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World Investment Prospects to 2010: Boom or Backlash?, edited by Laza Kekic and Karl P. Sauvant, (London: The Economist Intelligence Unit Ltd., 2006)

Karl P. Sauvant, *Columbia University*

World Investment Prospects to 2010: Boom or Backlash?

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On September 5, 2006, the Columbia Program on International Investment, now the Vale Columbia Center on Sustainable International Investment, partnered with the Economist Intelligence Unit, a member of The Economist Group, to publish *World Investment Prospects to 2010: Boom or Backlash?* – a joint publication from the *World Investment Prospects* annual series. This 2006 publication contains FDI-flow forecasts at the global and regional levels for 2006-2010, as well as for 82 countries. It also contains FDI data, business environment rankings and market profiles; an analysis of FDI trends and of important topical issues; and a data annex.

Download the Special Edition of the 2006 report (those parts of the report that contain an analysis of future and past investment flows and key issues surrounding them).

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World investment prospects to 2010
Boom or backlash?

Special edition

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This Special Edition is an abbreviated version of World Investment Prospects to 2010, an Economist Intelligence Unit report written with the Columbia Program on International Investment. The full report is available to buy from the Economist Intelligence Unit's Online Store at http://store.eiu.com.

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Executive summary

Global foreign direct investment (FDI) flows will be pushed upwards by buoyant growth, competitive pressures and improvements in business environments in most countries. But constraining factors, such as geopolitical risks, will keep flows below what they might otherwise be. Global FDI recovered in 2004-05 after a deep three-year slump. Following a further strong increase in FDI inflows in 2006, to over US$1trn, growth will slow. The baseline forecast—neither a boom nor a backlash—sees world FDI inflows climbing gradually back, in nominal US dollar terms, to their 2000 peak total of US$1.4trn by 2010. Contrary to the experience of recent years and to widespread expectations about continued strong FDI growth in emerging markets, the bulk of the increase in global FDI in 2006-10 is expected to take place in the developed countries.

A recovery—of sorts

Global FDI inflows increased to US$955bn in 2005, a 19% increase in nominal US dollar terms on the 2004 total. This followed a 22% increase in global inflows in 2004, to US$802bn. In nominal US dollar terms, the 2005 total was the third-highest on record (global inflows reached US$1.1trn in 1999 and peaked at US$1.4trn in 2000). The 2004-05 recovery in global

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World FDI inflows	**875.1**	**733.2**	**655.8**	**801.7**	**954.8**	**1,165.0**	**1,222.5**	**1,285.3**	**1,342.9**	**1,407.3**
Rate of growth (%)	-38.1	-16.2	-10.6	22.2	19.1	22.0	4.9	5.1	4.5	4.8
% of GDP	2.8	2.3	1.8	2.0	2.2	2.4	2.3	2.4	2.4	2.4
FDI inflows to developed countries	**586.4**	**539.6**	**453.9**	**485.6**	**555.6**	**754.3**	**814.8**	**880.7**	**929.0**	**979.4**
Rate of growth (%)	-48.2	-8.0	-15.9	7.0	14.4	35.8	8.0	8.1	5.5	5.4
% of GDP	2.4	2.2	1.6	1.6	1.7	2.2	2.2	2.3	2.3	2.4
% of world total	67.0	73.6	69.2	60.6	58.2	64.8	66.7	68.5	69.2	69.6
FDI inflows to emerging markets	**288.7**	**193.7**	**201.9**	**316.1**	**399.2**	**410.6**	**407.7**	**404.7**	**413.9**	**427.9**
Rate of growth (%)	2.4	-32.9	4.3	56.5	26.3	2.8	-0.7	-0.7	2.3	3.4
% of GDP	3.9	2.5	2.3	3.1	3.4	3.0	2.8	2.6	2.4	2.3
% of world total	33.0	26.4	30.8	39.4	41.8	35.2	33.3	31.5	30.8	30.4
World stock of inward FDI	**6,433**	**7,102**	**8,455**	**9,622**	**10,317**	**11,450**	**12,639**	**13,888**	**15,192**	**16,560**
Rate of growth (%)	6.0	10.4	19.1	13.8	7.2	11.0	10.4	9.9	9.4	9.0
% of GDP	20.5	21.8	23.2	23.5	23.4	24.1	24.2	25.5	26.7	27.8
Developed-country stock of inward FDI	**4,253**	**5,078**	**6,088**	**6,778**	**7,068**	**7,759**	**8,500**	**9,297**	**10,134**	**11,020**
Rate of growth (%)	6.0	19.4	19.9	11.3	4.3	9.8	9.5	9.4	9.0	8.7
% of GDP	17.8	20.3	21.7	21.8	21.7	22.5	22.6	24.0	25.4	26.6
% of world total	66.1	71.5	72.0	70.4	68.5	67.8	67.2	66.9	66.7	66.5
Emerging-markets stock of inward FDI	**2,181**	**2,024**	**2,367**	**2,844**	**3,249**	**3,691**	**4,140**	**4,591**	**5,058**	**5,540**
Rate of growth (%)	6.0	-7.2	17.0	20.2	14.2	13.6	12.1	10.9	10.2	9.5
% of GDP	29.1	26.1	27.2	27.9	27.3	27.3	28.1	29.1	29.8	30.2
% of world total	33.9	28.5	28.0	29.6	31.5	32.2	32.8	33.1	33.3	33.5

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

FDI flows followed a deep three-year slump (no previous FDI downturn in recent decades had been as severe or had exceeded two years).

Despite the recovery in 2004 and 2005, FDI inflows as a percentage of the world's GDP, at 2.2% in 2005, were still less than half their level at the end of the previous decade. Furthermore, the 2005 global total for FDI inflows was heavily influenced by two large accounting transactions—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, which 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). Netting out these two transactions, global FDI inflows would have amounted to US$875bn in 2005, or only 9% more than in 2004. Rather than increasing, the 2005 total for the developed world would have been slightly lower than in 2004.

The picture also changes if we express FDI inflows in terms of constant prices, using US dollar-based import price indices. The recovery in developed-country inflows in 2004-05 looks especially weak in constant price terms. Taking into account the impact of both the (necessarily imprecise) constant price estimates as well as of the fact that corporate restructurings in effect inflated inflows in 2005, one would have to conclude that FDI into the developed world has still not recovered from its post-2000 downturn.

Emerging markets lead the recovery—

In both 2004 and 2005, emerging markets accounted for the bulk of the increase in FDI inflows. After recovering by 57% in US dollar terms in 2004, FDI inflows into emerging markets grew by 26% in 2005 to reach a record high of almost US$400bn (more than 40% of the global total). FDI inflows increased to all emerging-market regions, and reached record levels in every single region except Latin America and the Caribbean. Recent trends in FDI have been underpinned by rising corporate profits and improved balance sheets, as well as buoyant economic growth. Higher prices for many commodities also stimulated FDI in countries that are rich in natural resources.

Concentration of FDI into emerging markets remains relatively high, with the top ten recipients accounting for about 60% of all inflows to emerging markets. The concentration is nevertheless lower than the record rates of 70% and more in the late 1990s. Among the so-called BRICs countries (Brazil, Russia, India and China), Russia and India are relative newcomers to the top ten.

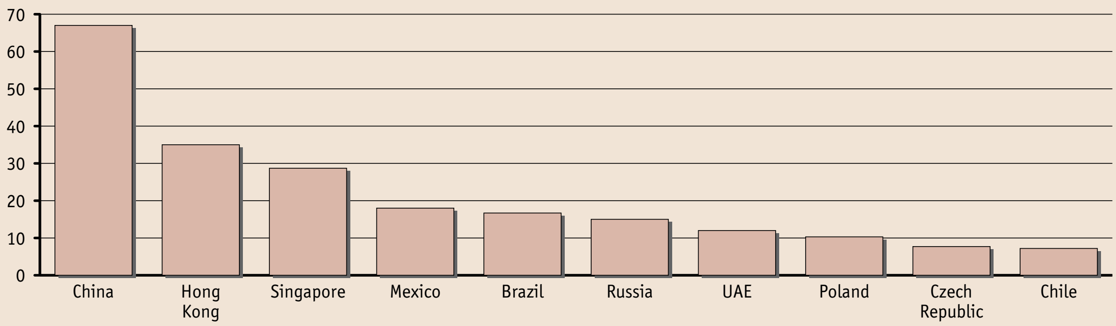
China was far and away the main FDI recipient among emerging markets. With a record inflow of US$79bn, China accounted for one-fifth of all inflows into emerging markets in 2005. A large part of the increase in China was accounted for by financial sector investments worth some US$12bn.

—but are likely to disappoint in the future

During the forecast period, the pattern of 2004-05, when emerging markets drove the recovery, will be

Top emerging-market FDI recipients

(US$ bn; annual av, 2004-05)



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

reversed—inflows into emerging markets in 2006 are expected to increase by only about 2.8% in US dollar terms, whereas inflows into the developed world are projected to rise by 36%. In part this is because of the delay in the recovery in intra-developed country flows, whereas the bounceback in flows to the emerging markets occurred about two years earlier.

Contrary to the experience of the past two years and to widespread expectations about the concentration of new FDI in the emerging world, almost the entire increase in global FDI in 2006-10, relative to the 2005 level, is expected to take place in the developed countries, in large part because of the pattern of crossborder mergers and acquisitions (M&As). Although FDI flows to the emerging markets are expected to remain buoyant, averaging more than US$400bn per year in 2006-10, there will be only modest further growth in inflows from the record highs achieved in 2004-05.

The outlook for emerging markets will be adversely affected by a slowdown in growth after 2007. The fact that privatisation prospects will tail off in many leading emerging markets will dampen inflows, as will increased risk perceptions about some emerging markets among many investors. In a few countries, populism and nationalism are on the rise, culminating in some cases in the repudiation of existing contracts with foreign firms. Protectionism, structural weaknesses and financial and corporate vulnerabilities in emerging markets in some regions could hinder FDI. External imbalances and the possibility of sharp exchange-rate fluctuations, as well as volatile commodity prices, pose risks that could also hamper investment activity.

China to remain the main emerging-market recipient

A large pipeline of commitments suggests that FDI into China is likely to exceed US$80bn in 2006. It is expected to remain at or above that level over the medium term. Despite an impressive range of factors that underpin the Economist Intelligence Unit's baseline expectation of buoyant FDI into China, there are also some factors that will keep FDI below potential, 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.

A saturation of investment is affecting some Chinese industries, and this may deter further FDI. Intense price competition and rising raw-materials prices have cut profit margins in some sectors. Another dampening effect will come from the alignment of corporate tax rates levied on domestic and foreign firms (towards the higher domestic rate), expected probably in 2008. At present, foreign companies operating in China enjoy a preferential tax rate as low as 15%, compared with 33% for Chinese firms. China's price competitiveness will be maintained over the forecast period. On baseline assumptions, there seems little risk that much FDI will be diverted from China to cheaper locations. However, if the upward pressure on the renminbi leads to appreciation that is much stronger than anticipated, that might also hold back inward FDI flows.

FDI into India will grow but will remain very low in relation to the size and potential of its economy. Although manufacturing is generally open to foreign investment and there has recently been substantial liberalisation of the FDI regime in some sectors, such as telecommunications, FDI opportunities in other sectors are limited. Inflexible labour laws are also restricting FDI inflows into India. India's poor infrastructure is a major barrier to investment.

Global FDI in 2006-10

The forecast total in global FDI inflows in 2006 of US$1.16trn, a 22% increase over 2005, will be the first time since 2000 that global inflows will have surpassed the US$1trn mark. Economic growth and the delayed impact on FDI flows of an ongoing M&A boom will underpin this expansion. After 2006, global FDI flows will continue to rise, but the rate of growth is expected to slow. Between 2006 and 2010 global FDI inflows are projected to grow at an annual average rate of 8%. Growth in global FDI flows will exceed the rate of growth in world output, but, unlike in the pre-2000 period, it is expected to lag slightly behind

Table 2
FDI inflows
(2006-10 average)

	US$ bn	Rank	% of world total		US$ bn	Rank	% of world total
US	298.1	1	23.21	Colombia	4.3	43	0.34
UK	89.4	2	6.96	Ukraine	4.3	44	0.33
China	85.7	3	6.67	Malaysia	4.1	45	0.32
France	69.9	4	5.45	Indonesia	4.0	46	0.32
Netherlands	50.4	5	3.92	Thailand	3.6	47	0.28
Germany	39.5	6	3.08	Vietnam	3.3	48	0.25
Canada	38.3	7	2.98	New Zealand	2.6	49	0.20
Belgium	33.8	8	2.63	Qatar	2.6	50	0.20
Hong Kong	33.3	9	2.59	Morocco	2.3	51	0.18
Spain	28.8	10	2.24	Angola	2.2	52	0.17
Italy	24.6	11	1.91	Bulgaria	2.2	53	0.17
Sweden	22.4	12	1.75	Venezuela	2.2	54	0.17
Singapore	22.3	13	1.73	Slovakia	2.1	55	0.17
Russia	21.9	14	1.71	Peru	2.1	56	0.16
Ireland	20.3	15	1.58	Nigeria	2.1	57	0.16
Mexico	19.1	16	1.49	Greece	2.0	58	0.16
Brazil	18.2	17	1.41	Croatia	1.9	59	0.15
Australia	13.3	18	1.03	Serbia	1.8	60	0.14
India	11.6	19	0.90	Saudi Arabia	1.7	61	0.13
Switzerland	10.6	20	0.82	Azerbaijan	1.7	62	0.13
Chile	10.4	21	0.81	Philippines	1.6	63	0.13
Austria	9.7	22	0.75	Pakistan	1.6	64	0.13
Turkey	9.6	23	0.75	Libya	1.6	65	0.12
UAE	9.6	24	0.74	Tunisia	1.3	66	0.10
South Korea	8.7	25	0.68	Ecuador	1.3	67	0.10
Poland	8.5	26	0.66	Cyprus	1.3	68	0.10
Japan	7.7	27	0.60	Bahrain	1.3	69	0.10
Denmark	6.6	28	0.51	Lithuania	1.2	70	0.09
Israel	6.2	29	0.49	Dominican Republic	1.1	71	0.09
Romania	6.1	30	0.48	Estonia	1.1	72	0.09
South Africa	6.1	31	0.48	Jordan	1.0	73	0.08
Czech Republic	5.7	32	0.44	Slovenia	0.7	74	0.06
Argentina	5.3	33	0.41	Costa Rica	0.7	75	0.06
Portugal	5.3	34	0.41	Latvia	0.7	76	0.05
Finland	5.3	35	0.41	Bangladesh	0.6	77	0.05
Kazakhstan	5.2	36	0.40	Cuba	0.6	78	0.04
Egypt	5.0	37	0.39	El Salvador	0.4	79	0.03
Iran	5.0	37	0.39	Kuwait	0.4	80	0.03
Algeria	4.9	39	0.38	Sri Lanka	0.3	81	0.02
Taiwan	4.5	40	0.35	Kenya	0.1	82	0.01
Hungary	4.5	41	0.35				
Norway	4.3	42	0.34				

Source: Economist Intelligence Unit.

the annual average rate of growth in world trade in 2006-10.

Despite an array of global risks, on baseline assumptions world economic growth is set to remain buoyant. Other reasons to expect continued growth in FDI over the medium term 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.

The main driver: crossborder M&As

The pick-up in global FDI in 2005 was in part owing to the recovery in M&As (including in crossborder deals, which are the main form of FDI in the developed world). In 2005 the value of completed global crossborder M&As increased by 35% to an estimated US$827bn. This followed a recovery by 56% in 2004 to US$612bn, from the nadir reached in 2003 of US$392bn. Crossborder M&As in the developed world made up 74% of the global total in 2005.

A surge in M&As underpins the expectation of a further significant rise in global FDI in 2006, in particular in the developed world. The value of completed crossborder deals worldwide surged to US$435bn in the first half of 2006, a 48% increase over the same period of 2005. The increase was heavily concentrated in the developed world, with a much more modest increase for deals in emerging markets.

US primacy

FDI inflows into the US slumped in the early part of the decade, reaching a low of US$67bn in 2003. Inflows recovered in 2004-05 to an annual average of US$122bn (equal to 1% of GDP). A pick-up in growth and the weakening of the US dollar made the US attractive to investors. The US is the largest host of FDI in the world, with a historic-cost book value of the stock of FDI in the US of US$1.8trn by the end of 2005. However, this is equivalent to just 15% of GDP, much lower than the figure of 37% of GDP for the UK, 32% for Canada and 25% for Germany, although far above the ratio of 2% for Japan.

FDI inflows into the US are set to rise strongly in 2006-10, and the US is forecast to be far and away the main FDI recipient in the world (with some 23% of the global inflows). Investors will continue to be 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, particularly in 2008-10, when the US economy will emerge from an expected slowdown. Investment growth generally is expected to be strong.

Transatlantic FDI

Globalisation has, to a very considerable extent, been driven by "transatlanticisation", and EU-US investment links will continue to be the main feature of globalisation over the remainder of the decade. The US and the EU are far more deeply integrated than any other economies on almost every measure, and the transatlantic economic relationship is set to deepen further.

We expect investment flows across the Atlantic to grow strongly over the forecast period, particularly from Europe to the US. Strong economic growth, further deregulation, supportive public policy and a continued trend among multinational corporations (MNCs) to internationalise a greater range of functions, such as research and development (R&D), will underpin this trend. Although the risks to this forecast are not insignificant, and we expect the increasing attractiveness of locations outside the transatlantic area, as well as other factors, to have some diverting effect on bilateral flows, the underlying factors driving EU-US FDI flows are strong. Thus "transatlanticisation" can be expected to continue apace, and to remain the most important bilateral FDI link in the world.

Neither boom nor backlash

FDI flows over the forecast period will be influenced by a combination of forces—most of them positive, pushing FDI flows upwards, but some acting as constraining factors that will keep flows below what they might otherwise be. The somewhat uneasy mix of exuberance and caution about investment prospects has been reflected in recent Economist Intelligence Unit surveys of MNC executives.

This year is shaping up to be another good one for the world economy, surpassing the strong performance of 2005. Global growth is forecast to reach a robust 5.2% in 2006 (measured using purchasing power parity—PPP—weights). China and India, along with the US, will continue to be the main drivers of global growth. Global liquidity also remains high by historical standards. With monetary policy being tightened around the world, a modest deceleration in the global economy is forecast in 2007-10, with annual world GDP growth slowing to a still very respectable 4.8%. Other reasons to expect continued growth in FDI include the ongoing global trend towards better business environments; some progress in regional integration; 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. However, several factors will work to dampen FDI flows and keep them below what they would otherwise be. For example, our baseline assumptions envisage that emerging ambivalence and even hostility to FDI in many countries will have some limited impact, as will geopolitical uncertainty.

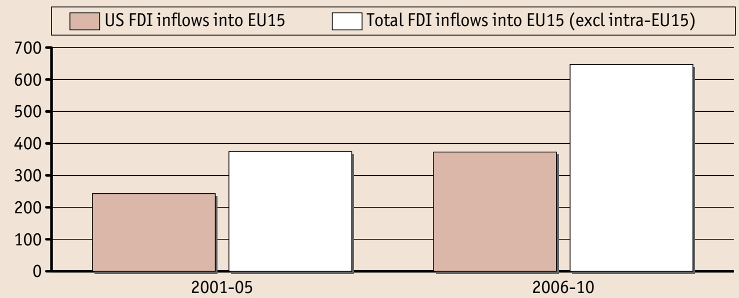
Improving business environments

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.

A possible backlash?

Following decades of liberalisation and openness to FDI, there are, however, also some signs of a possible backlash. The question arises as to whether we may be entering a phase of retrenchment in policies and attitudes towards FDI, with a possible serious negative impact on global FDI flows. 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 may affect investment flows.

FDI inflows into EU15
(US$ bn)



Note. Data for Belgium and Luxembourg are unavailable and thus excluded from EU15 total.
Source: Economist Intelligence Unit.

Crossborder M&As sometimes involve domestic firms that are regarded by politicians as “national champions”—perceived to be important for national security, cultural identity or economic development. Host-country resistance to such investment is becoming more frequent. Recent protectionist reactions in Europe and the US towards some M&As suggest that this favoured mode of entry for MNCs into other markets may become more difficult.

Resistance to crossborder M&As was reflected in the European Commission’s takeover directive, which was diluted compared with initial drafts. Two bills are at present making their way through the US Congress that would subject potential foreign takeovers to more rigorous scrutiny—relatively limited changes are being considered in the House of Representatives and a far more restrictive bill is before the Senate. All these developments demonstrate a potentially significant reservoir of resistance to crossborder M&As. It would be ironic if developed countries—which led the FDI liberalisation wave of the past two decades or so and, like most other countries, benefited from it—now led a backlash against FDI and triggered a roll-back of liberalisation.

The growing unease with FDI has not been limited to developed countries. There are signs that it is spreading to emerging markets. In some countries the terms of existing contracts with MNCs are being questioned; in others there is growing unease with what is seen as excessive dependence on foreign capital.

In their current manifestation, various reactions to FDI do not yet add up to a serious backlash or presage

Table 3
Business environment ranks and scores

	2006-10 Total score	2006-10 Rank	2001-05 Total score	2001-05 Rank	Change in total score	Change in rank
Denmark	8.77	1	8.64	1	0.12	0
Finland	8.72	2	8.57	5	0.15	-3
Singapore	8.69	3	8.59	4	0.10	-1
Canada	8.69	4	8.63	2	0.06	2
US	8.68	5	8.62	3	0.07	2
Netherlands	8.64	6	8.51	8	0.13	-2
UK	8.63	7	8.56	6	0.07	1
Switzerland	8.60	8	8.42	10	0.18	-2
Hong Kong	8.60	9	8.50	9	0.10	0
Ireland	8.57	10	8.52	7	0.05	3
Sweden	8.46	11	8.29	11	0.17	0
Australia	8.41	12	8.14	12	0.27	0
New Zealand	8.37	13	8.14	13	0.23	0
Germany	8.36	14	7.98	14	0.39	0
Belgium	8.28	15	7.89	15	0.39	0
Norway	8.21	16	7.86	16	0.36	0
Austria	8.17	17	7.84	17	0.33	0
France	8.07	18	7.81	18	0.26	0
Taiwan	8.05	19	7.50	21	0.55	-2
Spain	7.90	20	7.45	22	0.45	-2

Our model covers 82 of the largest economies in the world and ranks each of these countries on a range of indicators affecting the business environment—for a five-year historical period (currently 2001-05) and a five-year forecast period (2006-10). 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 2006-10 is expected to be 0.45 points higher than in 2001-05.

a marked slowdown in FDI flows. But there is no call for complacency. Approaches to FDI have changed in the past, and they could change again in the future.

Continuity and change in global FDI

The revival of global FDI that began in 2004 and is expected to continue through the medium term can be compared with the previous upturn in the 1990s, specifically with the period that began in 1994 and ended with the peak year of 2000.

Some important trends will remain much the same. Total global FDI inflows as a share of world GDP are in 2004-10 expected to be very similar to the ratio in the 1994-2000 period, 2.3% versus 2.2%. So is the share of developed-country inflows in the total, of about two-thirds. As in the 1990s, crossborder M&As will 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 was already by far the main recipient in 1994-2000, with almost 6% of the global total. Its share is expected to go up by less than 1 percentage point in 2004-10.

There will also be key differences. Unlike in the 1990s, new forms, such as the role of private equity finance in M&As, will now be far more pronounced. Privatisation drove much FDI in 1990s. With few major assets scheduled for sale in major economies, this will be much less of a factor. There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although it is unlikely to be as dramatic as many observers hope or fear. Compared with earlier years, the outsourcing of services will accelerate, despite some signs that "outsourcing fatigue" has already appeared among many Western companies.

South-South FDI will be of greater importance in 2004-10 than in the previous period—especially involving the BRICs countries, although again the expected shift is often exaggerated. Flows from the South to the North will also increase, despite signs of unease in some developed countries with investment from the South. High international oil prices in 2004-10, and changes in terms of trade, will have implications for FDI flows and the bargaining position of recipient countries for oil-related FDI. Concerns about energy security are now also greater than in the past. FDI to emerging markets will still be highly concentrated. The vast majority of emerging markets, especially those without mineral resources, will continue to get little FDI. In 2004-10 the main change in the emerging-market world is the slow rise of India and Russia as significant FDI recipients. A final and potentially significant difference is that the manifold risks to global FDI and threats to globalisation are significantly higher now than in the 1990s.

The new kids on the block

MNCs from emerging markets, the "new kids on the block", are becoming important players in world FDI. Although almost all developing countries remain net importers of FDI, several of them have also become important outward investors. The principal recipients of this outward direct investment have been other developing countries—mostly located within the same region and often benefiting from proximity to and cultural ties with the investor countries. Another development is the emergence of companies from developing countries as direct investors into OECD economies.

Special attention is being given to the four BRICs economies. Many firms from these countries are seeking to establish a presence abroad to tap resources, skills, distribution networks and brand names to increase their competitiveness. However, the BRICs will remain considerably more integrated into international FDI from the side of inward investment rather than outward investment. Their total FDI outflows in 2005 amounted to only US$28bn, and the share of the BRICs in world total FDI outflows was low. Even with growth to a projected US$60bn in 2010, FDI outflows from the BRICs would represent less than 5% of world FDI outflows and a mere 0.7% of the BRICs' GDP.

Risks loom large

There are a number of downside risks to our baseline forecast. In other words, 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 threats to FDI range from US imbalances to an anti-globalist backlash and the threat of a bird flu epidemic. The possible adverse impact of geopolitical risks, over and above what is already assumed in our baseline forecast, looms large. Three types of, in part inter-related, geopolitical 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. It is most likely that, worldwide, economics will continue to trump populism and political concerns—although it would be wrong to ignore the danger that it just might turn out otherwise.

Alternative scenarios

Our business environment model can be employed to yield estimates of FDI flows under alternative scenarios. In our empirical framework, FDI flows are related to a number of determinants, including income levels (market size), GDP growth, natural resource endowments, distances between countries, labour costs adjusted for productivity, as well as our business environment variable (which covers various aspects of the policy, institutional and operating climate).

We construct two alternative scenarios to our baseline forecast for global FDI in 2006-10—"boom" and "backlash" scenarios based on different assumptions about key elements of countries' business environments. Under a boom scenario we posit that all countries' business environment scores for 2006-10 are 10% higher than we actually forecast. Our model predicts annual average FDI flows that are about 30% higher than under baseline assumptions. These estimates point to the huge opportunity cost, in terms of forgone FDI, of suboptimal policies (the difference in annual average FDI flows under boom and baseline scenarios is some US$400bn per year in 2006-10 or US$1.9trn cumulatively).

For the backlash scenario we make a series of more detailed assumptions about indicators related specifically to policies towards FDI and related aspects. The estimates for FDI inflows under the "backlash" scenario imply that again the impact on FDI would be considerable—the loss of US$270bn in FDI inflows per year or US$1.4trn cumulatively in 2006-10 relative to the baseline scenario.

Table 4

Alternative scenarios for global FDI inflows, 2006-10

(US$ bn; annual average)

	Baseline	Boom	Backlash
World total	1,285	1,666	1,015
Developed countries	872	1,066	682
Emerging markets	413	600	333

Source: Economist Intelligence Unit.

World investment prospects to 2010
Boom or backlash?

Global foreign direct investment: recent trends and forecasts to 2010

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

Global foreign direct investment (FDI) flows will be pushed upwards by buoyant growth, competitive pressures and improvements in business environments in most countries. But constraining factors, such as geopolitical risks, will keep flows below what they might otherwise be. Global FDI recovered in 2004-05 after a deep three-year slump. Following a further strong increase in FDI inflows in 2006, to over US$1trn, growth will slow. The baseline forecast—neither a boom nor a backlash—sees world FDI inflows climbing gradually back, in nominal US dollar terms, to their 2000 peak total of US$1.4trn by 2010. Contrary to the experience of recent years and to widespread expectations about continued strong FDI growth in emerging markets, the bulk of the increase in global FDI in 2006-10 is expected to take place in the developed countries.

Recent trends

Introduction

World FDI inflows increased to US$955bn in 2005, a 19% increase in nominal US dollar terms on the 2004 total. This followed a 22% increase in global inflows in 2004 to US$802bn.[1] In nominal US dollar terms, the 2005 total was the third-highest on record (global inflows reached US$1.1trn in 1999 and peaked at US$1.4trn in 2000). The 2004-05 recovery in global FDI flows followed a deep slump; global FDI inflows had declined for three consecutive years in 2001-03, with the cumulative fall amounting to more than 50% in US dollar terms (no previous FDI downturn in recent decades had been as severe or had exceeded two years). Despite the recovery in 2004 and 2005, FDI inflows as a percentage of the world's GDP, at 2.2% in 2005, were still less than half their level at the end of the previous decade.

Emerging markets lead recovery

As in 2004, emerging markets accounted for the bulk of the increase in FDI inflows in 2005. After recovering by 57% in US dollar terms in 2004, FDI inflows into emerging markets grew by 26% in 2005 to reach a record high of almost US$400bn (more than 40% of the global total). By contrast, inflows into the developed world increased by 14%, following a modest recovery by 7% in 2004.

The 2005 global total for FDI inflows was heavily influenced by two large accounting transactions—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, which 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). Netting out these two transactions, global FDI inflows would have amounted to US$875bn in 2005, or only 9% more than in 2004. Furthermore, rather than increasing, the 2005 total for the developed world would have been slightly lower than in 2004.

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 nominal US dollar totals.[2] The rate of decline in world FDI in 2001-03 looks somewhat deeper when measured at constant prices and the recovery weaker in 2004-05 than at current prices (global FDI inflows in constant prices were in 2005 only 27% higher than in 2003, compared with a 45% increase in nominal US dollar terms). At current prices, global FDI inflows in 2005 were at two-thirds of the peak level reached in 2000; in constant prices in 2005 they were still scarcely more than half the 2000 level.

[1] Upward revisions to 2004 FDI data—mainly for inflows into the US and the euro zone—mean that the 2004 global total was more than US$100bn higher than has been reported so far by other international sources.

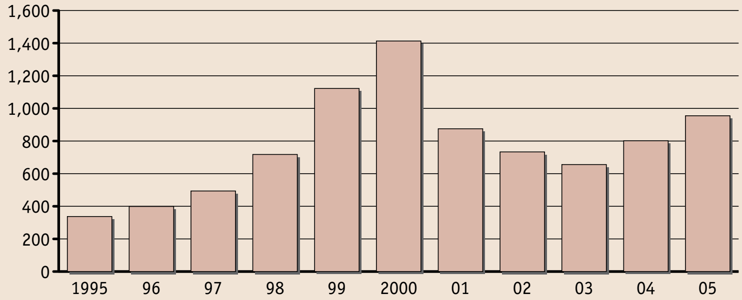
[2] The estimates are based on deflating nominal US dollar totals by US dollar-based import price indices, with base year 2000, for more than 80 countries.

An elusive recovery

The recovery in developed-country inflows in 2004-05 looks especially weak in constant price terms (indeed, in 2004 FDI into developed countries was flat rather than increasing). Taking into account the impact of both the (necessarily imprecise) constant price estimates as well as of the fact that corporate restructurings in effect inflated inflows in 2005, one would have to conclude that FDI into the developed world has still not recovered from its post-2000 downturn.

FDI stock estimates are subject to an even wider margin of potential error than estimates of flows. The latest available data, supplemented by Economist Intelligence Unit estimates, suggest that the value of the global inward FDI stock had climbed to more than US$10trn by the end of 2005, more than double the 1999 total in nominal terms. As a share of world GDP, the inward FDI stock increased from 16% to an estimated 23% over the same period. The US inward FDI stock was by far the highest in the world—more than double the stock in the UK, but was still only equal to some 15% of US GDP. Germany was in third place, with a stock estimated at just over US$700bn (25% of GDP), ahead of China in fourth place (US$621bn; 28% of GDP) and France in fifth (US$600bn, 29% of GDP).

Global FDI inflows
(US$ bn)



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

Trends in outward FDI

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 very high. That was the case in 2005, in particular, when the value of recorded global inward FDI was some US$100bn higher than

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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
World total	**399.0**	**493.8**	**717.7**	**1,122.2**	**1,413.0**	**875.1**	**733.2**	**655.8**	**801.7**	**954.8**
Developed countries	231.9	281.2	498.4	860.3	1,131.1	586.4	539.6	453.9	485.6	555.6
% of world total	58.1	56.9	69.4	76.7	80.0	67.0	73.6	69.2	60.6	58.2
Emerging markets	167.1	212.6	219.3	261.9	281.9	288.7	193.7	201.9	316.1	399.2
% of world total	41.9	43.1	30.6	23.3	20.0	33.0	26.4	30.8	39.4	41.8
North America	96.1	117.1	201.8	314.2	388.1	194.7	102.2	73.2	139.4	143.0
Western Europe	125.3	151.1	285.3	528.9	717.2	373.5	410.8	362.3	293.7	449.2
EU15	116.5	138.2	269.8	505.9	688.8	357.3	401.7	337.4	284.6	425.6
Eastern Europe	16.8	24.1	26.7	29.1	29.5	30.0	36.1	35.6	66.1	74.3
Asia Pacific	97.4	110.8	100.9	124.7	165.0	119.9	111.1	106.4	197.0	146.0
Developing Asia	86.9	98.0	89.5	107.8	141.7	100.7	84.5	88.1	141.8	177.0
Latin America & the Caribbean	52.9	73.6	85.5	108.6	97.7	131.1	52.7	48.1	68.9	75.2
Middle East	4.8	7.1	8.2	4.9	6.5	6.8	7.8	11.8	15.9	32.9
North Africa	1.1	1.5	2.5	3.0	3.3	5.6	3.8	5.8	8.8	16.4
Sub-Saharan Africa	4.5	8.4	6.7	9.0	5.7	13.5	8.9	12.7	11.9	18.0

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

Table 2

FDI inflows in current and constant prices

(US$ bn unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
In current US$ terms									
World total	493.8	717.7	1,122.2	1,413.0	875.1	733.2	655.8	801.7	954.8
Rate of growth (%)	23.8	45.3	56.4	25.9	-38.1	-16.2	-10.6	22.2	19.1
Developed countries	281.2	498.4	860.3	1,131.1	586.4	539.6	453.9	485.6	555.6
Rate of growth (%)	21.2	77.3	72.6	31.5	-48.2	-8.0	-15.9	7.0	14.4
Emerging markets	212.6	219.3	261.9	281.9	288.7	193.7	201.9	316.1	399.2
Rate of growth (%)	27.3	3.1	19.5	7.6	2.4	-32.9	4.3	56.5	26.3
In constant 2000 US$ terms									
World total	465.7	707.1	1,139.1	1,413.0	898.1	744.0	592.8	677.2	753.3
Rate of growth (%)	28.5	51.8	61.1	24.0	-36.4	-17.2	-20.3	14.2	11.2
Developed countries	264.4	491.4	869.9	1,131.1	606.8	549.2	403.2	402.7	431.7
Rate of growth (%)	27.5	85.9	77.0	30.0	-46.4	-9.5	-26.6	-0.1	7.2
Emerging markets	201.3	215.8	269.3	281.9	291.3	194.7	189.6	274.5	321.6
Rate of growth (%)	29.8	7.2	24.8	4.7	3.3	-33.2	-2.6	44.7	17.2

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

Table 3

Global FDI outflows

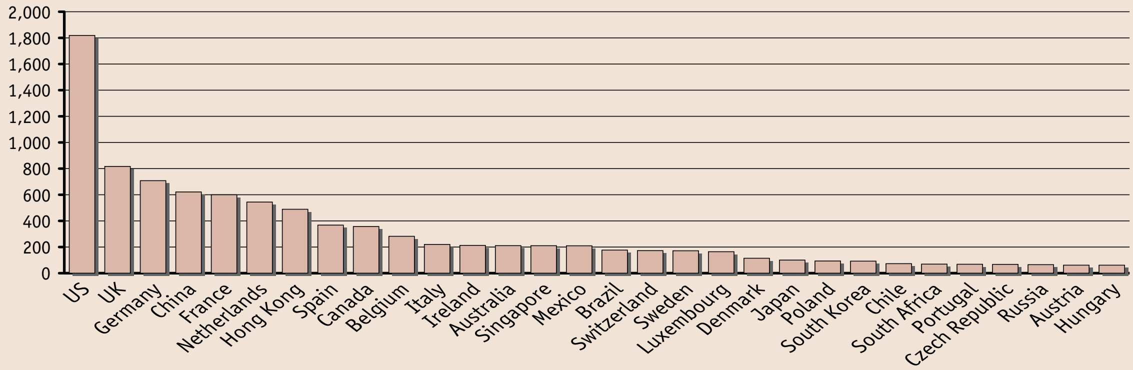
(US$ bn unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005
World	687.2	1101.2	1347.2	766.0	684.0	637.5	874.4	851.0
% change, year on year	44.9	60.3	22.3	-43.1	-10.7	-6.8	37.2	-2.7
Developed countries	643.8	1,049.3	1,250.9	682.6	609.5	577.3	763.4	705.7
% of world total	93.7	95.3	92.9	89.1	89.1	90.6	87.3	82.9
Emerging markets	43.3	51.9	96.3	83.4	74.5	60.2	111.0	145.3
% of world total	6.3	4.7	7.1	10.9	10.9	9.4	12.7	17.1

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

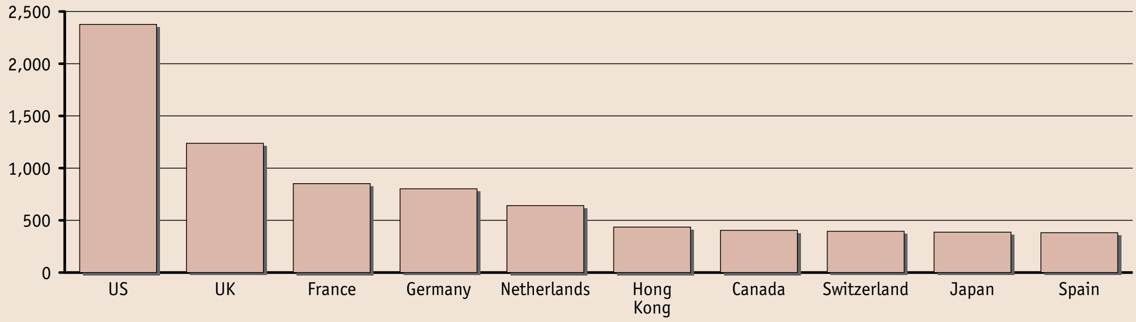
Inward FDI stock, end-2005

(US$ bn)



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

Leading outward investors
(Outward FDI stock, 2005; US$ bn)



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

recorded aggregate outward flows. According to the data, outward flows in 2005 were actually slightly lower than the 2004 total.[3] By contrast, the data for outward FDI flows in 2003-04 reflect the inward FDI figures, recording comparable patterns of growth (or decline). In earlier years, too, the rates of change for inward and outward flows were generally similar.

In 2005 the US lost its role as the world's main outward investor, as outward investment from the US plummeted to US$9bn. However, this was a temporary effect caused by changes in tax legislation. The American Jobs Creation Act of 2004 reduced the rate of taxation on US multinational enterprises' dividends from abroad for a period of one year. This stimulated repatriation of earnings from foreign affiliates to parents in the US, and earnings reinvested in affiliates abroad were reduced. Thus the reinvested earnings component of US direct investment abroad in 2005 became sharply negative, especially in the final quarter of 2005.

The main investing countries in 2005 were the Netherlands (US$116.9bn) and France (US$115.6bn), whose firms undertook massive acquisitions abroad in 2005, followed by the UK (US$101.7bn). The total for the Netherlands was affected by corporate restructuring that gave rise to outward direct investment and inward portfolio flows. German FDI outflows recovered to US$47bn in 2005, from levels in previous years that were unusually low because of the one-off effects of a corporate tax reform. Germany's investment was concentrated in the EU15 and Switzerland, whereas central and eastern Europe received relatively little, and there was disinvestment of German-owned assets in the US. FDI outflows from Japan in 2005 increased strongly, to US$45bn—the highest figure since 1990. Japanese outward investors benefited from high profitability of their overseas assets in 2005, and kept much of the money in the host economies.[4]

Improved climate for global FDI

The global environment for FDI improved considerably in 2004 and 2005. Economic growth remained strong in the US and accelerated in other OECD countries. Most emerging markets recorded solid growth, with China's economy continuing to power ahead at exceptionally high rates. This also helped to drive up commodity prices—which in turn fuelled strong growth in many other emerging markets. Many other conditions underpinning FDI became more favourable: corporate profitability was strong, interest rates were low and equity markets generally performed well. Ample liquidity was available for companies to invest abroad.

The pick-up in global FDI in 2005 was in part the result of a recovery in M&As, including in crossborder deals (which are the main form of FDI in the developed world). According to Dealogic, a data provider, global M&As—both domestic and crossborder—were worth US$2.9trn in 2005, a 40% increase over 2004 and the highest annual total since the US$3.3trn recorded in 2000.

Revival in crossborder mergers and acquisitions

The strength of the global M&A market has also been driven by the fact that many companies

[3] The 2005 global outward FDI total was also affected by a US$40bn net capital repatriation in Australia—the result of the same corporate restructuring involving News Corporation that also affected the inward investment figure for Australia.

[4] See OECD, *Trends and Recent Developments in Foreign Direct Investment*, June 2006.

Global FDI: boom and bust

The decline in global FDI in the early part of the current decade followed a decade of uninterrupted growth. 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 trend rate of growth in global FDI in the two decades to 2000 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. The average annual growth rate of FDI inflows between 1980 and 2000 of some 16% far exceeded that of world GDP (in current US dollar values) and of world trade over the same period.

The main reasons for the unprecedented boom in FDI flows in the four years up to 2001 were strong economic growth, especially in the US, and the boom in equity markets and merger and acquisition (M&A) activity. The expansion was also helped by wider trade liberalisation and deregulation in key industries, such as telecommunications and energy. Policy reform and technological change increased competition at a global level, which in turn drove firms to expand abroad.

The end of the late-1990s global boom and the onset of slowdown, as well as the bursting of the stockmarket bubble, were accompanied by large drops in FDI—especially in crossborder M&As, the dominant form of FDI in the developed world—that exceeded the slowdown in trade and output. Crossborder M&As declined sharply in 2001-03, from a record US$1.1trn in 2000.

After the 2001-02 global slowdown, the onset of global recovery in GDP growth in 2003 led to increased business confidence. However, widespread expectations that this would be accompanied by the beginning of a turnaround in M&A activity and at least a levelling-out in FDI were disappointed. Global FDI inflows fell again in 2003, albeit less sharply than in 2001 and 2002, and flows to emerging markets rose modestly (indeed, the emerging markets suffered only one year of decline, in 2002, although this was by as much as one-third).

Total global FDI in 2003 was possibly affected by geopolitical uncertainty, linked to the war in Iraq and ongoing terrorist incidents. Corporate accounting scandals also appear to have had an impact, as did possible lags—observed during previous FDI downturns—between a pick-up in economic activity and increased FDI. This meant that the global recovery in FDI was delayed for another year until 2004.

have accumulated large amounts of cash on their balance sheets. Companies have engaged in more restructuring, a trend that has also supported crossborder M&As. Another element is the increase in transactions being undertaken by private equity groups, which are raising ever-larger funds and have concluded a series of multi-billion-dollar deals.

According to data from the company Zephyr, in 2005 the value of completed global crossborder M&As increased by 35% to an estimated US$827bn. This followed a recovery by 56% in 2004 to a global total of US$612bn, from the nadir reached in 2003 of US$392bn. Crossborder M&As in the developed world made up 74% of the global total in 2005. There was a marked increase in deal activity in Europe and Asia. M&A activity in 2005 was especially strong in two sectors with a traditionally high share of crossborder deals in total M&A transactions—telecommunications and the financial sector.

It is noticeable that, unlike in most years, very few of the top crossborder M&As in 2005 were purchases by US firms. Companies from western Europe, especially from France, heavily dominate the list of top investors in 2005. The UK was the target country for some of the largest crossborder M&As in 2005 and early 2006. The largest of these, in one of the sectors that are considered as "sensitive" in many countries, was the takeover of the telephone operator 02 by Telefonica of Spain for US$31bn (announced in 2005 and completed at the beginning of 2006). Another large transaction was the US$18.3bn acquisition of the distiller Allied Domecq by Pernod Ricard of France.

Relatively few crossborder M&As targeted France and Germany in 2005 and early 2006, but one of them

Table 4
Completed crossborder M&A deals
(US$ bn unless otherwise indicated)

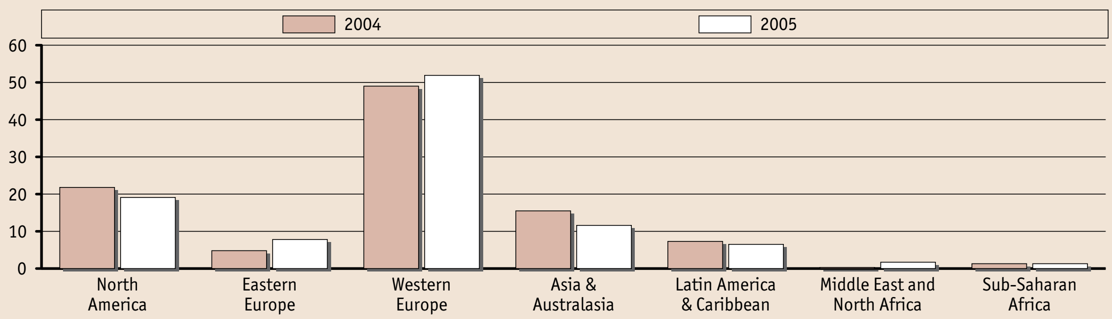
	Developed countries	Emerging markets	World	% change, year on year	Developed countries, % of world total
2002	411.1	76.6	487.7	-38.5	84.3
2003	284.8	106.8	391.6	-19.7	72.7
2004	473.3	138.6	611.8	56.3	77.4
2005	610.8	216.4	827.2	35.2	73.8

Source: Based on data from Zephyr.

was the largest completed deal in 2005—the purchase of Germany's Bayerische Hypo- und Vereinsbank (HVB Group) for US$18.6bn by UniCredito Italiano of Italy. Confirming a trend from previous years, several of the other large transactions in both France and Germany were crossborder acquisitions of property administration companies or real estate portfolios.

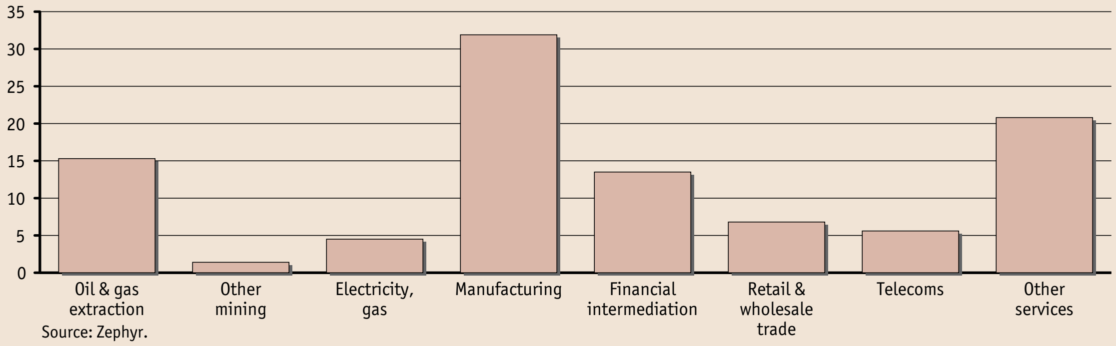
The share of emerging markets in global crossborder M&As has been gradually increasing—to about 25% of the total in the past three years, which is still considerably less than their share in global FDI inflows. A higher share than in the past of FDI inflows into emerging markets is now made up of M&As as opposed to greenfield investment. However, the trend of increasing M&A sales in the emerging markets does not appear to be accelerating. Indeed, the growth in crossborder M&As in the first half of 2006 was heavily concentrated in the developed world—62% year-on-year growth versus only 15% growth for emerging markets. Even if the emerging markets'

Crossborder M&As by target region
(% of total)



Source: Zephyr.

Crossborder M&As in 2005 by sectoral distribution
(% of total)



Source: Zephyr.

share in total M&A activity creeps up in the coming years, crossborder M&A activity will continue to be dominated by the developed countries for some time to come.

FDI in the developed world

In 2004 the three-year slump in FDI flows to developed countries was apparently reversed—inflows to developed countries increased by 7% to US$486bn. Recorded inflows rose further in 2005 to US$556bn—still only about half the level in 2000. However, as noted, the UK's position as the top FDI recipient in 2005, with US$164bn (17% of the global total) depended on the Royal Dutch Shell restructuring. If this transaction is netted out, FDI inflows into the UK, at some US$49bn, would have been only the second-highest in Europe (behind FDI into France) and would have been almost 40% lower than inflows into the UK in 2004, when a deep, three-year-long slump of foreign investment into the UK was halted. Furthermore, as noted, total inflows into the developed world in 2005 would have been lower than in 2004. Finally, in constant price terms, even if the Royal Dutch Shell restructuring is included, FDI inflows into the developed world were in 2005 hardly greater than in 2003.

Pick-up of inflows into the euro zone

FDI flows into the euro zone increased by 20% in 2005, to US$243bn. This followed a steep decline, by 33%, in 2004. The largest host of inward FDI in the euro zone in 2005 was France, which attracted inflows of US$63.5bn, more than double the amount received in 2004. A strong recovery was also recorded in the Netherlands, which received US$42.9bn.[5] In the euro zone, FDI also increased in some countries because of a sharp reduction compared with 2004 in loan repayments from affiliated firms to their parent firms abroad (Ireland seems to have been an exception to this trend in 2005). In Germany, such repayments

[5] As was the case with outward flows from the Netherlands, corporate restructuring appears to have also inflated the inward investment total in 2005.

