$ bn at PPP)	157.9	179.5	203.8	219.3	231.1	244.6	257.8	271.2
GDP (% real change)	18.3	10.3	10.3	5.2	2.8	3.1	2.9	2.8
Foreign direct investment inflows (US$ bn)	1.5	2.6	-0.5	-2.4	1.2	2.0	2.1	2.1
% of GDP	1.3	1.8	-0.3	-1.1	0.6	1.0	1.0	1.0
% of gross fixed investment	7.2	8.8	-1.3	-4.7	2.4	3.8	3.8	3.6
Inward foreign direct investment stock (US$ bn)	42.4	44.4	45.4	43.0	44.2	46.2	48.3	50.4
% of GDP	37.7	30.7	25.0	20.2	21.2	22.3	22.9	23.5
Foreign direct investment outflows (US$ bn)	0.6	1.2	2.1	2.3	0.8	0.8	0.8	0.8
Outward foreign direct investment stock (US$ bn)	9.2	9.5	11.6	13.9	14.7	15.5	16.3	17.0
% of GDP	8.2	6.5	6.4	6.5	7.0	7.5	7.7	8.0

Foreign direct investment in Venezuela

Stocks and flows

At end-2006 the stock of FDI was estimated at US$45.4bn, or roughly 25% of GDP. This is in the mid-range of the major Latin American economies, well below Chile (56% of GDP), in the same range as Mexico (28% of GDP), and significantly above Brazil (20% of GDP). During the opening of the oil sector in 1996-98, inward FDI peaked at an annual average of US$4bn a year (5% of GDP). By historical standards, inward FDI held up well in the first three years of the presidency of Hugo Chávez, averaging US$3.8bn per year in 1999-2001. However, inflows declined precipitously as political conflict intensified in 2002-04. In this period, inward FDI averaged just US$1.4bn per year. Inward FDI showed some signs of recovery in 2005, but lagged well behind overall economic activity. In 2006, for the first time ever, inward FDI was a negative US$543m, largely reflecting disinvestment by foreign oil companies in the face of forced revisions to the ownership structure of their operations. As a result of this, the stock of FDI in Venezuela is forecast to fall in 2007, to US$43bn (20.2% of GDP).

Origin and distribution

Venezuela's hydrocarbons sector is the main magnet for FDI. US and European oil companies have major investments in the country, even after recent changes to the ownership structure of most contracts. After hydrocarbons, the banking and communications sectors have been the main targets of FDI. Spanish banks have the largest foreign presence in the financial sector, over 50% of which is now owned by foreign companies. Other notable FDI inflows come from Chile, mainly in forestry activities, and from Canada, in the mining industry. Venezuela is actively courting new investment partners in Brazil, China, Russia and Iran, but as yet the amounts of FDI into Venezuela from these countries are still relatively small.

Determinants

Following a period of booming FDI inflows in the 1990s, driven by oil and telecommunications openings, an uncertain political and policy environment and a volatile macroeconomic climate have served to keep FDI below potential, particularly in the non-extractive sectors. In the extractive sector, FDI inflows have been affected by the Chávez government's more restrictive hydrocarbons investment regime. The new regime partly reverses the oil opening of the 1990s by mandating that Petróleos de Venezuela (PDVSA, the state oil company) hold a minimum 51% stake in most activities, and raises the national take from taxes and royalties in the sector.

Impact

Foreign investment in the hydrocarbons sector initially led to accelerated growth of output in the sector, from 2.4m barrels/day in 1994 to a peak of 3.4m b/d in 1999. Fresh foreign investment has driven a partial recovery in output in recent years following a crippling general strike in 2002-03, the effects of which are still being felt by PDVSA. Receipts from the oil sector account for roughly half of total fiscal revenue. Foreign involvement has had a less dramatic impact in other sectors, but has contributed to the start of a much-needed consolidation of the banking system, and to better infrastructure and increased competition in telecoms. As FDI has flowed mostly into capital-intensive industries, its impact on employment and skills levels has been limited.

Potential

Potentially attractive opportunities for FDI exist in an array of sectors, such as oil and gas, petrochemicals, coal, aluminium, gold, forestry, power, tourism and telecoms. There is additional potential in some manufacturing and agricultural niches. A relatively good transport infrastructure and a strategic geographic location are further comparative attractions. However, FDI will be hit by the nationalisation of utilities in 2007. The nationalisation programme appears likely to curb FDI inflows well into the medium term, as it adds to concerns about macroeconomic stability and about the weakness of the legal framework protecting investor interests. The drawing up of a constitutional reform likely to be put to referendum in 2008, which could redefine the number of strategic sectors whose development is reserved for the state, will have a particular bearing on future investment prospects. Even where foreign companies are still attracted to Venezuela, there may be favouritism on the part of the Chávez government for investment from countries with which Mr Chávez is keen to develop links on ideological (socialist) grounds.

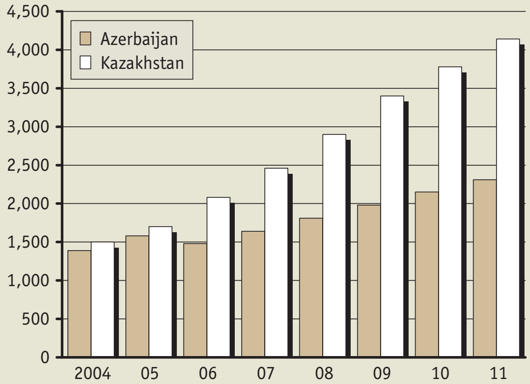
Azerbaijan

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	4.53	5.30	73	72
Political environment	3.9	4.1	72	73
Political stability	4.4	4.8	70	66
Political effectiveness	3.6	3.6	65	70
Macroeconomic environment	7.2	7.8	45	36
Market opportunities	6.0	6.2	42	43
Policy towards private enterprise & competition	3.0	3.8	75	76
Policy towards foreign investment	4.6	5.1	73	73
Foreign trade & exchange controls	5.1	7.3	66	59
Taxes	4.0	5.3	79	69
Financing	2.5	4.0	76	77
Labour market	4.7	5.2	78	74
Infrastructure	4.4	4.4	60	74

Key issues

The legal and regulatory environment for foreign investment in the hydrocarbons sector will remain comparatively favourable, although growing oil-related revenue will result in the government becoming more assertive when drawing up new contracts with foreign investors. Rising oil and gas output, and relatively high foreign investment—which in the hydrocarbons sector is relatively insensitive to the overall investment climate—will ensure rapid real GDP growth rates over the next few years, although the large inflows of oil-related revenue, in conjunction with fiscal loosening, will result in considerable inflationary pressure. The government has not yet developed a strategy for managing oil revenue over the long term, and instead is focusing on short-term goals, such as increases in public-sector wages. Rising revenue will reduce the government's incentive to implement deeper structural reforms, as will resistance from domestic industrial business groups. The reforms needed to improve the business environment and encourage more diversified growth—such as greater transparency in public governance and banking sector reforms—will proceed only slowly.

Inward FDI stock per head
(US$)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	8.3	8.4	8.5	8.6	8.7	8.8	8.9	9.0
GDP (US$ bn at market exchange rates)	8.7	13.2	19.9	28.7	38.0	46.8	55.5	64.4
GDP (US$ bn at PPP)	37.8	49.2	68.2	83.6	98.4	111.1	122.6	131.7
GDP (% real change)	10.2	26.4	33.0	17.5	9.5	5.2	5.0	6.0
Foreign direct investment inflows (US$ bn)	3.6	1.7	-0.7	1.5	1.6	1.7	1.7	1.7
% of GDP	41.1	12.7	-3.6	5.2	4.2	3.5	3.0	2.6
% of gross fixed investment	71.0	30.7	-11.2	17.6	14.9	13.1	12.0	11.2
Inward foreign direct investment stock (US$ bn)	11.5	13.2	12.5	14.0	15.6	17.2	18.9	20.5
% of GDP	132.7	99.4	62.8	48.5	40.9	36.8	33.9	31.8
Foreign direct investment outflows (US$ bn)	1.2	1.2	0.6	1.2	1.3	1.4	1.5	1.6
Outward foreign direct investment stock (US$ bn)	2.5	3.7	4.3	5.5	6.8	8.2	9.7	11.3
% of GDP	28.5	27.8	21.5	19.0	17.8	17.5	17.4	17.5

Foreign direct investment in Azerbaijan

Stocks and flows

In per-head terms, Azerbaijan has been among the most successful of the members of the Commonwealth of Independent States (CIS) in attracting FDI, and with a stock per head of US$1,480 in 2006 was second only to Kazakhstan. The stock of inward FDI as a share of GDP in 2006, at 62.8%, is one of the highest in the region. FDI inflows were equivalent to an annual average of about 30% of GDP in 2002-05, but 2006 FDI inflows turned negative, owing to the repatriation of capital by hydrocarbons investors. FDI had fallen sharply in 2000-01, owing to increased efforts by the largest energy consortium in the country, the Azerbaijan International Operating Company (AIOC), to recover operating costs, delayed investment and uncertainties over negotiations concerning the construction of a main export pipeline. However, from 2002 FDI started to rise again, as AIOC began massive investment in oilfield development, construction of the Baku-Tbilisi-Ceyhan oil export pipeline and South Caucasus Gas Pipeline picked up, and development of offshore gasfields got under way. Inflows declined again from 2005, as the major construction work in the hydrocarbons sector was completed.

Origin and distribution

The origin of FDI in Azerbaijan is reflected in the distribution of shares in AIOC. UK companies hold 34% of AIOC shares, US companies 25%, Japan holds 14%, Norway 9% and Turkey around 7%. Russian companies are also important investors in non-oil sectors. Nevertheless, the bulk of FDI (more than 90% in 2004-06) has been directed to the oil industry. FDI inflows are heavily concentrated in the Baku region, where most of the oil industry is located. The second most important destination for FDI is the neighbouring industrial city of Sumgait, where the country's oil refining and petrochemicals industries are located.

Determinants

FDI inflows to Azerbaijan have been almost entirely driven by its oil and gas endowment. Outside the hydrocarbons sector there has been little FDI activity—in 2004-06 less than 10% of total FDI inflows were directed towards sectors other than oil and gas. This is mainly attributable to a poor investment climate and severe bureaucratic obstacles, as well as infrastructure constraints. Azerbaijan's law provides for standard investment incentives: free repatriation of profits; guarantees against nationalisation without compensation; exemption from customs duties on imported materials and equipment; a ten-year guarantee against "damaging" legislation; and preferential treatment in development areas.

Impact

FDI inflows have helped to cover Azerbaijan's large current-account deficits and have been an important engine of growth. Oil and gas investments have contributed most to GDP growth since 1995, and FDI into these sectors has created positive spillover effects in other parts of the economy. However, as FDI has been narrowly based and directed to a capital-intensive sector, it has not generated substantial levels of employment. Nevertheless, the spillover effects in services and construction have led to rising employment in these areas.

Potential

Estimates of Azerbaijan's oil reserves have risen in recent years, indicating that there is still great potential for FDI inflows into the hydrocarbons sector, although the resolution of the country's Caspian Sea borders with Iran and Turkmenistan will be a prerequisite for the development of several offshore fields. Downstream activities, such as petrochemicals and related industries, could also prove attractive to investors. Although there will also be opportunities in other areas—for example, in manufacturing sectors such as food-processing—securing FDI inflows into sectors other than oil and gas will depend in the long term on structural reforms, progress in privatisation, the creation of a more transparent investment climate, and an improvement in infrastructure. Whereas the business environment for large oil companies is comparatively favourable, operating conditions for non-oil companies are generally perceived to have deteriorated over the past three years, as growing oil wealth has allowed the authorities to become more assertive in their relations with foreign investors.

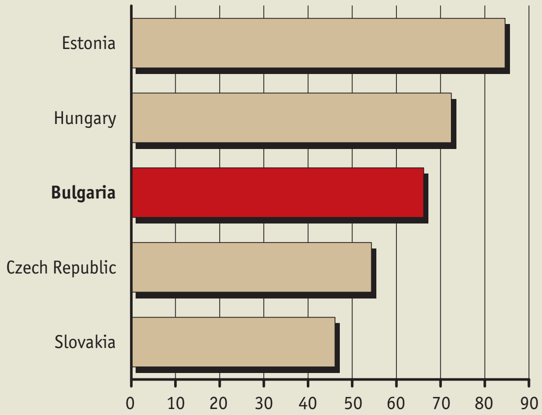
Bulgaria

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.89	6.77	49	44
Political environment	5.5	6.2	47	40
Political stability	7.0	7.4	37	33
Political effectiveness	4.2	5.2	57	46
Macroeconomic environment	7.2	7.5	45	44
Market opportunities	4.9	5.5	65	56
Policy towards private enterprise & competition	4.8	6.5	58	41
Policy towards foreign investment	6.9	7.3	41	39
Foreign trade & exchange controls	6.9	8.7	47	24
Taxes	5.4	6.5	51	35
Financing	5.1	6.3	56	57
Labour market	6.4	6.8	44	38
Infrastructure	5.9	6.6	39	41

Key issues

Bulgaria's gradually improving business environment is reflected in its rise of five places in the Economist Intelligence Unit's rankings between 2002-06 and 2007-11. In addition to continuing EU integration, the improvement is driven by a stable economic policy backdrop. Since the financial crisis of 1996-97, the economy has grown steadily under an IMF-backed currency board that keeps the external value of the lev fixed to the euro. Although the economy's external balance is under strain from rapidly growing imports, fiscal policy has been very tight and the government budget has been in surplus since 2004. Despite higher private-sector borrowing, the debt/GDP ratio is falling owing to public-sector debt repayments, and foreign-exchange reserves are high. The main risks to stability are the current-account deficit, which rose to 15.9% of GDP in 2006, and inflation, which could frustrate Bulgaria's hopes of adopting the euro by 2010. The main impediments to a higher business environment rating are corruption, organised crime and the lack of an independent judiciary. Corporate tax rates are low—at 10% in 2007—and employers' social security contributions were cut in January 2006. They will be cut further in October 2007.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	7.7	7.7	7.6	7.6	7.5	7.5	7.4	7.4
GDP (US$ bn at market exchange rates)	24.3	26.7	31.5	37.8	41.5	42.8	44.4	46.0
GDP (US$ bn at PPP)	64.6	70.7	77.2	83.6	90.6	97.8	105.0	111.8
GDP (% real change)	6.6	6.2	6.1	5.8	5.7	5.1	4.7	4.1
Foreign direct investment inflows (US$ bn)	3.5	3.9	5.2	3.5	2.3	2.3	2.4	2.5
% of GDP	14.2	14.5	16.4	9.3	5.4	5.4	5.4	5.3
% of gross fixed investment	68.3	60.9	62.6	32.0	16.7	15.4	14.2	12.8
Inward foreign direct investment stock (US$ bn)	9.8	13.0	20.9	24.4	26.6	28.9	31.3	33.8
% of GDP	40.1	48.6	66.2	64.4	64.1	67.5	70.6	73.3
Foreign direct investment outflows (US$ bn)	-0.2	0.3	0.2	0.2	0.3	0.2	0.3	0.3
Outward foreign direct investment stock (US$ bn)	0.2	0.2	0.3	0.5	0.8	1.0	1.2	1.5
% of GDP	0.6	0.7	1.1	1.4	1.9	2.3	2.8	3.4

Foreign direct investment in Bulgaria

Stocks and flows

The stock of inward FDI in Bulgaria at the end of 2006 was US$20.9bn. Annual FDI inflows have been substantial in recent years, and in 2006 some significant privatisations and reinvestment of local earnings by foreign parent companies brought the annual total up to a record high of US$5.2bn. FDI penetration of the economy, as measured by the share of the inward FDI stock in GDP, was at 66% the third-highest in the region in 2006 (behind only Estonia and Hungary). With the privatisation of the financial sector having been largely completed and many of the government's industrial assets already under private ownership, there has been a gradual re-direction of FDI towards the real estate, transport and domestic trade (wholesale and retail) sectors in recent years.

Origin and distribution

According to figures from the Bulgarian National Bank (BNB, the central bank), manufacturing accounted for 27% of the stock of FDI at the end of 2006. However, the share of manufacturing has declined from almost 50% in 1999. Of the total FDI stock, 17% was directed to financial intermediation, reflecting the process of financial market development. Most large state-owned banks have already been sold off. Real estate; transport, storage and communication; and wholesale and retail trade all accounted for around 15% of the stock of FDI as at end-2006. Austria was the largest foreign investor at the end of 2006, with US$4bn, followed by the Netherlands (US$1.5bn), Greece (US$1.4bn), the UK (US$1.4bn) Germany (US$850m), Italy (US$660m) and the US (US$657m). The country ranking by investing country has varied from year to year, with individual deals often making a substantial difference.

Determinants

Bulgaria's performance in attracting FDI was disappointing for most of the 1990s, owing to a poor business environment, a record (up to 1997) of macroeconomic and political instability, ineffective public administration, a harsh tax regime and the unpredictability of rules affecting foreign investors. An additional factor deterring foreign investors was the regional instability associated with conflicts in the former Yugoslavia. Privatisation was also slow to start: the most attractive industrial enterprises were not offered for sale until 1997 or later, and sales of telecoms and power-distribution assets were only completed in 2004, with many energy sector privatisations still to be carried out. However, the investment climate has improved greatly in recent years, as greater macroeconomic and political stability, stronger economic growth and the prospect of EU membership have boosted investors' confidence. Low labour costs for a relatively skilled workforce are an attraction, although high social security costs and low productivity may offset some of the advantages of cheap labour. There are a number of agreements on mutual protection and promotion of FDI, as well as double-taxation treaties. Foreign investments are granted full national treatment and, above a certain value threshold, provided with institutional support.

Impact

Although accurate figures for the contribution of foreign-owned companies to the Bulgarian economy are difficult to find, FDI in Bulgaria has been a prominent engine of growth for the economy and especially for export production. Foreign owners have played the main role in the modernisation of the country's financial and telecoms systems. In addition, FDI inflows to Bulgaria have played an important stabilising role for the country's balance of payments, which has experienced large current-account deficits.

Potential

FDI inflows will continue to be high by historical standards, albeit lower than in 2005-06, over the next few years. Infrastructure investment and improvements in the economic climate and the regional political situation should contribute to a more attractive environment for investment. Privatisation-related inflows are set to play a smaller role, as the energy sector is the only branch remaining for large-scale privatisation and several asset sales in the electricity sector have proved difficult. However, capital-intensive investment projects in the water, electric power, coal mining and transport sectors should keep annual inflows of FDI high over the forecast period. FDI inflows are projected to decline steadily as a share of GDP, although the annual average ratio in 2007-11 is still expected to be around 6%.

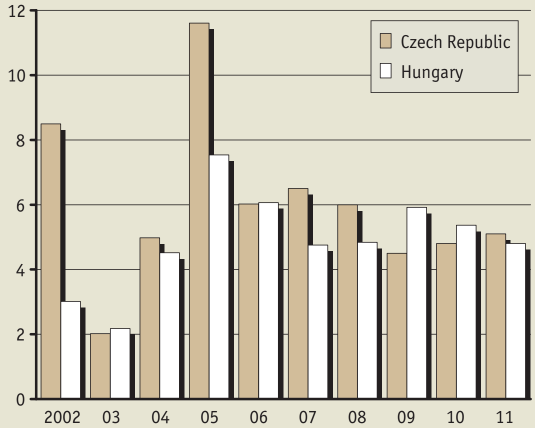
Czech Republic

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.03	7.55	28	26
Political environment	7.1	7.2	25	26
Political stability	8.1	8.1	19	16
Political effectiveness	6.1	6.5	31	31
Macroeconomic environment	7.8	8.0	33	25
Market opportunities	6.3	6.8	35	25
Policy towards private enterprise & competition	6.5	7.3	29	27
Policy towards foreign investment	8.2	8.2	17	20
Foreign trade & exchange controls	8.7	9.1	15	14
Taxes	4.7	6.2	69	48
Financing	6.6	7.4	31	33
Labour market	7.2	7.3	18	25
Infrastructure	7.3	8.0	25	25

Key issues

The Czech Republic's macroeconomic environment is currently favourable but worries about the sustainability of the present strong economic performance remain. Economic growth has been robust, inflation is relatively low, with little risk that it will rise sharply, and the current-account deficit is also relatively small. However, there are still important policy initiatives that need to be taken in order to lay the basis for sustainable long-term growth, such as dealing with the country's fiscal problems and preparing for entry to European economic and monetary union (EMU). The government still needs to undertake comprehensive reform of the health, pensions and tax systems. Labour costs are among the highest in the region, which is partly a reflection of the extremely high social welfare taxes imposed on employers. Consensus on deeper structural reform could prove to be elusive in the current fractured political environment, which is characterised by ideological differences between the coalition parties and the administration's lack of a parliamentary majority. However, the wide-ranging reforms carried out in previous years will ensure that the Czech Republic will maintain the second-best business environment in the region in 2007-11.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.1
GDP (US$ bn at market exchange rates)	109.6	125.0	142.5	163.4	180.0	187.1	192.6	199.7
GDP (US$ bn at PPP)	174.9	191.9	210.2	226.3	241.4	258.9	276.0	292.4
GDP (% real change)	4.6	6.5	6.4	5.2	4.0	4.5	4.0	3.5
Foreign direct investment inflows (US$ bn)	5.0	11.6	6.0	6.5	6.0	4.5	4.8	5.1
% of GDP	4.5	9.3	4.2	4.0	3.3	2.4	2.5	2.6
% of gross fixed investment	17.6	37.3	16.7	15.6	12.8	9.1	9.3	9.5
Inward foreign direct investment stock (US$ bn)	57.3	60.7	77.5	84.0	90.0	94.5	99.3	104.4
% of GDP	52.2	48.5	54.4	51.4	50.0	50.5	51.5	52.3
Foreign direct investment outflows (US$ bn)	1.0	0.0	1.4	1.0	0.8	1.5	2.0	2.3
Outward foreign direct investment stock (US$ bn)	3.8	3.6	5.1	6.1	6.8	8.3	10.3	12.6
% of GDP	3.4	2.9	3.5	3.7	3.8	4.4	5.4	6.3

Foreign direct investment in the Czech Republic

Stocks and flows

The stock of inward FDI in the Czech Republic was US$77.5bn at the end of 2006. The stock of inward FDI as a share of GDP stood at 54%, and the stock per head (at US$7,570) was the third-highest in the region, behind Estonia and Hungary. Although privatisation opportunities will soon dry up, steady inflows of FDI should come from reinvested earnings of foreign-owned firms and some new greenfield investments.

Origin and distribution

The Netherlands is the largest foreign investor (with 28% of the inward FDI stock at the end of 2005), not only because of investments by Dutch companies, but also because of the large number of overseas investors investing through European subsidiaries established in the Netherlands for tax reasons. Germany's commercial and industrial links with the Czech Republic have long made it the second-largest inward investor (with 19.9% of the inward FDI stock at the end of 2005). A significant portion of FDI inflows into the Czech Republic has been concentrated in the services sector (about 55% of total FDI as of the end of 2005), and disproportionately in Prague and large cities. Manufacturing has been the second-largest beneficiary (38% of total FDI stock in 2005), especially transport equipment (particularly automotives and related components), chemicals, metal products and electrical and optical equipment. More investment is now being directed towards more high-technology sectors and research and development (R&D).

Determinants

As an early reformer in east-central Europe, the Czech Republic led the way in the early 1990s in adopting far-reaching stabilisation, liberalisation and privatisation programmes. The implementation of EU rules and regulations has also helped to improve the business environment and attract FDI. However, investors have cited problems, such as the overbearing bureaucracy, as well as high levels of taxation: the Czech Republic's overall tax burden is one of the highest in Europe. Generally lower wage costs than in western Europe and a strengthening institutional environment over the next few years means that the Czech Republic will continue to serve as a manufacturing base for the EU, further integrating with European supply chains, and increasingly serving as a hub for back-office and other support services. The attitude of the local business community and the general public is broadly positive towards foreign investment.

Impact

Firms that have received FDI account for 72% of total exports of manufactures and 48% of industrial production. FDI inflows have been a significant factor behind the strength of gross fixed investment: in 2001-06 FDI averaged just over 25% of gross fixed investment. They have also had a significant impact on industrial restructuring in certain industries. For example, car production was 854,907 units in 2006, the highest in the region, following major capital investment programmes by Volkswagen (Germany) and the Toyota Motors (Japan) and PSA Peugeot-Citroën (France) alliance. In addition, FDI has played an important role in financing the Czech Republic's large current-account deficits: average FDI inflows exceeded by a considerable margin the average current-account deficit in 2001-06.

Potential

With an advantageous geographical location in the EU, the country remains attractive to foreign investors despite the strong competition offered by Slovakia, which is a cheaper and more tax-friendly neighbour, and which was preferred as a location by two large automotive investors, PSA Peugeot-Citroën and Hyundai (South Korea). Nevertheless, the Czech Republic is to be the beneficiary of a third major injection of cash into its automotive sector, following Hyundai's decision in May 2006 to build a new car factory in the country. More generally, foreign investment in the Czech Republic will be underpinned by a steady flow of smaller investments by medium-sized companies from Europe and elsewhere that aim to reduce costs while retaining most of the conveniences associated with doing business in Western markets. The sale of some residual state shareholdings will play a much smaller part, as overall progress on privatisation will be sluggish, owing to disagreements within the ruling coalition, as well as obstructionist tactics on the part of the opposition.

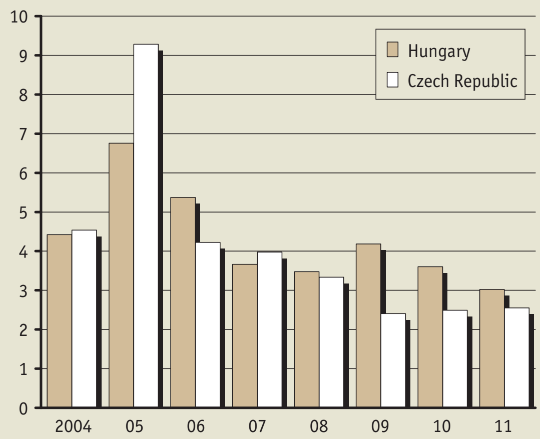
Hungary

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.79	7.12	32	35
Political environment	6.7	7.1	33	29
Political stability	7.8	7.8	27	27
Political effectiveness	5.8	6.5	35	31
Macroeconomic environment	6.1	5.8	70	78
Market opportunities	5.9	5.5	44	56
Policy towards private enterprise & competition	7.0	7.8	25	24
Policy towards foreign investment	8.2	8.7	17	12
Foreign trade & exchange controls	8.7	8.7	15	24
Taxes	5.2	6.0	56	52
Financing	6.6	7.4	31	33
Labour market	6.8	6.8	27	35
Infrastructure	6.8	7.6	28	30

Key issues

Economic and institutional change in Hungary has been among the most thoroughgoing of the east-central European countries undergoing the transition to a fully-fledged market economy. However, foreign businesses still cite as problems the cumbersome nature of Hungarian bureaucracy and a lack of transparency. Hungary's low corporate tax rate is in large part offset by hefty social security contributions. High fiscal deficits have led to a deterioration in public debt levels and the external accounts. The government's fiscal austerity package (introduced in the months following the April 2006 parliamentary election) has reassured markets, although buoyant global risk appetite has also helped. The fiscal measures rely overwhelmingly on tax increases and subsidy cuts, which the authorities hope will reduce the budget deficit by about 5 percentage points over 2007-08. However, sustainable fiscal consolidation can only be achieved through the implementation of structural expenditure reforms, but the authorities have yet to outline detailed reform measures for 2008 and beyond. The risk facing Hungary is of a global shock, combined with insufficient progress on the reform front, which could trigger a change in market sentiment.

FDI inflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	10.0	10.0	10.0	10.0	9.9	9.9	9.9	9.8
GDP (US$ bn at market exchange rates)	102.2	111.6	112.9	129.9	139.1	141.5	149.0	158.8
GDP (US$ bn at PPP)	157.9	169.5	181.2	190.4	201.4	214.6	228.7	242.9
GDP (% real change)	4.8	4.2	3.9	2.7	3.0	3.7	3.8	3.5
Foreign direct investment inflows (US$ bn)	4.5	7.5	6.1	4.8	4.8	5.9	5.4	4.8
% of GDP	4.4	6.8	5.4	3.7	3.5	4.2	3.6	3.0
% of gross fixed investment	19.7	30.0	24.6	17.3	15.8	18.6	15.6	12.9
Inward foreign direct investment stock (US$ bn)	62.6	61.3	81.8	86.5	91.4	97.3	102.7	107.5
% of GDP	61.2	54.9	72.4	66.6	65.7	68.8	68.9	67.7
Foreign direct investment outflows (US$ bn)	1.1	1.8	3.1	2.9	2.9	3.0	3.1	3.2
Outward foreign direct investment stock (US$ bn)	6.0	8.0	12.7	15.5	18.5	21.5	24.5	27.7
% of GDP	5.9	7.2	11.2	12.0	13.3	15.2	16.5	17.4

Foreign direct investment in Hungary

Stocks and flows

Hungary was among the most successful countries in the world in attracting FDI in the 1990s. FDI inflows averaged about 6.5% of GDP per year until 2001, although this figure fell in 2002-03 before recovering in 2004-06. Inward FDI into Hungary in 2005 was boosted significantly by the purchase of 75-year operating rights for Budapest Airport by the UK-based BAA for €1.83bn (US$2.3bn). FDI inflows remained robust in 2006, and a large portion was made up of inter-company loans from foreign parent companies to Hungarian subsidiaries. The stock of FDI at end-2006 amounted to US$81.8bn, or 72% of GDP (this represented the second-highest level of FDI penetration in the region, behind only Estonia). Hungary has become one of the main capital exporters among the transition countries. The Hungarian petroleum and natural gas company MOL has been the largest Hungarian investor. Hungary's largest bank, the National Savings Bank, OTP, has also embarked on a foreign expansion programme.

Origin and distribution

More than 30,000 joint ventures and foreign subsidiaries are registered in Hungary, and 35 of the world's 50 largest multinational companies have a Hungarian subsidiary. About 80 international companies have their regional headquarters in the country. Almost 85% of the foreign investment in Hungary comes from the EU15. The main investor countries at the end of 2005 were Germany (28% of the total), the Netherlands (15%) and Austria (11%). Investment has been highly concentrated, with most foreign capital going to the central region around Budapest, or to western Hungary around Gyor. Some 41% of FDI, as of the end of 2005, has gone into manufacturing, concentrated mainly in the automotive sector, electronics, finance, chemicals, and food and beverages.

Determinants

Hungary has attracted large volumes of FDI for a number of reasons. It started reform early, so that many Western companies were already familiar with doing business in the country. Hungary also pursued policies generally favourable towards foreign investment, and operated special tax incentives for foreign investors. Political stability and a skilled pool of labour are other factors that have attracted foreign investors. Perhaps the primary factor was that the sale of state assets to foreign investors formed the cornerstone of Hungary's privatisation strategy. Hungary's membership of the EU means that there is full legal protection for foreign investment.

Impact

FDI has played a significant role in modernising production and redirecting trade from east to west, a process that began with an aggressive privatisation policy in the mid-1990s. Foreign-owned companies account for more than three-quarters of Hungary's foreign trade, one-third of its GDP and one-quarter of private-sector employment. Currently, foreign firms control some two-thirds of manufacturing, nine-tenths of telecommunications and three-fifths of the energy sector. Restructuring has been most rapid in foreign-owned sectors. Some foreign companies are also beginning to locate research and development (R&D) facilities in their Hungarian subsidiaries. On the negative side, Hungary's cost base is no longer as attractive as in the past, and there have already been instances of investors relocating to lower-cost destinations.

Potential

With privatisation nearly complete, FDI will be based mainly on greenfield investment and reinvested earnings. Despite the erosion of Hungary's previous competitive edge, movement up the value-added chain should help to attract future investment. Low value-added investment will move to lower labour cost locations, such as Romania, Bulgaria or Ukraine. Apart from large deals, foreign investment will be underpinned by a steady flow of smaller investments by medium-sized companies from Europe and elsewhere that are aiming to reduce costs but to retain most of the conveniences associated with doing business in Western markets. The Economist Intelligence Unit expects inward FDI to average around US$5bn per year in the medium term, with a large share of this in the form of reinvested earnings.

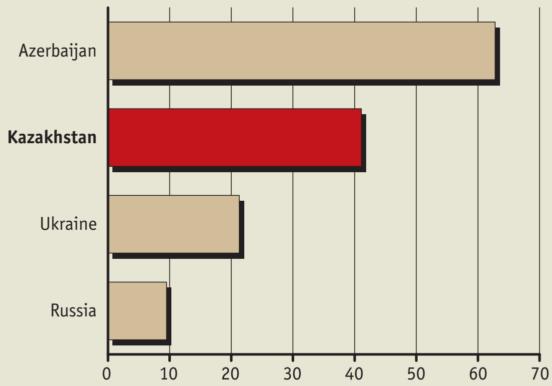
Kazakhstan

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.10	5.60	66	69
Political environment	4.6	4.8	62	61
Political stability	5.9	6.3	52	49
Political effectiveness	3.6	3.6	65	70
Macroeconomic environment	8.3	7.5	20	44
Market opportunities	5.8	6.7	47	27
Policy towards private enterprise & competition	3.3	4.3	73	72
Policy towards foreign investment	5.1	3.7	66	76
Foreign trade & exchange controls	5.5	7.3	64	59
Taxes	4.8	5.1	68	74
Financing	4.4	5.5	64	66
Labour market	5.7	6.0	57	61
Infrastructure	3.5	5.2	74	59

Key issues

A period of high oil prices has underpinned strong real GDP growth rates since 1999, and this is likely to be sustained over the medium term. In conjunction with continued high oil prices, rising oil export volumes and double-digit investment growth will keep average annual real GDP growth above 9%. Nevertheless, Kazakhstan's continued dependence on oil for both export and fiscal revenue is a source of vulnerability. Even more serious is the steady deterioration of the investment climate since 2001, a period in which the government has not only pursued policies with a strong flavour of economic nationalism, but also taken an increasingly antagonistic stance against foreign investors. In the energy sector, this will lead to more onerous contract terms, including more stringent local content requirements. Such policies are expected to lead to further clashes between domestic and Western interests in Kazakhstan. Moreover, foreign companies are at even greater risk of arbitrary treatment in the non-oil sector, which will continue to deter investment. With little foreign investment outside the oil sector, progress in diversifying the economy will remain slow.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	15.1	15.2	15.4	15.5	15.6	15.7	15.8	16.0
GDP (US$ bn at market exchange rates)	43.2	57.1	77.2	95.4	119.4	149.7	185.2	225.3
GDP (US$ bn at PPP)	112.1	126.7	144.2	161.8	180.0	203.1	229.4	257.4
GDP (% real change)	9.4	9.7	10.6	9.6	8.4	9.9	10.1	9.4
Foreign direct investment inflows (US$ bn)	4.2	2.0	6.1	6.2	7.0	8.0	6.5	6.0
% of GDP	9.6	3.5	8.0	6.5	5.9	5.3	3.5	2.7
% of gross fixed investment	38.4	14.2	31.3	23.4	18.8	15.6	10.1	7.9
Inward foreign direct investment stock (US$ bn)	22.4	25.6	31.7	37.9	44.9	52.9	59.4	65.4
% of GDP	51.9	44.8	41.1	39.8	37.6	35.4	32.1	29.0
Foreign direct investment outflows (US$ bn)	-1.3	0.0	0.4	0.5	0.6	0.8	0.9	1.0
Outward foreign direct investment stock (US$ bn)	1.8	1.8	2.2	2.7	3.3	4.0	4.9	5.9
% of GDP	4.2	3.2	2.9	2.8	2.7	2.7	2.6	2.6

Foreign direct investment in Kazakhstan

Stocks and flows

FDI inflows play a more significant role in the Kazakh economy than in other former Soviet republics, and the country has been relatively successful in attracting FDI since its independence in 1991. Kazakhstan's stock of FDI per head is by far the highest in the Commonwealth of Independent States (CIS), and, at US$2,080 as of end-2006, was more than 40% larger than that of Azerbaijan, its closest rival. Kazakhstan is likely to retain its dominant position in terms of FDI per head over the medium term, as investment is ramped up ahead of the start of production at the Kashagan offshore oilfield.

Origin and distribution

The US is the largest single country of origin for FDI into Kazakhstan, accounting for 27% of the cumulative total by the end of 2006. However, in 2002 it was overtaken by the EU as a whole—mainly as a result of increased investment from the Netherlands, France and the UK—all three countries home to large oil companies. In 2006 the EU accounted for around 43% of cumulative inflows of FDI, with the Netherlands alone responsible for just over 25%, while France and the UK accounted for 7% and 5%, respectively. China (3.6% of the cumulative total in 2006) and Japan (3.5%) have become increasingly important investors in recent years, reflecting growing interest from these countries in Central Asia's energy resources.

FDI remains concentrated in the oil and gas sector, which by end-2006 accounted for 38% of Kazakhstan's cumulative FDI gross inflows; geological services (much of which are connected with the hydrocarbons industry) accounted for a further 42%. Western Kazakhstan, the site of most major oil- and gasfields, has received the greatest investment. Central Kazakhstan, rich in copper, iron ore, coal and manganese, ranks as the second-placed FDI recipient, and East Kazakhstan province, with major gold and mineral deposits, is third.

Determinants

Kazakhstan's large reserves of minerals (mainly oil and gas, but also uranium, gold, chromium, rare earth metals and diamonds) are the main attraction for foreign investors. Foreign investors have in the past been attracted by a stable government, and an improving legal, tax and regulatory framework. However, in recent years the business environment has become noticeably more hostile towards Western investors, in particular. Whereas powerful multinationals might be able to obtain exemptions from the government through lobbying and other means, the current business climate will almost certainly deter investors with fewer resources.

Impact

FDI inflows into Kazakhstan, in addition to high global commodity prices and the tenge devaluation of 1999, have been one of the most important factors contributing to economic recovery in the years since the Russian financial crisis of 1998. FDI has brought new technology and jobs for domestic suppliers and subcontractors, and generated new types of employment and training for Kazakh nationals. Furthermore, oil sector investment has played an important role in the development of Kazakhstan's financial sector, centred on the old capital, Almaty. Nonetheless, as the oil sector does not generate large-scale employment, the narrow range of Kazakhstan's FDI has not had as widespread or beneficial an impact on living standards across the country as a more diversified FDI profile might have achieved.

Potential

The Kazakh government's nationalist economic policies, and increasingly assertive stance, will continue to tarnish its relations with Western investors, as a result of which there will be disputes with foreign companies, leading to occasional but high-profile confrontations. However, the magnitude of potential oil profits is likely to mean that the more unfavourable investment climate will only dampen—rather than seriously disrupt—FDI inflows into Kazakhstan. Furthermore, the government's reliance on oil revenue would make it pull back if the oil majors were seriously to consider withdrawing. This game of brinkmanship carries considerable risks, but the Economist Intelligence Unit's baseline scenario of mutual—if problematic—accommodation envisages continued strong inflows of FDI, driven mainly by the large-scale development project at the Kashagan oilfield.

