

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



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Acknowledgements

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Summary of Main Findings

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

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

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

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

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

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

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

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

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

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

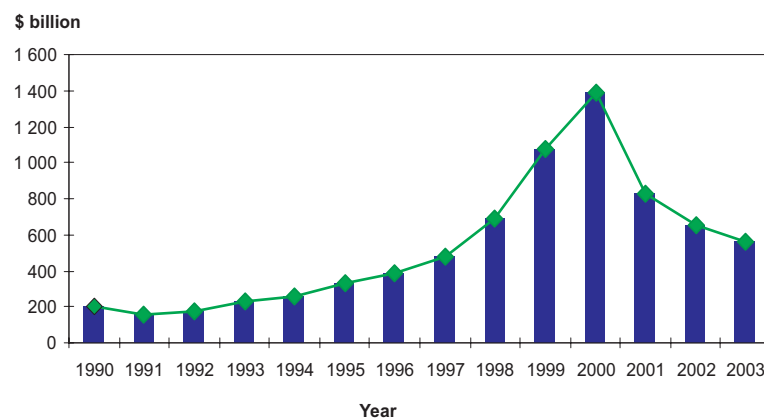
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I. Background

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

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



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

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

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

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

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

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

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