Table 5
Major completed crossborder M&As, 2005

Investor company	Investor country	Target company	Target Country	Value of deal (US$ m)	Sector
UNICREDITO ITALIANO SPA	Italy	BAYERISCHE HYPO- UND VEREINSBANK	Germany	18,583	Financial
PERNOD RICARD SA	France	ALLIED DOMECQ PLC	UK	18,321	Consumer goods
SUEZ SA	France	ELECTRABEL SA	Belgium	15,546	Utilities
WEATHER INVESTMENTS SARL	Egypt	WIND SPA	Italy	12,501	Communications
FRANCE TELECOM SA	France	AMENA SA	Spain	10,850	Communications
TRANSALPINA DI ENERGIA SPA	Italy	EDISON SPA	Italy	9,897	Utilities
INEOS GROUP HOLDINGS PLC	UK	INNOVENE INC	US	9,000	Basic materials
DEUTSCHE ANNINGTON IMMOBILIE	France	VITERRA AG	Germany	8,851	Financial
DEUTSCHE POST AG-REG	Germany	EXEL PLC	UK	7,093	Industrial
METROVACESA SA	Spain	GECINA SA	France	6,895	Financial
SAUDI OGER LTD	Saudi Arabia	TURK TELEKOMUNIKASYON AS	Turkey	6,550	Communications
WAM ACQUISITION SA	Luxembourg	AMADEUS GLOBAL TRAVEL DIST-A	Spain	5,796	Industrial
NOVARTIS AG-REG	Switzerland	HEXAL AG	Germany	5,686	Consumer goods
SCOTIA GAS NETWORKS PLC	Canada	SCOTLAND/SOUTH OF ENGLAND GAS NETWORKS	UK	5,529	Utilities
KINDER MORGAN INC	US	TERASEN INC	Canada	5,528	Utilities
CEMEX SA-CPO	Mexico	RMC GROUP PLC	UK	5,507	Industrial
TELEFONICA SA	Spain	TELEFONICA 02 CZECH REPUBLIC	Czech Republic	5,277	Communications
SABMILLER PLC	UK	BAVARIA SA	Colombia	5,157	Consumer goods
ALTRIA GROUP INC	US	HM SAMPOERNA TBK PT	Indonesia	5,121	Consumer goods
UNICREDITO ITALIANO SPA	Italy	BANK AUSTRIA CREDITANSTALT	Austria	5,001	Financial

Source: Bloomberg.

in 2004 led to net disinvestment of US$15bn, with FDI inflows recovering strongly to US$32bn in 2005. The 2005 euro zone total was, however, negatively affected by the fact that recorded inflows into Belgium and Luxembourg declined sharply—traditionally a lot of FDI destined for other destinations is routed through these two countries.

FDI inflows into the US had slumped in the early part of the decade, reaching a low of US$67bn in 2003. Inflows recovered in 2004-05 to an annual average of US$122bn (equal to 1% of GDP). Although FDI inflows fell in 2005, the US remained the world's top FDI recipient country if the large restructuring deal is stripped out of the 2005 UK total. Strong US GDP growth and the weakening of the US dollar increased the attractiveness of the US to investors. In addition, foreign memories of the scandals relating to US corporate accounting began to fade.

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, from what was a modest average of US$7.3bn in 2001-04. FDI inflows as a share of GDP were a mere 0.1% in 2005, one of the lowest ratios in the world. 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 existing domestic players. Japan also remains one of the world's most expensive business locations, reflecting high wages and the cost of acquiring land for offices and factories.

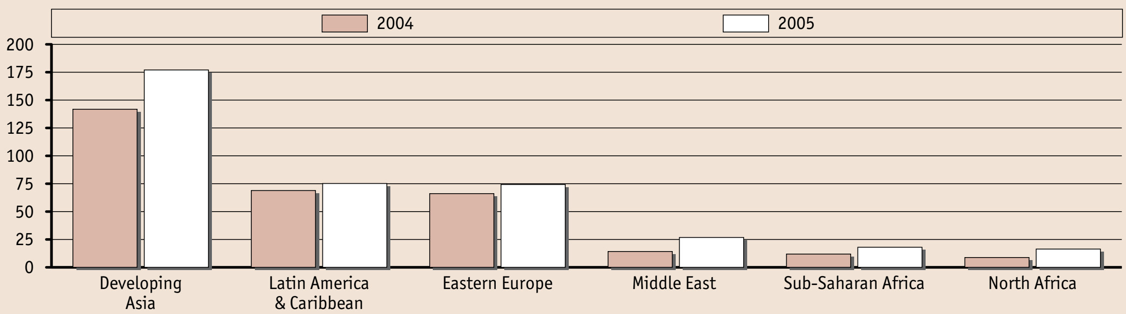
Growth of FDI into emerging markets

FDI flows to emerging markets increased by an estimated 26% in 2005, to US$399bn. FDI inflows increased to all emerging-market regions, and reached record levels in every single region except Latin America and the Caribbean. Emerging markets have performed well in recent years: real GDP expanded by 8.5% in 2004 and 7.7% in 2005 (measured at purchasing power parity—PPP—weights). In part, this reflects the supportive global environment. World trade growth has been robust and risk-aversion on the part of international investors has been very low. Emerging markets have improved their economic fundamentals—many have been implementing market-friendly reforms and most have consolidated macroeconomic stability.[6] Thus, although cyclical factors, such as strong external demand and the commodity price boom, have predominated in explaining the FDI surge, in some countries structural factors have also been at play. Even in a country such as Turkey, where macroeconomic stability remains a concern, some progress in reform and the privatisation of the telecoms and financial sectors helped to propel FDI inflows to an all-time high of almost US$10bn.

As in the developed world, increased corporate profits, favourable financing conditions and higher stockmarket valuations have fuelled crossborder

[6] World Bank, *Global Development Finance: The Development Potential of Surging Capital Flows*, 2006.

FDI inflows into emerging markets
(US$ bn)



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

Table 6
FDI inflows, main recipients
(US$ bn)

	2000	2001	2002	2003	2004	2005
North America						
US	321.3	167.0	80.8	67.1	133.2	109.8
Canada	66.8	27.7	21.4	6.1	6.3	33.3
Western Europe						
Austria	8.5	5.9	0.3	7.1	4.0	8.8
Belgium (1)	88.7	84.7	18.1	36.0	42.9	23.3
France	42.4	50.4	49.5	43.1	31.4	63.5
Germany	210.1	26.2	53.6	27.7	-15.1	32.0
Ireland	25.5	9.6	29.5	22.4	11.0	-21.4
Italy	13.2	14.9	14.7	16.5	16.8	19.2
Luxembourg	n/a	n/a	118.4	90.8	78.7	43.7
Netherlands	63.1	52.0	25.5	21.0	0.4	42.9
Spain	38.8	28.1	40.0	25.7	24.8	22.8
Sweden	23.4	10.9	12.2	5.0	12.6	13.4
Switzerland	19.8	9.5	6.8	17.5	1.6	6.5
Turkey	1.0	3.3	1.1	1.8	2.7	9.7
UK	122.2	53.8	25.5	27.6	78.0	164.0
Eastern Europe						
Czech Republic	5.0	5.6	8.5	2.0	5.0	11.0
Hungary	2.8	3.9	3.0	2.2	4.7	6.6
Poland	9.3	5.7	4.1	4.6	12.9	7.7
Romania	1.0	1.2	1.1	2.2	6.5	7.9
Russia	2.7	2.7	3.5	8.0	15.4	14.6
Asia & Australasia						
Australia	13.6	8.3	17.7	9.8	42.9	-37.2
China	38.4	44.2	49.3	47.1	54.9	79.1
Hong Kong	61.9	23.8	9.7	13.6	34.0	35.9
India	3.6	5.5	5.6	4.3	5.5	6.7
Japan	8.2	6.2	9.1	6.2	7.8	3.2
Singapore	16.5	14.1	5.7	9.3	24.0	33.4
South Korea	9.3	3.5	2.4	3.5	9.2	4.3
Latin America & the Caribbean						
Argentina	10.4	2.2	2.1	1.7	4.3	4.7
Brazil	32.8	22.5	16.6	10.1	18.2	15.2
Chile	4.9	4.2	2.6	4.3	7.2	7.2
Mexico	17.2	27.5	17.3	12.9	18.2	17.8

(1) Data for 2000-01 are for Belgium-Luxembourg.
Sources: National statistics; Economist Intelligence Unit; IMF.

M&As and FDI growth in many emerging markets. Corporate profits have risen in most emerging markets. According to the UN Conference on Trade and Development (UNCTAD), in 2005 income generated from FDI in developing countries climbed to US$120bn, from US$80bn in 2002. Approximately US$45bn of the 2005 total was reinvested.

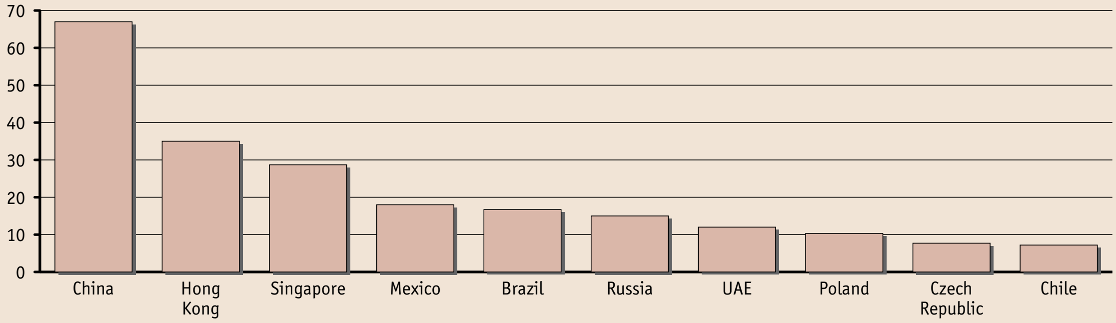
Concentration of FDI inflows

The concentration of FDI into emerging markets remains relatively high, with the top ten recipients accounting for about 60% of all inflows to emerging markets. The concentration is nevertheless lower than the record rates of 70% and more in the late 1990s. Among the top ten are all the main traditional FDI recipients in the emerging-market world—China, Brazil, Mexico and a couple of central European economies. Among the so-called BRICs countries (Brazil, Russia, India and China), Russia and India are relative newcomers to the top ten.

FDI reaches a record high in developing Asia

Developing Asia attracted a record high of US$177bn in inflows in 2005, by far the highest emerging-market regional total. This was a 25% increase on the US$142bn inflows in 2004, which in turn had represented a 61% rise on 2003. As in recent years, China was far and away the main FDI recipient among emerging markets. With a record inflow of US$79bn, China accounted for one-fifth of all inflows into the developing world in 2005, and was after the US the leading global destination for FDI (if the accounting transaction by Royal Dutch Shell is netted out of the UK total). A large part of the increase in China was accounted for by foreign banks, which purchased shares in China's big four state-owned banks worth some US$12bn. FDI into India continued to rise and reached an estimated US$6.7bn in 2005. The pace of growth, however, has not been spectacular, and total inflows are still dwarfed by the amounts that China receives (although some FDI-type investment into India may, in fact, be recorded as portfolio inflows, and some of the recorded FDI into China is actually "round-tripping" domestic investment).

Top emerging-market FDI recipients
(US$ bn; annual av, 2004-05)



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

FDI in China and India

It is interesting that despite all the current focus on China and India, FDI to these two countries (especially the latter) remains relatively modest given the size and potential of these economies—on some measures for China and on all measures for India. This contrasts with the findings of most surveys of investors in which the two are invariably ranked top, or very near the top, among preferred global destinations for FDI. This has only to an extent been matched by China's performance and not at all by India's.

FDI flows to India are far below the country's share in world GDP and even below its low share in world exports. China's share of world FDI inflows is in fact above its share in world trade and in world GDP at market exchange rates—but not dramatically so. China's share of global FDI is, however, far below its share in world GDP at PPP.

Growth in FDI flows to Latin America and the Caribbean in 2005 was underpinned by the region's economic recovery, improved macroeconomic environment and strong demand for commodities. The regional total of US$75.3bn was 9.3% higher than in 2004. As in Asia, there had already been a sharp increase of FDI into this region in 2004, by 43%. However, the inflows in 2004-05 were still far below the record highs seen in 2001. As usual, FDI inflows into Brazil and Mexico dominated regional FDI (44% of total inflows in 2005), although neither country experienced growth in FDI inflows in 2005 compared with the previous year.

A record inflow into eastern Europe

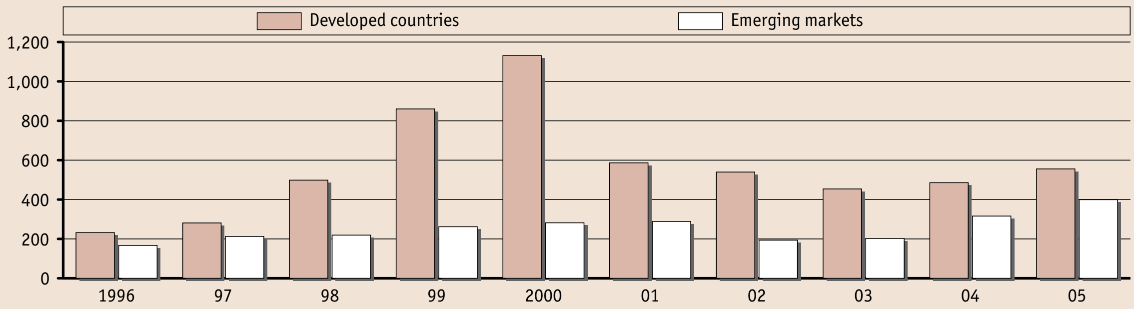
FDI inflows into the transition economies of eastern Europe reached a record total of US$74.3bn in 2005, a 12% increase on 2004. This region almost displaced for the first time Latin America and the Caribbean as the second most important emerging-market destination for FDI. FDI flows into the region in 2004-05 grew strongly from relatively stagnant annual totals of US$30bn-35bn since 1999, although the worldwide slump in FDI earlier in this decade had largely bypassed the transition economies. The 2005 increase affected all transition subregions and most economies in the area. The growth was the result of relatively strong FDI flows to Russia; the completion or near-completion of large-scale privatisation sales

Table 7
China and India: shares in world output, trade and FDI
(%)

	2001	2002	2003	2004	2005
China					
Share in world FDI inflows	5.1	6.7	7.2	6.9	8.3
Share in world GDP (at market exchange rates)	4.2	4.5	4.5	4.7	5.0
Share in world GDP (at PPP)	11.3	11.8	12.4	13.0	13.7
Share in world goods exports	4.2	5.0	5.7	6.4	7.2
Share in world population	20.7	20.6	20.5	20.3	20.2
India					
Share in world FDI inflows	0.6	0.8	0.7	0.7	0.7
Share in world GDP (at market exchange rates)	1.5	1.6	1.6	1.7	1.8
Share in world GDP (at PPP)	5.6	5.7	5.9	6.1	6.3
Share in world goods exports	0.7	0.8	0.8	0.8	0.9
Share in world population	16.8	16.8	16.9	16.9	16.9

Source: Economist Intelligence Unit.

FDI inflows into developed countries and emerging markets
(US$ bn)



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

in some countries; a recovery of FDI into the central European new EU member states after a sharp decline in 2003; ongoing strong growth in FDI into previous laggards such as the Balkans; and oil investments into Azerbaijan and Kazakhstan. For the first time there was a sizeable FDI inflow into Ukraine, although much of the 2005 total was the result of one investment—the US$4.8bn sale of the steelmaker Kryvorizhstal to the Netherlands-based Mittal Steel.

In other emerging-market regions, FDI flows increased markedly in 2005, although from low levels. Flows to Sub-Saharan Africa reached an estimated US$18bn—a record level and 51% higher than in 2004. However, a large share of the 2005 regional total was owing to a handful of M&A transactions in South Africa. Angola, Equatorial Guinea and Nigeria are the region's only other significant FDI recipients, and this is almost exclusively in the form of oil sector investments.

Flows to the Middle East and North Africa almost double

Despite ample security risks, the oil price boom and some policy reforms meant that FDI inflows reached record totals and almost doubled in 2005 in both the developing Middle East (excluding Israel)—from US$14.2bn in 2004 to US$26.8bn in 2005—and North Africa (from US$8.8bn in 2004 to US$16.4bn in 2005). In North Africa, every single country in the region, except for Tunisia, experienced a rise in FDI inflows in 2005. The most significant was in Egypt, where there was a more than fourfold increase, to US$5.4bn. In the Middle East, the UAE accounted for a large share (more than 50%) of the regional total in 2005, as well as the bulk of the increase in regional inflows in 2005 compared with 2004.

The forecast: neither boom nor backlash

Strong FDI growth in 2006

The forecast total global FDI inflows in 2006 of some US$1.16trn, a 22% increase over 2005, will be the first time since 2000 that global inflows will have surpassed the US$1trn mark. Economic growth and the delayed impact of crossborder deals will underpin growth in FDI flows, especially in developed countries. FDI in 2006 will be particularly strong on the back of the current M&A boom.

Industry consolidation in Europe and the US is fuelling a worldwide surge in M&As. The first half of 2006 saw very strong M&A activity: announced M&A deals worldwide (domestic and crossborder) reached US$1.83trn, a 43% increase compared with the same period of 2005. When controlling for inflation, 2006 is on course to be the third most active year after 1999 and 2000. The increasing volume of deals has affected almost every sector. The second-quarter 2006 total of US$916bn in worldwide M&As surpassed the already high US$914bn total for the first quarter, and trailed only the totals of late 1999 and 2000, during the stockmarket bubble.

The volatile stockmarket failed to deter deal-making. A few fundamental changes are supporting the wave of acquisitions. Hedge funds are forcing companies to put themselves up for sale by agitating for corporate changes that would increase stock prices. Private equity funds have been willing to inject capital into all kinds of deals. Acquisitions involving private equity firms surged by 51% in the first half of the year, to about US$335bn, according to Dealogic, from US$222bn in the first six months of 2005. Private equity transactions represent about 18% of all M&A

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World FDI inflows	**875.1**	**733.2**	**655.8**	**801.7**	**954.8**	**1,165.0**	**1,222.5**	**1,285.3**	**1,342.9**	**1,407.3**
Rate of growth (%)	-38.1	-16.2	-10.6	22.2	19.1	22.0	4.9	5.1	4.5	4.8
% of GDP	2.8	2.3	1.8	2.0	2.2	2.4	2.3	2.4	2.4	2.4
FDI inflows to developed countries	**586.4**	**539.6**	**453.9**	**485.6**	**555.6**	**754.3**	**814.8**	**880.7**	**929.0**	**979.4**
Rate of growth (%)	-48.2	-8.0	-15.9	7.0	14.4	35.8	8.0	8.1	5.5	5.4
% of GDP	2.4	2.2	1.6	1.6	1.7	2.2	2.2	2.3	2.3	2.4
% of world total	67.0	73.6	69.2	60.6	58.2	64.8	66.7	68.5	69.2	69.6
FDI inflows to emerging markets	**288.7**	**193.7**	**201.9**	**316.1**	**399.2**	**410.6**	**407.7**	**404.7**	**413.9**	**427.9**
Rate of growth (%)	2.4	-32.9	4.3	56.5	26.3	2.8	-0.7	-0.7	2.3	3.4
% of GDP	3.9	2.5	2.3	3.1	3.4	3.0	2.8	2.6	2.4	2.3
% of world total	33.0	26.4	30.8	39.4	41.8	35.2	33.3	31.5	30.8	30.4
World stock of inward FDI	**6,433**	**7,102**	**8,455**	**9,622**	**10,317**	**11,450**	**12,639**	**13,888**	**15,192**	**16,560**
Rate of growth (%)	6.0	10.4	19.1	13.8	7.2	11.0	10.4	9.9	9.4	9.0
% of GDP	20.5	21.8	23.2	23.5	23.4	24.1	24.2	25.5	26.7	27.8
Developed-country stock of inward FDI	**4,253**	**5,078**	**6,088**	**6,778**	**7,068**	**7,759**	**8,500**	**9,297**	**10,134**	**11,020**
Rate of growth (%)	6.0	19.4	19.9	11.3	4.3	9.8	9.5	9.4	9.0	8.7
% of GDP	17.8	20.3	21.7	21.8	21.7	22.5	22.6	24.0	25.4	26.6
% of world total	66.1	71.5	72.0	70.4	68.5	67.8	67.2	66.9	66.7	66.5
Emerging-markets stock of inward FDI	**2,181**	**2,024**	**2,367**	**2,844**	**3,249**	**3,691**	**4,140**	**4,591**	**5,058**	**5,540**
Rate of growth (%)	6.0	-7.2	17.0	20.2	14.2	13.6	12.1	10.9	10.2	9.5
% of GDP	29.1	26.1	27.2	27.9	27.3	27.3	28.1	29.1	29.8	30.2
% of world total	33.9	28.5	28.0	29.6	31.5	32.2	32.8	33.1	33.3	33.5

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

Table 9
Completed crossborder M&As, Jan-Jun 2006
(US$ bn unless otherwise indicated)

	Developed countries	Emerging markets	World
2005	204.7	89.9	294.6
2006	330.9	103.6	434.5
% change, year on year	61.6	15.2	47.5

Source: Zephyr.

activity worldwide, in line with a trend that has been building since the end of 2003.

Much of this M&A activity involves crossborder transactions. According to data from Zephyr, the value of completed crossborder deals worldwide reached US$435bn in the first half of 2006, a 48% increase over the same period in 2005.[7] The increase was heavily concentrated in the developed world, with a much more modest increase—of 15%—for deals in emerging markets. Unlike the pattern in 2005, when most of the big deals were in the euro zone countries, a large share of the deals completed so far in 2006 are either in the UK or the US (eight of the top 13 deals, with values over US$4bn).

The M&A activity is translating into strong FDI flows into some countries (inflows in early 2006 are frequently related to deals completed in the latter part of 2005). Initial data for 2006, generally for the first quarter, suggest that some European countries are on course for significant increases in FDI inflows in 2006. For example, because of a couple of very large M&A transactions, inflows into the UK shot up to US$62.5bn in the first quarter of 2006, compared with US$12.5bn in the same period of 2005. The corresponding increases for the first quarter in the Netherlands were from US$777m to US$6.7bn and in Belgium from US$5.6bn to US$17.6bn. Data for January-April showed a big increase in Italy, to US$14bn (from US$3.2bn in the same period of 2005), and in France, to US$27.8bn (from US$15.7bn). At the regional level, these large increases were to some extent offset by a sharp decline in Sweden (from US$34.8bn to US$15.3bn) and more modest year-on-year declines in the first quarter in FDI flows to Germany, Ireland and Spain.

Total inflows into the EU15 are expected to grow to US$495bn in 2006, a more modest increase than in 2005. However, the increase will occur despite an inevitable large fall in the UK total (given the impact on the 2005 figure of the one-off Royal Dutch Shell reorganisation), and inflows into the euro zone are expected to grow very strongly, by some 35%.

[7] A mid-2006 survey of some 1,200 M&A professionals conducted by ACG/Thomson found that nearly half (49%) of deal-makers polled expect to be involved in an international crossborder deal during the second half of 2006.

Global FDI growth is to subside after 2006

After 2006, global FDI flows will continue to rise, but the rate of growth is expected to slow. In 2006-10 as

Table 10
Major completed crossborder M&As, Jan-Jun 2006

Investor company	Investor country	Target company	Target Country	Value of deal (US$ m)	Sector
TELEFONICA SA	Spain	O2 PLC	UK	31,126	Communications
ABERTIS INFRAESTRUCTURAS SA	Spain	SANEF	FR	9,219	Consumer goods
PORTS CUSTOMS & FREE ZONE CO	UAE	PENINSULAR & ORIENTAL STEAM	UK	7,774	Industrial
SWISS RE-REG	Switzerland	GE GLOBAL INSURANCE HOLDING	US	7,663	Financial
COMPAGNIE DE SAINT-GOBAIN	France	BPB PLC	UK	7,620	Industrial
TEVA PHARMACEUTICAL IND LTD	Israel	IVAX CORP	US	10,043	Consumer goods
OLD MUTUAL PLC	UK	SKANDIA FORSAKRINGS AB	Sweden	6,445	Financial
NOVARTIS AG-REG	Switzerland	CHIRON CORP	US	5,683	Consumer goods
BASF AG	Germany	ENGELHARD CORP	US	5,377	Basic materials
ARCELOR	Luxembourg	DOFASCO INC	Canada	5,223	Basic materials
VODAFONE GROUP PLC	UK	TELSIM MOBIL TELE HIZMETLER	Turkey	4,550	Communications
NIPPON SHEET GLASS CO LTD	Japan	PILKINGTON PLC	UK	4,282	Industrial
ABN AMRO HOLDING NV	Netherlands	BANCA ANTONVENETA SPA	Italy	4,278	Financial

Source: Bloomberg.

a whole, global FDI inflows are projected to grow at an average annual rate of around 8%. Despite this expansion, at the end of the forecast period global FDI inflows will still, however, be only equal to their peak in 2000, even in US dollar terms. Growth in global FDI inflows will again, as in 1980-2000, exceed the rate of growth in world output, but, unlike in the pre-2000 period, it is expected to lag slightly behind the 8.5% annual average rate of growth in world trade in 2006-10.

In terms of constant price estimates (when current values are deflated by US dollar-based import price indices), global FDI inflows will in 2010 still be far below the 2000 peak. The annual average growth rate of inflows in 2006-10, at 7.4%, is however only slightly lower than the growth rate in nominal US dollar values.

The value of global FDI is expected to remain high in historical terms, even if the peak totals of 1999-2000 will take some time to be regained. 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 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 ratios in 2006-10 of 2.3-2.4% for the world as a whole would be high by historical standards.

Table 11
FDI inflows in current and constant prices
(US$ bn unless otherwise indicated)

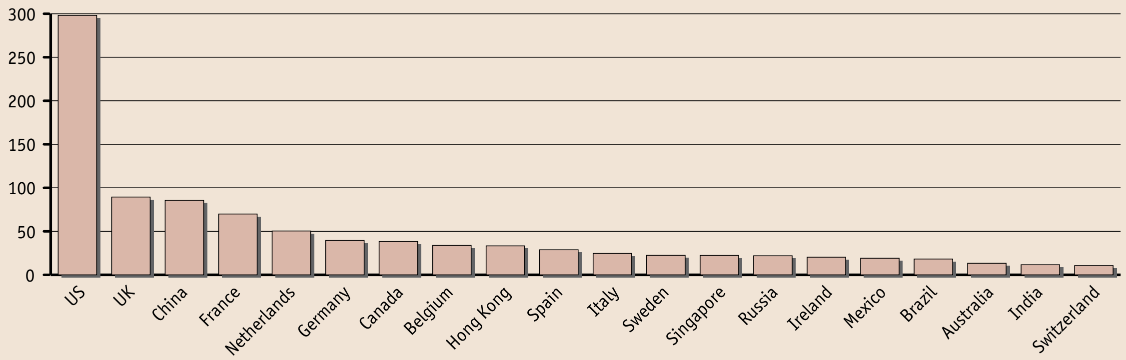
	2005	2006	2007	2008	2009	2010
In current US$ terms						
World total	954.8	1,165.0	1,222.5	1,285.3	1,342.9	1,407.3
Rate of growth (%)	19.1	22.0	4.9	5.1	4.5	4.8
Developed countries	555.6	754.3	814.8	880.7	929.0	979.4
Rate of growth (%)	14.4	35.8	8.0	8.1	5.5	5.4
Emerging markets	399.2	410.6	407.7	404.7	413.9	427.9
Rate of growth (%)	26.3	2.8	-0.7	-0.7	2.3	3.4
In constant 2000 US$ terms						
World total	753.3	854.5	892.4	964.5	1,025.5	1,073.1
Rate of growth (%)	11.2	13.4	4.4	8.1	6.3	4.6
Developed countries	431.7	543.3	591.1	663.2	713.8	754.8
Rate of growth (%)	7.2	25.8	8.8	12.2	7.6	5.7
Emerging markets	321.6	311.3	301.3	301.2	311.7	318.3
Rate of growth (%)	17.2	-3.2	-3.2	0.0	3.5	2.1

Source: Economist Intelligence Unit.

The US will remain the top destination for FDI

The US will remain the main recipient of FDI, accounting for almost one-quarter of the world total in 2006-10. 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 more than two-thirds of the world total. The list will continue to be

Leading FDI recipients
(FDI inflows; US$ bn; annual av, 2006-10)



Source: Economist Intelligence Unit.

Continuity and change in global FDI

The revival of global FDI that began in 2004 and is expected to stretch through the medium term can be compared with the previous upturn in the 1990s, specifically with the period that began in 1994 and ended with the peak year of 2000. The comparison of the two periods reveals patterns that reflect both continuity and change.

Similarities

Some important trends will remain much the same. Total global FDI inflows as a share of world GDP are in 2004-10 expected to be very similar to the ratio in the 1994-2000 period, 2.3% versus 2.2%. So is the share of developed-country inflows in the total, of about two-thirds. As in the 1990s, crossborder mergers and acquisitions (M&As) will drive global FDI (although a higher share of transactions than before will be accounted for by emerging markets). The US and the EU15 (inclusive of intra-EU inflows) will continue to dominate as recipients of world FDI. Among emerging markets, China was already by far the main recipient in the 1994-2000 period, with almost 6% of the global total. Its share is expected to go up by less than 1 percentage point in 2004-10.

Differences

What will be different in 2004-10 compared with the previous FDI upswing in the 1990s?

Business environments across the world have continued to improve and are on average superior to those in the 1990s. In particular, there is the trend of liberalisation of foreign investment regulations. At the same time, compared with the earlier period, there appear now to be "diminishing returns" to regulatory and business environment improvements, in terms of their impact on inward FDI.

The forces that drive M&As will be similar, except that there will probably be less empire-building and more emphasis on intra-sector consolidation. Unlike in the 1990s, new forms, such as the role of private equity finance in M&As, will now be far more pronounced. Privatisation drove much FDI in 1990s. With few major assets scheduled for sale in major economies, this will be much less of a factor.

There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although it is unlikely to be as dramatic as many observers hope or fear. Compared with earlier years, the outsourcing of services will accelerate, despite some signs that "outsourcing fatigue" has already appeared among many Western companies. It is also the case that 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.

South-South FDI will be of greater importance in 2004-10 than in the previous period—especially involving the so-called BRICs countries (Brazil, Russia, India and China) as investors—although again the expected shift is often exaggerated (at present this amounts to only about 10-15% of world FDI flows). Flows from the South to the North will also increase, despite signs of unease in some developed countries with investment from the South. China and India have the critical mass to grow companies of global size. Both will also seek to break into the energy sector in the US, Russia and the EU.

Higher international oil prices in 2004-10, and changes in terms of trade, will have implications for FDI flows and the bargaining position of recipient countries for oil-related FDI. Concerns about energy security are now also greater than in the past, and higher prices will often render attractive that which was previously uneconomic (and often in inaccessible places).

FDI to emerging markets will still be highly concentrated. The vast majority of emerging markets, especially those without mineral resources, will continue to get little FDI. In 2004-10 the main change in the emerging-market world is the slow rise of India and Russia as significant FDI recipients.

Greater geopolitical risks

A final and potentially significant difference is that the manifold risks to global FDI and threats to globalisation, as also discussed elsewhere in this volume, are significantly higher now than in the 1990s. As the rather limited adverse impact on FDI of the terrorist attacks on the US of September 11th 2001 illustrated (for an in-depth analysis of the consequences see *World Investment Prospects 2002* and *2003*), foreign investors are generally a resilient breed and security and related risks should not be exaggerated. However, the risk of protectionism is now greater, the global geopolitical climate is more threatening and the outlook for securing a stable and co-operative international trading and investment environment is far worse than in the recent past. The Economist Intelligence Unit's baseline forecast implies that for FDI the 2004-10 period will in many ways be similar to the earlier FDI upturn in 1994-2000. However, the risks attached to this baseline forecast are appreciably higher than they would have been in the 1990s.

Table 12
FDI inflows
(2006-10 average)

	US$ bn	Rank	% of world total		US$ bn	Rank	% of world total
US	298.1	1	23.21	Colombia	4.3	43	0.34
UK	89.4	2	6.96	Ukraine	4.3	44	0.33
China	85.7	3	6.67	Malaysia	4.1	45	0.32
France	69.9	4	5.45	Indonesia	4.0	46	0.32
Netherlands	50.4	5	3.92	Thailand	3.6	47	0.28
Germany	39.5	6	3.08	Vietnam	3.3	48	0.25
Canada	38.3	7	2.98	New Zealand	2.6	49	0.20
Belgium	33.8	8	2.63	Qatar	2.6	50	0.20
Hong Kong	33.3	9	2.59	Morocco	2.3	51	0.18
Spain	28.8	10	2.24	Angola	2.2	52	0.17
Italy	24.6	11	1.91	Bulgaria	2.2	53	0.17
Sweden	22.4	12	1.75	Venezuela	2.2	54	0.17
Singapore	22.3	13	1.73	Slovakia	2.1	55	0.17
Russia	21.9	14	1.71	Peru	2.1	56	0.16
Ireland	20.3	15	1.58	Nigeria	2.1	57	0.16
Mexico	19.1	16	1.49	Greece	2.0	58	0.16
Brazil	18.2	17	1.41	Croatia	1.9	59	0.15
Australia	13.3	18	1.03	Serbia	1.8	60	0.14
India	11.6	19	0.90	Saudi Arabia	1.7	61	0.13
Switzerland	10.6	20	0.82	Azerbaijan	1.7	62	0.13
Chile	10.4	21	0.81	Philippines	1.6	63	0.13
Austria	9.7	22	0.75	Pakistan	1.6	64	0.13
Turkey	9.6	23	0.75	Libya	1.6	65	0.12
UAE	9.6	24	0.74	Tunisia	1.3	66	0.10
South Korea	8.7	25	0.68	Ecuador	1.3	67	0.10
Poland	8.5	26	0.66	Cyprus	1.3	68	0.10
Japan	7.7	27	0.60	Bahrain	1.3	69	0.10
Denmark	6.6	28	0.51	Lithuania	1.2	70	0.09
Israel	6.2	29	0.49	Dominican Republic	1.1	71	0.09
Romania	6.1	30	0.48	Estonia	1.1	72	0.09
South Africa	6.1	31	0.48	Jordan	1.0	73	0.08
Czech Republic	5.7	32	0.44	Slovenia	0.7	74	0.06
Argentina	5.3	33	0.41	Costa Rica	0.7	75	0.06
Portugal	5.3	34	0.41	Latvia	0.7	76	0.05
Finland	5.3	35	0.41	Bangladesh	0.6	77	0.05
Kazakhstan	5.2	36	0.40	Cuba	0.6	78	0.04
Egypt	5.0	37	0.39	El Salvador	0.4	79	0.03
Iran	5.0	37	0.39	Kuwait	0.4	80	0.03
Algeria	4.9	39	0.38	Sri Lanka	0.3	81	0.02
Taiwan	4.5	40	0.35	Kenya	0.1	82	0.01
Hungary	4.5	41	0.35				
Norway	4.3	42	0.34				

Source: Economist Intelligence Unit.

Table 13

FDI inflows in relation to GDP and population

(2006-10 average)

	FDI inflows per head (US$)	Rank	FDI inflows/ GDP (%)	Rank
Singapore	5,037	1	15.00	2
Hong Kong	4,776	2	16.48	1
Ireland	4,750	3	7.88	3
Belgium	3,258	4	7.88	4
Netherlands	3,053	5	6.68	7
Qatar	2,853	6	5.57	14
Sweden	2,459	7	5.06	16
UAE	1,823	8	6.32	10
Bahrain	1,674	9	7.68	5
Cyprus	1,660	10	6.59	8
UK	1,480	11	3.55	27
Switzerland	1,429	12	2.51	43
Denmark	1,218	13	2.16	54
Austria	1,179	14	2.66	41
Canada	1,166	15	2.71	40
France	1,144	16	2.93	37
Finland	1,007	17	2.36	48
US	984	18	1.97	57
Norway	932	19	1.26	65
Israel	870	20	4.19	23
Estonia	840	21	6.05	12
Chile	657	22	6.80	6
Spain	641	23	2.10	55
Australia	636	24	1.79	61
New Zealand	617	25	2.48	44
Czech Republic	557	26	3.32	28
Portugal	497	27	2.45	45
Germany	479	28	1.21	67
Hungary	450	29	3.12	33
Italy	423	30	1.22	66
Croatia	414	31	3.72	24
Slovakia	389	32	3.20	30
Slovenia	380	33	1.76	62
Lithuania	346	34	3.28	29
Kazakhstan	335	35	4.48	20
Latvia	291	36	2.89	38
Bulgaria	289	37	5.88	13
Romania	285	38	4.57	17
Libya	255	39	3.06	35
Serbia	241	40	5.55	15
Poland	224	41	2.20	53
Taiwan	198	42	1.01	73
Azerbaijan	194	43	6.12	11
Greece	182	44	0.74	78
South Korea	178	45	0.77	77
Mexico	175	46	2.22	51
Jordan	171	47	6.50	9
Costa Rica	166	48	3.07	34
Russia	154	49	1.92	58
Malaysia	152	50	2.38	47
Angola	148	51	4.19	22
South Africa	146	52	2.00	56
Algeria	144	53	4.48	19
Argentina	132	54	2.31	49
Tunisia	128	55	3.56	26
Turkey	128	56	2.45	46
Dominican Republic	119	57	2.72	39
Kuwait	113	58	0.40	80
Brazil	98	59	1.82	60
Ecuador	96	60	3.02	36
Ukraine	92	61	3.66	25
Colombia	91	62	3.16	31
Venezuela	78	63	1.19	71
Peru	72	64	2.23	50
Iran	71	65	1.88	59
Morocco	70	66	3.13	32
Egypt	65	67	4.26	21
China	65	68	2.55	42
Saudi Arabia	64	69	0.51	79
El Salvador	62	70	2.20	52
Japan	60	71	0.14	82
Thailand	54	72	1.48	63
Cuba	49	73	1.20	69
Vietnam	38	74	4.57	18
Philippines	18	75	1.21	68
Indonesia	16	76	0.94	74
Nigeria	14	77	1.45	64
Sri Lanka	13	78	0.90	76
India	10	79	1.08	72
Pakistan	10	80	1.19	70
Bangladesh	4	81	0.92	75
Kenya	3	82	0.36	81

Source: Economist Intelligence Unit.

dominated by the developed world. Among emerging-market recipients, China, Brazil, Mexico, Russia and India make it into the top 20 recipients.

The league table of FDI recipients look significantly different if we "normalise" FDI flows by GDP or population. As could be expected, the rankings on the basis of this measure 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, Japan has the lowest ratio of FDI inflows to GDP among these 82 countries.

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 some acting as 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. This year is shaping up to be another good one for the world economy, surpassing the strong performance of 2005. Global growth is forecast to reach a robust 5.2% in 2006 (measured using PPP weights). China and India, along with the US, will continue to be the main drivers of global growth. Global liquidity also remains high by historical standards. With monetary policy being tightened around the world, a modest deceleration in the global economy is forecast in 2007-10, with annual world GDP growth slowing to a still very respectable 4.8%. Economic expansion over the forecast period as a whole (2006-10) will average about 4.7% at PPP weights (3.3% at market exchange rates), faster than in 2001-05 (4.1% and 2.8%, respectively), and will represent a marked improvement on the performance of the past 20 years.

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; see discussion below); some progress in regional integration; 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.

However, several factors will work to dampen FDI flows and keep them below what they would otherwise be. 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.[8] Although instances of such protectionism—on security grounds or whatever the excuse—are expected to remain very limited, this will nevertheless have some negative impact. At least some large crossborder deals are likely to be prevented. Perhaps as important, manifestations of "economic patriotism" can significantly influence the likelihood of whether a crossborder M&A is even attempted. Some firms may be reluctant to engage in a crossborder deal if they feel that opposition from the host government might be an issue.

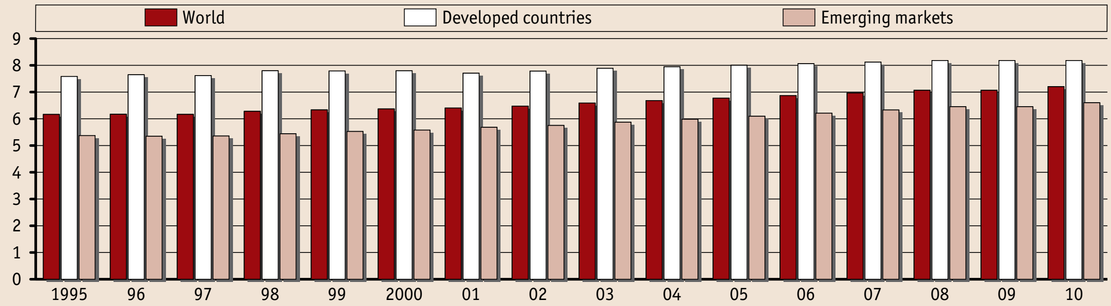
Exuberance mixed with caution

The somewhat uneasy mix of exuberance and caution about investment prospects was reflected in a recent Economist Intelligence Unit survey in which a majority of the 555 executives from multinational corporations (MNCs) who were surveyed expressed considerable optimism about crossborder business and investment opportunities over the next two to three years. However, some caution and sensitivity to risks were also evident, suggesting that a return to the heady days of the late 1990s is not on the cards. For example, although M&As are expected to be a prominent feature of the landscape, few executives see M&As as their primary route to growth (see Economist Intelligence Unit, *CEO Briefing 2006*).

Another recent survey reveals a similar duality of outlook (Accenture/Economist Intelligence Unit, *2006 Global M&A Survey*). Of the 420 senior executives who were surveyed—from the US, the UK, Germany, Sweden, Norway and Finland—55% said companies in their industry would be driven to acquire overseas interests in the next five years to guarantee the profitability of the business; 49% said crossborder M&As would be required to meet all the targets of

[8] On a possible backlash against FDI, see the article in this volume by Karl P Sauvant, "A backlash against foreign direct investment?".

Business environment scores
(av)



Source: Economist Intelligence Unit.

the stated corporate strategy; and 26% said overseas acquisitions were necessary simply to survive.

However, only about half of respondents believed that their company had achieved the expected revenue synergies from M&As, and just 45% affirmed that expected cost synergies had been captured. More generally, prior negative experience with many M&As that have not yielded the expected benefits may have a sobering effect and cause a certain restraint (research has shown that most deals have been found to destroy value for the acquiring company's shareholders).[9]

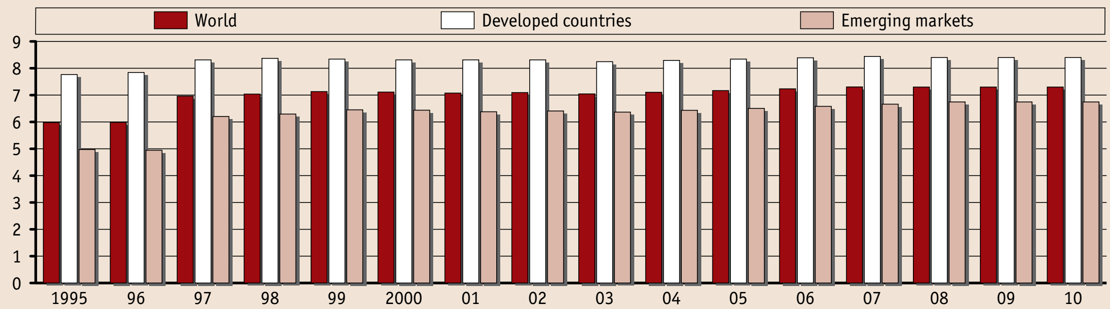
The global investment climate

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 2006-10 is expected to be 0.45 points higher than in 2001-05. This may seem surprising, given that global security risks remain high, little progress is being made on international trade liberalisation and global economic growth will gradually slow. However, when considering the outlook for the next five years as a whole, the prospects for the business environment look better than in the past.

Looking specifically at policy towards foreign investment, the average score for this category increases in 2006-10 compared with 2001-05. Out of the 82 countries covered, in only three (Cyprus, France and Kazakhstan) does it deteriorate in 2006-10 compared with 2001-05; in 29 it stays the same and in 50 it improves. As the chart shows, the average world

[9] Some studies have shown that as many as 60-70% of M&A deals fail to deliver shareholder value. See Kate O'Sullivan, "Secrets of the M&A masters", *CFO*, September 2005.

Policy towards foreign investment
(av score)



Source: Economist Intelligence Unit.

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 2001-05) and a five-year forecast period (2006-10). The full methodology appears at the end of this report.

The enabling framework for 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 skills endowments, and 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.

A large-scale survey conducted for *World Investment Prospects 2004* 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.

score for this category is expected to stay unchanged from 2007. This embodies our expectation that the pattern of liberalisation of policy towards FDI will continue in many countries, despite the signs of a possible backlash in some countries, and will on average not be reversed globally.

The global trend for liberalisation and deregulation of domestic markets is expected to continue. Even though regionalisation, rather than globalisation, is expected to be the dominant trend, this will still be consistent with ongoing improvements in business conditions across much of the globe. Recent experience is encouraging in this respect: despite considerable geopolitical and security risks, countries have on the whole not retreated from liberalisation. There have been, and will continue to be, instances of policy reversal, but we expect these to be isolated and short-lived cases. Further measures to liberalise international trade flows now look unlikely, with the Doha round of World Trade Organisation (WTO) negotiations seemingly having collapsed. However, we do not expect a reversal of the liberalisation seen over the past few decades. Limited protectionist measures are likely in some markets, but a wholesale retreat from free trade is unlikely. In the absence of further progress in multilateral liberalisation, regional and bilateral trade deals are likely to continue to proliferate (there are already some 200 such agreements). This, however, will be very much a second-best solution. These deals are inherently discriminatory, they produce a tangle of conflicting rules and increase the costs of doing business for companies that operate in multiple jurisdictions.

The expected trend of improvement in the global operational environment augurs well for FDI prospects. Our FDI model (see annex to this article) shows FDI to be very sensitive to the quality of the business environment. The trend of further improvement in business environments across the globe that we expect, and the consequent beneficial

Table 14

Business environment ranks and scores

	2006-10 Total score	2006-10 Rank	2001-05 Total score	2001-05 Rank	Change in total score	Change in rank
Denmark	8.77	1	8.64	1	0.12	0
Finland	8.72	2	8.57	5	0.15	-3
Singapore	8.69	3	8.59	4	0.10	-1
Canada	8.69	4	8.63	2	0.06	2
US	8.68	5	8.62	3	0.07	2
Netherlands	8.64	6	8.51	8	0.13	-2
UK	8.63	7	8.56	6	0.07	1
Switzerland	8.60	8	8.42	10	0.18	-2
Hong Kong	8.60	9	8.50	9	0.10	0
Ireland	8.57	10	8.52	7	0.05	3
Sweden	8.46	11	8.29	11	0.17	0
Australia	8.41	12	8.14	12	0.27	0
New Zealand	8.37	13	8.14	13	0.23	0
Germany	8.36	14	7.98	14	0.39	0
Belgium	8.28	15	7.89	15	0.39	0
Norway	8.21	16	7.86	16	0.36	0
Austria	8.17	17	7.84	17	0.33	0
France	8.07	18	7.81	18	0.26	0
Taiwan	8.05	19	7.50	21	0.55	-2
Spain	7.90	20	7.45	22	0.45	-2
Estonia	7.84	21	7.62	20	0.21	1
Chile	7.83	22	7.64	19	0.19	3
Israel	7.78	23	6.84	30	0.94	-7
Czech Republic	7.52	24	6.92	28	0.60	-4
Slovakia	7.50	25	6.79	31	0.71	-6
South Korea	7.46	26	7.10	25	0.36	1
Japan	7.45	27	7.00	26	0.46	1
Malaysia	7.41	28	7.26	23	0.15	5
UAE	7.35	29	7.16	24	0.19	5
Portugal	7.35	30	6.70	35	0.65	-5
Hungary	7.34	31	6.77	32	0.57	-1
Slovenia	7.28	32	6.71	33	0.57	-1
Qatar	7.27	33	6.90	29	0.37	4
Bahrain	7.16	34	6.98	27	0.18	7
Latvia	7.15	35	6.69	37	0.46	-2
Lithuania	7.15	36	6.60	39	0.55	-3
Poland	7.14	37	6.64	38	0.50	-1
Italy	7.08	38	6.49	41	0.59	-3
Cyprus	6.95	39	6.71	34	0.24	5
Thailand	6.89	40	6.69	36	0.20	4
Mexico	6.88	41	6.49	40	0.39	1
South Africa	6.86	42	6.16	45	0.70	-3
Greece	6.80	43	6.25	44	0.55	-1
Brazil	6.78	44	6.35	43	0.43	1
Bulgaria	6.68	45	5.87	49	0.81	-4
Kuwait	6.62	46	6.47	42	0.15	4
Romania	6.58	47	5.67	52	0.91	-5
Croatia	6.47	48	5.67	51	0.79	-3
Saudi Arabia	6.42	49	5.71	50	0.71	-1
Costa Rica	6.41	50	6.15	46	0.26	4
China	6.36	51	5.58	56	0.78	-5
Colombia	6.33	52	5.65	53	0.68	-1
Turkey	6.32	53	5.43	58	0.90	-5
Philippines	6.30	54	5.87	48	0.43	6
Argentina	6.24	55	5.50	57	0.74	-2
El Salvador	6.24	56	5.98	47	0.27	9
Indonesia	6.20	57	5.37	59	0.83	-2
India	6.13	58	5.34	60	0.79	-2
Russia	6.06	59	5.32	61	0.74	-2
Serbia	6.01	60	4.83	68	1.19	-8
Peru	5.91	61	5.63	55	0.28	6
Egypt	5.91	62	4.96	67	0.95	-5
Sri Lanka	5.81	63	5.27	62	0.54	1
Jordan	5.78	64	5.65	54	0.13	10
Kazakhstan	5.67	65	5.11	63	0.56	2
Vietnam	5.65	66	4.78	69	0.86	-3
Dominican Republic	5.51	67	5.00	66	0.51	1
Ukraine	5.43	68	4.51	73	0.91	-5
Morocco	5.34	69	4.63	72	0.72	-3
Tunisia	5.31	70	5.05	64	0.26	6
Azerbaijan	5.27	71	4.49	74	0.78	-3
Pakistan	5.23	72	4.73	71	0.50	1
Algeria	5.20	73	4.29	77	0.91	-4
Ecuador	5.19	74	5.01	65	0.18	9
Nigeria	4.83	75	4.38	75	0.45	0
Venezuela	4.77	76	4.76	70	0.01	6
Kenya	4.72	77	4.15	78	0.57	-1
Bangladesh	4.65	78	4.33	76	0.33	2
Iran	4.43	79	3.59	81	0.84	-2
Libya	4.38	80	4.12	79	0.26	1
Cuba	3.96	81	3.94	80	0.02	1
Angola	3.61	82	3.10	82	0.51	0
Average	6.79	–	6.34	–	0.45	–
Median	6.87	–	6.48	–	0.39	–

Source: Economist Intelligence Unit.