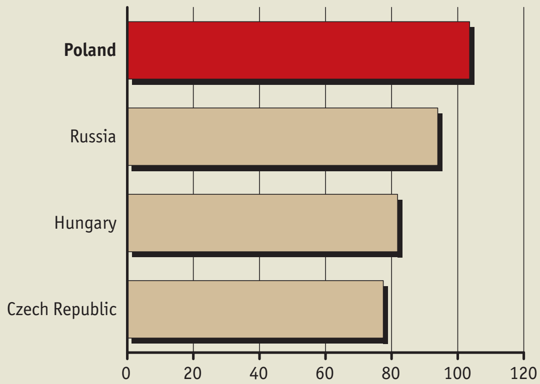
Poland

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.73	7.17	35	34
Political environment	6.5	6.5	37	39
Political stability	7.8	7.4	27	33
Political effectiveness	5.5	5.8	40	40
Macroeconomic environment	6.9	7.5	56	44
Market opportunities	7.4	7.5	14	14
Policy towards private enterprise & competition	6.3	7.0	33	33
Policy towards foreign investment	7.8	7.8	24	25
Foreign trade & exchange controls	7.8	8.2	32	41
Taxes	5.5	6.1	47	50
Financing	7.0	7.4	27	33
Labour market	6.4	6.9	41	33
Infrastructure	5.8	6.9	42	38

Key issues

Poland's business environment is expected to improve between 2002-06 and 2007-11. Its global rank rises by one place, to 34th. The strongest features of Poland's business environment are the breadth of market opportunities and policy towards foreign investment. The present conservative government is likely to be very active in taking legal measures to combat corruption and may make some progress in reducing bureaucratic barriers to setting up new businesses. However, its hostility to further privatisation means that state-owned firms will retain an important role in the energy and financial sectors. Poland's overall attractiveness as an investment location will also continue to be undermined by the rigidities of its labour market and the poor quality of infrastructure (particularly the road system), which will be upgraded only slowly. The weakness of the government's budgetary position is the main economic policy concern, and the present government has set itself unambitious targets for bringing down the budget deficit. The government is sceptical towards European economic and monetary union (EMU), and Poland is not likely to join the euro zone until 2012 at the earliest.

Inward FDI stock, 2006
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	38.2	38.2	38.1	38.1	38.1	38.1	38.1	38.0
GDP (US$ bn at market exchange rates)	252.9	303.9	340.8	408.9	446.3	459.7	478.7	508.2
GDP (US$ bn at PPP)	463.6	494.8	540.4	587.5	633.6	678.1	725.0	773.2
GDP (% real change)	5.3	3.6	6.1	6.3	5.1	4.2	4.2	4.0
Foreign direct investment inflows (US$ bn)	12.9	9.6	14.5	12.5	12.0	12.6	12.9	13.1
% of GDP	5.1	3.2	4.3	3.1	2.7	2.7	2.7	2.6
% of gross fixed investment	28.2	17.4	21.5	14.0	11.8	11.6	11.0	10.2
Inward foreign direct investment stock (US$ bn)	86.4	89.7	103.6	116.1	128.1	140.7	153.6	166.7
% of GDP	34.1	29.5	30.4	28.4	28.7	30.6	32.1	32.8
Foreign direct investment outflows (US$ bn)	0.8	3.0	4.3	4.0	4.2	4.0	4.3	4.4
Outward foreign direct investment stock (US$ bn)	3.2	6.4	10.7	14.7	18.9	22.9	27.2	31.6
% of GDP	1.3	2.1	3.1	3.6	4.2	5.0	5.7	6.2

Foreign direct investment in Poland

Stocks and flows

The National Bank of Poland (NBP, the central bank) is now responsible for producing all estimates of the stock and flow of FDI in Poland. The Polish agency for information and foreign investment (PAIIZ) previously produced its own figures but ceased to do so in 2006. The NBP estimates the stock of inward FDI in Poland at some US$89.7bn at the end of 2005, the highest absolute level received by any east European country since the fall of communism. However, Poland's record at attracting investment is less impressive if judged relative to the size of the country. Per head of population, the FDI stock was US$2,350 at end-2005, less than half the level in Hungary or the Czech Republic. However, NBP figures suggest that 2006 was the strongest year yet for FDI, with inflows of US$14.5bn, up from US$9.6bn in 2005.

Origin and distribution

According to the NBP, Dutch companies had invested around US$19.5bn in Poland by end-2005, making them collectively the largest investors in the country, ahead of firms from Germany, which had invested US$14.6bn, and France (US$11.3bn). The US ranked fourth, with US$6.7bn, followed by Sweden, Italy and the UK, each with investments of US$3bn-4bn. Around 85% of total foreign investment had come from companies headquartered in EU member states, and a further 8% from the US and Canada.

Manufacturing had attracted US$32.8bn of FDI by end-2005, 37% of the total. Of this, around US$5.6bn has been invested in the automotive sector and US$5.4bn in food-processing. Financial services had attracted US$18.2bn by end-2005, much of which took the form of acquisitions of banks through the privatisation programme. FDI has been concentrated in the central region of Warsaw and the more industrialised areas of western Poland. These regions have a more highly developed infrastructure, skilled labour force, and better access to office space and production facilities. The less-developed east of the country has attracted much less foreign investment.

Determinants

Poland attracted relatively little foreign investment in the first years after the fall of communism because investors perceived it as politically unstable and economically underdeveloped. However, FDI inflows expanded rapidly from 1992 to 2000, as investors were attracted by the size of the Polish domestic market and the country's potential as a base for exporting into the EU. The economic slowdown and the *de facto* halt to large-scale privatisation led to a fall in FDI in 2001 02, but economic recovery has been accompanied by a significant rise in FDI inflows, as foreign-owned companies have reinvested much of the rising flow of profits earned in Poland and new investors have set up in the country, attracted by its large domestic market and good supply of skilled labour.

Impact

FDI inflows were a significant factor behind the strength of gross fixed investment over most of the past decade. In 1995-2006 FDI inflows averaged 17% of gross fixed investment. FDI inflows have also had a significant impact on industrial restructuring in certain industries. For example, car production rose dramatically in the 1990s, following major investment programmes by Fiat (Italy) and Daewoo (South Korea). This sector illustrates both the positive effects of FDI—the growth of the sector has given a boost to the components industry—and the risks attached, as Daewoo then suffered financial problems, which ultimately forced the government to renationalise its Polish plant (it now belongs to Avtozaz of Ukraine). Foreign firms' operations in Poland appear to have been responsible for much of the strong growth in exports over the past few years, which has been the main driver of the present economic recovery.

Potential

Whereas most central European countries have already privatised their most attractive assets, the Polish state still has important assets, including much of the energy sector, majority stakes in the country's largest bank and its biggest insurance company, and some manufacturing plants. The government is likely to sell some of these firms over the next few years, but the governing Law and Justice party (PiS) is keen to maintain some role for the state in strategic sectors. It is also reluctant to see state-owned firms in the financial and energy sectors fall under foreign control after they are privatised. As the privatisation process has slowed, greenfield investment and reinvested earnings are making up a much greater proportion of FDI. The Economist Intelligence Unit expects that inflows of FDI will continue to recover and sees them continuing at around 2-3% of GDP over the medium term.

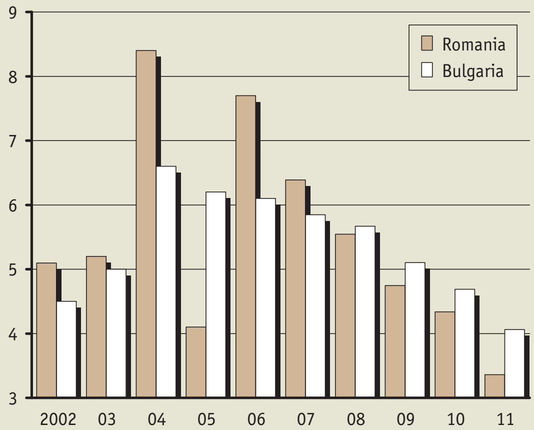
Romania

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.79	6.58	51	48
Political environment	5.2	5.5	50	53
Political stability	6.6	6.6	45	44
Political effectiveness	3.9	4.5	61	58
Macroeconomic environment	6.6	6.3	64	72
Market opportunities	6.4	6.6	31	34
Policy towards private enterprise & competition	4.8	6.0	58	50
Policy towards foreign investment	7.3	7.3	33	39
Foreign trade & exchange controls	6.9	8.2	47	41
Taxes	4.2	6.2	77	46
Financing	5.1	6.6	56	48
Labour market	6.2	6.7	49	42
Infrastructure	5.2	6.3	48	46

Key issues

Romania's improving business environment is reflected in its rise of three places in the Economist Intelligence Unit's business environment rankings between 2002-06 and 2007-11. This improvement has in large part been driven by preparations for EU membership, which occurred in January 2007. After a recession in 1997-99, macroeconomic stability improved and real GDP growth averaged 6.1% per year in 2002-06. Annual inflation has been brought below 5% in 2007 and the fiscal position has improved. The main risk to macroeconomic stability is the current-account deficit (10.3% of GDP in 2006). Bringing down the external deficit will require a tightening of fiscal policy. The government is reluctant to cut spending, and ample foreign-exchange reserves and large FDI inflows have given it some leeway to delay a policy tightening. The government introduced a 16% flat-rate income and profit tax in 2005, but is under pressure to raise either this or the rate of value-added tax (VAT) to boost budget revenue. The authorities have resisted so far, but a major tax increase may become inevitable. Despite improvements in the operating climate, weaknesses in the legal, tax and regulatory systems and excessive red tape remain obstacles for investors.

Real GDP growth , 2002-11
(%)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	21.7	21.6	21.6	21.6	21.6	21.6	21.6	21.5
GDP (US$ bn at market exchange rates)	75.5	97.1	121.9	161.5	188.4	202.8	220.4	242.5
GDP (US$ bn at PPP)	176.2	189.0	209.5	228.0	246.8	265.4	283.9	300.3
GDP (% real change)	8.4	4.1	7.7	6.4	5.5	4.7	4.3	3.4
Foreign direct investment inflows (US$ bn)	6.4	6.5	11.4	9.8	7.2	7.3	7.0	7.2
% of GDP	8.5	6.7	9.4	6.1	3.8	3.6	3.2	3.0
% of gross fixed investment	39.5	28.5	38.7	23.6	13.9	12.5	10.6	9.6
Inward foreign direct investment stock (US$ bn)	20.5	25.9	37.3	47.1	54.3	61.6	68.6	75.8
% of GDP	27.2	26.7	30.6	29.2	28.8	30.4	31.1	31.3
Foreign direct investment outflows (US$ bn)	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.4
Outward foreign direct investment stock (US$ bn)	0.3	0.2	0.3	0.4	0.6	0.8	1.1	1.5
% of GDP	0.4	0.2	0.2	0.2	0.3	0.4	0.5	0.6

Foreign direct investment in Romania

Stocks and flows

Romania's stock of FDI at end-2006 was an estimated US$37.3bn. Despite the strong pick-up in FDI inflows in recent years, the ratio of the end-2006 stock to GDP (30.6%) was still among the lowest in east-central Europe, comparable to that of Poland (30.4%). Although Romania is the leading recipient of FDI in the Balkans when measured in US dollar terms, it lags behind Croatia and Bulgaria in terms of FDI per head (with US$1,730 at end-2006). FDI inflows into Romania have been rising strongly since 2004 and reached a record total of US$11.4bn in 2006.

Origin and distribution

According to the latest available data from the National Bank of Romania (NBR, the central bank), at the end of 2005 the Netherlands was the leading country of origin for FDI into Romania (19.5% of the inward stock); Austria was a close second, with 15.4%, following the acquisition of Petrom by OMV and Banca Comerciala Romana (BCR) by Erste Bank; next came Germany, with 10.7%; Greece, with 8.5%; and France, with 8.4%. Many multinational companies, including LNM Ispat (now Mittal Steel) and Lukoil (Russia), have registered in Romania through the Netherlands or through the Netherlands Antilles. The distribution of FDI by country of origin indicates a high degree of sectoral specialisation. Dutch investment is concentrated in the steel and oil sectors. Investment from France is concentrated in consumer goods and the retail sector. Germany is a leading investor in industry.

FDI in most countries in the Balkans has been concentrated in telecommunications, banking and other services. In Romania, however, FDI has also played a prominent role in industry (which accounted for 49% of the inward FDI stock at the end of 2005). FDI has also been significant in some services: retail and wholesale trade (15% of total FDI); financial services (14.5%) and telecoms (11%). Foreign firms have invested in the capital-intensive steel and chemical industries, as well as the labour-intensive textiles, leather and clothing sector—although the latter accounts for only 2.6% of the total FDI stock. Automotive and electrical machinery producers have also chosen Romania as their location. As these firms sell more than 50% of their production abroad, Romania is becoming a significant export platform. About 60% of manufacturing output and exports are now produced by foreign affiliates, a similar ratio to that in the Czech Republic.

Determinants

Romania's advantages as a location for investment include a domestic market of about 22m consumers and the potential—partly owing to a good geographical position at a crossroads of traditional trade routes—to emerge as a regional hub. It has a comparatively cheap and skilled workforce, as well as a diversified industrial structure that allows intermediate inputs to be bought locally. In the past, economic instability, poor reform progress, high regional risk, excessive red tape, and the unpredictable legal and regulatory system were the main obstacles to FDI.

Impact

FDI inflows into Romania have played an important role in financing the current-account deficit and in helping to modernise important economic sectors. Foreign investment has also generated an increasing proportion of private-sector employment, foreign trade and GDP. Foreign capital has been involved in the privatisation of some large strategic companies. Restructuring and competitiveness gains have taken place more rapidly in those sectors that have benefited from foreign investment. Food-processing, automotives, telecoms, banking and brewing have all benefited in recent years from the introduction of new technologies and know-how by foreign investors.

Potential

Strong GDP growth and improvements in the business environment should underpin strong FDI inflows in the coming years. FDI inflows are expected to reach nearly US$10bn in 2007, boosted by receipts from further privatisations in the energy sector, continued greenfield investment and reinvestment by foreign-owned firms. As large privatisations are completed, FDI inflows (based increasingly on reinvested earnings by foreign companies in Romania) will decline, but are still expected to average about US$7bn per year in 2008-11.

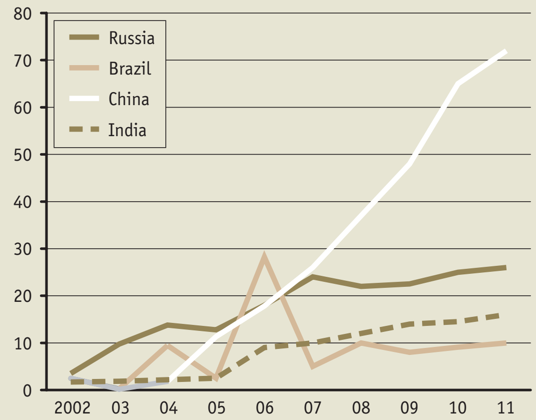
Russia

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.44	6.07	59	63
Political environment	4.1	4.5	68	69
Political stability	5.1	5.1	59	62
Political effectiveness	3.3	3.9	74	68
Macroeconomic environment	8.0	8.0	25	25
Market opportunities	8.4	8.4	2	2
Policy towards private enterprise & competition	3.3	4.5	73	70
Policy towards foreign investment	3.3	3.7	79	76
Foreign trade & exchange controls	6.9	7.8	47	51
Taxes	5.3	6.0	52	54
Financing	4.0	5.5	65	66
Labour market	6.4	6.7	42	43
Infrastructure	4.8	5.8	54	52

Key issues

Russia's business environment will benefit from improvements in infrastructure, gradual reforms in the financial sector, and regulatory changes in the trade regime and other areas associated with expected membership of the World Trade Organisation (WTO). However, many problems will remain and the rate of improvement will be much slower than seemed possible in the early years of Vladimir Putin's presidency. Although Russia's business environment is forecast to improve in 2007-11, its global rank slips by four places, to 63rd. Trends in the direction of greater state control have increased investor uncertainty. Nevertheless, foreign investors will be attracted by Russia's natural resources and large and dynamic domestic market. Surveys show that foreign investment in Russia often yields higher returns than investment in other leading emerging markets. This suggests that many foreign companies have developed the skills and local knowledge necessary to navigate the Russian business environment. An Economist Intelligence Unit survey of 455 Western companies in early 2007 showed that the majority were optimistic about the likely evolution of Russia's operating environment the next few years.

FDI outflows, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	143.5	142.8	142.3	141.9	141.2	140.4	139.2	138.6
GDP (US$ bn at market exchange rates)	591.7	764.4	984.6	1,183.3	1,361.4	1,523.6	1,697.9	1,888.7
GDP (US$ bn at PPP)	1,440.5	1,579.0	1,734.2	1,891.5	2,055.1	2,214.7	2,374.6	2,534.0
GDP (% real change)	7.2	6.4	6.7	6.5	5.9	4.8	4.5	4.3
Foreign direct investment inflows (US$ bn)	15.4	12.8	28.7	35.0	29.0	30.0	31.0	32.0
% of GDP	2.6	1.7	2.9	3.0	2.1	2.0	1.8	1.7
% of gross fixed investment	14.2	9.4	16.3	15.6	10.8	9.7	8.7	7.9
Inward foreign direct investment stock (US$ bn)	50.6	65.2	93.9	128.9	157.9	187.9	218.9	250.9
% of GDP	8.6	8.5	9.5	10.9	11.6	12.3	12.9	13.3
Foreign direct investment outflows (US$ bn)	13.8	12.8	18.0	24.0	22.0	22.5	25.0	26.0
Outward foreign direct investment stock (US$ bn)	44.4	57.2	75.2	99.2	121.2	143.7	168.7	194.7
% of GDP	7.5	7.5	7.6	8.4	8.9	9.4	9.9	10.3

Foreign direct investment in Russia

Stocks and flows

According to balance-of-payments data from the Russian Central Bank (RCB), FDI inflows averaged a paltry US$3bn per year in 1998-2002, before picking up markedly, to US$8bn in 2003 and an average of US$14bn in 2004-05. FDI inflows more than doubled in 2006 to US$28.7bn, and to an estimated US$24bn in the first half of 2007. FDI data from RosStat shows more modest rises. However, unlike the RCB numbers, the RosStat data exclude most financial sector investment and reinvested earnings, and are gross of repatriated capital. Even after the recent upsurge, cumulative FDI inflows into Russia from 1990 up until the end of 2006 amounted to some US$94bn, equal to only 9.5% of GDP—still one of the lowest shares among all 28 countries of the transition region. Whereas Russia's share in the transition region's population, GDP and exports is about one-third, its share in the region's stock of FDI is below 20%.

Origin and distribution

The RCB does not report data by sector or by country of origin. According to RosStat figures, a large share of FDI comes from Cyprus and the Netherlands (where many Russian companies have offshore enterprises), which indicates that a significant share of Russian FDI is actually repatriated flight capital. At the end of 2005 investors from the Netherlands accounted for 32% of the stock of inward FDI; those from Cyprus, 28%; and US investors came a distant third with 9%. Inward FDI in Russia is highly concentrated, both sectorally and geographically. Investments into trade, transport and communications, the energy sector and the food industry make up most of the cumulative inflows. Up to two-thirds of FDI inflows since 2000 have gone into just three regions: Moscow, Sakhalin and Moscow region. In addition to the energy sector, retail, food-processing, automotive and consumer goods have been among the main targets of FDI.

Determinants

In the past, Russia's attractions—primarily its market size and natural resources—had been more than offset by serious deficiencies in the business environment. Several factors appear to explain the narrowing of the gap between actual and potential performance. A track-record of several years of stability and robust growth has been built up. Some long-standing deterrents to foreign investment—such as macroeconomic and political instability, and high and unpredictable taxes—have eased. Surveys of investors show that inadequate protection of property rights, problems with customs and corruption are still seen as the main barriers to investment. However, the majority of those doing business in Russia are satisfied with their success and plan to expand their investments in the country.

Impact

FDI inflows averaged only about 8% of domestic fixed capital formation in 1994-2006, and only 1.3% of GDP over the same period. Given a strong current-account position and, until recently, the small size of FDI inflows, the impact on the balance of payments has been negligible. In addition, the sectoral distribution of FDI (to energy and ventures mainly serving domestic demand for traditional products) limits the impact on Russian technological capacity and competitiveness. However, FDI flows are now reaching a level at which they can begin to have a significant impact on the economy.

Potential

Strong market opportunities will make Russia attractive to foreign companies. Western oil majors will be limited to minority stakes and may be affected by regulatory uncertainty. However, they are accustomed to operating in difficult business environments and cannot afford to shun Russia, given its huge oil and gas reserves. The other main sectors that will continue to prove attractive for foreign investors are retail, real estate, banking and fast-moving consumer goods. Foreign involvement is also growing in some manufacturing sectors, most notably food-processing and the automotive industry. The Economist Intelligence Unit forecasts that annual FDI inflows into Russia will average more than US$30bn per year in 2007-11. There are risks to the baseline FDI outlook. Russia remains highly vulnerable to a significant decline in international commodity prices. Much of manufacturing will be adversely affected by real rouble appreciation. Many negative features of the business environment will persist, including an inefficient bureaucracy and judicial system.

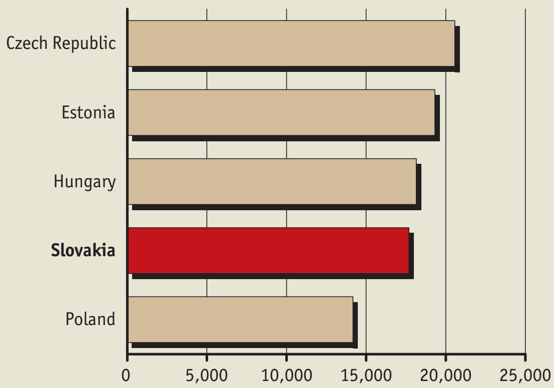
Slovakia

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.81	7.44	31	29
Political environment	6.9	7.2	29	26
Political stability	8.1	8.1	19	16
Political effectiveness	5.8	6.5	35	31
Macroeconomic environment	6.6	7.8	64	36
Market opportunities	5.4	6.7	56	28
Policy towards private enterprise & competition	6.5	6.5	29	41
Policy towards foreign investment	7.8	7.8	24	25
Foreign trade & exchange controls	8.7	8.7	15	24
Taxes	6.6	7.7	25	15
Financing	6.3	7.8	41	27
Labour market	7.3	7.4	15	20
Infrastructure	6.2	7.0	35	35

Key issues

Slovakia's impressive record in reform in recent years, as well as membership of the EU, improved greatly investors' perceptions of the country and boosted FDI, although the presence of a populist government could yet dampen investor interest to a limited extent. The current government, headed by Smer-SD (Direction-Social Democracy), has maintained the previous administration's commitment to the goal of accession to European economic and monetary union (EMU) in 2009, and favourable economic conditions should allow Slovakia to fulfil the Maastricht accession criteria. Slovakia's reforms under the previous government, as well as strong growth and comparatively low costs, have led to strong FDI inflows in recent years, and some diversion away from other central European locations. Real GDP growth is expected to average above 6% over the medium term. FDI inflows will cover most of the country's current-account deficits, which will fall after peaking in 2006. Monetary policy will be relatively tight, given the requirements of EMU entry, although a buoyant economy and high global energy prices will generate inflationary pressures.

GDP per head, 2006
(US$ at PPP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.5
GDP (US$ bn at market exchange rates)	42.0	47.4	55.3	72.5	79.8	81.8	85.3	91.4
GDP (US$ bn at PPP)	79.2	86.5	96.4	106.5	115.9	125.8	136.6	147.8
GDP (% real change)	5.4	6.0	8.3	8.0	6.0	5.7	5.8	5.5
Foreign direct investment inflows (US$ bn)	1.1	1.9	4.2	2.0	2.0	2.2	2.4	2.5
% of GDP	2.7	4.0	7.5	2.7	2.6	2.7	2.8	2.7
% of gross fixed investment	11.1	15.0	28.6	10.5	9.7	10.3	10.7	10.6
Inward foreign direct investment stock (US$ bn)	14.5	15.8	25.5	27.5	29.5	31.7	34.1	36.6
% of GDP	34.5	33.3	46.1	37.9	37.0	38.8	39.9	40.0
Foreign direct investment outflows (US$ bn)	-0.2	0.1	0.4	0.0	0.0	0.1	0.1	0.2
Outward foreign direct investment stock (US$ bn)	0.7	0.8	1.3	1.3	1.3	1.4	1.5	1.7
% of GDP	1.7	1.6	2.3	1.8	1.7	1.7	1.8	1.9

Foreign direct investment in Slovakia

Stocks and flows

In 2004 FDI inflows—on a balance-of-payments basis—benefited from a large number of greenfield projects, and amounted to US$1.1bn. In 2005 FDI worth US$1.9bn flowed in, despite the absence of any large privatisation deals. Inflows rose sharply in 2006, to US$4.2bn, the figure boosted by the sale of a 66% stake in Slovenske Elektrarne (SE) to Enel (Italy). The stock of FDI at end-2006 amounted to US$25.5bn. In absolute US dollar terms, this was just around one-third of the amount invested in the Czech Republic and in Hungary, and one-quarter of that received by Poland. Slovakia's FDI stock at end-2006 was nevertheless equivalent to 46% of GDP, and to US$4,700 per head. Outflows of FDI from Slovakia are still modest, with the stock of outward FDI amounting to only 2.3% of GDP in 2006.

Origin and distribution

According to data from the National Bank of Slovakia (NBS, the central bank), the two leading investors in Slovakia at the end of 2006 were the Netherlands (20% of the total stock) and Germany (18%). The manufacturing sector received the largest share of FDI (39%), of which most was directed to automotive components, consumer electronics and precision engineering. Another important recipient of FDI was financial intermediation. FDI inflows have been heavily skewed towards the western regions of the country, which are geographically closer to the EU—Slovakia's main source of FDI. In 2004 and 2005 the first large investments into eastern Slovakia were announced, as regional labour shortages persuaded several investors to locate their plants further east of Bratislava.

Determinants

In the early to mid-1990s many foreign investors were wary of the Slovak business environment. Slovakia lost out to its central European neighbours because of its smaller market, the unreformed nature of many of its companies, and a less developed infrastructure. The situation has improved markedly since then, as the policies of governments in 1998-2006 created a much more favourable environment. Foreign investors have taken notice of the much friendlier business environment, Slovakia's cheap yet qualified labour force and its strategic location and proximity to markets in both western and eastern Europe. The substantial FDI inflows in the early part of this decade were the result of privatisation of banks and utilities. Slovakia has in particular attracted large investments into its automotive sector.

Impact

The impact of FDI on the Slovak economy has been important, especially in recent years. Sectors that have received significant levels of FDI, such as the automotive and steel industries, contributed disproportionately to Slovakia's export-led growth in 2000-06. Their importance will rise further during the forecast period, as production at several car plants boosts the already large share of the transport equipment sector in total manufacturing. In turn, that should underpin strong economic growth, as production capacity is expanded and services sector activities in the regions where the plants are located receive a boost. In the second half of the forecast period greenfield investment, attracted by Slovakia's still-favourable business climate, should underpin growth and job creation.

Potential

Slovakia still lags significantly behind its neighbours, mainly the Czech Republic, in terms of research and development (R&D) activities. To attract investment with higher value-added potential, the current government will boost investment in universities and state-sponsored R&D activities. In the first half of the forecast period the majority of foreign investors will continue to place mostly production plants in Slovakia, but later on the share of more sophisticated activities could increase. The setting up of industrial parks across the country—including the hitherto relatively neglected eastern region—should add to Slovakia's attractiveness as a destination for FDI. The current government is markedly less inclined than the previous one to sell state assets. However, membership of the EU, NATO and the OECD, allied to the government's recognition of the importance of FDI in Slovakia's economic development, means that the conditions will be in place for strong FDI inflows to continue over the forecast period.

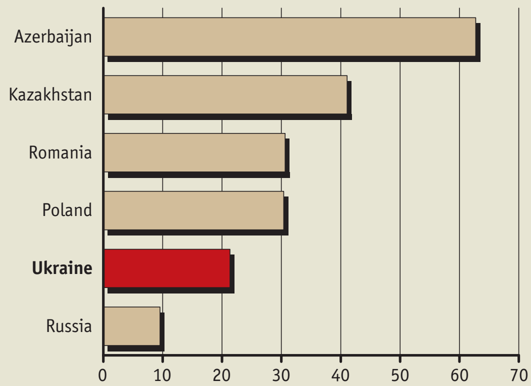
Ukraine

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	4.44	5.45	76	70
Political environment	3.9	4.1	72	73
Political stability	5.5	5.5	55	58
Political effectiveness	2.6	2.9	79	76
Macroeconomic environment	7.5	7.2	39	54
Market opportunities	5.5	5.8	55	51
Policy towards private enterprise & competition	2.5	4.0	78	73
Policy towards foreign investment	4.2	5.5	77	70
Foreign trade & exchange controls	5.1	6.4	66	68
Taxes	2.8	5.1	82	73
Financing	2.9	5.1	74	71
Labour market	5.8	6.1	56	59
Infrastructure	4.4	5.2	60	59

Key issues

Real GDP growth will ease in 2007-08, but is expected to average around 6% and should remain solid over the medium term. Although reform prospects have generally improved in recent years, the influence of big business in parliament and a destabilising power struggle between the presidency and the government/parliament have constrained progress. There should be at least some advances in structural reforms, deregulation and liberalisation over the next few years. These are also prerequisites for Ukraine's joining the World Trade Organisation (WTO) and deepening links with the EU. Overall, however, the continued influence of vested interests, combined with low administrative capacity and legislative efficacy, will inevitably slow the rate of improvements in the business environment in crucial areas. So too will the lack of political stability, which is expected to be a feature throughout the forecast period. Even though the Economist Intelligence Unit anticipates notable progress in almost all aspects of the business environment, Ukraine's regional and global rankings will therefore remain low.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	47.1	46.7	46.5	46.2	46.0	45.8	45.6	45.4
GDP (US$ bn at market exchange rates)	64.9	82.9	105.5	136.2	147.8	166.5	195.1	223.9
GDP (US$ bn at PPP)	306.4	323.7	358.0	390.9	423.8	461.0	503.2	549.7
GDP (% real change)	12.1	2.6	7.4	6.8	5.6	5.9	6.4	6.5
Foreign direct investment inflows (US$ bn)	1.7	7.8	5.2	5.2	4.8	4.6	4.8	5.3
% of GDP	2.6	9.4	4.9	3.8	3.2	2.8	2.5	2.4
% of gross fixed investment	11.7	42.8	21.2	17.5	14.1	12.0	11.1	10.9
Inward foreign direct investment stock (US$ bn)	9.6	17.3	22.5	27.7	32.5	37.1	41.9	47.2
% of GDP	14.8	20.9	21.3	20.4	22.0	22.3	21.5	21.1
Foreign direct investment outflows (US$ bn)	0.0	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Outward foreign direct investment stock (US$ bn)	0.2	0.5	0.6	0.8	0.9	1.1	1.4	1.6
% of GDP	0.3	0.6	0.6	0.6	0.6	0.7	0.7	0.7

Foreign direct investment in Ukraine

Stocks and flows

Despite Ukraine's strategic location, rich natural resources, and cheap but skilled labour force—all of which make it a potentially attractive investment location—inflows of FDI have been comparatively low. Even including the sale of the Kryvorizhstal steel plant for US$4.8bn in October 2005, and a subsequent acceleration in non-privatisation-related inflows in 2006, Ukraine still lags far behind central Europe in terms of per-capita FDI. The US$22.5bn stock of FDI in Ukraine by end-2006 amounted to only around US$480 per head.

Origin and distribution

The Kryvorizhstal sale and the role played by offshore Ukrainian and Russian investors mean that the official data on the origin of FDI are somewhat misleading. As Kryvorizhstal's new owners, Mittal Steel (Netherlands), bought the plant through a German-registered company, Germany was propelled into first place in terms of FDI sources, and retained that position at the end of 2006, when it accounted for 26% of cumulative FDI into Ukraine. Germany thereby replaced the US (6.6% of total FDI at end-2006). Cyprus (14%) is also now ranked ahead of the US, although Cypriot capital inflows represent Russian or Ukrainian offshore capital (Russia officially accounts for just 4.6% of all FDI despite being a major player in the Ukrainian economy). Other important sources include Austria (7.5%)—largely because of Raiffeisen International's purchase of Aval Bank in 2005—as well as the UK (7.5%) and the Netherlands (7%). The Kryvorizhstal sale also distorted the sectoral distribution of FDI inflows. Up until 2005, the sectors attracting most FDI had been those in which government interference is relatively low, such as the food- and agro-processing industry, or those offering relatively quick returns, such as domestic trade. By contrast, heavy industry had attracted only limited FDI prior to the Kryvorizhstal sale, but as of early 2006 the metals sector had become by far the greatest recipient of FDI. Another more recent development is increasing inflows of FDI into the financial sector. The Aval Bank sale has been the largest to date, raising over US$1bn, but has been followed by others—including a 51% stake purchased in the country's fourth-largest bank, Ukrsibbank, by France's BNP Paribas in 2006—and foreign interest in the sector remains strong.

Determinants

Despite claims by various governments during the 1990s that FDI was a priority, Ukraine offered only weak incentives and few investor-friendly policies. The country's volatile and risky business environment has been the main deterrent for foreign investors. Ukraine's excessive tax burden also acts as a barrier, especially as foreign-owned companies have been easy targets for tax authorities attempting to compensate for poor revenue intake and widespread exemptions. Nor has Ukraine's privatisation programme always been conducive to attracting FDI, since privatisation efforts in the 1990s focused on voucher privatisation, or on sales to management and employees. Strategic foreign investors are frequently kept at bay, owing to a lack of transparency in the privatisation process and unrealistic offer prices.

Impact

Because of its low volume, FDI in Ukraine has so far not had as much of an impact as in other transition economies in central and eastern Europe. A number of the special economic zones (SEZs) in the west of the country have had some limited successes, but the benefits available to SEZ investors were cancelled by the government led by Yuliya Tymoshenko in 2005 and remain a highly controversial issue.

Potential

Prospects for FDI inflows into Ukraine look more promising now than in the first decade following the collapse of the Soviet Union. In 2000-04 Ukraine showed somewhat greater commitment to economic reform and to making the business environment more friendly to investors. The governments in place during that period made some progress on regulatory, administrative and fiscal reform, and took important steps towards privatisation of the agricultural sector. They also accelerated the privatisation of large enterprises, which had long been postponed because of opposition from parliament. Since 2005 efforts have been accelerated to level the playing-field and simplify the tax and regulatory environment. However, government policies have continued to scare away investments occasionally, and vested business interests will remain politically powerful in the medium term. This will slow the structural reforms and further regulatory improvements needed, and Ukraine will continue to lag behind most countries in the region as a result.

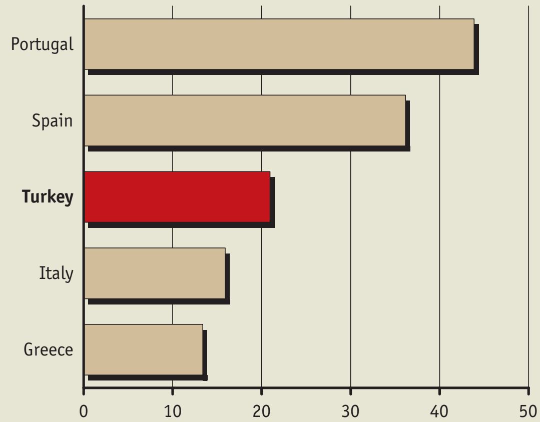
Turkey

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.66	6.42	57	52
Political environment	5.2	5.7	50	50
Political stability	5.9	5.9	52	54
Political effectiveness	4.5	5.5	51	43
Macroeconomic environment	4.9	6.1	79	75
Market opportunities	7.8	6.9	8	23
Policy towards private enterprise & competition	5.5	6.3	45	47
Policy towards foreign investment	6.4	6.9	50	49
Foreign trade & exchange controls	6.0	8.2	61	41
Taxes	5.2	6.1	56	51
Financing	5.5	6.6	51	48
Labour market	5.1	5.6	71	66
Infrastructure	5.1	5.9	52	50

Key issues

The IMF-backed reform programmes in place since late 1999, allied to Turkey's EU membership bid, have made Turkey a more attractive location for FDI. The economy has become more robust and resilient to shocks, although it is still vulnerable to sudden shifts in investor sentiment because of its large current-account deficit, substantial external debt-servicing, heavy reliance on short-term capital inflows, and periodic domestic political tensions. Emerging-market risk-aversion has risen as global interest rates have increased, making it more difficult for Turkey to meet its large external financing needs and increasing exchange-rate volatility. The clear-cut victory of the Justice and Development Party (AKP) in the July 2007 election should ensure the continuation of most of its policies, particularly Turkey's EU membership bid and economic reform. Some form of co-operation with the IMF is therefore expected after the current three-year stand-by agreement expires in early 2008. EU accession negotiations, which will not be completed during the forecast period, will proceed slowly because of substantial obstacles in Turkey and in the EU. Nevertheless, the AKP government is unlikely to abandon its bid.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	72.3	73.3	74.3	75.2	76.2	77.2	78.1	79.1
GDP (US$ bn at market exchange rates)	302.0	362.6	403.5	471.9	489.6	547.3	601.8	666.8
GDP (US$ bn at PPP)	556.1	615.2	671.8	728.7	786.8	850.3	916.2	986.8
GDP (% real change)	8.9	7.4	6.1	6.0	5.2	5.3	5.0	5.0
Foreign direct investment inflows (US$ bn)	2.9	9.8	20.1	19.0	20.0	21.0	20.0	20.0
% of GDP	1.0	2.7	5.0	4.0	4.1	3.8	3.3	3.0
% of gross fixed investment	5.4	13.8	23.7	20.0	19.4	17.9	15.1	13.3
Inward foreign direct investment stock (US$ bn)	38.5	64.4	84.5	103.5	123.5	144.5	164.5	184.5
% of GDP	12.8	17.8	20.9	21.9	25.2	26.4	27.3	27.7
Foreign direct investment outflows (US$ bn)	0.9	1.1	0.9	2.0	1.0	1.3	1.5	1.7
Outward foreign direct investment stock (US$ bn)	7.1	8.3	8.9	10.9	11.9	13.1	14.6	16.3
% of GDP	2.3	2.3	2.2	2.3	2.4	2.4	2.4	2.4

Foreign direct investment in Turkey

Stocks and flows

Compared with many other emerging markets and much of central and eastern Europe, FDI inflows into Turkey have been modest, averaging less than 1% of GDP a year in 1990-2004. However, in 2005 and 2006 inflows of FDI capital surged. They totalled US$9.8n, or 2.7% of GDP, in 2005, and US$20.1bn, or 5% of GDP, in 2006. In the first five months of 2007 FDI inflows totalled US$11bn (more than half of this was in January), compared with US$8.5bn in the same period of 2006. The stock of inward FDI was an estimated US$84.5bn (or 21% of GDP) at end-2006.