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 (see discussion below on alternative scenarios).

FDI forecast for the developed world

During the forecast period, the pattern of 2004-05, when emerging markets drove the recovery, will be reversed—inflows into emerging markets in 2006 are expected to increase by only about 2.8% in US dollar terms, whereas inflows into the developed world are projected to rise by 36%. In part this is because of the delay in the recovery in intra-developed country flows, whereas the bounceback in flows to the emerging markets occurred about two years earlier.

Developed countries will account for the bulk of the increase in global FDI

Contrary to the experience of the past two years and to widespread expectations about the concentration of new FDI in the emerging world, almost the entire increase in global FDI in 2006-10 compared with the 2005 level is expected to take place in the developed countries, in large part because of the pattern of crossborder M&As. During the 2006-10 forecast period as a whole compared with the previous five-year period of 2001-05, FDI inflows into the developed world are projected to be 66% higher (in nominal US dollar terms). The corresponding increase for emerging markets is 48%.

In the developed world the main part of FDI will continue to originate from M&A activity. Although the track-record of many M&As is poor, a number of the fundamental forces that have underpinned past M&A waves will remain. These factors include relatively low interest rates; the competitive pressures for restructuring and consolidation; and the increasing sophistication of financial markets.

Crossborder M&As offer a means of quickly building up a strong position in a new market, gaining market power, increasing firm size and spreading risk. 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

Table 15

Regional business environment ranks and scores

	2006-10 Total score	2006-10 Rank	2001-05 Total score	2001-05 Rank	Change in total score
North America	8.69	1	8.63	1	0.06
Western Europe	7.99	2	7.66	2	0.33
Asia & Australasia	6.92	3	6.48	3	0.44
Eastern Europe	6.69	4	6.01	4	0.68
Latin America	6.01	5	5.68	5	0.33
Middle East & Africa	5.82	6	5.30	6	0.52

Source: Economist Intelligence Unit.

enough to compete around the world. Although many countries are close to exhausting their opportunities for large-scale privatisations, in some countries there is still scope for the sale of state assets, 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. 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).[10] Although the US dollar has regained some ground over the past year owing to steady interest rate increases by the Federal Reserve (the US central bank), the euro is still strong enough relative to the US dollar that European firms seeking to purchase US assets can do so relatively cheaply. Germany will be a key driver of transatlantic M&A activity, as German growth picks up and German firms' profitability improves further. According to the Accenture/Economist Intelligence Unit 2006 Global M&A Survey, the US was rated the most promising M&A target market, well ahead of other countries.

Europe's financial sectors

Significant deal-making is expected in Europe's financial sectors. With the advent of the single currency in Europe, many observers anticipated a surge in crossborder consolidation, particularly in the banking sector, but that has so far largely failed to happen. Some recent deals suggest that the traditional reluctance to engage in crossborder mergers in Europe's banking sector may finally be fading, although obstacles that have hampered crossborder

[10] On the expected significant increase in EU15 investment into the US in 2006-10, see the article in this volume by Dan O'Brien, "Transatlantic foreign direct investment: the backbone of the global economy".

mergers in the past still loom large. The European financial services industry is still fairly fragmented, with country-specific taxes, regulations and cultures. However, large mature financial institutions increasingly face more limited growth opportunities in home markets. This has led acquisitive companies to search for crossborder opportunities, a trend that will continue to be an important feature of European financial services M&A activity in the next couple of years. M&A activity is also expected to remain high because many financial institutions have set ambitious growth targets that can be met only by M&As in conjunction with organic growth.[11]

FDI in emerging markets: reaching a plateau

MNCs are still looking 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. Higher prices for many commodities are also stimulating 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$400bn per year in 2006-10, although overall there will be only modest further growth in inflows from the record highs achieved in 2004-05.

In looking for investment opportunities, there seems to be an increasing tendency for companies to search for those in the largest emerging-market countries as part of a strategy to service local clients or to acquire a strategic position. However, such primarily "market-seeking" investment will also be supplemented by more "efficiency-seeking" FDI, in line with development of integrated international production networks. Industries expected to be at the forefront of FDI growth are computing and Internet technology, public utilities, transportation- and tourism-related services, electrical products, machinery and metals, and mining and petroleum.[12]

Caution about emerging markets

Despite the range of factors that will tend to push up FDI flows 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 down after 2007. The international environment will gradually become less supportive for emerging markets than in recent years. US import demand will soften and the financing environment will worsen. The problem of a deteriorating international environment will weigh in particular on Latin America. 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.

Protectionism, structural weaknesses and financial and corporate vulnerabilities in emerging countries in some regions could hinder FDI. External imbalances and the possibility of sharp exchange-rate fluctuations, as well as volatile commodity prices, pose risks that could also hamper investment activity.

Outward flows from emerging markets

Significant outward FDI flows from emerging markets are a relatively recent phenomenon and have been attracting increased attention. Although almost all developing countries remain net importers of FDI, several of them have nevertheless emerged over the past decade 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. The principal recipients of this new outward direct investment have, at least initially, been other developing countries—mostly located within the same region and often benefiting from proximity to and cultural ties with the investor countries. Another development is the emergence of companies from developing countries as direct investors into the OECD area.[13]

Special attention is being given to the four BRICs economies (Brazil, Russia, India and China). The FDI story for these countries has so far concerned primarily inward investment—and for Russia and India

[11] Pricewaterhouse Coopers, *Financial Services M&As 2006*.

[12] The Institute of International Finance, *Capital Flows to Emerging Market Economies, March 30, 2006, Update on Capital Flows to Emerging Market Economies*.

[13] OECD, *Trends and Recent Developments in Foreign Direct Investment*, June 2005.

Table 16

Major M&A purchases by BRICs firms, 2004-06

Date of completion	Investor company	Investor country	Target company name	Target Country	Value of deal (US$ m)	Target industry sector
Oct 2005	CHINA NATIONAL PETROLEUM COR	China	PETROKAZAKHSTAN INC-CL A	Kazakhstan	3,918	Energy
Apr 2005	SEVERSTAL-RTS BOARD	Russia	LUCCHINI SPA	Italy	2,337	Basic materials
Dec 2005	LUKOIL-CLS	Russia	NELSON RESOURCES LIMITED	UK	2,040	Energy
Mar 2004	MMC NORILSK NICKEL-CLS	Russia	GOLD FIELDS LTD	South Africa	1,162	Basic materials
Jun 2005	CONSTRUTORA CAMARGO CORREA S	Brazil	LOMA NEGRA SA	Argentina	1,025	Building materials
May 2005	CHINA NETWORK COMMUNICATIONS	China	PCCW LTD	Hong Kong	1,014	Communications
Feb 2006	CIA VALE DO RIO DOCE-PREF A	Brazil	CANICO RESOURCE CORP	Canada	646	Basic materials
Mar 2006	DR. REDDY'S LABORATORIES	India	BETAPHARM ARZNEIMITTEL GMBH	Germany	570	Pharmceuticals
May 2006	SUZLON ENERGY LIMITED	India	EVE HOLDING NV	Belgium	526	Industrial various
Sep 2004	VIMPELCOM-CLS	Russia	KAR-TEL	Kazakhstan	425	Communications

Source: Bloomberg.

even that aspect has been of very recent vintage. However, companies from these countries are now also becoming a significant source of outward FDI. Many firms from these countries are seeking to establish a presence abroad to tap resources, skills and brand names to increase their competitiveness.[14]

A notable development in Chinese outward investment has been the gradual emergence of crossborder M&As as the dominant vehicle for China's direct investment abroad compared to other forms, including joint ventures and establishment of overseas subsidiaries, which were more prevalent in the past.[15] Although companies from the BRICs are increasingly engaged in M&A purchases in a wide variety of destinations, the data in tables 16 and 17 show that although there have been a few large M&A purchases by BRIC firms in recent years, their share in world totals remains very low.

Furthermore, the BRICs remain considerably more integrated into international FDI from the side of inward investment rather than outward (see table 18). Despite the focus on the BRICs' outward investment, their total FDI outflows in 2005 amounted to only US$28bn, and the share of the BRICs in world total FDI outflows was low. Even with growth to a projected US$60bn in 2010, FDI outflows from the BRICs would represent less than 5% of world FDI outflows and a mere 0.7% of the BRICs' GDP.

Risks loom large

Investment is less risky and likely to be more profitable when local and global prospects for growth in output and trade are good; when relations among governments are stable and friendly; and when the liberalisation of international trade and investment is making progress. These conditions are likely to be only imperfectly satisfied during our forecast period.

Our baseline forecast for global FDI flows in 2006-10—of neither boom nor backlash—assumes

Table 17

Crossborder M&A purchases by BRICs countries

	2004	2005	Jan-Jun 2006
US$ m			
Brazil	8,625	2,249	726
China	1,302	4,083	1,622
India	1,133	2,110	1,387
Russia	3,309	5,644	2,719
Total	14,369	14,086	6,454
% of world total	2.3	1.7	2.0
No. of deals			
Brazil	21	11	8
China	42	35	18
India	57	61	43
Russia	63	64	46
Total	183	171	115
% of world total	2.1	1.7	2.4

Source: Based on data from Zephyr.

[14] Karl P Sauvant, "Inward and outward FDI and the BRICs", in Subhash Jain, ed., *Competing with the BRICs*, Edward Elgar, Cheltenham, 2006.

[15] Deutsche Bank, "Global champions in waiting: perspectives on China's overseas direct investment", August 2006.

The BRICs' outward investment

The statistical coverage of outward FDI flows and stocks is even more problematic than for inward FDI stocks and flows. For example, China's total accumulated outward FDI is far smaller than the comparable figure for inward FDI, but is almost certainly much higher than indicated by official statistics. Official statistics for China's outward FDI flows differ between government agencies and from estimates by organisations outside China.

Figures from China's Ministry of Commerce have traditionally underestimated total outward FDI because they include only investments that have been submitted for official approval. This situation is, however, changing. From May 2005 Chinese entities are required to notify the ministry of all planned outward investments. Balance-of-payments figures for outward FDI published by China's State Administration for Foreign Exchange also appear low and may not accurately reflect the current trend.

The main aim of outward FDI by Chinese corporations has been to secure natural resource inputs, although there is also some mainly market-seeking investment in manufacturing operations outside China. The government's "going out" policy has encouraged overseas investment, so that Chinese firms can become less dependent on the local market and build their global reputation. In addition, the process allows China to obtain ownership rights to commodities such as oil and metals. China's outward direct investment rose to US$11.3bn in 2005. Much of this may have been accounted for by China National Petroleum Corporation's acquisition of PetroKazakhstan, a Kazakhstan-based Canadian-owned firm. Chinese multinationals continue to grow both in terms of their size and their global ambitions, and the steady appreciation of the renminbi in 2006 will ensure that they are able to buy more assets for their money abroad.

India's outward FDI is starting to become significant, although this may not yet be apparent from official statistics. Much Indian outward FDI is in the form of crossborder mergers and acquisitions (M&As), mainly in telecommunications, energy and pharmaceuticals, although these remain small by international standards. Larger M&A transactions on the part of Indian multinationals are likely to follow in future years. Some Indian services companies specialising in offshore outsourcing have in recent years also been active in investing in developed countries.

Companies from Brazil have been among the leading foreign investors from emerging markets for some time. Brazilian companies with foreign interests employ over 42,000 workers in 48 countries. The emergence of Russia as a foreign investor is now also attracting attention. Russian outward FDI was almost US$10bn per year in both 2003 and 2004, and more than US$13bn in 2005. Russian oil and gas companies have invested considerable sums in downstream assets in central and eastern Europe and elsewhere in recent years, and other Russian companies have also started to show interest in foreign acquisitions. The Russian government encourages foreign investment in neighbouring countries, such as Ukraine and Georgia, since the control over economic assets fits in well with the strategy of keeping a grip on Russia's "near abroad".

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 geopolitical uncertainty. However, there are many downside risks to our baseline forecast. In other words, 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.

In addition to macroeconomic risks, the threats to FDI range from US imbalances to an anti-globalist backlash and the threat of a bird flu epidemic. The possible adverse impact of geopolitical 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 the aftermath of the Iraq war. The deepening of globalisation, with FDI to the fore, could be at risk if the tensions over the Middle East, Iran's nuclear programme and other disputes sour further the international climate; these strains could also result in a worsening of trends towards regionalism and protectionism and away from globalisation and multilateral liberalisation.

Our central forecast implies robust global growth over the next five years. However, important risks stem from large economic imbalances in key countries. A connected threat is another downward turn in global equity markets, which would put paid

Table 18
FDI stocks and flows for BRICs countries
(US$ bn unless otherwise indicated)

	Brazil		China		India		Russia		Total BRICs	
	2005	2010	2005	2010	2005	2010	2005	2010	2005	2010
FDI outflows	2.5	2.8	11.3	37.0	1.4	5.0	13.1	15.5	28.3	60.3
% of GDP	0.3	0.3	0.5	0.8	0.2	0.4	1.7	1.1	0.6	0.7
% of world FDI outflows	0.3	0.2	1.4	2.9	0.2	0.4	1.6	1.2	3.4	4.7
Outward FDI stock	67	81	50	192	11	29	52	121	179	422
% of GDP	8.4	7.5	2.2	4.3	1.4	2.2	6.7	8.8	3.9	5.2
% of world outward stock %	0.6	0.5	0.5	1.1	0.1	0.2	0.5	0.7	1.7	2.5
FDI inflows	15.2	19.9	79.1	88.6	6.7	14.3	14.6	25.0	115.6	147.8
% of GDP	1.9	1.8	3.5	2.0	0.8	1.1	1.9	1.8	2.5	1.8
% of world FDI inflows	1.6	1.4	8.3	6.3	0.7	1.0	1.5	1.8	12.1	10.5
Inward FDI stock	177	267	621	1,050	51	109	65	175	914	1,601
% of GDP	22.2	24.8	27.5	23.7	6.4	8.4	8.5	12.7	19.8	19.6
% of world inward stock %	1.7	1.6	6.0	6.3	0.5	0.7	0.6	1.1	8.9	9.7
Memorandum items										
% of world GDP at PPP	2.6	2.5	13.7	17.4	6.3	7.3	2.6	2.7	25.2	29.9
% of world GDP at market exchange rates	1.8	1.8	5.1	7.4	1.8	2.2	1.7	2.3	10.5	13.7

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

to any revival in M&As. The huge US current-account deficit (6-7% of GDP) and inflated domestic asset prices pose a special threat. Despite stabilising recently, the US dollar remains vulnerable to a renewed weakening. Although the broad weakening of the US dollar since 2002 has been orderly, we cannot rule out that the US could suffer from rising market volatility if investors become nervous about US imbalances.

Geopolitical risks

Three types of, in part inter-related, geopolitical 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.

Protectionist sentiments are undermining the free movement of trade, and have already derailed the Doha round of trade liberalisation talks. There remains a risk that trade protectionism will increase over our five-year forecast period. The widening current-account deficit in the US has led to calls from some members of Congress for a host of measures to counteract rising imports from China, in particular.

"Constrained globalisation"

Our baseline scenario of "constrained globalisation" implies a world significantly less open to trade and investment than under the unfettered "super globalisation" scenario that seemed possible in the latter part of the 1990s. At the same time, it is a far cry from a scenario of a retreat from globalisation, with bouts of serious protectionism—still less the "globalisation sunk" scenario, akin to what occurred in the first part of the 20th century (for a discussion over a longer time-frame of the global economic implications of the various scenarios, see Economist Intelligence Unit, *Foresight 2020*).

The US holds the key

Developments in the US are of critical importance to overall global trends. What we expect to happen in the US illustrates our assumption that global FDI in 2006-10 will not represent a boom, but neither will it reflect a serious backlash. 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. There are also ideological, political and even psychological barriers to the US's providing the leadership (as it did when it shaped the post-war Bretton Woods world) to create the international consensus and co-operation needed to underpin unfettered globalisation—even if the US were inclined to pursue such an aim. All this will make for a constrained globalisation and for less FDI than might otherwise be the case, but it is a far cry from full backlash or a descent into protectionism.

The main reasons why we assume in our baseline forecast that a descent into serious protectionism or a backlash against globalisation and FDI will not happen include the following.

- 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 the growing demand in the US for FDI protectionism. This example is part of a much

Alternative scenarios

The Economist Intelligence Unit's measure of the quality of the business environment across countries, and our cross-section empirical framework for forecasting FDI flows (see methodological annex to this article) can be employed to yield estimates of FDI flows under alternative scenarios. In our empirical framework, FDI flows are related to a number of determinants, including income levels (market size), GDP growth, natural resource endowments, distances between countries, labour costs adjusted for productivity, as well as our business environment variable (which covers various aspects of the policy, institutional and operating climate).

We construct two alternative scenarios to our baseline forecast for global FDI in 2006-10—"boom" and "backlash" scenarios based on different assumptions about key elements of countries' business environments. Under a boom scenario we simply assume across-the-board improvements across all or most categories of the business environment; we also assume that these are spread across all the 82 countries that are covered.

Boom scenario

We simply posit that all countries' business environment scores for 2006-10 are 10% higher than we actually forecast. Our model predicts annual average FDI flows for the 82 countries that are about 30% higher than under baseline assumptions. This percentage increase is then applied to the US$1.28trn in global average annual FDI flows under our baseline forecast (the FDI flows for the 82 make up some 90% of the world total). These estimates point to the huge opportunity cost, in terms of forgone FDI, of suboptimal policies (the difference in FDI flows under boom and baseline scenarios is some US$2trn in total over 2006-10).

Backlash scenario

For the backlash scenario we make a series of more detailed assumptions about indicators related more specifically to policies towards FDI and related aspects. Thus we assume (again across all 82 countries) a 20% decrease on average in the score for the policy towards foreign investment category in our business environment rankings (reflecting direct forms of backlash against FDI); lower scores by 10% for the foreign trade and exchange regime (greater protectionism) and policy toward private enterprise and competition categories; and a related downgrading by one point for the indicator scores for the impact of international disputes and tensions and government attitudes to business in the political environment category. The use of the resulting lower average business environment scores in our FDI forecasting model yields estimates for the FDI inflows under the "backlash" scenario. Again the impact on FDI would be considerable—the loss cumulatively of more than US$1trn in FDI in 2006-10 relative to the baseline scenario.

Alternative scenarios for global FDI inflows, 2006-10
(US$ bn; annual average)

	Baseline	Boom	Backlash
World total	1,285	1,666	1,015
Developed countries	872	1,066	682
Emerging markets	413	600	333

Source: Economist Intelligence Unit.

broader process—the interest of (most) business is in openness and globalisation.

- The intellectual case is not paramount, but it is not unimportant. General opposition to globalisation—and also with respect to the case against FDI—continues to be hamstrung by the poverty of its intellectual underpinnings. Appealing to fear and emotion can be effective sometimes, but intellectual foundations and respectability are necessary to sustain a general trend.
- 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 and overcoming protectionist reactions.

In summary, it is most likely that, worldwide, economics will continue to trump populism and political concerns—although it would be wrong to ignore the danger that it just might turn out otherwise.

Regional trends

North America

FDI inflows into the US slumped in the early part of the decade, reaching a low of US$67bn in 2003. Inflows recovered in 2004-05 to an annual average of US$122bn (equal to 1% of GDP). A pick-up in growth and the weakening of the US dollar made the US attractive to investors.

The US is the largest host of FDI in the world, with a historic-cost book value of the stock of FDI in the US of US$1.8trn by the end of 2005. However, this is equivalent to just 15% of GDP, much lower than the figure of 37% of GDP for the UK, 32% for Canada and 25% for Germany, although far above the ratio of 2% for Japan.

FDI attractiveness of US

FDI inflows into the US are set to rise strongly in 2006-10. 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, particularly in 2008-10, when the US economy will emerge from an expected slowdown. Investment growth generally is expected to be strong.

The US has clear potential for continued large-scale inflows in the medium term. In addition to the appeal of the vast size of the domestic market, the US is the global technology leader and has demonstrated an ability to increase productivity much faster than most other developed countries. Foreign companies view having operations in the US as a way of gaining access to the technology and processes that have made this productivity growth possible, and subsequently applying them to other operations around the world.

Of some concern, however, is rising protectionist sentiment in Congress—represented more so in the Senate than the House of Representatives—which is amending legislation dealing with checks on foreign investment inflows. This threatens to politicise the process and lengthen the time it takes to win approval for proposed M&As. A related issue is political opposition by some to foreign involvement in so-called strategic sectors, such as energy and infrastructure, which has already derailed a few high-profile deals.

The US is ranked fifth in our business environment rankings for 2006-10, down from third in 2001-05. The business environment is generally very good, but serious concerns remain about long-term macroeconomic stability (arising from the current-account deficit), security risks, strained international relations and long-standing problems with political lobbying. Although economic growth will remain robust, macroeconomic imbalances, including high levels of personal debt and a large current-account deficit, mean that there are appreciable risks to the baseline outlook. However, we still expect the US economy to outperform both the EU and Japanese 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.

Strong FDI recovery in Canada

Canada experienced a sharp drop in FDI inflows in 2003-04. However, inflows recovered strongly in 2005 and Canada will provide good opportunities for foreign investors over the medium term. Annual FDI inflows are expected to average an historically high 2.5-3% of GDP. Canada is a world leader in education, and continued high spending in this sector should allow it to retain its lead over most other OECD countries. Close physical proximity to and economic integration with the US will continue to be the driving force behind foreign investment in Canada.

Canada will rank as the fourth-best place in the world in which to conduct business in 2006-10,

Table 19
FDI inflows into North America

	1995	1996	1997	1998	1999	2000	2001	2002
US								
Inflows (US$ bn)	57.8	86.5	105.6	179.0	289.4	321.3	167.0	80.8
% of world total	17.1	21.7	21.4	24.9	25.8	22.7	19.1	11.0
Rate of growth (%)	25.2	49.7	22.1	69.5	61.7	11.0	-48.0	-51.6
% of GDP	0.8	1.1	1.3	2.0	3.1	3.3	1.6	0.8
Canada								
Inflows (US$ bn)	9.3	9.6	11.5	22.8	24.7	66.8	27.7	21.4
% of world total	2.7	2.4	2.3	3.2	2.2	4.7	3.2	2.9
Rate of growth (%)	12.8	4.1	19.6	97.9	8.5	169.9	-58.6	-22.6
% of GDP	1.6	1.6	1.8	3.7	3.7	9.2	3.9	2.9
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
US								
Inflows (US$ bn)	67.1	133.2	109.8	188.9	266.0	309.4	349.5	376.6
% of world total	10.2	16.6	11.5	16.2	21.8	24.1	26.0	26.8
Rate of growth (%)	-17.0	98.5	-17.6	72.1	40.8	16.3	13.0	7.7
% of GDP	0.6	1.1	0.9	1.4	1.9	2.1	2.2	2.2
Canada								
Inflows (US$ bn)	6.1	6.3	33.3	36.8	37.2	36.5	39.2	41.9
% of world total	0.9	0.8	3.5	3.2	3.0	2.8	2.9	3.0
Rate of growth (%)	-90.9	3.7	429.5	10.6	1.0	-1.9	7.6	6.8
% of GDP	0.7	0.6	2.9	2.8	2.6	2.5	2.8	2.9

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

according to our business environment model. 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. The attractiveness of Canada as a location for business has also been enhanced by tax cuts.

Western Europe

After falling sharply in 2001-04, FDI inflows into western Europe recovered strongly in 2005 to US$441bn (almost half the global total in 2005, and a 51% increase over inflows into western Europe in 2004). FDI inflows increased in 2005 even after allowing for the fact that a large part of the inflow into the UK—the main recipient country—was attributable to an accounting transaction. Inflows into the euro zone rose by 20% in 2005. The euro zone total was adversely affected by a sizeable decline in FDI inflows into Belgium and Luxembourg and a large net disinvestment in Ireland; almost every other euro zone country experienced a significant increase in FDI inflows. The biggest increases were recorded for France, the Netherlands and Germany.

The UK was the world's and the EU's top FDI recipient in 2005, with US$164bn, some 17% of the global total. This represented almost 40% of all FDI inflows into the EU15. However, as noted earlier, some 70% of the UK total was owing to the reorganisation of the Shell Transport and Trading Company and the Royal Dutch Petroleum Company into Royal Dutch Shell, an operation that was recorded in the UK's balance of payments as an FDI inflow of £64.3bn (US$115bn). Without this transaction, the FDI inflow into the UK, at some US$49bn, was less than the inflow into France (US$64.5bn).

On a crude measure of FDI activity—the number of projects irrespective of their size and value—the UK and France held the top position as FDI recipients in Europe in 2005. According to Ernst & Young, the UK received 18.2%, or 559, of total FDI projects in Europe in 2005, marginally ahead of France, with 538 projects. Germany was a distant third with 181 projects. However, there has been a steady loss of market share, measured in this way, for the UK. In 2005 its share in European projects was 13 percentage points lower than in 1997, and the French share has improved since 2001.[16]

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.[17] The combination of a large market with dense industry clusters will also continue to make the region attractive as an investment location. Projected annual average FDI inflows into the region in 2006-10 will be above 3% of GDP—an historically high level and above the world average.

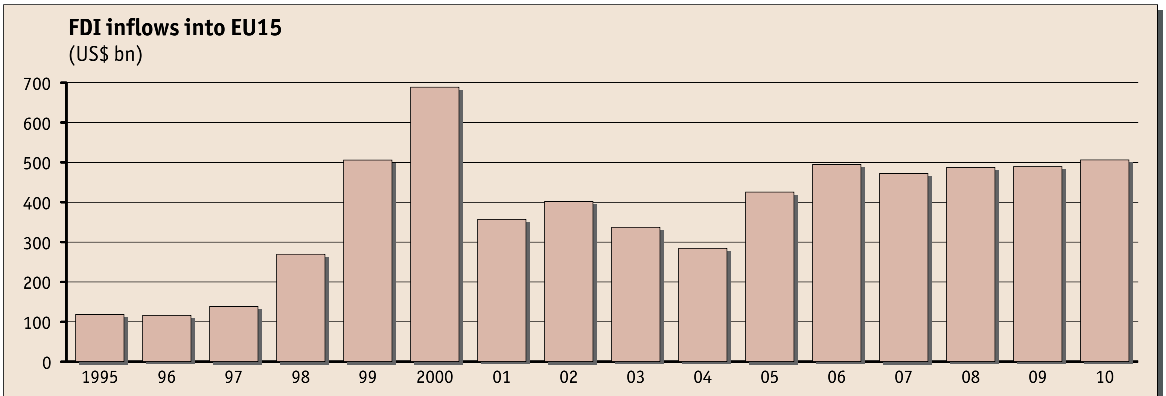
The UK and France will vie for top spot

France and the UK will vie as the main destination for FDI into western Europe. Despite the decline in inflows into the UK during the first half of this decade, the UK is still Europe's largest and the world's second-largest host of FDI in absolute terms, accounting for almost one-quarter of the total stock of inward FDI in the EU15. The UK's attractiveness as a location for FDI has rested on a policy of openness to foreign investors, a flexible labour market, a highly developed financial sector and membership of the EU. A less tangible but still important reason is the status of English as the world's leading business language.

The UK should remain an attractive business location, but its relative position as an FDI host could in the longer term slip as a result of some deterioration in the quality of its business environment, and eventually also because of the UK's failure to join European economic and monetary union (EMU; see *World Investment Prospects 2004* on statistical evidence that EMU membership has a significant positive effect on FDI). Membership of EMU is off the UK agenda for the foreseeable future. The UK also experiences some slippage in our business environment rankings (it falls to seventh place for 2006-10, compared with sixth in 2001-05) 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.

[16] Ernst & Young, *European Investment Monitor 2005*.

[17] US companies will continue to account for large and increasing share of FDI into the EU15—see the article in this volume by Dan O'Brien, "Transatlantic foreign direct investment: the backbone of the global economy".



Sources: National statistics; Economist Intelligence Unit; IMF.

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 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. French policymakers appear often to be in two minds—they want both to attract FDI and take pride in France's high position in the international

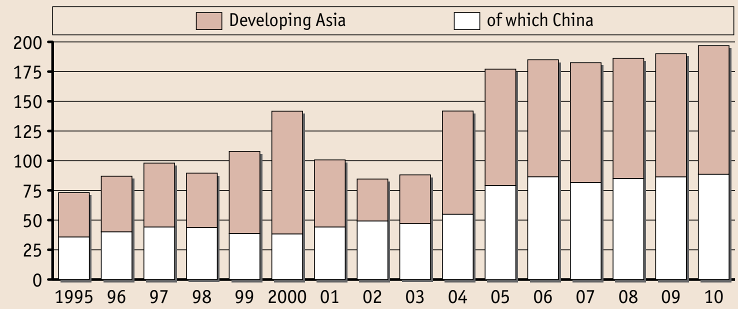
Table 20
FDI inflows into western Europe

	1995	1996	1997	1998	1999	2000	2001	2002
Western Europe								
Inflows (US$ bn)	126.1	125.3	151.1	285.3	528.9	717.2	373.5	410.8
% of world total	37.4	31.4	30.6	39.8	47.1	50.8	42.7	56.0
Rate of growth (%)	46.4	-0.7	20.6	88.8	85.4	35.6	-47.9	10.0
% of GDP	1.4	1.3	1.7	3.1	5.7	8.3	4.3	4.3
EU15								
Inflows (US$ bn)	118.3	116.5	138.2	269.8	505.9	688.8	357.3	401.7
% of world total	35.1	29.2	28.0	37.6	45.1	48.8	40.8	54.8
Rate of growth (%)	50.0	-1.6	18.7	95.2	87.5	36.2	-48.1	12.4
% of GDP	1.4	1.3	1.6	3.1	5.8	8.6	4.4	4.6
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Western Europe								
Inflows (US$ bn)	362.3	293.7	449.2	518.0	498.6	515.0	518.0	536.3
% of world total	55.2	36.6	47.0	44.5	40.8	40.1	38.6	38.1
Rate of growth (%)	-11.8	-18.9	52.9	15.3	-3.7	3.3	0.6	3.5
% of GDP	3.1	2.2	3.3	3.5	3.1	3.2	3.2	3.2
EU15								
Inflows (US$ bn)	337.4	284.6	425.6	494.8	472.0	487.6	489.1	506.1
% of world total	51.4	35.5	44.6	42.5	38.6	37.9	36.4	36.0
Rate of growth (%)	-16.0	-15.6	49.5	16.3	-4.6	3.3	0.3	3.5
% of GDP	3.1	2.3	3.3	3.7	3.1	3.2	3.2	3.3

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

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.

FDI inflows into developing Asia
(US$ bn)



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

Asia and Australasia

FDI inflows into Asia and Australasia increased strongly in 2004 to almost US$200bn. However, recorded FDI inflows into the region fell back sharply to US$146bn in 2005. This was mainly the result of a large negative inward investment figure for Australia (stemming from a reorganisation by News Corporation) and a drop in the hitherto already modest FDI inflow into Japan. Developing Asia, by contrast, attracted a record high of US$177bn in inflows in 2005, by far the highest emerging-market regional total. This was a 25% increase on the US$142bn inflows in 2004, which in turn had represented a 61% rise on 2003. As in recent years, China was far and away the main FDI recipient among emerging markets, as large financial sector investments boosted FDI inflows to the country to almost US$80bn in 2005. 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.

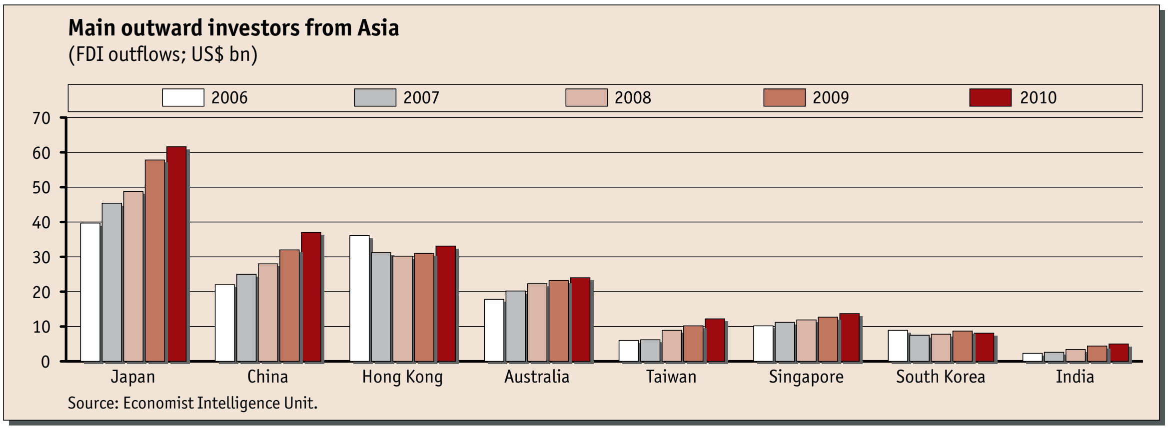
A large pipeline of commitments suggests that FDI into China is likely to reach over US$80bn in 2006. It is expected to remain at or above that level over the medium term. Because of the size of the domestic market and strong growth prospects, and for reasons of cost competitiveness, foreign companies are engaging in both new investments and, to a limited extent, the relocation of production facilities from other emerging markets to China.

Although the Chinese business environment continues to be characterised by bureaucratic hurdles

Chinese FDI data

The FDI figures for China need to be treated with caution because the data are influenced by the practice of "round-tripping"—export and then return of capital from the mainland that has been placed offshore to exploit preferential tax breaks. The mechanisms used to move capital out of the country include transfer pricing by multinational corporations (MNCs), the establishment of holding companies in Hong Kong and tax havens by enterprises in China, and informal payment flows and cash outflows between the mainland and Hong Kong. Many of these funds find their way back to China as recorded FDI. Such flows may represent at least one-quarter of China's registered FDI inflows.

The tax incentives received by FDI as compared with investment by national firms are an important part of the story. In addition, the uncertainty regarding property rights in China means that private national enterprises wish to qualify for treatment as foreign investors, on the grounds that registration as a foreign-owned company brings with it greater legal protection against future expropriation by the state. Some areas of the economy that remain difficult to enter for national private capital, for example parts of the services sector, are being opened up to foreign investors under the World Trade Organisation (WTO) agreement. Hence access to these sectors will require registration as a foreign firm.



and an opaque legal system, many foreign companies have taken the view that they need to be in China for the long haul, however difficult current local market conditions. There has been some political backlash against foreign participation in parts of the financial sector, but financial investments are likely to continue at least for a couple of years, as the focus of foreign multinationals in China shifts from the manufacturing sector to services. Under China's accession agreement to the WTO, foreign financial firms will face fewer restrictions on their operations in China from 2007.

Recent business surveys (such as by AT Kearney and the Economist Intelligence Unit) confirm China as the leading destination for investment on most criteria, especially for companies seeking new consumer and corporate markets and those sensitive to labour costs. China also rates well on the criteria for location of research and development (R&D) activities and outsourcing opportunities (behind only India). Investor confidence in China seems undiminished, despite fears that the Chinese economy is at risk of overheating. China's powerful attraction reaches across industries: manufacturing and services sector companies (including information technology—IT—and financial services firms) are equally attracted by the country's rapid growth and low-cost environment.

Barriers to greater FDI

Despite the range of factors that underpin the expectation of buoyant FDI into China there are also some factors that will keep FDI below potential, 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 incipient backlash against FDI that is occurring elsewhere. Chinese officials have recently started to voice concerns that the country may be selling off stakes in banks and other companies too cheaply to foreign buyers and that it is time to change. Thus US bank Citigroup's bid for an 85% stake in China's Guangdong Development Bank is being closely watched because it would be the first time foreigners surpassed the limit of 25% on foreign ownership in a Chinese bank.

In addition, a saturation of investment is affecting some Chinese industries and this may deter further FDI. Intense price competition and rising raw-materials prices have cut profit margins in some sectors. For example, in 2005 Volkswagen (Germany) announced that it would cut investment plans for the period between 2006 and 2008 by 40%. Another dampening effect will come from the alignment of corporate tax rates levied on domestic and foreign firms (towards the higher domestic rate), expected probably in 2008. At present, foreign companies operating in China enjoy a preferential tax rate as low as 15%, compared with 33% for Chinese firms.

China's price competitiveness will be maintained over the forecast period. On baseline assumptions, there seems little risk that much FDI will relocate from China to cheaper locations. However, portfolio inflows are set to double from around US$20bn to US$40bn in

2008, so China will be receiving well over US$100bn in foreign capital per year throughout the forecast period. China is likely to have US$2trn in foreign-exchange reserves by 2010. If the upward pressure on the renminbi leads to appreciation that is much stronger than anticipated, that might also hold back inward FDI flows.

FDI into India

Although China has been the top investment destination for some years, investor interest in India is a more recent development. Whereas China's FDI is concentrated in capital-intensive manufacturing and logistics, FDI flows into India are mostly in 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. India has yet to build a critical mass in FDI, having only initiated investment-attracting reforms in 1991. There have recently been positive signs of increased FDI into other sectors. Despite the attention to services outsourcing, two of the sectors that received large amounts of inward FDI in 2005 were automobile manufacturing and mining.

FDI into India will grow but will remain very low in relation to the size and potential of its economy. However, some of the world's leading MNCs are taking an active interest in the country. Intel, Microsoft, Cisco, Posco and an AMD-backed chip fabrication consortium have proposed large multi-year investments. The recent increase in the ceiling on foreign ownership in some telecoms services to 74% (from 49%) and in civil aviation companies to 49% (from 24%) is also helping to generate greater inflows.

Although manufacturing is generally open to foreign investment and there has recently been substantial liberalisation of the FDI regime in some sectors, such as telecoms, FDI opportunities in other sectors are limited. Inflexible labour laws are also restricting FDI inflows into India, despite its huge potential and growth prospects. India's ability to attract FDI is also hampered by its poor infrastructure. A recent survey by KPMG showed that India's poor infrastructure (the road network, the ports, the distribution networks and in particular the power supply) is a cause for concern and a major barrier to investment. Most of the companies surveyed doubted that rapid changes could be made to solve the infrastructure issues. The scope for making improvements is limited by the state of public finances. The combined deficit of the federal and state governments is running at around 10% of GDP.[18]

FDI into ASEAN countries

There is strong concern among members of ASEAN that China is diverting FDI from their countries, which at least until the late-1990s crisis were significant beneficiaries of FDI inflows to the region. 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. As China continues to develop, and its wages rise, it will also find it increasingly hard to attract the interest of low-cost, labour-intensive operations. One alternative for investors is to relocate inland in China, but this distances them from export markets. 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 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 2001-05 twice the size of inflows into the ASEAN ten, in 2006-10 FDI into China is projected to be about 50% higher than inflows into the ASEAN countries.

The FDI picture for the different ASEAN countries for 2006-10 is mixed. Singapore will remain an attractive destination for foreign investors, with its business environment remaining one of the most attractive in the world. Nevertheless, Singapore has become an increasingly high-cost location, so that the government is now aiming to attract MNCs in high-tech sectors, as well as to turn the island into a financial hub. Vietnam is set to join the WTO by the end of 2006, which should reinforce the positive impact of high growth rates on FDI. In particular,

[18] In investor surveys, India continues to lag far behind China as a preferred destination for investment. For example, in a recent survey of MNC executives conducted by Ernst & Young, only 18% of respondents cited India as one of their three preferred locations for investment, compared with a figure of 41% for China. Ernst & Young, *European Attractiveness Survey*, 2006.

Table 21
FDI inflows into Asia & Australasia

	1995	1996	1997	1998	1999	2000	2001	2002
Asia & Australasia								
Inflows (US$ bn)	88.6	97.4	110.8	100.9	124.7	165.0	119.9	111.1
% of world total	27.1	25.2	23.2	14.7	12.7	12.4	16.1	17.3
Rate of growth (%)	22.5	9.9	13.8	-8.9	23.5	32.3	-27.3	-11.3
% of GDP	1.1	1.3	1.5	1.5	1.7	2.0	1.6	1.4
Developing Asia								
Inflows (US$ bn)	73.2	86.9	98.0	89.5	107.8	141.7	100.7	84.5
% of world total	21.7	21.8	19.8	12.5	9.6	10.0	11.5	11.5
Rate of growth (%)	15.0	18.8	12.7	-8.6	20.5	31.4	-28.9	-16.0
% of GDP	2.6	2.8	3.1	3.2	3.4	4.2	2.9	2.3
China								
Inflows (US$ bn)	35.8	40.2	44.2	43.8	38.8	38.4	44.2	49.3
% of regional total	40.4	41.3	39.9	43.4	31.1	23.3	36.9	46.4
Rate of growth (%)	6.1	12.1	10.1	-1.1	-11.4	-0.9	15.2	11.5
% of GDP	4.9	4.7	4.6	4.3	3.6	3.2	3.3	3.4
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Asia & Australasia								
Inflows (US$ bn)	106.4	197.0	146.0	199.4	202.7	212.1	218.0	227.5
% of world total	18.8	27.2	16.0	18.1	17.6	17.7	17.4	17.3
Rate of growth (%)	1.0	85.2	-25.9	36.6	1.6	4.7	2.8	4.3
% of GDP	1.3	2.1	1.5	1.9	1.7	1.6	1.6	1.5
Developing Asia								
Inflows (US$ bn)	88.1	141.8	177.0	185.0	182.5	186.2	190.1	196.8
% of world total	15.6	19.6	19.4	16.8	15.9	15.5	15.2	15.0
Rate of growth (%)	4.2	61.0	24.9	4.5	-1.3	2.0	2.1	3.6
% of GDP	2.1	3.0	3.3	3.0	2.7	2.5	2.3	2.2
China								
Inflows (US$ bn)	47.1	54.9	79.1	86.5	81.7	85.1	86.5	88.6
% of regional total	44.3	27.9	54.2	43.4	40.3	40.1	39.6	38.9
Rate of growth (%)	-4.5	16.7	44.0	9.3	-5.5	4.2	1.6	2.5
% of GDP	2.9	2.8	3.6	3.3	2.7	2.5	2.2	2.0

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

Vietnam is likely to lower barriers to entry in a number of important sectors. As a result, in 2006-10 Vietnam is projected to attract an average of about US$3bn per year in FDI inflows (4.5% of GDP).

In Indonesia, FDI inflows are expected to pick up from the very low levels of recent years, as the government seeks to adopt more FDI-friendly policies. However, inflows will remain far below potential, averaging less than 1% of GDP in 2006-10. 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 are projected at some US$9bn per year in 2006-10. Although this is almost double the total in 2001-05, inflows 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. New privatisations, market liberalisation and the continued growth of services will ensure some pick-up in FDI inflows into Taiwan. Many foreign companies will, however, be reluctant to invest in Taiwan until the government frees up economic links with the mainland.

Japan will not reach FDI targets

The Japanese governmental Investment Council headed by the prime minister, Junichiro Koizumi, has set a goal of increasing the stock of inward FDI to 5% of GDP by 2010, as a follow-up to the current target of reaching 2.5% by the end of 2006. 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", which allows acquirers to use equity stakes instead of only cash to buy targeted firms, is scheduled to be introduced in Japan from 2007. Officials hope that this will significantly boost FDI. Even with its 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.

Latin America and the Caribbean

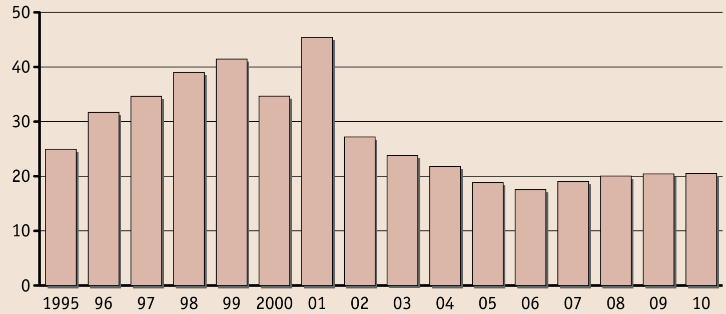
FDI into Latin America and the Caribbean rose to US$75bn in 2005. Strong growth in the US and resource-seeking investors were the principal forces behind the high level.[19] The regional economic recovery, improved macroeconomic environment, high demand for commodities and increased policy support for manufacturing industries in some countries continue to open up new business opportunities for foreign investors.

With FDI inflows of US$17.8bn in 2005, Mexico beat Brazil again for the fifth 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. The fastest-growing subsector is the automobile industry, where established foreign companies have extended their operations and new investors, including from Japan, are entering the market.

Brazil remains one of the main emerging-market FDI recipients outside Asia. Inflows of US$15bn in 2005 meant that investment was a little lower than in the previous year, but this reflects the one-off effect of a large investment in the brewery sector in 2004. Colombia experienced unusually strong growth in FDI inflows in 2005, to more than US$10bn, because of investments in coal and the sale of a major beer company. FDI inflows into Argentina continued to recover and reached US$4.7bn in 2005. This figure is low compared with the inflows of around US$10bn per year that were recorded prior to the Argentinian financial crisis (and much lower than the US$24bn recorded in the peak year), but it is nevertheless a rebound from the depressed levels of 2001-03. FDI

[19] See United National Economic Commission for Latin American and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2005*.

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



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

Table 22

FDI inflows into Latin America & the Caribbean

	1995	1996	1997	1998	1999	2000	2001	2002
Latin America & the Caribbean								
Inflows (US$ bn)	32.2	52.9	73.6	85.5	108.6	97.7	131.1	52.7
% of world total	9.5	13.3	14.9	11.9	9.7	6.9	15.0	7.2
% of developing countries total	24.9	31.7	34.6	39.0	41.5	34.7	45.4	27.2
Rate of growth (%)	4.5	64.3	39.1	16.1	27.0	-10.0	34.1	-59.8
% of GDP	1.9	2.9	3.6	4.2	6.0	4.9	6.7	3.1
Brazil								
Inflows (US$ bn)	4.9	11.2	19.7	31.9	28.6	32.8	22.5	16.6
% of regional total	15.1	21.2	26.7	37.3	26.3	33.5	17.1	31.5
% of GDP	0.7	1.4	2.4	4.1	5.3	5.4	4.4	3.6
Mexico								
Inflows (US$ bn)	9.5	9.2	12.8	12.4	13.5	17.2	27.5	17.3
% of regional total	29.6	17.4	17.4	14.6	12.4	17.6	21.0	32.8
% of GDP	3.3	2.8	3.2	3.0	2.8	3.0	4.4	2.7
Chile								
Inflows (US$ bn)	3.0	4.8	5.3	4.6	8.8	4.9	4.2	2.6
% of regional total	9.2	9.1	7.2	5.4	8.1	5.0	3.2	4.8
% of GDP	4.1	6.4	6.4	5.8	12.0	6.5	6.1	3.8
Argentina								
Inflows (US$ bn)	5.6	6.9	9.2	7.3	24.0	10.4	2.2	2.1
% of regional total	17.4	13.1	12.4	8.5	22.1	10.7	1.7	4.1
% of GDP	2.2	2.6	3.1	2.4	8.5	3.7	0.8	2.1
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Latin America & the Caribbean								
Inflows (US$ bn)	48.1	68.9	75.2	72.1	77.6	81.1	84.5	87.7
% of world total	7.3	8.6	7.9	6.2	6.3	6.3	6.3	6.2
% of developing countries total	23.8	21.8	18.8	17.5	19.0	20.0	20.4	20.5
Rate of growth (%)	-8.6	43.1	9.3	-4.2	7.6	4.5	4.2	3.8
% of GDP	2.7	3.4	3.0	2.6	2.7	2.7	2.7	2.7
Brazil								
Inflows (US$ bn)	10.1	18.2	15.2	17.2	17.2	17.5	19.1	19.9
% of regional total	9.0	26.4	20.2	23.8	22.1	21.6	22.5	22.7
% of GDP	2.0	3.0	1.9	1.8	1.8	1.8	1.8	1.8
Mexico								
Inflows (US$ bn)	12.9	18.2	17.8	15.0	19.0	19.5	21.0	21.0
% of regional total	26.9	26.5	23.7	20.8	24.5	24.1	24.9	23.9
% of GDP	2.0	2.7	2.3	1.9	2.3	2.3	2.4	2.3
Chile								
Inflows (US$ bn)	4.3	7.2	7.2	9.7	10.0	9.8	10.9	11.8
% of regional total	9.0	10.4	9.6	13.5	12.9	12.1	12.9	13.4
% of GDP	5.8	7.5	6.3	6.9	7.0	6.6	6.7	6.7
Argentina								
Inflows (US$ bn)	1.7	4.3	4.7	4.8	5.0	5.3	5.5	5.8
% of regional total	3.4	6.2	6.2	6.7	6.4	6.5	6.5	6.6
% of GDP	1.3	2.8	2.5	2.4	2.3	2.3	2.3	2.3

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

into Chile, at US$7.2bn, was unchanged on the 2004 total. Finally, tax havens such as the Cayman Islands continue to account for a significant share of the regional total.

Threats from lower-cost destinations

Over the medium term, modest further growth in FDI inflows into the region is expected; the peak of the late 1990s is not expected to be repeated by 2010. Given its reasonable growth prospects and the attractions of its large domestic market, Brazil will receive sizeable inflows of FDI. We also expect Mexico to remain an attractive 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.

The region's growth prospects remain constrained by structural weaknesses, as well as the burden of servicing substantial levels of external debt. FDI inflows will also be hindered by costs to business deriving from bureaucracy, deficiencies in infrastructure and under-investment in human capital. Most Latin American countries slip down the business environment rankings in 2006-10, as the pace of improvement is slow compared with other regions. Traditionally low savings rates and over-reliance on foreign borrowing (and the attendant macroeconomic risks) mar the overall regional investment climate. Disenchantment with market-oriented reforms is unlikely to translate into a full-scale backlash against foreign investors, but enthusiasm for foreign investment could become distinctly more qualified than in the past.

Eastern Europe

FDI inflows into the transition economies of eastern Europe and the former Soviet Union reached a record total of US$74.3bn in 2005, a 12% increase on 2004. FDI flows into the region in 2004-05 grew strongly from relatively stagnant annual totals of US$30bn-35bn since 1999 (although the worldwide slump in FDI earlier this decade largely bypassed the transition economies). The 2005 increase affected all transition subregions and most economies in the area.

High commodity prices encouraged significant increases in FDI in the resource-rich countries of the region, notably Russia, Azerbaijan and Kazakhstan, and FDI flows to EU accession countries in the region also rose significantly. Several of the countries in the first wave of the recent EU expansion continued to receive high levels of investment owing to buoyant corporate profits and substantial reinvested earnings. Romania and Bulgaria, which are expected to join the EU in 2007 or 2008, also received large amounts of investment. In Latvia and Slovakia, FDI levels stabilised, mainly supported by reinvested earnings.

The growth of FDI inflows to the region in 2005 was the result of a strong increase in FDI flows to Russia (see box: FDI into Russia); the completion or near-completion of large-scale privatisation sales in some countries; a recovery of FDI into the central European new EU member states after a sharp decline in 2003; ongoing strong growth in FDI into previous laggards such as the Balkans; and oil investments into Azerbaijan and Kazakhstan. For the first time there has also been sizeable FDI into Ukraine, although much of the 2005 total was owing to one investment—the US$4.8bn sale of the steelmaker Kryvorizhstal to Mittal Steel.

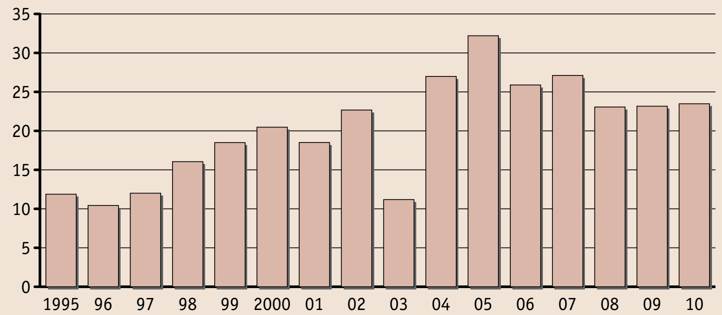
In 2006 FDI flows to the transition economies are expected to increase further from their 2005 peak. Direct investment flows to new EU member countries have reached a plateau, with investment horizons expanding to other parts of the region, and total FDI inflows into this group of countries in 2006, of about US$26bn, are likely to fall back towards the 2004 level. Investment into the Balkans—which has been rising strongly in recent years, mainly (although not entirely) owing to large inflows into Romania—is expected to grow strongly in 2006, to a projected US$17.5bn. Again privatisation will account for most of the total—in Romania, but also in other countries in the subregion (for example, the recent sale of the mobile operator Mobi 63 in Serbia will bring in almost US$2bn). FDI into the Commonwealth of Independent

States (CIS) is also expected to be somewhat higher in 2006 than in 2005, mainly because of significant increases in FDI into Russia and Kazakhstan.

FDI inflows into the eight EU member states that joined the EU in 2004 (the subregions of east-central Europe and the Baltic states) are expected to peak in 2007, as some outstanding privatisations are completed, and fall back afterwards to an annual average of about US$23bn in 2008-10. The danger of a diversion of cost-sensitive forms of FDI to even cheaper destinations looms larger than any promise of much more relocation to these countries of investment from the West.

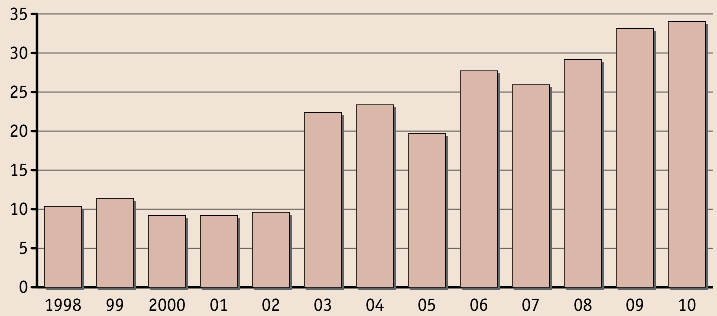
Investment will then be dominated by re-invested earnings and follow-on investment by existing FDI ventures. Despite widespread fears in some west European states of a diversion of investment ("dislocation") to the poorer new members, the share of the new members in total EU25 FDI inflows in

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



Sources: National statistics; Economist Intelligence Unit; IMF.

Share of Russia in FDI inflows to eastern Europe
(% of total)



Sources: National statistics; Economist Intelligence Unit; IMF.

FDI into Russia

FDI inflows into Russia averaged a paltry US$3bn per year in 1998-2002, but then began to pick up markedly. There have been a number of large-scale FDI deals in the oil and gas sector in recent years, and not all of these were included in official FDI data (the 2003 deal between TNK and the UK's BP, worth more than US$8bn, was conducted through offshore vehicles). The lingering fallout from the Yukos affair and growing state pressure on the private sector have hit the confidence of many Russian domestic investors. Foreign investors, by contrast, appear to be undaunted. According to data from the Russian Central Bank (RCB), FDI inflows averaged some US$15bn annually in 2004-05, compared with US$8bn in 2003 and negligible annual totals before that. The upward trend has continued into 2006. According to RCB data, in the first half of 2006 FDI inflows reached US$14.1bn, almost equal to the total for 2005 as a whole.

Foreign investor confidence

The main sectors of investment in 2005 in Russia were manufacturing (including large amounts flowing into the production of automobiles) and the energy sector, which accounted for 45% and 32%, respectively, of total inflows. Other sectors that are proving attractive include banking, trade and retail and consumer goods. It may seem strange that increased interest from foreign investors has coincided with some signs of deterioration in Russia's investment climate. These include the campaign against the Yukos oil company; a slowdown in structural reform; a trend towards increased state control of the economy; and tension in political relations with the West. In the past, Russia's attractions of market size and natural resources had been more than offset by serious deficiencies in the business environment. Several factors explain the narrowing of the gap between actual and potential performance. Russia has built up a track-record of several years of stability and robust growth. There has also been a delayed reaction to the improvement in Russia's business environment in the early part of this decade. The award of investment-grade ratings by all three international rating agencies has also provided a boost. Some long-standing deterrents to foreign investment have eased, such as macroeconomic and political instability and high and unpredictable taxes.

Many investors are attracted by strong market opportunities and remain—at least outside the energy sector—unaffected by Russia's increased statism and the imposition of restrictions on foreign involvement. Surveys show that, despite numerous complaints about the business environment, the majority of those doing business in Russia are satisfied with their success and plan to expand their investments in the country. The significant increase in reinvested earnings, and their very high share of total FDI inflows in 2003-05, is another strong sign of growing confidence.

Despite the pick-up in FDI inflows, FDI remains below potential, given the country's obvious attractions, which include one-third of the world's gas reserves, around 8% of proven oil reserves, a skilled and low-cost workforce and a large consumer goods market. The recovery in FDI has been from a very low base and Russia's annual inflows are dwarfed by the amounts that go into China. Even after the post-2003 upsurge, cumulative FDI inflows into Russia in 1990-2005 amounted to some US$65bn, equal to only 8.5% of GDP. This was the second-lowest ratio (marginally ahead of Belarus) among all transition economies, and one-quarter of the average penetration ratio in east-central Europe. 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 16%.

Restrictions on FDI

An underdeveloped infrastructure and corruption remain key impediments to FDI, as does the unpredictability with which regulations are often applied. Investors in the natural resource sector, in particular, are facing considerable uncertainty as Russia defines which assets it considers "strategic" and thus off-limits to foreign majority control. This clarification has been delayed and at the moment the policy seems confused and uncertain.

There is little doubt, however, that the natural resource sector will be subject to significant limitations on foreign participation. The government insists that foreigners cannot hold more than 49% of any venture engaged in developing a "strategic" deposit. Currently any field with reserves of more than 150m tonnes of oil or 1trn cu metres of gas is defined as strategic. The Ministry of Natural Resources is now considering a proposal to lower the thresholds to 50m-100m tonnes for oil and 500bn cu metres for gas.

The outlook

Despite the continuing problems of the business environment and the regulatory uncertainty affecting the natural resource sector, the medium-term outlook for FDI into Russia is good. Macroeconomic fundamentals will remain strong, especially as oil prices are expected to remain at high levels. Market opportunities will be good, despite some slowdown in growth. Accession to the World Trade Organisation (WTO), which is expected in 2007 or 2008, should increase Russia's attractiveness, as will the mid-2006 liberalisation of the capital account. Russia's consumer and retail boom is likely to sustain a wave of joint ventures with foreign investors. More automotive investments are in the pipeline.

Survey evidence also suggests that Russia will be one of the world's leading destinations for FDI over the next few years. According to AT Kearney's most recent annual survey of investors, Russia was in 2005 seen as the sixth most attractive FDI destination in the world (up from 11th place in 2004). A survey of multinational companies undertaken by the UN Conference on Trade and Development (UNCTAD) in 2005 placed Russia as the fourth most attractive location for FDI (behind only China, India and the US) for 2005-08. A recent Economist Intelligence Unit survey of 400 senior executives at multinationals found that Russia was seen as the sixth most attractive global destination for crossborder mergers and acquisitions (M&As) over the next three years.

The share of the energy sector in FDI into Russia may fall in the coming years, given the restrictions on foreign involvement in this sector, uncertainty about the sanctity of previous agreements and the heavier tax burden imposed on oil producers in recent years. However, the Western oil majors will hardly shun Russia altogether. Russia is one of the few places that offers large-scale reserves and its energy sector is one of the few in the world not closed off to foreigners. Risks in other oil-producing regions have increased, and Russia is not engaging in Latin American-type expropriation. Although the Russian government will not allow one of Russia's major oil companies to fall into foreign hands, it is likely to welcome minority participation of foreign companies, especially in difficult exploration projects.

Projected annual average FDI inflows into Russia of US$22bn in 2006-10 represent a significant amount, but will still be fairly modest as a proportion of GDP (at below 2% per year). In our forecasting model, FDI inflows are dependent on a country's GDP; our index of the quality of the business environment; US dollar wages; a measure of natural resource endowments; a privatisation index (measuring the availability of assets for sale and the readiness to sell to foreigners); and the share of the FDI stock in GDP at the start of the period (a measure of potential follow-on investment). The model can also be used to estimate the extent to which FDI inflows into Russia over the next five years will still fall below potential, despite the expected pick-up. The two crucial variables are the quality of the business environment and openness to asset sales to foreigners, with a similar impact on overall FDI flows. A more open policy on sales (with the privatisation index equal to the average for the transition region as a whole) would lift average annual inflows by almost 50%, to a projected US$32bn. Similarly, if Russia's business environment were of the average quality of those in east-central Europe, annual FDI inflows into the country would be almost US$32bn.

There are risks even to the relatively benign baseline FDI outlook. Although a sharp and sustained plunge in oil prices is unlikely, Russia remains highly vulnerable to that risk. 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. There are also some doubts over political stability after 2008, when the Russian president, Vladimir Putin, is due to step down.

Table 23
FDI inflows into eastern Europe

	1995	1996	1997	1998	1999	2000	2001	2002
Eastern Europe total								
Inflows (US$ bn)	16.6	16.8	24.1	26.7	29.1	29.5	30.0	36.1
% of world total	4.9	4.2	4.9	3.7	2.6	2.1	3.4	4.9
Rate of growth (%)	34.7	1.2	43.1	10.8	5.6	1.5	1.5	20.4
% of GDP	2.1	1.8	2.6	3.2	4.0	3.7	3.4	3.7
East-central Europe								
Inflows (US$ bn)	11.4	9.7	10.9	14.2	17.4	19.3	17.4	21.4
% of regional total	68.6	57.9	45.1	53.2	59.7	65.4	58.0	59.4
Rate of growth (%)	67.2	-14.6	11.4	30.6	24.3	11.2	-9.9	23.2
% of GDP	4.1	3.2	3.6	4.4	5.5	6.1	5.0	5.6
Balkans								
Inflows (US$ bn)	0.7	1.1	3.1	3.9	3.7	3.6	4.2	4.2
% of regional total	4.5	6.5	12.7	14.4	12.6	12.2	14.2	11.7
Rate of growth (%)	6.4	45.2	181.4	26.1	-4.7	-1.7	17.4	-0.5
% of GDP	0.9	1.2	3.2	3.8	3.8	3.5	4.3	3.7
Baltics								
Inflows (US$ bn)	0.5	0.7	1.1	1.9	1.1	1.2	1.1	1.3
% of regional total	2.7	4.1	4.7	7.0	3.9	4.0	3.7	3.5
Rate of growth (%)	9.3	50.8	66.8	63.2	-38.8	3.5	-5.0	11.7
% of GDP	3.0	3.7	5.5	8.0	4.8	4.8	4.2	4.1
CIS								
Inflows (US$ bn)	4.0	5.3	9.0	6.8	6.9	5.4	7.2	9.2
% of regional total	24.1	31.6	37.5	25.4	23.7	18.4	24.1	25.4
Rate of growth (%)	26.7	32.4	69.8	-24.8	-2.7	-21.3	32.9	27.3
% of GDP	1.0	1.1	1.7	1.8	2.4	1.6	1.8	2.0

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

2006-10 is forecast to be only 5%.

Contrary to widespread expectations, the EU's enlargement will not lead to a new surge in FDI into the eight east European new EU members. These countries have already largely achieved the main benefits of integration for investment. Further positive changes to business environments associated with EU membership will be small. Some possible further improvement in risk perceptions and the impact on FDI of fully joining the single market will largely be offset by the effects of higher wages; the adoption of business-inhibiting aspects of EU rules; and the possibility of a post-accession slowdown in reform momentum.

The share of the eight new EU members from eastern Europe in the east European regional total is expected to decline to only one-third, compared with the share of almost 50% in 2001-05, and higher before that. Economies in the Balkans and the CIS, such as Ukraine and, especially, Russia, will increase their share of regional FDI.

Russia, a notable FDI laggard so far (see box: FDI into Russia), 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 about

	2003	2004	2005	2006	2007	2008	2009	2010
Eastern Europe total								
Inflows (US$ bn)	35.6	66.1	74.3	77.6	75.2	68.9	70.9	73.4
% of world total	5.4	8.2	7.8	6.7	6.2	5.4	5.3	5.2
Rate of growth (%)	-1.3	85.7	12.3	4.5	-3.1	-8.4	2.9	3.6
% of GDP	3.0	4.3	4.0	3.5	3.0	2.5	2.4	2.3
East-central Europe								
Inflows (US$ bn)	9.8	24.5	27.7	23.2	23.9	20.4	20.0	20.4
% of regional total	27.5	37.0	37.3	30.0	31.8	29.5	28.3	27.7
Rate of growth (%)	-54.3	149.9	13.2	-16.1	2.9	-14.9	-1.6	1.7
% of GDP	2.2	4.6	4.5	3.4	3.0	2.4	2.3	2.2
Balkans								
Inflows (US$ bn)	8.5	12.4	14.3	17.5	15.2	11.6	10.9	11.1
% of regional total	23.8	18.7	19.2	22.6	20.2	16.9	15.4	15.1
Rate of growth (%)	101.2	45.6	15.4	22.9	-13.3	-23.5	-5.9	1.1
% of GDP	5.7	6.8	6.7	7.1	5.3	3.7	3.2	2.9
Baltics								
Inflows (US$ bn)	1.4	2.5	4.5	2.7	3.2	2.7	3.1	3.1
% of regional total	3.9	3.8	6.1	3.4	4.3	3.9	4.4	4.2
Rate of growth (%)	11.1	81.3	78.3	-41.0	20.8	-15.5	15.7	-0.8
% of GDP	3.6	5.3	8.3	4.2	4.2	3.3	3.4	3.1
CIS								
Inflows (US$ bn)	15.9	26.8	27.8	34.2	32.9	34.2	36.8	38.9
% of regional total	44.8	40.5	37.4	44.0	43.7	49.7	51.9	53.0
Rate of growth (%)	73.7	68.0	3.8	22.9	-3.7	4.1	7.5	5.7
% of GDP	2.8	3.5	2.8	2.9	2.4	2.3	2.2	2.1

US$22bn during the next five years. Although this will represent a notable improvement on Russia's past performance, it is still short of the country's potential. Even by 2010, Russia's total stock of inward FDI (projected at US$175bn) will amount to less than 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$5bn per year in 2006-10. 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.

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 and Algeria. Globalisation trends have 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 belatedly on the agenda throughout this 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.

Strong growth in FDI from a low base

High oil prices and strong oil demand have underpinned recent GDP growth in the Middle East and North Africa (real GDP increased by almost 5% in 2005). There was a 40% increase in oil revenue of the oil-exporting developing countries in the region. Related to this, despite great uncertainty, FDI almost doubled in 2005 to record levels in both subregions. Egypt in particular received significant levels of FDI.

FDI inflows into Israel jumped to US$6.1bn in 2005, or more than three times the level recorded in 2004. This was mainly the result of several large-scale privatisations, including some in the financial sector. Israel is also becoming an active outward investor, especially in technology-intensive sectors. For the past three years total annual outflows have exceeded US$2bn and the indications are that levels in 2006 will be even higher.

Despite the recent extensive moves towards liberalisation in the region,[20] progress is likely to be slow. High political risk—in particular in relation to the situation in Iraq, the tensions over Iran's nuclear programme and the Israeli-Arab conflict, and the threat of terrorist attacks in various parts of the region—will continue to affect investors. 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.

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. Foreign investors will be discouraged by poor business environments and regional political tensions.

Potential FDI inflows into the UAE, the region's main FDI recipient, are likely to remain strong in the short term, as high oil prices fuel a regional economic boom. However, elements of the business environment may hinder investment. For example, rapid expansion is placing increasing pressure on the infrastructure, and the UAE is imposing employment quotas that force firms to hire UAE nationals. Even though attracting FDI has begun to assume importance in some other Gulf states, many stumbling-blocks remain. Some problems—such as the relatively small size of individual markets and skills shortages in many states—will be difficult to resolve in the medium term.

FDI from the Gulf states

High energy prices should maintain the high levels of liquidity in the Gulf, and boost FDI from the Gulf states into other parts of the region. Regional instability may not have much impact on Gulf investors; it may result in a reallocation of regional FDI, rather than a fall in the overall total coming from Gulf investors. For example, FDI that might otherwise go into Lebanon and Syria might be diverted into countries such as Jordan or Egypt. However, European and US investors will remain hesitant.

In Israel, most factors favour the maintenance of robust growth in FDI in the longer term. These include strong macroeconomic fundamentals, workforce skills and R&D advantages in the high-tech sector and a relatively long list of firms to be privatised. FDI inflows are expected to average around 3.5-4% of GDP over the forecast period. The main downside risk is the geopolitical and security climate. The achievement of a sustainable peace between Israel and the Arab world could eventually see an increase in regional economic co-operation and provide a major boost to FDI, but this appears a distant prospect.

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-

[20] See World Bank, *Middle East and North Africa: Economic Developments and Prospects 2006*.

Table 24
FDI inflows into the Middle East & North Africa

	1995	1996	1997	1998	1999	2000	2001	2002
Middle East								
Inflows (US$ bn)	1.2	4.8	7.1	8.2	4.9	6.5	6.8	7.8
% of world total	0.4	1.2	1.4	1.1	0.4	0.5	0.8	1.1
Rate of growth (%)	-44.2	298.6	47.6	16.0	-40.3	31.5	6.1	13.9
% of GDP	0.3	1.0	1.3	1.7	1.0	1.1	1.1	1.2
North Africa								
Inflows (US$ bn)	0.9	1.1	1.5	2.5	3.0	3.3	5.6	3.8
% of world total	0.3	0.3	0.3	0.3	0.3	0.2	0.6	0.5
Rate of growth (%)	60.1	27.3	37.5	62.8	19.3	12.5	68.3	-33.0
% of GDP	0.5	0.5	0.7	1.1	1.3	1.3	2.3	1.6
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Middle East								
Inflows (US$ bn)	11.8	15.9	32.9	36.0	31.2	27.7	27.2	27.5
% of world total	1.8	2.0	3.4	3.1	2.6	2.2	2.0	2.0
Rate of growth (%)	51.3	34.7	106.8	9.5	-13.3	-11.3	-1.5	0.8
% of GDP	1.6	1.9	3.4	3.3	2.7	2.3	2.2	2.1
North Africa								
Inflows (US$ bn)	5.8	8.8	16.4	18.9	17.0	17.3	17.6	17.6
% of world total	0.9	1.1	1.7	1.6	1.4	1.3	1.3	1.2
Rate of growth (%)	54.1	51.7	86.4	15.8	-10.2	1.7	1.9	-0.3
% of GDP	2.3	3.1	5.0	5.0	4.1	3.8	3.5	3.2

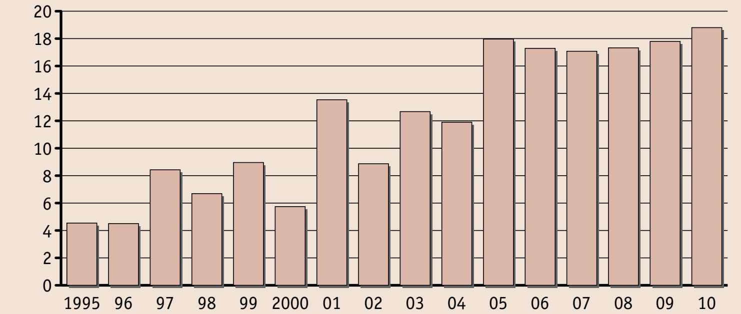
Sources: National statistics; IMF; UNCTAD; Economist Intelligence Unit estimates and forecasts.

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 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 reached a record total of US$18bn in Sub-Saharan Africa in 2005. A large part of this was owing to several M&As in South Africa, especially the purchase of South African bank ABSA by Barclays (UK), which accounted for more than one-quarter of all flows to the region. Nevertheless FDI also increased in many other countries in the region, stimulated by a growth pick-up. Real GDP in the region increased by an estimated 5.2% in 2005. The oil-exporting economies grew by an estimated 6.4% in 2005.



Sources: National statistics; Economist Intelligence Unit; IMF.

Although burdened with some of the highest business costs in the world, along with weak governance, some surveys suggest that Africa is beginning to be viewed more positively by global investors. The bulk of African FDI remains concentrated in resource-based industries. FDI flows and corporate investor interest have thus 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, African growth performance will remain robust in comparison with that of most of the 1990s.

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.[21] 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.

FDI inflows are likely to fall back in 2006 from the record total of 2005, and in nominal US dollar terms they are not expected to regain the 2005 level until 2009-10. Over the medium term, the region's share in global FDI will remain modest (only about 1.4% on average in 2006-10). 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 high. Corruption and security are major problems, as well as the very poor infrastructure.

Table 25
FDI inflows into Sub-Saharan Africa

	1995	1996	1997	1998	1999	2000	2001	2002
Sub-Saharan Africa								
Inflows (US$ bn)	4.5	4.5	8.4	6.7	9.0	5.7	13.5	8.9
% of world total	1.3	1.1	1.7	0.9	0.8	0.4	1.5	1.2
Rate of growth (%)	31.2	-0.9	87.2	-20.6	33.9	-35.9	135.8	-34.5
% of GDP	1.5	1.4	2.5	2.1	2.9	1.8	4.4	2.8
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Sub-Saharan Africa								
Inflows (US$ bn)	12.7	11.9	18.0	17.3	17.1	17.3	17.8	18.8
% of world total	1.9	1.5	1.9	1.5	1.4	1.3	1.3	1.3
Rate of growth (%)	42.9	-6.1	51.0	-3.8	-1.2	1.5	2.7	5.7
% of GDP	3.1	2.4	3.1	2.6	2.3	2.4	2.3	2.3

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

[21] 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 in 2001-05 into 78 countries (missing data reduced the size of the sample from 82 to 78) 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 2006-10, 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. For an additional 35 countries, FDI is forecast over a two-year time horizon. 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.

For the purposes of this study, in addition to the five-year forecasts for the 82 countries, the two-year forecasts for the 35 countries were extended to 2010. For an additional nine east European countries, not covered by these methods, forecasts were produced on the basis of the special model for transition economies, described below. These 126 countries in total account for almost all of world FDI. Simple extrapolation procedures were used for the remaining other countries to derive regional and world totals.

Determinants of FDI
(dependent variable Ln FDI)

	Coefficients	t Stat
CONST	-4.3366	-3.5833
Ln GDP	0.8487	16.5695
GDPGROWTH	0.1200	3.2682
BERADJ	0.3304	5.8280
NATRES	0.0095	5.4164
ULC	-0.0082	-3.2385
Ln AIRDIST	-0.2107	-2.9731
FDISTOCK	0.0095	5.4539
ENGLISH	0.9214	4.0828
WEUDUM	1.6131	7.5069
EEDUM	1.0651	5.0490
LATAM	1.3430	6.6843
MENA	0.8724	4.4943
n	78	
R2	0.90	

Ln is the natural logarithm; CONST = constant

Dependent variable:

FDI: average FDI inflows; 2001-05; US$ m

Independent variables:

GDP in 2003; at PPP, US$ bn

GDPGROWTH: annual average real GDP growth, 2001-05

BERADJ: the business environment score, 2001-05, for all categories except for market opportunities

NATRES: percentage share of fuels and minerals in total merchandise exports, 2000

ULC: unit labour costs, 2003. 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, Japan)

FDISTOCK: share of the inward FDI stock in GDP, 2000

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 Latin 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*.

Determinants of FDI inflows for eastern Europe

	Coefficients	t Stat
Constant	0.7844	4.0803
Ln GDP	1.0570	30.5663
BERADJ	0.1984	4.2528
Oil dummy	0.4350	3.5247
Ln Wages	-0.1485	-2.4905
Privatisation	0.6889	11.5481
FDISTOCK	0.0215	6.5637
Azerbaijan	0.6639	2.9800
n	27	
Adjusted R2	0.988	

Because of the specificities of the transition experience in eastern Europe, a modified model, in line with the general cross-section framework described above, was employed, to derive forecasts for all 27 economies in the region. The log of average FDI inflows in 2001-05 into the 27 east European countries was related to the log of US dollar GDP at PPP in 2003; the share of the inward FDI stock in GDP at the start of the period; the log of US dollar wages in 2003; our adjusted business environment index (extended to all countries of the region); a measure of natural resource endowments (a dummy variable taking the value of 1 for oil exporters and 0 otherwise); and a privatisation index. The latter variable is an index (taking values of 0, 1 and 2) that measures the ability and readiness of authorities to sell assets to foreigners.

The estimation was very satisfactory (the coefficients of determination were unusually high), with almost the entire inter-country variation in FDI inflows in 2001-05 being explained by the variables in our specification. The set of variables generated reasonable estimates for all the other countries in the sample. There was one “outlier” country—Azerbaijan, either because the natural resource variable we use is too crude or because Azerbaijan’s US dollar GDP is underestimated. The impact on FDI flows of market size, natural resources (oil) and labour costs were all statistically significant. FDI inflows were also found to be sensitive to the policy framework, as represented by our business environment index. The privatisation strategy index was unsurprisingly found to be highly significant.

Annex B: Business environment rankings: Regional scores

Indicator scores in the business rankings model, 2001-05

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
Political environment							
1. Risk of armed conflict	3.8	4.4	4.4	4.3	3.5	3.9	3.1
2. Risk of social unrest	3.4	4.1	4.3	3.4	3.5	2.8	2.7
3. Constitutional mechanisms for the orderly transfer of power	3.4	4.6	4.6	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	3.6	3.7	4.1	3.8	3.8	3.6	2.6
6. International disputes or tensions	3.3	4.0	4.3	3.2	3.4	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	2.8	3.7	3.5	2.3	3.2	2.6	2.2
10. Transparency and fairness of legal system	2.8	4.1	4.1	2.3	2.9	2.4	1.7
11. Efficiency of legal system	3.3	4.1	4.3	2.8	3.8	2.4	2.6
12. Corruption	2.7	3.7	3.9	2.2	2.6	1.9	2.3
13. Impact of crime	3.4	3.9	4.2	3.1	3.5	2.7	3.2
Macroeconomic environment							
*1. Inflation	4.3	5.0	4.6	4.0	4.5	3.8	4.2
*2. Budget balance as % of GDP	3.8	3.4	3.9	3.9	3.6	4.1	3.6
*3. Government debt as % of GDP	3.8	2.9	3.3	4.6	3.6	4.1	3.7
*4. Exchange-rate volatility	3.7	4.4	4.0	4.1	3.9	2.7	3.5
*5. Current-account balance as % of GDP	3.9	4.3	4.1	2.1	4.5	4.3	4.7
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	2.9	4.6	4.4	2.5	2.6	2.1	2.4
*3. Real GDP growth	3.5	2.1	2.4	4.3	3.8	3.1	4.0
*4. Share of world merchandise trade	2.7	5.0	3.9	1.8	3.4	1.8	1.8
*5. Average annual rate of growth of exports	2.9	1.7	2.1	3.9	3.2	2.6	2.8
*6. Average annual rate of growth of imports	3.1	2.3	2.2	4.2	3.3	2.7	3.5
*7. The natural resource endowment	3.1	4.4	3.3	2.3	2.5	3.2	3.9
*8. Profitability	3.8	2.4	2.8	4.4	3.9	3.6	4.5
9. Regional integration	3.5	4.4	4.8	3.6	2.9	3.0	2.9
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	3.1
2. Government regulation on setting up new private businesses	3.2	3.9	3.8	2.9	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	2.8	4.0	3.6	2.3	2.8	2.8	2.2
5. Protection of intellectual property	3.1	4.7	4.4	2.6	3.0	2.5	2.3
6. Price controls	3.5	4.4	4.1	3.8	3.4	3.4	2.7
7. Distortions arising from lobbying by special interest groups	2.7	3.1	3.5	2.2	2.6	2.4	2.4
8. Distortions arising from state ownership/control	3.1	4.1	3.9	3.1	2.9	3.3	2.2
9. Minority shareholders	3.3	4.4	4.4	2.5	3.8	2.4	2.8
Policy towards foreign investment							
1. Government policy towards foreign capital	3.5	3.7	4.0	3.6	3.4	3.4	3.0
2. Openness of national culture to foreign influences	3.4	3.7	3.7	3.3	3.4	3.7	2.9
3. Risk of expropriation of foreign assets	4.1	5.0	4.9	3.9	4.1	3.8	3.4
4. Availability of investment protection schemes	3.5	4.4	4.5	3.4	3.2	3.1	3.1
5. Government favouritism	3.4	3.7	4.1	2.9	3.6	3.0	3.0
Foreign trade and exchange controls							
1. Capital-account liberalisation	3.8	4.7	4.9	3.4	3.5	3.9	2.9
**2. Tariff and non-tariff protection	3.4	4.3	3.9	3.6	3.5	3.2	2.5
3. Ease of trading	3.5	4.6	4.4	3.2	3.6	3.3	2.8
*4. Openness of trade	3.4	3.3	3.4	3.6	3.8	3.0	2.8
5. Restrictions on the current account	4.3	5.0	4.9	4.6	4.3	4.3	3.5
Taxes							
**1. The corporate tax burden	3.5	2.7	3.4	4.2	3.4	3.6	3.1
*2. The top marginal personal income tax	3.9	3.0	2.9	4.3	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	3.3	3.0	2.8	2.3	4.1	3.6	3.8
5. Degree to which fiscal regime encourages new investment	2.8	3.3	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	3.0	3.4	2.9	3.6	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	3.0	4.1	4.0	2.6	2.8	3.0	2.5
5. Access of foreigners to local capital market	3.4	4.3	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	3.6	2.3	2.4	4.3	4.2	3.9	3.5
*2. Availability of skilled labour	3.1	4.9	4.3	3.4	2.9	2.4	2.2
3. Quality of workforce	3.0	4.0	3.7	2.6	3.1	3.1	2.6
4. Quality of local managers	3.4	4.6	4.3	2.9	3.7	3.5	2.5
5. Language skills	3.5	4.3	4.2	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	2.8
7. Level of technical skills	3.5	4.6	4.1	3.6	3.4	3.1	2.9
*8. Cost of living	3.2	1.7	1.8	3.6	3.5	4.2	3.5
**9. Incidence of strikes	3.5	3.6	3.6	3.9	3.5	3.2	3.4
10. Restrictiveness of labour laws	3.0	3.4	3.2	3.1	2.9	2.8	2.9
11. Extent of wage regulation	3.3	3.6	3.5	3.0	3.8	3.3	2.8
12. Hiring of foreign nationals	3.4	3.7	3.8	3.4	2.9	3.8	2.8
Infrastructure							
*1. Telephone density	3.3	4.7	4.6	3.3	2.9	2.6	2.5
**2. Reliability of telecoms network	3.3	4.9	4.5	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	3.1	4.0	4.7	3.3	2.8	2.0	2.4
*5. Stock of personal computers	3.3	4.6	4.5	3.1	3.0	2.8	2.4
*6. Internet use	2.9	4.6	4.2	2.8	2.9	1.8	2.1
*7. Broadband penetration	2.6	4.1	3.9	2.3	2.8	2.3	1.5
*8. R&D expenditure as % of GDP	3.0	4.6	4.2	2.9	3.2	2.3	2.1
9. Research infrastructure	3.6	4.7	4.4	3.4	3.9	3.3	2.5
**10. The infrastructure for retail and wholesale distribution	3.0	4.4	4.2	2.4	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	2.3
**12. Extent and quality of the rail network	3.0	4.4	3.9	3.4	2.6	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	4.9	4.5	3.0	3.7	3.4	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.
Scores range between 1 and 5, a score of 5 being the best for business.

Indicator scores in the business rankings model, 2006-10

	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	4.2	3.5	4.0	3.2
2. Risk of social unrest	3.5	4.3	4.4	3.6	3.4	2.8	2.8
3. Constitutional mechanisms for the orderly transfer of power	3.5	4.9	4.7	3.5	3.2	3.3	2.5
4. Government and opposition	3.7	4.7	4.5	3.5	3.7	3.0	3.2
5. Threat of politically motivated violence	3.5	3.4	3.9	3.9	3.5	3.7	2.5
6. International disputes or tensions	3.4	3.9	4.3	3.4	3.2	3.3	2.4
7. Government policy towards business	3.6	4.4	4.0	3.8	3.5	3.3	3.2
8. Effectiveness of political system in policy formulation and execution	3.1	3.7	3.8	2.9	3.2	2.7	2.7
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	4.3	4.3	2.9	2.9	2.6	2.1
11. Efficiency of legal system	3.4	4.1	4.3	3.3	3.7	2.4	2.8
12. Corruption	2.8	3.7	4.2	2.3	2.8	2.1	2.2
13. Impact of crime	3.5	4.0	4.2	3.3	3.4	2.9	3.4
Macroeconomic environment							
*1. Inflation	4.5	4.9	4.9	4.4	4.5	4.0	4.2
*2. Budget balance as % of GDP	4.1	3.9	4.4	4.2	3.8	4.3	3.8
*3. Government debt as % of GDP	4.1	3.0	3.6	4.7	3.8	4.4	4.2
*4. Exchange-rate volatility	4.0	4.1	4.1	4.0	4.0	3.9	4.1
*5. Current-account balance as % of GDP	3.7	4.1	3.7	2.6	4.1	3.9	4.4
6. Quality of policymaking	3.7	4.3	4.3	3.8	3.9	3.3	3.1
7. Institutional underpinnings	3.8	4.9	4.8	3.7	3.9	3.3	3.1
8. Asset prices	3.5	3.6	3.8	3.9	3.5	3.3	3.2
Market opportunities							
*1. GDP, US$ bn at PPP	3.2	5.0	3.6	2.6	3.8	3.0	2.5
*2. GDP per head, US$ at PPP	3.2	5.0	4.6	3.1	2.9	2.3	2.7
*3. Real GDP growth	3.8	2.4	2.8	4.3	4.1	3.5	4.2
*4. Share of world merchandise trade	2.7	5.0	3.8	1.9	3.4	1.9	1.9
*5. Average annual rate of growth of exports	3.0	2.7	2.6	3.6	3.4	2.8	2.9
*6. Average annual rate of growth of imports	3.4	2.9	2.9	3.7	3.6	3.2	3.9
*7. The natural resource endowment	3.0	4.1	3.2	2.3	2.5	3.2	3.9
*8. Profitability	4.0	3.0	3.1	4.4	4.0	3.9	4.6
9. Regional integration	3.7	4.4	4.9	4.3	3.0	3.0	3.2
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	3.9	4.1	3.0	3.2
2. Government regulation on setting up new private businesses	3.5	4.1	4.1	3.5	3.6	3.1	2.9
3. Freedom of existing businesses to compete	3.4	4.3	4.1	3.3	3.5	3.3	2.8
4. Promotion of competition	3.3	4.3	4.0	3.2	3.3	3.0	2.6
5. Protection of intellectual property	3.4	4.7	4.6	3.3	3.1	2.8	2.6
6. Price controls	3.7	4.4	4.3	3.9	3.8	3.3	3.1
7. Distortions arising from lobbying by special interest groups	3.0	3.3	3.6	2.8	3.3	2.8	2.4
8. Distortions arising from state ownership/control	3.4	4.3	4.2	3.5	3.4	3.1	2.6
9. Minority shareholders	3.5	4.4	4.4	3.0	3.8	2.7	3.0
Policy towards foreign investment							
1. Government policy towards foreign capital	3.8	4.1	4.3	3.8	3.8	3.3	3.4
2. Openness of national culture to foreign influences	3.5	3.7	3.8	3.4	3.4	3.7	3.2
3. Risk of expropriation of foreign assets	4.2	5.0	4.9	4.1	4.2	3.6	3.6
4. Availability of investment protection schemes	3.8	4.6	4.4	3.6	3.7	3.4	3.4
5. Government favouritism	3.5	3.7	4.1	3.3	3.7	3.1	3.2
Foreign trade and exchange controls							
1. Capital-account liberalisation	4.1	4.9	5.0	4.1	4.0	4.2	3.4
**2. Tariff and non-tariff protection	3.6	4.1	4.1	3.8	3.6	3.5	2.8
3. Ease of trading	3.8	4.7	4.4	3.9	3.9	3.3	3.1
*4. Openness of trade	3.9	4.1	3.9	4.1	4.4	3.8	3.4
5. Restrictions on the current account	4.6	5.0	5.0	4.9	4.8	4.2	3.9
Taxes							
**1. The corporate tax burden	3.7	3.1	3.7	4.5	3.5	3.3	3.6
*2. The top marginal personal income tax	4.1	3.6	3.2	4.6	4.2	4.7	4.1
*3. Value-added tax	3.4	3.7	2.6	3.0	4.1	3.1	3.9
4. Employers' social security contributions	3.3	2.9	3.0	2.2	4.0	3.3	4.0
5. Degree to which fiscal regime encourages new investment	3.1	3.6	3.7	2.8	3.2	2.6	2.9
6. Consistency and fairness of the tax system	3.3	4.3	4.2	3.1	3.5	2.5	2.5
7. Tax complexity	3.3	3.0	3.4	3.4	3.8	2.3	3.4
Financing							
1. Openness of banking sector	3.8	4.4	4.6	4.0	3.6	3.6	3.1
2. Stockmarket capitalisation	3.2	4.9	4.4	2.6	3.3	2.4	2.9
**3. Distortions in financial markets	4.1	4.7	4.8	4.1	4.1	3.5	3.6
4. Quality of the financial regulatory system	3.6	4.4	4.4	3.4	3.4	3.4	3.1
5. Access of foreigners to local capital market	3.8	4.6	4.8	3.7	3.8	3.4	3.0
6. Access to medium-term finance for investment	3.4	4.6	4.5	3.0	3.7	2.6	2.9

	World	G7	Western Europe	Eastern Europe	Asia	Latin America	Middle East & Africa
The labour market							
*1. Labour costs adjusted for productivity	3.5	2.1	2.2	4.3	4.1	3.8	3.4
*2. Availability of skilled labour	3.3	4.9	4.3	3.6	3.0	2.7	2.4
3. Quality of workforce	3.2	4.1	3.9	2.9	3.2	3.1	2.6
4. Quality of local managers	3.6	4.6	4.3	3.5	3.7	3.5	2.6
5. Language skills	3.5	4.3	4.2	3.0	3.8	3.2	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	3.4	3.0
*8. Cost of living	2.5	1.4	1.5	2.1	2.8	3.8	2.8
**9. Incidence of strikes	3.6	3.9	3.7	4.0	3.7	3.1	3.5
10. Restrictiveness of labour laws	3.2	3.7	3.5	3.2	3.3	2.8	3.0
11. Extent of wage regulation	3.5	3.9	3.6	3.5	3.9	3.3	3.0
12. Hiring of foreign nationals	3.5	3.9	3.8	3.8	3.3	3.8	2.9
Infrastructure							
*1. Telephone density	3.6	4.9	4.8	3.6	3.4	3.0	3.0
**2. Reliability of telecoms network	3.6	4.9	4.7	3.3	3.5	3.3	2.8
*3. Telecoms costs	4.0	4.9	4.8	3.9	4.0	3.8	3.4
*4. Mobiles	4.0	4.9	4.9	4.6	3.5	3.2	3.5
*5. Stock of personal computers	3.8	5.0	4.7	3.8	3.7	3.3	3.0
*6. Internet use	3.5	5.0	4.8	3.7	3.4	2.8	2.5
*7. Broadband penetration	3.6	5.0	4.7	3.4	3.6	3.1	2.6
*8. R&D expenditure as % of GDP	3.2	4.9	4.3	3.1	3.2	2.5	2.2
9. Research infrastructure	3.6	4.7	4.4	3.4	3.8	3.3	2.5
**10. The infrastructure for retail and wholesale distribution	3.3	4.6	4.5	3.1	3.1	2.5	2.6
**11. Extent and quality of the road network	3.1	4.6	4.4	3.0	2.9	2.4	2.4
**12. Extent and quality of the rail network	3.1	4.4	4.0	3.4	2.7	2.5	2.3
13. Quality of ports infrastructure	3.5	4.6	4.5	3.5	3.5	2.8	2.8
14. Quality of air transport infrastructure	3.8	4.9	4.5	3.4	3.8	3.6	3.4
*15. Production of electricity per head	3.3	4.6	4.3	3.7	2.7	2.3	2.9
*16. Rents of office space	2.7	1.6	1.6	1.6	3.1	3.8	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.
Scores range between 1 and 5, a score of 5 being the best for business.

A backlash against foreign direct investment?

By Karl P Sauvant[1], Executive Director, Columbia Program on International Investment

Following decades of liberalisation and openness to foreign direct investment (FDI), there are signs of a possible backlash. How serious are these developments: could they intensify and ultimately have a serious negative impact on global FDI flows? This article argues that in their current manifestation, various reactions to FDI do not yet add up to a serious backlash or presage a marked slowdown in FDI flows. But there is no reason for complacency. Approaches to FDI have changed in the past, and they can change again in the future. The assessment of the benefits and costs of FDI will continue to involve not only economic factors, but also considerations such as security and other political and social factors.

Introduction

Global FDI has had a good run. From US$40bn in the early 1980s, world FDI inflows reached US$955bn in 2005 and are expected to surpass US$1trn in 2006. Global FDI inflows are projected to rise further, to US$1.4trn, by the end of this decade.[2]

Furthermore, the cumulative world stock of inward FDI surpassed US$10trn in 2005 and is forecast by the Economist Intelligence Unit to exceed US$16trn by 2010. This has already made FDI the most important mechanism to deliver goods and services to foreign markets: the global sales of foreign affiliates were worth some US$19trn last year, compared with world exports of goods amounting to US$11trn. At the same time, some one-third of world trade is now intra-firm trade—the lifeblood of the growing integrated international production system.[3]

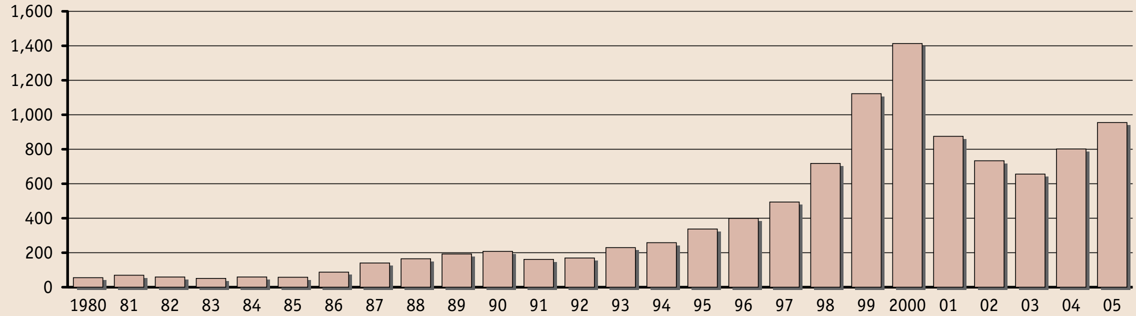
The principal driving force behind the rapid growth in FDI has been a combination of three factors:

- the liberalisation of FDI regimes, creating new opportunities for companies to expand, especially when industries are opened up for FDI;
- technological developments that make it possible to manage international business systems in an integrated manner and hence make it easier to locate parts of the value-added chain abroad (including through the offshoring of services); and
- competition among firms that drives them to take advantage of the new opportunities and technological possibilities.

Global FDI has had a formidable run, indeed—but is it coming to an end? Will the driving forces of FDI weaken because of a possible backlash?

FDI can bring with it a range of benefits, including capital, technology, skills, higher wages, access

Global FDI inflows
(US$ bn)

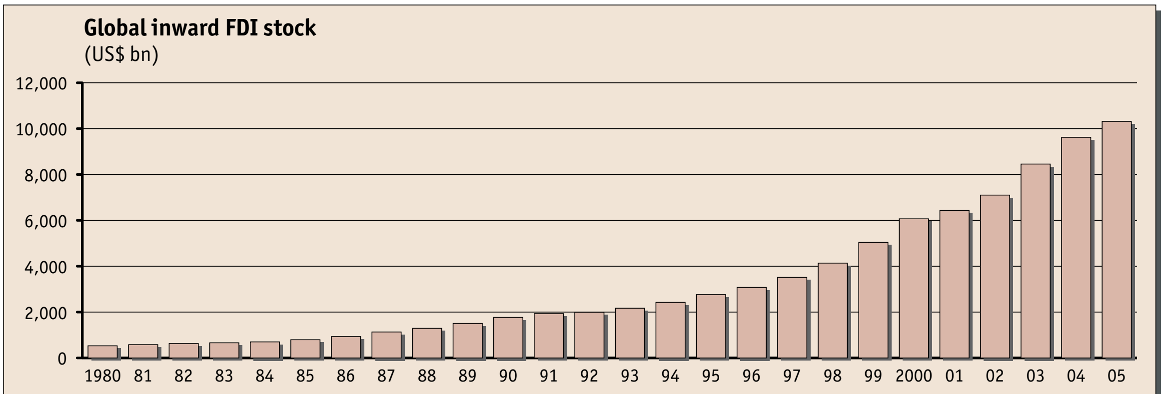


Sources: UNCTAD; Economist Intelligence Unit.

[1] I wish to acknowledge helpful comments from Laza Kekic, Persa Economou, Padma Mallampally and Chris Wilkie.

[2] See the article in this volume by Laza Kekic, "Global foreign direct investment: recent trends and forecasts to 2010".

[3] See also Samuel J Palmisano, "The globally integrated enterprise", *Foreign Affairs*, vol. 85 (May/June 2006), pp. 127-36.



Sources: UNCTAD; Economist Intelligence Unit.

to markets, more competition and cheaper goods and services for consumers. However, it can also have costs, including the crowding out of domestic firms, predatory transfer pricing, restrictive business practices, and the loss of control over what many governments see as strategic sectors.

Tensions affecting FDI

FDI is thus characterised by a series of tensions. The relationship between governments and multinational corporations (MNCs)—the firms undertaking FDI—can be marked by strains arising from MNCs' pursuit of their global corporate interests and governments' pursuit of national interests. From the point of view of FDI-recipient governments, there can sometimes be a dissonance between policies designed to attract FDI and policies to maximise its benefits. For countries that are not only recipients of FDI, but are also significant outward investors, tensions are possible between the country's interest as a host country and its interests as an investor country. Finally, there are the constraints that the growing integrated international production system (and its intra-firm international division of labour) and international investment laws place on the national policy space of countries. The key is how these various tensions are balanced, how the costs and benefits of FDI are being evaluated. As a result, attitudes and approaches to FDI are often ambivalent, with supportive and sceptical attitudes struggling for supremacy in policymaking.