Origin and distribution

Traditional sources of foreign capital in Turkey have been major EU countries, especially the Netherlands, Germany, the UK, France and Italy, followed by other OECD countries such as the US, Switzerland and Japan. In 2005 the EU accounted for about 60% of the total FDI inflow into Turkey. Historically, manufacturing (particularly the chemical, food and motor vehicle industries) and financial services attracted the most FDI. The sharp increase in FDI inflows in 2005-06 was primarily attributable to acquisitions by multinational companies of large stakes in a handful of large Turkish companies, especially in banking and telecommunications, as a result of privatisation and private-sector takeovers. From end-2001 to May 2006 almost half (US$8.7bn) of all FDI inflows were related to transport, storage and communications (primarily telecommunications). The financial sector attracted US$4.7bn. Retailing attracted US$1.7bn, mainly as a result of supermarket chain acquisitions. Manufacturing industries—led by food and beverages, the motor industry, chemicals and textiles—attracted another US$1.7bn. Most foreign investors have local partners.

Determinants

The recent upsurge in FDI reflects the conjunction of several factors: the relative stability and strong growth of the economy; reforms in sectors such as energy, telecommunications and banking; and EU accession talks, which although currently making slow progress, are seen as likely to lead to further reform of the business environment. The 2001 financial crisis led to a new drive for reform and privatisation, as well as reducing enthusiasm for bank ownership among Turkish entrepreneurs and leaving some banks and companies in need of fresh capital. The Justice and Development Party government in power since 2002 has been more willing than its predecessors to sell majority stakes in state-owned companies to foreigners, even in “strategic” sectors. The Turkish private sector has also been more willing to seek foreign partners. This may reflect the thinking of a new generation of management, strategies of specialisation in certain sectors, a desire to raise capital for privatisation bids and fear of increasing foreign competition. Significant deterrents to foreign investment remain, however. Standing out among them are the slow and unpredictable judicial system, bureaucratic hassles, weak protection of intellectual property rights, perceptions of potential political instability or corruption, and unfair competition from smuggled goods and the informal sector.

Impact

FDI inflows have until recently been small for an economy of Turkey’s size. Nevertheless, several leading multinationals, such as Unilever and Ford, have had a long-standing presence in Turkey, and companies with foreign partners play a significant role in the economy. The increasing foreign presence is particularly important in spreading modern management practices. The presence of foreign banks may improve services and productivity, but foreign-owned banks may attach a greater risk premium than local banks to lending to the Turkish government or Turkish companies.

Potential

The Economist Intelligence Unit expects the recent positive trend to continue as a result of further privatisation and other crossborder acquisitions. The establishment of an investment support and promotion agency in the near future, coupled with further market liberalisation and other measures to improve the business environment, should also help to attract foreign investment. Accordingly, we anticipate that FDI inflows will average more than 3.5% of GDP a year in 2007-11. However, privatisation in the energy sector, for instance, may prove difficult, and the international climate and the performance of the Turkish economy may not always be as conducive as in the recent past.

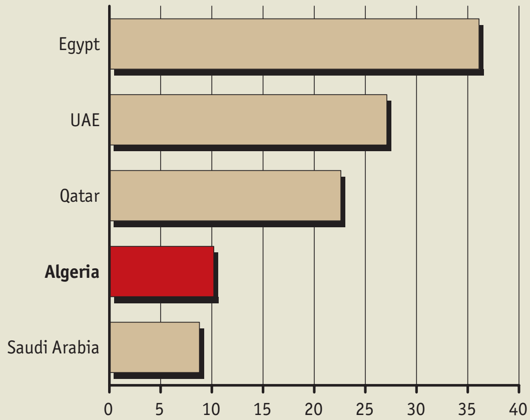
Algeria

Business environment rankings	**Score (out of 10) 2002-06**	**2007-11**	**Rank (out of 82) 2002-06**	**2007-11**
Overall scores and ranks	4.31	5.25	77	73
Political environment	3.9	4.6	72	64
Political stability	4.0	4.8	75	66
Political effectiveness	3.9	4.5	61	58
Macroeconomic environment	8.0	8.3	25	19
Market opportunities	5.9	6.1	44	44
Policy towards private enterprise & competition	3.5	4.0	72	73
Policy towards foreign investment	4.6	6.0	73	65
Foreign trade & exchange controls	4.2	6.4	74	68
Taxes	3.0	4.3	81	81
Financing	2.1	3.6	80	78
Labour market	4.8	4.6	77	81
Infrastructure	3.1	4.5	77	72

Key issues

Algeria's political system continues to limit the country's attractiveness to foreign investors outside of the lucrative hydrocarbons sector. Privatisation of state assets is still patchy, as rival clans in the military-dominated regime often compete for influence by extending patronage in public-sector firms, and hence can be reluctant to see certain firms sold off. The corollary of this is a state-dominated banking sector that is poorly managed, infrastructurally weak and hampered by bad loans to loss-making state firms. Credit for private investment is therefore thin. However, the president, Abdelaziz Bouteflika, continues to strengthen his position vis-à-vis the old military elite (*le pouvoir*), and is likely to press for more liberalisation and economic reform to boost growth. High unemployment, especially among young people, remains the most pressing socioeconomic problem that the government needs to address. In order to stimulate economic growth, the government will continue to solicit foreign investment in sectors such as infrastructure, including telecommunications, roads, power and water. However, the hydrocarbons sector will remain the main engine of GDP growth, and the economy will remain vulnerable to fluctuations in the world oil market.

Inward FDI stock, 2006
(% of GDP)



Market summary	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Population (m)	32.4	32.8	33.4	33.9	34.4	34.9	35.4	35.9
GDP (US$ bn at market exchange rates)	85.0	102.3	111.9	120.0	124.1	131.3	139.9	144.6
GDP (US$ bn at PPP)	178.5	194.0	205.3	220.1	238.6	259.4	281.9	306.5
GDP (% real change)	5.2	5.5	2.8	4.8	5.7	5.9	6.0	6.2
Foreign direct investment inflows (US$ bn)	2.5	3.8	3.2	4.0	4.5	4.8	5.1	5.3
% of GDP	2.9	3.7	2.9	3.3	3.6	3.7	3.6	3.7
% of gross fixed investment	12.2	16.6	12.8	14.1	14.1	13.4	12.8	12.1
Inward foreign direct investment stock (US$ bn)	7.2	8.3	11.5	15.5	20.0	24.8	29.9	35.2
% of GDP	8.5	8.1	10.2	12.9	16.1	18.9	21.4	24.3
Foreign direct investment outflows (US$ bn)	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Outward foreign direct investment stock (US$ bn)	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.7
% of GDP	0.7	0.6	0.7	0.8	0.9	0.9	1.0	1.2

Foreign direct investment in Algeria

Stocks and flows

Algeria's total stock of FDI is estimated to have reached some US$11.5bn (10.2% of GDP) in 2006. Inflows of FDI accelerated in the late 1990s as the civil conflict started to abate and the government opened up the hydrocarbons sector to foreign investment. In recent years inflows have increased further, as the government is proceeding with a large-scale programme to upgrade the country's infrastructure. FDI inflows were around US$3.8bn in 2005 and were estimated at US$3.2bn in 2006. The Economist Intelligence Unit expects FDI inflows to average just under US$5bn a year over the forecast period.

Origin and distribution

No official data are available on the geographical origin or sectoral distribution of FDI inflows. US and European firms have been dominant in the hydrocarbons sector, and the main companies now operating in the sector are BP of the UK, Statoil of Norway, BHP Billiton of Australia and Anadarko of the US. Investors from the Arab world, primarily Egypt and the Gulf, have been prominent in other sectors, notably telecommunications and construction (especially cement). The bulk of FDI inflows relate to upstream oil and gas projects, but have in recent years been supplemented by investment in telecoms, the building materials industry and electricity and water.

Determinants

The main factor drawing FDI into Algeria has been the country's oil and gas resources. It still not clear to what extent the recent changes to the investment regime will affect interest in the sector. Since August 2006 investors in the sector have also faced a windfall profits tax under which foreign company oil profits generated from benchmark dated Brent Blend prices in excess of US$30/barrel will be subject to an additional tax on a sliding scale of 5-50% (natural gas production is not subject to the tax). Moderate economic liberalisation since the late 1990s has opened up new opportunities for foreign investors outside the hydrocarbons sector. Mining has been deregulated and standard exploitation and exploration permits are being offered, and gas distribution is also being liberalised. More recently the government has launched a substantial drive to upgrade Algeria's infrastructure, which will also attract foreign bidders. However, excessive bureaucracy and a lack of transparency and predictability all constrain Algeria's FDI potential.

Impact

As a proportion of total gross fixed investment, FDI inflows have increased sharply since 1996. However, the share of FDI in total investment remains small, at about 13-14% in recent years (although this has risen from just 2.3% in 1996). With extremely low domestic savings and private investment rates, achievement of the government's target to reduce unemployment will depend on Algeria's attracting high levels and a wide range of foreign investment over the medium term. As most inward investment to date has been directed into capital-intensive sectors of the economy, the impact on employment has been limited. This is unlikely to change significantly in the medium term, although a greater level of investment in the housing sector over the next five years should help to generate some jobs. Technology transfer has been more successful, although this is likely to remain confined to the hydrocarbons, telecoms and power sectors.

Potential

Algeria's investment climate is improving, albeit from a low base. The government's desire to expand crude oil and natural gas production, combined with relatively healthy medium-term gas demand from Europe, should ensure that the hydrocarbons sector continues to attract strong inflows of FDI. The mid-2006 amendments to the hydrocarbons law may prompt some foreign oil companies to reappraise Algeria's prospects, however, and escalating engineering and construction costs in the oil and gas sector may result in some projects being abandoned or delayed. The overall attitude of the government towards foreign investment will also be affected by the outcome of the presidential election in 2009. The dominant political forces in Algeria are broadly in favour of market-oriented reforms, but to different degrees. A third victory for the president, Abdelaziz Bouteflika, would bode well for continued liberalisation. Another critical issue will be whether plans to privatise up to three state-owned commercial banks come to fruition.

Egypt

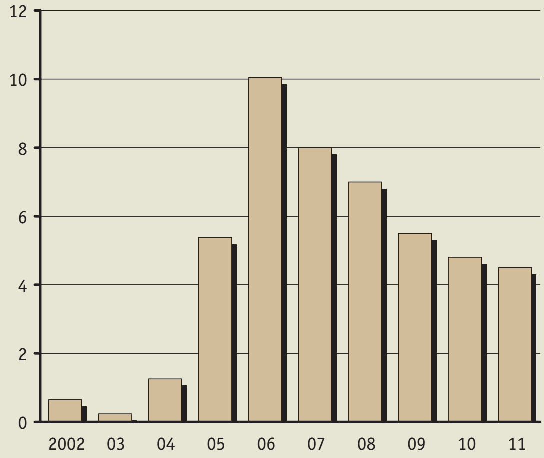
Business environment rankings

	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	5.11	6.23	65	60
Political environment	5.0	5.2	56	59
Political stability	5.1	4.4	59	69
Political effectiveness	4.9	5.8	45	40
Macroeconomic environment	4.1	6.1	82	75
Market opportunities	5.3	6.7	59	28
Policy towards private enterprise & competition	5.0	6.0	51	50
Policy towards foreign investment	6.9	7.3	41	39
Foreign trade & exchange controls	4.6	7.3	71	59
Taxes	5.6	6.9	42	28
Financing	4.8	6.6	59	48
Labour market	5.6	5.3	63	73
Infrastructure	4.4	4.9	60	63

Key issues

The government is pressing ahead with structural reform, spurred by the need to generate jobs for the fast-rising population. Privatisation, the reduction of trade barriers and liberalisation are being carried out as part of plans to stimulate private-sector-led growth, with some success, as real GDP rose by 6.8% in 2006. However, the dismantling of Egypt's centralised, bureaucratic system is proceeding far more erratically and cautiously. In particular, fears that job losses could endanger social stability are limiting the scope of privatisation. Such concerns are being exacerbated by the heightened regional political tension, which has the potential to spill over to the local population. With political liberalisation not matching that in the economy, discontent could lead to unrest, although it is unlikely that this would seriously destabilise the country's long-standing political regime. Economic reform, the resolution of Egypt's exchange-rate difficulties and the consolidation of the banking sector have increased the country's attractiveness to foreign investors, but there remain many problems in the financial sector. Egypt's investment environment is expected to continue to improve over the next five years, but its position in the global business environment rankings rises only moderately.

FDI inflows, 2002-11
(US$ bn)



Market summary

	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	72.6	74.0	75.4	76.8	78.2	79.6	80.9	82.3
GDP (US$ bn at market exchange rates)	78.3	93.2	107.9	126.5	143.1	158.0	174.2	192.0
GDP (US$ bn at PPP)	305.9	329.2	362.1	396.4	436.3	476.1	514.5	556.8
GDP (% real change)	4.1	4.5	6.8	7.0	7.2	6.3	5.3	5.5
Foreign direct investment inflows (US$ bn)	1.3	5.4	10.0	8.0	7.0	5.5	4.8	4.5
% of GDP	1.6	5.8	9.3	6.3	4.9	3.5	2.8	2.3
% of gross fixed investment	9.8	32.2	49.7	29.8	21.0	13.9	10.6	8.7
Inward foreign direct investment stock (US$ bn)	23.5	28.9	38.9	46.9	53.9	59.4	64.2	68.7
% of GDP	30.0	31.0	36.1	37.1	37.7	37.6	36.9	35.8
Foreign direct investment outflows (US$ bn)	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Outward foreign direct investment stock (US$ bn)	0.9	1.0	1.1	1.3	1.5	1.7	2.0	2.2
% of GDP	1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.2

Foreign direct investment in Egypt

Stocks and flows

The stock of FDI in Egypt climbed to US$38.9bn at end-2005, equivalent to 36.1% of GDP. Owing to strong inflows of FDI, the Economist Intelligence Unit estimates that, by the end of 2008, the stock of FDI will have exceeded US$50bn. Data supplied by the Central Bank of Egypt indicate that inflows of FDI (including investment in the petroleum sector and privatisation proceeds) totalled US$6.1bn in fiscal year 2005/06 (July 1st-June 30th), up from US$3.9bn in 2004/05. Available figures for the first half of 2006/07 (July-December 2006) indicate that the total from the previous fiscal year has already been exceeded, with inward FDI totalling US$8.3bn over the six-month period.

Origin and distribution

US companies accounted for US$4.6bn or roughly three-quarters of all inward FDI in fiscal year 2005/06. The petroleum sector is the most important destination for US capital. US-based companies account for 65% of all inward investment in the oil and gas industry. At the end of December 2006, according to Egypt's General Authority for Investment and Free Zones, the stock of non-oil US investment in Egypt totalled US$1.46bn, divided among 496 companies and belonging mostly to the banking, chemicals, engineering, manufacturing and pharmaceutical industries. Investors from the Gulf and from the EU are also increasingly investing in Egypt, mainly, but not exclusively, in the petroleum sector, with BP and BG Group, two British firms, and Royal Dutch Shell, an Anglo-Dutch company, noteworthy investors in oil and gas exploration and production. In 2006/07 Egypt sold off an 80% share of Bank of Alexandria, the first fully government-owned bank to be divested. The acquirer was an Italian financial institution, Sanpaolo, which paid US$1.6bn in October 2006. Italy thus became the largest single source of foreign investment by country in Egypt.

Determinants

The reformist government appointed in July 2004 under the prime minister, Ahmed Nazif, has maintained its commitment to economic liberalisation and privatisation. However, the pace and scope of the reform process has been uneven and, in certain areas, frustratingly slow. A continued commitment to improving the business environment by initiating tax reform, tackling administrative bureaucracy, combating corruption, introducing more efficient business regulations and supporting a range of investment incentives will play a major part in determining the levels of foreign investment. Bilateral trade and foreign diplomacy with non-traditional investors, such as Russia and China, will boost investment, principally in the manufacturing sector. The government will also seek to maximise further the potential of overseas investment by securing a free-trade deal with the US.

Impact

The attempts to attract inward FDI are driven by Egypt's low domestic savings and investment rates. Moreover, the quality of human capital, including managerial and technical skills, is poor, a shortcoming that is overcome by capitalising on foreign business expertise and technology transfer. The government hopes to lift the rate of job-creation and boost domestic private-sector activity through stronger inward investment.

Potential

The government is working hard to attract more investment from overseas. The improved performance of the Egyptian economy, assisted by more coherent and transparent policymaking, is helping to achieve this aim. Although the government will continue to privatise smaller, non-strategic industrial companies, it is the sale of shares in larger state-owned industrial enterprises and utilities, such as Telecom Egypt, that will attract the largest amounts of FDI. The government also hopes to persuade foreign investors to participate in the upgrading of Egypt's transport and communications infrastructure. In particular the government would like to increase roadbuilding, upgrade the railway network, expand the telecoms infrastructure and modernise the ports. The petroleum sector will remain the most lucrative sector, but the expanding tourism industry along the Mediterranean and Red Sea coasts will create new opportunities for manufacturers of hotel equipment, project managers, and building and construction experts to expand the regional infrastructure serving the resort areas. Other sectors likely to be attractive for overseas investment are finance, power generation and transmission, as well as telecoms and information technology (IT).

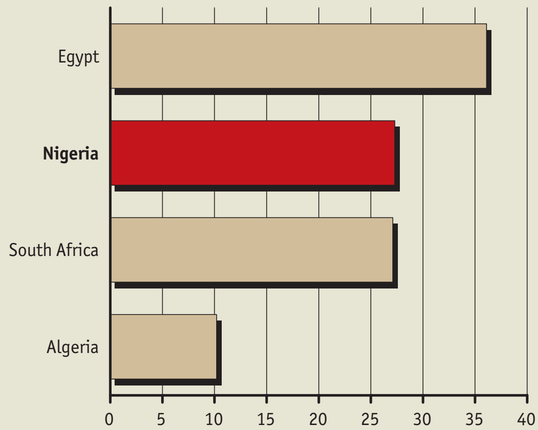
Nigeria

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	4.46	4.88	74	75
Political environment	3.1	3.1	80	78
Political stability	4.0	3.6	75	78
Political effectiveness	2.3	2.6	80	79
Macroeconomic environment	7.2	7.5	45	44
Market opportunities	6.9	6.5	22	35
Policy towards private enterprise & competition	2.8	2.8	77	78
Policy towards foreign investment	5.1	5.5	66	70
Foreign trade & exchange controls	3.3	4.6	78	78
Taxes	5.6	5.2	42	71
Financing	4.0	5.9	65	60
Labour market	5.0	4.8	72	80
Infrastructure	1.8	3.0	82	79

Key issues

A new president and government are now in place following elections in April 2007. This has created some uncertainty for investors unsure as to the path the new administration will take regarding the investment climate. However, early indications are that the new president, Umaru Yar'Adua, will push ahead with a programme of reform broadly similar to that of the previous administration. Priority will be given to improving the country's electricity supply; boosting the agricultural sector; reducing food insecurity; fighting corruption; attempting to reduce the size of the federal government; and initiating reform of land ownership. Of these, arguably the greatest challenge—and the greatest failing of the previous administration—will be to solve the country's power problems. Relatively quick progress on this front would not only make a visible difference to businesses and the everyday lives of individuals but would also give a huge boost to the overall reform effort. Only if Nigeria's business climate improves will the country see substantial investment into non-oil sectors. However, to speed up improvement, new licences for the oil sector include requirements for the bidders to make commitments to build infrastructure as part of their overall bid.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	136.5	139.8	144.0	146.2	149.5	152.2	155.4	158.4
GDP (US$ bn at market exchange rates)	72.1	91.3	115.9	127.4	142.2	150.8	164.2	172.3
GDP (US$ bn at PPP)	148.6	162.5	176.7	190.9	210.2	228.1	247.6	268.1
GDP (% real change)	6.4	6.2	5.6	5.5	7.4	5.7	5.9	5.8
Foreign direct investment inflows (US$ bn)	1.9	2.0	2.5	2.0	2.1	2.1	2.1	2.3
% of GDP	2.6	2.2	2.1	1.6	1.5	1.4	1.3	1.3
% of gross fixed investment	11.7	9.7	8.3	6.2	6.2	5.6	5.0	4.9
Inward foreign direct investment stock (US$ bn)	27.2	29.2	31.7	33.6	35.7	37.9	40.0	42.2
% of GDP	37.7	32.0	27.3	26.4	25.1	25.1	24.3	24.5
Foreign direct investment outflows (US$ bn)	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Outward foreign direct investment stock (US$ bn)	4.8	5.0	5.2	5.4	5.6	5.8	5.9	6.0
% of GDP	6.7	5.5	4.5	4.3	4.0	3.9	3.6	3.5

Foreign direct investment in Nigeria

Stocks and flows

Using data from both the Central Bank of Nigeria (CBN) and the UN Conference on Trade and Development (UNCTAD), the Economist Intelligence Unit estimates that the stock of inward FDI stood at US$31.7bn (27.3% of GDP) at the end of 2006. Annual FDI inflows were broadly steady in the 1990s, at around US$1bn-1.5bn per year, but since 2002 have picked up steadily, to around US$2bn. We expect FDI inflows to remain above US$2bn over the next five to ten years as the country's offshore oil and gas sector continues to attract FDI inflows. However, this is below Nigeria's potential, and the stock of inward FDI as a share of GDP is expected to fall to 24.5% by 2011.

Origin and distribution

There is little information on the geographic origin of foreign investors in Nigeria. Most FDI inflows into Nigeria are reinvested earnings from the oil multinationals. Reinvested earnings have averaged two-thirds of overall FDI inflows in recent years, with the bulk directed towards the energy sector. There has been a modest surge in non-oil sector foreign investment in Nigeria in recent years, after it became clear that the previous regime, of Olusegun Obasanjo, was firmly established and that economic growth was picking up. Although much of the investment was by large multinational companies that were already operating in the country, there have been some new European entrants since the beginning of this decade, and South African companies have also strongly increased their presence in recent years, particularly in the mobile-phone sector. The recent banking consolidation exercise also boosted FDI (and portfolio inflows) into Nigeria as existing foreign banks increased the capitalisation of their subsidiaries to meet the new minimum capital requirements.

Determinants

The main factors attracting investment by oil firms to Nigeria are low production costs and high-quality crude oil, both of which offset economic problems and political instability. Investor interest in Nigeria has surged in recent years on the back of the previous administration's reform programme. Although the majority of investment has still been in the oil and gas sector, there have been new inflows into the aviation, retail, telecommunications, banking and manufacturing sectors. A number of gas projects are moving ahead, stimulated by abundant supplies, growing demand and the government's policy goal of eliminating gas flaring by 2008. Privatisation to date has been a stop-start process. However, the opening-up of the mobile-phone market has been a success. Otherwise, the main rationale for investment by multinationals is to establish a presence in Africa's largest market, which could be highly profitable, despite the difficult operating environment.

Impact

The energy sector, which has received most foreign investment to date, provides more than 80% of government revenue and the vast majority of foreign-exchange earnings. However, it is also a capital-intensive sector, with limited linkages to the rest of the economy and little effect on employment. One area where FDI has had a strong impact is in mobile-phone networks, led by MTN of South Africa. Their success could attract other investors outside the energy sector.

Potential

With the largest population in Sub-Saharan Africa, Nigeria is potentially an important market, although the poor business environment is likely to keep FDI inflows substantially below their potential for years to come. The government will continue to promote Nigeria as a rewarding target for foreign investment, although interest will largely be confined to the oil and gas sector, particularly offshore, in the next few years. Given the country's OPEC quota, which partly constrains oil output, and the government's commitment to reducing gas flaring to zero by 2008, gas-related investments hold particular promise for the energy industry and there are a number of projects currently under way. The failure of public enterprises to provide an adequate level of service, notably in the electricity and water sectors, and the success of the liberalisation of the telephone market make privatisation almost inevitable, which will provide investment opportunities, although this will be a protracted and convoluted process considering the vested interests involved. There is considerable potential in the agricultural sector, which has been in decline for decades, in the production of food for domestic consumption, although export opportunities will be limited in the near term by the overvalued local currency.

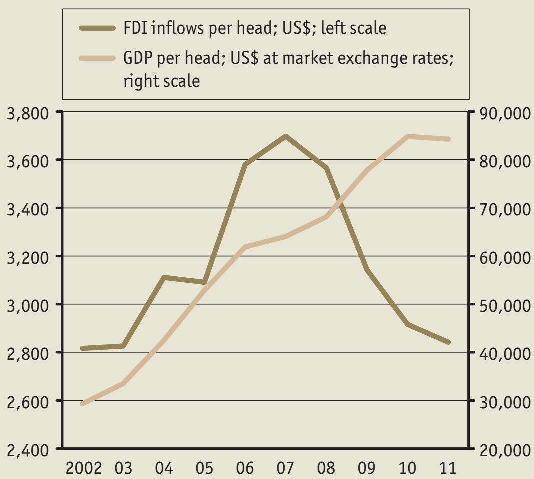
Qatar

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.93	7.60	30	24
Political environment	6.9	7.4	29	24
Political stability	7.0	7.8	37	27
Political effectiveness	6.8	7.1	26	25
Macroeconomic environment	8.6	8.3	11	19
Market opportunities	6.9	7.1	20	16
Policy towards private enterprise & competition	5.5	6.8	45	37
Policy towards foreign investment	7.3	7.8	33	25
Foreign trade & exchange controls	7.8	8.7	32	24
Taxes	7.2	8.4	17	6
Financing	6.6	7.4	31	33
Labour market	6.6	7.3	36	22
Infrastructure	5.9	6.9	39	38

Key issues

Despite being located in a volatile region, Qatar's domestic political scene is largely stable, with the position of the emir, Sheikh Hamad bin Khalifa al-Thani, unlikely to come under threat. Qatar's security is guaranteed by its close ties to the US—which has considerable military assets in the emirate. However, the presence of US forces has raised concerns that Qatar could find itself in the firing line if tensions between the US and Iran over the latter's nuclear programme culminate in a military stand-off. Qatar's generally pro-Western outlook is also unpopular with militant Islamists, and in March 2005 a theatre frequented by Westerners was attacked by a suicide bomber. However, the bombing has so far proved an isolated incident, and the Qatari authorities have since strengthened their internal security structure. The economy will continue to be driven by the country's enormous hydrocarbons reserves, with, in particular, large sums of foreign investment being directed into developing the opportunities provided by the North Field (the largest known non-associated natural gasfield in the world). With both the economy and the population growing rapidly, the government is spending large sums on improving Qatar's infrastructure, and is inviting foreign investors and companies to participate.

FDI inflows and GDP



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	0.7	0.8	0.9	0.9	1.0	1.0	1.1	1.2
GDP (US$ bn at market exchange rates)	31.6	42.1	52.7	58.4	66.1	80.1	92.6	97.0
GDP (US$ bn at PPP)	29.9	32.7	36.1	38.9	42.6	47.3	51.1	54.6
GDP (% real change)	20.8	6.1	7.1	7.8	9.5	11.0	8.0	6.8
Foreign direct investment inflows (US$ bn)	2.2	2.3	2.9	3.2	3.3	3.1	3.0	3.1
% of GDP	7.0	5.5	5.4	5.4	4.9	3.8	3.2	3.2
% of gross fixed investment	25.4	16.2	14.0	12.3	10.9	9.2	8.2	7.7
Inward foreign direct investment stock (US$ bn)	6.8	9.1	11.9	15.1	18.3	21.4	24.4	27.5
% of GDP	21.4	21.5	22.6	25.8	27.7	26.6	26.3	28.3
Foreign direct investment outflows (US$ bn)	0.4	0.5	0.8	1.0	1.0	1.1	1.1	1.2
Outward foreign direct investment stock (US$ bn)	1.3	1.7	2.5	3.6	4.6	5.7	6.8	7.9
% of GDP	4.0	4.1	4.8	6.1	6.9	7.1	7.3	8.2

Foreign direct investment in Qatar

Stocks and flows

FDI inflows into Qatar have strengthened in recent years, as the country has attracted foreign firms to help finance its ambitious US$75bn gas industrialisation programme. No local data for the country's FDI stock are available, but according to the UN Conference on Trade and Development (UNCTAD) it surged from just US$1.9bn in 2000 to over US$6.1bn in 2005. However, this is probably a significant understatement, given that the Office of the US Trade Representative puts the stock of US FDI alone at US$5.4bn in 2005. The Economist Intelligence Unit estimates that the stock of FDI stood at US$11.9bn (22.6% of GDP) in 2006. FDI inflows have been growing strongly in recent years, rising from around US$700m in 2001 to US$2.9bn in 2006 (equivalent to around 5.4% of GDP). The accelerating pace of new projects should see a further pick-up in inflows in the coming years, reaching a peak of around US$3.3bn in 2008.

Origin and distribution

Although no official data are available on the geographical origin of FDI in Qatar, the majority at present is likely to come from the US, as several large US-based energy firms, led by ExxonMobil, have invested heavily in Qatar's liquefied natural gas (LNG) sector. However, the increased variety of gas-based industrial programmes under way in the emirate has driven some diversification of new international firms investing in Qatar. The oil sector will also continue to attract FDI from a range of sources, with the largest programme—a US$5bn project to double production in the Al Shaheen field—being undertaken with Maersk of Denmark. In addition, as the country's diversification strategy progresses, FDI inflows into non-energy sectors should grow. For instance, the state-owned oil firm, Qatar Petroleum, and a Norwegian company, Hydro, have formed a joint venture to set up a large aluminium factory, which is scheduled to come on stream in September 2009.

Determinants

Since 1995 the government has sought primarily to realise the vast potential of the country's enormous gas reserves. This strategy has been extremely successful, and with energy prices set to remain high over the next five years the bulk of foreign investor activity will continue to be centred on Qatar's hydrocarbons sector. However, a new investment law, which was passed in 2000, saw Qatar begin to broaden its economic foundations, leading to a revision of the foreign investment environment in order to allow 100% foreign ownership in the agricultural, tourism and health sectors, among others. Although a "Qatarisation" programme for the employment of nationals is in place in the energy and industrial sectors, it is neither as specific, nor as strictly enforced, as in some other Gulf states.

Impact

FDI has been, and will remain, crucial in enabling the government to realise its ambitious economic goals. In a country as small as Qatar—both geographically and demographically—the authorities are aware that they need considerable foreign expertise and finance to ensure the successful implementation of their ambitious development plans. Until now, however, most of the foreign finance entering the economy has been directed into the LNG sector, with impressive results—in early 2006 Qatar became the world's largest producer of LNG. With the country also seeking to attract investment into the petrochemicals and non-energy-based sectors, the impact of FDI on the economy is set both to grow and to broaden.

Potential

Qatar is likely to remain a prime regional location for FDI inflows, largely because of its welcoming climate for foreign investors (at least relative to some of its neighbours) and, more particularly, its possession of the third-largest non-associated gas reserves in the world. In an acknowledgment of the enormous business opportunities provided by Qatar's vast hydrocarbons reserves, UNCTAD's *World Investment Report 2006* placed the country in tenth place among 141 states in the FDI Potential Index. However, in 2005 the government announced a "pause" in new gas projects, which could last until 2012, in part to reassess the scope of its reserves. Nevertheless, with a spate of LNG, gas-to-liquids (GTL) and petrochemicals projects set to come on stream into the early part of the next decade, there will be considerable opportunities for foreign firms associated with the building and operation of such facilities. In addition, if plans for a new investment law come to fruition, more sectors will be opened to foreign investors, although it remains to be seen whether they will hold the same appeal as the energy sector.

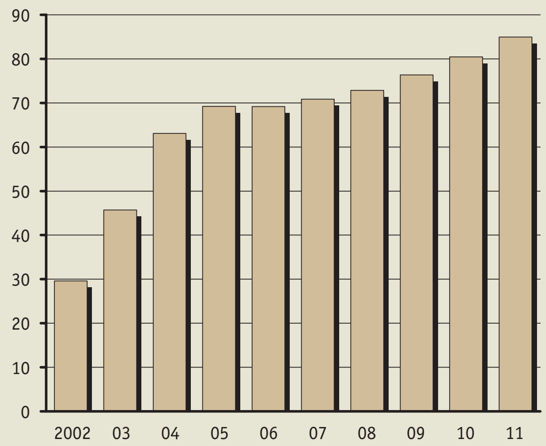
South Africa

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	6.09	6.97	46	41
Political environment	5.0	5.8	56	49
Political stability	5.1	6.6	59	44
Political effectiveness	4.9	5.2	45	46
Macroeconomic environment	7.2	7.8	45	36
Market opportunities	7.1	7.1	17	16
Policy towards private enterprise & competition	5.8	6.5	42	41
Policy towards foreign investment	6.0	6.0	57	65
Foreign trade & exchange controls	6.4	7.8	54	51
Taxes	6.4	7.0	28	26
Financing	6.6	8.1	31	26
Labour market	4.0	5.5	81	68
Infrastructure	6.5	8.2	32	22

Key issues

South Africa maintains a relatively welcoming attitude to FDI and is the main destination for FDI in Sub-Saharan Africa, although the government still views foreign participation in the economy with some caution. South Africa is also a major outward investor, especially in Africa, and particularly in the services sector (which is often neglected by other investors more keen on natural resource exploitation). The single largest outward investment to date was sealed in 2006 with the purchase by a mobile-phone operator, MTN, of Dubai-listed Investcom for US$5.5bn. Inward FDI will be encouraged but will be somewhat restricted by the government's decision to delay the privatisation of state assets. The main source of inflows will be through either the takeover of existing South African companies or greenfield investments in new operations. Official support to foreign investors should be provided by the implementation of specific incentives, including the creation of a "one-stop shop". However, foreign investors across all economic sectors will still have to contend with a high tax burden, a burdensome regulatory environment, a relative dearth of skilled labour, and the requirements of black economic empowerment (BEE).

Inward FDI stock, 2002-11
(US$ bn)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	46.7	47.2	47.4	47.6	47.8	48.0	48.2	48.3
GDP (US$ bn at market exchange rates)	216.8	242.0	255.4	250.6	257.6	263.6	270.9	278.3
GDP (US$ bn at PPP)	509.3	551.5	595.9	638.6	689.6	746.6	810.0	868.7
GDP (% real change)	4.8	5.1	5.0	4.8	5.2	5.4	5.7	4.6
Foreign direct investment inflows (US$ bn)	0.7	6.1	0.0	1.7	2.0	3.5	4.1	4.5
% of GDP	0.3	2.5	0.0	0.7	0.8	1.3	1.5	1.6
% of gross fixed investment	2.0	14.9	0.0	3.5	4.1	6.9	8.1	8.9
Inward foreign direct investment stock (US$ bn)	63.1	69.2	69.2	70.9	72.9	76.4	80.5	85.0
% of GDP	29.1	28.6	27.1	28.3	28.3	29.0	29.7	30.5
Foreign direct investment outflows (US$ bn)	1.3	0.9	6.5	1.3	1.4	1.5	1.7	1.8
Outward foreign direct investment stock (US$ bn)	38.7	36.8	43.3	44.6	45.9	47.4	49.1	50.9
% of GDP	17.8	15.2	17.0	17.8	17.8	18.0	18.1	18.3

Foreign direct investment in South Africa

Stocks and flows

FDI inflows into South Africa averaged US$3bn a year in 2001-05, although annual figures can vary greatly because of the discontinuous nature of FDI. Inflows surged to a record US$6.1bn in 2005, for instance, following the acquisition by Barclays (UK) of 60% of Amalgamated Banks of South Africa (ABSA), which was the biggest single FDI deal to date. Inflows turned slightly negative in 2006, because of disinvestment in the second half of the year. The disinvestment was largely owing to the sale of gold mining interests by Canada's Barrick (in South Deep mine) and Russia's Polyus (in Gold Fields). Nonetheless, FDI inflows are forecast to rise steadily, to US$4.5bn in 2011, boosted in 2007-10 by foreign investor involvement in preparing for the 2010 football World Cup and gradual liberalisation of capital-account controls. From around US$69bn in 2006, the stock of inward FDI is forecast to reach US$85bn (30.5% of GDP) in 2011.

Origin and distribution

Most FDI comes from the UK, which accounted for 74% of the total in 1991-2001, and recent deals with Barclays (2005) and Vodafone (2006) suggest that this pattern has continued. Other significant investors during the period were Germany (6% of the total), the US (6%) and the Netherlands (3%). The financial and other services sector attracted the most investment (39%), followed by mining (28%) and manufacturing (26%). Major investors include Mercedes-Benz and BMW from Germany, and General Motors and Coca-Cola from the US. South Africa has attracted greenfield projects—in sectors such as motor vehicles, pharmaceuticals, food-processing, information technology (IT) and beverages—as well as buyouts of existing firms. The economically powerful Gauteng province has received the bulk of inward FDI, followed by the impoverished Eastern Cape province (mostly mining). KwaZulu-Natal and the Western Cape have benefited to some extent, but the other five provinces have received little FDI. South Africa has preferential access to the EU market through a free-trade agreement, and to the US market under the African Growth and Opportunity Act (AGOA), which came into force in November 2000. The latter has attracted some FDI into textile manufacturing, particularly in the Eastern Cape.

Determinants

FDI inflows have been boosted by the country's status as the most advanced economy in Sub-Saharan Africa, the privatisation programme (although this has now assumed less importance), and the relatively large domestic and regional market (bolstered by the emergence of a black middle class). The 2010 football World Cup is serving as an additional spur. Set against this, however, high rates of crime, an over-regulated labour market, low capital and labour productivity, and uncertainties surrounding the black economic empowerment (BEE) programme have somewhat constrained FDI inflows. Disincentives are likely to recede in the next few years as the government steps up its efforts to make South Africa a more attractive destination for FDI, including making BEE provisions more business-friendly. However, in line with the government's medium-term policy, the big four parastatals—Transnet, Eskom, Denel and South African Airways—will be restructured, not privatised.

Impact

FDI has had a positive impact in South Africa, especially in key sectors such as automobiles, telecommunications, banking and mining, and has played a key role in boosting exports, facilitating growth, and employment. FDI provides capital, allows for technology and skills transfer, and binds South Africa more closely to the global economy.

Potential

Barclays' return to South Africa (after disinvestment during the apartheid era) is a clear vote of confidence in the country's economic prospects, and the outlook for future FDI inflows is fairly promising. However, the government's ability to boost greenfield investment will depend on its success in tackling substantial disincentives for investors such as crime, skills shortages and excessive labour regulations, and calming investor nervousness about BEE and HIV/AIDS. Recent measures to ease employment of expatriate workers and tone down the provisions of BEE charters for multinational firms will help. There is considerable potential in export industries, tourism, minerals, agriculture and IT (including call centres, given an English-speaking, educated workforce in a similar time-zone to the EU). The government is also keen to promote South Africa as a regional financial centre for companies with pan-African operations (with a range of functions from providing banking services to raising capital).