During the 1970s, the decade when MNCs caught the public eye, many governments felt that the costs of FDI outweighed its benefits. This was when MNCs were often seen as "new imperialists" that hindered development. Foreign affiliates were often nationalised and the entry and operations of MNCs were subject to considerable control. "Permanent sovereignty over natural resources" was the watchword of the decade, and the quest for control over "strategic industries" often informed policy. Developing countries were the leaders of restrictive actions, but developed countries were not immune, as the success of Jean-Jacques Servan-Schreiber's *Le defit americain* showed.[4]

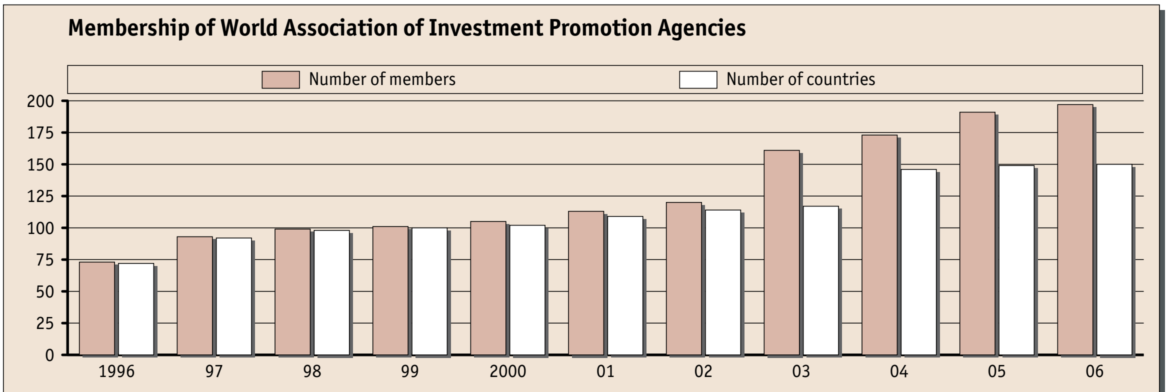
The pendulum swings towards FDI openness

With the impetus coming from developed countries, the pendulum began to swing towards liberalisation and openness to FDI in the 1980s. From being often perceived as a problem, FDI came increasingly to be seen as a major part of the solution of how to boost economic growth and development. Nothing exemplifies this more than changes in national FDI regimes and the proliferation of investment promotion agencies (IPAs): of the 2,156 regulatory changes that took place worldwide between 1991 and 2004, 93% were in the direction of creating a more hospitable environment for MNCs.[5]

At the same time, membership of the World Association of Investment Promotion Agencies (WAIPA)—the premier association of IPAs—grew from zero in 1995 (the year of its establishment) to 200 (from 150 countries) in July 2006. By now, practically every country has one (or more) investment promotion

[4] Jean-Jacques Servan-Schreiber, *The American Challenge*, Penguin, Melbourne, 1968.

[5] UN Conference on Trade and Development (UNCTAD), *World Investment Report 2005*, p. 26.



Source: World Association of Investment Promotion Agencies.

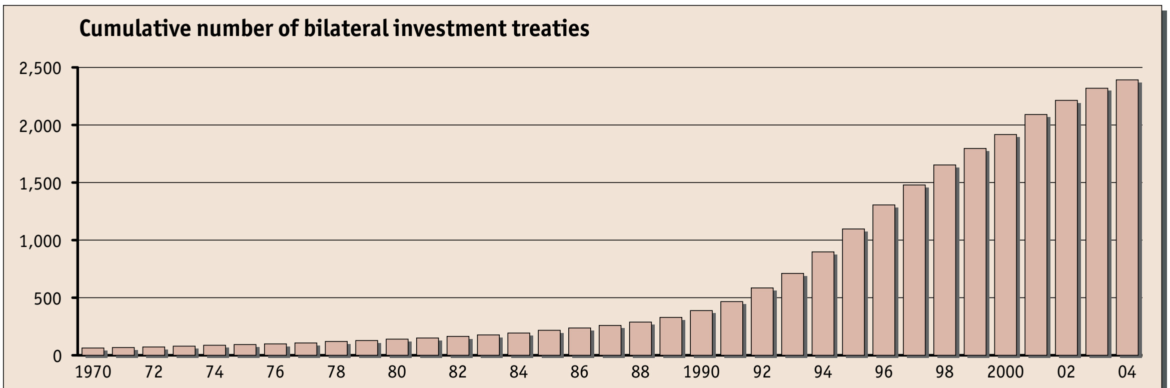
agency whose task it is to attract FDI. These often rely on an extensive range of incentives that, at times, lead to bidding wars among or even within countries. At the international level, the improvement of the national investment climate was complemented by an increase in the number of bilateral investment treaties (meant primarily to protect FDI), from fewer than 400 at the end of the 1980s to 2,400 at the end of 2004. Moreover, today, virtually every free-trade agreement also contains provisions on liberalising investment.

Is the pendulum beginning to swing back?

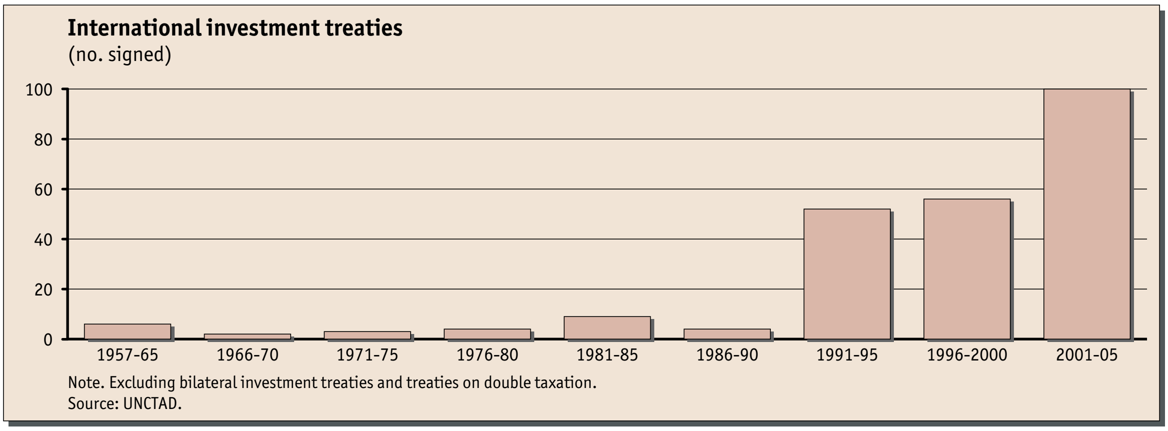
This liberalisation trend is still continuing. However, there are also several indications that the perception of the balance of costs and benefits of FDI may be changing again. Is a backlash in the making? Are we entering a phase of retrenchment in policies and attitudes towards FDI, with a possible serious negative impact on global FDI flows?

FDI is the productive core of the global economy, precisely because it reflects the establishment of an integrated international production system. Not surprisingly, to the extent that there is a backlash against globalisation and the economic uncertainty it entails, the free flow of inward and outward FDI (like the free flow of trade), and the global supply chains with which it is associated, become suspect and vulnerable, especially when political and social concerns supplement or temper economic motives.

However, there are also FDI-specific issues that may affect investment flows—mostly these concern inward FDI, but some also relate to outward FDI. Inward investment in developed countries (and increasingly also in emerging markets) often takes the form of crossborder mergers and acquisitions (M&As), sometimes in the framework of privatisation programmes. In fact, since 2005 there has been a resurgence in crossborder M&As following several lean years. However, when crossborder M&As involve domestic firms that are regarded by politicians as "national champions"—perceived to be important for national security, cultural identity or economic



Source: UNCTAD.



development (especially when reaching into what used to be called the "commanding heights" of an economy)—host-country resistance to such investment is becoming more frequent. The resistance is further fuelled in many countries by the fear of job losses.

Recent protectionist reactions in Europe and the US towards some M&As suggest that this favoured mode of entry for MNCs into other markets may become more difficult. Examples have included attempts to block acquisitions that were ultimately successful—the bid of Lenovo (China) to acquire the personal computer (PC) division of IBM (US), and the ultimately also successful bid by the Netherlands-based Mittal Steel for Arcelor (Luxembourg). However, other deals have been scuppered because of opposition, including the failed effort by CNOOC (China) to take over Unocal (US); Dubai Ports World's attempt to acquire P&O Steam Navigation Company (UK), which controlled five ports in the US; and a rumoured attempt by Pepsi (US) to take over Danone (France). A potential bid by Gazprom (Russia) for Centrica (UK) is facing difficulties, as are the bid by Germany's E.ON for Endesa (Spain) and the effort by UniCredit (Italy) to consolidate its affiliates in Poland. Such actions seem to be in tune with popular attitudes, at least in some European countries: a 2006 Harris poll showed that some 50% of respondents in Italy, France and Spain, about 60% in Germany and close to 70% in the UK[6] think that it is too easy for foreign companies to take over businesses in their own countries.[7] This may be fertile ground, potentially, for further restrictive action.

The growing involvement of foreign private equity groups in M&As adds an edge to this mode of entry into foreign markets, as such transactions are typically not seen to be long-term investments, but rather as seeking only quick profits. In Germany, this led a prominent politician to liken such investors to the "biblical plague of locusts".

Resistance to crossborder M&As was also reflected in the European Commission's takeover directive, which was diluted compared with initial drafts because of opposition by several EU member countries to a more significant liberalisation.[8] In addition, several European countries have tightened their takeover rules. In North America, a bill had been tabled in Canada to give the government new powers to review security-related FDI, and a US Senate committee sought to block the planned liberalisation of takeover rules for airlines by foreigners. Furthermore, two bills are at present making their way through the US Congress that would subject potential foreign takeovers to more rigorous scrutiny—relatively limited changes are being considered in the House of Representatives and a far more restrictive bill is before the Senate.[9] All these developments demonstrate a potentially serious reservoir of resistance to crossborder M&As.

Emerging-market MNCs attract special attention

In some developed countries there has also been an especially negative reaction to high-profile attempted takeovers by firms from emerging markets. Compare, for example, the lack of reaction to the tie-up between Alcatel (France) and Lucent (US) with the response to the bids by CNOOC or the Indian-owned Mittal Steel mentioned earlier. Or compare the reaction to

[6] Interestingly, the UK policy has been by far and away the most open to crossborder M&As among the countries mentioned here.

[7] *Financial Times*, June 19th 2006.

[8] For a recent review, see OECD, "Trends and recent developments in foreign direct investment", 2006.

[9] This is not the first time the issue is in the limelight. See the refutation of investment protectionism by Edward M Graham and Paul R Krugman, *Foreign Direct Investment in the United States*, IIE, Washington, DC, 1995. The reference is to the third edition; the first edition had been influential in stemming the trend towards making foreign investment regulation and oversight stronger during the 1980s.

the acquisition of oil assets in Africa and elsewhere by Northern and Southern firms: whereas such acquisitions by established US or west European firms barely merit a mention in the financial press, the same action by Chinese or Indian companies can become front-page news—with, sometimes, almost a hint of "how dare they" in some of the reporting. As emerging-market MNCs expand further and on a larger scale, seeking to secure natural resources, taking over brand names and acquiring technology, defensive reactions may well turn into outright restrictions.

MNCs from emerging markets, the "new kids on the block", are becoming important players in world FDI; they already account for more than 10% of the world's FDI stocks and flows. Firms from emerging markets, like MNCs from developed countries, need to acquire a portfolio of international assets to be competitive. Emerging-market MNCs are sometimes (rightly or wrongly) seen as having an unfair advantage (explicit backing and support from their governments) or being more prone than their developed-country counterparts to undesirable behaviour (low standards of governance and less socially responsible behaviour).[10] Be that as it may, established MNCs, and their home countries, will need to adjust to this new constellation of forces and its implications for world FDI.

Reactions to outsourcing of services

Another type of reaction—this time to outward FDI—may well arise as the offshoring of services gathers more speed and touches more and more white-collar workers. Advances in information and communications technology (ICT) have made all information-intensive services more tradeable: they can now be produced in one place and consumed in another. Offshoring allows, for the first time, an international division of labour in the production of services (mirroring what is already occurring in manufacturing)—with all its advantages (and risks). The potential is high, as reflected not only in the share of services in GDP (more than two-thirds in developed countries), but also in the fact that, so far, only some 10% of services production enters international trade, compared with more than half of industrial production.

A rapidly increasing number of firms are likely to locate part of their services production abroad, and it is also likely that an increasing proportion of offshoring will take place through FDI.[11] Outward FDI related to the outsourcing of services functions may trigger an intensifying reaction to losses of white-collar jobs in investor countries—similar to the reaction in the developed world to the loss of blue-collar jobs linked to outward FDI in manufacturing. The potential for an adverse response may be especially acute in some west European countries, given prevailing high levels of unemployment.[12] The absence of adequate adjustment mechanisms to deal with the rapidly unfolding revolution in the international trade and investment in services may well lead to a serious backlash against this type of outward FDI.

The growing unease with FDI has not been limited to developed countries. There are signs that it is spreading to emerging markets. This has in part been the result of the negative demonstration effect of controversies that surrounded the Lenovo and Dubai Ports World ventures in the US. Reactions in a country such as the US against FDI in certain lower-end technology industries (PCs) and infrastructure projects (harbours) send a clear message to other countries, including in emerging markets, that they also should (or can) show concern about their economic security.

For example, there is now a growing debate within China (by far the largest recipient of FDI among emerging markets) as to the merits of FDI, especially in the form of M&As (particularly in banking and insurance). There are reactions in South Korea, especially to private equity investors. Russia is considering rules to protect "strategic sectors" from foreign investors, especially—but not only—in the oil industry. In fact, concern in many countries about foreign control of natural resources (and the benefits that can be gained from them)—a dominant theme during the restrictive 1970s—is back on the agenda.

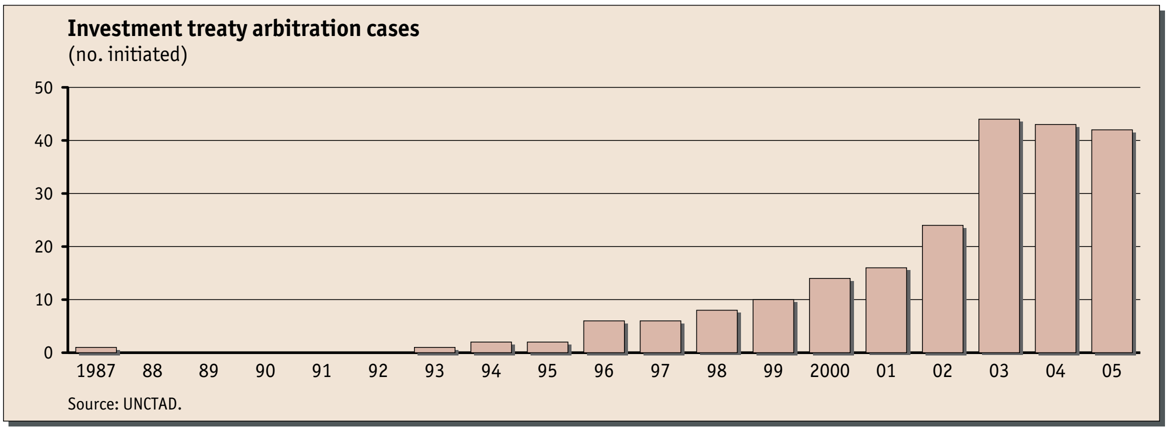
Contracts and conflicts

Contracts that define the relationship and distribution of benefits between MNCs and hosts in the case of large-scale projects in natural resources and

[10] It is interesting to note in this context that out of the over 3,000 firms that have subscribed to the United Nations Global Compact, roughly half are headquartered in emerging markets.

[11] For a detailed discussion, see UNCTAD, *World Investment Report 2004: The Shift Towards Services*.

[12] See in this context the broader discussions, involving also manufacturing, about *délocalisation* in France and "unpatriotic" outward investment in Germany.



infrastructure are being subjected to scrutiny in some countries. A number of governments (such as in Argentina, Bolivia, Ecuador, Liberia and Venezuela) are raising questions about existing contracts with MNCs because they believe (rightly or wrongly) that they did not get a fair deal. This is sometimes the result of the impression that MNCs hold all the cards when negotiating, whereas host countries are engaged in a "race to the bottom" in competing to attract investors. The concept of "twenty-first-century nationalisation", introduced by the Peruvian presidential candidate Ollanta Humala, mirrors in some respects perhaps the concept of "economic patriotism" of the French prime minister Dominique de Villepin.

The growing unease with FDI could contribute to more open conflicts between MNCs and the governments of host countries. In fact, we are witnessing a veritable explosion of disputes. Of the 219 known international arbitration cases concerning investment projects brought by November 2005, some two-thirds were initiated during the past three years—virtually all of them by MNCs against alleged misconduct by host country governments. They involve all groups of countries: 14 developed countries, ten countries from central and eastern Europe and 37 other emerging markets.[13] A number of factors are responsible for the increase in international disputes.[14] If the attitude of host countries towards FDI is indeed becoming more hostile, we can expect a further increase in the number of disputes between MNCs and host governments.

A shift may be under way in many countries in the approach to investment promotion. Liberalisation—simply opening up to FDI and creating a favourable investment climate—was for many countries the "first generation" of investment promotion strategies. In the second generation, countries established national IPAs and then sub-national IPAs. In the third generation of investment promotion strategies (and building on the first two), countries are attempting to target types of FDI that they consider to be most important for their economic development. For some, the maxim is no longer necessarily "the more FDI, the better"; rather the emphasis is shifting toward the quality of the FDI that is attracted. Such a shift towards a targeting approach could be combined with a slowdown of FDI liberalisation or even a partial reversal of non-discriminatory FDI liberalisation.

What could happen?

Although worldwide competition for FDI continues, there are some signs of a possible backlash against FDI in both developed countries and emerging markets. Assessments of the costs and benefits of FDI are often putting more emphasis than in the past on the costs. Although concrete actions against FDI are still relatively infrequent, we cannot take it for granted that dominant attitudes towards FDI will always remain welcoming.

Changing attitudes towards FDI may put even more of an onus on MNCs to demonstrate that they are bringing unequivocal net benefits to the host

[13] UNCTAD, "Latest developments in investor-state dispute settlement", *IIA Monitor*, no. 4, 2005.

[14] 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, ed., *International Investment Law: Is the Regime Threatened by its Success?*, forthcoming.

country (above all in terms of the economic impact and in observing national laws, but also in the "softer areas" of good corporate citizenship, and socially and environmentally responsible behaviour). There may be increased pressure on MNCs to accept a "stakeholder" approach and create mechanisms through which not only shareholders are assured that their interests are taken into account, but also other groups directly affected by the operations of MNCs.

The national investment promotion strategies of host countries, too, can influence the balance of costs and benefits of FDI. Pride of place belongs here to the overall policy environment, and especially the FDI and business environment. Moreover, countries may increasingly put less relative emphasis on ways to attract FDI and more on measures that they see as crucial to maximising its benefits—IPAs may even be turned into IPDAs (investment promotion and development agencies), giving birth to a fourth generation of investment promotion strategies.[15] Home countries, for their part, may experience increased pressure to see to it that their MNCs live up to the best standards, especially in the areas of employment, the environment and human rights. And all countries may well pay more attention to the rule of law, including by developing a coherent and transparent international investment law system that respects the interests of all involved in the investment process.

Conclusion

Approaches to FDI have changed in the past, and they can change again in the future, depending on how governments assess the balance of its costs and benefits. This assessment will continue to involve not only economic factors, but also considerations such as security and other political and social factors. Reservations about FDI (and more generally against anything foreign) can be found in many countries. Appeals to "economic patriotism" can easily result in FDI protectionism.

In their current manifestation, the various developments discussed here do not yet add up to a backlash against FDI; they do not herald an end to FDI liberalisation or presage a marked slowdown in FDI flows. However, they do suggest that there is an increasing ambivalence in attitudes towards FDI and that it cannot be taken for granted that FDI openness will persist. It has also been argued in this article that the new climate may put an increasing onus on the need to demonstrate clearly that FDI contributes not only to corporate competitiveness, but also to the host country's development and welfare.

In the end, it would be ironic if developed countries—which led the FDI liberalisation wave of the past two decades or so and, like most other countries, benefited from it—now led a backlash against FDI and triggered a roll-back of liberalisation.

[15] Governments in emerging markets—typically capital importers—will face the additional challenge of explaining to their public the importance of *outward* FDI from their countries for the competitiveness of their firms and the performance of their economies.

The importance of investment promotion in the poorest countries

By Jeffrey D Sachs, Quetelet Professor of Sustainable Development and Director of the Earth Institute at Columbia University, and Director, United Nations Millennium Project

There is probably not a developing country in the world—even the most isolated, such as North Korea—that does not work hard to attract more foreign direct investment (FDI). Political leaders and policymakers know that FDI brings with it capital, technology, jobs and links to the world economy. The debate has raged about how best to accomplish this goal. Do investment promotion activities matter? What about tax holidays, grants of infrastructure, duty drawbacks and the myriad other, sometimes controversial, tools in use?

Lessons from Malaysia's success

A look at one of the world's most successful investment promotion agencies, the Malaysia Industrial Development Agency (MIDA), gives us some idea of the basic challenges faced in investment promotion. MIDA is now in the process of implementing Malaysia's ninth Five-Year Plan. MIDA and the government ministries have identified key targeted sectors for investment promotion as part of the overall national development plan. MIDA is now deploying teams to analyse the business needs of each specific sector, in terms of infrastructure, skilled labour, regulation and market access. MIDA is also establishing direct contact with leading global companies in each sector and is geared to play a detailed and hands-on roll in closing investment deals. It also has key responsibilities for negotiating incentive packages to attract the targeted firms.

As the Malaysian economy has evolved in recent years, so too have the targets, instruments and challenges that MIDA faces. Most important, today Malaysia is on the transition from labour-intensive and commodity-intensive industrialisation to knowledge-intensive activities, a process that can be described as "moving up the value chain". The goal is to raise productivity and incomes per worker, and to stay out of direct competition with low-cost Chinese and Indian firms by bringing advanced technologies and skills to bear. Yet MIDA is finding, quickly, that the demands of foreign investors are changing along with Malaysia's progression up the international value chain. Potential foreign investors are no longer as focused as in the past on Malaysia's basic infrastructure, tax rates and public administration, since they assume that these are all up to international standards. They are now more concerned with the availability of highly skilled labour and the proximity of major universities that can train the future labour force. MIDA is asked, for example, whether it can ensure several thousand high-quality engineers for a major project. Can MIDA guarantee that local universities will be turning out qualified graduates in the years ahead? The quality of higher education becomes a core competitive advantage for attracting industry in countries such as Malaysia that are moving up the value chain.

There are three general lessons to be taken from MIDA's long-term success.

- Investment promotion matters a great deal. Malaysia's success in being an attractive investment destination is the result not only of a strong business environment, but also of years of skilled work defining and implementing specific promotional tools.

- Direct and aggressive campaigning for investment projects is needed. Any country that believes it is not in competition with other countries for footloose global capital will find itself left behind.

- The specific promotional tools depend on the targeted sector, the country's phase of development, and even the physical geography of the host country, which may define specific transport, climate and other challenges that need to be overcome for an investment to be successful.

There is, in short, a world of difference between attracting a labour-intensive apparel firm, a mining company, a wafer fabrication plant and a software design company. The first depends mainly on low labour costs and tax holidays; the second on the quality of mineral deposits and access to international markets; the third on clean water, reliable power and a local supply of qualified engineers; and the fourth on partnership with local universities and low-cost telecommunications.

Investment promotion agencies therefore need a careful and detailed approach that addresses the specific circumstances of the host country: geography, targeted sectors and stage of development. Governments should (and do) look askance at the World Bank and IMF orthodoxy that a good investment climate is all that is needed to attract FDI. That IMF-World Bank advice, which continues to this day, has frustrated the inflows of foreign investment into many of the countries bound by IMF-World Bank conditionality. A good investment climate is a necessary condition, but it is not sufficient. It is true that tax holidays do not matter much in a miserably governed country. Yet they may prove to be the slim margin for success in a well-governed poor country trying to attract foreign investment in manufacturing and services industries for the first time.

The challenge for the poorest countries

The biggest failure to attract FDI is found in the world's poorest-of-the-poor countries, most notably those in tropical Africa. In 2004 combined FDI inflows into tropical Africa were a meagre US$13bn, and most of that investment was actually directed to the oil and gas sector and to other high-value commodities. If we remove the oil producers—Angola, Chad, Equatorial Guinea, Gabon, Nigeria, Congo and Sudan—combined FDI inflows into tropical Africa were a shockingly low US$4bn, less than 1% of total FDI inflows worldwide, despite the fact that tropical Africa constitutes more than 10% of the global population. Most of the tropical African countries have been under long-term IMF and World Bank tutelage, and these agencies have been singularly unsuccessful in helping their clients to attract investment inflows, in part because they have advised against the practical investment promotion activities that are needed. Among emerging markets, it is today's middle-income countries—not the poorest—that pull in the lion's share of FDI. For example, Brazil alone had FDI inflows of US$18bn in 2004, nearly 50% more than the whole of tropical Africa.

For the poorest countries, five areas of interest are most likely to attract investment inflows. The first, of course, is the most traditional: raw materials sectors such as oil, gas, minerals and agricultural commodities. The second is resource-based manufactures based on locally sourced resources. Cotton textiles and apparel, using local cotton production, is an obvious example. The third is tourism, which also takes advantage of local resource endowments (such as a beach front, biodiversity, local culture). The fourth is labour-intensive manufacturing using internationally produced inputs, such as apparel and other assembly operations. The fifth, and newest, possibility is low-end services sector activities based on information and communications technology (ICT), such as call centres, data transcription and basic business-processing operations (BPO).

Attracting FDI into any of these sectors requires a basic level of infrastructure and public administration. Investors will invariably require electricity, water, physical security, basic public health facilities, and access to airports, ports and telecoms. Administrative services such as port clearance and predictable tax administration are also essential. So too is the absence of civil conflict, although in the case of hydrocarbons, precious stones and high-value minerals, investors are often willing to invest even in war zones. In most cases, the public sector has to provide the infrastructure in advance of the FDI inflows. Only the most profitable of natural resource deposits can spur private-sector financing of the complementary infrastructure.

As any shopping mall developer knows, an anchor tenant is vital to get a new project under way. Once the anchor tenant is confirmed, other businesses more easily agree to locate in the mall. As a result, anchor tenants are often given extremely favourable rental terms to start the process of filling the mall. The same goes for FDI. The first investors in any of these new sectors will usually require rather generous concessions in order to be pioneers. (Again, the case of hydrocarbons and high-value minerals is an exception.) Corporate tax holidays, government grants of land and duty-free imports are all standard tools to attract the initial inflows of FDI. One of the most successful strategies has been to declare a special economic zone (SEZ) or export-processing zone (EPZ), in which the investors will face simple, clear and highly favourable tax and administrative treatment, and in which the basic necessary levels of infrastructure will be guaranteed. Such SEZs and EPZs played a pivotal role in supporting emerging Asia's initial take-off into manufactured exports from the 1960s through to the 1990s. Similarly, SEZs are now being used in India to promote new industrial exports.

What Africa needs

Similar institutions are vitally needed in Africa, but unfortunately they have been frustrated in part by the traditional advice of the IMF and the World Bank. That is only now beginning to change, as more and more African countries insist on establishing SEZs, EPZs, industrial zones and favourable incentive schemes. This trend should be applauded and supported. In addition, African governments should be encouraged to emulate institutions such as MIDA, and long-standing institutions in the emerging Asian economies should be encouraged to share their knowledge and experience with fledgling bodies in Africa.

One of the most interesting issues will be the ability of Africa's cities to attract ICT-based industries and services. ICT allows for international services sector exports without the traditional physical infrastructure requirements, such as roads and ports. India's new—and booming—ICT-based sectors in Bangalore, Hyderabad, Chennai and elsewhere got started despite India's inadequate infrastructure, because ICT-based businesses could put up their own satellite links and power generators, and did not depend as much as typical industrial enterprises on the quality of India's roads and ports. The main prerequisite was investment in human capital, which was initially provided by India's Institutes of Technology (IITs) and Institutes of Management (IIMs). Whether Africa can emulate India, albeit initially at the low-skilled end of ICT services, is an important question. There are indeed glimmers of hope, but they are still only glimmers.

What donors can do

Aid donors and international organisations should do their homework to understand the challenges of attracting FDI in low-income countries, and especially in the very poorest. Aid donors are committed to helping countries to achieve the Millennium Development Goals (MDGs). Increased FDI inflows will be vital to success in meeting the MDGs. FDI is needed to ensure the job creation, capital accumulation and export growth required to end extreme poverty. Donors can help the poorest countries to attract such FDI in at least three big ways:

- They can do more to ensure that the international financial institutions offer sound views on FDI promotion.

- They should deliver on their long-standing but unmet promises of aid, since aid is urgently needed to build the infrastructure required for the FDI to operate. Donors need to replace the tired and false slogan of "trade not aid" with the much more accurate slogan of "aid for trade". Specifically, aid is needed to finance the road, power, port and telecoms infrastructure that will be needed to make the poorest economies into profitable destinations for FDI.

- The rich donor countries can and must open their markets to exports from the low-income countries.

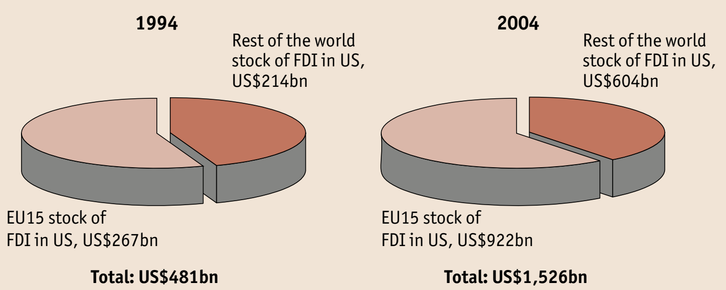
In recent decades a handful of emerging-market economies have reaped the lion's share of FDI inflows into developing countries. It is time to widen the circle of beneficiaries. Fortunately, host countries in the developing world, even the poorest countries, have more interest in attracting FDI than ever before—and better policies to do so. Around the world, poor countries want to learn from the successful trade, growth and investment promotion strategies that they have long seen in Asia. As they do so, they are likely to succeed in jump-starting unprecedented rates of growth. Of course, the foreign investors that move in early will be the biggest beneficiaries of the growth take-off that lies ahead.

Transatlantic foreign direct investment: the backbone of the global economy

By Dan O'Brien, Senior Economist, Western Europe, Economist Intelligence Unit

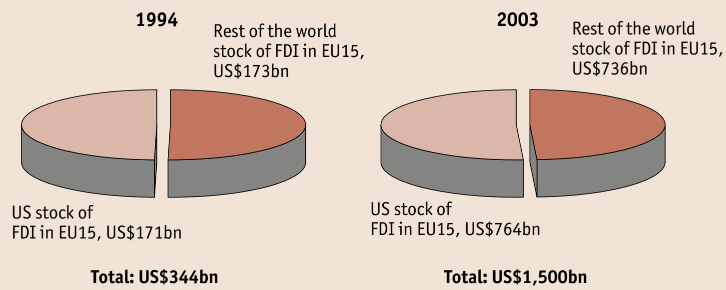
It is understandable that much attention is given to the intensification of internationalised economic activity to and among developing countries. However, this can cause the continued centrality of deepening transatlantic economic relations in the international economy to be overlooked. Globalisation has, to a very considerable extent, been driven by "transatlanticisation", and EU-US investment links will continue to be the main feature of globalisation over the remainder of the decade.

Inward FDI stock in US



Source: US Bureau of Economic Analysis.

Inward FDI stock in EU15



Source: Eurostat.

US and EU dominate the global economy

The EU and the US remain, by some considerable distance, the largest economies in the world. As open economies, it is unsurprising, therefore, that they are each others' most important trade and investment partners. However, the depth of their integration is sometimes not fully appreciated. Although US and European economic links with other parts of the world are growing strongly, these still pale in comparison with the continents' ties with each other. These two regions of the world are far more deeply integrated than any others on almost every measure and, on the basis of the Economist Intelligence Unit's forecasts, the transatlantic economic relationship is set to deepen further. Although trade in goods and services between the EU and the US accounts for a large share of world trade, far more significant are the long-term commitments that firms from each side of the Atlantic have made to the other in the shape of foreign direct investment (FDI).

The modern multinational corporation (MNC) emerged in the 1950s as US companies expanded into Europe to gain access to the continent's fast-growing markets. European firms began following suit in the 1960s, shifting capital westwards across the Atlantic to establish a presence closer to customers in the vast US market. Although "market-seeking" reasons accounted for this initial wave of transatlantic FDI, "efficiency-seeking" motives have grown in importance. Increasingly, firms are basing different parts of their production processes in countries whose competitive advantages can be exploited to perform a given function most cost-effectively (this can be seen by the rapid increase in transatlantic intra-firm trade—US affiliates in the EU, for instance, account for more than half of EU exports to the US). Although usually associated with investment in low-wage economies, the search for efficiencies has been a major factor driving transatlantic FDI flows.

More recently still, a third motivation for FDI—resource-seeking—has become more important in spurring transatlantic (and global) investment flows. Although traditionally associated with flows from the developed to the developing world to access natural resources in extractive industries, the tapping of human resources in foreign locations is increasingly driving FDI. Yet again, and despite popular focus on the shift to low-cost locations in Asia, this phenomenon is accounted for more by shifts within the developed world than from developed to developing countries.[1]

These factors have accelerated the Europeanisation of corporate America over the past decade, and inflows of FDI into the US from the EU15 have outstripped those from the rest of the world. In 2004 the stock of EU15 FDI in the US stood at US$922bn, up from just US$267bn in 1994. As this rate of increase was greater than the growth in the non-EU15 stock, the European share of the US's total stock of FDI rose, from 55% in 1994 to more than 60% in 2004. The Americanisation of European business has been only slightly less spectacular. US investment into the EU15 multiplied by a factor of almost five between 1994 and 2003, rising from €171bn to €764bn (US$863bn at average 2003 exchange rates). This accounted for 51% of the total stock of investment from outside the region, marginally higher than in 1994.[2]

The impact of the large stocks of reciprocal investment is most readily seen in the 7.5m jobs for which each sides' firms account directly.[3] It is also illustrated by the fact that the sales of EU firms' affiliates in the US are measured in multiples of EU exports to the country. The same is true of US firms' subsidiaries' sales in Europe. According to the US Bureau for Economic Analysis, sales of goods and services in Europe by US affiliates stood at US$2.6trn in 2004. This was four times greater than the value of US goods and services exports to Europe. On the basis of our medium-term forecasts, flows of FDI across the Atlantic will increase strongly over the remainder of the decade, further deepening interpenetration between the world's two largest economies.

Flows from the EU15 to the US are projected to register particularly high growth owing to the attractiveness of the US as a location for FDI. Total FDI flows from the EU15 to the US in 2006-10 are forecast to grow by 163% compared with 2001-05, broadly in line with the growth of inflows from other destinations. Flows from the US into the EU15 are projected to grow by 54% over the same period. Although this is a more modest rate of increase than the growth of FDI into the US, and the share of flows from other countries in total FDI flows into the EU15 is expected to increase, the US will still account for some 57% of all FDI inflows into the EU15 (excluding intra-EU15 flows) in 2006-10.

Drivers and constraining factors in transatlantic FDI

All three previously mentioned motives for FDI—market-seeking, efficiency-seeking and resource-seeking—will continue to drive deepening investment links across the Atlantic to a greater extent than investment relationships between and among other parts of the world, where motives tend to be more narrowly focused. This is one of the main reasons for the two blocs' expected continued dominance of the globalisation process and why the ties binding the two sides of the Atlantic will remain the global economy's most important bilateral relationship. At a more specific level, a range of other factors account for our upbeat forecasts for transatlantic FDI flows.

Solid growth in the transatlantic space will boost FDI

Among the most important factors influencing investment flows is the strength of economic growth, both as a "pull factor" in drawing in FDI from abroad and as a factor pushing investment overseas to foreign locations. Our GDP forecasts for the US and the EU15 for 2006-10 suggest stronger economic growth in both economies compared with the first half of the decade. US GDP growth is expected to average around 3% in the second half of the decade, slightly stronger than its average performance in the first half. EU15 economic growth is forecast to reach 2% a year, a rate of expansion considerably stronger than in 2001-05. The more rapid increase in the size of these countries' markets will serve to attract FDI during this forecast period.

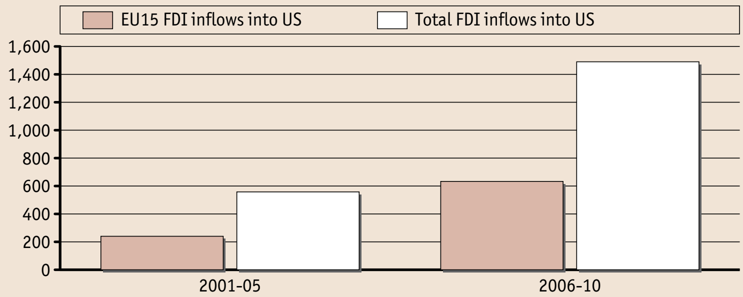
Our expectation of solid economic growth in

[1] UN Conference on Trade and Development (UNCTAD), *World Investment Report 2005*.

[2] These numbers are likely to paint a less than complete picture of the importance of European firms in the US and vice versa. Local affiliates of foreign firms can finance their foreign activities by tapping local capital markets. As such financing does not show up on the capital account as an FDI inflow it means the overall stock of investment controlled by foreign firms is greater than official figures record. This is likely to be of particular relevance in the transatlantic region owing to the unparalleled breadth and depth of capital markets.

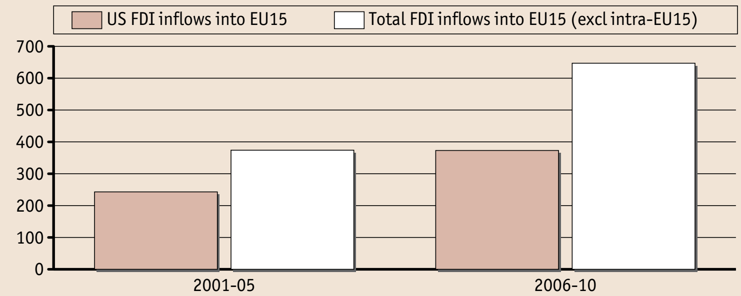
[3] One study estimates that a further 4.5m-6m are employed indirectly, through traditional trade and corporate links, such as joint ventures and strategic alliances: see Daniel S Hamilton and Joseph P Quinlan, *The Transatlantic Economy 2005: Annual Survey of Jobs, Trade and Investment between the United States and Europe*, Center for Transatlantic Relations, Johns Hopkins University, 2006.

FDI inflows into US
(US$ bn)



Note. Data for Belgium and Luxembourg are unavailable and thus excluded from EU15 total.
Source: Economist Intelligence Unit.

FDI inflows into EU15
(US$ bn)



Note. Data for Belgium and Luxembourg are unavailable and thus excluded from EU15 total.
Source: Economist Intelligence Unit.

both the US and the EU also suggests a strong "push factor" in higher FDI outflows. The positive correlation between the strength of an economy and the level of FDI outflows is explained by the effect that economic growth in the home location has on levels of corporate profitability and total investment expenditure. The difference between 2001-05 and 2006-10 in growth rates of fixed capital formation expenditure is even more marked than for GDP growth. In the first half of the decade annual growth in EU fixed capital formation averaged less than 1%; it is expected to exceed 2.5% on average up to 2010. In the US, we forecast rates in excess of 5%, higher than in the first half of the decade. Profitability is expected to be strong, given solid economic growth. These factors, along with intensifying competition and technological advances, will drive FDI, particularly in the form of transatlantic merger and acquisition (M&A) activity. The resurgence of M&As, after a very sharp rise and fall as the 1990s came to end, is already well under way.

Regulation and the business environment.
A reduction in government involvement in economic affairs and an increase in the quality of the overall business environment are important pull factors in attracting FDI. In Europe in the 1990s and the early part of the current decade a wave of privatisation and deregulation took place. This was a factor in stimulating inflows of FDI, not least from the US. With the disposal of state assets in most countries complete, or close to completion, privatisation is not expected to be a significant driver of FDI over the remainder of the current decade. However, we expect that further deregulation and improvements in the business environment on both sides of the Atlantic will attract higher levels of inward investment.

Our business environment rankings cover 82 of the largest economies in the world and score each of these countries on a range of indicators affecting the business environment.[4] In order to evaluate the direction of change over time, we score and rank these economies in a five-year historical period (currently 2001-05) and a five-year forecast period (2006-10). The US's score in the business environment rankings for the forecast period rises slightly compared with 2001-05, and the country is ranked globally as the environment fifth most conducive to doing business. The improvement in the EU business environment over the same period is anticipated to be considerably greater. Most of the EU15 countries included in the rankings[5] see bigger improvements than the US. Of these 14 countries, 11 rank in the top 20 in our global ranking of 82 business environments. Of particular relevance is the scope for the opening up of the EU services market. This will be facilitated by the recently enacted "services directive", liberalising the crossborder provision of services across the bloc. Although this will not revolutionise the EU business environment (the directive was watered down considerably from its original more radical draft), it is expected to accelerate the internationalisation of the services sector. With the share of services firms in FDI flows rising rapidly in recent years, much of it driven by US MNCs investing in Europe, this move is likely to strengthen that trend.

[4] See the article in this volume by Laza Kekic, "Global foreign direct investment: recent trends and forecasts to 2010".

[5] Luxembourg is the only EU15 member state not included in our business environment rankings.

Public policy towards FDI

Public policy is an important pull factor in drawing in FDI flows. Although a number of recent instances of governments blocking crossborder M&As present some risk to our forecasts (see below), the underlying trend towards more investment-friendly policies is expected to continue. Internationally, the increase in multilateral agreements, such as the OECD's capital movement codes, have provided greater certainty for investors. As with any form of investment decision, a decline in risk tends to stimulate foreign investment, all other things being equal. Domestically, investment promotion agencies (IPAs) are proliferating. Now almost every country has a national IPA. At sub-national level, regions, localities and cities are also intensifying the competition for FDI by setting up IPAs to lure foreign investment.

This competition is acting as an increasingly strong pull factor for FDI. In the US competition among states to attract investment using fiscal incentives is intense. Because the European Commission enforces strict rules on state aid to industry, tailored packages of generous tax breaks and direct grants play a more limited role in attracting FDI to Europe. Given these limitations, European IPAs are intensifying their efforts to lure investment in other ways. These methods include more active targeting of foreign firms; greater "after-sales" services (that is, more assistance to the firm once its operation is up and running); and the exertion of greater influence on the policymaking process to accelerate investment-friendly improvements in the overall business environment (IPAs are increasingly influential in domestic political debates on formulating and implementing economic policies). The role played by IPAs is expected to growth in the coming years.

The internationalisation of R&D

Multinational firms dominate global business expenditure on research and development (R&D). Traditionally, this function has tended to remain in the country of origin, with foreign affiliates' involvement limited to adapting products and services for the markets in which they are located or which they serve. This is now changing, and there are indications that the pace of R&D internationalisation may be accelerating.[6] This will be an important driver of higher FDI flows over the forecast period.

Despite some successes by the developing world in attracting R&D functions, the US and the EU15 remain overwhelmingly dominant in R&D activity. In 1991 gross domestic expenditure on R&D in the two transatlantic economies accounted for 68.5% of the global total. By 2002 (the most recent year for which full data are available), this had fallen by less than 2 percentage points, to two-thirds of the total. The dominance of the US and the EU15 in business enterprise R&D expenditure remains greater still. Of the global total, 67.6% was accounted for by the transatlantic economies in 2002, down only marginally from 70% in 1991.

These figures mask a significant shift in favour of the US (as EU spending has lagged). The relative decline in Europe can be seen more clearly in US firms' R&D expenditure abroad. Although the EU15 continues to dominate, with 59% of US foreign affiliates' spending on R&D taking place in the EU15 in 2002, this has declined from just under 70% in 1994. Acting as a drag on EU inflows of R&D-related FDI may be the slow pace of change in third- and fourth-level education in many countries, something that is having a negative effect on their wider national innovation systems (only two of the world's top twenty universities are located in the EU).

Although no data are available on EU15 affiliate expenditure on foreign R&D, it is likely that the trend has moved the other way. Given the US's unrivalled innovation system, R&D-related FDI from Europe to the US is likely to have increased. Future flows to the US may, however, be hampered by stricter visa requirements in recent years, which have reduced the number of foreigners relocating to the US.

Although most identifiable factors suggest that transatlantic FDI will increase over the forecast period, the diverting effect of other increasingly attractive locations outside the area will dampen the rise in bilateral investment. Although there is not a fixed "lump" of global FDI, at any given time firms' capacity to expand abroad is likely to be limited by, among other things, financial constraints and fear of

[6] UNCTAD, *World Investment Report 2005*.

overstretch. If there is an "either/or" choice between investing in low-cost locations with fast-growing markets or deepening penetration of transatlantic markets, some EU and US firms may be more inclined to choose the former.

Risk factors

The most obvious risk to our forecasts for FDI flows comes from lower than expected GDP growth, given the strong positive correlation that exists between the two.[7] The collapse of multilateral trade talks in July 2006, a number of ongoing bitter bilateral transatlantic trade disputes and a recent series of high-profile efforts by governments on both sides of the Atlantic to thwart foreign takeovers of domestic firms have contributed to fears of a backlash against globalisation.[8] Although the spectre of rising protectionism presents a real risk to our projections, our central forecast sees this possibility as having a limited impact on transatlantic FDI for a number of reasons. First, protectionist impulses in Europe and the US are directed less at each other than at those from outside the transatlantic region. Second, most of the resistance by governments to crossborder deals to date has been based on security grounds. Even if what constitutes a security dimension is more elastically interpreted in the future, it is still likely only to cover a small proportion of possible M&As. Third, on the European side, central EU institutions have proved to be well insulated from protectionist sentiment, and it is through their enforcement of EU law that a number of crossborder M&As have gone ahead in the face of member-government opposition. Finally, despite protectionist sentiments becoming more vocal, the intellectual climate remains strongly favourable to free trade and open markets. This can be seen in the Transatlantic Economic Initiative between the EU and the US, which seeks to bolster ties by fostering co-operation on regulatory regimes and anti-trust issues.

Changing security and political concerns may also have an impact on FDI, although, on balance, experience suggests that these issues have little effect on FDI flows. The terrorist attacks on the US of September 11th 2001 appear to have had a limited impact, at most, on flows,[9] even if heightened security has raised the transaction costs of doing business across the Atlantic—container traffic entering the US is subject to delays and more onerous inspection, and travel and staff relocation has become more difficult. Further terrorist attacks would almost certainly lead to further tightening of borders. If weapons of mass destruction were to be involved it would be difficult to underestimate the effect on border security, with serious implications for all transatlantic links, both economic and non-economic.[10]

The threat of a deterioration in transatlantic relations also poses some risk to our forecast, although this is very limited—past experience suggests that diplomatic and political matters tend not to affect transatlantic economic relations. The most obvious example is the events surrounding the invasion of Iraq in 2003. Although US-European relations experienced strains unprecedented in the post-1945 period, these had no discernible effect on economic relations: firms did not appear to change their investment decisions, and neither side allowed the disagreement over Iraq to spill over to economic issues. Since the low point in early 2003, relations have since improved, and although another rupture is possible (differences over Iran's nuclear programme being the most obvious cause), even such an occurrence would be unlikely to have a significant impact on FDI flows.

Conclusion

We expect investment flows across the Atlantic to grow strongly over the forecast period, particularly from Europe to the US. This is accounted for by a range of factors, including stronger economic growth, further deregulation, supportive public policy and a continued trend among MNCs to internationalise a greater range of functions, such as R&D. Although the risks to this forecast are not insignificant, and we expect the increasing attractiveness of locations outside the transatlantic area, as well as other factors, to have some diverting effect on bilateral flows, the underlying factors driving EU-US FDI flows are strong. Combined with a long-term trend towards deeper integration, "transatlanticisation" can be expected to continue apace, and to remain the most important bilateral FDI link in the world.

7 See the article in this volume by Laza Kekic, "Global foreign direct investment: recent trends and forecasts to 2010".

8 See the article in this volume by Karl P Sauvant, "A backlash against foreign direct investment?".

9 US FDI to Europe in 2002 rose compared with 2001, and there is little evidence to suggest that the terrorist threat in the US accounted for the decline in FDI flows from the EU to the US.

10 It is, however, conceivable that tighter borders could stimulate FDI, as firms seek to leapfrog higher barriers.

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	
Spain	Cote d'Ivoire	Kuwait	Bolivia	**Balkans**
Sweden	Djibouti	Lebanon	Brazil	Albania
United Kingdom	Equatorial Guinea	Oman	Chile	Bosnia and Hercegovina
	Ethiopia	Qatar	Colombia	Bulgaria
Other western Europe	Gabon	Saudi Arabia	Ecuador	Croatia
Gibraltar	Gambia	Syria	Guyana	Macedonia
Iceland	Ghana	United Arab Emirates	Paraguay	Montenegro
Norway	Guinea	Yemen	Peru	Romania
Switzerland	Guinea-Bissau		Suriname	Serbia
	Kenya	**Developing Asia** (2)	Uruguay	
North America	Lesotho	Bangladesh	Venezuela	**Baltics**
Canada	Liberia	Brunei		Estonia
United States of America	Madagascar	Cambodia	**Other Latin America & Caribbean**	Latvia
	Malawi	China	Antigua & Barbuda	Lithuania
Other developed countries	Mali	Hong Kong	Aruba	
Australia	Mauritania	India	Bahamas	**CIS**
Israel	Mauritius	Indonesia	Barbados	Russia
Japan	Mozambique	Laos	Belarus	Ukraine
New Zealand	Namibia	Macau	Bermuda	Belarus
	Niger	Malaysia	Cayman Islands	Moldova
	Nigeria	Maldives	Costa Rica	Armenia
	Rwanda	Mongolia	Cuba	Azerbaijan
	Senegal	Myanmar	Dominica	Georgia
	Seychelles	Nepal	Dominican Republic	Kazakhstan
	Somalia	North Korea	El Salvador	Kyrgyz Republic
	South Africa	Pakistan	Grenada	Tajikistan
	Swaziland	Philippines	Guatemala	Turkmenistan
	Tanzania	Singapore	Haiti	Uzbekistan
	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 is 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

FDI is defined as foreign investment that entails a long-term relationship and reflects a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. 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 is the foreign direct investor's purchase of a share of an enterprise in a country other than its own.
Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliate or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
Intra-company loans refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

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&A 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 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real GDP growth (%)										
US	0.8	1.6	2.7	4.2	3.5	3.3	2.4	2.9	3.0	2.8
Japan	0.4	0.1	1.8	2.3	2.6	3.1	2.0	1.6	1.4	1.4
Euro zone 12	1.9	0.9	0.8	1.9	1.3	2.1	1.8	2.0	2.1	2.0
EU25	1.9	1.2	1.4	2.4	1.7	2.4	2.1	2.3	2.2	2.2
World (market exchange rates)	1.6	1.9	2.8	4.1	3.6	3.9	3.2	3.3	3.2	3.2
World (PPP exchange rates)	2.6	3.1	4.1	5.6	5.0	5.2	4.8	4.7	4.5	4.5
World trade growth (%)										
Goods	-0.3	3.7	5.6	10.9	7.7	8.6	7.5	7.6	7.7	7.6
Consumer price inflation (%; av)										
US	2.8	1.6	2.3	2.7	3.4	3.9	3.3	2.8	2.7	2.7
Japan	-0.7	-0.9	-0.3	0.0	-0.3	0.3	1.0	1.2	0.9	0.6
Euro zone 12	2.6	2.2	2.0	2.1	2.1	2.3	2.2	1.9	1.8	1.8
EU25	2.6	2.1	1.9	2.1	2.1	2.2	2.2	1.9	1.9	1.9
World	3.0	2.5	2.9	2.8	3.1	3.5	3.3	3.0	2.9	2.8
Export price inflation (%)										
Manufactures (US$)	-2.8	2.4	13.2	7.7	2.5	2.6	7.9	1.9	1.1	1.4
Commodity prices										
Oil (US$/barrel; Brent)	24.47	24.97	28.83	38.51	54.72	69.73	66.00	55.00	48.00	45.00
% change	-14.1	2.0	15.5	33.6	42.1	27.4	-5.3	-16.7	-12.7	-6.3
Interest rates (%)										
US$ 3-month Libor	3.8	1.8	1.2	1.6	3.6	5.5	5.6	5.4	5.4	5.4
€ 3-month interbank	4.3	3.3	2.3	2.1	2.2	3.1	3.9	3.9	3.9	3.9

Source: Economist Intelligence Unit.