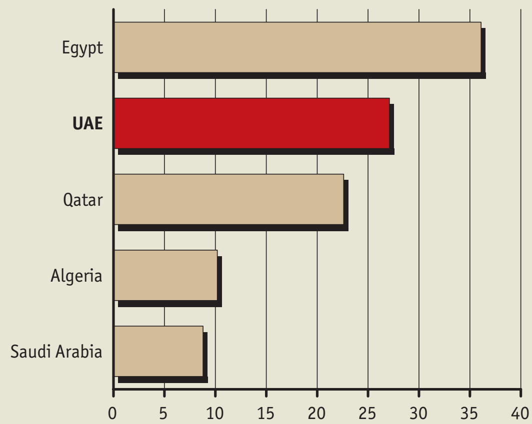
United Arab Emirates

Business environment rankings	Score (out of 10) 2002-06	2007-11	Rank (out of 82) 2002-06	2007-11
Overall scores and ranks	7.27	7.48	24	28
Political environment	6.2	6.7	40	37
Political stability	6.3	6.3	48	49
Political effectiveness	6.1	7.1	31	25
Macroeconomic environment	8.3	7.8	20	36
Market opportunities	8.0	7.7	5	12
Policy towards private enterprise & competition	5.0	6.0	51	50
Policy towards foreign investment	7.8	7.8	24	25
Foreign trade & exchange controls	8.7	9.1	15	14
Taxes	9.1	9.0	2	2
Financing	6.6	7.0	31	43
Labour market	6.8	7.2	27	27
Infrastructure	6.2	6.6	35	41

Key issues

The president of the UAE and ruler of Abu Dhabi, Sheikh Khalifa bin Zayed al-Nahyan, is widely respected and there is unlikely to be any challenge to his authority. The UAE's well-established, relatively liberal social and economic policies, as well as its pro-Western foreign policy stance, are therefore likely to remain in place in the forecast period. As a result of both the ruler's leadership and external pressure from bodies such as the World Trade Organisation (WTO), an ongoing programme of economic liberalisation will continue, although the pace of reform will be gradual. Economic growth will remain strong, bolstered by high oil earnings and sustained expansion in the non-oil economy, especially in the booming real estate sector. The strength of oil revenue will ensure that the public finances also remain robust, and that the trade and current-account balances continue to record large surpluses. Inflation has been rising sharply over the past year, however, which could threaten the UAE's competitiveness vis-à-vis other locations in the Gulf. Furthermore, the government is prioritising "Emiritisation" of the largely expatriate workforce by setting employment quotas for the hire of UAE nationals, which could increase companies' overheads.

Inward FDI stock, 2006
(% of GDP)



Market summary	2004	2005	2006	2007	2008	2009	2010	2011
Population (m)	4.3	4.6	4.9	5.2	5.5	5.8	6.1	6.4
GDP (US$ bn at market exchange rates)	105.2	132.2	163.1	196.4	231.4	264.9	292.5	331.4
GDP (US$ bn at PPP)	79.4	89.8	100.0	111.4	123.5	134.9	146.1	159.4
GDP (% real change)	9.7	8.2	8.9	8.2	8.6	8.2	7.4	7.2
Foreign direct investment inflows (US$ bn)	10.0	12.0	16.0	15.0	12.0	11.8	12.3	13.0
% of GDP	9.5	9.1	9.8	7.6	5.2	4.4	4.2	3.9
% of gross fixed investment	45.2	42.5	45.0	33.2	22.3	19.0	17.4	16.3
Inward foreign direct investment stock (US$ bn)	16.2	28.2	44.2	59.2	71.2	82.9	95.2	108.2
% of GDP	15.4	21.3	27.1	30.1	30.8	31.3	32.5	32.6
Foreign direct investment outflows (US$ bn)	2.2	3.7	4.0	3.8	3.0	3.8	4.0	4.5
Outward foreign direct investment stock (US$ bn)	3.4	10.1	14.1	17.8	20.8	24.6	28.6	33.1
% of GDP	3.3	7.6	8.6	9.1	9.0	9.3	9.8	10.0

Foreign direct investment in the United Arab Emirates

Stocks and flows

The UAE does not publish official FDI figures, but semi-official data suggest that inflows are high and rising. The UN Conference on Trade and Development (UNCTAD) puts FDI inflows into the UAE at US$12bn in 2005—some 60% of total inflows into the Gulf Co-operation Council (GCC) that year. In view of the ongoing real-estate boom in the country, which is drawing investors to Dubai and to Abu Dhabi, the Economist Intelligence Unit estimates that FDI inflows rose to US$16bn in 2006. Based on these figures and trends, we estimate that the stock of FDI stood at US$44bn or 27% of GDP in 2006. With international oil prices forecast to remain above their long-term average over the next five years, and concomitant liquidity in the region therefore expected to remain high, we expect the stock of FDI to exceed US$100bn by 2011 (around 33% of GDP).

Origin and distribution

The lack of official data makes it difficult to analyse the sources of FDI into the UAE, but in mid-2007 the Ministry of Finance and Industry published its *Investment Environment Report 2006*, which stated that in 2006 the EU accounted for 35% of FDI, followed by other GCC countries with 26%, Asia-Pacific (led by Japan) with 19% and the Americas with 2%. Firms from each of these regions have invested in Abu Dhabi's energy industry, and major companies from each of these markets tend to locate their Middle East sales and distribution headquarters in Dubai, the UAE's second city and a key regional entrepôt. GCC countries have been increasingly investing in their own region, particularly since September 11th 2001. Since then, some Arab investors have found that investments in developed markets have come under intense international scrutiny as authorities pursue sources of "terrorist financing". Furthermore, the high levels of regional liquidity mean that Gulf investors are keen to diversify their international asset portfolios.

Determinants

Three sectors have traditionally attracted FDI into the UAE: energy, real estate and trade. The UAE is the only major Middle East oil producer that did not fully nationalise its oil industry in the 1970s. The large multinational oil companies have significant equity stakes in the upstream oil and gas sector, downstream ventures and electricity generation. Since 2004 real estate has attracted massive FDI inflows, particularly from other GCC countries. Trade is the third major area. Dubai is home to the region's leading container port (Jebel Ali) and airport (Dubai International), and offers the region's most liberal lifestyle. This, coupled with dozens of tax-free zones offering 100% foreign ownership, makes it by far the most popular location for the regional sales and distribution hubs for multinational firms. Processing industries and the water and electricity sector accounted for nearly one-third of total FDI in 2006, followed by the wholesale and retail sector with 21.7%.

Impact

FDI inflows have had a significant impact in recent years, particularly in Dubai, where they have helped to fuel an economic boom. International companies have either set up new regional headquarters in the city or expanded existing operations, attracting a large influx of expatriate workers. High levels of oil-related liquidity have funded outward FDI, such as the Dubai government's US$6.8bn acquisition of P&O, a UK-based ports operator, in March 2006. However, private equity firms have become increasingly subject to public scrutiny in the West, and some politicians have voiced their hostility to Arab companies acquiring national assets.

Potential

FDI inflows into the UAE are likely to remain strong, as high oil prices fuel a regional economic boom. This encourages investment from OECD countries keen to tap into the regional economy. High oil prices also generate surpluses in oil-producing neighbours. However, inflation is making the UAE an increasingly expensive place to do business, and its rapid expansion is placing pressure on domestic infrastructure, particularly transport and energy. At the same time, investors are beginning to complain about unfriendly laws: the UAE is imposing employment quotas that force firms to hire UAE nationals at relatively high minimum wages; outside the free zones the maximum foreign ownership stake remains 49%; and foreign firms selling into the UAE must do so through a local partner. In addition, rising construction costs could also hinder the UAE's development plans.

Part 3
Appendices

Appendix 1: World classification

Developed countries	**Emerging markets**			
European Union	**Sub-Saharan Africa**	**North Africa**	**The Pacific**	**Developing Europe**
Austria	Angola	Algeria	Fiji	Cyprus
Belgium	Benin	Egypt	Kiribati	Malta
Denmark	Botswana	Libya	New Caledonia	Turkey
Finland	Burkina Faso	Morocco	Papua New Guinea	
France	Burundi	Sudan	Vanuatu	**Transition economies**
Germany	Cameroon	Tunisia	Samoa	**East-central Europe**
Greece	Cape Verde		Solomon Islands	Czech Republic
Ireland	Central African Republic	**Middle East**[1]	Tonga	Hungary
Italy	Chad	Bahrain		Poland
Luxembourg	Comoros	Iran	**Latin America & the Caribbean**	Slovakia
Netherlands	Congo, Democratic Republic	Iraq	**South America**	Slovenia
Portugal	Congo, Republic	Jordan	Argentina	**Balkans**
Spain	Cote d'Ivoire	Kuwait	Bolivia	Albania
Sweden	Djibouti	Lebanon	Brazil	Bosnia and Hercegovina
UK	Equatorial Guinea	Oman	Chile	Bulgaria
	Ethiopia	Qatar	Colombia	Croatia
Other western Europe	Gabon	Saudi Arabia	Ecuador	Macedonia
Gibraltar	Gambia	Syria	Guyana	Montenegro
Iceland	Ghana	UAE	Paraguay	Romania
Norway	Guinea	Yemen	Peru	Serbia
Switzerland	Guinea-Bissau		Suriname	**Baltics**
	Kenya	**Developing Asia**[2]	Uruguay	Estonia
North America	Lesotho	Bangladesh	Venezuela	Latvia
Canada	Liberia	Brunei		Lithuania
United States	Madagascar	Cambodia	**Other Latin America & Caribbean**	**CIS**
	Malawi	China	Antigua & Barbuda	Russia
Other developed countries	Mali	Hong Kong	Aruba	Ukraine
Australia	Mauritania	India	Bahamas	Belarus
Israel	Mauritius	Indonesia	Barbados	Moldova
Japan	Mozambique	Laos	Belarus	Armenia
New Zealand	Namibia	Macau	Bermuda	Azerbaijan
	Niger	Malaysia	Cayman Islands	Georgia
	Nigeria	Maldives	Costa Rica	Kazakhstan
	Rwanda	Mongolia	Cuba	Kyrgyz Republic
	Senegal	Myanmar	Dominica	Tajikistan
	Seychelles	Nepal	Dominican Republic	Turkmenistan
	Somalia	North Korea	El Salvador	Uzbekistan
	South Africa	Pakistan	Grenada	
	Swaziland	Philippines	Guatemala	
	Tanzania	Singapore	Haiti	
	Togo	South Korea	Honduras	
	Uganda	Sri Lanka	Jamaica	
	Zambia	Taiwan	Mexico	
	Zimbabwe	Thailand	Netherlands Antilles	
		Vietnam	Nicaragua	
			Panama	
			Saint Kitts & Nevis	
			Saint Lucia	
			Saint Vincent & the Grenadines	
			Trinidad & Tobago	
			Virgin Islands	

1. In regional classification, Middle East also includes Israel, classified as a developed economy.
2. In regional classification, Asia and Australasia includes developing Asia, the Pacific and also the developed economies of Australia, Japan and New Zealand.

Appendix 2: Data sources and definitions

Sources
The main sources for the foreign direct investment (FDI) reported in this report are the IMF and central bank statistics. In a few cases, data are obtained from the UN Conference on Trade and Development (UNCTAD) or national sources (usually foreign investment agencies). In recent years there has been a concerted effort in many countries to compile and report FDI statistics in accordance with long-standing IMF and OECD definitions. The inter-country comparability of the data has increased but is still far from perfect.

Definitions
The OECD defines direct investment as a type of crossborder investment made by a resident entity in one economy (the "direct investor") with the objective of establishing a lasting interest in an enterprise resident in an economy other than that of the investor (the "direct investment enterprise"). This implies influence by the investor on the management of an enterprise. A minimum stake of 10% of the ordinary shares of an enterprise is generally regarded as being the minimum threshold for a foreign investment to be classified as direct investment.

FDI inflows and outflows: capital provided by a foreign investor to an FDI enterprise or received from a FDI enterprise by an FDI investor. These consist of three components:

Equity capital comprises equity in branches; shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, other capital); and other capital contributions.

Reinvested earnings reflect earnings on equity accruing to direct investors less distributed earnings.

Other capital (or inter-company debt transactions) consist of borrowing and lending of funds between direct investors and subsidiaries, associates and branches.

FDI flows are calculated on a net basis (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits (with a positive sign in the balance of payments), and net increases in assets or net decreases in liabilities are recorded as debits (with a negative sign in the balance of payments).

All data, unless otherwise indicated, are expressed in US dollars. Data reported in national currencies are converted to US dollars by using period-average exchange rates for flow data and end-period exchange rates for stock.

FDI stocks
FDI stocks are the value of the share of capital and reserves attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. Data on FDI are usually reported at book value (all the stock data cited in this report are at book value), although a few countries also report data at market prices. For many countries FDI stocks are estimated by cumulating FDI flows over a period of time. For some countries up-to-date estimates of FDI stocks are obtained by adding flows to an FDI stock estimate that has been obtained for a particular year from national sources or the IMF data series on assets and liabilities of direct investment.

Mergers and acquisitions and FDI
There is no one-to-one correspondence between FDI flows and crossborder mergers and acquisitions (M&As). M&As may be financed by local or international capital market funds that are not reported as FDI, as recorded in balance-of-payments statistics. Data on M&As refer to amounts recorded at the time of closure of deals, and values are not necessarily paid out in a single year. In addition, FDI—the change in inward and outward direct investment assets and liabilities—is reported on a "net" basis: for example, FDI inflows equal inward investment flows minus repatriated capital. M&A data are on a gross basis, and, furthermore, associated payments can be phased over several years. Finally, M&A statistics usually record the total amount of capital, whereas FDI refers only to transactions involving more than 10% of the equity capital of firms (if less than 10%, the flows are classified as portfolio investments).

Appendix 3: Select market and foreign direct investment data

The global economy to 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth (%)										
World (market exchange rates)	1.9	2.7	4.1	3.5	4.1	3.5	3.5	3.4	3.3	3.2
US	1.6	2.5	3.9	3.2	3.3	1.9	2.4	2.7	2.7	2.7
Japan	0.3	1.5	2.7	1.9	2.2	2.7	2.2	1.8	1.3	1.7
Euro area	0.9	0.8	1.9	1.5	2.7	2.5	2.2	2.2	2.1	2.0
China	9.1	10.0	10.1	10.4	11.1	11.0	10.1	8.4	7.8	7.3
World (PPP exchange rates)	3.0	4.0	5.2	4.8	5.4	5.0	4.8	4.5	4.3	4.2
World trade growth (%)										
Goods	3.7	6.3	10.9	7.5	10.2	7.3	7.9	8.1	8.0	8.1
Consumer price inflation (%; av)										
World	2.5	2.9	2.8	3.1	3.3	3.0	3.1	3.0	2.9	2.8
US	1.6	2.3	2.7	3.4	3.2	2.5	2.7	2.6	2.5	2.5
Japan	-0.9	-0.2	0.0	-0.3	0.2	0.0	0.5	0.8	1.2	1.0
Euro area	2.2	2.0	2.1	2.1	2.0	1.8	1.8	1.8	1.8	1.8
Export price inflation (%)										
Manufactures (US$)	2.3	14.2	9.4	3.6	1.8	4.0	3.6	0.9	0.9	1.4
Commodity prices										
Commodity prices										
Oil (US$/barrel; Brent)	24.97	28.83	38.51	54.72	65.28	69.91	69.00	63.25	55.75	58.25
% change	2.0	15.5	33.6	42.1	19.3	7.1	-1.3	-8.3	-11.9	4.5
Main policy interest rates (%, end-period)										
Federal Reserve	1.25	1.00	2.25	4.25	5.25	4.75	4.75	5.00	5.00	5.00
Bank of Japan	0.00	0.00	0.00	0.00	0.25	0.75	1.25	2.00	2.25	2.50
European Central Bank	2.75	2.00	2.00	2.25	3.50	4.25	4.25	4.00	4.00	4.00

Source: Economist Intelligence Unit.

Select market and foreign direct investment data by country

Population (m)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	288.0	290.9	293.7	296.4	299.4	302.1	304.8	307.6	310.3	313.1
Canada	31.4	31.7	32.0	32.3	32.6	32.9	33.2	33.5	33.8	34.0
Western Europe										
Austria	8.1	8.1	8.2	8.2	8.3	8.3	8.4	8.4	8.4	8.4
Belgium	10.3	10.3	10.3	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Denmark	5.4	5.4	5.4	5.4	5.4	5.4	5.5	5.5	5.5	5.5
Finland	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.3	5.3	5.3
France	59.9	60.2	60.4	60.6	60.9	61.1	61.4	61.6	61.9	62.1
Germany	82.5	82.5	82.5	82.5	82.6	82.6	82.7	82.8	83.0	82.9
Greece	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Ireland	4.0	4.0	4.1	4.2	4.2	4.3	4.3	4.3	4.3	4.4
Italy	57.9	58.0	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.0
Netherlands	16.1	16.2	16.3	16.3	16.4	16.5	16.6	16.6	16.7	16.8
Norway	4.5	4.6	4.6	4.6	4.6	4.7	4.7	4.7	4.7	4.8
Portugal	10.4	10.4	10.4	10.5	10.6	10.6	10.6	10.7	10.7	10.8
Spain	41.0	41.8	42.7	44.1	45.1	45.4	45.8	46.2	46.6	46.9
Sweden	8.9	9.0	9.0	9.0	9.1	9.2	9.2	9.3	9.3	9.4
Switzerland	7.3	7.4	7.4	7.5	7.5	7.6	7.6	7.6	7.7	7.7
Turkey	70.3	71.3	72.3	73.3	74.3	75.2	76.2	77.2	78.1	79.1
UK	59.3	59.6	59.8	60.0	60.3	60.5	60.7	60.9	61.2	61.4
Eastern Europe										
Azerbaijan	8.2	8.3	8.3	8.4	8.5	8.6	8.7	8.8	8.9	9.0
Bulgaria	7.8	7.8	7.7	7.7	7.6	7.6	7.5	7.5	7.4	7.4
Croatia	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Cyprus	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Czech Republic	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.1
Estonia	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Hungary	10.1	10.1	10.0	10.0	10.0	10.0	9.9	9.9	9.9	9.8
Kazakhstan	14.9	15.0	15.1	15.2	15.4	15.5	15.6	15.7	15.8	16.0
Latvia	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Lithuania	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3
Poland	38.2	38.2	38.2	38.2	38.1	38.1	38.1	38.1	38.1	38.0
Romania	21.8	21.7	21.7	21.6	21.6	21.6	21.6	21.6	21.6	21.5
Russia	145.0	144.2	143.5	142.8	142.3	141.9	141.2	140.4	139.2	138.6
Serbia	7.5	7.5	7.5	7.4	7.4	7.4	7.4	7.3	7.3	7.3
Slovakia	5.4	5.4	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.5
Slovenia	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Ukraine	47.8	47.4	47.1	46.7	46.5	46.2	46.0	45.8	45.6	45.4

Population (m)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	19.5	19.7	19.9	20.1	20.3	20.4	20.6	20.8	20.9	21.1
Bangladesh	134.0	136.6	139.2	141.8	144.5	147.2	150.0	152.8	155.6	158.5
China	1,284.5	1,292.3	1,299.9	1,307.6	1,314.5	1,323.1	1,331.1	1,336.7	1,342.5	1,351.0
Hong Kong	6.8	6.8	6.9	6.9	6.9	7.0	7.0	7.1	7.1	7.1
India	1,034.2	1,049.7	1,065.1	1,080.3	1,095.4	1,110.4	1,125.4	1,140.2	1,155.0	1,169.7
Indonesia	231.3	234.9	238.5	242.0	245.5	248.9	252.3	255.6	258.8	262.0
Japan	127.1	127.2	127.3	127.5	127.5	127.5	127.4	127.4	127.3	127.3
Malaysia	24.5	25.1	25.6	26.1	26.6	27.1	27.6	28.1	28.6	29.2
New Zealand	3.9	4.0	4.1	4.1	4.2	4.2	4.3	4.3	4.3	4.4
Pakistan	148.8	151.8	154.8	157.9	159.6	162.5	165.5	168.5	171.5	174.5
Philippines	83.0	84.6	86.2	87.9	89.5	91.1	92.7	94.3	95.9	97.5
Singapore	4.2	4.2	4.2	4.3	4.5	4.5	4.6	4.6	4.7	4.7
South Korea	47.6	47.8	48.1	48.3	48.7	49.0	49.2	49.4	49.6	49.7
Sri Lanka	20.2	20.4	20.6	20.7	20.9	21.1	21.3	21.5	21.7	21.8
Taiwan	22.5	22.5	22.5	22.6	22.7	22.7	22.8	22.8	22.9	23.0
Thailand	63.5	64.0	65.1	65.5	66.0	66.5	67.0	67.5	67.9	68.4
Vietnam	80.6	81.6	82.7	83.8	84.9	85.9	87.0	88.1	89.2	90.3
Latin America										
Argentina	37.5	37.9	38.2	38.6	39.0	39.4	39.7	40.1	40.5	40.9
Brazil	176.4	179.0	181.6	184.2	186.8	189.3	191.9	194.4	196.8	199.5
Chile	15.7	15.9	16.1	16.3	16.4	16.6	16.8	16.9	17.1	17.2
Colombia	43.5	44.2	44.9	45.6	46.3	47.0	47.6	48.3	48.9	49.6
Costa Rica	4.1	4.2	4.3	4.3	4.4	4.5	4.6	4.7	4.7	4.8
Cuba	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Dominican Republic	8.6	8.7	8.9	9.0	9.2	9.3	9.5	9.6	9.8	9.9
Ecuador	12.7	12.8	13.0	13.2	13.4	13.6	13.8	14.0	14.2	14.4
El Salvador	6.5	6.6	6.8	6.9	7.0	7.1	7.2	7.4	7.5	7.6
Mexico	102.5	103.7	105.0	106.2	107.4	108.7	110.0	111.2	112.5	113.8
Peru	26.7	27.1	27.5	27.9	28.4	28.8	29.2	29.7	30.1	30.6
Venezuela	25.0	25.5	26.0	26.5	26.9	27.3	27.8	28.2	28.6	29.0
Africa & Middle East										
Algeria	31.4	31.9	32.4	32.8	33.4	33.9	34.4	34.9	35.4	35.9
Angola	14.6	15.0	15.5	15.9	16.4	16.9	17.3	17.8	18.3	18.8
Bahrain	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Egypt	69.9	71.3	72.6	74.0	75.4	76.8	78.2	79.6	80.9	82.3
Iran	67.6	68.2	68.8	69.5	70.1	70.8	71.4	72.1	72.7	73.4
Israel	6.6	6.7	6.8	6.9	7.1	7.2	7.3	7.5	7.6	7.7
Jordan	5.3	5.4	5.6	5.7	5.9	6.1	6.2	6.4	6.6	6.8
Kenya	32.0	32.7	33.5	34.3	35.1	35.9	36.7	37.4	38.2	38.9
Kuwait	2.4	2.5	2.8	3.0	3.2	3.4	3.5	3.7	3.8	4.0
Libya	5.5	5.6	5.7	5.9	6.0	6.1	6.2	6.3	6.4	6.5
Morocco	30.1	30.6	31.0	31.5	31.9	32.4	32.9	33.4	33.9	34.4
Nigeria	129.9	133.2	136.5	139.8	144.0	146.2	149.5	152.2	155.4	158.4
Qatar	0.7	0.7	0.7	0.8	0.9	0.9	1.0	1.0	1.1	1.2
Saudi Arabia	22.7	23.3	24.0	24.6	25.3	25.9	26.6	27.4	28.1	28.9
South Africa	45.7	46.2	46.7	47.2	47.4	47.6	47.8	48.0	48.2	48.3
Tunisia	9.8	9.9	10.0	10.1	10.2	10.3	10.4	10.5	10.6	10.7
UAE	3.8	4.0	4.3	4.6	4.9	5.2	5.5	5.8	6.1	6.4

Nominal GDP (US$ bn at market exchange rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	10,469.6	10,971.3	11,734.3	12,487.2	13,272.1	14,019.5	14,909.4	15,812.8	16,739.2	16,739.2
Canada	734.6	866.1	992.1	1,131.8	1,268.8	1,351.0	1,341.7	1,349.4	1,399.9	1,465.8
Western Europe										
Austria	208.7	255.8	293.2	305.3	321.9	366.8	386.5	379.3	380.5	390.4
Belgium	252.8	310.5	359.3	372.6	394.5	442.4	461.5	446.3	437.2	439.9
Denmark	173.9	212.6	243.6	258.8	275.4	315.4	336.3	334.5	337.9	347.7
Finland	136.0	165.0	189.4	195.8	210.8	231.7	240.8	234.5	231.9	237.3
France	1,464.5	1,804.6	2,061.2	2,137.4	2,252.0	2,540.1	2,693.6	2,667.5	2,699.5	2,780.8
Germany	2,025.1	2,444.3	2,744.2	2,791.7	2,899.5	3,235.4	3,398.4	3,296.9	3,244.4	3,294.6
Greece	171.0	222.3	264.5	284.2	308.7	344.4	371.9	379.1	392.5	409.0
Ireland	122.8	157.1	183.5	200.8	220.7	258.9	275.9	276.7	284.1	297.6
Italy	1,223.8	1,511.0	1,726.8	1,773.2	1,854.3	2,109.7	2,222.2	2,182.8	2,192.3	2,239.0
Netherlands	439.6	539.3	609.0	629.9	662.9	762.3	814.8	812.5	827.7	854.9
Norway	191.9	225.1	258.6	301.6	335.5	378.3	411.6	392.3	394.1	401.9
Portugal	128.0	156.7	179.3	185.5	194.9	218.3	231.3	229.3	233.1	240.5
Spain	689.0	884.9	1,044.5	1,128.0	1,225.8	1,430.1	1,529.4	1,521.4	1,551.0	1,608.1
Sweden	243.9	304.4	349.1	357.3	384.1	437.0	470.5	475.4	482.9	492.5
Switzerland	276.2	322.7	359.7	365.8	378.4	406.9	427.7	423.4	430.6	440.6
Turkey	184.2	239.7	302.0	362.6	403.5	471.9	489.6	547.3	601.8	666.8
UK	1,582.4	1,825.8	2,168.3	2,243.6	2,391.3	2,731.3	2,801.0	2,837.0	2,910.4	2,957.9
Eastern Europe										
Azerbaijan	6.2	7.3	8.7	13.2	19.9	28.7	38.0	46.8	55.5	64.4
Bulgaria	15.6	20.0	24.3	26.7	31.5	37.8	41.5	42.8	44.4	46.0
Croatia	22.7	29.4	31.4	33.7	36.3	42.2	51.7	53.7	56.4	56.4
Cyprus	10.5	13.3	15.8	16.9	18.2	20.5	21.8	21.6	22.0	22.7
Czech Republic	75.3	91.4	109.6	125.0	142.5	163.4	180.0	187.1	192.6	199.7
Estonia	7.3	9.6	11.6	13.8	16.4	20.5	23.0	24.2	25.6	27.4
Hungary	66.6	84.4	102.2	111.6	112.9	129.9	139.1	141.5	149.0	158.8
Kazakhstan	24.6	30.8	43.2	57.1	77.2	95.4	119.4	149.7	185.2	225.3
Latvia	9.3	11.2	13.8	16.0	20.1	25.7	29.7	31.1	33.0	35.3
Lithuania	14.2	18.6	22.5	25.7	29.8	36.2	41.0	42.7	45.1	48.3
Poland	198.2	216.8	252.9	303.9	340.8	408.9	446.3	459.7	478.7	508.2
Romania	45.8	59.5	75.5	97.1	121.9	161.5	188.4	202.8	220.4	242.5
Russia	345.1	431.5	591.7	764.4	984.6	1,183.3	1,361.4	1,523.6	1,697.9	1,888.7
Serbia	15.9	20.4	24.4	26.0	31.2	38.7	42.0	43.4	45.4	48.4
Slovakia	24.5	33.0	42.0	47.4	55.3	72.5	79.8	81.8	85.3	91.4
Slovenia	22.3	28.1	32.6	34.4	37.4	44.2	48.9	49.9	51.9	55.1
Ukraine	42.4	50.1	64.9	82.9	105.5	136.2	147.8	166.5	195.1	223.9

Nominal GDP (US$ bn at market exchange rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	412.5	524.9	638.4	712.4	755.4	857.3	832.0	808.5	807.5	827.6
Bangladesh	47.6	51.9	56.5	60.0	62.0	68.0	73.9	79.7	85.9	90.5
China	1,454.0	1,647.9	1,936.5	2,278.3	2,720.2	3,250.2	3,832.6	4,481.9	5,232.0	6,080.6
Hong Kong	163.7	158.5	165.8	177.8	189.8	203.5	220.9	237.4	256.2	274.9
India	507.8	596.1	692.7	805.6	922.9	1,131.9	1,329.1	1,512.4	1,719.4	1,955.2
Indonesia	200.1	234.8	254.3	287.0	364.5	423.8	477.0	520.1	577.3	640.2
Japan	3,919.4	4,231.5	4,607.1	4,549.3	4,365.2	4,381.5	4,954.4	5,745.0	6,002.3	6,218.3
Malaysia	95.3	104.0	118.5	130.8	148.9	177.8	196.5	215.9	233.8	255.2
New Zealand	59.8	79.2	97.5	108.4	103.8	121.1	118.0	118.0	115.9	116.2
Pakistan	72.3	83.3	98.0	111.3	128.8	142.6	155.6	170.5	184.4	201.3
Philippines	76.8	79.6	86.9	98.7	117.6	139.9	151.7	163.0	178.4	193.5
Singapore	88.1	92.3	107.4	116.7	132.2	146.7	156.6	167.0	179.9	192.8
South Korea	546.9	608.1	680.5	791.4	888.0	964.9	1,078.2	1,200.9	1,316.0	1,445.8
Sri Lanka	16.5	18.2	20.1	23.5	27.0	30.8	34.5	37.6	40.7	43.9
Taiwan	294.8	299.8	322.2	346.4	355.7	367.0	396.1	422.8	449.5	484.2
Thailand	126.9	142.6	161.3	176.2	206.3	239.5	253.6	264.6	279.0	296.8
Vietnam	35.1	39.6	45.3	52.8	61.6	70.0	81.2	93.7	108.1	123.9
Latin America										
Argentina	102.0	129.6	153.1	183.2	214.3	245.6	278.2	310.7	343.3	372.4
Brazil	505.9	552.2	663.6	882.0	1,067.4	1,267.1	1,394.7	1,422.7	1,454.2	1,483.5
Chile	67.5	74.0	95.8	118.9	145.8	158.1	170.3	174.5	175.7	184.4
Colombia	81.2	79.4	98.1	122.9	136.0	167.5	171.4	165.3	165.9	174.1
Costa Rica	16.8	17.5	18.6	20.0	22.1	24.5	26.3	28.0	29.5	31.2
Cuba	28.4	29.9	32.0	35.8	40.3	44.2	47.9	52.0	55.8	59.8
Dominican Republic	25.0	19.5	21.7	34.7	36.5	38.1	40.9	44.4	48.1	48.1
Ecuador	24.9	28.6	32.6	36.5	40.9	41.3	42.5	44.6	47.4	50.0
El Salvador	14.3	15.0	15.8	17.0	18.3	19.7	21.1	22.6	23.9	25.3
Mexico	649.1	639.1	683.5	767.7	840.0	876.4	905.3	952.4	1,000.8	1,054.4
Peru	57.1	61.5	69.7	79.4	93.4	104.1	110.4	115.6	121.2	128.0
Venezuela	92.9	83.5	112.5	144.8	181.9	212.8	209.0	207.2	211.3	214.2
Africa & Middle East										
Algeria	57.0	68.1	85.0	102.3	111.9	120.0	124.1	131.3	139.9	144.6
Angola	10.8	13.8	13.7	20.2	28.8	40.0	50.4	64.4	76.6	94.2
Bahrain	8.4	9.6	11.0	13.4	15.4	16.9	18.0	18.3	18.9	19.8
Egypt	84.2	71.5	78.3	93.2	107.9	126.5	143.1	158.0	174.2	192.0
Iran	116.4	134.0	161.3	188.5	203.8	239.8	277.9	308.7	340.9	376.9
Israel	109.3	115.2	122.5	129.8	140.4	154.5	170.1	180.1	190.7	204.6
Jordan	9.6	10.2	11.4	12.7	14.3	15.9	17.4	18.9	20.2	21.7
Kenya	13.0	15.0	16.2	18.7	23.3	27.5	28.5	30.7	32.2	34.1
Kuwait	38.1	47.8	59.3	80.8	95.3	100.8	106.3	110.8	118.1	123.6
Libya	19.2	23.3	28.0	37.3	45.3	47.4	45.8	45.7	49.9	53.7
Morocco	38.3	46.5	53.4	55.6	63.3	70.2	73.0	76.0	78.3	83.0
Nigeria	46.7	58.3	72.1	91.3	115.9	127.4	142.2	150.8	164.2	172.3
Qatar	19.7	23.7	31.6	42.1	52.7	58.4	66.1	80.1	92.6	97.0
Saudi Arabia	188.6	214.6	250.3	309.2	347.4	369.0	395.2	419.6	445.1	472.8
South Africa	111.1	166.8	216.8	242.0	255.4	250.6	257.6	263.6	270.9	278.3
Tunisia	22.5	25.0	28.2	28.7	29.8	32.7	34.1	34.9	35.9	37.5
UAE	74.3	87.6	105.2	132.2	163.1	196.4	231.4	264.9	292.5	331.4

Nominal GDP (US$ bn at PPP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	10,469.6	10,960.8	11,712.5	12,455.8	13,246.6	13,832.8	14,574.8	15,373.7	16,204.4	17,067.0
Canada	938.1	975.4	1,036.8	1,098.9	1,170.2	1,229.8	1,281.0	1,353.0	1,426.1	1,499.1
Western Europe										
Austria	242.2	249.2	264.4	276.4	281.7	297.2	312.8	328.7	344.9	361.1
Belgium	302.9	312.1	328.0	342.0	354.8	365.4	375.1	393.1	410.6	428.1
Denmark	162.9	165.4	173.8	184.7	195.5	206.5	216.4	226.7	237.6	248.7
Finland	148.9	149.9	158.4	164.4	179.6	182.2	186.3	195.7	205.3	214.9
France	1,722.0	1,765.3	1,813.8	1,902.2	1,995.0	2,074.6	2,162.4	2,267.2	2,373.8	2,488.1
Germany	2,234.8	2,277.7	2,368.2	2,454.5	2,469.6	2,519.8	2,604.0	2,734.4	2,858.6	2,980.7
Greece	258.6	275.6	296.9	317.3	340.7	361.5	383.1	405.3	427.9	450.8
Ireland	129.7	136.2	146.5	160.8	172.4	186.1	195.0	207.1	219.9	233.0
Italy	1,569.9	1,583.2	1,632.1	1,674.6	1,755.9	1,843.8	1,909.0	1,990.8	2,077.5	2,164.0
Netherlands	505.3	516.7	546.4	573.0	608.9	647.0	679.8	713.7	747.8	782.3
Norway	167.6	171.8	189.8	203.6	218.4	228.0	236.0	247.8	260.5	273.4
Portugal	205.8	195.2	203.4	212.1	235.9	247.5	257.8	270.6	284.3	298.2
Spain	981.4	1,044.8	1,108.3	1,183.6	1,267.8	1,365.5	1,436.7	1,509.2	1,586.3	1,664.9
Sweden	253.2	266.0	279.5	290.0	308.9	321.7	340.2	358.3	376.1	394.6
Switzerland	238.6	246.9	259.0	267.3	282.9	291.0	304.5	318.9	333.7	348.7
Turkey	464.2	499.8	556.1	615.2	671.8	728.7	786.8	850.3	916.2	986.8
UK	1,730.8	1,792.1	1,913.2	1,993.5	2,102.9	2,207.3	2,317.4	2,438.2	2,558.3	2,687.0
Eastern Europe										
Azerbaijan	29.4	33.4	37.8	49.2	68.2	83.6	98.4	111.1	122.6	131.7
Bulgaria	55.7	59.5	64.6	70.7	77.2	83.6	90.6	97.8	105.0	111.8
Croatia	45.0	48.4	51.9	55.7	60.1	64.4	69.4	74.5	79.6	86.1
Cyprus	13.6	14.2	15.2	16.2	17.3	18.4	19.5	20.8	22.1	23.5
Czech Republic	154.3	163.2	174.9	191.9	210.2	226.3	241.4	258.9	276.0	292.4
Estonia	16.4	17.9	19.9	22.6	26.0	29.1	31.5	34.0	36.8	41.1
Hungary	138.2	145.9	157.9	169.5	181.2	190.4	201.4	214.6	228.7	242.9
Kazakhstan	89.3	99.6	112.1	126.7	144.2	161.8	180.0	203.1	229.4	257.4
Latvia	21.4	23.5	26.2	29.9	34.4	38.5	42.7	46.7	50.9	55.9
Lithuania	36.0	40.5	44.7	49.6	54.9	60.1	65.6	71.4	77.5	85.6
Poland	403.9	428.1	463.6	494.8	540.4	587.5	633.6	678.1	725.0	773.2
Romania	147.1	158.0	176.2	189.0	209.5	228.0	246.8	265.4	283.9	300.3
Russia	1,193.4	1,307.1	1,440.5	1,579.0	1,734.2	1,891.5	2,055.1	2,214.7	2,374.6	2,534.0
Serbia	37.3	39.1	43.6	47.7	51.9	56.1	60.5	65.3	70.4	75.8
Slovakia	68.7	73.1	79.2	86.5	96.4	106.5	115.9	125.8	136.6	147.8
Slovenia	38.0	39.8	42.7	45.8	49.6	53.1	56.8	60.6	64.5	68.5
Ukraine	237.4	265.8	306.4	323.7	358.0	390.9	423.8	461.0	503.2	549.7

Nominal GDP (US$ bn at PPP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	567.9	601.4	638.6	676.8	721.2	763.5	802.0	847.2	894.4	940.8
Bangladesh	205.3	220.7	241.2	263.3	289.3	313.9	341.5	371.9	404.6	439.2
China	6,089.0	6,783.1	7,642.3	8,692.3	9,903.8	11,192.9	12,587.2	13,993.8	15,453.8	16,970.8
Hong Kong	184.0	190.3	212.1	235.0	258.6	279.5	302.0	326.8	352.3	379.7
India	2,787.5	3,082.2	3,389.7	3,814.6	4,293.8	4,765.5	5,283.6	5,834.0	6,438.1	7,096.5
Indonesia	677.8	731.2	785.2	854.8	928.1	1,009.2	1,096.9	1,184.9	1,286.0	1,389.7
Japan	3,420.8	3,532.6	3,727.5	3,893.6	3,963.4	4,162.9	4,365.3	4,556.7	4,728.9	4,922.8
Malaysia	220.1	233.2	255.8	276.7	301.7	326.9	354.6	384.8	416.6	450.1
New Zealand	88.2	93.2	99.5	104.4	106.6	112.3	116.7	123.5	130.3	136.9
Pakistan	292.8	311.2	338.4	376.5	411.5	449.7	489.1	533.0	578.8	627.8
Philippines	329.6	346.3	376.6	406.9	441.6	478.7	519.0	562.3	609.0	658.6
Singapore	115.5	121.7	136.2	149.6	166.1	178.3	190.9	205.3	219.7	234.9
South Korea	878.6	924.3	993.8	1,061.4	1,117.5	1,163.2	1,223.2	1,307.3	1,391.4	1,478.2
Sri Lanka	59.5	64.4	69.9	76.3	84.4	92.0	100.2	109.0	118.7	129.3
Taiwan	535.5	565.7	617.1	661.4	712.3	760.8	815.8	870.6	927.5	987.3
Thailand	432.4	472.5	515.3	554.7	599.6	639.1	688.4	737.0	790.2	846.0
Vietnam	187.9	204.8	225.5	251.9	280.5	310.9	345.1	382.0	421.5	465.4
Latin America										
Argentina	418.4	457.9	510.3	574.0	640.7	705.4	762.3	812.5	863.2	913.8
Brazil	1,377.0	1,405.0	1,507.1	1,598.2	1,705.7	1,809.3	1,925.9	2,048.6	2,180.8	2,317.7
Chile	154.6	164.5	175.3	190.9	204.3	221.2	238.5	257.1	276.1	296.5
Colombia	285.2	305.1	325.9	351.6	386.5	415.6	445.5	473.4	502.0	531.4
Costa Rica	32.5	35.3	37.8	41.3	45.8	49.2	53.1	57.0	61.2	66.3
Cuba	77.7	81.6	87.3	96.9	105.5	114.4	123.7	133.9	144.3	144.3
Dominican Republic	58.8	60.4	62.9	70.9	80.9	88.9	96.9	104.1	111.9	121.3
Ecuador	45.2	47.3	51.7	55.8	59.7	63.0	66.4	69.8	74.0	78.2
El Salvador	21.6	22.4	23.4	24.8	26.6	28.1	30.0	31.8	33.8	36.2
Mexico	922.2	952.6	1,017.5	1,077.7	1,162.3	1,225.6	1,302.3	1,383.8	1,469.1	1,557.7
Peru	133.8	143.3	156.5	171.6	190.9	209.0	226.4	244.4	264.0	284.5
Venezuela	138.1	129.7	157.9	179.5	203.8	219.3	231.1	244.6	257.8	271.2
Africa & Middle East										
Algeria	151.3	165.0	178.5	194.0	205.3	220.1	238.6	259.4	281.9	306.5
Angola	31.8	37.0	39.6	45.7	55.6	65.8	74.9	85.5	94.0	107.3
Bahrain	13.6	14.9	16.3	18.1	20.0	21.8	23.9	26.0	28.1	30.5
Egypt	271.4	285.6	305.9	329.2	362.1	396.4	436.3	476.1	514.5	556.8
Iran	538.6	589.2	636.8	684.6	735.0	783.9	836.7	891.1	947.0	1,004.5
Israel	150.2	154.9	165.7	180.3	195.0	210.6	226.1	242.4	258.8	274.8
Jordan	22.3	23.7	26.2	29.1	31.9	34.6	37.7	40.7	43.7	47.5
Kenya	39.4	41.4	44.6	48.7	52.9	57.5	62.6	67.8	73.2	79.6
Kuwait	60.6	72.2	82.0	92.9	108.0	115.4	125.9	135.0	144.4	159.4
Libya	67.1	71.1	73.1	80.0	86.6	94.2	102.4	111.2	121.0	133.2
Morocco	120.0	129.3	138.6	145.2	163.4	173.5	188.3	204.4	220.4	240.9
Nigeria	117.6	133.5	148.6	162.5	176.7	190.9	210.2	228.1	247.6	268.1
Qatar	22.8	24.1	29.9	32.7	36.1	38.9	42.6	47.3	51.1	54.6
Saudi Arabia	243.1	267.3	289.4	317.6	340.7	362.1	389.9	418.6	448.4	478.6
South Africa	464.1	488.5	509.3	551.5	595.9	638.6	689.6	746.6	810.0	868.7
Tunisia	63.8	68.8	74.9	80.2	86.9	93.8	102.6	111.9	121.3	132.8
UAE	65.9	69.0	79.4	89.8	100.0	111.4	123.5	134.9	146.1	159.4

Real GDP (% change, year on year)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	1.6	2.5	3.9	3.2	3.3	1.9	2.4	2.7	2.7	2.7
Canada	2.9	1.9	3.1	3.1	2.8	2.2	2.7	2.9	2.7	2.5
Western Europe										
Austria	0.9	1.1	2.4	2.0	3.2	3.1	2.6	2.4	2.4	2.3
Belgium	1.4	1.0	2.8	1.4	3.0	2.3	2.1	2.1	1.9	1.9
Denmark	0.5	0.4	2.1	3.1	3.2	2.2	1.8	2.0	2.1	2.1
Finland	1.6	1.9	3.5	3.0	5.5	2.7	2.5	2.3	2.4	2.3
France	1.1	1.1	2.3	1.7	2.2	2.0	2.3	2.1	2.0	2.2
Germany	0.0	-0.2	1.3	0.9	2.8	2.8	2.5	2.3	2.0	1.9
Greece	3.9	4.9	4.7	3.7	4.3	3.7	3.2	3.0	2.9	2.7
Ireland	6.0	4.3	4.3	5.5	6.0	5.0	3.4	3.4	3.6	3.6
Italy	0.3	0.1	1.0	0.2	1.9	1.9	1.6	1.6	1.7	1.6
Netherlands	0.1	0.3	2.0	1.5	2.9	2.4	2.3	2.3	2.1	2.0
Norway	1.5	1.0	3.9	2.7	2.8	2.7	2.5	2.3	2.6	2.5
Portugal	0.8	-0.7	1.3	0.5	1.3	1.8	2.1	2.2	2.3	2.3
Spain	2.7	3.0	3.2	3.5	3.9	3.4	2.2	2.3	2.5	2.5
Sweden	2.0	1.8	3.7	2.9	4.5	3.7	3.5	2.6	2.3	2.3
Switzerland	0.3	-0.2	2.3	1.9	2.7	2.4	1.9	2.0	2.0	1.9
Turkey	7.9	5.8	8.9	7.4	6.1	6.0	5.2	5.3	5.0	5.0
UK	2.1	2.8	3.3	1.8	2.8	2.6	2.3	2.5	2.2	2.4
Eastern Europe										
Azerbaijan	10.6	11.2	10.2	26.4	33.0	17.5	9.5	5.2	5.0	6.0
Bulgaria	4.5	5.0	6.6	6.2	6.1	5.8	5.7	5.1	4.7	4.1
Croatia	5.6	5.3	4.3	4.3	4.8	4.7	4.4	4.2	4.0	4.1
Cyprus	2.0	1.8	4.2	3.9	3.8	3.6	3.4	3.8	3.7	3.7
Czech Republic	1.9	3.6	4.6	6.5	6.4	5.2	4.0	4.5	4.0	3.5
Estonia	8.0	7.1	8.1	10.5	11.4	9.4	5.8	5.5	5.4	5.3
Hungary	4.4	4.2	4.8	4.2	3.9	2.7	3.0	3.7	3.8	3.5
Kazakhstan	9.8	9.3	9.4	9.7	10.6	9.6	8.4	9.9	10.1	9.4
Latvia	6.5	7.2	8.7	10.6	11.9	9.6	7.5	6.2	6.0	5.8
Lithuania	6.9	10.3	7.3	7.6	7.5	7.5	6.7	6.0	5.9	5.8
Poland	1.4	3.9	5.3	3.6	6.1	6.3	5.1	4.2	4.2	4.0
Romania	5.1	5.2	8.4	4.1	7.7	6.4	5.5	4.7	4.3	3.4
Russia	4.7	7.3	7.2	6.4	6.7	6.5	5.9	4.8	4.5	4.3
Serbia	4.2	2.5	8.4	6.2	5.7	6.5	6.0	5.5	5.0	4.7
Slovakia	4.1	4.2	5.4	6.0	8.3	8.0	6.0	5.7	5.8	5.5
Slovenia	3.5	2.7	4.4	4.0	5.2	4.6	4.1	3.8	3.7	3.9
Ukraine	5.2	9.5	12.1	2.6	7.4	6.8	5.6	5.9	6.4	6.5

Real GDP (% change, year on year)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	4.1	3.1	3.7	2.8	2.7	3.5	3.0	2.9	2.8	2.6
Bangladesh	4.4	5.3	6.3	6.0	6.7	6.1	6.0	6.1	6.0	5.9
China	9.1	10.0	10.1	10.4	10.7	9.9	9.3	9.0	8.4	9.4
Hong Kong	1.8	3.2	8.6	7.5	6.9	5.6	5.3	5.4	5.2	5.3
India	3.7	8.4	8.3	9.2	9.4	8.5	8.0	7.5	7.5	7.5
Indonesia	4.4	4.7	5.1	5.7	5.5	6.3	6.0	5.2	5.9	5.6
Japan	0.3	1.5	2.7	1.9	2.2	2.7	2.2	1.7	1.2	1.7
Malaysia	5.4	5.8	6.8	5.0	5.9	5.9	5.8	5.7	5.6	5.6
New Zealand	4.5	4.2	4.0	2.5	1.7	2.8	3.1	3.1	2.9	2.7
Pakistan	4.2	4.9	7.4	8.0	6.2	6.8	5.9	6.1	5.8	5.8
Philippines	4.4	4.9	6.4	4.9	5.4	6.0	5.6	5.5	5.5	5.4
Singapore	4.2	3.1	8.8	6.6	7.9	5.0	4.4	4.7	4.4	4.5
South Korea	7.0	3.1	4.7	4.2	5.0	4.3	4.8	4.1	3.8	3.8
Sri Lanka	4.0	6.0	5.4	6.0	7.4	6.6	6.1	6.0	6.1	6.2
Taiwan	4.2	3.4	6.1	4.0	4.6	4.4	4.5	3.9	3.9	4.0
Thailand	5.3	7.1	6.3	4.5	5.0	4.2	4.9	4.3	4.5	4.4
Vietnam	7.1	7.3	7.8	8.4	8.2	8.4	8.1	7.8	7.5	7.7
Latin America										
Argentina	-10.9	8.8	9.0	9.2	8.5	7.6	5.4	3.8	3.7	3.4
Brazil	2.7	1.2	5.7	2.9	3.7	4.3	3.8	3.7	3.8	3.7
Chile	2.2	4.0	6.0	5.7	4.0	5.8	5.1	5.0	4.8	4.9
Colombia	1.9	3.9	4.9	4.7	6.8	5.1	4.5	3.5	3.5	3.4
Costa Rica	2.9	6.4	4.3	5.9	7.9	5.0	4.3	4.3	4.4	4.4
Cuba	1.5	2.9	4.2	8.5	9.5	7.1	5.7	5.6	4.6	4.6
Dominican Republic	4.3	0.5	1.2	9.5	10.7	7.5	5.5	4.4	4.5	4.4
Ecuador	4.2	3.6	7.9	4.7	4.1	3.1	2.7	2.3	3.3	3.0
El Salvador	2.5	1.7	1.5	2.8	4.2	3.4	3.3	3.1	3.2	3.3
Mexico	0.8	1.4	4.2	2.8	4.8	3.1	3.5	3.5	3.4	3.4
Peru	5.2	3.9	5.2	6.4	8.0	7.1	5.5	5.1	5.2	5.1
Venezuela	-8.9	-7.8	18.3	10.3	10.3	5.2	2.8	3.1	2.9	2.8
Africa & Middle East										
Algeria	4.1	6.8	5.2	5.5	2.8	4.8	5.7	5.9	6.0	6.2
Angola	14.3	4.7	12.2	18.2	15.0	15.9	10.2	10.8	6.9	9.9
Bahrain	5.3	6.8	6.4	7.8	7.4	6.6	6.0	5.8	5.0	4.7
Egypt	3.0	3.2	4.1	4.5	6.8	7.0	7.2	6.3	5.3	5.5
Iran	7.5	7.1	5.1	4.4	4.3	4.3	4.0	3.7	3.5	3.4
Israel	-0.9	1.5	4.8	5.6	5.1	5.6	4.6	4.4	4.0	3.5
Jordan	5.7	4.1	7.7	7.7	6.4	5.9	5.5	4.9	4.4	4.7
Kenya	0.6	3.0	4.9	5.8	5.7	6.1	5.4	5.2	5.0	4.7
Kuwait	3.0	16.5	10.5	10.0	12.9	4.4	5.7	4.2	4.0	6.3
Libya	1.1	7.1	5.4	5.6	5.8	5.4	5.2	5.5	5.8	6.0
Morocco	3.2	5.5	4.2	1.7	9.3	3.8	5.1	5.4	4.8	5.3
Nigeria	3.8	10.4	6.4	6.2	5.6	5.5	7.4	5.7	5.9	5.8
Qatar	7.1	3.5	20.8	6.1	7.1	7.8	9.5	11.0	8.0	6.8
Saudi Arabia	0.1	7.7	5.3	6.5	4.2	3.9	5.0	4.6	4.5	4.3
South Africa	3.7	3.1	4.8	5.1	5.0	4.8	5.2	5.4	5.7	4.6
Tunisia	1.7	5.6	5.8	4.0	5.2	5.6	5.8	6.0	5.4	5.4
UAE	2.6	11.9	9.7	8.2	8.9	8.2	8.6	8.2	7.4	7.2

GDP per head (US$ at market exchange rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	36,350	37,690	39,880	42,020	44,240	45,790	47,820	49,990	52,220	54,510
Canada	23,420	27,350	31,030	35,070	38,890	41,050	40,410	40,300	41,460	43,050
Western Europe										
Austria	25,810	31,520	35,870	37,090	38,860	44,090	46,270	45,240	45,210	46,220
Belgium	24,510	30,050	34,720	35,920	38,010	42,570	44,360	42,850	41,940	42,180
Denmark	32,390	39,500	45,130	47,820	50,740	57,970	61,650	61,190	61,670	63,330
Finland	26,200	31,710	36,320	37,480	40,300	44,240	45,920	44,670	44,130	45,120
France	24,450	30,000	34,130	35,220	36,990	41,550	43,880	43,290	43,640	44,790
Germany	24,540	29,620	33,260	33,820	35,120	39,150	41,070	39,800	39,110	39,730
Greece	15,590	20,260	24,100	25,870	28,110	31,350	33,830	34,490	35,700	37,200
Ireland	30,950	38,890	44,970	48,150	52,180	60,640	64,300	64,200	65,460	68,090
Italy	21,130	26,050	29,740	30,520	31,900	36,280	38,220	37,550	37,740	38,580
Netherlands	27,310	33,270	37,440	38,580	40,410	46,250	49,200	48,830	49,540	50,980
Norway	42,420	49,450	56,490	65,470	72,300	81,080	87,710	83,090	83,010	84,160
Portugal	12,360	15,120	17,240	17,670	18,470	20,600	21,740	21,430	21,700	22,310
Spain	16,820	21,180	24,470	25,570	27,210	31,470	33,360	32,910	33,300	34,290
Sweden	27,280	33,910	38,740	39,500	42,140	47,680	51,040	51,310	51,830	52,570
Switzerland	37,760	43,820	48,500	49,030	50,390	53,840	56,260	55,380	56,000	57,000
Turkey	2,620	3,360	4,170	4,950	5,430	6,270	6,430	7,090	7,710	8,430
UK	26,670	30,660	36,270	37,380	39,690	45,160	46,140	46,560	47,580	48,170
Eastern Europe										
Azerbaijan	760	880	1,040	1,570	2,330	3,340	4,370	5,320	6,260	7,190
Bulgaria	1,990	2,570	3,150	3,480	4,140	4,990	5,510	5,730	5,970	6,240
Croatia	5,040	6,490	6,910	7,400	7,960	9,260	10,130	10,300	10,670	11,190
Cyprus	14,690	18,170	21,050	22,100	23,350	25,870	27,220	26,780	26,940	27,490
Czech Republic	7,380	8,910	10,700	12,220	13,950	16,010	17,660	18,390	18,960	19,680
Estonia	5,380	7,090	8,630	10,220	12,210	15,280	17,220	18,080	19,200	20,600
Hungary	6,610	8,400	10,190	11,150	11,310	13,040	14,010	14,280	15,080	16,130
Kazakhstan	1,660	2,060	2,860	3,750	5,020	6,160	7,670	9,520	11,710	14,100
Latvia	3,970	4,800	5,930	6,960	8,770	11,270	13,110	13,870	14,820	16,030
Lithuania	4,090	5,370	6,540	7,500	8,760	10,710	12,200	12,760	13,570	14,630
Poland	5,180	5,680	6,620	7,960	8,940	10,730	11,720	12,080	12,580	13,360
Romania	2,100	2,740	3,480	4,490	5,630	7,470	8,720	9,390	10,210	11,280
Russia	2,380	2,990	4,120	5,350	6,920	8,340	9,640	10,850	12,200	13,630
Serbia	2,120	2,730	3,270	3,500	4,210	5,230	5,710	5,910	6,200	6,630
Slovakia	4,560	6,080	7,730	8,710	10,140	13,280	14,600	14,960	15,580	16,700
Slovenia	11,080	13,950	16,210	17,100	18,580	21,570	21,760	22,050	22,550	22,560
Ukraine	890	1,060	1,380	1,770	2,270	2,950	3,210	3,640	4,280	4,930

GDP per head (US$ at market exchange rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	21,100	26,600	32,060	35,460	37,280	41,950	40,390	38,940	38,590	39,270
Bangladesh	350	380	410	420	430	460	490	520	550	570
China	1,130	1,280	1,490	1,740	2,070	2,460	2,880	3,350	3,900	4,500
Hong Kong	24,210	23,270	24,190	25,770	27,350	29,150	31,470	33,650	36,140	38,600
India	490	570	650	750	840	1,020	1,180	1,330	1,490	1,670
Indonesia	870	1,000	1,070	1,190	1,480	1,700	1,890	2,030	2,230	2,440
Japan	30,850	33,260	36,180	35,690	34,250	34,380	38,880	45,100	47,140	48,850
Malaysia	3,880	4,150	4,630	5,000	5,590	6,550	7,110	7,680	8,160	8,740
New Zealand	15,180	19,750	23,990	26,360	24,970	28,800	27,740	27,460	26,670	26,460
Pakistan	490	550	630	700	810	880	940	1,010	1,080	1,150
Philippines	930	940	1,010	1,120	1,310	1,540	1,640	1,730	1,860	1,990
Singapore	21,060	22,020	25,340	26,910	29,470	32,690	34,400	36,180	38,410	40,600
South Korea	11,480	12,720	14,140	16,370	18,220	19,690	21,910	24,310	26,560	29,080
Sri Lanka	820	890	970	1,130	1,290	1,460	1,620	1,750	1,880	2,010
Taiwan	13,130	13,300	14,300	15,360	15,700	16,200	17,390	18,540	19,620	21,090
Thailand	2,000	2,230	2,480	2,690	3,130	3,600	3,780	3,920	4,110	4,340
Vietnam	440	480	550	630	730	810	930	1,060	1,210	1,370
Latin America										
Argentina	2,720	3,420	4,010	4,750	5,500	6,240	7,000	7,740	8,470	9,100
Brazil	2,870	3,090	3,650	4,790	5,720	6,690	7,270	7,320	7,390	7,440
Chile	4,290	4,650	5,960	7,310	8,880	9,520	10,160	10,310	10,280	10,690
Colombia	1,870	1,800	2,180	2,700	2,940	3,570	3,600	3,420	3,390	3,510
Costa Rica	4,110	4,190	4,370	4,610	5,020	5,450	5,760	6,010	6,230	6,460
Cuba	2,540	2,660	2,850	3,180	3,590	3,930	4,270	4,630	4,970	5,330
Dominican Republic	2,900	2,240	2,440	3,860	3,970	4,080	4,320	4,620	4,930	4,860
Ecuador	1,970	2,230	2,510	2,760	3,050	3,030	3,080	3,190	3,340	3,470
El Salvador	2,190	2,270	2,340	2,470	2,620	2,760	2,910	3,070	3,200	3,330
Mexico	6,330	6,160	6,510	7,230	7,820	8,060	8,230	8,560	8,900	9,260
Peru	2,130	2,270	2,530	2,840	3,290	3,620	3,780	3,900	4,020	4,190
Venezuela	3,720	3,270	4,330	5,470	6,760	7,790	7,520	7,350	7,380	7,380
Africa & Middle East										
Algeria	1,820	2,140	2,630	3,120	3,360	3,540	3,610	3,770	3,960	4,030
Angola	740	920	880	1,270	1,760	2,370	2,910	3,620	4,190	5,020
Bahrain	12,070	13,530	15,290	18,330	20,750	22,520	23,540	23,680	24,100	24,770
Egypt	1,200	1,000	1,080	1,260	1,430	1,650	1,830	1,980	2,150	2,330
Iran	1,720	1,970	2,340	2,710	2,910	3,390	3,890	4,280	4,690	5,140
Israel	16,640	17,230	18,000	18,730	19,910	21,510	23,250	24,170	25,130	26,470
Jordan	1,820	1,880	2,050	2,230	2,420	2,620	2,790	2,950	3,080	3,220
Kenya	410	460	480	550	660	770	780	820	840	880
Kuwait	15,760	18,780	21,520	27,010	29,950	30,030	30,140	30,060	30,810	31,020
Libya	3,480	4,130	4,880	6,370	7,610	7,830	7,440	7,290	7,810	8,270
Morocco	1,270	1,520	1,720	1,770	1,980	2,170	2,220	2,280	2,310	2,410
Nigeria	360	440	530	650	810	870	950	990	1,060	1,090
Qatar	29,310	33,510	42,460	52,900	61,890	64,050	68,140	77,860	84,860	84,280
Saudi Arabia	8,310	9,200	10,450	12,570	13,750	14,220	14,830	15,330	15,840	16,380
South Africa	2,430	3,610	4,640	5,130	5,390	5,260	5,390	5,490	5,620	5,760
Tunisia	2,300	2,530	2,820	2,840	2,920	3,170	3,280	3,320	3,380	3,490
UAE	19,790	21,680	24,360	28,600	32,980	37,470	41,830	45,610	47,960	51,760

GDP per head (US$ at PPP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	36,350	37,690	39,880	42,020	44,240	45,790	47,820	49,990	52,220	54,510
Canada	29,900	30,800	32,430	34,050	35,870	37,370	38,590	40,410	42,240	44,030
Western Europe										
Austria	29,960	30,700	32,350	33,570	34,000	35,720	37,450	39,200	40,980	42,750
Belgium	29,380	30,210	31,690	33,000	34,190	35,170	36,050	37,750	39,390	41,040
Denmark	30,350	30,720	32,190	34,140	36,030	37,950	39,670	41,460	43,360	45,300
Finland	28,670	28,800	30,380	31,470	34,330	34,780	35,520	37,270	39,070	40,870
France	28,750	29,350	30,030	31,370	32,760	33,940	35,230	36,800	38,380	40,070
Germany	27,080	27,600	28,710	29,760	29,910	30,490	31,470	33,010	34,460	35,950
Greece	23,570	25,110	27,040	28,900	31,030	32,900	34,860	36,870	38,930	41,000
Ireland	32,690	33,720	35,920	38,560	40,760	43,580	45,470	48,040	50,660	53,320
Italy	27,100	27,300	28,110	28,820	30,210	31,710	32,830	34,250	35,760	37,280
Netherlands	31,390	31,880	33,590	35,090	37,120	39,260	41,050	42,890	44,760	46,650
Norway	37,050	37,750	41,460	44,200	47,060	48,880	50,280	52,480	54,860	57,240
Portugal	19,890	18,840	19,560	20,200	22,360	23,350	24,230	25,290	26,470	27,660
Spain	23,960	25,000	25,960	26,850	28,140	30,050	31,340	32,650	34,060	35,500
Sweden	28,330	29,630	31,010	32,050	33,900	35,110	36,900	38,670	40,370	42,110
Switzerland	32,620	33,530	34,920	35,830	37,670	38,510	40,060	41,700	43,410	45,110
Turkey	6,600	7,010	7,690	8,390	9,050	9,690	10,330	11,020	11,730	12,480
UK	29,180	30,090	32,000	33,210	34,900	36,500	38,170	40,010	41,830	43,760
Eastern Europe										
Azerbaijan	3,580	4,040	4,530	5,840	7,990	9,710	11,320	12,650	13,810	14,680
Bulgaria	7,110	7,640	8,360	9,210	10,140	11,040	12,040	13,080	14,130	15,160
Croatia	9,980	10,700	11,430	12,250	13,180	14,110	15,230	16,330	17,460	18,880
Cyprus	19,040	19,380	20,240	21,180	22,230	23,220	24,390	25,730	27,120	28,570
Czech Republic	15,130	15,930	17,080	18,760	20,570	22,170	23,690	25,450	27,170	28,810
Estonia	12,050	13,220	14,740	16,820	19,320	21,670	23,560	25,490	27,610	30,850
Hungary	13,710	14,510	15,740	16,940	18,150	19,130	20,280	21,660	23,150	24,670
Kazakhstan	6,000	6,660	7,440	8,320	9,370	10,440	11,560	12,920	14,500	16,110
Latvia	9,140	10,070	11,320	12,960	15,010	16,880	18,880	20,810	22,870	25,350
Lithuania	10,350	11,710	12,980	14,470	16,120	17,750	19,490	21,340	23,310	25,900
Poland	10,560	11,210	12,140	12,970	14,170	15,410	16,640	17,810	19,050	20,330
Romania	6,750	7,270	8,120	8,740	9,680	10,540	11,420	12,290	13,150	13,970
Russia	8,230	9,070	10,040	11,060	12,190	13,330	14,550	15,770	17,060	18,280
Serbia	4,980	5,230	5,840	6,420	7,000	7,590	8,220	8,900	9,620	10,390
Slovakia	12,770	13,460	14,570	15,890	17,690	19,520	21,210	22,990	24,950	27,000
Slovenia	18,870	19,780	21,250	22,780	24,670	26,450	28,280	30,210	32,190	34,260
Ukraine	4,960	5,600	6,500	6,920	7,700	8,460	9,210	10,070	11,040	12,110

GDP per head (US$ at PPP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	29,050	30,480	32,070	33,690	35,590	37,370	38,930	40,800	42,740	44,640
Bangladesh	1,530	1,620	1,730	1,860	2,000	2,130	2,280	2,430	2,600	2,770
China	4,740	5,250	5,880	6,650	7,530	8,460	9,460	10,470	11,510	12,560
Hong Kong	27,210	27,950	30,950	34,060	37,260	40,040	43,030	46,320	49,690	53,310
India	2,700	2,940	3,180	3,530	3,920	4,290	4,690	5,120	5,570	6,070
Indonesia	2,930	3,110	3,290	3,530	3,780	4,060	4,350	4,640	4,970	5,300
Japan	26,920	27,770	29,270	30,550	31,090	32,660	34,260	35,770	37,140	38,670
Malaysia	8,970	9,310	10,000	10,590	11,330	12,040	12,830	13,680	14,550	15,420
New Zealand	22,390	23,240	24,490	25,390	25,640	26,720	27,440	28,740	29,980	31,170
Pakistan	1,970	2,050	2,190	2,380	2,580	2,770	2,950	3,160	3,380	3,600
Philippines	3,970	4,090	4,370	4,630	4,940	5,260	5,600	5,960	6,350	6,760
Singapore	27,640	29,010	32,120	34,490	37,040	39,740	41,940	44,460	46,910	49,470
South Korea	18,440	19,330	20,650	21,960	22,930	23,740	24,860	26,470	28,080	29,730
Sri Lanka	2,940	3,160	3,400	3,680	4,030	4,360	4,710	5,080	5,480	5,920
Taiwan	23,850	25,100	27,380	29,320	31,440	33,570	35,820	38,170	40,490	43,010
Thailand	6,810	7,380	7,920	8,470	9,080	9,610	10,280	10,920	11,640	12,370
Vietnam	2,330	2,510	2,730	3,010	3,310	3,620	3,960	4,330	4,720	5,150
Latin America										
Argentina	11,150	12,090	13,350	14,870	16,440	17,920	19,180	20,240	21,300	22,340
Brazil	7,810	7,850	8,300	8,680	9,130	9,560	10,040	10,540	11,080	11,620
Chile	9,820	10,330	10,890	11,740	12,440	13,320	14,230	15,190	16,150	17,190
Colombia	6,550	6,900	7,260	7,710	8,350	8,850	9,360	9,810	10,260	10,720
Costa Rica	7,920	8,440	8,900	9,530	10,390	10,960	11,600	12,240	12,910	13,750
Cuba	6,940	7,270	7,770	8,620	9,390	10,180	11,010	11,930	12,860	12,860
Dominican Republic	6,840	6,940	7,060	7,880	8,790	9,520	10,230	10,830	11,470	12,270
Ecuador	3,570	3,680	3,970	4,220	4,460	4,630	4,810	4,980	5,210	5,430
El Salvador	3,310	3,370	3,460	3,600	3,800	3,950	4,140	4,320	4,510	4,760
Mexico	9,000	9,180	9,690	10,150	10,820	11,270	11,840	12,440	13,060	13,680
Peru	5,000	5,280	5,680	6,140	6,730	7,260	7,750	8,240	8,770	9,310
Venezuela	5,520	5,080	6,080	6,780	7,580	8,020	8,320	8,670	9,010	9,340
Africa & Middle East										
Algeria	4,820	5,180	5,520	5,910	6,160	6,500	6,940	7,440	7,970	8,540
Angola	2,180	2,460	2,550	2,860	3,390	3,910	4,320	4,800	5,140	5,710
Bahrain	19,480	20,960	22,610	24,770	26,980	28,990	31,280	33,560	35,700	38,240
Egypt	3,880	4,010	4,210	4,450	4,800	5,160	5,580	5,980	6,360	6,760
Iran	7,970	8,640	9,260	9,850	10,480	11,080	11,720	12,370	13,030	13,690
Israel	22,870	23,150	24,350	26,030	27,640	29,320	30,900	32,540	34,100	35,540
Jordan	4,240	4,380	4,720	5,110	5,420	5,710	6,040	6,350	6,640	7,020
Kenya	1,230	1,260	1,330	1,420	1,510	1,600	1,710	1,810	1,920	2,050
Kuwait	25,070	28,340	29,780	31,060	33,930	34,350	35,720	36,650	37,690	40,000
Libya	12,160	12,630	12,740	13,670	14,550	15,560	16,610	17,720	18,960	20,520
Morocco	3,980	4,230	4,470	4,610	5,110	5,350	5,720	6,120	6,500	7,010
Nigeria	900	1,000	1,090	1,160	1,230	1,310	1,410	1,500	1,590	1,690
Qatar	33,900	34,060	40,240	41,100	42,330	42,660	43,870	45,950	46,840	47,410
Saudi Arabia	10,710	11,460	12,080	12,910	13,490	13,960	14,630	15,300	15,950	16,580
South Africa	10,150	10,570	10,910	11,700	12,570	13,410	14,430	15,560	16,810	17,980
Tunisia	6,520	6,960	7,490	7,940	8,520	9,110	9,860	10,650	11,430	12,390
UAE	17,540	17,090	18,390	19,420	20,220	21,250	22,330	23,230	23,960	24,900

Foreign direct investment inflows (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	74.5	53.1	122.4	99.4	183.6	237.7	235.0	252.0	260.0	270.0
Canada	22.2	7.5	-0.4	28.9	69.0	84.8	59.1	56.0	57.0	59.0
Western Europe										
Austria	0.3	7.1	3.9	9.1	0.2	1.6	3.9	5.5	3.3	5.9
Belgium	18.1	34.5	44.4	32.0	72.5	71.0	68.0	71.0	73.0	75.0
Denmark	4.4	1.2	-8.8	13.1	6.3	6.5	7.5	8.6	9.0	9.3
Finland	8.3	3.5	3.0	4.6	3.7	5.1	5.4	5.7	5.9	6.2
France	49.5	43.1	38.7	70.7	86.9	84.4	71.1	72.6	79.8	83.1
Germany	53.6	30.9	-8.9	35.3	43.4	60.4	62.2	65.2	69.7	72.5
Greece	0.1	1.3	2.1	0.6	5.4	1.6	1.5	1.4	1.5	1.6
Ireland	29.5	22.4	-11.0	-29.7	12.8	16.0	19.1	19.6	22.5	24.3
Italy	14.7	16.5	16.8	19.6	39.0	38.8	40.7	42.8	42.8	42.8
Netherlands	25.5	20.4	2.0	40.4	3.8	29.9	27.4	36.8	45.1	53.1
Norway	0.7	3.6	2.5	7.8	5.8	4.9	4.6	6.4	7.6	8.6
Portugal	1.8	8.8	2.1	4.1	7.4	8.5	9.0	9.2	9.3	9.6
Spain	40.0	25.6	24.8	24.6	20.2	40.3	42.4	44.0	47.1	50.4
Sweden	12.2	5.0	11.5	10.2	27.2	28.7	25.7	25.0	26.0	25.0
Switzerland	6.8	17.5	2.3	-0.6	26.0	21.4	18.5	17.6	16.7	16.9
Turkey	1.1	1.8	2.9	9.8	20.1	19.0	20.0	21.0	20.0	20.0
UK	25.5	27.6	77.9	195.6	137.7	119.8	105.4	110.4	112.7	116.3
Eastern Europe										
Azerbaijan	1.4	3.3	3.6	1.7	-0.7	1.5	1.6	1.7	1.7	1.7
Bulgaria	0.9	2.1	3.5	3.9	5.2	3.5	2.3	2.3	2.4	2.5
Croatia	1.1	2.0	1.2	1.8	3.6	2.5	2.7	2.5	2.5	2.7
Cyprus	1.1	0.9	1.1	1.2	1.5	1.8	1.5	1.0	1.0	1.0
Czech Republic	8.5	2.0	5.0	11.6	6.0	6.5	6.0	4.5	4.8	5.1
Estonia	0.3	0.9	1.0	3.0	1.6	1.4	1.3	1.4	1.4	1.4
Hungary	3.0	2.2	4.5	7.5	6.1	4.8	4.8	5.9	5.4	4.8
Kazakhstan	2.6	2.1	4.2	2.0	6.1	6.2	7.0	8.0	6.5	6.0
Latvia	0.3	0.3	0.6	0.7	1.6	1.0	1.0	1.0	1.1	1.2
Lithuania	0.7	0.2	0.8	1.0	1.8	1.0	1.1	1.2	1.4	1.5
Poland	4.1	4.6	12.9	9.6	14.5	12.5	12.0	12.6	12.9	13.1
Romania	1.1	1.8	6.4	6.5	11.4	9.8	7.2	7.3	7.0	7.2
Russia	3.5	8.0	15.4	12.8	28.7	35.0	29.0	30.0	31.0	32.0
Serbia	0.5	1.4	1.0	1.7	5.6	3.2	4.5	2.0	1.9	2.0
Slovakia	4.1	0.7	1.1	1.9	4.2	2.0	2.0	2.2	2.4	2.5
Slovenia	1.7	0.3	0.8	0.5	0.4	0.8	1.4	0.8	0.9	1.2
Ukraine	0.7	1.4	1.7	7.8	5.2	5.2	4.8	4.6	4.8	5.3

Foreign direct investment inflows (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	17.0	8.1	36.6	-35.1	24.7	40.0	35.0	36.0	38.0	40.0
Bangladesh	0.1	0.3	0.4	0.8	0.6	0.7	0.7	0.7	0.7	0.8
China	49.3	47.1	54.9	79.1	78.1	79.5	84.1	86.5	90.9	92.9
Hong Kong	9.7	13.6	34.0	33.6	42.9	50.0	49.0	49.0	47.0	45.0
India	5.6	4.3	5.8	6.7	17.5	17.0	18.0	20.0	22.0	25.0
Indonesia	0.1	-0.6	1.9	5.3	7.5	6.0	6.0	6.5	7.0	7.5
Japan	9.1	6.2	7.8	3.2	-6.8	12.4	11.0	12.0	15.0	16.0
Malaysia	3.2	2.5	4.6	4.0	6.1	6.5	6.1	6.5	7.0	7.8
New Zealand	1.8	2.5	2.8	1.7	8.1	5.7	4.7	4.8	4.9	5.1
Pakistan	0.8	0.5	1.1	2.2	4.3	2.8	2.6	2.8	3.0	3.3
Philippines	1.5	0.5	0.7	1.1	2.3	2.3	2.4	2.4	2.3	2.4
Singapore	7.2	10.4	14.8	20.1	25.7	26.0	24.6	27.0	28.4	29.8
South Korea	2.4	3.5	9.2	6.3	3.6	4.6	6.1	7.3	8.4	9.7
Sri Lanka	0.2	0.2	0.2	0.3	0.5	0.3	0.3	0.3	0.4	0.4
Taiwan	1.4	0.5	1.9	1.6	7.4	7.2	6.7	6.5	6.8	8.0
Thailand	3.3	5.2	5.9	9.0	9.7	8.5	8.7	9.2	9.0	9.0
Vietnam	1.4	1.5	1.6	2.0	4.1	4.4	6.0	7.0	7.5	7.7
Latin America										
Argentina	2.1	1.7	4.6	5.0	4.8	5.2	5.8	6.6	7.2	7.9
Brazil	16.6	10.1	18.2	15.2	18.8	34.5	27.0	25.0	25.0	26.0
Chile	2.6	4.3	7.2	7.0	8.1	10.0	9.8	10.9	11.8	12.0
Colombia	2.1	1.8	3.1	10.3	6.3	8.0	6.5	6.0	5.5	5.5
Costa Rica	0.7	0.8	0.8	0.9	1.4	1.0	1.0	1.0	1.0	1.0
Cuba	0.1	0.1	0.2	0.4	0.6	0.6	0.5	0.5	0.6	0.6
Dominican Republic	0.9	0.6	0.9	1.0	1.2	1.4	1.5	1.5	1.7	1.8
Ecuador	1.3	1.6	1.2	1.6	2.1	2.0	1.5	1.3	1.3	1.3
El Salvador	0.5	0.1	0.4	0.5	0.2	0.5	0.6	0.6	0.7	0.7
Mexico	19.3	15.3	22.4	19.7	19.0	21.3	21.5	22.5	23.7	24.5
Peru	2.2	1.3	1.8	2.5	3.5	2.2	2.0	1.9	2.0	2.0
Venezuela	0.8	2.0	1.5	2.6	-0.5	-2.4	1.2	2.0	2.1	2.1
Africa & Middle East										
Algeria	1.1	0.6	2.5	3.8	3.2	4.0	4.5	4.8	5.1	5.3
Angola	1.7	3.5	1.4	-1.3	2.2	1.8	1.7	2.1	1.9	1.8
Bahrain	0.2	0.5	0.9	1.0	1.2	1.2	1.0	0.9	0.8	0.8
Egypt	0.6	0.2	1.3	5.4	10.0	8.0	7.0	5.5	4.8	4.5
Iran	0.5	0.5	0.1	0.0	0.3	0.2	0.2	0.4	0.5	0.5
Israel	1.7	3.9	2.1	4.8	14.2	9.5	6.5	6.4	6.5	6.2
Jordan	0.1	0.4	0.7	1.5	2.2	2.5	2.0	1.9	2.0	2.2
Kenya	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Kuwait	0.0	-0.1	0.0	0.3	0.1	0.1	0.3	0.3	0.5	0.8
Libya	0.1	0.1	1.1	1.0	1.5	1.6	1.6	1.6	1.7	1.7
Morocco	0.1	2.3	0.8	1.6	1.4	1.5	1.6	1.5	1.6	1.5
Nigeria	1.9	2.0	1.9	2.0	2.5	2.0	2.1	2.1	2.1	2.3
Qatar	1.8	1.9	2.2	2.3	2.9	3.2	3.3	3.1	3.0	3.1
Saudi Arabia	0.5	0.8	1.9	4.6	5.3	6.1	7.0	7.8	8.7	9.6
South Africa	0.7	0.8	0.7	6.1	0.0	1.7	2.0	3.5	4.1	4.5
Tunisia	0.8	0.5	0.6	0.7	2.7	2.3	1.9	1.5	1.5	1.6
UAE	0.1	4.3	10.0	12.0	16.0	15.0	12.0	11.8	12.3	13.0