Select market and foreign direct investment data by country

Population (m)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	285.1	288.0	290.8	293.6	296.4	299.4	302.1	304.8	307.5	310.3
Canada	31.0	31.4	31.7	32.0	32.3	32.6	32.8	33.1	33.4	33.7
Western Europe										
Austria	8.1	8.1	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Belgium	10.3	10.3	10.3	10.3	10.4	10.4	10.4	10.4	10.4	10.4
Cyprus	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Denmark	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.5
Finland	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.3	5.3
France	59.7	59.9	60.2	60.4	60.6	60.9	61.1	61.4	61.6	61.9
Germany	82.4	82.5	82.5	82.5	82.5	82.5	82.5	82.6	82.6	82.7
Greece	10.9	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Ireland	3.9	4.0	4.0	4.1	4.2	4.2	4.3	4.3	4.3	4.3
Italy	57.8	57.9	58.0	58.1	58.1	58.1	58.1	58.1	58.1	58.1
Luxembourg	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Netherlands	16.0	16.1	16.2	16.3	16.3	16.4	16.5	16.6	16.6	16.7
Norway	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.7	4.7	4.7
Portugal	10.3	10.4	10.4	10.4	10.5	10.6	10.6	10.6	10.7	10.7
Spain	40.5	41.0	41.8	42.7	43.5	44.3	44.9	45.5	46.1	46.5
Sweden	8.9	8.9	9.0	9.0	9.0	9.1	9.1	9.2	9.2	9.2
Switzerland	7.3	7.3	7.3	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Turkey	69.3	70.3	71.3	72.3	73.3	74.3	75.2	76.2	77.2	78.1
UK	59.1	59.3	59.6	59.8	60.0	60.3	60.5	60.7	60.9	61.2
Eastern Europe										
Azerbaijan	8.1	8.2	8.3	8.3	8.4	8.5	8.6	8.6	8.7	8.8
Bulgaria	7.9	7.8	7.8	7.7	7.7	7.6	7.6	7.5	7.5	7.4
Croatia	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.6
Czech Republic	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Estonia	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Hungary	10.1	10.1	10.1	10.0	10.0	10.0	10.0	9.9	9.9	9.9
Kazakhstan	14.9	14.9	15.0	15.1	15.2	15.3	15.4	15.5	15.6	15.7
Latvia	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Lithuania	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3	3.3
Poland	38.3	38.2	38.2	38.2	38.2	38.1	38.1	38.0	38.0	37.9
Romania	22.4	21.8	21.7	21.7	21.6	21.6	21.6	21.5	21.5	21.5
Russia	146.0	145.3	144.6	144.0	143.4	142.9	142.4	141.8	141.3	140.8
Serbia	7.7	7.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.7
Slovakia	5.4	5.4	5.4	5.4	5.4	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	48.2	47.8	47.4	47.1	46.8	46.5	46.3	46.1	45.9	45.7

Population (m)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	19.5	19.7	19.9	20.2	20.4	20.6	20.8	21.0	21.2	21.4
Bangladesh	131.5	134.0	136.6	139.2	141.9	144.6	147.3	150.0	152.8	155.7
China	1,276.3	1,284.5	1,292.3	1,299.9	1,307.4	1,315.2	1,323.1	1,331.1	1,336.7	1,342.5
Hong Kong	6.7	6.8	6.8	6.9	6.9	6.9	7.0	7.0	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	227.7	231.3	234.9	238.5	242.0	245.5	248.9	252.3	255.6	258.8
Japan	126.9	127.1	127.2	127.3	127.5	127.5	127.5	127.4	127.4	127.3
Malaysia	24.0	24.5	25.0	25.5	25.9	26.2	26.5	27.1	27.7	28.1
New Zealand	3.9	3.9	4.0	4.1	4.1	4.2	4.2	4.2	4.3	4.3
Pakistan	144.6	147.7	150.7	153.7	156.4	159.6	162.5	165.5	168.5	171.5
Philippines	81.4	83.0	84.6	86.2	87.9	89.5	91.1	92.7	94.3	95.9
Singapore	4.1	4.2	4.2	4.2	4.3	4.4	4.4	4.5	4.5	4.6
South Korea	47.3	47.6	47.8	48.1	48.3	48.7	49.0	49.2	49.4	49.6
Sri Lanka	20.0	20.2	20.4	20.6	20.7	20.9	21.1	21.3	21.5	21.6
Taiwan	22.3	22.5	22.5	22.5	22.6	22.6	22.7	22.7	22.8	22.9
Thailand	62.9	63.5	64.0	65.1	65.5	66.0	66.5	67.0	67.5	67.9
Vietnam	79.5	80.6	81.6	82.7	83.8	84.9	85.9	87.0	88.1	89.2
Latin America										
Argentina	37.4	37.8	38.2	38.7	39.1	39.5	39.9	40.3	40.7	41.1
Brazil	172.4	174.6	176.9	179.1	181.4	183.7	186.0	188.3	190.6	192.9
Chile	14.9	15.1	15.2	15.4	15.5	15.7	15.9	16.1	16.3	16.5
Colombia	43.1	43.8	44.6	45.3	46.0	46.8	47.5	48.3	49.0	49.7
Costa Rica	4.0	4.1	4.2	4.3	4.3	4.4	4.5	4.5	4.6	4.7
Cuba	11.2	11.2	11.2	11.2	11.2	11.3	11.3	11.3	11.3	11.3
Dominican Republic	8.6	8.8	8.9	9.1	9.2	9.3	9.5	9.6	9.8	10.0
Ecuador	12.5	12.7	12.8	13.0	13.2	13.4	13.6	13.8	14.0	14.2
El Salvador	6.4	6.5	6.6	6.8	6.9	7.0	7.1	7.3	7.4	7.5
Mexico	101.2	102.5	103.7	105.0	106.2	107.4	108.7	110.0	111.2	112.5
Peru	26.3	26.7	27.1	27.5	27.9	28.4	28.8	29.2	29.7	30.1
Venezuela	24.5	25.0	25.5	26.0	26.5	27.0	27.4	27.9	28.4	28.9
Africa & Middle East										
Algeria	30.9	31.4	31.9	32.4	32.8	33.4	33.9	34.4	34.9	35.4
Angola	12.7	13.1	13.5	13.9	14.3	14.7	15.1	15.5	16.0	16.4
Bahrain	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Egypt	68.6	69.9	71.3	72.6	74.0	75.4	76.9	78.3	79.8	81.3
Iran	67.0	67.6	68.2	68.8	69.4	70.0	70.7	71.3	72.0	72.6
Israel	6.4	6.6	6.7	6.8	6.9	7.1	7.2	7.3	7.5	7.6
Jordan	5.2	5.3	5.5	5.6	5.8	5.9	6.1	6.3	6.4	6.6
Kenya	31.4	32.0	32.7	33.5	34.3	35.1	36.0	36.9	37.8	38.8
Kuwait	2.3	2.4	2.5	2.8	3.0	3.1	3.3	3.4	3.5	3.7
Libya	5.4	5.5	5.6	5.7	5.9	6.0	6.1	6.2	6.4	6.5
Morocco	29.7	30.1	30.6	31.0	31.5	31.9	32.4	32.9	33.4	33.9
Nigeria	126.6	129.9	133.2	136.5	139.8	143.0	146.2	149.5	152.7	155.9
Qatar	0.6	0.7	0.7	0.7	0.8	0.9	0.9	1.0	1.0	1.1
Saudi Arabia	22.1	22.7	23.3	24.0	24.6	25.3	25.9	26.6	27.3	28.0
South Africa	42.6	42.7	42.8	42.7	42.6	42.3	42.0	41.8	41.1	40.9
Tunisia	9.7	9.8	9.9	10.0	10.1	10.2	10.3	10.4	10.6	10.7
UAE	3.5	3.8	4.0	4.3	4.7	5.0	5.4	5.8	6.2	6.6

Nominal GDP (US$ bn at market exchange rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	10,128.0	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
Canada	715.4	735.5	868.1	991.7	1,129.5	1,324.8	1,455.2	1,430.3	1,411.5	1,448.1
Western Europe										
Austria	193.4	208.6	256.5	294.6	307.0	334.0	368.2	365.7	368.0	373.3
Belgium	231.9	252.9	310.9	357.6	371.4	406.7	443.1	436.2	436.1	436.5
Cyprus	9.5	10.4	13.2	15.5	16.7	18.0	20.0	20.1	20.3	20.6
Denmark	160.5	173.9	213.9	244.9	258.7	280.9	313.7	312.5	315.1	319.4
Finland	122.2	133.1	162.8	186.2	193.3	205.3	225.9	224.6	227.8	231.5
France	1,341.6	1,465.0	1,796.6	2,046.3	2,104.2	2,200.5	2,430.7	2,419.9	2,412.2	2,469.2
Germany	1,892.6	2,026.9	2,449.5	2,755.7	2,797.5	3,001.8	3,333.4	3,296.4	3,282.6	3,293.0
Greece	118.0	134.5	174.5	207.9	218.2	234.3	264.2	272.6	281.3	296.5
Ireland	104.9	123.3	157.5	184.8	199.6	223.1	254.0	256.8	263.0	273.1
Italy	1,118.4	1,223.9	1,513.0	1,725.6	1,764.7	1,854.0	2,053.7	2,048.5	2,048.9	2,101.3
Luxembourg	20.2	22.7	29.1	33.7	36.5	41.1	44.7	45.3	46.1	48.1
Netherlands	401.0	439.6	539.3	607.7	624.8	673.2	753.6	758.3	773.9	799.1
Norway	169.7	190.3	222.7	254.7	295.5	336.5	378.8	343.6	331.7	328.1
Portugal	115.8	128.0	155.7	177.7	183.3	192.4	216.1	217.0	219.5	228.1
Spain	608.9	688.9	883.8	1,041.4	1,125.7	1,215.5	1,378.0	1,392.9	1,409.2	1,460.1
Sweden	221.2	243.9	304.4	350.2	357.7	395.1	454.7	458.5	463.3	472.1
Switzerland	250.4	276.2	322.6	358.5	366.9	381.6	421.3	422.4	427.0	436.1
Turkey	145.6	184.2	239.7	302.0	362.6	371.5	355.2	388.4	415.9	453.6
UK	1,434.9	1,571.4	1,805.7	2,132.2	2,198.8	2,317.1	2,582.6	2,646.4	2,622.3	2,626.1
Eastern Europe										
Azerbaijan	5.7	6.2	7.3	8.7	12.6	18.8	24.9	30.0	34.1	38.6
Bulgaria	13.6	15.6	20.0	24.3	26.7	31.4	37.1	38.9	41.0	43.1
Croatia	19.9	23.0	29.6	35.3	38.5	43.5	50.2	51.7	53.7	56.4
Czech Republic	60.9	73.8	90.6	107.7	122.3	145.9	172.9	184.4	188.8	193.3
Estonia	6.0	7.0	9.2	11.2	13.1	15.2	18.0	18.9	19.9	21.2
Hungary	52.3	65.6	83.1	100.7	109.2	117.7	140.0	147.1	157.5	164.8
Kazakhstan	22.2	24.6	30.8	43.2	56.1	80.7	97.7	121.2	149.0	178.8
Latvia	8.3	9.3	11.2	13.7	15.4	18.7	22.7	23.7	24.9	26.4
Lithuania	12.1	14.2	18.6	22.5	25.6	29.5	34.8	36.4	38.3	40.6
Poland	190.2	198.0	216.5	252.6	303.2	334.6	384.7	392.8	410.7	432.4
Romania	40.2	45.8	59.5	75.5	97.1	113.5	132.6	144.2	154.2	165.2
Russia	306.6	345.1	431.5	588.8	763.6	921.0	1,067.5	1,145.7	1,251.1	1,375.0
Serbia	10.7	14.3	19.0	22.5	24.0	28.2	33.6	35.6	37.4	39.2
Slovakia	21.1	24.5	33.0	42.0	47.5	56.1	66.0	68.9	72.0	75.6
Slovenia	19.8	22.3	28.1	32.5	33.9	37.8	42.5	42.9	43.4	44.4
Ukraine	38.0	42.4	50.1	64.9	82.9	92.5	98.2	115.8	133.3	156.5

Nominal GDP (US$ bn at market exchange rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	368.3	413.1	524.3	636.5	707.8	714.0	728.2	736.4	742.2	767.3
Bangladesh	47.0	47.6	51.9	56.5	60.0	60.0	58.9	60.2	66.0	74.4
China	1,324.8	1,453.8	1,641.0	1,931.6	2,224.9	2,621.0	2,990.1	3,422.6	3,909.4	4,426.3
Hong Kong	166.5	163.7	158.5	165.8	177.7	186.0	194.3	205.8	213.7	219.4
India	478.3	506.1	595.0	691.6	797.8	867.9	938.6	1,054.8	1,181.0	1,297.4
Indonesia	164.1	200.1	234.8	254.3	281.3	359.2	404.0	441.6	475.3	511.3
Japan	4,088.5	3,905.8	4,233.0	4,585.4	4,559.7	4,647.8	5,312.2	5,624.3	5,858.9	6,084.6
Malaysia	88.0	95.3	104.0	118.3	130.6	147.6	161.1	170.9	181.1	197.6
New Zealand	51.5	59.6	79.1	97.7	108.5	99.1	101.1	104.6	105.8	109.1
Pakistan	71.2	71.5	82.3	96.2	110.7	120.4	129.7	139.0	149.2	159.7
Philippines	71.2	76.8	79.2	86.1	97.7	111.8	126.4	133.4	145.2	158.4
Singapore	85.6	88.5	92.7	107.5	116.8	130.9	140.9	149.3	158.0	167.7
South Korea	481.9	546.9	608.1	680.5	787.6	911.1	1,009.0	1,118.0	1,244.9	1,379.5
Sri Lanka	15.7	16.5	18.2	20.1	23.8	26.4	28.5	30.7	33.1	35.5
Taiwan	291.7	294.8	299.8	322.2	345.9	373.4	401.9	432.7	461.7	498.9
Thailand	115.5	126.9	142.9	161.7	176.6	197.7	222.3	244.1	265.4	289.0
Vietnam	32.7	35.1	39.6	45.3	52.8	60.7	65.9	71.6	77.1	83.7
Latin America										
Argentina	268.8	102.0	129.6	153.1	183.3	199.8	216.1	230.0	241.7	256.2
Brazil	510.0	460.8	505.5	603.8	795.7	952.5	954.5	983.5	1,031.0	1,078.0
Chile	68.6	67.3	73.7	95.0	115.2	140.2	143.2	148.3	161.7	175.1
Colombia	82.0	81.2	79.4	96.8	122.3	132.1	133.4	135.6	139.2	143.1
Costa Rica	16.4	16.8	17.5	18.6	19.8	21.4	23.1	24.3	25.5	26.7
Cuba	27.9	28.8	30.3	32.5	36.3	39.9	43.2	46.7	50.4	54.2
Dominican Republic	24.6	25.0	19.5	21.7	34.7	36.5	38.1	40.9	44.4	48.1
Ecuador	21.2	24.9	28.7	33.0	36.2	39.1	41.3	43.0	45.6	48.6
El Salvador	13.8	14.3	14.9	15.8	17.2	18.6	19.3	20.2	21.2	22.3
Mexico	622.1	649.1	639.1	683.5	768.4	809.5	824.0	857.5	885.1	914.3
Peru	53.7	56.6	60.8	68.6	78.4	84.5	89.6	93.7	99.2	104.9
Venezuela	122.9	92.9	83.5	109.8	140.2	172.4	187.3	182.0	180.2	182.3
Africa & Middle East										
Algeria	54.9	55.9	66.2	75.4	89.1	103.7	107.1	109.6	111.4	113.8
Angola	9.5	11.2	13.2	16.7	24.3	37.4	54.4	58.8	63.5	68.6
Bahrain	7.9	8.4	9.6	11.0	13.2	15.6	14.8	16.0	17.3	18.7
Egypt	90.4	84.2	71.5	78.3	92.8	102.7	111.0	120.1	127.8	137.6
Iran	84.8	116.3	133.8	161.4	177.9	213.3	248.6	281.4	309.6	335.3
Israel	113.8	104.2	110.4	116.9	123.4	130.6	144.1	152.3	161.4	170.9
Jordan	8.9	9.6	10.2	11.5	12.8	14.0	15.3	16.5	17.8	19.3
Kenya	13.1	13.2	15.0	16.1	19.4	22.4	23.3	25.1	27.2	29.3
Kuwait	34.1	38.1	46.2	55.7	69.0	85.3	83.9	90.6	97.8	105.7
Libya	28.4	19.1	22.7	26.1	36.5	42.8	47.6	51.5	55.6	60.0
Morocco	36.1	38.3	46.5	53.4	56.1	61.2	67.5	72.9	78.8	85.1
Nigeria	48.0	46.7	58.4	74.3	94.4	125.0	137.5	143.5	150.1	161.1
Qatar	17.7	19.7	23.7	28.5	35.0	40.5	41.9	44.7	51.8	56.7
Saudi Arabia	183.0	188.6	214.6	250.5	307.7	325.4	331.9	325.0	320.1	320.8
South Africa	118.3	111.1	166.4	215.1	239.5	272.5	282.4	304.0	326.3	344.6
Tunisia	20.0	21.1	25.0	28.2	28.9	32.4	36.8	39.8	43.0	46.4
UAE	69.2	74.3	87.6	103.1	119.6	138.9	141.7	153.1	165.3	178.5

Nominal GDP (US$ bn at PPP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	10,128.0	10,469.6	10,971.3	11,734.3	12,487.2	13,252.9	13,988.8	14,877.0	15,778.4	16,702.8
Canada	909.7	939.1	976.9	1,018.3	1,061.9	1,129.3	1,179.8	1,252.0	1,326.7	1,404.2
Western Europe										
Austria	234.9	242.2	249.4	261.0	270.9	286.0	301.3	316.9	332.2	348.1
Belgium	288.3	303.1	313.2	325.7	338.3	355.9	361.4	380.7	399.1	418.9
Cyprus	13.1	13.6	14.2	15.1	16.1	17.2	18.4	19.7	21.0	22.3
Denmark	160.0	162.9	167.8	173.3	182.9	190.5	198.2	208.1	218.5	230.1
Finland	139.9	145.7	149.5	159.9	166.7	170.0	174.4	184.0	193.6	203.6
France	1,666.2	1,722.6	1,751.4	1,834.2	1,886.6	1,948.0	2,013.2	2,117.0	2,216.7	2,323.8
Germany	2,167.3	2,236.7	2,282.1	2,359.6	2,411.4	2,480.4	2,567.6	2,699.6	2,828.0	2,964.8
Greece	187.2	203.4	216.1	232.2	247.5	264.7	282.4	300.2	318.1	337.5
Ireland	119.0	130.3	137.3	147.5	157.3	168.5	182.0	194.9	207.9	222.1
Italy	1,526.5	1,570.0	1,590.9	1,653.6	1,685.8	1,744.4	1,807.9	1,890.8	1,972.1	2,055.9
Luxembourg	22.3	23.5	25.2	26.1	27.9	30.2	32.6	34.9	37.3	39.6
Netherlands	487.5	505.1	517.8	531.9	552.5	572.1	597.1	634.9	672.4	714.9
Norway	167.5	166.2	171.0	181.0	193.2	202.1	207.8	218.4	229.6	241.8
Portugal	196.5	205.8	206.8	215.8	222.1	230.2	241.9	254.0	267.1	281.4
Spain	906.5	981.2	1,052.0	1,090.3	1,166.9	1,244.0	1,319.5	1,390.4	1,459.0	1,528.8
Sweden	245.1	253.3	261.9	276.0	285.3	301.7	314.0	331.7	347.7	365.0
Switzerland	222.9	238.6	242.2	252.0	256.9	265.5	274.3	287.7	301.5	315.7
Turkey	406.5	444.8	478.9	535.4	590.9	640.9	687.6	745.7	805.4	872.6
UK	1,599.9	1,718.8	1,789.5	1,881.3	1,953.7	2,059.8	2,175.7	2,295.5	2,409.1	2,532.7
Eastern Europe										
Azerbaijan	26.1	29.4	33.3	37.7	49.0	66.9	80.1	91.7	99.3	107.3
Bulgaria	52.2	55.7	59.1	63.2	68.6	74.0	79.8	85.8	92.1	98.7
Croatia	41.9	45.0	48.3	51.5	55.2	59.4	64.0	68.8	73.6	78.4
Czech Republic	149.1	153.8	162.4	171.4	186.7	203.2	220.3	237.1	253.3	270.0
Estonia	14.7	16.1	17.5	19.4	21.8	24.3	27.0	29.5	32.2	35.0
Hungary	130.3	137.0	143.8	152.3	163.1	175.7	189.0	202.7	216.0	229.9
Kazakhstan	79.9	89.2	99.2	110.3	124.0	138.6	155.6	175.9	196.4	218.5
Latvia	19.8	21.4	23.5	26.1	29.6	33.0	36.5	40.3	44.2	48.2
Lithuania	33.0	35.9	40.4	44.4	49.0	53.9	59.1	64.7	70.5	72.5
Poland	391.1	403.1	426.1	456.9	485.6	525.1	566.6	609.0	651.7	696.5
Romania	137.6	146.8	156.8	172.1	184.1	199.9	217.7	235.2	252.0	268.5
Russia	1,124.8	1,196.8	1,308.3	1,419.1	1,552.1	1,700.0	1,852.2	2,001.5	2,150.5	2,305.5
Serbia	39.8	42.6	44.5	49.4	54.0	58.8	64.0	69.4	74.9	80.6
Slovakia	65.2	69.2	73.4	78.6	85.7	93.7	102.0	111.2	120.2	130.6
Slovenia	36.1	38.0	39.8	42.5	45.4	48.7	52.2	55.9	59.5	63.3
Ukraine	221.7	237.1	264.1	300.8	317.3	339.0	367.3	401.4	438.4	476.9

Nominal GDP (US$ bn at PPP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	535.6	568.8	598.5	629.9	669.2	703.7	744.0	793.4	842.6	894.5
Bangladesh	193.3	205.3	220.5	240.5	260.5	286.1	313.4	342.3	373.2	406.9
China	5,324.8	5,828.6	6,446.0	7,282.5	8,227.0	9,371.2	10,601.3	11,949.7	13,400.7	14,927.2
Hong Kong	174.1	180.2	185.3	206.5	227.7	249.0	270.9	292.0	313.0	335.4
India	2,633.9	2,804.3	3,078.0	3,428.3	3,824.3	4,237.1	4,682.1	5,157.1	5,659.7	6,222.8
Indonesia	644.5	673.1	721.5	777.9	844.3	918.1	1,005.0	1,104.5	1,205.4	1,316.9
Japan	3,329.8	3,408.9	3,527.0	3,722.2	3,879.0	4,106.4	4,321.6	4,523.1	4,711.2	4,909.1
Malaysia	212.2	222.6	235.7	259.1	280.3	306.3	333.4	361.6	391.5	424.9
New Zealand	82.9	88.0	92.7	99.3	104.1	109.8	115.7	122.8	130.4	138.7
Pakistan	278.4	292.4	311.3	339.8	376.5	409.7	448.8	488.8	532.8	579.8
Philippines	319.8	333.5	352.2	383.2	414.1	448.5	486.1	525.4	568.5	615.9
Singapore	109.1	115.5	121.3	135.3	147.9	162.6	175.5	189.0	203.6	219.0
South Korea	817.4	878.6	922.5	1,006.5	1,058.5	1,125.4	1,184.4	1,268.0	1,354.1	1,450.4
Sri Lanka	56.3	59.5	64.4	69.6	75.9	83.0	90.6	99.0	107.8	117.4
Taiwan	504.9	535.5	565.2	615.2	658.3	706.7	759.7	818.7	876.4	939.8
Thailand	403.8	431.7	471.0	513.2	551.1	593.3	642.6	693.0	744.5	802.0
Vietnam	172.9	185.3	202.5	223.8	249.7	277.5	307.9	341.8	376.3	415.0
Latin America										
Argentina	431.0	404.4	445.1	498.1	559.0	618.9	667.9	712.1	755.5	801.8
Brazil	1,310.1	1,356.9	1,375.8	1,481.8	1,557.8	1,664.1	1,778.4	1,901.7	2,035.8	2,181.7
Chile	147.9	152.9	162.1	176.6	193.0	210.9	229.9	249.4	269.4	291.8
Colombia	269.6	279.7	298.8	321.3	347.2	374.7	401.8	425.3	450.8	480.3
Costa Rica	31.0	32.5	35.2	37.7	40.3	43.1	46.0	49.7	53.8	58.0
Cuba	75.2	77.7	81.6	87.3	96.9	105.5	114.4	123.7	133.9	144.3
Dominican Republic	54.6	57.9	57.9	60.6	68.1	73.9	79.4	85.3	91.2	97.2
Ecuador	43.6	45.3	47.4	52.3	55.9	59.3	62.5	65.9	69.3	72.8
El Salvador	21.1	22.1	23.1	24.0	25.6	27.6	30.0	31.9	33.9	36.0
Mexico	890.8	907.9	937.8	1,002.7	1,061.1	1,135.5	1,207.8	1,277.5	1,349.8	1,427.2
Peru	125.2	134.0	142.8	153.6	168.4	183.5	198.5	212.1	226.9	243.1
Venezuela	145.2	135.9	126.3	152.7	171.7	191.9	205.8	220.6	235.3	249.6
Africa & Middle East										
Algeria	142.8	151.3	164.9	179.2	194.9	214.5	236.7	259.0	280.5	303.4
Angola	30.1	31.8	37.3	39.9	45.9	56.2	67.8	77.1	88.8	104.1
Bahrain	12.5	13.2	14.1	14.9	15.8	16.7	17.5	19.1	20.7	22.5
Egypt	239.2	253.1	266.9	285.3	307.7	335.7	367.0	398.5	431.0	465.9
Iran	492.4	538.3	586.2	635.2	689.9	750.3	809.2	867.8	926.1	988.6
Israel	129.7	130.1	134.0	143.6	155.3	167.9	180.5	193.7	207.8	223.3
Jordan	20.5	21.9	23.0	25.0	27.3	29.8	32.3	34.8	37.4	40.0
Kenya	38.7	39.5	41.4	44.4	48.0	52.1	56.8	61.6	66.7	72.2
Kuwait	58.2	62.2	72.0	78.4	83.8	86.3	83.9	90.4	98.2	106.5
Libya	59.8	59.0	55.2	51.8	49.0	46.3	44.0	47.6	51.5	55.8
Morocco	114.2	120.0	128.8	137.7	143.7	157.3	171.2	187.4	200.7	219.1
Nigeria	115.8	126.1	143.2	156.0	170.8	185.3	201.5	218.7	236.4	256.5
Qatar	20.4	22.3	24.0	27.1	30.4	33.8	36.9	40.4	44.8	48.5
Saudi Arabia	233.9	238.3	261.8	282.7	309.5	337.0	363.9	387.7	412.1	437.8
South Africa	440.1	459.6	474.1	508.4	548.2	594.2	644.9	697.1	753.8	819.4
Tunisia	61.6	63.8	68.7	74.8	79.7	86.9	94.8	102.6	111.8	121.0
UAE	65.1	68.5	71.8	82.4	92.9	102.3	112.4	122.5	132.5	143.5

Real GDP (% change, year on year)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	0.8	1.6	2.7	4.2	3.5	3.3	2.4	3.0	3.0	2.9
Canada	1.8	3.1	2.0	2.9	2.9	3.2	2.6	2.9	3.0	2.9
Western Europe										
Austria	0.8	1.1	1.2	2.6	2.0	2.3	2.1	2.0	1.9	1.9
Belgium	1.2	1.5	0.9	2.4	1.5	2.2	2.1	2.2	1.9	2.1
Cyprus	4.1	2.1	1.9	3.9	3.8	3.4	3.6	3.9	3.5	3.4
Denmark	0.7	0.5	0.7	1.9	3.1	2.7	2.1	1.8	2.1	2.4
Finland	1.0	2.2	2.4	3.6	2.1	2.8	2.5	2.4	2.3	2.3
France	2.1	1.3	0.9	2.1	1.4	2.0	1.8	2.1	1.9	2.0
Germany	1.2	0.1	-0.2	1.6	1.0	1.9	1.2	2.0	1.9	2.0
Greece	4.6	3.8	4.6	4.7	3.7	3.5	3.3	3.2	3.1	3.2
Ireland	6.2	6.1	4.4	4.5	4.7	4.9	4.7	3.9	3.7	3.9
Italy	1.7	0.3	0.1	0.9	0.1	1.1	1.3	1.5	1.5	1.4
Luxembourg	2.5	3.6	2.0	4.2	4.0	4.8	4.6	3.8	3.9	3.4
Netherlands	1.4	0.1	-0.1	1.7	1.1	2.5	2.9	3.1	3.0	3.4
Norway	2.7	1.1	1.1	3.1	2.3	2.4	2.2	2.0	2.2	2.4
Portugal	2.0	0.8	-1.1	1.1	0.3	0.7	1.4	2.0	2.3	2.5
Spain	3.5	2.7	3.0	3.1	3.4	2.9	2.5	2.3	2.1	1.9
Sweden	1.2	2.0	1.8	3.2	2.7	3.5	3.0	2.5	1.9	2.1
Switzerland	1.1	0.3	-0.3	2.1	1.8	2.1	1.9	1.8	1.9	1.9
Turkey	-7.5	7.9	5.8	8.9	7.4	5.1	4.0	5.2	5.0	5.4
UK	2.2	2.0	2.5	3.1	1.8	2.1	2.4	2.3	2.1	2.2
Eastern Europe										
Azerbaijan	9.9	10.6	11.2	10.2	26.4	33.0	17.5	9.5	5.2	5.0
Bulgaria	4.1	4.9	4.5	5.7	5.5	4.6	4.5	4.3	4.4	4.2
Croatia	4.4	5.6	5.3	3.8	4.3	4.3	4.5	4.2	3.8	3.7
Czech Republic	2.6	1.5	3.2	4.7	6.0	5.5	5.1	4.4	3.9	3.7
Estonia	6.5	7.2	6.7	7.8	9.8	7.8	7.3	6.3	6.0	5.6
Hungary	4.3	3.8	3.4	4.6	4.1	4.4	4.2	4.0	3.6	3.5
Kazakhstan	13.8	9.7	8.9	9.4	9.4	8.2	8.8	9.7	8.6	8.2
Latvia	8.0	6.5	7.2	8.6	10.2	9.7	7.5	7.0	6.6	6.0
Lithuania	6.4	6.8	10.5	7.0	7.5	7.2	6.5	6.3	6.0	5.9
Poland	1.1	1.4	3.8	5.3	3.4	4.8	4.6	4.2	4.1	3.9
Romania	5.7	5.1	5.2	8.4	4.1	5.2	5.5	4.8	4.2	3.6
Russia	5.1	4.7	7.3	7.2	6.4	6.0	5.5	4.9	4.5	4.3
Serbia	5.1	4.5	2.4	9.3	6.3	6.0	5.5	5.0	4.8	4.6
Slovakia	3.2	4.1	4.2	5.4	6.1	5.9	5.5	5.7	5.1	5.6
Slovenia	2.7	3.5	2.7	4.2	3.9	4.0	4.2	3.8	3.3	3.6
Ukraine	9.2	5.2	9.6	12.1	2.6	3.5	5.0	6.0	6.2	5.8

Real GDP (% change, year on year)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	2.2	4.1	3.1	3.6	2.5	3.2	3.7	3.4	3.3	3.2
Bangladesh	5.3	4.4	5.3	6.3	5.4	6.3	6.1	6.0	6.1	6.1
China	8.3	9.1	10.0	10.1	9.9	10.7	9.9	9.3	9.0	8.4
Hong Kong	0.6	1.8	3.2	8.6	7.3	6.0	5.4	4.5	4.2	4.2
India	5.3	3.6	8.3	8.5	8.5	7.2	7.0	6.9	6.8	7.0
Indonesia	3.8	4.4	4.7	5.1	5.6	5.2	6.0	6.7	6.2	6.3
Japan	0.4	0.1	1.8	2.3	2.6	2.6	2.0	1.5	1.3	1.3
Malaysia	0.3	4.4	5.4	7.1	5.3	5.7	5.4	5.3	5.4	5.6
New Zealand	2.7	4.3	3.9	4.3	2.0	2.2	2.1	2.9	3.3	3.4
Pakistan	2.6	3.2	5.0	6.4	7.8	5.4	6.1	5.6	6.0	5.8
Philippines	1.8	4.4	4.5	6.0	5.1	4.9	5.0	4.8	5.2	5.4
Singapore	-2.3	4.0	2.9	8.7	6.4	6.5	4.6	4.4	4.8	4.6
South Korea	3.8	7.0	3.1	4.7	4.0	5.3	4.0	3.8	3.9	4.2
Sri Lanka	-1.5	4.0	6.0	5.4	6.0	6.0	5.7	6.0	6.0	5.8
Taiwan	-2.2	4.2	3.4	6.1	4.1	4.0	4.2	4.5	4.1	4.3
Thailand	2.2	5.3	7.0	6.2	4.5	4.3	4.9	4.6	4.5	4.8
Vietnam	6.9	7.1	7.3	7.7	8.5	7.7	7.5	7.7	7.1	7.2
Latin America										
Argentina	-4.4	-10.9	8.8	9.0	9.2	7.1	4.5	3.5	3.2	3.2
Brazil	1.3	1.9	0.6	4.9	2.3	3.4	3.5	3.8	4.1	4.2
Chile	3.4	2.2	3.9	6.2	6.3	5.8	5.6	5.2	5.0	5.4
Colombia	1.5	1.9	3.9	4.8	5.1	4.4	3.8	2.8	3.1	3.7
Costa Rica	1.1	2.9	6.4	4.1	5.9	4.5	4.4	4.2	4.1	4.1
Cuba	3.0	1.5	2.9	4.2	8.0	6.0	5.0	4.6	4.5	4.5
Dominican Republic	3.2	4.1	-1.9	2.0	9.3	5.0	4.0	4.0	3.8	3.7
Ecuador	5.3	4.2	3.6	7.6	3.9	2.7	2.2	2.3	2.2	2.2
El Salvador	1.8	2.2	1.8	1.5	2.8	3.2	3.1	3.0	3.2	3.3
Mexico	-0.2	0.8	1.4	4.2	3.0	3.5	3.0	2.7	2.8	2.9
Peru	0.2	4.9	4.0	4.8	6.7	5.6	4.8	3.7	4.0	4.2
Venezuela	3.4	-8.9	-7.7	17.9	9.3	8.3	3.9	3.9	3.7	3.1
Africa & Middle East										
Algeria	2.6	4.1	6.8	5.9	5.8	6.6	6.9	6.1	5.3	5.2
Angola	3.2	15.3	4.7	12.2	19.1	16.7	20.8	10.0	12.0	14.0
Bahrain	4.6	5.2	7.2	5.4	5.9	6.1	5.7	5.6	5.3	5.3
Egypt	3.5	3.0	3.1	4.2	4.9	5.8	6.0	5.3	5.2	5.1
Iran	3.7	7.5	6.7	5.6	5.7	5.4	4.5	4.0	3.8	3.8
Israel	-0.3	-1.2	1.7	4.4	5.2	4.8	4.2	4.1	4.3	4.5
Jordan	4.2	5.0	3.2	6.0	6.1	5.7	5.1	4.4	4.3	4.0
Kenya	4.4	0.4	2.8	4.3	5.2	5.0	5.5	5.0	5.2	5.3
Kuwait	0.7	5.1	13.4	6.2	8.1	7.3	4.6	4.3	5.5	5.5
Libya	3.4	3.2	9.1	5.1	4.9	5.2	4.8	4.8	5.1	5.4
Morocco	6.3	3.2	5.2	4.2	1.5	5.9	5.3	6.0	4.0	6.2
Nigeria	4.6	3.7	10.2	6.1	6.5	5.1	5.4	5.3	5.1	5.5
Qatar	4.5	7.3	5.9	9.9	8.8	7.9	8.9	9.6	10.9	8.2
Saudi Arabia	0.5	0.1	7.7	5.2	6.5	5.4	4.6	3.4	3.4	3.3
South Africa	2.7	3.7	3.0	4.5	4.9	4.9	5.1	4.9	5.2	5.7
Tunisia	4.9	1.7	5.6	6.0	4.2	5.6	5.9	4.8	5.8	5.3
UAE	3.5	2.6	11.9	9.7	6.7	6.4	6.5	5.5	5.1	5.4

GDP per head (US$ at market exchange rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	35,524	36,353	37,728	39,969	42,129	44,270	46,311	48,813	51,309	53,830
Canada	23,063	23,443	27,410	31,014	35,002	40,686	44,300	43,166	42,238	42,971
Western Europe										
Austria	23,784	25,603	31,425	36,042	37,504	40,763	44,908	44,568	44,824	45,438
Belgium	22,536	24,520	30,060	34,543	35,834	39,189	42,636	41,924	41,877	41,874
Cyprus	13,453	14,588	18,031	20,665	21,846	23,232	25,516	25,327	25,423	25,688
Denmark	30,040	32,386	39,734	45,375	47,813	51,792	57,757	57,450	57,864	58,577
Finland	23,595	25,629	31,286	35,712	37,013	39,250	43,120	42,831	43,396	44,055
France	22,488	24,455	29,834	33,870	34,699	36,140	39,760	39,425	39,149	39,921
Germany	22,958	24,557	29,644	33,391	33,930	36,389	40,386	39,914	39,721	39,821
Greece	10,781	12,263	15,883	18,935	19,880	21,339	24,049	24,806	25,590	26,967
Ireland	26,826	31,088	38,983	45,286	47,856	52,739	59,482	59,862	61,017	62,920
Italy	19,334	21,128	26,088	29,722	30,373	31,892	35,319	35,231	35,248	36,172
Netherlands	25,125	27,307	33,270	37,361	38,264	41,032	45,730	45,789	46,511	47,828
Norway	37,691	42,059	48,920	55,644	64,153	72,722	81,567	73,744	71,035	70,071
Portugal	11,205	12,364	15,026	17,083	17,456	18,237	20,387	20,399	20,513	21,240
Spain	15,043	16,816	21,121	24,384	25,893	27,468	30,725	30,629	30,566	31,367
Sweden	24,832	27,281	33,911	38,866	39,533	43,484	49,835	50,036	50,356	51,093
Switzerland	34,482	37,725	43,967	48,768	49,809	51,714	57,009	57,062	57,596	58,836
Turkey	2,100	2,620	3,361	4,174	4,947	5,003	4,723	5,100	5,390	5,807
UK	24,274	26,489	30,320	35,662	36,632	38,455	42,701	43,592	43,035	42,935
Eastern Europe										
Azerbaijan	701	760	880	1,040	1,489	2,214	2,915	3,482	3,922	4,409
Bulgaria	1,724	1,994	2,570	3,148	3,476	4,116	4,902	5,178	5,499	5,817
Croatia	4,415	5,112	6,545	7,767	8,458	9,531	10,970	11,276	11,703	12,253
Czech Republic	5,956	7,231	8,840	10,516	11,959	14,282	16,945	18,096	18,553	19,033
Estonia	4,381	5,180	6,791	8,326	9,737	11,337	13,478	14,135	14,918	15,931
Hungary	5,176	6,505	8,267	10,036	10,908	11,795	14,061	14,809	15,904	16,684
Kazakhstan	1,492	1,657	2,062	2,862	3,685	5,267	6,337	7,821	9,522	11,368
Latvia	3,516	3,971	4,798	5,917	6,698	8,170	9,916	10,417	10,986	11,696
Lithuania	3,482	4,090	5,377	6,527	7,481	8,678	10,289	10,838	11,462	12,220
Poland	4,972	5,179	5,668	6,615	7,943	8,775	10,101	10,325	10,809	11,395
Romania	1,790	2,103	2,738	3,479	4,492	5,255	6,146	6,699	7,170	7,688
Russia	2,100	2,375	2,984	4,090	5,324	6,446	7,498	8,077	8,854	9,768
Serbia	1,380	1,899	2,526	2,979	3,172	3,712	4,417	4,671	4,893	5,126
Slovakia	3,925	4,559	6,078	7,727	8,716	10,290	12,092	12,601	13,166	13,810
Slovenia	10,037	11,315	14,248	16,494	17,196	19,176	21,570	21,763	22,049	22,554
Ukraine	788	887	1,057	1,377	1,771	1,987	2,120	2,513	2,906	3,427

GDP per head (US$ at market exchange rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	18,920	20,977	26,344	31,587	34,731	34,663	35,019	35,101	35,050	35,910
Bangladesh	357	355	380	406	423	415	400	401	432	478
China	1,038	1,132	1,270	1,486	1,702	1,993	2,260	2,571	2,925	3,297
Hong Kong	24,807	24,209	23,271	24,192	25,762	26,795	27,840	29,320	30,284	30,941
India	463	482	559	640	728	782	834	925	1,022	1,109
Indonesia	721	865	999	1,066	1,162	1,464	1,623	1,750	1,860	1,975
Japan	32,220	30,738	33,275	36,011	35,773	36,464	41,680	44,138	45,995	47,783
Malaysia	3,665	3,884	4,159	4,647	5,035	5,630	6,069	6,302	6,549	7,022
New Zealand	13,280	15,142	19,727	24,054	26,390	23,871	24,137	24,758	24,834	25,415
Pakistan	493	484	546	626	708	755	798	840	886	931
Philippines	875	926	936	999	1,111	1,250	1,388	1,439	1,540	1,652
Singapore	20,725	21,211	22,160	25,332	26,873	29,975	31,901	33,434	34,983	36,725
South Korea	10,179	11,481	12,716	14,139	16,293	18,694	20,594	22,720	25,206	27,839
Sri Lanka	786	818	895	975	1,149	1,261	1,352	1,443	1,540	1,640
Taiwan	13,056	13,130	13,303	14,299	15,335	16,497	17,675	19,025	20,221	21,796
Thailand	1,837	1,998	2,233	2,486	2,696	2,995	3,343	3,643	3,933	4,256
Vietnam	411	435	485	548	631	715	766	823	875	938
Latin America										
Argentina	7,191	2,699	3,389	3,961	4,691	5,059	5,417	5,709	5,939	6,237
Brazil	2,959	2,639	2,858	3,371	4,386	5,185	5,132	5,224	5,410	5,589
Chile	4,607	4,469	4,845	6,180	7,415	8,926	9,016	9,226	9,942	10,636
Colombia	1,904	1,853	1,781	2,135	2,656	2,825	2,807	2,809	2,841	2,881
Costa Rica	4,091	4,108	4,190	4,366	4,587	4,868	5,176	5,348	5,526	5,709
Cuba	2,504	2,577	2,706	2,890	3,224	3,542	3,836	4,139	4,469	4,806
Dominican Republic	2,849	2,846	2,188	2,399	3,775	3,911	4,014	4,244	4,529	4,826
Ecuador	1,703	1,967	2,234	2,530	2,743	2,917	3,033	3,117	3,257	3,424
El Salvador	2,158	2,195	2,250	2,341	2,494	2,660	2,702	2,787	2,874	2,964
Mexico	6,144	6,334	6,162	6,512	7,236	7,533	7,580	7,798	7,958	8,129
Peru	2,038	2,114	2,240	2,491	2,807	2,978	3,113	3,207	3,346	3,484
Venezuela	5,008	3,715	3,272	4,224	5,294	6,393	6,826	6,519	6,347	6,317
Africa & Middle East										
Algeria	1,777	1,782	2,077	2,332	2,712	3,111	3,163	3,191	3,194	3,217
Angola	743	854	975	1,204	1,701	2,547	3,603	3,785	3,977	4,178
Bahrain	11,660	12,068	13,530	15,295	18,077	20,990	19,673	20,933	22,274	23,700
Egypt	1,318	1,204	1,004	1,077	1,254	1,361	1,445	1,533	1,601	1,692
Iran	1,266	1,721	1,962	2,346	2,562	3,045	3,517	3,946	4,303	4,619
Israel	17,674	15,862	16,510	17,173	17,819	18,517	20,054	20,807	21,647	22,492
Jordan	1,726	1,794	1,854	2,046	2,207	2,362	2,508	2,638	2,774	2,917
Kenya	416	412	459	482	565	639	647	681	718	756
Kuwait	14,752	15,759	18,140	20,234	23,072	27,161	25,675	26,663	27,688	28,753
Libya	5,253	3,466	4,038	4,551	6,232	7,165	7,810	8,262	8,739	9,244
Morocco	1,217	1,271	1,521	1,721	1,783	1,915	2,083	2,217	2,359	2,511
Nigeria	379	359	438	544	675	874	941	960	983	1,033
Qatar	27,757	29,310	33,511	38,241	43,927	47,526	45,935	46,094	50,388	51,974
Saudi Arabia	8,285	8,306	9,197	10,460	12,509	12,883	12,792	12,211	11,720	11,461
South Africa	2,776	2,601	3,890	5,034	5,629	6,444	6,729	7,272	7,934	8,426
Tunisia	2,067	2,153	2,528	2,818	2,863	3,168	3,565	3,809	4,068	4,346
UAE	19,847	19,791	21,678	23,870	25,643	27,575	26,287	26,532	26,780	27,030

GDP per head (US$ at PPP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	35,524	36,353	37,728	39,969	42,129	44,270	46,311	48,813	51,309	53,830
Canada	29,326	29,935	30,846	31,847	32,905	34,684	35,916	37,786	39,698	41,669
Western Europe										
Austria	28,888	29,718	30,550	31,924	33,101	34,911	36,742	38,619	40,457	42,368
Belgium	28,012	29,397	30,317	31,472	32,639	34,291	34,777	36,594	38,325	40,188
Cyprus	18,611	19,076	19,421	20,194	21,135	22,198	23,447	24,899	26,328	27,823
Denmark	29,953	30,348	31,161	32,114	33,805	35,115	36,496	38,251	40,125	42,196
Finland	26,999	28,049	28,731	30,660	31,905	32,502	33,285	35,088	36,867	38,748
France	27,929	28,757	29,118	30,370	31,111	31,993	32,931	34,490	35,977	37,571
Germany	26,290	27,100	27,651	28,601	29,246	30,068	31,108	32,688	34,221	35,851
Greece	17,104	18,540	19,691	21,151	22,542	24,105	25,700	27,311	28,936	30,697
Ireland	30,424	32,835	33,980	36,140	37,711	39,825	42,630	45,437	48,242	51,184
Italy	26,389	27,103	27,429	28,483	29,014	30,007	31,092	32,518	33,927	35,391
Netherlands	30,542	31,378	31,939	32,696	33,836	34,875	36,233	38,342	40,407	42,793
Norway	37,192	36,729	37,566	39,546	41,940	43,673	44,738	46,880	49,169	51,644
Portugal	19,014	19,887	19,957	20,748	21,152	21,818	22,819	23,874	24,965	26,204
Spain	22,395	23,952	25,171	25,536	26,840	28,112	29,421	30,575	31,645	32,844
Sweden	27,513	28,326	29,178	30,629	31,530	33,200	34,406	36,199	37,784	39,500
Switzerland	30,692	32,594	33,003	34,281	34,883	35,989	37,120	38,872	40,668	42,592
Turkey	5,864	6,328	6,715	7,400	8,062	8,631	9,142	9,792	10,439	11,173
UK	27,066	28,974	30,049	31,467	32,548	34,185	35,973	37,812	39,536	41,409
Eastern Europe										
Azerbaijan	3,207	3,580	4,031	4,514	5,804	7,881	9,368	10,634	11,424	12,247
Bulgaria	6,615	7,104	7,598	8,179	8,930	9,709	10,544	11,418	12,342	13,323
Croatia	9,306	9,980	10,687	11,341	12,119	13,015	13,991	15,029	16,025	17,055
Czech Republic	14,586	15,078	15,848	16,736	18,245	19,887	21,591	23,267	24,891	26,583
Estonia	10,795	11,826	12,922	14,342	16,222	18,135	20,161	22,127	24,166	26,313
Hungary	12,885	13,592	14,299	15,184	16,296	17,603	18,981	20,408	21,808	23,273
Kazakhstan	5,380	5,999	6,633	7,316	8,149	9,041	10,091	11,353	12,550	13,895
Latvia	8,374	9,143	10,061	11,267	12,832	14,384	15,955	17,719	19,527	21,379
Lithuania	9,467	10,316	11,674	12,880	14,313	15,834	17,467	19,248	21,108	21,836
Poland	10,223	10,544	11,152	11,965	12,723	13,772	14,877	16,008	17,150	18,352
Romania	6,129	6,737	7,217	7,930	8,517	9,254	10,094	10,929	11,715	12,494
Russia	7,703	8,239	9,049	9,856	10,822	11,897	13,010	14,111	15,218	16,377
Serbia	5,144	5,663	5,911	6,548	7,139	7,758	8,420	9,112	9,806	10,524
Slovakia	12,121	12,861	13,520	14,453	15,745	17,195	18,693	20,350	21,973	23,844
Slovenia	18,307	19,270	20,183	21,577	23,037	24,720	26,477	28,396	30,179	32,154
Ukraine	4,596	4,962	5,566	6,387	6,777	7,283	7,934	8,711	9,558	10,446