Foreign direct investment inflows (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	0.7	0.5	1.0	0.8	1.4	1.7	1.6	1.6	1.6	1.6
Canada	3.0	0.9	0.0	2.6	5.4	6.3	4.4	4.1	4.1	4.0
Western Europe										
Austria	0.2	2.8	1.3	3.0	0.0	0.4	1.0	1.5	0.9	1.5
Belgium	7.2	11.1	12.4	8.6	18.4	16.0	14.7	15.9	16.7	17.0
Denmark	2.5	0.6	-3.6	5.0	2.3	2.1	2.2	2.6	2.7	2.7
Finland	6.1	2.1	1.6	2.3	1.8	2.2	2.2	2.4	2.6	2.6
France	3.4	2.4	1.9	3.3	3.9	3.3	2.6	2.7	3.0	3.0
Germany	2.6	1.3	-0.3	1.3	1.5	1.9	1.8	2.0	2.1	2.2
Greece	0.0	0.6	0.8	0.2	1.7	0.5	0.4	0.4	0.4	0.4
Ireland	24.0	14.3	-6.0	-14.8	5.8	6.2	6.9	7.1	7.9	8.2
Italy	1.2	1.1	1.0	1.1	2.1	1.8	1.8	2.0	2.0	1.9
Netherlands	5.8	3.8	0.3	6.4	0.6	3.9	3.4	4.5	5.5	6.2
Norway	0.3	1.6	1.0	2.6	1.7	1.3	1.1	1.6	1.9	2.1
Portugal	1.4	5.6	1.1	2.2	3.8	3.9	3.9	4.0	4.0	4.0
Spain	5.8	2.9	2.4	2.2	1.6	2.8	2.8	2.9	3.0	3.1
Sweden	5.0	1.6	3.3	2.8	7.1	6.6	5.5	5.3	5.4	5.1
Switzerland	2.5	5.4	0.6	-0.2	6.9	5.3	4.3	4.2	3.9	3.8
Turkey	0.6	0.7	1.0	2.7	5.0	4.0	4.1	3.8	3.3	3.0
UK	1.6	1.5	3.6	8.7	5.8	4.4	3.8	3.9	3.9	3.9
Eastern Europe										
Azerbaijan	22.3	45.1	41.1	12.7	-3.6	5.2	4.2	3.5	3.0	2.6
Bulgaria	5.8	10.5	14.2	14.5	16.4	9.3	5.4	5.4	5.4	5.3
Croatia	5.0	7.0	3.9	5.3	9.8	5.9	5.3	4.7	4.3	4.8
Cyprus	10.5	6.8	7.1	7.0	8.1	8.6	6.8	4.8	4.6	4.6
Czech Republic	11.3	2.2	4.5	9.3	4.2	4.0	3.3	2.4	2.5	2.6
Estonia	3.9	9.6	8.3	21.8	9.8	6.8	5.6	5.7	5.5	5.3
Hungary	4.5	2.6	4.4	6.8	5.4	3.7	3.5	4.2	3.6	3.0
Kazakhstan	10.5	6.8	9.6	3.5	8.0	6.5	5.9	5.3	3.5	2.7
Latvia	2.7	2.7	4.6	4.6	8.1	3.9	3.2	3.2	3.2	3.4
Lithuania	5.0	1.0	3.4	4.0	6.1	2.8	2.6	2.8	3.1	3.0
Poland	2.1	2.1	5.1	3.2	4.2	3.1	2.7	2.7	2.7	2.6
Romania	2.5	3.1	8.5	6.7	9.4	6.1	3.8	3.6	3.2	3.0
Russia	1.0	1.8	2.6	1.7	2.9	3.0	2.1	2.0	1.8	1.7
Serbia	3.0	6.7	4.0	6.3	17.8	8.3	10.7	4.6	4.2	4.2
Slovakia	16.9	2.0	2.7	4.0	7.5	2.7	2.6	2.7	2.8	2.7
Slovenia	7.4	1.1	2.5	1.6	1.0	1.9	2.8	1.6	1.7	2.2
Ukraine	1.6	2.8	2.6	9.4	4.9	3.8	3.2	2.8	2.5	2.4

Foreign direct investment inflows (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	4.1	1.5	5.7	-4.9	3.3	4.7	4.2	4.5	4.7	4.8
Bangladesh	0.1	0.5	0.8	1.4	1.0	1.0	0.9	0.9	0.8	0.9
China	3.4	2.9	2.8	3.5	2.9	2.4	2.2	1.9	1.7	1.5
Hong Kong	5.9	8.6	20.5	18.9	22.6	24.6	22.2	20.6	18.3	16.4
India	1.1	0.7	0.8	0.8	1.9	1.5	1.4	1.3	1.3	1.3
Indonesia	0.1	-0.3	0.7	1.8	2.1	1.4	1.3	1.2	1.2	1.2
Japan	0.2	0.1	0.2	0.1	-0.2	0.3	0.2	0.2	0.2	0.3
Malaysia	3.4	2.4	3.9	3.0	4.1	3.7	3.1	3.0	3.0	3.1
New Zealand	2.9	3.1	2.9	1.6	7.8	4.7	4.0	4.1	4.2	4.4
Pakistan	1.1	0.6	1.1	2.0	3.3	2.0	1.7	1.6	1.6	1.6
Philippines	2.0	0.6	0.8	1.1	2.0	1.6	1.6	1.5	1.3	1.2
Singapore	8.2	11.2	13.8	17.2	19.5	17.7	15.7	16.2	15.8	15.4
South Korea	0.4	0.6	1.4	0.8	0.4	0.5	0.6	0.6	0.6	0.7
Sri Lanka	1.2	1.3	1.2	1.2	1.8	0.9	0.8	0.8	0.9	0.9
Taiwan	0.5	0.2	0.6	0.5	2.1	2.0	1.7	1.5	1.5	1.6
Thailand	2.6	3.7	3.6	5.1	4.7	3.5	3.4	3.5	3.2	3.0
Vietnam	4.0	3.7	3.6	3.7	6.7	6.3	7.4	7.5	6.9	6.2
Latin America										
Argentina	2.1	1.3	3.0	2.7	2.2	2.1	2.1	2.1	2.1	2.1
Brazil	3.3	1.8	2.7	1.7	1.8	2.7	1.9	1.8	1.7	1.8
Chile	3.8	5.8	7.5	5.9	5.5	6.4	5.8	6.2	6.7	6.5
Colombia	2.6	2.2	3.1	8.3	4.6	4.8	3.8	3.6	3.3	3.2
Costa Rica	3.9	4.8	4.3	4.3	6.5	4.1	3.8	3.6	3.4	3.2
Cuba	0.2	0.3	0.6	1.1	1.5	1.4	1.0	0.9	1.0	1.0
Dominican Republic	3.7	3.1	4.2	2.9	3.2	3.6	3.5	3.5	3.5	3.8
Ecuador	5.1	5.4	3.6	4.5	5.1	4.8	3.5	2.9	2.7	2.6
El Salvador	3.3	0.9	2.4	3.0	1.1	2.6	2.7	2.8	2.8	2.8
Mexico	3.0	2.4	3.3	2.6	2.3	2.4	2.4	2.4	2.4	2.3
Peru	3.8	2.2	2.6	3.2	3.7	2.1	1.8	1.7	1.7	1.6
Venezuela	0.8	2.4	1.3	1.8	-0.3	-1.1	0.6	1.0	1.0	1.0
Africa & Middle East										
Algeria	1.9	0.9	2.9	3.7	2.9	3.3	3.6	3.7	3.6	3.7
Angola	15.5	25.4	10.6	-6.5	7.5	4.6	3.3	3.3	2.4	1.9
Bahrain	2.6	5.4	7.9	7.8	7.5	7.2	5.8	5.1	4.5	4.1
Egypt	0.8	0.3	1.6	5.8	9.3	6.3	4.9	3.5	2.8	2.3
Iran	0.5	0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Israel	1.6	3.4	1.7	3.7	10.1	6.1	3.8	3.6	3.4	3.0
Jordan	0.8	4.3	5.7	12.1	15.5	15.8	11.5	10.0	9.9	10.1
Kenya	0.2	0.5	0.3	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Kuwait	0.0	-0.1	0.0	0.3	0.1	0.1	0.3	0.3	0.4	0.6
Libya	0.8	0.6	4.1	2.8	3.3	3.3	3.4	3.5	3.4	3.2
Morocco	0.2	5.0	1.5	2.8	2.1	2.1	2.2	2.0	2.0	1.9
Nigeria	4.0	3.4	2.6	2.2	2.1	1.6	1.5	1.4	1.3	1.3
Qatar	9.1	8.0	7.0	5.5	5.4	5.4	4.9	3.8	3.2	3.2
Saudi Arabia	0.2	0.4	0.8	1.5	1.5	1.7	1.8	1.9	1.9	2.0
South Africa	0.7	0.5	0.3	2.5	0.0	0.7	0.8	1.3	1.5	1.6
Tunisia	3.5	2.2	2.1	2.5	9.1	7.0	5.6	4.3	4.2	4.3
UAE	0.1	4.9	9.5	9.1	9.8	7.6	5.2	4.4	4.2	3.9

Foreign direct investment inflows (% of gross fixed investment)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	4.7	3.2	6.7	4.9	8.5	11.1	10.4	10.5	10.1	9.9
Canada	15.4	4.4	-0.2	12.3	25.3	29.1	19.8	18.3	17.6	17.1
Western Europe										
Austria	0.7	13.0	6.4	14.5	0.2	2.0	4.6	6.4	3.7	6.4
Belgium	37.2	59.2	63.5	43.3	90.1	76.0	67.6	72.0	74.0	74.8
Denmark	12.9	2.9	-18.5	24.5	10.2	9.0	9.8	11.2	11.5	11.4
Finland	33.9	11.6	8.8	12.3	9.2	10.6	10.4	10.8	10.8	10.6
France	18.0	12.7	9.7	16.7	18.9	16.1	12.8	13.3	14.5	14.8
Germany	14.4	7.1	-1.9	7.3	8.4	10.2	9.8	10.3	10.8	10.9
Greece	0.1	2.5	3.3	1.0	7.2	1.8	1.6	1.5	1.5	1.6
Ireland	107.4	62.0	-24.4	-54.8	21.3	23.4	26.6	27.5	30.9	32.3
Italy	5.7	5.4	4.7	5.4	10.1	8.9	8.7	9.2	9.1	8.8
Netherlands	29.0	19.5	1.8	33.2	2.8	19.2	16.0	21.1	25.2	28.4
Norway	1.9	9.1	5.5	14.0	9.3	6.6	5.5	7.9	9.2	10.0
Portugal	5.5	24.5	5.1	10.1	17.9	18.7	18.9	19.4	19.4	19.3
Spain	22.1	10.6	8.5	7.4	5.4	9.3	9.2	9.8	10.3	10.6
Sweden	30.2	10.3	20.2	16.5	39.6	34.3	28.0	27.6	28.2	26.9
Switzerland	11.4	26.2	3.0	-0.8	31.8	24.2	19.9	19.1	17.9	17.6
Turkey	3.7	4.7	5.4	13.8	23.7	20.0	19.4	17.9	15.1	13.3
UK	9.4	9.1	21.0	50.8	31.9	23.7	20.2	21.0	20.9	21.1
Eastern Europe										
Azerbaijan	65.5	85.4	71.0	30.7	-11.2	17.6	14.9	13.1	12.0	11.2
Bulgaria	31.7	54.2	68.3	60.9	62.6	32.0	16.7	15.4	14.2	12.8
Croatia	20.1	24.2	11.8	15.8	27.9	16.8	16.6	14.7	13.5	13.7
Cyprus	58.0	38.8	37.8	36.9	42.1	43.2	33.6	23.1	21.6	21.0
Czech Republic	41.0	8.3	17.6	37.3	16.7	15.6	12.8	9.1	9.3	9.5
Estonia	13.1	32.7	26.5	70.2	28.8	20.0	16.9	16.8	15.8	15.0
Hungary	19.6	11.7	19.7	30.0	24.6	17.3	15.8	18.6	15.6	12.9
Kazakhstan	43.8	29.4	38.4	14.2	31.3	23.4	18.8	15.6	10.1	7.9
Latvia	11.5	11.1	16.9	14.9	23.6	11.0	8.9	8.8	8.7	9.2
Lithuania	24.7	4.6	15.4	17.9	26.3	11.5	10.4	11.2	12.1	11.5
Poland	11.1	11.6	28.2	17.4	21.5	14.0	11.8	11.6	11.0	10.2
Romania	11.7	14.5	39.5	28.5	38.7	23.6	13.9	12.5	10.6	9.6
Russia	5.6	10.0	14.2	9.4	16.3	15.6	10.8	9.7	8.7	7.9
Serbia	25.3	50.5	20.2	31.9	88.8	40.9	51.5	21.9	19.4	18.8
Slovakia	61.9	8.1	11.1	15.0	28.6	10.5	9.7	10.3	10.7	10.6
Slovenia	32.9	4.6	10.4	6.4	4.0	7.1	11.0	6.3	6.8	8.7
Ukraine	8.5	13.8	11.7	42.8	21.2	17.5	14.1	12.0	11.1	10.9

Foreign direct investment inflows (% of gross fixed investment)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	17.1	6.1	22.6	-18.8	12.3	17.4	15.7	16.7	17.8	18.3
Bangladesh	0.5	2.2	3.3	5.6	3.8	3.7	3.6	3.1	3.0	3.0
China	9.4	7.3	7.0	8.4	6.8	5.7	5.0	4.3	3.8	3.3
Hong Kong	26.4	40.6	96.4	90.4	103.9	112.9	104.4	99.1	90.3	81.8
India	4.7	2.9	3.2	2.9	6.4	4.8	4.2	4.0	3.8	3.7
Indonesia	0.4	-1.3	3.4	7.8	8.6	5.8	5.1	5.2	5.0	4.7
Japan	1.0	0.6	0.7	0.3	-0.7	1.2	0.9	0.9	1.1	1.1
Malaysia	14.5	10.8	19.1	15.2	20.1	18.4	15.8	15.4	15.2	15.5
New Zealand	13.8	13.9	12.1	6.5	33.8	20.9	17.6	17.7	18.4	19.0
Pakistan	7.4	4.2	7.6	12.0	18.0	10.5	8.9	8.7	8.5	8.5
Philippines	11.4	3.7	4.9	8.0	14.4	12.1	11.7	10.8	9.3	8.9
Singapore	32.0	46.5	58.1	77.1	84.4	76.6	66.7	68.5	66.5	64.7
South Korea	1.5	1.9	4.6	2.7	1.4	1.6	1.9	2.1	2.2	2.3
Sri Lanka	5.7	5.7	4.7	4.4	6.2	3.0	2.7	2.7	2.8	2.7
Taiwan	2.7	0.8	2.8	2.3	10.3	9.7	8.3	7.3	7.2	7.7
Thailand	11.5	15.2	14.0	17.6	16.5	12.8	12.0	11.8	10.5	9.5
Vietnam	12.8	11.0	10.7	11.2	20.6	18.7	21.1	20.7	18.7	16.8
Latin America										
Argentina	17.6	8.4	15.6	12.7	9.6	8.8	8.8	9.1	8.9	8.9
Brazil	20.0	12.0	17.0	10.6	10.5	15.4	10.4	9.1	8.7	8.6
Chile	18.5	28.9	39.2	28.4	28.7	31.8	27.3	27.6	27.6	25.9
Colombia	18.0	13.3	17.0	41.3	20.2	18.5	13.8	12.6	11.3	10.7
Costa Rica	20.8	24.8	22.9	22.7	32.3	19.5	17.7	16.3	15.2	14.2
Cuba	1.7	2.7	6.4	9.6	11.8	10.0	7.1	6.1	6.8	7.4
Dominican Republic	17.4	19.9	24.7	19.6	21.9	24.0	23.3	22.5	22.0	23.7
Ecuador	22.0	25.4	16.5	20.6	23.4	21.6	15.6	12.8	12.3	11.7
El Salvador	19.8	5.6	15.3	19.8	6.8	15.0	15.2	15.0	14.6	14.0
Mexico	15.5	12.7	16.6	13.2	11.1	11.5	10.8	10.5	10.3	9.8
Peru	21.6	12.2	14.5	16.8	18.9	9.5	8.0	6.9	6.8	6.5
Venezuela	3.8	15.8	7.2	8.8	-1.3	-4.7	2.4	3.8	3.8	3.6
Africa & Middle East										
Algeria	7.6	3.9	12.2	16.6	12.8	14.1	14.1	13.4	12.8	12.1
Angola	116.8	198.3	61.2	-41.8	51.5	32.4	23.2	23.3	16.8	13.1
Bahrain	14.9	27.8	36.4	35.9	34.3	30.8	23.2	18.3	15.3	13.5
Egypt	4.3	2.0	9.8	32.2	49.7	29.8	21.0	13.9	10.6	8.7
Iran	1.7	1.3	0.2	0.1	0.4	0.3	0.3	0.4	0.5	0.4
Israel	8.8	19.6	10.0	21.8	58.3	33.8	20.6	18.4	17.1	14.7
Jordan	4.1	20.9	23.0	46.7	56.5	55.0	39.4	34.2	33.5	34.1
Kenya	1.2	3.5	1.8	0.6	1.3	1.2	1.3	1.3	1.3	1.4
Kuwait	0.1	-0.8	0.2	1.6	0.6	0.7	1.2	1.4	1.6	2.4
Libya	5.5	5.8	23.3	13.9	17.2	14.6	13.2	11.9	11.2	10.1
Morocco	1.0	22.0	6.4	11.9	9.3	8.8	9.4	8.4	8.2	7.6
Nigeria	15.4	14.5	11.7	9.7	8.3	6.2	6.2	5.6	5.0	4.9
Qatar	29.9	23.2	25.4	16.2	14.0	12.3	10.9	9.2	8.2	7.7
Saudi Arabia	1.3	2.0	4.7	9.9	9.7	9.4	9.6	9.7	10.0	10.4
South Africa	4.4	3.0	2.0	14.9	0.0	3.5	4.1	6.9	8.1	8.9
Tunisia	14.9	9.2	9.2	11.2	39.4	30.1	23.2	17.4	16.4	16.2
UAE	0.6	21.4	45.2	42.5	45.0	33.2	22.3	19.0	17.4	16.3

Foreign direct investment inflows per head (US$)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	261	185	421	339	620	794	778	827	845	870
Canada	714	238	-11	905	2,139	2,601	1,797	1,687	1,702	1,747
Western Europe										
Austria	40	878	479	1,108	19	191	473	660	391	700
Belgium	1,757	3,350	4,299	3,088	6,999	6,841	6,543	6,824	7,010	7,195
Denmark	828	221	-1,635	2,418	1,157	1,206	1,384	1,569	1,646	1,696
Finland	1,598	669	584	874	712	966	1,032	1,087	1,131	1,174
France	830	719	644	1,170	1,433	1,387	1,162	1,183	1,295	1,343
Germany	650	375	-107	428	526	732	753	788	842	874
Greece	5	121	192	58	489	146	137	127	136	146
Ireland	7,539	5,650	-2,722	-7,287	3,080	3,772	4,473	4,576	5,217	5,609
Italy	254	285	289	337	671	667	700	735	736	736
Netherlands	1,595	1,270	126	2,485	231	1,822	1,665	2,220	2,713	3,176
Norway	146	785	559	1,705	1,258	1,052	995	1,358	1,601	1,801
Portugal	170	848	199	394	702	803	847	861	873	896
Spain	988	625	593	576	458	895	932	961	1,019	1,083
Sweden	1,367	559	1,278	1,127	3,012	3,150	2,806	2,712	2,806	2,683
Switzerland	935	2,391	312	-81	3,481	2,848	2,450	2,317	2,191	2,195
Turkey	16	25	40	136	274	256	266	276	259	256
UK	432	465	1,309	3,271	2,294	1,988	1,743	1,818	1,849	1,901
Eastern Europe										
Azerbaijan	171	400	430	201	-84	176	186	190	188	186
Bulgaria	115	268	445	500	673	459	297	306	321	330
Croatia	250	455	271	393	781	548	598	548	537	592
Cyprus	1,564	1,270	1,532	1,577	1,926	2,258	1,869	1,298	1,251	1,277
Czech Republic	831	198	486	1,133	589	636	588	442	472	502
Estonia	208	676	718	2,222	1,188	1,042	970	1,031	1,048	1,080
Hungary	298	216	449	751	606	477	486	596	542	486
Kazakhstan	174	141	278	131	404	403	452	514	413	379
Latvia	107	130	274	315	709	436	417	442	468	539
Lithuania	204	52	223	299	529	294	310	357	419	436
Poland	108	120	337	251	381	328	315	331	339	344
Romania	51	85	296	299	529	453	333	338	324	333
Russia	24	55	107	89	201	246	204	212	221	230
Serbia	61	181	129	221	749	432	609	272	259	276
Slovakia	770	124	207	351	765	364	375	403	430	457
Slovenia	825	150	413	269	190	408	692	398	449	599
Ukraine	14	30	36	166	111	112	104	100	105	116

Foreign direct investment inflows per head (US$)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	878	412	1,856	-1,764	1,231	1,975	1,713	1,748	1,830	1,912
Bangladesh	0	2	3	6	4	4	5	5	5	5
China	39	37	43	61	60	60	64	65	68	69
Hong Kong	1,442	2,015	4,998	4,904	6,217	7,204	7,020	6,981	6,662	6,347
India	6	4	5	6	16	16	16	18	19	22
Indonesia	1	-3	8	22	31	24	24	26	27	29
Japan	72	49	61	25	-53	97	86	94	118	126
Malaysia	133	101	185	155	232	244	225	235	249	272
New Zealand	453	623	693	416	1,962	1,375	1,123	1,128	1,144	1,170
Pakistan	6	4	7	14	27	18	16	17	18	19
Philippines	19	6	8	13	27	26	26	26	24	25
Singapore	1,739	2,485	3,538	4,735	5,931	5,790	5,475	5,931	6,140	6,357
South Korea	51	74	193	131	75	94	124	148	171	195
Sri Lanka	10	11	11	13	23	13	13	15	17	18
Taiwan	65	20	84	72	329	318	297	285	300	348
Thailand	53	82	92	138	149	129	131	137	133	133
Vietnam	18	18	20	24	49	52	70	80	85	86
Latin America										
Argentina	58	44	121	131	125	133	147	166	179	195
Brazil	95	58	101	84	102	185	143	130	129	132
Chile	164	274	451	432	495	611	590	649	696	702
Colombia	50	40	70	228	138	173	138	126	114	112
Costa Rica	164	203	190	203	332	227	223	219	215	211
Cuba	4	7	18	36	54	56	44	41	49	53
Dominican Republic	108	71	104	115	131	149	156	164	174	185
Ecuador	102	123	90	126	158	149	110	94	93	92
El Salvador	73	22	57	77	30	73	81	86	92	95
Mexico	191	150	216	188	179	198	198	205	213	218
Peru	82	50	67	91	124	76	71	66	69	68
Venezuela	32	82	58	99	-21	-88	44	72	74	73
Africa & Middle East										
Algeria	34	20	78	117	97	120	133	140	146	150
Angola	118	240	96	-84	135	111	99	122	105	98
Bahrain	319	738	1,219	1,456	1,580	1,635	1,395	1,237	1,097	1,026
Egypt	9	3	18	74	136	106	91	70	60	56
Iran	8	7	1	0	4	3	3	5	7	7
Israel	266	589	312	699	2,043	1,347	905	875	872	817
Jordan	15	83	120	276	388	425	330	305	312	334
Kenya	1	3	1	1	2	2	2	2	2	3
Kuwait	2	-28	9	91	35	46	83	98	123	196
Libya	27	26	204	181	256	260	260	261	272	272
Morocco	3	77	26	50	43	46	50	46	47	45
Nigeria	15	15	14	15	18	14	14	14	14	14
Qatar	2,816	2,826	3,111	3,091	3,580	3,698	3,566	3,142	2,916	2,842
Saudi Arabia	21	34	83	193	216	242	271	293	317	343
South Africa	16	17	15	131	-0.2	35	42	73	85	93
Tunisia	82	55	60	72	267	225	184	144	143	151
UAE	27	1,134	2,475	2,778	3,461	3,033	2,289	2,124	2,109	2,132

Inward foreign direct investment stock (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	1,500.0	1,577.0	1,727.1	1,874.3	2,057.9	2,295.6	2,530.6	2,782.6	3,042.6	3,312.6
Canada	224.2	289.2	318.6	350.0	385.2	470.0	529.1	585.1	642.1	701.1
Western Europe										
Austria	44.6	56.5	66.4	66.2	70.1	71.6	75.6	81.1	84.4	90.3
Belgium	255.7	357.1	471.1	474.7	547.2	618.2	686.2	757.2	830.2	905.2
Denmark	82.8	100.2	115.2	115.5	138.5	145.0	152.5	161.1	170.1	179.4
Finland	34.0	50.3	57.2	54.3	64.2	69.2	74.6	80.3	86.3	92.4
France	385.2	527.6	641.8	627.9	783.0	867.5	938.5	1,011.2	1,091.0	1,174.1
Germany	529.3	666.2	709.4	660.4	761.1	821.5	883.7	948.9	1,018.7	1,091.2
Greece	15.6	22.5	28.5	29.3	41.3	42.9	44.4	45.8	47.3	48.9
Ireland	182.9	223.0	234.0	211.2	224.0	240.0	259.1	278.7	301.2	325.6
Italy	130.8	180.9	220.7	224.1	294.8	333.6	374.3	417.0	459.8	502.5
Netherlands	352.6	426.6	469.9	447.1	487.5	517.4	544.8	581.6	626.7	679.8
Norway	42.9	49.0	76.1	83.9	89.7	94.6	99.2	105.6	113.2	121.7
Portugal	44.0	62.2	70.6	65.6	85.5	94.0	103.0	112.1	121.5	131.1
Spain	257.1	339.7	395.2	371.5	443.3	483.6	526.0	570.0	617.1	667.6
Sweden	117.8	151.9	197.8	172.4	218.4	247.1	272.8	297.8	323.8	348.8
Switzerland	124.8	162.0	197.7	169.0	207.1	228.5	247.0	264.6	281.4	298.3
Turkey	18.8	33.5	38.5	64.4	84.5	103.5	123.5	144.5	164.5	184.5
UK	549.0	634.5	742.4	863.0	1,135.3	1,255.1	1,360.5	1,470.9	1,583.6	1,699.8
Eastern Europe										
Azerbaijan	5.4	8.6	11.5	13.2	12.5	14.0	15.6	17.2	18.9	20.5
Bulgaria	4.0	6.1	9.8	13.0	20.9	24.4	26.6	28.9	31.3	33.8
Croatia	6.9	10.5	12.9	11.5	15.1	17.6	20.3	22.8	25.3	28.0
Cyprus	4.9	6.7	8.6	8.7	10.2	11.9	13.4	14.5	15.5	16.5
Czech Republic	39.4	45.3	57.3	60.7	77.5	84.0	90.0	94.5	99.3	104.4
Estonia	4.2	7.0	10.1	12.3	13.9	15.3	16.6	18.0	19.4	20.8
Hungary	36.2	48.3	62.6	61.3	81.8	86.5	91.4	97.3	102.7	107.5
Kazakhstan	15.5	17.6	22.4	25.6	31.7	37.9	44.9	52.9	59.4	65.4
Latvia	2.8	3.3	4.5	5.0	7.4	8.4	9.3	10.3	11.4	12.6
Lithuania	4.0	5.0	6.4	8.2	10.9	11.9	13.0	14.2	15.6	17.0
Poland	48.3	57.9	86.4	89.7	103.6	116.1	128.1	140.7	153.6	166.7
Romania	7.8	12.2	20.5	25.9	37.3	47.1	54.3	61.6	68.6	75.8
Russia	27.2	35.2	50.6	65.2	93.9	128.9	157.9	187.9	218.9	250.9
Serbia	4.7	3.7	4.7	6.4	11.9	15.1	19.6	21.6	23.5	25.6
Slovakia	8.5	11.3	14.5	15.8	25.5	27.5	29.5	31.7	34.1	36.6
Slovenia	4.1	6.4	7.6	7.1	7.4	8.3	9.6	10.4	11.3	12.5
Ukraine	5.9	7.6	9.6	17.3	22.5	27.7	32.5	37.1	41.9	47.2

Inward foreign direct investment stock (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	141.1	198.4	259.1	206.3	247.1	287.2	322.2	358.2	396.2	436.2
Bangladesh	2.5	3.0	2.8	3.7	4.3	5.0	5.7	6.3	7.1	7.9
China	440.2	487.3	542.3	621.4	699.5	779.0	863.1	949.5	1,040.4	1,133.4
Hong Kong	336.3	381.3	453.1	523.2	566.1	616.1	665.1	714.1	761.1	806.1
India	31.2	38.2	43.6	50.3	67.7	84.7	102.7	122.7	144.7	169.7
Indonesia	7.1	10.3	15.9	13.5	21.0	27.0	33.0	39.5	46.5	54.0
Japan	78.1	89.7	97.0	100.9	107.6	120.0	131.0	143.0	158.0	174.0
Malaysia	37.5	41.2	43.6	47.5	53.6	60.1	66.2	72.7	79.7	87.5
New Zealand	30.2	44.2	52.7	52.0	60.1	65.8	70.5	75.3	80.2	85.3
Pakistan	6.1	8.2	8.4	10.5	14.8	17.6	20.2	23.0	26.0	29.3
Philippines	12.0	11.8	12.9	14.8	17.1	19.4	21.8	24.2	26.5	28.9
Singapore	135.7	151.4	174.2	187.7	213.4	239.4	264.0	291.0	319.3	349.1
South Korea	62.7	66.1	87.8	94.1	97.7	102.3	108.4	115.7	124.1	133.8
Sri Lanka	1.7	1.9	2.2	2.4	2.9	3.2	3.5	3.8	4.1	4.5
Taiwan	33.5	36.1	40.3	41.9	49.4	56.6	63.3	69.8	76.6	84.6
Thailand	38.0	48.9	53.2	58.3	68.0	76.5	85.2	94.4	103.4	112.4
Vietnam	17.1	20.1	21.7	23.6	26.3	30.7	36.7	43.7	51.2	58.9
Latin America										
Argentina	43.1	48.3	50.6	54.6	59.4	64.6	70.4	77.0	84.2	92.1
Brazil	100.8	132.8	161.2	195.6	214.3	248.8	275.8	300.8	325.8	351.8
Chile	44.9	54.1	60.5	73.9	82.0	92.0	101.8	112.7	124.5	136.5
Colombia	17.9	20.4	24.7	36.8	44.8	52.8	59.3	65.3	70.8	76.3
Costa Rica	3.7	4.3	4.6	5.4	6.9	7.9	8.9	9.9	10.9	11.9
Cuba	2.6	2.6	2.8	3.2	3.9	4.5	5.0	5.4	6.0	6.6
Dominican Republic	7.2	7.8	8.5	9.5	10.7	12.0	13.5	15.0	16.7	18.5
Ecuador	9.7	11.2	12.5	14.1	16.2	18.2	19.7	21.0	22.3	23.6
El Salvador	3.1	3.3	3.7	4.2	4.4	4.9	5.5	6.1	6.8	7.5
Mexico	154.3	172.8	197.5	217.2	236.2	257.5	279.0	301.5	325.2	349.7
Peru	11.7	12.9	13.3	15.8	19.4	21.5	23.5	25.5	27.5	29.6
Venezuela	39.0	41.4	42.4	44.4	45.4	43.0	44.2	46.2	48.3	50.4
Africa & Middle East										
Algeria	5.7	6.3	7.2	8.3	11.5	15.5	20.0	24.8	29.9	35.2
Angola	11.8	12.0	13.4	12.1	14.3	16.1	17.8	19.9	21.8	23.6
Bahrain	6.2	6.7	7.4	8.3	9.4	10.6	11.7	12.6	13.5	14.3
Egypt	20.7	21.0	23.5	28.9	38.9	46.9	53.9	59.4	64.2	68.7
Iran	3.1	3.6	3.7	3.7	3.9	4.2	4.4	4.8	5.3	5.8
Israel	23.7	30.3	32.2	36.9	51.1	60.6	67.1	73.5	80.0	86.2
Jordan	2.5	2.9	3.6	5.1	7.3	9.8	11.8	13.7	15.7	17.9
Kenya	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5	1.6
Kuwait	0.5	0.4	0.5	0.7	0.8	0.9	1.2	1.5	2.0	2.7
Libya	0.5	0.6	0.8	1.8	3.3	4.8	6.4	8.0	9.7	11.5
Morocco	12.1	17.1	19.9	22.1	23.5	25.0	26.6	28.1	29.7	31.2
Nigeria	23.3	25.3	27.2	29.2	31.7	33.6	35.7	37.9	40.0	42.2
Qatar	3.4	4.9	6.8	9.1	11.9	15.1	18.3	21.4	24.4	27.5
Saudi Arabia	17.7	18.5	20.5	25.1	30.4	36.5	43.6	51.4	60.0	69.7
South Africa	29.6	45.7	63.1	69.2	69.2	70.9	72.9	76.4	80.5	85.0
Tunisia	13.9	16.2	17.8	16.9	19.6	21.9	23.8	25.3	26.8	28.4
UAE	3.6	7.8	16.2	28.2	44.2	59.2	71.2	82.9	95.2	108.2

Inward foreign direct investment stock (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	14.3	14.4	14.7	15.0	15.5	16.4	17.0	17.6	18.2	19.8
Canada	30.5	33.4	32.1	30.9	30.4	34.8	39.4	43.4	45.9	47.8
Western Europe										
Austria	21.4	22.1	22.7	21.7	21.8	19.5	19.6	21.4	22.2	23.1
Belgium	101.2	115.0	131.1	127.4	138.7	139.7	148.7	169.7	189.9	205.8
Denmark	47.6	47.1	47.3	44.6	50.3	46.0	45.4	48.2	50.3	51.6
Finland	25.0	30.5	30.2	27.7	30.4	29.9	31.0	34.2	37.2	39.0
France	26.3	29.2	31.1	29.4	34.8	34.2	34.8	37.9	40.4	42.2
Germany	26.1	27.3	25.9	23.7	26.2	25.4	26.0	28.8	31.4	33.1
Greece	9.1	10.1	10.8	10.3	13.4	12.5	11.9	12.1	12.1	12.0
Ireland	149.0	141.9	127.5	105.2	101.5	92.7	93.9	100.7	106.0	109.4
Italy	10.7	12.0	12.8	12.6	15.9	15.8	16.8	19.1	21.0	22.4
Netherlands	80.2	79.1	77.2	71.0	73.5	67.9	66.9	71.6	75.7	79.5
Norway	22.4	21.8	29.4	27.8	26.7	25.0	24.1	26.9	28.7	30.3
Portugal	34.4	39.7	39.4	35.4	43.9	43.1	44.5	48.9	52.1	54.5
Spain	37.3	38.4	37.8	32.9	36.2	33.8	34.4	37.5	39.8	41.5
Sweden	48.3	49.9	56.7	48.2	56.9	56.5	58.0	62.6	67.1	70.8
Switzerland	45.2	50.2	55.0	46.2	54.7	56.2	57.8	62.5	65.4	67.7
Turkey	10.2	14.0	12.8	17.8	20.9	21.9	25.2	26.4	27.3	27.7
UK	34.7	34.8	34.2	38.5	47.5	46.0	48.6	51.8	54.4	57.5
Eastern Europe										
Azerbaijan	85.9	118.7	132.7	99.4	62.8	48.5	40.9	36.8	33.9	31.8
Bulgaria	25.8	30.5	40.1	48.6	66.2	64.4	64.1	67.5	70.6	73.3
Croatia	30.4	35.8	41.1	34.2	41.6	41.7	39.3	42.5	44.8	49.6
Cyprus	46.7	50.7	54.5	51.4	55.9	58.3	61.6	66.8	70.4	72.9
Czech Republic	52.3	49.6	52.2	48.5	54.4	51.4	50.0	50.5	51.5	52.3
Estonia	57.8	73.0	86.4	89.2	84.6	74.6	71.9	74.3	75.6	75.9
Hungary	54.4	57.2	61.2	54.9	72.4	66.6	65.7	68.8	68.9	67.7
Kazakhstan	62.8	57.0	51.9	44.8	41.1	39.8	37.6	35.4	32.1	29.0
Latvia	29.5	29.3	32.8	31.1	36.5	32.5	31.4	33.1	34.4	35.5
Lithuania	28.0	26.7	28.3	32.0	36.7	32.9	31.6	33.2	34.6	35.2
Poland	24.4	26.7	34.1	29.5	30.4	28.4	28.7	30.6	32.1	32.8
Romania	17.0	20.5	27.2	26.7	30.6	29.2	28.8	30.4	31.1	31.3
Russia	7.9	8.1	8.6	8.5	9.5	10.9	11.6	12.3	12.9	13.3
Serbia	4.7	3.7	4.7	6.4	11.9	15.1	19.6	21.6	23.5	25.6
Slovakia	34.8	34.2	34.5	33.3	46.1	37.9	37.0	38.8	39.9	40.0
Slovenia	18.6	22.7	23.3	20.5	19.9	18.7	19.7	20.9	21.9	22.8
Ukraine	14.0	15.1	14.8	20.9	21.3	20.4	22.0	22.3	21.5	21.1