GDP per head (US$ at PPP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	27,520	28,883	30,072	31,259	32,837	34,162	35,777	37,818	39,791	41,863
Bangladesh	1,470	1,532	1,614	1,728	1,836	1,979	2,128	2,282	2,442	2,614
China	4,172	4,538	4,988	5,602	6,292	7,125	8,012	8,977	10,025	11,119
Hong Kong	25,932	26,648	27,204	30,119	33,001	35,876	38,808	41,600	44,359	47,303
India	2,547	2,672	2,890	3,174	3,491	3,816	4,161	4,523	4,900	5,320
Indonesia	2,830	2,910	3,072	3,262	3,489	3,740	4,038	4,378	4,717	5,088
Japan	26,241	26,828	27,725	29,232	30,433	32,216	33,908	35,496	36,985	38,551
Malaysia	8,838	9,076	9,428	10,178	10,809	11,684	12,562	13,336	14,155	15,101
New Zealand	21,373	22,333	23,130	24,436	25,319	26,443	27,636	29,066	30,625	32,294
Pakistan	1,925	1,980	2,065	2,211	2,407	2,568	2,761	2,953	3,163	3,381
Philippines	3,931	4,019	4,162	4,444	4,714	5,013	5,337	5,669	6,030	6,424
Singapore	26,402	27,681	28,977	31,879	34,044	37,255	39,740	42,314	45,083	47,960
South Korea	17,265	18,443	19,289	20,911	21,898	23,091	24,174	25,770	27,417	29,269
Sri Lanka	2,809	2,945	3,157	3,385	3,659	3,968	4,291	4,650	5,024	5,421
Taiwan	22,602	23,852	25,080	27,303	29,181	31,218	33,410	36,000	38,385	41,060
Thailand	6,419	6,799	7,359	7,889	8,413	8,990	9,662	10,343	11,029	11,812
Vietnam	2,174	2,299	2,481	2,707	2,980	3,270	3,583	3,927	4,270	4,651
Latin America										
Argentina	11,528	10,695	11,641	12,884	14,306	15,673	16,744	17,672	18,565	19,518
Brazil	7,600	7,770	7,778	8,272	8,587	9,059	9,562	10,101	10,683	11,311
Chile	9,936	10,156	10,655	11,483	12,419	13,422	14,472	15,518	16,562	17,726
Colombia	6,259	6,382	6,702	7,089	7,541	8,011	8,454	8,813	9,203	9,671
Costa Rica	7,733	7,918	8,431	8,863	9,332	9,807	10,299	10,961	11,679	12,385
Cuba	6,739	6,945	7,274	7,767	8,615	9,377	10,155	10,975	11,876	12,789
Dominican Republic	6,330	6,599	6,499	6,698	7,406	7,910	8,364	8,848	9,304	9,766
Ecuador	3,493	3,578	3,688	4,017	4,230	4,420	4,594	4,777	4,948	5,127
El Salvador	3,298	3,393	3,477	3,554	3,715	3,937	4,208	4,397	4,588	4,788
Mexico	8,799	8,859	9,042	9,553	9,991	10,568	11,111	11,618	12,137	12,690
Peru	4,752	5,011	5,260	5,576	6,026	6,470	6,896	7,262	7,653	8,075
Venezuela	5,915	5,434	4,947	5,878	6,482	7,118	7,502	7,901	8,290	8,649
Africa & Middle East										
Algeria	4,621	4,821	5,173	5,537	5,935	6,431	6,991	7,538	8,045	8,580
Angola	2,361	2,425	2,761	2,868	3,212	3,825	4,488	4,961	5,563	6,344
Bahrain	18,411	18,813	19,887	20,674	21,578	22,448	23,299	25,050	26,741	28,527
Egypt	3,489	3,621	3,744	3,928	4,158	4,451	4,775	5,088	5,400	5,729
Iran	7,349	7,964	8,599	9,233	9,938	10,712	11,449	12,169	12,870	13,617
Israel	20,146	19,797	20,028	21,101	22,421	23,806	25,117	26,455	27,858	29,400
Jordan	3,949	4,100	4,198	4,446	4,720	5,013	5,293	5,559	5,811	6,051
Kenya	1,233	1,233	1,266	1,325	1,400	1,482	1,576	1,668	1,762	1,861
Kuwait	25,190	25,714	28,253	28,483	27,998	27,484	25,679	26,603	27,778	28,977
Libya	11,062	10,689	9,797	9,025	8,371	7,754	7,205	7,640	8,095	8,594
Morocco	3,851	3,982	4,213	4,440	4,565	4,925	5,281	5,698	6,011	6,469
Nigeria	914	970	1,075	1,143	1,222	1,295	1,378	1,463	1,548	1,645
Qatar	31,898	33,119	34,003	36,475	38,134	39,730	40,452	41,642	43,580	44,505
Saudi Arabia	10,589	10,498	11,220	11,804	12,581	13,341	14,028	14,566	15,091	15,640
South Africa	10,334	10,759	11,086	11,900	12,883	14,048	15,366	16,676	18,329	20,034
Tunisia	6,375	6,520	6,945	7,476	7,884	8,507	9,175	9,825	10,583	11,335
UAE	18,655	18,253	17,759	19,075	19,915	20,308	20,841	21,228	21,459	21,734

Foreign direct investment inflows (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	167.0	80.8	67.1	133.2	109.8	188.9	266.0	309.4	349.5	376.6
Canada	27.7	22.1	7.6	1.5	33.8	36.8	37.2	36.5	39.2	41.9
Western Europe										
Austria	5.9	0.3	7.1	4.0	8.8	7.4	10.8	9.7	10.0	10.3
Belgium[1]	84.7	18.1	36.0	42.9	23.3	45.0	35.6	40.1	25.0	23.5
Cyprus	0.9	1.1	0.9	1.1	1.2	1.5	1.7	1.4	1.0	0.9
Denmark	9.3	4.4	1.2	-8.8	5.0	8.2	7.4	5.1	6.3	6.0
Finland	3.7	8.2	3.3	3.5	4.6	4.9	4.9	5.3	5.5	5.8
France	50.4	49.5	43.1	31.4	63.5	68.3	66.5	68.5	71.2	75.2
Germany	26.2	53.6	27.7	-15.1	32.0	25.6	35.2	43.7	46.4	46.8
Greece	1.6	0.1	1.3	2.1	0.6	1.6	1.8	2.0	2.2	2.4
Ireland	9.6	29.5	22.4	11.0	-21.4	12.6	16.0	21.3	24.7	26.7
Italy	14.9	14.7	16.5	16.8	19.2	28.2	22.3	24.6	23.3	24.5
Luxembourg	n/a	118.4	90.8	78.7	43.7	64.0	75.0	84.0	90.0	93.0
Netherlands	52.0	25.5	21.0	0.4	42.9	41.0	49.0	51.2	53.4	57.1
Norway	2.1	0.5	3.6	2.5	3.3	2.7	4.3	4.7	4.9	5.1
Portugal	6.2	1.7	8.6	2.4	3.1	4.1	5.2	5.3	5.8	6.0
Spain	28.1	40.0	25.7	24.8	22.8	25.1	27.6	29.0	30.1	32.2
Sweden	13.1	11.7	5.0	12.6	13.4	28.2	22.3	22.0	19.3	20.2
Switzerland	9.5	6.8	17.5	1.6	6.5	7.1	9.6	10.8	12.3	13.1
Turkey	3.3	1.1	1.8	2.7	9.7	10.0	9.5	9.3	9.5	10.0
UK	53.8	25.5	27.6	78.0	164.0	130.5	92.3	76.0	72.8	75.4
Eastern Europe										
Azerbaijan	0.2	1.4	3.3	3.6	1.7	1.8	1.8	1.6	1.5	1.7
Bulgaria	0.8	0.9	2.1	2.6	2.6	2.6	2.5	2.2	1.9	1.8
Croatia	1.3	1.2	2.1	1.3	1.6	1.7	2.0	1.8	1.8	2.1
Czech Republic	5.6	8.5	2.0	5.0	11.0	7.5	7.5	4.5	4.5	4.4
Estonia	0.5	0.3	0.9	1.0	2.9	1.0	1.1	1.1	1.2	1.2
Hungary	3.9	3.0	2.2	4.7	6.6	4.5	4.3	4.5	4.5	4.7
Kazakhstan	2.8	2.6	2.1	4.1	1.7	4.8	5.5	6.0	5.0	4.5
Latvia	0.1	0.3	0.3	0.7	0.6	0.7	0.6	0.7	0.7	0.7
Lithuania	0.4	0.7	0.2	0.8	1.0	1.0	1.6	1.0	1.2	1.2
Poland	5.7	4.1	4.6	12.9	7.7	8.3	8.9	8.5	8.4	8.6
Romania	1.2	1.1	2.2	6.5	7.9	8.9	8.0	5.0	4.5	4.3
Russia	2.7	3.5	8.0	15.4	14.6	21.5	19.5	20.1	23.5	25.0
Serbia	0.2	0.5	1.4	1.0	1.5	3.2	1.5	1.4	1.5	1.6
Slovakia	1.6	4.1	0.7	1.1	1.9	2.5	2.0	2.2	2.0	2.0
Slovenia	0.5	1.6	0.3	0.8	0.5	0.4	1.3	0.7	0.7	0.7
Ukraine	0.8	0.7	1.4	1.7	7.8	4.0	3.9	4.1	4.4	5.0

Foreign direct investment inflows (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	8.3	17.7	9.8	42.9	-37.2	8.2	10.6	14.7	15.4	17.4
Bangladesh	0.1	0.1	0.3	0.4	0.5	0.5	0.6	0.6	0.6	0.7
China	44.2	49.3	47.1	54.9	79.1	86.5	85.4	80.5	79.5	80.0
Hong Kong	23.8	9.7	13.6	34.0	35.9	37.3	35.4	32.6	30.1	31.2
India	5.5	5.6	4.3	5.5	6.7	9.5	10.0	11.0	13.0	14.3
Indonesia	-3.0	0.1	-0.6	1.0	2.3	3.8	5.0	4.0	3.5	4.0
Japan	6.2	9.1	6.2	7.8	3.2	4.0	6.7	8.2	9.5	10.1
Malaysia	0.6	3.2	2.5	3.2	3.0	3.6	4.1	4.0	4.2	4.4
New Zealand	4.6	-0.3	2.0	4.4	2.8	2.1	2.6	2.8	2.7	2.8
Pakistan	0.4	0.8	0.5	1.1	1.3	2.6	1.2	1.2	1.5	1.6
Philippines	1.0	1.8	0.3	0.5	1.1	1.5	1.6	1.6	1.7	1.8
Singapore	14.1	5.7	9.3	24.0	33.4	21.0	22.4	23.5	22.5	22.0
South Korea	3.5	2.4	3.5	9.2	4.3	7.2	7.9	8.7	9.4	10.2
Sri Lanka	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Taiwan	4.1	1.4	0.5	1.9	1.6	2.9	3.2	4.0	5.5	6.8
Thailand	3.9	1.0	2.0	1.4	3.7	3.3	3.7	3.3	3.8	3.8
Vietnam	1.3	1.4	1.5	1.6	2.4	2.9	3.1	3.3	3.4	3.7
Latin America										
Argentina	2.2	2.1	1.7	4.3	4.7	4.8	5.0	5.3	5.5	5.8
Brazil	22.5	16.6	10.1	18.2	15.2	17.2	17.2	17.5	19.1	19.9
Chile	4.2	2.6	4.3	7.2	7.2	9.7	10.0	9.8	10.9	11.8
Colombia	2.5	2.1	1.8	3.1	10.2	4.0	4.3	4.4	4.4	4.5
Costa Rica	0.5	0.7	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8
Cuba	0.0	0.1	0.1	0.2	0.4	0.6	0.6	0.5	0.5	0.6
Dominican Republic	1.1	0.9	0.6	0.8	0.9	1.0	1.1	1.1	1.2	1.3
Ecuador	1.3	1.3	1.6	1.2	1.8	1.5	1.2	1.3	1.3	1.2
El Salvador	0.3	0.5	0.2	0.5	0.5	0.5	0.4	0.4	0.4	0.5
Mexico	27.5	17.3	12.9	18.2	17.8	15.0	19.0	19.5	21.0	21.0
Peru	1.1	2.2	1.3	1.8	2.5	2.3	2.2	2.0	1.9	2.0
Venezuela	3.7	0.8	2.7	1.5	3.0	1.4	2.3	2.4	2.4	2.3
Africa & Middle East										
Algeria	1.2	1.0	1.2	3.5	3.8	4.2	4.5	5.0	5.3	5.5
Angola	2.1	1.7	3.5	1.4	2.2	2.5	2.3	2.2	2.1	2.1
Bahrain	0.1	0.2	0.5	0.9	0.9	1.0	1.2	1.4	1.3	1.4
Egypt	0.5	0.6	0.2	1.3	5.4	5.8	5.6	4.9	4.7	4.1
Iran	0.5	0.6	0.2	1.3	5.4	5.8	5.6	4.9	4.7	4.1
Israel	3.6	1.8	3.9	1.7	6.1	8.6	5.2	5.5	5.9	6.0
Jordan	0.1	0.1	0.4	0.6	1.5	1.8	0.8	0.8	0.9	0.9
Kenya	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Kuwait	-0.1	0.0	-0.1	0.0	0.1	0.2	0.4	0.4	0.4	0.5
Libya	0.1	0.1	0.1	1.1	1.3	1.5	1.6	1.6	1.6	1.6
Morocco	2.7	0.5	2.3	0.8	3.0	2.4	2.0	2.2	2.3	2.4
Nigeria	1.2	1.9	2.0	1.9	2.7	2.2	1.9	2.1	2.1	2.1
Qatar	1.0	1.8	1.9	2.2	2.3	2.5	2.7	2.8	2.6	2.5
Saudi Arabia	0.0	-0.6	-0.6	-0.3	0.9	1.4	1.6	1.7	1.8	1.8
South Africa	7.3	0.7	0.8	0.7	6.3	5.7	5.4	5.9	6.3	7.4
Tunisia	0.5	0.8	0.5	0.6	0.5	2.7	1.0	1.0	1.0	1.0
UAE	1.2	3.5	4.3	9.5	14.5	13.0	11.8	8.0	7.5	7.5

[1] For 2001 refers to Belgium-Luxembourg; disaggregated data only available from 2002.

Foreign direct investment inflows (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	1.6	0.8	0.6	1.1	0.9	1.4	1.9	2.1	2.2	2.2
Canada	3.9	3.0	0.9	0.2	3.0	2.8	2.6	2.5	2.8	2.9
Western Europe										
Austria	3.1	0.2	2.8	1.4	2.9	2.2	2.9	2.7	2.7	2.8
Belgium	n/a	7.2	11.6	12.0	6.3	11.1	8.0	9.2	5.7	5.4
Cyprus	10.0	10.4	6.9	7.2	6.9	8.1	8.6	6.8	4.8	4.6
Denmark	5.8	2.5	0.6	-3.6	1.9	2.9	2.4	1.6	2.0	1.9
Finland	3.1	6.1	2.0	1.9	2.4	2.4	2.2	2.3	2.4	2.5
France	3.8	3.4	2.4	1.5	3.0	3.1	2.7	2.8	3.0	3.0
Germany	1.4	2.6	1.1	-0.5	1.1	0.9	1.1	1.3	1.4	1.4
Greece	1.3	0.0	0.7	1.0	0.3	0.7	0.7	0.7	0.8	0.8
Ireland	9.1	23.9	14.2	6.0	-10.7	5.6	6.3	8.3	9.4	9.8
Italy	1.3	1.2	1.1	1.0	1.1	1.5	1.1	1.2	1.1	1.2
Netherlands	13.0	5.8	3.9	0.1	6.9	6.1	6.5	6.8	6.9	7.1
Norway	1.2	0.3	1.6	1.0	1.1	0.8	1.1	1.4	1.5	1.6
Portugal	5.4	1.3	5.5	1.3	1.7	2.1	2.4	2.4	2.6	2.6
Spain	4.6	5.8	2.9	2.4	2.0	2.1	2.0	2.1	2.1	2.2
Sweden	5.9	4.8	1.6	3.6	3.7	7.1	4.9	4.8	4.2	4.3
Switzerland	3.8	2.5	5.4	0.5	1.8	1.8	2.3	2.5	2.9	3.0
Turkey	2.2	0.6	0.7	0.9	2.7	2.7	2.7	2.4	2.3	2.2
UK	3.8	1.6	1.5	3.7	7.5	5.6	3.6	2.9	2.8	2.9
Eastern Europe										
Azerbaijan	4.0	22.3	45.1	41.0	13.4	9.6	7.0	5.3	4.4	4.3
Bulgaria	6.0	5.8	10.5	10.5	9.8	8.3	6.6	5.5	4.7	4.2
Croatia	6.7	5.3	7.2	3.5	4.2	3.9	4.0	3.5	3.4	3.8
Czech Republic	9.3	11.5	2.2	4.6	9.0	5.1	4.3	2.4	2.4	2.3
Estonia	9.1	4.0	10.0	9.3	21.8	6.6	5.8	5.8	6.2	5.8
Hungary	7.5	4.6	2.6	4.6	6.1	3.9	3.0	3.1	2.8	2.8
Kazakhstan	12.8	10.5	6.8	9.5	3.1	5.9	5.6	5.0	3.4	2.5
Latvia	1.6	2.7	2.6	5.1	4.1	3.7	2.4	2.8	2.8	2.8
Lithuania	3.7	5.0	1.0	3.4	3.9	3.2	4.6	2.6	3.1	2.8
Poland	3.0	2.1	2.1	5.1	2.5	2.5	2.3	2.2	2.0	2.0
Romania	2.9	2.5	3.8	8.6	8.1	7.8	6.0	3.5	2.9	2.6
Russia	0.9	1.0	1.8	2.6	1.9	2.3	1.8	1.8	1.9	1.8
Serbia	1.5	3.3	7.1	4.3	6.2	11.4	4.5	3.9	3.9	4.1
Slovakia	7.5	16.9	2.0	2.7	4.0	4.5	3.0	3.2	2.7	2.6
Slovenia	2.5	7.3	1.2	2.5	1.5	1.0	3.0	1.5	1.6	1.7
Ukraine	2.1	1.6	2.8	2.6	9.4	4.3	4.0	3.5	3.3	3.2

Foreign direct investment inflows (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	2.2	4.3	1.9	6.7	-5.3	1.1	1.5	2.0	2.1	2.3
Bangladesh	0.2	0.1	0.5	0.8	0.8	0.9	0.9	1.0	1.0	0.9
China	3.3	3.4	2.9	2.8	3.6	3.3	2.7	2.5	2.2	2.0
Hong Kong	14.3	5.9	8.6	20.5	20.2	20.0	18.2	15.8	14.1	14.2
India	1.1	1.1	0.7	0.8	0.8	1.1	1.1	1.0	1.1	1.1
Indonesia	-1.8	0.1	-0.3	0.4	0.8	1.1	1.2	0.9	0.7	0.8
Japan	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Malaysia	0.6	3.4	2.4	2.7	2.3	2.4	2.6	2.3	2.3	2.2
New Zealand	8.9	-0.5	2.6	4.5	2.6	2.1	2.5	2.6	2.6	2.6
Pakistan	0.5	1.2	0.6	1.2	1.2	2.2	0.9	0.9	1.0	1.0
Philippines	1.4	2.3	0.4	0.5	1.2	1.3	1.2	1.2	1.2	1.1
Singapore	16.5	6.5	10.1	22.3	28.6	16.0	15.9	15.7	14.2	13.1
South Korea	0.7	0.4	0.6	1.4	0.5	0.8	0.8	0.8	0.8	0.7
Sri Lanka	1.1	1.2	1.3	1.2	0.9	0.8	0.8	0.9	1.0	1.0
Taiwan	1.4	0.5	0.2	0.6	0.5	0.8	0.8	0.9	1.2	1.4
Thailand	3.4	0.8	1.4	0.9	2.1	1.7	1.6	1.4	1.4	1.3
Vietnam	4.0	4.0	3.7	3.6	4.5	4.7	4.7	4.6	4.4	4.4
Latin America										
Argentina	0.8	2.1	1.3	2.8	2.5	2.4	2.3	2.3	2.3	2.3
Brazil	4.4	3.6	2.0	3.0	1.9	1.8	1.8	1.8	1.8	1.8
Chile	6.1	3.8	5.8	7.5	6.3	6.9	7.0	6.6	6.7	6.7
Colombia	3.1	2.6	2.2	3.2	8.3	3.0	3.2	3.2	3.2	3.1
Costa Rica	2.8	3.9	3.3	3.3	3.3	3.0	3.0	3.1	3.1	3.1
Cuba	0.1	0.2	0.2	0.6	1.1	1.5	1.5	1.1	0.9	1.0
Dominican Republic	4.4	3.7	3.1	3.5	2.6	2.7	2.8	2.7	2.7	2.7
Ecuador	6.3	5.1	5.4	3.5	5.0	3.8	3.0	3.1	2.7	2.5
El Salvador	2.0	3.3	1.2	2.9	2.8	2.5	2.3	2.1	2.0	2.1
Mexico	4.4	2.7	2.0	2.7	2.3	1.9	2.3	2.3	2.4	2.3
Peru	2.1	3.8	2.2	2.6	3.2	2.7	2.4	2.2	1.9	1.9
Venezuela	3.0	0.8	3.2	1.4	2.1	0.8	1.2	1.3	1.3	1.3
Africa & Middle East										
Algeria	2.2	1.8	1.8	4.6	4.3	4.0	4.2	4.6	4.8	4.8
Angola	22.7	14.9	26.6	8.6	9.0	6.7	4.2	3.7	3.3	3.0
Bahrain	1.0	2.6	5.4	7.9	7.0	6.5	8.1	8.8	7.5	7.5
Egypt	0.6	0.8	0.3	1.6	5.8	5.6	5.0	4.1	3.6	3.0
Iran	0.6	0.6	0.2	0.8	3.0	2.7	2.2	1.7	1.5	1.2
Israel	3.2	1.7	3.5	1.4	4.9	6.6	3.6	3.6	3.7	3.5
Jordan	1.3	0.7	4.2	5.4	11.8	12.8	5.2	4.8	4.8	4.8
Kenya	0.0	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Kuwait	-0.4	0.0	-0.1	0.0	0.1	0.2	0.5	0.4	0.4	0.4
Libya	0.5	0.8	0.6	4.4	3.6	3.5	3.3	3.1	2.9	2.6
Morocco	7.6	1.2	5.0	1.4	5.4	3.9	3.0	3.0	2.9	2.8
Nigeria	2.5	4.0	3.4	2.5	2.8	1.7	1.4	1.5	1.4	1.3
Qatar	5.6	9.1	8.0	7.7	6.6	6.1	6.3	6.1	4.9	4.4
Saudi Arabia	0.0	-0.3	-0.3	-0.1	0.3	0.4	0.5	0.5	0.6	0.6
South Africa	6.1	0.7	0.5	0.3	2.6	2.1	1.9	2.0	1.9	2.1
Tunisia	2.3	3.8	2.2	2.1	1.8	8.3	2.6	2.4	2.3	2.2
UAE	1.7	4.7	4.9	9.2	12.1	9.4	8.3	5.2	4.5	4.2

Foreign direct investment inflows (% of gross fixed investment)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	10.1	5.1	4.1	7.1	5.3	8.3	11.0	11.9	12.4	12.3
Canada	19.7	15.4	4.5	0.8	14.6	13.2	11.9	11.5	12.3	12.5
Western Europe										
Austria	13.9	0.7	13.1	6.5	13.8	10.6	13.6	12.1	12.3	12.3
Belgium	n/a	37.2	61.5	63.4	31.5	55.7	39.5	44.9	28.1	26.3
Cyprus	58.3	57.1	38.8	37.5	35.9	41.1	42.2	32.5	22.3	20.9
Denmark	29.1	12.9	2.8	-18.0	9.3	13.6	10.9	7.4	9.2	8.5
Finland	15.1	32.5	11.1	10.1	12.3	11.8	10.3	10.6	10.8	10.8
France	19.3	18.0	12.7	8.0	15.4	15.6	13.7	14.1	14.7	15.1
Germany	6.9	14.4	6.4	-3.2	6.7	5.0	6.1	7.5	7.9	7.8
Greece	5.7	0.2	2.9	4.0	1.1	2.8	2.8	3.0	3.2	3.3
Ireland	39.4	107.2	62.0	24.5	-39.7	20.1	21.9	28.4	32.0	33.6
Italy	6.5	5.7	5.4	4.7	5.3	7.3	5.2	5.7	5.3	5.4
Netherlands	61.3	29.0	20.5	0.3	35.3	30.9	32.6	33.4	34.1	35.3
Norway	6.8	1.5	9.1	5.4	5.9	4.3	5.9	6.8	7.2	7.3
Portugal	20.4	5.4	24.5	6.0	7.9	10.0	11.1	11.1	12.0	11.9
Spain	17.8	22.2	10.7	8.5	6.9	6.9	6.7	7.0	7.1	7.2
Sweden	34.2	29.0	10.3	22.4	22.1	40.6	27.0	26.1	22.9	23.5
Switzerland	17.0	11.4	26.2	2.2	8.3	8.7	10.6	11.9	13.5	14.0
Turkey	12.4	3.5	4.7	5.1	13.6	13.9	14.3	12.3	11.5	10.7
UK	22.6	9.9	9.6	22.4	44.8	33.6	21.5	17.3	16.7	17.1
Eastern Europe										
Azerbaijan	17.3	65.5	90.6	69.7	24.6	20.5	16.3	14.3	12.8	13.5
Bulgaria	32.8	31.7	54.1	50.5	41.2	35.1	27.8	22.8	19.1	16.6
Croatia	30.2	21.6	25.2	12.4	14.8	13.6	13.7	2.2	2.0	2.2
Czech Republic	33.6	43.2	8.3	17.2	34.0	19.4	16.2	9.1	8.7	8.4
Estonia	33.7	14.1	34.6	32.9	74.7	22.7	20.6	20.0	20.8	19.1
Hungary	32.3	19.8	11.8	20.5	26.1	16.6	13.2	12.9	12.0	11.7
Kazakhstan	53.9	43.8	29.4	38.0	11.7	25.0	22.1	17.7	11.2	8.3
Latvia	6.4	11.5	10.7	18.5	14.7	13.6	9.0	10.2	10.3	10.2
Lithuania	18.2	24.7	4.5	15.8	18.0	14.5	20.3	11.3	13.3	11.8
Poland	14.5	11.1	11.6	28.1	14.0	13.0	11.7	10.6	9.8	9.2
Romania	13.9	11.7	17.6	39.6	34.7	31.3	22.2	11.9	9.6	8.3
Russia	4.7	5.6	10.0	14.3	10.5	12.5	9.3	8.5	8.9	8.3
Serbia	11.2	23.6	49.2	28.6	38.6	71.0	27.1	23.8	23.7	24.0
Slovakia	26.3	61.8	8.1	11.1	15.5	15.9	10.6	10.8	8.8	8.2
Slovenia	10.5	32.5	5.1	10.6	5.9	4.0	11.8	5.9	6.2	6.4
Ukraine	10.6	8.5	13.8	11.7	45.2	20.9	17.7	15.8	14.6	14.5

Foreign direct investment inflows (% of gross fixed investment)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	10.1	17.8	7.5	26.6	-20.3	4.4	5.6	7.7	8.1	8.8
Bangladesh	0.7	0.5	2.2	3.3	3.3	3.5	3.8	3.7	3.6	3.3
China	8.9	8.7	6.8	6.5	8.0	7.4	5.8	5.1	4.3	3.7
Hong Kong	55.7	26.4	40.6	96.4	97.0	95.9	86.8	75.9	66.7	65.6
India	4.9	4.6	2.9	3.1	3.0	3.8	3.5	3.4	3.5	3.4
Indonesia	-9.4	0.4	-1.3	1.9	3.7	5.0	5.5	4.0	3.2	3.3
Japan	0.6	1.0	0.6	0.7	0.3	0.4	0.5	0.6	0.7	0.7
Malaysia	2.5	14.5	10.8	13.3	11.6	12.4	13.0	11.5	11.1	10.6
New Zealand	44.5	-2.2	11.7	19.0	11.0	9.0	11.0	11.4	10.9	10.9
Pakistan	3.4	7.4	4.2	7.4	7.7	14.0	5.9	5.5	6.1	6.2
Philippines	7.7	13.2	2.6	3.3	7.5	8.2	7.6	7.4	7.2	6.9
Singapore	54.9	25.4	41.9	93.9	131.2	73.7	72.8	70.3	62.6	57.3
South Korea	2.5	1.5	1.9	4.6	1.9	2.7	2.7	2.6	2.5	2.4
Sri Lanka	5.0	5.7	5.7	4.6	3.3	2.8	2.9	3.0	3.1	3.2
Taiwan	7.3	2.7	0.8	2.8	2.3	3.9	4.0	4.7	6.0	6.9
Thailand	14.6	3.3	5.7	3.4	7.2	5.7	5.5	4.4	4.5	4.2
Vietnam	13.6	12.8	11.0	10.7	13.7	14.7	14.0	13.0	11.9	11.6
Latin America										
Argentina	5.7	17.6	8.4	14.6	11.8	10.9	10.3	10.1	9.8	9.7
Brazil	22.6	19.7	11.3	15.3	9.6	9.0	8.9	8.6	8.8	8.8
Chile	28.2	17.8	27.7	37.3	28.3	31.5	30.3	27.1	27.2	26.5
Colombia	22.5	17.9	13.3	18.9	44.8	15.3	15.6	15.7	15.1	14.6
Costa Rica	15.1	20.8	17.1	17.9	17.0	15.3	15.4	15.6	15.5	15.3
Cuba	1.2	1.7	2.7	6.4	9.6	11.8	10.0	7.1	6.1	6.8
Dominican Republic	22.1	17.4	19.9	20.6	17.2	18.6	18.4	17.6	17.4	17.1
Ecuador	29.3	22.0	25.6	16.7	22.2	17.2	13.0	13.0	11.4	10.1
El Salvador	12.3	20.0	6.9	18.9	17.6	15.5	13.2	12.4	11.7	12.2
Mexico	22.1	13.9	10.7	13.6	12.0	9.2	11.0	10.5	10.7	10.1
Peru	11.4	21.6	12.3	14.7	17.0	13.3	11.9	10.5	9.4	9.3
Venezuela	12.5	3.8	20.4	7.9	11.1	4.3	6.0	6.0	5.7	5.2
Africa & Middle East										
Algeria	9.6	7.2	7.6	19.0	18.9	19.0	18.1	18.0	17.1	16.2
Angola	65.5	46.3	82.6	25.4	29.7	23.6	16.2	14.4	12.7	11.5
Bahrain	7.6	14.9	27.8	36.4	35.8	36.4	40.9	43.8	37.6	37.5
Egypt	3.2	4.3	2.0	9.8	33.6	30.5	25.8	20.0	17.1	13.5
Iran	2.1	2.0	0.6	2.8	10.0	9.0	7.3	5.5	4.6	3.7
Israel	16.8	9.1	19.5	8.1	28.1	37.0	19.8	19.4	18.9	17.6
Jordan	6.9	3.5	20.3	26.8	58.3	63.0	25.2	24.2	23.8	23.9
Kenya	0.2	1.2	3.5	1.8	1.7	1.6	1.7	1.6	1.9	1.9
Kuwait	-5.0	0.1	-1.0	-0.3	1.0	1.9	3.3	3.2	3.1	3.0
Libya	3.7	5.5	4.6	31.6	31.9	31.8	28.4	25.5	24.1	21.7
Morocco	36.1	5.5	22.0	6.3	22.8	16.6	12.4	12.6	12.2	11.8
Nigeria	10.9	15.4	15.1	11.6	13.2	7.9	5.8	5.5	4.7	3.9
Qatar	25.0	29.9	23.2	26.6	22.0	21.3	20.9	19.4	16.2	14.5
Saudi Arabia	0.1	-1.8	-1.5	-0.8	1.8	2.6	2.7	2.9	2.9	2.9
South Africa	40.8	4.4	3.0	2.0	15.5	12.1	10.7	10.4	9.9	10.6
Tunisia	8.7	14.9	9.3	9.2	8.0	38.3	12.0	10.9	10.6	9.8
UAE	7.3	20.6	21.6	43.0	58.5	47.3	38.9	21.8	18.9	17.5

Foreign direct investment inflows per head (US$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	592	284	233	458	374	637	889	1,024	1,147	1,225
Canada	901	714	243	48	1,058	1,140	1,142	1,110	1,184	1,254
Western Europe										
Austria	728	39	871	493	1,080	909	1,320	1,185	1,223	1,259
Belgium	n/a	1,757	3,488	4,151	2,252	4,342	3,430	3,861	2,403	2,255
Cyprus	1,354	1,540	1,267	1,517	1,536	1,914	2,224	1,740	1,231	1,190
Denmark	1,742	829	221	-1,635	930	1,521	1,373	930	1,167	1,100
Finland	723	1,574	640	680	874	936	946	1,002	1,051	1,097
France	848	830	719	522	1,052	1,127	1,092	1,120	1,160	1,221
Germany	318	650	336	-183	388	310	426	529	562	566
Greece	146	5	116	192	55	149	164	181	199	219
Ireland	2,533	7,539	5,650	2,733	-5,230	3,020	3,791	4,995	5,747	6,198
Italy	258	254	285	289	300	485	384	423	401	421
Netherlands	3,277	1,595	1,306	23	2,640	2,512	2,989	3,107	3,225	3,433
Norway	471	111	788	543	718	593	920	1,004	1,053	1,090
Portugal	616	166	831	229	299	394	490	498	545	559
Spain	702	988	628	593	530	577	623	646	662	699
Sweden	1,228	1,367	559	1,404	1,486	3,117	2,459	2,411	2,112	2,198
Switzerland	1,315	934	2,389	222	880	958	1,300	1,457	1,667	1,763
Turkey	48	15	25	38	134	136	128	123	125	129
UK	914	432	465	1,309	2,743	2,174	1,532	1,257	1,200	1,237
Eastern Europe										
Azerbaijan	28	171	400	430	201	213	206	187	174	190
Bulgaria	102	115	268	329	338	339	321	284	258	245
Croatia	297	270	473	277	358	373	438	395	399	467
Czech Republic	549	831	198	490	1,072	733	734	441	442	435
Estonia	396	209	676	775	2,114	743	782	822	929	924
Hungary	389	298	216	464	658	453	426	452	451	469
Kazakhstan	191	174	141	275	115	315	359	389	323	288
Latvia	56	107	124	300	273	303	240	287	304	321
Lithuania	127	204	52	223	293	277	470	281	357	344
Poland	149	108	120	337	202	217	233	223	221	226
Romania	52	51	103	298	364	412	370	232	209	200
Russia	19	24	55	107	101	150	136	141	166	177
Serbia	22	61	181	128	196	423	198	184	192	209
Slovakia	293	770	124	207	351	464	364	404	357	356
Slovenia	255	831	169	420	252	192	647	330	355	376
Ukraine	16	14	30	36	166	85	84	89	94	109

Foreign direct investment inflows per head (US$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	429	908	500	2,157	-1,847	403	516	705	736	821
Bangladesh	1		2	3	3	4	4	4	4	4
China	35	39	37	43	61	66	62	64	65	66
Hong Kong	3,571	1,442	2,015	4,998	5,237	5,401	5,101	4,666	4,291	4,422
India	5	5	4	5	6	9	9	10	11	12
Indonesia	-13	1	-3	4	9	16	20	16	14	16
Japan	49	72	49	61	25	31	52	64	74	79
Malaysia	24	133	101	128	119	139	157	151	155	159
New Zealand	1,190	-71	520	1,090	697	505	618	661	640	660
Pakistan	3	6	4	7	8	17	8	7	9	10
Philippines	12	22	4	6	13	17	17	18	18	19
Singapore	3,506	1,386	2,241	5,735	7,870	4,833	5,131	5,322	5,027	4,871
South Korea	75	51	74	190	90	149	162	179	192	207
Sri Lanka	9	10	11	11	10	10	12	13	15	17
Taiwan	185	65	20	84	72	128	142	176	241	300
Thailand	62	15	31	22	57	50	55	50	56	56
Vietnam	17	18	18	20	29	34	37	38	39	42
Latin America										
Argentina	59	57	44	112	121	123	127	133	136	143
Brazil	132	96	58	103	85	95	94	94	101	105
Chile	285	171	286	472	469	627	639	617	677	725
Colombia	60	50	40	70	225	87	92	93	91	92
Costa Rica	115	165	140	148	155	150	159	170	174	178
Cuba	3	4	7	18	36	54	56	44	41	49
Dominican Republic	127	106	70	72	88	109	112	116	124	133
Ecuador	108	102	123	90	138	114	91	97	91	86
El Salvador	44	73	26	70	71	69	63	60	58	63
Mexico	275	171	126	176	170	141	177	179	191	189
Peru	44	82	50	67	91	81	76	71	66	69
Venezuela	153	32	106	59	114	53	83	87	86	81
Africa & Middle East										
Algeria	39	32	38	110	117	128	135	148	154	158
Angola	173	131	267	107	157	175	156	146	135	128
Bahrain	120	319	738	1,219	1,278	1,382	1,625	1,860	1,701	1,805
Egypt	8	9	3	18	74	78	74	63	59	52
Iran	8	10	4	18	78	83	79	69	65	57
Israel	577	274	588	249	891	1,242	730	765	806	805
Jordan	24	12	80	113	270	310	134	131	136	143
Kenya		1	3	1	2	2	2	2	3	3
Kuwait	-66	3	-28	-8	36	71	123	122	124	127
Libya	25	27	26	204	231	255	259	258	259	245
Morocco	93	15	77	25	98	76	63	68	70	72
Nigeria	10	15	15	14	19	15	13	14	14	14
Qatar	1,646	2,816	2,826	3,111	3,091	3,078	3,111	3,017	2,627	2,430
Saudi Arabia	1	-28	-26	-14	37	58	62	66	68	67
South Africa	172	17	18	16	146	133	128	142	151	180
Tunisia	48	82	55	60	52	267	93	92	96	95
UAE	370	1,003	1,145	2,351	3,356	2,786	2,332	1,484	1,300	1,215

Inward foreign direct investment stock (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	1,518.5	1,517.4	1,585.9	1,708.9	1,818.6	2,007.5	2,273.5	2,583.0	2,932.5	3,309.1
Canada	213.8	224.2	282.2	316.5	356.9	393.7	430.8	467.3	506.5	548.5
Western Europe										
Austria	35.2	44.6	53.8	61.7	61.3	68.8	79.6	89.3	99.3	109.7
Belgium[1]	203.5	192.4	224.5	258.9	282.2	327.2	362.8	402.9	427.9	451.4
Cyprus	3.9	4.9	6.7	8.6	9.7	11.2	12.9	14.3	15.2	16.2
Denmark	75.4	82.8	100.2	109.2	114.2	122.4	129.9	134.9	141.3	147.3
Finland	24.1	34.0	50.3	54.6	59.2	64.1	69.0	74.3	79.8	85.6
France	295.3	386.6	527.6	619.6	600.0	668.3	734.8	803.3	874.5	949.7
Germany	404.5	529.3	655.6	675.6	707.7	733.2	768.4	812.0	858.4	905.2
Greece	13.9	15.6	22.5	28.5	29.3	31.0	32.8	34.7	36.9	39.3
Ireland	134.1	178.6	217.2	234.0	211.2	223.8	239.8	261.2	285.8	312.5
Italy	113.4	130.8	180.9	220.7	219.9	248.1	270.4	295.0	318.3	342.7
Luxembourg	n/a	34.8	41.8	120.4	164.2	228.2	303.2	387.2	477.2	570.2
Netherlands	282.9	352.6	458.0	501.1	544.7	585.7	634.7	685.9	739.3	796.4
Norway	33.2	42.6	45.0	51.1	54.4	57.1	61.4	66.1	71.0	76.1
Portugal	32.9	44.0	58.9	65.2	68.3	72.5	77.6	82.9	88.7	94.7
Spain	177.3	257.1	339.7	346.7	367.7	392.7	420.3	449.3	479.4	511.6
Sweden	91.6	117.8	151.9	164.5	171.5	199.7	222.0	244.0	263.4	283.6
Switzerland	88.8	124.8	162.0	195.9	172.5	179.5	189.1	199.9	212.2	225.3
Turkey	19.7	18.9	33.5	32.5	42.2	52.2	61.7	70.9	80.4	90.4
UK	506.7	523.3	606.2	707.9	816.7	947.2	1,039.5	1,115.5	1,188.4	1,263.8
Eastern Europe										
Azerbaijan	4.0	5.4	8.6	11.5	13.2	15.0	16.7	18.3	19.8	21.5
Bulgaria	2.8	3.7	6.2	9.6	12.2	14.8	17.3	19.4	21.4	23.2
Croatia	4.2	6.9	10.5	12.8	14.5	16.2	18.2	20.0	21.8	23.9
Czech Republic	27.1	39.4	45.3	56.4	67.4	74.9	82.4	86.9	91.4	95.8
Estonia	3.2	4.2	7.0	10.1	12.3	13.3	14.3	15.4	16.7	17.9
Hungary	27.4	36.2	48.3	62.7	61.2	65.8	70.0	74.5	79.0	83.6
Kazakhstan	12.9	15.5	17.6	22.3	24.1	28.9	34.4	40.4	45.4	49.9
Latvia	2.3	2.8	3.3	4.6	5.2	5.9	6.5	7.1	7.8	8.5
Lithuania	2.7	4.0	5.0	6.4	6.5	7.4	9.0	10.0	11.2	12.3
Poland	41.2	48.3	57.9	85.6	93.3	101.6	110.5	119.0	127.4	136.0
Romania	7.6	7.8	12.8	18.5	26.4	35.3	43.3	48.3	52.8	57.1
Russia	23.7	27.2	35.2	50.6	65.2	86.7	106.2	126.3	149.8	174.8
Serbia	1.6	2.1	3.7	4.7	6.2	9.4	10.9	12.3	13.8	15.4
Slovakia	5.6	8.5	11.3	14.5	15.8	18.3	20.3	22.5	24.5	26.4
Slovenia	2.6	4.1	6.5	7.6	8.1	8.4	9.7	10.4	11.1	11.8
Ukraine	4.8	5.9	7.6	9.5	16.4	20.4	24.3	28.4	32.7	37.7

Inward foreign direct investment stock (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	111.7	141.6	199.9	267.4	210.7	218.9	229.5	244.1	259.6	277.0
Bangladesh	2.2	2.5	3.0	2.8	3.3	3.8	4.4	5.0	5.6	6.3
China	390.9	440.2	487.3	542.3	621.4	707.9	789.6	874.7	961.1	1,049.7
Hong Kong	419.3	336.3	381.3	453.1	489.0	526.2	561.6	594.2	624.3	655.5
India	25.4	31.2	39.1	44.5	51.2	60.7	70.7	81.7	94.7	109.0
Indonesia	15.2	7.1	10.3	11.4	13.6	17.4	22.4	26.3	29.8	33.8
Japan	50.3	78.1	89.7	97.0	100.2	104.2	110.9	119.1	128.5	138.6
Malaysia	34.0	37.0	41.7	46.3	49.3	52.9	57.0	61.0	65.2	69.6
New Zealand	21.7	31.2	39.4	52.0	52.6	54.7	57.3	60.0	62.7	65.5
Pakistan	5.5	6.1	7.1	8.2	9.5	12.1	13.3	14.5	16.0	17.6
Philippines	11.3	11.9	12.2	12.7	13.8	15.3	16.9	18.5	20.2	21.9
Singapore	125.2	135.9	151.1	176.9	210.3	231.3	253.7	277.2	299.7	321.7
South Korea	50.2	62.7	66.1	87.8	92.1	99.3	107.2	115.9	125.4	135.6
Sri Lanka	1.5	1.7	1.9	2.2	2.4	2.6	2.8	3.1	3.4	3.8
Taiwan	38.0	28.1	37.1	39.0	40.7	43.5	46.8	50.8	56.3	63.1
Thailand	33.4	38.0	48.6	52.9	56.5	59.8	63.5	66.8	70.5	74.3
Vietnam	15.9	17.1	20.1	21.7	24.1	26.9	30.0	33.3	36.7	40.4
Latin America										
Argentina	79.5	43.1	48.6	50.3	54.9	59.7	64.7	70.0	75.5	81.3
Brazil	121.9	100.8	132.8	161.3	176.5	193.6	210.8	228.3	247.3	267.3
Chile	43.5	42.3	54.0	65.6	72.8	82.5	92.6	102.4	113.2	125.0
Colombia	15.2	17.8	20.4	24.8	35.0	39.0	43.3	47.7	52.1	56.6
Costa Rica	3.2	3.7	4.3	4.4	5.1	5.8	6.5	7.2	8.0	8.8
Cuba	2.5	2.6	2.6	2.8	3.2	3.9	4.5	5.0	5.4	6.0
Dominican Republic	6.3	7.2	7.8	8.5	9.4	10.4	11.4	12.5	13.7	15.0
Ecuador	8.4	9.7	11.2	12.5	14.3	15.8	17.0	18.3	19.6	20.8
El Salvador	2.2	3.1	3.3	3.8	4.3	4.7	5.2	5.6	6.0	6.5
Mexico	140.4	158.7	172.8	191.5	209.6	224.6	243.6	263.1	284.1	305.1
Peru	11.1	11.7	12.9	13.3	15.8	18.1	20.2	22.3	24.2	26.2
Venezuela	39.1	39.0	41.9	43.6	46.5	47.9	50.2	52.6	55.0	57.3
Africa & Middle East										
Algeria	4.8	5.9	6.5	7.4	11.2	15.4	19.9	24.9	30.2	35.7
Angola	6.8	8.5	12.0	13.4	15.6	18.1	20.4	22.6	24.7	26.8
Bahrain	6.0	6.2	6.7	7.6	8.5	9.5	10.7	12.1	13.4	14.8
Egypt	20.1	20.7	21.0	22.2	27.6	33.4	38.9	43.8	48.4	52.6
Iran	2.5	2.8	2.9	4.1	9.4	15.2	20.8	25.6	30.3	34.4
Israel	23.9	23.7	30.3	32.2	38.2	46.8	52.0	57.5	63.4	69.4
Jordan	2.4	2.5	2.9	3.5	4.3	5.2	6.0	6.8	7.6	8.5
Kenya	1.0	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.7
Kuwait	0.5	0.5	0.4	0.4	0.5	0.7	1.1	1.5	1.9	2.3
Libya	0.3	0.5	0.6	0.8	2.1	3.6	5.1	6.7	8.3	9.9
Morocco	11.6	12.1	17.1	19.9	22.9	25.3	27.3	29.5	31.8	34.2
Nigeria	21.4	23.3	25.3	27.2	29.9	32.0	33.9	36.0	38.1	40.2
Qatar	2.9	3.4	4.5	6.4	8.7	11.1	13.8	16.5	19.1	21.6
Saudi Arabia	17.4	17.8	18.6	20.5	21.3	22.8	24.3	26.0	27.9	29.7
South Africa	30.6	29.6	45.7	63.1	69.3	75.0	80.4	86.3	92.6	100.0
Tunisia	11.5	13.9	16.2	17.6	18.1	20.8	21.8	22.7	23.7	24.7
UAE	2.2	3.6	3.6	4.4	18.9	31.9	43.7	51.7	59.2	66.7

[1] For 2001 refers to Belgium-Luxembourg; disaggregated data only available from 2002.

Inward foreign direct investment stock (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	15.0	14.5	14.5	14.6	14.6	15.1	16.2	17.3	18.5	19.8
Canada	29.9	30.5	32.5	31.9	31.6	29.7	29.6	32.7	35.9	37.9
Western Europe										
Austria	18.2	21.4	21.0	20.9	20.0	20.6	21.6	24.4	27.0	29.4
Belgium	n/a	76.1	72.2	72.4	76.0	80.4	81.9	92.4	98.1	103.4
Cyprus	40.6	47.1	51.1	55.3	58.2	62.0	64.4	71.1	75.1	78.5
Denmark	47.0	47.6	46.8	44.6	44.1	43.6	41.4	43.2	44.8	46.1
Finland	19.7	25.6	30.9	29.3	30.6	31.2	30.6	33.1	35.0	37.0
France	22.0	26.4	29.4	30.3	28.5	30.4	30.2	33.2	36.3	38.5
Germany	21.4	26.1	26.8	24.5	25.3	24.4	23.1	24.6	26.2	27.5
Greece	11.8	11.6	12.9	13.7	13.4	13.2	12.4	12.7	13.1	13.3
Ireland	127.8	144.8	137.9	126.6	105.8	100.3	94.4	101.7	108.7	114.4
Italy	10.1	10.7	12.0	12.8	12.5	13.4	13.2	14.4	15.5	16.3
Netherlands	70.5	80.2	84.9	82.4	87.2	87.0	84.2	90.5	95.5	99.7
Norway	19.5	22.4	20.2	20.1	18.4	17.0	16.2	19.2	21.4	23.2
Portugal	28.4	34.4	37.8	36.7	37.3	37.7	35.9	38.2	40.4	41.5
Spain	29.1	37.3	38.4	33.3	32.7	32.3	30.5	32.3	34.0	35.0
Sweden	41.4	48.3	49.9	47.0	47.9	50.5	48.8	53.2	56.8	60.1
Switzerland	35.5	45.2	50.2	54.6	47.0	47.1	44.9	47.3	49.7	51.7
Turkey	13.5	10.3	14.0	10.8	11.6	14.0	17.4	18.3	19.3	19.9
UK	35.3	33.3	33.6	33.2	37.1	40.9	40.3	42.2	45.3	48.1
Eastern Europe										
Azerbaijan	69.4	85.9	118.7	132.3	104.8	79.6	67.0	61.0	58.1	55.6
Bulgaria	20.3	23.4	31.2	39.5	45.8	47.2	46.6	49.9	52.1	53.8
Croatia	21.3	30.0	35.5	36.4	37.6	37.2	36.2	38.7	40.6	42.5
Czech Republic	44.5	53.4	50.0	52.4	55.1	51.3	47.6	47.1	48.4	49.6
Estonia	52.9	60.0	76.2	89.6	93.6	87.2	79.4	81.7	83.9	84.6
Hungary	52.4	55.2	58.1	62.3	56.1	55.9	50.0	50.7	50.1	50.7
Kazakhstan	58.3	62.8	57.0	51.8	42.9	35.8	35.2	33.3	30.5	27.9
Latvia	28.0	29.5	29.3	33.3	33.7	31.5	28.5	30.0	31.4	32.3
Lithuania	22.0	28.0	26.6	28.4	25.2	25.1	25.9	27.4	29.2	30.4
Poland	21.7	24.4	26.7	33.9	30.8	30.4	28.7	30.3	31.0	31.5
Romania	19.0	17.0	21.5	24.5	27.2	31.1	32.7	33.5	34.3	34.6
Russia	7.7	7.9	8.1	8.6	8.5	9.4	9.9	11.0	12.0	12.7
Serbia	14.9	15.1	19.4	21.0	25.9	33.4	32.5	34.6	36.9	39.2
Slovakia	26.4	34.8	34.2	34.5	33.3	32.7	30.8	32.7	34.0	34.9
Slovenia	13.2	18.5	23.1	23.3	23.8	22.3	22.9	24.2	25.5	26.6
Ukraine	12.6	14.0	15.1	14.7	19.8	22.0	24.7	24.5	24.6	24.1

Inward foreign direct investment stock (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	30.3	34.3	38.1	42.0	29.8	30.7	31.5	33.2	35.0	36.1
Bangladesh	4.8	5.4	5.7	5.0	5.5	6.4	7.5	8.2	8.5	8.4
China	29.5	30.3	29.7	28.1	27.9	27.0	26.4	25.6	24.6	23.7
Hong Kong	251.8	205.4	240.6	273.2	275.1	283.0	289.0	288.7	292.2	298.8
India	5.3	6.2	6.6	6.4	6.4	7.0	7.5	7.7	8.0	8.4
Indonesia	9.3	3.5	4.4	4.5	4.8	4.8	5.5	6.0	6.3	6.6
Japan	1.2	2.0	2.1	2.1	2.2	2.2	2.1	2.1	2.2	2.3
Malaysia	38.6	38.8	40.1	39.1	37.8	35.9	35.4	35.7	36.0	35.2
New Zealand	42.2	52.3	49.8	53.2	48.5	55.2	56.6	57.4	59.3	60.1
Pakistan	7.8	8.5	8.6	8.5	8.6	10.1	10.3	10.5	10.7	11.0
Philippines	15.8	15.5	15.4	14.7	14.1	13.7	13.3	13.8	13.9	13.8
Singapore	146.2	153.6	163.0	164.6	180.1	176.8	180.1	185.7	189.7	191.8
South Korea	10.4	11.5	10.9	12.9	11.7	10.9	10.6	10.4	10.1	9.8
Sri Lanka	9.6	10.4	10.6	10.8	10.0	9.8	9.9	10.1	10.4	10.7
Taiwan	13.0	9.5	12.4	12.1	11.8	11.7	11.6	11.7	12.2	12.7
Thailand	28.9	29.9	34.0	32.7	32.0	30.3	28.6	27.4	26.6	25.7
Vietnam	48.7	48.8	50.8	47.9	45.6	44.4	45.6	46.6	47.7	48.3
Latin America										
Argentina	29.6	42.3	37.5	32.8	30.0	29.9	30.0	30.4	31.3	31.7
Brazil	23.9	21.9	26.3	26.7	22.2	20.3	22.1	23.2	24.0	24.8
Chile	63.4	62.9	73.2	69.0	63.2	58.8	64.6	69.0	70.0	71.4
Colombia	18.5	22.0	25.7	25.6	28.6	29.5	32.4	35.2	37.4	39.5
Costa Rica	19.4	22.2	24.3	23.9	25.7	26.9	27.9	29.7	31.4	33.0
Cuba	9.0	8.9	8.7	8.8	8.9	9.7	10.4	10.7	10.8	11.0
Dominican Republic	25.6	28.9	40.1	39.0	27.0	28.4	30.0	30.6	30.9	31.2
Ecuador	39.6	38.9	39.2	37.9	39.4	40.3	41.2	42.6	42.9	42.7
El Salvador	16.2	21.9	22.1	23.8	24.8	25.3	26.8	27.6	28.3	29.0
Mexico	22.6	24.4	27.0	28.0	27.3	27.7	29.6	30.7	32.1	33.4
Peru	20.6	20.7	21.2	19.4	20.2	21.4	22.6	23.8	24.4	25.0
Venezuela	31.8	42.0	50.2	39.7	33.2	27.8	26.8	28.9	30.5	31.4
Africa & Middle East										
Algeria	8.8	10.6	9.9	9.8	12.6	14.9	18.6	22.7	27.1	31.4
Angola	71.9	75.7	90.9	80.3	64.3	48.4	37.5	38.5	38.9	39.0
Bahrain	75.5	73.4	70.0	68.9	64.4	61.1	72.4	75.8	77.7	79.4
Egypt	22.2	24.6	29.3	28.4	29.7	32.5	35.1	36.5	37.9	38.2
Iran	3.0	2.4	2.2	2.5	5.3	7.1	8.3	9.1	9.8	10.3
Israel	21.0	22.7	27.4	27.5	31.0	35.9	36.1	37.7	39.3	40.6
Jordan	26.8	25.7	28.3	30.4	33.9	36.8	39.0	40.9	42.7	44.3
Kenya	8.0	8.3	7.8	7.6	6.6	6.0	6.1	6.0	6.0	5.9
Kuwait	1.4	1.2	0.9	0.7	0.7	0.8	1.3	1.6	1.9	2.2
Libya	1.2	2.5	2.8	2.9	5.7	8.4	10.8	13.0	15.0	16.5
Morocco	32.3	31.7	36.8	37.2	40.8	41.4	40.4	40.5	40.4	40.2
Nigeria	44.7	49.9	43.4	36.6	31.6	25.6	24.6	25.1	25.4	25.0
Qatar	16.1	17.0	19.0	22.3	24.7	27.4	32.8	36.9	36.7	38.0
Saudi Arabia	9.5	9.4	8.7	8.2	6.9	7.0	7.3	8.0	8.7	9.2
South Africa	25.9	26.6	27.5	29.3	28.9	27.5	28.5	28.4	28.4	29.0
Tunisia	57.6	65.8	64.9	62.5	62.7	64.4	59.2	57.2	55.3	53.3
UAE	3.2	4.8	4.1	4.3	15.8	23.0	30.8	33.8	35.8	37.3

Inward foreign direct investment stock per head (US$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	5,380	5,320	5,510	5,880	6,190	6,770	7,590	8,550	9,620	10,760
Canada	6,970	7,230	9,000	9,990	11,160	12,200	13,230	14,230	15,290	16,410
Western Europe										
Austria	4,330	5,490	6,610	7,560	7,500	8,400	9,710	10,890	12,110	13,360
Belgium	n/a	18,700	21,770	25,060	27,270	31,570	34,950	38,770	41,130	43,340
Cyprus	5,530	6,960	9,410	11,710	12,960	14,630	16,620	18,160	19,230	20,290
Denmark	14,150	15,500	18,660	20,280	21,160	22,620	23,940	24,840	25,970	27,040
Finland	4,660	6,560	9,690	10,500	11,350	12,270	13,190	14,180	15,210	16,290
France	4,970	6,480	8,810	10,300	9,930	11,020	12,070	13,140	14,250	15,410
Germany	4,920	6,420	7,940	8,190	8,580	8,890	9,310	9,840	10,390	10,950
Greece	1,280	1,420	2,050	2,590	2,670	2,820	2,980	3,160	3,360	3,580
Ireland	35,460	45,670	54,740	57,910	51,770	53,670	56,700	61,160	66,620	72,510
Italy	1,970	2,260	3,120	3,810	3,790	4,270	4,650	5,070	5,470	5,900
Netherlands	17,830	22,100	28,450	30,910	33,480	35,870	38,690	41,620	44,650	47,860
Norway	7,410	9,470	9,950	11,230	11,890	12,410	13,270	14,230	15,230	16,290
Portugal	3,250	4,250	5,690	6,290	6,570	6,900	7,360	7,820	8,340	8,850
Spain	4,430	6,350	8,290	8,300	8,610	9,030	9,500	10,020	10,540	11,100
Sweden	10,310	13,220	16,990	18,330	19,030	22,070	24,440	26,740	28,740	30,820
Switzerland	12,320	17,190	22,130	26,700	23,460	24,380	25,630	27,050	28,670	30,390
Turkey	290	270	480	460	580	710	830	940	1,060	1,170
UK	8,600	8,850	10,220	11,890	13,660	15,780	17,250	18,440	19,580	20,740
Eastern Europe										
Azerbaijan	490	660	1,050	1,390	1,580	1,770	1,970	2,140	2,300	2,470
Bulgaria	350	460	800	1,240	1,580	1,930	2,270	2,570	2,840	3,110
Croatia	940	1,540	2,330	2,840	3,190	3,550	3,980	4,370	4,760	5,220
Czech Republic	2,640	3,850	4,440	5,500	6,580	7,320	8,060	8,510	8,970	9,420
Estonia	2,310	3,100	5,150	7,440	9,190	9,860	10,670	11,520	12,480	13,440
Hungary	2,700	3,580	4,790	6,240	6,100	6,570	7,010	7,480	7,950	8,440
Kazakhstan	870	1,040	1,180	1,490	1,600	1,900	2,240	2,620	2,930	3,190
Latvia	980	1,160	1,400	1,960	2,250	2,560	2,810	3,110	3,430	3,770
Lithuania	760	1,140	1,430	1,850	1,880	2,160	2,650	2,950	3,320	3,690
Poland	1,080	1,260	1,510	2,240	2,440	2,660	2,900	3,130	3,350	3,580
Romania	340	350	590	850	1,220	1,630	2,010	2,240	2,460	2,660
Russia	160	190	240	350	450	610	740	890	1,060	1,240
Serbia	210	290	490	630	820	1,240	1,440	1,620	1,810	2,010
Slovakia	1,030	1,590	2,100	2,670	2,900	3,360	3,720	4,120	4,480	4,830
Slovenia	1,320	2,090	3,290	3,840	4,090	4,290	4,930	5,260	5,620	5,990
Ukraine	100	120	160	200	350	440	520	610	710	820

Inward foreign direct investment stock per head (US$)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	5,800	7,280	10,150	13,440	10,450	10,740	11,140	11,740	12,370	13,080
Bangladesh	20	20	20	20	20	30	30	30	40	40
China	310	340	380	420	480	540	600	660	720	790
Hong Kong	62,980	50,090	56,390	66,530	71,330	76,280	80,920	85,120	88,950	92,910
India	20	30	40	40	50	60	60	70	80	90
Indonesia	70	31	50	50	60	70	90	110	120	130
Japan	400	620	710	760	790	820	870	930	1,010	1,090
Malaysia	1,460	1,540	1,700	1,850	1,940	2,040	2,180	2,300	2,410	2,520
New Zealand	5,630	8,040	10,000	12,960	12,950	13,300	13,790	14,330	14,850	15,390
Pakistan	40	40	50	50	60	80	80	90	100	100
Philippines	140	150	150	150	160	170	190	200	220	230
Singapore	31,160	32,900	36,240	42,280	49,560	53,230	58,120	62,780	67,100	71,220
South Korea	1,070	1,320	1,390	1,840	1,910	2,050	2,200	2,370	2,550	2,740
Sri Lanka	80	90	100	110	120	120	140	150	160	180
Taiwan	1,710	1,260	1,650	1,730	1,800	1,930	2,070	2,230	2,470	2,760
Thailand	530	600	770	830	870	910	960	1,000	1,050	1,100
Vietnam	200	220	250	270	290	320	350	390	420	460
Latin America										
Argentina	2,150	1,150	1,280	1,310	1,420	1,530	1,640	1,760	1,870	2,000
Brazil	720	590	760	910	990	1,070	1,150	1,230	1,310	1,400
Chile	2,950	2,840	3,590	4,310	4,730	5,310	5,890	6,440	7,040	7,690
Colombia	360	410	470	560	770	850	930	1,000	1,080	1,150
Costa Rica	810	930	1,040	1,060	1,200	1,330	1,470	1,620	1,760	1,910
Cuba	230	230	240	250	290	340	400	440	480	530
Dominican Republic	740	840	890	950	1,040	1,130	1,220	1,320	1,420	1,530
Ecuador	680	780	890	970	1,100	1,190	1,270	1,350	1,420	1,480
El Salvador	360	490	510	570	630	690	740	780	830	880
Mexico	1,400	1,570	1,690	1,850	2,000	2,110	2,270	2,420	2,580	2,740
Peru	430	440	480	490	570	650	710	770	830	890
Venezuela	1,620	1,590	1,680	1,710	1,790	1,810	1,860	1,920	1,970	2,020
Africa & Middle East										
Algeria	160	190	210	230	350	470	600	740	880	1,020
Angola	550	670	910	990	1,120	1,270	1,390	1,500	1,590	1,680
Bahrain	8,930	9,120	9,600	10,680	11,810	13,020	14,450	16,100	17,560	19,110
Egypt	300	300	300	310	380	450	520	570	620	660
Iran	40	40	40	60	140	220	300	360	420	480
Israel	3,800	3,680	4,610	4,810	5,620	6,760	7,370	8,000	8,660	9,300
Jordan	470	470	540	640	770	890	1,000	1,110	1,220	1,330
Kenya	30	30	40	40	40	40	40	40	40	50
Kuwait	210	200	170	150	170	230	340	450	560	660
Libya	60	90	110	130	360	610	860	1,100	1,330	1,550
Morocco	400	410	570	650	740	800	850	910	970	1,020
Nigeria	170	180	190	200	220	230	240	250	250	260
Qatar	4,690	5,240	6,690	8,980	11,630	13,940	16,140	18,100	19,630	20,940
Saudi Arabia	810	810	820	880	890	930	960	1,000	1,050	1,090
South Africa	720	700	1,070	1,470	1,620	1,760	1,900	2,060	2,220	2,430
Tunisia	1,200	1,430	1,660	1,780	1,810	2,060	2,130	2,200	2,270	2,340
UAE	690	1,020	950	1,090	4,380	6,840	8,670	9,580	10,260	10,800

Foreign direct investment outflows (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	142.3	154.5	140.6	244.1	9.1	179.3	205.5	233.3	248.3	258.9
Canada	36.0	26.8	21.5	43.2	34.1	42.3	33.7	32.1	37.1	39.2
Western Europe										
Austria	3.1	5.7	7.1	7.4	9.3	14.7	13.3	15.7	15.7	16.2
Belgium[1]	100.6	8.9	26.7	16.8	22.9	49.2	34.3	32.4	27.9	30.6
Cyprus	0.2	0.5	0.5	0.6	0.4	0.8	1.0	0.8	0.7	0.6
Denmark	13.2	2.7	0.9	9.9	8.1	15.7	9.2	9.3	9.5	9.2
Finland	8.5	7.8	2.7	1.5	2.9	3.1	3.4	3.5	3.6	3.7
France	87.0	50.6	53.4	57.0	115.6	99.5	95.5	100.3	108.2	117.5
Germany	39.3	19.6	5.5	1.1	47.1	64.3	65.3	67.0	72.0	64.7
Greece	0.6	0.7	0.4	1.0	1.5	1.5	1.6	1.7	2.0	2.0
Ireland	4.1	11.1	5.6	15.8	13.1	18.5	19.4	14.4	12.8	13.2
Italy	21.8	17.2	9.0	19.1	40.5	39.0	34.5	33.5	35.2	36.9
Luxembourg	n/a	125.8	99.9	81.7	52.4	65.0	82.0	89.0	93.0	109.0
Netherlands	50.8	31.8	44.8	17.3	116.9	43.2	68.7	70.1	69.8	63.8
Norway	-0.9	3.9	4.4	3.6	14.2	12.9	10.9	11.2	12.0	13.0
Portugal	6.2	0.1	8.0	8.0	1.1	2.4	2.6	2.3	2.2	2.1
Spain	32.9	33.7	27.6	61.5	39.0	72.4	54.6	47.0	45.9	45.6
Sweden	7.3	10.6	21.1	21.0	25.9	29.2	33.8	33.6	35.3	37.5
Switzerland	18.4	8.6	15.7	26.6	42.8	45.7	39.1	40.0	39.9	41.2
Turkey	0.5	0.2	0.5	0.9	1.0	0.8	0.3	0.6	0.6	0.6
UK	59.7	49.5	59.8	95.9	101.7	129.0	123.5	124.0	118.5	119.2
Eastern Europe										
Azerbaijan	0.0	0.3	0.9	1.2	1.2	1.5	1.6	1.6	1.5	1.5
Bulgaria	0.0	0.0	0.0	0.2	0.3	0.0	0.0	0.1	0.1	0.1
Croatia	0.2	0.5	0.1	0.4	0.2	0.6	0.8	0.3	0.4	0.6
Czech Republic	0.2	0.2	0.2	0.6	0.8	1.0	0.9	0.8	0.6	0.5
Estonia	0.2	0.1	0.2	0.3	0.6	0.4	0.4	0.5	0.5	0.5
Hungary	0.4	0.3	1.7	1.1	1.4	1.1	1.2	1.2	1.4	1.5
Kazakhstan	0.0	0.4	0.1	1.3	0.0	0.1	0.2	0.3	0.1	0.2
Latvia	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Lithuania	0.0	0.0	0.0	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Poland	0.1	0.2	0.3	0.8	1.5	1.5	1.5	1.0	0.9	0.9
Romania	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Russia	2.5	3.5	9.7	10.3	13.1	12.9	13.1	13.4	14.2	15.5
Serbia	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Slovakia	0.0	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.1	0.1
Slovenia	0.1	0.1	0.5	0.6	0.6	0.8	1.0	1.2	1.2	1.2
Ukraine	0.0	0.0	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.2

Foreign direct investment outflows (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	12.0	8.0	16.6	17.8	40.3	17.8	20.2	22.3	23.2	24.0
Bangladesh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	6.9	2.5	0.2	1.8	11.3	20.0	25.0	28.0	32.0	37.0
Hong Kong	11.3	17.5	5.5	45.7	32.6	36.1	31.2	30.2	31.0	33.1
India	1.4	1.7	1.3	2.3	1.4	2.3	2.6	3.4	4.4	5.0
Indonesia	0.1	0.2	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Japan	38.5	32.0	28.8	31.0	45.4	39.7	45.4	48.8	57.8	61.6
Malaysia	0.3	1.9	1.4	2.1	3.1	3.1	3.3	3.1	2.8	2.9
New Zealand	0.4	1.1	0.2	1.1	0.3	0.5	0.8	0.6	0.5	0.6
Pakistan	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Philippines	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.4
Singapore	22.8	4.1	3.7	10.6	9.2	10.2	11.2	11.9	12.7	13.7
South Korea	2.4	2.6	3.4	4.8	4.2	8.9	7.5	7.8	8.7	8.1
Sri Lanka	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taiwan	5.5	4.9	5.7	7.1	5.9	6.0	6.2	8.9	10.2	12.2
Thailand	0.3	0.1	0.5	0.1	0.2	0.4	0.4	0.2	0.3	0.4
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	0.2	0.6	0.8	0.4	1.2	0.5	0.4	0.4	0.4	0.4
Brazil	-2.3	2.5	0.2	9.5	2.5	2.8	3.0	3.1	3.0	2.8
Chile	1.6	0.3	1.6	1.5	2.4	2.8	3.1	3.2	3.5	3.8
Colombia	0.0	0.9	0.9	0.1	4.6	0.2	0.3	0.3	0.4	0.4
Costa Rica	0.01	0.03	0.03	0.06	0.04	0.01	0.01	0.03	0.03	0.04
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.03	0.01	0.04	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Ecuador	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
El Salvador	0.01	0.03	0.02	0.01	0.02	0.02	0.02	0.02	0.03	0.03
Mexico	4.4	0.9	1.8	3.5	6.2	3.5	2.8	3.0	3.2	3.5
Peru	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Venezuela	0.2	1.0	1.3	0.3	1.5	1.2	0.8	0.6	0.5	0.5
Africa & Middle East										
Algeria	0.03	0.04	0.03	0.03	0.03	0.03	0.05	0.06	0.06	0.06
Angola	0.00	0.03	0.02	0.04	0.03	0.03	0.03	0.04	0.04	0.05
Bahrain	0.2	0.2	0.7	1.0	1.0	0.8	1.0	1.0	1.1	1.1
Egypt	0.0	0.0	0.0	0.2	0.1	0.1	0.2	0.2	0.2	0.3
Iran	0.00	0.04	0.36	0.11	0.01	0.01	0.02	0.02	0.02	0.02
Israel	0.7	1.0	2.1	3.2	2.3	9.0	3.5	3.9	4.1	4.2
Jordan	0.01	0.00	0.00	0.02	0.03	0.03	0.03	0.04	0.04	0.04
Kenya	0.00	0.01	0.00	0.00	0.01	0.02	0.02	0.02	0.03	0.03
Kuwait	0.4	0.2	5.0	1.9	2.1	2.3	2.2	2.5	2.5	2.7
Libya	0.2	0.1	0.1	0.2	0.4	0.5	0.3	0.1	0.1	0.4
Morocco	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Nigeria	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Qatar	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Saudi Arabia	0.6	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
South Africa	3.5	0.4	0.6	1.3	0.1	0.2	0.5	0.8	1.2	1.4
Tunisia	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.02	0.02	0.03
UAE	0.4	0.4	1.0	1.5	3.3	4.0	3.8	4.0	4.3	4.5

[1] For 2001 refers to Belgium-Luxembourg; disaggregated data only available from 2002.

Foreign direct investment outflows (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	1.4	1.5	1.3	2.1	0.1	1.4	1.5	1.6	1.6	1.5
Canada	5.0	3.6	2.5	4.4	3.0	3.2	2.3	2.2	2.6	2.7
Western Europe										
Austria	1.6	2.8	2.8	2.5	3.0	4.4	3.6	4.3	4.3	4.3
Belgium	n/a	3.5	8.6	4.7	6.2	12.1	7.7	7.4	6.4	7.0
Cyprus	2.6	4.7	3.8	4.1	2.6	4.7	5.0	4.1	3.3	3.1
Denmark	8.2	1.5	0.4	4.1	3.1	5.6	2.9	3.0	3.0	2.9
Finland	6.9	5.9	1.7	0.8	1.5	1.5	1.5	1.5	1.6	1.6
France	6.5	3.5	3.0	2.8	5.5	4.5	3.9	4.1	4.5	4.8
Germany	2.1	1.0	0.2	0.0	1.7	2.1	2.0	2.0	2.2	2.0
Greece	0.5	0.5	0.2	0.5	0.7	0.6	0.6	0.6	0.7	0.7
Ireland	3.9	9.0	3.6	8.6	6.6	8.3	7.6	5.6	4.9	4.8
Italy	1.9	1.4	0.6	1.1	2.3	2.1	1.7	1.6	1.7	1.8
Netherlands	12.7	7.2	8.3	2.8	18.7	6.4	9.1	9.2	9.0	8.0
Norway	-0.5	2.0	2.0	1.4	4.8	3.8	2.9	3.3	3.6	4.0
Portugal	5.4	0.1	5.2	4.5	0.6	1.3	1.2	1.1	1.0	0.9
Spain	5.4	4.9	3.1	5.9	3.5	6.0	4.0	3.4	3.3	3.1
Sweden	3.3	4.4	6.9	6.0	7.3	7.4	7.4	7.3	7.6	8.0
Switzerland	7.3	3.1	4.9	7.4	11.7	12.0	9.3	9.5	9.3	9.5
Turkey	0.3	0.1	0.2	0.3	0.3	0.2	0.1	0.2	0.2	0.1
UK	4.2	3.1	3.3	4.5	4.6	5.6	4.8	4.7	4.5	4.5
Eastern Europe										
Azerbaijan	0.0	5.2	12.8	13.9	9.7	7.7	6.2	5.2	4.3	3.9
Bulgaria	0.1	0.2	0.1	0.9	1.2	0.1	0.1	0.1	0.2	0.2
Croatia	0.8	2.3	0.4	1.0	0.5	1.4	1.5	0.5	0.7	1.1
Czech Republic	0.3	0.3	0.2	0.5	0.7	0.7	0.5	0.4	0.3	0.3
Estonia	3.3	1.9	1.7	2.4	4.6	2.6	2.2	2.4	2.3	2.1
Hungary	0.7	0.4	2.0	1.1	1.3	0.9	0.8	0.8	0.9	0.9
Kazakhstan	0.1	1.7	0.4	3.0	0.0	0.1	0.2	0.2	0.1	0.1
Latvia	0.2	0.0	0.3	0.8	0.9	0.9	0.8	0.8	0.9	0.9
Lithuania	0.1	0.1	0.2	1.2	1.3	1.2	1.1	1.0	1.0	0.9
Poland	0.0	0.1	0.1	0.3	0.5	0.4	0.4	0.3	0.2	0.2
Romania	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Russia	0.8	1.0	2.3	1.8	1.7	1.4	1.2	1.2	1.1	1.1
Serbia	0.0	0.0	0.7	0.1	0.0	0.1	0.1	0.1	0.1	0.2
Slovakia	0.2	0.0	0.1	0.4	0.3	0.0	0.1	0.0	0.1	0.2
Slovenia	0.7	0.7	1.7	1.7	1.7	2.1	2.3	2.8	2.8	2.7
Ukraine	0.1	0.0	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.1

Foreign direct investment outflows (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	3.2	1.9	3.2	2.8	5.7	2.5	2.8	3.0	3.1	3.1
Bangladesh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	0.5	0.2	0.0	0.1	0.5	0.8	0.8	0.8	0.8	0.8
Hong Kong	6.8	10.7	3.5	27.6	18.3	19.4	16.1	14.7	14.5	15.1
India	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Indonesia	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	0.9	0.8	0.7	0.7	1.0	0.9	0.9	0.9	1.0	1.0
Malaysia	0.3	2.0	1.3	1.7	2.4	2.1	2.1	1.8	1.5	1.5
New Zealand	0.8	1.9	0.2	1.1	0.3	0.5	0.8	0.5	0.5	0.6
Pakistan	0.04	0.04	0.02	0.06	0.02	0.05	0.05	0.04	0.04	0.05
Philippines	0.2	0.1	0.2	0.5	0.2	0.2	0.2	0.2	0.2	0.3
Singapore	26.6	4.7	4.0	9.9	7.9	7.8	8.0	8.0	8.1	8.2
South Korea	0.5	0.5	0.6	0.7	0.5	1.0	0.7	0.7	0.7	0.6
Sri Lanka	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Taiwan	1.9	1.7	1.9	2.2	1.7	1.6	1.5	2.1	2.2	2.5
Thailand	0.3	0.1	0.3	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	0.1	0.6	0.6	0.2	0.6	0.3	0.2	0.2	0.2	0.2
Brazil	-0.4	0.5	0.0	1.6	0.3	0.3	0.3	0.3	0.3	0.3
Chile	2.3	0.5	2.2	1.6	2.1	2.0	2.2	2.1	2.2	2.2
Colombia	0.0	1.1	1.2	0.1	3.8	0.2	0.2	0.3	0.3	0.3
Costa Rica	0.1	0.2	0.2	0.3	0.2	0.0	0.0	0.1	0.1	0.1
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	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
El Salvador	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Mexico	0.7	0.1	0.3	0.5	0.8	0.4	0.3	0.3	0.4	0.4
Peru	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Venezuela	0.2	1.1	1.6	0.3	1.0	0.7	0.4	0.3	0.3	0.3
Africa & Middle East										
Algeria	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Angola	0.0	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Bahrain	2.7	2.2	7.7	9.4	7.2	5.1	6.7	6.3	6.4	5.9
Egypt	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Iran	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Israel	0.6	0.9	1.9	2.7	1.9	6.9	2.4	2.6	2.5	2.5
Jordan	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Kenya	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Kuwait	1.1	0.4	10.8	3.4	3.0	2.7	2.6	2.8	2.6	2.6
Libya	0.6	0.7	0.3	0.8	1.0	1.1	0.7	0.2	0.2	0.6
Morocco	0.3	0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Nigeria	0.2	0.4	0.3	0.4	0.2	0.2	0.1	0.1	0.1	0.0
Qatar	1.7	1.3	1.5	1.2	1.4	1.2	1.3	1.2	1.1	1.0
Saudi Arabia	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
South Africa	3.0	0.4	0.3	0.6	0.0	0.1	0.2	0.3	0.4	0.4
Tunisia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
UAE	0.6	0.5	1.1	1.4	2.7	2.9	2.6	2.6	2.6	2.5

Outward foreign direct investment stock (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	1,693.1	1,860.4	2,062.6	2,367.4	2,376.5	2,555.8	2,761.2	2,994.5	3,242.8	3,501.7
Canada	250.7	274.4	312.2	369.8	403.9	446.2	479.8	511.9	549.0	588.2
Western Europe										
Austria	29.9	44.1	58.3	71.1	80.3	95.0	108.3	124.0	139.7	155.9
Belgium	n/a	185.3	222.2	248.4	271.3	320.5	354.9	387.3	415.2	445.7
Cyprus	0.8	1.3	2.1	2.9	3.4	4.2	5.2	6.0	6.7	7.3
Denmark	78.3	86.7	102.6	111.7	119.8	135.5	144.7	154.0	163.5	172.7
Finland	52.2	63.9	76.2	80.5	83.4	86.5	89.9	93.4	96.9	100.6
France	508.9	586.1	724.4	829.3	851.7	951.3	1,046.8	1,147.1	1,255.3	1,372.8
Germany	551.1	602.7	727.2	754.6	801.7	866.0	931.4	998.4	1,070.4	1,135.1
Greece	7.0	9.0	12.3	13.8	15.2	16.7	18.3	20.0	22.0	24.0
Ireland	40.8	54.0	64.5	80.3	93.4	111.9	131.3	145.7	158.5	171.7
Italy	182.4	194.5	238.9	280.5	293.5	332.4	366.9	400.4	435.6	472.5
Luxembourg	n/a	16.4	17.4	99.1	151.5	216.5	298.5	387.5	480.5	589.5
Netherlands	332.2	396.5	531.2	595.4	641.3	684.5	753.1	823.2	893.1	956.9
Norway	39.2	38.5	40.6	72.1	86.4	99.3	110.2	121.4	133.4	146.4
Portugal	21.6	22.2	35.6	45.6	46.7	49.1	51.8	54.1	56.3	58.3
Spain	191.6	233.9	292.5	371.2	381.2	453.5	508.1	555.1	601.0	646.6
Sweden	123.3	144.1	181.3	202.3	202.8	232.0	265.8	299.4	334.7	372.3
Switzerland	249.3	288.9	338.4	396.4	394.8	440.4	479.5	519.6	559.5	600.7
Turkey	4.6	5.8	6.1	7.1	8.1	8.9	9.1	9.7	10.4	11.0
UK	875.0	1,011.6	1,193.6	1,276.9	1,238.0	1,367.0	1,490.5	1,614.5	1,732.9	1,852.2
Eastern Europe										
Azerbaijan	0.0	0.3	1.3	2.5	3.7	5.1	6.7	8.2	9.7	11.2
Bulgaria	0.1	0.1	0.0	0.2	0.5	0.5	0.6	0.6	0.7	0.8
Croatia	1.0	1.8	2.1	2.2	2.4	3.0	3.8	4.0	4.4	5.0
Czech Republic	1.1	1.5	2.3	3.8	4.2	5.2	6.1	6.9	7.5	8.0
Estonia	0.4	0.7	1.0	1.4	2.0	2.4	2.8	3.3	3.7	4.2
Hungary	1.6	2.2	3.5	6.0	6.6	7.7	8.9	10.1	11.4	12.9
Kazakhstan	0.0	0.4	0.5	1.8	1.8	1.9	2.1	2.4	2.5	2.6
Latvia	0.0	0.1	0.1	0.2	0.4	0.5	0.7	0.9	1.1	1.4
Lithuania	0.0	0.1	0.1	0.4	0.7	1.1	1.5	1.8	2.2	2.6
Poland	1.2	1.5	2.1	3.2	4.7	6.2	7.7	8.7	9.5	10.4
Romania	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.8	1.1	1.4
Russia	14.7	18.3	28.0	38.3	51.5	64.3	77.4	90.8	105.0	120.5
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	0.4	0.5	0.6	0.7	0.8	0.9	0.9	0.9	1.0	1.1
Slovenia	1.0	1.5	2.4	3.0	3.6	4.4	5.4	6.6	7.8	9.0
Ukraine	0.2	0.1	0.2	0.2	0.5	0.6	0.8	0.9	1.1	1.4

Outward foreign direct investment stock (US$ bn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	109.6	108.8	150.7	198.1	157.8	175.5	195.8	218.0	241.2	265.2
Bangladesh	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	34.1	36.6	36.5	38.3	49.6	69.6	94.6	122.6	154.6	191.6
Hong Kong	352.6	309.4	339.6	403.1	435.7	471.8	503.0	533.2	564.2	597.3
India	4.0	5.8	7.1	9.6	11.0	13.3	15.9	19.3	23.7	28.7
Indonesia	-1.4	-0.3	-0.2	-0.2	-0.1	0.0	0.2	0.4	0.6	0.8
Japan	300.1	304.2	335.5	370.5	386.6	426.2	471.7	520.4	578.2	639.8
Malaysia	8.4	10.1	11.7	13.8	16.9	20.0	23.3	26.4	29.2	32.1
New Zealand	7.2	9.3	11.5	12.5	12.9	13.4	14.2	14.7	15.3	15.9
Pakistan	0.5	0.5	0.6	0.7	0.8	0.8	0.9	0.9	1.0	1.1
Philippines	1.3	0.7	0.8	1.2	1.3	1.6	1.9	2.2	2.5	2.9
Singapore	81.1	91.6	96.6	111.5	120.7	130.9	142.1	154.0	166.8	180.5
South Korea	20.0	20.7	25.0	32.2	36.4	45.3	52.7	60.6	69.3	77.4
Sri Lanka	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Taiwan	70.8	76.9	84.1	91.2	97.2	103.2	109.4	118.3	128.5	140.7
Thailand	2.6	2.6	3.1	3.7	3.9	4.3	4.7	4.9	5.2	5.6
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	21.3	20.6	21.5	21.5	22.6	23.1	23.5	23.9	24.3	24.7
Brazil	49.7	54.4	54.7	64.1	66.7	69.5	72.4	75.6	78.6	81.3
Chile	11.7	12.2	13.9	17.3	19.7	22.5	25.6	28.8	32.3	36.1
Colombia	3.0	3.6	4.4	4.4	9.0	9.2	9.5	9.8	10.1	10.5
Costa Rica	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	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	4.0	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0
El Salvador	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Mexico	12.1	12.9	16.6	22.2	28.0	31.5	34.3	37.3	40.5	44.0
Peru	0.6	0.7	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Venezuela	7.9	8.7	9.5	9.2	10.7	11.9	12.7	13.3	13.8	14.3
Africa & Middle East										
Algeria	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Angola	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.4
Bahrain	2.0	2.2	2.9	3.9	4.9	5.7	6.7	7.7	8.8	9.9
Egypt	0.7	0.7	0.7	0.9	1.0	1.1	1.2	1.4	1.6	1.9
Iran	0.2	0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Israel	9.2	10.3	13.1	16.1	18.4	27.4	30.9	34.8	38.9	43.2
Jordan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kenya	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Kuwait	1.8	1.6	1.6	3.5	5.5	7.8	10.0	12.5	15.0	17.7
Libya	2.1	2.0	2.0	2.1	1.8	1.3	1.0	1.1	1.2	1.5
Morocco	0.5	0.5	0.6	0.7	0.8	0.9	1.0	1.2	1.3	1.5
Nigeria	4.2	4.4	4.6	4.8	5.0	5.2	5.4	5.6	5.8	5.9
Qatar	0.3	0.6	0.9	1.3	1.7	2.2	2.8	3.3	3.9	4.5
Saudi Arabia	1.6	1.7	1.8	1.9	2.0	2.1	2.3	2.4	2.6	2.8
South Africa	17.6	22.0	27.2	38.5	38.6	38.8	39.3	40.1	41.3	42.7
Tunisia	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
UAE	1.0	1.4	1.5	1.4	4.7	8.7	12.4	16.4	20.7	25.2

Outward foreign direct investment stock (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
North America										
US	16.7	17.8	18.8	20.2	19.0	19.3	19.7	20.1	20.5	20.9
Canada	35.0	37.3	36.0	37.3	35.8	33.7	33.0	35.8	38.9	40.6
Western Europe										
Austria	15.5	21.1	22.7	24.1	26.2	28.4	29.4	33.9	38.0	41.8
Belgium	n/a	73.3	71.5	69.5	73.1	78.8	80.1	88.8	95.2	102.1
Cyprus	8.5	12.3	15.6	18.9	20.1	23.3	26.0	30.1	33.0	35.6
Denmark	48.8	49.8	48.0	45.6	46.3	48.2	46.1	49.3	51.9	54.1
Finland	42.7	48.0	46.8	43.2	43.1	42.1	39.8	41.6	42.5	43.5
France	37.9	40.0	40.3	40.5	40.5	43.2	43.1	47.4	52.0	55.6
Germany	29.1	29.7	29.7	27.4	28.7	28.9	27.9	30.3	32.6	34.5
Greece	5.9	6.7	7.1	6.6	7.0	7.1	6.9	7.4	7.8	8.1
Ireland	38.9	43.8	40.9	43.4	46.8	50.2	51.7	56.7	60.3	62.9
Italy	16.3	15.9	15.8	16.3	16.6	17.9	17.9	19.5	21.3	22.5
Netherlands	82.8	90.2	98.5	98.0	102.6	101.7	99.9	108.6	115.4	119.8
Norway	23.1	20.2	18.2	28.3	29.2	29.5	29.1	35.3	40.2	44.6
Portugal	18.7	17.3	22.9	25.6	25.5	25.5	24.0	24.9	25.6	25.6
Spain	31.5	34.0	33.1	35.6	33.9	37.3	36.9	39.9	42.6	44.3
Sweden	55.7	59.1	59.6	57.8	56.7	58.7	58.5	65.3	72.2	78.9
Switzerland	99.6	104.6	104.9	110.6	107.6	115.4	113.8	123.0	131.0	137.7
Turkey	3.1	3.2	2.6	2.3	2.2	2.4	2.6	2.5	2.5	2.4
UK	61.0	64.4	66.1	59.9	56.3	59.0	57.7	61.0	66.1	70.5
Eastern Europe										
Azerbaijan	0.0	5.2	17.3	28.4	29.3	27.3	26.8	27.4	28.4	29.0
Bulgaria	0.7	0.8	0.2	0.7	1.8	1.7	1.5	1.6	1.8	1.9
Croatia	4.9	7.9	7.0	6.3	6.2	6.9	7.5	7.8	8.2	8.9
Czech Republic	1.9	2.0	2.5	3.5	3.5	3.6	3.6	3.7	4.0	4.1
Estonia	7.4	9.6	11.2	12.6	15.4	15.9	15.6	17.3	18.7	19.7
Hungary	3.0	3.3	4.2	6.0	6.1	6.5	6.3	6.8	7.2	7.8
Kazakhstan	0.0	1.7	1.7	4.2	3.3	2.4	2.2	2.0	1.7	1.5
Latvia	0.5	0.6	0.9	1.6	2.3	2.8	3.1	3.8	4.5	5.2
Lithuania	0.4	0.4	0.6	1.9	2.9	3.7	4.2	5.0	5.7	6.3
Poland	0.6	0.7	1.0	1.3	1.5	1.8	2.0	2.2	2.3	2.4
Romania	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.8
Russia	4.8	5.3	6.5	6.5	6.7	7.0	7.3	7.9	8.4	8.8
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	2.1	2.0	1.9	1.6	1.8	1.5	1.4	1.3	1.4	1.5
Slovenia	5.1	6.9	8.6	9.4	10.6	11.6	12.7	15.4	18.0	20.3
Ukraine	0.4	0.3	0.3	0.3	0.5	0.6	0.8	0.8	0.8	0.9

Outward foreign direct investment stock (% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Asia & Australasia										
Australia	29.8	26.3	28.7	31.1	22.3	24.6	26.9	29.6	32.5	34.6
Bangladesh	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	2.6	2.5	2.2	2.0	2.2	2.7	3.2	3.6	4.0	4.4
Hong Kong	211.7	189.0	214.3	243.1	245.1	253.7	258.8	259.1	264.1	272.3
India	0.8	1.2	1.2	1.4	1.4	1.5	1.7	1.8	2.0	2.2
Indonesia	-0.9	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.1	0.1	0.2
Japan	7.3	7.8	7.9	8.1	8.5	9.2	8.9	9.3	9.9	10.5
Malaysia	9.5	10.6	11.3	11.7	12.9	13.5	14.5	15.5	16.1	16.3
New Zealand	13.9	15.5	14.5	12.8	11.9	13.5	14.0	14.1	14.4	14.5
Pakistan	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Philippines	1.8	0.9	1.0	1.4	1.4	1.4	1.5	1.6	1.7	1.8
Singapore	94.7	103.6	104.1	103.7	103.4	100.0	100.9	103.2	105.6	107.6
South Korea	4.1	3.8	4.1	4.7	4.6	5.0	5.2	5.4	5.6	5.6
Sri Lanka	0.5	0.6	0.7	0.7	0.6	0.7	0.7	0.7	0.8	0.8
Taiwan	24.3	26.1	28.1	28.3	28.1	27.6	27.2	27.3	27.8	28.2
Thailand	2.3	2.0	2.2	2.3	2.2	2.2	2.1	2.0	2.0	1.9
Vietnam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latin America										
Argentina	7.9	20.2	16.6	14.0	12.3	11.6	10.9	10.4	10.1	9.7
Brazil	9.7	11.8	10.8	10.6	8.4	7.3	7.6	7.7	7.6	7.5
Chile	17.1	18.2	18.8	18.2	17.1	16.0	17.9	19.4	20.0	20.6
Colombia	3.6	4.4	5.5	4.5	7.3	7.0	7.1	7.2	7.3	7.4
Costa Rica	0.6	0.8	0.9	1.1	0.9	0.8	0.8	0.9	1.0	1.1
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Ecuador	18.8	20.5	19.2	18.2	16.5	15.3	14.5	13.9	13.2	12.3
El Salvador	0.5	0.2	1.0	0.6	0.5	0.5	0.6	0.7	0.8	0.9
Mexico	1.9	2.0	2.6	3.3	3.6	3.9	4.2	4.4	4.6	4.8
Peru	1.2	1.2	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.0
Venezuela	6.4	9.4	11.4	8.4	7.6	6.9	6.8	7.3	7.6	7.8
Africa & Middle East										
Algeria	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.6
Angola	0.7	0.8	0.9	0.9	0.7	0.6	0.4	0.5	0.5	0.5
Bahrain	24.8	25.5	30.2	35.7	37.0	36.5	45.0	47.9	50.8	52.9
Egypt	0.7	0.8	1.0	1.1	1.0	1.1	1.1	1.2	1.3	1.4
Iran	0.2	0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Israel	8.1	9.9	11.8	13.8	14.9	21.0	21.5	22.9	24.1	25.3
Jordan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kenya	1.6	2.3	2.1	2.3	2.0	1.8	1.8	1.7	1.7	1.7
Kuwait	5.3	4.3	3.5	6.2	8.0	9.2	12.0	13.8	15.4	16.8
Libya	7.5	10.4	9.0	8.1	4.8	3.0	2.0	2.1	2.1	2.6
Morocco	1.4	1.2	1.2	1.3	1.4	1.4	1.5	1.6	1.7	1.8
Nigeria	8.8	9.4	7.8	6.5	5.3	4.1	3.9	3.9	3.9	3.6
Qatar	1.7	2.8	3.8	4.4	4.9	5.5	6.6	7.3	7.5	7.9
Saudi Arabia	0.9	0.9	0.8	0.8	0.6	0.6	0.7	0.7	0.8	0.9
South Africa	14.9	19.8	16.3	17.9	16.1	14.2	13.9	13.2	12.6	12.4
Tunisia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
UAE	1.5	1.9	1.7	1.4	3.9	6.3	8.8	10.7	12.5	14.1

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 (previously 60) 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 (2001-05). Scores for the forecast period (2006-10) 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 2001-05. All forecasts for the qualitative indicators covering 2006-10 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 2001-05 ranges are then used to derive 2006-10 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 2006-10, not to the likely situation in 2010 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 (2003 or 2008). 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 2001-05 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 three cases (as shown in the table above) based on correlation coefficients between indicators and average inflows of FDI in 2001-05 and on business survey results. For the remaining seven categories, all indicators have equal weights in deriving category scores.

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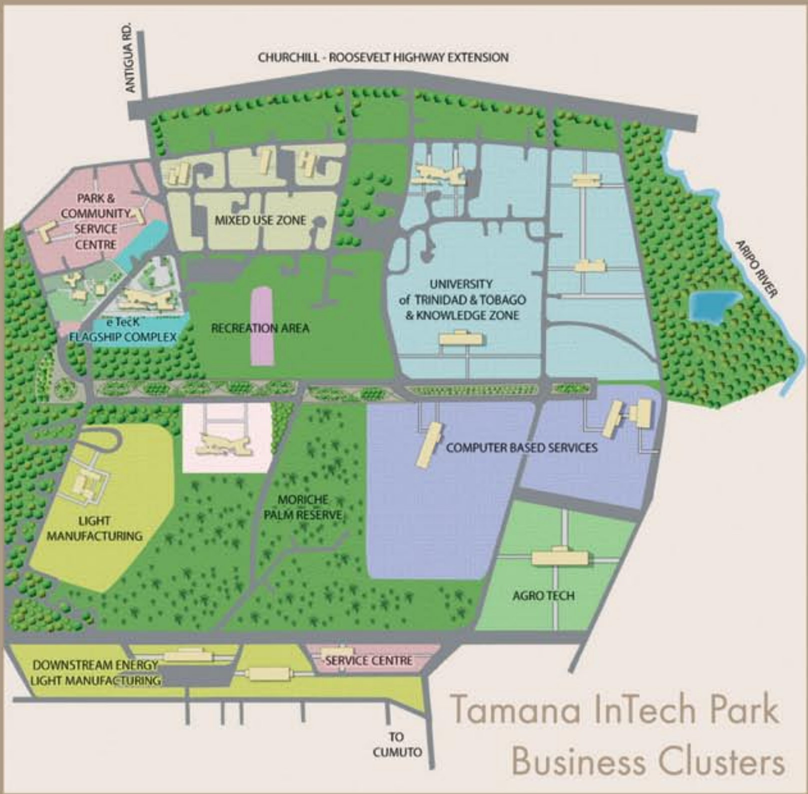
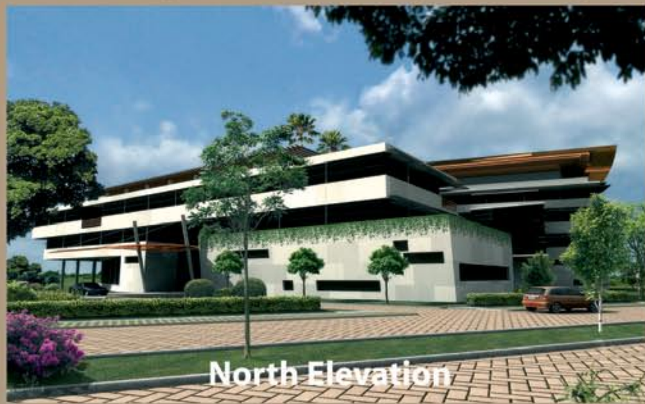
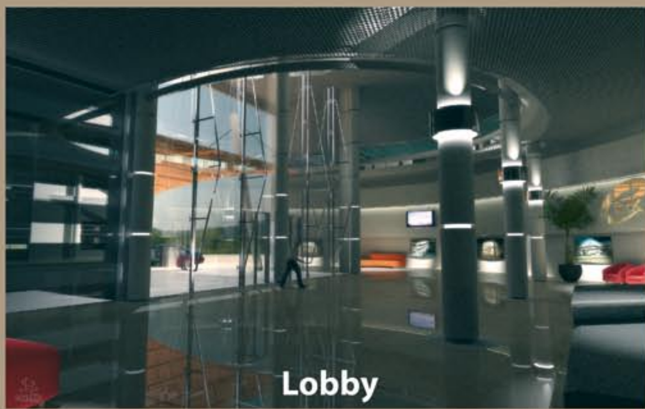
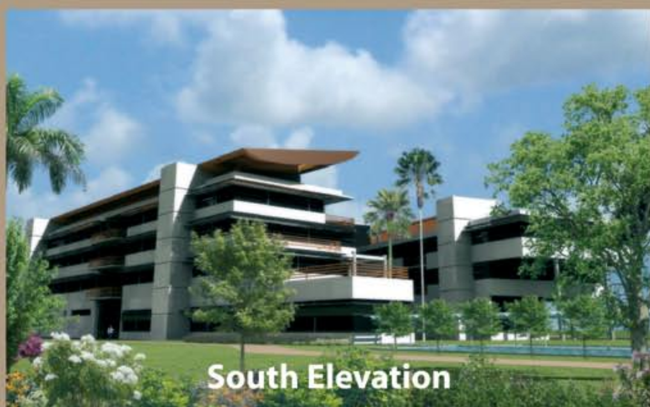


Renderings of e TecK Flagship Complex







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