Inward foreign direct investment stock (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	34.2	37.8	40.6	29.0	32.7	33.5	38.7	44.3	49.1	52.7
Bangladesh	5.4	5.7	5.0	6.2	6.9	7.3	7.7	7.9	8.2	8.7
China	30.3	29.6	28.0	27.3	25.7	24.0	22.5	21.2	19.9	18.6
Hong Kong	205.4	240.6	273.2	294.3	298.3	302.8	301.1	300.8	297.0	293.2
India	6.1	6.4	6.3	6.2	7.3	7.5	7.7	8.1	8.4	8.7
Indonesia	3.5	4.4	6.2	4.7	5.8	6.4	6.9	7.6	8.1	8.4
Japan	2.0	2.1	2.1	2.2	2.5	2.7	2.6	2.5	2.6	2.8
Malaysia	39.4	39.6	36.8	36.3	36.0	33.8	33.7	33.7	34.1	34.3
New Zealand	50.5	55.8	54.0	48.0	57.9	54.4	59.8	63.8	69.3	73.4
Pakistan	8.4	9.8	8.5	9.4	11.5	12.3	13.0	13.5	14.1	14.5
Philippines	15.7	14.8	14.9	15.0	14.6	13.9	14.4	14.9	14.9	14.9
Singapore	154.1	163.9	162.2	160.9	161.5	163.2	168.6	174.2	177.5	181.1
South Korea	11.5	10.9	12.9	11.9	11.0	10.6	10.1	9.6	9.4	9.3
Sri Lanka	10.4	10.6	10.8	10.4	10.9	10.4	10.1	10.1	10.2	10.4
Taiwan	11.4	12.0	12.5	12.1	13.9	15.4	16.0	16.5	17.0	17.5
Thailand	29.9	34.3	33.0	33.1	33.0	32.0	33.6	35.7	37.1	37.9
Vietnam	48.8	50.8	47.9	44.7	42.7	43.8	45.2	46.6	47.3	47.5
Latin America										
Argentina	42.3	37.3	33.0	29.8	27.7	26.3	25.3	24.8	24.5	24.7
Brazil	19.9	24.0	24.3	22.2	20.1	19.6	19.8	21.1	22.4	23.7
Chile	66.5	73.1	63.2	62.2	56.2	58.2	59.8	64.6	70.8	74.0
Colombia	22.0	25.7	25.2	30.0	32.9	31.5	34.6	39.5	42.7	43.8
Costa Rica	22.2	24.3	24.9	27.1	30.9	32.1	33.6	35.2	36.7	38.0
Cuba	9.0	8.8	8.9	9.1	9.6	10.1	10.4	10.5	10.7	11.0
Dominican Republic	28.9	40.1	39.0	27.3	29.2	31.6	33.0	33.9	34.8	38.5
Ecuador	38.9	39.3	38.2	38.7	39.7	44.2	46.3	47.1	47.0	47.2
El Salvador	21.9	21.8	23.1	24.6	23.9	24.9	25.9	27.0	28.3	29.5
Mexico	23.8	27.0	28.9	28.3	28.1	29.4	30.8	31.7	32.5	33.2
Peru	20.5	20.9	19.1	19.9	20.7	20.7	21.3	22.0	22.7	23.1
Venezuela	42.0	49.5	37.7	30.7	25.0	20.2	21.2	22.3	22.9	23.5
Africa & Middle East										
Algeria	10.0	9.3	8.5	8.1	10.2	12.9	16.1	18.9	21.4	24.3
Angola	109.3	86.7	98.2	60.1	49.6	40.2	35.3	30.9	28.4	25.0
Bahrain	73.4	70.0	66.8	61.8	61.3	62.8	65.1	68.9	71.2	72.3
Egypt	24.6	29.3	30.0	31.0	36.1	37.1	37.7	37.6	36.9	35.8
Iran	2.6	2.7	2.3	2.0	1.9	1.7	1.6	1.6	1.6	1.5
Israel	21.7	26.3	26.3	28.5	36.4	39.2	39.4	40.8	41.9	42.1
Jordan	26.1	28.9	31.4	40.2	51.4	61.9	67.9	72.5	77.7	82.5
Kenya	7.4	7.0	6.7	5.9	5.0	4.5	4.6	4.5	4.6	4.7
Kuwait	1.3	0.9	0.8	0.8	0.8	0.9	1.1	1.4	1.7	2.2
Libya	2.5	2.7	2.7	4.8	7.3	10.2	14.0	17.5	19.5	21.4
Morocco	31.7	36.8	37.2	39.8	37.2	35.5	36.4	37.0	37.9	37.6
Nigeria	49.9	43.4	37.7	32.0	27.3	26.4	25.1	25.1	24.3	24.5
Qatar	17.0	20.7	21.4	21.5	22.6	25.8	27.7	26.6	26.3	28.3
Saudi Arabia	9.4	8.6	8.2	8.1	8.8	9.9	11.0	12.2	13.5	14.7
South Africa	26.7	27.4	29.1	28.6	27.1	28.3	28.3	29.0	29.7	30.5
Tunisia	61.7	65.0	63.0	59.0	65.8	67.0	69.8	72.6	74.7	75.9
UAE	4.8	8.9	15.4	21.3	27.1	30.1	30.8	31.3	32.5	32.6

Inward foreign direct investment stock per head (US$)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	5,260	5,480	5,940	6,380	6,940	7,670	8,380	9,130	9,890	10,670
Canada	7,230	9,220	10,060	10,950	11,940	14,410	16,080	17,630	19,180	20,770
Western Europe										
Austria	5,550	6,990	8,180	8,090	8,510	8,650	9,080	9,710	10,060	10,720
Belgium	24,850	34,630	45,600	45,870	52,800	59,570	66,030	72,780	79,720	86,850
Denmark	15,480	18,660	21,400	21,400	25,590	26,720	28,030	29,530	31,110	32,740
Finland	6,560	9,680	10,990	10,410	12,290	13,230	14,250	15,320	16,430	17,590
France	6,460	8,810	10,670	10,400	12,910	14,250	15,350	16,470	17,710	18,980
Germany	6,420	8,070	8,600	8,010	9,230	9,950	10,690	11,470	12,300	13,160
Greece	1,420	2,050	2,590	2,670	3,760	3,910	4,040	4,170	4,300	4,450
Ireland	46,780	56,200	57,910	51,760	53,730	56,740	60,680	64,970	69,890	75,010
Italy	2,260	3,120	3,810	3,860	5,070	5,740	6,440	7,170	7,910	8,650
Netherlands	22,100	26,500	28,990	27,490	29,860	31,540	33,060	35,120	37,660	40,690
Norway	9,530	10,830	16,720	18,330	19,480	20,390	21,270	22,500	23,970	25,630
Portugal	4,250	6,010	6,810	6,310	8,140	8,910	9,710	10,540	11,350	12,210
Spain	6,350	8,290	9,460	8,700	10,060	10,730	11,570	12,430	13,350	14,330
Sweden	13,220	16,990	22,040	19,130	24,140	27,110	29,770	32,310	34,940	37,440
Switzerland	17,200	22,150	26,840	22,790	27,760	30,430	32,690	34,810	36,800	38,800
Turkey	270	480	540	890	1,150	1,390	1,640	1,900	2,130	2,360
UK	9,290	10,700	12,470	14,430	18,910	20,830	22,500	24,230	25,990	27,790
Eastern Europe										
Azerbaijan	660	1,050	1,390	1,580	1,480	1,640	1,810	1,980	2,150	2,310
Bulgaria	510	780	1,260	1,680	2,720	3,200	3,510	3,840	4,190	4,550
Croatia	1,540	2,330	2,850	2,540	3,310	3,860	4,450	5,000	5,540	6,130
Cyprus	6,960	9,410	11,770	11,620	13,280	15,300	16,950	18,080	19,150	20,240
Czech Republic	3,850	4,440	5,590	5,920	7,570	8,220	8,810	9,270	9,760	10,270
Estonia	3,100	5,150	7,440	9,100	10,310	11,370	12,360	13,420	14,490	15,600
Hungary	3,580	4,790	6,220	6,110	8,170	8,670	9,180	9,800	10,360	10,880
Kazakhstan	1,040	1,180	1,500	1,700	2,080	2,460	2,900	3,400	3,780	4,140
Latvia	1,160	1,400	1,940	2,150	3,190	3,640	4,080	4,550	5,060	5,640
Lithuania	1,140	1,430	1,850	2,380	3,190	3,510	3,840	4,220	4,660	5,130
Poland	1,260	1,510	2,260	2,350	2,710	3,040	3,360	3,690	4,040	4,380
Romania	350	560	940	1,190	1,730	2,180	2,510	2,850	3,180	3,510
Russia	190	240	350	450	660	910	1,110	1,330	1,560	1,800
Serbia	4,730	3,690	4,730	6,380	11,950	15,150	19,650	21,650	23,550	25,570
Slovakia	1,590	2,100	2,670	2,900	4,680	5,040	5,410	5,800	6,230	6,680
Slovenia	2,060	3,170	3,780	3,510	3,700	4,110	4,800	5,200	5,660	6,260
Ukraine	120	160	200	370	480	600	700	810	920	1,040

Inward foreign direct investment stock per head (US$)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	7,290	10,150	13,130	10,360	12,300	14,170	15,770	17,390	19,080	20,840
Bangladesh	20	20	20	30	30	30	40	40	50	50
China	340	380	420	480	530	590	650	710	780	840
Hong Kong	50,090	56,390	66,530	76,330	82,060	88,770	95,280	101,740	107,880	113,700
India	30	40	40	50	60	80	90	110	130	150
Indonesia	30	40	70	60	90	110	130	160	180	210
Japan	620	710	760	790	840	940	1,030	1,120	1,240	1,370
Malaysia	1,560	1,680	1,740	1,860	2,050	2,260	2,440	2,630	2,830	3,060
New Zealand	7,770	11,210	13,130	12,800	14,620	15,830	16,780	17,720	18,670	19,640
Pakistan	40	60	60	70	90	110	120	140	150	170
Philippines	150	140	150	170	190	220	240	260	280	300
Singapore	32,780	36,210	41,530	44,290	49,220	53,390	58,820	63,910	69,150	74,550
South Korea	1,320	1,390	1,840	1,950	2,020	2,100	2,210	2,350	2,510	2,700
Sri Lanka	90	100	110	120	140	150	160	180	190	210
Taiwan	1,500	1,610	1,790	1,860	2,190	2,500	2,790	3,060	3,360	3,690
Thailand	600	770	830	900	1,040	1,160	1,280	1,410	1,530	1,660
Vietnam	220	250	270	290	310	360	430	500	580	660
Latin America										
Argentina	1,160	1,290	1,340	1,430	1,540	1,660	1,790	1,940	2,100	2,270
Brazil	580	750	900	1,080	1,160	1,330	1,460	1,570	1,680	1,790
Chile	2,880	3,430	3,800	4,590	5,040	5,600	6,130	6,720	7,350	7,980
Colombia	420	470	560	820	980	1,140	1,260	1,370	1,470	1,560
Costa Rica	930	1,040	1,110	1,270	1,580	1,780	1,970	2,150	2,330	2,500
Cuba	230	240	250	290	340	400	440	480	530	590
Dominican Republic	850	910	970	1,070	1,190	1,310	1,450	1,590	1,740	1,900
Ecuador	780	890	970	1,080	1,230	1,360	1,450	1,520	1,590	1,660
El Salvador	490	500	550	620	640	700	770	840	920	1,000
Mexico	1,520	1,690	1,900	2,070	2,220	2,400	2,570	2,740	2,920	3,110
Peru	440	480	490	570	690	760	820	870	930	980
Venezuela	1,590	1,650	1,660	1,710	1,710	1,600	1,620	1,660	1,710	1,760
Africa & Middle East										
Algeria	180	200	230	260	350	460	590	720	860	990
Angola	830	820	890	780	900	980	1,060	1,150	1,220	1,290
Bahrain	9,120	9,600	10,360	11,490	12,920	14,360	15,540	16,550	17,400	18,170
Egypt	300	300	330	400	530	620	700	760	810	850
Iran	50	50	50	50	60	60	60	70	70	80
Israel	3,680	4,610	4,810	5,430	7,370	8,590	9,340	10,040	10,730	11,350
Jordan	490	560	660	920	1,290	1,670	1,950	2,200	2,450	2,720
Kenya	30	30	30	30	30	40	40	40	40	40
Kuwait	220	180	180	240	260	290	350	440	540	710
Libya	90	110	130	310	560	810	1,060	1,300	1,550	1,800
Morocco	410	570	650	710	750	780	820	850	890	920
Nigeria	180	190	200	210	230	230	240	250	260	270
Qatar	5,240	7,290	9,540	12,160	14,950	17,670	20,080	22,000	23,670	25,170
Saudi Arabia	800	820	880	1,050	1,240	1,450	1,680	1,930	2,190	2,480
South Africa	650	1,000	1,360	1,480	1,470	1,500	1,530	1,600	1,680	1,760
Tunisia	1,430	1,660	1,800	1,690	1,940	2,150	2,310	2,430	2,550	2,680
UAE	1,020	2,080	4,000	6,520	9,560	11,960	13,570	14,990	16,390	17,740

Foreign direct investment outflows (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	134.9	129.4	222.4	12.7	248.9	225.0	220.0	239.0	245.0	265.0
Canada	26.8	22.9	43.7	33.5	45.2	51.0	48.0	43.0	45.0	47.5
Western Europe										
Austria	5.7	7.1	8.7	10.1	4.0	2.8	4.8	5.0	3.9	3.5
Belgium	8.9	39.0	34.7	30.1	63.2	70.9	71.3	80.0	78.8	84.3
Denmark	2.7	0.9	9.9	15.0	8.0	7.5	6.3	8.1	9.6	10.2
Finland	7.5	2.3	1.1	4.7	0.1	3.8	4.0	4.5	5.0	5.6
France	50.6	53.4	76.7	133.6	136.3	135.5	92.1	91.3	94.8	102.8
Germany	19.6	5.2	14.1	56.9	79.0	83.8	85.0	89.0	95.6	96.0
Greece	0.7	0.4	1.0	1.5	4.2	4.5	4.0	3.5	3.9	4.0
Ireland	11.1	5.6	18.1	13.8	22.3	16.7	14.8	13.7	10.5	11.8
Italy	17.2	9.0	19.1	40.7	41.8	52.7	55.4	58.1	61.0	64.1
Netherlands	31.8	44.6	26.4	140.5	22.3	63.6	79.2	80.4	79.9	84.6
Norway	4.6	2.7	3.5	21.1	12.2	19.4	18.9	19.3	20.2	22.0
Portugal	0.2	8.1	7.8	2.2	3.5	4.2	5.1	5.8	6.7	7.7
Spain	33.7	28.8	61.5	41.9	88.7	95.8	86.2	86.2	87.1	88.0
Sweden	10.6	21.1	21.8	26.5	24.6	35.0	31.5	30.2	28.4	30.6
Switzerland	8.6	15.7	26.1	54.1	81.6	76.0	71.0	70.0	72.0	75.0
Turkey	0.2	0.5	0.9	1.1	0.9	2.0	1.0	1.3	1.5	1.7
UK	50.3	65.6	98.2	91.7	79.8	82.8	84.8	91.1	95.0	101.4
Eastern Europe										
Azerbaijan	0.3	0.9	1.2	1.2	0.6	1.2	1.3	1.4	1.5	1.6
Bulgaria	0.0	0.0	0.2	0.3	0.2	0.2	0.3	0.2	0.3	0.3
Croatia	0.5	0.1	0.3	0.2	0.2	0.2	0.3	0.4	0.6	0.8
Cyprus	0.5	0.6	0.7	0.5	0.9	1.0	0.9	0.7	0.7	0.7
Czech Republic	0.2	0.2	1.0	0.0	1.4	1.0	0.8	1.5	2.0	2.3
Estonia	0.1	0.2	0.3	0.6	1.0	0.9	0.7	0.8	0.7	0.7
Hungary	0.3	1.7	1.1	1.8	3.1	2.9	2.9	3.0	3.1	3.2
Kazakhstan	0.4	-0.1	-1.3	0.0	0.4	0.5	0.6	0.8	0.9	1.0
Latvia	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Lithuania	0.0	0.0	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Poland	0.2	0.3	0.8	3.0	4.3	4.0	4.2	4.0	4.3	4.4
Romania	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.4
Russia	3.5	9.7	13.8	12.8	18.0	24.0	22.0	22.5	25.0	26.0
Serbia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovakia	0.0	0.0	0.2	0.1	0.4	0.0	0.0	0.1	0.1	0.2
Slovenia	0.2	0.5	0.6	0.6	0.7	1.0	1.2	1.4	1.7	2.2
Ukraine	0.0	0.0	0.0	0.3	0.1	0.2	0.2	0.2	0.2	0.2

Foreign direct investment outflows (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	7.8	17.2	10.9	34.8	21.0	30.2	27.7	27.3	27.1	27.7
Bangladesh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	2.5	0.2	1.8	11.3	17.8	26.0	37.0	48.0	65.0	72.0
Hong Kong	17.5	5.5	45.7	27.2	43.5	40.6	37.0	39.0	38.7	39.3
India	1.7	1.9	2.2	2.5	9.0	10.0	12.0	14.0	14.5	16.0
Indonesia	0.2	0.0	3.4	3.1	3.4	3.6	3.8	4.0	4.3	4.5
Japan	32.0	28.8	31.0	45.4	50.2	53.5	56.2	55.6	55.4	59.0
Malaysia	1.9	1.4	2.1	3.0	6.0	4.3	3.9	3.1	2.8	3.0
New Zealand	0.4	0.5	0.9	1.1	1.2	1.5	1.7	1.7	1.8	1.8
Pakistan	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Philippines	0.1	0.3	0.6	0.2	0.2	0.2	0.3	0.3	0.4	0.4
Singapore	2.3	3.2	8.5	5.5	8.1	8.9	8.9	9.0	8.9	9.4
South Korea	2.6	3.4	4.7	4.3	7.1	7.1	7.1	7.1	7.0	7.3
Sri Lanka	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taiwan	4.9	5.7	7.1	6.0	7.4	7.5	8.9	10.2	10.3	11.7
Thailand	0.2	0.6	0.1	0.5	0.8	0.4	0.2	0.3	0.4	0.4
Vietnam	n/a	n/a	n/a	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Latin America										
Argentina	0.6	0.8	0.4	1.2	2.0	0.5	0.5	0.5	0.5	0.5
Brazil	2.5	0.2	9.5	2.5	28.2	5.0	10.0	8.0	9.1	10.0
Chile	0.3	1.6	1.6	2.2	2.8	2.9	3.1	3.3	3.4	3.7
Colombia	0.9	0.9	0.1	4.7	1.1	1.0	0.9	0.8	0.7	0.7
Costa Rica	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
El Salvador	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Mexico	0.9	1.3	4.4	6.5	5.8	5.8	6.8	6.7	7.7	8.5
Peru	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Venezuela	1.0	1.3	0.6	1.2	2.1	2.3	0.8	0.8	0.8	0.8
Africa & Middle East										
Algeria	0.1	0.0	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Angola	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0
Bahrain	0.2	0.7	1.0	1.1	1.2	1.5	1.2	1.3	1.4	1.5
Egypt	0.0	0.0	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Iran	0.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Israel	1.0	2.1	4.5	3.3	13.6	8.0	6.0	6.2	6.5	6.8
Jordan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kenya	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait	0.1	5.0	2.5	4.7	7.4	6.6	4.6	4.5	5.0	5.5
Libya	0.1	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Morocco	0.0	0.0	0.0	0.1	0.1	0.3	0.1	0.1	0.1	0.1
Nigeria	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Qatar	0.3	0.4	0.4	0.5	0.8	1.0	1.0	1.1	1.1	1.2
Saudi Arabia	0.1	0.1	0.7	1.2	1.5	1.6	1.7	1.8	2.0	2.2
South Africa	0.4	0.6	1.3	0.9	6.5	1.3	1.4	1.5	1.7	1.8
Tunisia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UAE	0.4	1.0	2.2	3.7	4.0	3.8	3.0	3.8	4.0	4.5

Foreign direct investment outflows (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	1.3	1.2	1.9	0.1	1.9	1.6	1.5	1.5	1.5	1.6
Canada	3.6	2.6	4.4	3.0	3.6	3.8	3.6	3.2	3.2	3.2
Western Europe										
Austria	2.8	2.8	3.0	3.3	1.2	0.8	1.2	1.3	1.0	0.9
Belgium	3.5	12.6	9.7	8.1	16.0	16.0	15.4	17.9	18.0	19.2
Denmark	1.5	0.4	4.1	5.8	2.9	2.4	1.9	2.4	2.8	2.9
Finland	5.5	1.4	0.6	2.4	0.0	1.7	1.7	1.9	2.2	2.4
France	3.5	3.0	3.7	6.3	6.1	5.3	3.4	3.4	3.5	3.7
Germany	1.0	0.2	0.5	2.0	2.7	2.6	2.5	2.7	2.9	2.9
Greece	0.4	0.2	0.4	0.5	1.4	1.3	1.1	0.9	1.0	1.0
Ireland	9.0	3.6	9.9	6.9	10.1	6.4	5.4	4.9	3.7	4.0
Italy	1.4	0.6	1.1	2.3	2.3	2.5	2.5	2.7	2.8	2.9
Netherlands	7.2	8.3	4.3	22.3	3.4	8.3	9.7	9.9	9.6	9.9
Norway	2.4	1.2	1.4	7.0	3.6	5.1	4.6	4.9	5.1	5.5
Portugal	0.2	5.2	4.3	1.2	1.8	1.9	2.2	2.5	2.9	3.2
Spain	4.9	3.3	5.9	3.7	7.2	6.7	5.6	5.7	5.6	5.5
Sweden	4.4	6.9	6.2	7.4	6.4	8.0	6.7	6.3	5.9	6.2
Switzerland	3.1	4.9	7.2	14.8	21.6	18.7	16.6	16.5	16.7	17.0
Turkey	0.1	0.2	0.3	0.3	0.2	0.4	0.2	0.2	0.2	0.2
UK	3.2	3.6	4.5	4.1	3.3	3.0	3.0	3.2	3.3	3.4
Eastern Europe										
Azerbaijan	5.2	12.8	13.9	9.2	2.9	4.2	3.4	3.0	2.7	2.5
Bulgaria	0.2	0.1	0.9	1.1	0.5	0.5	0.6	0.5	0.6	0.7
Croatia	2.4	0.4	1.1	0.7	0.6	0.5	0.5	0.7	1.1	1.4
Cyprus	5.2	4.4	4.5	2.8	4.7	5.0	4.1	3.3	3.1	3.1
Czech Republic	0.3	0.2	0.9	0.0	1.0	0.6	0.4	0.8	1.0	1.2
Estonia	1.8	1.6	2.3	4.4	6.3	4.4	3.0	3.1	2.7	2.6
Hungary	0.4	2.0	1.1	1.6	2.7	2.2	2.1	2.1	2.1	2.0
Kazakhstan	1.7	0.4	3.0	0.3	0.5	0.5	0.5	0.5	0.5	0.4
Latvia	0.0	0.4	0.7	0.8	0.7	0.6	0.6	0.7	0.7	0.7
Lithuania	0.1	0.2	1.2	1.3	0.9	1.0	0.9	0.9	0.8	0.8
Poland	0.1	0.1	0.3	1.0	1.3	1.0	0.9	0.9	0.9	0.9
Romania	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Russia	1.0	2.3	2.3	1.7	1.8	2.0	1.6	1.5	1.5	1.4
Serbia	0.1	0.1	0.3	1.0	1.3	1.0	0.9	0.9	0.9	0.9
Slovakia	0.0	0.1	0.4	0.3	0.7	0.1	0.0	0.1	0.1	0.2
Slovenia	0.7	1.7	1.7	1.8	2.0	2.2	2.4	2.8	3.3	3.9
Ukraine	0.0	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1

Foreign direct investment outflows (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	1.9	3.3	1.7	4.9	2.8	3.5	3.3	3.4	3.4	3.3
Bangladesh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	0.2	0.0	0.1	0.5	0.7	0.8	1.0	1.1	1.2	1.2
Hong Kong	10.7	3.5	27.6	15.3	22.9	19.9	16.8	16.4	15.1	14.3
India	0.3	0.3	0.3	0.3	1.0	0.9	0.9	0.9	0.8	0.8
Indonesia	0.1	0.0	1.3	1.1	0.9	0.8	0.8	0.8	0.7	0.7
Japan	0.8	0.7	0.7	1.0	1.1	1.2	1.1	1.0	0.9	0.9
Malaysia	2.0	1.3	1.7	2.3	4.0	2.4	2.0	1.4	1.2	1.2
New Zealand	0.7	0.7	0.9	1.0	1.2	1.2	1.4	1.4	1.5	1.5
Pakistan	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Philippines	0.1	0.4	0.7	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Singapore	2.6	3.4	7.9	4.7	6.1	6.1	5.7	5.4	4.9	4.9
South Korea	0.5	0.6	0.7	0.5	0.8	0.7	0.7	0.6	0.5	0.5
Sri Lanka	0.1	0.1	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Taiwan	1.7	1.9	2.2	1.7	2.1	2.0	2.3	2.4	2.3	2.4
Thailand	0.1	0.4	0.0	0.3	0.4	0.2	0.1	0.1	0.1	0.1
Vietnam	n/a	n/a	n/a	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Latin America										
Argentina	0.6	0.6	0.3	0.6	0.9	0.2	0.2	0.2	0.1	0.1
Brazil	0.5	0.0	1.4	0.3	2.6	0.4	0.7	0.6	0.6	0.7
Chile	0.5	2.2	1.6	1.9	1.9	1.8	1.8	1.9	1.9	2.0
Colombia	1.1	1.2	0.1	3.8	0.8	0.6	0.5	0.5	0.4	0.4
Costa Rica	0.2	0.2	0.3	0.2	0.4	0.0	0.0	0.0	0.0	0.0
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
El Salvador	0.2	0.1	0.3	1.3	0.1	0.1	0.1	0.1	0.1	0.1
Mexico	0.1	0.2	0.6	0.8	0.7	0.7	0.7	0.7	0.8	0.8
Peru	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Venezuela	1.1	1.6	0.6	0.8	1.1	1.1	0.4	0.4	0.4	0.4
Africa & Middle East										
Algeria	0.2	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Angola	0.3	0.2	0.3	1.1	0.1	0.1	0.1	0.1	0.1	0.1
Bahrain	2.2	7.7	9.4	8.4	7.8	8.6	6.7	7.1	7.4	7.6
Egypt	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Iran	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Israel	0.9	1.8	3.7	2.6	9.7	5.2	3.5	3.4	3.4	3.3
Jordan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kenya	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Kuwait	0.2	10.4	4.3	5.8	7.8	6.5	4.3	4.1	4.2	4.4
Libya	0.7	0.3	0.7	1.0	0.8	0.8	0.8	0.8	0.7	0.7
Morocco	0.1	0.0	0.1	0.1	0.2	0.4	0.1	0.2	0.1	0.1
Nigeria	0.4	0.3	0.4	0.2	0.2	0.2	0.1	0.1	0.0	0.1
Qatar	1.3	1.5	1.1	1.1	1.5	1.8	1.6	1.4	1.2	1.2
Saudi Arabia	0.1	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5
South Africa	0.4	0.3	0.6	0.4	2.5	0.5	0.5	0.6	0.6	0.6
Tunisia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
UAE	0.6	1.1	2.1	2.8	2.5	2.2	1.7	1.4	1.4	1.4

Outward foreign direct investment stock (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	1,867.0	2,059.9	2,399.2	2,453.9	2,702.8	2,927.8	3,147.8	3,386.8	3,631.8	3,896.8
Canada	274.4	312.2	369.8	392.7	449.0	500.0	548.0	591.0	636.0	683.5
Western Europe										
Austria	44.1	58.3	71.2	80.3	84.4	87.2	92.0	97.0	100.9	104.3
Belgium	223.9	313.9	369.2	374.6	437.7	508.6	579.9	659.9	738.8	823.1
Denmark	86.7	102.6	111.7	127.1	150.1	157.6	163.9	172.1	181.6	191.8
Finland	63.9	76.1	85.0	80.6	90.9	94.7	98.7	103.2	108.3	113.8
France	586.3	724.5	845.5	882.3	1,075.9	1,211.4	1,303.6	1,394.9	1,489.7	1,592.4
Germany	602.8	720.7	810.6	801.4	940.4	1,024.1	1,109.1	1,198.1	1,293.7	1,389.7
Greece	9.0	12.3	13.8	13.3	19.6	24.1	28.1	31.6	35.5	39.5
Ireland	58.9	74.5	106.0	102.9	125.2	141.9	156.7	170.4	180.8	192.6
Italy	194.5	238.9	280.5	293.5	375.8	428.5	483.8	542.0	603.0	667.1
Netherlands	396.5	523.2	597.9	629.9	729.7	793.3	872.4	952.9	1,032.7	1,117.3
Norway	68.1	76.5	88.9	100.0	112.2	131.6	150.5	169.9	190.1	212.1
Portugal	21.1	35.9	48.3	50.6	54.1	58.3	63.3	69.1	75.8	83.5
Spain	233.9	292.5	371.2	372.6	508.0	603.8	690.0	776.3	863.4	951.4
Sweden	144.1	181.3	216.3	201.8	263.0	298.0	329.4	359.6	388.0	418.6
Switzerland	292.3	341.5	399.4	426.6	545.4	621.4	692.4	762.4	834.4	909.4
Turkey	5.8	6.1	7.1	8.3	8.9	10.9	11.9	13.1	14.6	16.3
UK	994.1	1,187.0	1,268.5	1,296.0	1,487.0	1,569.8	1,654.6	1,745.7	1,840.7	1,942.1
Eastern Europe										
Azerbaijan	0.3	1.3	2.5	3.7	4.3	5.5	6.8	8.2	9.7	11.3
Bulgaria	0.1	0.1	0.2	0.2	0.3	0.5	0.8	1.0	1.2	1.5
Croatia	1.8	2.1	2.2	2.2	2.4	2.6	2.8	3.2	3.8	4.6
Cyprus	1.3	2.1	3.2	3.3	4.1	5.1	6.0	6.7	7.4	8.1
Czech Republic	1.5	2.3	3.8	3.6	5.1	6.1	6.8	8.3	10.3	12.6
Estonia	0.7	1.0	1.4	2.0	3.6	4.5	5.2	5.9	6.6	7.3
Hungary	2.2	3.5	6.0	8.0	12.7	15.5	18.5	21.5	24.5	27.7
Kazakhstan	0.4	0.5	1.8	1.8	2.2	2.7	3.3	4.0	4.9	5.9
Latvia	0.1	0.1	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.5
Lithuania	0.1	0.1	0.4	0.7	1.2	1.6	1.9	2.3	2.7	3.0
Poland	1.5	2.1	3.2	6.4	10.7	14.7	18.9	22.9	27.2	31.6
Romania	0.1	0.2	0.3	0.2	0.3	0.4	0.6	0.8	1.1	1.5
Russia	20.9	30.7	44.4	57.2	75.2	99.2	121.2	143.7	168.7	194.7
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	0.5	0.6	0.7	0.8	1.3	1.3	1.3	1.4	1.5	1.7
Slovenia	1.5	2.4	3.0	3.5	4.2	5.2	6.4	7.8	9.5	11.7
Ukraine	0.1	0.2	0.2	0.5	0.6	0.8	0.9	1.1	1.4	1.6

Outward foreign direct investment stock (US$ bn)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	114.9	161.9	204.2	178.3	226.3	256.4	284.2	311.4	338.5	366.2
Bangladesh	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	36.6	36.5	52.7	64.5	82.3	108.3	145.3	193.3	258.3	330.3
Hong Kong	309.4	339.6	403.1	471.3	514.8	555.3	592.4	631.4	670.1	709.4
India	5.8	7.8	10.1	12.1	21.1	31.1	43.1	57.1	71.6	87.6
Indonesia	7.2	7.3	10.7	13.7	17.2	20.8	24.6	28.6	32.9	37.4
Japan	304.2	333.0	370.5	386.6	436.8	490.2	546.4	602.0	657.4	716.4
Malaysia	10.2	12.0	12.8	21.8	27.8	32.1	36.0	39.1	41.9	44.9
New Zealand	9.3	11.5	12.5	12.9	14.1	15.6	17.3	19.0	20.7	22.5
Pakistan	0.5	0.6	0.7	0.8	0.9	1.0	1.0	1.1	1.2	1.2
Philippines	1.1	1.3	1.8	2.0	2.2	2.4	2.6	2.9	3.3	3.7
Singapore	90.4	96.1	108.0	110.5	118.6	127.5	136.4	145.4	154.3	163.7
South Korea	20.7	25.0	32.2	36.5	43.6	50.7	57.9	64.9	71.9	79.3
Sri Lanka	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Taiwan	76.9	84.1	91.3	97.3	104.7	112.1	121.1	131.2	141.5	153.2
Thailand	2.9	3.4	3.7	4.8	5.6	6.0	6.2	6.5	6.9	7.3
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	20.6	21.5	21.6	22.9	25.0	25.5	26.0	26.5	27.0	27.5
Brazil	54.4	54.9	69.2	79.3	107.5	112.5	122.5	130.5	139.6	149.6
Chile	12.2	13.7	17.4	21.4	24.2	27.1	30.2	33.5	36.9	40.6
Colombia	3.6	4.4	4.4	8.9	10.0	11.0	11.9	12.7	13.4	14.1
Costa Rica	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Ecuador	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
El Salvador	0.0	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Mexico	12.9	16.6	22.2	28.0	33.8	39.6	46.4	53.1	60.8	69.2
Peru	0.7	0.8	0.9	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Venezuela	8.7	9.5	9.2	9.5	11.6	13.9	14.7	15.5	16.3	17.0
Africa & Middle East										
Algeria	0.4	0.4	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.7
Angola	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Bahrain	2.2	2.9	3.9	5.1	6.3	7.7	8.9	10.2	11.6	13.1
Egypt	0.7	0.7	0.9	1.0	1.1	1.3	1.5	1.7	2.0	2.2
Iran	0.4	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Israel	10.3	13.1	16.5	20.7	34.9	42.9	48.9	55.1	61.6	68.4
Jordan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kenya	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Kuwait	1.6	1.6	4.1	5.4	12.8	19.4	24.0	28.5	33.5	39.0
Libya	2.0	2.0	1.8	1.9	1.6	1.2	0.8	0.5	0.1	-0.2
Morocco	0.5	0.6	0.7	0.7	0.8	1.0	1.1	1.2	1.4	1.5
Nigeria	4.4	4.6	4.8	5.0	5.2	5.4	5.6	5.8	5.9	6.0
Qatar	0.6	0.9	1.3	1.7	2.5	3.6	4.6	5.7	6.8	7.9
Saudi Arabia	1.7	1.8	2.5	3.7	5.2	6.8	8.5	10.3	12.2	14.4
South Africa	22.0	27.2	38.7	36.8	43.3	44.6	45.9	47.4	49.1	50.9
Tunisia	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
UAE	1.4	2.4	3.4	10.1	14.1	17.8	20.8	24.6	28.6	33.1

Outward foreign direct investment stock (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
North America										
US	17.8	18.8	20.4	19.7	20.4	20.9	21.1	21.4	21.7	23.3
Canada	37.3	36.0	37.3	34.7	35.4	37.0	40.8	43.8	45.4	46.6
Western Europe										
Austria	21.1	22.8	24.3	26.3	26.2	23.8	23.8	25.6	26.5	26.7
Belgium	88.6	101.1	102.8	100.5	111.0	115.0	125.7	147.9	169.0	187.1
Denmark	49.8	48.3	45.8	49.1	54.5	50.0	48.7	51.4	53.8	55.2
Finland	47.0	46.1	44.9	41.2	43.1	40.9	41.0	44.0	46.7	48.0
France	40.0	40.1	41.0	41.3	47.8	47.7	48.4	52.3	55.2	57.3
Germany	29.8	29.5	29.5	28.7	32.4	31.7	32.6	36.3	39.9	42.2
Greece	5.3	5.5	5.2	4.7	6.3	7.0	7.5	8.3	9.0	9.6
Ireland	48.0	47.4	57.8	51.2	56.7	54.8	56.8	61.6	63.6	64.7
Italy	15.9	15.8	16.2	16.6	20.3	20.3	21.8	24.8	27.5	29.8
Netherlands	90.2	97.0	98.2	100.0	110.1	104.1	107.1	117.3	124.8	130.7
Norway	35.5	34.0	34.4	33.1	33.4	34.8	36.6	43.3	48.2	52.8
Portugal	16.5	22.9	27.0	27.2	27.7	26.7	27.4	30.2	32.5	34.7
Spain	34.0	33.1	35.5	33.0	41.4	42.2	45.1	51.0	55.7	59.2
Sweden	59.1	59.6	62.0	56.5	68.5	68.2	70.0	75.6	80.4	85.0
Switzerland	105.8	105.8	111.1	116.6	144.1	152.7	161.9	180.1	193.8	206.4
Turkey	3.2	2.6	2.3	2.3	2.2	2.3	2.4	2.4	2.4	2.4
UK	62.8	65.0	58.5	57.8	62.2	57.5	59.1	61.5	63.2	65.7
Eastern Europe										
Azerbaijan	5.2	17.3	28.5	27.8	21.5	19.0	17.8	17.5	17.4	17.5
Bulgaria	0.8	0.5	0.6	0.7	1.1	1.4	1.9	2.3	2.8	3.4
Croatia	8.0	7.0	7.1	6.4	6.6	6.1	5.5	6.0	6.8	8.2
Cyprus	12.2	15.4	20.2	19.2	22.6	25.1	27.7	31.2	33.8	35.9
Czech Republic	2.0	2.5	3.4	2.9	3.5	3.7	3.8	4.4	5.4	6.3
Estonia	9.3	10.7	12.2	14.4	21.7	21.8	22.4	24.5	25.8	26.7
Hungary	3.3	4.2	5.9	7.2	11.2	12.0	13.3	15.2	16.5	17.4
Kazakhstan	1.7	1.7	4.2	3.2	2.9	2.8	2.7	2.7	2.6	2.6
Latvia	0.6	1.0	1.7	1.8	2.2	2.4	2.7	3.2	3.8	4.2
Lithuania	0.4	0.6	1.9	2.8	4.0	4.3	4.7	5.4	5.9	6.3
Poland	0.7	1.0	1.3	2.1	3.1	3.6	4.2	5.0	5.7	6.2
Romania	0.3	0.3	0.4	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Russia	6.1	7.1	7.5	7.5	7.6	8.4	8.9	9.4	9.9	10.3
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	2.0	1.7	1.7	1.6	2.3	1.8	1.7	1.7	1.8	1.9
Slovenia	6.8	8.5	9.3	10.2	11.4	11.8	13.1	15.6	18.4	21.2
Ukraine	0.3	0.3	0.3	0.6	0.6	0.6	0.6	0.7	0.7	0.7

Outward foreign direct investment stock (% of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Asia & Australasia										
Australia	27.9	30.8	32.0	25.0	29.9	29.9	34.2	38.5	41.9	44.2
Bangladesh	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
China	2.5	2.2	2.7	2.8	3.0	3.3	3.8	4.3	4.9	5.4
Hong Kong	189.0	214.3	243.1	265.1	271.2	273.0	268.2	265.9	261.5	258.1
India	1.1	1.3	1.5	1.5	2.3	2.7	3.2	3.8	4.2	4.5
Indonesia	3.6	3.1	4.2	4.8	4.7	4.9	5.2	5.5	5.7	5.8
Japan	7.8	7.9	8.0	8.5	10.0	11.2	11.0	10.5	11.0	11.5
Malaysia	10.7	11.6	10.8	16.7	18.7	18.0	18.3	18.1	17.9	17.6
New Zealand	15.5	14.5	12.8	11.9	13.6	12.9	14.7	16.1	17.9	19.4
Pakistan	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Philippines	1.4	1.6	2.1	2.0	1.8	1.7	1.7	1.8	1.9	1.9
Singapore	102.7	104.1	100.6	94.7	89.7	86.9	87.1	87.1	85.8	84.9
South Korea	3.8	4.1	4.7	4.6	4.9	5.3	5.4	5.4	5.5	5.5
Sri Lanka	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Taiwan	26.1	28.1	28.3	28.1	29.4	30.6	30.6	31.0	31.5	31.6
Thailand	2.3	2.4	2.3	2.7	2.7	2.5	2.5	2.5	2.5	2.5
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	20.2	16.6	14.1	12.5	11.6	10.4	9.3	8.5	7.9	7.4
Brazil	10.8	9.9	10.4	9.0	10.1	8.9	8.8	9.2	9.6	10.1
Chile	18.1	18.5	18.2	18.0	16.6	17.1	17.8	19.2	21.0	22.0
Colombia	4.4	5.5	4.4	7.3	7.4	6.6	6.9	7.7	8.1	8.1
Costa Rica	0.8	0.9	1.1	0.9	1.2	1.1	1.1	1.0	1.0	1.0
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Ecuador	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
El Salvador	0.2	1.0	0.6	1.8	1.6	1.4	1.2	1.0	0.8	0.6
Mexico	2.0	2.6	3.3	3.7	4.0	4.5	5.1	5.6	6.1	6.6
Peru	1.2	1.3	1.3	1.3	1.6	1.4	1.3	1.3	1.2	1.2
Venezuela	9.4	11.4	8.2	6.5	6.4	6.5	7.0	7.5	7.7	8.0
Africa & Middle East										
Algeria	0.6	0.5	0.7	0.6	0.7	0.8	0.9	0.9	1.0	1.2
Angola	0.9	0.8	1.1	0.9	0.8	0.6	0.6	0.5	0.5	0.5
Bahrain	25.5	30.2	35.7	37.8	40.7	45.5	49.6	55.7	61.3	66.4
Egypt	0.8	1.0	1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.2
Iran	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Israel	9.4	11.3	13.5	15.9	24.8	27.8	28.7	30.6	32.3	33.4
Jordan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kenya	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.5	0.4
Kuwait	4.3	3.4	7.0	6.7	13.5	19.3	22.6	25.7	28.4	31.6
Libya	10.3	8.8	6.3	5.1	3.4	2.5	1.8	1.1	0.2	-0.4
Morocco	1.2	1.2	1.3	1.2	1.2	1.5	1.5	1.6	1.7	1.8
Nigeria	9.4	7.8	6.7	5.5	4.5	4.3	4.0	3.9	3.6	3.5
Qatar	2.8	3.8	4.0	4.1	4.8	6.1	6.9	7.1	7.3	8.2
Saudi Arabia	0.9	0.8	1.0	1.2	1.5	1.8	2.1	2.4	2.7	3.0
South Africa	19.8	16.3	17.8	15.2	17.0	17.8	17.8	18.0	18.1	18.3
Tunisia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
UAE	1.9	2.8	3.3	7.6	8.6	9.1	9.0	9.3	9.8	10.0

No. of FDI projects by country

	2003	2004	2005	2006	2003-06 total	% of world total	Rank out of 82
North America							
US	596	602	563	725	2,486	5.93	3
Canada	243	224	206	177	850	2.03	13
Western Europe							
Austria	81	100	103	82	366	0.87	33
Belgium	66	115	159	110	450	1.07	28
Cyprus	8	6	6	13	33	0.08	81
Denmark	74	92	79	65	310	0.74	35
Finland	30	32	35	41	138	0.33	55
France	162	233	489	582	1,466	3.49	6
Germany	276	276	271	333	1,156	2.76	7
Ireland	136	131	193	140	600	1.43	20
Italy	114	131	140	138	523	1.25	24
Netherlands	105	104	109	129	447	1.07	29
Norway	27	25	21	19	92	0.22	65
Portugal	62	80	28	45	215	0.51	44
Spain	224	266	152	242	884	2.11	10
Sweden	109	138	105	120	472	1.13	27
Switzerland	58	73	72	93	296	0.71	36
Turkey	71	66	67	84	288	0.69	38
UK	427	528	633	668	2,256	5.38	4
Eastern Europe							
Azerbaijan	25	26	20	13	84	0.20	69
Bulgaria	98	109	140	286	633	1.51	18
Croatia	44	40	46	37	167	0.40	51
Czech Republic	145	148	149	174	616	1.47	19
Estonia	30	43	63	54	190	0.45	48
Hungary	218	224	206	235	883	2.10	11
Kazakhstan	36	30	29	24	119	0.28	58
Latvia	44	29	84	109	266	0.63	40
Lithuania	42	23	77	59	201	0.48	45
Poland	154	240	271	324	989	2.36	8
Romania	116	181	261	362	920	2.19	9
Russia	429	382	511	386	1,708	4.07	5
Serbia	48	50	53	46	197	0.47	46
Slovakia	66	90	118	115	389	0.93	32
Slovenia	23	22	19	23	87	0.21	67
Ukraine	71	84	125	124	404	0.96	31

No. of FDI projects by country

	2003	2004	2005	2006	2003-06 total	% of world total	Rank out of 82
Asia & Australasia							
Australia	182	139	110	126	557	1.33	21
Bangladesh	17	7	7	10	41	0.10	77
China	1,318	1,545	1,237	1,378	5,478	13.06	1
Hong Kong	90	128	125	151	494	1.18	26
India	452	695	590	979	2,716	6.47	2
Indonesia	62	59	77	93	291	0.69	37
Japan	134	157	121	145	557	1.33	21
Malaysia	186	125	93	123	527	1.26	23
New Zealand	33	21	17	27	98	0.23	64
Pakistan	23	20	69	27	139	0.33	54
Philippines	74	75	65	60	274	0.65	39
Singapore	155	176	159	189	679	1.62	15
South Korea	114	106	119	84	423	1.01	30
Sri Lanka	10	11	12	10	43	0.10	76
Vietnam	130	161	169	196	656	1.56	16
Thailand	162	126	117	111	516	1.23	25
Taiwan	115	84	68	66	333	0.79	34
Latin America							
Argentina	64	75	41	47	227	0.54	42
Brazil	289	259	170	145	863	2.06	12
Chile	61	56	37	38	192	0.46	47
Colombia	43	47	46	30	166	0.40	52
Costa Rica	13	7	11	20	51	0.12	75
Cuba	6	5	5	1	17	0.04	83
Dominican Republic	11	9	7	7	34	0.08	80
Ecuador	9	21	4	4	38	0.09	78
El Salvador	4	7	4	5	20	0.05	82
Mexico	170	158	137	170	635	1.51	17
Peru	30	31	29	22	112	0.27	61
Venezuela	18	43	25	16	102	0.24	63
Africa & Middle East							
Algeria	21	19	45	50	135	0.32	57
Angola	15	16	18	15	64	0.15	72
Bahrain	24	17	27	49	117	0.28	59
Egypt	40	34	45	51	170	0.41	50
Iran	29	23	10	9	71	0.17	71
Israel	17	17	24	34	92	0.22	65
Jordan	15	11	23	31	80	0.19	70
Kenya	13	15	13	13	54	0.13	74
Kuwait	7	21	10	21	59	0.14	73
Libya	4	7	15	11	37	0.09	79
Morocco	39	37	57	46	179	0.43	49
Nigeria	27	20	38	26	111	0.26	62
Qatar	22	27	24	43	116	0.28	60
Saudi Arabia	31	37	57	97	222	0.53	43
South Africa	61	52	63	74	250	0.60	41
Tunisia	17	9	33	26	85	0.20	68
UAE	146	156	226	282	810	1.93	14

Note. World total refers to all countries.
Source: Locomonitor.

No. of FDI projects by sector

	2003	2004	2005	2006	2003-06 total	% of total
Software & IT services	937	1,189	1,197	1,264	4,587	10.93
Financial services	633	641	787	1,094	3,155	7.52
Food & tobacco	571	623	598	623	2,415	5.76
Business services	414	543	559	725	2,241	5.34
Textiles	421	590	410	498	1,919	4.57
Consumer products	396	431	404	585	1,816	4.33
Metals	433	371	540	441	1,785	4.25
Communications	338	361	521	548	1,768	4.21
Industrial machinery, equipment & tools	318	399	422	498	1,637	3.90
Chemicals	438	416	314	370	1,538	3.67
Automotive components	381	404	348	359	1,492	3.56
Real estate	238	229	263	495	1,225	2.92
Automotive OEM	354	337	316	308	1,315	3.13
Electronic components	266	315	353	344	1,278	3.05
Coal, oil & gas	436	257	328	278	1,299	3.10
Transportation	176	264	362	379	1,181	2.82
Hotels & tourism	305	288	265	293	1,151	2.74
Plastics	224	230	233	262	949	2.26
Consumer electronics	250	229	238	194	911	2.17
Semiconductors	218	247	183	222	870	2.07
Pharmaceuticals	208	204	199	192	803	1.91
Leisure & entertainment	212	186	129	173	700	1.67
Building & construction materials	130	145	156	186	617	1.47
Business machines & equipment	129	178	175	146	628	1.50
Warehousing & storage	112	154	152	181	599	1.43
Paper, printing & packaging	133	130	126	116	505	1.20
Beverages	139	157	95	122	513	1.22
Aerospace	89	102	112	139	442	1.05
Alternative/renewable energy	48	41	75	168	332	0.79
Medical devices	82	90	91	127	390	0.93
Wood products	105	96	100	74	375	0.89
Biotechnology	46	68	74	79	267	0.64
Rubber	52	62	74	70	258	0.62
Engines & turbines	53	52	47	70	222	0.53
Non-automotive transport OEM	41	56	49	55	201	0.48
Healthcare	49	47	37	51	184	0.44
Ceramics & glass	38	41	36	32	147	0.35
Minerals	36	27	50	22	135	0.32
Space & defence	18	25	27	31	101	0.24
Overall total	**9,467**	**10,225**	**10,445**	**11,814**	**41,951**	**100.00**

Source: Locomonitor.

Appendix 4: Business environment rankings methodology

Outline of the model

The business rankings model measures the quality or attractiveness of the business environment in the 82 countries covered by *Country Forecasts* using a standard analytical framework. It is designed to reflect the main criteria used by companies to formulate their global business strategies, and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years. This allows the Economist Intelligence Unit to use the regularity, depth and detail of its forecasting work to generate a unique set of forward-looking business environment rankings on a regional and global basis.

The business rankings model examines ten separate criteria or categories, covering the political environment, the macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, the labour market and infrastructure. Each category contains a number of indicators that are assessed by the Economist Intelligence Unit for the past five years and the next five years. The number of indicators in each category varies from five (foreign trade and exchange regimes) to 16 (infrastructure), and there are 91 indicators in total.

Almost half of the indicators are based on quantitative data (for example, GDP growth), and are mostly drawn from national and international statistical sources (see sources below) for the historical period (2002-06). Scores for the forecast period (2007-11) are based on Economist Intelligence Unit forecasts. The other indicators are qualitative in nature (for example, quality of the financial regulatory system), and are drawn from a range of data sources and business surveys, frequently adjusted by the Economist Intelligence Unit, for 2002-06. All forecasts for the qualitative indicators covering 2007-11 are based on Economist Intelligence Unit assessments.

Calculating the rankings

The rankings are calculated in several stages. First, each of the 91 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business). The aggregate category scores are derived on the basis of simple or weighted averages of the indicator scores within a given category. These are then adjusted, on the basis of a linear transformation, to produce index values on a 1-10 scale. An arithmetic average of the ten category index values is then calculated to yield the aggregate business environment score for each country, again on a 1-10 scale.

The use of equal weights for the categories to derive the overall score reflects in part the theoretical uncertainty about the relative importance of the primary determinants of investment. Surveys of foreign direct investors' intentions yield widely differing results on the relative importance of different factors. Weighted scores for individual categories based on correlation coefficients of recent foreign direct investment (FDI) inflows do not in any case produce overall results that differ significantly from those derived from a system based on equal weights.

For most quantitative indicators the data are arrayed in ascending or descending order and split into five bands (quintiles). The countries falling in the first quintile are assigned scores of 5, those falling in the second quintile score 4 and so on. The cut-off points between bands are based on the average of the raw indicator values for the top and bottom countries in adjacent quintiles. The 2002-06 ranges are then used to derive 2007-11 scores. This allows for intertemporal as well as cross-country comparisons of the indicator and category scores.

Measurement and grading issues

The indices and rankings attempt to measure the average quality of the business environment over the entire historical or forecast period, not simply at the start or at the end of the period. Therefore in the forecast we assign an average grade to elements of the business environment over 2007-11, not to the likely situation in 2011 only.

The scores based on quantitative data are usually calculated on the basis of the numeric average for an indicator over the period. In some cases, the "average" is represented, as an approximation, by the

Market opportunities	
GDP at PPP	0.16
GDP per head at PPP	0.10
GDP growth	0.16
Share of world trade	0.14
Growth of exports	0.08
Growth of imports	0.08
Natural resources	0.14
Investment efficiency	0.06
Regional integration	0.04
Proximity	0.04
Labour market	
Industrial disputes	0.10
Unit labour costs	0.14
Schooling/skills	0.12
Technical skills	0.08
Local managers	0.05
Health of work force	0.08
Language skills	0.05
Labour flexibility	0.08
Labour laws	0.10
Wage regulation	0.10
Hiring foreigners	0.05
Cost of living	0.05
Tax regime	
Corporate tax	0.20
Marginal income tax	0.08
Value-added tax	0.08
Social security contributions	0.12
Investment incentives	0.12
Fairness of tax system	0.20
Tax complexity	0.20

recorded value at the mid-point of the period (2004 or 2009). In only a few cases is the relevant variable appropriately measured by the value at the start of the period (for example, educational attainments). For one indicator (the natural resources endowment), the score remains constant for both the historical and forecast periods.

Sources

The main sources used for the historical period scores include CIA, *World Factbook*; Economist Intelligence Unit, *Country Risk Service*; Economist Intelligence Unit, *Country Finance*; Economist Intelligence Unit, *Country Commerce*; Encyclopaedia Britannica, *Annual Yearbook*; Freedom House, *Annual Survey of Political Rights and Civil Liberties*; Heritage Foundation, *Index of Economic Freedom*; IMF, *Annual Report on Foreign Exchange Restrictions*; International Institute for Management Development, *World Competitiveness Yearbook*; International Labour Organisation, *International Labour Statistics Yearbook*; UN Development Programme, *Human Development Report*; UN, *Monthly Bulletin of Statistics*; UN, *Energy Statistics Yearbook*; Social Security Administration, *Social Security Programs Throughout the World*; World Bank, *World Development Report*; World Bank, *World Development Indicators*; World Bank, *Doing Business*; World Economic Forum, *Global Competitiveness Report*.

Weights

The overall business environment score is derived as an unweighted average of the ten category scores. Alternative weights based on the correlation coefficients of FDI inflows in 2002-06 with the individual category scores did not yield markedly different results. The use of average business survey results (which tend to vary widely) yielded similar rankings to the equal-weight method. The use of equal weights is in part a reflection of ignorance about the relative importance of various determinants of business decisions. It may be supported by empirical findings on the importance of policy complementarities, which suggest that economic performance depends on good policies being applied across the board, that is, very good polices in one area cannot offset poor policies in another. The equal-weight method is likely to be a closer reflection of the latter point than a weighting system that assigned above-average significance to some categories.

The weights for deriving category scores from individual indicators are in four cases based on correlation coefficients between indicators and average inflows of FDI in 2002-06 and on business survey results. For the remaining six categories, all indicators have equal weights in deriving category scores.

Appendix 5: Business rankings questionnaire

This questionnaire is composed of quantitative and qualitative indicators. The purely quantitative indicators are denoted by a single asterisk (*). Indicators with a double asterisk (**) are partly based on data. All other indicators are based on qualitative assessment.

I Political environment

Ia. Political stability

1. What is the risk of armed conflict (civil or external) during the forecast period?
⑤ Very low ④ Low ③ Moderate ② High ① Very high

2. What is the risk of significant social unrest during the forecast period?
⑤ Very low ④ Low ③ Moderate ② High ① Very high
Consider: large-scale demonstrations and inter-ethnic, racial or religious clashes; levels and direction of change of income inequality and unemployment; opposition to the IMF; serious labour disputes.

3. How clear, established and accepted are constitutional mechanisms for the orderly transfer of power from one government to another?
⑤ Very clear, established and accepted
④ Clear, established and accepted
③ One of the three criteria is absent
② Two of the three criteria are absent
① Not clear, not established, not accepted
To distinguish between 4 and 5, score 5 if mechanisms in place prior to 1970, 4 otherwise.

4. Assess the impact on business of the relations between the government and opposition
⑤ Relations are smooth and present little risk to business
④ Relations can be fraught, with some moderate risk to policy predictability
③ Fraught relations and risks to political stability and policy predictability
② Relations are poor and this poses major risks for business
① Conflict between government and opposition poses risks of major political disruptions
Consider: the impact of government-opposition relations on the predictability of the business and policy environment; the risk of major political disruptions; the extent to which governing and opposition forces engage in populist rhetoric.

If the country is authoritarian, with latent or suppressed opposition, then score according to the risk (5 very low to 1 very high) that the government's efforts to suppress opposition could lead to serious disturbances in the policy and business environment.

5. Assess the threat of politically motivated violence (terrorism) to the conduct of government and business.
⑤ None ④ Low ③ Moderate ② High ① Very high

6. Assess the threat of international disputes and tensions to the economy and/or polity during the forecast period.
⑤ None ④ Low ③ Moderate ② High ① Very high

Ib. Political effectiveness

7. Is the present or prospective government likely to implement open, liberal and pro-business policies for nationals and foreigners?
⑤ Strongly yes ④ Yes ③ Inconsistently
② No ① Strongly no

8. Assess the effectiveness of the political system in formulating and executing policy.
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: tensions between the legislative and executive branches of government; instability in government formation; cohesion of the legislature.

9. Assess the quality of the bureaucracy and its ability to carry out government policy.
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: the amount of red tape encountered by business and the country's administrative procedures.

10. Assess the degree of transparency and fairness of the political system (including the judiciary).
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: the freedom of the press; the separation between the state and the ruling party; the consistency of the application of the law.

11. Assess the efficiency of legal system
Assess the speed and efficiency of the legal system
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: length of legal cases and time required to enforce contracts through the courts. Historic data from World Bank, Doing Business, supplemented by business survey data and Economist Intelligence Unit assessments.

12. Assess the pervasiveness of corruption among public officials.
⑤ Very low ④ Low ③ Moderate ② High ① Very high
Consider: how long the regime or government has been in power; the number of officials who are appointed rather than elected; the frequency of reports or rumours of bribery (the perception of degree to which public officials are involved in corrupt practices such as the misuse of public office for private benefit, accepting bribes, dispensing favours and patronage for private gain).

13. Is crime a problem for government and business?
⑤ Strongly no ④ No ③ Somewhat of a problem
② Yes ① Strongly yes
Consider: the impact on business of organised crime and of violent crimes. Guide (violent crimes per 100,000 inhabitants). Score 5 if less than 27; score 4 if 27 to 58; score 3 if 59 to 89; score 2 if 90 to 179; score 1 if more than 170.

Historical scores based on: incidence of violent crime, adjusted on the basis of business people's impressions on security of property and persons, and Economist Intelligence Unit assessment.

II Macroeconomic environment

*__1__. Average annual inflation
⑤ If less than 3%
④ If between 3% and 10%
③ If between 10.1% and 20%
② If between 20.1% and 40%
① If more than 40%

*__2__. Average budget balance/GDP
⑤ If surplus or deficit less than 0.5% of GDP
④ If deficit between 0.5% and 3% of GDP
③ If deficit between 3.1% and 5% of GDP
② If deficit between 5.1% and 7% of GDP
① If more than 7% of GDP

*__3__. Average government debt/GDP
⑤ If less than 40% of GDP
④ If between 40% and 60% of GDP
③ If deficit between 60.1% and 80% of GDP
② If deficit between 80.1% and 100% of GDP
① If more than 100% of GDP

*__4__. Exchange-rate volatility; measured by the coefficient of variation of annual NCU:SDR rates
⑤ If less than 0.05
④ If between 0.05 and 0.09
③ If between 0.091 and 0.12
② If between 0.121 and 0.3
① If more than 0.3

*__5__. External stability; measured by current-account balance/GDP
⑤ If surplus or deficit of less than 1% of GDP
④ If deficit between 1% and 2.5% of GDP
③ If deficit between 2.6% and 4% of GDP
② If deficit between 4.1% and 5% of GDP
① If deficit more than 5% of GDP

6. Assess the quality of macroeconomic policymaking
⑤ Exemplary record of consistently prudent and successful policymaking
④ Macroeconomic policies are solid, but could benefit from some reforms
③ Suboptimal fiscal/monetary policy mix; increases exposure to external shocks
② Macroeconomic policies are inconsistent with sustained stability
① Very serious deficiencies in policymaking
Consider: the quality of fiscal and monetary policy management. Is it prudent, consistent and credible? Is the mix appropriate? Does monetary policy need to be excessively tight to offset fiscal laxity?

7. Assess the extent and depth of the institutional underpinnings for macroeconomic stability
⑤ Long-established and strong; independent central bank
④ Solid institutional underpinnings; central bank formally autonomous, but subject to political pressure
③ Moderate institutional underpinnings; central bank subject to strong political pressure
② Weak institutional underpinnings, central bank not independent
① Very weak institutional underpinnings; governments dictate monetary policy
Consider: the degree of independence of the central bank. How strong are informal pressures on the monetary authorities to prioritise short-term growth over stability. Consider the track record of successful implementation and commitment to IMF programme. If part of a currency union, question refers to the common monetary authority.

8. Assess the risk of a steep decline in asset prices (property, shares, bonds)
⑤ Very high ④ High ③ Moderate ② Low ① Very low

III Market opportunities

***1.** GDP at PPP, 2000 constant prices, average during the period
⑤ If more than US$900bn
④ If between US$281bn and US$900bn
③ If between US$146bn and US$280bn
② If between US$40bn and US$145bn
① If less than US$40bn

***2.** GDP per head at PPP, 2000 constant prices, average during the period
⑤ If more than US$26,500
④ If between US$17,010 and US$26,500
③ If between US$9,010 and US$17,000
② If between US$4,000 and US$9,000
① If less than US$4,000

***3.** Average annual GDP growth
⑤ If more than 6%
④ If between 4.1% and 6%
③ If between 2.1% and 4%
② If between 1.1% and 2%
① If less than 1%

***4.** Share of world merchandise trade
⑤ If more than 2%
④ If between 0.81% and 2%
③ If between 0.41% and 0.8%
② If between 0.2% and 0.4%
① If less than 0.2%

***5.** Average annual rate of growth of exports of goods and non-factor services
⑤ If more than 11%
④ If between 9.1% and 11%
③ If between 5.1% and 9%
② If between 2% and 5%
① If less than 2%

***6.** Average annual rate of growth of imports of goods and non-factor services
⑤ If more than 11%
④ If between 9.1% and 11%
③ If between 5.1% and 9%
② If between 2% and 5%
① If less than 2%

*__7.__ The natural resource endowment (based on World Bank estimates of monetary value (US$ bn in 1990 prices) of countries' natural resources endowments)
⑤ Very rich: if more than US$1trn
④ Rich: if between US$501bn and US$1trn
③ Fair: if between US$151bn and US$500bn
② Poor: if between US$50bn and US$150bn
① Very poor: if less than US$50bn

8. Profitability (proxied by the inverse of the incremental capital output ratio—ICOR; equals average real GDP growth over the period divided by the average ratio of fixed investment in GDP, in current prices, multiplied by 100)
⑤ If more than 23
④ If between 16.1 and 23
③ If between 7.1 and 16
② If between 4 and 7
① If less than 4

9. The extent of regional integration.
⑤ The country belongs to an economic union. There is freedom of movement for goods, people and capital (eg the EU).
④ The country is part of a free trade area (eg NAFTA), and there are few sectoral restrictions. Or the country enjoys a very high level of preferential access to a major regional trade area.
③ The RTA is formally a free trade area, but there are a large number of sectoral and other restrictions (eg Mercosur or ASEAN). Or the country enjoys considerable preferential access to a major regional trade area.
② Formally may be a member of a trade regional grouping, but in practice, intra-bloc trade remains significantly restricted and any preferential access to major regional trade areas is limited.
① Not member of any regional trade grouping.

10. Proximity to major world markets (air distance to US, EU or Japan; in km)
⑤ Very close: if less than 1,000 km
④ Close: if between 1,000and 1,600 km
③ Moderately close: if between 1,599 km and 3,400 km
② Far away: if between 3,399 km and 6,000 km
① Very far away: if more than 6,000 km

IV Policy towards private enterprise and competition

1. Degree to which private property rights are guaranteed and protected
⑤ Very high: private property guaranteed by state and efficient contract enforcement
④ High: private property guaranteed but enforcement sometimes imperfect
③ Moderate: property rights recognised but enforcement lax
② Low: inadequate protection
① Very low: protection non-existent or very low, predominantly state ownership

2. Level of government regulation (mainly licensing procedures) on setting up new private businesses
⑤ Very low: regulations straightforward and applied uniformly to all
④ Low: simple licensing procedures, fairly simple regulations, applied uniformly most of the time
③ Moderate: haphazard application of regulations, complicated licensing, can be significant hindrance
② High: major barriers to opening business, government quotas, complex and expensive licensing procedures
① Very high: discouragement of new business, random application of regulations

3. Freedom of existing businesses to compete
⑤ Very high ④ High ③ Moderate ② Low ① Very low

4. Government policy on actively promoting competition and curbing unfair business practices
⑤ Very good: unrestricted entry to almost all markets; effective enforcement of well-drafted competition policy
④ Good: significant actions to reduce monopoly power and promote competitive environment
③ Fair: some actions to curb monopoly power; reduction of entry restrictions
② Poor: competition policy and legislation exist; little enforcement action
① Very poor: no effective competition institutions or legislation

5. Protection of intellectual property
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor
Consider: how strict and well-enforced the regulations are. How efficient are the courts in dealing with transgressors? Can the injured party gain an injunction? Does protection extend to patents, trademarks and service marks?

6. Price controls
⑤ Very few or none
④ In a few areas, usually including energy and some utilities
③ In some areas, including energy, agricultural products and some household staples
② In a significant number of industrial sectors as well as utilities
① Extensive

7. Distortions in the business environment arising from special interest groups' lobbying of government
⑤ Very low ④ Low ③ Moderate ② High ① Very high

8. Degree to which state control and ownership of enterprises distorts the business environment
⑤ Very low ④ Low ③ Moderate ② High ① Very high

9. Degree of protection of minority shareholders' rights
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: legislation, corporate governance rules and commitments, publicised cases of the abuse of minority shareholders' rights

3. Risk of expropriation of foreign assets
⑤ Non-existent ④ Very low ③ Low ② Moderate ① High
Consider: outright nationalisation or creeping expropriation in which progressive restrictions or local ownership requirements strip foreign investor of control.

4. Availability of investment protection schemes
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor
Consider: the extent of country coverage of investment protection schemes.

5. Assess the degree to which the authorities favour domestic interests over foreign companies.
⑤ No favouritism; level playing
④ Some strictly limited favouritism
③ Moderate degree of favouritism
② High degree of favouritism
① Very high degree of favouritism
Consider: factors such as government's proclivity to promote "national champions", and anti-foreign collusion between government and domestic business groups.

V Policy and attitudes towards foreign investment

1. Government policy towards foreign capital
⑤ Very encouraging: investment encouraged, almost no restrictions on activity
④ Encouraging: restrictions on investment in certain areas such as natural resources and utilities
③ Fairly encouraging: some restrictions in addition to utilities
② Restrictive: extensive restrictions, investments examined on a case-by- case basis
① Very restrictive: investment banned or heavily discouraged
Consider: restrictions on fields of activity and ownership shares, whether effective treatment is fair and equitable, the ease and speed of registration procedures.

2. Openness of national culture towards foreign influence
⑤ Very open ④ Open ③ Fairly open ② Fairly closed ① Closed

VI Foreign trade and exchange regimes

1. Capital account liberalisation
⑤ Full liberalisation
④ Almost all capital flows free; a few sectors excepted; minor administrative procedures
③ Inward and outward investment allowed, but there are significant regulatory restrictions to capital mobility
② Special government approval required for any outward investment; heavy restrictions on inward flows
① Tightly controlled capital flows

****2.** Tariff and non-tariff protection (measured by average tariff levels; if non-tariff barriers such as trade quotas, licensing and import inspection are significant, score is reduced by at least 1 point)
⑤ Very low: if average tariff less than 5%
④ Low: if average tariff between 5% and 10%
③ Moderate: if average tariff between 10.1% and 15%
② High: if average tariff between 15.1% and 20%
① Very high: if average tariff more than 20%

*__3__. Openness: actual trade as % of GDP versus "expected" trade ("expected" trade based on pooled regression relating share of trade in GDP to geographic size, population and location relative to potential trading partners)
⑤ Very high: if more than 1.5
④ High: if between 1.17 and 1.5
③ Moderate: if between 0.91 and 1.16
② Low: if between 0.6 and 0.9
① Very low: if less than 0.6

4. Assess the speed and complexity of conducting cross-border trade
⑤ Few border delays; simple and brief documentation
④ Some border delays and non-trivial documentation requirements
③ Considerable delays and extensive documentation required
② Lengthy delays and onerous documentation requirements
① Very long border delays and extremely complex bureaucracy
Consider: border delays for exports and imports; complexity and extent of required documentation. World Bank *Doing Business* for historic scores.

5. Transactions on the current account
⑤ Full IMF Article VIII convertibility
④ Currency almost fully convertible; minor restrictions still in place
③ High degree of formal liberalisation, but significant restrictions
② Partial liberalisation; multiple exchange rates
① Very restricted

VII Tax regime

**__1__. Corporate tax burden
⑤ Very low: if top corporate tax less than 25%
④ Low: if top rate between 25% and 30%
③ Moderate: if top rate between 30.1% and 35%
② High: if top rate between 35.1% and 40%
① Very high: if top rate more than 40%
Consider: how exemptions or the operation of the system may affect the scores based on official tax rates. If foreign and domestic firms face different tax regimes, consider separately for each. Consider special incentives and allowances for foreign-owned firms, as well as very significant transfer pricing tolerated by governments. Final scores for corporate tax burden should be an average of the two regimes.

*__2__. The top marginal personal income tax rate
⑤ Very low: if less than 35%
④ Low: if between 35% and 40%
③ Moderate: if between 41% and 49%
② High: if between 50% and 55%
① Very high: if more than 55%

*__3__. Value-added tax (VAT)
⑤ Very low: if VAT rate less than 10%
④ Low: if tax rate between 10% and 15%
③ Moderate: if tax rate between 15.1% and 20%
② High: if top rate between 20.1% and 24%
① Very high: if top rate more than 24%

*__4__. Employers' compulsory social security contributions
⑤ Very low: if less than 7%
④ Low: if between 7% and 14%
③ Moderate: if between 14.1% and 22%
② High: if between 22.1% and 30%
① Very high: if more than 30%

5. Assess the degree to which the fiscal regime encourages new investment
⑤ Very high ④ High ③ Moderate ② Low ① Very low

6. Assess the consistency and fairness of the tax system
⑤ Very high ④ High ③ Moderate ② Low ① Very low

7. Assess the complexity of the tax system
⑤ Very simple ④ Simple ③ Moderately complicated
② Complicated ① Very complicated
Consider: the number of taxes that have to be paid and the time taken to process tax payments. Word Bank, *Doing Business* for historic data and business surveys.

VIII Financing

1. Degree of openness of banking sector
⑤ Very high: very few or no restrictions on foreign banks; government controls few commercial banks
④ High: few limits on foreign banks; some limits on financial services
③ Moderate: barriers to new bank formation; significant government influence
② Low: banks tightly controlled by government
① Very low: financial institutions in chaos
Consider: freedom of foreign banks to operate and to provide range of financial services.

***2** Financial depth; stockmarket capitalisation (US$ per head)
⑤ If more than US$12,000
④ If between US$5,001 and US$12,000
③ If between US$501 and US$5,000
② If between US$100 and US$500
① If less than US$100

****3.** Degree of distortion in financial markets
⑤ Very low: real interest rates consistently low and positive; low differential between deposit and lending rates
④ Low: positive real interest rates, but differential between deposit and lending rates is at least 5%
③ Moderate: single-digit negative real interest rates
② High: double-digit negative real rates and large deposit-lending rate differentials
① Very high: severe disruptions in credit market
Consider: interest-rate controls; negative real interest rates; differential between deposit and lending rates; credit market disruptions.

4. Quality of the financial regulatory system
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor

5. Access of foreigners to local capital market
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor

6. Access to medium-term finance for investment
⑤ Very good: easy access to foreign and domestic financial markets for the entire range of financial instruments
④ Good: reasonable access, but impaired in at least one category, usually equity finance
③ Fair: access to foreign markets mainly for foreign-owned firms. Can tap domestic bank finance, but limited availability of other vehicles
② Poor investment mainly self-financed. Limited bank finance
① Very poor: acute shortage of investment finance

IX Labour market and skills

****1.** Incidence of strikes; working days lost per 1,000 population per year
⑤ Very low: if less than 2
④ Low: if between 2 and 10.5
③ Moderate: if between 10.6 and 32
② High: if between 32.1 and 60
① Very high: if more than 60

***2.** Labour costs adjusted for productivity (costs measured by average hourly dollar earnings in manufacturing; productivity proxied by GDP per head at PPP)
⑤ Very low: if index (US=100) less than 30
④ Low: if between 30 and 60
③ Moderate: if between 60.1 and 120
② High: if between 120.1 and 160
① Very high: if more than 160
Sources for wage data: US Department of Labor, *International Labor Comparisons*; UNIDO, *Industry and Development*; International Labour Office, *International Labour Statistics Yearbook*.

***3.** Availability of skilled labour; mean years of schooling
⑤ Very good: if more than 11
④ Good: if between 9 and 11
③ Fair: if between 7 and 8.9
② Poor: if between 4 and 6.9
① Very poor: if less than 4

4. Quality of work force (flexibility, adaptability, initiative)
⑤ Very high ④ High ③ Moderate ② Low ① Very low

5. Degree of restrictiveness of labour laws on hiring and firing practices
⑤ Very low ④ Low ③ Moderate ② High ① Very high

6. Extent of wage regulation
⑤ Very low: wages determined by supply and demand; no wage regulation; no minimum wage law or law not enforced
④ Low: wages determined mainly by supply and demand; some minimum wage regulations for specific sectors
③ Moderate: some controls including strict minimum wage law
② High: extensive wage controls; government influence extensive
① Very high: government determines wage structure

7. The hiring of foreign nationals
⑤ Very easy
④ Easy
③ With some difficulty
② With great difficulty
① Almost impossible
Consider: immigration barriers; rules on employment of local nationals; unofficial barriers

***8.** Cost of living (mid-1998 base; index New York=100)
⑤ Very low: if lower than 88
④ Low: if between 89 and 93
③ Moderate: if between 94 and 100
② High: if between 101 and 115
① Very high: if more than 115

9. Assess the availability and quality of local managerial staff
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor

10. Assess the degree to which language skills of the workforce meet the needs of business
⑤ Very high ④ High ③ Moderate ② Low ① Very low
If English is the native language score 5, except if there is evidence that poor foreign-language skills of the workforce have had an adverse impact on business

11. The health of the workforce (based on average life expectancy)
⑤ Very good: if life expectancy higher than 77
④ Good: if between 75 and 77
③ Moderate: if between 70 and 74.9
② Poor: if between 65 and 69.9
① Very poor: if less than 65

12. The technical skills of the workforce
⑤ Abundant supply, at a reasonable cost, of technically skilled professionals; full range of training and development programmes
④ Reasonable supply of technically skilled labour; some availability of training and development programmes
③ Technically skilled available but at a high price; training for fraction of workforce. Older workers resistant to new technology
② Widespread shortage of technical skills; few technical education opportunities
① Multinationals need to import all but the most basic technical skills

X Infrastructure
Xa ICT infrastructure

***1.** Fixed-line telephone density: phone lines per 1,000 population
⑤ Very high: if more than 480
④ High: if between 351 and 480
③ Moderate: if between 121 and 350
② Low: if between 40 and 120
① Very low: if less than 40

****2.** Reliability of telecoms network: faults per 100 phone lines per year
⑤ Very good: if less than 13
④ Good: if between 13 and 23
③ Fair: if between 24 and 56
② Poor: if between 57 and 200
① Very poor: if more than 200
Historical scores adjusted on the extent to which: network meets business needs. Where data on faults unavailable, average waiting time for instalment of new lines is used as a proxy measure of quality.

***3.** The costs of international phone calls (US$ per 3 minutes to US)
⑤ Very low: if lower 0.7
④ Low: if between 0.7 and 1.75
③ Moderate: if between 1.76 and 2.5
② High: if between 2.51 and 4
① Very high: if more than 4
Based on cost of three-minute call to the US (for US, cost of call to Europe).

*__4__. Mobile phone penetration, subscribers per 100 inhabitants
⑤ Very high: if more than 80
④ High: if between 60 and 80
③ Moderate: if between 30 and 59
② Low: if between 10 and 29
① Very low: if less than 10

*__5__. Number of Internet users, per 100 inhabitants
⑤ Very high: if more than 45
④ High: if between 30 and 44
③ Moderate: if between 15 and 29
② Low: if between 5 and 14
① Very low: if less than 5

*__6__. Number of broadband subscribers, per 100 inhabitants
⑤ Very high: if more than 9
④ High: if between 5 and 9
③ Moderate: if between 0.5 and 4.9
② Low: if between 0.1 and 0.49
① Very low: if less than 0.1

*__7__. Stock of personal computers (per 1,000 inhabitants)
⑤ If more than 170
④ If between 80% and 170%
③ If between 20 and 79.9%
② If between 3 and 19.9%
① If less than 3

*__8__. Technological infrastructure, the share of expenditure on research and development (R&D) in GDP
⑤ If more than 1.8%
④ If between 1% and 1.8%
③ If between 0.5% and 99%
② If between 0.1% and 49%
① If less than 0.1%

9. The availability and quality of the local research infrastructure
⑤ Very high ④ High ③ Moderate ② Low ① Very low
Consider: the quality of domestic research institutions; the extent of university-industry co-operation; the availability of scientists and engineers and the availability of skilled researchers

Xb Transport and other infrastructure

**__10__. Road density: km of paved roads per million population
⑤ Very high: if more than 10,000
④ High: if between 5,401 and 10,000
③ Moderate: if between 1,401 and 5,400
② Low: if between 500 and 1,400
① Very low: if less than 500
Historical scores adjusted on the basis of: business surveys on the extent to which country's road network meets business requirements.

*__11__. Annual production of electricity per head; kwh per head
⑤ Very high: if more than 7,000
④ High: if between 4,501 and 7,000
③ Moderate: if between 2,501 and 4,500
② Low: if between 750 and 2,500
① Very low: if less than 750

12. The infrastructure for retail and wholesale distribution
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor
Historical scores based on: data on retail outlets per million population and Economist Intelligence Unit assessment.

**__13__. Extent and quality of rail network; rail density: km per million population
⑤ Very high: if more than 750
④ High: if between 351 and 750
③ Moderate: if between 161 and 350
② Low: if between 70 and 160
① Very low: if less than 70

14. Assess the quality of the ports infrastructure
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor

15. Assess the quality of the air transport infrastructure
⑤ Very good ④ Good ③ Fair ② Poor ① Very poor
Consider: reputation for efficiency, quality of service to passengers, safety record of main carriers. Extent and quality of airport infrastructure

*__16__. Rents of office space (US$ per sq metre per month)
⑤ Very low: if less than US$20
④ Low: if between US$20 and US$28
③ Moderate: if between US$28.1 and US$33
② High: if between US$33.1 and US$50
① Very high: if more than US$50

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